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### **AIB real estate paper highlights improvements in demand side of housing market while examining solutions to supply problems**

AIB has published its latest real estate report, “Supply and demand in the Irish housing market – can they be aligned?”. The paper evaluates the current housing environment and proposes a number of actions that could support the building of additional housing units. These would include:

- Creating more effective and viable density solutions while including shared community/social amenities
- Reducing the cost of apartment development
- Making more realistic demographic assumptions to underpin the planning framework as some local authorities underestimate future population growth
- Delivering a more transparent and efficient planning system

The report says that the authorities have taken many actions to alleviate demand problems, with the introduction of the First Home Scheme, the increase in the loan-to-income limits and the maintenance of the Help To Buy scheme amongst other measures. However, further measures to improve supply are urgently required.

The paper highlights concerns regarding the lack of viability of apartment development. It states apartment viability has been a long-standing issue in the Irish market, with the challenge having increased over the past year due to significant cost inflation. Viability is likely to deteriorate further over the coming year if, as seems likely, apartment and or private rental sector yields increase in Ireland.

The paper references a greater emphasis on alternative design standards, such as a recent proposal by Glenveagh Properties plc for more compact design standards while maintaining sufficient outdoors amenities. This could have a material and near immediate impact on supply and viability. Such a proposal could provide real viability at scale for First Time Buyers and ensure that the interventions by the authorities on the demand side of the market would be fully realised.

The paper highlights that a recalibration of the planning system is also required, in particular the underlying demographic assumptions and estimated housing requirements used by county councils/local authorities. These assumptions are leading to a significant under-estimation of housing requirements in Ireland, particularly in the Greater Dublin Area and surrounding counties.

AIB is the largest senior debt funder in the Irish residential market and is currently supporting the supply of 10,000 units.

Donall O’Shea, Head of Real Estate Finance, AIB states “With Ireland’s housing shortage in mind, in order to maximise the benefits of the First Home Scheme and the increase in the first time buyer (FTB) loan to income limit, the market needs to see an increased supply of residential units, and particularly of First Time Buyer scheme/multi-development houses. Unfortunately, notwithstanding the supports for households put in place by the authorities, the viability of apartment construction remains a huge challenge and a very expensive option for FTBs.”

Pat O’Sullivan, Head of Real Estate Research, AIB says “The challenges on the demand side of the housing market have been largely addressed by the authorities. It is past time to address the supply side. This can be done by including more realistic demographic assumptions underpinning the planning framework, creating more effective and viable density solutions, reducing the cost of apartment development, and delivering a more transparent and efficient planning system.”

The report can be found here: <https://aib.ie/corporate/news-and-research>

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