

BOOM, BUBBLE OR BUST – UNDERSTANDING THE IRISH HOUSING MARKET

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Five things matter for house prices

- House prices ultimately depend on a relatively small number of high level factors
- (+) **Income per household**
 - Captures earnings but also unemployment (# in
- (-) **Housing stock per household**
 - Captures construction but also emigration
- (-) **Number of people per household**
 - Widest measure of demographics – from 3.8 in 1980 to 2.8 today
- (+) **Credit conditions**
 - Typical LTV for first-time buyers
- (-) **“User cost”**
 - (After-tax) mortgage interest rates, less expected price increases

“Fundamentals”
[also affect rents]

Asset factors
[affect yield]

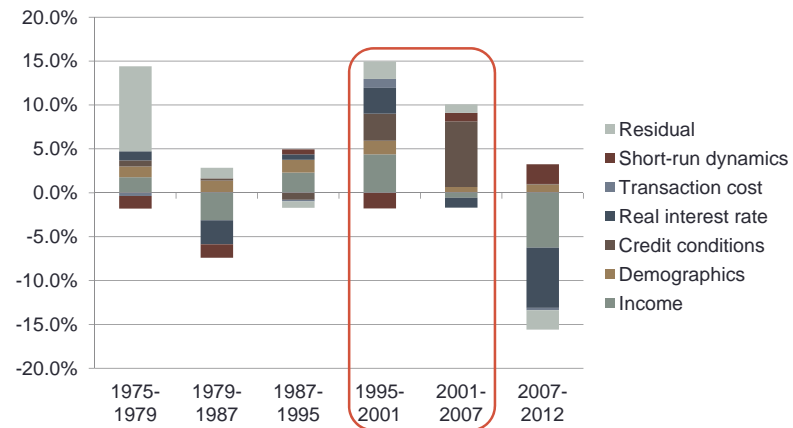
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Helps us understand last 40 years

Factors driving house prices, 1975-2012

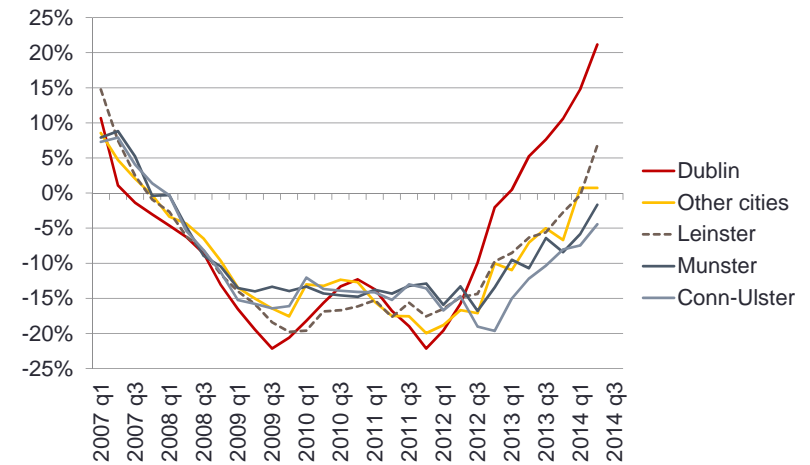


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Increase in prices driven by Dublin

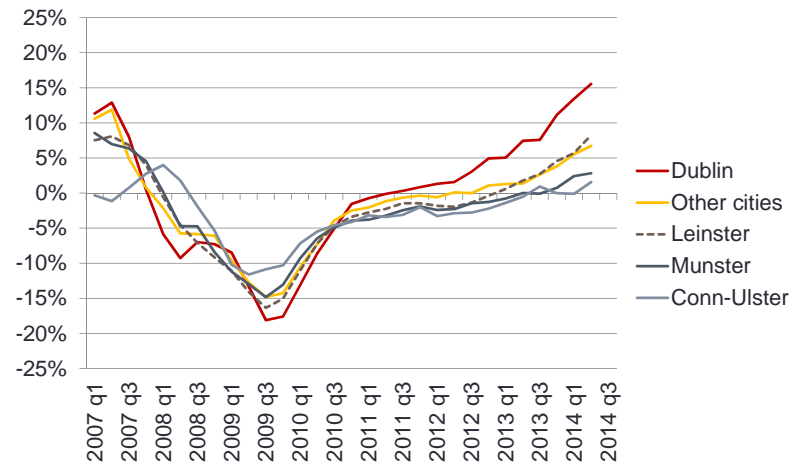


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Very similar pattern in rental market



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What does this mean?

- This time *is* different to 2001-2007
 - Prices rose then while rents fell, so tied to asset factors
 - As asset factors are national, unsurprising that increases 2001-2007 were a country-wide phenomenon
- Now, however, prices and rents in Dublin are rising rapidly
 - While both are stable or falling in many parts of the country
 - Suggests that fundamentals – not asset factors – are driving current developments in the housing market
- Is it different to 1995-2001?
 - Prices then largely driven up by rising incomes
 - Prices now largely driven up by a lack of supply

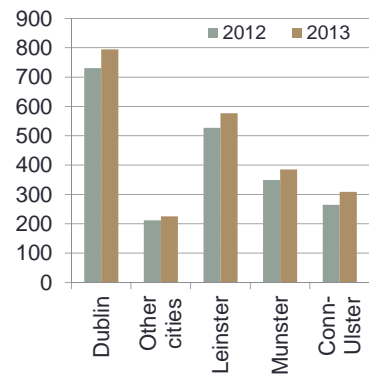
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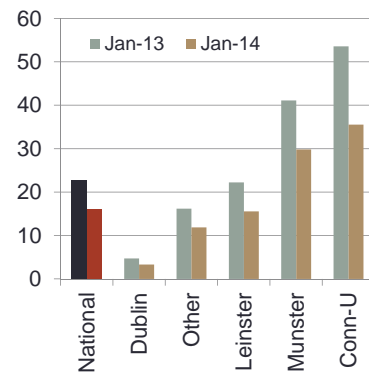
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3 months supply in Dublin vs. 3 yrs in Connacht

Average number of transactions per month, 2012-2013



months supply on the market, Jan 1 2013/2014



Source: Daft.ie, Residential Property Price Register

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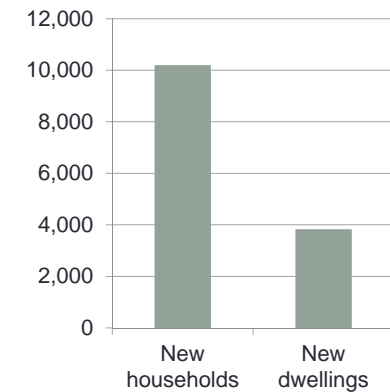
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Demographic pressures in Dublin

- Since 2008, Dublin's population growing by 15,000-20,000 a year
 - 9,300 births to first-time mothers 2008-2013 + no-child households
- Between 2008 and 2013, Dublin's housing stock grew by just 23,000
 - Versus 60,000 new families
- A growing shortfall – with sprawl implications

Annual change, Dublin (est.), 2008-2013

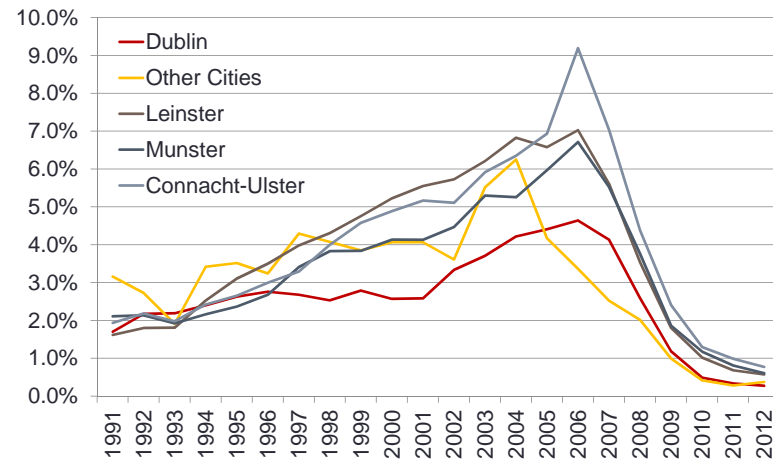


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Dublin completions are ~10% of last recession



Source: Census 1991-2011, DoECLG

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Why the lack of supply?

- Like trends in prices, trends in quantities (new supply) come down to a small number of factors
- **Materials:** world prices (more or less)
- **Labour:** up to 40% of costs – and up to 50% more expensive than in Northern Ireland
 - Is there any political will to change this?
- **Capital:** very active in Ireland at the moment, but acquiring not developing
 - The residual factor – if it's not flowing in to construction, suggests an issue with the cost base
- **Space:** price of land and regulation
 - Set by government, directly and indirectly – but does it know this?

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Housing policy – the nitty-gritty

- Spectrum from bottom-up (market) to top-down (planner)
- Currently overly planner-led
 - E.g. of north-facing units!
- Orientation and size restrictions: add ~€10k-€15k
 - DCC size req'ts 25-33% above DOE
 - Lift and parking requirements: a further €25k
- Including levies (vs. land tax), up to €50k per unit in unnecessary regulatory costs
 - Completely distinct from value-adding regulation (e.g. BER)

Dublin City Development Plan, Chapter 15

"The majority of apartments in a development must be dual aspect. ... Where single aspect buildings are unavoidable, they should be designed to avoid exclusively northern orientation."

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Should we worry about another bubble?

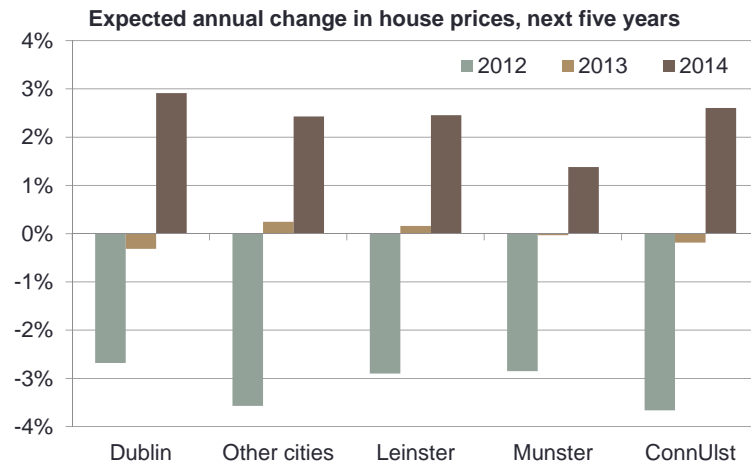
- Assessment above suggests that what we have is not a bubble (asset factors)
 - Rather it is down to fundamentals (a lack of supply, relative to demand) in certain parts of the country
- Diagnosis helps understand the best medicine
 - A bubble has two ingredients: excessive supply of credit, which empowers unrealistic expectations
 - Solving current price rises is about increasing supply of housing, not reducing the supply of credit
- Does this mean we should not worry about another bubble?
 - No – lesson of 1995-2007 is that a fundamentals-driven price increase can turn, over time, into a bubble

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A significant change in expectations



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Not a bubble... yet

The bad news

- Housing bubbles are based on credit and expectations
 - By these measures, Ireland does not have a housing bubble
- But to get unsustainable credit and expectations, you need years of significant house price increases
 - We are on our way there!

The good news

- It is entirely within the control of Government to stop another bubble
 - ~~Introduce a minimum deposit requirement — ideally 20%~~
 - Reduce unnecessary regulatory costs – up to €50,000 a unit