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Mortgage plans will have serious knock-on effects

Those with access to cash have big advantage over those who must save

On the face of it, the Central Bank's recent proposals to limit lending to borrowers are probably not a bad thing. If it can help prevent bonus-driven lending and feckless borrowing, then well and good.

The measures, admitted by their proposers to be crude, are probably designed to be part of a long-term housing affordability framework; they are definitely designed to try to prevent any credit-fuelled bubble.

Their crudity is also their strength – very few lenders or borrowers will not understand them. Whether lenders adhere to them, or find ways around them, is another issue.

In essence, the proposals are twofold: the first element proposes that the vast majority of all new mortgages will be for only 80 per cent of the value of the property. Only up to 15 per cent of new mortgages will be allowed to be for any more than this amount.

Second, there will be an income multiple limit of 3½ times the gross household salary. Twenty per cent of mortgages will be allowed to be in excess of this amount. Both these measures will, in theory, stop borrowers overextending themselves. The proposals are going to have some serious knock-on effects, however, and this is where the stitching starts to unravel.

First-time buyers

A considerable proportion of the mortgage market is made up of first-time buyers, and they are generally younger people getting going on their careers, mostly earning less than they will in the future. For these people, saving a 10 per cent deposit on an average national house price of €195,000 is hard enough. The Central Bank's new measures will mean potential borrowers having to save a deposit of €39,000.

This is not far off an average Irish salary for an entire year. Dublin purchasers will need to save an average of €52,600.

This is going to be challenging, and will also mean that those with access to cash, through family, or other means, will have a considerable advantage over those who have to save. Saving for these deposit amounts also means having less money to spend in the economy – there will be fewer holidays and less spent on meals out and so forth.

People will also be saving for longer – in some cases years longer than they had planned – and while doing that many will be renting. More people renting is going to drive up rents as demand increases.

Renting is therefore going to remain a significant feature of the housing market overall for some many years to come. The rental market is not really set up to have people living in it long-term, however, mainly due to the lack of security it affords tenants.

This lack of security – the reasons whereby tenants can be asked to leave a property – means the rental market has never been properly developed as an option of choice. Hence the traditional demand for mortgages and people wanting to own their homes (although this is in decline).

This is the rental market now destined to accommodate frantic savers, many approaching the age where they want to start families and settle. The average age to have a baby in Ireland is now 31 years; and the average age of a first-time buyer is about 32. These statistics tell us many things, but couples saving and renting is likely to push out the first baby age, which has other implications.

Savvy investors

Cash buyers are considerably advantaged by these new proposals – it was ever thus – and savvy investors will snap up properties to rent to the frantic savers.

Increasing the time needed for savers to accumulate their new deposits might mean that when housing supply starts to come on stream in about 18-24 months – and people forget it takes this long – prices should not have risen as much as they might without the new lending criteria.

There is much research behind the proposals, but they are only one element in creating a functional housing market, the others being job creation (currently improving) and increasing housing supply (under way). It is unclear how much

discussion the Central Bank had with other State agencies before issuing these proposals, to determine the likely impact on housing and society. The consultation period ends on December 8th, with the measures due to come into effect on January 1st. These dates would suggest a *fait accompli*, given that the period for considering any submissions is so short (even falling over Christmas).

In the meantime it looks like estate agents might have a busy autumn as potential buyers rush to hand over their 10 per cent deposits.

Lorcan Sirr is a lecturer in housing at Dublin Institute of Technology and edited the recently published collection *Renting in Ireland: the Social, Voluntary and Private Sectors*

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