

Sluggish housing market loses its grip on buyers

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Unrealistic prices and a lack of mortgage offers are causing sales to fall through. Chiara Cavaglieri reports

Outside of prime central London and one or two isolated hot spots, the UK property market is struggling as perhaps never before.

New Land Registry figures show that the number of completed house sales in England and Wales in April fell by 7 per cent to 48,704, from 52,272 in April 2010. According to property website Rightmove, 70 per cent of properties brought to market in the first six months of 2011 have yet to be snapped up. The number of new sellers is also down by 12 per cent on July 2010.

Research from 1st Property Lawyers paints an intriguing picture with 29 per cent of transactions failing to reach completion so far this year, up from 21 per cent three years ago. The conveyancing firm says that sellers accounted for 39 per cent of abandoned sales this year, and adds that difficulty securing mortgage finance is one factor for the increase. Some sellers are also attracted by increasing rental yields and decide to rent out their property rather than sell.

"The primary factor is the uncertainty. People's perception of the housing market and their own situations can change and they decide that they are not going to buy or sell any more," says Mark Montgomery, the commercial director of 1st Property Lawyers. "In any market with a chain you only need one element to falter and the whole chain is affected."

Even the demise of the much-criticised home information packs (HIPs) has been cited as a factor for the increase because hesitant sellers can test the market without having to worry about upfront costs, except for the energy performance certificate (EPC).

Whatever the motive, it is all too easy for a transaction to collapse at any point. An offer can be accepted, at which point buyers will have surveys commissioned, etc, but a long time can pass before contracts are exchanged and a deposit is laid down. And, up until point either party is at will to pull out of the negotiations.

Sellers could be accused of being unrealistic, with many reluctant to reduce their asking prices to attract buyers. Rightmove figures reveal that July asking prices were on average £236,597, but the new Land Registry figures show that the average house price in England and Wales is now £161,479. This reveals a significant gap between the prices demanded and

the prices homes are actually selling for. A house is, after all, worth only what someone is prepared to pay for it.

Many experts argue that prices need to fall even further if we really want to see a thriving market. Jonathan Davis, an economist and financial adviser, says that during boom times spiralling house prices were the result of falling inflation, falling interest rates and increased lending. Today, however, interest rates cannot fall any further; inflation is up and lending is ultra tight.

"The simple reality is that house prices are too high in most parts of the country, and until they fall significantly there will not be a strong housing industry," he says.

Buyers are increasingly nervous too, accounting for 23 per cent of collapsed sales, according to 1st Property Lawyers. Some are even willing to lose money spent on solicitors, surveys and mortgage application fees by backing out at the last minute. Falling house prices and the uncertain economic climate are a major concern with fears of redundancy and an inability to cope when interest rates inevitable go up.

With a restricted supply of buyers as a result of lenders curbing mortgage availability, those who are committed to making a purchase are theoretically in a strong position. However, this is true only if they are actually able to access mortgage financing. The simple truth is that lenders are still approving only about half the number of mortgages they were before the credit crunch.

At the same time, only sellers with sufficient equity are in a position to price aggressively and attract the few buyers being offered a decent mortgage. Those sellers themselves then need to use that equity to raise enough money to fund their own deposit to jump on to the next rung of the property ladder.

There is little evidence to suggest that lender appetite is increasing in any significant way, with many banks still trying to rebuild their capital reserves and cherry picking borrowers with clean credit records. Even if buyers are able to secure a mortgage before making an offer, they may find that weeks later it is no longer available or it has increased beyond their budget.

"A decision in principle (DIP) tells the borrower what the lender will lend in principle but it is not a guaranteed offer," says Melanie Bien, a director of mortgage broker Private Finance. "If, after further investigation, the lender decides it does not like the property you are buying (perhaps because it is ex-local authority or is downvalued) it may not lend. Until you have a formal offer from the lender, you should not take anything for granted."

Lenders might be playing hardball but with every chance that conditions will remain tough for buyers and sellers alike, it's important that everyone plays their part to ensure a successful transaction.

"Buyers are in the driving seat but they do have to be careful about abortive costs. Depending on how much they have spent, there comes a time when they have to just put a stake in the ground and get on with it. Buyers can also get a reputation for pulling out of properties. When estate agents recommend you to a seller, it's important to be taken seriously as a buyer," says Miles Shippside, a director of Rightmove.

The old adage that first impressions count is certainly true, so for sellers, it is about getting the presentation and the price spot on from the word go. Above all, the message is to speed things up as much as possible so there is less time for something to go wrong. Sellers can get solicitors to prepare the legals before finding a buyer so that they are in a position to move things forward quickly. They should also ask to see a DIP from the buyer's lender and insist that they have at least a valuation done before taking the property off the market, which can usually be arranged within a few days.

"The trouble is that mortgage offers are taking a long time but if you can set a deadline for exchange of contracts that would help," says Mr Shipside. "It can also help to build a relationship with the buyer, so they don't want to let you down, by keeping them involved and excited about the house."