

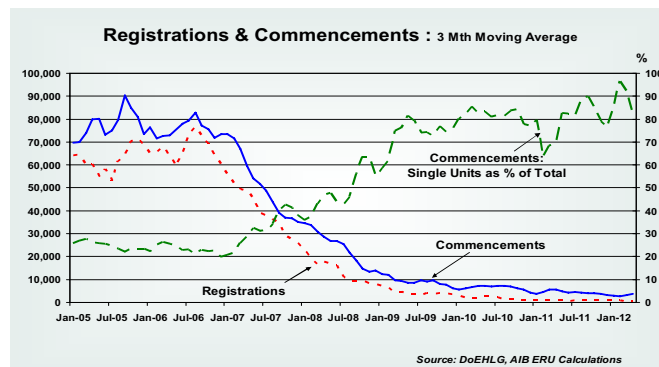
## Housing Market Bulletin - July 2012

### No Sign of Any Upturn in Residential Construction Activity

There are some indications from lead indicators of activity that the downturn in new residential construction activity may be bottoming. However, there are, as yet, no indications of any rebound from current very low levels. Most of the new housing construction remains for once-off builds while the development of multi-unit estates/complexes has virtually ground to a halt.

#### Commencements running at a rate of under 4,000 per annum

Commencement data highlight the weakness of construction activity. Since last October, these have been running at a seasonally adjusted rate of less than 4,000 per annum. This compares to peak market levels in 2005/06 of 70,000 - 90,000 units. Developer activity, for multi-unit builds, has been even weaker. Single units now represent over 80% of all commencements.



Data on house guarantee registrations provide a further illustration of the fact that developer activity has virtually ground to a halt. Just 339 new guarantees were issued in the first six months of 2012, a 23% decline on levels in the same period a year earlier. At the height of the building boom these were running at well over 60,000 per annum.

#### Downturn could be bottoming ... but no sign of upturn

These lead indicators, though, do appear to have stabilised in recent months. The levels of both seasonally adjusted commencements and registrations in the latest three month periods (April and June, respectively) are off lows seen earlier in the year. Activity, though, is at such low levels that it couldn't weaken much further. However, even given the very depressed levels, there are no indications, as yet, of any upturn in residential construction. Indeed, the housing activity component of the Ulster Bank/Markit construction PMI, at 39.1 in May, remains mired well below the 50 level which represents the breakeven point between contraction and expansion in the sector.

#### Completions of 8,000 units this year ...

Completions have also fallen sharply. There were 10,480 units completed in 2011, a 28% decline on the 2011 level of 14,602 and leaving output now at its lowest levels since the 1960s. Completions are measured by connections to the ESB network and as such can relate to properties that were started some while ago, in addition to the completion of new units started in the previous six to 12 months.

Given the trend in lead indicators, we expect that output will record another fall this year. There were 3,283 units completed in the first five months of 2012, 26% less than in the same period a year earlier. Taking account of continued finishing out of work in progress, we are forecasting that just 8,000 units will be completed this year. Output could then stabilise in 2013.

#### ... which is below the level of potential demand

Forecast output of 8,000 units falls well below estimated potential demand. We put this at around 20,000 units per annum, based on demographic factors, the need to replace obsolete units and taking into account continued emigration. Not all this potential demand is being realised, though, due to difficult market conditions, with confidence low and tight lending conditions. However, taking these factors into account, we would estimate that realised demand could be running at some 15,000 units per annum, still significantly above the level of output. As such, the current very low levels of output should help to erode some of the supply overhang of vacant properties.

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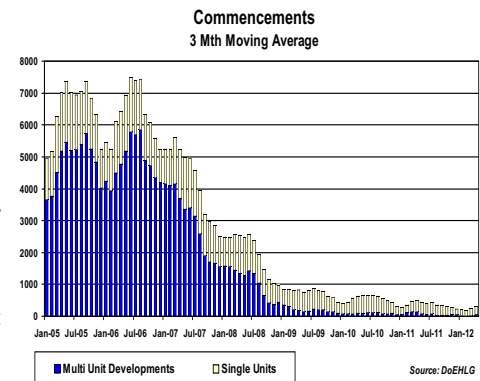
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## Completions/Registrations/Commencements

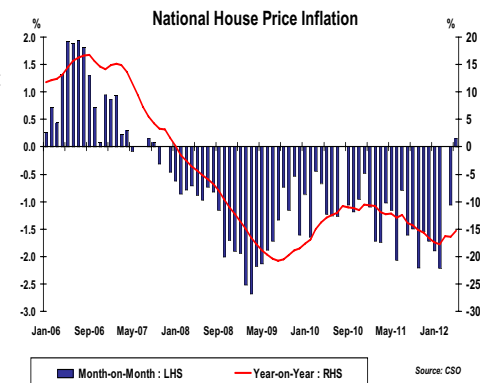
Just 3,283 units were completed in the first 5 months of the year, (-26% YoY). This follows a 28% decline in 2011 when 10,480 units in total were completed. Meanwhile, the weak trend in housing starts continues and points to a further decline in output this year to around 8,000 units, supported by the finishing of work in progress. Commencements were running at a seasonally adjusted rate of just over 3,700 new units per annum in the 3 months to April, of which over 80% were single units. Developer activity appears to have ground to a virtual halt. There were just 339 (-23% YoY) new guarantees registered (for largely multi-unit housing/ apartment developments) in the first half of the year.



	Jun-12	May-12	Apr-12	Mar-12	Feb-12	Completions (DoECLG)	May-12	Apr-12	Mar-12	Feb-12	Jan-12
<b>Registrations (HomeBond)</b>											
Year to Date Y/Y	-23.3	-26.9	-41.2	-47.4	-47.6	Month	730	622	665	639	627
Cum 12 Mth Total	731	731	703	704	745	Year to Date	3,283	2,553	1,931	1,266	627
Cum 12 Mth Tot Y/Y	-23.1	-26.8	-49.4	-53.8	-52.5	Y/Y %	-26.1	-29.7	-30.2	-26.1	-24.8
<b>Commencements (DoECLG)</b>						Cum 12 Mth Total	9,320	9,404	9,645	10,032	10,273
Year to Date Y/Y	N/A	N/A	-30.8	-42.9	-53.3	Y/Y %	-27.9	-29.3	-29.1	-27.6	-27.8
Cum 12 Mth Total	N/A	N/A	3,826	3,763	3,860						

## House Prices / Rents

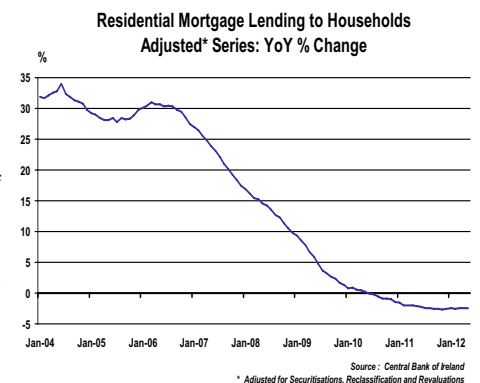
There is some evidence that prices could be stabilising in some regions. According to the CSO, prices nationally rose by 0.2% in May, the first monthly increase since September 2007. Prices, though were still down over 15% on year earlier levels and 50% below their peak. There would appear to be a significant urban/rural divide. Dublin prices rose in the three consecutive months to May and are up a cumulative 1.4%, though they still stand 57% below their peak. However prices outside Dublin increased only in May and by just 0.1%. Signs of stabilisation appeared earlier in the rental market. While rents dropped back slightly in April/May they are still up 4% from their December 2010 lows.



	May-12	Apr-12	Mar-12	Feb-12	Jan-12	Daft Asking Prices	Jun-12	May-12	Apr-12	Mar-12	Feb-12
<b>CSO Residential House Price Index</b>						3Mth/3Mth %	-2.5	-2.2	-2.0	-1.4	-3.6
National MoM %	0.2	-1.1	0.0	-2.2	-1.9	YoY % 3 Mth Avg	-14.5	-15.5	-16.5	-16.7	-17.0
National Y/Y %	-15.3	-16.4	-16.3	-17.8	-17.4	<b>CSO Private Rents</b>					
<b>From Peak %</b>						MoM %	#N/A	-0.1	-0.9	0.2	1.4
- National	-49.8	-49.9	-49.3	-49.3	-48.2	YoY %	#N/A	2.2	2.4	4.0	3.1
- Dublin	-56.6	-56.7	-56.9	-57.2	-56.7						
- Ex Dublin	-46.5	-46.6	-45.5	-45.2	-43.5						

## Mortgage / Loan Growth

The level of mortgage lending outstanding fell by 2.5% yoy in May, the 27th consecutive month of negative yoy growth. Irish Banking Federation data also highlight the weakness of mortgage demand, with just 2,630 new mortgages drawn down in Q1. However, there has been a noticeable slowing in the pace of YoY decline. While the number of overall mortgage drawdowns fell by 19% YoY in Q1, purchase drawdowns (FTBs, movers & investors) declined by just 4.8%, after a 20% YoY fall in Q4 2011 and 39% for the year 2011. Drawdowns by FTBs fell by 6.9% YoY in Q1, movers by 1.4% and investors by 7.2%. This compares to falls in 2011 of 40%, 35% and 56% respectively.



	May-12	Apr-12	Mar-12	Feb-12	Jan-12	Mortgage Drawdowns (Irish Banking Federation)	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
<b>Residential Mortgage Growth (Central Bank of Ireland)</b>						Total Drawdowns	2,630	3,856	3,607	3,551	3,259
Adjusted Y/Y %	-2.5	-2.4	-2.4	-2.5	-2.4	Y/Y %	-19.3	-31.4	-50.3	-54.6	-53.1
						FTB Y/Y %	-6.9	-18.6	-43.7	-49.4	-44.1
						FTB Average Value €	163,470	159,220	171,357	179,552	183,543
<b>Mortgage Arrears 90 Days + (Principal Residences) (Central Bank of Ireland)</b>						Investor Y/Y %	-7.2	-45.0	-61.4	-50.4	-63.9
No. Accts. in Arrears	77,630	70,911	62,970	55,763	49,609	Mover Y/Y %	-1.4	-17.8	-38.2	-40.9	-41.5
% of Outstanding	10.2	9.2	8.1	7.2	6.3						