

Reacceleration in house prices, while supply remains low

Pace of house price growth picking up again...

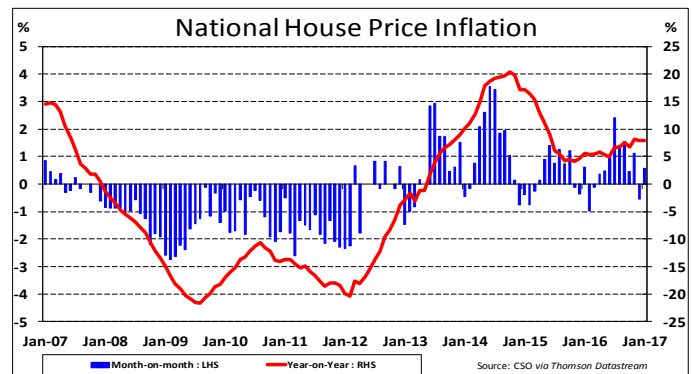
Irish residential property prices slowed from an annual rate of growth of around 20% in the second half of 2015 to a 5-6% range in the first half of last year. This slowdown in price increases coincided with the introduction of new Central Bank regulations on mortgage lending.

However in recent months, house price inflation has exhibited signs of reacceleration. CSO data for January showed house prices nationally registering year-on-year growth of close to 8%, similar to its December pace. This quickening in the pace of price increases has occurred against a backdrop of a relaxation in the aforementioned Central Bank regulations, as well as the Government's 'help to buy' scheme.

In terms of the geographic breakdown of house price growth, non-Dublin prices continue to outpace increases in the Capital. Prices outside of Dublin recorded an 11.3% yearly rate of increase in January versus a 5.3% rate of growth in Dublin.

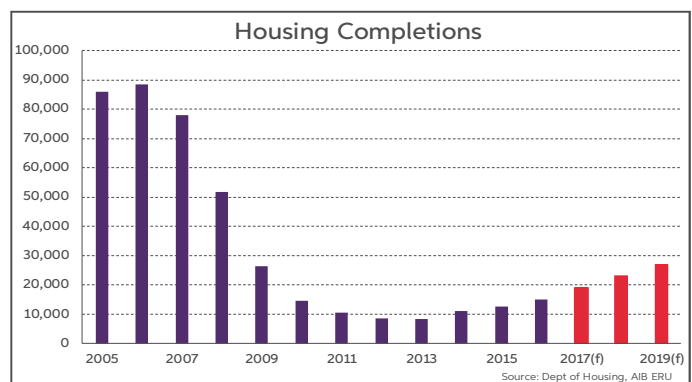
However, despite the on-going recovery in house prices, they remain a long way off their previous highs. Both national and Dublin house prices are some 32% below their peak levels, reached back in 2007.

In contrast, rents have gone above their previous peak, exceeding this level by 13% in February with a year-on-year increase of 8.5%. In response to the on-going price pressures in the rental market, the Government has expanded the number of locations (originally was just Dublin and Cork City) to come under the scope of the 4% annual cap on rent increases.



...as demand continues to outstrip supply

However, while the combination of the relaxation in mortgage regulations and the 'help to buy' scheme may have contributed to increased upward pressure on prices, the underlying key issue remains the shortfall in supply. Figures from the Department of Housing showed that housing completions totalled 14,932 units in 2016. While this represents an increase of 18% compared to 2015 levels, it remains well short of the estimated 25,000-30,000 units that are required per annum to meet underlying demand.



Other data on the housing market also reflect the low levels of housing supply. The latest Daft.ie figures show that at end-2016 the number of properties available for sale was down 14% compared to a year earlier. This level of sales stock represents less than 1% of total housing stock, whereas in a 'normal' market, the sales stock would account for around 3-4% of total stock. The mortgage market also continues to be impeded by the lack of sufficient supply, with the total value of drawdowns in 2016 equating to around €5.7bn, some way short of the projected €10bn for a functioning residential sector. A pick-up in supply will help mortgage lending experience further growth in the next few years.

In this regard, leading indicators of supply suggest that building activity is on an upward trajectory, but overall supply remains at low levels. Both housing registrations, which tend to reflect developer activity, and commencements data continue to register strong growth. Meanwhile, survey data, such as the housing component of the construction PMI, indicate positive signs on future supply. Notwithstanding these encouraging signals, though, the supply deficit, which has been a constant feature of the housing market in recent years, is likely to persist for some time. Based on current supply dynamics, it could be 2019 at the earliest before new house building is anywhere near the required level, not taking into account pent-up demand.

LATEST DATA

Jul-16 Aug-16 Sep-16 Oct-16 Nov-16 Dec-16 Jan-17 Feb-17

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	61.3	63.1	59.5	63.5	63.9	60.6	59.1	63.3
Housing Registrations: Month	566	549	336	543	590	488	393	#N/A
- 3 Month Avg YoY %	23.6	-17.4	-2.3	-2.1	87.1	88.7	114.1	#N/A
- Cum 12 Mth Total	5,105	4,675	4,864	5,075	5,359	5,626	5,859	#N/A
Commencements: Month	957	978	1,080	1,760	1,326	908	910	#N/A
- Cum 12 Mth Total	11222	11538	11642	12509	12964	13234	13334	#N/A
- Cum 12 Mth Total YoY %	72.8	67.5	57.3	58.6	53.4	51.3	44.0	#N/A
Completions: Month	1,110	1,415	1,340	1,290	1,579	1,556	1,244	#N/A
- Cum 12 Mth Total	13,673	14,139	14,259	14,411	14,728	14,932	15,256	#N/A
- Cum 12 Mth Total YoY %	14.5	16.8	17.4	17.4	17.8	17.9	18.3	#N/A

Housing PMI rose to 63.3 in Feb, from an already very strong level. Suggests sector still growing at a solid pace

Housing registrations have been solid recently, while remaining at low levels

Commencements continue to improve on a 12mth cumulative basis, though they remain weak overall

Completions above 15k on a 12mth basis for first time since Nov'10. But, they remain at low levels versus demand

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,407	4,034	4,405	4,456	4,228	4,490	2,892	#N/A
- 3 Month Avg YoY %	-2.0	0.2	4.0	5.8	3.3	-5.9	-4.8	#N/A
- 12 Mth Total	47,472	47,949	48,170	48,184	48,367	47,346	47,599	#N/A
BPFI Mortgage Approvals : Month	2,908	2,948	2,766	2,628	3,155	2,255	2,465	#N/A
- 3 Month Avg YoY %	14.5	22.9	23.5	26.6	29.8	31.1	42.3	#N/A
- 12 Mth Total	26,638	27,474	28,030	28,391	29,436	29,935	30,730	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.1	-2.0	-1.9	-1.7	-1.6	-1.4	#N/A	#N/A

Transactions are down on a YoY basis as lack of supply remains an issue

The pace of YoY growth in mortgage approvals continues to rise. Suggests impact from CB lending rules is abating

Pace of decline in outstanding mortgages continues to slow

HOUSING MARKET PRICES

CSO (Stamp Duties) - MoM %	2.4	1.4	1.5	0.5	1.1	-0.6	0.6	#N/A
- YoY %	6.6	6.8	7.6	6.8	8.1	7.9	7.9	#N/A
- Dublin YoY %	4.0	4.5	6.0	5.1	6.0	5.8	5.3	#N/A
- Ex Dublin YoY %	10.9	10.6	10.7	9.9	11.4	11.1	11.3	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	234,572	240,750	242,198	244,766	245,217	251,995	255,950	#N/A
Daft Asking Prices: MoM%	0.9	0.9	0.6	-1.7	0.2	1.6	#N/A	#N/A
- YoY %	7.1	8.1	7.7	6.7	7.9	9.3	#N/A	#N/A

CSO house price growth remains around 8% YoY. Price growth outside Dublin (11.3%) continues to exceed that in the Capital (5.3%); partly due to CB mortgage rules

Average property transaction price has risen to c.255k in the 6 months to January

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.9	0.7	1.9	0.9	0.0	0.3	0.0	1.2
- YoY %	9.2	8.9	9.7	10.0	9.7	9.6	8.3	8.5
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	16.0	16.3	16.4	16.4	16.5	16.4	16.4	#N/A

Rents now 13% above previous peak. YoY growth at 8.5%

Lower mortgage rates mean affordability still favourable

QUARTERLY DATA

Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16

BPFI Mortgage Drawdowns								
Purchase Drawdowns	5,113	5,437	6,334	6,780	4,634	5,767	6,894	7,596
YoY %	63.6	25.4	9.9	-2.2	-9.4	6.1	8.8	12.0
FTB YoY %	67.6	29.7	9.2	-6.9	-11.2	4.2	11.0	12.7
Mortgage Arrears 90 Days + Principal Residences								
Number of Accounts in Arrears	74,395	70,296	65,653	61,931	59,696	57,571	56,350	54,269
% of Outstanding	9.8	9.3	8.8	8.3	8.0	7.8	7.6	7.4
Buy-to-Let								
Number of Accounts in Arrears	27,492	26,071	24,809	23,344	22,516	21,962	21,435	20,499
% of Outstanding	19.7	19.0	18.1	17.0	16.5	16.3	16.2	15.7

YoY growth in mortgage drawdowns picks up in Q4 (12% vs 8.8% in Q3). Strong growth in FTB drawdowns provides further evidence of abating in CB rules impact

FTB remain the dominant source of mortgage drawdowns at 56% of total

Mortgages in arrears declined further in Q4; now 7.4% for principal dwellings and 15.7% for BTL. Overall level of arrears remains high, though

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



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