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Housing supply: uncertainty in the delivery cycle

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Recent developments in the life cycle of housing supply in Ireland have created some uncertainty around current forecasts for housing completions. In particular, the period since the pandemic saw a large increase in the number of units granted planning permission but which have not proceeded to construction. Recently, the first four months of 2024 has seen a surge in housing commencements, which increased by 205 per cent compared with the same period in 2023. While historically up to early 2020, new commencements typically led to housing units being completed 12 to 18 months later, this pattern has weakened of late, leading to uncertainty over the future level of completions arising from the surge in commencements. This Box discusses recent developments in key indicators in housing supply in Ireland and the interactions between planning permissions, commencements and completions. Several factors affect the level of housing completions over the longer term, including house prices, the cost of new house building and the overall viability of specific residential projects. The Box also illustrates the potential impact of a reduction in building costs on housing investment.

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The housing supply cycle

A planning permission application for development on land zoned for residential use is often the first stage where a potential housing unit enters official statistics. The planning permission application process for any potential multi-unit residential development has multiple stages and can take a considerable time to complete. The pre-application stage involves feasibility studies, including technical environmental, economic, legal, operational and assessment feasibility studies. The next step of the pre-application is the detailed design of the proposed development, pre-planning meetings with local authorities and public consultation phase. A successful pre-application stage may then elicit a full planning application if all the stages are successful and a development looks viable. A decision on a successful application is, in theory, issued within 8 weeks. In practice, the process can take significantly longer. The post-decision phase of an application in the form of planning appeals and judicial reviews can add significantly to the timeline of a potential residential development.

With a successful planning permission application and when a residential development is deemed viable, the next phase where a potential housing unit shows up in official statistics is in commencement figures. These are derived from reported commencement notices, which are required by law to be submitted between 14 and 28 days prior to work starting on site. The Department of Housing, Planning and Local Government publish these commencement data on a monthly basis. When work is completed on a development, a notice of completion is submitted to the Building Control Authority. The Central Statistics Office publish new dwelling statistics informed by these notices of completion, as well as data on planning permissions on a quarterly basis. A recent study by The Department of Finance indicated that the average time between the granting of planning permission and work commencing nationally was 14 months and 18 months for apartment buildings.³ In Dublin city, where there is a relatively greater number of apartments, the average length of time between a granted permission and the commencement of construction was 21 months. The Department's analysis also indicated lengthening permission-commencement lags of late, with the share of sites moving to construction in the first six months falling by 5 per cent last year compared with previous years. The number of units that have received planning permission but have not commenced has increased in recent years (Figure 1). These unfulfilled or non-commenced housing units appear to correlate negatively with house price

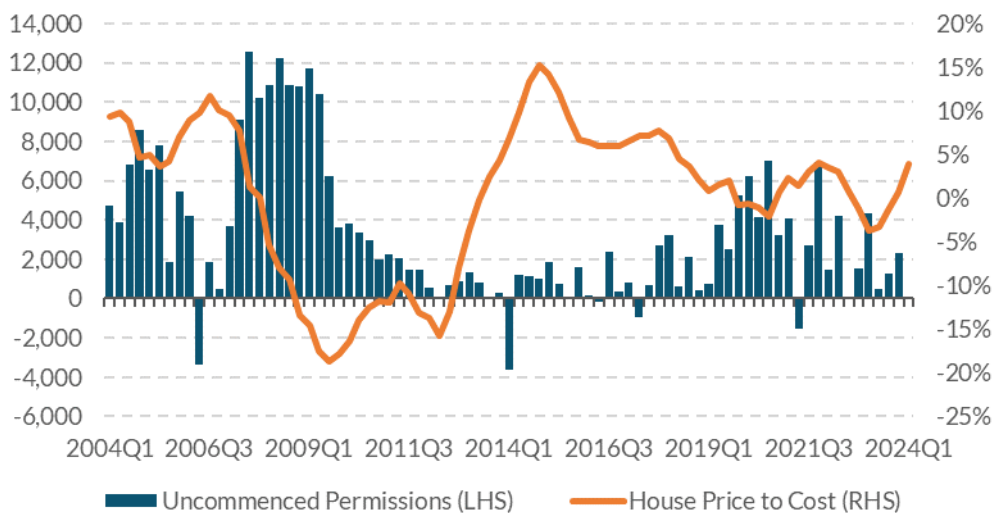
³ [Mind the gap - measuring the lag between planning permissions and commencements](#)



developments relative to building costs, with periods of decelerating house prices relative to building cost changes resulting in higher non-commencements, as expectations of future profit margins potentially affecting viability.⁴ This indicates that the permissions-commencement part of the cycle is likely to be state dependant on developers' expected profit margins.

Price and cost developments result in changes to the permissions to commencement relationship

Figure 1: Uncommenced permissions, house costs and prices



Source: Central Bank of Ireland, CSO, DoHLGH.

The next phase of the housing supply cycle is from commencements to completions. Historically, there has been a relative stable relationship between the two (see Figure 2). The correlation between completions and the previous year's commencements is high at 0.99 over the 2005 to 2023 period, with last year's commencements being a good guide to this year's completions, assuming that it takes between 12-18 months to complete a housing unit. This rule of thumb, however, is less stable during periods of uncertainty or economic volatility, or when there are changes in housing policy or regulations. For example, the correlation between completions and the previous year's commencements broke down during COVID when sites were closed and builders were unable to build out commencements.

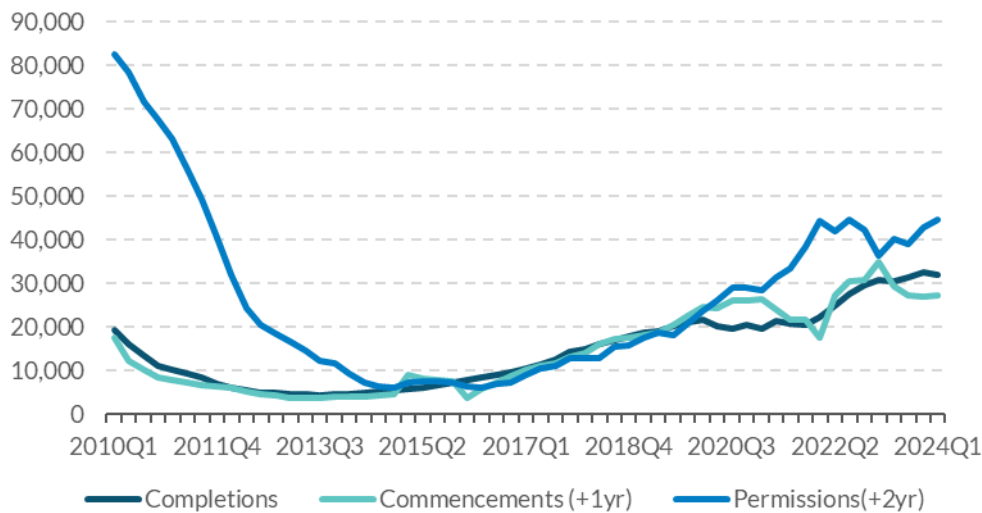
⁴ The pick-up in house prices from 2020Q3 to 2022Q1 coincided with a period of significant increases in housebuilding costs negatively affecting developer profit margins.



More recent volatility in commencements has increased uncertainty around completions. The weakness in completion figures for 2024Q1 likely relates to the uncertainty developers and builders faced 12 to 18 months previously when energy and building material costs increased substantially after the Russian invasion of Ukraine.

The housing supply cycle: past trends in planning permissions and commencements are usually a good guide to completions

Figure 2: Planning permissions, commencements and completions



Source: Central Bank of Ireland, CSO, DoHLGH.

The strong pick-up in commencements in the opening months of 2024, which were running at over 52,000 annually, including over 18,000 commencements in April alone, have also increased uncertainty about completions. The rise in commencements coincides with reductions in development levies and rebates for water connections, which were due to expire in April 2024. These have now been extended until the end of the year. These commencements have to be completed by end-2026 in order to avail of the waivers and levy reduction. Based on the past relationship between commencements and completions up to 2020, the units commenced in Q1 2024 would be expected to be reflected in housing completions from early 2025. The precise timing of the delivery of these units is unclear at present and will be influenced by several factors including viability and capacity in the construction sector. Recent house price and cost developments would suggest that an

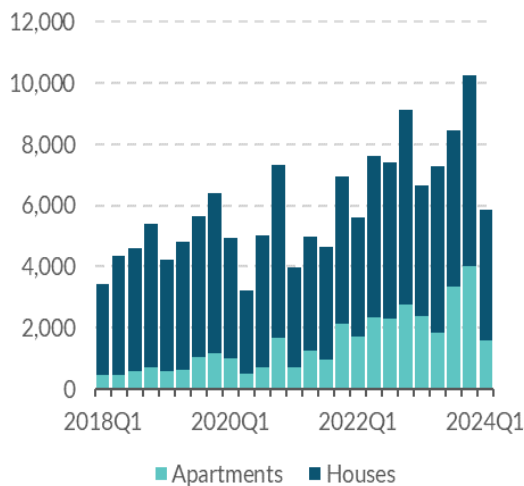


increased pool of potential developments that have planning permission are likely to become viable (Figure 1).

Another factor affecting the relationship between permissions, commencements and completions is the changing mix of housing. Planning permissions and completions for apartments have increased substantially (Figure 3 and Figure 4). Apartments are generally more likely to be subject to delays, objections and judicial reviews.⁵ The average of successful cumulative apartment completions is less than one third of cumulative apartment planning permissions since 2018 (Figure 4). This compares to an average of 80 per cent for cumulative housing permissions over the same period. A growing reliance on apartments as part of increasing overall housing output would likely lead to a longer lag between planning permissions and completions in the data.

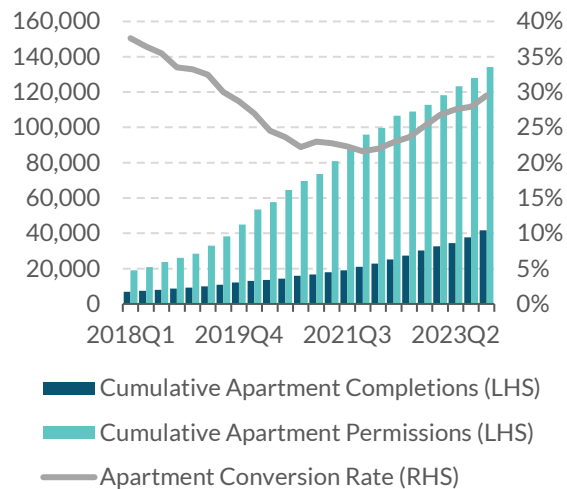
The housing mix is changing with an increase in the number of apartments

Figure 3: Completions



Source: CSO.

Figure 4: Planning Permissions



Source: CSO, Author's calculations.

⁵ A report by construction consultancy firm Mitchell McDermott pointed to over 8,000 housing units held up by judicial reviews in January of 2024.



Modelling the impact of the cost reduction on housing supply

Housing supply is a slow moving process with activity commenced well in advance of the delivery of a new dwelling. Many factors determine the pace at which new dwellings are completed. Changes in the demand for housing including changing population levels, incomes, interest rates and credit availability affect affordability and, ultimately, prices, which feed into developers' supply plans. Changes in housing policy and regulations, as well as changes in labour and material costs, affect the viability of any development. Forecasts for housing supply are subject to uncertainty but particularly so when there are market interventions that change traditional dynamics. Statistical models used for estimating housing supply models may not fully capture the impact of policy interventions. As a result, we use structural model-based assessments to determine the actual impact of a policy change to inform our judgement in making projections for housing supply.

To explore further the impact of viability on construction activity, we now examine the expected actual increase in completions from a supply-side cost shock similar to the decline in costs experienced with the reduction in local authority levies and the Irish Water rebate on connection fees. To quantify the potential impact of this reduction in building costs on future housing supply, we use the Bank's semi-structural model. This model relates investment in the residential sector to the profitability of building new housing units. The latter depends on how house prices change relative to construction costs, while greater availability of construction credit will also stimulate investment. The model then derives the number of housing completions consistent with this level of investment. A priori, a reduction in building costs should increase housing supply in the short-to-medium term, all else being equal.

Construction levies and water charges comprise approximately 5 per cent (or approximately €20,000) of the overall cost of delivering new housing units (SCSI, 2023).⁶ Given the assumed temporary nature of the measures, we calibrate the shock as a 5 per cent reduction in construction costs (equivalent to the levy and water waiver) that lasts for seven quarters from the second quarter of 2023 to the end of 2024. The impact of this shock on housing completions over a five-year period is shown in Figure 5. The reduction in construction costs raises residential investment relative to baseline throughout the scenario horizon, with a peak impact of 2.8 per cent around 10 quarters after the shock. This translates into an increase in completions at peak of approximately 4.5 per cent relative to baseline. All other

⁶ SCSI (2023). [The Real Cost of New Housing Delivery 2023](#). Society of Chartered Surveyors Ireland.

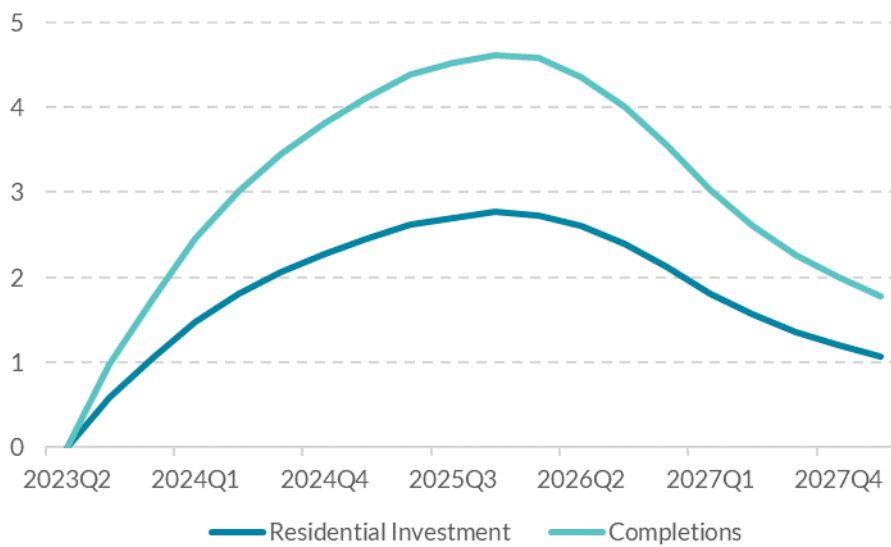


things being equal, this decline in costs would lead to approximately 1,500 more housing units over the following 18 months. It should be noted that other factors have an important role to play in determining whether such an increase in housing supply in response to a reduction in costs would materialise in reality, including credit conditions and the rate of house price growth.

Housing cost shock and supply response

Figure 5

% deviation from baseline



Source: Central Bank of Ireland and author's calculations.