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The next big boom and bust in London property

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Over the next few years you will read numerous stories about the house price to earnings ratio being too high. This will herald the next great housing crash, writes Jeremy McGivern.

The argument is logical but it is also completely wrong. There is a vast amount of historical evidence that proves this. Unfortunately few people who commentate on the property market have actually studied the history of house prices in any detail.

After every crash, it is always the wealthiest areas that recover first and most strongly. The rich are the only ones who can afford to buy property with cash and are also the only people to whom the banks will lend, hence London's out-performance.

Quantitative easing favours those who are asset rich. Over the last five years it has boosted the price of equities, property, fine art, classic cars and other assets. In the meantime wage price inflation has been virtually non-existent. This is not good news for first-time buyers.

But just because they are struggling does not mean that the property market has reached its peak and must therefore crash or at the very least plateau (please note that there are hundreds of property markets within the UK so each will vary).

There are new business models which will cause prices to boom. Here are just two of them:

A mortgage revolution

Trade bodies and members of the press are campaigning against ageism in the mortgage market. It is unfair and economically unsound that those over 60 cannot get a mortgage:

1. They have huge assets
2. More people are working to a later age
3. Pension income is safer than wage income – you can't get sacked from your pension.

This is a classic example of how credit conditions will be loosened.

But it won't stop there: if the over-60s are allowed 10 or 20 year mortgages then it is only logical that we will soon see 30, 40 and even 50-year mortgage terms. This will reduce monthly payments for younger buyers (although cost them considerably more over the term of the mortgage), boost the profitability of the banks which in turn will lead to even more lending, which will lead to higher house prices.

Crowdfunding

Although people may not be able to afford a home they will certainly want to participate in the price increases, so will invest in property through crowdfunding platforms. Crowdfunding site, Property Partner, recently bought forty-two flats in 10 minutes 43 seconds. There were 318 investors.

The value of the properties is not important. The really interesting point is that the smallest investment is £50. Therefore hundreds of thousands of people who were effectively locked out of the market due to a lack of funds can now invest allowing money into the market that was previously impossible.

This is still in its infancy, but as more and more money feeds into the property market, prices will go higher. It happens in every property cycle – new ways are found to allow money into the market. This drives prices higher despite mainstream press and analysts forecasting imminent crashes.

However, it is impossible for a market to crash when the mainstream expects it to do so. It is only when you hear the words "It's different this time" and the consensus agrees that property prices can only go up that the next crash is just around the corner.

Just as there will be another boom, I can guarantee another crash, but that is probably about 10 years away.