

Lack of supply still defining characteristic

Three years into the recovery in the Irish residential property market, after prices bottomed in March 2013, the sector continues to be defined by a supply shortfall. This has resulted in sustained upward pressure on prices, which are now up around 35% from their low point. However, looking across a broad range of metrics, including building activity, the mortgage market, and transaction levels, the residential sector is still some way from being described as a 'normal' functioning market.

Supply shortfall persists

The key issue of insufficient supply is very much evident in the housing completions data. The data shows that completions totalled just over 12,600 units in 2015. This represents an increase of 15% compared to 2014 levels. However, it is still well short of the estimated 25,000 units that are required to be built each year to meet underlying demographic demand.

Forward looking indicators, such as house guarantee registrations which tend to reflect developer activity, were 58% higher in the 12 months to January, but the actual number has levelled off in the past six months. Meanwhile, commencement notices also continue to improve on a 12-month cumulative basis. Both indicators remain very low in absolute terms. In regard to survey indicators, the housing component of the construction PMI rose to its highest level since the survey began (June 2000). Overall, while construction activity is showing signs of a pick-up, trends in housing registrations/commencements point to a continuing slow recovery in house building. Indeed, it is likely to be 2018 at the earliest before housing output rises to the required 25,000 units per annum.

This imbalance between supply and demand is also highlighted in the latest Daft.ie data on houses available for sale. The most recent data, which are for December 2015, show that there were 25,470 properties listed for sale, a fall of around 14% compared to the same month a year earlier. This represents only around 1% of the total private housing stock. In a 'normal' market, the level of stock for sale should be in the region of 3-4% as a proportion of total stock.

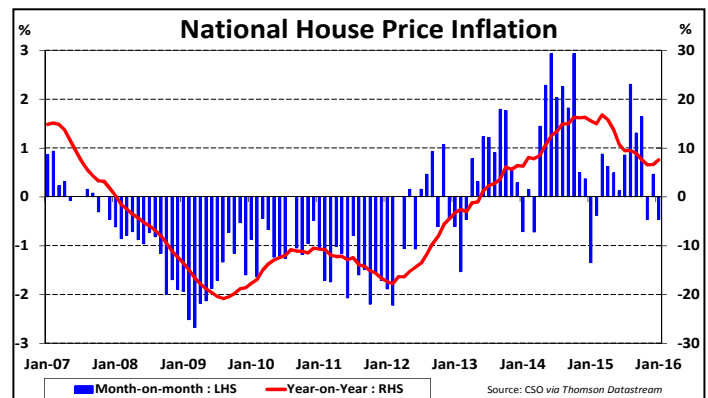
The issue of limited supply/sales stock is also reflected in, and acting as a headwind to lending activity in the mortgage market. Added to this, the Central Bank regulations on mortgage lending are also impacting. New mortgage lending amounted to €4.8bn in 2015, up from €3.9bn in 2014, an increase of 23%. However, growth was heavily skewed towards the first half of 2015 and year-on-year growth in mortgage drawdowns actually turned negative in Q4 of last year. Looking ahead, the on-going supply shortage will remain an impediment to transaction levels and in turn constrain the extent of growth in the mortgage market.

Some moderation in house price growth

Against the backdrop of a continued shortfall between supply and demand, house prices have remained on an upward trajectory. However, the pace of increase has slowed. The latest CSO data show that, nationally, house prices rose by 7.6% on a year-on-year basis in January compared to a 15.5% rate of growth in the same month a year earlier.

It is clear from looking at the Dublin/non-Dublin breakdown that the slowdown has been due to a sharp deceleration in price growth in Dublin. Here, annual price growth slowed to 3.4% by January versus growth of 21.6% a year earlier. It is no coincidence that this slowdown has occurred at the same time as the introduction of the new Central Bank mortgage regulations, as the average asking price in Dublin is well above the €220,000 LTV threshold. At the same time, growth in non-Dublin house prices have now outpaced Dublin for seven straight months on a year-on-year basis.

The lack of supply and also, more recently, the tighter mortgage lending rules are putting upward pressure on rents. The latest Private Residential Tenancies Board (PRTB) index shows that on a national basis, rents were up by 8.9% in Q4'15 versus Q4'14. The report also noted that Dublin rents are now 0.4% higher than their 2007 peak. CSO data also show strong growth in rents, which rose by 9.7% year-on-year in February 2016.



LATEST DATA

Jul-15 Aug-15 Sep-15 Oct-15 Nov-15 Dec-15 Jan-16 Feb-16

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI	57.7	55.0	53.7	53.3	47.6	47.4	47.7	47.9
- Housing Activity								
Housing Registrations: Month	359	979	147	332	306	221	160	#N/A
- 3 Month Avg YoY %	110.5	192.8	118.7	98.9	-9.9	-4.0	-17.1	#N/A
- Cum 12 Mth Total	3,659	4,470	4,326	4,384	4,384	4,290	4,242	#N/A
Commencements: Month	1,026	660	1,018	671	710	364	627	#N/A
- Cum 12 Mth Total	6459	6851	7407	7673	8074	8098	8425	#N/A
- Cum 12 Mth Total YoY %	-19.5	-13.7	-6.6	-4.9	1.4	4.9	18.4	#N/A
Completions: Month	1,120	949	1,220	1,138	1,262	1,352	920	#N/A
- Cum 12 Mth Total	11,937	12,104	12,141	12,272	12,503	12,666	12,893	#N/A
- Cum 12 Mth Total YoY %	22.8	22.3	16.7	15.9	16.8	15.0	15.0	#N/A

Housing PMI jumps again in February to an all-time high of 71.2, indicating the sector has had a strong start to the year

Sluggishness in housing registration growth in H2'15 carries over into the new year

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

Housing completions continue to improve on 12mth cumulative basis, but remain weak overall

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,596	3,544	4,162	4,392	4,010	5,389	#N/A	#N/A
- 3 Month Avg YoY %	17.0	12.3	8.2	2.6	3.9	-11.3	#N/A	#N/A
- 12 Mth Total	49,410	49,561	50,013	49,703	50,051	48,251	#N/A	#N/A
BPFI Mortgage Approvals : Month	2,658	2,112	2,210	2,267	2,110	1,756	1,627	#N/A
- 3 Month Avg YoY %	4.0	0.2	-2.2	-7.5	-13.5	-20.3	-20.3	#N/A
- 12 Mth Total	27,769	27,659	27,588	27,236	26,634	26,030	25,840	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.6	-2.6	-2.5	-2.4	-2.6	-2.6	-2.5	#N/A

YoY growth in mortgage approvals and housing transactions has turned negative—may reflect impact from new Central Bank mortgage rules and limited sale stock

The pace of decline in mortgages outstanding has remained broadly stable—in a 2.5-2.7% YoY range since last February

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	0.9	2.3	1.3	1.6	-0.5	0.5	-0.5	#N/A
- YoY %	9.4	9.5	8.9	7.6	6.5	6.6	7.6	#N/A
- Dublin YoY %	9.0	8.2	6.5	4.5	3.3	2.6	3.4	#N/A
- Ex Dublin YoY %	9.6	10.8	11.4	10.7	9.6	10.2	11.4	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	211,431	217,612	220,634	228,624	231,333	229,915	#N/A	#N/A
Daft Asking Prices: MoM%	1.8	0.1	0.9	-0.7	-0.9	0.3	#N/A	#N/A
- YoY %	9.5	8.3	7.6	9.1	8.6	7.8	#N/A	#N/A

YoY growth in house prices picks up to 7.6% in January, but it is still significantly below the rate from one year earlier (15.5%). Weaker price inflation largely reflects a sharp slowdown in Dublin growth—in part due to new Central Bank rules.

Average house prices are around 230k

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	1.0	0.9	1.2	0.5	0.4	0.3	1.2	1.1
- YoY %	10.4	10.5	10.3	10.3	10.0	9.6	9.4	9.7

AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	16.8	17.3	17.3	17.0	16.7	16.8	16.5	#N/A
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Rents continue to rise strongly.

Pick-up in earnings and lower mortgage interest means affordability has improved from already good levels

QUARTERLY DATA

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

BPFI Mortgage Drawdowns

Purchase Drawdowns	3,126	4,337	5,763	6,929	5,125	5,604	6,494	6,911
YoY %	73.4	51.8	42.3	45.5	63.9	29.2	12.7	-0.3
FTB YoY %	87.2	52.5	41.8	49.2	73.3	36.1	12.6	-5.4

YoY growth in mortgage drawdowns turned negative in Q4—may reflect in part the new Central Bank regulations as well as limited sale stock

FTB remain the dominant source of mortgage drawdowns at 55% of total

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	93,106	90,343	84,955	78,699	74,395	70,296	65,584	#N/A
% of Outstanding	12.2	11.8	11.2	10.4	9.8	9.3	8.7	#N/A
Buy-to-Let								
Number of Accounts in Arrears	31,048	31,749	31,619	29,224	27,492	26,071	24,890	#N/A
% of Outstanding	21.5	22.0	22.1	20.7	19.7	19.0	18.1	#N/A

The number of mortgages in arrears (both principal residence & BTL) recorded further strong declines in Q3 but remain high

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



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