

Supply, or lack of it, still the big issue

A broad range of indicators continue to reflect an on-going shortage in the Irish residential property market. These include data on building activity, the mortgage market, and transaction levels, as well as continued upward pressure on prices and rents.

Vast array of indicators continue to reflect subdued housing supply

Recent data on building activity indicate some pick up in the construction of residential units. The most up to date figures on completions, which cover to the end of April, show them up 20% compared to the same period in 2015. On the basis of their current 'uptrend' in the first four months of 2016, completions are on course to rise to close on 15,000 units this year. This would compare to the 12,600 units completed in 2015. However, crucially, this projected number is still some way short of the estimated housing demand figure of 25,000.

In terms of forward looking indicators, house guarantee registrations (tend to reflect developer activity), are on an upward trajectory, increasing by over 40% in the five months to May compared to the same period a year earlier. Commencement notices also continue to improve on a 12-month cumulative basis. However, it must be noted that despite these improvements, both indicators remain very low in absolute terms. Meanwhile, survey data on housing activity, such as the housing component of the construction PMI continues to suggest a solid pace of expansion.

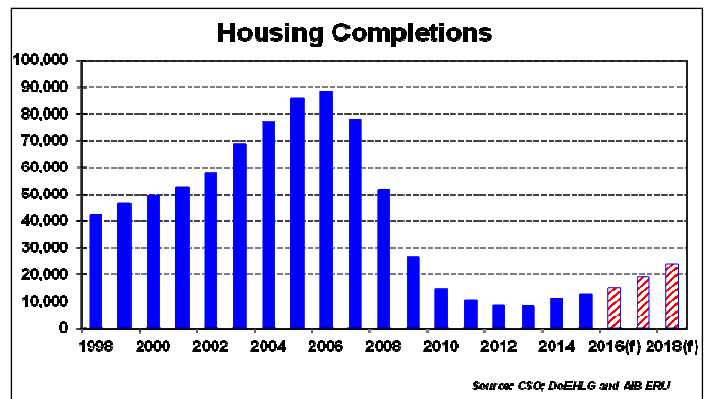
This on-going shortfall in supply is also very much evident in the number of houses listed for sale and rent. The most recent data on this available from Daft.ie, which are for March this year, show that there were c.23,900 properties listed for sale, a fall of around 14% versus the same month a year earlier, which itself represented a fall of 16% from 2014 levels. This March number equates to less than 1% of the total private housing stock. In a 'normal' functioning property market, the level of stock for sale should be in the region of 3-4% as a proportion of total stock. The quantity of rental stock also continues to fall, with the number of properties available to rent in May down 29% compared to the same period in 2015.

The mismatch between supply and demand is also impacting activity levels in the mortgage market. The Central Bank regulations on mortgage lending are also acting as a restraint on buyer activity. In the first quarter of this year, new mortgage lending amounted to €1.0bn, a 2.5% year-on-year fall. However, Q1 2015 was a very strong quarter, skewed in part by activity being brought forward before the new lending rules came into operation. More recent data suggest growth in mortgage activity may have risen on year earlier levels.

Prices and rents continue to rise, cost to build coming into focus

Not surprising, given the 'insufficient' supply backdrop, house prices continue to experience upward pressure, although the pace of increases has moderated. On a national basis, house prices recorded a 6.9% pace of yearly growth in May. This compares to a near 14% rate of growth in May 2015. However, in Dublin where property recorded some slowdown as a result of the new mortgage lending rules, prices there have started to show some signs of acceleration. Although, the rate of annual growth in non-Dublin prices continues to outpace the capital (8.5% vs. 4.8%). Meanwhile, rents continue to rise strongly and are now over 6% above their previous peak.

In recent months, the 'cost of building' has come more and more into focus. A recent study by the Society of Chartered Surveyors estimated that the "cost to build a house is less than half of the overall cost to provide the house". Non construction factors, such as acquisition costs, financing and taxation elements make up much of the remaining costs. The government recently announced measures to address some of these 'non-building costs' which at the margin may help to reduce housing delivery costs. However, there is no quick fix to the lack of supply in the housing market. In fact, it is likely to be 2018 at the earliest, before housing output rises to the required 25,000 units per annum.



LATEST DATA

Oct-15 Nov-15 Dec-15 Jan-16 Feb-16 Mar-16 Apr-16 May-16

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	57.4	55.2	58.3	65.9	71.2	63.6	58.4	57.4
Housing Registrations: Month	332	306	221	160	300	803	421	573
- 3 Month Avg YoY %	98.9	-9.9	-4.0	-17.1	-15.7	60.1	63.0	66.2
- Cum 12 Mth Total	4,384	4,384	4,290	4,242	4,257	4,764	4,831	4,973
Commencements: Month	671	710	364	627	783	671	784	1,223
- Cum 12 Mth Total	7673	8074	8098	8425	8867	8848	8790	9231
- Cum 12 Mth Total YoY %	-4.9	1.4	4.9	18.4	185.0	132.9	93.6	75.8
Completions: Month	1,138	1,262	1,352	920	1,192	1,032	1,149	#N/A
- Cum 12 Mth Total	12,272	12,503	12,666	12,893	13,249	13,181	13,384	#N/A
- Cum 12 Mth Total YoY %	15.9	16.8	15.0	16.9	17.7	14.1	14.1	#N/A

Construction PMI falls from very high Q1 levels. However, at 57.4 in May, it remains at a strong level

Growth in housing registrations has picked up after a somewhat sluggish start to 2016. Although, they remain at a low level overall

Commencements have shown solid improvement so far this year. YoY comparison still distorted by 2014 policy change

Housing completions on course for improved performance in 2016, up 20% YTD

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,442	4,045	5,511	2,612	3,644	3,352	3,585	3,314
- 3 Month Avg YoY %	3.3	4.8	-10.0	-14.6	-17.1	-9.8	-3.3	-6.5
- 12 Mth Total	49,884	50,244	48,566	47,809	47,819	47,527	47,451	47,109
BPFI Mortgage Approvals : Month	2,267	2,110	1,756	1,627	1,699	1,767	2,631	2,642
- 3 Month Avg YoY %	-7.5	-13.5	-20.3	-20.3	-18.9	-17.0	-4.6	5.9
- 12 Mth Total	27,236	26,634	26,030	25,840	25,446	24,985	25,546	25,841
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.4	-2.6	-2.6	-2.5	-2.4	-2.4	-2.3	#N/A

Pace of YoY decline in transactions increases in May, remains well below recent highs

Mortgage approvals have shown some improvement recently. YoY growth back in positive territory in May

The pace of decline in outstanding mortgages has eased slightly this year

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	1.6	-0.5	0.5	-0.5	0.0	0.4	0.4	0.2
- YoY %	7.6	6.5	6.6	7.6	8.0	7.4	7.1	6.9
- Dublin YoY %	4.5	3.3	2.6	3.4	4.0	3.9	4.6	4.8
- Ex Dublin YoY %	10.7	9.6	10.2	11.4	11.5	10.5	9.5	8.5
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	228,182	230,828	229,235	235,228	232,030	235,688	232,784	236,936
Daft Asking Prices: MoM%	-0.7	-0.9	0.3	1.8	0.7	2.1	#N/A	#N/A
- YoY %	9.1	8.6	7.8	8.1	4.4	5.3	#N/A	#N/A

Annual house price inflation currently around 7%. Data show that ex-Dublin prices continue to grow more strongly than Dublin prices (8.5% vs 4.8%), in part due to CB rules

Average property transaction price remained around 230k in the 6 months to May

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.5	0.4	0.3	1.2	1.1	0.2	1.0	0.5
- YoY %	10.3	10.0	9.6	9.4	9.7	9.2	9.7	9.7

AFFORDABILITY: Couple on Avg Industrial Wage, 90% LTV, 30 Yr Mortgage, AIB Mortgage Rate, Prices: CSO/Perm% TSB

- Mortgage as % of Disposable Income	17.0	16.8	16.8	16.4	16.3	16.4	16.5	#N/A
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Rents continue to rise strongly, YoY growth increased to 9.7% in May. Rents now 6.1% above previous peak

Affordability remains at quite favourable levels

QUARTERLY DATA

Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16

BPFI Mortgage Drawdowns

Purchase Drawdowns	4,337	5,763	6,929	5,125	5,604	6,489	6,901	4,664
YoY %	51.8	42.3	45.5	63.9	29.2	12.6	-0.4	-9.0
FTB YoY %	52.5	41.8	49.2	73.3	36.1	12.5	-5.5	-13.7

Pace of YoY decline in mortgage drawdowns picked up in Q1 to -9%. Likely reflects on-going impact of CB rules and shortage of available properties

FTB remain the dominant source of mortgage drawdowns at 56% of total

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	90,343	84,955	78,699	74,395	70,296	65,653	61,931	59,696
% of Outstanding	11.8	11.2	10.4	9.8	9.3	8.8	8.3	8.0
Buy-to-Let								
Number of Accounts in Arrears	31,749	31,619	29,224	27,492	26,071	24,809	23,344	22,516
% of Outstanding	22.0	22.1	20.7	19.7	19.0	18.1	17.0	16.5

The number of mortgages in arrears (both principal residence & BTL) recorded further declines in Q1, but the levels still remain very high overall

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



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