

New regulations impacting: Prices slowing, Rents accelerating

Building activity improving but still at subdued levels...

Building activity in the Irish residential property market continues to show signs of improvement. House guarantee registrations, which tend to reflect developer activity, remain on an upward trend, increasing by 89% in the year to July compared to a year earlier, albeit off a low base. Survey data of activity also suggest on-going improvement, with the construction PMI recovering from some early year weakness to register readings well above the key breakeven level of 50 since April.

Meanwhile in terms of house completions, they were at around 6,700 units in the seven months to July, an increase of 16% on the same period last year. At the current run rate, completions are on course to amount to around 13,000 this year, compared to 11,000 last year and 8,300 in 2013. Crucially, the projected figure for 2015 only equates to about half of the total required to meet estimated annual housing demand. The inadequate levels of supply are also reflected in the Daft.ie sales stock. The number of residential units for sale at the end of the second quarter was 11% lower compared to Q2'14 and 29% lower than in Q2'13.

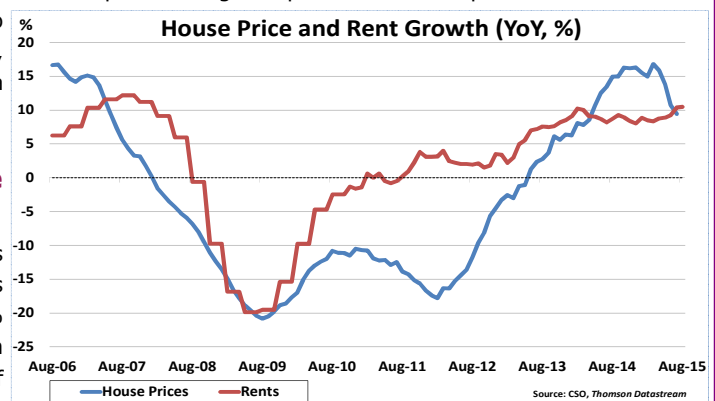
...price pressures in Dublin have moderated, impacted by new regulations...

With the housing market continuing to be defined by the mismatch between demand and supply, it is no surprise that prices continue to rise. Nationally prices increased by 0.9% in July, with the year-on-year rate at a robust 9.4%. However, there has been a sharp slowdown in the pace of growth this year. This easing is being led by Dublin. Here the pace of increase has slowed to 9% in year-on-year terms compared to growth rates of 22-25% in the second half of 2014. Indeed, since the start of the year, prices in Dublin are essentially flat. Outside of Dublin, prices have maintained an upward trajectory this year, with the annual rate running at around 10% year-on-year.

The key factor in the deceleration in Dublin house price rises is the new Central Bank lending regulations as the average house price in the capital is well above the new €220,000 threshold, which requires a larger deposit. Another aspect is that Dublin led the way in the recovery in prices and it was always unlikely to be able to maintain 20%+ y/y growth rates. Meantime, outside of Dublin, prices there are being supported by a 'catch-up' factor and also coming from a much lower base.

...meanwhile, rents continue to rise sharply...

While house prices have shown signs of moderating, rents continue to rise very strongly. Year-on-year growth in rents picked up to 10.5% in July and rents are now just 0.5% below their previous peak. In fact, the pace of increase in rents is now faster than the pace of house prices. The lack of supply (Daft.ie data show that rental stock was 32% lower in August compared to a year earlier), as well as potential homebuyers having to rent for longer in order to meet new deposit requirements (mainly in Dublin), have been contributing factors to the upward pressure on rents.



...while mortgage market also showing signs of being impacted by new lending criteria.

Data from the mortgage market show that at the end of Q2, mortgage drawdowns were up 30% compared to Q2 last year. However, this was a good deal slower than the 48% rate recorded in 2014, suggesting that the new lending criteria may be impacting mortgage lending. There is further evidence of this in the latest mortgage approvals figures. These show that the rise in mortgage approvals has slowed to 5% year-on-year from over 50% at end 2014. Transaction activity has also slowed.

Overall, it appears that the new Central Bank regulations have contributed to a moderation in house price inflation, which is a positive development from a homebuyer perspective. However, the key issue for the housing market remains the shortfall in supply. The market is still awaiting a strong pick-up in building activity to meet pent up demand. Next month's Budget may contain some initiatives to try and encourage more homebuilding and reduce this key supply bottleneck in the economy.

LATEST DATA

Jan-15 Feb-15 Mar-15 Apr-15 May-15 Jun-15 Jul-15 Aug-15

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI	54.4	50.1	50.9	55.8	62.7	64.9	57.3	54.4
- Housing Activity	54.4	50.1	50.9	55.8	62.7	64.9	57.3	54.4
Housing Registrations: Month	208	285	296	354	431	372	359	#N/A
- 3 Month Avg YoY %	136.2	78.8	61.3	64.3	134.5	126.4	110.5	#N/A
- Cum 12 Mth Total	2,683	2,724	2,874	3,049	3,344	3,520	3,659	#N/A
Commencements: Month	300	341	690	820	782	712	1,026	#N/A
- Cum 12 Mth Total	7113	3111	3799	4540	5252	5768	6459	#N/A
- Cum 12 Mth Total YoY %	35.0	-66.6	-57.8	-48.2	-37.8	-30.1	-19.5	#N/A
Completions: Month	693	836	1,100	946	991	1,059	1,120	#N/A
- Cum 12 Mth Total	11,033	11,258	11,555	11,735	11,641	11,809	11,937	#N/A
- Cum 12 Mth Total YoY %	30.3	32.9	32.8	33.9	25.9	25.2	22.8	#N/A

While construction PMI housing component slowed during Q3, it still points to healthy growth

Housing registrations have continued to improve in recent months, but remain at a low level overall. 12mth cum total at best level since December '09

Commencements remain soft—data distorted by Feb'14 surge ahead of revised guidelines

Housing completions continue to pick-up, but improvement in 12mth total showing signs of stalling

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	3,338	3,604	3,586	3,612	3,603	4,088	4,195	#N/A
- 3 Month Avg YoY %	47.4	56.9	55.1	43.4	30.5	24.6	11.4	#N/A
- 12 Mth Total	44,209	45,530	46,530	47,480	48,054	48,762	48,692	#N/A
BPFI Mortgage Approvals : Month	1,817	2,093	2,228	2,070	2,347	2,362	2,700	#N/A
- 3 Month Avg YoY %	55.3	49.2	40.6	28.8	17.3	7.5	4.6	#N/A
- 12 Mth Total	26,055	26,664	27,271	27,483	27,645	27,744	27,811	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-2.3	-2.6	-2.7	-2.6	-2.5	-2.6	-2.6	#N/A

Further slowdown in mortgage approvals and housing transactions growth in July as new Central Bank lending criteria continue to impact

The pace of decline in mortgages outstanding has remained broadly stable in recent months at 2.5-2.7% YoY

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	-1.4	-0.4	0.9	0.6	0.5	0.1	0.9	#N/A
- YoY %	15.5	14.9	16.8	15.8	13.8	10.7	9.4	#N/A
- Dublin YoY %	21.6	21.4	22.8	20.2	15.2	11.1	9.0	#N/A
- Ex Dublin YoY %	9.2	8.2	10.7	11.4	11.9	9.7	9.6	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	227,162	220,884	216,311	210,134	207,890	212,685	212,940	#N/A
Daft Asking Prices: MoM%	0.6	4.6	1.3	-0.3	0.6	-1.0	#N/A	#N/A
- YoY %	11.1	17.0	13.3	13.6	11.4	9.5	#N/A	#N/A

House price growth has slowed in 2015, reflecting impact from of new Central Bank rules. Dublin prices are flat compared to the end of 2014, while ex-Dublin are up 2.6%

Average transaction price remains above €200k, though it has edged lower in recent months

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	1.4	0.9	0.6	0.6	0.6	0.9	1.0	0.9
- YoY %	8.8	8.5	8.3	8.7	8.9	9.3	10.4	10.5
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	16.7	16.6	16.8	16.9	17.1	16.6	16.7	#N/A

YoY growth in rents picks up further in July to 10.5%. Rents now just 0.5% from pre-recessionary peak

Affordability remains at quite accommodative levels

QUARTERLY DATA

Q3-13 Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15

BPFI Mortgage Drawdowns

Purchase Drawdowns	4,051	4,761	3,126	4,337	5,763	6,929	5,125	5,604
YoY %	14.7	-14.6	73.4	51.8	42.3	45.5	63.9	29.2
FTB YoY %	11.3	-27.3	87.2	52.5	41.8	49.2	73.3	36.1

YoY growth in mortgage drawdowns slowed in Q2 (in both volume and value terms)

FTB remain the dominant source of mortgage drawdowns at 53% of total

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	98,736	96,467	93,106	90,343	84,955	78,699	74,395	70,299
% of Outstanding	12.9	12.6	12.2	11.8	11.2	10.4	9.8	9.3
Buy-to-Let								
Number of Accounts in Arrears	31,178	30,706	31,048	31,749	31,619	29,224	27,492	26,057
% of Outstanding	21.1	21.1	21.5	22.0	22.1	20.7	19.7	19.0

The number of mortgages in arrears (both principal residence & BTL) recorded further strong declines in Q2, but they remain very high

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



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