Current housing market overview

- The housing market is continuing to go through a period of considerable adjustment following over a decade of record output levels, significant house price appreciation, and high demand supported by demographic patterns and the easy availability of mortgage finance.

- Since the end of 2006, following more than 10 years of strong growth, the Irish housing market, like many other housing markets throughout the world, has been in steady decline. At the end of 2009 residential construction output was back to levels last seen in 1994.

- Similarly, estimates of national house price decreased from peak range between 27% (MyHome.ie) to 32% and 37% for new and second hand houses respectively (DoEHLG Q4 stats).

- Sentiment in the housing market is a factor of several wider variables underpinned by general economic sentiment.

- Notwithstanding the emerging signs of stabilisation in the public finances, a return to moderate economic growth in some areas of the Eurozone and beyond, and the significant improvement in affordability resulting from price adjustment, the consensus is that prices are likely to soften further in the period ahead in certain areas.

House price trends

- The Department’s house price data for Q4 2009 are in the appendix. It shows that second hand prices are now down 24% nationally (29% fall in Dublin) compared to a year earlier and down by 37% nationally (46% fall in Dublin) from peak in Q3 2006. National new house prices show a fall of 20% from last year (a corresponding fall of 28% in Dublin), with a drop of 32% (45% fall in Dublin) from peak in Q2 2007.

<table>
<thead>
<tr>
<th>Q4 2009 DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>New House Prices</td>
</tr>
<tr>
<td>Compared with Peak</td>
</tr>
<tr>
<td>Q2 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q4 2009 DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Hand Prices</td>
</tr>
<tr>
<td>Compared with Peak</td>
</tr>
<tr>
<td>Q3 2006</td>
</tr>
</tbody>
</table>

- Comparing house prices to the average prices experienced in 2000, 2009 average new national house prices are still 50% higher (Dublin equivalent is 17%) and second hand house prices are 44% higher (Dublin is 39% greater). Looking at 2004 house prices (before the later rapid growth), nationally new house prices are 3% lower and second hand homes are 17% lower (Dublin New is down 19% and down 11% for second hand homes).

Comparison of DoEHLG house price data to other Indices

- Daft.ie - House prices were reported to be 32% lower than they were at the peak in early 2007, returning to levels seen before January 2005 (when the Daft.ie Index started). House prices fell almost 19% in 2009, as opposed to the fall of 15% in 2008.

- House prices are €204,830 nationally (€250,872 in Dublin) according to the most recent issue of the PTSB/ESRI House Price Index (Apr ’10). National prices have fallen 34% since a peak in Q4 2006. Dublin
House prices have fallen 42% since their peak in Q1 2007. Low levels of transactions in PTSB have resulted in changing the publication of the index from a monthly to a quarterly basis.

- According to myhome.ie data, asking prices for properties across the country continued to fall in Quarter 1 2010 however the rate of decrease in asking prices has eased for the second successive quarter. Overall asking prices nationally have fallen 27% from their peak. Prices in the capital have now fallen by 33% since their peak in 2006.

- Average house prices reported by the Dept may not be accurately reporting the true decline due to the reduced volume of mortgages which allow high value mortgages to skew the data upwards.

### National House Prices Indices

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Current Price</th>
<th>Peak Price</th>
<th>% decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoEHLG (new) Q4 2009</td>
<td>226,505</td>
<td>331,947</td>
<td>-32%</td>
</tr>
<tr>
<td>DoEHLG (2nd hand) Q4 2009</td>
<td>244,679</td>
<td>389,871</td>
<td>-37%</td>
</tr>
<tr>
<td>DAFT.ie (Q1 2010)</td>
<td>235,000</td>
<td>352,500</td>
<td>-33%</td>
</tr>
<tr>
<td>Myhome.ie (Q1 2010)</td>
<td>301,449</td>
<td>414,374</td>
<td>-27%</td>
</tr>
<tr>
<td>PTSB/ESRI (Q1 2010)</td>
<td>204,830</td>
<td>311,078</td>
<td>-34%</td>
</tr>
</tbody>
</table>

### Dublin House Prices Indices

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Current Price</th>
<th>Peak Price</th>
<th>% decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>DoEHLG (new) Q4 2009</td>
<td>236,532</td>
<td>426,900</td>
<td>-45%</td>
</tr>
<tr>
<td>DoEHLG (2nd hand) Q4 2009</td>
<td>294,452</td>
<td>549,330</td>
<td>-46%</td>
</tr>
<tr>
<td>DAFT.ie (Q1 2010)</td>
<td>273,189</td>
<td>444,772</td>
<td>-39%</td>
</tr>
<tr>
<td>Myhome.ie (Q1 2010)</td>
<td>355,657</td>
<td>534,124</td>
<td>-33%</td>
</tr>
<tr>
<td>PTSB/ESRI (Q1 2010)</td>
<td>250,872</td>
<td>431,006</td>
<td>-42%</td>
</tr>
</tbody>
</table>

1 Based on the average of the house prices reported for North, West and South County, North and South city areas and the city centre.
Arrears and Negative Equity

- Considerable attention has been drawn to the issue of arrears and negative equity. Data from Q1 2010\(^2\) shows that over 32,300 mortgages are in arrears over 91 days, 4% of all mortgages, a rise of 13% on Q4 2009 data. 26% of the mortgages in arrears have a formal demand or court proceedings issued. 44% of cases where legal proceedings had been concluded resulted in orders for the possession/sale (of which 22% were voluntarily surrendered or abandoned), the majority being resolved through renegotiating the terms of the mortgage. Accordingly repossessions are extremely low with 96 residential properties repossessed in Q1 2010.

- It is estimated that 116,000 borrowers were in negative equity at the end of 2009, rising to 196,000 by end 2010 with first time buyers more susceptible to experiencing negative equity\(^3\). Negative equity does not in itself affect individual incomes or the national economy directly, though it can restrict the liquidity of the housing market. It also impacts on labour force mobility particularly with the current rates of unemployment in Ireland. However for most home owners the biggest effect is the decrease in notional value of the property and an increase in the probability of arrears occurring or mortgage default if personal circumstances dramatically change (i.e. marriage break up, ill health or job loss).

Long term house price prospects

- The IMF has analysed house price cycles across 19 OECD countries\(^4\), including Ireland, and has shown that the average upturn lasts about 6.5 years and the average downturn lasts about 4.25 years. However, as the most recent period of sustained house price growth was atypically long (almost 16 years across the OECD average), it is possible that the current downturn may also be longer or more severe than normal.

- In terms of the depth of the current decline, the IMF also assessed which countries are most vulnerable to further house price declines. Ireland experienced the largest unexplained increase in prices (34% in 1997 – 2007, followed by the Netherlands and the UK) and is regarded by the IMF as being vulnerable to a larger overall downward price adjustment.

- ESRI forecast, in their most recent quarterly bulletin, new house prices falling 50% below their peak by the end of 2011, with prices stabilising during 2011.

- The years of double digit house price inflation are likely to be a thing of the past for some time to come for a variety of reasons including:
  - Slow economic recovery
  - More cautious lending from banks,
  - Rising interest rates,
  - Existing levels of supply and projected demographic patterns

Housing overhang

- Unprecedented new house output of 81,000 units in 2005, 93,000 in 2006 and 78,000 in 2007 - far above the pro rata rate in other countries - delivered around 50,000 more than the estimated long-term average annual requirement of 40,000\(^5\).

- The timing mismatch between the collapse in demand for housing and the less rapid slowing of construction output has lead to a situation in which there is now a significant overhang of unsold property.

- There have been a number of estimates of the full extent of this overhang (the level of excess vacancy above normal vacancy levels) in recent months\(^6\). These range from around 35,000 at the low end to 170,000 at the upper end.

- Excluding the CIF estimate, there is general alignment between the estimates that have been put forward with each suggesting that total vacancy levels, including holiday homes, is over 300,000, that vacancy excluding holiday homes is over 228,000, and that the potential overhang (i.e. the excess vacancy over “normal” levels) is over 100,000.

- The key to clearing any supply “overhang” in the short term is to allow the market to move to equilibrium.

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\(^2\) Financial Regulator Residential Mortgage Arrears and Repossession Statistics Q1 2010
\(^3\) Duffy, D. 2010 “Negative Equity in the Irish Housing Market”, The Economic and Social Review. 41(1): 109-132
\(^4\) IMF World Economic Outlook, April 2008.
\(^6\) CIF, NIRSA, DKM (CIRO prepared for the Department) and UCD
Housing Supply

- The residential construction industry has been significantly reducing house building in response to weaker demand.

- Commencement notices received have dropped 89% since their peak of over 77,000 in 2005.

- The proportion of single units has changed dramatically over the last 5 years. In 2005, 25% of commencement notices were for single units compared to 76% in 2009.

- New house registrations in 2008 were down by 26,000, (81% drop from 2006) and with 2009 registrations down 70% on 2008, it will result in a significant reduction in output in 2010. 26,420 units were completed in 2009 and 2010 predictions suggest house completions of 6,000-15,000.

- This latter figure would be accounted for, virtually entirely, by one-off houses and the public housing programme, with very minimal new private housing schemes, as is in line with other predictions. Completions are based on ESB connection data.

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7 AIB 13,000 in 2010, 10,000 in 2011 (March 10); BOI 16,000 in 2010 (Dec 09); DKM 6-8,000 in 2010 (May 10); Ulster Bank 10,000 in 2010, 13,000 in 2011 (Jan 10); First Trust Bank, 10,000 to 2011 (Dec 09); ESRI 10,000 in 2010 and 2011 (Mar 10).

8 It should be noted that there is a danger that the completion data received may be mirroring transactions in the market as opposed to actual completions, and hence overstate the figures.
Residential planning permissions granted are at pre 2001 levels with over 40,000 new dwelling units granted permission (a 40% decrease on 2008 figures).

Housing affordability

- Huge improvements in house purchase affordability, reflected in the Department’s standardised affordability index, have taken place due to reductions in interest rates and falling house prices - particularly since the ECB began its series of interest rate decreases in October 2008.

- The index shows that average mortgage repayments on a 20-year loan at the average new house price in Dublin decreased to 22.5% of a two-earner household’s net income, compared with 42.5% in 2006. The equivalent figure nationally was 20.9% of disposable income compared with 31.7% in 2007.

- Net income is based on the CSO employment and earnings cost release, the most recent of which is the Q3 2009 preliminary data. Evidence of wage reductions and wage freezes, which are heavily reported in the media, has not surfaced in this CSO dataset. The table below sets out the repercussions of different wage reductions on the 2009 income of the two earner household on the Affordability Index.

<table>
<thead>
<tr>
<th>% Wage reduction</th>
<th>Affordability Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
</tr>
<tr>
<td>0% (Current)</td>
<td>20.9</td>
</tr>
<tr>
<td>-5%</td>
<td>21.6</td>
</tr>
<tr>
<td>-10%</td>
<td>22.5</td>
</tr>
<tr>
<td>-15%</td>
<td>24.0</td>
</tr>
</tbody>
</table>

Housing demand trends and prospects for the market

- The estimated long-term housing output requirement underlying the Government’s housing policy statement, Delivering Homes, Sustaining Communities, was around 600,000 over 9 years (average around 65,000 per annum). This was based on data over the first half of the last decade. A more recent estimate of long term annual housing demand was presented by the ESRI in 2009 (around 40,000 per annum).
Future housing demand will depend on demographic trends, economic performance and the level of available stock already in place. The uneven distribution of the overhang of unsold properties means that there are and will be a number of discrete housing markets in Ireland rather than a single market (for example, recovery of demand in the Dublin area is likely to be ahead of other areas).

CSO estimates suggest population in the key house-buying age group 25 to 34 will grow by 8% in the period 2008 to 2011 (about 67,000 people) based on moderate levels of immigration. However considering the global recession, zero net immigration estimates could be more appropriate and these suggest a drop of 1% in this key house buying cohort (these projections are subject to large variability).

The global economic environment remains difficult and economic growth expectations in Ireland reflect this.

The ESRI expects that annual growth figures will remain negative for this year (with positive growth in the economy to emerge late in 2010) with a modest pace of growth in 2011. Consumption and investment are expected to return to positive growth in 2011. However, the ESRI predict that the contraction in housing activity will remain a drag on the economy in 2010. This potential growth, which is expected to be export led, is dependant on an expected acceleration in growth in the world economy in 2011. The European Commission highlighted the risk that less than favourable growth and expenditure over runs would need to be prepared for.

Other positive factors for the housing market

There are also a number of specific factors likely to have positive effects on housing demand in the short term, for example:

- Softening in house prices has improved affordability; this and the fact that prices are now “closer to fundamentals” is viewed positively by OECD. Affordability has been further boosted by increases in mortgage relief and disposable income and falling interest rates. Rates have been cut dramatically, with the ECB rate dropping from 4.5% to 1.25%. Most lending institutions passed on the reduction in rates to owner occupiers.

- Commentators expect that the ECB is likely to keep rates low until late 2010. However domestic banks have already begun to increase rates as their cost of funds go up (e.g. PTSB increased its mortgage rate by 0.5% along with AIB which recently signalled its intention to raise rates by a further 1% by the end of the year).

- Moderation in the housing market should help reduce pressure on cost competitiveness in the overall economy, both in terms of housing costs and the availability and cost of resources (particularly labour) to “traded” sectors. Reduced dependence on construction and transition to a level of housing output that is sustainable should be beneficial to balanced growth of the economy as a whole and more productive allocation of resources.

- An expected return to stricter lending criteria may make it difficult for first time buyers to obtain mortgage finance. However, incentives such as rent to buy schemes are creative ways to encourage activity but it is yet to be seen if these make a substantial impact.

- UK house prices rose in March according to Nationwide. Home values are now 9 percent higher than a year earlier. However it is more likely to be due to potential sellers delayed putting their properties on the market, sustaining values as demand waned. In London, prices jumped 2.5 percent in the first quarter. This is most likely due to the weak position of the pound making London property more attractive to foreign investors.

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9 ESRI Quarterly Economic Commentary Q1 2010
11 Rent to Buy schemes allow potential purchasers to rent a house at market rates for a specific period of time. A proportion of the rent is generally put aside by the developer as a deposit for the house. At the end of the time period the potential buyer can use the money set aside as their deposit to buy that specific house. If they change their mind, they forfeit the deposit.
Private rental sector

- CSO data showed that the sustained period of rent growth since 2005 has reversed significantly. Rents according to CSO data (February 2010), now at mid 2005 levels, have dropped 8% since last year and 24% since its peak in early 2008. The most recent DAFT report (Q1 2010) shows that overall rents dropped over 25% since its peak. The decline in rents appears to be levelling off with the fall in rents occurring at a slower rate over the most recent two quarters than earlier in 2009.

- This decrease is due to an increase in rental stock supply and a reduction in immigration that has counter-balanced the growth in people renting rather than purchasing due to credit access and consumer confidence issues (although the total stock advertised on www.daft.ie has reduced, signifying an ease in competition among landlords, the number of properties for rent is almost twice the level of early 2008).

- The increased availability of rental accommodation reflects the supply “overhang” coming on the rental market.

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12 The Daft.ie National Rental Index peaks in Feb 2008 and the CSO Rental Index peaks at March 2008. The Daft Index is based on the asking rents for properties advertised to let on Daft.ie. The CSO Rental Index is based on a survey of actual rents paid by tenants both in the private rented sector and social housing.
### Appendix

#### House prices

<table>
<thead>
<tr>
<th>DEHLG statistics</th>
<th>Av price Q4 2009</th>
<th>Annual % change Q4/09 on Q4/08</th>
<th>Quarterly % change Q4/09 on Q3/09</th>
<th>Annual % change Q3/06 on Q3/05 (peak increases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dublin 2nd hand</td>
<td>€294,452</td>
<td>-29.1</td>
<td>-6.4</td>
<td>+27.7</td>
</tr>
<tr>
<td>Dublin New</td>
<td>€236,532</td>
<td>-28.2</td>
<td>-5.4</td>
<td>+21.3</td>
</tr>
<tr>
<td>National 2nd hand</td>
<td>€244,679</td>
<td>-24.3</td>
<td>-3.9</td>
<td>+18.9</td>
</tr>
<tr>
<td>National New</td>
<td>€226,505</td>
<td>-19.7</td>
<td>-2.8</td>
<td>+12.1</td>
</tr>
</tbody>
</table>

#### Housing demand – Economic and Demographic Indicators

- **GNP**: forecasted increase in 2011: 2.75% (GDP 2.5%)\(^\text{14}\)
- **GNP**: forecasted decrease in 2010: 0% (GDP -0.5%)\(^\text{14}\)
- **GNP**: decrease in 2009: -11.3% (GDP -7.1%)
- **GNP**: decrease in 2008: -2.8% (GDP -3.0%)
- **GNP**: increase in 2007: 4.4% (GDP 6%)

- **Immigration** year to April 2009: 57,300 (net -7,800), April 2008: 83,800 inwards (net 38,500) April 2007: 109,500 inwards (net 71,800) April 2006: 86,900 inwards (net 69,900);

- **Population increase** year to April 2009: 37,300;

- **Employment** decreased in 2009 by 166,900 (-8.1%).

- **Age structure**: population in 25-34 cohort +17% 2002 to 2006, when population grew by 8%. Draft CSO estimate 25-34 cohort (moderate immigration) +8% 2008 to 2011 (about +67,000)

- **Average household size** reduced to 2.9 from 3.5 20 years ago, thus increasing demand for additional housing.

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\(^\text{13}\) All data from the CSO unless otherwise stated

\(^\text{14}\) ESRI Quarterly Economic Commentary Q1 2010