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The outlook is mixed

The experts have given their forecast for next year's property market — and things are looking gloomy

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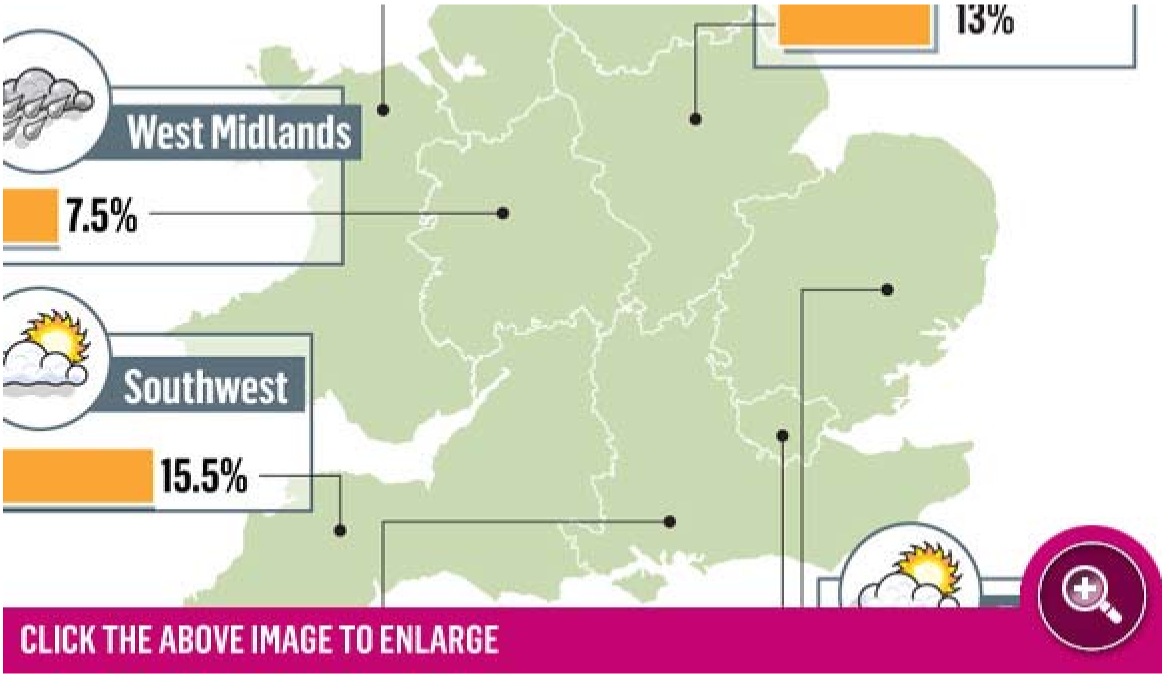

It's that time of year again, when the Christmas shopping frenzy starts, and estate agents and property-market analysts take stock of the past 12 months and look forward to the next year. So, after a desultory performance in 2012, what does the future hold for 2013 and beyond?

Sadly, for most homeowners, the news is fairly bleak. Property prices are set to drift lower in the near future — and, according to Knight Frank estate agency, they won't match the 2007 peak until 2019, making this the longest recovery on record.

"Five years after the start of the financial crisis, the housing sector still does not bear the hallmarks of a fully functioning market," says Grainne Gilmore, head of UK residential research at Knight Frank. "Prices have been flat or modestly declining across the country since 2010."

Why? The main reason is the contraction in the mortgage market, which has led to low transaction rates. All commentators agree that these are the lowest on record, with the number of deals being donealmost 50% down on the peak. Low interest rates have been holding prices up.

"Conditions in the mortgage market are not a postcrisis blip," Gilmore says. "This should be considered the 'new normal', and the housing market will reflect that, taking years to reach the transaction levels seen at the peak of the market."

Knight Frank forecasts only a 2% rise in transactions next year, with a 2% drop in prices. Those are the same levels it predicted for 2012.

Savills estate agency, which also published its five-year forecast last week, is a little more optimistic, predicting an average 0.5% rise in 2013. Yet this masks a more mixed picture, one that shows regional variations becoming more pronounced. London and the southeast are tipped to rise by 1.5%, but the northeast may fall by 0.5%.

“Last year we forecast that UK house prices would fall by 2%, and that inflation, rather than price falls, would continue to strip out value thereafter,” says Lucian Cook, director of residential research at Savills. “This year we have seen average values fall in real terms. We now expect the market to show slight nominal growth next year, but to remain negative in inflation-adjusted terms until 2016.”

Hamptons estate agency is relatively upbeat, predicting 2%-4% growth over the next three years. Yet it is calling a halt to the double-digit growth that has characterised prime central London for a decade.

The rise in values in these ultra-chic spots had seemed unstoppable — until now. Agents and analysts agree that prices will slow in 2013. “We have seen price falls of 2% in the £2m-£10m market,” says Marc Goldberg, head of sales at Hamptons International. “While we anticipate further drops, we expect these to recover over the course of next year, once the government confirms its policy on capital gains tax.”

Savills agrees that central London values will be flat in 2013, but adds that they will continue to outperform the mainstream over five years, seeing an average rise of 26%, compared with 11.5% for the country as a whole.

“Another legacy of the credit crunch has been the divisions created between buyer groups,” says Cook, who believes that the market will continue to be shaped by the distribution of housing wealth. “The under-35s control less than 4% of this, while the over-55s have more than two-thirds, creating a huge chasm between generations.”

While low interest rates are not helping those who want to get onto the ladder, they are bolstering prices. Yet Gilmore warns that an unexpected sharp rise in interest rates could cause a price shock, as overextended homeowners are pushed past the limit. “Such a move might force the banks to take action, which could spur a sharp rise in repossessions, exacerbating house price declines,” she says.

UK mainstream forecasts

	5 years to end 2012	13	14	15	16	17	5 years to end 2017
Market conditions							
Nominal price growth	-11%	0.5%	1.5%	2.0%	3.5%	3.5%	11.5%
Real price growth*	-24%	-2.0%	-1.0%	-0.5%	-0.5%	0.0%	-3.0%

*Using RPI

Source: Savills

No silver lining for older buyers

Even the over-50s can't get mortgage

funding these days. As a result, they aren't budging, writes Alexandra Goss

Mortgage lenders' strict criteria on interest-only loans and lending into retirement could create a nation of "zombie houses", with people in their fifties unable to move house.

In a bid to stamp out the reckless lending practices that triggered the financial crisis, banks and building societies have made it much more difficult for borrowers to get an interest-only loan. Homeowners had previously relied on the sale of their property to pay off the capital, but that is no longer common in today's straitened times. Lenders now require borrowers to have a credible repayment strategy in place — one that does not rely on property prices rising.

Older borrowers are also being penalised, since many lenders demand that homeowners pay off their mortgage by the time they are 75, making it difficult for people in their fifties to remortgage or upgrade. As a result, Savills estimates, the amount of housing wealth held by the over-55s will increase over the next five years by 16%, to £1.65 trillion.

"There is no doubt that many people aged 50-plus who have not retired are being discriminated against," says Ray Boulger, a housing market expert and senior technical manager at the mortgage broker John Charcol.

"For some it means they can't remortgage, but for others it is more serious, making it either impossible or too expensive to move. We have had several cases where lenders have refused to allow a borrower to port their mortgage on the basis that it is not affordable, despite the borrower not wishing to increase the size of the loan and having a perfect payment record."

There is evidence that more fifty-somethings are taking their homes off the market because they cannot get a mortgage under the new terms. "This is part of the reason the supply of housing stock for sale is lower than it could be," says Ian Gray, of the mortgage adviser Largemortgageloans.com. "We could end up with a swathe of 'zombie homes' inhabited by frustrated would-be movers."

Increasing numbers of people in their fifties are choosing to downsize to a smaller property so that they can release equity, according to estate agents. "This could further depress the housing market, as first-time buyers compete with downsizers for the same properties," says Nick Barnes, head of research at Chesterton Humberts. "It could mean that fewer first-timers are able to get onto the ladder, as they will be outbid by equity-rich older people."

The Financial Services Authority (FSA) published the results of a three-year consultation into the mortgage market last month. Lenders had been tightening up their criteria in anticipation of the new rules, which come into force in April 2014. The FSA, however, made it clear that banks could still lend to retired borrowers able to afford the repayments.