



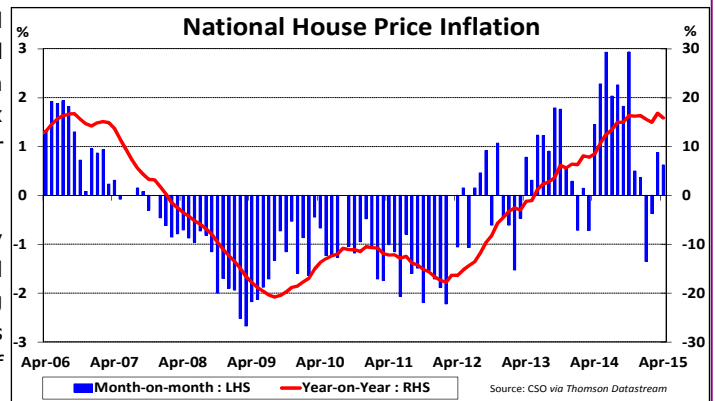
Prices picking up again, as supply continues to lag

Nationally, prices starting to pick up again...

The recent data on residential property prices show that after some moderation in the opening months of the year, prices have resumed their upward trajectory. Nationally prices increased by 0.6% in April, with the year-on-year rate now at 15.8%. The renewal of upward pressure on prices was expected as the weakness in Jan/Feb mainly reflected temporary factors, such as seasonal issues and uncertainty in relation to the Central Bank's new rules on mortgage lending.

In terms of the regional picture, the recovery is still being led by Dublin, although the pace of increases here has slowed slightly, with prices up by 20% on a year-on-year basis in April compared to growth rates of 22-25% in the last six months of 2015. Dublin prices are now around 45% off their lows.

Outside of Dublin, the pace of price increases has generally been on an upward path since the second half of 2014 and this trend has continued, with the figures for April showing yearly growth accelerating to 11.4%. This represents its strongest rate of increase since mid-2007. Prices outside of Dublin are up 14.2% from their trough.



...as supply continues to undershoot demand...

The housing market continues to be characterised by the mismatch between demand and supply. On the demand side, housing demand models suggest that the economy needs to be building around 25,000 residential units per annum based on underlying Irish population demographics, including household formation dynamics.

On the supply side, there is still a considerable shortfall in housing output. This is highlighted in the housing completions data. Last year, completions totalled 11,000 units in 2014, an increase of 33% versus 2013 levels, but still well short of the required amount (i.e. 25,000 units). The shortfall in housing supply is also reflected in the Daft data on sales and rental stock. The number of residential units for sale at the end of the first quarter was 16% lower compared to Q1'14. Likewise, rental stock also continues to fall, down around 40% in April compared to a year earlier. Against this backdrop, rents are continuing to rise sharply, up 8-9% on year-on-year basis in recent months and are now just 3% off their pre-recessionary peak.

More recent data suggests that the recovery in house building activity is continuing. In the three months to March, completions were at around 2,600 units, an increase of 26% on the same period last year. If this run rate is maintained, completions could total in the region of 14,000-15,000 units this year. Leading indicators of activity show some signs of a further acceleration in residential construction. The housing component of the construction PMI has rebounded, and is now back at levels consistent with a strong pick-up in building (i.e. above 60), after its 'slower' readings in the early part of the year. Meantime, very robust planning permissions data for Q1 provide further encouraging signs on future activity in the residential sector. Meanwhile, new housing registrations, which refer to developer activity, were up by 96% in the first five months of 2015. However, despite these positive signs, it will still be an number of years before house-building is at levels required to meet demand.

...low levels of supply also impacting the mortgage market

Data on the mortgage market show that activity in the sector remains on an improving trajectory, although, the size of the market remains some way from a 'normal' market. Mortgage drawdowns increased by 64% on a year-on-year basis in volume terms in Q1, while in value terms, an increase of 73% y/y was recorded. Meanwhile, recent figures on the level of mortgage approvals show some slowing in the rate of growth, which may in part be due to the new Central Bank criteria on mortgage lending. Going forward, the continued shortage in residential units will remain an impediment to transaction levels and in turn, the scope of growth for the size of the mortgage market, which may also be impacted by the new Central Bank mortgage regulations.

LATEST DATA

Oct-14 Nov-14 Dec-14 Jan-15 Feb-15 Mar-15 Apr-15 May-15

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	66.4	62.9	61.4	54.4	50.1	50.9	55.8	62.7
Housing Registrations: Month	274	306	315	208	285	296	354	431
- 3 Month Avg YoY %	99.7	128.0	217.4	136.2	78.8	61.3	64.3	134.5
- Cum 12 Mth Total	2,205	2,368	2,574	2,683	2,724	2,874	3,049	3,344
Commencements: Month	409	309	340	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total	8067	7959	7717	#N/A	#N/A	#N/A	#N/A	#N/A
- Cum 12 Mth Total YoY %	85.7	86.3	63.9	#N/A	#N/A	#N/A	#N/A	#N/A
Completions: Month	1,007	1,031	1,189	693	836	1,100	#N/A	#N/A
- Cum 12 Mth Total	10,590	10,703	11,016	11,033	11,258	11,555	#N/A	#N/A
- Cum 12 Mth Total YoY %	29.5	29.7	32.7	30.3	32.9	32.8	#N/A	#N/A

Construction PMI housing component rebounding strongly in Q2 following soft Q1 readings

Housing registrations have continued to improve in recent months, but remain at a low level overall. 12mth cum total at best level since January 2010

Commencements data lagging and distorted by Feb'14 surge ahead of revised building guidelines

Housing completions pick up after some weakness at the start of the year

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,686	3,685	7,189	3,315	3,583	3,533	3,366	#N/A
- 3 Month Avg YoY %	44.4	41.1	45.2	47.1	56.4	53.7	39.2	#N/A
- 12 Mth Total	39,640	40,406	42,790	44,186	45,486	46,433	47,137	#N/A
BPFI Mortgage Approvals : Month	2,619	2,712	2,360	1,817	2,093	2,228	2,070	#N/A
- 3 Month Avg YoY %	44.6	52.1	56.4	55.3	49.2	40.6	28.8	#N/A
- 12 Mth Total	23,601	24,597	25,500	26,055	26,664	27,271	27,483	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-3.0	-2.9	-2.7	-2.3	-2.6	-2.7	-2.6	#N/A

YoY growth in mortgage approvals and transactions slows in the 3 months to April—may reflect some impact from new Central Bank criteria on mortgage lending

The pace of decline in mortgage's outstanding has remained broadly stable in recent months at 2.6-2.7% yoy

HOUSING MARKET PRICES

CSO (Mortgaged Transactions) - MoM	2.9	0.5	0.4	-1.4	-0.4	0.9	0.6	#N/A
- YoY %	16.3	16.2	16.3	15.5	14.9	16.8	15.8	#N/A
- Dublin YoY %	24.2	22.4	22.3	21.6	21.4	22.8	20.2	#N/A
- Ex Dublin YoY %	8.3	9.6	10.2	9.2	8.2	10.7	11.4	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	227,873	230,429	228,593	227,287	220,949	216,394	210,213	#N/A
Daft Asking Prices: MoM%	-2.2	-0.5	0.8	0.6	4.6	1.3	#N/A	#N/A
- YoY %	12.3	12.3	13.7	11.1	17.0	13.3	#N/A	#N/A

CSO house prices picking up again following some weakness at the start of the year

Recovery being led by Dublin, where prices are up 45% from their lows—ex-Dublin process also rising, now up 14% from their lows

Average transaction price remains above €200k

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.5	0.6	0.7	1.4	0.9	0.6	0.6	0.6
- YoY %	8.9	8.4	8.0	8.8	8.5	8.3	8.7	8.9
AFFORDABILITY: Couple on Avg Industrial Wage, 92% LTV, 30Yr Mortgage : Mortgage cost as % of Disposable Income	17.6	17.1	17.1	16.7	16.6	16.8	16.9	#N/A

Rents have continued to rise strongly in recent months and are just 3% off pre-recessionary peak in May

Affordability remains at quite accommodative levels

QUARTERLY DATA

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

BPFI Mortgage Drawdowns

Purchase Drawdowns	2,857	4,051	4,761	3,126	4,337	5,763	6,929	5,125
YoY %	0.7	14.7	-14.6	73.4	51.8	42.3	45.5	63.9
FTB YoY %	-2.9	11.3	-27.3	87.2	52.5	41.8	49.2	73.3

Pace of YoY growth in mortgage drawdowns picked up again in Q1—but they remain low in level terms

FTB remain the dominant source of mortgage drawdowns, at 59% in Q1.

Mortgage Arrears 90 Days +

Principal Residences								
Number of Accounts in Arrears	97,874	98,736	96,467	93,106	90,343	84,955	78,699	74,395
% of Outstanding	12.7	12.9	12.6	12.2	11.8	11.2	10.4	9.8
Buy-to-Let								
Number of Accounts in Arrears	30,326	31,178	30,706	31,048	31,749	31,619	29,224	27,492
% of Outstanding	20.4	21.1	21.1	21.5	22.0	22.1	20.7	19.7

The number of mortgages in arrears (both principal residence & BTL) recorded further strong declines in Q1, but remain very high

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



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