

06/12/2012

Halifax UK Housing Market Outlook for 2013

House Price Inflation for 2013:

Little change (-2% to +2%)

Bank of England Bank Rate to end 2013:

0.5%

- Continuing broad stability in house prices nationally in 2013
- The outlook for the UK economy and house prices remains more unclear than usual
- Subdued economic growth, sustained high unemployment and pressures on household finances will constrain housing demand
- But the relatively low level of mortgage payments in relation to income to provide support for house prices
- House prices are likely to be strongest in London and the South East
- Prices are likely to rise, albeit very slowly, beyond 2013 as the economy strengthens

Halifax's housing economist, Martin Ellis, provides his thoughts on the housing market for the year ahead:

"Conditions in the housing market have been largely unchanged over the past 12 months with little overall movement in either house prices or sales for the second consecutive year. This stability is remarkable given the poor domestic economic climate and the considerable uncertainty regarding the prospects for both the UK and world economies.

"Both demand and supply pressures in the market have altered little during the course of 2012, and this has been the key reason for the lack of direction in either sales or prices at a national level.

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Broad stability in house prices nationally again in 2013...

"The economic situation is set to remain challenging over the coming year. We expect the UK economy to continue to build on its recent signs of recovery, but the pick-up in activity is likely to be very modest with the pace of growth remaining well below the UK's long-term average rate.

"Conditions in the housing market are likely to remain much as they are against this economic background. Accordingly, we expect continuing broad stability in house prices nationally in 2013. Prices are again likely to end the year at levels close to where they begin with the market continuing to lack any genuine direction.

...but uncertainty remains unusually high

"The outlook for the UK economy remains highly uncertain. Risks in the global economy remain significant and how these evolve will be key determinants of how activity in the UK progresses over the coming year.

"The US fiscal cliff – the \$600bn of fiscal tightening scheduled for January 2013 – represents a key risk and uncertainty over whether Congress and the recently re-elected President can strike a deal remains high. The Eurozone continues to make slow progress towards a comprehensive solution to its economic problems, but considerable uncertainty remains over the outcome and therefore the prospects for the euro. As a result, the outlook for the UK economy and house prices remains more unclear than usual.

Housing demand continues to face considerable headwinds...

"Subdued economic growth, sustained high levels of unemployment and ongoing pressures on household finances will all continue to constrain housing demand. The fiscal tightening programme, combined with many families continuing to seek to reduce their debts, is likely

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to significantly curb households' ability, and willingness, to spend. Rising utility prices, in particular, threaten to keep inflation above the government's 2% target - at around 2.5-3% next year. This will act as another headwind for households with average earnings growth again unlikely to match inflation in 2013. These factors will all restrict the demand for property.

...but favourable affordability helped by low interest rates to provide support

"The relatively low level of mortgage payments in relation to income continues to provide support for house prices. Mortgage payments for a new borrower remain significantly below the long-term average as a proportion of disposable earnings. Typical mortgage payments for a new borrower - both first-time buyers and homemovers – at the long-term average loan to value ratio, have nearly halved as a proportion of disposable earnings from a peak of 48% in 2007 Quarter 3 to 26% in the third quarter of 2012. This is significantly below the average of 36% recorded over the past 27 years.

"This support from the favourable affordability position for both those who already have a mortgage and those who are able to raise the required deposit to buy a home should remain largely unchanged in 2013 with the Bank of England Bank Rate expected to remain at its current level of 0.5 percent throughout next year.

"There are some signs that the Funding for Lending Scheme (FLS) is helping to reduce mortgage rates with the average mortgage rate on new mortgages falling in recent months. The FLS should help to ease credit constraints, resulting in some improvement in mortgage availability in 2013.

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First-time buyer conditions will remain tough but Buy to Let set to rise further

"Conditions will remain tough for first-time buyers with no radical change in their circumstances expected. As a result, the numbers of first-time buyers are likely to remain low by historical standards.

"The constraints on potential first-time buyers' ability to purchase their own homes will contribute to strong demand for private rented accommodation, maintaining upward pressure on rents. Increasing rental incomes, together with few alternative investment opportunities providing attractive returns, will probably result in further growth in the Buy to Let sector.

South likely to outperform the north again next year

"There has been a distinct north / south divide in house price performance during 2012 with the strongest gains in London whilst prices have fallen modestly in northern England, the Midlands and Wales. We expect this broad pattern to continue next year. House prices are likely to be strongest in London and the South East as this part of the country performs best in economic terms. Prices in the capital are likely to again be supported by strong overseas interest, buoyed by demand from wealthy individuals in the Eurozone looking to protect their money from the uncertainty surrounding the future of the euro.

Modest house price growth expected beyond 2013

"House prices are likely to rise, albeit very slowly, beyond 2013 as the economic recovery strengthens. Economic growth, however, is likely to remain below long-term average pace for sometime as the household sector continues the lengthy process of rebalancing its finances and as the fiscal squeeze is maintained to bring the public finances under control.

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"This subdued economic background will constrain housing demand. Additionally, the continuation of the ratio of house prices to earnings above its long term average will also restrict demand, ensuring that any price growth is likely to remain modest over the next few years."

Ends

For the latest housing research, previous releases, and for information on the Halifax House Price Index, please follow this link:

http://www.lloydsbankinggroup.com/media1/economic_insight/halifax_house_price_index_page.asp

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