Submission on Macro Prudential Rules

to

Central Bank of Ireland

in relation to

CENTRAL BANK (SUPERVISION AND ENFORCEMENT) ACT 2013 (SECTION 48) (HOUSING LOAN REQUIREMENTS) REGULATIONS 2015 SUBMISSION

Submitted by

Keith Lowe FSCSI FRICS MIPAV
Chief Executive
DNG

30th August 2016

DOUGLAS NEWMAN GOOD (DNG)

Submission to Central Bank of Ireland in relation to Macro-prudential policy for residential mortgage lending

Introduction

Douglas Newman Good is a multi-disciplinary estate agency practice with over 75 offices throughout the Republic of Ireland. At the date of this submission the DNG Group is the leading seller of re-sale residential properties in the state. We have a large New Homes, Development and Advisory Division based in Dublin and we act for a large number of land owners, developers, institutional investors, builders and financial institutions and carry out a significant amount of property related services for NAMA. We have in the past also undertaken various works for many local authorities and The Housing Agency. DNG Advisory Services have also carried out extensive work for financial institutions and international investors over the last number of years for the sale and purchase of very substantial loan books and property portfolios.

At the outset, we wish to point out, as stated in our initial submission in 2014, DNG are not adverse to the Central Bank having safeguards. However, the current restrictions are somewhat too strict and are adversely affecting the speed of market recovery.

They are also having the effect of increasing rents, putting further pressure on Social Housing and reducing the ability of many first time buyers (FTB) to enter the property market. Many buyers also have had to buy houses very far away from their desired locality and indeed their workplace, which in time will have a negative social impact on their daily lives.

According to DNG research only 2.1 houses per thousand populations are changing hands, which is under half the number of transactions that are being sold on average in the UK, which stands at 5.4 for Q1, 2016. Whilst the Central Bank and some commentators compare the Irish market to those in other countries in central Europe and beyond, it is our neighbouring countries such as England, Northern Ireland, Scotland and Wales that we should be looking too.

The Central Bank mortgage restrictions on Loan to Value (LTV) and Loan to Income (LTI) are an effort to do two things. Firstly, to ensure that the banks do not repeat the mistakes of the past and to increase their resilience in the event of a downturn by curtailing reckless lending. Secondly, to protect borrowers by limiting the amount that they can borrow. Whilst these are very reasonable and admirable intentions, it is our view that the current restrictions are slowing recovery and as a consequence the market is now returning to normality at a slower pace than what it would have done if the restrictions were somewhat less limiting.

Summary of the Property Market

- Property transactions for the year to date show the transactions per thousand populations in Ireland sits at 2.1 in Q1, 2016. This is relatively low compared to our closest international neighbours in Great Britain which has an average of 5.4. Indeed even Northern Ireland property transactions are nearly double the amount per population than Southern Ireland.

- In 2015, there were only 48,705 house sales in the state and this includes a large number of block sale and portfolios to international funds.

- According to DNG research there were only 3,508 new homes listed in 2015 on the Property Price Register as completed sales in new housing schemes of 3 or more in the state. Other new homes sales are attributed to the sale of blocks of property or one off construction projects of singular homes.

- Property prices in Dublin had started to fall prior to the restrictions being enacted by the CBI.

- Property prices in Dublin are now showing only modest single digit price growth.

- Property price rises outside Dublin are now moderating which is not as a result of the CBI restrictions because the average price point of a property outside Dublin is much lower than that in the capital and buyers are less affected by the new lending rules.

- Property prices in most rural areas still remain far below replacement value.

- Property prices for most apartments in the capital remain below replacement value.

Special Property Survey of over 1,000 Parties

According to the results of a recent survey of over 1,000 parties, prepared by Behaviour and Attitudes for a group of interested parties including DNG, the following are the headline results:

- 4 out of 5 participants were aware of the new CBI Rules on deposit/income.
- 3 out of every 10 people have to purchase more than 15KM from where they wanted to buy.
- 71% of first time buyers and movers are impacted be the new lending rules, the majority negatively.
- Those without full savings feel it will take 6 years to save to purchase a home (presumably on the basis that property prices remain stagnant).
- 44% of FTBs referenced deposit size negatively.
- 42% believe that they will need financial assistance from family.
- 52% have excluded from the area they wanted to buy in as their first preference.
- Many are now living in rented accommodation for longer than they initially anticipated.

Credit Lending

- 90% loans with up to 4.5 times salary have been available since the mid 1980's with no issue. The real destabilising influence in the last decade was high percentage interest only loans made available to all buyer types.

- Current bank lending policy is conservative and financial institutions are forensic prior to approving loans and are stress testing applications at high interest rate levels.

Potential Risks of Not Altering Current Central Bank Restrictions

- Risk that property market recovery will be delayed further.

- Risk of continued low level property transactions in some areas of Ireland which will hamper recovery as buyers save further to buy.

- Risk that new building numbers remain low

- Risk that rents will rise further.

- Risk that, as rents rise further, social housing tenants will be further marginalised as the gap widens between rent subsidy caps and actual rental values. For the past 5 years or more the majority of new social housing has been provided by the private rental sector.

- Risk that first time buyers will be forced to borrow from secondary high interest rate providers to fund balance of loans.

DNG Key Recommendations to CBI

Loan to Value

We recommend that the threshold figure of €220,000 increases to €300,000 in urban areas. It is unrealistic expectation as an example that a first time buyer should have to amass savings of €38,000 to purchase a property at a price of €300,000. This is a monumental undertaking for many especially for those buyers in rented accommodation.

Loan to Income

It is prudent that there is a ceiling on the amount that can be borrowed in relation to salary. However, the current multiple of 3.5 times annual salary is somewhat prohibitive in Dublin and other key urban areas. A cap of 4 to 4.5 times the annual salary should be considered.

Conclusion

As mentioned above, DNG are not averse to CBI mortgage lending safeguards. However, we feel the current restrictions are somewhat too austere and are adversely affecting the speed of market recovery, leading to high rental inflation which consequently is having negative effects on Social Housing. It is important that the property market recovers to some form of normality as this is one of the main drivers of the Irish economy. With this in mind, we are urging the Central Bank of Ireland to consider our proposals as recommended in this submission, as being a fair and reasonable action that should have the desired effect required.

Keith Lowe
Chief Executive

30th August 2016.