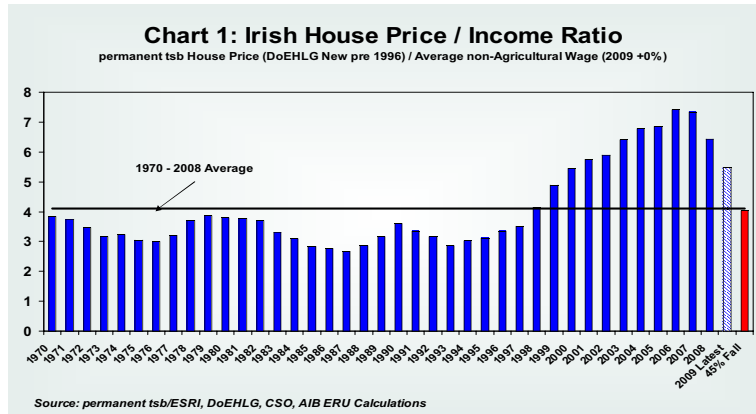


Housing Market Bulletin - November 2009

Dropping Back to Long Term Averages

Ratings agency Fitch recently published a report in which it said that it expects a 45% fall in Irish house prices from their peak. This is based on a return of the ratio of house prices to incomes back to its long term average. Chart 1 illustrates one measure of this ratio.

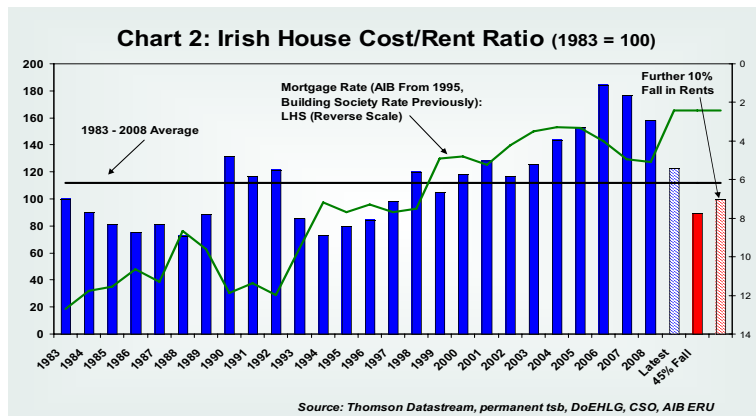


However, research by the OECD¹ questions the validity of the price/income model -

noting that "house prices do not appear to be linked to income by a stable long-run relationship, possibly because the cost of carrying a mortgage has varied over time". Indeed, the OECD paper links equilibrium in the housing market to the relationship between the annual cost of owning a house and that of renting.

Mortgage rates in Ireland have fallen to exceptionally low levels. As a result, a 45% fall in Irish house prices from their peak would see such a ratio of the cost of mortgage debt servicing to rental cost fall well below its long-run average (Chart 2).

Furthermore, this would still be the case even if rents should fall by another 10%. (This calculation excludes the



recurring holding costs associated with owing a property plus any expected capital gains/losses).

Undoubtedly, Irish mortgage rates are at exceptionally low levels. However, we expect that the ECB will leave official rates on hold until well into 2010 given still weak economic conditions in the eurozone and very subdued inflation (See our latest *ECB Watch*). It is also very important here to note that in Ireland there has not only been a cyclical fall in mortgage rates but also a structural shift to a lower interest rate environment due to Ireland's membership of the single currency.

The latest permanent tsb/ESRI index shows house prices nationally down by some 25% from their peak. However, most commentators and market experts believe that the price fall to date has been far greater, somewhere closer to 40%, and even greater in some instances. (This wide difference is partly accounted for by the fact that the lagging nature of the permanent tsb/ESRI index. It may also be suffering from low transactional activity.) Thus, prices in many instances could be at or approaching the 45% decline from their peak that restores both price/income and cost/rent ratios back to or below their long term averages. That being said, weak economic conditions, depressed consumer confidence and concerns about job security could well continue weighing on the Irish housing market for a while yet.

¹ Girouard, N. et al. (2006), "Recent House Price Developments: The Role of Fundamentals", OECD Economics Department Working Papers, No. 475, OECD

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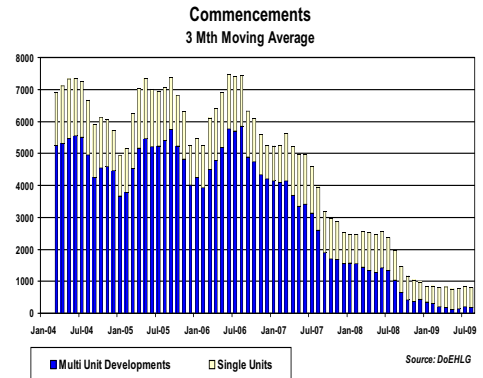
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Completions/Registrations/Commencements

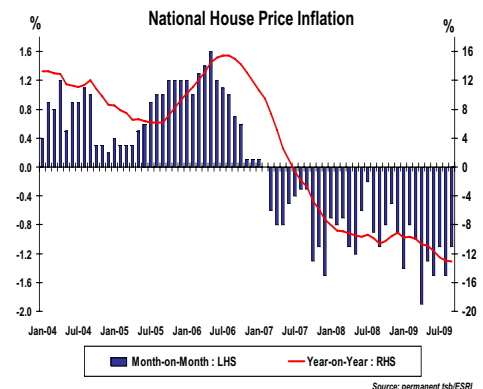
20,657 units were completed in the first nine months of 2009 (-48% yoy) and it looks as if there could be around 26,000 units completed this year (down from 51,724 and 78,027 in 2008 and 2007, respectively). Lead indicators, meanwhile, continue to suggest that completions could eventually fall to about 10,000 units. Commencements, which exclude local authority builds, are currently running at a seasonally adjusted rate of about 9,000 per annum, largely reflecting single-units which now account for some 75% of all commencements. Registrations (for largely multi-unit developments) continue to be very weak, running at a seasonally adjusted rate of only around 3,000 per annum.



	Sep-09	Aug-09	Jul-09	Jun-09	May-09		Sep-09	Aug-09	Jul-09	Jun-09
Registrations (HomeBond & Premier)						Completions (DoEHLG)				
Year to Date Y/Y	-73.4	-73.1	-74.9	-75.9	-77.4	Month	2,096	1,628	2,354	2,117
Cumulative 12 Mth Total	4,562	5,407	5,691	6,005	6,733	Year to Date	20,657	18,461	16,833	14,479
Cum 12 Mth Tot Y/Y	-72.7	-70.2	-71.0	-73.4	-72.6	Y/Y %	-48.3	-48.3	-47.6	-47.8
Commencements (DoEHLG)						Cum 12 Mth Total	32,395	34,471	36,448	38,467
Year to Date Y/Y	N/A	-65.9	-66.7	-68.5	-69.2	Y/Y %	-47.4	-46.0	-44.9	-42.4
Cumulative 12 Mth Total	N/A	10,479	11,204	12,278	13,916					

House Prices

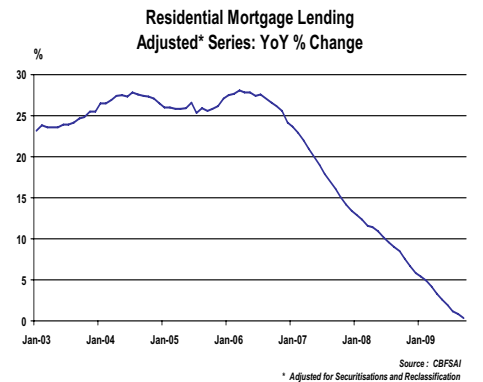
The debate about the true extent of Irish house price declines continues. Most market commentators put the fall in Irish house prices to date at somewhere around 40% from the peak, even more in some instances. The Irish Home Builders Association, for example, says new home prices are down by around 40%. However, the closely watched permanent tsb/ESRI index shows that, while house prices nationally fell by a further 1.1% in September (-13.1% yoy), this leaves them only some 25% below their peak levels. This, though, is a lagging index and may also be being impacted by the low transactional volumes that have meant that most of the sub-indices are no longer available.



	Sep-09	Aug-09	Jul-09	Jun-09	May-09		Sep-09	Aug-09	Jul-09	Jun-09
permanent tsb/ESRI House Price Inflation %						permanent tsb/ESRI %				
National M/M	-1.1	-1.5	-1.1	-1.5	-1.3	Dublin Houses Y/Y	-19.1	-18.0	-17.1	-15.8
National Y/Y	-13.1	-13.0	-12.5	-11.7	-10.9	Outside Dublin Y/Y	-11.8	-12.1	-11.1	-10.4
Average House Price €						Average House Price €				
National	235,260	238,828	241,504	245,295	248,640	Dublin	306,795	312,822	319,754	323,973
						Outside Dublin	204,524	209,485	211,965	213,491

Mortgage / Loan Growth

The level of mortgage lending outstanding fell by €14m in September, the sixth consecutive monthly decline. These declines have been the first such since the monthly series began in 1990. As a result, the yoy growth rate decelerated further to an historic low of just 0.3% (August +0.8%). Reflecting the depressed level of housing market activity, stamp duty receipts (from all sources, not just housing) were down by 50% in the year to October, having declined by 48% in 2008. Meantime, Irish Banking Federation data show a 64% yoy fall in the number of mortgage drawdowns in Q2 2009 (house purchase: -50% yoy; FTB: -48%; investors: -79%; mover purchaser: -59%).



	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09		Q2 09	Q1 09	Q4 08	Q3 08
Residential Mortgages (CBFSAI)						Irish Banking Federation				
Adjusted Y/Y %	N/A	0.3	0.8	1.2	1.9	Total Drawdowns	12,686	10,997	18,706	27,937
						Y/Y %	-63.9	-61.4	-50.4	-31.8
Stamp Duty Receipts (Dept of Finance)						First Time Buyer Y/Y %	-47.9	-45.6	-42.2	-29.0
YoY %	-47.3	142.9	-72.6	-63.5	-67.9	FTB Average Value €	206,517	221,734	226,041	238,064
Cum YTD YoY %	-49.8	-49.9	-64.9	-64.1	-64.2	Investor Y/Y %	-79.4	-74.6	-59.0	-41.9
						Mover Purchaser Y/Y %	-58.7	-57.7	-54.1	-36.3