

RESIDENTIAL PROPERTY

FOCUS Q1 2014



Who is looking at Irish Property?

Market Activity
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Buyer and Seller Profiles
.....

Cash Sales
.....

Prices and Rents
.....

A MARKET ON THE PATH TO RECOVERY

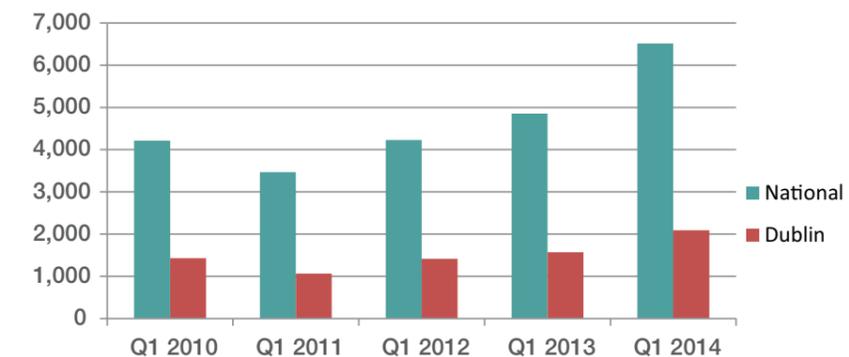
In net terms employment grew by 3.3% in 2013 – the strongest growth rate in the EU

Despite the challenges that undoubtedly remain, Ireland's economy is now well established on the path to recovery.

GNP has grown in six of the last seven quarters, and the latest data show that the economy expanded by 4.2% in Q4 2013. However, the most striking evidence of the improving economy can be found in the labour market. In net terms employment

grew by 3.3% in 2013 – the strongest growth rate in the EU. And, although the rate of jobs growth has eased off somewhat, the live register has now fallen for 30 consecutive months and unemployment is down to 11.8% - its lowest rate for five years. With more people in employment, confidence is gradually returning. In May the consumer sentiment index reached its highest level since 2007, while retail sales have increased by 6.8% year-on-year. Within this, it is interesting to note that sales of bigger ticket items such as furniture (+29.9%) and motor vehicles (+15.8%) have shown a particularly large increase. This may signify that the improvement in consumer confidence has now moved beyond the purchase of small creature comforts - something that would clearly be positive for housing demand. ■

GRAPH 1
Housing Transactions Q1 2010 - Q1 2014



Source: PSRA

GRAPH 2
Housing Transactions Per 1000 of Population



Source: Savills Research based on CSO, PSRA, ONS, HMRC

Transactional Activity

Housing transactions have recovered strongly over the last three years. In total, just over 6,500 residential properties were sold across Ireland in Q1 – a 34% increase on the figure for Q1 2013, and an 88% increase on the Q1 2011 trough. While Dublin contains approximately 27% of Ireland's population, a slightly higher percentage of residential sales were concentrated in this location (32%).

Official data on transactions have only been available since January 2010 making it difficult to establish a 'normalised' baseline level of activity. Therefore it is useful to compare per capita housing transactions in Ireland with those in neighbouring countries. As shown in Graph 2, although property sales have recovered strongly in the last 12 months, Ireland remains well below international norms in terms of transactions per head. In Q1 of this year just 1.42 units were traded per 1000 of the population. This is less than one third of the rate at which properties are being traded in England. Indeed, if housing units were changing hands at the same rate in Ireland as England, Q1 sales in would have been nearer to 20,000 than the 6,512 actually recorded. A key message, therefore, is that despite a pick-up in activity there is significant headroom for a further improvement in market activity. ➔

Buyer Profile

Savills has seen a significant shift in the composition of residential sales over the last year. Twelve months ago, traditional owner-occupiers accounted for more than 83% of its sales. At that time traders-up were the most active group, accounting for 43% of Savills' residential re-sales. These were followed by first-time-buyers (30%) and those trading down (10% of total sales). However, while the absolute numbers have increased, the proportion of sales accounted for by these owner-occupier groups has fallen to 52% over the last year. In contrast, investor purchases have increased from just 13% of transactions in Q1 2013 to over 40% in the most recent quarter. It is important to recognise that this analysis is based on a relatively small sample of sales. However, the upsurge in investor activity is broadly consistent with an increase in the demand for private rented accommodation – according to CSO, the number of households in rented accommodation increased by 47% between 2006 and 2011.

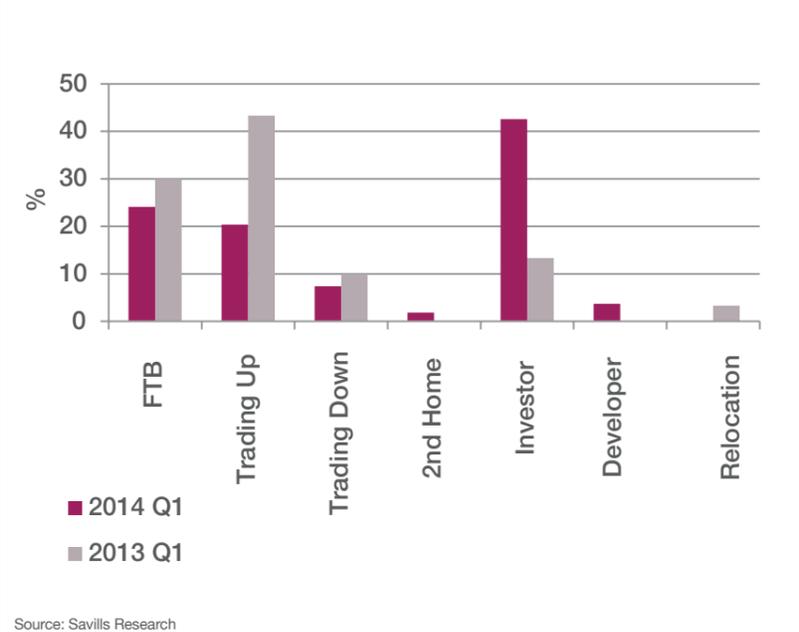
In general, first time buyers are looking for two, three and four bedroom semi-detached family homes, preferably with some outdoor space. However those without immediate family concerns are also purchasing apartments with good square footage in convenient city centre locations.

Those trading up in the market are generally looking for three, four and five bedroom semi-detached and detached homes. Their priorities tend to be parking, good gardens and space for a growing family. In general, this group is focused on well-serviced suburban locations close to schools and public transport links.

A single-story layout and ease of maintenance are often important considerations for those trading down in the market. Therefore apartments, bungalows and townhouses are in demand with this group. Convenient location within walking distance of village amenities is also a priority, as is proximity to good public transport links.

Savills has seen a distinct change in the profile of residential investors. Today's investors are taking a strongly business-minded approach to their purchases. Reflecting this, their focus is on apartments which are less costly to maintain and which generally deliver higher yields. They are concentrating on locations where the rental market is strongest - central locations, locations with good transport links, and areas well serviced with social amenities and job opportunities.

GRAPH 3
Number of Transactions by Buyer Type Q1 2014 vs Q1 2013

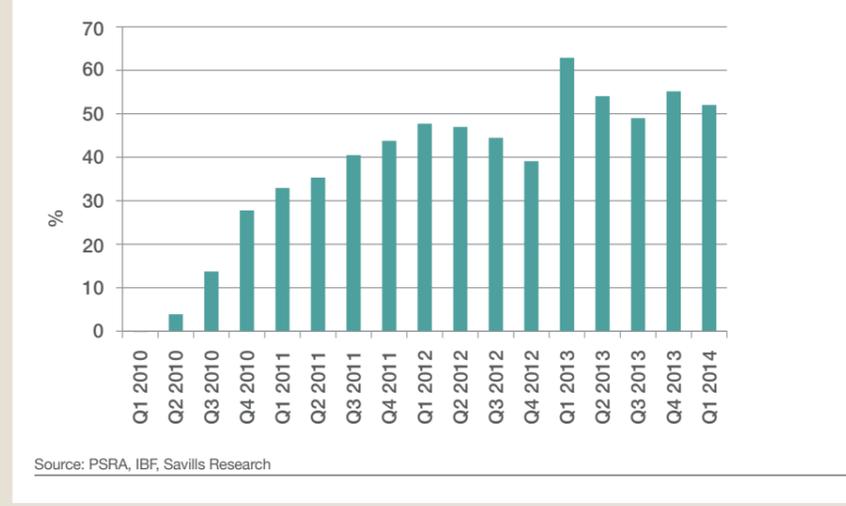


SALE SUMMARY 1
Suantrai, Knocksinna, Foxrock, Dublin 18.

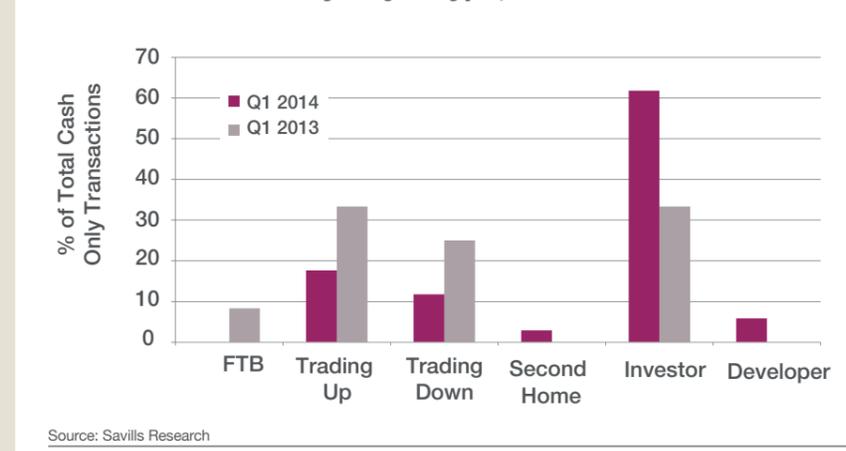


Sold by Savills in Q1
For in excess of the €1.5m asking price.
60 viewings, sold within 9 weeks.

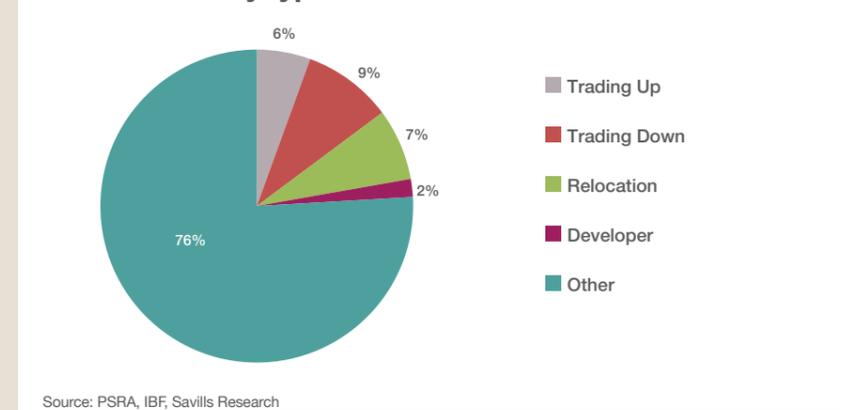
GRAPH 4
Cash Only Housing Transactions



GRAPH 5
Cash Transactions by Buyer Type; Q1 2014 vs Q1 2013



GRAPH 6
Transactions by type of Seller



Cash Sales

Last year Savills identified that cash-only deals had risen to over 60% of total residential sales. At the time we predicted that this figure would begin to decline as the backlog of cash-buyers trading up and down in the market started to work its way through the system. This reasoning has proved broadly correct. As shown below the overall proportion of cash sales has declined from 63% in Q1 2013 to 52% currently.

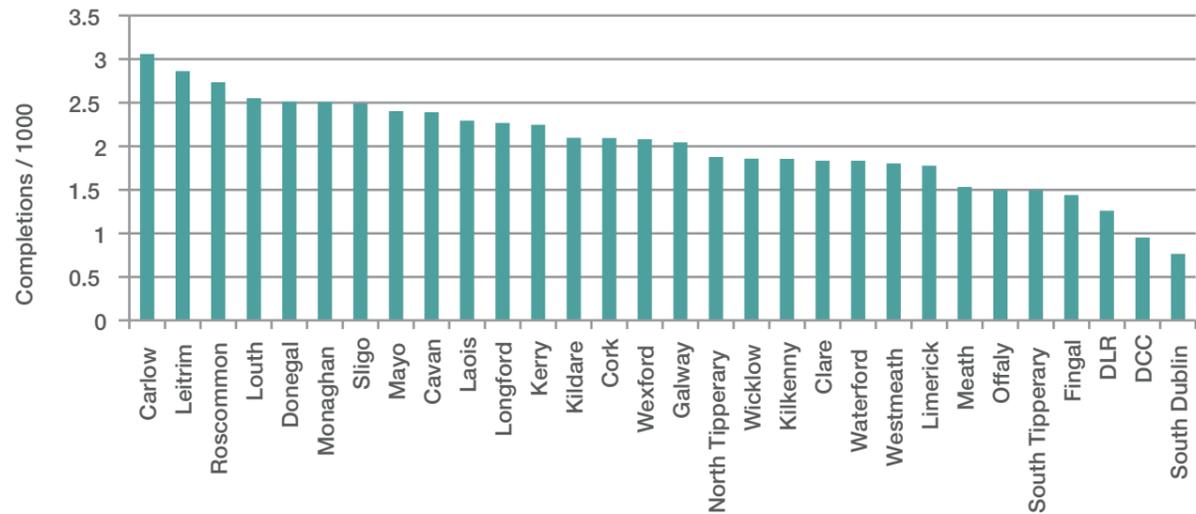
Moreover, when we examine the composition of cash-buyers we see that the proportion trading up and down within the market has fallen considerably. In Q1 2013 these groups represented 58% of cash sales whereas they now account for less than 30%. However, in contrast, investors are now increasingly buying into the market with cash; this group increased its share from one-third of all cash buyers 12 months ago to 62% in the most recent quarter.

Interestingly, two groups of cash buyers that were not present at all 12 months ago have begun to emerge. These include developers (5.9%) and people buying second homes (2.9%).

Seller Profile

Compounding very low levels of new construction activity, the residential market has continued to tighten due to fewer second-hand properties becoming available on the market. One possible explanation for this lies in the fact that three quarters of all transactions in Q1 2014 can broadly be described as non-discretionary sales. These include receivership sales, bank consensual sales, disposal of investment properties and sales arising from events such as bereavement and marriage-break-up. However, with prices now being driven up strongly, especially in the major urban centres, we expect more stock to be drawn onto the market in the coming months, leading to the return of a more normal and liquid re-sales market. →

GRAPH 7
Housing Completions Per 1000 of Population - 2013



Source: CSO, D/ECLG, Savills Research

Prices and Rents

Ireland's population has risen by over 360,000 since 2006. This, coupled with an improving economy and a strong labour market, has underpinned the demand for residential property. At the same time, this pressure has not been relieved by significant new house-building activity. Last year, just 8,301 dwellings were completed, the lowest number since records began. Moreover, the construction that has taken place has not necessarily been in the areas where demand is highest. For example, although the residential vacancy rate across Dublin is now below 5%, it is clear that Dublin had the lowest

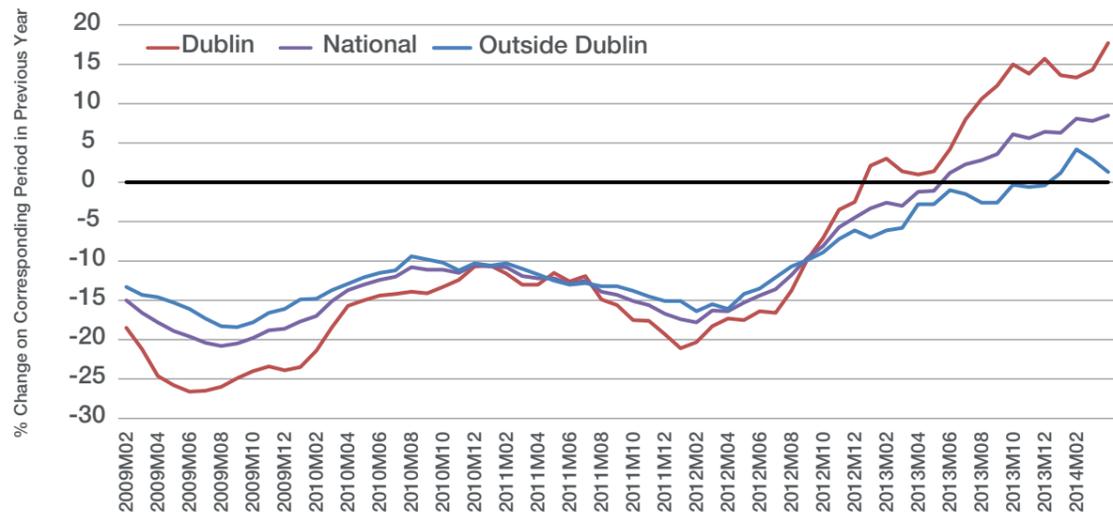
per capita rate of housing completions in the country last year.

This combination of strong demand and tight supply has driven prices higher. As shown in the graph below, residential values have now been pushing upwards in Dublin since the beginning of 2013 and the latest data show that average prices increased by 17.7% in the year to April. In other parts of the country it is more of a mixed bag. Agency reports suggest that prices in Cork, Galway and parts of Kildare, Meath and Wicklow also rose significantly

during 2013 and continue to show strong growth. Elsewhere, it is probably fair to say that residential markets are stabilising and beginning to show recovery in some locations.

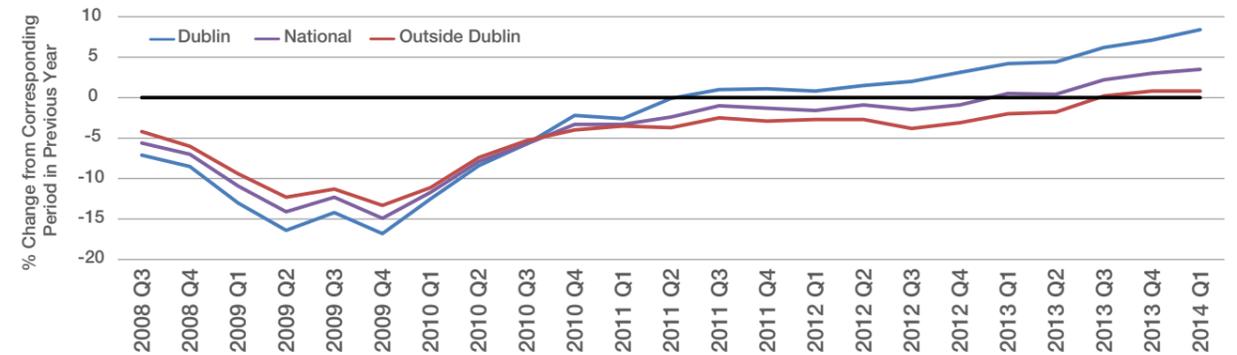
With vacancy rates now so low across Dublin, rents are also being driven up. Latest data from the PRTB show that rents increased by 8.4% in Dublin over the last year, while rents outside Dublin have also begun to show some recovery. ■

GRAPH 8
Residential Property Prices - Dublin vs Outside Dublin



Source: CSO

GRAPH 9
Percentage Change in Residential Rents (Y/Y)



Source: PRTB/ ESRI

SALE SUMMARY 2
55 Leeson Park, Ranelagh, Dublin 2.



For sale through Savills
Asking Price €2m

SALE SUMMARY 3
Salerno, Military Road, Killiney, Co Dublin



For sale through Savills
Asking Price €2.9m

OUTLOOK

A consensus is emerging that approximately 25,000 additional dwelling units are required each year to meet the current and pent-up demand for residential housing in Ireland. New housing completions have clearly fallen far short of these totals in recent years, particularly in Dublin where per capita house building is well below the national average. This has resulted in very low vacancy rates throughout Dublin and the surrounding commuter counties, which in turn has driven a strong rebound in prices. Prices have also been rising in the major urban centres of Cork and Galway, while the market has begun to stabilise elsewhere in the regions.

Looking at leading indicators such as commencement notices and year-to-date completions, there is no immediate prospect of new construction delivering

anything like the number of dwellings needed to meet expected demand. Therefore the central prognosis appears to be for further growth in residential prices over the remainder of 2014. In saying this, however, the structure of demand may influence the extent and distribution of this growth. While cash sales remain important, their market share has diminished over the last 12 months.

This is likely to continue as expiry of the Capital Gains Tax incentive next December begins to impact on investor demand and as cash-funded owner-occupiers gradually deploy their equity. Consequently, the more traditional mortgage-financed buyer will once again come to the fore. In this sense, the momentum of future demand will depend more heavily on the availability

and cost of mortgage finance. Anecdotal reports from residential agents suggest that the banks are once again actively seeking to lend into the market. Indeed, this is borne out by the latest statistics – the value of mortgage drawn-downs in Q1 2014 was 72% higher than in the previous year. At this stage therefore, and with the ECB recently cutting interest rates again, it appears that a sufficient supply of affordable mortgage finance will be available to support further growth in the market. However, with strict lending conditions now a reality and with first time buyers currently accounting for more than half of all mortgage lending, it is likely that the depth of market demand will remain primarily at the lower and middle ranges of the price spectrum. ■

71c Sandymount Rd, Sandymount, Dublin 4.



Sold by Savills in Q1

For in excess of the €665,000 asking price.
65 viewings, sold within 5 weeks.

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Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

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