

IRISH PROPERTY AS AN INVESTMENT: WHAT NOW? WHAT NEXT?

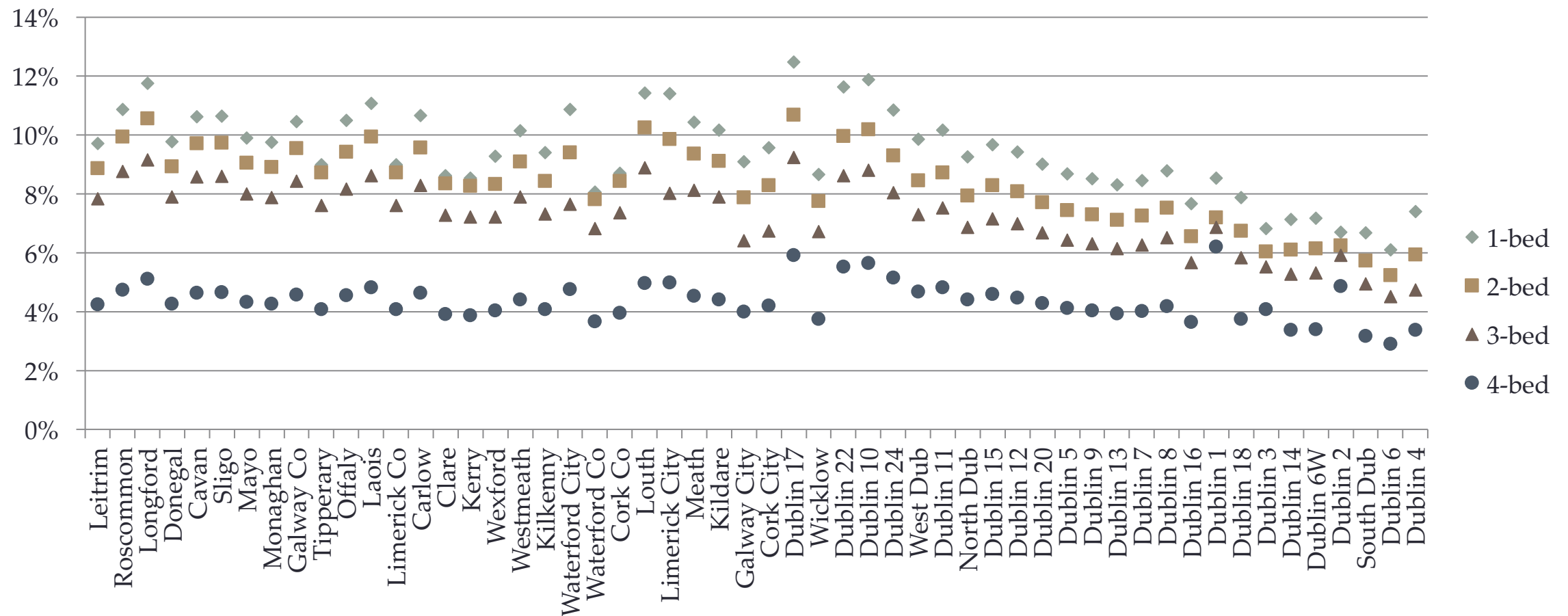
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TierOne, January 2020

Gross yields on residential real estate vary dramatically by market, from 10%+ for 1-beds in many locations to 3% for 4-beds in the dearest markets



Average gross yield for residential real estate, mid-2019, by property size and location

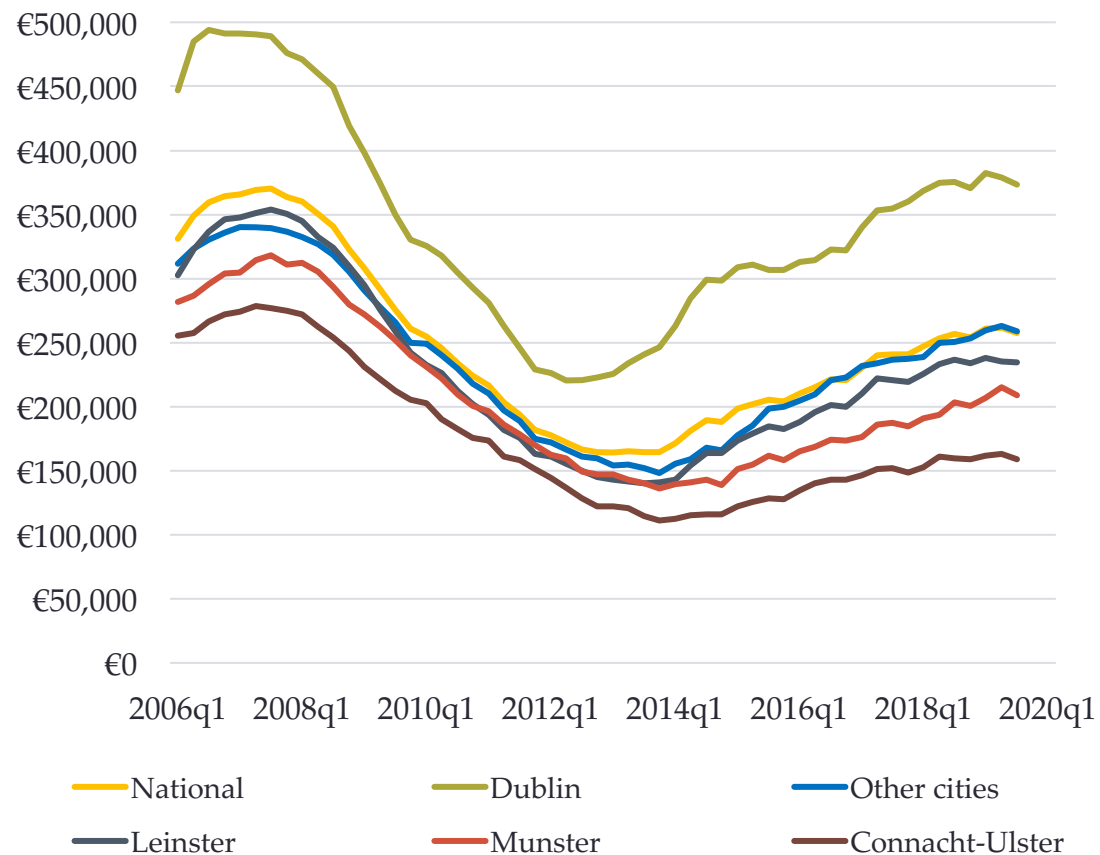


Source: Analysis of Daft.ie Report; Markets are sorted from left to right by the 2019Q2 price of a 3-bed semi-detached property

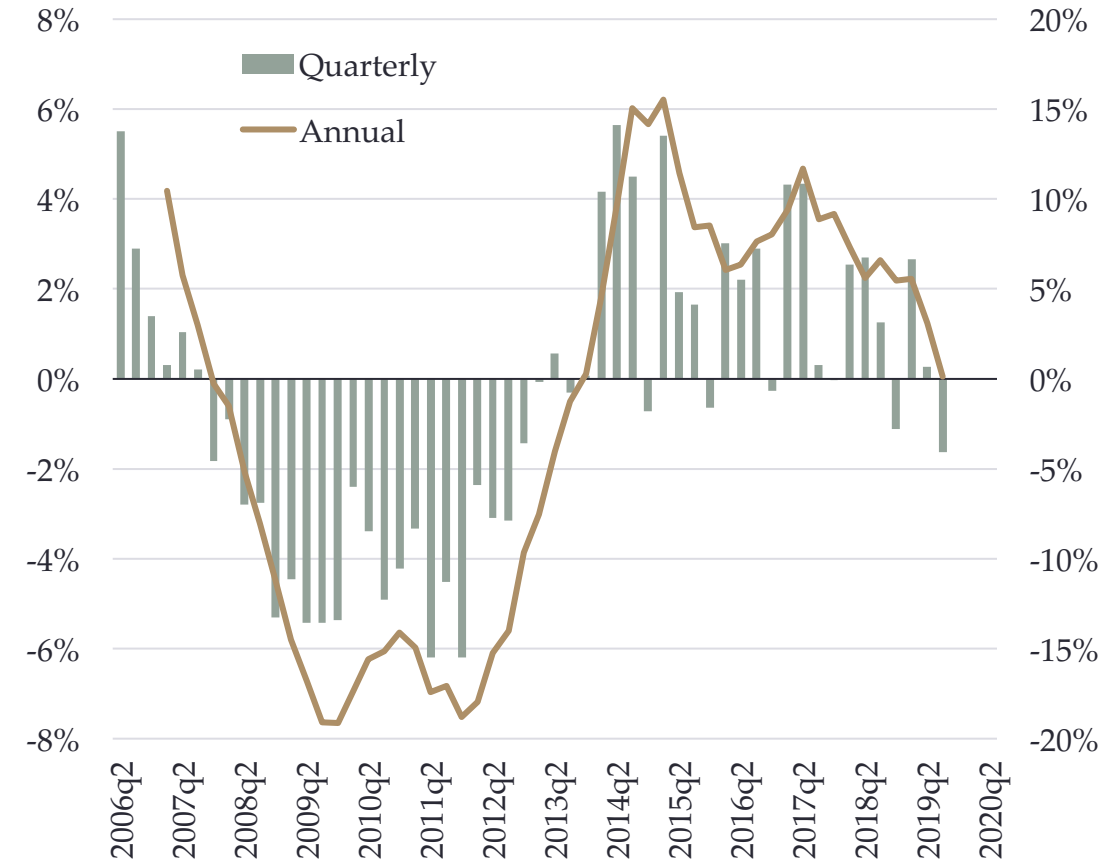
After roughly six years of strong inflation, sale prices in Ireland have now stabilised, having risen by >50% but remaining ~30% below 2007 peak levels



Average sale price, by market



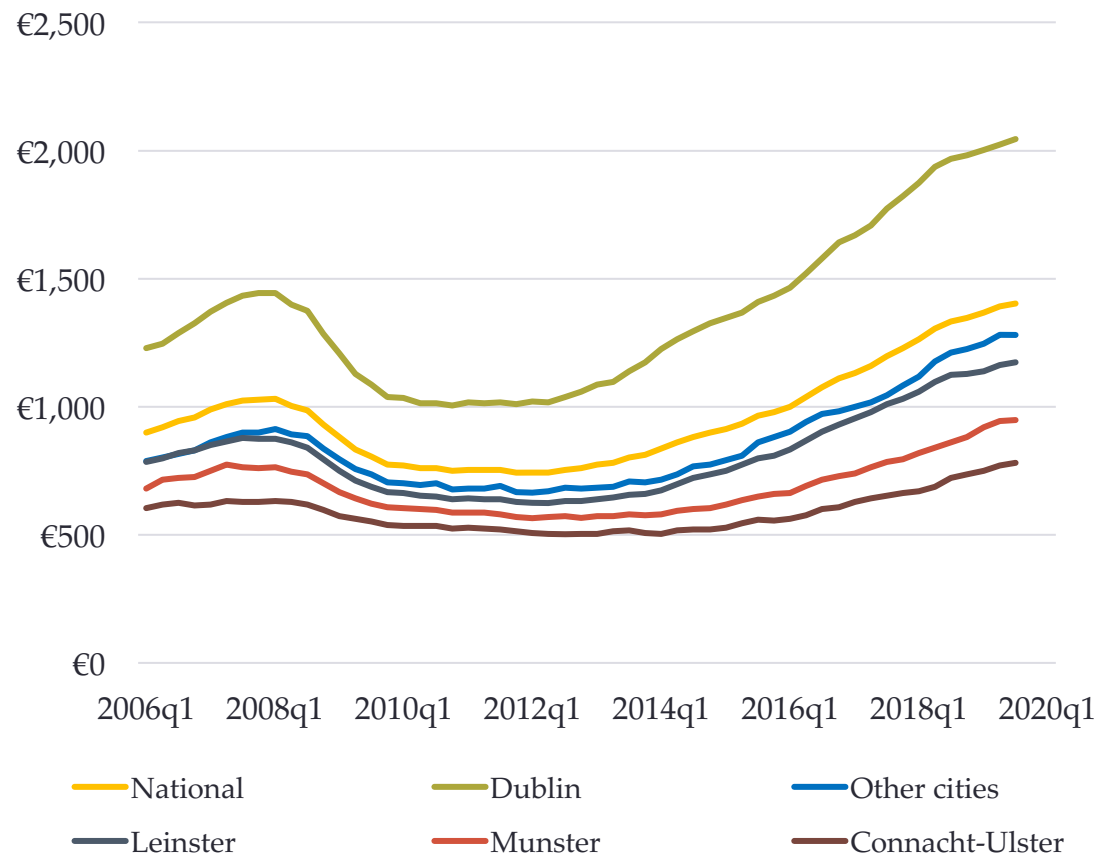
National sale price inflation



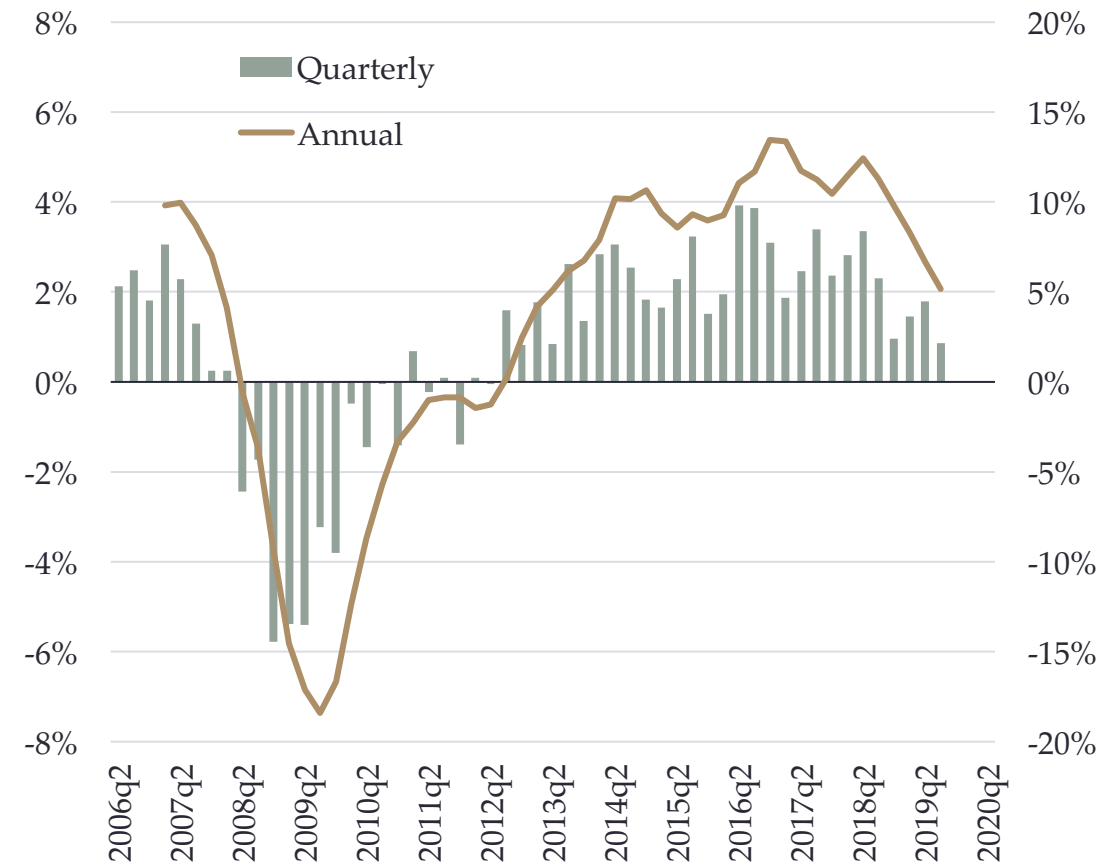
Rent inflation has slowed in 2019, but rents have risen for 29 consecutive quarters, nearly doubling in total and 35% higher than the previous peak



Average monthly rental price, by market



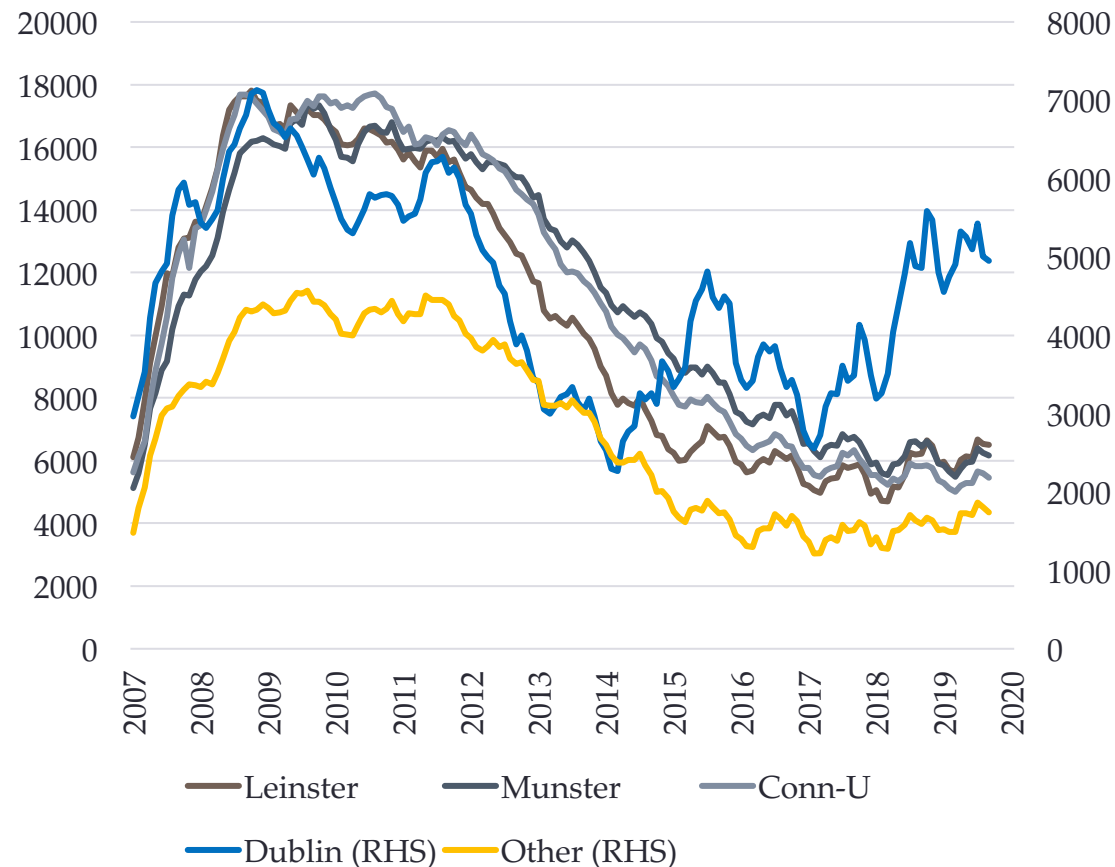
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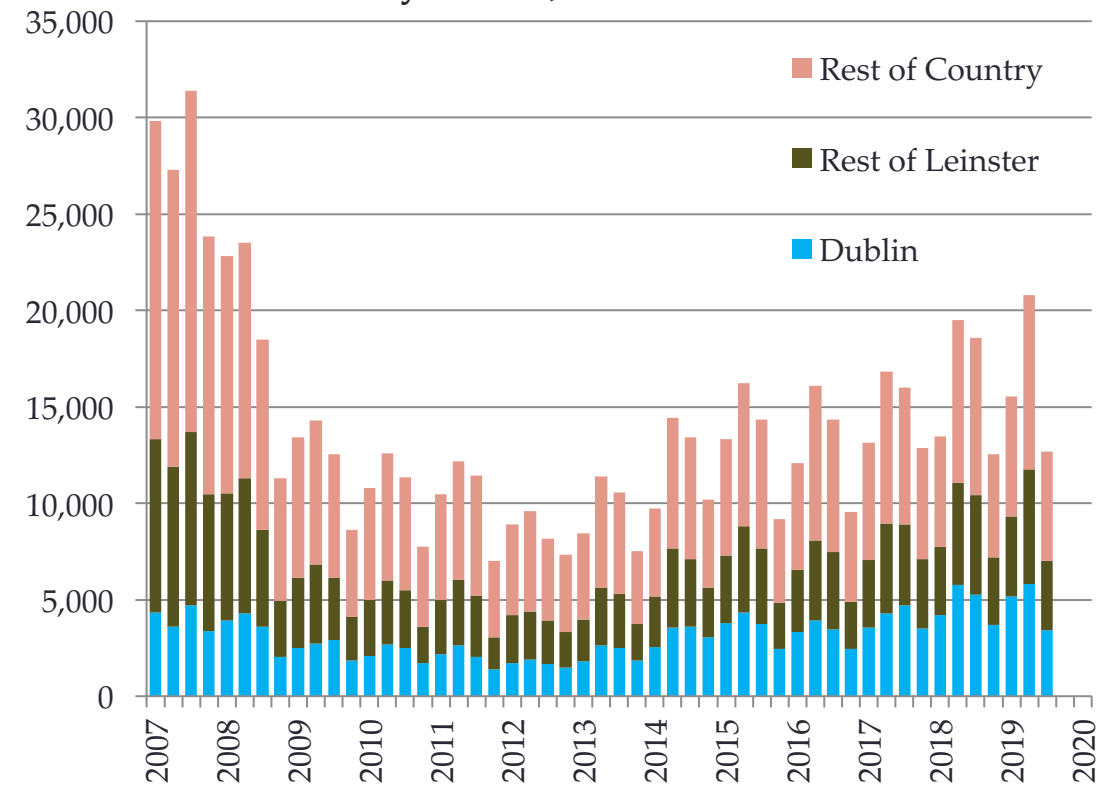
The ending of sale price inflation comes as the stock and flow of properties available has increased significantly in recent quarters



Stock available to sell, by region



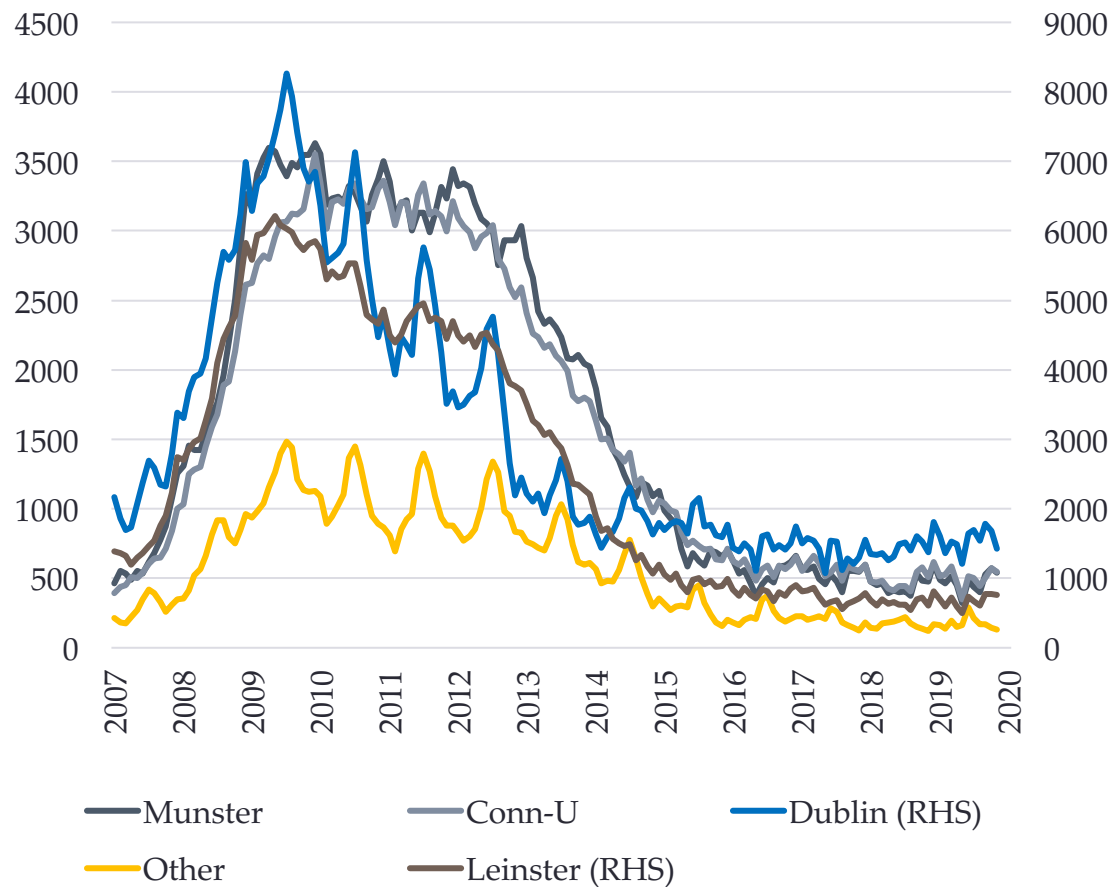
Flow of sale listings during quarter, by market, since 2007



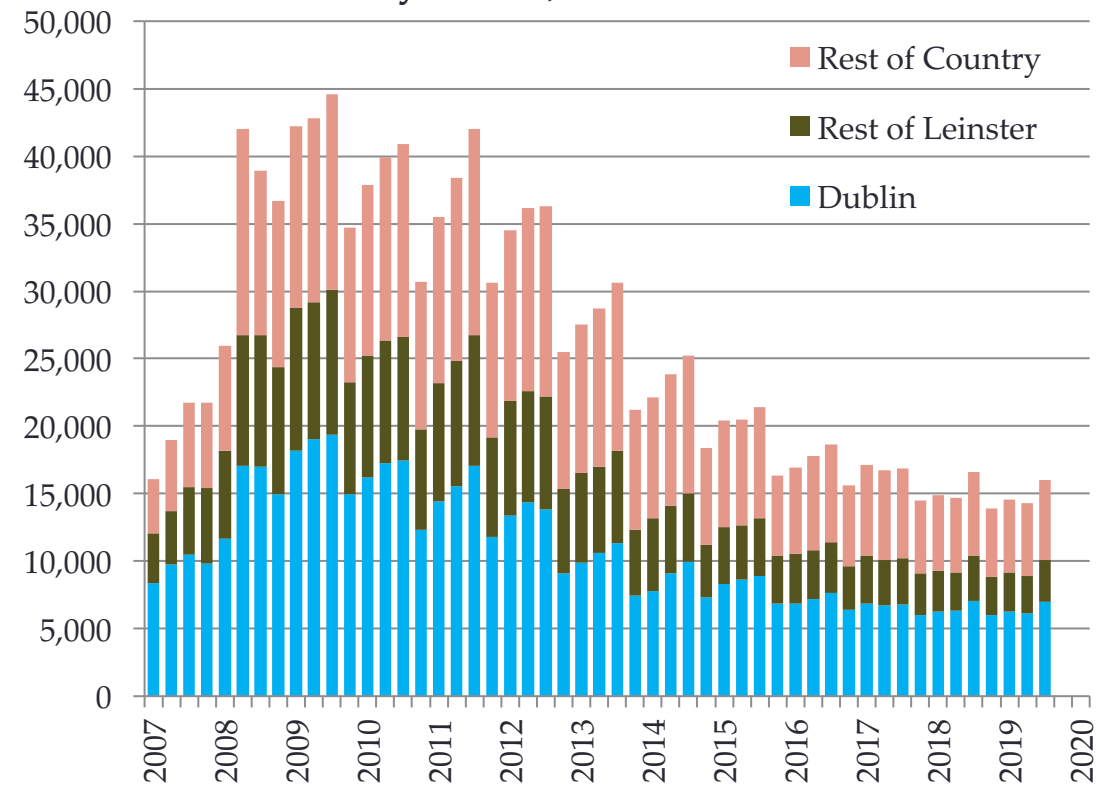
In the private rental market, availability remains at extremely low levels, with the flow of rental listings also at all-time lows



Stock available to rent, by region



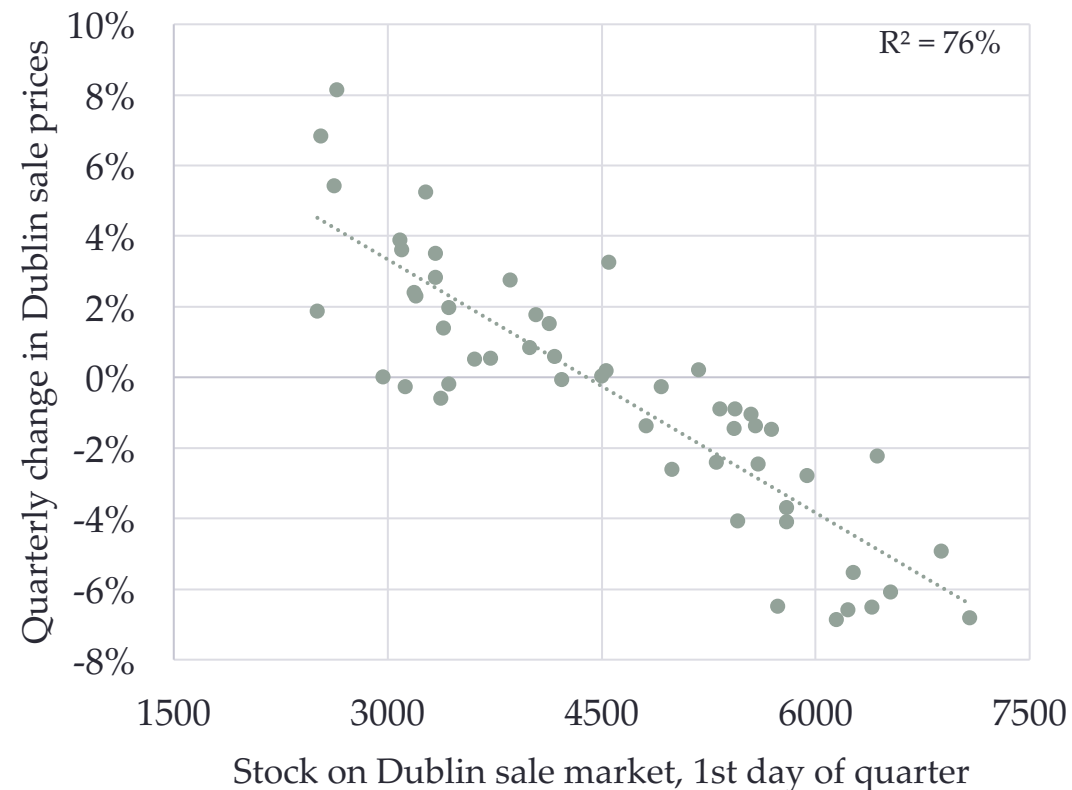
Flow of rental listings during quarter, by market, since 2007



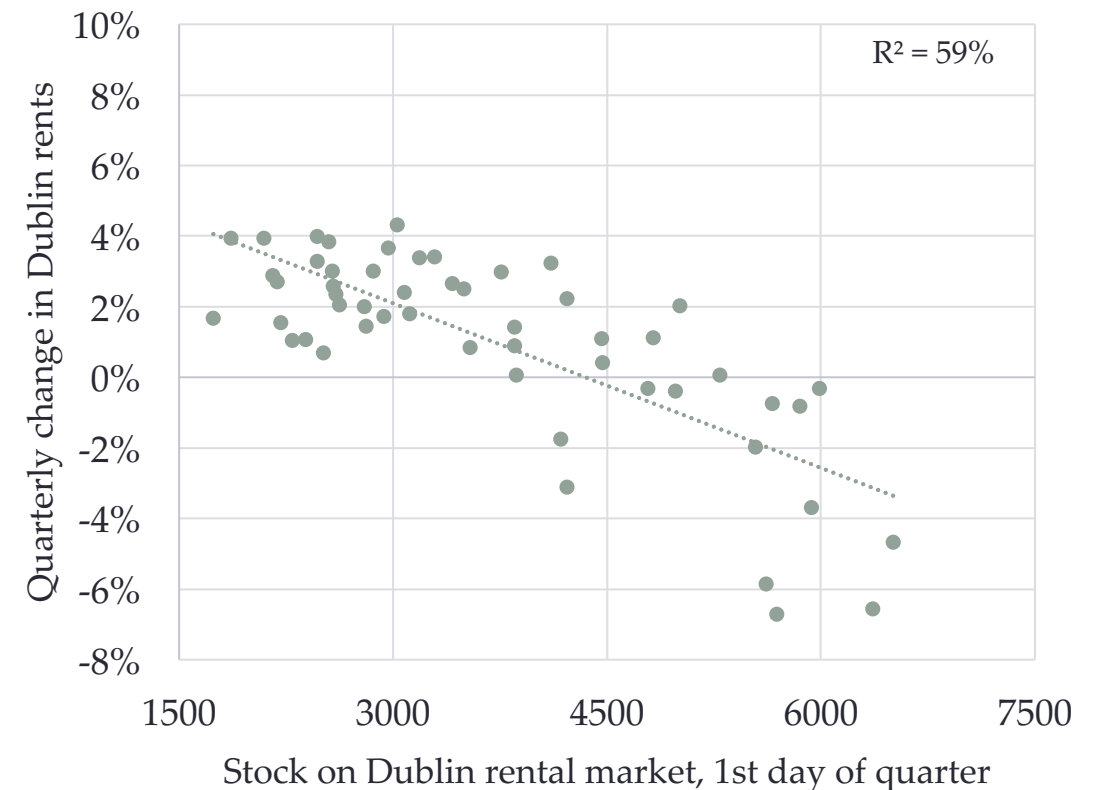
The overwhelming evidence from both sale and rental markets in Dublin is that availability is the key determinant of subsequent price changes: supply matters



Scatterplot of Dublin sale listings and quarterly changes in sale prices, 2006-2019



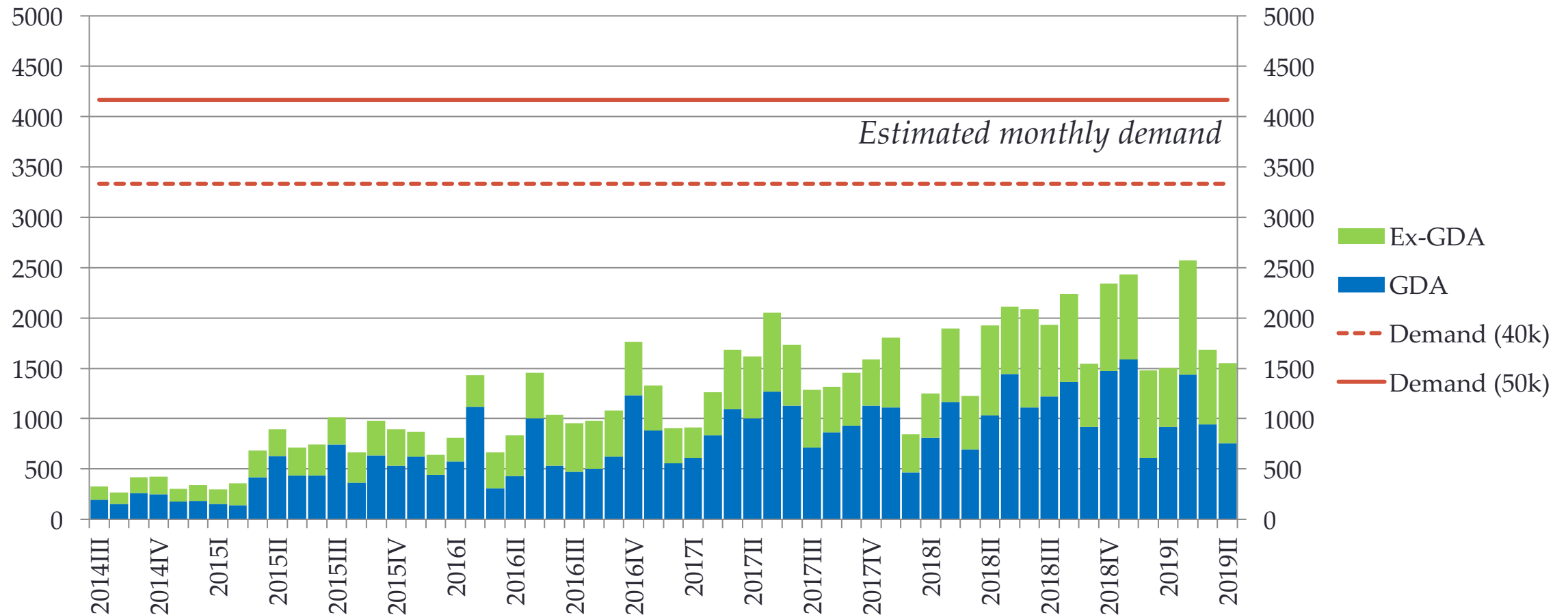
Scatterplot of Dublin rental listings and quarterly changes in rents, 2006-2019



But since the crash, supply (of all forms) has been inadequate – and recent improvements still fall well short of underlying demand (40k-50k p/yr)



New dwellings commenced, by local authority and month

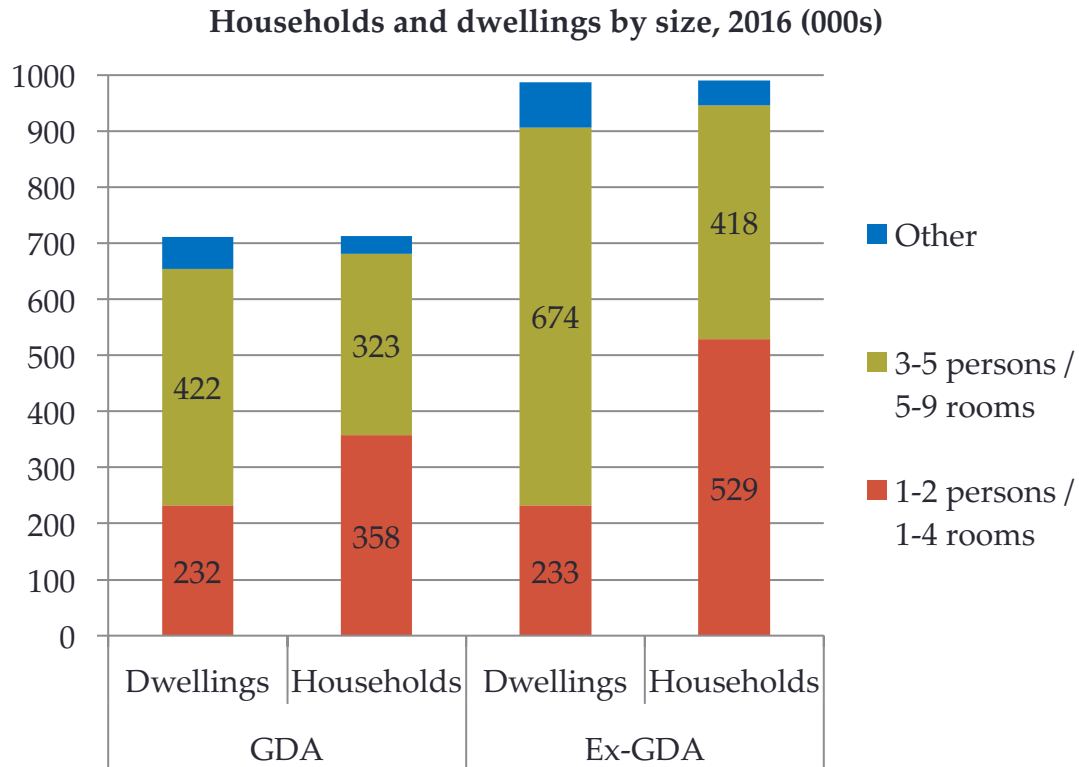


Source: Analysis of Census, CSO and Department of Housing figures

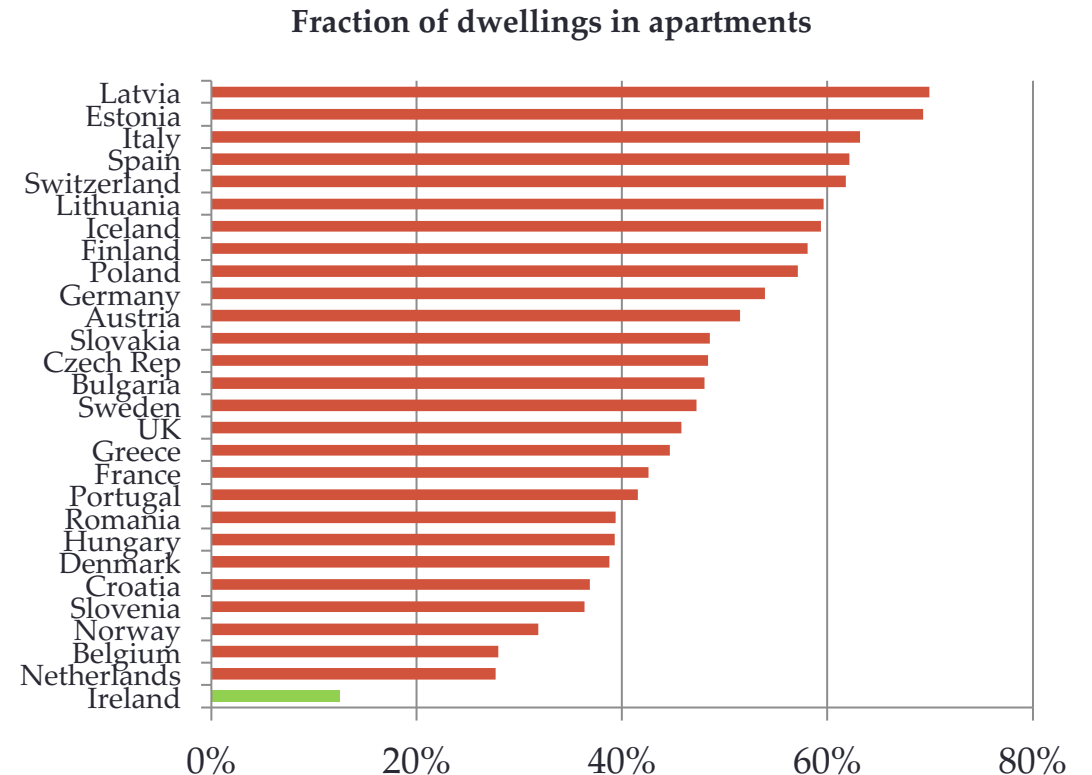
Comparing its stock of dwellings with its population, Ireland has no shortage of houses – rather it's missing about 400,000 apartments



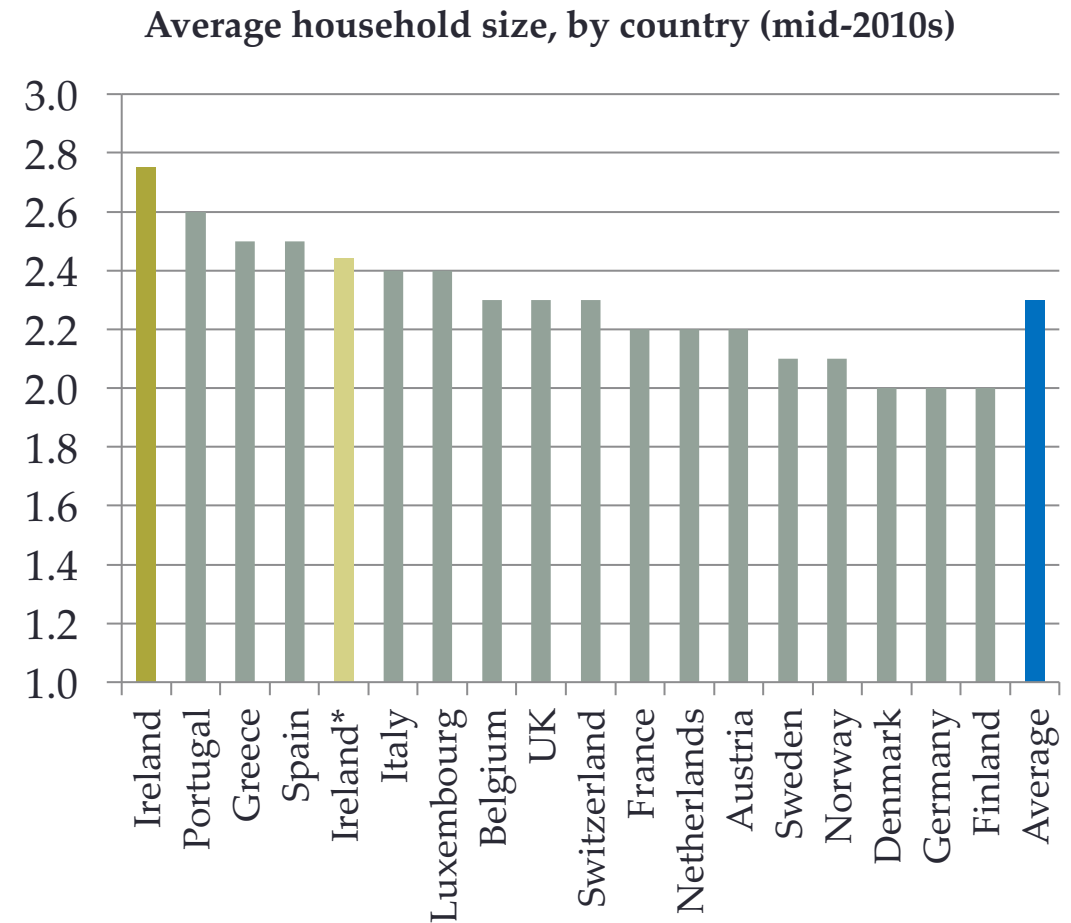
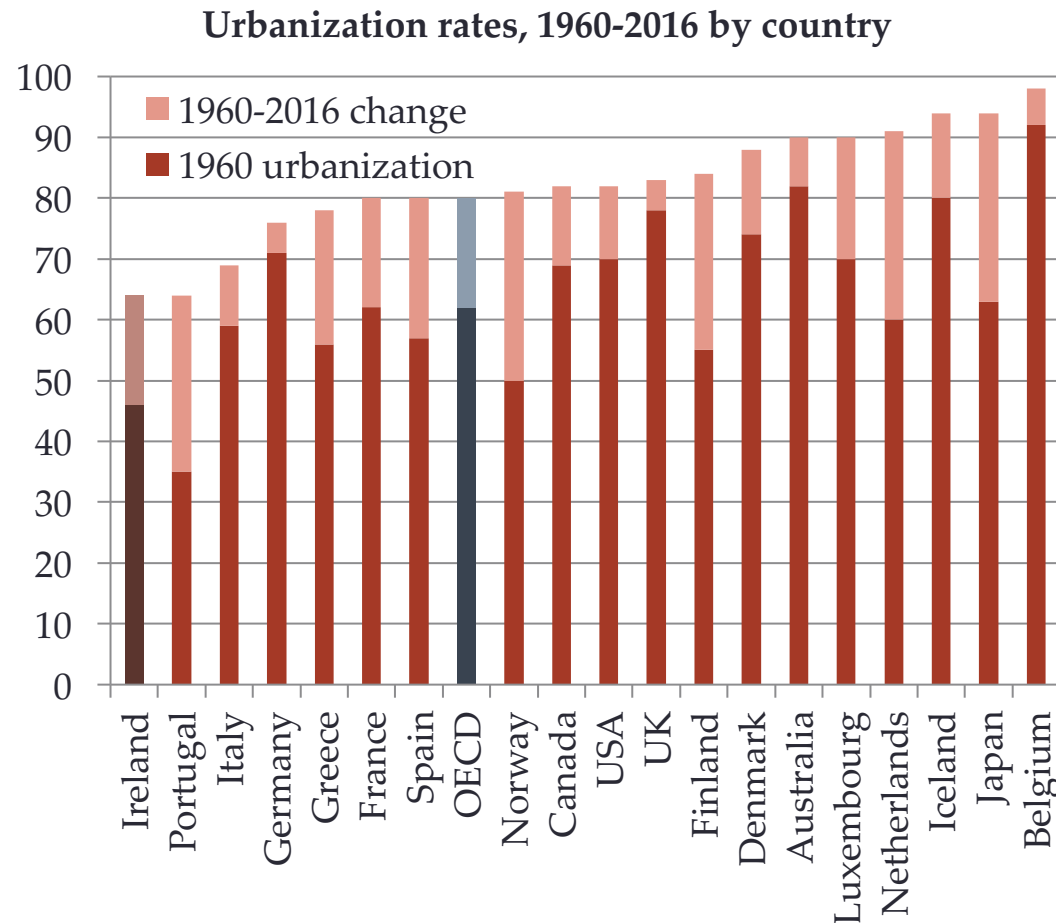
Ireland has a huge surplus of family homes



Ireland is unique in the EU for dwelling mix



To understand the mix of homes Ireland needs, it is important to recognise its unusual urbanization and household size will converge over coming decades



Source: Author calculations, based on Hypostat (2016), UN WUP (2014)

Little evidence that Dublin's population share is too big –
smaller populations mean bigger share in largest city



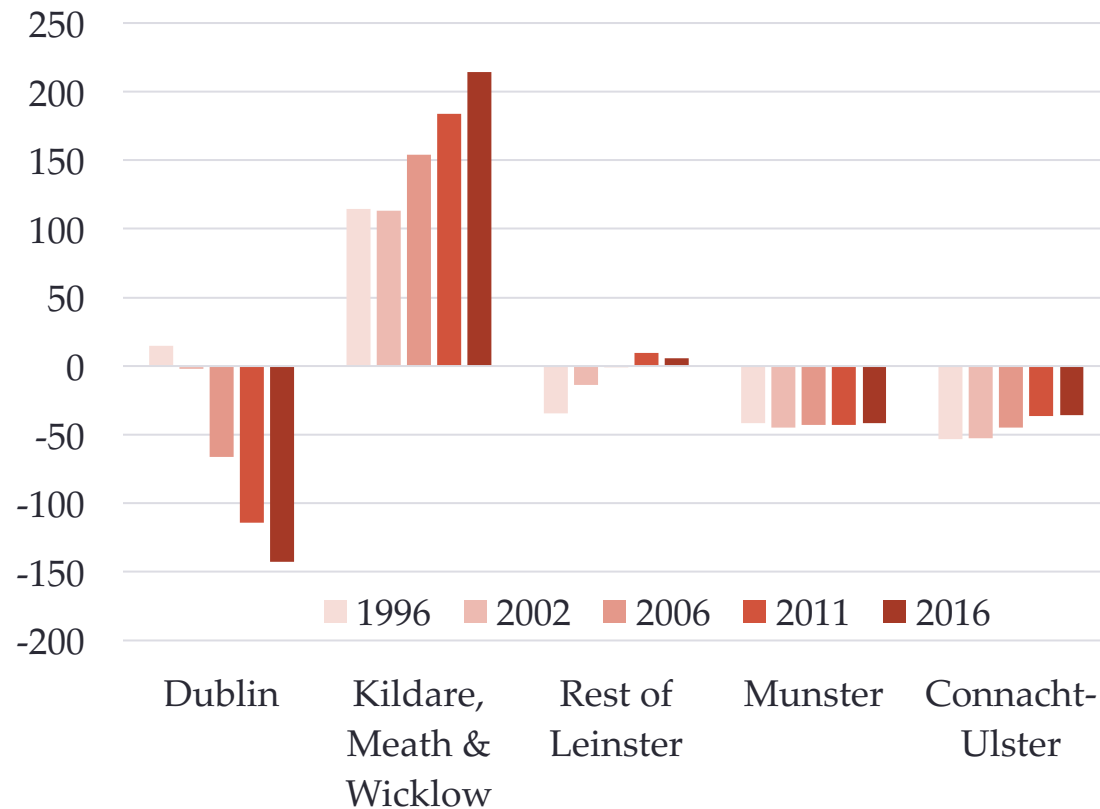
Share of population in largest city, European countries (n=42)



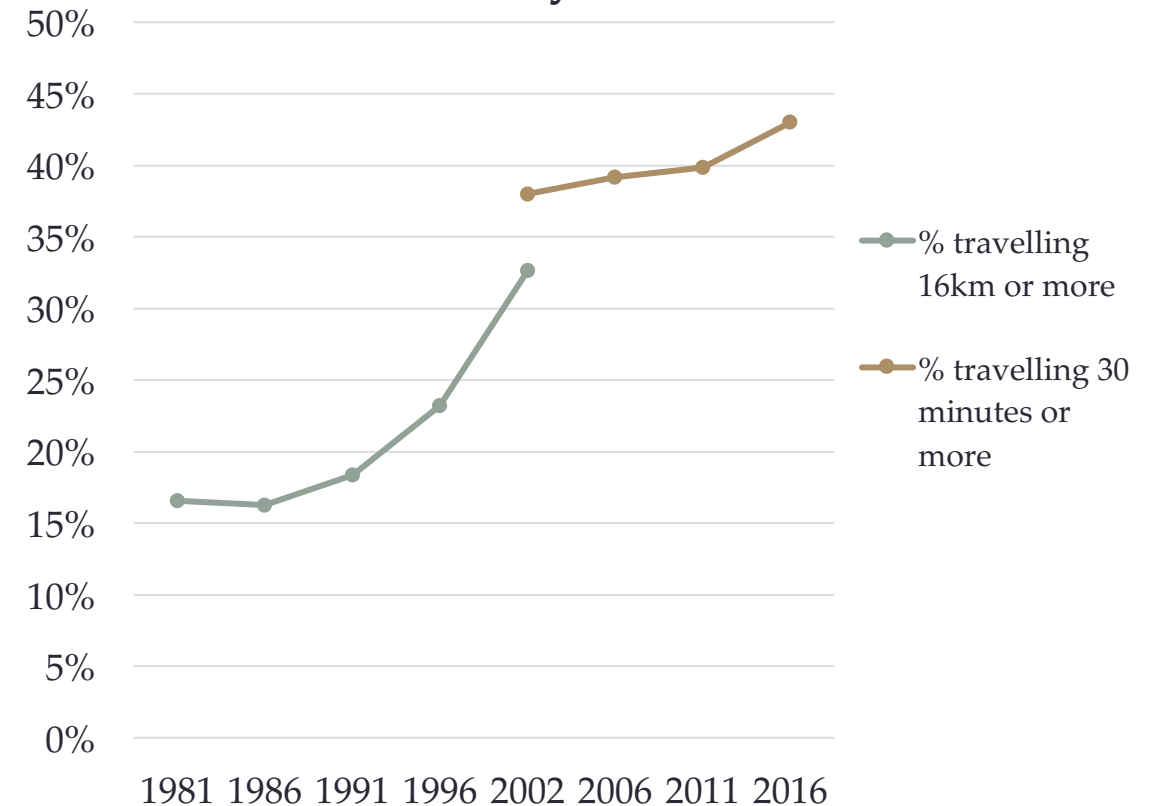
In fact, Dublin has gone from largest importer to largest exporter of people within Ireland – with consequences for commuting and quality of life



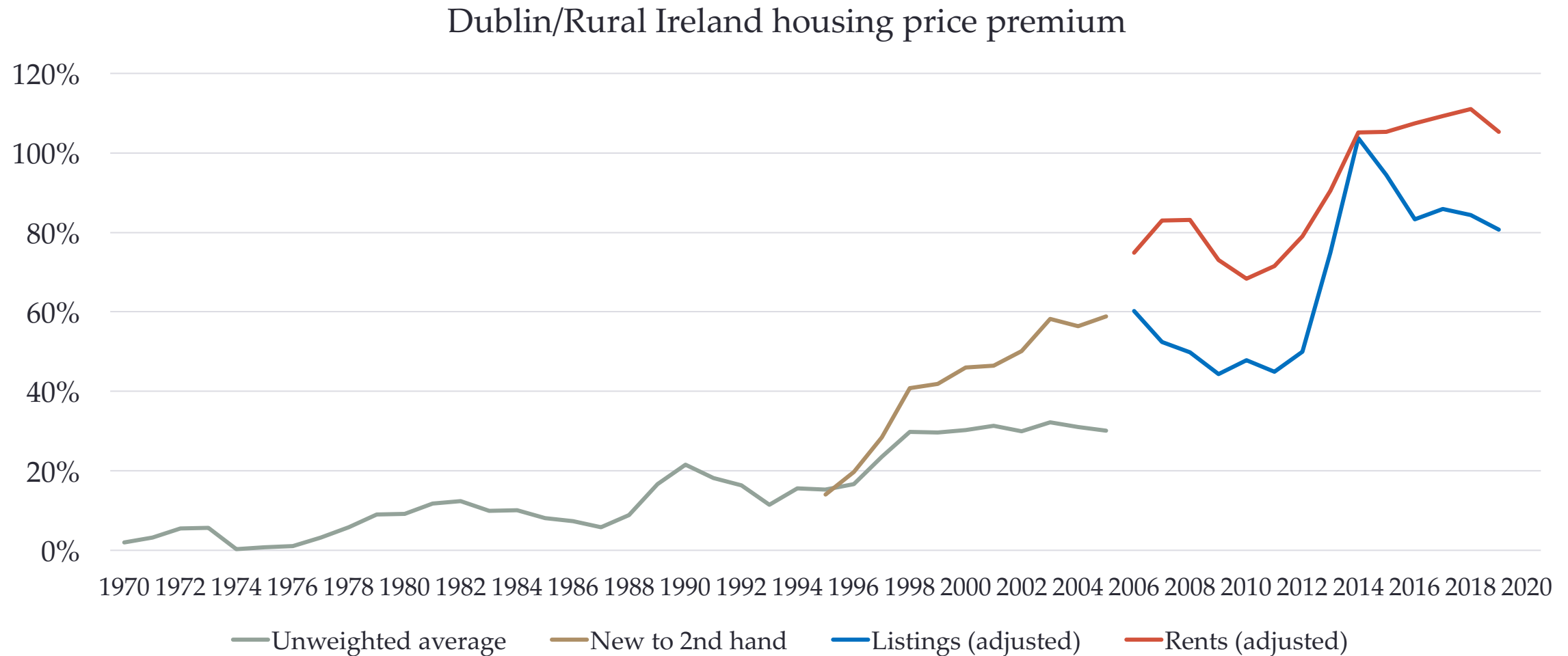
Net difference between resident and birth populations (000s), by region



Fraction of commuters with a 'long commute' by distance/time



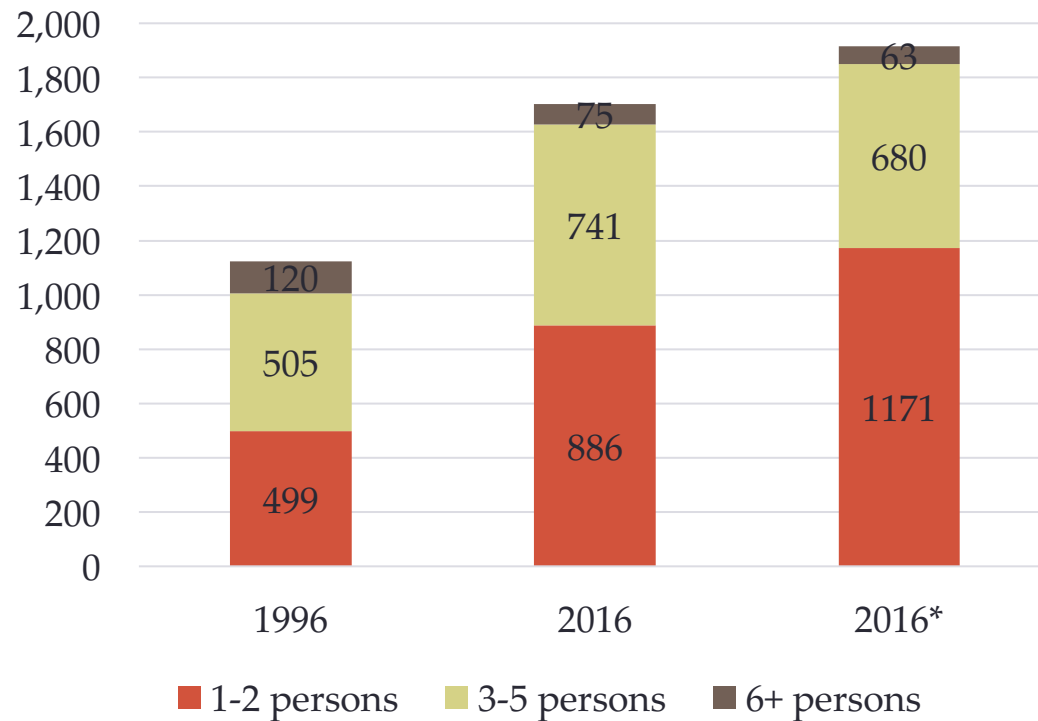
The location of new housing supply has been inadequate, with the emergence of a 100% Dublin housing price premium in recent decades



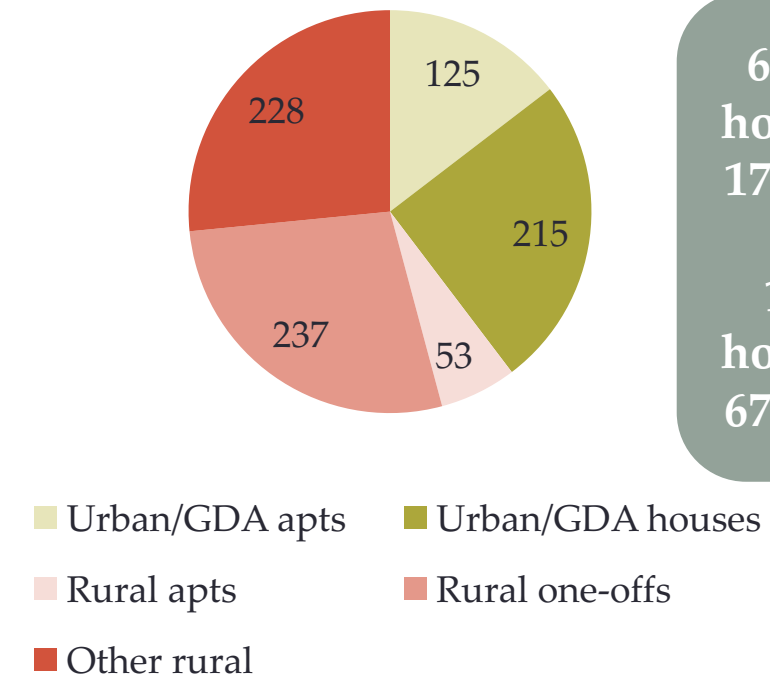
And the mix of new housing supply has been inadequate, with the new homes built increasingly out of sync with Ireland's household structure



Number of households (000s),
by size and Census year



New dwellings completed in Ireland,
1996-2015 (thousands)

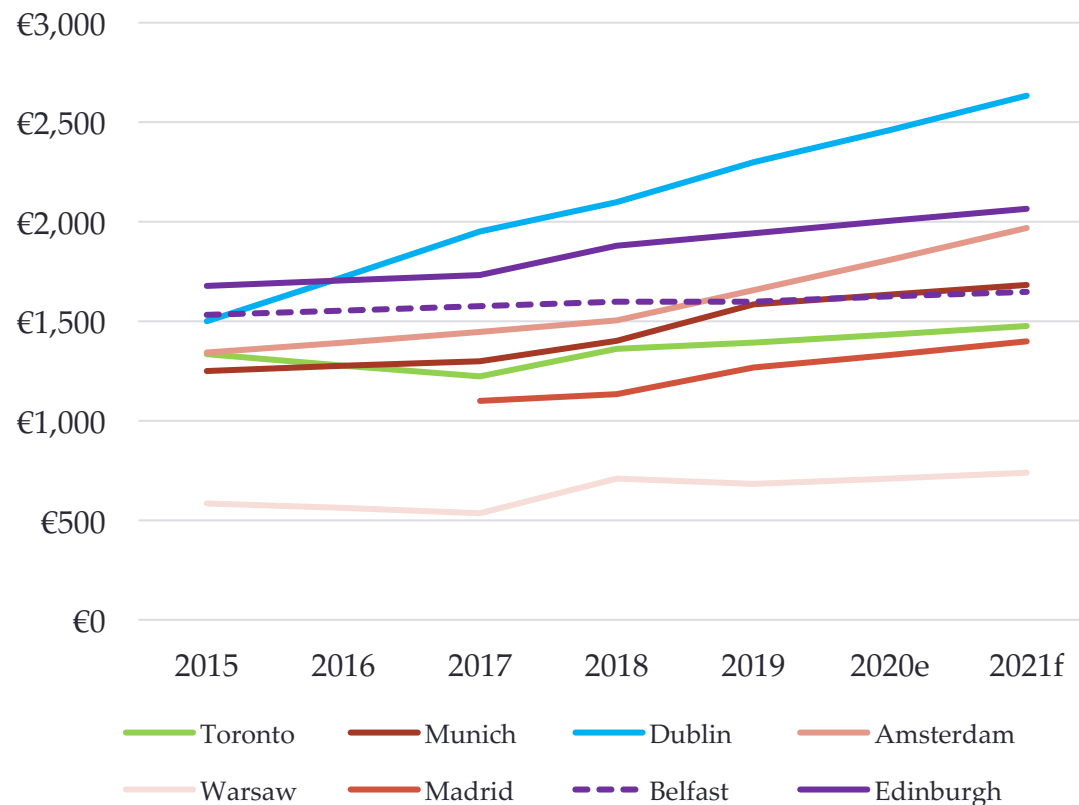


675k smaller
homes needed,
175k delivered
vs.
175k larger
homes needed,
675k delivered

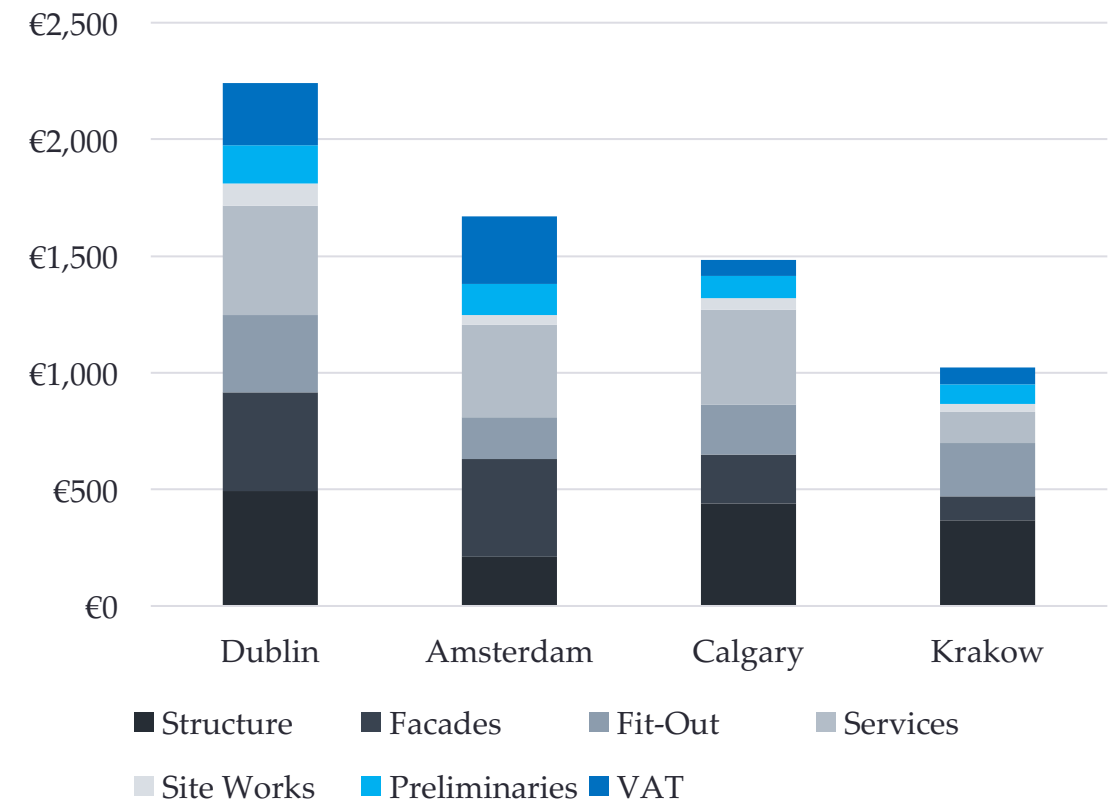
One of the main reasons supply of new apartments has been so weak is that Irish construction costs are now among the highest in the world



Cost, per m2 of internal space, of building medium-height apartments, by city and year



Core per-square-metre construction costs for apartments, by subheading and city (2016)

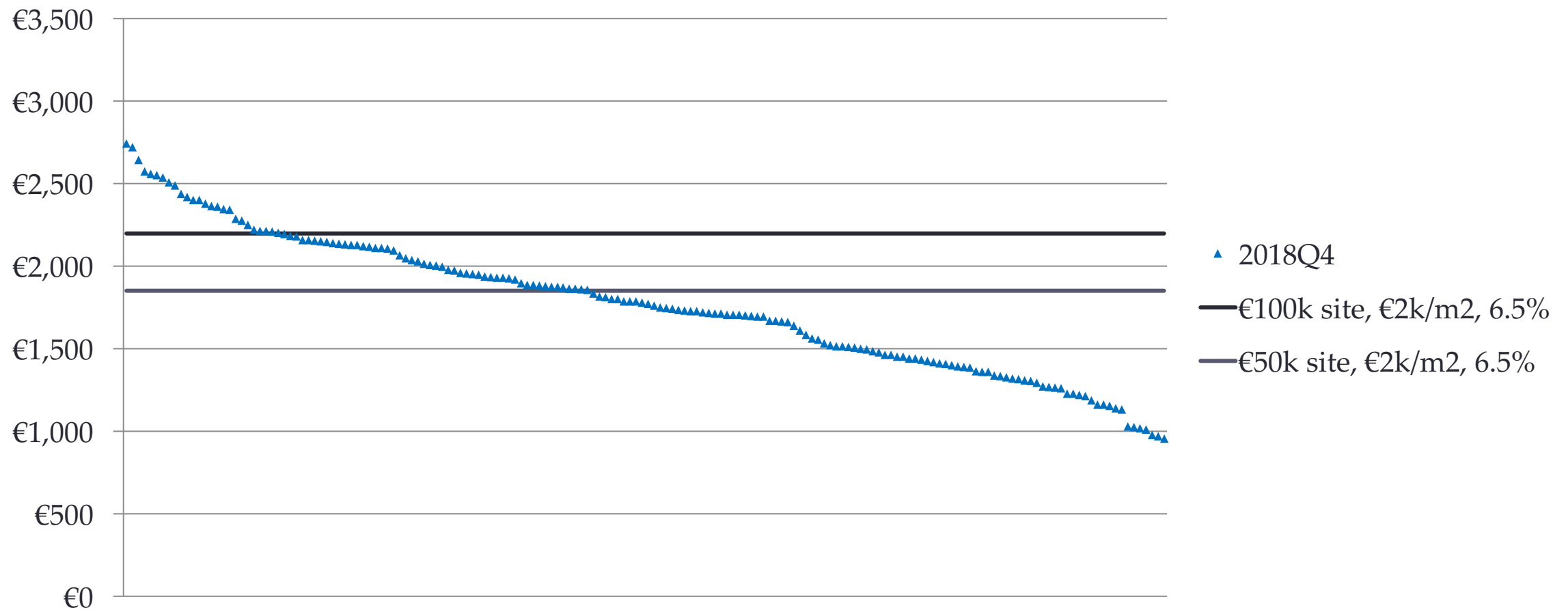


Source: Analysis of Turner & Townsend International Construction Market Survey, various issues; Hines (DEW Conference 2016)

The biggest barrier to the types of homes Ireland needs is viability



Viability of medium-rise 2-bed apartments, by micro-market and scenario

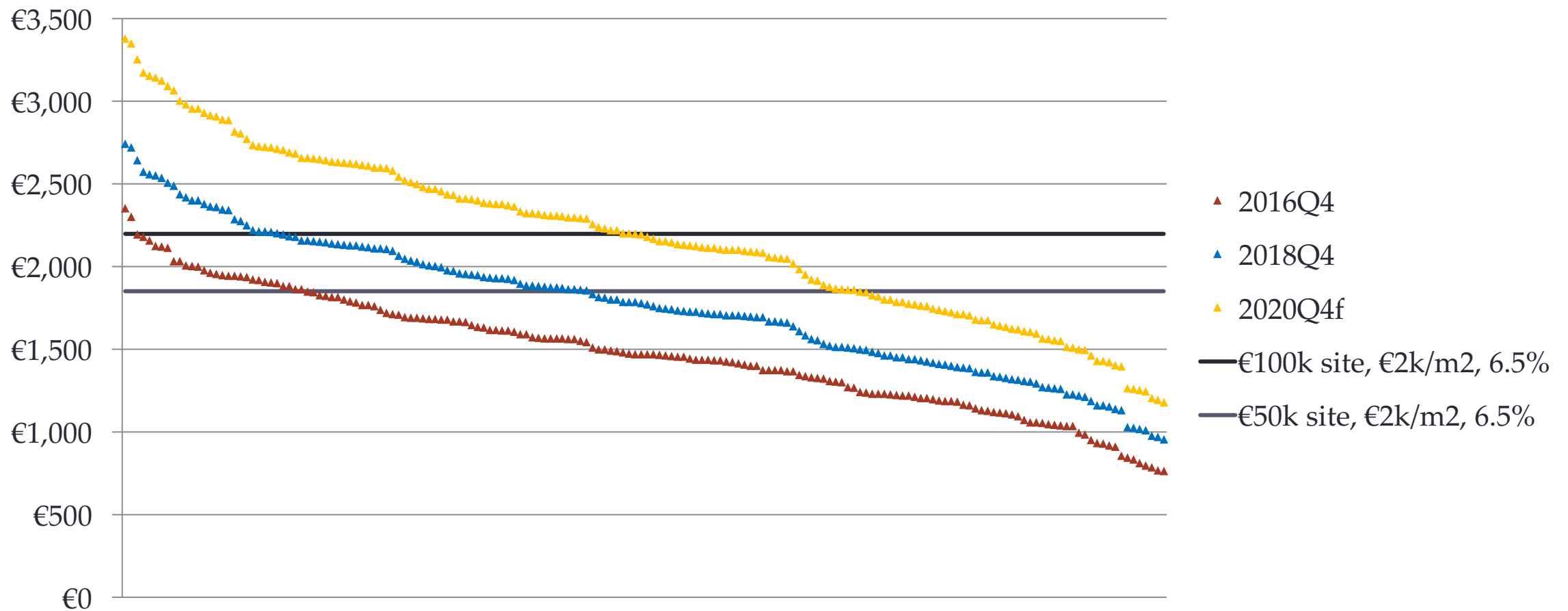


This graph shows average monthly rents for two-bedroom apartments across 172 micro-markets in Dublin, Meath, Kildare, Cork and Galway, as well break-even rents for the same dwellings, based on different cost configurations/financing models.

The biggest barrier to the types of homes Ireland needs is viability – recent rent inflation has ‘helped’



Viability of medium-rise 2-bed apartments, by micro-market and scenario

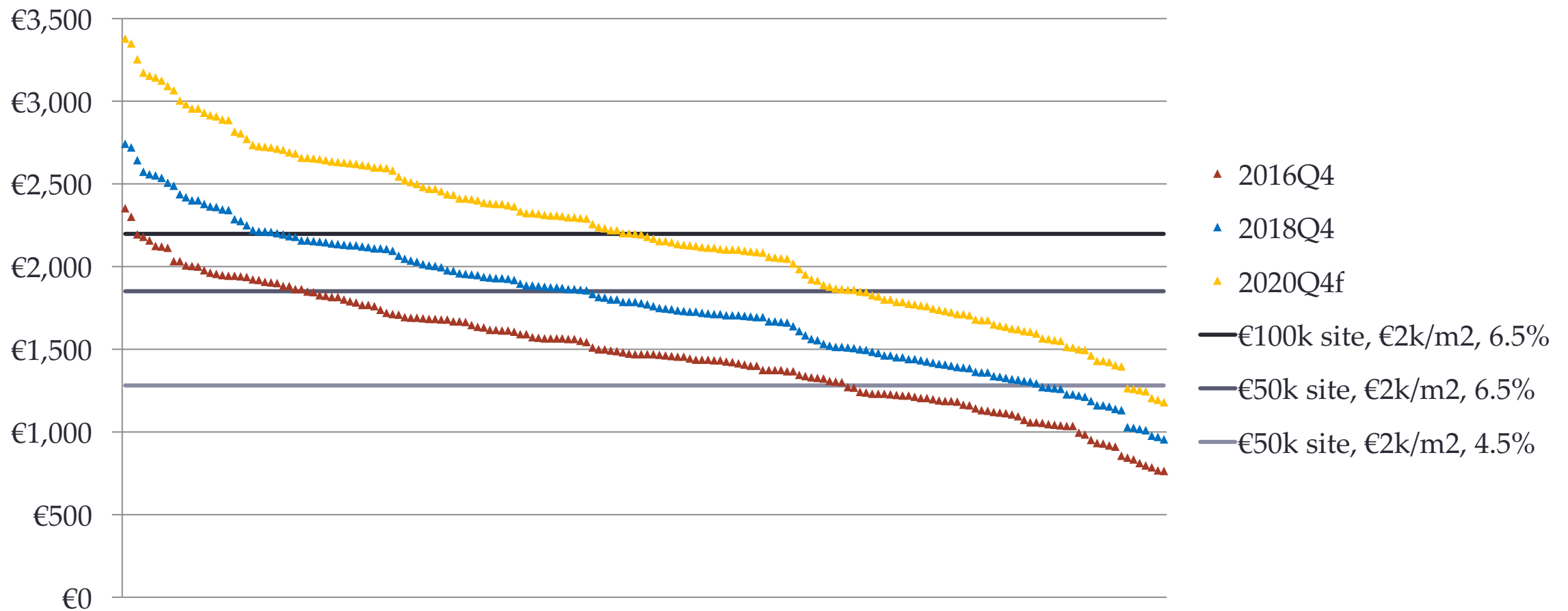


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The biggest barrier to the types of homes Ireland needs is viability – by lowering required yields, the introduction of PRS rules has also helped



Viability of medium-rise 2-bed apartments, by micro-market and scenario

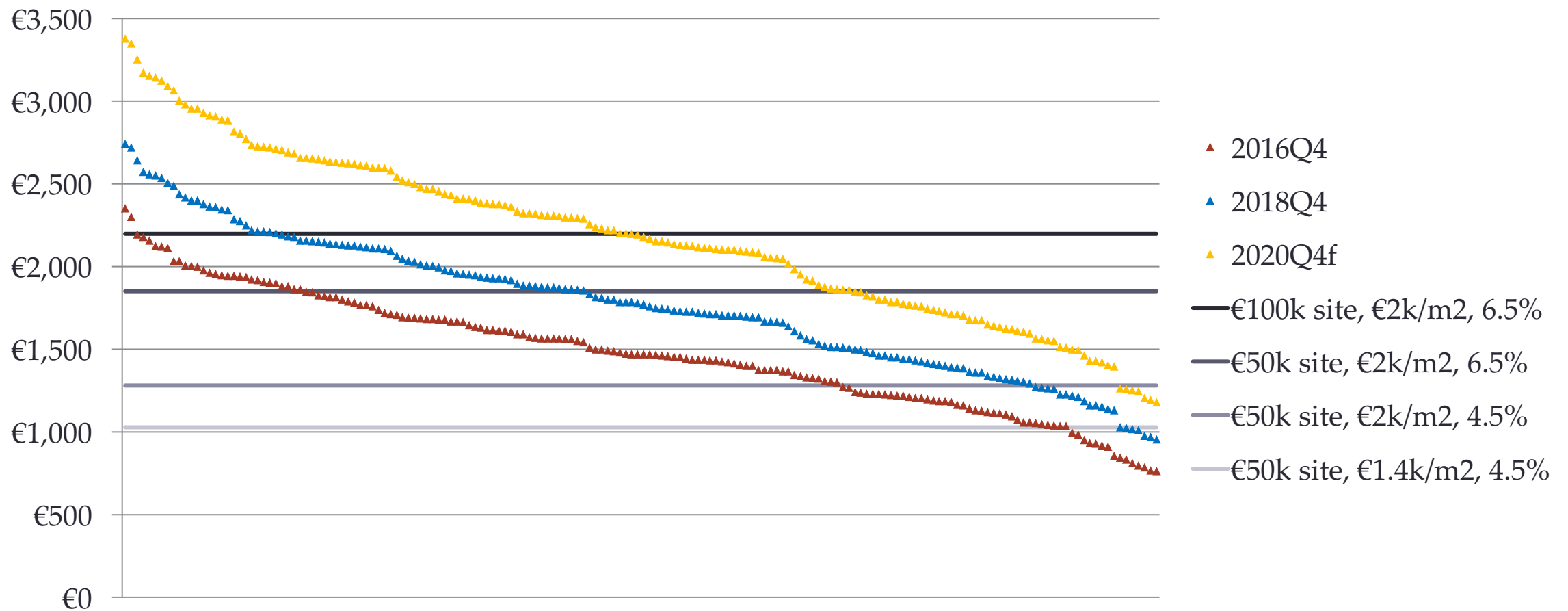


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The biggest barrier to the types of homes Ireland needs is viability – ultimately, to get construction where it's needed, costs need to come down

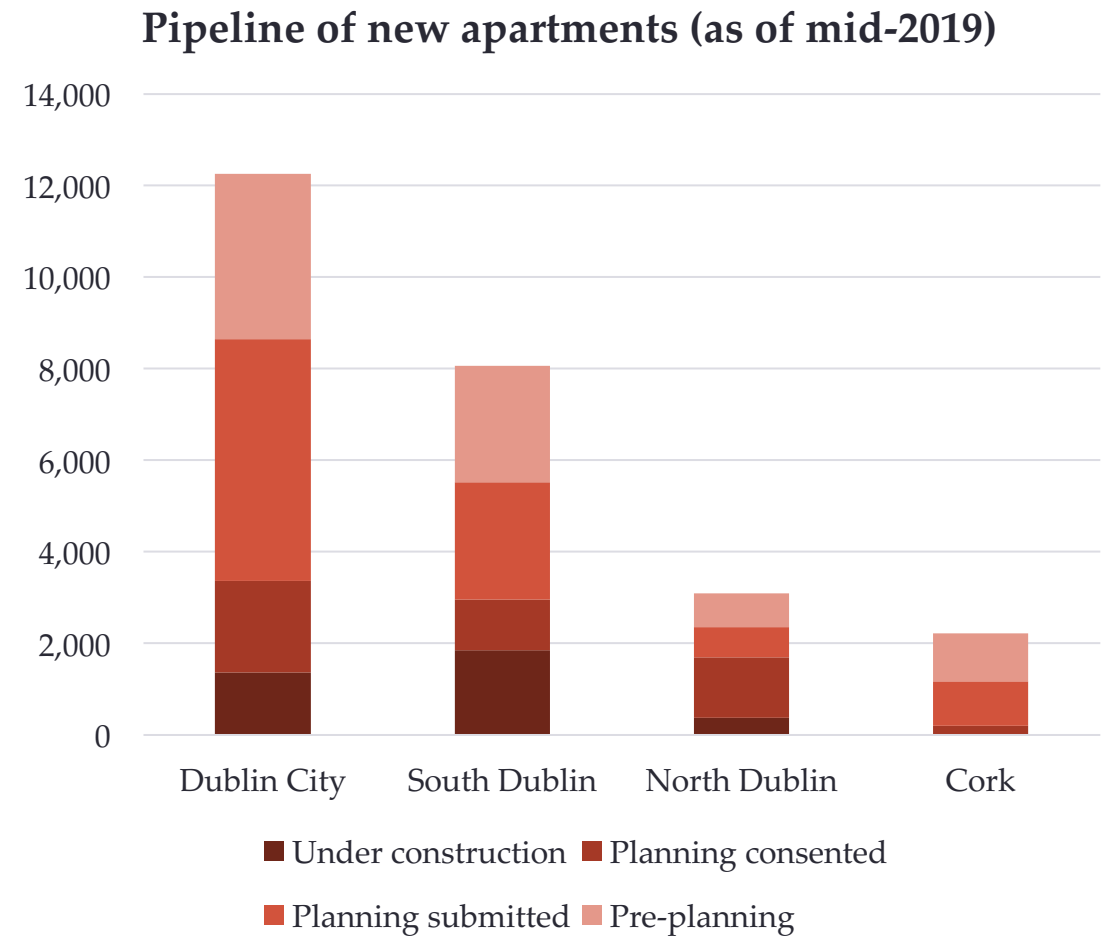
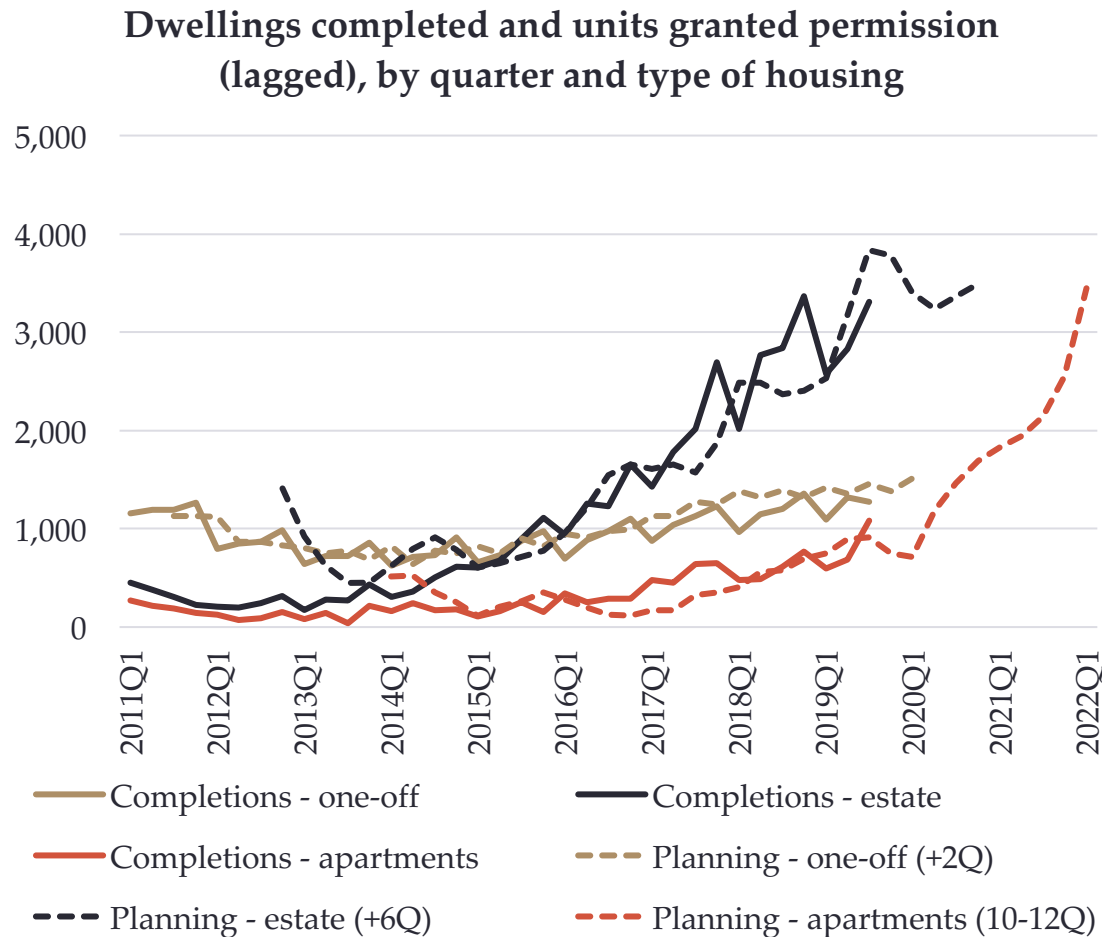


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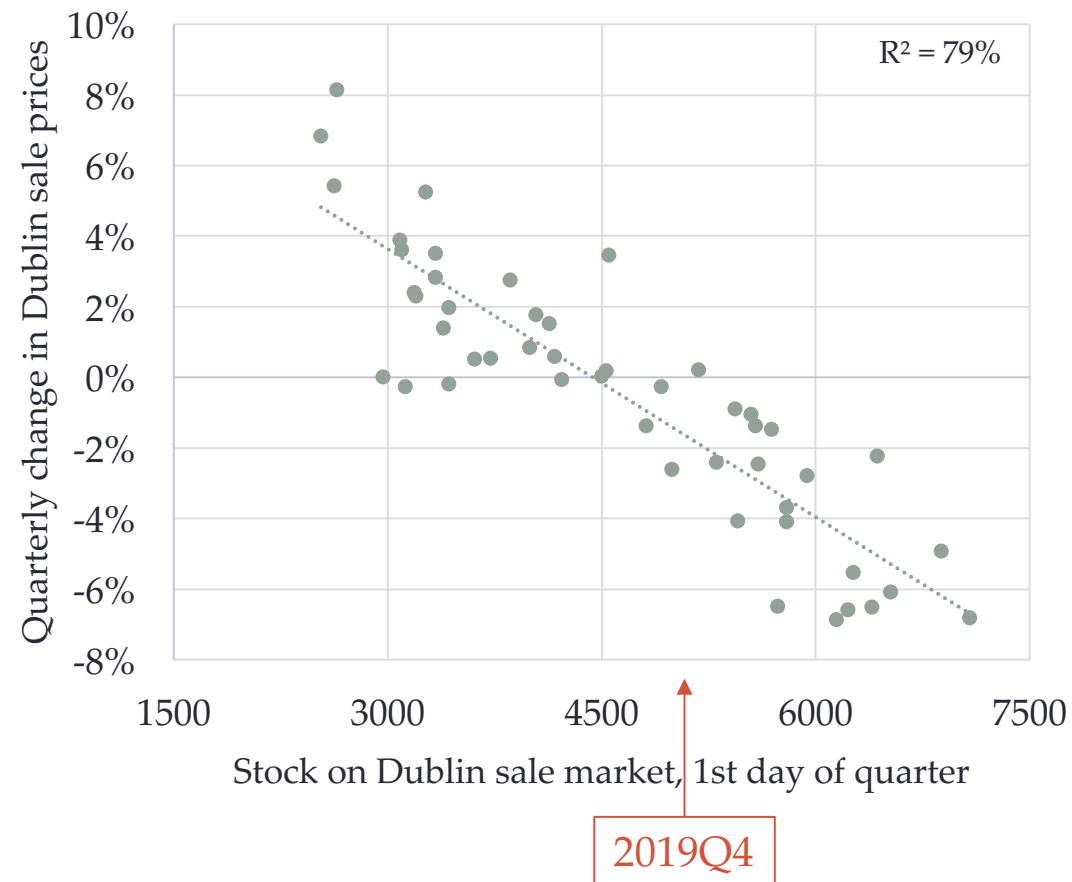
Looking ahead, permissions data suggest that new estate houses will continue to come on to the market in 2020 and 2021 – and, from 2021, apartments too



The increase in construction of estate housing means we should expect much less inflation, if any at all, in sale prices... but little relief yet in rents



Scatterplot of Dublin sale listings and quarterly changes in sale prices, 2006-2019



Scatterplot of Dublin rental listings and quarterly changes in rents, 2006-2019



Policy priorities

Fixing the system...

1. Mortgage regulations
2. Cost of construction
3. Housing subsidies
4. Land use

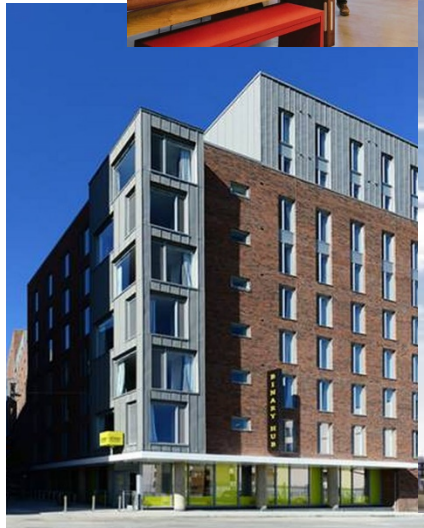
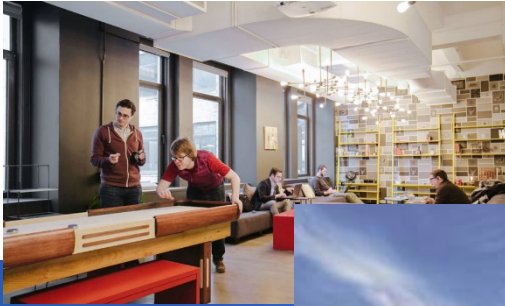
Closing thoughts... The Irish housing system, 2000 – uniformity



Closing thoughts... The Irish housing system, 2050 – diversity



Six types of housing that Ireland is largely lacking!



Age

18

30

50

70

Death