



BPFI Housing Market Monitor Q1 / 2020

With a commentary by Dr Ali Uğur
Chief Economist,
Banking & Payments Federation Ireland

Indicator	Latest quarter	One year ago	% change
Dwelling completions	4,986	4,254	17.2%
Dwelling commencements	6,853	6,549	4.6%
Dwelling planning permissions	14,789	7,493	97.4%
Transactions	10,272	9,805	4.8%
Yr/yr change in transaction prices	1.0%	3.8%	
Yr/yr change in rent prices*	6.4%	6.7%	
Mortgage approvals	10,512	10,543	-0.3%
Mortgage drawdowns	8,728	12,112	-27.9%

*Data available up to Q4 2019



Covid-19 will hit Ireland's housing supply, but demand may be more resilient than expected

The restrictions imposed to halt the spread of Covid-19 will have a huge impact on housing sector output at a time when there was significant momentum in building, especially of apartments. However, demand may be more resilient among borrowers on typical home buyer incomes.

Irish housing output increased nearly fivefold between 2013 and 2019, on average by over 30% per annum over the period, and completions totalled just over 21,000 units in 2019. New dwelling completions reached nearly 5,000 units in the first quarter of 2020, an increase of around 17% compared with the same period in 2019. Multi-unit developments accounted for 57% of all completions during the first quarter. Apartment completions increased by around 75% year on year, albeit from a low base, and accounted for more than 20% of completions in the first quarter. In terms of regions, more than half of all completions in the first quarter was in the Greater Dublin Area, with Dublin itself accounting for around one third of total completions.

Housing sector output is likely to fall

Estimates before the Covid-19 crisis for total housing completions in 2020 were between 24,000 to 26,000 units. However, given that the construction sector, along with other sectors in the economy, stopped all activity between the end of March and mid-May as well as the fact that current activity is very much limited due to work practice restrictions as part of Covid-19 health measures, housing sector completions will

be severely affected for the rest of the year. Assuming that the sector could operate at 50% capacity for the rest of the year, estimated total completions would be around 14,000 units in 2020 with completions increasing to around 16,500 units if capacity of the sector increases to 75% of potential output. This means a gap of between 10,000 and 12,000 units on original estimates pre-Covid-19. Capacity challenges are also highlighted by the number of employees still in receipt of Pandemic Unemployment Payment (PUP) in the construction sector. The sector began to reopen on a gradual basis on 18 May. However, the latest available data shows that 25,000 construction workers stopped their PUP payments between 19 May and 9 June, representing only 17% of total number of employees in the sector in receipt of the payment on 19 May.

The latest available data on mortgage drawdowns are for the first quarter of 2020, before Covid-19 related restrictions were fully imposed on economic activity. There were 8,728 mortgage drawdowns in the first quarter of 2020 valued at €2 billion. Mortgage drawdown activity rose in volume terms by 1.8% year-on-year and increased in value terms by 6% over the same period. First-time buyers (FTBs) and mover purchasers accounted for around 50.8% and 30.4% of the total mortgage drawdowns in the first quarter of 2020, respectively. In other words, around €1.6 billion of the total drawdown value was accounted for by these two segments of the market.

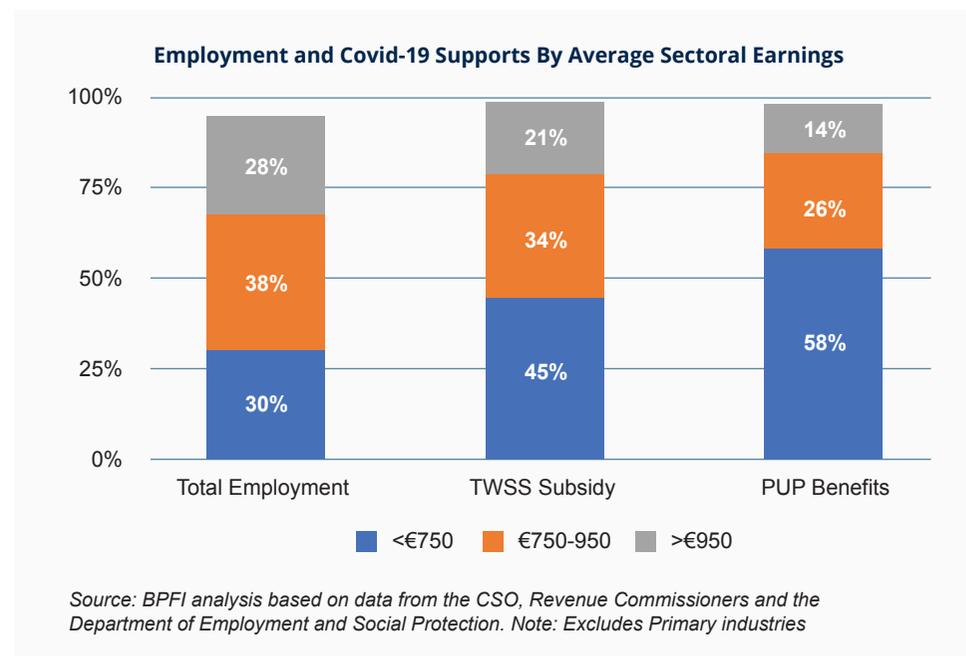
In terms of approvals, a total of 2,200 mortgages with a total value of €525 million were approved in April 2020, down over 40% compared to the previous year. This is an early indication of the effect of Covid-19 on the mortgage market, notwithstanding the fact that many of these

approvals are likely to be flowing from applications in March or even in February 2020 when restrictions on activity were not in place. Observed reduced activity in mortgage approvals in April and expected declines in May will result in much lower mortgage drawdowns in the second quarter of 2020. FTBs buying a new home accounted for around 23% of all purchase mortgages in 2019.

Data published by the Revenue Commissioners on the Help to Buy (HTB) scheme allows us to estimate the potential demand of FTBs buying a new home as the incentive is targeted at this cohort of potential buyers. Latest available data from the Revenue show approved claim values in the January-May 2020 period were at around €32 million compared with €35 million during the same period in 2019. However, we note that the value of claims in April and May 2020 dropped to €8.7 million compared to €15.8 million during the same period in 2019, a 45% decline. Almost one in three (32%) of the Help to Buy claims in the first five months of 2020 were for self-builds, up from the historical average of 24%.

Demand may hold up better than supply

Income levels as well as future expectations play an important role in housing demand, in addition to other factors such as demographics and interest rates. Unfortunately, there is significant uncertainty regarding the pace of economic recovery in Ireland in the short term which can affect housing and mortgage demand. To understand the income effect, we combine the latest CSO Earnings and Labour Costs Survey data with PUP data in order to compare distribution of earnings before Covid-19 crisis and PUP payments during the pandemic.



The top five sectors with total employment of around 650,000 people¹ where average gross weekly earnings were more than €950² in Q1 2020 only accounted for around 14% of total PUP payments. Data published by the Revenue Commissioners in relation Temporary Wage Subsidy Scheme (TWSS), which is available to employers who keep employees on payroll throughout the Covid-19 pandemic shows that the same sectors only accounted for around 21% of the scheme. In addition, the most recent tax revenue data, published by the Department of Finance, show that income tax receipts declined by a 5.8% year on year in April 2020 followed by a 7.8% decline in May 2020.

¹ Financial, insurance and real estate activities, Industry, Information and communication and Public administration and defence; compulsory social security.

² This level of average weekly earnings corresponds to around €50,000 per annum salary.

The smaller than expected decline in income tax revenue further shows that economic activity, to a large extent, continued in sectors where earnings are higher than average and with lower levels of employment loss during the pandemic.

In 2019, FTBs with incomes less than €50,000 accounted for 17% of the FTB drawdowns, whereas customers with incomes less than €50,000 only accounted for 7% of the total drawdowns amongst mover purchasers in 2019. Given the significant and increasing share of FTBs in the Irish mortgage market, and income levels required to be able to get a mortgage, income losses during the pandemic may not have a significant effect on demand for mortgages from this cohort.

It is clear that the supply of new homes in 2020 will be less than what was estimated before the pandemic. It is also likely that demand for homes and mortgages may be lower than estimated due to uncertainty in the housing market and diminished consumer confidence. However, reduced demand due to lost or lower income levels is likely to depend on the pace of the wider economic recovery in 2020. Hence as both supply of and demand for housing will be impacted negatively due to Covid-19, it is likely that changes in average prices will reflect supply and demand imbalances in the short term due to Covid-19.

Dr Ali Uğur, Chief Economist,
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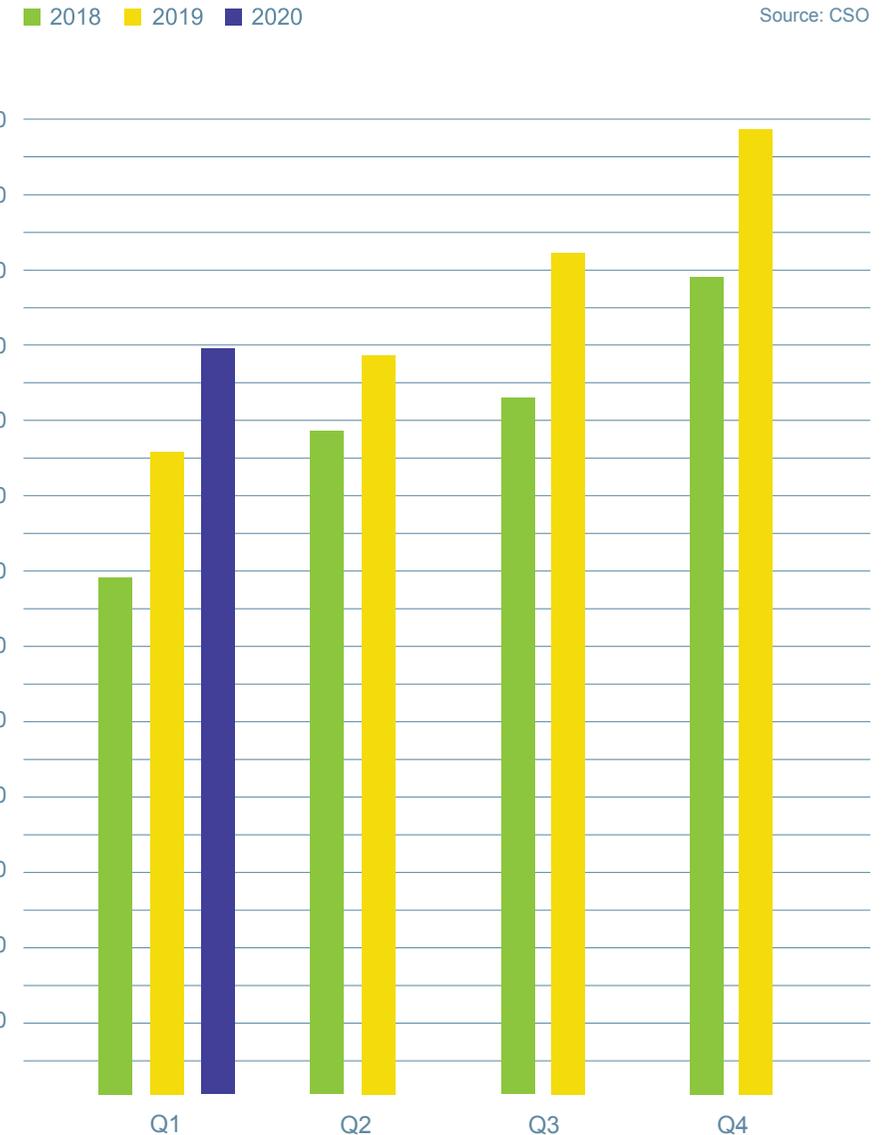
New dwellings completed

Almost 5,000 new dwellings were completed according to the Central Statistics Office (CSO)* in Q1 2020, 17.2% more than in Q1 2019.

Completions in Dublin rose 12.3% year-on-year to almost 1,700. By contrast, the number of units completed fell in Dublin Commuter (Louth, Kildare, Meath and Wicklow) for the first time since Q2 2014, falling by 2.1% year-on-year to 1,047. Completions in each of the other regions grew by at least a quarter.

Apartments continued to drive the growth in completions with over 1,000 apartments completed in Q1 2020, up 75% year-on-year, and 837 of which were in Dublin. By contrast the number of scheme house completions fell on a year-on-year basis on both Dublin and Dublin Commuter, as the other regions accounted for 43% of scheme house completions, the highest share since Q4 2013.

*The CSO publishes quarterly data new dwelling completions.



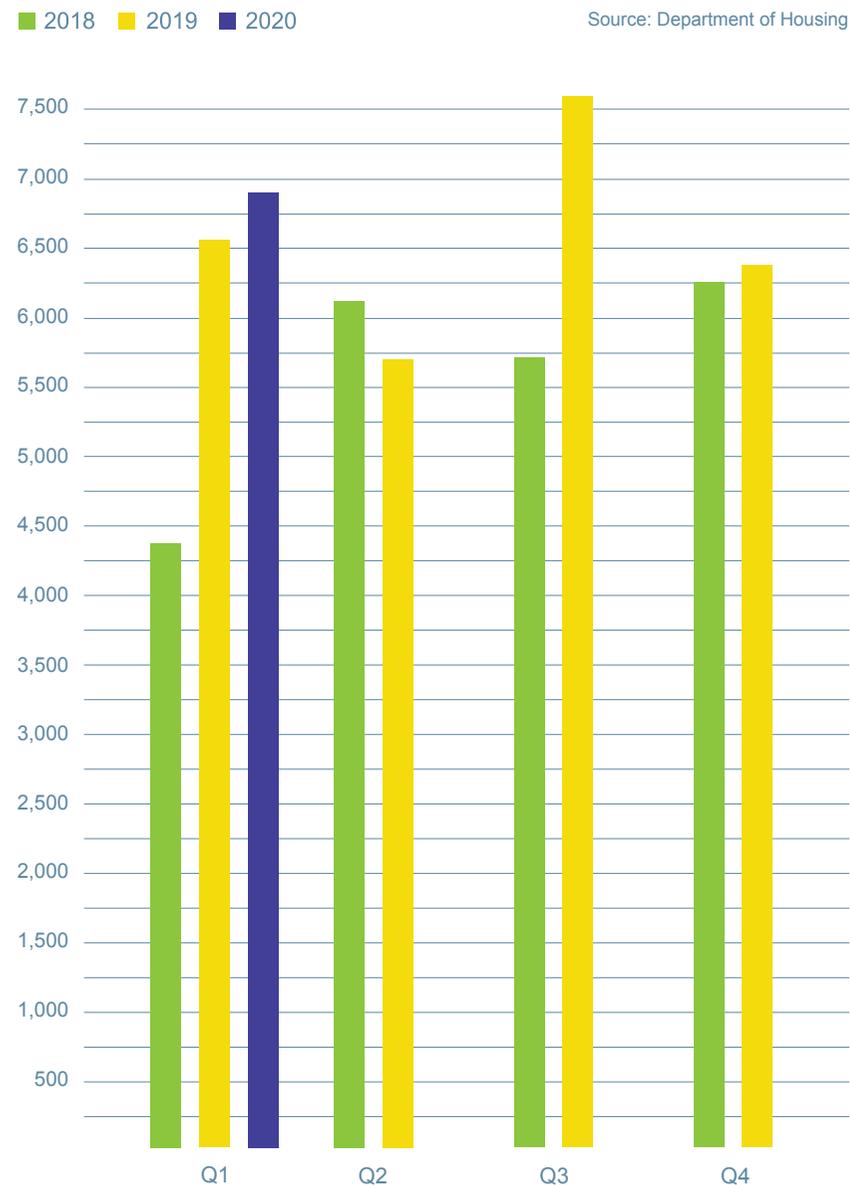
New dwellings commenced

There were almost 6,900 housing commencements in Q1 2020, an increase of 4.6% in year-on-year terms. The number of units commenced increased in only two regions: Dublin and Munster excluding Cork, however in each region the number of units exceeded those in the first quarter of 2018.

Dublin commencements jumped by 43.9% year-on-year to 3,218, and the county accounted for almost half (47%) of commencements in the quarter. This was also the highest Q1 level since 2007.

Commencements in the Dublin Commuter region fell on a year-on-year basis for the third time in four quarters.

Only 14.8% of units commenced were one-off units, in Q1 2020, the lowest proportion since the data series began in 2004. Some 2.4% and 9.1% of commenced units in Dublin and Dublin Commuter, respectively, were one-off units.



New dwelling planning permissions

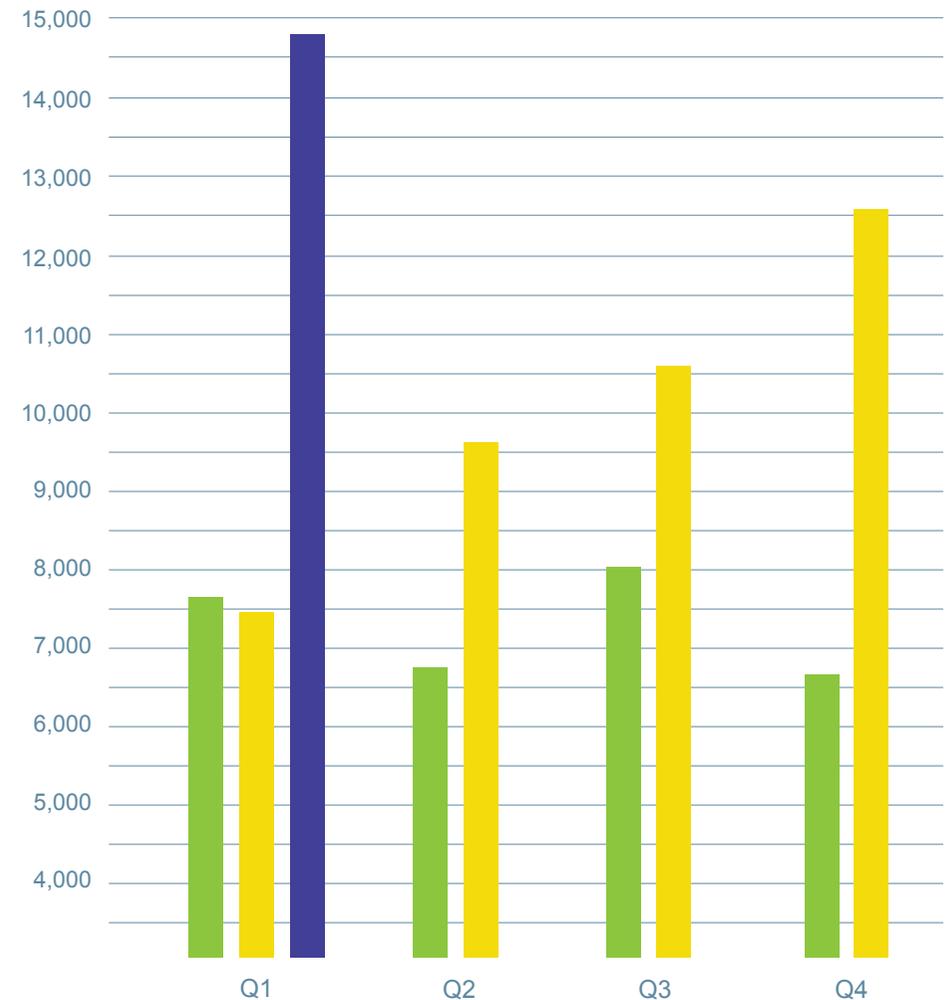
The number of planning permissions granted nearly doubled (up 97.4%) year-on-year in Q1 2020 to almost 14,800, driven by a 274% increase in apartment permissions.

Some 8,000 of the 9,698 apartment units for which planning permissions were granted were in Dublin with a further 1,000 in the Dublin commuter region. At almost 9,700 units, this was the second highest number of planning permissions since the data series began in 1975. Only in Q3 2003, when permission was granted for 10,065 apartments, were more units approved in a quarter.

The average floor area per apartment unit continued to shrink, dropping to 75 square metres, the smallest since Q2 2004, and down from 116.9 square metres in Q2 2013.

■ 2018 ■ 2019 ■ 2020

Source: CSO



Transaction prices

Residential property prices increased by 1% year-on-year in March 2020. The national index was 17.9% lower than its highest level in 2007.

Prices in Dublin increased by 0.6% in the year to March 2020, ending a run of ten months in which inflation had not exceeded 0.1%. The rise in prices partly reflected accelerating house price inflation in Fingal, a lower rate of house price deflation in Dún Laoghaire-Rathdown and apartment price inflation in the county generally.

Residential property price inflation outside Dublin continued to decelerate, dropping to a 1.5% year-on-year increase. House prices fell in the year to March 2020 in the Midland and South-East regions.



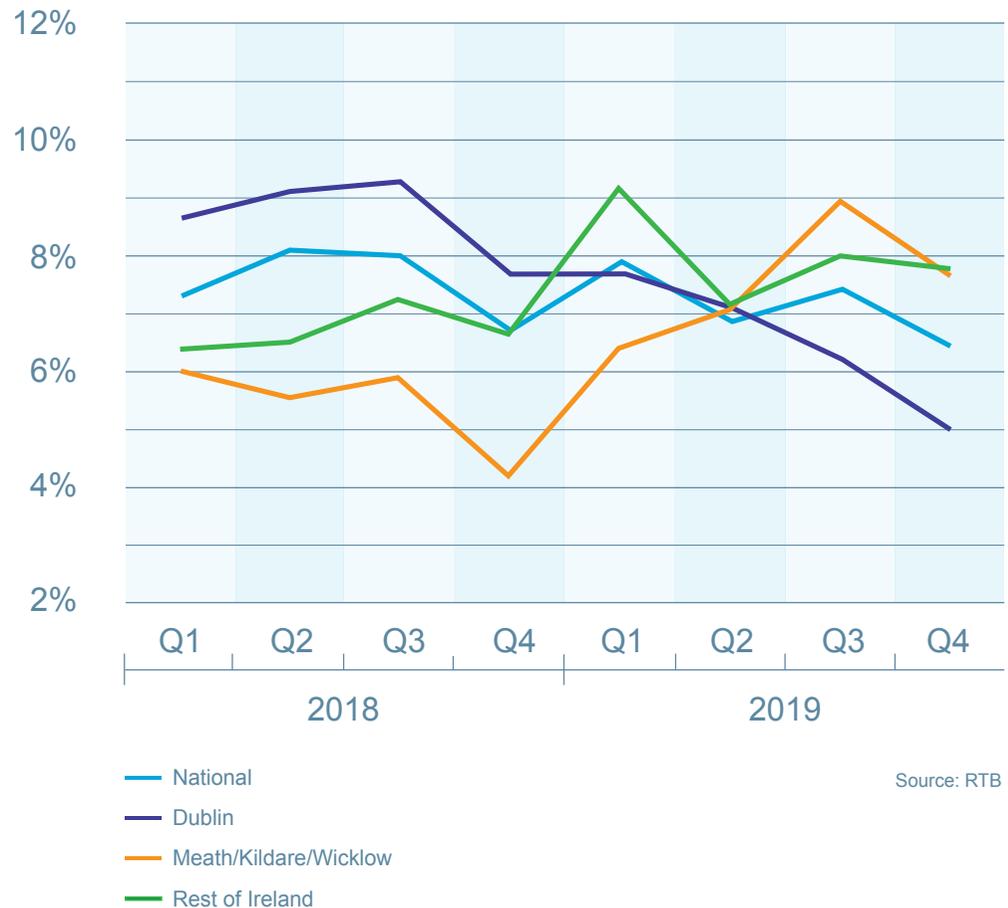
Rents

The national standardised rent level rose by 6.4% year-on-year in Q4 2019 to €1,226.16, according to the Residential Tenancies Board (RTB).

Seven counties had standardised rent levels of more than €1,000, led by Dublin at €1,716, with the four Dublin Commuter counties, Cork and Galway also above €1,000.

The rental market is dominated by Dublin, which accounted for 41.9% of the registered tenancies at Q4 2019. Only 9.6% of tenancies agreed in Dublin were for less than €1,000 per month, compared with two thirds elsewhere, according to the RTB. More than half (59.2%) of the tenancies in Dublin were for more than €1,500.

The annual rise in standardised rent levels in Dublin was 5%, the lowest rate of increase since Q2 2013.



The number of residential properties sold in Ireland rose by only 4.8% year-on-year to almost 10,300 in Q1 2020. The sale of new properties increased by 9.5% year-on-year to 1,890 - the highest Q1 number of new property sales since the series began in 2012 - while the number of secondhand property transactions rose by 3.8% to almost 8,400.

All regions recorded an increase in sales. The share of sales by region has been stable in recent quarters: Dublin accounted for about 32% of volume in Q1 2020, the counties Cork/Galway/Limerick/Waterford for 22% and Dublin Commuter for 16%.

Dublin and Dublin Commuter account for a larger share of new property sales: 41% in Dublin and 27% in Dublin Commuter in Q1 2020.

The value of new property sales in Dublin fell on a year-on-year basis for the fifth successive quarter to €349 million (the volume of new property sales had fallen in the four previous quarters).



Source: CSO

**This data is based on stamp duty filings reported by the CSO for purchases of residential properties by households at market prices. It excludes properties purchased at non-market prices and by non-household buyers.*

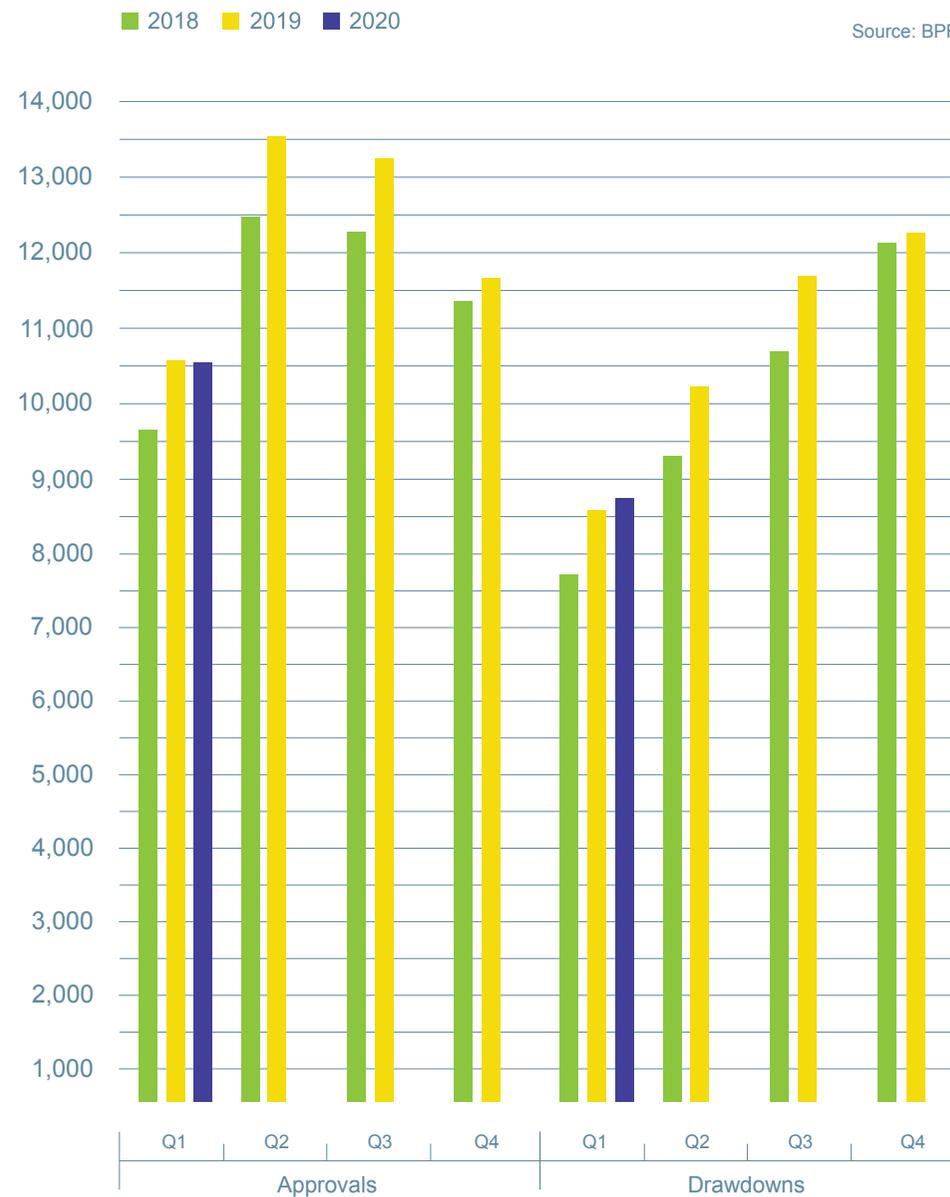


Mortgage approvals

Mortgage approval volumes fell by 0.3% year-on-year in Q1 2020 to about 10,500, partly due to a strong first quarter in 2019. The first-time buyer (FTB) and top-up segments both grew in year-on-year terms, with FTB volumes up 2.6% to more than 5,400 in Q1 2020.

Mortgage drawdowns

Mortgage drawdown volumes grew by only 1.8% year-on-year to about 8,700 in Q1 2020. Purchase mortgage drawdowns rose by 4% year-on-year to more than 6,900. FTBs accounted for almost 4,400 of those mortgages with volumes up by 8.4% year-on-year.



The information presented here is based on a range of publicly available reports and datasets and collated with Identify Consulting for Banking & Payments Federation of Ireland. It is intended to bring together the range of housing and mortgage market data available and to constructively inform on-going analysis and assessment of the housing and mortgage market.

Figures are presented by quarter and by region, where possible. Unless otherwise specified, quantities given for particular quarters (and/or regions) are totals, while prices are averages for the entire quarter. The sources used for compiling the report are as follows:

- the Department of Housing, Planning & Local Government [dwelling commencements].
- the Central Statistics Office [new dwelling completions, planning permissions, number of housing sales transactions and residential property price indices].
- Residential Tenancies Board [rental prices].
- Banking & Payments Federation of Ireland [mortgage approvals, and drawdowns].





Banking & Payments Federation Ireland,
Floor 3, One Molesworth Street,
Dublin 2 D02 RF29, Ireland.

+353 1 671 53 11
info@bpfi.ie
www.bpfi.ie

Dublin • Brussels • Frankfurt