House prices in England and Wales rose to a record in May as government measures to ease credit strains improved the availability of mortgages.

The average cost of a home rose 0.4 percent from April to 233,061 pounds ($365,000), Acadametrics and LSL Property Services Plc (LSL) said in a monthly report published in London today. Prices were up 2.7 percent from a year earlier.

The government has offered assistance to prospective home buyers and cheap finance to banks to aid the property market. Critics of the latest initiative, designed to help people struggling to raise a deposit, say the plan risks fueling another property bubble.

Government efforts “have acted like a steroid injection for the mortgage market and made it markedly stronger than last year,” David Brown, commercial director of LSL Property Services, said in the report. “The only real solution is a sustained improvement in the wider economy which will help increase the supply of mortgage finance and improve demand for it.”

Seven of the 10 regions tracked by Acadametrics showed an average annual increase over the last three months, led by a 10.1 percent pickup in London. Wales had the biggest drop of three regions showing declines, at 1.3 percent. The average price was 151,821 pounds, down 10.8 percent from a peak reached in October 2007.

North/South Divide

A “North/South” divide in property prices persisted as foreign purchasers continue to be drawn to London while other parts of the country suffer from government spending cuts, the report said.

“The red hot London market is giving the property market as a whole a deceptively healthy glow,” Brown said.

Chancellor of the Exchequer George Osborne and Bank of England Governor Mervyn King last year announced a Funding for Lending plan to give banks that improve lending cheap access to finance. Data so far show that net lending still hasn’t turned positive, though some mortgage rates have dropped.

“More needs to be achieved to help banks lend to new buyers, as a strong improvement in first-time buyer lending is the crucial catalyst for a full market recovery,” Brown said.

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