

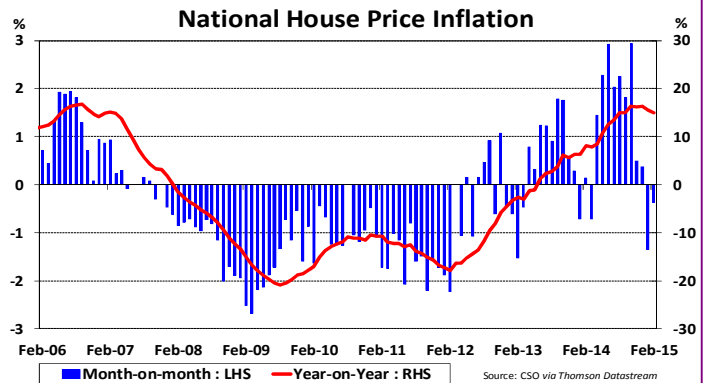


Market impacted in early 2015 by new mortgage regulations

Pace of price increases has eased....

Last year saw a sharp acceleration in residential property prices. Prices increased by 12.3%, compared to 1.4% in 2013. Dublin led the way, with prices there up 20%. It was also noticeable though, that in the second half of the year, prices outside of Dublin rose strongly as well.

The opening months of this year have seen a moderation in the upward pressure on prices. In fact, prices decreased in both January and February, marking the first time since early 2013 that prices fell for consecutive months. However, this probably largely reflects temporary factors that should abate, such as seasonal issues and uncertainty around the Central Bank's new rules on mortgage lending. Indeed, the year-on-year growth rate remains high at 14.9%.



...while building activity has picked up...

The key driver of prices remains supply and demand fundamentals. On the supply side, house-building data indicate that there was a pick-up in activity levels last year, albeit from a very low base. The housing completion statistics show that completions totalled 11,000 units in 2014, versus 8,300 in 2013. This represents an increase of 33% and is also its best year since 2011. Worryingly though, there was a very sharp drop in the housing construction PMI in the first two months of this year, no doubt due to uncertainty about the Central Bank's new regulations on mortgage lending. Hopefully this proves temporary.

...but still shortfall between supply and demand...

While some house building metrics are showing signs of an upturn, the current level of output is still not anywhere near sufficient to meet housing demand that exists in the economy. We estimate, based on Irish population and household formation trends, that potential housing demand is around 25,000 units per annum.

This continued shortfall in housing supply is reflected in the falling levels of housing stock available to rent or buy. The most recent Daft data show that the number of residential units for sale was down by 20% in December '14 compared to a year earlier, while rental stock was 41% lower in November on a yearly basis. Not surprisingly, this scarcity in stock is reflected in upward pressure on rents, which were up 8.5% YoY in February and are now just 5% off their previous peak.

The recovery in the housing sector is also evident in the mortgage market. Data on mortgage approvals, drawdowns and transactions all picked up last year. The total value of new mortgage lending was up 55.4% in 2014 compared to the previous year. Despite this large percentage increase, in absolute terms, we are still some way off from a 'normal' size market.

...impact from new Central Bank regulations will require close monitoring.

The outlook for the Irish housing market continues to be framed in the context of the on-going mismatch between supply and demand. While price pressures have eased somewhat in recent months, the shortfall between supply and demand points to further upward pressure on prices. At the same time, the strengthening of labour market fundamentals and improving domestic economy will also help underpin the market.

An additional factor to bear in mind is the new Central Bank regulations in relation to limiting the loan-to-value (LTV) and loan-to-income (LTI) ratios. The new rules were modified compared to the initial proposals and thus we do not expect them to have a major lasting impact on the housing market. However, the market will require close monitoring over the coming months. In particular, it is important that the new regulations do not act as a drag on the much needed increase in housing supply. However, they should contribute to a welcome moderation in house price inflation. Overall, house prices should continue to rise, but at a slower pace than in 2014.

LATEST DATA

Jul-14 Aug-14 Sep-14 Oct-14 Nov-14 Dec-14 Jan-15 Feb-15

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	65.4	63.7	68.4	66.4	62.9	61.4	54.4	50.1
Housing Registrations: Month	220	168	291	274	306	315	208	285
- 3 Month Avg YoY %	51.2	89.0	62.8	99.7	128.0	217.4	136.2	78.8
- Cum 12 Mth Total	1,839.0	1,879.0	1,961.0	2,205.0	2,368.0	2,574.0	2,683.0	2,724.0
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	992	782	1,183	1,007	1,031	1,189	693	#N/A
- Cum 12 Mth Total	9,720	9,898	10,408	10,590	10,703	11,016	11,033	#N/A
- Cum 12 Mth Total YoY %	17.1	21.7	28.0	29.5	29.7	32.7	30.3	#N/A

The housing component of the construction PMI has fallen sharply in Q1. This may reflect some uncertainty over new mortgage regulations

Housing registrations rising slowly from a very subdued level

Commencements data have been delayed since Feb 2014

Completions continue to recover from their low base—12mth cumulative total now at its best level since Oct'11

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,265	3,383	3,723	4,686	3,685	7,189	3,063	#N/A
- 3 Month Avg YoY %	48.0	46.6	42.6	44.4	41.1	45.2	44.5	#N/A
- 12 Mth Total	36,013	36,882	37,946	39,640	40,406	42,790	43,934	#N/A
BPFI Mortgage Approvals : Month	2,633	2,222	2,281	2,619	2,712	2,360	1,817	#N/A
- 3 Month Avg YoY %	46.5	45.6	45.2	44.6	52.1	56.4	55.3	#N/A
- 12 Mth Total	21,404	21,989	22,726	23,601	24,597	25,500	26,055	#N/A
Residential Mortgage Growth (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-3.1	-3.1	-3.0	-3.0	-2.9	-2.7	-2.3	#N/A

Transactions rise ahead of new mortgage regulations

Likewise, mortgage approvals up ahead of new Central Bank regulations

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	2.0	2.3	1.8	2.9	0.5	0.4	-1.4	-0.4
- YoY %	13.4	14.9	15.0	16.3	16.2	16.3	15.5	14.9
- Dublin YoY %	23.2	25.1	23.4	24.2	22.4	22.3	21.6	21.4
- Ex Dublin YoY %	4.9	5.6	7.0	8.3	9.6	10.2	9.2	8.2
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	207,638	215,593	219,626	227,873	230,429	228,593	227,805	#N/A
Daft Asking Prices: MoM%	1.9	1.1	1.5	-2.2	-0.5	0.8	#N/A	#N/A
- YoY %	13.3	13.8	15.8	12.3	12.3	13.7	#N/A	#N/A

CSO house price growth has moderated in recent months, declining in Jan/Feb, but YoY growth remains strong at 15%

National property prices 25% off their lows. Recovery being led by Dublin (42% off lows), but prices outside Dublin area also rebounding (13%)

Avg transaction price c.€230k

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.0	0.9	1.4	0.5	0.6	0.7	1.4	0.9
- YoY %	8.2	8.7	9.3	8.9	8.4	8.0	8.8	8.5
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	16.9	17.4	17.6	17.9	17.4	17.4	16.9	16.9

Private rents rise further in February (+0.9%) - now just 5% off their peak

Moderation in house prices and rising wages have benefited affordability

QUARTERLY DATA

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

BPFI Mortgage Drawdowns

Purchase Drawdowns	1,803	2,857	4,051	4,761	3,126	4,337	5,763	6,929
YoY %	-18.5	0.7	14.7	-14.6	73.4	51.8	42.3	45.5
FTB YoY %	-23.4	-2.9	11.3	-27.3	87.2	52.5	41.8	49.2

Mortgage drawdowns improve further in Q4. Pace of YoY growth accelerated up from an already strong level

FTB continued to account for the majority (58%) of mortgage drawdowns in Q4

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	95,554	97,874	98,736	96,467	93,106	90,343	84,955	78,699
% of Outstanding	12.3	12.7	12.9	12.6	12.2	11.8	11.2	10.4
Buy-to-Let								
Number of Accounts in Arrears	29,369	30,326	31,178	30,706	31,048	31,749	31,619	29,224
% of Outstanding	19.7	20.4	21.1	21.1	21.5	22.0	22.1	20.7

Arrears in principal residences continued to decline in Q4, now at 10.4%. Percentage of buy-to-let in arrears in Q4 fell for the first time since records began, remains high

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



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