The uk housing market essay sample

The UK housing market has always been a good investment. Over much of the last forty years investing in housing usually using a mortgage have given better returns, sometimes much better than leaving your money in a bank account gathering interest. The market does seem to be a bit more volatile than leaving your money in a bank account though. During the last Boom and bust that the housing market experienced, over half a million homes were repossessed, thousands of jobs were lost and a few million home owners were left with a mortgage worth more than the value of their property. The was during the 1980’s and early 1990’s when the previous house price boom came to an abrupt end.

The performance of the UK housing market since the awful terrorist attacks on 11th September has been remarkable. Despite many predictions of a slowdown at that time, the low interest rate policy of the Bank of England, led by Sir Edward George, has kept housing demand buoyant. As stated by the Bank of England and many others, the current rate of growth of house prices is definitely unsustainable.

However, with weak economic activity and financial markets, it is unlikely that interest rates will move significantly upwards from their twenty-five year lows in the near future. Consequently, it remains to be seen what might trigger a slowdown or fall in house prices. Nonetheless, the housing market is probably riskier than at any time since the early 1990’s. We can see from the graph that one reason why people were attracted to buying a house at the moment is because of the favourable interest base rate.

More recently we have seen renewed interest in the strength of the UK housing market. In 1999 and 2000 there was a clear acceleration in house prices in many (but not all) regions of the country. House price inflation rocketed to over 15% by the early summer of 2000 before beginning to soften as higher interest rates and increased taxes on house purchase started to have their effect.

House price inflation continued to go downwards in the spring of 2001 before the market showed renewed strength in the summer of 2001. This is a clear trend. This is because of lower interest rates.

The determination of price in the housing market is microeconomics at work. This incurs buyers and sellers interacting between what prices are being offered and finally agreeing before the deal are complete.

Each house in the UK depends on:

The price that the seller is willing to agree for their property with the buyer.

The actual price that the buyer is willing to purchase and at what price it can afford.

Even when an offer is made there is no certainty that the seller will agree with the terms.

When the market demand for properties in an area is high and when there are properties then the balance of power shifts towards the seller. This is because there is excess demand in the market. Sellers can wait for offers to exceed their minimum selling price.

When both demand for both old housing and new housing is weak and when there is a stall on the properties available then the power changes to the buyers. They have a wide choice of housing to pick from. Therefore they should be able to negotiate a price that is lower than the seller's minimum price.

When demand for housing in a particular area increases, perhaps because of an increase in the local population, or a rise in incomes from lower unemployment, then there is a upwards pressure on the housing market prices. Often supply of housing is relatively inelastic. This is because of there is time between a change in price and an increase of supply of new property becoming available or prospective sellers finally deciding to put their house up for sale. When demand moves outwards and the supply is inelastic, what we get is a large rise in the market price over a small expansion in house numbers. As it becomes more elastic over time, hopefully the conditions will be the same. We would expect to see a downward pressure on prices and an increase on the equilibrium quantity of housing being sold.

Below are listed some of the most important conditions that leads people to buy or sell their property. These are the conditions of demand.

Growth of real incomes – privately owned housing is a normal good for most people. As living standards rise, the total demand for housing expands, as does the demand for more expensive properties as people look to move " up market".

Consumer confidence – confidence is vital in the housing sector. If expectations for the future performance of the economy deteriorate, as it has done, less optimistic about their own financial state, they are tempted to think again about their search for a new home or delay entry into the owner-occupied sector.

Equally when the economy is enjoying sustained growth and rising prosperity – improved confidence raises the number of homebuyers and shifts the balance of power in the market towards the seller if properties are in short supply.

Jobs – because financing a house purchase involves making a long-term commitment through a mortgage lender, changes in unemployment levels exert a significant impact on housing demand. For example in areas when unemployment remains persistently above the national average, average incomes are likely to be lower and confidence among buyers will be negatively affected

These three factors, incomes, employment and confidence are critical in determining the direction of house prices. When these three factors are rising the conditions are normally in place for sharp upward movements in prices. However other economic variables also come into play.

Expectations of future price movements – is housing to be regarded as a consumer durable that provides a flow of services to the owner over a long period? Or should we think of a house purchase, as a major financial investment that we expect will provide us with substantial capital gains in the long run? The answer is probably a mix of the two! Certainly in the 1980s the housing sector boomed because of a strong speculative demand for properties.

Changes to the system of housing taxes and subsidies – government policies affect the housing sector in a number different ways ranging from benefits for council taxpayers on low incomes to the payment of stamp duty on the most expensive properties. Stamp duty is a controversial Labour tax that puts a tax on your house when you sell it. It depends on how much you pay according to the value of the property.

Below are listed some of the most important conditions that leads people to buy or sell their property. These are the conditions of supply.

A shortage of good quality housing in the housing market would in many areas force up the value of properties. Restrictions on the supply of building land, namely in the southeast where demand for housing is usually strongest.