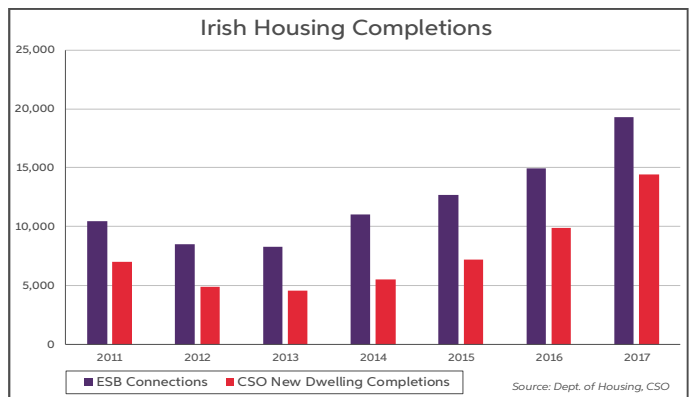


New supply metric, but same old story

New measurement shows new supply at lower levels than previously estimated

The Central Statistics Office recently launched a new measure of housing supply. This was in response to issues relating to the previous ‘completions’ data, compiled by the Department of Housing using ESB connections. In recent years, it was considered to be overstating the level of housing supply. The new measure, titled ‘new dwelling completions’, produced by the CSO is still based on ESB connections. However, it takes account of ‘unfinished housing developments’, ‘reconnections’ and ‘non-dwelling’ connections which were overstating the actual level of new supply. Data from other sources are also used in producing a more accurate measure of new supply. The new measurement is a quarterly series, and goes back as far as 2011.

Based on the new metric, there were 14,446 ‘new dwelling completions’ in 2017 compared to the 19,271 figure from the old methodology. Over the period 2011-17, it appears that the Dept of Housing measurement was overstating supply by 31,576 units (or by 58%). The 14,446 total in 2017 represented a 46% increase on the previous year, which itself was a 37% rise on 2016 levels. In the first quarter of 2018, new completions were at 3,526 units. This is a 26.9% increase on the same period in 2017. So while the new measurement shows that the level of house-building is lower than previously envisaged, nonetheless, it indicates that supply is on a strong upward trajectory.

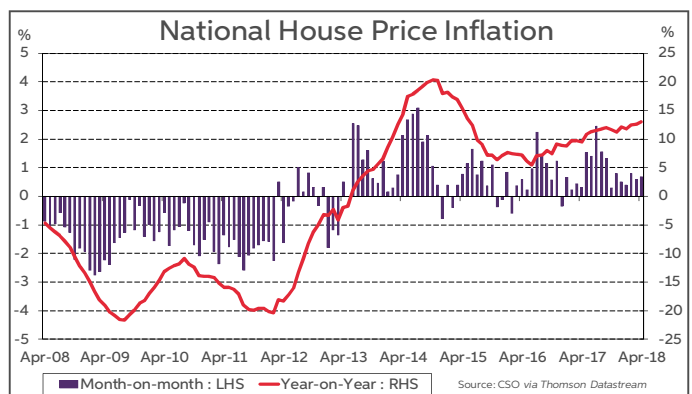


Other measurements of building activity have been more mixed recently, with the severe weather in March impacting activity. Housing starts (measured using commencement notices) were up 15% on a year to date basis in April. Commencements rose by 33% in 2017. Meantime, housing registrations, which tend to reflect developer activity, have been essentially flat over the last 12 months. In terms of survey data, the housing component of the construction PMI offers encouragement, with the index rising to a one-year high in May, at 65.2, suggesting a pick-up in home-building activity.

Crucially though, while the supply situation is showing signs of improvement, the level of building activity remains well below the projected 33,000 units that are required per annum to meet estimated housing demand. Even if the current growth trend in supply is maintained, it is likely to be 2021, at the earliest, before new house building reaches the level of estimated annual demand. Furthermore, the issue of pent-up demand that has been accumulating in recent years has also to be factored in. The new completions data indicate that this pent-up demand is now larger than previously estimated. Overall, it is likely to be well into the next decade before supply and demand are more closely aligned in the Irish residential property market.

Reacceleration in house price growth

The latest CSO house price data show that house price inflation has continued to pick up in pace. Nationally, prices rose by 13% in year-on-year terms in April. This compares to a rate of 12% at end 2017 and 9.5% in April 2017. The pattern of non-Dublin prices outpacing Dublin has generally continued in the opening months of 2018. Outside of Dublin prices rose by 13.6% y/y in April, compared to a 12.5% increase in the Capital. Despite the sustained strong increases, prices are still 21% below their peak levels. Meanwhile, rents are now 22% above their previous peak, and the rate of growth has re-accelerated in 2018.



Some loss of momentum in mortgage lending growth

The strong growth seen in mortgage lending in recent years appears to be losing some momentum. The level of mortgage approvals nationally has stagnated just below 37,000 on a 12-month cumulative basis. Meanwhile, the growth in the number of mortgage drawdowns has continued to slow, at 9.6% y/y in Q1 (vs. 26% in Q1'17). It may be that Central Bank mortgage lending rules are impacting the market, especially in Dublin, where potential buyers can find it difficult to get sufficient mortgage finance given the relatively low loan-to-income ratio (3.5 times) in the lending regulations.

MONTHLY DATA Oct-17 Nov-17 Dec-17 Jan-18 Feb-18 Mar-18 Apr-18 May-18

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	55.5	58.6	59.4	60.4	61.0	60.4	62.0	65.2
Housing Registrations: Month	719	660	443	391	1,035	587	896	869
- 3 Month Avg YoY %	68.1	60.4	12.4	1.6	0.5	-8.9	-3.0	-2.6
- Cum 12 Mth Total	9,441	9,511	9,466	9,464	9,521	9,269	9,385	9,458
Commencements: Month	1,588	1,808	847	1,251	1,896	1,227	1,926	#N/A
- Cum 12 Mth Total	17151	17633	17572	17913	18544	18086	18392	#N/A
- Cum 12 Mth Total YoY %	37.1	36.0	32.8	34.3	40.8	27.4	22.8	#N/A

Housing PMI continuing to improve, rising to a one year high in May of 65.2—suggests sector growing apace

But, registrations broadly stagnant on a 12mth basis. Bad weather in March sees YoY growth turn negative

Commencements above 18k on a 12mth cumulative basis in recent months

HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month	3,224	3,243	2,301	2,586	2,523	2,737	3,031	#N/A
- 3 Month Avg YoY %	16.1	11.7	9.1	3.7	2.2	-3.9	-3.6	#N/A
- 12 Mth Total	36,734	36,822	36,868	37,026	36,981	36,551	36,712	#N/A
RPPR Transactions : Month	4,948	5,070	6,338	3,296	3,953	4,198	3,787	#N/A
- 3 Month Avg YoY %	11.1	12.6	23.0	23.5	21.2	4.6	3.3	#N/A
- 12 Mth Total	51,409	52,332	54,114	54,342	54,709	54,620	54,721	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.1	-2.1	-2.0	-1.9	-1.9	-1.8	-1.8	#N/A

Mortgage approvals have levelled off—likely partly due to Central Bank lending rules

YoY growth in transactions has continued to slow—at 3.3% in 3 months to April

Pace of YoY decline in outstanding mortgage credit continues to slow, declining to -1.8% in January

HOUSING MARKET PRICES

CSO Price Index - MoM %	0.3	0.8	0.5	0.4	0.8	0.6	0.7	#N/A
- YoY %	11.7	11.2	12.1	11.8	12.5	12.6	13.0	#N/A
- Dublin YoY %	11.5	10.5	11.7	11.7	12.5	11.7	12.5	#N/A
- Ex Dublin YoY %	12.0	11.8	12.7	12.1	12.3	13.6	13.6	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	265,359	269,849	274,603	273,514	275,347	275,935	278,903	#N/A
Daft Asking Prices: MoM%	0.6	-1.8	2.9	0.1	1.7	0.1	#N/A	#N/A
- YoY %	10.2	7.9	9.4	6.9	7.5	7.5	#N/A	#N/A

CSO house price growth accelerates further to 13% in April

Ex-Dublin growth (13.6%) still outpacing price inflation in the Capital (12.5%)

Average property transaction price rose to c.280k in the 6 months to April, compared to c.265k in 6mths to October

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.5	0.0	0.8	0.2	1.1	0.5	0.6	0.6
- YoY %	5.6	5.6	6.1	6.3	6.2	6.4	6.5	7.0
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	18.2	17.4	17.4	17.2	17.3	17.4	17.5	#N/A

Rents now 22% above prior peak, rate of increase picking up again recently

Lower mortgage rates and personal taxes help to mitigate rising property prices. Little change in affordability

QUARTERLY DATA Q2-16 Q3-16 Q4-16 Q1-17 Q2-17 Q3-17 Q4-17 Q1-18

CSO Dwelling Completions	2,395	2,511	3,041	2,779	3,298	3,785	4,584	3,526
- YoY %	52.5	23.5	35.5	41.2	37.7	50.7	50.7	26.9
- Cum 12 Mth Total	8,641	9,119	9,915	10,726	11,629	12,903	14,446	15,193

New CSO housing completions measure shows lower level of output than indicated by old Dept. of Housing figures—c.15k in the four quarters to Q1'18

BPFI Mortgage Drawdowns

Purchase Drawdowns	5,767	6,894	7,596	5,843	6,761	8,082	8,709	6,402
YoY %	6.1	8.8	12.0	26.1	17.2	17.2	14.7	9.6
FTB YoY %	4.2	11.0	12.7	27.3	20.7	23.6	23.9	15.5

YoY growth in the volume of mortgage drawdowns slowed further to 9.6% in Q1

Mortgage Arrears 90 Days +

<i>Principal Residences</i>								
Number of Accounts in Arrears	57,571	56,350	54,269	53,100	51,750	50,688	49,386	48,538
% of Outstanding	7.8	7.6	7.4	7.2	7.1	6.9	6.8	6.7
<i>Buy-to-Let</i>								
Number of Accounts in Arrears	21,962	21,435	20,499	20,009	19,627	18,864	19,018	18,363
% of Outstanding	16.3	16.2	15.7	15.6	15.5	15.1	15.4	15.2

Growth in lending to FTBs slowed from 24% to 15.5%, supporting view that CB rules are impacting lending. FTBs remain primary borrowers, at 59% of drawdowns

Volume of mortgages in arrears continues to decline, but remains high overall

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



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