Property Industry Ireland
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Housing Market Review

DECEMBER 2022

Welcome

This is the final Property Industry Ireland Housing Review of 2022. In it we reproduce a recent article by PII's Chair, Ivan Gaine, setting out the issues and challenges that we continue to deal with – many of these will be the focus of PII's work in 2023. Thank you to our member companies for their input and support in 2022. It has been a busy year with many submissions to and engagement with Government. Our submissions would not have as impactful or our engagement as fruitful without the expertise and insights given to us by our members. It is much appreciated.

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.

I would like to wish you all a Happy Christmas and all the very best in the New Year. We look forward to working with you in 2023.

Please feel free to get in touch.

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.

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The Housing System… during a troika of change.

In a time when we are living through a troika of climate, technological and monetary policy change, new housing of all tenures needs to be three things viable, sustainable and affordable.

If we were to write the Santa Claus wish list to aide housing delivery, they would include planning reform with achievable targets and a collaborative spirit between the public and private sectors to combine, compliment and figure out solutions. Many local authorities and bodies such as An Bord Pleanala and the LDA are crying out for investment and talent and the system needs to be resourced and rebooted.

Whatever about the pandemic years we're now experiencing the new normal, with hyper-inflation, 'normalised' interest rates and higher capital return requirements. Housing for All is a year old and the actions over the next 100 days will be incredibly important for our growing society, not to mention a few political careers.

We are promised a new Planning Bill in the coming weeks. We understand there will be significant change to the Development Plan cycle extending out to 8 – 10 years. Removing uncertainty around statutory timeframes, judicial reviews and vexatious appeals will deliver a more efficient and effective planning system. The devil will be in the detail, but this should improve matters in the medium term although challenges in the short-term particularly with the current back log within An Bord Pleanala.

There is a consensus on the census that there is much greater housing need than targeted within Housing for All and the National Planning Framework. The humanitarian crisis in Ukraine and beyond is clearly exasperating that need and is putting additional strain on both the housing system, public system and hospitality. We need to be much more ambitious and ensure a fit for purpose National Planning Framework targeting an average of 50,000 – 60,000 homes per annum of all tenures and typographies. The Minister recently spoke about the ongoing review of the NPF to be concluded in early 2023. In my opinion, this should include some upside risk on population flows.

The combination of proper targets and a streamlined planning system do give rise for some degree of optimism.

There also appears to be progress on Compact Settlement Guidance and the latest update within Housing for All notes draft guidance will be published prior to Christmas. In simple terms, this relates to a change in approach to allow for medium density, low rise own-door housing, ranging from 40 to 70 per hectare. Think Stoneybatter or Ranelagh and other town and village centres around the country. Density does not relate to height and to visualise a hectare, just under 2.5 acres is roughly the size between a rugby pitch and a GAA pitch!

Taking a glass half approach to the medium term, what about the short-term horizon for the next couple of years? Strangely, industry does have a small amount of 'pent-up' delayed supply. Over the past 3 years, we have witnessed a pandemic pause followed by a Putin pause which delayed delivery in the period. While there are challenges to viability, there is a moderate amount of legacy housing pipeline which will hopefully come to the market over the next few years. As a result, and pending the systemic changes, we anticipate flat to decreasing gross commencements and completions with the tenure composition of those completions changing with the LDA being a larger participant.

The owner-occupier market has shown good resilience in the Autumn period, and the supports such as the First-Time Buyers rebate and First Home Shared Equity are increasingly important to aspiring buyers. There is a greater awareness of the First Home scheme but there are issues with price caps below replacement/viable cost levels for larger parts of the country. We welcome the bi-annual reviews and are hopeful that some tweaks will result in both greater viability and affordability, as you can't have one without the other.

Project Croi Conaithe (cities), the subvention for apartment delivery is still under consideration and should be extended beyond owner-occupier only developments to deliver mixed tenure homes. Under Project Tosaigh it is good to see cost rental in North Wicklow and affordable purchase homes in Cork coming to market within the last month.

While it may be obvious that increasing supply will require more money, what is not always appreciated is that this requires not alone Government finance, but funding from all other possible stakeholders: banks, local and international investors, developers, and homeowners. It was heartening to hear Minister Darragh O'Brien acknowledge the need for €12bn + capital in the form of development and investment capital to assist delivery. With a couple of billion from the pillar banks and €4bn from Housing for All, we need to attract and co-invest at least €6bn per annum of private investment into the sector.

Personally, I think housing delivery requires more like €20bn per annum of development and investment funding, calculated simply as 50,000 new homes at an average of €400,000 cost per unit.

Housing for All has ambition, but it is failing within the rental sector particularly if one attempts to rent a house. Two changes to reform the penal stamp duty rates on investment in housing and a review of the rent caps could aide rental supply.

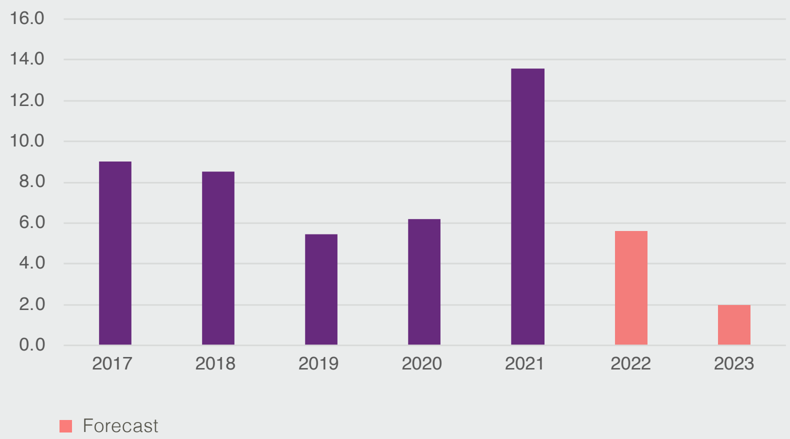
Despite a lot of pessimism and very real challenges we are hopeful for a step up in the pace of systemic change, long term targeted planning and greater delivery into the future.

Ivan Gaine FSCSI FRICS,
Chairperson of Property Industry Ireland, MD of Sherry FitzGerald New Homes.

Economic Outlook

The international economy is in a place of significant challenge. High rates of inflation, rising interest rates and volatile energy markets have all driven deep downward revisions for international growth rates in 2022. The last decade has seen the lowest interest rates globally since the start of the modern industrialised economy in the 18th century. The prospect of an economic reset through accelerated monetary tightening by the world's major Central Banks, is one which will lead to some further instability in financial markets globally. Ireland's strong economic momentum – exemplified by rising employment and tax revenues - which had defied the backdrop for much of 2022 will be challenged over the winter. As a small open economy, we are exposed to the prospect of a global economic slowdown and recessions in some major trading partners. The Global economy is experiencing a period of reset to normalised monetary policy and higher energy costs. The key question facing businesses planning for the year ahead is no longer whether that reset will be challenging, but rather how long those challenges will last.

GDP Annual % Change



The international economy is in a place of significant challenge.

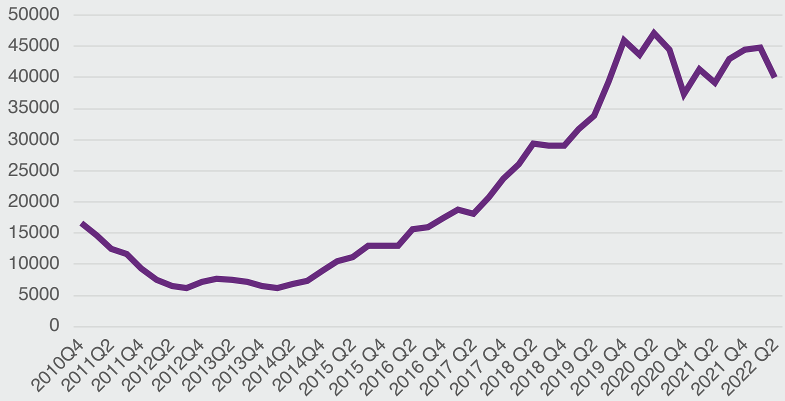
Planning Permissions

CSO data show diverging trend in planning permissions by home type. Planning permissions for multi-development houses grew in the four quarters to Q3 by 28.6% compared with the same period to 2021. In contrast, planning permissions for apartments declined by 9.4% over the same period. The annual data the extent to which apartment planning permissions have recently declined, down by 28.6% in the first 9 months of 2022 when compared to the first nine months of 2021.

The data highlights the importance of the upcoming output from the Attorney General's review. Timescales to get planning permission have widened. Reform is needed to reduce these timescales and provide certainty around the process. It is concerning for the delivery plans of Housing for All that the planning permissions for apartments have decreased so significantly. All housing typologies are needed to meet the targets.

Planning Permissions

4 Q Rolling Sum

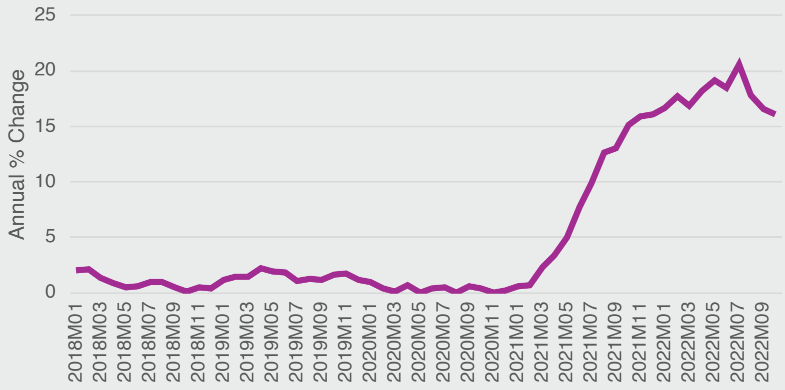


Timescales to get planning permission have widened.

Supply Chain Challenges

Pressures in global supply chains, which dominated the economic outlook globally, have shown signs of easing in recent weeks. For example, the cost of shipping a 40-foot non-refrigerated container from East Asia to Northern Europe has fallen to $5,500 in October, from a level of between $10,000 and $15,000 between July 2021 and the end of August 2022. This is relative to pre-Covid norms of around $2,000. The Federal Reserve Bank of New York's Global Supply Chain Pressure Index, which captures several real time indicators of international freight costs and business delivery times, backlogs and stock levels has also seen a broad-based fall in the past 5 months, having peaked in December 2021. Some continued normalisation of supply chains is likely over the coming 12-months, not least because of a slowdown in demand from some major economies

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



Some continued normalisation of supply chains is likely over the coming 12-months.

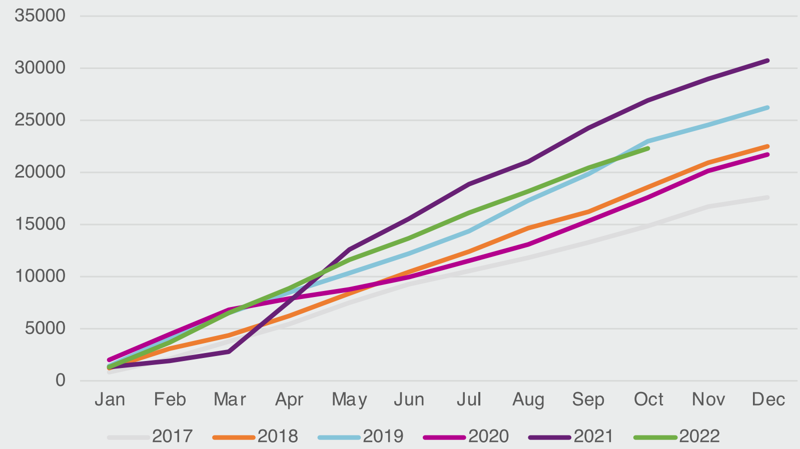
Commencements and Completions

The second half of 2022 saw monthly home commencements dip below the levels seen in the same month the previous year. The 12 month rolling sum started the year at over 31,200 but has since declined to just over 28,400 in October. Based on the commencement data, Housing for All delivery targets for 2023 may prove difficult.

Dwelling completions have increased by over 50% in the first nine months of 2022 when compared with 2021. New home completions of 20,807, up from 13,594 in the first nine months of 2021, is a significant upscaling of output by the sector, higher than the annual total for 2021 (20,560). Although this is a reflection of the recovery in construction activity, housing supply is unlikely to meet demand in the medium term. On the supply side, construction costs are rising rapidly as inflation and rising interest rates affect both materials and the cost of financing. Under the Government's 'Housing for A ll' plan there is a target of an average of 35,000 new homes a year over the next nine years to meet demand. Trends in terms of the rising population and smaller average household size suggest that the real demand for housing may be significantly above this figure.

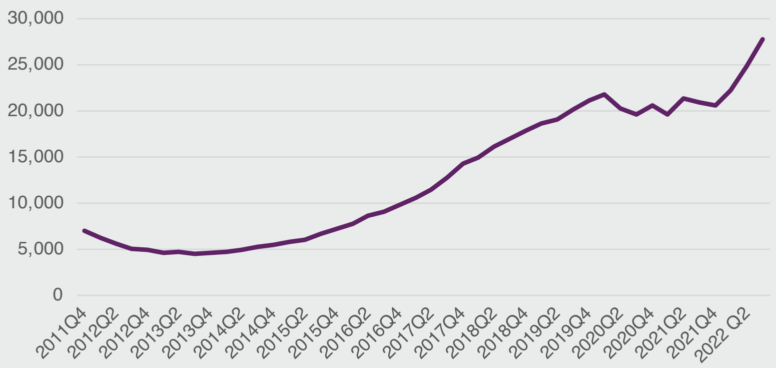
Commence units

(year to date)



Dwelling Completions

4 Quarter moving sum



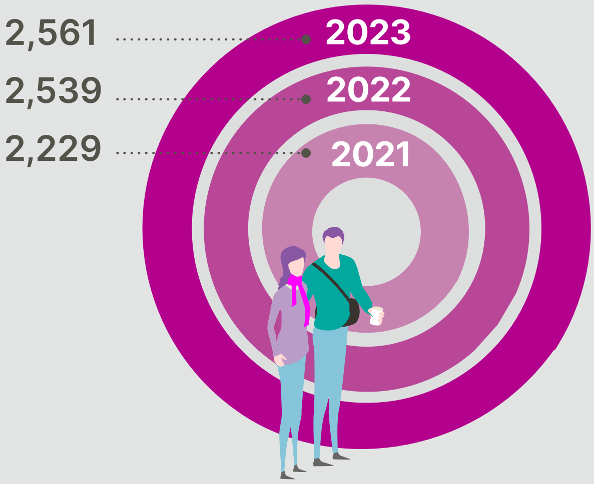
Housing supply is unlikely to meet demand in the medium term.

Labour Market

The Irish labour market remains tight on the back of high employment, despite difficulties in the wider macroeconomy and rising costs for businesses and consumers. The monthly unemployment rate has fallen to 4.3%, a low not seen since the Celtic-tiger era. When youth unemployment is stripped out, the unemployment rate for adults aged 25-75 is 2.9%. While there have been some marginal declines in employment across certain sectors, widespread difficulties in attracting and retaining key skills remain. Given the difficult headwinds confronting businesses this winter, the expectation is that there won't be a significant reduction in employment, but rather a slow-down in new hiring, as businesses face both higher costs and a tight labour market in which it is difficult to recruit. As a result, we expect unemployment to average 4.7% for 2022, and to come in at 4.3% on average in 2023 on the back of ongoing employment growth.

Employment Annual Average

TOTAL EMPLOYMENT,
000s ANNUAL AVERAGE



UNEMPLOYMENT RATE (ANNUAL AVERAGE %)

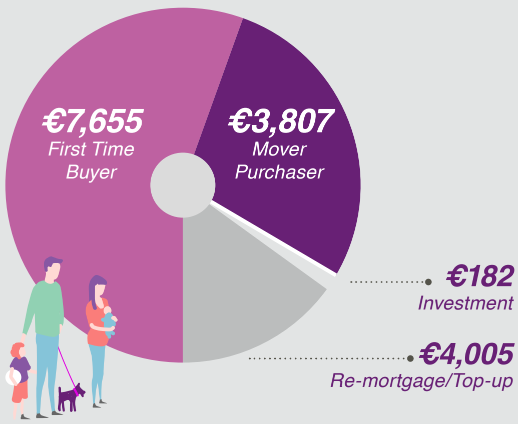
2021	2022	2023
16.2%	4.7%	4.3%

Mortgage Market

A long-term upward shift in savings rates among Irish households, along with the consistent paying down of debts has left households in aggregate with a significantly improved financial position compared to 2015, when mortgage lending rules were introduced. On the back of improved stability of Irish household finances, the Central Bank is easing its loan-to-income restrictions for first-time buyers from January to allow mortgage borrowing of up to four times income, increasing from the previous multiple of 3.5 times income. This brings the loan-to-income restrictions more in line with countries with similar regulations such as the UK and much of the EU. The total value of housing assets held by households is at a record high of €674bn, driven by rising house values. While reduced limits on borrowing may bring home ownership in reach of some people, it also comes at a time when rising interest rates will increase the cost of mortgage payments for both new and existing homeowners. In response, banks are increasing rates and tightening their credit standards for mortgage applicants, reflecting higher risk of non-performing loans in the current environment.

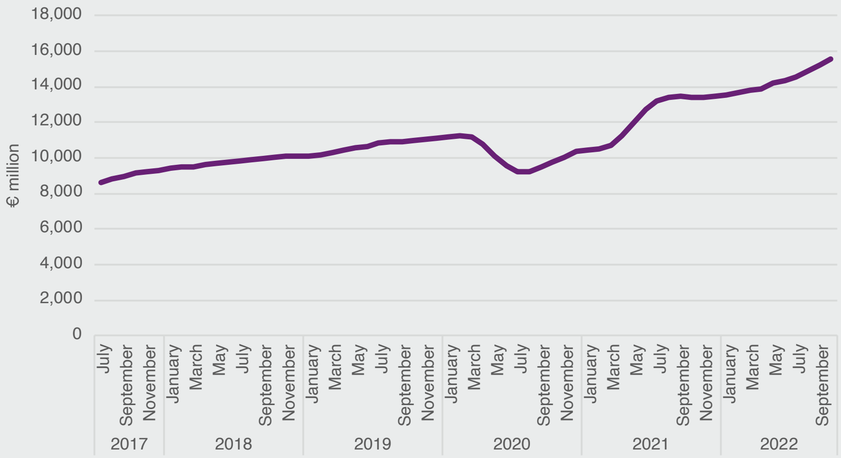
Mortgage Approvals, € million

12 months to October 2022 (sum)



Mortgage Approvals, € million

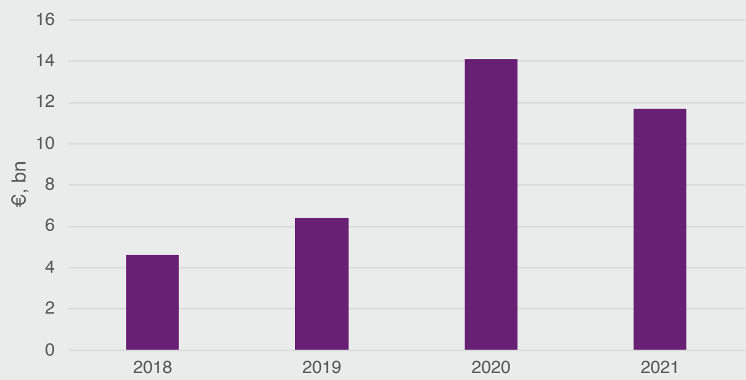
(12 month moving sum, BPFI data)



Household Savings

The Irish economy is still seeing exceptional rates of household saving in the post-pandemic era. Household deposits with Irish banks reached a level of €149 billion in August. This is up from €141 billion in August 2021 and a pre-pandemic level of €110 billion. This level is now €29 billion ahead of its pre-pandemic trend. Whilst the growth in savings has slowed in 2022 it is now up €6.4 billion since March. Given the scale of these savings (over €70,000 per household in the country) and their concentration in middle and higher income households, it is clear that a significant share of households have material buffers against inflationary pressures. In a European context, the 20% savings rate of Irish households in Q2 2022 was similar to German or Dutch levels, putting Irish households at the very upper end of European savers. Given other major investment challenges in the Irish economy, it is possible the current rate of savings is above what is optimal.

Addition to Household Savings, Bn



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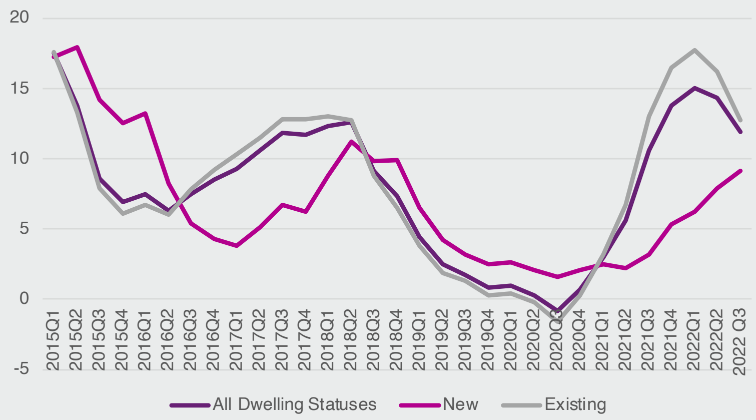
House Prices and Rents

Of the 67,915 total dwelling sales in the past year, a quarter were bought by first-time buyers, 45% were bought by non-first-time household buyers intending to occupy the dwelling, 18% by companies, state institutions or NGOs and 12% by non-first-time buyer households not intending to occupy the property. Over the last year, the median price of properties bought across Ireland, which includes both houses and apartments, has averaged €302,000 for first-time buyers. In Dublin, the median price of properties bought by first-time buyers over the past year was €390,000. Houses act as the most significant store of wealth for Irish households, with median net wealth of homeowning households at €303,000 compared to just €5,300 for renters.

Residential Property Prices Annual % Change



Property Industry Ireland
Ibec

84 - 86 Lower Baggot Street
Dublin 2
Ireland.

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