Economist's Weekly Market View

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House price inflation easing as mortgage lending rules impact

There has been a marked slowdown in Irish house price inflation over the past year. The year-on-year growth rate has slowed now for nine straight months. The latest CSO data show that nationally, prices increased by 5.6% on a yearly basis in January. This compares to a 6.4% growth rate in December and is down from a high of 13.3% last April. Anecdotal evidence suggests that house price inflation continued to decelerate in the past two months.

Looking at the geographic breakdown provides useful insights on the slowdown. The Dublin market has experienced the most significant easing in house price inflation. The yearly growth rate was at just 1.9% in January, versus 4.2% in December and a recent high of 13% in April 2018. It is also the case that house price inflation has moderated outside Dublin, but not to the same extent as in the capital. In January, non-Dublin prices rose by 9.5% year-on-year. However, this is still down on its most recent high of 15.2% hit in June of last year.

It seems to be the case that the Central Bank mortgage lending rules are having a much greater impact in Dublin, where prices are highest, than elsewhere. The most recent figures on 'asking prices' from Daft.ie, show that in Dublin prices averaged €372,000 in 2018. This compares to a national asking price average of €253,000.

Overall then, it appears that the lending rules, especially the relatively restrictive loan-to-income multiple of 3.5 times, as well as affordability issues, are impacting the Dublin market, in particular. House prices in Dublin now seem likely to increase at just a very modest pace this year, if at all.

In this regard, new mortgage lending increased by 20% in 2018 to €8.7bn, from €7.3bn in 2017. However, the uptrend in mortgage approvals for house purchase slowed last year. The number has stagnated at just below 37,000 on a 12-month cumulative basis, although the latest data, which are for February, do show some signs of a renewed pick-up in approvals.

Meanwhile, new homebuilding continues on an improving trajectory. CSO data show that new housing completions increased by 25% in 2018 to over 18,000 units. This followed a 45% increase in 2017 to 14,400 units.

Forward looking indicators of house building activity suggest that the improvement in supply will continue. Housing starts, measured by commencement notices, rose by 28% last year, to 22,500 units. Meanwhile, housing registrations, which are regarded as an indicator of developer activity, were up 8% in 2018 versus 2017.

In another positive sign for future supply, planning permissions surged by 40% in 2018. In terms of more recent data, the housing component of the construction PMI hit a 10-month high in February and remained at a very strong level in March. However, new building activity still remains well below housing demand, which is estimated at close to 35,000 units per annum.

When one allows for the pent-up demand that has been building up in recent years, it seems likely that it will be well into the coming decade before there is sufficient new supply to meet all the demand for housing.

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