

Encouraging signs continue to emerge from the housing market

Domestic economy providing supportive backdrop

Recent data on the Irish housing market suggest that the market may be stabilising. House prices, rents, transactions and construction activity are either stabilising or improving. At the same time, there are increasing signs that the downturn in the domestic economy may have bottomed out, with improving labour market data, including strong job growth, providing a more supportive backdrop for the housing market going forward.

Prices and Rents trending upwards

Residential property prices as measured by the CSO Index, recorded their fourth consecutive monthly increase in July, representing the first time since 2007 that they have achieved such a feat. After having suffered a peak to trough decline of around 51%, prices are now up 3.6% from their low point.

However, from a geographic perspective, the recovery in prices is not yet broad-based and is being led by urban areas. Prices in Dublin fell by more than the national average during the downturn, registering a total peak to trough decline of 57%. Since bottoming though, Dublin prices are now up around 8% from their lows. Excluding Dublin, property prices have shown some signs of improvement in recent months, but are still declining on a yearly basis, albeit the pace of decline is easing.

In terms of the Dublin market, prices are being supported by the fact that there is not a large level of supply overhang. Indeed, there is anecdotal evidence of stock shortages (in terms of houses in particular) in Dublin and some other urban regions. The continued recovery in rents, which are now 11% off their lows, is also likely reflecting the emergence of supply shortages in certain regions.

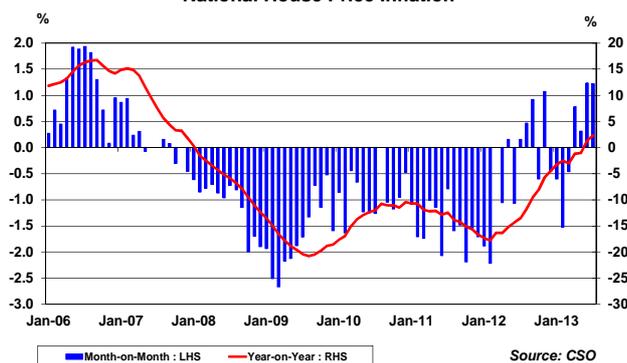
Pick-up in Transactions & Mortgages

Growth in transactions and mortgage drawdowns slowed sharply in the early part of this year. However, this followed on from a strong rise towards the end of 2012. The expiry of the Mortgage Interest Relief (MIR) in December 2012 had the effect of bringing forward transactions/drawdowns that might have happened in early 2013 into 2012, in order to avail of the MIR. In recent months, there has been solid growth in transactions, while mortgage approvals and drawdowns have picked up, as the distortionary effect caused by the MIR expiry starts to wane.

Construction activity appears to be stabilising

The latest available data we have on housing completions indicates that the contraction in house building activity may have stabilised at just above 8,000 per annum. Lead indicators of activity such as registrations, would also support the view of a stabilisation in housing output. The seasonally adjusted rate of house guarantee registrations has shown consistent improvement in recent months (albeit from very low levels) and hints at some increased activity on the part of developers. Meanwhile, survey data, such as the construction PMI are consistent with a modest pick-up in residential construction.

National House Price Inflation

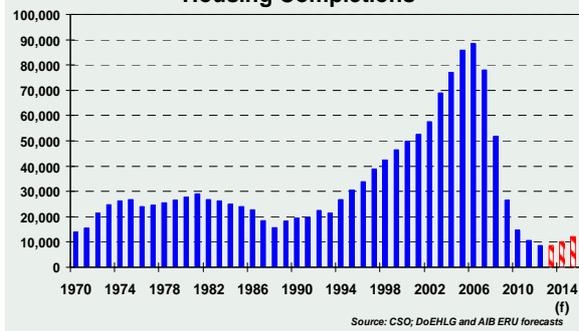


RELATIVE PRICE PERFORMANCE - CSO INDEX (as of July'13)

	Cumulative Changes	Peak to Trough	Performance since Trough	Year on Year
National		-50.9	3.6	2.3
Houses		-49.4	3.6	2.1
Apartments		-63.1	8.8	8.5
Dublin		-57.4	8.6	8.0
Houses		-55.9	8.2	7.5
Apartments		-63.7	12.5	11.6
Ex Dublin		-48.7	2.0	-1.5
Houses		-48.0	2.2	-1.4

Source:CSO

Housing Completions



LATEST DATA

Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	46.5	46.7	45.0	43.8	44.2	46.4	50.7	53.8
Housing Registrations: 3M Avg saar	749	767	821	987	1,301	1,444	1,311	1,331
- 3 Month Avg YoY %	-16.2	3.4	52.1	90.1	103.8	109.2	92.1	119.1
- Cum 12 Mth Total YoY %	-19.0	-8.2	-0.3	11.2	19.4	25.2	35.6	53.1
Commencements: 3M Avg saar	4,679	3,741	3,933	3,481	3,624	#N/A	#N/A	#N/A
- 3 Month Avg YoY %	57.7	35.8	19.7	-6.4	-15.7	#N/A	#N/A	#N/A
- Cum 12 Mth Total YoY %	-3.3	9.6	11.5	7.0	7.4	#N/A	#N/A	#N/A
Completions: Month	511	604	576	699	607	703	705	#N/A
- Cum 12 Mth Total	8,372	8,337	8,248	8,325	8,202	8,259	8,298	#N/A
- Cum 12 Mth Total YoY %	-18.5	-16.9	-14.5	-11.5	-12.0	-9.1	-6.5	#N/A

The housing component of the construction PMI picked up again in August. Now in expansionary territory for two consecutive months - first time since October 2006

Furthermore, consistent pick up in housing registrations in recent months

However, improvement in commencements appear to have stalled

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

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	1,504	1,524	1,784	1,806	2,172	2,146	2,665	#N/A
- 3 Month Avg YoY %	53.2	39.1	14.0	15.5	17.5	14.6	13.8	#N/A
- 12 Mth Total	25,321	25,423	25,632	26,008	26,280	26,413	26,854	#N/A
IBF Mortgage Approvals : Month	768	987	1,063	1,308	1,580	1,518	1,734	#N/A
- 3 Month Avg YoY %	29.2	10.5	-4.3	1.7	4.5	9.7	11.0	#N/A
- 12 Mth Total	16,027	16,041	15,946	16,084	16,211	16,334	16,561	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-1.8	-1.9	-1.8	-2.0	-2.1	-2.2	-2.2	#N/A

Growth in transactions and approvals slowed in H1 following a strong rise towards the end of 2012 ahead of the ending of mortgage interest relief (MIR) at the end of last year.

Recent months have seen good growth in transactions and a pick up in approvals.

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	-0.6	-1.5	-0.5	0.8	0.3	1.2	1.2	#N/A
- YoY %	-3.3	-2.6	-3.0	-1.2	-1.1	1.2	2.3	#N/A
- Dublin YoY %	2.1	3.0	1.4	1.0	1.4	4.2	8.0	#N/A
- Ex Dublin YoY %	-7.0	-6.1	-5.8	-2.8	-2.8	-1.0	-1.5	#N/A
RPPR Transaction Price (Simple Average)								
- 3 Month Average €	190,574	189,375	183,559	188,509	184,746	202,488	205,578	#N/A
Daft Asking Prices: MoM%	1.5	-0.5	0.4	-0.5	0.5	0.5	#N/A	#N/A
- YoY %	-7.6	-7.1	-5.1	-5.0	-5.4	-1.9	#N/A	#N/A

House prices posted a 4th consecutive monthly increase in July. They also recorded their 2nd consecutive YoY gain for the first time since January '08

Recovery in prices being led by urban areas - Dublin prices now up 8% YoY. Ex-Dublin prices have shown some signs of improvement in recent months, but still down 1.5% YoY

Average transaction price now above €200,000

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.1	0.2	1.0	1.0	0.5	0.8	0.5	#N/A
- YoY %	3.4	2.2	2.9	5.0	5.6	7.0	7.2	#N/A
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	14.4	14.2	14.2	14.3	14.4	15.0	15.2	#N/A

Rents show continuing recovery, now 11% off their lows

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

QUARTERLY DATA

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

IBF Mortgage Drawdowns

Purchase Drawdowns	2,939	3,224	2,213	2,837	3,532	5,578	1,803	2,857
YoY %	-42.6	-19.9	-4.8	7.3	20.2	73.0	-18.5	0.7
FTB YoY %	-43.7	-18.6	-6.9	9.6	22.2	97.4	-23.4	-2.9

Purchase mortgage drawdowns up just slightly (+0.7%) YoY in Q2 after weak Q1 when they fell by 18.5%YoY. 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% of purchases in Q2 2013

Arrears continued to rise in H1 this year. Higher arrears in buy-to-let sector

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	62,970	69,354	75,679	81,035	91,358	92,349	95,554	97,874
% of Outstanding	8.1	9.0	9.9	10.6	11.5	11.9	12.3	12.7
Buy-to-Let								
Number of Accounts in Arrears	#N/A	#N/A	#N/A	24,879	27,018	28,366	29,369	30,326
% of Outstanding	#N/A	#N/A	#N/A	16.6	17.9	18.9	19.7	20.4

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



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