

Life, Confidence and the Property Market

Martyn Stubbs of Phillips and Stubbs assesses the extraordinary financial events of the past few weeks and looks at what effect these will have on the property market.

Some financial commentators already argue that it will take many years for confidence in the banking system to return. As the Prime Minister said recently, “The greatest asset of all, and the one that has been missing in the last few weeks, is confidence itself.”

But does this mean that it will take years for confidence in the property market to return? The economic system may well require confidence but life is a different matter. Most people’s lives, while affected by the economy, are not dominated by it. Babies will still be born, people will marry or co-habit, divorce or break up, retire and, sadly, die. People will lose their jobs or get other jobs – sometimes in other areas. A lucky few will win the lottery. These events usually presage a property sale and/or purchase. These potential movers are not affected so much by confidence but by life – or death.

We have seen the sharpest period of property market turmoil in living memory. The market will not correct overnight and there will still be uncertainty. Prices in some areas may well have to fall further before they reach their optimum sales level and the point where the market can really begin to rally. As an example, for an average two bedroom town centre flat to sell its price should reflect three times an average person’s income. At this price even cash-strapped and nervous lenders will be prepared to lend. Until prices reach this average level lenders will be wary and the market for two bedroom flats will remain stalled.

However, this does not mean there is no activity in the meantime. In fact September was, in many parts of the country, a relatively good month for sales. Why was this? Well, firstly life continues. The second reason is more profound. As both the banks and the stock market are hardly attractive places to deposit hard-earned cash at the moment, investors are seeking sounder alternatives. Some are putting it under the mattress or buying gold, while others are favouring financial institutions that are newly backed with government guarantees.

But others concede that the one place that has consistently performed as a sound investment, despite several ups and downs over the past fifty years, is the UK property market. Some canny investors are already entering the market.

There is an old adage in investment circles, ‘trend is your friend’. It is well to heed this. The UK property market has seen a strong upward trend over the past half century. In fact over this period values have risen at an average annual rate of more than ten per cent.

It is, as ever, impossible to predict the future but there is one key pointer. According to statistics, throughout the UK there will be an inadequate supply of housing over the next few years, made more acute by the rapid slow-down in new home starts. House builders have been unable to find adequate finance and have shelved or mothballed projects. This paucity will create high demand and, in turn, a stronger housing market. So much so that despite the fall now some property industry professionals predict that house prices could rise by up to 25% over the next five years. This may seem wishful thinking at a time we are all so shocked and despondent, but previous bust-to-boom examples prove such a rise to be a distinct possibility.