Negative image

DANIEL DORLING argues that negative equity is still rising at a phenomenal pace

'HOUSE prices stabilise in first quarter of 1993' proclaims the Nationwide building society's latest house price bulletin. 'UK house prices approach stability in first quarter' echoes the Halifax. 'Easter take-off for house prices' interprets the *Observer*. 'Debt standstill' heralds the *Sunday Times*. What does all this euphoria actually mean for home owners with negative equity?

Negative equity occurs when the market price of a property falls below the outstanding mortgage the owner-occupier secured against that property. Its prevalence has been identified as a major brake on economic growth and a source of misery for many thousands of people who find themselves unable to move.

In November last year, the Joseph Rowntree Foundation published research showing that one in ten mortgage holders had negative equity, that this proportion had doubled in a year, and that the financial amount of negative equity held had more than doubled over that same period. We still predict it could double again in value in 1993, if house price falls continue.

Recalculating the figures to the end of 1992 showed that, due to the unprecedented house price falls of October to December, the proportion we estimated to hold negative equity had risen to *one in seven* of all mortgage-holders (whilst the average amount that each held had increased by 38 per cent over just those three months). The regional distribution had also changed markedly, with the problem spreading out right across the nation.

But haven't house prices *stabilised* since December? Despite what might be gathered from the headlines, the Halifax index fell in spring this year in every single English and Welsh region! And this followed a winter of the largest quarterly house price collapse ever recorded. So, since Christmas, negative equity will have risen again.

Anything could happen in 1993, but it will depend primarily on house prices.

While 'approaching stability' is how some describe continuing price falls, our prediction that the level of negative equity could double over the year to October 1993 no longer seems unduly pessimistic. Even if we see a recovery begin in the south east this year, it is unlikely to involve significant price rises. At the same time, prices could well continue to fall in the rest of the country.

Meanwhile, more and more families will be reaching a stage where they need to move for employment reasons, a lack of space, better access to facilities for small children, and so on. Negative equity — if it could be measured in terms of the misery it causes — is still just *beginning* to be a problem.

Government policy currently appears to be to try to increase demand for owner occupation in order to support prices and the economy. Thus every upwards blip in the house price indices is heralded as the beginnings of recovery, which will supposedly stimulate new demand. However, this policy, were it to be successful, would simply create an even more unstable, unbalanced housing market.

A whole generation of new households are likely to have their view of what housing is about severely shaken.

Negative equity, the buzz word of 1992, is here to stay in 1993 and will remain in our vocabulary until less reliance is placed on the owner occupied market. ■

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