

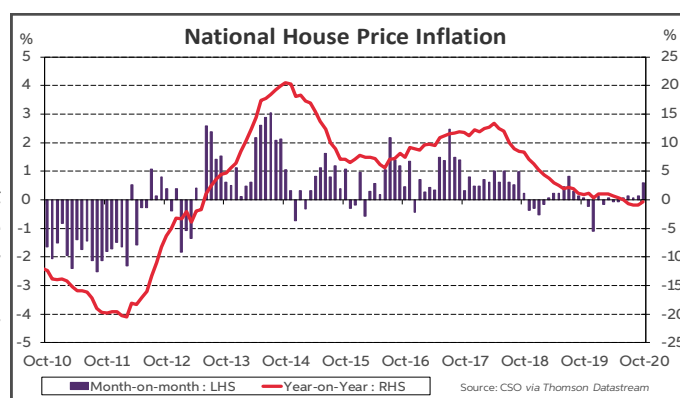
Housing market showing impressive resilience

Despite a very severe recession hitting the Irish economy in 2020, the residential property market has held up remarkably well this year. The signs are that the impact of the Covid crisis on the market has not been as severe as had been envisaged back in the early months of the pandemic. This is evident across a number of price, demand, supply and lending metrics.

The most recent CSO figures on residential property prices show a 0.5% monthly increase in October. This was the fifth consecutive month of price rises. However, in year-on-year terms, prices were 0.4% lower in October. The geographic breakdown shows that prices in the capital declined by 1.2% y/y in October, while non-Dublin prices were 0.4% higher. It should be noted that CSO figures are a lagging measure as they are compiled from sales that were agreed a number of months earlier. Daft.ie data, which are based on asking prices, are more indicative of current market conditions. They show that prices recovered over the summer after declining during the first lockdown period and suggest that prices are now above their levels of a year ago.

Overall, assessing the various price indicators, prices have performed much better than was anticipated earlier in the year. One reason behind this is that demand has been bolstered by improvements in the Help-to-Buy scheme and possibly changes brought about by Covid, such as remote working. At the same time, new supply this year is below 2019 levels, meaning the housing shortfall has widened.

The crisis has had a more significant impact on the rental sector. This is likely due to the fact that the majority of job losses have been concentrated in the part-time cohort of the labour market. The CSO private rents index shows that rents were 3.2% lower in year-on-year terms in November. Meanwhile, the latest mortgage approvals data indicate renewed strength in the homebuyer segment of the market. The October figures show that the month was the busiest on record (series started in 2011), with total approvals up by 15% y/y. There was an even stronger performance from the First Time Buyer segment, with approvals rising by 31%y/y.



On the supply side, CSO new dwelling completions data show a fall of 9% in Q3 on a year-on-year basis. The year-to-date total is also down by around 9%. However, given that the construction sector was shut down for much of the first half of the year, these falls are relatively modest and less than was originally envisaged. Indeed, the 12-month cumulative total for new completions was running at close to 20,000 units to Q3. This suggests that the full year total could be above 19,000 units. While this would still represent a fall compared to the 21,000 units of new supply last year, it is still better than the projections of 15,000-18,000 new units made in the first half of the year at the height of the crisis.

In terms of leading supply indicators, the activity metrics offer mixed signals. Housing starts, measured by commencement notices, were 30% lower in the year to October, with the 12 month aggregate total falling below 21,000 units. Commencement totalled 26,000 units in 2019. Meanwhile, the housing component of the construction PMI rose to 53 in November. Elsewhere, planning permissions rose by 22% y/y in Q3 after falling in Q2, and are up a strong 25% year-to-date, with a big jump in apartments.

Near term challenges, but medium term prospects are positive

The progress on vaccines is supportive of the medium term growth prospects for the Irish economy. However, the near term outlook remains challenging, with restrictions on activity likely to remain in place for some time. The impact of Brexit also adds to the near term uncertainty. In the context of the housing market, the marked fall in housing starts this year indicates that new completions may be in the region of 21,000 units in 2021. However, the sharp rise in planning permission over 2019 and 2020 suggests that significant new supply is likely to come on stream in the next two to three years, once the economic uncertainty fades. This is required as the market is still well short of meeting annual demand, that is estimated to be circa 30,000 units.

In terms of prices, the on-going shortfall in supply, combined with strong demand from institutional investors (reported that 95% of apartments built in 2019 were purchased by investment funds) and public authorities, as well as first-time buyers, should continue to help underpin the market. The enhancements in the Help-to-Buy scheme are likely to act as a support to prices in the FTB segment of the market. Indeed, figures from Revenue show that there were a record number of applications for this scheme in the first 11 months of the year, with total applications up by 31% compared to the Jan-Nov period in 2019. There has also been a strong increase in household savings, which will also help to underpin demand. Therefore, we could see some upward pressure on residential property prices over the course of 2021-22 as the economy recovers.

MONTHLY DATA	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20		
RESIDENTIAL CONSTRUCTION ACTIVITY										
Markit/Ulster Bank Construction PMI										Housing PMI moved higher to 53 in November as construction allowed to continue despite the national lockdown
- Housing Activity	4.9	21.4	55.8	57.8	44.7	44.1	50.3	53.0		
Commencements: Month	1,039	873	1,187	1,621	1,571	2,249	2,222	#N/A		
- Cum 12 Mth Total	25,606	24,617	23,929	23,379	22,066	21,774	20,823	#N/A		Commencements back above 2K, but remain at a subdued level, down 30.7% YTD compared to last year. 12 month cumulative total below 21k, lowest level since Sept. 18'
- 3 Month Avg YoY %	-16.8	-32.0	-45.7	-37.7	-36.8	-28.4	-29.7	#N/A		
HOUSING / MORTGAGE MARKET ACTIVITY										
BPFI Mortgage Approvals : Month	706	1,320	1,688	2,713	3,337	3,927	4,419	#N/A		Strong rebound in mortgage approvals continues. October was the busiest month for approvals since the series began in 2011.
- 3 Month Avg YoY %	-29.9	-52.4	-66.1	-51.8	-32.7	-8.4	12.8	#N/A		
- 12 Mth Total	37,124	34,484	32,480	30,966	30,722	31,561	32,288	#N/A		
RPPR Transactions : Month	2,620	2,572	3,044	3,640	2,933	4,221	5,361	4,049		Transactions fall in November, likely due to second lockdown. 3 month average at -13.6% YoY. 12 month total below 47k
- 3 Month Avg YoY %	-17.6	-30.0	-40.2	-37.2	-35.3	-30.7	-19.7	-13.6		
- 12 Mth Total	56,382	54,052	52,767	50,903	48,816	47,983	47,830	46,678		
Residential Mortgages (Central Bank of Ireland)										Outstanding mortgage stock falls 0.9% YoY in October
- Amount Outstanding (Adj.) YoY %	-0.3	-0.5	-0.6	-0.7	-0.8	-1.0	-0.9	#N/A		
HOUSING MARKET PRICES										
CSO Price Index - MoM %	-0.1	-0.1	0.1	0.2	0.1	0.2	0.5	#N/A		House prices rose by 0.5% in October, the largest monthly increase since July '19. Ex-Dublin price inflation (+0.5%) outpaces the capital (-1.2%)
- YoY %	0.7	0.4	0.0	-0.7	-0.9	-0.9	-0.4	#N/A		
- Dublin YoY %	0.2	-0.2	-0.6	-1.4	-1.7	-1.7	-1.2	#N/A		
- Ex Dublin YoY %	1.2	0.9	0.6	0.1	-0.1	0.1	0.5	#N/A		
RPPR Transaction Price (Simple Average)										RPPR Prices quite steady recently. Daft.ie list prices up 5.2% YoY in September, following largest quarter increase since Q1 2015
- 12 Month Average €	314,401	312,460	312,030	315,525	310,807	310,864	311,596	310,984		
Daft List Prices: YoY %	-6.5	-1.3	-3.4	0.1	2.6	5.2	#N/A	#N/A		
RENTS & AFFORDABILITY										
RENTS: CSO Private Rents - MoM %	-1.8	-1.1	-0.3	0.2	0.2	0.4	-0.5	0.0		CSO rental index unchanged in November. YoY rate at -3.2%
- YoY %	0.8	-0.7	-1.2	-1.4	-1.8	-2.6	-3.2	-3.2		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB										Affordability measure continues on its upward trend. Up by 0.5% since April, as average industrial wages fall.
- Mort as % of Disposable Income	17.8	18.1	18.1	18.2	18.3	18.3	#N/A	#N/A		

QUARTERLY DATA	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20		
CSO Dwelling Completions										
CSO Dwelling Completions	5,431	4,250	4,821	5,652	6,384	4,970	3,247	5,118		Completions down 9.4% YoY in Q3. Hold up better than expected in 2020, running at just below 20K for the year
- YoY %	19.2	22.8	9.7	22.0	17.5	16.9	-32.6	-9.4		
- Cum 12 Mth Total	17,920	18,709	19,134	20,154	21,107	21,827	20,253	19,719		
CSO Planning Permissions										
CSO Planning Permissions	6,682	7,493	9,611	10,590	12,558	14,789	6,807	12,942		Planning rebounded strongly by 22.2% in Q3. Planning for apartments continues to outpace that for houses
- YoY %	-3.6	-3.5	41.8	32.1	87.9	97.4	-29.2	22.2		
- Cum 12 Mth Total	29,243	28,970	31,804	34,376	40,252	47,548	44,744	47,096		
BPFI Mortgage Drawdowns										
Purchase Drawdowns (Volume)	9,613	6,673	7,987	9,486	9,941	6,932	5,035	6,366		Drawdowns stage a modest recovery in Q3. Although, YoY volume of drawdowns down 32.9%. Lending to FTBs also down by 29.9% YoY
YoY % (Volume)	10.4	4.2	8.2	8.7	3.4	3.9	-37.0	-32.9		
FTB YoY % (Volume)	9.6	6.9	10.8	14.3	11.0	8.3	-34.8	-29.9		
Total Drawdowns (Value, € Mln)	2,636	1,885	2,250	2,639	2,768	1,996	1,462	1,958		In value terms, drawdowns were down 25.8% YoY. 12 mth total at €8.2bn, FTBs share of drawdown value remains at 52% of 12mth total
- YoY % (Value)	18.2	10.7	11.7	11.4	5.0	5.9	-35.0	-25.8		
- Cum 12mth Drawdowns (Value, € Mln)	8,723	8,905	9,141	9,410	9,542	9,653	8,865	8,184		

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



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