

The Tánaiste Brian Cowen said recently that the sustainable level of new homebuilding is “in the region of 60,000 – 70,000 units per year.” Tom Parlon of the Construction Industry Federation has similar numbers, claiming that “medium term demand lies in the region of 65,000 annually.”

Estate agents argue that with new home completions and starts set to tumble this year, demand for housing could exceed supply in coming years. Some commentators project that the imminent shortfall in supply will prompt a rebound in house prices.

But is there really an annual demand for 65,000 new homes? The answer is almost certainly no.

On average 3 people live in each house. So our population would need to increase by 195,000 people each year to fill 65,000 new houses. That translates into annual population growth of about 4.5 per cent. Such a rapid rate seems implausible. Our population has been growing about 2 per cent annually over recent years.

Davy economist Rossa White is pencilling in population growth of 1.5 per cent over the next few years, as inward migration slows. From the discussion above, this implies annual demand of roughly 22,000 new units.

The number of people per house may continue to decline, and there may be some demand for second homes and replacement homes. But adding in these factors still sees demand below 30,000.

Worse still, the focus on new housing output ignores the houses that are currently empty. To calculate total supply, we need to consider them also.

The reality is that all the spin in the world can't change the simple fact that at current prices the supply of homes vastly exceeds demand. Not for the first time, a bit of simple arithmetic casts serious doubts on vested interests' optimistic predictions.