THE INDEPENDENT ON SUNDAY

North and west face a house price double dip

The increases in the housing market in London and the south east have not travelled far. Julian Knight reports

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A double dip in house prices is being predicted by some experts for large parts of the North and West of the UK as the limited market recovery over the past year comes to a halt.

The news came in the same week as the Royal Institution of Chartered Surveyors said a survey of its members revealed the first recorded fall in average UK house prices in more than a year. Ian Perry, a RICS spokesman, said that this reflected "both the increase in supply following the scrapping of home information packs and the more cautious stance from buyers". Mr Perry said he expected the downward trend to continue at least for the next few months as fears over an economic slowdown grow.

However, the RICS survey is only a snapshot of the market, testing the positive or negative sentiment of members across the UK. Yet the housing market is never uniform. Even in a boom you have some towns or even just roads where prices are stagnant or falling. On the flip side, in a crash you will have areas where prices hold up. In the same way as all politics is supposed to be local, so are house prices.

"It makes me laugh that so much store is put by these national surveys when you can get massive price differentials not just between regions, or parts of a town but simply different sides of the street," said Trevor Kent, a former head of the National Association of Estate Agents and managing director of Trevor Kent & Co. "Take the past year or so, for instance. Some areas have done well: London and the south east, for instance, and some desirable parts of the North such as Cheshire. But ask homeowners in other parts and they will be bemused by talk of a recovery because there hasn't been one."

In fact, the past year has seen a marked widening in the north-south divide after a few years of more even price growth.

"Prior to the credit crunch, in simple terms, we had the north catching up with the south. Liverpool, Newcastle, Leeds and Manchester all saw their own booms. This spread to parts of Wales and Northern Ireland. What we have now in more straitened times is a cruder economic reality biting," said James Moss, the managing director of Curzon Property Investment. "The prime London market has been underpinned by foreign buyers taking advantage of sterling's depreciation – which has effected a 30 per cent price cut for these buyers – coupled with the capital's status as an international business centre, and undersupply has kept the market there and in parts of the south east ticking along nicely." Outside of this economic goldilocks zone it's a different story, according to Mr Moss.

"The economic drivers are not the same," he said. "Take the Midlands and Wales, for instance. They rely a lot on public sector employment and that is going to be cut. What's more, many of the homeowners in these parts who bought at the end of the boom are still in negative equity or close to it because they haven't seen a bounce back in the past year."

Mr Moss reckons that the average loan to value – size of mortgage loan to property value – in these parts is about 90 per cent while in London it's below 70 per cent. Likewise, Liam Bailey, the head of residential research at national estate agency chain Knight Frank, sees difficult times ahead for homeowners in parts of the north and west. "There has been a bit of floor bolted under the housing market in these parts by the strong-arming by the last government of lenders to stop them from repossessing and historically low interest rates," he said. "However, I think what will happen here is what has happened in the US, and the most economically disadvantaged areas in the country will suffer the most from any future house price falls."

But remember the health warning that it's nearly impossible to apply a one-size-fits-all pattern to the UK housing market. The massive new build apartments in northern cities such as Leeds and Manchester became a symbol for the bust in 2008, when many were left empty, sold at a heavy discount or repossessed following a failed attempt at buy-to-let investment. Here, though, despite what was supposed to be the chilliest of economical chill winds, there has been a limited bounce back which could continue, according to Mr Bailey. "The rental yields on these flats are actually now quite good – we are seeing an average of 7 to 8 per cent – as a lot have been let to students. In addition, the bank of mum and dad has been active funding deposits for sons and daughters who want this sort of city-centre apartment living as their first foray into the market."

In addition, sterling's depreciation hasn't just helped to attract overseas buyers into London. It has propped up prices in parts of the south west too. "Some British people who would usually look to buy abroad have been put off by the higher expense so a holiday home in the south west has become a real viable alternative again for many," Mr Bailey said.

Overall, though, it seems the north-south property divide which closed a little in the past decade is opening up again at a rapid rate. "The north is being sucked into a downward vortex – low confidence, potential unemployment all making it gloomier outside of London and south east," Mr Moss said. And if there was a shock to the system such as an interest rate rise – and the Bank of England predicted higher than expected inflation last week, normally a precursor of rate rises – then it could get worse still.

"Rates are crucial; many homeowners are still hanging on and if their costs suddenly rose then they could lose their homes, increasing supply and depressing prices further. The truth is that houses prices are still too far in front of incomes and this is particularly true outside of the south of England," Mr Bailey said.

Expert View

Liam Bailey, Knight Frank

The property market in much of the UK has actually been moving sideways since late 2009 at best. It has been standout areas such as London and the south east which have enjoyed renewed price growth and little pockets elsewhere. Lack of mortgage finance has been a big issue for would-be buyers as has the recession and the general position of prices to earnings.