CUSTOMER TREASURY SERVICES

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Big shortfall in housing market persists

A new measurement of housing completions by the CSO shows that the level of house-building is much lower than previously envisaged. Using the new metric, there were 14,500 new dwellings completed in 2017, well below the previous estimate of 19,300. House building figures were significantly overstated in prior years also.

However, the new 2017 completions figure represented a 46% increase on the previous year, which itself was a 37% rise on 2015 levels. In the first quarter of 2018, new completions were at 3,500 units. This is a 27% increase on the same period in 2017. So while the new CSO measure shows that the level of house-building is lower than previously envisaged, nonetheless, it indicates that supply is on a strong upward trajectory.

New housing supply looks set to continue rising strongly. House building starts (measured using commencement notices) were up 15% on a year-to-date basis in April, although this is down on the rise of 33% recorded in 2017. Somewhat worryingly, housing registrations, which tend to reflect developer activity, have been essentially flat over the last 12 months at below 10,000 units annually.

Other data, though, suggest that developer activity will soon regain momentum. The housing component of the construction PMI offers encouragement, with the index rising to a one-year high in May, at 65.2. A surge in planning permissions, most notably for apartments, in the latest two quarters of data, also points to a further strong rise in new housing building activity in the period ahead.

Crucially though, while new housing supply is on a strong uptrend, the level of building activity remains well below the projected 33,000 units that are required per annum to meet estimated housing demand. Even if the current uptrend in supply is maintained, it is likely to be 2021, at the earliest, before new house building reaches the level of estimated annual demand.

Furthermore, the issue of pent-up demand that has been accumulating in recent years has also to be factored in. The new completions data indicate that this pent-up demand is larger than previously estimated. It suggests that new housing supply would need to rise to at least 40,000 units per annum before supply and demand start to become more closely aligned in the Irish residential property market.

The shortfall in supply has maintained strong upward pressure on house prices. The latest CSO data show that nationally, prices rose by 13% in year-on-year terms in April. This compares to a rate of 12% at end 2017 and 9.5% in April 2017.

The latest data, though, from the property web sites, Daft.ie and MyHome.ie, which are based on asking prices, suggest that house price inflation has peaked and should decelerate appreciably over the balance of the year.

It may be that tight Central Bank mortgage lending rules are impacting the market, especially in Dublin, where potential buyers can find it difficult to get sufficient mortgage finance to purchase a home given the relatively low, 3.5 times loan-to-income ratio in the lending regulations. This may also be partly the reason why the strong growth seen in mortgage lending in recent years appears to be losing some momentum. Growth in both mortgage approvals and drawdowns has slowed significantly this year.

Slower house price and mortgage growth, though, should not be taken as signs that the housing market is coming into balance. Rather, they reflect affordability issues and lending rules. The key challenge remains to deliver a much greater volume of affordable housing to meet the considerable pent-up demand in the market.

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