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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. We're devoting today's Christmas weekend Money Box to housing. We did the same a year ago, looking ahead to 2009, but the housing market has confounded most predictions - stronger in some ways, with prices rising; but weaker in others with banks still very reluctant to do their job of lending people money to buy assets. Well this Boxing Day, we've invited last year's panelists here again to look back on the year - and their predictions - and give us their best guess as to what will happen in 2010. We'll be particularly looking at the problems faced by first time buyers and get a sense of the market at a property auction. But we'll start with the Danish nuclear physicist, Niels Bohr, who won the Nobel Prize for Physics in 1922. "Prediction", he said, "is very difficult, especially about the future." And so it proved a year ago. 2009 was different in many ways from what people expected. A year ago, unemployment was climbing rapidly, lending of all kinds had collapsed, house prices were plummeting, estate agents were closing down. But in May, property prices pulled out of their nose dive and are now almost back where they were this time last year. A year ago, our gloomiest Money Box forecast came from Mark Dampier of independent financial advisers Hargreaves Lansdown. He predicted house prices would plummet by 50% by the end of 2010. So he could still be right. Mark's in Australia this Christmas - not because he got his prediction wrong, but just for a holiday - and he can't be with us, but that didn't stop Money Box holding him to account for his forecast before he left.

DAMPIER: Well at this very moment, the egg is dripping down my face, but I do

stand by the forecast. I still think the housing market is completely and utterly overblown. We've got interest rates at a 31 year low and we've had a huge stimulus by the government. I think after the election when we get a really tough budget, things will slow down quite remarkably.

LEWIS: Mark Dampier standing firm on his forecast of a year ago that house prices will halve by the end of 2010. Well the other three panelists from last year *are* with us today, smiling at Mark's discomfiture but not for long. Melanie Bien first from Savills Private Finance. Melanie, this is where you thought we'd be now.

BIEN: I think lenders will start lending again and regain more of an appetite. It will be different - they won't be lending 100%, 125% loan to value - but ultimately lenders need to lend.

LEWIS: Well, Melanie, if predicting the future's difficult, predicting what the banks will do is really impossible, isn't it? Have they disappointed you?

BIEN: Well we do have 27% fewer mortgage products now than at the start of the year, so there is less choice out there, and lenders didn't really regain their appetites to lend at all. I would say the second part of the year was slightly different, and things got worse and worse until about August when we hit an all time low. And then since September onwards, things have started picking up. We are seeing more mortgage products available, more lending at higher loan to values - you know those loans that were missing. They haven't gone back to 100%, 125%. Lenders are still a lot more cautious than they have been.

LEWIS: Simon Rubinsohn is also here. He's Chief Economist with the Royal Institution of Chartered Surveyors. Simon, here's you a year ago.

RUBINSOHN: I think what we will have seen is certainly another 10% fall in prices, but by the end of next year I think we will have seen the worst of the fallout in the economy and we'll begin to see the market regain some composure.

LEWIS: Well 2009 perhaps not as bad as you thought?

RUBINSOHN: Looking back on the past 12 months, what we have seen is a smarter rebound in demand for property alongside a lack of supply. And I think that's been really the surprise for the marketplace; that new instructions to agents really just have not come through, so with any pickup in demand there's been a squeeze on pricing and we've seen that most notably in London and the South East.

LEWIS: Also with us is Martin Roberts, author and property expert and the presenter of Homes Under The Hammer. Here's Martin last year.

ROBERTS: I think there'll be bargains to be had. The people who take it professionally and are out there, they're doing it in that way, they'll be mopping up some amazing bargains.

LEWIS: Well, Martin, hard to say if you were right or wrong. All those bargains to be had, I suppose. Did 2009 turn out as you expected?

ROBERTS: The auctioneers have had a bumper year and there have been people snapping up, as I said, those bargains. The repossessed properties have been there, the discounted properties, the stuff that's been dumped there by the construction companies who have had all sorts of problems. If you've had money - and that's the key - the people I'm talking to at the auctions seem to be pretty tickled pink.

LEWIS: Always a bargain if you're fast on your feet. Also joining us is independent property consultant Henry Pryor. Now Henry, you weren't here last year, but you were quoted in the Independent a year ago as saying, "I don't see confidence returning until 2010 at the earliest." Did that happen slightly earlier than you predicted?

PRYOR: I'm not alone in being someone who perhaps over-egged their predictions for the year. I'm not as optimistic perhaps as some of my colleagues here today. The

broad picture is going to be extremely painful through the coming 12 months. And as such, whilst we've seen extremely resilient and very impressive figures for certain parts of the housing market - particularly, notably in Central London for example - I suspect that that picture is not reflected elsewhere.

LEWIS: So things a bit slow. Well we'll get your 2010 predictions a bit later. Now one of the worst casualties of the downturn was buy-to-let. With tighter mortgage regulation, lending down, and flat house prices not giving the capital gains that underpinned it, is there money still to be made in buy-to-let? A year ago, Bob Howard talked to property investor Nicholas Robinson who he met buying a flat in Surbiton at a property auction. Nicholas planned to do up the second floor property and rent it out as soon as possible. Last week, he showed Bob round.

ROBINSON: That's all new. The ground and first floors were bought by a developer. They were bedsits before and he completely gutted them and turned them into a one bed flat here and a one bed flat above. (*unlocking door*) This is a bit sticky. They put the carpet in. Can I just move this?

HOWARD: Haven't had the Christmas turkey yet. There we go! (*opening door*)

ROBINSON: Well this is the sitting room okay in here. Really just a question of putting some plasterboard on the ceiling where we've insulated up there and skimming the walls. We've revealed a nice fireplace there, which is an original.

HOWARD: So just rewinding a year, I think the property was a guide price of £145,000, wasn't it, and you paid £150,000?

ROBINSON: That's right.

HOWARD: So how do you feel about that now? Do you think you've got a good deal?

ROBINSON: Oh yes, definitely. The flats below, which are a similar size, both sold for around about the £250,000 mark.

HOWARD: So are you disappointed that you're not further forward in terms of having it rented out because you've had all the work being done downstairs and then it's taken you longer to actually get it sorted out than you'd perhaps anticipated, is that right?

ROBINSON: Yes, it was a little bit frustrating, I think, but we were in a position where we weren't too seriously impacted by the delay. So I think really when it's done, the property or the building will go from probably being the worst in the street to probably one of the best in the street.

HOWARD: Did you need a buy-to-let mortgage to get this?

ROBINSON: Yeah, we needed to secure some finance on it and there were some problems initially because the ground and first floors were being redeveloped. I think if you go to an auction, you need to be prepared for the worst case scenario and that was pretty much how it panned out for us. We had to have some finance in place if we couldn't secure the mortgage that we wanted - so, yes, we were prepared for that.

HOWARD: Are you still keeping an eye on auctions and still looking to see what properties are going for?

ROBINSON: Yes, I do cast an eye over the auction catalogues from time to time, but I think there was possibly a window of opportunity 12 months ago and yields were looking very attractive then. They don't look quite so attractive now. And perhaps what's skewed things even more so is the fact that there aren't so many good offers now in terms of buy-to-let mortgages.

LEWIS: Buy-to-let landlord Nicholas Robinson talking to Bob Howard. Melanie Bien from Savills first. Investors hit hard by a lack of buy-to-let mortgages. Is that

still true?

BIEN: Yes. The credit crunch has hit the buy-to-let market harder than any other bit. You know compared with residential deals, lenders see buy-to-let loans as being more risky and they're less prepared to offer them, so there are far fewer products available. You need a much bigger deposit now. You need at least 25%, if not more. Rental cover is much tighter, the fees are higher - you know 2.5, 3% of the mortgage amount. So, yes, it's been very difficult to get mortgage finance. Having said that, people who are already landlords, many of them are enjoying extremely low rates of interest on their mortgages. You know they've come off the end of a deal onto a go-to rate, and a lot of them aren't even paying any interest at all. What's going to be tough for them though - when interest rates start going up, if there aren't more buy-to-let products available, there's nowhere for them to remortgage and that's when things are really going to get difficult.

LEWIS: So they'll be stuck with a rising interest rate. Does the buy-to-let market work, Simon Rubinsohn, without the promise of a big capital gain?

RUBINSOHN: Well certainly we're finding at the moment that it's still seen by many of our members, in terms of the responses in our letting survey, to be a very attractive home for funds. So while there is clearly an issue in terms of where the market's going near-term, we track the number of landlords who are actually looking to sell their property at the expiry of a tenancy lease. It's picked up a bit, but it's still remarkably low by any historical comparison, which suggests that people in that market certainly aren't looking, even with the market having recovered, to bail out because they look at the alternatives. You look at the stock market and its performance over the last decade doesn't stand up very favourably for comparison against the property market.

LEWIS: Yeah, bricks and mortar still a good place to invest your money. Martin Roberts?

ROBERTS: Certainly you know a lot of the people I meet who've bought at auctions

say, “You know, I don’t care what happens to the price of the property in the short-time. I’m buying for long-term, I’m buying for a pensions investment. In the meantime, if I get you know even a small yield - 2, 3, 4, 5% - it’s better than what I’m getting from the bank and the building society.” And that is actually certainly firing a lot of the stuff that’s happening in the auctions.

LEWIS: Yes, there’s a sense of owning something. You can go by and look at it, can’t you, if it’s yours. Henry Pryor?

PRYOR: Well picking up on something that Melanie mentioned, I think that what we’re going to see this year, the iceberg that we need to keep a very sharp look out for is what’s going to happen to interest rates. The CBI coming out just before Christmas with a prediction that interest rates are going to rise and could rise quite dramatically through 2010. And I think that for some of the newer buy-to-let landlords, those who don’t have a great deal of experience in this particular sector are going to find themselves potentially risking coming unstuck. Everything makes sense when you’ve got bank base rates at 0.5%, but you know we’re all old enough to remember them at a higher level and that’s what you need to plan for.

LEWIS: Indeed. Much, much higher in my case. Well buy-to-let has of course been blamed for some of the rise in house prices and taking away the properties that first time buyers might be interested in. And indeed first time buyers are now fairly few and far between compared with a few years ago. About 20,000 sales a month are to first time buyers. Better than last year, but still significantly below where it was for the rest of the last decade. At one time, more than 4 out of 10 buyers were first timers. Now it’s half that. Money Box listener Ben Burchill from Bristol is desperate to buy his own home, but he feels the barriers to him getting into the market are insurmountable.

BURCHILL: The main barrier is the size of the deposit. We’ve got savings that are going to mature in August next year. It’ll be £21,000. That will probably be around about a 10% deposit. I understand to get the best mortgage deals around at the moment, the deposit’s somewhere in the range of 40%. My big question is whether in

August when our savings finally mature, whether it will be worth sticking with savings because the interest rates may have gone up or whether it's worth jumping into the property market?

LEWIS: Well that was hopeful first time buyer Ben Burchill, speaking - I'm sure - for many young people, worried that house prices won't ever fall far enough that people on average earnings can afford them. Ben and his wife each earn roughly the national average. They have £20,000 saved up for a deposit, but they still feel they can't afford to take that first step. Melanie Bien, are they being too cautious?

BIEN: The deposit is the big issue. If you look at the number of mortgages available - there's 2,430 products available this month - the vast majority - 877 of those - are for those with a 25% deposit. He says he's got a 10% deposit. Well there's 143 products available to him. If he only had a 5% deposit, there's only 9 products left. So lenders really don't want to lend to first time buyers.

LEWIS: Yes, so Henry Pryor, should he be saving up for another year, hoping things will be better in August 2011?

PRYOR: I think he should be extremely cautious. Predictions for house prices could potentially wipe out this deposit that they've scraped and saved very hard. Saving money for first time buyers at the moment is extremely difficult. If we look at the numbers, they've got to pull together somewhere in the order of £40,000 for a typical first time buyer. That is incredibly difficult to do and only something very small needs to go wrong for that to be completely wiped out.

LEWIS: Martin Roberts, don't buy houses?

ROBERTS: Well no! I mean without stating the obvious, the simple thing to do is to buy a cheaper house. Then his deposit is worth more. So instead of buying a £200,000 house, if he buys a £100,000 house he's suddenly got a 20% deposit. And that doesn't necessarily mean that he has to downgrade his expectations because if he buys in a slightly different area, he can get more value for money in terms of the property; if he

negotiates hard. I mean everyone's nervous at the moment, so if you're a buyer and you've actually got the ability to buy, then negotiate hard with the seller and say I can act quickly. I can give you less than you want, but I can do it and I can do it in four weeks. Or to buy via alternative routes than an estate agent. For instance the auctions where you get traditionally a 20 or 30% discount on the price you'd expect to pay via other means.

LEWIS: And do you think it's right to try and buy a house not at any price but, if you've got the money, find an area where you can afford it? I mean average wages are slightly under £25,000 a year. That implies an £80,000 property, maybe double that if you're a couple and you're not planning to have a family. Should you then say okay that's what I can afford. I'll find a place in the country where I can move to? But then of course you've got to get a job, haven't you?

ROBERTS: Well you have, but you don't necessarily have to move out of your area. I mean there's a thing called the Concentric Ring theory where you know the centre of for instance Bristol where this gentleman lives, the property prices are going to be quite high. But if you move out slightly or move out to where there's reasonable transport links into town, you're going to get a lot more property for your money.

LEWIS: And, Simon Rubinsohn, a suggestion there that the buyer can negotiate hard. Who actually has the upper hand in negotiations at the moment?

RUBINSOHN: Well I would like to just say something first before I get into that because I actually think there's a bit of a danger with the premise of this programme that we get this fixation of home ownership. And you know for many people renting may actually be the better choice irrespective of whatever view we might have about where house prices are going over the next year or two. You know let's be honest, there're going to be ... they're guestimates. And perhaps the products in the rental market aren't sufficiently varied to suit all tastes at the moment, but that's something that I particularly feel we need to concentrate on more.

LEWIS: They're not sufficiently secure either, are they? It's all very well renting

when you're both in work, but 40 years on or 35 years on when they're retired, they may say well I can't afford this rent anymore. It's a very nice house, I like it. I can't afford it. I'll have to move somewhere else. People don't want to do that when they're retiring.

RUBINSOHN: Well they're having to think about that in terms of perhaps home ownership as well. Many people are sort of thinking about the problems of you know maintenance. Not so much the cost of running a big family home, but the maintenance rather than the ongoing mortgage payments which obviously have been paid down. But there still are issues whether you own or whether you rent.

LEWIS: Henry Pryor?

PRYOR: I think Simon and Martin both bring out a very, very valid point in this, which is that first of all home ownership isn't for everybody. But, secondly, when people are selling a house, roughly 95 or 96% of people who are selling a house get professional advice. They retain an estate agent to help them through the process of selling and maximising the value they have tied up in their house.

LEWIS: I think most people feel they *have* to do that.

PRYOR: Indeed, but it's not something that you're *obliged* to do and there's been an emergence through the last 2 or 3 years of private seller websites and other entities to help you do that. But when it comes to the buyer, less than 5% of the great British public will go out and invest their money with any advice whatsoever. So I think the moral of this is get some advice whether you're selling or buying if selling and buying is for you.

LEWIS: Of course most people think the estate agent is on their side whether they're buying or selling, but of course ...

PRYOR: Caveat emptor.

LEWIS: ... the estate agent is there to sell a house really.

PRYOR: He's there ... We saw a very interesting survey coming through from the OFT at the end of last year where we saw that roughly 50% of homebuyers felt that the estate agent was there looking after their interests as well. They're not. They're agents, they're not brokers, and that's the big difference.

LEWIS: Well one place you can get a real sense of house prices and movements is an auction. We've talked about them over the last few minutes. Now not everyone can attend, not everyone has the money in their back pocket, but auctions in some ways are the purest market there is. And Bob Howard went to a property auction in London to get a sense of how things are.

AUCTIONEER: We start with Lot 1. 32 Brentmead Place, NW11. Freehold semi-detached building ... (*fades under*)

HOWARD: This is the Cumberland Hotel in Central London where 420 properties are being auctioned over two days. Many of the flats and houses are in London, but others are from across the UK. The auction room is packed and very soon the successful bidders are coming out to sort through their paperwork. I spoke to three who've bought very different properties. (*to first buyer*) So, sir, what did you buy today?

MALE BUYER 1: We bought a small 200 year old house in Godalming. It was initially for sale on the open market. We made a bid for that. It wasn't accepted. And so we've turned up today at auction and we've actually paid slightly less than we would have done on the open market, so we're very pleased.

HOWARD: What did you pay for it?

MALE BUYER 1: We paid £190,000.

HOWARD: And what was it on at the estate agent's for?

MALE BUYER 1: Originally it was on at something like £225,000. We bid initially £190,000, then £195,000. They didn't accept that. So we've done a little bit better today.

MALE BUYER 2: I bought a two bed roomed flat in the West End of London for £240,000 with a sitting tenant in. I think it's worth over £450,000 vacant.

HOWARD: How do you compare the market at the moment as to how it was last year?

MALE BUYER 3: I'm in Mayfair and I know Mayfair market. This particular flat would have been sold two years ago a million or 950.

HOWARD: And what have you got it for today?

MALE BUYER 3: 650.

HOWARD: A comparative bargain.

MALE BUYER 3: I hope so.

HOWARD: All three buyers were delighted to have secured their properties, but how easy is it proving to get the prices the sellers are after? Gary Murphy, a partner at Allsopp, is the auctioneer who's just sold those three lots.

MURPHY: It's really, really busy. We started the sale with a packed room. Probably about 500 people here at the early start of the auction.

HOWARD: A lot of people here. Are they buying?

MURPHY: They are buying. We're selling so far about 75, 80% of the catalogue. The sale itself, about 420 lots, so it's a big sale.

HOWARD: And how does this compare with say a year ago?

MURPHY: A year ago, the actual composition of the catalogue was very, very different. In December of 2008, we had one four day sale of 1,000 repossessions. Repossessions this year are very much reduced. I would say that this particular catalogue, this two day sale, about 40% of the lots are distressed, which is you know half the proportion to last year.

HOWARD: And how do you see that make up changing in 2010?

MURPHY: Things are probably going to get a little bit more difficult in 2010. I think the sort of uncertainty that the market's experiencing is coming out in the bidding today. I'm not suggesting that people aren't bidding. You can really feel it when you're on the rostrum as the auctioneer. You can sense buyers becoming a little bit more discerning. I think they're more aware of where their limits should be. I think the time to be sensible is now.

HOWARD: It's interesting you were talking about repossessions this year because a lot of our predictions a year ago was there were going to be a lot more repossessions in the auctions, but that doesn't appear to have happened.

MURPHY: There's a lot of pressure I think on banks politically not to be moving in after 3 months sort of missed payments. Quite rightly, of course; you know people should be given the chance to pay. But there will be I think, going into 2010, those cases where people either have just walked away and thrown the keys back, so there have to be sales; and those cases where I think there is a sort of genuine hardship and there will be no further repayments and, therefore, something has to happen.

LEWIS: Bob Howard reporting. Some people believing they've got bargains. The

auctioneer being a little more cautious about 2010. And Martin Roberts, your programme's called Homes Under The Hammer. You're a denizen of auctions. *(Roberts laughs)* How have you felt the market's been moving recently there?

ROBERTS: Well the auctions themselves have been really busy and the auctioneers, who I meet all the time, have been very buoyant about the way the sales have been going. I mean as a figure from both the auctioneer, one of the auctioneers we feature in Derby and another auctioneer we feature down in Plymouth, they both come up with the same figure - that the prices have been around about 10.5% above the reserve price that's been set. It could be that the reserve price has been set more realistically or it could be that you know people are seeing that there are bargains once again to be had in the auctions. It's fair to say that you know the professional buyers moved away as prices, along with other areas of the market, went sort of through the roof. As prices have begun to drop, we've seen a return of those people to the auction houses.

LEWIS: And, Martin, just give us your prediction then for 2010. Where do you think a year from now, end of December 2010, where will house prices be?

ROBERTS: As ever, the desirable properties in good areas are going to stand any kind of ups and downs much better than anywhere else. And my prediction is it's going to be fairly flat, but in parts of the country we're going to see dips and in parts of the country we're going to see rises.

LEWIS: Okay, so can I write you down for 0% then to put a figure on it? *(laughter)* Henry Pryor, you're our newcomer. Where do you think they'll be a year from now?

PRYOR: Somewhere between 10 and 15% lower than they are today, unless enthusiasm grips the nation, a General Election makes all the difference, and all of a sudden the housing market is off and away again.

LEWIS: Right, so probably 10 to 15% down. Melanie Bien?

BIEN: The big concern is going to be supply on the mortgage side - whether we see lenders you know lending at high loan to values again. We expect there could be falls of up to 6.6% by the middle to end of the year.

LEWIS: 6.6. That's a very precise figure, isn't it?

BIEN: It is precise.

LEWIS: Simon Rubinsohn?

RUBINSOHN: Well we certainly see the momentum in the market continuing during the early part of 2010. However, we're all aware that policy, monetary policy, interest rates and tax policy are going to shift quite dramatically. We would envisage that prices may begin to slip back a little bit, but still end the year perhaps 1 to 2% higher than where they currently stand.

LEWIS: 1 to 2% up. Okay, we've written all those down. Simon Rubinsohn, thank you very much from the Royal Institution of Chartered Surveyors; Martin Roberts, Homes Under The Hammer; Melanie Bien from Savills; and Henry Pryor, a property consultant. And that's it for this Boxing Day Housing Special. Find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where, among other exciting things, you can let us know what you want us to look at in 2010. You can also pass a pleasant half hour or so over the holiday quiz, Money Box Christmas quiz: 20 tantalising teasers on money. I'm back on Wednesday with Money Box Live, this week taking your questions on saving and investing for the new decade. Money Box is back with personal finance news live next weekend. For now, from reporter Bob Howard, producer Karen Kiernan, and from me, Paul Lewis, thank you for Money Boxing with us today. Have a Happy New Year!