The Daily Telegraph

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House prices to fall 5pc nationwide and tumble even further in London as worried home buyers back out

24 JUNE 2016 • 12:47PM

House prices and transaction levels will be hit by a "short, sharp shock for a quarter", as buyers pull out of chains amid the uncertainty that the vote to leave the European Union has created.

Property experts warned that chains could collapse as worried buyers pull out of transactions or invoke "Brexit clauses", which allow them to back out if they don't like the outcome of the referendum.

One Singaporean buyer pulled out of buying a £35m property in central London this morning due to fears of Brexit.

"I think he's decided he doesn't want to be in London," said Charlie Hollingworth, from Property Vision, an independent buying agency. "We have had a lot of people saying they don't want to buy here, and they will go back to New York instead."

Adam Challis, of JLL, said: "Price growth will be flat over 2016, reversing gains from the first half of the year, while our central expectations of price falls are between 3pc and 5pc in 2017 and 2018."

KPMG has said house prices will fall 5pc outside London, and more within the capital.

But it is more likely that the turmoil will hit transaction levels, rather than house prices. Hansen Lu, of Capital Economics, said: "Weaker demand will not necessarily result in lower house prices," adding that neither a house price correction nor a recession were on the cards.

Ultimately, while prices might fall, many conditions in the housing market will stay the same: "The big demand supply imbalance still exists, and you will still get all the issues you had before," said Jan Crosby of KPMG.

In the short term

Buying agent Henry Pryor predicted that "chains will fall apart" as some buyers become concerned about the value of the property.

"Two of my clients have already pulled out completely. People want to wait and see what happens. No one will want to commit to buying anything that could be cheaper tomorrow," he said.

Experts estimate that four out of five sellers are also buyers, meaning the repercussions of one sale collapse could impact many more in a chain.

Two housing markets

Peter Wetherell, who runs a high-end Mayfair estate agency, said "the vote to leave will generate a short term 'Brexit bubble' and then a 'two-speed' London property market could emerge".

The low sterling levels could be a boon for overseas buyers who are able to spot high risk, but potentially lucrative, opportunities in the UK property market. "For overseas buyers, this big and dramatic drop in the value of sterling will effectively offset the stamp duty and tax adjustments and it will make prime London property a lucrative investment," he said.

Homes like these in central London have become cheaper due to currency volatility He added the luxury market in the West End and lower-priced homes in the outskirts of the capital could be largely unaffected, with stagnation across the rest of the city.

Charlie Ellingworth, of independent buying agent Property Vision, said: "The most likely scenario is one that we have seen before in other times of dislocation - 1987, 1998 and 2008 - a period where the market seizes up and the only activity is between the brave and the desperate."

Transactions are already in the doldrums after a surge in investor purchases before the buy-to-let stamp duty hike in April.

Richard Donnell, director of research at Hometrack, said that external shocks such as this can reduce sales volumes by as much as 20pc. JLL has also warned that there will be a 10pc to 15pc fall in housing market transactions, while Jan Crosby, of KPMG, says the number of homes on the market will be low until next Spring.

Mr Donnell warned of a "short, sharp shock for a quarter", adding that there will be another "big drop-off in transactions", because "people will sit on their hands".

He added: "Last year, investment buyers made up one in five purchasers, and we are already going to see fewer of them.

"People who are buying for discretionary reasons may not be in the market for the next three to six months so the only people buying will be those doing so for financial and family reasons."

Mr Crosby said that for ordinary people, not investors in luxury property, "moving house is a big strategic decision – once you have decided it will take a lot to steer people off course".

Jeremy Leaf, a London estate agent, and former chairman of the Royal Institution of Chartered Surveyors, said that concerns about job security might cause buyers to think twice about their purchase.

"Hopefully people will keep to what they wanted before the vote, but inevitably some will feel nervous – not least for their jobs.

"If they feel their jobs are under threat then they might look at their own circumstances and reconsider a big move like a property purchase," he said.

House building and investment hit

Investment in building new properties will fall, and "getting finance for things that are still needed will be more difficult in short term", according to one expert.

Mr Donnell pointed out that there were "very significant commercial property deals in pipeline subject to a remain vote".

A recent report from the Royal Institution of Chartered Surveyors suggested 80pc of its members believed that the fear of an unknown future had held back investment flows.

Mr Wetherell said that "industry construction costs could rise by up to 15pc since currently construction materials imported from and exported to the EU are free of duty and taxes", making new homes more costly to build, although this is unlikely to happen for at least two years.

Meanwhile, the Federation of Master Builders has warned that leaving the EU could worsen the shortage of skilled construction workers in Britain.