

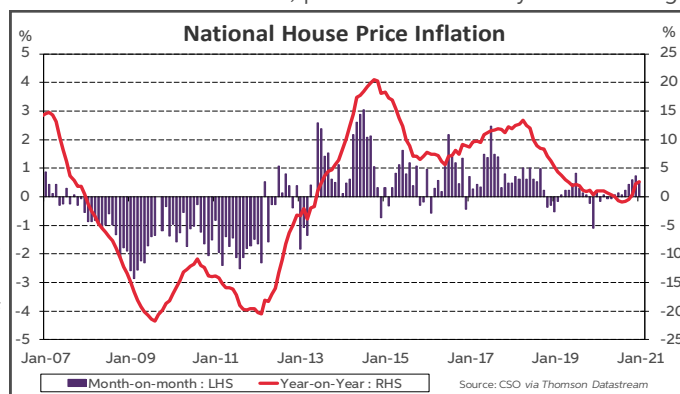
Significant fall in new supply this year to underpin prices

New residential supply, as measured by the CSO's 'New Dwellings Completion' data, held up much better than expected last year. This was in spite of the sector being shut down from late March through to the second half of May. For the full year, 20,676 new units came on stream in 2020. This represented a fall of only 1.9% when compared to the 2019 total of 21,087 units. It should be pointed out, though, that before the pandemic hit, the expectation was for at least 24,000 units in 2020.

However, the supply backdrop is much more challenging this year. Much of the sector has been shut down for longer than in 2020. The current Level 5 restrictions have been in place since the start of the year, with the full reopening of residential construction planned for April 12th. Meanwhile, whereas the performance in 2020 benefitted from a strong pipeline of activity coming through from 2019, this is not the case this year. Indeed, the 12-month cumulative total of commencement notices (measure of housing starts) fell below 21,000 units in January and is down 23% when compared to the cumulative total in the twelve month period to January 2020.

Meanwhile, in terms of other leading indicators, not surprisingly, the housing component of the construction PMI has been very weak in the early months of 2021, reflecting the fact that much of the sector has been closed. It registered readings of 19.0 and 23.8 in January and February, respectively, well below the key '50' breakeven level for expansion. Industry sources suggest that new supply this year could be down by between 15-20% on 2020 levels. The ESRI in its latest Quarterly Economic Commentary is forecasting 15,000 new units being completed this year. The tight supply conditions are also evident in Daft.ie sales stock figures. The latest data show a 40% fall in stock available for sales in March 2021 compared to a year earlier.

This supply deficit is helping to underpin property prices. The most recent CSO figures on house prices show a 0.5% monthly rise in January, which followed 0.7% increase in December. Looking back over the last 12 months, prices were relatively stable through the first 3 quarters of last year, despite the sudden shock to the economy and labour market. The rate of increase, though, accelerated sharply towards the end of last year, with prices up over 2% in December in year-on-year terms. They picked up to 2.6% y/y in January, the fastest pace since the first half of 2019. On an annualised basis, CSO house price inflation has been running at a steady 7% rate since the autumn. In terms of the geographic breakdown, non-Dublin price inflation continued to outpace the capital (+4.0% yoy vs. +1.1% in January). This may in part be due to increased demand for properties outside of Dublin arising from remote working.



Assessing Daft.ie data, which are based on asking prices and therefore more indicative of current market conditions, corroborate the view of upward momentum in prices over the last number of months, with prices up 7.6% y/y in the first quarter of this year. Aside from the aforementioned supply constraints, the enhancement last year to the Help-to-Buy Scheme and possible changes brought about by Covid, such as remote working have been acting as a tailwind to property prices. Overall then, it seems clear that the trend is solidly upwards for residential prices. While, prices have proved resilient, the rental market has been impacted by the pandemic. This may in part be due to the cohort of the labour market most impacted by the restrictions being concentrated in the part-time/lower paid service sector type jobs, who tend to be 'renters' rather than 'homeowners'. The rental sector has also been impacted by travel restrictions as a result of Covid – 19, which have hit the airbnb letting market hard. The CSO rents index was down 2.5% on a year-on-year basis in February.

Looking ahead, with new supply this year expected to fall well below 2019-20 levels, the housing shortfall will only widen. It will also delay by a number of years, the timing whereby supply and demand become more closely aligned. In this regard, the market is still well short of meeting annual demand, estimated to be circa 30,000. Meanwhile, the already robust demand from the first-time-buyer segment of the market (evident in mortgage approvals for this cohort up 4.2% y/y in February) may receive an additional fillip this year with the government's proposed Affordable Housing Bill. This includes a shared ownership scheme where the State will undertake to pay up to 30% for the cost of new homes in return for equity in the property. Both the Central Bank and ESRI have warned of the potential for this scheme to drive prices higher by increasing potential home-buyers purchasing power at a time when supply is constrained. On top of this, the strong increase in household savings will also help to underpin housing demand. At the same time, there is strong demand from institutional and public authorities.

Overall then, against this backdrop, the upward pressure on residential property prices that started to develop towards the end of 2020 may gather further momentum over the course of this year as the economy starts to reopen. It is crucial, then, that new supply is ramped up over the next couple of years to meet the pent-up demand in the market.

MONTHLY DATA	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	
RESIDENTIAL CONSTRUCTION ACTIVITY									<p>Having collapsed to 19.0 in January, the Housing PMI remained at a very low level in February (23.8) as most of the sector remained closed</p> <p>Commencements were 48% lower YoY in January, reflecting the impact of restrictions. 12 month running total falls below 21k</p>
Markit/Ulster Bank Construction PMI									
- Housing Activity	44.7	44.1	50.3	53.0	56.2	19.0	23.8	#N/A	
Commencements: Month	1,571	2,249	2,222	2,522	1,549	1,066	#N/A	#N/A	
- Cum 12 Mth Total	22,066	21,774	20,823	21,830	21,686	20,701	#N/A	#N/A	
- 3 Month Avg YoY %	-36.8	-28.4	-29.7	-3.3	-1.4	-2.3	#N/A	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									<p>Approvals continue to trend upwards in early 2021, led by the FTB segment. 3mma up 13.8% YoY in February</p> <p>Following a strong end to 2020, transactions held steady in Jan & Feb. Although, early March data suggests a sharp drop off in activity</p> <p>Outstanding mortgage stock down 1.1% YoY in January</p>
BPFI Mortgage Approvals : Month	3,337	3,927	4,419	4,372	3,247	2,696	2,964	#N/A	
- 3 Month Avg YoY %	-32.7	-8.4	12.8	25.4	27.5	23.6	13.8	#N/A	
- 12 Mth Total	30,722	31,561	32,288	33,302	34,156	34,258	34,384	#N/A	
RPPR Transactions : Month	2,954	4,266	5,537	5,341	7,372	3,112	4,072	1,848	
- 3 Month Avg YoY %	-34.8	-30.2	-18.2	-4.0	5.1	2.9	5.2	-22.2	
- 12 Mth Total	48,911	48,123	48,146	48,286	49,009	48,585	49,006	46,431	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-0.8	-1.0	-0.9	-1.0	-1.0	-1.1	#N/A	#N/A	
HOUSING MARKET PRICES									<p>House prices rose by 0.5% in January, YoY growth rate at 2.6%. Ex-Dublin price inflation (+4.0%) continues to outpace the capital (+1.1%)</p> <p>RPPR Prices fall in the first three months of the year, having rose sharply in Q4 2020. However, Daft.ie asking prices up circa 7% YoY in March</p>
CSO Price Index - MoM %	0.1	0.2	0.5	0.7	0.7	0.5	#N/A	#N/A	
- YoY %	-0.9	-0.8	-0.5	0.4	2.2	2.6	#N/A	#N/A	
- Dublin YoY %	-1.8	-1.8	-1.2	-0.6	1.4	1.1	#N/A	#N/A	
- Ex Dublin YoY %	-0.1	0.2	0.3	1.2	3.0	4.0	#N/A	#N/A	
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	288,950	296,823	310,274	321,485	332,379	321,381	317,988	306,531	
Daft List Prices: YoY %	2.6	5.2	0.4	1.0	7.4	8.7	6.9	7.1	
RENTS & AFFORDABILITY									<p>CSO rental index edged higher by 0.2% in February. YoY rate stayed at -2.5%</p> <p>Affordability index improves as average industrial wages rise sharply in Q4</p>
RENTS: CSO Private Rents - MoM %	0.2	0.4	-0.5	0.0	0.4	0.3	0.2	#N/A	
- YoY %	-1.8	-2.6	-3.2	-3.2	-2.9	-2.5	-2.5	#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	18.3	18.0	17.7	17.5	17.6	#N/A	#N/A	#N/A	
QUARTERLY DATA									<p>Completions up 15.9% YoY in Q4. Hold up much better than expected, with 2020 total above 20k, down just 1.9% YoY</p> <p>Planning permissions were up 13.5% in 2020. However, planning for houses fell for the second year in a row</p>
	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	
CSO Dwelling Completions	4,249	4,801	5,650	6,387	4,966	3,237	5,073	7,400	
- YoY %	22.8	9.3	22.0	17.6	16.9	-32.6	-10.2	15.9	
- Cum 12 Mth Total	18,706	19,113	20,130	21,087	21,804	20,240	19,663	20,676	
CSO Planning Permissions	7,493	9,566	10,089	12,094	14,132	7,271	13,599	9,536	
- YoY %	-3.5	41.2	25.8	81.0	88.6	-24.0	34.8	-21.2	
- Cum 12 Mth Total	28,970	31,759	33,830	39,242	45,881	43,586	47,096	44,538	
BPFI Mortgage Drawdowns									<p>Drawdowns stage a strong recovery in Q4. YoY volume of drawdowns up 2.2%, driven by sharp rise in lending to FTBs, up 7.8% YoY</p> <p>In value terms, drawdowns were up 6.6% YoY in Q4. Value of drawdowns in 2020 at €8.4bn, down 12.3%. FTB accounts for 53.4% of total value</p>
Purchase Drawdowns (Volume)	6,673	7,987	9,486	9,941	6,932	5,035	6,366	10,164	
YoY % (Volume)	4.2	8.2	8.7	3.4	3.9	-37.0	-32.9	2.2	
FTB YoY % (Volume)	6.9	10.8	14.3	11.0	8.3	-34.8	-29.9	7.8	
Total Drawdowns (Value, € Mln)	1,885	2,250	2,639	2,768	1,996	1,462	1,958	2,951	
- YoY % (Value)	10.7	11.7	11.4	5.0	5.9	-35.0	-25.8	6.6	
- Cum 12mth Drawdowns (Value, € Mln)	8,905	9,141	9,410	9,542	9,653	8,865	8,184	8,367	

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



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