

House prices continue to rise amid supply shortfall

As 2021 nears to a close, the Irish housing market continues to be defined by a shortfall in supply. Against this backdrop, residential property prices remain on a strong upward path, with the pace of increase accelerating sharply over the last 12 months. The latest official CSO data on residential property prices, show a 1.4% monthly rise in October, following increases of 1.6% in September and 2.2% in August. The rate of growth in year-on-year terms, which has been on a quickening path over the past year, stood at 13.5% in October. The last time the annual rate of increase was above 13% was April 2018.

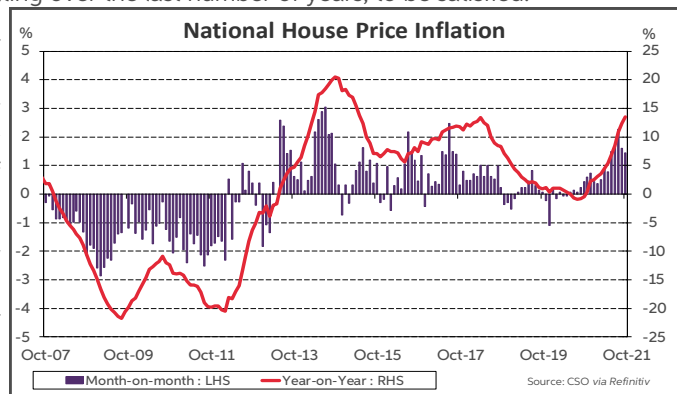
In terms of the geographical breakdown, Dublin saw the year-on-year rate rise to 12.3% in October. Meanwhile, prices outside of the Capital continued to outpace Dublin on a yearly basis, registering a 14.6% annual rate of growth. These year-on-year percentage increases are the highest rates since mid-2018. Compared to their previous peak, prices nationally are around 6% below their highs from April 2007. Meantime, Daft.ie 'asking prices' data, which are regarded as a more timely metric of house price conditions, show some signs of a potential slowing in the pace of increase. There was a marked deceleration in the pace of the annual growth rate in the August-September period compared to earlier in the year.

The main reason behind the sustained upward pressure on prices is the that supply continues to undershoot demand. Ireland, though, is not an exception in this regard, as other countries including the UK are also experiencing supply shortfalls and an associated sharp appreciation in residential property prices. Other factors contributing to the rapid house price inflation in Ireland include the various support initiatives for first time buyers (recent mortgage data shows on-going robust demand from this cohort), and the sharp rise in household savings in 2020-21, as well as strong demand from both institutional investors and public authorities.

However, the mismatch between supply and demand continues to be the predominant driver of higher prices. Based on the population's demography, taking into account household formation dynamics as well as migration flows, there is a minimum requirement of close to 30,000 new units per annum to meet estimated annual demand. Another crucial aspect to be cognisant of when assessing the market is that even when enough units can be built to meet annual demand, there will still remain a very significant amount of pent-up demand, that has been accumulating over the last number of years, to be satisfied.

In this context, the Government's housing plan ("Housing for All") outlines a target of delivering around 300,000 new homes by the end of this decade, with funding of more than €4bn per annum allocated to achieve its objective. While the supply projections are ambitious, it is still significant that a key focus of public policy will be centred on increasing housing supply.

In terms of recent supply metrics, the CSO's latest 'New Dwellings Completions' data show on a year-to date basis, completions are up around 3% to the end of Q3. The 4-quarter cumulative total is currently running at around 21,000 units, broadly on a par with 2019 and 2020.



Meanwhile, leading indicators of supply are exhibiting encouraging signs as regards to a pick-up in residential building activity. Commencement notices, which are a proxy for housing starts, continue to post solid readings over recent months, having picked up strongly around April on the back of the lifting of restrictions. The 12-month aggregate total was at just below 31,000k units in October. Meantime, the housing component of the construction PMI remains well above the key '50' breakeven level for expansion, although it has lost some momentum since mid-year. The November survey, though, printed at 55.1 compared to 54.4 the previous month. Looking at the medium term outlook, planning permissions for the first three quarters of 2021, while lower compared to the same period last year, are well up on 2018-2019 levels and consistent with a healthy pipeline of activity over the next 2-3 years.


However, there are some significant headwinds in terms of being able to ramp up supply sufficiently to satisfy demand. These include labour shortages in the construction sector and ongoing long delays in the planning process. Material shortages and supply chain disruptions are additional challenges to emerge for the sector this year. Along with impacting the timeframe for projects, these are also putting considerable upward pressure on building costs.

Nonetheless, it would seem that Ireland could be on the verge of a marked increase in new housing supply. This should see further growth in the mortgage market. New lending is expected to top €10bn this year, up from €8.4bn in 2020 and €9.5bn in 2019, with the uptrend likely to stay in place in 2022 and beyond.

MONTHLY DATA	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	
RESIDENTIAL CONSTRUCTION ACTIVITY									
Markit/Ulster Bank Construction PMI									
- Housing Activity	54.8	73.4	68.8	63.7	62.2	59.8	54.5	55.1	The Housing PMI has been above 50 since the sector re-opened, although momentum has eased since mid-year
Commencements: Month	4,736	4,969	2,950	3,331	2,162	3,203	2,650	#N/A	Commencements have risen sharply in 2021, up 16.7% YTD compared to the same period in 2019. 12mth total rises to just below 31k
- Cum 12 Mth Total	21,405	25,501	27,264	28,974	29,565	30,519	30,947	#N/A	
- 3 Month Avg YoY %	6.6	148.5	308.4	205.6	92.8	59.8	32.7	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									
BPFI Mortgage Approvals : Month	3,537	3,814	4,167	4,144	3,749	3,905	3,717	#N/A	Mortgage approvals down by 2.7% YoY in the 3 months to October. However, they are 36.1% higher YTD
- 3 Month Avg YoY %	51.7	114.5	210.1	111.9	55.9	18.3	-2.7	#N/A	
- 12 Mth Total	37,640	40,134	42,613	44,044	44,456	44,434	43,732	#N/A	
RPPR Transactions : Month	4,204	4,170	4,674	5,147	4,698	5,249	5,288	3,041	Having rebounded strongly initially, transactions have slowed recently. They are 4.9% lower YTD vs 2019
- 3 Month Avg YoY %	28.4	40.6	57.7	50.3	49.9	38.1	18.9	-10.8	
- 12 Mth Total	51,810	53,398	55,006	56,492	58,230	59,171	58,909	56,593	
Residential Mortgages (Central Bank of Ireland)									Outstanding mortgage stock at -1.1% YoY in October
- Amount Outstanding (Adj.) YoY %	-1.3	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	#N/A	
HOUSING MARKET PRICES									
CSO Price Index - MoM %	0.9	0.8	1.5	1.7	2.2	1.6	1.4	#N/A	House prices jumped by 1.5% in Oct, up 13.5% YoY ex-Dublin price inflation (+14.6%) continues to outpace the capital (+12.2%)
- YoY %	4.5	5.4	6.9	8.5	10.9	12.5	13.5	#N/A	
- Dublin YoY %	3.7	4.8	6.4	8.1	10.3	11.7	12.3	#N/A	
- Ex Dublin YoY %	5.3	6.0	7.4	8.9	11.4	13.1	14.6	#N/A	
RPPR Transaction Price (Simple Average)									RPPR Prices continue to trend significantly higher in 2021. Daft.ie asking prices fell in Sept for the first time since Feb, marked deceleration in the YoY rate in Aug/Sept
- 12 Month Average €	315,526	318,774	318,128	318,034	321,946	328,038	329,013	331,233	
Daft List Prices: YoY %	15.0	11.5	12.7	10.7	8.9	7.6	#N/A	#N/A	
RENTS & AFFORDABILITY									
RENTS: CSO Private Rents - MoM %	1.2	-0.2	0.1	0.3	1.5	1.8	0.9	0.6	CSO rental index rose sharply again in Nov, up by 0.6%. YoY rate at 8.1%
- YoY %	1.6	2.6	3.0	3.1	4.5	5.9	7.5	8.1	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									Affordability index deteriorates again in Q3 as house prices rise by more than average industrial wages
- Mort as % of Disposable Income	18.0	18.4	18.6	19.0	19.5	19.8	#N/A	#N/A	

QUARTERLY DATA	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	
CSO Dwelling Completions									
- YoY %	17.4	16.1	-32.7	-10.6	14.9	-20.3	54.5	-7.7	Having performed well in H1, completions slowed in Q3, However, they are up 2.8% on a YTD basis
- Cum 12 Mth Total	21,068	21,750	20,179	19,579	20,532	19,533	21,292	20,903	
CSO Planning Permissions	12,094	14,132	7,271	13,599	9,536	6,963	11,150	11,428	
- YoY %	81.0	88.6	-24.0	34.8	-21.2	-50.7	53.3	-16.0	Permissions have been very volatile since the pandemic began. Overall, they are 15.6% lower YTD
- Cum 12 Mth Total	39,242	45,881	43,586	47,096	44,538	37,369	41,248	39,077	
BPFI Mortgage Drawdowns									
Purchase Drawdowns (Volume)	9,941	6,932	5,035	6,366	10,164	7,294	7,438	9,124	Having recovered in H2 2020, drawdowns have remained elevated in 2021. 30.1% higher YTD, with an increase in lending to all categories
YoY % (Volume)	3.4	3.9	-37.0	-32.9	2.2	5.3	47.8	43.3	
FTB YoY % (Volume)	11.0	8.3	-34.8	-29.9	7.8	7.3	49.0	43.8	
Total Drawdowns (Value, € Mln)	2,768	1,996	1,462	1,958	2,951	2,142	2,230	2,783	In value terms, drawdowns up 32.1% YTD. FTB share of drawdown value holds steady at 51.7% YTD. Value of drawdowns over past 12 mths moved above €10bn in Q3
- YoY % (Value)	5.0	5.9	-35.0	-25.8	6.6	7.3	52.5	42.1	
- Cum 12mth Drawdowns (Value, € Mln)	9,542	9,653	8,865	8,184	8,367	8,513	9,281	10,106	

Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, PSRA, Ulster Bank, AIB ERU Calculations

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