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Central Bank of Ireland

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Remarks at SCSl annual conference

Property markets, finance and the economy

- Property plays a central role in our society – and therefore the economy. From an economic perspective, fluctuations in property prices and rents have a big effect on net worth and spending decisions by households and businesses.
- ‘Dual’ role of property, with purchases motivated both by an intention to occupy the property (‘consumption good’) and as an investment asset.
- Property purchases often financed partly with debt. This creates a strong link between the property market, the financial system and the broader economy.
- Property a key source of collateral in the economy. This creates a strong link between property valuations and the ease of financing conditions across the economy, raising the potential that unsustainable dynamics can emerge.



Fragilities in property finance can lead to economy-wide harm

Housing market

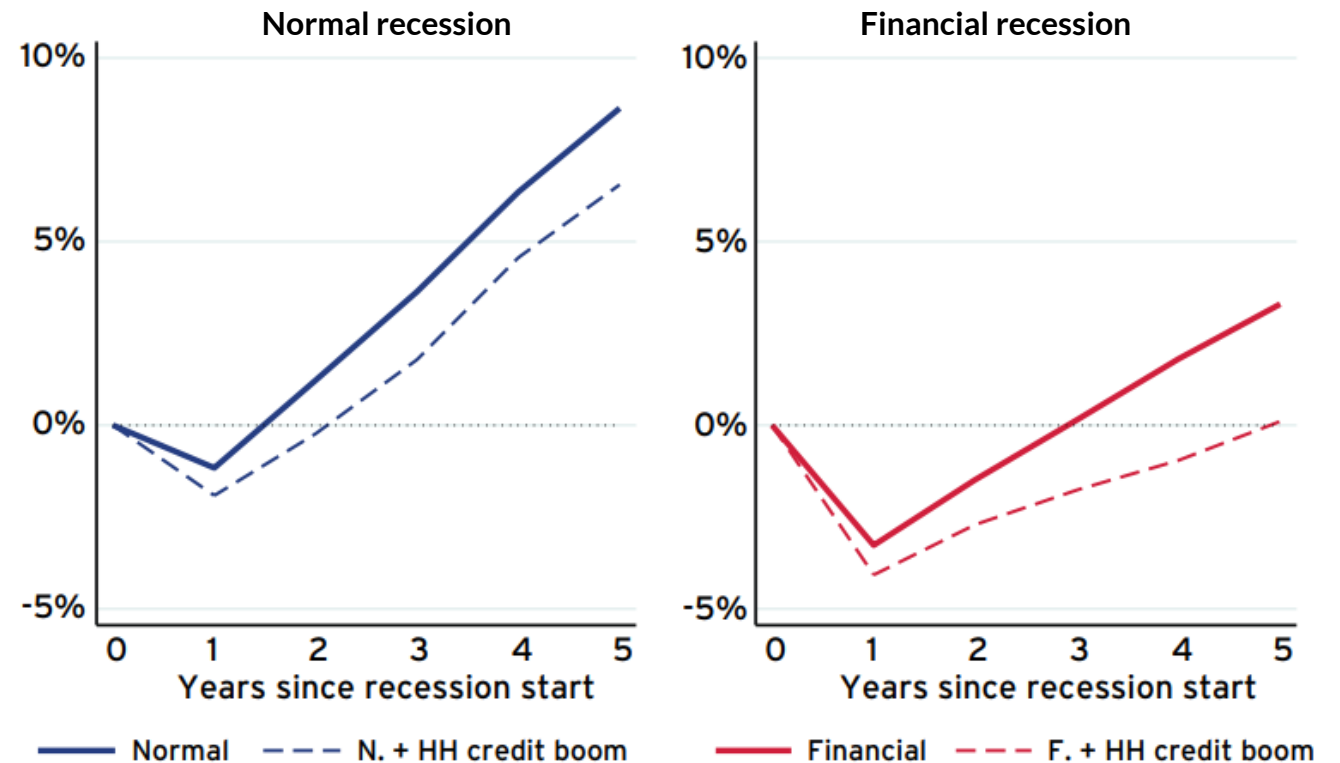
Prolonged periods of unsustainably loose mortgage lending standards and rapid increases in household debt often result in costly recessions and financial crises, with long-lasting adverse implications for the economy as a whole.

Commercial property market

Evidence on the macroeconomic implications of corporate credit booms more nuanced, but corporate lending booms concentrated on the real estate and construction sectors have been associated with increased financial fragility (eg Nordics, Japan, GFC).

Household credit booms make recessions worse

Household credit booms and the recession path



Source: Boone et al (2021) 'Debt: The Eye of the Storm', https://cepr.org/system/files/publication-files/147590-geneva_24_debt_the_eye_of_the_storm.pdf

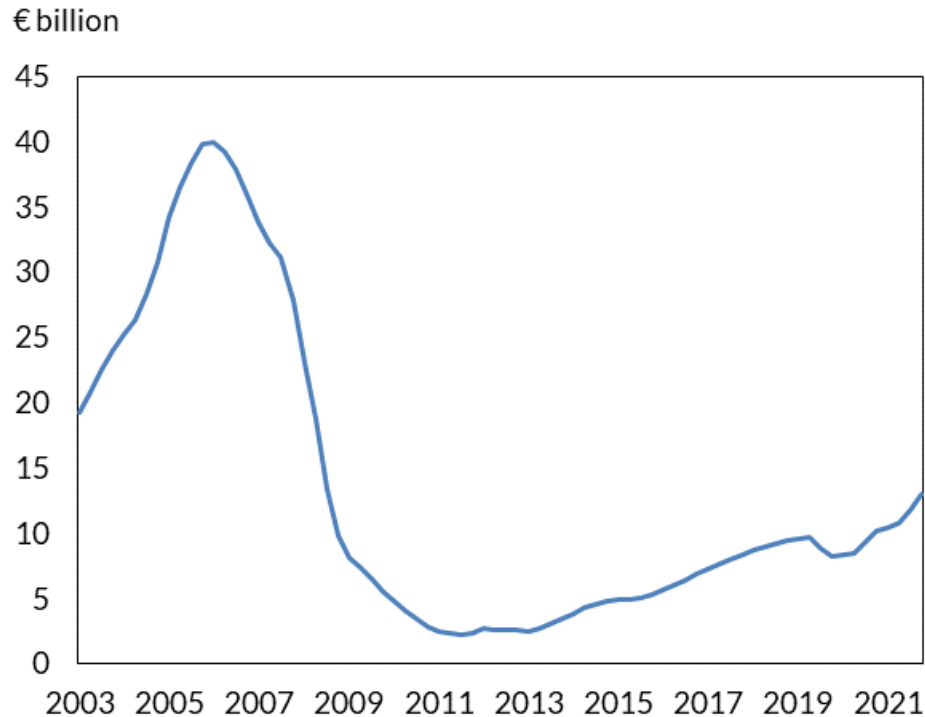


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Evolution of financing in the Irish housing market over the past decade

Following an unsustainable credit boom and bust, aggregate lending points to a gradual return to more sustainable mortgage market dynamics



Source: BPFi.

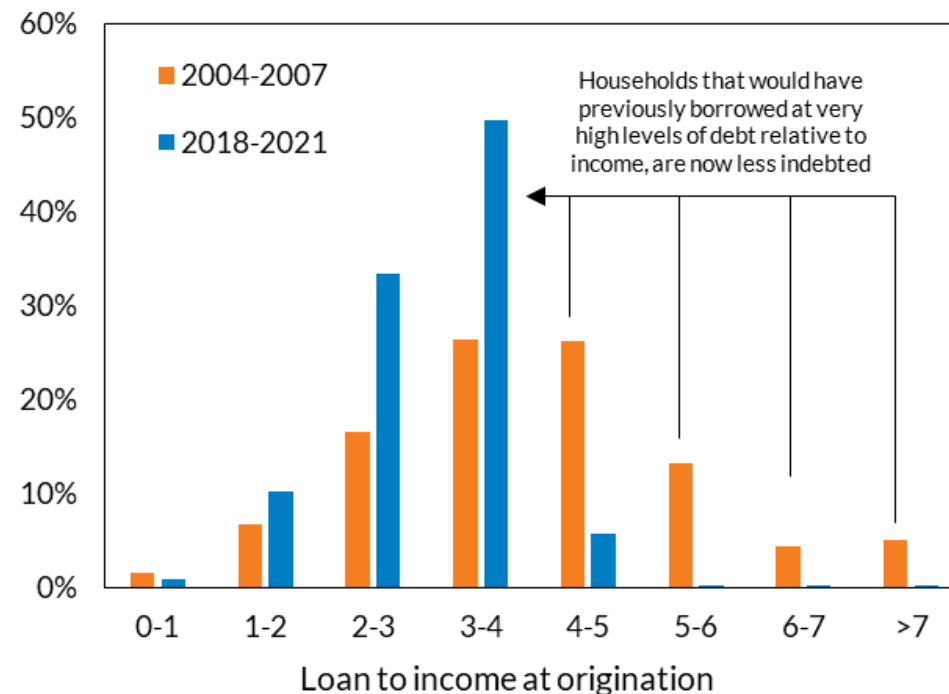
Notes: Value of mortgage drawdowns. Four-quarter rolling sum. Includes re-mortgaging.



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Recent mortgage borrowers have lower level of indebtedness relative to incomes, strengthening resilience to adverse shocks



Source: Central Bank of Ireland.

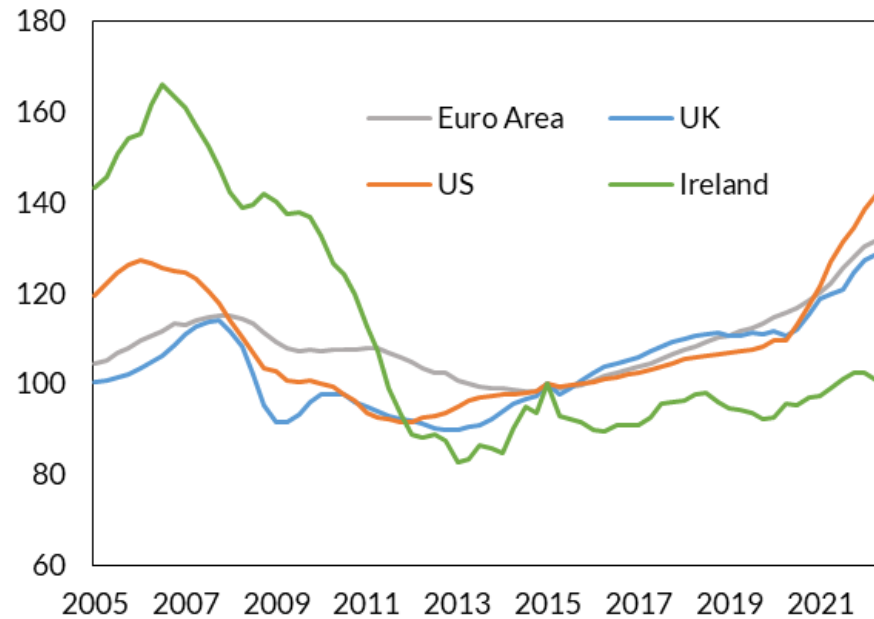
Notes: Share of the total value of new home loan (PDH) mortgage lending originated at loan-to-income ratios in categories up to and including the depicted ratio.

Underlying supply-demand imbalance in the housing market

Over the past decade, Ireland has seen a smaller deviation between growth in house prices and rents relative to some other advanced economies.

Both house prices and rents have increased relative to incomes, pointing to a underlying imbalance between the demand for, and supply of, housing.

House price to rent index (2015 Q1 = 100)



Source: CSO and OECD.

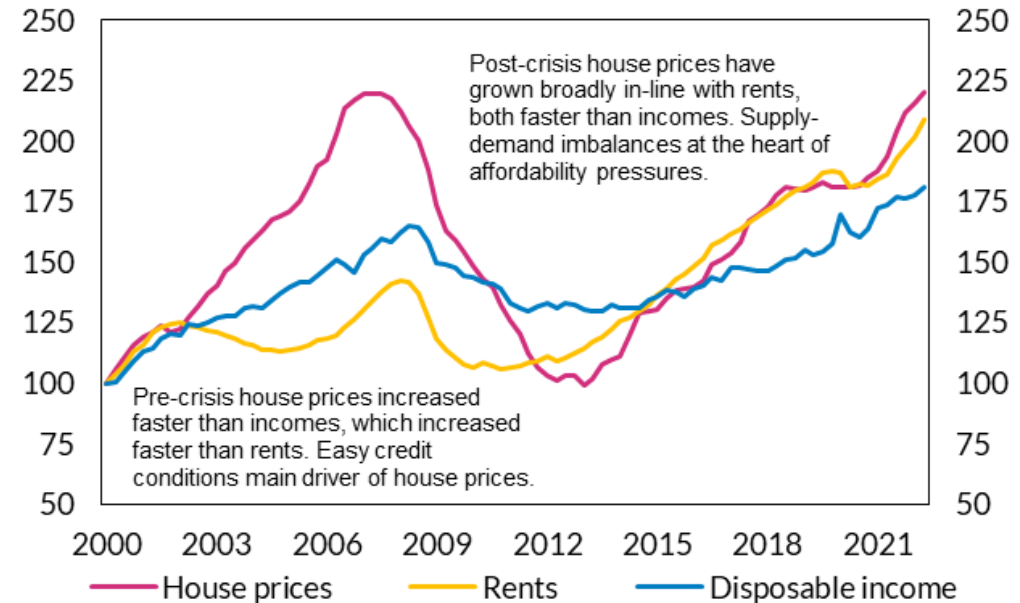
Notes: House price to rent ratio across advanced economies (indexed).



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Index (2000Q1=100)

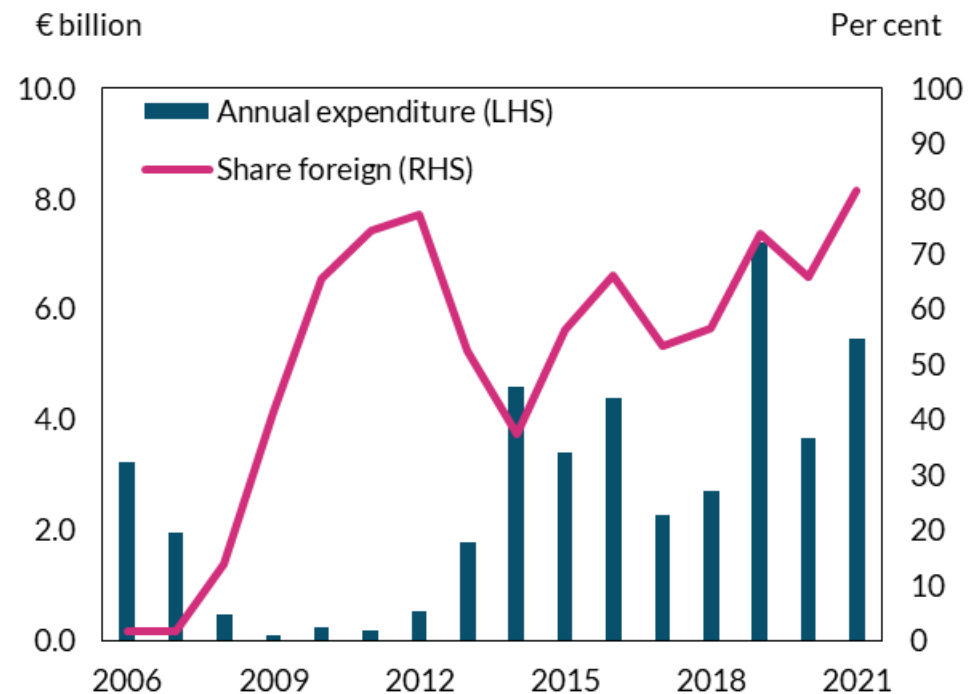


Source: CSO.

Notes: Evolution of house prices, rents and incomes (indexed).

Evolution of financing in the commercial property market

Over the past decade, there has been greater involvement by foreign investors in the commercial property market



Source: CBRE research.

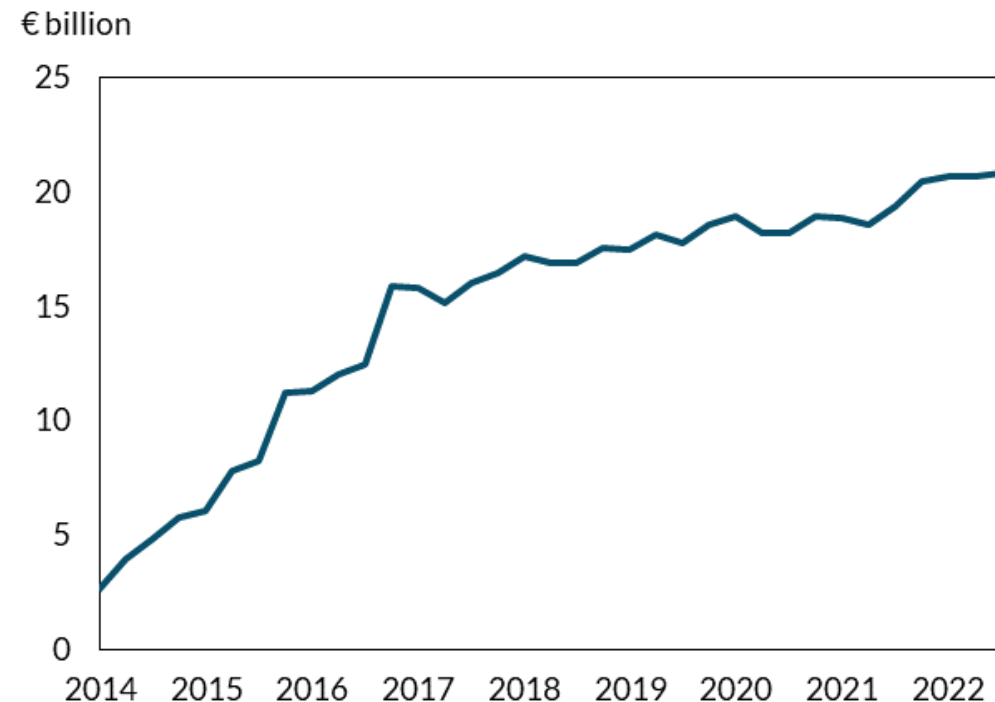
Notes: Investment expenditure on Irish commercial real estate.



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Changing nature of financial intermediation, with investment funds increasingly intermediating capital in the commercial property market

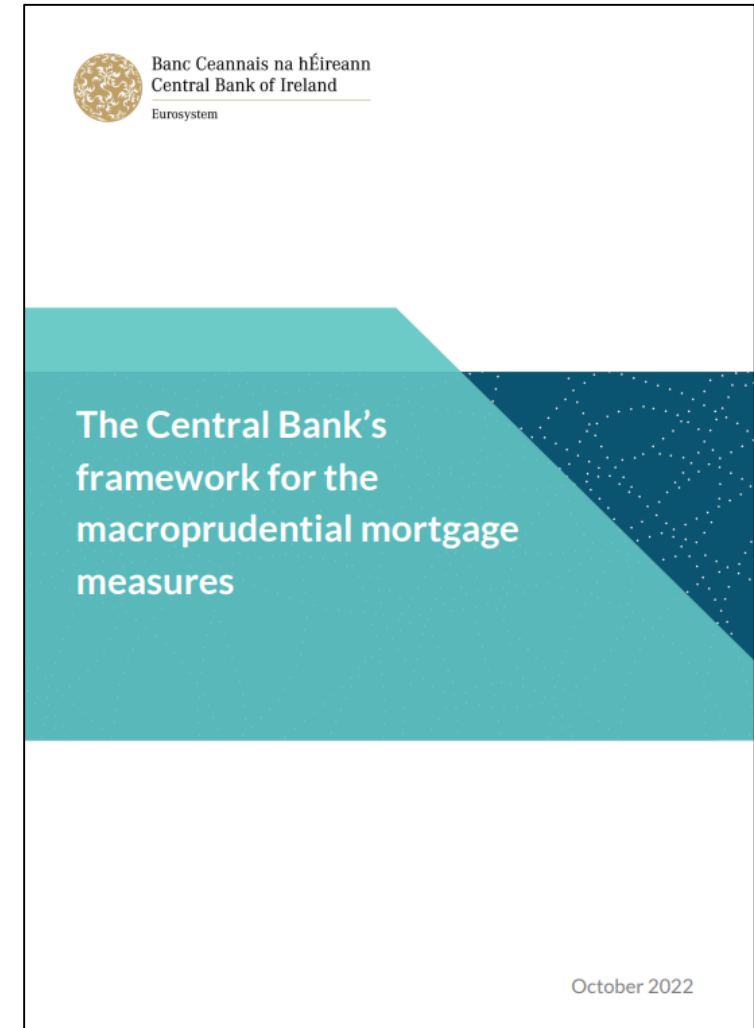


Source: Central Bank of Ireland.

Notes: Holdings of Irish property by Irish authorised property funds.

Macroprudential framework: mortgage measures

- Completion of in-depth review of the mortgage measures framework in 2021-2, taking stock of our overall approach and strategy.
- Measures have been operating broadly as intended since their introduction in 2015, with significant benefits for the economy.
- Targeted recalibration of the measures, given structural developments in economy and financial system.
- As a permanent feature of the market, mortgage measures will continue to maintain sustainable lending standards.
- From the perspective of society as a whole, crucial that overall policy mix continues to focus on the supply of housing, including affordable housing.



Macroprudential framework: property funds

- Changing nature of financial intermediation in the commercial real estate market (more involvement by investment funds in particular) means macroprudential framework needs to evolve.
- Resilience of property funds matters more for the overall functioning of the commercial real estate market now, than it did a decade ago.
- New macroprudential measures guard against risks stemming from high leverage and liquidity mismatch in the Irish property fund sector.
- Measures aim to safeguard resilience of this growing form of financial intermediation.
- In turn, this will better equip the sector to serve as a sustainable source of financing for economic activity.

