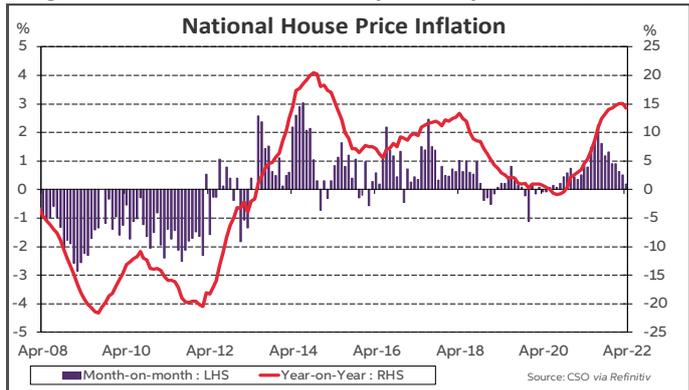


Signs that house price inflation is starting to moderate

Irish residential property prices were broadly stable over the period 2019-2020, but they experienced a sharp uplift in 2021, especially in the second half of the year, as the growth in new supply stalled while at the same time, there was a surge in household savings. However, data over the last number of months from the CSO shows signs of a moderation in house price inflation this year. In the most recent figures for April, residential prices rose by just 0.1% in the month. This was the slowest rate of increase since the summer of 2020 and followed a 0.5% m/m increase in March. Year to date, the monthly rate of increase has averaged 0.6% compared to a monthly average of 1.5% during the second half of 2021. In year-on-year terms, the rate slowed to 14.2% in April, after registering a 15.1% growth rate in both February and March.

Meanwhile, the well established trend of prices outside of Dublin rising at a faster pace than in the Capital, remains in place. This has been a feature of the market for most of the period since mid-2015. In April, non-Dublin prices rose by 16.4%, while Dublin prices rose by 11.6%. The boost for housing outside of Dublin from the transition to hybrid working for many sectors of the economy may be a factor in the widening more recently of the growth rate differentials. However, similar to the national trend, both areas are experiencing a moderation in the pace of growth over the last few months.



The backdrop to the significant rates of yearly growth in property prices is the ongoing mismatch between supply and demand. Based on underlying demographics, the economy needs at least 30,000 new units per annum. Last year, roughly 20,500 new units were completed. This was broadly similar to what was achieved in the prior two years. This supply deficit has been persisting for a number of years now. As a consequence, this means that significantly more than 30,000 units need to be built per annum to satisfy yearly demand as well as the pent-up demand that has been accumulating over the last number of years. The preliminary Census data suggest that the underlying demographic demand may be even higher, with the population estimated at 5.12m in 2022, somewhat higher than anticipated. Meanwhile, the BPF's mortgage data is reflective of the ongoing robust housing demand in the Irish economy. This includes strong appetite in the first-time-buyer segment of the market, as evidenced by the most recent mortgage approvals data, which continue to register strong growth. In the 12 months to April, there were 31,500 approvals for the FTB segment of the market. Data on rents also capture the underlying supply and demand mismatch. CSO 'private rents' rose by 11.2% y/y in May, the fastest pace since 2007.

From a supply perspective, the most recent CSO data on completions indicates that there has been some uptick in new supply since the start of the year. As of the end of March, the four quarter total of completions was running at 22,219 units, an increase of 14% compared to year earlier levels. At its current growth rate, the full year total for 2022 is on track to be in the region of 24,000 units. Although, it is interesting to note in the preliminary Census data that the number of dwellings increased by 120k over the period 2016-22, which is higher than suggested by the completions data which totalled 104k over the same period.

Forward looking supply indicators also provide encouraging signs. Housing starts, (measured by commencement notices) were running at 30,300 units on a 12-month cumulative basis to May. They have been running in the range of 30,000 to 35,000 units since September 2021, although they look to have peaked. It is useful to note that commencements totalled 26,000 units to February 2020, ahead of the pandemic. Meanwhile, the housing component of the construction PMI improved to 56.6 in May, from 56.1, also indicating a strong pace of growth in the sector. Looking further ahead, the latest data on planning permissions showed them continuing to maintain a very high level in the first quarter of 2022. For the year to March, planning permissions totalled circa 45,000 units, representing a very strong increase versus 2021 levels.

There is the potential for a strong uplift in new supply over the coming years based on pipeline indicators, combined with the fact that housing supply is now a key focus of government policy. The government has set a target of delivering 300,000 new homes by 2030 (includes new supply of 24,500 and 29,000 units in 2022 and 2023, respectively). However, achieving these levels will be challenging. Both shortages and higher building costs in relation to raw materials and the availability of workers are headwinds to a significant increase in new supply. At the same time the translation of planning permissions into new supply takes a number of years and is being impacted by delays in the wider planning process. Overall, the ongoing supply shortfall, large increase in household savings and the strong labour market should act to underpin house prices. However, as outlined above there are clear signs of a slowdown in house price inflation this year. This moderating trend will likely continue amid the rising interest rate environment.

MONTHLY DATA	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22		
RESIDENTIAL CONSTRUCTION ACTIVITY										
Markit/BNP Paribas Construction PMI										The Housing PMI edged slightly higher to 56.6 in May as activity in the sector continued to grow at a robust pace
- Housing Activity	54.5	55.1	53.2	55.1	58.5	56.7	56.1	56.6		
Commencements: Month	2,650	2,112	1,736	1,861	2,327	2,809	2,346	2,746		
- Cum 12 Mth Total	30,947	30,537	30,724	31,201	33,006	34,846	32,456	30,233		Commencements are down 3.9% YTD in May vs 2021 level. 12 month rolling total fell to just above 30k
- 3 Month Avg YoY %	32.7	13.9	3.3	4.7	71.5	143.4	20.2	-26.0		
HOUSING / MORTGAGE MARKET ACTIVITY										
BPFI Mortgage Approvals : Month	3,717	3,957	3,088	2,762	2,976	3,461	3,299	#N/A		Mortgage approvals slightly lower in 2022, with the 3mma down 1.9% YoY
- 3 Month Avg YoY %	-2.7	-9.0	-10.6	-4.9	-0.9	1.3	-1.9	#N/A		
- 12 Mth Total	43,732	43,317	43,158	43,224	43,236	43,277	43,039	#N/A		Transactions have stabilised with the 12 month total near 57k. However, transactions are down 1.4% YoY in the 3 months to May
RPPR Transactions : Month	5,536	5,260	5,393	3,584	4,580	4,766	4,476	4,139		
- 3 Month Avg YoY %	21.7	6.0	-11.6	-10.7	-9.4	1.6	0.3	-1.4		Outstanding mortgage stock at 0.9% YoY in April
- 12 Mth Total	59,352	59,255	57,235	57,653	57,846	57,435	57,697	57,654		
Residential Mortgages (Central Bank of Ireland)										
- Amount Outstanding (Adj.) YoY %	1.1	1.2	1.2	1.1	1.1	1.0	0.9	#N/A		
HOUSING MARKET PRICES										
CSO Price Index - MoM %	1.2	1.3	0.9	0.9	0.7	0.5	0.1	#N/A		House prices growth eased to 0.1% in April. YoY rate moved lower for the first time in 20mths to 14.2%. Ex-Dublin house price inflation (+16.4%) continues to run ahead of the capital (+11.6%)
- YoY %	13.2	14.0	14.2	14.8	15.1	15.1	14.2	#N/A		
- Dublin YoY %	12.1	12.7	12.8	13.1	13.2	12.5	11.6	#N/A		
- Ex Dublin YoY %	14.2	15.0	15.2	16.0	16.7	17.1	16.4	#N/A		
RPPR Transaction Price (Simple Average)										RPPR Prices continue to trend higher at the start of 2022. Daft.ie asking prices rose by 2.4% in Q1
- 12 Month Average €	328,701	330,411	333,882	334,235	336,362	340,325	343,007	347,274		
Daft List Prices: YoY %	9.2	8.8	6.5	6.5	9.5	9.1	#N/A	#N/A		
RENTS & AFFORDABILITY										
RENTS: CSO Private Rents - MoM %	0.9	0.6	0.6	0.4	0.9	0.8	1.3	1.6		CSO rental index continued to rise sharply due to a lack of supply, up 1.6% in May and 11.2% YoY
- YoY %	7.5	8.1	8.4	8.4	9.2	9.2	9.3	11.2		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB										Affordability improved slightly in Q1 as wage growth outpaced house price growth
- Mort as % of Disposable Income	19.5	19.6	19.6	19.4	19.3	19.2	#N/A	#N/A		

QUARTERLY DATA	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22		
CSO Dwelling Completions										
- YoY %	-32.7	-10.6	14.9	-20.4	54.0	-8.6	-4.7	44.5		Having slowed in H2 2021, completions have gathered momentum in Q1 2022. 12 month running total rises above 22K
- Cum 12 Mth Total	20,159	19,563	20,514	19,511	21,252	20,817	20,473	22,219		
CSO Planning Permissions										
- YoY %	-23.1	23.7	-18.1	-46.8	53.3	-8.4	41.0	21.5		Planning permissions up 21.5% YoY in Q1. 12 month running total rises above 44k
- Cum 12 Mth Total	42,086	44,479	42,371	36,252	40,131	39,077	42,991	44,491		
BPFI Mortgage Drawdowns										
Purchase Drawdowns (Volume)	5,035	6,366	10,164	7,294	7,438	9,124	10,620	7,654		Drawdowns were 4.9% higher YoY in Q1 and were up 14.7% vs. Q1 2019, led by an increase in lending to FTBs
YoY % (Volume)	-37.0	-32.9	2.2	5.3	47.8	43.3	4.5	4.9		
FTB YoY % (Volume)	-34.8	-29.9	7.8	7.3	49.0	43.8	5.2	9.9		In value terms, drawdowns up 17.3% YoY in Q1 and 25.9% vs. 2019 levels. FTB share of drawdown value eased to 51.6% in Q1. Value of drawdowns over past 12 moths rose to €10.8bn
Total Drawdowns (Value, € Mln)	1,462	1,958	2,951	2,142	2,230	2,783	3,312	2,513		
- YoY % (Value)	-35.0	-25.8	6.6	7.3	52.5	42.1	12.2	17.3		
- Cum 12mth Drawdowns (Value, € Mln)	8,865	8,184	8,367	8,513	9,281	10,106	10,467	10,839		

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

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