DOUGLAS NEWMAN GOOD

DNG

RESIDENTIAL MARKET REVIEW Q4 2015

HEADLINE RESULTS
Q4 2015

Average Dublin Second Hand Price
€376,555

Percentage Change Q4 2015
0.6%

Annual Percentage Change
0.7%

% Change Since Low (Q2 2012)
55.5%

% Change From Peak (Q4 2006)
-47.5%

RESIDENTIAL MARKET REVIEW Q4

REPORT COMPLIED BY
DNG RESEARCH 2015

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OUTLOOK 2016

KEITH LOWE
CHIEF EXECUTIVE DNG

Before looking forward to 2016 it is prudent to briefly review the recent past as it is this that will shape the market in the year ahead. Overall 2015 was a year of price stability in the Dublin residential property market with property prices rising by a very modest 0.7% over the course of the year. However, this was on the back of two years of rapid double digit price growth with prices rising by 18% in 2013 and over 23% in 2014, mainly as a result of an investor rush to purchase buy to let properties prior to the end of 2014 in order to qualify under the Government Capital Gains Tax exemption scheme.

There is no doubt that the scale of the 2013 and 2014 price rises were unsustainable over the long run in the capital and whilst many commentators blame the new Central Bank (CB) mortgage lending restrictions which were introduced in early 2015 for the halt in rapid price recovery, we do not; as the level of property price inflation had already dropped to low single digit quarterly growth prior to the introduction of these new mortgage restrictions. Nevertheless, these new measures did have an effect on the property market over the course of 2015 and especially in the latter part of the year.

Unlike Dublin, property prices outside the capital rose sharply in 2015 in a year where the ripple effect of increasing property price rises spread out from Dublin to the commuter towns and on to most other high population urban centres such as Cork, Galway, Sligo, Wexford, and Kilkenny. Many other towns and cities including Limerick, a city badly affected by the financial crash, and other more rural areas experienced their first signs of price recovery since the peak in Q3, 2006 following nine years of deflation or price paralysis. Whilst many areas outside the capital experienced double digit growth last year it must be emphasised that they had had very little price recovery, if any, before 2015 and hence any increases were from a very low base.

25%

The number of properties changing hands in Ireland this year continues to grow with 25% more house sales recorded on the Property Price Register (PPR) in the first nine months of 2015 compared to 2014.

As loan book and fund sales or block transactions are not indicated on the Property Price Register it is impossible to be 100% accurate in this data. However, our research shows that Ireland's transaction levels per thousand head of population while improving still continues to run at half the level of the UK average leaving us some way off a normally operating market. On the positive side transaction levels are rising annually which is helpful as the market continues its road to recovery.

Cash transactions were still very prevalent over the course of 2015. Having analysed available data it would appear to our agency that approximately 50% of all sales on the Property Price Register were funded from Irish mortgage lenders, indicating that other sources such as cash, foreign investment etc. accounts for the other half of funding. Taking into account that around 15% of all sales in the state are likely to be block or loan book/ fund sales, it is more probable that the true level of cash sales is between 35% - 40% in sale number terms. Whilst high, this level of cash transactions is a reasonable level for the Irish market and 2016 is unlikely to differ significantly.

The rental and social housing crisis being experienced in Dublin has started to show signs of spreading to other large urban areas. The government has a clear objective to assist in the provision of Social Housing but this will take time. In the meantime, the current ceiling for rental allowance (HAP) needs to increase to near market rental levels immediately as more and more social tenants are being unnecessarily evicted which is adding to an already very serious situation. The rental sector is also under pressure with rents rising. Whilst rents are increasing, finance is challenging to obtain for buy to let mortgages which affects new entrants to the sector. Returns have also become less attractive for investors as recently introduced costs such as Property Tax (in the UK it is paid by tenants) and USC charged on rents have been imposed.

On the supply side it is noteworthy that the number of new homes schemes being released to the market either supported by NAMA or through private developers is growing materially in the capital and is likely to grow sharply due to the large number of development sites that changed in hands in 2015. This is good news for buyers and will continue to temper Dublin house prices. Nationwide, with the exception of Dublin, Galway and Cork and some pockets throughout the country, new homes construction is not currently commercially viable due to the low level of sale prices achievable for the finished properties at this time. It is also likely that International funds that purchased large portfolios of multiple thousand properties each will start to sell down some of their holdings this year. This will also lead to more availability of properties for buyers and is also likely to temper house price inflation in some locations.

Overall predicted economic growth in Ireland is strong for 2016, job creation is also very healthy in Dublin which is leading to strong migration from country areas and from abroad, yet the level of housing stock is more or less static as new building output is very low. These factors will continue to guarantee that the property market in Dublin and most other areas which have strong employment remains robust. Unfortunately, it will also result in continued upward pressure on rents however the new Government two year rent freeze will assist many tenants.

The availability of mortgages for home purchases in 2016 will remain solid with AIB, Bank of Ireland, KBC, Permanent TSB and Ulster Bank all providing finance. Incentives are also been offered by some banks to attract and encourage new business. Regrettably, there remains few meaningful loan products for investors which is slowing market recovery but new entrants, Pepper Homeloans, have announced their intention to enter the home and buy to let mortgage lending market later this month which will be a welcome addition to the sector. Dilosk have also been quoted in the media as a potential new participant to the buy to let lending market but no solid start date has been publicised as yet.

We note that the new Central Bank Governor, Professor Lane, is to review the mortgage lending rules introduced last year this summer. Whilst we are not opposed to the Central Bank regulations, indeed we believe their introduction was prudent, we continue to maintain that they require some modification. In this regard, DNG are calling on the Central Bank to alter their criteria by increasing the multiplier of salary from 3.5 to 4 and to increase the threshold for 90% mortgages from €220,000 to €300,000. We also believe that the Central Bank might consider 85% mortgages between the €300,000- €500,000 price band and 80% over that price.

All in all, we consider that the property market will remain healthy over the course of this year. We predict that property prices in the capital will increase by approximately 5%, as the supply of new and second hand homes increases and the Central Bank rules have their desired effect in the capital.

Property prices outside the capital will increase by double digit growth in many high population urban areas where there is strong employment. However, some locations may be affected by increased supply if international funds sell down their holdings in some specific areas but overall we anticipate that most locations outside Dublin will not just perform well, but once again this year they will outperform the capital in terms of price recovery. It is also likely that investors will spread their wings to purchase properties outside the capital as they will be attracted by higher yields which are harder to find now in Dublin. Normal transaction levels, excluding block and loan book sales, are likely to rise by 10%-15% in Dublin and 20% nationwide as the market continues its road to recovery.

HOUSE PRICE GAUGE

QUARTER 4 KEY FINDINGS

0.6%

MARGINAL INCREASE IN THE AVERAGE PRICE DURING Q4 OF 0.6%.

0.7%

ANNUAL RATE OF INFLATION SLOWS DRAMATICALLY TO 0.7% YEAR TO DECEMBER.

NEAR PRICE STABILISATION

STRONG PRICE INFLATION IN 2014 COUPLED WITH NEW CENTRAL BANK LENDING RULES LED TO NEAR PRICE STABILISATION IN 2015 IN THE CAPITAL.

QUARTERLY RESULTS

The latest quarterly results of the DNG House Price Gauge (HPG) reveal that the average price of a resale home in the capital increased marginally, by 0.6% in the final three months of the year, continuing the trend of easing house price inflation in the capital. These results mean that the average price of a resale property in Dublin now stands at €376,555, virtually unchanged over the course of the year.

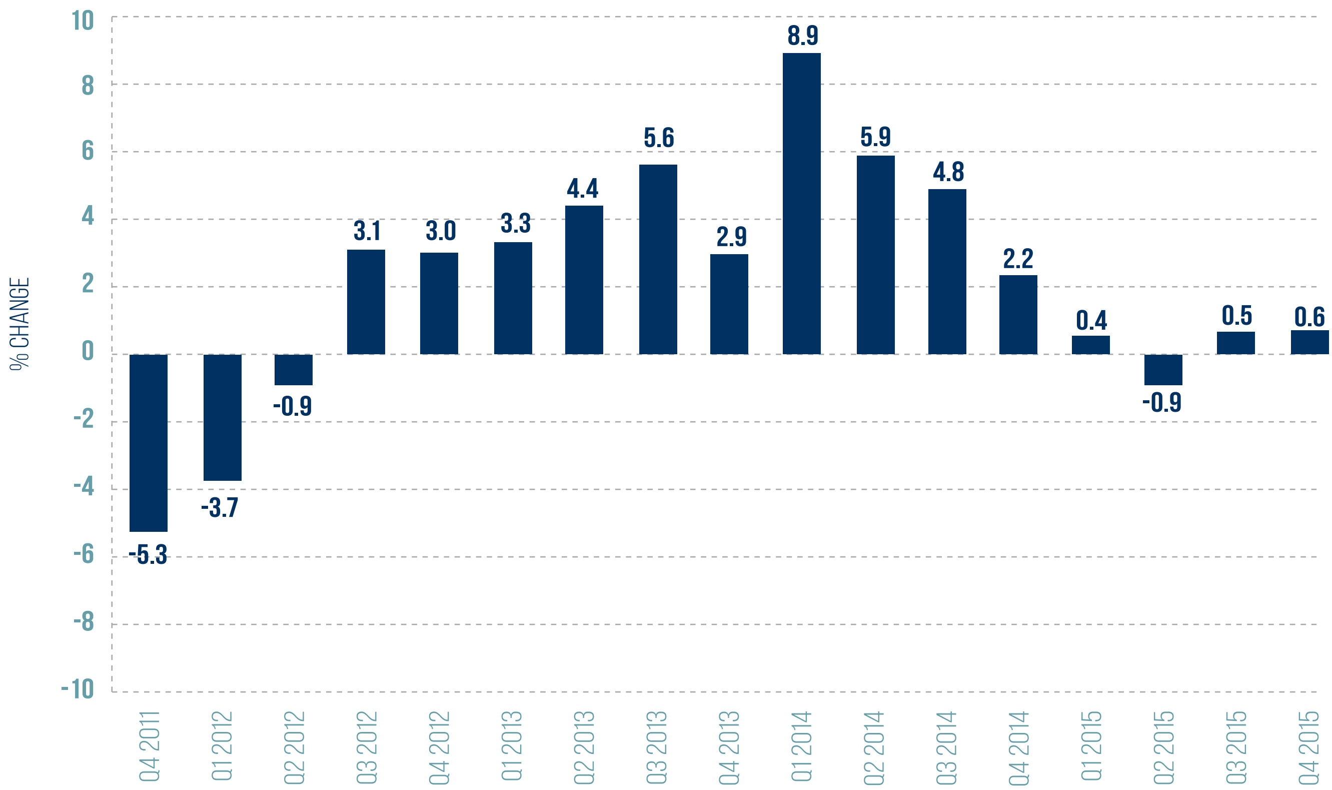
The small increase in values recorded by the HPG in the final quarter of the year mirror the changes seen in the previous three quarters of the year as market conditions remained relatively unchanged.

As shown in figure 1 below house price inflation had already begun to ease during 2014 but still remained high when compared to the rate of change in 2015.

0.6%

According to the latest statistics, the DNG House Price Gauge (HPG) shows a 0.6% rise in the average price of a resale home during the third quarter of the year.

FIGURE 1: **QUARTERLY PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES**



ANNUAL PERCENTAGE CHANGE

Over the course of 2015, the DNG HPG recorded an increase of 0.7% in the average price of a home in the capital. This is in stark contrast to the strong rate of price growth seen throughout 2014 when prices increased by 14% on average. The latest results confirm that the annual rate of house price inflation continues to ease in Dublin with the rate of increase for the year ending December 2015 only one third of the rate of growth seen in the twelve months to the end of September 2015.

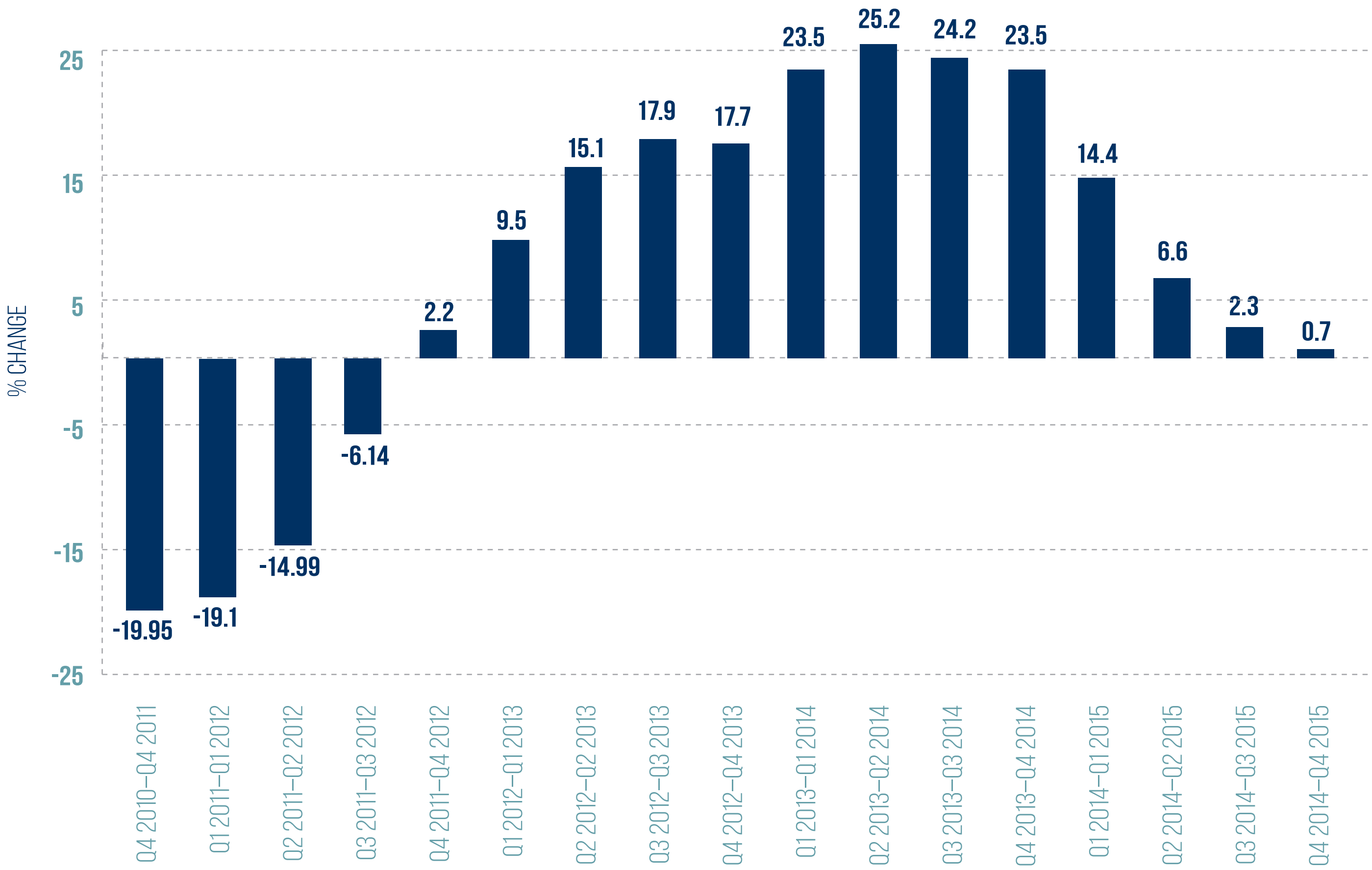
These statistics all but confirm that the Central Bank's policy decision taken earlier in the year has been a strong contributing factor in cooling property price inflation in the Dublin market. A market which which was, and still is, characterised by a severe lack of supply and a level of demand in excess of this.

Prices are now 55% higher than their low point in 2012 as measured by the HPG and continue to recover slowly but surely in line with the improvement seen in the wider economy. However 2015 will be seen as the year when price inflation was curtailed following three years of rapid recovery in the market with double digit growth the norm during those years.

0.7%

In the year to the end of September 2015, the DNG HPG recorded a small increase in the average value of a resale property in the Dublin market of 0.7%.

FIGURE 2: **ANNUAL PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES**



PRICE CHANGES BY LOCATION

Q4 North Dublin	Q4 South Dublin	Q4 West Dublin
0.9%	**0.8%**	**-0.2%**

The DNG HPG records the change in the average price of a residential property according to location within Dublin as show in Table 1.

In the final three months of 2015 the average price of a resale property in west Dublin fell marginally by -0.2%. In contrast both the south and the north sides of the city saw the average price increase slightly at 0.8% and 0.9% respectively in the final quarter.

Both the south and the north sides of the city saw the average price increase slightly at 0.8% and 0.9% respectively in the final quarter.

TABLE 1: **PRICE CHANGES BY LOCATION**

	Q4 2015	ANNUAL % CHANGE	FROM PEAK (Q4 06)	FROM TROUGH (Q2 2012)
SOUTHSIDE	0.8%	0.6%	-51.4%	53.3%
NORTHSIDE	0.9%	1.3%	-44.2%	57.0%
WESTSIDE	-0.2%	-0.1%	-39.7%	59.4%

PRICE CHANGES BY PRICE BRACKET

0.9%

For the fourth consecutive quarter, properties at the entry level to the market, valued at €250,00 or less in the HPG, saw the largest percentage increase in values.

3.1%

Prices at the upper end of the market experienced the highest level of price recovery at 3.1%.

The DNG HPG measures the movement in prices for different price brackets of property within the sample.

For the fourth consecutive quarter, properties at the entry level to the market, valued at €250,00 or less in the HPG, saw the largest percentage increase in values during quarter four, increasing by 0.9% on average.

Similarly the lower level of the market saw an annual rate of inflation of 3.1% in 2015, well in excess of any other price segment (see table 2 above). Growth was marginally slower at all other price levels in both the quarter and for the year as a whole.

TABLE 2: **PRICE CHANGES BY PRICE BRACKET**

	Q4 2015	ANNUAL % CHANGE	FROM PEAK (Q4 06)	FROM TROUGH (Q2 2012)
UP TO €250,000	0.9%	3.1%	-47.8%	71.5%
€250,001 TO €350,000	0.4%	0.4%	-39.0%	56.2%
€350,001 TO €500,000	0.7%	-0.4%	-40.5%	52.6%
OVER €500,000	0.5%	0.6%	-54.1%	50.8%

DNG HPG & CSO RPPI DUBLIN

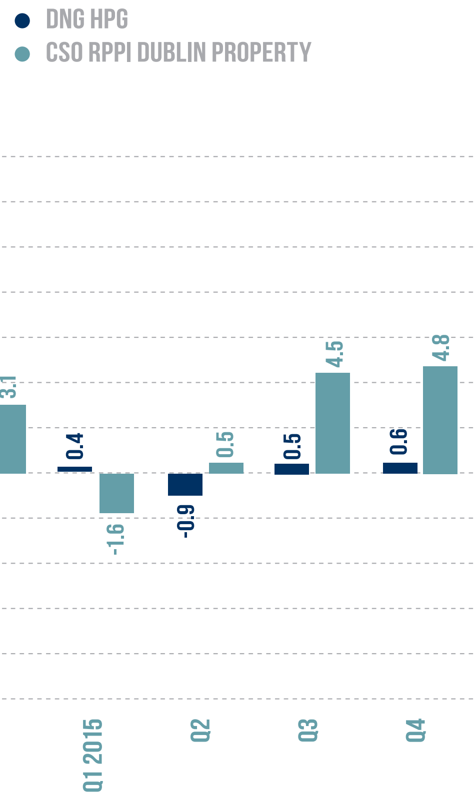
Figure 3 below shows the quarterly change in Dublin residential property prices as measured by both the DNG HPG and the CSO Residential Property Price Index.

Both the CSO RPPI for all Dublin property and the DNG HPG have followed very similar patterns over the course of the last three years, however the CSO RPPI has recorded a much stronger growth in residential property prices in Dublin in the last two quarters than the DNG HPG. As outlined in figure three above, this was also the case in Q2 and Q3 2014 but the pattern of a similar trend across both measures resumed in Q4 2014.

Note: the CSO RPPI Q3 2015 figure covers period May-July 2015.

Both the CSO RPPI for all Dublin property and the DNG HPG have followed very similar patterns over the course of the last three years

FIGURE 3: **DNG HPG & CSO RPPI**



SLOWING RATE OF HOUSE PRICE GROWTH EVIDENT AS THE YEAR PROGRESSED

2015 signified a marked change in the residential market in the capital, with a slowing rate of house price growth evident as the year progressed, resulting in very little change in residential property prices over the year as a whole. This however does not tell the whole story, as the current market is characterised by a chronic lack of housing supply, which under normal market circumstances would drive prices higher.

However, demand has been somewhat suppressed throughout 2015 due to the Central Bank's more restrictive lending regulations which came into force in the very early part of the year. These changes helped to artificially dampen demand, as buyers, particularly first time buyers were required to save larger deposits for properties valued in excess of €220,000. In Dublin, where the average price of a home is closer to €400,000 than €220,000 the impact was the greatest, resulting in markedly slower price inflation throughout the year.

The other factors driving demand in the market remained positive throughout the year and this helped to underpin demand. Unemployment fell steadily all year, and the numbers employed grew strongly, with 56,000 more people in work compared to a year ago according to the latest Quarterly National Household survey figures released in November. As a result the unemployment rate fell to 8.9% in November 2015, from 10.4% a year earlier.

Likewise, consumer confidence continues to improve, in line with the continued improvement in the wider economy. According to the KBC Consumer Sentiment Index, confidence amongst consumers hit a ten year

€376,555

The average price of a second hand home in Dublin.

unemployment and the recent Budget changes boosted spending power. In addition economic growth continues to power ahead, with GDP up 7% on a year previous. Interest rates remain at their historical low, and it is worth remembering that ECB interest rates have not increased since mid 2011. This has helped affordability for purchasers in the market, which has remained relatively constant in 2015 due to the little change in prices and no changes in interest rates.

In line with a slower pace of price inflation and the introduction of the new mortgage lending rules, mortgage approvals have fallen as the year progressed, as have mortgage drawdowns, down 5.7% in the three months to October according to the latest data. This is a trend that will continue into 2016.

Overall the aforementioned factors have contributed to a relatively sharp slowdown in residential property price inflation in Dublin during 2015 however, the lack of current supply meant that prices remained relatively unchanged over the year. With little sign of any notable increase in supply in the year ahead, the current market trend of stable prices is most likely to continue. Prices in the capital will rise slowly unless there are any further market interventions to change this position. Factors such as the General Election and a corresponding change in government, or any shift in policy by the Central Bank with regard to mortgage lending could influence both the direction and speed of price movements in the capital's residential property market. On the positive side, and underpinning the whole position, is the current strong economic performance and the corresponding fall in unemployment, growth in employment and improvement in household finances. As a result low single digit price growth can realistically be expected in 2016.

Overall the aforementioned factors have contributed to a relatively sharp slowdown in residential property price inflation in Dublin during 2015 however, the lack of current supply meant that prices remained relatively unchanged over the year.

APARTMENT PRICE GAUGE

The DNG Apartment Price Gauge (APG) is a relatively new publication that analyses the movement of apartment prices in Dublin. The APG measures the changes in value of a representative sample of apartment dwellings across Dublin on a quarterly basis. Within the Dublin apartment market the APG analyses price movements in different areas (Central, North, South and West) and by the number of bedrooms the property contains.

QUARTERLY RESULTS

The average price of an apartment in Dublin rose modestly, by 0.3%, in the final three months of the year.

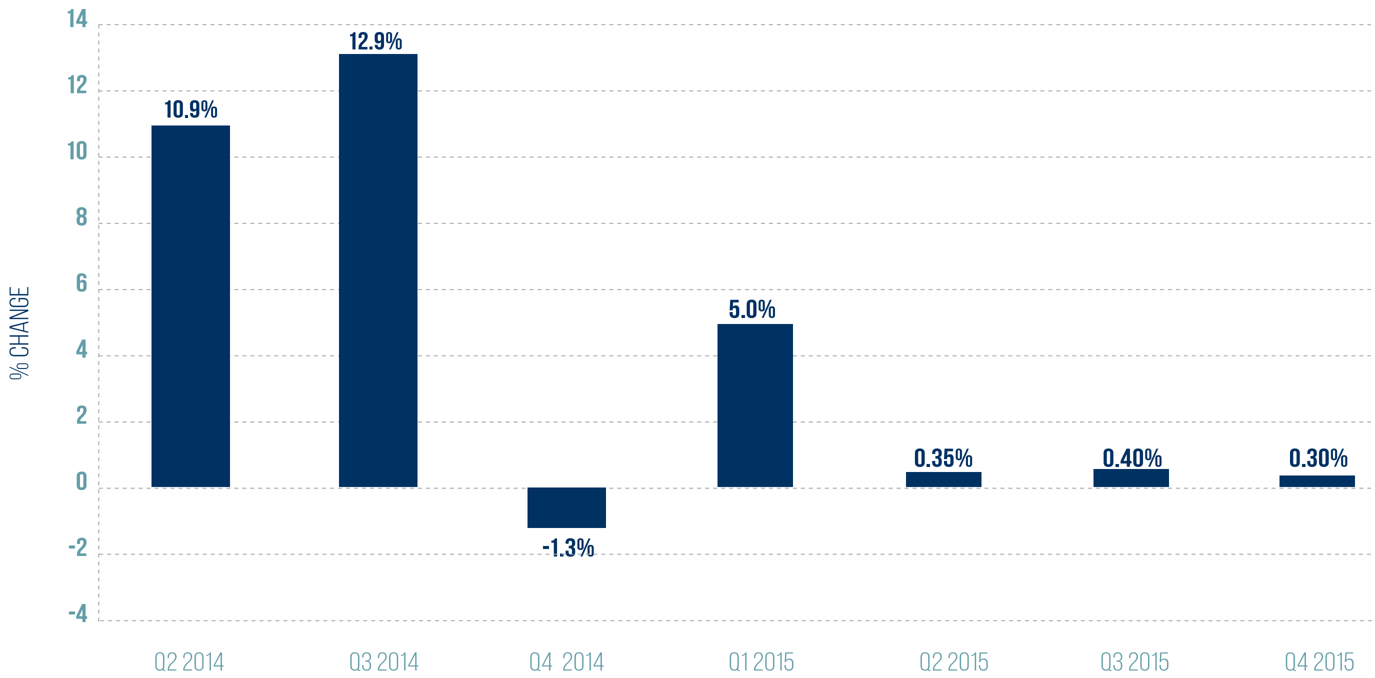
After a relative surge in quarter one, the average price of an apartment in Dublin remained unchanged for the remainder of the year.

The average price of an apartment in Dublin now stands at €256,541

0.3%

According to the latest statistics, the DNG Apartment Price Gauge (HPG) shows a 0.3% rise in the average price of a Dublin apartment in the final 3 months of the year.

FIGURE 1: **QUARTERLY PERCENTAGE CHANGE IN DUBLIN APARTMENT PRICES**



ANNUAL PERCENTAGE CHANGE

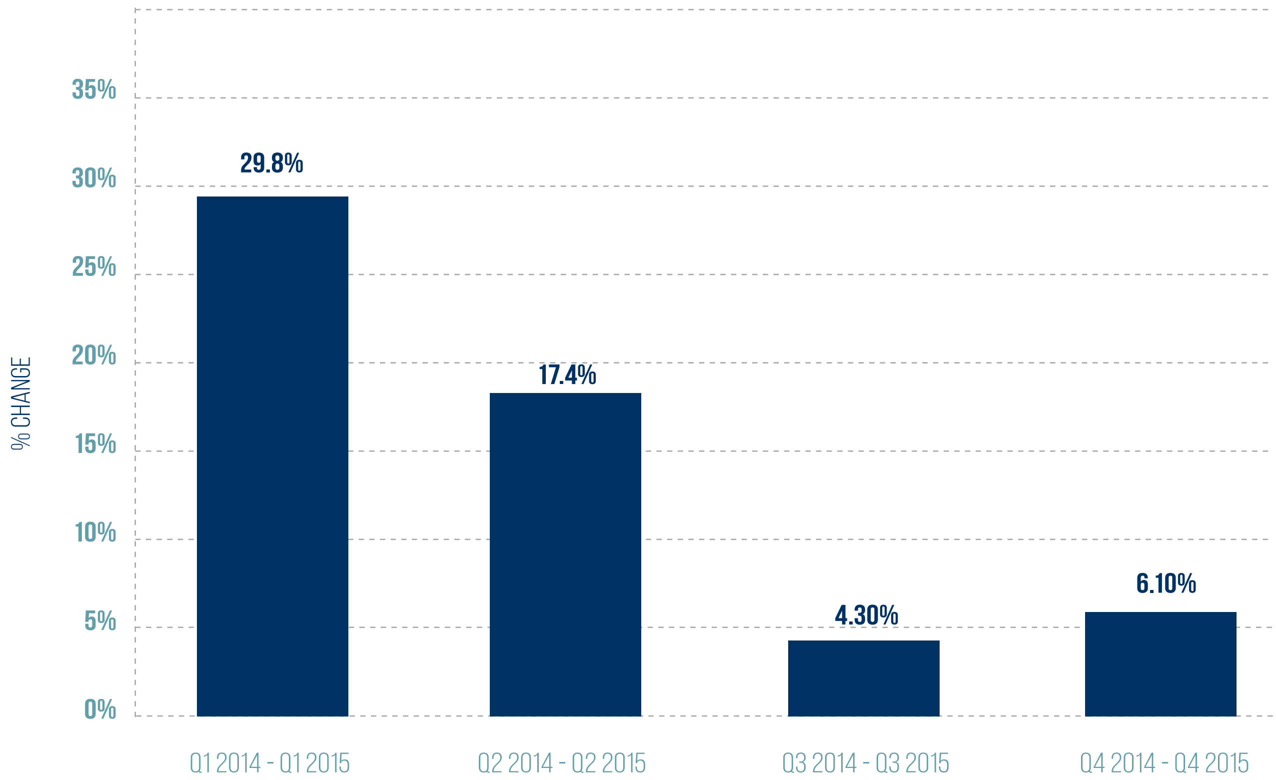
The fourth quarter DNG APG results mean that in the twelve months to the end of December 2015, the average price of a Dublin apartment rose by 6.1%. This was a stronger rate of inflation than recorded in the year to the end of September 2015 which saw the average apartment price increase by 4.4%

However, on a quarter by quarter basis, the remainder of 2015 was characterised by a markedly slower rate of price growth and as a result, the annual rate of inflation fell from 30% in the year to the end of March, down to 6.1% for the year to the end of December as illustrated below in figure 2.

6.1%

The average price of a Dublin apartment rose by 6.1% in the twelve months to the end of December 2015.

FIGURE 2: **ANNUAL PERCENTAGE CHANGE IN DUBLIN APARTMENT PRICES**



APG RESULTS - AREAS

As part of the DNG APG series, prices in the apartment market are analysed by geographical location across Dublin.

- The average price of an apartment in Dublin city centre increased by 0.9% in the final three months of the year, a much stronger rate of increase than seen in all other areas of the city where prices remained effectively unchanged during the period.
- Apartment prices in the central area of the city saw the strongest rate of price growth in 2015, rising in excess of 8%.
- All other areas of the city saw a sustainable rate of price increase in the region of 5%-6% for the year 2015 as a whole.

TABLE 1: PRICE CHANGES BY AREA

	% CHANGE Q4 2015	ANNUAL % CHANGE
CENTRAL	0.9%	8.1%
NORTH DUBLIN	-0.1%	6.4%
SOUTH DUBLIN	0.2%	4.7%
WEST DUBLIN	0.1%	6.4%

APG RESULTS - BY NUMBER OF BEDROOMS

The results of the DNG APG are analysed based on the price movements of apartments, as defined by the number of bedrooms the property contains. The results are for the whole Dublin area covered by the APG.

- All apartment types saw average price increases in line with the overall APG average rise of 0.3% in the fourth quarter of 2015.
- Equally, all apartment types saw modest and sustainable increases in values in 2015 as a whole, in line with the overall APG average increase of 6.1%

TABLE 2: PRICE CHANGES BY NO. OF BEDROOMS

	% CHANGE Q3 2015	ANNUAL % CHANGE
ONE BED APT	0.3%	5.5%
TWO BED APT	0.3%	6.3%
THREE BED APT	0.2%	6.2%

* Annual Percentage Change shows change in value over previous 12 months

DNG APG & CSO RPPI COMPARISON

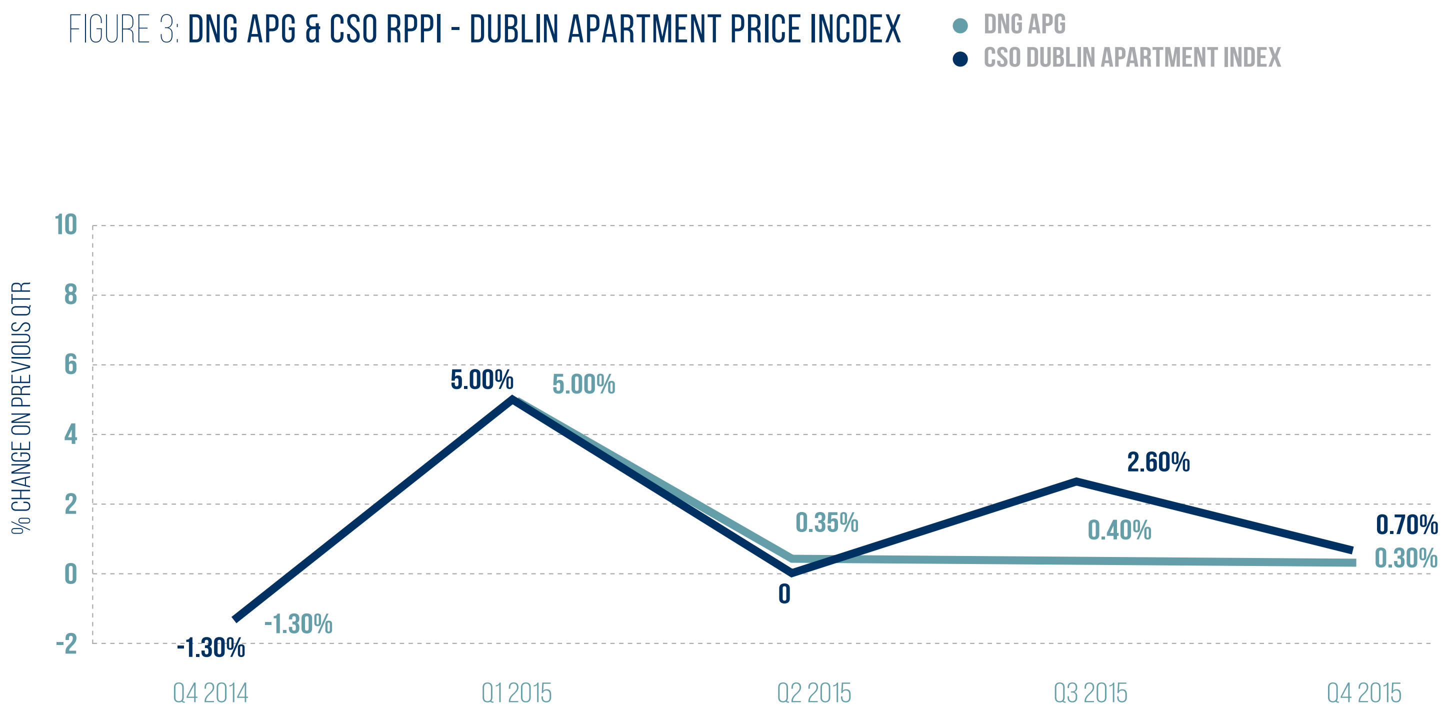
A comparison of the Apartment Price Gauge and the Central Statistics Office Residential Property Price Index for Dublin apartments reveals a very similar trend in 2015, as shown in figure 3 below.

Both measures of apartment prices in the Dublin market highlight the changed market conditions evident since spring this year with modest levels of price growth.

Note: Q4 CSO RPPI statistics cover three month period to end October.

A comparison of the Apartment Price Gauge and the Central Statistics Office Residential Property Price Index for Dublin apartments reveals a very similar trend in 2015.

FIGURE 3: **DNG APG & CSO RPPI - DUBLIN APARTMENT PRICE INCDEX**



STRONGER PRICE GROWTH WAS SEEN IN THE VERY EARLY PART OF THE YEAR WITH THE AVERAGE PRICE OF AN APARTMENT RISING BY ALMOST 5% IN THE FIRST QUARTER.

2015 was a year characterised by much lower quarterly levels of price growth in the Dublin apartment market when compared to 2014. Stronger price growth was seen in the very early part of the year with the average price of an apartment rising by almost 5% in the first quarter, however the trend thereafter was very much one of stable prices in the market, resulting in an annual increase in apartment values of 6% for the year as a whole across the capital.

Interestingly however, given the nature of the Central Bank's lending rule revisions which required greater deposits and lower loan to value ratios particularly at the higher levels of the market, the impact of the changes appears to have been broad-based and resulted in slowed price growth for all property types across all parts of the capital. It could therefore reasonably be argued that potential buyers who were required to hold greater deposits post the introduction of the rules, do not appear to have caused any increase in demand at lower levels of the market by deciding to purchase cheaper property and thereby driving higher price inflation at the lower levels of the market.

€256,541

The average price of a second hand apartment in Dublin.

DNG APG RESULTS Q4 2015

2015 was a year characterised by much lower quarterly levels of price growth in the Dublin apartment market when compared to 2014.

Average Price of an Apt. in Dublin	% Change Q4 2015	Annual % Change
€256,541	0.3%	6.1%

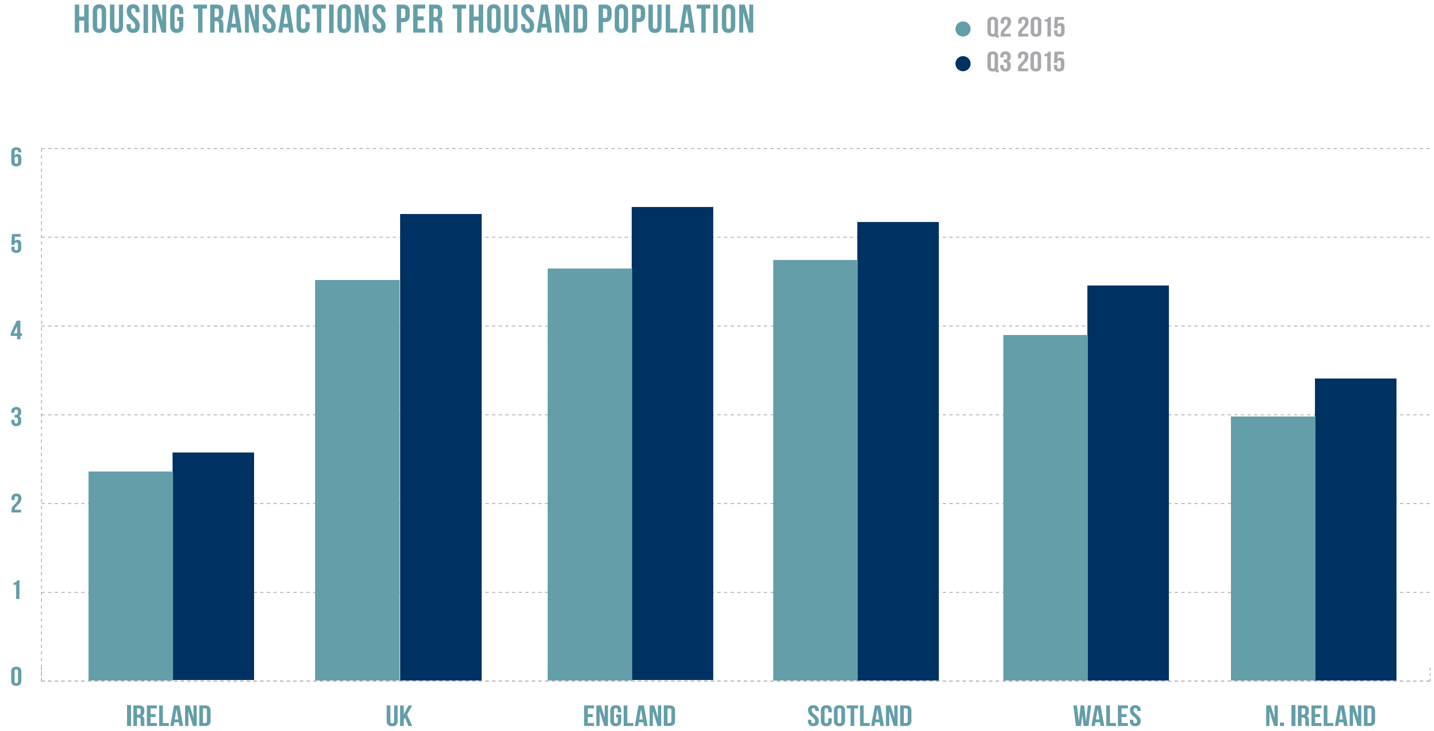
TRANSACTION LEVELS IRELAND V'S UK

DNG Research tracks the numbers of transactions across Great Britain and Ireland on a quarterly basis. Results are shown as housing transactions per thousand population for each country.

QUARTERLY CHANGE IN HOUSING TRANSACTIONS

- Ireland continues to run behind all of our nearest neighbours
- The UK average is over double that of Ireland
- The CGT exemption scheme, which ended in Dec 2014, drove numbers to artificial high in Q4, 2014
- Northern Ireland has the lowest number of transactions of Uk countries at over 3.5 per '000 for Q3, 2015

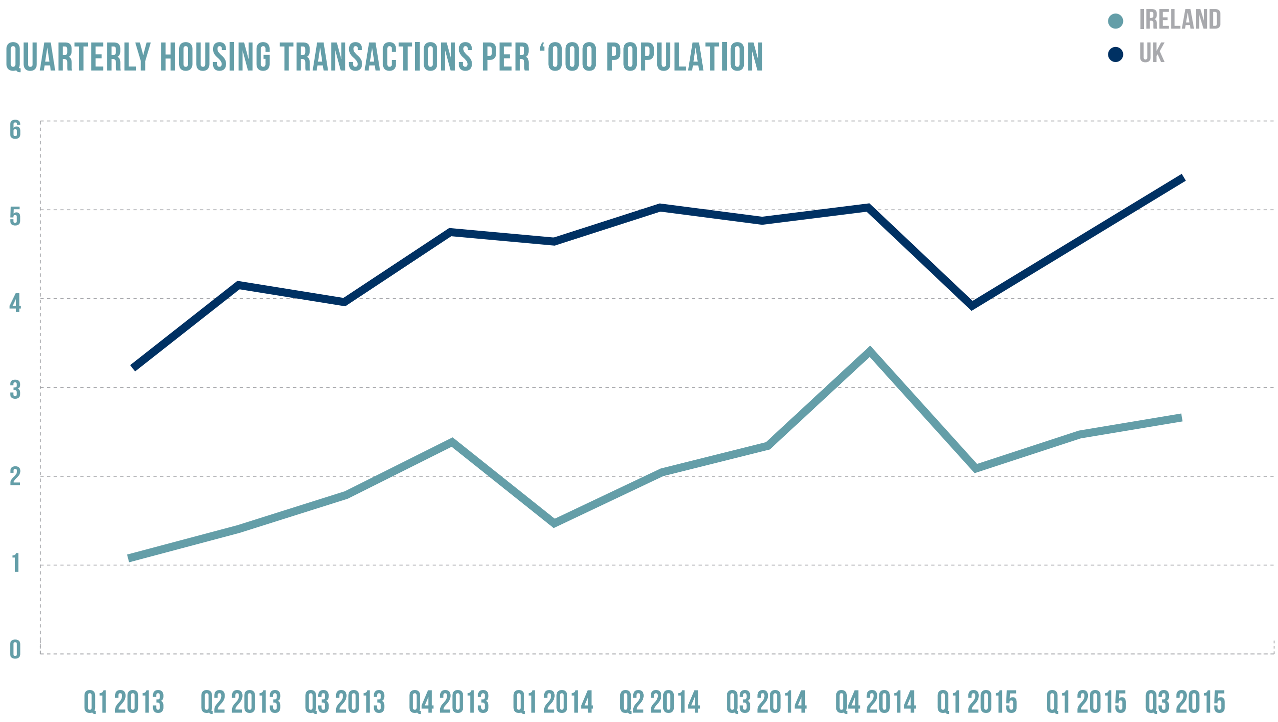
HOUSING TRANSACTIONS PER THOUSAND POPULATION



AVERAGE 2013 & 2014 V'S Q1& Q2, 2015

- Ireland continues to track broadly in line with the UK average
- 2015 has seen a continued improvement in transaction numbers over each quarter to date
- Ireland still some way off 'normal' level of tranactions

QUARTERLY HOUSING TRANSACTIONS PER '000 POPULATION

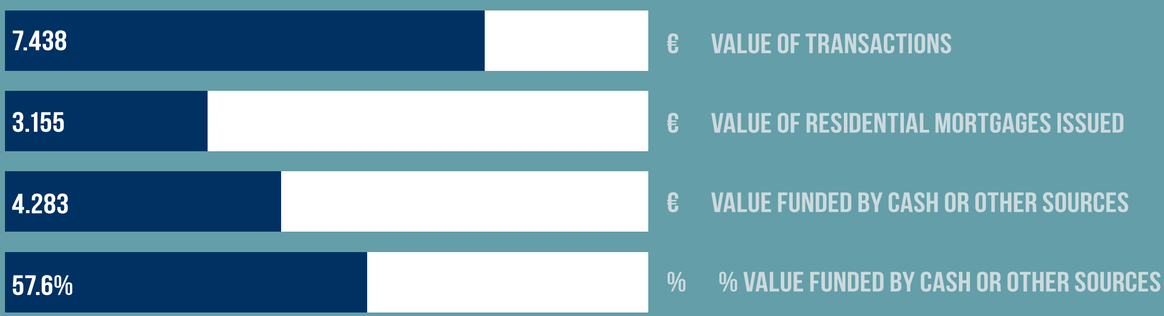


CASH/ NON-MORTGAGE TRANSACTIONS

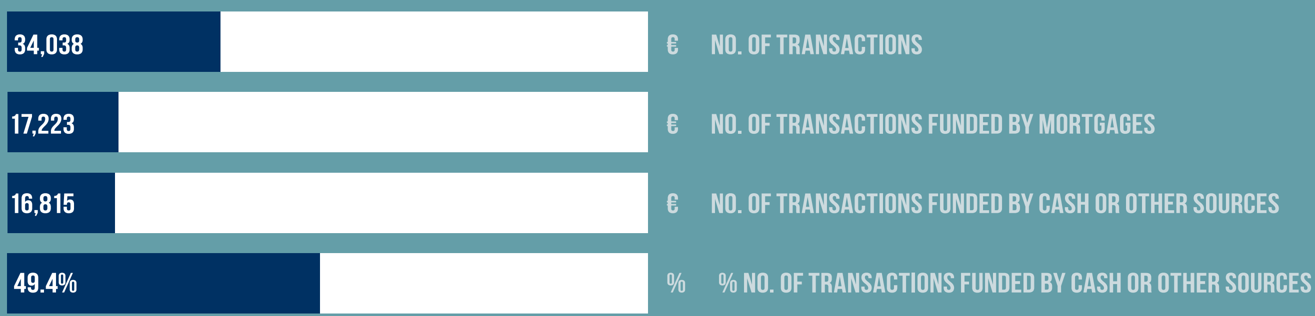
- Total value of transactions up by 27% and transactions numbers up by 25% for Q1-Q3, 2015 compared to Q1-Q3, 2014
- Cash/ non-mortgage transactions are running at almost 50% in volume terms and at in excess of 57% of value; approximately 2.5% lower than the corresponding 2014 figures
- Significant proportions of these are attributable to block and fund sales – potentially in the order of 15% of transactions numbers
- Cash buyers still likely to account for 35-40% of non-block/ fund sales

*DNG Research – BPFI & Property Price Register (Figures exclude Re-mortgages & Top-ups) September - December 2015

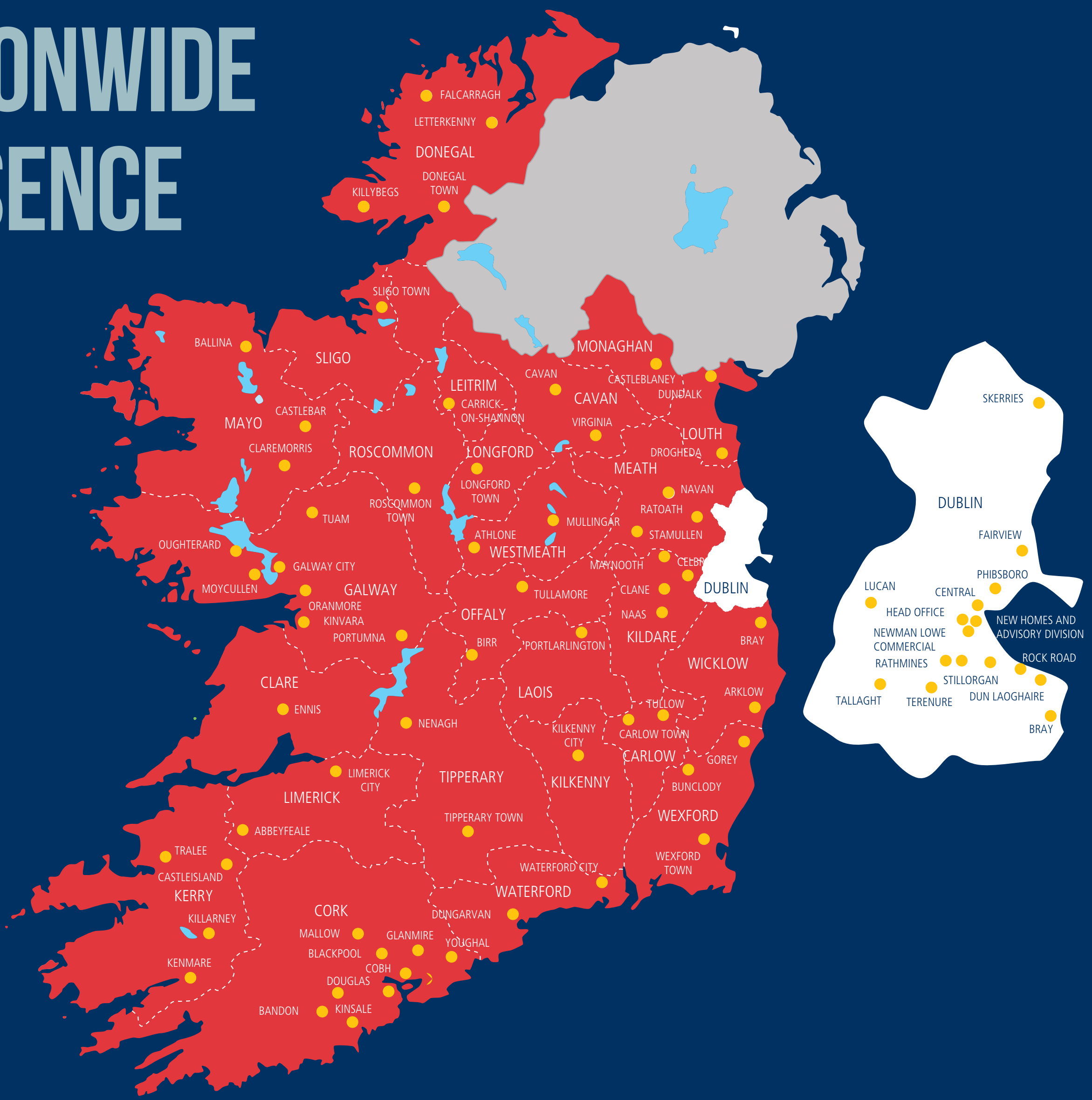
JAN-SEPT 2015 VALUE OF TRANSACTIONS BY EURO



JAN-SEPT 2015 BY NUMBER OF TRANSACTIONS



DNG NATIONWIDE PRESENCE



DUBLIN
DNG Bray
DNG Celbridge
DNG Central
DNG Advisory
DNG New Homes
DNG Dun Laoghaire
DNG Fairview
DNG Leeson Park
DNG Lucan
Newman Lowe Commercial
DNG Phibsboro
DNG Gillespie Lowe Rathmines
DNG Rock Road
DNG McKenna Healy Skerries
DNG Stillorgan
DNG Tallaght
DNG Terenure

CARLOW
Carlow
Tullow

CAVAN
Virginia

CLARE
Ennis

CORK
Bandon
Blackpool
Clonakilty
Cobh
Douglas
Glanmire
Kinsale
Mallow
Youghal

DONEGAL
Donegal Town
Falcarragh
Killybegs
Letterkenny

GALWAY
Athenry
Galway City
Kinvara
Moycullen
Oranmore
Oughterard
Portumna

KERRY
Kenmare
Killarney
Tralee

KILDARE
Clane
Maynooth
Naas

KILKENNY
Kilkenny City

LAOIS
Portarlington

LEITRIM
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
Roscommon Town

SLIGO
Sligo Town

TIPPERARY
Nenagh
Tipperary Town

WATERFORD
Dungarvan
Waterford City

WESTMEATH
Athlone
Mullingar

WEXFORD
Bunclody
Gorey
Wexford Town

WICKLOW
Arklow

Additional Sources used in compiling the report:

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KBC Consumer Sentiment Index. December 2015
Irish Economy Watch. AIB Treasury Economic Research Unit. December 2015
AIB Housing Market Bulletin. AIB Treasury Economic Research Unit. December 2015
Central Statistics Office - Residential Property Price Index November 2015
Banking & Payments Federation Ireland - Housing Market Monitor Q3 2015

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