MONEY BOX

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LEWIS: Hello. We're devoting today's special Christmas weekend Money Box to housing. Why has the housing market collapsed? Are we perhaps all to blame? What's housing for? Is it to provide a roof over our heads, shelter for our family, somewhere to call our own at the end of the day? Or is it an opportunity to make money - to put our cash on what for a while at least seemed to be a one-way bet: the upward escalator of house prices? But why did we think house prices could only go one way? Here's Paul Krugman - not just an economist, but this year's winner of the Nobel Prize.

KRUGMAN: Anybody who looked at the numbers said that housing prices were way out of line. Except that what always happens in these things is that people start coming up with rationalisations. There were all kinds of reasons why the old rules didn't apply. But to get sucked into what was probably the biggest bubble in history over housing, which you know has been around for 5,000 years and believe that somehow the old rules no longer apply to you know like buildings, is really pretty bad. *(Laughter)*

LEWIS: Paul Krugman getting some appreciative laughter there when he was making that speech earlier this month. Well to get some sense of the scale of the problem, let's talk first to Simon Rubinsohn, chief economist with the Royal Institution of Chartered Surveyors. Simon, from your evidence, was it a bubble?

RUBINSOHN: It's always quite difficult to define what a bubble is and this is one of the problems that policymakers have. That said, there was a lot of evidence to suggest the marker had run some way ahead of what might be described as fundamentals. If one for example looked at some affordability indicators - measuring house prices, whether it's against earnings or mortgage interest payments - you could certainly see ratios there that were well above long run averages.

LEWIS: Yes. And if you looked at the graph, a gap grew from about 2000 onwards, didn't it…

RUBINSOHN: Absolutely, yes.

LEWIS: … when house prices soared ahead of earnings, which made affordability more difficult?

RUBINSOHN: It certainly made affordability more difficult, and I think part and parcel of that was also that there was a lot more cheap and easy money around to help sustain that. If that hadn't been the case, then perhaps the excess in the market wouldn't have been quite as great, but the cheap money certainly gave it a push, particularly in more recent years.

LEWIS: Cheap and easy money. Melanie Bien, a director of Savills Finance, are you responsible for this? Were you lending people too much money on too little security?

BIEN: Well obviously as mortgage brokers, you could argue that we were facilitating in some way and there was a lot of competition among lenders to lend. And we saw them; they were all undercutting each other. You know there was a plethora of deals available. They were offering 100%, 125% loan to value - unsustainable levels of lending.

LEWIS: A level of lending described as "madness" earlier this month by John Varley, the chief executive of Barclays.

BIEN: Well you have to understand at the time though, there was this pressure on lenders to provide something. First time buyers just could not get on the ladder. There was this huge gap between their income and what prices had reached, and the government wasn't doing anything about it, so the lenders stepped in to provide a service.

LEWIS: Also with us is Mark Dampier. He's head of research with financial advisers Hargreaves Lansdown. Mark, was it due to people buying property not just perhaps that they couldn't afford, but to invest in?

DAMPIER: Oh certainly, yes. We had huge people doing buy-to-let. The share markets had done very poorly and people perceived property, which they could feel and see and touch, as something better. And of course it's the old dinner party debate - "Well he's got a house and he's bought another house; and he earns the same money as me, so I'll go and do that" - and that's exactly how bubbles start.

LEWIS: Well listening to all this is Martin Roberts, author and presenter of the BBC property programme Homes Under the Hammer. And Martin, I think I could say, an advocate of investing in property. At least your programme is. So it's all your fault. You persuaded us to buy homes for an investment, not to live in.

ROBERTS: Completely. I'm sorry, I'll give you my home telephone and bank account details and you can come and get your money back. No, realistically I'm out there on the road seeing what's happening in the market. I mean we've been doing the show for six years now, so we've seen a really interesting time - people buying in at a time when it was going mad; and then over the last few years buying at a time when it *has* gone mad. So I've seen people who've experienced some interesting stuff, both ups and now downs, but I'm on the road at the moment talking to people who are buying and there's some very interesting stuff going on and it's not all doom and gloom.

LEWIS: No. So you think there are still opportunities to make money out of property?

ROBERTS: I'm speaking to people who are doing it every day.

LEWIS: Yes. And, Mark Dampier, do you think we *should* be making money out of property?

DAMPIER: Well that's more philosophical.

LEWIS: Well go on.

DAMPIER: I just personally think it's complete madness.

LEWIS: Financial madness rather than moral madness?

DAMPIER: Well isn't it strange isn't it? In the share market, if I suggested you borrowed £200,000 and invested it in shares, you'd think I was a loony. Yet…

LEWIS: Well it would be illegal, I think, actually.

DAMPIER: Well virtually, but if I do the same thing with property, that's fine because that supposedly always goes up. But we're about to see over the next few years thousands, millions of people impoverished by property. I agree that some people make money, they clearly do - they do in the share markets at certain times - but it makes people far poorer than richer, in my view, and it's one of the biggest brainwashes of the British public we've ever seen. It's fantastic.

LEWIS: Though of course some people might say the biggest brainwash was persuading us to invest in shares *(Dampier laughs)*. I mean they're worth what they were worth, what, only 11 years ago.

DAMPIER: I agree, they've been appalling, but the property market is fast catching up and I'd expect property to be down close to 50% by the end of 2010.

LEWIS: And, Simon Rubinsohn, from your point of view is property a good investment or is it just somewhere we should live with our families or for ourselves when we go home at night?

RUBINSOHN: I think that it can play a different role for different people. This shouldn't be seen as a get rich quick asset, but it does hold out I think potential to provide owners with decent returns. And I think one has to sort of set that in a portfolio context. Shares may deliver over a period, so may property, and I don't think, to isolate one or the other and say they're not going to deliver, I think doesn't really get us anywhere. I think at the end of the day property will offer a return for homeowners if they are willing to hold it for long enough. So I think there's certainly a case in a sort of broader perspective to have property alongside shares in a portfolio.

LEWIS: Yes, that's assuming you've got that much money. I mean that's implying you've got several hundred thousand pounds, to put a bit here and a bit there. A lot of buy-to-let people though, Melanie Bien, didn't really have much money. They were beginners, weren't they, and they didn't need it because they borrowed the money and the whole buy-to-let market started in what 1996 when these mortgages first became available? Do you think that has boosted house prices the way some people claim?

BIEN: It definitely has boosted house prices. We've seen a lot of people who've made a lot of money out of buy-to-let who've been very successful out of it with you know huge portfolios, and we've seen more people come into it a bit later in the day wanting some of that success for themselves. And it has pushed up house prices, you know, and particularly first time buyers are struggling because you know the houses they would normally buy have been snapped up by first time landlords who are then renting them in turn to them, so they're having to rent for longer.

LEWIS: Mark Dampier, you're in a very heavily regulated industry…

DAMPIER: I am indeed.

LEWIS: … financial advice on shares and investments as such. Do you think it would have been much fairer if buy-to-let was also regulated in that way?

DAMPIER: I think it's more the credit markets need to be regulated far better more than actually buying the property. I don't mind anyone buying the property, but it's a total madness on credit. I mean 125% mortgage. I mean tell me, why did not every red light go off at Canary Wharf where the FSA is as soon as that came out? Why didn't the politicians say something? If you're going to lend so much money to people… And these were supposed to be, I presume, sort of career people, but they weren't and they're where the biggest repossessions are being found now. So clearly it was really, really poor lending practices.

LEWIS: Yes. I mean in fairness to Northern Rock, it was a 95% mortgage and then a 30% unsecured loan on top. I think that's right.

DAMPIER: Complete madness whatever way you…

LEWIS: *(over)* Madness either way, whichever way you cut it. Martin Roberts, do you think there should be any control on people investing in property? A lot of amateurs are doing it and some of them, as you have said, are burning their fingers.

ROBERTS: They are. And what we've noticed is, especially now, when there's a rising market you can do anything, you can buy anything, you can pay anything you want for it. You can do anything to that property and in a rising market you'll still make money. The people now who are still managing to make it pay are the people who are looking at it like a business, approaching it in a professional manner, not overstretching themselves, and actually at the moment buying properties at a price that enables them to make the buy-to-let model work.

LEWIS: Yes. But the whole buy-to-let model, as I understood it in the past, was predicated on rising property prices because the rent just about paid the mortgage after you'd taken account of costs and empty months and all that kind of thing, and what you really were there for was the capital gain.

ROBERTS: Also buying property and doing it up very short-term, so buying at a discounted level because you're buying property that needs some work doing to it. Doing it up and then releasing the money that you've put into that property was another way of generating money. But intrinsically yes, I mean buy-to-let landlords are in it for the long-term. They want the property to wash its face. But they do view property long-term as a solid investment and you know historically, going back, the price will, it seems, go up.

LEWIS: So what is the state of the housing market? One measure is the price fetched by homes at auction. That's often seen as the best indicator of a true market value. Money Box's Bob Howard met one landlord at an empty flat he hoped to buy at a local property auction.

HOWARD: This is Surbiton, a comfortable suburb, a short hop on the over ground train from central London. The vacant, top floor, one bedroom flat in front of me is about to be put up at auction by a developer. But why would anybody, particularly investors, want to buy it now with house prices predicted to fall still further? *(Door opens)* I've come here to meet Nicholas and Camilla who are thinking of bidding for the flat; and if they're successful, renting it out. The basement flat in the house was sold last year for £303,000. The guide price for the top flat is £145,000. They're cash buyers, so they don't need to find any sort of buy-to-let mortgage and they're less interested in whether the value of the property falls in the short-term and more about whether the rental income would bring a good return on their investment - what's called the yield.

CAMILLA: This is all peeling.

NICHOLAS: That looks bad. *(to Howard)* I've been to quite a few auctions in the past, bid unsuccessfully, but I do have a number of rental properties. I had two locally, just one remains, and I thought it might be a good time to dip my toe back in the water.

HOWARD: So what caught your eye about this particular property?

NICHOLAS: It's local. I'm a lazy investor. I'd rather have my investment properties close at hand where I can keep an eye on them. I don't use a managing agent. Everyone's talking about yields at the moment. For this area, I'd really be looking to get around about 6.5, 7%, which compared with other parts of the country seems quite low, but there is a steady and constant demand in this area because of the good rail links into London.

HOWARD: So do you have a figure in mind of what you're going to bid on Monday?

NICHOLAS: Anything marginally above the guide I think would probably be a good buy. I'd probably start bidding later rather than earlier. Don't show your cards too early on, I think is probably good advice.

HOWARD: It's four days later and the day of the auction's arrived. It's about to start here at the conference room of one of the big hotels in Kensington in West London, and the keenest bidders, probably around 200 people, have already taken their seats. The number of properties selling through auctions fell dramatically earlier this year as buyers worried that anything they bought would rapidly lose its value. But since the autumn, sales have begun rising again. There are 85 lots in the catalogue, but some will usually be withdrawn or sold prior to the sale. Anyone can bid and those who are successful pay the bid price plus a flat fee to the auctioneer of £325.

COLEMAN-SMITH: Welcome to the Royal Garden Hotel. Before I start the sale, I'll just run through our auction procedures. *(Fades)*

HOWARD: Successful bidders must pay 10% of the sale price as a deposit at the auction today and the auctioneer, Chris Coleman-Smith from Savills, is trying to convince bidders this is the moment to buy.

COLEMAN-SMITH: Pricing properties in auction is a little bit difficult because I think even we get carried away with a year and a half ago prices and you've got to get yourself in what the market is now. Some of the stock here, its price, it will not be cheaper next year. I think there's a lot of people holding off thinking it's going to be cheaper next year, but hopefully auctions, we've got to stay ahead of the market. That's the fundamental thing, or else we're not going to sell this stock.

HOWARD: I want to find out if buyers are going to bite and if sellers are now prepared to accept lower prices. And I'm also particularly following the sale of Lot 43, the flat in Surbiton which Nick has come to bid for.

COLEMAN-SMITH: Right, lot one's been withdrawn prior to the auction, so we'll move onto lot two - two bed garden flat…six week completion.

HOWARD: Lot two is in North London and has a guide price of £130,000. To get interest going, Chris, the auctioneer, has started at £100,000. The bids then quickly build up.

COLEMAN-SMITH: £174,000… *(Bidding on Lot 2)*

HOWARD: Well lot two has gone for £174,000. That's £40,000 above its guide price. And the next lot, a one bedroom flat in Fulham's gone for £250,000. That's £30,000 above its guide price. Although investors and developers make up a large part of the bidders, future owner occupiers have also decided it's time to take the plunge and try and make a winning bid. Tom, with a baby on his shoulder, has just secured lot 11, a house currently split into two flats in Hackney in East London.

TOM: It hasn't sunk in yet.

HOWARD: *(laughs)* Is this for yourselves or is it for an investment?

TOM: Just for my family, yeah.

HOWARD: Do you think you got a good price for it?

TOM: There's one on the same street in the estate agent's windows for £700,000, so to get it for £378,000 seems quite a big reduction.

HOWARD: To be in the auction, sellers pay a catalogue entry fee of between £250 and £1,200, and then between 1% and 2.5% of the sale price if the property sells. More realistic pricing is helping. Latest figures show the average price for an auction property sold in the three months up until November fell more than 30% compared to the same quarter last year. But not all sellers have got it right. Gino's been trying to sell two lots but neither have reached his minimum sale price.

GINO: I've got two properties at the moment in auction, two properties in Cornwall, and I've just now been told that they both haven't reached their reserves. They're not sold.

HOWARD: You're not going to kick yourself and say crikey, I should have accepted what I was offered today?

GINO: I don't think so. I think that property prices have come down to its lowest. I don't think they're going to come down much more than that.

HOWARD: So here we go, it's lot 43, so this is the one which we've looked round and this is the one Nicholas wants to buy. And the guide price is £145,000. So is Nicholas going to get lucky and get it?

COLEMAN-SMITH: Flat in Surbiton… *(Bidding on Lot 43)*

HOWARD: The bidding's been going on for about two minutes with Nicholas and two other bidders and it's now gone past the guide price of £145,000. *(Bidding)* He's got it. He's got it for £150,000. *(To Nicholas)* Congratulations.

NICHOLAS: Thank you very much.

HOWARD: How far would you have gone up to?

NICHOLAS: Probably 165 plus a contingency of 15 to do the place up. That's 180 and that would have given me a 6.5% yield.

HOWARD: So what's your next step now?

NICHOLAS: To phone my wife and tell her the good news.

HOWARD: Of the 72 lots auctioned today, 53 have sold and it's possible some sellers may take offers below their minimum in after sales negotiations. The auctioneer, Chris Coleman-Smith, says only a handful of these have been repossessions, but it's going to be different in the new year. There are already 30 repossessed properties waiting to be listed for the February auction. That means auctions like this will soon very starkly contrast the fortunes of this recession's property winners and property losers.

LEWIS: That was Bob Howard reporting from a property auction in London. So Martin Roberts, you spend your life - or your TV life anyway - at property auctions. Have you found that prices there are falling more than the indexes have shown us? You know, are they more like 30 or 40% down than the 16% down the indices seem to be showing?

ROBERTS: Yeah, I mean the auctioneers - I talk to them, I obviously talk to them quite a lot - I mean they're saying that the prices are down to sort of 2004 levels. Property prices at the auctions are definitely much lower than they have been of late.

LEWIS: But that implies that there are some bargains to be had if you've got the money and you're willing to buy up homes that you know may well have been taken off somebody else who couldn't keep up the mortgage.

ROBERTS: Well let me give you an example. There was a property we featured on the show. It was on the market for £185,000 a year ago. The guy who wanted to buy it offered £120,000 and he bought it at an auction last month for £80,000. So that's a fair old drop off in a year and I think there are some really interesting things going on at the auctions at the moment and if you've got the money to spend, if you can raise the finance and if you can do it in a balanced way that doesn't put your financial security at risk, then you should get down to the auctions.

LEWIS: Mark Dampier, this is just classic buying cheap and selling dear isn't it? It's the moment.

DAMPIER: There's nothing wrong with that. I think the moment's too soon. We've got rising unemployment now, so we've had a credit crunch. Now we're going to get into real unemployment problems - so repossessions are going to rise, the house prices are going to fall further, and, as Melanie said, we can't get credit at all.

LEWIS: Sure. But I mean people losing money on property is just part of the investment business, isn't it? I'm sure some of your clients have lost money on shares.

DAMPIER: Of course. No, I realise that.

LEWIS: There's nothing wrong with buying something, getting it wrong and losing money. That's what investment's all about.

DAMPIER: *(over)* No, you're absolutely right, but I think so many people got suckered in exactly the wrong time - not just amateurs - who actually had very little money. And when we talk about property and shares and whatever, you actually need quite a lot of money to do this. It's not a small game. It's a big game and you really do need to know what you're doing. Most people don't.

LEWIS: And of course in the past this has been mainly on borrowed money, Melanie Bien. Are we going to see buy-to-let carrying on, or is it now really drying up?

BIEN: Well already it's very difficult to get a buy-to-let mortgage. I mean there are far fewer products available. The fees are astronomical - 2, 3% of the mortgage amount. They've tightened criteria. You know you wouldn't be able to borrow above 75% loan to value and a lot of landlords before could borrow up to 90%.

LEWIS: 90% buy-to-let?

BIEN: Yes a year, two years ago. It's harder out there. And I mean there are more opportunities available in terms of pricing you know and property's there, but actually getting the finance is really difficult.

LEWIS: And Simon Rubinsohn, where do you see property prices going? We've heard them coming down, we've heard they might come down further. Is that what you see?

RUBINSOHN: Well I certainly wouldn't want to descend from the sort of broadly consensus view of a decline of another say 10% in the headline property prices. But one of the interesting things that's come out of our recent monthly survey is that buyer enquiries are picking up quite sharply. They're actually at their best level since October 2006. That's quite remarkable given the huge amount of negative news flow surrounding property and the difficulty potential buyers are having in getting finance. And that tells me something about the enduring appeal of property. Whether it's good or bad, there's a lot of people out there who are looking at opportunities.

LEWIS: Mark Dampier, you're shaking your head and no-one can see it.

DAMPIER: I think it's a classic… We'd call it in the share market a dead cat bounce in terms of buyers. People suddenly think it's cheap because it's gone down, but if something was £100 and it was expensive and it falls to £75, it doesn't make it cheap at all.

LEWIS: People pile in too soon, you mean?

DAMPIER: Exactly and I think they're too soon. I agree for a few people it does make some money, but actually for the great majority it's a place to live and that's it.

LEWIS: The attraction though, Martin Roberts, is that it's finite, isn't it? Okay we're building a bit more, but not that much more. It's a finite resource and with a growing demand, the trend must be upwards in the long-term.

ROBERTS: Absolutely and I think it's that whole sense that it's a physical thing. You can walk into it, you can stand on the balcony, you can stand in the bedroom. It's a physical thing unlike a share, which you know it's a piece of paper that can be here one minute and gone the next. Intrinsically in this country, you know we're an island, we don't have enough property for the number of people that need houses. That's a fairly simple economic equation - you know the amount of demand exceeds the amount of supply - and that's the case.

DAMPIER: But there's 800,000 empty houses. Supply and demand is yet another one of those great cons. I've heard it so many times and it is a complete and utter con, and it's been shown to be a con as well because where are all the homeless people? Please tell me.

ROBERTS: But with 20 million…

DAMPIER: If there's such a demand for all these houses and people are desperate for housing, where are all the homeless people lying in the streets? Tell me, show me where these people are. The only reason there's demand for property is it was going up. It's just like when shares go up. That's how the internet bubble started. They said, I'll have some of those shares.

ROBERTS: You don't have to be actually on the street to need a house. You can be living with your parents, you can be sharing with colleagues at university or whatever. There is an intrinsic demand.

LEWIS: Sure, but I mean those are the sort of old-fashioned reasons for buying property, aren't they? I mean there was a wonderful programme on animal migration on Radio 4, which was called World on the Move, and they said, "Well why do animals migrate these distances"? And it was food and sex. Now that's why we used to buy homes. We bought a house to be near our job or because we'd formed or ended a relationship. But now people are buying houses and property for investment, for money, and that seems the wrong reason to buy somewhere.

ROBERTS: Not if it makes you lots of money.

LEWIS: That's a straightforward answer. Melanie Bien, are you seeing any signs that the banks and the lenders are making credit more available?

BIEN: No, I think lenders are very reluctant to lend at the moment. And while rates have been coming down on the back of the base rate cuts, what we aren't seeing is any relaxation in criteria at all, so you know the best deals are still available if you've got a 25% or 40% deposit or that level of equity in your home. They don't seem to want to lend to first time buyers.

LEWIS: Simon Rubinsohn - a year from now, the end of 2009, where do you think the housing market will be?

RUBINSOHN: I think what we will have seen is certainly another 10% fall in prices, but by the end of next year I think we will have seen the worst of the fallout in the economy and we'll begin to see the market regain some composure.

LEWIS: Mark Dampier, the green shoots of recovery already being seen. A year from now, where do you think things will be?

DAMPIER: Pretty bad still. I'm sorry. I think with over three million unemployed, that will be a huge drag and I think house prices will continue to fall because there's not enough credit.

LEWIS: Martin Roberts, do you think your programme will be more and more a dream programme rather than one that people go out and make use of a year from now?

ROBERTS: No, I think there'll be bargains to be had. The people who take it professionally and are out there, are doing it in that way, they'll be mopping up some amazing bargains.

LEWIS: And Melanie Bien, briefly - this time next year?

BIEN: I think lenders will start lending again and regain more of an appetite. It will be different - they won't be lending 100%, 125% loan to value - but ultimately lenders need to lend.

LEWIS: Perhaps back to sensible lending?

BIEN: Yes.

LEWIS: Well that's it from our Christmas special. Thanks to my guests: Simon Rubinsohn of the Royal Institution of Chartered Surveyors; Mark Dampier from Hargreaves Lansdown; Melanie Bien of Savills; and author and presenter Martin Roberts. But just before we go, here's a question for you.

CHRISTMAS QUIZ QUESTION: Of the 24 premium bond millionaires created during 2008, what proportion is female - a tenth, a third or a half?

LEWIS: That's just one of 20 questions from the Money Box Christmas Quiz. No prizes. You get the score as you go along. But the challenge is this: as I said before, when I tried it I only got 18 out of 20 and I wrote some of the questions. So can you beat me? Thousands of listeners have already tried. It's on the front page of our website: bbc.co.uk/moneybox. There's more information on housing, but not the answers to the quiz, from the BBC Action Line - 0800 044 044 - and of course that website, bbc.co.uk/moneybox, where you can also watch videos, listen again and download a podcast. I'm back on Monday with Money Box Live to take your questions, this week on pensions. And the housing market is the subject of Tuesday's Call You and Yours. You can e-mail your views and experiences through its website, bbc.co.uk/radio4/youandyours, or call the Action Line. Money Box is back live next weekend. From reporter Bob Howard, producer Richard Vadon and me, Paul Lewis, have a very good new year.