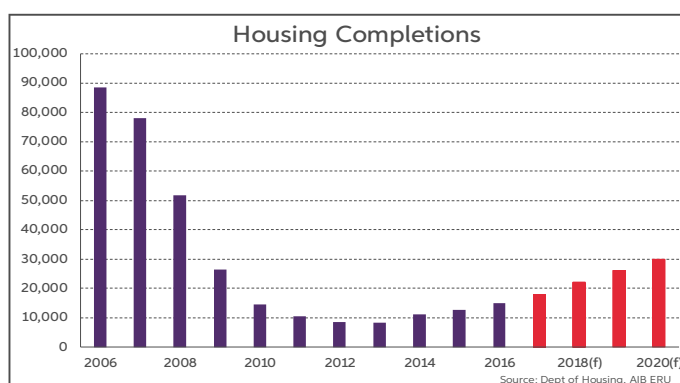


Supply shortfall will not be resolved anytime soon

Supply levels showing improvement but still at low levels...

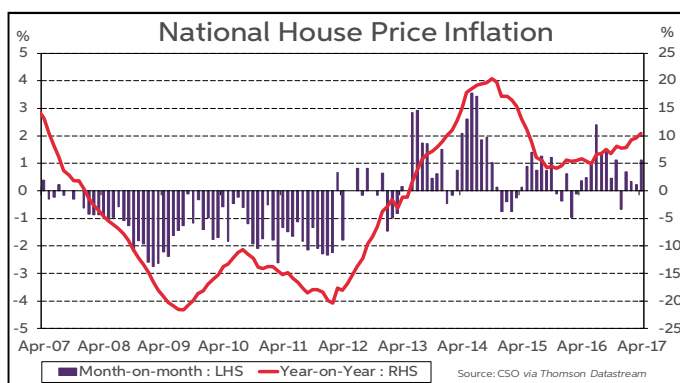
Supply, or more accurately the lack of supply, remains the key defining characteristic of the Irish residential property market. Against this backdrop there are some encouraging signs in relation to house building activity. Various indicators on building activity suggest at an improved level of supply since the start of the year. Data from the Department of Housing show that in the first quarter of this year, completions were up 24% compared to the same period in 2016. In terms of forward looking indicators, commencement notices (i.e. housing starts) increased by 33% in the first quarter on a year-on-year basis. Likewise, housing registrations, which tend to reflect developer activity, surged over 70% in annual terms in Q1.

However, while these represent strong growth rates, they are off a low base and overall activity/new supply remains low in level terms. This is highlighted in the fact that completions at end Q1 are only at 15,700 units on a twelve month cumulative basis. If they continue to grow at their current rate, completions are on course for 18,000-18,500 units this year. This level of building activity remains well below the estimated 30,000 units that are required per annum to meet estimated housing demand.



...resulting in continued upward pressure on prices, as well as a headwind to lending activity

Given the on-going mismatch between supply and demand, residential property prices remain on an upward trajectory. Indeed, in recent months, the rate of price rises has re-accelerated, coinciding with the relaxation in the Central Bank mortgage regulations and the government's new 'help-to-buy scheme'. In April, CSO residential property prices rose on a national basis by 10.5% in year-on-year terms, compared to a 5.8% growth rate a year earlier. From a geographic viewpoint, both Dublin and non-Dublin prices are mirroring the national trend in terms of a quickening in the pace of price increases. However, prices outside the capital continue to outpace those in Dublin (13.4% vs 8.2% in April). Meantime, nationally, while prices are 52% off their low point, they are still 31% below their previous peak. In contrast, rents are now 14% above their previous high point.



The overall level of transactions and stock in the residential market also highlight the supply shortfall issue. Transaction activity remains equivalent to about 1% of the total housing stock, whereas in a properly functioning market, turnover should be in the region of 3-4% of total stock. A follow-on consequence of the lack of supply is that it is also having a dampening effect on mortgage lending activity. As a result, while mortgage lending registered a strong 26% yearly increase in Q1, the actual level of lending activity remains low. If the current run rate in mortgage growth is maintained throughout 2017, the total value of drawdowns may be in the region of €7bn, up from €5.6bn in 2016.

Based on current supply projections, it could be 2020 at the earliest before new house building reaches the level of estimated annual demand. However, this does not take into account, the pent up demand that has accumulated in recent years from the persistent shortfall in supply. Therefore, the 'supply shortfall' may remain the key factor for the sector well into the next decade.

The recent Census 2016 data reveal the impact on household dynamics from the lack of supply. There was a reversal of the long term trend of decreasing household sizes, with the average size increasing to 2.75 (from 2.73 in 2011 and 2.81 in 2006). There was also a slowdown in the rate of increase in new households (+48k in 2011-2016 vs +184k in 2006-2011). Meanwhile, there were also noticeable increases in the age of first time buyers and the number of young adults living with parents.

LATEST DATA

Oct-16 Nov-16 Dec-16 Jan-17 Feb-17 Mar-17 Apr-17 May-17

RESIDENTIAL CONSTRUCTION ACTIVITY

Markit/Ulster Bank Construction PMI								
- Housing Activity	63.5	63.9	60.6	59.1	63.3	61.3	61.9	69.2
Housing Registrations: Month	543	590	488	393	978	839	780	#N/A
- 3 Month Avg YoY %	-2.1	87.1	88.7	114.1	173.0	75.0	70.4	#N/A
- Cum 12 Mth Total	5,075	5,359	5,626	5,859	6,537	6,573	6,932	#N/A
Commencements: Month	1,760	1,326	908	910	1,265	1,685	#N/A	#N/A
- Cum 12 Mth Total	12509	12964	13234	13334	13169	14192	#N/A	#N/A
- Cum 12 Mth Total YoY %	58.6	53.4	51.3	44.0	27.4	37.6	#N/A	#N/A
Completions: Month	1,290	1,579	1,556	1,244	1,263	1,389	#N/A	#N/A
- Cum 12 Mth Total	14,411	14,728	14,932	15,256	15,327	15,684	#N/A	#N/A
- Cum 12 Mth Total YoY %	17.4	17.8	17.9	18.3	15.7	19.0	#N/A	#N/A

Housing PMI jumped sharply to a 15-month high of 69.2 in May, as sector continues to improve

Housing registrations continue to rise on a 12mth cumulative basis, while remaining low

Commencements also continue to rise, though from low levels

Completions continue to show improvement, but at below 16k on a 12mth cumulative basis, still far below demand

HOUSING / MORTGAGE MARKET ACTIVITY

RPPR Transactions : Month	4,456	4,228	4,556	3,022	3,506	3,968	3,429	#N/A
- 3 Month Avg YoY %	5.8	3.3	-5.0	-2.8	-6.3	7.4	3.2	#N/A
- 12 Mth Total	48,184	48,367	47,500	47,880	47,708	48,219	48,236	#N/A
BPFI Mortgage Approvals : Month	2,628	3,155	2,255	2,465	2,586	3,261	2,928	#N/A
- 3 Month Avg YoY %	26.6	29.8	31.1	42.3	41.8	61.4	44.3	#N/A
- 12 Mth Total	28,391	29,436	29,935	30,730	31,590	33,098	33,425	#N/A
Residential Mortgages (Central Bank of Ireland)								
- Amount Outstanding (Adj.) YoY %	-3.1	-3.1	-2.9	-2.9	-2.8	-2.7	-2.6	#N/A

Healthy YoY growth in mortgage approvals—up 44% in three months to April

At the same time, though, the level of transactions has remained virtually static with lack of supply still an issue

Pace of decline in outstanding mortgages continues to slow—now just -0.8%

HOUSING MARKET PRICES

CSO Price Index - MoM %	0.5	1.1	-0.7	0.7	0.3	0.2	1.1	#N/A
- YoY %	6.8	8.1	7.8	7.9	9.3	9.6	10.5	#N/A
- Dublin YoY %	5.1	6.0	5.8	5.5	7.5	8.3	8.2	#N/A
- Ex Dublin YoY %	9.9	11.4	10.7	11.5	11.9	11.6	13.4	#N/A
RPPR Transaction Price (Simple Average)								
- 6 Month Average €	244,766	245,217	251,428	255,317	254,377	258,256	258,676	#N/A
Daft Asking Prices: MoM%	-1.7	0.2	1.6	2.4	1.1	0.1	#N/A	#N/A
- YoY %	6.7	7.9	9.3	9.8	10.3	8.0	#N/A	#N/A

CSO house price growth strong in April. Dublin growth (8.2%) is being outpaced by rises elsewhere (13.4%). May reflect some 'catch up' by non-Dublin markets

Average property transaction price has risen further to c.260k in the 6 months to April

RENTS & AFFORDABILITY

RENTS: CSO Private Rents - MoM%	0.9	0.0	0.3	0.0	1.2	0.3	0.5	0.1
- YoY %	10.0	9.7	9.6	8.3	8.5	8.6	7.9	7.6
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB								
- Mort as % of Disposable Income	16.4	16.5	16.2	16.1	16.1	16.1	16.3	#N/A

Rents 14% above previous peak. YoY growth at 7.6%

Lower mortgage rates and higher earnings help to keep affordability accommodative

QUARTERLY DATA

Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17

BPFI Mortgage Drawdowns

Purchase Drawdowns	5,437	6,334	6,780	4,634	5,767	6,894	7,596	5,853
YoY %	25.4	9.9	-2.2	-9.4	6.1	8.8	12.0	26.3
FTB YoY %	29.7	9.2	-6.9	-11.2	4.2	11.0	12.7	27.5

YoY growth in mortgage drawdowns continues to rise in Q1 (26% from 12%). Although, overall volume of drawdowns still very low

FTB remain primary source of drawdowns in Q1 (56.3%)

Mortgage Arrears 90 Days + Principal Residences

Number of Accounts in Arrears	70,296	65,653	61,931	59,696	57,571	56,350	54,269	53,100
% of Outstanding	9.3	8.8	8.3	8.0	7.8	7.6	7.4	7.2
Buy-to-Let								
Number of Accounts in Arrears	26,071	24,809	23,344	22,516	21,962	21,435	20,499	20,009
% of Outstanding	19.0	18.1	17.0	16.5	16.3	16.2	15.7	15.6

Mortgages in arrears declined further in Q1; now 7.2% for principal dwellings and 15.6% for BTL. Overall level of arrears remains high, though

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



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