



THE SUNDAY TIMES

What's next for house prices?

Despite low interest rates and drifting house prices, our panel of experts say now is the time to grab a five-year fixed deal.

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Mortgage brokers tipped five-year fixed rates at our property round table last week, despite predictions that Bank rate could remain at its record low for several years.

Mervyn King, governor of the Bank of England, signalled that big rate rises were a long way off, despite inflation remaining above its 2% target.

"The gradual improvement in credit conditions that was evident earlier in the year seems to have come to a halt in recent months," he told the Treasury select committee last week. "We judge that it is right to keep our foot firmly on the accelerator in order to stimulate the economy."

His comments followed a forecast from the Ernst & Young Item Club that Bank rate will remain on hold at 0.5% for at least the next three years.



Stephen Martin and Rhea Sykes with their son Ethan (2) from Manchester. 29.07.10 (Roger Moody)

Meanwhile, Nationwide building society said house prices fell 0.5% in July, the first decline for six months. This makes it less likely interest rates will rise this year. House prices are still up 4.5% since the beginning of 2010 on its index, but many on our panel of experts expect values to be flat or falling by the end of the year.

House prices

Kathryn Cooper, Money editor:

Do you see property prices falling this year?

George Buckley, chief economist, Deutsche Bank: The housing market has been strong over the past 12 months for a number of reasons: interest rates are exceptionally low; unemployment hasn't risen anywhere near as much as we feared; sterling has been weak, attracting foreign buyers; and though there is more property on the market, supply is still relatively limited, helping to bolster prices.

What worries me, however, is that all of those things are showing signs of turning round. Rates are probably going to go up, maybe by the start of next year. I also think rising unemployment is a big risk.

I think prices will be up 2.5% by the end of the year, although if you take Nationwide's figures this implies a fall in the next six months of about 2%. Over 2011, we estimate a 5% fall.

Lucian Cook, director of research at Savills Private Finance: We expected a 6.5% fall for 2010 as a whole but we now think this could come entirely in the second half of the year. That would mean prices would be down about 2.5% if you take Nationwide's figures.

Simon Rubinsohn, chief economist at the Royal Institution of Chartered Surveyors: Our main indicators are pointing towards a slight fall in prices in the next six months — perhaps ending the year about 0.5% up, again based again on Nationwide figures.

Simon Gammon, managing partner at Knight Frank Finance: You have to separate out the top end of the London market from the rest of the country. Foreign investment in London remains strong because of the weakness of the pound. This could change, especially against the euro. However, many people expect the dollar to get stronger, so you'll see continued interest from Far Eastern and US buyers. Our forecast is that London will be up 7.5% over the year, but the UK overall will be down 3%.

Trevor Abrahmsohn, managing director of Glentree estate agents: I agree. Many wealthy foreign purchasers have recouped much of the wealth they lost in the credit crunch and

there is an insatiable desire to buy a place in London, whether they need it or not. In February, we were overstocked in terms of expensive trophy houses. Today, we've got a shortage. I'd say house prices will end up 3%-4% this year overall, but perhaps up 5%-6% for London.

Cooper: How long will homeowners have to wait for house prices to get back to their 2007 peaks?

Abrahmsohn: In some areas, we are already there. There is one client in Hampstead's Bishops Avenue, northwest London, who managed to sell for £30m — £6m more than the anticipated price. That's probably what it would have sold for at the top of the market.

In general, I would say prices will go back to their September 2007 peaks by late 2012 or early 2013, but perhaps in 2011 for London. If you factor in inflation, however, you are probably looking at 2015/16.

Rubinsohn: Given my concerns about the lack of supply, especially for social housing and new builds, I wouldn't be surprised if we get back to normal house price growth in two years — which is perhaps sooner than many other people would imagine.

 <p>Simon Gammon KNIGHT FRANK FINANCE</p> <p>House prices end 2010: -3% House prices end 2011: +2% How long to get back to their peak? 2016 (incl. inflation) First rise in interest rates? Q1 2011 Rates end of 2011 and 2012: 1.5% and 2.5%</p>	 <p>George Buckley DEUTSCHE BANK</p> <p>House prices end 2010: +2.5% House prices end 2011: -5.0% How long to get back to their peak? 2015 (excl. inflation) First rise in interest rates? February 2011 Rates end of 2011 and 2012: 1.50% and 3.50%</p>
 <p>Lucian Cook, SAVILLS</p> <p>House prices end 2010: -2.5% House prices end 2011: -0.5% How long to get back to their peak? 2019 (incl. inflation) First rise in interest rates? 2011 Rates end of 2011 and 2012: 1.5% and 2.5%</p>	 <p>Melanie Bien PRIVATE FINANCE</p> <p>House prices end 2010: +2%-5% House prices end 2011: +2% How long to get back to their peak? 2014 (excl. inflation) First rise in interest rates? Next summer Rates end of 2011 and 2012: 1% and 2%</p>
 <p>Simon Rubinsohn, RICS</p> <p>House prices end 2010: +0.5% House prices end 2011: n/a How long to get back to their peak? 2014 (excl. inflation) First rise in interest rates? May 2011 Rates end of 2011 and 2012: 1.5% and 2.5%</p>	 <p>Trevor Abrahmsohn GLENTREE INTERNATIONAL</p> <p>House prices end 2010: +3%-4% but +5%-6% in London House prices end 2011: +3% First rise in interest rates? First half of 2011 Rates end of 2011 and 2012: 1.25% and 1.5%</p>

Interest rates

Cooper: So when do you think we'll see Bank rate rise?

Buckley: We recently changed our forecast from November this year to the first quarter of 2011. I think inflation will come down significantly over the next 12 to 24 months, despite the rise in Vat to 20% next year. Though core inflation is at a 20-year high in Britain, in America it is running at a 40-year low, while in the eurozone there's a 20-year low.

Rubinsohn: We're saying the second quarter of next year for the first rise in interest rates — but then, like many people, we were saying autumn of this year. This has got pushed back, so I'm prepared to be surprised.

Gammon: Remember lenders will not necessarily pass these rises on to borrowers. Because interest rates are unusually low, banks can get away with margins of up to 6% on mortgages because that is what borrowers were used to paying. If interest rates start to creep up, however, they will have to review those margins.