

New housing supply dented by Covid-19

New supply for the Irish residential property market was on a steady rise before the Covid-19 pandemic and associated restrictions depressed activity. Prior to these disruptions, completions, as measured by the CSO's new dwelling data, rose by 18% last year to over 21,000 units. This year had also started in an encouraging manner, with completions registering a 17% increase in Q1 on a year-on-year basis. Indicators of future supply were also exhibiting positive signs in the early months of this year. Housing starts (commencement notices) were up 5% in the first quarter of this year compared to the same three month period in 2019. Meanwhile, planning permissions surged by 97.4% y/y in quarter one.

However, the Covid-19 restrictions resulted in homebuilding activity coming to an abrupt halt and sites being closed from late March until the second half of May. The impact of this was captured in the 'housing' subcomponent of the construction PMI falling to a record low of just 4.9 in April. The construction sector was included within the first phase of the easing of restrictions, allowing activity to gradually restart last month. This was reflected in the housing component of the PMI improving to 21.4 in May. However, this is still well below the breakeven growth level of 50 and the 49.7 reading recorded in February.

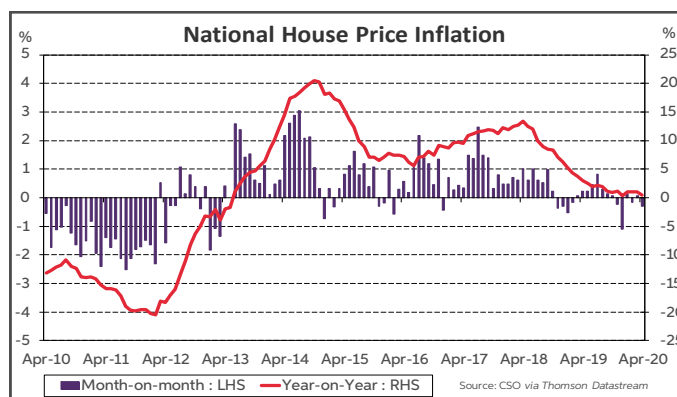
Looking ahead to the remainder of the year, the 'lost' period of homebuilding activity will reduce the level of new supply that comes on stream in 2020. The more challenging and uncertain economic environment, will also act as a major headwind to building activity. As a result, only those developments that are at an advanced stage are likely to be finished this year. All other developments may be put on hold, until the economy gets back onto a firmer footing.

Overall then, from a supply perspective, in a best case scenario, completions may only total in the region of 16,00-18,000 units this year. Before the crisis struck, we were projecting new supply of around 24,000 units in 2020. In the context of the continued shortfall in supply versus demand of at least 30,000 units per annum, the net impact is that it could push out by a further year the timing whereby supply and demand become closely aligned. Even before this shock, this equilibrium situation was not envisaged to be reached until possibly 2023.

Lagging data will take time to capture the impact of Covid-19 on house prices

The most recent CSO figures on residential property prices show a 0.3% monthly fall in April. On a year on year basis, price growth slowed to 0.5% from 1%. In terms of the geographic breakdown, the data reveal non-Dublin prices continued to outpace the 'capital' in their respective annual rates of growth. In Dublin, prices were flat in year-on-year terms, while non-Dublin prices rose by 1.1% when compared to April 2019.

However, the April data are not reflective of price conditions in that month. The primary source the CSO uses to calculate its Residential Property Price Index (RPPI) is the Stamp Duty returns to Revenue. Therefore, it captures prices that were agreed a number of months before. Another factor to bear in mind is that the CSO applies a smoothing calculation/technique to reduce the month to month volatility in the data.



Overall then, given the lagging nature of the data, the true impact of the Covid-19 restrictions on prices may not be captured in official figures until the second half of the year. Even then, the data may still be distorted due to the likely low level of sales being agreed in recent months (e.g. in the three months to May, transactions fell by 33% y/y) creating difficulty for the official RPPI data to capture the real extent of price moves in a largely dormant period for the housing market.

Notwithstanding this, it is expected that the very challenging economic backdrop will bring downward pressure to bear on house prices. However, given that this downturn is expected to be short and the on-going shortfall in supply outlined above, the extent of any prices falls may be limited.

The recent Central Bank of Ireland/SCSI Property Survey found that the median expected price fall nationally over a one-year time frame is 5%. Meanwhile, over the medium term, median expectations are for national house prices to be just 2% higher by Q1 2023 compared to their Q1 2020 levels.

The substantial reduction in new supply, combined with the potential for house prices falls, will result in a significant decline in new mortgage lending this year, despite the 6% increase in the value of mortgage drawdowns in Q1. This is already evident in the latest mortgage approvals data, which showed a 62% yearly fall in May.

MONTHLY DATA Oct-19 Nov-19 Dec-19 Jan-20 Feb-20 Mar-20 Apr-20 May-20

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	51.3	47.7	51.8	48.0	49.7	32.4	4.9	21.4
Commencements: Month	3,173	1,515	1,693	2,051	2,419	2,383	#N/A	#N/A
- Cum 12 Mth Total	26,940	26,022	26,237	26,785	26,635	26,541	#N/A	#N/A
- 3 Month Avg YoY %	40.4	14.4	2.1	-2.9	11.0	4.6	#N/A	#N/A

Housing PMI rose off record low to a still depressed level of 21.4 in May. Construction activity only restarted in the middle of the month following a full shutdown in April

In Q1, commencements rose by 4.6% YoY. Increase largely reflects strong January data. 12 month cumulative total 26.5k—has been stuck in a 26-27k range for some time

HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month	3,692	3,358	2,393	2,594	2,838	2,995	706	1,320
- 3 Month Avg YoY %	6.1	5.0	5.7	5.1	4.7	-0.3	-29.9	-52.4
- 12 Mth Total	39,502	39,652	39,753	39,909	40,006	39,725	37,124	34,484
RPPR Transactions : Month	5,514	5,201	6,649	3,424	3,608	4,345	2,602	2,205
- 3 Month Avg YoY %	5.4	2.4	1.4	1.8	0.9	-1.9	-18.6	-33.3
- 12 Mth Total	58,292	57,988	58,388	58,563	58,107	58,166	56,230	53,533
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-0.6	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	#N/A

Bounce back in mortgage approvals in May but remains well below trend prior to arrival of Covid pandemic

In 3 months to May residential property transactions have dropped by a sharp 33% YoY

Rate of contraction of mortgage debt outstanding holds steady at -0.3% YoY

HOUSING MARKET PRICES

CSO Price Index - MoM %	0.1	-0.2	-1.1	0.2	-0.2	0.1	-0.3	#N/A
- YoY %	1.0	1.1	0.3	1.0	1.0	1.0	0.5	#N/A
- Dublin YoY %	-1.4	-0.9	-1.7	-0.5	-0.1	0.6	0.0	#N/A
- Ex Dublin YoY %	3.4	3.3	2.5	2.6	2.3	1.3	1.1	#N/A

House prices fall by 0.3% in April, leaving YoY growth rate at 0.5%. Ex-Dublin price inflation (+1.1%) continues to outpace the capital (+0%)

RPPR Transaction Price (Simple Average)								
- 12 Month Average €	296,499	301,302	305,191	306,544	312,616	314,976	315,111	313,336
Daft List Prices: YoY %	-1.5	-1.4	-0.8	-1.1	-2.2	-1.7	#N/A	#N/A

Property price register data consistent with flat house price growth since Feb. Daft.ie list prices continue to fall

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM %	0.2	0.0	0.0	-0.1	0.3	-0.4	-1.8	-1.1
- YoY %	5.1	4.5	4.3	3.9	3.9	3.1	0.8	-0.7
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	18.2	18.1	17.8	17.7	17.6	17.6	17.5	#N/A

CSO rental index falls by 1.1% in May. YoY inflation rate has turned negative for first time since 2011

Flat house prices and solid earnings growth prior to Covid sees affordability improve

QUARTERLY DATA Q2-18 Q3-18 Q4-18 Q1-19 Q2-19 Q3-19 Q4-19 Q1-20

CSO Dwelling Completions	4,399	4,636	5,443	4,254	4,830	5,662	6,392	4,986
- YoY %	34.7	23.1	19.4	22.7	9.8	22.1	17.4	17.2
- Cum 12 Mth Total	16,193	17,062	17,946	18,732	19,163	20,189	21,138	21,870
CSO Planning Permissions	6,777	8,018	6,682	7,493	9,611	10,590	12,558	14,789
- YoY %	52.2	69.2	-3.6	-3.5	41.8	32.1	87.9	97.4
- Cum 12 Mth Total	26,216	29,495	29,243	28,970	31,804	34,376	40,252	47,548

CSO data show nearly 22k completions in year to Q1 '20, but Covid shock to depress house-building this year

Planning permissions continue to surge, up 97.4% YoY in Q1. Driven by significant increase in approvals for construction of apartments (+274%)

BPFI Mortgage Drawdowns

Purchase Drawdowns (Volume)	7,381	8,727	9,613	6,673	7,987	9,486	9,941	6,932
YoY % (Volume)	9.2	8.0	10.4	4.2	8.2	8.7	3.4	3.9
FTB YoY % (Volume)	14.3	7.4	9.6	6.9	10.8	14.3	11.0	8.3
Total Drawdowns (Value, € Mln)	2,014	2,370	2,636	1,885	2,250	2,639	2,768	1,996
- YoY % (Value)	22.1	17.6	18.2	10.7	11.7	11.4	5.0	5.9
- Cum 12mth Drawdowns (Value, € Mln)	7,964	8,318	8,723	8,905	9,141	9,410	9,542	9,653

YoY growth in the volume of mortgage drawdowns edged up to 3.9% in Q1. Lending to FTBs moderated, but remained robust at 8.3%. Covid-19 crisis to negatively impact mortgage lending over remainder of year

In value terms, drawdowns increased by 5.9% YoY. 12 month total at €9.65bn, FTBs account for 52% of this amount

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



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