

# [The demand side factors for uk housing](https://assignbuster.com/the-demand-side-factors-for-uk-housing/)

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To understand UK housing market growth over the period of time with respect to past and future trends and forecasts. What changes in house prices may occur in terms of demand and supply perspective. UK housing market is scattered into regions and then cities so we need to discuss each city or region to get over all picture of the market in reference to growth, demand and supply. There are two aspects of market to influence demand and supply with respect to UK housing market, buying & selling and buying and renting. When we consider buying we need to consider mortgage industry and interest rates. Market information is available through different sources like mortgage lenders (e. g. Banks and building societies), property agencies and financial institutes. This study will consider these sources as medium of information and analysis UK house prices change over the last three years and bring us to forecast future of house prices by applying economics theories and practices about demand and supply principles. According to data publish through Halifax, indicates UK house prices have sharply fall more than 20% from the peak of August 2007 and during the recession almost average fall of 15% for the UK housing market and 25% for London. Here we will try to find out future market growth (up to 2012) on the basis of available information over the last three years.

## The Demand Side factors for UK Housing.

The change in demand and supply of owner occupied housing market is sensitive. It can lead to house price inflation and demand can be consider on the basis of willingness and ability of purchases. Most common factors of demand are as follows.

Average price Supply

D1 D2

Q1 Q2 Quantity Demand

Incomes: if income increases average living standard improves and more people think to buy their own house. The total demand of houses also increases. On the other side if income decreases demand also decrease (required capital to finance a house is decrease so people move to renting houses). Income Demand Price of house (shift in demand).

Consumer Confidence: If future expectations of economy are deteriorate, people think to delay for their own house and this will bring low demand. On the other side when economy is stable and sustains growth. The rising prosperity will improve confidence on housing market. There will be rise in demand and shift in demand outward. Consumer Confidence Demand Price of house (shift in demand).

Jobs: A long term commitment requires through a mortgage lender to finance a house purchase and job is an important factor to consider. Unemployment can trigger low housing demand. For example if unemployment remains persistent above the national average employment, there will also low average incomes, and negative buyers capacity. Employment Demand Price of house (shift demand upward) Above mentioned three factors can identify direction of house prices upward or downward.

Expected Future Price: If expected future price increases, people think to buy today and in the short run demand will increase. On the other side if future price expected to drop people stop buying today and wait demand for houses decrease. Expected Future Price Demand (today) (shift demand upward)

Mortgage Finance Availability: In the time of easy available mortgage finance, more people willing to buy houses and demand for houses increase but if there is a shortage of finance (tight regulations or slum money market) people unable to buy and demand decreases. Finance Availability Demand (shift demand upward)

Tax and Subsidies: There is another important factor of Government policies affect housing market e. g. benefits claims (council taxpayers on low incomes) and payment of stamp duty (most expensive properties).

Interest rates: The cost to pay for a mortgage can be affected because of interest rates. Home owner’s biggest concern is interest rate to manage their monthly spends after high mortgage repayments. Most of UK home owners committed to variable mortgage, any change in interest rates will also change the mortgages cost. So higher interest rates increase cost which then decrease affordability and demand decrease. Interest Rates Affordability Demand (shift demand downward).

The price of rented accommodation: Although UK house prices have increased faster than inflation, renting has also become expensive which is the main substitute to buying a house.

Inherited wealth: Many people use inherited wealth to buy houses. This might explain why there have been rising ratios of house price to incomes. It is also becoming more common for parents to lend children a deposit to help get their first house. In other words higher house prices are not deterring people from buying a house – people are finding ways around it.

Social factors: There have been a rising number of households in the UK. The number of households can rise faster than the population if the average family size decline and there are more single people living alone. Demand can also increase due to the following reasons.

(i). an increase in divorce rates.

(ii). an increase in net immigration from Eastern Europe.

(iii). Increase in life expectancy and more old single people.

(iv). Children left home early.

(v). Less marriages

## Supply side Factors of UK Housing Market

There are two scenarios’ which can best describe supply of housing in the UK.

Short Run Supply: In the short run supply remains same due to time gap to build new houses. In the short run demand of houses affects price rather than supply. There also a sharp increase in price when supply is inelastic and demand increase at its own.

Long Run Supply: Following factors can determines long run UK housing market supply.

Planning permission for new constructions, which is almost impossible in rural areas.

Building industry with respect to investment opportunities/ threats.

Old houses need to knock down and provide edge for new housing construction.

If cost of constructing new houses increases supply will be shift to the left.

In the UK, it is argued there is a significant shortage of housing is this explains why house prices have risen much faster than inflation and earnings. However, in the US, the supply of housing increased in the period up to 2008 and therefore, the excess supply and falling demand led to a big fall in demand. However, it is important to note that house prices can still fall, even if there is a shortage of supply. In 1992, house prices in London fell over 20%, even though we can say supply is inelastic. A shortage of supply just means they will be on average higher. It doesn’t mean they are incapable of falling.

## Demand and supply Relationship

Whatever local or regional housing markets house prices comes under macroeconomics. There is a relationship between buyer and seller with respect to offered and agreed prices. Demand & supply side factors can help to undermine market value of properties. House buying or selling market depends on the following.

(a). The seller’s willing and agreed (property) price with the buyer.

(b). The buyer’s willing and able to pay the actual price.

3. 1. Sellers and Buyers Market: If demand of houses in a specific region is high and good quality houses availability is low (low supply) then market balance shifts to the seller, it’s because higher demand for good properties. Sellers can wait to get offers on their property to reach (or exceed) their minimum selling price. On the other side if demand for new and old houses is low and there is a large supply of properties available then market balance shifts to the buyers. Due to wider choice of available housing, buyers can negotiate to a lower price then sellers offer.

3. 2. Elasticity: Population increase into the area demand also increase shift in demand from D1 to D2 and reverse if population decrease or people move to other area demand also decrease shift from D2 to D1 and movement along the supply curve. If incomes rise and/or unemployment level fall people more interested to buy their houses so demand will increase and upward pressure on market prices. If incomes fall and/or unemployment level increase as a result demand will also decrease and fall in market prices. In such a situation supply of available housing in the market is inelastic. It’s due to time gap to build new houses which bring change in price and increase supply, or other homeowners decide to sell their properties.

Average price inelastic supply Supply1

P2 Supply2

P3

P1

D1 D2

Q1 Q2 Q3 Quantity Demand

When supply is inelastic and demand shifts outwards the result will be a large rise in house prices, there is also a small increase in quantity of houses demanded. Over time supply becomes elastic, considering demand remains same, there will be downward pressure on prices. There is also an equilibrium between quantity of houses buy or sold.

UK Housing Market Background

To analysis UK housing market it’s highly important to look back over at least decade of period to get market overall picture to understand UK housing market growth or decline. This will also help us to find any future trends and forecasts or what’s most likely going to happen with UK housing market in the coming years. In 2007 UK average house price reach its peak level and then suddenly fall to its worse level due to deep recession in the UK economy(global recession) in 2008, where as interest rates brought to 0. 5% during the second half of 2008. Interest rates cut by 5% after UK housing market declined. There was a low growth for 2008 and 2009 in UK economy until the recovery begins in December 2009.

## UK Housing Market Growth 2007

As predicted in august 2007 Forecast average UK housing market 15% decline expected during the next 2 years and London housing market is expected to fall 25%. There is a chance of interest rates further rise in October 2007 therefore it has been predicted that interest rates remain either at or near to peak. Credit market continually decline from its peak (maximum increased rate) in summer and widens the spread between the sterling and base rate. In August 2007 credit crunch known to Market participants which indicated no further rise in the housing market under these conditions. Following table illustrates the UK housing market growth in 2007.

Credit Crunch

The first thing of the housing market moving to its peak in February 2007 following the subprime mortgages were defaulting in ever greater numbers in the United States. This assumption of carry trade leads to unravelling and trigger cause of the credit boom. Initial financial markets unsteady in February 2007 and failed to provide outward evidence of a credit crunch on the other hand UK housing market continually rise regardless interest rates rising (forecasted in November 2006) to a peak of 5. 7% by September 2007 even the Bank of England’s battle with inflation in 2007. According to commentators the housing market enters into a new phase of its final peak state. There are no of reasons in a short run, those stop housing market to fall.

Price P D

OR

Qd Qd

Fig 1. 1. 2 if demand increases first Price will increase and quantity demand also increases.

I). Immigration: A large influx of over 800, 000 migrants from the developing countries contributed the buy to let housing market.

II). Lack of Home Building: Building and construction for semi-detached and traditional terrace properties was not seriously addressed before 2007. There was a hidden speculative rise in the construction of semi-detached, 1 & 2 bed flats and apartments that could help to transform many city centre developments due to completed in 2007 and 2008.

III). Strong Economy: United Kingdom strong economy continually outperform in mainland. There was already dark time started over the UK housing market in summer 2007 and headed towards a property crash.

## UK Housing Market Growth 2008

UK economy start facing recession which left many effects on all markets from retail to production and service industry to public sector. In 2008 housing market reach to an average annual decline in house prices to 14. 7% regardless of the 6. 9% increase recorded in December 2007. There is always difference in UK housing market growth from town to town, county to county and region to region so down fall and rise in the market recorded accordingly. Following table illustrate UK housing market growth by indicating an average % change of house prices, quarterly and annually.

## UK Housing Market Growth 2009

House prices continue to rise after worse 2008 in all regions except Northern Ireland. Southern regions remain on strong growth than northern regions and London has strongest growth at the end of 2009. This brings back the consumer’s confidence and market growth continues to improve. There was a slight shift in demand in 2009

Table 3. 1 UK housing market growth 2009 (www. nationwide. co. uk/hpi)

Fig 2. 1: UK Housing Market Average % Rise/Fall 2009

Fig 2. 2: Annual Rise/Fall in (%change) UK House Prices 2009

Fig 2. 3: Quarterly Rise/Fall in (%change) UK House Prices 2008

## UK Housing Market 2007 To 2009

As we seen over the last three year property market suffer deep recession and gone through different scenario’s. During the start of 2007 UK housing market was at or near to its peak, economy crashed in June 2007 and housing market start decline from its peak about average 15% to -14. 5% in Aug 2008. UK went through a deepest recession; Government put money to save banks from money shortage. On the other hand Government drop interest rates from 5% to 0. 5% to save home owners from high mortgage repayments. In the last quarter of 2008 market start recovery and end of 2009 about average 10% change forecasted which indicates UK is coming out of recession.

Fig 4. 1: Annual Rise/Fall in (%change) UK House Prices 2007 to 2009

UK Housing Market Future Growth

House prices move upward in Jan, 2010, and increase a seasonal adjustment of 1. 2% on monthly basis but according to Feb, 2010 forecast housing market decline to 0. 5% after a good start in January 2010. There are also threats when bank of England chancellor announced deadline for UK banks to pay back Government money at the start of next year. If market grows in such a speculative environment ups and downs are most common feature to occur with market growth and slum remains unless future doubts lost. Economy’s continuously improved and coming out of recession. There is also smooth progress in the labour market and unemployment figures fell down first time after recession. There is another decline in no of jobless and benefit claimants. There is record low growth in the UK earning levels during 2009. Many employers moved to cost reduction policies through pay freeze or reducing pay.

‘ According to economists and credit experts there will be a second mortgage credit crunch which brings UK house prices to a new bottom line. Lenders are due to payback £319bn (1/4 of UK’s £1. 3 trillion mortgage stock) in Jan, 2011 their browed Government capital (during actual crisis in 2007/ 2008). Credit rating agencies already inform UK banks and building societies to limit their lending through tight credit requirements. Banks have to make mortgage expensive and reduce availability’ there will be lack of confidence on housing market stability . (telegraph. co. uk/finance dated Tuesday 16, 2010)

Conclusion

UK housing market growth