

Prices continue to accelerate in early 2022

The trend of accelerating residential property prices that was ever present throughout 2021 has carried over into the start of this year. The most recent official data on house prices, published by the CSO, showed that nationally, prices rose by 0.9% on a monthly basis in January. This saw the year-on-year rate accelerating to 14.8%, up from 14.3% in December and compares to a 2.5% reading in January 2021.

It represents the fastest yearly rate of growth since April 2015. Prices are now around 3% below their previous peak. Analysing 'asking price' data which are more indicative of current market conditions, suggest further momentum in prices throughout the first quarter. Both the Daft.ie and MyHome measures reported quarterly growth of 2.4% in Q1.

Another noticeable feature of the price dynamics in the residential property market - prices outside of Dublin rising at a faster pace than in the Capital - has also remained in place in the early part of this year. Indeed, this has been a facet of the market for most of the period since mid-2015.

However, over the last six months, the differential in yearly growth rates between non-Dublin and Dublin has been widening. This is probably reflective to some extent of the boost to demand for housing outside of Dublin arising from the transition to hybrid working for many sectors of the economy. In January, non-Dublin prices rose by 15.9% y/y versus a 13.3% rate in the Capital. In fact, all of the non-Dublin sub-regions (Border, Midlands, West, Mid-East, Mid-West, South-East, South-West) outpaced Dublin price inflation in January.

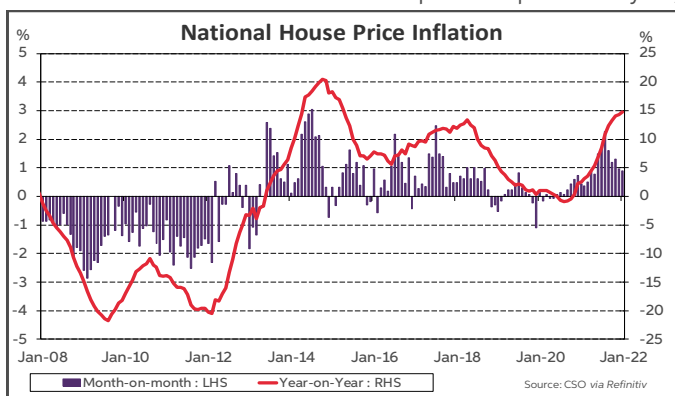
The primary driver of the upward pressure on prices is the continuing shortfall in supply. The latest report from Daft.ie referenced just 10,000 being units available for sale in March, a record low level. At the same time, housing demand remains robust. This includes strong appetite in the first time buyer segment of the market as evidenced by recent mortgage approvals data for February, which continue to register strong growth. Indeed, in the 12 months to February, there were 29,200 approvals for the FTB segment of the market.

Last year saw roughly 20,500 new residential units come on stream based on the CSO's 'New Dwellings Completions' data. This was broadly similar to what was achieved in the prior two years. The Covid-19 restrictions put in place to deal with the pandemic, in effect paused the year-on-year improvement in new supply that had been taking hold prior to 2020, leaving it stuck well below the level of annual demand.

Thus, crucially, on the supply side, the construction sector is still some distance away from meeting annual demand, estimated at around 30,000 units per annum. Even when this objective is met, there is also the pent-up demand, that has been accumulating over recent years, that has to be satisfied. It is not surprising then that housing supply is now a key focus of government policy as outlined in its 'Housing for All' Strategy, which was launched in September 2021. The government has a target of delivering 300,000 new homes by 2030. This includes new supply of 24,500 and 29,000 units in 2022 and 2023, respectively.

In terms of leading indicators on the supply front, housing starts, as measured by commencement notices, were running at 33,000 units on a 12-month cumulative basis to February and have been above 30,000 units since September'21. Prior to Covid restrictions impacting activity levels, commencements totalled 26,000 units over the same time period to February 2020. Although comparing commencement notices over a shorter 3 month basis suggests housing starts growth may have peaked. Meanwhile, the housing component of the construction PMI jumped to 58.4 last month, from 55.1, also indicating a strong pace of growth in the sector. Furthermore, the latest data on planning permissions showed them running at a very high level in the fourth quarter of 2021. For the full year, planning permissions totalled circa 43,000 units, representing a 1.5% increase versus 2020 levels and nearly 10% higher compared to 2019.


However, while there is the potential for a strong uplift in new supply over the coming years, there are a number of challenges facing the sector. Shortages and higher building costs in relation to raw materials and more fundamentally the availability of workers are headwinds to a significant increase in new supply. At the same time, while planning permissions are running at healthy levels, the translation of this into new supply takes a number of years and is being impacted by delays in the overall approval process. In conclusion, the mismatch between supply and demand in the Irish residential property market is going to take some time to resolve, especially given the high level of pent-up demand.



MONTHLY DATA	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	
RESIDENTIAL CONSTRUCTION ACTIVITY									<p>The Housing PMI rose to 58.5 in February as activity in the sector continued to gather momentum the start of 2022</p> <p>Commencements increased in Feb but were still down 6.3% YTD vs 2020. 12 mth total though, climbed to a new cycle high of 33k</p>
Markit/BNP Paribas Construction PMI									
- Housing Activity	62.2	59.8	54.5	55.1	53.2	55.1	58.5	#N/A	
Commencements: Month	2,162	3,203	2,650	2,112	1,736	1,861	2,327	#N/A	
- Cum 12 Mth Total	29,565	30,519	30,947	30,537	30,724	31,201	33,006	#N/A	
- 3 Month Avg YoY %	92.8	59.8	32.7	13.9	3.3	4.7	71.5	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									<p>Mortgage approvals down by 0.9% YoY in the 3 months to February. 12mth rolling total remains static just above 43k</p> <p>Transactions are running at similar levels YTD so far in 2022 versus the same periods in 2019-2021</p> <p>Outstanding mortgage stock at -1.1% YoY in January</p>
BPMI Mortgage Approvals : Month	3,749	3,905	3,717	3,957	3,088	2,762	2,976	#N/A	
- 3 Month Avg YoY %	55.9	18.3	-2.7	-9.0	-10.6	-4.9	-0.9	#N/A	
- 12 Mth Total	44,456	44,434	43,732	43,317	43,158	43,224	43,236	#N/A	
RPPR Transactions : Month	4,726	5,311	5,523	5,225	5,311	3,551	4,192	#N/A	
- 3 Month Avg YoY %	50.4	39.1	21.4	5.5	-12.3	-11.6	-12.7	#N/A	
- 12 Mth Total	58,309	59,312	59,285	59,153	57,051	57,437	57,249	#N/A	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-1.1	-1.1	-1.1	-1.1	-1.2	-1.1	#N/A	#N/A	
HOUSING MARKET PRICES									<p>House prices rose by 0.9% in January, up 14.8% YoY Ex-Dublin price inflation (+16%) continues to outpace the capital (+13.3%)</p> <p>RPPR Prices continue to trend higher at the start of 2022. Daft.ie asking prices rose by 2.4% in Q1, meaning they were 8.4% higher YoY vs Q1 2021</p>
CSO Price Index - MoM %	2.3	1.6	1.2	1.3	1.0	0.9	#N/A	#N/A	
- YoY %	10.9	12.4	13.2	14.0	14.3	14.8	#N/A	#N/A	
- Dublin YoY %	10.3	11.6	12.1	12.7	12.9	13.3	#N/A	#N/A	
- Ex Dublin YoY %	11.4	13.1	14.2	15.0	15.3	16.0	#N/A	#N/A	
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	321,820	327,831	328,735	330,549	334,171	334,563	336,582	#N/A	
Daft List Prices: YoY %	9.1	9.0	9.2	8.8	6.5	6.5	9.5	9.1	
RENTS & AFFORDABILITY									<p>CSO rental index rose sharply by 0.9% in February. YoY rate jumps to 9.2%</p> <p>Affordability index held steady in Q4 as average industrial wages rise by 2.1% YoY in the quarter</p>
RENTS: CSO Private Rents - MoM %	1.5	1.8	0.9	0.6	0.6	0.4	0.9	#N/A	
- YoY %	4.5	5.9	7.5	8.1	8.4	8.4	9.2	#N/A	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	19.4	19.5	19.5	19.6	19.6	#N/A	#N/A	#N/A	

QUARTERLY DATA	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	
CSO Dwelling Completions									<p>Having performed better than expected in H1, completions slowed in H2. Circa 20.5k completions last year, in line with 2020 figure</p>
- YoY %	16.1	-32.7	-10.6	15.1	-20.4	53.9	-8.7	-5.3	
- Cum 12 Mth Total	21,734	20,164	19,567	20,526	19,521	21,260	20,822	20,433	
CSO Planning Permissions									<p>Just under 43k planning permissions granted last year, up 1.5% on 2020 total</p>
- YoY %	79.9	-23.1	23.7	-18.1	-46.8	53.3	-8.4	41.0	
- Cum 12 Mth Total	44,271	42,086	44,479	42,371	36,252	40,131	39,077	42,991	
BPMI Mortgage Drawdowns									<p>Drawdowns were 22% higher YoY in 2021 and were up 6.6% vs. 2019 levels, led by an increase in lending to FTBs</p> <p>In value terms, drawdowns up 25.1% YoY and 9.7% vs. 2019 levels. FTB share of drawdown value increases to 52.5% in 2021. Value of drawdowns over past 12 mths rises to €10.5bn</p>
Purchase Drawdowns (Volume)	6,932	5,035	6,366	10,164	7,294	7,438	9,124	10,620	
YoY % (Volume)	3.9	-37.0	-32.9	2.2	5.3	47.8	43.3	4.5	
FTB YoY % (Volume)	8.3	-34.8	-29.9	7.8	7.3	49.0	43.8	5.2	
Total Drawdowns (Value, € Mln)	1,996	1,462	1,958	2,951	2,142	2,230	2,783	3,312	
- YoY % (Value)	5.9	-35.0	-25.8	6.6	7.3	52.5	42.1	12.2	
- Cum 12mth Drawdowns (Value, € Mln)	9,653	8,865	8,184	8,367	8,513	9,281	10,106	10,467	

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

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