

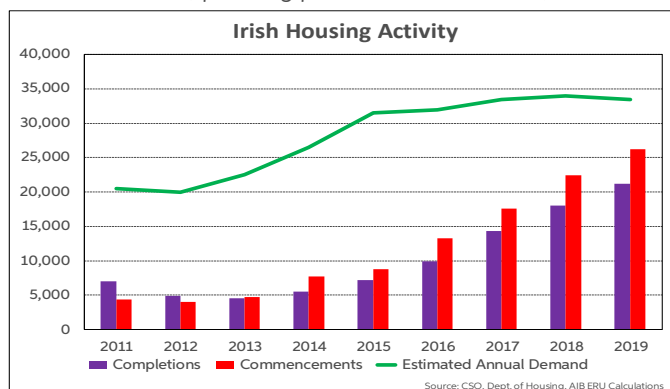
## Coronavirus will impact the housing market

The near term outlook for the housing market, much like the broader economy, has suddenly turned very downbeat as a result of the impact of the coronavirus and the associated severe restrictions on activity that have been put in place. These have effectively resulted in a good deal of economic activity being put on hold. These restrictions will impact both the supply and demand sides of the housing market over the coming months.

Prior to these disruptions, the data on the supply side of the housing market continued to show an improving picture. The CSO's 'new dwelling completions' showed an increase of 18% in new supply in 2019 to 21,200 units. This followed a 25% increase in 2018 to over 18,000 units.

Indicators of future supply were also offering encouraging signs. Housing starts, as measured by commencement notices, rose to 26,000 units last year, representing a robust 17% increase on 2018 levels. Meanwhile, planning permissions totalled 40,000 units in 2019, which was a 38% increase on 2018 levels. It was noticeable in the data that there was a sharp rise in applications for apartment developments, which had been lagging up to now.

However, over the next couple of months, there is likely to be a very sharp fall off in construction activity. In the near term, the restrictions in place to deal with the spread of the Coronavirus include a near complete cessation of building activity. Meanwhile, the more challenging economic environment, with the economy entering a deep recession, will also act as a major headwind to building activity. In this scenario, only those developments that are at an advanced stage are likely to be finished over the remainder of the year. All other developments may be put on hold, until the economy gets back onto a firmer footing.

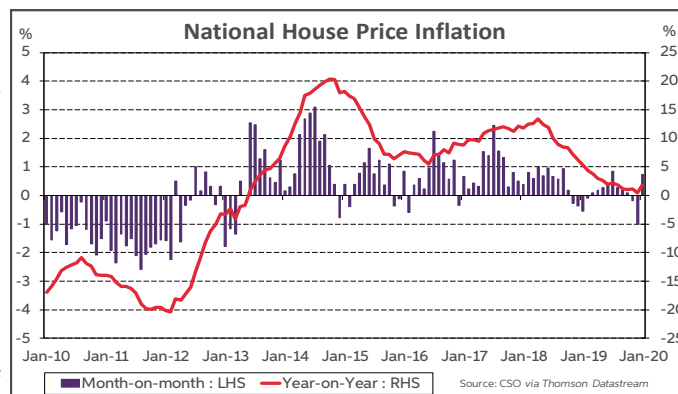


Overall, from a supply perspective, the net impact of these disruptions is that it could push out by a further year the situation whereby supply and demand become closely aligned. Even before this shock, this equilibrium was not envisaged to be reached until possibly 2023.

## House prices accelerated in January, but downward pressures on the horizon

The most recent CSO figures on residential property prices show a pick up in the rate of increase in prices at the start of the year. Nationally, prices rose by 0.7% in the month, following a 1% fall in December. In year-on-year terms, prices rose by 1.8% in January after increasing by just 0.5% in December, which was its weakest pace since mid-2013.

The geographic breakdown of the data reveals that the Dublin market, which had been experiencing falling house prices, was showing signs that the downtrend may have been levelling off. This was reflected in the yearly rate of price growth getting back into positive territory, albeit at just 0.5% y/y, for the first time since July of last year. Prices outside the capital continue to outpace Dublin, although the pace of increase has slowed considerably. Non-Dublin prices increased by 3.1% y/y in January. This compares to a 7.8% y/y pace in January 2019. The deceleration in house price growth largely reflected the impact of the central bank macro prudential mortgage rules. These rules, which were reaffirmed by the CBol following their annual review in late 2019, act as constraints on the level of finance that potential homebuyers can access. This appeared to be having the greatest influence on the Dublin market.



Looking ahead, given the restrictions now in place, homebuyer activity will be severely curtailed in the coming months. This will likely result in a sharp fall in transactions, which in turn will act as a significant drag on activity in the mortgage market. Against the backdrop of an economy that is expected to contract sharply in the near term, we are likely to see downward pressure on property prices as the year progresses. It is also important to bear in mind that there could be distortions to data, arising from the low level of activity and transactions. Indeed, it may prove difficult for official data to capture the real extent of any price moves in a largely dormant housing market.

## MONTHLY DATA

### RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI

- Housing Activity

Commencements: Month

- Cum 12 Mth Total

- 3 Month Avg YoY %

### HOUSING / MORTGAGE MARKET ACTIVITY

BPFI Mortgage Approvals : Month

- 3 Month Avg YoY %

- 12 Mth Total

RPPR Transactions : Month

- 3 Month Avg YoY %

- 12 Mth Total

Residential Mortgages (Central Bank of Ireland)

- Amount Outstanding (Adj.) YoY %

### HOUSING MARKET PRICES

CSO Price Index - MoM %

- YoY %

- Dublin YoY %

- Ex Dublin YoY %

RPPR Transaction Price (Simple Average)

- 12 Month Average €

Daft List Prices: YoY %

### RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM %

- YoY %

AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB

- Mort as % of Disposable Income

Housing PMI improved in February, but at 49.7 remained in contractionary territory. Data likely to deteriorate further in March as the coronavirus weighs on activity in all sectors

Commencements total circa 26,000 in 2019, up a robust 17% on 2018 levels. Data softer in Nov/Dec following pick up in activity in Oct, ahead of intro of new building regulations

Mortgage approvals improve slightly in January. 12 month total approaches 40k

Transaction activity eases over winter but cumulative 12 month total continues to inch higher

Rate of contraction of mortgage debt outstanding has eased since the summer. Holds at -0.4% in January

House prices bounce back by 0.7% MoM in January. YoY growth rate put at 1.8%. Ex-Dublin price inflation (+3.1%) continues to significantly outpace the capital (+0.5%)

12 month average of transaction prices continues on its upward trend

Rents modestly higher in February while YoY growth rate have moved below 4%

Affordability improves since the autumn as incomes continue to rise and house price growth has been relatively flat

## QUARTERLY DATA

CSO Dwelling Completions

- YoY %

- Cum 12 Mth Total

CSO Planning Permissions

- YoY %

- Cum 12 Mth Total

### BPFI Mortgage Drawdowns

Purchase Drawdowns (Volume)

YoY % (Volume)

FTB YoY % (Volume)

Total Drawdowns (Value, € Mln)

- YoY % (Value)

- Cum 12mth Drawdowns (Value, € Mln)

Completions up 18% to over 21k in 2019. However, supply continues to trail demand (estimated at near 35k)

Planning permissions total 40k in 2019, up a strong 38% on 2018 levels. Sharp rise in applications for development of apartments

YoY growth in the volume of mortgage drawdowns slowed to 3.4% in Q4. Lending to FTBs moderated in the quarter, but remained robust at 11%

In value terms, drawdowns totalled €9.5bn (+9% YoY) in 2019 against €8.7bn (+20% YoY) in 2018. Slowdown partly reflecting impact of flattening house prices

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



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