



BPFI Housing Market Monitor Q3 / 2020

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

Indicator	Latest quarter	One year ago	% change
Dwelling completions	5,118	5,652	-9.4%
Dwelling commencements*	3,192	5,055	-36.9%
Dwelling planning permissions**	6,807	9,611	-29.2%
Transactions	8,113	12,366	-34.4%
Yr/yr change in transaction prices	-0.8%	1.1%	
Yr/yr change in rent prices**	1.8%	6.7%	
Mortgage approvals	11,893	13,308	-10.6%
Mortgage drawdowns	8,148	11,794	-30.9%

**Does not include September data*

***Data available up to Q2 2020*



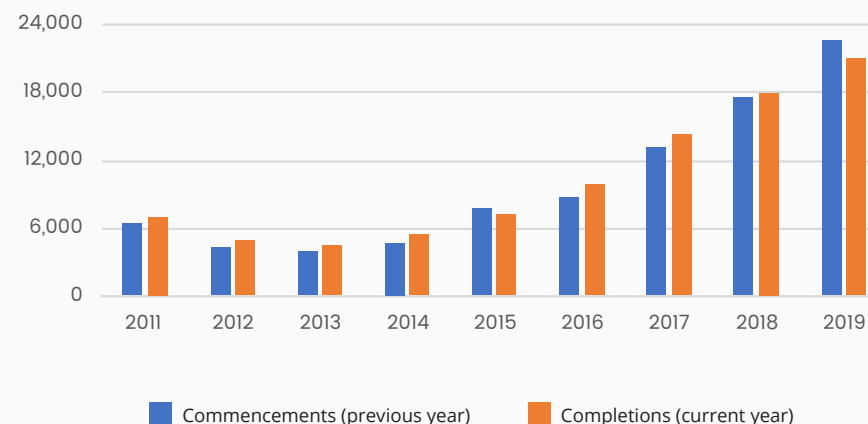
Housing supply won't match demand until at least end of 2023

Housing completions in Ireland recovered somewhat in the third quarter of 2020, after a significant fall in the second quarter due to pandemic related public health measures. However, total completions in the nine months ending September 2020 were at 13,335 units, a 10% decline compared to the same period in 2019. If the industry can sustain similar trends, total number of completions are expected to be around 19,000-20,000 units for the full year.

Given the severe restrictions during the second quarter of the year as well as ongoing measures on construction sites, completion numbers are likely to be much better than early estimates back in April/May. The most recent data from the Central Statistics Office (CSO) Labour Market Insight Bulletin published in November shows that construction and industry sectors had the highest increase in active employment between the first and third quarters in 2020, a sign of recovery of the potential output of the sector, notwithstanding the fact that total employment numbers include other sub-sectors of the construction sector such as infrastructure projects and commercial building.

On the other hand, when we look at the commencement activity during 2020, which is an indicator for potential output in 2021, we see that as of August 2020 commencement levels were at 13,314 units during 2020, down by around 24% compared with the same period in 2019. There were almost 3,200 housing commencements in the July-August period of 2020, a decline of around 37% year on year. Dublin and Dublin Commuter recorded the highest year-on-year declines, down by 56.1% and 48.7%, respectively.

Commencements and Completions
- Residential Housing



Source: CSO and Department of Housing, Local Government and Heritage.

Even if the number of commencements for the rest of year were to match the levels observed during the same period in 2019, this would only bring total commencements to around 20,000 units in 2020. As outlined in previous editions of the Housing Market Monitor, there is a close relationship between the number of completions in a year and the number of commencements in the previous year. Hence, lower than expected commencement numbers in 2020 will put pressure on the number of new dwellings to be completed in 2021 at a time when most observers expected housing supply to catch up with both current and pent-up demand, estimated to be around 35,000 units. It is now likely that housing output will not reach these levels until the end of 2023.

Mortgage approval rebound is positive for drawdown pipeline

After a significant slowdown in the second quarter of 2020, mortgage market activity has rebounded significantly in the last quarter in terms of both mortgage drawdowns as well as mortgage approvals. In terms of approvals, the value of mortgage approvals in October was €1.25 billion, the highest one-month total since the data series started back in 2011, which as of October brings the total value of approvals to €8.1 billion in 2020 compared with €9.4 billion during the same period in 2019, a near 14% decline. First-time buyers (FTBs) continue to account for an increasing share of the total value of approvals accounting for nearly 60% of approvals in October 2020.

It is important to note that nearly half of the value of mortgage approvals in 2020 took place in the last four months, which is perhaps mainly due to reduced activity in the second quarter of the year. The total value of drawdowns in the first three quarters of 2020 was €5.4 billion compared with €6.8 billion during the same period in 2019, a 20% decline. However, increased levels of approval activity should provide a good pipeline for mortgage drawdowns for the rest of the year as well as in the first quarter of 2021.

Residential property prices decreased by 0.8% year on year in September 2020, where average prices of new homes were up by 1.7% year on year whereas average prices of existing homes fell by 1.6%. Average prices fell by 1.8% in Dublin in the year to September 2020, but prices outside Dublin slightly increased by 0.1% during the same period.

It is important to note that downward trend in average prices increases was evident even before the start of the pandemic, however early estimates in April/May 2020 would have showed much more substantial declines in average property prices for 2020, mainly due to lower estimated mortgage activity.

In the June 2020 edition of the Housing Market Monitor, we argued that demand may hold up better than supply for the rest of the year given that certain sectors of the economy were not as badly affected as other sectors where employees were able to continue to work from home. This pattern has continued since then as evident from the income tax figures published by the Department of Finance showing that there was only a 3.3% decline in the overall income tax take in the year to end of October in 2020 despite significant number of employees being on some sort of state support during the period. 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. Given that some of the uncertainty around the overall economic effects of the pandemic that was present initially has been diminishing over time, demand for housing can continue to move on the trend that was evident before the pandemic.

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New dwellings completed

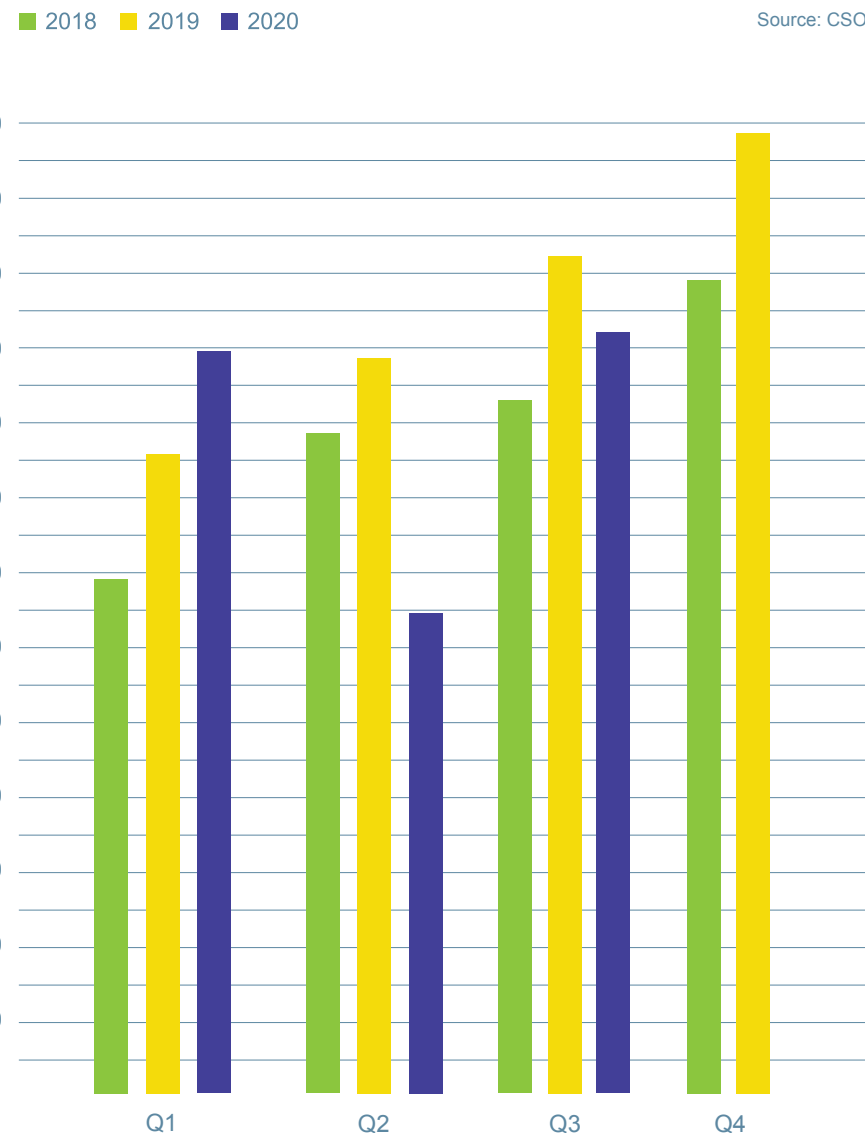
About 5,100 new dwellings were completed in Q3 2020, according to the Central Statistics Office (CSO)*, 9.4% or about 500 units less than in Q3 2019.

Dublin saw the biggest drop with completions down by 40.9% to 1,145 units, while completions in Dublin Commuter region (Louth, Meath, Kildare and Wicklow) fell by 11.4% year on year to 1,303, making it the most active region for the second successive quarter. Completions in the first nine months of 2020 fell by 9.4% year on year to about 13,300, driven by 25.8% and 12.8% drops in Dublin and Dublin Commuter, respectively.

Most of the rest of the country fared better with Cork completions up 19.4% in the year-to-date, compared with the same period of 2019, and the rest of Leinster up 7.6%.

Similarly, scheme house completions, which are concentrated in the east of the country, fell by 13.1% year on year in the first three quarters to fewer than 7,600 units while apartment completions dropped by only 0.1%.

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



New dwellings commenced

There were almost 3,200 housing commencements in the July-August period of 2020 (September data not being available), a decrease of 36.9% in year on year terms.

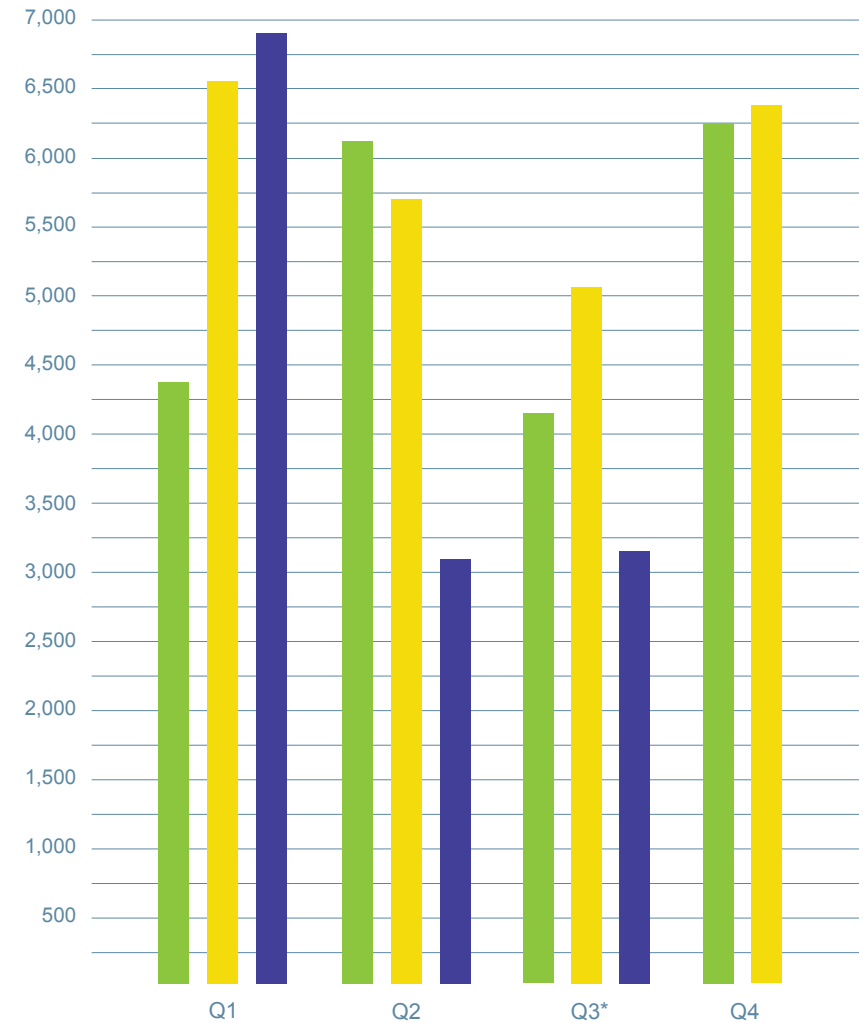
Dublin and Dublin Commuter recorded the sharpest year on year declines: down by 56.1% and 48.7%, respectively.

In the year-to-date (up to August), almost 4,200 fewer units were commenced in 2020 than in 2019, at 13,144 units. Cork and Dublin Commuter had 953 and 1,871 fewer commencements, respectively.

The Dublin Commuter region's share of commencements fell to 19.4% from 25.5% a year earlier as Dublin's rose to 39.6% from 33% over the same period.

■ 2018 ■ 2019 ■ 2020

Source: Department of Housing



*Excludes September.



New dwelling planning permissions

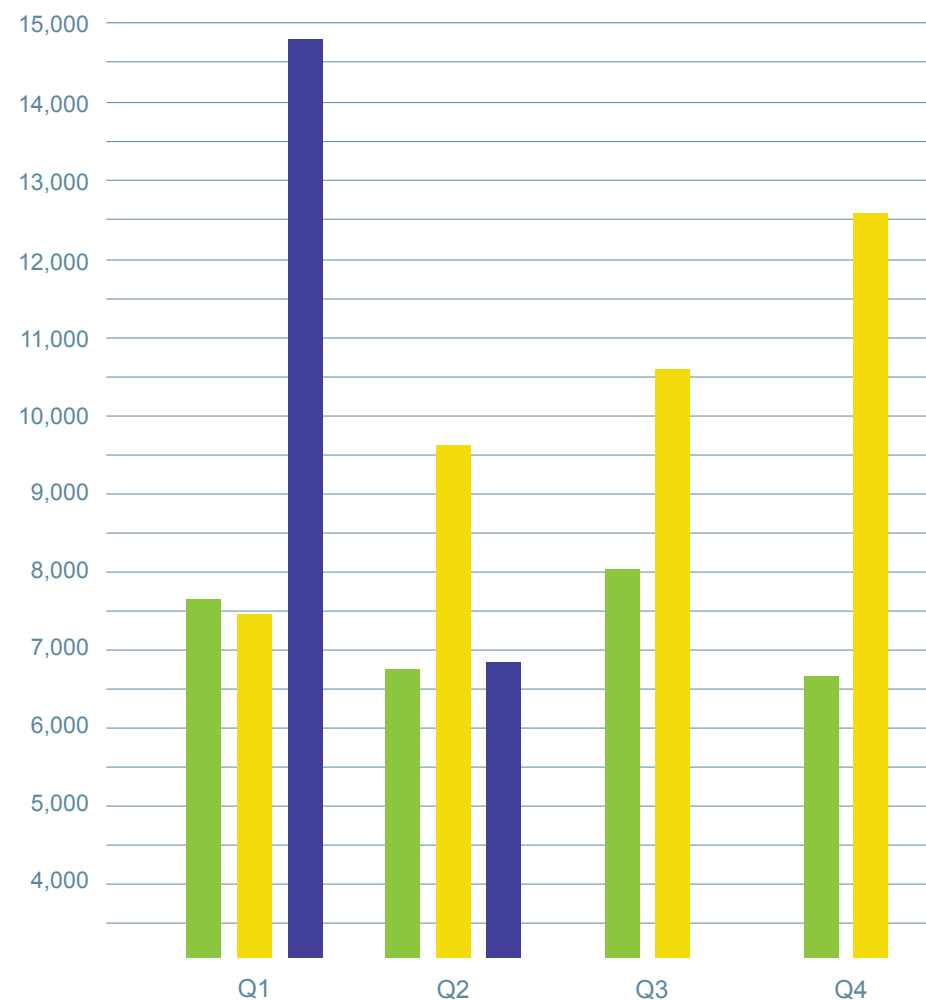
The number of residential units granted planning permissions fell by 29.2% year on year in Q2 2020 to about 6,800. While planning permissions for houses fell to their lowest level since Q2 2016, permissions for apartment units were still higher than in Q1 2019.

Cork bucked the national trend with some 400 more units granted planning permission than in Q2 2019. Dublin accounted for almost 78% of apartments granted planning permission and 48% of total housing units. Both regions reported a year on year increase in multi-development housing units permitted.

The CSO also reported that some 82% of apartment units and 48% of multi-development housing units granted planning permission in the first half of 2020 were Strategic Housing Development (SHD) applications. The SHD process involves applications for larger housing developments to be made directly to An Bord Pleanála.

■ 2018 ■ 2019 ■ 2020

Source: CSO

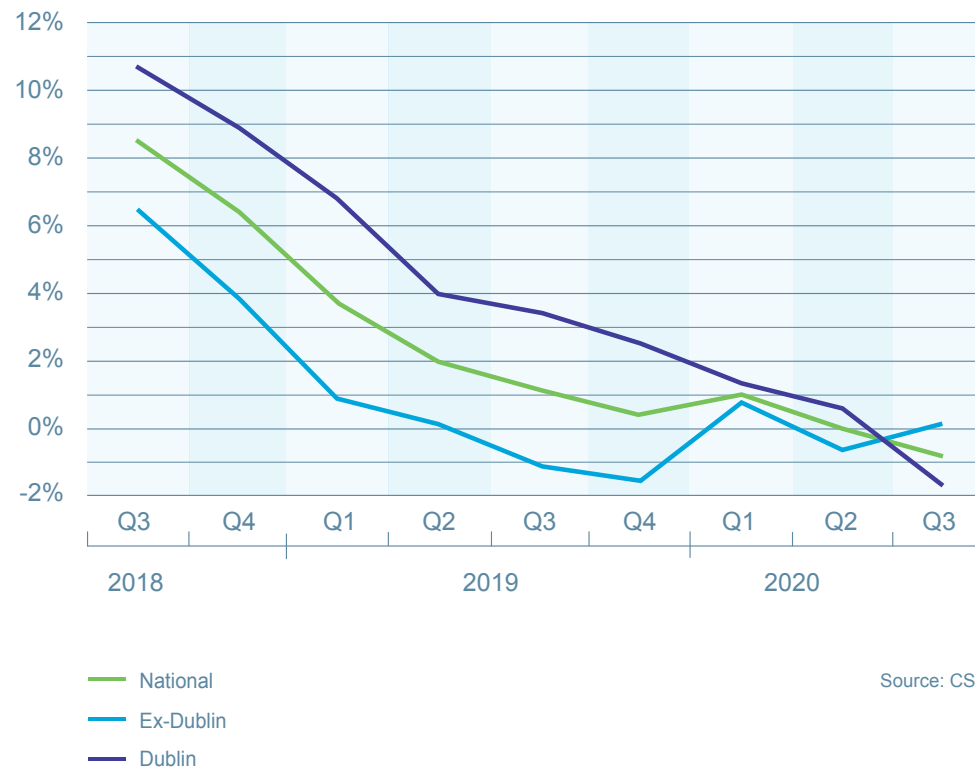


Transaction prices

Residential property prices decreased by 0.8% year on year in September 2020. Prices for new dwellings were 1.7% up year on year, while prices of existing dwellings fell by 1.6%. This was the second successive quarter in which the prices of existing dwellings fell on an annual basis and the ninth consecutive quarter in which new property prices have risen faster than those for existing property.

Prices in Dublin fell by 1.8% in the year to September 2020, the 12th year on year decline in 14 months. House prices in Dublin fell by 1.6% year on year, while apartment prices in the county fell by 0.6%.

Residential property price inflation outside Dublin rose by 0.1% year on year, with house prices up 0.2% and apartment prices up 0.4%.



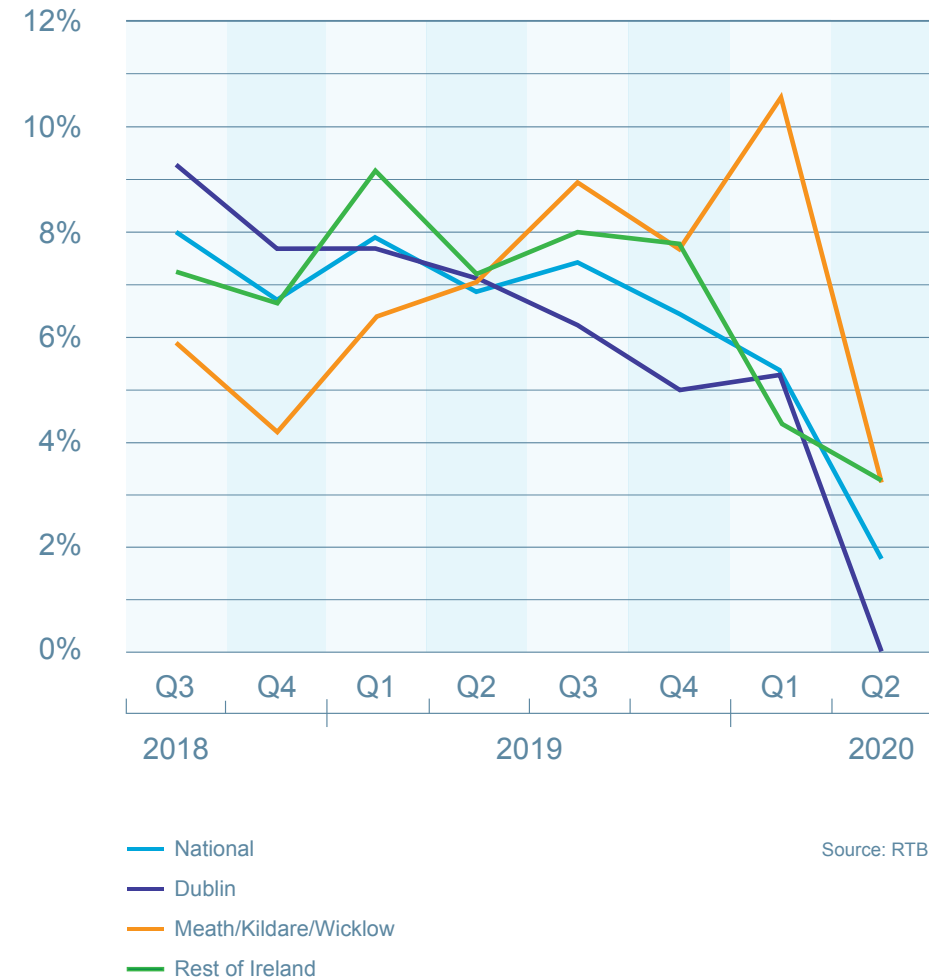
Rents

The rate of rental inflation fell significantly in Q3 2020. The national standardised rent level rose by 1.8% year on year in Q2 2020 to €1,226.20, according to the Residential Tenancies Board (RTB).

Seven counties had standardised rent levels of more than €1,000, led by Dublin at €1,709, with the four Dublin Commuter counties, Cork and Galway also above €1,000. Limerick, at €988, had the next highest rents. Only five counties reported the highest standardised rent level since the date series began in Q3 2007: Carlow, Donegal, Leitrim, Limerick and Roscommon.

While the Dublin standardised rent level was unchanged from Q2 2019, the standardised average rent in Dublin City fell by 1.7% year on year to €1,653.

Standardised rent levels rose by 3.3% year on year in Kildare/ Meath/Wicklow and in the rest of Ireland.

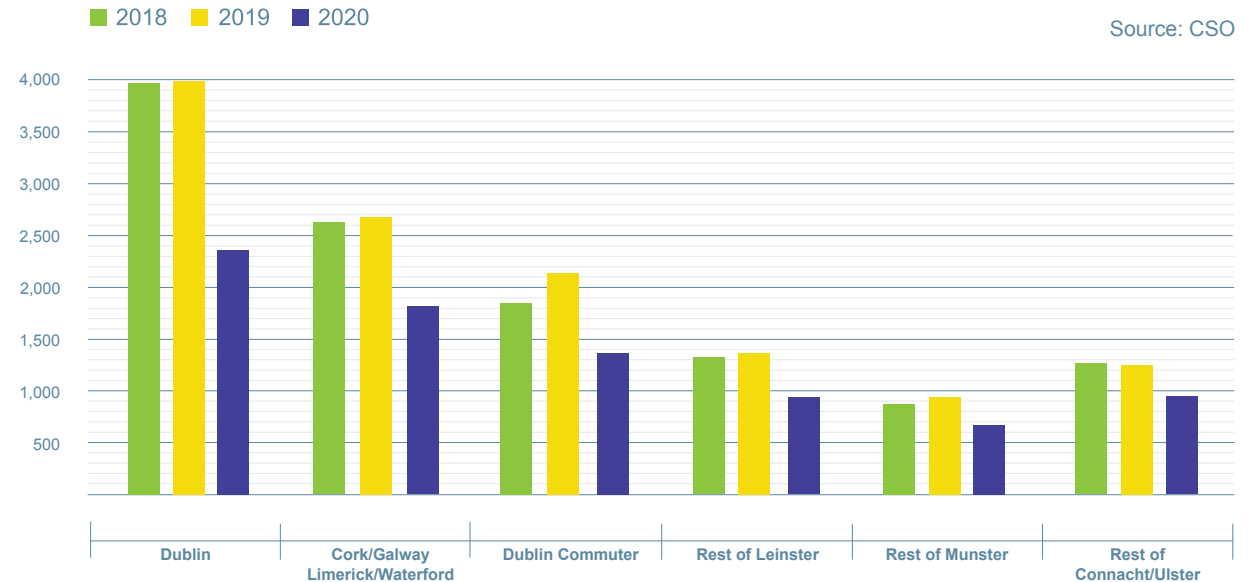


The number of residential properties sold to households in Ireland fell by 34.4% year on year to about 8,100 in Q3 2020, the least Q3 activity since Q3 2013. The sale of new properties fell by 25.5% year on year to almost 1,700, while sales of apartments fell by 45%.

All regions recorded year on year declines of at least 24% but Dublin was again the hardest hit region with sales down by 40.6% year on year to 2,374. Its share of sales was 29.2%, down from 32.3% a year earlier.

Sales of new properties dropped by 30.4% and 32.5% in Dublin and Dublin Commuter, respectively. By contrast, new property sales only fell by 9.4% in Cork/Galway/Limerick/Waterford, boosted by year on year growth in Galway and Waterford.

Market purchases of residential properties by non-households fell by 33.9% year on year to about 2,200 in Q3 2020. However, non-household purchases of new properties rose by 10.3% to more than 900.



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 10.6% year on year in Q3 2020 to fewer than 11,900, due to the business and wider economic impact of Covid-19. This was the third quarter in a row in which approval volumes had fallen year on year.

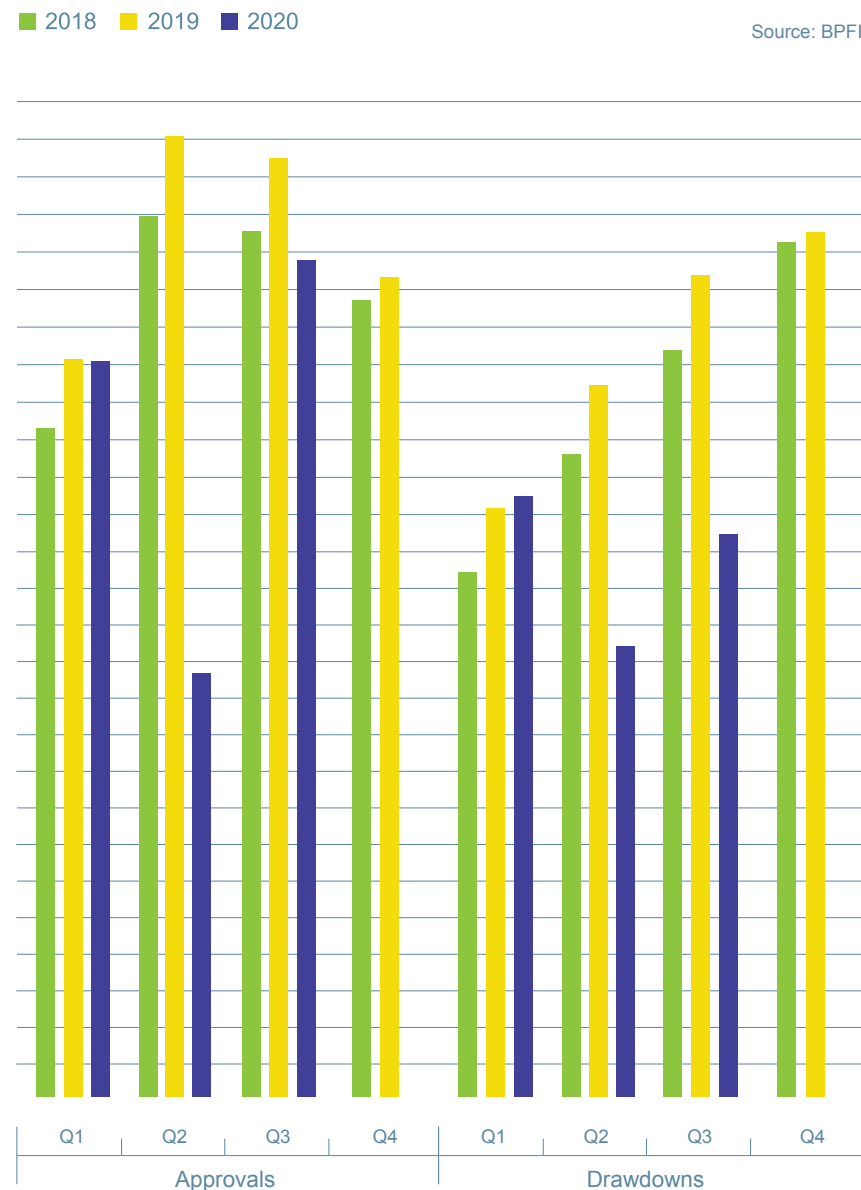
First-time buyer (FTB) approval volumes only fell by 1% year on year to 6,778. By contrast, the residential investment letting (RIL) and re-mortgage segments each reported year on year declines for the fifth successive quarter.

Mortgage Drawdowns

Mortgage drawdown volumes fell by 30.9% year on year to about 8,100 in Q3 2020.

Purchase mortgage drawdown volumes fell by 32.9% year on year to fewer than 6,400. FTB drawdown volumes fell by 29.9% year on year to 4,204 (66% of purchase drawdowns). RIL and mover purchase drawdowns fell to their lowest Q3 level since 2012 and 2013, respectively.

Note: BPFI mortgage drawdown volumes were revised in October 2020 to reflect revised data from members.



Source: BPFI



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].



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