

KBC HOMEBUYER SURVEY



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April 2017

RESEARCH COMPLETED BY



SOME KEY TAKEAWAYS



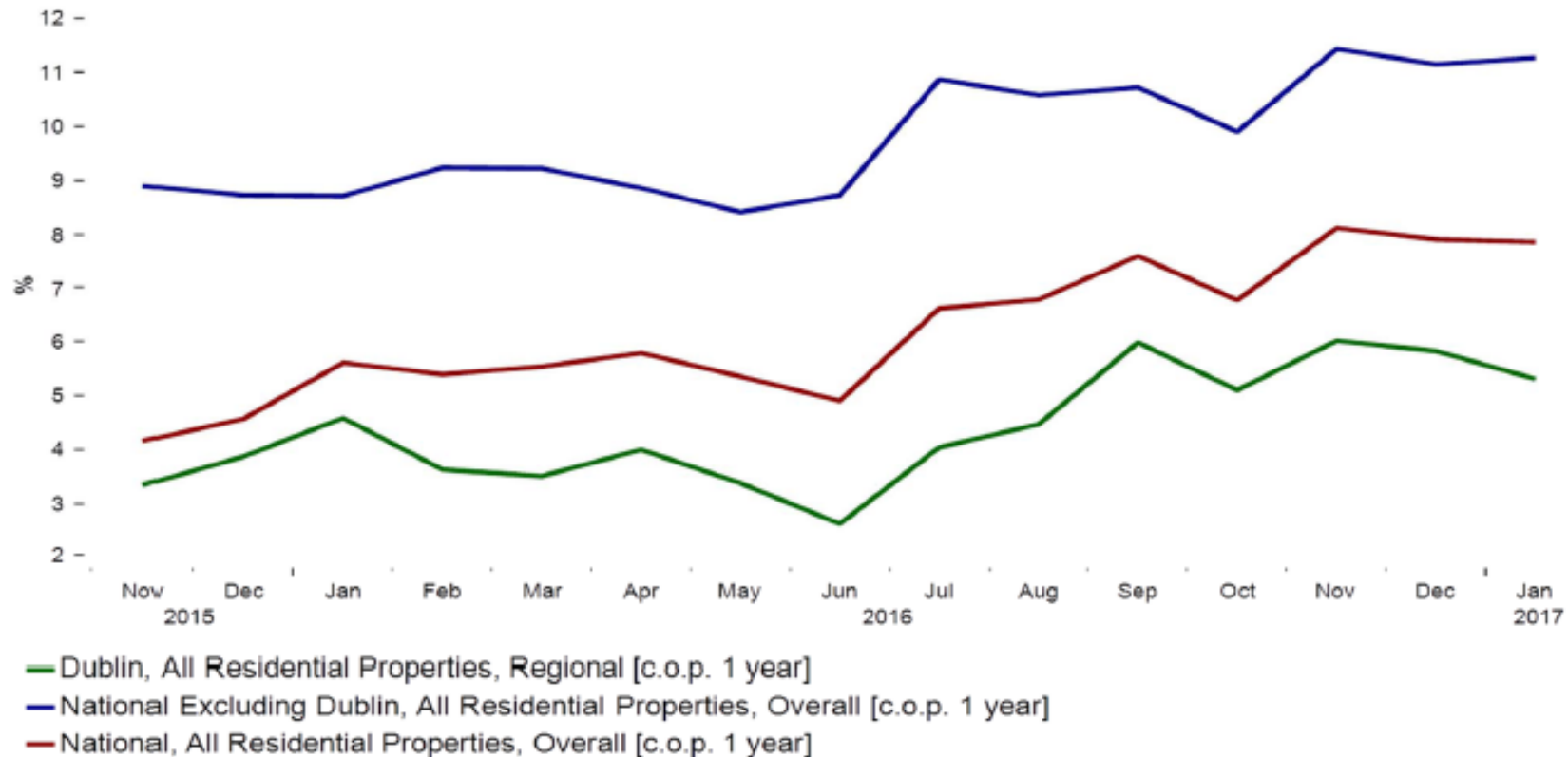
- Current strong momentum in Irish property prices reflects inadequate supply but KBC homebuyer survey also highlights role being played by pent-up demand
- Strength of home-buyer demand now reflects a 'catch-up' following abnormally low levels of housing transaction levels in recent years.
- Depressed levels of transactions in recent years levels means large numbers are not in the right homes for their current life-cycle stage
- Home purchase 'chain' means lack of new builds have 'multiplier' effect in terms of this mismatch
- Some 28% of Irish consumers now considering property purchase, with almost half of these already 'active'
- Some 3% of consumers now ready and able to buy, implying demand running well ahead of current supply
- Only half of Irish consumers entirely content with current housing
- Roughly one in five households 'discouraged' from considering house purchase in next two years either because of affordability, lack of suitable properties or uncertainty about their own finances
- Irish home sales now running at just over half the level that might be considered healthy.
- Survey implies upper bound to potential demand of up to 300k home sales in next two years, with some 70k would- be buyers now ready and able to finance house purchase. As transactions were less than 48k in 2016, this suggests a continuing excess of demand over supply underpinning pressure on prices
- Survey show no signs of 'buyer frenzy'; purchasers are cautious in regard own finances and the Irish economy
- Significant signs of buyer frustration with fewer than half of would-be buyers notably confident that they will have bought a home in two years

Strong and broadly based increases in property prices suggest housing demand is strong but how strong is it and why?



Irish property prices are rising at a faster pace than a year ago in spite of an increase in new supply. This suggests **Demand for housing is buoyant** but we know relatively little about the who, the why or even how many when it comes to the current circumstances of the Irish property market.

The KBC homebuyer survey is intended to shed light on the nature and extent of the factors influencing the demand for housing in Ireland at present.



What do we really mean by home- buyer demand?



People buy homes for many reasons, because they are first-time buyers, because their current accommodation doesn't suit their needs or because they see property as an investment.

Much of the commentary on the Irish housing market focusses on estimates of new household formation that imply a demand for homebuilding of 20-30k units per annum. **This is not the same as the demand for housing** that reflects more diverse needs of a notably larger group of people.

People typically do not live in one home all their adult lives. US and UK data show about 4 to 5% of households in these countries move home each year. In Ireland , the figure has averaged less than 2% since 2010. **A 'healthy' level of transactions in the Irish property market would likely be** in the region of 80k+ transactions per annum , **about 2 ½ times greater than the actual level of transactions** which averaged 33k per annum through the past 7 years.

The dearth of transactions in the Irish housing market in recent years has created a growing mismatch between the current housing circumstances of many and the accommodation that would be appropriate for their stage in the life cycle. The typical 'chain' in property transactions significantly multiplies the impact of a lack of new building of late.

The KBC homebuyer survey sheds some light both on the new flow of prospective homebuyers and a large stock whose housing doesn't suit their current circumstances. This emphasises that **current imbalances in the Irish housing market are larger and more complex than sometimes suggested.** In turn, this suggests the resolution of current difficulties may take longer than might be envisaged.

How does the homebuyer survey measure demand?



We begin by looking at those who are not interested in home purchase

72% of respondents currently 'out of market' *which we define as **not** searching or planning to buy in next 2 years*

Of this number;

47% are content with their current housing

3% are recent movers (Broadly equivalent to numbers who have purchased in past two years)

12% are unable to afford home purchase

1% are unable to find a suitable home

9% are uncertain about own financial circumstances

Only about half of respondents to the survey are entirely content with their current housing circumstances. So, the survey finds clear signs of a dysfunctional property market in Ireland at present. Roughly one fifth of respondents might be described as 'discouraged' demand (12%(unaffordable) +2%(no suitable properties) +9% (uncertain)) .

Property demand is strong and set to increase



28% now 'in the market', defined as *searching or planning to buy in next 2 years*

Of which

- 15% 'Aspiring' –*starting to think seriously*
- 13% 'Active' –*specific plans to purchase*

- Of which

- 10% 'engaged' and remaining 3% are now 'able' – have deposit/sufficient financial resources to purchase a property

- Of the latter

- 1% are now 'At the door'- as they have made offer on property

Note ; these results are entirely consistent with those of August '16 survey. The slightly smaller total in the current survey (28% v 32% prospective purchasers in August) reflects a combination of (i) purchases in the interim, (ii) 'discouraged demand' (see previous slide) and (iii) normal survey confidence intervals of +/-3%.

Who is Buying?



	In Market	Able and Willing
First Time Buyers	53%	38%
Movers	32%	38%
Investors	16%	23%

A comparison of those who are in the market and those ready to purchase at this point in time shows the share of first-time buyers is set to increase as the Irish economy improves, access to credit increases and incentives such as the Government's 'Help to buy' scheme and the recent easing of CBI lending limits take effect. This slide hints at the prospect a strengthening trend in demand in coming years that might continue to outpace any prospective increase in new supply for a significant period.

How many would-be home-buyers would this survey translate to?

Number in 000's	Active	Able and Willing
First Time Buyers	160	27
Movers	95	27
Investors	50	15
Total	300	70

- **We translate the survey responses** set out above **into illustrative estimates of the scale of potential demand for Irish residential property** over the next two years.
- **The 'active' figure in the table above should be seen as representing a maximum or upper bound** on prospective demand that is unlikely to be realised (for reasons discussed later in the study). While this number may appear particularly high, it should be seen against our estimate that a 'healthy' level of activity for this two year period would be in the region of 160k which would be supplemented by some element of while the cumulative shortfall in activity over the past which amounts to 300-350k.
- **If the 'active' figure gives a sense of potential demand for housing, the 'able and willing' figure of 70k gives a strong sense of the current overhang of demand when set against the 48k transactions that occurred in 2016.** These survey respondents indicated they are in a financial position to purchase at present.
- These numbers provide some indication of the demand-side pressures underpinning property prices at present. In this respect, the survey hints at an example of Say's law in that new supply of housing may 'create' (or more properly activate) additional demand.

How are buyers financing home purchase?



	Will use a mortgage to Purchase (In Market)
First Time Buyers	90%
Movers	66%
Investors	61%
Overall	78%
Able and Willing	60%

A significant feature of the Irish property market in recent years has been the large share of cash purchases. Comparing transactions data and mortgage drawdowns for 2016 would imply that just 53% of house purchases were funded using a mortgage. This owes something to the relatively strong proportions of repeat buyers and investors relative to first time buyers.

The survey suggests that mortgage usage will gradually increase. The 'pipeline' implied by the share of respondents who see themselves now able to buy suggests a rise in mortgage usage to 60% and this rises more notably to 78% of those who say they are in the market to purchase a property in the next two years.

Would-be homebuyers not sure they'll seal the deal



Overall, on a scale of 1 to 5 where 1 is 'not at all confident' and 5 is 'very confident'; how confident are you that you will have purchased a home in the next two years..?

	Total	FTB	Mover	Investor
Not at all confident	5%	7%	4%	1%
1				
2	11%	14%	8%	5%
3	38%	40%	32%	41%
4	26%	23%	29%	30%
5	21%	16%	27%	24%
Very Confident				
Total	100%	100%	100%	100%

The survey suggests a strong pipeline of demand for home purchase but responses to this question suggest many would-be homebuyers harbour significant doubts that their purchase plans will become reality. Less than half of respondents are notably confident (ratings 4 or 5) that they will succeed in purchasing a home in the next two years. Not surprisingly, First-time buyers are less confident than others that they will get their foot on the Irish property ladder. The significant numbers who are not particularly confident may owe something to an 'aspirational' tone to some purchasing intentions but we think a more important explanation is likely to be an element of frustration at the lack of availability of properties in areas that would-be buyers want at prices they can afford.

Little evidence of a 'buyer frenzy' as caution prevails

Prospective purchasers are generally but not always positive about their own household finances. Their thinking hasn't materially altered since the previous survey.

My household expenses are expected to:

	Spring '17	Autumn '16
Improve	160	27
Worsen	95	27

Uncertainty about the Irish economy has shifted up a notch since Autumn

The Irish Economy is likely to:

	Spring '17	Autumn '16
Improve	39	43
Worsen	22	21

Increased uncertainty, higher prices and rising demand mean that slightly fewer think now is a good time to buy than was the case in Autumn. However, because housing is a necessity, demand remains strong.

In terms of buying a home now is a:

	Spring '17	Autumn '16
Good Time	45	49
Bad Time	18	14

RESEARCH METHODOLOGY



About The Survey

Nationally representative online survey of **those in Ireland who are searching or planning to buy a home in the next 24 months**. These people are defined throughout as 'home buyers'.

Fieldwork took place over two surveys in the first quarter of 2017 merged to provide a robust sample of home buyers in Ireland.

Total sample size of **2000, n=556 home buyers**.