

MyHome Property Report, Q2 2017: Irish house price inflation should remain strong despite end of 'Help-to-Buy' scheme

DAVY VIEW

MyHome asking price data show house price inflation rising to 8.9% in Q2 2017. In Dublin, asking price inflation was even stronger at 10.2%. The stock of properties listed for sale was just under 21,000 – down 11% on the year.

Irish house price inflation should remain strong despite end of 'Help-to-Buy' scheme

The data from the MyHome Property Market report for Q2 2017 show another sharp rise in prices. Asking prices on the latest properties listed for sale on the MyHome website rose by 5.0% on the quarter, up 8.9% on the year. As asking prices tend to rise sharply during the first half of the calendar year but fall back after the busy summer period, we should not put too much weight on the 5% quarterly gain in Q2. Nonetheless, the 8.9% annual growth rate shows that sellers are sufficiently confident in Ireland's housing market to raise their prices aggressively.

In our Q1 2017 MyHome report, we argued that Irish house price inflation was likely to accelerate significantly – on the back of the relaxation of the Central Bank of Ireland's mortgage lending rules and as would-be buyers used the government's 'Help-to-Buy' scheme to bid-up prices. The Irish Residential Property Price Index (RPPI) showed that prices accelerated to 10.5% in April 2017 – the fastest pace in two years.

We also know that the average mortgage loan to first-time buyers in Q1 2017 was €193,900, up 9.5% from one year ago. This trend of first-time buyers taking out higher levels of mortgage debt looks set to intensify. The average mortgage approval to first-time buyers was €204,000 in Q1 2017, up 14% on the year. Despite that, Central Bank data show that the median loan-to-income (LTI) ratio among first-time buyers was 3x – still well below the regulatory threshold of 3.5x. So there is still ample room for leverage to rise among potential buyers, driving up Irish house prices in the process.

Indeed, the MyHome data for Q2 suggest that competition for homes will intensify through 2017. There were only 20,895 homes listed for sale, just 1% of the overall housing stock of 2m homes. The situation in Dublin is even more acute, with just 3,986 homes listed for sale. In this context, it is not surprising to see the average time to sale agreed fall to a fresh low of 3.8 months nationally and just 2.7 months in Dublin. As housing supply fails to keep pace with demand, whatever housing stock is listed for sale is being snapped up ever more quickly by desperate buyers.

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The outlook for Irish house price inflation will be primarily driven by robust jobs growth, rising incomes and competition among homebuyers, leading to more highly leveraged mortgage lending. However, following comments from new Irish Minister for Housing Eoghan Murphy, it now seems likely that the 'Help-to-Buy' scheme will be eliminated in Budget 2018 in October. This could lead to a rush of transactions in 2017 as first-time buyers move quickly to avail of the scheme and a slowdown in 2018 as Help-to-Buy is phased out. Nonetheless, the bigger picture is that Irish house price inflation should remain robust, driven by the recovering economy and rising incomes, despite the end of the Help-to-Buy scheme.

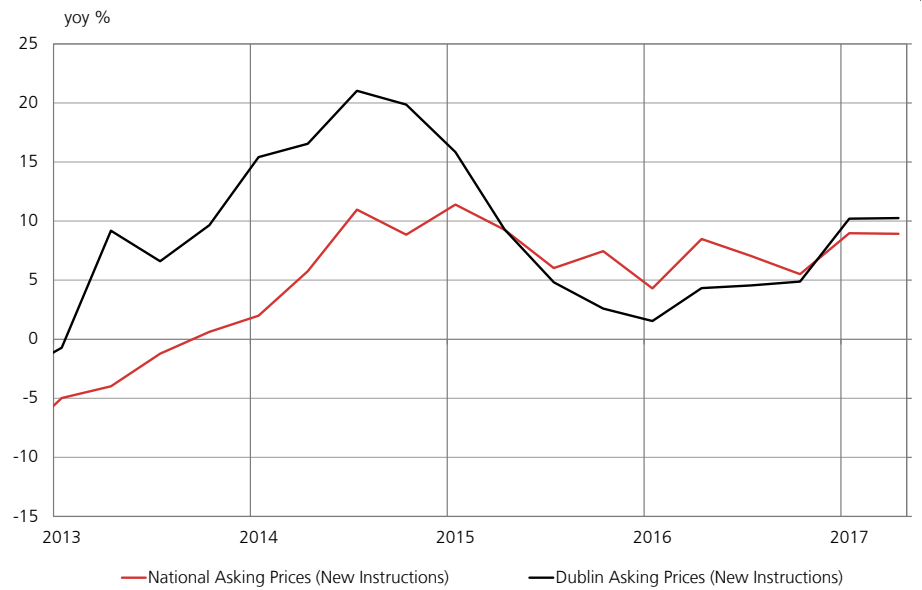
MyHome report shows sharp price rises in second quarter

The latest My Home report shows another robust rise in asking prices in the second quarter of 2017. Asking prices on the 9,854 newly listed properties for sale rose by 5.0% in Q2 2017, up 8.9% on the year. In Dublin, asking prices rose by 3.6% with annual inflation now 10.3%. Overall, this leaves the annual rate of asking price inflation broadly unchanged from the strong rate of price growth recorded in Q1.

There are currently just under 21,000 homes listed for sale on the MyHome website. The mix-adjusted asking price on this entire stock rose by 2.8% in Q2 2017, up 5.5% on the year. However, we prefer to focus on price movements on newly listed properties, rather than the entire stock, as they are a better guide to transaction prices.

The acceleration in house price inflation signalled in our last MyHome report has materialised. The RPPI rose by 10.5% in the year to April, back in 'double-digit' territory for the first time since early 2015. There has been strong 'catch-up' in areas where the recovery in house prices began later. House price inflation was 17% in the border region, 18% in the west and 14% in the south-west.

Figure 1: MyHome asking prices



Source: MyHome.ie

Table 1: MyHome.ie asking prices, Dublin and national

	Price	% change quarter-on-quarter	% change year-on-year
National (stock)	€224,500	2.8%	5.5%
Dublin (stock)	€313,500	3.2%	5.9%
National (new instructions)	€251,500	5.0%	8.9%
Dublin (new instructions)	€360,000	2.8%	10.3%

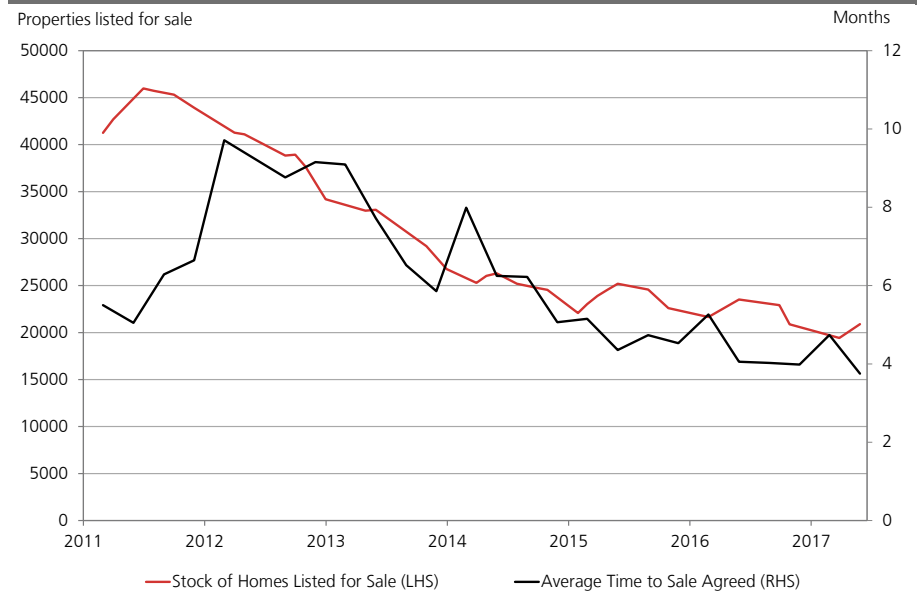
Source: MyHome.ie

Housing supply: tighter and tighter

Ireland’s housing market continues to tighten. At end-Q2 2017, there were 20,895 properties listed for sale on MyHome – down 11.2% on the year. There was a small rise compared with Q1’s figure of 19,400 but this is in line with usual seasonal trends. The bigger picture is that just 1% of Ireland’s housing stock of 2m homes is currently listed for sale. The lack of supply in Dublin is even starker with just 3,986 homes, or 0.85% of the capital’s stock, listed for sale.

With growing numbers of buyers chasing a smaller pool of homes listed for sale, it is not surprising to see the average time to sale agreed continue to shorten. In Q2 2017, the average time to sale agreed declined to 3.8 months – a fresh low. In Dublin, the average time to sale agreed fell below three months for the first time to 2.7 months. Clearly, whatever stock is available is being snapped up quickly by growing numbers of buyers.

Figure 2: Properties listed for sale and average time to sale agreed



Source: MyHome.ie

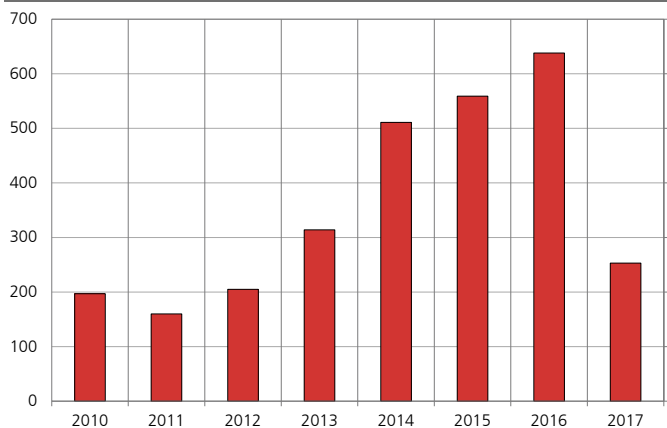
Despite the tighter market, residential transaction volumes look set to show growth in 2017. So far, the Irish Residential Property Price Register indicates that there have been 16,975 transactions in 2017, worth €4.4bn. We estimate this means that transaction volumes were up 8% in the first four months of 2017 compared with 2016.

The bulk of this growth in Irish residential transactions has been accounted for by first-time buyers financed by mortgage debt, with cash investors becoming a less important part of the market. According to the Banking and Payments Federation Ireland (BPF), mortgage loans for house purchase were up 26% year-on-year in Q1 2017. This meant that the mortgage market accounted for 55% of transactions in the first quarter.

Transactions for homes exceeding €1m continue to grow

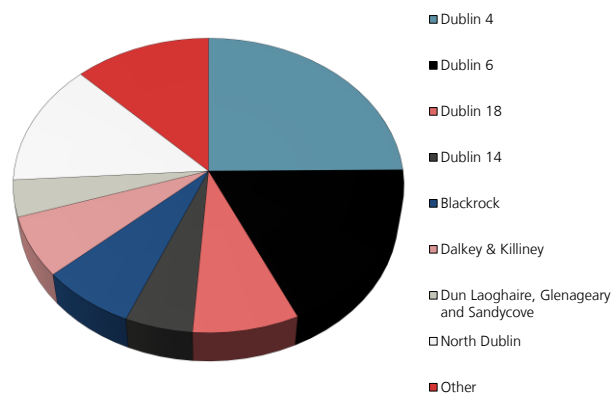
With the growth of residential housing transactions held back by the lack of housing supply, an alternative barometer is the number of properties sold for prices exceeding €1m. Figure 3 illustrates that the number of residential property transactions exceeding €1m rose to a fresh high of 638 in 2016, quadrupling from a low of 160 in 2011. In value terms, transactions exceeding €1m equalled €1.4bn – up from just €160m in 2011.

Figure 3: Residential transactions exceeding €1m



Source: Property Price Register

Figure 4: Split of transactions exceeding €1m in Dublin



Source: Property Price Register

Figure 4 provides a geographical breakdown. Not surprisingly, 547 of the 638 transactions exceeding €1m were in Dublin. However, Cork (21), Wicklow (18) and Galway (12) also saw a number of transactions over €1m. Within Dublin, transactions exceeding €1m took place predominantly south of the river. That said, areas in north County Dublin saw 20 transactions exceeding €1m in areas such as Howth, Malahide and Kinsealy. Clontarf also had nine transactions exceeding €1m in 2016.

On the south side, Dublin 4 (136) – comprising the exclusive Ballsbridge area – dominated, accounting for 20% of the national total of transactions exceeding €1m. Similarly, Dublin 6 – comprising Rathmines, Ranelagh and Rathgar – had 100 transactions. Thereafter, the south Dublin coastline accounted for a significant portion – Blackrock (39), Dalkey and Killiney (36), Dun Laoghaire (11), Glenageary (11) and Sandycove (11). Dublin 18, including the Foxrock area, also had 44 transactions exceeding €1m and Dublin 14 had 28 transactions.

Prospects for transactions in the higher end brackets of the market look upbeat. MyHome currently has 545 listings for sale with an asking price exceeding €1m. In addition, 221 properties exceeding €1m have recently had agreed sales. Once again, high-end Dublin localities dominate the listings exceeding €1m; however, we are increasingly seeing properties outside the capital listed above this threshold.

The impact of the 'Help-to-Buy' scheme

There have been 1,240 Help-to-Buy claims so far in 2017, equivalent to 38% of first-time buyers in the first quarter. There were 5,906 applications up to June 16th, close to one-third of the 16,975 residential transactions so far in 2017. Of course, many of these applications will not come to fruition – with many potential buyers no doubt bidding for the same properties. Nonetheless, the revenue data on Help-to-Buy suggest that it has had a significant impact on the housing market.

Table 2: Help-to-Buy applications

	2016	2017
Help-to-Buy claims	1012	1240
Help-to-Buy applications	1369	5906

Source: Irish Revenue

The 1,679 Help-to-Buy claims approved have cost €24.5m. This means that the average Help-to-Buy cash rebate has equalled €15,000, or 5% of a €300,000 newly built home. Given the 7,275 applications received so far, the initial estimate that the scheme would cost €50m may now seem conservative.

What evidence there is suggests that the price of newly built homes is rising faster than existing dwellings. Our MyHome mix-adjusted asking price for newly built homes increased by 12.4% in the year to Q2 2017 compared with a 5.3% rise for second-hand homes. However, the series for newly built homes is built on relatively few observations.

The Department of Finance has commissioned a review of the Help-to-Buy scheme due to be published in August. Given comments from new Minister of Housing Eoghan Murphy and media reports from anonymous government sources, it now seems likely that the report will inevitably find that the Help-to-Buy scheme has been inflationary and will be eliminated in the October Budget for 2018.

The impact on Irish house price inflation will depend on when Help-to-Buy is eliminated. It is already likely that would-be buyers will rush to avail of the scheme. Since May 18th, applications have increased by almost 1,000. This could create extra demand for housing in 2017 followed by a cooling off period in 2018 when the tax rebate will probably no longer be available. That said, as we discuss below, income growth, coupled with growing leverage in the mortgage market, will ensure that Irish house price inflation remains strong despite the end of Help-to-Buy.

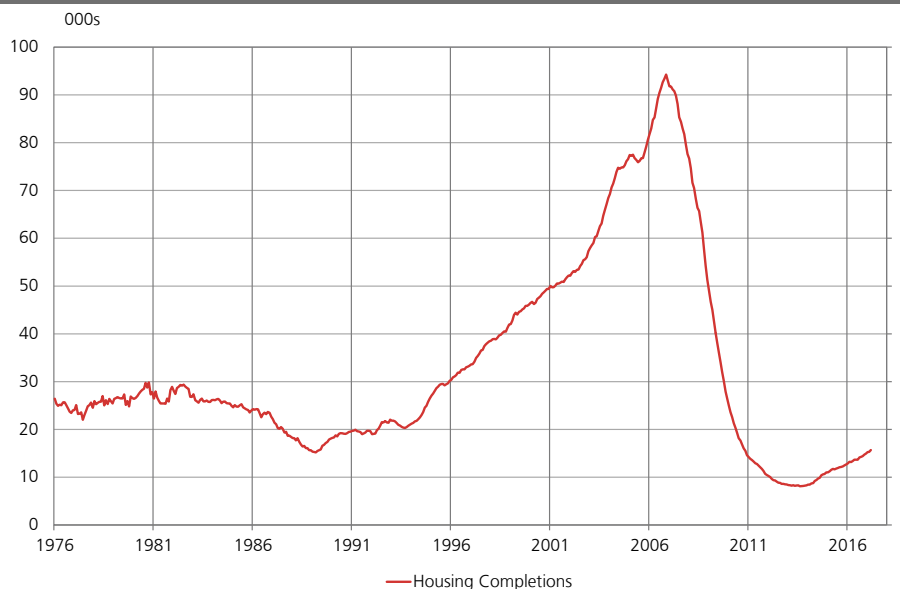
Homebuilding still gearing up from low base

According to the Department of Housing, Planning, Community and Local Government, there were 15,684 housing completions in the 12 months to March 2017. This is the highest 12-month total since October 2010. Nonetheless, homebuilding levels remain well below natural demographic demand of at least 30,000 per annum.

Commencements and new house guarantee registrations were also up 33% and 75% year-on-year respectively in the first quarter.

A range of other indicators point to rapidly expanding homebuilding activity, albeit from a low base. The Construction PMI was 63.6 in May, led by homebuilding at 69.2 compared with commercial at 65.2 and civil engineering at 51.8. Ireland’s Quarterly National Household Survey (QNHS) showed employment in construction up 8.5% on the year to 142,500. The official Central Statistics Office (CSO) data indicated that planning permissions for residential units rose by 50% in the year to Q1 2017 to 4,650. Our more timely measure derived from Construction Information Services shows permissions up 60% in the first five months of 2017 compared with the same period of 2016.

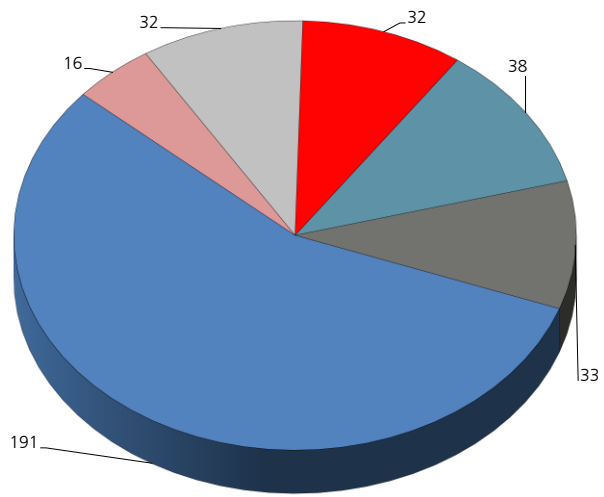
Figure 5: Housing completions



Source: MyHome.ie

One difficulty in measuring housing supply is gauging the number of newly built homes that will soon come to the market. On the MyHome website, there are currently 342 listings for sale from separate new developments. However, the size of these schemes can vary from 10-20 homes up to developments of 200-300 homes. However, in most cases, it is not possible to determine when different phases of the developments will come to the market. Figure 6 shows that the majority of new residential developments are in the Dublin area and its commuter belt.

Figure 6: Newly built developments listed on MyHome by geography



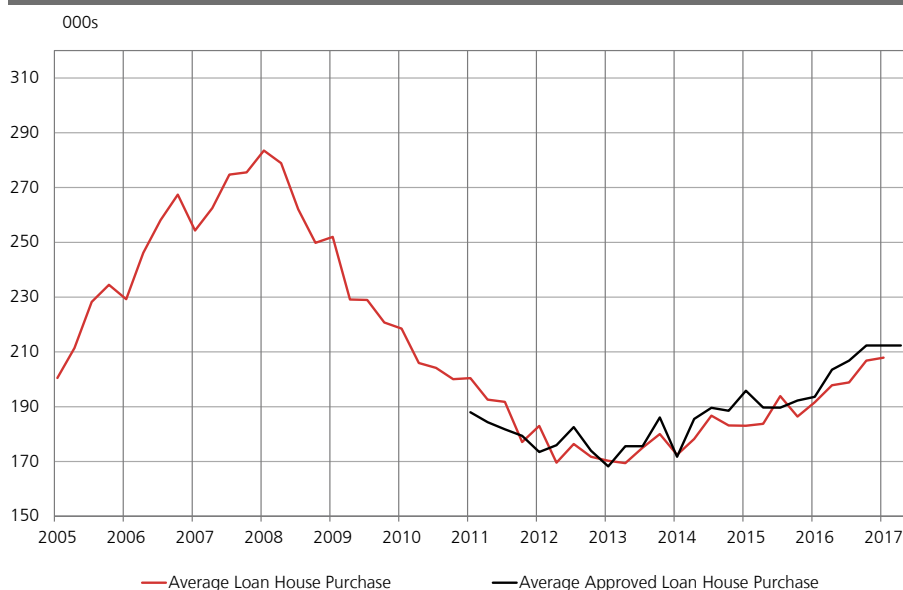
■ Dublin ■ Kildare ■ Meath ■ Wicklow ■ Cork ■ Others

Source: MyHome.ie

Lending data point to house price rises

According to the BPI, the average mortgage loan in Q1 2017 was €207,900 – up 8.5% on the year. Approvals data indicate that homebuyers are taking out even higher levels of mortgage debt. The average mortgage approval in Q1 2017 was €212,300, up 9.7% on the year. The trend of rising levels of mortgage debt is particularly acute among first-time buyers. In Q1, the average mortgage loan to first-time buyers rose by 9.5% to €194,000 and approvals were up 14% to €204,000. This pick-up in lending in early 2017 must in part reflect the relaxation of the mortgage lending rules in late 2016 eliminating restrictions on issuance of 90% loan-to-value (LTV) mortgages to first-time buyers.

Figure 7: Average mortgage loans for house purchase



Source: MyHome.ie

Central Bank data on lending in H2 2016 suggest that leverage remains relatively contained. The average LTI multiple for first-time buyers in H2 2016 was 2.9x, similar to that in H1 2016. The pick-up in average loan size to €190,000 was driven by a rise in the average earnings of a first-time buyer from €66,000 to €68,000 rather than rising leverage. However, the 14% annual growth in the average approval to first-time buyers to €204,000 in Q1 2017 suggest that leverage and LTI multiples are now rising. In addition, median LTI multiples are well below the 3.5x threshold stipulated by the Central Bank of Ireland. This means that leverage is likely to continue rising, driving house prices higher through 2017 and into 2018.

Table 3: Average mortgage lending statistics

	First-time buyers		Mover-purchasers	
	2016H1	2016H2	2016H1	2016H2
Loan size (€)	180,000	190,000	212,000	220,000
Income	66,000	68,000	105,000	106,000
Loan-to-Value (%)	78.6%	79.0%	66.2%	66.3%
Loan-to-Income	2.9x	2.9x	2.4x	2.4x

Source: Central Bank of Ireland

Property Price Register analysis

Residential transaction volumes fell slightly in 2016 to 47,500 from 48,950 the previous year. This was the first year transaction volumes declined since Ireland's housing market recovery began in 2012. So far, the data for 2017 indicate that Ireland's housing market will see modest growth in transaction volumes.

- The Property Price Register update on June 15th indicated that there have been €4.4bn of residential transactions so far in 2017.
- In volume terms, this is equivalent to 16,975 transactions.
- Our estimate up to end-April is that residential transaction volumes grew by 8% in the first four months of 2017 compared with the previous year.
- The bulk of this growth in transactions reflects the mortgage market. We estimate that mortgages accounted for 55% of transactions in Q1 2017, up from 52% in calendar year 2016.

Dublin analysis

According to the CSO RPPI index, house price inflation slowed to just 2.0% in June 2016. However, since then, Dublin house price inflation has found renewed impetus, rising to 8.1% in April. Apartment prices were up 8.6%. Moreover, the acceleration has occurred in the expensive south Dublin (8.7%) and Dun-Laoghaire Rathdown (6.5%) areas. In Dublin city, prices rose by 11.0% on the year. In contrast, prices in Fingal were up just 2.2% in the year to April.

The MyHome report shows that robust rises in asking prices continued in the second quarter of 2017. Asking prices on the latest properties listed for sale increased by 3.6% on the quarter, up 10.3% on the year. Similarly, the asking price on the total stock of Dublin homes listed for sale on the MyHome website rose by 3.2% on the quarter, up 5.9% on the year.

These price rises mean that the median price for a four-bedroom, detached house has risen to €650,000 for the first time since 2010. Similarly, the asking price on the median three-bed, semi-detached house in Dublin now stands at €295,000. In Dublin south city, the median price rose by 10% on the year to €275,000 and in Dublin south by 1.4% to €355,000. In Dublin north, the median asking price was €277,000 – up 4.5% on the year. Dublin west also saw a substantial gain with prices up 6.8% to €235,000.

Regional analysis

The national median asking price on new homes listed for sale rose to €250,000 in Q2 2017, up 6.4% on the year. The median asking price in Dublin was €350,000 and €205,000 in the rest of the country. In the commuter belt counties, the median asking price rose to €240,000 in Kildare, up 3.9% on the year, and by 2.1% in Wicklow to €295,000. In Meath, the median asking price fell slightly to €240,000.

Leinster

Prices in Leinster showed strong gains through the second quarter. In Carlow, the median asking price rose to €165,000 – up 10% on the year. Prices in Kilkenny, one of the more expensive counties, were up 5.3% on the year to €189,500. In Laois, prices were flat at €150,000. However, Longford has seen a 4.5% rise over the past year, albeit only to €99,500. In Louth, prices were up 5.6% on the year to €190,000. Offaly saw some of the strongest growth over the past 12 months, rising by 15.8% to €165,000. In Westmeath, prices were up 10.8% to €155,000 and by 6.5% in Wexford to €155,000.

Munster

In Clare, prices fell marginally on the quarter to €170,000. However, the median price in Cork rose by 1.7% on the quarter to €220,000. In Cork city, the price gains were more pronounced – up 4.4% on the year. In Kerry, prices were up 3.6% on the year to €175,000. Prices in Limerick showed a strong recovery, up 14% on the year to €159,500, and by 14.8% in Limerick city to €155,000. Price moves in Tipperary remained muted, flat on the quarter at €150,000. In Waterford, prices were up 4.3% on the year to €170,000 and by 23% in Waterford city to €135,000.

Connacht/Ulster

Prices in Galway continued to move consistently upward. The median asking price was €205,000 in Q2, up 10.8% on the year. In Galway city, the median price was €242,500 – up 9.0% on the year. In Leitrim, prices were up 5.3% on the year, albeit only to €114,500. In Mayo, prices were up 10.4% on the year to €149,000. Roscommon continued to buck the national trend with the median asking price falling for the fourth time in the last four quarters to €105,000. In Sligo, prices were up 16% to €149,000.

In Cavan, asking prices were relatively static at €150,000. In Donegal, prices were flat at €135,000. In Monaghan, prices rose by 3.6% on the quarter to €145,000.

County analysis – two-bedroom apartments

In total, 23 counties saw positive annual growth in the asking price for two-bedroom apartments in the year to Q2. In many cases, price gains exceeded 20%, especially in areas where the recovery in the housing market began later. In Cork, asking prices increased by 17% over the past 12 months to €162,500 and by 25% in Galway to €150,000. However, Laois (14%), Leitrim (32%), Limerick (34%), Longford (20%), Louth (24%), Roscommon (23%), Sligo (17%), Tipperary (16%) and Westmeath (29%) have all seen strong gains.

In contrast, Dublin and its hinterland are seeing more subdued price gains. In Dublin, the median price of a two-bedroomed apartment was up 4.3% on the year to €240,000. Prices in Kildare were up 6.4% to €149,000, 10.2% in Meath to €135,000 and 7.1% in Wicklow to €225,000.

County analysis – four-bedroom, semi-detached

Twenty-four counties have seen positive growth in the asking prices of four-bed, semi-detached houses. In Dublin, the median asking price was up 1% on the year to €440,000. Similarly, prices in Kildare were up 1.9% to €275,000 and by 1.4% in Meath to €250,000. In Wicklow, the median price was €375,000 – up 5.8% on last year.

Once again, however, price gains have been more marked outside the capital. In Kilkenny, the median price was up 25% to €250,000 and by 28% in Galway to €229,500. Donegal (14.9%), Leitrim (9.5%), Limerick (12.9%), Roscommon (13.1%) and Sligo (14.2%) have also seen double-digit price gains over the past 12 months. In Cork, prices were up 5% on the year to €270,000.

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