Douglas Newman Good

MARKET ANALYSIS

2002-2003

Published January 2003

Keith Lowe MIAVI MIPAV
Senior Partner

Welcome to Our Yearly Review

Last year certainly proved to be an exceptional one for the residential property market in Dublin, and as predicted in this very publication twelve months ago, 2002 proved to be very successful from a property perspective.

Purchasers benefited from improved affordability because of low and then falling interest rates whilst many vendors achieved premium prices because of strong demand especially from investors and first time buyers throughout the year. Low supply levels characterised most sectors of the second hand market across the capital for the majority of the year and this too added to rising prices.

Our own House Price Gauge measured the average increase in prices at over 21% for 2002 but it is important to note the increasingly disparate nature of the residential market at the current time, with property at the top end of the market not performing as well as that in the mid to lower end, where demand, particularly from First Time Buyers remains very strong indeed.

As was the case last year, it gives me great pleasure to announce the opening of another Douglas Newman Good branch this time in Naas, County Kildare, bringing our network of outlets to 16 in total. Our unrivalled coverage of the Greater Dublin area, as well as our continued involvement with myhome.ie, means we are ideally positioned to provide the best possible exposure to our clients' properties in the year ahead.

Assuming there is no major upheaval on the global stage, 2003 should once again be a good year for Irish residential property. Finally, we do hope you enjoy this publication and find it both interesting and informative.

Keith Lowe

review

Review of Dublin Residential Market 2002

A YEAR IN REVIEW

What a difference a year makes. After mixed fortunes in 2001, last year saw a quick return to rising house prices across Dublin that continued from January to December and shows little sign of stopping in 2003.

In Budget 2002 the Minister for Finance provided a fresh impetus into the residential sector with two measures which were to reverse the fortunes of the market. The first and most significant change came with the full re-introduction of mortgage interest tax relief for investors, which meant that all interest arising from lending employed in the purchase, improvement or repair of rented residential properties was allowed as a deduction for tax purposes against rental income. The second measure saw a reduction in the Stamp Duty rates payable by investors for residential property transactions and the two measures combined to draw investors back into the market early in the New Year.

As a result, first time buyers re-entered the market after a 'wait and see' approach in the latter half of 2001 when prices were beginning to fall. It soon became clear that prices were again moving upwards in the first quarter of the year and this temporary boost to demand, combined with the low levels of supply saw prices increasing rapidly, particularly in the first six months of the year.
As investors, many of whom were purchasing a second property for the first time, brought new rental property onto the market so rent inflation began to stabilise. Fears that rent levels in the sector would collapse proved unfounded, and although demand for rental property weakened in line with a slowdown in the economy the market merely shifted back towards equilibrium as more rental properties, particularly apartments, came onto the market.

With prices rising by 14% in the first six months affordability for first time buyers once again became an issue but this was partly tempered by the fact that the anticipated recovery in the global economy was slow to materialise and the discussion about when interest rates should rise soon turned into a debate over when the European Central Bank might reduce rates. Lending institutions relaxed their criteria slightly in the second half of the year and interest rates finally fell at the end of the year thereby improving affordability levels in the market.

Demand remained strong but not at the levels seen in the first six months of the year as demand from investors was satisfied and their role in the market diminished. This contributed to the easing of house price inflation in quarter three and continued in the final three months of the year. There was also some improvement in the numbers of houses being offered for sale in the autumn selling season and this helped ease the upward pressure on prices across the capital. Prices continued to rise but at a slower rate than early in 2002 suggesting that the high levels of price inflation were a relatively temporary phenomenon.

Overall, and against a backdrop of a relatively static economy, the residential market clearly outperformed returns in virtually all other sectors. Investment capital which had been flooding to foreign shores returned and many people took the opportunity to release equity from existing properties through a range of new mortgage products in order to become investors themselves. In many instances First Time Buyers continued to find it difficult to get onto the property ladder and many had to rely on contributions and guarantees from parents in order to secure purchases, especially following the news that they could no longer count on the First Time Buyers Grant as part of their calculations.

THE FACTS

Budget 2002 brought investors and first time buyers back into the market.

The supply of rental accommodation increased and rent levels in the capital stabilised.

Supply of homes for sale remained approximately 30% lower than 2001 contributing to upward pressure on prices as demand exceeded supply.

Government abolished First Time Buyers Grant but extended mortgage interest tax relief in Budget 2003.

The average price of second hand property in Dublin rose 21% in 12 months

VAT on new homes increased by 1% from 12.5% to 13.5%.

Economic uncertainty meant interest rates remained low, stable and eventually fell by 0.5% in December.

Properties in lower price brackets saw strongest demand from first time buyers and this sector of the market also saw the largest price increases

Outlook 2003 Residential Property Market

Paul Murgatroyd BA (Hons)
Economist

The outlook for the residential property market in 2003 remains favourable following a strong year in 2002. Although Budget 2003 held mixed fortunes for different sectors of the market there were no major policy changes announced by either the Department of Finance or the Department of the Environment and Local Government which would adversely affect confidence in the market going forward.

Whilst the abolition of the First Time Buyers Grant will come as a blow to many people who were counting on the €3810 handed out by the Government to cover either part of a deposit for their new home or the costs of furnishings and fittings it's impact on overall demand would appear to be minimal. As some recompense First Time Buyers will now receive increased mortgage interest tax relief (TRS) of €4000 for a single person and €8000 for a married couple per year and in addition the qualification period has been extended from 5 years to 7 years. Perhaps more importantly for the market TRS can be claimed for purchases of either new or second hand property whereas the Grant was only payable to first time purchasers of new property. This will make second hand property more attractive to the large group of people looking to purchase their first home and will no doubt put pressure on prices at the lower end of the second hand market.

> "it is likely that construction output will rise, reducing the imbalance between demand and supply in the medium term"

Affordability of property improved at the end of last year with the 0.5% interest rate cut which has led to lower mortgage rates in the market and this will certainly help maintain demand in the coming months. On the downside purchasers of new homes will now be subject to increased VAT of 13.5% instead of the previous 12.5% but with the extension of some 44,000 existing planning permissions which were due to expire at the end of December 2002 it is likely that construction output will rise, reducing the imbalance between demand and supply in the medium term. In addition output should be further helped by the relaxation of Part V of the Planning and Development Act which will introduce more flexibility into the provision of social and affordable housing and thereby allow developers the opportunity to commence new schemes without further delay.

On the economic front the Irish economy is forecast to grow by around 4% in 2003 and with unemployment remaining between 4 and 5%, demand in the market will remain robust. The demographic structure of Ireland shows a large 25-34 age cohort and this will continue to underpin demand in the future. Barring a serious deterioration in the global economy the outlook for the residential property market is bright although price increases of the magnitude of 2002 are unlikely given the temporary boost to demand that occurred in the market last year and price increases of between 8% and 10% could therefore realistically be expected in the year ahead, with the possibility of stronger pace inflation at the lower end of the market.

house prices

Douglas Newman Good House Price Gauge 2002

Dublin second hand house prices rise 21% in 2002

After a turbulent year in 2001 the Dublin residential market witnessed a strong rebound throughout 2002. House prices rose in all quarters of the year in spite of the continued weakness in both the domestic and international economies. Even with weak growth in the economy, increased consumer spending continued to be a feature in all markets, including property.

Quarter 4 Results

The DNG House Price Gauge recorded a quarterly increase in the average price of second hand residential property in the Dublin area of 1.4% during the period September to December 2002. As figure 1 shows, although prices have continued to rise, this latest increase in quarter four indicates that the rate of price inflation continues to slow after higher rates of increase in the previous three quarters, and is in marked contrast to quarter four last year when prices fell by 2% on average. The average price of a second hand property in Dublin increased to €310,405 from €306,207 at the end of September. Demand remained robust but slightly weaker than earlier in the year, but because supply levels in the market were still lower than required, prices continued to rise.

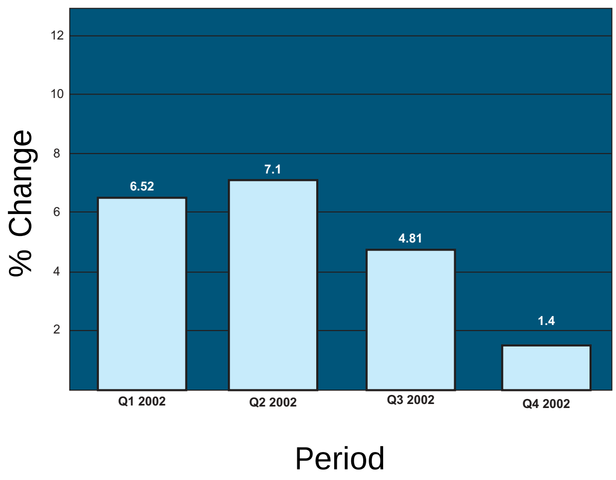
Annual Percentage Price Change

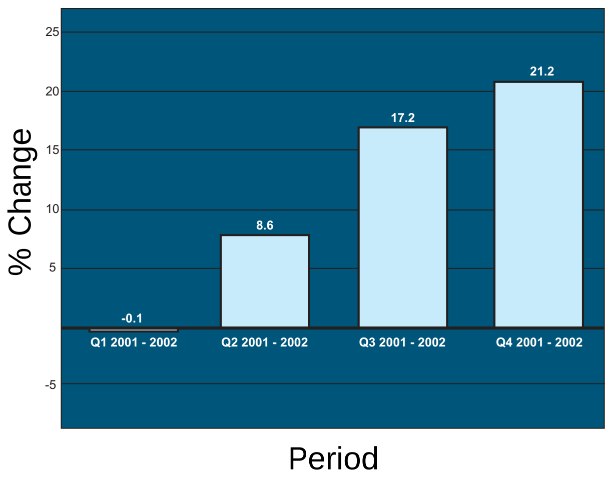
The 1.4% increase during quarter 4 means that in the twelve months to the end of December 2002, the average price has risen by 21%, a remarkable performance given market conditions twelve months ago. The annual rate measures the change in prices over the previous twelve months and this has continued to rise with each passing quarter (see figure 2) as the price decreases experienced in the latter half of 2001 work their way out of the annualised figure. This annual percentage increase reflects a strong rebound in the Dublin residential property market following a turbulent period during 2001 and has, to a large extent, been created by measures introduced in last years budget which underpinned strong demand throughout the year and instilled renewed confidence in the residential property market.

Analysis

These statistics reflect the dramatic turnaround in the Dublin residential market during the past twelve months, in a market influenced by several key factors. Firstly, demand was stimulated by Budget 2002 (delivered in December 2001) which encouraged investors back into the market with lower rates of Stamp Duty on investment property and the the full re-introduction of mortgage interest tax relief.
Secondly, this increased demand from investors was matched by the return of First Time Buyers to the market who could no longer afford to wait for possible further decreases in house prices. Throughout the first half of the year the rate of asset price inflation accelerated as demand far outstripped the very low levels of supply in the market. On average the supply of property was 30% lower that the previous year and as more and more people chased fewer houses so prices rallied. This was particularly true of property in the mid to lower price brackets, which in many areas experienced increases well above the average 21% whereas the rate of increase at the higher end of the market was lower than the average, reflecting weaker demand throughout the year. The rate of increase peaked midway through the year and although prices rose in quarters three and four it was evident that the rate of increase was falling back to a more sustainable level as demand weakened slightly and supply improved in the third quarter. Other factors continued to influence the market, namely the poor performance of other investment vehicles such as stocks and shares and of course the low and stable interest rate environment which prevailed throughout the year. Indeed affordability was given a further boost in December as the European Central Bank reduced interest rates by 0.5% which lowered the cost of borrowing still further.

Avg Price End Q4 2002	Avg Price End Q3 2002	Avg Price End Q4 2001	% Change During Q4 2002	Annual Change*
€ 310,405	€306.207	€256,137	1.37	21.19%





* Annual Percentage Increase in House Prices refers to a 12 month period i.e. the level of price change in January 2000 compared with January 2001; June 2000 compared with June 2001 and so forth.

Carol Strong MIAVI BA (Hons)
New Homes Manager

New Homes Market Analysis

A New Year, a new currency and a more positive outlook for the new homes property market in 2003.

After a turbulent year in 2001 the new homes market bounced back in 2002 both in terms of increased demand and increased supply of new property to the market. Prices too, despite general economic downturn, rose with increases of between 10 and 15% depending on price, category and location.

The budgetary measures introduced by the government in December 2001, gave the kick-start and impetus to drive demand for new residential property immediately in the New Year. The re-introduction of mortgage interest relief coupled with a reduction in stamp duty levels on new property for investors renewed interest from the investor sector, with many moving quickly in January 2002 to take up the surplus of supply left over from 2001. This factor alone was sufficient to boost consumer confidence in property from the doldrums of 2001. Many First Time Buyers and owner-occupiers purchasing new property were slightly slower off the mark and did not return to the market en masse, until later in the spring, and this began to push up prices for the remainder of the year.

Developers too were quick to respond to the increased level of demand. As the surplus of stock from 2001 was quickly taken up at the beginning of the New Year, many developers took the opportunity of selling from plans - property that would not be due for completion until considerably later in the year and into 2003 was sold early in the year.

Looking at output, one of the most commonly quoted indicators of new housing supply is the number of 'HomeBond' registrations of new house starts. Output in Dublin, as measured in these terms, after rising by only 8% in 2001, increased by a staggering 85% in 2002. Whilst this is not indicative of the rate of completions for 2002 alone (as a certain proportion of these will not be completed until 2003 or later) it is a definite move to a higher level of supply in the new homes market.

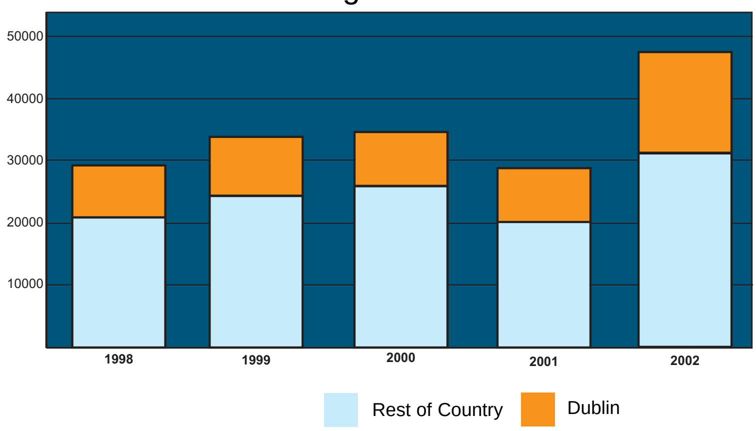
Nationally the number of new home registrations with HomeBond is up 63% on 2001. Whilst total output once again fell short of the required 55,000 units per annum forecast to meet demand in 2002, the level of new house starts for the year is a significant step in the direction of fulfilling this projected level of demand and should have a stabilising influence on prices for new residential property.

The supply of new homes this year should also be assisted by the Government decision to remove the provision in the Planning and Development Bill under which many planning permissions would have withered at the end of last year or during 2003. Some 77,000 permissions would have expired under the old legislation and it seems likely that the removal of this restrictive clause will go some way to improving housing supply in the short to medium term. The emergence in 2002 of affordable housing in the guise of 'public-private partnerships' should serve to further bolster supply.

Budget 2002 and measures introduced surrounding it, lead to the surprise move from the government in scrapping the first time buyers grant on new property. Whilst it has been long argued that the grant was no longer a fair and equitable mechanism of aid to first time buyers and was far less significant in relation to the overall price of new homes than at the time of its introduction. Unfortunately its loss will affect the lower end of the property market to the greatest extent. Many first time buyers were using all available funds, savings, monies from parents, loans etc., to just purchase the house or apartment, the first time buyers grant was a method to furnish the property when bought. In its place the government increased the level of mortgage interest relief available to first time buyers and the length of time that it can be claimed for. This is obviously welcome but does not address the affordability issue facing most first time buyers. Most are more than able to meet their mortgage repayments it is the initial funding of the purchase where difficulties lie. The return of the VAT rate on new property to 13.5% from 12.5% has also impacted on new property both directly and indirectly. Directly as many developers have passed on the increase to their customers (adding €2000 to the cost of a €200,000 new home), and indirectly as the cost of living in general has risen.

Looking to the year ahead, the new homes market is set to trade strongly as long as both supply and demand remain buoyant. Low interest rates continue to encourage both investors and homebuyers to purchase new property. Whilst housing start figures are definitely on an upward trend, availability of serviced land and development sites with planning permissions ready to go will play a major role in ensuring a continued high level of supply. 2003 should bring a level of stability to new homes prices not seen for some years, with moderate price increases over the course of the year assuming that general national and international economic conditions remain stable.

Homebond Registrations 1998 - 2002




Temple Court


Marlfield

auctions

Auction Market 2002 Review

Quality not quantity - 46% fewer auctions in 2002 compared to 2000

Without question 2002 and has once again shown a move away from auctioning properties in the greater Dublin area with only 835 properties being put for sale under the hammer. Compare this to last years turbulent market, where 881 properties were auctioned in a year when the market literally came to a standstill in the normally busy second season as a result of the September 11th attacks. In 2000 1547 properties were auctioned showing a very significant drop of over 46% in the past two years. In addition the fact that one third of all the greater Dublin auctions were properties in Dublin 4 or Dublin 6 highlights the emphasis that is placed on offering only the best quality homes for public auction during these more uncertain economic times and shows that homes close to the city centre continue to have the greatest demand.

The good news in 2002 was that auction results improved dramatically on 2001(see figure 1) showing once again the strength of the property market compared to the previous year. 45% of all properties were sold under the gavel, compared to only 28% the year before. Add in a further 12% being sold immediately after auction last year and it is clear how well the market rebounded in 2002. Interestingly the low and mid end of the auction market have been the best performers and it is in this area where prices have grown the most with many of them achieving prices rises well in excess of the 20% average.

Looking ahead, we would anticipate a similar number of properties to be put for sale by public auction in 2003, as overall supply in the residential market was down one third in 2002 and we see no reason why this situation would dramatically improve in 2003. Given that careful decision making by auctioneers about whether a property is suitable for the auction sale method continues, we would anticipate that results at auctions in the months ahead will continue to be strong.

Finally on a lighter note, the most popular house number going for sale at the rostrum this year was number ‘3’ with number ‘2’ following close in second place!

Mount Prospect Ave. Clontarf, Dublin 3
Sold Excess €1 million

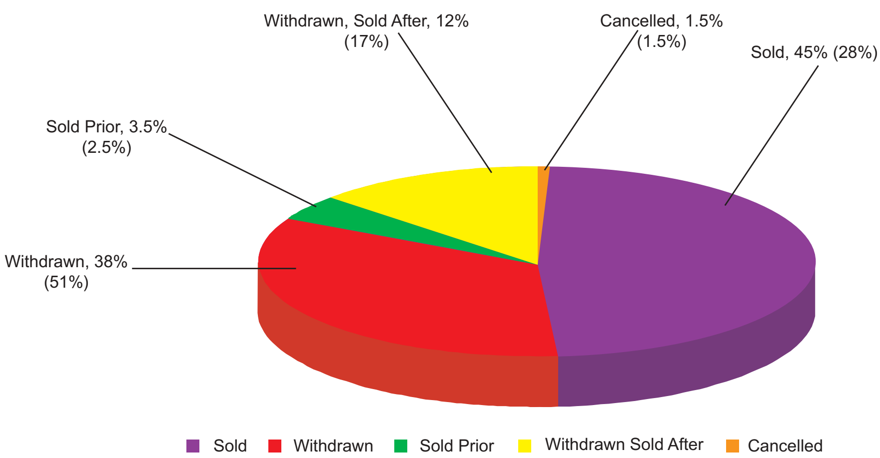
Merlyn Park, Ballsbridge, Dublin 4
Sold €1.6 million

18 Kenilwoth Square, Rathgar, Dublin 6
Sold Excess €1.5 million

figure 1

Greater Dublin Auction Results Analysis 2002

(2001 shown in brackets)



Douglas Newman Good
Residential

Douglas Newman Good
New Homes Division

DNG
International Property
Part of the Douglas Newman Good Residential Group

GENERAL MORTGAGE CORP.

mortg@ges online
The perfect mortgage @ your fingertips !

For further information or copies of this document, please contact

Douglas Newman Good
Residential Group Head Office & Auction Rooms
30 Leeson Park
Ranelagh
Dublin 6
Telephone 491 2600
Fax 491 2666
E-mail paulmurgatroyd@dng.ie
www.dng.ie