Property Industry Ireland
Ibec

Housing Market Review

SEPTEMBER 2022

Welcome to our latest Property Industry Ireland Housing Review.

CSO data show dwelling completions increased by nearly 50% in the first half of 2022 when compared with 2021. This level of new home completions, amounting to 13,316 in the first six months, shows the scale of the sector's response to the housing need.

The new home delivery environment is becoming more challenging. The cost of raw materials has risen significantly, impacting the viability of future delivery. We know from the recent Census that population growth has exceeded projections.

Ireland's population is estimated to be 5.1m, an increase of over 361k on our population in 2016. The average increase of 60k per year since the last census in 2016 is at a faster rate than the 50k per annum provided for in the National Planning Framework. At this rate, we will reach the NPF forecast of around 5.7m people in 2032 - 8 years early.

The strong growth in population, particularly in the east of the country, means we need to urgently look at what policies are needed to meet a higher than previously anticipated housing need. This Census data removes ambiguity and uncertainty around the size of our population. There is an urgent need to revise housing targets, particularly in our development plans and land zoning. There is also the opportunity for further sustainable and viable growth through reform to our housing design guidance.

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.

Please feel free to get in touch.

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.

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PII Member Survey

In August PII surveyed its homebuilder members to find out their view of the level of home completions for 2022 and 2023. The responses reflect the views of Ireland's main homebuilders.
Three quarters of the homebuilders who responded have revised down their expectation of national home completions since the beginning of the year.

The environment for the delivery of new homes remains very challenging with homebuilders view of a range of market factors becoming more pessimistic since the beginning of the year.
To address some of the concerns raised about the planning process, a Property Industry Ireland Working Group have prepared a report on reforms that can be undertaken to improve the delivery of planning approvals and speed-up the delivery of housing.

KEY FINDINGS

Completions in 2022 are expected to be in line with the Government's Housing for All plan.

2023 COMPLETIONS

Home completions in 2023 are expected to be lower than 25,000. This compares to a Government target of 29,000 and is lower than completion forecast for 2022.

COMPLETION DELAYS

The main reasons behind this downward revision include planning system delays (including judicial reviews), viability challenges and the availability of zoned land.

SINCE THE BEGINNING OF THE YEAR PII'S MEMBER PERCEPTION, ON BALANCE, OF THE FOLLOWING:

IMPROVED
UNCHANGED
WORSENED

Availability of Land

Funding

Utilities

Labour Availability / Costs

Materials Availability / Costs

Planning System Delays Judicial Reviews

Economic Outlook

The Irish economy is at a turning point. The era of record low interest rates, low inflation, and spare capacity we have lived through since the global financial crisis is being overturned. For Ireland, as a small open economy, shifts in the flow of capital through the global economy can have an outsized impact on our growth model. Members are already experiencing this through tighter capital markets and a greater focus on costs. The outlook for Irish business is marked by growing concern at rapid shifts in our competitive position.

As a society, we must plan for the long-term investments needed to grow our capacity and resilience in housing, energy, infrastructure and skills. There is a need to support those exposed to the downside of inflation. This support, however, must be targeted at those most in need. Attempts to wholly offset the impact of inflation on real incomes through fiscal measures, wages or prices risk adding to inflationary pressure and undermining our ability to meet these long-term goals.

As higher prices – particularly of energy imports – are now expected to last for some time, there may be an ongoing adjustment in Irish living standards. We expect the strong recovery momentum, which was evident in the first half of the year, will fade as the year progresses. This will happen as the loss of income for businesses and households becomes manifest through higher heating bills and interest rates rising. This will reduce the growth rate of the two drivers of the domestic economy, consumer spending and investment, in the second half of the year and into 2023. We expect consumer spending growth to fall from 6.6% to 4% in 2023 and domestic investment to fall from 8.6% to just under 4%.

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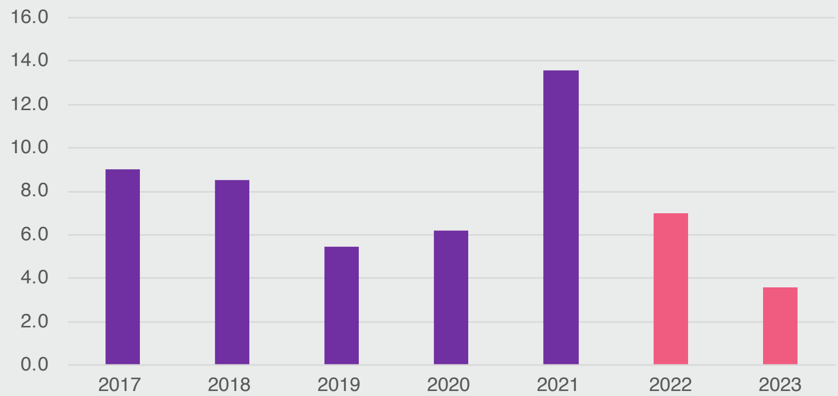
GDP at constant market prices

Annual % Change

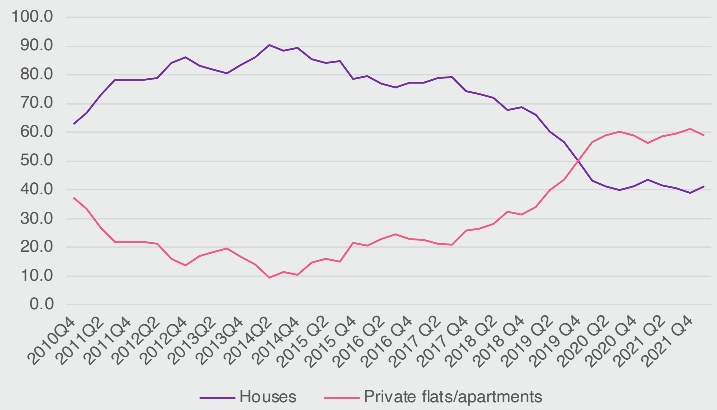


Planning Permissions

Data shows annual growth in planning permissions in Quarter 2, 2022, up by 2% on the same period in 2021. Planning permissions for multi-development houses grew by 28.2% compared with quarter 2, 2021. Planning permissions over the last year have risen to an annual total of 44,715 homes, close to 60% of which are apartments.

A key challenge in the delivery of the homes that now have planning permission is viability. Many of these decisions relate to applications made in the first quarter of the year. The new home delivery environment is becoming more challenging. Interest rates have risen, increasing the cost of debt. There has also been an increase in the cost of raw materials. Both these factors impact significantly on the viability of future delivery.

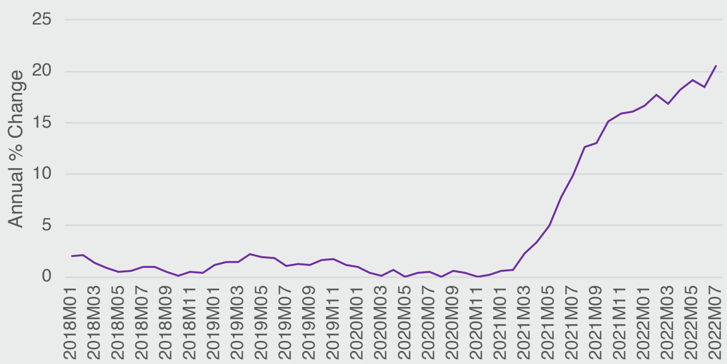
Planning Permissions by type, %



Supply Chain Challenges

High construction costs and disruptions in the supply of key materials continue to act as a drag on the completion of new homes as well as contributing to rising house and construction tender prices. While price growth among certain materials, such as plumbing materials, plaster, and PVC, has slowed or stopped in recent months, prices remain elevated at a high level after sharp increases in costs over the last year. Material costs overall continue to increase, up by 19% annually, with core inputs such as timber and steel at least 50% more expensive than a year ago.

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



Commencements and Completions

Recent data from the 2022 Census has shown that the total housing stock has increased over the past six years by 6%. Despite this increase, housing shortages continue to impact sharply across the country. This is driven primarily by increases in the number of individual households requiring housing outpacing growth in the housing stock, with the total number of households increasing by 9%, or 151,000 households over the same period, compared to 120,000 additional dwellings in the housing stock. Net inward migration and additional demographic pressures from population growth are both contributing to the total number of households requiring housing, along with the average household size falling over recent decades.

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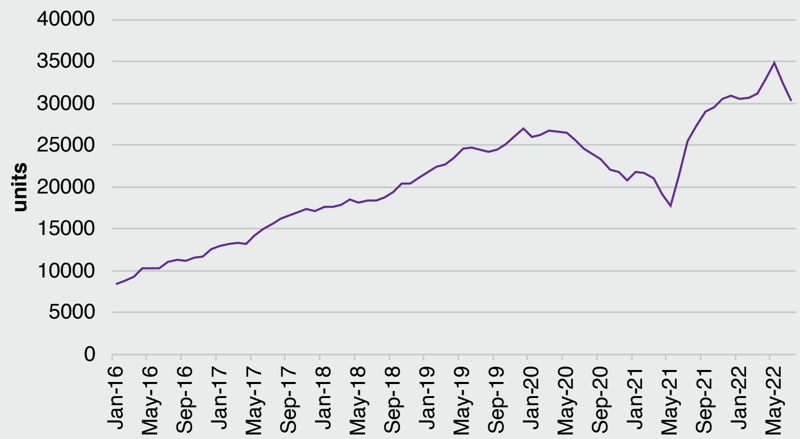
Number of Residential Units Commenced (12 month moving sum)

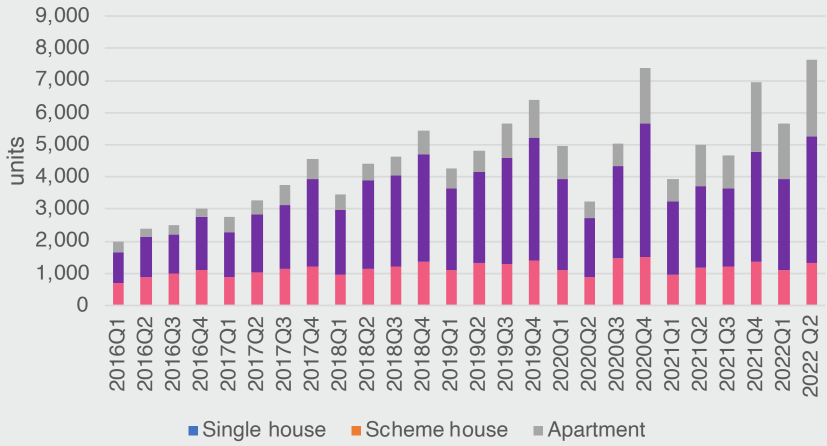


Future Supply

Although housing delivery has rebounded over the year so far in the wake of Covid disruptions, there is some doubt as to whether the State's ambitious home-building targets will be met this year and next. The construction industry is facing the simultaneous challenges of very high material costs, the global spike in energy prices and a tight labour market. These constraints on the construction industry's ability to scale capacity make it difficult to meet the quick rebound in demand from households, businesses and the state. Employment in construction, although recovered strongly after Covid disruptions, is still below pre-2006 levels and recruitment into the sector has slowed on the back of an especially tight labour market and rising costs. Completions of new homes recovered strongly with the loosening of Covid restrictions on the sector. However, an early sign of potential difficulties over the coming months is a slowing in both commencements and planning permissions, despite strong demand, reflecting capacity constraints within the construction sector, the impact of rising building costs in deferring developments and concerns about the future.

Completions of new homes recovered strongly with the loosening of Covid restrictions on the sector.

Dwelling Completions by Type

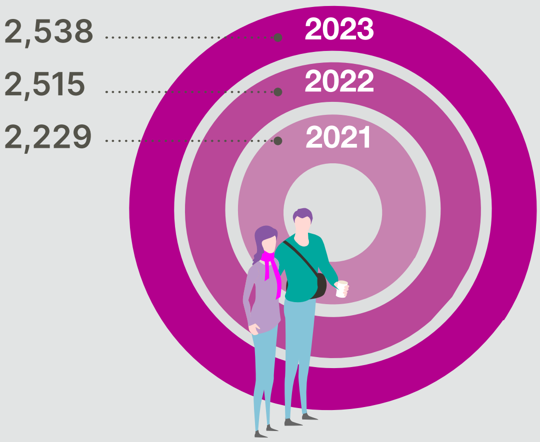


Labour Market

Strong job growth in the first half of the year has resulted in a persistently tight labour market. The rate of unemployment has fallen to 4.8% as of June, a low last seen in the early Celtic Tiger period. As a result, there are currently 2.5 million people in employment. With a population of just over 5 million, this means almost every second person in the country is currently employed. While the recovery in employment in the first half of the year has been very strong and demand for additional workers remains high in many sectors, there have been some signs of a marginal fall back in demand for labour amid rising cost pressures for businesses. We expect high employment levels to continue over the remainder of the year, resulting in an annual average unemployment rate of 5% for 2022.

Employment Annual Average

TOTAL EMPLOYMENT,
000s ANNUAL AVERAGE



UNEMPLOYMENT RATE (ANNUAL AVERAGE %)

2021	2022	2023
16.2%	**5.0%**	**4.5%**

We expect high employment levels to continue over the remainder of the year.

Household Savings

The rising interest rates outlined in previous sections are likely to have some impact on spending by households. There will be significant variability between different households, however. Over 69% of Irish households own their own home, rather than rent or live in social housing. Of those around half (34.5% of households) own their home with a mortgage or loan and are thus potentially exposed to rising mortgage interest rates. Of the total value of mortgages in the country 45% is on mortgages fixed for over a year, with the remainder split between either tracker or variable mortgages. The share of longer-term fixed products has risen from a level of only 6% as recently as 2014 and has been the dominant product in new mortgages in recent years.

On the other hand, some Irish households will benefit from rising interest rates. In 2009 as we entered the financial crisis, Irish households held €80 billion on deposit in Irish banks and had €150 billion in debt to the system – including mortgages. Today those numbers have almost reversed with €139 billion on deposit in Irish banks from Irish households and only €80 billion owed in debt. As such, the rising interest rates will have a quite different effect than they would have in the past. Those savings are much higher amongst older households, households with high incomes and those who own their homes outright.

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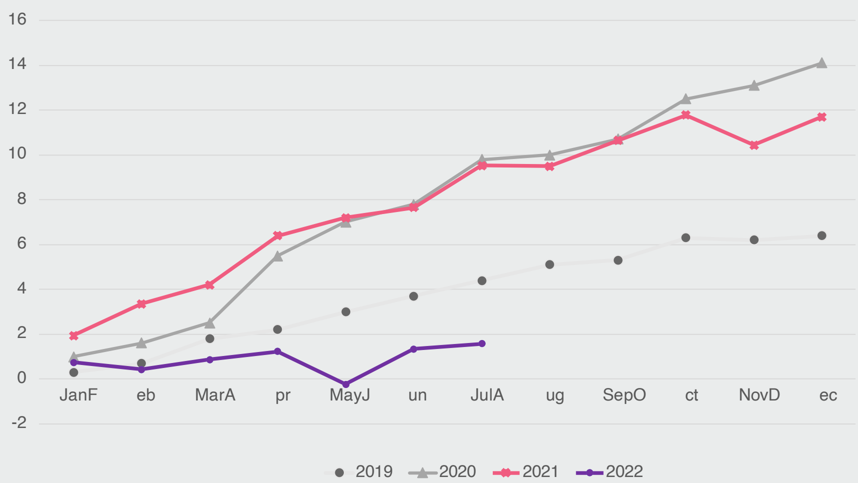
Change in Household Savings by Month

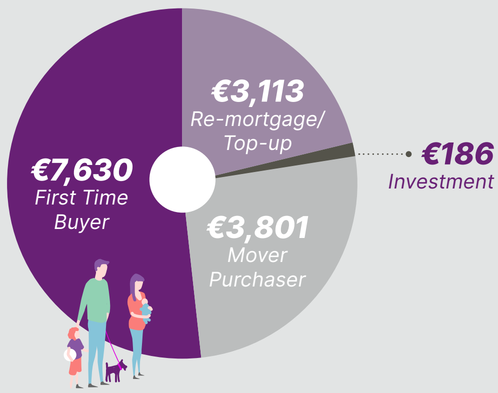


Mortgage Market

There were 55,689 mortgage approvals in the year to July 2022, valued at over €14.7 billion, an increase of 12% on the year to July 2021. First time buyers accounted for 52% of the 12 months mortgage approvals, while mover purchaser accounted for 26%, and re-mortgage/top-up accounted for 21%.

Mortgage Approvals, € million

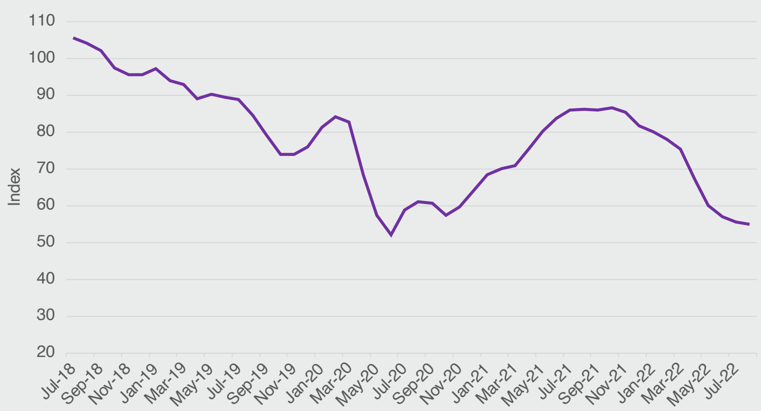
12 months to July 2022 (sum)



Consumer Sentiment

The August KBC Bank Ireland consumer sentiment index fell to 53.4 from 53.7 in July, its sixth decline in seven months. At the start of the year the reading was at 81.9 in January. The level in August represents a 22-month low. The decline was the result of a more pessimistic outlook for the jobs market and for household finances over the next 12 months. Respondents to the sentiment survey in months indicated that they expect to further cut back on major purchases in the coming months.

KBC/ESRI Consumer Sentiment

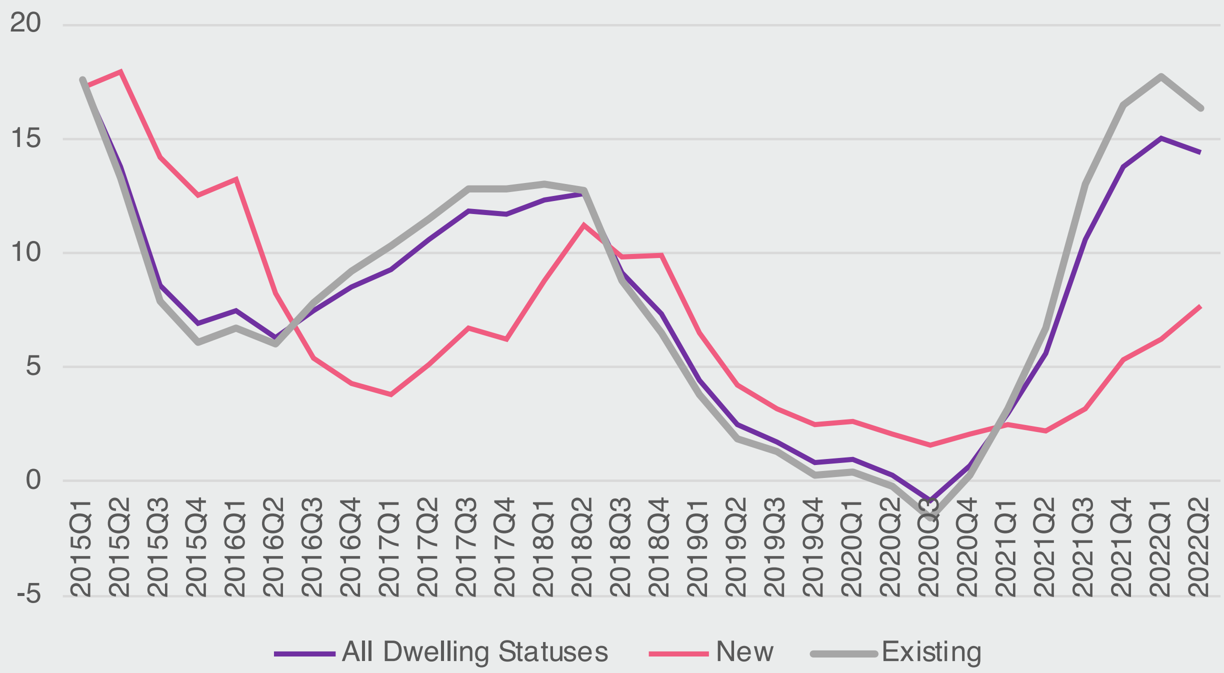


House Prices and Rents

Driven by both undersupply and rising costs of delivering new homes, house and apartment prices continue to rise across the country, up over 14% compared with the previous year. Within Dublin, residential properties saw an annual 11.8% increase in prices, while prices continued to rise faster outside of Dublin, up 16%.

New-build dwellings have seen a slower increase in prices than existing dwellings, up 6.3% and 17.7% respectively. This is likely reflecting that existing dwellings are more likely to be located in central locations, on higher value sites and where demand is stronger. Growth in rents has also remained strong, up by 13% in the year.

Annual % Price Change by Dwelling Type



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