

Prices accelerating amid continuing supply shortfall

Double-digit house price growth again

After slowing to 5.5% in June 2016, annual house price inflation has been on a strong upward trend since then. The CSO data on residential property prices show that the pace of growth has quickened over recent months. In July, prices rose by 12.3% on a yearly basis. This represents the fastest rate of growth since June 2015.

Looking at the geographic breakdown, the acceleration in national house prices is being driven by a sharp pick up in Dublin prices. In July, prices in the capital rose by 12.7% compared to year earlier levels, quite some way above the 4% rate registered in July 2016. Meanwhile, non-Dublin prices rose by 11.7% in July, marking the first time since April 2015 that they have failed to outpace Dublin price growth. The fact that the supply shortfall is most acute in Dublin, where housing demand is very strong, the relaxation in the Central Bank mortgage regulations (which disproportionately impacted Dublin) and the Government's 'help-to-buy scheme' are all factors underpinning the strong price rises in the Capital.

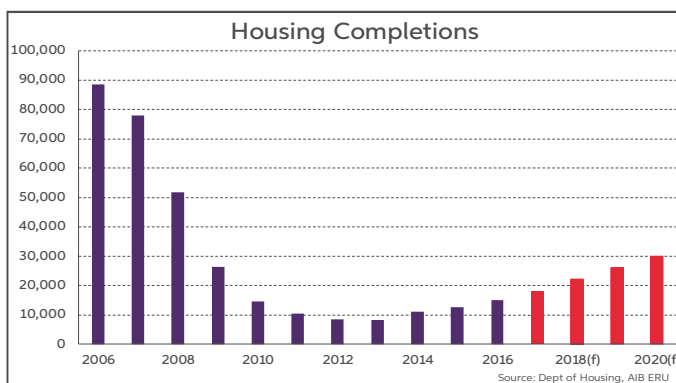
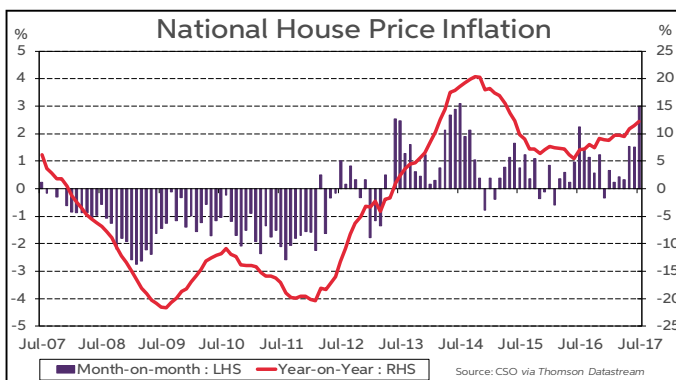
It is important to bear in mind, though, that despite these strong growth rates, prices remain below their previous peaks. Both National and Dublin price levels are around 26% below their previous highs. However in contrast, rents, according to CSO data, went above their previous peaks in September 2015 and as of August this year were 16.3% above their former highs.

Aside from the upward pressure on prices/rents, the lack of sufficient supply is also reflected in the fact that overall transaction levels remain well below the regarded 3-4% normal turnover levels. A further consequence of this is the impact on mortgage lending. It registered a strong 33% yearly increase in value terms in H1 2017. If strong growth is maintained in the second half of 2017, the total value of drawdowns in 2017 will be in the region of €7-7.5bn, up from €5.7bn in 2016. However, this is still quite some way short of the level in a more normalised market, where supply is substantially higher than current levels.

Supply on upward trajectory but still well below the required level

On the key issue of supply, various indicators suggest that building activity continues on an improving trajectory. Data from the Department of Housing show that commencement notices (i.e. housing starts) increased by 45% in the year to May. At the same time, housing registrations, which tend to reflect developer activity, surged by over 90% in year-to-date terms to July. Meanwhile, completions, as measured by ESB connections (an imperfect, but best available measure of new supply), were up 25% in the first five months of the year, compared to the same period in 2016. It must be noted though, that while all of the above are on the surface very strong growth rates, they must be viewed in the context of being off a low base. Thus, the overall level of activity/new supply remains low in absolute terms. If the completions data continue to grow at their current rate over the remainder of the year, they would total in the region of 18,500-19,000 units for 2017, up from 15,000 in 2016.

Crucially though, this level of building activity remains well below the projected 30,000 units that are required per annum to meet estimated housing demand. Indeed, extrapolating out current supply dynamics, it could be 2020, at the earliest, before new house building reaches the level of estimated annual demand. This does not take into account the pent-up demand that has been accumulating in recent years, amid the dearth in supply. Therefore, it could be well into the next decade before the Irish residential property market sees supply and demand levels become closely aligned.



LATEST DATA	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	
RESIDENTIAL CONSTRUCTION ACTIVITY									the housing PMI indicates that the sector continues to expand at a strong pace Housing registrations up over 100% YoY in July, but still very low in level terms 12mth commencements total remains on a solid upward trend, though still low overall Steady improvement in level of completions, but at c.16k on a 12mth basis, they are still well below market demand
Markit/Ulster Bank Construction PMI									
- Housing Activity	59.1	63.3	61.3	61.9	69.2	59.5	57.4	57.4	
Housing Registrations: Month	393	978	839	780	796	1,423	753	#N/A	
- 3 Month Avg YoY %	114.1	173.0	75.0	70.4	34.4	132.3	107.0	#N/A	
- Cum 12 Mth Total	5,859	6,537	6,573	6,932	7,155	8,281	8,468	#N/A	
Commencements: Month	910	1,265	1,685	1,620	2,053	#N/A	#N/A	#N/A	
- Cum 12 Mth Total	13334	13169	14192	14979	15579	#N/A	#N/A	#N/A	
- Cum 12 Mth Total YoY %	44.0	27.4	37.6	46.2	41.8	#N/A	#N/A	#N/A	
Completions (ESB Connection): Month	1,244	1,263	1,389	1,413	1,686	#N/A	#N/A	#N/A	
- Cum 12 Mth Total	15,256	15,327	15,684	15,948	16,340	#N/A	#N/A	#N/A	
- Cum 12 Mth Total YoY %	18.3	15.7	19.0	19.2	19.4	#N/A	#N/A	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									Pace of YoY growth in mortgage approvals has slowed somewhat, though it remains above 25% The level of transactions has seen a more modest 9% YoY increase, reflecting the lack of supply Pace of decline in outstanding mortgages continues to slow—now -2.4%
RPPR Transactions : Month	3,045	3,554	4,245	3,660	4,135	4,576	4,699	#N/A	
- 3 Month Avg YoY %	-2.6	-5.7	10.9	6.3	9.6	7.1	9.1	#N/A	
- 12 Mth Total	47,903	47,779	48,567	48,587	48,847	49,413	49,700	#N/A	
BPFI Mortgage Approvals : Month	2,465	2,586	3,261	2,928	3,557	3,767	3,431	#N/A	
- 3 Month Avg YoY %	42.3	41.8	61.4	44.3	39.8	26.2	27.5	#N/A	
- 12 Mth Total	30,730	31,590	33,098	33,425	34,366	35,224	35,747	#N/A	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5	-2.4	#N/A	
HOUSING MARKET PRICES									
CSO Price Index - MoM %	0.7	0.2	0.4	0.3	1.5	1.5	3.0	#N/A	
- YoY %	8.8	9.7	9.8	9.5	10.9	11.5	12.3	#N/A	
- Dublin YoY %	5.7	6.7	7.2	5.7	8.9	11.1	12.7	#N/A	
- Ex Dublin YoY %	11.7	12.5	12.2	13.3	13.0	11.7	11.7	#N/A	
RPPR Transaction Price (Simple Average)									
- 6 Month Average €	255,238	254,041	257,445	258,665	258,874	256,197	257,801	#N/A	
Daft Asking Prices: MoM%	2.4	1.1	0.1	3.8	0.7	-0.7	#N/A	#N/A	
- YoY %	9.8	10.3	8.0	12.7	12.6	10.3	#N/A	#N/A	
RENTS & AFFORDABILITY									CSO rent prices now 16.3% above prior peak Higher property prices have impacted affordability, but it still remains accommodative
RENTS: CSO Private Rents - MoM%	0.0	1.2	0.3	0.5	0.1	0.8	0.4	0.8	
- YoY %	8.3	8.5	8.6	7.9	7.6	7.9	7.3	7.3	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	16.3	16.3	16.5	16.7	17.2	17.4	17.9	#N/A	

QUARTERLY DATA	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	<div>Mortgage drawdowns up 17.6% YoY in Q2. Although, they remain very low overall. This is not surprising given current supply constraints</div> <div>FTB remain primary source of drawdowns in Q2 (55%)</div> <div>Mortgages in arrears declined further in Q2; now 7.1% for principal dwellings and 15.5% for BTL. Overall level of arrears remains relatively high, especially in the BTL sector</div>
BPFI Mortgage Drawdowns									
Purchase Drawdowns	6,334	6,780	4,634	5,767	6,894	7,596	5,853	6,781	
YoY %	9.9	-2.2	-9.4	6.1	8.8	12.0	26.3	17.6	
FTB YoY %	9.2	-6.9	-11.2	4.2	11.0	12.7	27.5	20.8	
Mortgage Arrears 90 Days +									
Principal Residences									
Number of Accounts in Arrears	65,653	61,931	59,696	57,571	56,350	54,269	53,100	51,750	
% of Outstanding	8.8	8.3	8.0	7.8	7.6	7.4	7.2	7.1	
Buy-to-Let									
Number of Accounts in Arrears	24,809	23,344	22,516	21,962	21,435	20,499	20,009	19,627	
% of Outstanding	18.1	17.0	16.5	16.3	16.2	15.7	15.6	15.5	

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



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