

# Housing recovery in train, but lost generation left behind

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We all remember our grandparents recounting tales of major events from days gone by. In the years to come, Northern Ireland's great housing market boom and bust could well feature in our own repertoire. But one suspects that our grandchildren may think us prone to exaggeration.

No other region of the UK has ever experienced anything like the price rises and falls that Northern Ireland encountered between 2005 and 2013. House prices doubled in just two-and-a-half years before falling over 41% in the subsequent three and finally bottoming out five-and-a-half years later, some 57% below 2007's peak. Transaction levels went on an equally big-dipper-esque journey.

The public and media focus throughout this period more often than not was on house prices, with the accompanying narrative suggesting that house price rises equal 'good' and house price declines equal 'bad'. However, the boom and bust in transactions and house building is arguably economically more important, and worth a look at in more detail too.

As far as prices are concerned, Northern Ireland's housing market has experienced a lost decade, with average prices currently 1% below where they were at the start of 2005. This implies a lack of equity or negative equity for many home-owners who bought between 2006 and 2009.

However, a recovery has been underway for the best part of two years. The reason for looking at this now is the raft of housing market data released last month which highlighted that a recovery in some aspects remains in train. However, in other areas, notably house building, the prospect of a second lost decade looms large. Furthermore, there are other social issues linked to housing that will be felt for even longer than 20 years. This includes a lost generation of house buyers who will be unable to fulfil the home-owning dream of their parents.

In terms of prices, last month's Northern Ireland Residential Property Price Index (RPPI) Q4 2014 posted its seventh successive quarterly rise, with the average residential property price in Q4 now 8% higher than the corresponding period in 2013. To date, Northern Ireland's residential property prices have increased by 13% from their Q1 2013 low, with Belfast prices up 18% over the same period.

Despite this growth, residential property prices for both Belfast and Northern Ireland as a whole are still 51% below Q3 2007's 'freak peak'. As a result, Northern Ireland has recouped just one tenth of the house price falls that occurred during the downturn. Meanwhile, Belfast prices have regained 15% of their peak-to-trough decline (59%).

Increasing levels of activity, rather than house price growth, is a more meaningful indicator of a genuine housing market recovery. Last year Northern Ireland posted its fourth consecutive annual rise in residential property transactions. Last year's 22% increase took overall sales levels above 20,000 for the first time since 2007. This represents a 90% rebound from 2010's low, but is still 30% (9,000) below the 'normal' levels that prevailed a decade ago.

The majority of residential property sales involve a mortgage with cash sales making up the remainder. Last year saw 13,000 mortgages advanced in Northern Ireland which represented an annual increase of 30% but is still less than half of the level that prevailed in 2006 (27,000).

In broad terms, the first-time buyer market has experienced a much stronger recovery than the home-mover market with the former accounting for almost 60% of all activity. Last year the number of first-time buyer mortgages hit an eight-year high of 7,500. This represents an increase of a quarter on the previous year and was close to three times the low recorded in 2008 which followed seven successive years of decline. The FTB peak of 18,300 mortgages in 2001 predated the arrival of the buy-to-let investor.

Whilst the increase in mortgage activity is encouraging, the same cannot be said for the house building sector. In 2013, housing starts fell below the 5,000 mark for the first time in over 35 years and compared with over 15,000 in 2006. There are signs of a modest improvement in 2014 however; figures will not be available until May 2015 due to the introduction of a new methodology to accurately measure starts and completions.

It is worth noting that Northern Ireland's stated need for housing is 11,000 units per year. Since 2008, Northern Ireland has been undershooting this target, with the house building sector experiencing its own lost decade. This is concerning for two reasons. First, the undersupply will push up house prices making them increasingly unaffordable. Second, Northern Ireland's construction industry is not replacing the skills the economy needs for the future. For instance, the number of apprentice electricians fell by over 75% in 8 years from 1,600 in 2007 to 380 in 2014. A lost decade of training and underinvestment in skills will impact adversely on the economy's long-run economic growth potential.

There have been seismic social changes linked to housing market performance. It is noted that in England the proportion of 25-34 year olds who own their own home has fallen from nearly two-thirds to just 36% over the last decade. Northern Ireland will likely have experienced something similar. This trend is not surprising, as the younger generations have experienced the steepest falls in earnings and the sharpest rise in unemployment. Older generations may count themselves lucky. However, they will not be unaffected by the economic challenges facing younger generations. Those looking to downsize in years to come may discover that an ageing population and the lost generation of home-buyers means there is less demand from up-sizers.

The talk on most commentators' lips of late has been of a housing market recovery. But ask an economist, and you'll get a slightly different answer: 'yes and no'. House prices are rising, transaction volumes are on the up, but there is a long way to go before the lost generation of home buyers, skills and house building works its way out of the system.

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