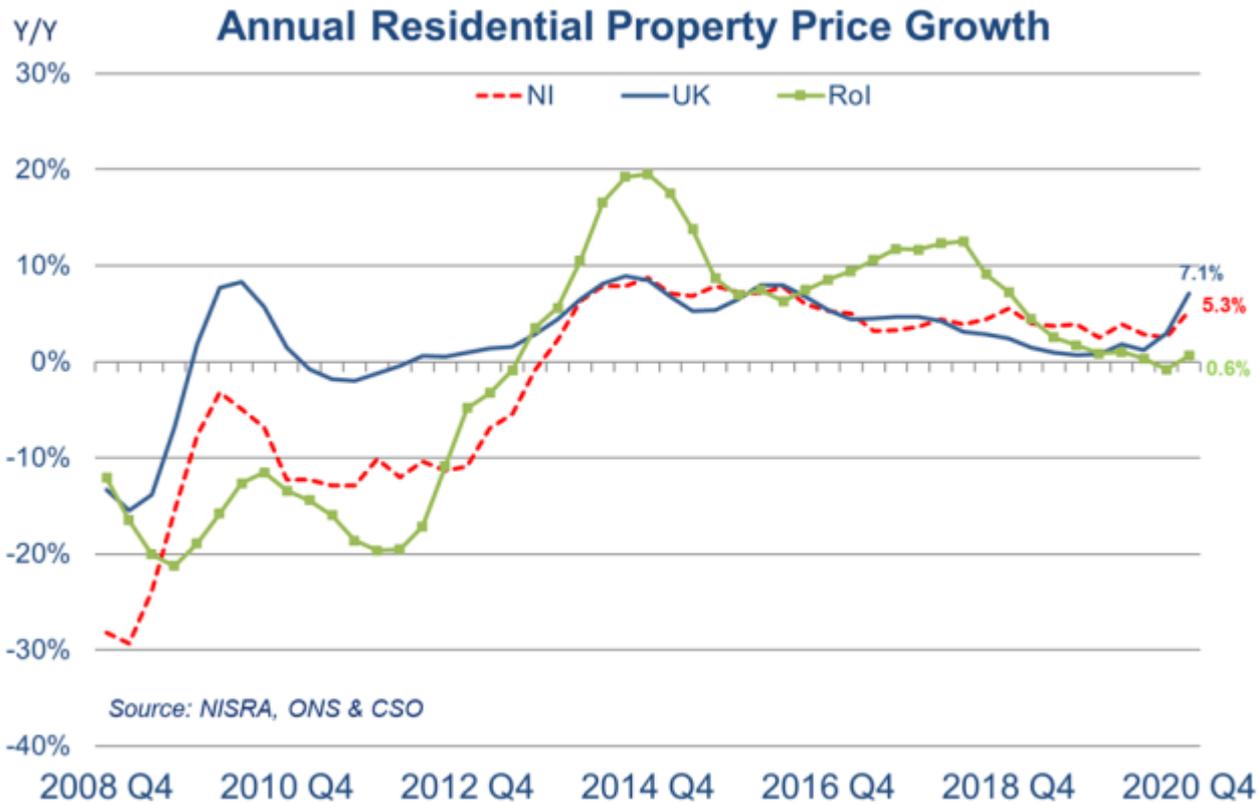
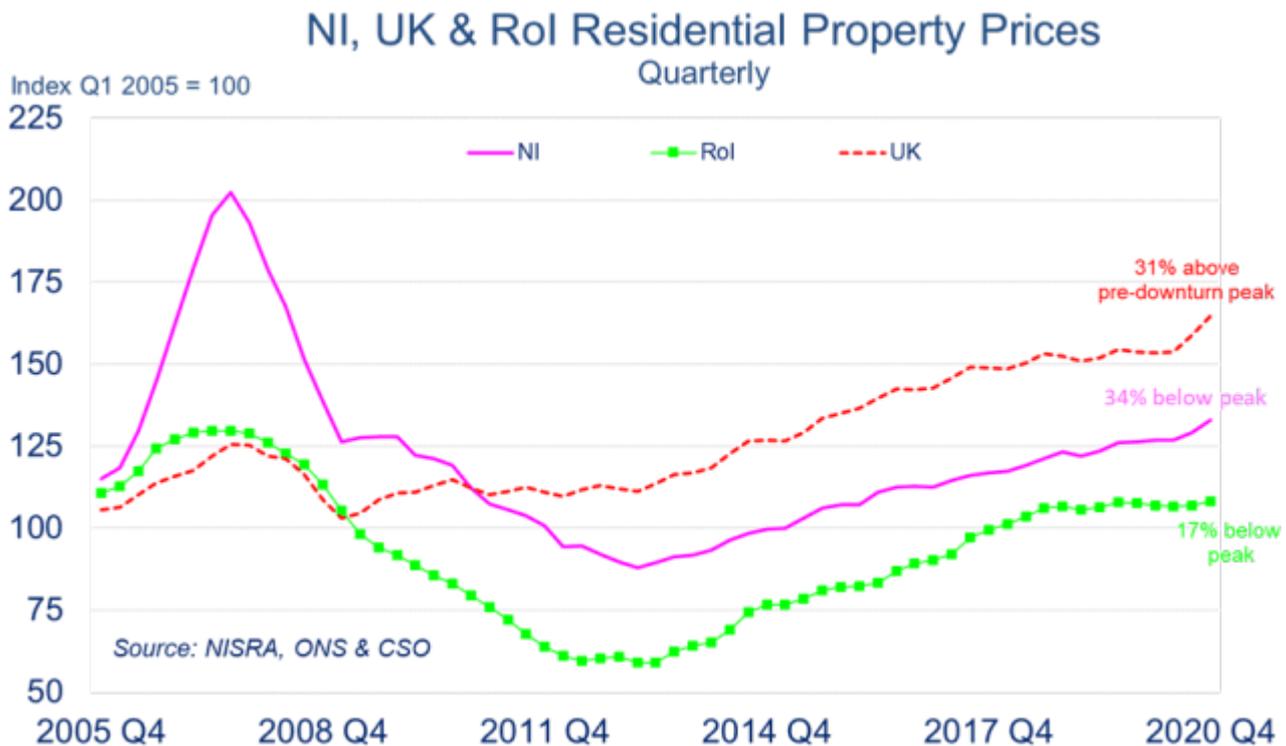


This time is different. Northern Ireland's housing market was front and centre during the last recession during the late noughties. But this time is different. While output has posted its steepest fall in a century, the housing market has been one aspect of the economy that has fared better than most. Residential property prices have defied gravity and have just completed their [seventh consecutive year of annual price growth](#). Meanwhile housebuilders and estate agents have witnessed a 'V-shaped' recovery from the record rates of decline in [house completions and transactions](#).

COVID-19 price accelerator. Prior to the pandemic, NI's residential property market had been in a slowdown in terms of prices and activity. In Q4 2019 for example, price growth had slowed to 2.5% y/y, its weakest growth rate in six-years. Meanwhile the marginal rates of growth during Q4-19 to Q2 2020 marked the weakest three quarters of growth since the house price recovery began in Q2 2013. But the arrival of COVID-19 appears to have had a positive effect on demand with a fall in supply helping to push prices higher. Residential property prices accelerated from 1.8% q/q in Q3 to 3.0% q/q in Q4 2020. The latter marked the fastest rate of quarterly in four-and-a-half years. As a result, the annual rate of residential property price inflation more than doubled to 5.3%, a two-year high. This compares with +0.6% y/y for the Republic of Ireland and +7.1% y/y for the UK.



Are we there yet? Since NI’s residential property price trough almost eight years ago, prices have increased by 51%. In Q4 2020, the standardised price of a local residential property stood at a 12-year high of £147,593. The robust rates of house price growth since the nadir in Q1 2013 is clearly good news for those property owners who were stuck in negative equity. It is worth pointing out that prices have still recovered less than half (40%) of the fall from Q3 2007’s peak. Prices in Q4 2020 remain 34% below 2007’s ‘freak peak’ which is twice the gap in the Republic of Ireland prices. Meanwhile prices in the UK hit a fresh record high in Q4 2020 and are 31% higher than the pre-downturn peak in Q3 2007.



All rise. All parts of Northern Ireland saw prices rise on both a quarterly and annual basis in Q4 2020. Interestingly, those parts of Northern Ireland that can be viewed as the most active for the holiday home market recorded the largest price gains. The Causeway Coast and Glens (+5.4% q/q), Fermanagh & Omagh (+4.9% q/q) and Newry, Mourne & Down (+4.7%) led the way. While the Causeway Coast and Glens (+8.5% y/y) trailed slightly behind Newry Mourne and Down (+8.9% y/y) over the last year, the Causeway Coast and Glens was the star performer for house price growth over the last 2, 3 and 5 years with prices rising by 14%, 21% and 37% respectively. The temporary reduction in Stamp Duty Land Tax provided an additional incentive for those purchasing second homes. This temporary reduction, which also benefits purchasers of primary residences up to £500k, is set to expire at the end of March. However, the modus operandi of the current Chancellor has been to extend incentives and support measures particularly with lockdown restrictions still in place. Rishi Sunak could well announce an extension of the SDLT temporary reduction at the Budget on 3rd March.

Figure 5.1: Annual Change in HPI by Local Government District Q4 2020

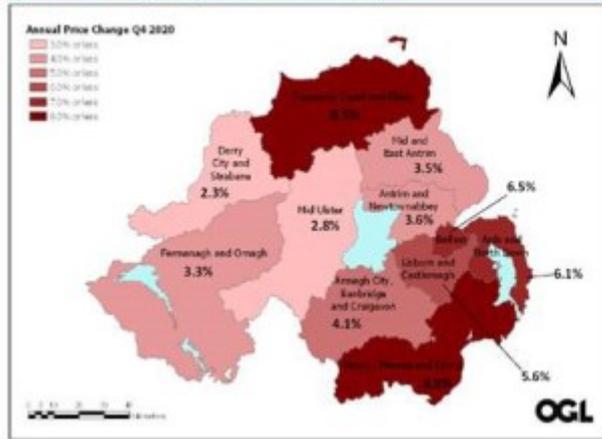
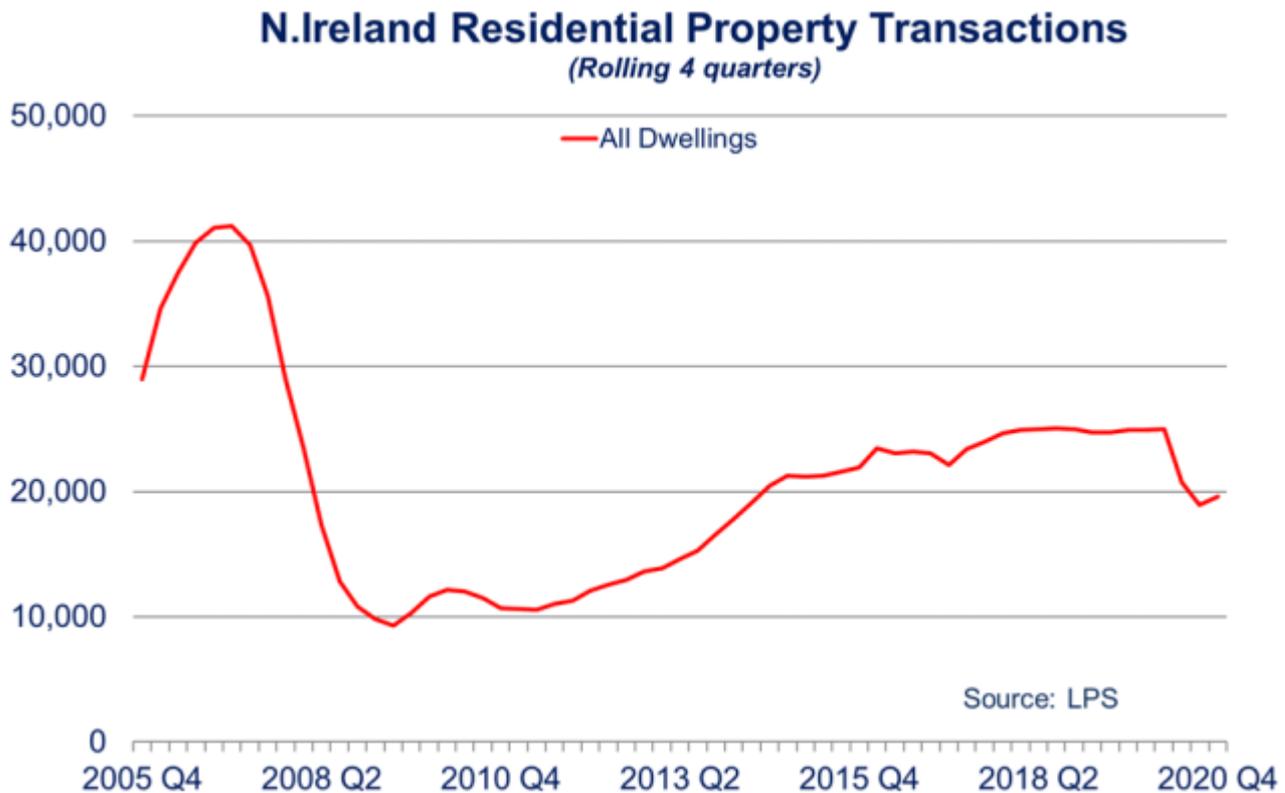


Table 5.1: NI HPI and standardised price by Local Government District (Quarter 4 2020)

Local Government District	Index (Quarter 4 2020)	Percentage Change on Previous Quarter	Percentage Change over 12 months	Standardised Price (Quarter 4 2020)
Antrim and Newtownabbey	131.1	1.9%	3.6%	€150,673
Ards and North Down	123.6	1.4%	6.1%	€165,989
Armagh City, Banbridge and Craigavon	131.0	1.7%	4.1%	€129,151
Belfast	133.2	3.1%	6.5%	€140,750
Causeway Coast and Glens	149.8	5.4%	8.5%	€161,747
Derry City and Strabane	137.3	3.3%	2.3%	€130,014
Fermanagh and Omagh	140.4	4.9%	3.3%	€134,513
Lisburn and Castlereagh	129.7	1.8%	5.6%	€174,148
Mid and East Antrim	130.2	3.2%	3.5%	€134,788
Mid Ulster	125.8	4.4%	2.8%	€140,699
Newry, Mourne and Down	141.5	4.7%	8.9%	€159,305
Northern Ireland	133.0	3.8%	5.3%	€147,893

Transactions surge. As far as the value to the economy is concerned, activity speaks louder than prices. Residential property transactions plummeted to record lows in Q2 (-69% y/y) and subsequently rebounded in Q3 and Q4. The latest quarter (Q4 2020) recorded 7,401 transactions (*this is provisional and will be revised upwards*) which was almost 10% higher y/y and marked the best quarter for sales since Q2 2007. Despite the rapid rebound in Q3 and Q4, 2020 still represented a seven-year low for sales with transactions down 21% y/y.



Supply constraints. Lockdown triggered a record slump in house completions in Q2 (-61% y/y), or just 691 completed units. Q3 saw a rebound to 1,831 units which is a rise of just 1% y/y with Q4 (2,141 units) representing a 9% y/y rise. However, 2020 still recorded a 13.5% y/y decline relative to 2019. That equates to over 1,000 fewer units coming onto the market and at just 6,420 marked the lowest level of completed dwellings in five years. Looking ahead, 2021 looks set to see housing supply reduced for a third year given that housing starts continued to fall in Q3 and Q4 2020 by 14% y/y and 8% y/y respectively. Just over 6,000 dwellings were started last year which represents the lowest since 2014.

Housebuilders are also experiencing supply chain disruptions, partly due to Brexit, which could potentially disrupt supply further. This softening in supply will offer support to prices in 2021. Although housing demand is also likely to soften given the expected deterioration in the labour market. At the end of December 2020 there were almost 95,000 people on furlough. This cohort, alongside a significant proportion of the self-employed, could well see their house purchase ambitions put on hold for the foreseeable future.

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