



# Get Britain Building **ViewPoint**

www.cbre.eu/research

September 2010



## WHAT'S NORMAL ANYWAY?

By Jennet Siebrits  
Head of Residential Research, UK

### OVERVIEW

- Despite some signs of recovery earlier this year, the housing market is functioning far from normally. Reflecting ongoing credit constraints, activity levels are well below normal levels. First-time buyers are particularly affected making up just over a third of mortgages; in normal conditions they would make up nearer a half. Our observations suggest the last time the market was functioning "normally" was in 2005 and early 2006.
- The credit crunch legacy means we are unlikely to return to the heady pre-recession days with widely available and cheap credit. Not that this is a bad thing! However, banks will not remain as risk averse into the medium term and conditions have been gradually getting better. Continued improvement over time engender a return to more normal market conditions.

### INTRODUCTION

Market conditions have improved dramatically over the last year or so. Approvals have almost doubled from its low point and there has been an increase in both buyers and sellers.

However, despite the pick-up, activity remains fundamentally weak; transactions and mortgage approvals are half the pre-recession levels seen before the credit crunch. And the market is far from functioning normally; the low level of transactions mean that just small shifts in demand and supply can hugely affect the market dynamics and as a result prices are quite volatile. Indeed, according to Nationwide, prices have falling for the last two months.

The on-going legacy of the credit crunch means it will be sometime until the market returns to some semblance of normality.

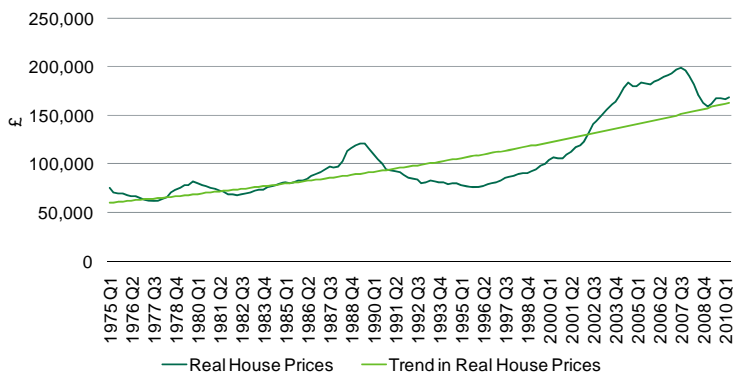
### BUT WHAT IS NORMAL?

The UK housing market is, by its very nature, cyclical and is characterised by booms and busts. But long-term averages iron out these peaks and troughs and can be used to proxy (represent) normal market conditions.

On average there are around 1.2 million residential property sales a year and real house price growth is around 3%. First-time buyers account for around half of all mortgage and have an average 10% deposit.

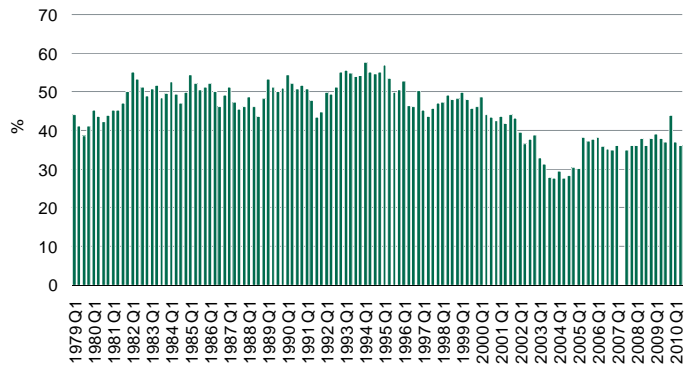
Since the turn of the century the market has been particularly volatile, with periods of both significant booms and bust. For example, in 2001, transactions totalled a massive 2.5 million; double the long term average. House price growth peaked in 2003 at 26.5% and troughed -17.6% in 2009. Since 2002 there have been consistently fewer first-time buyers than long-term averages.

**Chart 1: Real House Prices Vs. Trend**



Source: Nationwide

**Chart 2: Proportion of First Time Buyers in the Market**



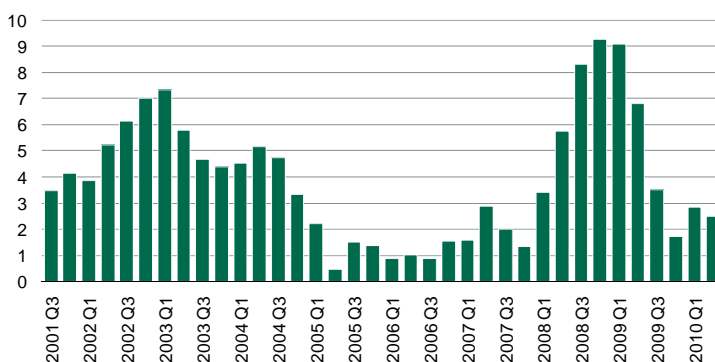
Source: Nationwide; NAEA; CML; Bank of England

The closest to normal market conditions occurred in 2005 when house price growth moderated to 3% and the proportion of first-time buyers picked up to 38% (from a low of 27%). On paper, 2007 exhibits some of the characteristics of a normal market. For example, approvals averaged 104,000 pcm and HP growth was 4.8% over the year. However, as we know this was the transitory period from peak to trough and illustrates why numbers alone sometimes do not tell the whole story; the underlying context is so important.

We do not expect a swift return to normal market conditions. The market is showing further signs of weakening and this is likely to continue for a year or so as the housing market and wider economy are hit by the political and fiscal tightening.

Undoubtedly, the availability of credit is key to the housing market recovery. And during the foreseeable future banks will remain relatively risk averse. It is highly unlikely (and undesirable) that we will return to the imprudent levels of lending of 2006 and 2007, with self-certification and 110% mortgages. However, to return to 1 million plus transactions the mortgage market will need to relax its lending criteria, particularly for first-time buyers. This is already happening in a very embryonic way. For example, in May the average LTV for a FTB was 79%, compared with 75% a year earlier. But, there is still some way to go before we can hope for a return to normality.

**Chart 3: Deviation from a "Normal" Market in 2000s (0 = Normal)**



**Table 1: A "Normal" Market vs. Current Conditions**

	PERIOD	"NORMAL" MARKET	CURRENT LEVELS
Real House Price Growth	pa.	2.90%	4.10%
Sales per agent	monthly	11.3	8.0
Mortgage Approvals	monthly	90,860	47,643
FTB no. mortgages in period	quarterly	106,000	16,167
House Price:Earnings	quarterly	3.3	4.6
FTB interest payment as a proportion of income	quarterly	17.2	13.3
Buy to let advances	half yearly	85,246	46,900

For more information regarding the ViewPoint, please contact:

**Jennet Siebrits**  
 Head of Residential Research  
 CB Richard Ellis  
 Kingsley House,  
 1a Wimpole Street  
 London EC4M 7HP  
 t: +44 20 7182 2066  
 e: [jennet.siebrits@cbre.com](mailto:jennet.siebrits@cbre.com)

**Laura Rous**  
 Senior Analyst  
 CB Richard Ellis  
 Kingsley House,  
 1a Wimpole Street  
 London EC4M 7HP  
 t: +44 20 7182 2069  
 e: [laura.rous@cbre.com](mailto:laura.rous@cbre.com)

**Disclaimer 2010 CB Richard Ellis**

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.  
 © Copyright 2010 CB Richard Ellis