Ireland

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IN A NUTSHELL

- → The economy recovered well from Covid-19 and related public health measures.
- → Housing demand remained strong but housing supply remains below levels required.
- → Housing supply is growing with a greater focus on apartments.
- → House sales and rental prices continue to rise due to the mismatch between supply and demand.
- → Mortgage lending grew during 2020 driven by lending to first-time buyers (FTBs) and by mortgage switching.

MACROECONOMIC OVERVIEW

The Irish economy recovered strongly during 2021 as the public health restrictions aimed at limiting the spread of Covid-19 were lifted. The economic impact varied over time depending on the restrictions in place and on the sector of the economy and strict measures were in place for the first four months of 2021 including the closure of non-essential construction and retail.

Gross domestic product grew by 13.6% in 2021 (according to preliminary figures from the Central Statistics Office), driven by growth in sectors dominated by multinationals such as manufacturing and information and communication.

Modified final domestic demand, which excludes globalisation effects such as trade in intellectual property and aircraft leasing, rose by 6.5%, but by only 1.3% compared with 2019. While consumer spending rose by 5.7%, it was 5.3% lower than in 2019.

While the public health measures had a major impact on employment trends during the year, the unemployment rate fell from 5.9% in in Q4 2020 to 4.9% in Q4 2021. Substantial government support, especially the employment wage subsidy scheme for employers and the pandemic unemployment payment (PUP) for workers, helped to absorb some of the impact of the reduced business activity on incomes, especially the sectors worst affected by the restrictions. The combination of social protection support and subdued consumer spending resulted in substantial household gross savings of EUR 27 bn, of which about EUR 6 bn was used to pay for new homes or home improvements.

Consumer price inflation, as measured by the harmonised indices of consumer prices (HICP) according to Eurostat, was 2.4%, with a 12.3% increase in prices for energy products.

HOUSING MARKET

The housing and mortgage markets performed well despite the fact that most residential construction actively ceased in the first third of the year. Demand for housing remained strong and earnings were not affected in sectors where employees were able to continue to work from home or in businesses categorised as essential and able to continue operating.

The shortage of supply of new homes remained the key issue. Housing starts grew strongly with more than 30,700 units, the most since 2007. Dublin and the Mid-East region (the surrounding counties) recorded their highest levels since 2006 and accounted for 61% of housing starts in 2021.
However, new housing completions fell to their lowest level since 2018 at less than 20,500 units, according to the CSO. Completions in Dublin rose by 2.7% year on year to 6,201. Dublin accounted for 78% of apartments completed nationwide. Nationwide, the number of apartments completed increased by 30.3% to 5,107 and apartments accounted for 25% of completions - the highest level recorded based on data available from 1994. By contrast, the number of multi-unit development houses completed nationally fell to 10,644, the lowest level since 2017. Some 33.1% of scheme houses were in Dublin Commuter, while 26.3% were in Munster.

With housing demand continuing to outstrip supply, CSO annual data shows that residential property prices rose for the ninth successive year, and the rate of house price inflation accelerated sharply to 8.3%. Residential property prices in Dublin rose by 7.3% while prices outside Dublin rose by 9.2%. By the end of December 2021, residential property prices were only 4% lower than their peak in April 2007 and they were at their highest level since March 2008. Excluding simple property transfers, residential property sales rose by 22% to 46,619, according to the CSO, the highest level since the data series started in 2010. On a regional basis, there was the highest sales volume on record in all but five counties: Dublin, Galway, Limerick, Meath and Monaghan. Sales of existing properties rose by 26.1% year on year to 38,851 in 2021, driven by a 25.6% increase in sales on existing houses to 32,902 – in both cases, the most since the data series began.

Non-household buyers (such as companies, housing charities and government) accounted for 20.2% of market purchases of residential properties to 23.3%, the lowest share since 2018. Conversely, household investment in property (not for occupation) accounted for 14.3% of market purchases, up from 13.6% in 2020 but down from 17.6% in 2018.
With housing in short supply, rents also increased significantly in 2021. The national standardised rent level (based on new tenancies) rose by 9% year-on-year in Q4 2021 to EUR 1,366, according to the Residential Tenancies Board (RTB). By the end of 2021, 88 of the country's 166 local electoral areas were designated as rent pressure zones by the government – areas where rents are highest and rising quickly. In these areas, rents cannot be increased by more than general inflation or 2% a year, whichever is lower.

MORTGAGE MARKET

MARKET DYNAMICS

Mortgage drawdown activity grew strongly, rising by 22.1% in volume terms to 43,494, the most since 2009, and in value terms by 25.1% to almost EUR 10.5 bn, the highest level since 2008. There were almost 43,200 mortgage approvals with a total value of just over EUR 10.3 bn, down 12% and 6.7% in volume and value terms, respectively. The number of approvals was the lowest since 2017. At a segment level, first-time buyer (FTB) volumes reached their highest level since 2007 at 22,901, 14.8% higher than in 2008. By contrast, mover purchase volumes were 48.2% lower than in 2008 and, excluding 2020, were at their lowest level since 2016. Re-mortgage or switching drawdowns increased by 30.9% year on year to 6,458 in 2021, the most since 2008.

Total residential and commercial mortgage debt outstanding to banks, including those that have been securitised, shrank to about EUR 86.9 bn at year end from about EUR 90.3 bn a year earlier, according to the Central Bank of Ireland (CBI). When non-banks are included, the value of mortgage debt outstanding fell from EUR112 bn to EUR 113 bn, while the number of accounts dropped by 2.2% to about 810,000. Buy-to-let mortgages accounted for 10.9% of the number and 12.1% of the value of mortgages outstanding.

Some 31.6% of the value of credit institution housing loans was on tracker rates linked to the ECB base rate by year end. The value of these outstanding has more than halved since Q1 2016. The share of outstanding mortgages on rates fixed for over one year increased from 36.7% at the end of 2020 to 44.1%. Some 80% of the value of new mortgage loan agreements were on fixed rates of greater than one year.

Only 4.5% mortgage accounts for private dwelling home (PDH) were in arrears of more than 90 days by the end of 2021, the lowest proportion since Q1 2010. Some 12% of buy-to-let (BTL) mortgage accounts were in arrears of more than 90 days, the lowest level since the data series began in Q3 2012.

Mortgage lenders actively assist borrowers who experience repayment difficulties, which is demonstrated by the fact that 9.2% of all PDH accounts and 9.7% of all BTL accounts had an active restructure by the end of 2021 and about 83% of restructured accounts were not in arrears.

NON-MARKET INTERVENTIONS

The CBI maintained its loan-to-value (LTV) and loan-to-income (LTI) limits for new mortgage lending in 2021 broadly without changes. The CBI permits lenders to provide a portion of borrowers with loans that have LTIs and LTVs higher than the limits. Recognising the operation challenge of managing these allowances during the pandemic, the CBI introduced a system to enable lenders to carry over any unused allowance for use in the first half of 2022, where those loans were approved in 2021. The CBI also launched a wider framework review of the lending limits which is due to be completed in late 2022.

CBI research indicates that the average LTV for FTBs fell from 81.7% in H1 2020 to 80.8% in H1 2021, while the average LTI was unchanged at 3.1. For second and subsequent buyers (SSB), who are mostly home movers and exclude buy-to-lets, the average LTV fell to 66.8% from 67.9%, while the average LTI was also unchanged at 2.6.

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 or building, with claimants accessing up to EUR 30,000 or 10% of the purchase value. The scheme was further extended to the end of 2022, with a formal review planned during 2022. By the end of 2021, 30,351 claims had been approved and the total value of approved claims (since July 2016) reached EUR 560 mn. The CBI also confirmed that retail banks would be able to participate in the government's planned shared equity scheme, which is due to launch in 2022.

MORTGAGE FUNDING

Banks in Ireland rely mainly on retail funding sources (household and corporate deposits) for mortgage lending. The surge in deposits during the pandemic resulted in a sharp drop in the average loan-to-deposit ratio, which fell from 111.9 in Q4 2019 to 89.8 in Q4 2021, according to the European Central Bank's ESRB Risk Dashboard, less than half the level in Q2 2009. Private sector deposits (mainly from households and non-financial corporations) rose by 11.6% year on year to EUR 286 bn at the end of 2021, some 48% of which were household deposits. Private sector deposits represented almost 50% of total liabilities for credit institutions with a domestic market focus.

Some EUR 17 bn in mortgages outstanding were securitised at the end of 2021 according to the CBI.

Mortgage covered bonds outstanding in Ireland fell from EUR 19.3 bn in 2019 to EUR 16.8 bn in 2020. Some EUR 2 bn in new mortgage covered bonds was issued during 2020.

CBI LTV AND LTI LIMITS

LTV LIMITS	PRIMARY DWELLING HOMES	LIMIT	ALLOWANCE
		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 FTB lending above LTI limit is allowed; 10% of new non-FTB lending allowed
EXEMPTIONS	FROM LTV LIMIT:	FROM LTI LIMIT:	FROM BOTH LIMITS:
	Borrowers in negative equity	Borrowers for investment properties	Switcher mortgages Restructuring of mortgages in arrears

Source: *Central Bank of Ireland*

GREEN FUNDING

Some banks in Ireland provide discounted fixed interest rates on mortgages secured on residential properties with higher energy efficiency ratings, based on the National Building Energy Rating. The availability of the discounted rates vary depending on the bank.

	IRELAND 2020	IRELAND 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	6.2	13.6	5.4
Unemployment Rate (LSF). annual average (%) (1)	5.7	6.2	7.0
HICP inflation (%) (1)	-0.5	2.4	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	69.3	70	70.0
Gross Fixed Investment in Housing (annual change)(1)	-7.5	2.2	6.6
Building Permits (2015=100) (2)	324.8	329.6	134.0
House Price Index – country (2015=100) (2)	134.8	145.9	145.2*
House Price Index – capital (2015=100) (2)	124.3	133.3	146.1*
Nominal house price growth (%) (2)	0.4	8.2	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	80,891	79,634	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	21,498	20,893	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	65.4	61.6	62.8*
Gross residential lending. annual growth (%) (2)	-12.3	25.1	12.2
Typical mortgage rate. annual average (%) (2)	2.8	2.7	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

IRELAND FACT TABLE

Which entities can issue mortgage loans in your country?	Credit institutions (mainly banks) as well as non-bank retail credit firms/home reversion firms.
What is the market share of new mortgage issuances between these entities?	The market shares of different entity types are not published for competition reasons.
Which entities hold what proportion of outstanding mortgage loans in your country?	Non-bank lenders accounted for 15.5% of the number and 20.1% of the value of residential mortgages outstanding at the end of 2021, according to the Central Bank of Ireland. They held 13.6% and 31.0% of the number of principal dwelling home (PDH) and buy-to-let (BTL) mortgages outstanding, respectively, at the end of 2021. Non-banks include retail credit firms, which are non-deposit taking regulated lenders, and unregulated loan owners.
What is the typical LTV ratio on residential mortgage loans in your country?	The mean average LTV ratio for first-time buyer mortgages in Ireland was 80.8% in H1 2021 according to the Central Bank of Ireland, up from 81.7% in H1 2020. The average LTV for subsequent private dwelling home (PDH) buyers was much lower at 66.8% in H1 2021, down from 67.9% a year earlier. The average BTL LTV fell to 60.6% in H1 2021 from 60.7% in H1 2020. Note: These figures exclude the 10% of loans that were exempt from the Central Bank of Ireland's macroprudential regulations in H1 2021, including switcher loans (with no additional lending) and loans in negative equity.
How is the distinction made between loans for residential and non-residential purposes in your country?	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.
What is/are the most common mortgage product(s) in your country?	The standard variable rate mortgage for home purchase, based on the French amortisation profile, has traditionally been the most popular product among new customers, but the value of new mortgage agreements with fixed rates has exceeded those on floating or up to 1 year fixed rates in each of the past four years. In 2021, some 80.2% of the value of new mortgage agreements were on initial fixed rates over one year. By the end of 2021, some 31.6% of the value of mortgages outstanding were on tracker rates mainly linked to the ECB base rate while the rest was split between floating/one year fixed (24.3%) and greater than one year fixed rates (44.1%).
What is the typical/average maturity for a mortgage in your country?	For first-time buyers the mean term for a mortgage is about 29 years. For second-time home buyers it is about 24 years.
What is/are the most common ways to fund mortgage lending in your country?	Retail deposits are the main source of funding for mortgage lending, but covered bonds and residential mortgage-backed securities are also important.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	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.
What is the level (if any) of government subsidies for house purchases in your country?	Eligible FTBs can receive tax refunds for purchases of new properties under the Help to Buy scheme. By the end of 2021, 30,351 claims had been approved and the total value of approved claims (since July 2016) reached EUR 560 mn.