

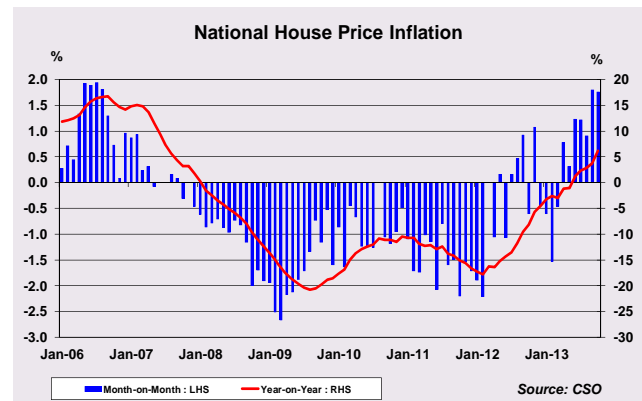
## Signs of Recovery

The Irish housing market continues to exhibit signs of improvement. House prices and rents have maintained their upward trajectory, transaction levels are also on an improving path, while building activity appears to have started to pick-up, albeit from very low levels. The expected improvement in the domestic economy next year, as well as much improved labour market conditions, should help to sustain the upward momentum that is now evident in the housing market.

### Prices maintain upwards trajectory, but two-speed recovery

Based on the CSO measure of residential property prices, house prices recorded their seventh consecutive monthly increase in October. After having registered a total cumulative peak to trough decline of 51%, prices are now up just over 8% from their low, which was recorded in March of this year.

The recovery in prices is very much a two-speed story, with a rural-urban dynamic. Residential prices in Dublin are now up 17.6% from their low point, whereas, excluding Dublin, prices are higher by 3.5% from their trough. The dichotomy between rural-urban performance is also evident in year on year comparisons. As of the October data, Dublin property prices were up 15%, while prices outside of Dublin continued to decline on a yearly basis (-0.3%).



On the demand side, prices are being supported by improved employment dynamics. From a supply side perspective, there is increasing evidence of stock shortages (in terms of houses in particular) to meet demand for well located, family type accommodation in Dublin and some other urban areas. This is putting upward pressure on prices. Indeed, the overhang from vacant properties in unfinished developments has been eroded, falling by 72% since 2010, to 6,370 units this year. This relative scarcity of stock is also reflected in rents, which continue to increase and are now 13% off their lows.

The improving property market picture is also evident in transactions and mortgage data. While the data were distorted towards the end of last year and into the first half of this year due to the impact from the ending of the Mortgage Interest Relief (MIR), both metrics have experienced improving trends in recent months. Transactions, as measured by the Residential Property Price Register, were up by c.20% in October based on a three month average yearly comparison. Likewise, mortgage approvals and drawdowns have recorded solid increases lately, with approvals up by 13% in the three months to September.

### Construction activity is starting to pick up

Lead indicators of building activity such as registrations, are consistent with not only a stabilisation in housing output, but also tentatively indicate some increased activity levels. Furthermore, the construction PMI has risen strongly in the second half of this year, indicating a pick-up in residential construction. Employment levels in the sector have started to rise also. The pick-up in activity will take some time, though, to translate into higher numbers for housing completions. As of October, the total number of completions stood at 6,507. This was 4.5% lower than at the same period in 2012. Extrapolating out for the full year 2013, completions are likely to bottom out at just above 8,000 units per annum, down from 8,500 in 2012.

### But demand likely to continue to exceed supply

Recent price developments suggest at the emergence of supply shortages and, over a longer term perspective, there are compelling factors to suggest that this trend could become even more prominent. We estimate potential housing demand at around 23,000 new units per annum. However, residential building activity is very low, and we expect just above 8,000 units to be completed this year and possibly 10,000 in 2014. At the same time, there has been a significant erosion of vacant stock. Therefore, the mismatch between demand and supply has the potential to keep upward pressure on prices and rents.

## LATEST DATA

Apr-13 May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13

### RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	43.8	44.2	46.4	50.7	53.8	59.5	61.7	60.4
Housing Registrations: 3M Avg saar	987	1,301	1,444	1,311	1,331	1,755	1,541	#N/A
- 3 Month Avg YoY %	90.1	103.8	109.2	103.7	134.8	251.2	135.3	#N/A
- Cum 12 Mth Total YoY %	11.2	19.4	25.2	38.7	56.3	82.6	73.5	#N/A
Commencements: 3M Avg saar	3,495	3,640	3,691	4,522	4,642	4,569	3,780	#N/A
- 3 Month Avg YoY %	-6.4	-15.7	-17.6	8.4	17.4	23.8	-6.2	#N/A
- Cum 12 Mth Total YoY %	7.0	7.4	3.1	10.4	12.6	10.5	8.9	#N/A
Completions: Month	699	607	703	705	604	673	825	#N/A
- Cum 12 Mth Total	8,325	8,202	8,259	8,298	8,130	8,134	8,180	#N/A
- Cum 12 Mth Total YoY %	-11.5	-12.0	-9.1	-6.5	-8.1	-5.4	-4.9	#N/A

The housing component of the construction PMI has risen strongly in recent months, reaching 61.7 in Oct, its highest level since January 2005. Dropped back slightly in Nov

Growth in housing registrations is up strongly in YoY terms

Commencements have started to show signs of improvement in H2 2013

Completions look to have bottomed out at just above 8,000 per annum

### HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	1,816	2,187	2,188	2,780	2,485	2,597	2,804	#N/A
- 3 Month Avg YoY %	15.8	17.9	15.7	16.4	16.3	23.5	21.6	#N/A
- 12 Mth Total	26,101	26,385	26,557	27,108	27,431	28,051	28,508	#N/A
IBF Mortgage Approvals : Month	1,308	1,580	1,518	1,734	1,637	1,544	1,744	#N/A
- 3 Month Avg YoY %	1.7	4.5	9.7	11.0	12.9	13.4	12.2	#N/A
- 12 Mth Total	16,084	16,211	16,334	16,561	16,770	16,916	17,095	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.0	-2.1	-2.2	-2.2	-2.3	-2.4	-2.5	#N/A

Growth in transactions has been broadly positive in recent months, showing very encouraging rates of YoY growth

There has been a pick-up in the pace of YoY growth in mortgage approvals in recent months

### HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	0.8	0.3	1.2	1.2	0.9	1.8	1.8	#N/A
- YoY %	-1.2	-1.1	1.2	2.3	2.8	3.7	6.1	#N/A
- Dublin YoY %	1.0	1.4	4.2	8.0	10.6	12.3	15.0	#N/A
- Ex Dublin YoY %	-2.8	-2.8	-1.0	-1.5	-2.6	-2.6	-0.3	#N/A
RPPR Transaction Price (Simple Average)								
- 3 Month Average €	189,672	184,670	201,740	203,922	215,446	217,668	221,269	#N/A
Daft Asking Prices: MoM%	-0.5	0.5	0.5	-1.4	0.6	-0.3	#N/A	#N/A
- YoY %	-5.0	-5.4	-1.9	-1.7	-2.1	-0.5	#N/A	#N/A

House prices have continued their upward trend in recent months. Up 6.1% YoY in October

Recovery in prices being led by urban areas - Dublin prices now 17.6% of their lows. Ex-Dublin prices have shown some signs of improvement in recent months, now 3.5% off their lows

Avg. transaction price continues to rise, now above 220k

### RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	1.0	0.5	0.8	0.5	0.4	0.8	0.8	#N/A
- YoY %	5.0	5.6	7.0	7.2	7.6	7.5	7.6	#N/A
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	14.3	14.3	15.0	15.2	15.4	15.6	15.9	#N/A

Rents show continuing recovery, now 13.4% off their lows

Ending of MIR has hit affordability but still at very accommodative levels

## QUARTERLY DATA

Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13

### IBF Mortgage Drawdowns

Purchase Drawdowns	3,224	2,213	2,837	3,532	5,578	1,803	2,857	4,051
YoY %	-19.9	-4.8	7.3	20.2	73.0	-18.5	0.7	14.7
FTB YoY %	-18.6	-6.9	9.6	22.2	97.4	-23.4	-2.9	11.3

### Mortgage Arrears 90 Days +

<b>Principal Residences</b>								
Number of Accounts in Arrears	69,354	75,679	81,035	91,358	92,349	95,554	97,874	99,189
% of Outstanding	9.0	9.9	10.6	11.5	11.9	12.3	12.7	12.9
<b>Buy-to-Let</b>								
Number of Accounts in Arrears	#N/A	#N/A	24,879	27,018	28,366	29,369	30,326	31,227
% of Outstanding	#N/A	#N/A	16.6	17.9	18.9	19.7	20.4	21.2

Purchase mortgage drawdowns up sharply (+14.7%) YoY in Q3 after very modest growth in Q2. However this comes after the very strong 73% YoY increase in Q4 last year, ahead of ending of mortgage interest relief

FTB remain the prominent buyers, at 56.8% of purchases in Q3 2013

Arrears continued to rise in Q3. Also higher arrears in buy-to-let sector

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



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