



## Housing shortage impacting household formation

Supply, or more accurately the lack of it, remains the key defining characteristic of the Irish residential property market. Nonetheless, there are some encouraging signs in relation to house building activity. Various indicators on building activity point to a further rise in the level of new supply since the start of the year.

Data from the Department of Housing show that in the first quarter of this year, housing completions were up 24% compared to the same period in 2016. In terms of forward looking indicators, commencement notices (i.e. housing starts) increased by 33% in the first quarter on a year-on-year basis. Likewise, housing registrations, which tend to reflect developer activity, surged by over 70% in annual terms in the first quarter.

However, while these represent strong growth rates, they are off a depressed base and new housing supply remains low in level terms. This is highlighted in the fact that at their current growth rate, completions are on course to reach 18,000-18,500 units this year. This is still well below the estimated 30,000 units that are required per annum to meet estimated housing demand.

Given the on-going mismatch between supply and demand, residential property prices remain on an upward trajectory. Indeed, in recent months, the rate of price rises has re-accelerated, coinciding with the relaxation in the Central Bank mortgage regulations and the launch Government's new 'help-to-buy scheme'.

In April, CSO residential property prices rose on a national basis by 10.5% in year-on-year terms, compared to a 5.8% growth rate a year earlier. From a geographic viewpoint, both Dublin and non-Dublin prices are mirroring the national trend in terms of a quickening in the pace of price increases.

However, the annual growth in prices outside the capital continues to outpace those in Dublin (13.4% vs 8.2% in April). Meantime, nationally, while prices are 52% off their low point, they are still 31% below their previous peak in 2008. In contrast, rents are now 14% above their previous high point.

The continuing low level of transactions and properties for sale in the residential market also highlight the supply shortfall issue. Transaction activity remains equivalent to about 1% of the total housing stock, whereas in a properly functioning market, turnover should be in the region of 3-4% of total stock.

A follow-on consequence of the lack of supply is that it is also having a dampening effect on mortgage lending activity. Thus, while mortgage lending registered a strong increase in the first quarter, the actual level of lending activity remains low. The total value of mortgage drawdowns may be in the region of €7bn or above this year, up from €5.6bn in 2016, but still a low figure.

Based on current supply projections, it could be 2020 at the earliest before new house building reaches the level of estimated annual demand. However, this does not take into account the pent up demand that has accumulated in recent years from the persistent shortfall in supply. Therefore, a supply shortfall is likely to remain a key feature of the housing market well into the next decade.



The recent Census 2016 data reveal the impact on household dynamics from the lack of supply. There was a reversal of the long term trend of decreasing household sizes, with the average size increasing to 2.75 from 2.73 in 2011. There was a marked slowdown in the growth of new households (+48,000 in 2011-2016 versus +184,000 in 2006-2011).

As a result, there were noticeable increases in the age of first time buyers and the number of young adults living at home with parents, as well as a marked decline in the percentage of those under 35 years who are heads of households.

**Oliver Mangan**

Chief Economist

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