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Why house price increases are nothing to write home about

Housing market indexes show that property values are still rising. But you should not bank on them continuing to do so, says Laura Howard

Look before you leap: The national trend may seem positive but regional variations are still evident in the market

You may have missed it, but property prices are once again nearing their pre-credit crunch highs, confounding many experts.

Homeowners looking to their property as their pension, or keen to escape negative equity, will have been bouyed by the recent round of property price surveys. Nationwide reported property price hikes of 0.5 per cent during May, pulling up average values by a healthy 12.2 per cent from their lowest recorded point in February 2009. According to the building society, the average UK house price now stands at £169,162.

The latest Land Registry figures also revealed an upward movement in prices of 0.2 per cent during April, the sixth consecutive month of house-price rises, taking the average property value to £165,596. Property advertised on the website Rightmove was consistent with this, with average asking prices up by 0.7 per cent (or £1,622) in May on the previous month.

Only Halifax reported a fall during May of 0.4 per cent, edging the average value of a home down to £167,570. This follows a drop in the previous month too, of 0.1 per cent but a rise the month prior to that.

But, the question of whether a general climb in the value of property spells recovery is more controversial than ever. Jonathan Davis, chartered financial planner, describes the upturn this spring as "the peak of the biggest suckers' rally in history" and forecasts that house prices will plummet by up to another 10 per cent by the end of this year.

He attributes this to a rising supply of property against a flat demand, which has become gradually evident since the start of last year, according to data from the Royal Institution of Chartered Surveyors (Rics).

The Government's recent decision to scrap Home Information Packs (HIPs), for example, has resulted in a flood of homes coming on to the market. According to Rightmove, new property listings soared by 35 per cent in the week following the announcement about HIPs on 20 May, as people were able to put up For Sale signs speculatively and not pay for a pack.

On the demand side, inclination to buy property has waned. Recent figures from the Council of Mortgage Lenders show that the post-credit crunch mortgage drought is still in full swing. An estimated £10.2bn was lent in April – down 12 per cent on the previous month and marking the lowest level in any April for 10 years.

Public spending cuts and taxes rises – most notably to capital gains tax – due to be announced in the Government's emergency Budget on 22 June is also expected to see consumer confidence plummet and translate directly into the housing market.

However, arguments to support the ongoing health of the housing market are equally valid – and they begin with the most affordable interest rates in history at 0.5 per cent. "My view is that base rate will stay this low until well into 2011, which should dispel any fears of price falls," says Ray Boulger, senior technical director at John Charcol. "So long as rates stay low, I forecast house price rises of around 7 per cent between now and the end of the year."

Although the mortgage market is still a far cry from pre-credit crunch days, it is also starting to show signs of improvement. Stuart Law, chief executive of Assetz House Price Watch, says: "As lenders continue to increase the number of mortgage products available and improve rates and loan to values, the market will continue to creep forwards and I would still expect to see a modest growth of 5 per cent by the end of the year."

The views of Halifax and Nationwide are broadly similar, though Nationwide is more optimistic. The chief economist at Nationwide, Martin Gahbauer, says: "For the remainder of the year we expect house prices to remain close to their current level, ending 2010 around 2 per cent to 3 per cent higher than a year earlier."

The chief economist at Halifax, Martin Ellis, says the mixed pattern of monthly price rises and falls so far this year is "consistent with a slowing market – and in line with our view that house prices will remain flat during 2010 as a whole".

But, working on averages, all house price indices should be taken with a pinch of salt. First, they base their figures on different criteria; Nationwide and Halifax on UK mortgage offer values, the Land Registry on sale completions – but only in England and Wales – and Rightmove on asking prices. In May, however, asking prices stood at an average £237,134, a far cry from Land Registry figures of completed sales at £165,596.

"As well as the overall trend of house price indices, homeowners will need to consider supply and demand from Rics' data and mortgage approvals from the Bank of England to get a picture of where the market is heading in the next few months," says Mr Davis. "Other more macro-issues, such as unemployment, interest rates and GDP will tell us what will happen in the next few years."

And, on the other end of this broader brush, there are also regional, local and even situational price variations for property to consider. Websites such as Zoopla.co.uk provide a value for your home when you input your address by using public records of its last sold price combined with various house price data from that area.

But even these are only a starting point, says its chief executive, Alex Chesterman: "Our estimates are not formal valuations and can't be used as such, but they do provide a good basis for researching the likely value of a home, which should then be supplemented with professional advice."

And, of course, this will boil down to a traditional estate agent. "Values vary considerably within small areas and even the same street which only local agents will understand," says a past president of the National Association of Estate Agents, Melfyn Williams. "They will also know what's happening in real time – like how many buyers are waiting and for what kind of property. Both of these factors will also affect the value of your home."

Yet homeowners are still at risk of using the upward trend of house prices as the key to feeling "wealthy". "This will be a problem if it encourages people to spend on the plastic," says Melanie Bien, director of the mortgage broker Private Finance. "Homeowners may assume they can remortgage their homes to clear such debts, but with lenders far more cautious than three years ago, this will be much more difficult."

Experts' View

Martin Ellis, the chief economist at Halifax:

"We have a slowing market and our view is that house prices will remain flat during 2010."

Martin Gahbauer, the chief economist at Nationwide:

"We expect house prices to remain close to their current level, ending 2010 around 2 to 3 per cent higher than a year earlier."

Stuart Law, the chief executive of Assetz House Price Watch:

"The market will continue to creep forwards and I expect to see growth of 5 per cent by the end of the year."

Jonathan Davis, a chartered financial planner:

"The market does not move in line with a calendar; it moves in economic cycles. That said, I predict falls of between 5 to 10 per cent by the end of the year."