

Housing Market Bulletin - June 2013

Levels of Potential Demand Point to Emerging Significant Stock Shortages

Significant potential household formation

Ireland's demographic structure indicates significant potential household formation and thus housing demand (be it as owner occupiers or in the rental market). Potential household formation reflects a combination of factors. One is the large number of young people reaching the age at which they might form their own household. A second is the general aging of the population and increasing life expectancy. These demographic factors imply a potential demand for around 25,000 additional housing units per annum.

A further factor behind potential household formation is the trend towards smaller household size. In this regard, it is the number of adults per household that is significant. Ireland has seen a steady increase in "headship" (i.e. the proportion of adult in any age group that are heads of household). This reflects factors such as increased marital break-up, more support for one parent families and an increased desire by young adults to move out of the family home. In the period between the April 2006 and April 2011 Censuses, increased headship resulted in the creation of, on average, 7,000 households per annum. Near term we are assuming a more modest pace of increase in headship, resulting in the formation of some 3,000 additional households per annum.

However, against this, the need for new housing units is being reduced by net emigration. Based on the age structure of recent emigration flows, we estimate that this is reducing housing demand by some 10,000 units per annum.

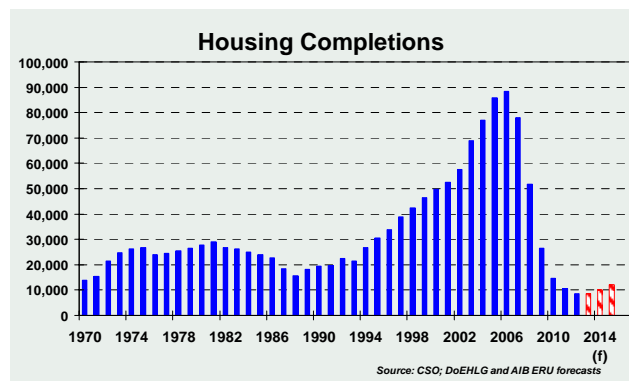
These factors combined (growth and aging of the existing population, net emigration and increased headship) could result in the formation some 18,000 new households per annum.

Potential demand for around 23,000 units over annum over the next few years ...

Household formation, though, is not the full story. There is also the need to replace obsolete units (running at 4,000 per annum over the April 2006-2011 period) and demand for a small number of second/holiday homes. Combining all these factors, we estimate a potential demand for some 23,000 new housing units per annum.

... far outstripping levels of output ...

Such potential demand far outstrips the level of new supply. There were just 8,488 units completed in 2012, a 19% decline on the 2011 level of 10,480 units. Completions declined by a further 6% year-on-year in the year to April. Lead indicators of activity, such as housing registrations and commencements, though, have shown some pick-up in recent months, albeit also still at very low levels. Thus, we are cautiously optimistic that the downturn in new housing construction is bottoming out and that there will again be around 8,500 units completed this year, with output possibly rising to 10,000 units in 2014.



However, this is a very low level of new construction activity. To put it in perspective, completions in 2012 were lower than at any time since 1970 and, even in the 1980's/early 1990's downturns, Ireland was still building around 20,000 - 25,000 new houses each year.

... and pointing to emerging stock shortages

The relative levels of potential demand and new supply imply a significant erosion of vacant stock. Furthermore, given the mismatch between the location and type of vacant stock and the nature of current demand, it is quite likely that significant stock shortages will develop in certain regions and for certain types of property, unless there is a response in terms of new construction activity. Anecdotal evidence points to stock shortages already developing (in terms of houses in particular) in Dublin and some other urban regions, which is beginning to push up prices and rents.

LATEST DATA

Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	43.4	44.2	45.8	46.5	46.7	45.0	43.8	44.2
Housing Registrations: 3M Avg saar	657	721	725	749	767	821	987	#N/A
- 3 Month Avg YoY %	-11.4	-1.1	-22.0	-16.2	3.4	52.1	90.1	#N/A
- Cum 12 Mth Total YoY %	-14.6	-14.9	-24.8	-19.0	-8.2	-0.3	11.2	#N/A
Commencements: 3M Avg saar	4,013	4,828	4,484	4,681	3,739	3,929	#N/A	#N/A
- 3 Month Avg YoY %	0.0	30.7	34.3	57.7	35.8	19.7	#N/A	#N/A
- Cum 12 Mth Total YoY %	-15.4	-7.7	-7.4	-3.3	9.6	11.5	#N/A	#N/A
Completions: Month	779	847	826	511	604	576	699	#N/A
- Cum 12 Mth Total	8,603	8,512	8,488	8,372	8,337	8,248	8,325	#N/A
- Cum 12 Mth Total YoY %	-24.0	-20.7	-19.0	-18.5	-16.9	-14.5	-11.5	#N/A

PMI shows construction activity continuing to contract

However, some signs of stabilisation in lead indicators of new construction activity - albeit at very low levels.

Seas. adj. both registrations and commencements are off their lows and up strongly YoY in recent months

Completions may be close to bottoming out given trend in 12 mth running total

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	2,329	2,977	3,794	1,493	1,513	1,764	1,727	#N/A
- 3 Month Avg YoY %	33.8	39.3	58.9	52.9	38.5	13.0	13.1	#N/A
- 12 Mth Total	22,407	23,465	24,997	25,265	25,356	25,546	25,845	#N/A
IBF Mortgage Approvals : Month	1,565	1,889	1,323	768	987	1,063	1,308	#N/A
- 3 Month Avg YoY %	23.4	35.5	40.3	29.2	10.5	-4.3	1.7	#N/A
- 12 Mth Total	15,128	15,749	16,074	16,027	16,041	15,946	16,084	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-1.9	-1.6	-1.6	-1.8	-1.9	-1.9	-2.0	#N/A

Transaction and mortgage activity rose strongly towards end 2012 ahead of the ending of mortgage interest relief (MIR) at the end of last year

Growth in transactions and approvals then slowed to 13% and 2% YoY, respectively, in 3 mths to April from 59% and 40% respectively, in Q4 last year

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	-0.6	1.1	-0.5	-0.6	-1.5	-0.5	0.8	#N/A
- YoY %	-8.2	-5.7	-4.5	-3.3	-2.6	-3.0	-1.2	#N/A
- Dublin YoY %	-7.1	-3.5	-2.5	2.1	3.0	1.4	1.0	#N/A
- Ex Dublin YoY %	-8.9	-7.2	-6.1	-7.0	-6.1	-5.8	-2.8	#N/A
RPPR Transaction Price (Simple Average)								
- 3 Month Average €	196,301	191,534	193,238	190,557	189,588	183,937	187,495	#N/A
Daft Asking Prices: MoM%	1.3	-2.4	-0.1	1.5	-0.5	0.4	#N/A	#N/A
- YoY %	-9.1	-9.4	-9.0	-7.6	-7.1	-5.1	#N/A	#N/A

CSO price index up 0.8% in April and pace of YoY decline has slowed markedly to just 1.2%.

Prices in urban areas showing signs of stabilising - with Dublin prices on the rise. Ex Dublin prices continue to decline YoY

Average transaction price below €200,000

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.7	0.6	0.7	0.1	0.2	1.0	1.0	#N/A
- YoY %	1.5	1.8	3.5	3.4	2.2	2.9	5.0	#N/A
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	11.2	11.8	11.8	14.4	14.2	14.1	14.3	#N/A

Rents showing continuing recovery, now 9% off their lows.

Ending of MIR has hit affordability but still at very good levels

QUARTERLY DATA

Q2-11 Q3-11 Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13

Mortgage Drawdowns

Purchase Drawdowns	2,643	2,939	3,224	2,213	2,837	3,532	5,578	1,803
YoY %	-46.6	-42.6	-19.9	-4.8	7.3	20.2	73.0	-18.5
FTB YoY %	-49.4	-43.7	-18.6	-6.9	9.6	22.2	97.4	-23.4

Purchase mortgage drawdowns were down by 18.5% YoY in Q1. However this comes after the very strong 73% YoY increase in Q4 last year, ahead of ending of mortgage interest relief

FTB remain the prominent buyers, at 60% of purchases in the 4 quarters to Q1 2013

Arrears continued to rise in Q4 last year. Higher arrears in buy-to-let sector

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	55,763	62,970	69,354	75,679	81,035	91,358	94,488	#N/A
% of Outstanding	7.2	8.1	9.0	9.9	10.6	11.5	11.9	#N/A
Buy-to-Let								
Number of Accounts in Arrears	#N/A	#N/A	#N/A	#N/A	24,879	27,018	28,421	#N/A
% of Outstanding	#N/A	#N/A	#N/A	#N/A	16.6	17.9	18.9	#N/A

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

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