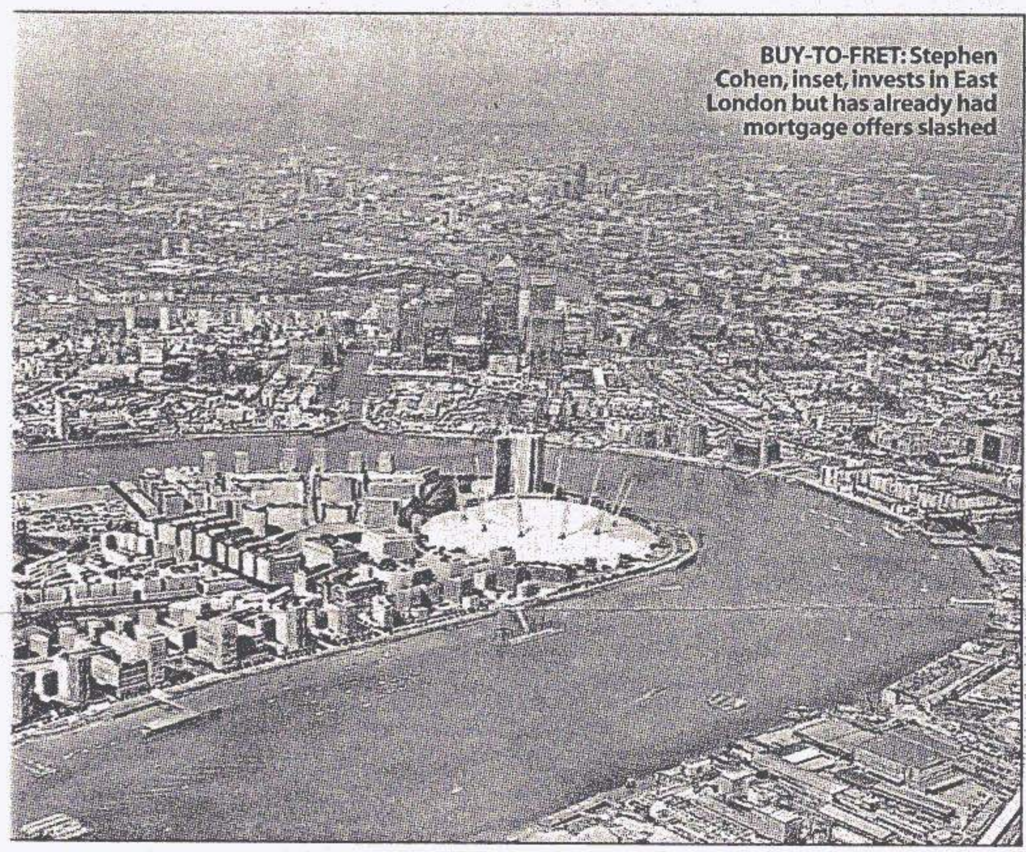
the capital are already falling as the banking turmoil takes its toll



BUY-TO-FRET: Stephen Cohen, inset, invests in East London but has already had mortgage offers slashed

:. I think the market is going to iate and next year will be the to buy again. The worst thing d be if there was a buy-to-let us that floods the market and s prices plummeting.'

ne vendors have already cut :s – steeply in some cases. The ite www.propertysnake.co.uk, h scans property websites for reductions, has picked up dramatic falls.

wo-bedroom penthouse apart- t in a new development in vell Hill, North London, mar- l in May for £625,000, is now g advertised by Foxtons for ,950. A six-bedroom house ing's Avenue, Balham, South ion, put on the market for 5,000 in June, was slashed to 5,000 in August and is now for hrough Foxtons for £1,295,000. nptons has cut the price of a)sq ft house in a waterfront ion on Riverside, Twickenham, London, from £1,195,000 in to £1million.

se price falls and last week's it crunch have scared off rtising executive Dee Desai, who was preparing to make a o-let investment in order to get hold on the property ladder.

:, who lives with her parents in ow, North London, had her eye 230,000 two-bedroom house in ield, Hertfordshire, which she hoped to rent out to students. Now those plans are on hold.

'I'm just worried by the instability of the market, with everything that is going on with Northern Rock,' she says. 'And I'm hoping property prices will come down and the buy-to-let mortgage interest rates will stabilise.'

The problem for the London housing market is how to sustain high prices when buyers, used to cheap and easy loans, can no longer find banks and building societies willing to lend them nearly so much as they were only a week ago.

Northern Rock was prepared to lend its customers up to 5.8 times their salaries – allowing a buyer on a salary of £25,000 to borrow £145,000. Last week, the mortgage calculator on its website offered the same buyer a more modest loan of £90,000. Repeated across the mortgage sector, the pool of buyers able to afford flats at £150,000 is going to be dramatically smaller.

According to Richard Donnell, of Hometrack, the market is flatter than the indices suggest. 'Many people can't achieve the price for their property that they would have done a few months ago. But they don't have to sell.

'They are sitting on their properties, and thus nothing shows up in the figures.' What is driving asking prices down, he says, is the lengthening time properties are on the market – three-and-a-half weeks in August, compared with two-and-a-half weeks in May – and the lower offers being made. In the spring, London properties were selling for 97.3 per cent of their asking price. That is now 95.5 per cent.

> 'First-time buyers should wait, then buy bargains from distressed sellers...'

The run on Northern Rock has come as no surprise to Fred Harrison of the think tank The Land Research Trust. In 2005 he published a book, Boom Bust: House Prices, Banking And The Depression of 2010, which argued that the market is driven by an underlying 18-year cycle in land prices.

The speculative boom in property, he predicted, would peter out towards the end of 2007 or the beginning of 2008. The market will now start to go down at an increasing rate,' he says.

'Over the winter, sellers will be reluctant to sell and no one will want to buy. I now think they will go down 30 per cent. First-time buyers should wait for two years then pick up bargains from distressed sellers.'

Not everyone is so downbeat. 'I have just had an investment buyer withdraw from buying a two-bedroom £675,000 flat,' says Phil Tennant, of Hamptons in Chelsea. 'She told me she was going to put the deposit into Northern Rock shares instead, and will be back in a fortnight to buy a property – but with a much larger deposit.'

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