

HOUSING 2022

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MARKET OVERVIEW

- There was a 40% increase in new dwellings built in 2022 with over 28,000 units delivered.
- Since 2017 only, the country has experienced a cumulative supply shortfall of ~116,000 units, including a ~16,000-unit (36%) shortfall in supply last year. This cumulative shortfall is the equivalent of 4 years of total housing supply for the country.
- Housing supply needs to increase to 40,000 units next year simply to maintain the status quo and avoid adding to the existing shortfall. In other words, a 40% increase in supply is needed to avoid a deepening of the housing crisis.
- Based on actual population growth and changes in household sizes, the National Housing Target to deliver 33,000 units per annum until 2030 will result in a further 49,000 units to the cumulative housing shortfall.
- To gradually address the 116,000-unit shortfall (which has built up since 2017), would require an increase in supply to ~48,000 units next year, increasing up to 73,000 units per annum over the next 5 years.
- The first step needed to address such a supply deficit, is a radical overhaul of the planning application process. Planning approvals would need to increase 300% steadily over the next 5 years to meet remedial supply levels needed to ease the housing crisis. As such significant changes are needed to increase the availability and viability of sites with full planning permission.
- Despite recent economic volatility, the average household purchase price has continued to steadily increase. With household income growth forecast to continue in 2023 and some significant reforms of the Central Bank Macro-Prudential Rules, we anticipate continued price growth for first-time buyer homes. As such we anticipate supply and price growth in this segment of the market.
- Comparing rental costs, mortgage costs and affordability across multiple new development sites, our research indicates many households can reduce the cost of housing by 20%- 50% by switching from the rental market to mortgaging the same or even superior properties. As such we recommend further reform of the macro-prudential rules, to provide more families with the minimum borrowing capacity needed to access the market.



ABOUT INITIATIVE IRELAND

Initiative Ireland is a values-based finance provider focused on funding the construction of energy-efficient, social, affordable and private market housing in Ireland. Initiative Ireland provides finance to experienced developers and to Approved Housing Bodies, to support a mixture of private, social and affordable housing developments.

Initiative Ireland is an Irish private limited company, supported by Enterprise Ireland as a HPSU and is a signatory of the UN Principles of Responsible Investing.

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For More Information see:
www.InitiativeIreland.ie



ECONOMIC OVERVIEW

MACRO-ECONOMIC

- Despite economic challenges, the Irish economy remains resilient in comparison to the broader European Union. While GDP growth is expected to contract to 3.0% in 2023, this compares to an EU average of 0.3% based on recent EU Forecasts.
- While increases in cost of living, interest rate inflation and cost of construction will have impacts on the Irish Housing Market, we do not forecast the same price or demand volatility which has been seen in other markets, due to unique economic factors:
 - Irish House Price growth has been driven by systemic, sustained undersupply versus domestic housing demand over the last decade. The country has built a cumulative housing deficit of 116,000 since 2017 alone.
 - Macro-prudential lending restrictions in Ireland have limited price growth, restricted lending and borrowing capacity.
 - With an easing of these rules in 2023, household borrowing capacity is expected to increase to more sustainable levels, to offset the additional costs of development and encourage supply.
 - Household income has steadily grown since 2017 and is forecast for growth in the next two years, again supporting price growth.
 - While the cost of finance has increased, the cost of servicing a mortgage in Ireland is typically materially lower than the comparative rental costs. As such increases in the cost of living are unlikely to encourage would-be buyers who have saved for the last 5 years to delay a purchase.
- Despite the economic prosperity over the last 5 years, the rate of rental price growth, driven by a lack of supply of rental and owner-occupier properties, has resulted in 206% increase in children in Emergency Accommodation since 2015.
- With a growing population, a growing economy and systemic lack of supply over the last 10 years, we expect to see continued price growth in next five years provided supply aligns with the local market demand for social and affordable housing.



Market Overview

75%

GDP increased since 2015

38.0%

Average Wage growth since 2015

63%

Avg. Rent increase since 2015

209%

Increase in People living in
Emergency Accommodation

206%

Increase in Children living in
Emergency Accommodation

Sources:

CSO



% Change	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022f*	2023f*
Real GNP	0.0%	5.8%	9.2%	13.6%	9.9%	5.1%	6.5%	1.5%	0.6%	15.4%	8.4%	2.2%
Real GDP	0.2%	1.3%	8.8%	25.1%	3.7%	8.1%	8.2%	6.1%	3.4%	13.5%	10.8%	3.0%
Unemployment Rate	14.7%	13.1%	11.3%	9.5%	7.9%	6.7%	5.5%	5.5%	7.5%**	5.1%	4.4%	4.8%
Consumer Prices (HICP)	1.9%	0.5%	0.3%	0.2%	0.0%	0.3%	0.5%	0.9%	-0.3%	2.4%	9.5%	6.0%
Population Growth	0.4%	0.5%	0.7%	0.9%	1.1%	1.1%	1.4%	1.3%	1.1%	0.7%	2.2%	1.46%

Source: CSO/ OECD / EU Commission/ DOF / Initiative Ireland Research

*Sourced Forecasts as of December 2022

**Including persons on Pandemic Unemployment Payment at Dec 2021



KEY ECONOMIC METRICS



Young Population



Top 4 Birth Rate in EU



1.53x percentage of 15 to 64
with 3rd level education Vs.
EU average



% Immigrants who are Citizens



GDP Growth Forecast 2023



+1.5m

Additional Non-Resident Citizens

DOMESTIC POPULATION

- Census 2022 results show Ireland's population growth is outpacing previous forecasts, increasing 7.6% since the 2016 census. At the current growth rate, Ireland's population will exceed 6 million by 2035.
- Ireland has one of the youngest population in the EU with roughly 33% of the population under 25.
- Ireland has the 5th highest birth rates in Europe.
- As of April 2022, Ireland had 120,700 immigrants, of which 76% (91,800) were Non-Nationals (of which 28,000 were from the Ukraine). This compares to 2015 Non-National immigration of 30,400. Excluding Ukraine, this indicates a 209% increase in Non-National Migration to Ireland since pre-Brexit period.
- It is estimated that Ireland has ~1.5 million citizens resident outside of the State, in addition to any citizens resident in Northern Ireland.
- Ireland's over 65 population has also increased by 22% since 2016, now accounting for 25% of the population.
- As of April 2022, Ireland had the highest rate of third-level education in the EU amongst 15 to 64 years-olds, at 45.2%. This compares to the EU 27 average of 29.5%

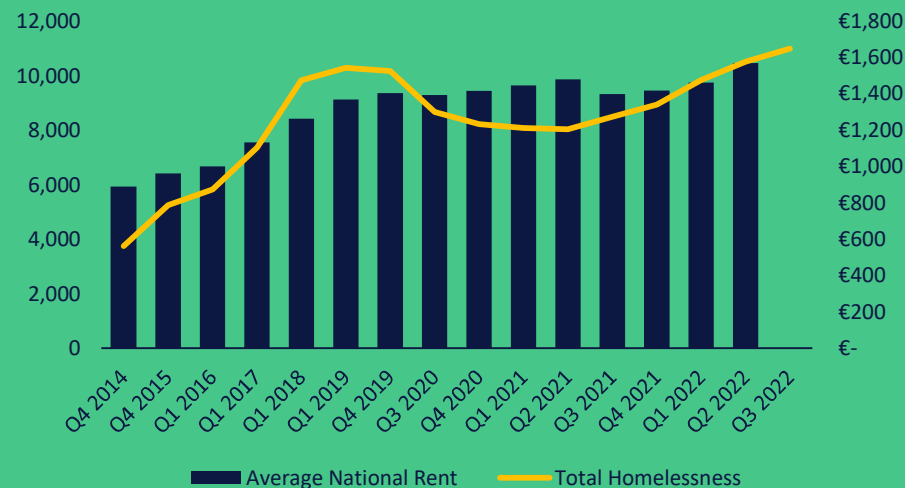
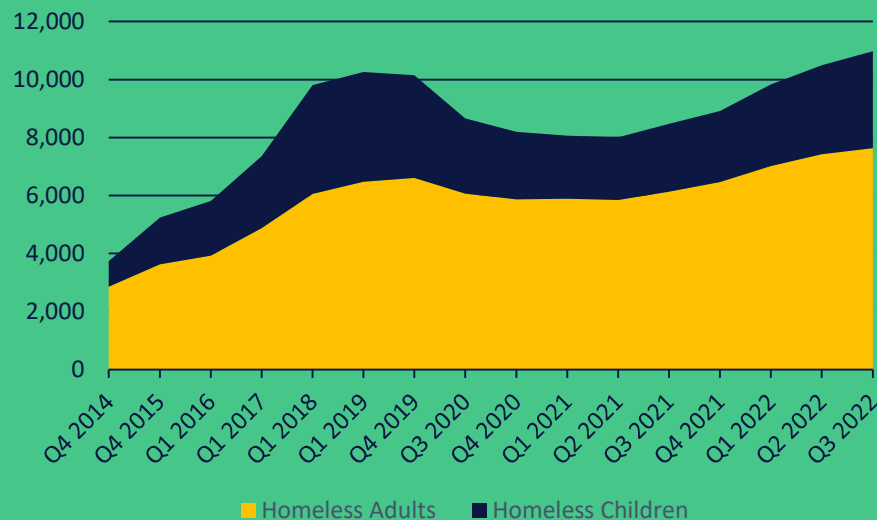


RENTAL PRESSURE & HOMELESSNESS

- Since 2015 rental cost growth has exceeded income growth by 65%.
- Despite Ireland's strong economic performance, the persistent, systemic under supply of housing stock for rent or purchase continues to be the key driver for homelessness.
- Rents increased 11.7% year on year and increases were nationwide.
- During Covid Level 5 lockdown across the country has also seen the introduction of a ban on evictions and rent freezes but with the relaxing of these measures, evictions have resumed.
- The level of homelessness in the country is expected to remain a key focus for Government until housing supply reaches sustainable levels.
- Of the 7,785 homeless as of September 2022, 2,429 were children.
- The number of homeless children has increased from 880 in Q4 2014 to 2,429 in Q3 2022 which is a 276% increase.
- 58% of the 1076 families living in emergency accommodation have been in the service for over 6 months and 34% for over 12 months.

Sources:

Daft Housing Report
Residential Tenancies Board
CSO





TRUE AFFORDABILITY - RENTAL VS. MORTGAGE COSTS

Changing Market Restrictions

- First introduced in 2015, the Central Bank of Ireland's (CBI) macro-prudential mortgage rules were designed as an "instrument to safeguard economic and financial stability... and prevent an unsustainable relationship between credit and house prices from emerging" (Central Bank, Oct 2022).
- The measures effectively restricted the borrowing capacity of households, to avoid owner-occupiers from accumulating unsustainable levels of mortgage debt which they could not afford to service. The net effect of these rules has been to limit the purchase power of households, such that many households were unable to purchase homes. These households have been restricted to the rental market, driving up rental demand and rents accordingly.
- A common critique of the macro-prudential rules, has been that many households would have been better financially paying more for new homes through a mortgage, rather than the alternative of paying excessive rents for the same properties. This aligns with recent Initiative Ireland research finding.
- As of January 2023, the lending rules have been relaxed such that first time buyers can now borrow 4x their household income and other households may now also borrow up to 90% LTV. This will increase paths to ownership for many householders, enabling them to purchase similar or better properties. In so doing, they can gain security of tenure and materially reduce their monthly cost of housing.

Case Study Example: Family A

- Composition: 2 Adults, 1 Child, Dual Income
- Location: Naas, Co. Kildare
- Income: €108,000 Gross Income

Max Recommended Rental Affordability: **€2,700 per month** (30% of Gross Income)

- Sample Available Property: New A Rated, 3 Bed Home in Naas @€2,700 per month
- Property Purchase Price: €445,000

Previous Mortgage Capacity @90% LTV and 3.5x : €378,000

- Shortfall (less 10% deposit): - €22,500 - Additional 5% Required

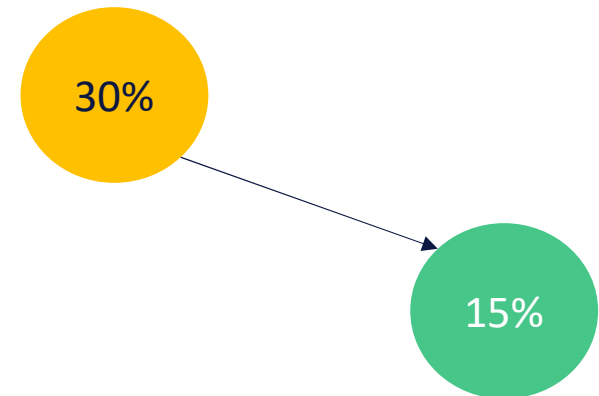
Revised Mortgage Capacity @90% LTV and 4x : €432,000

- Surplus Capacity (less 10% deposit): +€31,500 - Additional 7% Purchase Power

Assume 5 Year Fixed Rate Mortgage @2.45% + Monthly Insurance

- Comparable Fixed Mortgage Costs: **€1,382 per month**
- Cost of Housing Reduction ~50%

Rent / Gross Income



Mortgage / Gross Income



CONTINUED HOUSING SHORTFALL



Housing Supply has failed to keep pace with population growth and demand resulting in a shortfall of 115,746 homes since 2017 alone.

	Historic Regional Demand	Historic Regional Supply	Historic Regional Shortfall	% Historic Shortfall
	2017 - 2021	2017 - 2021	2017 - 2021	2017 - 2021
Greater Dublin Area	87,880	50,511	-37,369	-43%
Midland Region	12,140	3,818	-8,322	-69%
South-East Region	22,158	8,588	-13,570	-61%
Border Region	17,956	8,062	-9,894	-55%
West Region	16,019	7,043	-8,976	-56%
Mid-West Region	10,604	4,339	-6,265	-59%
South-West Region	27,408	12,109	-15,299	-56%
Housing Totals	194,165	94,470	-99,695	-51%

New Demand	Forecast Supply	New Shortfall	% Annual Shortfall
2022	2022	2022	2022
20,219	14,548	-5,671	-28%
2,796	1,580	-1,216	-43%
5,107	2,714	-2,393	-47%
4,153	2,637	-1,516	-37%
3,696	1,934	-1,763	-48%
2,449	1,580	-868	-35%
6,309	3,685	-2,624	-42%
44,729	28,678	-16,051	-36%

Source: CSO/ Initiative Ireland Research & Population Analysis and Forecasts

Greater Dublin Area: Dublin, Wicklow, Kildare, Meath
Midland Region: Laois, Longford, Offaly, Westmeath
South-East Region: Waterford, Tipperary, Wexford, Kilkenny, Carlow
Border Region: Louth, Leitrim, Sligo, Cavan, Donegal, Monaghan
West Region: Galway, Mayo, Roscommon
Mid-West Region: Clare, Limerick
South-West Region: Cork, Kerry

NOTES

- From 2017 to 2021 Ireland's housing supply has failed to meet new annual housing demand by 51%.
- Forecast supply in 2022 remains 36% below the required level to meet new annual demand (before accounting for historic unmet demand)
- However even a 36% supply increase would only maintain the current status quo, failing to address the ~100k unit shortfall which has accumulated since 2017 alone.



LATENT & NEW HOUSING DEMAND



Housing Supply will need to increase by 40% to avoid deepening the housing crisis and supply would need to average close to 60,000 units (double) over the next five years to address the shortfall from the last 5 years, reducing to 50,000 units on average thereafter.

	Forecast Supply	Status Quo Target	Remedial Plan Target				
	2022	2023 - 2027	2023	2024	2025	2026	2027
Greater Dublin Area	14,548	18,904	21,549	23,417	25,286	27,154	30,891
Midland Region	1,580	2,558	3,380	3,796	4,212	4,628	5,461
South-East Region	2,714	4,538	5,920	6,599	7,277	7,956	9,313
Border Region	2,637	3,626	4,416	4,911	5,406	5,900	6,890
West Region	1,934	3,240	3,981	4,430	4,878	5,327	6,225
Mid-West Region	1,580	2,119	2,649	2,962	3,275	3,589	4,215
South-West Region	3,685	5,677	6,990	7,755	8,520	9,285	10,815
Housing Totals	28,678	40,664	48,886	53,870	58,855	63,840	73,809

Source: CSO/ Initiative Ireland Research & Population Analysis and Forecasts

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NOTES

- Based on population growth and migration trends, Ireland needs to deliver an average of over 40,000 units per annum over the next 5 years to simply maintain status quo.
- To address the housing crisis, a Remedial Plan is needed to address historic shortfall.
- Adjusting demand forecasts for the next 5 years and assuming a gradual increase to offset unmet demand, this would require an average supply of 59,852 units per annum until 2027.



INCREASED PLANNING APPROVALS REQUIRED

Planning remains a key issue as approvals are insufficient to maintain the status quo, let alone address the historic shortfall. A shortfall in planning approvals is directly driving a shortage in housing supply, limiting availability of potential sites and driving up approved site prices.

Year	Historic Approvals	Supply - 12 Months Later	Correlation
2017	27,133	17,889	66%
2018	29,102	21,134	73%
2019	38,461	20,585	54%
2020	42,371	20,560	49%
2021	42,991	28,678	67%

Average	36,012	21,769	60%
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Year	Status Quo – Planning Approvals Needed	Remedial Plan – Planning Approvals Needed
2022	56,131	80,869
2023	59,964	89,115
2024	71,707	97,361
2025	73,473	105,607
2026	75,064	122,099

NOTES

- Historically Planning Approvals have correlated with supply, tracking at an average completions rate of 60% of approved units from the prior year.
- Based on this assumption, a material increase in approval rates of 33% is required next year, to prevent a deepening of the housing crisis and maintain status quo market conditions (assuming the completion rate holds steady).
- To address the shortfall which has built since 2017 only would require an increase in approvals by 88% in 2023, steadily increasing to 122k units in 2026.
- With such a long-term shortfall in planning approvals, site costs are driven up, artificially inflating development costs which in turn drive up minimum house prices, limiting potential for supply growth.
- As such material intervention is needed to fast-track approvals, increase access to sites and discourage vexatious objections (from the public and/or local authorities) which increase decline rates and have resulted in 40% of approvals remaining unrealised for the last 5 years.



HOUSE PRICES & MARKETS

NEW HOUSING – AVERAGE HOUSEHOLD SALES FORECASTS

Average Sales Value	Owner-Occupier - First Home	Owner-Occupier - Second+ Home	Private Buyer - Non-Occupier
2017	€ 314,557	€ 385,775	€ 269,128
2018	€ 340,859	€ 421,181	€ 323,944
2019	€ 351,093	€ 419,747	€ 306,544
2020	€ 358,604	€ 427,475	€ 328,428
2021	€ 363,205	€ 445,318	€ 395,429
2022	€ 378,975	€ 463,147	€ 427,826
2023 Forecast	€ 451,310	€ 551,547	€ 445,799
2024 Forecast	€ 461,240	€ 554,875	€ 455,608

TOTAL HOUSING – AVERAGE HOUSEHOLD SALES FORECASTS

Average Sales Value	Owner-Occupier - First Home	Owner-Occupier - Second+ Home	Private Buyer - Non-Occupier
2017	€ 263,186	€ 313,253	€ 186,829
2018	€ 282,373	€ 327,661	€ 200,192
2019	€ 287,658	€ 328,290	€ 203,828
2020	€ 295,683	€ 325,167	€ 200,719
2021	€ 312,451	€ 364,585	€ 223,635
2022	€ 334,349	€ 391,402	€ 249,497
2023 Forecast	€ 398,165	€ 466,108	€ 259,978
2024 Forecast	€ 406,926	€ 468,920	€ 265,698

Source: CSO/ Initiative Ireland Research & Population Analysis and Forecasts

Household sales prices continue to grow in Ireland despite increases in cost of living. We continue to forecast sales growth based on five key factors:

- Price growth has been driven by a lack of housing supply and the cost of meeting that demand. Building costs increased significantly in 2022 and will drive up cost of supply in 2023.
- Despite interest rate increases, the cost of servicing a mortgage still offers better value to buyers versus unchecked rental increases, meaning buyers are under more pressure to buy homes.
- Price growth to date has tracked with steady increases in average weekly income. While growth forecasts have been reduced, overall economic growth is still forecast for Ireland including increases in average weekly wages for the next two years.
- Most significantly, in January 2023 the revised macro-prudential borrowing rules will enable first-time borrowers to borrow up to 14% more from their Bank and allow other owner-occupiers to borrow up to 12.5% more, increasing market ability to absorb increased housing costs.
- While we would expect average household sales prices will increase, this assumes that supply is fit for purpose i.e. heavily weighted towards the first-time buyer market through social and affordable housing development.



Conclusion

RECOMMENDATION SUMMARY:

Revised Targets: National housing targets are insufficient to avoid a compounding of the housing crisis. A target of 33,000 units will increase the shortfall by 49,000 units over the next 7 years. National targets inform local authority targets and all other housing strategy decisions.

Planning Reform: Ireland requires wholesale planning reform. While there has been much focus on large-scale development approvals, there is a need to establish a common framework, service level agreement and protocol for local planning applications and appeals nationwide. Consideration must also be given to prioritize developers seeking approval with a view to build, rather than those looking to build land banks exclusively. To increase the availability of suitable sites, the cost, time and probability of making a successful planning application must be addressed.

Mortgage Rules: While some macro-prudential rules are needed, to mitigate against excessive, speculative and unsustainable price inflation in the housing market, the underlying goal should be to provide families with access to suitable housing with security of tenure. The existing macro-prudential rules are not sufficiently linked to actual housing costs, interest rates and mortgage terms. Instead, they rely on a simple income multiple, with no carve out to accommodate such factors.

We recommend that rules should be gradually relaxed (i.e. up to 4.5x) for fixed rate mortgages which meet specific affordability conditions. Such exceptions might apply when a mortgage has a fixed-term of 5+ years and where cost of finance does not exceed 25% of Gross Monthly Income based on. Unlike the present model, such reforms would incentivize lenders to offer more sustainable, lower- cost, fixed terms to borrowers and reduce the potential market share of Banks or Lender who wish to increase their mortgage rates.

ABOUT THIS REPORT

Initiative Ireland has produced the Housing 2022 Report to help increase awareness of and promote an open dialogue regarding the Irish Housing Market. The report aims to combine publicly available sources of information, in a meaningful way, to provide an objective overview of the market, along with commentary on observable insights and trends. It is not intended for any other use.

The information provided has been gathered from third party sources as disclosed and cleansed of any data considered to be misleading or erroneous, with reasonable care and the intention of providing an accurate view of the market. Initiative Ireland does not make any statement as to the accuracy or completeness of information provided. We reserve the right to vary our methodology and to edit or discontinue the indices, snapshots or analysis at any time for regulatory or other reasons. Persons seeking to place reliance on any information contained in this report for their own, or third-party commercial purposes do so at their own risk. The publication and distribution of this report does not constitute financial, or market advice and it should not be used as such.

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