RESIDENTIAL MARKET REVIEW Q3, 2014

Dublin house prices are on a trend towards stabilisation, however Government and Central Bank need to exercise care in their interventions so as not to undermine fragile property market.Dublin property prices continue to increase, albeit at more moderate levels, with a 4.8% increase in the price of an average residential property in the capital in the third quarter of 2014. This means that house prices in the Greater Dublin Area have risen by just short of 18% in the first 9 months of this year or by an average of 2% per month. Year on year the annual percentage increase is recorded at 24.2%.

It is comforting to see that for the first time since the start of the economic crisis that residential property prices are now less than 50% lower than the peak in Quarter 3, 2006 particularly for those caught in the negative equity trap and that this trend is set to continue. Equally, if not more importantly, it is also reassuring that the levels of price growth in capital have moderated somewhat for a second consecutive quarter from a high of 8.9% in Q1, 2014, 5.9% in Quarter2 to 4.8% this quarter.

This tapering out in Dublin house price growth which is set to continue is to be welcomed and should be viewed as a steading of the residential market, as it would be extremely destructive for the property market to overheat at this critical time. Much of the increase in prices over the last 12 months can be put down to significant increases in general market confidence, increased availability of mortgage finance particularly from the pillar Irish banks, a lack of supply from both the resale sector as well as the lack of new home construction in the last number of years. The announcement by the Minister for Finance that the current CGT exemption (investors pay no CGT if they buy property by the end of 2014 and hold on to them for 7 years) is not to be extended and will end at the end of this year is also adding to price inflation as investors especially in Dublin are driving pricing upwards as they compete for investment properties which they must now buy and complete by the end of this year.

Numbers of properties coming to the market from all sources including individuals wishing to trade up and those trading down, insolvent stock from the lending institutions and Receivers and NAMA itself have all assisted in increasing volumes on the market with stock levels over 45% higher for the first six months of 2014 compared to last year. It is this increase in supply that will naturally slow the rate of house price inflation. It should also be noted that the increase in supply is been experienced in the majority of counties in Ireland with the number of sales rising across the board.

Much has been reported regarding the urgent need for new construction and house completions. Estimates for numbers required vary dramatically with some industry sources indicating that up to 25,000 could be required per annum until 2020. We believe that this is much exaggerated and that the Government Housing Agency's prediction of 80,000 units required in urban areas, approximately half of those in Dublin, over the next 5 years to be a far more realistic figure, with the numbers needed ramping up over the five years from 9,500 in 2014 to 20,900 in 2018.

Care is now needed by the Government not to over influence the property markets recovery. Whilst proper and considered planning is vital so that appropriate and affordable property types to include family homes in urban areas are brought to the market, it is also essential that Government actions do not overheat the market and cause future economic difficulties.

Overall we are against material Government intervention in the property market at this time, we do, however, have a serious concerns regarding the lack of Social Housing and the amount of individuals and families living on the streets or who are at future risk of homelessness. Whilst the Governments very able Housing Agency are making good strides, DNG, in their Pre-Budget Submission, have called for the government to introduce Section 23 style tax incentives for long term investors if they choose to rent their properties for long term social housing purposes. We believe that this measure could assist in what we believe to be a critical area of housing policy which must be urgently addressed.

We contend that the property market is still not operating normally as just under 1.5% of housing stock is changing hands compared to an average figure of 4% across England, Scotland Wales and Northern Ireland. Mortgages, whilst more readily available, are still not as fluid as required and there is still little funding available to investors. Just under half of the residential properties bought for the first six months of 2014 were financed with a mortgage. There is also very limited financing available to builders to construct new homes and many are been forced to procure funding from foreign investment firms at exorbitant rates of interest. These issues still need to be addressed.

It is our belief that property prices will increase again in the last quarter of 2014 be it at a lower rate which is welcome. We see continued price growth in 2015 with rises at much more moderate levels especially in the first quarter of 2015. More modest levels of price growth will be crucial for the market and now appear much more likely going forward.

Finally, as we go to press with our quarterly results we note that the Government and the Central Bank have just announced new proposals for both the planning process and new mortgage lending.

One of the reforms announced last week by the Minister for the Environment Community and Local Government, Alan Kelly, is to introduce an annual vacant site levy of 3% of the market value of the sites located within urban centres of greater than 3,000 population (which covers most suburban areas in Ireland). This, in our view, is a completely inappropriate measure and it should be shelved immediately, particularly at a time when it is widely acknowledged that there is virtually no financial funding for development in Ireland. Therefore we believe applying a tax to property owners at such a high rate in these circumstances is completely unfair and heavy handed. Many site owners are in financial difficulty and/or are in negotiations or discussions with their financial institutions at this time, notwithstanding that a considerable number of these sites are not financially viable especially outside the capital. In many instances property prices especially outside Dublin are extremely low and the value of the completed apartments or houses could be well below the build cost of the units. Due to all of these circumstances the Minister needs to re-evaluate his proposed bill and postpone this measure for a future more appropriate time.

New proposed mortgage lending rules published by the Central Bank this week mean that most house buyers will have to have a 20% deposit when applying for a home loan, due to come into force on 1st January 2015. The Central Bank is proposing that no more than 15 per cent of all new mortgages for private dwelling homes should have a loan to value (LTV) ratio above 20 per cent. This means that most first-time buyers are now going to be expected to have at least a 20 per cent deposit when buying a home. For a property priced at €250,000 a buyer will require a deposit of €50,000 which will take a considerable amount of time to amass .In addition, it has also been decided that just one-fifth of new mortgages should be issued above a level of three and a half times income (LTI). In the case of buy-to-let properties, no more than 10 per cent of the value of all new loans should have an LTV above 80 per cent. Such measures will force certain buyers to rent for longer as they save, thereby putting further pressure on rents, and consequently putting more pressure on supply as less properties come to the market for sale or to rent. Construction at this level of the market could also slow and builders and developers may be justifiably wary that potential buyers will be able to save sufficient amounts to purchase new homes especially in the first time buyer end of the market. All interventions have the potential to destabilise the delicate balance that is finally appearing in the residential property market. We hope that the Central Bank's latitude in permitting up to 15% of new mortgages over 80% is sufficient to not either stymie construction or prohibit potential purchasers especially in the first time buyer, low to mid-range income cohort.

Keith Lowe FRICS FSCSI MIPAV
Chief Executive DNG

Q3

DOUGLAS NEWMAN GOOD
DNG
MARKET REVIEW **Q3 2014**

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KEY FINDINGS

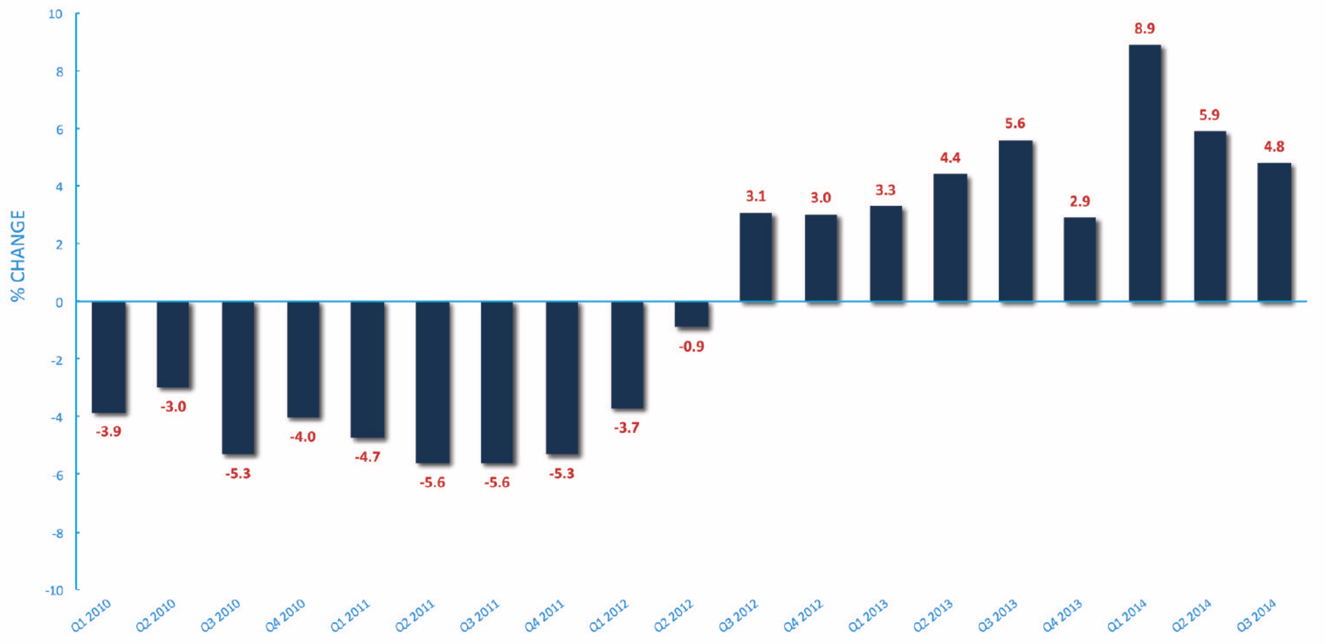
- ➢ Strong price growth remains a feature of the Dublin market in Q3.
- ➢ Average price of a residential property in the capital rises 4.8% in Q3.
- ➢ Prices rise by 2% per month on average in twelve months to September 2014.
- ➢ Prices now less than 50% lower than at the peak and up 51% since market low point.

Q3 2014	
Average Dublin Second Hand Price	€365,857
Percentage Change Q3 2014	4.8%
Annual Percentage Change	24.2%
% Change Since Low (Q2 2012)	51.1%
% Change From Peak (Q3 2006)	-49.0%

Headline Results Q3 2014

QUARTERLY RESULTS

The DNG House Price Gauge (HPG) recorded an increase of 4.8% in the average price of a residential resale property in Dublin during the three months to the end of September 2014. The quarterly rate of price increase in the third quarter of the year was slightly lower than that recorded in the previous quarter (5.9%) and continues the trend of a slowing pace of quarterly property price inflation seen in the year to date, as shown in Figure 1 above. The latest quarterly results from the HPG mean that the average price of a resale residential property in Dublin now stands at €365,000, up from €349,000 at the end of quarter two, and €294,000 twelve months ago. The average value of a residential property in the capital has now been rising consistently for nine consecutive quarters, as recorded by the HPG.



Quarterly Change in Dublin Residential Property Prices

ANNUAL PERCENTAGE CHANGE

The latest results of the HPG show that the rate of price inflation, as measured on an annual basis, eased back slightly in the twelve months to September 2014. The annual percentage increase in Dublin residential prices fell to 24.2% over the period, compared to an annual rate of increase of 25.2% in the year to the end of June 2014. However, the rate of annual price inflation is still significantly higher than that recorded in the year to the end of September 2013 when

prices rose by 17.9% on average and this reflects the strong rate of price growth in the early part of 2014.

The latest results mean that residential property prices in the capital are now 49% below peak levels as the market continues to recover, having been some 66% below their peak values in the second quarter of 2012. Likewise, since the residential market's low point in Q2 2012 prices have risen strongly, up by 51% on average according to the HPG. The average price of a resale property in the capital has now recovered to levels last seen in the middle of 2010. As a result of the latest figures in the HPG, the forecast for the rate of annual price inflation for the whole of 2014 remains unchanged at approximately 25%.
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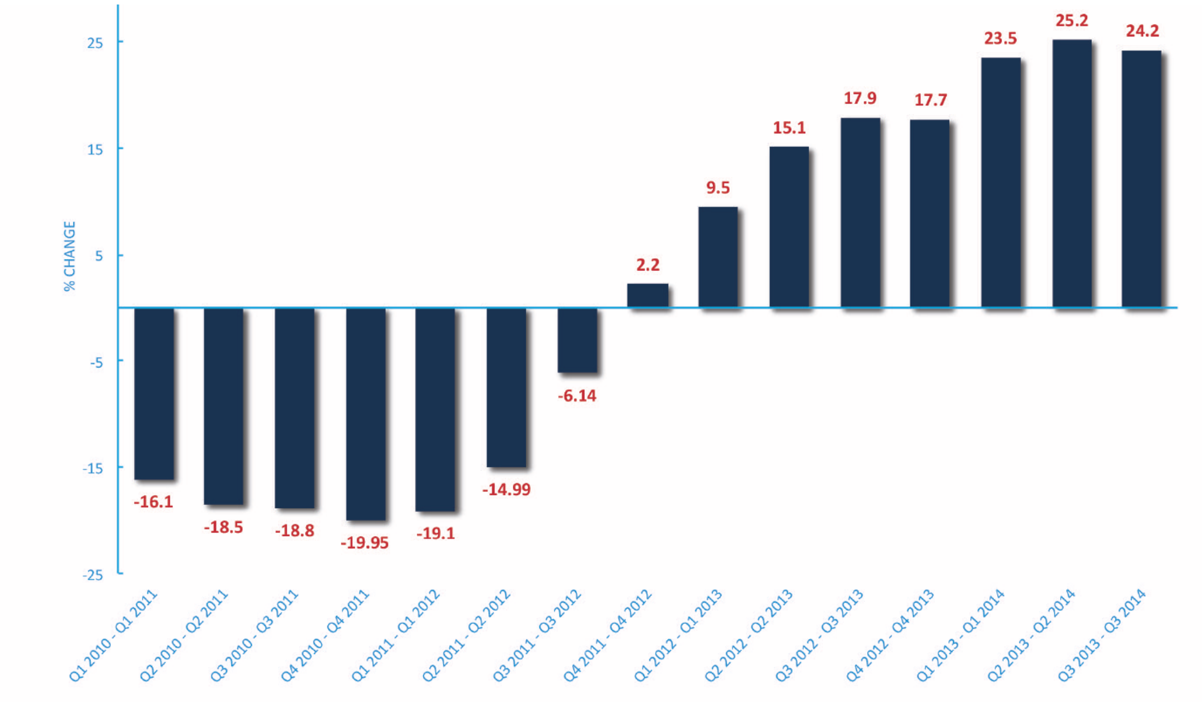


Quarterly Change in Dublin Residential Property Prices

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.

Residential prices continued to increase across all areas of the capital during the third quarter as shown in Table 1 above. Prices increased in south Dublin by around the overall average at 4.7%, with slightly slower growth in west Dublin (3.9%) and slightly stronger growth in north Dublin (5.5%). However, looking at the previous twelve months, prices in west Dublin have recorded the strongest levels of growth at 31% whilst prices in south Dublin have seen a lower rate of increase at 22.4%. Prices in the south of the capital are still more than 50% below their peak levels whereas in west Dublin, the stronger quarterly percentage increases since the market low point in 2012 mean that prices are now only 40% below their peak values. Unsurprisingly west Dublin has also seen the strongest recovery when expressed in percentage growth terms, with prices rising by almost 57% on average since the market low point.

	Q3 2014	Annual % Change	From Peak (Q3 06)	From Trough (Q2 2012)
Southside	4.7%	22.4%	-52.6%	49.3%
Northside	5.5%	23.3%	-46.5%	50.6%
Westside	3.9%	31.0%	-40.7%	56.8%

Price Changes By Location

PRICE CHANGES BY PRICE BRACKET

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

The entry level to the market returned the strongest performance in terms of percentage price growth in the third quarter of the year with prices rising strongly at 7.1% for properties valued at less than €250,000. Likewise, in the year to September 2014, the entry level to the market saw prices rise the fastest at 38%, some ten percentage points more than any other price range on the HPG. Conversely prices at the upper end of the market have only risen by 18% on average in the previous twelve months.

	Q3 2014	Annual % Change	From Peak (Q3 06)	From Trough (Q2 2012)
Up to €250,000	7.1%	38.0%	-50.2%	60.0%
€251,000 to €350,001	4.7%	26.8%	-40.2%	51.6%
€351,000 to €500,000	4.3%	23.1%	-41.7%	51.0%
Over €500,000	4.0%	18.1%	-54.9%	46.9%

Price Changes By Price Bracket

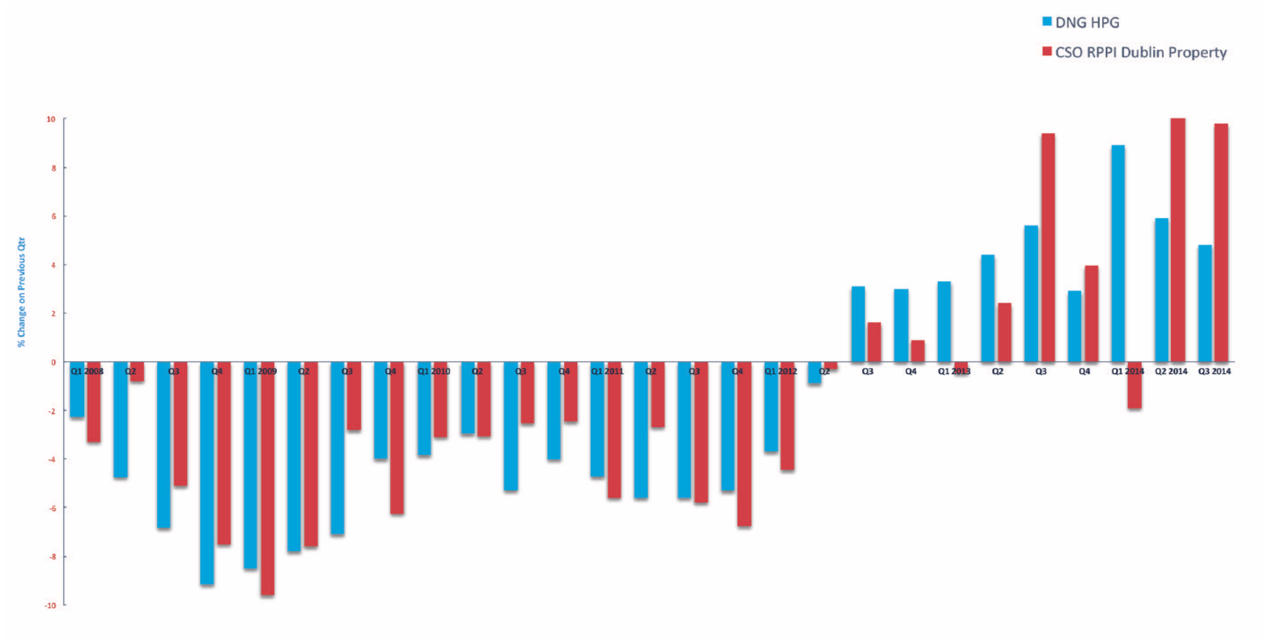
Strong demand for starter homes from both first time buyers and investors saw prices rising quickly as purchasers moved to take advantage of the value presented by the market. At all other price levels above the entry level, prices increased by around the average for the quarter as a whole, between 4% for the upper end of the market and 4.7% in the €250-350,000 price bracket. Since the market low point in 2012, prices at the entry level to the market have recovered by 60% on average whereas prices at the upper end of the scale have only seen price growth of around 47%.

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 the quarterly residential property price changes. However the quarterly figures so far for 2014 show that the CSO index recording much larger growth in prices when compared to the DNG HPG. The reason for this is somewhat unclear and it remains to be seen if the divergent trend continues for the remainder of this year and into next.

It should be stated that the CSO statistics for the third quarter are not yet fully available and the graph above uses data for the months of July and August only from the CSO, so unless there is another 'surprise' decline in the CSO Index during the month of September the difference in the third quarter figures will be of an even greater magnitude.

Notwithstanding the recent difference in the quarterly figures between the two indices the key point remains that both measures are recording strong growth in residential property prices in the capital.



Quarterly Change in Prices - DNG HPG & CSO RRPI

SUMMARY

The DNG HPG continues to record strong growth in residential property prices in the Dublin residential market. It must be noted that whilst the rate of price inflation appears to be slowing modestly with each successive quarter in 2014, the annual rate of inflation remains very roust at 24% year on year. This figure corresponds closely with the annual rate of inflation recorded by the CSO RPPI in July of 25.1%. Dublin is experiencing a boom in prices that, to date, has yet to be replicated across the regions although there are encouraging signs that the market is recovering on a wider regional basis, albeit far more slowly than in the capital.

Demand in the Dublin residential market continues to outstrip supply leading to strong growth in prices, however, prices still remain at approximately half the levels seen at the peak of the previous boom, suggesting there is still some scope for further price increases across the remainder of 2014 and into 2015. However it is both unlikely and undesirable for prices to reach previous peak levels.

Demand in the current cycle is being underpinned by a number of positive factors across the 'post-bailout' Irish landscape, thus creating favourably tailwinds for the market, particularly in Dublin. Recent upward revisions to forecasted growth in the economy demonstrate the strength of the recovery now being experienced across the capital. Unemployment continues to inch lower month on month, with the Standardised Unemployment Rate down to 11.2% in August according to the latest Live Register figures. Likewise, Irish employment continues to climb, increasing by 1.7% or 31,600 in the year to June 2014. Importantly, for the future prospects of the residential property market, there was an increase in full-time employment of 2.4% over the same period suggesting that the recovery is starting to take a deeper hold and businesses feel more confident about hiring full time employees. Furthermore it is expected that the recovery will strengthen further and become more broadly based and consumer spending is expected to expand in line with improved consumer confidence.

At present there is little relief to the growth in prices being provided by the supply side of the equation, however, there are signs that as prices have grown over the last two years, there is anecdotal evidence of a greater amount of resale stock on the market than in recent years, as home-owners feel the benefit of increased values and reduced levels of negative equity. Whilst Government and Local Authorities now at least acknowledge that in certain regions, notably Dublin, there is a genuine housing crisis and shortage and it remains to be seen how efficiently and expediently the levels of supply can be increased to meet the forecast level of demand in the short and medium term. Budget 2015 is an opportunity for government to signal its commitment to increasing the level of supply available in the market. A properly functioning new homes market would go a long way to achieving this goal.

Moving into the final quarter of 2014, it is clear that prices will continue to rise as we move into 2015, and will more than likely continue to do so in Dublin until such time as the level of supply in the market closer matches the level of demand and interest rates increase and thus weaken affordability for first time buyers although there is little or no prospect of higher rates in the Eurozone area given the continued weakness and fragility of the Eurozone Economic area as a whole. Prices in the capitals residential property market are now forecast to rise by 25% for 2014 as a whole with the risk of higher prices continuing well into 2015 and perhaps beyond but at a lower level of increase.

Additional Sources used in compiling the report:

AIB Housing Market Bulletin September 2014

Ulster Bank. Irish Economic Outlook. August 2014

Central Statistics Office. Quarterly National Household Survey. Q2 2014.

Central Statistics Office. Residential Property Price Index. August 2014.

Central Statistics Office. Live Register. August 2014.

All Central Statistics Office data available from: www.cso.ie

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GALWAY
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DNG Brian McMahon — Oranmore
DNG Lyons Bracken — Athenry
DNG Martin O'Connor — Oughterard
DNG Maxwell Heaslip Leonard — Galway City

KERRY
DNG Ted Healy — Killarney
DNG Timothy O'Sullivan — Kenmare
DNG WH Giles — Tralee

KILDARE
DNG Doyle — Naas
DNG McCormack Clane — Clane
DNG Progressive — Maynooth

KILKENNY
DNG Ella Dunphy — Co. Kilkenny

LAOIS
DNG Cowen Kelly — Portarlington

LEITRIM
DNG Farrell — Carrick on Shannon

LIMERICK
DNG Cusack Dunne — Limerick City
DNG Stack — Abbeyfeale

LONGFORD
DNG Frank Regan — Longford Town

LOUTH
DNG Brady — Drogheda
DNG Duffy — Dundalk

MAYO
DNG Burke Connolly Maloney — Castlebar
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