

Property News and Views



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"WORST OVER" IN UK HOUSING MARKET

In a forecast that will reassure homeowners, Lombard Street Research (LSR) has declared that house prices are now affordable, and forecast that the worst of the property crisis is over. Its affordability index, produced in conjunction with *The Daily Telegraph*, shows that for the first time in five years house prices throughout the UK are better value than their long-term average.

House prices have fallen by a fifth in nominal terms since the housing slide began around 18 months ago, but many economists anticipate that they will drop a further 15pc-30pc in the coming months as more families fall victim to negative equity and unemployment climbs to the highest level since the mid-1980s. However, Lombard Street Research said the combination of falling prices and dropping interest rates meant in fact that prices are now good value for those that can find the finance.

There is no doubt that for people who have good credit histories and plenty in the way of a deposit, current average house prices are affordable," said Jamie Dannhauser, senior economist at LSR.

The firm's housing affordability indicator, in which 100 points represents the average affordability level since the early 1960s and a lower figure means prices are more overvalued, rose from 96.3 points to 109 points in the final quarter of 2009. The improvement is the biggest since the end of the last housing crash in the early 1990s and brings affordability back to the best level since 2003.

The affordability indicator is one of the most comprehensive and reliable measures of the housing market, comparing the average household's mortgage payments with house prices, while, importantly, taking account of the comparison between the number of households demanding housing and the number of available homes. However, it does not take any account of the credit constraints facing families in the current financial crisis.

Significantly, however, the indicator suggests that, in spite of many warnings to the contrary, the housing bubble of the 2000s may not have been as big or significant as the previous one in the late 1980s.

"There's nothing to suggest that the very gloomy outlook – for instance forecasts of 15pc falls this year and again next year – will transpire. In terms of real house prices, the pace of decline is broadly similar to what we saw in 1990, and the 1970-1974 correction. Back in the 1990s it took house prices seven years to start rising again, which in our case would imply that we would have to wait until 2014. But I think that is well off the mark."

He said that the combination of low interest rates, which means that even families in negative equity who have no choice but to accept a lender's standard variable rate will still pay no more than 4pc or 5pc interest, and the dearth of new homes being built meant house prices would not fall much further.

"At the end of the year I expect the level of prices to bottom out. However, any recovery will amount to little more than a bounce along the bottom," he said.

Whereas in the early months of the housing slump prices were falling consistently each month, recent months have seen a change in this pattern. In March, Nationwide recorded a monthly increase in prices, although Halifax calculated that prices were still falling. Although some economists may be sceptical about the forecasts, LSR has the accolade of being the most reliable forecaster of house prices in the final couple of years of the housing boom, correctly predicting that it would go on longer than any other rival.

SOURCE:TELEGRAPH

INTEREST RATES EXPECTED TO "HOLD"

The Bank of England is expected to announce later today that it is to keep interest rates at their of 0.5 per cent while it assesses the impact of its moves to revive the economy through quantitative easing.

Mervyn King, the Bank's Governor, had made clear last month that he saw little scope for further cuts following six successive interest rate cuts since October, reducing borrowing costs from 5 per cent to 0.5 per cent.

However, it is hoped that the Bank will give some indication of whether the first stage of its quantitative easing plan to pump extra, newly-created money through the economy by buying up a range of assets from the financial markets is having any impact. The Bank is widely expected to order no change for the moment in its quantitative easing plan.

The move to buy assets worth a total of 75 billion pounds over three months began only last month, and is less than a third complete, with the Bank having so far purchased some 20 billion pounds of UK government bonds or gilts, and about 400 million pounds of corporate bonds.

The Bank said when it announced the scheme that the Monetary Policy Committee would review the operation and effectiveness each month and adjust the scale of its action if needed. But with the rate-setting committee having so far had little chance to tell whether the plan is proving successful no significant adjustment today is anticipated.

Expectations that the interest rate will remain at 0.5 per cent follow a series of optimistic signs that the economy may have begun to emerge from the sharpest phase of the recession.

Consumer confidence has risen for two months in a row, and there have been indications that the crash in the housing market is easing, with mortgage approvals increasing from very low levels for several months. The Nationwide Building Society also reported that house price rose by 1.9 per cent last month, although the Halifax reported a continued fall in home values.

More positive, too, have been surveys from both the Bank itself and the CBI suggesting that the extraordinarily tight credit conditions facing businesses have relaxed a little. The Bank's latest credit conditions survey showed that lenders plan to more credit available to individuals and businesses in the coming three months

Key surveys of services and manufacturing have shown that the pace of decline in both sectors also eased last month.

The slightly improved news on Britain's economic fortunes will have reassured the MPC that its medicine may be starting to work. Last month, Mr King sought to boost confidence, emphasising that: "In its entire history, the Bank has never acted so swiftly or extensively in response to an economic downturn."

But the recent upsurge of optimism that a recovery might emerge before the end of the year was dealt a new blow as a bleak poll from Reuters showed that City economists have downgraded their expectations of UK prospects for a fifteenth consecutive month. The average City forecast is now for Britain's GDP to plummet this year by 3.6 per cent, in what would be the economy's worst year since the end of the Second World War.

According to IHS Global Insight economist Howard Archer: "The UK clearly currently remains deep in contraction territory with a return to growth still looking some way off."

SOURCE:TELEGRAPH

MATURE STUDENTS DRIVE HOUSING MARKET

Mature students are demanding rental property as many return to education due to the current economic climate.

Buy-to-let mortgage specialist Paragon Mortgages, have said UCAS figures show a 12.9 per cent increase in applications from the 21-24 age group, with an overall increase in student applications of 464,167.

Paragon have said the weakening employment market has done much to create this trend, and will spell out good news for the buy-to-let market, which relies heavily on student lettings.

John Heron, managing director of Paragon Mortgages, said: "If individuals have been made redundant or are struggling to get a job they may see higher education as an attractive option.

"As universities expand, demand for good quality accommodation also increases, which should filter through to rental income. More mature students may also be prepared to travel further to get to university, so may look to rent property away from the main student locations, therefore boosting demand more generally."

Paragon claims student landlords typically have lower void periods than the wider buy-to-let market, with the benefit of an annual let and a parental guarantee. Rental income per property also tends to be higher as landlords typically let to students on a per-room basis.

The mortgages specialists have also found those landlords who have student accommodation in their portfolios typically have an average one per cent higher income than those who don't.