

## Housing Market Bulletin - February 2010

### Number of Vacant Properties Doesn't Equate to Over Supply

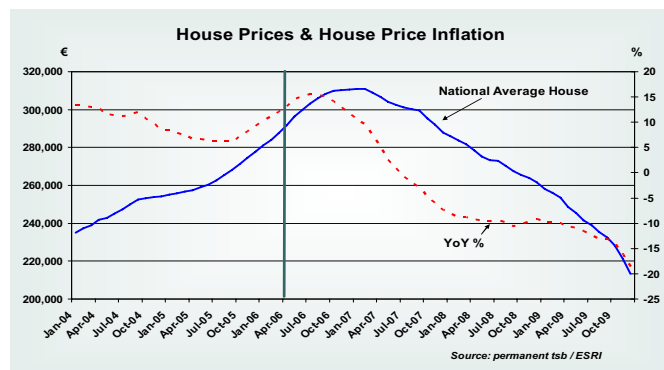
Yet again the question of the extent of the supply of vacant unsold properties has resurfaced. The kernel of the problem is that an accurate assessment is difficult due to the lack of quality data. This leaves a reliance on a series of 'estimates' that are based on assumptions whose validity is wide open to debate.

#### **Census 2006 does not give accurate level of stock overhang**

The starting point for most estimates of the current level of surplus stock is the 2006 Census. This showed that in April 2006 there were 266,322 vacant properties in the State of which just 49,789 were holiday homes. However, we believe that it is erroneous to conclude that this means that there was already a balance of 216,533 vacant properties overhanging the property market in 2006.

#### **Market dynamics do not suggest large level of overhang of excess stock in 2006**

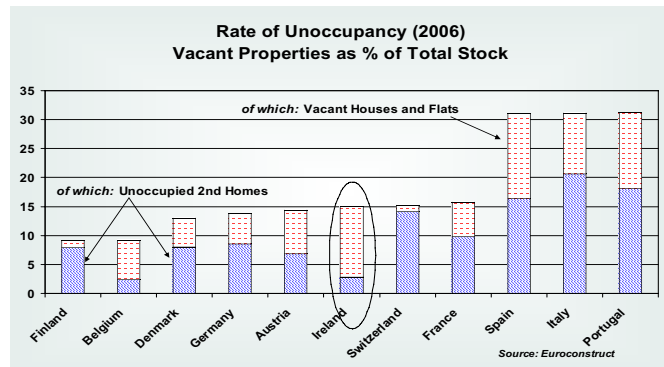
The important point is that 'vacancy' does not equate to 'excess stock'. The latter is a measure of only those vacant properties that could be considered to be on the market - i.e. whose owners would like to sell the property if they could. Given the state of the housing market in April 2006, with prices still increasing strongly (see accompanying chart), it seems fair to conclude that the excess stock in 2006 was likely to have been relatively small.



#### **Underestimation of holiday homes and no account for a 'normal' level of vacancy**

Estimates that put the size of the stock overhang (rather than the number of vacant properties) currently at somewhere around 300,000 make no adjustment for any Census underestimation of the number of holiday homes. While it would have been easy for the enumerators to identify as holiday homes any vacant properties in a holiday complex, determining the usage of any other vacant property would be far more difficult. Also, and importantly, these estimates ignore the fact that there is a 'normal' level of vacancy in the market.

Indeed, Euroconstruct data highlight the fact that the overall vacancy rate in Ireland in 2006 (at 15%) was not that dissimilar to other European countries, even if the major holiday destinations of Spain, Italy and Portugal are excluded. It is the low level of 2nd/holiday homes vis-à-vis other vacant properties that is at odds with other European countries (as the above chart shows). This substantiates our view that Census 2006 significantly underestimated the number of holiday type homes.



#### **Undoubted significant build in vacant stock since 2006**

There has undoubtedly been a build up in unsold stock in recent years. The number of new properties completed has been considerably in excess of demand from household formation over the period. It is possible to make some stab at the extent of this using mortgage data and we estimate it at possibly some 70,000 properties. Furthermore, some of the owners of second homes no doubt now wish to sell these properties due to changed market and economic conditions. However, even allowing for a significant amount of existing stock coming on to the market, it is difficult to see the overall total of excess stock being anywhere near the 300,000 level.

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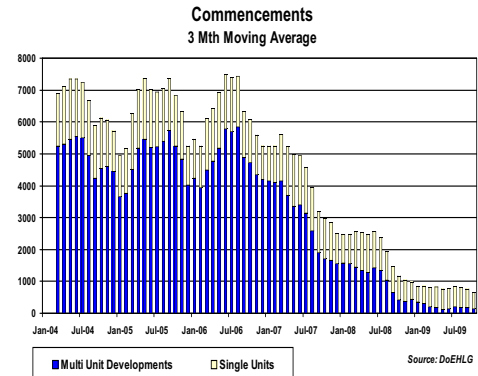
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## Completions/Registrations/Commencements

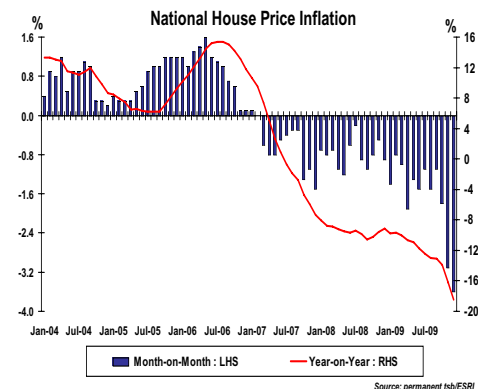
26,420 units were completed in 2009, compared to 51,724 in 2008, a decline of 49%. Lead indicators, meanwhile, continue to suggest that the level of output will continue to fall and we are forecasting that there will be 13,000 completions this year and 10,000 in 2011. Commencements, which exclude local authority builds, are currently running at a seasonally adjusted rate of just 8-9,000 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	Dec-09	Nov-09	Oct-09	Sep-09
<b>Registrations (HomeBond &amp; Premier)</b>						<b>Completions (DoEHLG)</b>			
Year to Date Y/Y	-70.5	-70.2	-71.4	-73.4	-73.1	Month	2,033	2,033	1,997
Cumulative 12 Mth Total	3,743	4,195	4,400	4,562	5,407	Year to Date	26,420	24,387	22,354
Cum 12 Mth Tot Y/Y	-70.5	-68.3	-70.8	-72.7	-70.2	Y/Y %	-48.9	-49.3	-49.0
<b>Commencements (DoEHLG)</b>						Cum 12 Mth Total	26,420	28,021	30,265
Year to Date Y/Y	N/A	N/A	-62.9	-63.8	-65.9	Y/Y %	-48.9	-48.7	-47.9
Cumulative 12 Mth Total	N/A	N/A	9,622	10,153	10,479				

## House Prices

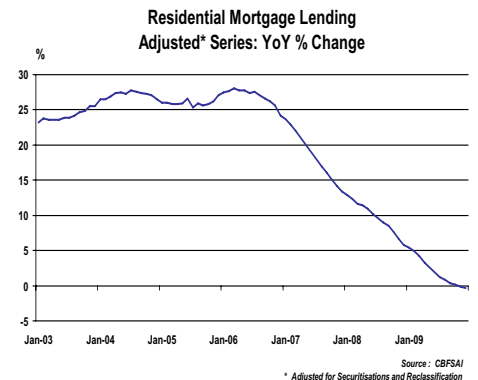
The latest permanent tsb/ESRI index shows an acceleration in the pace of house price declines in recent months with prices nationally falling by 3.1% in November and 3.6% in December, leaving the index 31.5% below its peak at end 2009. The index is thus increasingly, but still not fully, reflecting the view of many market commentators who put the decline in house prices at somewhere close to 45% from their peak. The permanent tsb/ESRI index is, however, 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.



	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Dec-09	Nov-09	Oct-09	Sep-09
<b>permanent tsb/ESRI House Price Inflation %</b>						<b>permanent tsb/ESRI %</b>			
National M/M	-3.6	-3.1	-1.8	-1.1	-1.5	Dublin Houses Y/Y	-20.6	-18.7	-19.1
National Y/Y	-18.5	-16.2	-13.9	-13.1	-13.0	Outside Dublin Y/Y	-15.3	-13.7	-11.5
<b>Average House Price €</b>						<b>Average House Price €</b>			
National	221,211	228,347	232,584	235,260	238,828	Dublin	291,425	292,631	300,466
						Outside Dublin	194,603	199,754	201,853

## Mortgage / Loan Growth

The level of mortgage lending outstanding fell in December for the ninth consecutive month. These declines have been the first such since the monthly series began in 1990. Meanwhile, the yoy growth rate declined again in December for the second time over this period, falling by 0.3% (November -0.1%). Reflecting the depressed level of housing market activity, stamp duty receipts (from all sources, not just housing) continue to decline. They were down by 40% in January, having declined by 44% in 2009 (and 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.



	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Q3 09	Q2 09	Q1 09	Q4 08
<b>Residential Mortgages (CBFSAI)</b>						<b>Irish Banking Federation</b>			
Adjusted Y/Y %	N/A	-0.3	-0.1	0.2	0.3	Total Drawdowns	12,189	12,686	10,997
						Y/Y %	-56.4	-63.9	-61.4
<b>Stamp Duty Receipts (Dept of Finance)</b>						First Time Buyer Y/Y %	-34.6	-47.9	-45.6
YoY %	-40.0	4.7	-8.3	-47.3	142.9	FTB Average Value €	210,210	206,517	221,734
Cum YTD YoY %	-40.0	-43.7	-47.8	-49.8	-49.9	Investor Y/Y %	-77.9	-79.4	-74.6
						Mover Purchaser Y/Y %	-54.9	-58.7	-57.7