

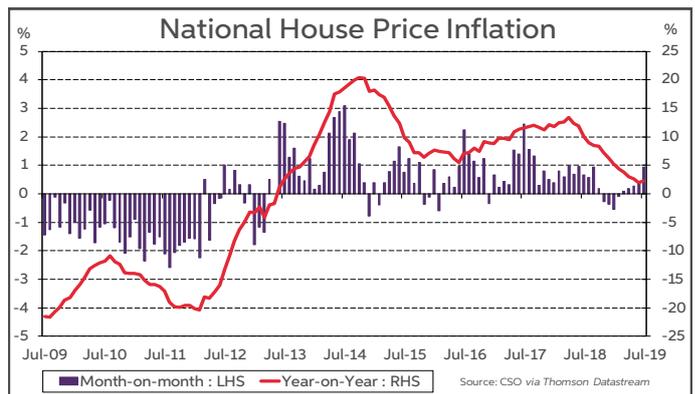
## House price inflation subdued, supply edges higher

### Sharp deceleration in house price inflation

Nationally, house prices increased by 0.9% in the month of July. This represented its strongest monthly gain since September 2018 and marked the fifth successive month of increases after registering some modest falls towards the end of 2018 and early part of this year. The bigger picture, though, is that there has been a marked deceleration in house price inflation in the past 18 months. On a year-on-year basis, the rate of growth stood at 2.3% in July. This is well below its recent high of 13% in April of last year.

From a geographic perspective, it remains the case that the Dublin market is the biggest source of the slowdown in house price inflation. Indeed, in July, prices in the capital fell in year-on-year terms, (albeit marginally, by 0.2%) for the first time since October 2012. Within Dublin, Dun Laoghaire-Rathdown and Dublin City saw house prices fall in July on a yearly basis, by 6.3% and 1%, respectively. Both of these areas have recorded annual price falls now for four straight months. The trend in recent years of non-Dublin price inflation outpacing the Dublin market continues. In July, prices outside of the capital rose by 4.8% compared to a year earlier. However, this is a significant slowdown versus the 14% rate in May 2018.

The slowdown in house price growth comes against a backdrop of constraints on potential buyers in getting access to the required level of finance. This is in the context of the central bank mortgage lending rules, especially the relatively restrictive loan-to-income multiple of 3.5 times. This issue appears to be having the greatest influence on the Dublin market where prices are far higher. For example, the most recent daft.ie asking prices showed prices in Dublin averaged €373,509 in the third quarter of 2019, whereas the national figure was €257,114. Indeed, excluding Dublin, the asking price was €212,417. The weakening trend in prices in Dublin has also been accompanied by a slight rise in unsold stock on the market, with the daft.ie figures on stock available for sale showing a 2% year-on-year increase in September.



### Housebuilding continues to rise, but pace of growth has slowed

The level of homebuilding continues to rise, although, the pace of growth has slowed. In terms of new supply, the CSO's 'new dwelling completions' rose by 11.8% in quarter two versus a year earlier. This compares to a 23% increase in quarter one and the 25% rate of annual increase registered for the full year in 2018. The four quarter cumulative number is now at 19,300 units and based on its current trajectory, completions may total close to 22,000 units this year.

Forward looking indicators paint a somewhat mixed picture for future supply. Data on housing starts (measured using commencement notices) showed a fall of 7% in Q2 on a year-on-year basis. Although, it may be the case that the second quarter of last year was boosted by activity delayed from the first quarter due to bad weather. Comparing the first half of this year to the same period in 2018, housing starts are up 17%. Notwithstanding this though, commencements appear to be levelling off in recent months at just above 24,000 units.

Registration data, which are regarded as an indicator of developer activity, recorded a 14.5% y/y fall in Q2. However, similar to the commencement data, these figures may be distorted by weather impacts from last year. On a H1'19 vs H1'18 basis, registrations were up 7%, which still represents a significant slowdown in the rate of increase. Meantime, planning permission, which can be quite volatile from quarter to quarter, are now running at a four quarter moving total of around 32,000 units. The rate of growth here has also slowed somewhat in recent quarters. Meanwhile, the housing sub-component of the construction PMI, with a reading of 58.4 in August, remains at a level consistent with a strong pace of expansion. Overall, supply remains well below the estimated annual demand of 35,000 units. Given recent trends, it may take longer to reach this level than previously envisaged.

Meanwhile, new mortgage lending rose 11% y/y in the first half of this year (+22% in FY'18). Elsewhere, mortgage approvals have picked-up recently, with the 12 month total rising to just below the 39,000 mark, having spent much of the last year pinned below the 37,000 level.

In summary, the general softening trend across the key housing metrics of prices, supply and lending continues. As a result, the return to a more 'normal' residential property market where supply and demand are closely aligned could take even longer to achieve than previously anticipated.

| MONTHLY DATA  | Feb-19  | Mar-19  | Apr-19  | May-19  | Jun-19  | Jul-19  | Aug-19 | Sep-19 |   |   |
|---|---------|---------|---------|---------|---------|---------|--------|--------|---|---|
| <b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>  |         |         |         |         |         |         |        |        |   |   |
| Markit/Ulster Bank Construction PMI   |         |         |         |         |         |         |        |        |   | Housing PMI improves to 58.4 in August, reversing July's fall. Points to continued good growth in house building  |
| - Housing Activity  | 64.3    | 60.8    | 60.5    | 58.3    | 58.4    | 55.9    | 58.4   | #N/A   |   |   |
| Housing Registrations: Month  | 1,091   | 728     | 709     | 666     | 991     | #N/A    | #N/A   | #N/A   | Registrations (measure of developer activity) 14.5% lower in Q2 compared to same period in 2018 |   |
| - 3 Month Avg YoY %   | 40.4    | 36.7    | 0.4     | -10.6   | -14.5   | #N/A    | #N/A   | #N/A   |   | Commencements levelling off just above 24k, but 6.8% lower in Q2 than same quarter in 2018  |
| - Cum 12 Mth Total  | 10,863  | 11,004  | 10,817  | 10,614  | 10,604  | #N/A    | #N/A   | #N/A   |   |   |
| Commencements: Month  | 2,569   | 2,477   | 1,974   | 1,862   | 1,875   | #N/A    | #N/A   | #N/A   |   |   |
| - Cum 12 Mth Total  | 23,392  | 24,642  | 24,690  | 24,438  | 24,226  | #N/A    | #N/A   | #N/A   |   |   |
| - 3 Month Avg YoY %   | 39.0    | 49.7    | 39.0    | 19.9    | -6.8    | #N/A    | #N/A   | #N/A   |   |   |
| <b>HOUSING / MORTGAGE MARKET ACTIVITY</b>   |         |         |         |         |         |         |        |        |   |   |
| BPFI Mortgage Approvals : Month   | 2,741   | 3,276   | 3,307   | 3,960   | 3,692   | 4,227   | #N/A   | #N/A   |   | Mortgage approvals very strong in July. 12 month total moves up close to 39k  |
| - 3 Month Avg YoY %   | 0.8     | 7.8     | 12.5    | 12.6    | 8.1     | 13.0    | #N/A   | #N/A   |   |   |
| - 12 Mth Total  | 36,725  | 37,264  | 37,540  | 37,905  | 38,085  | 38,908  | #N/A   | #N/A   | Transactions higher in July but 12 month total holding steady around the 57k level              |   |
| RPPR Transactions : Month   | 4,117   | 4,263   | 4,499   | 4,850   | 4,249   | 5,333   | #N/A   | #N/A   |   | Rate of contraction of mortgage debt outstanding held at 0.9% in July   |
| - 3 Month Avg YoY %   | -1.2    | 0.1     | 5.5     | 5.9     | 3.1     | -0.1    | #N/A   | #N/A   |   |   |
| - 12 Mth Total  | 56,548  | 56,542  | 57,117  | 57,304  | 56,957  | 57,097  | #N/A   | #N/A   |   |   |
| Residential Mortgages (Central Bank of Ireland)   |         |         |         |         |         |         |        |        |   |   |
| - Amount Outstanding (Adj.) YoY %   | -1.1    | -1.1    | -1.0    | -0.8    | -0.9    | -0.9    | #N/A   | #N/A   |   |   |
| <b>HOUSING MARKET PRICES</b>  |         |         |         |         |         |         |        |        |   |   |
| CSO Price Index - MoM %   | -0.1    | 0.1     | 0.2     | 0.3     | 0.4     | 0.9     | #N/A   | #N/A   |   | House price growth picks up to 2.3% in August. Reflects 4.8% increase outside of the capital, as Dublin prices are down 0.2% over the year                |
| - YoY %   | 4.3     | 3.8     | 3.0     | 2.6     | 2.0     | 2.3     | #N/A   | #N/A   |   |   |
| - Dublin YoY %  | 1.4     | 0.9     | 0.5     | 0.0     | 0.1     | -0.2    | #N/A   | #N/A   |   |   |
| - Ex Dublin YoY %   | 7.3     | 6.8     | 5.4     | 5.3     | 4.0     | 4.8     | #N/A   | #N/A   |   |   |
| RPPR Transaction Price (Simple Average)   |         |         |         |         |         |         |        |        |   | 12 month moving average of property transaction prices has shifted lower recently   |
| - 12 Month Average €  | 295,391 | 295,673 | 296,288 | 296,299 | 292,188 | 292,079 | #N/A   | #N/A   |   |   |
| Daft List Prices: YoY %   | 5.1     | 6.3     | 4.1     | 1.8     | 3.3     | 0.8     | 1.4    | -1.8   |   |   |
| <b>RENTS &amp; AFFORDABILITY</b>  |         |         |         |         |         |         |        |        |   |   |
| RENTS: CSO Private Rents - MoM %  | 0.3     | 0.4     | 0.4     | 0.3     | 0.3     | 0.3     | 0.6    | #N/A   |   | CSO rent inflation at 5.2% in August. Rents now 30% above their previous peak   |
| - YoY %   | 5.7     | 5.6     | 5.4     | 5.2     | 5.5     | 5.6     | 5.2    | #N/A   |   |   |
| AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB |         |         |         |         |         |         |        |        |   | House price rises have impacted affordability recently, but it remains at a relatively accommodative level  |
| - Mort as % of Disposable Income  | 17.6    | 17.6    | 17.7    | 17.9    | 17.9    | 18.1    | #N/A   | #N/A   |   |   |
| <b>QUARTERLY DATA</b>   |         |         |         |         |         |         |        |        |   |   |
|   | Q3-17   | Q4-17   | Q1-18   | Q2-18   | Q3-18   | Q4-18   | Q1-19  | Q2-19  |   |   |
| CSO Dwelling Completions  | 3,787   | 4,567   | 3,475   | 4,404   | 4,671   | 5,522   | 4,275  | 4,920  |   | YoY growth of completions eases to 11.8% in Q2. 12 month cumulative total at 19.3k, well below estimated demand (35k)                                     |
| - YoY %   | 51.7    | 50.1    | 25.1    | 34.5    | 23.3    | 20.9    | 23.2   | 11.8   |   |   |
| - Cum 12 Mth Total  | 12,882  | 14,407  | 15,104  | 16,233  | 17,117  | 18,072  | 18,872 | 19,334 |   |   |
| CSO Planning Permissions  | 4,739   | 6,934   | 7,766   | 6,777   | 8,018   | 6,682   | 7,493  | 9,611  |   | YoY growth in planning permission picks up in Q2, helping the 12 month total rise above the 30k level   |
| - YoY %   | -18.5   | 60.2    | 67.0    | 52.2    | 69.2    | -3.6    | -3.5   | 41.8   |   |   |
| - Cum 12 Mth Total  | 18,171  | 20,776  | 23,892  | 26,216  | 29,495  | 29,243  | 28,970 | 31,804 |   |   |
| <b>BPFI Mortgage Drawdowns</b>  |         |         |         |         |         |         |        |        |   |   |
| Purchase Drawdowns (Volume)   | 8,082   | 8,709   | 6,402   | 7,381   | 8,727   | 9,613   | 6,673  | 7,987  |   | YoY growth in the volume of mortgage drawdowns slowed to 6% in H1'19 (11% in '18), with lending to FTBs easing to 9% from 15% in 2018                     |
| YoY % (Volume)  | 17.2    | 14.7    | 9.6     | 9.2     | 8.0     | 10.4    | 4.2    | 8.2    |   |   |
| FTB YoY % (Volume)  | 23.6    | 23.9    | 15.5    | 14.3    | 7.4     | 9.6     | 6.9    | 10.8   |   |   |
| Total Drawdowns (Value, € Mln)  | 2,016   | 2,231   | 1,703   | 2,014   | 2,370   | 2,636   | 1,885  | 2,250  |   | In value terms, mortgage lending growth has also eased, to 11% in H1'19, from 22% in '18. Average loan value at €231k this year, compared to €225k in '18 |
| - YoY % (Value)   | 29.3    | 23.0    | 22.4    | 22.1    | 17.6    | 18.2    | 10.7   | 11.7   |   |   |
| - Cum 12mth Drawdowns (Value, € Mln)  | 6,870   | 7,287   | 7,599   | 7,964   | 8,318   | 8,723   | 8,905  | 9,141  |   |   |

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



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