

## Prices continue to rise amid persistent supply shortfall

The overarching theme of the Irish residential property market continues to be defined by a shortfall in supply. The most recent figures on new residential supply, as measured by the CSO's 'New Dwellings Completion' data, show a total of 3,953 units coming on stream in the first quarter of this year. This represented a 20% fall compared to the same period in 2020. This figure, though, was not as weak as had been feared given that activity in the sector was assumed to have been severely curtailed by the Covid-19 lockdown over the period. The data in the quarter suggest that developers were able to avail of the provisions under the restrictions to finish out projects that were near to completion. Indeed, since the onset of the pandemic, supply has held up much better than expected. Last year saw 20,584 new units being completed. This was only 2.3% below 2019 levels.

However, despite the relatively encouraging total for the first quarter, the supply backdrop is likely to be more challenging over the remainder of this year. While the performance last year and into Q1 of this year benefitted from a strong pipeline of activity from 2019, this is no longer likely to be the case. This is evident in commencement notices, an indicator of housing starts. In the 12 month period to March, commencements fell to 17,278 units. This was a fall of around 35%, or circa 9,000 units compared to the cumulative total in the twelve months to March 2020, as well as being the lowest 12 month aggregate since October 2017. Other leading indicators of residential construction point to a mixed outlook for new supply. The housing component of the construction PMI was very weak in the first quarter of the year, with an average reading of 26, well below the key '50' breakeven level for expansion. There has been some encouraging news more recently, as it moved back into expansionary territory in April. Meanwhile, the tight supply conditions are also evident in Daft.ie figures which show a 40% y/y fall in stock available for sale in March 2021, with just under 12,000 units listed.

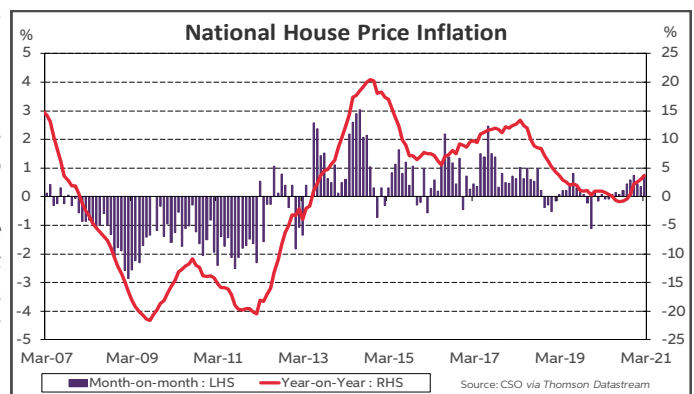
This shortfall in supply is putting upward pressure on prices. Nationally, house prices ended 2020 on an upward trajectory, rising by 2.2% on an annual basis in December. The opening months of this year has seen a further acceleration in house price inflation. The most recent CSO figures show prices rising for a tenth straight month in March, with the yearly growth rate increasing to 3.7%, its fastest pace since March 2019. On an annualised basis, CSO house price inflation was running at 6% in the first quarter.

In terms of the geographic breakdown, prices in Dublin rose by 1.1% in March, bringing the annual rate of increase to 2.5%, its strongest pace since early 2019. Non-Dublin prices continue to outpace those in the Capital, recording a 5% y/y increase in March, representing its fastest rise since mid-2019. Analysing the Daft.ie data, which is more reflective of current market conditions, given it is based on 'asking prices', the report paints a similar picture of accelerating house price growth in recent months. Based on this metric, prices were up 7.6% y/y in Q1.

There are other factors to consider, aside from key supply shortfall issue, when assessing the current trajectory and outlook for residential prices. The enhancement in 2020 to the Help-to-Buy Scheme has also acted a tailwind for prices. Meanwhile, both the Central Bank and ESRI have warned that the new Shared-Equity-Scheme risks putting further upward pressure on prices amid tight supply conditions. Indeed, demand remains robust, reflected in sharp increases in mortgage approvals in recent months, including in the First-Time Buyer segment.

In terms of the 'Covid' impact, from a demand viewpoint, emerging structural changes, such as remote working, have been putting upward pressure on prices in parts of the market, and are likely to continue to do so. Another issue to bear in mind, is that building costs are rising amid higher prices globally for raw materials and other inputs, which will put further upward pressure on house prices. In contrast, the rental market did experience some downward pressure last year, arising from the pandemic, with rents falling in year on year terms. However, the market has started to firm again over recent months, with the CSO rents index registering positive year-on-year growth of 1.6% in April for the first time in a year.

In conclusion, the fundamental problem remains that housing supply is still well short of meeting annual demand, estimated to be circa 30,000 units, and this does not even take into account enormous pent-up demand. Moreover, the timing of reaching this 'equilibrium' scenario has been delayed by the pandemic. New supply this year is likely to fall below 2019-20 levels, possibly to as low as 17,000 units, meaning the deficit will only widen. Furthermore, it is hard to envisage a marked rise in completions to much above 20,000 in 2022 given the steep fall-off in commencements. Increasing housing supply, though is a primary focus of government policy. Steps to speed up the planning process, initiatives to reduce the cost of construction, improved access to finance, as well incentives to release land for development and attract more construction workers could all play vital parts in helping to generate a pick-up in new supply.



MONTHLY DATA	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	
<b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>									<p>Housing PMI jumped to 54.8 in April as the sector re-opens in full. Activity had plunged in Q1 due to Covid restrictions</p> <p>Commencements fell by 17.3% YoY in 2020 to 21.7k. Declined further in Q1, by 64.3% YoY, leaving the 12 mth cumulative total at 17.3k</p>
Markit/Ulster Bank Construction PMI									
- Housing Activity	50.3	53.0	56.2	19.0	23.8	33.8	54.8	#N/A	
Commencements: Month	2,222	2,522	1,549	1,022	508	871	#N/A	#N/A	
- Cum 12 Mth Total	20,823	21,830	21,686	20,657	18,746	17,278	#N/A	#N/A	
- 3 Month Avg YoY %	-29.7	-3.3	-1.4	-3.2	-50.0	-64.3	#N/A	#N/A	
<b>HOUSING / MORTGAGE MARKET ACTIVITY</b>									<p>Mortgage approvals continue to rise in April. 3mma up 51.7% YoY and 6.4% on the same period in 2019</p> <p>Transactions picked up pace as Q1 progressed, and have remained strong so far in Q2. 3mma up 18.7% in May</p> <p>Outstanding mortgage stock at -1.2% YoY in April</p>
BPFI Mortgage Approvals : Month	4,419	4,372	3,247	2,696	2,964	3,420	3,537	#N/A	
- 3 Month Avg YoY %	12.8	25.4	27.5	23.6	13.8	7.7	51.7	#N/A	
- 12 Mth Total	32,288	33,302	34,156	34,258	34,384	34,809	37,640	#N/A	
RPPR Transactions : Month	5,550	5,357	7,412	3,135	4,344	5,097	3,949	2,390	
- 3 Month Avg YoY %	-17.8	-3.5	5.5	3.3	7.5	8.1	25.0	18.7	
- 12 Mth Total	48,230	48,386	49,149	48,744	49,427	50,097	51,422	51,230	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	#N/A	
<b>HOUSING MARKET PRICES</b>									<p>House prices rose by 0.7% in March, up 3.7% YoY. Ex-Dublin price inflation (+5.0%) continues to outpace the capital (2.5%)</p> <p>RPPR Prices continue to trend higher in 2021, as supply remains subdued. Having increased sharply in H2'20, Daft.ie list prices continued to rise in Q1, up 7.1% YoY in</p>
CSO Price Index - MoM %	0.5	0.6	0.7	0.4	0.4	0.7	#N/A	#N/A	
- YoY %	-0.4	0.4	2.2	2.5	3.1	3.7	#N/A	#N/A	
- Dublin YoY %	-1.2	-0.6	1.5	1.0	1.4	2.5	#N/A	#N/A	
- Ex Dublin YoY %	0.3	1.3	2.9	3.9	4.5	5.0	#N/A	#N/A	
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	311,960	311,103	310,626	312,406	310,408	310,561	315,282	318,206	
Daft List Prices: YoY %	0.4	1.0	7.4	8.7	6.9	7.1	#N/A	#N/A	
<b>RENTS &amp; AFFORDABILITY</b>									<p>CSO rental index rises 1.2% in April. YoY rate turns positive, at 1.6%, although, this is partly due to base effects</p> <p>Affordability index holds steady as average industrial wages continue to rise in Q1</p>
RENTS: CSO Private Rents - MoM %	-0.5	0.0	0.4	0.3	0.2	0.8	1.2	#N/A	
- YoY %	-3.2	-3.2	-2.9	-2.5	-2.5	-1.4	1.6	#N/A	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	17.7	17.4	17.5	17.5	17.4	17.6	#N/A	#N/A	
<b>QUARTERLY DATA</b>									<p>Completions down 20.1% YoY in Q1, not as bad as had been feared. Although, 12 mth running total falls back below 20k level</p> <p>Planning 21.2% lower YoY in Q4. However, overall permissions up 13.5% in 2020</p>
CSO Dwelling Completions	4,800	5,649	6,379	4,945	3,230	5,065	7,344	3,953	
- YoY %	9.3	21.9	17.5	16.4	-32.7	-10.3	15.1	-20.1	
- Cum 12 Mth Total	19,110	20,126	21,076	21,773	20,203	19,619	20,584	19,592	
CSO Planning Permissions	9,566	10,089	12,094	14,132	7,271	13,599	9,536	#N/A	
- YoY %	41.2	25.8	81.0	88.6	-24.0	34.8	-21.2	#N/A	
- Cum 12 Mth Total	31,759	33,830	39,242	45,881	43,586	47,096	44,538	#N/A	
<b>BPFI Mortgage Drawdowns</b>									<p>Having recovered in H2 2020, drawdowns remained solid in Q1. Up 5.3% YoY, led by an increase in lending to FTBs, up 7.3% YoY</p> <p>In value terms, drawdowns were up 7.3% YoY in Q1. FTB share of drawdown value at 50.7% in Q1. Value of drawdowns over past 12 mths at €8.5bn, down 11.8% YoY</p>
Purchase Drawdowns (Volume)	7,987	9,486	9,941	6,932	5,035	6,366	10,164	7,294	
YoY % (Volume)	8.2	8.7	3.4	3.9	-37.0	-32.9	2.2	5.3	
FTB YoY % (Volume)	10.8	14.3	11.0	8.3	-34.8	-29.9	7.8	7.3	
Total Drawdowns (Value, € Mln)	2,250	2,639	2,768	1,996	1,462	1,958	2,951	2,142	
- YoY % (Value)	11.7	11.4	5.0	5.9	-35.0	-25.8	6.6	7.3	
- Cum 12mth Drawdowns (Value, € Mln)	9,141	9,410	9,542	9,653	8,865	8,184	8,367	8,513	

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



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