

Improving trends, but supply headwinds to persist

2013 marked a year of improvement for the Irish housing market, as the pick-up in the domestic economy helped to provide a supportive backdrop. Residential construction activity displayed signs of stabilisation. Meanwhile, house prices and rents recorded robust growth rates over the course of the year.

Building activity showing signs of a pick-up

The decline in housing output appears to have levelled out. Total completions last year came in at 8,300 units, versus 8,488 units recorded in 2012. This represented a fall of just over 2%, compared to declines of 28% and 19% in 2011 and 2012 respectively. Indeed, taking into account the most recent data for January of this year, shows the 12 month cumulative completions figure recording its first year on year increase since mid 2007.

Lead indicators of activity, such as commencements and registrations, hint at an improvement in house-building activity, albeit from very low levels. Commencement notices recorded a 17% year on year increase in the 12 months to December. Housing registration data, which tend to reflect developer activity, have also registered strong yearly increases in recent months. Meanwhile, survey data, such as the construction PMI, where the residential component has been in expansionary territory since July (i.e. above 50), are consistent with a pick-up in residential construction.

...but demand still outpacing supply...

While house building does appear to be showing some signs of an up-turn in activity levels, the current level of output is still well below requirements from the household formation dynamics in the economy. We estimate potential housing demand at around 23,000 new units per annum. Therefore, even if there is increased levels of completions this year, possibly around 10,000 units, this would still be inadequate to meet the housing demand that exists in the economy.

....which is putting upward pressure on prices

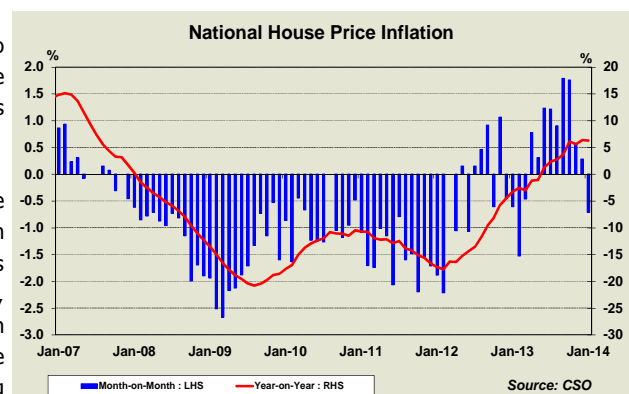
Price developments over the last year are reflective of this mismatch between supply and demand. Residential property prices as measured by the CSO index ended 2013 on a strong note, with prices up 6.4% compared to a year earlier. While there was a slight fall back in the first month of this year, nonetheless, the underlying trend in Irish residential property prices is upward. Nationally, prices are now up around 8% from their low point.

However, the recovery in property prices remains very much a two-speed story, with a rural urban dichotomy. Prices in Dublin are now up 18% from their trough, whereas, excluding Dublin, prices are up just 3.6% from their lows.

In terms of the urban market and specifically Dublin, the shortage in supply (of houses in particular) is putting upward pressure on prices. From a buyers perspective, the stronger employment gains in the key urban areas are helping to support demand and in turn, push prices higher. The relative scarcity in stock is also evident in the rental market, where people are having to rent due to the shortage of available properties to buy. This has resulted in strong increases in rents, which are now up nearly 17% from their lows.

From a transactions and mortgage drawdowns point of view, the expiry of the Mortgage Interest Relief (MIR) at the end of 2012 resulted in some distortion and weakness to the data last year, as purchases were brought forward from 2013 into 2012 so as to avail of the MIR.

For 2014, we expect to see a continuation of the improving trends in the housing market. An increased level of homebuilding activity is anticipated, but, the mismatch between supply and demand is likely to persist, meaning the continuation of upward pressure on prices. Meanwhile, the strengthening of underlying fundamentals in the domestic economy and in particular the labour market should support transaction and mortgage activity. However, the expected shortfall in supply will act as a headwind to activity levels, which are likely to remain quite subdued.



LATEST DATA

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
RESIDENTIAL CONSTRUCTION ACTIVITY								
Markit/Ulster Bank Construction PMI								
- Housing Activity	46.4	50.7	53.8	59.5	61.7	60.4	63.2	59.8
Housing Registrations: 3M Avg saar	1,444	1,311	1,331	1,755	1,541	1,492	1,428	1,722
- 3 Month Avg YoY %	109.2	92.1	119.1	233.6	135.3	111.0	73.0	111.4
- Cum 12 Mth Total YoY %	25.2	35.6	53.1	79.3	70.3	83.2	111.5	106.9
Commencements: 3M Avg saar	3,732	4,593	4,722	5,417	4,606	4,946	6,489	#N/A
- 3 Month Avg YoY %	-17.6	8.4	17.4	44.4	14.6	2.8	0.0	#N/A
- Cum 12 Mth Total YoY %	3.1	10.4	12.6	15.7	14.1	6.1	16.5	#N/A
Completions: Month	703	705	604	673	825	918	876	676
- Cum 12 Mth Total	8,259	8,298	8,130	8,134	8,180	8,251	8,301	8,466
- Cum 12 Mth Total YoY %	-9.1	-6.5	-8.1	-5.4	-4.9	-3.1	-2.2	1.1

The housing component of the construction PMI picked up strongly in H2'13. While, it fell back in Jan' from Dec' near 8 year high, it remains very strong

Housing registrations continue to pick up from very depressed levels

Strong increase in commencements in Dec', good performance in H2'13

Completions look to have bottomed out at just above 8,000 per annum

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	2,190	2,783	2,493	2,613	2,915	2,666	2,406	1,483
- 3 Month Avg YoY %	15.9	16.5	16.5	23.8	23.6	12.0	-12.9	-21.3
- 12 Mth Total	26,582	27,134	27,464	28,099	28,664	28,342	26,918	26,887
IBF Mortgage Approvals : Month	1,518	1,734	1,637	1,544	1,744	1,716	1,457	#N/A
- 3 Month Avg YoY %	9.7	11.0	12.9	13.4	12.2	3.1	2.9	#N/A
- 12 Mth Total	16,336	16,563	16,772	16,918	17,097	16,924	17,058	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.2	-2.2	-2.3	-2.4	-2.5	-2.8	-3.0	#N/A

Transactions slowed in recent months. Negative YoY growth in Dec/Jan reflects a base effect from the ending of mortgage interest relief (MIR) at the end of 2012

Mortgage approvals continue to show YoY growth, although this has slowed in recent months

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	1.2	1.2	0.9	1.8	1.8	0.6	0.3	-0.7
- YoY %	1.2	2.3	2.8	3.7	6.1	5.6	6.4	6.3
- Dublin YoY %	4.2	8.0	10.6	12.3	15.0	13.8	15.7	13.6
- Ex Dublin YoY %	-1.0	-1.5	-2.6	-2.6	-0.3	-0.6	-0.4	1.2
RPPR Transaction Price (Simple Average)								
- 3 Month Average €	201,713	203,864	215,372	217,332	220,560	222,503	217,256	213,665
Daft Asking Prices: MoM%	0.5	-1.4	0.6	-0.3	0.8	-0.5	-0.4	#N/A
- YoY %	-1.9	-1.7	-2.1	-0.5	-1.0	0.9	0.6	#N/A

House prices fall back slightly in January, their first MoM decline in 10 months. But YoY growth still at a strong level (6.3%).

National house prices c.8% off their lows in Jan. Recovery led by urban areas - Dublin 18% off lows vs ex-Dublin 3.6%

Average transaction price around €218,000 in past six months

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.8	0.5	0.4	0.8	0.8	1.1	1.0	0.6
- YoY %	7.0	7.2	7.6	7.5	7.6	8.2	8.5	9.1
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	15.0	15.2	15.4	15.6	15.8	15.7	15.8	15.7

Rents show continuing recovery—16.5% off their lows in January

Rising house prices are impacting affordability but still at a reasonable level

QUARTERLY DATA

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13
IBF Mortgage Drawdowns								
Purchase Drawdowns	2,213	2,837	3,532	5,578	1,803	2,857	4,051	4,761
YoY %	-4.8	7.3	20.2	73.0	-18.5	0.7	14.7	-14.6
FTB YoY %	-6.9	9.6	22.2	97.4	-23.4	-2.9	11.3	-27.3
Mortgage Arrears 90 Days + Principal Residences								
Number of Accounts in Arrears	75,679	81,035	91,358	92,349	95,554	97,874	98,736	96,474
% of Outstanding	9.9	10.6	11.5	11.9	12.3	12.7	12.9	12.6
Buy-to-Let								
Number of Accounts in Arrears	#N/A	24,879	27,018	28,366	29,369	30,326	31,178	30,706
% of Outstanding	#N/A	16.6	17.9	18.9	19.7	20.4	21.1	21.1

Purchase mortgage drawdowns rose again in Q4'13. YoY decline of 14.6% largely due to sharp pick up in transactions at the end of 2012 before the ending of MIR

FTB remain the prominent buyers, at 56.9% of purchases in Q4 2013

Arrears fell in Q4'13 - percentage outstanding now at 12.6%. This is the first decline in arrears since the compilation of the data in 2009

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



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