ESRI Research Bulletin

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Negative Equity in Ireland: Estimates using loan level data[1]

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There has been an increasing amount of analysis of the consequences of the housing market crash in Ireland in terms of negative equity. This paper, using a unique loan level data set, shows the extent to which negative equity in Ireland is concentrated in younger age groups. In addition this paper also provides some estimates of wealth loss suffered by Irish households as a result of the housing market crash, an issue that has not received much attention.

Our analysis shows that the extent of negative equity in Ireland is much more severe than experienced in other housing market downturns at present. Overall the numbers in negative equity in Ireland began to grow strongly from quarter 2, 2007, the period during which the CSO Residential Property Price Index shows its peak. While more recent data shows some stabilisation in house prices, worries about the impact of and the depth of negative equity remain.

As negative equity has become more widespread, many of its wider effects impact on the economy via the indebted home owner. Negative equity is associated with lower mobility in the housing market, lower spending on home improvements and maintenance, and lower consumption. Negative equity can also have important implications for the wider economy by impacting on the pattern of aggregate demand and supply, and on financial stability if it leads banks to make write-downs on their mortgage books.

The on-going debate as to what measures can be taken to assist struggling mortgage holders can be informed by greater detail about those in negative equity. It is important to understand who has been affected and how they have been affected. Other papers show the role that mortgage characteristics have on the likelihood of being in negative equity. This paper adds to the existing analysis by showing who has negative equity – in different age-groups, by year of purchase and by initial loan-to-value ratio. Knowing who has negative equity helps to understand where we might find reduced consumption and household mobility.

Our research, using loan level data from the period 2005 to 2012, shows that approximately 214,000 mortgages drawn down between 2005 and end-2012 are in negative equity. Based on our sample we estimate that this corresponds to 64 per cent of all primary residential mortgages taken out over the period. The analysis finds that, in common with the international evidence, the characteristics

[1] Duffy, D. and O'Hanlon N., 2014, Negative Equity in Ireland: Estimates using loan level data, *Journal of European Real Estate Research*, Vol. 7, No. 3. pp. 327-344. http://dx.doi.org/10.1108/JERER-01-2014-0009
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of the original mortgage (LTV ratio, mortgage term) are very important in determining if a borrower will experience negative equity as house prices start to fall.

We are also able to examine some of the characteristics of those in negative equity. We find that those first-time buyers who got assistance (e.g. from parents) to purchase a dwelling during the boom have a similar experience of the depth of negative equity as FTBs who purchased without assistance. This reflects the fact that, even with assistance, this group of FTBs took out mortgages with similar characteristic to other FTBs.

The wealth loss experienced by Irish households is substantial, estimated at almost €43 billion, indicating that the impact of the price crash is much broader than negative equity. Households still in positive equity may also be experiencing effects similar to those in negative equity due to the loss in wealth. For example, they may feel the need to increase savings to compensate for the decline in equity.

The majority of those in negative equity are aged under 40 years, with much of the wealth loss from the fall in house prices concentrated in the 30-39 year old age group. Traditionally, this is the age group that is active in the housing market, either buying their first property or trading within the market. With only moderate growth in house prices expected this suggests that there is a generation of mortgage borrowers whose experience of the housing market will have been overwhelmingly negative and who will remain in negative equity for some time.

Figure: Distribution of mortgages and negative equity by age in 2012, %