

UK Housing Prices: Boom or Bust?

Despite the rapidly increasing house prices evident in 2006, the threat of a UK housing price crash persists. It is reported that increased levels of personal debt, the chance of interest rate increases and fears concerning the stability of the sub-prime mortgage market can all lead to a crash of housing prices. The UK mortgage market increased almost 21 per cent from 2005 to 2006. This signifies a jump from £288.4 billion to £344.9 billion in one year. Moreover, growth in the average unsecured debt has continued to rise in the UK. In fact, it has increased 5.4% each year since 2002, rising from £3,670 to £4,522. Therefore, it is not surprising to notice the number of repossessions also increasing from 10,310 to 17,000 in 2005 to 2006.

Together with expectations of a hike in interest rates, this could be the most important factor that may lead to a crash in housing prices. Higher levels of personal debt could also lead to the increased role of the sub-prime mortgage sector (mortgages for high-risk borrowers) in the housing market. In particular, experts reveal that a recent crisis among sub-prime mortgage lenders in the US also exists, and it echoes the situation in the UK.

Although UK lenders need to practice a practical lending policy, we can see that there are always “players” in the housing market who are willing to take a risky approach to lending. This can be accomplished by relaxing their criteria in order to attract more customers. Some people may argue that these individuals practice sophisticated underwriting models. Nonetheless, UK sub-prime lenders should learn to heed the US sub-prime mortgage crisis as a warning. They should ensure they are not opening themselves to riskier loans. If they fail to do so, it could have a serious impact on the UK mortgage market.

The organization has keenly pointed out that although the risk should be taken seriously, the housing market is not likely to crash. Experts do not believe that the housing market will experience a price crash, mainly because the economy remains healthy. However, the threat of a boom and bust cycle still remains. A number of factors such as high levels of personal debt that average £4,521 per person may have a considerable effect on the future performance of the mortgage market.

Many experts claim that exuberant housing activity cannot continue on a longterm basis and housing prices cannot continue to increase indefinitely.

- SAMPLE ONLY -

The world's biggest property agent, whose value is close to half the investment-grade commercial real estate in all of the UK, has requested that selected clients reduce the value of their property by as much as 10 percent. This is a result of sheer concern, given the significant downturn in the market. Such is the condition of the UK real estate market. A boom and a bust cycle are just part and parcel of the real estate industry. In fact, this cycle does not differ much from the real estate scenario all over the world.