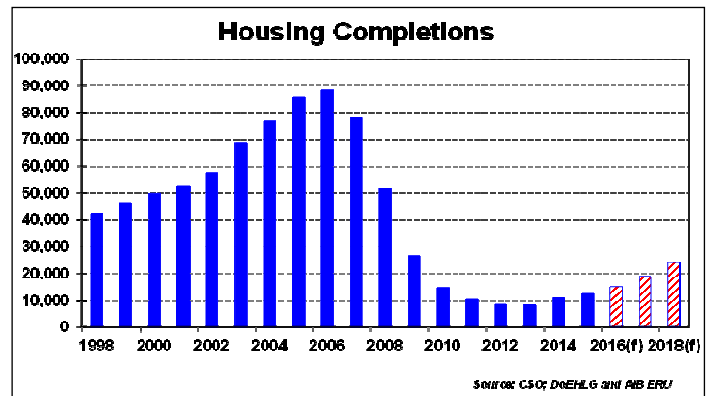


## Supply picking up, but still below required level

### Housing supply edging higher, but still not near required level...

Various indicators on the level of residential building activity suggest that supply is edging higher, from a very low base. Data show that in the eight months to August, completions were up 19% compared to the same period in 2015. Based on their current run rate, completions are in line to rise to around 15,000 units this year compared to the 12,700 total for 2015.

Forward looking indicators such as house guarantee registrations (which tend to reflect developer activity) and commencement notices indicate that the uptrend in building activity is continuing. Meanwhile, survey data, such as housing component of the construction PMI, remain well up in expansionary territory. Overall though, in terms of supply levels, the 15,000 new residential units projected for this year are still significantly below the estimated 25,000-30,000 units that are required to be built each year to meet housing demand.



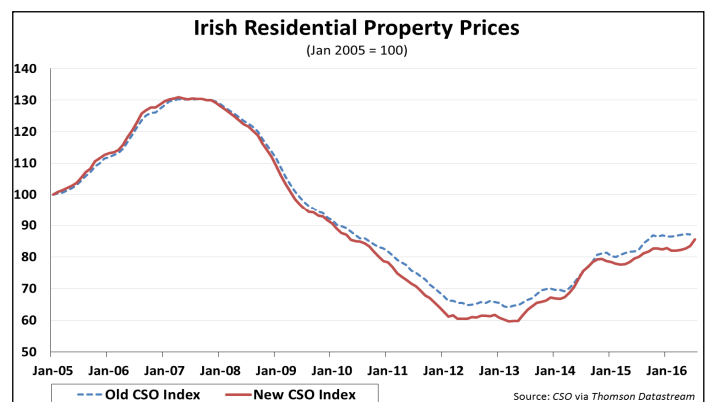
The shortfall in supply is also reflected in the quantity of properties listed for sale and rent. Daft.ie data on houses available for sales show that there were 25,260 properties listed, a fall of 15% compared to June 2015. Meantime, rental stock was down 22% on a year-on-year basis in August.

The amount of new mortgage lending and number of sales transactions are being heavily impacted by the low level of residential supply. In addition, the Central Bank regulations have also had a dampening impact on mortgage activity, which was especially evident in the second half of last year and early part of this year. More recent data for the second quarter suggest that the drag arising from the introduction of strict mortgage rules may be waning. However, the lack of supply is likely to remain a key impediment to both transaction levels and mortgage volumes.

### ...thereby keeping upward pressure on prices and rents

The persistent mismatch between supply and demand has meant that both prices and rents have remained on an upward trajectory. The CSO recently launched a new Residential Property Price Index (RPPI). The new index gives a much more comprehensive view of market activity as its now includes both mortgage and cash purchases—the latter were not included in the old index and represent around 50% of all purchases. The new data set also provides more details on regional house price trends.

At a broad level, the peak to trough decline in the new RPPI was 54% versus 51% in the old index. In terms of the performance since the trough, the new RPPI is up 43% as of July compared to 37% in the original index. Dublin City has lead the recovery, with prices up over 60% from their lows. Nationally, prices are still 35% below their peak level which was reached in April 2007.



Data for recent months show a renewed strengthening of house prices, which rose by 1% in June and 2.5% in July to leave them 6.8% higher on a year-on-year basis. Dublin prices were up 3.8% year-on-year in July, with non-Dublin prices rising 11.3%. Meanwhile, rents continue to rise strongly and were up by 8.9% year-on-year in August. They are now up over 8% above their previous peak per CSO data.

## LATEST DATA

Jan-16 Feb-16 Mar-16 Apr-16 May-16 Jun-16 Jul-16 Aug-16

### RESIDENTIAL CONSTRUCTION ACTIVITY

|                                     |        |        |        |        |        |        |        |        |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Markit/Ulster Bank Construction PMI |        |        |        |        |        |        |        |        |
| - Housing Activity                  | 65.9   | 71.2   | 63.6   | 58.4   | 57.4   | 61.8   | 61.3   | 63.1   |
| Housing Registrations: Month        | 160    | 300    | 803    | 421    | 573    | 297    | 566    | 549    |
| - 3 Month Avg YoY %                 | -17.1  | -15.7  | 60.1   | 63.0   | 66.2   | 11.6   | 23.6   | -17.4  |
| - Cum 12 Mth Total                  | 4,242  | 4,257  | 4,764  | 4,831  | 4,973  | 4,898  | 5,105  | 4,675  |
| Commencements: Month                | 627    | 775    | 647    | 784    | 1,208  | 1,059  | 1,017  | 1,022  |
| - Cum 12 Mth Total                  | 8425   | 8859   | 8816   | 8780   | 9206   | 9553   | 9544   | 9906   |
| - Cum 12 Mth Total YoY %            | 18.4   | 184.8  | 132.1  | 93.4   | 75.3   | 65.6   | 47.8   | 44.6   |
| Completions: Month                  | 920    | 1,192  | 1,032  | 1,149  | 1,294  | 1,055  | 1,110  | 1,415  |
| - Cum 12 Mth Total                  | 12,893 | 13,249 | 13,181 | 13,384 | 13,687 | 13,683 | 13,673 | 14,139 |
| - Cum 12 Mth Total YoY %            | 16.9   | 17.7   | 14.1   | 14.1   | 17.6   | 15.9   | 14.5   | 16.8   |

Construction PMI measure of housing activity remains at a strong level in August, points to further solid growth

Housing registrations have been on a general uptrend this year, though they remain at low levels overall

Commencements have shown solid improvement in recent months. Up 44.6% YoY on a 12mth cumulative basis

Housing completions on course for improved performance in 2016, up 19% YTD

### HOUSING / MORTGAGE MARKET ACTIVITY

|   |        |        |        |        |        |        |        |      |
|---|--------|--------|--------|--------|--------|--------|--------|------|
| RPPR Transactions : Month                       | 2,616  | 3,653  | 3,379  | 3,646  | 3,799  | 3,962  | 4,023  | #N/A |
| - 3 Month Avg YoY %                             | -14.5  | -17.0  | -9.4   | -2.4   | -1.2   | -1.4   | -5.9   | #N/A |
| - 12 Mth Total                                  | 47,813 | 47,835 | 47,570 | 47,555 | 47,698 | 47,407 | 46,820 | #N/A |
| BPFI Mortgage Approvals : Month                 | 1,627  | 1,699  | 1,767  | 2,631  | 2,642  | 2,909  | 2,908  | #N/A |
| - 3 Month Avg YoY %                             | -20.3  | -18.9  | -17.0  | -4.6   | 5.9    | 19.9   | 14.5   | #N/A |
| - 12 Mth Total                                  | 25,840 | 25,446 | 24,985 | 25,546 | 25,841 | 26,388 | 26,638 | #N/A |
| Residential Mortgages (Central Bank of Ireland) |        |        |        |        |        |        |        |      |
| - Amount Outstanding (Adj.) YoY %               | -2.5   | -2.4   | -2.4   | -2.3   | -2.3   | -2.0   | -1.9   | #N/A |

Mortgage approvals have shown a marked improvement in recent months—may suggest some lessening impact of CB mortgage lending rules

Volume of transactions is down, and they remain negative on a YoY basis

Pace of decline in outstanding mortgages continues to slow in July

### HOUSING MARKET PRICES

|                               |     |      |      |     |     |     |      |      |
|-------------------------------|-----|------|------|-----|-----|-----|------|------|
| CSO (Cash & Mortgage) - MoM % | 0.6 | -1.0 | -0.1 | 0.4 | 0.5 | 1.0 | 2.5  | #N/A |
| - YoY %                       | 5.6 | 5.4  | 5.5  | 5.8 | 5.4 | 4.9 | 6.7  | #N/A |
| - Dublin YoY %                | 4.6 | 3.6  | 3.5  | 4.0 | 3.4 | 2.5 | 3.8  | #N/A |
| - Ex Dublin YoY %             | 8.7 | 9.2  | 9.2  | 8.8 | 8.4 | 8.9 | 11.3 | #N/A |

### RPPR Transaction Price (Simple Average)

|                     |         |         |         |         |         |         |         |      |
|---------------------|---------|---------|---------|---------|---------|---------|---------|------|
| - 6 Month Average € | 235,222 | 232,008 | 235,565 | 232,438 | 236,381 | 239,167 | 235,647 | #N/A |
|---------------------|---------|---------|---------|---------|---------|---------|---------|------|

### Daft Asking Prices: MoM%

|         |     |     |     |      |     |     |      |      |
|---------|-----|-----|-----|------|-----|-----|------|------|
| - YoY % | 1.9 | 0.7 | 2.3 | -0.6 | 0.8 | 1.4 | #N/A | #N/A |
|         | 8.2 | 4.5 | 5.5 | 5.3  | 5.5 | 8.1 | #N/A | #N/A |

New CSO house price index shows that inflation is beginning to pick up again—pace of growth in ex-Dublin (11.3%) continues to outpace Dublin (3.8%), in part due to Central Bank regulations

Average property transaction price remained around 235k in the 6 months to July

### RENTS & AFFORDABILITY

|                                 |     |     |     |     |     |     |     |     |
|---------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| RENTS: CSO Private Rents - MoM% | 1.2 | 1.1 | 0.2 | 1.0 | 0.5 | 0.5 | 0.9 | 0.7 |
| - YoY %                         | 9.4 | 9.7 | 9.2 | 9.7 | 9.7 | 9.3 | 9.1 | 8.9 |

### AFFORDABILITY: Couple on Avg Industrial Wage, 90% LTV, 30 Yr Mortgage, AIB Mortgage Rate, Prices: CSO/Perm' TSB

|                                      |      |      |      |      |      |      |      |      |
|--------------------------------------|------|------|------|------|------|------|------|------|
| - Mortgage as % of Disposable Income | 15.7 | 15.4 | 15.5 | 15.7 | 15.9 | 16.1 | 16.0 | #N/A |
|--------------------------------------|------|------|------|------|------|------|------|------|

YoY growth in rents has moderated slightly, but at 8.9% in August, it remains strong—rents 8.4% above prior peak

Affordability remains at quite favourable levels

## QUARTERLY DATA

Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16

### BPFI Mortgage Drawdowns

|                    |       |       |       |       |       |       |       |       |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Purchase Drawdowns | 5,763 | 6,929 | 5,113 | 5,437 | 6,334 | 6,780 | 4,634 | 5,767 |
| YoY %              | 42.3  | 45.5  | 63.6  | 25.4  | 9.9   | -2.2  | -9.4  | 6.1   |
| FTB YoY %          | 41.8  | 49.2  | 67.6  | 29.7  | 9.2   | -6.9  | -11.2 | 4.2   |

Pace of YoY increase in mortgage drawdowns back in positive territory (6.1%) in Q2.

This also points to some abating in the impact from CB regulations

FTB remain the dominant source of mortgage drawdowns at 49% of total

### Mortgage Arrears 90 Days +

#### Principal Residences

|                               |        |        |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of Accounts in Arrears | 84,955 | 78,699 | 74,395 | 70,296 | 65,653 | 61,931 | 59,696 | 57,571 |
| % of Outstanding              | 11.2   | 10.4   | 9.8    | 9.3    | 8.8    | 8.3    | 8.0    | 7.8    |

#### Buy-to-Let

|                               |        |        |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of Accounts in Arrears | 31,619 | 29,224 | 27,492 | 26,071 | 24,809 | 23,344 | 22,516 | 21,962 |
| % of Outstanding              | 22.1   | 20.7   | 19.7   | 19.0   | 18.1   | 17.0   | 16.5   | 16.3   |

The number of mortgages in arrears (both principal residence & BTL) recorded further declines in Q2, but the levels remain high overall

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



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