Housing Market Bulletin

AIB Treasury Economic Research Unit

September 2022

Supply increasing, but still lagging demand

The Irish residential property market continues to be characterised by a mismatch between supply and demand. Based on underlying demographics, the economy needs at least 30,000 new units per annum. Given that new supply has been running well below this level over the past decade, it means that significantly more than 30,000 units need to be built on an annual basis to satisfy yearly demand as well as the pent-up demand that has been accumulating over recent years.

Indeed, the preliminary new Census data suggest that the underlying demographic demand may be even higher, with the population estimated at 5.12m in 2022, somewhat greater than anticipated. The BPFI'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 August, there were 28,738 approvals for the FTB segment of the market.

In terms of the supply picture, there have been some encouraging signs. The most recent CSO data on completions indicate that there has been a pick up in new supply in the past year. By the end of June, the four quarter total of completions was running at 25,000 units. This represent a 17% rise compared to year earlier levels. New supply could now be on track to register a total of around 25,000 units for 2022 as a whole. This would compare favourably to the previous 3 year period, where new supply was static at around 21,000 units per annum, due to the dampening impact from the Covid-19 related restrictions on building and associated uncertainty on residential construction activity.

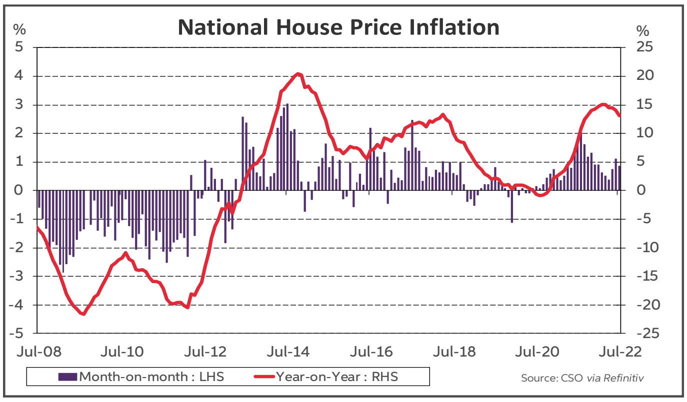
Meantime, forward looking supply indicators point to the potential for a further increase in new supply. Although some of these metrics have been more mixed recently and suggest some loss of momentum. This is the especially the case when assessing the latest commencement data, which are a measure of new housing starts. On a 12-month cumulative basis to August, starts stood at 28,409 units. This compares to a range of 30,000 to 35,000 units evident between September 2021 and May of this year.

In terms of survey data of building activity, the housing component of the construction PMI has weakened this year and was below the breakeven threshold (of 50) between expansion and contractions for the third consecutive month in August. Meanwhile, looking further ahead, the latest data on planning permissions showed them continuing to maintain a very high level in the first half of 2022. For the year to June, planning permissions totalled circa 44,700 units, representing a solid increase versus 2021 levels. Overall, though, while some future supply indicators are showing the potential for an uplift in new activity, there has been some loss of momentum over recent months, as indicated by PMI and commencements data.

Moderation in house price inflation likely to continue

It may be that the heightened level of uncertainty regarding the macro/inflationary outlook is starting to weigh on sentiment in the sector. This could result in some activity being put on hold, especially given the upward pressure on building costs that may be difficult to pass on in the form of higher house prices, as concerns mount about buyer affordability.

In this regard, the persistent supply deficit has been a key factor in the marked upward pressure on prices in the past couple of years. The most recent CSO data on house prices show a 0.8% monthly increase nationally in July, which followed a 1.1% rise in June. However, it is not unusual for the month-on-month price rises to be strong over the summer months.



Indeed, when analysing the yearly growth rate, a moderate downtrend has become evident over recent months in house price inflation. In July, the annual growth slowed to 13% from 14% in June. This compares to a peak of 15.1% in the February-March period. Meantime, the outperformance in price growth of non-Dublin versus Dublin is continuing. Non-Dublin prices rose by 15.2% y/y in July, while the capital experienced a 10.4% y/y increase. Although, similar to the national picture, both have seen a moderation in the pace of annual growth recently.

Looking ahead, the ongoing supply shortfall, large increase in household savings, as well as the strong labour market should act to underpin house prices. However, the emerging trend of a moderation in residential property price inflation is likely to continue as the supply backdrop improves and amid the rising interest rate environment. The Irish economy is also likely to lose some momentum next year on the global economic downturn and as high inflation depresses spending power. We would not be surprised to see a significant deceleration in house price inflation to low single-digit levels in 2023.

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MONTHLY DATA	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
RESIDENTIAL CONSTRUCTION ACTIVITY								
Markit/BNP Paribas Construction PMI								
- Housing Activity	58.5	56.7	56.1	56.6	49.7	37.9	47.4	#N/A
Commencements: Month	2,327	2,809	2,346	2,746	2,060	2,438	2,121	#N/A
- Cum 12 Mth Total	33,006	34,846	32,456	30,233	29,343	28,450	28,409	#N/A
- 3 Month Avg YoY %	71.5	143.4	20.2	-26.0	-43.5	-35.6	-21.6	#N/A
HOUSING / MORTGAGE MARKET ACTIVITY								
BPFI Mortgage Approvals : Month	2,976	3,461	3,299	3,841	3,947	3,514	3,680	#N/A
- 3 Month Avg YoY %	-0.9	1.3	-1.9	-1.6	-3.7	-6.8	-7.6	#N/A
- 12 Mth Total	43,236	43,277	43,039	43,066	42,846	42,216	42,147	#N/A
RPPR Transactions : Month	4,606	4,792	4,517	4,668	5,359	5,466	4,468	#N/A
- 3 Month Avg YoY %	-9.1	2.2	1.0	3.0	11.1	10.4	4.8	#N/A
- 12 Mth Total	57,895	57,510	57,813	58,299	58,968	59,267	58,997	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	1.1	1.0	0.9	0.9	0.6	0.2	#N/A	#N/A
HOUSING MARKET PRICES								
CSO Price Index - MoM %	0.6	0.5	0.4	0.8	1.1	0.8	#N/A	#N/A
- YoY %	15.0	15.0	14.5	14.4	14.0	13.0	#N/A	#N/A
- Dublin YoY %	13.2	12.5	11.7	11.5	11.3	10.4	#N/A	#N/A
- Ex Dublin YoY %	16.6	17.1	16.8	16.7	16.2	15.2	#N/A	#N/A
RPPR Transaction Price (Simple Average)								
- 12 Month Average €	336,238	340,142	342,676	347,813	350,126	357,045	360,515	#N/A
Daft List Prices: YoY %	9.7	9.9	9.3	9.6	8.8	8.0	7.2	7.9
RENTS & AFFORDABILITY								
RENTS: CSO Private Rents - MoM %	0.9	0.8	1.3	1.6	0.8	1.1	1.4	#N/A
- YoY %	9.2	9.2	9.3	11.2	11.9	12.9	12.7	#N/A
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposible Income	19.4	19.3	19.8	20.1	20.5	#N/A	#N/A	#N/A

The Housing PMI remained below 50 in August, indicating a third consecutive contraction in activity in the sector, albeit at a slower pace than in July

Commencements to August are down 11% YTD vs. 2021 levels. 12mth rolling total holds steady at 28.5k

Mortgage approvals trending slightly lower, with the 3mma down 7.6% YoY.in August

Transactions have trended higher in 2022. 3mma up 4.8% YoY in August. 12mth total at 59k

Stock of mortgage lending up 0.2% YoY in July

House prices rose by 0.8% in July. The YoY rate moderated further to 13%. Ex-Dublin price inflation (15.2%) outpaces the capital (10.4%)

Daft.ie asking prices rose by just 0.1% in Q3, but they were 7.7% higher vs Q3 2021. Higher house prices reflected in RPPR prices continuing to trend upward in 2022

CSO rental index continues to trend sharply higher. Up 12.7% YoY in August

Affordability index deteriorated in Q2 as house price growth outpaced average industrial wages

QUARTERLY DATA	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
CSO Dwelling Completions	5,053	7,343	3,967	4,990	4,645	6,968	5,662	7,654
- YoY %	-10.6	14.3	-19.9	53.7	-8.1	-5.1	42.7	53.4
- Cum 12 Mth Total	19,673	20,593	19,610	21,353	20,945	20,570	22,265	24,929
CSO Planning Permissions	12,482	9,536	6,963	11,150	11,428	13,450	8,463	11,314
- YoY %	23.7	-18.1	-46.8	53.3	-8.4	41.0	21.5	1.5
- Cum 12 Mth Total	44,479	42,371	36,252	40,131	39,077	42,991	44,491	44,655
BPFI Mortgage Drawdowns								
Purchase Drawdowns (Volume)	6,366	10,164	7,294	7,438	9,124	10,620	7,654	8,695
YoY % (Volume)	-32.9	2.2	5.3	47.8	43.3	4.5	4.9	16.9
FTB YoY % (Volume)	-29.9	7.8	7.3	49.0	43.8	5.2	9.9	22.5
Total Drawdowns (Value, € Mln)	1,958	2,951	2,142	2,230	2,783	3,312	2,513	3,134
- YoY % (Value)	-25.8	6.6	7.3	52.5	42.1	12.2	17.3	40.5
- Cum 12mth Drawdowns (Value, € Mln)	8,184	8,367	8,513	9,281	10,106	10,467	10,839	11,742

Having slowed in H2 2021, completions have regained momentum in H1 2022. 12 month running total rises to just below 25k

Planning permissions up 15% YoY in Q2. 12mth running total remains above 44k

Drawdowns up 16.9% YoY in Q2 and 8.9% higher vs. Q2 2019, led by an increase in lending to FTBs

In value terms, drawdowns up 40.5% YoY in Q2 and 39.3% vs. 2019 levels. FTB share of drawdown value eased slightly to 50.3% in Q2. Value of drawdowns over past 12 mths rises to €11.7bn

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

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