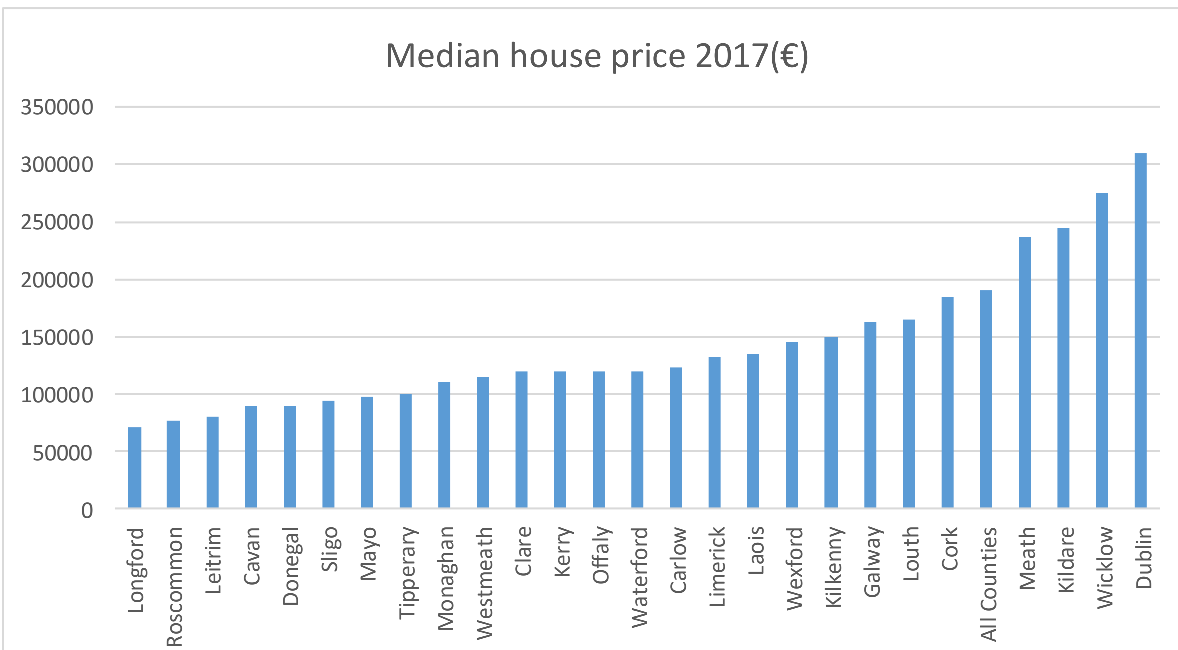
Economic Research

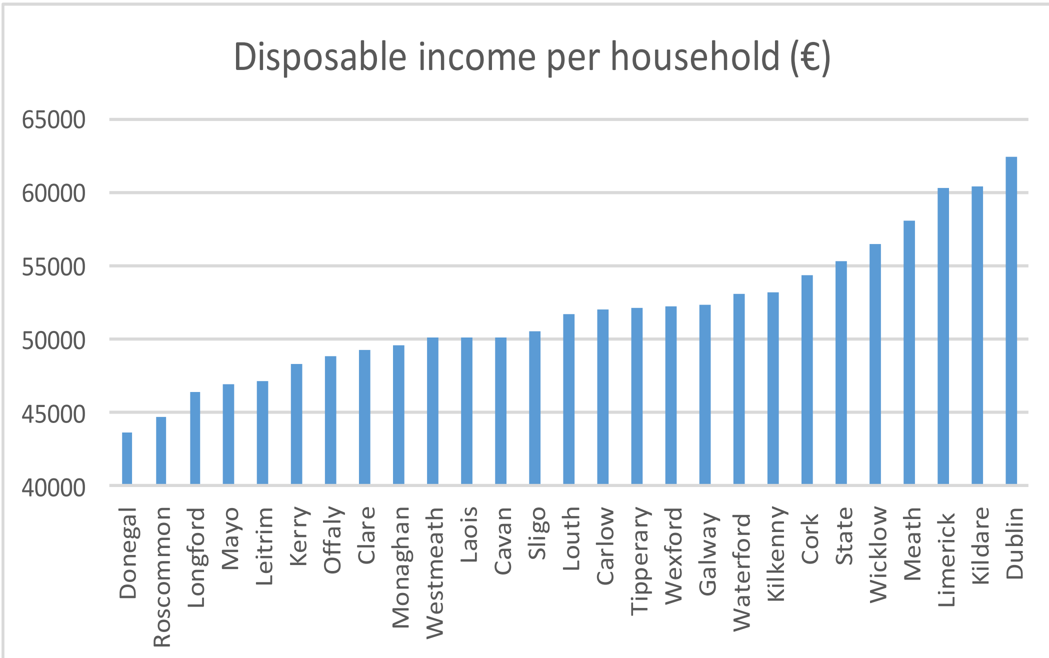
Housing Valuations in Ireland by County 9 April 2018

There is a significant variation in house prices by county in Ireland; the median price in the most expensive (Dublin) was over €300,000 in 2017 and exceeded the cheapest (Longford) by €238,000. Indeed, the average house price in seven counties is below €100,000 (Longford, Roscommon, Leitrim, Cavan, Donegal, Sligo and Mayo)

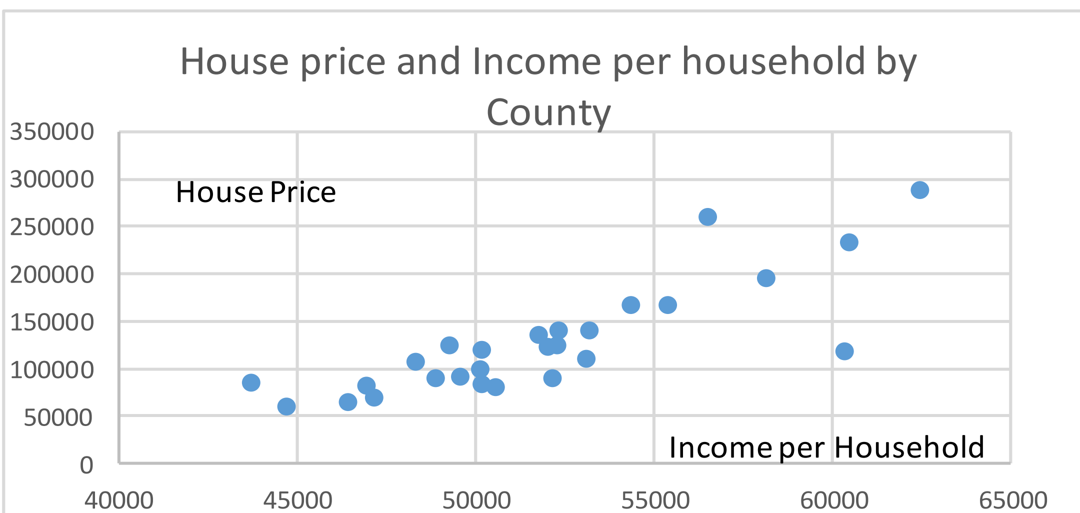


House prices are generally determined by the interaction of demand and supply , with the former influenced , inter alia, by household income, expectations about future prices, demographics and the cost and availability of credit. The regional variation in residential prices is also likely to be influenced by a host of other factors but relative income may well be important-one wouldn't expect prices in Donegal to be higher than in Dublin .

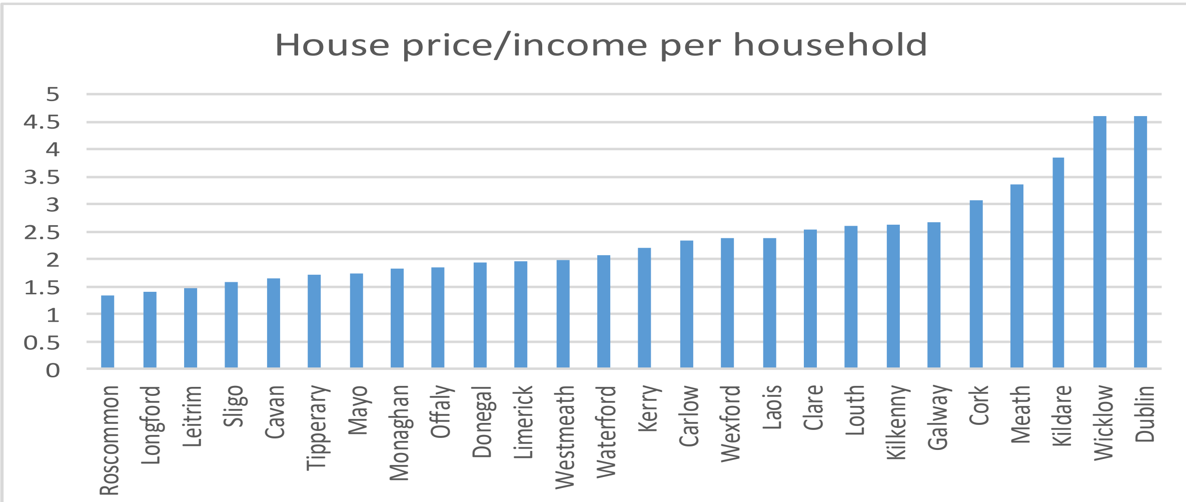
Income by county is available from the CSO, albeit only up to 2015, and by using the census data on the number of households we can derive a simple measure of income per household . Again this shows a wide dispersion across the State, ranging from over €60,000 in Dublin, Kildare and Limerick to under €45,000 in Donegal and Roscommon.



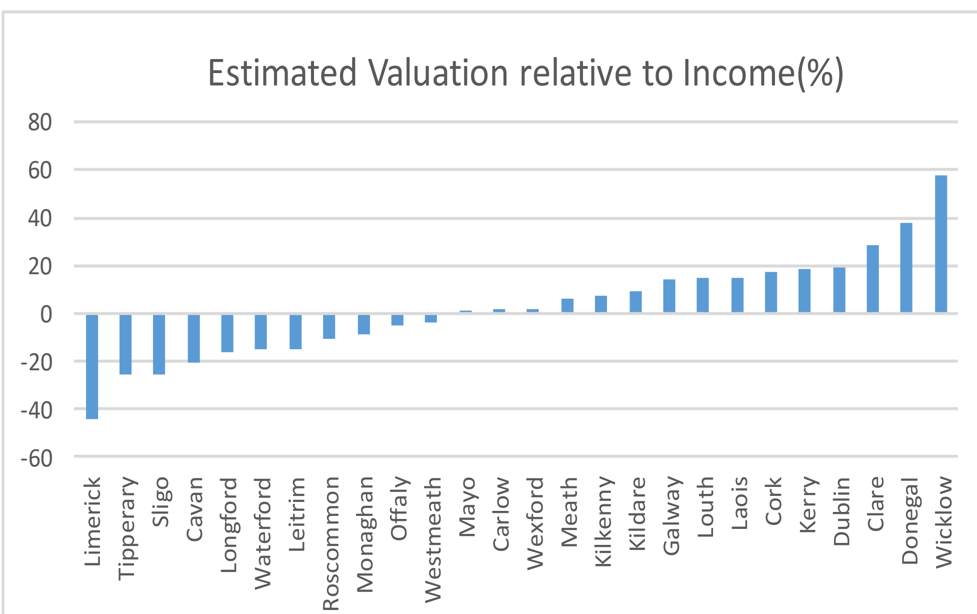
Looking at the two series, a close relationship is apparent, with a correlation of 0.83. That is also very evident in the data plot below, albeit with a number of clear outliers.



We now relate the median house price in each county to the average income per household in that county and again there is an extremely wide dispersion. Prices in Dublin and Wicklow are over 6 times our income measure while in other parts of the country the ratio is much lower; in twelve counties the ratio is under 2 and in 3 areas the figure is under 1.5. So on this simple affordability measure we can say that average prices in Roscommon are the cheapest relative to local income in the country, followed by Longford, Leitrim ,Sligo and Cavan. At the top end of valuation we see Kildare in third spot followed by Meath, no doubt reflecting their status as commuter towns for Dublin.



So there is a clear link between house prices and income across the country and it is not surprising that low income areas have lower priced property. We can extend our analysis further by using that relationship to develop a simple model of under or overvaluation relative to that income metric. In this case we estimate a simple (log) regression in which income per household is the sole determinant of average house prices , which clearly is a significant simplification, although our model actually explains over 70% of the variation in median prices. The chart below plots each county's price relative to that predicted by the model.



This throws up some surprising results. Prices in Limerick, which are neither unusually low in absolute terms nor relative to income, are shown to be significantly undervalued relative to where they should be given the income level in the county. The same is true to a lesser extent for Tipperary, Sligo and Cavan while Longford, with the lowest prices in the country, still looks undervalued but not to the same degree. On the other side of the valuation coin we can see that Meath and Kildare are indeed expensive but only marginally so given their income levels, as opposed to Cork and Kerry where prices are relatively high. Surprisingly, perhaps, Dublin is not top of the list, coming in fourth behind Clare, Donegal and Wicklow, the latter being the most expensive relative to local incomes. Perhaps the most surprising though is Donegal, where although prices are low they are still significantly out of line with income levels in the county, no doubt influenced by cross-border purchases. Indeed, there are special factors at work in many of the above cases but our model is a simple and useful tool in establishing such outliers.