RESIDENTIAL MARKET REVIEW Q1, 2014

This month has heralded the 7th consecutive quarterly increase in residential property prices in the capital and the largest increase in the current cycle of price recovery. The increase in prices over the last twelve months now totals 23.5% which is extremely positive at long last for the beleaguered Irish property market. This is also very good news for anybody who had the foresight to purchase in the last 20 months whom are now sitting on sizeable gains. However, property prices in Dublin still remain over 50% below where they were at the peak of the market.

The largest increases have been experienced at the entry level price ranges which include the apartment sector which has increased by 12.9% this quarter. We believe that this is linked to the improved availability in mortgages from the likes of AIB bank (including EBS) and Bank of Ireland, who both have strongly supported the mortgage sector through the property crash, and more recently Permanent TSB, KBC and Ulster Bank.

Recovery in the market is also positive news for the many thousands of homeowners who are in negative equity, as increases of this quarters magnitude will result in many home owners leaving the negative equity trap. However, with property prices still 50% below their peak the market will need to recover over a lengthy period of time to counteract fully the existing negative equity problem.

Property prices in Dublin are likely to continue to increase sharply as there are very few houses or apartments on the market for sale to meet buyer demand. In fact property is selling so quickly that there are only around 3,000 homes for sale in the capital at the present time which is half what there was on the market this time last year.

On top of normal demand, the ERSI estimate that 15,000 to 20,000 net new households are being created annually and many of those wish to live in and around Dublin. There also is a spike in employment in the capital which is increasing the working population and consequently the numbers of people who wish to buy or rent in the Greater Dublin Area thereby adding to already strong demand. The fact that house prices and rents are both rising simultaneously in the capital is sure evidence of lack of housing supply.

To meet demand the construction sector and the Government, in particular, must play their part in the provision of new homes not just for the sales market but also for the important rental sector. About 400,000 homes are now rented out which is twice the number that were rented in 2006. With the improved availability of mortgages and growing confidence in the property market, a certain percentage of these tenants will decide to buy their own home putting further upward pressure on property prices.

In order to increase supply the Government should follow the UK's lead by introducing specific measures to support the battered housing building industry. Measures such as the introduction of a new homes grant or tax credit for buyers of new houses, supporting financial institutions in the provision of much needed construction finance, reducing financial contributions (& passing on the new 2014 reduced rates retrospectively to sites with existing planning permissions), exempting Social & Affordable Housing for borderline-viable schemes and reducing density guideline where required (this has commenced by DCC in three areas of the city) is essential.

Property prices in the capital were always likely to rebound quickly as they fell too fast and too far. What is happening at the present time is realignment in prices in the capital. Outside Dublin we note evidence of more modest price recovery in high population urban areas. However, some areas will be slower to recover than others due to local economic factors.

Keith Lowe
FRICS FSCSI MIPAV
Chief Executive DNG

dng.ie

Q1

DOUGLAS NEWMAN GOOD
DNG
MARKET REVIEW **Q1 2014**

KEY FINDINGS

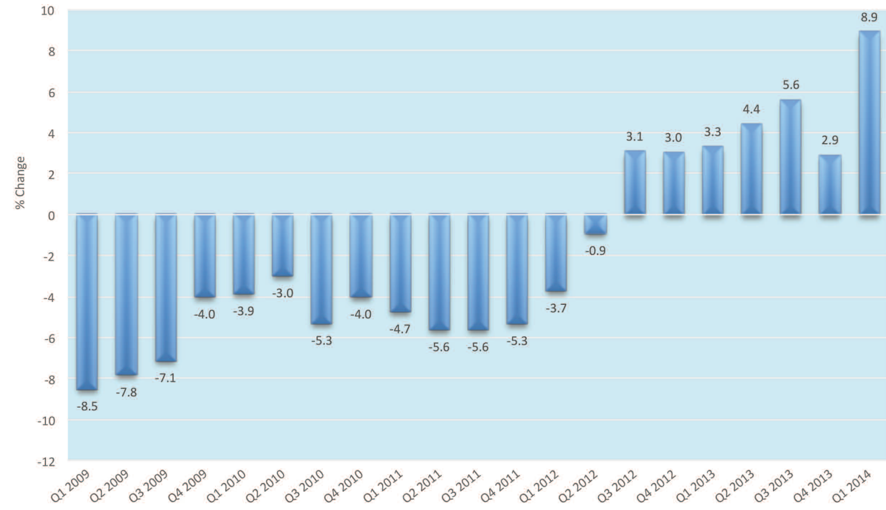
- ➢ Prices rising sharply in first three months of year – up 8.9% on average
- ➢ Shortage of supply continues to be the primary driver of price increases in the Dublin market
- ➢ Annual rate of price inflation increases to 23.5% in the year to March 2014
- ➢ Prices remain 50% below peak values but have risen by a third since recovery commenced

Q1 2014	
Average Dublin Second Hand Price	€329,719
Percentage Change Q1 2014	8.9%
Annual Percentage Change	23.5%
% Change Since Low (Q2 2012)	36.1%
% Change From Peak (Q3 2006)	-54.0%

Headline Results Q1 2014

QUARTERLY RESULTS

The pace of residential property price inflation continued unabated in the first three months of the year with the average price of a resale property in the capital rising by 8.9% on average. This is the largest quarterly increase in values recorded on the House Price Gauge (HPG) since the tail-end of the property boom, when values rose by 10% on average in the first three months of 2006. The increase during the first quarter of 2014 is in sharp contrast to the final three months of 2013 when prices rose by a more modest and sustainable 2.9%, and is over twice the rate of price inflation recorded by the HPG in Q1 2013, where prices rose by 3.3%. If prices continue to rise at a similar pace during the rest of 2014, the annual rate of increase will very likely exceed the highest annual rate of price increase of 27% seen before the downturn commenced in late 2006.



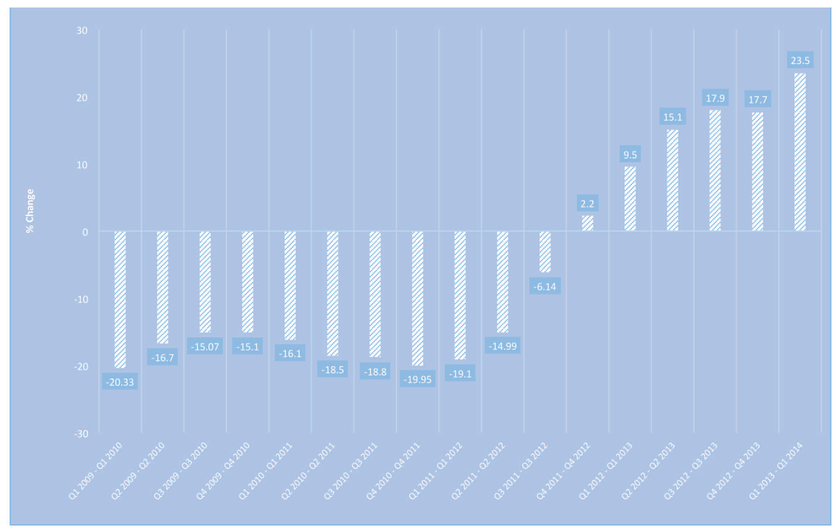
Quarterly Change in Dublin Residential Property Prices

ANNUAL PERCENTAGE CHANGE

The latest quarterly results of the HPG mean that in the year to the end of March 2014 the average value of a resale property in the Dublin Market has increased by 23.5%, compared to an annual rate of inflation of 17.7% record for 2013 as a whole. Since the end of 2012, the DNG HPG has recorded a trend of accelerating annual price inflation in the capital as shown in Figure 2.

The latest quarterly increase in Dublin's residential property price values means that the average price of a resale property in the capital, as recorded by the HPG, now stands at €329,719, an increase of €62,000 or €5,000 per month, compared to the average price twelve months ago.

However, the average price recorded by the HPG in the first Quarter of 2014 is still some 54% lower than recorded at the height of the market in 2006. It is also worthy of mention that since the Dublin market 'bottomed out' in mid-2012 prices across the capital have risen by one third (36%)



Annual % Change in Dublin Residential Property Prices

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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 the table below.

The most notable increase in residential property values came in the west of the city and county during the first three months of the year, where prices rose by 11% on average, reflecting the strong demand and relative lack of supply of family type properties in the area. Correspondingly, the annual rate of increase in west Dublin was higher than other areas according to the HPG at almost 30%. All areas of the capital saw positive growth in prices during the first quarter of 2014 and all areas recorded rates of price increase in excess of 20% in the twelve months to the end of March.

	Q1 2014	Annual % Change	From Peak (Q3 06)	From Trough (Q2 2012)
Southside	7.5%	21.0%	-57.0%	35.2%
Northside	10.0%	24.1%	-51.3%	37.1%
Westside	11.1%	29.8%	-48.0%	37.5%

Price Changes By Location

PRICE CHANGES BY PRICE BRACKET

In Q1, property prices at the lower level of the market recorded the highest rate of price increase, with properties price below €250,000 seeing an average increase of 12.9%. Over the twelve month period to March 2014, values rose by more than the HPG average (by 28%) whilst all other price levels saw an annual increase more in line with the average at around 23%.

Equally, in the €250,000 to €350,000 price range, the average price of a residential property increased by slightly more than the average in the first quarter of the year, at 9.1%. Further up the property 'ladder', the market saw increases more in line with the average recorded by the HPG as a whole, reflecting comparatively weaker demand at higher price levels than at the entry level to the market but still a strong performance nonetheless. Across the capital's residential property market, prices remain approximately 50% below peak values on average, however, it is encouraging, particularly for those property owners in negative equity that prices have now risen by 36% on average since the market low point in early 2012.

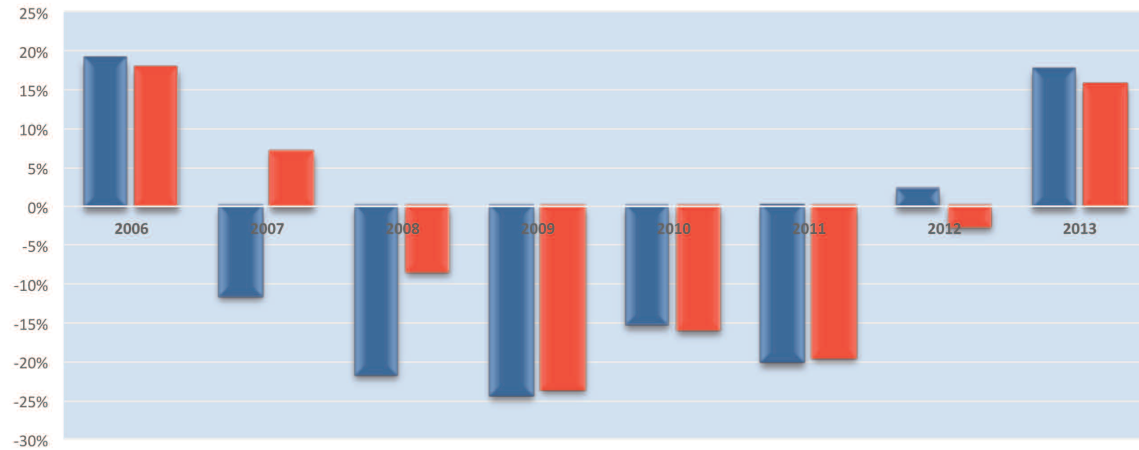
	Q1 2014	Annual % Change	From Peak (Q3 06)	From Trough (Q2 2012)
Up to €250,000	12.9%	28.0%	-56.5%	34.0%
€251,000 to €350,001	9.1%	23.7%	-45.3%	36.7%
€351,000 to €500,000	7.4%	21.9%	-48.4%	35.6%
Over €500,000	7.1%	21.5%	-59.5%	37.9%

Price Changes By Price Bracket

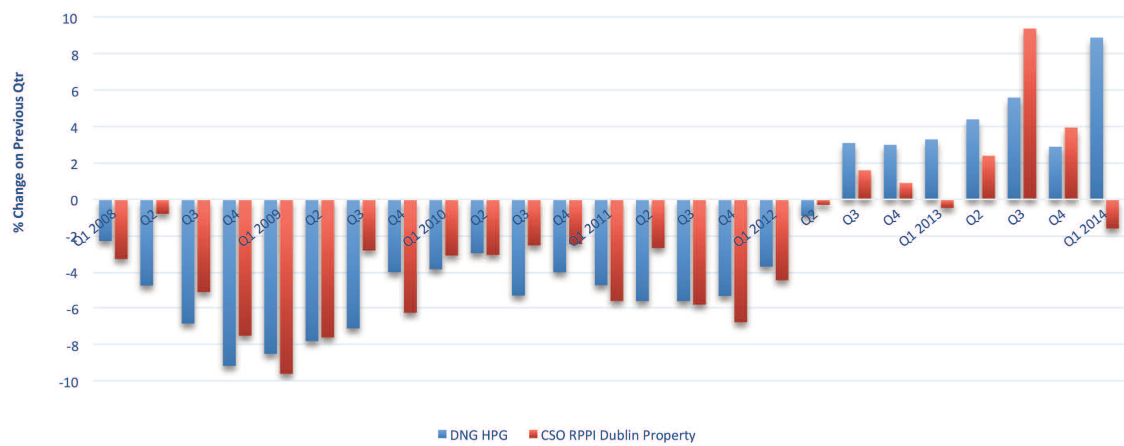
DNG HPG & CSO RPPI DUBLIN

A comparison of the DNG House Price Gauge and the Residential Property Price Index compiled by the Central Statistics Office (CSO), reveals a very similar trend in the pattern of both the quarterly and annual residential property price changes. Analysis of the annual changes in residential property prices from 2006 to 2013 (as shown below) reveals the very similar nature of the two indices with the DNG HPG being published on average at least one month ahead of the CSO RPPI. However, based on the latest release of the CSO RPPI for Dublin properties a divergence in the figures appears to be manifesting itself.

Whilst the complete figures for the first quarter of 2014 are not yet available, the latest statistics released from the CSO record a marginal decrease in values of -1.6% in Dublin over the three months to February (see Figure 4.) It will be interesting to see if this is attributable to a statistical anomaly in the CSO figures in the early months of the year or whether a divergent trend is emerging. Based on both the evidence in the charts of the similar pattern both indices have taken over the last five years, combined with the anecdotal evidence of strong demand in the last three months, it would seem unlikely that price levels are actually faltering in the current market.



Annual % Change in Dublin Residential Property Prices



Quarterly Change in Prices - DNG HPG & CSO RRPI

SUMMARY

It is clear from all the anecdotal evidence available that the primary driver of residential property price inflation in Dublin is the excess of demand for property over the very limited supply of homes for sale on the market. There is plenty of evidence to suggest that this is the case, as homes currently for sale on the market are attracting the interest of tens of multiples of buyers. Traditional weekend viewings of properties are seeing multiple parties wanting to see properties with many bidding on the property after the first inspection. This level of activity is driving prices up at what can only be described as an unsustainable level and it must be noted that the HPG has recorded individual property values that increased way in excess of the average 9% for the quarter overall.

Unfortunately this imbalance between demand and supply is not easily fixed in the short term, as the supply of new properties is inelastic (new homes take a period of several months to be planned and constructed at a minimum) and at present values, many potential vendors are not in a position to offer their home for sale due to the lingering effect of negative equity which characterises large sections of the market overall. As a result it is impossible to see how this rapid rate of price inflation can be eased in the short term. Whilst home construction rates are improving, the current level of output is nowhere near enough to match demand in the market which is estimated at around 23,000 units per annum nationally (to take account for household formation rates and obsolete stock replacement) whilst construction output is currently running at around 9,000 units per annum.

At a macro level, the environment and outlook remain positive for the Irish economy and property market as a whole. Unemployment continues to fall consistently with the latest figures showing a rate of 11.9% for February, the first time the rate has been below 12% since 2008. In addition the Quarterly National Household Survey for Q4 2013 shows that employment in the economy increased by 3.3% or 61,000 people in 2013 and more people at work and fewer unemployed is a fundamentally good sign for the market. It is significant that the largest annual increase in employment occurred in the 35-44 age bracket, where an additional 29,000 were employed during 2013, but perhaps more pertinent to the residential property market is the fact that the only age groups to see a decline in numbers employed were the 25-34 age group (-2.4%) and the 15-19 age group (-5.6%) Traditionally a large cohort of first time buyers in the market would be drawn from the 25-34 age bracket, but evidence now suggests that the average age of first time buyers continues to climb steadily due to changing labour market trends, net emigration and recent economic history. Interest rates remain at an historical low of 0.25% and this is maintaining affordability in the market, notwithstanding the rapid rate of house price inflation eroding some of that affordability for buyers.

Overall, there is little doubt that the Dublin residential property market continues to rebound strongly when compared to the rest of the country and judging by the results of the HPG for the first quarter, price inflation can only be described as unsustainable for any long period of time. However it is important to note that this is primarily an issue in the capital where prices are readjusting and to a lesser extent, other urban areas around the country but there is clear evidence of the two-speed nature of the current market, split between urban and rural locations. It remains to be seen as to when the current rate of price growth will ease back, but in the short term, further price increases can be reasonably expected in the capital given the positive economic backdrop and more importantly the insufficient amount of available property to meet the current levels of demand.

Additional Sources used in compiling the report:

AIB Housing Market Bulletin March 2014

Davy Research – Irish Economy March 5 2014

Davy Research – Quarterly National Household Survey February 27th 2014

CSO Residential Property Price Index for February 2014 published 27th March 2014

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PROPERTY ADVISORS

Tel: 01 4912600 Email: info@dng.ie