Why The IMF Has It Badly Wrong Over UK House Prices

The IMF in its twice-yearly World Economic Review suggests the possibility of a housing market crash in the UK. The National Association of Estate Agents (NAEA) while taking this report seriously, coming as it does from one of the world's most respected financial organisations, says the IMF has got it badly wrong.

Peter Bolton King, chief executive of the NAEA, said: "For a number of very good reasons we believe the IMF is needlessly flying a kite and scaring homeowners. They cite increasing interest rates as a reason for precipitating a crash. But opinion is that if rates go up at all it will be by just 0.25% in November and that will be the peak.

"If the Bank of England puts rates up to 5% — the same level that it was at in September 2001 — it will not cause the roof to fall in on the housing market. It will merely continue the slowdown that our own survey this month picked out. From the start of the year the NAEA anticipated that rates would rise to this level.

"Long term interests rates which effect fixed rate mortgages have actually come down to 4.8% which means that the money markets believe inflation a year or two from now will be under control.

"We also believe the IMF has not taken into account the fact that there is a desperate shortage of new housing in the UK. Estimates vary but the industry is building 170,000 houses a year against an estimated demand for 250,000.

"Finally unemployment is at historically low levels and there is no sign of any significant numbers of people losing their jobs. The Washington-based IMF is probably right in suggesting that house prices are too high. But incomes in this country rise by 4.5% a year on average. If house prices remain pretty static over four years then house prices will come back in line with incomes – and we believe this will happen."

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