

London Evening Standard, 2 Feb 2011

Market stays subdued as lenders tighten belts

By Lucy Tobin

House prices in the UK have risen by an enormous 91% over the past decade, according to data compiled by Halifax. The rise over the past 10 years was steeper in the North than in the South, and homes in London cost 63% more in the fourth quarter of 2010 than they did in the same three months of 2000, to come in at an average of £250,720.

Can it continue? The optimistic view of many homeowners is that property prices will carry on rising. But this month's appalling GDP figures lean new weight to warnings that rising unemployment, high inflation and the general economic slowdown will see the property market losing value this year - especially if the Bank of England raises interest rates.

Yesterday, mortgage figures published by the Bank for December, and Nationwide's House Price Index for January showed declines. Nationwide's data showed their first annual decline since August 2009, and the Bank said only 42,563 loans for house purchases were advanced in the last month of last year - 10% down on November. The figures suggest the housing market's momentum could be on ice.

Economists point out that market activity is very low - "and likely to remain so", according to Howard Archer at IHS Global Insight. "It's being dogged by high - and likely to rise - unemployment, muted wage growth, the increasing fiscal squeeze, very low and falling consumer confidence, and difficulties in getting a mortgage," he said.

"There is clearly a growing risk that the Bank of England could hike interest rates earlier in 2011 than previously seemed likely because of inflation concerns, but the shock contraction in GDP in the fourth quarter of 2010 argues against an imminent tightening of monetary policy. Even if it does raise interest rates within the next few months, they still seem likely to rise only gradually as the fiscal squeeze will increasingly

bite." He added, however, that the capital could escape much of the gloom. "In London there may be more shortage of supply, particularly for detached properties, so it may be less affected overall."

Agents agree. "London is a collage of property markets," says Philip Waterfield, auction director at east London estate agency Strettons. "Prime properties in locations such as Kensington have not felt the full force of the recession compared with the more typical markets, especially outside Zone 1. There will always be some 'hot spots', as we've seen in Dalston as a consequence of the opening of the East London Line. London property prices are unlikely to change significantly, although as long as inflation is higher than the Government's target, residential values will fall in real terms."

For some, that will make little difference, Waterfield believes. "When they are ready to buy, most first-time buyers just want to get on with it," he says. "If they can secure finance they will get on and make that first purchase."

But for most first-time buyers that's a big if. Many mortgage brokers and independent finance advisers have a gloomier view of lending availability.

"If anything, it's getting tougher to get a mortgage," says Heather Sonnet, IFA at Almary Green Investments. "Lenders simply don't seem to have much to lend, and what they have got they are cherry-picking for their absolute ideal customer. It's extremely tough for first-time buyers, with banks demanding immaculate loan servicing histories.

"For now, although there will always be some people moving - people die, people fall in love, people get divorced - a lot of homeowners are just bedding down. Unless they have huge deposits or a lot of equity they are monitoring the market rather than upgrading."

At the expensive end of the market, there's a tax incentive to get moving: with stamp duty on properties worth more than £1 million due to increase in April, buyers may bring purchases ahead to save 1%. Peter Rollings, managing director of central London agents Marsh & Parsons, expects a surge in sales as a result. He believes that, plus the deluge of international investors, will keep prices up and predicts prime central London property prices will rise 5% this year.

"There are welcome signs that some mortgage products are entering the market for first-timers. If this progress is maintained then we should see a stable national housing market in 2011."