

Economic Research Unit



Irish house price inflation accelerates to 7.9% in April

Today's news the Irish Residential Property Property Price Index (RPPI) rose by 0.4% in April, with the annual inflation rate accelerating to 7.9% confirms the housing market is heating up again. Still, this shouldn't be a surprise given the lack of housing supply, but also that average earnings rose by 4.7% in the year to Q1 2024 to €50,400. Indeed, new Central Bank data show the average first-time-buyer in 2023 was 35 years old and had an income of €88,000 in 2023, up 3.6% from €85,000 in 2022. However, the housing market is also being affected by the relaxation of the Central Bank's mortgage lending rules. The proportion of first-time-buyers with a loan-to-income (LTI) on their mortgage loan between 3.5-4x, has grown from just 6% in 2022 to 36% in 2023. This process of first-time-buyers taking on additional leverage will likely continue into H2 2024. Hence, our forecast for just 3.5% RPPI inflation in 2024 now looks too conservative.

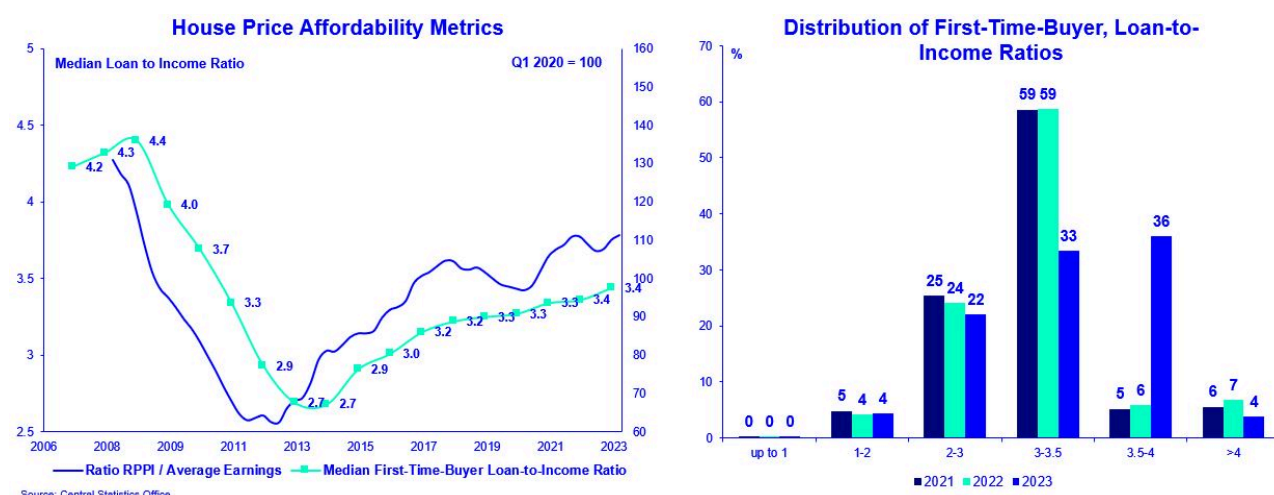
Irish Residential Property Price Inflation accelerates to 7.9%: This morning's CSO Residential Property Price Index (RPPI) for April was up 0.4% on the month, with the annual inflation rate accelerating to 7.9%, the fastest pace since end-2022. In just the first four months of 2024 the RPPI has already increased by 2%. So our forecast for just 3.5% RPPI inflation through 2024 now looks too conservative, with a mid-to-high single digit rise looking more likely. Furthermore, the pick-up in RPPI inflation is broad based. RPPI house price inflation in April was 8.8% in Dublin, but was also 7.3% in the rest of Ireland, including; the border region (5.4%), midlands (9.1%), west (7.2%), mid-east (6.1%), mid-west (9.7%), south east (6.8%) and south-west (8.6%).

House price inflation should be assessed relative to pay growth: It is natural to focus on Irish house price inflation in nominal terms, i.e. whether the inflation rate is in positive or negative territory. However, affordability is best judged by how house prices are evolving relative to pay. Average earnings grew by 4.7% in the year to Q1 2024, to €50,400. So despite the 7.9% growth in the RPPI over the past twelve months the ratio of house prices to earnings has drifted up only gradually (see chart below), having seen a modest correction in H1 2023. Similarly, new Central Bank data show the median first-time-buyer, loan to income (LTI) ratio was 3.44x in 2023, slightly above the 3.36x and 3.34x recorded in 2022 and 2021 respectively, but well below Celtic Tiger era levels of 4.4x.

Average income of first-time-buyer up 3.6% in 2023: The Central Bank of Ireland has published fresh data on the characteristics of mortgage lending in 2023. These data show the average first-time-buyer, with a mortgage, had an income of €88,000, up 3.6% from €85,000 in 2022. This contributed to the average first-time buyer mortgage loan rising to €285,000 up 6% from €268,000 in 2022. Also, 71% of first-time-buyers were two person, joint applicants. The average first-time-buyer age was 35 years old. The vast majority of mortgage loans (90%) had a fixed rate and the average rate across all loans was 3.9%. In summary, these new data demonstrate how pay growth is pushing Irish house prices higher over time. In April 2024, the average mortgage approval was €313,200, up 4.6% on the year.

Leverage amongst first-time-buyers rising: Another factor affecting the housing market has been the relaxation of the Central Bank's mortgage lending rules. Specifically, the increase in the regulatory threshold on first-time-buyer, loan-to-income (LTI) ratios from 3.5x to 4x. This change became effective from January 2023. In 2022, 59% of first-time-buyers had a LTI ratio between 3-3.5x, close to the old regulatory threshold (see chart below). However, in 2023 there was a sharp rise to 36% in the numbers of first-time-buyers with a loan-to-income ratio between 3.5-4x, as the rules were relaxed. Looking forward, the LTI distribution is likely to continue shifting the right, increasingly bunched close to the new 4x limit, as homebuyers compete for homes by taking out higher levels of mortgage debt.

Group Chief Economist: Conall Mac Coille



Contact Us at economics@boi.com

Disclaimer

This document has been prepared by the Economic Research Unit at The Governor and Company of the Bank of Ireland ("BOI") for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Union (Markets in Financial Instruments) Regulations 2017 as may be amended from time to time, and under the Financial Conduct Authority rules (where the client is resident in the UK), for any loss or damage caused by any act or omission taken as a result of the information contained in this document. Any decision made by a party after reading this document shall be on the basis of its own research and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 19th June 2024 and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI. Bank of Ireland is regulated by the Central Bank of Ireland. In the UK, Bank of Ireland is regulated by the Central Bank of Ireland and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office 2 College Green, Dublin, D02 VR66. Registered Number C1.

[Update My Preferences](#)

If you'd rather not receive future e-mails from us, please [opt-out here](#).