



House prices rise steeply, but new supply set to pick up

The latest official CSO data on residential property prices shows that the upward trajectory continues to gather pace. On a monthly basis, prices in July rose sharply, by 1.7%. This followed a 1.5% rise in June. The July reading was the strongest monthly increase in four years. Meanwhile, the rate of growth in year-on-year terms has been on an accelerating path since late 2020. In July, prices nationally rose by 8.6% compared to a year earlier, representing their fastest pace since the third quarter of 2018. More recent data from property websites suggest that the pace of price growth may be starting to ease, but it remains strong.

The key factor behind the upward pressure on prices is the on-going shortfall in supply. Other contributing factors include the impact from various government initiatives to help prospective buyers. The latest mortgage approvals data show strong demand coming from the first-time buyers segment of the market. At the same time, institutional investors and public authorities remain very active purchasers in the Irish residential market.

However, the supply deficit remains the crucial factor driving prices higher. In short, the Irish residential market needs to deliver a minimum of 30,000 new units per annum to meet estimated annual demand. This does not take into account the significant pent-up demand that has been accumulating in the market over the last number of years. In this regard, there was around 20,500 units completed last year, while in 2019, completions totaled 21,000 units, up from 18,000 units in 2018.

There is encouraging news flow on the supply front, though. The most recent CSO completions data, show a total of 5,021 units coming on stream in the second quarter of this year. This followed a quarter one total of 3,934 units, which was much better than had been envisaged. Looking at completions over a rolling four quarter basis, they are now running at around 21,000 units.

In terms of leading supply indicators, there have also been very positive trends recently. Housing starts, as measured by commencements, were running at nearly 29,000 units on a 12 month cumulative basis to July, having picked up strongly since April. Planning permission data also indicate the potential for a strong pipeline of activity. Meanwhile, the housing component of the construction PMI has been registering very strong readings recently.

Secondly, the government's new housing plan titled "Housing for All" indicates that a key focus for public policy over the coming years will be on ramping up housing supply. At a high level, the plan promises to deliver 300,000 new homes by 2030, with funding in excess of €4bn per annum allocated to the programme. The plan envisages new supply rising to 29,000 in 2023 and to average around 34,000 units over the period 2024/25.

There are clear challenges in terms of meeting these ambitious targets for housing such as labour shortages in the construction sector and ongoing delays in the planning process. Material shortages and supply chain disruptions are additional headwinds. Even if the targets are met, it will take a number of years before housing



supply and demand are more in sync, given the scale of pent-up demand from the years of marked undersupply. In the meantime, prices are likely to remain under upward pressure.

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