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Six Reasons Why the Property Market will be Slow to Recover

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Six reasons why the market will be slow to recover

An oversupply of housing and continued uncertainty are among reasons there is little hope of growth in the residential market, argues **Lorcan Sirr**

IN SPITE of last month's budget measures aimed at stimulating the property market, there are six reasons why the market will remain slow to recover.

The National Institute for Regional and Spatial Analysis (NIRSA) at NUI Maynooth is one of the few bodies which has been consistently researching the housing market with any degree of rigour. It believes that the budget measures aimed at boosting the residential property market won't work.

Firstly, prices are still falling, or "unwinding", and most analysis suggests they will continue to fall for up to the next 24 months. No correction can happen until prices stop falling. But even when they do stabilise, there are other issues to take into account.

We have a massive oversupply of housing. CSO figures say 14.7 per cent of the total stock is vacant. My calculations say that excluding second and holiday homes, this is still a 9.65 per cent vacancy rate.

This is 60 per cent more than the Government's rather generous vacancy base rate of 6 per cent, or some 240 per cent – more than most countries' natural vacancy rates.

NIRSA holds that the notion that housing supply is running out in some areas is not supported by the data available. Until housing supply and demand align, they say, property prices will not increase.

Demand is, of course, about people wanting the product. Increased emigration coupled with a slowing of household fragmentation (think children moving back into the family home, for example) means that demand is very weak.

No demand means no sales; no sales means no upward price movement.

Buying a house for a home requires an ability to be mobile. According to NIRSA, we currently don't have a mobile population as many households are locked into their present property through negative equity and simply can't afford to move.

More than 8 per cent of mortgages are currently more than three months in arrears. Prices will have to rise considerably for people to be able to afford to move once more.

The greater economic picture has also damaged hopes of recovery. More than 14 per cent of Ireland's working population is unemployed. Many people, employed or not, are severely financially strapped, with whatever reserves they once had considerably depleted. In the short-term, this doesn't look like improving.

In addition, peoples' access to credit is limited not only by their personal circumstances but also by the banks' reluctance to lend. It will take some time for potential purchasers to build up deposits and reserves again.

People are also incredibly cautious and understandably so when they view the work of Nama, ghost estates, developments such as Priory Hall, the failure of local authorities to take developments in charge, and confusion over management of private developments.

Finally, with so much uncertainty surrounding both the property market and the broader economic situation, people have little confidence in both the property market, and according to NIRSA, in the property profession as well.

In my own view, undoubtedly the property profession gained little favour in the residential market over the years, with marketing often masquerading as research.

The profession, the market and society as a whole has, however, also been severely hamstrung by the lack of detailed official statistics: what sold where, for how much, and what size was it? These are basic figures which are found in any functioning market. Their absence undoubtedly contributed to the current situation in which we find ourselves. Stocks and shares are not bought in an information vacuum, yet houses often were.

Facts and figures also help to dispel the role that sentiment has on the market. It is much easier to talk up or down a market in the absence of facts with which to prove or disprove the claims being made for house prices.

The Property Services Regulatory Authority proposes to have a register of house prices by June 2012. This production of facts is good, if long overdue, news.

The problem is it will be using 2010 as a base year, which means we will still be missing data from the boom and especially the bust.

This is important information, so we can recognise similar patterns should they emerge again.

NIRSA's analysis may not suit everybody. To my reckoning, there is a lot of sense in it. Indeed, maybe what we are currently experiencing is a shakedown of house prices to where they should be for a population our size. NIRSA's posts are at irelandafternama.wordpress.com.

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