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Economist warns of imminent property crash.

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David Miles, the chief UK economist at Morgan Stanley who also wrote a review of the mortgage market for the Treasury, said a property bust could come within two years.

He said as much as half of the recent doubling in house prices could be explained by fundamental supply and demand.

"One-third to one-half reflects changes in expected house price inflation - that is a speculative element of demand, which is likely to be volatile," he said.

"A substantial fall in real house prices is likely at some point in the relatively near future, though it could be one to two years away."

But Richard Donnell, director of research at the property website Hometrack, said all previous falls had been driven by a surge in interest rates or unemployment forcing people to sell at any price.

"Without an economic shock it is hard to see how it will materialise," Mr Donnell said. "We are more likely to see the market tightening more and more and we get very low growth."

Martin Ellis, chief economist at Halifax bank, the largest mortgage lender, said: "We don't really agree with his conclusion. The rise in house prices had been due to fundamentals - the economy has been growing, the labour market is strong, and unemployment and interest rates are low while housing supply has lagged demand.

"I think prices are well underpinned although we do expect the housing market to slow and, while they certainly won't rise as quickly as they have over the past 10 years, we still expect them to increase."

Greg Fuzesi, senior economist at Nationwide building society, said: "We think that the population dynamics are still such that house prices could rise higher next year than the rate of earnings because the supply [of homes] is not keeping up with household formation."

Ray Boulger, senior technical manager at John Charcol, said interest rates rather than house price expectation would control the future direction of property prices.

Ed Stansfield, property economist at Capital Economics, said: "I cannot see 2006/2007 being the time we look back on and say 'yes, that was the start of the housing market crash'."

Autor: Loste

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