Residential Property Price Survey

Q2 2019

2019Q2 Residential Property Price Survey

The CBI/SCSI Residential Property Price Survey is a quarterly sentiment survey of SCSI members, consisting mainly of estate agents, auctioneers and surveyors.

While the principal focus is on participants' house price expectations, the survey also canvasses opinion on the factors underlying these views and on their assessment regarding the level of transactional activity in the market. The survey is a snapshot of respondents' expectations at a particular point in time and so can provide only limited information about possible future developments with respect to property prices. The range of views received, highlights both the uncertainty surrounding future property price movements and the importance of regional specific issues. Such information adds to existing data and the overall analysis of the Irish property market.

Key Highlights

- The share of survey participants expecting residential property prices to increase over a medium-to-long term time horizon has fallen notably, according to the latest survey. The segment of respondents anticipating price declines has grown, particularly amongst those operating in the Dublin market.
- In general, median expected house price changes remain positive, but are lower across all time horizons.
- As per recent surveys, the performance of the Irish economy, the availability of bank credit and the delivery of housing supply are viewed as the key issues influencing respondent's expectations with respect to house price developments throughout the country. In addition, Dublin respondents listed the Central Bank's mortgage rules as an important factor in their considerations.
- According to survey participants, sales activity contracted across all regions in 2019Q2. Sales enquires and completions were reported to be particularly sluggish.
- Rent legislation is cited as a major reason behind recent sales of BTL properties. A reduction in cases of negative equity, due to recent house price inflation, is listed as another contributory factor.

Section A: Expected Direction of Price Change

The share of survey participants expecting national residential property prices to increase over a medium-to-long term time horizon (+1 year to +3 years) has fallen notably, according to the 2019Q2 CBI/SCSI Residential Property Price Survey. The latest results indicate that 46 per cent of respondents believe that Irish residential property prices will rise over the coming 12 months (Chart 1), down from 63 per cent and 78 per cent in 2019Q1 and 2018Q2, respectively. Similarly, 55 per cent of participants expect house prices to grow over a 3-year period (Chart 2), compared to values of 76 per cent and 82 per cent, which were recorded in the surveys carried out last quarter and one year ago, respectively. In contrast, the percentage of individuals anticipating lower national house prices in one year's time has gone up to 26 per cent, from 14 per cent at the time of the 2019Q1 survey (Chart 1). [1]

Regional analysis reveals that one third of respondents believe Dublin house prices will be higher by mid-2020Q2, with a larger cohort (38 per cent) expecting a decline in prices over the same period (Chart 1). [2] Meanwhile, almost half of those surveyed foresee higher house prices in Dublin in 3-years' time[3] (Chart 2). Elsewhere, more than half of Leinster-based respondents expect house prices to be unchanged a year from now (Chart 1), while participants in Munster and Ulster are most bullish when it comes to predicting higher house prices in their areas between now and 2022Q2 (Chart 2).

Chart 1: Expected movement of residential property prices over a 1 Year time horizon: 2019Q2
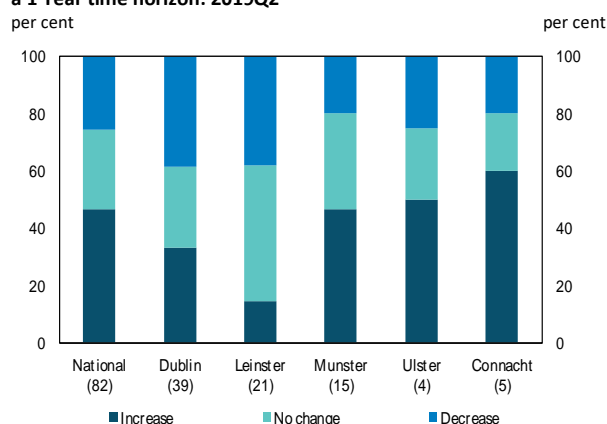
Note: Number of observations for each region included in brackets.

Chart 2: Expected movement of residential property prices over a 3 Year time horizon: 2019Q2
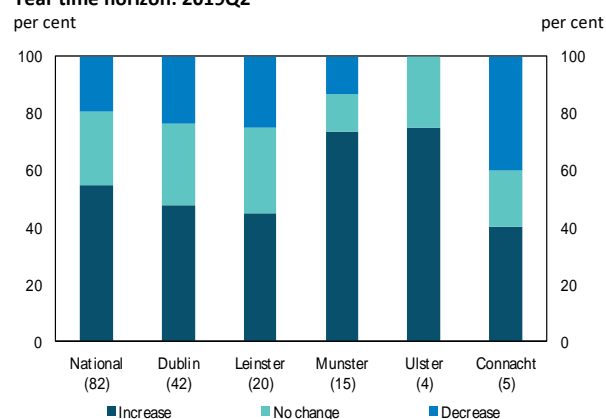
Note: Number of observations for each region included in brackets

A time series analysis of survey participants' "net increase rates" (i.e. the proportion of respondents who anticipate a house price increase minus the proportion of those who expect a house price decrease, over various time horizons) is presented in Charts 3 and 4, on both a national and Dublin basis. The most recent findings show that the downward trend evident in recent surveys has continued across all time horizons. The one-year ahead national series has fallen from 49 per cent in 2019Q1, to 21 per cent in 2019Q2 (Chart 3), with the equivalent

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[1] Over the 3-year horizon, 20 per cent of survey respondents anticipate a fall in house prices compared to 11 per cent in 2019Q1.
[2] According to the 2019Q1 and 2018Q2 surveys, 53 per cent and 56 per cent of respondents respectively, believed Dublin house prices would be higher one year ahead, while about a quarter of participants in both surveys were of the opinion that they would be lower.
[3] The equivalent findings from the 2019Q1 and 2018Q2 surveys were a little over three quarters and two thirds of respondents respectively.

Dublin figure dropping from 29 per cent to minus 5 per cent (Chart 4). Over the 3-year horizon, the net increase figure is down to 35 per cent nationally, from 65 per cent in 2019Q1 (Chart 3). The 3-year ahead Dublin series experienced a fall of 33 percentage points, between the 2019Q1 and Q2, to 24 per cent (Chart 4).

Chart 3: Net share of respondents expecting property prices to rise over selected time horizons (National): 2015Q1 to 2019Q2
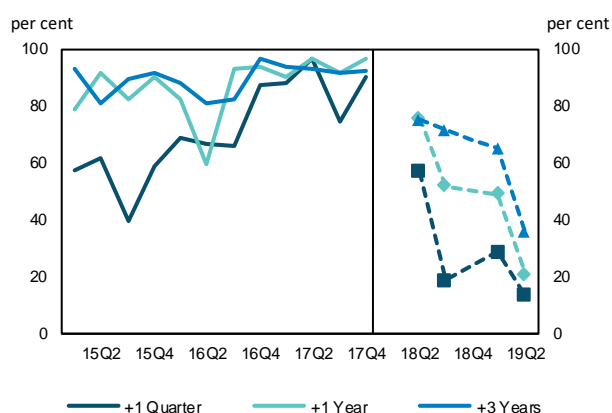
Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4, (during the period represented by the broken lines). Number of observations vary from survey to survey. Net balance data can range from -100% to +100%. A score of 0% indicates that the number of respondents expecting an increase in house prices is equal to the number expecting a decrease. The +1 year and +3 years 2018Q2 data points are the same value; therefore, one-marker point covers the other in the chart.

Chart 4: Net share of respondents expecting property prices to rise over selected time horizons (Dublin): 2015Q1 to 2019Q2
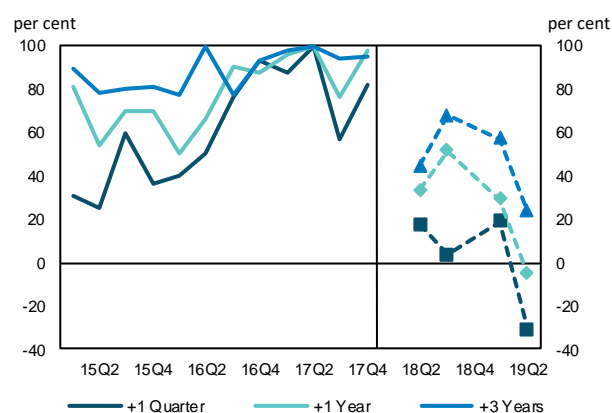
Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4, (during the period represented by the broken lines). Number of observations vary from survey to survey. Net balance data can range from -100% to +100%. A score of 0% indicates that the number of respondents expecting an increase in house prices is equal to the number expecting a decrease.

Section B: Expected Direction of Price Change

The degree to which residential property prices are expected to grow over the coming quarters and years has deceased since the last CBI/SCSI survey (Chart 5). Nationally, the median anticipated change over a one-year horizon has decreased from 4 per cent (2019Q1) to 3 per cent (2019Q2). Developments in the Dublin housing market are expected to unfold in a similar fashion, where 2 per cent is the median change forecast over the next 12 months, down from 4 per cent in 2019Q1 (Chart 6).

The median expectation is that in 3 years' time national house prices will be 5 per cent higher than current levels, a drop of one percentage point from the findings of the 2019Q1 survey. Dublin based respondents are less bullish about the extent of future house price inflation, where the anticipated median 3-year house price change has fallen from 6 per cent in 2019Q1 to 3 per cent at the time of the latest survey.

Charts 5 and 6 also highlight the degree to which the latest values of median expected residential property price changes are below the levels recorded in previous years. For instance, the median expectation according to surveys carried out in 2017 was that Irish house prices would grow by 8 per cent over the course of one year, and be 15 per cent higher after 3 years (Chart 5). At 10 per cent and 15 per cent, respectively, the equivalent figures for the Dublin market at the time were also much higher than those contained in the 2019Q2 edition (Chart 6).

The much smaller gap between expected median house price growth over the 1-year and 3-year horizons in the latest survey[4] also points to a belief amongst respondents, that house price inflation may be relatively subdued in the second and third year of their projections. In contrast to the opinions of respondents in 2017, who forecast cumulative growth of 7 per cent nationally and 5 per cent in Dublin, over the second and third years of a 3-year time horizon.

The findings of the 2019Q2 CBI/SCSI Survey show that expectations of future national house price growth, correspond to the current level of actual house price growth as observed by the CSO's Residential Property Price Index (RPPI) and other sources of market intelligence. [5] Our results also tie in with the latest DAFT.ie[6] 2019Q2 data showing a 2.6 per cent change in house prices nationally over the next 12 months is expected by those who took part in their poll.

Chart 5: Median expected change in National residential property prices over a 1 Quarter, 1 Year, and 3 Year time horizon
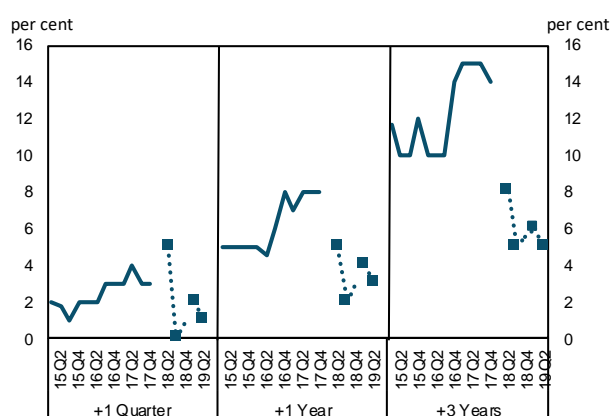
Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4, (during the period represented by the broken lines). Number of observations vary from survey to survey.

Chart 6: Median expected change in Dublin residential property prices over a 1 Quarter, 1 Year, and 3 Year time horizon
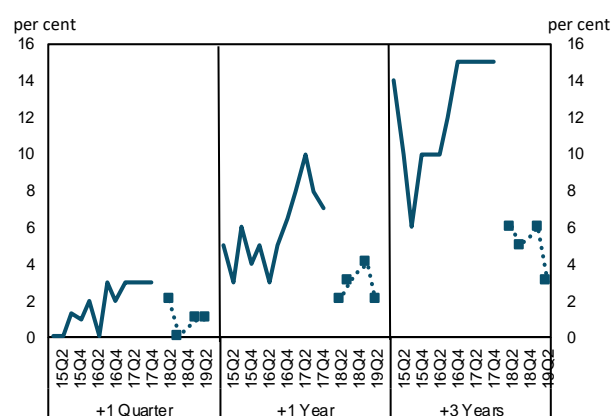
Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4, (during the period represented by the broken lines). Number of observations vary from survey to survey.

Section C: Factors Underlying House Price Expectations

Respondents to the CBI/SCSI survey are invited to select the factors they consider to have the most impact on their house price expectations. At a national level, the performance of the Irish economy and the availability of bank credit were cited as the main influencers on property price developments. In 2019Q2, approximately 50 respondents listed these two factors among the "top 3" issues influencing their views of how house prices might develop (Chart 7). In addition, housing supply, via the construction of new units (39 "top 3" observations, 19 of which were as the no. 1 market influence) or through accessibility to second hand units (31 "top 3" citations) continues to be a pressing issue. The Central Bank's macroprudential mortgage measures were another factor to get over 30 mentions. The 'Other' category, consisting of numerous other issues listed by respondents, the

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[4] Nationally the expected median house price change goes from 3 per cent in one year, to 5 per cent after three years. In Dublin, the median house price inflation forecast goes from 2 per cent after one year, to 3 per cent after 36 months.

[5] The latest CSO data show that national residential property prices grew by 2.8 per cent annually, in May 2019. Elsewhere, MyHome.ie reported that nationally, the average national asking price for houses grew 2.4 per cent year-on-year in 2019Q2.

[6] Each quarter, DAFT.ie surveys over 1000 property market participants, asking them about their opinions on the market.

most prominent being, interest rate levels, fiscal policy and the ongoing uncertainty associated with the current geopolitical backdrop, also received a significant number of selections.

Chart 8 offers an insight into the regional attitudes of respondents. Dublin respondents viewed the construction of new units and the Central Bank's macroprudential mortgage rules as the joint-most important factor (21 per cent for each), when influencing their expectations of house price developments, a reflection of concerns surrounding housing supply and affordability. In contrast, respondents outside of Dublin perceived the performance of the Irish economy as the most important factor (22 per cent). Far fewer individuals outside Dublin chose the Central Bank's mortgage rules as a top factor when influencing price expectation (8 per cent). This is not too surprising, as average house prices tends to be higher in Dublin compared to areas outside of the capital. As a result, restrictions imposed by the mortgage rules are likely to come into effect quicker in Dublin than elsewhere.

Chart 7: Top 3 factors influencing expectations of house price developments: 2019Q2
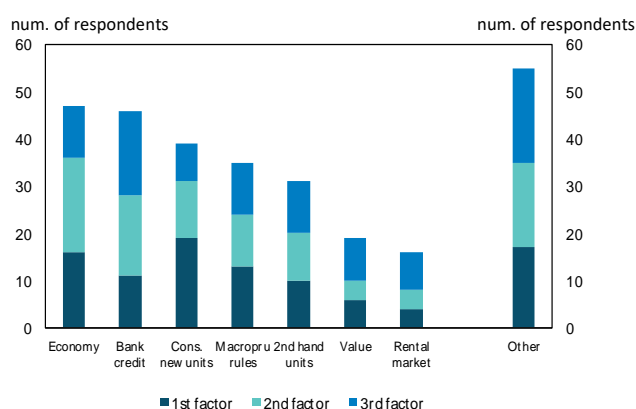
Note: Chart based on 288 observations from 97 respondents.

Chart 8: Number 1 ranked factor influencing regional expectations of house price developments: 2019Q2

Note: "Other" includes; changes in demographics/population, foreign exchange rate movements, level of interest rates, level of taxation/fiscal policy, media coverage and perception of value.

Section D: Activity Level vs. Previous Quarter

In order to communicate the level of transactional activity across the housing market, a sales activity index (SAI) is constructed, based on respondent's perception of sales activity relative to the previous quarter.[7] This is a composite index, which applies various weightings on the typical stage of the sales process, i.e. instructions, enquiries, agreements and completions.[8] Respondents are asked to state their level of activity, in comparison to the previous quarter, in each of the aforementioned categories on a scale ranging from 1 = "far less activity" to 5 = "far more activity".

Composite indices of all four sales processes on a national, Dublin and non-Dublin basis are displayed in Chart 9. Overall, residential property sales activity continued to contract on a national basis with a value of 41.4 recorded in 2019Q2, down from the 44.5 in 2019Q1. Those operating in regions outside of Dublin also reported a contraction in sales activity during the quarter, as the index value decreased from 43.5 per cent in 2019Q1 to

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[7] A value above 50 signifies an expansion of activity.
[8] Weightings which sum to 100 are assigned as such: Instructions – 15, Enquiries – 20, Agreed – 30, Completions - 35.

42.5 per cent. Following an increase in 2019Q1, the value of Dublin's composite sales activity index decreased once more to 40, in 2019Q2, the lowest level of the three composite indices. In general, the decrease in the value of the indices appears to be driven by a weakness of activity at the enquiry and completion stages of the sale process.

Chart 10 illustrates the sub index for sale completions, the most important category in terms of residential property transactions. Despite its relative weakness in comparison to the sales instructions and sales agreed categories[9], both the national and non-Dublin sales completion index actually rose above 40 in 2019Q2. In contrast, the value of the Dublin index fell from 45.7 in 2019Q1, to just under 40, its lowest value since the end of 2015. The more sluggish levels of sales activity observed in Dublin could be a function of the reduced flow of units coming to market or the issues around affordability alluded to in the section C.

Chart 9: Q-on-Q Composite index of residential market sales activity (*including enquiries, instructions, agreements and completions*)
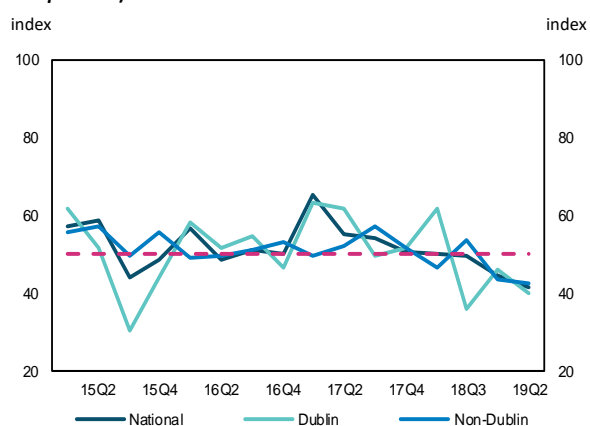
Note: Values of 50 signify no change in sales activity on the previous quarter. Values above 50 signify an expansion of activity, while those below 50 signify a contraction. Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.

Chart 10: Q-on-Q Index of residential market sales activity: sales completed only[10]
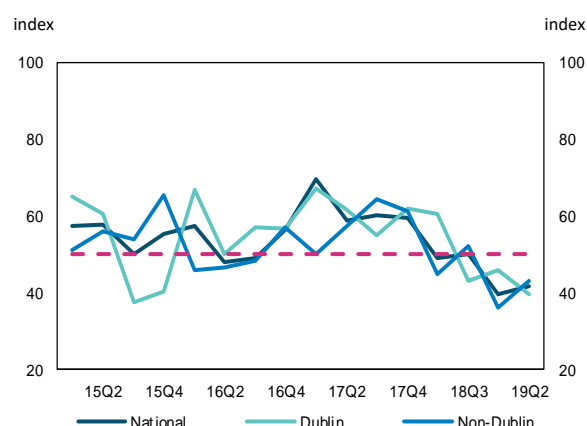
Note: Values of 50 signify no change in sales activity on the previous quarter. Values above 50 signify an expansion of activity, while those below 50 signify a contraction. Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey

Section E: Factors Influencing BTL Properties for Sale

CSO data for June 2019 indicated that national residential rents continue to grow steadily at over 5 per cent per annum, placing current rent levels approximately 30 per cent above their previous 2008 peak. Meanwhile, according to the 2019Q2 DAFT.ie rent report, the availability of units for rent remains at historically low levels nationally. The sale of Buy-to-Let (BTL) properties has been cited as a factor in the reduction of available units on the market. The results of survey questions relating to the sale of BTL properties in 2019Q2 and throughout the period 2017Q1 – 2019Q2, (during which, these data have been collected) are displayed in Charts 11 and 12.

Respondents consider the current rental market legislation as the key motivating factor behind the number of BTL properties coming onto the market at both a national and Dublin level. Since the 2019Q1 survey, the number

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[9] Nationally the sales instruction and sales agreed indices recorded values of 45.6 and 48.6 respectively in 2019Q2. The equivalent non-Dublin indices posted values of 46 and 48 respectively.

[10] Sales completed is one of four categories of activity for which respondents are asked to report their level of activity relative to the previous quarter.

of respondents citing this reason has increased from 44 per cent to 48 per cent on a national level. In Dublin, the latest figure is even higher at 57 per cent, up from 48 per cent last time. The ongoing recovery from the severe occurrence of negative equity witnessed during the housing bust is also identified as an important factor for approximately one fifth of both national and Dublin respondents. Low rental returns are listed as the next most common factor cited by 16 per cent of national respondents and 12 per cent of those from the Dublin region. Finally, pressure to sell, was provided as the motivating factor behind roughly 10 per cent BTL sales.

Chart 11: Primary factor influencing the number of BTL properties coming onto the market (National and Dublin): 2019Q2

per cent   per cent
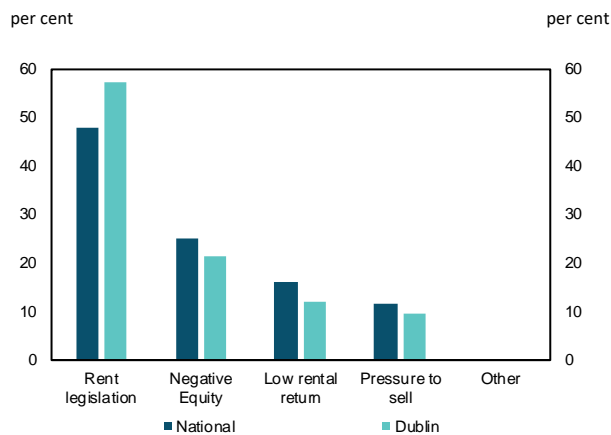
Note: Chart based on 267 observations for the national level and 127 observations for the Dublin level.

Chart 12: Primary factor influencing the number of BTL properties coming onto the market (National and Dublin): 2017Q1 - 2019Q2
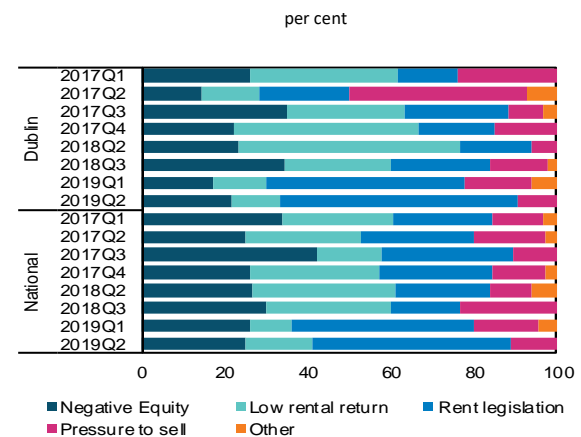
per cent

Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of responses varies across surveys.
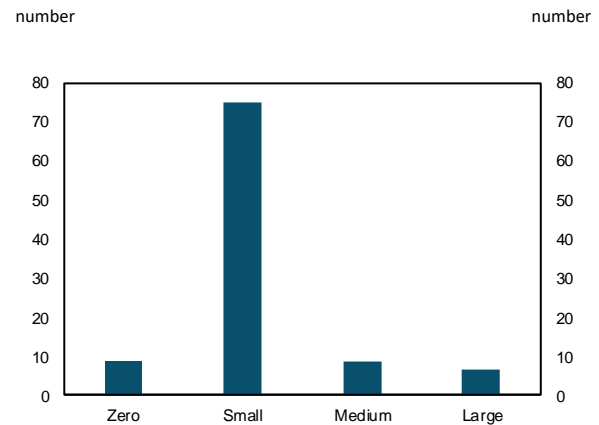
Appendix

## Chart A1: Regional distribution of respondents

per cent   per cent
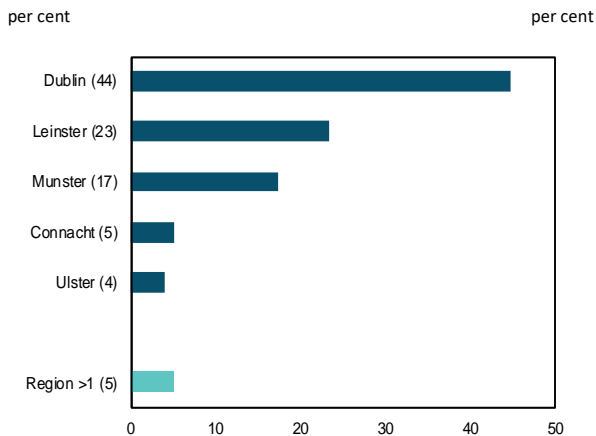
Note: Chart based on 98 full or partial responses.

Chart A2: Number of residential units sold in the 2019Q2

number   number

Note: Chart based on 91 responses, who gave details of their level of sales.

## Chart A3: Extent of expected 1 Year change in residential property prices: National and Dublin

per cent   per cent
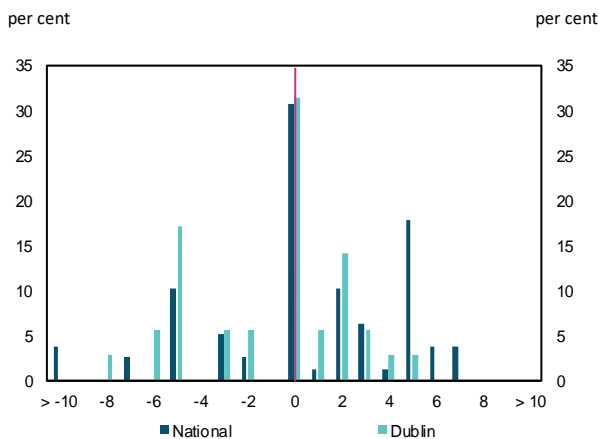
Note: Chart based on 78 and 35 responses to the question on national and Dublin expectations respectively.

Chart A4: Extent of expected 3 Year change in residential property prices: National and Dublin

per cent   per cent
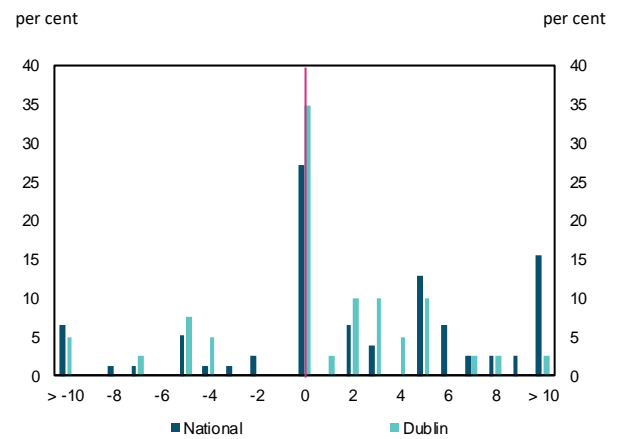

Note: Note: Chart based on 77 and 40 responses to the question on national and Dublin expectations respectively.

Chart A5: Expected movement of residential property prices (National): 2016Q2 to 2019Q2
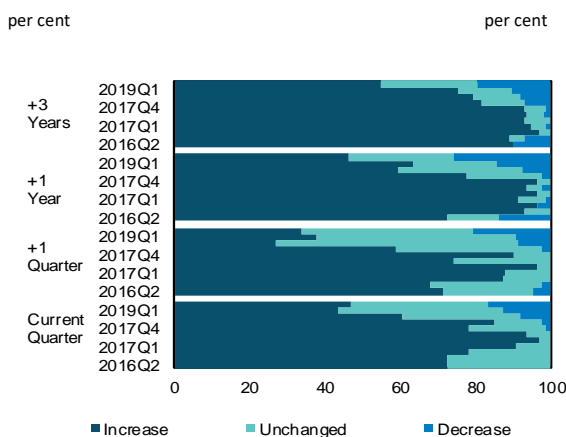
per cent   per cent

Note: Chart provides details of the results from past 11 surveys (2016Q2 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.

Chart A6: Expected movement of residential property prices (Dublin): 2016Q2 to 2019Q2
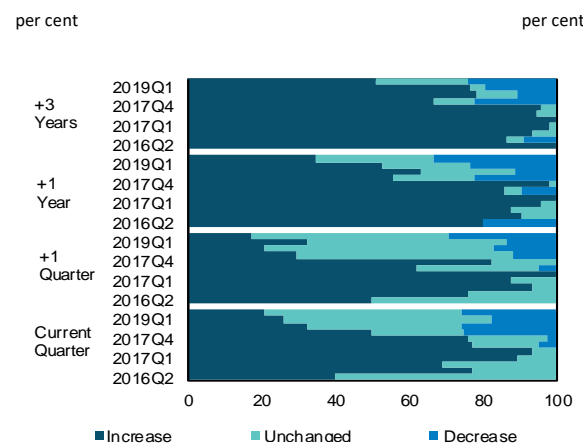
per cent   per cent
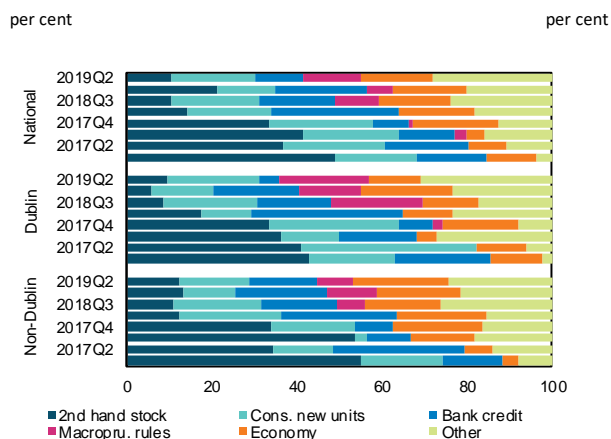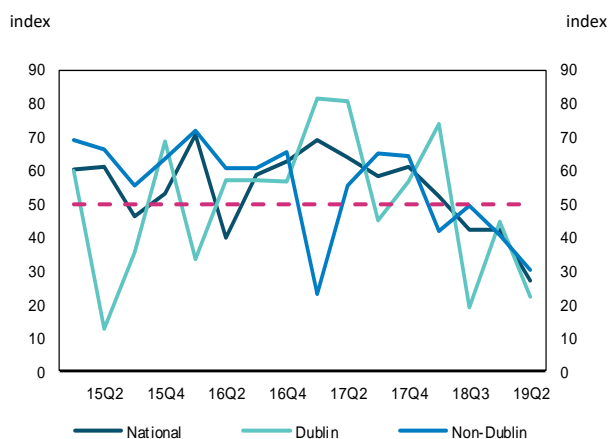

Note: Chart provides details of the results from past 11 surveys (2016Q2 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.

Chart A7: Primary factor influencing expectations of house price developments (National, Dublin and Non-Dublin): 2017Q1 – 2019Q2

per cent   per cent

- 2nd hand stock
- Macropru. rules
- Cons. new units
- Economy
- Bank credit
- Other

Note: Chart provides details of the results from the past 8 surveys (2017Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of responses varies across surveys.

Chart A9: Q-on-Q index of residential market sales activity: Sales enquiries

index   index

— National   — Dublin   — Non-Dublin

Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.

Chart A8: Q-on-Q index of residential market sales activity: Sale instructions
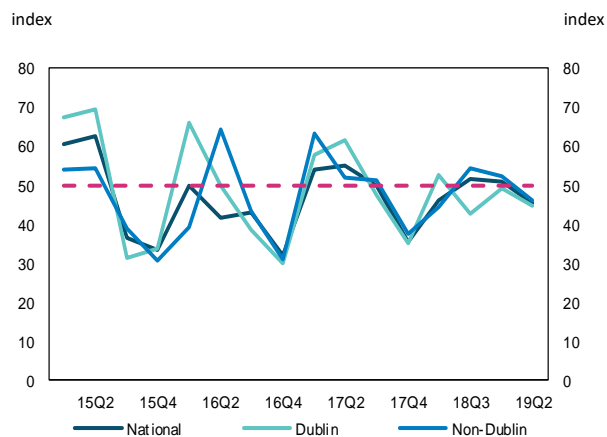
index   index
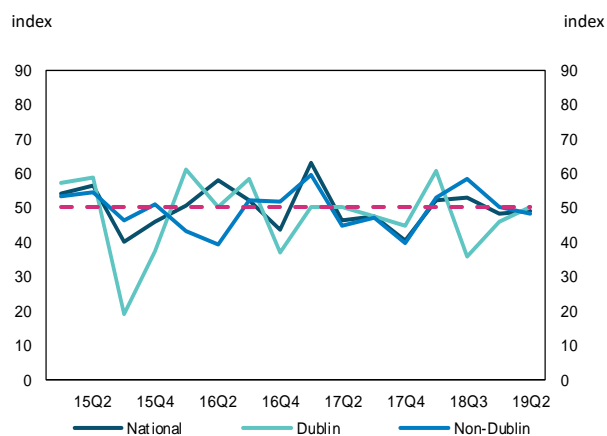

— National   — Dublin   — Non-Dublin

Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.

Chart A10: Q-on-Q index of residential market sales activity: Sales agreed

index   index

— National   — Dublin   — Non-Dublin

Note: Chart provides details of the results from the past 16 surveys (2015Q1 to 2019Q2). Due to unforeseen circumstances, no survey took place in 2018Q1 and 2018Q4. Number of observations vary from survey to survey.
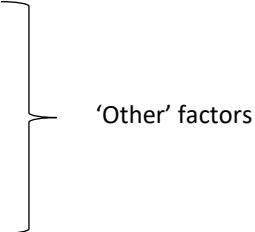
Methodology

Response Rate

The 2019Q2 Central Bank of Ireland/Society of Chartered Surveyors Ireland Survey of Property Professionals was conducted in July 2019. The survey received 98 full or partial responses.

Questions

1. Please select the county(ies) in which your firm carries out its main business activity.

2.
    How do you perceive/anticipate national residential property prices to have changed/change in:
    a) The previous quarter
    b) The forthcoming quarter
    c) One year ahead
    d) Three years ahead

    (Increase/ No Change/ Decrease; Range)

3. How do you perceive/anticipate residential property prices in your region to have changed/change in:
    a) The previous quarter
    b) The forthcoming quarter
    c) One year ahead
    d) Three years ahead

    (Increase/ No Change/ Decrease; Range)

4. What are the three main factors influencing your expectations of house price developments?
    Availability of second hand stock,
    Availability of bank credit,
    Central Bank macroprudential rules,
    Construction of new residential units,
    Performance of the economy,
    Rental market developments,
    Perception of value,
    Level of interest rates,
    Changes in demographics/population,
    Foreign exchange rate movements,   'Other' factors
    Level of taxation / fiscal policy,
    Media coverage,
    Other (Open-ended response).

5. Approximately, how many residential properties has your firm sold in 2019Q2?
    Range

6. Compared to the previous quarter, how would you describe the following aspects of your firm's residential property related sales activity in the current quarter?
    Instructions, Enquiries, Agreements, Completions; Range

7. What are the three main factors why residential investment units are coming onto the market?
    Landlords coming out of negative equity,
    Net rental returns too low,
    Rent legislation is too complex and restrictive,
    Not enough rental demand,
    Pressure from lending institutions to liquidate assets