Undersupply will drive house prices up by 2010

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The undersupply in the housing market could lead to a recovery of house prices by 2010, the Centre for Economic and Business Research (CEBR) predicts in a report published today.

As a result of the near paralysis of the housing market and rising costs, the construction industry has slowed down its house building programmes dramatically. For 2008 completions are predicted to drop by 20 per cent and by 10 per cent in 2009.

This will contribute to the shortfall in available housing, and also be one of the key drivers for the recovery of property prices which, according to the CEBR's estimates, could rise by 30 per cent between 2009 and 2012.

This estimate is based on the premise that the mortgage market will be back to normal by the second half of 2009, and that mortgages will be more readily available and affordable for consumers at lower rates.

However, CEBR warns that consumers will have to brace themselves for a tough ride before the property market picks up again. The report predicts a drop of 8 per cent on property prices for this year, and a further 4 per cent next year.

Due to the negative growth in property prices and higher interest rates on mortgages, CEBR believes that repossessions are going to double, although it does not expect unemployment or interest rates to rocket like in the early 1990s.

The CEBR's senior economist Ben Read told the Observer: "Whilst the short-term prospects for the housing market look bleak the sharp drop in building completions will mean higher prices if and when the credit markets sort themselves out.

"The government will be concerned that with every year that passes it gets further away from its house building targets, and with developers unlikely to respond quickly when the market bottoms out, prices may recover more quickly than people imagine."