

Mr. Philip Lane
Governor of the Central Bank
Central Bank of Ireland
Dame Street
Dublin 2

Cc. Mr. Gabriel Fagan

31st August 2016

Re: Review of Macroprudential Policy for Residential Mortgage Lending

Dear Governor,

I am writing to you as the Chief Executive Officer of Cairn Homes plc ("Cairn" or the "Company") to provide you with our observations on the Central Bank of Ireland's ("CBI") macroprudential policy for residential mortgage lending (the "Macroprudential Rules") and our recommendations for changes to the policy in light of its impact on the construction and sale of affordable homes in Ireland and its broader economic impacts.

Cairn is an Irish homebuilder with an experienced management team who have an extensive track record in delivering high quality homes throughout Ireland over the past 30 years. Following our successful initial public offering ("IPO") in June 2015, Cairn has experienced a transformative year where we have:

- raised further equity from our international institutional shareholders with our capital structure now secure (€669m equity raised in total and a €200m residential development finance line in place with AIB and Ulster Bank);
- concluded a number of significant strategic acquisitions which have delivered a strong and long-term pipeline of very well located residential development land comprising in excess of 11,500 sites; and
- commenced construction on 5 residential development sites comprising 1,150 units.

We continue to scale our operations towards our stated objective of delivering up to 1,200 new homes to the market annually by 2019. We view a sustainable and functioning mortgage environment as being a critical factor in the housing sector's long-term viability.

From our vantage point, it is evident that the inter-relationship between supply, construction and the provision of credit needs to be holistically assessed. This includes, but is not limited to, the Macroprudential Rules, specifically in respect of what would be regarded as the starter home and affordable housing end of the market as it is this segment of the market which has been hit hardest. We classify an affordable home as one where a 90% LTV mortgage consumes less than 40% of the purchaser's net income.

The rental crisis is an unwelcome by-product of the housing crisis. Rental inflation in affordable housing (1, 2 and 3 bedroom apartments and houses) continues to rise at a higher pace than that of larger houses, particularly in Dublin, as very few affordable housing units are being built. Demand for this type of housing continues to significantly exceed supply, thus consistently driving up rents. The inability of the homebuilding sector to generate production economies of scale in affordable housing schemes suggests that this situation may deteriorate further from a consumer's perspective. Homebuilders today are almost entirely orientating production towards smaller schemes

in more affluent locations where there is more predictable end-user demand from consumers who are not, in the main, materially impacted by the Macroprudential Rules.

Our submission recommends:

1. increasing the Loan-to-Income ("LTI") limit to 4.0 times for all purchasers and linked to a Net Disposable Income ("NDI") parameter in terms of total affordability whereby cumulative loan repayments (mortgage plus personal loans) cannot exceed 40% of the purchasers net monthly income;
2. increasing the value of properties where first time buyers can obtain 90% LTV to €300,000 (from the current level of €220,000) in the Greater Dublin Area (defined as Dublin, Wicklow, Kildare and Meath) and 80% thereafter. A first time buyer would be able to secure a higher mortgage amount (€8,000 increase to €270,000) for a new home costing €300,000 and monthly repayments would increase by c. €41, representing a marginal increase, subject to affordability;
3. Permitted exemptions to the LTV and LTI caps should only be offered to first time buyers – it would appear that a significant portion of the exemptions are being applied to more affluent consumers; and
4. Quarterly publication of all exemption statistics (across all consumer groups) in a timely manner, as is common practice in other international jurisdictions.

It is our belief that moderately flexing the rules as proposed above would provide an immediate beneficial impact to recalibrate the balance between sustainable development and delivery of affordable houses to a market where willing buyers would be better placed to purchase. The impact of the current regulations since their introduction in early 2015 has been dramatic, and retaining the flexibility to return to the current regulatory limits in the event market dynamics change in the opposite direction will ensure that the CBI retains control over adverse cyclical movements in house price inflation. Cairn does not believe the moderate flexing suggested above materially alters the risk profile of either consumers or domestic banks.

There are three main component parts to the cost of a new house – land, taxes and construction costs. Homebuilding is similar to other manufacturing industries where volume generates production costs economies of scale. Current constraints on the provision of consumer credit by mortgage providers mean that private homebuilders are realistically unable to invest in scaled and efficient development in the absence of mortgage backed end-user demand, while funders are also unwilling to provide competitive development funding i.e. the risk is priced in.

With social housing lists at record levels (over 140,000 people), an effective way of addressing this issue with the onsite provision of 10% social housing on large scale residential developments is effectively lost. A perhaps unforeseen consequence of the existing rules is that construction is now oriented away from the areas where this social housing issue could be addressed - larger scale schemes in affordable areas.

As an open economy viewed by many as the gateway to Europe, the success of the IDA in attracting significant levels of foreign direct investment ("FDI") in recent years has been identified as a key driver in Ireland's return to economic prosperity. The housing crisis and consequential rental crisis will negatively impact on our ability to continue to attract the same levels of FDI witnessed in recent years, and in particular our post-Brexit competitiveness as other European destinations like Frankfurt, Paris and Amsterdam have proper functioning housing and mortgage markets.

Cairn fully understands that the CBI can only deal with matters which fall within its domain. By moderately flexing the Macroprudential Rules, the CBI will positively contribute towards addressing both the housing crisis and the

rental crisis as significantly more mortgage backed demand for starter homes and affordable housing would exist, thereby reviving the construction of new homes. Putting the sole responsibility on the government to resolve the housing crisis through the Action Plan on Housing, will in our view, be a much less effective response than seeking a co-ordinated approach by all relevant stakeholders and mortgage providers who play a very important role in the housing chain. There are interventions needed by all involved and it is our desire to assist in this process at every level.

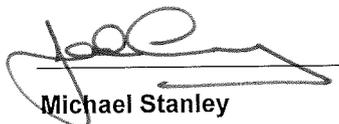
Our submission contains evidence based facts to provide you with an insight into our operations and relevant, on the ground observations which form the basis of our recommendations.

I would also like to reference a telephone conversation and subsequent email exchange between Mr. Colin O'Donnell of Hume Brophy and Mr Ewan Kelly of the CBI Public Contacts Unit on 30th August 2016. Cairn does not wish this document to be made publically available through publication online or any public CBI Feedback Statement. If any disclosure is required, we would respectfully request the opportunity to instruct on redaction in advance of publication.

We recently announced our 2016 interim results for the 6 months to 30 June 2016. Our interim results presentation is available on our website (<http://www.cairnhomes.com/reports-and-presentations>) and we attach a copy for your convenience.

We would welcome an opportunity to meet with you to outline our position in full at your convenience.

Yours Sincerely,

Michael Stanley
Chief Executive Officer
Cairn Homes plc