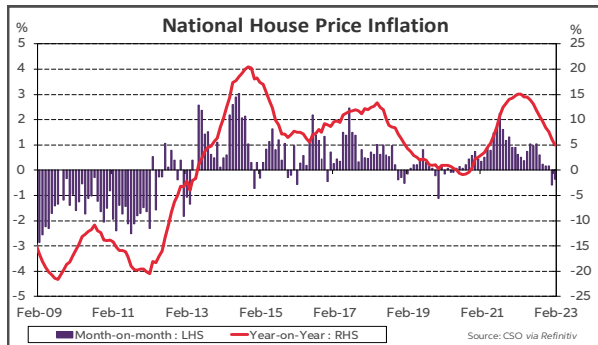


Residential property price growth continues to moderate

A notable feature of the Irish residential property market over the past 12 months has been a clear decelerating trend in the rate of increase in prices. This is against the backdrop of improved supply in 2022 and a rising interest rate environment. The most recent official CSO data on the sector, showed that prices nationally fell by 0.4% in February. This followed a 0.6% monthly fall in January. While some weakness in prices is not unusual in the early part of the year, it marked the first time since late 2019/early 2020, that prices fell for two consecutive months. In year-over-year terms, the rate of growth slowed to 5% in February from 6.1%, representing its lowest rate of growth since April 2021. This compares to a rate of 15% in the February-March 2022 period.

The geographical breakdown of the data showed two clear characteristics. Firstly, both Dublin and non-Dublin prices are mirroring the national trend of a moderation in price growth.

Secondly, the rate of increase in prices outside of Dublin continues to outpace the Capital. In terms of specifics, prices in Dublin fell on a monthly basis for the fifth straight month in February, the weakest streak since late 2018/early 2019. The annual rate of growth in Dublin house prices slowed to 3.2%. Meanwhile, outside of the Capital, prices fell in the first two months of 2023. This was the first time non-Dublin prices recorded two consecutive monthly falls since Q1 2020 and prior to this, it had not occurred since the first half of 2013. The year-on-year growth in non-Dublin prices was at 6.4% in February.



2023 new supply unlikely to match last year's performance

There has been an improvement in new supply over the last year. The CSO 'completions' numbered just under 30,000 units in 2022, a 45% increase on 2021 levels. In reality, some of last year's total was probably 2021 supply that was delayed coming on stream by Covid-19. Indeed, the pandemic and the associated restrictions had stalled the gradual upward momentum in residential building activity that had been in place since 2014. New supply flat-lined at around 21,000 units per annum between 2019-21. More recently, data on new supply for Q1'2023, show the four quarter total running at around 31,000 units.

However, forward looking supply indicators suggest the construction sector will struggle to match last year's level of residential building. Despite rising sharply in March, commencements have stabilised at around 27,000 units on a 12-month cumulative basis. This compares to a 30,000 to 35,000 range between the September'21 to May'22 period. Meanwhile, the housing component of the construction PMI has been in contractionary territory since October of last year. Elsewhere, the total number of dwelling units granted planning permission in 2022 amounted to 34,177, a fall of 20.5% when compared to 2021.

The economy needs at least 30,000 new units to be built per annum, based on underlying demographics. Given that new supply has been running well below this level over the past decade, it means that significantly more than 30,000 units are required to be built on an annual basis to meet yearly demand as well as the pent-up demand that has been accumulating. Higher building costs, shortages of workers, increased uncertainty regarding the general macro-economic outlook, rising interest rates, availability of funding and delays in the planning process are major headwinds impacting future supply. Government policy is very much focused on boosting housing supply. However, the latest forecast from the Central Bank of Ireland is that housing completions could fall to 27,000 units this year.


Mortgage market metrics suggest homebuyer demand/activity remains solid. Mortgage lending totalled €14bn in 2022, up from €10.5bn in 2021. However, last year's figure was distorted by a very sharp rise in 'switching' activity, which rose to €3.9bn (from €1.8bn in 2021) with a number of once off factors inflating non-purchase activity (exit of Ulster Bank and KBC). The value and volume of drawdowns in Q1'23 were 14% and 10% higher respectively, compared to a year ago. Although, some indicators have been showing signs of a softening against the backdrop of higher interest rates. Mortgage approvals trended lower last year, falling by 5% in 2022 compared to 2021. However, approvals stabilised over the winter and were up 2.8% YoY in Q1.

Supply and demand dynamics will continue to be the key influence on the trajectory of property prices. On the demand side, the continued rise in interest rates will act as a headwind to homebuyer activity and exert some downward pressure on prices. On the other hand, the supply shortfall relative to demand is likely to persist. Meanwhile, the Governor of the Central Bank has previously stated that the easing in the macro prudential lending rules would likely result in some "modest" increase in prices this year. Overall, we are likely to see a further moderation in house price growth over the remainder of the 2023. We would not expect to see a continuation of the outright falls, though, reported in the CSO data for January and February, with the trend from 'asking prices' data on property websites suggesting that prices have levelled off.

MONTHLY DATA	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	
RESIDENTIAL CONSTRUCTION ACTIVITY									
Markit/BNP Paribas Construction PMI									
- Housing Activity	47.4	50.8	49.7	41.6	40.6	45.2	46.2	46.5	The Housing component of the Construction PMI was little changed in March, at 46.5. The index has now been in contraction mode for six consecutive months Commencements rose sharply in March. They were up 5% YoY in Q1. 12 mth rolling total up above 27k
Commencements: Month	2,121	2,211	1,841	2,402	1,795	2,108	1,997	3,244	
- Cum 12 Mth Total	28,409	27,417	26,608	26,898	26,957	27,204	26,874	27,309	
- 3 Month Avg YoY %	-21.6	-22.1	-23.0	-19.0	-7.1	10.4	-0.4	5.0	
HOUSING / MORTGAGE MARKET ACTIVITY									
BPFI Mortgage Approvals : Month	3,680	3,633	3,439	3,786	2,650	2,820	2,744	3,896	Mortgage approvals rose by 2.8% YoY in Q1. 12 mth total relatively steady near 41k Transactions levelling off, with the 3mma down 3.6% YoY in March. 12 mth total remains just below 62k Stock of mortgages down 0.4% YoY in March
- 3 Month Avg YoY %	-7.6	-8.2	-5.4	-6.2	-8.2	-5.6	-6.9	2.8	
- 12 Mth Total	42,147	41,875	41,597	41,426	40,988	41,046	40,814	41,249	
RPPR Transactions : Month	5,061	5,713	5,448	5,963	6,693	3,602	4,255	4,740	
- 3 Month Avg YoY %	9.8	7.2	4.0	6.2	11.8	13.8	6.6	-3.6	
- 12 Mth Total	59,878	60,266	60,178	60,881	62,181	62,158	61,788	61,715	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-0.1	-0.4	-0.6	-0.7	-0.9	-0.8	-0.5	-0.4	
HOUSING MARKET PRICES									
CSO Price Index - MoM %	1.0	0.6	0.2	0.2	0.2	-0.6	-0.4	#N/A	House prices fell for the second month, down by 0.4% in February. YoY rate declined to 5% YoY. Ex-Dublin price inflation (+6.4%) outpaces the capital (+3.2%) Daft.ie asking prices fell by 0.3% in Q1, and the YoY rate slowed to just +1% in March. RPPR house price data continues to trend upwards
- YoY %	11.8	10.7	9.7	8.4	7.7	6.1	5.0	#N/A	
- Dublin YoY %	9.8	9.3	8.3	6.9	5.9	4.3	3.2	#N/A	
- Ex Dublin YoY %	13.5	11.9	10.7	9.7	9.0	7.5	6.4	#N/A	
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	359,902	362,645	368,454	372,105	375,728	376,817	384,273	388,672	
Daft List Prices: YoY %	7.1	7.8	6.0	5.1	6.8	3.9	3.3	1.0	
RENTS & AFFORDABILITY									
RENTS: CSO Private Rents - MoM %	1.4	0.7	0.4	0.5	0.3	0.2	1.0	0.3	CSO rental index rose by 0.3% in March. The YoY rate moved lower to 10%
- YoY %	12.7	11.6	11.1	11.0	10.6	10.4	10.6	10.0	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									Affordability index improved slightly in Q4 as the rise in earnings outpaced house price growth
- Mort as % of Disposable Income	21.2	21.4	20.9	20.7	20.6	#N/A	#N/A	#N/A	

QUARTERLY DATA	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	
CSO Dwelling Completions									
- YoY %	53.6	-7.9	-5.1	42.2	53.3	59.3	31.4	19.1	New dwelling completions rose sharply by 19.1% YoY in Q1. 12 mth running total rises to just below 31k Permissions plunge in H2, led by a sharp fall in apts. 34k units in total granted in 2022, down 20.5% YoY
- Cum 12 Mth Total	21,329	20,929	20,553	22,226	24,881	27,636	29,822	30,898	
CSO Planning Permissions	11,150	11,428	13,450	8,463	11,314	6,743	7,597	#N/A	
- YoY %	53.3	-8.4	41.0	21.5	1.5	-41.0	-43.5	#N/A	
- Cum 12 Mth Total	40,131	39,077	42,991	44,491	44,655	39,970	34,117	#N/A	
BPFI Mortgage Drawdowns									
Purchase Drawdowns (Volume)	7,438	9,124	10,620	7,654	8,695	9,770	10,689	8,152	Purchaser drawdowns were up 6.5% YoY in Q1, led by an increasing in lending to FTBs In value terms, drawdowns up 14.1% YoY in Q1. FTB share of drawdown value rose to 51.1% in Q1, indicating that switching activity may have eased. Value of drawdowns over past 12 mths rose to €14.4bn in Q1
YoY % (Volume)	47.8	43.3	4.5	4.9	16.9	7.1	0.6	6.5	
FTB YoY % (Volume)	49.0	43.8	5.2	9.9	22.5	8.9	2.7	6.8	
Total Drawdowns (Value, € Mln)	2,230	2,783	3,312	2,513	3,134	4,057	4,353	2,867	
- YoY % (Value)	52.5	42.1	12.3	17.3	40.5	45.7	31.4	14.1	
- Cum 12mth Drawdowns (Value, € Mln)	9,281	10,106	10,467	10,839	11,742	13,016	14,057	14,411	

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

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