PRE-BUDGET SUBMISSION, IPAV

JIM POWER

AUGUST 2021

Contents

EXECUTIVE SUMMARY

Housing is the most challenging economic and social issue facing Ireland at the moment. The challenge is manifesting itself in high and rising house prices; serious difficulties for first-time buyers to get on the housing ladder; a significant level of homelessness; and high rents.

This pre-budget submission is intended to help Government implement policies that will help create a sustainable property market and provide some solutions for what is the most economically and socially challenging issue facing Ireland at the moment.

The economic background against which Budget 2022 is being set is challenging in many respects. The prospects for economic recovery in the second half of 2021 and into 2022 are positive. The economy is now being steadily re-opened and economic activity is rebounding strongly. This looks set to continue. However, there is a significant legacy of Government debt as a result of COVID-19 and this will exert a considerable influence on fiscal policy in the medium-term.

For the housing market, it is clear that economic and demographic factors will continue to drive strong demand for housing. On the supply side, capacity constraints in the construction sector, the impact of COVID-19 and legal challenges to planning are ensuring that supply is significantly lower than required.

This demand/supply imbalance will continue to pressurise the market dynamics in the medium-term. There is no single solution to the housing challenge. Budget 2022 will have to take a holistic approach to the housing market and concentrate on both demand and supply side issues. Owner-occupied housing, social and affordable housing, and the rental market will all have to be given due consideration in official policy.

One of the key issues in the housing market is the relationship between affordability and viability. Affordability is what a potential house buyer can afford to pay for a house, particularly in the context of the Central Bank's mortgage lending rules. Viability relates to the price that a developer would need to obtain to make it viable to deliver that house.

The following housing-related measures are suggested for Budget 2022:

- A reduction in the VAT rate on new housing to 5 per cent for owner-occupiers, would reduce the cost of delivery of the house. This measure would significantly narrow the gap between the amount that could be borrowed and the cost of delivery. It is worth noting that new house sales in Northern Ireland and the UK attract zero VAT rates. The objective of the proposed reduction in the VAT rate from 13.5 per cent to 5 per cent is to reduce the cost of delivery, and pass the reduction in full on to the purchaser. In the midst of a housing crisis where affordability is under considerable pressure, it does not make sense to force new house buyers to borrow to pay an upfront VAT bill to Government and to pay interest charges on that borrowed money over the lifetime of the mortgage. Some accompanying measures would need to be introduced to ensure that the saving in the cost of delivery is passed on to the owner-occupier purchaser, and is not used to enhance developer margins.

- Although not directly related to fiscal policy or the budgetary process, the Government must take cognisance of the social and economic impact that the mortgage lending rules are having on the housing market. From the perspective of equity and fairness, limiting home ownership in many parts of the country to those on high incomes, is not acceptable or sustainable. Facilitating home ownership for younger people who aspire to home ownership would take pressure off the rental market, ease rents, and alleviate the growing pressure on the Housing Assistance Payment (HAP). Enabling those earning up to €60,000 to borrow up to 4 ½ times income would bring some equity to the situation and give hope to a large cohort of the younger generation. In addition, long-term fixed rate mortgages should become the norm, and would protect borrowers from short-term interest rate volatility. These limits are already available to some borrowers in the Rebuilding Ireland Home Loan so why should they not be available to all borrowers?

- The RPZ (Rent Pressure Zone) legislation has created serious distortions in the rental market, and ahead of the expiration of the legislation there has been no proper evidence-based assessment of its effectiveness. A key problem is that the Residential Tenancies Board (RTB) publishes quarterly data that includes new rentals in RPZs exempt from the rules alongside data for properties subject to the restrictions, and groups all properties together, so that no one can distinguish what the effectiveness of the RPZ rules are. A proper data set and evidence base is required before the legislation expires and before any decisions are taken on what might replace it.

- A strategy that would bring vacant properties and business premises into the housing stock would make a significant contribution to the housing crisis, but would also make a significant contribution to making towns, villages and cities living organisms again. The reality is that to bring vacant premises back into the housing stock, tax incentives will be required. This is not a time to increase Stamp Duty on these types of properties, but a time to reduce stamp duty to 1 per cent on sales, and those sales should be exempt from Capital Gains Tax. The creation of an annual register of all vacant homes and shops should become mandatory for all County Councils, and they should be obliged to bring 10 per cent of the vacant properties in the council area back into production each year.

- A BER rating should be made mandatory for every private home in the country. The cost should be borne by the houseowner, but should be fully allowable against income tax liabilities. In the event of a non-taxpaying household, a grant equivalent to the tax allowance should be given.

- In order to encourage the use of Solar Panels and Thermal Solar, an allowance of 20 per cent should be given against the annual LPT liability.

- Issues with planning, taxation, the supply of services are delaying the delivery of housing and increasing the cost of delivery. There needs to be a fundamental re-appraisal of these issues to address the supply side problems in the market.

ABOUT IPAV

IPAV was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers and Estate Agents. It is the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers.

IPAV currently has in excess of 1,400 members nationwide and one of its primary objectives is to uphold, advance and promote professional standards and competence among its members. In 2021 the institute celebrates its 50th anniversary, a major milestone.

IPAV operates a comprehensive system of professional education and development for existing members and for those wishing to enter the profession. IPAV introduced the 'Blue Book' European valuation standards to Ireland in 2013. This is the standard recognised by the Irish Central Bank and the European Central Bank for which it holds default status over all other valuation standards in the event of any valuation conflict arising.

IPAV works with other stakeholders and with policymakers to try and influence the development of a sustainable property market where people can buy, sell or rent properties according to their needs.

This pre-budget submission is intended to help Government implement policies that will help create a sustainable property market and provide some solutions for what is the most economically and socially challenging issue facing Ireland at the moment.

Housing represents the most fundamental political challenge facing Government, and the outcome of the next General Election will be heavily influenced by the success or otherwise achieved by the incumbent government in addressing the housing problem. The problem is being manifested by data on rents and house prices showing that both are still rising strongly.

IPAV is determined to help Government address the housing market challenge. It is in the interests of all stakeholders to ensure that a properly functioning housing market is enabled. Such a market should be characterised by sufficient supply of suitable housing that is affordable; a moderation of house price inflation; social mobility that is not constrained by housing; and a high quality and sustainable housing stock that enhances the overall competitiveness of the Irish economy.

IPAV PROPOSALS FOR BUDGET 2022

Housing is the most significant economic, social and political challenge facing Ireland at the moment. The housing problem is due to a combination of strong demand and limited supply. There is no single or simple solution to the housing crisis, and any solution will require a range of different measures that will need to reinforce each other.

Alongside the various housing policy measures in Ireland's current housing strategy, it is essential that Budget 2022 includes further measures that will help tackle the crisis.

REDUCTION IN VAT RATE FOR NEW HOUSING

One of the key issues in the housing market is the relationship between affordability and viability. Affordability is what a potential house buyer can afford to pay for a house, particularly in the context of the Central Bank's mortgage lending rules. Viability relates to the price that a developer would need to obtain to make it viable to deliver that house.

Experts agree the average cost of building a new 3 bed semi-detached in Dublin is approx. €370k and a further 50 per cent is needed for the estate roads and drains etc. This means that 52 per cent of the cost of providing a new home comes from other soft costs. The total VAT element is also approx. €45/50k or about 12 per cent of the delivery cost. All new homes include a VAT charge of 13.5 per cent.

The average cost of a new 3-bedroom semi-detached house in Dublin was estimated at €380,000 by Daft.ie in the second quarter of 2021. A first-time buyer couple earning a combined salary of €80,000 would have to have a deposit of at least 10 per cent of the price of the house, €38,000, and would be able to borrow a maximum of 3 ½ times salary, which is €280,000.

If you are a first-time buyer who either buys or self-builds a new residential property between 19 July 2016 and 31 December 2021, you may be able to claim a refund of income tax and DIRT that you paid over the previous 4 tax years.

Under the July Jobs Stimulus package, the maximum relief available was temporarily increased. In Budget 2021, this increase was extended to 31 December 2021.

If you sign a contract for a new house or draw down on a self-build mortgage between 23 July 2020 and 31 December 2021, you are eligible for the increased relief. This is called enhanced relief.

You can claim relief on the lesser of:

- €30,000
- 10% of the purchase price of the property
- 10% of the completion value of a self-build
- the amount of income tax and DIRT you paid for the previous 4 years.

- IPAV strongly advocates that this relief be kept for a further 3 years and further extended in some form to second-hand homes.

If a €30,000 relief is assumed, this means that the couple would only be able to pay €348,000, which would be €32,000 lower than the delivery cost of the house.

A reduction in the VAT rate on new housing to 5 per cent for owner-occupiers, would reduce the cost of delivery of the house by €27,808. This measure would significantly narrow the gap between the amount that could be borrowed and the cost of delivery. It is worth noting that new house sales in Northern Ireland and the UK attract zero VAT rates.

Under current EU VAT rules a zero per cent VAT rate is not possible, but the second reduced VAT rate of 9 per cent should be reduced to 5 per cent for a period of at least 5 years.

The objective of the proposed reduction in the VAT rate from 13.5 per cent to 5 per cent is to reduce the cost of delivery, and pass the reduction in full on to the purchaser. In the midst of a housing crisis where affordability is under considerable pressure, it does not make sense to force new house buyers to borrow to pay an upfront VAT bill to Government and to pay interest charges on that borrowed money over the lifetime of the mortgage.

Some accompanying measures would need to be introduced to ensure that the saving in the cost of delivery is passed on to the owner-occupier purchaser, and is not used to enhance developer margins.

Such measures could include the following:

- Getting the developer to sign a certificate of reasonable value for the delivery of the house, which would oblige the developer to deliver at that cost, and then there would not be a VAT liability.
- If the sale closes in the normal way, the developer would get a credit note from the Revenue for the amount of the VAT, that could be offset against future tax payments.
- If the sale closes in the normal way, the Revenue Commissioners could make a once off payment to the buyer's mortgage equivalent to the amount of VAT.

Various tax schemes have been used in the past in many different areas of the economy to encourage certain activities. It should not be beyond the capability of the Revenue Commissioners and the Government to devise a scheme that would see a reduction in the VAT rate on new housing, and ensuring that this reduction is reflected in the price that the buyer has to pay.

Over the past couple of years, the costs of building delivery have increased across the board, which puts viability of delivery under further pressure. Measures that could reduce site enabling costs should be considered to ensure the delivery of sufficient housing in a viable way for developers, while at the same time addressing affordability issues for house buyers.

CENTRAL BANK OF IRELAND MORTGAGE LENDING REGULATIONS

Although not directly related to fiscal policy or the budgetary process, the Government must take cognisance of the social and economic impact that the mortgage lending rules are having on the housing market. In 2015, the Central Bank of Ireland introduced mortgage lending rules for mortgage lenders in the Irish market. The new measures set limits on the size of mortgages that consumers can borrow, using loan-to-value (LTV) and loan-to-income (LTI) limits.

The key mortgage lending rules are:

First-Time Buyers

- The mortgage is capped at 3.5 times income, but 20 per cent of mortgages can be above this limit.
- A deposit of 10 per cent is required, but 5 per cent of mortgages can have a lower deposit.

Second and Subsequent Buyers

- The mortgage is capped at 3.5 times income, but 10 per cent of mortgages can be above this limit.
- A deposit of 20 per cent is required, but 20 per cent of mortgages can have a lower deposit.

Some banks are not availing of the exemptions.

Buy-to-Let

- A deposit of 30 per cent is required, but 10 per cent of mortgages can have a lower deposit.
- Buy-to-Let mortgages are exempt from Loan to Income (LTI) limits.

The mortgage measures are intended to increase the resilience of banks and borrowers to negative economic and financial shocks, and dampen the pro-cyclicality of credit and house prices so a damaging credit-house price spiral does not emerge. The Central Bank is committed to annually reviewing the calibration of the mortgage measures in the context of wider housing and mortgage market developments, to ensure that they continue to meet their objectives.

Mortgage regulations are sensible and prudent, but adjustments are required when the rules are having negative unintended consequences. It is now clear that the regulations as currently constituted are effectively locking those on average incomes out of the home-ownership market. In an environment of historically low mortgage interest rates, prospective buyers on average incomes, and even those on relatively high incomes in some parts of the country, cannot aspire to home ownership and are being forced into a rental market that is expensive and not functioning properly.

In very many cases, average monthly rents are higher than monthly mortgage repayments. This was demonstrated clearly in the Daft.ie Rental Price Report Q2 2021. In effect, this means that many young people are not able to aspire to what is a cultural norm in Ireland, home ownership. As such they cannot build up equity in an asset, and given that many younger people have poor or no pension arrangements, the financial implications later in life are very significant.

From the perspective of equity and fairness, limiting home ownership in many parts of the country to those on high incomes, is not acceptable or sustainable. Facilitating home ownership for younger people who aspire to home ownership would take pressure off the rental market by freeing up rental properties, ease rents, and alleviate the growing pressure on the Housing Assistance Payment (HAP).

Enabling those earning up to €60,000 to borrow up to 4 ½ times income would bring some equity to the situation and give hope to a large cohort of the younger generation. In addition, long-term fixed rate mortgages should become the norm, and would protect borrowers from short-term interest rate volatility.

RENT PRESSURE ZONES

Rent Pressure Zones (RPZs) were introduced in December 2016 to help control rapidly rising rents. The legislation was due to expire at the end of 2021. It is difficult to assess the impact of the legislation as there is a lack of reliable data and an evidence base to judge its effectiveness.

Initially, rent increases of no more than 4 per cent were allowed in RPZs, but this favours landlords with higher rents. In addition, an exemption from the rules was provided for properties new to the rental market or that had not been rented for the previous 2 years in order to incentivise landlords to bring new rental properties to the market.

Further changes meant that while second and subsequent lettings in such properties became subject to the RPZ rules first lettings remained exempt, meaning landlords letting a property for the first time are free to charge whatever rent they can achieve, even though the property may be inside the RPZ.

Since 16th July 2021, the 4 per cent formula was replaced by the HICP. Now, a Rent Pressure Zone (RPZ) is a designated area where rents cannot be increased by more than general inflation, as recorded by the Harmonised Index of the Consumer Price (HICP). This applies to new and existing tenancies (unless an exemption is being applied).

RPZs are located in parts of the country where rents are highest and rising, and where households have the greatest difficulty finding affordable accommodation. They are intended to moderate the rise in rents in these areas and create a stable and sustainable rental market that allows landlords and tenants to plan financially for their future.

The RPZ legislation has created serious distortions in the rental market, and ahead of the expiration of the legislation there has been no proper evidence-based assessment of its effectiveness. A key problem is that the Residential Tenancies Board (RTB) publishes quarterly data that includes new rentals in RPZs that are not subject to the restrictions, together with those that are subject to the rules, with no distinction being recorded.

A proper data set and evidence base is required before the legislation expires and before any decisions are taken on what might replace it.

Unfortunately, for some landlords there has been so much intervention with the legislation that they are holding properties out of the rental market fearing what the Government may do next. Certainty is required here from government to the rental sector to gain long lost trust. The Government needs to go back to the drawing board and bring back equity to rents which now run on what is effectively a two-tier system. We need to lower the high rents and increase the low ones to bring them to open market rent levels. As long as properties are rented below market rent it disincentivises such landlords from entering into long term leases. For long term leases landlords would need more confidence about their long-term prospects than they currently have.

The long-term renting of homes from Investment funds will work in the long term but there must be a mechanism priced into the contracts that will see the State owning these long-term rented properties after the rental period ends.

VACANT HOMES AND SHOPS

According to Census 2016, there were 183,000 vacant dwellings in the country on the night of the Census, not including holiday homes. The census captures vacant homes once every 5 years on a single night. The GeoView directory, which uses a different methodology than the CSO, found that there were 92,251 vacant addresses at the end of 2020.

The reality is that Ireland has a shortage of housing, both for owner-occupier and rental purposes, and there are a substantial number of vacant houses, derelict sites, and closed shops and other business premises around the country. The issue of vacant shops and business premises will have been exacerbated by COVID-19.

A strategy that would bring those vacant properties and business premises into the housing stock would make a significant contribution to the housing crisis, but would also make a significant contribution to making towns, villages and cities living organisms again.

The reality is that to bring those vacant premises back into the housing stock, tax incentives will be required. This is not a time to increase Stamp Duty on these types of properties, but a time to reduce stamp duty to 1 per cent on sales, and those sales should be exempt from Capital Gains Tax. The creation of an annual register of all vacant homes and shops should become mandatory for all County Councils, and they should be obliged to bring 10 per cent of the vacant properties in the council area back into production each year.

SUSTAINABILITY

Ireland is now subject to significant climate change obligations, and will be subject to significant fines if it does not attain its international targets. Housing will have to contribute significantly to Ireland's climate change agenda. The reality is that for householders to contribute to the agenda, incentives such as tax allowances and grants will be necessary.

IPAV recommends that a BER rating should be made mandatory for every private home in the country. The cost should be borne by the houseowner, but should be fully allowable against income tax liabilities. In the event of a non-taxpaying household, a grant equivalent to the tax allowance should be given.

In order to encourage the use of Solar Panels and Thermal Solar, IPAV is recommending that an allowance of 20 per cent should be given against the annual LPT liability.

It is not clear that the large retrofitting of some properties is the best way to look at housing requirements. It may well be seen after a national BER campaign that giving grants to those on low ratings to bring them to higher ones may be a better pay off. There is no guarantee either that the raising of the BER rating will in actual fact increase the value of a property, it may make some properties more saleable which in its own way is adding value to the property. This is where the Property Price Register could play and important role by including the BER rating to its general values, then it can be clearly demonstrated which properties and at what BER level carry the highest increases.

INCREASING SUPPLY BY ADDRESSING PLANNING & OTHER DISTORTIONS

Planning.

This continues to be a major hold-up in relation to start-ups on zoned residential land. The consistent use by third parties of the judicial review process has had a severe and detrimental impact on the supply of planning permissions and therefore the supply of residential accommodation.

It would appear that up to 60 per cent of planning permissions which are granted by An Bord Pleanála are appealed by way of a judicial review. It has now created a new tier for planning which as well as creating considerable uncertainty, also adds considerable costs associated with seeking a planning permission.

Planning regulator.

Directions are given by the planning regulator to local authorities in the greater Dublin area and throughout the country in relation to zoning lands at a time when there is housing crisis. This exacerbates the supply of suitable sites and the uncertainty with these instructions creates issues in relation to funding i.e., lenders will not lend on land unless it has a planning permission ready to go. This also drives up the costs of sites for those with a ready to go planning permission. This additional cost is then added to the price of the property which means that the purchaser is paying more.

The unfettered power of the regulator is creating huge economic difficulties and exacerbating the supply crisis.

Funding.

This continues to be a very major difficulty especially for smaller developers and builders and the issues mentioned above mitigate against the supply chain functioning efficiently. The funders are hardening their terms so that the costs for smaller developments nationwide are increasing to an uneconomic level.

Irish Water

The hold-ups in receiving consultation meetings and engagement on sites continues to be a major issue for developers. The hold-up from a time point of view exacerbates the funding costs of building which are then passed on to the eventual property purchaser.

Planning Consultation.

This continues to be a major difficulty where developers consult with the local authority and agree a strategic plan to move forward with their application only to find that staff changes occur and the new staff do not agree with their predecessor and the whole process goes back to Stage 1, creating additional uncertainty and additional costs which again are eventually passed on to the purchaser.

Taxation.

It often happens that families have land suitable for development but because of the taxation structure, where they are likely to be taxed twice through capital gains tax and inheritance tax, the land is not released for development. Therefore, the landowners find it more prudent to wait for the demise of the landowner and the transfer of the assets into estate to ensure that there is only one taxation i.e., inheritance tax payable.

A mechanism needs to be put in place whereby if the lands are transferred to the immediate family and the land disposed of for development within a specific period then there would only be one level of taxation. This should free up additional assets for development especially in more urban areas.

THE HOUSING MARKET BACKGROUND FOR BUDGET 2022

In Budget 2022, housing will have to be given significant attention. Housing has been clearly and correctly identified as one of the most significant economic and social challenges facing Ireland at the moment. The housing market challenge is manifested in high and rising prices for prospective buyers; the difficulty for first-time buyers in particular to get on the housing ladder; a high level of homelessness; and the cost and availability of rental properties.

For the housing market, it is clear that economic and demographic factors will continue to drive strong demand for housing. On the supply side, capacity constraints in the construction sector, the impact of COVID-19 and legal challenges to planning are ensuring that supply is significantly lower than required.

This demand/supply imbalance will continue to pressurise the market dynamics in the medium-term. There is no single solution to the housing challenge. A holistic view will have to be taken, with more broad-based consideration given to owner-occupier housing, social and affordable housing, and the rental market.

An analysis of some of the key trends in the housing and mortgage market clearly demonstrates the key issues that need to be addressed in Budget 2022 and thereafter.

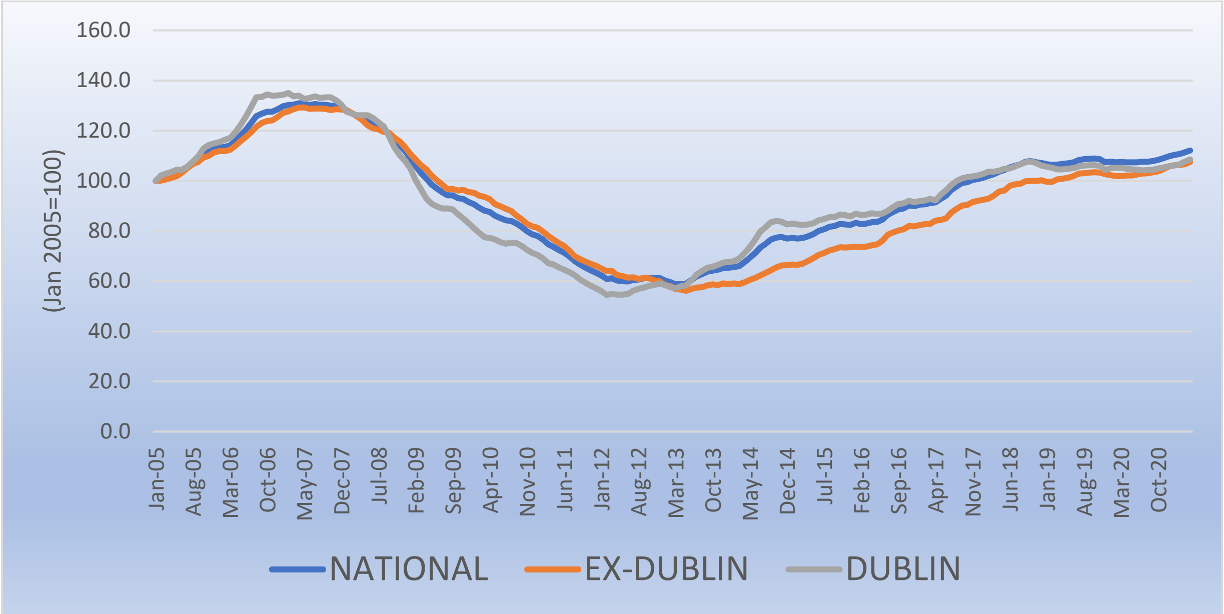
RECENT TRENDS IN IRISH HOUSE PRICES

The Irish housing market experienced a very sharp correction from 2008 onwards, in terms of both prices and delivery of housing stock as the economy experienced a very sharp decline in activity levels.

Average house prices recovered strongly between 2013 and 2018, but they moderated during 2019. However, house price inflation started to accelerate again later in 2020 and into 2021, despite the COVID-19 crisis.

The strong recovery in house prices from 2013 onwards was driven by pent-up demand coming back into the market after the economic crash; supportive economic fundamentals, particularly the strong recovery in employment; a greater level of confidence about the future; and strong population growth. This rebound in demand came up against a lack of supply following the collapse in house building, and the net result was a significant recovery in prices.

Figure 1: Residential Property Price Index



Source: CSO

The latest residential property price data from the CSO show:

- National average residential property prices declined by 55.2 per cent between the peak of the market in April 2007 and the low point of the market in March 2013. Between March 2013 and May 2021, prices increased by 92.9 per cent. Prices in May 2021 were 5.5 per cent higher than a year earlier. The national house price index in May 2021 was still 13.5 per cent lower than its highest level in May 2007.

- In the Rest of Ireland (excluding Dublin), average residential property prices declined by 56.5 per cent between the peak of the market in May 2007 and the low point of the market in May 2013. Between May 2013 and May 2021, prices increased by 93.2 per cent. Prices in May 2021 were 6.2 per cent higher than a year earlier. Despite the recovery, prices outside of Dublin in May 2021 were still 16 per cent lower than their May 2007 peak.

- In Dublin, average residential prices declined by 59.6 per cent between the peak of the market in February 2007 and the low point of the market in February 2012. Between February 2012 and May 2021 prices increased by 101.2 per cent. Prices in May 2021 were 4.9 per cent higher than a year earlier. In May 2021, average prices in Dublin were still 18.8 per cent lower than their February 2007 peak.

In summary, despite COVID-19 Irish house prices continue to rise strongly and this is having a serious impact on affordability.

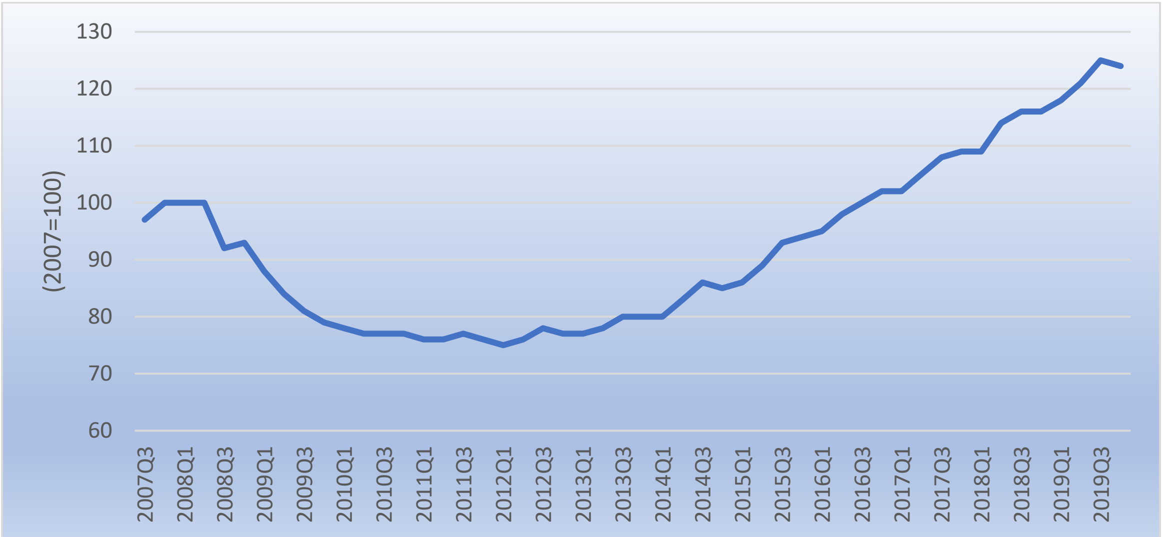
RECENT TRENDS IN PRIVATE RENTS

The Residential Tenancies Board (RTB) and the Central statistics Office (CSO) are two important sources of rent price data in the Irish market.

Residential Tenancies Board (RTB)

The RTB index is based on the RTB's national register of private tenancies and captures actual rents being paid for rented properties. Between the first quarter of 2008 and the first quarter of 2012, rents declined by 25 per cent. Between the first quarter of 2012 and the final quarter of 2019, rents increased by 65.3 per cent.

Figure 2: Residential Tenancies Board National Rent Index



Source: Residential Tenancies Board

The latest data from the Residential Tenancies Board (RTB) show:

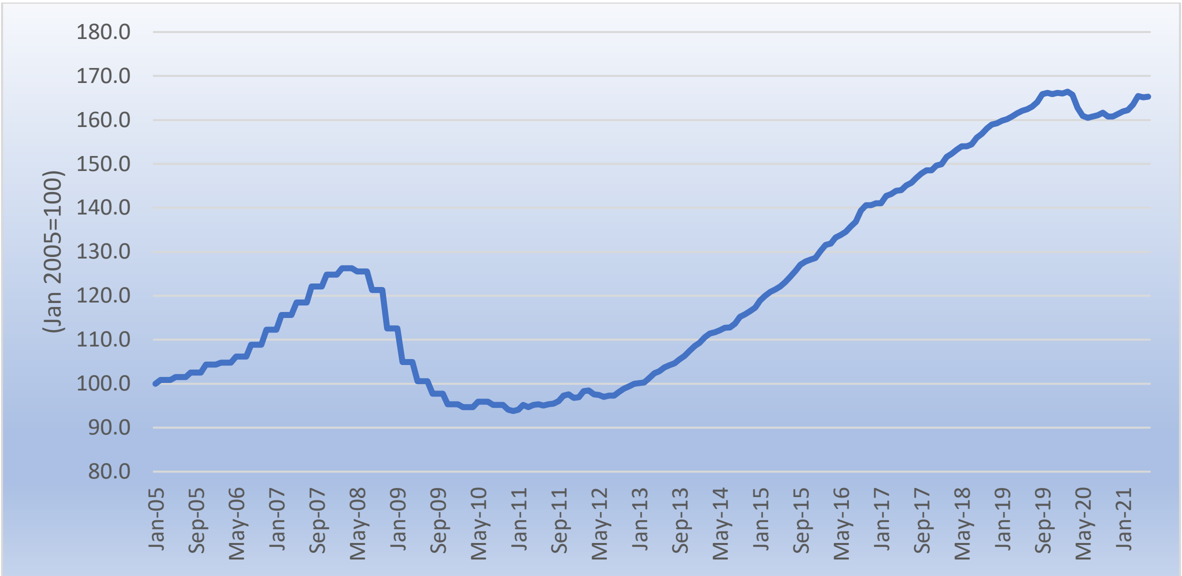
- National rents grew by 4.5 per cent year-on-year in Q1 2021 in comparison to 4.7 per cent Q1 2020
- Outside Dublin, year-on-year rent inflation stood at 7 per cent, while in Dublin inflation was 2 per cent.
- The national standardised average rent stood at €1,320 in Q1 2021, an increase of €33 compared to the previous quarter.
- In Q1 2021 in Dublin, the standardised average rent stood at €1,820 per month, a 2 per cent increase year-on-year.
- Affordability remains a significant issue with tenants paying on average 36 per cent of their disposable income on rent.

- In Dublin, 64 per cent of tenants indicated that they spend more than 30 per cent of their net income on rent.

Central Statistics Office (CSO)

The CSO's private rent index is based on a sample survey of letting agents. It shows that between April 2008 and December 2010, average private sector rents declined by 25.7 per cent. The market bottomed out at the end of 2010, and between December 2010 and June 2021, average rents have increased by 76.2 per cent. There was some modest softening in the market due to COVID-19, but the upward pressure has resumed. In June 2021, there was a year-on-year increase of 3 per cent.

Figure 3: CSO Average Private Rent Index



Source: CSO

Daft.ie

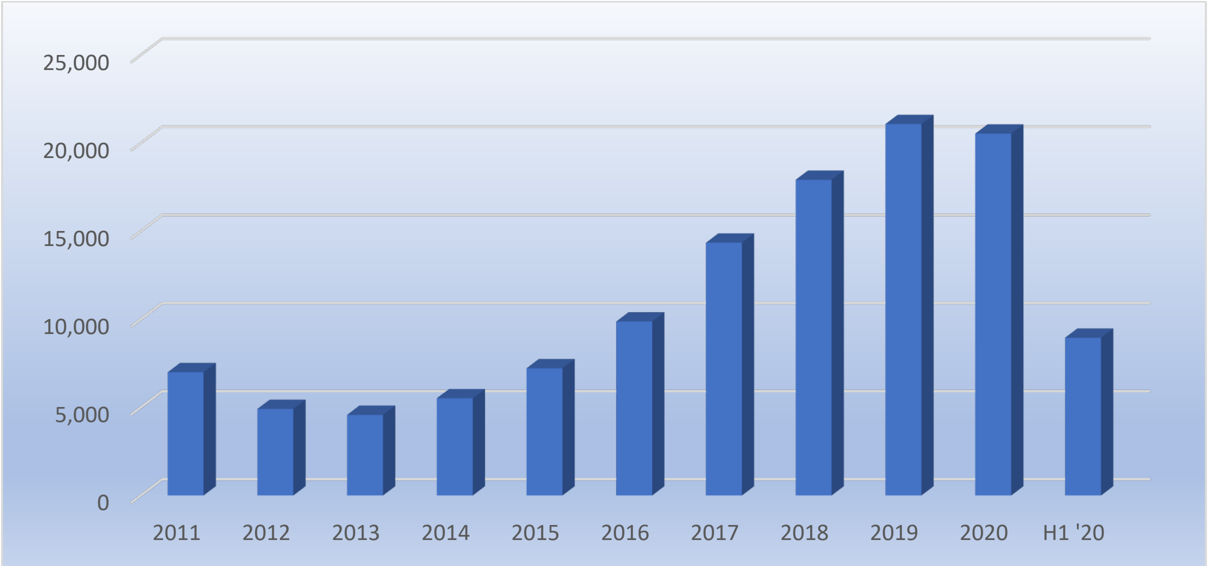
The latest data on rents from Daft.ie show that a serious undersupply of rental accommodation is putting significant upward pressure on rents. Rent prices nationally increased by 5.6 per cent in the second quarter of 2021, which is the strongest year-on-year increase since the middle of 2019. The number of rental properties on Daft.ie at the beginning of August 2021 was the lowest since the series commenced in 2006.

All three rental indices show somewhat different magnitudes of change, but the market direction is similar in both. The lack of adequate supply has pushed rental costs up, and the only viable solution is to increase supply.

RECENT TRENDS IN DWELLING COMPLETIONS

Building activity collapsed after the great financial crash, but the supply of new dwelling units has been gradually increasing since 2014. CODID-19 halted the progress in 2020 and in the early months of 2021. Between 2011 and 2020, the average number of dwellings completed was 11,297. Ireland needs average annual completions of around 35,000 to satisfy demand.

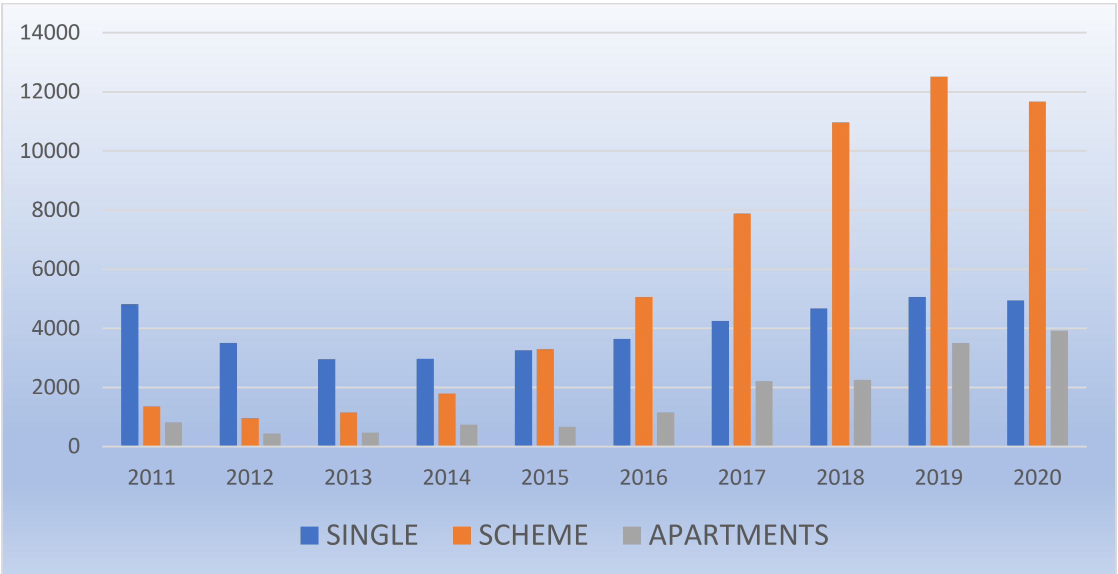
Figure 4: New Dwelling Completions



Source: CSO

In the first six months of 2021, 8,955 new dwellings were completed, which is 9.7 per cent higher than the first half of 2020, and 1 per cent lower than the first half of 2019.

Figure 5: Completions by Dwelling Type



Source: CSO

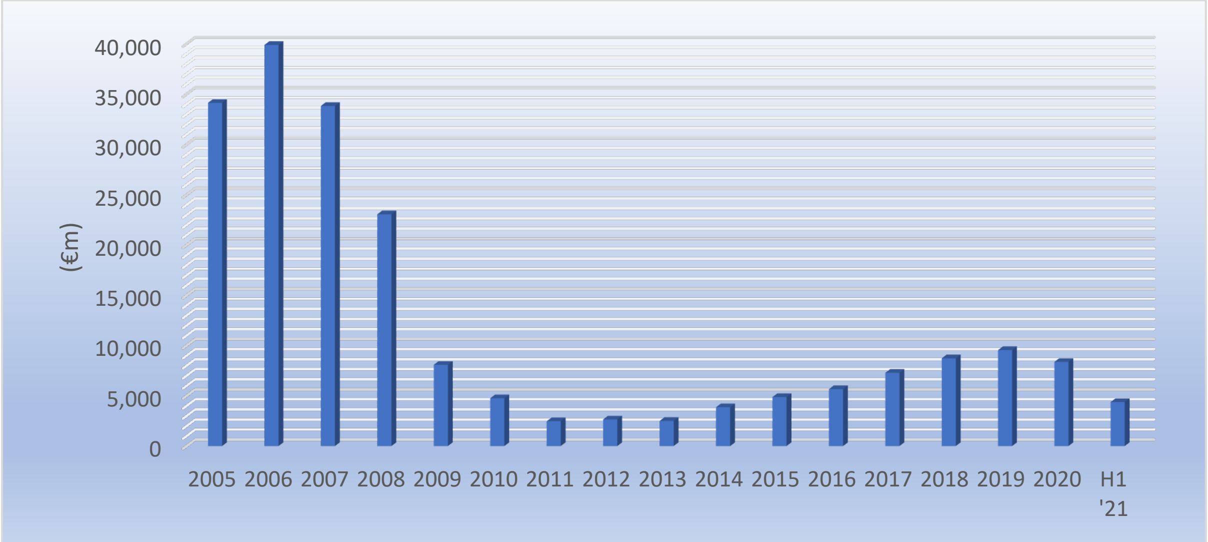
Between 2011 and 2020, 112,947 new dwellings were completed. Schemes accounted for 50.2 per cent of the total, single houses accounted for 35.5 per cent, and apartments accounted for 14.3 per cent. In the second quarter of 2021, for the first time since the CSO series commenced, apartments accounted for over one quarter of total completions at 26.5 per cent.

There has been some recovery in house building activity in recent years, but the supply of new dwellings is still way below what is required. Housing policy needs to address the myriad of issues limiting the supply of dwellings, if a properly functioning owner-occupier and rental market is to be achieved. Budget 2022 presents such an opportunity.

RECENT TRENDS IN THE IRISH MORTGAGE MARKET

The value of mortgages drawn down peaked at €39.9 billion in 2008 and then fell heavily to bottom out at just €2.46 billion in 2011. It has subsequently gradually expanded and reached €9.54 billion in 2019, before slipping back to €8.4 billion in 2020 due to the impact of COVID-19.

Figure 6: Value of Mortgages Drawn Down



Source: BPFI

Table 1 shows the evolution of the mortgage market by borrower component between 2006 and 2020 and the first half of 2021. In 2006, investors accounted for 19.9 per cent of total mortgage lending at €7.9 billion. In 2020, investors accounted for just 1.4 per cent of the total market at €119 million. First-time buyers represent the most significant component of the overall market.

Table 1: Value of Mortgages Drawn Down by Component 2006 v 2020 & H1 2021

	2006		2020		H1 2021	
	€m	%	€m	%	€m	%
First Time Buyer	8,449	21.2%	4,468	53.4%	2,228	51.0%
Mover Purchase	11,367	28.5%	2,352	28.1%	1,277	29.2%
RIL	7,950	19.9%	119	1.4%	72	1.6%
Re-Mortgage/Switching	6,067	15.2%	1,220	14.6%	703	16.1%
Top-Up	6,039	15.2%	208	2.5%	92	2.1%
Total	39,872	100.0%	8,367	100.0%	4,372	100.0%

Source: BPFI

In the first half of 2021, mortgage drawdowns totalled €4.37 billion, which is 26.4 per cent higher than the first half of 2020, and 5.8 per cent higher than the first half of 2019.

Table 2 shows the evolution of the average loan by component of the market between the second quarter of 2016 and the second quarter of 2021. The average loan size for the first-time buyer has experienced the strongest growth over the 5-year period at 27.4 per cent.

Table 2: Average Loan by Component

	Q2 2016	Q2 2021	% CHANGE
First Time Buyer	€182,894	€233,069	+27.4%
Mover Purchaser	€232,281	€275,030	+18.4%
RIL	€119,243	€144,293	+21.0%
Re-Mortgage	€218,256	€242,874	+11.3%
Top-Up	€68,508	€79,135	+15.5%
Average Total	€188,990	€231,651	+22.6%

Source: BPFI

Institute of Professional Auctioneers & Valuers

The Voice of Auctioneers & Valuers in Ireland

Institute of Professional Auctioneers & Valuers

IPAV | 129 Lower Baggot Street Dublin 2

Tel: (01) 678 5685 | Eircode: D02 HC84 | Email: info@ipav.ie | Web: www.ipav.ie