APPENDIX B: HOUSING MARKET 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 as summarised in Appendix Figure B.2.

Price- to- disposable income and price- to- rent ratios both indicate that housing valuations have stabilised at levels just below those observed in the early 2000s. CSO figures indicate that year-on-year property price inflation has fallen from 24.7 per cent to 7.9 per cent in Dublin over the past year, but has increased in the rest of the country.[1] The User Cost of Capital for Housing (UCCH) attempts to compare all relevant housing costs against expected house price changes. Forward-looking surveys of price expectations (e.g., Daft.ie Surveys) would suggest that housing costs are positive, whereas taking recent historical price changes as an indicator of price expectations would suggest negative costs. Inflation expectations are difficult to capture and the UCCH is clearly sensitive to the approach used. Given the recent moderation in price rises, the forward-looking survey price expectations is likely to be a more appropriate measure at present.

An ongoing concern is the acute supply shortage in the housing market, particularly in urban areas. Duffy, Byrne and FitzGerald (2014) suggest at least 25,000 new units will be required *per annum* over the coming 15 years to adequately meet demand. However, completions are set to be closer to 13,000 units in 2015. Barrett, Duffy and McQuinn (2015) highlight a number of potential supply constraints, namely planning regulations, infrastructure, inability to access finance and the cost of building. The Department of Finance (2015) suggests that, whereas during the boom years developers could expect close to 100 per cent bank-financing, developers now tend to be subject to a maximum of 65 per cent senior debt finance for ‘shovel-ready’ developments for which there is proven demand. Such constraints may be further exacerbated by developers not having rebuilt sufficient reserves of risk capital in the wake of the crash.

Prohibitive construction costs are frequently cited as one factor constraining supply. There is some evidence of a divergent performance in costs relative to prices (Appendix Figure B.1). The construction cost index compiled by the CSO suggests that costs are now roughly at the same level observed at their peak in the third quarter of 2008 (just 1.8 per cent below these levels). By comparison, property prices have undergone a much sharper correction, remaining approximately 36 per cent below their peak values.

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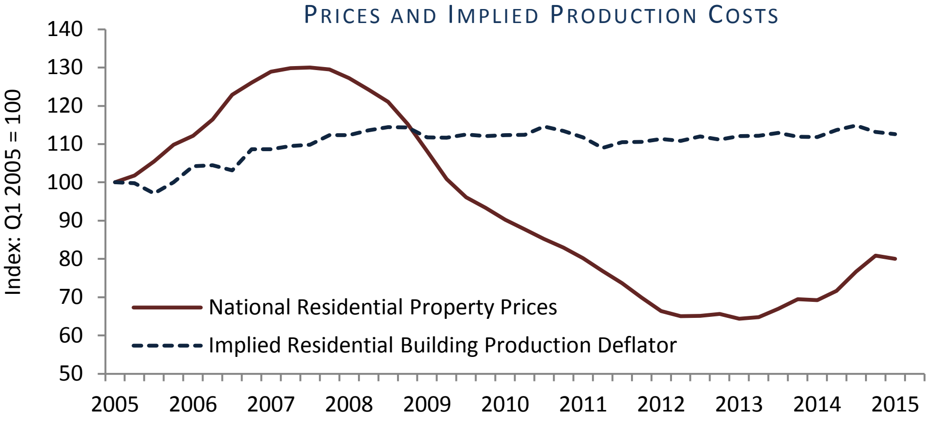
[1] The Q3 2015 *Daft.ie House Price Report* also indicates that year-on-year property price inflation has softened in Dublin, but has increased substantially for the rest of the country (from 2.1 per cent in mid-2014 to over 13 per cent in the third quarter of 2015). CSO data indicate a similar acceleration outside of the capital.

The immediate pre-crisis period was characterised by strongly rising house prices, credit and construction activity, all of which ultimately proved unsustainable. A review of various indicators does not reveal signs of unsustainable credit and construction growth – indeed quite the contrary. House prices have grown strongly in recent years, but we do not detect signs of significant overvaluation based on standard metrics. Moreover, it is not apparent that recent price growth has become embedded in price growth expectations. Thus, while housing market developments will require careful ongoing monitoring, we do not detect signs of an unsustainable expansion in activity at this time.

APPENDIX FIGURE B.1: IRISH RESIDENTIAL PROPERTY: NOMINAL PRICES AND IMPLIED PRODUCTION COSTS



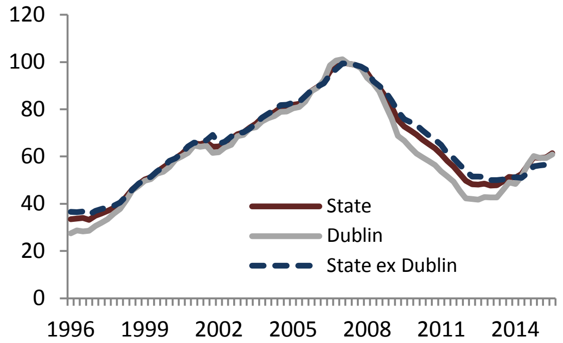
Sources: CSO; internal IFAC calculations.

APPENDIX FIGURE B.2: IRELAND: HOUSING

Real price rises have moderated and remain roughly 40 per cent below their peak.

Real Residential Property Prices (HICP adj.)

Index: Q1 2007=100

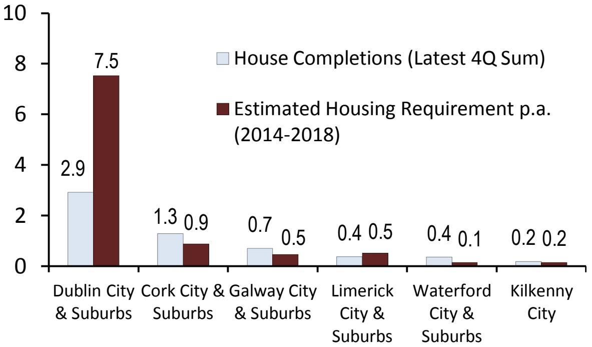


Sources: ESRI/PTSB; CSO.

Estimated regional requirements and completions data signal ongoing supply pressures in Dublin.

Estimated housing requirements/completions

Units (000s)

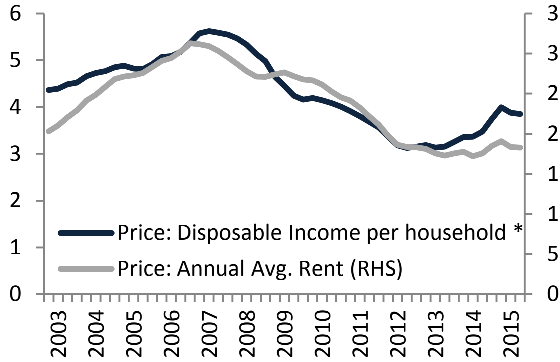


Sources: Housing Agency; DoECLG.

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

Changes in valuation ratios have also moderated since the end of 2014.

Housing Valuation Ratios

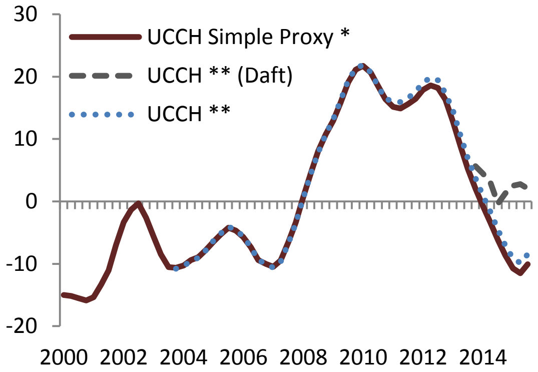


Sources: ESRI/PTSB; CSO.

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

User costs – when based on survey expectations – may now be slightly positive.

User Cost of Capital for Housing (UCCH)



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

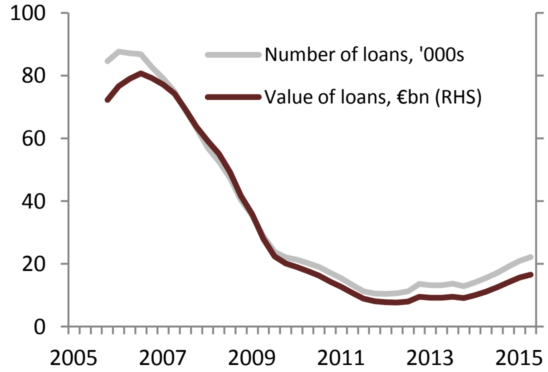
* New mortgage rates less annual price change for past 4Qs.

**Includes first-time buyer taxes/subsidies; down-payments; depreciation/maintenance. 'Daft' uses Daft.ie 12mo price expectations.

Loan volumes are expanding, albeit from a very low base.

Annualised Residential Mortgage Lending

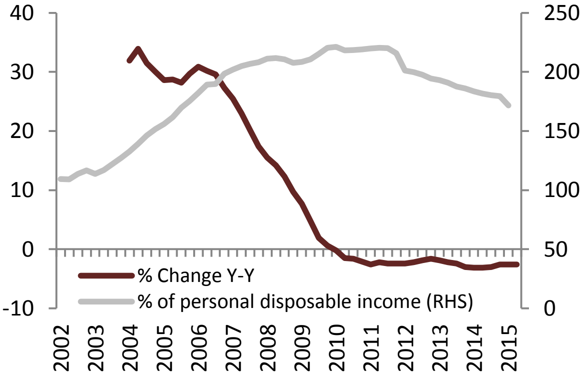
First-time buyer and mover purchaser loans



Source: IBF/PwC Mortgage Market Profile.

Negative net lending continues to reflect household deleveraging and modest growth in loan issuance.

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.