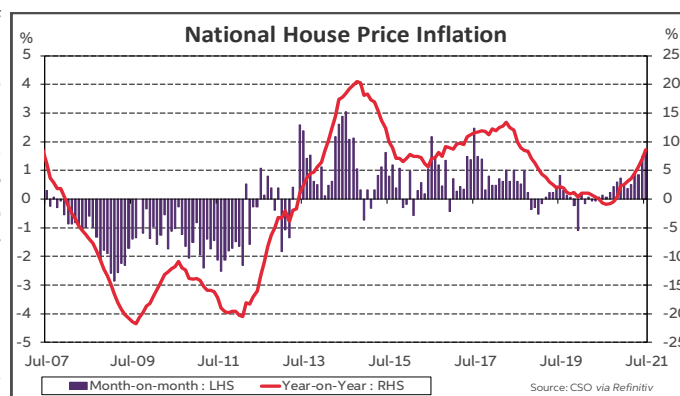


Acceleration in prices continues amid ongoing supply shortage

The latest official CSO data on residential property prices shows that the upward trajectory continues to gather pace. On a monthly basis, prices in July rose sharply, by 1.7%. This followed a 1.5% m/m in June. The July reading was the strongest monthly increase in 4 years. Meanwhile, the rate of growth in year-on-year terms has been on an accelerating path since late 2020. In July, prices nationally rose by 8.6% compared to a year earlier, representing their fastest pace since the third quarter of 2018. In terms of the geographical breakdown, prices in Dublin rose by 1.4% in July, with the annual rate of increase registering its highest level since the summer of 2018, at 8.1%. Prices outside of Dublin continue to outpace those in the Capital, recording a 9.1% y/y increase, representing its fastest rise since November 2018. Meanwhile, the Daft.ie data, which is a more timely indicator of current price conditions in the market as it is based on 'asking prices', provides further evidence of an accelerating trend in residential property prices. The data for June, show that 'asking prices' registered a 12.7% yearly rate of growth.

The key factor behind the upward pressure on prices is the on-going shortfall in supply. It is important to note though, that Ireland is not unique in this regard. Key advanced economies such as the UK and US face similar issues. Other contributing factors when assessing the trajectory of Irish house prices include the impact from various government initiatives to help prospective buyers. The latest mortgage approvals data for July show strong demand coming from the first time buyers segment of the market. At the same time, institutional investors and public authorities remain very active purchasers in the Irish residential market. However, the supply deficit remains the crucial factor driving prices higher. In short, the Irish residential market needs to deliver a minimum of 30,000 new units per annum to meet estimated annual demand. This does not take into account the significant pent-up demand that has been accumulating in the market over the last number of years. For example, last year there was around 20,500 units completed, while in 2019, completions totalled 21,000 units, up from 18,000 units in 2018.

There is encouraging newsflow on the supply front, though. Firstly, various supply metrics indicate a pick up in activity in recent months. The most recent figures on new residential supply, as measured by the CSO's 'New Dwellings Completion' data, show a total of 5,021 units coming on stream in the second quarter of this year. This followed a quarter one total of 3,934 units, which was much better than had been envisaged. There were concerns at the time around the potential curtailment to activity from the impact of the Covid-19 lockdown during the period. Looking at completions over a rolling four quarter basis, they are running at around 21,000 units in Q2, which is an increase of 6% versus the same period last year. In terms of leading supply indicators, there have also been positive trends recently. Housing starts, as measured by commencements, were running at nearly 29,000 units on a 12 month cumulative basis to July, having picked up strongly since April. Planning permission data also indicate the potential for a strong pipeline of activity. Meanwhile, the housing component of the construction PMI has been registering very strong readings recently, well above the key '50' breakeven level for expansion. The August reading printed 62.2.



Secondly, the government's new housing plan titled "Housing for All" emphasises that a key focus for public policy over the coming years will be on ramping up housing supply. At a high level, the plan promises to deliver 300,000 new homes by 2030, with funding in excess of €4bn per annum allocated to the programme. The supply projections in the plan are ambitious, when one considers over the previous 9 year period, there were just over 100,000 new units completed. The plan envisages new supply rising to 29,000 in 2023 and to average around 34,000 units over the period 2024/25. For baseline comparison purposes, the general consensus is for in the region of 21,000 new units to be completed this year.

As the table illustrates, the largest contribution to this uplift in supply is expected to come from the private sector. However, the provision of homes under the other two categories is also likely to require private sector involvement. There are clear challenges in terms of meeting the targets for housing completions such as labour shortages in the construction sector, which will probably require an influx of workers from abroad to resolve, as well as ongoing long delays in the planning process. Material shortages and supply chain disruptions are additional headwinds, that are also putting considerable upward pressure on building costs. Even if these challenges are overcome, it will take a number of years before housing supply and demand are more in sync, especially given the scale of pent-up demand from years of marked undersupply.

Projected Housing Output (New Build)			
Tenure	2022	2023	2024
Social Homes	9,000	9,100	9,300
Affordable & Cost Homes	4,100	5,500	6,400
Private Rental & Private Ownership	11,500	14,400	17,750
Total	24,600	29,000	33,450

Source: Housing for All (Sept 2021)

MONTHLY DATA	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	
RESIDENTIAL CONSTRUCTION ACTIVITY									The Housing PMI has been firmly in expansion mode since the sector re-opened in full. At 62.2 in August Having performed very strongly since the sector re-opened, commencements are up 30.7% YTD vs. 2019. 12mth total rises to just below 29k
Markit/Ulster Bank Construction PMI - Housing Activity	19.0	23.8	33.8	54.8	73.4	68.8	63.7	62.2	
Commencements: Month	1,384	522	969	4,736	4,969	2,950	3,331	#N/A	
- Cum 12 Mth Total	21,019	19,122	17,708	21,405	25,501	27,264	28,974	#N/A	
- 3 Month Avg YoY %	3.7	-43.9	-58.0	6.6	148.5	308.4	205.6	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									Mortgage approvals remain elevated in July. 3mma up 2.1% on the same period in 2019. 12mth total above 44K Transactions have rebounded strongly so far in 2021, with the 12mth total above 56k in July and August Outstanding mortgage stock at -1.2% YoY in July
BPMI Mortgage Approvals : Month	2,696	2,964	3,420	3,537	3,814	4,167	4,144	#N/A	
- 3 Month Avg YoY %	23.6	13.8	7.7	51.7	114.5	210.1	111.9	#N/A	
- 12 Mth Total	34,258	34,384	34,809	37,640	40,134	42,613	44,044	#N/A	
RPPR Transactions : Month	3,150	4,368	5,156	4,189	4,132	4,632	4,991	3,379	
- 3 Month Avg YoY %	3.4	7.8	9.0	28.0	39.9	56.6	47.8	34.2	
- 12 Mth Total	48,759	49,466	50,195	51,760	53,310	54,876	56,206	56,625	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-1.1	-1.1	-1.2	-1.3	-1.3	-1.3	-1.2	#N/A	
HOUSING MARKET PRICES									House prices rose by 1.7% in July, up 8.6% YoY. Ex-Dublin price inflation (+9.1%) continues to outpace the capital (8.1%) RPPR Prices continue to trend higher in 2021. Having increased sharply in H2'20, Daft.ie list prices have continued to rise this year, up 12.7% YoY in June
CSO Price Index - MoM %	0.4	0.4	0.5	0.9	0.9	1.5	1.7	#N/A	
- YoY %	2.5	3.1	3.5	4.5	5.4	6.9	8.6	#N/A	
- Dublin YoY %	1.0	1.4	2.3	3.7	4.9	6.5	8.1	#N/A	
- Ex Dublin YoY %	3.9	4.4	4.7	5.3	6.1	7.4	9.1	#N/A	
RPPR Transaction Price (Simple Average)									
- 12 Month Average €	312,574	310,536	310,610	314,774	318,133	317,571	317,602	321,932	
Daft List Prices: YoY %	8.7	6.9	7.1	15.0	11.5	12.7	#N/A	#N/A	
RENTS & AFFORDABILITY									CSO rental index jumps by 1.5% in August, the largest monthly increase since 2016. YoY rate at 4.5% Affordability index worsens as house prices rise by more than average industrial wages
RENTS: CSO Private Rents - MoM %	0.3	0.2	0.8	1.2	-0.2	0.1	0.3	1.5	
- YoY %	-2.5	-2.5	-1.4	1.6	2.6	3.0	3.1	4.5	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	17.5	17.5	17.7	18.0	18.4	18.6	#N/A	#N/A	

QUARTERLY DATA	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Completions performed much better than expected over the first half of the year, rising by 9.7% YoY Having been 50.7% lower in Q1, permissions were +53.3% in Q2. Overall, down 15.4% in H1, but still at a high level
CSO Dwelling Completions	5,647	6,378	4,932	3,229	5,048	7,326	3,934	5,021	
- YoY %	22.0	17.5	16.1	-32.8	-10.6	14.9	-20.2	55.5	
- Cum 12 Mth Total	20,126	21,075	21,759	20,186	19,587	20,535	19,537	21,329	
CSO Planning Permissions	10,089	12,094	14,132	7,271	13,599	9,536	6,963	11,150	
- YoY %	25.8	81.0	88.6	-24.0	34.8	-21.2	-50.7	53.3	
- Cum 12 Mth Total	33,830	39,242	45,881	43,586	47,096	44,538	37,369	41,248	
BPMI Mortgage Drawdowns									Having recovered in H2 2020, drawdowns have continued at pace so far in 2021. 23.1% higher YTD, with an increase in lending to all categories
Purchase Drawdowns (Volume)	9,486	9,941	6,932	5,035	6,366	10,164	7,294	7,438	
YoY % (Volume)	8.7	3.4	3.9	-37.0	-32.9	2.2	5.3	47.8	
FTB YoY % (Volume)	14.3	11.0	8.3	-34.8	-29.9	7.8	7.3	49.0	
Total Drawdowns (Value, € Mln)	2,639	2,768	1,996	1,462	1,958	2,951	2,142	2,230	In value terms, drawdowns up 26.4% YTD. FTB share of drawdown value holds steady at 51% in H1. Value of drawdowns over past 12 mths back above €9bn
- YoY % (Value)	11.4	5.0	5.9	-35.0	-25.8	6.6	7.3	52.5	
- Cum 12mth Drawdowns (Value, € Mln)	9,410	9,542	9,653	8,865	8,184	8,367	8,513	9,281	

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

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