

## House prices 'could drop another 55%' and leave Britain bankrupt

By [James Chapman](#)

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Financial analysts warn that house prices could fall a further 55% - leaving 6million Britons in negative equity

House prices could slump by another 55 per cent, a respected City forecaster warns.

It also predicts a deep recession lasting throughout next year and a 'very real probability' that Britain will go bankrupt.

The report leaked yesterday from financial analysts Numis Securities says that the collapse in house prices is not 'anywhere near over'.

They have already fallen 21 per cent from their peak, but the report says they will slump further by up to 55 per cent if the over-correction in prices is as bad as in the early 1990s.

That would leave many millions of Britons in negative equity - when their house is worth less than their mortgage.

Yesterday also saw Alistair Darling warn that there could be 'no instant remedy or overnight solution' to the economic crisis.

The Chancellor used a speech to prepare the ground for slashing growth forecasts that now appear wildly optimistic.

In November, he had predicted that the economy would shrink by about 1 per cent this year, before growing by about 1.75 per cent in 2010.

He is expected to tear up those predictions in next month's Budget.

Mr Darling said: 'It is crucial to remember that we are dealing with a constantly evolving problem - making life difficult for every country.

'Since November, we have witnessed a collapse in world trade not seen in generations and a much deeper and more widespread global recession, with every country affected.'

He added: 'When it comes to economic forecasts, even the International Monetary Fund finds it difficult to hit this moving target.'

But the Numis report is scathing about the Government's response to the recession and warns it may end up needing a 1970s-style bailout from the IMF.

'The bankruptcy of the UK is a very real probability as the UK government is trying to stimulate a greater debt burden in a grossly over-indebted economy,' it



says.

Worse to come: Chancellor Alistair Darling

'We believe the scale of the imbalances in the UK means there is no prospect of a recovery in 2009 and we expect the UK to be mired in a deep recession through all of 2010.'

It calls the Government's aim to get banks to lend again at 2007 levels 'crazy' and warns against anyone borrowing now to enter the property market.

The Numis report predicts that house price falls will accelerate in coming months as amateur buy-to-let investors begin to 'panic sell' their portfolios.

The biggest collapse will be in the glut of city centre flats and executive homes built in the past decade, it claims.

Numis suggests that the average house price - around £160,000 even after recent falls - is over-valued by between 17 per cent and 39 per cent.

It calculates that the average house price should be just £96,000, based on average earnings and the old lending limit of three times salary plus a 25 per cent deposit.

Tory housing spokesman Grant Shapps said: 'We all have to hope that what this report predicts doesn't happen. Clearly if house price falls of this scale did occur, it would mean disaster for untold millions of people.'

'Ministers bear direct responsibility for fuelling buy-to-let speculation, partly as a consequence of Gordon Brown's taxes on pensions leading people to seek other investments.'

'The glut of flats we have seen is a result of John Prescott's planning policies, which have created distortions in the market.'

'The Government's fingerprints are all over this economic wreckage.'

A Treasury spokesman said: '2009 is going to be a difficult year, but most economic forecasters are expecting the economy to recover next year.'

'The UK goes into this recession with low debt by international standards.'

Numis Securities Limited is a leading independent investment banking and institutional stockbroking business.

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- sparky, exeter, 12/3/2009 14:14

In recent years I have been posing a question to my younger colleagues: How come when I was growing up my parents could afford to buy a good sized semi 20 minutes' drive from a major city centre on just my father's salary as a sales rep, with my mum staying at home to look after a growing family? And how come in the first years of the 21st century was it almost impossible for a young couple planning a family to buy a suitable property even if they were both earning reasonable wages? Corporate greed, political naivety/incompetence (call it what you want!), 'keeping up with the Joneses' and even feminism have all played their part in causing prices to spiral out of control. Now the house of cards has come crashing down and the world will never be the same, we hope!

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- Rigger, Western Australia, 12/3/2009 14:13

When will the media realise that printing articles such as this only adds to the problem - it's a self-fulfilling prophecy. If you say the worst will happen, the markets panic and lo and behold the worst does happen. If everyone calms down about the economy, people will start spending again, businesses will survive, and houses will start selling again.

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