

Housing Market Bulletin - March 2013

Some Positive Trends Have Emerged

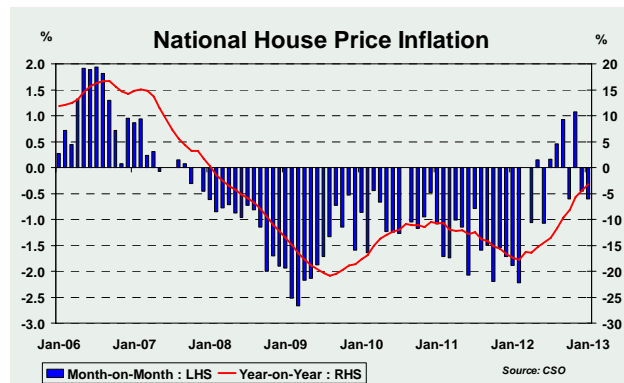
Some positive trends emerged in the residential property over the course of 2012. Meanwhile, there are signs that the domestic economy could be bottoming out which should be supportive of the housing market going forward. However, the market still faces challenges, including the ending of mortgage relief at end 2012 and the introduction later this year of the new residential property tax. The data over the coming months will provide some indication as to how the residential sector is coping with these challenges and whether recent positive trends can be maintained.

Construction Activity Could be Stabilising, Albeit at Very Low Levels

Housing output contracted further in 2012, with just 8,488 units completed down 19% from 10,480 in 2011, which itself was a 28% decline on 2010 levels. Lead indicators, such as registrations and commencements, though, hint that construction activity could be beginning to stabilise, albeit at very low levels. Seasonally adjusted commencement notices are off their lows and have risen strongly year-on-year in recent months. While the bulk of new construction activity remains once-off builds, developer activity is also showing some signs of life, with the seasonally adjusted rate of house guarantee registrations also off its lows.

Prices Stabilising, Rents Rising

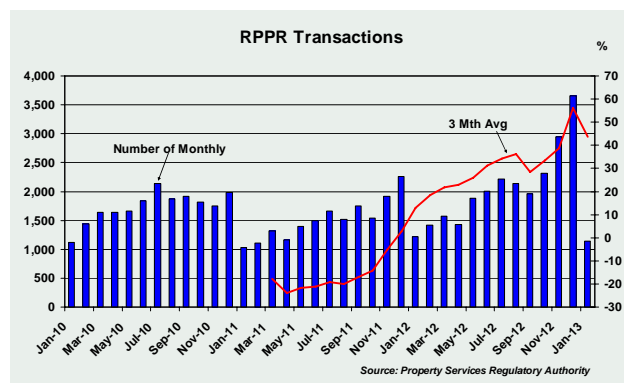
The low level of housing output is well below requirements from household formation, even taking into account the level of emigration. Thus, it is perhaps not surprising that house prices are now showing signs of stabilising, at least in areas where there is not a large level of supply overhang. While the latest CSO index shows prices nationally down by 0.6% in January, they have been broadly stable since last spring and the annual rate of decline has slowed markedly to 3.3%, from over 17% at the start of 2012. Indeed, in some urban areas, where the supply overhang is least, there are signs of a modest recovery in house prices, with those in Dublin almost 4% off their lows in January.



In a further reflection of emerging supply shortages in certain regions, rents show continued recovery. The CSO's private rent index was almost 7% off its lows in January.

Marked Upturn in Transactions & Mortgages

The most positive trend has been the noticeable pick up in house transactions over the course of 2012. According to the Residential Property Price Register, transactions were up 37% last year. Meanwhile, the number of house purchase mortgage drawdowns increased by 27%. Activity was particularly strong in the final quarter of last year which saw a 57% year-on-year increase in the number of transactions and a 73% increase in mortgage drawdowns.



This end year surge in activity no doubt, to some extent, reflects the fact that mortgages drawn down after the end of 2012 do not qualify for mortgage interest relief. While estate agents have reported that the ending of MIR was not the only driving force behind purchases, it would undoubtedly have been a significant factor in their timing. Indeed, the latest data from the RPPR show that growth in transactions moderated markedly to 13% in January, though, given the delay by some solicitors in recording transactions, the actual number of transactions may well be revised higher. Thus, while there appears to be momentum building in the property market, the rate of increase in transactions and lending this year may be significantly less than in 2012.

LATEST DATA

Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	39.1	43.2	39.1	41.2	43.4	44.2	45.8	46.5
Housing Registrations: 3M Avg saar	686	681	588	539	657	721	725	749
- 3 Month Avg YoY %	16.1	1.6	-26.6	-31.7	-11.4	-1.1	-22.0	-16.2
- Cum 12 Mth Total YoY %	-23.1	-25.8	-22.1	-18.8	-14.6	-14.9	-24.8	-19.0
Commencements: 3M Avg saar	4,465	4,186	3,990	3,844	4,024	4,845	4,500	4,695
- 3 Month Avg YoY %	6.6	-2.0	-0.4	-5.3	0.0	30.7	34.3	57.7
- Cum 12 Mth Total YoY %	-27.0	-24.3	-21.8	-17.5	-15.4	-7.7	-7.4	-3.3
Completions: Month	646	666	772	669	779	847	826	511
- Cum 12 Mth Total	9,082	8,875	8,845	8,599	8,603	8,512	8,488	8,372
- Cum 12 Mth Total YoY %	-28.8	-28.5	-26.8	-26.9	-24.0	-20.7	-19.0	-18.5

PMI shows construction activity continuing to contract in January — but at a slower pace. Index at a 12 mth high

However, some signs of stabilisation in lead indicators of new construction activity— albeit at very low levels. Seas. adj. both registrations and commencements are off their lows with commencements up strongly YoY in recent months

Completions may be close to bottoming out given trend in 12 mth running total

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	2,009	2,215	2,144	1,962	2,322	2,952	3,712	1,380
- 3 Month Avg YoY %	31.0	34.2	36.2	28.3	33.5	38.8	57.1	49.1
- 12 Mth Total	20,179	20,737	21,364	21,572	22,349	23,386	24,839	24,998
IBF Mortgage Approvals : Month	1,395	1,507	1,428	1,398	1,565	1,889	1,323	768
- 3 Month Avg YoY %	19.5	28.3	20.6	21.3	23.4	35.5	40.3	29.2
- 12 Mth Total	13,941	14,296	14,479	14,703	15,128	15,749	16,074	16,027
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.2	-2.1	-2.1	-2.0	-1.9	-1.6	-1.6	-1.8

Transaction and mortgage activity rose strongly towards end 2012. In part reflects impact of the ending of mortgage interest relief (MIR) at the end of last year.

Growth in transactions slowed to 13% YoY in January from 57% in Q4 last year. Approvals also down in January

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	-1.1	0.2	0.5	0.9	-0.6	1.1	-0.5	-0.6
- YoY %	-14.4	-13.6	-11.8	-9.6	-8.2	-5.7	-4.5	-3.3
- Dublin YoY %	-16.4	-16.6	-13.8	-9.8	-7.1	-3.5	-2.5	2.1
- Ex Dublin YoY %	-13.5	-12.1	-10.7	-9.9	-8.9	-7.2	-6.1	-7.0
RPPR Transaction Price (Simple Average)								
- 3 Month Average €	185,082	192,967	197,661	202,050	196,051	191,624	192,628	190,406
Daft Asking Prices: MoM%	-3.1	-1.6	1.0	-1.9	1.3	-2.4	-0.1	#N/A
- YoY %	-14.0	-15.1	-12.9	-14.4	-9.1	-9.4	-9.0	#N/A

CSO price index was down a further 0.6% in Jan, but pace of YoY decline slowed markedly to just 3.3%

Dublin prices have stabilised and are almost 4% off their lows but excluding Dublin prices continue to decline

Average transaction price below €200,000

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	-0.5	0.3	0.0	0.9	0.7	0.6	0.7	0.1
- YoY %	2.0	2.0	1.9	2.1	1.5	1.8	3.5	3.4
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	10.6	10.7	11.2	11.3	11.2	11.8	11.7	14.3

Rents stabilised at end 2010, now almost 7% off their lows

Ending of MIR has hit affordability but still at best level since start of 1996

QUARTERLY DATA

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

Mortgage Drawdowns

Purchase Drawdowns	2,325	2,643	2,939	3,224	2,213	2,837	3,532	5,578
YoY %	-45.0	-46.6	-42.6	-19.9	-4.8	7.3	20.2	73.0
FTB YoY %	-44.1	-49.4	-43.7	-18.6	-6.9	9.6	22.2	97.4

Purchase mortgage drawdowns were up 73% YoY in Q4, ahead of ending of mortgage interest relief.

FTB sector particularly strong (drawdowns up 97% YoY) but also good YoY growth in drawdowns by movers (+34%) and investors (+39%)

Mortgage Arrears 90 Days + Principal Residences

Number of Accounts in Arrears	49,609	55,763	62,970	69,354	75,679	81,035	86,146	#N/A
% of Outstanding	6.3	7.2	8.1	9.0	9.9	10.6	11.3	#N/A
Buy-to-Let								
Number of Accounts in Arrears	#N/A	#N/A	#N/A	#N/A	#N/A	24,879	26,770	#N/A
% of Outstanding	#N/A	#N/A	#N/A	#N/A	#N/A	16.6	17.9	#N/A

Arrears continued to rise in Q3 last year. Higher arrears in buy-to-let sector

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

The publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expression of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. Allied Irish Banks p.l.c. is regulated by the Central Bank of Ireland