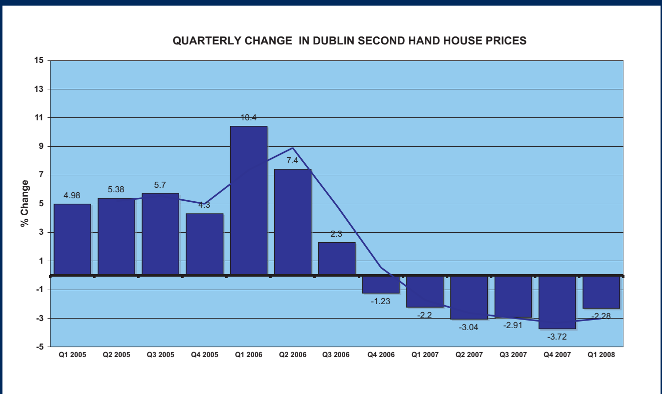
Douglas Newman Good
DNG Nationwide

HOUSE PRICE GAUGE
Q1 2008 Results and Analysis

Quarterly Commentary and Analysis
Moderation in the pace of house price deflation during quarter one.

The Douglas Newman Good House Price Gauge recorded a fall in the average price of second hand residential property in Dublin of 2.3% during the first three months of 2008, broadly in line with our expectation of a further softening in residential property prices (see figure 1.)

Fig. 1



On a more positive note, the rate of price deflation moderated during quarter one compared to quarter four last year when prices fell by 3.7% and this may signify the very first signs of stability in the market. The improvement was driven largely by the entry level to the market as table 1 shows with prices up to €400,000 decreasing on average by 1.74%, far lower than the overall average. First time buyers increased their activity in the market in the wake of improved mortgage interest relief from January 1st onwards, and this contributed to more stable prices compared to the upper levels of the market where on average prices reduced by 2.86% for properties worth €800,000 or more where demand remained weaker and the magnitude of previous price discounting was smaller. As a result the southside of Dublin recorded the largest fall by area of 3.6% during quarter one reflecting a continuing weakness of demand towards the top of the property market whereas the westside and northside recorded below average decreases of 2.1% and 1.7% respectively (see table 2.)

Table 1

% Price Change by Price Bracket Q1 2008		
	Q1 2008	Annual Percentage Change
Up to €400,000	-1.74%	-8.54%
€401,000 to €600,000	-1.99%	-7.71%
€601,000 to €800,000	-1.81%	-9.76%
€801,000 Upwards	-2.86%	-15.18%

Table 2

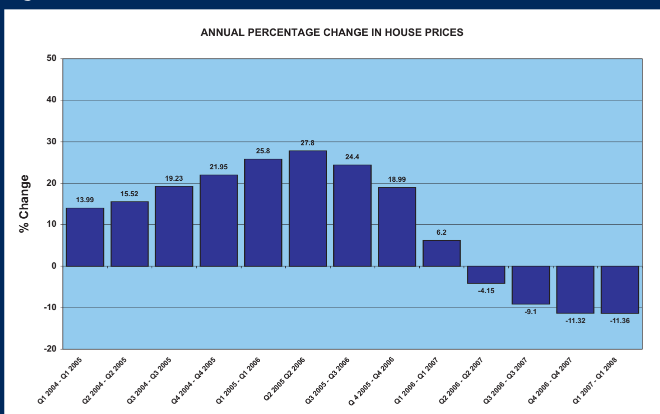
	Q1 2008	Annual % Change
Southside	-3.60%	-14.50%
Northside	-1.72%	-9.32%
Westside	-2.13%	-7.07%

The reduction of 2.3% in prices during quarter one follows successive falls in the average price during the previous five quarters, dating back to the final quarter of 2006 and is very similar to the decrease witnessed in quarter one 2007 when prices fell by 2.2% on average.

Annual Change in Property Prices

In the twelve months to the end of March 2008, the annual change in the price of a second hand property in the greater Dublin remained constant at -11.3%, the same decrease as for the twelve months to the end of December. The figure is in sharp contrast to the twelve month period to the end of quarter 1 2006 when prices rose by 6.2%.
As table 1 shows, the entry level to the market fell by less than average (-8.5%) during the preceding twelve months, whilst the upper end of the residential market fell by 15% compared to the average rate of deflation of 11.3%. Prices in west Dublin fell by 7% on average, whilst in north Dublin prices were down 9.3% on average. Only south Dublin saw a higher than average decline of 14.5% during the year to March (see figure 2.)

Fig. 2



Market Analysis

The was also evidence of improved market sentiment during the early part of the year as activity levels in the market improved significantly on quarter four 2007, particularly in the new homes market. Branch level telephone enquiries, brochure requests, website traffic, viewing requests and offers combine to make up ìactivity levelsî and there was a noticeable increase in volumes in all these areas of the sales process. In addition the Dublin new homes market saw several high profile and very successful launches with the highest sales levels for a number of months. New homes that were well marketed and priced correctly according to prevailing market conditions saw large numbers of people at weekend viewings with a return to overnight queuing in certain locations.

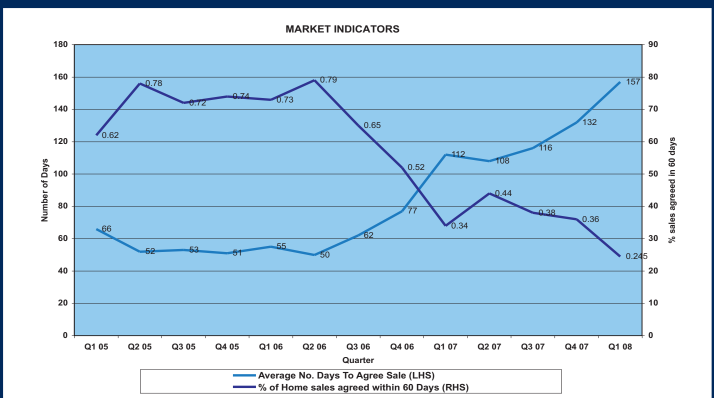
As the quarter progressed activity increased despite the prevailing global economic uncertainty and continued weakness in domestic consumer confidence.

The main contributing factors to the continued readjustment in residential property values were discounting in the new homes sector, further price falls for resale property already on the market since the end of 2007 and realistic pricing of new stock coming onto the market.

Strength of Demand

Whilst both the second hand and new home sales market saw improved levels of activity during quarter one , compared to the second half of last year, the average length of time to agree a sale increased markedly from 132 days in quarter four last year to 157 days during the first three months of 2008 (see figure 3.). On the face of it, this would indicate a serious weakening in demand as purchasers took more time over their property purchase decisions but a closer look at the figures does provide explanations for the increase. Firstly the average was influenced by the increase in the number of sales that took longer than 240 days to complete. In quarter four last year 14% of the analysed property transactions took more than 240 days to agree but in the first three months of 2008 this figure rose to 21%. The reason for this was more properties that were not reduced enough in price last year were remarketed with reduced asking prices which lead to sales being agreed.

Fig. 3



The percentage of sales agreed within 60 days fell from 36% in quarter four 2007 to 25% during quarter one this year which also contributed to the increased overall average. In effect the figures are probably now more reflective of current market conditions with 25% of sales being agreed in less than 60 days, 21% taking 240 days or more and approximately half of transactions taking between three and seven months to agree.

Residential Output

The trend of reduced housing output continued each month during the first quarter in terms of housing completions, and housing starts - the main indicator of future housing supply. The supply side has responded aggressively since the start of the downturn which culminated in a 70% year on year fall in housing starts during March 2008 alone. Davy Research estimates that total housing starts are now running at an annualised rate 24,500 seasonally adjusted, in March following figures of 27,000 in February, and 32,000 in January. Given a 9 to 12 month timeline between commencement and completion this points to substantially lower housing output in 2009 than maybe had been first envisaged. The fact that housing output has been scaled back so quickly and aggressively should help limit the depth and length of the current housing downturn and its effect on the wider economy as supply restrictions lead to a clearance of any unsold stock in the new homes market as the year progresses.

Summary

Overall the average price of a second hand residential property in Dublin has now fallen by 15.4% from its peak in quarter 3 2006, which we regard as approaching the amount of price deflation required to see residential property prices return to a more normal level and as a result we would not expect prices to fall much further than current levels when the market is examined as a whole. There is some evidence that the rate of price deflation has stabilised during quarter one, but with the main selling season now underway analysts will be looking to data from this period to establish the future performance of the market as traditionally quarter two holds the key to the year as a whole.

Activity levels have improved very gradually as the year has progressed but consumer confidence remains weak and influenced perhaps more by the uncertain global economic backdrop rather than the domestic economy which although slowing remains sound. The main positives to take from the first quarter of 2008 have been the revival in overall market activity and a strengthening of demand from first time buyers who have been purchasing property that is priced realistically and represents true value in a period of improving affordability due to increased mortgage interest relief and lower prices.

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