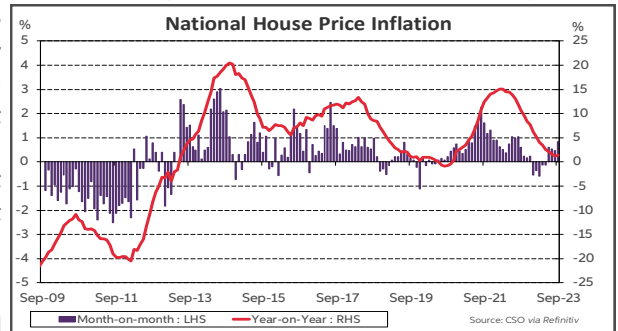


Supply maintains momentum, prices recover after weak start

The main focus of the Irish residential property market over the last number of years has been supply, or more specifically the lack of adequate supply. Taking into account the Census 2022 data which showed population growth has been stronger than previously estimated, annual housing demand was running at 35,000-40,000 in the period 2017-2021. However, completions were running at 15,000-20,000, implying an annual shortfall of close to 20,000 per annum. It was not until last year's bounce in new housing units to 30,000, that this gap was closed significantly. Going forward, based on underlying demographics, the economy needs at least 30,000 new units to be built per annum to meet annual demand. However, significantly more than 30,000 units are required to be built each year to meet annual demand as well as the pent-up demand that has been accumulating over the past decade or more.

Activity metrics suggest that the strong new supply performance seen in 2022 has been maintained this year. The CSO 'completions' totalled

just under 30,000 units in 2022, which was a 45% increase on 2021 levels. More recent completions data, show that new supply is on track to improve on last year's performance. The four quarter total is running at around 31,500 units in Q3, aided by a very strong performance in the July-September period.



Forward looking homebuilder activity indicators paint a mixed picture in terms of future supply. Housing starts, as measured by 'commencement notices' had been running around 27,000-28,000 on a 12-month cumulative basis during the first half of this year. More recently though, they have experienced some upward momentum, and were up by 15% on a year-to-date basis in October, with the 12 month total nearing 31,000 units. Elsewhere, the total number of dwelling units granted planning permission rose by 13% in the first three quarters of this year. In contrast, survey data in the form of the housing component of the construction PMI has been in contractionary territory since October of last year and remains out of sync with actual 'hard' data. Its latest reading of 43.5 for November, signals a quickening in the pace of contraction compared to the previous month.

Notwithstanding the stronger performance registered on the supply-side in the post-Covid period, homebuilder activity faces a number of challenges. These include rising building costs, shortages of workers, increased uncertainty regarding the macro-economic outlook, higher interest rates, availability of funding and delays in the planning process. Government policy is very much focused on boosting housing supply. The latest forecasts from the Central Bank of Ireland and ESRI are that housing completions could amount to circa 30,000 units both this year and in 2024-2025, which appears conservative.

Meanwhile, residential property prices in Ireland have recovered some momentum after a weak start to the year. Nationally, prices fell on a monthly basis in the first 5 months of 2023. However, over the summer-autumn period, prices have once again started to rise in month-on-month terms. The most recent official CSO data showed that prices nationally rose by 0.8% in September, which followed a 0.5% increase in August and marked the fourth successive monthly increase. **The annual rate of price growth, though, has fallen sharply over the last year and a half.** Prices rose by 1.4% year-on-year in September, which represented a slight pick up compared to August's 1.1%, but was still one of the weakest rates of yearly growth since late 2020. It is also well down on the double-digit growth experienced over the August 2021-September 2022 period. This significant slowdown in house price inflation is happening amid a rising interest rate environment, which is acting as a headwind to demand. The Central Bank of Ireland Bank Lending Survey for Q3 reported the rise in the general level of interest rates as the "main" driver of declining mortgage demand. At the same time, on the supply side, as referenced above, improved levels of output has helped to ease some of the upward pressure on prices.

The slowdown in price growth continues to be most notable in Dublin. While prices have stopped declining on a monthly basis, in year-on-year terms they continue to fall. In September, Dublin prices fell by 2.0% y/y, following a 1.9% contraction in August and marks the fifth month in a row that the yearly growth rate has been negative. **Outside of Dublin, house price inflation continues to outpace the Capital, with the divergence widening since the early part of the year.** This is against the backdrop of lower house prices outside the Capital and the shift to hybrid working arrangements in the Irish labour force, allowing more flexibility over home location. Non-Dublin prices rose by 3.9% in September compared to a year earlier. However, this is still well below the double-digit growth rates there were recorded for most of 2022.

Looking ahead to 2024, the negative impact on demand from rising interest rates may see some reversal, with futures contracts anticipating ECB rate cuts next year. On the other hand, the supply side has improved, albeit the sector is still a few years away from building enough houses to meet annual demand, as well as satisfying the pent-up demand that has accumulated. Assessing, all these factors suggests the potential for modest single digit growth in residential prices next year.

MONTHLY DATA	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23		
RESIDENTIAL CONSTRUCTION ACTIVITY										
S&P BNP Paribas Construction PMI										The Housing component of the Construction PMI deteriorated to 43.5 in November. The index has been in contraction mode for fourteen consecutive months
- Housing Activity	42.8	45.4	48.4	45.9	46.3	48.9	45.3	43.5	Commencements increased very strongly by 29.6% YoY in the 3 mths to October. 12 mth rolling total rises to 30.7k	
Commencements: Month	2,579	3,059	2,574	2,985	2,770	2,607	2,624	#N/A		
- Cum 12 Mth Total	27,542	27,855	28,369	28,916	29,565	29,961	30,744	#N/A		
- 3 Month Avg YoY %	4.5	12.4	14.8	19.0	25.8	23.5	29.6	#N/A		
HOUSING / MORTGAGE MARKET ACTIVITY										
BPFI Mortgage Approvals : Month	3,373	4,282	4,175	4,136	3,952	3,527	3,676	#N/A		Mortgage approvals rose by 3.7% YoY in the 3mths to October. 12 mth total at 43k
- 3 Month Avg YoY %	2.8	9.0	6.7	11.4	10.1	7.3	3.7	#N/A		
- 12 Mth Total	41,323	41,764	41,992	42,614	42,886	42,780	43,017	#N/A		
RPPR Transactions : Month	4,197	5,194	5,441	5,318	5,651	5,433	5,027	3,906		Transactions levelling off. They are down 13.8% YoY in the 3 mths to November. 12 mth total back near 60k
- 3 Month Avg YoY %	-2.0	3.6	1.0	1.6	2.4	0.5	-0.7	-13.8		
- 12 Mth Total	61,896	62,359	62,386	62,152	62,742	62,462	62,041	60,390		
Residential Mortgages (Central Bank of Ireland)										Stock of mortgages up 1.6% YoY in October
- Amount Outstanding (Adj.) YoY %	-0.1	0.0	0.4	0.9	1.3	1.5	1.6	#N/A		
HOUSING MARKET PRICES										
CSO Price Index - MoM %	-0.1	-0.1	0.6	0.5	0.5	0.8	#N/A	#N/A		House prices rose for the fourth consecutive month, up by 0.8% in Sept. YoY rate increased to 1.4% YoY. Ex-Dublin price inflation (+3.9%) running well above the capital (-2.0%)
- YoY %	2.6	2.6	2.1	1.7	1.1	1.4	#N/A	#N/A		
- Dublin YoY %	-0.1	-0.1	-0.8	-1.3	-1.9	-2.0	#N/A	#N/A		
- Ex Dublin YoY %	4.7	4.7	4.4	4.0	3.4	3.9	#N/A	#N/A		
RPPR Transaction Price (Simple Average)										Asking prices on Daft.ie were up 3.7% YoY in Q3. However, RPPR house price data have been flat so far this year
- 12 Month Average €	385,584	384,500	386,201	385,592	386,435	386,188	385,545	384,364		
Daft List Prices: YoY %	2.4	3.0	2.3	3.7	3.5	3.9	#N/A	#N/A		
RENTS & AFFORDABILITY										
RENTS: CSO Private Rents - MoM %	0.6	0.6	0.6	0.6	1.3	0.8	0.0	#N/A		CSO rental index flat in Oct, for the first time since May 2021. The YoY rate eased to 6.6%
- YoY %	7.8	7.8	7.7	7.2	7.1	7.1	6.6	#N/A		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB										Affordability deteriorated at a faster pace in Q3, as house prices/mortgage rates rose
- Mort as % of Disposable Income	20.2	20.4	20.8	20.8	22.7	23.0	#N/A	#N/A		

QUARTERLY DATA	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	
CSO Dwelling Completions									
- YoY %	-5.2	41.8	52.8	59.0	31.3	18.3	-3.6	14.4	New dwelling completions rose by 14.4% YoY in Q3, with the 12 mth running total moving up above 31.5k
- Cum 12 Mth Total	20,546	22,204	24,834	27,576	29,751	30,778	30,503	31,567	
CSO Planning Permissions									
- YoY %	41.0	21.5	2.0	-41.0	-43.5	37.8	-23.3	43.3	Having increased by 43.3% YoY in Q3, permissions were up by 13% YTD overall. 12mth total running at 37.6k
- Cum 12 Mth Total	42,991	44,491	44,715	40,030	34,177	37,373	34,722	37,641	
BPFI Mortgage Drawdowns									
Purchase Drawdowns (Volume)	10,620	7,654	8,695	9,770	10,689	8,152	8,286	10,837	Purchaser drawdowns were up by 1.7% YoY in Q3, led by a rise in FTB lending. YTD they are up 4.4%. In value terms, total drawdowns were circa 22% YoY lower in Q3, owing to a sharp drop-off in switching. Purchaser drawdowns up 5% YTD in value terms. Value of drawdowns over past 12 mths down to €13.2bn in Q3
YoY % (Volume)	4.5	4.9	16.9	7.1	0.6	6.5	-4.7	1.7	
FTB YoY % (Volume)	5.2	9.9	22.5	8.9	2.7	6.8	-0.4	6.5	
Total Drawdowns (Value, € Mln)	3,312	2,513	3,134	4,057	4,353	2,867	2,761	3,173	
- YoY % (Value)	12.3	17.3	40.5	45.7	31.4	14.1	-11.9	-21.8	
- Cum 12mth Drawdowns (Value, € Mln)	10,467	10,839	11,742	13,016	14,057	14,411	14,037	13,153	

Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, PSRA, BNP Paribas, AIB ERU Calculations

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