



**Property
Industry Ireland**
Ibec

Housing Market Review

FEBRUARY 2022

Welcome to our first Housing Market Review of 2022

Already it looks like this year will be another busy year for the sector. The data show the extent to which the sector worked to make up for the impact of COVID lockdowns on output – with over 30,000 homes commenced in 2021. To ensure the number of homes delivered continues to increase it is important that there is policy certainty to ensure certainty of housing supply.

Property Industry Ireland recently surveyed members again to get an estimate of the number of dwelling completions this year. Members now expect close to 25,000 homes will be completed this year, a significant increase on the outcome for 2021. The results, and a comparison with our earlier survey, will inform and shape PII’s engagement with policy makers in the year ahead.

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 SECTORS



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

In the lead-up to this Housing Market Review PII asked members to estimate how many new dwelling completions there would be in Ireland in 2022.

PII members estimate that on average 24,811 new homes would be built in 2022.

Based on our previous survey this suggest members are more optimistic about output levels in 2022 than in 2021. When we

surveyed members in January 2021 members estimated that they would deliver 20,590 homes in 2021.

Members were asked what they think are the top 3 obstacles (excluding COVID-19) to the delivery of new housing in Ireland. Difficulties with the planning process continues to be seen as the main obstacle to delivery and to the supply of new homes over the short-

term. Labour and skills shortage, the rising costs of material/ supply chain issues were also highlighted as obstacles.

In addition to this, members were asked to estimate how many new dwelling completions there would be in Ireland in 2023. PII members estimate that on average 28,105 new homes would be built in 2023.

24,811

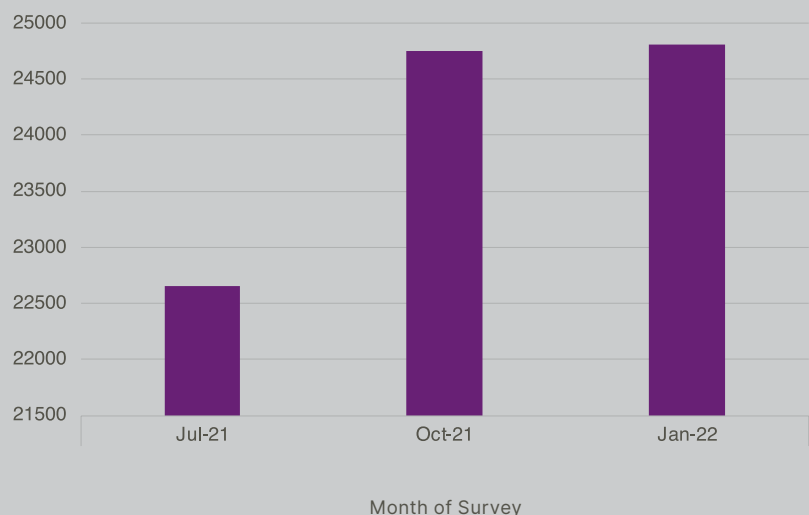
PII members estimate that on average 24,811 new homes would be built in 2022.



Obstacle

The planning process continues to be seen as the main obstacle to delivery.

Home completions forecast for 2022



Mortgage Measures Framework Review

While the Mortgage Measures have been successful in meeting the Central Bank's main objectives, PII believes they have stopped many families with good finances from being able to buy a home, particularly because of the LTI restriction.

THE CENTRAL BANK'S CURRENT LENDING RULES

The Central Bank of Ireland introduced the Macroprudential Mortgage Measures in 2015. The measures were introduced to ensure that:

Banks are lending sustainably



SUSTAINABLE

Borrowers are not borrowing at levels they can not afford



AFFORDABLE

Any house price increases are not because of too much credit being offered



CREDIT LEVELS

There are different limits depending on if the borrower is a first-time buyer, second-time buyer, or investor, and banks are allowed a certain number of exemptions each year



THE CURRENT MORTGAGE MEASURES ARE:

A limit on how much homebuyers can borrow relative to their income (**Loan-to-Income, LTI**)

A limit on how much homebuyers can borrow relative to the price of the home (**Loan-to-Value, LTV**)

These measures are separate from and in addition to the assessment banks do on a borrower's ability to repay a loan

WHY PII THINKS LENDING RULES NEED TO CHANGE



The existing rules have several unintended consequences, including:



WHAT PII RECOMMENDS AS AN ALTERNATIVE LENDING RULE

A Debt Service Ratio (DSR) calculates how much a household has available to spend after taxes and other loan repayments are taken into account.

This sets a limit on how much a household can pay in mortgage repayments based on affordability.

PII believes DSR is a better measure as it takes into account any possible changes in interest rates. It is fairer on households because it is focussed on how much a household must repay instead of what their income is.

A DSR, rather than an LTI, measure is more common in most Europe Union countries.

We show the example of a two-earner household with an income of €75,000.

€75,000 household income: 3.5 LTI limit vs DSR%			
	LTI 3.5	DSR @ 25%	DSR @ 30%
Gross Income	€75,000	€75,000	€75,000
Maximum mortgage	€262,500	€312,650	€375,034
Maximum house price	€291,667	€347,389	€416,704
Net annual income	€61,570	€61,570	€61,570
Net monthly income	€5,131	€5,131	€5,131
Average mortgage interest rate	2.79%	2.79%	2.79%
Maximum Monthly mortgage repayment	€1,077	€1,283	€1,539
Debt Service Ratio (DSR)	21%	25%	30%



We also look at what the current maximum house price is for two earner households earning €50,000 and €90,000.

Property Industry Ireland (PII) believes a new measure called Debt Service Ratio, or DSR, should replace the current Loan-to-Income (LTI) limit

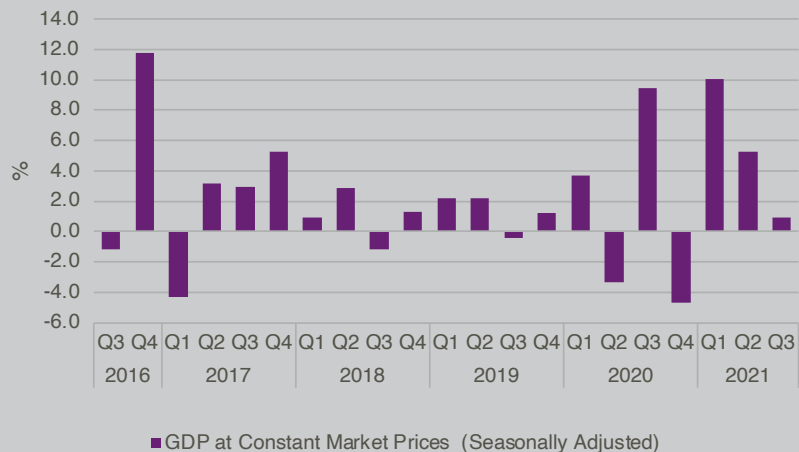
Economic Overview

The Irish economy continues to see rapid demand growth accompanied by ongoing cost and competitiveness pressures. These competitiveness pressures derive from global trends in rising energy costs, ongoing supply chain disruption and a tight labour market across global economies. Despite these trends, the significant tightness in the labour market remains the greatest permanent threat to competitiveness. From a business perspective, 2022 is going to be about managing strong demand, navigating relative price changes and planning for the significant labour market challenge ahead.



Tightness in the labour market remains the greatest permanent threat to competitiveness

GDP Quarterly % Change



Planning Permissions

In the first three quarters of 2021, the number of dwelling units granted planning permission was 29,541, of which 18,165 were apartments and 11,376 were houses. When compared to the same period in 2020, the number of units approved decreased by 14.0% for apartments, 18.1% for houses and a decrease of 15.6% for total dwelling units.

In the first three quarters of 2021, apartments granted planning permission accounted for 61.5% of all approvals granted for total dwelling units. Planning

permission was granted for 7,027 new apartments in the third quarter of 2021.

The region with the highest proportion of apartment units granted approval at 76.2% was Dublin with 5,352 apartments, followed by the West (5.1%) with 360 approvals.

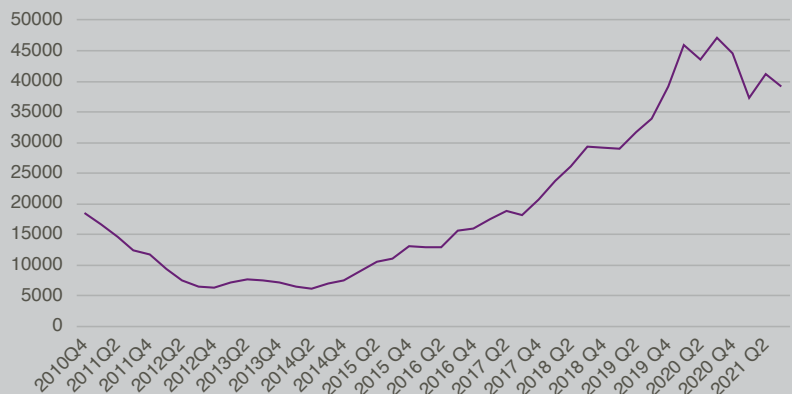
In the first three quarters of 2021, the number of SHD apartment units approved fell by 28.6% when compared with the first three quarters of 2020, while the number of SHD housing units approved declined by 73.4%.



61.5%

Apartments granted planning permission accounted for 61.5% of all approvals

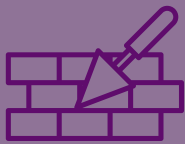
Planning Permissions 4 Q Rolling Sum



Supply Chain Challenges

A recent Ibec survey of manufacturers showed transportation and logistics costs being a major challenge for 64% of them and at least a moderate challenge for 94%. In the same survey, 62% identified the availability of raw materials as being a major challenge in the coming six months. These logistical challenges are likely to continue into the

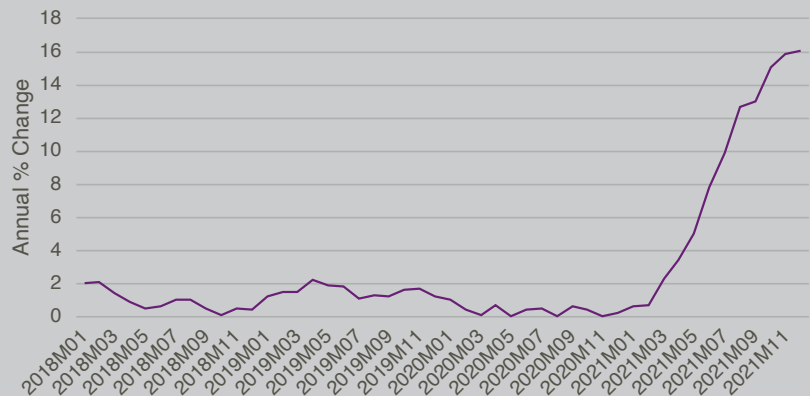
early and middle part of 2022. On the supply side, there are already some signs of an easing with record increases in global freight costs beginning to ease in recent weeks. The major concern for businesses, however, is how quickly or if price levels normalise toward pre-pandemic levels.



62%

62% identified the availability of raw materials as being a major challenge in the coming six month.

Wholesale Price Index (Ex VAT) for Building and Construction Materials



Construction Index

Housing activity, while still expanding, has slowed from its initial surge. In contrast, commercial activity is seeing a rapid increase, with sentiment among construction purchasing managers improving in the face of a positive outlook for the sector. The continued dramatic rise in input costs, along with difficulty sourcing labour and delays in the supply chain all continue to act

as a drag on an otherwise booming industry. In response, the government is to introduce measures to mitigate the impact of rising costs on public projects through shorter fixed-price periods within contracts, allowing for recovery of some of the increases in material costs by the developer, and a mechanism to index tender submission costs to material prices prior to awarding.

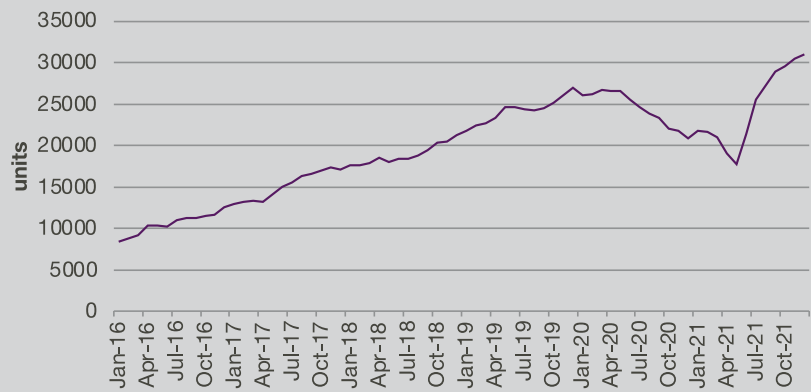
While not all housing commencements result in a completed unit, they act as an early indicator of future housing supply. Commencement data for 2021 show a strong increase when compared with 2020. The number of units commenced reached 30,947, up from 20,823 in 2020.

Dwelling completions performed well in 2021 despite the impact of Covid-19 restrictions in the early part of the year, with 20,433 homes completed – broadly in line with the 2020 completion of 20,526. While a significant outcome, especially given the closure of construction for a third of the year, this is below the annual average of 30,000 needed to meet the governments’ targets under the Housing for All plan. While the pace of housing supply is increasing, the construction sector is facing strong headwinds through rising input and labour costs.

Commencements and Completions

Number of Residential Units Commenced

(12 month moving sum)

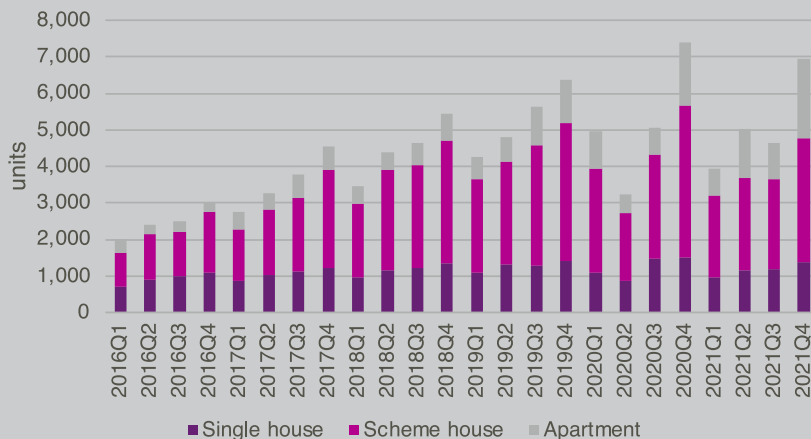


Number of units commenced in 2021 reached

30,947



Dwelling Completions by Type



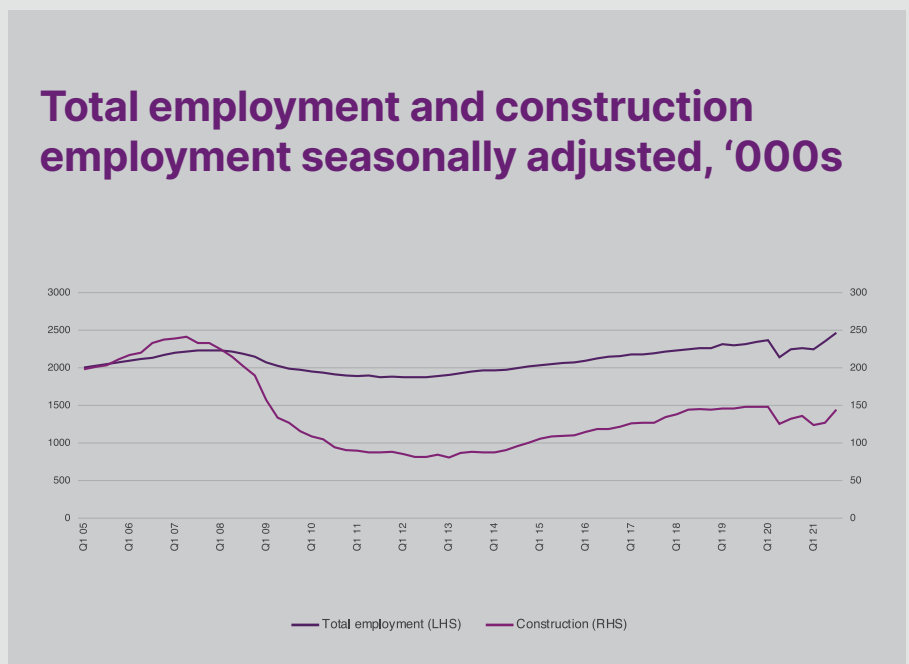
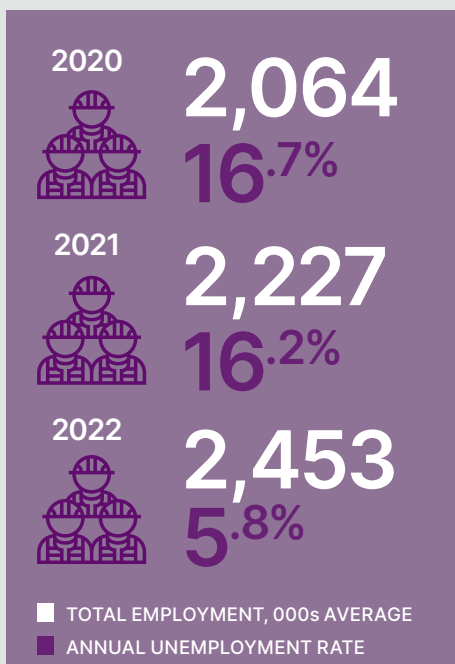
Labour Market

The Irish labour market is experiencing a strong jobs recovery, which has meant a re-emergence of pre-pandemic issues around recruitment and retention that are now affecting most sectors. Total numbers employed in the State, adjusted to strip out numbers on the PUP, show 2.4 million people are currently at work, the highest in the history of the state. The Covid-adjusted unemployment rate is 6.9%, marking a rapid and significant improvement over the earlier half of the year.

Despite the reintroductions of some restrictions in November, employment growth is likely to continue over 2022, albeit at a slower pace, with the unemployment rate likely to be just under 6% for 2022.

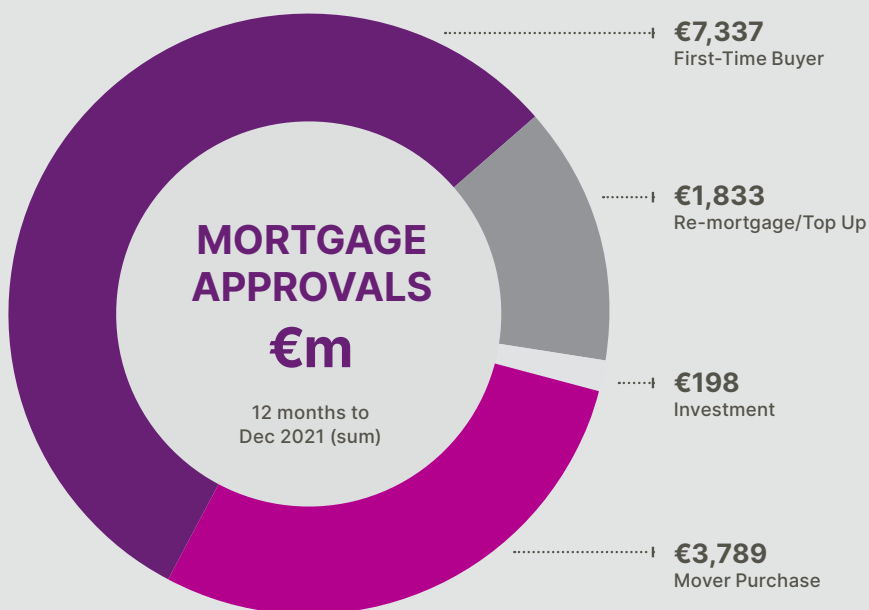
The rollout of the pandemic unemployment payment has been broadly successful in softening the impact of the pandemic on workers in highly disrupted sectors and setting the stage for a more rapid recovery. A recent analysis of closed PUP

cases by the Department of Social Protection showed that Construction, personal services and manufacturing saw between 71% and 74% of those coming off the PUP return to their former workplace, while ICT and Admin had some of the lowest rates of PUP recipients returning to their former workplaces, at 41% and 48% respectively.



Mortgage Market

In 2021 the value of total mortgage approvals amounted to €13.4 billion. First-time buyers accounted for €7.4 billion or 55% of the total. Mover purchasers were approved for €3.8 billion of mortgages, (28% of total) with the balance accounted for by residential investment mortgages and top-ups.



The value of mortgages drawn down by borrowers in 2021 amounted to the value of €10.468 billion. This represents an increase of 25.1% in value compared with 2020 and follows the 12.3% fall in 2020 compared with 2019.



€135^{bn}

Currently held in deposits.

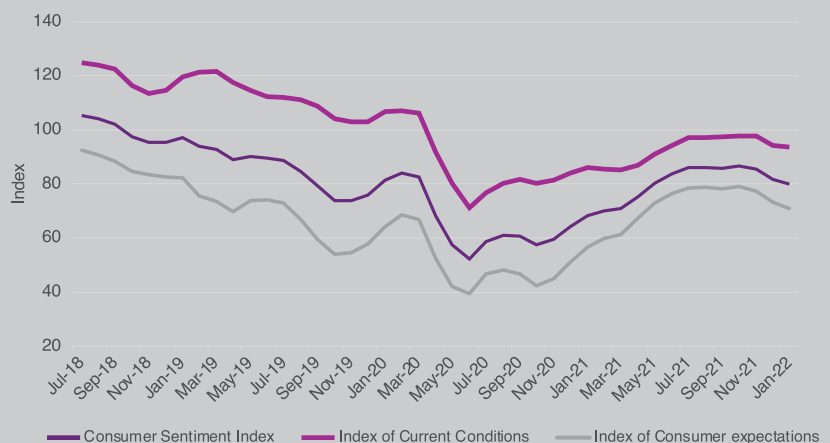
Household Savings

The large build-up in savings among Irish households since the advent of COVID has been well flagged, with a record €135bn currently held in deposits. While pandemic-driven savings have continued this year, it's at a slower rate than 2020, with €8bn in additional savings so far this year compared to €10bn over the same period last year. This reduction in the savings rate will help drive economic recovery. Savings are likely concentrated among higher-income households, comprised of workers who had uninterrupted employment during the pandemic.

Consumer Sentiment

The consumer sentiment index reading for January 2022 of 81.9 shows a recovery from the reading in December 2021 of 74.9. The recovery was broad based, reflected in consumer's perception of current conditions as well as in their outlook for the economy and the labour market.

KBC/ESRI Consumer Sentiment 3 month moving average

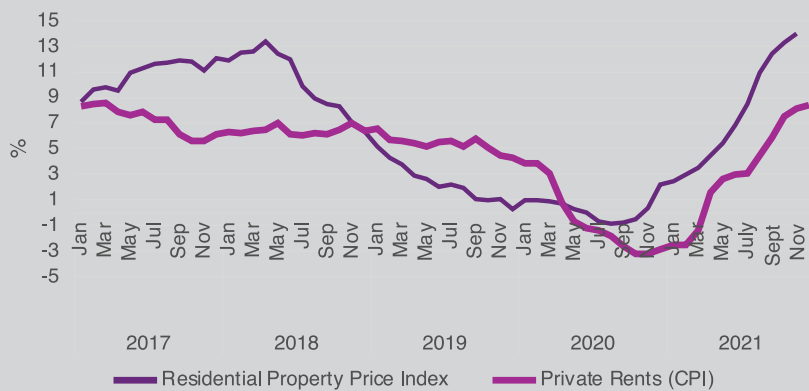


House Prices and Rents

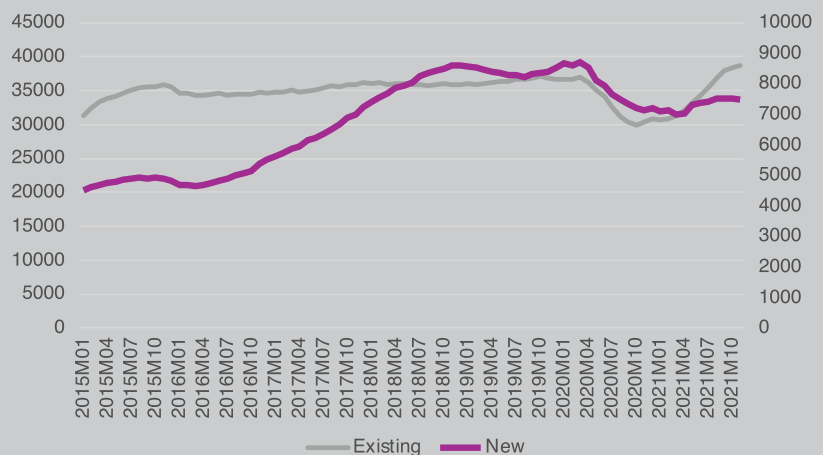
The consumer price index is reflecting annual growth in rents of 8.4% in the year to December 2021. For homeowners, the prices of properties have also been increasing strongly, with the national price of apartments up 12% annually and houses up 14.3% in the year to November. House price growth has been fastest in the border counties, at 24%, followed by the South-East at 20.2%. The Mid-East, South-West and Dublin regions have seen strong but comparatively lower price growth this year, in the range of 12.6% to 13.9%.

In the 12 months to November 2021, households purchased 46,237 dwellings a 23.6% increase compared to the 37,413 purchases in the year to November 2020. Existing dwellings accounted for 38,748 (83.8%) of the dwelling purchases.

Private Rents and Residential Property Prices Annual % Change



Transactions



12%
Apartments



14.3%
Houses



National price of apartments up 12% annually and houses up 14.3% in the year to November



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