SCSI
Chartered property, land and construction surveyors

Residential Property Market Monitor

July 2021

RICS

Contents

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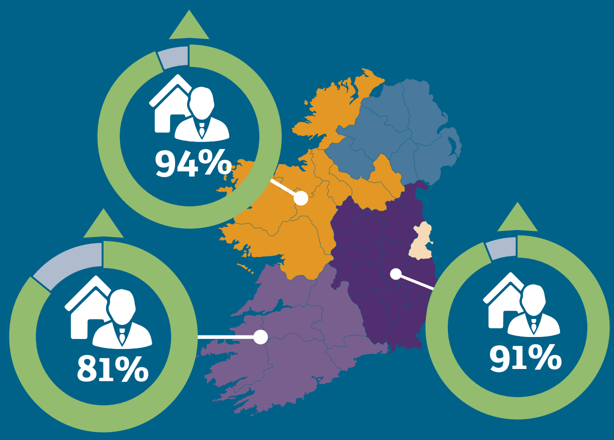
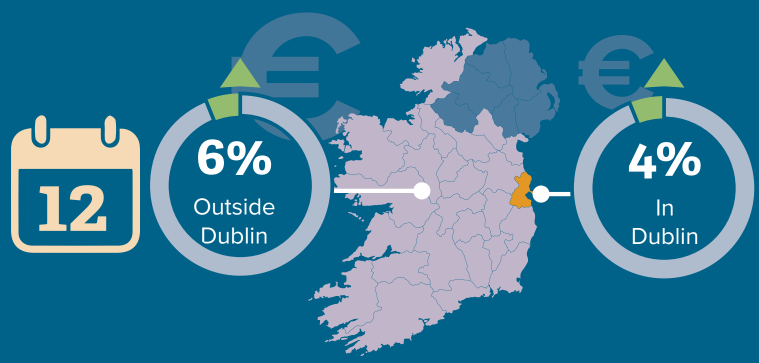
Key Highlights

On average 86% of agents expect prices in their region to increase over the next 3 months.

From a provincial perspective, agents in Leinster (excluding Dublin) (91%), Dublin (79%), Munster (81%) and Connacht/Ulster (94%) expect to see sale price increases in the next 3 months.



On average, Dublin house prices are expected to increase by 4% over the next 12 months and outside of Dublin to increase by 6%.



The property market remains buoyant with property values holding up and increases exceeding expectations.

Pent up demand combined with limited supply following the highest level of Covid restrictions on the sector which prevented physical viewings, resulted in sale prices exceeding expectations as the sector reopened.

Key Highlights

The medium-term outlook points to house prices maintaining or increasing values, however, access to stock for sale and to rent is a significant concern across most parts of the country.

The survey results show only a small percentage of agents reporting that values will 'remain the same' in the next 3 or 12 months, but an increasing number of agents are expecting an increase in values over this period.

'Market factors' is ranked as the number 1 issue facing the sector. This relates to the supply of new and second-hand stock to the market.

Complexity of rental legislation cited as the main reason why some landlords sell their investment.

About the Survey

The SCSI/Central Bank of Ireland Residential Property Price Survey is a quarterly sentiment survey of SCSI members, consisting mainly of estate agents, auctioneers and surveyors.

While the principal focus is on participants' house price expectations, the survey also canvasses opinion on the factors underlying these views and on their assessment regarding the level of transactional activity in the market.

The survey is a snapshot of respondents' expectations at a particular point in time. The Survey was conducted in May 2021 and received 205 responses.

The uniform challenge across the country is the lack of supply of new housing.

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Introduction

We are delighted to publish our Residential Property Market Monitor July 2021. This report provides an update on the residential sales and lettings market, informed by the professional views of over 200 General Practice Chartered Surveyors. Expert insights have been collated from agents across the country to provide an oversight of activity and developments in the market in the first half of 2021 and expectations for the next 12 months. Our joint Survey with the Central Bank of Ireland, which informs this report, was issued in May 2021.

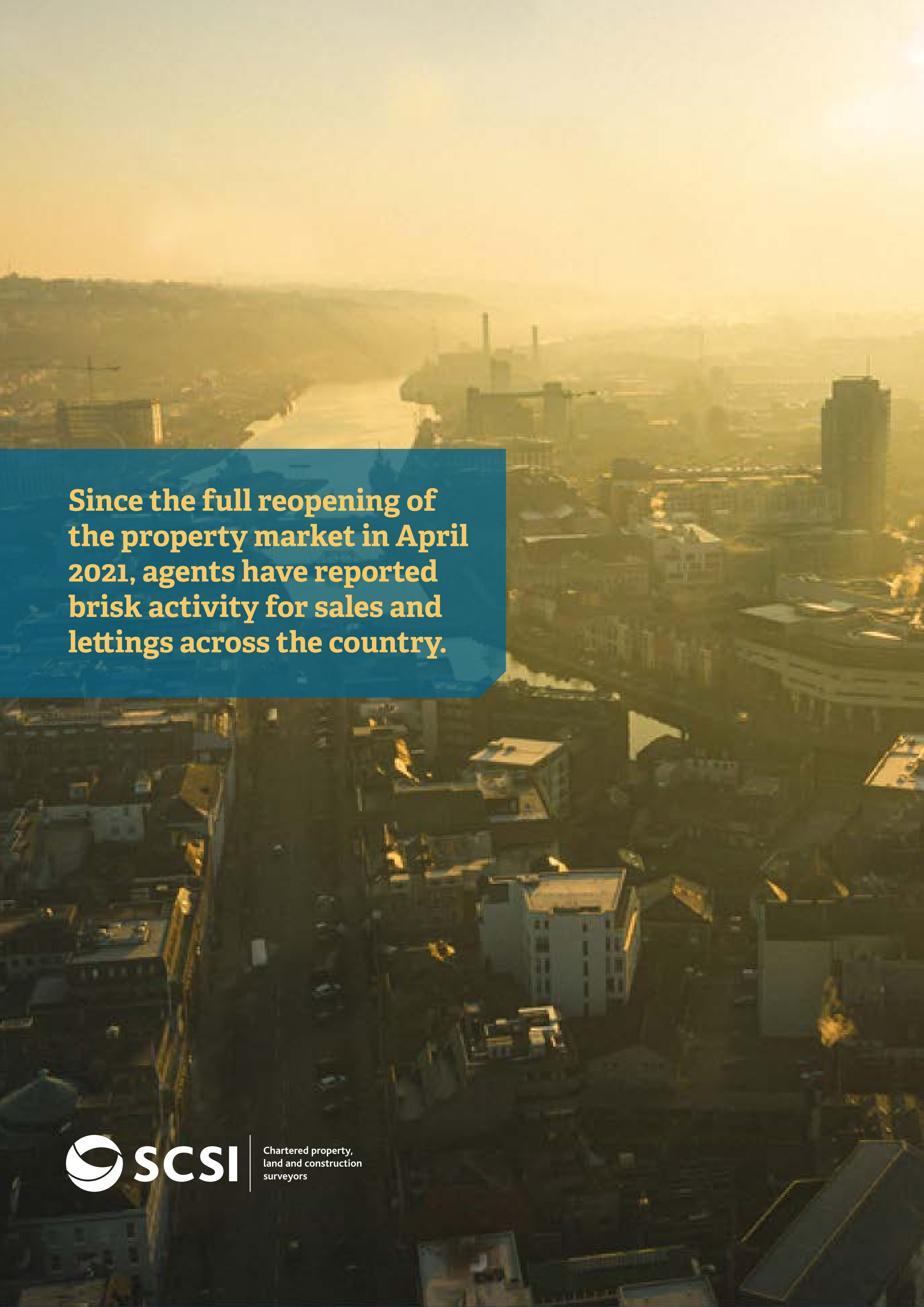
COVID has taught us to be resilient and to adapt so that property services can be delivered to our clients to a similar high standard, but just in a different way. As agents, we've tackled the challenges over the last 15 months and invested in our businesses at a time when business activity was reduced, and the outlook was uncertain. I am pleased to see that technology was viewed by many agents as an important investment and one that necessitated continuity of service to clients. Our business is becoming more and more complex with the onset of additional regulations and clients therefore seek our expertise to guide them with their house sales or property letting. The need to remain informed on issues impacting our business has never been so important and we at the SCSI keep members abreast of developments affecting the sector as they arise so that current and real-time information can be relayed to clients to help inform their decision making.

My term as SCSI President has come at an exciting yet challenging time within the industry. At SCSI, we are preparing our pre-Budget submission to Government and are concluding our engagement with the Department of Public Expenditure and Reform and the Department of Housing, Local Government and Heritage on Budgetary discussions and ways to improve the property market. Member views and suggestions within surveys such as the SCSI/Central Bank of Ireland survey are hugely relevant and appreciated by those who are examining measures to increase supply and bring about more affordable units for purchase and rent.

The results from our Residential Property Market Monitor points towards an increasingly worrying outlook for the delivery of accommodation in Ireland. The uniform challenge across the country is the lack of supply of new housing. What is equally concerning is that SCSI forecasts expect housing need projections (demand) and housing supply is unlikely to meet equilibrium until 2031. This puts into context the scale of the problem and one that requires collective efforts of public and private sector to help increase housing output in areas of demand that are affordable to average income earners. The positive news is that the challenge is surmountable, but this will take time and commitment by all stakeholders over the coming years in order to meet objectives.

Finally, I hope you find the contents of our updated Residential Property Market Monitor report useful and insightful. I would like to take this opportunity to thank you, my fellow SCSI members across the country for your valuable insights and for taking the time to complete our survey.

TJ Cronin
President



Since the full reopening of the property market in April 2021, agents have reported brisk activity for sales and lettings across the country.

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COVID undermines progress of new housing stock

Since the full reopening of the property market in April 2021, agents have reported brisk activity for sales and lettings across the country. The challenge facing the sector is not having enough housing stock to cater for demand. The scale of the COVID impact on new housing supply is evident from the publication of Central Statistics Office housing completion figures. In Q1 2021, there were 20% less completions compared with first quarter of 2020. The reason for this significant reduction was the closure of the majority of the private construction sector from January to April of 2021. Since the impact on new housing supply was so severe, it will be some time before completions catch up with current and future demand. Further to this delay, the construction sector is facing additional challenges including significant material price increases such as steel, timber, plastic products, and insulation. The sector also faces issues in resourcing labour for sites with shortages reported across a number of trades. Cumulatively, these challenges are likely to result in the current housing supply not reaching equilibrium until 2030 based on SCSI predications.

Mortgage approvals rise despite COVID impact

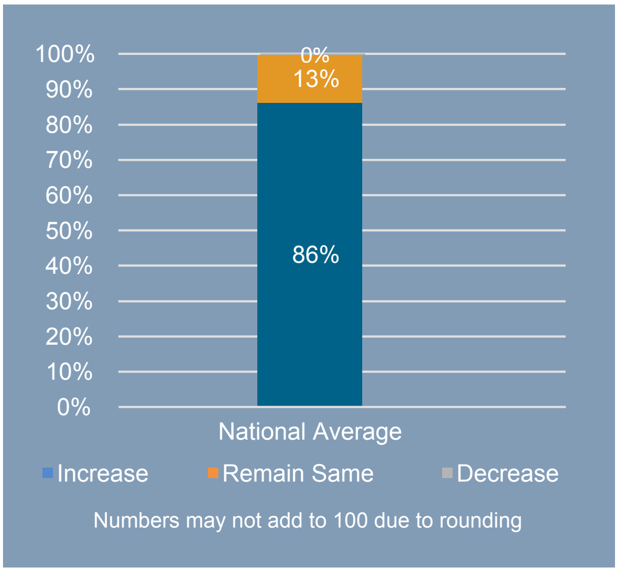
From a funding perspective, the Banking and Payments Federation reports that mortgage approval volumes rose by 7.8% year on year in Q1 2021 to more than 11,300, the highest figure reported for Q1 since the data series began in 2011. This is a positive development however, according to myhome.ie, the number of properties listed for sale on its website is down 36% in the past 12 months. Interestingly, the information from the Property Price Register suggests that even with the COVID restrictions, there were over 20,000 residential property transactions in the first half of 2021 which compare similarly with the same period in 2020. On an annual basis, the number of property transactions overall remains consistent at approximately 50,000 units per annum, despite Covid restrictions.

SCSI Estate Agents and Auctioneers predict further upward pressure on prices

Results from the SCSI/Central Bank of Ireland survey, show demand for property is likely to remain high for the medium term. SCSI agents are reporting that this demand, coupled with low supply will continue to impact on prices. When asked about the next three months, overall, 86% of agents report that property prices will increase in their region with with just 13% reporting they will remain the same and 0% predicting a decline. This is in stark contrast to Q3 2020 (Residential Markets Report: Special Covid-19 Edition) report when just 19% of agents expected property prices to increase over the following three months, highlighting higher than expected resilience of the property market and higher than expected levels of pent-up demand for accommodation.

According to the Central Statistics Office (CSO) Residential Property Price Index, residential property prices (houses and apartments) increased by 4.5% nationally in the year to April. This compares to an increase of 3.5% in the year to March and an increase of 0.7% in the twelve months to April 2020. Overall, the national CSO index is 15% lower than its highest level in 2007.

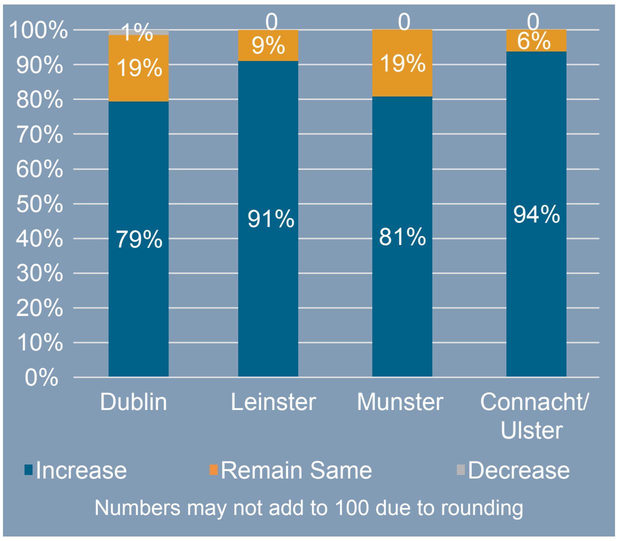
Figure 1 NEXT 3 MONTHS (Nationally) – Expected residential property price developments (% of agents)



More regional locations becoming highly sought after

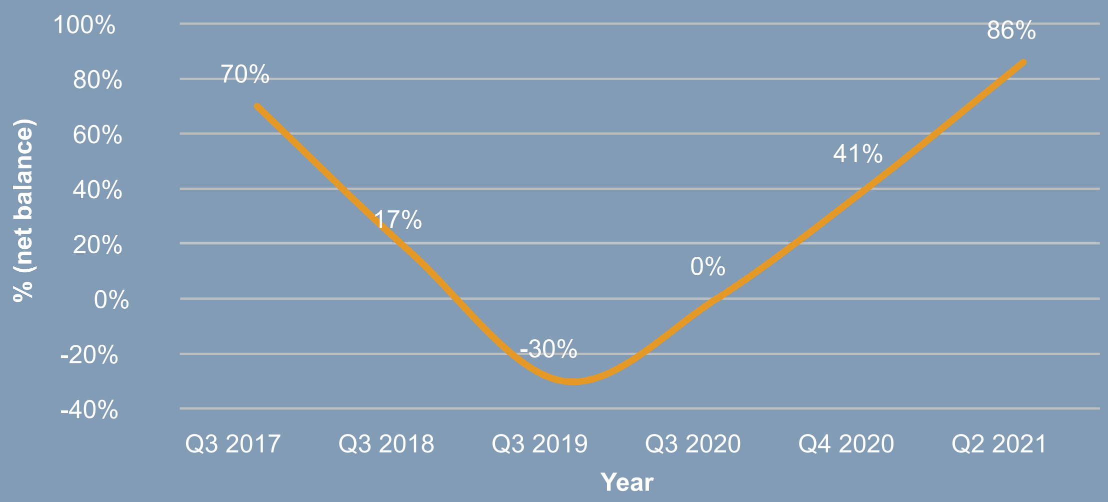
Looking at expectations of property prices in the next three months outside of Dublin, the percentage of agents that expect an increase in property prices regionally is broadly similar when compared with Dublin. Housing supply issues are not exclusive to Dublin with stock at critically low levels across the country. Anecdotally, many agents from more rural locations are reporting higher than usual levels of interest from purchasers who have made a lifestyle choice to move from urban centers where property prices are high to more rural locations where there is greater value for money to purchase a larger home at more affordable rates. It is well documented that the impact of COVID on business brought about opportunities for many desk-based employees to work remotely thereby providing opportunities for some to seek accommodation in regional Ireland.

Figure 2 NEXT 3 MONTHS (Dublin and Provinces) - Expected residential property price developments (% of agents)



[1]Banking & Payments Federation, Housing Market Monitor

Figure 3 NEXT 3 MONTHS – Anticipated National Price Developments (Housing Price Net Balance chart)



The SCSI Housing Price Net Balance chart is calculated based on the percentage of agents reporting an expected rise in house prices minus the percentage reporting expecting to see a fall in prices. A positive net balance implies that more agents expect to see housing price increases rather than decreases, signaling a strong housing market. On the other hand, a negative net balance implies that more agents are witnessing housing price decreases than increases which signals that the housing market is fragile. In relation to figure 3, in Q2 2021 shows that the vast majority of agents expect house prices to increase in the following three months whereas in Q3 2019 the majority of agents expected prices to decrease over the following three months.

The higher number of new homes to the market up to the end of 2019 influenced property price expectations over the following months hence why more agents expected house prices to 'remain the same' or 'decrease' rather than increase and this was also evident within the CSO property price statistics which registered a 0.9% decline in their index in August 2020. The impact of COVID on the new homes construction market over the subsequent period was so severe that the cumulative impact of the construction slowdown will be felt until 2023 at the earliest[1]. Due to the tighter supply levels of new homes, agents expect property prices to continue to increase for the medium term.

According to the CSO, average annual earnings increased by 8% in the past 12 months.

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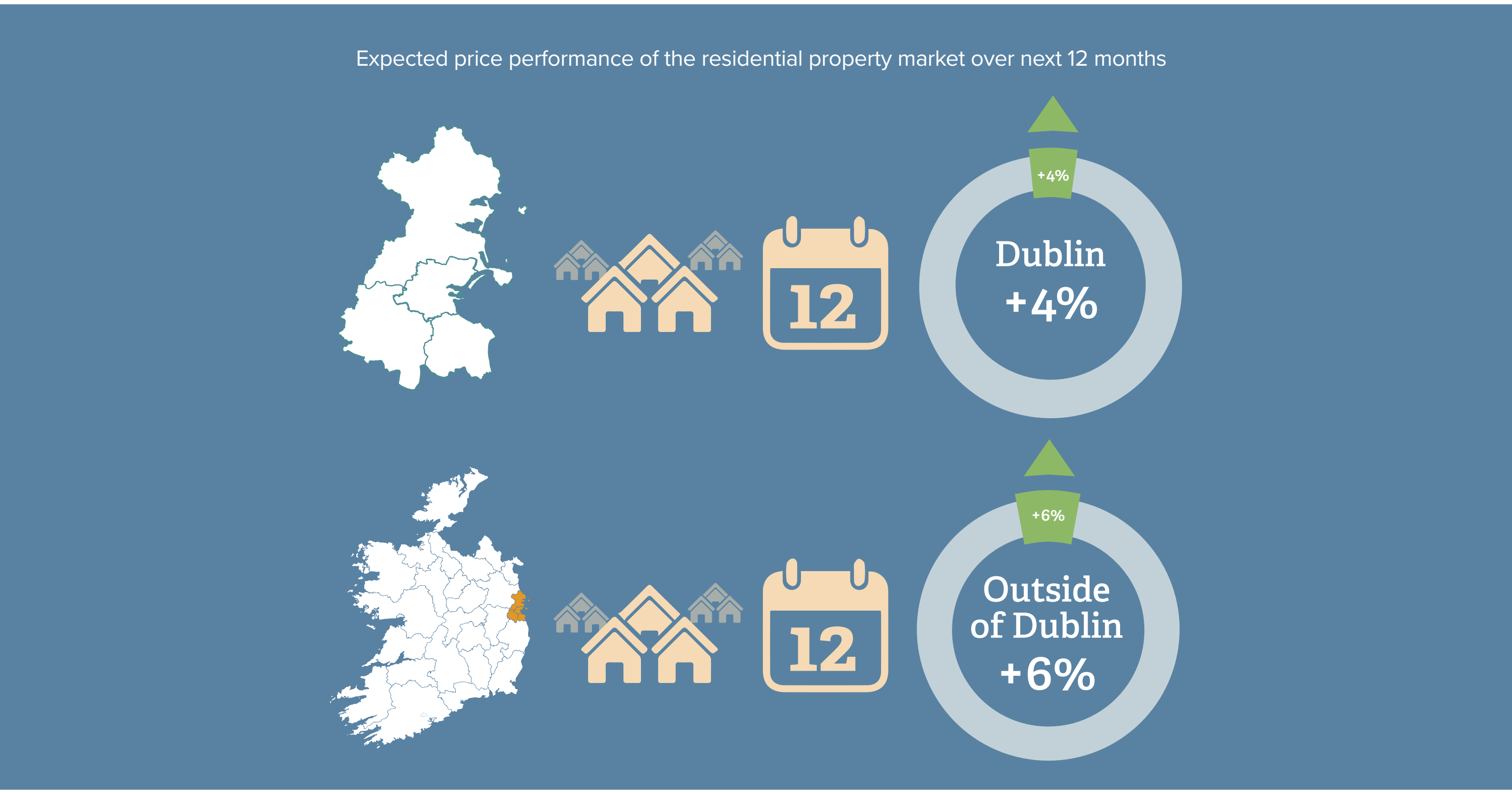
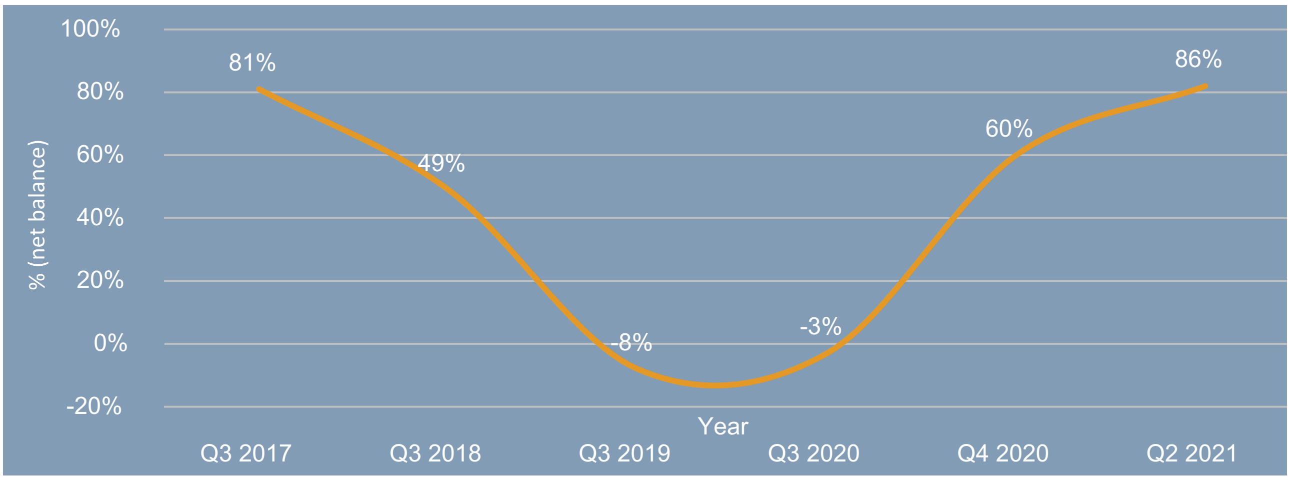
12 month Outlook – Prices to increase as new housing sector rebounds from COVID



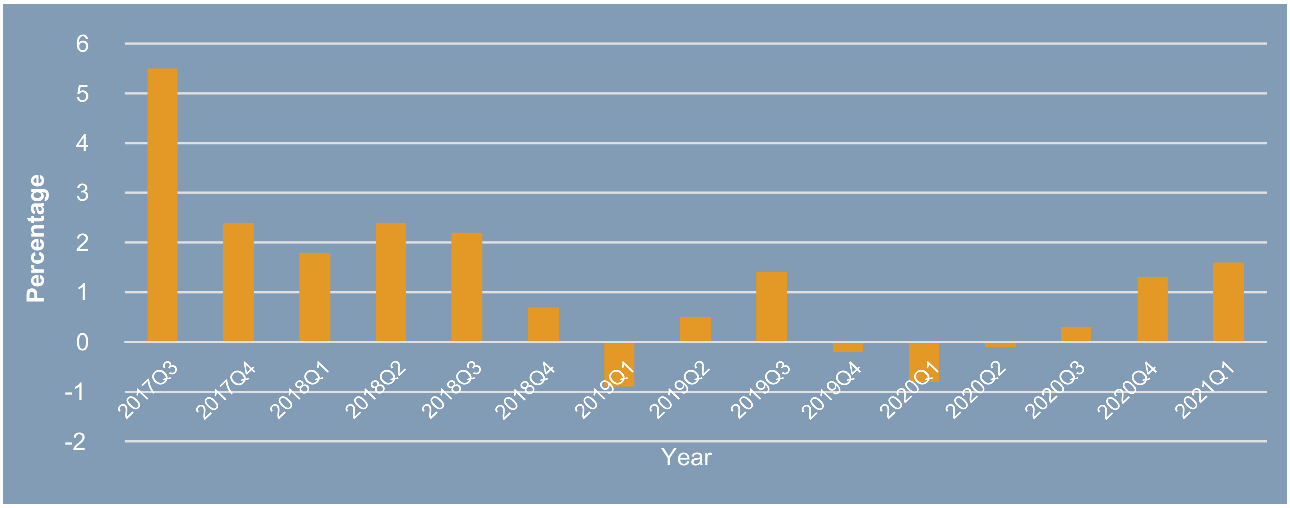
Looking over a longer time horizon of 12 months, the majority of agents surveyed expect house prices to increase over this period with a net balance of 86% of agents making this prediction. This significant upswing in expected property price developments when compared with Q3 2019 is also a strong indicator that the supply demand equilibrium will remain unbalanced for some years to come.

Figure 4 - NEXT 12 MONTHS – Anticipated National Price Developments (net balance)



With mortgage lending rules of 3.5 loan-to-income in place and property values at 90% when compared with 2008 levels, significant concerns lay ahead in respect of new housing supply, due to viability and affordability constraints. According to the CSO, average annual earnings increased by 8% in the past 12 months. With many employees working remotely over the past 15 months, the ability to increase savings towards a deposit for a house may provide some purchasers with a higher level of spending power. This spending power may be short lived, as agents expect to see some calming of the market into the summer, but unfortunately for prospective purchasers, the outlook points towards continued upward pressure on house prices for reasons outlined earlier regarding supply and demand imbalances.

Figure 5 - Central Statistics Office – National Residential Property Price Index – Q-on-Q percentage change



The expected change in property prices over a 12 month period is based on a multiplicity of reasons including access to finance, the supply of newly constructed homes to the market and economic factors facing society and the reasons behind this is are discussed later in this report.

The SCSI outlook for the residential property market and price developments over the next 12 months highlights that Dublin house prices are expected to grow by 4% whilst outside of Dublin house prices are forecasted to rise by up to 6%, on average.

Performance of residential sales activity

Figures from the Property Price Register show the level of property completions quarter-on-quarter. On average, there is four to five months lead in time from when properties are 'sale agreed' to when the property transaction is completed. The impact of COVID restrictions on viewings is particularly evident in Figure 6, from Q4 2020. Q4 saw a peak in properties closing, as most were from viewings and sale agreements when the sector reopened from COVID restriction on the 8th June 2020. As the property sector reentered restrictions to viewings and inspections from January to April 2021, property sales completions are expected to decline throughout Q3 and provided there is continued easing of COVID restrictions for the remainder of the year, a return to more stable viewings and sales completion figures is expected from Q4 onwards.

Figure 6 – Property Price Register Q1 2018 – Q2 2021 (number of transactions)

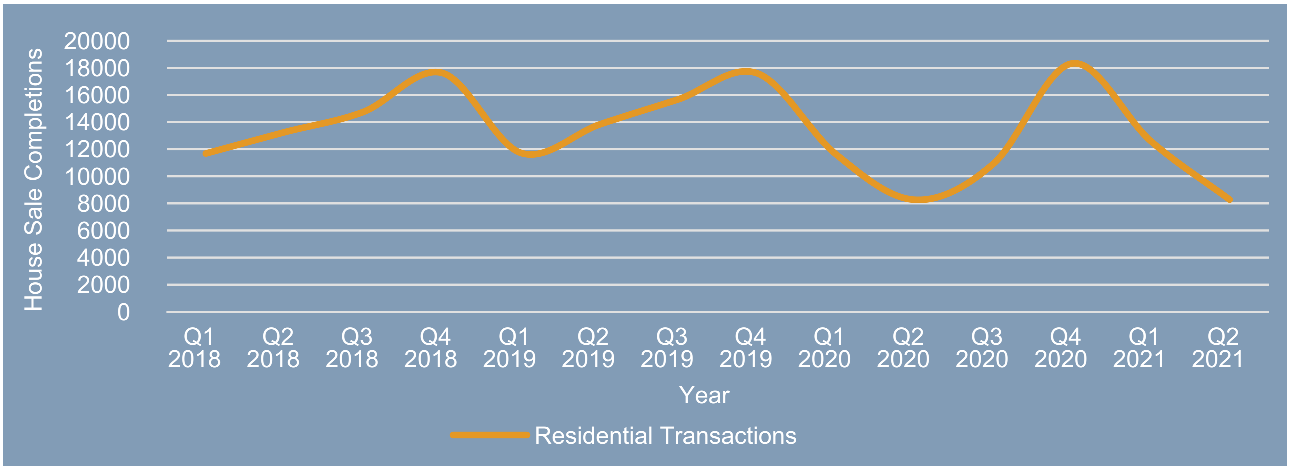
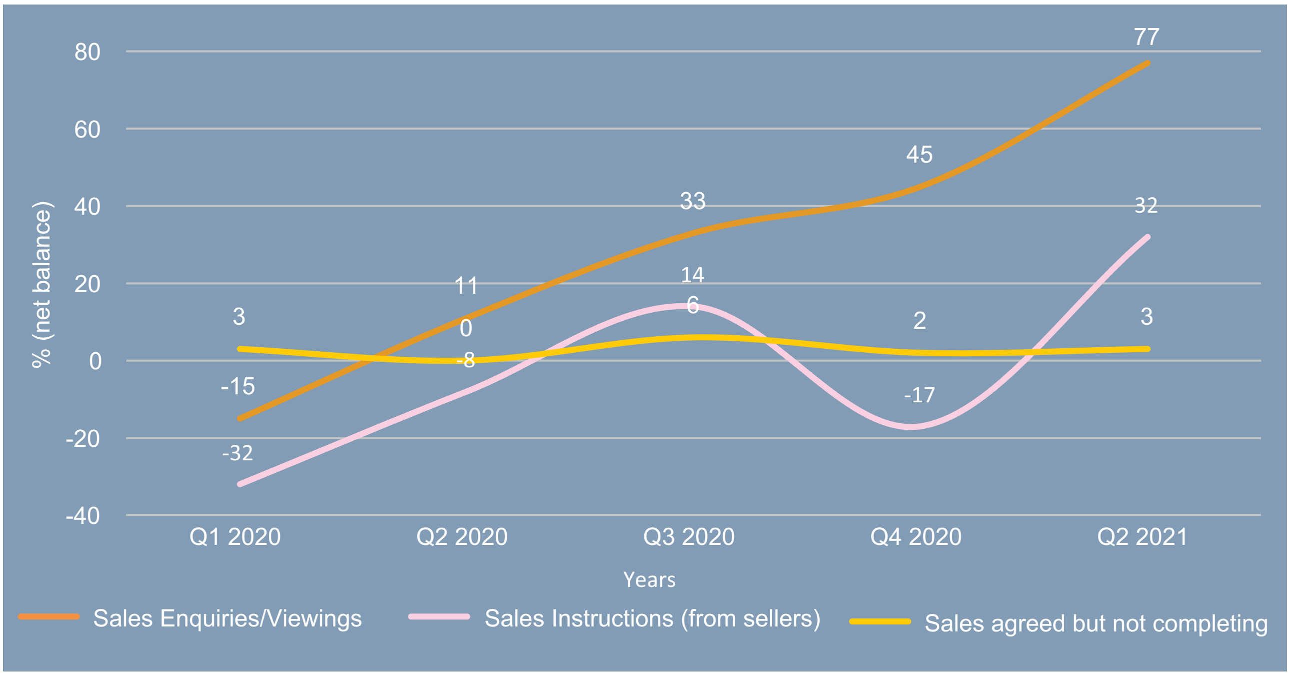


Figure 7 – SCSI National Sales Activity (net balance) – Q1 2020 to Q2 2021



Property Viewing/Sales' Enquiries Activity

In Q1 2020, the SCSI Residential Property Net Balance chart recorded minus 15% highlighting that the percentage of agents reporting a decrease in sales enquiries/property viewings was much higher than those reporting an increase in the same activity. Over the following 15 months, the SCSI net balance chart recorded a consistent increase of sales enquiries/ property viewings, even during the highest levels of COVID-19 restrictions over this period.

From December to February of every year tends to be relatively quiet in relation to new sales instructions from sellers. This is evidenced in Q1 2020 on our net balance (figure 7). From Q2 2020 through to Q4 2020, it is evident to see the relatively subdued interest from sellers instructing agents to place their home on the market for sale. This can be attributed mainly due to COVID restrictions on viewings and inspections. Since the easing of property restrictions post April 2021, agents across the country are reporting stronger levels of new sales instructions from sellers. Anecdotally, some agents reported that buyers were choosing to withhold placing their property on the market in 2020 during the high uncertainty that COVID created. The net balance chart (figure 7) highlights that the percentage of agents reporting an increase in new sales instructions minus those agents that reported a decrease in the same activity gives an overall result of 32%, up from -17% in Q4 2020.

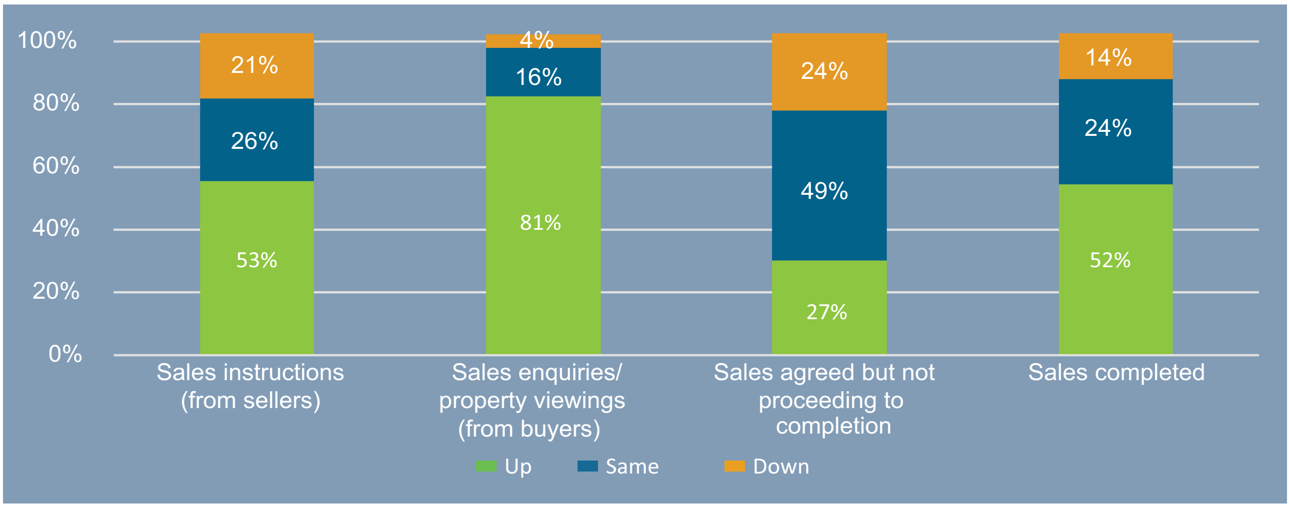
"The outlook is likely to be upward movement in (sales) prices as people have increased level of savings as a result of covid and therefore bigger budgets. It will also lead to increased demand for larger properties as people need space to Work From Home. Finally, it will lead to increased demand for properties in rural areas as WFH allows them to be based anywhere and many will see this as an opportunity to return home to rural areas where larger properties are more affordable and there is less pressure for school places"

Estate agent, Dublin

Sale Agreed Activity

There can be many reasons why a property sale falls through and fails to close. These reasons can include title issues, boundary challenges, planning or building regulation issues or simply a purchaser no longer willing to proceed with the agreement for personal reasons or may have found a more suitable property. As can be seen from Q1 2020 to Q2 2021 the percentage of those agents reporting an increase in this activity minus those reporting a decrease remains relatively consistent highlighting that C-19 had no significant impact on purchasers behavior once their decision to purchase was made.

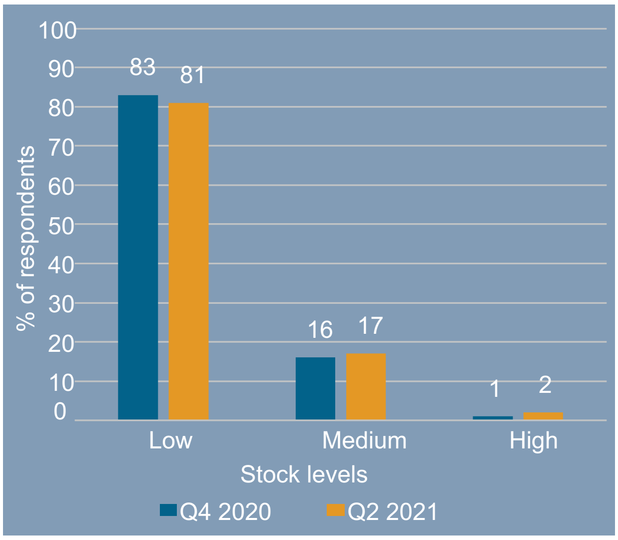
Figure 8 – SCSI National Property Transaction Activity, Agent responses– Q2 2021



Seller type

SCSI agents report that, on average, 73% of those selling property on the market in the past six months where owner occupiers with 27% being landlords looking to sell their investment. When asked about the expected changes in the percentage of buy-to-let properties coming on the market, 46% of agents reported an increase with 41% stating that the percentage of buy-to-let properties coming on the market remain the same compared to Q1 2021. The main reason cited for exiting the market is an overly complex rental regulation on landlords. Landlords are also leaving the market for reasons relating to the exiting of the property from negative equity. According to DAFT.ie, there were just 392 homes available to rent in Dublin on May 1st 2021, the second lowest figure on record after February this year in a series going back to 2006.

Figure 9- House Sale Stock Levels

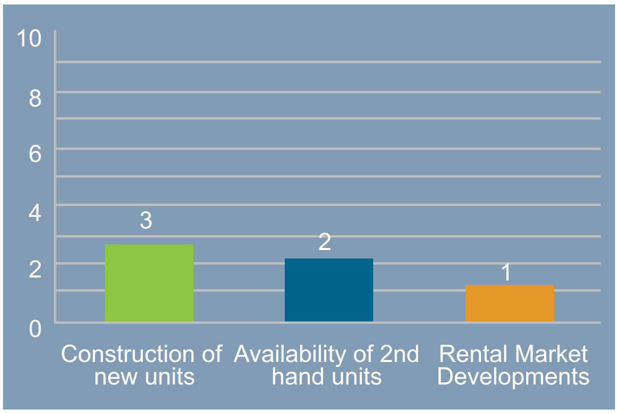


‘Market Factors’ influencing property prices

Our survey sought views from agents regarding the top overarching factors influencing their expectations of house price developments. 8 in 10 agents selected ‘market factors’ over ‘economic factors, ‘financial policies’ and ‘socio-environmental influences’ as the main factor to influence the market.

We then asked agents to rank the market factors in particular that they believe will influence property prices. The ‘construction of new units’ was ranked the highest, with the ‘supply of secondhand homes’ ranked in second place. These results highlight yet again that the professionals working in the property sector view the main solution towards a more sustainable property market, remains the adequate supply of new units in areas of highest demand.

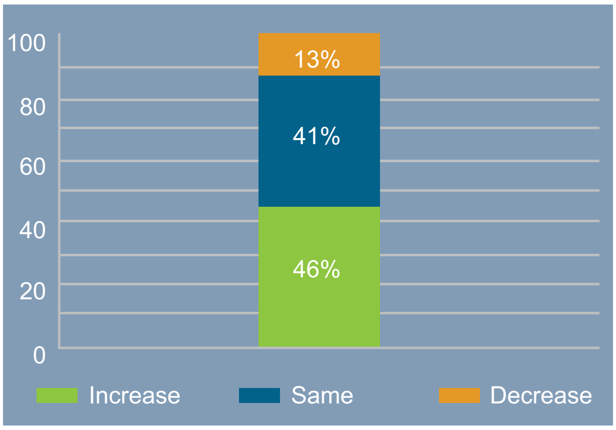
Figure 10 - Agents’ views of the ‘Market Factors’ underpinning property prices (Ranking order 3 = highest rank)



Rents outside of Dublin expected to hold firm, while rents in the Capital to plateau in most locations

During the first half of the year, activity in the rental sector was somewhat subdued due to the COVID restrictions on property viewings. Physical viewings of properties were only permitted in exceptional circumstances, with the vast majority of viewings conducted on-line only or where a lease agreement is entered into, only then could a physical viewing take place. Additional Government funding and supports were made available to private tenants during the COVID restrictions and many of these supports are still in place particularly the ban on evictions for tenants that have self-declared an inability to pay rent. The current position is that these protections will remain in place until January 2022. Agents across the country have reported however that many landlords are in an equally perilous situation whereby non performing tenancies are impacting on their ability to pay their overheads such as mortgages.

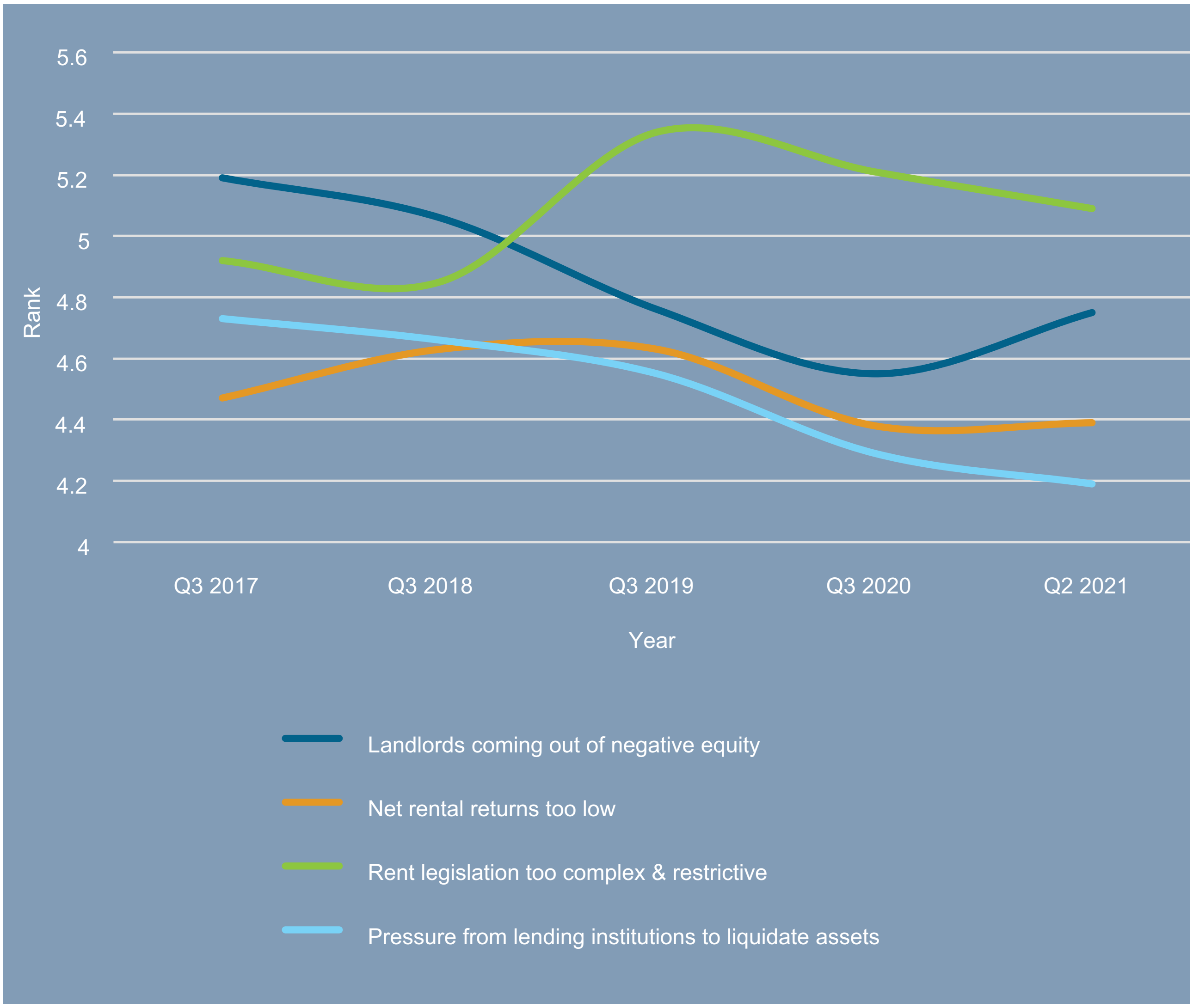
Figure 11- Percentage of Buy-to-Let properties coming on the market for sale

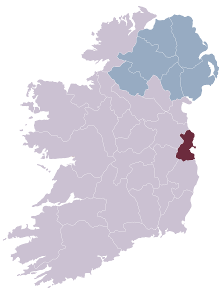


The outlook for the rental market remains unclear as there are mixed views of the market in cities versus rural locations. Anecdotally, some agents expect rents to increase over the next year as stock levels remain tight in many parts of the country but there are mixed views among agents in Dublin not knowing how the return to the office from autumn onwards will fare out.

On a national basis, 46% of agents report that there is an increase in the number of buy to let properties coming on the market for sale. One of the more significant concerns of agents is that rental legislation has become very complex over the last few years with landlords becoming more and more frustrated with the regulations and risks associated with a residential investment property. Commentary from some agents within our survey suggest that where landlords that may have non-performing tenants in situ, insufficient supports are available to them to remove these tenants in a timely manner from the property and recover their monthly rent that may be outstanding.

Figure 12 - Agents responses- Reasons for landlords selling investment property (Ranked order 1=lowest)





Regional Markets
Dublin Market Update

John O'Sullivan, MSCSI MRICS, Lisney

"Many predicted that property values would fall as the pandemic hit Ireland. In essence the reverse has happened but as supply tightened into the Autumn 2020 and then over the New Year into 2021 construction sites closed due to Covid restrictions as we re-entered Level 5. The supply and delivery of new homes stalled and as a result there was additional pressure on an ever-dwindling supply of second-hand homes.

Values have increased to levels not seen for many years. Buyers are particularly keen to purchase a home and fears over falling supply together with announcements that two banks are leaving the market have accelerated demand from home buyers many of whom seek their first home.

There remains a significant undersupply of homes and there is a multitude of reasons behind this. It may in some cases be an issue with timing as the economy opens up and restrictions ease, those selling homes will place their property on the market.

Potential vendors of property when considering placing their own property on the market are fully confident of securing a buyer but are fearful of securing a property to purchase. That in turn is affecting supply lines."

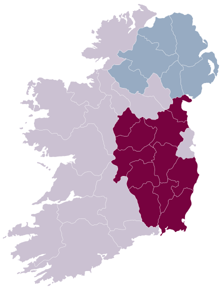
80% of Dublin based respondents expect to see an increase in residential property prices in the County over the coming 12-month period, this is an increase from the 66% of agents who anticipated an increase in property prices would occur over the coming year when surveyed in Q4 2020. On average, agents expect prices to increase by 4%, which is 2% lower than the average national expectation from agents. Indeed, Daft.ie recorded that listed prices across Dublin rose by an average of 1.6% between December and March.

The overarching factor which underpins this expected price increase from agents is the availability of new and existing stock on the market. As with many parts of the country, the supply of properties available for sale has tightened in Dublin. 82% of agents report having low levels of stock available to sell on their portfolios at present. Agents continue to report a pent-up demand for property which has been compounded by limited activity during successive lockdown periods combined with the effects on the construction of new units and properties being held from being placed on the market in some instances.

In regard to the rental market, similar to the national response, the top cited factor (49% ranked this as the number one factor) for occupied residential investment units coming back onto the market in Dublin is that rent legislation is currently too complex and restrictive. A further 28% cited landlords coming out of negative equity as the top factor.

Trends to supply and demand in the city remain a key point of focus in the rental market for agents in Dublin. As noted previously in this report, rental supply remains low in Dublin when compared with previous years. In regard to demand, some agents have noted seeing a gradual increase in renters returning to the Dublin market to rent having perhaps moved to more rural locations whilst working from home. These patterns will perhaps ultimately be informed by changes to the work environment as some offices look to reopen whilst others consider hybrid and flexible working opportunities.

> **"Workers will need to find out what their new work pattern is. There is already an increase in lettings again with many people planning on returning to Ireland/ or the cities again."**
>
> **Agent, Dublin**



Regional Markets
Rest of Leinster Market Update

Winston Halnon, Assoc. SCSI Rea Halnon McKenna

We, like every other estate agent, have experienced a turbulent six months in the residential property market since the beginning of January 2021. We kicked off the year with some new listings and agreed a number of sales in the first week. From early January, Covid 19 restrictions were introduced and brought the market to a halt. We managed to agree a number of sales by virtual viewings, however, this was inconsistent. We witnessed supply levels decrease dramatically from mid-January until viewing restrictions were lifted in May.

Since restrictions have been lifted, we have seen the residential market perform exceptionally well. This is down to an increase in demand, however, more importantly, the supply of properties for sale has not materialised to any great affect. This is a consistent message I hear from my colleagues across the region.

The impact of the increased costs and supply shortage of building materials is also having a huge effect on the market regarding the supply of new homes and subsequently pricing. It is now the case that many developers are seeing their costs increase significantly in a short space of time. We work with a number of developers on new homes consultancy, and they all report that they are revaluating the viability of each scheme due to the increase in costs to deliver new homes.

I believe the headlines for the remainder of 2021 and beyond will continue to be dominated by the housing market and the key message being the supply shortage and increase in demand for new and second-hand homes.

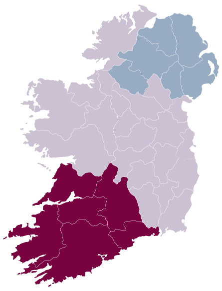
88% of agents in Leinster anticipate that property prices will increase in their county over the next 12 months, while a further 19% of agents expect prices to remain the same. No agents in the province reported anticipating a decrease in property prices in Leinster over the coming 12 months. The net balance average for this anticipated price increase in the region is 6%. 79% of agents attribute market factors such as the construction of new units and availability of second-hand units as the main factor underlying their price change expectations. Indeed, as can be seen across all regions, agents in the Rest of Leinster have highlighted that demand for homes, particularly new homes is largely exceeding supply. Indeed, 78% of agents reported seeing an increase in sales enquiries in Q2 2021. Agents in the region have noted how COVID-19 has in some instances led to purchasers who ordinarily would be based in cities for work, to look beyond these areas to more regional due to firms adapting to working remotely or hybrid working.

53% of agents have reported seeing an increase in sales instructions from sellers and 56% reported seeing an increase in sales completions.

Overall, commentary for Leinster is similar to the national sentiment insofar as agents continue to outline the effect that a lack in supply is having on the market in regard to availability to meet purchaser demand, the knock on effect on the rental market and on overall property sale and rental price increases. Stock levels of housing for sale are at low levels as reported by 77% of members.

"Covid-19 has changed the landscape of the workforce. There is less of a requirement for living in Dublin and people are now looking for extra space in the commuter counties."

Agent, Kildare



Regional Markets
Munster Market Update

Majella Galvin
Assoc. SCSI DNG
Galvin Auctioneers & Valuers

Lack of supply, pent up demand, and the availability of saving and fixed rates on mortgages are seen as factors supporting the recent house price growth in the residential property market.

The pandemic meant people were slow to put their property on the market with so much uncertainty, all the while, buyers were looking, they still needed a home and wanted to buy. That left a greater shortage of property and prices moved on.

The restrictions in place during the lockdown earlier this year, meant that people were bidding on property without having an opportunity to view it until the sale was agreed. Once physical viewings recommenced in May, the market was very busy with a large number of approved bidders going head-to-head with one another to secure scarce housing stock, and further driving up prices. Many house sales in the Cork residential market have gone for 10% or more over their guide prices, while coastal properties with sea views prices have increased by over 20%.

First time buyers continued to be the main players availing of the help to buy scheme to purchase a new home. However, the problem is that there is not enough supply to meet demand as the Covid 19 pandemic halted construction on many new developments. Since sites reopened and construction recommenced, builders are now faced with a number of challenges such as the increase of construction costs where materials are estimated to have gone up by 20%, increase in labour costs and the scarcity of trades people. 84% of agents report having low levels of stock available to sell on their portfolios at present.

Stock in the second-hand market is at an utmost low. One of the main reasons people are delaying putting their property on the market is they cannot find an alternative home due to the shortage of stock in the market. Cash buyers are active seeking coastal cottages and doer-upper projects.

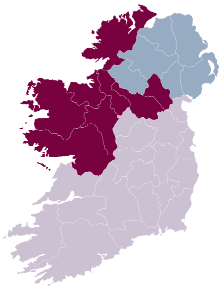
Buyer's preferences for homes have changed in the last 18 months. Location is no longer the key requirement. As a consequence, we continue to see more demand for property in rural areas with large gardens and good broadband. We are seeing buyers from Dublin looking to relocate to Cork as flexible working conditions continue to be the norm. Furthermore, they can sell their semi detached in Dublin and replace it in Cork with a larger home thus getting better value for money. The increase in Irish interest in West Cork properties, coupled with the drop off in overseas purchases, has changed the market significantly.

There is a large section of the market for which the pandemic has not affected their wages and these tend to be those on the higher income brackets and this has allowed people to save on their household expenditure and they can then afford a bigger mortgage. Ready to go buyers continue to go head-to-head for homes driving up prices. Pent up demand, shortage of supply, rising costs of construction, are signs of further price increases.

Auctioneers and agents (78%) in Munster are of the view that property prices will continue to rise over the next three months with 100% of respondents suggesting that property prices will increase over the next 12 months and the expected increase will be in the order of 7%. The consensus among agents is that the supply of new homes is significantly less than current demand. Anecdotally, several members expressed concern with the low levels of zoned and serviced residential land currently available on the market for development and this is playing into low levels of new housing stock being made available to purchasers. With low levels of new housing stock on the market, this impacts the secondhand housing market as the survey captured a number of responses from members indicating that the supply level of secondhand stock to the market is at a 10-year low.

Reports from our agents indicate that the viability equation of building new homes versus market prices is still imbalanced and needs correction. For example, the high costs associated with delivering a new house to the market, coupled with recent construction material price inflation, is resulting in new homes becoming more and more unaffordable for purchase.

Again, not too dissimilar from other provinces or results nationally, commentary from agents in the Munster province continue to raise issues of increasing pressure on the rental market to accommodate people which is in turn applying consistent upward pressure on monthly rents and therefore is continuing to reduce tenant's ability to save money towards a deposit to purchase.



Regional Markets
Connacht/Ulster Market Update

Cormac Meehan
FSCSI FRICS, SCSI
Auctioneer and
Chartered Surveyor

Market update from Donegal

The first half/quarter of 2021 in the residential sales market in the Northwest is characterised by a rapidly diminishing sales stock. The corollary of this is that the pressure on supply has prompted quite sudden price growth. The supply logjam has not been eased due to a falloff in new builds coming on to the market. Over the past six months it is estimated that building costs, particularly materials and labour have increased by as much as 20%. This is a mirror of increasing oil prices and a developing skills shortage in the sector. Many skilled construction and ancillary workers have returned to their home countries, particularly, in Eastern and Central Europe due to lack of work during the various Covid 19 lockdown phases and concerns about cross border mobility in relation to Brexit.

Pre-pandemic saw average three bedroomed semi-detached homes of standard construction selling for up to €135,000. Certain areas have seen prices in this property category rise to a band from €160,000 to €200,000. This is influenced by high local economic activity such as new public sector developments like infrastructure and public health care projects. By the same token the construction costs of these units inclusive of site costs has risen to as much as €200,000. It is evident that developers in this region, and perhaps others, are having difficulties keeping projects viable.

In the past 6 months, we've seen a growing number of younger skilled/professional people from the financial services and tech sectors move from larger urban centres in both Ireland and further afield to the west and northwest regions of rural Ireland. This is motivated by a significant improvement in broadband services which has facilitated a greater ease and capacity to work remotely. Lower living costs, property prices and general lifestyle benefits have also been motivating factors.

The challenge for the future is, quite obviously, to increase housing stock. This would be achievable in this region by rezoning secondary residential reserve lands to primary residential use. Many local authorities here are currently in the process of reviewing their county and local area development plans and should be mandated by central government to make this a priority. The immediate downside of this is that the process can take up to two years, by which time, the problem may have become much more acute, pushing further pressure on prices.

Agents' future house price expectations are particularly strong in the Connacht/Ulster province with 94% of respondents expecting property prices in the next three months to increase and 88% are expecting property prices to increase over the next 12 months. On average, agents expect house prices to increase by 7% over the next 12 months citing an increase in enquiries from purchasers who would have ordinarily purchased property in more urban centers, now moving to more regional and provincial locations. This recent trend in buyers seeking more regional properties to purchase is reported to be partly due to the onset of more remote working options for employees.

Respondents also report the need to change their business activity during the height of the COVID pandemic and the restrictions on society and business that came as a consequence. 74% of firms are reporting investment in technology in the past 12 months, particularly digital viewing technology which facilitated viewing activity to continue in the property sector whilst physical viewings were not permitted. Agents have also reported in some of the questionnaire commentary, that as a consequence of the COVID restrictions on the property sector, some efficiencies have been introduced within the sales process as a result of 'proof of funds' vetting of viewing parties. Guidance has now issued (22nd June) from the Data Protection Commission which sets out limitations of the type of information that can be sought from prospective purchasers before a property viewing.

The main theme of current market conditions in the Northwest is construction viability and affordability concerns. Recent price increases in materials, is a cause for concern of many agents who fear that construction inflation is moving at a fast rate and is outpacing the ability of purchasers to pay for new property. Finally, 79% of agents are reporting low levels of housing stock on their books for sale, which is at one of the lowest levels recorded by many agents in a decade. Commentary from our survey which really stood out amongst others, was a view from an agent who expressed so much concern about high construction costs that he is aware of a small development where the land value is essentially nil to allow the development to proceed and generate a return an investment.

Summary

The over-riding concern expressed by SCSI auctioneers, agents and valuers is the lack of supply of new homes. Property prices nationally are close to 90% when compared against the height of the boom in 2007. According to the Central Statistics Office property price data, on average, residential property price inflation is running at 9% per annum over the past decade, yet the Consumer Price Index is significantly below that figure at c. 2%. The Central Bank of Ireland Macro Prudential policies which restrict loan- to- income ratios of 3.5, has worked well to minimize excessive lending in the home purchasing market. However, this policy is at odds with the ever-increasing cost of delivering new homes to the market. It is unlikely that wages will keep pace with property price inflation and any potential increases in national wages would only result in Ireland becoming more and more uncompetitive on a global scale, highlighting the need that more needs to be done to tackle the underlying costs associated with delivering homes to the marketplace.

The cumulative impact of lower home completions as a result of COVID restrictions is that new supply will be at pre COVID levels from 2024. Using the Central Bank of Ireland housing needs assessment figures, of 34,000 units required per annum, one might expect to see a supply and demand equilibrium from 2031 onwards.

Governments' "Housing For All" strategy, due to be launched shortly, will hopefully provide clarity on the Roadmap for new housing delivery over the next eight years. The ambition to build 50,000 new social homes over the life span of the Program for Government, is welcomed and one that will be supported by the establishment of the Land Development Agency (LDA). The strategic function of the LDA in managing state assets to build new homes, is a pivotal development and one that is expected to help increase the quantum of units for aspiring home purchasers and tenants. A partnership of public and private sector is critical to meet the challenge as set out within the "Housing For All" plan.

Moreover, as we await the launch of the reviewed National Development Plan and the Climate Action Plan in the coming months, both plans will most likely have a noticeable impact on the limited resources available within the construction sector. Ambitious targets to retrofit 500,000 homes in 10 years and the delivery of priority public infrastructure will help drive economic growth and jobs post Covid but more importantly provide more opportunities and a healthier environment for future generations.

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