THE INDEPENDENT

# When will the housing market hit bottom?

**Some in the business claim the worst is over, but there is still cause for concern, says Julian Knight**

*Sunday, 19 April 2009*

Unfinished business: New, but incomplete, houses on a Gloucester housing estate

A lot of noise is emanating from the housing market, with insiders detecting the first of those much-vaunted "green shoots of recovery".

The latest Royal Institution of Chartered Surveyors survey, traditionally a good weather vane for what is happening in the property market, suggests that the number of potential buyers finding their way into estate agents' offices is up. Likewise, the Council of Mortgage Lenders says that mortgage approvals were up some 4 per cent from January to February. More anecdotally, estate agents working in the London market – generally price increases tend to start in the capital and then wash throughout the country – have been reporting growing numbers of enquiries from the new year on? Is the worst over, therefore, and when the history of this housing crash is written, will its end date be said to be 2009?

The answer for many not involved in the buying and selling of property or the flogging of mortgages is no, not by a long chalk. "The evidence that has been used to support the idea that we are about to see a substantial lift in the market is flimsy to say the least," said Henry Pryor, an independent housing market analyst (www.housingexpert.net). "OK, mortgages may be up a tad but big deal. If you compare year on year, mortgages are down 48 per cent. Transactions may be up a bit but it's from a very low level, and we don't know what happened over Easter yet, which is the housing market equivalent of the January high street sales. If the figures are bad then it's back to square one."

In fact, nearly everywhere you look the housing market figures aren't just bad – they are cataclysmic. Until last month, Nationwide had recorded 15 consecutive months of house price falls; compare that with the early 1990s crash when the biggest string of losses was eight months.

"Official Land Registry figures for February 2007 recorded over 86,000 sales in England and Wales. February 2008 saw 61,500. So far, just 8,900 sales were recorded in February this year," says Mr Pryor. "While this figure is bound to rise before being formally confirmed in May, sales may not exceed 22,000. For those like estate agents and mortgage brokers who depend upon turnover, the market is unbelievably bad."

At the Nationwide, which recorded a surprise rise in prices in March – which was contradicted the following day by a Halifax survey – they are not presuming there is a spring renaissance in the housing market.

"I would not use the term green shoots for what is going on at the moment," says Martin Gahbauer, senior economist at the lender. "There is evidence that the market bottomed out sometime late last year, and what we are seeing now is a seasonal lift in activity. However, compare activity to the long-run average – the normal situation if you like – and we are a long way short."

Mr Gahbauer can see trouble ahead, as unemployment rises throughout 2009. "Until now, the falls have been a result of the tightening of mortgage lending: people have not been able to get sufficient size mortgages to buy and this has led to lower transactions and prices. Later this year, we will see rising unemployment creating a tough environment for house sales and this may further depress prices."

However, Mr Gahbauer adds that the relentless downward trend in prices may now have halted. "Over the year, I imagine we will have a lot of mixed, confusing signals emerge, with some months' prices up and others down. I don't think, though, we will see definitive signs of a recovery until the second half of 2010."

Some are more optimistic. The highly respected Lombard Street Research said last week that house prices were now in line with historical norms. In other words, the froth had been blown off the market and property was once more affordable to many. Ray Boulger, technical manager at mortgage broker Charcol, thinks Lombard Street has a point. "If you look at a pure analysis of the percentage of people's monthly income that is being taken up by mortgage repayments, then some equilibrium has been restored. Low interest rates and falling prices mean that property is far more affordable than it was. The worst may indeed be over, and remember there is a lot of pent-up demand out there for property."

But Mr Boulger throws in several caveats. "It's not so much unemployment per se as the spectre of redundancy which will stop many people buying. Also, lending criteria are still tight. It may be possible to get four-times salary for a mortgage but people still need substantial deposits. Even HSBC's announcement last week that it would put £1bn into offering 90 per cent mortgages for first-time buyers is just a drop in the ocean."

For these reasons, Mr Boulger doesn't think recovery in prices will start until the third quarter of 2010.

And no recovery will happen unless first-time buyers are involved. "Rising numbers of first-time buyers is the key signal for me of any recovery," Mr Gahbauer said.

Jonathan Davis, a chartered financial planner and commentator on the housing market, who has consistently called the size of falls in the housing market correctly since 2007, says first-time buyer numbers are at an extraordinarily low ebb. "Even just a year ago, first-time buyers were on average having to fund a deposit of 11 per cent. Now it's 25 per cent. With savings rates so low and wage cuts, how are large enough numbers of people to get the market moving going to be able to afford this? The answer is they are not."

As for what Mr Boulger calls a "slight loosening" of lending criteria in the past couple of months, Mr Davis wonders if this will last. "Don't forget, the full picture hasn't emerged yet on bad debts among the banks. We have the commercial property sector in a mess and high levels of credit card debt which is not going to get repaid. This may force lenders to retrench further, choking off new home loans. Then we are going to see another million unemployed. Personally, I can't see what people would recognize as a recovery in the housing market before 2011 or 2012 at the earliest."

Longer term, when eventually the market does pick itself up, it may well be very different from what Britain became used to in heady days until 2007. It will be a much more sombre affair, says Matthew Bullock, the chief executive of the Norwich & Peterborough Building Society. "The pain of this housing crash will seep into the folk memory; people will equate being highly borrowed as having the potential to create real personal difficulties. On the supply side, lenders will want more margin for the risks they are taking so I don't expect any return to cheap mortgages and low deposits.

"This will take a decade to work through at least. Look at the market after the early 1990s crash: it took nearly 10 years to get its legs again. I expect something similar this time round."