The Global Financial Crises Effects on Residential Industries in Ireland and Greece

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Abstract

The American housing bubble and then total collapse starting in 2006 was a major cause of the global economic collapse starting in 2008. This collapse is well-known, but two other countries are reviewed in terms of their housing markets impacted by the current global financial crisis. Ireland and Greece will be reviewed to determine what affects America's housing collapse had on their housing industries.

***Key words**: globalization, European Union Debt Crises, Housing crisis, EU Property values.*

1. Introduction

Israel, in early 2006, was the first country to feel the pangs of the global residential housing downturn due to tighter credit restrictions. Then America's sub-prime market collapsed and the current financial crisis was born. Housing prices started an inexorable downward slide on a global scale that took a full two years to move from The United States, through Europe, and then the Far East in 2008 (Buchanan, 2009; Frank, 2011).

Global housing prices fell an average of 17% through 2008, but then started to bounce back faster than anticipated. Residential prices actually recovered at a 10% clip in early 2009, and by the summer of 2010, they were only 9% below their zenith years of 2006-2008 (Frank, 2011).

While America caused the housing collapse, she did not suffer the most despite losing 31% of home value. Europe was the recipient of the most damage from home value loss, and four countries stood out for the huge home value losses: Lithuania dropped home values by an incredible 63%, Latvia was down by 43%, Bulgaria dropped 34%, and Ireland lost 31% (and almost 50% of home values since 2006) (Frank, 2011).I

2. Irish Housing

The dependence on the globalized marketplace places Ireland at risk from economic turndowns caused by policies of countries that influence this global economy (USA for one) (Finefacts Team, 2009). This influence helped the average value of a home in 1996 in Ireland, which rose to €311,078 in 2007 compared to €75,000 in 1996 (Global, 2008) resulting in Ireland having a home ownership percentage of 74.5% (EU average is 68.2%) in 2009 (EMF, 2010). The housing bubble created by new home values rising 327% and existing home rising 451% between 1995 and 2007 caused recessionary pressures in Ireland (Duffy, 2009). Homes for sale are currently averaging around €195,000, down from €366,000 in 2007. Because mortgage lending declined between 2007-2009, the Irish housing market was down 23% from the first quarter of 2007 to the second quarter of 2009. This resulted in mortgage loans decreasing to a value of €8B - 58.5% fewer loans than in 2008 (Finfacts Team, 2009; EMF, 2010).

The first quarter of 2011 reflected continued demand degradation due to the unending uncertainty of the sovereign debt crisis across Europe. Gross mortgage lending slid by 41.2% on quarter-to-quarter and annually by 52.7% compared to the past year, with no end in sight (EMF, 2011). Even with improvement in purchasing affordability in lower housing prices and loan costs, lower property taxes and interest rates, mortgage loans continued to shrink (EMF, 2010).

In mid 2011, the rate of decline was approximately 3.5%, down from 5% in spring 2011. Late summer 2011 average home prices nationally were €241,000 down from the spring value of €249,000 (Finfacts Team, 2011). The poor economic environment and the potential of the addition of two household taxes in the next year increased the declining home prices by 11.9% over last year (EMF, 2011).

In early 2010, a new mortgage program was instituted to help families in delinquency. The Code of Conduct on Mortgage Arrears, forces a lender to work with borrowers who are behind more than six months to figure out ways to bring the payments up to date. This effort has translated into low repossession rates, something that is helpful to families finding themselves exposed to foreclosure proceedings (EMF, 2010).

The rate of decline is slowing as expected when the bottom of the market gets nearer, flattens out, and then starts to rise again. This represents over four years of declines with another projected 18 months of falling prices, which will have a continued effect on the Irish housing economy (Finfacts Team, 2010).

As the data suggests, Ireland will continue to suffer in the residential housing industry for some time to come.

3. Greek Housing

With a national home ownership rate of 80.6% (EU average of 68.2%), Greece's wealth is naturally made up of 82% household property and this property investment accounts for 25% of the total investment in Greece. Even so, up until the Bank of Greece started monitoring it's country's property values in 2009, there was no widely accepted basis for a systemic real estate price index (EMF, 2010; Reuters, 2011).

The reason for the lack of price indexing is that the Greek market varies widely from north to south. Crete and Mykonos have a completely different market than Thessaloniki and the northern sphere of Greece. In addition, local desirability and preferences can make a large difference in real estate values, i.e. within a few streets in Athens, some properties are sold before they hit the market, and other streets have many empty properties for sale (Shuttleworth, 2009).

Similar to Ireland, the housing boom in Greece ended because of the global financial crisis. Property values in Greece have plummeted as much as 40% from their peak in 2009 (NuWire Investor, 2011; Calvert, 2011). In addition, mortgage credit grew 25% between 2000 and 2007 after Greece joined the EU in 2001. Yet, Greece has the highest mortgage arrearage in the 27-member bloc with a debt of €80B (Reuters, 2011).

Since 2009, Greece's real estate market has cooled down because homeowners are being a bit cautious putting their homes on the market, which is causing some oversupply of homes for sale. This uncertainty is also aggravated by the sovereign debt crisis currently surrounding Greece and its future in the EU. In addition, buyers are expecting home values to drop in the future, and thus delaying their buying decisions. In addition, banks are also cautious about making loans, which causes a vicious circle of strangling the housing market (EMF, 2010). Foreign investing has also dried up for the same reasons (NuWire Investor, 2011). However, this data is not altogether reliable since it comes from agents, they are a secondary source, and tend to be biased (Property Abroad, 2010).

Today, Greek banks are delivering increasing amounts of default notices as the recession keeps homeowners from making their payments. In an effort to stop the foreclosure sequence, the government has suspended these notices until 2012. This suspension saved over 55,000 delinquent loan holders from vacating their homes. The suspension, which is the second one since last year is limited to mortgages under €200,000. The real worry is the potential wave of repossessions that might come in 2012 (Tzivilakis, 2011).

In the face of all of the negativity of Greece's housing situation, there are still reports that suggest that all is well in the housing market and that the Greek property market will just roll along without any worries. Nevertheless, what is the truth? Has the residential market dried up? Well, the short answer is not yet. The latest data available indicates that the housing market has barely been affected, yet the economy has worsened since the data that is currently available has been released (Property Abroad, 2010).

The future is extremely cloudy. Greece will receive another bailout in November 2011 and will stay afloat for a few months after that following the government's budget adjustments and approvals. Beyond this, all bets are off (Economist, 2011).

4. Conclusion

The subprime mortgage market collapse illustrates a potential problem when economic decisions are not based on the free enterprise system. The government subsidies to allow housing purchases created an inflated value within the housing market. This may be a factor in a globalized recession that has spread throughout the global markets through the current period (fourth quarter of 2009).

This paper illustrates that economic development may be hit harder when their economic prosperity is based on global economic policies. The housing market in Ireland grew at a faster rate than the housing markets in the United States and other more established economies. This was caused by an insurgence of European Union funds to improve the infrastructure coupled with the worldwide housing “bubble”. Ireland had a developing economy and this infusion of funds caused an unsustainable strategic business model.

Greece’s situation parallels Ireland’s in that, it’s property values also had a run up prior to 2008. The difference between the two countries is that Ireland’s freefall drop in housing prices were not duplicated in Greece. In fact, some would say that Greece had a favorable outcome compared to Ireland. The jury is still out on Greece because of it’s almost destructive debt level and the continuous bailouts that are needed in order to keep the country financially stable and in the EU.

Only time and events will provide the possible recoveries of these country’s housing markets. Let’s hope and pray that the results are positive.

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