

Prices continue to rise, but remain well off their peaks

Marked pick-up in prices continues...

Recent data on Irish residential property prices show that the strong upward trajectory in prices is being maintained. On a national basis, prices rose by 2% month-on-month in July, with the yearly growth rate accelerating to 13.4%, its fastest pace of growth since April 2007. Prices are now 17.5% up from their low point reached back in March of last year.

On a regional basis, Dublin continues to lead the way, with prices 23% higher in July compared to a year earlier. While prices outside of Dublin continue to lag behind, the recovery there does seem to be gaining some traction. As of July, residential property prices excluding Dublin were up c.5% on a yearly basis, representing their strongest growth rate since September 2007.

...but still well below previous peak levels..

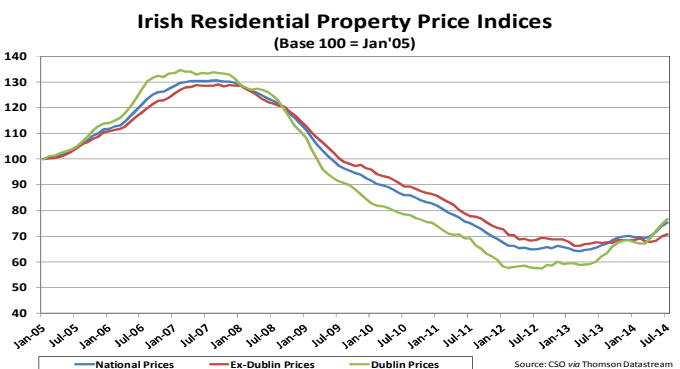
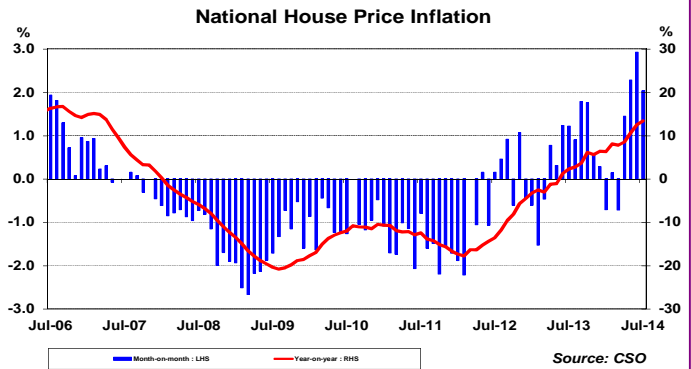
However, while the strong year-on-year increases in house prices are attracting plenty of headlines, it is important to note that prices remain well below their peak levels. Nationally, prices are still 42% off their peak, and are currently at around levels that pertained in 2002. Within the Dublin area, prices are 43% below their previous highs, while outside of Dublin, prices are 45% lower than their peak.

Supply and demand factors underpinning price moves

The recent strong upward momentum in prices is predominantly being driven by the fact that demand is outstripping supply. Demand is being supported by positive cyclical factors in the economy, including healthy jobs growth and rising consumer confidence. Based on population and household formation dynamics, potential housing demand is estimated to be in the region of 25,000 units per annum. However, over the 3 year period 2011-2013, a cumulative total of just 27,300 residential units were completed. While there remains an overhang of unsold properties in some parts of the country, supply needs to rise elsewhere, most noticeably in Dublin, to ease the upward pressure on prices. Turnover activity in the market generally remains very low. The shortfall in supply is also reflected in the rental market, with rents up 20% from their lows.

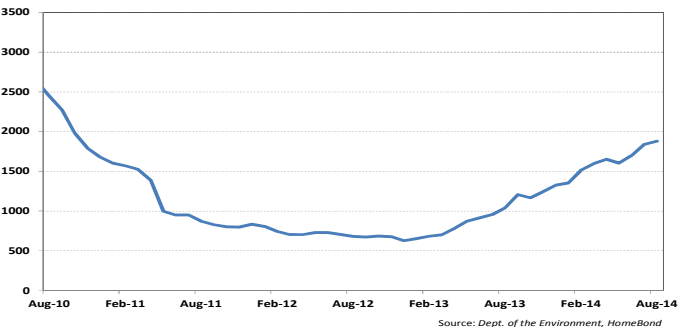
Signs of pick-up in building activity

There are signs that residential building activity is experiencing some improvement. House guarantee registrations, which are regarded as a lead indicator of developer activity, were over 60% higher in the year to August compared to the same period last year. In terms of actual completions, the data show completions at 5,824 units in the seven months to July. This represents an over 30% increase compared to July 2013 levels. If this run rate is maintained for the rest of this year, then completions could total around 11,000 units in 2014, which is still a very low figure. Mortgage lending has also picked up this year but, again in absolute terms, remains at very low levels.



Irish Housing Registrations

(12mth Cumulative Total)



LATEST DATA

Jan-14 Feb-14 Mar-14 Apr-14 May-14 Jun-14 Jul-14 Aug-14

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	59.8	57.5	59.9	63.4	61.0	61.3	65.4	63.7
Housing Registrations: Month	99	244	146	179	136	196	220	168
- 3 Month Avg YoY %	111.4	151.1	123.3	110.7	24.3	25.2	51.2	89.0
- Cum 12 Mth Total	1,353.0	1,514.0	1,596.0	1,652.0	1,604.0	1,699.0	1,839.0	1,879.0
Commencements: Month	904	4,343	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total	5270	9310	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total YoY %	26.6	119.7	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Completions: Month	676	611	803	766	1,085	891	992	#N/A
- Cum 12 Mth Total	8,466	8,473	8,700	8,767	9,245	9,433	9,720	#N/A
- Cum 12 Mth Total YoY %	1.1	1.6	5.5	5.3	12.7	14.2	17.1	#N/A

PMI housing sub-component suggests further pick-up in pace of growth in the sector. Averaged 64.6 in July/Aug after 61.9 in Q2

Housing registrations continue to recover from very depressed levels—show year-to-date growth of 66% in August

Spike in commencements in Feb ahead of new regulations in March - *newer data delayed*

Completions also continue to show signs of recovery—year-to-date growth at 32% in July

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	1,887	2,241	2,494	2,398	2,988	3,295	4,005	#N/A
- 3 Month Avg YoY %	-16.5	-5.0	36.8	38.6	40.9	43.7	43.6	#N/A
- 12 Mth Total	27,291	28,000	28,700	29,277	30,385	31,490	32,712	#N/A
IBF Mortgage Approvals : Month	1,262	1,484	1,621	1,858	2,185	2,263	2,633	#N/A
- 3 Month Avg YoY %	11.4	36.5	55.0	47.7	43.3	43.1	46.5	#N/A
- 12 Mth Total	17,552	18,049	18,607	19,155	19,760	20,505	21,404	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-3.0	-3.1	-3.1	-3.1	-3.0	-3.1	-3.1	#N/A

Levels of housing transactions remain on an upward trend at the start of Q3. Pace of YoY growth at a strong +44% in the 3 months to July

Mortgage approvals also continue on their upward trajectory. YoY growth rate strong at +47% in the 3 months to July

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	-0.7	0.1	-0.7	1.5	2.3	2.9	2.0	#N/A
- YoY %	6.3	8.1	7.8	8.5	10.6	12.5	13.4	#N/A
- Dublin YoY %	13.6	13.3	14.3	17.7	22.0	23.9	23.2	#N/A
- Ex Dublin YoY %	1.2	4.2	2.9	1.4	1.8	3.4	4.9	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	216,124	213,456	208,252	205,816	203,122	200,939	209,219	#N/A
Daft Asking Prices: MoM%	3.0	-0.7	4.7	0.8	2.5	0.4	#N/A	#N/A
- YoY %	2.2	2.0	6.3	7.7	9.8	9.6	#N/A	#N/A

House prices continue to rise strongly, +2% in July. YoY growth is at its fastest pace (+13.4%) since Apr'07. Recovery in prices led by Dublin, but rising elsewhere too

National house prices 17% off their lows (July). Dublin 34% off lows vs. ex-Dublin 7%

Avg transaction price has been over 200k this year

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.6	1.2	0.8	0.2	0.4	0.5	0.0	#N/A
- YoY %	9.1	10.2	10.0	9.1	9.0	8.7	8.2	#N/A
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	15.4	15.3	15.2	15.5	15.9	16.4	16.7	#N/A

YoY growth in rents has slowed in recent months, but at 8.2% in July, it remains strong

Affordability impacted by house price rise & falling wages, but remains rel. accommodative

QUARTERLY DATA

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

IBF Mortgage Drawdowns

Purchase Drawdowns	3,532	5,578	1,803	2,857	4,051	4,761	3,126	4,337
YoY %	20.2	73.0	-18.5	0.7	14.7	-14.6	73.4	51.8
FTB YoY %	22.2	97.4	-23.4	-2.9	11.3	-27.3	87.2	52.5

Mortgage drawdowns up strongly on a YoY basis (52%), but this in part reflects base effects from the ending of mortgage interest relief at the end of 2012

FTB remain the prominent buyers, at 56.3% of purchases in Q2 2014

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	91,358	92,349	95,554	97,874	98,736	96,467	93,106	90,343
% of Outstanding	11.5	11.9	12.3	12.7	12.9	12.6	12.2	11.8
Buy-to-Let								
Number of Accounts in Arrears	27,018	28,366	29,369	30,326	31,178	30,706	31,048	31,749
% of Outstanding	17.9	18.9	19.7	20.4	21.1	21.1	21.5	22.0

Arrears for principal residences fell again in Q2'14 - percentage outstanding now at 11.8%. But, buy-to-let arrears continue to edge up

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



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