

## House price inflation slowing, home building rising

### Sharp slowdown in house price inflation

The most recent figures on Irish residential property prices indicate that the trend of slower price growth evident in 2018 has carried over into this year. CSO data shows that nationally, prices increased by 5.6% on a yearly basis in January. This compares to a 6.4% growth rate in December and is down from a recent high of 13.3% in April'18. The year-on-year growth rate has slowed now for nine straight months. On a monthly basis, prices have fallen modestly for the last three months. In terms of performance versus their trough, prices are now up 82% from their lows of March 2013 and are around 18% below their previous peak levels.

Looking at the geographic breakdown provides useful insights on the slowdown. The Dublin market has experienced the most significant easing in house price inflation. In the capital, the yearly growth rate was at just 1.9% in January, versus 4.2% in December and its recent high of 13% in April'18. It is also the case that 'non-Dublin' price inflation has moderated, although, not to the same extent as in Dublin. In January, non-Dublin prices rose by 9.5% y/y, compared to its most recent high of a 15.2% growth rate in June of last year.

Assessing the Dublin market in more detail shows a significant deceleration in price growth in all four housing regions. For example, in Dun Laoghaire-Rathdown, prices rose by 2.8% y/y in January (10.6% in April'18) and Fingal registered a 2.6% growth rate (high of 14.3%, Feb-18). It seems to be the case then that the Central Bank mortgage lending rules are having the greatest impact in Dublin, where prices are highest. The most up to date daft.ie data on 'asking prices' show that in Dublin prices averaged €372,000 in 2018. This compares to a national asking price average of €253,000 over the same period. Overall then, it appears that the Central Bank lending rules, especially the relatively restrictive loan-to-income multiple of 3.5 times, as well as affordability issues are impacting the Dublin market, in particular.

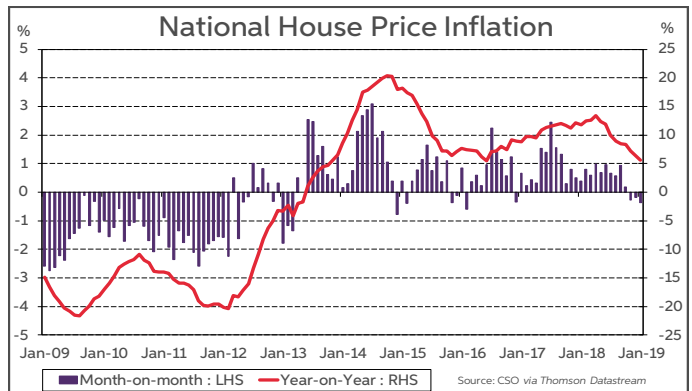
In this regard, the BPF figures show that new mortgage lending increased by 20% in 2018 to €8.7bn, from €7.3bn in 2017. However, mortgage approvals (for house purchase) slowed in 2018 and have stagnated to just below 37,000 on a 12-month cumulative basis over recent months. However, they did rebound in February, rising by 8.6% in year-on-year terms, following a 5.7% y/y fall in January.

### Supply continues to improve, but still well below required levels

Home-building continues on an improving trajectory. The CSO's 'new dwelling completions' increased by 25% in 2018 to over 18,000 units. This followed a 45% increase in 2017 to 14,400 units.

Forward looking indicators of homebuilding activity suggest that the improvement in supply will continue. Housing starts, measured by commencement notices, rose by 28% last year, to 22,500 units. Meanwhile, housing registrations (regarded as an indicator of developer activity) recorded improvement in the last few months of 2018, after having spent much of the year below 2017 levels. By year end, registrations were up 8% in 2018 versus 2017. In another positive sign for future supply, planning permissions surged by 40% in 2018. In terms of more timelier updates, the housing component of the construction PMI hit a 10-month high in February, with a very strong reading of 64.3.

However, while various supply metrics are reflective of increasing supply, the level of building activity remains well below new housing demand, which is estimated at 35,000 units per annum. In this regard, it could be 2022 before housing output rises to 35,000 units. Furthermore, when the pent-up demand, which has been accumulating in recent years, is factored in, it could be well into the next decade before supply and demand are more closely aligned, based on the current uptrend in house-building activity.



MONTHLY DATA	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
<b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>								
Markit/Ulster Bank Construction PMI								
- Housing Activity	63.9	60.4	56.1	53.6	58.2	56.0	55.7	64.3
Housing Registrations: Month	986	698	1,308	950	943	601	#N/A	#N/A
- 3 Month Avg YoY %	-3.9	-6.8	22.9	23.1	35.8	36.9	#N/A	#N/A
- Cum 12 Mth Total	9,269	9,263	9,593	9,824	10,107	10,265	#N/A	#N/A
Commencements: Month	1,930	2,239	1,547	2,339	2,433	1,478	#N/A	#N/A
- Cum 12 Mth Total	19,451	20,371	20,460	21,211	21,836	22,467	#N/A	#N/A
- 3 Month Avg YoY %	20.9	44.2	40.8	40.3	30.2	47.3	#N/A	#N/A
<b>HOUSING / MORTGAGE MARKET ACTIVITY</b>								
BPFI Mortgage Approvals : Month	3,404	3,324	3,013	3,430	3,208	2,292	2,438	2,741
- 3 Month Avg YoY %	-0.9	-2.3	-1.4	0.8	1.1	1.8	-2.4	0.8
- 12 Mth Total	36,617	36,561	36,493	36,699	36,664	36,655	36,507	36,725
RPPR Transactions : Month	5,193	4,889	4,518	5,376	5,505	6,249	3,089	#N/A
- 3 Month Avg YoY %	5.2	3.1	1.5	1.5	2.7	3.2	-0.4	#N/A
- 12 Mth Total	56,103	55,769	55,980	56,325	56,692	56,514	56,281	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-1.5	-1.5	-1.4	-1.4	-1.2	-1.1	-1.1	#N/A
<b>HOUSING MARKET PRICES</b>								
CSO Price Index - MoM %	0.7	0.6	0.9	0.2	-0.3	-0.2	-0.4	#N/A
- YoY %	10.0	8.9	8.5	8.3	7.2	6.4	5.6	#N/A
- Dublin YoY %	7.4	6.7	6.4	6.2	5.1	4.2	1.9	#N/A
- Ex Dublin YoY %	12.7	11.3	10.6	10.6	9.2	8.9	9.5	#N/A
RPPR Transaction Price (Simple Average)								
- 12 Month Average €	286,315	287,760	289,807	293,416	293,568	294,189	296,265	#N/A
Daft List Prices: YoY %	7.1	5.4	7.4	6.2	5.7	4.5	#N/A	#N/A
<b>RENTS &amp; AFFORDABILITY</b>								
RENTS: CSO Private Rents - MoM %	0.3	1.0	0.5	0.8	0.5	0.2	0.4	0.3
- YoY %	6.0	6.2	6.1	6.5	7.0	6.4	6.6	5.7
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	18.3	18.5	18.5	18.4	18.3	18.2	18.0	#N/A

Housing PMI at 10-month high in February, points to a very rapid increase in activity

Growth in registrations (a measure of developer activity) picking up again—3 month average +36.9% YoY in Dec

12 month cumulative total of commencements on a steady upward trend (now above 22k), though still at a low level

Mortgage approvals have stagnated—reflecting both tighter Central Bank lending rules and affordability issues

Transactions showing flat trend overall. 12 month total holding steady in a 56-57k range

Rate of contraction of outstanding mortgage debt slowing, at -1.1% YoY in Jan

CSO house price growth continues to decelerate—at 5.6% in year to Jan. YoY ex-Dublin price inflation (9.5%) significantly outpacing the capital (1.9%)

Similarly, average property transaction price growth has slowed in recent months.

CSO rent inflation falls to 5.7% in Feb

Strong earnings growth and moderating house price inflation has seen affordability improve somewhat recently

QUARTERLY DATA	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18
<b>CSO Dwelling Completions</b>								
CSO Dwelling Completions	2,778	3,275	3,787	4,567	3,475	4,404	4,671	5,522
- YoY %	40.4	36.5	51.7	50.1	25.1	34.5	23.3	20.9
- Cum 12 Mth Total	10,717	11,593	12,882	14,407	15,104	16,233	17,117	18,072
<b>CSO Planning Permissions</b>								
CSO Planning Permissions	4,650	4,453	4,739	6,934	7,766	6,777	8,018	6,682
- YoY %	50.4	41.8	-18.5	60.2	67.0	52.2	69.2	-3.6
- Cum 12 Mth Total	17,934	19,246	18,171	20,776	23,892	26,216	29,495	29,243
<b>BPFI Mortgage Drawdowns</b>								
Purchase Drawdowns (Volume)	5,843	6,761	8,082	8,709	6,402	7,381	8,727	9,613
YoY % (Volume)	26.1	17.2	17.2	14.7	9.6	9.2	8.0	10.4
FTB YoY % (Volume)	27.3	20.7	23.6	23.9	15.5	14.3	7.4	9.6
Total Drawdowns (Value, € Mln)	1,391	1,649	2,016	2,231	1,703	2,014	2,370	2,636
- YoY % (Value)	39.2	28.2	29.3	23.0	22.4	22.1	17.6	18.2
- Cum 12mth Drawdowns (Value, € Mln)	6,050	6,413	6,870	7,287	7,599	7,964	8,318	8,723

CSO data show completions up 25% (to 18k) in 2018. However, supply continues to trail demand (estimated at 35k)

YoY growth in planning permission slowed in Q4. Although, 12 month total points to a potential acceleration in pace of output growth

YoY growth in the volume of mortgage drawdowns picked up to 10.4% in Q4. Lending to FTBs increased by 9.6% YoY

In value terms, mortgage lending continue to grow strongly last year—up 20%. Over this period FTBs accounted for 48.4% of the total amount of drawdowns

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



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