

Cooler market not surprising given the current headwinds

The cost of living crisis, economic uncertainty and now rising interest rates have caused the market to slow recently in terms of price inflation



Owen Reilly

The Irish residential market unquestionably cooled in September in terms of price inflation, but only compared to the frenzied first six months of 2022, especially in the second quarter when the stock of properties for sale fell to a historic low and it was a seller's market.

A cooler market is not surprising given the current headwinds, which include the cost of living crisis, economic uncertainty and now rising interest rates. A moderation is to be welcomed as the increase in property prices over the last two years was simply unsustainable. As always, different price tiers are performing very differently. There is strong activity up to €400,000 where first-time buyers are most active and they account for 68 per cent of our owner occupier buyers.

To give an example, we recently listed a two-bedroom apartment at 23 Bishopsmede in Dublin 8 for €340,000. It was agreed at 20 per cent above the asking price after multiple bids from first-time buyers.

There has been a pick-up in demand from investors (28 per cent of our buyers compared to 25 per cent in Q2) seeking a hedge against inflation and an asset more stable than the stock market, but only for properties that are not rent capped.



Walk-ins vs refurb projects

Houses in turnkey condition and close to amenities are still in high demand and are selling well, once priced accurately. Some 22 people viewed a renovated house at 8 Dolphin Avenue in central Dublin at the first open viewing two weeks ago and currently four parties are bidding on it above asking.

Houses requiring refurbishment are more challenging to sell, and that's not surprising given the surge in renovation costs over the last two years. The main reason the market has cooled is the increase in the supply of properties coming to market. According to data from MyHome.ie, last March there were 11,233 properties for sale nationally. Last week that figure increased to over 16,000, a 30 per cent rise in supply year-on-year.

Market reaction

The combination of more choice for buyers and a slight drop in demand due to increasing interest rates means selling times are longer, fall through rates have increased and the variance between asking and selling prices on our transactions has reduced from +7.9 per cent in April to +4 per cent in September. However, 80 per cent of our listings are still selling above our average asking price, which is €614,423.

This year, more than half of our buyers are buying with cash, and thus won't be influenced by rising interest rates. A lot of these buyers are seeking bases in Dublin for their families or college-going children given how dysfunctional the rental accommodation sector is.

Rental market

In the rental sector, the crisis continues to deepen. In Q3 our average monthly rent was €2,616 compared to €2,107 this time last year. The supply of available rentals continues to deplete as ever more landlords exit the market; they account for more than half of our sellers this year. There are ten tenants each for most properties and we no longer list many of our rentals on property portals given the huge level of enquiries, preferring to rely on our own database



The supply of available rentals continues to deplete as more landlords exit the market

and marketing. The government's budget offered no real incentive for landlords to remain in the market. One wonders whether they are really paying attention to the data!

Our typical tenant is 33 years of age, European, on a salary of €90,000 and working in technology. Fifty per cent of our tenants are working in the technology sector with demand being led by new employees of Amazon, Salesforce and Tik Tok. We don't believe any slowdown in the technology sector will impact the rental market hugely. However, it could relieve the pressure a little.

Outlook

Inflation in the cost of construction and rising interest rates could not have come at a worse time. This will significantly dampen housing output over the next three years including build-to-rent apartment developments, many of which will now not be viable as investment yields push out. It is likely new housing output will fall well below what is required and the approximately 25,000 new homes that will be built this year won't be exceeded in the next couple of years.

So what are the prospects for the rest of the year? We remain optimistic for Q4. It is likely there will be more equilibrium between buyers and sellers, though accurate pricing by sellers and their agents will be paramount in achieving success.

At the start of the summer we felt that the current cycle had legs given the low supply, low interest rates and very strong demand. Demand is still very robust, but other fundamentals have now shifted.

Rising mortgage rates are affecting purchasing power, meaning some buyers are now actively searching for lower priced homes. We believe activity will remain strong and there will be good news for buyers as price inflation continues to slow. With increased supply, transactions could return to pre-pandemic levels.

Next year is really impossible to call given the variables.

Owen Reilly is managing director of Owen Reilly Property Consultants