In 2007, the Irish property boom reached its highest point. Just before the collapse in property prices, many economists were talking about the property market having a "soft landing" i.e. prices would fall slowly and only by a small amount. Morgan Kelly appeared on Prime Time and made some predictions that turned out to be correct. Search for "Morgan Kelly warning of imminent collapse, 2007".

2013 – 2017: House Prices Rising

In 2013, house prices in certain urban areas began to rise. This lead to much debate as to whether another housing bubble had emerged.

The price rise had initially in 2013 been caused by an **excess of demand** for houses in those areas and a **shortage of supply** which forced prices to rise. However, the price rises could have become a property bubble if speculators started purchasing properties in those areas in the hope of "flipping" them.

There had also been much media speculation about the price rises with many economists making predictions about large future price rises. This in turn fuelled demand – when such predictions are made, it influences purchasers to buy now rather than to take a "wait and see" approach…which in turn contributes to prices rising!

Such predictions can also result in potential sellers deferring the sale of their home in the hope that if they wait, they will get a better price in the future. This reduces the available supply of houses for sale which in turn results in prices rising.

To address the problem the central bank has introduced **new rules on mortgage lending**. These rules were introduced in January 2015 and amended towards the end of 2016.

- Non first time buyer: can borrow 80% of value of property [20% deposit required]
- First time buyer: can borrow 90% of the value of the property.
- Investors are subject to a 70% loan to value limit [i.e.30% deposit required]
- Residential loans are limited to 3.5 times income

The following example illustrates how this has affected demand

Old System – 10% deposit required
A buyer [**not** a first time buyer] has €40, 000 in savings [as a deposit]. The buyer could purchase a house valued €400,000, made up of a 10% deposit and a 90% mortgage of €360, 000

New System – 20% deposit required
A buyer [**not** a first time buyer] has €40,000 in savings [as a deposit]. The buyer could purchase a house valued at €200,000, made up of his 20% cash deposit and an 80% mortgage of €160,000

The economic effects of requiring non first time buyers to have a 20% deposit:

1. **House prices will fall/stabilise** – purchasers won't have the money to buy expensive houses. Therefore sellers will have to lower their prices.

2. **Supply of housing will fall** – if builders/sellers have to sell property at lower prices, it could discourage the building of new homes or it could discourage those who are thinking of selling from doing so. This would reduce the supply of property and this could drive prices up.

3. **Banks take less risk** – if the properties fall in value by 20%, all that is lost is the cash deposit of the buyer. The bank could repossess the house if the owner could not repay the mortgage, sell the house and clear the loan. The banks are insulated from house price falls of up to 20%. This would prevent a repeat of the banking crisis as banks would be less exposed to the risks of falling house prices

4. **Demand for rental property** will rise – the limit of 3.5 times income will make it difficult for many people to get a mortgage, especially in expensive areas such as Dublin. They will be forced to rent. Rents will rise as a result of the huge demand for rental properties. Some people might never be able to purchase a home if they must pay high rents **and** also try to save for a large deposit for a home.

5. **Reduced burden on borrowers in the future** – borrowers cannot now take on large debts for the purchase of a home and so their repayments will be smaller in the future.

Rising Rents

Rents have risen in the private rental sector for the following reasons

1. Supply – supply of rental properties is limited. Many **landlords have left the property rental market** [e.g. sold the property] due to falling rents during the recession. Many have also left due to the high levels of tax they pay on rental income

   Construction of new properties that could be sold to landlords has also fallen due to the current housing crisis whereby builders who build homes feel they will not get a good price for them due to Central Bank lending restrictions. New properties that could end up being rented are not currently being constructed.

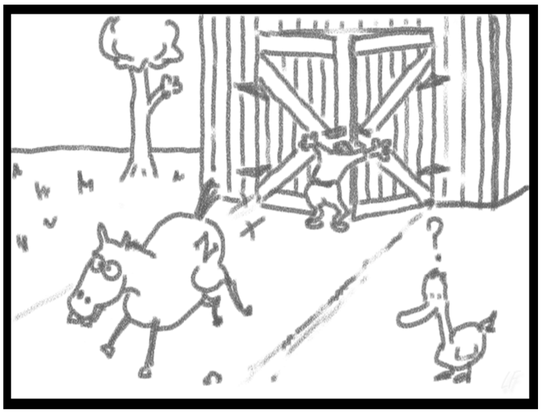
2. **Demand** – the population is rising in certain areas resulting in higher demand for rental properties e.g. natural increase, returning migrants, immigration, rising employment, higher numbers attending third level.

3. **New mortgage lending rules of the Central Bank**. Due to these new restrictions on borrowing, many of those who would previously have purchased or built a home are now forced to rent, if they cannot get a mortgage big enough to pay for a

new home in their area. This extra **demand** for rental properties is forcing rents up.

4. **<u>Expectations of rent freezes [rent ceiling]</u>** – there was much speculation about this for the second half of 2015. Landlords, who were in fear of a rent freeze being forced upon them by new Government regulations, put their rents up before the new laws were introduced.

   In **November 2015**, rent freezes were finally announced to give **rent certainty** to those in the private rental sector. However, many landlords had already increased rents substantially due to the speculation about the possibility of rent freezes. In fact, the possibility of rent freezes caused rents to rise which defeated the whole purpose!
   Under the new rules
   - Those who had rents raised in 2015, would not face another rent increase until 2017 i.e. there must now be 24 months between rent reviews.
   - Landlords must now give 90 days notice of the new rent to be paid in the event of a rent increase.
   - Rents must be in line with local market rents.



Closing the stable door after the horse has bolted = introducing rent freezes after the rents have risen!