Property Industry Ireland
Ibec

Housing Market Review

NOVEMBER 2021

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Welcome to the fourth PII Housing Market Review of 2021.

It has been a busy year for property market policy. Not least, we have seen the announced end of SHD, introduction of LSRD, Housing for All, the National Development Plan and Budget 2022. PII have made submissions to Government on all these policies. While the policies contain many positive measures, they are feeding into an already complex policy environment for property. As we move into 2022 it is increasingly important that there is policy certainty to ensure certainty of housing supply.

This review also includes details of our recent report on off-site construction. Increased use of off-site construction can help address some of the issues facing housing delivery. This contribution can only be achieved, however, if there is engagement from all stakeholders, including the offsite construction sector itself and the government.

Property Industry Ireland recently surveyed members again to get an estimate of the number of dwelling completions this year. Thank you to all who responded. 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

DEVELOPERS | CONTRACTORS | ESTATE AGENTS | FUNDERS | PLANNERS | ARCHITECTS | SURVEYORS | PROJECT MANAGERS | LEGAL | PROFESSIONAL SERVICES | MATERIALS MANUFACTURERS

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.

Innovation Increasing Supply – the role of offsite construction in addressing the housing crisis

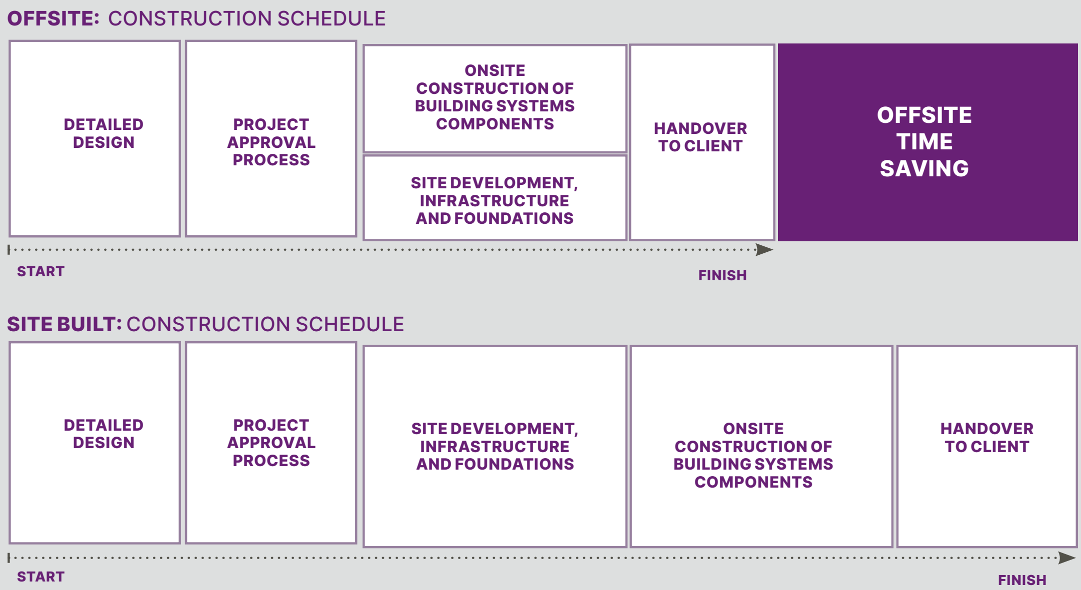
In October, Property Industry Ireland (PII), launched "Innovation Increasing Supply", a report on how offsite construction can help support the ambitions of Government programmes in addressing the housing crisis.

PII are pleased to see the focus on Modern Methods of Construction and off-site construction in Housing for All, the Government's recent housing plan to 2030. There is a big challenge to meet the targets set-out in the plan - innovation is needed to translate these targets into homes for families. This report highlights some of the contribution the industry can make to reaching this goal.

Offsite construction offers a valuable solution to several issues facing housing delivery in Ireland

The increasing use of offsite construction methods demonstrates the commitment of the Irish property and construction sector to the adoption of new technologies, innovation in the sector, and to encouraging further investment.

Offsite construction offers a valuable solution to several issues facing housing delivery in Ireland – increasing the speed of delivery, delivering more sustainable homes, and reducing the need for onsite labour. This contribution can only be achieved, however, if there is engagement from all stakeholders, including the offsite construction sector itself and the government.



Offsite and onsite construction timelines (From: Building Offsite, An Introduction)

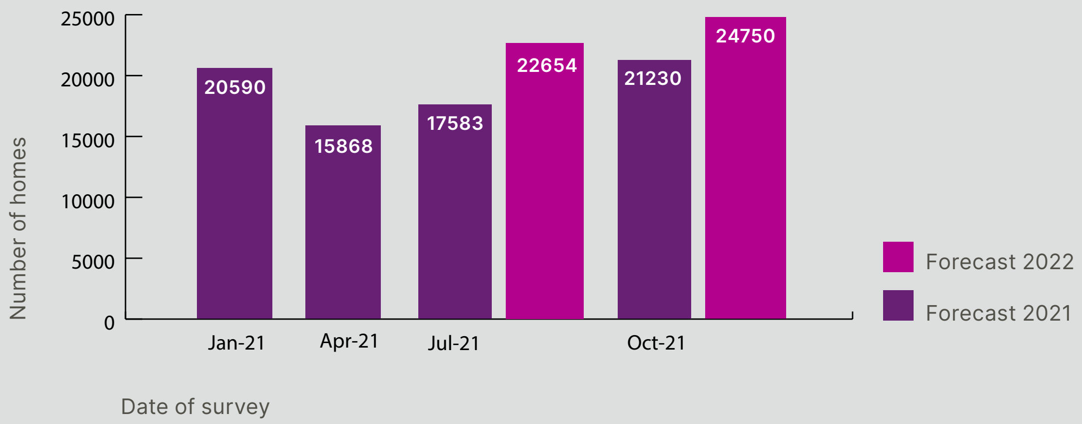
PII Housing Completion Survey

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 2021. PII members estimated that on average 21,230 new homes would be built in 2021, up from 17,500 in July.

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 and infrastructure were also highlighted as obstacles.

PII members estimate that on average 24,750 new homes will be built in 2022

In addition to this, members were asked to estimate how many new dwelling completions there would be in Ireland in 2022. PII members estimate that on average 24,750 new homes would be built in 2022, up 10% on the previous estimate of 22,500.



Housing for All Plan

Under the recently announced Housing for All plan, the Government has committed to delivering 300,000 new homes by 2030. Just over half of these new units are intended to be provided by the private sector, while the balance will be delivered as a mix of social and affordable housing. Since 2019 there have been around 20,000 total new dwellings completed in Ireland each year. Achieving the plan's targets would mean delivering an average of 33,000 dwellings a year, requiring a rapid scaling of housing output that is likely to be backloaded towards the end of the decade.

300,000 new homes by 2030

33,000 per year

€4bn spending

Under the Housing for All plan, 90,000 additional social housing units are targeted for 2030. Before COVID, social housing output had seen between 4,000 and 6,000 new builds delivered by local authorities and approved housing bodies each year. This would need to rapidly increase towards 9,500 annually. While the additional €4 billion in spending on housing under the plan should go some way towards providing urgently needed additional supply, the timing of this investment means that rising labour and construction input costs will likely impact both project timelines and the total cost of delivery.

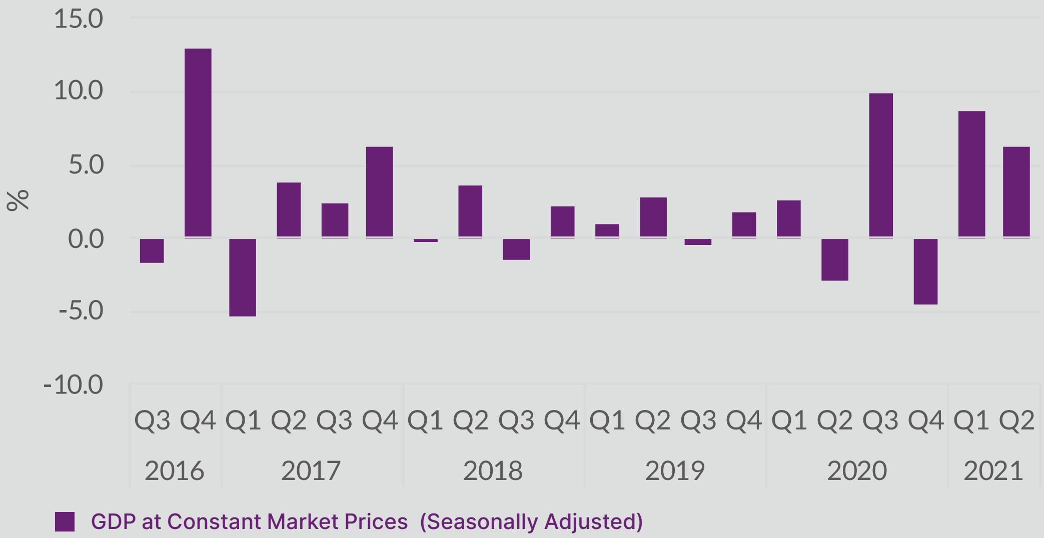
Projected Housing Output (New Build) 2022 - 2030

Tenure	2022	2023	2024	2025	2026	2027	2028	2029	2030
Social	9000	9100	9300	10000	10200	10200	10200	10200	10200
Affordable and Cost rental	4100	5500	6400	6400	6100	6300	6400	6300	6300
Private rental and Private Ownership	11500	14400	17750	18200	19800	20400	21500	23000	24000
Total Homes	**24600**	**29000**	**33450**	**34600**	**36100**	**36900**	**38100**	**39500**	**40500**

GDP Growth

As we emerge from the pandemic the Irish economy is seeing a rapid recovery in domestic demand across almost every sector. The resilience of our business model has again shone through. Both locally and globally, however, this welcome bounce back from the pandemic has been tempered by significant cost increases in key inputs, energy prices and the cost of transport. In addition, the Irish labour market is experiencing capacity pressures linked to our significant supply shortages in our housing market. Ireland as a small open regional economy and an island nation is more reliant on global supply chains in areas from energy and material inputs to transport and skills. As such our continued prosperity remains more vulnerable to competitiveness shocks than most. As we have drawn attention to in the past – Ireland is also likely to suffer a greater competitiveness challenge from Brexit, from international tax reform and due to our laggard status in completing the low carbon transition. The key to weathering an exceptionally volatile external environment and reaping the long-term opportunities economic re-opening can bring is ensuring we protect our competitiveness. This can only be done by controlling costs where we can and prioritising strategic investments in innovation, digitalisation and skills.

GDP QUARTERLY % CHANGE



Planning Permissions

The number of dwelling units granted planning permission in the first two quarters of 2021 was 18,113, of which 11,138 were apartments and 6,975 were houses. Compared with the same period in 2020 this represents a total decrease in dwelling units approved of 15.4%.

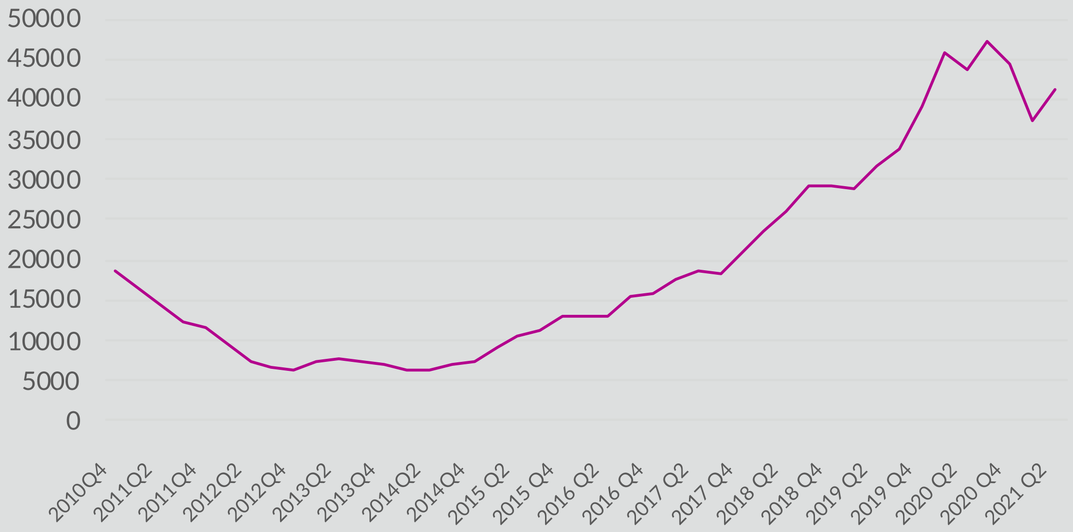
In quarter 3 of 2019, for the first time, more apartments than houses were granted planning permission, a trend which has continued up to the current quarter. In the first two quarters of 2021, apartments granted planning permissions accounted for between 55% and 66% of approvals granted for total dwelling units.

The new planning process for large scale residential developments must be prioritised to avoid delays in the supply of much needed new homes

In the first two quarters of 2021, the number of SHD apartment units approved fell by 33.9% when compared with the first two quarter of 2020, while the number of SHD housing units approved declined by 77.0%.

A 42% decline in permissions for multi-development housing units in the first half of the year means that there is an urgent need to implement the Housing for All measures aimed at increasing supply. The new planning process for large scale residential developments must be prioritised to avoid delays in the supply of much needed new homes.

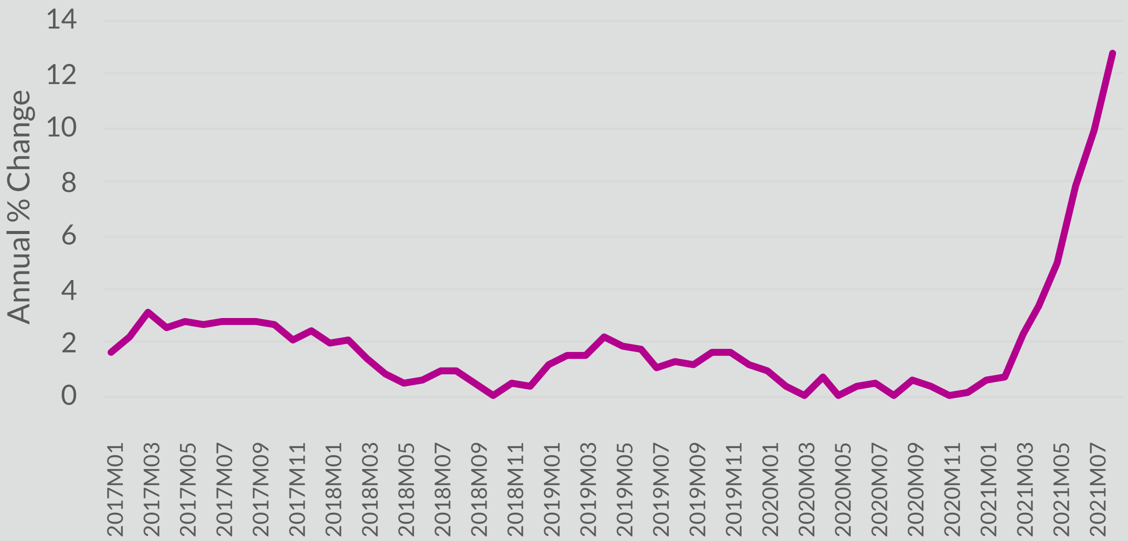
PLANNING PERMISSIONS 12 MONTH SUM



Supply Chain Challenges

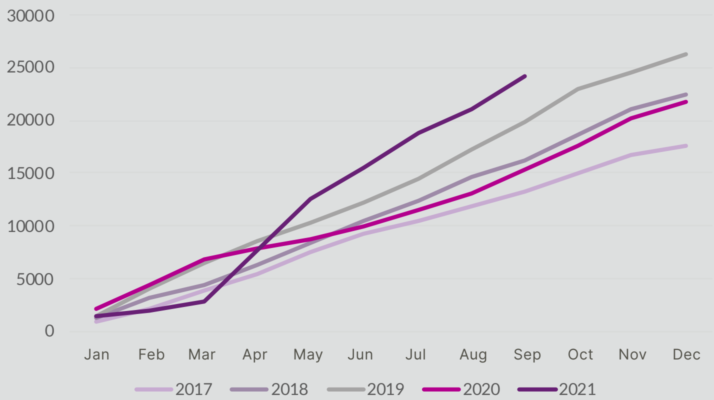
Sharp increases in both the global demand for building materials as construction resumes around the world and rising transport costs are driving ongoing cost pressures on construction activity. Overall building materials wholesale prices have risen by 12.7% annually. Timber prices in Ireland have risen between 58% to 65% annually, while structural steel and reinforcing metal wholesale prices have risen by a fifth over the same period. Similarly, electrical fittings, plaster and PVC have all seen an increase in the range of 15% to 20%. The resumption of construction projects delayed due to COVID in many developed countries, as well as an uptick in new projects, have placed pressure on supply chains globally, as materials suppliers struggle to keep up with a sudden bounce-back in demand. Adding to difficulties in the sector, international shipping costs continue to rise, further increasing costs and worsening lead times. Sea and land freight costs have been rising globally, with the average cost of shipping a 40ft container from East Asia to Northern Europe at a record high of $14,000, an increase of 570% over the previous year.

BUILDING MATERIALS WHOLESALE PRICES



Commencements & Completions

Commencement data for the first 9 months of 2021 show a strong increase when compared with the same period in both 2020 and 2019. Following the re-opening of all residential construction there has been strong activity levels. Despite the lockdown the data show that commencements this year will exceed those achieved over the past few years. In the 12 months to September close to 29,000 dwellings were started.

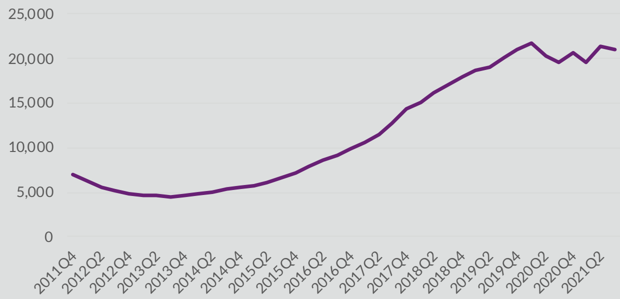


Despite the lockdown commencements in 2021 will exceed the past few years.

COMMENCEMENTS 12 MONTH ROLLING SUM

Dwelling completions in the first nine months of 2021 have reached over 13,500, up 2.8% on the same 9 months in 2020. Scheme dwellings make up over half of new dwelling completions. This dwelling type accounted for 52.8% of all new dwelling completions this quarter, while there were 25.7% single dwellings and 21.5% apartments. This compares with 56.8% scheme, 29.0% single and 14.2% apartments in Q3 2020.

The growth in completions for the first 3 quarters underlines the work the sector has done to make up lost time given the 4-month lockdown at the start of the year. While completions in Q3 are down on the same quarter in 2020 this reflects the decline in commencements during 2020 as COVID restrictions impacted on activity.



DWELLING COMPLETIONS 4 QTR MOVING SUM

Labour Market

Widespread disruption in the labour market has resulted in the unusual position of both relatively high numbers seeking work and simultaneous skills and labour shortages in certain sectors. As the economy kicks back into high gear, with both consumer demand and construction taking off, the hospitality and construction sectors are reporting difficulty filling vacancies, while pre-existing pinch points within ICT and Finance are persisting. To accommodate strong economic growth over the coming years and Ireland's ambitious plans in terms of housing and carbon reduction, there will be an urgent need for new skilled labour. To this end, Government forecasts expect that we will need a minimum of 17,500 additional construction workers annually over the next four years. In addition, the action plan on apprenticeship commits to doubling annual apprenticeship registrations, up to 10,000 a year to address skills shortages in a wide range of areas. With the inward migration of workers declining even before COVID, there will be an increasing need to train for in-demand skills domestically.

Ambitious housing targets

Skills and labour shortages

Retraining demand

Employment Forecast

	2020	2021 (f)	2022 (f)
Total employment, 000s annual average	2,064	2,108	2,247
Unemployment rate (annual average %)	16.7%	17.4%	8.1%

Mortgage Market

In the year to August 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, with the balance accounted for by residential investment mortgages and top-ups.

The value of mortgages drawn down by borrowers in the first half of 2021 amounted to the value of €4.4 billion. This represents an increase of 26.4% in value on the same period in 2020.

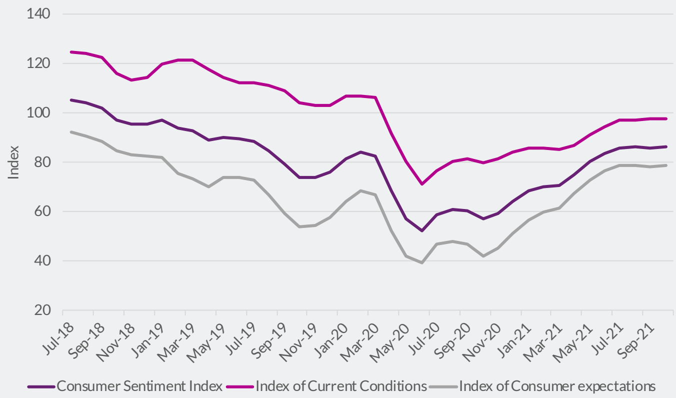
In the year to Quarter 2, 2021 the total value of mortgages drawn down amounted to nearly €9.3 billion, the bulk of which, 53%, were drawn down by first-time buyers.

55%
MORTGAGE APPROVALS WERE FIRST TIME BUYERS

€9.3bn
Q2 2021 MORTGAGE DRAWN DOWN VALUE

Consumer Sentiment

The consumer sentiment index reading for October stood at 86.8, broadly unchanged from 86.4 in September. Sentiment has been largely unchanged since July. While the October reading indicates Irish consumer sentiment remains steady, the dominant mood would appear to be continuing caution, reflecting uncertainty. The October survey suggests Irish consumers remain in a wait and see mode.



KBC/ESRI CONSUMER SENTIMENT 3 MONTH MOVING AVERAGE

Household Savings

Total deposits from Irish households in Irish banks rose to €124 billion in Q2 2021. This is an increase of just under €20 billion (19%) relative to the final quarter of 2019. Deposits from Irish households now outstrip outstanding lending to Irish households by almost €39 billion, the highest level of record. Relative to other eurozone countries Ireland has gone from having a savings rate (as a share of after-tax income) which was (10.5%) well below average (13.3%) in 2019 to one which was the highest in the eurozone in 2020. Ireland was, at 25.7%, marginally ahead of other countries with high saving rates such as the Netherlands (25.4%), Slovenia (25.3%), Germany (24%) and Belgium (22.2%). In part, these savings have been driven by the fact that Irish households spend significantly more – as a percentage of their after-tax income – on eating and drinking out, travel, entertainment and other areas of the Experience Economy. A return even toward normal rates of saving on new income could, regardless of the use of existing pandemic savings, significantly increase consumer spending. Every five percentage points drop in the rate of savings in 2021 and 2022 relative to 2020 would release a little over €6 billion for household consumption.

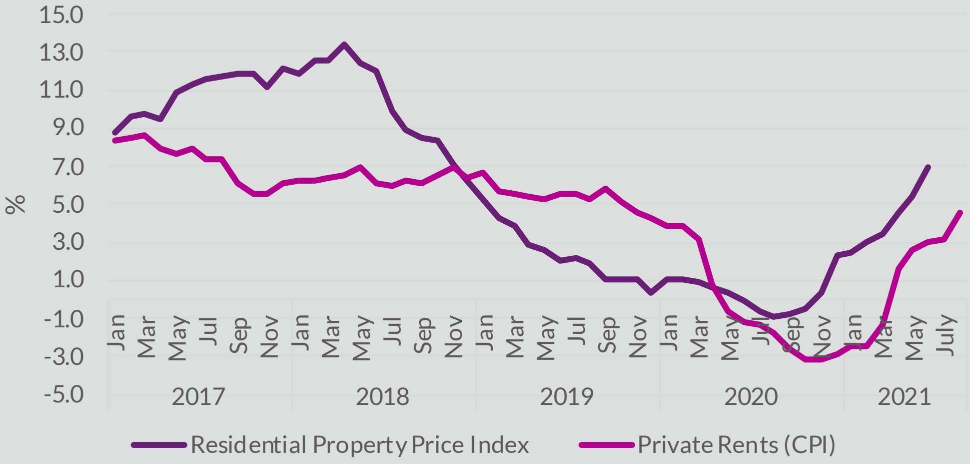
€124bn
Q2 RISE IN DEPOSITS 2021

Highest savings rate in the Eurozone (2020)

House Prices and Rents

Recent data from the CSO highlights the impact of the housing crisis on homeownership and tenancies in the country. Both first time home purchases and trading-up are happening later in life amid undersupply of housing and higher barriers to mortgage approval. In 2010 the median age of home purchase, including apartments, was 35. By 2019 this had risen to 38. The change was even more marked for sole purchasers, including single parents, for whom the median age of home purchasers rose from 34 to 42 over the same period. The effect of mortgage lending restrictions is also coming through in the demographics of who is buying residential property, with joint purchasers making up two-thirds of all purchases in 2019 compared to just under half of all purchases a decade ago, as single buyers find it harder to meet the deposit and loan-to-income restrictions amid rising property prices.

PRIVATE RENTS AND RESIDENTIAL PROPERTY PRICES ANNUAL % CHANGE



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