

UK Housing Prices: Boom or Bust?

Despite the rapidly increasing house prices that were noticed during 2006, the threat of a UK housing price crash persists. It is reported that increased levels of personal debt, the chance for interest rate increases and fears over the stability of the sub-prime mortgage market can lead to the crash of housing prices. It is noted that the UK mortgage market hiked almost 21 per cent from 2005 to 2006. This signifies a jump from £288.4 billion to £344.9 billion. Moreover, the growth in the average unsecured debt has been an ever-increasing phenomenon in the UK. It has grown 5.4% per year since 2002, from £3,670 to £4,522. So, it is not surprising to see the number of repossessions going from 10,310 to 17,000 from 2005 to 2006.

Together with expectations of a hike in the interest rates, this could be the most important factor that could lead to a house price crash. Higher levels of personal debt could also lead to the role of the sub-prime mortgage sector (mortgages for high-risk borrowers) becoming more significant in the housing market. In particular, it is pointed out by experts that there is a recent crisis among sub-prime mortgage lenders in the US as well, echoing the situation in the UK.

We can see that while the UK lenders need to practice a practical lending policy, there are players in the housing market who are willing to take a risky approach to lending. This can be done by making their criteria more relaxed so as to attract more customers. Although there is an argument that they have sophisticated underwriting models which are practiced, UK sub-prime lenders should learn to take the US sub-prime mortgage crisis as a warning. They should make sure that they are not opening themselves to riskier loans. Otherwise, this could have a serious impact on the UK mortgage market.

However, the organization has keenly pointed out that although the risk should be taken seriously, the housing market is not likely to go bust. Experts do not believe that the housing market is on the path to a house 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 averaging £4,521 per person, may have a considerable effect on the future performance of the mortgage market.

It is said that such exuberant housing activity cannot be retained on a long

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term basis, and undoubtedly, house prices cannot keep going up forever. It is reported that the world's biggest property agent, whose value is close to half the investment-grade commercial real estate in the UK, has requested select clients to mark down their property by up to 10 percent. This is due to sheer concern, as there is a major downturn in the market. Such is the condition of the real estate market in the UK. A boom and a bust are just part and parcel of the real estate property cycle, not differing much from the real estate scenario all over the world.