



Economic Commentary

Where have all the empty houses gone?

11 November 2013

The latest Daft.ie report on the private residential rental market, covering the third quarter, shows rents rising by an annual 4.8% across the country and by 7.6% in the capital with the rise outside Dublin a more modest 1.8%. That skewed pattern is consistent with the picture from house prices, which also shows a marked outperformance from Dublin, although the rise in national rents on the Daft index is not as pronounced as that revealed in the CSO data as published in the monthly CPI index, showing an annual 7.4% rise in the third quarter. The latter series also points to the rental market as stabilizing back in late 2010, following a 25% fall, with an 11% rise since that cycle low.

The implication from both sets of rental data is that the market has tightened and the daft.ie report notes that the supply of property to rent on their website has fallen substantially, to 8.2k from some 24k four years ago, and the perception that there is a supply issue, particularly in the capital, is widely held,

Yet the available data on the housing stock would still imply a substantial amount of potential supply. The 2011 census counted a vacant total of 289k, equivalent to 14.5% of the national housing stock, or 230k excluding holiday homes (11.5%). The previous decade had seen an enormous increase in the demand for housing (the number of households rose by some 370k) but house completions more than matched this and any additional demand from holiday homes and obsolescence, so the vacancy rate rose, from 9.8% at the time of the 2002 census. That figure was also higher than the 9% recorded in 1991, which might serve

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as a benchmark for a more normal vacancy rate.

If one takes the 2011 census estimate for the vacancy rate as accurate it is difficult to construct a case that it has fallen dramatically over the past two years. The addition to the housing stock has been small (8.5k in 2012 and under 6k in this year to date) but the population growth has also been low. There may well have been an increase in the proportion of the population forming households, given the rise in employment over the past year, but the likely change would still not make a serious dent in the vacancy figures.

The vacancy rate is much lower in the capital than elsewhere, at 8.2% in 2011, with some areas much lower still, including South Dublin at 5.4%. Yet the vacancy rate in the latter was generally less than 2.5% in the 1990's so the current rate is by no means low relative to the past trend for the area. The implication from the census data is therefore that the current perceived supply shortage is a puzzle, as there should be large swathe of property available to meet any additional demand. The rise in rental yields may prompt a change but there would appear to be some other impediments on the supply side of the market.