

The Latest Report Brings Good & Bad News About House Prices

Why is the housing market important to the economy?

The housing market is closely linked to consumer spending. When house prices go up, homeowners become better off and feel more confident. Some people will borrow more against the value of their home, either to spend on goods and services, renovate their house, supplement their pension, or pay off other debt.

When house prices go down, homeowners risk that their house will be worth less than their outstanding mortgage. People are therefore more likely to cut down on spending and hold off from making personal investments.

Mortgages are the greatest source of debt for households in the UK. If many people take out large loans compared to their income or the value of their house, this can put the banking system at risk in an

economic downturn.

Housing investment is a small but unpredictable part of how we measure the total output of the economy. If you buy a newly built home, it directly contributes to total output ([GDP](#)), for example through investment in land and building materials as well as creating jobs. The local area also profits when new houses are built as newcomers will start using local shops and services.

Buying and selling existing homes does not affect GDP in the same way. The accompanying costs of a house transaction still benefit the economy, however. These can include anything from estate agent, legal or surveyor fees to buying a new sofa or paint.

Why do house prices change?

House prices have changed a lot over time.

The average house price was a little over £10,000 back in 1977. Roll forward 40 years and the average price has risen to £200,000. Even with the general increase in the prices of goods and services, house prices are now around three times as expensive as they were in the

late 1970s.

For one thing, house prices tend to rise if people expect to be richer in the future. Normally that happens when the economy is doing well as more people are in work and wages are higher.

House prices also tend to rise if more people are able to borrow money to buy houses. The more lending banks and building societies are willing to provide, the more people can buy a house and prices will rise.

The Bank of England also affects house prices through setting the key interest rate in the economy. The lower interest rates are, the lower the cost of borrowing to pay for a house is, and the more people are able to afford to borrow to buy a house. That will also mean prices will tend to be higher.

There are also more fundamental reasons why house prices may change.

For instance, demand for housing may rise if the population is increasing or there are more single-person households. Growing demand

usually means higher house prices.

Prices will also tend to be higher if fewer houses are built, reducing the supply of housing. The fewer houses that are built, the more people will need to compete by increasing the amount of money they are willing to spend to buy a house

There have also been times when house prices have increased a lot just because people think prices will continue to rise. This is called a housing market bubble. Bubbles are always followed by housing market crashes when house prices fall sharply.

This happened in the 1980s. Between 1984 and 1989 house prices doubled, which was much higher than the growth in people's earnings. The unsustainable rise was followed by over five years of falling house prices. It then took until 1999 before house prices had recovered to the level they were in 1989.

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The average house price in London has fallen year-on-year for the first time in nearly a decade, the Office for National Statistics (ONS) has [revealed](#).

From February 2017 to February 2018, the average price of a residential property in the capital dropped by 1.0% – equivalent to around £5,000.

However, the London property price situation is a little more complicated when analysed borough by borough, [The Guardian](#) reports.

Tower Hamlets (which includes trendy neighbourhoods like Hackney Wick and Bethnal Green) saw the biggest year-on-year fall: a hefty 7.9%.

Hammersmith and Fulham (-5%) and the City of London (-4.4%) also saw significant slips, but outer London boroughs Redbridge (+8.9%), Havering (+4.2%), Bexley (+4.1%) and Bromley (+3.8%) all posted notable increases.

Overall, according to the ONS [report](#), the average house price in the UK has risen 4.4% year-on-year. The areas that experienced the highest price hikes from 2017-18 are the West Midlands (7.3%), East Midlands (6.3%), Scotland (6.2%), South-west (4.9%), North-west (4.8%) and Wales (4.8%).

Despite the London price drop, the average house price in the capital – an eye-watering £472,000 – remains more than double

the national average of £225,000.

Commenting on the latest UK property price stats, Thomas White of leading economists [PwC](#) said: “Regionally, the picture remains mixed, with London diverging from the rest of the country. Compared to this point last year, prices in London have decreased by 1%, the first time a year-on-year decline in average London prices has occurred since September 2009.

“We broadly expect current market conditions to continue, projecting UK wide house price inflation to be around 4% in 2018.”

The pro's and con's of renovating a house



We are renovating our home at the moment. It was one of those purchases (a house that needs a lot of doing up), which seemed like a good idea at the time (nice area and cheap house), that suddenly did not seem like such a good idea once we actually started on the work

and realised how much there is to do and how much it is actually going to cost.

I am project managing the renovations. I will be upfront. I do not know one end of a screwdriver from the other, so I have to do a lot of research before meeting anyone who will be taking our hard earned cash off of us. I have already been ripped off by one aggressive tradesman when my husband was away, so I am ultra-cautious now.

Over the last 3 weeks I have had the dubious pleasure of meeting a dozen double glazing salesmen. I spent 3 days reading up on double glazing options (uPVC, Aluminium or Thermally Broken Aluminium), learning the terminology used, and the differences between filling the glass with argon gas and air. I also visited a few showrooms to have a look at locking mechanisms. Whilst there I managed to avoid making rude jokes about the length of "extrusions" which left me feeling quite proud of myself!

I had the salespeople round whilst the children were at school. It made it significantly easier to focus on them, rather than have to do riot control as well. I expected a confident sales pitch, a demonstration of the product and a list of reasons why I should give them my business, rather than give it to the company down the road from them.

I was shocked. Every single salesperson was a man, none of them showed up with a demonstration model (usually just a corner to show you what the insides look like) and almost all of them had an issue with dealing with a woman.

One chap asked where my husband was as he said he did not like to do quotes if "the man of the house is not here to make the decision". Another told me that he would send me a quote and if I had any questions, to get my husband to call him. I asked why I could not call him myself and he turned round and said, "I would not want you worrying your pretty little head about difficult things like this." I kid you not. I wonder what he would have said if I turned round and said, "I'm gay. My wife will call you when she gets home"?

The quotes took up to a week to come in. It was surprising how many had ignored what I had asked for and quoted based on what they wanted to sell. One person quoted for tilt and turn windows rather than awnings (doubling the price) and another quoted for aluminium rather than commercial grade thermally broken aluminium. When I phoned and queried it I was told that I did not know what I was talking about and could not possibly want commercial grade thermally broken aluminium.

We finally settled on uPVC. The person who won the business was not the cheapest, but one of only two men who treated me with respect and confidently answered my questions, with no reference to needing to meet or talk to my other half. He also quoted on what I had asked for.

As for me, I have identified a gap in the market and I am considering moving into the double glazing business. It strikes me that all I would have to do to win the business is to have a good product, be willing to show how it works and to treat my potential customers with respect. Sales people take note.

Carolyn