

## Some gains in supply, house price inflation slows sharply

### Supply picture is improving but still has some way to go

The level of new housing supply continues to increase. The CSO's 'new dwelling completions' rose by 23% in year-on-year terms in quarter one. This followed a 25% increase in 2018 (18,000 units). The four quarter moving total is now up near 19,000 units. On its current trajectory, completions could aggregate somewhere between 22,000-23,000 units for the full year.

Forward looking indicators of activity point to further increases in supply, although some of these metrics indicate that the pace of improvement may be slowing. The annual rate of increase in housing starts (as measured by commencements notices) slowed to 15.1% in the three months to April, with the 12 month running total near the 24,000 mark.

At the same time, growth in housing registrations (proxy for developer activity) appears to have stalled in the opening four months of this year. Planning permission data for quarter one are also exhibiting a slower pace of growth (-3.5% y/y in Q1'19), although base effects are having an impact here (permissions were +67% in Q1'18). In terms of timelier updates, the May reading of the housing sub-component of the construction PMI continued to point to a still strong pace of growth.

Overall, supply remains well below housing demand, which is estimated at around 35,000 units per annum. Therefore, the recent softening trend in some lead indicators of housing supply is a concern, as if sustained, new homebuilding activity may not remain on its current strong upward trajectory post-2019.

### House price inflation on a decelerating trend, falling prices in Dublin

The CSO's most recent data on residential property prices show that house price inflation has eased further. In April, the year-on-year rate of increase slowed to 3.1%. This compares to 13.3% in April 2018. Prices have, though, risen in the latest two months, after four consecutive months of decline over the winter.

Looking at the geographic breakdown, it is clear that it is the Dublin market that is the main driver of this decelerating trend in house prices. Prices in the capital have fallen on a monthly basis for 5 of the last 6 months, and were down by 1.4% in April compared to their end 2018 levels. In year-on-year terms, prices in the capital were up just 0.5% in April, from a recent high of 13% in April of last year. Within Dublin, 3 of the 4 local authority regions registered yearly declines in April.

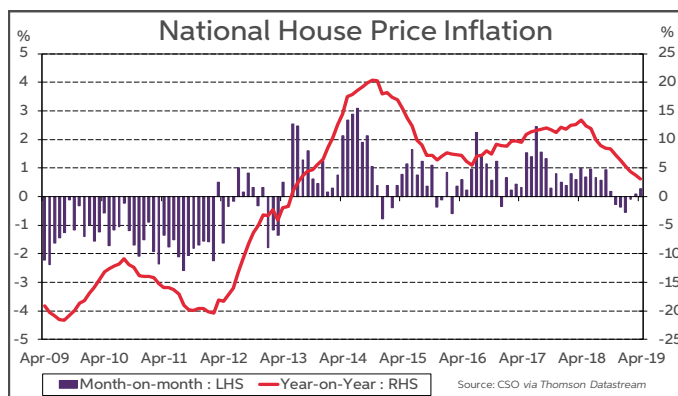
The pattern of non-Dublin price inflation outpacing the Dublin market continues. Indeed, with the exception of two months, July/Aug 2017, this trend has been in place since May 2015. However, it is noticeable that the pace of increases in prices outside the capital has also moderated. In April, non-Dublin prices were up 5.6% y/y. This is a significant slowdown versus the 14% rate in May 2018. Prices were up by just 1% outside Dublin in the first four months of the year.

Two of the main factors behind the moderation in house price growth are the central bank mortgage lending rules (especially the relatively restrictive loan-to-income multiple of 3.5) and affordability issues. These issues would seem to be having the greatest influence on the Dublin market where prices are far higher. For example, the most recent daft.ie asking prices, for quarter two, show average prices in Dublin at €379,365, whereas the national figure was €263,070 and excluding Dublin, the asking price was €218,411. The weakening trend in prices in Dublin has also been accompanied by a rise in unsold stock on the market.

After increasing by 20% in value terms in 2018, new mortgage lending growth slowed to c.11% y/y in the first quarter of this year. However, mortgage approvals have showed some signs of a pick-up recently. Having been pinned below the 37,000 level, on a 12 month cumulative basis for much of 2018 and the early part of 2019, approvals moved above this level in the March-April period. Meanwhile, overall house purchase transaction levels have remained steady in a 55,000-57,000 range since January 2018.

### Overall, slowing trend evident in supply, prices and lending

Looking at some of the key metrics of the housing market - supply, prices and lending - all three can be described as exhibiting a softening trend. For a sector that is still in recovery mode, this suggests that a return to a more 'normal' residential property market is still some way off. Indeed, based on the recent trends, it could take longer than expected for supply and demand to move into balance in the housing market.



MONTHLY DATA	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19		
<b>RESIDENTIAL CONSTRUCTION ACTIVITY</b>										
Markit/Ulster Bank Construction PMI										Housing PMI lower in May. However, at 58.3 continues to point to strong pace of growth in house building
- Housing Activity	58.2	56.0	55.7	64.3	60.8	60.5	58.3	#N/A		
Housing Registrations: Month	943	601	933	1,091	728	709	#N/A	#N/A	Growth in registrations (a measure of developer activity) has stalled—3 month average +0.4% YoY in April	
- 3 Month Avg YoY %	35.8	36.9	65.8	40.4	36.7	0.4	#N/A	#N/A		12 month total of commencements has levelled out at 23.5k—a low level
- Cum 12 Mth Total	10,107	10,265	10,807	10,863	11,004	10,817	#N/A	#N/A		
Commencements: Month	2,433	1,478	1,503	2,569	1,686	1,554	#N/A	#N/A		
- Cum 12 Mth Total	21,836	22,467	22,719	23,392	23,851	23,479	#N/A	#N/A		
- 3 Month Avg YoY %	30.2	47.3	38.6	39.0	31.6	15.1	#N/A	#N/A		
<b>HOUSING / MORTGAGE MARKET ACTIVITY</b>										
BPFI Mortgage Approvals : Month	3,208	2,292	2,438	2,741	3,276	3,307	#N/A	#N/A		Mortgage approvals have picked up recently, leaving the 12 month now above 37k
- 3 Month Avg YoY %	1.1	1.8	-2.4	0.8	7.8	12.5	#N/A	#N/A		
- 12 Mth Total	36,664	36,655	36,507	36,725	37,264	37,540	#N/A	#N/A	Transactions showing flat trend overall. 12 month total holding steady in a 56-57k range	
RPPR Transactions : Month	5,505	6,249	3,089	4,101	4,230	4,427	#N/A	#N/A		Rate of contraction of mortgage debt outstanding eased to 1% in April
- 3 Month Avg YoY %	2.7	3.2	-0.4	-2.5	-1.7	4.5	#N/A	#N/A		
- 12 Mth Total	56,692	56,514	56,281	56,372	56,333	56,836	#N/A	#N/A		
Residential Mortgages (Central Bank of Ireland)										
- Amount Outstanding (Adj.) YoY %	-1.2	-1.1	-1.1	-1.1	-1.1	-1.0	#N/A	#N/A		
<b>HOUSING MARKET PRICES</b>										
CSO Price Index - MoM %	-0.3	-0.4	-0.6	-0.1	0.1	0.3	#N/A	#N/A		CSO house price growth continues to slow—at 3.1% in April. Ex-Dublin YoY price growth (+5.6%) significantly outpacing the capital (+0.5%)
- YoY %	7.2	6.3	5.2	4.3	3.8	3.1	#N/A	#N/A		
- Dublin YoY %	5.1	3.8	2.7	1.4	0.9	0.5	#N/A	#N/A		
- Ex Dublin YoY %	9.2	8.8	7.8	7.3	6.9	5.6	#N/A	#N/A		
RPPR Transaction Price (Simple Average)										Average property transaction price growth has stagnated in recent months. Holding constant between €295-297k
- 12 Month Average €	293,568	294,189	296,241	295,552	295,945	296,698	#N/A	#N/A		
Daft List Prices: YoY %	5.7	4.5	5.3	5.1	6.3	3.9	1.9	5.4		
<b>RENTS &amp; AFFORDABILITY</b>										
RENTS: CSO Private Rents - MoM %	0.5	0.2	0.4	0.3	0.4	0.4	0.3	#N/A		CSO rent inflation edged down to 5.2% in May. Rents now 28.4% above previous peak
- YoY %	7.0	6.4	6.6	5.7	5.6	5.4	5.2	#N/A		
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB										Affordability improved since autumn. Reflects moderating house price inflation and good earnings growth
- Mort as % of Disposable Income	18.2	18.1	17.8	17.6	17.6	17.7	#N/A	#N/A		

QUARTERLY DATA	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19		
<b>CSO Dwelling Completions</b>										
CSO Dwelling Completions	3,275	3,787	4,567	3,475	4,404	4,671	5,522	4,275		CSO data show completions near 19k in year to Q1'19—supply continues to trail demand (estimated at 35k)
- YoY %	36.5	51.7	50.1	25.1	34.5	23.3	20.9	23.2		
- Cum 12 Mth Total	11,593	12,882	14,407	15,104	16,233	17,117	18,072	18,872		
<b>CSO Planning Permissions</b>										
CSO Planning Permissions	4,453	4,739	6,934	7,766	6,777	8,018	6,682	7,493		YoY growth in planning permission slowed further in Q1. Although, 12 month total remains much higher than in recent years
- YoY %	41.8	-18.5	60.2	67.0	52.2	69.2	-3.6	-3.5		
- Cum 12 Mth Total	19,246	18,171	20,776	23,892	26,216	29,495	29,243	28,970		
<b>BPFI Mortgage Drawdowns</b>										
Purchase Drawdowns (Volume)	6,761	8,082	8,709	6,402	7,381	8,727	9,613	6,673		YoY growth in the volume of mortgage drawdowns slowed to 4.2% in Q1. Lending to FTBs also decelerated to 6.9%
YoY % (Volume)	17.2	17.2	14.7	9.6	9.2	8.0	10.4	4.2		
FTB YoY % (Volume)	20.7	23.6	23.9	15.5	14.3	7.4	9.6	6.9		
Total Drawdowns (Value, € Mln)	1,649	2,016	2,231	1,703	2,014	2,370	2,636	1,885		In value terms, mortgage lending growth slowed to 10.7% YoY in Q1. Total mortgage lending now near €9bn on an annual basis
- YoY % (Value)	28.2	29.3	23.0	22.4	22.1	17.6	18.2	10.7		
- Cum 12mth Drawdowns (Value, € Mln)	6,413	6,870	7,287	7,599	7,964	8,318	8,723	8,905		

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



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