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RESIDENTIAL PROPERTY MARKET MONITOR

Review and Outlook 2023

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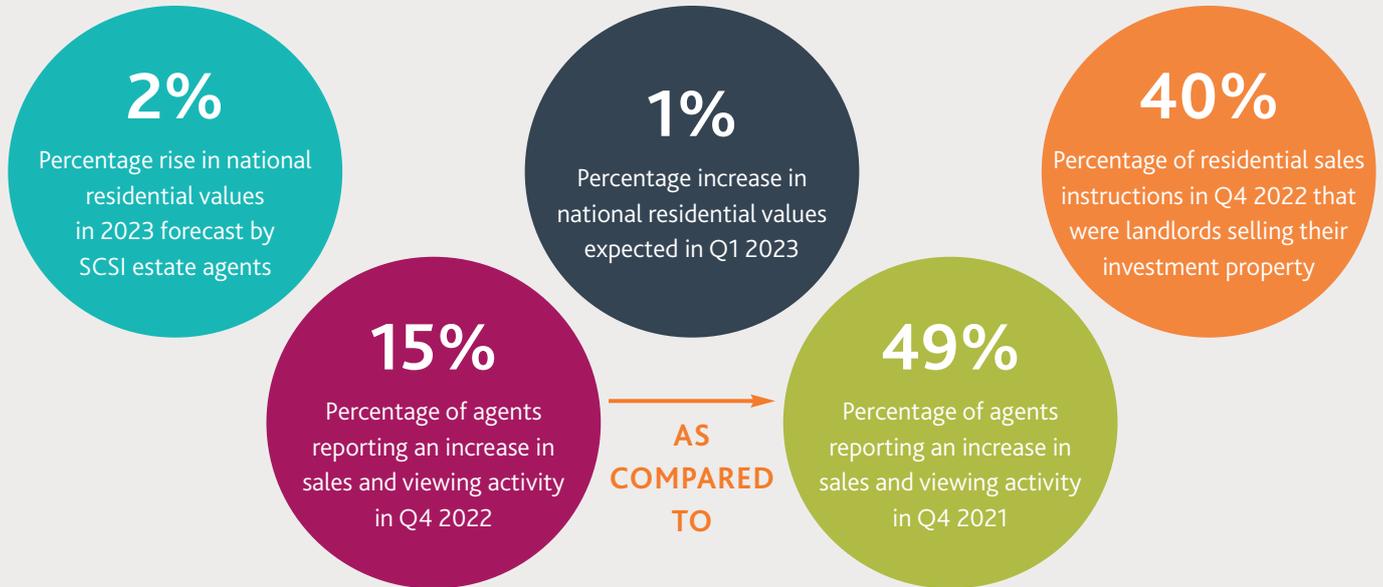
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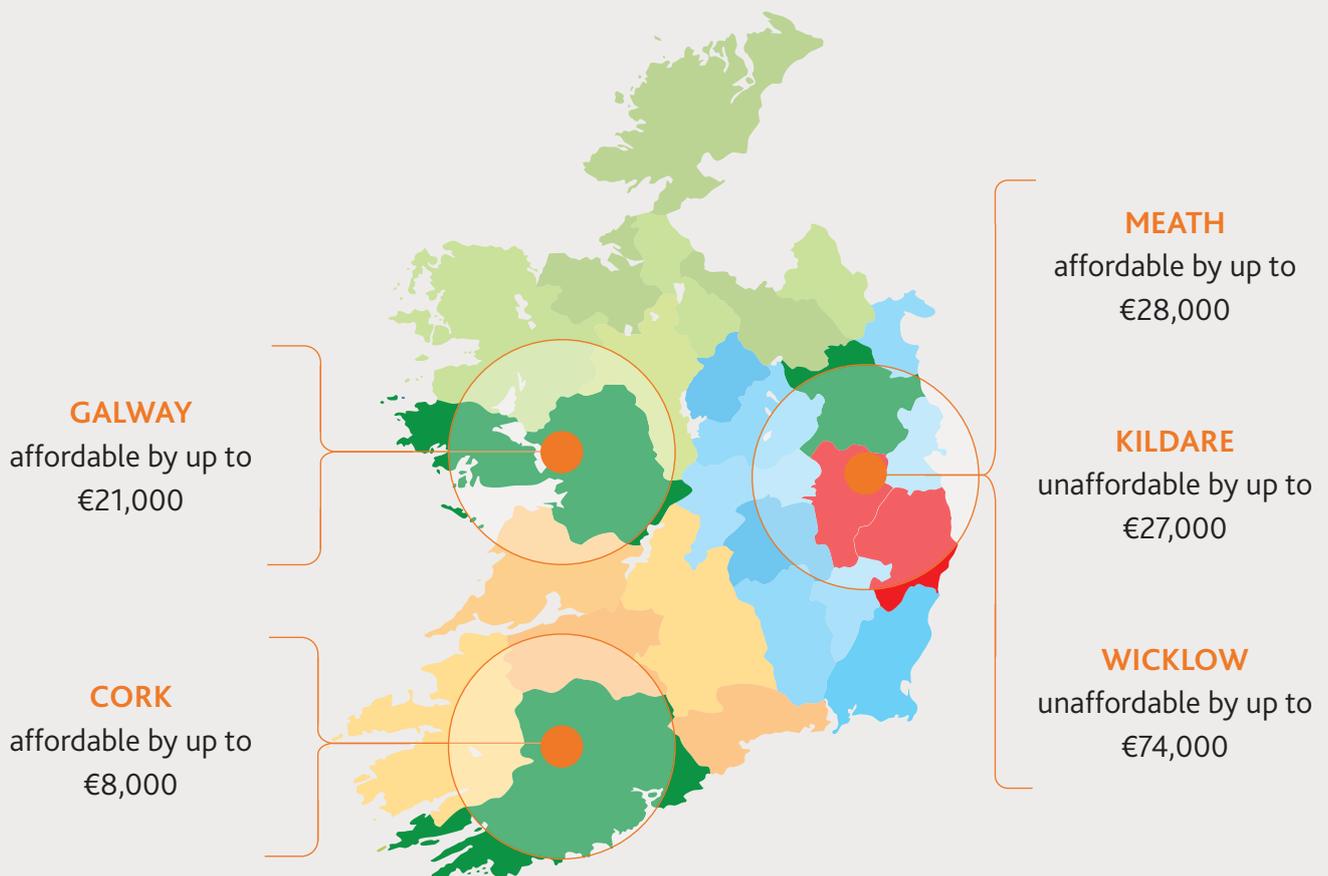
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RESIDENTIAL SALES



AFFORDABILITY

THE SCSI NEW HOME AFFORDABILITY TRACKER TRACKS AFFORDABILITY OF THREE-BEDROOM SEMI-DETACHED HOMES FOR FIRST-TIME BUYERS (FTBs) ON COMBINED SALARY OF €89,000:



RESIDENTIAL RENTAL

UNDERSUPPLY OF RENTAL UNITS LIKELY TO PERSIST INTO 2023 AS NUMBER OF INDIVIDUAL SECOND-HAND BUY-TO-LET PROPERTIES PLACED ON THE MARKET FOR SALE CONTINUES

78%

PERCENTAGE OF SCSI AGENTS WHO BELIEVE THAT INDIVIDUAL BUY-TO-LET SECOND-HAND RENTAL UNITS BEING SOLD AT PRESENT WILL NOT BE REPLACED IN THE RENTAL MARKET IN THE NEXT TWO YEARS.



PRIMARY REASONS FOR OCCUPIED RESIDENTIAL INVESTMENT UNITS COMING BACK ONTO THE MARKET FOR SALE:



COMPLEX AND RESTRICTIVE RENT REGULATIONS



ONEROUS STANDARDS FOR RENTED HOUSING



NET RENTAL RETURNS TOO LOW FOR THE INVESTMENT

59%

PERCENTAGE OF SCSI AGENTS REPORTING AN INCREASE IN TENANTS OVERHOLDING RENTED PROPERTY IN THE PAST TWO YEARS

34%

PERCENTAGE OF AGENTS REPORTING NO CHANGE IN TENANTS OVERHOLDING

PROPERTY MARKET OVERVIEW – 2022

National property values rose by 10% in the year to October 2022. This is down from the 14% rise experienced in 2021 and up from just 0.3% during a similar period in 2020.

According to SCSi agents, the most significant factors affecting house value increases are the continued undersupply of new housing to the market coupled with growing demand.

The SCSi estimates that based on current new housing completion projections, there will need to be an increase of almost 8% in new home output each year to 2030 to meet overall 'Housing for All' targets (Figure 1). The National Planning Framework review, which is due in Q1 2023, and any revisions of the Housing Need and Demand Assessment, may further impact on these numbers to suggest that more supply is needed to meet growing demand.

The 2022 property market was a year of two halves. Commentary from our member survey of SCSi agents across the country reports a brisk sales market up to the summertime and a marked change in the second half of

the year. No one reason is cited for the downward change in activity; however, the results from the survey suggest that economic uncertainty and interest rate hikes are two of the main contributors affecting buyer and seller sentiment.

One SCSi agent in Wicklow reported that: "Current house prices on the higher-end properties are slightly overvalued, as prices accelerated after Covid. Crucially, interest rates are on the rise, and while only a portion of this has fed through to the new buyers' market, the rest of the increases will also in time be passed on, and with inflation rising, there's only one factor, and that's affordability. The shortage of rental properties has contributed to house prices rising as people were moving out of the rental scene and buying, but we have now seen a slowdown in this sector as well".

Housing for All estimated that Ireland will need an average of 33,000 new homes to be provided each year from 2021 to 2030.

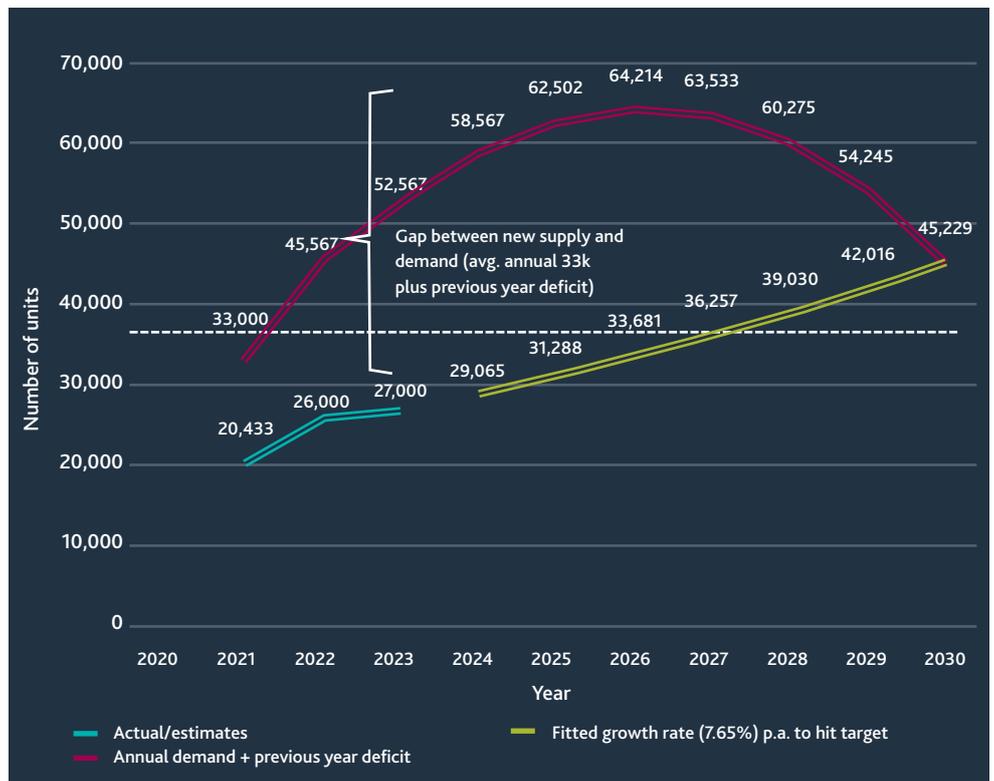


FIGURE 1: Catching up with the cumulative undersupply of new housing units per annum. Source: SCSi research, 2022.

PROPERTY MARKET OVERVIEW – 2022



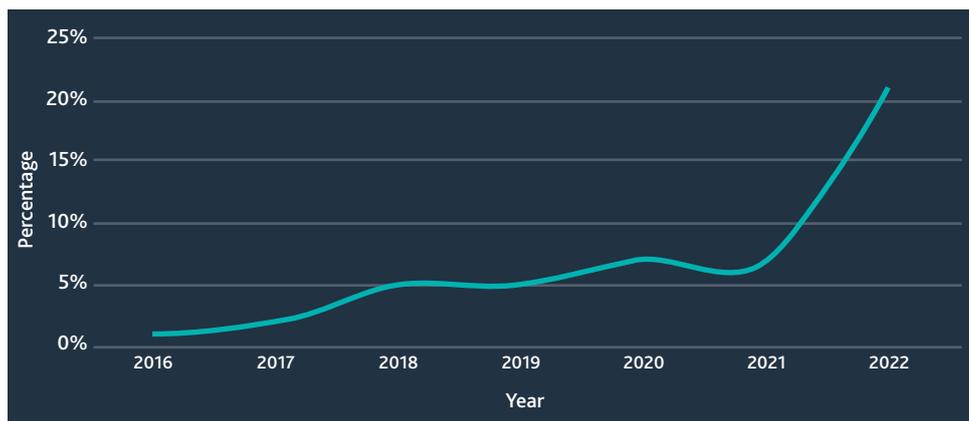
FIGURE 2: Annual residential property completions and planning permissions.

Source: Central Statistics Office and Central Bank of Ireland (housing completions and planning permission data valid to Q3 2022). The Central Bank of Ireland forecasts 25,000 new units in 2022.

FIGURE 3: SCSI average residential rebuilding/construction annual inflation rate nationally.

Source: SCSI Guide to Rebuilding for Insurance Purposes 2022.

Please note that the 2022 average rebuilding rates are based on revised design plans of estate-type homes. No report in 2020.



Completions and commencements

New housing completions are expected to be at their highest levels in approximately a decade (Figure 2). There is a concern from SCSI agents that commencements and planning permission numbers are declining, and this will have a direct impact on the number of completions into 2023 and possibly 2024. Some SCSI agents report in the survey commentary that the cost of construction is a particular concern in relation to the supply of new homes. The challenges facing the development sector are well documented within various SCSI reports and submissions, which outline solutions to address the high costs of construction. These challenges include increased inflation, shortages in labour, and the onerous nature of Ireland's public procurement processes.

An SCSI agent in Kilkenny stated that: "The current undersupply in the marketplace is continuing to put upward pressure on house prices for both new and second-hand homes. This, coupled with complex rent pressure zones and rental legislation in the marketplace, has led to more landlords

exiting the market, putting further pressure on the rental market. Inflationary cost pressures have further exacerbated the undersupply and affordability of homes, and this is likely to continue in the medium term".

Construction costs

SCSI research has identified significant cost inflation across the house construction sector (Figure 3). The increased construction costs are not limited to urban centres but are evident across the country in every region, as reported in the latest SCSI Guide to House Rebuilding for Insurance Purposes report. First-time buyers continue to be the predominant purchasers of new homes, and the 'Help to Buy' scheme and 'First Home' shared equity scheme supports are vital to the ongoing delivery of housing. Residential values have increased exponentially in the past number of years, with year-on-year house price inflation running at 10% nationally. Residential price inflation has helped some housing projects to remain viable; however, if values plateau or fall during a period of high construction inflation, many projects may stall or not commence.



An SCSi agent in Dublin stated that: "Supply (is) curtailed due to insufficient new homes. This seems to be due to a myriad of factors including lack of availability of construction finance, zoning and planning delays, lack of serviced land, issues around supply of water and electricity, etc. Demand (is) expected to continue as a result of strong employment in the technology, pharma, and finance sectors. Level of interest rates and cost of living will impact values going forward. Lack of supply in the rental market is a major contributing factor, along with lack of supply of social and affordable housing. Continued strong employment and insufficient construction of homes (in the €200,000 to €500,000 price range) are major driving forces for continued price increases".

Interest rates

The combined impact of a smaller retail banking sector and higher borrowing costs will likely influence future household borrowing and property values. The European Central Bank raised key policy rates in 2022. Euro area household mortgage rates rose in July in certain countries and average Irish mortgage rates remain the fourth highest in the EU.

One Dublin SCSi agent reported that: "Interest rate increases recently have had a marked (dampening) effect on buyer sentiment in the second-hand market".

Macroprudential lending

The Central Bank of Ireland's Framework for the Macroprudential Rules report, published in October, saw lending policies change from a 3.5 times loan-to-income (LTI) limit to a four times LTI for first-time buyers.

2022 review details

- No changes are being made to the first-time buyer (FTB) loan-to-value (LTV) limit, which remains at 90%
- Second and subsequent buyers (SSBs):
 - The LTI limit will remain at 3.5 times income
 - The LTV limit changed from 80% to 90%
- Buy-to-let (BTL) borrowers:
 - No changes are being made to the mortgage measures relating to BTL lending, where a 70% LTV limit will continue to apply

Proportionate allowances

The proportion of lending allowed above the limits will now apply at the level of the borrower type (e.g., FTB) rather than the individual limit (e.g., FTB LTI):

- 15% of FTB lending can take place above the limits;
- 15% of SSB lending can take place above the limits; and,
- 10% of BTL lending can take place above the limits.

Anecdotally, SCSi agents noted that the changes to the Central Bank's lending rules are unlikely to have a notable impact on residential values. With economic uncertainty on the horizon and the inflationary issues impacting households over the past year (due in part to the conflict in Ukraine), despite the increase in LTI limits, lenders will still be required to stress test loan applications to ensure that borrowers can afford mortgages. The increases in mortgage interest rates are expected to mitigate against the risk of rising residential values following the increase in borrowing limits.

TRANSACTIONAL MARKET IN 2022

TRANSACTIONAL MARKET IN 2022



FIGURE 4: National property transactions activity.
Source: Residential Property Price Register (to December 9, 2022).

Total residential property transactions of 55,140 were recorded in 2022 (Figure 4).¹ This is a slight decrease compared with 2021, which may be attributed to several factors, such as lack of new supply impacting on movement in the market, and higher finance costs such as the increase in interest rates.

Sales instructions

As of Q4 2022, there are similar levels of sales instructions being experienced by SCSi agents when compared to the same period last year.

The cyclical nature of selling property is clear to see in Figure 5, where fewer sales instructions are provided to agents into wintertime, with most sales instructions taking place around Q2 each year.

The peak of sales instructions was recorded in Q2 2021, following the easing of Covid-19 lockdowns.

Anecdotally, SCSi agents report a growing trend emerging where more homebuyers are looking to purchase energy-efficient properties with good energy ratings. In general, SCSi agents are experiencing more homebuyers

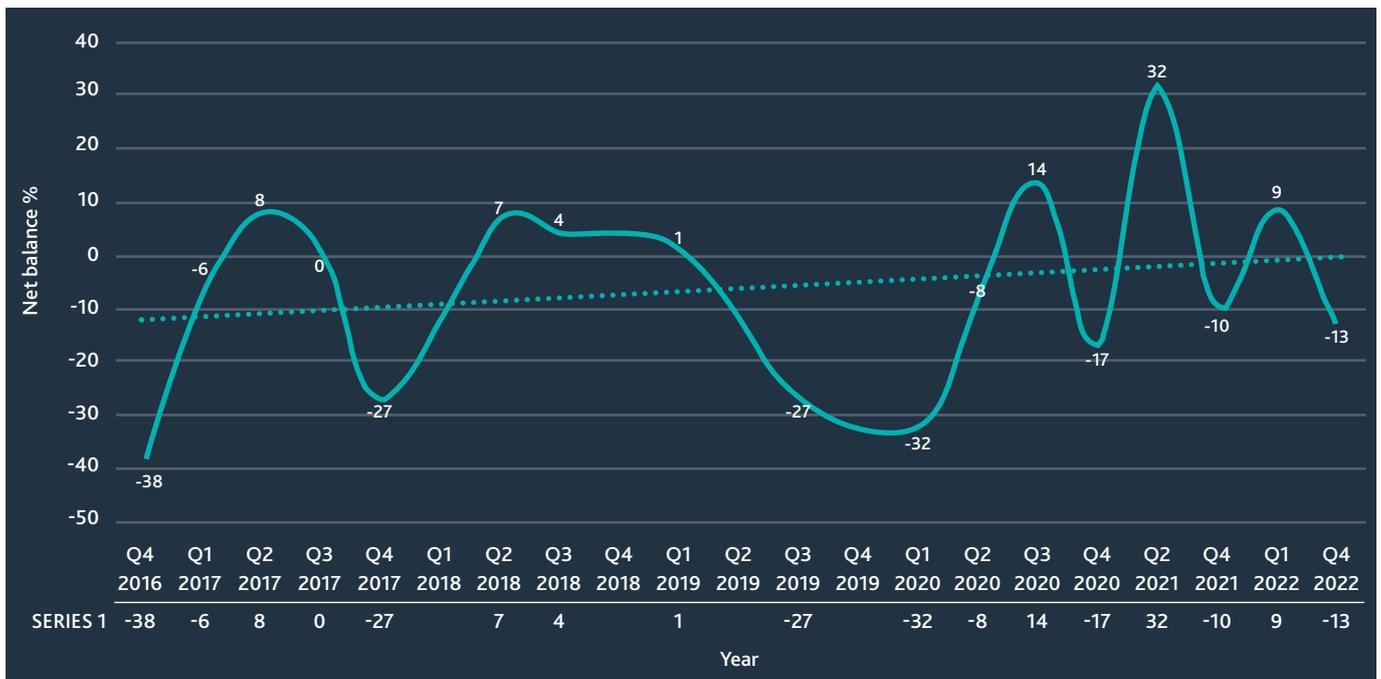


FIGURE 5: SCSi sentiment index – national sales instructions. Source: SCSi research.
Note: net balance = proportion of respondents reporting a rise in a variable (e.g., instructions) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

¹ Property Price Register, to December 9, 2022.

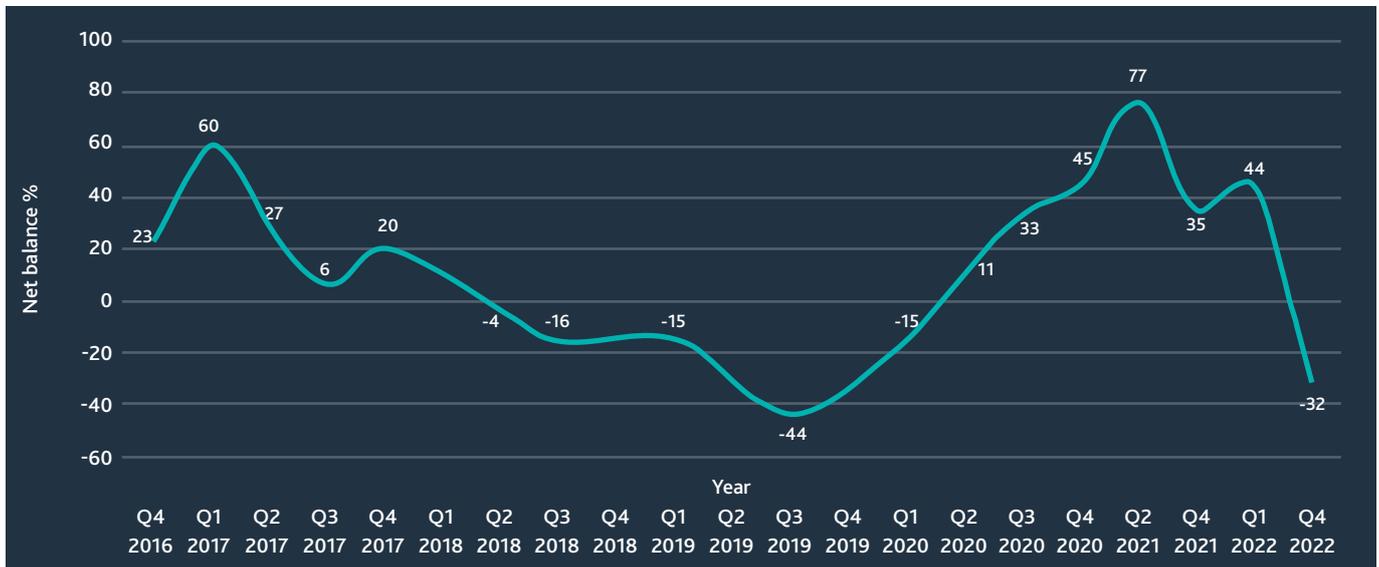


FIGURE 6: SCSi sentiment index – sales enquiries/viewings.

Source: SCSi research.

Note: net balance = proportion of respondents reporting a rise in a variable (e.g., increase in viewings) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

showing a growing preference for completed 'A-rated' homes rather than properties that require renovation/modernisation or those with a poorer Building Energy Rating (BER). Another trend that has remained consistent in recent years is that homebuyers are interested in homes that have high-speed broadband internet, which is likely due to the increased prevalence of people working from home in recent years due to Covid-19.

Sales enquiries

The number of sales enquiries/viewings is largely dependent on the time of year when home buyers are less freely available to view homes, e.g., during holiday periods. The downturn in sales enquiries/viewings (Figure 6) experienced in Q4 2022 is a marked difference compared with SCSi sentiment 12 months previously. The reasons for the decline in sales enquiries and viewings in Q4 2022 compared with 12 months before are multifaceted; however, some agents explain that the pent-up demand from Covid-19 among house buyers was strongly felt in 2021 and into early 2022, and this is one of the main reasons for the sharp change in activity levels when compared with Q4 2022. The actual percentage of agents reporting an increase in sales/viewing activity in Q4 2022 was 15% compared to the same quarter in 2021, where 49% of agents noted an increase in this activity.

SCSi agents are experiencing more homebuyers showing a growing preference for completed 'A-rated' homes rather than properties that require renovation/modernisation.

TRANSACTIONAL MARKET IN 2022

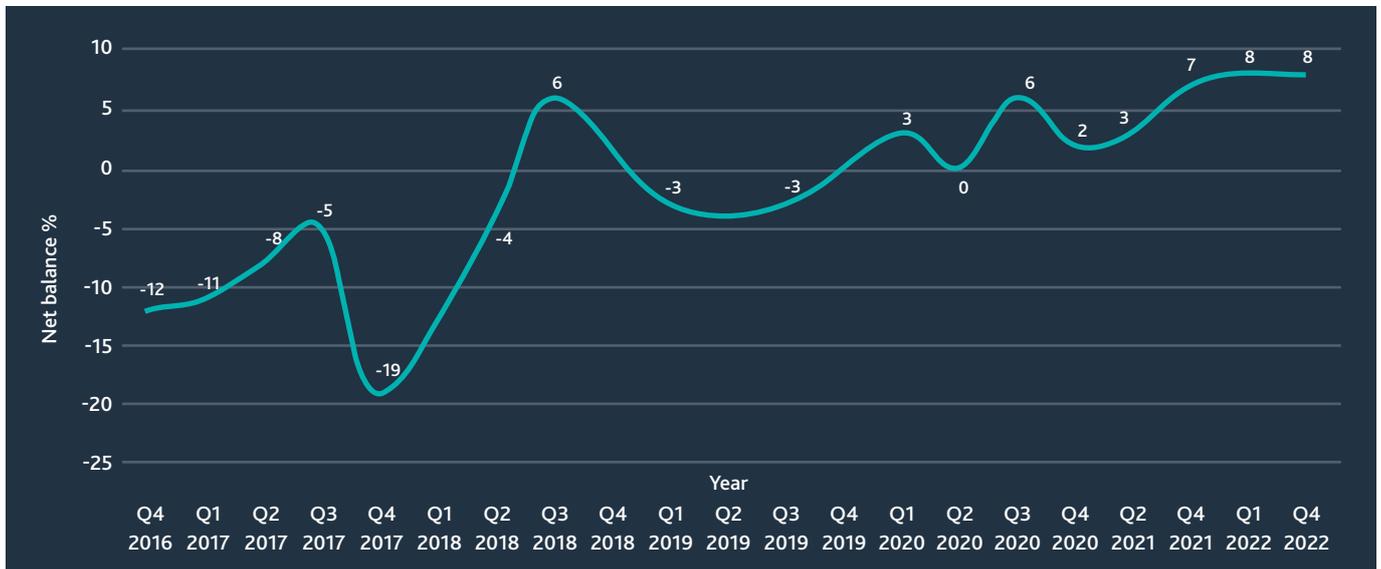


FIGURE 7: SCSI sentiment – sales agreed but not proceeding. Source: SCSI research.
 Note: net balance = proportion of respondents reporting a rise in a variable (e.g., failed sales) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

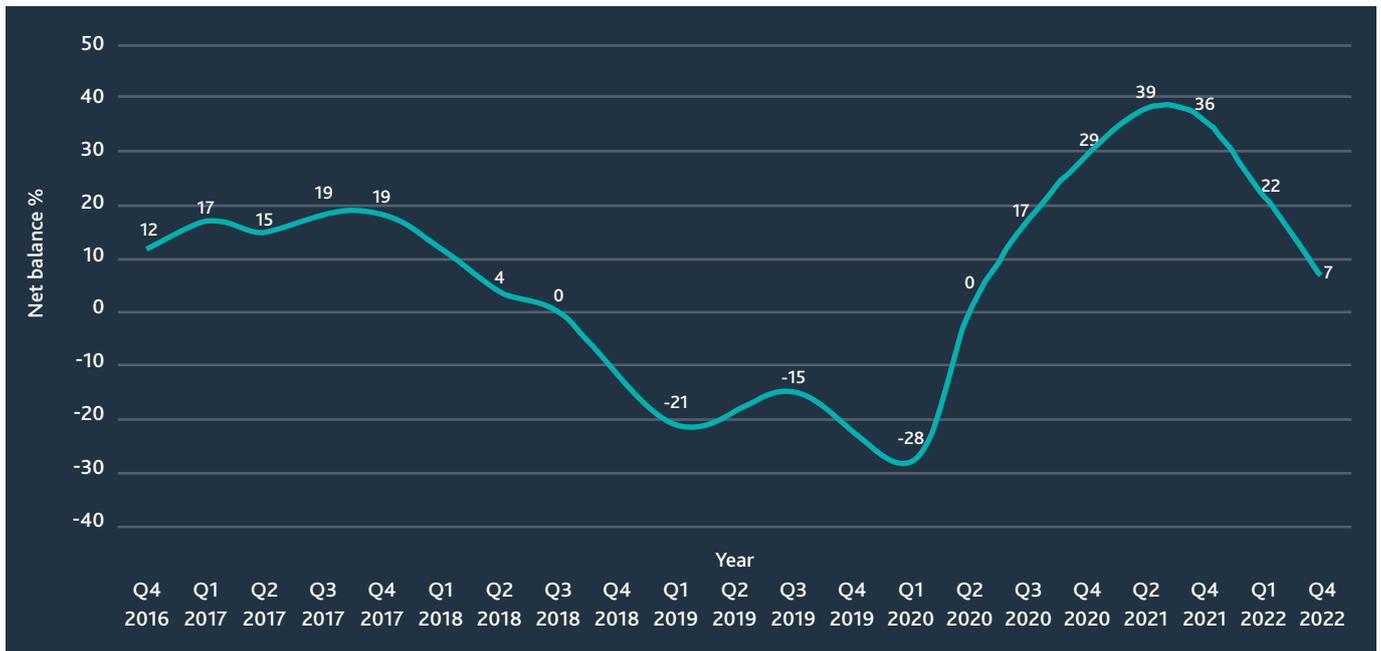


FIGURE 8: SCSI sentiment – activity levels of sales completed. Source: SCSI research.
 Note: net balance = proportion of respondents reporting a rise in a variable (e.g., completed sales) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

Sales agreed but not proceeding

There are several reasons why property sales, which were previously agreed upon, may not subsequently lead to the purchasing of the property by the prospective buyer (Figure 7). These reasons can include buyers and sellers changing their minds to buy or sell, the buyer failing to secure funding or choosing a different property altogether, or issues relating to building defects or title. The number of sales that have been

agreed upon but did not proceed has increased from 2021, and the trend has since levelled off.

There are more SCSI agents reporting a declining level of sales completed (Figure 8). Completed sales began to reduce in Q4 2021 and have steadily declined into Q4 2022. The decreased number of sales completed aligns with the lower number of documented viewings/enquiries and instructions, as reported by SCSI agents.

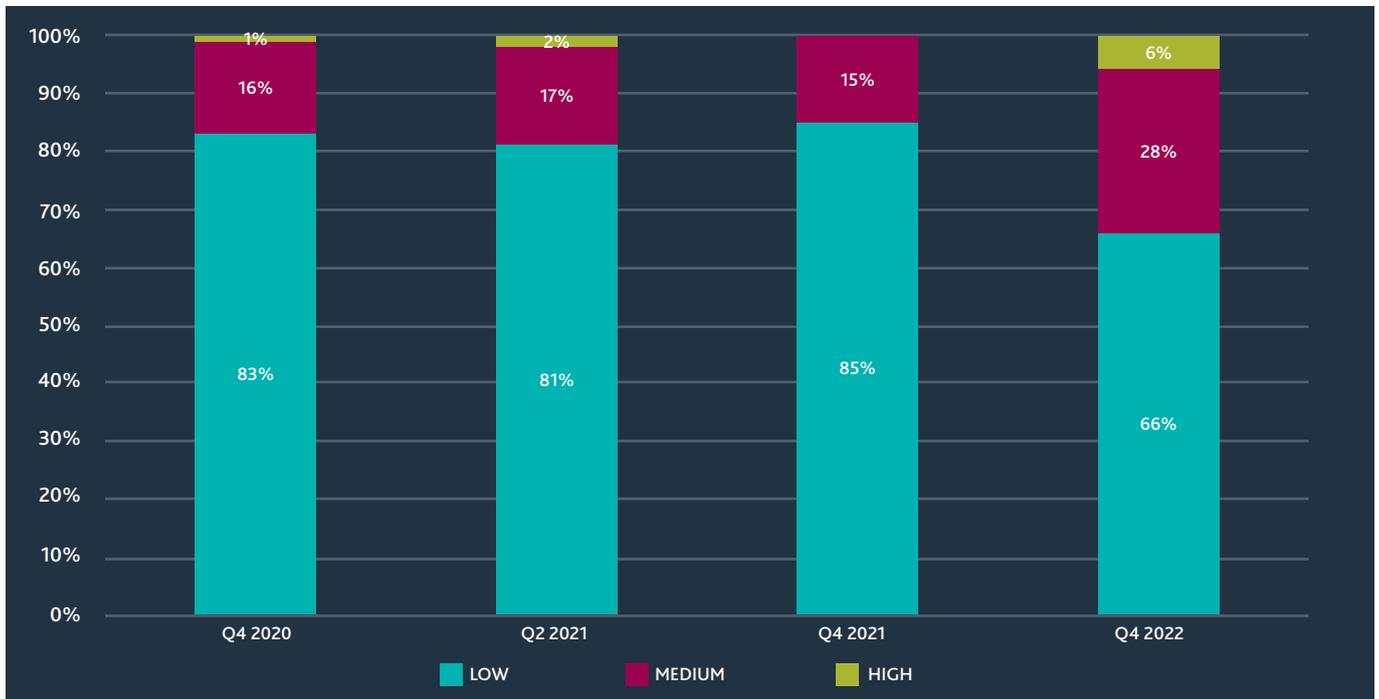


FIGURE 9: Levels of stock on agents' portfolios available for sale. *Figures may not add up to 100 due to rounding.*

Source: SCSi research.

Housing sale stock levels (new and second-hand homes)

Approximately 66% of SCSi agents are reporting low levels of stock for sale, which compares with 85% that reported low levels of stock at the end of 2021 (Figure 9). This shift in stock availability shows that more agents are experiencing medium and high levels of stock, when compared to the last three quarters. SCSi agents are experiencing a 6% increase in high stock levels during Q4 2022, when compared to the same period last year. There is also a 13% increase in the number of agents experiencing moderate or medium stock levels during the same timeframe.

In Q4 2022, SCSi agents reported that 60% of the residential properties they had for sale or had recently sold were from owner occupiers, in comparison to 40% that were individual investment properties (Figure 10).

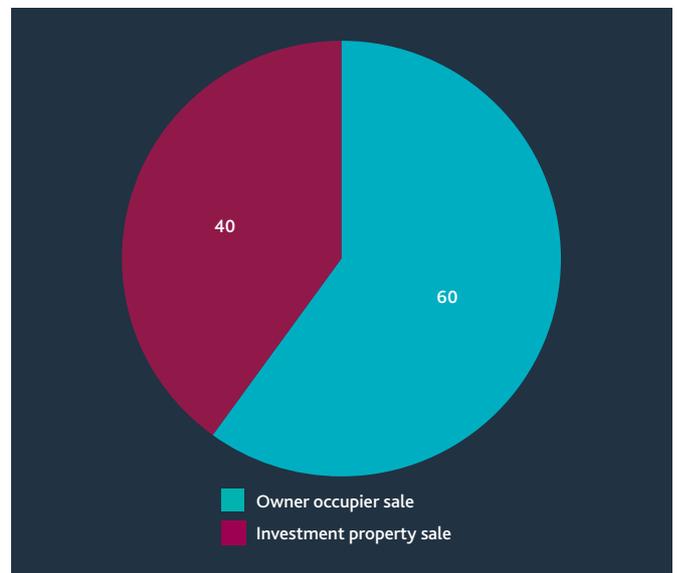


FIGURE 10: Percentage of residential sales (owner occupier and rental), Q4 2022.

Source: SCSi research.

TRANSACTIONAL MARKET IN 2022

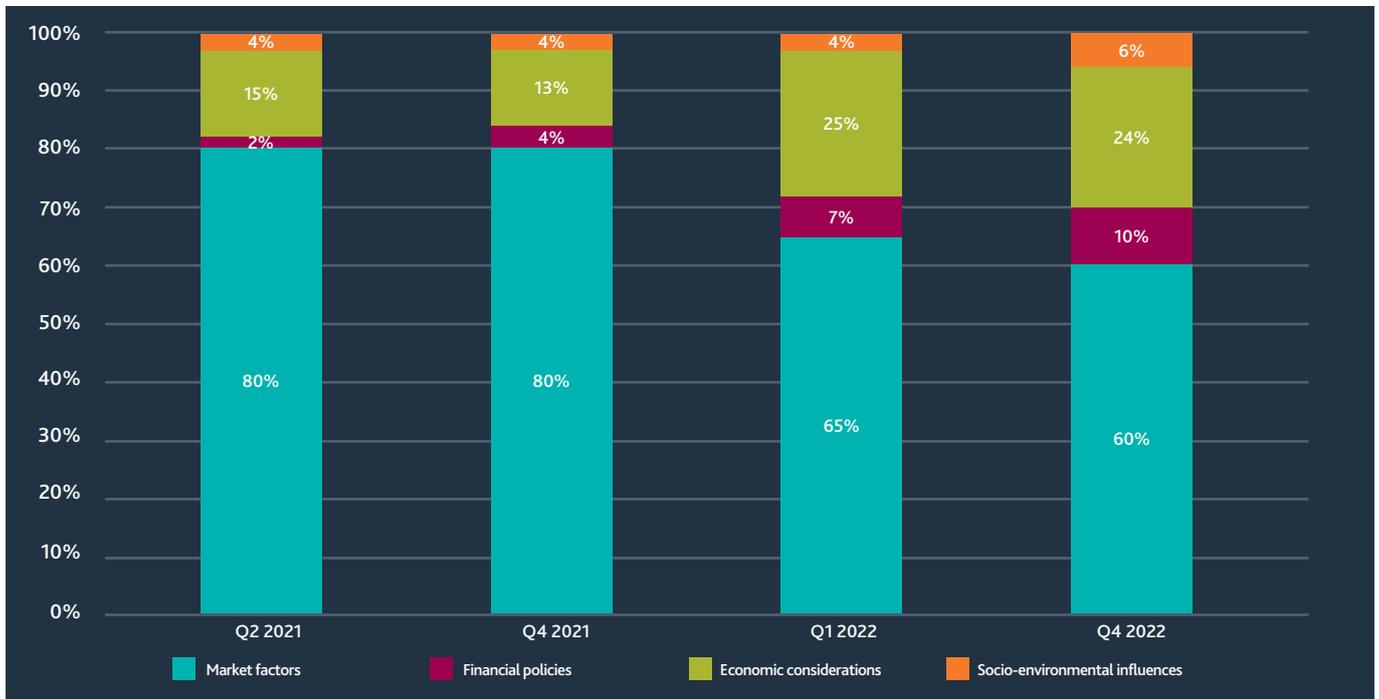


FIGURE 11: Factors underpinning house price expectations. Figures may not add up to 100 due to rounding.

Source: SCSl research.

Factors impacting values

When asked about the top three factors impacting on the expectation of house price movements, SCSl agents report that 'market factors', 'economic considerations' and 'financial policies' are becoming a greater influence on house price expectations. This trend was initially witnessed from Q1 2022.

While 'market factors' remains the most prevalent factor underpinning house price expectations, 20% fewer agents selected this as a main reason when compared to the same period last year. Market factors include examples such as 'construction of new units/availability of second-hand units' within the survey.

The 'outlook for economic growth' was the main reason cited by SCSl agents who chose 'economic considerations' as the primary factor impacting on house price movements, with 'general inflation' being a secondary choice. The continued emphasis on economic growth implies that an increasing number of agents are looking at rising inflation and overall prices, and their subsequent impact on household incomes and borrowing capacity.

'Financial policies' (e.g., Central Bank of Ireland macroprudential rules, interest rate environment, level of taxation/fiscal policy and availability of bank credit) was selected by 10% of SCSl agents as a factor underpinning house price expectations.

SCSl agents report that 'market factors', 'economic considerations' and 'financial policies' are becoming a greater influence on house price expectations.

RESIDENTIAL LETTINGS MARKET

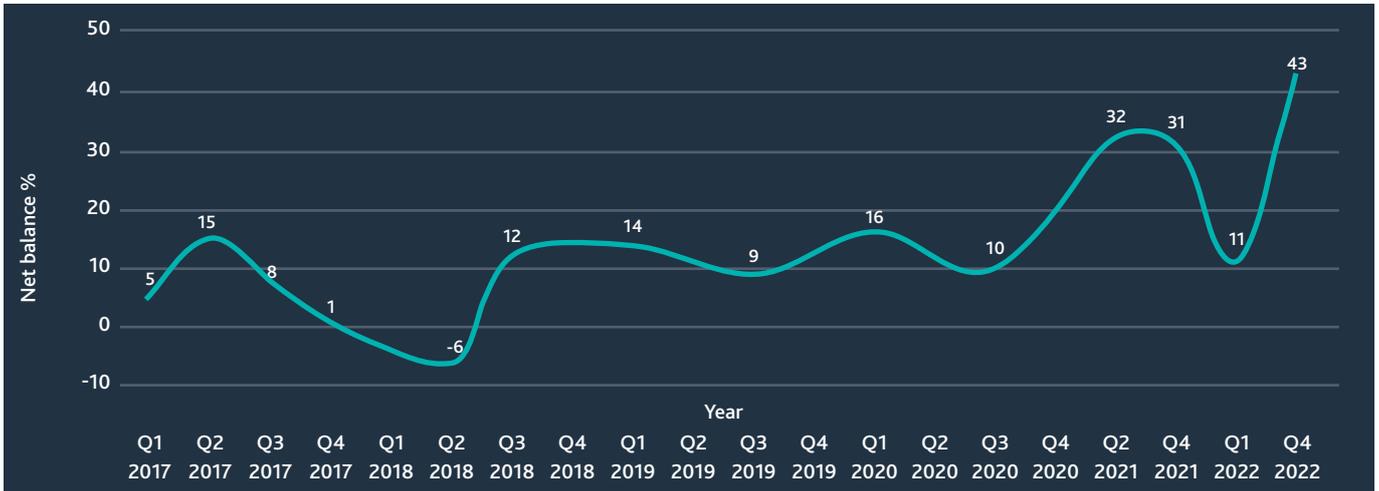


FIGURE 12: SCSI sentiment index – buy-to-let properties coming onto the market for sale. *Source: SCSI research.*
 Net balance = proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

The rental sector continues to experience significant demand across many areas of the country. Anecdotally, SCSI agents report that the supply of available units to rent is at one of the lowest levels ever experienced. The SCSI tracks agent sentiment regarding the availability of property for rent and the activity in the marketplace in relation to investment properties. When asked about their view on the number of buy-to-let properties being placed on the market for sale, **Figure 10** highlights a marked increase in the percentage of SCSI agents expecting an increase in this trend into 2023.

Anecdotally, SCSI agents report that the supply of available units to rent is at one of the lowest levels ever experienced.

Market activity

The SCSI tracks perceptions from SCSI agents regarding the activity of landlords placing their investment property on the market for sale. There was a net balance of +43% of SCSI agents predicting an increase in the number of buy-to-let properties coming on the market for sale (**Figure 12**) by the end of Q4 2022, which was a stark increase on the +11% net balance that was recorded in the beginning of the year. While it's predicted that there will be an increase in buy-to-let properties, SCSI members have noted several reasons why landlord retention for lettings has been so low over the last few years. When asked about landlords' views regarding re-investing in the buy-to-let sector, 78% of SCSI agents are of the view that second-hand rental stock will not be replaced in the next two years (**Figure 13**). This is likely a direct result of the ongoing exodus of landlords across all regions. The Government introduced a moratorium on the issuance of termination notices by landlords to tenants from October 2022 to March 2023. According to SCSI members, there are three primary reasons for occupied residential investment units coming back onto the market for sale: the

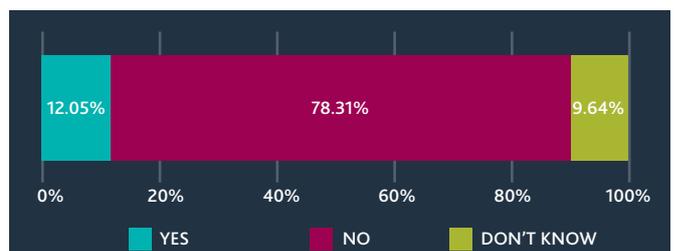


FIGURE 13: Rental stock being replaced in the next two years. *Source: SCSI research.*

RESIDENTIAL LETTINGS MARKET



complex and restrictive nature of rent legislation; net rental returns are too low; and, landlords finding compliance with housing standards too onerous. Generally, the main reason deterring landlords from remaining in the market is the current overly complex legislation.

Top three reasons (ranked, weighted average) for occupied residential investment units coming back onto the market for sale:

1. Rent restrictions too complex and restrictive.
2. Landlords finding compliance with housing standards too onerous.
3. Net rental returns too low.

Source: SCSi research.

According to the member survey, 59% of SCSi agents reported an increase in tenants not leaving the rented property on the appointed day following a notice of termination over the last two years (Figure 14). According to the Residential Tenancies Board (RTB), approximately 31% of all tribunal disputes relate to overholding, which is when a tenant continues to occupy the property on a date after the expiry of the notice period. The increase in the number of tenants not vacating on their appointed day has likely resulted from the difficulties associated with finding alternative accommodation. This issue is being exacerbated by the lack of rental stock being replaced in the next two years and the ongoing exodus of landlords, which is impacting on security of tenure and creating uncertainty.



FIGURE 14: Tenants overholding rented property – experience of SCSi letting agents over the past two years. Source: SCSi research.

The increase in the number of tenants not vacating on their appointed day has likely resulted from the difficulties associated with finding alternative accommodation.

AFFORDABILITY OF HOUSING



To track housing affordability, the SCSi 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 values.

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 LTI maximum loan limit is €356,000 (four times gross salary). As first-time buyers, they require a 10% deposit.

The announced commitment by Government in 2021 to continue the enhanced Help to Buy scheme and the enhancement of the First Home shared equity scheme may alleviate some of these affordability challenges.

Table 1: Affordability scenarios.

| County | Average purchase price (new three-bed semi) | Percentage change in average new home prices since July 2022 | Location | Average combined gross salary | Maximum loan | 10% deposit | Total purchase limit | Affordability result |
|---------|---|--|--|-------------------------------|--------------|-------------|----------------------|----------------------|
| Meath | €365,000 | +7% | Meath area (Dunshaughlin, Trim, Ratoath, Navan, Stamullen) | €89,000 | €356,000 | €36,500 | €392,500 | €27,500 |
| Kildare | €425,000 | +2% | Kilcock, Newbridge, Leixlip | €89,000 | €356,000 | €42,500 | €398,500 | -€26,500 |
| Wicklow | €477,500 | n/a | Greystones, Rathnew | €89,000 | €356,000 | €47,750 | €403,750 | -€73,750 |
| Cork | €386,666 | +2% | Glanmire, Blarney, Kerry Pike | €89,000 | €356,000 | €38,667 | €394,667 | €8,001 |
| Galway | €372,500 | n/a | Athenry, Oranmore | €89,000 | €356,000 | €37,250 | €393,250 | €20,750 |

Source: SCSi agents who provide new homes sales to developers provided the SCSi with average sales values for completed three-bedroom semi-detached homes in the various locations.

PROPERTY PRICE EXPECTATIONS

Figures 15 and 16 show the net balance sentiment of SCSi agents over time regarding their outlook on property values (the figures illustrate net balance, meaning the percentage balance of those who anticipate price increases minus those who forecast decreases) and signal the direction for national property values over the next three and 12 months.

A net balance of +16% of SCSi agents expect to see property values increase in the next three months in comparison to +22% of agents who

expect to see values increase in the next 12 months. While it's forecast that residential values will continue to rise, the decrease in the number of agents anticipating higher values likely results from a myriad of factors such as cost of finance and the overall economic outlook, and their interplay with affordability issues of new units.

On average, SCSi agents forecast that national residential values will rise by 2% in 2023, with 1% of that increase expected in the first quarter of 2023.



FIGURE 15: National price movements – next three months.

Source: SCSi research.

Note: net balance = proportion of respondents reporting a rise in a variable (e.g., price movement) minus those reporting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

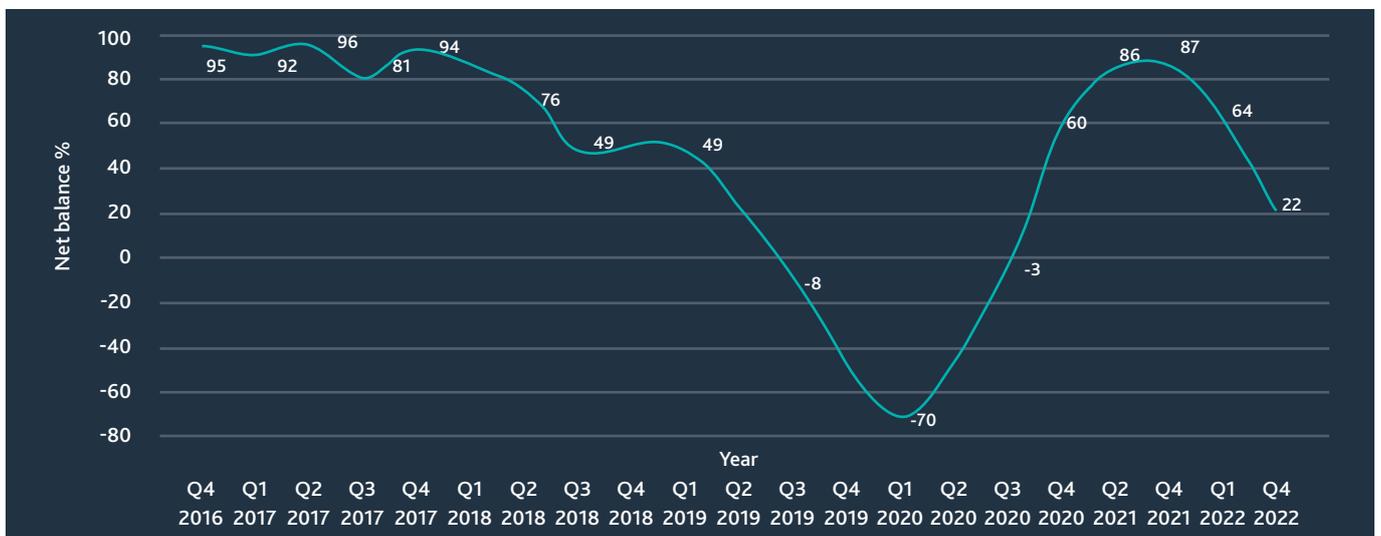


FIGURE 16: Expectations of national property values in 12 months' time.

Source: SCSi research.

Note: net balance = proportion of respondents reporting a rise in a variable (e.g., value) minus those expecting a fall – if 30% reported a rise and 5% reported a fall, the net balance will be 25%. Net balance data can range from -100 to +100.

ABOUT THE SURVEY

The SCSi Annual Residential Property Review and Outlook 2023 is a sentiment report, which has captured over 308 responses from SCSi agents across the country, over two SCSi/Central Bank of Ireland property professional surveys during 2022.

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

The SCSi is the independent professional body for Chartered Surveyors working and practising in Ireland. One of our key objectives is to provide impartial, independent and authoritative advice on key issues for consumers, business and policy makers, as well as advancing and maintaining standards for Chartered Surveyors working in the property, construction and land sectors. All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards, are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and the Royal Institution of Chartered Surveyors, in the public interest.



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