

Negative Equity Predicted To Hit 5 Million Homeowners In 2009

Contributed by GfK NOP
Wednesday, 11 March 2009

3.8 million already very close to or currently in negative equity

1.2 million more people set to suffer the same fate this year " with more than half already heavily in debt

Hardest hit likely to be singles and young families

Five million UK homeowners will have fallen into negative equity by the end of 2009, according to leading UK research house GfK NOP, with 700,000 of those at risk already heavy debt holders.

In-depth analysis of GfK NOP's Financial Research Survey (FRS) of 60,000 people estimates that 3.8 million homeowners are facing a significant decrease in the value of their property compared to borrowings, as a result of high loan to value ratios (LTV). A further 1.2 million are likely to fall into negative equity during 2009 should, as widely predicted, house prices drop another 10-20 per cent, the analysis reveals.

To make matters worse, if the housing market remains in the doldrums the retirement plans of much of the UK population could be left in tatters, with the research revealing that 7.2 million homeowners are aiming to use their home as a major part of their retirement fund.

Hardest hit

Set to be the hardest hit by negative equity are singles aged 25 to 34, young couples and younger families, the groups most likely to have taken out high value loans at the peak of the market. Worryingly, many of these are already in financial difficulties, with 14 per cent (700,000) of those currently in negative equity using three other forms of debt such as overdraft facilities, unsecured personal loans and revolving credit cards (only payback the minimum amount).

"The shift to negative equity has the potential to be a mammoth welfare disaster for the nation, particularly when so much of the population has recently relied on the capital appreciation in their home to supplement their lifestyle, consolidate debts and fund retirement," says GfK Financial Director in Insight Andy Thwaites.

"The reality is that if there are further job cuts, the problem will become significantly worse."

First-time buyers " the impact

Any hope that first-time buyers may kick start the property market into life are also dashed as analysis of the FRS reveals that only just over one in 10 of the potential pool of first-time buyers could afford to buy in the current market, where ten per cent deposits are the absolute minimum required by lenders.

Even with the average house price now having fallen to £160,000, only 12 per cent of those aged under 40 and not owning their homes has £16,000 or more in savings. Furthermore, only 10 per cent of these said they would even consider taking out a mortgage in 2009, which equates to less than 20,000 people.

"While property prices are at more affordable levels than before the credit crunch, the challenge facing first-time buyers is to obtain a suitable level of deposit, before they can even consider trying to secure an appropriate loan from the shrinking pool of products available to borrowers," he said.

"Our research shows that even among the small number of potential borrowers that could afford to step onto the property ladder, there is very little intention of them actually doing so in 2009."

London - February 2008