



Prospects for Housing Market

Kennedy Foster

CML Policy Consultant, Scotland



Areas to be covered

- Areas to be covered Economic Background and Prospects
- Different elements to Housing Market
- Affordability
- Arrears and Possessions
- Outlook



Economic Background

- 10 years of low inflation, low unemployment, consistent growth and low interest rates
- Record Mortgage Volumes
- Rising House Prices
- Highly competitive Mortgage Market
- High levels of personal debt, much secured against property



Present Situation

- Inflation reached 3.1% (March 2007)
- Interest Rate increased to 5.5% (May 2007)
- Affordability pressures increasing
- Bankruptcies, arrears and possessions have been increasing



Outlook

- Inflation to fall quickly to 2%
- Markets have priced a further 0.25% rate increase—too pessimistic?
- Demand for housing still exceeds supply
- Wage inflation still subdued
- Unemployment low
- NOT SIMILAR TO 1990 –would expect slow down in house price inflation



Different elements to Housing Market

- Regional
- Home owner
- Buy to let
- Sub prime



Affordability

- First Time Buyers
 - 18.3% income on Mortgage in March 2007 compared with 16% in March 2006
 - Income multiples 3.31 x income compared with 3.15 in March 2006
 - 88% of FTBs took Fixed Rate in March 2007
- Mortgage Products/Homestake
- Lending must be prudent



Arrears and Possessions

- Forecast Summary

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--------------------------------------|--------|--------|---------|---------|---------|---------|
| Arrears over 3 months, number at end | 93,790 | 92,090 | 111,930 | 103,940 | 130,000 | 120,000 |
| Possessions, in period | 7,830 | 6,030 | 10,310 | 17,000 | 19,000 | 20,000 |

•1991-75,540 Possessions—1.9 million additional mortgages today



Conclusion

- Martin Ellis, Chief Economist, HBOS

“Demand remains healthy and together with tight supply continues to push up house prices. Good economic growth and a strong labour market will support healthy housing demand.”

“However negative real earnings growth and the increases in interest rates since August 2006 are expected to increase pressure on household finances resulting in a slow down in house inflation over the coming months.”