



L&RS Note

COVID-19 and the Irish Property Market

Sinéad Ashe, Senior Parliamentary Researcher, Economics

Abstract

This *L&RS Note* examines the possible impacts of COVID-19 on the Irish residential property market. First, it considers key features of the property market prior to the onset of the pandemic and concludes that it was in a relatively stable state. Following on from this, the note discusses the likely impacts of the pandemic on Irish property prices. To this end, it summarises key findings from the recent Daft.ie report and examines independent forecasts published in recent weeks. Finally, it summarises how property markets have been impacted in the UK and Europe as a result of the pandemic.

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Introduction

The start of 2020 saw a number of positives for the Irish residential property market: the supply of new housing was increasing and the Irish economy in general was performing well, with almost full employment. [CSO](#) data from March 2020 indicated a continued stabilisation of the Irish property market. However, this positive outlook was immediately cast into doubt by the arrival of COVID-19. In this note, we examine the possible impacts of the pandemic on the Irish residential property market.

Was the Irish property market vulnerable prior to COVID-19?

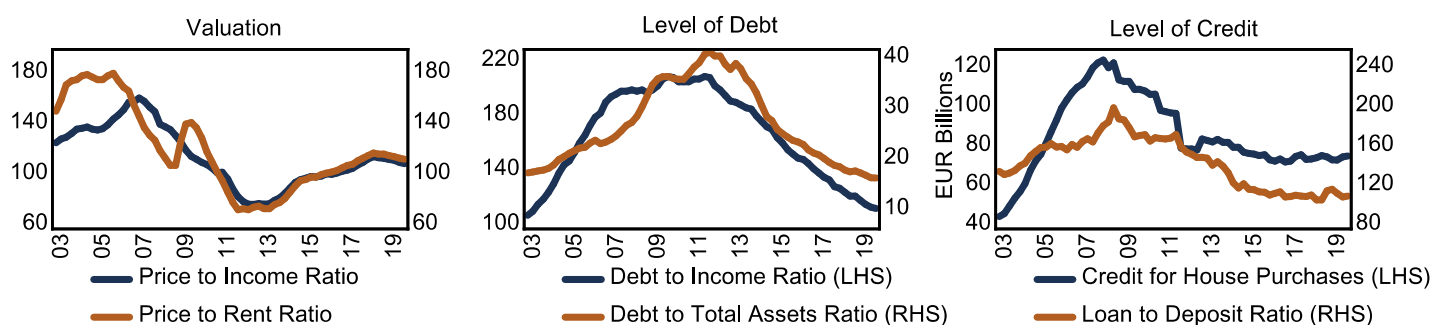
We begin by looking at the key properties of the housing market prior to the pandemic (up to the end of 2019). We do this by examining key measures of vulnerability as outlined by staff at the [European Central Bank](#) (2017) after the global financial crisis in 2008/09.

This analysis uses a number of different measures grouped under three broad indicators relating to housing market vulnerability:

1. Valuation (price-to-income and price-to-rent ratios)
2. Level of debt (debt-to-disposable income ratio and debt-to-total assets ratio)
3. Level of credit (credit for house purchases and loan-to-deposit ratio)

These indicators have been highlighted as important metrics for monitoring vulnerability in the property market. Each of these indicators are presented in Figure 1 below. In the run up to 2007 and the immediate proceeding years, we see evidence of elevated levels of vulnerability across these three indicators.

Figure 1: Irish Property Market Vulnerability Indicators (2003 – 2019)



Source: [Central Bank of Ireland](#), [ECB Statistical Data Warehouse](#), [OECD Analytical House Price Indicators](#)

By the end of 2019, we see a more stable picture emerging in terms of households' borrowing characteristics: both the debt-to-income ratio and the debt-to-total assets ratio are registering at much lower levels. On the other hand, there are signs of some medium-level vulnerability in terms of valuation pressures (price-to-income and price-to-rent ratios have been rising over the last

number of years). However, the analysis would suggest that overall the Irish property market was in a relatively stable state entering the COVID-19 pandemic.

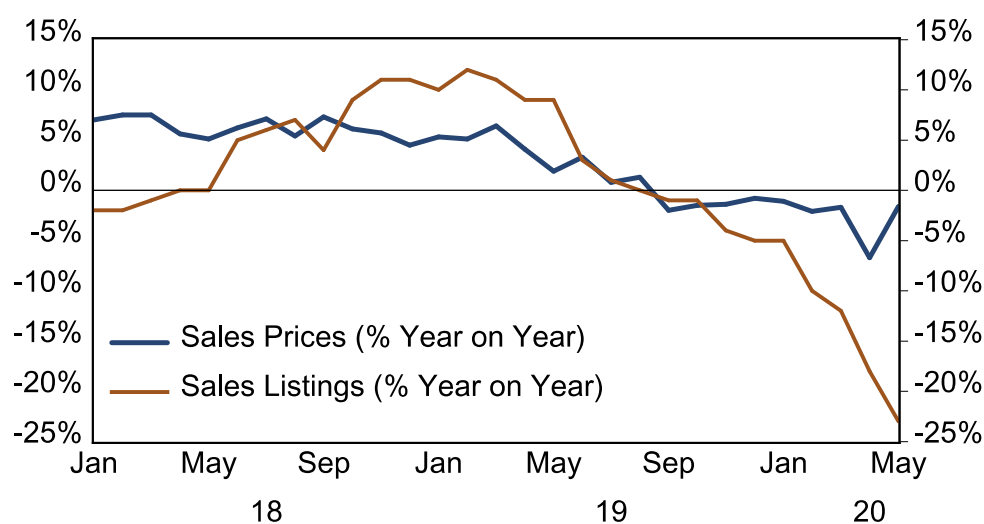
Will house prices fall and by how much?

The impact of COVID-19 will not become fully evident for a number of months making it difficult to quantify the future path of Irish house prices. However, we can draw on two sources of information to understand the likely impact: (1) current Irish data and forecasts and (2) international property prices.

The domestic market

The new monthly report published by [Daft.ie](https://www.daft.ie) in June shows that national sales prices in May 2020 were 1.6% lower on average than a year previously. Sale prices in Dublin were 1.2% lower than the same period last year while Munster registered a year-on-year decline of 5.7%. The data also showed that sales listings (i.e. total number of homes available for sale) was 18,761, the lowest since October 2006 and 22% lower than a year previously (see Figure 2). Interestingly, only 4,000 homes were listed for sale nationwide between April and May 2020 compared to approximately 15,000 in the same two-month period in 2019.

Figure 2: Daft.ie Sales Prices and Number of Listings (% YoY), 2018 - 2020



Source: Daft.ie

[Daft.ie](https://www.daft.ie) report that the supply of, and demand for, housing is likely to be impacted in the coming months. The demand for owner-occupied properties is anticipated to fall as households are less likely to enter into 30-year mortgage contracts if they are unsure about their short-term employment prospects and what they'll earn. Active supply is also expected to fall with significant concern that the pandemic will disrupt the construction of new supply.

Forecasting the impact of COVID-19 on the Irish property market

To date, there are a couple of forecasts assessing the impact of COVID-19 on the Irish property market. The [ESRI](#) (2020) estimate the path of house prices under three different scenarios: 'Baseline' (i.e. no COVID-19), 'V-Shaped' (i.e. significant contraction in Q2 2020 followed by a rapid recovery by 2021), and 'Sluggish' (i.e. a prolonged recovery period).

[KBC](#) (2020) undertake a similar exercise with three possible scenarios: 'Optimistic' (i.e. fall in economic activity in H12020 with steep recovery from Q3 onwards), 'Base' (i.e. major fall in H12020 with gradual recovery in Q3 and Q4), and 'Pessimistic' (i.e. longer-term negative growth).

The results of these forecasts are provided in Table 1 and indicate that the Irish property market is likely to experience a significant hit as a result of the pandemic.

Table 1: ESRI (2020) & KBC (2020) Forecasts

	ESRI			KBC		
	Baseline	V-Shaped	Sluggish	Optimistic	Base	Pessimistic
2020	+1%	-4%	-7%	-6%	-12%	-20%
2021	+3%	-6.4%	-17%	5%	8%	-5%

International perspectives on COVID-19 and the property market

UK: According to mortgage lender, [Nationwide](#), British house prices fell by 1.7% over the month of May, which is the largest monthly fall since February 2009. The annual rate of house price growth slowed to 1.8%, from 3.7% in April. Data from [HM Revenue & Customs](#) showed that residential property transactions were down 53% in April compared with the same month in 2019. Meanwhile, the [Bank of England](#) forecast that there could be falls in the region of 16% by 2021.

Europe: A recent [S&P Global Report](#) showed that property transactions have collapsed in Europe during the lockdown period. The report suggests that price signals are therefore heavily distorted and almost meaningless during this time. It is predicting that house prices will decline in all but one European market (Switzerland) this year. However, they conclude by suggesting that the large-scale job support schemes deployed by Governments across Europe will help contain the rise in unemployment and hence the fall in house prices.

Conclusion

The COVID-19 pandemic and associated lockdown is likely to have a significant impact on the Irish property market. Both the supply of, and demand for, housing is set to fall across the economy as workers lose their jobs and income levels decline. Forecasts indicate an expected contraction in prices of between -4% and -20%, depending on the path of the recovery. However, the true economic impact of the pandemic on the Irish property market will be increasingly visible once more official data is released.



Contact:

Houses of the Oireachtas
Leinster House
Kildare Street
Dublin 2
D02 XR20

www.oireachtas.ie
Tel: +353 (0)1 6183000 or 076 1001700
Twitter: @OireachtasNews

Library & Research Service
Tel: +353 (0)1 6184701
Email: library.and.research@oireachtas.ie

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