



Supply Boost Needed to Dampen House Price Inflation

As 2021 draws 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 year. 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 in 2021, 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 annual rate rise to 12.3% in October. Meanwhile, prices outside of the Capital continued to outpace Dublin, registering a 14.6% annual rate of growth. Compared to their previous peak, prices nationally are now around 6% below their high point of 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 annual growth rate in both August and September. Rents, though, continue to rise sharply, with the latest CSO rate showing them up 8% year-on-year in November.

The main reason behind the marked upward pressure on prices and rents is that the supply of housing continues to greatly 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 rise in property prices and rents. Other factors contributing to the rapid house price inflation in Ireland include the various support initiatives for first time buyers and the big jump in household savings in 2020-21, as well as strong demand from both institutional investors and public authorities.

However, it is the continuing mismatch between supply and demand that is the predominant driver of rapidly rising house prices and rents. There is a requirement to build close to 30,000 new homes per annum to meet estimated annual demand. Another crucial aspect to note 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 terms of recent supply metrics, the CSO's latest 'New Dwellings Completions' data show on a year-to date basis, completions were up by around 3% to the end of the third quarter.. 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, have continued to post high readings over recent months, having picked up strongly since April following the lifting of Covid restrictions. The 12-month aggregate total was at just below 31,000 units in October.



Meantime, the housing component of the construction PMI remains well above the key '50' breakeven level for expansion, although it is below its mid-year highs. The November survey, though, still printed at a strong 55.1. 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.

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 this objective. It is welcome that a key focus of public policy is to greatly increase housing supply.

However, there are some significant headwinds in terms of being able to ramp up supply sufficiently to meet housing 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.

Nonetheless, it would seem that Ireland is on the verge of a marked increase in new housing supply over the next couple of years, with completions likely to rise from around 21,000 presently towards the much talked about 30,000 level. Hopefully, this should dampen the rapid pace of increase in house prices and rents.

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