

ANNUAL REVIEW 2014 OUTLOOK 2015

Residential Property Market

DOUGLAS NEWMAN GOOD

DNG

Outlook 2015



KEITH LOWE
CHIEF EXECUTIVE DNG

BEFORE LOOKING FORWARD AT 2015 A BETTER STARTING POINT IS TO BRIEFLY REVIEW WHAT HAS HAPPENED IN THE RECENT PAST AS IT IS THIS THAT WILL SHAPE THE MARKET IN THE YEAR AHEAD.

The residential property market in Dublin performed better last year than it has in any of the preceding seven years since the property market took a turn for the worst in Q3, of 2006 onwards. It was the second half of 2012 before an upturn was reached and recovery has continued since then.

As is normal, recovery started in the capital and it has rippled its way across the suburbs and out to the environs of the city. Now improvements are also notable in the majority of the satellite towns surrounding Dublin. Large urban areas with high employment levels outside of Dublin such as Galway, Cork, Sligo and Kilkenny have also shown signs of improvement and one will soon see the ripple effect of these improvements in the large urban centres spreading outwards. However, there are some areas of the country that have still not recovered due to oversupply and local economic factors.

Following the strong price growth more or less over a ten year period the market practically stalled in 2006. There was no building as developers were, in the main, insolvent, house and site prices collapsed,

mortgages were extremely difficult to secure, schemes were left half built and housing needs were ignored. The majority of people believed articles in the media which referred to multiple tens of thousands of vacant houses all over the country and hence assumed that there was no need for construction. In reality, the real number of vacant property was vastly overstated and as the population increased, any completed vacant stock in Dublin and other large cities was either let or sold. There has also been a natural gravitation of the population towards Dublin and other key employment areas.

Add to this lack of building, the fact that NAMA and many financial institutions are now selling off swathes of loans and properties in large portfolios. This is exacerbating the lack of supply of properties in most urban areas. NAMA, as an example, are selling full apartment schemes in singular lots rather than individually which was what they used to do. A number of financial institutions have recently bundled hundreds of properties into single portfolios to sell unencumbered by their loans. Again, up to recently, these houses and apartments would have been made available to individual first time buyers and people trading up, down-sizers and single investors through estate agents up and down the country. Time will tell whether this wholesale form of selling property to international hedge funds and investment vehicles has been a wise move for all concerned or whether it would have been better for the banks to sell these properties over a period of time to reap the rewards of a recovering market.

As a result of little or no building and wholesale portfolio sales to foreign investors plus a growing population, both rents and house prices have increased strongly over 2014.

Unfortunately the prospect for any significant level of new home building in Dublin is still somewhat bleak as there is essentially no bank funding available for construction and many leading builders have now become reliant on high interest funding from investment funds. Last year there were around 11,000 new homes completed in the country but most of these units are one-off houses or part built schemes which have been completed out. The situation is predicted to be similar this year.

It is clear that whilst the property market in Ireland is showing signs of recovery, it is still not operating normally. Transactions per population were estimated by DNG Research at 2.9% in Q4 2014 (latest data available). Comparing this to Northern Ireland where the figure is at 3.5% and England, Scotland and Wales Scotland which are 4.4%-5.1% for the same period, it is clear that the market in Ireland is still not operating normally.

Property prices rose by an average of 1.9% per month last year but the main burst of house price inflation was in the first 6 months of the year. The reason for this sharp rise, which was inevitable, was that property prices had fallen too far and too quickly and had essentially overshot. It is also fair to say that the advent of wholesaling mass property portfolios and apartment buildings sustained this price inflation.

Taking everything into account it is likely that this level of price growth will moderate to in or around 5%-10% this year with some areas of the market performing better than others. It should be noted that property prices still remain on average 49% below peak in the capital.

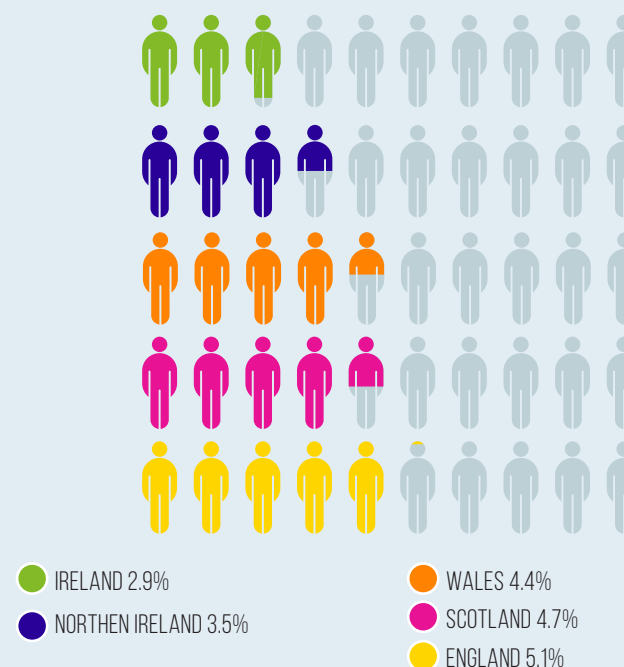
The number of house sales in Dublin rose by 34% in the first 9 months of 2014 according to the Property Price Register (final 2014 figures not available until February 2015). However, when you look behind the headline figures one can now see that this level of increased transaction levels includes a number of very large asset sales such as multi hundred apartment block sales and bank portfolio sales. This means that recovery has been probably somewhat overstated. We estimate that transaction levels will rise by around 15% this year for normal house sales as the market continues its current recovery.

Finally, the Central Bank of Ireland are currently considering mortgage restrictions both in terms of capping multiples of salary to 3.5 and mortgages to 80% of their value for homes and 60% for buy to let property. It is difficult to work out exactly what effect this will have on the market until clarity on the new rules is achieved.

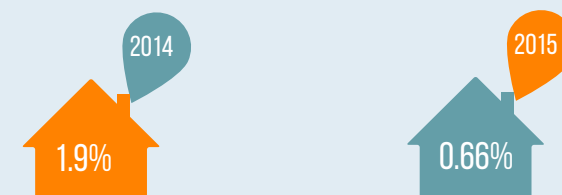
AT A GLANCE

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TRANSACTIONS PER POPULATION IN Q4 2014 - INDICATING THAT THE MARKET IN IRELAND IS STILL NOT OPERATING NORMALLY.



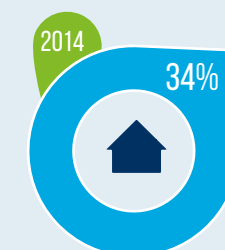
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PROPERTY PRICES IN DUBLIN ROSE BY AN AVERAGE OF 1.9% PER MONTH IN 2014.

EXPECTED AVERAGE PROPERTY PRICE RISE IN DUBLIN OF 0.66% PER MONTH IN 2015.

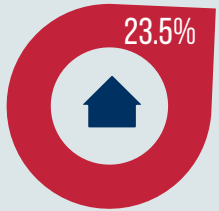
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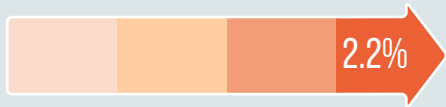
HOUSE SALES IN DUBLIN ROSE BY 34% IN THE FIRST NINE MONTHS OF 2014.

DNG House Price Gauge Q4 2014

KEY FINDINGS



DUBLIN RESIDENTIAL PROPERTY PRICES INCREASE BY **23.5%** ON AVERAGE IN 2014.



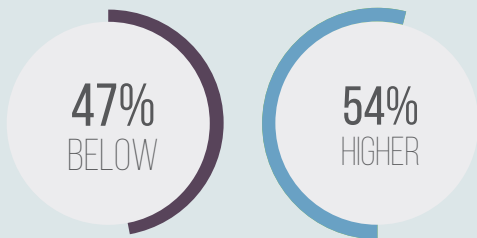
PRICE INFLATION EASED IN FINAL QUARTER OF YEAR, RECORDED AT **2.2%**



THE AVERAGE PRICE OF A RESIDENTIAL PROPERTY IN THE CAPITAL NOW STANDS AT **€373,981**.



SUPPLY CONSTRAINTS REMAIN THE PRIMARY DRIVER OF PRICE INFLATION IN THE CAPITAL.



PRICES NOW **47%** BELOW THEIR PEAK VALUE BUT **54%** HIGHER THAN AT THE BOTTOM OF THE MARKET.

HEADLINE RESULTS

AVERAGE DUBLIN SECOND HAND PRICE

€373,981

PERCENTAGE CHANGE Q4 2014

2.2%

ANNUAL PERCENTAGE CHANGE

23.5%

% CHANGE SINCE LOW (Q2 2012)

54.4%

% CHANGE FROM PEAK (Q3 2006)

-47.8%

QUARTERLY RESULTS

The latest results from the DNG House Price Gauge (HPG) recorded a further increase in values in the capital in the final quarter of 2014, with prices rising by 2.2% on average.

As shown in the graph below, 2014 was characterised by rising prices in Dublin throughout the year, however the trend for the year was in contrast to 2013, as the rate of increase recorded by the HPG eased in each successive quarter of the year. Indeed, the latest quarterly results were in stark contrast to the first quarter of 2014, when prices increased by 8.9%, and the rate of increase in the final three months of the year was less than half the rate recorded in the third quarter (4.8%).

The latest results mean that the average price of a resale property in Dublin has now risen for the tenth consecutive quarter and the average price of a resale property in the capital now stands at €373,981 up from €365,857 at the end of September, and €63,000 higher than at the end of 2013 when the average price stood at €302,846.

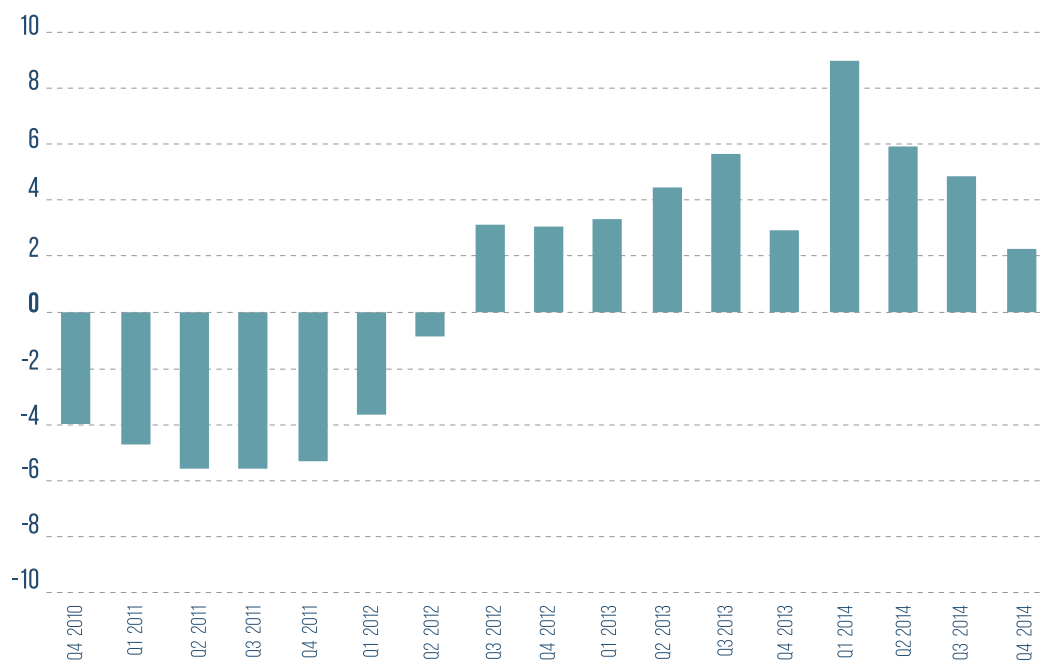


FIGURE 1: QUARTERLY PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES

ANNUAL PERCENTAGE CHANGE

Figure 2 below shows the annual rate of property price inflation as recorded by the HPG over the previous twelve months. In line with the easing rate of price growth seen in the quarterly figures, the annual rate of increase recorded by the HPG for the full year to the end of December 2014 was 23.5% down from 24.2% in the year to the end of September 2014.

Judging by the recent HPG results it would appear that the annual rate of property price inflation peaked at 25.2% in the twelve months to the end of June 2014 and the latest emerging trend of more sustainable annual growth in prices is to be welcomed. However, it must be noted that the full year results for 2014 of 23.5% average price growth, is higher than the figure recorded for 2013 as a whole (17.8%).

The latest HPG results mean that residential property prices in the capital are now 47.8% below their peak levels, as the market continues to recover, particularly in the capital and since the floor of the market in 2012, prices have now risen by 54% since that low point in the cycle.

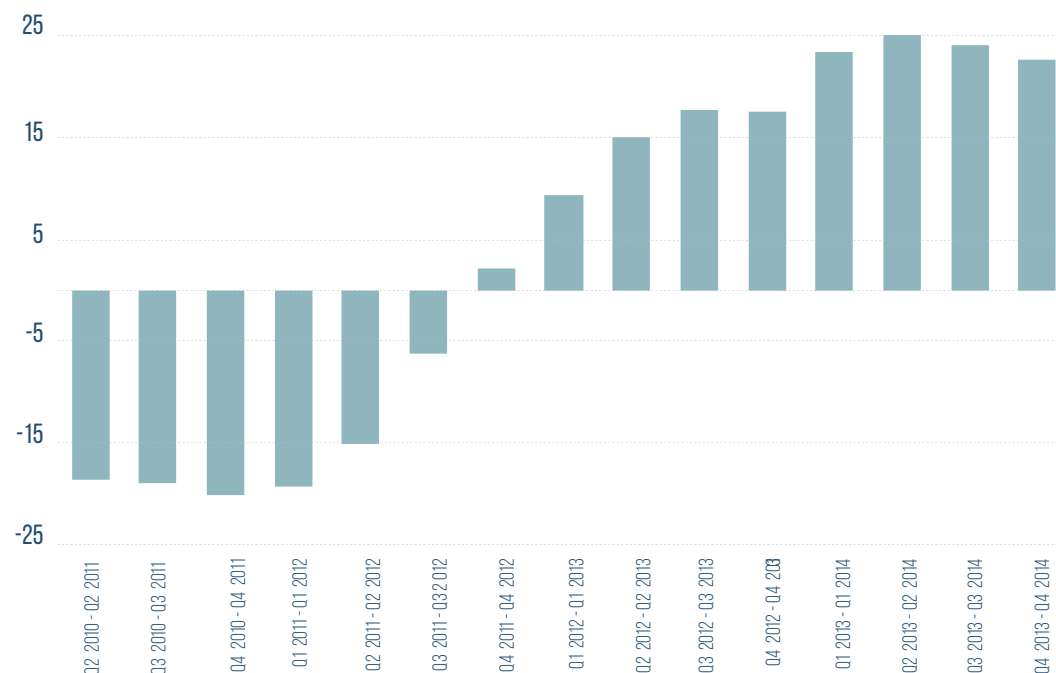


FIGURE 2: ANNUAL PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES

DNG House Price Gauge Q4 2014

PRICE CHANGES BY LOCATION

As part of the series, the DNG HPG examines price movements by geographical location within Dublin and its environs as shown in Table 1.

The average price of a resale property continued to rise across all areas of the capital in the final three months of the year with prices rising by around the average of 2% in south and west Dublin, however the northside saw price inflation in excess of this at 2.9% in the fourth quarter. All areas of the city saw annual price inflation in excess of the overall average for the capital during 2014 as a whole. Of particular note is the 28.9% increase in values seen in west Dublin over the course of 2014, where prices rose at a faster rate in percentage terms than the rest of the capital. Prices in west Dublin are on average at the lower end of the price spectrum and strong demand at this level from first time buyers contributed better performance in this area.

Overall prices in all areas of the city remain approximately 50% below their peak levels and 50% above the lowest point in the market as recorded by the HPG

	Q4 2014	ANNUAL % CHANGE	FROM PEAK (Q3 06)	FROM TROUGH (Q2 2012)
UP TO €250,000	3.1%	39.7%	-48.9%	65.4%
€251,000 TO €350,001	2.3%	26.1%	-39.4%	55.2%
€351,000 TO €500,000	1.9%	21.8%	-40.3%	55.0%
OVER €500,000	2.0%	17.4%	-55.7%	49.4%

TABLE 2: PRICE CHANGES BY PRICE BRACKET

	Q4 2014	ANNUAL % CHANGE	FROM PEAK (Q3 06)	FROM TROUGH (Q2 2012)
SOUTHSIDE	2.0%	21.1%	-51.7%	52.3%
NORTHSIDE	2.9%	24.4%	-44.9%	55.0%
WESTSIDE	1.8%	28.9%	-53.7%	49.4%

TABLE 1: PRICE CHANGES BY LOCATION

PRICE CHANGES BY PRICE BRACKET

Table 2 shows prices at all levels in the market continued to rise throughout 2014. Only the higher end of the market recorded price increases lower than the overall HPG average in 2014, with prices in the range above €500,000 rising by 17.4% on average. In contrast, property price inflation at the entry level to the market (values less than €250,000) saw a rate of increase of almost 40%, double the rate of increase seen at the top end of the market, and the market as a whole in 2014.

All price brackets saw price increases in line with the overall HPG average in quarter four, with the exception again of the entry level to the market where prices rose by 3.1% on average. Prices at this level of the market are now 65% higher than at the market low point but remain approximately 50% below their peak.

Prices at the higher end of the market remain 55% below their peak values, indicating a slightly slower rate of recovery than seen at other levels, and significantly prices in the range €251,000 - €350,000 have recovered the best since the peak of the market with values now standing only 40% below peak levels.

DNG HPG & CSO RPPI DUBLIN

A comparison of the DNG House Price Gauge (HPG) and the Residential Property Price Index (RPPI), compiled by the Central Statistics Office reveals a very similar trend in the pattern of quarterly residential property price changes as shown opposite.

With the exception of quarter one, where the CSO RPPI recorded a decline in prices in Dublin, the two measurements of property price movements have followed a very similar trend over the course of the year. Of note is the fact that the CSO RPPI has recorded greater quarterly increases than the DNG HPG although the trend of both measurements remains broadly similar in that both show an easing of the pace of price inflation as the year progressed.

Figure 4 opposite maps the annual change in Dublin residential property prices from 2006 through to 2014 and again the trend is very similar in both sets of statistics. Whilst the full year data for 2014 is not yet available for the CSO RPPI, it is clear that the rate of annual change in prices will be broadly similar. The latest available data from the CSO for October 2014 shows that the rate of residential property price rises in Dublin stands at 22% from the period January to October 2014.

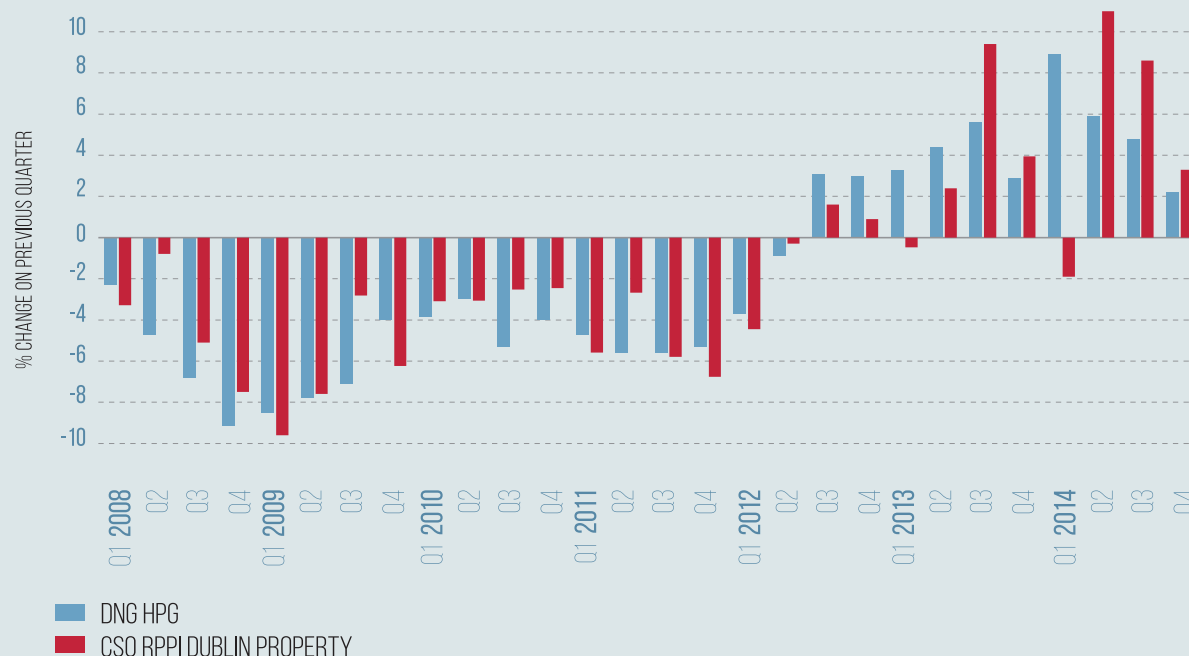


FIGURE 3: DNG HPG & CSO RESIDENTIAL PROPERTY PRICE INDEX FOR DUBLIN PROPERTY

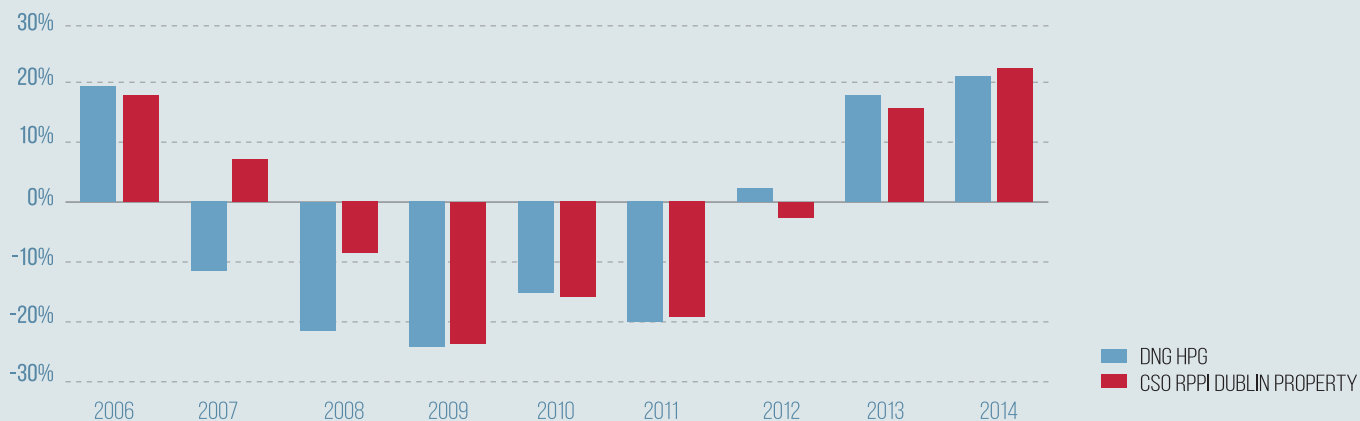


FIGURE 4: ANNUAL PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES

Outlook for the housing section for 2015



HUBERT FITZPATRICK
DIRECTOR CONSTRUCTION INDUSTRY FEDERATION

AS ALL THE FORECASTED REQUIREMENTS FOR NEW HOUSING OUTPUT PREDICT SUSTAINABLE DEMAND FOR UP TO 25,000 UNITS ANNUALLY, ONE HAS TO ASK THE QUESTION 'WHY SUSTAINABLE DEMAND FOR NEW HOUSING IS NOT BEING MET BY THE LEVEL OF NEW BUILDING ACTIVITY TAKING PLACE?

In particular, the Housing Agency published its report in April 2014 predicting that the requirement for new housing in urban settlements nationally ranged from 9,526 units in 2014 to 20,853 units in 2018. Within the Dublin region, the figures show that there's an immediate supply requirement of 5,663 units in 2014 which rises to an annual requirement of 8,970 units in 2018. However, in 2014, the likely level of new home completions nationally will be less than 11,000 units while that in Dublin alone maybe closer to 3,500 units.

So, why has the industry not responded to this sustainable demand for new homes that now exists? There are a number of factors curtailing the supply of new homes which include the following:

- Even though house prices have risen in the metropolitan areas and are now showing signs of stabilisation in more rural parts of the country, new house prices in many locations are still less than replacement cost
- Many planning permissions must be revised to take account of the type of housing unit that is now sought in the market place compared to that which prevailed at the time planning permission may have been granted a number of years ago
- Many major greenfield sites require major infrastructural investment which will not have a pay-back period within the next 2 to 3 years in accordance with banking sector requirements
- Builders can access development finance of up to 60% while the remaining funds must be raised from equity and secondary debt providers, generally at a rate of interest which may not be sustainable in the current market place.

Central Bank Proposals for LTVs and LTIs

While the house building industry in key metropolitan areas is hopeful that the industry can return to a more normalised function, there are concerns in relation to the availability of mortgages for future purchasers of the new homes. Central Bank proposals to restrict mortgage availability to 80% loan to value or 3.5 times loan to income ratio are concerns to new home builders. These builders may not be able to secure the development finance to fund development that might be perceived as speculative in the uncertainty that borrowers may not have the capacity to have the required deposit to complete the sale.

Housing Market and Development Contribution Rates

The housing market, due to the collapse over the past 6 years, is broken and needs repair. House prices today are still circa 40% below peak levels which last pertained in 2007. While the industry is not advocating a return of the prices that pertained in 2007, it is important that the overall cost base reflect the newly established sales prices of residential units in any area. While development contribution schemes have been modified in some local authority areas reducing the rates of contribution by 25% to 26%, there are other local authorities who have yet to reduce their development contribution rates. These rates, together with high levels of supplementary development contribution rates that apply, continue to make developments uneconomic in many parts of the county. While this situation prevails, no new houses will be built in these areas until such time as projects become bankable and enable house builders to undertake new housing construction programmes.

All the inhibitors to recovery of the house building sector to the required levels have been identified in the Governments Construction 2020 Strategy. A number of Government Departments are working on initiatives to address the funding problem and the cost problem. However, one must be mindful that as long as the house building sector is not building houses that meet the sustainable demand, the social housing lists will continue to grow thereby creating further difficulties for local housing authorities and the Department of the Environment Community and Local Government.

Part V – Social and Affordable Housing Obligations

The Department of the Environment, Community and Local Government has published its proposals for the review of Part V (social housing obligations of developers). Industry supported the suspension of the Part V process and its replacement with a 1% levy on the sales of all new and second hand homes. This could have been a more sustainable revenue source for Government in meeting its social housing obligations and ensuring that the required level of social housing activity would take place. The

Departments proposal is to reduce Part V requirement from 20% to 10% of the development land in housing developments of greater than nine housing units. This in own right is not sufficient to address the funding deficit that exists for the building of new houses and more action needs is required in this particular area.

Building Control (Amendment) Regulations 2014

During 2014, the new Building Control (Amendment) Regulations 2014 were introduced by the Minister for the Environment, Community and Local Government. Under these regulations, a mandatory level of oversight is now required prior to completion and occupation of any new dwelling house commenced after 1 march 2014. The industry has proactively worked with the Department in the rollout of these regulations and the industry will pay its part in cooperating with inspections and certification as required under the regulations.

Planning and Development (No. 2) Bill 2014

The publication by the Department of the Environment Community and Local Government of the Planning and Development (No. 2) Bill 2014 which is to deal with, inter alia, the streamlining of various planning processes so as to remove a number of planning impediments that may exist to recovery of development activity is awaited.

The Construction Industry Federation continues to work with the relevant Government Departments, the banking sector and others in the identification of constraints impacting on the sector so that adequate solutions can be presented to ensure that the industry recovers for delivery of the sustainable level of housing required in the economy.

It is not in anyone's interest that an unsustainable level of house price inflation should apply which makes housing more unaffordable to first time buyers. The country must maintain its competitiveness in attracting foreign direct investment and in attracting new employees who can secure accommodation at a reasonable price in their area of choice.

The house building industry wants to get back on its feet, house builders want to build and any impediments to recovery of house building activity must be addressed.

The industry looks forward to working pro-actively with various Government Departments and agencies during 2015 ensuring that the various bottlenecks can be addressed moving forward.

DNG New Homes



GINA KENNEDY
MANAGER DNG

ELDER HEATH, KILTIPPER ROAD, DUBLIN 24
A SELECTION OF 3 & 4 BED SEMI-DETACHED HOUSES.

LAUNCHING EARLY SPRING 2015,



WHILST THERE HAS BEEN INCREASED ACTIVITY IN THE NEW HOMES MARKET, IT HAS BEEN VERY LIMITED WITH THE MAJORITY OF NEW HOMES LAUNCHES HAPPENING IN THE LATTER PART OF THE 2014.

Of the new homes developments released we saw a limited number of apartment schemes and most of these were part-build schemes which have recently been completed.

The majority of the new homes schemes launched were in the middle to upper end of the market for people trading up to larger family homes in residential areas such as Dun Laoghaire, Blackrock, Foxrock, Rathfarnham, Castleknock, Sutton and Malahide.

There has only been a handful of new homes released for the first time buyer market in Dublin, areas such as Swords, Clongriffin, Saggart, Ashbourne, Stepside and a number along Dublin's commuter belt mainly in Kildare.

We have had a number of pre-launches in Elder Heath, Kiltipper and Beechpark, Leixlip within the last few months which sold out before officially going to the market, demonstrating the strong demand for new homes in the first time buyer market.

Last year it is estimated there were c. 11,000 new homes built in the country. This is up from 2013 in which only c. 7,500 homes were completed. However the majority of these houses are one-off houses or part-built schemes being completed.

We set out opposite a number of the developments being handled by the DNG Advisory Division.

MAXWELL SQUARE, MAXWELL ROAD,
RATHMINES, DUBLIN 6

A SELECTION OF 3 & 4 BED TERRACED &
SEMI-DETACHED HOUSES.

LAUNCHING EARLY SPRING 2015,



**SION HILL, SION HILL ROAD,
DRUMCONDRA, DUBLIN 9**
A SELECTION OF 3 & 4 BED TERRACED &
SEMI-DETACHED HOUSES.
LAUNCHING SPRING 2015,



THE CROFTON, GEORGE'S PLACE, DUN LAOGHAIRE, CO. DUBLIN
LAST REMAINING 2 BED APARTMENTS NOW AVAILABLE



**PHOENIX MEWS,
CASTLEKNOCK, DUBLIN 15**
LAST 4 BED DETACHED HOUSE REMAINING



BEECHPARK, LEIXLIP, CO. KILDARE
A SELECTION OF 3 & 4 BED TERRACED
& SEMI-DETACHED HOUSES.
LAUNCHING SPRING 2015,



DNG Block Sales



GEMMA LANIGAN
PARTNER DNG

THE MARKET FOR BLOCK SALES PERFORMED VERY WELL WITH BOTH NATIONAL AND INTERNATIONAL BUYERS COMPETING STRONGLY FOR THE LIMITED NUMBER WHICH CAME TO THE MARKET IN 2014.

Buyers who had previously only considered whole block sales (ie entire developments) changed track and pursued sales where the units were interspersed with privately owned units.

We also witnessed an increase in the number of buyers/funds willing to consider block sales in the sub €20M category due to the lack of large asset sales coming to the market.

We set out opposite a selection of block sales handled by the DNG Advisory Division in 2014.

BELVILLE COURT, CABINTEELY, CO. DUBLIN

SOLD REGION €6,250,000
GROSS YIELD BASED ON ERV: C. 7%



SPENCER HOUSE, CUSTOM HOUSE SQUARE,
IFSC, DUBLIN 1

SOLD EXCESS €2,500,000
GROSS YIELD BASED ON ERV: C. 8%



MONKSTOWN MANOR, MONKSTOWN FARM, CO. DUBLIN

SOLD REGION €2,700,000
GROSS YIELD BASED ON ERV: C. 9%



ROSSE COURT, LUCAN, CO. DUBLIN

SOLD EXCESS €5,000,000
(6 SEPARATE LOTS)
GROSS YIELD BASED ON ERV: C. 11%

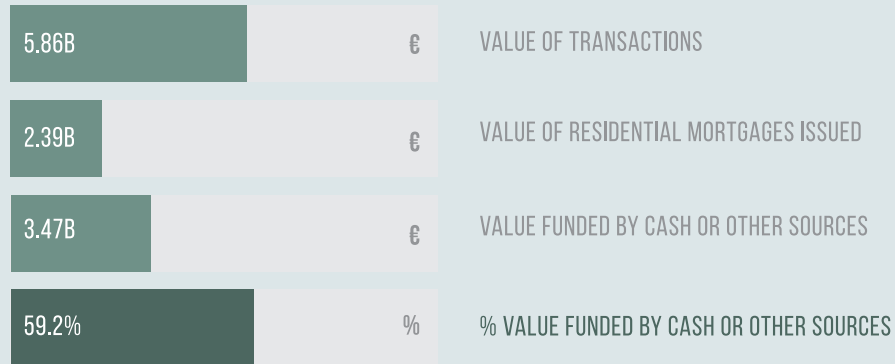
RATHGAEL, CLONDALKIN, DUBLIN 22

SOLD REGION €2,500,000
(3 SEPARATE LOTS)
GROSS YIELD BASED ON ERV: C. 12%

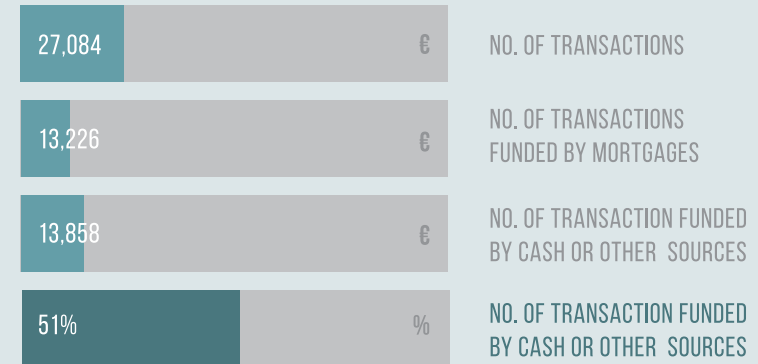


CASH TRANSACTIONS

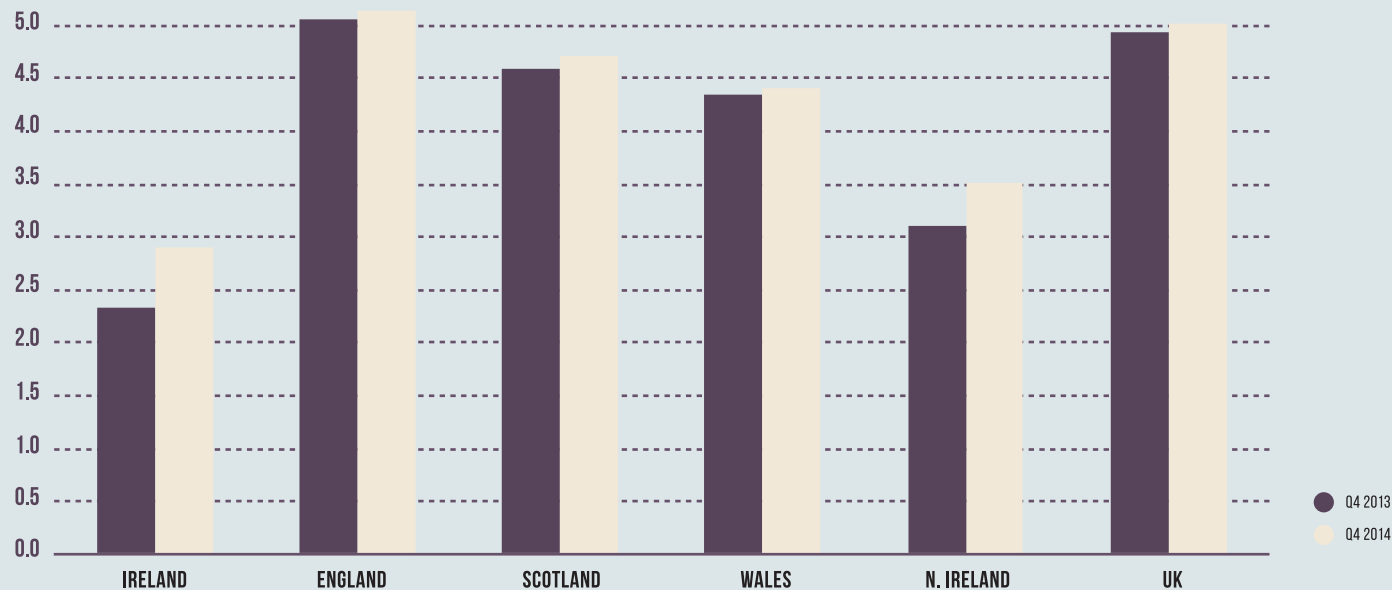
JAN – SEP 2014 VALUE OF TRANSACTIONS BY EURO



JAN – SEPT 2014 BY NO. OF TRANSACTIONS



HOUSING TRANSACTIONS PER THOUSAND POPULATION



SOURCE: DNG RESEARCH

DUBLIN

DNG HEAD OFFICE
DNG NEW HOMES & ADVISORY
BRAY
CENTRAL
CELBRIDGE
DUN LAOGHAIRE
FAIRVIEW
LUCAN
PHIBSBORO
RATHMINES
ROCK ROAD
SKERRIES
STILLORGAN
TALLAGHT
TERENURE
NEWMAN LOWE COMMERCIAL

DNG NATIONWIDE PRESENCE

CARLOW
CARLOW TOWN
TULLOW

CAVAN
VIRGINIA

CLARE
ENNIS

CORK
BANDON
BLACKPOOL
CLONAKILITY
COBH
DOUGLAS
KINSALE
GLANMIRE
MALLOW
YOUGHAL

DONEGAL
DONEGAL TOWN
FALCARRAGH
KILLYBEGS
LETTERKENNY

GALWAY
ATHENRY
GALWAY CITY
KINVARA
PORTUMNA
ORANMORE
OUGHTERARD

KERRY
KENMARE
KILLARNEY
TRALEE

KILDARE
CLANE
MAYNOOTH
NAAS

KILKENNY
KILKENNY CITY

LAOIS
PORTARLINGTON

LEITRM
CARRICK ON SHANNON

LIMERICK
ABBEYFEALE
LIMERICK CITY

LONGFORD
LONGFORD TOWN

LOUTH
DROGHEDA
DUNDALK

MAYO
BALLINA
CASTLEBAR
CLAREMORRIS

MEATH
NAVAN
RATOATH
STAMULLEN

MONAGHAN
CASTLEBLAYNEY

OFFALY
BIRR
TULLAMORE

ROSCOMMON
BOYLE

SLIGO
SLIGO TOWN

TIPPERARY
NENAGH
ROSCREA
TIPPERARY TOWN

WATERFORD
DUNGARVAN
WATERFORD TOWN

WESTMEATH
ATHLONE
MULLINGAR

WEXFORD
BUNCLODY
WEXFORD TOWN

WICKLOW
ARKLOW

SOURCES USED IN COMPILING THE REPORT

DNG Research Q4 2014

ADDITIONAL SOURCES USED IN COMPILING THE REPORT:

AIB Housing Market Bulletin - December 2014

AIB Market View - December 2014

Q3 Quarterly National Household Survey - November 2014

BPFI/PwC Mortgage Market Profile - Quarterly Report Q2 2014

Q3 Quarterly National Accounts - December 2014

CSO Live Register Statistics - December 2014

Property Price Register

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