



Chartered property,
land and construction
surveyors

RESIDENTIAL PROPERTY MID-YEAR MARKET MONITOR 2023



JULY 2023





Chartered property,
land and construction
surveyors

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SALES MARKET

PROPERTY VALUES EXPECTED TO INCREASE BY 2% ON AVERAGE OVER THE NEXT 12 MONTHS.



A LOWER PROPORTION OF SURVEYORS NOTED A DETERIORATION IN STOCK LEVELS, WITH 71% NOTING LOW LEVELS IN 2023, IN COMPARISON TO 81% A YEAR PRIOR.



SALES INSTRUCTION LEVEL INDEX AT -5%, DOWN FROM +32% IN 2021



MARKET FACTORS SUCH AS AN INSUFFICIENT NUMBER OF NEW HOMES BEING BUILT, CHANGES MADE BY BANKS (RELATING TO INTEREST RATES/AVAILABILITY OF CREDIT), AND CHANGES IN THE STATE OF THE ECONOMY CONTINUE TO UNDERPIN THE MAJORITY (78%) OF AGENTS' EXPECTATIONS ON VALUES.

BROADER MARKET TRENDS

SCSI AGENTS

48%

NOTED A DETERIORATION OF CREDIT CONDITIONS IN THE FIRST HALF OF 2023.

63%

NOTED RESIDENTIAL PROPERTY MARKET VALUATION LEVELS AS BEING EXPENSIVE.

43%

FOUND THAT THE MARKET WAS IN A MID-UPTURN PHASE.

COMPLEXITY OF RENTAL LEGISLATION/REGULATION CONTINUES TO BE RANKED AS THE TOP REASON LANDLORDS ARE LEAVING THE RENTAL MARKET.

AFFORDABILITY METRIC

2%

NEW THREE-BEDROOM SEMI-DETACHED HOMES INCREASED ON AVERAGE BY €8,000 NATIONALLY, UP 2% IN SIX MONTHS.



MEATH REMAINS THE MOST AFFORDABLE COMMUTER COUNTY TO DUBLIN.

CORK, MEATH AND GALWAY REMAIN AFFORDABLE TO THE AVERAGE INCOME EARNING COUPLE, WITH +€9,500, +€11,300 AND +€12,200 HEADROOM, RESPECTIVELY, FOR PURCHASING AND BORROWING TO CENTRAL BANK MACROPRUDENTIAL LIMITATIONS.

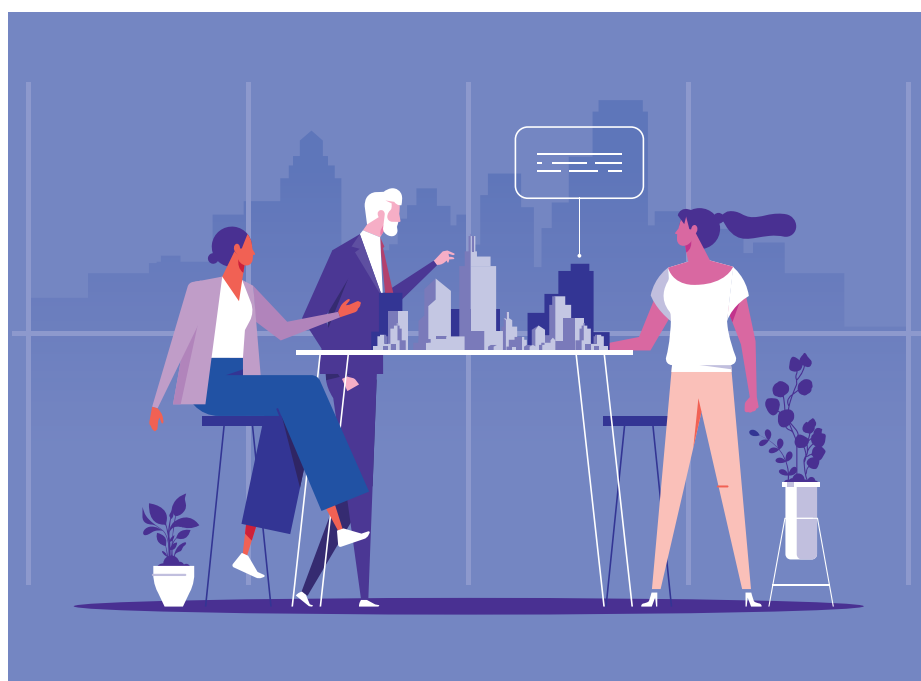


NEW HOMES IN WICKLOW AND KILDARE REMAIN THE MOST UNAFFORDABLE TO THE AVERAGE INCOME EARNING COUPLE, ACCORDING TO THE STUDY.



ECONOMIC OVERVIEW

According to the European Commission Spring 2023 Economic Forecast, Ireland's gross domestic product (GDP) is expected to maintain robust growth rates after experiencing double-digit growth in 2022. These projections indicate a solid growth trajectory of 5.5% in 2023 and 5.0% in 2024.¹



According to the European Central Bank (ECB), latest data suggests that the direct effects of the supply shocks experienced over the last two years are gradually fading, which is noted in the declining rate of headline inflation in recent months.

The primary catalyst for economic activity is net exports, accompanied by resilient private consumption. Inflation reached its highest point at 8.1% in 2022, and is expected to gradually ease over the course of 2023, ultimately reaching 3% by 2024.

The Central Statistics Office's (CSO) Consumer Price Index (CPI) rose by 6.6% between May 2022 and May 2023, down from an annual increase of 7.2% in the 12 months to April 2023.² According to the European Central Bank (ECB), latest data suggests that the direct effects of the supply shocks experienced over the last two years are gradually fading, which is noted in the declining rate of headline inflation in recent months.³

However, indirect effects are still working their way through the economy as the input price increases witnessed last year pass through gradually into

core inflation, and domestic cost pressures emerge in the form of wages and profit margins. These factors fuelled the ECB's decision to increase the three key ECB interest rates by 50 basis points. The scale and persistence of interest rate increases, up 3.5 percentage points in just nine months, is unprecedented. The ECB is increasing interest rates to attempt to counter the increase in inflation brought about by successive and overlapping supply shocks.

An increase in ECB interest rates can potentially result in higher borrowing costs for businesses and individuals alike, which can subsequently affect access to credit, making it more expensive for businesses to invest and expand. It may also impact on consumers' ability to afford mortgages and other loans, potentially dampening consumer spending.

¹ European Commission Spring 2023 Economic Forecast for Ireland.

² Central Statistics Office. Consumer Price Index May 2023.

³ ECB. Staying the Course: Monetary Policy to Avoid Persistent Inflation. 2023.

THE PROPERTY MARKET

The rise in material prices is affecting the supply of new homes, leading to concerns regarding the feasibility of certain projects. Inflation is prevalent in various construction sectors, including commercial buildings, as evident from the SCSi Tender Price Index, which reports a significant 11.5% increase in tender prices throughout 2022.⁴

The Government unveiled its Housing for All plan in late 2021, aiming to enhance Ireland's housing sector and provide approximately 300,000 homes by 2030, which translates to an annual average target of around 33,000 housing units between 2021 and 2030.

Annual new housing completions have increased significantly since the launch of Housing for All. New housing reached 29,851 completions in 2022, up from 20,553 in 2021, an increase of 45% over 12 months. Despite this stark increase, the completion levels continue to fall behind the average annual requirement of 33,000 units per year.

To ensure progress towards the Housing for All goals by 2030, the rate

of new dwelling completions between 2023 and 2030 needs to increase by approximately 5.9% per year, as can be viewed in Figure 1. Recent data from the Central Statistics Office (CSO) also revealed an 8% increase in the national population since 2016, equivalent to 387,000 people or an average increase of 65,000 individuals per year over the past six years.⁵ Given this new information, it is necessary to conduct a comprehensive review of housing needs assessments to establish current and comprehensive supply targets.

Furthermore, despite the stronger than anticipated output for 2022, forward looking indicators imply that completions in 2023 are going to

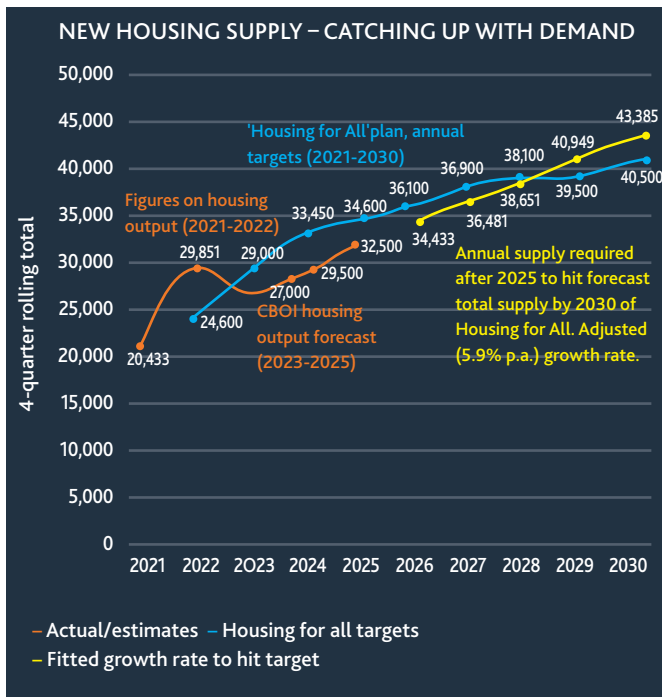


FIGURE 1: Catching up with the cumulative undersupply of new housing units per annum. Source: SCSi research.

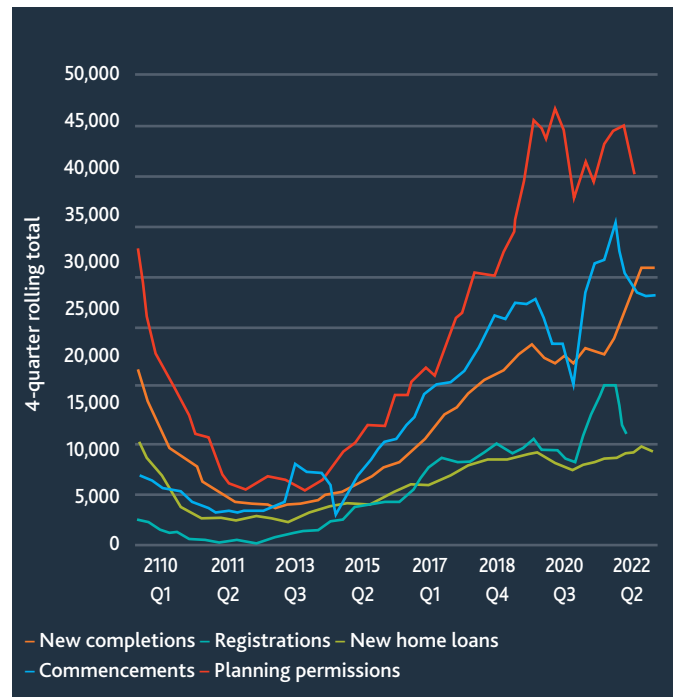


FIGURE 2: Central Bank of Ireland housing indicators. Source: CSO, DoHLGH, BPFI, Central Bank of Ireland.

⁴ SCSi Tender Price Index February 2023.

⁵ CSO. Census of Population 2022. 2023.

THE PROPERTY MARKET

be lower. **Figure 2** indicates a decline in planning permissions and commencements in 2022. In the last quarter of 2022, commencements averaged around 27,000 on an annual basis. The completion of new housing units is expected to face constraints due to shortages in labour and materials, along with ongoing rises in construction input costs.

It is projected that house completions will reach approximately 27,000 this year, followed by increases to 29,500 in 2024 and 32,500 in 2025.⁶ The SCSl gathers the expert opinions of our residential estate agents and

valuers regarding their assessments of the market. Agents regularly interact with buyers and sellers, providing them with unique insights into property trends and the level of activity within their specific operational areas. Regarding the residential property market, there continue to be increases in property prices, with annual residential property prices up 4% year on year (year to April 2023).⁷ However, this represents a significant reduction in comparison to the 14% increase that was noted a year prior.

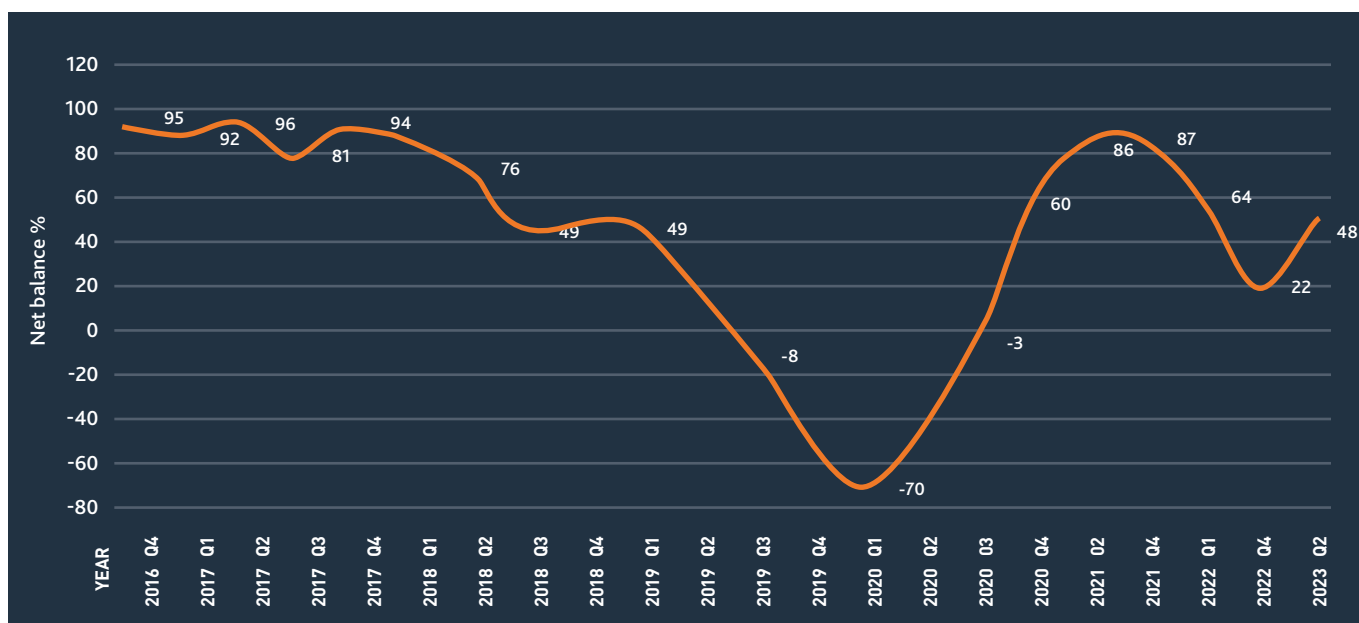


FIGURE 3: National price movements (12-month expectation). 'Net balance' illustrates the percentage balance of those who anticipate price increases minus those who anticipate decreases. *Source: SCSl research.*

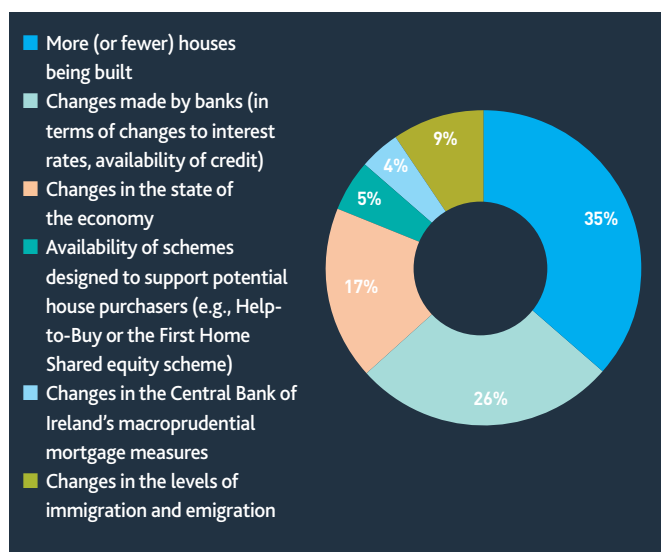


FIGURE 4: Factors underpinning house price expectations. *Source: SCSl research.*

Figure 3 highlights an increase in the SCSl index that tracks property price sentiment (+12 months) to +48%, up from +22% in Q4 2022. According to feedback from the member survey: "Lack of supply will likely be the biggest factor affecting increased house prices.

Market conditions such as supply and demand have historically been noted by SCSl agents as the primary factor underpinning house price expectations (as cited by 35% of respondents – **Figure 4**). The survey also noted that over one-quarter of respondents (26%) stated that changes made by banks (in relation to interest rates and availability of credit) are also having a significant impact on pricing.

Increased rates of inflation have resulted in increased benchmark interest rates, which subsequently impact on the rates offered by commercial banks for mortgages. Increased inflation has also resulted in tighter lending standards due to increased pressure on household incomes making it more difficult to meet mortgage payments.

⁶ Central Bank of Ireland Quarterly Bulletin QB2 – June 2023.

⁷ CSO Residential Property Price Index April.

SELLER ACTIVITY



As of Q2 2023, agents observed a modest increase in the number of sellers initiating sales compared to the end of Q4 2022 (Figure 5). However, when compared to previous years there is no significant increase in the level of new instructions to the market, with the net balance remaining negative overall. According to the Q1 2023 Property Report published by myhome.ie, stock levels continue to remain extremely challenging. Currently, 13,600 homes are listed for sale on the platform, which is an improvement from 11,200 at the beginning of 2022 but is still well below the more than 20,000 units that were recorded prior to the pandemic.⁸

According to the Q1 2023 Property Report published by myhome.ie, stock levels continue to remain extremely challenging.

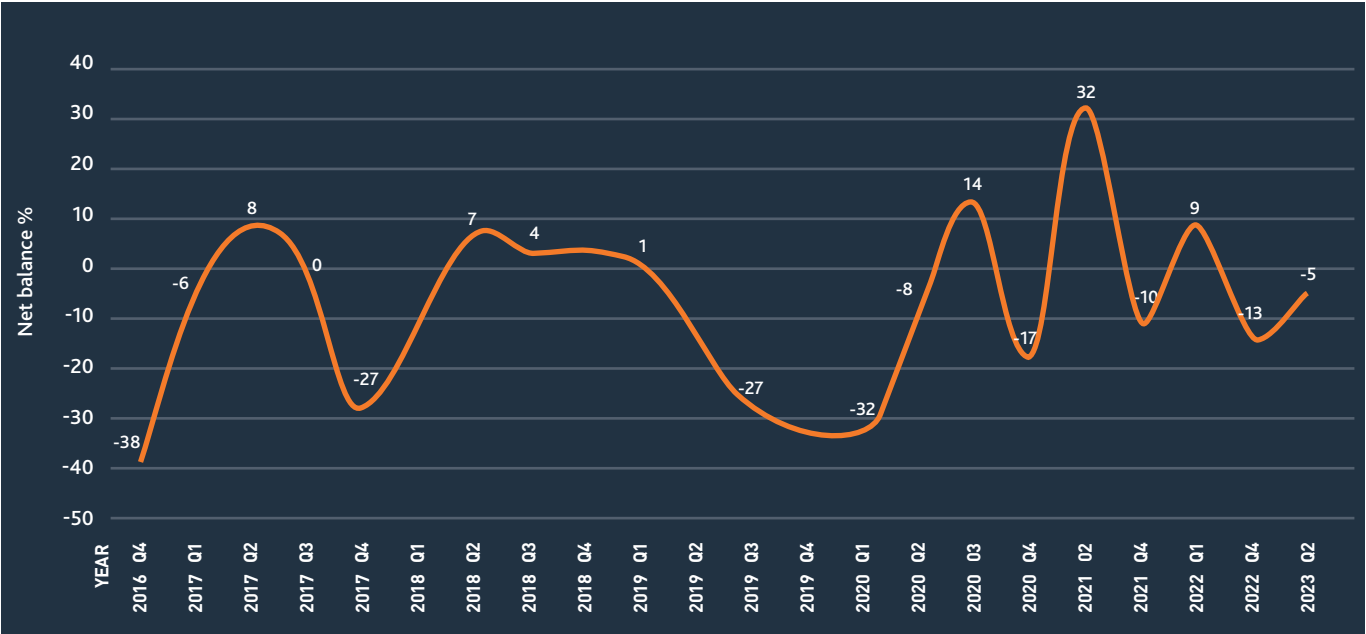


FIGURE 5: National sales instructions.

Source: SCS research.

⁸ MyHome.ie. Q1 2023 Property Report in association with Davy.

BUYER ACTIVITY

The Covid-19 pandemic accelerated the adoption of remote work arrangements and provided workers with more housing options, with many ultimately deciding to move to more rural areas of the country. This trend was also heavily influenced by continued price pressures on housing costs. According to the third National Remote Working Survey, published in 2022, 10% of respondents have moved to different

locations within Ireland since the onset of the Covid-19 pandemic.⁹ The reason cited for this relocation is the ability to work remotely. Further analysis revealed that the counties surrounding Dublin continue to be favoured due to the rise of hybrid working arrangements. The report also found that other key factors contributing to the current trend include the tight labour market and elevated housing prices. The level of enquiries

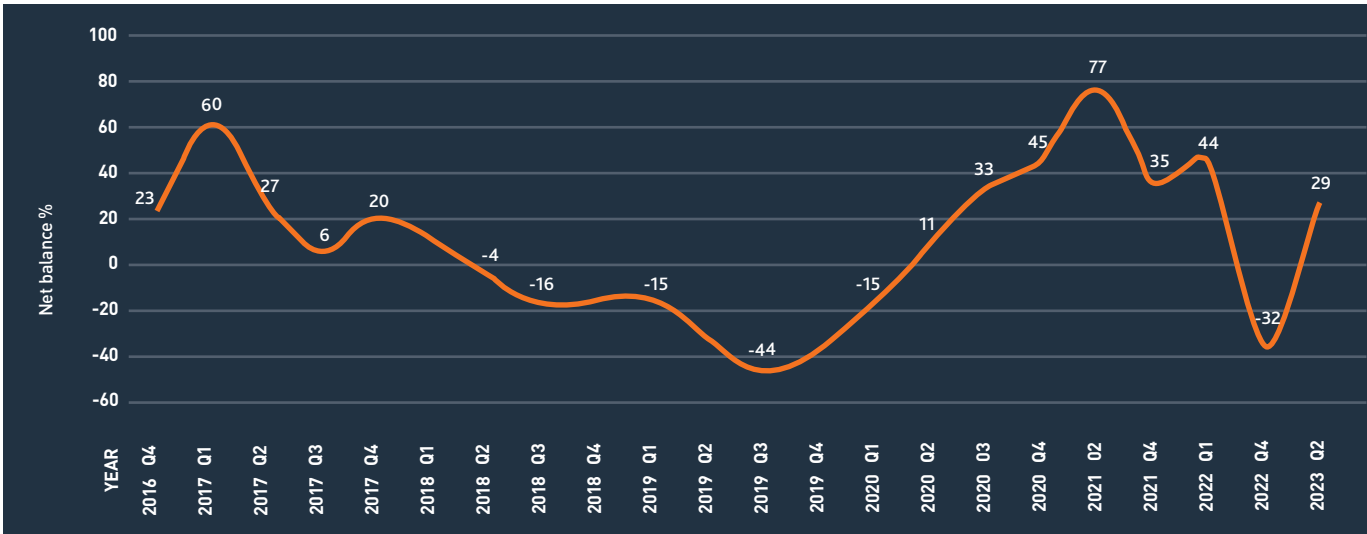


FIGURE 6: National sales enquiries/viewings. Source: SCSi research.

and viewings varies from one part of the year to another, which can typically be attributed to holiday periods, when buyers are less likely to attend viewings. There was an increase in enquiries/viewings noted in the most recent quarter, from a net balance of -32% in Q4 2022 to +29% in Q2 2023 (Figure 6). This increase aligns with the increase in housing completions generally in 2022. While the upsurge in activity is an overall

positive indicator for the market, the current sentiment of +29% in Q2 2023 remains lower than the +44% sentiment noted during the same time period in 2022. Activity levels of sales being completed is decreasing, highlighting that for various reasons more sales contracts are falling through (Figure 7). There are many factors why a sale will fall through, such as boundary or title issues, or issues with access to funding.

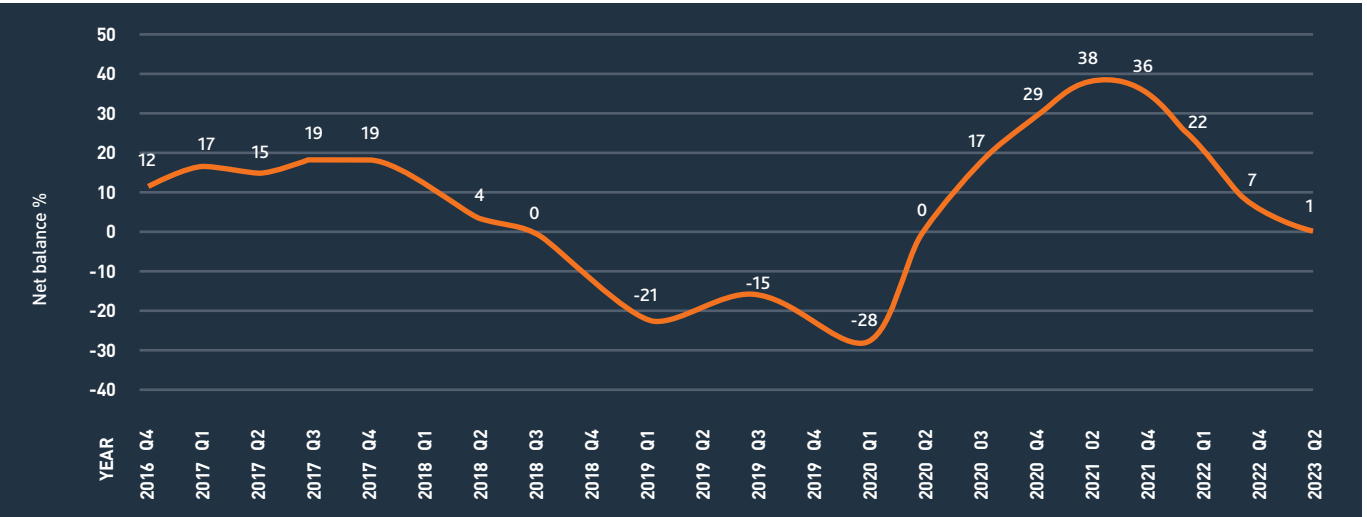


FIGURE 7: Activity levels of sales completed (per quarter). Source: SCSi research.

⁹ Western Development Commission. National Remote Working Survey, 2022.

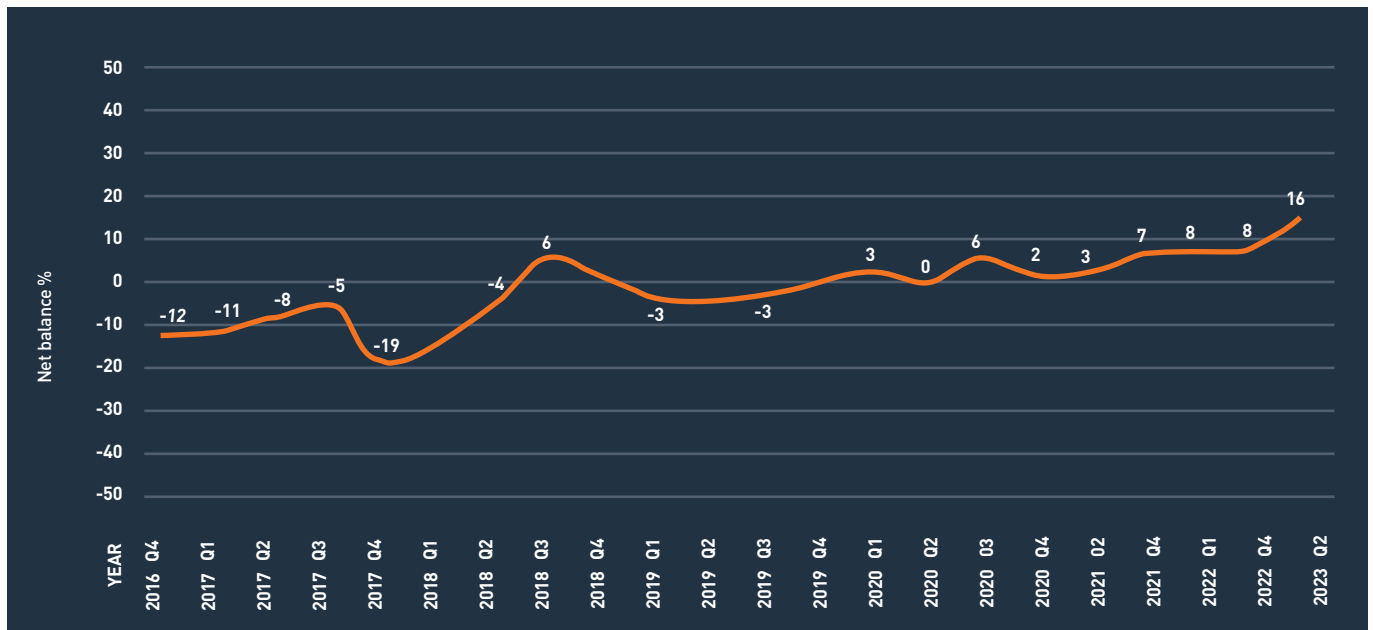


FIGURE 9: Sales agreed but not proceeding.

Source: SCSi research.

Along with additional factors, conveyancing delays have previously been noted by the SCSi as a contributing component impacting on the amount of stock available on the market (Figure 8). These delays slow down the overall transaction process, meaning that properties that would otherwise be available for sale are not officially transferred to new

owners (Figure 9). Furthermore, with many transactions there is a chain of buyers and sellers involved, where the sale of one property is dependent on the purchase of another. If there is a delay in one link of the chain, it can cause a domino effect, leading to delays in subsequent transactions.

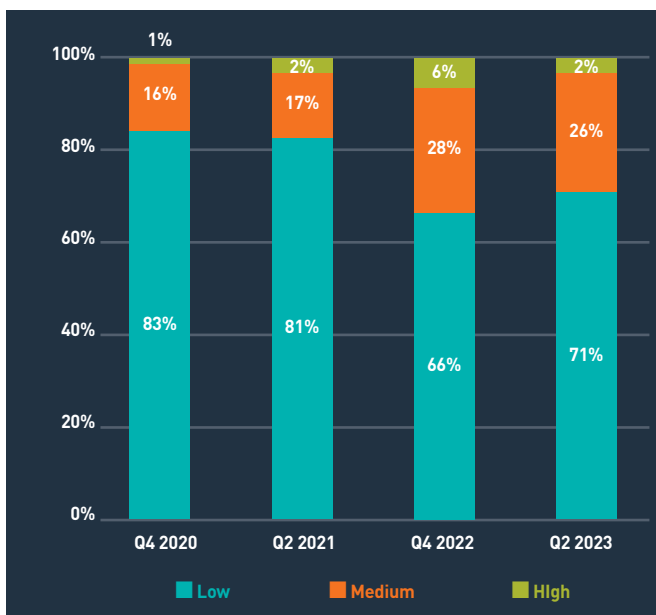


FIGURE 8: SCSi views on the levels of housing stock available for sale in Q2 2023. Note: figures may not add to 100% due to rounding.

Source: SCSi research.

The Covid-19 pandemic accelerated the adoption of remote work arrangements and provided workers with more housing options, with many ultimately deciding to move to more rural areas of the country.

BUYER AFFORDABILITY METRIC

BUYER AFFORDABILITY METRIC

To track housing affordability over time, the SCSi has developed a buyer affordability metric, which considers the gap (if any) between the total purchase limit available to average income earning couples, and average new house sales prices.

First-time buyer affordability scenarios

The scenarios in Table 1 take the average salary of €89,000 for a couple looking to buy their first home. This average salary is taken from a sample public servant role (e.g., combined wages of two gardai/nurses after 10

years' service, or two executive officers after c. nine years' service). Their total loan-to-income (LTI) maximum loan limit is €356,000 (four times gross salary). As first-time buyers, they require a 10% deposit.

Table 1: Affordability scenarios.

County	Average purchase price (new three-bed semi-detached home)	Percentage change in average new home prices since July 2022	Location	Average combined gross salary	Maximum loan	10% deposit	Total purchase limit	Affordability result	Six-monthly affordability trend
Meath	€383,000	+5%	Dunshaughlin, Trim, Ratoath, Navan, Stamullen	€89,000	€356,000	€38,300	€394,300	€11,300	↓
Kildare	€431,000	+1%	Newbridge, Leixlip, Kilcock	€89,000	€356,000	€43,100	€399,100	-€31,900	↓
Wicklow	€488,000	+2%	Greystones, Rathnew	€89,000	€356,000	€48,800	€404,800	-€83,200	↓
Cork	€385,000	-0.4%	Glanmire, Blarney, Kerry Pike	€89,000	€356,000	€38,500	€394,500	€9,500	↑
Galway	€382,000	+3%	Athenry, Oranmore	€89,000	€356,000	€38,200	€394,200	€12,200	↓

Source: SCSi agents who provide new homes sales services to developers provided the SCSi with average sales values for completed three-bedroom semi-detached homes in the various locations. Note: Figures have been rounded to the nearest thousand for illustrative purposes. The affordability metric does not include the First Homes Ireland Scheme as part of the analysis.

The above scenarios demonstrate that for two first-time buyers, based on a sample profession and average salary for that profession, seeking to buy a property in the three given locations (chosen due to the level of new builds ongoing in these areas), current property prices can exceed total borrowing capability by up to €83,200 (in the case of Wicklow). It should be noted that the scenarios presented here represent average property values, and there will be variations in these values across different areas within a specific county.

Similarly, these examples demonstrate the average incomes of two professions (garda/nurse couple with 10 years' experience) in Ireland, but there will be differences with incomes of other earners that may fall

below or exceed this level. For those who earn less than this income level on average, the disparity between their borrowing capacity and the cost of purchasing a property will be even greater.

Many individuals in this group may be renters who aspire to become homeowners but struggle to save for a down payment while covering monthly rent expenses, which can sometimes surpass the amount they would need to repay a mortgage. Housing affordability poses a recurring challenge for vulnerable populations, including young individuals, seniors, large families with children, and those who face limited access to healthcare, fuel poverty, and escalating prices of essential goods and services.

RENTAL ACTIVITY



The SCSi tracks members' views on the activity of landlords placing their investment property on the market for sale.

There was a peak in agents reporting landlords placing their property on the market for sale in 2022, reaching a net balance of +43% in Q4 2022, which slightly reduced to +35% during the most recent quarter (Figure 10). The complex and restrictive nature of rental legislation has been noted as the top reason buy-to-let units are

being put up for sale for the last few years, this year included (Figure 11). Complex and restrictive rental legislation can impose significant regulatory burdens on landlords, including requirements related to property standards, tenant rights, eviction processes, rent controls, and other compliance measures. These burdens can create additional costs, administrative complexities, and legal risks for landlords.

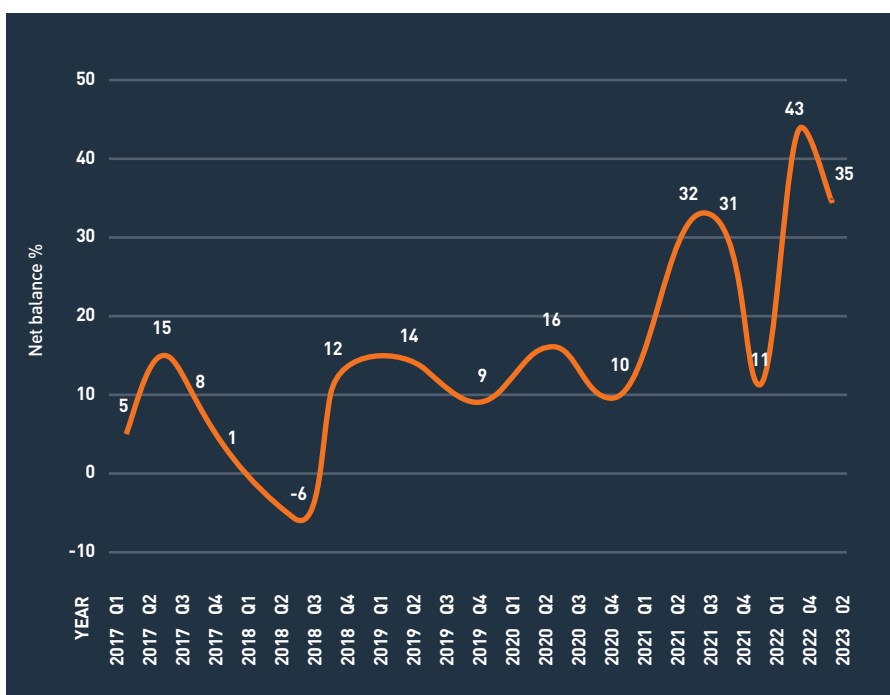


FIGURE 10: Buy-to-let properties coming onto the market for sale.

Source: SCSi research.

TOP FOUR REASONS WHY BUY-TO-LET UNITS ARE COMING BACK ONTO THE MARKET FOR SALE

- 1 Rent legislation is too complex and restrictive.
- 2 Net rental returns are too low.
- 3 Landlords coming out of negative equity.
- 4 Pressure from lending institutions to liquidate assets.

FIGURE 11: Top four reasons (ranked, weighted average) that buy-to-let units are coming back on the market for sale.

Source: SCSi research.

MARKET TRENDS

Nearly half (48%) of respondents noted a deterioration of credit conditions in the residential real estate market in the first half of 2023 (Figure 12). According to the CSO’s Preliminary GDP Estimate for Q1 2023, GDP was revised down for the final quarter of 2022 to -0.1%, from an original estimate of 0.3%.

The revision implies that the economy, as measured by GDP, has now experienced two consecutive quarters of negative growth, meeting the definition of a technical recession.¹⁰ The deterioration of credit conditions could be attributed to an ongoing economic downturn, as credit conditions tend to tighten across various sectors, including real estate. Around 63% of respondents noted current residential property market valuation levels as being expensive (Figure 13). Pricing is very dependent on supply and demand dynamics. There is currently a significant shortage of housing supply relative to demand, which is driving up prices and consequently resulting in expensive levels of valuation. This imbalance is a result of factors such as Ireland’s general population growth, coupled with delays in the planning and development processes. Demand outpacing supply results in increased competition, which ultimately increases property prices.

In relation to the current market cycle, 47% believe that the market is in a mid-upturn phase, meaning that house prices are still increasing but that the rate of growth maybe expected to level off soon (Figure 14). The current mid-upturn phase is characterised by limited housing supply relative to growing demand. This scarcity of available properties is consequently resulting in upward pressure on prices. Most SCSi agents noted that there was no change in the rate of usage for online auction bidding, private treaty bidding and virtual viewings technology (Figure 15). There was a significant upsurge in the usage of these technologies following the onset of the pandemic, and their utilisation has yet to wane following the easing of restrictions. The use of these technologies likely persisted following the lifting of restrictions as they offer convenience and efficiency for both agents and potential buyers/tenants.

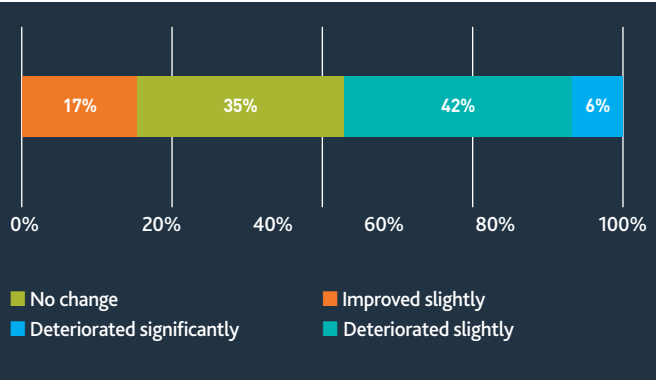


FIGURE 12: Credit conditions in the residential real estate mortgage market. Source: SCSi research.

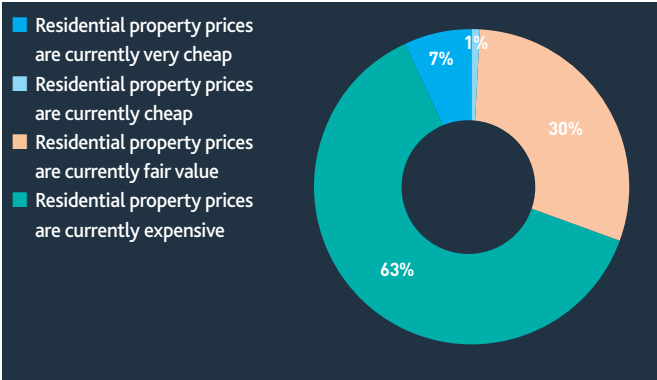


FIGURE 13: Current residential property market valuation levels. Source: SCSi research.

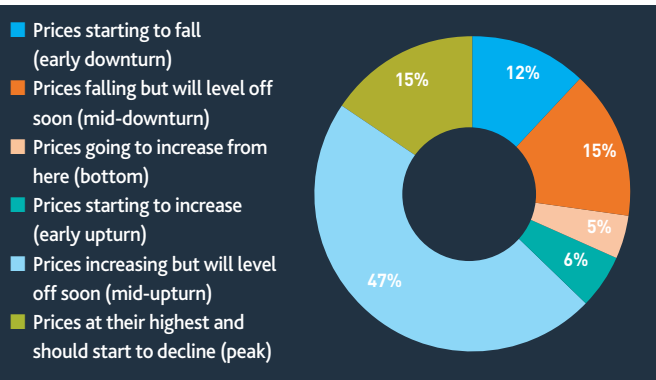


FIGURE 14: Current market cycle. Source: SCSi research.

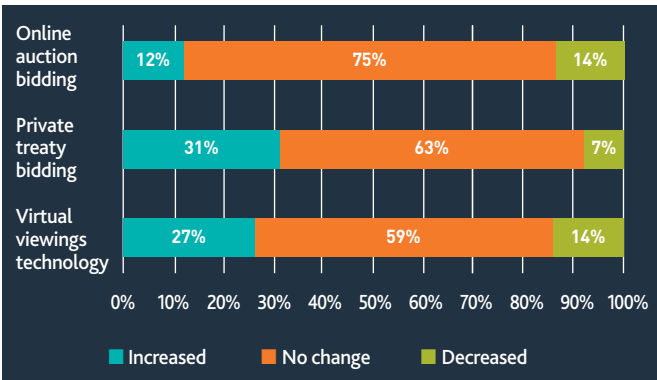


Figure 15: Current utilisation of virtual viewings technology, private treaty bidding, and online auction bidding. Note: figures may not add to 100% due to rounding. Source: SCSi research.

¹⁰ CSO. Preliminary GDP Estimate Quarter 1 2023.

ABOUT THIS SURVEY

The SCSi Residential Property Mid-Year Market Monitor is a sentiment report of SCSi agents across the country conducted in May 2023.

While the principal focus of these surveys 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.

SOCIETY OF CHARTERED SURVEYORS IRELAND

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