



## **Snapshot of the Housing Market in 2021 (Part 1)**

### **Key Messages**

- This paper provides a snapshot of the housing market in 2021. It gives an overview of recent trends in supply, construction materials and skilled labour shortages.
- Since 2011, national house prices have risen by over 85%, while rents have doubled in price.
- 20,535 properties were built in 2020, less than a quarter of what was constructed during the height of the housing boom in 2006.
- The National Planning Framework estimates that structural demand for new housing, based on demographics, is between 25,000 - 35,000 per year.
- Rebuilding Ireland failed to meet its annual target every year since it was implemented and was 41,000 units below its overall target.
- Cumulative annual deficits in new dwelling completions have amplified trends in rents, house prices, and homelessness.
- Supply side constraints include skilled labour shortages, rising costs of construction, and excessive lead times are limiting the affordability of new dwellings
- In Q2 2007, 239,800 people worked in the construction industry, compared to 127,300 people in Q2 2021 (47% decline).
- A diminished workforce, reduced immigration, and fewer young people choosing construction as a career path, have resulted in an industry that lacks skilled labour.
- In the twelve months to July 2021, average material costs increased by 13.4%, while the average cost of construction labour has increased by 4%.
- COVID-19 related supply chain disruptions and low inventories in some raw materials have caused shipping delays.
- Competing global demand in post-COVID recovery programmes between the US, China, and the (EU) also place further on material supplies.
- Supply shortages are resulting in completion delays, project cost increases, and unaffordable housing.
- Construction inflation, at over 8%, has doubled since the onset of the COVID pandemic and is running at Celtic Tiger rates.

## Introduction

Housing has been called the “single most urgent and important social issue facing our country at this moment in time”.<sup>1</sup> In November 2020, the National Economic and Social Council (NESC), urged “bold action...to fix our dysfunctional housing system”.<sup>2</sup> In September 2021, the state outlined its new housing strategy, commonly referred to as “Housing for all”. It promises 90,000 social houses, 36,000 affordable homes and 18,000 cost-rental properties before the end of 2030. The remaining 156,000 homes will be delivered through the private sector.<sup>3</sup> Part one of this report is focused on giving an overview of the supply side factors that are affecting the housing market, part two will discuss affordability. This report begins by giving a historical overview of supply and then explains some of the current factors that are hampering dwelling completions, such as limited skilled labour, rising cost of construction materials and supply chain disruptions.<sup>4</sup>

Before the COVID-19 pandemic, Ireland was building about 20,000 properties annually compared to housing completions of 80,000 per year at the peak of the credit-fuelled housing boom in 2005-2007.<sup>5</sup> The data suggests that prices are approaching Celtic Tiger levels. Currently, average national house prices are at the same level they were at in late 2005/ early 2006. In 2020, the cost of rent had surpassed its pre-crisis levels by almost 40% in Dublin, and 20% elsewhere.<sup>6</sup> The chronic undersupply of accommodation over the last decade combined with rising wages and a growing population has resulted in a shift in demand for dwellings causing both house prices and rents to increase substantially. This surge in prices has made housing unaffordable for many, leading to a decline in homeownership rates from 78% in 2007 to 68.7% in 2020.<sup>7</sup>

High demand and low supply have been long term obstacles in the path to providing a stable housing market. More recently, fiscal stimulus and lower consumer spending during lockdowns have left household balance-sheets unusually healthy and created a saving glut which in part is fuelling consumer demand. On the supply side, the most notable issues preventing affordable housing are the rising costs of construction, skilled labour shortages and supply chain disruptions.<sup>8</sup>

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1 Financial Times (2021) [Ireland unveils record spending to tackle housing crisis](#).

2 NESC (2020). [Housing Policy: Actions to Deliver Change](#)

3 Department of Housing, Local Government and Heritage (2021) [Housing for All](#)

4 This paper does not cover the impact of planning/land costs; demographics and household formation but these topics will be reviewed in future publications

5 CSO [Economy Housing](#)

6 ESRI (2021) [Monitoring Adequate Housing in Ireland](#)

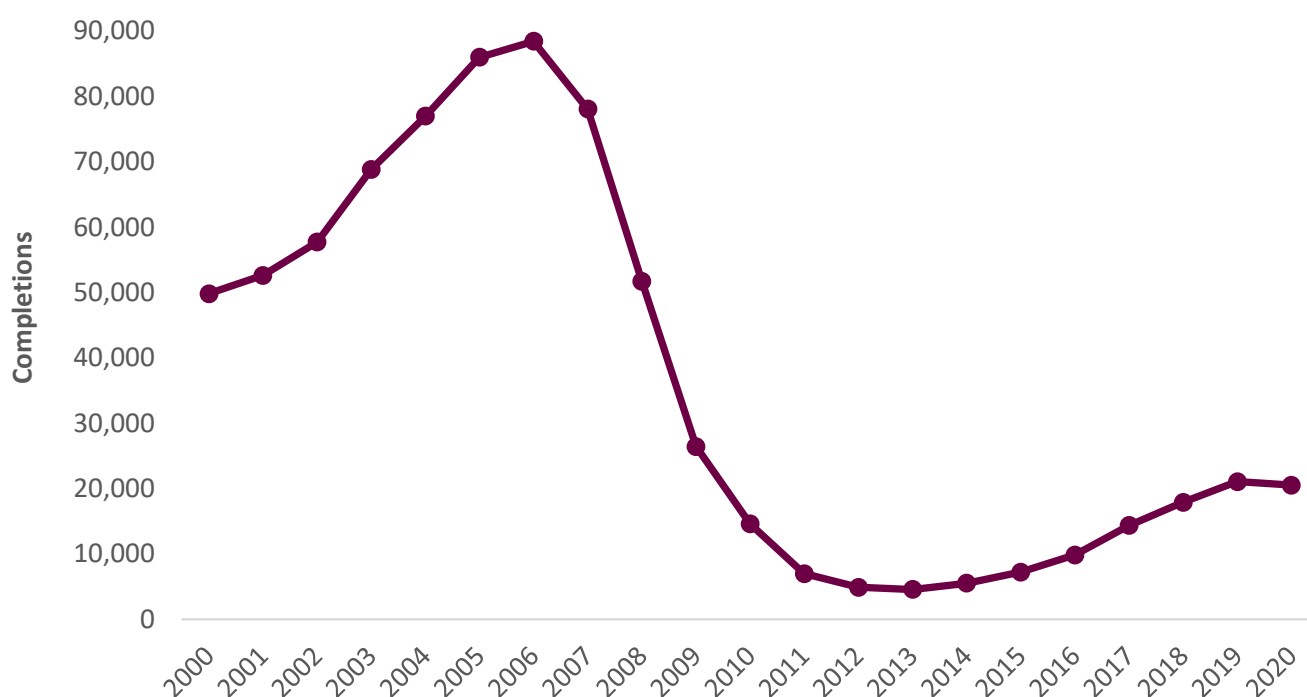
7 Eurostat (2021) [Homeownership Rates](#)

8 ESRI (2021) [With 'g' greater than 'r', should we be borrowing to increase Irish housing supply?](#)

## Overview of Supply 2000-2020

Housing supply in Ireland has been characterised by extreme volatility since the early 2000s. Figure 1 shows the number of dwellings completed from 2000-2020. In the period 2011 to 2014 less than 7,000 units were built in the State each year, 8% of what was built at the height of the Celtic Tiger.<sup>9</sup> This is far below the structural demand for new housing which is estimated to be in the region of 25,000 to 35,000 per year.<sup>10</sup> The structural demand is based on Ireland's National Planning Framework (NPF) which contains projections for the population and related housing demand out to 2040.<sup>11</sup> The low level of supply relative to rising demand contributed to a 26% increase in prices between 2012 and 2015. To combat rising prices and provide additional housing the government introduced Rebuilding Ireland in 2016. The CBI implemented new lending regulations in 2015 to ensure prudent lending and prevent high household indebtedness.<sup>12</sup>

Figure 1: Number of Dwellings



Source: CSO

Rebuilding Ireland was a €6 billion action plan, which aimed to increase the overall supply of new homes to 25,000 per annum by 2020.<sup>13</sup> It aimed to deliver an additional 50,000 social housing units in the period to 2021; and meet the housing needs of an additional 87,000 households through the Housing Assistance Payment (HAP) scheme and the Rental Accommodation Scheme.

Figure 2 shows how Rebuilding Ireland failed to reach its annual target every year since it was implemented, while national house prices continued to rise by over 35% between 2015 and 2020.<sup>14</sup> Simultaneously Ireland's population is estimated to have reached over five million in April 2021, a 5.7% increase since the 2016 census, its highest

9 CSO [Economy - Housing](#)

10 ESRI (2021) [Monitoring Adequate Housing in Ireland](#)

11 Central Bank of Ireland (2019) [Population Change and Housing Demand in Ireland](#)

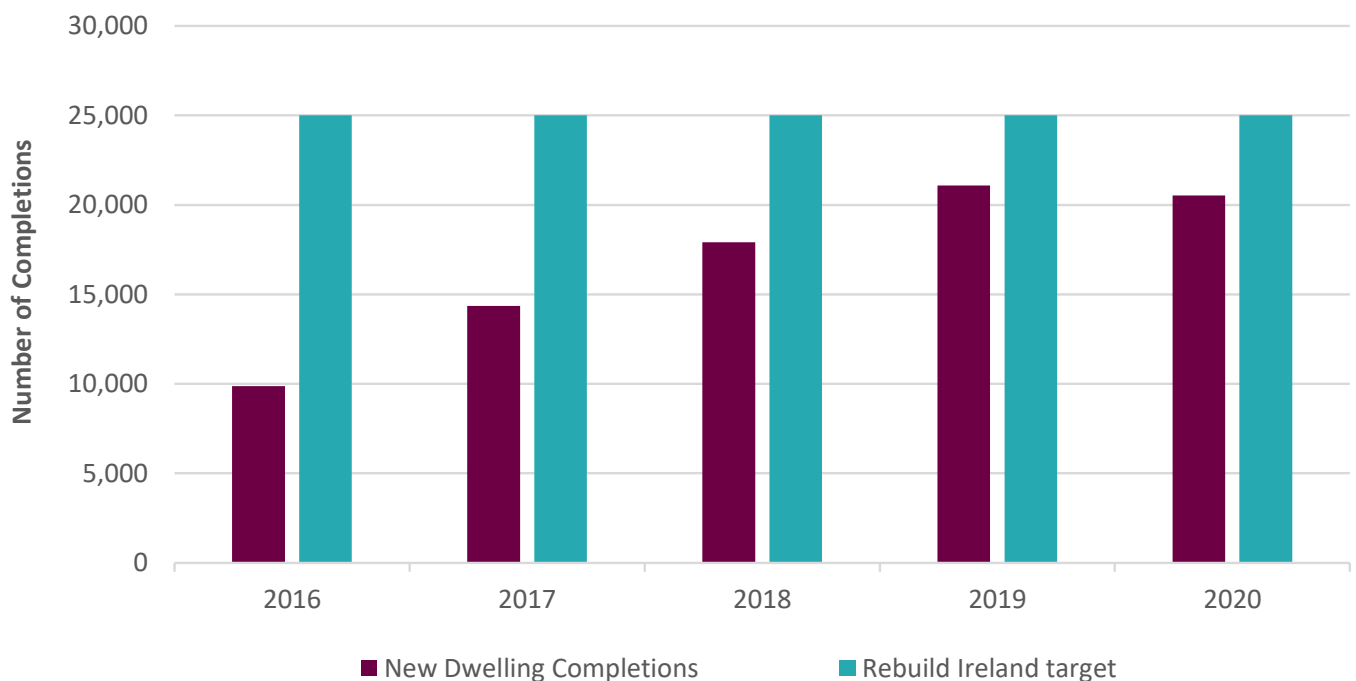
12 CBI (2016) [Macprudential Measures and Irish Mortgage Lending: A Review of Recent Data](#)

13 Ireland's Housing Magazine (2021) [Rebuilding Ireland: Where are we now?](#)

14 PBO calculations based on [CSO data](#)

level since 1851.<sup>15</sup> Figure 3 shows the collective shortfall of 41,000 in new dwellings completed compared to Rebuilding Ireland targets. Before the COVID-19 outbreak, real housing demand in Ireland was estimated to range between 32,000<sup>16</sup> and 50,000 units per year.<sup>17</sup> Yearly deficits in providing housing have led to those who can save a deposit, to compete for a home, bidding up prices. The growing share of people who cannot afford to own their own home are now moving to and remaining in the rental market or made homeless.<sup>18</sup> Cumulative annual deficits in new dwelling completions amplified trends in rents, house prices, and homelessness in 2020. Ireland's housing problems are rooted in the high cost of construction, which has driven up sale and rental prices, and are compounded by a lack of supply and a growing population.<sup>19</sup> It is becoming apparent that Rebuilding Ireland failed in its objectives and that the last few years have delivered little progress in providing sufficient levels of housing.<sup>20</sup>

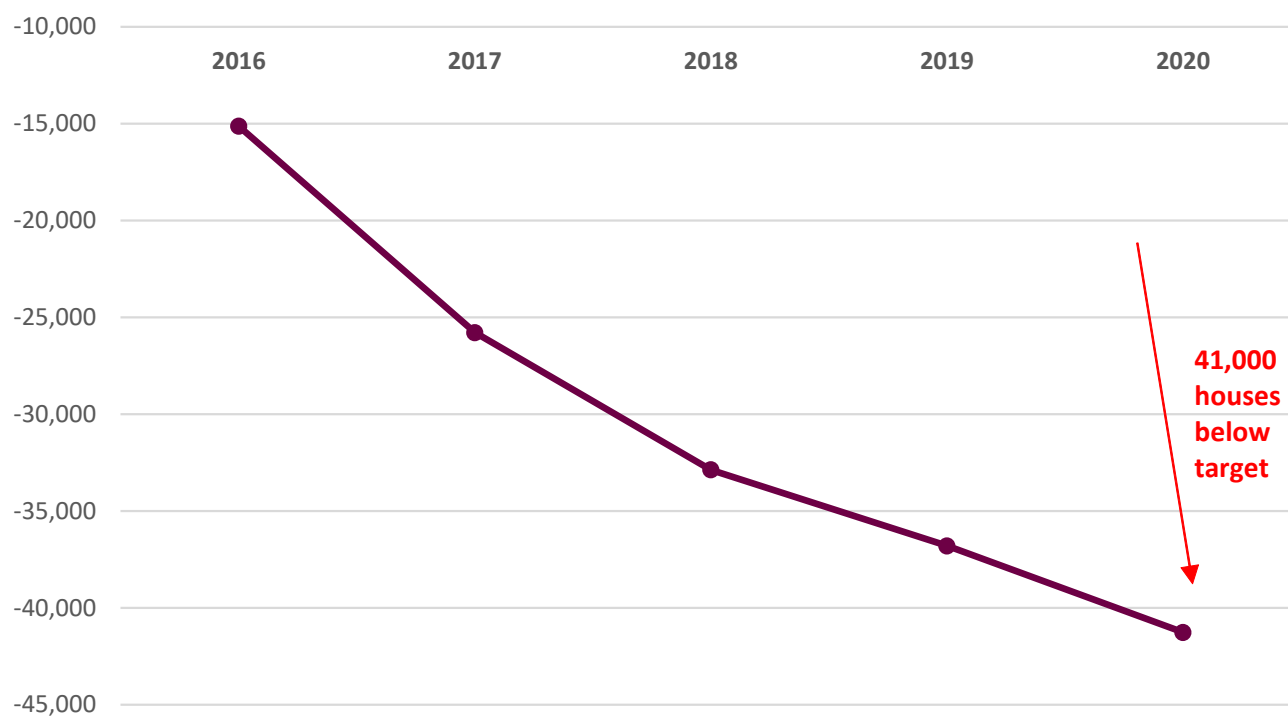
**Figure 2: Rebuilding Ireland Deficit**



**Source: CSO, Rebuilding Ireland**

15 CSO (2021) [Population and Migration Estimates, April 2021](#)  
 16 European Commission (2020) [Housing affordability in Ireland](#)  
 17 Lyons, R. (2018) [Is there any hope for Rent Pressure Zones?](#)  
 18 For more information on social housing please see forthcoming PBO paper  
 19 CBI (2019) [An overview of the Irish housing market](#)  
 20 Irish Examiner (2021) [The five policies that must deliver 'housing for all'](#)

Figure 3: Rebuilding Ireland Cumulative Annual housing deficit



Source: CSO

The onset of the COVID-19 pandemic led to a slow-down in housing completions as building sites were closed, new dwelling completions numbered 20,535 for 2020<sup>21</sup> (2.56% fewer than in 2019). There was a 27.3% contraction in the output of building and construction in the 12-month period to March 2021, this is primarily due to the closure of construction sites in Ireland for a combined period of 19 weeks.<sup>22</sup> The most affected sector was residential, which plunged by 60.9%, followed by significant decreases in activity in both non-residential (-19.5%) and civil engineering (-33.6%).<sup>23</sup> Severe lockdowns, productivity level issues, increased lead-in times and increased programme durations<sup>24</sup> all contributed to housing output falling short of initial projections for 2021. This undersupply has significant implications for the affordability of housing and impact of vulnerable groups the most.

As the Irish economy continues to recover in 2021, the construction industry has seen a marked increase in activity. Almost 12,700 housing units commenced in Q2 2021, the most in a single quarter since Q2 2007.<sup>25</sup> While this is a much-needed boost to supply, there are still many hurdles to overcome. COVID-19 continues to have a detrimental effect on the Irish construction industry and is likely to have long lasting effects due to the existence of variants.<sup>26</sup>

21 CSO [database](#)

22 Turner and Townsend (2021) [Autumn report](#)

23 Trading Economics (2021) [Ireland Construction Output](#)

24 Turner and Townsend (2021) [Autumn report](#)

25 BPF (2021) [Housing Market Monitor Q2 2021](#)

26 Turner and Townsend (2021) [Autumn report](#)

## Construction inputs

Residential property as measured by housing supply and government spending was severely impacted by the Great Recession. Public expenditure on housing fell significantly from €2.2bn in 2008 to a low point of €950m in 2014, a decrease of €1.2bn or 60%.<sup>27</sup> Since then, public expenditure on housing has risen substantially to almost €2.6bn in 2019, representing an increase of €1.6bn in 2014.<sup>28</sup> Although Ireland has recovered from this downturn, exchequer spending levels have only recently returned to previous rates and housing output remains below the peak of the housing boom and below estimates of housing demand.<sup>29</sup> The government has announced plans to spend a record €4bn annually on building more than 33,000 new homes a year by the end of the decade to tackle the housing crisis.<sup>30</sup> An increase in the supply of new housing is fundamental to resolving the current housing crisis.<sup>31</sup> However, problems are already arising in providing this solution, a lack of construction workers, materials, increased lead in times and programme durations are limiting the State's ability to build.<sup>32</sup> These problems create difficulties in projecting future completions. The ESRI estimates 18,000 homes will be built in 2021 and 21,000 in 2022,<sup>33</sup> while the Banking and Payments Federation Ireland (BPF) estimates up to 22,000 houses and apartments will be built in 2021 and 27,000 in 2022.<sup>34</sup> This level of supply is well below the more than 88,000 homes a year built at the peak in 2006.<sup>35</sup>

COVID-19 remains a lingering problem for Irish construction, but a shortage of skilled labour in the sector is among several factors hampering the industry's growth. Prior to the pandemic, the industry was dealing with a skilled labour shortage, fuelled in part by the fallout out from the Great Recession of 2008. Figure 4 shows the number of people employed in the construction workforce from 2000 to Q2 2021. During the boom of the Celtic Tiger, the construction sector experienced a significant inflow of migrants, which numbered 40,700 (17%) of the construction workforce in 2007, this figure dropped to 15,200 by Q2 2021 (62% decline).<sup>36</sup> At its peak in Q2 2007, 239,800 people worked in the construction industry, compared to 127,300 people in Q2 2021 (47% decline).<sup>37</sup> New construction apprenticeships experienced a significant decrease in registrations from 6,870 in 2006<sup>38</sup>, to 3,398 by 2018 (50% decline).<sup>39</sup> At third level, the number of new entrants in building and civil engineering in 2017/18 was 43% below the 2009 level.<sup>40</sup> In 2021, the Construction Industry Federation's (CIF) stated that the sector is operating at full capacity and that more than 11,000 new workers are required to meet the growing demand.<sup>41</sup> The CIF has said they have been highlighting the labour shortage in the industry since 2016. A diminished workforce, reduced immigration and fewer young people choosing construction as a career path, have resulted in an industry that is lacking skilled labour. This comes at a time when building activity is projected to strengthen over the next ten years and demand for skilled craftsmen is expected to grow.

27 Malone P. (2021) Housing: a review of expenditure trends and social housing need

28 *Ibid.*

29 Department of Housing, Local Government and Heritage (2021) [Housing for All](#)

30 *Ibid.*

31 Department of Finance (2021) [Tax Strategy Group – 21/02](#)

32 Extra.ie (2021) [2025 before Government hit their own housing target](#)

33 ESRI (2021) [Quarterly Economic Commentary](#)

34 BPF (2021) [Housing Market Monitor Q2 / 2021](#)

35 Financial Times (2021) [Irish housing shortage hits home for buyers and investors](#)

36 Central Statistics Office, [Labour Force Survey Quarterly Series](#), table QLF34 3

37 Department of Business, Enterprise and Innovation (2020), [Focus on Construction August 2020](#).

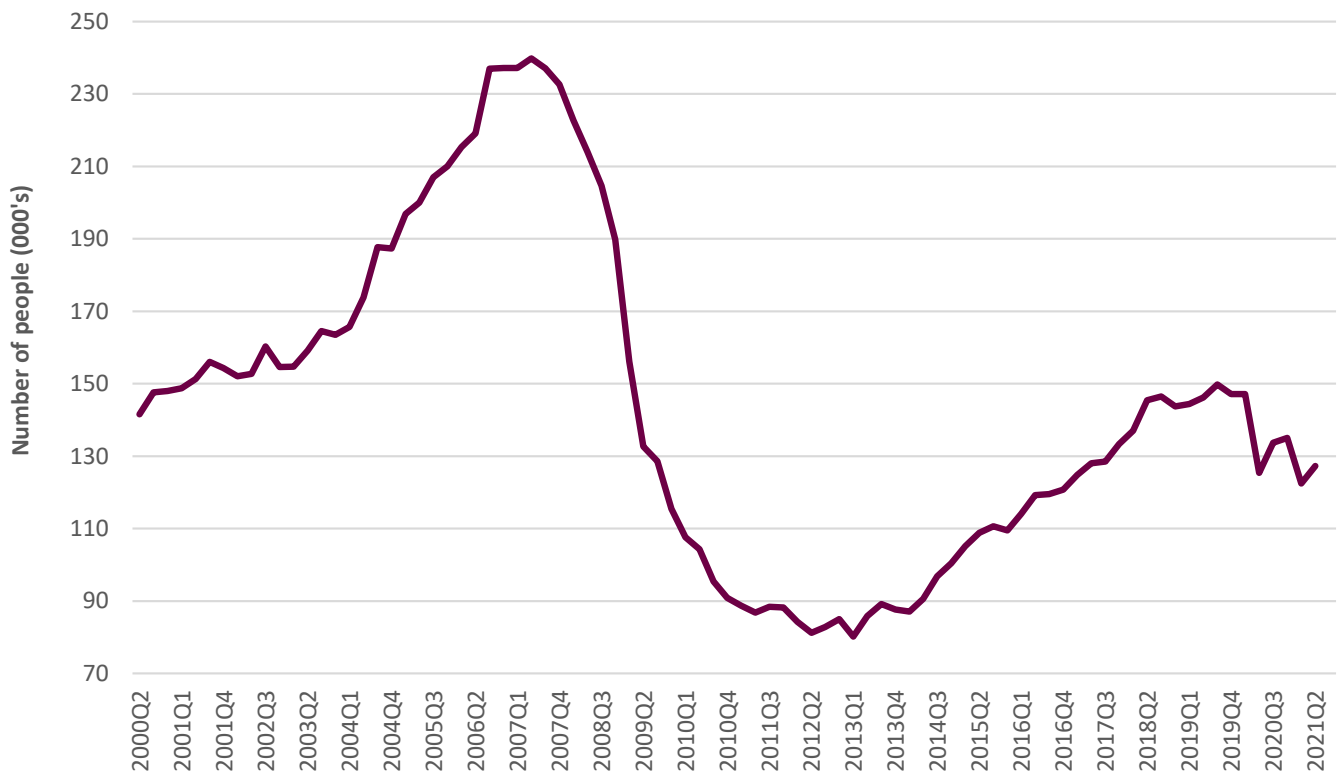
38 Construction Industry Federation (2020). [Demand for skills in construction to 2020](#).

39 Department of Housing Planning and Local Government. (2019), [Project Ireland 2040](#).

40 *Ibid.*

41 Construction Industry Federation (2021) [Annual Conference 2021](#)

Figure 4: Construction workforce



Source: CSO

The experience of the last recession shows that even when the economy recovers, construction lags behind. Since 2008, the construction sector has seen strict legislation in building regulations, tax, and planning policies, making it harder to attract financing.<sup>42</sup> Large-scale construction projects require on average a three-year business plan. As for builders, access to credit and Ireland's high cost of construction relative to sale prices makes it hard for them to increase output to the 35,000 units a year the market needs.<sup>43</sup>

## Construction costs

The cost of construction inputs has been rising since 2013 and has been exacerbated by the impact of COVID-19. A wholesale price index (WPI) is an index that measures the changes in the price of goods in the stages before the retail level. Figure 5 shows the annual percentage increase for materials used in construction for the WPI from September 2020 to September 2021. Between September 2020 and September 2021, the highest rises in costs came from rough timber (Excluding hardwood), structural steel and reinforcement metal which have increased by 67%, 60% and 59.1% respectively. There are numerous reasons for these increases, including increased shipping costs, factory closures due to COVID-19, Brexit, port congestion, a general shortage of certain materials due to high demand from China/US and pre-selling of stock materials.<sup>44</sup> Overall, average material costs for projects are reported to have increased by 13.4% in the last 12 months to July 2021.<sup>45</sup> COVID-19-related supply chain disruptions and low inventories in some raw materials have caused shipping

42 Independent (2021) [Shifting goalposts are stopping developers from building houses](#)

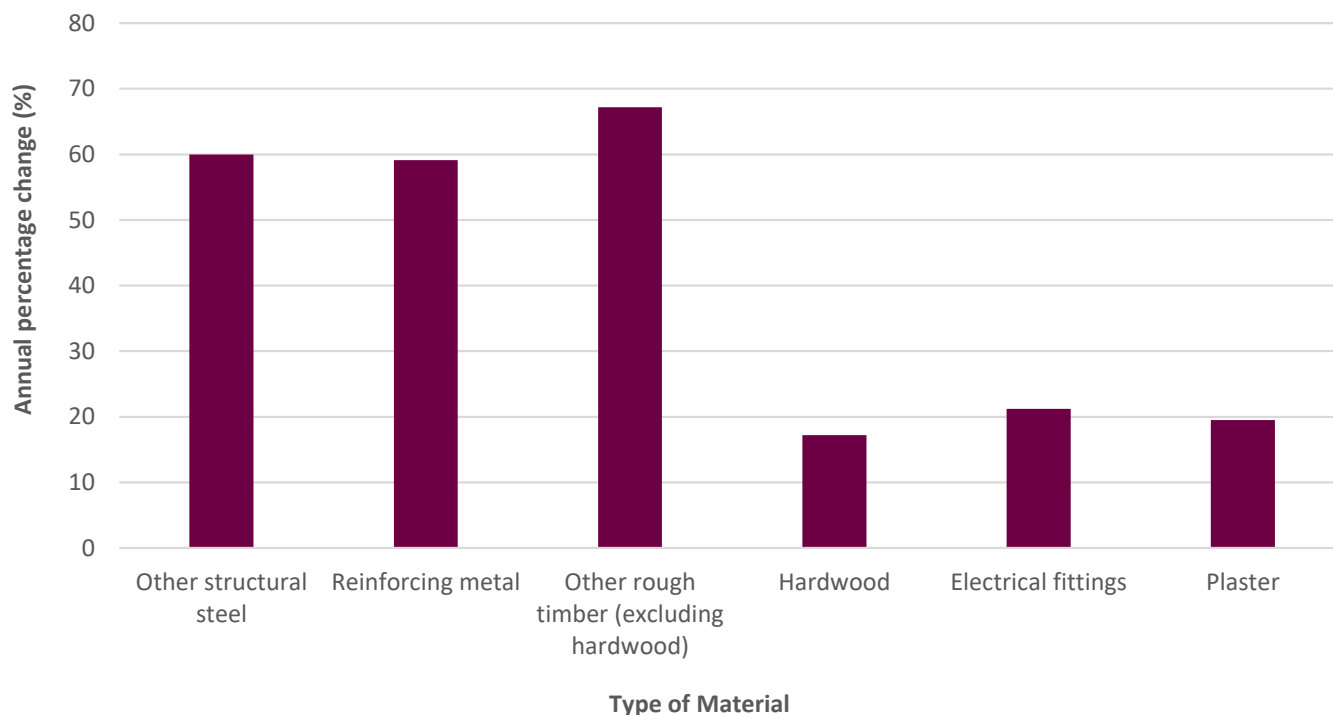
43 *Ibid.*

44 Turner and Townsend (2021) [Autumn report](#)

45 *Ibid.*

delays.<sup>46</sup> For construction workers operating in the industry, the supply shortages are resulting in completion delays<sup>47</sup>, project cost increases and unaffordable housing. Public infrastructure projects usually impose penalties on builders for delays, while contractors often pass on costs to buyers.<sup>48</sup>

**Figure 5: Annual Change in Wholesale Price Index**



**Source: Wholesale Price Index**

The blockage of the Suez Canal was a significant shock to the global supply chain that scattered scarce containers and jammed supply links from Asia to Europe and beyond.<sup>49</sup> Two months later, a letter was sent to the European Commission, in which the European Construction Industry Federation (FIEC) expressed “alarm” at the price rises and shortages of construction materials. The letter noted that between November 2020 and March 2021, Italian steel increased by 110% and copper increased in cost by 17% from November to February 2021.<sup>50</sup> Competing global demand in post-COVID recovery programmes between the US, China and the European Union (EU) is also placing further strain on material supply.<sup>51</sup> Rapid economic recoveries in these economies have fuelled demand expectations and created a prolonged period of high prices, as demand outstrips supply. Increases of nearly 35% in the price of some building materials pose a threat to Irish growth.<sup>52</sup> The building boom has led to supply bottlenecks, delaying deliveries of essential resources from steel and wood to concrete and copper.<sup>53</sup> Recent reports have stated that price inflation in certain materials is well in excess of anticipated increases, making it increasingly difficult to build affordable houses.<sup>54</sup> Developers can expect longer periods to deliver projects because of the increasing pressure placed on the supply chains.

46 Financial Times (2021) [Broad commodities price boom amplifies ‘supercycle’ talk](#)

47 Irish Examiner (2021) [What’s behind the soaring cost of construction materials?](#)

48 Financial Times (2021) [Construction sector warns rising costs will eat into EU recovery plan](#)

49 Irish Examiner (2021) [What’s behind the soaring cost of construction materials?](#)

50 FIEC (2021) [Letter to the European Commission](#)

51 Irish Examiner (2021) [What’s behind the soaring cost of construction materials?](#)

52 The Irish Times (2021) [Soaring costs in building materials a threat to economic growth, report warn](#)

53 Financial Times (2021) [Construction sector warns rising costs will eat into EU recovery plan](#)

54 Turner and Townsend (2021) [Autumn report](#)





In September 2021, the median cost of shipping a standard rectangular metal container from China to Europe hit a new record, almost twice what it cost in July, according to the Freightos index.<sup>55</sup> Transport costs are rising strongly due to a scarcity of shipping containers and ships, this is feeding through to higher prices and supply-chain problems.<sup>56</sup> If shipping costs rise, inevitably this will result in higher wholesale and consumer prices. Similarly, rising material costs for the construction industry are going to filter into prices, for example timber has risen 75% this year alone, adding an estimated €15,000 extra to cost of new homes.<sup>57</sup> At the same time copper, possibly the world's most important industrial metal, has reached its highest price since 2011.<sup>58</sup> Copper is the material of choice in plumbing systems for both showers and sinks because it is durable, strong, corrosion resistant and naturally antimicrobial. Construction inflation, at over 8%, has doubled since the onset of the COVID pandemic and is running at Celtic Tiger rates.<sup>59</sup> The reliance on imports for construction materials, rising costs and the risks of further shocks to the global supply chain reflect the uncertainty in the construction industry obtaining resources.

## Summary

A decade of under supply has seen house prices reach Celtic Tiger levels, rents hit their highest ever point and homeownership rapidly decline. Rebuilding Ireland was introduced in 2016 to tackle rising house prices and deliver 25,000 homes per year, it fell short of its overall target by 41,000. On average, there was 11,595 new dwelling completed annually between 2010-2020, the NPF estimates that between 25,000-35,000 units per year are needed to meet structural demand. On the supply side, the most notable issues preventing housing completions are skilled labour shortages, rising costs of construction, and supply chain disruptions. The scars of the 2008 recession are starting to show as the number of people, particularly skilled craftsmen, working in the construction industry is just over half of its 2007 peak. COVID-19 health restrictions forced many factories to shut down or operate at reduced capacity causing output to fall. This caused average material costs for projects to increase by 13.4% in the 12 months to July 2021. Potential homeowners can expect longer periods for completion because of the increasing pressure placed on the supply chains. The building boom has led to supply bottlenecks, delaying deliveries of essential resources and increased lead in times. The rapid economic recovery since lockdown has helped fuel demand expectations and created a prolonged period of high prices, as demand outstrips supply.

55 Irish Examiner (2021) [It's small Irish firms that struggle most with sky-high shipping costs out of China](#)

56 Irish Examiner (2021) [Supply strain to worsen further before it gets better](#)

57 The Irish Times (2021) [Timber crisis adding '€15,000 extra' to cost of new homes](#)

58 Financial Times (2021) [Broad commodities price boom amplifies 'supercycle' talk](#)

59 Irish Examiner (2021) [What's behind the soaring cost of construction materials?](#)