



Housing shortfall persists, but planning permissions surge

The dominant feature of the Irish residential property market last year remained the shortfall in supply. However, over the course of 2018, there was some further improvement in house building activity. The latest update to the CSO's 'new dwelling completions' figures reveal that on a cumulative 12-month basis to September, the total stood at 17,161 units.

Comparing the first three quarters of 2018 to the same period of 2017 shows that new supply increased at a rate of 28%. Extrapolating out this pace of growth for the year as a whole, indicates that new dwellings completed in 2018 may have totaled around 18,500. In 2017, the full year total was 14,435.

Forward looking indicators, such as housing starts (as measured by commencement notices), suggest that the improving dynamic in supply will continue. Commencements were up almost 25% in October on a year-to-date basis, with the 12-month running total rising to over 21,000 units.

Meantime, planning permissions surged over the past year and were up by almost 70% year-on-year in the third quarter of 2018. It is important that this soon translates into an acceleration in the pace of growth in house building activity. In this regard, registration figures, which are seen as reflective of developer activity, have started to pick up again after having spent much of 2018 behind their 2017 levels.

Residential property prices continue to rise at a strong pace. However, there has been a noticeable slowdown in the rate of increase since the spring. Nationally, according to the latest CSO data, house prices rose by 8.4% year-on-year in October. This compares to a 13.3% yearly rate in April.

It is clear from the geographic breakdown, that the main source of the slower price growth is the Dublin market. In the capital, the annual increase in prices slowed to 6.3% in October, having been as high as 13% in April, with the biggest deceleration evident in areas where house prices tend to be more expensive.

Meanwhile, non-Dublin price growth continues to outpace the Dublin market, although here too, the pace of increase has moderated. Outside the capital, prices rose by 10.6% year-on-year in October versus their recent high of 15.2% back in June. The deceleration in house price inflation largely reflects the impact of the central bank's mortgage lending rules, which were tightened somewhat in 2018.

These tighter mortgage lending rules will remain in place in 2019, suggesting that the pace of growth in house prices may moderate somewhat further this year. The relatively restrictive loan-to-income ratio of 3.5 times may also be serving as a constraint on the pace of growth in Dublin house prices in particular. However, with the housing market remaining defined by an on-going shortfall in supply, prices are likely to continue rising in 2019.

The challenge facing the sector is to ensure that the surge in planning permissions over the last year quickly



translates into sharply higher levels of house building activity. Housing output needs to double from its 2018 levels to meet annual demand and indeed, rise well above this level to meet the pent-up demand in the sector from the years of under-supply. It could be well into the next decade before supply and demand come close to balance, unless the pace of growth in house building accelerates from here.

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