Housing Market Bulletin

AIB Treasury Economic Research Unit



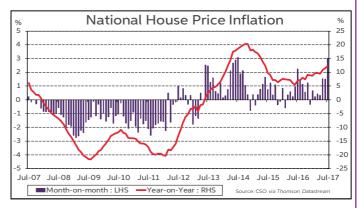
September 2017

Prices accelerating amid continuing supply shortfall

Double-digit house price growth again

After slowing to 5.5% in June 2016, annual house price inflation has been on a strong upward trend since then. The CSO data on residential property prices show that the pace of growth has quickened over recent months. In July, prices rose by 12.3% on a yearly basis. This represents the fastest rate of growth since June 2015.

Looking at the geographic breakdown, the acceleration in national house prices is being driven by a sharp pick up in Dublin prices. In July, prices in the capital rose by 12.7% compared to year earlier levels, quite some way above the 4% rate registered in July 2016. Meanwhile, non-Dublin prices rose by 11.7% in July, marking the first time since April 2015 that they



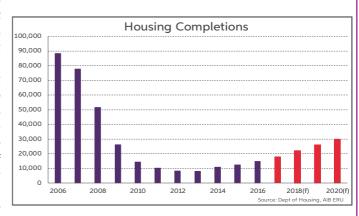
have failed to outpace Dublin price growth. The fact that the supply shortfall is most acute in Dublin, where housing demand is very strong, the relaxation in the Central Bank mortgage regulations (which disproportionately impacted Dublin) and the Government's 'help-to-buy scheme' are all factors underpinning the strong price rises in the Capital.

It is important to bear in mind, though, that despite these strong growth rates, prices remain below their previous peaks. Both National and Dublin price levels are around 26% below their previous highs. However in contrast, rents, according to CSO data, went above their previous peaks in September 2015 and as of August this year were 16.3% above their former highs.

Aside from the upward pressure on prices/rents, the lack of sufficient supply is also reflected in the fact that overall transaction levels remain well below the regarded 3-4% normal turnover levels. A further consequence of this is the impact on mortgage lending. It registered a strong 33% yearly increase in value terms in H1 2017. If strong growth is maintained in the second half of 2017, the total value of drawdowns in 2017 will be in the region of €7-7.5bn, up from €5.7bn in 2016. However, this is still quite some way short of the level in a more normalised market, where supply is substantially higher than current levels.

Supply on upward trajectory but still well below the required level

On the key issue of supply, various indicators suggest that building activity continues on an improving trajectory. Data from the Department of Housing show that commencement notices (i.e. housing starts) increased by 45% in the year to May. At the same time, housing registrations, which tend to reflect developer activity, surged by over 90% in year-to-date terms to July. Meanwhile, completions, as measured by ESB connections (an imperfect, but best available measure of new supply), were up 25% in the first five months of the year, compared to the same period in 2016. It must be noted though, that while all of the above are on the surface very strong growth rates, they must be viewed in the context of being off a low base. Thus, the overall level of activity/new supply remains low in absolute



terms. If the completions data continue to grow at their current rate over the remainder of the year, they would total in the region of 18,500-19,000 units for 2017, up from 15,000 in 2016.

Crucially though, this level of building activity remains well below the projected 30,000 units that are required per annum to meet estimated housing demand. Indeed, extrapolating out current supply dynamics, it could be 2020, at the earliest, before new house building reaches the level of estimated annual demand. This does not take into account the pent-up demand that has been accumulating in recent years, amid the dearth in supply. Therefore, it could be well into the next decade before the Irish residential property market sees supply and demand levels become closely aligned.

LATEST DATA	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	
RESIDENTIAL CONSTRUCTION ACTIVITY									the housing PMI indicates that
Markit/Ulster Bank Construction PMI - Housing Activity	59.1	63.3	61.3	61.9	69.2	59.5	57.4	57.4	the sector continues to expand at a strong pace
	202								Housing registrations up over
Housing Registrations: Month - 3 Month Avg YoY %	393 114.1	978 173.0	839 75.0	780 70.4	796 34.4	1,423 132.3	753 107.0	#N/A #N/A	100% YoY in July, but still very low in level terms
- Cum 12 Mth Total	5,859	6,537	6,573	6,932	7,155	8,281	8,468	#N/A	12mth commencements total
Commencements: Month	910	1,265	1,685	1,620	2,053	#N/A	#N/A	#N/A	remains on a solid upward
- Cum 12 Mth Total	13334	13169	14192	14979	15579	#N/A	#N/A	#N/A	trend, though still low overall
- Cum 12 Mth Total YoY %	44.0	27.4	37.6	46.2	41.8	#N/A	#N/A	#N/A	Steady improvement in level of completions, but at c.16k on
Completions (ESB Connection): Month	1,244	1,263	1,389	1,413	1,686	#N/A	#N/A	#N/A	a 12mth basis, they are still
- Cum 12 Mth Total	15,256	15,327	15,684	15,948	16,340	#N/A	#N/A	#N/A	well below market demand
- Cum 12 Mth Total YoY %	18.3	15.7	19.0	19.2	19.4	#N/A	#N/A	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY								Pace of YoY growth in	
RPPR Transactions : Month	3,045	3,554	4,245	3,660	4,135	4,576	4,699	#N/A	mortgage approvals has
- 3 Month Avg YoY %	-2.6	-5.7	10.9	6.3	9.6	7.1	9.1	#N/A	slowed somewhat, though it remains above 25%
- 12 Mth Total	47,903	47,779	48,567	48,587	48,847	49,413	49,700	#N/A	
BPFI Mortgage Approvals : Month	2,465	2,586	3,261	2,928	3,557	3,767	3,431	#N/A	The level of transactions has seen a more modest 9% YoY
- 3 Month Avg YoY % - 12 Mth Total	42.3 30,730	41.8 31,590	61.4 33,098	44.3 33,425	39.8 34,366	26.2 35,224	27.5 35.747	#N/A #N/A	increase, reflecting the lack of
- 12 Milli Total	30,730	31,390	33,090	33,423	34,300	33,224	33,747	#IN/A	supply
Residential Mortgages (Central Bank of		0.0	0.7	0.6	0.6	0.5	0.4	// 1/ 4	Pace of decline in outstanding mortgages continues to
- Amount Outstanding (Adj.) YoY %	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5	-2.4	#N/A	slow—now -2.4%
HOUSING MARKET PRICES									CSO house price growth has
CSO Price Index - MoM %	0.7	0.2	0.4	0.3	1.5	1.5	3.0	#N/A	seen a marked acceleration in
- YoY %	8.8	9.7	9.8	9.5	10.9	11.5	12.3	#N/A	the last three months. YoY growth has risen to 12.3%. The
- Dublin YoY % - Ex Dublin YoY %	5.7 11.7	6.7 12.5	7.2 12.2	5.7 13.3	8.9 13.0	11.1 11.7	12.7 11.7	#N/A #N/A	pick-up reflects faster increase
		12.5	12.2	13.3	15.0	11.7	11.7	1111/71	in prices in Dublin, as ex- Dublin price inflation slows
RPPR Transaction Price (Simple Average - 6 Month Average €	e) 255,238	254,041	257,445	258,665	258,874	256,197	257,801	#N/A	
J	,	,							Average property transaction price has been relatively
Daft Asking Prices: MoM% - YoY %	2.4 9.8	1.1 10.3	0.1 8.0	3.8 12.7	0.7 12.6	-0.7 10.3	#N/A #N/A	#N/A #N/A	stable around €255k on a 6-
	5.0	10.5	0.0	14.7	12.0	10.5		,,,,,	month moving average basis
RENTS & AFFORDABILITY								CSO rent prices now 16.3%	
RENTS: CSO Private Rents - MoM%	0.0	1.2	0.3	0.5	0.1	0.8	0.4	0.8	above prior peak
- YoY %	8.3	8.5	8.6	7.9	7.6	7.9	7.3	7.3	Higher property prices have
AFFORDABILITY: Couple on Avg Ind' W	age, 90%	LTV, 30 Yr	Mort, AIB	Mort Rate	e, Prices: C	SO/Perm'	TSB		impacted affordability, but it still remains accommodative
- Mort as % of Disposible Income	16.3	16.3	16.5	16.7	17.2	17.4	17.9	#N/A	Still Terriains accommodative
QUARTERLY DATA	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	
GOARTERET DATA	Q3-13	G4-13	Q1-10	GZ-10	G3-10	Q4-10	Q1-17	G/2-17	Mortgage drawdowns up
BPFI Mortgage Drawdowns									17.6% YoY in Q2. Although, they remain very low overall.
Purchase Drawdowns YoY %	6,334 9.9	6,780 -2.2	4,634 -9.4	5,767 6.1	6,894 8.8	7,596 12.0	5,853 26.3	6,781 17.6	This is not surprising given
FTB YoY %	9.2	-6.9	-11.2	4.2	11.0	12.7	27.5	20.8	current supply constraints
									FTB remain primary source of
Mortgage Arrears 90 Days +									drawdowns in Q2 (55%)
Principal Residences									Mortgages in arrears declined
Number of Accounts in Arrears % of Outstanding	65,653 8.8	61,931 8.3	59,696 8.0	57,571 7.8	56,350 7.6	54,269 7.4	53,100 7.2	51,750 7.1	further in Q2; now 7.1% for principal dwellings and 15.5%
Buy-to-Let	0.0	0.3	0.0	7.0	7.0	7.4	1.2	7.1	for BTL. Overall level of
Number of Accounts in Arrears	24,809	23,344	22,516	21,962	21,435	20,499	20,009	19,627	arrears remains relatively high, especially in the BTL sector
% of Outstanding	18.1	17.0	16.5	16.3	16.2	15.7	15.6	15.5	especially in the bit sector

Sources: Central Bank of Ireland, CSO, Daft.ie, DoEHLG, HomeBond, BPFI, RSRA, Ulster Bank, AIB ERU Calculations



This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, plc and Allied Irish Banks, plc. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks, plc. In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, plc. as regulated by the Central Bank of Ireland. Allied Irish Banks (GB) and First Trust Bank are trade marks used under licence by Allie Group (UK) pl.c. (a wholly owned subsidiary of Allied Irish Banks, pl.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, pl.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.