



The Daft.ie House Price Report

An analysis of recent trends in the Irish residential sales market

Quarter 2 | 2007

Introduction by Constantin Gurdgiev, Economist & Editor, Business & Finance Magazine



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Affordability and confidence pressures mean summer rally will not last

After months of steady, yet to date shallow, house price deflation, the latest figures from the Daft Asking Price Index provide a ray of sunshine. However, the overall market forecast remains gloomy due to structural income growth and credit markets imbalances.

Rental yields on property have been rising since late 2006: the Daft National Rent Index was up by approximately 12% in the year to May 2007, with even stronger gains recorded in the core markets for Dublin city. Rising rents have led to rosy readings of the effect of demographics on the housing market. Such analysis, favoured by some commentators, is a bit too optimistic. Ireland undoubtedly continues to gain from its young population. However, these gains are accounted for by a rising number of Eastern European workers.

While immigration may be providing support for rental prices, foreign workers are employed disproportionately at the lower end of the wage distribution. They are unlikely to settle in the country, meaning their demand for housing is temporary in nature and Spartan in quality. So, rising rental yields signal continued slowdown in the owner-occupier segment of the market.

Secondly, house price growth, despite a slight rebound in asking prices over the last three months, remains sluggish. As the ESRI/PTSB closing price figures from late June show, the average price of a second-hand property in Ireland declined by 1.6% during the second quarter of 2007. This suggests an annual fall of 2.7% since January 2007 – in line with forecasts for the entire year. In Dublin, second hand properties prices fell by 3.0% in Q2 2007 – down 5.2% for the year to date.

Some anxiety prior to the elections (fuelled by speculations concerning the stamp duty reform) undoubtedly held back a handful of potential buyers. Yet there is little evidence that this had much of an impact on prices. It is more likely that a rush to sell investment properties, driven primarily by rising interest rates and fears of price depreciation, have created a glut of excess supply at a time of falling demand. A swift, albeit disappointingly shallow, reform of stamp duty does reduce the uncertainty, but it will make little difference to the medium-term price dynamics.

Instead, it is becoming painfully clear that the mixture of adverse affordability shocks and lack of consumer confidence in income fundamentals are driving house prices down in the medium term.

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Affordability and confidence pressures mean summer rally will not last

Most of the economic growth over the last 6-9 months has been driven by two factors – robust consumer demand for non-durable, non-capital goods and public expenditure. The former, along with cost hikes in state-controlled services, has triggered runaway inflation. As a result of the latter, the Exchequer figures are now recording rising deficits. For example, the May 2007 exchequer deficit was €266 million, a sharp contrast to the surplus of €1,841 million in May 2006 and suggesting a year-on-year deficit of €2,107 million. The ESRI forecasts a swing this year in the government accounts of €2,822 million, accounted for by slower pace of growth in revenues and out of control expenditure, and bringing the Exchequer into deficit.

This growth in public spending has precious little to do with disposable income. Earnings growth, having grown 0.4% faster than real GNP, by 5.7%, in 2005 slowed down to 5% in 2006, 2.4% slower than GNP growth. Growth forecasts for 2007 place earnings growth at 3-3.5% - well below real GNP growth.

Factoring out the effects of SSIA's, real personal disposable income is set to rise by 5.2% in 2007 relative to 6.1% in 2006, while household debt is expected to grow from 150% of personal disposable income in 2006 to 160.6% in 2007. At the same time, personal savings will remain robust, growing by 11% in 2005, 9.7% in 2006 and 9.2% in 2007.

Households switching their consumption from durables and investment goods to day-to-day consumption and maintaining strong savings at a time of shallower earnings growth signals that they are now in the precautionary savings mode. This underpins consumers' unwillingness to undertake long-term large-ticket purchases. Altogether, households are not likely to return to the housing markets as buyers any time soon.

The core issue here is affordability. Basic estimates suggest that the median per capita disposable income in the country today stands at around €31,300 per annum. Factoring in the savings rates and using a 4.5:1 ratio of disposable income to loan value, a median household entering the market today can afford a mortgage of between €380,000 and €400,000. The stamp duty, legal fees and costs of moving the household and upgrading properties cut roughly 15 percent from the affordability threshold.

This is a far cry from the latest asking prices – according to Daft's statistics, the average family dwelling in Dublin city ranges from €485,000 to €518,000 for a three bed and from €671,000 to €734,000 for a four bed property.

All of this suggests that we are not likely to see a return of buoyant housing markets any time soon and that the rally in asking prices we're currently seeing will not last. ■



Daft.ie Asking Price Index

6.1%

Asking prices have risen slowly but steadily since March and the average increase in asking prices across Ireland between June 2006 and June 2007 was 6.1%

Asking Prices, Residential Sales (Base: 2005 = 100)

	2005	2006	2007
January	89.0	101.7	109.9
February	95.1	108.3	112.3
March	96.9	109.3	111.5
April	97.1	110.5	112.2
May	98.3	107.8	112.6
June	100.4	106.6	113.1
July	100.3	106.5	
August	99.7	107.6	
September	103.0	110.6	
October	104.7	111.5	
November	106.5	110.5	
December	109.0	113.1	

Asking Price start to recover

The average asking price nationwide now stands at just over €370,000, the highest level so far in 2007 and just short of the all-time high of December 2006.

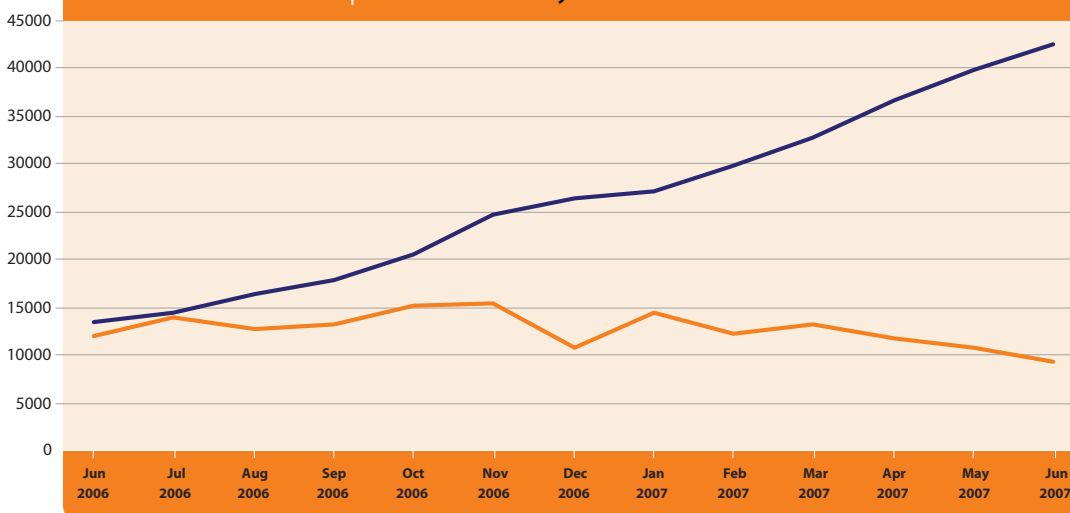
Inflation increasing

With asking prices increasing again in Dublin, year-on-year inflation in asking prices picked up during the second quarter of the 2007 and now stands at 6.1%.

Slowdown in properties coming on the market

With the average property taking longer to sell and the market getting more crowded, the number of properties coming on to the market is now falling.

The stock and flow of properties listed for sale nationwide | June 2006 – July 2007



The Daft.ie Asking Price Index is based on asking prices for properties posted for sale on Daft.ie. An index based on asking price, as opposed to closing price, is a measure of sellers' expectations. Figures are calculated from econometric regressions, which calculate changes in price that are independent of changes in observable measures of quality, such as location, or bedroom number.



Daft.ie Snapshot of Asking Prices Nationwide

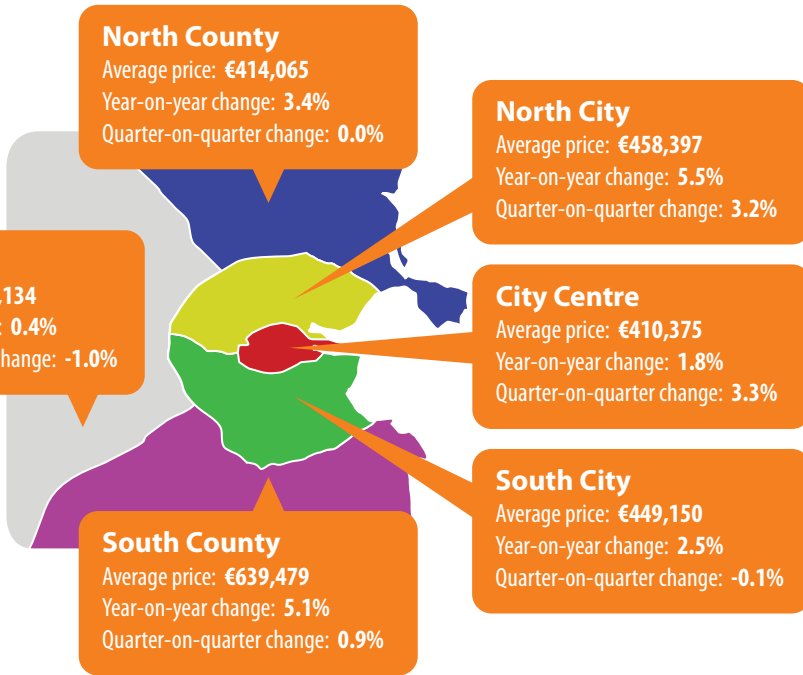
What can I ask for? Can I afford it?
Average house prices across Ireland, by county and bedroom number, Quarter 2 2007.

Average asking prices, by county and bedroom number (€ 000s)		1bed	2bed	3bed	4bed	5bed
Dublin	City Centre	€449	€415	€597	*	*
	North City	€302	€392	€492	€722	€1,527
	South City	€329	€416	€465	€746	€970
	North County	€263	€335	€401	€621	€1,087
	South County	€411	€505	€694	€942	€1,155
	West County	€276	€316	€367	€476	€753
	Commuter Towns	*	€312	€376	€520	€616
Leinster	Meath	€260	€281	€323	€426	€543
	Kildare	€222	€277	€320	€476	€606
	Wicklow	*	€334	€427	€561	€873
	Longford	*	€180	€216	€299	€362
	Offaly	€220	€230	€270	€347	€412
	Westmeath	€194	€234	€257	€338	€372
	Laois	*	€213	€251	€329	€444
	Louth	€223	€263	€307	€423	€566
	Carlow	*	€210	€256	€375	€446
	Kilkenny	*	€235	€270	€383	€458
	Wexford	€177	€227	€284	€385	€482
Munster	Co. Waterford	*	€210	€284	€420	€481
	Waterford City	€185	€212	€255	€349	€373
	Kerry	€221	€229	€274	€354	€406
	Co. Cork	€206	€258	€304	€421	€529
	Cork City	€250	€316	€349	€465	€720
	Clare	*	€221	€261	€332	€411
	Co. Limerick	€152	€161	€225	€325	€351
	Limerick City	*	€219	€247	€316	€392
Connaught	Tipperary	*	€196	€224	€337	€412
	Co. Galway	€223	€261	€265	€346	€398
	Galway City	€276	€330	€340	€412	€564
	Mayo	€191	€204	€222	€296	€397
	Roscommon	€140	€163	€203	€277	€336
	Sligo	€205	€231	€245	€309	€354
	Leitrim	*	€194	€226	€283	€342
Ulster	Donegal	*	€184	€229	€292	€347
	Cavan	€216	€199	€215	€307	€355
	Monaghan	*	€226	€249	€357	*



Trends in Dublin Asking Prices

From Quarter 1, 2006 to Quarter 2, 2007



Top 5 areas for 5-beds

Based on the properties coming on to the market in Q2 2007, the five most expensive areas in Dublin are:

Killiney, Dalkey, Sandycove	€1,612,643
Howth, Sutton	€1,590,250
Sandymount	€1,540,489
Booterstown, Mount Merrion, Monkstown	€1,537,237
Blackrock	€1,461,220

In 25 other areas – including Cabra, Dundrum and Beaumont – average prices for five-bedroom detached properties was greater than €1m.

A home for under €350,000

Six markets in Dublin had average prices for a three-bedroom family home of less than €350,000 in Q2 2007:

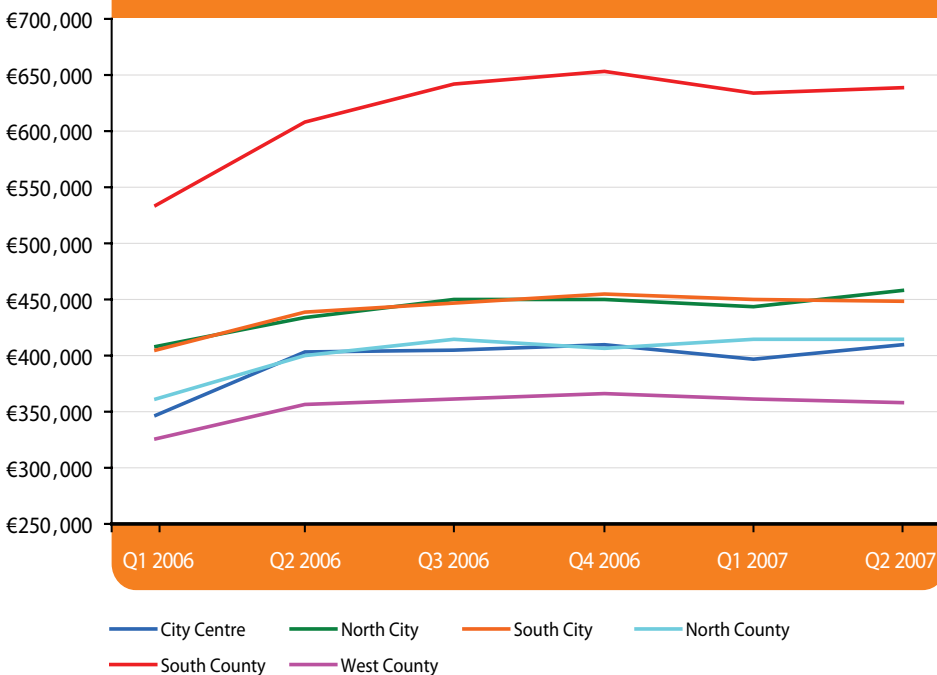
Tyrrelstown	€317,038
Balbriggan	€329,128
Mulhuddart & environs	€339,393
Ongar	€342,791
Clonee	€345,060
Clondalkin	€348,104

Twelve other markets, ranging from Lusk and Rush in the north to Lucan/Adamstown and Clonsilla in the west, all average less than €400,000 for a three-bedroom property.

Four of these, Tallaght, Finglas, Coolock and Ballyfermot, are in postcode areas, the traditional boundary of Dublin city.

- Asking prices in Dublin have increased 3.2% over the course of the past 12 months, and were 0.8% higher in the 2nd quarter of 2007 than in the 1st quarter.
- In Dublin's city centre, asking price have increased by 3.3% during the last quarter, having fallen between late 2006 and early 2007.
- While asking prices have started to increase again in Dublin City Centre and North Dublin City, they have been static since the start of the year in South Dublin City and North Dublin County, and have fallen by 1% in West Dublin.

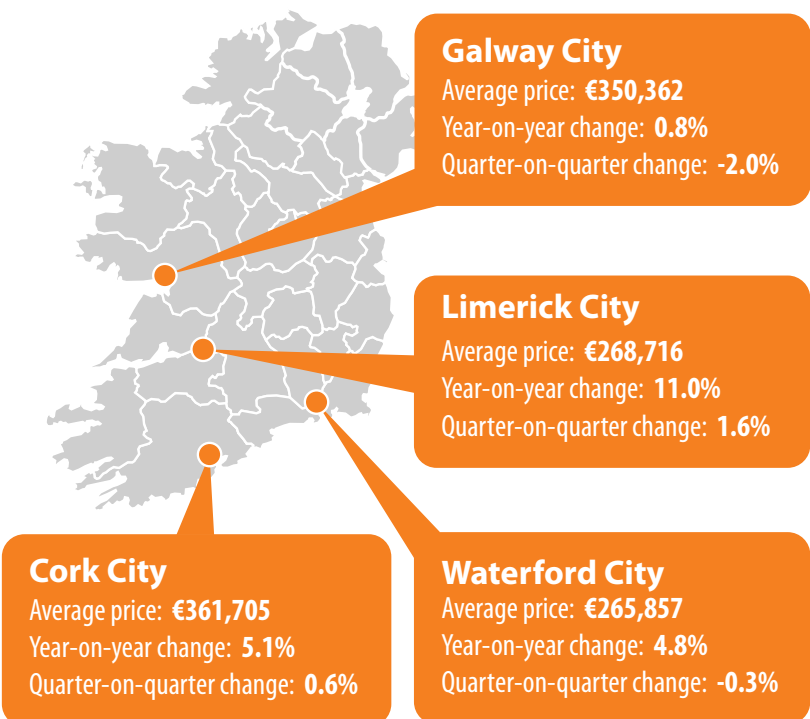
Average asking prices in Dublin, by region





Trends in Asking Prices in Cork, Galway, Limerick & Waterford

From Quarter 1, 2006 to Quarter 2, 2007



Suburban houses...
A four-bedroom semi-detached property in the suburbs of the various cities around the country would cost:

Cork	€429,860
Galway	€345,308
Limerick	€266,236
Waterford	€327,411

Galway static

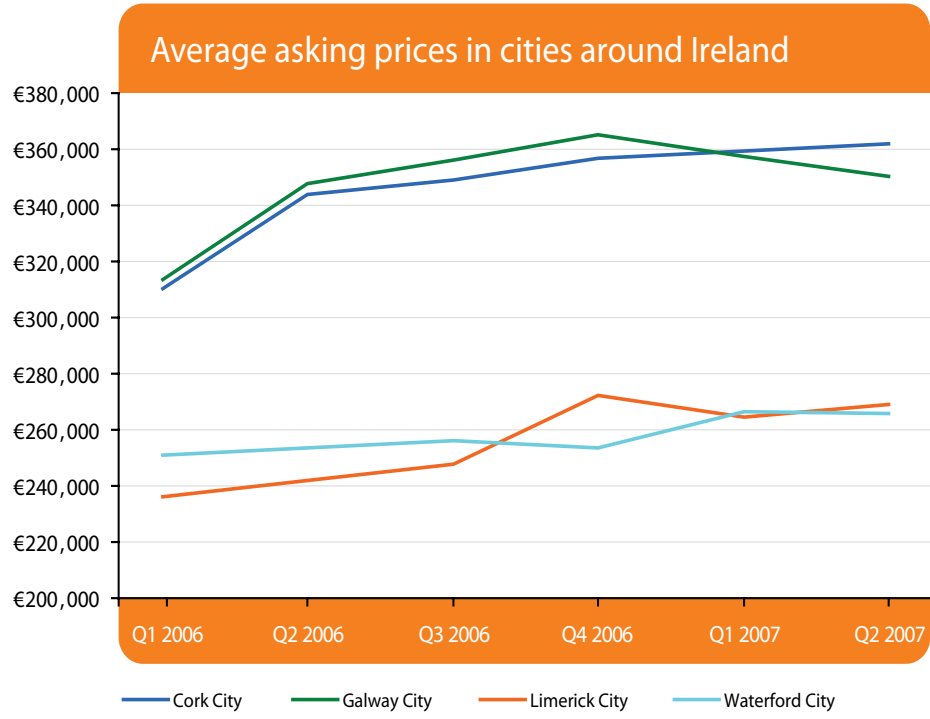
Across the cities, there is a degree of variation in house price inflation, with prices almost static in year-on-year terms in Galway city, but increasing by 11% in a year in Limerick city. Inflation was closer to the national average in Cork (5.1%) and Waterford (4.8%).

Limerick cools down

Asking prices increased by 15% in Limerick during the course of 2006, but have eased back since the start of the year. They are now on a par with prices in Waterford city, about €100,000 cheaper than Galway and Cork.

Cork's family homes

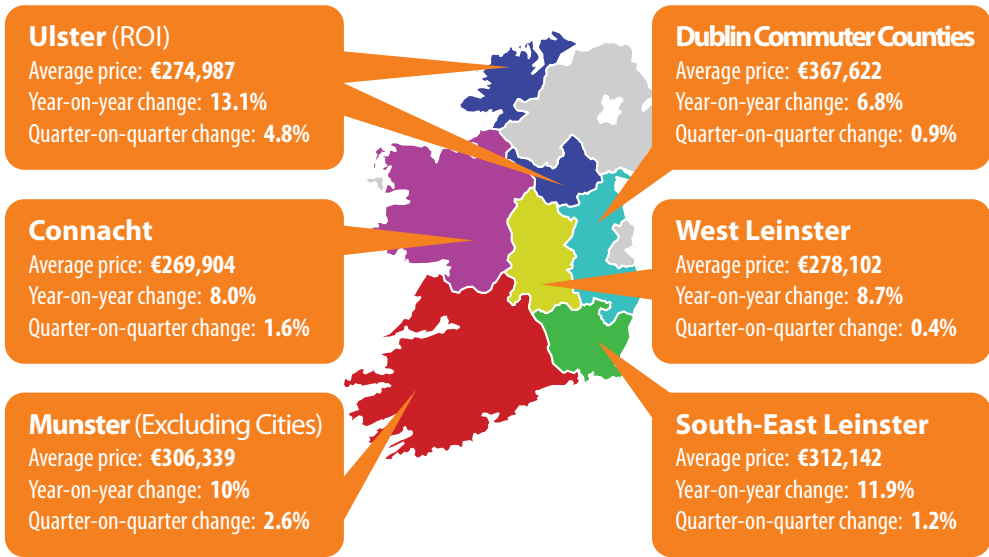
Outside Dublin, Cork's suburbs – including Douglas and Blackrock – are among the most expensive places for property, with the typical 3-bedroom property costing about €350,000 in Q2 2007.





Trends in Asking Prices Around the Country

From Quarter 1, 2006 to Quarter 2, 2007

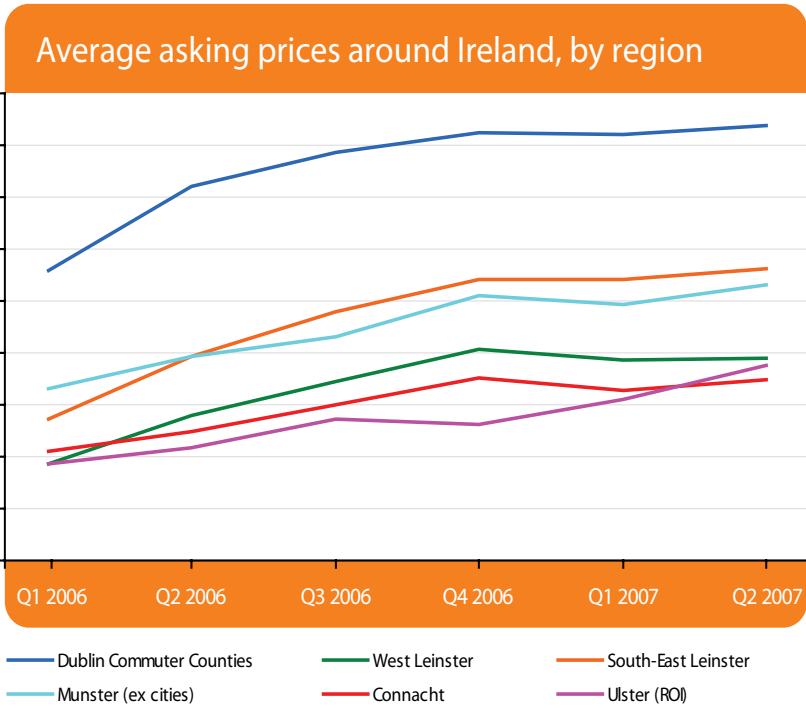


Munster's Top Spots

Cork's towns contains some of Munster's most expensive properties, with the average price for five-bedroom properties as follows:

Clonakilty	€552,203
Bantry	€492,333
Mallow/Midleton	€491,784
Macroom/Bandon	€482,390
Killarney	€478,040

Outside Ireland's cities, though, it is Wicklow which remains the most expensive location in the country, with five-bedroom properties outside the main towns in the county averaging €828,000.



Most affordable homes in Ireland

Ireland's most affordable locations are scattered throughout the country, with Ballina now Ireland's cheapest market. Prices for three-bedroom houses average as follows:

Ballina	€180,692
Roscommon County	€182,043
Ballybofey/Stranorlar	€183,216
Longford County	€183,314
Newcastle West	€184,087

A further nine markets, including Listowel, Shannon and Longford town, have average prices under €200,000.

Prices up 1.8% in 3 months

Asking prices in outside Ireland's main cities have increased 9.2% over the course of the past 12 months, and were 1.8% higher in the 2nd quarter of 2007 than in the 1st quarter.

Ulster's inflation continues

Inflation remains highest in Ulster, where asking prices are over 13% higher now than 12 months ago. The rise in house prices has been slowest in the Dublin Commuter Counties, at 6.8%.

Early 2007 falls

Between Q4 2006 and Q1 2007, asking prices fell in all regions apart from South-East Leinster (where they were static) and Ulster, where they rose 3.8%.



About the Report

Over the last 10 years, Daft.ie has collected a vast amount of data on the Irish property market. In 2006 alone, more than 315,000 properties were advertised on the site.

About Daft.ie

Daft.ie is Ireland's biggest website* with almost 800,000 unique visitors a month and in excess of 120,000 properties on the website at any one time. In the last year traffic to Daft.ie has tripled. The majority of the growth has been for first-time-buyer properties and investment properties both home and abroad.

The snapshot on page 5 covers the period from April 2007 to June 2007. Snapshots are a highly generalised view of the market. They should only be used as an indicator of house prices and not as a definitive guide as there are many factors not included above that affect prices.

* ABC Certified, March 2007

The goal of the Daft Report is to use this information to help all actors in the property market make informed decisions about buying and selling. In addition, because it is freely available, the Daft Report can help inform the media, the general public and policymakers about the latest developments in the property market.

The Daft Report is now over two years old. It has already become the definitive barometer of the Irish rental market and is being used by the Central Bank, mortgage institutions, financial analysts and the general public alike. Since its introduction at the start of 2006, the Daft.ie Asking Price Index is also being recognised as the earliest available reliable indicator of developments in house prices in Ireland.

This is the Daft.ie Rental Report, the partner to the Daft.ie House Price Report issued last month. Together, they give house-hunters and investors more information to help them make their decisions. These twin reports mean that Daft is the only objective monitor of trends in both rental and sales markets on a monthly basis, making the report an essential barometer for anyone with an interest in the Irish property market.

Methodology and Sample Size

The statistics are based on properties advertised on Daft.ie for a given period. The regressions used are hedonic price regressions, accounting for all available and measurable attributes of properties and only coefficients with a very high degree of statistical significance ($p < 0.001$) are used.

The average monthly sample size for sales during 2006 was over 13,000. Indices are based on standard methods, holding the mix of characteristics constant, with the annual average of 2005 used as the base. A working paper on the methodologies employed in both rental and sales markets will be published on the Daft.ie website in summer 2007.

Circulation

We are pleased to announce that the average readership of the 2006 reports was over 43,000 people.

Coming Next...

The Daft.ie Rental Report Quarter 2, 2007

(Coming in early August)

The Daft.ie Rental Report will be published in early August and will include all the usual indices, snapshots, trends and rental yield analysis, providing the public with Ireland's most up-to-date information on the housing market.

Disclaimer

The Daft.ie Report is prepared from information that we believe is collated with care, but we do not make any statement as to its accuracy or completeness. We reserve the right to vary our methodology and to edit or discontinue the indices, snapshots or analysis at any time for regulatory or other reasons. Persons seeking to place reliance on any information contained in this report for their own or third party commercial purposes do so at their own risk.

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