

## Price developments reflect supply/demand mismatch

### Signs of pick-up in home-building activity

House-building data suggest a pick up in activity in the first half of 2014. The housing completions data, which covers up to April, shows completions at 2,856 over this period. This represents a 19% increase on the levels of completions over the same period in 2013. Meanwhile, lead indicators of activity show signs of further improvement in residential construction. House guarantee registrations, which tend to reflect developer activity, were 52% higher in the year to May, compared to the same 5 month period last year. Likewise, commencement notices have registered strong yearly increases, although the introduction of new building regulations in March played a role in the surge in commencements in the first quarter. Survey data, such as the construction PMI, are also consistent with an upturn in activity, with the residential component performing strongly in recent months.

### ...however, supply levels still lagging demand...

However, while there are signs of an upturn in residential building, the current level of output is still a long way from meeting demand. Based on household formation dynamics in the economy, potential housing demand is estimated to be in the region of 23,000 units per annum. So, while we expect increased levels of completions this year, possibly around 10,000 units, this is still well below the level required to satisfy housing demand.

### ....resulting in continued upward pressure on prices

Not surprisingly, the shortfall in housing supply is putting upward pressure on residential property prices. The latest CSO data, shows that on a national basis in May, prices were up 10.6% compared to a year earlier. After suffering a total peak-to-trough decline of 51%, which was reached back in March 2013, prices are now up 11.9% from their low point.

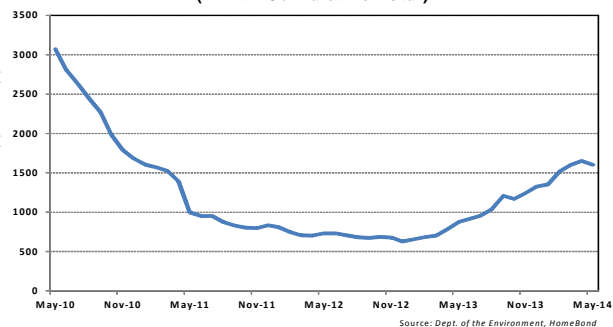
From a regional perspective, the two-tier recovery in property prices remains in place. The uptrend in prices continues to be lead by Dublin. Prices in Dublin were up 22% on a yearly basis in May and, are now 26% off their lows. Outside of Dublin, prices have started to see some modest improvement, but still lag behind the recovery in the Capital. As of May, residential property prices excluding Dublin were up 1.8% compared to a year earlier, and are up just 3.2% from their trough.

In terms of the Dublin market, positive labour market dynamics including robust jobs growth is helping to underpin demand. At the same time, on the supply side, the shortage in supply (particularly in houses) is pushing prices higher. The inadequate levels of supply are also reflected in the rental market. The shortfall in available properties to buy is resulting in people having to rent, which in turn is putting upward pressure on rents, which are now up 20% from their lows.

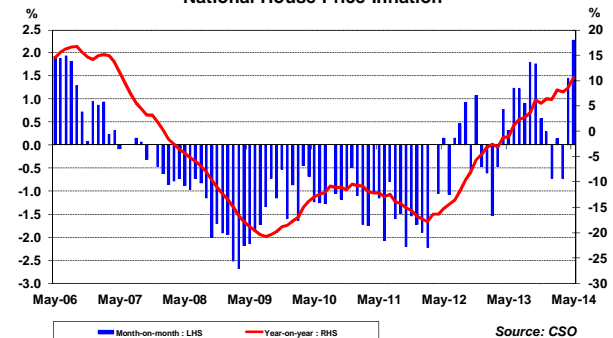
### ....and also provides a headwind to home-buyer activity.

Assessing mortgage drawdown and transaction activity still remains somewhat tricky given the distortion to the data caused by the expiry of Mortgage Interest Relief at the end of 2012, which resulted in purchases being brought forward from early 2013 into 2012. This is illustrated in a 55% year-on-year increase in mortgage approvals in the first quarter of 2014. The continued improvement in domestic economy, particularly in the labour market should provide a supportive backdrop to transaction and mortgage activity. However, the on-going residential supply shortage is acting as a headwind to increased transactions activity levels in the market and growth in mortgage lending.

Irish Housing Registrations  
(12mth Cumulative Total)



National House Price Inflation



## LATEST DATA

Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14 Apr-14 May-14

### RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	61.7	60.4	63.2	59.8	57.5	59.9	63.4	61.0
Housing Registrations: 3M Avg saar	1,541	1,492	1,428	1,722	2,020	1,799	2,064	1,635
- 3 Month Avg YoY %	135.3	111.0	73.0	111.4	151.1	123.3	110.7	24.3
- Cum 12 Mth Total YoY %	70.3	83.2	111.5	106.9	121.3	127.4	111.3	83.7
Commencements: Month	273	417	582	904	4,343	#N/A	#N/A	#N/A
- Cum 12 Mth Total	4343	4273	4708	5270	9310	#N/A	#N/A	#N/A
- Cum 12 Mth Total YoY %	14.1	6.1	16.5	26.6	119.7	#N/A	#N/A	#N/A
Completions: Month	825	918	876	676	611	803	766	#N/A
- Cum 12 Mth Total	8,180	8,251	8,301	8,466	8,473	8,700	8,767	#N/A
- Cum 12 Mth Total YoY %	-4.9	-3.1	-2.2	1.1	1.6	5.5	5.3	#N/A

Housing component of the construction PMI very strong, avg. 60.3 year-to-May vs. 2013 avg. 51.8, indicates expansion

Housing registrations continue to increase from very depressed levels—though pace of YoY growth has slowed

Very sharp jump in commencements in Feb ahead of introduction of new building regulations in March

Completions (12mth cumulative) at best in 20mths in April, as recovery continues

### HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	2,915	2,666	2,406	1,887	2,241	2,494	2,398	#N/A
- 3 Month Avg YoY %	23.6	12.0	-12.9	-16.5	-5.0	36.8	38.6	#N/A
- 12 Mth Total	28,664	28,342	26,918	27,291	28,000	28,700	29,277	#N/A
IBF Mortgage Approvals : Month	1,744	1,716	1,457	1,262	1,484	1,621	1,858	#N/A
- 3 Month Avg YoY %	12.2	3.1	2.9	11.4	36.5	55.0	47.7	#N/A
- 12 Mth Total	17,097	16,924	17,058	17,552	18,049	18,607	19,155	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.5	-2.8	-3.0	-3.0	-3.1	-3.1	-3.1	#N/A

Growth in transactions up strongly on a YoY basis, though they remain relatively low in level terms

Strong increase (47.7%) in mortgage approvals in 3 months to April—partly reflects base effects. 12mth total continues to pick up

### HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	1.8	0.6	0.3	-0.7	0.1	-0.7	1.5	2.3
- YoY %	6.1	5.6	6.4	6.3	8.1	7.8	8.5	10.6
- Dublin YoY %	15.0	13.8	15.7	13.6	13.3	14.3	17.7	22.0
- Ex Dublin YoY %	-0.3	-0.6	-0.4	1.2	4.2	2.9	1.4	1.8
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	212,212	218,938	217,294	216,124	213,456	208,252	205,816	#N/A
Daft Asking Prices: MoM%	0.8	-0.5	-0.4	3.0	-0.7	4.7	#N/A	#N/A
- YoY %	-1.0	0.9	0.6	2.2	2.0	6.3	#N/A	#N/A

House prices up strongly again in May. YoY growth at its fastest pace in 7yrs. Recovery in prices led by Dublin, with modest rises elsewhere

National house prices c.12% off their lows in May. Dublin 26% off lows vs ex-Dublin 3%

Average transaction price edging back in recent months—avg. 206k in 6mths to April

### RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.8	1.1	1.0	0.6	1.2	0.8	0.2	0.4
- YoY %	7.6	8.2	8.5	9.1	10.2	10.0	9.1	9.0
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	15.8	15.7	15.7	15.4	15.3	15.2	15.5	#N/A

Rents continue strong recovery—20% off their lows in May

Levelling off in prices and steady industrial wage mean affordability at reasonable level

## QUARTERLY DATA

Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13 Q4-13 Q1-14

### IBF Mortgage Drawdowns

Purchase Drawdowns	2,837	3,532	5,578	1,803	2,857	4,051	4,761	3,126
YoY %	7.3	20.2	73.0	-18.5	0.7	14.7	-14.6	73.4
FTB YoY %	9.6	22.2	97.4	-23.4	-2.9	11.3	-27.3	87.2

Strong YoY increase in mortgage drawdowns (73.4%) impacted by base effects following ending of interest relief at the end of 2012

FTB remain the prominent buyers, at 55.6% of purchases in Q1 2014

### Mortgage Arrears 90 Days +

#### Principal Residences

Number of Accounts in Arrears	81,035	91,358	92,349	95,554	97,874	98,736	96,474	93,106
% of Outstanding	10.6	11.5	11.9	12.3	12.7	12.9	12.6	12.2

#### Buy-to-Let

Number of Accounts in Arrears	24,879	27,018	28,366	29,369	30,326	31,178	30,706	31,048
% of Outstanding	16.6	17.9	18.9	19.7	20.4	21.1	21.1	21.5

Arrears fell in Q1'14 - percentage outstanding now at 12.2%. This is the 2nd consecutive decline in arrears and is also 2nd decline since the compilation of the data began in 2009

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



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