The Observer
11 January 2009
Circ. 443,975

Question of the week

Would another 12 months of falling house prices be a good thing?

YES
says Helen Adams
Property expert at First Rung

For the majority of those of us living in the UK and affected by the state of the UK economy, a further lowering of house prices leading to stabilisation in 2010 would be a good thing.

The housing market, and therefore the economy, is suffering from the lack of first-time buyers (FTBs) to keep the wheels of the residential property market oiled. Over recent years, no one more than FTBs has suffered at the expense of rising house prices. Their situation has been compounded by a new breed of landlord who thrived in these times, snapping up one- and two-bedroom properties and leaving FTBs to gaze on in frustration and misery.

The current low interest rates play into landlords' hands, making their costs even lower while demand for rental properties is sustained. I'd like to see these landlords [illegible] their [illegible] to discourage them from the lower end of the market. FTBs simply want to start investing in their own future home-ownership – not someone else's. The birth of the investor landlord [illegible] future population.

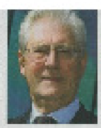
This country is teetering on the edge of an unemployment precipice, though interest rates and bank bail-outs mean that many more households than would [illegible] should be able to pay their mortgages. With the mortgage typically the largest monthly outgoing, save for [illegible] fixed rates, repossessions will be reduced as a result. Protecting homes, jobs and salaries as we hover on the edge of this precipice is paramount.

I sincerely hope that the current government and Bank of England measures will prevent widespread unemployment, but property is a sector already facing job losses among estate agents, mortgage advisers, banks, solicitors, builders and retailers selling furniture and furnishing. Employees in all these areas need help. If lowering property prices means more properties are sold throughout the whole of the market from the studio flat to the eight-bedroom country pile and the market is given the kiss of life, these jobs and the jobs of those companies who rely on this industry will also be saved and the stock market will be supported. The knock-on effect of the credit freeze and the disaster that has befallen the US must be averted as soon as possible.

Turning the economy is incredibly hard to get right, but we will need sensible lending, lower deposit requirements, lower house prices, reasonable interest rates and wider accessibility to the HomeBuy (shared ownership) schemes to keep things going. All these things must be present.

First-time buyers are the lifeblood of the property market, so should be protected and nurtured as part of a balanced economy.

If you are in negative equity and are forced for any reason to sell, then clearly falling house prices would be a bad thing. For those who have owned property for a time and seen their value treble in the last decade, house prices falling back to where they were a few years ago might be disappointing but not disastrous. Property price reductions are prerequisites to safeguarding our home-owning heritage and the future of the next generation, who we should not want to see divided into the property haves and have-nots.



NO
says Roger Humber
Strategic policy adviser at the House Builders Association

For a lucky few, falling house prices will be good news. But for the majority, particularly first-time buyers, it is a cruel mirage because they cannot get mortgages.

The key problem affecting the housing market is a lack of liquidity, leading to a shortage of mortgages. Net new mortgage lending is expected to fall to zero this year, compared with £108bn in 2007. Meanwhile, a strong latent demand remains, with visitor levels to housebuilders' show homes at almost pre-credit crunch levels. But this demand is suppressed by the mortgage famine.

House prices have fallen because of a lack of available finance, not a fall in demand driving a natural price adjustment in an overheated sector. Rather than being a normal cyclical market correction, this is a situation the UK has never faced before. As the recession bites, mortgage shortages will be compounded by a fall in consumer confidence, reducing demand and prices still further.

So cheaper housing won't help the economy and has many disadvantages, whereas mortgage availability underpinning a functioning, sensibly-priced housing market has important social and macro-economic benefits.

Let's not forget that the UK still faces a severe housing shortage and that the current hiatus means this will simply get worse. The government wants to improve affordability by increasing the level of housebuilding to 240,000 new homes a year by 2016, but with the credit crunch and collapsing house prices, we predict these numbers could be as low as 60,000 this year.

The government built its housebuilding model on rising house prices that would pay for expensive new regulatory standards – including Lifetime Homes and the Code for Sustainable Homes – and its expectation that housebuilders would supply the majority of social rented housing. Thus, government targets rely on a healthy housing market and, until prices rise to at least 2006 levels, housebuilding recovery will be limited.

The National Housing and Planning Advice Unit estimates that the current downturn will result in severe house price inflation again by 2013. So it's bad news for the future, too. Furthermore, housebuilding is a major industry, with a huge multiplier effect across the economy. Job losses directly attributable to the credit crunch so far are probably in the region of 100,000 and could rise to 250,000. So cheap homes for a few, fuelling rising unemployment and a medium-term return to rampant house price inflation is not a remedy we should welcome.

However, moderation in the government's regulatory demands would dampen the need for rapid price rises and get house-building started again earlier in the price cycle, provided the mortgage market returns. Again, the government has a key role here. It should implement as quickly as possible the recommendations of the Crosby Report delivered before Christmas (which suggested that the government should encourage banks and building societies to lend again by guaranteeing mortgage-backed securities that lenders had relied on before the credit crunch).