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2012 forecast: Property market

By Tanya Powley

House prices are expected to fall in 2012, on the back of a continuing weak economic outlook and tighter mortgage availability.

Estate agency groups are forecasting declines across the mainstream property market next year. Knight Frank predicts a 5 per cent fall in average UK prices, while Savills and Hamptons International both believe prices will decline by 2 per cent nationally. But, as in 2011, price movements are expected to vary significantly between regions.

“Set against a backdrop of continued economic uncertainty, we expect the 2012 property market to be a more conservative rerun of 2011,” said Marc Goldberg, head of sales at Hamptons International.

Property analysts believe demand from homebuyers will fall in 2012, leading to a decline in the number of housing transactions, as consumer confidence weakens and mortgage finance becomes more restricted.

“The key message is that the uncertainty over the economy – UK and indeed worldwide – and a poor outlook for jobs will make UK and European borrowers more nervous about taking on large debts,” argued Nigel Bedford of Largemortgageloans.com.

Mortgage brokers are particularly concerned about the impact of the eurozone sovereign debt crisis on the availability of mortgage finance next year. An increase in the cost of wholesale funding – three-month Libor (the interbank lending rate) rose from 0.83 per cent in August to 1.05 per cent in December – has already led to a number of lenders increasing mortgage rates.

Ray Boulger of John Charcol, the mortgage broker, believes banks’ lending costs will continue to rise until the eurozone debt crisis is resolved. “The lack of liquidity and high cost of wholesale funding is likely to result in some reduction in the appetite of the major banks for new lending next year,” he said.

“The bottom line is that borrowers should expect to pay more for new mortgages,” concluded Bedford.

Mortgage lenders are also expected to lend less in 2012. The Council of Mortgage Lenders (CML) estimates gross lending will fall to £133bn, with £5bn of net lending, compared with levels of £138bn and £9bn, respectively, this year.

“As a byproduct of sovereign debt worries, lenders face challenging conditions in wholesale funding markets, and these could have negative effects on the cost and availability of UK residential mortgages,” forecast Bob Pannell, chief economist at CML.

For would-be buyers with small deposits, the government’s recently announced new-build mortgage indemnity scheme is expected to boost the number of 95 per cent loans available when it launches in April. However, details of the interest rates have yet to be revealed – and these will be a major factor determining take-up of the scheme.

A further barrier to first-time buyers will be raised on March 24, when stamp duty relief on properties worth £250,000 or less will end – a change confirmed in the autumn statement. From then on, stamp duty will apply to all properties worth £125,000 or more.

With access to mortgage finance likely to remain restricted, demand for private rented accommodation is expected to intensify. Savills forecasts a 3 per cent growth in rents in 2012, due to the imbalance between demand and supply, and believes 20 per cent of households in England will be renting by 2015/16 – up from 15.6 per cent of households in 2009/10.

As a result, buy-to-let mortgage finance looks set to increase next year, as more banks and building societies look to start, or increase, lending to the sector.

But prime London property values are expected to defy the wider downturn, again, as demand from overseas buyers continues to underpin prices. However, property analysts are predicting slower growth than in 2011.

“The big question is the extent to which the safe haven effect continues in London and offsets the effect of a weakened global economic outlook,” said Lucian Cook of Savills. “We think it has a little while to run, though growth next year is likely to be much reduced, with the prospect that there could be some short term price falls at some point over the next two years.”

Savills is forecasting growth of 3 per cent for prime central London in 2012, Hamptons foresees 4 per cent, and Knight Frank expects a 5 per cent rise.

Mortgage finance for wealthy borrowers is likely to remain available – with a number of private banks signalling plans to lend more in 2012 than they did in 2011. However, Bedford notes that it may be harder to secure “attractive private bank lending terms” in 2012, unless borrowers are willing and able to enter into a wider financial relationship with a bank.