

## Further improvement in new supply, but still long way to go

### Improvement in the pace of new supply

The rate of increase in the supply of new housing units accelerated in the third quarter of this year. The CSO's 'new dwelling completions' rose by 22% on a year-on-year basis. This represented a pick-up in the pace of growth when compared to the 16% yearly rate in the first half of 2019. Over the first three quarters of the year, completions are up 18% compared to the same period in 2018. They rose by 25% for the full year in 2018. The moving four quarter aggregate number is now at 20,249 units. Based on their current trajectory, completions in the region may total 21,500 this year. Looking at the geographic breakdown of the data, it shows that 60% of all completions in the third quarter were in Dublin and the commuter belt area of the Mid-East (i.e. Kildare, Louth, Meath, Wicklow). However, it is noticeable that the yearly rate of growth of new supply in Dublin was at just 3% in Q3. Meanwhile, the Mid-East recorded a very strong 52% increase over the period.

Forward looking 'hard' data indicators point to on-going improvement in future supply, although some survey data suggest a more mixed picture. Figures for housing starts, based on the Department of Housing's commencement notices, showed a year-on-year increase of 33% in quarter three. This compares to a 17% y/y increase in H1 2019. However, the sharp increase in Q3 may in part be due to activity being brought forward ahead of new building regulations coming into operation in November. The 12 month cumulative total is running at 26,000 units.

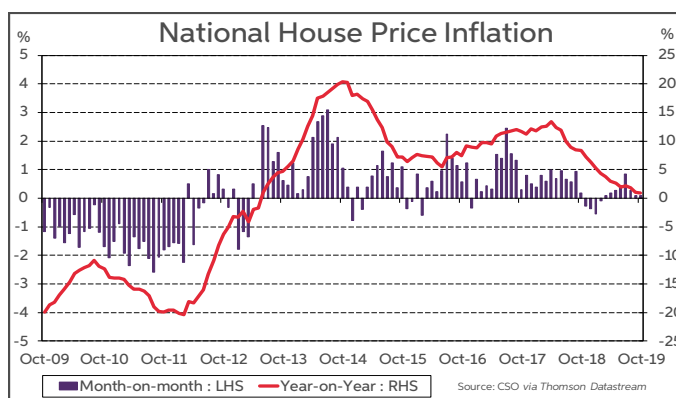
Meanwhile, registration data, which are a proxy for developer activity, indicate that this sector has lost some momentum this year and are on course to record a smaller increase in 2019 versus 2018. On the other hand, planning permissions were up by 23% in the first three quarters of the year, with the 12 month running total now above 34,000 units. Meantime, in terms of survey data, the housing sub-component of the construction PMI, has been on a weakening trend over the last few months. Worryingly, in November it fell into contraction territory (i.e. below 50) for the first time since 2013. Overall, from a supply perspective, the key issue is that new housing completions continue to run well below the estimated annual demand of 35,000 units. Given recent trends, this required level of supply may not be attained for another three years. Even then, supply is only meeting annual demand. It will be even longer before the pent-up demand that has been accumulating over recent years is also satisfied.

### House price inflation has slowed sharply this year

The residential property market has seen a continuation in 2019 of the sharp slowdown in annual price inflation that started to emerge around mid-2018. Annual CSO house price growth is now at its weakest since mid-2013, slowing to 0.9% in October. This contrasts with a 13% rate of growth seen in April 2018. However, on a month-on-month basis, prices have now risen for eight consecutive months, suggesting the downtrend is levelling off. The geographic breakdown of the data shows that the Dublin market is actually experiencing falling house prices. In October, prices were down by 1.5% in year-on-year terms, representing the third straight month of yearly declines. Prices outside the capital continue to rise, although the pace of increase has slowed considerably. Non-Dublin prices increased by 3.3% y/y in October, well down on the 15% rate seen in June of last year.

The sharp deceleration in house price growth largely reflects the impact of the central bank macro prudential mortgage rules. These rules, which were recently reaffirmed by the CBol following their annual review, act as constraints on the level of finance that potential homebuyers can access. This issue appears to be having the greatest influence on the Dublin market, where prices are far higher than elsewhere in the country. The weakening trend in prices in Dublin has coincided with a slight rise in unsold stock on the market, with the daft.ie figures on stock available for sale showing a 2% year-on-year increase in September. At the same time, the rate of growth in new mortgage lending has slowed this year compared to 2018. Lending was up 11% in value terms in the year to Q3, versus 20% in 2018. Meantime, while approvals continue to rise, the rate of increase has slowed in recent months, with the 12 month running total standing at around 39,500.

As we look ahead to 2020, the Irish residential property market will continue to be defined by supply undershooting demand, although the gap should continue to narrow. However, it could be well into the next decade before supply and demand come close to balance. Meanwhile, prices seem likely to rise at just a modest pace, despite the ongoing shortage of housing.



MONTHLY DATA	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19		
<b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>										
Markit/Ulster Bank Construction PMI										<p>Housing PMI dropped sharply to 47.7 in November. Below key 50 level for first time since 2013</p> <p>Growth in registrations (measure of developer activity) down 0.5% to Q3 compared to same period of 2018</p> <p>Commencements picked up strongly in Q3, ahead of introduction of new building regulations from November 1st</p>
- Housing Activity	60.5	58.3	58.4	55.9	58.4	52.9	51.3	47.7		
Housing Registrations: Month	709	666	991	590	610	1,412	#N/A	#N/A		
- 3 Month Avg YoY %	0.4	-10.6	-14.5	-21.3	-18.4	-12.7	#N/A	#N/A		
- Cum 12 Mth Total	10,817	10,614	10,604	10,208	10,120	10,224	#N/A	#N/A		
Commencements: Month	1,974	1,862	1,875	2,171	2,884	2,541	#N/A	#N/A		
- Cum 12 Mth Total	24,690	24,438	24,226	24,467	25,112	26,106	#N/A	#N/A		
- 3 Month Avg YoY %	39.0	19.9	-6.8	-3.6	10.8	32.9	#N/A	#N/A		
<b>HOUSING / MORTGAGE MARKET ACTIVITY</b>										
BPFI Mortgage Approvals : Month	3,307	3,960	3,692	4,227	3,581	3,088	3,692	#N/A	<p>Mortgage approvals higher in October, but 3 month YoY growth rate slips to 6%</p>	
- 3 Month Avg YoY %	12.5	12.6	8.1	13.0	12.3	11.9	6.1	#N/A		
- 12 Mth Total	37,540	37,905	38,085	38,908	39,165	39,240	39,502	#N/A		
RPPR Transactions : Month	4,526	4,886	4,300	5,480	4,993	5,001	5,276	#N/A	<p>Transaction activity has picked up slightly, with the 12 month cumulative total close to 58k</p>	
- 3 Month Avg YoY %	6.0	6.5	4.0	1.5	0.6	6.0	3.3	#N/A		
- 12 Mth Total	57,168	57,391	57,095	57,382	57,486	57,969	57,869	#N/A		
Residential Mortgages (Central Bank of Ireland)									<p>Rate of contraction of mortgage debt outstanding has eased since the start of the year; at -0.6% in October</p>	
- Amount Outstanding (Adj.) YoY %	-1.0	-0.8	-0.9	-0.9	-0.8	-0.7	-0.6	#N/A		
<b>HOUSING MARKET PRICES</b>										
CSO Price Index - MoM %	0.2	0.3	0.4	0.8	0.3	0.1	0.1	#N/A	<p>Annual CSO house price growth slowed to 0.9% YoY in Oct, though prices have risen for 8 straight months. Dublin prices fell by 1.5%, while ex-Capital inflation at 3.3%</p>	
- YoY %	3.0	2.6	2.0	2.2	1.9	1.0	0.9	#N/A		
- Dublin YoY %	0.5	0.0	0.1	0.0	-0.4	-1.2	-1.5	#N/A		
- Ex Dublin YoY %	5.4	5.3	4.0	4.5	4.4	3.4	3.3	#N/A		
RPPR Transaction Price (Simple Average)									<p>Similarly, transaction price data suggests that house prices are levelling off</p>	
- 12 Month Average €	296,140	297,686	293,555	293,247	298,157	298,633	297,077	#N/A		
Daft List Prices: YoY %	4.1	1.8	3.3	0.8	1.4	-1.8	#N/A	#N/A		
<b>RENTS &amp; AFFORDABILITY</b>										
RENTS: CSO Private Rents - MoM %	0.4	0.3	0.3	0.3	0.6	1.1	0.2	0.0	<p>CSO rental inflation decelerates to a 6.5 year low in Nov. Rents 31.6% above prior peak</p>	
- YoY %	5.4	5.2	5.5	5.6	5.2	5.8	5.1	4.5		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									<p>Affordability stable over the autumn as impact of modest house price rises negated by good earnings growth</p>	
- Mort as % of Disposable Income	17.9	18.0	18.2	18.4	18.6	18.6	18.6	#N/A		
<b>QUARTERLY DATA</b>										
	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19		
CSO Dwelling Completions	4,558	3,466	4,399	4,645	5,485	4,259	4,838	5,667	<p>Completions up 18% in year to September, with 12 month running total at 20k. Still well below estimated demand (35k)</p>	
- YoY %	49.8	25.1	34.6	23.1	20.3	22.9	10.0	22.0		
- Cum 12 Mth Total	14,368	15,064	16,196	17,068	17,995	18,788	19,227	20,249		
CSO Planning Permissions	6,934	7,766	6,777	8,018	6,682	7,493	9,611	10,590	<p>YoY growth in planning permissions remained strong in Q3. Aided by an 80.2% YoY increase in applications for development of apartments</p>	
- YoY %	60.2	67.0	52.2	69.2	-3.6	-3.5	41.8	32.1		
- Cum 12 Mth Total	20,776	23,892	26,216	29,495	29,243	28,970	31,804	34,376		
<b>BPFI Mortgage Drawdowns</b>										
Purchase Drawdowns (Volume)	8,709	6,402	7,381	8,727	9,613	6,673	7,987	9,486	<p>YoY growth in the volume of mortgage drawdowns rose by 8.7% in Q3. Lending to FTBs picked up strongly, increasing by 14.3% YoY</p>	
YoY % (Volume)	14.7	9.6	9.2	8.0	10.4	4.2	8.2	8.7		
FTB YoY % (Volume)	23.9	15.5	14.3	7.4	9.6	6.9	10.8	14.3		
Total Drawdowns (Value, € Mln)	2,231	1,703	2,014	2,370	2,636	1,885	2,250	2,639	<p>In value terms, cumulative 12 month total of drawdowns at €9.4bn as of Q3. FTBs continue to account for largest share of drawdowns at circa 50%</p>	
- YoY % (Value)	23.0	22.4	22.1	17.6	18.2	10.7	11.7	11.4		
- Cum 12mth Drawdowns (Value, € Mln)	7,287	7,599	7,964	8,318	8,723	8,905	9,141	9,410		

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



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