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MONEY BOX SPECIAL: HOUSING

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LEWIS: Hello and welcome to the final summer season Money Box Special on coping with the recession. Of course we may be too late. Some reports this week suggest the recession is over: share prices around the world have had their best 6 months for 50 years. But in our final programme, we're looking not at shares but at housing, and here the picture's mixed: average UK house prices are 20% below their peak, but estate agents are reporting activity is picking up; mortgage approvals are at a 17 month high; and some monthly house price indexes are showing the first hints of price rises after nearly 2 years of falls. We'll be visiting Northern Ireland where the biggest house price boom was followed by the biggest bust, and some bought at precisely the wrong time.

MCILWAINE: We bought our house June 2007 and I offered £157,000. It's currently valued at £99,000, so we've lost the equivalent of 50 grand on the house.

LEWIS: And I'll be reporting from Sheffield where a successful buy-to-let landlady reveals her secret of making money from property. Even now.

But, first, do the latest figures show that house prices have stabilised? Could they even be rising? Or is it just a pause in the rollercoaster before that second death defying plunge? With me are three people to answer that and other questions on housing. Jonathan Davis is a chartered financial planner at Armstrong Davis. Jonathan, when you were last on Money Box in December 2007, you predicted house

prices would fall by up to 40% over between 4 and 6 years. Latest figures though show we've had the crash; they're going up.

DAVIS: We've had the first leg of the crash. I believe that the trend is still very much down. No trend goes in a straight line.

LEWIS: So what's causing this sort of 1% up in July according to the Halifax?

DAVIS: A number of reasons. I think the main reason is the government stimulus. And there's no doubt, when you have that level of stimulus it's going to have a short-term positive effect.

LEWIS: Short-term being the key from your point of view. Also with us is Peter Bolton-King. He's Chief Executive of the National Association of Estate Agents. Peter, what are your members telling you is happening to house prices?

BOLTON-KING: Paul, you summed it up a moment ago. They certainly are finding that around the country they're a lot more cheerful than they were. Prices appear to have stabilised, and I would say this is being generally fuelled by a distinct shortage of property at the moment.

LEWIS: Well we've had a shortage of property, but there's also a shortage of mortgages. Paula John's here from Your Mortgage Magazine. She's the Editor-in-Chief. Paula, are mortgages still holding back this demand for houses?

JOHN: Unfortunately yes, there's a mortgage drought on. It's been on for quite a while now because lenders simply don't have the appetite to lend certainly at higher loans to value; they haven't got the appetite to lend to first time buyers. And we don't see that changing any time soon, so that's really holding demand back.

LEWIS: What are the differences, Peter Bolton-King, around the UK? Which markets are doing well or rising? Which markets are not?

BOLTON-KING: What we're finding is there's not even a market within a town. It can be down to streets or areas. Just at the moment, for instance, there are many parts of London where things are flying again.

LEWIS: And Paula, you mentioned the problem with mortgages. That's having a depressing effect. Jonathan said earlier he thought there was a long way to go in house price falls. What's your sense of it from the mortgage end?

JOHN: We are hearing an awful lot about green shoots of recovery and average house prices picking up and so forth. My worry really is though that with a mortgage drought continuing to keep people out of the market, coupled with unemployment rising - it's set to go up another half a million before the end of the year - that's got to have a very real effect on the economy. And so I'm afraid I do agree with Jonathan that we could see a W-shaped recession here and a W shape when it comes to house prices. They could go down again.

LEWIS: Yes, though a W always goes up at the end. Jonathan, you're pessimistic in the sense if you think falling house prices are a bad thing, which of course not everyone does. Do you think having fallen again, as you think it will, the housing market will eventually come back?

JOHN: Our long-term view is split into two periods. Prices are going to fall dramatically again until 2011/2012. Then they'll be broadly flat for another few years, as they were in the 90s. And then they will start rising from about 2015 as inflation generally is rising, but we do not believe that house prices will rise faster than inflation for the next 10 or 15 years as they did in the last 10 or 15 years.

LEWIS: Peter Bolton-King, you're the most positive here about house prices going up. What about unemployment? That's bound to have an effect on house prices, isn't it?

BOLTON-KING: Absolutely right, it is bound to have an effect. But at the end of the day we've got some fundamental underlying things that we must not forget about.

We have a shortage of property. Therefore whilst I agree that things are probably going to, I don't think drop, but are going to go along at a general level for the moment, clearly those things will have an effect.

LEWIS: Jonathan Davis?

DAVIS: Estate agents year and year out say the same things: there's a shortage of property, we're a small island. We've heard it every single year for the last 50 years and in fact it's never been economically the case. The reason why we had the house price bubble was cause of credit, easy lending. We're not going to have easy lending for the next 10 years because of massive bank bad debts.

LEWIS: Okay, well uncertainty about the future. In the past though, house prices have been up and down - nowhere more than Northern Ireland. In 2006 and 2007 house prices were growing by around 50% a year. Since their peak in the spring of 2007, prices have plunged by more than a third, back to where they were in the first half of 2006. Whether that's good news or bad depends where you started, as Bob Howard found out.

HOWARD: This is the tale of two men in their mid-20s and how the result of Northern Ireland's unsustainable property boom has affected their lives. Just over 2 years ago, people here were gripped by a sort of house buying fever, but now the mood is very different. I'm on the way to meet one first time buyer who bought a property a few miles west of Belfast just as the market peaked.

MCILWAINE: My name's Kieran McIlwaine and I'm a van driver. I live in a wee village called Kinallen just outside Dromara in County Down. We sat and waited for months and months and months. We just kept saving the deposit, thinking right when should we go, when should we go. And it didn't slow down, houses just kept getting more and more expensive, so we just sort of had to take the plunge. We bought our house in June 2007, and within a month the bottom started slowly but surely falling out of it and our house started losing value. And before I knew it ...

HOWARD: What did you pay for it?

MCILWAINE: It was a two bedroom town house and I offered £157,000. And it's currently valued at, I think it's £99,000, so we've lost the equivalent of 50 grand on the house.

HOWARD: If interest rates stay low ... I mean you're on a fixed at the moment, aren't you, and you're coming off that? If you go onto a very low rate, hopefully you'll be able to pay off that negative equity in a few years as opposed to a lot of years.

MCILWAINE: My only straw if you like that I'm clutching at is our 3 year fixed term was at 6.45. Whenever it finishes in June next year, the bank were offering me base rate plus 1. So if it stays like that, fingers crossed my mortgage will be 1.5%, which is going to be a hell of a drop. Now my plan is to keep paying the £1,000 a month. Even if my repayment drops down to £500 or £600 on this 1.5%, I'm going to keep it at paying £1,000. It'll allow me to chip away that wee bit faster, and instead of 5 years waiting on things hopefully my plan is between 2 and 3 years.

HOWARD: Do you need to move?

MCILWAINE: I got married 8 weeks ago. I would love to, within the next 6 months to a year, start our own wee family. It's not a family house at all. It's holding our plans to start a family back. We have to wait. Hopefully the house is starting to slowly, slowly build, you know, so we can think about selling. But even if we do sell, where are we going to get our 20% deposit for a new property? Where is the light at the end of my tunnel? The banks, they don't want to know, so where do we stand with that?

HOWARD: I'm now on the other side of Belfast to find out from local estate agent Victoria Pinkerton more about what happens to buyers like Kieran and what people buying now can expect. She's showing me a site where 24 new properties are being built.

PINKERTON: We're at a new development on the Cotton Road in Donaghadee called Avonmore Court. The houses start from a three bedroom house at £172,000 and they go up to £227,500. If this development was released in the height, you could say anything up to £350,000 for a property that you're getting now for £225,000. I think there was just a panic with buyers that if they weren't on the property ladder, if they didn't get on then they were going to miss the boat and never get on, and I think a lot of investors fuelled the price rise.

HOWARD: And the fall has been up to about 40% from peak to where we are at the moment?

PINKERTON: Roughly between 30 and 40% depending on the location and the type of property.

HOWARD: Now I've sort of figured that only just over 900 properties have been sold in the last quarter in the whole of Northern Ireland. That doesn't sound very many. I mean how many would have been sold in the peak?

PINKERTON: Goodness, on average estate agents were hitting probably, the top estate agents, up to 30 properties a month. Last year we were hitting on 3 to 4 a month and now we're hitting on around 10 a month. Things are picking up - but, yes, it's not as busy as we would like.

HOWARD: Adam Murray, a 25 year old primary school teacher looking to buy his first home, is one of Victoria's clients. In order to afford one of the bigger properties here, Adam's agreed to take a loan of 25% of the price of the house from the builder, which he must pay back within 10 years. It's interest free for 2 years, but after that he pays interest at 4%. And of course he's got the mortgage to pay on top. But unlike Kieran, he's confident in a few years time he won't be regretting his decision.

MURRAY: This is the first time I've been down to see our actual plot.

HOWARD: And you get that lovely view out the back window.

MURRAY: Yeah, well this is greenbelt land, so hopefully nothing will ever be built there. And I've got the garden centre over there, so it is quite nice. We're really pleased. Just can't wait for it to be ready.

HOWARD: And how big is the house and how much is it costing you?

MURRAY: It's four bedrooms. Two of the bedrooms are ensuite. It's £190,000, so it's a wee bit more than we'd obviously hope to spend, but if we can afford to go for a bigger house we might as well because it'll save us having to move in 3 or 4 years. We can actually stay in this house and start a family if we wanted to. Jenny and I both know we would have never got a house that we're getting now for £190,000 2 or 3 years ago, so ...

HOWARD: I mean some people might think you're overextending yourselves.

MURRAY: Yeah, well some people in the family *do* think that we're overextending ourselves and are advising us to just get a house for £150,000, but really I think we could stay in this house for the rest of our days if we wanted to.

HOWARD: The money you're looking at, is that three times your salary or I mean how have you worked it out?

MURRAY: Well my salary would be, because I've just started as a teacher, will be just over ... between £21,000 and £22,000 - so obviously we're relying on Jenny's salary, my fiancée, as well. We only are taking a mortgage for £140,000 because the builder is putting up a 25% deposit. And that goes through the bank and building society systems as a 25% deposit. So when you add our 10% deposit to that, it's going through as a 35% deposit we have, so therefore we're benefiting from a much better rate.

HOWARD: Do you see any downside? I mean you have to pay it back within 10 years, don't you?

MURRAY: Yeah.

HOWARD: If you don't, then they've got a charge on this property and they could sell it.

MURRAY: Yeah, that's the downside. You've always got that £47,500 hanging over your head that you know you're going to have to pay back. But, say your mortgage is £600 a month, if you put £800 a month away within the 10 years you're going to have a certain amount saved up anyway. You just add the rest to your mortgage.

LEWIS: First time buyer Adam Murray ending Bob Howard's report from the UK's biggest housing rollercoaster. Paula John from Your Mortgage Magazine, that deal that Adam Murray had there, is that sort of deal widely available?

JOHN: Developers are certainly coming up with lots of weird and wonderful ways of getting people to actually buy their properties because they're desperate for cash. So we're seeing all sorts of different things. This sounds like a type of shared equity arrangement because developers aren't allowed to actually gift a deposit of more than 5% to a buyer.

LEWIS: Because he's got to pay his mortgage and then within 10 years he's got to pay back a quarter of the value of the property as well.

JOHN: Without seeing all of the fine print, it's quite difficult to say. As long as he's done his sums properly, he's not going to have to move again, as he said, so at least that puts him in the good position of not having to go through the cost and expense of moving again if he wants to start a family.

LEWIS: Well he hopes not, as long as he and his fiancée stay in work and can pay

the bills.

JOHN: Exactly - but then everyone's in that boat at the moment, aren't they? Things could turn out alright in this instance if the whole thing goes through Halifax. They're obviously happy with it. This is what they'll do with developers at the moment.

LEWIS: (*over*) Yes, but lenders were happy with 100 and 125% mortgages, weren't they?

JOHN: That was a different world.

LEWIS: Jonathan Davis?

DAVIS: It sounds a lovely home and good luck to him. He's a teacher, just qualified, so he probably has a fairly secure career ahead of him. I can't help wondering though because our firm view is that house prices in Northern Ireland have still got a long way to go ...

LEWIS: Down.

DAVIS: Absolutely ... I don't see why he just doesn't rent for another couple of years and buy even cheaper, by about probably £50,000.

LEWIS: Yeah. Of course he would be taking a gamble that you were right then, wouldn't he? Peter Bolton-King, are your members irresponsible in helping to sell these deals?

BOLTON-KING: I don't know why estate agents are accused of being irresponsible on these things. At the end of the day, the estate agent's job is to do the best for their client. Therefore it's not the agent who is responsible for these things. If a person can get the lender to agree, if it suits them in their own situation, as we've heard, and if, fingers crossed, everything goes alright for Mr Murray, I think he'll actually be alright

at the end of the day. But obviously there are a few ifs there.

LEWIS: And Paula John, these are sold as a way to get that first home, as Adam Murray was doing. How hard is it now for first time buyers?

JOHN: It's really not getting a great deal easier. I mean there are some loans out there at 90% loan to value where you only need a 10% deposit, but the interest rates charged are punitive. To get a decent rate really, you do still need a 25% deposit; and even though property prices have come down, 25% of the average property price is still an awful lot of money. So ironically of course property prices come down, they're more affordable than they have been for years, first time buyers can't actually get a look in. Something like 40% of the first time buyers who've bought this year have had some help at least from the Bank of Mum and Dad. Now you have to wonder when the Bank of Mum and Dad's money is going to run dry because Mum and Dad are suffering too in the current climate.

LEWIS: Well, yes, pensions down and life longer, so they've got less money. Jonathan Davis, presumably if you are right and house prices do fall, will that be the moment of opportunity for first time buyers?

DAVIS: I would say that yes house prices will become affordable after a 40 or 50% drop on average round the country. People should not believe that when house prices eventually bottom, there's going to be any immediate V-shaped recovery. It's not like stocks and shares. It's a long-term game and it will be years before they actually start rising properly.

LEWIS: What about first-time buyers, Peter Bolton-King? Can your members help them find the right property and the right mortgage deal?

BOLTON-KING: Estate agents can help most certainly, but of course my best advice would always be, as far as your finance is concerned, go and get it sorted out and go and see somebody independent to do that.

LEWIS: And how about your members saying what a property is worth. How on earth do you fix the value when they've been up, they've been down? How hard is it to fix a property and say that is worth x hundred thousand pounds?

BOLTON-KING: It is actually quite difficult at the moment and that has been borne out by our latest research showing that valuers on behalf of the lenders are having a terrible job trying to decide and very often are reducing the value when they put their report in. But, at the end of the day, the property is worth what somebody's prepared to pay for it on the day. If somebody comes along and says, "I'm prepared to pay 200,000 for it", the vendor says "I'm prepared to sell it at 200,000", who's to say that's the wrong value because I wouldn't?

LEWIS: Well one aspect of the property boom has been the growth in the buy-to-let market - borrowing money to buy a house or flat, then renting it out hoping to make money from it. Indeed some people have blamed buy-to-let for the boom in house prices of the last few years. For many people though, property remains their dream investment. There's something tangible - literally - about bricks and mortar. More than 10% of the money lent for mortgages is for buy-to-let; and although the number of new buy-to-let loans is falling, it's still more than 80,000 a year. So can you still make money out of property in these difficult times? Last week, I went to Sheffield to see Shona Davison. She was recently voted National Property Woman of the Year by the National Landlords Association. Shona got into buy-to-let by accident, but now runs eight flats. I met her at one of them in the Eccleshall district of Sheffield.

DAVISON: (*knock on door*) Hello. How are you?

LEWIS: Oh hello. Are you Shona?

DAVISON: Yes. Hi, nice to meet you.

LEWIS: I'm Paul from Money Box. Hello. So Shona, here we are in your buy-to-let house. It's not really a typical buy-to-let, is it? It's a sort of suburban house. It's not a city centre flat.

DAVISON: No.

LEWIS: Just tell me about it. What's it like? We're in the living room.

DAVISON: Yeah, this is the living room. Because it's a house which has been converted to two flats, it's quite quirky. It's got unusual shapes, which I actually quite like about it.

LEWIS: It's a sort of lozenge shape.

DAVISON: Yeah. *(laughs)*

LEWIS: It's got a very nice view over down the road, hasn't it?

DAVISON: Yes.

LEWIS: It's a sort of nice long distance and some trees in the background.

DAVISON: You've got some lovely views.

LEWIS: Right, okay. So we've got the lozenge shape living room and the view, and then what have we got through here?

DAVISON: And then careful on these steps because they're really steep.

LEWIS: Right, we're going down to the basement now. Goodness, those are steep, aren't they? Steep stone Sheffield steps here.

DAVISON: Yes. I've just had some damp proofing done down here, so all the plaster over there's drying and then I'm getting it decorated on Monday.

LEWIS: Well we've come back up the stairs to the living room and Shona's sat down with her laptop to show me how she keeps track of her eight flats.

DAVISON: Whenever I'm making a big decision, then I look at all the numbers and put it in Excel. This particular spreadsheet, I've got all of my properties, including the one I live in, along the bottom.

LEWIS: So they're listed along the bottom here.

DAVISON: In tabs. And then I have all the specific details - the rent I'm getting, the mortgage, the interest rates, any extra costs like insurance - and then it all feeds into this front sheet.

LEWIS: Is that essential really to managing a property portfolio?

DAVISON: I think it's absolutely critical. I think that's the most important thing. You need to know that if the circumstances change - interest rates, house prices are going down, things like getting more voids, which is happening at the moment for me ...

LEWIS: Getting more voids, when the flats are empty?

DAVISON: Yes, I think there's more competition. You need to know if that's happening and be on top of it, so that you have time to react.

LEWIS: When you started this 7, 8 years ago, things were very different from how they are now. How have you been adapting to the current economic crisis in the recession?

DAVISON: Well because it's been harder to get tenants recently, you have to be more flexible and more open to negotiation. So I often get tenants asking if they can have the rent a little bit reduced and I am open to that. For example, one lady wanted

the rent reduced quite a lot, and that one had been empty for a few weeks so I agreed to it. And she also wanted to tie in for 12 months instead of 6 months, which she will have done so that I can't put the rent up after 6 months, so I thought that was quite good business sense of her. But yeah, I said yes to that.

LEWIS: But it's a good deal for you because you've got a tenant for 12 months that you presumably trust?

DAVISON: Yes I'm happy because, like I said, voids are the most expensive things.

LEWIS: What sort of rate of return on your investment in these properties are you getting?

DAVISON: I reckon that the ones I've got, if you look at their current value, probably about 6 or 7%.

LEWIS: And now that property prices have started coming down, are you thinking of buying more? Is it a good time to buy?

DAVISON: I would like to buy more at some point, but with the credit crunch mortgages are harder to get. The equity will have fallen in my flats because house prices have gone down and the banks – they want higher different loan to values than they did before. So even if I wanted to buy, I'm not totally sure that I'd be able to get any more equity out or if it would be wise to do that. Plus, I've got such good mortgage deals because I got trackers just before the credit crunch. If I remortgaged any of them to get a deposit out, I would lose the benefit. I'm making a lot of profit every month just by luck because my mortgage has gone down.

LEWIS: So one aspect of the recession is that your costs have gone down a lot because your mortgages have gone down? It's not true of all buy-to-let landlords, is it?

DAVISON: No. And that's one of the things. When I look at my figures, I always try and work out what is because of luck and what is because of what I've done because if I got carried away thinking I'm doing so well and spending that money, I'd get a shock when interest rates go back up. So I'm putting that money aside.

LEWIS: Do you think some people who got into buy-to-let at the right time thought they were really good at it, but in fact they were only good at it because the price of their properties was going through the ceiling?

DAVISON: Yeah, I definitely think that will have happened a lot because you could buy in the boom and not get good tenants or not do your figures properly and it didn't matter because you would still make money because the house prices were rising, so you could get away with making mistakes. That's not the case now.

LEWIS: Sheffield landlady Shona Davison and National Property Woman of the Year. Peter Bolton-King, does buy-to-let have a future?

BOLTON-KING: The sector has started picking up again. It is difficult to get mortgages, but the last CML (Council of Mortgage Lenders) figures show there was an increase. The average return you're getting on your capital is now back over 5%. I had the pleasure of meeting Shona and what she's doing is being very, very sensible about things.

LEWIS: But doesn't the arithmetic only work if you know you're going to make a capital gain from the price of the property? The rent can't really balance the expenses over the long-term and make a profit.

BOLTON-KING: No, there are people now looking at it on an investment point of view as far as the rental income's concerned, not just relying on the capital return.

LEWIS: Jonathan, is this a good investment?

DAVIS: There have been times when investing in property has been the right thing to do. I do not believe it is the time now. I believe it will be again at some point in the future, probably in a few years time.

LEWIS: Paula John, what about mortgages? There are buy-to-let mortgages. The number is growing, though more slowly. Can you still get a mortgage if you're a new buy-to-let investor?

JOHN: There are deals out there. Some lenders will want a 40% deposit. We've got some new entrants to the market like Bank of China, which will give you a 4% rate at the moment, but again they're going to want a 35% deposit and a face-to-face interview and you need a squeaky clean credit record. So you can do it, but you need an awful lot of money behind you to start with.

DAY: So it's a bit of same old, same old - that if you've got a good record, you want to borrow a lot of money and you've got a lot of money, then you're okay; it doesn't help the first time buyer who's struggling to raise that deposit. Do you think that we perhaps are coming to a good conclusion from this problem, Peter Bolton-King, because we're no longer looking at our house as a money box; it's not something that will inevitably grow in value. It's our home and we should look on it in that way, not as a source of finance.

BOLTON-KING: If there's one good thing that comes out of this problem we've had, it's exactly that. People have been far too used to looking at their properties as a cash rich cow. I've been warning against that and I think if we start looking at it as a home over our head rather than this investment all the time, then it'll be better.

LEWIS: Paula John?

JOHN: Nesting not investing is something we always advise our readers to do. Yes, it is all about your home and not necessarily looking to make a quick buck or even a buck over the longer term at the moment.

LEWIS: And, Jonathan, does it matter what happens to house prices? If you've got a home, it's still worth one home whatever happens to the overall price.

DAVIS: So long as your debt is relatively minimal, so long as you stay in work earning, then you're absolutely correct and that's brilliant - you have a roof over your head. But if you lose your job, you're going to have great problems.

LEWIS: You said earlier you thought prices were going to fall and then they were going to stabilise. Five years from now, 2014, where will they be?

DAVIS: 2014, they're going to be somewhere between 20 and 30% lower than today.

LEWIS: Peter Bolton-King?

BOLTON-KING: 5 to 10% up from today.

LEWIS: Paula John?

JOHN: I would tend to agree with Peter, around 5 to 6% up.

LEWIS: Up from where they are now? But that's still a long way below where they were at one time. Well that's it, I'm afraid. That's all we've got time for. My thanks to the Editor-in-Chief of Your Mortgage, Paula John; Peter Bolton-King from the National Association of Estate Agents; and to financial planner Jonathan Davis. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can listen again, download a podcast, read a transcript, and let us know what you want us to cover in the regular editions of Money Box which start next weekend. This week the producer was Bob Howard and I'm Paul Lewis.