Dublin house prices have recorded their first reduction this quarter following 11 consecutive quarterly increases in residential property prices in the capital since price recovery commenced in Q3, 2012. This price repositioning was largely inevitable given last year’s very strong price growth, where house prices rose by 23.5% in the capital as a result of pent up demand and limited stock availability. This price inflation was partially driven by a high level of demand created by investors who competed strongly to purchase good quality properties in the city. These properties had to be purchased by the end of 2014 in order to qualify for an exemption from Capital Gains Tax if buyers held on to the property for 7 years. This rush led to significant price inflation for some property types in a number of city areas.

However, the rate of property price inflation was moderating towards the end of 2014. This stabilising trend has continued into 2015 with a first quarter increase of just 0.4% followed by a fall of 0.9% this quarter. Close to stabilisation, property prices now remain 0.5% down so far this year and 6.6% higher than what they were 12 months ago.

Transactions were 36% higher in 2014 than 2013 and are up 51% in the capital for the first 5 months of 2015 compared to the same period last year. Many sales that completed in the first quarter of 2015 were an overhang from investors who purchased last year and completed sales in the first few months of this year.

Price recovery has resulted in an increase in the amount of property coming for sale in the capital as more owners can now afford to move home where it was not possible or attractive for them to do so over the last number of years. As at the 30th June 2015, over 50% more homes are being marketed for sale in Dublin compared to the same date last year. This extra supply is good news for house buyers and is one of the contributing factors that is leading to this period of price stabilisation in the capital. However, there is still a shortage of certain property types in many locations. An improvement, albeit modest, in the supply of new home construction has also assisted in boosting supply so far this year.

The new Central Bank mortgage lending regulations have also impacted on the market and whilst it is too early to measure its actual effect the new regulations did influence market sentiment. It is also noteworthy that property prices under the €250,000 price point still remain 11% higher than 12 months ago against the average market rise of 6.6%. It is no coincidence that property prices under this price point are performing better than prices over this level in line with the €220,000 threshold set by the Central Bank for exemption of their new loan restrictions. DNG are calling on the Central Bank to increase this threshold to €300,000 as it is putting too much pressure on first time buyers, many who are being forced to live with family or in the rented sector for a longer period of time whilst they save for increased deposits to meet the new more onerous deposit levels required. A buyer purchasing a €300,000 property requires a deposit of €46,000 rather than €30,000 pre the new regulations.

**OVERALL WE EXPECT THAT DUBLIN IS LIKELY TO RECORD SINGLE DIGIT GROWTH THIS YEAR.**

A number of other price indices recently published have recorded positive price growth this quarter in Dublin which is at odds with the DNG House Price Gauge (DNG HPG) results. This disparity is explained by the fact that the DNG HPG does not track quoting prices or the actual sale prices of completed transactions like some of the other industry indexes. The DNG HPG uses a basket approach which includes a range of residential properties sold by the DNG Group c.12 years ago. This basket of property is representative of the many residential asset types in various locations across the Greater Dublin area and is being continuously revalued by DNG agents each quarter. Hence, the DNG HPG is tracking the actual value of residential assets at a point of time each quarter.

The supply of new homes construction has improved somewhat in the last 12 months and is likely to ramp up sharply in the next 24 months in Dublin as a number of development sites are changing hands and new schemes are being released to the market. Also, now that the Housing Supply Coordination Task Force for Dublin is well in place we are likely to see positive actions from local authorities in this regard too. However, outside the capital construction of new homes will be slow to start, as in the main property prices remain too low to make construction financially viable in most locations.

It is likely that property price inflation in many urban areas outside the capital will exceed that of Dublin this year as the ripple effect of Dublin price recovery spreads throughout Ireland. The fact that a higher percentage of properties outside Dublin are under the Central Bank €220,000 threshold will also assist recovery. Overall we expect that Dublin is likely to record single digit growth this year.
KEY FINDINGS

- FALL IN THE AVERAGE PRICE OF A RESALE PROPERTY IN Q2, DOWN -0.9%
- ANNUAL RATE OF INCREASE IN THE YEAR TO JUNE SLOWS TO 6.6%
- PRICES REMAINED BROADLY UNCHANGED DURING FIRST HALF OF YEAR, DOWN -0.5%
- PRICES HAVE RECOVERED BY 53% ON AVERAGE SINCE THE MARKET LOW

HEADLINE RESULTS Q2 2015

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<table>
<thead>
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<tbody>
<tr>
<td>Average Dublin Second Hand Price</td>
<td>€372,104</td>
</tr>
<tr>
<td>Percentage Change Q2 2015</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Annual Percentage Change</td>
<td>6.6%</td>
</tr>
<tr>
<td>% Change Since Low (Q2 2012)</td>
<td>53.6%</td>
</tr>
<tr>
<td>% Change From Peak (Q3 2006)</td>
<td>-48.1%</td>
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QUARTERLY RESULTS

The average price of a resale residential property in Dublin fell by -0.9% in the three months to June, according to the latest results from the DNG House Price Gauge (HPG). The quarterly decline was the first recorded by the HPG since the second quarter of 2012. However, this quarter’s results show a continuing trend of slowing house price inflation in the capital, that began twelve months ago, as shown in figure 1 right.

Whilst the latest statistics are significant as they represent the first quarterly decline in values for a number of years, the HPG results for the first three months had also shown a marked slowdown in the rate of price inflation characterising the market, recording a minimal rise of 0.4% on average across the capital. It remains to be seen whether the Central Bank’s changes to mortgage lending regulation, introduced at the start of the year, is the primary cause of the decline in prices or whether other factors are contributing to the changing market picture.

As a result, the average price of a resale residential property in the capital now stands at €372,104 compared to €375,630 at the end of March 2015, and €349,222 twelve months ago at the end of June 2014.
ANNUAL PERCENTAGE CHANGE

Over the twelve month period to the end of June 2015, the DNG HPG recorded 6.6% growth in the average price of a resale home in the capital. The annual percentage change experienced in the market is the lowest recorded by the HPG since 2012 as shown in figure 2 right. The annual rate of price inflation has been steadily falling since the third quarter of 2014 and the rate of price inflation recorded in the year to June was less than half the rate recorded in the year to the end of March 2015 when prices rose by 14.4% on average.

The current rate of annual price inflation in the capital now stands at a more sustainable level than a year ago, when prices had risen by 25% in the year to June 2014 however it remains to be seen if the current downward pressure on prices will prove to be a lasting trend in the market.

The average price of a residential property in Dublin is still 48% below the average recorded at the peak of the market, but it is worthy of noting that since the market ‘bottomed’ out in early 2012, the average price recorded by the HPG has recovered by approximately 50%, but still a long way short of the peak values seen almost a decade ago.

PRICE CHANGES BY LOCATION

The DNG HPG records the change in the average price of a residential property according to location within Dublin as show in Table 1. Residential property saw a small decrease in price in all areas of the capital, with prices falling by -1.2% in north Dublin, -0.7% in south Dublin and by -1.1% in west Dublin.

Only Dublin’s north side saw an annual rate of price inflation in excess of 7% in the twelve months to the end of June with prices increasing by 8.3% on average over the period. Since the peak of the market in 2006, prices are now 40% lower in west Dublin, whereas on the south side of the city prices remain 52% below their peak of 2006. All areas of the city have also seen prices recover in excess of 50% since the low point recorded early in 2012.
PRICE CHANGES BY PRICE BRACKET

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

Prices at all levels of the market saw a marginal decline in the three months to the end of June. Prices at the most affordable end of the market remained broadly stagnant over the period decreasing by just -0.2%. Over the same period it was, however, the mid-market properties that saw the most notable falls in value. As shown in table 2 right, the HPG recorded an average fall of -1.5% in the value of properties priced between €250,000 and €500,000 in the market.

Since the market low point, prices at the entry level to the market have seen the biggest recovery regaining approximately 68% of their value on average, in contrast to the upper end of the market where prices are now 50% higher than at that time.

DNG HPG & CSO RPPI DUBLIN

A comparison of the DNG House Price Gauge and the CSO 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 in figure 3 right.

Both the Central Statistics Office Price Index and the DNG House Price Index show a very similar trend in the movement of Dublin prices over the first half of the year. Whilst the quarterly change in prices has varied across the two measures in the last two quarters, in the first half of the year the overall percentage change recorded by the DNG HPG was -0.5%, and for the five months to the end of May, the CSO Index for all Dublin residential property recorded a decline of -0.7%. It is clear on both measures that since the start of 2015 prices across the capital have remained largely flat.

Note: The CSO RPPI Q2 2015 data only relates to the months of April and May 2015
At the midpoint of 2015 the DNG HPG shows a picture of stable residential property values in Dublin with the average price of a resale property showing little change in value. The latest results also show that this is the case for properties at all price levels and in all locations across the capital. This emerging trend is also evident in the CSO’s Property Price Index for Dublin residential property so it appears that the market has cooled since the turn of the year. The changed market picture has emerged due to an increase in supply in the capital of property for sale and also some property prices in the capital have readjusted as they appear to have overshot the median as a result of competition from buyers last year to purchase property prior the ending of the Capital Gains Tax exemption scheme. The new Central Bank restrictions have had some negative impact on the market but it is still too early to predict its overall effect.

However it is true to say that property at the entry level to the market saw prices perform a little better than average during the first six months of the year as demand remained robust. Indeed, residential property worth less than €250,000 increased in value by 11% on average over the last twelve months, whereas property worth in excess of €500,000 saw an average increase of approximately half this amount according to the HPG.

Demand remains greater than supply in the Dublin area and the main factors underpinning that demand remain positive, hence prices are stable despite the tighter monetary environment for mortgage lending. Housing completions remain too low compared to their long term average and the expected demand for housing which is estimated at around 8,000 per annum in Dublin. Housing activity does continue to increase but this has yet to translate into a significant increase in completed units available on the market and according to the latest data planning permissions also showed solid growth in the first quarter of the year.

In line with the increased level of construction activity has come a corresponding increase in employment in the construction sector. This in turn has contributed to the increase in employment seen in the wider economy of around 2% over the last twelve months. At the same time there has been a corresponding reduction in the numbers of unemployed, with the current rate of unemployment standing below 10% from a high of 15% three years ago. Finally the outlook for interest rates remains favourable for borrowers with little sign of any significant increased on the horizon. Indeed current events happening on the European stage would strongly suggest that interest rate increases are not on the agenda of the European Central Bank.

All these factors have combined over the first half of 2015, to create a stable more sustainable residential property sales market, however this is not to forget that the overall demand for accommodation in the state continues to rise, none more so than in the capital where rising rents and a shortage of properties to meet demand mean that an ever increasing number are relying on the state for accommodation provision.

Looking ahead to the remainder of the year, it is now less likely that residential property values will increase in any significant manner, unless any measures introduced as part of the Budget change the current status quo in the latter part of the year. The number of transactions taking place in the market will again increase this year in line with further availability of stock on the market given the positive economic backdrop cast by the domestic economy. However, the remainder of 2015 will provide the data and evidence as to the extent to which the recently introduced Central Bank mortgage lending restrictions are acting as an artificial anchor on prices in the Dublin market, where demand remains strong and supply is shorter than required.

ADDITIONAL SOURCES USED IN COMPILING THE REPORT:

Central Bank of Ireland - Quarterly Bulletin April 2015
Central Statistics Office - Residential Property Price Index May 2015
Central Statistics Office - Planning Permissions Q1 2015
Banking & Payments Federation Ireland - Housing Market Monitor Q1 2015
AIB Treasury Economic Research Unit - Housing Market Bulletin June 2015
AIB Treasury Economic Research Unit - The Irish Economic Update May 2015
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