

## Demand Continuing to Outstrip Supply

As we head into year end, the Irish residential property market continues to be characterised by a major shortfall in supply which shows no signs of abating anytime soon. This is keeping upward pressure on prices, although house price growth has decelerated from its highs, led by a sharp easing in the pace of increase in Dublin house prices. Rents are also rising strongly.

### Mismatch between supply and demand continues...

While there are on-going signs of a modest uptick in homebuilding, activity in the Irish housing market remains at subdued levels. Housing completions, which cover up to the end of the third quarter, are up around 14% compared to the same nine month period in 2014. At their current run rate, completions are on course to total just over 12,000 units this year, representing an underwhelming increase from the 11,000 units recorded last year.

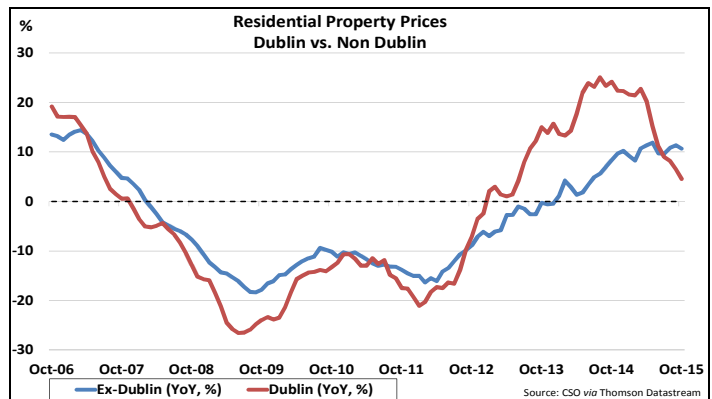
In terms of forward looking indicators, house guarantee registrations, which tend to reflect developer activity, were over 90% higher in the year to October when compared to the same period in 2014. Commencement notices also continue to improve on a 12-month cumulative basis. In absolute terms, though, both registrations and commencements remain very low. Likewise, rising planning permissions data for the second quarter offer some encouragement, albeit the strong growth in percentage terms (+87%) is off a very low base.

The key take away from the various house building indicators is that supply continues to fall well below estimated demand. As we have noted previously, based on Irish population and household dynamics, there is a need for around 25,000 units per annum to be built. Recent government housing initiatives targeted at supply, will at the margin, provide some modest help in this regard. However, it appears that it will take some time for new housing supply to reach this level.

### ...keeping upward pressure on prices, although some easing in Dublin prices.

Not surprising then, with demand continuing to outstrip supply, there continues to be upward pressure on residential property prices. However, the pace of increase has moderated. Nationally, house prices rose by 7.6% in year-on-year terms in October, considerably slower than the 14% average registered in the first half of the year.

The slower pace of growth in prices reflects developments in Dublin, where prices in October increased by just 4.5% year-on-year, compared to growth rates of 15-22% recorded in the first six months of 2015. An important factor in this regard are the new Central Bank lending regulations (average house price in the capital is well above the new €220,000 mortgage LTV threshold).



Meanwhile, non-Dublin price rises have now outpaced Dublin for four consecutive months on a year over year basis. The most recent data show prices outside the capital increasing by 10.7% y/y. There is, to some extent, a 'catch-up' element at play here, but it is also indicative of improved economic conditions, with recent national employment data showing relatively broad-based regional jobs growth. The lack of supply is also impacting the rental market, with rents up 10.3% y/y in October and are now 1.2% above their pre-recessionary peak.

### Mortgage market also showing signs of being impacted by new lending criteria.

Activity in the mortgage market has softened in recent quarters. The latest approvals data show that in the three months to October, approvals were down over 7% compared to the same period last year. This metric has been on a sustained downward trend throughout the year. Likewise, the year-on-year growth in mortgage drawdowns has slowed, in both volume and value terms. The lack of supply combined with the new lending criteria would seem to be the key factors in the slowdown in mortgage growth.

## LATEST DATA

Mar-15 Apr-15 May-15 Jun-15 Jul-15 Aug-15 Sep-15 Oct-15

### RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	50.9	55.8	62.7	64.9	57.3	54.4	55.6	57.4
Housing Registrations: Month	296	354	431	372	359	979	147	332
- 3 Month Avg YoY %	61.3	64.3	134.5	126.4	110.5	192.8	118.7	98.9
- Cum 12 Mth Total	2,874	3,049	3,344	3,520	3,659	4,470	4,326	4,384
Commencements: Month	690	820	782	712	1,026	660	1,018	#N/A
- Cum 12 Mth Total	3799	4540	5252	5768	6459	6851	7407	#N/A
- Cum 12 Mth Total YoY %	-57.8	-48.2	-37.8	-30.1	-19.5	-13.7	-6.6	#N/A
Completions: Month	1,100	946	991	1,059	1,120	949	1,220	#N/A
- Cum 12 Mth Total	11,555	11,735	11,641	11,809	11,937	12,104	12,141	#N/A
- Cum 12 Mth Total YoY %	32.8	33.9	25.9	25.2	22.8	22.3	16.7	#N/A

Housing PMI picks up in October after slowing during Q3

Housing registrations remain on a broadly upward trajectory, but are still at low levels overall

Commencements continue to improve on a 12 month cumulative basis. YoY comparison distorted by base effects from 2014

Housing completions stay very low—12 month total looks to be stalling around 12k

### HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	3,586	3,612	3,603	4,088	4,195	3,464	#N/A	#N/A
- 3 Month Avg YoY %	55.1	43.4	30.5	24.6	11.4	10.4	#N/A	#N/A
- 12 Mth Total	46,530	47,480	48,054	48,762	48,692	49,257	#N/A	#N/A
BPFI Mortgage Approvals : Month	2,228	2,070	2,347	2,362	2,700	2,133	2,210	2,243
- 3 Month Avg YoY %	40.6	28.8	17.3	7.5	4.6	1.1	-1.3	-7.5
- 12 Mth Total	27,271	27,483	27,645	27,744	27,811	27,722	27,651	27,275
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.7	-2.6	-2.5	-2.6	-2.6	-2.6	-2.5	-2.4

Slowdown in YoY growth in mortgage approvals and housing transactions—may reflect new Central Bank lending rules and limited sale stock

The pace of YoY decline in mortgages outstanding has slowed slightly in recent months, now at -2.4%

### HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	0.9	0.6	0.5	0.1	0.9	2.3	1.3	1.6
- YoY %	16.8	15.8	13.8	10.7	9.4	9.5	8.9	7.6
- Dublin YoY %	22.8	20.2	15.2	11.1	9.0	8.2	6.5	4.5
- Ex Dublin YoY %	10.7	11.4	11.9	9.7	9.6	10.8	11.4	10.7
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	216,311	210,134	207,890	212,685	212,940	218,294	#N/A	#N/A
Daft Asking Prices: MoM%	1.3	-0.3	0.6	-1.0	1.8	0.1	0.9	#N/A
- YoY %	13.3	13.6	11.4	9.5	9.5	8.3	7.6	#N/A

House price growth decelerating, YoY growth of 7.6% in October was its weakest rate in nearly 2 years. Reflects slower growth in Dublin market

Average transaction price close to €220,000

### RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.6	0.6	0.6	0.9	1.0	0.9	1.2	0.5
- YoY %	8.3	8.7	8.9	9.3	10.4	10.5	10.3	10.3

AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	16.8	16.9	17.0	16.6	16.8	17.3	17.5	17.2
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Rents continue to rise strongly, YoY growth at 10.3% in October. Rents now 1.2% above pre-recessionary peak

Affordability remains at relatively accommodative levels

## QUARTERLY DATA

Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15

### BPFI Mortgage Drawdowns

Purchase Drawdowns	4,761	3,126	4,337	5,763	6,929	5,125	5,604	6,494
YoY %	-14.6	73.4	51.8	42.3	45.5	63.9	29.2	12.7
FTB YoY %	-27.3	87.2	52.5	41.8	49.2	73.3	36.1	12.6

YoY growth in mortgage drawdowns slowed further in Q3 (in both volume and value terms)—may reflect in part the new Central Bank regulations

FTB remain the dominant source of mortgage drawdowns at 53% of total

### Mortgage Arrears 90 Days +

<b>Principal Residences</b>								
Number of Accounts in Arrears	96,467	93,106	90,343	84,955	78,699	74,395	70,299	#N/A
% of Outstanding	12.6	12.2	11.8	11.2	10.4	9.8	9.3	#N/A
<b>Buy-to-Let</b>								
Number of Accounts in Arrears	30,706	31,048	31,749	31,619	29,224	27,492	26,057	#N/A
% of Outstanding	21.1	21.5	22.0	22.1	20.7	19.7	19.0	#N/A

The number of mortgages in arrears (both principal residence & BTL) recorded further strong declines in Q2, but they remain high

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



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