Spring Review 2011

Irish Residential Market

The opening months of 2011 brought similar challenges to those witnessed in the closing quarter of 2010. Concerns surrounding the economy, the IMF entry into the market, Budget 2011 and the election still appeared to dominate consumer sentiment, thereby impacting consumer expenditure.

As such transaction levels in the residential market were lower than levels recorded in 2010, but notably they still remain stronger than in the same period in 2009.

The pace of price deflation remained quite strong in the opening quarter of the year, although notably, the stock of available second-hand properties is continuing to decline with limited new properties coming on the market in the opening weeks of the year.

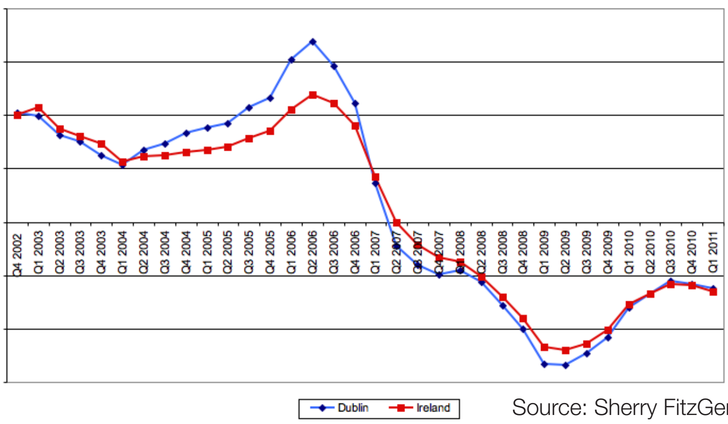
Looking to the year ahead, there is no doubt that the market will remain challenging in the coming months as consumers digest the income tax implications of the Budget together with a rising interest rate environment. That said, the greatest obstacle for all markets in the year ahead lies in the availability of credit. True stability will only be achieved with a normalisation of the credit flow in the economy.

“The pace of price deflation remained quite strong in the opening quarter of the year, a reflection of negative consumer sentiment, concerns surrounding the wider economy and the interest rate cycle”

Marian Finnegan, Chief Economist, Sherry FitzGerald

Irish Residential Market

Sherry FitzGerald Barometer of Second-Hand Housing Markets



Source: Sherry FitzGerald Research

Irish Established Housing Market

The performance of the established housing market remains volatile and subject to significant swings in consumer behaviour. This is perhaps best illustrated through an analysis of price performance in the Dublin and Irish housing market.

The latest results from the Sherry FitzGerald index reveal that the average price of a second-hand property in Dublin fell by 4.0% in the first quarter of the year. This brings the total drop in Dublin prices in the twelve months to end March to minus 12.5%.

Similarly the comparable figures for the national market saw the average price of a second-hand house in Ireland fall by 4.0% in the first quarter. This brings the total drop in prices to minus 13.2% during the twelve months to March 2011.

> “First time buyers remain the most dominant cohort in the market place”

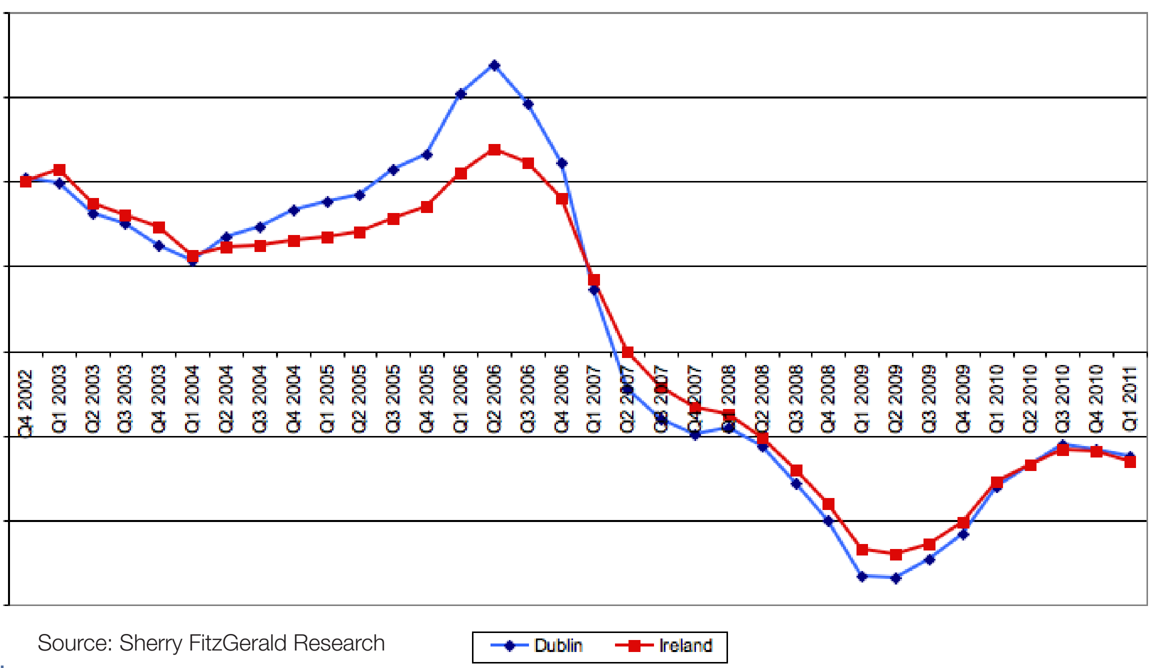
The Cork market saw prices fall by 3.1% in the first three months, bringing the results for the twelve months to March to minus 12.8%.

From the peak of the market in 2006, Dublin house prices have fallen in real terms by 55.8%, while the national market has corrected by 51.1%.

This, in effect means that prices in Dublin and Ireland are back at levels achieved in quarter two 2002. An analysis of the stock of available property for sale in the second hand market in January reveals a total of 53,300 units for sale nationwide, of which 6,800 were located in Dublin City and County. Both statistics are lower than levels recorded in July 2010. An analysis of transaction levels in the market, reveal some interesting trends. Not surprisingly perhaps approximately 88% of the second hand homes transacted through Sherry FitzGerald were purchased by owner occupiers.

In the first quarter, first time buyers remain the most active cohort in the market accounting for 45% of the properties traded in the year to date. This trend is particularly important as the larger proportion of first time buyers in the market is having a disproportionate impact both on the profile of properties trading and price levels. This would appear to be a direct function of the access to finance for first time buyers in the mortgage market.

Sherry FitzGerald Barometer of Second-Hand Housing Markets



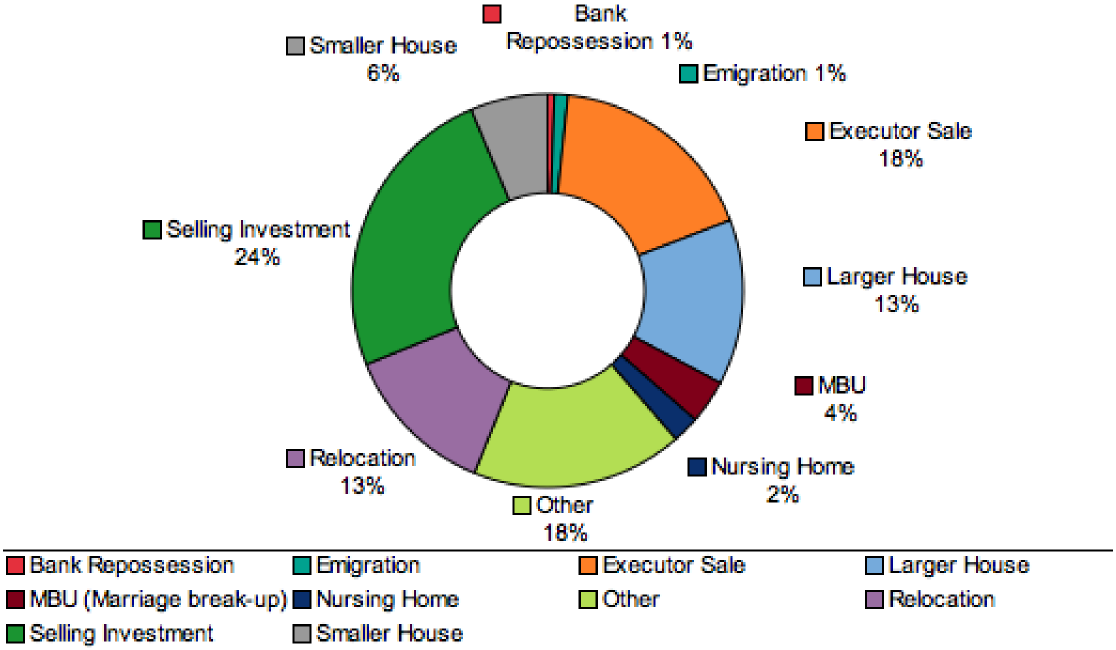
Source: Sherry FitzGerald Research

> Notably, the stock of available second-hand properties is continuing to decline with limited new properties coming on the market in the opening weeks of the year

An analysis of the profile of vendors who sold their property through Sherry FitzGerald in the year to date revealed that 24% of vendors were selling investment properties. This compared to 30% during the same period in 2010. Approximately 13% of vendors sold with the intention of purchasing a larger property, compared to 19% during the same period in 2010.

The other significant cohort was executor sales representing 18% of all vendors during the opening three month period. Approximately 6% of vendors sold to purchase a smaller property while only 1% stated that the reason for the sale was bank repossession. It should be noted that this analysis is based on transactions through the Sherry FitzGerald network as such information is not available for the entire market place.

Vendor Analysis in Market Q1, 2011



Source: Sherry FitzGerald Research

Affordability Barometer

The Sherry FitzGerald affordability barometer assesses affordability levels in the Dublin and Irish residential markets by examining the proportion of net income absorbed by mortgage repayments.

> “There is growing anecdotal evidence of a strengthening rental market”

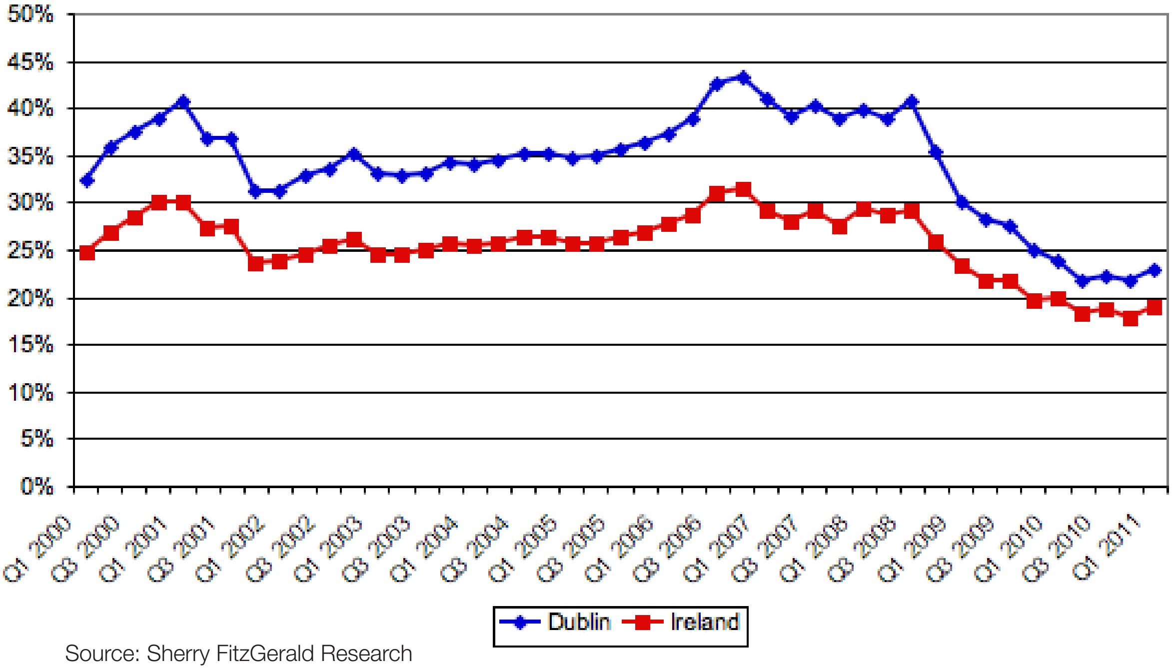
The analysis is based on weighted average salary levels for Ireland and Dublin using figures from the Central Statistics Office, and average new house price figures from the Permanent tsb / ESRI house price index.

The results of the barometer show heightened levels of affordability in both the Dublin and Irish markets in recent years reflecting a decline in average house prices coupled with continued low interest rates. In effect the latest results illustrate very clearly the enhanced levels of affordability in Dublin and Ireland in recent months over any period since this analysis began in the mid 1990s.

Results for the end of 2010 reveal that a first time buyer couple purchasing a house in Dublin and borrowing 90% of the value would have used 22% of their net monthly income to finance the mortgage over a 20 year period. This is compared to 25% a year earlier.

This has fallen significantly from the 43% proportion recorded four years previously when the market was close to its peak. By the end of the first quarter this had increased marginally to 23% following an increase in mortgage interest rates. If the period of the mortgage is extended to 30 years, the proportion of net monthly income absorbed by mortgage repayments would fall to 18% at the end of quarter one 2011, compared to 19% twelve months previously. The results for the Irish market show similar although not as marked improvements in affordability levels in recent years. As a result, the gap in affordability levels between the two markets has narrowed somewhat. This may reflect more limited activity in the Irish new homes market which has resulted in lower levels of price correction.
In particular, a first time buyer couple purchasing a house in Ireland would have used 19% of their net monthly income to finance a 90% mortgage over a 20 year period at the end of quarter one 2011. This is compared to 20% at the end of 2009 and has fallen from the 31% proportion recorded four years earlier.

Affordability Barometer, First Time Buyers



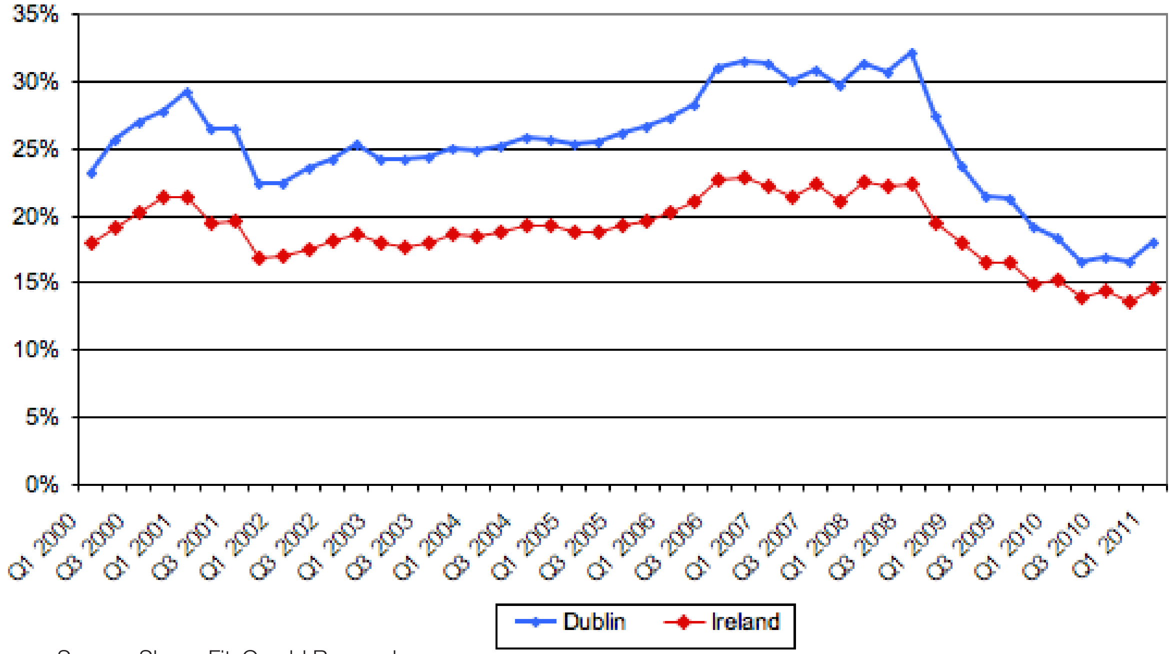
Source: Sherry FitzGerald Research

Extending the period of the mortgage to 30 years would reduce the proportion of net monthly income required to finance the mortgage to 15% at the end of quarter one 2011.

Even in the past two years there has been a marked improvement in affordability levels. Couples trading up and borrowing 65% of the value of a property located in Dublin would have seen 18% of their net monthly income absorbed by mortgage repayments at the end of March 2011 compared to 27% at the end of 2008. If mortgage payments are spread over a 30 year period this proportion would fall further to 14% of net monthly income.

For a property in Ireland, the proportion of net monthly income used by a couple trading up to finance a 65% mortgage stood at 15% at the end of March 2011, compared to 19% two years earlier. This proportion falls to 11% if the period of the loan is extended to 30 years.
Looking forward over the next two years, it is likely that higher rates of income tax, coupled with a continued decline in average earnings and rising mortgage rates will impede affordability levels somewhat. That said, affordability levels for new entrants in the market place will remain very favorable given the very significant correction in house prices in all markets. In summary, despite rising interest rates affordability levels will remain a positive attribute of the market for the foreseeable future

Affordability Barometer, Trading Up



Source: Sherry FitzGerald Research

Residential Demand and Supply

In the current challenging economic climate, it is particularly important to look at what the future holds for the residential property market. In particular, it is essential to analyse demand forecasts for both the national and regional markets and the implications for future construction activity.

A true understanding of demand will only be determined by an analysis of fertility, mortality, net migration and inter-regional migration patterns.

It is also important to review the supply of product delivered to the market in recent years and to consider the implications of this to the future equilibrium of the market.

The accompanying graph of housing completions in the Irish market clearly illustrates the heightened level of completion activity during the Celtic tiger years.

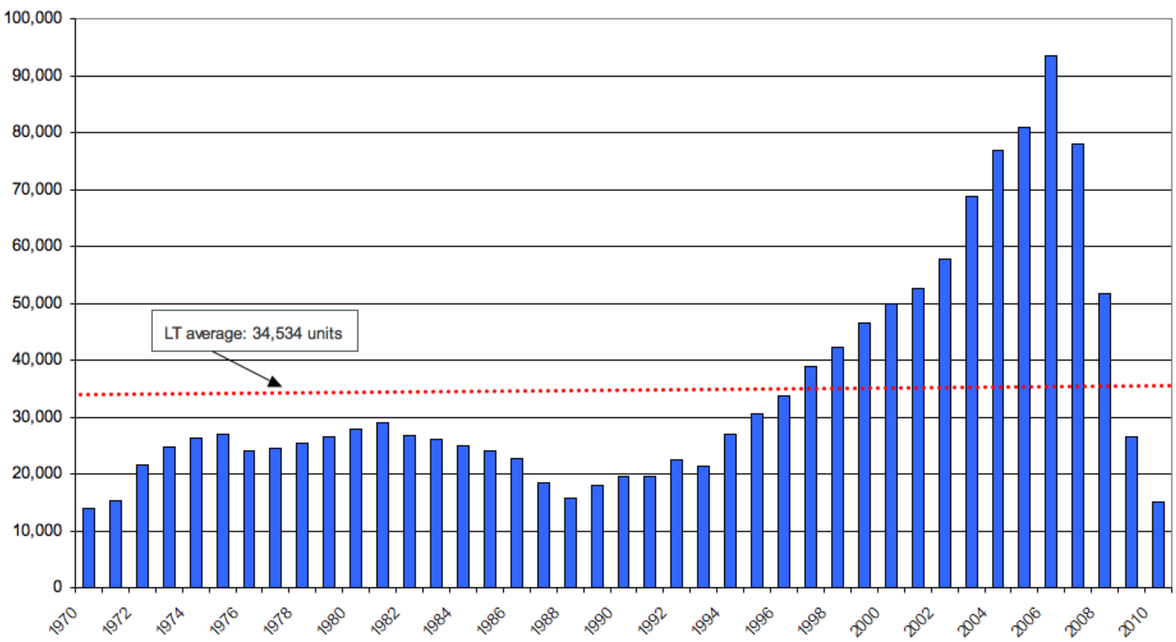
> “The greatest obstacle for all markets in the year ahead lies in the availability of credit”

It is not so much the quantity of units delivered over that period that would be a concern, rather it is the profile of units built.

The housing boom in Ireland began as a first time buyer boom, which led to an increase in the quantity of starter homes delivered in the market place. This trend continued well beyond the first time buyer boom in response increased levels of net migration into the economy.
Given the recent reversal in the migration flow and the gradual aging of the population, the predominant demand is no longer for starter homes. Indeed the fall in average prices has further exaggerated this with many would be first time buyers now preferring to buy their second home first. As such the greatest concern is the quantity of starter homes, typically smaller apartments unsold in the market rather than the absolute quantity of unsold product.

To understand the quantity of units overhanging the market place Sherry FitzGerald Research conduct a bi-annual analysis of the quantity of units advertised as available for sale in the second hand market.
The results of this latest analysis from February 2011 have been combined with the Department of the Environment and Local Governments study of new units in July 2010. The accompanying map illustrates the proportion of the private housing stock in each county which was available for sale as of this updated study in February 2011.

Housing Completions 1970-2010



Source: Sherry FitzGerald Research

In total approximately 5.6% of the private housing stock of the State was available for sale. This equates to approximately 33,000 new units and 53,000 second hand units or 86,000 units in total. The pale colouring of certain counties such as Dublin, indicates relatively low supply levels while the darker colouring particularly in the north west region indicate counties suffering a greater saturation of supply.

The impact of such supply levels on the market performance can only be determined by comparing them to demand forecasts.

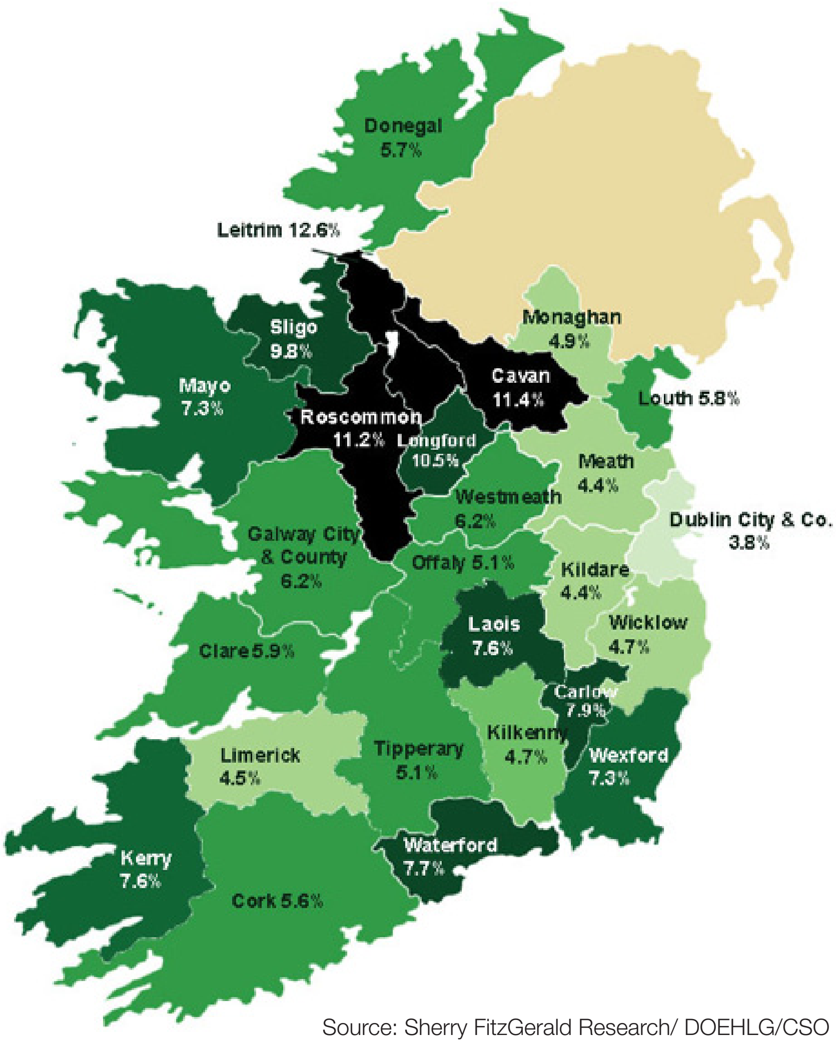
The latest demand analysis by Sherry FitzGerald Research looks at both the immediate and more medium term outlook for the market. Given the volatility in both the Irish and indeed global economic conditions it is perhaps prudent to consider the short terms prospects for the market in greater detail.

The results of this study suggest a growth in the population to 4.6 million by 2016. This translates into a gross demand for housing of approximately 129,000 units over the period 2012-2016 inclusive or approximately 26,000 units per annum. Such a forecast would assume that the market was in equilibrium at the beginning of the forecast period, which is unlikely.

Data available today suggests that there are approximately 33,000 new units complete or nearly complete in the market place. If all of these units were viable and suitable to market demand one would have to net back the gross demand to accommodate their absorption. At its most extreme this would suggest a net requirement of approximately 19,000 units per annum over the period 2012-2016.

As such the overall quantity of units available in the market is not particularly worrying. The more challenging aspect is the proportionally high quantity of units in the more rural locations specifically the north-west region of Leitrim, Cavan and Roscommon.

New & Second-Hand Supply as % of Total Private Housing Stock.



County	% New & Second Hand Supply to private dwellings
Dublin City and County	3.8%
Kildare	4.4%
Meath	4.4%
Limerick City & County	4.5%
Wicklow	4.7%
Kilkenny	4.7%
Monaghan	4.9%
Tipperary	5.1%
Offaly	5.1%
Cork City and County	5.6%
Donegal	5.7%
Louth	5.8%
Clare	5.9%
Galway City and County	6.2%
Westmeath	6.2%
Mayo	7.3%
Wexford	7.3%
Laois	7.6%
Kerry	7.6%
Waterford City & County	7.7%
Carlow	7.9%
Sligo	9.8%
Longford	10.5%
Roscommon	11.2%
Cavan	11.4%
Leitrim	12.6%
State	5.6%

Source: Sherry FitzGerald Research/ DOEHLG/CSO

Outlook for the Future

The immediate outlook for the residential market remains challenging. The level of price deflation recorded by the Sherry FitzGerald Index at greater than 50% in real terms puts the Irish property recession into the ranking of one of the worst such recessions in the post war era.

That said, this price deflation has resulted in a significant enhancement of affordability in the market. Furthermore supply levels have fallen considerably in recent years with the collapse in construction activity.

Recent announcements by NAMA, which seemed to suggest a readiness to make necessary decisions regarding the sales of new homes and an understanding of the challenges of limited liquidity in the market place, are welcome changes to a wider industry starved of decisive action.

However, overall consumer confidence levels while improving remain challenging and well below long term averages. Interest rates have started to increase, a trend that is likely to persist throughout 2011 and into 2012.

All of this, points to a persistence of a challenging market in the months ahead. All in all the biggest obstacle to the stabilisation of this market lies in the weak liquidity levels in the financial market. The resolution of this matter will be the first step toward heightened activity and stability in the wider residential market.

Founded in 1982, Sherry FitzGerald has grown to become Ireland's largest property advisory firm with over 100 branches throughout Ireland. The Group's services include Residential and Commercial sales, Mortgages, Lettings and Investments. Marsh & Parsons is the London arm of the Sherry FitzGerald Group, operating in the London neighbourhoods of Chelsea, Notting Hill, Kensington, North Kensington, Pimlico, Hammersmith, Holland Park, Bayswater, Fulham, Balham, Barnes, Battersea, Brook Green and Clapham. Sherry FitzGerald is also the exclusive Irish affiliate of Christie's Great Estates, offering an unrivalled international dimension for buyers and sellers of luxury properties.

For further information please visit www.sherryfitz.ie

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