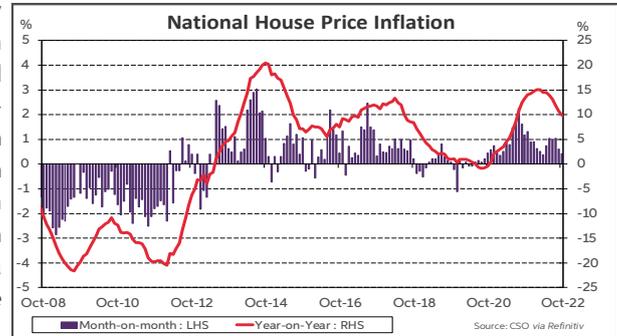


House price inflation moderating, but new supply faces headwinds

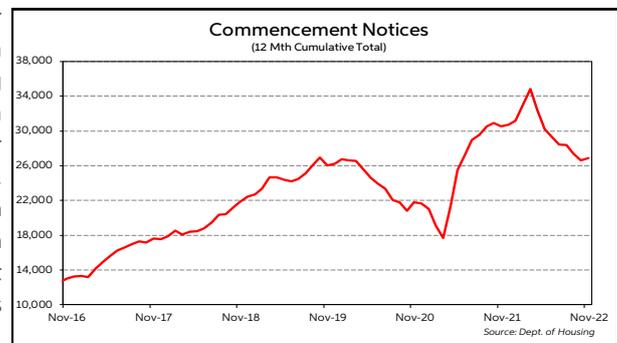
The Irish residential property market has been characterised by marked upward pressure on prices over the past couple of years. However, in recent months, there are signs that the sharp rate of increase in house prices is starting to moderate. The most up-to-date CSO data on house prices show a 0.4% monthly increase nationally in October, which followed a 0.6% rise in September. By comparison, the monthly rate of increase averaged 0.8% in the first eight months of 2022, and 1.1% during 2021. The year-on-year growth rate provides further evidence of a deceleration in house price inflation, albeit while still remaining at an elevated level. In October, the annual growth rate slowed to 9.8% from 10.7% in September. This compares to a peak of 15.1% in the February-March period. Meantime, the geographical breakdown of the data showed a continuation of the trend where the rate of increase in prices outside of Dublin is outpacing the Capital.



The persistent supply shortfall in the Irish residential property market has been the key factor underpinning the sharp increase in prices over the past two years. It has also seen rents rise sharply in 2021-22. Based on underlying demographics, the economy needs at least 30,000 new units to be built per annum. Given that new supply has been running well below this level over the past decade, it means that significantly more than 30,000 units are required to be built on an annual basis to satisfy yearly demand as well as the pent-up demand that has been accumulating over recent years.

In terms of supply, the pandemic and the associated restrictions in effect stalled the gradual upward momentum in residential building activity that had been in place since 2014. New supply flat-lined at around 21,000 units per annum between 2019-21. The most recent CSO data on completions, though, indicate that there has been a renewed uplift in activity this year. By the end of September, the four quarter total of completions was running at 27,700 units. This represents an increase of over 30% compared to year earlier levels. As a result, new supply looks on track to register a total of around 28,000 units in 2022.

However, forward looking supply indicators suggest a loss of momentum in building activity recently. The latest commencement data, show that new housing starts were below 27,000 on a 12-month cumulative basis to November and are 12% lower versus year earlier levels. By comparison, the 12 month total for commencements ranged from 30,000 to 35,000 units between September 2021 and May of this year. Meanwhile, the housing component of the construction PMI has weakened, printing in contractionary territory for five of the last six months. The November reading of 41.6 points to a fast pace of contraction in house building. Elsewhere, planning permissions data for Q3 were noticeably lower in year-on-year terms, due to a fall off in apartment activity. Taking on board these raft of indicators, it seems likely that new supply will not be able to maintain its current levels next year. Indeed, the ESRI is now forecasting that completions will fall back to 26,000 units in 2023.



As a result, the issue of supply will continue to be the defining characteristic of the Irish housing market over the next number of years. Higher building costs, shortages of workers, increased uncertainty regarding the general macro-economic outlook, availability of funding and delays in the planning process are major headwinds impacting future supply. The 'supply' issue is a key focus of government policy with ambitious targets set out in its Housing for All Strategy. The ESRI has identified a number of initiatives to help improve supply. These included increased State investment, greater use of vacant homes and more diversified production methods. Meanwhile, there are draft proposals before the cabinet designed to improve the planning system. However, these initiatives will take time to come into effect, meaning there is no quick resolution in sight to the supply deficit.

From a demand perspective, homebuyer activity remains solid, although there are signs of some softening amid the higher interest rate environment. BPF Mortgage Approvals data have been trending lower in recent months. The ongoing supply shortfall, large increase in household savings, as well as the strong labour market should act to underpin house prices. Meanwhile, the Governor of the Central Bank has stated that an easing in the macro prudential lending rules in 2023 would likely result in some "modest" increase in prices. However, the recent trend of a moderation in house price inflation is likely to continue amid the rising interest rate environment and against the backdrop of slower growth in the Irish economy and as high inflation depresses spending power. Therefore, 2023 could see a further slowdown in house price inflation.

MONTHLY DATA Apr-22 May-22 Jun-22 Jul-22 Aug-22 Sep-22 Oct-22 Nov-22

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/BNP Paribas Construction PMI								
- Housing Activity	56.1	56.6	49.7	37.9	47.4	50.8	49.7	41.6
Commencements: Month	2,346	2,746	2,060	2,438	2,121	2,211	1,841	2,402
- Cum 12 Mth Total	32,456	30,233	29,343	28,450	28,409	27,417	26,608	26,898
- 3 Month Avg YoY %	20.2	-26.0	-43.5	-35.6	-21.6	-22.1	-23.0	-19.0

The Housing component of the Construction PMI printed below 50 in November, falling sharply to 41.6, consistent with an acceleration in the pace of contraction

Commencements to November are down 13.2% YTD vs. 2021 levels. 12mth rolling total below 27k

HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month	3,299	3,841	3,947	3,514	3,680	3,633	3,439	#N/A
- 3 Month Avg YoY %	-1.9	-1.6	-3.7	-6.8	-7.6	-8.2	-5.4	#N/A
- 12 Mth Total	43,039	43,066	42,846	42,216	42,147	41,875	41,597	#N/A
RPPR Transactions : Month	4,533	4,713	5,402	5,534	5,034	5,677	5,357	4,888
- 3 Month Avg YoY %	1.3	3.5	11.9	11.5	9.4	6.7	3.0	-1.2
- 12 Mth Total	57,869	58,400	59,112	59,479	59,775	60,127	59,948	59,576
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	0.9	0.9	0.6	0.2	-0.1	-0.4	-0.6	#N/A

Mortgage approvals trending slightly lower, with the 3mth down 5.4% YoY in October

Transactions have been relatively steady since mid-year. 12 mth total remains above 59k in November

Stock of mortgages down 0.6% YoY in October

HOUSING MARKET PRICES

CSO Price Index - MoM %	0.4	0.8	1.1	0.8	1.0	0.6	0.4	#N/A
- YoY %	14.5	14.4	13.9	13.0	11.8	10.7	9.8	#N/A
- Dublin YoY %	11.7	11.5	11.4	10.7	9.8	9.3	8.3	#N/A
- Ex Dublin YoY %	16.8	16.7	16.0	15.1	13.5	11.9	11.0	#N/A
RPPR Transaction Price (Simple Average)								
- 12 Month Average €	342,572	347,577	349,813	356,588	360,105	362,894	368,726	372,808
Daft List Prices: YoY %	9.3	9.6	8.8	8.0	7.2	7.9	#N/A	#N/A

House prices rose by 0.4% in October. The YoY rate moderated further to 9.8%. Ex -Dublin price inflation (11.0%) outpaces the capital (8.3%)

Daft.ie asking prices rose by just 0.1% in Q3, but they were 7.7% higher vs Q3 2021. Higher house prices reflected in RPPR prices continuing to trend upward in 2022

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM %	1.3	1.6	0.8	1.1	1.4	0.7	0.4	0.5
- YoY %	9.3	11.2	11.9	12.9	12.7	11.6	11.1	11.0
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	19.8	20.1	20.5	20.8	21.2	21.4	#N/A	#N/A

CSO rental index rose by 0.5% in November. Rents now up by 11% YoY

Affordability index deteriorated further in Q3 as house price growth outpaced average industrial wages

QUARTERLY DATA

	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22
CSO Dwelling Completions	7,338	3,966	4,985	4,643	6,966	5,645	7,618	7,544
- YoY %	14.3	-19.9	53.6	-8.1	-5.1	42.3	52.8	62.5
- Cum 12 Mth Total	20,585	19,601	21,340	20,932	20,560	22,239	24,872	27,773
CSO Planning Permissions	9,536	6,963	11,150	11,428	13,450	8,463	11,314	6,743
- YoY %	-18.1	-46.8	53.3	-8.4	41.0	21.5	1.5	-41.0
- Cum 12 Mth Total	42,371	36,252	40,131	39,077	42,991	44,491	44,655	39,970
BPFI Mortgage Drawdowns								
Purchase Drawdowns (Volume)	10,164	7,294	7,438	9,124	10,620	7,654	8,695	9,770
YoY % (Volume)	2.2	5.3	47.8	43.3	4.5	4.9	16.9	7.1
FTB YoY % (Volume)	7.8	7.3	49.0	43.8	5.2	9.9	22.5	8.9
Total Drawdowns (Value, € Mln)	2,951	2,142	2,230	2,783	3,312	2,513	3,134	4,057
- YoY % (Value)	6.6	7.3	52.5	42.1	12.2	17.3	40.5	45.7
- Cum 12mth Drawdowns (Value, € Mln)	8,367	8,513	9,281	10,106	10,467	10,839	11,742	13,016

New dwelling completions to end Q3 (20,807), greater than the total (20,560) for the all of 2021. 12 mth cumulative total rises above 27k

Planning permissions fall sharply in Q3, with the 12 mth running total back below 40k

Purchase drawdowns are 9.5% higher YTD in Q3, as FTB activity continues to rise

In value terms, drawdowns up 45.7% YoY in Q3. Running 12 mth total rises to €13bn. However, this figure is inflated by a very sharp rise in switching. Non-purchase activity up 176% YoY in Q3 to €1.3bn

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



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