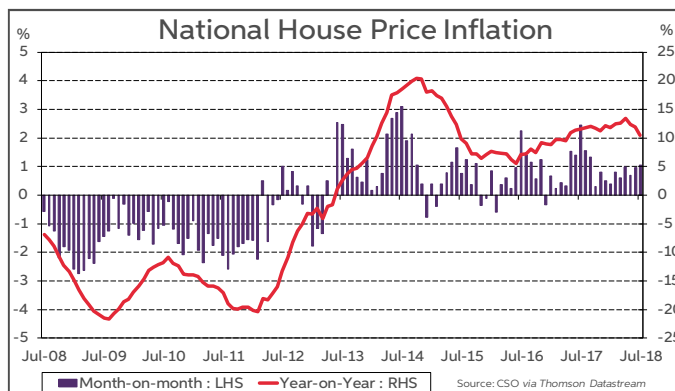


Pace of house price growth in Dublin slows sharply

House price growth nationally moderates somewhat, amid a marked deceleration in Dublin

The latest CSO house price data show that on a national basis, the rate of growth remained above 10% on a year-on-year basis for the fifteenth consecutive month, registering a 10.4% pace of increase in July. Although, this does represent a slower rate of growth compared to earlier in the year, when prices rose by between 12-13%. Prices are now 79% off their low point (March 2013). Despite the sustained uptrend, prices are still around 20% below their pre-crisis peak.

Looking at the geographic breakdown, non-Dublin price growth continues to outpace the Capital. This trend has been in evidence since May 2015. In July, prices outside Dublin rose by 13.7% on an annual basis. In contrast, Dublin prices were up by 7.2% in July versus year earlier levels. The pace of increase in Dublin has slowed markedly over the past three months, having stood up at 13% in April.



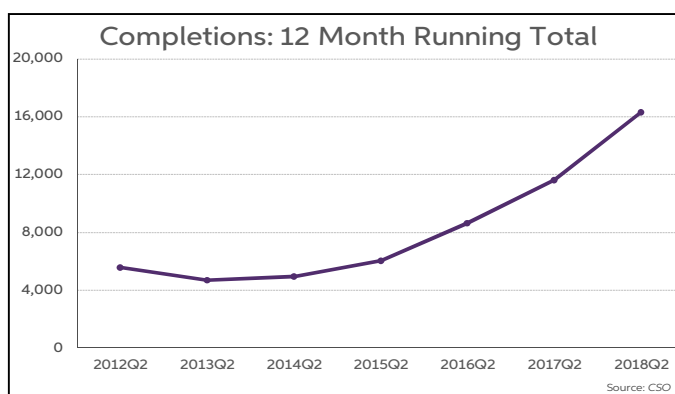
Delving a little deeper into the detail of the Dublin housing market shows that there has been a significant deceleration in house price rises in most areas of the Capital, especially 'South Dublin'. At the same time, Dublin apartment prices have actually experienced an acceleration in inflation. It would appear then, that the Central Bank mortgage rules are having an impact on house prices at the upper end of the market in Dublin.

In a related impact, there are signs of slowing mortgage activity. In terms of mortgage approvals, the number has stagnated just below 37,000 on a 12-month cumulative basis. Meanwhile, data for the second quarter show growth in the number of drawdowns slowed to 9.2% y/y. This compares to an average growth rate of around 19% in 2017. Mortgage lending, however, continued to grow strongly in H1 2018, at 23% y/y, though this is lower than the 27% rise recorded in 2017. It would seem that the Central Bank mortgage rules are acting as a headwind to lending activity. These rules make it more difficult to get sufficient mortgage finance given the relatively restrictive loan-to-income ratio of 3.5 times. This is likely to be especially the case in the Dublin market.

Continued shortfall in supply means upward pressure on prices likely to persist

The key underlying characteristic of the Irish residential property market remains the persistent shortfall in supply. The CSO's 'new dwelling completions' figures show a 12-month running total of 16,314 new units in the second quarter. Comparing the first half of 2018 to the same period last year, new supply is growing at a rate of 31%, having increased by 46% in 2017 and by 37% in 2016. At its current run rate, new dwellings are on course to total close to 19,000 units this year.

In terms of forward looking indicators, data on housing starts (measured using commencement notices) are also consistent with on-going improvement in house building activity. Commencements were up 17% in July on a year-to-date basis, with the 12-month running total at around 19,400 units. However, registration data, which are regarded as an indicator of developer activity, have actually fallen back slightly compared to year earlier levels. Meanwhile, planning permissions continued to rise strongly in the first half of the year. Elsewhere, the housing component of the construction PMI remained at a very strong level in August.



While most supply metrics offer encouragement, the strong growth rates are off a low base and remain well below the estimated 35,000 units that are required annually to meet projected housing demand. Even if the current improvement in supply is maintained, it is likely to be 2021, at the earliest, before new house building reaches the level of estimated yearly demand. When the pent-up demand that has been accumulating in recent years is factored in, it is likely to be well into the next decade before supply and demand levels are more in sync in the Irish residential market. Given the improving economy and labour market, this suggests that upward pressure on house prices is likely to persist.

MONTHLY DATA	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	
RESIDENTIAL CONSTRUCTION ACTIVITY									<p>Housing PMI fell back slightly in August but remains at a very strong level of 60.4 - indicative of rising activity in the sector</p> <p>Growth in registrations has remained soft — falling 3% YoY in the year to August</p> <p>YoY growth in commencements has slowed, up 17.8% YTD after rising by 46.9% in 2017</p>
Markit/Ulster Bank Construction PMI									
- Housing Activity	60.4	61.0	60.4	62.0	65.2	60.4	63.9	60.4	
Housing Registrations: Month	391	1,035	587	896	869	1,001	986	698	
- 3 Month Avg YoY %	1.6	0.5	-8.9	-3.0	-2.6	-7.8	-3.9	-6.8	
- Cum 12 Mth Total	9,464	9,521	9,269	9,385	9,458	9,036	9,269	9,263	
Commencements: Month	1,251	1,896	1,227	1,926	2,114	2,087	1,930	#N/A	
- Cum 12 Mth Total	17913	18544	18086	18392	18453	18805	19451	#N/A	
- 3 Month Avg YoY %	24.2	29.5	13.3	10.5	-1.7	13.3	20.9	#N/A	
HOUSING / MORTGAGE MARKET ACTIVITY									<p>Mortgage approvals have stagnated. This may be partly due to Central Bank rules</p> <p>Growth in transactions continues to decelerate, with some signs that the market may be levelling off</p> <p>Amount of mortgage debt outstanding continues to edge down, -1.5% YoY as of July</p>
BPFI Mortgage Approvals : Month	2,586	2,523	2,737	3,031	3,595	3,512	3,404	#N/A	
- 3 Month Avg YoY %	3.7	2.2	-3.9	-3.6	-1.9	0.8	-0.9	#N/A	
- 12 Mth Total	37,026	36,981	36,551	36,712	36,798	36,628	36,617	#N/A	
RPPR Transactions : Month	3,296	3,953	4,198	3,896	4,599	4,509	4,915	#N/A	
- 3 Month Avg YoY %	23.5	21.2	4.6	4.2	4.1	3.3	2.1	#N/A	
- 12 Mth Total	54,342	54,709	54,620	55,303	55,702	55,535	55,591	#N/A	
Residential Mortgages (Central Bank of Ireland)									
- Amount Outstanding (Adj.) YoY %	-1.9	-1.9	-1.8	-1.8	-1.8	-1.6	-1.5	#N/A	
HOUSING MARKET PRICES									<p>CSO house price growth looks to have peaked, decreasing to 10.4% in the year to July. YoY ex-Dublin price inflation (13.7%) is outpacing the capital (7.2%)</p> <p>Average property transaction price has risen sharply in 6 months to July.</p>
CSO Price Index - MoM %	0.4	0.8	0.6	1.0	0.7	1.0	1.0	#N/A	
- YoY %	11.8	12.5	12.6	13.3	12.4	11.9	10.4	#N/A	
- Dublin YoY %	11.7	12.5	11.7	13.0	10.9	8.9	7.2	#N/A	
- Ex Dublin YoY %	12.1	12.3	13.6	13.8	14.0	15.2	13.7	#N/A	
RPPR Transaction Price (Simple Average)									
- 6 Month Average €	273,514	275,347	275,935	278,420	278,514	291,511	301,798	#N/A	
Daft List Prices: YoY %	6.9	7.5	7.5	5.5	5.1	6.2	#N/A	#N/A	
RENTS & AFFORDABILITY									<p>CSO rent inflation still in a 6-7% range. Rents now 23.6% above their previous peak</p> <p>Affordability dis-improving on rising house prices</p>
RENTS: CSO Private Rents - MoM %	0.2	1.1	0.5	0.6	0.6	0.0	0.3	1.0	
- YoY %	6.3	6.2	6.4	6.5	7.0	6.1	6.0	6.2	
AFFORDABILITY: Couple on Avg Ind' Wage, 90% LTV, 30 Yr Mort, AIB Mort Rate, Prices: CSO/Perm' TSB									
- Mort as % of Disposable Income	17.2	17.2	17.4	17.7	17.9	18.1	18.2	#N/A	

QUARTERLY DATA	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	
CSO Dwelling Completions									<p>CSO data show 16,300 new completions in the year to Q2'18, supply continues to trail demand (estimated at 30-35k)</p> <p>Planning permissions now rising strongly on a 12mth basis, indicating a rapid pace of growth in the construction sector</p>
- YoY %	23.5	35.5	41.2	37.7	50.7	50.7	26.9	34.0	
- Cum 12 Mth Total	9,119	9,915	10,726	11,629	12,903	14,446	15,193	16,314	
CSO Planning Permissions	5,814	4,329	4,650	4,453	4,739	6,934	8,302	6,777	
- YoY %	115.0	7.8	50.4	41.8	-18.5	60.2	78.5	52.2	
- Cum 12 Mth Total	16,063	16,375	17,934	19,246	18,171	20,776	24,428	26,752	
BPFI Mortgage Drawdowns									<p>The rate of YoY growth in mortgage drawdowns continued to slow in Q2 (9.2% from 9.6%) as the lack of supply and Central Bank lending rules remain issues</p> <p>Mortgage lending continued to grow strongly in first half of 2018 in value terms</p>
Purchase Drawdowns (Volume)	6,894	7,596	5,843	6,761	8,082	8,709	6,402	7,381	
YoY % (Volume)	8.8	12.0	26.1	17.2	17.2	14.7	9.6	9.2	
FTB YoY % (Volume)	11.0	12.7	27.3	20.7	23.6	23.9	15.5	14.3	
Total Drawdowns (Value, € Mln)	1,559	1,814	1,391	1,649	2,016	2,231	1,703	2,014	
- YoY % (Value)	16.7	26.1	39.2	28.2	29.3	23.0	22.4	22.1	
- Cum 12mth Drawdowns (Value, € Mln)	5282	5658	6050	6413	6870	7287	7599	7964	

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



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