Banking & Payments Federation Ireland

BPFI Housing Market Monitor Q4/2018

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	5,522	4,567	20.9%
Dwelling commencements	6,250	4,243	47.3%
Dwellings listed for sale	18,595	15,992	16.3%
Dwellings listed for rent	16,611	16,891	-1.7%
Transactions	12,726	12,474	2.0%
Yr/yr change in transaction prices	6.5%	12.1%	
Yr/yr change in list prices	5.5%	9.2%	
Yr/yr change in list rents	9.8%	10.4%	
Mortgage approvals	11,272	10,421	8.2%
Mortgage drawdowns	12,112	10,350	17.0%

COMMENTARY

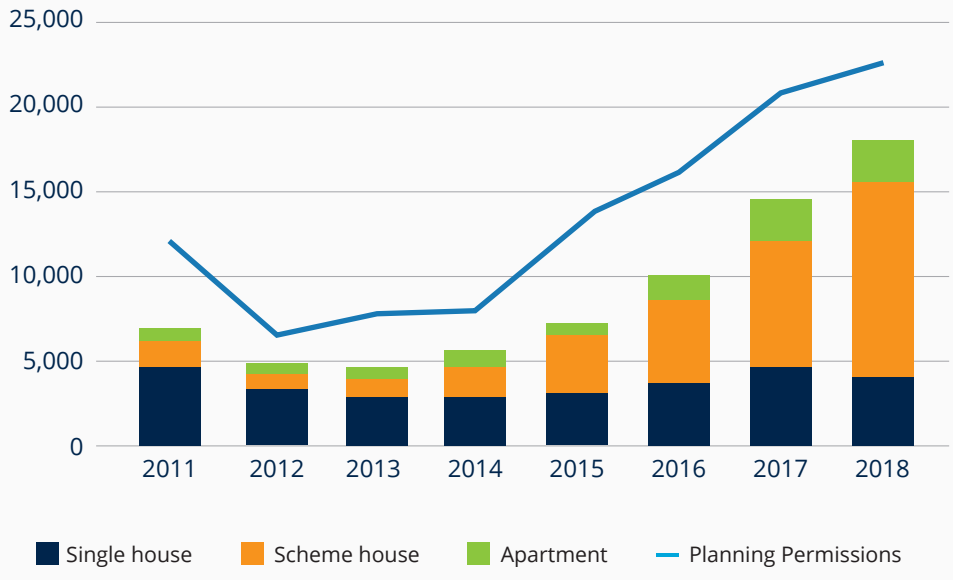
Supply is improving but households face competition for available property

Output

Irish housing output increased nearly fourfold between 2013 and 2018, on average by over 30% per annum over the period, and completions totalled just over 18,000 units in 2018. Despite this notable increase in output, a significant gap still exists between supply and estimated demand of around 35,000 units per annum, which is underpinned by stronger employment and earnings growth in 2018. The Greater Dublin Area accounted for 60% of all completions in 2018.

Commencement figures in the prior year have become a good lead indicator of total completions in a year, particularly since the revisions to completions numbers by the Central Statistics Office (CSO) and the total number of commencements in 2018 was around 22,500 units. We estimate that total housing output in 2019 should be close to total commencement numbers in 2018, which indicates a further 25% growth in output in 2019. Planning permissions provide another lead indicator for future housing output. We have seen a significant increase in the number issued between January 2013 and September 2018, totalling nearly 88,000 units, of which more than half were issued in the 21 months ending September 2018. The increase in the planning permission numbers, particularly between the last quarter of 2017 and third quarter of 2018, seems to be driven by the permissions issued for apartments, which shows that we are likely to see a significant increase in the number of apartments built in the short term.

New Dwelling Completions and Planning Permissions



Source: CSO

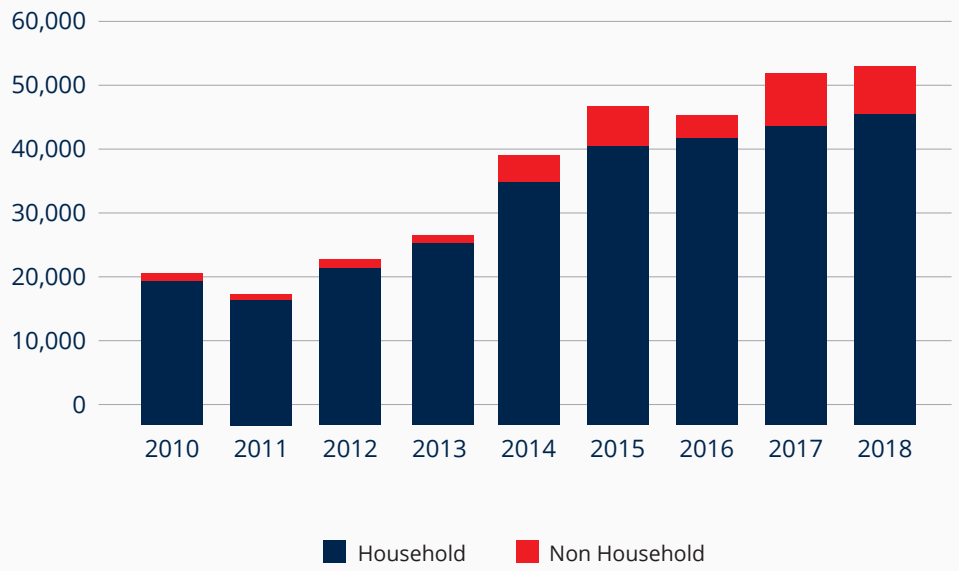
Note: Planning permissions are only available up to September 2018.

COMMENTARY

Prices

The mismatch between housing supply and demand is also reflected in both sale and rental prices. Residential property prices increased by 6.5% nationally in the year to December 2018, compared with an increase of 12.1% in the twelve months to December 2017. Even though prices are perhaps responding to increased supply levels, with the rate of price inflation slowing as of end of 2018, the median price of a property was €248,000 at a national level and €368,000 in Dublin. This means that property prices nationally have increased by 83.0% from their trough in early 2013. Dublin residential property prices have risen 94.7% from their February 2012 low. In terms of rents, levels are at an all-time high with average rent of around €1,347, notwithstanding the fact that with increased availability there seems to be signs of a fall in rental inflation to around 9.8% at the national level. As stated in previous editions of this Monitor, it is a positive sign that we see price increases moderating in response to increased supply levels. That said, we need to consider the likely impact of ongoing price increases on the wider economy. Related to this, we are likely to see increased cost pressures via labour market developments in the construction sector given the wage growth inflation already starting to gain momentum in 2018 with unemployment levels in the sector and the economy declining.

Residential Property Transactions



Source: CSO, excludes non-market transactions

COMMENTARY

Mortgage Market

Lenders continued to support the residential mortgage market in terms of mortgage market activity in 2018. BPFI mortgage data show that there were 40,203 mortgage drawdowns valued at €8.7 billion in 2018 compared with 34,798 drawdowns valued at €7.3 billion in 2017 – representing a 15.5% increase in volume terms and a 19.4% increase in value terms. Mortgage approval activity also increased, albeit at a slower rate than drawdowns; in volume terms by 6% in 2018 bringing the total number of approvals to 45,656 and in value terms activity increased by around 9% with the total value of approvals exceeding €10.1 billion in 2018. First-time buyers accounted for nearly half of all mortgage drawdowns by value in 2018, a trend that is similar to the experience over the past few years.

The role of non-household buyers, which include private companies, charitable organisations, and state institutions, in housing market transactions has increased particularly since 2010 where they accounted for around 4% of all market-based activity, whereas this ratio has increased to 17% in 2018. In terms of transactions in the newly built housing units, non-households accounted for around 22% of all transactions in this category in 2018 compared to 7% in 2010. Given the growing importance of involvement from institutional investors and higher social housing output in the short term, it is likely that a higher portion of the new housing units in the coming years will be accounted for by these segments. Institutional investor or non-household sector transactions should not be confused with cash transactions as these require financing to a certain extent as opposed to pure cash sales or sales not financed with a mortgage. In this regard, this Monitor has been tracking cash sales in the residential property market* and we see that cash sales accounted for 27.8% of sales on an annualised basis in Q4 2018, down from 32.2% a year earlier.

Stabilising residential property prices are a good sign of improved supply in meeting required demand in the Irish economy. However, at certain levels of income distribution within the economy, purchasers are likely to meet affordability challenges as lenders operate within the supervisory macroprudential framework.

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

**The cash sales ratio is calculated by dividing the volume of mortgage drawdowns for house purchases and self-builds by the volume of residential property purchases by households at market prices, then subtracting that ratio from one.*

HOUSING SUPPLY

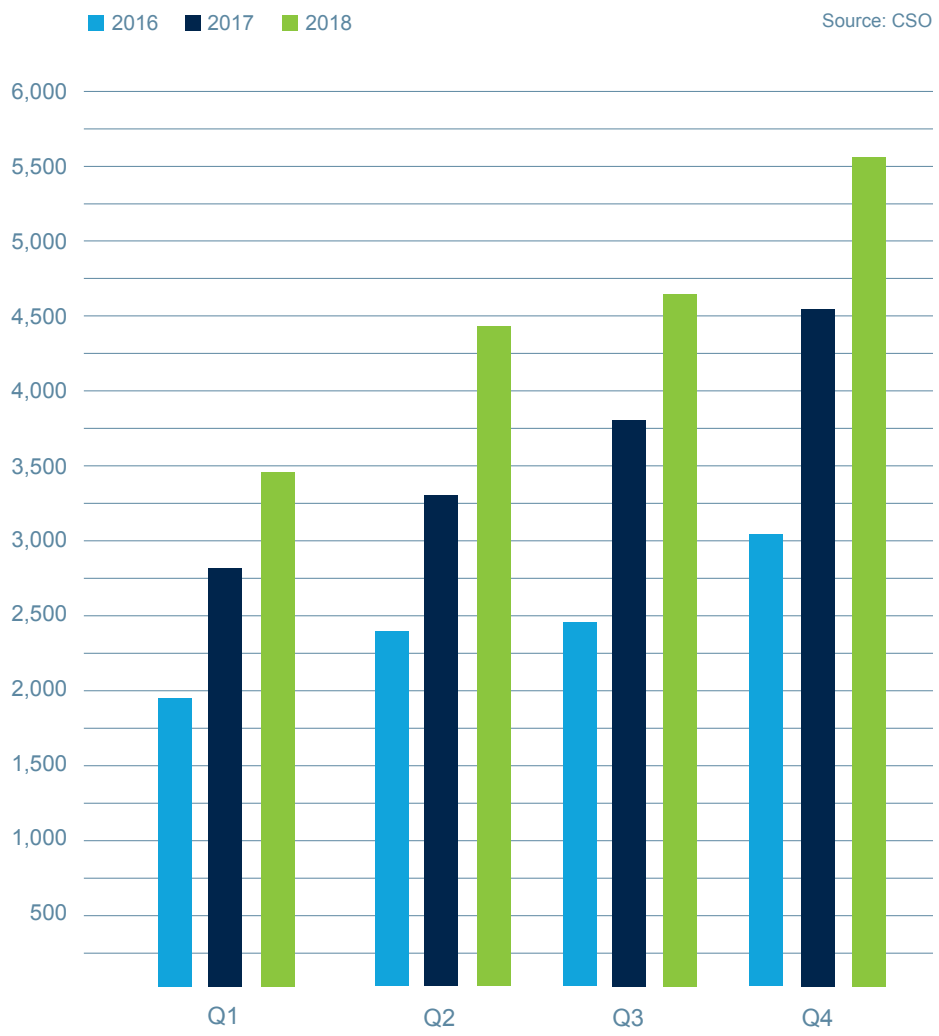
New dwellings completed

More than 5,500 new dwellings were completed according to the Central Statistics Office (CSO)* in Q4 2018, 20.9% more than in Q4 2017. In the full year, completions rose by 25.4% in 2018 to 18,072.

Dublin and Dublin Commuter (Kildare, Louth, Meath and Wicklow) accounted for 60% of Q4 2018 and full-year 2018 completions.

Almost 61% of new completions in 2018 were scheme houses and almost half of those (49%) were semi-detached houses, with 19% being mid-terrace and 16% end of terrace houses. Some 73% of scheme house completions in 2018 were in Dublin or Dublin Commuter.

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

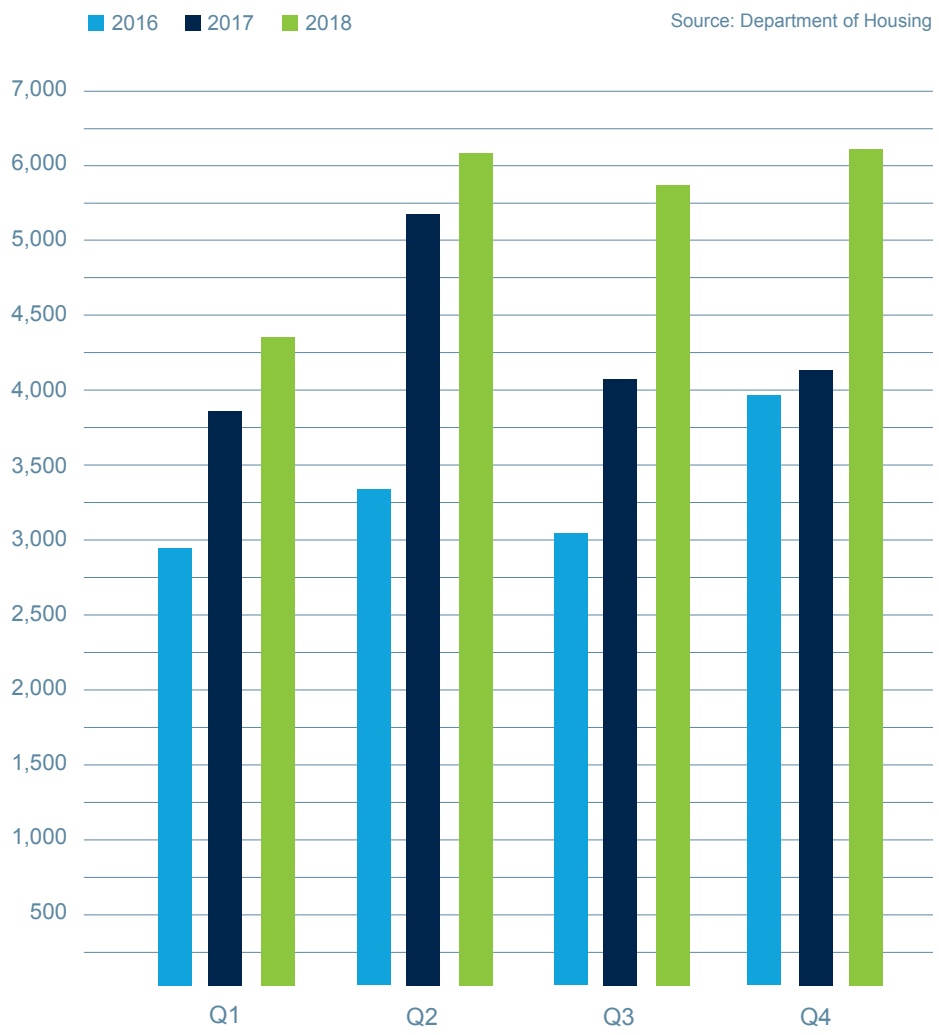


HOUSING SUPPLY

New dwellings commenced

There were 6,250 commencements in Q4 2018, an increase of 47.3% on the same period of 2017. In the full year 2018, there were almost 22,500 commencements, up 27.9% year-on-year.

The Dublin Commuter region accounted for more than 5,700 commencements in 2018, up 35.5% year-on-year. It also accounted for 31.9% of the increase in commencements in 2018. While Dublin has the highest share of commencement volumes at 34.3%, it had the slowest growth rate at 10.3% year-on-year. The rest of Leinster and Munster (excluding Cork) each saw growth of more than 50% year-on-year.



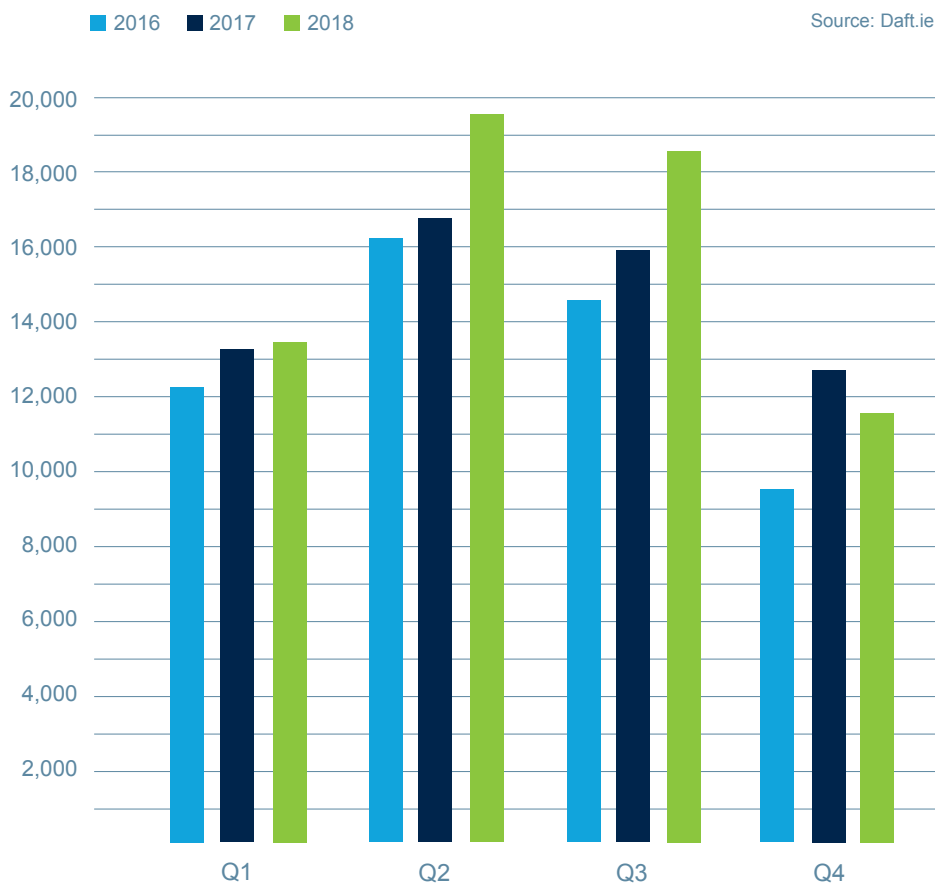
HOUSING SUPPLY

Properties listed for sale

The final quarter of 2018 saw just under 12,000 properties listed for sale, a decrease of 8.5% compared with the same period in 2017. The fall is the first after eight consecutive quarters where the number of properties listed for sale grew year-on-year.

The volume of listings in Dublin and in the other major cities was largely stable in year-on-year terms, with the five cities making up just 8% of the total fall. Elsewhere, however, there were more noticeable falls in listings, with drops ranging from 9% in Leinster to 17% in Munster (outside the cities).

**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 final quarter of 2018 saw almost 14,000 properties listed for rent nationwide, a 4.4% decrease on the same period in 2017. This is a new low for a three-month period (since the start of the series in 2011) and marks the 27th time in 28 quarters that rental listings have fallen in year-on-year terms.

Listings were largely stable in Dublin (just a 1% fall, year-on-year), but the four other major cities saw a fall in listings of 11%. Elsewhere, outside the cities, the falls were in between – ranging from 4% in Munster to 8% in Leinster.

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

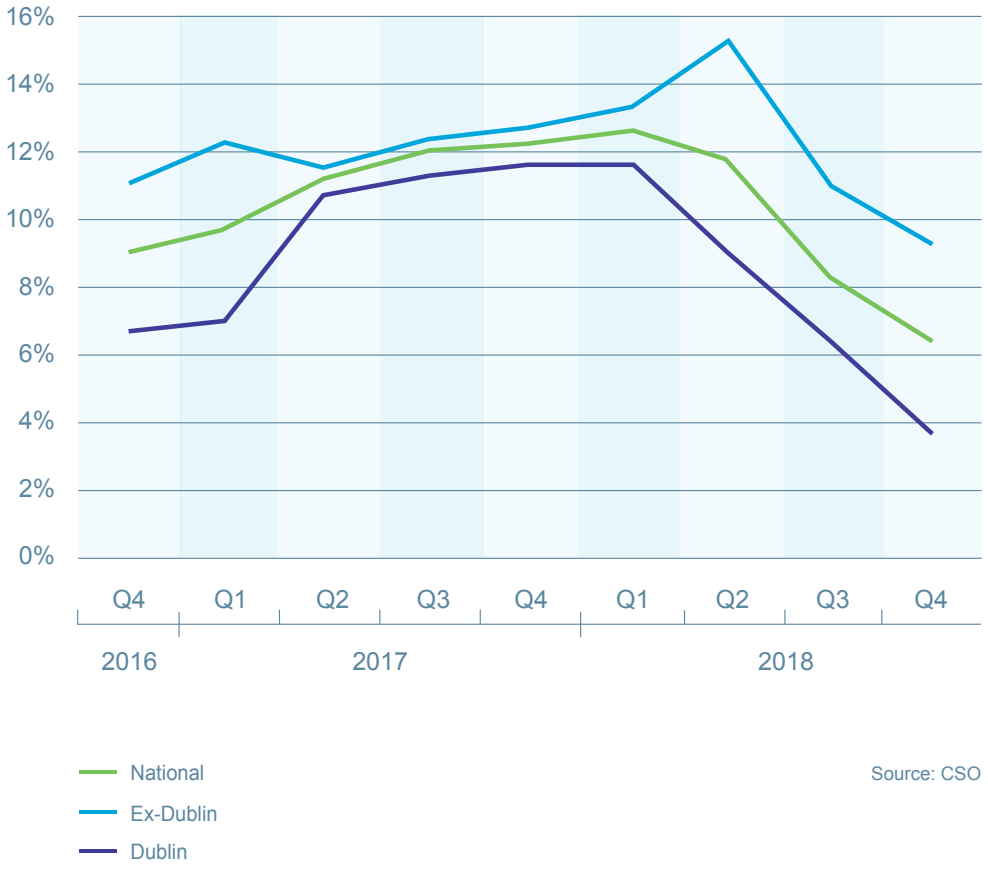
HOUSING PRICES & RENTS

Transaction prices

Residential property prices increased by 6.5% year-on-year in December 2018. Based on monthly figures, this was the lowest rate of annual growth since June 2016.

Prices in Dublin rose by 3.8% year-on-year while prices outside Dublin rose by 9.6%. This was the 14th consecutive quarter in which prices outside Dublin had risen faster than prices in Dublin.

By December 2018, the residential property price index was more than 10% higher than the January 2005 base in Dublin, in the Mid-East or Dublin Commuter region and in the South-West region (Cork and Kerry).



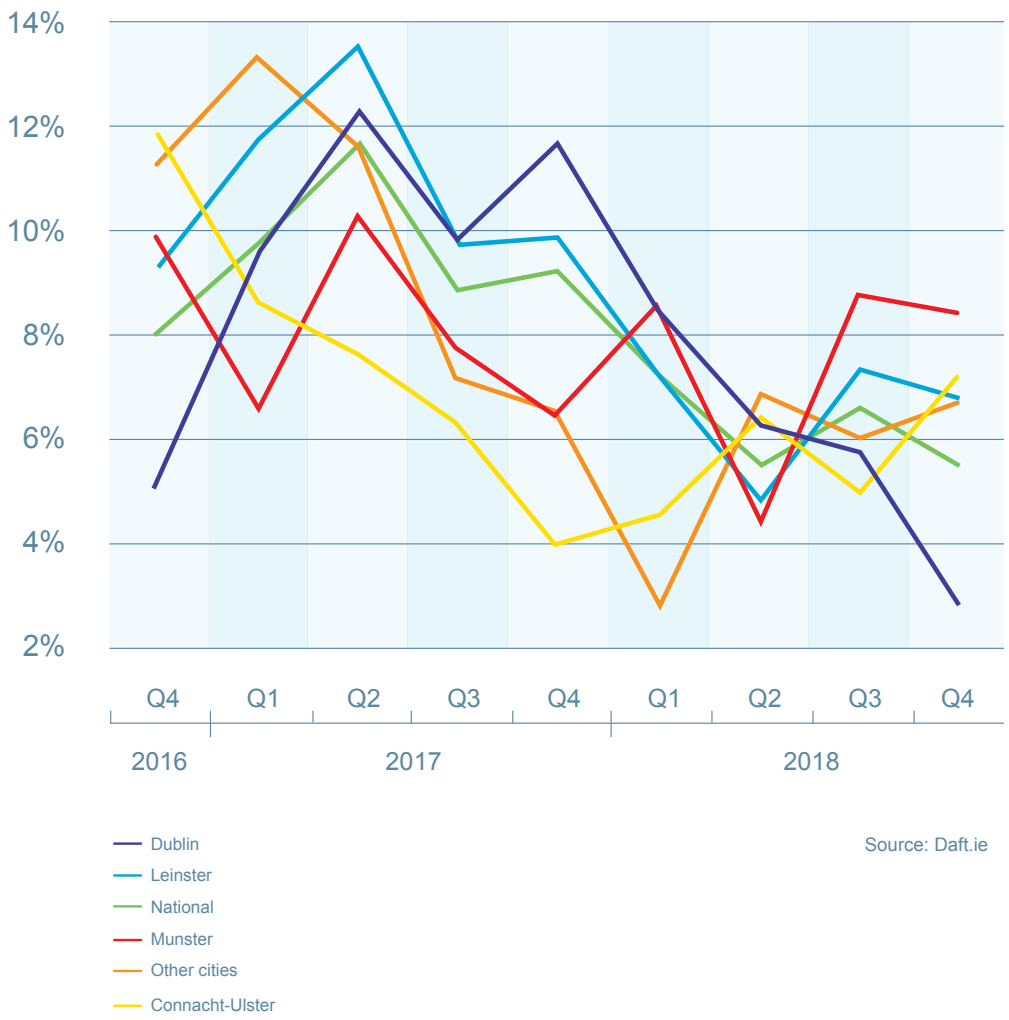
Source: CSO

HOUSING PRICES & RENTS

Listed sale prices

The annual rate of inflation in listed sale prices nationwide in the final quarter of 2018 was 5.5%, the lowest rate seen since the first quarter of 2014. Nonetheless, it marks the 21st consecutive quarter where list prices have risen in year-on-year terms.

Annual inflation in Dublin list prices was 2.9% in the final quarter of the year, down from 11.7% a year before. The rate of inflation in the other major cities was higher at 6.7%. Rates of inflation outside the cities ranged from 6.8% in Leinster to 8.4% in Munster.



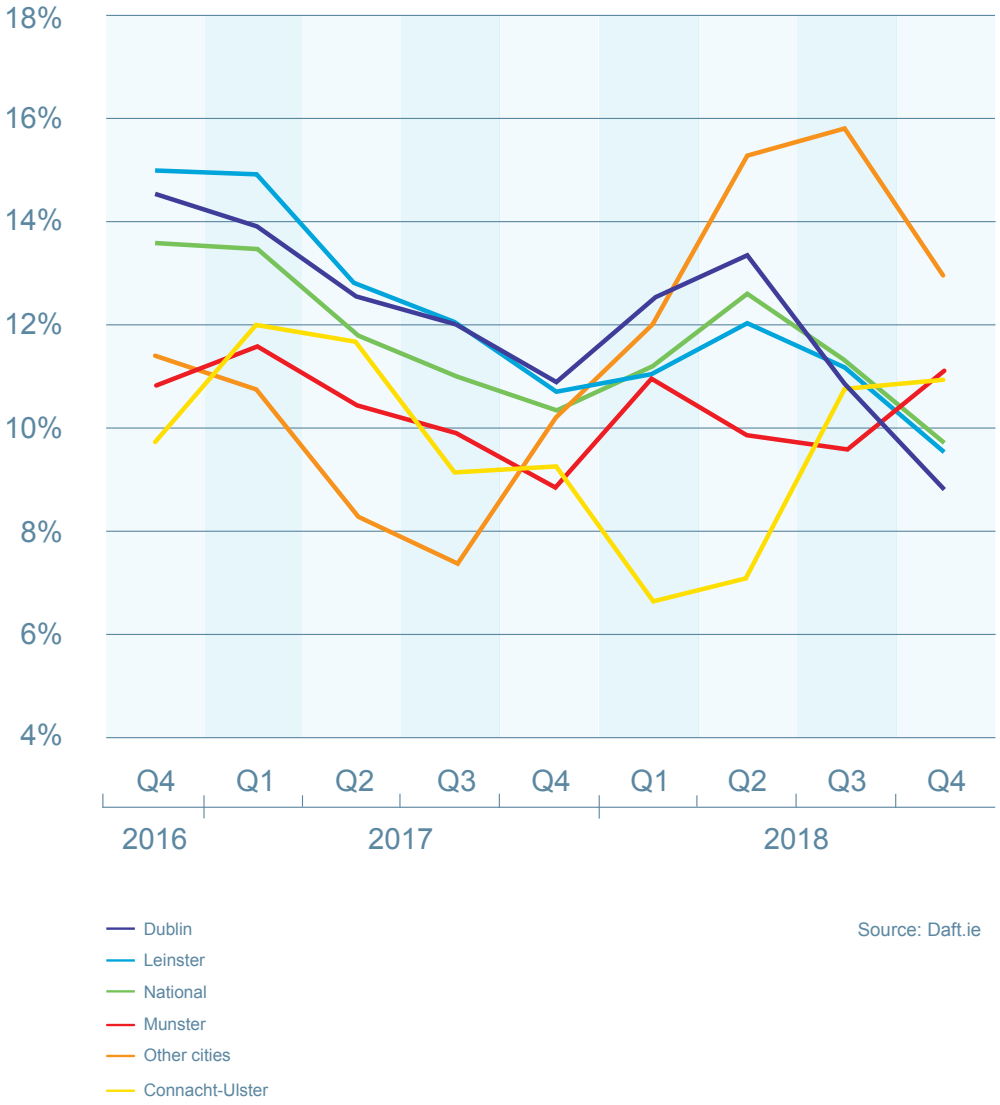
Source: Daft.ie

HOUSING PRICES & RENTS

Listed rental prices

The annual rate of inflation in listed rental prices in the final quarter of 2018 was 9.8%, the first time since early 2016 that this had fallen below 10%. Inflation in listed rental prices has now been positive for 26 consecutive quarters.

Year-on-year inflation in Dublin rents was 8.8% in the final quarter of 2018, down from a mid-year high of 13.4%. In the four other major cities, rental inflation was 13.0%, up slightly on a year previously. Elsewhere, the rate of inflation in rents varied only modestly from 9.7% in Leinster (outside Dublin) to 11.1% in Munster.



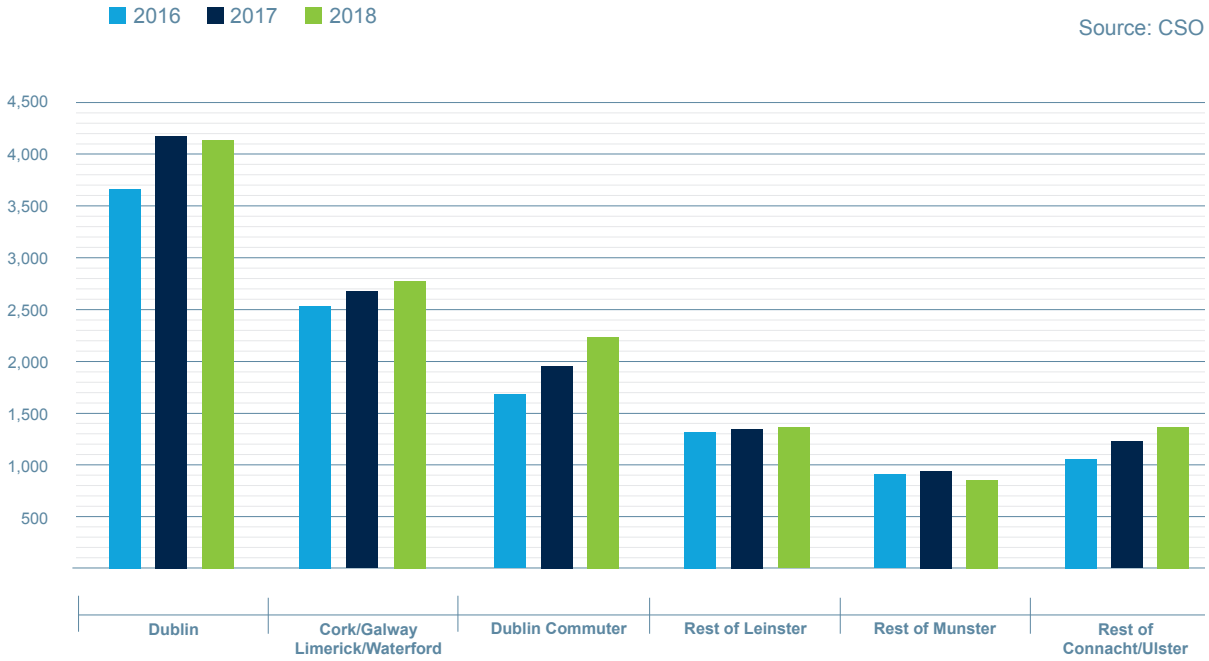
Source: Daft.ie

Property transactions

The number of residential properties sold in Ireland increased by 2.0% year-on-year to more than 12,700 in Q4 2018.

Sales grew fastest in the Dublin Commuter region (Kildare, Louth, Meath and Wicklow), up 11.7% to more than 2,200. No other region saw growth of more than 4.3%. Sales fell by 0.6% year-on-year in Dublin to more than 4,100.

Most of the growth nationally has been driven by a significant increase in sales of new properties: sales of new properties rose by 18.7% in 2018 while sales of existing property fell by 0.6%.



**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. The data is subject to regular revision by the CSO as new data becomes available.*

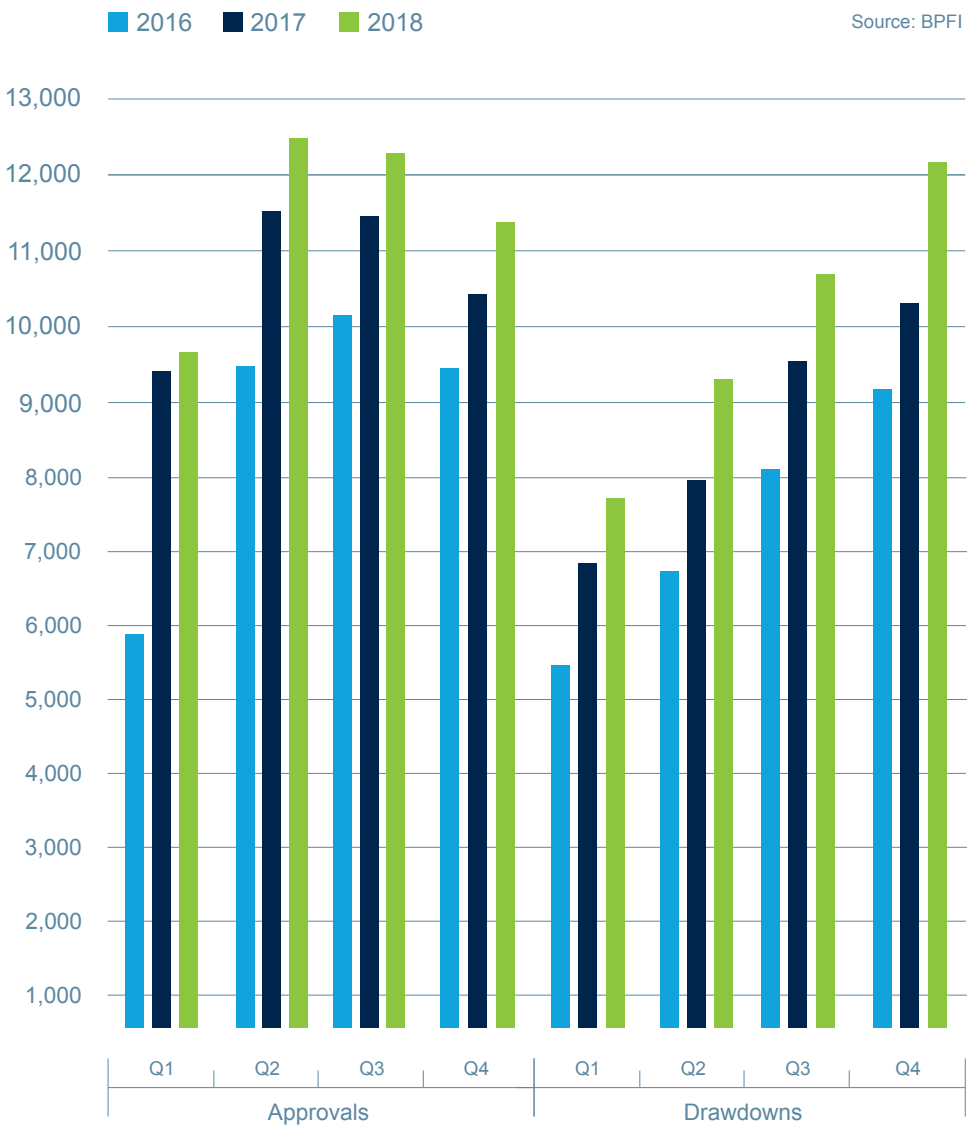
PROPERTY TRANSACTIONS & MORTGAGES

Mortgage approvals

Mortgage approval volumes rose by 8.2% year-on-year in Q4 2018 to almost 11,300. Mortgage switching drove most of the increase in 2018. While approval volumes rose by 6.0% year-on-year, mortgage approvals for property purchase fell by 0.6% compared with 2017.

Mortgage drawdowns

Mortgage drawdown volumes grew by 17.0% year-on-year to 12,112 in Q4 2018. In the full year 2018, mortgage drawdown volumes rose by 15.5% to more than 40,200. Although switching contributed most of the increase, purchase mortgage drawdowns rose by 9.3% year-on-year in 2018.



MORTGAGES

Median deposits

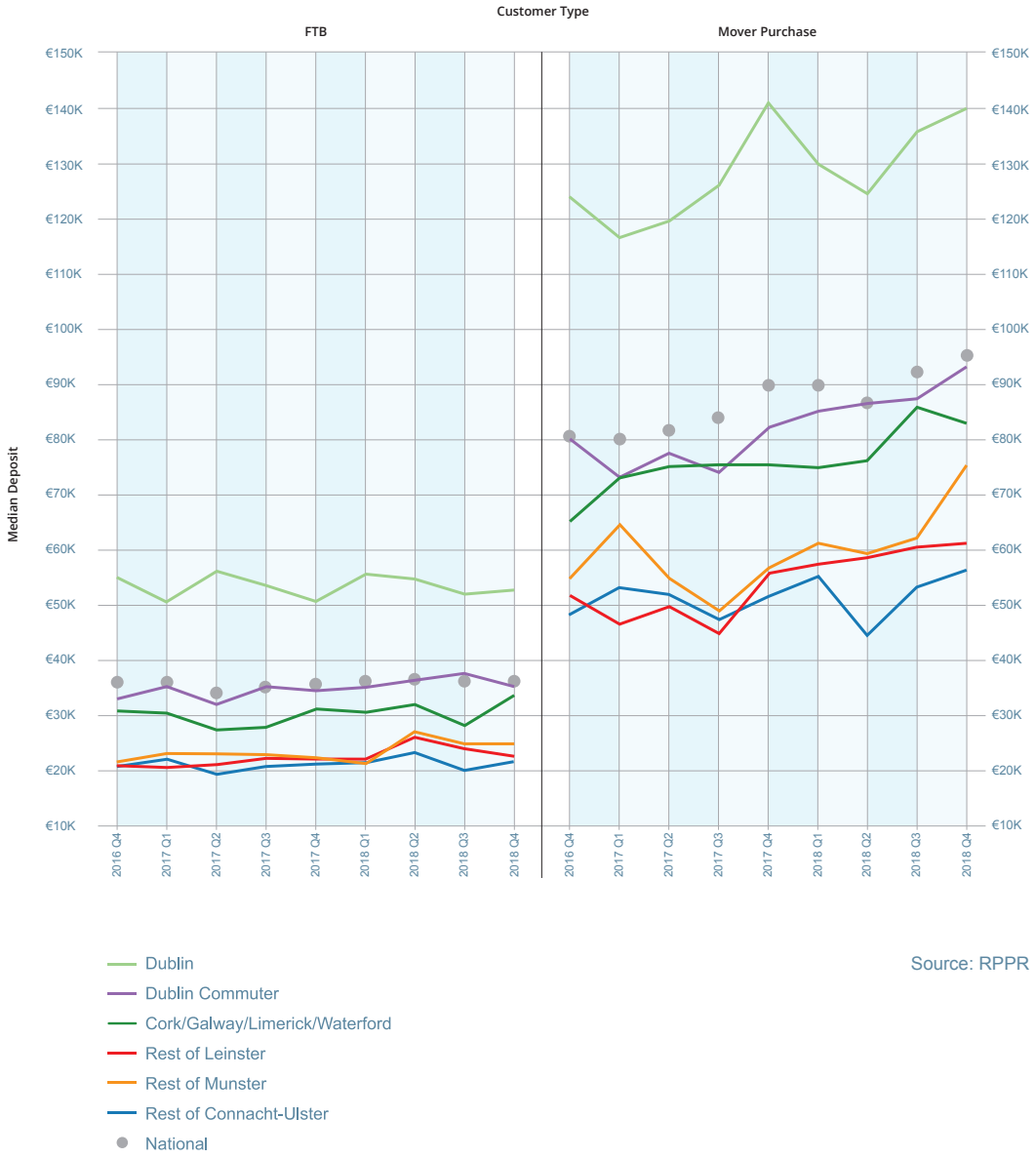
The median deposit* for FTBs rose by 1.4% year-on-year to €37,000 in Q4 2018, while the median mover purchase deposit rose by 5.6% to €95,000 – the highest quarterly level since the series began in 2012.

Dublin continued to have by far the highest deposits: about €52,930 for FTBs and €140,000 for mover purchasers.

The median FTB and mover purchase deposit in the Dublin Commuter region rose by 1.7% and 12.9%, respectively, year-on-year. For mover purchasers in the region, the median deposit exceeded €90,000 for the first time since the data series began, reaching €92,000.

Median deposits in the counties Cork/Galway/Limerick/Waterford also rose significantly, up 9.8% for FTBs and 7.8% 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

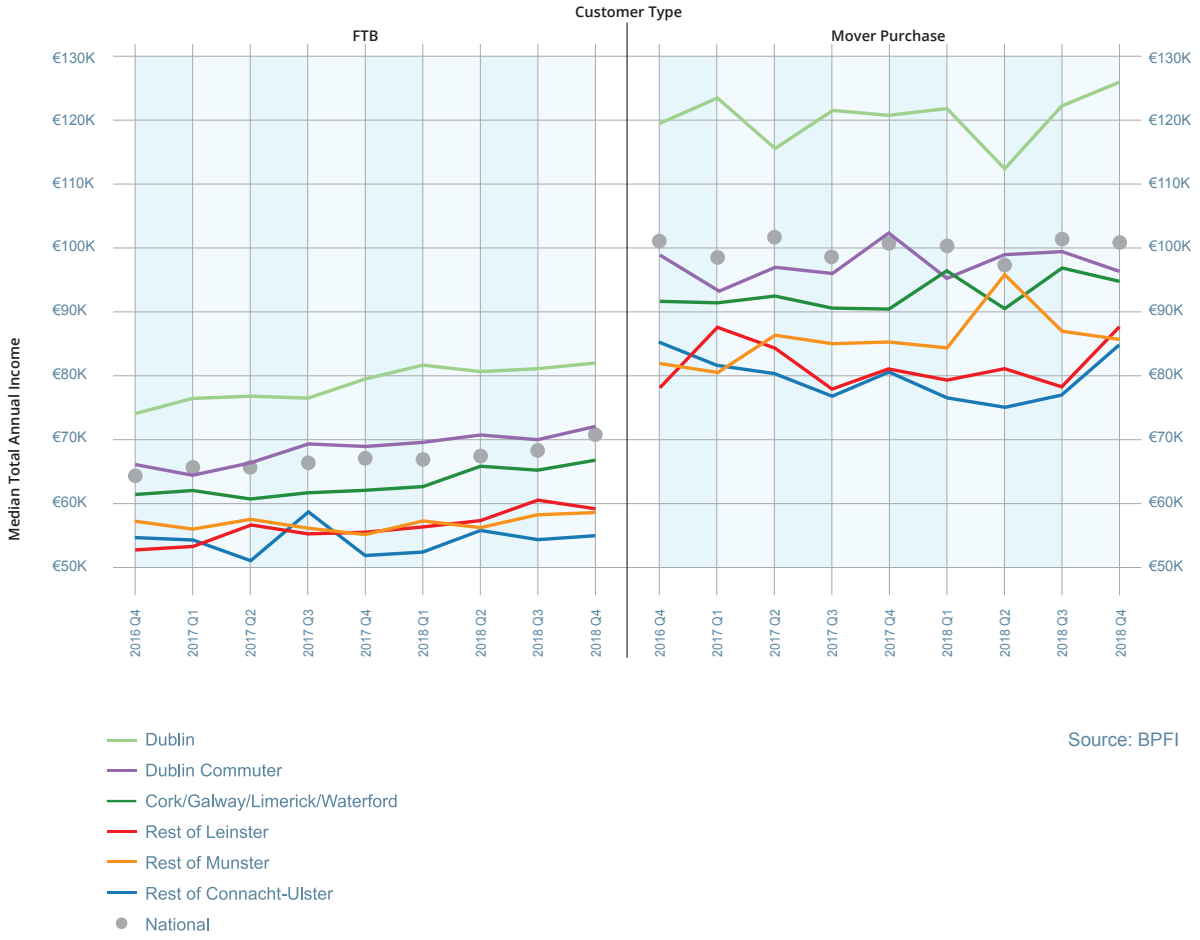
Median incomes

Median borrower incomes (the sum of all borrower incomes) rose by 4.7% year-on-year for FTBs to almost €71,000 and by 0.7% for mover purchasers to almost €101,000.

Median FTB incomes continued to rise in most regions (they had fallen in the rest of Munster and the rest of Connacht-Ulster in recent quarters). They reached their highest levels since the data series began in Dublin (up 5.4% year-on-year to almost €84,000), in Dublin Commuter (up 5% to about €72,000 and in Cork/Galway/Limerick/Waterford (up 6% to almost €67,000).

The trend in mover purchase incomes is more mixed and levels are more volatile. However, median mover purchase incomes in Dublin reached a new high of almost €126,000.

**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

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.

In Q4 2018, the median price-to-income (PtI) ratio rose by only 0.1% year-on-year for FTBs to 3.7 and by 2.7% for mover purchasers to 3.51.

The median PtI in Dublin fell for both FTBs and mover purchasers on a year-on-year basis, with the FTB PtI of 3.97 lower than the mover purchase PtI of 4.01 – the first time this had happened in any region since the series began in 2012.

In Dublin Commuter, the FTB PtI has ranged between 3.71 and 3.81 since Q2 2017.

**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

Cash sales ratio

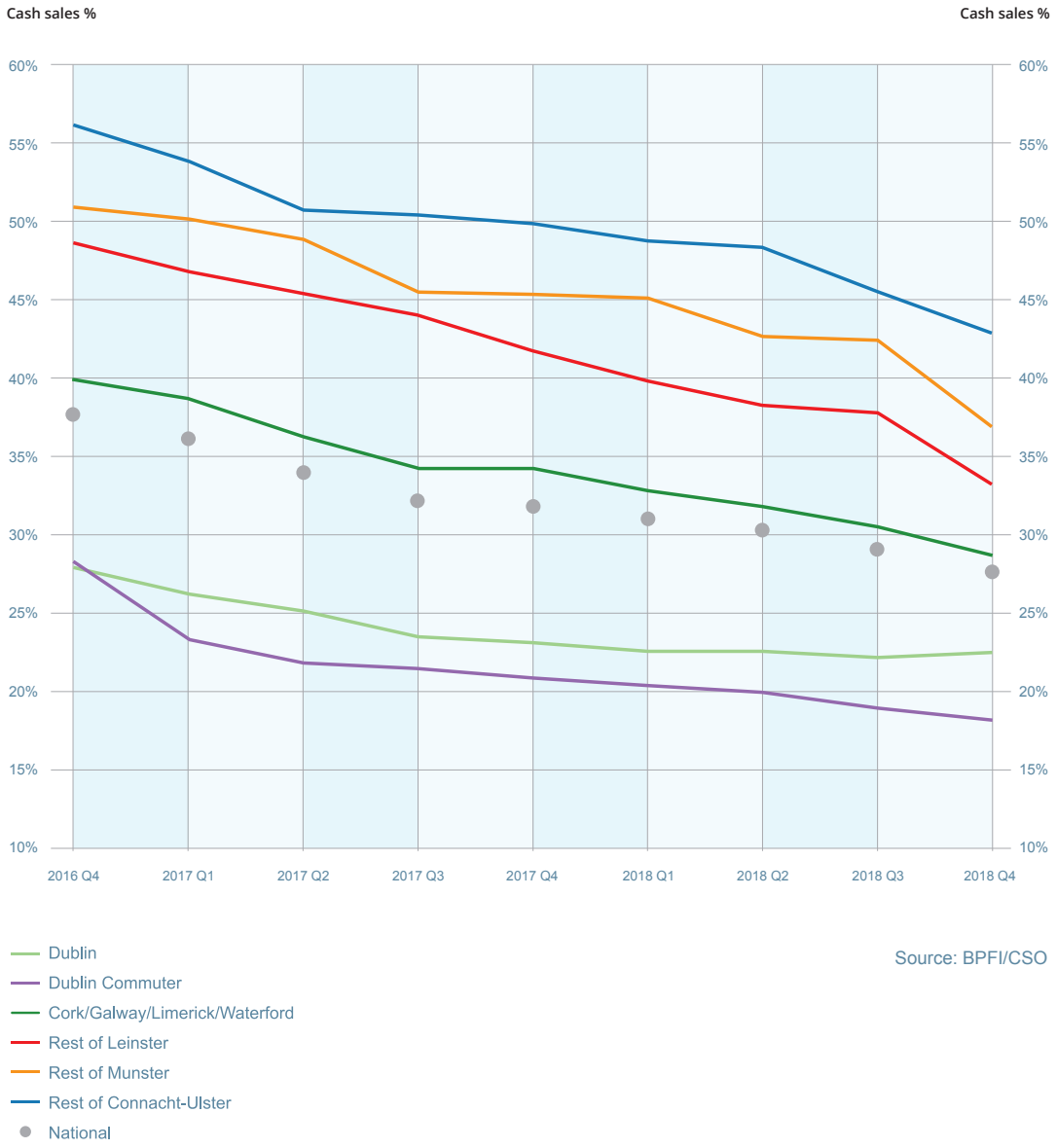
Cash sales accounted for 27.8% of sales on an annualised basis in Q4 2018, down from 32.2% a year earlier.

While the cash sales ratio in Dublin increased marginally to 22.7%, the ratio in the other regions continued to fall.

The cash sales ratio in the Dublin Commuter region fell to 18.2%, with the gap between Dublin and Dublin Commuter widening.

The rest of Munster and the rest of Connacht-Ulster were the only regions that had cash sales ratios above one-third.

Cash sales represent all non-mortgage sales. The cash sales ratio is calculated by dividing the volume of mortgage drawdowns for house purchases and self-builds by the volume of residential property purchases by households at market prices, then subtracting that ratio from one. 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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