Banking & Payments Federation Ireland

BPFI Housing Market Monitor Q2/2019

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

OVERVIEW OF TRENDS

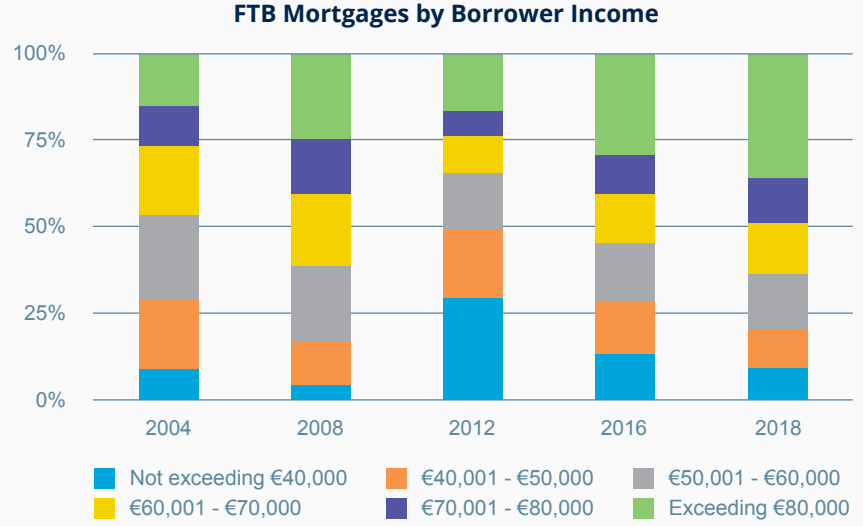
Indicator	Latest quarter	One year ago	% change
Dwelling completions	4,920	4,400	11.8%
Dwelling commencements	5,711	6,127	-6.8%
Dwellings listed for sale	20,781	19,511	6.5%
Dwellings listed for rent	14,293	14,705	-2.8%
Transactions	10,295	10,062	2.3%
Yr/yr change in transaction prices	2.0%	11.9%	
Yr/yr change in list prices	3.7%	5.6%	
Yr/yr change in list rents	6.7%	12.4%	
Mortgage approvals	13,513	12,496	8.1%
Mortgage drawdowns	10,157	9,339	8.8%

The cost of housing approaches previous peaks while household incomes lag behind

Price developments have been a major focus of attention in public discourse around housing issues over the past couple of years. Latest figures from the Central Statistics Office (CSO) show that residential property prices increased by 2% year-on-year in June 2019, which was the lowest rate of annual growth since June 2013 based on monthly figures. However, it is important to put year-on-year price changes in housing in the context of the overall cycle and trends observed over the last number of years. The same CSO data show that, as of June 2019, average prices were a relatively modest 18% off the previous peak in February 2007, with Dublin prices some 22% off their previous peak. Average prices have increased by 83% nationwide and by 93% in Dublin between February 2012 and June 2019.

As average prices have gone through different cycles over the years in the Irish housing market, this is also reflected in the distribution of mortgages drawn down as per income brackets of first-time buyers (FTBs). For example, in 2004 FTBs with incomes exceeding €80,000 per annum accounted for 15% of total FTB drawdowns at the national level and 27% in Dublin. In 2012 these ratios were 16% and 21% respectively. However, by the end of 2018, FTBs with incomes exceeding €80,000 per annum accounted for more than one-third (36%) of FTB drawdowns nationally and more than half (53%) in Dublin.

This major shift, particularly in Dublin, is mainly due to the macroprudential measures acting as a natural break on borrowing capacity and housing inflation. The measures aim to link incomes with the purchase price, via the mortgage. This is also evident from the fact that in 2012 around 15% of FTBs with incomes exceeding €80,000 were joint drawdowns, whereas in 2018 this ratio had increased to around 32%.



Sources: Department of Housing, Community and Local Government (2004/2008), BPFI (2012/2016/2018)

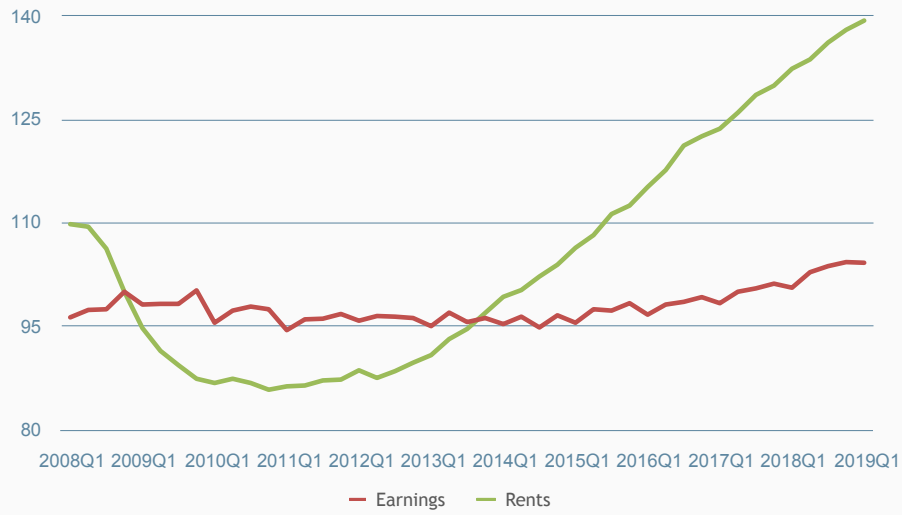
COMMENTARY

At equilibrium levels of supply in the housing market, potential buyers restricted by the income limits could choose to rent a property. However, as average market rents have risen by 57% nationwide between late 2011 and the first quarter of 2019, based on data published by the CSO, and being around 18% above the previous peak in 2008, this choice has become more expensive over the past number of years. For example, according to the Residential Tenancies Board Rent Index and the CSO earnings data, average weekly earnings were able to cover around 94% of monthly rents at the beginning of 2012, whereas as of the first quarter of 2019 average weekly earnings can only cover around 65% of average rents nationally. The upward pressure on the average market rent is likely to continue in the short term, which in turn is likely to create significant pressure points for the wider economy given that supply in the housing market is not likely to meet equilibrium demand in the short term.

Stabilising house prices could be a sign of housing market recovery; however, it is important to look at supply developments as well in order to see the full picture. The latest data from the CSO show that 4,920 housing units were completed in the second quarter of 2019, bringing the total completions to 9,185 units in the first half of 2019 compared with 7,867 units during the same period in 2018 - a 17% increase. If completions were to remain at the same level in the second half of 2019 (H2 2019) as they were in the same period in 2018, we will likely see around 20,000 units completed in 2019. Annual housing output has more than tripled since 2014, albeit from a very low base. However, the rate of increase in output seems to be declining recently. This is also evident in commencements data which showed a year-on-year drop in units commenced of almost 7% in Q2 2019, though this followed strong growth in Q1. These trends suggest that total commencements for 2019 should exceed 24,000 units.

Mortgage activity in the housing market continued to grow in 2019. BPFI data show that there were 10,157 mortgage drawdowns valued at €2,250 million in the second quarter of 2019. This brought the total drawdowns to just over €4.1 billion in the first half of 2019 compared to around €3.7 billion during the same period in 2018 – a 11.2% increase, with FTBs accounting for around 49% total drawdowns during the period. Mortgage approval activity increased in volume terms by 8.1% year-on-year in Q2 2019 bringing the total number of approvals to just over 24,000 in the first half of 2019, with FTBs accounting for more than half of the approvals during the period. In value terms activity increased by around 10% over the same period with the total value of approvals reaching nearly €5.5 billion in the first half of 2019.

Private-sector rents vs Earnings (Base = Dec 2008)



Source: BPFI, based on CSO data

COMMENTARY

There seems to be significant focus on the monthly or yearly percentage changes in various commentary related to the housing market in Ireland, both in terms of prices and supply of new homes. However, it is important to also note the overall level of activity in the market, if we want to be able to properly evaluate equilibrium levels. Assuming that there will likely be about 20,000 units delivered in total this year, total housing output between 2014 and 2019 will be around 75,000 units. Most commentators agree that 25,000 units are needed per annum to satisfy demand in the market, which implies 125,000 units during the same period. The mismatch between current demand, as well as pent-up demand, and the supply of new homes seems to have brought average sale prices relatively close to the peak of the previous cycle. This same mismatch also seems to be affecting rental accommodation in pushing up private sector rents where we have significantly surpassed the peak rents from the previous cycle, notwithstanding the fact that rent increases seem to be stabilising. Meanwhile, average income levels in the economy have not increased to the same extent during the period and affordability in the context of macroprudential rules seems to be having an effect on demand at price levels at which the construction industry seems able to profitably operate.

Dr Ali Uğur, Chief Economist,
Banking & Payments Federation Ireland

HOUSING SUPPLY

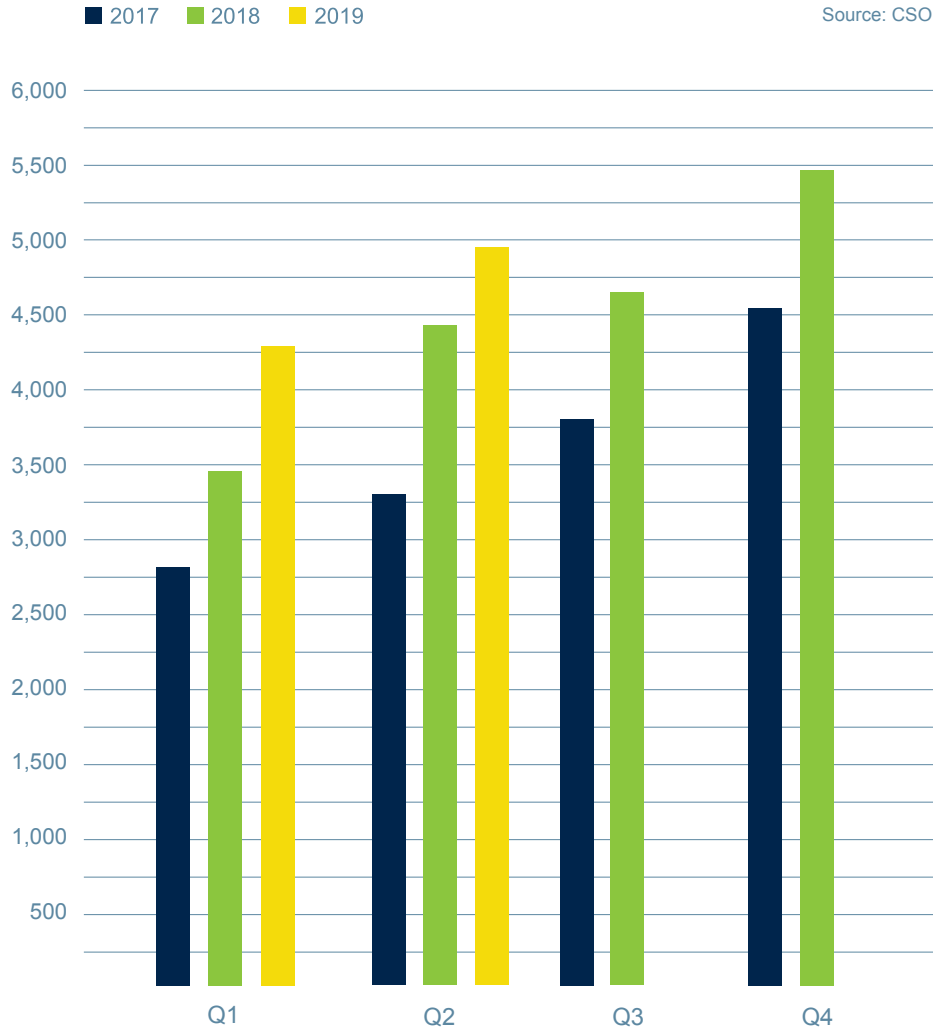
New dwellings completed

More than 4,900 new dwellings were completed according to the Central Statistics Office (CSO)* in Q2 2019, 11.8% more than in Q2 2018.

Completions in Dublin fell by 13.7% year-on-year, ending a growth trend that had begun in Q3 2015. The other regions recorded strong growth and activity levels above or close to the recent peak of Q4 2018.

While most completions were still scheme houses, the growth rate of scheme houses slowed sharply to 2.6% year-on-year as apartment completions jumped by 55.6%. These trends were driven by Dublin, where there were some 500 fewer scheme house completions than a year earlier and about 250 more apartments completed than in Q2 2018.

**The CSO publishes quarterly data new dwelling completions.*



HOUSING SUPPLY

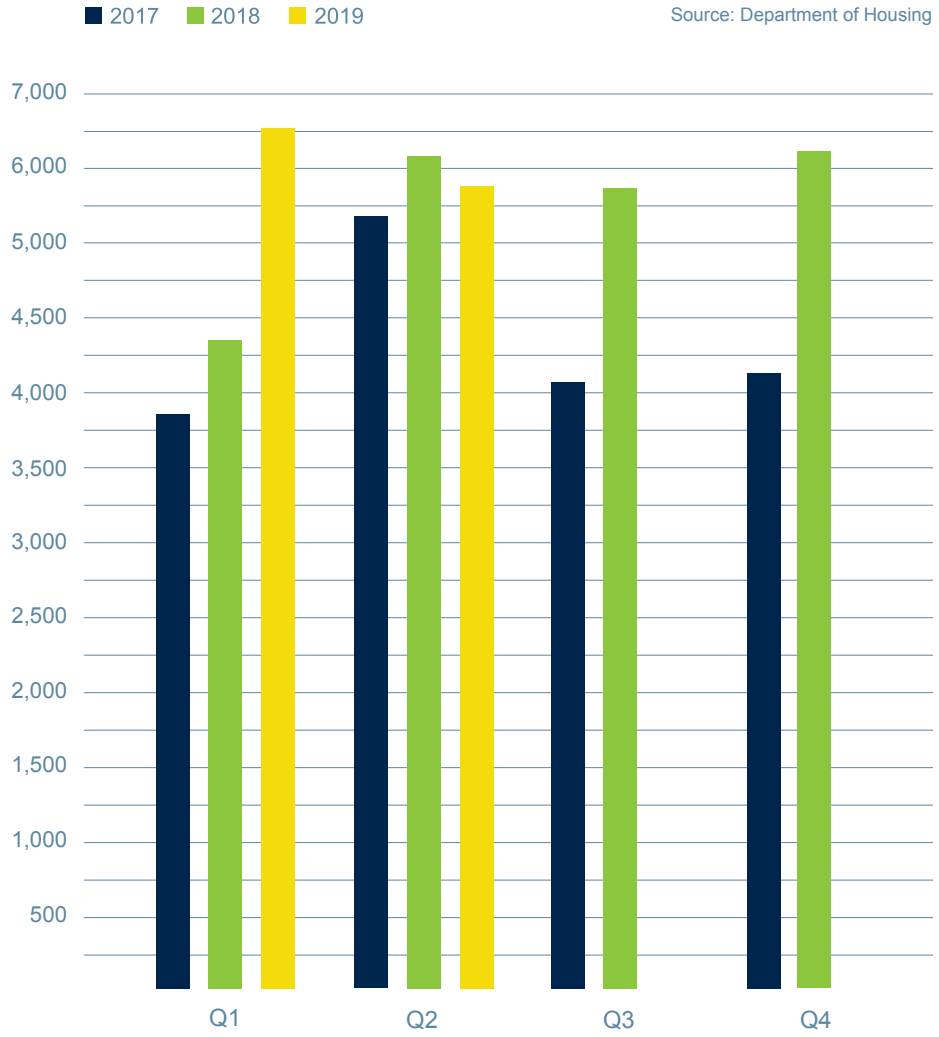
New dwellings commenced

There were some 5,700 commencements in Q2 2019, a fall of 6.8% on the same period of 2018.

The decline was most evident in Leinster: Dublin was down 18.5% year-on-year to 1,509, Dublin Commuter (Louth, Meath, Kildare and Wicklow) down 19.1% to 1,327 and the rest of Leinster down 16.4% to 536.

The decline in Q2 followed a strong Q1*. This means that the first half of 2019 saw commencements rise by 16.8% year-on-year to almost 12,300 units. This growth was driven mainly by Cork and Connacht-Ulster, which each had more than 450 additional commencements compared with H1 2018.

**The Department of Housing, Planning and Local Government revised figures for March 2019 figures.*



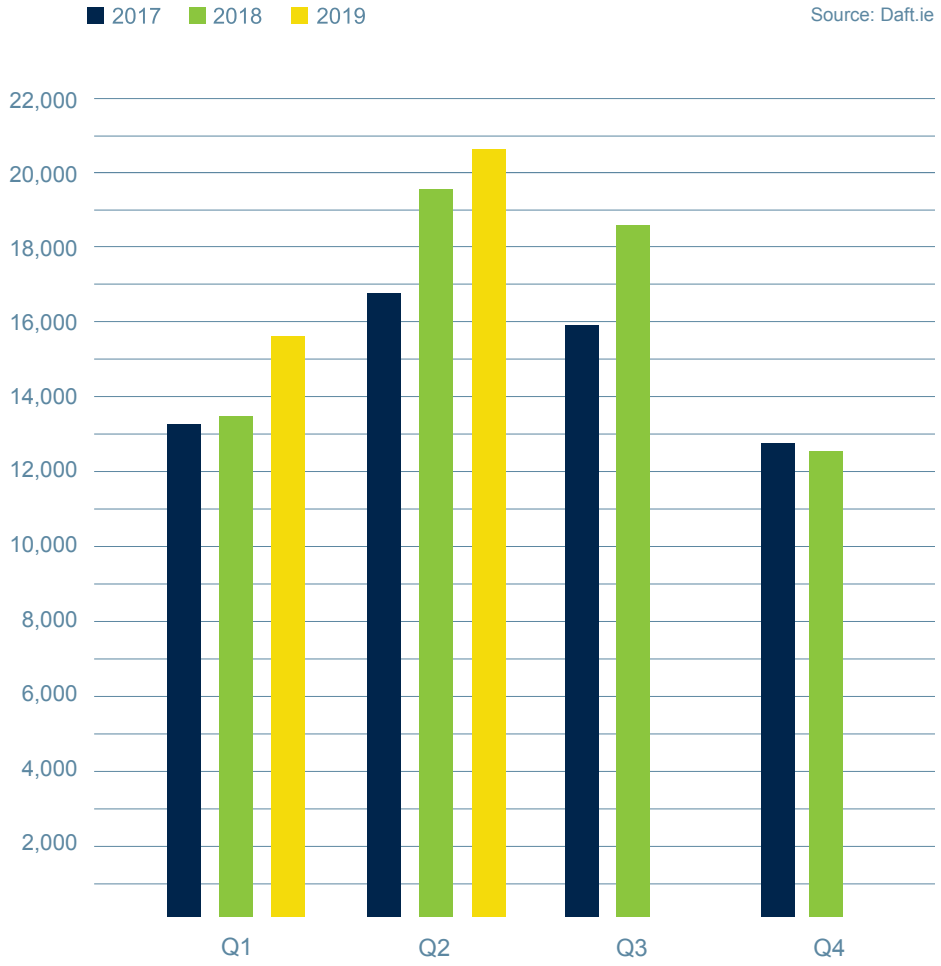
HOUSING SUPPLY

Properties listed for sale

The second quarter of 2019 saw over 20,000 properties listed for sale, an increase of 7% compared to the same period in 2018. This was the 20th time in the past 25 quarters that the number of properties listed for sale had grown, on a year-on-year basis.

Unlike in many recent quarters, the growth in listings was not driven by Dublin, where there was just a 1% year-on-year rise in listings. Growth was significantly greater in the rest of Leinster (12%) and in the four other cities of Cork, Galway, Limerick and Waterford (10%). In Munster, listings rose by 8%, while in Connacht-Ulster, there was a 3% rise.

**The statistics are based on properties advertised on Daft.ie for a given period and exclude any stock available for sale but not listed on the website.*



HOUSING SUPPLY

Properties listed for rent

The second quarter of 2019 saw just under 14,300 properties listed for rent nationwide, a 3% decrease on the same period in 2018. This was the second lowest total for a three-month period since the start of the series in 2011 and marked the 29th time in 30 quarters that rental listings had fallen, year-on-year.

The 3% decrease was spread relatively evenly across the regions. In Dublin and in the rest of Leinster, the fall was in line with the national average. In the four other cities, and in Connacht-Ulster, the fall in rental listings was smaller, at 1% year-on-year, while in Munster (outside the cities) the annual fall in rental listings was 5%.

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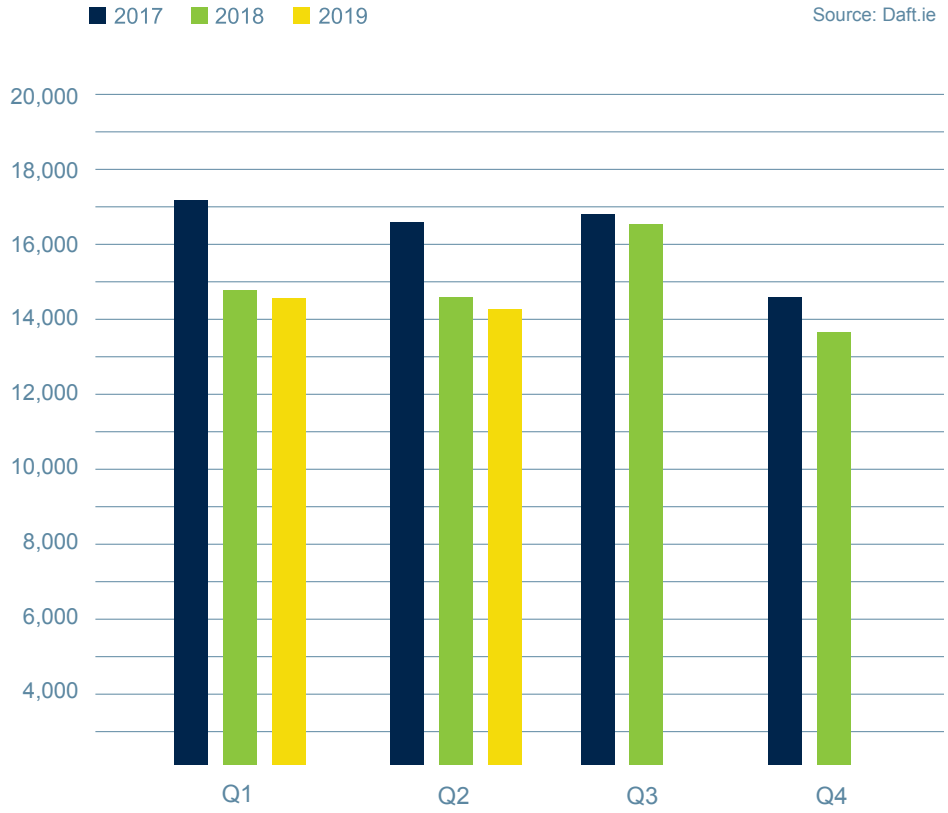


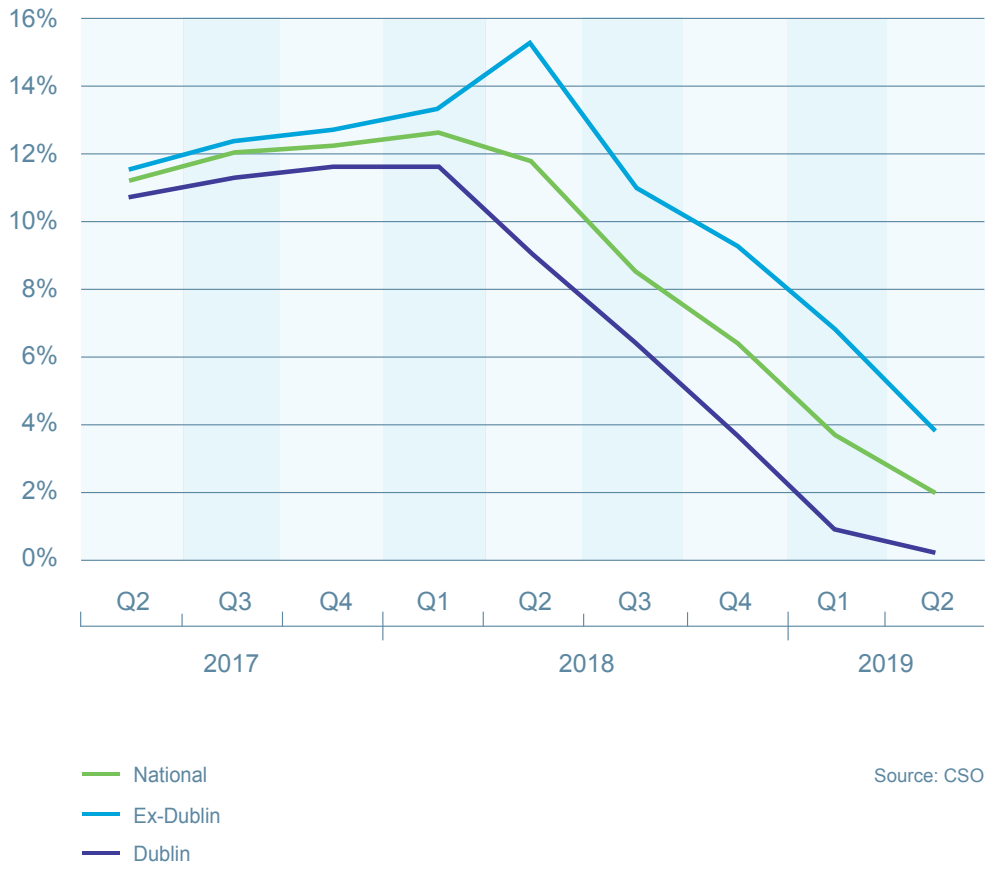
HOUSING SALES & RENTALS

Transaction prices

Residential property prices increased by 2% year-on-year in June 2019. Based on monthly figures, this was the lowest rate of annual growth since June 2013.

Prices in Dublin rose by only 0.1% year-on-year while housing price inflation outside Dublin rose dropped to 3.9%.

House prices fell year-on-year in two of the four Dublin regions (Dublin City and Dun Laoghaire-Rathdown) as well as in the surrounding Mid-East or Dublin Commuter region (Louth, Meath, Kildare and Wicklow).



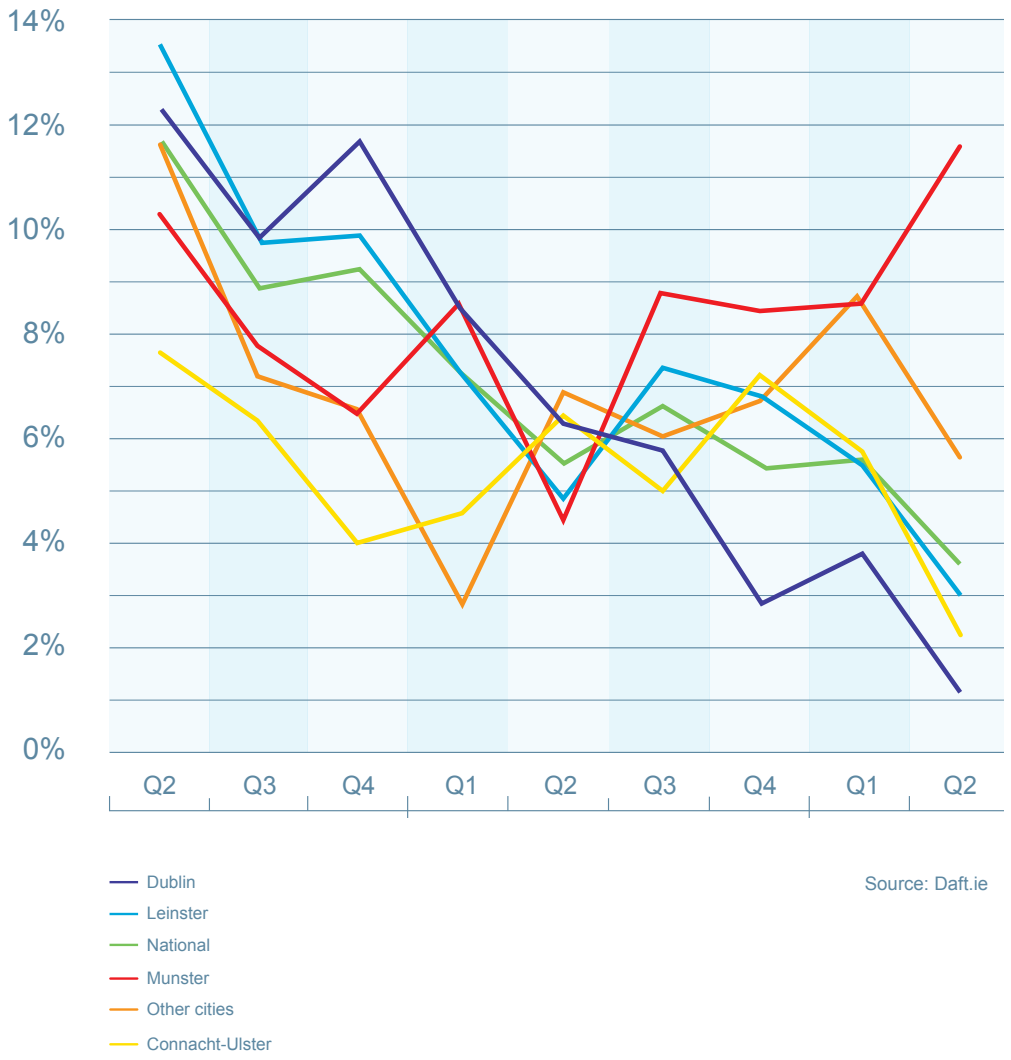
Source: CSO

HOUSING SALES & RENTALS

Listed sale prices

The annual rate of inflation in listed sale prices nationwide in the second quarter of 2019 was 3.7%, the lowest rate of increase seen since late 2013. Nonetheless, it marked the 23rd consecutive quarter where list prices had risen in year-on-year terms.

Annual inflation in Dublin list prices was 1.2% in the second quarter of the year, in line with early-2016 lows in inflation. The rate of inflation in the other major cities had also fallen recently but remained higher, at 5.6%. Outside the cities, the rate of inflation was low in Leinster (3%) and Connacht-Ulster (2.3%) but still high in Munster (11.5%).



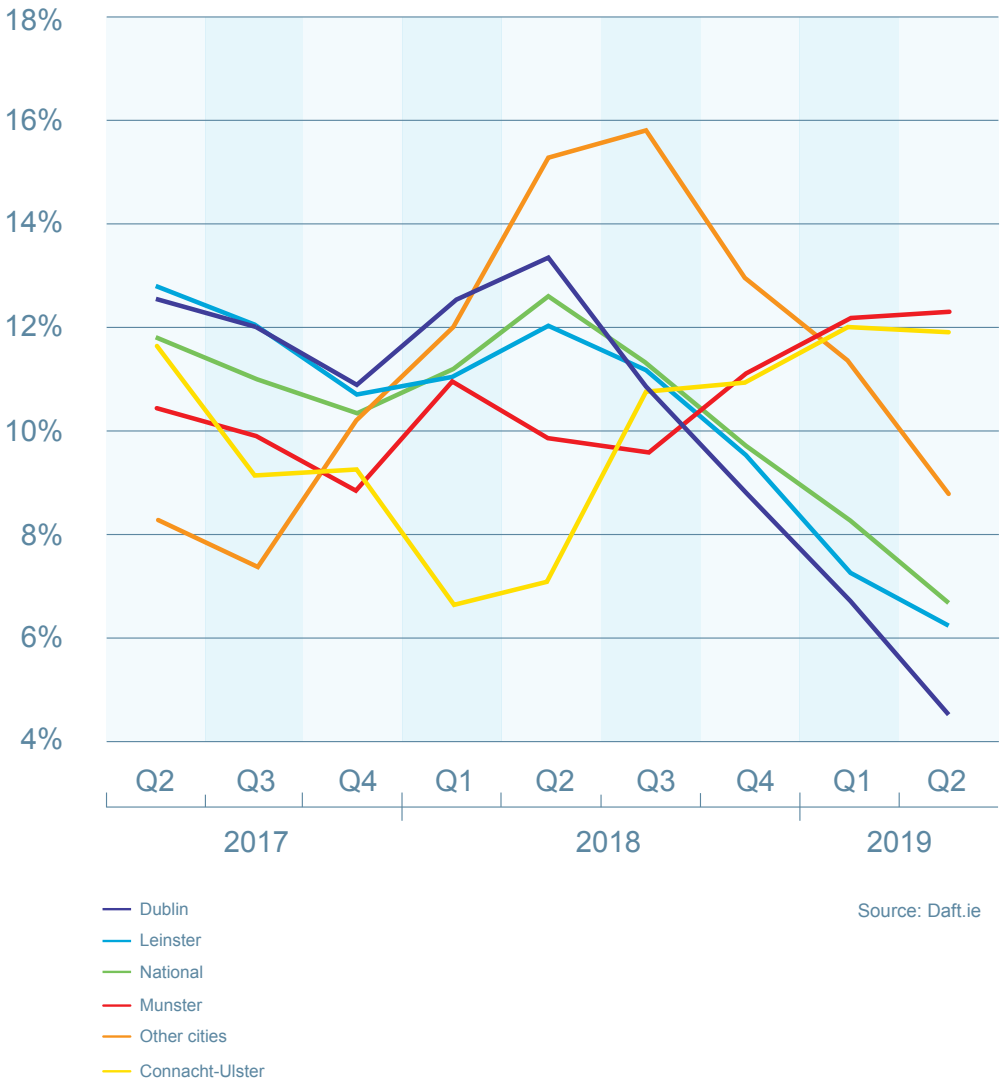
Source: Daft.ie

HOUSING SALES & RENTALS

Listed rental prices

The annual rate of inflation in listed rental prices in the second quarter of 2019 was 6.7%. This was the 28th consecutive quarter of inflation in listed rental prices since mid-2012. However, it was the lowest rate of inflation since late 2013.

Year-on-year inflation in Dublin rents was 4.5% in the second quarter of 2019, down from 13.4% a year previously. In the four other major cities, rental inflation was 8.8%, down from 15.8% in the third quarter of 2018. Elsewhere, the rate of inflation in rents varied from 6.2% in Leinster (outside Dublin) to 12% in both Munster and Connacht-Ulster.



Source: Daft.ie

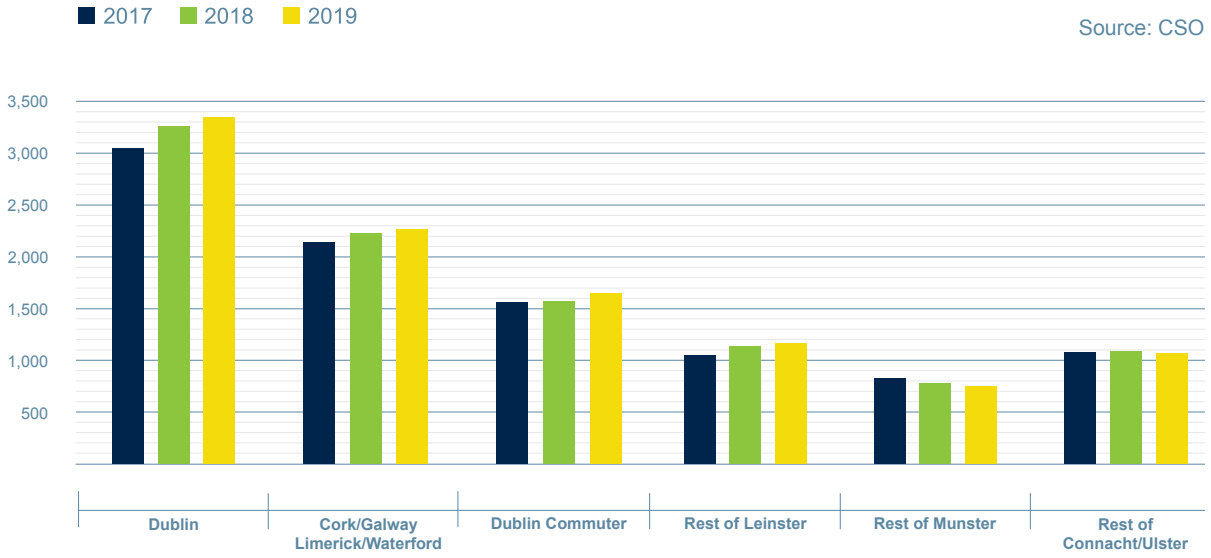
PROPERTY TRANSACTIONS

The number of residential properties sold in Ireland rose by 2.3% year-on-year to almost 10,300 in Q2 2019.

Sales grew fastest in the Dublin Commuter region (Kildare, Louth, Meath and Wicklow), up 6.1% year-on-year to almost 1,700.

Sales in Dublin rose by 2.4% on a year-on-year basis following two quarters of decline, while sales in the counties Cork/Galway/Limerick/Waterford rose by 2.9%.

Sales of new properties fell for the second consecutive quarter, down 8% year-on-year. The sharpest drop was again in Dublin, where new property sales fell by 21.2% to 736, the lowest level since Q2 2017. BY contrast sales of existing property in Dublin rose by 11.8% year-on-year, the fastest growth rate since Q2 2015.



**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.*

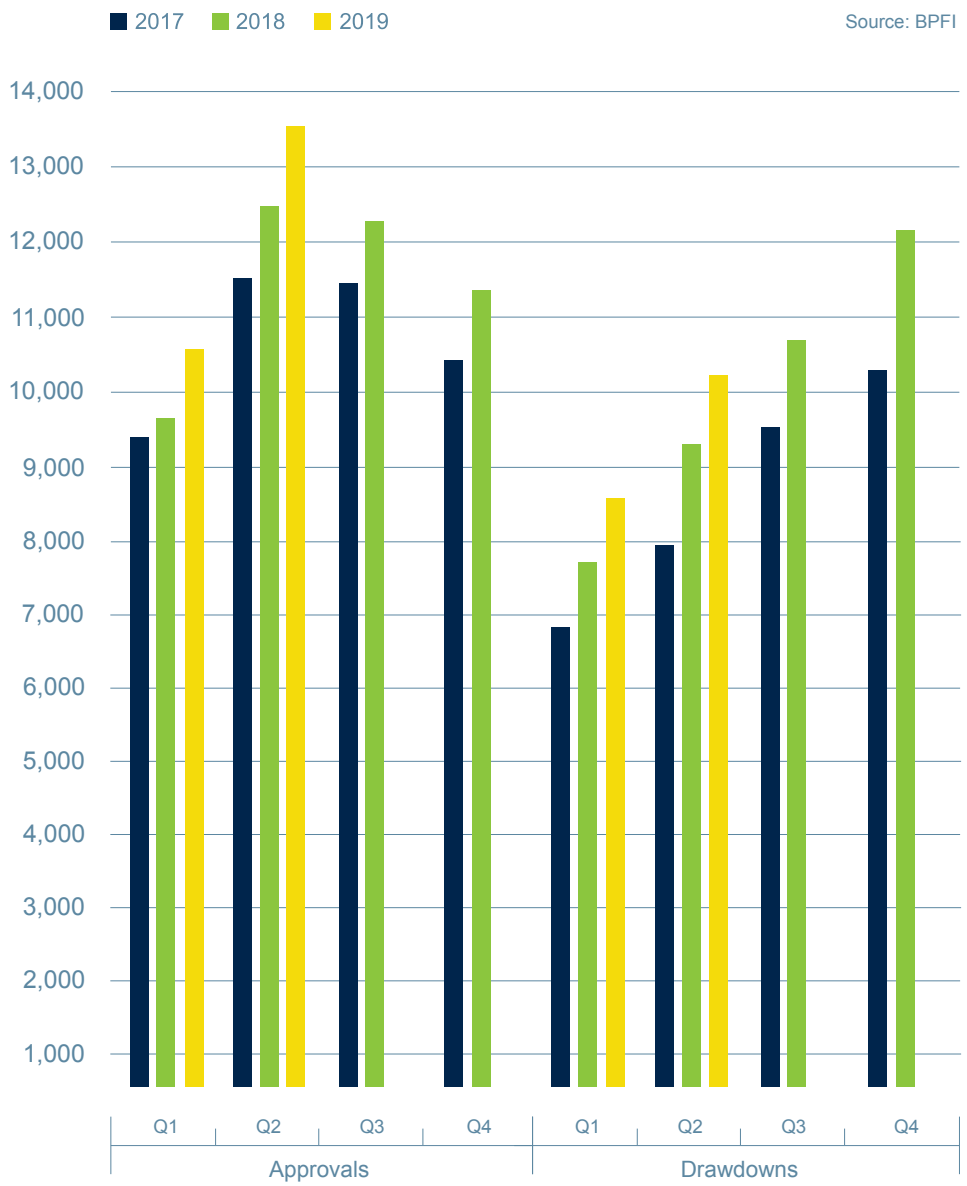
MORTGAGES

Mortgage approvals

Mortgage approval volumes rose by 8.1% year-on-year in Q2 2019 to more than 13,500. Purchase and non-purchase mortgages grew at a similar rate but first-time buyers (FTBs) were the strongest segment, rising by 14.2% year-on-year to 6,966 (more than half of total approval volumes).

Mortgage drawdowns

Mortgage drawdown volumes grew by 8.8% year-on-year to almost 10,200 in Q2 2019. Purchase mortgage drawdowns rose by 8.2% year-on-year but FTB drawdowns increased by 10.8%.



MORTGAGES

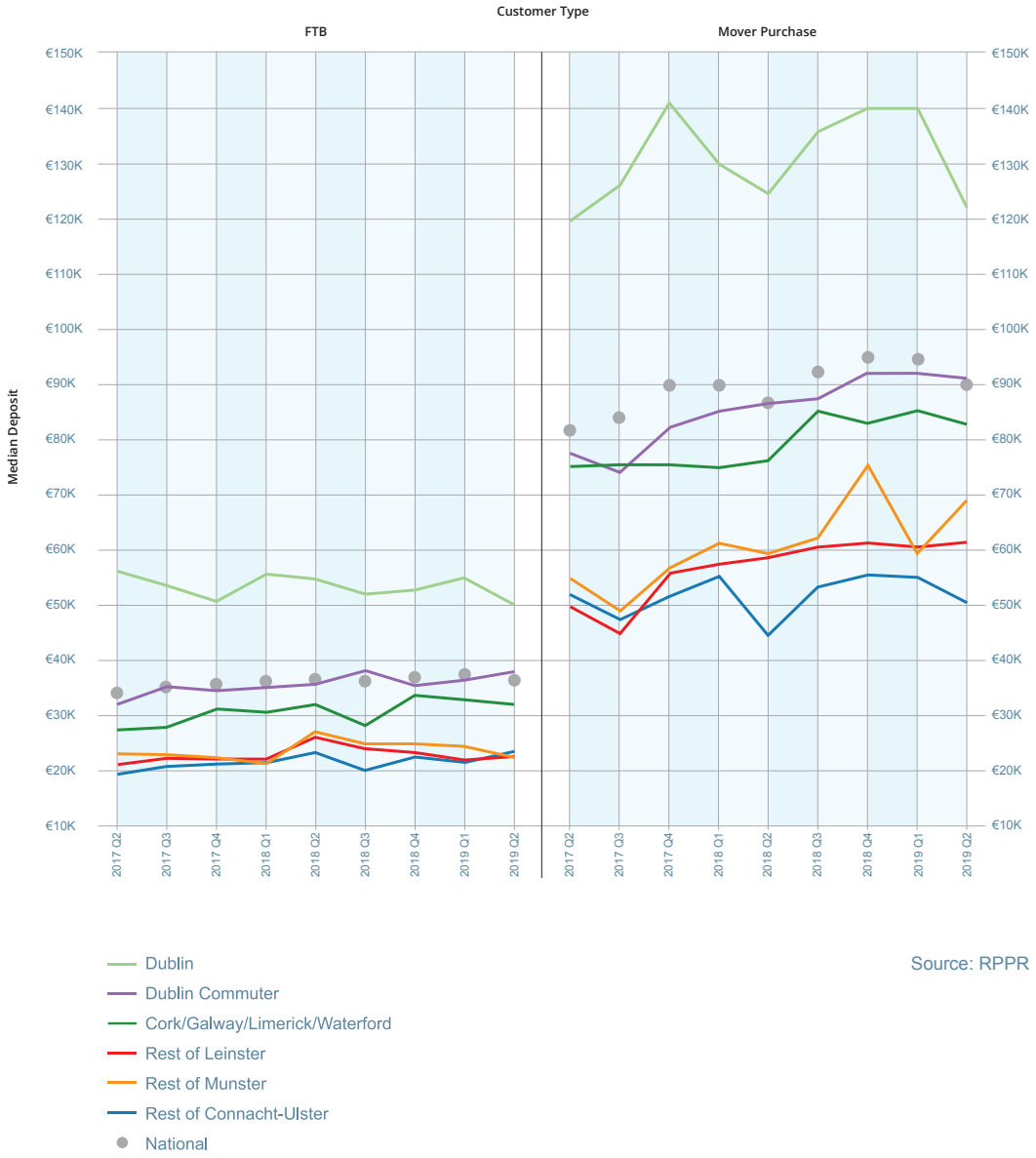
Median deposits

The median deposit* for FTBs fell by 2.7% year-on-year in Q2 2019, dropping back to the Q4 2017 level of about €36,500. However, the median mover-purchase deposit continued to increase, rising by 4.2% year-on-year to €90,000 in Q2 2019.

Median deposits in Dublin fell to their lowest levels since Q4 2015 and Q4 2017 for FTBs and mover purchasers, respectively.

With median deposits falling in Dublin and continuing to rise in Dublin Commuter counties, the gap between deposits in the two regions fell to their lowest levels since Q2 2015 (€12,000 for FTBs and about €31,000 for mover purchasers).

**The median deposit is derived from sample loan-level data provided by BPFI members. The analysis is subject to regular revision as new data is made available.*



Source: RPPR

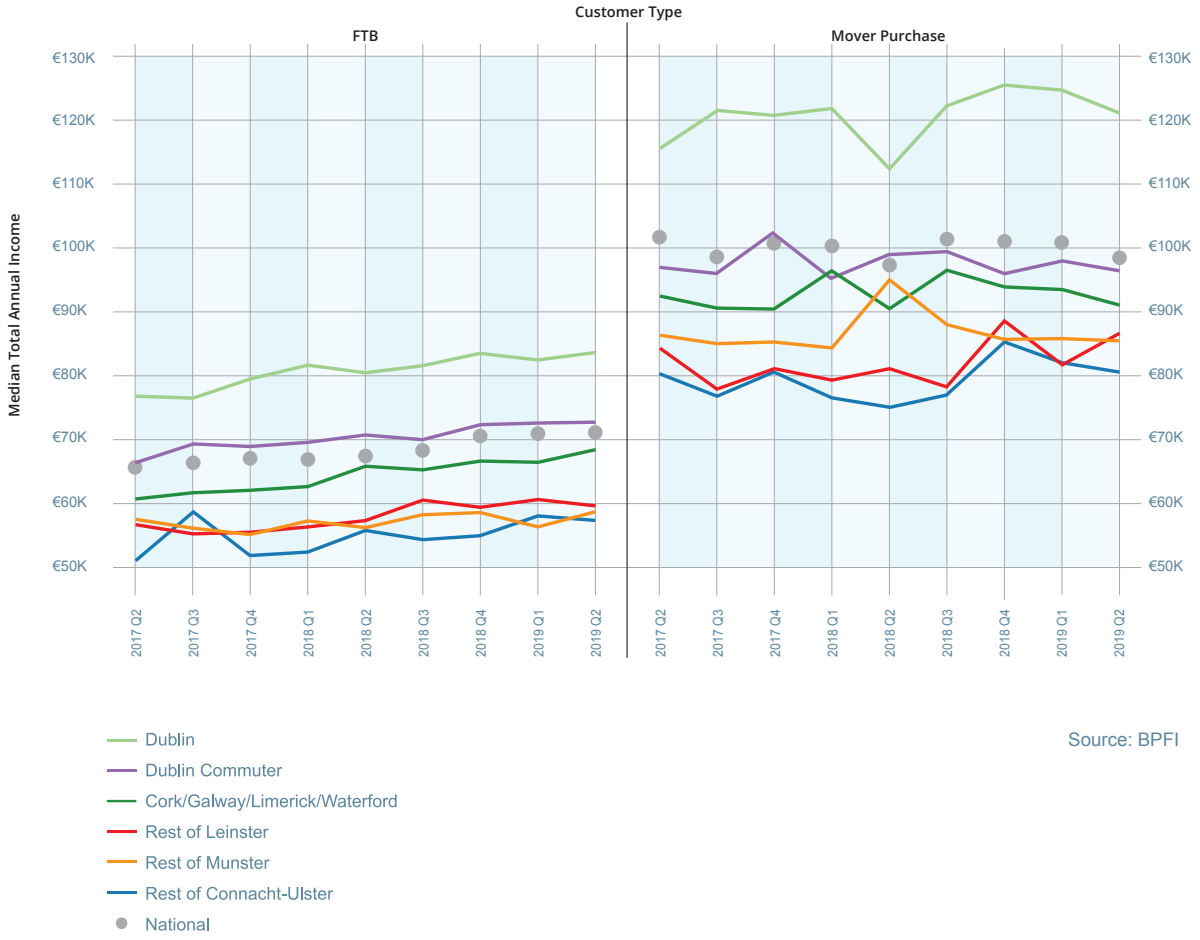
Median incomes

Median borrower incomes (the sum of all borrower incomes) rose by 3% year-on-year for FTBs to almost €71,000 and by 1.8% for mover purchasers to almost €99,000.

Median FTB incomes rose again in all regions, with Dublin median FTB incomes up 4% year-on-year to almost €84,000 and median incomes in Dublin Commuter and the counties Cork/Galway/Limerick/ Waterford rising to their highest levels since the series began in 2012 at almost €73,000 and over €68,000, respectively.

Median mover-purchase incomes rose in most counties. However, median incomes fell on a year-on-year basis in two of the past three quarters.

**Median borrower incomes are derived from sample loan-level data provided by BPFI members. The analysis is subject to regular revision as new data is made available.*



Source: BPFI

MORTGAGES

Median price-to-income ratios

The ratio of property purchase price to the combined incomes of borrowers (price-to-income) is a useful measure of affordability and complements the Central Bank of Ireland's loan-to-income ratio.

The median price-to-income (PtI) ratio for FTBs rose from 3.71 to 3.72 between Q2 2018 and Q2 2019 but the ratio has remained in the range 3.7 to 3.72 since Q4 2017.

By contrast, the median PtI for mover purchasers continued to rise, increasing from 3.58, from 3.5 a year earlier.

On a regional basis, the median PtI for FTBs in Dublin fell on a year-on-year basis for the fourth consecutive quarter. Similarly the median PtI for mover purchasers in the region fell in two of the past three quarters.

**The median PtI ratio is derived from sample loan-level data provided by BPFI members. The analysis is subject to regular revision as new data is made available.*

Source: BPFI

MORTGAGES

Cash sales ratio

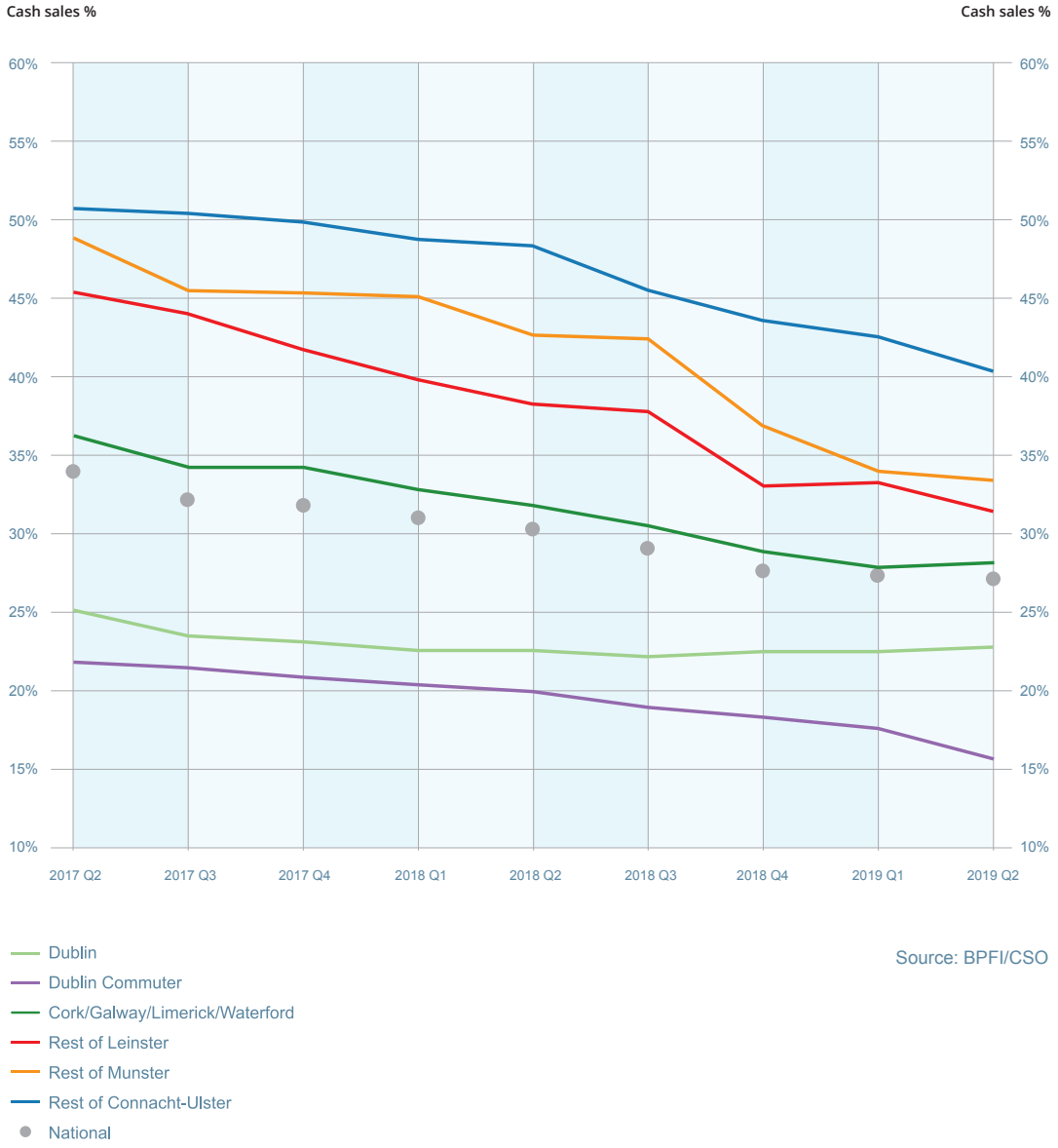
Cash sales accounted for an estimated 26.2% of sales on an annualised basis in Q1 2019, down from 30.4% a year earlier.

The cash sales ratio in Dublin was 22.8%. This was the sixth consecutive quarter in which the cash sales ratio had ranged between 22.6% and 23%.

The cash sales ratio in the Dublin Commuter region continued to fall, dropping to 15.7%.

The counties Cork/Galway/Limerick/Waterford and the rest of Leinster recorded ratios below one third, at 27.4% and 31.1% respectively.

Cash sales represent all non-mortgage sales. The cash sales ratio is calculated by dividing the volume of mortgage drawdowns for house purchase and self-builds by the volume of residential property purchases by households at market prices. The data is reported on an annualised basis. The cash sales ratio is derived from BPFI sample loan-level data and CSO residential property data. The analysis is subject to regular revision as new data is made available.



Source: BPFI/CSO

ABOUT THE REPORT

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, number of housing sales transactions, residential property price indices and transactions for cash sales estimates]
- Daft.ie [number of properties listed for sale and for rent; indices of listed sale and rental prices]
- Banking & Payments Federation of Ireland [mortgage approvals, drawdowns, median incomes, median deposits, median price-to-income ratios and estimated cash sales ratios]

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