Irish population growth exceeds new home delivery by almost 4 to 1

- New analysis by Savills highlights scale of housing crises in an international context
- Savills analysis finds that population growth exceeds new homes by almost four to one
- House price growth and rental price growth far exceed income growth
- The supply challenge compounds for every year that market demand is not met

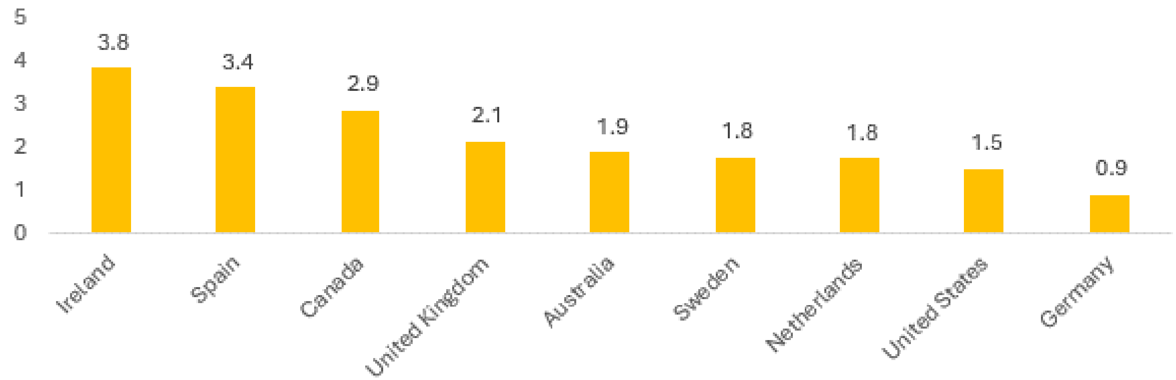
Dublin, Ireland, Thursday 15 August, 2024: New market analysis by property advisor, Savills Ireland, looks at Ireland in an international context, examining how it compares with eight other advanced western nations across key housing market metrics of population, housing supply, house prices, rents and affordability.

Population growth versus new housing growth

While countries across the world are facing housing shortages, new analysis from Savills demonstrates the extent to which Ireland is an outlier in the severity of its' housing supply challenge. Looking at population growth in comparison to housing delivery between 2015 and 2023, the analysis shows that 3.8 people were added to the population for every one new unit of housing delivered, a ratio of nearly four to one.

This is by far the worst among the countries analysed and 14% higher than the next worse country, Spain, which saw 3.4 new people per one new unit delivered followed by Canada with a ratio of 2.9. Ireland's ratio was 80% worse than that of the United Kingdom (2.1 ratio) and double that of Australia (1.9 ratio). It was also significantly worse than the United States (1.5) and Germany, the latter of which had a ratio of less than one person (0.9) for every one new housing unit delivered. Thus, while housing shortages are a common narrative across advanced western economies, Ireland does stand out alone in its severity.

Figure 1: Population growth for every one unit of housing delivered, 2015 - 2023



The primary driver of this ranking in Ireland is population growth. At 1.5% per annum, it is the fastest growing country in the sample along with Canada and Australia, which are also growing at the same rate. While Canada, like Ireland, is also struggling to account for the growing population (2.9 population growth per one new household), Australia is faring much better with a ratio of 1.9 of population growth to new housing growth.

By contrast, Spain's poor ratio of 3.4 (only behind Ireland), is primarily due to an inability to ramp up housing supply rather than keep pace with an expanding population, as it has witnessed population growth of just 0.5% per annum over 2015 to 2023. Last year, Spain delivered just 90,000 new housing units – a figure some have muted as the appropriate target for Ireland – but for a population of 48.6 million people.

Germany's aging population is evident with just 0.3% average population growth over the period, with immigration driving it into positive rather than negative territory. While immigration has also contributed to Ireland's population growth, Ireland also has by far the highest natural population growth (births minus deaths) in Europe.

Table 1: Average population growth, 2015 – 2023

Country	Average population growth per annum
Canada	1.5%
Ireland	1.5%
Australia	1.5%
Sweden	0.9%
Netherlands	0.7%
United Kingdom	0.6%
United States	0.6%
Spain	0.5%
Germany	0.3%

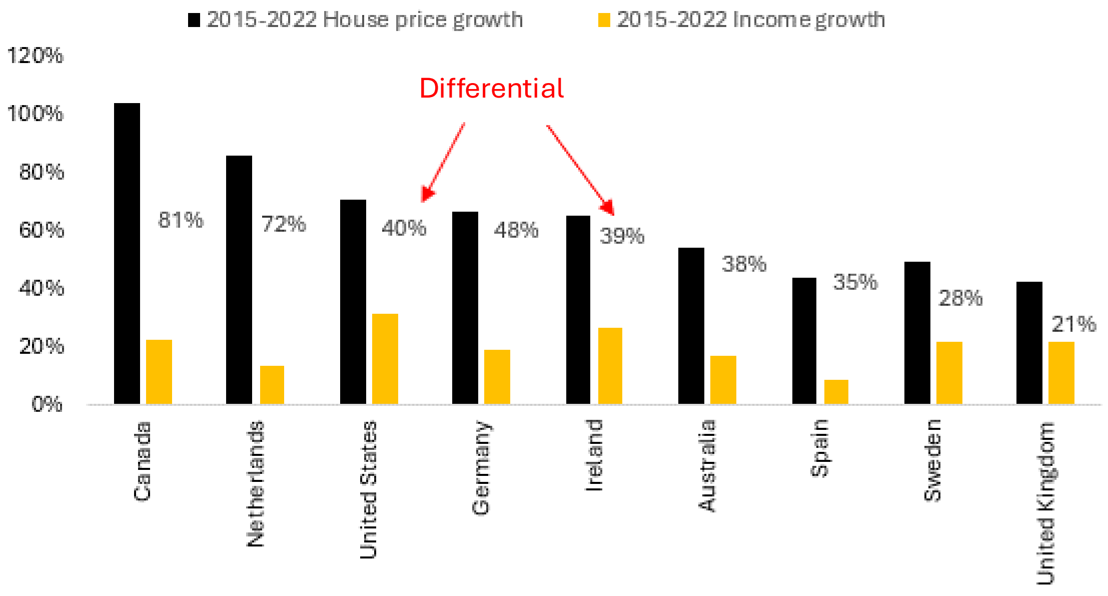
John Ring, Director of Research at Savills, said:

"While it is true that many countries across the world are facing housing shortages, it is important to recognise that the severity of Ireland's is on a different level to others. Ireland has unique drivers – a delayed natural population boom, high migration due to strong economic growth, and structural legacy issues resulting from the Celtic Tiger crash – that explains why Ireland has the unenviable position of having the worst supply to population growth of the countries analysed. At present, we are running to stay still and a more aggressive approach to promoting new housing supply is warranted compared to our peers."

Housing affordability declining despite rising incomes

Looking at the effect of this population-supply imbalance on housing affordability yields some interesting results. Ireland has experienced income growth of 27% (second only to the United States) between 2015 and 2022 (latest data across the sample), while residential purchase prices grew by 66%, a differential of just under 40%. While this sounds high, it places us in the middle of the road (5th) of the nine countries examined, despite having the worst house building to population growth ratio. Compare this with Canada, who saw its prices grow by 104% but incomes grow by 23%, a differential of 81%.

Figure 2: House price growth and income growth



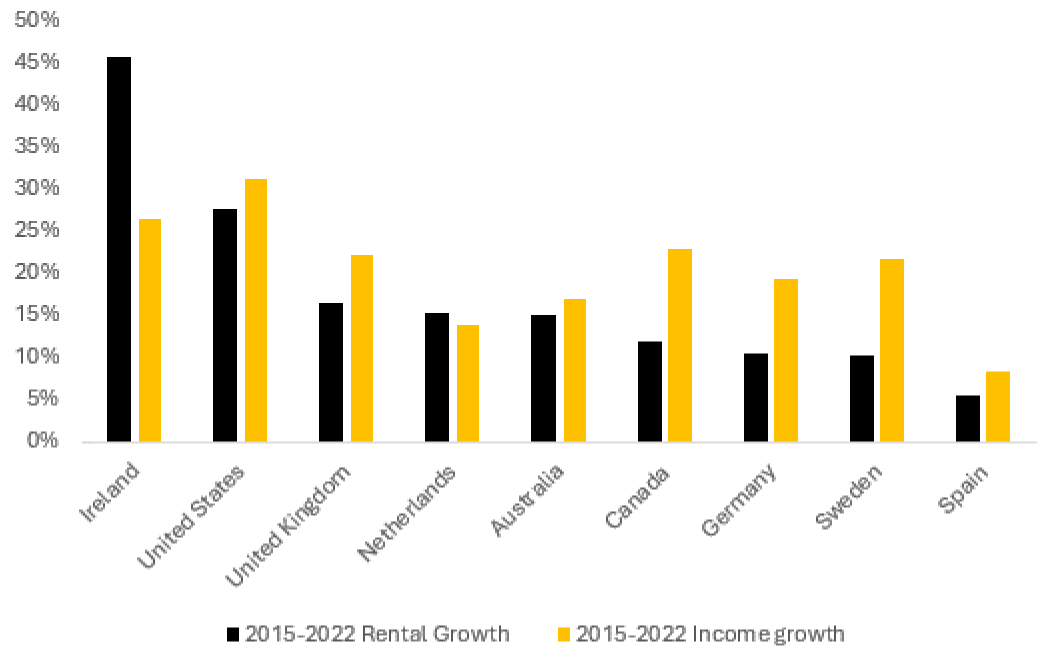
Source: Savills Research

The reason Ireland hasn't seen a run-up in house price growth – despite the poor supply dynamics outlined earlier - can largely be attributed to the Central Bank of Ireland rules introduced in 2015 which placed limits on the amount that people can borrow to purchase a home. The mortgage lending rules introduced a limit on the amount a buyer can borrow relative to both the value of the home and their income. The latter was initially set at 3.5 times the buyers' income, with that threshold raised to four times the income of first time-buyers in January 2023.

The Central Bank rules are a positive for the market, increasing the stability of both the banking system and the wider economy, ensuring that a repeat of the previous boom-bust cycle can be avoided. However, while the measures have protected the stability of the purchase market from becoming over inflated from a pricing point of view, the lack of supply has meant that inflation has been funnelled into the rental sector as people that would have bought are forced to rent, thereby adding to demand for this market segment.

Figure 3 outlines rental growth versus income growth between 2015 and 2022 and demonstrates that Ireland has witnessed by far the greatest decline in affordability over the period of the countries examined. While many countries saw relatively subdued rental growth in comparison to income growth, on a comparative basis rents grew by 19% more than income in Ireland. This is despite – or more accurately *because of* – rental caps which were introduced in late 2016 and have constrained supply in the build to rent sector. The US and the UK saw the next highest rental growth after Ireland, but crucially, rental growth was lower than income growth, thus improving affordability.

Figure 3: Income growth and rental growth



Overall, the picture shows that the low interest rates environment which prevailed between 2015 and 2021 led to a large increase in house prices across advanced western economies. While prices have also increased in Ireland, there is little doubt that they would have increased by much more if these regulations had not been introduced in 2015. As a result, Ireland sits middle of the road when comparing it with other countries based on changes in house prices versus incomes.

While the rules are designed to strengthen household and banking financial stability, they are having the side effect of increasing demand for the rental sector by making it harder to buy a house, thus increasing inflation in the rental sector. In some ways, this reduces household financial strength on a macro basis – the opposite target of the Central bank rules - by making it more difficult to save for a deposit and build lifetime equity via home ownership.

This also has implications for future pension savings, again an issue of financial stability. In this respect, increasing the help-to-buy scheme for first-time-buyers in-line with inflation from its current limit to €614,000 would strike the right balance in terms of protecting macro stability but helping prospective home owners purchase. This analysis also shows that rent caps give the illusion of helping renters in the short-term, but ultimately hurt them in the longer term by limiting and making supply more expensive.

John Ring said:

"Progress has undeniably been made, yet the scale of the housing crisis remains large. It is evident that the market requires significantly more stock across the country to meet demand for both sale and rental properties nationwide. The speed of development is also important – the problem compounds for every year that market demand is not met.

The government must be proactive about developing partnerships and working hand in hand with the private sector to advance the quantity and speed of development. The expected revision of current housing targets over the coming months is welcomed. New targets should be reasonable but also ambitious and challenging, which recognise the seriousness of Ireland's housing crisis as outlined in this analysis."

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