

Ireland

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IN A NUTSHELL

- Economic improvement continues supporting household formation.
- Housing supply is well below levels required.
- House sales and rental prices are rising fast due to the mismatch between supply and demand.
- Mortgage lending is growing strongly especially for first-time buyers (FTBs).
- The central bank's macro prudential rules restrict the share of lending at high LTVs and LTIs but the government's Help to Buy scheme enables FTBs to help finance new home purchases.

MACROECONOMIC OVERVIEW

Gross domestic product (GDP) grew in volume terms by 7.2% in 2017, according to the Central Statistics Office (CSO). Domestic demand has contributed most of the growth since 2014. Capital formation fell by 31% during 2017, driven by lower imports of intellectual property products (IPP). Personal consumption, which accounted for half of domestic demand, rose by 1.6%.

The unemployment rate continued to decline throughout 2017, falling to 6.4% in Q4 2017 on a seasonally adjusted basis. The seasonally adjusted volume of retail sales grew by 2.9% in 2017 but the fastest growing sectors were electrical goods, household equipment and furniture and lighting – all segments linked to household formation.

The EU Harmonised Index of Consumer Prices for Ireland rose by 0.3% in 2017 according to Eurostat, the fourth successive year in which the rate of change had ranged between 0.3% and -0.2%.

The government deficit was EUR 1.0 bn (-0.3% of GDP) in 2017, down from EUR 1.4 bn (-0.5% of GDP) in 2016. Gross general government debt reduced as a proportion of GDP from 76.9% to 68% over that period. Net general government debt fell to EUR 174 bn in 2017, the first year-on-year drop since 2006.

CBI LTV AND LTI LIMITS

LIMIT TYPE	PROPERTY TYPE	LIMITS	ALLOWANCE
LTV Limits	Primary dwelling homes	From 01/01/17	
		FTBs: 90%	5% of new lending to FTBs allowed above 90%
		Non-FTBs: 80%	20% of non-FTB new lending allowed above 80%
	BTLs/Investors	70%	10% of new lending above the BTL limit is allowed
LTI Limits	Primary dwelling homes	3.5 times income	20% of new lending above the LTI limit is allowed ; changing from 01/01/18 to: 20% new mortgage lending to FTBs and 10% of new mortgage lending to non-FTB PDH customers
Exemptions	From LTV limit: Borrowers in negative equity	From LTI limit: Borrowers for investment properties	From both limits: Switcher mortgages Restructuring of mortgages in arrears

Source: Central Bank of Ireland

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

The housing and mortgage markets continued to grow in 2017 as they benefited from improvements in consumer confidence, increased employment and pent-up demand for housing.

The shortage of supply of newly-built homes remained the key issue. The medium to long-term requirement for new building is estimated to be approximately 25,000 housing units per annum nationally and around 7,000 units in Dublin.

Data from the CSO show that 14,446 housing units were completed in 2017, compared to 9,915 in 2016 – a 29% increase. Housing commencements also showed a significant increase in 2017, according to the Department of Housing, Planning and Local Government. Some 17,572 commencements were recorded in 2017, an increase of around 33%.

CSO annual data shows that residential property prices rose for the fifth year in successive, climbing by 10.9% in 2016. While Dublin initially drove the improvement, the prices of properties outside the capital have risen faster in each of the past three years. Dublin prices rose by 9.5% in 2017 but prices outside the capital rose by 12.2%.

The number of residential property sales to household buyers grew by 7.4% in 2017 to almost 52,000, while the value of sales jumped by 18.3% to EUR 12.3 bn. Sales to non-household buyers soared by 34.8% in volume terms to 9,492 and value terms to EUR 2.2 bn.

Household purchases of residential property in Dublin rose by 10.5% year-on-year in volume terms to 14,163 and by 18.7% in value terms to more than EUR 6 bn. The fastest growing region was the Dublin commuter region, comprising the four counties surrounding Dublin (Louth, Meath, Kildare and Wicklow) rose by 19.5% year-on-year in volume terms and by 29.1% in value terms.

The mismatch between current demand, combined with pent-up demand, and the supply of new homes has put significant pressure on the availability and cost

of rented properties. Figures from the Residential Tenancies Board show that the standardised national average rent for new tenancies was EUR 1,054 per month in Q4 2017, up 6.4% on one year earlier. Legislation was introduced in 2016 aimed at slowing rent increases through rent pressure zones, where rents would only be allowed to rise by up to 4% annually.

MORTGAGE MARKETS

BPFI mortgage data show that there were 34,798 mortgage drawdowns valued at EUR 7.3 bn in 2017 compared to 29,498 drawdowns valued at EUR 5.7 bn in 2016 – representing an 18% increase in volume terms and 29% increase in value terms. First-time buyer (FTB) activity grew significantly faster with the value of mortgages drawn down up by 37.2% to almost EUR 3.6 bn. Re-mortgaging activity, where borrowers switch from one lender to another, rose by 34.3% to EUR 0.7 bn.

Mortgage approval activity also significantly increased in volume terms by 23% in 2017 bringing the total number of approvals to 43,074. In value terms, activity increased by around 34% in 2017 with the total value of approvals reaching EUR 9.3 bn in 2017.

Total residential and commercial mortgage debt outstanding, including securitisations, declining from about EUR 106.7 bn at the end of 2016 to about EUR 101.9 bn a year later, according to the Central Bank of Ireland (CBI). Some 46.3% of the value of personal mortgages outstanding was on tracker rates linked to the ECB base rate. The share of mortgages on fixed rates over one year increased from 10.4% to 14.2% between Q4 2016 and Q4 2017. More than half of new mortgages issued on fixed rates exceeded half of the total in 2017 – for the first time since the data series began in 2003.

The CBI amended its loan-to-value (LTV) and loan-to-income (LTI) limits for new mortgage lending in January 2017 by removing a sliding LTV limit based on the purchase price. A proportion of loans are allowed to exceed the limits. It announced in late 2017 that it would change the proportion of LTI allowances available to FTBs and second and subsequent buyers (SSBs). CBI research indicates that the average LTV increased in 2017 to 79.8% from 78.8% in 2016, while the average LTI rose to 3 from 2.9. For SSBs (mostly home movers), the average LTV rose to 67.6% from 66.4%.

The government Help to Buy (HTB) tax rebate scheme allows FTBs to use refunded deposit interest and income tax to help finance new home purchase, with claimants accessing up to EUR 20,000 towards the deposit for a new home. At the end of 2017, 5,392 HTB claims had been made, of which 4,824 were approved. The estimated total value of approved HTB claims was EUR 68.9 mn, of which EUR 16.7 mn were claims for activity in 2016.

In line with the improving economic environment and lender efforts to agree sustainable solutions for mortgage customers in difficulty, the number of mortgage accounts for Principal Dwelling Houses (PDH) in arrears of more than 90 days fell to 6.6% of all PDH mortgage accounts by the end of Q4 2017, down from 7.4% a year earlier. Some 14.9% of BTL mortgage accounts were in arrears of more than 90 days.

Mortgage lenders actively assist borrowers who experience repayment difficulties, which is demonstrated by the fact that 16.2% of all PDH accounts and 18.2% of all BTL accounts had an active restructure by the end of 2017. The number of repossessions remained low by international standards with 3,413 repossessions in 2017, or 0.4% of mortgage accounts at year end. About 76% were voluntarily surrendered or abandoned, while the remainder were repossessed on foot of a court order.

MORTGAGE FUNDING

Banks in Ireland rely mainly on retail funding sources (household and corporate deposits) for mortgage lending. Irish private sector deposits (mainly from households and non-financial corporations) represented 34% of bank liabilities in Ireland in 2017, up from 13% in 2008.

Some EUR 27.3 bn in mortgages outstanding were securitised at the end of 2017 according to the CBI.

Mortgage covered bonds outstanding in Ireland fell by 4% in 2017 to EUR 16.4 bn. Some EUR 3.3 bn in new mortgage covered bonds was issued during 2017.

	IRELAND 2016	IRELAND 2017	EU 28 2017
Real GDP growth (%) (1)	5.0	7.2	2.4
Unemployment Rate (LSF), annual average (%) (1)	8.4	6.7	7.6
HICP inflation (%) (1)	-0.2	0.3	1.7
Outstanding Residential Loans (mn EUR) (2)	86,195	84,045	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	24,354	23,409	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	91.0	85.5	73.8*
Gross residential lending, annual growth (%) (2)	16.7	28.8	3.5
Typical mortgage rate, annual average (%) (2)	3.3	3.2	2.4**
Owner occupation rate (%) (1)	69.8	n/a	66.4*
Nominal house price growth (%) (2)	7.3	10.9	6.0

* The aggregate EU figure is from 2016.

** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

IRELAND FACT TABLE

Entities which can issue mortgage loans:	Credit institutions (mainly banks) as well as non-bank retail credit firms/home reversion firms.
The market share of the mortgage issuances:	The market shares of different entity types are not published for competition reasons, but most new lending is believed to be published by credit institutions (mainly banks).
Proportion of outstanding mortgage loans of the mortgage issuances:	Non-bank lenders accounted for 7.2% of the number and 9.2% of the value residential mortgage outstanding (principal dwelling home and buy-to-let - BTL) at the end of 2017 according to the Central Bank of Ireland. Retail credit firms, which are non-deposit taking regulated lenders, held 5.1% of the number and 5.9% of the value of loans outstanding, while unregulated loan owners held 2.1% of the volume and 3.2% of the value of loans. Non-bank lenders had a relatively large share of the BTL market, with 11.1% of the volume and 13.3% of the value of mortgages outstanding.
Typical LTV ratio on residential mortgage loans:	The mean average LTV ratio for first-time buyer mortgages in Ireland was 79.1% in 2017 according to Central Bank of Ireland data, up from 78.8% a year earlier. The average LTV for subsequent private dwelling home (PDH) buyers was much lower at 67.6%, up from 66.4% in 2016. BTL LTVs rose by 1.7 percentage points to 57.6%. Note: These figures exclude the 7% of loans that were exempt from the Central Bank of Ireland's macroprudential regulations in 2017, including switcher loans and loans in negative equity.
Any distinction made between residential and non-residential loans:	Residential mortgage loans include loans for residential property purchase (both for owner-occupation and buy-to-let), as well as re-mortgage or switching between lenders and top-up or equity withdrawal. Non-residential mortgages include commercial mortgages, where finance is provided for the purchase of a business premises. Where legal entities manage a number of buy-to-let properties, these may be treated as commercial entities rather than residential buy-to-let but this categorisation is at the discretion of the lender.
Most common mortgage product(s):	The standard variable rate mortgage for home purchase, based on the French amortisation profile, is the most popular product among new customers, although a growing number of customers are choosing fixed-rate mortgages. More than half of existing mortgages have tracker rates mainly linked to the ECB base rate.
Typical maturity of a mortgage:	For first-time buyers the median term for a mortgage is about 30 years. For second-time home buyers it is about 25 years.
Most common way to fund mortgage lending:	Retail deposits are the main source of funding for mortgage lending, but covered bonds and residential mortgage-backed securities are also important.
Level of costs associated with a house purchase:	Legal fees related to the purchase of the property are estimated at EUR 1,000-2,000. Buyer surveyor fees range from EUR 250 to EUR 1,000. Estate agent fees vary between 1% and 2% of the purchase price. VAT is charged on the sale of new residential properties. Stamp duty is charged on the VAT-exclusive price and is levied at 1% on the first EUR 1 mn (1% of the total if the VAT-exclusive price is up to EUR 1 mn) and 2% any amounts above EUR 1 mn.
The level (if any) of government subsidies for house purchases:	Not available