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## **Property sector dismisses Bank of England rate cut as nothing more than spin**

The Bank of England's decision today to cut the UK base rate by half a percentage point has been dismissed as 'spin' by the property sector as it is no longer regarded as an effective economic tool.

Experts warned that unless the cut is passed on by lenders it is not going to have much effect on the struggling real estate market and even then it is not enough to help start a recovery as far more robust measures are needed.

With the base rate now at 1.5%, it is at the lowest level ever since the Bank of England was founded in 1694.

'The fact is that without the major lenders passing on this cut, and without stronger commitment from the Government to fully address the problems of the property market this cut is practically an exercise in spin, said Peter Bolton King, Chief Executive of National Association of Estate Agents.

'What is particularly frustrating is that it is evident that there is a pent up level of demand among first time buyers that if released could provide the stimulus needed to kick-start the housing market. If the major lenders commit to passing on this cut, and the Government suspends stamp duty, we could open the door to recovery,' he added.

The Royal Institute of Chartered Surveyors Chief Economist Simon Rubinsohn said that the cut is unlikely to provide any meaningful encouragement for banks to increase the availability of finance to either households or businesses.

'Indeed, the risk is that lenders are set to become even more restrictive over the coming months in the face of the worsening economic climate. With many first time-time buyers unable to find the finance to take an initial step onto the housing ladder and existing owner-occupiers needing to move similarly blighted, the time has come for the government to take direct action to restore an orderly property market,' he said.

Michael Coogan, director general of the Council of Mortgage Lenders described it as a 'double edged sword' and the impact is likely to be limited. 'While lower mortgage rates provide borrowers with the opportunity to repay their mortgage debt more quickly to reduce the term, lower savings rates impact lenders' ability to attract deposits and maintain the flow of mortgage lending in 2009,' he explained.

'But the market is still not functioning properly and is likely to lead to a fragmented approach by lenders, as they try to balance the interests of savers and borrowers and other pressures on their businesses, in responding to today's announcement,' he added.

Neil Young, CEO of property portfolio managers, Young Group, pointed out that the cut was widely anticipated and said base rate cuts alone are no longer an effective economic tool.

'Lenders are facing increasing difficulties; balancing being able to offer competitive rates to retain their savers with offering their mortgage lending to their borrower; yet another reason why rates are not being passed on to borrowers. Base rate cuts alone are not the solution,' he said.

Liam Bailey, head of residential research, Knight Frank, said the cut will not help halt falling property prices. 'This is unlikely to have any immediate effect on the housing market, and we believe prices still have a further 10% to fall. Mortgage finance remains difficult to obtain unless applicants have deposits of at least 25% for new purchases. It is also increasingly difficult for homeowners to remortgage,' he said.

'However, the increasingly drastic action being taken by the Bank of England will help limit the duration of the downturn and bring the date of recovery closer. Nevertheless, further action to stimulate the economy may be necessary if the outlook for both the economy and the housing market is to become more optimistic in 2010,' he added.

James Thomas, head of residential investment at Jones Lang LaSalle also anticipates little immediate effect. 'Banks are expected to restrict lending further this year and this means life will remain difficult for potential buyers. Furthermore, rising unemployment and uncertainty about job security will see potential buyers very reluctant to commit to any purchases,' he said.