Housing Market Bulletin

AIB Treasury Economic Research Unit



20th December 2016

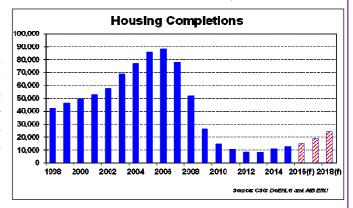
Plenty of demand side initiatives, but supply still key issue

Recent initiatives will provide boost to already strong demand

The Irish residential property market continues to dominate public and political discourse. Recently, a lot of attention has centred on issues such as the help-to-buy scheme, the altering of the Central Bank mortgage regulations and rent control. In Budget 2017, the Government outlined a scheme that will provide first-time buyers with a rebate of income tax paid over the previous four years of up to 5% of the purchase price of a new home, up to a maximum value of €400,000. The Government hopes that this measure

can provide some level of certainty to developers regarding housing demand, thereby boosting new supply.

The much debated Central Bank regulations that were introduced back in early 2015 have also been amended. First time buyers will now be able to avail of a 90% loan-to-value limit regardless of price (was previously up to €220,000 and thereafter subject to 80% LTV). However, the 3.5 times loan-to-income ratio remains in place. Meanwhile, in recent days, the Government has introduced a 4% annual cap on rents in Dublin and Cork City, with the potential for it to apply to other areas as well.



However, supply is still the main issue...

The broad scope of the measures discussed above, mainly affect the demand side of the housing market. However, the key issue remains the on-going shortfall in supply. There are signs of a pick-up in supply, albeit it still remains at low levels. Housing completions are up over 17% year-to-date in October compared to the same period in 2015. Based on their current run rate, completions are on course for a full year total in the region of 15,000 units for 2016. In terms of forward looking supply indicators, both housing registrations and commencements data have continued on their upward trend, but in absolute level terms still remain low.

Crucially, while the projected 15,000 completions for this year compares favourably to last year's 12,660 total, it is still some way short of the estimated 25,000-30,000 units required per annum to meet housing demand. This shortfall in supply has been an ever present feature of the housing market in recent years, and based on current supply dynamics it could be 2019 at the earliest before new house building is anywhere near the required level.

...which continues to impact houses prices, rents, stock and the size of mortgage market

The mismatch between supply and demand is evident across a broad range of indicators for the sector. The new CSO residential property price index (now includes cash purchases as well as mortgage transactions) shows house prices rising by 7% in year-on-year terms in October. The data in recent months indicate a renewed strengthening of prices. House price inflation outside of Dublin remains higher than in the capital (10% vs. 5.5%, October 2016). At the same time, the rate of rent inflation remains very high, at nearly 10%, although there are tentative signs that the pace of increase may be slowing somewhat.

The level of stock available to rent or buy continues to fall. According to the latest Daft.ie data, the number of properties available to rent in October was down 12% versus the same period in 2015. Likewise, the sales stock also continues to decline on a yearly basis, falling by 14% in September compared to year earlier levels. This equates to roughly 1% of the total housing stock. However, in a properly functioning market, the level of stock for sale should be somewhere in the region of 3-4%.

The lack of supply of residential properties is also acting as a headwind to growth in the mortgage market. New mortgage lending for 2016 is likely to be in the region of \in 5.5bn. While this would represent a good increase on the \in 4.8bn total for 2015, it is still below what would deemed to be a 'normal' market size of \in 8-10bn. Mortgage lending should see further solid growth in the next couple of years as the housing market continues to recover.

LATEST DATA	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	
RESIDENTIAL CONSTRUCTION ACTIVITY									Housing PMI remained at a very strong level in November
Markit/Ulster Bank Construction PMI - Housing Activity	58.4	57.4	61.8	61.3	63.1	59.5	63.5	63.9	Housing registrations rise further on a 12mth cumulative
Housing Registrations: Month - 3 Month Avg YoY % - Cum 12 Mth Total	421 63.0 4,831	573 66.2 4,973	297 11.6 4,898	566 23.6 5,105	549 -17.4 4,675	336 -2.3 4,864	543 -2.1 5,075	590 87.1 5,359	basis in November. Yearly comparison distorted by unusually strong rise in Aug'15
Commencements: Month - Cum 12 Mth Total - Cum 12 Mth Total YoY %	784 8780 93.4	1,208 9206 75.3	1,059 9553 65.6	1,017 9544 47.8	1,022 9906 44.6	1,081 9965 34.5	1,759 11053 44.1	#N/A #N/A #N/A	Commencements record strong 1,759 increase in October—12 month total now above 11k
Completions: Month - Cum 12 Mth Total - Cum 12 Mth Total YoY %	1,149 13,384 14.1	1,294 13,687 17.6	1,055 13,683 15.9	1,110 13,673 14.5	1,415 14,139 16.8	1,340 14,259 17.4	1,290 14,411 17.4	#N/A #N/A #N/A	Housing completions improving—on course for around 15k in 2016
HOUSING / MORTGAGE MARKET ACTIVITY									
RPPR Transactions : Month - 3 Month Avg YoY % - 12 Mth Total	3,655 -2.1 47,592	3,846 0.0 47,867	4,005 -0.3 47,619	4,356 -2.5 47,365	3,986 -0.6 47,794	4,306 2.4 47,916	3,942 0.4 47,416	#N/A #N/A #N/A	YoY growth in transactions remains relatively muted
BPFI Mortgage Approvals : Month - 3 Month Avg YoY % - 12 Mth Total	2,601 -4.9 25,572	2,616 4.9 25,841	2,909 19.9 26,388	2,908 14.5 26,638	2,948 22.9 27,474	2,766 23.5 28,030	2,628 26.6 28,391	#N/A #N/A #N/A	The pace of YoY growth in mortgage approvals continues to rise. Suggests impact from CB lending rules is abating
Residential Mortgages (Central Bank of Amount Outstanding (Adj.) YoY %	of Ireland -2.5) -2.5	-2.2	-2.1	-2.0	-1.9	-1.7	#N/A	Pace of decline in outstanding mortgages continues to slow
HOUSING MARKET PRICES									CSO house prices continue to
CSO (Stamp Dutues) - MoM % - YoY %	0.4	0.5	1.0	2.4	1.4	1.5	0.8	#N/A	rise at a strong pace, up 7.1%
- Dublin YoY %	5.8	5.4 3.4	4.9 2.6	6.6 4.0	6.8 4.5	7.6 6.0	7.1 5.5	#N/A #N/A	YoY in October. Pace of growth in ex-Dublin (10.2%)
- Ex Dublin YoY %	8.8	8.4	8.7	10.9	10.6	10.7	10.2	#N/A	continues to outpace Dublin (5.5%), in part due to Central
RPPR Transaction Price (Simple Avera - 6 Month Average €	J ,	235,496	238,215	234,595	240,865	242,538	245,257	#N/A	Bank lending regulations
Daft Asking Prices: MoM% - YoY %	-0.6 5.3	0.8 5.5	1.4 8.1	0.9 7.1	0.9 8.1	0.6 7.7	#N/A #N/A	#N/A #N/A	Average property transaction price has risen to c.245k in the 6 moths to October
RENTS & AFFORDABILITY									Rents stable in Nov after 27
RENTS: CSO Private Rents - MoM% - YoY %	1.0 9.7	0.5 9.7	0.5 9.3	0.9 9.1	0.7 8.9	1.9 9.6	0.9 10.1	0.0 9.7	consecutive MoM increases. YoY price inflation at 9.7%
AFFORDABILITY: Couple on Avg Ind - Mort as % of Disposible Income	' Wage, 9 15.7	0% LTV, 3 15.8	30 Yr Mor 16.1	t, AIB Mor 16.0	rt Rate, Pr 16.3	ices: CSO/ 16.6	Perm' TSI 16.7	B #N/A	Lower mortgage rates mean affordability still favourable
OLIA DTEDI V DATA	0.11	04.45	00.45	00.45	04.45	04.44	00.44	00.46	
QUARTERLY DATA	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	YoY growth in mortgage
BPFI Mortgage Drawdowns	6.000	E 110	E 427	()) 4	(700	4.634	E 767	6.004	drawdowns picks up in Q3 (8.8% vs 6.1% in Q2). Strong
Purchase Drawdowns YoY %	6,929 45.5	5,113 63.6	5,437 25.4	6,334 9.9	6,780 -2.2	4,634 -9.4	5,767 6.1	6,894 8.8	growth in FTB drawdowns also points to abating in CB
FTB YoY %	49.2	67.6	29.7	9.2	-6.9	-11.2	4.2	11.0	lending rules impact
Mortgage Arrears 90 Days + Principal Residences									FTB remain the dominant source of mortgage drawdowns at 57% of total
Number of Accounts in Arrears % of Outstanding	78,699 10.4	74,395 9.8	70,296 9.3	65,653 8.8	61,931 8.3	59,696 8.0	57,571 7.8	56,350 7.6	The number of mortgages in arrears declined further in Q3, the page of improvement has

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

19.0

20.7



Buy-to-Let

% of Outstanding

Number of Accounts in Arrears

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17.0

29,224 27,492 26,071 24,809 23,344 22,516 21,962 21,435

18.1

16.2

16.3

the pace of improvement has

slowed, while arrears remain

at high overall