Market Update

Market fundamentals remain supportive

The pace of growth in Ireland's domestic economy slowed during the year. The combination of rising inflation, supply chain issues and rising interest rates impacted consumer demand and business confidence. However, Ireland experienced strong GDP growth and retains the highest GDP growth rate in the EU in 2022 at 12.2%, while EU GDP growth as a whole was 3.5%. Ireland is expected to continue to grow at the highest rate in the EU in 2023 at a rate of 4.9%, while many EU countries are expected to achieve growth below 1%[1].

CPI rose steadily higher throughout the year, reaching a peak of 9.2% in October, it softened slightly to 8.9% and 8.2% in November and December respectively[2]. With the maintenance of price stability in the euro area the main priority of the ECB, interest rates were increased in order to curb demand and bring inflation back down to 2% over the medium term. The ECB raised interest rates by 50 bps during its final 2022 meeting in December, which marked the fourth-rate increase, following two consecutive 75bps after their initial 50bps hike in the middle of 2022. The deposit facility, refinancing rate and marginal lending are at levels which have not been seen in fourteen years.

FDI is the Key Growth Driver

Ireland continues to be an outlier in its ability to continually attract Foreign Direct Investment ('FDI') and create jobs. Key export sectors, labour market and tax revenue have continued to perform strongly in 2022 driven mostly by the pharmaceutical and ICT sectors. During a period of slowdown in tech employment, the IDA Ireland ('IDA'), the state agency responsible for attracting FDI into Ireland, reported significant investment growth in 2022, with FDI employment creation plans reaching record levels.

Supply remains constrained

The housing market in Ireland continues to see strong demand. This has resulted in a supply and demand imbalance due to constrained supply. The Government's 'Housing for All' plan forecasts demand for housing at 33,000 units annually between 2021 and 2030. However, to date, delivery has been below this level. The primary trends driving this long-term demand are:

- The growth in population in Ireland. Preliminary results of the 2022 census detail a population increase of 7.6% since 2016.
- Continued success in attracting Foreign Direct Investment; the FDI-related employment level is at its highest level at a total of 301,000 jobs. This represented a 9% growth year-on-year for FDI-related jobs in Ireland.
- Supply remains constrained. New housing completions have edged closer to the Government's target coming in at an estimated 30,000 for 2022. While this is a positive movement in the number of completions, the CBI expect 27,000 and 30,000 completions in 2023 and 2024 respectively, which is still below the level which is needed to meet the exceptionally high demand. Although completions have increased in 2022 new dwelling commencement figures dropped to approximately 27,000 in 2022, down 12% from 2021's annual figure.

We continue to see strong demand from a wide range of customers. The availability of rental homes both in Dublin and nationwide are at record lows which enabled us to maintain a consistently strong occupancy level of over 99% and an increasing average lease term with an ability to apply 2% rental growth year-on-year in accordance with the legislation.

Regulatory Landscape

The Residential Tenancies (Deferment of Termination Dates of Certain Tenancies) Act 2022 came into effect on 29 October 2022. This is a temporary piece of legislation which covers a set period of time known as the 'winter emergency period' from 30 October 2022 to 31 March 2023 and was introduced in an attempt to reduce the expected increase in homelessness over the winter period due to the acute supply constraints that exist in the residential sector. Under this legislation, certain tenancies which were due to terminate between 30 October 2022 and 31 March 2023 will have the tenancy termination date deferred. None of these protections apply to a resident who does not fulfil their obligations, for example not paying their rent or engaging in anti-social behaviour. Under these circumstances, the usual rules apply in relation to ending a tenancy.

Under current legislation rent increases are restricted to 2% per annum, where Harmonised Index of Consumer Prices ('HICP') inflation is higher, in all Rent Pressure Zones. The legislation applies to renewals only and allows new schemes to be brought to market and let at market rents.

The Government's 'Housing for All' policy, published in 2021 which sets out its vision for the future of housing in Ireland and has a core objective of increasing supply by 300,000 units (including 54,000 affordable homes for purchase or rent and over 90,000 social homes) over the nine years to 2030, remains in place. The target of 33,000 completions per annum has not yet been met with 2022 seeing just under 30,000 completions, evidence that the Government will require both an increase in the capacity and enhanced cooperation with the private sector, including increased investment in order to deliver on this objective.

Rental Index

The Irish Residential Property Price Index ('RPPI') increased by 7.8% nationally in the year, compared to an increase of 14.2% in 2021. In Dublin, residential property prices saw an increase of 6% in the year, while property prices outside Dublin were 9.3% higher than a year earlier.

The Residential Tenancies Board ('RTB') reported annual rent inflation of 6.7% in the year to Q3 2022. Year-on-year price inflation in rents for new tenancies was 5.8% for Dublin to Q3 2022. The standardisd average monthly rents in Q3 2022 were €1,482 nationally and €2,022 in Dublin[3].

Fundamentally, there is still a significant undersupply of homes, with the number of properties listed for rent on Irish property listing site DAFT.ie at the beginning of February 2023 at just 1,100 homes nationwide – down 22% year-on-year – and an unprecedented number in a series extending back to the start of 2006[4]. The average number of homes available to rent nationwide at any point in time over the 15-year period 2006-2021 was nearly 8,500.

Real Estate Investment

The real estate investment environment for all asset classes has shifted in response to the ECB raising rates to address the inflationary environment. This has resulted in increased debt costs and lower returns on leveraged portfolios. The total Real Estate investment in Ireland in 2022 was €6.0 billion[5].

Investment into the Residential Sector accounted for €2.0 billion (33% of the total) in 2022, with 70% of this capital focused on multifamily housing stock in the Dublin area[6]. Core investors are encouraged by the fact that yield spreads are considerably wider than in many other European markets and that many sectors of the Irish market are severely undersupplied, and continually show exceptionally strong fundamentals, which in turn is helping to sustain rental cashflows and returns. While global markets remain volatile, real estate pricing will continue to be impacted by the macro drivers that currently dominate. In the medium-term, however, we believe that the PRS market in Ireland remains a compelling area for investment.

1 EU Commission Winter 2023 Economic Forecast
2 CSO
3 RTB Q3 2022 Rent Index
4 Daft Rental Price Report Q4 2022
5 CBRE Ireland Outlook 2023
6 CBRE Ireland Outlook 2023