

January 11, 2003

SECTION: FOCUS; Pg. 75

LENGTH: 1289 words

HEADLINE: HOUSE PRICES: BOOM OR BUST?

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BODY:

One minute we are told the property market will crash, the next that prices are still rising. After an uncertain year, Graham Norwood looks at the predictions for 2003

2002 was a disaster for British dinner parties. There was no consensus over the chattering classes' favourite subject - house prices.

One guest would say prices had risen 30% while another would predict a crash. The hosts would smile smugly because they invested in buy-to-let... until they heard the rental market had collapsed.

And each of them could quote a so-called "expert" to support their contradictory views.

So why did Britain's property statisticians and pundits get it wrong?

Without exception, the major indices underestimated significantly the price rises - they forecast 5% to 8% but most now say 25% to 30%.

"There were economic factors nobody predicted," admits FPD Savills' Richard Donnell, whose research team are regarded as the most thorough analysts of UK's residential landscape.

"Nobody anticipated interest rates staying so low and people on lower incomes filling their boots with debt. There were no worries about unemployment except for some working in the City.

"Although prices at the top end were static or fell over in the second half of the year in particular, this affected only a small number of better-off buyers and sellers influenced by stock market sentiment," he says.

And the effect of 11 September 2001? "None at all, apart from keeping away some US business people, which depressed central London's corporate lettings market," he says.

The analysts behind the two main national indices, Nationwide and Halifax, defend their methodologies, which are based on weighted adjustments of mortgage lending, with "untypical" properties excluded.

"I don't see a methodological problem. The much-vaunted US recession tarnished

only a bit of the UK economy, and that didn't damage the buyer in the street. So people are confident and, crucially, believe we're in a low-interest rate climate for good. We didn't anticipate that," says Nationwide's Alex Bannister.

"It was down to interest rates - we didn't expect so many people to take advantage of them by borrowing so much - plus good employment prospects all year and the lower end of the market coming on strongly," concurs Martin Ellis of the Halifax.

Hometrack tries to beat the other indices by using estate agents' figures and reporting part way through each month to attract more publicity. It also changes its forecasts frequently - even altering its predictions for 2003 back in November 2002.

Like the others, Hometrack says sustained low mortgage rates surprised everyone in 2002, but its year-end figure differs sharply from all other measures.

"We predicted 7% in fact it was 5% and ended with about 13% or 14%, which is only half the rate of our rivals. I'd like to see how they justify their figures," argues managing director Patrick Currie.

Savills' Donnell says indices go awry because they exclude crucial factors, such as the slow planning system restricting the supply of new homes.

But most disturbing for the property industry is the growing external criticism of forecasters as being not only wrong but unable - perhaps unwilling - to tell the truth.

"Today is probably the riskiest time in a generation to get on the property ladder," claims **Andrew Farlow**, an academic at Oriel College in Oxford.

Farlow is part of the Housing Outlook Group, a forum of academic property market analysts that takes a sceptical view of the sustainability of current price levels.

Writing on the Housing Outlook website, Farlow says: "Just as in the US and UK stock market bubbles of the late 1990s, financial advisers should be warning buyers about the level of risk in the market. Instead, they face the same conflict of interest, since they also profit from the bubble."

By the end of this year, we should see a rationalisation of the glut of different house price indices when the National Statistics Office monthly statement goes public.

Throughout 2002, monthly figures have been prepared in the Office of the Deputy Prime Minister ahead of a debut this summer.

The statement will base its findings on 30,000 completed house transactions each month (25% of total transactions) and will cover only sales involving owner-occupation and buy-to-let mortgages.

It will take account of other data that the ODPM regards as reliable, including figures from selected individual lenders, the Council for Mortgage Lenders and the Land Registry.

Will it once and for all give the definitive house price position? Most important, will it add authority to our dinner party conversations?

What the major indices predicted... and why they were wrong

Agents say interest rates were a key factor in wrong predictions

Source Forecast for 2002 What really happened Why were they wrong?

Halifax 5% (Dec 2001 review 29.2% (released Dec 2002) "Who could have foreseen our low interest rate culture and the continuing of UK market) buoyancy of the economy?" - Martin Ellis, group economist

Nationwide 6%, with "UK set for slowdown" 25.5% (released Dec 2002) "Nobody anticipated that interest rates would stay so low for so long, with few (Dec 2001 House Price survey) worries about unemployment except for the financial services sector in London" - Alex Bannister, chief economist

Hometrack 5% across UK, biggest rises 13.5% (released Nov 2002) "Interest rates and better than expected employment. Anyway, no-one can outside London (Dec 2001 foresee everything that can influence a property market" - Patrick Currie, National Survey) managing director

Predictions for 2003

"Affordability" is the key word this year, but all agents predict a rise in house prices

Source Forecast for 2003 Comments

Nationwide Up 10% or more "It will be affordability that provides a brake, not just through difficulties for first-time buyers being able to get on the housing ladder, but also for existing owners" - Alex Bannister, chief economist

Halifax Up probably around 10% "Affordability issues hurting first-time buyers in the South will constrain the market" - Martin Ellis, group economist

Council for Mortgage Lenders Up 7% "We do not expect prices generally to fall but we believe house price inflation will slow markedly as affordability constraints kick in and interest rates rise modestly later in the year" - Michael Coogan, CML director general

RICS Up 10%-15% "In 2004, house price inflation could be less than that forecast for 2003, even zero or lower, but it is equally possible for it to start to rise once more. The fact is that nobody really knows when looking this far ahead" - Louis Armstrong, chief executive

FPDSavills Up 12% "There are lots of markets moving at different speeds in different parts of the country. Our climate of low interest rates mean properties have been effectively revalued during 2002 and won't fall back"- Richard Donnell, head of residential research

Knight Frank Up 8% "Top-end properties will continue to move slowly. What constitutes top end will vary place to placee some may be over £200,000, others over £800,000" - David Moulton, head of residential research.

Hometrack Up 4% in England/Wales but "Clearly things can't continue as they are

but you can't factor in every possibility to a forecast" - Patrick possibly DOWN in London Currie, managing director

Rightmove Up across UK, but central "Houses are now becoming unaffordable, and especially so in central London"- Miles Shippside, London down 10% and commentator Greater London down 5%

www.reedbusiness.com/comprop.htm

LOAD-DATE: January 16, 2003