Housing Market Bulletin September 2015

AIB Treasury Economic Research Unit



New regulations impacting: Prices slowing, Rents accelerating

Building activity improving but still at subdued levels...

Building activity in the Irish residential property market continues to show signs of improvement. House guarantee registrations, which tend to reflect developer activity, remain on an upward trend, increasing by 89% in the year to July compared to a year earlier, albeit off a low base. Survey data of activity also suggest on-going improvement, with the construction PMI recovering from some early year weakness to register readings well above the key breakeven level of 50 since April.

Meanwhile in terms of house completions, they were at around 6,700 units in the seven months to July, an increase of 16% on the same period last year. At the current run rate, completions are on course to amount to around 13,000 this year, compared to 11,000 last year and 8,300 in 2013. Crucially, the projected figure for 2015 only equates to about half of the total required to meet estimated annual housing demand. The inadequate levels of supply are also reflected in the Daft.ie sales stock. The number of residential units for sale at the end of the second quarter was 11% lower compared to Q2'14 and 29% lower than in Q2'13.

...price pressures in Dublin have moderated, impacted by new regulations...

With the housing market continuing to be defined by the mismatch between demand and supply, it is no surprise that prices continue to rise. Nationally prices increased by 0.9% in July, with the year-on-year rate at a robust 9.4%. However, there has been a sharp slowdown in the pace of growth this year. This easing is being led by Dublin. Here the pace of increase has slowed to 9% in year-on-year terms compared to growth rates of 22-25% in the second half of 2014. Indeed, since the start of the year, prices in Dublin are essentially flat. Outside of Dublin, prices have maintained an upward trajectory this year, with the annual rate running at around 10% year-on-year.

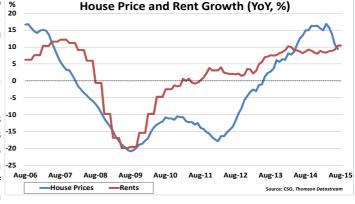
The key factor in the deceleration in Dublin house price rises is the new Central Bank lending regulations as the average house price in the capital is well above the new €220,000 threshold, which requires a larger deposit. Another aspect is that Dublin led

the way in the recovery in prices and it was always unlikely to be able to maintain 20%+ y/y growth rates. Meantime, outside of Dublin, prices there are being supported by a 'catch-up' factor and also coming from a much lower base.

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...meanwhile, rents continue to rise sharply...

While house prices have shown signs of moderating, rents continue to rise very strongly. Year-on-year growth in rents picked up to 10.5% in July and rents are now just 0.5% below their previous peak. In fact, the pace of increase in rents is now faster than the pace of house prices. The lack of supply (Daft.ie data show that rental stock was 32% lower in



August compared to a year earlier), as well as potential homebuyers having to rent for longer in order to meet new deposit requirements (mainly in Dublin), have been contributing factors to the upward pressure on rents.

...while mortgage market also showing signs of being impacted by new lending criteria.

Data from the mortgage market show that at the end of Q2, mortgage drawdowns were up 30% compared to Q2 last year. However, this was a good deal slower than the 48% rate recorded in 2014, suggesting that the new lending criteria may be impacting mortgage lending. There is further evidence of this in the latest mortgage approvals figures. These show that the rise in mortgage approvals has slowed to 5% year-on-year from over 50% at end 2014. Transaction activity has also slowed.

Overall, it appears that the new Central Bank regulations have contributed to a moderation in house price inflation, which is a positive development from a homebuyer perspective. However, the key issue for the housing market remains the shortfall in supply. The market is still awaiting a strong pick-up in building activity to meet pent up demand. Next month's Budget may contain some initiatives to try and encourage more homebuilding and reduce this key supply bottleneck in the economy.

LATEST DATA	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	
RESIDENTIAL CONSTRUCTION ACTIV	VITY								While construction PMI housin
Markit/Ulster Bank Construction PMI									component slowed during Q3, still points to healthy growth
- Housing Activity	54.4	50.1	50.9	55.8	62.7	64.9	57.3	54.4	Still points to fleating growth
riodollig / totivity	01.1	00.1	00.0	00.0	02.1	01.0	01.0	01.1	Housing registrations have
Housing Registrations: Month	208	285	296	354	431	372	359	#N/A	continued to improve in recen
- 3 Month Avg YoY %	136.2	78.8	61.3	64.3	134.5	126.4	110.5	#N/A	months, but remain at a low
- Cum 12 Mth Total	2,683	2,724	2,874	3,049	3,344	3,520	3,659	#N/A	level overall. 12mth cum total best level since December '0
Commencements: Month	300	341	690	820	782	712	1,026	#N/A	Commencements remain soft-
- Cum 12 Mth Total	7113	3111	3799	4540	5252	5768	6459	#N/A	data distorted by Feb'14 surg
- Cum 12 Mth Total YoY %	35.0	-66.6	-57.8	-48.2	-37.8	-30.1	-19.5	#N/A	ahead of revised guidelines
Completions: Month	693	836	1,100	946	991	1,059	1,120	#N/A	Housing completions continu
- Cum 12 Mth Total	11,033	11,258	11,555	11,735	11,641	11,809	11,937	#N/A	to pick-up, but improvement i
- Cum 12 Mth Total YoY %	30.3	32.9	32.8	33.9	25.9	25.2	22.8	#N/A	12mth total showing signs of stalling
HOUSING / MORTGAGE MARKET AC		0.004	0.500	0.040	2 222	4.000	4.405	4481/4	Further slowdown in mortgag
RPPR Transactions : Month	3,338	3,604	3,586	3,612	3,603	4,088	4,195	#N/A	approvals and housing
- 3 Month Avg YoY % - 12 Mth Total	47.4	56.9	55.1	43.4	30.5	24.6	11.4	#N/A #N/A	transactions growth in July a
- 12 Mith Total	44,209	45,530	46,530	47,480	48,054	48,762	48,692	#N/A	new Central Bank lending
BPFI Mortgage Approvals : Month	1,817	2,093	2,228	2,070	2,347	2,362	2,700	#N/A	criteria continue to impact
- 3 Month Avg YoY %	55.3	49.2	40.6	28.8	17.3	7.5	4.6	#N/A	
- 12 Mth Total	26,055	26,664	27,271	27,483	27,645	27,744	27,811	#N/A	The pace of decline in
12 Will Total	20,000	20,001	21,211	27,100	27,010	_,,,,,,,	27,011	<i>,,,,,,,</i>	mortgages outstanding has
Residential Mortgages (Central Bank of	Ireland)								remained broadly stable in
- Amount Outstanding (Adj.) YoY %	-2.3	-2.6	-2.7	-2.6	-2.5	-2.6	-2.6	#N/A	recent months at 2.5-2.7% Yo
HOUSING MARKET PRICES									
CSO (Mortgaged Transactions) - MoM	-1.4	-0.4	0.9	0.6	0.5	0.1	0.9	#N/A	House price growth has slowe
- YoY %	15.5	14.9	16.8	15.8	13.8	10.7	9.4	#N/A	in 2015, reflecting impact from
- Dublin YoY %	21.6	21.4	22.8	20.2	15.2	11.1	9.0	#N/A	of new Central Bank rules.
- Ex Dublin YoY %	9.2	8.2	10.7	11.4	11.9	9.7	9.6	#N/A	Dublin prices are flat compare to the end of 2014, while
									ex-Dublin are up 2.6%
RPPR Transaction Price (Simple Aver	• ,	000 004	040 044	040 404	207.000	040.005	040.040	#N1/A	Average transaction price
- 6 Month Average €	227,162	220,884	216,311	210,134	207,890	212,685	212,940	#N/A	Average transaction price remains above €200k, though
Daft Asking Prices: MoM%	0.6	4.6	1.3	-0.3	0.6	-1.0	#N/A	#N/A	has edged lower in recent
- YoY %	11.1	17.0	13.3	13.6	11.4	9.5	#N/A	#N/A	months
RENTS & AFFORDABILITY									YoY growth in rents picks up
RENTS: CSO Private Rents - MoM%	1.4	0.9	0.6	0.6	0.6	0.9	1.0	0.9	further in July to 10.5%. Rent now just 0.5% from pre-
- YoY %	8.8	8.5	8.3	8.7	8.9	9.3	10.4	10.5	recessionary peak
AFFORDABILITY: Couple on Avg Indus	trial Wage	, 92% LTV,	30Yr Morto	age : Morto	gage cost a	s % of Disp	oosable Inco	ome	Affordability remains at quite
	16.7	16.6	16.8	16.9	17.1	16.6	16.7	#N/A	accommodative levels
QUARTERLY DATA									
	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	
									YoY growth in mortgage
									drawdowns slowed in Q2 (in both volume and value terms
BPFI Mortgage Drawdowns			_						
Purchase Drawdowns	4,051	4,761	3,126	4,337	5,763	6,929	5,125	5,604	both volume and value terms
Purchase Drawdowns YoY %	14.7	-14.6	73.4	51.8	42.3	45.5	63.9	29.2	FTB remain the dominant
Purchase Drawdowns									

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

93,106

31,048

21.5

12.2

90,343

31,749

11.8

22.0

84,955

31,619

22.1

11.2

78,699

29,224

20.7

10.4

74,395

27,492

19.7

9.8

70,299

26,057

19.0

9.3



Mortgage Arrears 90 Days +

Number of Accounts in Arrears

Number of Accounts in Arrears

Principal Residences

% of Outstanding

% of Outstanding

Buy-to-Let

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96,467

30,706

12.6

98,736

31,178

21.1

12.9

The number of mortgages in

arrears (both principal

residence & BTL) recorded

further strong declines in Q2,

but they remain very high