Britain's House Price Crash – 2016 Predictions Mount

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Housing in many countries, especially Britain is no longer an investment, it's now made up of three fundamentals; consumption, crime and concern. The general public getting on the bandwagon with cheap loans is consumption. The crime slot is taken now that over 40% of Britain's housing stock is bought in cash with property used as an international laundrette to wash hundreds of billions and concern comes from savers who quite rightly think that the banks and government will steal their hard earned (low or negative savings rates), tax paid money that drives a reluctant middle class into becoming landlords.

Cheap loans will prevail but credit is drying up the world over. The criminals have stopped buying in over-heated Britain and even George Osborne, who has fuelled the bubble, is taking action against amateur landlords that make up the vast majority of property investors in Britain.

But don't take my word for it. Predictions of a house price crash in 2016 are now mounting thick and fast, something unheard of in previous property recessions and particularly back in 2007 just before the last epic fall.

We kick off with consumption. The Week has a piece from Pete Redfern, the chief executive of Taylor Wimpey, Britain's biggest house builder who says that "The UK is in a "borderline place" on home ownership as a result of rampant price rises and more needs to be done to rein in the pace of (property) inflation". It also makes the observation that "London, where the housing market is becoming so detached from the wider UK that it has been called "another country".

Then we have dodgy dosh from overseas; As RT reports:

> "Asian and Russian luxury homebuyers are deserting London's property market amid economic uncertainty. Property buyers from Asia made up 26 percent of those buying homes in wealthy areas of London such as Kensington, Chelsea, and Belgravia in the first three quarters of last year. That figure has dropped to 6 percent according to figures compiled by estate agent Hamptons for the Financial Times".

And not forgetting those poor fearful middle class reluctant landlords about to lose their shirts. From Industry expert Letting Agent Today – "Osborne has slashed rental sector confidence 'to below crisis levels'. Landlords' confidence in the buy to let sector has collapsed to an all-time low and is now "worse than levels witnessed during the financial crash" according to a trade body. Richard Lambert, chief executive of the National Landlords Association, says confidence in landlords' business expectations has tumbled by more than a third over the past year – down from 67 per cent to an all-time low of 43 per cent. The current level of confidence in the BTL sector is now five per cent lower than levels witnessed after the financial crash in 2007".

The property bubble will burst and London will be its epicentre. But it's not just London that is causing it. Back in the early 1990's I was already a few years into my 25 year career in residential property. Chancellor Nigel Lawson decided to abolish MIRAS in 1988 – a mortgage relief scheme which saved homeowners thousands on their payments. Stupidly, Lawson gave about six months notice. This pushed up prices as buyers rushed to snatch up a property before the tax break disappeared, much the same as Osborne's increase in tax and subsequent epic run by property investors to beat the deadline this April.

On that day in April 1988 I saw the entire property industry implode. Property prices fell by around a third, 1.5 million homeowners declined into negative equity, annual repossessions doubled, tripled and then quadrupled in a matter of months. At one point repossessions represented 1 in every 130 households of Britain.

A few years later I switched from selling property to renting and ended up managing one of the biggest residential rental portfolio's in the UK. I had 11,000 repossessions to manage because the government had offered tax breaks to banks and building societies to stop these units reaching the market via auctions (called Business Expansion Scheme Companies or BESCo's) and utterly destroying what little remained of the housing market. I also had another 2,000 high-end units where building companies had gone bust with no-one to buy them. We filled them with all those that had lost their homes or where the government were paying housing benefit – obviously.

Over 40% of Thatcher's right-to-buy disaster ended up being repossessed. Cameron has just made the same mistake, except he's a bit late in the game announcing it this time around.

Like last time, the bubble will burst where the price is most inflated – London. Unlike previous deflations, this one is predicted, and the writing is large and loud.

From Market Oracle:

> "So it is not just the world's dubious billionaires / oligarchs who have been flooding London with their wealth for safety from corrupt regimes. Average UK house prices have now risen by 30% from the 2009 bear market low with London soaring 70% as it looks like we are witnessing the peak of the London property bubble mania. London over the next 3 years will probably turn out to be Britain's worst performing region".

The FT – "Collapsing confidence in the buy-to-let market will lead to half a million properties coming on to the housing market in the next year".

International Business Times – "London house prices: Sales of prime property crash", with agents complaining of a dramatic 64% drop in transactions

UBS Global Real Estate Bubble Index – highlights that London and Hong Kong the two worst, opining that "London (property) is by far the most overvalued market in Europe, at risk of a bubble as a result of explosive price behaviour" and "It risks a substantial price correction".

Business Insider:

> "The worry is that as interest rates finally begin to rise off record lows, buy-to-let landlords will struggle to meet mortgage repayments and all sell-up at the same time. The flood of housing stock on the market could lead to a price crash. »

Just at the point you decided all this was nothing more than speculation, Lancaster University's UK Housing Market Observatory report scientifically says:

> "If London house prices keep growing at the current pace of 2.75% every quarter year, there will be a full-blown bubble in early 2017 – This will be followed by a sudden crash in prices."

And, if you just weren't absolutely sure that the whole pack of cards is precariously shivering in a cold and blustery breeze, here is some research from Aviva about how we're all doing:

> "All-time low interest rates have fuelled a borrowing spree that has seen Britons rack up a mind-boggling debt of £40billion. The latest figures show family that household debt rose by 42 per cent in the last six months alone, according to research from Aviva. The average family now owes £13,520 on credit cards, personal loans and overdrafts, up from £9,520 last summer. Throw in a 20 per cent increase in average mortgage debt over five years and households are more vulnerable than ever. Worse, family incomes are falling and many have lost the savings habit as their finances are stretched."

Finally, some comforting words from the 12th largest bank in the world. As the Telegraph reports: "RBS has advised clients to brace for a "cataclysmic year" and a global deflationary crisis, warning that major stock markets could fall by a fifth and oil may plummet to $16 a barrel. The bank's credit team said markets are flashing stress alerts akin to the turbulent months before the Lehman crisis in 2008. "Sell everything except high quality bonds. This is about return of capital, not return on capital. In a crowded hall, exit doors are small," it said in a client note". To be fair, RBS should know, they have a lot of experience of completely screwing up investments having lost £46billion in a tax payer bail-out and £45billion of their own since then.

The word deflationary is key as it relates to all asset classes – property included. All the signs are there for a classic house price crash, inflated property prices, unsustainable household debt, low savings and banks up to their necks in it – again. The difference is that property prices are much higher than 2007, so is personal debt but your wages aren't.

Batten down the hatches – the perfect storm is bearing down upon us all.

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