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Don't be fooled by talk of green shoots – prices have further to fall if the market is to reconnect with first time buyers

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The saying goes that an agent is only as good as his last deal. No surprise then, that a pick up in the number of sales agreed over the last few months has brought with it talk of the green shoots of recovery in the housing market.

Of course any sign of good news is welcome, but with the economic outlook remaining uncertain such news should be tempered with caution. In this particular case, the increase in sales is off an almost non-existent base and overall volumes remain well down on what one would expect in a normal market. The current run rate over the last 3 months equates to an annual average of just 476,000 sales, compared to a normal market of 1-1.5m sales a year.

Prices continue to fall but some lead indicators, such as the average time to sell and the proportion of the asking price being achieved, have started to turn for the first time in many months. This implies a growing number of vendors are becoming more realistic over pricing levels and volumes are responding. The key question we should be asking is whether this pick up in activity is a seasonal blip supported by pent up demand feeding back into the market, or the beginning of a more sustainable trend. With the average vendor accepting 88.8% of the asking price it is still very much a buyers market and suggests to us that prices will remain under downward pressure for some time to come.

Not all households have been hit by the credit crunch. We have calculated that there are 8m households with either no mortgage or a mortgage worth less than 50% of the value of their home – and that's allowing for a 15% fall in house prices. Yet these are households with a low propensity to move. Falling sales volumes means that these buyers now account for a larger overall proportion of sales. Yet a market can not be sustained on one subset of buyers. The true green shoots of recovery will only appear when first time buyers are fully priced back into the market. Even then they will still require access to a higher LTV mortgage at a competitive rate.

An analysis of the dynamics between renting and buying suggests that house prices have further to fall before first time buyers are able to access the property market. On a pure £ per week comparison, it's still cheaper to rent than buy an average priced 2 bed flat. This said, at the bottom end of the market, renting is now more expensive than buying, but few first time buyers will be willing to make their first home a small flat, in poor condition in a secondary location - faced with this choice, they'll simply continue to rent until the outlook becomes clearer, especially with rents under downward pressure.

To deliver parity between the cost of renting and buying, the average price of a 2 bed flat needs to fall a further 12%. Falling rents could exacerbate the problem. Nationally, rental growth in the last year for a typical, mid market, 2 bed property has been at 0%. This should come as no surprise as rising supply has increased choice, but we shouldn't forget that like buyers, renters are affordability constrained. The re-pricing process of the housing market is well underway but a broad based recovery needs to be supported by broad base of buyers. First time buyers are still not fully priced back into the market. Only when this occurs can we start to talk about the 'real' green shoots of recovery. In terms of timing we are still talking years rather than months.