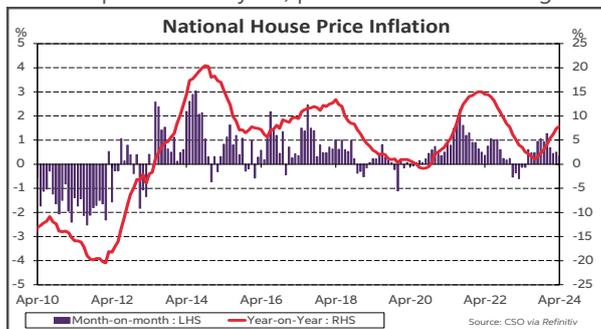


Renewed momentum in Irish residential property prices

Irish residential property prices experienced quite a turnaround over the course of 2023. Initially they started the year on a downward trajectory, with the CSO measure of official house prices registering monthly falls, averaging 0.3% in the first 5 months of the year, against the backdrop of rising interest rates. The year-on-year rate for prices nationally slowed to around 1% over the summer, having started the year at 6.1%. However, around the midpoint of the year, prices started to rise again in month-on-month terms, resulting in the yearly rate of growth also re-accelerating. By December, the CSO data showed residential prices were up by 4.1% y/y.

This upward momentum has continued in the first half of 2024. Prices have risen throughout the first four months, marking 11 straight monthly rises, averaging 0.7% m/m growth over this period, albeit the April rise was below this level, at +0.4% m/m. On a yearly basis, prices were up by 7.9% in April. Meanwhile, Daft.ie 'asking prices', which are regarded as a more timelier measure of house price conditions, showed that in Q1 2024, prices were 5.8% higher compared to the same period in 2023. **Looking at the geographic breakdown of the April CSO data, for the first time since Feb 2018, prices in the Capital have outpaced the non-Dublin market.** Dublin prices were up by 8.3% in April compared to a year earlier. There has been a notable re-acceleration in the rate of growth in Dublin prices recently, which were registering negative yearly rates of growth for much of the second half of 2023. Outside of Dublin, house price inflation was running at 7.6% y/y in April.



The renewed momentum in prices is against the backdrop of on-going tight supply conditions. One example of this is the Daft.ie 'properties available for sale' metric, which fell to a series record low, below 10,500 units in Q1. Meanwhile, construction activity indicators for the early part of 2024 offer somewhat of a mixed picture. This follows a strong performance in 2023. The CSO 'completions' data, which is the main official metric for 'new supply' showed that in 2023, new supply rose to 32,626 units, a increase of more than 12% over the full year versus 2022 levels. In Q1 of this year, completions were 12% lower in year-on-year terms. However, looking at the data over a 12 month period shows that completions were running at a total of 31,800 units in Q1, an increase of 3.5% when compared to a year ago.

Forward looking indicators also provide contrasting signals on momentum in residential construction activity, with one-off factors having a distorting impact. Housing starts, as measured by 'commencement notices' have experienced a significant uplift over recent months. This was especially the case in April, when they surged by over 200% in year-on-year terms as developers rushed to meet waiver and rebate deadlines (which were subsequently extended). Therefore, it is tricky to decipher an underlying trend in commencements as they were artificially boosted in the lead up to the original deadline and have since seen a sharp pull back in May. Prior to the sharp jump in April, they had already been exhibiting a sustained upward increase, and were at over 37,000 units on a 12-month aggregate basis in March. Meanwhile, the total number of dwelling units granted planning permission fell by 28% in the first quarter of this year. However, the year-on-year calculation is impacted by a very strong Q1 comparison level last year. On a rolling 4 quarter basis, permissions totalled around 38,000 units, a rise of 2% versus the same period a year earlier. Survey data, in the form of the housing component of the construction PMI, has provided some encouraging news over recent months. It printed at 52 in May, which was its fifth straight month in expansionary territory (i.e. above 50). It was signalling contractionary conditions throughout 2023. The latest forecasts from the Central Bank of Ireland are for new supply to amount to 35,000 units this year, rising to 37,500 in 2025 and at 39,500 in 2026.

Based on underlying demographics, the economy needs at a minimum 30,000 new units to be built per annum to meet annual demand. However, significantly more than 30,000 units are required each year to meet both annual demand and the pent-up demand that has been accumulating over the past decade or more. The recent Housing Commission report estimated that there is a 'housing deficit' of between 212,500-256,000 units. Therefore, while the supply side of the residential property market has improved, we are still a few years away from building enough residential units to meet annual demand as well as satisfying the pent-up demand. At the same time, homebuilder activity still faces a number of headwinds from rising costs, capacity constraints, including in relation to labour and infrastructure, financing challenges and delays in the planning process.

Assessing the outlook for prices, requires weighing up several factors such as the continued supply shortfall, steady underlying economic growth, including on-going solid labour market conditions. At the same time, the higher interest rate environment, which has coincided with some loss of momentum in mortgage lending/approvals, is starting to become less restrictive, with additional ECB rate cuts on the cards. Against this backdrop, residential property prices are likely to experience further upward pressure during the remainder of 2024. Over the medium term, as supply continues to rise, Irish residential property market prices could settle into low single digit growth.

MONTHLY DATA

Oct-23 Nov-23 Dec-23 Jan-24 Feb-24 Mar-24 Apr-24 May-24

RESIDENTIAL CONSTRUCTION ACTIVITY

S&P BNP Paribas Construction PMI

- Housing Activity 45.3 43.5 45.0 48.3 49.8 54.3 53.4 52.0

Commencements: Month

- Cum 12 Mth Total 2,624 3,087 3,167 3,357 3,699 4,900 18,182 1,983

- 3 Month Avg YoY % 30,744 31,429 32,801 34,050 35,752 37,408 53,011 51,935

29.6 28.9 47.0 52.4 73.3 62.7 242.5 182.2

HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month

- 3 Month Avg YoY % 3,676 3,614 2,364 2,718 2,922 3,237 3,796 #N/A

- 12 Mth Total 3.7 -0.4 -2.2 -5.8 -1.9 -5.3 0.0 #N/A

43,017 42,845 42,559 42,399 42,604 41,976 42,399 #N/A

RPPR Transactions : Month

- 3 Month Avg YoY % 5,605 5,671 7,112 3,435 4,138 4,389 4,346 4,512

- 12 Mth Total 3.5 -2.0 1.6 -0.4 0.3 -9.1 -6.4 -9.5

62,861 62,569 62,988 62,792 62,609 61,786 61,917 61,222

Residential Mortgages (Central Bank of Ireland)

- Amount Outstanding (Adj.) YoY % 1.6 1.6 1.8 1.8 1.5 1.7 1.6 #N/A

HOUSING MARKET PRICES

CSO Price Index - MoM %

- YoY % 1.0 1.0 1.3 0.7 0.5 0.5 0.4 #N/A

- Dublin YoY % 2.3 3.0 4.1 5.4 6.2 7.4 7.9 #N/A

- Ex Dublin YoY % -0.5 0.9 2.5 4.6 5.6 7.3 8.3 #N/A

4.5 4.7 5.3 6.0 6.6 7.4 7.6 #N/A

RPPR Transaction Price (Simple Average)

- 12 Month Average € 386,003 385,293 387,129 389,084 386,754 385,529 387,565 390,696

Daft List Prices: YoY % 6.2 4.7 5.1 5.5 6.2 5.8 #N/A #N/A

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM %

- YoY % 0.0 0.2 0.2 0.1 0.4 0.0 0.2 0.4

6.6 6.3 6.2 6.0 5.3 5.1 5.1 4.9

AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB

- Mort as % of Disposable Income 22.8 22.9 21.9 21.6 21.2 #N/A #N/A #N/A

QUARTERLY DATA

Q2-22 Q3-22 Q4-22 Q1-23 Q2-23 Q3-23 Q4-23 Q1-24

CSO Dwelling Completions

- YoY % 7,611 7,385 9,101 6,647 7,281 8,444 10,254 5,841

- Cum 12 Mth Total 52.9 59.0 31.4 18.4 -4.3 14.3 12.7 -12.1

24,796 27,537 29,711 30,744 30,414 31,473 32,626 31,820

CSO Planning Permissions

- YoY % 11,374 6,743 7,597 11,659 8,723 9,662 11,181 8,387

- Cum 12 Mth Total 2.0 -41.0 -43.5 37.8 -23.3 43.3 47.2 -28.1

44,715 40,030 34,177 37,373 34,722 37,641 41,225 37,953

BPFI Mortgage Drawdowns

Purchase Drawdowns (Volume) 8,695 9,770 10,689 7,743 8,286 9,918 10,000 6,899

YoY % (Volume) 16.9 7.1 0.6 1.2 -4.7 1.7 -6.4 -10.9

FTB YoY % (Volume) 22.5 8.9 2.7 3.0 -0.4 6.5 -2.3 -7.9

Total Drawdowns (Value, € Mln)

- YoY % (Value) 3,134 4,057 4,353 2,866 2,761 3,173 3,289 2,359

- Cum 12mth Drawdowns (Value, € Mln) 40.5 45.7 31.4 14.0 -11.9 -21.8 -24.4 -17.7

11,742 13,016 14,057 14,410 14,037 13,153 12,089 11,582

The Housing component of the Construction PMI stayed in expansion mode in May, but edged back to 52.0

Commencements surged in April ahead of the waiver and rebate deadlines. In May though, they were down 35% YoY. 12 mth rolling total just below 52k

Mortgage approvals 3mma to Apr matches last years figure. 12mth total near 42.5k

Transactions down by 9.5% YoY in the three months to May. 12 mth run rate falls back towards 61k

Stock of mortgages up 1.6% YoY in April

House prices continued to trend higher, up by 0.4% in April. YoY rate increased to 7.9% YoY. Ex-Dublin price inflation (+7.6%) now running below the that of the capital (+8.3%)

Asking prices on Daft.ie were up 5.8% YoY in Q1. However, RPPR house prices broadly flat over the past year

CSO rental index rose by 0.4% in May. However, the YoY rate decelerated to 4.9%

Affordability improved in Q1, amid solid average earnings growth and a rise in take-home pay from tax changes

Having trended higher in 2023, completions declined by 12.1% YoY in Q1. 12mth total back below 32k

Permissions fell by 28.1% YoY in Q1. Overall, permission was granted for circa 38k units over the past 12 months

Purchaser drawdowns were down by 10.9% YoY in Q1. FTB volumes fell by 7.9%. However, in value terms, they were down by just 3.8%. Total drawdowns were circa 20% lower YoY in Q1, owing to a drop-off in all categories, led by switching. Value of drawdowns over past 12 mths down to €11.6bn, circa €3bn lower compared to Q1 2023

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



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