



Housing Market Bulletin - May 2010

The Nature of Housing Demand:

Demographic Structure Implies Significant Ongoing FTB Demand

Significant demand required to absorb excess stock despite falling new supply

Multi-unit new private residential construction activity has virtually ground to a halt, leaving house completions largely the result of the finishing off of properties already under construction along with once-off housing. Thus, overall housing output is expected to fall further over the next couple of years, possibly to as low as 8,000 units in 2011. However, there remain an undoubtedly large number of excess vacant units, sufficient to fill potential housing demand for some time to come. Leaving aside the debate as to the exact size of this surplus vacant stock, this raises the question as to where the demand to fill these homes will come from.

Several factors lead to overall housing demand

Housing demand is a function of:

- household formation due to:
 - demographic factors amongst the indigenous population;
 - net migration flows; and
 - changes in headship - by which we mean changes in the proportion of adults in any age group that can be considered as heads of households. These changes can come about by changes in the social structure of the country, such as an increase in marital breakdown. There are other reasons for increases in the proportion of one adult households such as changes in the willingness/ability of young adults to move out of the parental home;
- purchases of second (holiday type) homes; and
- replacement of obsolete units.

Over the next couple of months, we will look at some of these factors and their implications for housing demand.

Demographic factors imply significant ongoing demand

Population growth and changes in the demographic structure are fundamental in terms of household formation and resultant First Time Buyer (FTB) housing demand.

The CSO provide annual population projections by age group based on the 2006 Census population data and on a zero migration assumption. We have amended these data to reflect the changes in the population as reported by the CSO for April 2009. The headship ratios as identified in Census 2006 can then be applied to this estimated population structure to determine housing demand due to new household formation exclusive of any migration flows and of any changes in the headship ratios.

These calculations indicate that it will require some 23,500 housing units in 2010 in order to satisfy natural growth amongst the adult population, and this figure drops only slightly over the next few years (see Table).

HOUSING DEMAND DUE TO NATURAL POPULATION GROWTH*	
Year to April	Number of Units
2002-2006 Avg	19,600
2010	23,500
2011	23,700
2012	22,600
2013	21,500
2014	20,400
2015	20,400
2016	20,500
2017	20,100
2019	18,900
2020	18,900

* Excluding migration flows and headship changes

Migration flows, though, negative for demand - To be discussed in more detail next month

However, as noted above this is only one part of the demand equation and other factors such as migration flows look set to be a negative for overall housing demand in the near term. We will discuss migration flows and their implications for housing demand in the June Housing Market Bulletin.

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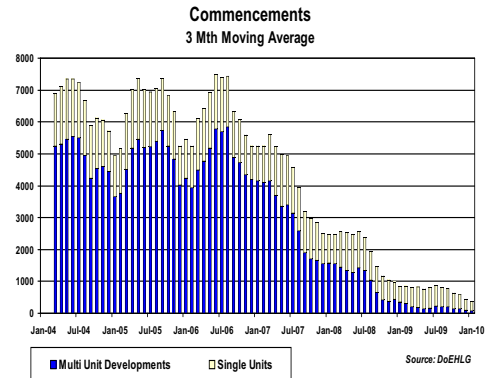
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Completions/Registrations/Commencements

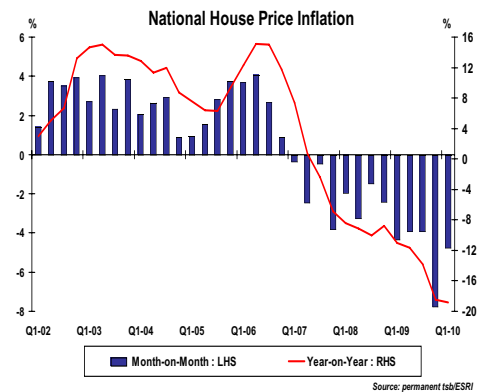
Housing output continues to fall. Just 22,568 units were completed in the 12 months to March, (-50% yoy). Lead indicators, meanwhile, suggest that the level of output will continue to decline and that completions could fall to close to 10,000 units this year and 8,000 in 2011. Commencements, which exclude local authority builds, were running at a seasonally adjusted rate of under 6,000 per annum in the three months to January, largely reflecting single-units which accounted for some 80% of all commencements in the period. Registrations (for largely multi-unit developments), meanwhile, were running at a seas. adj. rate of under 1,700 p.a. in the three months to April.



	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09		Mar-10	Feb-10	Jan-10	Dec-09
Registrations (HomeBond & Premier)						Completions (DoEHLG)				
Year to Date Y/Y	-60.1	-63.2	-58.0	-38.2	-70.5	Month	1,294	1,258	1,207	2,033
Cumulative 12 Mth Total	2,827	3,006	3,332	3,651	3,743	Year to Date	3,759	2,465	1,207	26,420
Cum 12 Mth Tot Y/Y	-64.4	-68.4	-67.9	-68.2	-70.5	Y/Y %	-50.6	-53.2	-54.6	-48.9
Commencements (DoEHLG)						Cum 12 Mth Total	22,568	23,613	24,968	26,420
Year to Date Y/Y	N/A	N/A	N/A	-43.4	-62.3	Y/Y %	-50.2	-49.9	-49.6	-48.9
Cumulative 12 Mth Total	N/A	N/A	N/A	8,277	8,604					

House Prices

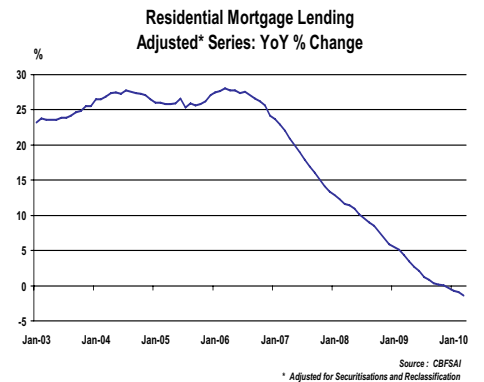
The permanent tsb/ESRI index showed prices nationally falling by 4.8% in Q1 this year bringing them to 34% below their peak. This sees the national average house price at just over €204,9830 (with Dublin prices averaging €250,872 and those outside Dublin averaging €183,309). However, most market commentators continue to put the decline in house prices from their peak at somewhere over 40%, and as much as 50% for some regions/property types. Indeed, given the lagging nature of this index, the trend in asking prices and in monthly indicators suggest that the the permanent tsb/ESRI index will record further price declines in coming quarters.



	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09		Apr-10	Mar-10	Feb-10	Jan-10
permanent tsb/ESRI House Price Inflation %						Daft Asking Prices				
National M/M	-4.8	-7.7	-3.9	-3.9	-4.3	3Mth/3Mth %	N/A	-3.3	-4.0	-5.1
National Y/Y	-18.9	-18.5	-13.8	-11.6	-11.0	YoY % 3 Mth Avg	N/A	-18.0	-18.2	-18.5
Average House Price €						Property Week - Dublin 3 Bed				
National	204,830	215,086	233,137	242,593	252,459	Price €	346,610	350,449	352,768	356,955
						M/M %	-1.1	-0.7	-1.2	-1.1

Mortgage / Loan Growth

The level of mortgage lending outstanding fell in March for the 12th consecutive month and the growth rate, at -1.4% yoy, was in negative territory for the fourth month running. However, the pace of decline in stamp duty receipts (from all sources, not just housing) appears to be moderating, hinting that housing market activity may be bottoming. They were down by 24% in the four months to April, having declined by 44% in 2009 (48% in 2008). Meantime, Irish Banking Federation data show a 23% yoy fall in the number of mortgage drawdowns for house purchase in Q4 2009. Notably, FTB mortgages declined by a relatively modest 11% yoy in the quarter (movers -38%; investors -76%).



	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09		Q4 09	Q3 09	Q2 09	Q1 09
Residential Mortgages (CBFSAI)						Irish Banking Federation				
Adjusted Y/Y %	N/A	-1.4	-0.9	-0.7	-0.3	Total Drawdowns	9,946	12,189	12,686	10,997
						Y/Y %	-46.8	-56.4	-63.9	-61.4
						First Time Buyer Y/Y %	-11.3	-34.6	-47.9	-45.6
Stamp Duty Receipts (Dept of Finance)						FTB Average Value €	206,865	210,210	206,517	221,734
YoY %	2.3	-14.9	-30.8	-40.0	4.7	Investor Y/Y %	-76.2	-77.9	-79.4	-74.6
Cum YTD YoY %	-23.7	-29.4	-33.8	-40.0	-43.7	Mover Purchaser Y/Y %	-38.4	-54.9	-58.7	-57.7