

Ireland

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IN A NUTSHELL

- The economy continued to grow despite sharp increases in costs to businesses and consumers.
- 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 2022 driven by lending to first-time buyers (FTBs) and by mortgage switching.

MACROECONOMIC OVERVIEW

The economy continued to grow despite cost pressures on consumers and businesses. Growth was mostly in sectors dominated by multinational corporations. Tax revenues and employment levels grew strongly despite sharp increases in consumer prices, business costs and tightening of ECB monetary policy.

Gross domestic product grew by 12% in volume terms in 2022 (according to preliminary figures from the Central Statistics Office), driven by growth in sectors dominated by multinationals such as manufacturing and information and communication. Compared to 2019, a pre-covid year, GDP has increased by 35.1% and by 25.7% in GNP terms.

Modified final domestic demand, which excludes globalisation effects such as trade in intellectual property and aircraft leasing, rose by 8.2% in 2022, compared with 2021. Consumer spending rose by 6.6% year on year in 2022.

Consumer price inflation, as measured by the harmonised indices of consumer prices (HICP) according to Eurostat, was 8.1% in 2022, with a 41.2% increase in prices for energy products. Despite increases in business costs, the unemployment rate fell from 4.9% in Q4 2021 to 4.2% in Q4 2022.

To alleviate inflationary pressures to businesses and consumers, the government allocated EUR 12 bn (4.5% of national income) in direct relief. Electricity credits accounted for around half of the overall fiscal response, with tax measures accounting for one-third; the remainder is composed of business and other expenditure support.

HOUSING MARKET

The housing and mortgage markets performed well in 2022; the first full year of full residential construction activity since the pandemic. Demand for housing remained strong, evident through continued increases in residential property prices and rent prices.

The shortage of supply of new homes remained the key issue. There were less than 27,000 housing starts in 2022, a 12.3% decrease on the previous year.

New housing completions recovered from low levels in the previous year to 29,882, an increase of 45.1%, according to the Central Statistics Office (CSO). More than 9,100 new dwellings were completed in Q4, 31.4% more than in the same quarter in 2021 and the highest quarterly volume since the CSO started reporting quarterly completions in 2011.

Nationwide, the number of apartments completed increased by 78.7% to 9,166, accounting for 30.7% – the highest level recorded based on data available from 1994. Dublin accounted for about 34.7% of completions in 2022 and 75.4% of apartment completions. Munster and the Dublin Commuter region (Louth, Meath, Kildare and Wicklow) accounted for 20.3% and 22.9% of completions, respectively.

With housing demand continuing to outstrip supply, CSO annual data shows that residential property prices rose for the tenth successive year, but the rate of house price inflation decelerated to 7.8% from a peak of 15.1% in March. Residential property prices in Dublin rose by 6% while those outside Dublin rose by 9.3%. The CSO's national index rose to 169, the highest level since the historical data series began in 2005.

Household market purchases of residential property rose by 2.4% year on year to 14,410 in Q4. On an annual basis, there were 50,025 purchases, the highest level since the data series began in 2010. Dublin was the largest housing market with more than 14,600 household market purchases, 10.2% more than in 2021 giving it a 29% share of the national market.

The fastest growing housing market in 2022 was the Dublin Commuter region, with household market purchases up by 13.6% year on year to 9,002. Within that, the number of apartment purchases exceeded 1,000 for the first time. The region also accounted for 37% of household purchases of new houses. In all other regions, existing properties accounted for between 80% and 90% of household property purchases in 2022.

Non-household buyers (such as companies, housing charities and government) accounted for 21.3% of market purchases of residential properties, an increase 15.1% compared to 2021. Conversely, household investment in property (not for occupation) accounted for 13.1% of household market purchases, down from 14.3% in 2021.

With housing in short supply, rents also increased significantly in 2022. The national standardised rent level (based on new tenancies) rose by 7.6% y-o-y as of Q4 2022 to EUR 1,507, according to the Residential Tenancies Board (RTB). As of Q4 2022, 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 21% in volume terms to 52,634 and in value terms by 34% to EUR 14.1 bn, the highest levels since 2008. There were 58,276 mortgage approvals with a total value of EUR 15.6 bn, up 9% and 16% in volume and value terms, respectively. These are the highest levels recorded since the data series began in 2011.

There was a significant increase in switching activity in 2022 which accounted for nearly 28% of all drawdowns compared to 14% in 2021 in volume terms. This was mainly due to expected interest rate increases by the European Central Bank. At a segment level, first-time buyer (FTB) volumes reached their highest level since 2007 at 25,196, 10% higher than the previous year. Most of the growth was driven by switching activity with re-mortgage/switching mortgage volumes up 108% year on year to more than 13,400.

Total residential and commercial mortgage debt outstanding to banks, including those that have been securitised, shrank to EUR 83.1 bn at year end from about EUR 86.9 bn a year earlier, according to the Central Bank of Ireland (CBI).

When non-banks are included, the value of mortgage debt outstanding increased from EUR 111.1 bn to EUR 112.1 bn, while the number of accounts dropped by 3% to about 790,000. Buy-to-let mortgages accounted for 9.7% of the number and 10.2% of the value of mortgages outstanding.

Some 25.9% housing loans was on tracker rates linked to the ECB base rate by year end, half the volume in Q2 2020. The share of outstanding mortgages on rates fixed for over one year increased from 44.1% at the end of 2021 to 58.6%. Some 89% of the value of new mortgage loan agreements were on fixed rates of greater than one year.

Only 4.1% mortgage accounts for private dwelling home (PDH) were in arrears of more than 90 days by the end of 2022, the lowest proportion since Q1 2010. Some 10.6% 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 8.4% of all PDH accounts and 9.0% of all BTL accounts had an active restructure by the end of 2022 and about 82% of restructured accounts were not in arrears.

NON-MARKET INTERVENTIONS

The CBI launched a comprehensive framework review of lending limits in 2021 which was completed in late 2022. The CBI maintained its loan-to-value (LTV) for FTBs at 90% but increased the limit to 90% for second and subsequent buyers and maintained the 70% limit for buy-to-let borrowers. Loan-to-income increased from 3.5 to 4 for FTBs and maintained the 3.5 limit for second and subsequent borrowers.

Several changes have been made to the criteria required for a borrower to be considered a FTB for the purposes of the mortgage measures: borrowers who

are divorced or separated or have undergone bankruptcy or insolvency may be considered FTBs for the mortgage measures (where they no longer have an interest in their previous property).

FTBs who get a top-up loan or re-mortgage with an increase in the principal may be considered FTBs, provided the property remains their primary home. The CBI permits lenders to provide a portion of borrowers with loans that have LTIs and LTVs higher than the limits in line with their own credit policies. Recognising the operation challenge of managing these allowances during the Covid-19 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.

CBI research indicates that the average LTV for FTBs fell from 80.8% in H1 2021 to 80.1% in H1 2022, while the average LTI increased from 3.1 to 3.2. For second and subsequent buyers (SSB), who are mostly home movers and exclude buy-to-lets, the average LTV fell to 65.5% from 66.7%, while the average LTI increased from 2.6 to 2.7.

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% (up to EUR 30,000) of the purchase value. The scheme was further extended to the end of 2024. By the end of 2022, 37,245 claims had been approved and the total value of approved claims (since July 2016) reached 740.8 mn.

In 2021, the CBI confirmed that retail banks would be able to participate in the government's planned shared equity scheme, which launched in 2022. The First Home Scheme is a shared equity scheme, where the State and participating banks pay up to 30% of the cost of new homes in return for a stake in the home. Homeowners can buy back the stake at any time, but it is not mandatory. As of Q4 2022, 750 buyers had been approved by the scheme and had received eligibility certificates to purchase their homes.

MORTGAGE FUNDING

Banks in Ireland rely mainly on retail funding sources (household and corporate deposits) for mortgage lending. The surge in deposits during the Covid-19 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. As the economy re-opened, the average loan-to-deposit ratio has increased to 97.0 in Q3 2022 according to the European Central Bank's ESRB Risk Dashboard.

Domestic private sector deposits (mainly from households and non-financial corporations) rose by 7.3% year on year to EUR 307 bn at the end of 2022, some 48% of which were household deposits. Private sector deposits represented almost 50% of total liabilities for credit institutions with a domestic market focus.

Mortgage covered bonds outstanding in Ireland fell from EUR 16.8 bn in 2020 to EUR 14.4 bn in 2021.

Mortgage Limits	Borrower Type	From 01/01/23	Allowance
LTV Limits	Primary dwelling homes	FTBs: 90%	15% of new lending to FTBs allowed above 90%
	Primary dwelling homes	Non-FTBs: 80%	15% of non-FTB new lending allowed above 80%
	Buy-to-lets (BTLs)/ Investors	70%	10% of BTL lending
LTI Limits	Primary dwelling homes	FTBs: 4 times income SSB: 3.5 times income	15% of new lending above the LTI limit is allowed
Exemptions	From LTV limit: Borrowers in negative equity	From LTI limit: Borrowers for investment properties	From both limits: 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 2021	IRELAND 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	13.6	12.0	3.5
Unemployment Rate (LSF). annual average (%) (1)	6.2	4.5	6.2
HICP inflation (%) (1)	2.4	8.1	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	70.0	70.4	69.1
Gross Fixed Investment in Housing (annual change)(1)	2.2	28.2	1.5
Building Permits (2015=100) (2)	329.6	262.0	125.8
House Price Index – country (2015=100) (2)	146.0	164.0	164.6*
House Price Index – capital (2015=100) (2)	133.3	147.0	163.8*
Nominal house price growth (%) (2)	8.2	12.3	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	79,634	78,130	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	20,893	20,215	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	61.6	55.1	71.5
Gross residential lending. annual growth (%) (2)	25.1	34.3	-6.5
Typical mortgage rate. annual average (%) (2)	2.7	2.7	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, 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-banks accounted for 17.7% of the number and 22.5% of the value of residential mortgages outstanding at the end of 2022, according to the Central Bank of Ireland. They held 16.2% and 32.3% of the number of principal dwelling home (PDH) and buy-to-let (BTL) mortgages outstanding, respectively, at the end of 2022. Non-banks include retail credit firms, which are non-deposit taking regulated lenders, and credit servicing firms.

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 80.1% in H1 2022 according to the Central Bank of Ireland, up from 80.8% in H1 2021. The average LTV for subsequent private dwelling home (PDH) buyers was much lower at 65.5% in H1 2022, down from 66.7% a year earlier. The average BTL LTV fell to 59.8% in H1 2022 from 60.1% in H1 2020. Note: These figures exclude the 15% of loans that were exempt from the Central Bank of Ireland's macroprudential regulations in H1 2022, 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 five years. In 2022, some 89.2% of the value of new mortgage agreements were on initial fixed rates over one year. By the end of 2022, some 25.9% 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 (15.4%) and greater than one year fixed rates (58.7%).

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 2022, 37,245 claims had been approved and the total value of approved claims (since July 2016) reached EUR 740.8 mn.

In 2021, the CBI confirmed that retail banks would be able to participate in the government's planned shared equity scheme, which launched in 2022. The First Home Scheme is a shared equity scheme, where the State and participating banks pay up to 30% of the cost of new homes in return for a stake in the home. Homeowners can buy back the stake at any time, but it is not mandatory. As of Q4 2022, 750 buyers had been approved by the scheme and had received eligibility certificates to purchase their homes.