

---

# Northern Ireland Housing Market Update

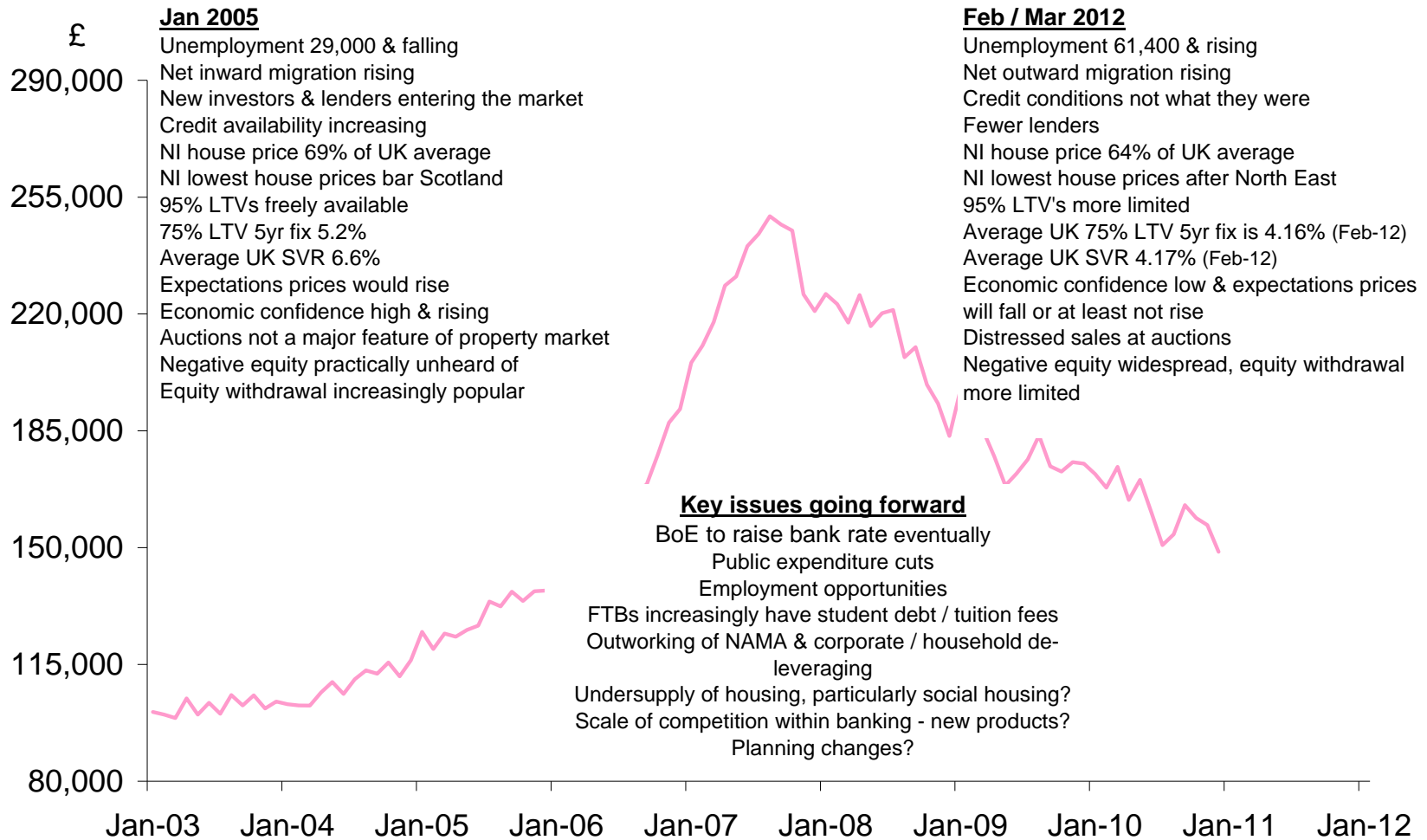
Issued 16 March 2012

*Richard Ramsey*

*Chief Economist Northern Ireland*

*[richard.ramsey@ulsterbankcm.com](mailto:richard.ramsey@ulsterbankcm.com)*

# Summary of Pre & Post boom housing market conditions



# NI Housing Market Summary (1)

---

- ❑ House price surveys are still reporting house price falls for Northern Ireland with 2011 marking the 4<sup>th</sup> successive year of house price declines. Depending on the surveys used, average house prices in NI have fallen by 46-53% peak to trough, but abnormally low transaction numbers are masking the true extent of the re-pricing correction.
- ❑ These surveys are still not accurately reflecting the current market conditions. For example, they do not include auction sales which are seeing peak to trough falls of 70%. Therefore it is not unrealistic to expect a peak to trough house price correction of around 60% to be unveiled eventually.
- ❑ NI's average house prices have returned towards the bottom of the regional house price table. Only the North East of England has lower average house prices than NI.
- ❑ Not only has NI experienced the steepest peak to trough decline of all the UK regions, it is the only UK region yet to experience a house price recovery.
- ❑ Despite NI having the lowest LTVs of any UK region, negative equity is more prevalent (*due to the huge house price falls*) in NI than elsewhere. Indeed, twice as many mortgages advanced since 2005 (*28% of mortgages*) were in negative equity according to a CML study in August 2011.
- ❑ Mortgage activity fell by 12% y/y in 2011 but remains 14% above 2008's 37-year low. Overall, mortgage activity in NI last year (*8,800 loans*) was just over a third of the pre-crisis long-term average and 75% below the peak in 2003 (*35,100*).
- ❑ The value of loans for house purchase has fallen by 75% in real terms in 5 years and remortgages have plummeted by 83% in real terms in 4 years.

## NI Housing Market Summary (2)

---

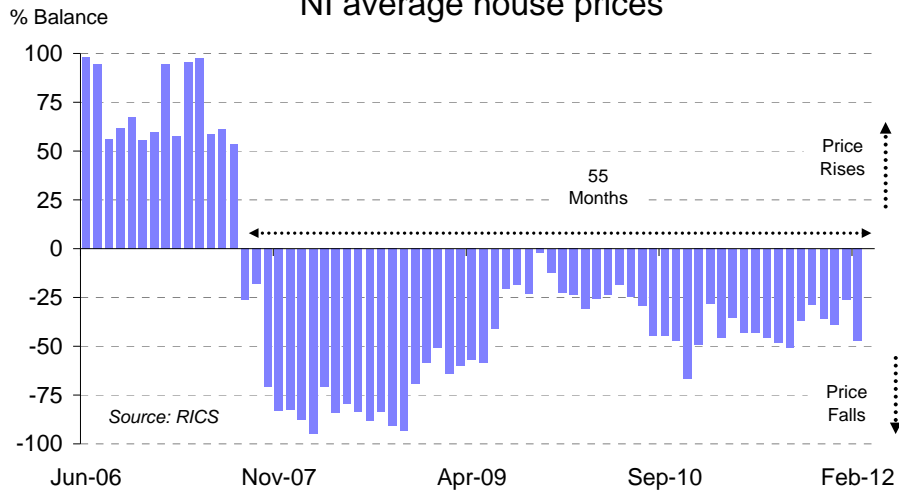
- ❑ The FTB mortgage market posted its third consecutive rise in mortgage completions last year. Meanwhile, the number of *'home movers'* hit a 37-year low. The FTB segment accounted for 56% of the mortgage market last year – its highest share since 2001.
- ❑ In 2010 there were just 8,035 house completions – the lowest outturn since 1994. The corresponding figure for 2011 is estimated at 7,500 – almost 60% below the 2006 peak (18,000). A sixth successive annual decline is anticipated in 2012 as we forecast 6,500-7,000 units. 2013 is set to be something similar.
- ❑ NI is currently building fewer houses per capita than at any time since 1959. At its peak NI was building 10.3 housing units per 1,000 population. This is now down to 3.5.
- ❑ Housing affordability has improved markedly for all house buyers. It is noted that mortgage payments as a percentage of disposable incomes are well below the pre-boom long-term average.
- ❑ Improving mortgage affordability is not all one-way traffic due to tax and benefits changes alongside inflationary pressures.
- ❑ The Bank of England's 'bank rate' (*known as base rate*) remains at its lowest level since 1694 *and* can only go up. The BoE is expected to keep rates on hold into 2014. However, other mortgage rates such as SVRs have been on the rise lately.

---

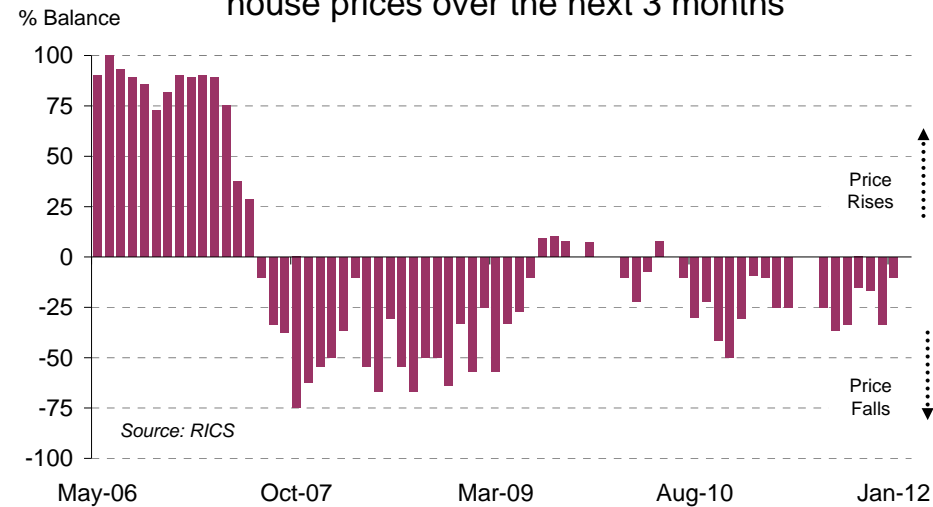
*House Prices  
&  
Performance*

# NI surveyors still reporting house price declines in 3 months to February. Prices expected to remain flat over next 3 months

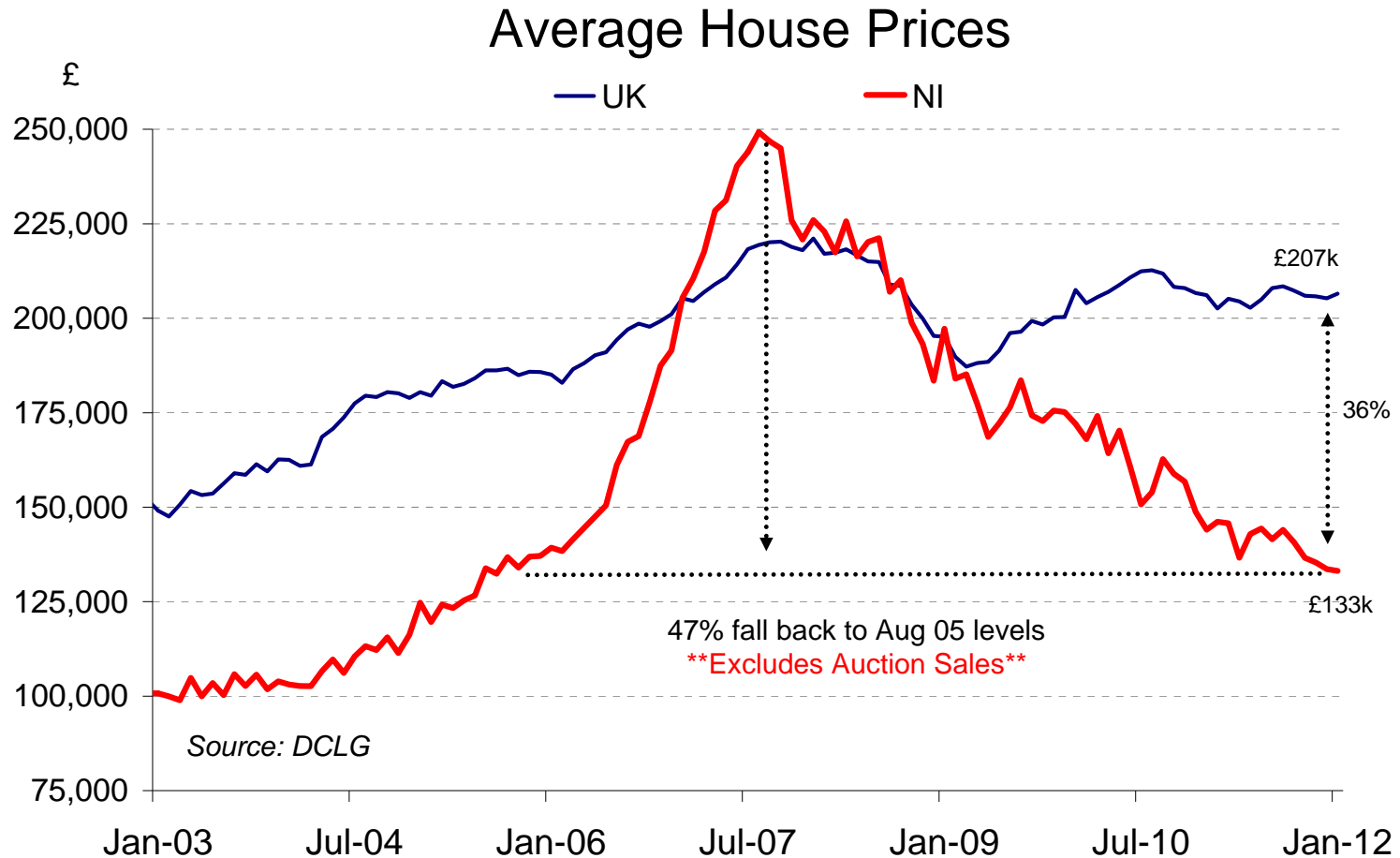
Net balance of surveyors reporting a fall / rise in NI average house prices



Net balance of surveyors' expectations of NI house prices over the next 3 months



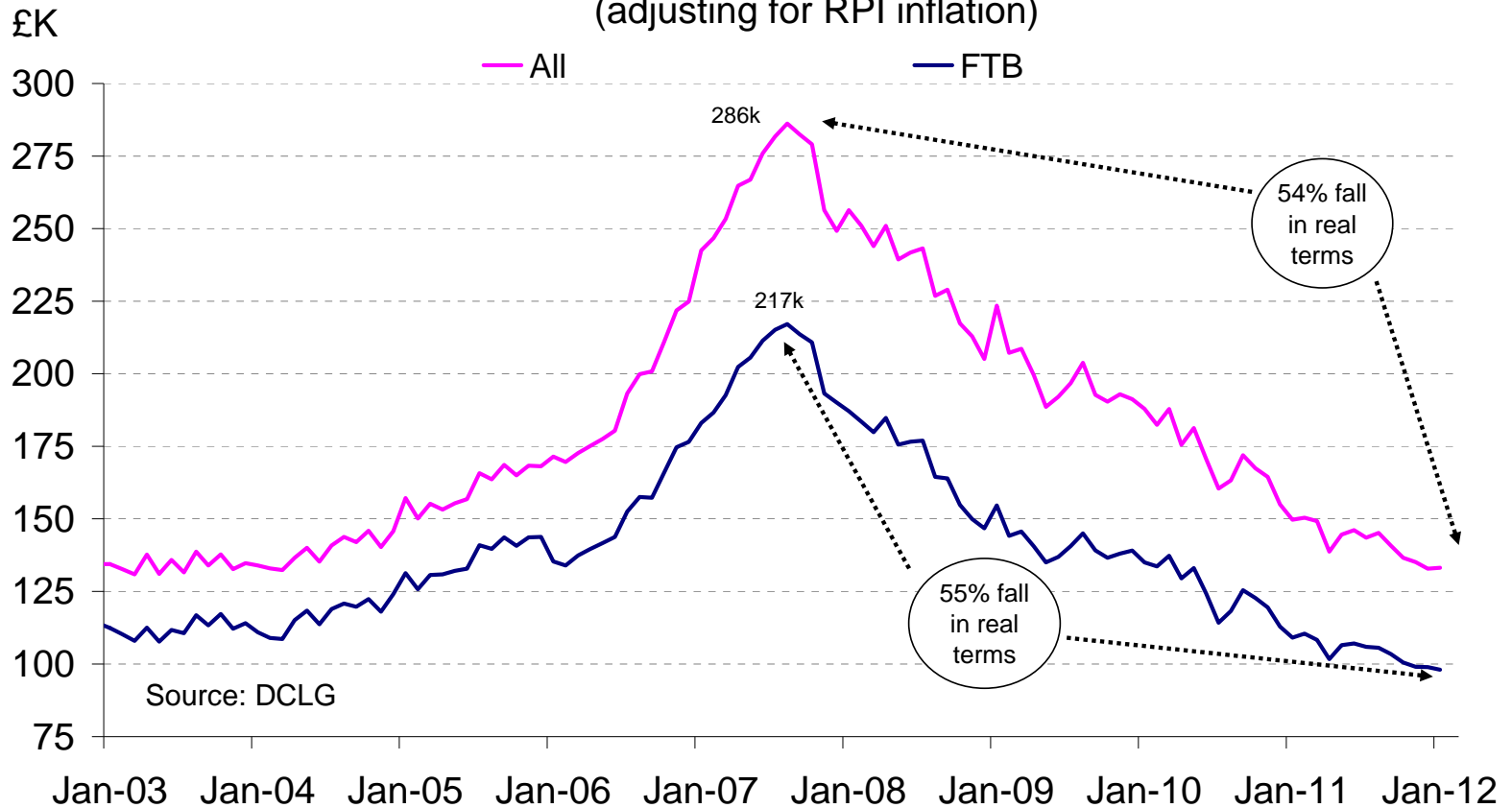
# According to DCLG survey average house prices have fallen 47% from peak but this excludes auction sales



# House price falls in real terms have been even greater

## NI Average House Prices in January 2012 Prices

(adjusting for RPI inflation)

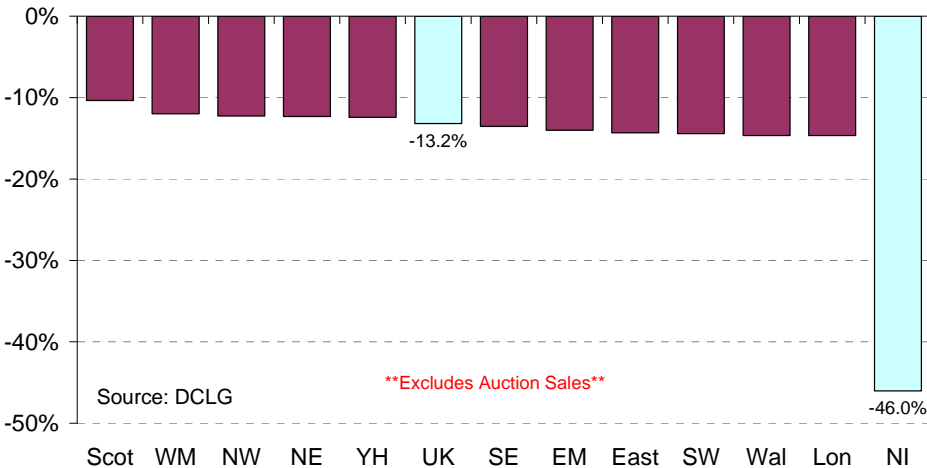




# NI experiences biggest peak to trough decline of all UK regions and remains the only region waiting for a recovery

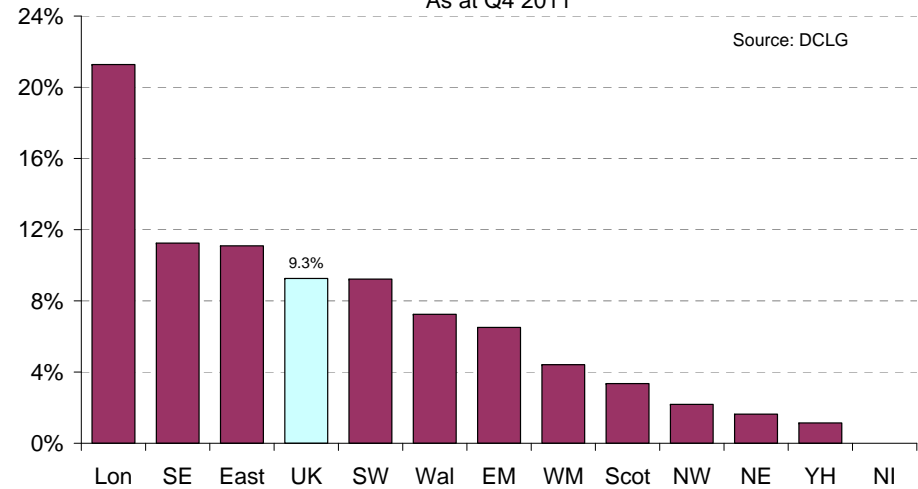
Peak to Trough in UK Regional House Prices

Q4 2011



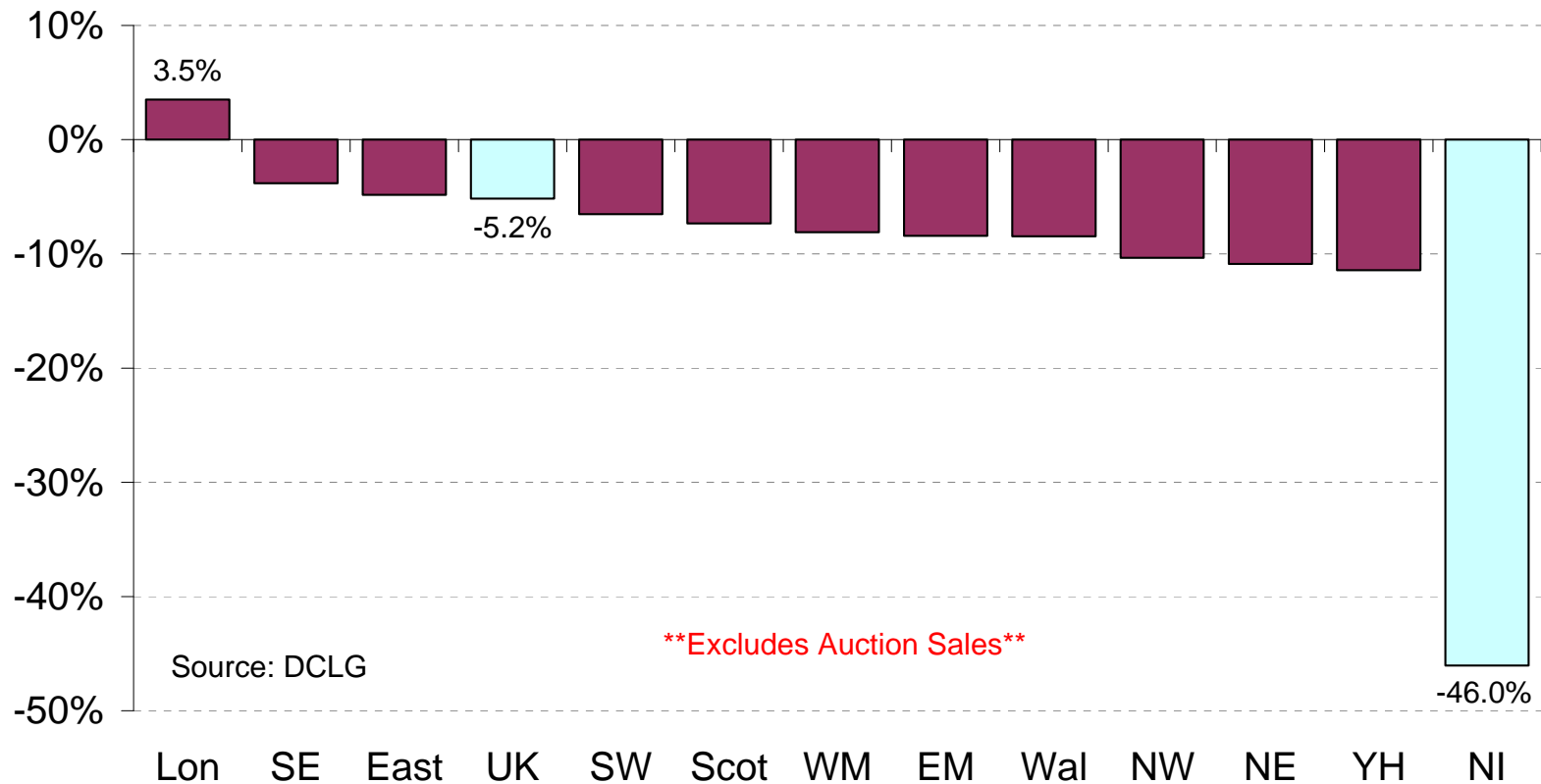
House Price Recovery - % Rise Relative to Trough

As at Q4 2011



The UK has recouped most of its house price falls but this is mainly due to improvements within London & the South East

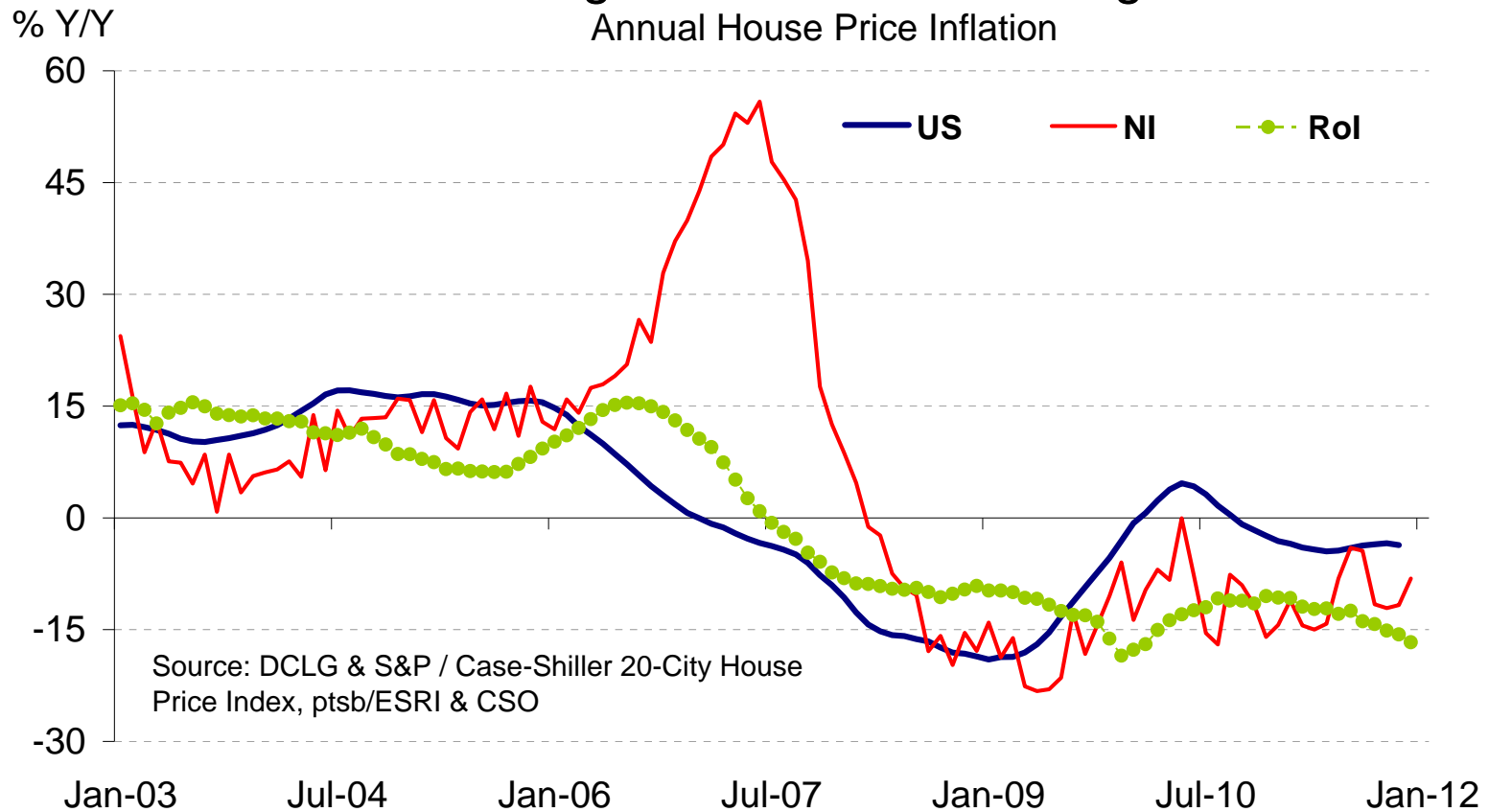
## House Prices Relative to Pre-Downturn Peak Q4 2011



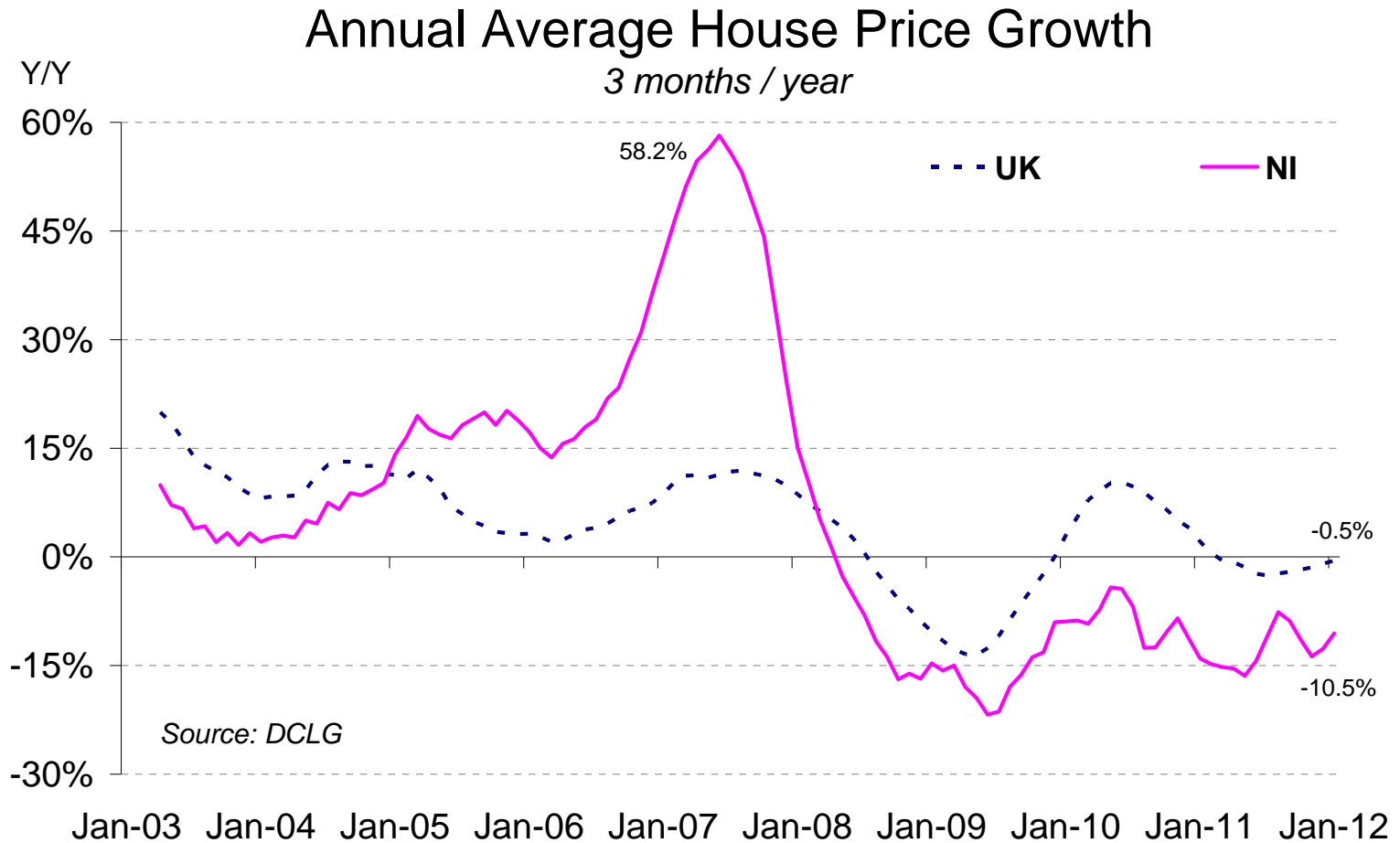
# NI's housing boom & bust has followed a different trajectory to both the US & RoI.....

## Housing boom has been and gone

Annual House Price Inflation



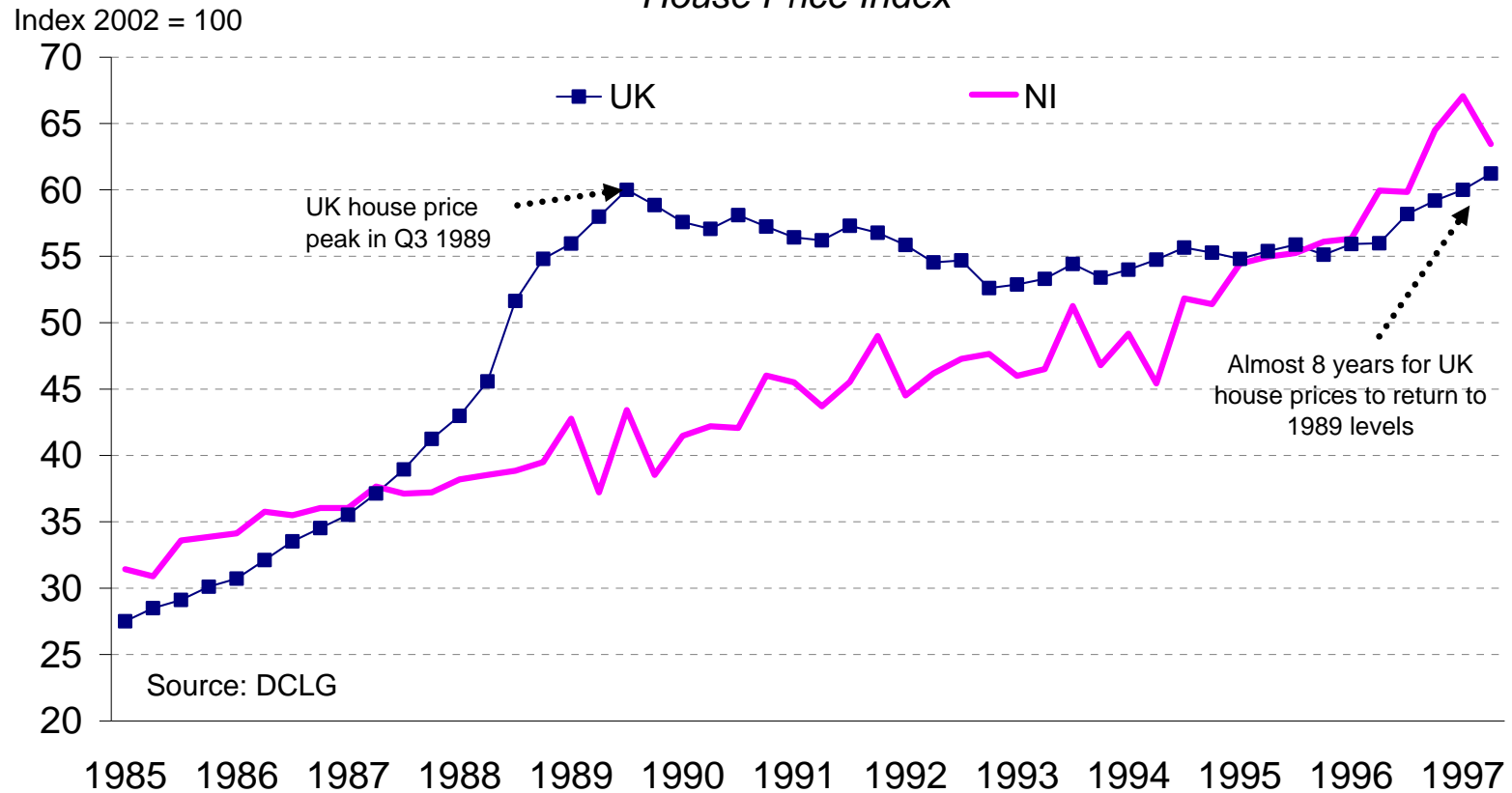
.....and significantly the UK



...but then again NI bucked the national trend during the UK's housing boom & bust of the 1980s & 1990s...

### UK's Boom & Bust of the 1980s & early 1990s

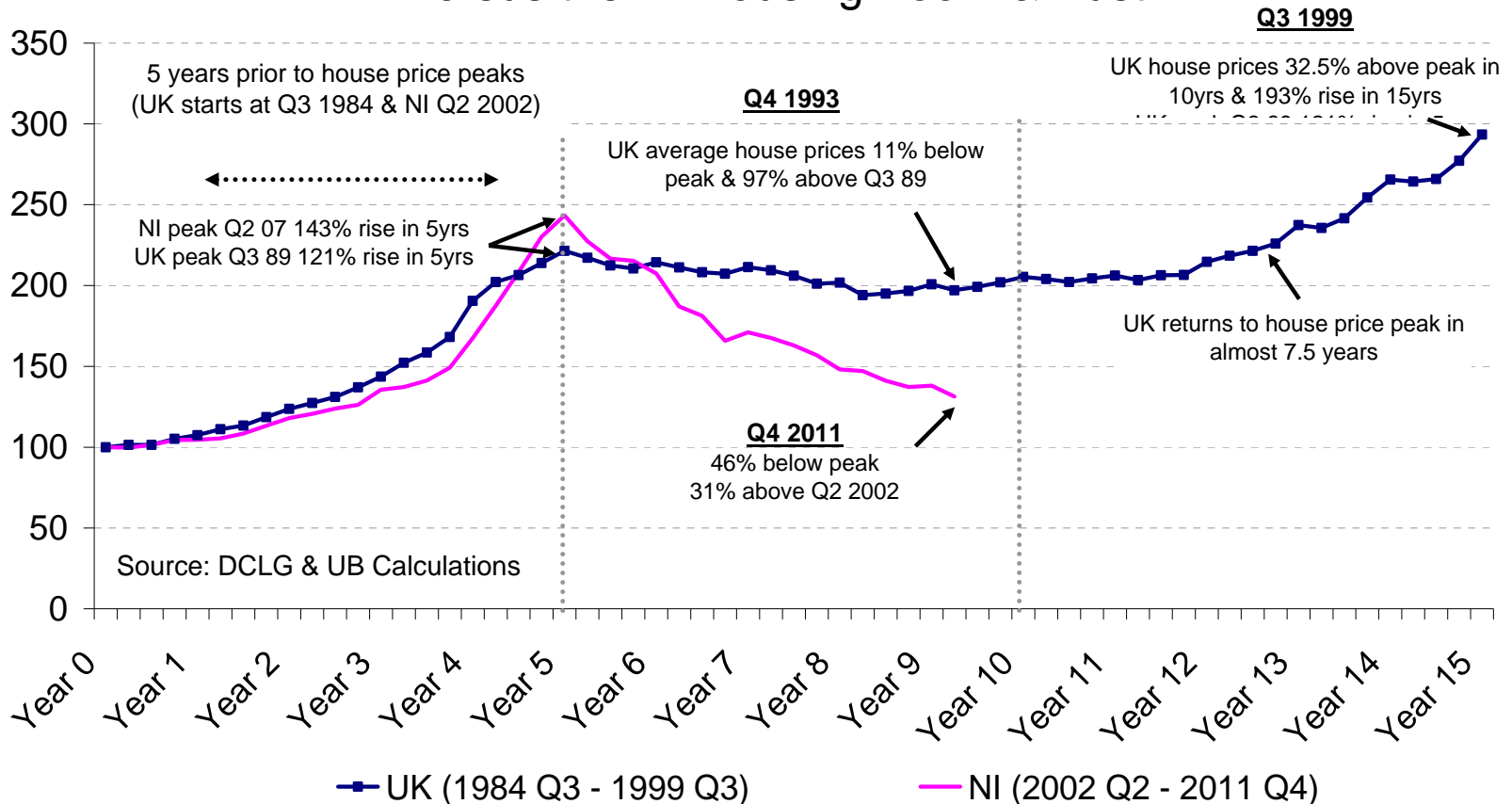
House Price Index



# ...the UK's housing boom & bust of the 1980s & 1990s was mild relative to the NI variety of the noughties

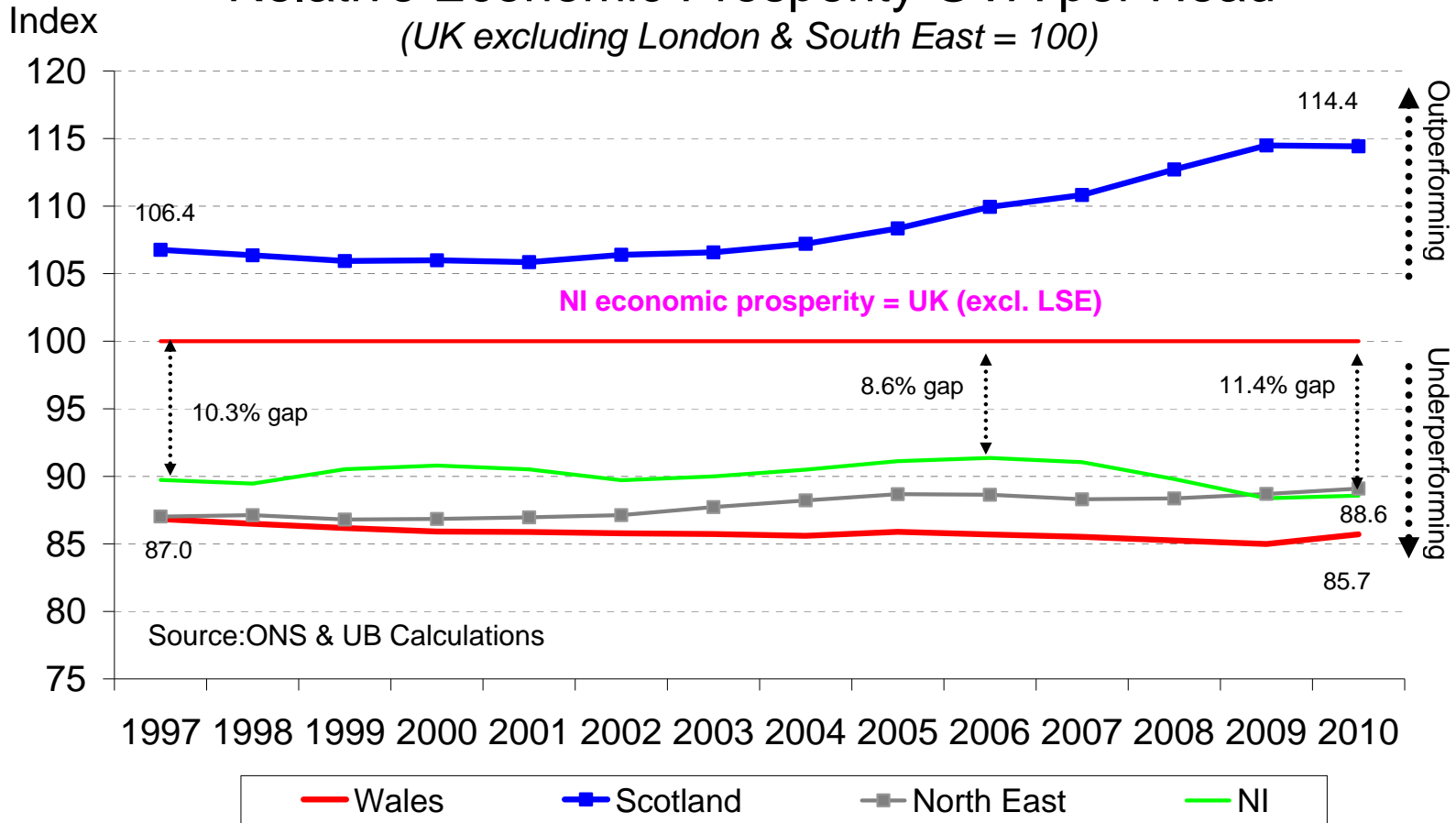
## The UK's Housing Boom, Bust & Recovery (1980s & 1990s) versus the NI Housing Boom & Bust

Index Yr 0 = 100

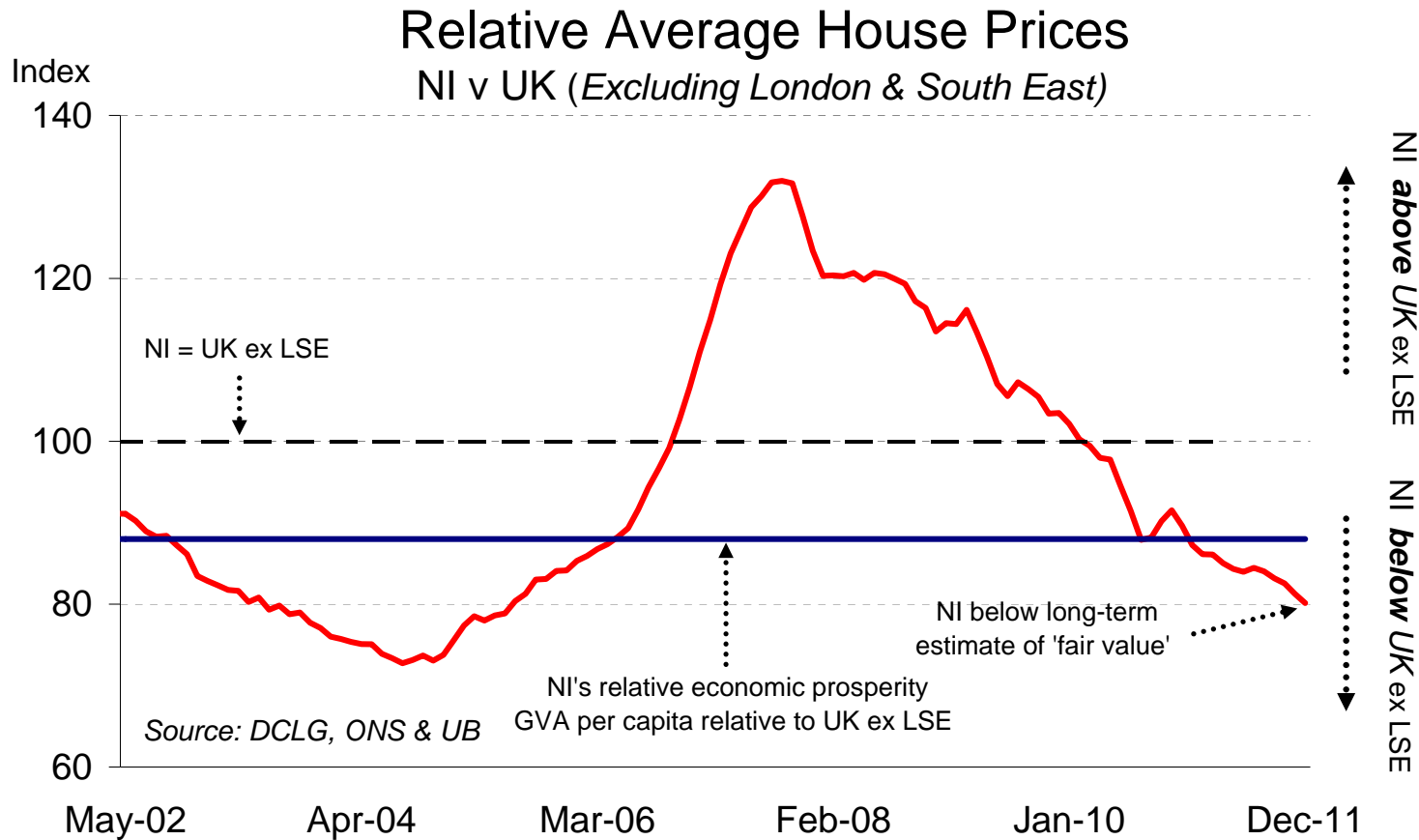


# NI had a housing boom but lacked an economic prosperity boom

## Relative Economic Prosperity GVA per Head (UK excluding London & South East = 100)



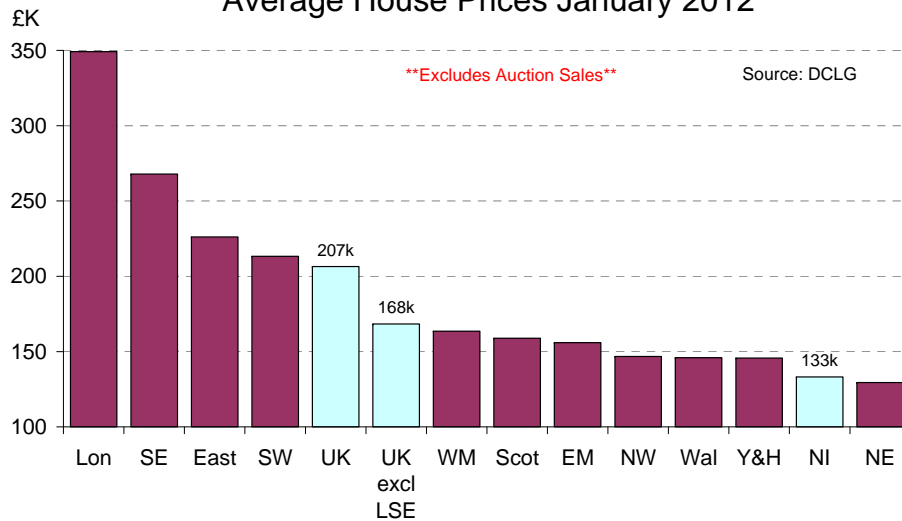
# Longer-term NI's relative house prices will track relative economic prosperity (UK excl. London & the South East)....



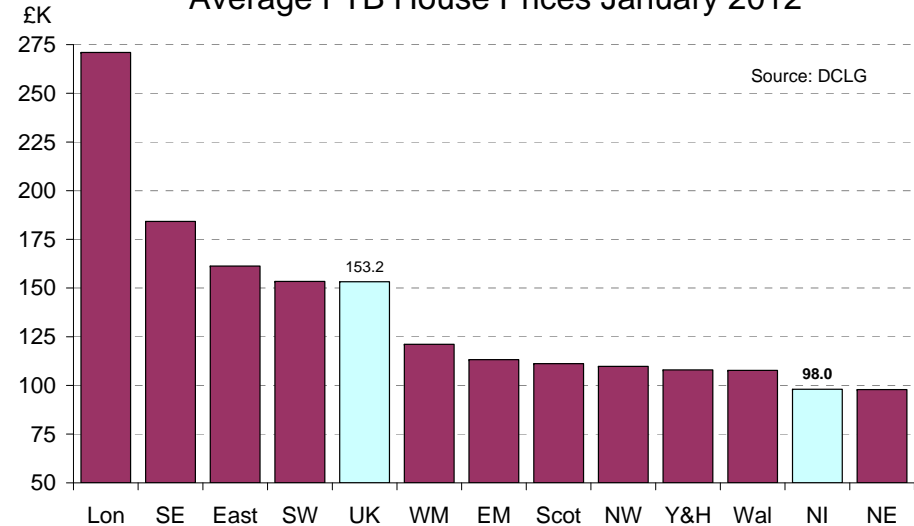


# ...indeed NI has already returned to the bottom of the UK regional house price table....

Average House Prices January 2012



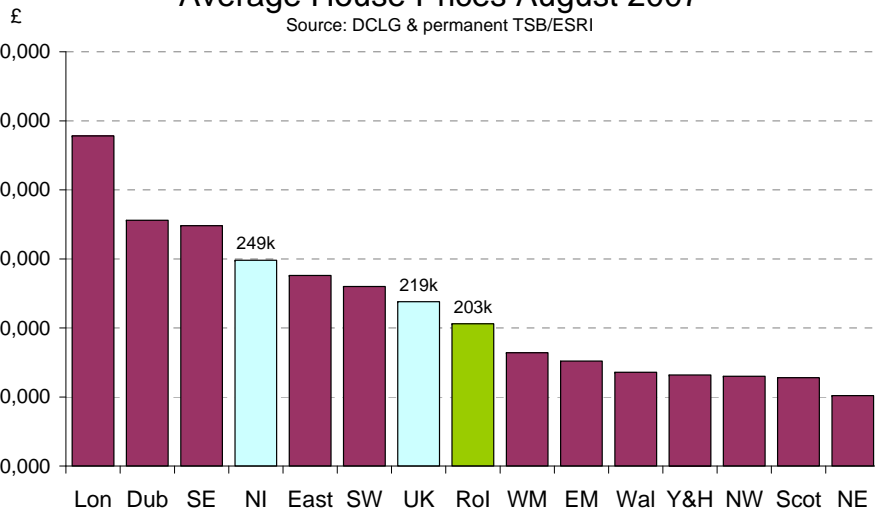
Average FTB House Prices January 2012



# .... a far cry from the halcyon days of 2007

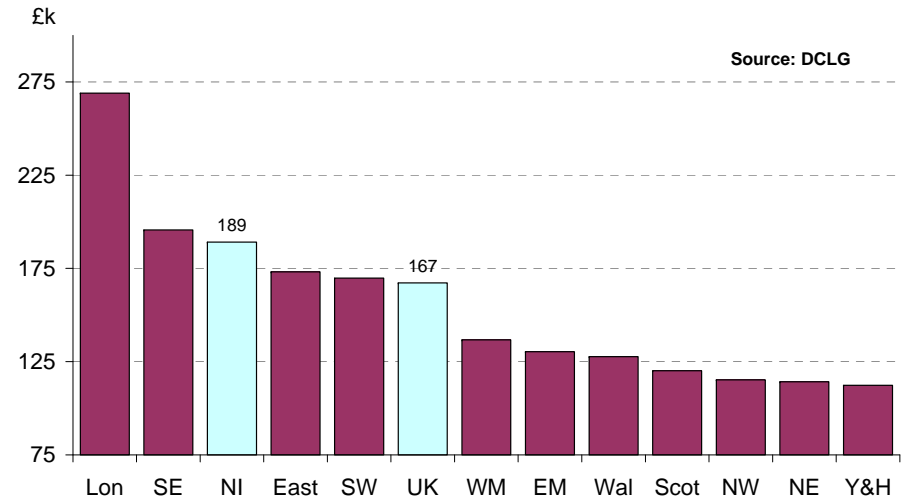
### Average House Prices August 2007

Source: DCLG & permanent TSB/ESRI



### Average FTB House Prices August 2007

Source: DCLG



# Latest House Price Surveys

---

## Average House Prices - All Property Types Q4 2011

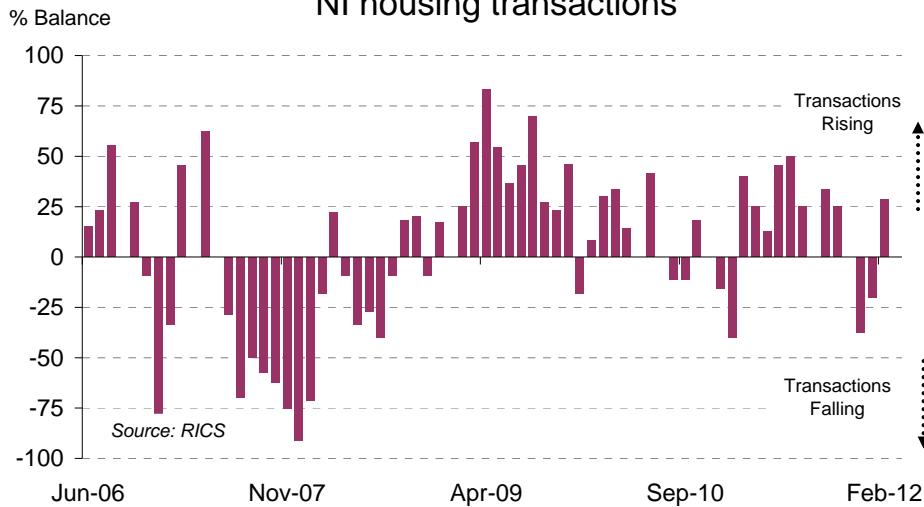
	NI	UK
DCLG	£135,211	£205,675
Nationwide	£113,614	£164,785
Halifax	£107,418	£162,095
University of Ulster / Bank of Ireland	£137,219	-
NHBC ( <i>new house sales only</i> )	£142,000	£189,000*
* refers to GB, Auction sales are not included in the above surveys		

---

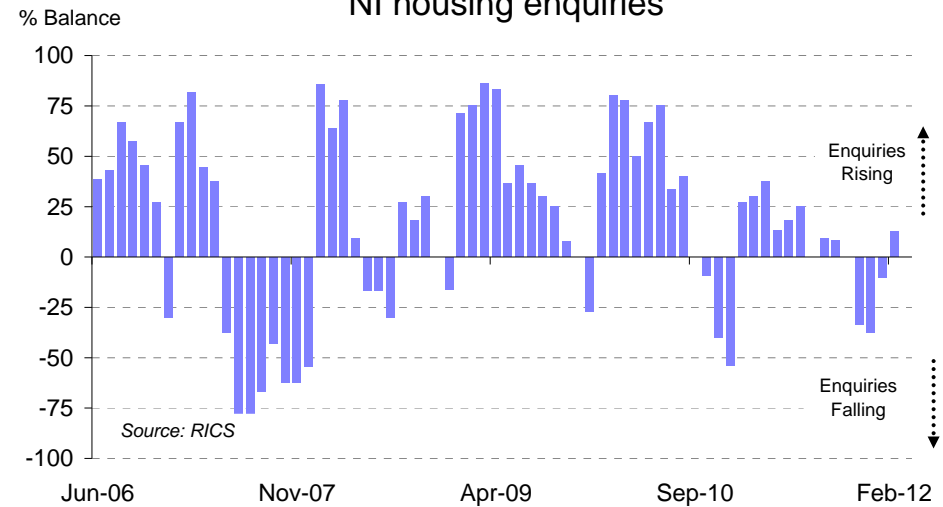
*Mortgage Activity /  
Housing  
Transactions*

# RICS surveyors reporting a pick-up in transactions & enquiries in February 2012 reflecting Spring market

Net balance of surveyors reporting a fall / rise in NI housing transactions

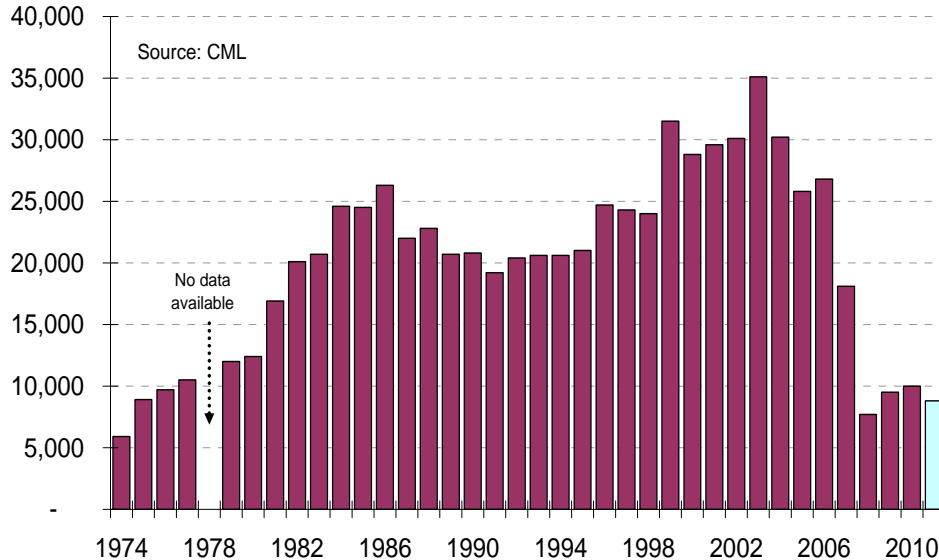


Net balance of surveyors reporting a fall / rise in NI housing enquiries



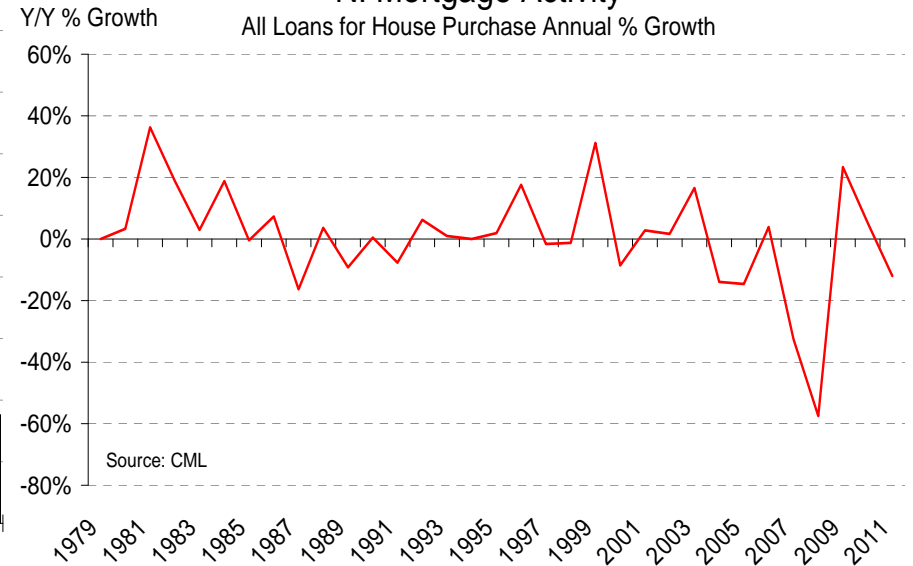
# NI mortgages for house purchase fell by 12% in 2011 but still above 2008 low...

NI Mortgage Activity  
All Loans for House Purchase



NI Mortgage Activity

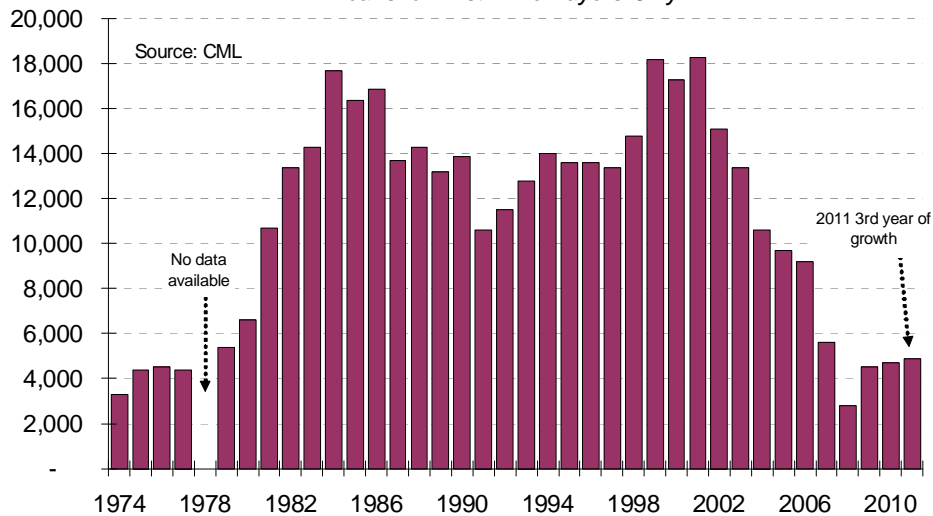
All Loans for House Purchase Annual % Growth



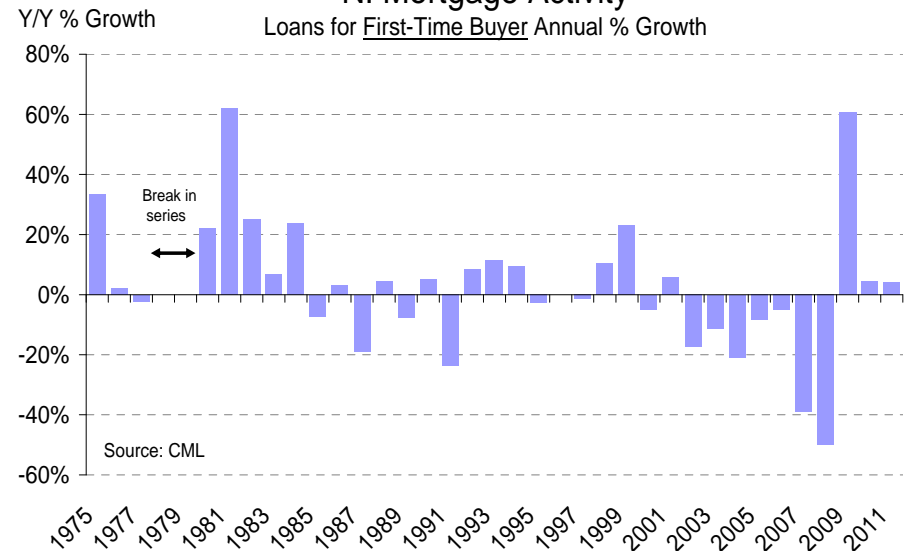
# ...but first-time buyer market posts 3rd year of growth...

### Northern Ireland Mortgage Activity

*Loans for First-Time Buyers Only*

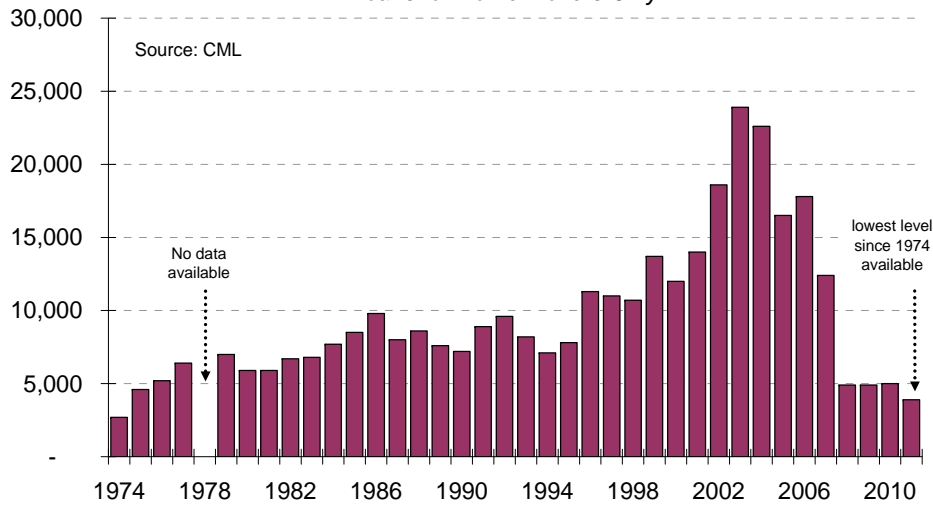


### NI Mortgage Activity

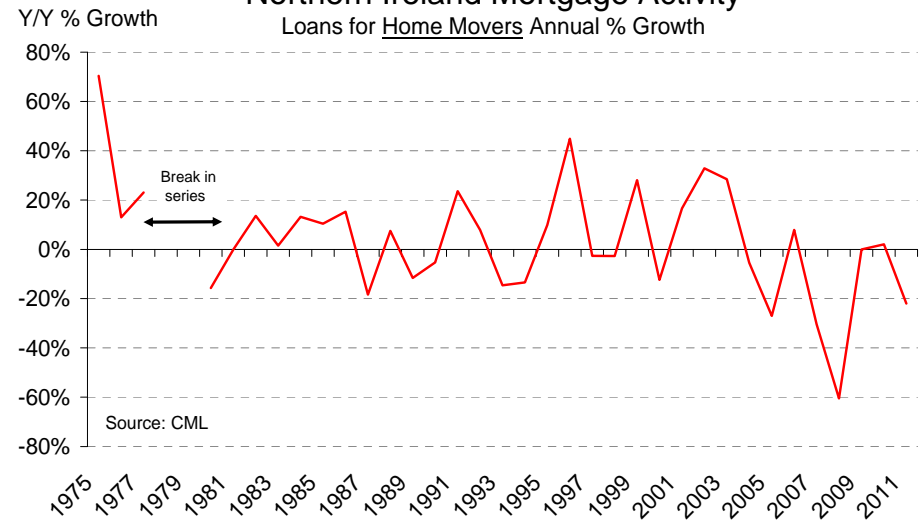


...while second hand market ('Home Movers') experiencing weakest activity since 1974...

**NI Mortgage Activity**  
Loans for Home Movers Only

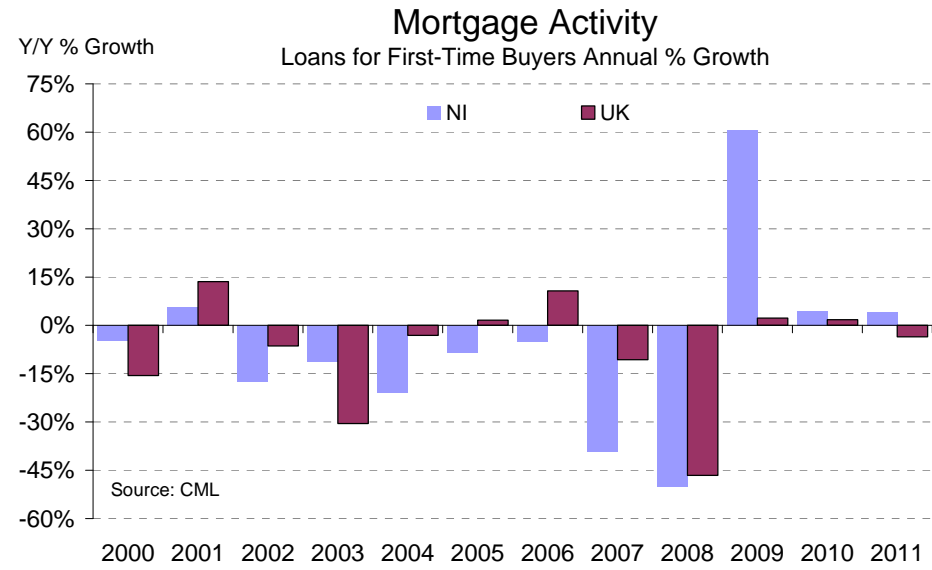
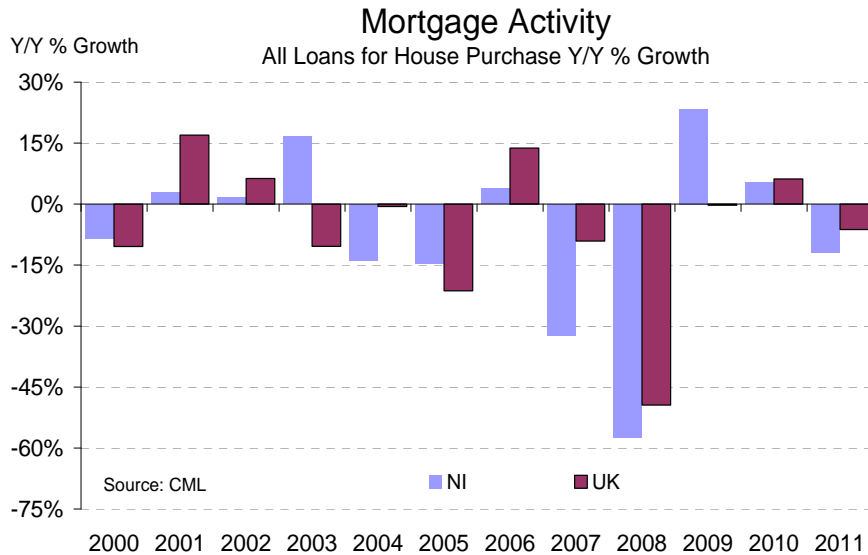


**Northern Ireland Mortgage Activity**  
Loans for Home Movers Annual % Growth



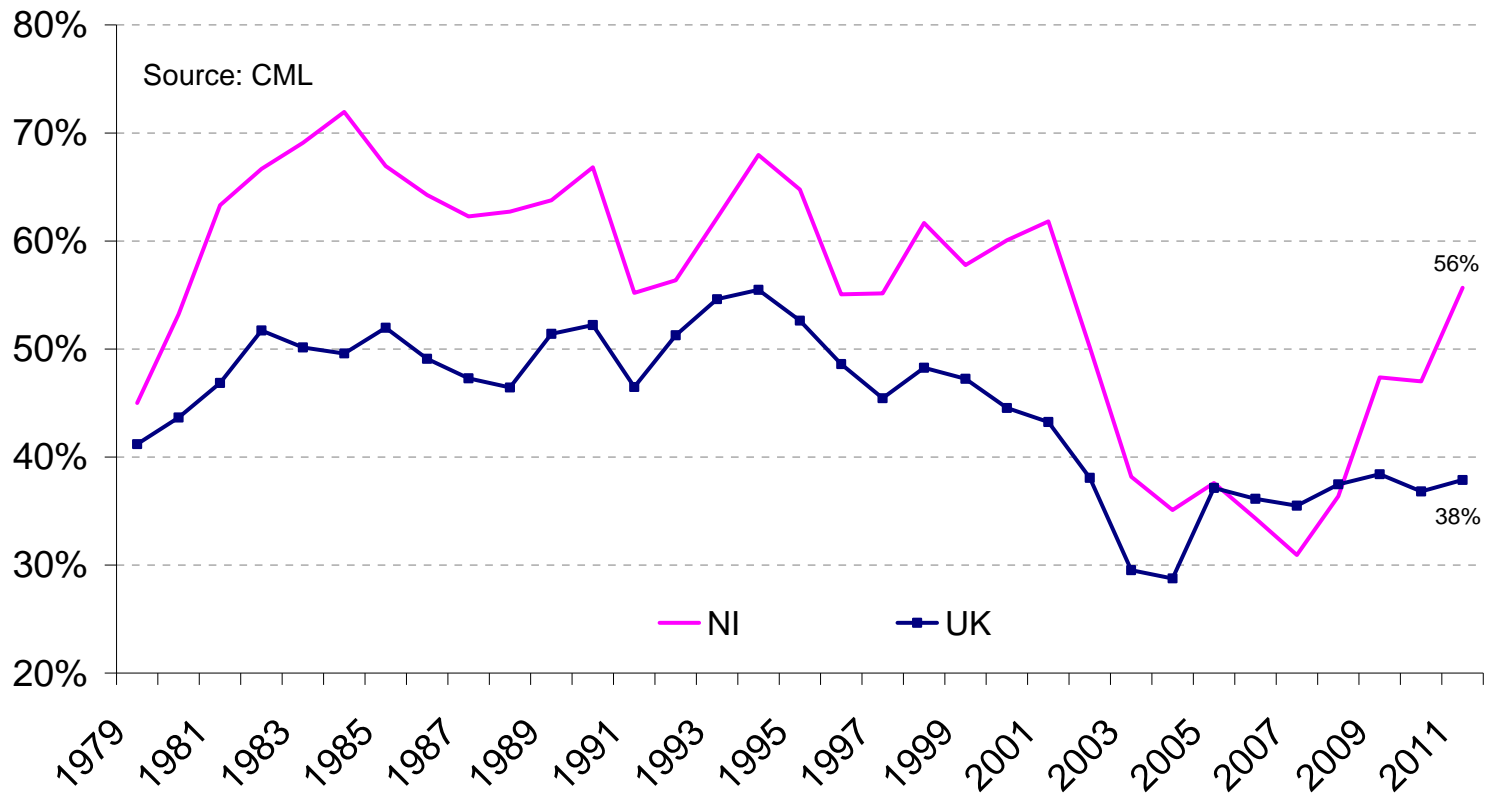


# ...NI outperformed the UK in terms of FTB mortgage growth but not for the mortgage market as a whole...



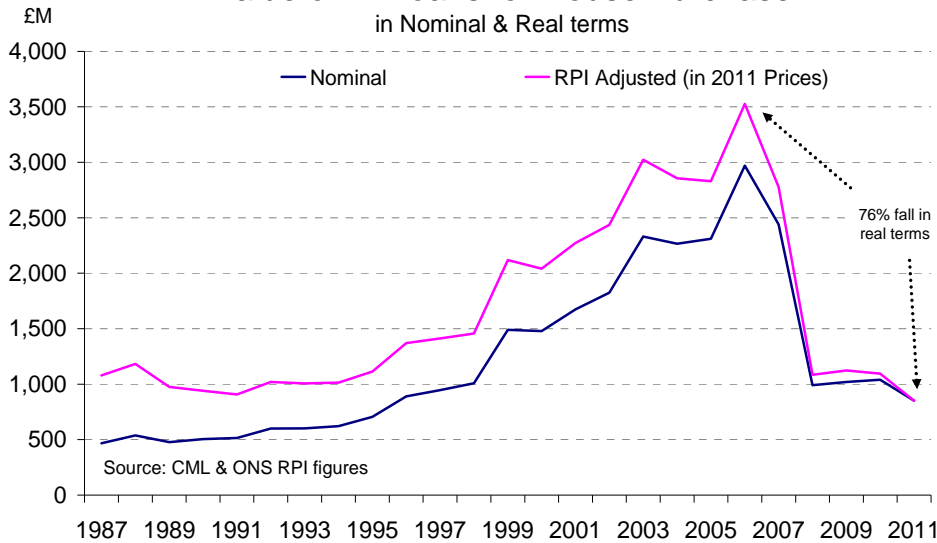
**...with the FTB market accounting for over half of all NI mortgage activity in 2011 – its highest share since 2001**

## First-Time Buyer Share of the Mortgage Market

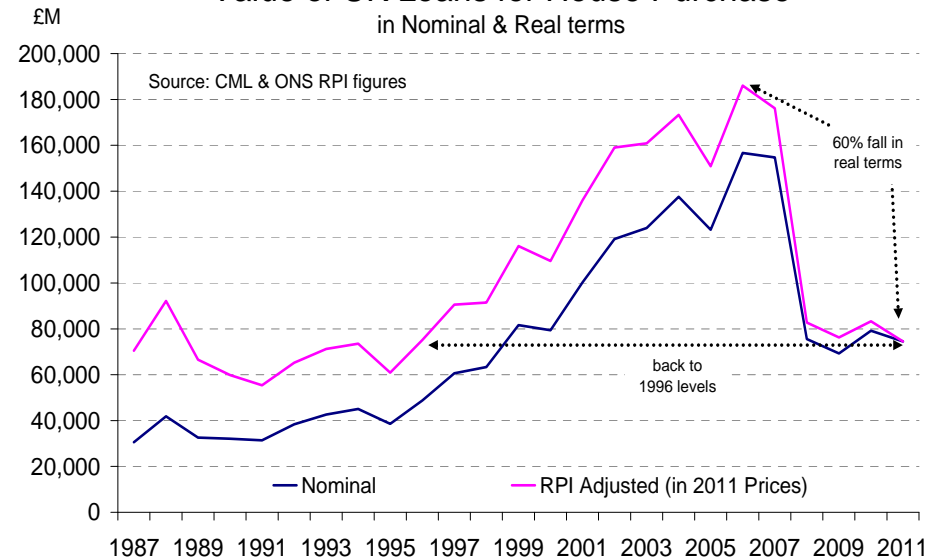


# The value (£m) of NI mortgages is at its lowest level in real terms in at least 25 years...

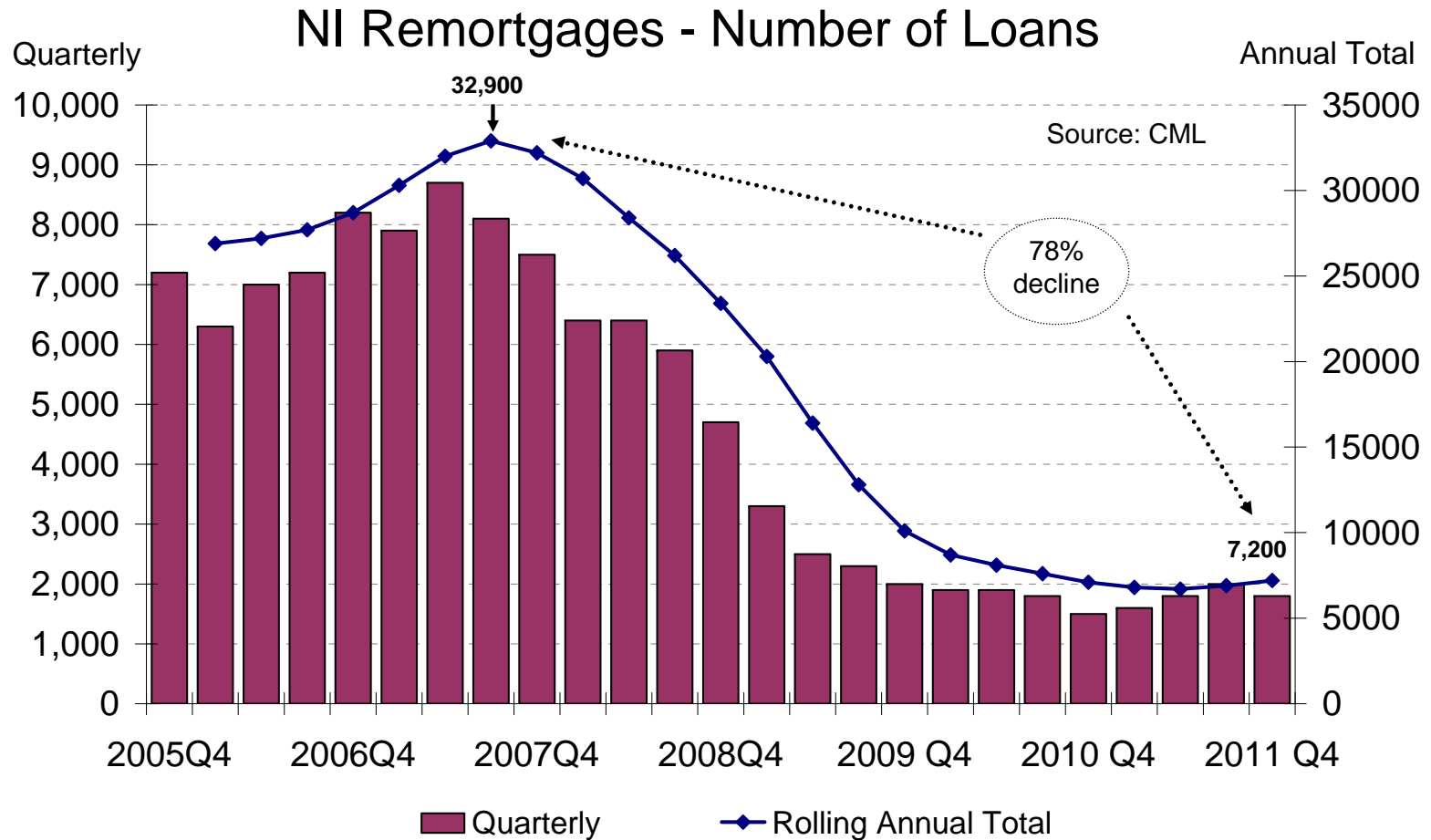
### Value of NI Loans for House Purchase in Nominal & Real terms



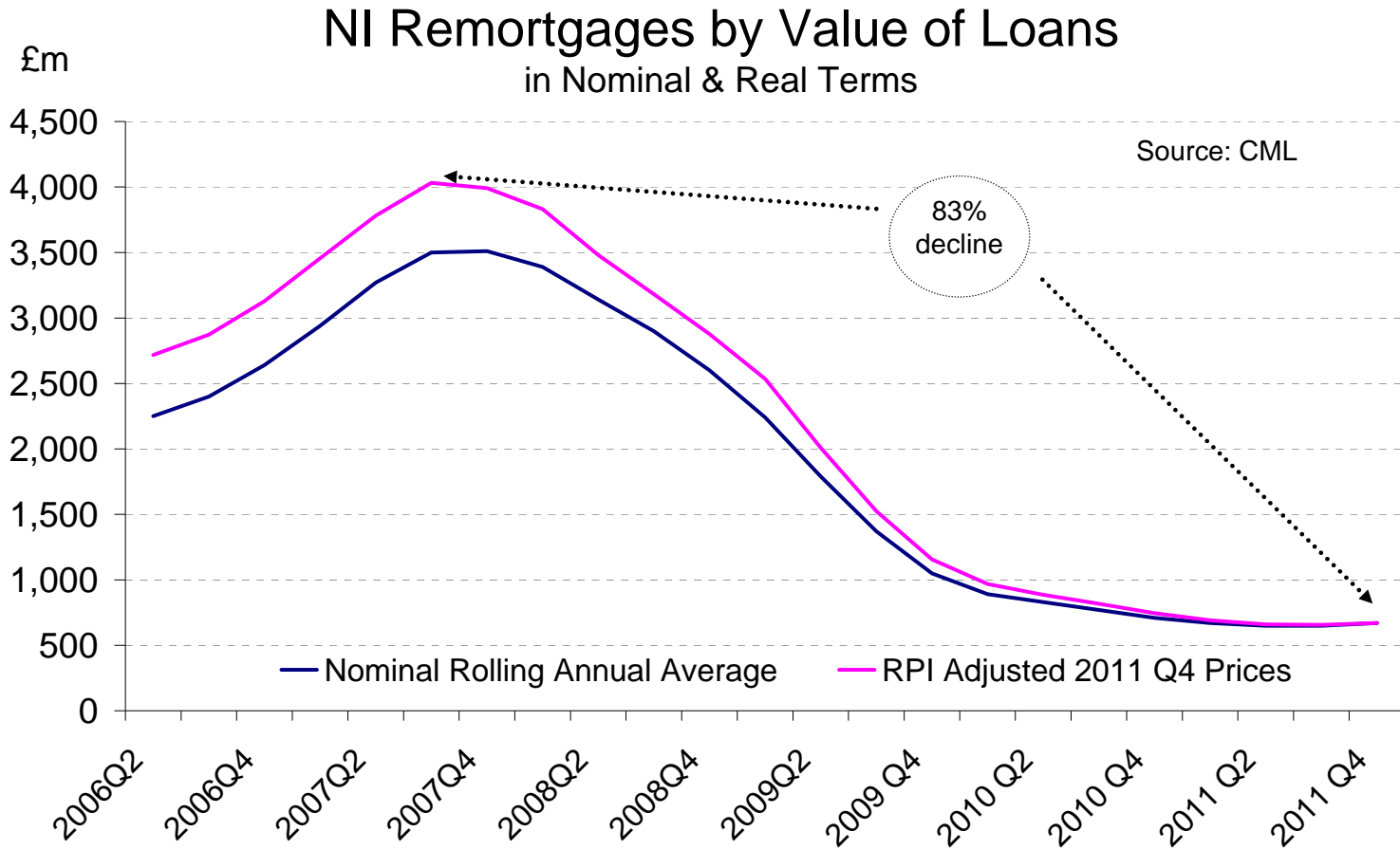
### Value of UK Loans for House Purchase in Nominal & Real terms



...with the number of NI remortgages plummeting as well

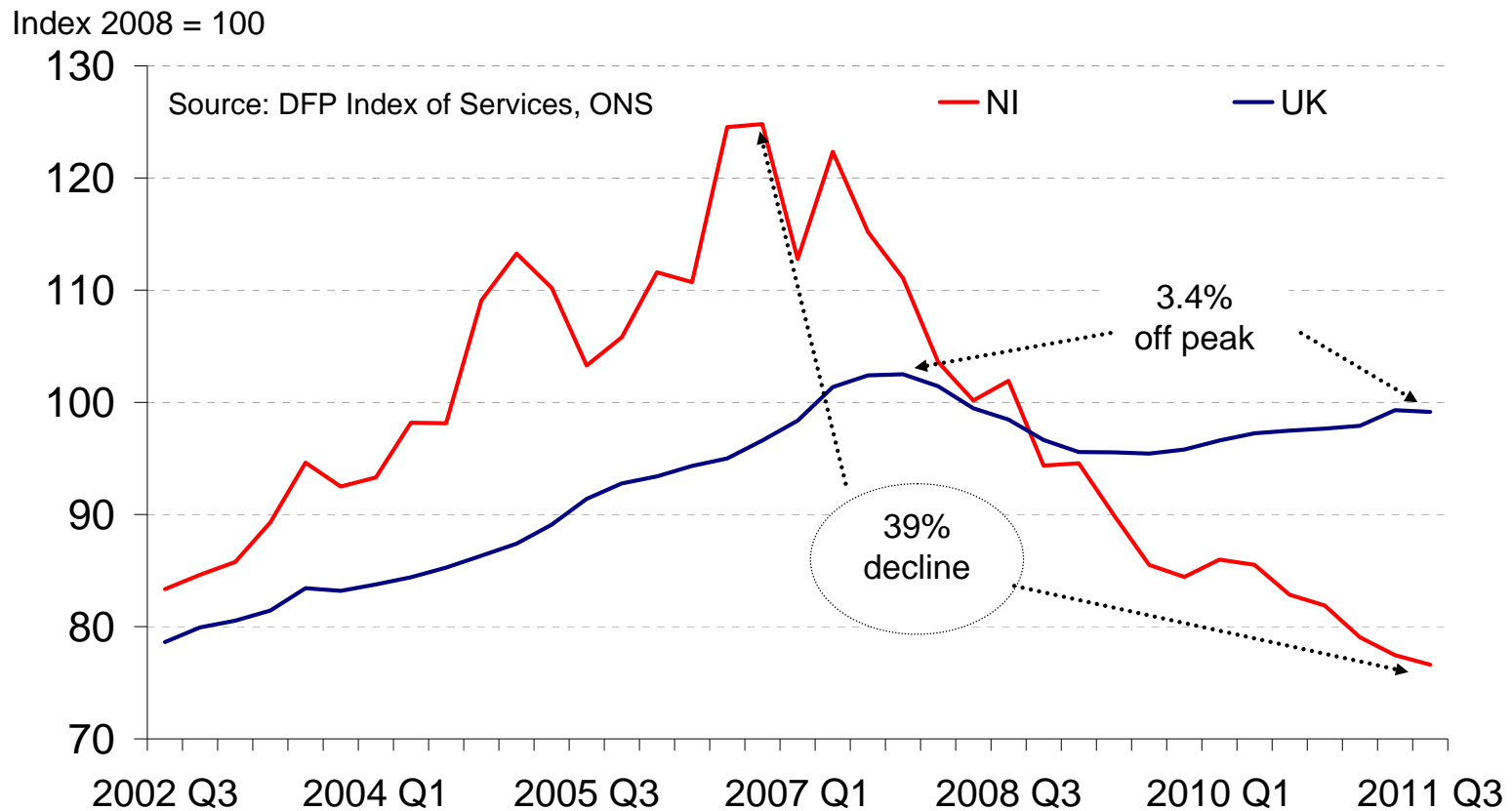


The value of NI remortgages has fallen by 83% in real terms (*adjusting for inflation*) in 4 years...

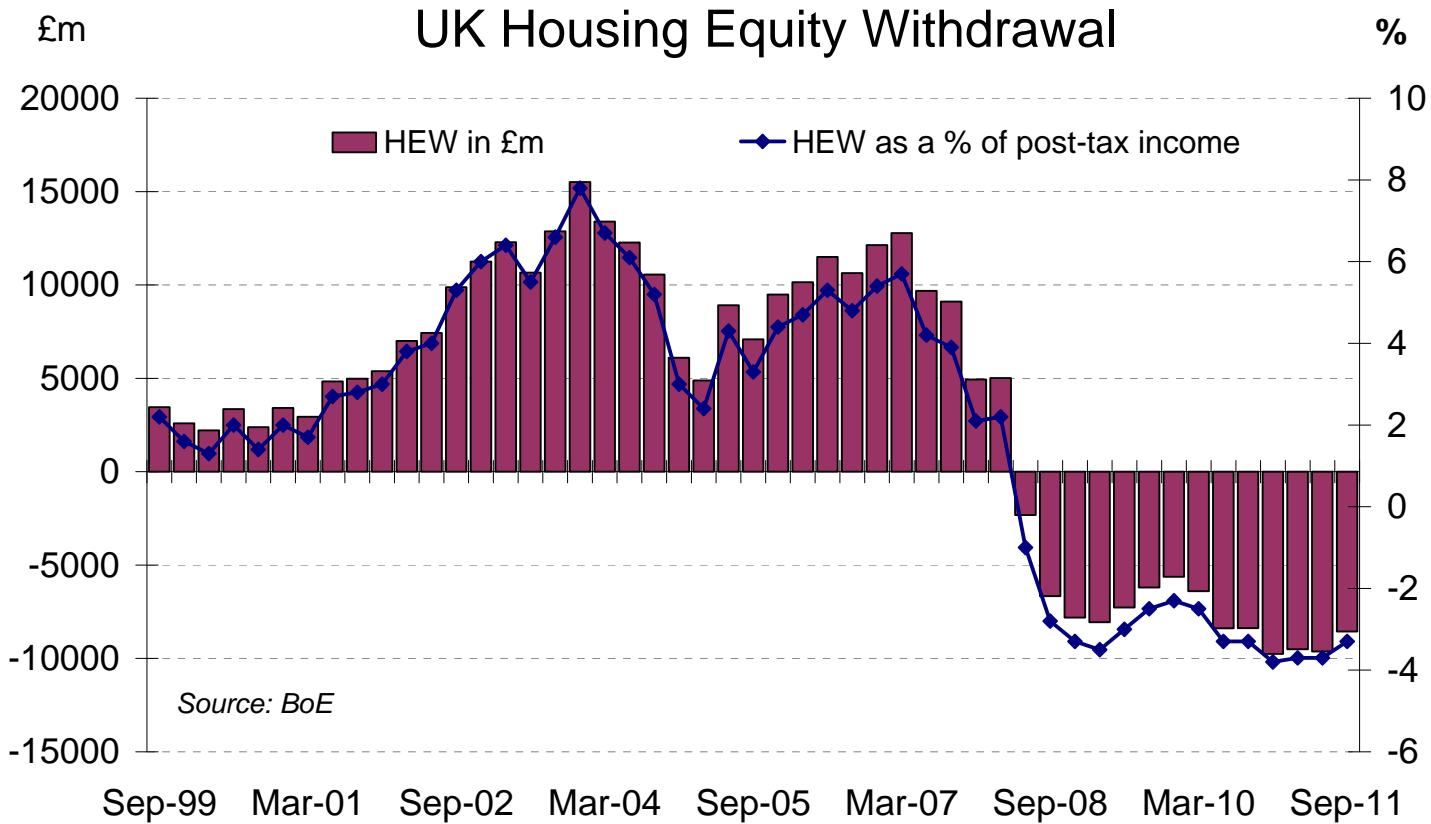


...property legacy explains why NI's *Business Services & Finance* output is some 39% below its Q2 2007 peak...

## Business Services & Finance Output Levels

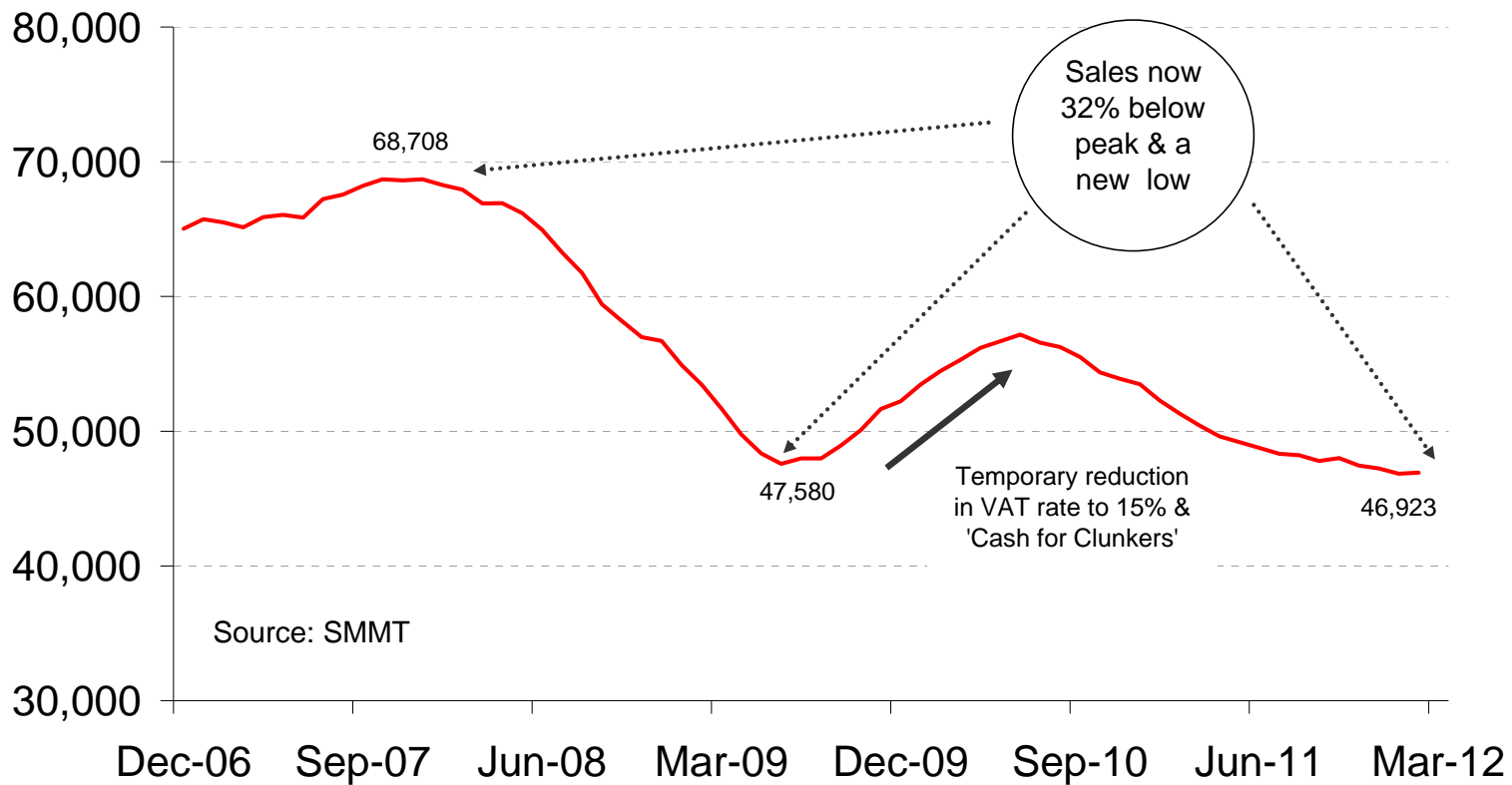


...the rise of remortgaging was accompanied by a rise in housing equity withdrawal for spending on 2<sup>nd</sup> homes....



# ...or a new car. Decreases in remortgaging / equity withdrawal is one factor behind decline in new car sales

21,785 fewer new car sales relative to 2007 peak  
12 Month Rolling Sum

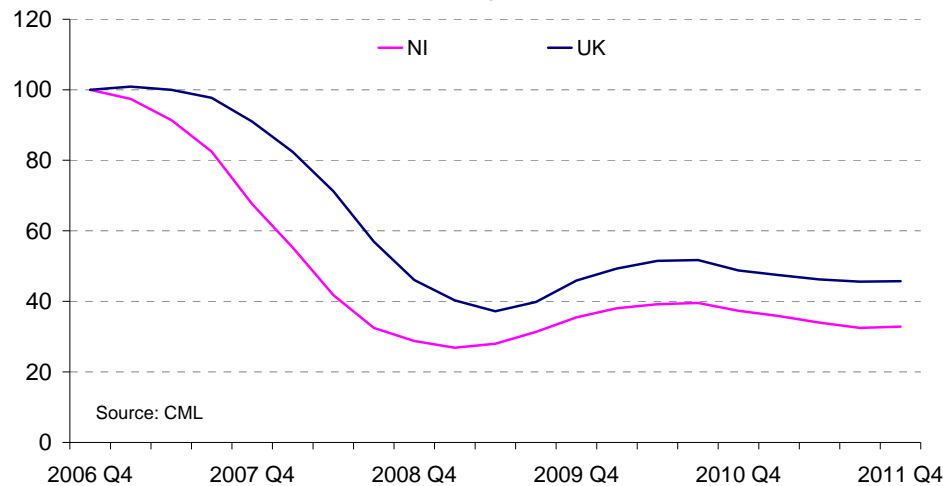




# Levels of mortgage activity in both the UK & NI are well below 2006 (pre-crisis) levels...

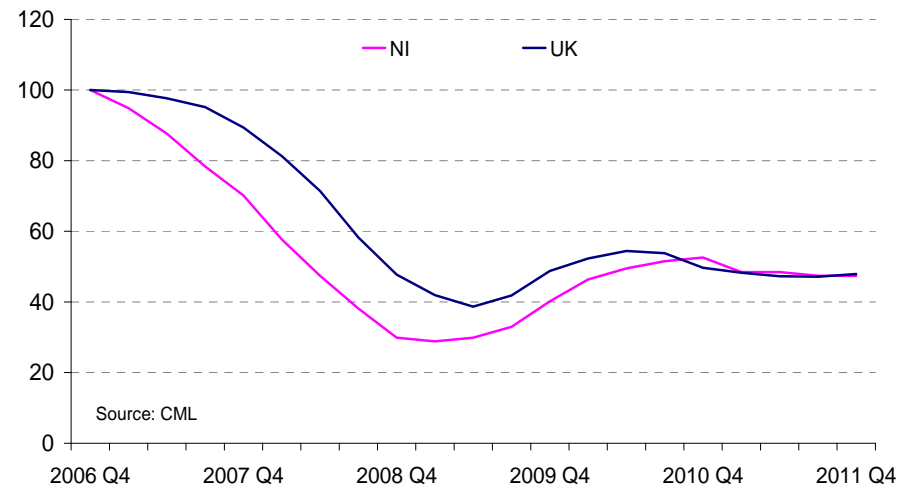
### NI & UK Mortgage Activity - All Loans

2006 = 100 Rolling 4 Quarter Total



### NI & UK Mortgage Activity: First-Time Buyer

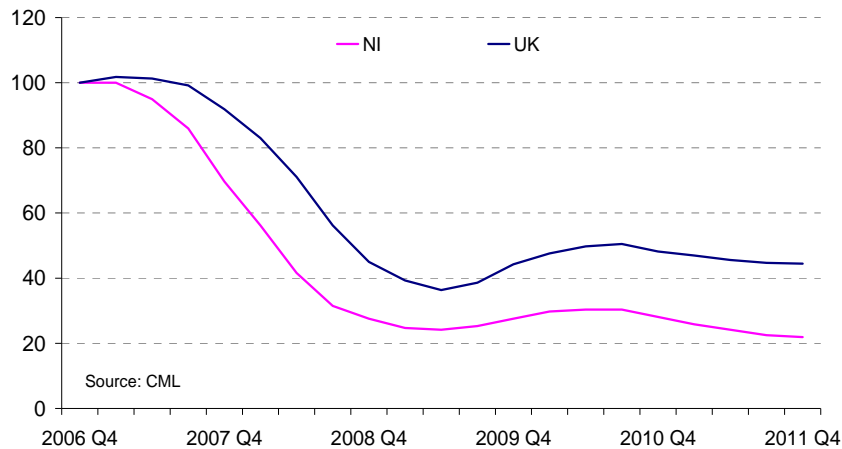
2006 = 100 Rolling 4 Quarter Total



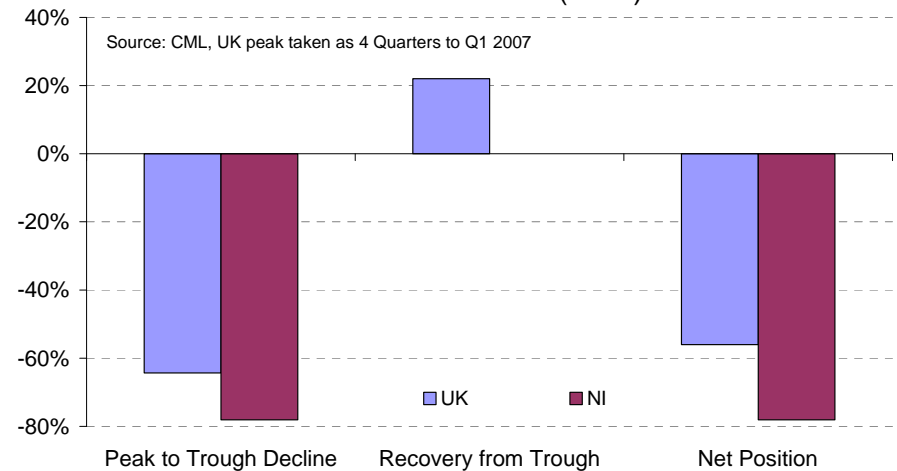
...and the 'Home Movers' segment has seen no recovery whatsoever. FTBs more likely to go for new builds rather than 2<sup>nd</sup> hand dwellings

### NI & UK Mortgage Activity Levels: Home Movers

2006 = 100 Rolling 4 Quarter Total

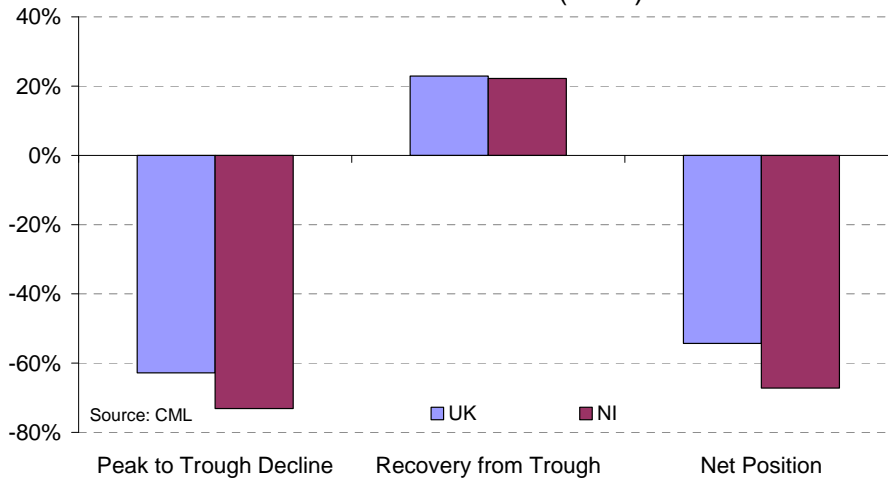


### Home Movers Mortgage Activity 2011 Relative to Pre-Credit Crunch Levels (2006)

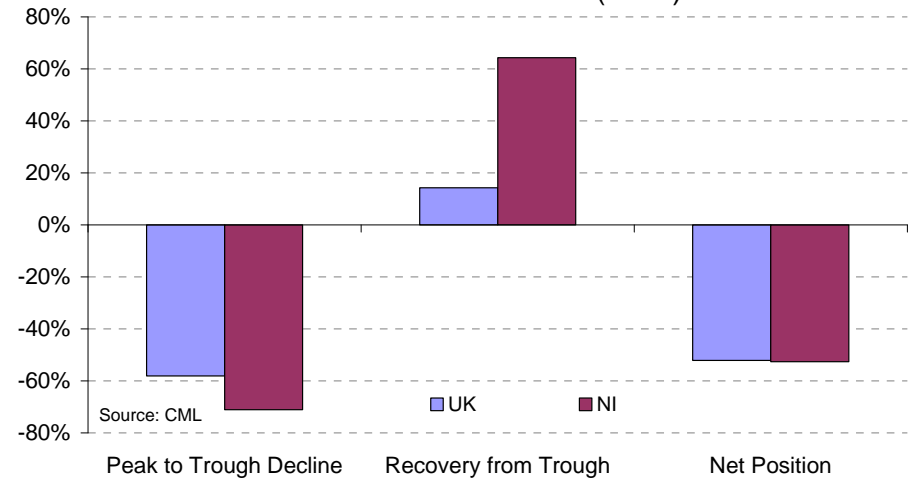


# NI posted steeper decline & stronger recovery than UK in FTB market but their net position is similar

Mortgage Activity (All Loans) 2011 Relative to Pre-Credit Crunch Levels (2006)



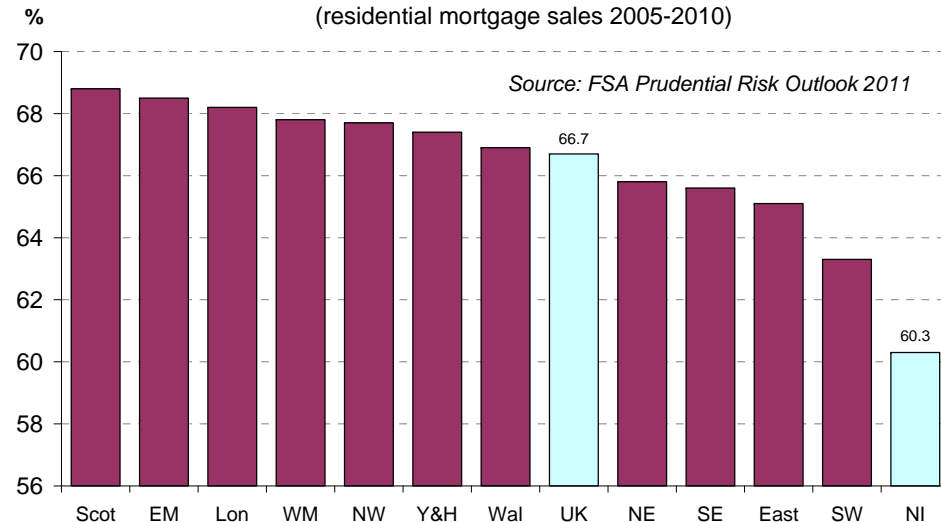
First-Time Buyer Mortgage Activity 2011 Relative to Pre-Credit Crunch Levels (2006)



# Despite 'prudent' LTV ratios a 50% fall in house prices has led to a high incidence of negative equity

**Median loan-to-value at origination**  
(residential mortgage sales 2005-2010)

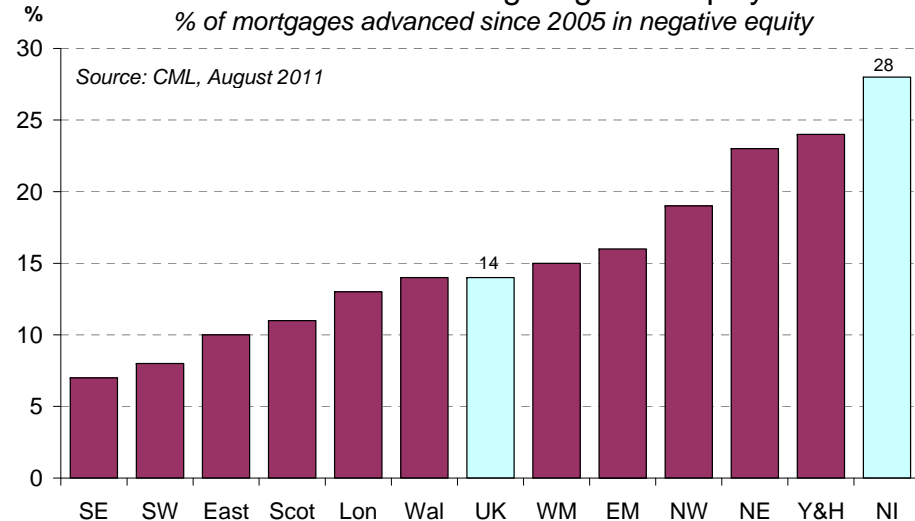
Source: FSA Prudential Risk Outlook 2011



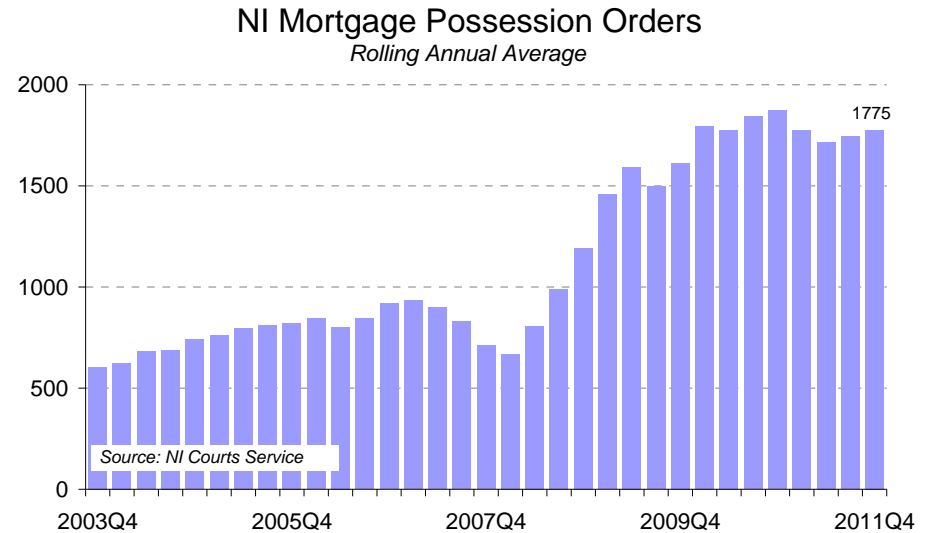
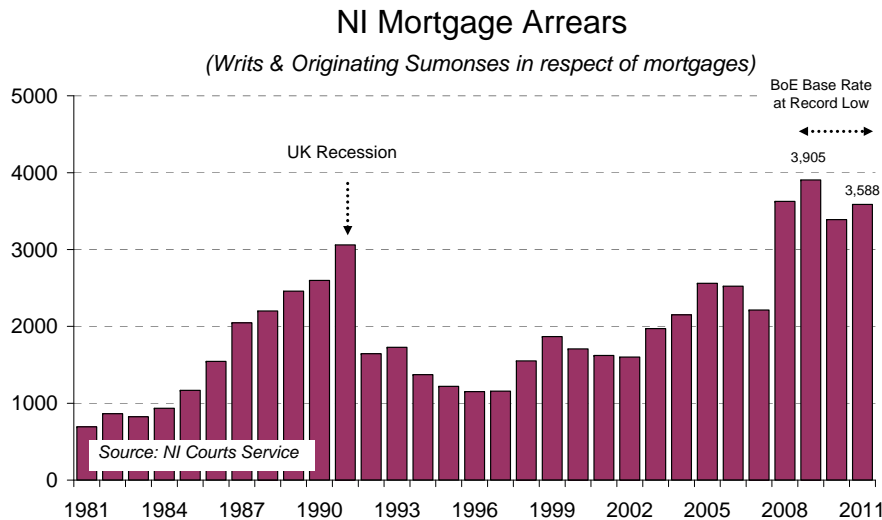
**Residential Housing Negative Equity**

% of mortgages advanced since 2005 in negative equity

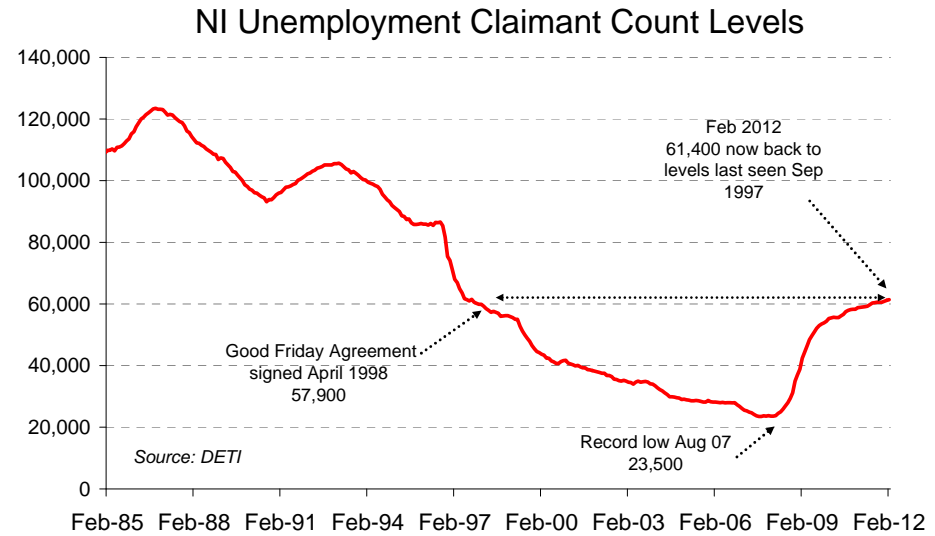
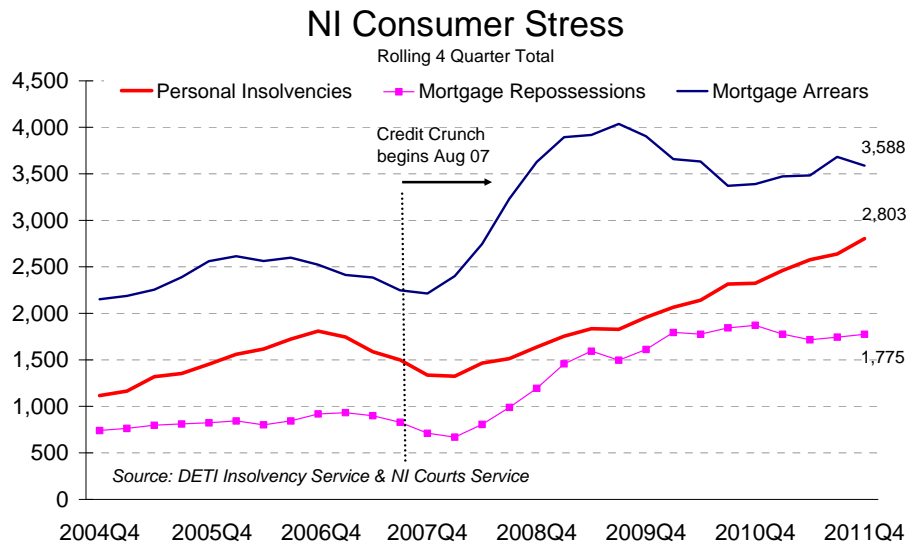
Source: CML, August 2011



# Mortgage arrears / possession orders slightly below 2010 highs but in the context of financial institution forbearance



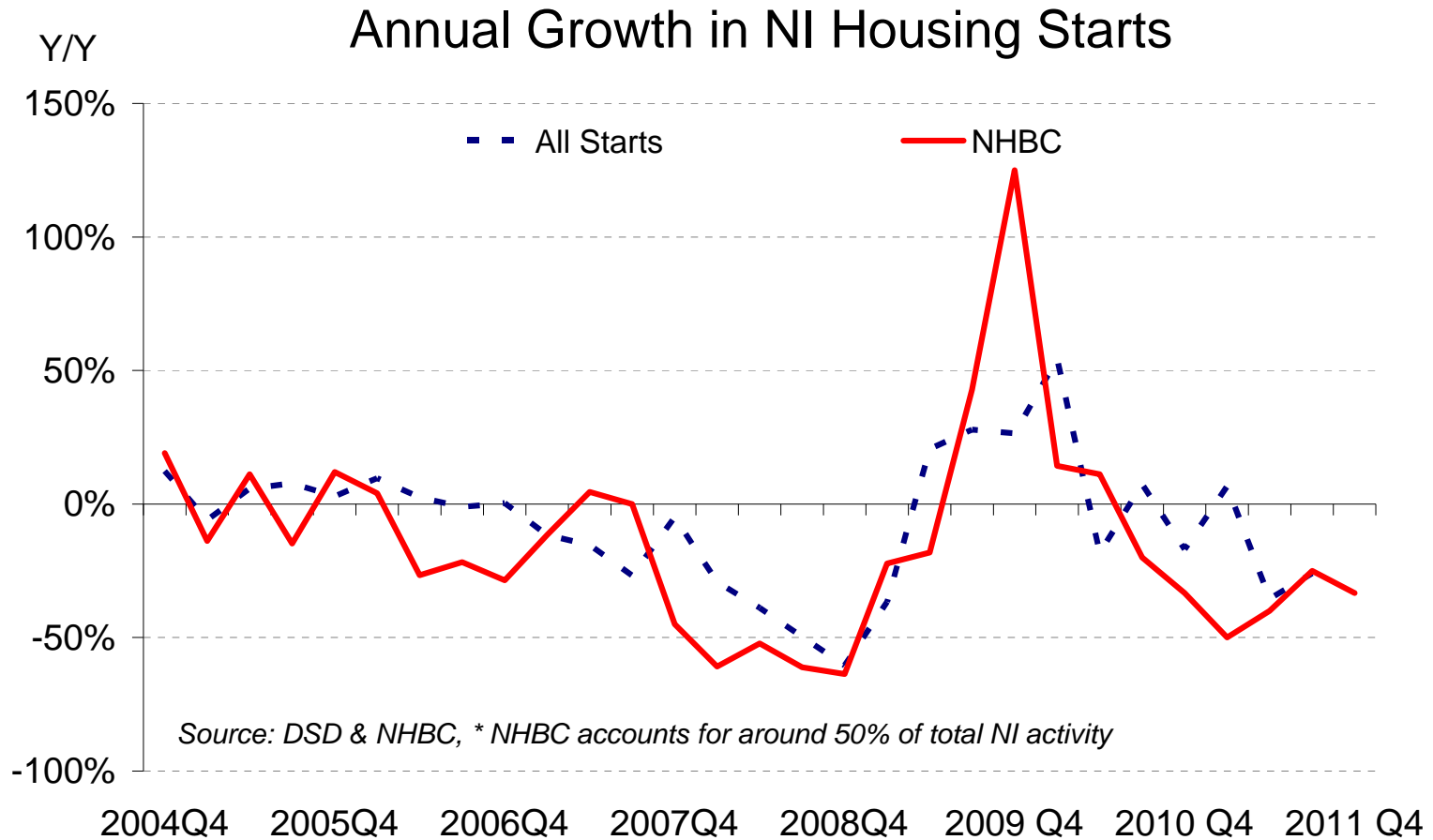
# Consumer stress will remain a major issue with the two legacies of unemployment and debt still to unwind



---

*Housing Starts /  
Housing  
Completions*

# Northern Ireland housing starts following a downward trajectory after a brief pick-up in 2009

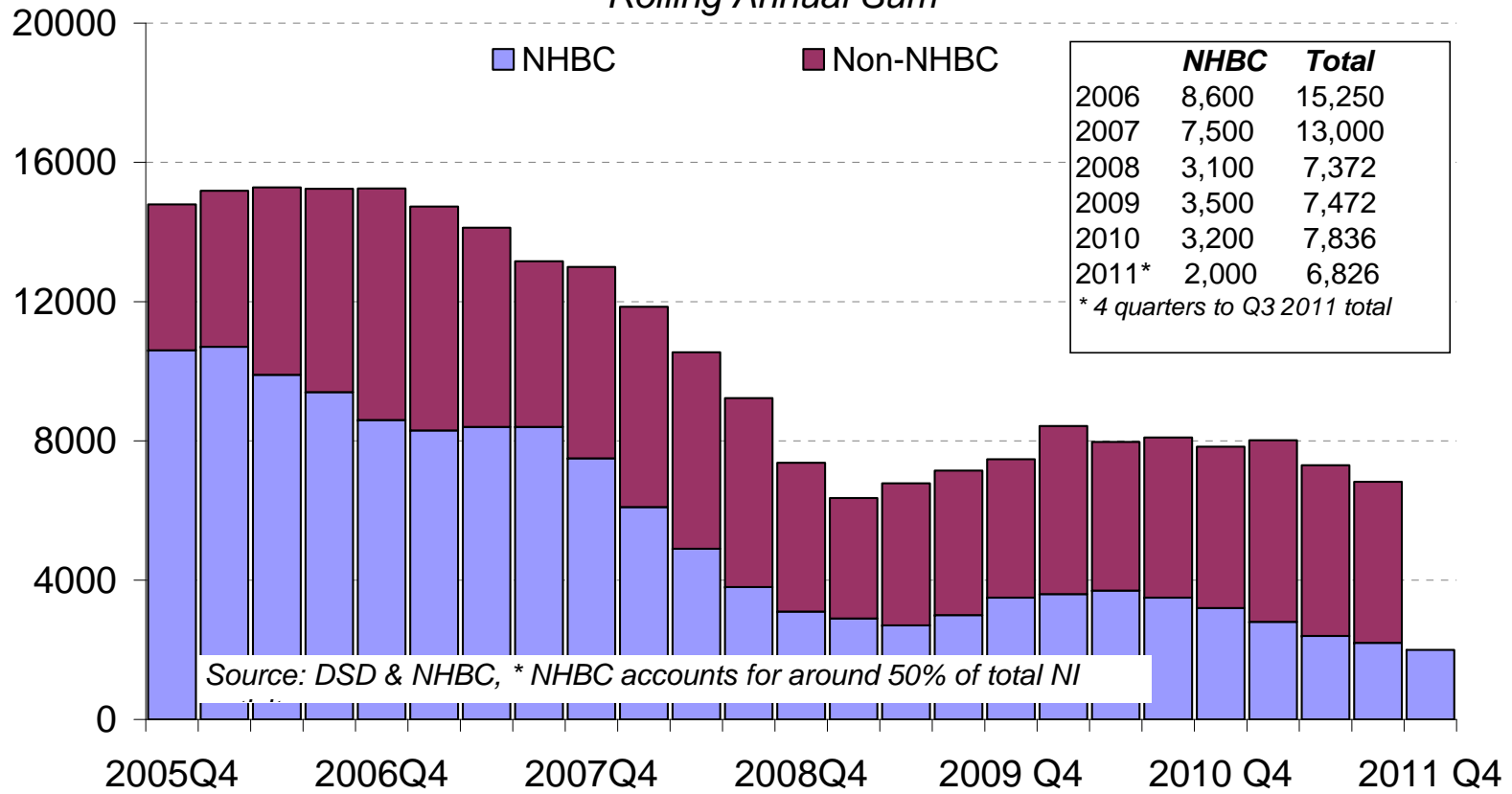




# Rate of house building suggests 6,500-7,000 house completions in 2012

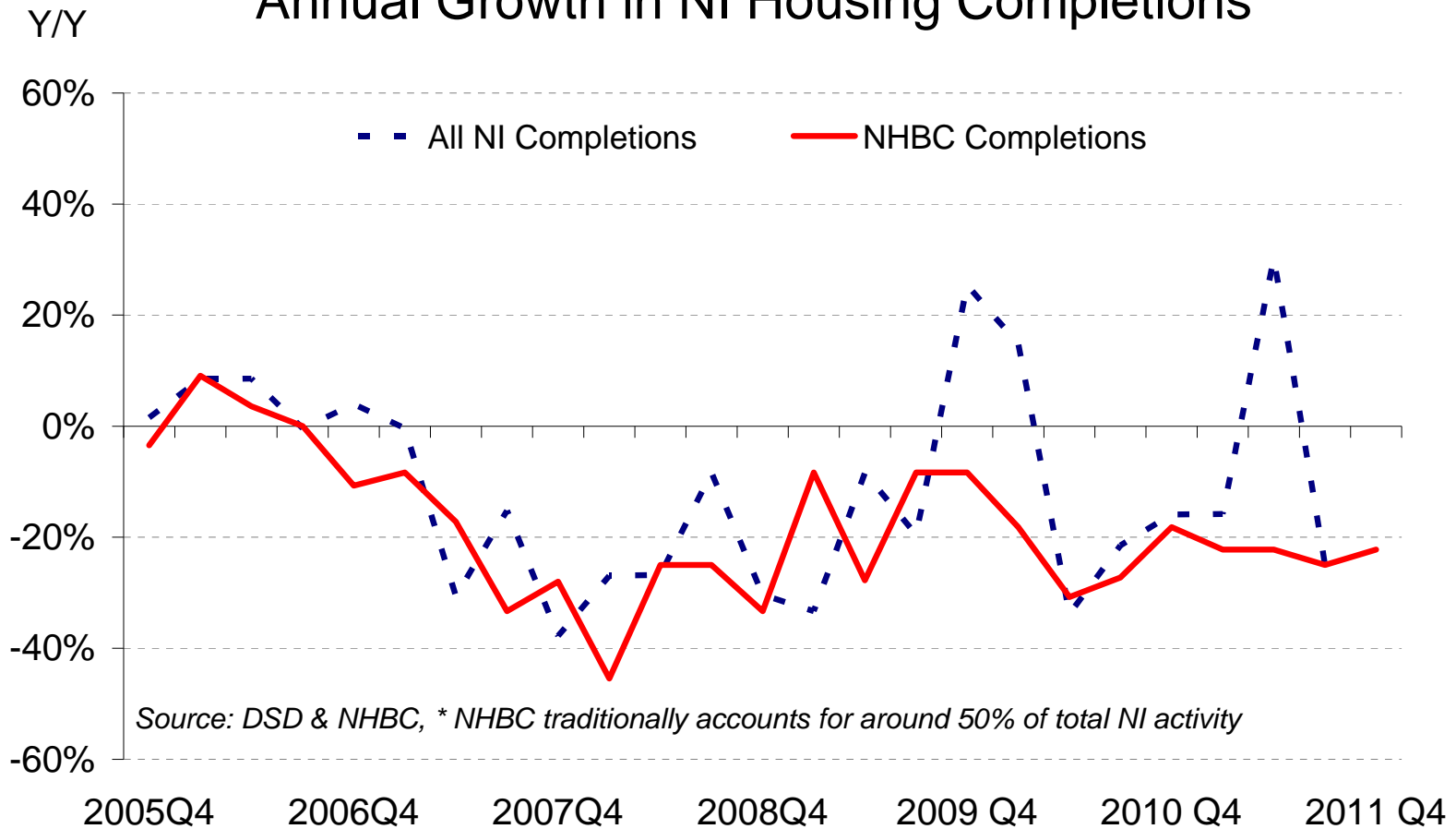
## NI House Starts

*Rolling Annual Sum*

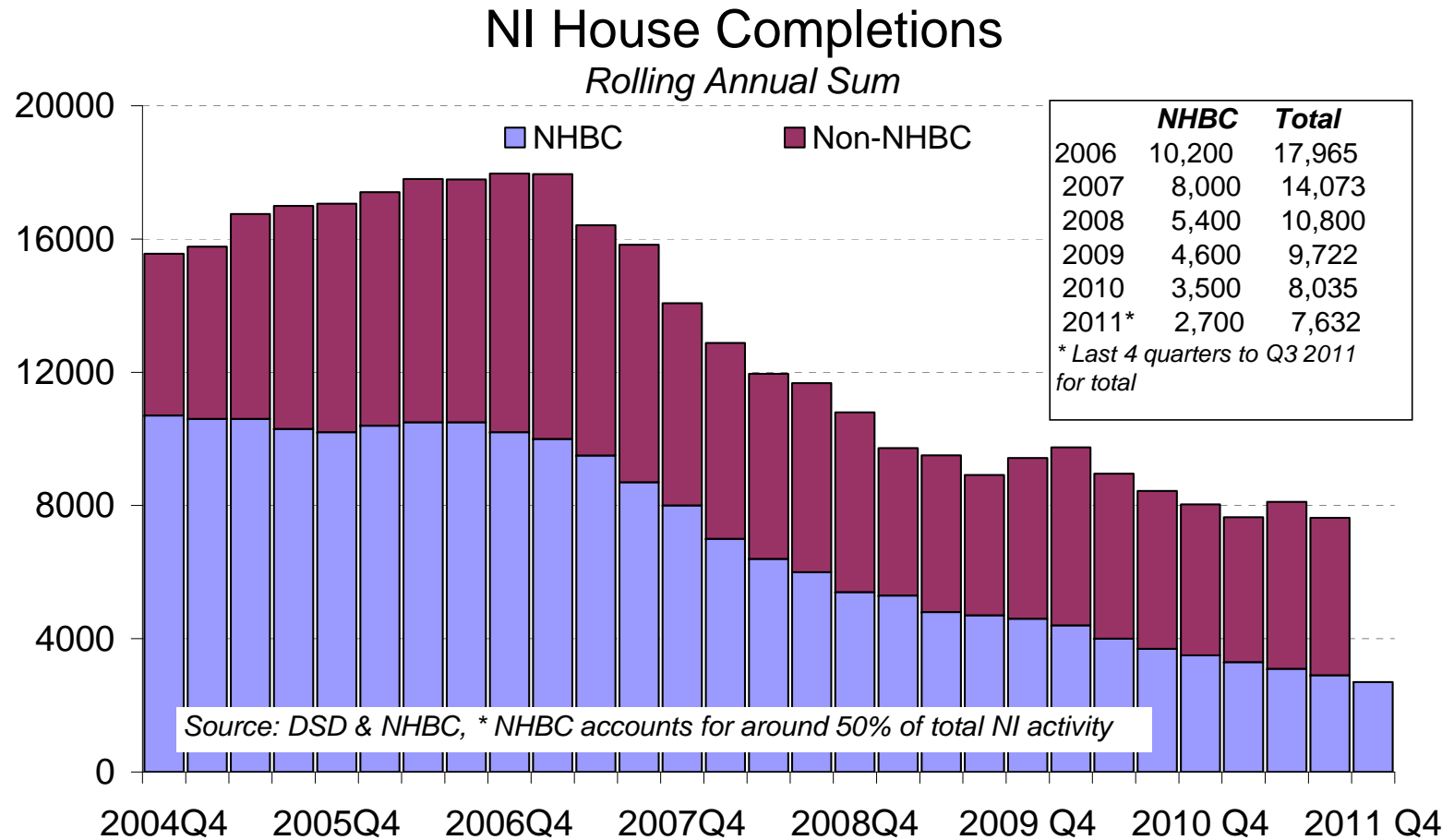


# Annual rate of growth in house completions back in negative territory with NHBC signalling a 22% y/y fall in Q4 2011...

## Annual Growth in NI Housing Completions

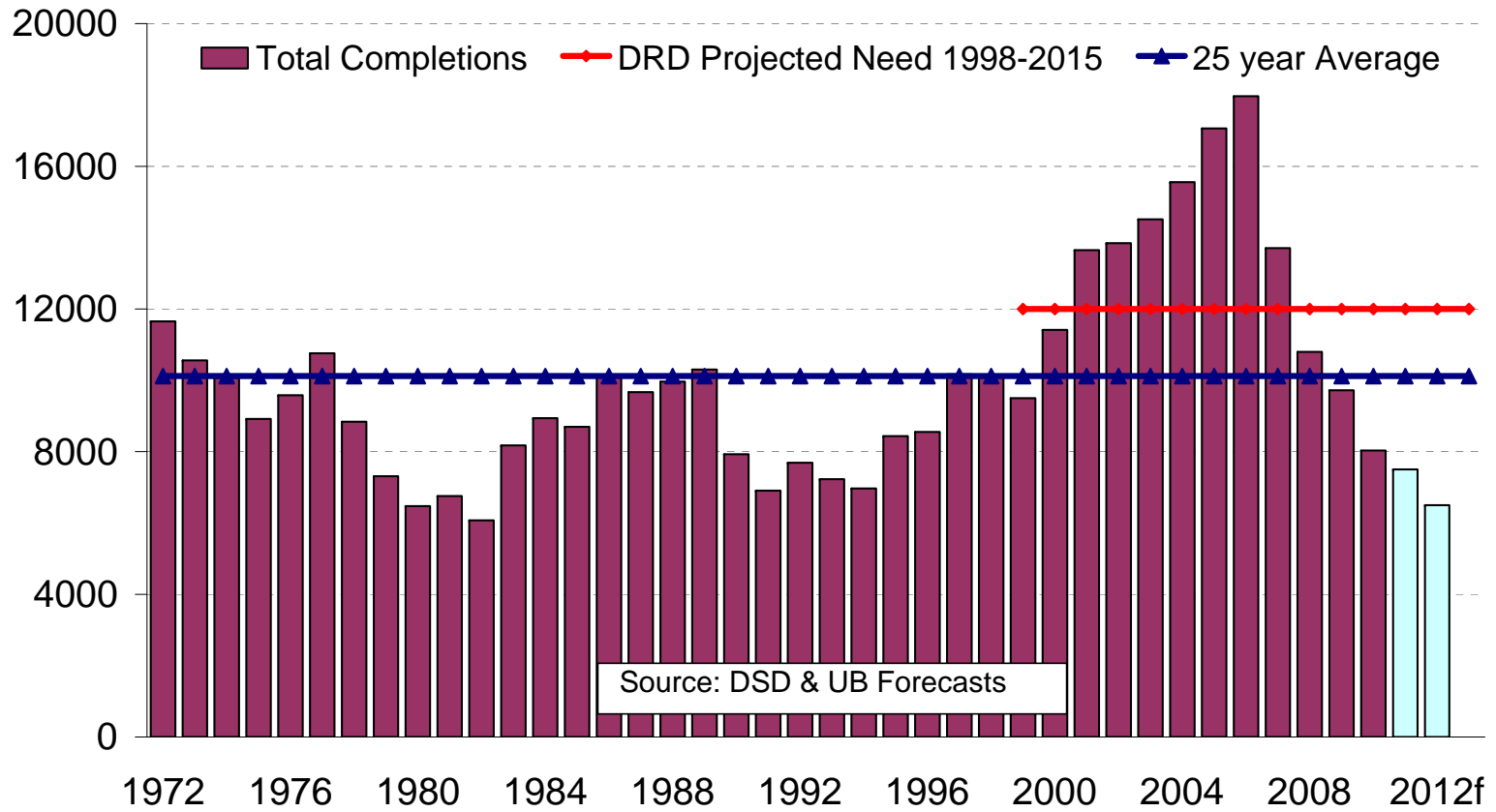


....leading to fewer completed housing units



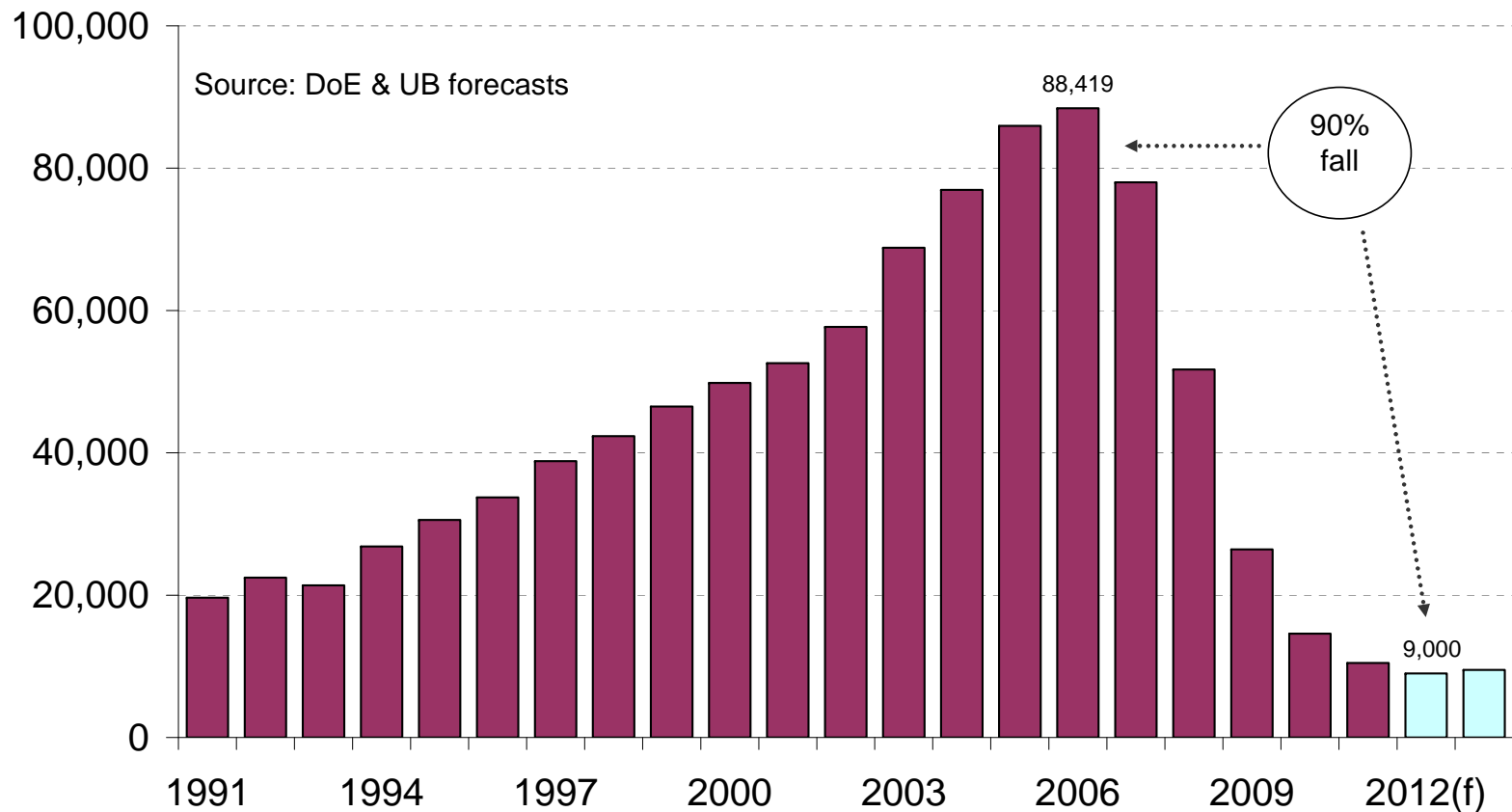
# NI house completions down an estimated 58% (10,500 units) between 2006 & 2011 with further declines in 2012/13

## NI Housing Completions



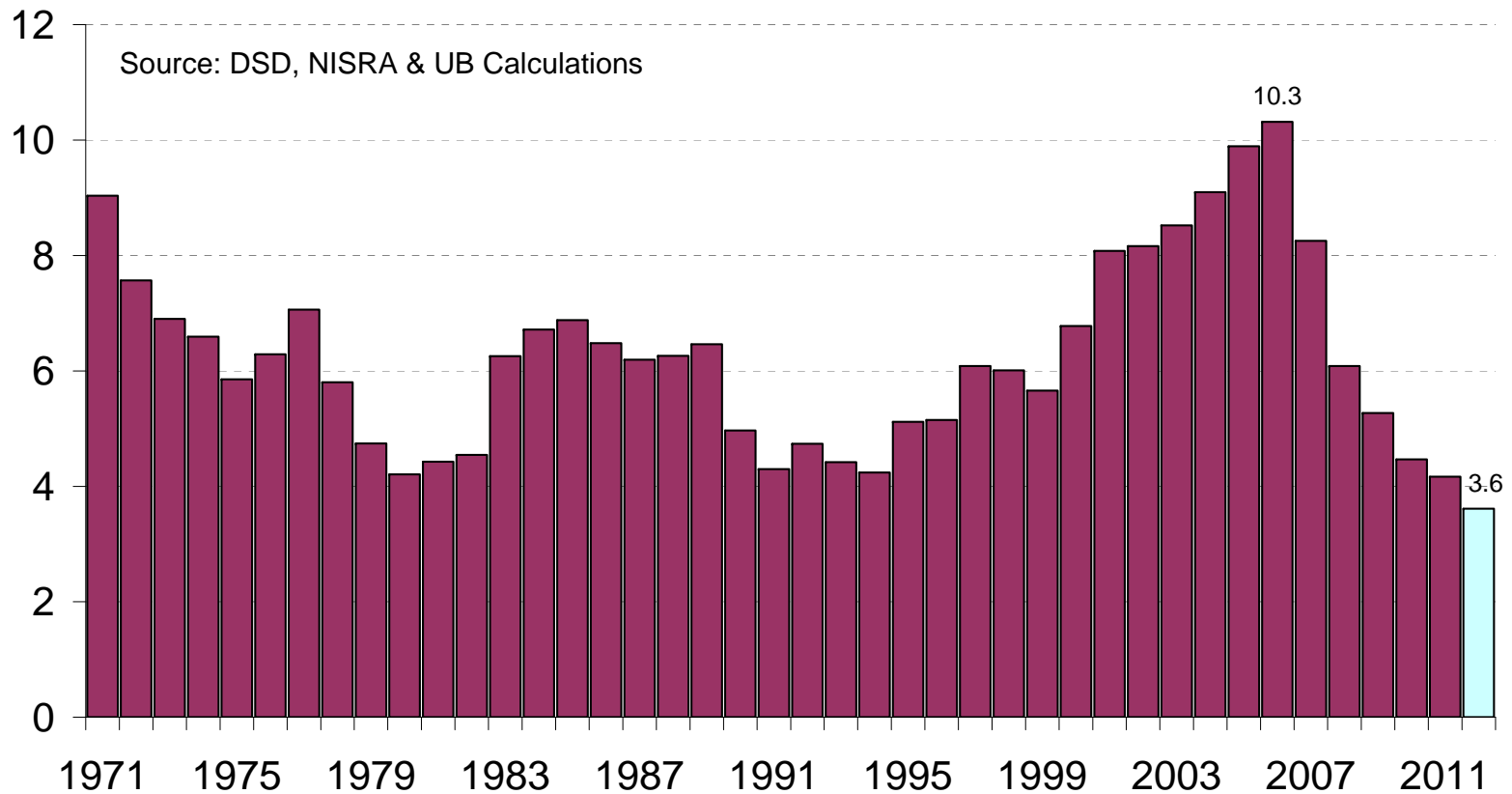
...but spare a thought for the RoI. Northern Ireland does not have the same overhang of stock as the RoI...

## Republic of Ireland Housing Completions



...but NI is building fewer houses per capita than at any time since 1959...longer-term implications??

## NI Housing Completions per 1,000 Population



---

*Housing  
Affordability /  
Interest Rates*

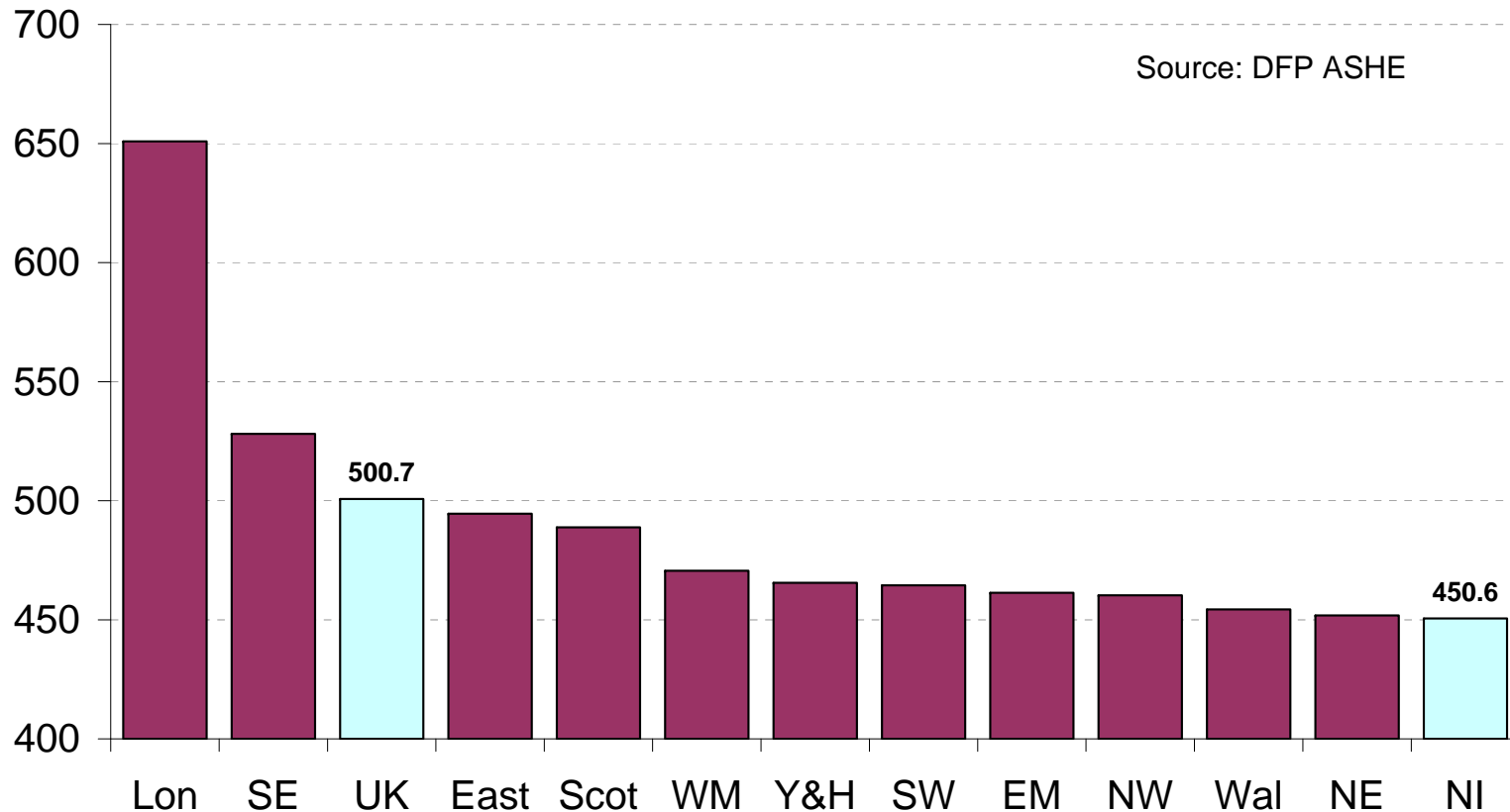
**Regional house prices are a function of supply and demand dynamics. But fundamentals such as wages are key**

## Median Gross Weekly Earnings 2011

All Employees Full-Time

£per wk

Source: DFP ASHE

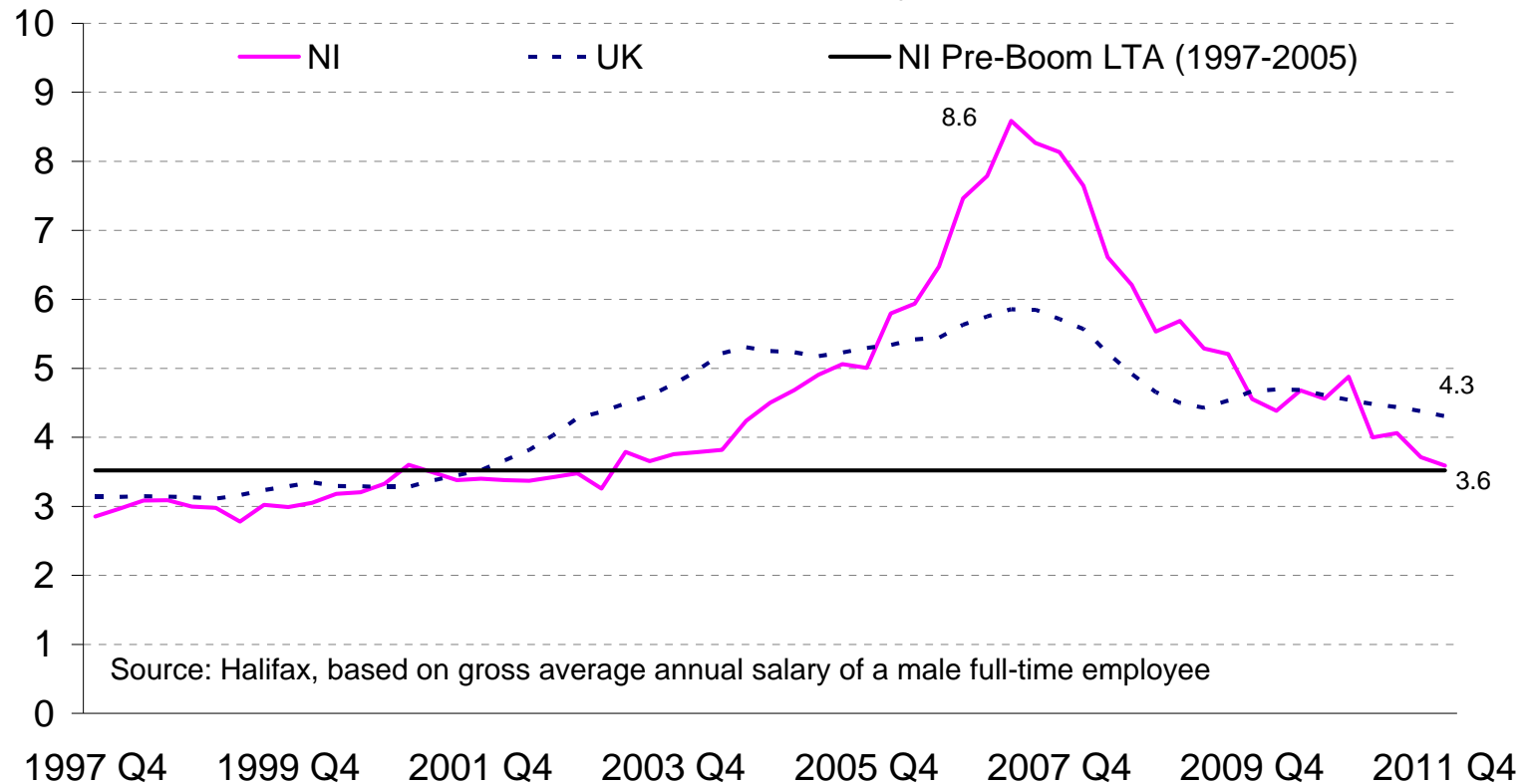




# NI's HPE ratio has returned to the pre-boom long-term average (1997-2005)...

## Halifax House Price to Earnings Ratio

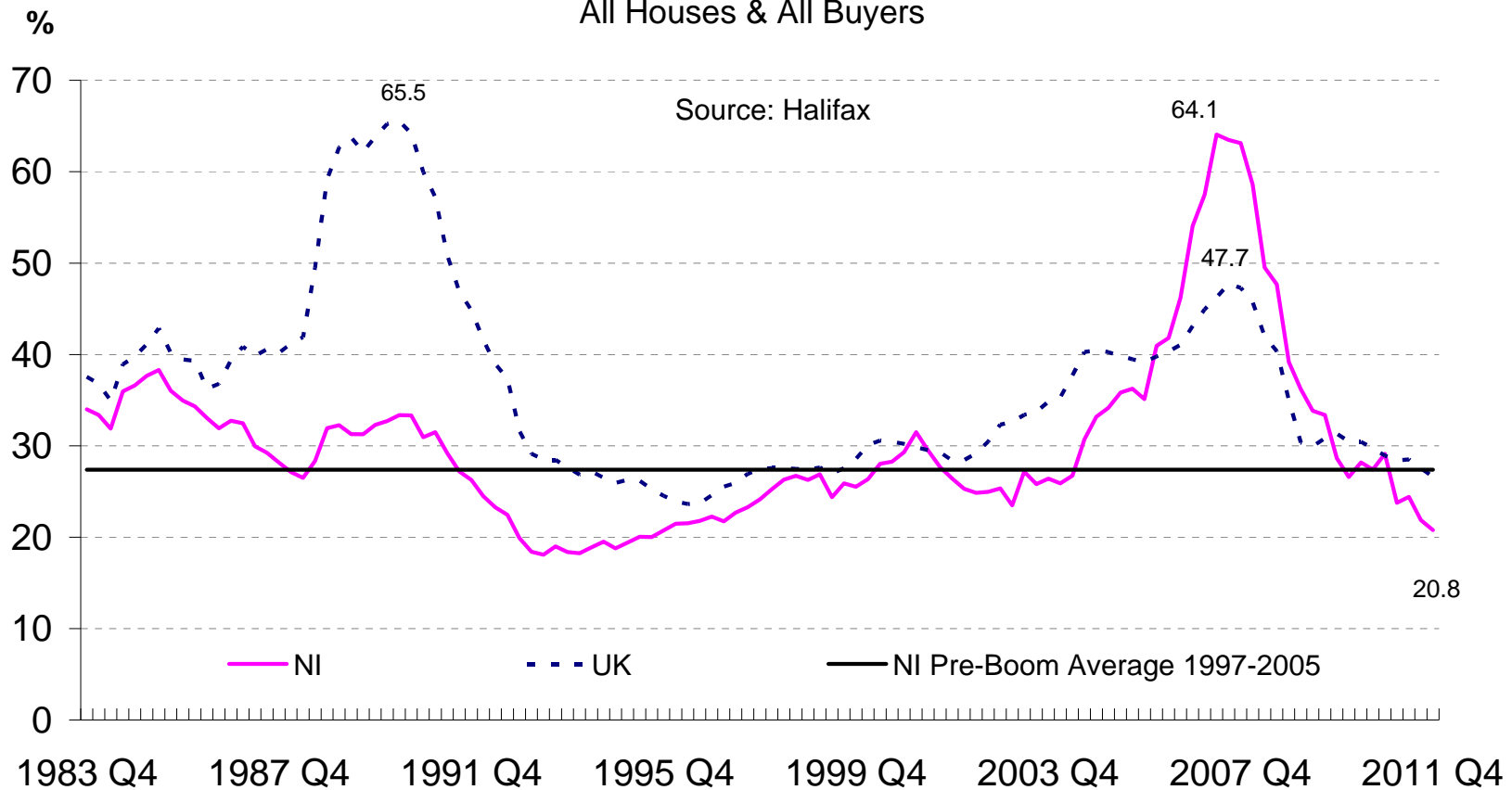
*All Houses & All Buyers*



# ...and NI mortgage payments as a % of disposable income have fallen well below the pre-boom average (1997-2005)

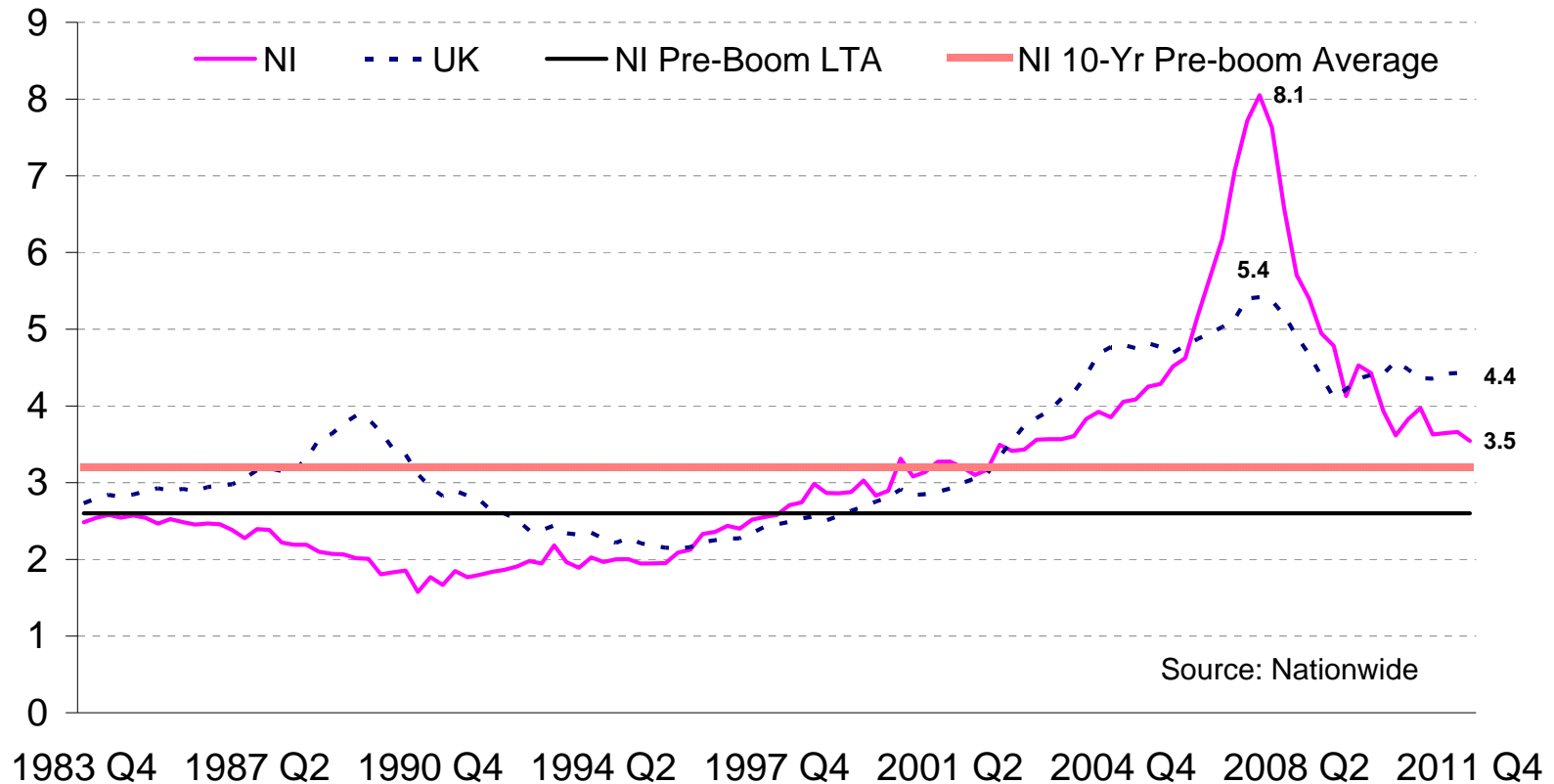
## Mortgage Payments as a % Average Disposable Income

All Houses & All Buyers



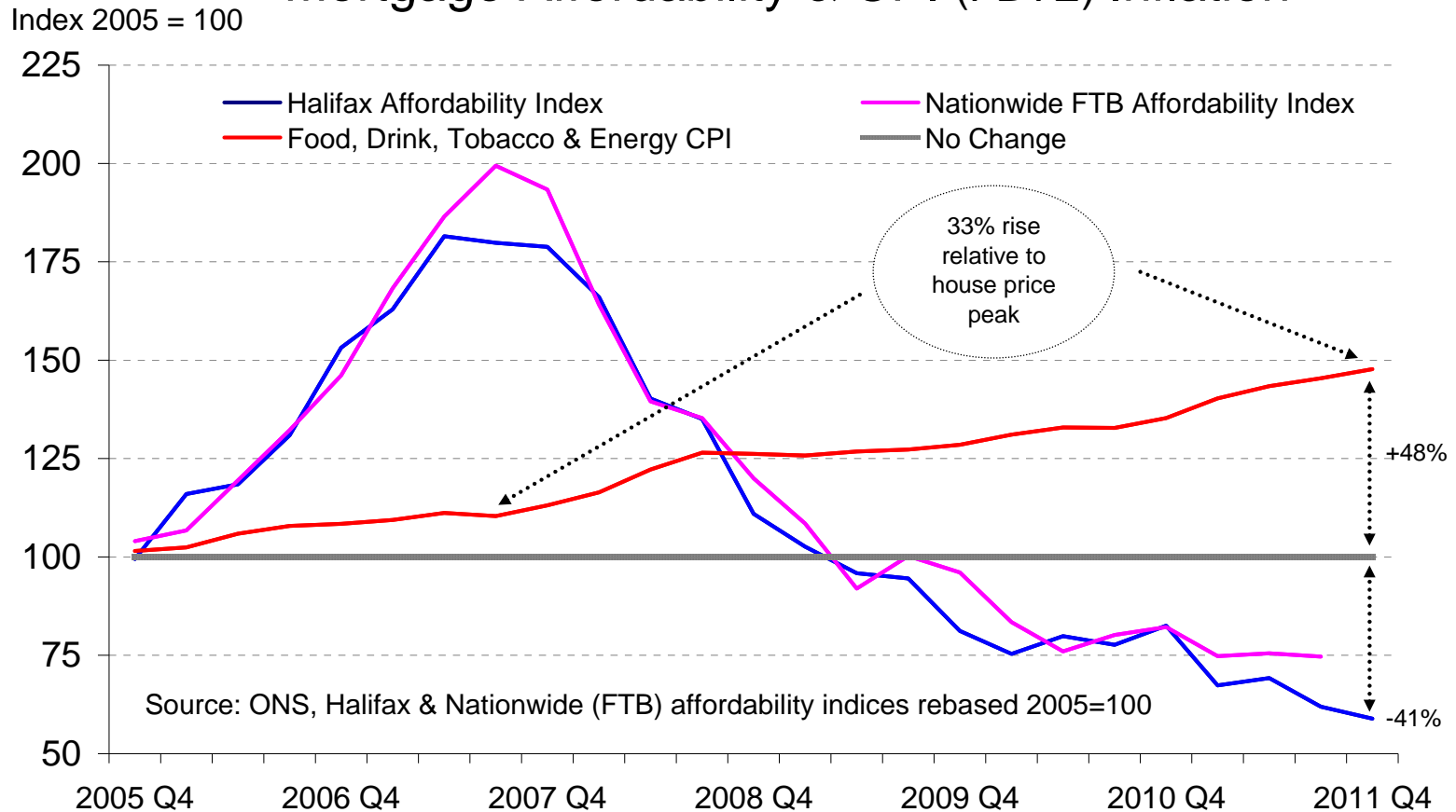
# NI's HPE ratio for first-time buyers is closing in on the pre-boom 10-yr average of 3.2...

## Nationwide FTB House Price to Earnings Ratio



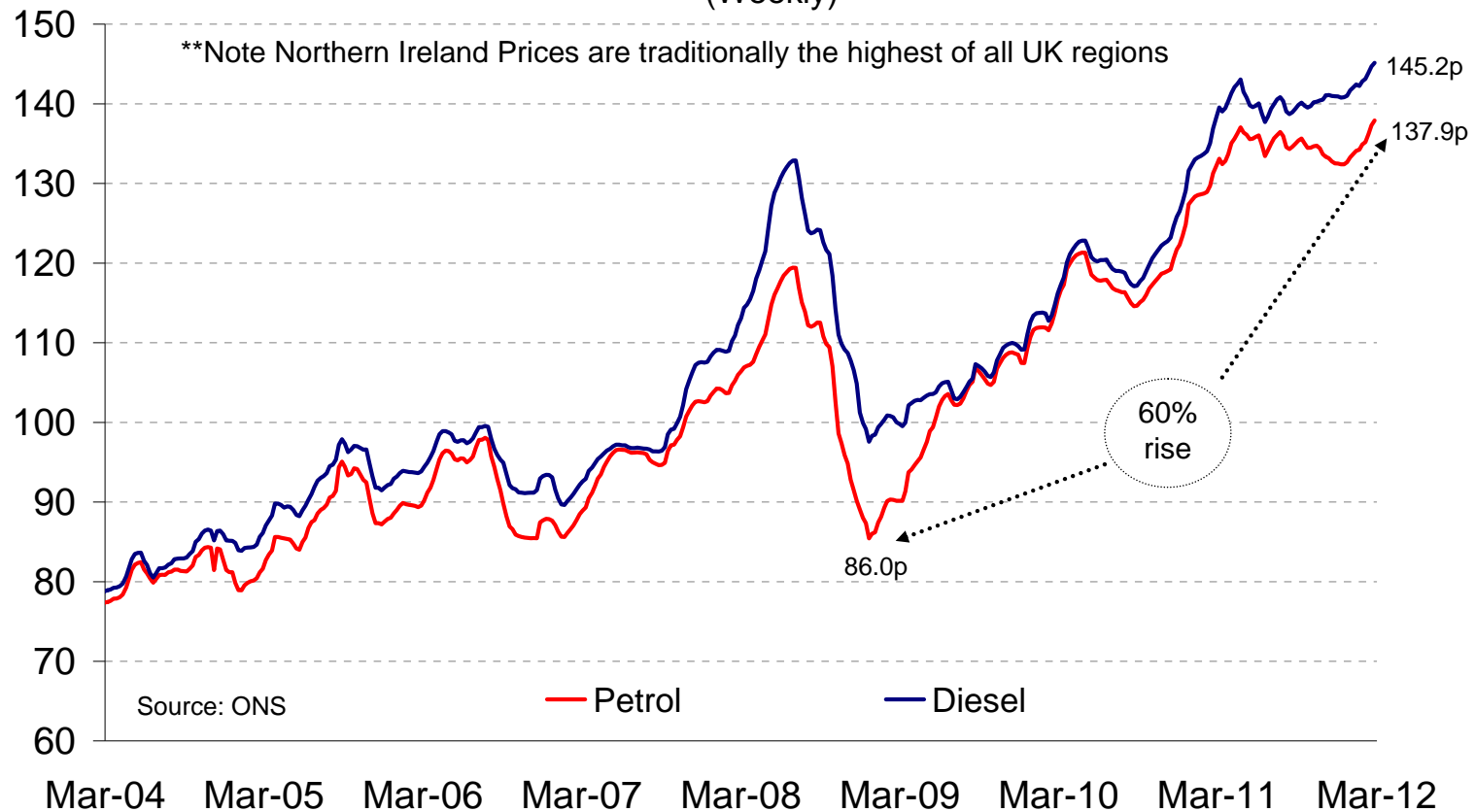
...but its not just after tax income that is important. Post-tax income after necessities (*food & energy*) is important

## Mortgage Affordability & CPI (FBTE) Inflation

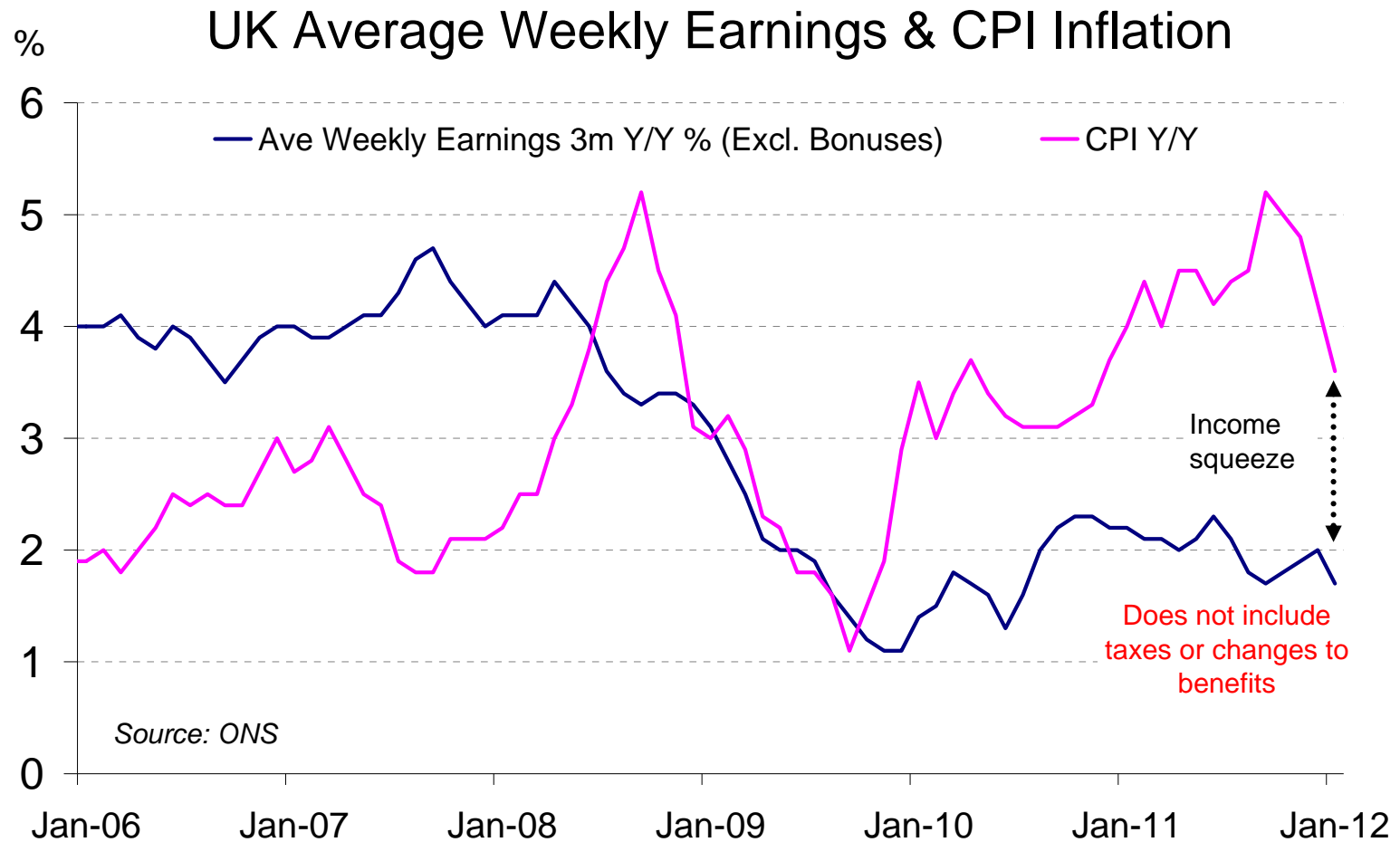


**Between Q2 2007 & March 2012 the price of a tank of petrol / diesel has risen from £47/48 to £69/72.50 (47-51% rise)**

## UK Fuel Prices - Pence per litre (Weekly)

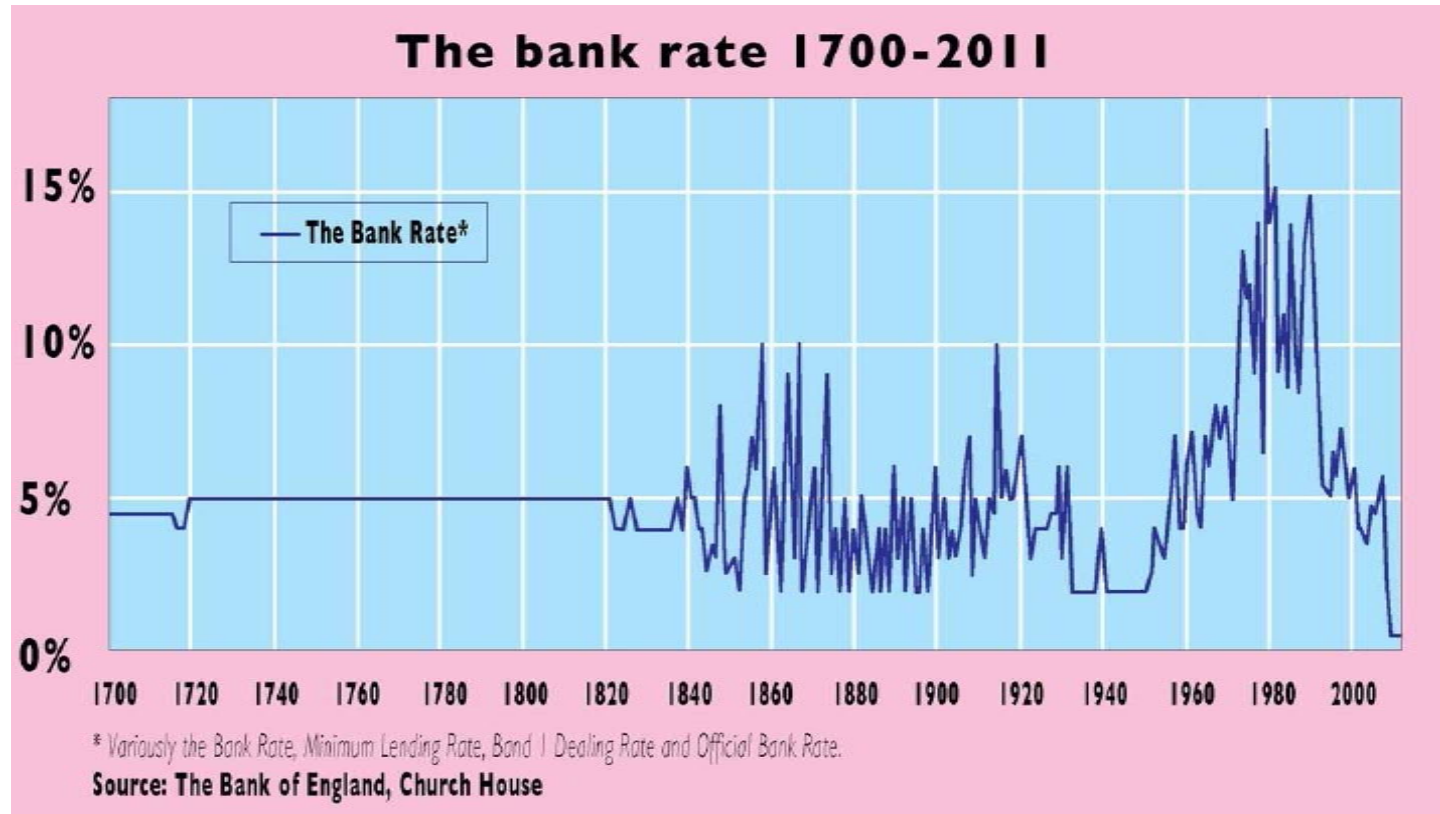


Inflation has contributed to income squeeze which in turn has deferred the deleveraging of household debt...



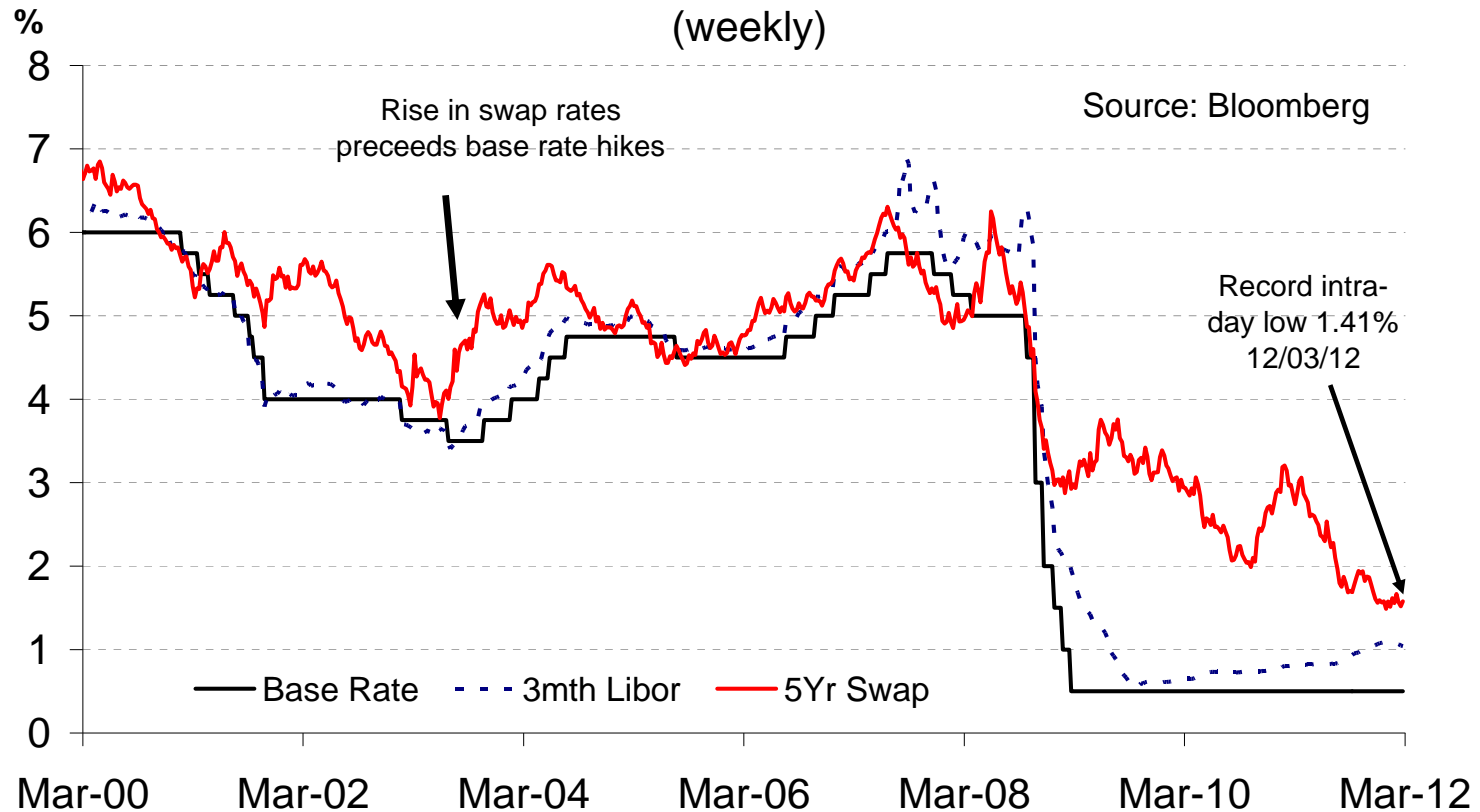
...and the Bank of England will not keep its bank rate at a record low forever...

---



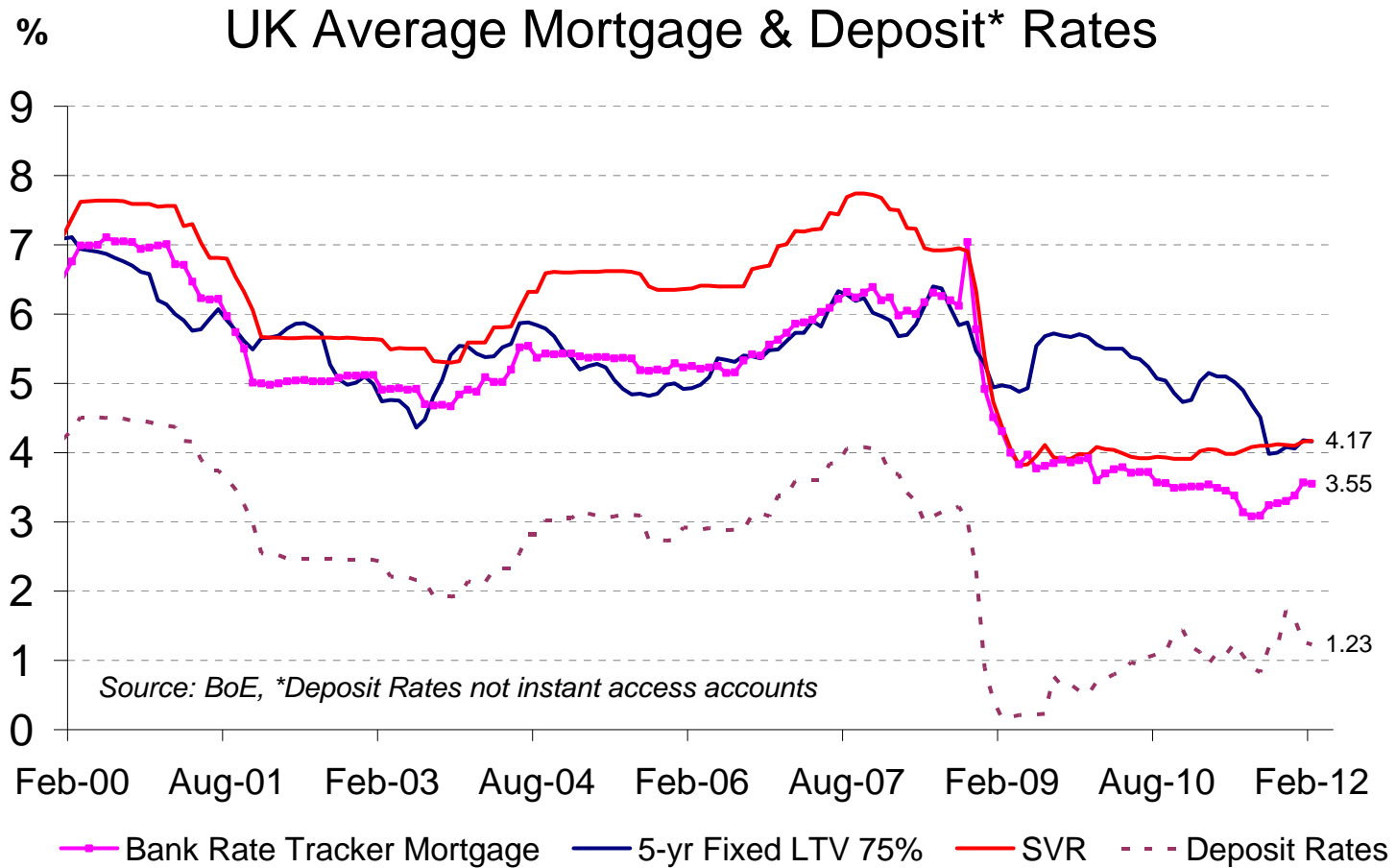
...record low in 5-yr swap rates are a further indication of rates staying lower for a lot longer enjoy it while you can...

UK Base Rate v 3 month Libor v 5Yr Swap  
(weekly)





...but other mortgage rates, such as SVRs, already rising



# Disclaimer

---

This document is issued for information purposes only for clients of Ulster Bank Group who are eligible counterparties or professional customers, and does not constitute an offer or invitation to purchase or sell any instrument or to provide any service in any jurisdiction where the required authorisation is not held. Ulster Bank and/or its associates and/or its employees may have a position or engage in transactions in any of the instruments mentioned.

The information including any opinions expressed and the pricing given, is indicative, and constitute our judgement at time of publication and are subject to change without notice. The information contained herein should not be construed as advice, and is not intended to be construed as such. This publication provides only a brief review of the complex issues discussed and readers should not rely on information contained here without seeking specific advice on matters that concern them. Ulster Bank make no representations or warranties with respect to the information and disclaim all liability for use the recipient or their advisors make of the information. Over-the-counter (OTC) derivatives can involve a number of significant and complex risks which are dependent on the terms of the particular transaction and your circumstances. In the event the market has moved against the transaction you have undertaken, you may incur substantial costs if you wish to close out your position.

Ulster Bank Limited Registered Number R733 Northern Ireland. Registered Office 11-16 Donegal Square East, Belfast, BT1 5UB. Authorised and regulated by the Financial Services Authority. Member of The Royal Bank of Scotland Group.

Ulster Bank Ireland Limited, a private company limited by shares, trading as Ulster Bank, Ulster Bank Group and Bank Uladh. Registered No. 25766. Registered Office Ulster Bank Group Centre, George's Quay, Dublin 2. Ulster Bank Ireland Limited is regulated by the Central Bank of Ireland. Member of The Royal Bank of Scotland Group.

Calls may be recorded.