

APPENDIX B: HOUSE PRICE RISKS UPDATE

The Council continues to monitor various indicators with respect to housing market trends given the attendant risks to both economic activity and to the public finances. This section updates previous analyses using the latest available data.

Appendix Figure B.1 gives a summary analysis highlighting the rise in housing valuations from their recent trough. Taking simple ratios of prices to disposable incomes and rents would suggest valuations were similar to those observed in the late-1990s/early-2000s.¹ User costs appear to have reduced substantially, but actual price expectations may be overstated when using recent historical price changes.² Indeed, survey expectations appear to have moderated following the introduction of new macroprudential regulations that limit mortgage lending. All else being equal, the lower survey-based price rise expectations would suggest more neutral user costs of capital in housing.

Supply pressures seem likely to contribute to upward price pressure in the near term, however. Overall completions of new housing have begun to rise, yet remain shy of estimated demand in regions like Dublin city and its suburbs.

More sustainable solutions to shortages might seek to address barriers to construction responses in the form of regulations and associated costs as highlighted by Lyons (2014). Weak early-2014 data on planning permissions appear to confirm some lags to supply responses and representative groups indicate concerns that this could be linked to policy delays (SCSI, 2015).

As noted in previous *FARs*, risk assessment of the housing market would be well served if more frequent regional analyses were produced as migration and other assumptions evolve. Data availability with respect to regional household numbers and current and projected housing stocks could also be improved on. This would help to ensure that the risks of price growth expectations becoming dislodged from fundamentals are limited in future.

¹ McQuinn (2014) uses a variety of models to estimate the percentage difference between actual and fundamental Irish house prices based on quarterly data for 1981-2013. As of their last estimate (for Q4 2013), prices were estimated to be 12-27 per cent below fundamental values.

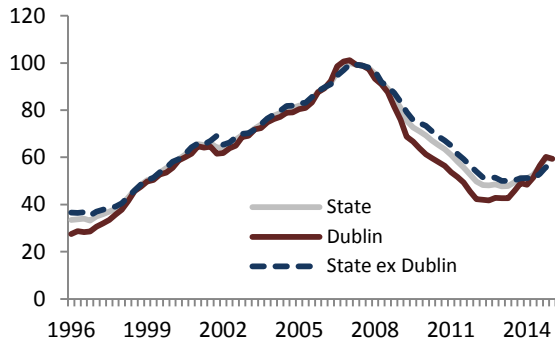
² The recent four-quarter average is used here and implies price growth of 14.3 per cent over the next twelve months. However, survey price expectations from Daft.ie taken in December 2014 showed twelve-month expectations fell back to less than 4 per cent following the introduction of the macroprudential regulations.

APPENDIX FIGURE B.1: IRELAND: HOUSING

Even with recent increases, real prices average close to 40 per cent below peak levels.

Real Residential Property Prices (HICP adj.)

Index: Q1 2007=100

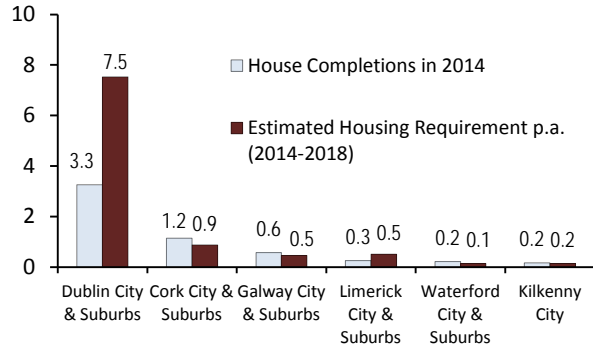


Sources: ESRI/PTSBS; CSO.

...and supply pressures remain evident, most notably in Dublin.

Estimated housing requirements/completions

Units (000s)

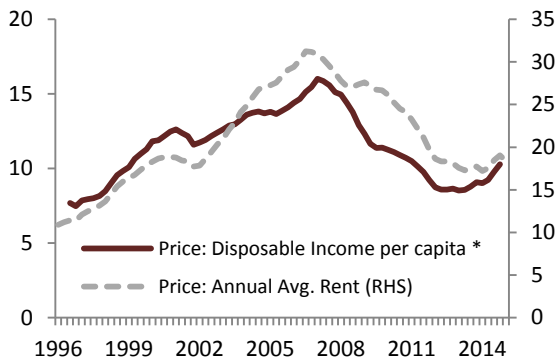


Sources: Housing Agency; DoECLG.

Note: Completions cover rural + urban settlements; requirements only cover urban settlements of 1,000+ persons

Valuations have risen slightly from low levels in part due to the localised supply pressures.

Housing Valuation Ratios

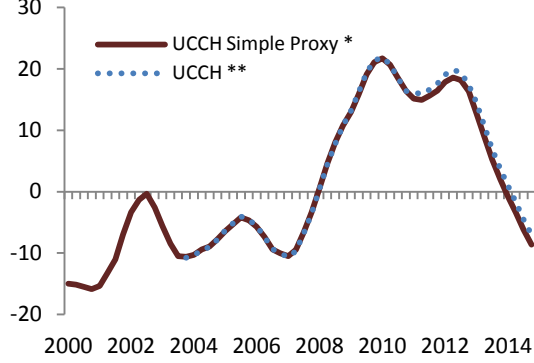


Sources: ESRI/PTSBS; CSO.

*Average house prices divided by moving 4-quarter sum of adjusted personal disposable income per capita.

User costs derived from recent price rises appear negative, but survey expectations have moderated.

User Cost of Capital for Housing (UCCH)



Sources: Central Bank of Ireland; CSO; ESRI/PTSBS.

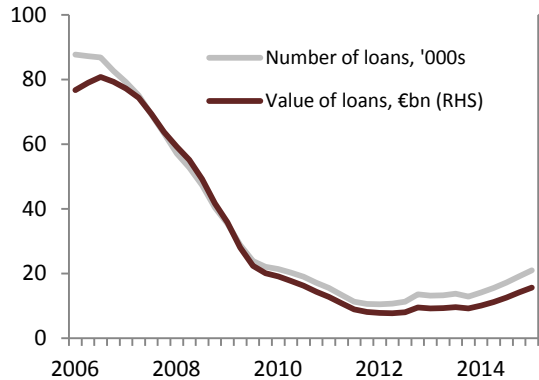
* New mortgage rates less annual price change for past 4Qs.

**Includes first-time buyer taxes/subsidies; down-payments; depreciation / maintenance.

Loan volumes continue to show a steady rise from their low base.

Annualised Residential Mortgage Lending

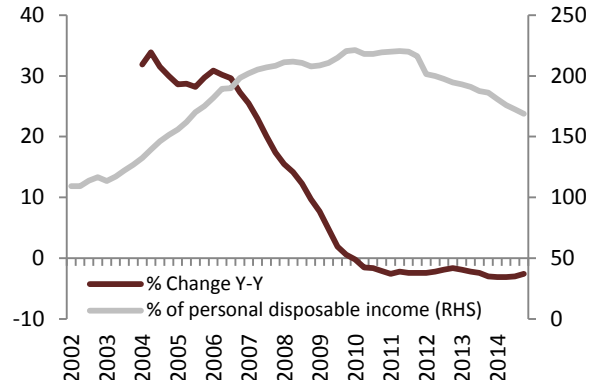
First-time buyer and mover purchaser loans



Source: IBF/PwC Mortgage Market Profile.

...although – in net terms – negative loan growth continues to reflect household deleveraging.

Loans to Irish Households for House Purchase



Sources: Central Bank of Ireland; CSO

Note: Stock is proxied by Long-term loans; ESA-95 basis pre-2012.