

Recovery continues, but still in its early stages

Building activity picking up....

The level of house building activity continues to exhibit signs of improvement, albeit from a very low base. Housing completions, which covers up to October, are 35% higher compared to October 2013 levels. Completions are on course to come in around 11,000 units for the full year. This would represent their best year since 2011, although in absolute terms, it is still a very low figure. In terms of forward looking indicators, house guarantee registrations, which tend to reflect developer activity, were over 80% higher in the year to October compared to the same period last year.

...but demand still outpacing supply...

However, while indicators on residential building are showing increased activity, the current level of output is still well below what is required to meet demand. Irish population and household formation dynamics suggest that potential housing demand is around 25,000 units per annum.

The supply-demand mismatch is evident in developments on the level of housing stock available to rent or buy. According to the most recent Daft data, the number of residential units for sale has fallen by 23% in the year to October, while rental stock is down 41% in November compared to year earlier levels.

...underpinning upward pressure on prices/rents

Against this backdrop of an on-going shortfall in supply, it is not surprising that prices continue to rise strongly. Nationally, the latest CSO data show that prices rose by 2.9% in October, with the yearly growth rate accelerating to 16.3%, its fastest pace since the third quarter of 2006.

The recovery in prices continues to be led by Dublin, which were up 24% on a year-on-year basis in October. The strong recovery in Dublin means prices there are now up 46% from their low point. However, it is also noticeable in recent months that prices outside of Dublin are starting to see a pick-up. Excluding Dublin, prices rose by c.9% in the last 6 months. The impact of the scarcity in stock is also reflected in rents, which were up 9% YoY in October.

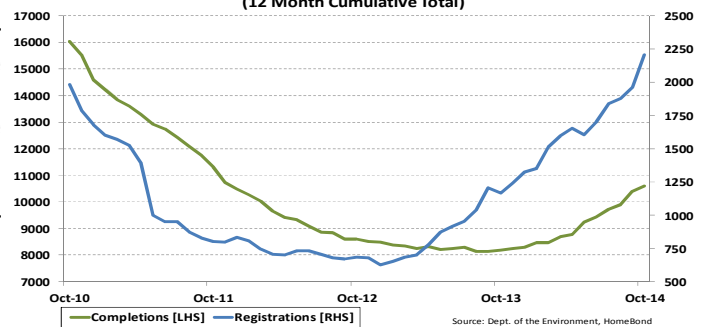
Given the strong growth rates being recorded in residential prices, it is important to put this performance in context. While nationally, prices are up 26% from their trough, prices are still 38% below their peak and are currently at levels that pertained in 2002. Prices in Dublin are also 38% lower than their peak.

Mortgage market also improving

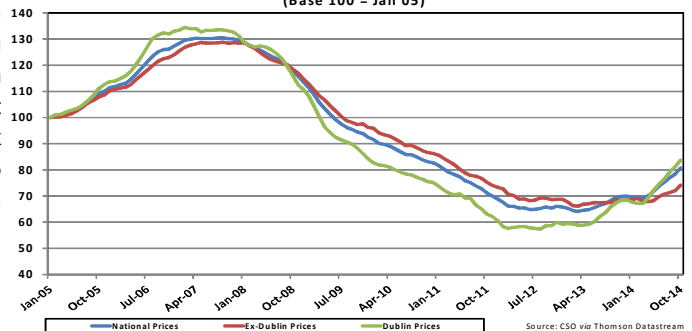
Data on mortgage approvals, drawdowns and transactions show that mortgage lending is also picking up. However, in absolute terms, it remains at very low levels and is still some way from what a 'normal' market might look like.

Finally, the recent Central Bank proposals in relation to limiting the loan to value (LTV) and loan to income (LTI) ratios could have a significant impact on, not just the mortgage market, but also house-building as well as house prices and rents. Thus, the housing market will require close monitoring over the course of next year. In particular, it is important that new regulations do not hold back a badly needed increase in housing supply.

Irish Housing Completions & Registrations
(12 Month Cumulative Total)



Irish Residential Property Price Indices
(Base 100 = Jan'05)



LATEST DATA

Apr-14 May-14 Jun-14 Jul-14 Aug-14 Sep-14 Oct-14 Nov-14

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	63.4	61.0	61.3	65.4	63.7	68.4	66.4	62.9
Housing Registrations: Month	179	136	196	220	168	291	274	#N/A
- 3 Month Avg YoY %	110.7	24.3	25.2	51.2	89.0	62.8	99.7	#N/A
- Cum 12 Mth Total	1,652.0	1,604.0	1,699.0	1,839.0	1,879.0	1,961.0	2,205.0	#N/A
Commencements: Month	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total YoY %	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Completions: Month	766	1,085	891	992	782	1,183	1,007	#N/A
- Cum 12 Mth Total	8,767	9,245	9,433	9,720	9,898	10,408	10,590	#N/A
- Cum 12 Mth Total YoY %	5.3	12.7	14.2	17.1	21.7	28.0	29.5	#N/A

The housing component of the construction PMI has remained at a very strong level in Oct/Nov, suggesting that the sector continues to recover

Housing registrations continue to pick up from very depressed levels

Commencements data have been delayed since February—expected before end year

Completions on course for 11k in 2014—highest level since 2010

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	2,649	3,007	3,345	4,229	3,336	3,568	#N/A	#N/A
- 3 Month Avg YoY %	45.5	41.7	45.1	47.7	46.1	41.1	#N/A	#N/A
- 12 Mth Total	29,659	30,475	31,630	33,076	33,919	34,874	#N/A	#N/A
IBF Mortgage Approvals : Month	1,858	2,185	2,263	2,633	2,222	2,281	2,619	#N/A
- 3 Month Avg YoY %	47.7	43.3	43.1	46.5	45.6	45.2	44.6	#N/A
- 12 Mth Total	19,155	19,760	20,505	21,404	21,989	22,726	23,601	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-3.1	-3.0	-3.1	-3.1	-3.1	-3.0	-3.0	#N/A

Pace of YoY growth in transactions slows slightly in Q3, but at 41% it remains very strong

Mortgage approvals continue on upward trajectory, though in absolute terms, remain at low levels

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	1.5	2.3	2.9	2.0	2.3	1.8	2.9	#N/A
- YoY %	8.5	10.6	12.5	13.4	14.9	15.0	16.3	#N/A
- Dublin YoY %	17.7	22.0	23.9	23.2	25.1	23.4	24.2	#N/A
- Ex Dublin YoY %	1.4	1.8	3.4	4.9	5.6	7.0	8.3	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	204,695	202,468	200,195	208,358	216,360	220,543	#N/A	#N/A
Daft Asking Prices: MoM%	0.8	2.5	0.4	1.9	1.1	1.5	#N/A	#N/A
- YoY %	7.7	9.8	9.6	13.3	13.8	15.8	#N/A	#N/A

House prices continue to rise strongly. YoY growth 16.3% in October: Dublin +24.2%, ex-Dublin +8.3%

National house prices 26% off their lows in Oct. Dublin 46% off lows vs ex-Dublin 12%. Prices nationally & in Dublin still 38% below their peak

Avg transaction price c.€220k

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.2	0.4	0.5	0.0	0.9	1.4	0.5	#N/A
- YoY %	9.1	9.0	8.7	8.2	8.7	9.3	8.9	#N/A

AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	15.5	15.9	16.5	16.9	17.3	17.7	18.2	#N/A
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Rents show continuing recovery—23.5% off their lows in October

Rising prices and falling wages have impacted affordability, but still at accommodative levels

QUARTERLY DATA

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

BPFI Mortgage Drawdowns

Purchase Drawdowns	5,578	1,803	2,857	4,051	4,761	3,126	4,337	5,763
YoY %	73.0	-18.5	0.7	14.7	-14.6	73.4	51.8	42.3
FTB YoY %	97.4	-23.4	-2.9	11.3	-27.3	87.2	52.5	41.8

Mortgage Arrears 90 Days +

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

YoY growth in mortgage drawdowns slows in Q3 as base effects abate, but at 42% remains strong

FTB account for over half of mortgage drawdowns

Arrears on primary dwellings continued to decline in H1'14. 11.8% in arrears in Q2'14 from 12.2% in Q1. BTL arrears still rising

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



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