

Double digit price growth amid on-going big supply shortfall

Upward pressure on prices continues amid persistent supply deficit

The latest data on house prices from the CSO show a further acceleration in the rate of growth at the start of the year. Nationally, prices rose by 12.5% in year-on-year terms in January. This compares to a 8.8% rate of growth in January 2017. Looking at the picture over the last 2-3 years, after slowing to a 5.5% rate in mid-2016, the pace of increase on a national basis has been on an accelerating trend since then, rising to an 11.0-12.5% range since mid 2017.

An important feature of the quickening in price growth has been a reacceleration in Dublin, with its annual growth rate at 12.1% in January. This is more than double the growth rate of 5.7% that the Capital recorded in the same month a year earlier. Non-Dublin prices continue to register a higher rate of growth, rising by 13% year-on-year in the first month of 2018, and were in double digit territory for all of last year. There is some degree of a 'catch up' element to the non-Dublin performance, with the start of the recovery in prices lagging behind the Capital. More recently, increasing demand for housing in commuter belt counties, is also likely to have been a factor in the very strong pace of growth in prices outside of Dublin.

Nationally, prices are now 73% above their low point, recorded five years ago this month, in March 2013. Prices on a national basis though are still 22% below their high point in early 2007. They would need to rise by a further 30% from their current levels to get back to their previous high. In contrast, rents are now around 20% above their previous peak according to CSO data. Although the rate of increase in rents has moderated significantly over the past year, from 10% to 6%.

Low stock of property for sale

The key factor behind the on-going high level of house price inflation remains a shortfall in supply. This is highlighted by the very low level of stock that is on the market. The latest Daft.ie

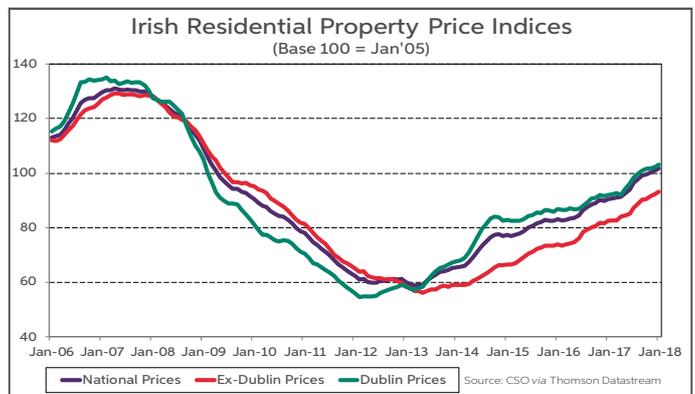
figures show that at end-2017 the number of properties available for sale totalled just over 21,000, down from a peak level of 63,000 at the end of the last decade. Meanwhile, the level of transaction activity is still below the regarded 3-4% turnover level of a 'normal' market. The supply deficit is also evident in the mortgage market. Mortgage lending totalled €7.3bn in 2017, a 29% increase versus 2016 levels. However, it is still some way short of the level in a more normalised market. Furthermore, recent data indicate a marked slowing in mortgage activity, with approvals in February up just 5% year-on-year in volume terms. Indeed, mortgage approvals for house purchases fell in February on year earlier levels.

New housing supply rising, but crucially it is still well below required levels

Housebuilding activity, though, is continuing to pick up, albeit from low levels. Using the ESB connections data compiled by the Department of Housing as a proxy, although an imperfect one, of new supply, shows that connections increased by 29% in 2017 to 19,271. Data for the first month of 2018 show the 12 month cumulative total at around 19,500 units. Housing starts (as measured by commencement notices) rose by 33% last year to 17,572 and this strong growth has continued into the start of this year, with the 12 month cumulative total running at around 17,900 notices. Housing registrations, which are a barometer of developer activity, rose by 68% in 2017, but have levelled off in recent months. Meanwhile, the latest housing sub-component of the construction PMI has increased in the first two months of this year, indicating a strengthening in activity.

While most of the house-building data are consistent with rising supply, the level of building activity remains well below the projected 33,000 units that are required per annum to meet estimated housing demand. Even if the current growth trend in supply is maintained, it will be 2020, at the earliest, before new house building reaches the level of estimated annual demand. However, this does not take account of the pent-up demand that has been accumulating in recent years. Therefore, it could be well into the next decade before the Irish residential property market is in a situation where supply and demand levels become closely aligned.

This suggests that both property prices and rents will continue to rise, especially against a backdrop of rising employment and incomes. However, the rate of increase in rents has already moderated and we expect the same trend to become evident in house prices this year, especially Dublin prices, which have reached very high levels. Buyers in Dublin may struggle to get sufficient mortgage finance given the relatively low loan to income ratio (3.5 times) in the Central Bank's mortgage lending regulations.



LATEST DATA Jul-17 Aug-17 Sep-17 Oct-17 Nov-17 Dec-17 Jan-18 Feb-18

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	57.4	57.4	56.1	55.5	58.6	59.4	60.4	61.0
Housing Registrations: Month	753	704	978	719	660	443	391	#N/A
- 3 Month Avg YoY %	107.0	104.0	67.8	68.1	60.4	12.4	1.6	#N/A
- Cum 12 Mth Total	8,468	8,623	9,265	9,441	9,511	9,466	9,464	#N/A
Commencements: Month	1,284	1,319	1,458	1,588	1,808	847	1,251	#N/A
- Cum 12 Mth Total	16604	16945	17323	17151	17633	17572	17913	#N/A
- Cum 12 Mth Total YoY %	48.0	46.9	48.8	37.1	36.0	32.8	34.3	#N/A
Completions (ESB Connection): Month	1,744	1,606	1,647	1,529	2,247	1,962	1,418	#N/A
- Cum 12 Mth Total	17,460	17,651	17,958	18,197	18,865	19,271	19,445	#N/A
- Cum 12 Mth Total YoY %	27.7	24.8	25.9	26.3	28.1	29.1	27.5	#N/A

Housing PMI strengthened further in Jan/Feb—average 60.7 vs 57.8 in Q4'17, pointing to very strong rise in activity

YoY growth in registrations has slowed recently—at 1.6% in 3 months to January

YoY growth in commencements accelerated to 24% in Jan, but the remain low overall

Completions totalled 19.5k in the 12mths to Jan. However, this is still well below estimated 30-35k demand

HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month	3,415	3,380	3,081	3,224	3,243	2,301	2,586	2,523
- 3 Month Avg YoY %	25.8	19.5	14.5	16.1	11.7	9.1	3.7	2.2
- 12 Mth Total	35,391	35,823	36,138	36,734	36,822	36,868	37,026	36,981
RPPR Transactions : Month	4,761	4,372	4,736	4,948	5,070	6,338	3,122	#N/A
- 3 Month Avg YoY %	9.8	10.2	9.9	11.1	12.6	23.0	22.1	#N/A
- 12 Mth Total	49,802	50,135	50,790	51,409	52,332	54,114	54,168	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.4	-2.3	-2.1	-2.1	-2.1	-2.0	-1.9	#N/A

YoY growth in mortgage approvals still slowing—perhaps due to Central Bank lending rules

But, transaction growth has picked up, perhaps pointing to an increase in 'cash buyers'

Pace of YoY decline in outstanding mortgage credit continues to slow, declining to -1.9% in January

HOUSING MARKET PRICES

CSO Price Index - MoM %	2.4	1.6	1.3	0.3	0.8	0.6	0.9	#N/A
- YoY %	11.6	11.8	12.0	11.7	11.2	12.2	12.5	#N/A
- Dublin YoY %	11.8	11.7	11.2	11.5	10.5	11.7	12.1	#N/A
- Ex Dublin YoY %	11.3	11.7	12.6	12.0	11.8	12.9	13.0	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	257,221	260,874	260,991	265,359	269,849	274,603	273,792	#N/A
Daft Asking Prices: MoM%	0.6	0.4	-0.7	0.6	-1.8	2.9	#N/A	#N/A
- YoY %	9.7	9.1	7.7	10.2	7.9	9.4	#N/A	#N/A

CSO house price growth accelerates further to 12.5% in January

Ex-Dublin growth (13%) still outpacing price inflation in the Capital (12.1%)

Average property transaction price rose to c.275k in the 6 months to January compared to c.255k in 6mths to July

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.4	0.8	0.7	0.5	0.0	0.8	0.2	1.1
- YoY %	7.3	7.3	6.1	5.6	5.6	6.1	6.3	6.2
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	17.9	18.2	18.2	18.1	17.3	17.4	17.4	#N/A

Rents now 20% above prior peak, but rate of increase has stabilised recently

Lower mortgage rates and personal taxes help to mitigate rising property prices

QUARTERLY DATA

	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
BPFI Mortgage Drawdowns								
Purchase Drawdowns	4,634	5,767	6,894	7,596	5,843	6,761	8,082	8,709
YoY %	-9.4	6.1	8.8	12.0	26.1	17.2	17.2	14.7
FTB YoY %	-11.2	4.2	11.0	12.7	27.3	20.7	23.6	23.9
Mortgage Arrears 90 Days +								
<i>Principal Residences</i>								
Number of Accounts in Arrears	59,696	57,571	56,350	54,269	53,100	51,750	50,688	48,433
% of Outstanding	8.0	7.8	7.6	7.4	7.2	7.1	6.9	6.6
<i>Buy-to-Let</i>								
Number of Accounts in Arrears	22,516	21,962	21,435	20,499	20,009	19,627	18,864	18,257
% of Outstanding	16.5	16.3	16.2	15.7	15.6	15.5	15.1	14.9

YoY growth in mortgage drawdowns slowed to 14.7% in Q4, growth in lending to FTBs higher at 23.9%

FTB remain the dominant source of mortgage drawdowns, at 60% of total volume

Mortgages in arrears declined further in Q4; now 6.6% for principal dwellings and 14.9% for BTL. Overall though, the level of arrears remains relatively high

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



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