



**Property
Industry Ireland**
Ibec

Housing Market Review

JULY 2021

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JULY 2021

GENERAL

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Overview

Welcome to the Summer PII Housing Market Review of 2021.

Property Industry Ireland recently surveyed members again in order to estimate the number of new dwelling completions in Ireland in 2021. The results, and a comparison with our earlier survey, will inform and shape PII's engagement with policy makers in the year ahead. It is interesting to see the dispersion between the maximum and minimum estimate for 2021 has narrowed. Members now expect that approximately 17,600 new homes will be completed this year, rising next year to an estimate of 22,500.

The delay in the publication of Housing for All is unfortunate. PII made a comprehensive submission to Government including recommendations on affordability, viability, infrastructure, and planning amongst others. We will be keen to see how the new policy document tackles the various bottlenecks to the delivery of new homes.

As before this Review uses data from the Central Statistics Office, Central Bank, Department of Housing, Local Government and Heritage, and the Banking and Payments Federation Ireland. We look forward to feedback you might have or suggestions as to other data you would find of interest. I hope you find this Review interesting and useful.

David Duffy,
Director
Property Industry Ireland
Ibec

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PII Vision

A sustainable Irish Property Industry which is creative, responsive, competitive and well integrated in meeting the socio-economic needs of all the stakeholders in the built environment.

PII Mission

To be the trusted partner and provider of "evidence based" information, policies and strategies for the property industry at National level, to the Oireachtas, Government, Local Authorities and Agencies, and for the benefit of the people of Ireland.

PII HOUSING COMPLETION SURVEY

Planning restrictions, cost of construction and labour/skills shortage were cited as the three main obstacles to the delivery of housing in Ireland in 2021

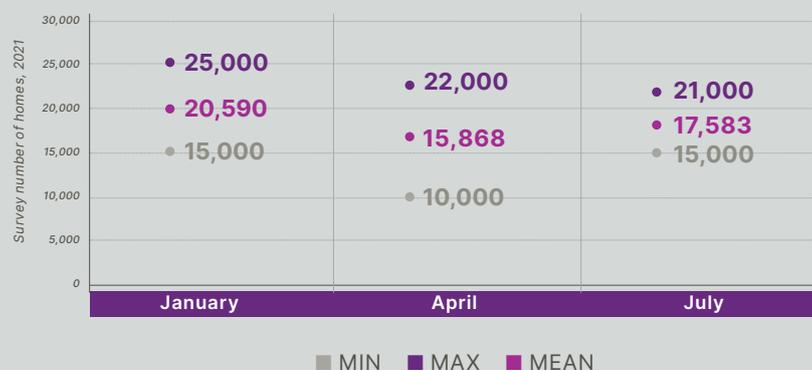
In 2020, despite the impact of COVID-19, there were 20,636 new dwellings completed in Ireland. In June of this year, with the sector fully operational once again, PII asked its members to estimate how many new dwelling completions there would be in Ireland in 2021. PII members estimated that on average 17,500 new homes would be built in 2021, with 78% of respondents estimating that there would be less than 20,000 new homes completed in Ireland this year.

Members were asked what they think are the top 3 obstacles (excluding COVID-19) to the delivery of new housing in Ireland

in 2021. Members cited delays and restrictions in the planning process as the main obstacle to the delivery of new housing. The issues of labour/skills shortage and the rising costs of material/ supply chain issues were once again highlighted as obstacles.

In addition to this, PII members were asked to estimate how many new dwelling completions there would be in Ireland in 2022. PII members estimated that on average 22,500 new homes would be built with 96% of respondents estimating that there would be more than 20,000 new homes completed in Ireland next year.

NUMBER OF NEW HOMES TO BE DELIVERED IN 2021 (ESTIMATED)



AMBITIOUS TARGETS FOR CLIMATE CHANGE

The recently approved Climate Action Bill aims to halve emissions by 2030 and to achieve carbon neutrality by 2050. This is amongst the most ambitious legally committed climate targets internationally. Today Ireland emits around 58 million tonnes of greenhouse gases annually. The new plan will aim to achieve reductions to 30 million tonnes by 2030 initially through a process of economy-wide five-year carbon budgets, including sectoral targets, on a rolling 15-year basis, starting this year.

This may drive significant change amongst many sectors of the economy, but it will need radical additional policy effort. Recent modelling by the Environmental Protection Agency (EPA) showed that, under pre-2019 policy ambitions, Ireland would have achieved effectively no overall reduction in its climate emissions by 2030. Post-2019 measures – which include a move to a €100 carbon tax by 2030, a 70% renewable energy target, targets for 1 million electric vehicles by 2030, 500,000 home retrofits, the delivery of key public transport projects and €22 billion of spending under the existing National Development Plan – would reduce emissions from 58 million tonnes by 2030 to 48 million tonnes. However, our new targets have set a cap for the whole economy by 2030 of around 30 million tonnes annually. As a result, new policy measures will be needed to drive a reduction in emissions over the next decade which is almost three times as ambitious as already planned under existing policies. This level of change would be transformative but will require public and private investment and coordination on an unprecedented scale.



The recently approved Climate Action Bill aims to halve emissions by 2030 and to achieve carbon neutrality by 2050

GENERAL A Sustainable Recovery

As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable

The economy is set to emerge strongly from the COVID crisis. The first half of 2021 has seen the export engine of Ireland's economy continuing to fire and a level of normality is now returning to most domestic sectors. As we emerge from COVID, our most significant challenge will be to ensure future growth is sustained and sustainable. Ireland faces some unique challenges in the post-COVID era. We have obvious long-standing infrastructural deficits, significant Government policy commitments in areas like health, pensions and the labour market and hugely ambitious climate targets

to meet. We are also facing threats to our business model from global corporate tax change. All of these will have challenging implications for economic growth, business competitiveness and tax revenues in the years ahead. At the same time, COVID-19 has left its mark on the State's balance sheet. This needn't mean a return to austerity, but it will constrain options for new, unfunded, day-to-day spending or tax cuts in the future. It will mean we must be more strategic in our decisions. If we are to meet these challenges a new fiscal and competitiveness discipline will be needed.

GDP QUARTERLY CHANGE



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SUPPLY Planning Permissions

Over 2,900 homes were granted planning permission in Q1 under the SHD process

The number of dwelling units granted planning permission in the first quarter of 2021 was 6,963, of which 3,874 were apartments and 3,089 were houses. The number of apartment units approved decreased by 57.2% in the year since the first quarter of 2020. There was an annual decrease of 39.3% in houses approved in the current quarter, resulting in a total annual decrease in dwelling units approved of 50.7%.

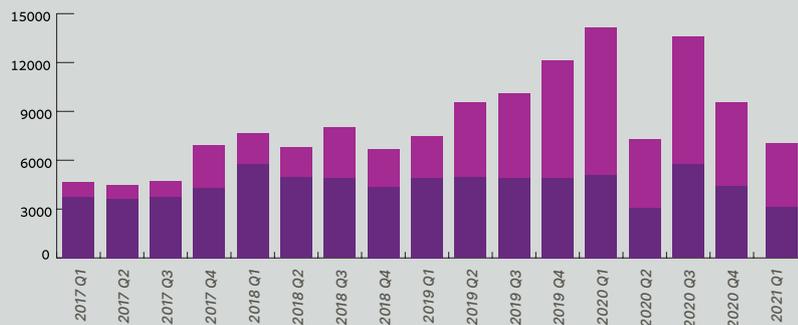
Over 2,900 homes were granted planning permission in Q1 under the SHD process. Of these, 50% of the SHD permissions granted are subject to judicial review – substantially delaying the start of building and supply into the market. Of the close to 27,000 SHD homes that got planning permission in 2020 around 37% have been subject to judicial review.

PLANNING PERMISSION GRANTED

HOUSES, (SCHEMES AND ONE OFF HOUSES) PRIVATE FLATS/APARTMENTS



of 2020 SHD homes subject to judicial review



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Supply Chain Challenges

Global volatility in prices and supply chain shortages have been a dominant theme for Irish businesses across several sectors in Q1

Global volatility in prices and supply chain shortages have been a dominant theme for Irish businesses across several sectors in Q1. The AIB/Markit Manufacturing PMI recorded the fastest increase in input prices in a decade and the second fastest on record in April. Member reports suggest shortages of key materials may be as significant a challenge as the price of those materials. In construction, the impacts can also be seen with the CSO's wholesale price index showing increases in the cost of some timber (up 30% annually) and structural steel (up 35% annually) reaching disruptive

levels in April and May. Other items like plaster, metal, fittings and PVC all saw increases between 4% and 8% annually in April. These continued price pressures mean that while turnover may recover in the months ahead, many firms are facing an extended period of margin compression. Whilst some supply challenges which initially drove input cost increases may be transitory and fade in normal times, cost recovery dynamics in a post-COVID era might play a dominant role in determining whether increasing supply will lead to a fall back in prices along supply-chains.

ANNUAL PRICE CHANGE CSO 2021 FIGURES

30% 
(SOME) TIMBER UP 30% €

35% 
STRUCTURAL STEEL UP 35% €

BUILDING AND CONSTRUCTION MATERIALS PRICE INDEX ANNUAL % CHANGE



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Commencements & Completions

Housing completions are expected to increase over the coming months, but it will be several years before supply can begin to match demand

Commencement data show us two things – firstly, the impact of the pandemic on residential construction activity and secondly, the extent to which the construction sector has responded to re-opening with levels of commencements in April (4,736) and May (4,969). These are the highest monthly commencements in the data series starting in March 2014. The bulk of these commencements are recorded for the Greater Dublin Area, 65.2% and 70.1% respectively.

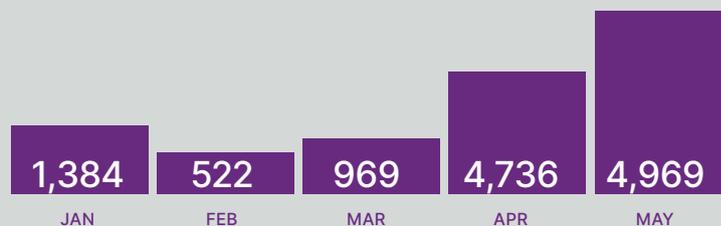
Housing completions in the first quarter of 2021 were down by more than one-fifth annually. The outlook is even more difficult in Dublin, where housing completions fell by 40% annually amid the closure of the construction sector in recurring lockdowns. After a strong

performance in the last quarter of 2020, national housing completions were down quarter-on-quarter by 56%. Of the dwellings that were finished, the majority were part of multi-unit developments, making up 57% of all new dwellings. The trend of apartments making up a growing proportion of all new dwellings has reversed somewhat. There are also significant regional differences in where completions are located, with Dublin accounting for just under 70% of all apartments completed. Before the pandemic, the provision of new housing remained below the circa 35,000 needed annually to meet demand. Housing completions are expected to increase over the coming months, but it will be several years before supply can begin to match demand.

NEW HOMES NEEDED EACH YEAR



HOUSING COMMENCEMENTS 2021



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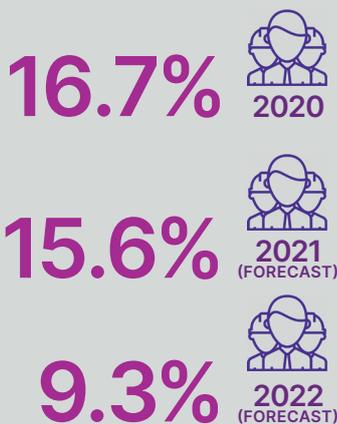
Labour Market

While the jobs recovery in construction is a success story, we are likely to return to the difficulties of the pre-pandemic labour market, when labour shortages in construction was an ongoing issue

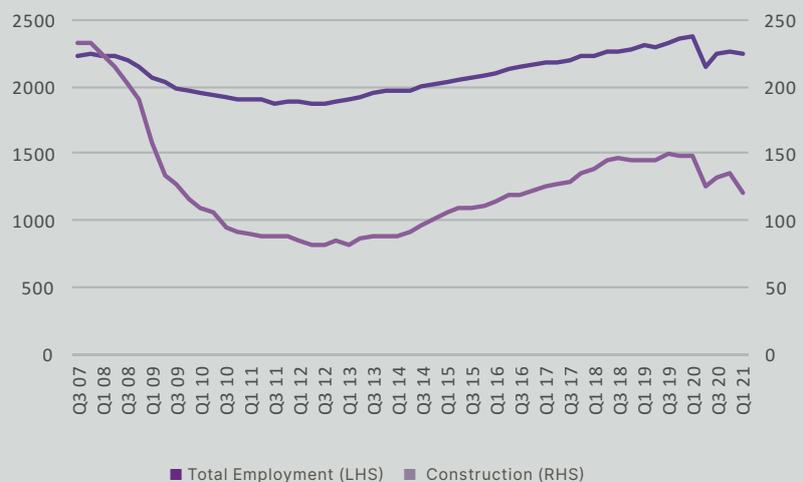
A rapid bounce back in construction activity since the reopening of the sector in April has marked a welcome change of pace for a sector shuttered for much of the pandemic. While the jobs recovery in construction is a success story, we are likely to return to the difficulties of the pre-pandemic labour market, when labour shortages in construction was an ongoing issue. As a result, we may see rising labour costs within the industry. This combined with sharp increases in input costs as Brexit, higher global shipping costs to our island economy and a sudden increase in demand for basic materials globally are all biting and introducing high-cost pressures on construction activity.

Given both the built-up demand for housing and commercial construction over the pandemic, alongside Government commitments to large infrastructure projects as part of the recovery programme, there is an outlook of high demand for the sector. This is borne out in the Ulster Bank Construction PMI, which is showing a rapid jump in activity across all construction types, with record levels of new orders in recent months. Our expectation is that a return to normal trading and therefore employment, will be very much in the second half of 2021 and into 2022 for other closed sectors. As such, we expect employment to remain about 100,000 below its pre-COVID peak by the end of 2022.

ANNUAL UNEMPLOYMENT RATE



TOTAL EMPLOYMENT AND CONSTRUCTION EMPLOYMENT SEASONALLY ADJUSTED, '000s



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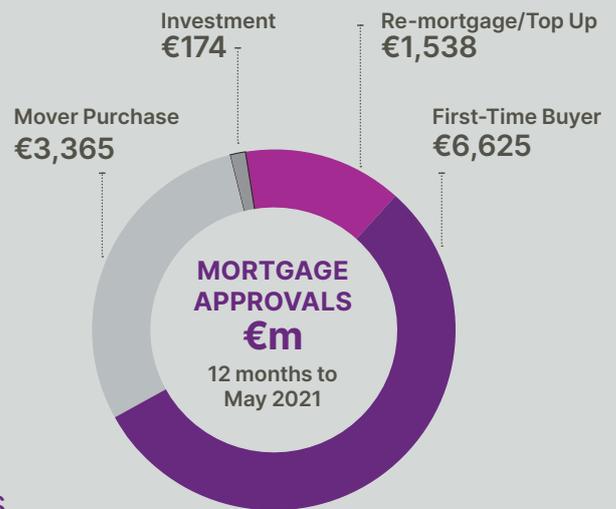
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Mortgage Market

In the year to May 2021 total mortgage approvals amounted to €11,964 million. First-time buyers accounted for €6,625 million or 55% of the total. Mover purchasers were approved for €3,365 million of mortgages, with the balance accounted for by residential investment mortgages and top-ups.

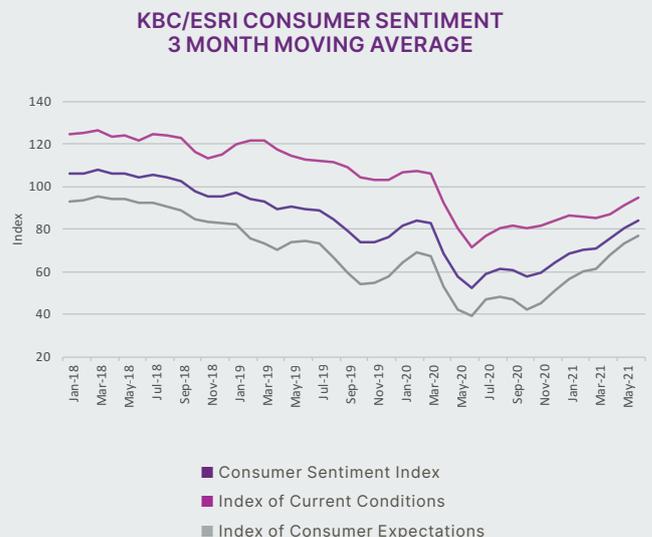
There were 4,683 mortgage approvals, valued at €1,160 million in May 2021. This is an increase on the value of €1,089 million in April 2021. Mortgage approval activity increased in volume terms by 149.2% year-on-year and increased in value terms by 162.5% over the same period. Out of the 4,683 mortgages approved, 2,580 were first time buyers which represents a 202.8% increase year-on-year.



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Consumer Sentiment

Reflecting the positive backdrop of the vaccine rollout and corresponding economic reopening, consumer sentiment has been improving rapidly over recent weeks. After dipping amid the uncertainty of another lockdown in January, consumer sentiment has improved to a 23-month high. The last time Irish consumers felt this positively was the summer of 2019. Consumers felt increasing confidence both in their current conditions and in the outlook for the future. There is renewed optimism around employment and individuals' financial circumstances over the next twelve months. This is likely driven by the prospect of a consistently reopened economy and expectations of a strong recovery in employment. Improved prospects in employment and finances for Irish households are having a knock-on effect on households' purchasing intentions, with consumers anticipating they will increase spending over the coming months as opportunities to spend once again become available to them.



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House Prices and Rents

Property prices outside of Dublin are currently growing at a faster rate than in the capital for both apartments and houses

Property prices outside of Dublin are currently growing at a faster rate than in the capital for both apartments and houses. While housing costs in the rest of the country are still significantly below Dublin levels, the speed up in residential property price growth indicates the shift of some housing demand away from cities and towards towns and rural areas on the back of the pandemic and remote working. According to the Residential Tenancies Board, in quarter 1 2021 rents outside of Dublin were growing at a faster rate than in the capital. Dublin rents were 2% higher annually, while rents outside of Dublin grew by 7% over the same period. Similarly, house and apartment rental prices have been growing the fastest in the Dublin commuter belt, by 4.2% and 7.5% respectively, reflecting the shift in location demand precipitated by the pandemic as Dublin workers move further out. To what extent this trend will persist into the future depends largely on how remote-working and socialising develop in a post-pandemic world.



↑ 1.6%

DUBLIN

↑ 4.3%

OUTSIDE DUBLIN

CSO HOUSE PRICE INDEX Q1 FIGURES



↑ 2%

DUBLIN

↑ 7%

OUTSIDE DUBLIN

RESIDENTIAL TENANCIES BOARD Q1 FIGURES.





84 - 86 Lower Baggot Street
Dublin 2
Ireland.

info@propertyindustry.ie
+353 (0)1 605 1666
www.propertyindustry.ie