

House market weathering the Covid crisis reasonably well

A broad range of indicators, including prices and activity, suggest that the impact of the Covid crisis on the residential property market has not been as severe as had been anticipated earlier in the year, when the sector was in lockdown. The most recent CSO figures on residential property prices show a 0.3% monthly increase in July, having been broadly flat in the first half of the year. In year-on-year terms, prices fell by 0.5%, the first yearly decline since May 2013. However, there are base effects at play here, with July last year registering exceptionally strong growth. In terms of the geographic breakdown, the data indicate that Dublin prices declined by 1.3% year-on-year, while non-Dublin prices rose by 0.3%.

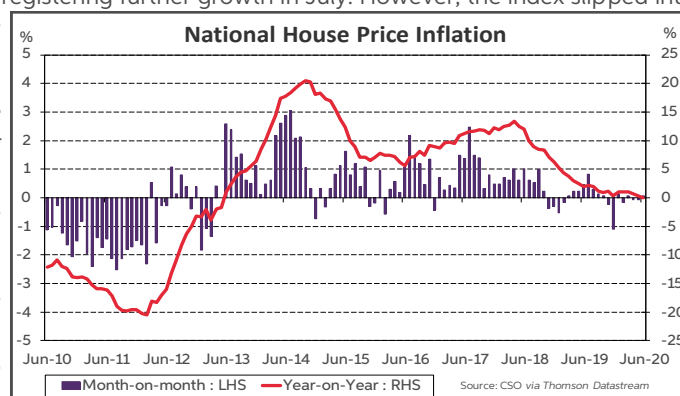
However, it is important to note that the July CSO data are not reflective of price conditions in that month. The data are lagging as it captures prices for sales that were agreed a number of months earlier but finally closed in July. As a result, the true impact of the Covid-19 restrictions on prices may not be captured in official figures until later in the year. Even then, the data may be distorted due to the low level of sales during the lockdown (transactions fell by 41% in Q2), creating difficulty for the official figures to capture the real extent of price moves. It is also important not to lose sight of the fact that house price inflation had been on a slowing trend since mid-2018, irrespective of any Covid impact. Daft.ie data, which are based on asking prices, are more reflective of current market conditions. These show prices recovering in the summer after declining during the lockdown period. Overall, they suggest that prices broadly recovered to their pre-Covid levels during the summer. Meanwhile, rents have stabilised in recent months, having fallen earlier in the year.

The still very difficult and uncertain economic backdrop may yet have a dampening impact on house prices over the remainder of 2020 and into next year. However, given that the economy appears to be rebounding after a very short but sharp recession in the first half of the year, the on-going shortfall in supply, as well as strong demand from institutional investors and public authorities, the extent of any price falls may be limited. There is also likely to be some variation across different sectors of the market and geographies in terms of the magnitude of any price movements. Firstly, the recent enhancement in the Help-to-Buy scheme is likely to act as a support to prices in the First Time Buyer segment of the market. Secondly, the shift to remote working may see increased demand for houses outside of Dublin and larger properties in general.

Though Covid-19 a headwind for new housing supply

The Covid-19 restrictions saw construction activity ceasing abruptly from late March until the second half of May. Since then, sites have reopened and building activity has restarted. The housing sub-component of the construction PMI over this period provides a useful metric of the sudden impact on activity and the subsequent rebound. It fell from 49.7 in February to a record low of 4.9 in April, getting back into expansion territory above 50 in June and registering further growth in July. However, the index slipped into contraction territory again in August suggesting that uncertainty over the economic outlook continues to impact activity.

The CSO's new dwellings completion data, the official measure of new residential supply, recorded a 32% fall in year-on-year terms in the second quarter. Completions rose by 17% in Q1 so the level of new supply was only down by around 10% y/y in H1 2020. Other housing supply indicators have also been impacted by the lockdown. Apart from the aforementioned housing PMI index, housing starts (commencement notices) were down by 20% on a year to date basis in July, while the 12 month cumulative total has fallen below the 24,000 threshold in June for the first time since February 2019.



However, there has been a substantial rise in planning permissions over the last year notwithstanding a fall in Q2, suggesting there is significant supply to come on stream in the next year or so. Overall, housing completions may total in the region of 18,000 units this year, down from 21,000 last year. A key implication of the fall in new supply this year is that it is likely to push out by a further year the timing whereby annual supply and demand become closely aligned. This is estimated to be in the region of at least 30,000 units per annum. Even before this shock, this equilibrium situation was not envisaged to be reached until possibly 2023.

The marked reduction in new supply and reduced turnover in home sales also has implications for the mortgage market. It will result in a significant decline in new mortgage lending this year. The value of mortgage drawdowns was 16% lower in H1 2020 versus the same period in 2019. However, the latest monthly mortgage approvals figures offer some encouraging signs, showing a rebound in recent months. Overall, it would appear the residential property market is holding up better than envisaged, both in terms of prices and activity, with the decline in mortgage lending not being as large either as feared earlier in the year.

MONTHLY DATA	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	<div>Housing PMI fell back into contraction mode (44.7) in August as economic uncertainty impacts outlook</div> <div>Commencements continued to recover in July. In the 3 month average to July they were down by 37.7% YoY. As a result, 12 month cumulative total remains below 24k.</div>
RESIDENTIAL CONSTRUCTION ACTIVITY									
Markit/Ulster Bank Construction PMI									
- Housing Activity	48.0	49.7	32.4	4.9	21.4	55.8	57.8	44.7	
Commencements: Month	2,051	2,419	2,383	1,039	873	1,187	1,621	#N/A	
- Cum 12 Mth Total	26,785	26,635	26,541	25,606	24,617	23,929	23,379	#N/A	<div>Strong bounce back in mortgage approvals continued in July. However, 12 month cumulative total declined to its lowest level since Jan '17</div> <div>Transactions continued to fall in August. 12 month total now below 50k</div> <div>The decline in outstanding mortgage stock continued. At -0.7% in July</div>
- 3 Month Avg YoY %	-2.9	11.0	4.6	-16.8	-32.0	-45.7	-37.7	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									
BPFI Mortgage Approvals : Month	2,594	2,838	2,995	706	1,320	1,688	2,713	#N/A	
- 3 Month Avg YoY %	5.1	4.7	-0.3	-29.9	-52.4	-66.1	-51.8	#N/A	
- 12 Mth Total	39,909	40,006	39,725	37,124	34,484	32,480	30,966	#N/A	<div>House prices rose by 0.3% in July, YoY growth rate at -0.5%. Ex-Dublin price inflation (+0.3%) continues to outpace the capital (-1.3%)</div> <div>Property price register moves lower in August. Daft.ie shows prices are flat in July on a YoY basis.</div>
RPPR Transactions : Month	3,516	3,626	4,388	2,621	2,555	2,996	3,594	2,418	
- 3 Month Avg YoY %	2.3	1.0	-1.4	-18.0	-30.3	-40.6	-37.9	-39.4	
- 12 Mth Total	58,655	58,139	58,241	56,324	53,977	52,644	50,734	48,132	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-0.4	-0.3	-0.3	-0.3	-0.5	-0.6	-0.7	#N/A	<div>House prices rose by 0.3% in July, YoY growth rate at -0.5%. Ex-Dublin price inflation (+0.3%) continues to outpace the capital (-1.3%)</div> <div>Property price register moves lower in August. Daft.ie shows prices are flat in July on a YoY basis.</div>
HOUSING MARKET PRICES									
CSO Price Index - MoM %	0.2	-0.2	0.1	-0.1	-0.1	0.1	0.3	#N/A	
- YoY %	1.0	1.0	1.0	0.7	0.4	0.0	-0.5	#N/A	
- Dublin YoY %	-0.5	-0.1	0.6	0.2	-0.2	-0.6	-1.3	#N/A	
- Ex Dublin YoY %	2.6	2.3	1.3	1.2	0.9	0.6	0.3	#N/A	<div>Property price register moves lower in August. Daft.ie shows prices are flat in July on a YoY basis.</div>
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	306,501	312,419	314,651	314,646	312,742	312,449	316,141	311,279	
Daft List Prices: YoY %	-1.1	0.4	-1.7	-5.3	-1.3	-0.5	0.1	#N/A	
RENTS & AFFORDABILITY									
RENTS: CSO Private Rents - MoM %	-0.1	0.3	-0.4	-1.8	-1.1	-0.3	0.2	0.2	<div>CSO rental index edges 0.2% higher in August. However, YoY rate slips to -1.8%, a near 10 year low</div> <div>Affordability relatively stable, but lower wages impacting the data in Q2</div>
- YoY %	3.9	3.9	3.1	0.8	-0.7	-1.2	-1.4	-1.8	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	17.5	17.3	17.3	17.9	17.9	17.9	#N/A	#N/A	
QUARTERLY DATA									
	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	<div>Completions down 31.9% YoY in Q2. The 12 month total falls to 20.3k</div> <div>Planning permissions fall for the first time since Q4 2018 down 29.2% YoY in Q2. However, still at high levels for the past 12 months.</div>
CSO Dwelling Completions	4,635	5,443	4,253	4,829	5,661	6,390	4,968	3,290	
- YoY %	23.0	19.4	22.7	9.8	22.1	17.4	16.8	-31.9	
- Cum 12 Mth Total	17,058	17,944	18,730	19,160	20,186	21,133	21,848	20,309	
CSO Planning Permissions	8,018	6,682	7,493	9,611	10,590	12,558	14,789	6,807	
- YoY %	69.2	-3.6	-3.5	41.8	32.1	87.9	97.4	-29.2	<div>YoY growth in the volume of mortgage drawdowns plummeted down 37% in Q2. Lending to FTBs also down by 34.8% YoY</div> <div>In value terms, drawdowns decreased by 35.0% YoY. 12 mth total at €8.87bn, its lowest value since Q4 2018. FTBs account for 51.7% of this amount.</div>
- Cum 12 Mth Total	29,495	29,243	28,970	31,804	34,376	40,252	47,548	44,744	
BPFI Mortgage Drawdowns									
Purchase Drawdowns (Volume)	8,727	9,613	6,673	7,987	9,486	9,941	6,932	5,035	
YoY % (Volume)	8.0	10.4	4.2	8.2	8.7	3.4	3.9	-37.0	
FTB YoY % (Volume)	7.4	9.6	6.9	10.8	14.3	11.0	8.3	-34.8	<div>In value terms, drawdowns decreased by 35.0% YoY. 12 mth total at €8.87bn, its lowest value since Q4 2018. FTBs account for 51.7% of this amount.</div>
Total Drawdowns (Value, € Mln)	2,370	2,636	1,885	2,250	2,639	2,768	1,996	1,462	
- YoY % (Value)	17.6	18.2	10.7	11.7	11.4	5.0	5.9	-35.0	
- Cum 12mth Drawdowns (Value, € Mln)	8,318	8,723	8,905	9,141	9,410	9,542	9,653	8,865	

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Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, PSRA, Ulster Bank, AIB ERU Calculations



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