

Some encouraging signs on the supply front

Raft of data suggest uplift in supply...

The key issue facing the housing market in Ireland over the last number of years has been the very low level of supply. While this still remains very much the case heading into the end of 2017, recent indicators suggest that house building activity has seen an acceleration in the rate of growth.

Using the ESB connections data compiled by the Department of Housing, as a proxy (albeit imperfect but the best available data source) for new housing supply, shows that completions are up around 27% in the year to October. The ten month year-to-date total of 15,062 units has now surpassed the 2016 full year total of 14,932. This 2016 total represented a 17% increase on the previous year. At its current run rate of 27%, connections could sum to around 19,000 units this year. Housing starts, measured by commencement notices, registered a 35% year-to-date increase in the first ten months of 2017 and are on course to total around 18,000 units for the full year, close to the housing completion numbers. Housing registrations, which are a barometer of developer activity, rose by 76% on a year-to-date basis in November. These are very strong growth rates for both variables, although they must be viewed in the context of coming off a low base. Meanwhile, the latest housing sub-component of the construction PMI remains consistent with a strong pace of expansion in the sector.

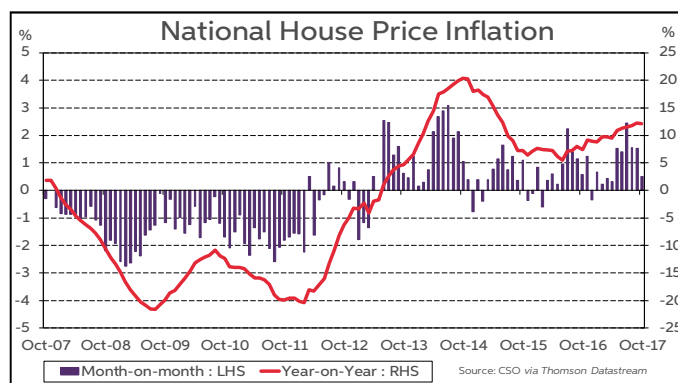
...but despite this, building activity still well below the required level...

However, while a host of data on house-building activity are consistent with an upturn in supply, this level of building activity remains well below the projected 33,000 units that are required per annum to meet estimated housing demand. Based on the current growth trend in supply, it could be 2020, at the earliest, before new house building reaches the level of estimated annual demand. Crucially though, this does not factor in 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 is in a situation where supply and demand levels become closely aligned.

...this shortfall continues to exert upward pressure on prices

This mismatch between supply and demand continues to exert strong upward pressure on prices. After slowing to a 5.5% rate in mid-2016, the pace of increases on a national basis has been on an accelerating trend since then, reaching double figures in May of this year. In the year to October, prices were up 12.1%.

A key aspect to this renewed quickening in price rises has been a reacceleration in Dublin prices, with its growth rate at 11.6% year-on-year in October. This compares to a 6% growth rate at the start of the year. Despite this uplift, non-Dublin prices have outpaced the growth rate in Dublin prices for nearly all of 2017. Indeed, the rate of prices rises outside the capital have been in double digit territory of 11.3-13.3% throughout the year, with the most recent reading for October registering growth of 12.8%. However, prices still remain well below their peak, with prices on a national basis around 24% down from their high point in early 2007. Rents, though, are now around 18% above their previous highs, although the rate of increase has moderated significantly over the past year, from 10% to 5.6%.



Insufficient supply is also having a dampening impact on transaction levels, which are still well below the regarded 3-4% normal turnover of housing stock. The level of mortgage lending is also reflective of the lack of supply in the residential sector. In the first three quarters of 2017, mortgage lending recorded a strong 32% yearly increase, pointing to a full year aggregate in the region of €7-7.5bn. This compares to a €5.7bn total in 2016. However, this is still quite some way short of the level in a more normalised market, where activity would be substantially higher than where it is currently at.

Looking ahead into 2018, while there are positive signs on the supply side, the residential property market will continue to be defined by a shortfall in supply, although the mismatch with demand will narrow somewhat. Thus, prices are likely to continue to rise. However, the pace should moderate as more supply comes on stream. Furthermore, there will be a slight tightening of the Central Bank macro-prudential rules on mortgage lending in 2018.

| LATEST DATA | Apr-17 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 |
|---|---------|---------|---------|---------|---------|---------|---------|--------|
| RESIDENTIAL CONSTRUCTION ACTIVITY | | | | | | | | |
| Markit/Ulster Bank Construction PMI | | | | | | | | |
| - Housing Activity | 61.9 | 69.2 | 59.5 | 57.4 | 57.4 | 56.1 | 55.5 | 58.6 |
| Housing Registrations: Month | 780 | 796 | 1,423 | 753 | 704 | 978 | 719 | 660 |
| - 3 Month Avg YoY % | 70.4 | 34.4 | 132.3 | 107.0 | 104.0 | 67.8 | 68.1 | 60.4 |
| - Cum 12 Mth Total | 6,932 | 7,155 | 8,281 | 8,468 | 8,623 | 9,265 | 9,441 | 9,511 |
| Commencements: Month | 1,620 | 2,053 | 1,735 | 1,284 | 1,319 | 1,458 | 1,588 | #N/A |
| - Cum 12 Mth Total | 14,979 | 15,579 | 16,277 | 16,604 | 16,945 | 17,323 | 17,151 | #N/A |
| - Cum 12 Mth Total YoY % | 46.2 | 41.8 | 44.3 | 48.0 | 46.9 | 48.8 | 37.1 | #N/A |
| Completions (ESB Connection): Month | 1,413 | 1,686 | 1,541 | 1,744 | 1,606 | 1,647 | 1,529 | #N/A |
| - Cum 12 Mth Total | 15,948 | 16,340 | 16,826 | 17,460 | 17,651 | 17,958 | 18,197 | #N/A |
| - Cum 12 Mth Total YoY % | 19.2 | 19.4 | 23.0 | 27.7 | 24.8 | 25.9 | 26.3 | #N/A |
| HOUSING / MORTGAGE MARKET ACTIVITY | | | | | | | | |
| RPPR Transactions : Month | 3,676 | 4,143 | 4,596 | 4,761 | 4,372 | 4,736 | 4,762 | #N/A |
| - 3 Month Avg YoY % | 6.6 | 9.7 | 7.4 | 9.8 | 10.2 | 9.9 | 9.1 | #N/A |
| - 12 Mth Total | 48,629 | 48,867 | 49,453 | 49,802 | 50,135 | 50,790 | 51,084 | #N/A |
| BPFI Mortgage Approvals : Month | 2,870 | 3,509 | 3,682 | 3,415 | 3,380 | 3,081 | #N/A | #N/A |
| - 3 Month Avg YoY % | 41.5 | 37.0 | 23.8 | 25.8 | 19.5 | 14.5 | #N/A | #N/A |
| - 12 Mth Total | 33,218 | 34,111 | 34,884 | 35,391 | 35,823 | 36,138 | #N/A | #N/A |
| Residential Mortgages (Central Bank of Ireland) | | | | | | | | |
| - Amount Outstanding (Adj.) YoY % | -2.6 | -2.6 | -2.5 | -2.4 | -2.3 | -2.1 | -2.1 | #N/A |
| HOUSING MARKET PRICES | | | | | | | | |
| CSO Price Index - MoM % | 0.3 | 1.5 | 1.4 | 2.4 | 1.6 | 1.5 | 0.5 | #N/A |
| - YoY % | 9.5 | 10.9 | 11.4 | 11.6 | 11.8 | 12.2 | 12.1 | #N/A |
| - Dublin YoY % | 5.7 | 8.9 | 10.7 | 11.8 | 11.7 | 11.6 | 11.6 | #N/A |
| - Ex Dublin YoY % | 13.3 | 13.0 | 11.8 | 11.3 | 11.7 | 12.9 | 12.8 | #N/A |
| RPPR Transaction Price (Simple Average) | | | | | | | | |
| - 6 Month Average € | 258,429 | 258,547 | 255,792 | 257,221 | 260,874 | 260,991 | 266,218 | #N/A |
| Daft Asking Prices: MoM% | 3.5 | 0.9 | -0.9 | 0.6 | 0.4 | -0.7 | #N/A | #N/A |
| - YoY % | 12.5 | 12.6 | 10.0 | 9.7 | 9.1 | 7.7 | #N/A | #N/A |
| RENTS & AFFORDABILITY | | | | | | | | |
| RENTS: CSO Private Rents - MoM% | 0.5 | 0.1 | 0.8 | 0.4 | 0.8 | 0.7 | 0.5 | 0.0 |
| - YoY % | 7.9 | 7.6 | 7.9 | 7.3 | 7.3 | 6.1 | 5.6 | 5.6 |
| AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB | | | | | | | | |
| - Mort as % of Disposable Income | 16.7 | 17.2 | 17.4 | 17.9 | 18.2 | 18.5 | 18.5 | #N/A |

The housing PMI bounced back in November to a strong level of 58.6, suggesting an improvement in activity

Housing registrations up 60% YoY in the three months to Nov, but still at low levels

12mth commencements total above 17k, though still at a low level overall

Steady improvement in level of completions, which should total around 19k in 2017. But, this is still well below market demand

Pace of YoY growth in mortgage approvals has slowed—at 14.5% YoY in Q3 versus 23.8% in Q2

Growth in approvals, though, still outpacing transactions (c.9% YoY), as lack of supply remains an issue

Pace of decline in outstanding mortgages continues to slow—now -2.1%

YoY house price growth slowed marginally in October after 5 months of strong growth. However, at 12.1%, it remains elevated. Ex-Dublin price inflation (12.8%) continues to outpace that of the Capital (11.6%)

Average property transaction price has risen to c.265k in the 6 months to October

Rents now 17.7% above prior peak, but rate of increase has slowed

Higher prices hit affordability, but it remains relatively accommodative

| QUARTERLY DATA | Q4-15 | Q1-16 | Q2-16 | Q3-16 | Q4-16 | Q1-17 | Q2-17 | Q3-17 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| BPFI Mortgage Drawdowns | | | | | | | | |
| Purchase Drawdowns | 6,780 | 4,634 | 5,767 | 6,894 | 7,596 | 5,843 | 6,761 | 8,082 |
| YoY % | -2.2 | -9.4 | 6.1 | 8.8 | 12.0 | 26.1 | 17.2 | 17.2 |
| FTB YoY % | -6.9 | -11.2 | 4.2 | 11.0 | 12.7 | 27.3 | 20.7 | 23.6 |
| Mortgage Arrears 90 Days + | | | | | | | | |
| <i>Principal Residences</i> | | | | | | | | |
| Number of Accounts in Arrears | 61,931 | 59,696 | 57,571 | 56,350 | 54,269 | 53,100 | 51,750 | 50,688 |
| % of Outstanding | 8.3 | 8.0 | 7.8 | 7.6 | 7.4 | 7.2 | 7.1 | 6.9 |
| <i>Buy-to-Let</i> | | | | | | | | |
| Number of Accounts in Arrears | 23,344 | 22,516 | 21,962 | 21,435 | 20,499 | 20,009 | 19,627 | 18,864 |
| % of Outstanding | 17.0 | 16.5 | 16.3 | 16.2 | 15.7 | 15.6 | 15.5 | 15.1 |

YoY growth in mortgage drawdowns held at 17.2% in Q3, growth in lending to FTBs at 23.6%

FTB remain the dominant source of mortgage drawdowns for purchase, at 60.4% of total volume

Mortgages in arrears declined further in Q3; now 6.9% for principal dwellings and 15.1% for BTL. Overall though, the level of arrears remains relatively high

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



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