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Mixed messages in Ulster’s housing market

The various national housing survey’s have begun to strike a note of optimism. But local commentators are not so sure we should expect a marked recovery just yet.

By Paul Gosling
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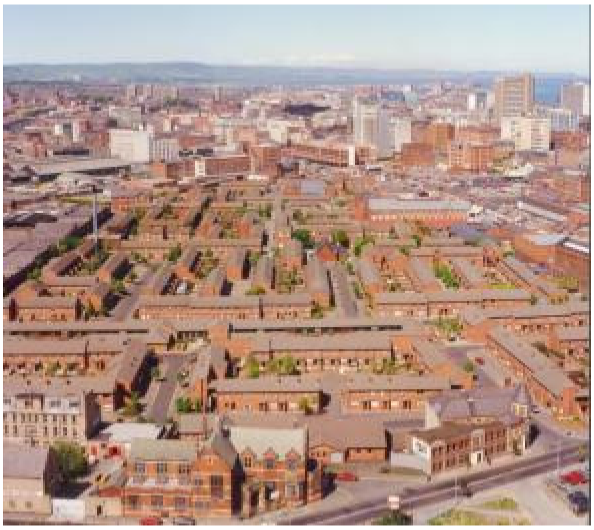

The property market has already seen a fall in house prices of up to almost 50% in many sectors, such as terraced homes and apartments in the buy-to-let market.

Housing prices are recovering strongly — or at least that's what the headlines suggest. Look below the surface, though, and there is considerable uncertainty about what is happening.

The strongest positive sign came last month from the University of Ulster's Quarterly House Price Index. This concluded that the collapse in Northern Ireland house prices has almost reached its end, with prices falling a mere half a per cent in the second quarter of this year.

Co-author Louise Brown argues that the conclusions can be trusted. “It's real data,” she explains. “It's what has happened.” But while Brown insists the survey results are reliable, she admits that recent transactions are not necessarily a clear guide to what will happen in the future. Sales volumes are down in Northern Ireland to about 30% of their pre-crash volumes.

“We have a huge amount of property on the market that is still not sold,” says Brown. “People are desperate to sell and some are desperate to buy.”

Just how much significance should be placed on the University of Ulster survey is open to question. While it uses data on actual sales, so do other surveys — which produce different conclusions. According to the University, average house prices here in the second quarter of this year were £158,886. But the Halifax house price index for the same period concluded that average prices were £152,891, while the Nationwide reported a more downbeat £135,862 — following a 4.7% fall in the last quarter.

Not that this is a cause for panic, stresses the Nationwide's chief economist, Martin Gahbauer. “Our data shows that prices are broadly stable across the UK,” he says. “The rate of decline in Northern Ireland in the second quarter did moderate for the first time since the downturn. It's true that prices have fallen much further (in Northern Ireland) than in the rest of the UK — down 40%, against 18% in the rest of the UK.”

However, there are several factors that determine house prices — these include supply, demand, perceptions of value, availability of finance and affordability. And there are questions in Northern Ireland about affordability.

Average incomes in Northern Ireland are significantly below the UK average, yet according to the most recent Halifax regional price index, house prices in Northern Ireland are the fourth highest of any region — behind only London and the south east and south west of England. The Nationwide paints a different picture, though, putting Northern Ireland as eighth of 13 UK regions.

And, says Gahbauer, house prices have become more affordable here. “It's pretty much in line with the UK average now,” he concludes. “London, the south west and the south east are more stretched than Northern Ireland.”

Halifax's chief economist, Martin Ellis, takes a less sanguine view of our prospects. “In Northern Ireland, affordability is a greater issue than in the UK,” he admits. He also believes there is a “bigger risk” of further price falls here than in the rest of the UK.

“There is more downward pressure in Northern Ireland than in the UK as a whole,” says Ellis. “Even if we get stabilisation, it could be some time before we get any real growth (in house prices) in Northern Ireland.”

But if some commentators are cautious, others are downright alarmist. Jonathan Davis, a Chartered Financial Planner with Armstrong Davis, was negative about the housing market before the crash and remains so.

“I am looking at a 70 to 80% fall by the end of 2011/12,” he predicts. Davis argues that only the Government's stimulus package averted economic calamity, particularly in public sector-dependent Northern Ireland. “After the (Government's) stimulus programme is over, there will be nothing holding up the Northern Ireland economy,” he suggests.

With a continued rise in unemployment and his prediction of a further fall in economic activity, Davis believes the impact will be serious on developers and investors. “I don't expect people to make money out of property for the next 10 to 20 years,” he says.

Davis is distinctively apocalyptic, but others are also negative. Ed Stansfield, property economist at the respected firm of Capital Economics, says: “I still think that prices in Northern Ireland have some way to fall. Northern Ireland entered its own realm during the final stages of the boom and (house prices) rose far faster than imagined. Some of that was catch-up because of the political situation. But I think it went too far.”

Stansfield is also downbeat about the prospects for the UK property sector as a whole “We have a very thin market, with very few transactions,” he says. “While it is undoubtedly the case that interest levels and viewing numbers are up, they are off a very small base. The strength of that recovery is probably being exaggerated.”

The reality, argues Stansfield, is that there has been a small increase in demand, more realism by some sellers in asking prices and the result has been a marginal increase in house sales and prices achieved. “That doesn't seem to me a very sustainable recovery,” he suggests. He also believes, contrary to the Nationwide, that average house prices here are too high in terms of their affordability.

Nor are these the only negative predictions for the housing sector. In an economic forecast published last month, the Ulster Bank joined the doom-mongers. It expects average house prices in Northern Ireland to fall from £150,000 this year to just £125,000 next year.

But stresses Ulster Bank economist, Richard Ramsey, "It is our view that the vast majority of Northern Ireland's house price correction has taken place". His prediction of further falls is based, mostly, on the belief that house price surveys have yet to fully reflect the prices being paid by buyers. When that process feeds through, believes Ramsey, "Northern Ireland's average house price will have experienced a peak to trough correction of around 50%".

Alan Bridle, chief economist at the Bank of Ireland, believes that we can now look forward to a period of house price stability. "I think we are at, or near, the bottom in terms of average prices," he says.

But, he warns, there are different markets within Northern Ireland, with prices in Greater Belfast more likely to stand-up than those in mid-Ulster, which is more dependent on the construction industry and more likely to be hit by the recession. Bridle also believes that there will be downward pressures from future public spending constraint, which he predicts could cut economic activity by around 2% from April 2011.

"We have a short window when the private sector recession will end quite shortly and we will probably get modest growth in 2010," predicts Bridle, But the positive impact of that growth will begin to be counteracted the following year when public sector cuts begin to be felt, he believes.

Tom McClelland, the Northern Ireland residential spokesman for the Royal Institution of Chartered Surveyors, is another who expects prices to be broadly stable, though he displays reservations. He suggests that prices have already fallen by nearly 50% in many sectors — such as small terraced homes and apartments in the buy-to-let market.

Even if prices have now stabilised, they are unlikely to be rebound — and could even fall further, McClelland warns. Risks include not only declining public spending and rising unemployment, but also that mortgage lenders might increase their rates of repossessions. He is even more concerned by the exposure of Dublin banks to the Belfast residential housing market. McClelland reports rumours that these banks may have £5bn to £6bn tied-up in loans to investors in the Belfast market, which are now unlikely to be repaid and therefore taken on by the Republic's National Asset Management Agency (NAMA).

McClelland fears what could happen to the Northern Ireland property market if the Republic puts these assets quickly up for sale. "If that was all realised on the market, the impact would be gothic," he suggests. More likely, he believes, "you will see that dripping out over the next five years, in some cases 10 years", with a continuing negative impact on home prices for years to come.

Despite all this, says McClelland, there are positive signs. First time buyers are coming back into the market and the latest RICS survey found improving market sentiment. "I think we have made a tremendous recovery, given that three UK banks went bust a year ago," he says. "I would be optimistic that volumes might increase. But I take the view that it would be very wise if prices remained stable."