

Hungate, new residential development of apartments and townhouses, York, England.



Crash victim

Even the Bank of England's huge interest rate cuts won't save Britain's property market, according to pundits. Recession, credit crunch, bank closures, unemployment, stock market falls, tight mortgage lending and more are stifling recovery.

TEXT: **RICHARD WARREN**

Sophisticated days
York is a vibrant, energetic city, dominated
by the Minster, Europe's largest



Top to bottom: Bambu, new apartments, Strawberry Hill, south west London; Brewery Wharf, new apartments development, Leeds, northern England; Glenfintaig, country house, Spean Bridge, Scotland



Journalists are running out of words to describe the parlous state of Britain's housing market, with "plummeting", "collapsing" and "bombed out" common descriptions. Leading market indices show prices have crashed at least 15 per cent in 2008, the number of completed sales is down by two-thirds, repossessions are rising and 130 estate agency branches are closing every week. Desperate developers tempt buyers with generous incentives like cars, bicycles, holidays abroad and annual season rail tickets worth up to Dhs 35,000, but with limited success. So limited that many house-builders have mothballed projects until better times return.

Fewer buy-to-let investors are entering the market, because hardly anyone will lend to them – nine out of 10 buy-to-let mortgages offered last year have been withdrawn. First time buyers revel in lower prices, but bang their heads against the wall in frustration because banks are reluctant to lend. For many, the idea of owning a home of their own remains just that, an idea. Even London's super-prime property market, the Dhs 88 million-plus bracket, which rode out the initial stages of the downturn, is looking shaky.

Government attempts to kick-start a revival in the housing market by bailing out cash-strapped banks and exhorting them to lend at high 2007-levels have failed. Big interest rate cuts by the Bank of England, also partly designed to help mortgage borrowers, have had limited impact. Half of the banks have not passed on cuts to borrowers and some have increased their borrowing rates to refill their coffers following huge losses in America's stricken, sub-prime mortgage market.

Although the property slump happened quickly, most analysts don't expect it to end fast. The most optimistic say that just over a year into the downturn, we are only half way through, while pessimists say we must wait at least four more years. Forecasts for further price falls range wildly from drops of 10 per cent to 35 per cent. Nobody says prices will rise in 2009 or 2010. Not until the banks start lending freely again (and hopefully responsibly) will the market pick up and that won't happen until their balance sheets are firmly in credit.

Website housepricecrash.co.uk, says prices will fall a further 35 per cent and the slump last until 2013 at least, most likely a year or two later than that.

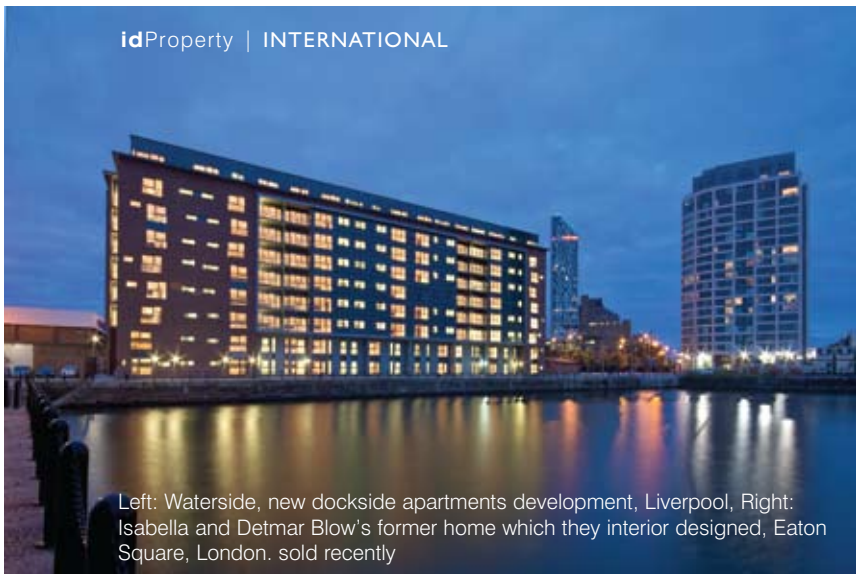
And Yolande Barnes, research director at estate agency Savills, says prices will fall another 10 per cent before recovering.

"The market will bottom out at the end of 2009 or beginning of 2010, having fallen about 25 per cent from peak," she says.

"The falls have been unprecedentedly fast and large, and whilst we acknowledge a small chance of a bounce-back once mortgage lenders are once again open for business in 2010, we now think that the market will remain subdued until at least the back end of 2010/beginning of 2011, bumping around at 0 per cent growth in the interim." Barnes adds that property values will get back to their 2007 peak levels by 2014.

Taking the middle ground is Seema Shah, property economist at consultancy Capital Economics, who says recession and rising unemployment will delay recovery. "This housing market correction has already overtaken the 1990s crash and, with the economic slump deepening, it is set to get worse," she says.

"Interest rate cuts will not be enough to stop the correction, nor slow the pace of house price declines. We expect house prices to fall a further 20 per cent in 2009."



Left: Waterside, new dockside apartments development, Liverpool, Right: Isabella and Detmar Blow's former home which they interior designed, Eaton Square, London. sold recently



Of course, examining figures for the whole country does not reveal the story of its parts. Analysts say the downturn is coming to an end in some areas, but accelerating in others. Northern Ireland is faring worst – prices here have fallen 22 per cent over the past year, according to figures from Halifax Bank – this is a reaction to the heady rises of a couple of years ago which propelled the province from being the cheapest place to buy a home in the United Kingdom to its second most expensive. Scotland, by contrast, continues to fare reasonably well – the last corner of Britain to enjoy a price boom, it has been the last to experience the downturn.

London held up well initially, but figures from Knight Frank estate agency show values for prime central London homes fell 3.9 per cent in October, the fastest fall on record, a situation exacerbated by the end of the bull run for super-prime palaces, mansions and penthouses.

London has been hit by the turmoil in financial markets since last summer. A succession of bank closures, mergers and nationalisations have cost several thousand jobs in the financial services sector and thousands more are expected to go. This means more forced sellers and fewer cash-laden buyers in the housing market. What's more, nosediving commodities prices mean the flow of Russian and Middle Eastern oil money into London is drying up, with the result resulting in prices of the capital's best homes falling fast. Worse, to force further price reductions, opportunistic buyers threaten to pull out of deals when they come to exchange contracts, a practice known as 'gazundering'.

The daily turbulence of the financial markets has left vendors increasingly exposed, with price reductions happening on a daily basis across the capital says Russell Hunt, managing director of home finders Property Hunt.

"The London property market has recently resembled a 'holiday bazaar' and the asking price has almost become meaningless, with haggling and the return

of gazundering," he says. One of the few des res properties sold in the capital during the late autumn was the home of the late fashion icon Isabella Blow and art dealer husband Detmar, an Eaton Square apartment which they interior designed together. It was sold through Belgravia estate agents Ayrton Wylie.

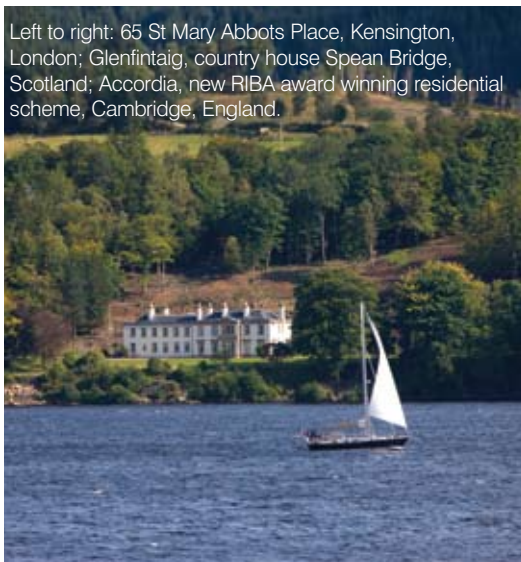
At the other end of England, estate agents say northern cities may be on the verge of recovery. Northern England was the first region to have property prices head south and its downturn was well under way when commentators began talking about an emerging national crisis in late 2007.

According to Knight Frank, prices have fallen by as much as 25 per cent in some parts of the north against the agency's forecast of a 30 per cent fall overall. With the north's downturn nearly over, the agency says it may start to recover in the next few months. It confidently expects investors will return to the north at the start of 2009, especially in the new build sector – where prices have dropped fastest and supply shortages may emerge.

"As the slowdown hit many northern markets first – as much as a year before prices began falling in London – developers had put their activities on hold, well before the effects of the credit crunch really became apparent," says Jon Neale, head of development research at Knight Frank.

The downing of tools by house-builders during the past couple of years will exacerbate under-supply problems, however, prices will rise only modestly in the next two years, he forecasts.

As Britain's economic powerhouse, London led the way out of the last property slump and Savills expects it will do so again this time. Prices in prime central London and southeast England will regain their peak 2007 levels by 2013, a year ahead of the rest of Britain, Savills' Barnes says. Wherever and whenever recovery comes it will be a while yet for most of Britain. The bigger the boom, the bigger the bust. **ID**



Left to right: 65 St Mary Abbots Place, Kensington, London; Glenfintaig, country house Spean Bridge, Scotland; Accordia, new RIBA award winning residential scheme, Cambridge, England.

