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AIB Treasury Economic Research Unit

Supply, or lack of it, still the big issue

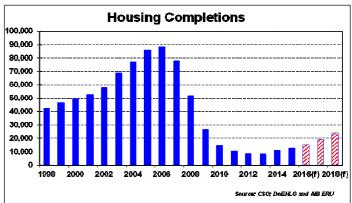
A broad range of indicators continue to reflect an on-going shortage in the Irish residential property market. These include data on building activity, the mortgage market, and transaction levels, as well as continued upward pressure on prices and rents.

Vast array of indicators continue to reflect subdued housing supply

Recent data on building activity indicate some pick up in the construction of residential units. The most up to date figures on completions, which cover to the end of April, show them up 20% compared to the same period in 2015. On the basis of their current 'uptrend' in the first four months of 2016, completions are on course to rise to close on 15,000 units this year. This would compare to the 12,600 units completed in 2015. However, crucially, this projected number is still some way short of the estimated housing demand figure of 25,000.

In terms of forward looking indicators, house guarantee registrations (tend to reflect developer activity), are on an upward trajectory, increasing by over 40% in the five months to May compared to the same period a year earlier. Commencement notices also continue to improve on a 12-month cumulative basis. However, it must be noted that despite these improvements, both indicators remain very low in absolute terms. Meanwhile, survey data on housing activity, such as the housing component of the construction PMI continues to suggest a solid pace of expansion.

This on-going shortfall in supply is also very much evident in the number of houses listed for sale and rent. The most



recent data on this available from Daft.ie, which are for March this year, show that there were c.23,900 properties listed for sale, a fall of around 14% versus the same month a year earlier, which itself represented a fall of 16% from 2014 levels. This March number equates to less than 1% of the total private housing stock. In a 'normal' functioning property market, the level of stock for sale should be in the region of 3-4% as a proportion of total stock. The quantity of rental stock also continues to fall, with the number of properties available to rent in May down 29% compared to the same period in 2015.

The mismatch between supply and demand is also impacting activity levels in the mortgage market. The Central Bank regulations on mortgage lending are also acting as a restraint on buyer activity. In the first quarter of this year, new mortgage lending amounted to \leq 1.0bn, a 2.5% year-on-year fall. However, Q1 2015 was a very strong quarter, skewed in part by activity being brought forward before the new lending rules came into operation. More recent data suggest growth in mortgage activity may have risen on year earlier levels.

Prices and rents continue to rise, cost to build coming into focus

Not surprising, given the 'insufficient' supply backdrop, house prices continue to experience upward pressure, although the pace of increases has moderated. On a national basis, house prices recorded a 6.9% pace of yearly growth in May. This compares to a near 14% rate of growth in May 2015. However, in Dublin where property recorded some slowdown as a result of the new mortgage lending rules, prices there have started to show some signs of acceleration. Although, the rate of annual growth in non-Dublin prices continues to outpace the capital (8.5% vs. 4.8%). Meanwhile, rents continue to rise strongly and are now over 6% above their previous peak.

In recent months, the 'cost of building' has come more and more into focus. A recent study by the Society of Chartered Surveyors estimated that the "cost to build a house is less than half of the overall cost to provide the house". Non construction factors, such as acquisition costs, financing and taxation elements make up much of the remaining costs. The government recently announced measures to address some of these 'non-building costs' which at the margin may help to reduce housing delivery costs. However, there is no quick fix to the lack of supply in the housing market. In fact, it is likely to be 2018 at the earliest, before housing output rises to the required 25,000 units per annum.

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LATEST DATA	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	
RESIDENTIAL CONSTRUCTION ACTIVITY								Construction PMI falls from very	
Markit/Ulster Bank Construction PMI - Housing Activity	57.4	55.2	58.3	65.9	71.2	63.6	58.4	57.4	high Q1 levels. However, at 57.4 in May, it remains at a strong level
	0	00.2	0010	0010			00.1		Growth in housing registrations
Housing Registrations: Month	332 98.9	306 -9.9	221 -4.0	160 -17.1	300 -15.7	803 60.1	421 63.0	573 66.2	has picked up after a somewhat
- 3 Month Avg YoY % - Cum 12 Mth Total	90.9 4,384	-9.9 4,384	-4.0 4,290	4,242	4,257	4,764	4,831	4,973	sluggish start to 2016. Although, they remain at a low
									level overall
Commencements: Month - Cum 12 Mth Total	671 7673	710 8074	364 8098	627 8425	783 8867	671 8848	784 8790	1,223 9231	Commencements have shown
- Cum 12 Mth Total YoY %	-4.9	1.4	4.9	18.4	185.0	132.9	93.6	75.8	solid improvement so far this year. YoY comparison still
									distorted by 2014 policy change
Completions: Month - Cum 12 Mth Total	1,138 12,272	1,262 12,503	1,352 12,666	920 12,893	1,192 13,249	1,032 13,181	1,149 13,384	#N/A #N/A	Housing completions on course
- Cum 12 Mth Total YoY %	15.9	12,303	12,000	12,095	17.7	14.1	14.1	#N/A	for improved performance in
									2016, up 20% YTD
HOUSING / MORTGAGE MARKET ACTIVITY									Pace of YoY decline in
RPPR Transactions : Month	4,442	4,045	5,511	2,612	3,644	3,352	3,585	3,314	transactions increases in May,
- 3 Month Avg YoY %	3.3	4.8	-10.0	-14.6	-17.1	-9.8	-3.3	-6.5	remains well below recent highs
- 12 Mth Total	49,884	50,244	48,566	47,809	47,819	47,527	47,451	47,109	Mortgage approvals have
BPFI Mortgage Approvals : Month	2,267	2,110	1,756	1,627	1,699	1,767	2,631	2,642	shown some improvement
- 3 Month Avg YoY %	-7.5	-13.5	-20.3	-20.3	-18.9	-17.0	-4.6	5.9	recently. YoY growth back in positive territory in May
- 12 Mth Total	27,236	26,634	26,030	25,840	25,446	24,985	25,546	25,841	positive territory in May
Residential Mortgages (Central Bank of	of Ireland)								The pace of decline in
- Amount Outstanding (Adj.) YoY %	-2.4	-2.6	-2.6	-2.5	-2.4	-2.4	-2.3	#N/A	outstanding mortgages has eased slightly this year
HOUSING MARKET PRICES									
CSO (Mortgaged Transactions) - MoM	1.6	-0.5	0.5	-0.5	0.0	0.4	0.4	0.2	Annual house price inflation
- YoY %	7.6	6.5	6.6	7.6	8.0	7.4	7.1	6.9	currently around 7%. Data show that ex-Dublin prices
- Dublin YoY % - Ex Dublin YoY %	4.5 10.7	3.3 9.6	2.6 10.2	3.4 11.4	4.0 11.5	3.9 10.5	4.6 9.5	4.8 8.5	continue to grow more strongly
- EX Dubin 101 %	10.7	9.0	10.2	11.4	11.5	10.5	9.5	0.0	than Dublin prices (8.5% vs
RPPR Transaction Price (Simple Average)								4.8%), in part due to CB rules	
- 6 Month Average €	228,182	230,828	229,235	235,228	232,030	235,688	232,784	236,936	Average property transaction
Daft Asking Prices: MoM%	-0.7	-0.9	0.3	1.8	0.7	2.1	#N/A	#N/A	price remained around 230k in
- YoY %	9.1	8.6	7.8	8.1	4.4	5.3	#N/A	#N/A	the 6 months to May
RENTS & AFFORDABILITY									Rents continue to rise strongly,
RENTS: CSO Private Rents - MoM%	0.5	0.4	0.3	1.2	1.1	0.2	1.0	0.5	YoY growth increased to 9.7% in May. Rents now 6.1% above
- YoY %	10.3	10.0	9.6	9.4	9.7	9.2	9.7	9.7	previous peak
AFFORDABILITY: Couple on Avg Indu	ustrial Wage,	90% LTV,	30 Yr Morto	age, AIB N	/lortgage Ra	ate, Prices:	CSO/Pern	n' TSB	Affordability remains at quite
- Mortgage as % of Disposible Income		16.8	16.8	16.4	16.3	16.4	16.5	#N/A	favourable levels
QUARTERLY DATA	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	
	Q2-14	QJ-14	44-14	Q(1-10)	QZ-15	QJ-15	Q 1 -13	Q1-10	Pace of YoY decline in mortgage drawdowns picked up
BPFI Mortgage Drawdowns									in Q1 to -9%. Likely reflects on-
Purchase Drawdowns	4,337	5,763	6,929	5,125	5,604	6,489	6,901	4,664	going impact of CB rules and shortage of available properties
YoY %	51.8	42.3	45.5	63.9 72.2	29.2	12.6	-0.4	-9.0	standing of available properties
FTB YoY %	52.5	41.8	49.2	73.3	36.1	12.5	-5.5	-13.7	FTB remain the dominant
									source of mortgage drawdowns at 56% of total
Mortgage Arrears 90 Days +									ut 0070 01 total
Principal Residences	6 6 1 5	01 6	70 000	74 000	70.000	05 050	01.001	F0 000	The number of mortgages in
Number of Accounts in Arrears % of Outstanding	90,343 11.8	84,955 11.2	78,699 10.4	74,395 9.8	70,296 9.3	65,653 8.8	61,931 8.3	59,696 8.0	arrears (both principal residence & BTL) recorded
Buy-to-Let	11.0	11.2	10.4	3.0	3.0	0.0	0.5	0.0	further declines in Q1, but the
Number of Accounts in Arrears	31,749	31,619	29,224	27,492	26,071	24,809	23,344	22,516	levels still remain very high
% of Outstanding	22.0	22.1	20.7	19.7	19.0	18.1	17.0	16.5	overall

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



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