UK property: Is it finally time to sell?
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In our latest property report, MoneyWeek writers give their views on what is happening to the UK property market in 2014, and how the market could be improved.

1. Is London’s property bubble about to burst?

By Matthew Partridge
(First published 7th August 2014)

Ask any estate agent, and they’ll readily admit that prices in London are crazy.

Indeed, if you look at the stats – such as the ratio of prices to incomes of first-time buyers – it’s hard to dispute that we’re in the middle of a bubble.

History suggests it’s inevitable that prices will fall. After all, reversion to the mean is one of the facts of life. However, this still raises the question of when this will start to happen.

The price indices are giving a mixed picture. While they all agree that the surge in prices of the last year has died down, some indices suggest that prices may have peaked. Others suggest they are still going up (albeit at a slower rate).

However, there are two factors which mean the correction may come sooner than later.

Why I feel sorry for the banks

Let’s start by looking at the banks.

Now it’s hard to feel sorry for the banks. The taxpayers bailed them out in 2008. Since then they benefitted from money printing – which was done in a way that greatly boosted bank profits – and from various other schemes.

However, since the crash, there has been a sense of “damned if you do, damned if you don’t” when it comes to mortgage lending.

On the one hand, banks are lambasted for being reluctant to lend.

On the other, every loan they make is (rightly) scrutinised by regulators to make sure it’s not reckless.

There’s also a sense that when house prices do start to fall, George Osborne and Mark Carney will find some way to shift the blame towards the banks.

This is why a recent decision by Lloyds is so important. The bank has decided to restrict the maximum amount they will lend through the equity part of Help to Buy to £150,000. (Equity loans are when the government lends up to 20% of property’s value to the buyer. It’s only available for newly built homes.)

The decision matters because it effectively ends Lloyds’ participation in the equity part of Help to Buy – not just in London, but large swathes of the UK as well. According to the Nationwide, seven out of the 13 UK regions have average prices higher than £150,000 – London’s average is just over £400,000.

Given that Lloyds currently has a 50% share of such loans, the move will have a major effect on the scheme, with other banks struggling to fill the gap. While the restrictions only apply to the equity part of the scheme, Lloyds has also decided to increase the cost of a typical five-year fixed loan rates from 3.64% to 3.94%.

If others follow suit, it is possible that this could have a major effect on prices.

Homeowners looking to sell

Banks turning off the taps is not the only threat. There are also indications that the sky-high prices are starting to have an effect on the balance between supply and demand.

According to monthly survey data from the Royal Institution of Chartered Surveyors (Rics), the number of enquiries from members of the public continues to decline, and is nearly back to the levels
of last summer. At the same time, the number of sellers putting their homes on the market has risen.

Indeed, if you look at the regional breakdown of data, this trend has been particularly strong in London, with nearly 50% of respondents saying that there has been an increase in the number of homes coming on to the market. Confidence in the market is also falling, with 57% saying that it is a good time to sell.

Comments from individual surveyors also reflect that things are changing. For instance one London surveyor says that “properties are still selling, but not at crazy prices”. Another notes that, “demand in some areas has fallen back from its peaks”.

Several of them are even talking about price cuts, saying “we are now having to re-adjust asking prices to encourage offers”, “more properties are coming onto the market”, and “the housing market is cooling down”.

Overall, Simon Rubinsohn, Rics’ chief economist, thinks that, “the London market appears to have been particularly affected by the increased air of caution”.

This is borne out by the July Hometrack survey that finds the time taken to list a house on London’s market increasing to 4.3 weeks, compared with a low of 2.7 only a few months ago. The achieved price has also dipped from 99% of the list price to 97.5%.

Market may be about to turn

It should be clear that we’ve either reached the peak of the London market, or are very close to it. Indeed, when the correction comes, it could be substantial with falls of 15-20% very possible.

This means that you should try to put off making a purchase, or bring it forward if selling. At the very least, you should stay absolutely clear of any buy-to-let schemes involving London residential property.

Of course, this may be difficult if you need to find somewhere to live or are part of a chain. Even then, it might be worth making a much lower offer than the asking price, especially if you don’t need to arrange a mortgage.

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2. Bank of England doesn’t want to burst the bubble

By John Stepek
(First published 20th May 2014)

Mark Carney says he doesn’t want the property boom to continue. But he doesn’t seem to be doing much to contain it.

The obvious move would be a rise in interest rates, and that will inevitably happen one day, but probably not as soon as it should.

You see, Carney thinks the basic problem with the UK housing market is that not enough houses are being built. He told a TV interviewer in May that there are “half as many people in Canada as in the UK, [but] twice as many houses are built in Canada every year than in the UK.”

In other words, at heart, Britain’s dysfunctional housing market isn’t about super-low interest rates, it’s about building more houses. And there’s not much the Bank can do about that.

Wait a minute – doesn’t Canada have a housing bubble too?

Shortly after this interview, everyone in the papers nodded
sagely along with this Canadian statistic and let Carney get away with it without questioning it.

But hang on a minute.

Yes, it probably is a good idea to build more houses in Britain. We could also do with better and bigger houses, and a bit more imagination being applied to the property that we do build, and a lot more self-building, and all the rest of it.

But there’s a big problem with his line of argument.

Carney is saying that Canada has half the population and is building twice as many homes as Britain each year. So all else being equal, he’s arguing that pressure on housing stock is very roughly four times as great in Britain as in Canada.

Trouble is, Canada also has a rampant house price bubble. In fact, according to the OECD think tank, Canada has one of the most expensive housing markets in the world – even more expensive than Britain or Australia.

So all that extra building isn’t helping them in the affordability stakes much.

What else do Britain and Canada have in common? Hmm, let’s see. Oh yes, Mark Carney used to be in charge of monetary policy over in that neck of the woods. And interest rates – while positively high by our standards, at 1% – are still incredibly low, and have been that way since 2010.

What really drives house prices

Here’s the reality: monetary policy drives house prices. It dictates the amount of money available to spend on property. It’s as simple as that. If all the Bank of England wanted to do was to cut house prices, then it could do so overnight by jacking up interest rates. It doesn’t need to build a single house to do that.

So all this talk of the housing market is a red herring. It’s only coming up at all because it’s the most obviously overheated part of Britain’s economy. So Carney can’t just pretend it’s not happening. But Mervyn King used to mutter about the housing market all the time. Did he do anything about it? Nope. And nor will Carney.

George Osborne put Carney in charge of the Bank of England because he thought he’d be a safe pair of hands who would deliver a growing economy by the time the election rolled around.

This isn’t a conspiracy theory. All I’m saying is that Osborne had to recruit a man for a job. He wanted that job done in a certain way, so he hired someone who would fit the bill.

A big part of the recovery is based on those rallying house prices. So while Carney might well tinker at the edges, he’s not going to do anything that pops the bubble. So interest rates aren’t going up on this side of the election.

On top of that, lots of companies are starting to wince as sterling gets stronger. If the market gets a whiff of rates rising, sterling could be off to the races and heading for $2 again. That would be painful for the exporters and manufacturers that we’re meant to be basing this recovery on.

There are good arguments for thinking property prices can’t be sustained at current levels, but Carney will do his best to keep them up. At least until the election, anyway.

3. The silver bullet to fix the housing market

By Dominic Frisby

(First published 26th June 2014)

How many people do you know with an after-tax salary of £230,000?

Not many, I expect.

Yet, in 2014, the average asking price for a London property – now just shy of £600,000 – has been rising at £4,405 per week, according to the latest Rightmove figures. That’s an annualised rate of £230,000.

I know that’s only current asking prices and the market does seem to have slowed in London, but the shortage of supply and the surfeit of buyers mean that many of those asking prices are not only being met, but exceeded.

I bet as many as 80% of people you know who own in London couldn’t now afford to buy the house in which they live. It has become almost impossible to work your way on to the ladder.

A quick search online shows two-bed, timber-framed houses for sale for under £20,000; and five-bed, two-storey, 3,500 square-foot timber-framed houses for less than £70,000. Heck, 3D printers can build a home for £3,000.

Houses need not cost a lot of money to build – yet house prices are destroying the prospects of an
entire generation. 50% of young people, according to the Evening Standard, now believe they will never own a home.

A house, like a car, should be a depreciating asset. It costs money to maintain, it deteriorates with time. Yet the opposite happens.

The issue is land prices.

The survey you never heard about

The 2011 UK National Ecosystem Assessment made some startling findings about land in England. Unfortunately, in the deluge of data, they got ignored.

The key finding is this: domestic buildings cover just 1.1% of land. Non-domestic buildings cover another 0.65% and roads make up 2.2%. Just 4% of English land is actually built on.

96% is not.

That 96% is made up of gardens (about 5%), water (about 3%). The rest is ‘green space’.

If England’s 20 million homes cover just 1.1% of its land, you could increase the housing stock by 20% – 4 million homes – and only build on another 0.2% of land. Surely, we can find the space to do this.

Even if you give each home a large garden, you’re still talking less than 1% of English land to increase the housing stock by 20%.

Fly over the UK and you see acre upon acre of barely used land. Some of it ecologically sensitive; some of it is beautiful, of course. But a great deal of it isn’t. And ecological and aesthetic concerns can be addressed – as well they should be.

The act that made the rich richer

The villain in the piece is the Town and Country Planning Act of 1947. Introduced by the post-war Labour government, the act meant that if you wanted to develop land, owning it was not enough – you had to get planning permission.

It took away the responsibility for decision-making from the individual and, instead, conferred it on regulators. The then Minister of Town and Country Planning, Baron Silkin of Dulwich, said his purpose was “that all the land of the country is used in the best interests of the whole people”.

But we now have a situation where over 70% of UK land is owned by just 6,000 or so landowners (the Crown, large institutions and a few aristocrats, mainly), while the average density of people on one residential acre of British land is 13. We pay an average of £600 in council tax, while each landowner receives about £12,000 in subsidy and a similar amount again from the EU.

This is not “in the best interests of the whole people”.

When you then introduce credit into this tiny pocket of land that we can actually live on, build entire industries around lending money, as well as loose monetary policy, suppressed interest rates, help-to-buy, the aggressive marketing of property to buyers overseas and all the rest of it, it is in evitable that prices are going to be pumped up
Beyond earnings.

Silkin was also trying to stop private landowners gaining from land value appreciation at the expense of the public purse. But, such is the law of unintended consequences, his act has had the opposite effect.

It has led to huge concentrations of capital and people in areas that are already built-up – especially London – bringing vast unearned wealth to those that own at the expense of those that don’t. It has actually caused the wealth gap to grow.

It’s all very well saying we need to build more homes. What happens then is that politicians and planners turn to large building companies, deals get done, and you get the huge and (in my view) ugly glass-fronted tower blocks that are turning London into Dubai-on-Thames – or you get builders knocking up cramped estates to get the biggest bang per buck of brownfield site. People don’t want these on their doorstep – and so Nimbyism rises.

The hypocrisy of planning is such that there are now government schemes to allow fracking under our must-not-be-touched land – but we can’t build a house on it.

The answer lies with people, not planners

Our most beautiful domestic architecture was predominantly built in the 18th and 19th century, before planning laws, when there was a much more laissez-faire approach. But at present, building is the domain of government and a few large corporations. The more planning there is, the uglier our buildings seem to get.

The answer to expensive housing does not lie in more credit, in more social housing or more large-scale building projects – nor any other kind of government intervention. It lies in cheaper land.

An acre of farmland worth £10,000 becomes an acre of land worth £1m once you get planning permission. It is not “in the best interests of the whole people” to pay that absurd cost of planning regulation; it is in the best interests of the landowner. Get rid of this needless expense and housing becomes affordable again.

With price no longer such a barrier, and small builders and self-builders now able to compete, the result will be more diverse, characterful, affordable and, yes, beautiful.

4. What Mark Carney’s measures mean for London house prices

by Matthew Partridge
(First published 26th June 2014)

London property prices are at insane levels. But both Bank of England governor Mark Carney and chancellor George Osborne have been reluctant to do anything to stop it.

Instead, they’ve both been saying: “not my fault, guv”. Osborne insists it is the job of the Bank to keep the housing market in line. Carney has in turn passed the buck right back to Whitehall, blaming a lack of supply.

It’s obvious that they both want the boom to continue for as long as possible. At the very least, they don’t want prices to fall before the general election in May next year.

However, this inaction has provoked growing criticisms with everyone from the IMF to the European Commission to former chancellor Lord Lawson chipping in.

So Carney outlined three ‘macroprudential’ measures in June to cool the housing market. In other words, measures that don’t include adjusting interest rates.

But will these measures have much impact?

We suspect not. Two are much weaker than they appear. Firstly, banks are being forced to ‘stress test’ loans, to ensure that they are ‘affordable’. Carney has explicitly defined this as assuming that interest rates will be 3% higher than they are at the time when the loan is made.

Banks also have to limit their high loan-to-income (defined as greater than 4.5 times income) lending to 15% of their portfolio.

The trouble is that the first measure has been largely pre-empted by the Mortgage Market Review, which came into effect in April. This forced banks to consider affordability and suggested a large number of guidelines, including stress testing.

Similarly, as Carney has admitted, the limit of 15% of high loan-to-income loans is actually higher than the current level of such lending,
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which is 10%.

All in all, it very much looks like Carney is trying to get away with doing as little as possible. Indeed, he has said these measures are intended to prevent a bubble from developing, implying that he thinks that things are currently fine.

A sting in the tail

However, there is one measure that might have an impact on the London market. Carney has signalled that Osborne has agreed that loans that were more than 4.5 times income would be completely excluded from the second part of Help to Buy.

Right now, the average London house price is at a record eight times the average income of first-time buyers.

Defenders of Help-to-Buy argue that only 5% of the total loans have a loan-to-income above the 4.5 times mark. But this proportion is likely to be much higher for loans on London properties (London and southeast England account for around 20% of Help to Buy guarantees).

So this third measure may help to bring the London property boom to an end.

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