



IRISH
BANKING
FEDERATION

IBF HOUSING MARKET MONITOR Q1/2014

With a commentary by
Conall Mac Coille
– Chief Economist, Davy



Indicator	Latest quarter	One year ago	% change
Dwellings listed for sale	8,842	8,462	4.5%
Dwelling completions	2,090	1,691	23.6%
Yr/yr change in transaction prices	7.8%	-3.0%	
Yr/yr change in list prices	3.5%	-6.6%	
Mortgage approvals	4,645	3,593	29.3%
Mortgage drawdowns	3,425	2,068	65.6%
Transactions*	5,401	4,851	11.3%
Mortgage APRC	3.25%	3.42%	-0.17%

* The Residential Property Price Register is updated on a continuous basis, with a significant time lag in reporting. The detailed regional analysis in each report is produced using an address matching process that excludes unmatched transactions.

Irish housing market starting to show its microwave qualities

Irish residential property prices fell by 1.3% through the first quarter of 2014, albeit still up 7.8% in the year to March. These falls are most likely a blip. The insights from the latest *IBF Housing Market Monitor* reveal an illiquid housing market starved of new supply. In particular, Dublin's housing market is in the process of going from lukewarm to scalding hot. Daft's latest survey shows house prices expected to rise by 20% over the next 5 years in the capital. With buyers increasingly frustrated by the lack of available properties, expectations for even stronger price inflation, well beyond 20% will surely grow. This poses the danger that first-time buyers (FTBs) will desperately stretch their finances unsustainably, competing for a small pool of available property.

In the past, expectations of elevated house price inflation have led to loosening credit standards as buyers chased prices ever upwards, with higher collateral values reassuring lenders. But tighter credit standards should ensure that affordability, mindful of the current exceptionally low levels of interest rates, will be a credible anchor on Irish mortgage lending this time around. In this environment policy should be focused on alleviating supply constraints on the construction sector, while resisting efforts to loosen credit standards on mortgage lending to FTBs.

Housing market transactions in Q1 2014 were 6,500 up 33%, but still at exceptionally low levels. These transactions comprise just 1.3% of the stock of the 2 million homes – suggesting at current rates the average house changes ownership just once every 75 years. Although demand is certainly stronger in

urban areas, transactions in Dublin represented just 1.6% of the stock, suggesting a transaction once every 63 years. Dwellings listed for sale nationally were 8,842 in Q1, up only 4.5% from the 8,462 recorded one year ago. By any measure Ireland has an exceptionally illiquid market.

Digging a little deeper suggests FTBs are struggling to compete. Cash buyers represented over 50% of transactions in early 2014. Gross mortgage lending was €539 million in the first quarter, just 72% of mortgage approvals, down from levels closer to 90% in previous years. Potential borrowers with approved mortgages are increasingly failing to secure properties, leaving lending facilities unused, so that new mortgage lending remains weak. Low interest rates, rising rents, the lack of new housing supply and capital gains tax exemptions have enticed investors back into the housing market, competing against FTBs.

The lack of available property is especially frustrating for FTBs, given large numbers of existing buy-to-let (BTL) investors unable to service their mortgage debts. In Q4 2013, there were 12,218 BTL mortgage accounts in arrears over 720 days and 20,310 in arrears for over 360 days. As the Central Bank's mortgage arrears resolution targets are met there will ultimately have to be higher numbers of voluntary sales and repossessions, partially alleviating the lack of listed properties for sale.

For now, there is little sign of any supply response from the construction sector. Completions in Q1 were just 2,090. While this is a 24% rise over the last 12 months, it is still well below the 20,000 annual completions necessary to satiate natural demand from housing formation.

While the renewed focus from the government's Construction 2020 strategy is welcome, the document is short on concrete proposals to address the key issues, namely cost pressures and supply constraints in the sector.

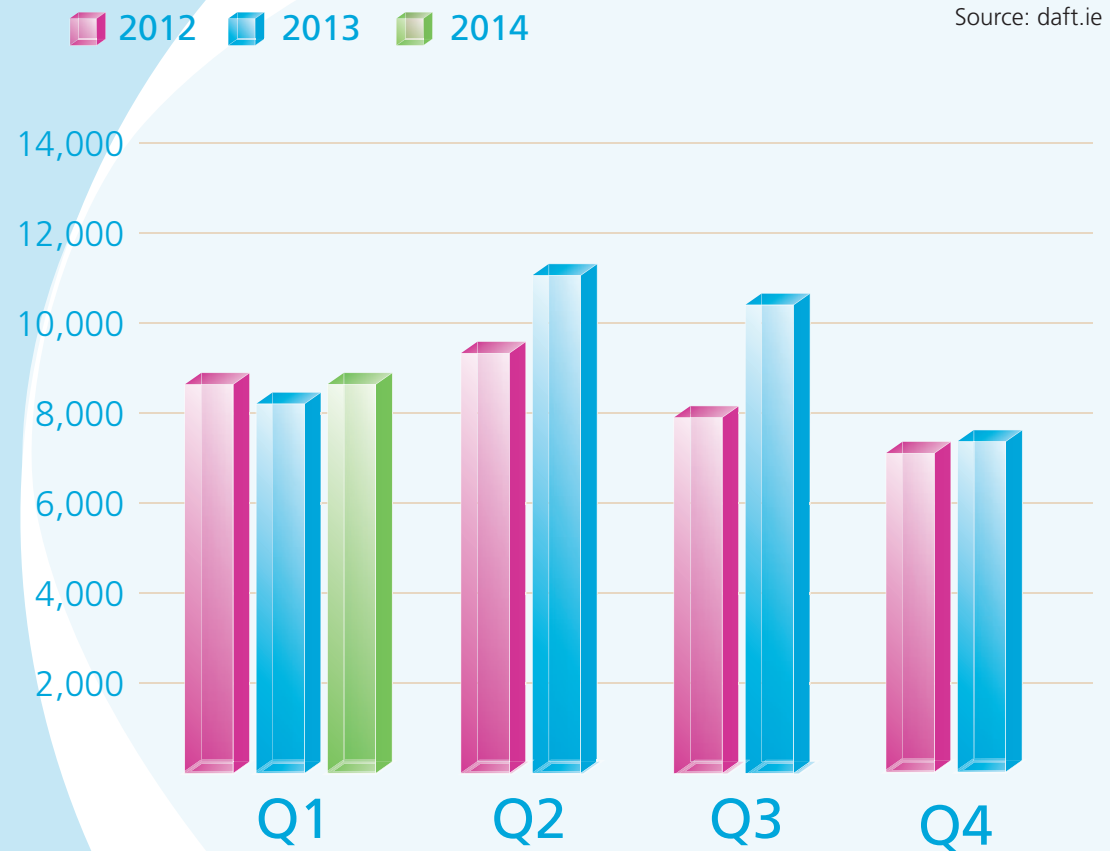
The UK's recent experience provides a salutary warning on how not to address problems in the housing market. Just one year on from the announcement of Help to Buy scheme in the 2013 Budget, government ministers now admit the scheme may have to be watered down. New mortgage lending to FTBs is now at similar loan-to-income multiples to those seen during the height of the boom in 2007. UK banks are now required to undertake affordability tests, to ensure borrowers can withstand higher interest rates. Although UK mortgage lending volumes have risen only modestly, the clear fear is that lending standards will be relaxed as house prices rise, forming the basis of the next boom and bust cycle – a scenario the Bank of England is now clearly focused on preventing.

In Ireland household debt is currently 196% of disposable incomes, compared with 140% in the UK. As existing mortgaged households continue to pay down mortgage debt built up during the bubble years, there will be ample funds within the banking sector to meet credit demand from FTBs. So efforts to loosen credit standards on lending to FTBs should be resisted. In any case, the Central Bank of Ireland is likely to ensure affordability is a credible anchor on Irish mortgage lending this time around, mindful of current exceptionally low levels of interest rates. In short, Ireland needs a Help to Build scheme, not help to buy.

Conall Mac Coille, Chief Economist, Davy.

Properties listed for sale

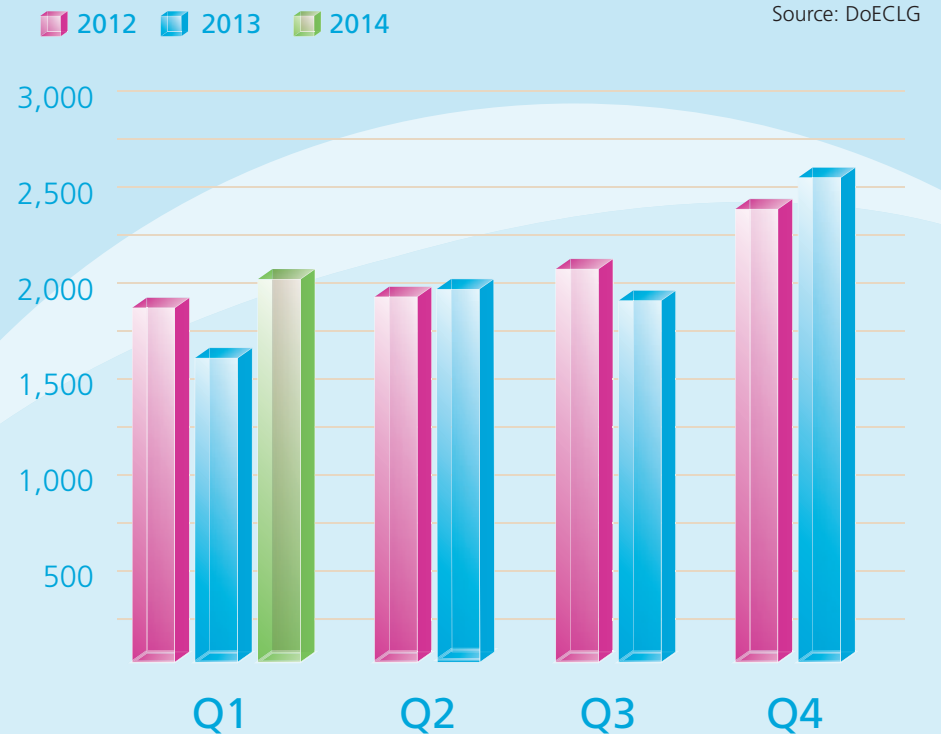
The first quarter of 2014 saw an increase in properties listed for sale of 4%, reaching 8,840 in the quarter. As in the previous quarter, the majority of the additional listings were in Dublin, where they grew 26% to nearly 2,300 compared to the same quarter of 2013. Listings also rose 10% in Leinster reaching 2,400. In Irish cities other than Dublin, the number of properties listed for sale was flat at 850. Connacht and Ulster saw a small decline of 3%, while in Munster listings fell 13% to 1,900.



New dwellings completed

Dwelling completions were nearly 2,100 in Ireland in the first quarter of 2014, a 24% increase with respect to the same quarter of last year. The increase was largely driven by Dublin, which saw completions more than double to over 500 compared to just under 250 in Q1 2013.

Leinster saw a growth in dwellings completed in line with the national average, reaching 640 against 520 in the same quarter of last year. Other Irish cities and Munster saw a much smaller increase in completions of around 5%, while in Connacht and Ulster the number of completions was flat at around 440.



Transaction prices

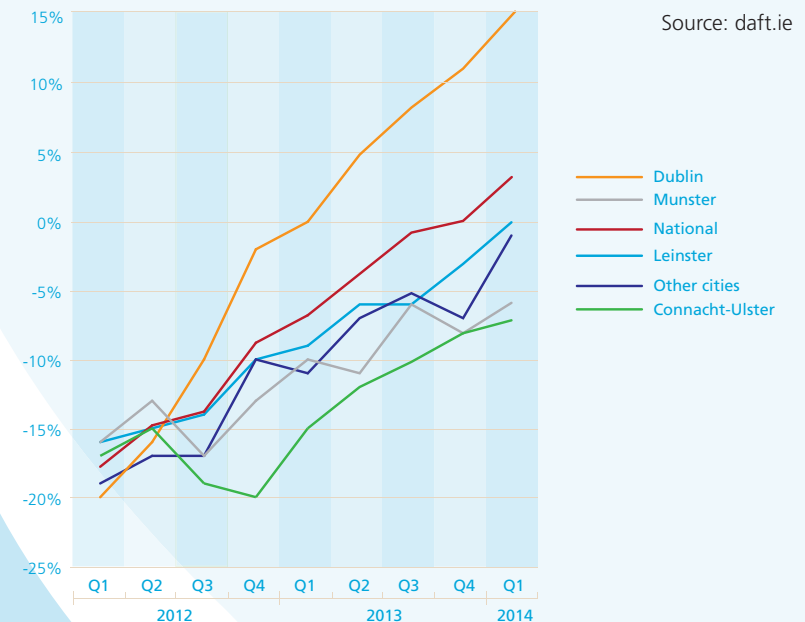
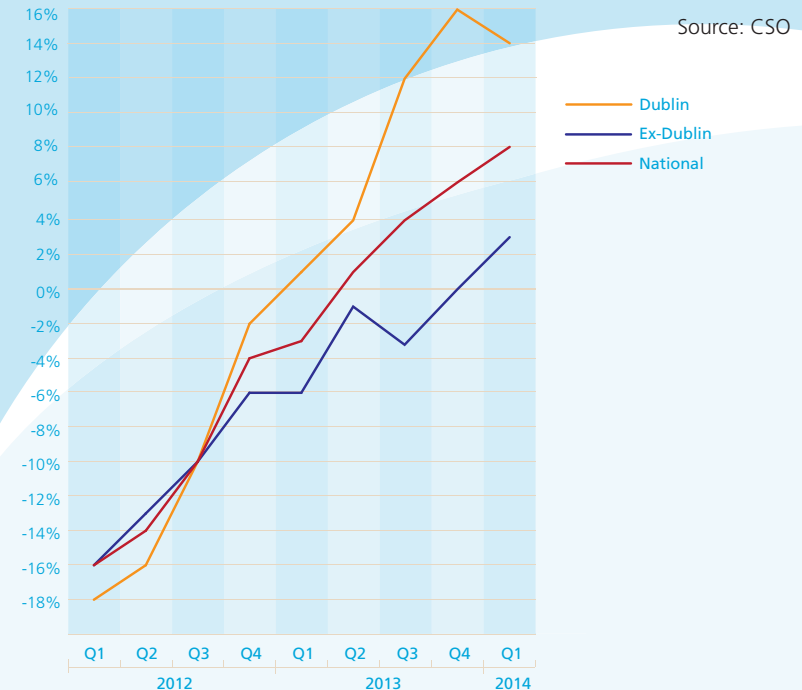
Residential property prices fell slightly in Ireland in the first quarter of 2014, falling 1.3% compared to the previous quarter. This represents the second consecutive quarterly fall in prices.

Prices in Dublin experienced a larger fall than in the rest of Ireland, declining by 1.9% in the quarter as opposed to 0.7%. However, property prices are still 14.3% higher than last year in Dublin, and 2.9% higher in the rest of Ireland.

List prices

National list prices increased 3.7% quarter-on-quarter and 3.5% year-on-year, marking the second consecutive quarter of year-on-year increases. All Irish regions saw price increases in the quarter, with Dublin seeing the largest gains at 5.7% compared to last quarter. Other Irish cities saw a price increase of 4.6% in the quarter, leaving list prices 0.7% higher than last year. This is the first year-on-year gain for Irish cities other than Dublin since the third quarter of 2007.

List prices in Munster grew 2.4% in the first quarter of this year, while the gain in Leinster was 2% and in Connacht and Ulster it was 1.6%.

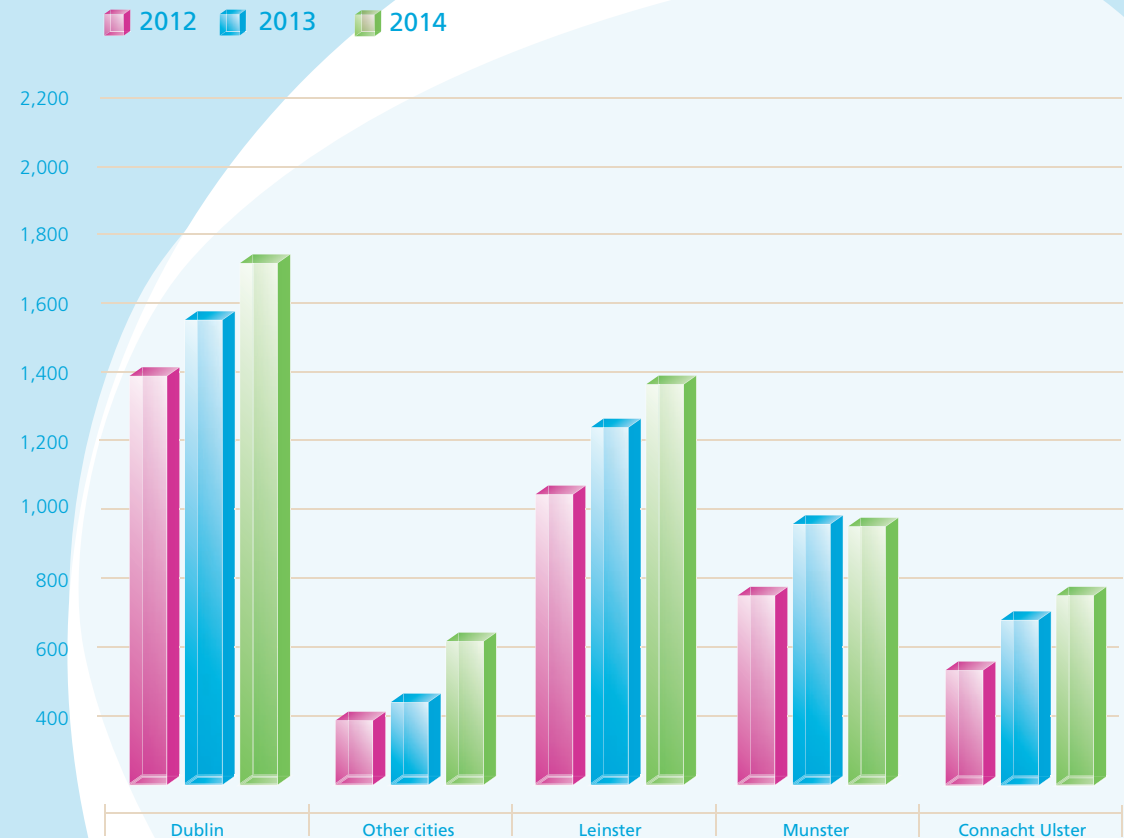


Source: RPPR

Property transactions

In the first quarter of 2014, the number of property transactions in Ireland increased to 5,400, an 11% increase compared to the same period of last year*. All Irish regions saw an increase in transactions, with the exception of Munster where transactions declined slightly to 880.

The rate of increase was largest in Irish cities other than Dublin, where transactions rose 39% to 630. Growth in the number of properties transacted in Leinster and Dublin was broadly in line with the national average, at 13% and 11% respectively. Connacht and Ulster saw growth of 7.5%, bringing the number of transactions there to 770.



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Property Transactions & Mortgages

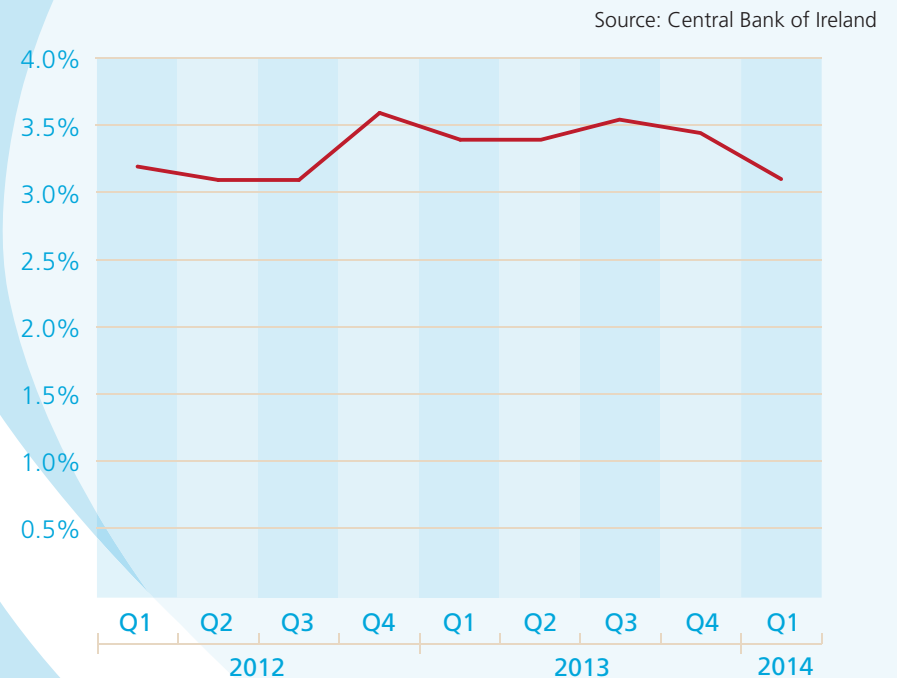
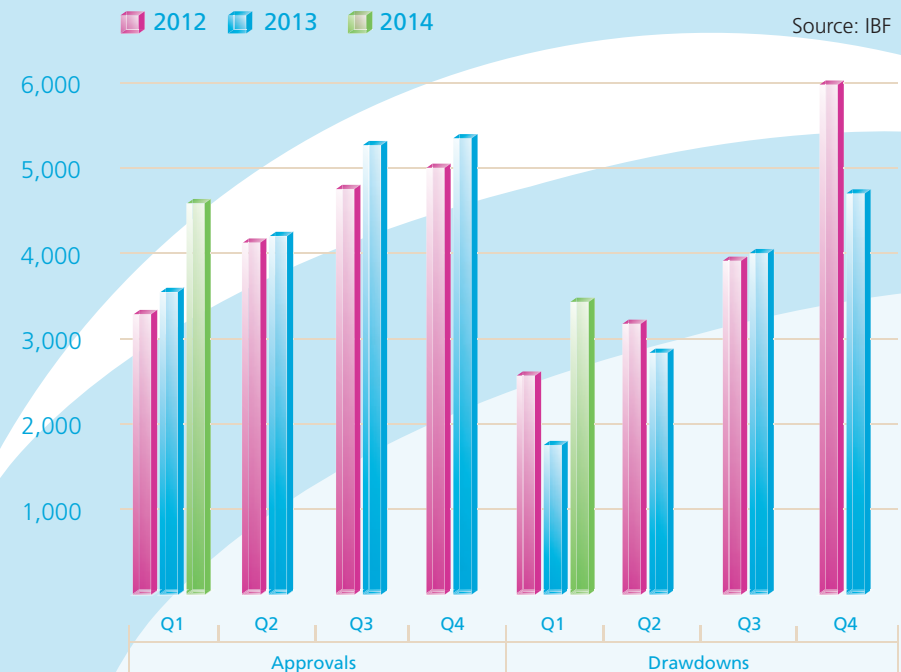
Mortgage approvals and drawdowns

Mortgage approvals (which are reported as a three-month moving average) offer an early indicator of credit conditions in the mortgage market, which underpins the bulk of transactions in the housing market. Just over 4,600 mortgages were approved in the first quarter of 2014, an increase of almost 30% compared to the same quarter of last year.

Mortgage drawdowns generally reflect transactions and again offer an indicator of credit conditions. 3,425 mortgages were drawn down in this quarter, up 66% from the unusually low level of Q1 2013. In value terms, the drawdowns of €568 million represent an increase of 72% over the €331 million drawn down in Q1 2013.

Cost of mortgage credit

The average percentage rate of charge (APRC) for the first quarter of 2014 was 3.25%, a fall of 17 basis points compared to the same quarter of last year.



About the Report

The information presented here is based on a range of publicly available reports and data-sets and collated by Identify Consulting for IBF. 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 the Environment, Community & Local Government [dwelling completions and commencements]
- the Central Statistics Office [transactions price index]
- the Central Bank of Ireland [average percentage rate of charge for credit]
- the Property Price Register [number of transactions]
- daft.ie [properties listed for sale and asking price index]
- the Irish Banking Federation [mortgage approvals and drawdowns]



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