Ireland's Biggest Property Website

The Daft.ie Report

Quarter 2 2006

An analysis of recent trends in the Irish property market

Introduction by Marc Coleman, Economics Editor, The Irish Times

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Introduction

Marc Coleman

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Like any self-respecting seven year old, I used to spend childhood Saturday mornings watching cartoons on TV. The one I best remember had Tweety bird being chased around by a cat somewhere in the vicinity of the grand canyon. Over the cliff flies the bird. Somehow, the cat follows. After a ten yard run on thin air the cat stops, looks down and hurtles to the bottom leaving a ring of smoke on impact.

Like most other asset markets, house prices are driven by both fundamentals and confidence. When confidence departs from fundamentals, we're in trouble. For fundamentals read the state of our economy, our personal finances, interest rate levels, and a few more. Fundamentals are rational. Confidence isn't. In the cartoon the cat keeps going over thin air until he looks down; it's when he actually realizes that the ground beneath his feet has vanished that the fall happens. So it is with overvalued asset prices. As long as buyers are confident that prices will continue to rise, they do. When enough people lose faith, a slide is hard to stop. But how do we know when prices have departed from fundamentals?

Thankfully the cliff analogy is a bit extreme. Irish house prices are not hanging over the edge of a canyon. A sloping hillside is a more accurate, and comforting, analogy. Somewhat overvalued, the gap between where we are and where we should be isn't yet critical, a fall of several, rather than hundreds, of feet. But if house price inflation doesn't moderate soon, the gap could soon become too large to avoid a very painful correction.

Last September the Organisation for Economic Co-operation and Development (OECD), a high level think tank, calculated that Irish house prices were 15 per cent overvalued. But with house price inflation slowing to 5 per cent back then, the Central Bank was unconcerned: Provided house price inflation remained a few points below the rate of growth in nominal incomes, any overvaluation would correct in over two or three years without any need for a fall in house prices. The re-acceleration of the rate of house price inflation - as calculated by the Daft.ie House Price Index - to 14 per cent in April is scary. So is the equally rapid slowdown to 6.2 per cent by July. Is a downturn in the market going to happen?

Despite some overvaluation in the market, this is unlikely. Two fundamental events justify the reacceleration in prices since this time last year. As last year drew to a close, the expected release of SSIA moneys, which began this May, became bankable as deposit leverage. The second more significant event was that at the turn of the year banks became much more liberal with mortgage lending policies. Old multiples of gross income went out. New, and more liberal, measures of net income came in. More important still was the lengthening of mortgage repayment periods - with 40 year mortgages now not uncommon.

So the recent price resurgence is 'fundamental' in nature: The stock of credit available for house purchase increased significantly in a short space of time, but the supply of houses in sought after areas did not. Throw more money after the same amount of goods and prices rise: It's the oldest law in economics.

The question is what happens next? Give or take a percentage point or two, the 15 per cent overvaluation that the OECD spotted last year is still there: The fact that the latest Daft.ie Asking Price Index shows buy-to-let yields remaining very low confirms the picture.

For a soft landing, several things need to happen. In his next and last pre-election budget, Brian Cowen will probably want to ease the burden of stamp duty for first time buyers. The reintroduction of a differential stamp duty regime between owner occupiers and investors - tried but reversed in 2002 - may also be a prospect. Those changes will help cool price pressures and, provided they are phased in over several years, won't frighten the horses (announcing a programme of stamp duty reductions over a three year time period could be electorally appealing).

The more important long-term issue is supply. To some, the recent resurgence in house prices is puzzling, in spite of all the extra credit sloshing around the market. How can it be, they ask, that 86,000 houses are being built a year, 21 houses per thousand of the population and the highest rate in Europe, and yet house price inflation is still accelerating? The answer is the oldest adage in this market: Location, location, location.

As the preliminary census has revealed, population is growing quickly around the commuter belt and outer ring of greater Dublin. But it is actually falling in Dublin proper. Use of land within the M50 is highly inefficient: In a land footprint the size of Berlin, we are housing less than one third of Berlin's 4 million population. Unfortunately this is where people want to live. Interacting with the extra availability of credit, the extraordinarily low density of housing within the city limits is helping to push up prices far higher than elsewhere in Ireland, pushing up the national average rate of house price inflation.

Any sound housing and planning policies will correct this bias by freeing up land in more commutable parts of Dublin, and other major towns. But again, a graduated measured approach to this will be conducive to an orderly correction. The welcome moderation in price inflation provide a good first half of that desired outcome. Government policies are its crucial second half.

Daft.ie Asking Price Index

Asking Prices, Residential Sales

Base: 2005 = 100 (includes preliminary figure for July)

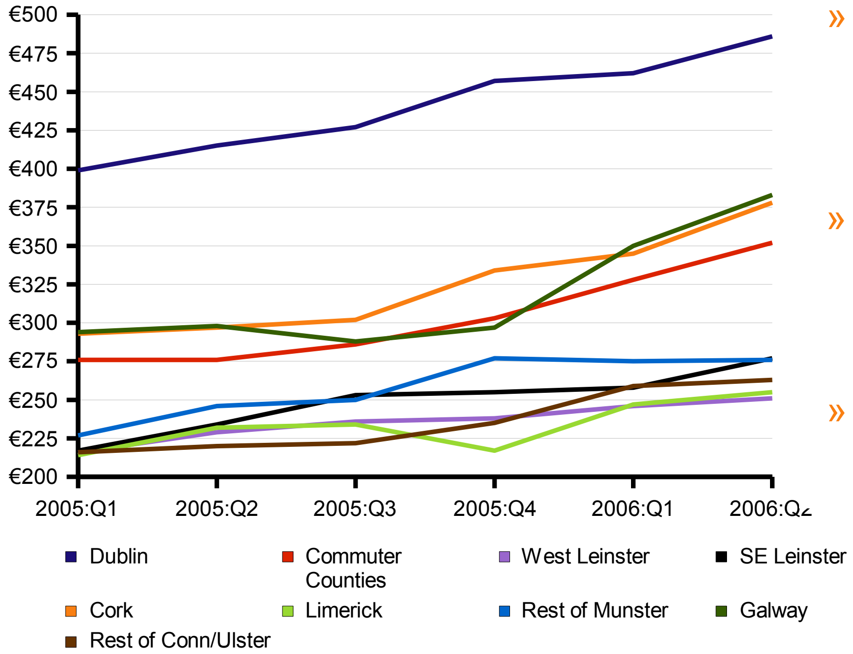
	2005	2006
January	89.0	104.7
February	95.1	108.3
March	96.9	109.3
April	97.1	110.5
May	98.3	107.8
June	100.4	106.6
July	100.3	*105.4*
August	99.7	
September	103.0	
October	104.7	
November	106.5	
December	109.0	

» House Price Growth Slows

annual growth of asking prices was 6.2% in June 2006, down from a high of 14% in April 2006 - preliminary figures from July suggest that the slow-down in house price inflation has continued into the summer

Trends in House Prices Nationwide

Average House Price 2005-2006 in Thousands (000)



» €483,000

the average price of a property in Dublin

» €220,000

the average price for a property in Ballina, Co. Mayo

» 10%

the Q2 2005 to Q2 2006 increase in property prices in Limerick

Dublin Commuter Towns include Celbridge, Naas, Leixlip, Bray, Maynooth and Greystones. Commuter Counties include Louth, Meath, Kildare and Wicklow but excludes the aforementioned commuter towns. West Leinster includes Longford, Offaly, Laois and Westmeath. South East Leinster includes Carlow, Kilkenny and Wexford. Munster excludes Cork and Limerick. Connacht/Ulster excludes Galway, and only includes counties within the Republic.

The index is based on asking prices for properties advertised for sale on Daft.ie. An index based on asking price (as opposed to closing price) is a measure of sellers' expectations in the market. Gaps between the levels of asking and closing prices will not affect the index since it is only a measure of trends (i.e. if asking prices go up it is likely that sale prices will follow). If there were any change in the confidence of the market this would be reflected first in a drop in asking prices, thus appearing first in the Daft.ie Asking Price Index. 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 Rent Index

Daft.ie Rent Index (Residential Lettings)

Base: 2005 = 100 (includes preliminary figure for July)

	2002	2003	2004	2005	2006
January	115.6	101.2	95.7	97.7	103.3
February	113.5	102.0	94.9	97.5	102.6
March	109.6	102.3	94.6	98.6	102.8
April	111.6	102.7	95.0	98.4	102.9
May	111.7	101.3	95.4	99.0	105.0
June	110.1	100.5	95.8	99.0	105.8
July	108.5	100.4	96.9	99.9	*105.8*
August	108.1	100.3	97.9	100.4	
September	107.1	99.9	98.5	100.2	
October	105.1	97.9	98.4	102.0	
November	103.3	96.6	97.6	102.9	
December	101.0	95.9	97.2	104.4	

» 6.9%

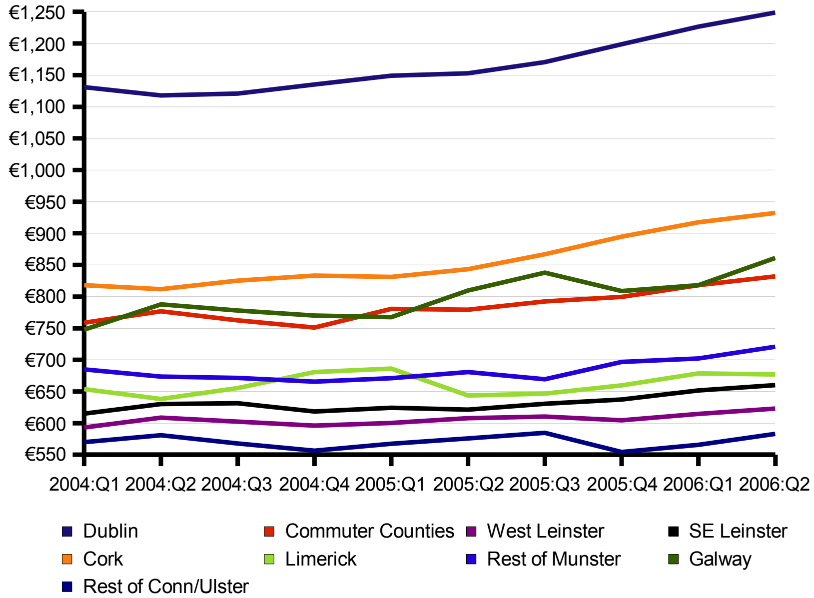
the national increase in rental prices since June 2005

» 3.9%

the national decrease in rental prices since June 2002. While rents have increased this year, they are still below the peak of 2002

Trends in Rents Nationwide

Average trends 2003-2006



» 10%

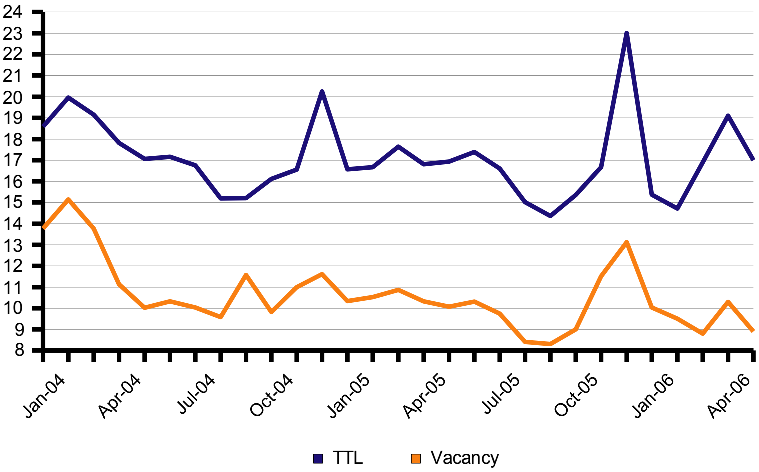
the increase in rents in Cork City since Q2 2005

» 8.3%

rents in Dublin have risen by 8.3% since Q2 2005

Trends in Rents Nationwide

Average trends 2003-2006, in days



» 17 Days

how long on average it takes to find a new tenant for an apartment in May 2006

» 9 Days

how long on average a property stays vacant between tenants in May 2006

Market Snapshots

What is my house worth? Can I afford it?

Average house prices across Ireland. Included also are Time-To-Sell (TTS) figures

	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	TTS
Dublin City Centre	€345,642	€435,746	€675,152			48
North City	€313,073	€383,132	€474,201	€761,664	€913,658	53
South City	€334,995	€424,306	€460,736	€686,233	€1,128,925	51
North County	€261,515	€305,558	€388,359	€592,357	€802,500	55
South County	€410,776	€521,719	€681,329	€1,042,522	€1,755,933	41
West Dublin	€269,502	€321,477	€364,318	€477,289	€667,179	63
Commuter Towns	€275,313	€311,183	€411,556	€539,946	€788,493	41
Commuter Counties	€210,416	€263,508	€313,774	€426,934	€552,158	75
West Leinster		€199,844	€229,548	€309,468	€398,529	70
SE Leinster	€221,957	€196,409	€245,977	€349,759	€416,226	57
Cork	€245,562	€292,855	€347,915	€458,097	€530,034	84
Limerick		€189,313	€227,045	€271,681	€389,147	41
Rest of Munster	€224,348	€193,277	€245,299	€333,562	€408,986	48
Galway	€265,864	€287,634	€352,772	€411,752	€581,487	44
Connacht/Ulster	€155,560	€179,537	€216,348	€288,805	€364,185	70

50% Less

save €120,000 or more by moving from Galway or Cork to Limerick

€300,000

you can save more than €300,000 by buying a mid-sized house in North Co. Dublin instead of South Co. Dublin

How much rent should I be charging?

Average rents across Ireland. Included also are Time-To-Let (TTL) and Vacancy figures

	Studio	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	TTL	Vacancy
Dublin City Centre	€718	€990	€1,351	€1,896			13.6	6.7
North City	€618	€863	€1,178	€1,358	€1,660	€1,962	16.3	8.1
South City	€645	€942	€1,288	€1,557	€1,928	€2,666	14.5	7.2
North County		€884	€1,066	€1,238	€1,571	€1,958	19.5	8.5
South County		€1,006	€1,288	€1,636	€2,218	€3,250	18.6	8.6
West County		€874	€1,094	€1,223	€1,387	€1,632	17.2	8.3
Commuter Towns		€798	€1,094	€1,192	€1,375		19.3	11.3
Commuter Counties		€700	€846	€922	€1,088	€1,331	23.4	14.7
West Leinster		€539	€632	€695	€790		23.5	15.1
SE Leinster		€583	€684	€743	€830		23.0	13.6
Cork		€718	€926	€1,038	€1,238	€1,529	18.5	10.6
Limerick			€722	€799	€871		19.3	10.3
Munster		€588	€753	€806	€944	€1,060	22.2	12.9
Galway		€687	€877	€992	€1,061		21.1	12.6
Connaught/Ulster			€601	€672	€734		21.5	13.5

Microwave

in 2002 a microwave would add €18 to the price of an apartment. In 2006 a microwave adds nothing

71%

of rental properties has a microwave, compared to 55% in 2002

The snapshots cover the period from April 2006 to June 2006. The number of properties included in each snapshot is between 23,000 for sales and 15,000 for rental. The snapshots are a highly generalised view of the market. They should only be used as an indicator of house prices or rents and not as a definitive guide as there are many factors not included above that affect prices.

Dublin Commuter Towns include Celbridge, Naas, Leixlip, Bray, Maynooth and Greystones. Commuter Counties include Louth, Meath, Kildare and Wicklow but excludes the aforementioned commuter towns. West Leinster includes Longford, Offaly and Westmeath. South East Leinster includes Kilkenny and Wexford. Munster excludes Cork and Limerick. Connacht/Ulster excludes Galway, and only includes counties within the Republic.

Yield and Sharing Tables

Investor Buy-To-Let Yields

Average yield for a Buy-To-Let property. The price of a property is calculated as the annual rent you would expect to earn from a property investment. Higher yield means a better investment.

	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	Average
Dublin City Centre	3.44%	3.72%	3.37%			3.54%
North City	3.31%	3.69%	3.44%	2.62%	2.58%	3.41%
South City	3.38%	3.64%	4.06%	3.37%	2.83%	3.74%
North County	4.06%	4.19%	3.83%	3.18%	2.93%	3.80%
South County	2.94%	2.96%	2.88%	2.55%	2.22%	2.83%
West Dublin	3.89%	4.08%	4.03%	3.49%	2.94%	3.90%
Commuter Towns	3.48%	4.22%	3.47%	3.06%		3.54%
Commuter Counties	3.99%	3.85%	3.53%	3.06%	2.89%	3.32%
West Leinster		3.80%	3.63%	3.06%		3.51%
SE Leinster	3.15%	4.18%	3.62%	2.85%		3.46%
Cork	3.51%	3.79%	3.58%	3.24%	3.46%	3.51%
Limerick		4.58%	4.22%	3.85%		4.07%
Rest of Munster	3.15%	4.67%	3.94%	3.40%	3.11%	3.80%
Galway	3.10%	3.66%	3.37%	3.09%		3.25%
Connacht/Ulster		4.02%	3.73%	3.05%		3.28%
Average	3.23%	4.03%	3.70%	3.19%	2.98%	3.27%

Limerick

the best Buy-To-Let investment is in Limerick, where house prices are low

3.27%

is the average yield of a Buy-To-Let property investment in Ireland

Sharing Snapshot

Average monthly rent for a room in shared accommodation. Included also are average Time-To-Let (TTL) and Vacancy figures

	Single Room	Double Room	Average TTL	Avg. Vacancy
South Dublin City	€401	€505	12.8	5.2
North Dublin City	€364	€463	13.7	5.9
Dublin City Centre	€449	€560	11.3	4.3
West Co. Dublin	€313	€414	14.9	7.4
South Co. Dublin	€389	€503	14.1	5.1
North Co. Dublin	€328	€416	14.7	6.3
Dublin Commuter	€330	€423	17.5	10.1
Cork city	€284	€358	17.4	10.3
Galway city	€290	€352	16.4	9.8
Limerick City	€234	€264	18.2	11.0
Outside cities	€261	€305	20.4	13.1

€100 more

letting out a room with a double bed will on average yield €100 more per month than a room with a single bed

Limerick

students in Limerick pay on average 41% or €176 a month less than students in Dublin for a room sharing

The sales and rental figures are, naturally, based on different samples. While the model corrects for observable differences in quality, e.g. number of bedrooms/bathrooms, etc., differences in quality may remain. Therefore, yield figures can only be regarded as indicative.

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About the Report

About the Daft Report

Over the last 10 years, Daft.ie has collected a vast amount of data on the Irish property market. For example, last year alone, about 200,000 properties were advertised on the site.

The goal of the Daft Report is to use this information to help first-time-buyers and investors make informed decisions about purchasing. 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 almost 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 in February 2006, the Daft.ie Asking Price Index is also being recognised as the earliest available reliable indicator of developments in house prices in Ireland.

As it is the only publication which charts trends in both rental and sales markets on a monthly basis, the report is 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 month or quarter, using monthly and quarterly regressions. The regressions are hedonic price regressions of three-month moving averages and only coefficients with a very high degree of statistical significance ($p < 0.000$) are used.

The average sample size for a month over the period of 2002-2005 was 11,214 properties. Indices are based on standard methods, holding the mix of characteristics constant, with the annual average of 2005 used as the base. Furthermore, based on your suggestions, refinements have been made to the methodology underpinning the Asking Price Index since the last Report. A working paper on the methodologies employed in both markets will be published on www.daft.ie/report in August 2006.

Circulation

We are pleased to announce that last quarter's report (Q1, 2006) was read by over 25,000 people. Hard copies of the Daft Report can be requested by emailing thedaftreport@daft.ie.

Coming in the Next Daft Report

The Daft.ie Report is published quarterly, with monthly updates covering national trends and regional breakdowns.

About Daft.ie

Daft.ie is Ireland's biggest website* with an excess of 425,000 unique visitors a month and in excess of 40,000 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.

Although started in 1997 as a lettings website, in recent years Daft has grown up with its audience. This is because the people who were renting in 1997 have become the people buying in 2006. Over the last 12 months there has been a major shift in our visitor demographics. At present over 60% of all visitors to Daft are interested in purchasing property as opposed to renting.

Further to the move into residential sales, Daft recently launched an overseas property section which now boasts over 15,000 properties from around the world. This international initiative saw Daft being named as one of the top five e-businesses in the world by the UN at the 2005 World Information Society Summit in Tunisia.

* ABC Certified, May 2006

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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