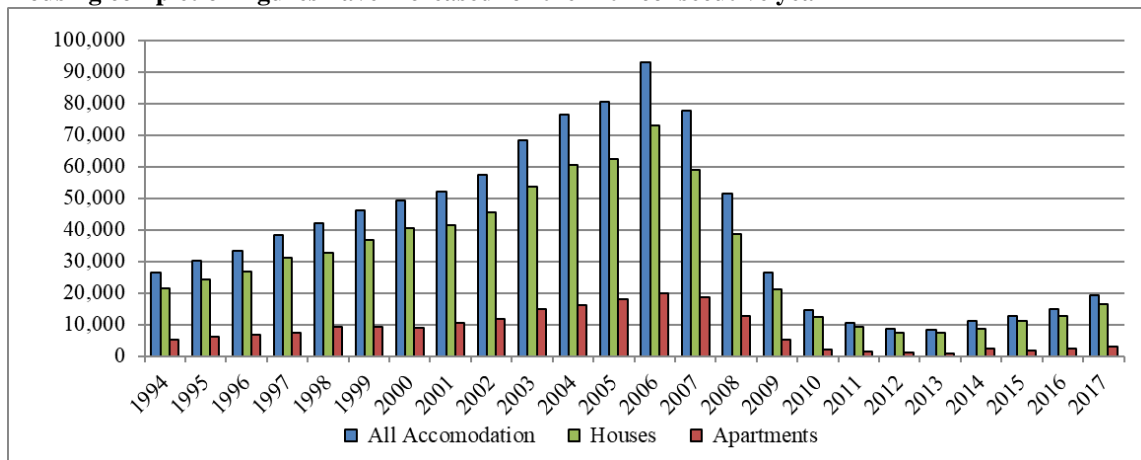


Does increasing housing supply pose a threat for residential property prices?

The Irish residential property market had an exceptional 2017 with strong growth in both rents and market values. The supply / demand imbalance in the market for rental accommodation in Dublin is well documented, however, recent reports indicate some signs of life in residential construction. ‘Rebuilding Ireland’, the state sponsored mortgage programme has contributed to the increase in home building and helped restart previously-unviable construction projects in the residential market. Through this programme, the Government has introduced a number of new measures including the ‘Help-to-Buy’ scheme for first-time-buyers and the ‘Strategic Housing Developments’ fast-track planning scheme whereby large-scale planning applications will be decided upon within a 16-week period.

New electricity connection figures from ESB Networks showed that the supply of housing increased by 29% to 19,271 units in 2017 while mortgage approvals also increased by a similar level according to figures from the Banking & Payments Federation Ireland.¹ Mortgages approved in 2017 rose by 24.5% to over 43,000 while the value of these mortgages was up 34% to over €9.2bn. Despite the strong recovery in house completions, they remain well below the Economic and Social Research Institute’s (ESRI) estimated current demand for housing of 23,000 new units per annum. A 20% increase in supply in 2018 would be enough to satisfy current increases in demand and is a very possible outcome given the momentum from 2017. Longer term, ESRI forecasts the need for 30,000 houses per annum by 2024, requiring a further increase in completions of 7% between now and 2024 for the market to return to equilibrium.

Housing completion figures have increased for the fifth consecutive year



Source: Department of Housing, Planning and Local Government

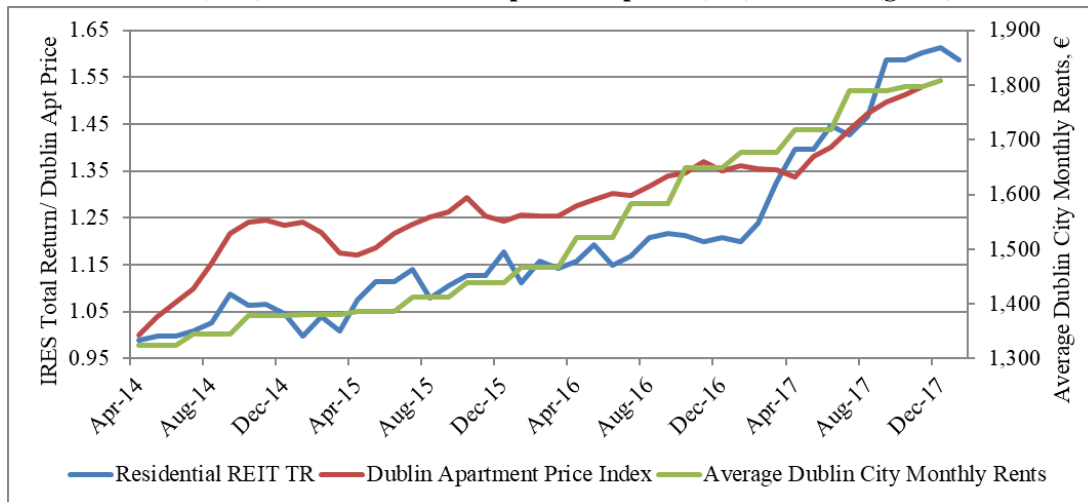
Access to mortgages is being improved somewhat thanks to a slight relaxation of some of the lending criteria and the fact that banks are more able and willing to lend (Bank of Ireland alone has ring-fenced €1bn of funds for construction projects while Credit Unions have also become more active in the mortgage market). The ‘Rebuilding Ireland’ programme allows home-buyers to obtain an attractive fixed rate (2%-2.25%), government-backed mortgage over a term of 25-30 years. A more benign economic outlook is also boosting buyer confidence which is being reflected in more transactions.

While overall housing completions are on the rise, apartments aimed at the rental market remain a small element of the new supply. Apartments accounted for 2,959 of the 19,271 units built in 2017 – just

¹ ESB connections may also include “some re-connections to the grid, where properties that have been unoccupied for over two years are being brought back into use”

15.4% of the market compared to 25% of new completions in 2008. Apartment prices remain, in many cases, below the cost of building making apartment developments unviable unless prices rise.

The IRES REIT (blue) has tracked Dublin apartment prices (red) and rents (green) since initial listing



Source: Bloomberg, Daft.ie, CSO

In terms of the overall residential market, we believe that construction levels will continue to improve, however, supply in the apartment market in prime Dublin locations is likely to remain constrained unless prices appreciate significantly. We continue, therefore, to see value in Irish residential property REITs especially those with a focus on the Dublin apartment market.

Wellesley Investments & Pensions Ltd.

9th February 2018

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