Group Economics

Ulster Bank

Will Northern Ireland's housing market make front page headlines for the right reasons in 2014?

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Over the last six-and-a-half years, Northern Ireland's residential property market has largely been surrounded by gloomy news. The front pages of our newspapers were adorned with headlines of house price falls. However, if ever there was an example illustrating that things cannot keep falling for ever it is within the housing market. Last month saw a return of the front page house price headlines only this time the focus was on house price growth not declines.

2013 can be viewed as the year that Northern Ireland's housing market bottomed-out, in terms of prices. In fact, when DFP's Residential Property Price Index for Q4 is released later this month, I expect the 2013 figures to reveal a marginal year-on-year increase.

This year represents the first year that I have forecasted house price growth since joining Ulster Bank in spring 2007. I expect Northern Ireland house prices to rise by around 5% on average in 2014. However, this figure will conceal geographical variations in performance. The Greater Belfast area, where higher-waged employment is concentrated, is likely to fare better than elsewhere.

From an economy perspective, rising transactions are desired rather than rising prices. Whilst house prices only hit their lows at the start of last year, the trough in residential property transactions occurred in mid-2009. During the four quarters to Q2 2009 the number of residential property transactions hit a low of 9,388. This represented a 77% fall relative to the pre-downturn peak *(four quarters to Q1 2007)*. Since then, residential property transactions have increased by almost 60% to 14,919. However, this still remains 64% below the pre-downturn high of 41,442 transactions. Clearly the latter represented an abnormal high with the 2005 level, total of around 29,000, a more realistic indicator of pre-boom transaction levels. A pick-up in the pace of residential property transactions is expected as households adapt to the reality that house prices have stopped falling. As a result, Northern Ireland should see transactions push towards the 20,000 mark within the next 2 years.

Within the mortgage market a two-speed recovery is apparent with the first-time buyer (FTB) segment driving the overall recovery. As of Q3 2013, FTB mortgage activity had rebounded over 90% from its recent lows but remain 40% below 2006 levels. Furthermore, the FTB market now accounts for 59% of the overall mortgage market – its highest share since 2001. Conversely, the 'home-mover' market has only experienced a marginal recovery from its post-downturn lows with mortgage activity in this segment 79% below 2006 levels and at levels comparable with 1974.

The fact that first-time buyers are largely moving into new builds has failed to provide a much needed stimulus for the second hand market. Negative equity, and low levels of equity, is a barrier to getting this market moving. Recently, however, negative equity mortgages have been introduced in the Republic of Ireland to deal with this problem. This is something we may see more of in Northern Ireland in the coming months.

The level of housing building appears to be increasing but remains at historically low levels. Granted 2013 is expected to be the second successive year that house completions have increased. However, these rises are largely due to the completion of a backlog of unfinished stock rather than the completion of recent housing starts. Even with this caveat, the number of housing units completed last year is less than half the number built in 2006. Northern Ireland is not currently building enough homes and this has the potential to store up social and economic problems in the future.

Addressing this house building deficit, which is supporting house price growth in the short-term, is a key challenge going forward. In particular, one housing issue that will develop further in 2014 will be the issue of finance for house builders. Watch-out for *'Help to Supply'* initiatives to rival *'Help to Buy'* schemes. The former is arguably much more important than the latter.

Perhaps one of the more startling news headlines in recent weeks concerned the number of 20-34 year olds living with their parents. These are the first-time buyers and renters of today and tomorrow. Despite house prices falling by over 50% relative to 2007 levels and improving headline affordability, a combination of factors such as youth unemployment, underemployment and student debt have made it more difficult for the younger generation to afford their own home, whether rented or bought. Some 36% of young adults (20-34 years of age), or 131,000 individuals, in Northern Ireland still live with their parents. This is almost one third higher, or an additional 32,000 individuals, relative to 10 years ago. Northern Ireland has the highest proportion of its young adults living with their parents within the UK with the national average 25%. Historically, however, this has always been the case. Back in 1996-1998, long before Northern Ireland's housing boom, the proportion of young adults living with their parents stood at one in three as opposed to one in five for the UK.

2014 is destined to be the local housing market's best year since 2007 with steady improvement expected in terms of house building and transactions. From an economy perspective, rising transactions are desired rather than rising prices. Although a double-digit increase in transactions and housing starts is unlikely to make front page headlines it is what the economy needs to see and hear.

Richard Ramsey,
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