

QUARTER

house price guage
results market analysis
and outlook 2004

FOR



**Douglas
Newman
Good**

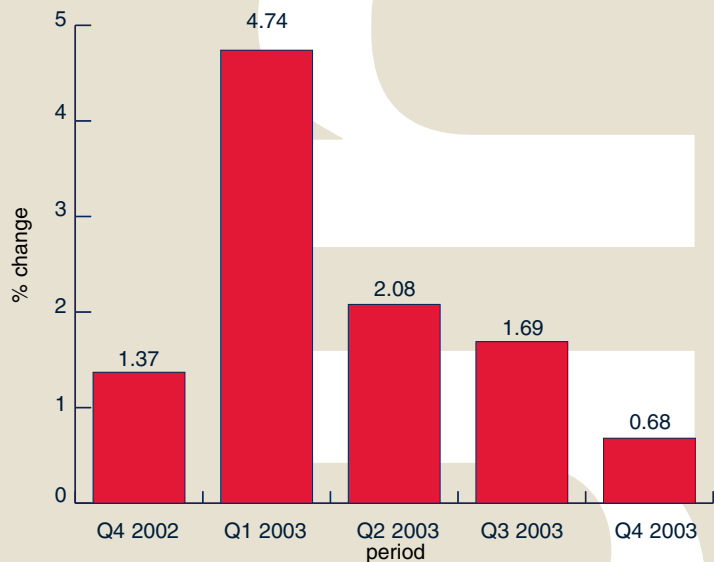
Residential Group

Overall change in Dublin second hand residential property prices Q4 2003

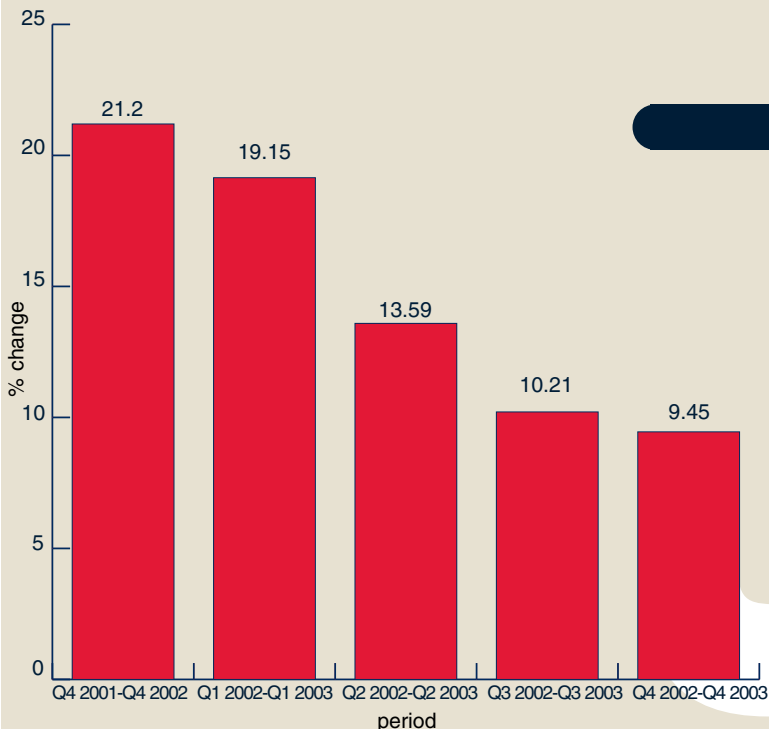
Ave price end Q4 2003	Ave price end Q3 2003	Ave price end Q4 2002	% change in Q3 2003	Annual % change *
€339,749	€337,467	€310,405	0.68%	9.45%

QUARTERLY PERCENTAGE PRICE CHANGE

The Douglas Newman Good House Price Gauge (HPG) recorded a quarterly increase in the average price of second hand residential property in Dublin of 0.68% during the period October to December 2003. This increase is half the rate recorded for the same period of 2002 when prices rose by 1.37% and is the third consecutive quarter in which the rate of price increase in the second hand residential market has continued to slow, confirming the view that the Dublin residential market is gradually cooling down. The 0.68% increase during Quarter 4 means that the average price of a second hand property in Dublin has increased slightly to €339,749 at the end of the year, compared to €337,467 at the end of September. The low increase in Q4 reflects the fact that many prices remained unchanged during the final three months of the year.



QUARTERLY CHANGE IN DUBLIN SECOND HAND HOUSE PRICES



ANNUAL % CHANGE IN DUBLIN SECOND HAND HOUSE PRICES

ANNUAL PERCENTAGE PRICE CHANGE

The 0.68% increase in quarter 4 means that in the twelve months to the end of December 2003 the average price of second hand residential property in Dublin increased by 9.45%, compared to an increase of 21.2% during 2002. As the graph clearly shows, the annualised increase in second hand property prices would appear to be levelling out as was predicted at the beginning of the year and if forecasts are correct the medium term annual rate of price inflation should level out at between 8% and 10% going forward. The increase in the past twelve months means that the average price of a second hand house in Dublin has risen by €29,344 during that period.

* Annual Percentage Change 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.

market analysis

The final quarter of 2003 was characterised by a relatively large stock of properties for sale in the second hand residential market. This wider choice for prospective purchasers coupled with weaker demand in what is traditionally the quietest period of the year lead to prices increasing only marginally from October onwards. A closer analysis of the sample reveals that 47% of the properties surveyed recorded no change in price during quarter 4, with 43% increasing in price and 10% falling in price.

In terms of the different sectors of the market, quarter 4 proved a rather good barometer for the year as a whole. Prices at the lower end of the market (under €250k) rose by a healthy 1.31% and prices at the mid-upper end of the market also performed well, increasing by 1.16% on average during Q4. Demand remained strongest in these two sectors both from first time buyers trying to get on the property ladder and from people trading up looking for larger family homes in established suburban locations. In contrast to this, the mid-market (€250k-€500k), where supply was greatest, recorded below average increases of 0.21% during Q4 but prices did still increase slightly.

As was accurately forecast in our Outlook to 2003, the key trend for last year was the reduction in the rate at which prices are increasing year on year, with the annualised rate falling to 9.5% for 2003 as a whole. In terms of market conditions, last year was the first full year for some period of time where the market was not influenced or artificially distorted by radical changes to Government policy or by other major external shocks on either the supply or demand side. Stamp Duty rates remained unchanged throughout 2003 and both investors and owner occupiers were neither penalised nor given extra incentive to trade in the market. The market therefore was driven by 'market forces' and the fundamentals of low interest rates, a favourable demographic picture, relatively benign domestic economic conditions and the continued attractiveness of property investment over and above other investment vehicles. On the supply-side, housing output again set a new record of 67,000 units built during 2003 and this, to a certain extent, helped level out the continued imbalance between supply and demand which in turn reduced the rate of price increase in the market.

OUTLOOK 2004

The good news is there is nothing in any economic data released to date to cause concern about the solidity of the residential property market. This is of course welcome news for those who already own property but the trend of slower price growth brings continued hope for first time buyers looking to enter the market this year. Although prices are very unlikely to fall, the rate at which they are increasing is settling down as demand is gradually satisfied and new housing output continues to set records.

In the Dublin market, second hand residential prices have shown, and will continue to show resilience because of the unique factors that mean demand in this region will remain as strong if not stronger than other areas. Firstly the stock of second hand housing in the majority of Dublin's suburbs remains relatively constant and secondly, The Greater Dublin Area continues to benefit from the strongest rates of job creation, and whilst Government Decentralisation has been firmly placed on the agenda, it will take a sustained and balanced regional development policy to iron out the bias in the capitals house prices versus the rest of the country. Because of continuing congestion around the capital, properties close to recently developed or developing transport links, or close to the city centre itself, will continue to show the best performance in the market. Suburban mid-market family homes close to good local amenities are likely to show above average returns during 2004.

At the lower end of the market supply has increased markedly in recent months, giving relatively good stock levels of starter homes for first time buyers in the New Year, and the increased level of supply will serve to soften pressure on prices in 2004. With regard to the mid sector of the market, demand will remain robust, as people with equity in smaller properties continue to trade up to take advantage of the current low interest rate environment and increased affordability in the market.

The upper end of the market should benefit from the general improvement in economic growth forecast to take a grip this year. Demand for property in the higher price brackets is, to a large degree, dependant on stock market performance, executive bonuses and share prices, which seem to now be back on an upward curve driven by strong economic growth in the US. It is likely that this end of the market will outperform the lower end in terms of price increases as supply continues to lag behind demand.

In summary, as we move into 2004 the residential property market remains in good shape with the fundamentals continuing to underpin demand. The current interest rate environment seems somewhat uncertain but in the short term the pressure on rates is downwards due to the current strength of the Euro against the dollar. By the end 2004 rates are forecast to be higher than current levels but only by maximum of 1% and quite possibly by less than that. Positive net immigration continues to add to the substantial indigenous pool of people in the house buying age brackets in Ireland and in addition, salaries are forecast to increase by 4% on average, which will continue to help affordability. The market will continue along its path towards the much touted isoft landing and overall prices can be reasonably expected to increase by 6-8% this year, but as has been the trend in the last two years, the bulk of that level of increase will materialise in the first six months with smaller rises forecast for the second half of the year.



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