

RESIDENTIAL MARKET REVIEW Q1 2017

HEADLINE RESULTS Q1 2017

Annual Percentage Change

9.0%

Average Dublin Second Hand Price

€411,691

% Change Since Low (Q2 2012)

70.0%

Percentage Change Q1 2017

3.3%

% Change From Peak (Q3 2006)

-42.6%

RESIDENTIAL MARKET REVIEW Q1

REPORT COMPILED BY
DNG RESEARCH 2017

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DNG NATIONWIDE PRESENCE



IS BUYING THE BEST OPTION?

KEITH LOWE
CHIEF EXECUTIVE DNG



With rents at an all-time high is renting the best option or should people consider buying?

The reality is that a significant percentage of the population may never earn sufficient income or be able save the required deposit to buy their own home in the capital meaning renting is the only real option for them. People who immigrated to Ireland from far afield, many working in the technology and financial sectors, only plan to stay in Ireland for 3-5 years and again their accommodation needs are transitory and best suited to the rental sector. Equally there is a cohort of society who simply do not want to buy and have a preference to rent a home.

For the balance purchasing their own home is a real and attainable goal and they are in the fortunate position of being able to choose whether to rent or buy and when to make that decision to enter the home ownership market.

Before Christmas a first-time buyer of a new home costing €300,000 would have a required savings of €38,000. Changes to the Central Banks mortgage lending rules in November and the introduction of a first-time buyer's initiative in Budget 2017 means that today the same buyer essentially only requires savings of just over €9,000. The difference being that first time buyers can now obtain a 90% mortgages once again and claim a 'Help to Buy' 5% rebate if they are purchasing a new property from a qualifying builder. In addition, many can receive a 2% cashback from banks that are running this incentive scheme. Leaving some buyers effectively only needing a 3% deposit to purchase a new home.

On the converse side the cost of renting has been steadily increasing for a considerable time now, resulting in a situation where the cost of renting is now higher than buying in a lot of instances. A typical mortgage of €270,000 over 25 years will cost €423,000 assuming a variable rate mortgage at 3.9% / APR 4.06%. The equivalent rent over the same period at €1,750 per month is €525,000. €102,000 more assuming no rental inflation. Even if mortgage interest rates rose to 5%/5.16% APR it would still be cheaper to buy than rent.

Purchasing also allows a buyer to have security of tenure as they will ultimately own the property at the end of their mortgage term. They can paint, furnish and fit it out their home as they wish and eventually own a valuable asset which they can utilise in their old age or pass on to their family. So all in all owning your own home gives stability, opportunity and security and a buyer can say "this is mine".

For those who are unable to qualify for a bank mortgage due to affordability issues, I believe our Government need to look to the UK, our nearest neighbours, and introduce an alternative option to renting or buying, in the form of a shared equity loan where the state or local authority take a stake in the property together with the buyer. This type of shared ownership loan was very popular in the 1980's and

90's in Ireland and allowed many buyers to purchase a home where under the normal lending rules they would have had insufficient income to qualify for a bank mortgage. This type of loan changed the lives of thousands of young Irish families.

Introduced in the UK in response to the recent downturn, the shared equity loan is hugely successful has been the catalyst that has assisted tens of thousands of buyers get on the property ladder and at the same time assist in getting the building industry back on its feet. The UK Government have assisted 360,000 buyers purchase a new a home in the Britain though this and other initiatives. The British shared equity scheme allows buyers to purchase with a 5% deposit with the government taking a stake of up to 20% of the value of the property outside London and up to 40% in the capital for properties.

However, in reality the Irish Help to Buy scheme is simply a first time buyers grant for new homes which certainly looks like it will be successful as it is providing buyers with a much needed assistance with their deposit and equally builders have renewed confidence that they can now sell entry level priced houses as needed to facilitate construction. Regrettably it does little to help those in terms of affordability whereas a shared equity type scheme would have done more to assist to that end.



DNG HOUSE PRICE GAUGE

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3.3%

AVERAGE RESIDENTIAL PROPERTY PRICE
IN DUBLIN INCREASES BY 3.3% IN Q1.

9.0%

ANNUAL RATE OF INFLATION INCREASES
TO 9% IN THE YEAR TO MARCH 2017.

70%

RESIDENTIAL PROPERTY PRICES HAVE
NOW RISEN BY 70% SINCE THE MARKET
LOW POINT.

**RATE OF INCREASE
IN RESIDENTIAL
PRICES CONTINUES TO
STRENGTHEN FOR THE
FOURTH CONSECUTIVE
QUARTER.**



QUARTERLY RESULTS

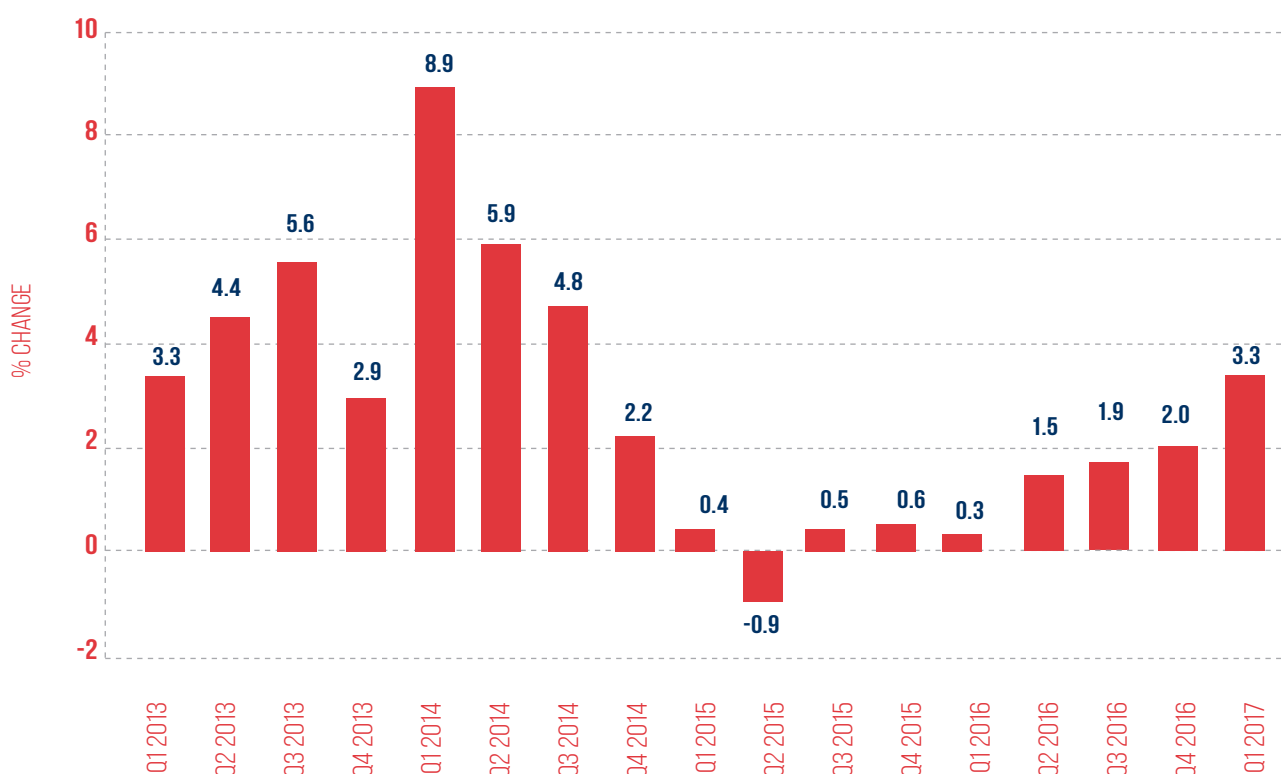
The pace of residential property price inflation accelerated for a fourth consecutive quarter during the first three months of the year, with the average price of a resale property in Dublin rising by 3.3% on average. This compares to a rate of 2.2% in the fourth quarter of 2016 and is in stark contrast to the rate of 0.3% seen in quarter one 2016.

The latest results mean that the average price of a resale residential property in Dublin now stands at €411,691, up from €398,649 at the end of 2016.

3.3%

According to the latest results from the DNG House Price Gauge (HPG) the average price of a resale property in the capital increased by 3.3% in the first quarter of 2017.

FIGURE 1: QUARTERLY PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES



ANNUAL PERCENTAGE CHANGE

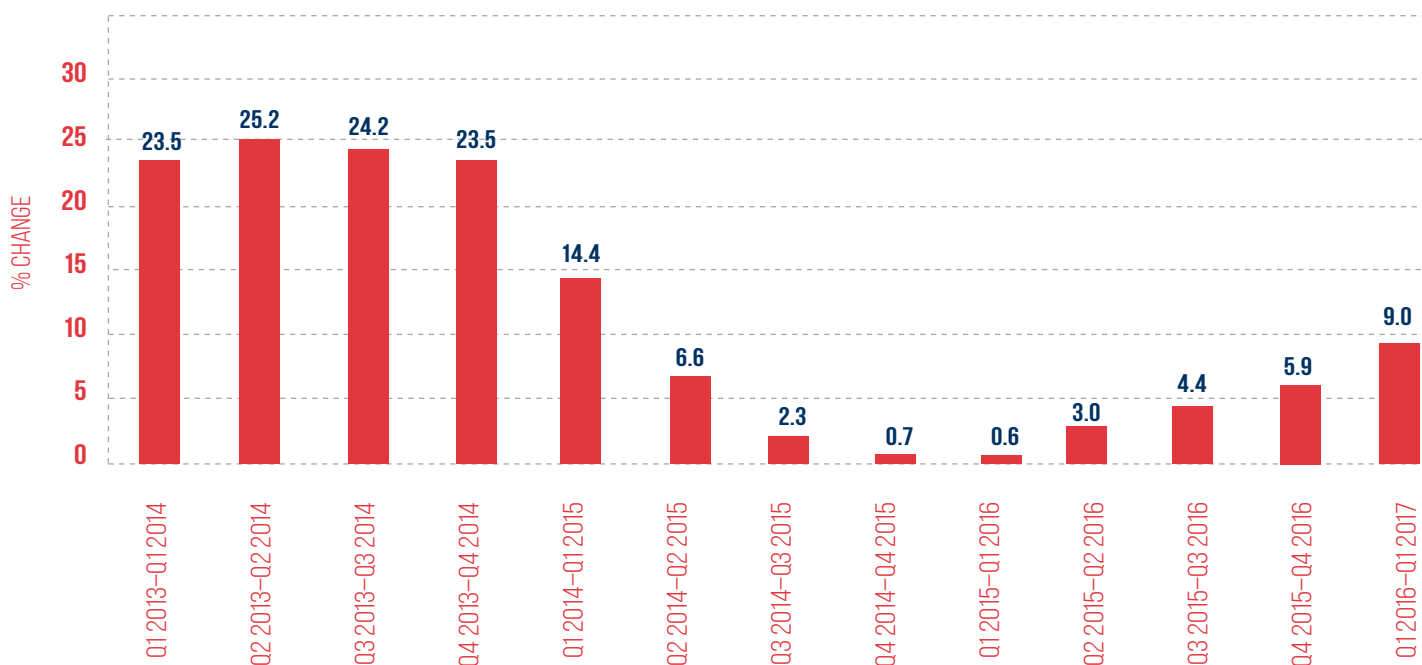
Given the latest quarterly rise in values, it is unsurprising that the annual rate of inflation has also accelerated to 9% in the year to March 2017. This compares to an increase of 5.9% in the year to December 2016 and is in stark contrast to the 0.6% increase seen in the twelve months to March 2016.

The latest increase in residential values in the capital means that current prices are now 42% below the peak values seen in 2006, with the average price having increased by 70% since the market low point in 2012. The average price of a home in the capital now stands at €411,691 according to the HPG, an increase of almost €34,000 over the last twelve months. Current market conditions are such that it would appear likely that the annual rate of inflation will continue to accelerate as the year progresses.

9.0%

The latest quarterly results show that the annual rate of inflation has accelerated to 9% in the year to March 2017.

FIGURE 2: ANNUAL PERCENTAGE CHANGE IN DUBLIN RESIDENTIAL PROPERTY PRICES



PRICE CHANGES BY LOCATION

Q1 South Dublin

3.8%

Q1 West Dublin

1.5%

Q1 North Dublin

3.5%

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

During the first three months of 2017, both north Dublin and south Dublin saw prices increase by slightly more than the overall average, whilst west Dublin saw slightly below average rises during the quarter.

The annual rate of inflation was strongest in south Dublin at 10.2% over the twelve months to March 2017, conversely the annual rate of increase was more sluggish in north Dublin at 7.3% over the same period. Across all areas of the capital prices have risen by approximately 70% since the market low point and perhaps more significantly, prices in west Dublin now stand 34% below their highest level as recorded by the HPG.

Across all areas of the capital prices have risen by approximately 70% since the market low point.

TABLE 1: PRICE CHANGES BY LOCATION

	Q1 2017	ANNUAL % CHANGE	FROM PEAK (Q3 06)	FROM LOW (Q2 2012)
SOUTHSIDE	3.8%	10.2%	-46.2%	69.5%
NORTHSIDE	3.5%	7.3%	-40.0%	68.9%
WESTSIDE	1.5%	8.1%	-34.5%	73.0%

PRICE CHANGES BY PRICE BRACKET

3.9%

Prices at the entry level to the market saw above average increases in quarter one, rising by 3.9% according to the HPG.

The DNG HPG measures the movement in prices for different price brackets of property within the sample as shown in table 2. below.

Prices at the entry level to the market saw above average increases in quarter one, rising by 3.9% according to the HPG. In addition, it was this first time buyer sector that saw the largest annual increase in the twelve months to March 2017, with prices increasing by 13%.

93.7%

The average price of a property in Dublin under €250,000 has risen 93.7% since market low point at Q2 2012.

The latest results mean that values have now almost doubled in this sector of the market since the market low point in 2012. At the upper end of the market prices are recovering well however the rate of increase in this sector is much more sustainable at 2.9% in quarter one and 7.6% over the past year.

TABLE 2: PRICE CHANGES BY PRICE BRACKET

	Q1 2017	ANNUAL % CHANGE	FROM PEAK (Q3 06)	FROM LOW (Q2 2012)
UP TO €250,000	3.9%	13.0%	-41.3%	93.7%
€250,001 TO €350,000	3.0%	9.2%	-34.6%	75.5%
€350,001 TO €500,000	3.8%	9.3%	-32.7%	72.4%
OVER €500,000	2.9%	7.6%	-49.8%	60.7%

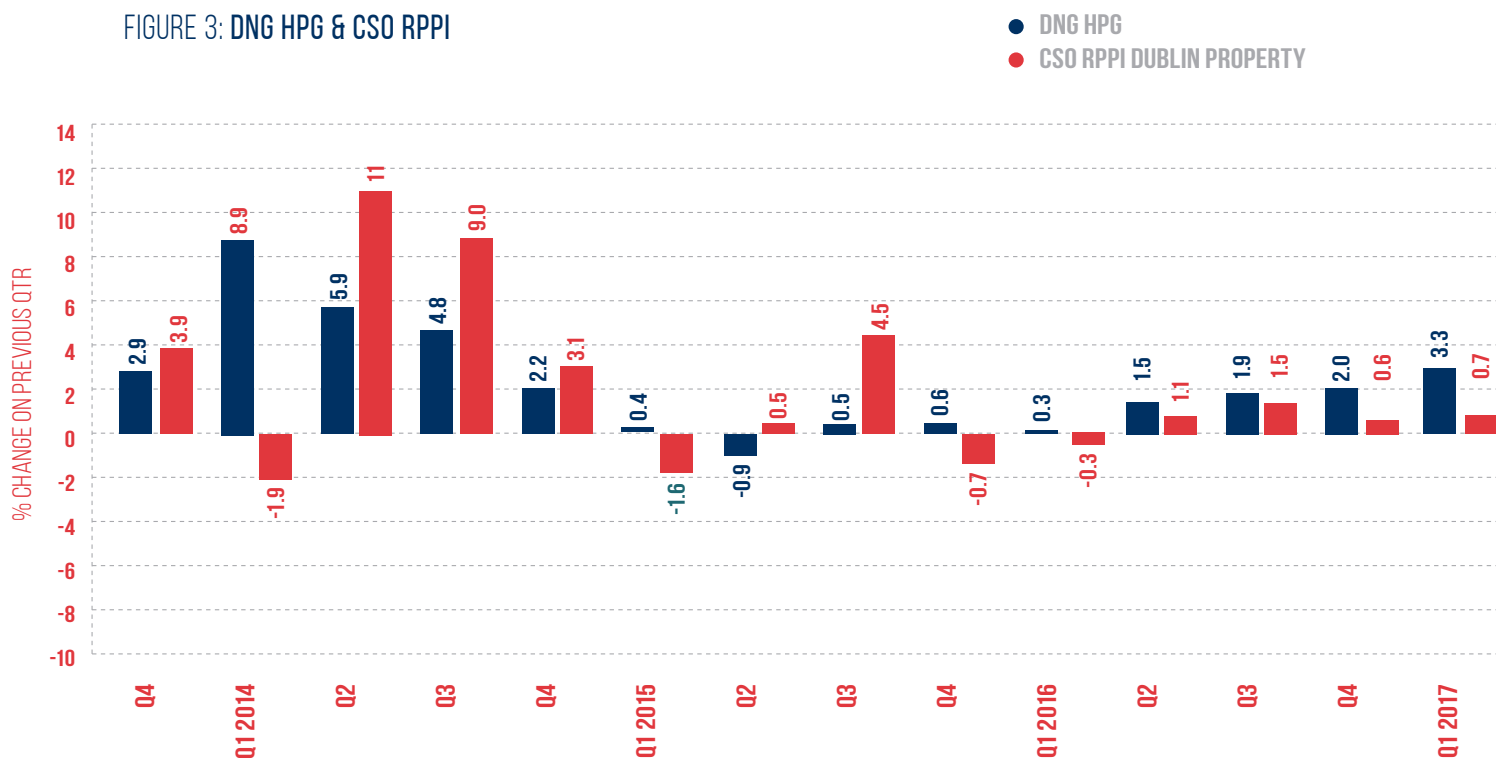
DNG HPG & CSO RPPI DUBLIN

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 (RPPI) for all Dublin residential property.

The last nine months have seen slight variations in the rate of increase in residential property prices in the capital across the two indices. In quarter three last year the DNG HPG recorded stronger growth than the CSO RPPI but this was reversed in the final three months of 2016. Overall, both measures have shown a remarkable likeness over the past six years and it remains to be seen if this trend continues in the rest of 2017.

Both measures have shown a remarkable likeness over the past six years.

FIGURE 3: DNG HPG & CSO RPPI



Note: The CSO RPPI figure shown in Q1 2017 above relates to the 12 months to the end of January 2017 only.

THE ONLY SOLUTION TO THE EXCESS OF DEMAND OVER SUPPLY IN THE RESIDENTIAL MARKET IS TO BUILD MORE UNITS, PARTICULARLY IN DUBLIN.

The latest results of the DNG HPG confirm that prices in the residential property market are rising strongly as demand continues to outstrip supply in Dublin. The rate of increase also accelerated again quarter on quarter, and year on year, as it has done for four consecutive quarters.

It would seem that the acceleration in prices in the early part of 2017 has in part been driven forward by the recent relaxation of the Central Banks mortgage lending rules which means that first time buyers now only require a 10% deposit for purchases irrespective of the value of the property. Prior to last November a deposit of 20% was required on the balance of the mortgage over €220,000.

As is already well documented, the only solution to the excess of demand over supply in the residential market is to build more units, particularly in Dublin. This takes time and whilst forward indicators such as housing commencements are showing positive growth year on year albeit from a very low base, new house completions across the capital are still under expectations.

€411,691

The average price of a second hand home in Dublin.

In the whole of 2016 only 4,234 units were completed in Dublin, approximately half the level required to meet demand according to most estimates.

As mentioned earlier, it appears that demand has strengthened in conjunction with the relaxation of the Central Bank's mortgage lending rules but this is not the whole story by any means. Firstly, the DNG HPG shows clearly that the rate of price inflation was accelerating several months before the rules were relaxed and other factors other than a lack of supply and the revised lending rules are underpinning prices in the Dublin market at the present time. The continued strength of the Irish economy is the other major factor pushing up prices in the market.

As the year progresses it is likely that residential property price inflation will continue to increase, notwithstanding any external economic shocks that might impact negatively on house prices. It is within reason that for 2017 as a whole, property price inflation will see low double digit growth again and whilst inflation in the range of 10-12% is sustainable in the short term, if the rate were to accelerate further, more measures may be required to cool the market.

In 2016 GDP grew by an estimated 5.2% and this increase in economic activity translated into a further fall in unemployment which now stands at 6.6% down from 8.4% a year earlier.

In other words an additional 36,000 people are at work compared to 12 months earlier.

DNG APARTMENT PRICE GAUGE

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

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QUARTERLY RESULTS

Strong growth in values during Q1 - rate of price inflation rose to 4.9%

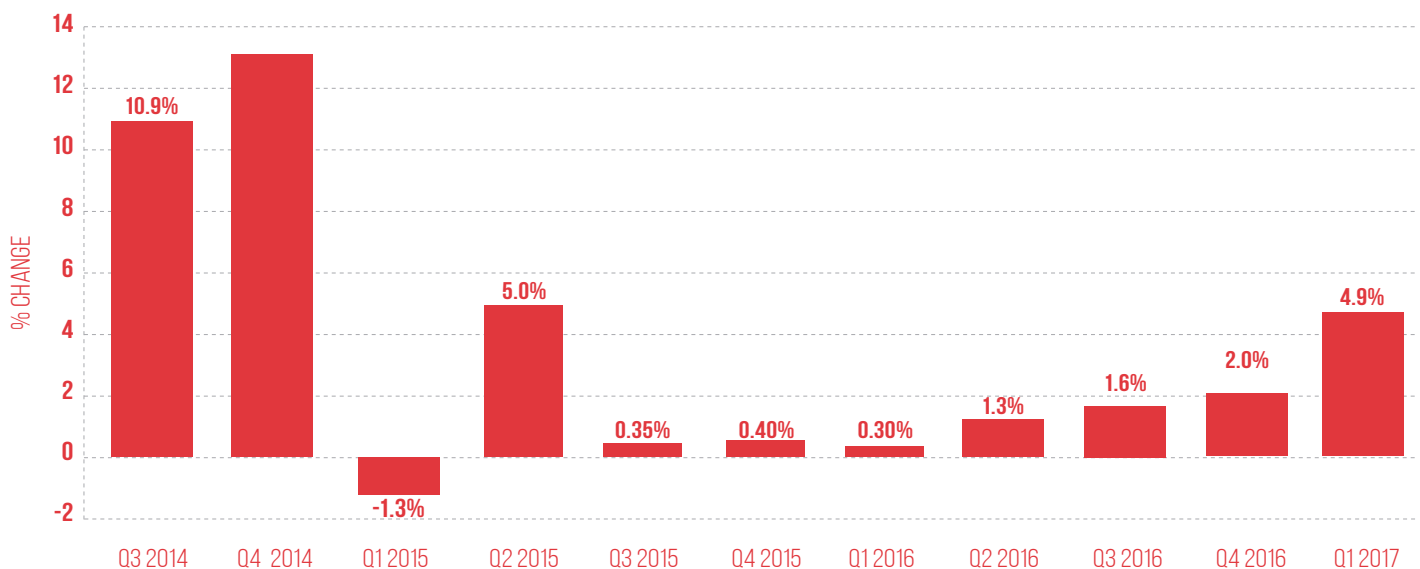
Average price of an apartment in the capital rises over €30,000 in last 12 months.

Strong demand and relatively low stock levels driving recent increases.

4.9%

In Q1 the average increase recorded by the APG was 4.9%.

FIGURE 1: QUARTERLY PERCENTAGE CHANGE IN DUBLIN APARTMENT PRICES



ANNUAL PERCENTAGE CHANGE

Strong rise in values in first quarter accelerates annual rate of increase to 11.6% (see figure 2).

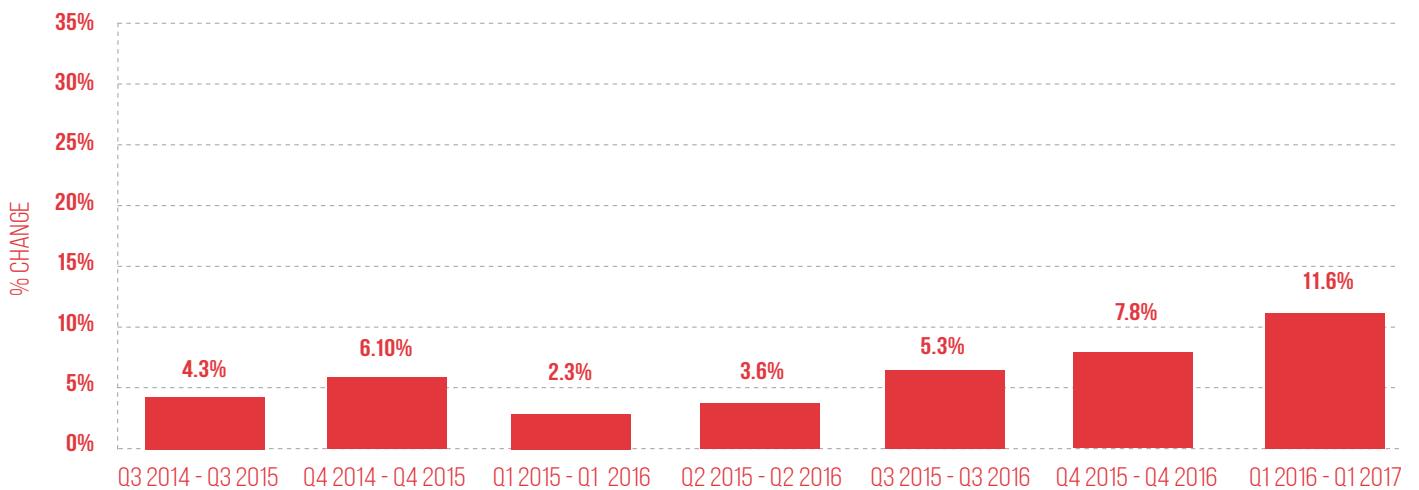
The annual rate of price increase has strengthened progressively over the last 12 months from 2.3% in the year to March 2016 to a current rate of 11.6%.

The average price of an apartment in Dublin now stands at €290,130.

2.3%

The annual rate of price increase has strengthened progressively over the last 12 months from 2.3% in the year to March 2016 to a current rate of 11.6%.

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. Table 1 shows the rate of change in prices over the last three and last twelve months .

- The central area of the capital recorded the largest rises - average price up 5.6% in first quarter, and by 13.7% in the year to March.
- Apartment prices in West Dublin perform well in quarter one especially those located around the Luas line.

TABLE 1: PRICE CHANGES BY AREA

	% CHANGE Q1 2017	ANNUAL % CHANGE
CENTRAL	5.6%	13.7%
NORTH DUBLIN	4.7%	11.7%
SOUTH DUBLIN	4.9%	11.3%
WEST DUBLIN	3.9%	9.5%

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.

- As prices continue to rise, cheaper one bedroom apartments see strongest growth in prices during first quarter, increasing 5.6%.
- As a result, the annual rate of increase for one bedroom properties accelerates to 14.2% in the year to March.
- Smaller rates of increase seen for three bedroom properties at 3.2% in quarter one and 7.7% in the year to March.

TABLE 2: PRICE CHANGES BY NO. OF BEDROOMS

	% CHANGE Q1 2017	ANNUAL % CHANGE
ONE BED APT	5.6%	14.2%
TWO BED APT	5.0%	11.7%
THREE BED APT	3.2%	7.7%

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

DNG APG & CSO RPPI COMPARISON

Figure 3 below shows the comparison between the Central Statistics Office Dublin Apartment Price Index and the DNG APG.

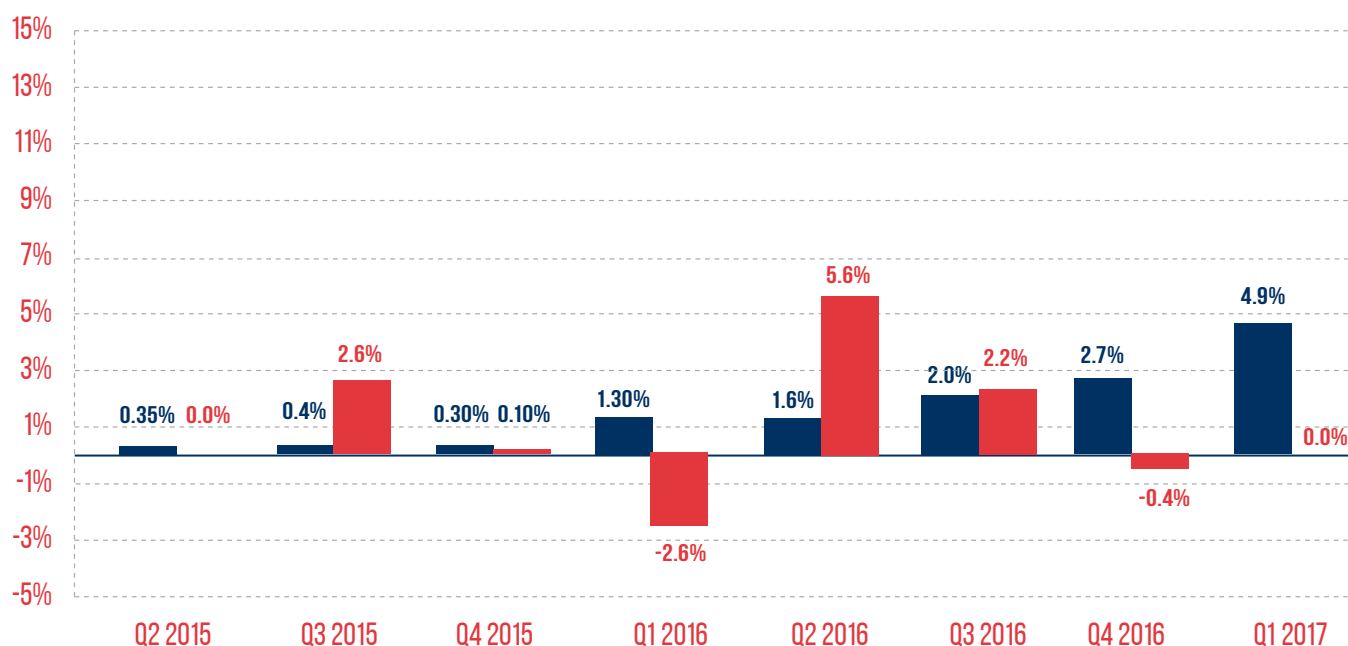
Recent differences in the quarterly statistics highlighted in Q4 2016 when the DNG APG rose by 2.7% and the CSO Dublin apartment index showed a slight fall.

On an annualised basis both indices continue to show a very similar pattern.

Note: based on the new CSO price index methodology, the CSO Dublin apartment index data used in the above charts has been revised compared to previous publications. In addition, no data for Q4 2016 was available from the CSO at the time of writing.

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

● DNG APG
● CSO DUBLIN APARTMENT INDEX



THE AVERAGE PRICE OF AN APARTMENT IN THE CAPITAL NOW STANDS AT €290,000 COMPARED TO €256,541 AT THE END OF 2015.



The combination of strong demand and limited availability of stock continues to drive up prices in the Dublin apartment market.

All areas of the city saw an increased rate of price growth in the first quarter of the year.

Demand driven by more first time buyers entering the market as a result of Budget 2017 leading to greater competition with those trading down and investing.

Annual rate of price inflation moves above 10% for the first time since Q2 2015.

The average price of an apartment in the capital now stands at €290,000

€290,000

The average price of an apartment in Dublin.

DNG APG RESULTS Q4 2016

Prices of apartments are now rising faster than houses as apartments price recovery was slower to commence.

Average Price of an Apt. in Dublin

€290,130

% Change Q1 2017

4.9%

Annual % Change

11.6%



CASH/ NON-MORTGAGE TRANSACTIONS 2016

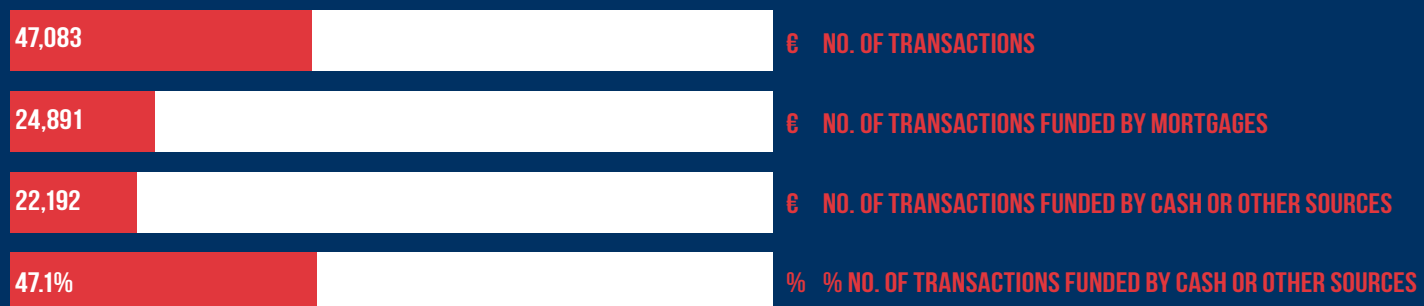
- Cash/ non-mortgage transactions were running at 47% in volume terms and at 57% of value over the course of 2016.
- Total transactions numbers are down by just 4% but value of transactions up by 7% compared to same period in 2015.
- Number of mortgages excluding top-ups & re-mortgages were up by 30% for 2016 compared to same period in 2015 but are up by 12% in value terms.

*DNG Research – BPFI & Property Price Register
(Figures exclude Re-mortgages & Top-ups) March 2016

2016 VALUE OF TRANSACTIONS BY EURO (BILLION)



2016 BY NUMBER OF TRANSACTIONS



TRANSACTION LEVELS

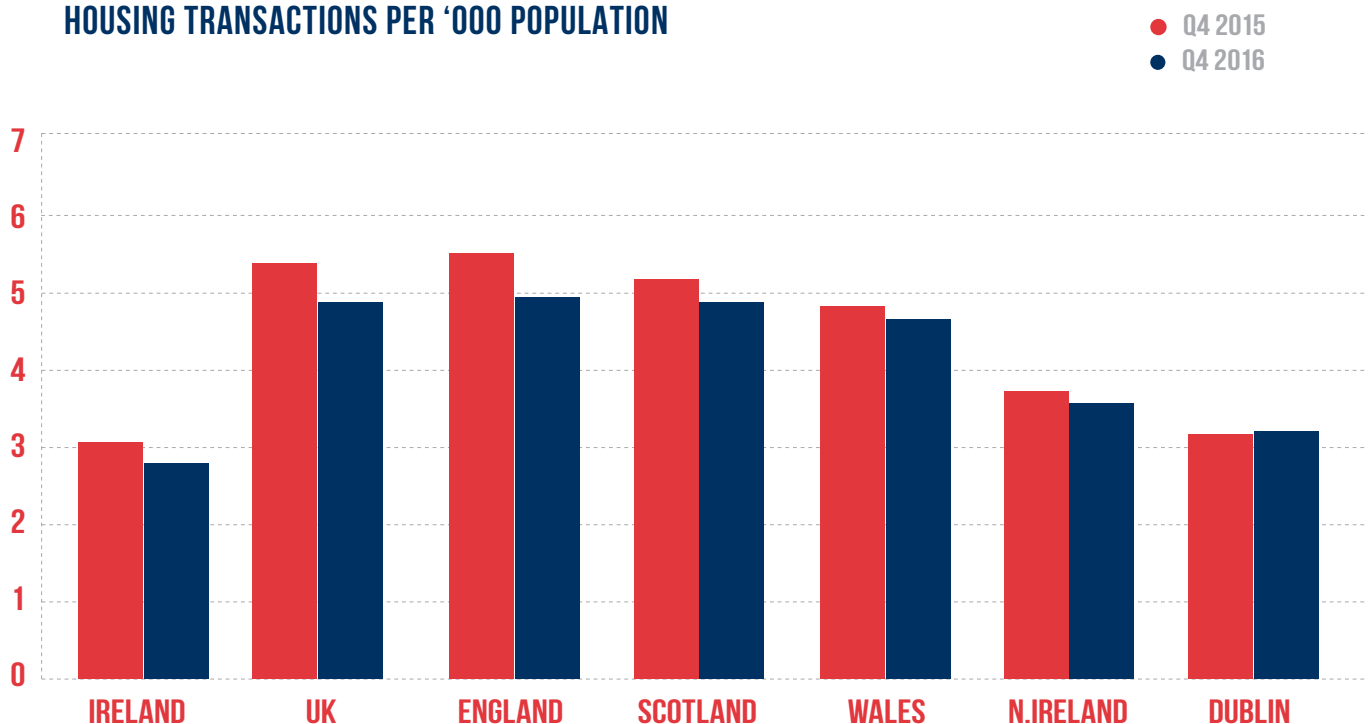
IRELAND V'S UK

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

- Transaction levels increase in Dublin but drop slightly for the whole of Ireland when compared to same quarter in 2015.
- In UK, and all regions of the UK, volumes decreased in Q4 2016 compared to Q4 2015 potentially reflecting the Brexit Vote result.
- Ireland's transaction levels are just over half the average UK level.
- Ireland continues to run significantly behind all of our nearest neighbours.

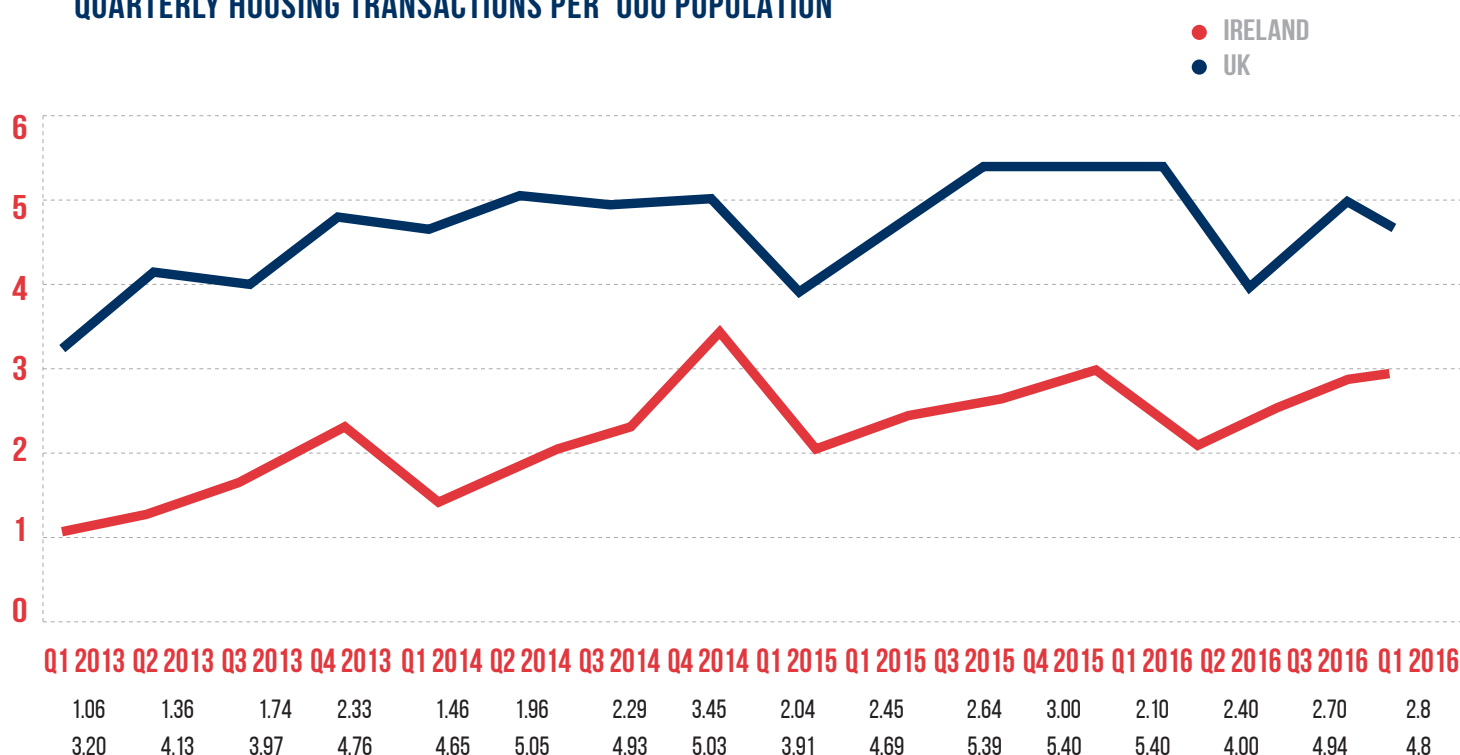
HOUSING TRANSACTIONS PER '000 POPULATION



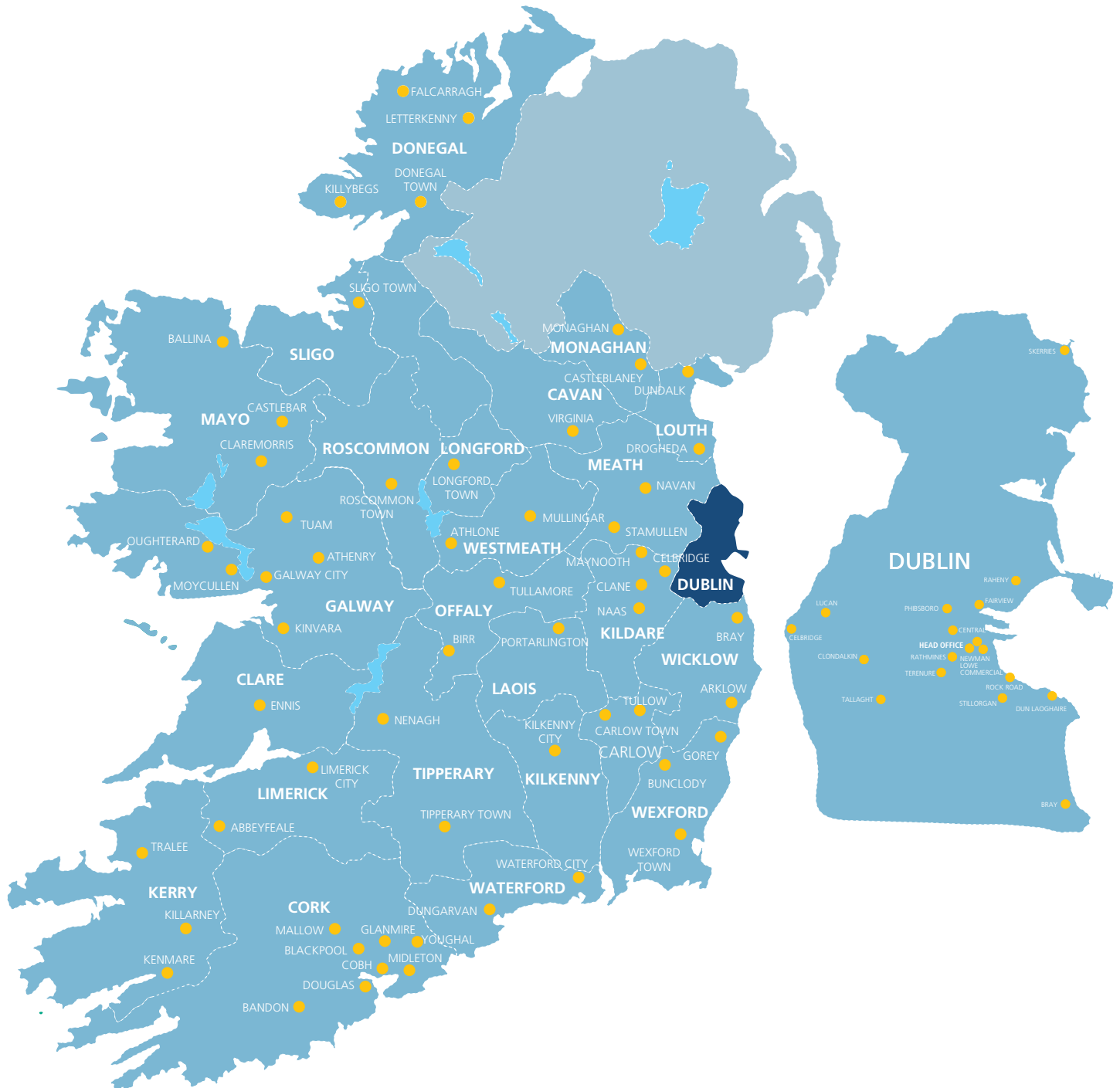
QUARTERLY HOUSE TRANSACTIONS PER THOUSAND POPULATION

- Q4 2016 saw a continued improvement in Irish transaction levels after the Q1 decline.
- UK markets relatively level after the dip in the second quarter of 2016, however, the true impact of the Brexit vote will only be realised process of exiting the EU progresses.
- Ireland is still off reaching 'normal' level of transactions.

QUARTERLY HOUSING TRANSACTIONS PER '000 POPULATION



DNG NATIONWIDE PRESENCE



DOUGLAS NEWMAN GOOD
DNG

Additional Sources used in compiling the report:

AIB Treasury Research - Housing Market Bulletin March 2017.

CSO Ireland - Residential Property Price Index January 2017.

Banking and Payments Federation Ireland Housing Market Monitor Q4 2016.

CSO Quarterly National Accounts Q4 2016.

CSO Dublin Apartment Price Index, January 2017



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