



Ireland's Biggest Property Website

The Daft.ie Report

Quarter 3 2006

An analysis of recent trends in the Irish property market

Introduction by Pat McArdle, Chief Economist,
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Introduction



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We Irish have a love affair with property. Before the famine we split up the land amongst the children with ultimately disastrous results. Then we switched to the eldest son or, in the case of numerous bachelors, held on to it to the bitter end leaving various sundry relatives to squabble over the remains.

In time, the dispossessed children migrated from the countryside into the cities. They still, however, had a 'gra' for the land and, to this day, insist on buying a piece of suburbia with a garden patch at the rear. Combine this with avaricious developers and corrupt planners and you get urban sprawl, row after row of uninteresting identical boxes, frequently without the amenities that are taken for granted in other countries. The geographically constrained nature of our capital city and the virtual absence of high-rise-accommodation are the main reason for the elevated and ever-increasing level of house prices in Dublin.

Our newfound wealth has now enabled us to take our love of the land overseas. In this manifestation it is property rather than land, per se, that is sought after. An over-enthusiastic approach to buying has earned us a reputation as easy marks in some parts of Eastern Europe. But we d'ont care as long as we climb another rung on the property ladder.

We hear less about Irish forays into the overseas commercial property world. For the most part, this activity is still concentrated in the UK although purchases as far apart as the US, South Africa and even Russia are no longer

uncommon. I was surprised recently to be told that the Irish were the largest source of foreign inflows into the UK commercial property market last year.

The Irish property market is unusual in that it is confined, almost exclusively, to the Irish. Leaving aside the Germans who moved in a quarter of a century ago, and the occasional Englander, it is rare to find a foreign owner. At least it was until recently. It is still the case that commercial property is snapped up by the locals – we buy commercial property abroad but foreigners do not reciprocate given our low yields and high stamp duty. In the residential market, however, things are changing.

The housing market slowed nicely in the first half of 2005 but to the dismay of many economists, myself included, re-accelerated strongly thereafter. The Minister for Housing is wont to attribute this to the effects of competition between lending institutions. An important explanation, which is seldom mentioned, was the surge in demand from immigrants. For a start, the level of net immigration was much higher than predicted. Second, the expectation was that non-nationals would rent accommodation. While many do rent, increasingly we hear that immigrants account for anything up to one-quarter of sales at new launches around Dublin.

The experience in 2006 has been the reverse, as the latest Daft.ie Report shows. Asking prices for residential property were rising at a 14% annual rate at the beginning of the year. By September, they were down to 6%.

The reason is straightforward. Higher interest rates have sapped the purchasing power of the first-time buyer. Since last December ECB rates and, by extension, mortgage rates have risen by 1.25% with another quarter-point rise pencilled in for early December. The main objective of the ECB is to curb economic activity so as to keep inflation below 2%. As they have not yet achieved this objective, it is likely that

interest rates will be further increased next year. If this results in a slower housing market, so much the better in the eyes of the ECB.

This is cold comfort for the first-time buyer who, having inherited the genes of his/her ancestors is now struggling to get onto the property ladder. However, the situation has improved in many respects. A quarter of a century ago, the banks were not engaged in mortgage lending at all and one had to establish a regular savings record with a building society before they would even consider you for a loan. The standard annuity period was 20 years and multiples above 2.5 times income, 100% loans and interest only mortgages were unheard of. The banks are doing their utmost to assist, not for any altruistic motive but because competition is keener than ever-before and, indeed, keener than in most other EU countries.

Outsiders looking at the Irish market frequently look no further than the loan to income multiple and recoil in horror when they learn that it is now five or more. However, this fails to take into account the more sophisticated affordability measures now employed by Irish lenders. Monthly outgoings as a percentage of after-tax income are now the standard measure. This allows for the dramatic fall in interest rates that accompanied EMU entry as well as lower taxes and longer annuities. In addition, lending is stress-tested to allow for a further 2% increase in mortgage rates.

Prudent application of these principles should ensure that the slowdown in house price inflation evident in the latest Daft.ie Report continues but also that the housing market should experience a soft, rather than a hard, landing. A soft landing does not rule out some, temporary, fall in prices. A hard landing, on the other hand, would be associated with significant and sustained falls in prices. The way to avoid the latter is to ensure that as demand eases, supply is simultaneously curtailed. ☐

Daft.ie Asking Price Index

Asking Prices, Residential Sales

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

	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	106.5
August	99.7	107.5
September	103.0	109.4
October	104.7	111.1
November	106.5	
December	109.0	

» **6.2%**

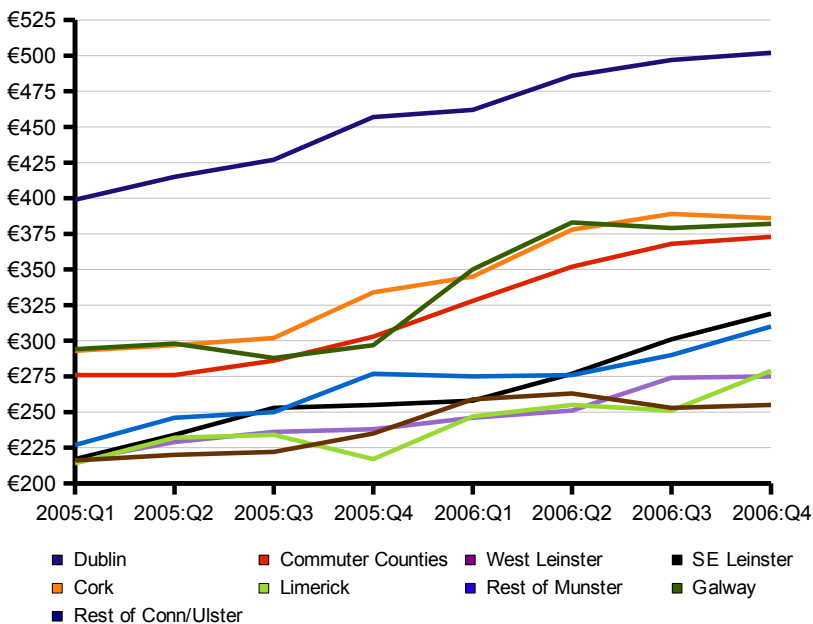
is the year-on-year increase in asking prices across Ireland since September 2005

» **€282,000**

was the average asking price of a 3-bedroom house in Maynooth in September 2006, compared to €227,000 in Athy and €292,000 in Newbridge

Trends in House Prices Nationwide

Average House Price 2005-2006 in Thousands (000)



» **Limerick**

is the cheapest city in Munster for a 2-bedroom apartment, with an average asking price of €204,000 compared to €262,000 in Cork City and €218,000 in Waterford City

» **Sunny South East**

Between the Spring and Autumn 2006, asking prices in South-East Leinster (Carlow, Kilkenny and Wexford) increased €50,000 on average, compared to just under €10,000 in Connaught/Ulster (excluding Galway)

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 October)

	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	107.1
August	108.1	100.3	97.9	100.4	109.4
September	107.1	99.9	98.5	100.2	110.4
October	105.1	97.9	98.4	102.0	111.4
November	103.3	96.6	97.6	102.9	
December	101.0	95.9	97.2	104.4	

» **10.1%**

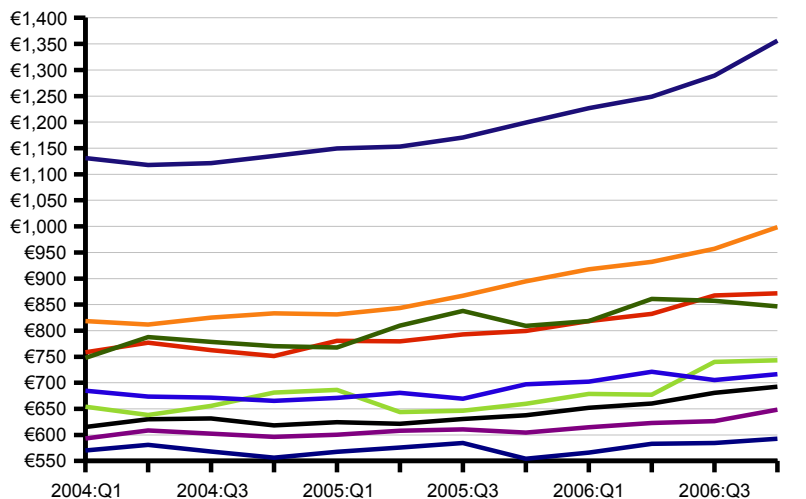
the rate of growth in rents, in year-on-year terms, on average across the country (September 2006 compared to September 2005)

» **August 2006**

marked the first month – since rents started to increase again in April 2004 – that average rents were greater than the corresponding month in 2002

Trends in Rents Nationwide

Average trends 2003-2006



» **10%**

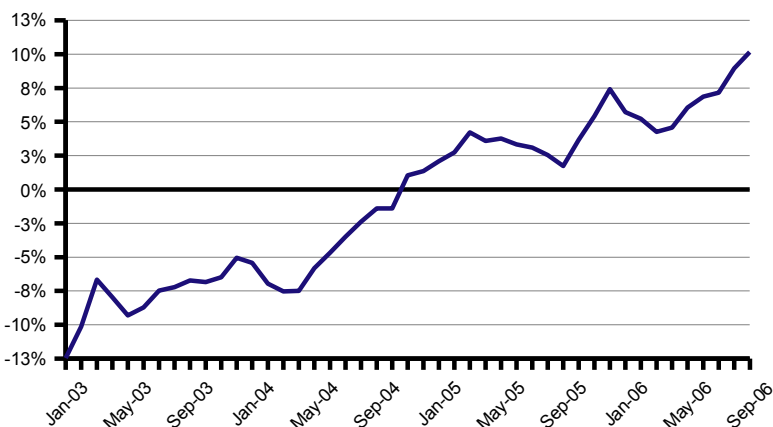
the increase in rents in Cork City since Q2 2005

» **8.3%**

rents in Dublin have risen by 8.3% since Q2 2005

Percentage Change in Rents

Year-on-Year change in rent on a monthly basis, from January 03



» **24 Months**

of consecutive year-on-year growth in average rents, since October 2004

» **9 Days**

how long on average a property stays vacant between tenants in August 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	€317,159	€420,459	€505,953			58
North City	€293,820	€390,281	€475,535	€711,837	€856,409	49
South City	€339,873	€402,246	€419,833	€575,667	€971,625	60
North County	€266,185	€323,973	€407,928	€565,528	€1,085,941	59
South County		€498,312	€630,197	€989,733	€1,049,246	45
West Dublin	€265,270	€321,275	€365,550	€474,617	€693,159	60
Commuter Towns	€389,871	€345,599	€442,595	€550,316	€744,702	40
Commuter Counties	€228,093	€277,117	€323,829	€428,436	€573,485	57
West Leinster		€201,185	€237,999	€330,333	€378,927	37
SE Leinster	€176,775	€200,196	€260,774	€380,751	€440,759	49
Cork	€236,554	€319,406	€328,403	€467,473	€500,273	63
Limerick		€201,620	€232,955	€274,558	€465,409	63
Rest of Munster	€237,831	€220,390	€260,203	€357,473	€426,197	40
Galway	€233,187	€328,861	€331,933	€379,181	€501,395	69
Connacht/Ulster	€144,452	€186,475	€219,519	€300,024	€354,391	32

€6,000

is what you would have to borrow to move from a 2-bedroom property in Dublin City Centre to a 5-bedroom property in Munster

-5.1%

is the fall in asking prices for 4-bedroom properties in South County Dublin, between the second and third quarters of 2006

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	€719	€1,031	€1,469	€1,895			10.6	5.6
North City	€611	€890	€1,223	€1,422	€1,777	€2,206	12.0	6.4
South City	€653	€972	€1,347	€1,608	€2,182	€3,099	10.9	5.6
North County		€885	€1,121	€1,285	€1,521	€2,122	17.4	8.1
South County		€1,016	€1,373	€1,767	€2,669	€3,493	15.2	8.0
West County		€891	€1,121	€1,240	€1,430	€1,689	14.9	7.8
Commuter Towns		€861	€1,107	€1,301	€1,422		17.3	11.4
Commuter Counties		€724	€875	€971	€1,179	€1,465	21.1	14.4
West Leinster		€532	€631	€718	€811		22.0	15.4
SE Leinster		€588	€702	€749	€875		19.8	12.5
Cork		€729	€971	€1,083	€1,317	€1,770	14.0	7.6
Limerick			€749	€836	€967		16.2	9.7
Munster		€608	€723	€791	€952	€1,015	19.9	12.3
Galway		€661	€893	€977	€1,091		15.9	10.1
Connaught/Ulster			€602	€680	€740		23.0	13.8

8.7%

is the increase in rents for 2-bedroom properties in Dublin city centre, compared to no change for 3-beds (Q3 over Q2 2006)

€110

is the increase in the average rent for 3-bedroom properties in the Dublin commuter towns

The snapshots cover the period from August 2006 to October 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.

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 30,000 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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