



Housing Market Bulletin - January 2010

New Year Roundup

The start of a new year is a good time to have a brief look at the state of play in the Irish housing market. Construction activity undoubtedly remains very weak. Meanwhile, demand continues to be depressed by low consumer confidence and employment concerns. However, affordability conditions have improved substantially and should remain supportive for some while yet.

In terms of sectoral data, there were just 3,743 **house guarantee registrations** in 2009 compared to 12,676 in 2008 (-70%). This provides a good indication of the depressed nature of new multi-unit housing/apartment developments. New construction activity is thus being dominated by once-off housing, which now accounts for over 70% of all **commencements**, compared to 25% or less over the 2004/06 period. The most recent data show that total commencements were down by 64% in the year to September (multi-units -84% yoy, single-units -40%). Overall commencements are running at a seasonally adjusted annual rate of around 9,000 per annum.

There has been a more modest fall in the level of **completions** as work in progress is finished out. With 22,654 units completed in the first ten months of 2009, it is likely that around 26,000 units were completed last year (an annual fall of 50%). However, given the scale of the decline in the lead indicators of activity, we expect a further fall in housing output and are forecasting that there will be only 13,000 units completed this year and 10,000 in 2011. The overall weakness in residential construction activity is underlined by the housing component of the Ulster Bank **construction PMI**. This dropped back again in December to 32.6 which, though up from its low of 23.1 a year earlier, is well below the 50 level that would indicate expansion in the sector.

A recovery in residential development activity requires indications of a pick-up in demand and signs that the supply overhang of new properties is being eroded. With no measure of transactional activity available, the only indication of demand is from the level of house purchase **mortgage drawdowns**. According to Irish Banking Federation data, these fell by 41% yoy in Q3 2009. Meanwhile, the level of **mortgage lending** outstanding fell in November for the eighth consecutive month, leading to a decline of 0.1% in the yoy growth rate. This is the first decline in the growth rate since the monthly series began in 1990.

Housing demand continues to be weighed down by depressed **consumer confidence**. While the KBC Ireland/ESRI Consumer Sentiment Index has picked up from July 2008's all time low, consumers remain concerned about the outlook for the economy and the labour market in particular. The most recent Quarterly National Household Survey (QNHS) indicates that some 230,000 **jobs** had been lost by Q3 2009 from the peak in Q1 2008. However, the level of unemployment would appear to have stabilised, with the unemployment rate around 12.5% in recent months. This stabilisation in part reflects a return to **outward migration**, with the QNHS indicating a decrease of 45,000 in the non-Irish working age population in the year to Q3 2009.

On a positive note, housing **affordability**, in terms of the percentage of disposable income required to service a mortgage, is now at its best level since 1996. This largely reflects a combination of a sharp fall in mortgage interest rates and significantly lower house prices. Affordability conditions should remain supportive in the near term as we don't envisage any increase in official **interest rates** until late in H2 this year. Our affordability index is based on permanent tsb/ESRI **house prices** which at October were down by 26.6% from their peak. We expect that this lagging index will remain on a declining trend over the course of 2010 as it continues to reflect selling prices which most commentators believe to be down somewhere closer to 45%. We have calculated (see *November Housing Bulletin*) that if indeed prices have fallen by 45% from their peak that this is sufficient to return the Irish **house price/income ratio** back to its long term average. Meanwhile, such a price decline sees the **house cost/rent ratio** (which compares the mortgage servicing cost to rental cost) drop back below its long run average and it could remain so even allowing for a further modest decline in **rents**, which according to the CSO's private rent index are down 24.5% from their peak.

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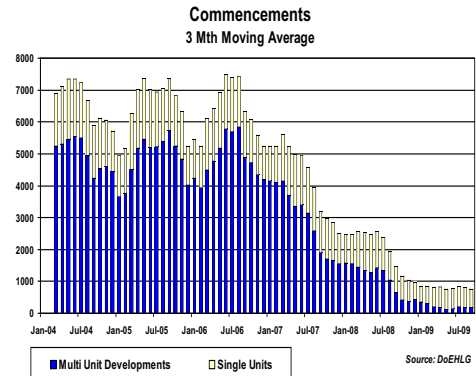
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Completions/Registrations/Commencements

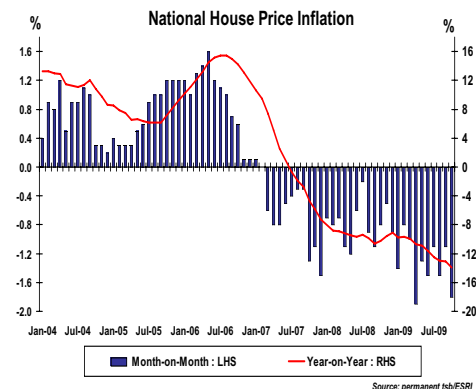
22,654 units were completed in the first ten months of 2009 (-48% yoy). It is, thus, likely that around 26,000 units will be completed this year (down from 51,724 and 78,027 in 2008 and 2007, respectively). Lead indicators, meanwhile, continue to suggest that completions could eventually fall to about 10,000 units. Commencements, which exclude local authority builds, are currently running at a seasonally adjusted rate of just over 9,000 per annum, largely reflecting single-units which now account for over 70% of all commencements. Registrations (for largely multi-unit developments) continue to be very weak, running at a seasonally adjusted rate of around 3,000 per annum.



	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09		Oct-09	Sep-09	Aug-09	Jul-09
Registrations (HomeBond & Premier)						Completions (DoEHLG)				
Year to Date Y/Y	-70.5	-70.2	-71.4	-73.4	-73.1	Month	1,997	2,096	1,628	2,354
Cumulative 12 Mth Total	3,743	4,195	4,400	4,562	5,407	Year to Date	22,654	20,657	18,461	16,833
Cum 12 Mth Tot Y/Y	-70.5	-68.3	-70.8	-72.7	-70.2	Y/Y %	-48.3	-48.3	-48.3	-47.6
Commencements (DoEHLG)						Cum 12 Mth Total	30,565	32,395	34,471	36,448
Year to Date Y/Y	N/A	N/A	N/A	-63.8	-65.9	Y/Y %	-47.3	-47.4	-46.0	-44.9
Cumulative 12 Mth Total	N/A	N/A	N/A	10,153	10,479					

House Prices

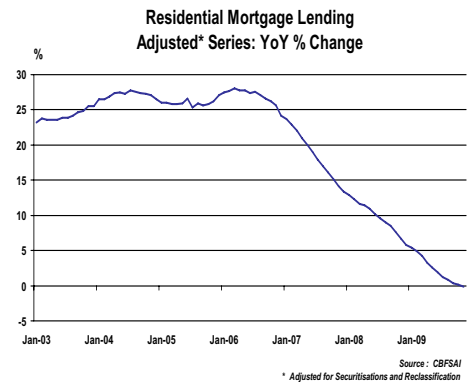
The latest permanent tsb/ESRI index shows that house prices nationally fell by a further 1.8% in October (-13.9% yoy), leaving the index 26.6% below its peak. However, despite continuing sizable monthly price falls, this index still fails to reflect the view of many market commentators who put the extent of the overall price decline from the peak at somewhere closer to 45%. Not only is it a lagging index (based on mortgage drawdowns which lag the date of sale by many months and, furthermore, is reported as a three month moving average) it may also be being impacted by the low transactional volumes that have meant that most of the sub-indices are no longer available.



	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09		Oct-09	Sep-09	Aug-09	Jul-09
permanent tsb/ESRI House Price Inflation %						permanent tsb/ESRI %				
National M/M	-1.8	-1.1	-1.5	-1.1	-1.5	Dublin Houses Y/Y	-19.1	-19.1	-18.0	-17.1
National Y/Y	-13.9	-13.1	-13.0	-12.5	-11.7	Outside Dublin Y/Y	-11.5	-11.8	-12.1	-11.1
Average House Price €						Average House Price €				
National	232,584	235,260	238,828	241,504	245,295	Dublin	300,466	306,795	312,822	319,754
						Outside Dublin	201,853	204,524	209,485	211,965

Mortgage / Loan Growth

The level of mortgage lending outstanding fell in November for the eighth consecutive month. These declines have been the first such since the monthly series began in 1990. Meanwhile, the yoy growth rate declined for the first time over this period, falling by 0.1% in November (October +0.2%). Reflecting the depressed level of housing market activity, stamp duty receipts (from all sources, not just housing) were down by 44% last year, having declined by 48% in 2008. Meantime, Irish Banking Federation data show a 41% yoy fall in the number of mortgage drawdowns for house purchase in Q3 2009 (FTB: -35%; investors: -78%; mover purchaser: -55%).



	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09		Q3 09	Q2 09	Q1 09	Q4 08
Residential Mortgages (CBFSAI)						Irish Banking Federation				
Adjusted Y/Y %	N/A	-0.1	0.2	0.3	0.8	Total Drawdowns	12,189	12,686	10,997	18,706
						Y/Y %	-56.4	-63.9	-61.4	-50.4
Stamp Duty Receipts (Dept of Finance)						First Time Buyer Y/Y %	-34.6	-47.9	-45.6	-42.2
YoY %	4.7	-8.3	-47.3	142.9	-72.6	FTB Average Value €	210,210	206,517	221,734	226,041
Cum YTD YoY %	-43.7	-47.8	-49.8	-49.9	-64.9	Investor Y/Y %	-77.9	-79.4	-74.6	-59.0
						Mover Purchaser Y/Y %	-54.9	-58.7	-57.7	-54.1