



# The Daft.ie House Price Report

An analysis of recent trends in the Irish residential sales market

**2011 in review**

Introduction by Ronan Lyons, Economist at Daft.ie



# Introduction

Ronan Lyons, Economist, Daft.ie

## What's another year? Confidence and finance the keys to recovery

Ronan Lyons is an economic researcher and Economist with Daft.ie. He is undertaking a doctorate at Balliol College, Oxford, where his research is on the economics of why people live where they do.

And so another year of Ireland's property market crash draws to a close. It is unlikely that years down the line, 2011 will be remembered in the annals of Ireland's property market. It is much more likely to be tucked away between the start and end dates of what will be regarded as the legendary Irish property market crash.

But that does not mean that nothing of note happened in the Irish property market in the twelve months just past. I would highlight three significant developments, all of which happened in the final three months. The first was the announcement the Government is going to unveil its property tax plans early in the new year. By telling future buyers of property what their annual tax bill will be, this will reduce the uncertainty they face.

The second important development is the Budget announcement that rent supplement thresholds will be reviewed in the new year. By reducing the price floor in the rental market, this will have implications far beyond those in receipt of the supplement. For other renters, it will mean cheaper rents. And for property owners, it will mean lower house prices, because of the fundamental relationship between house prices and rents. A property's price is best thought of as a multiple of the annual rent that would be paid. In healthy markets, this is usually about 15 times the rent so if market rents fall, house prices should fall too.

### Sharpest falls yet in late 2011

The third significant development was the dramatic fall in asking prices in the final three months of the year, outlined in this report. Until the third quarter of this year, the case could be made that house price falls had been slowing down. The typical quarterly fall had been over 5% in 2008 and 2009 but was under 4% in 2010 and into 2011. However, in the final three months of the 2011, the average asking price fell by almost 8%, by far the largest quarterly fall yet. It means that the fall in asking prices over the course of 2011 was 18%, as large as any of the falls seen in 2008, 2009 or 2010.

Such a dramatic fall in asking prices could reflect greater realism on the part of sellers, as they see fire-sale auctions resulting in prices 70% below the peak and cut their prices to compete. Or it could reflect the impact of on-going international economic uncertainty and pessimism about Ireland's economic future. More than likely it reflects both.

It is somewhat ingrained in Irish commentary to see larger falls as a bad thing and no doubt many, particularly those in negative equity, will see this dramatic fall in those terms. However, if you think of the fall in house prices as a necessary correction, whose size is determined by fundamental factors, then it is better for the prices to race to the finishing line than to crawl there.

# Introduction

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## What's another year? Confidence and finance the keys to recovery

### Predicting the bottom

But how far must prices fall? Picking the bottom of the market is a mug's game. Nonetheless, income multiples and more reliable rental multiples do give us some indication of what to expect. They suggest that a fall from peak prices of around 60% is to be expected, provided rents do not fall substantially after rent supplement thresholds are reviewed. Given that the average asking price nationwide has already fallen 50%, one more year of house price falls could suffice.

Indeed, in parts of Dublin, the average asking price has already fallen by 60%. Does that mean we should expect to see prices rising again sooner rather than later? First things first: rising house prices is a bad thing. The golden rule of house prices is that over the long run, they don't increase any faster than inflation. We can see this everywhere: in Ireland up to 1995, in the US over the last fifty years or over the Netherlands over the last four hundred years. So, if we're seeing house prices rising any faster than about 2% a year, as we did during our bubble, something has gone wrong. What the market needs is stable prices, not rising ones.

### Finance and confidence

One of the key points to remember, when we talk about the property market recovering, is that recovery in the property market does not mean an increase in prices. Recovery means an increase in activity. In 2011, banks issued about 13,000 mortgages. In 2006, the same banks gave out over 200,000 mortgages, meaning we've seen a fall in lending of almost 95%. Given that the property market in any developed economy is inextricably linked to the mortgage market, it's no surprise that prices are down 50% or more, if lending is down by over 90%.

Banks will say that much of the fall in their lending is due to a lack of demand: trader-uppers are stuck in negative equity, while first-time buyers are either unemployed (and possibly emigrating) or, if they are employed, worried about their jobs and their take-home pay.

But while fifty thousand 25-34 year-olds have emigrated and another fifty thousand are newly unemployed, there are still over half a million 25-34 year-olds – the household-forming age – at work. These are the people who would, in other circumstances, be kick-starting activity in Ireland's property market.

They are not doing so because of two factors: a lack of finance, but also a lack of confidence. Finance is down to the banks and banks will not resume lending until the stress tests stop punishing them for doing so. Without finance, there's a real risk that prices will overshoot on the way down.

Confidence is trickier – government policy can do little overnight to boost perceptions of Ireland's economic future. It can have an impact, though, by removing uncertainty about property tax, which it is doing, but also by publishing transaction prices, bringing in lending guidelines (including a maximum loan-to-value) and changing how banks fund mortgages. Because overshooting on the way down increases the

likelihood of another bubble down the line, these measures are not so much luxuries as necessities. ■



# Percentage fall in asking prices from the peak





# Daft.ie Asking Price Index

## -18.0%

Driven by developments late in the year, the annual fall in house prices in 2011 was 18%, compared to 15% in 2010. The average asking price in December was just above €175,000, compared to €366,000 in mid-2007.

### Asking Prices, Residential Sales

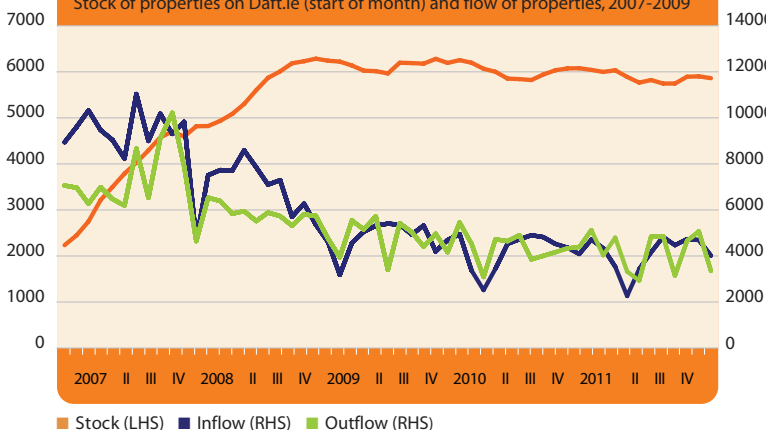
(2007 average = 100)

	2005	2006	2007	2008	2009	2010	2011
January	73.0	84.6	99.8	97.9	83.5	69.1	58.7
February	75.4	93.4	100.6	97.7	82.0	68.4	58.4
March	76.9	92.2	100.3	96.2	80.3	67.1	57.3
April	77.5	94.7	100.0	95.8	79.5	66.5	56.3
May	77.4	96.0	100.5	94.8	77.9	65.9	55.5
June	78.8	97.1	100.5	93.4	76.4	64.4	53.8
July	79.1	97.2	101.0	92.5	75.8	63.2	54.1
August	79.3	97.3	100.3	91.1	73.8	63.4	53.0
September	80.9	99.5	99.5	90.4	73.2	62.6	52.6
October	83.0	100.9	99.4	88.0	71.7	61.3	50.0
November	84.0	99.1	98.5	85.7	69.5	59.7	49.0
December	88.0	99.6	99.5	84.9	69.5	59.0	48.4

2007 average = 100

### Stock of properties on Daft.ie

Stock of properties on Daft.ie (start of month) and flow of properties, 2007-2009



## Steep falls in late 2011

The final three months of 2011 saw the sharpest quarterly falls in asking prices yet, 7.7% on average, the largest previous having been 5.6% in late 2008

## Dublin prices now 58% below peak levels

Asking prices in city centre Dublin are now 62% below their peak, while those in Limerick are 43% below their peak.

## One third of properties sell within five months

About one in three properties listed in July are now sold, compared to just under half of properties listed in January.

## Stock on market falls slightly

The total number of properties on the market fell in the final three months of the year and at 56,000 is at its lowest since mid-2008.

*The Daft.ie Asking Price Index is based on asking prices for properties posted for sale on Daft.ie. An index based on asking price, as opposed to closing price, is a measure of sellers' expectations. 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 Snapshot of Asking Prices Nationwide



## What can I ask for? Can I afford it?

Average house prices across Ireland, by county and bedroom number, Quarter 4 2011

Daft.ie Snapshot of Asking Prices Nationwide (figures in thousands)		1bed	2bed	3bed	4bed	5bed	
Dublin	City Centre	€108	€171	€255	*	*	
	North City	€116	€170	€230	€353	€406	
	South City	€127	€180	€234	€403	€421	
	North County	€142	€153	€220	€387	€700	
	South County	€180	€239	€333	€509	€670	
	West County	€91	€136	€188	€245	€336	
Leinster	Meath	€93	€108	€158	€245	€367	
	Kildare	€89	€127	€160	€276	€374	
	Wicklow	€120	€159	€224	€295	€369	
	Longford	*	€58	€93	€151	€140	
	Offaly	€68	€105	€114	€194	€287	
	Westmeath	€74	€108	€113	€186	€271	
	Laois	€63	€80	€114	€149	€285	
	Louth	€66	€95	€144	€236	€273	
	Carlow	*	€72	€139	€223	€258	
	Kilkenny	*	€109	€131	€188	€302	
	Wexford	€63	€86	€134	€193	€260	
	Munster	Co. Waterford	*	€80	€170	€243	€306
		Waterford City	€49	€67	€121	€212	€275
Kerry		€104	€119	€159	€225	€313	
Co. Cork		*	€124	€163	€241	€329	
Cork City		€97	€122	€182	€280	€379	
Clare		€86	€113	€132	€204	€229	
Co. Limerick		€103	€80	€144	€235	€290	
Limerick City		€53	€97	€159	€218	€265	
Tipperary		€70	€89	€126	€208	€244	
Connaught	Co. Galway	*	€118	€150	€185	€249	
	Galway City	€126	€154	€173	€200	€372	
	Mayo	€50	€97	€130	€178	€257	
	Roscommon	€40	€91	€108	€149	€211	
	Sligo	€52	€98	€120	€154	€255	
	Leitrim	€65	€84	€97	€133	€201	
Ulster	Donegal	*	€77	€122	€185	€218	
	Cavan	€60	€68	€101	€160	€217	
	Monaghan	€59	€92	€128	€217	€178	

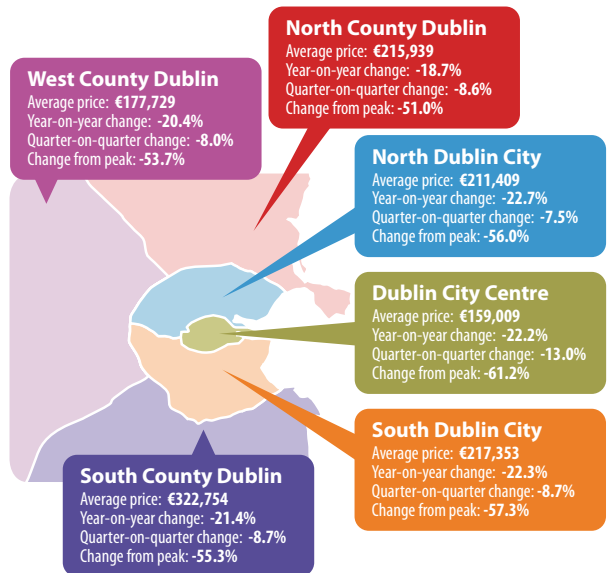
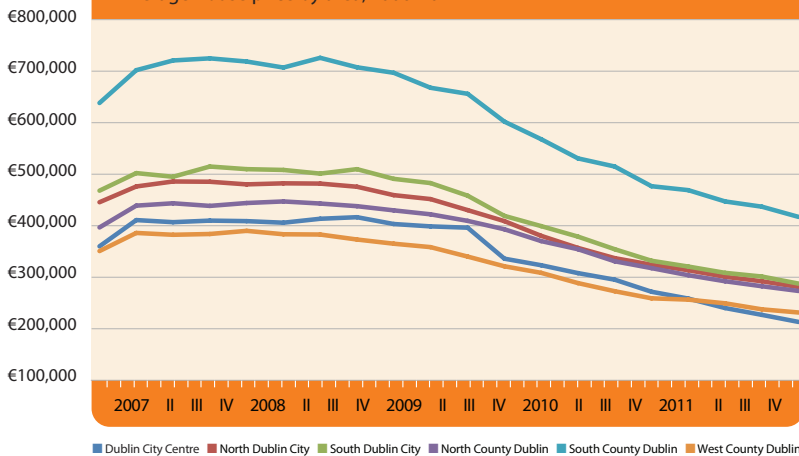


# Dublin Trends

An analysis of recent trends in the Dublin residential sales market

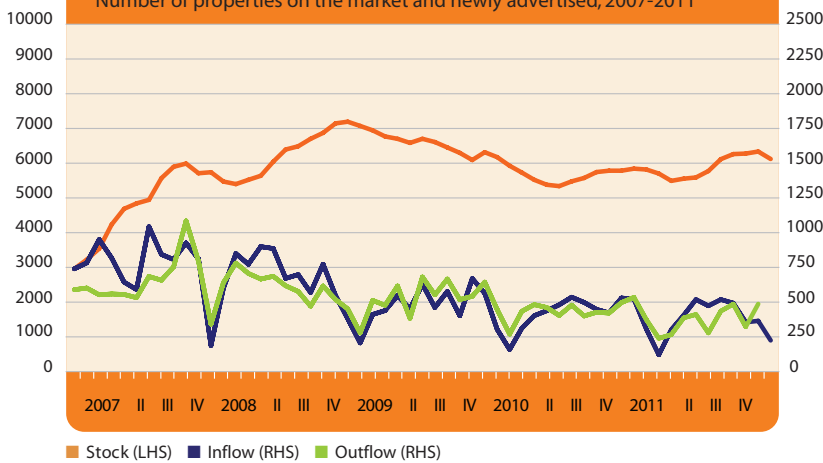
## How have house prices changed?

Average house price by area, 2006-2011



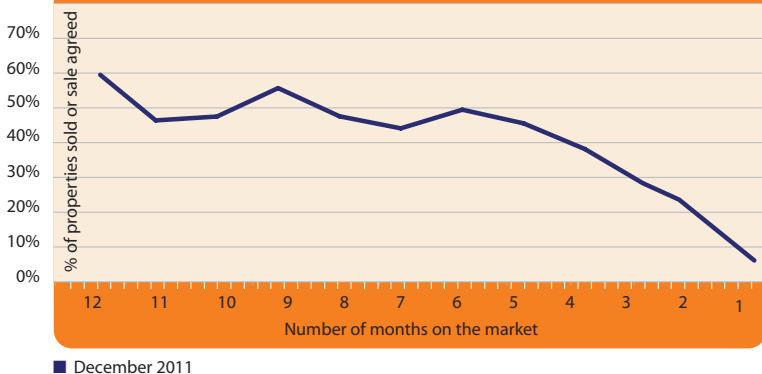
## How many properties are on the market?

Number of properties on the market and newly advertised, 2007-2011



## How fast are properties selling?

Proportion of properties marked as sale agreed and withdrawn, 2011



- Asking prices in Dublin's city centre region are 62% below their peak, while prices in North County Dublin are just over 50% below.
- The typical asking fell by almost 10% in the final three months of the year, the largest quarterly fall seen in the capital.
- The total number of properties for sale in the capital, at 5,700, is well below the peak of 7,100 but above the figure for early 2010 (5,300).
- About half of properties listed in Dublin sell within five months – the other half struggle to find buyers.

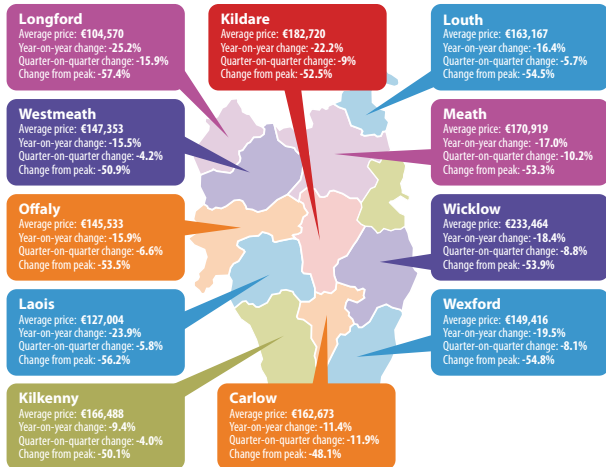
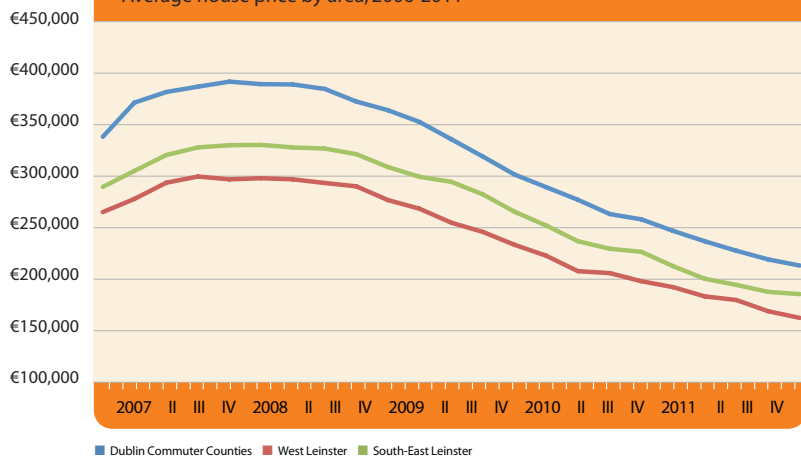


# Leinster Trends

An analysis of recent trends in the Leinster residential sales market

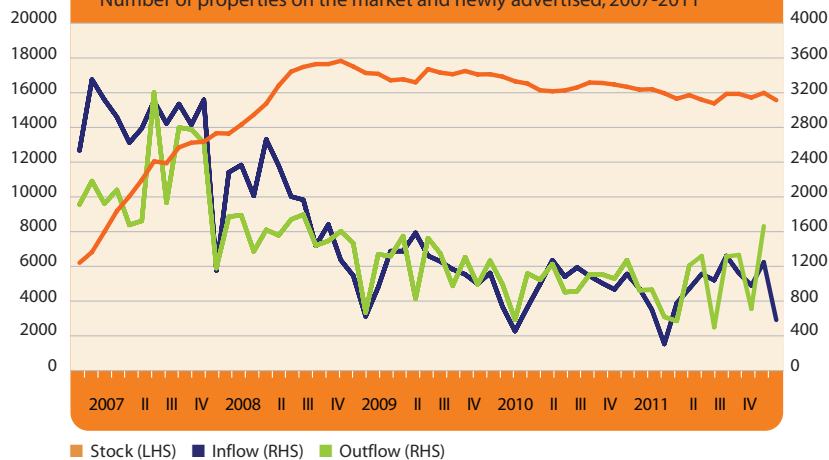
## How have house prices changed?

Average house price by area, 2006-2011



## How many properties are on the market?

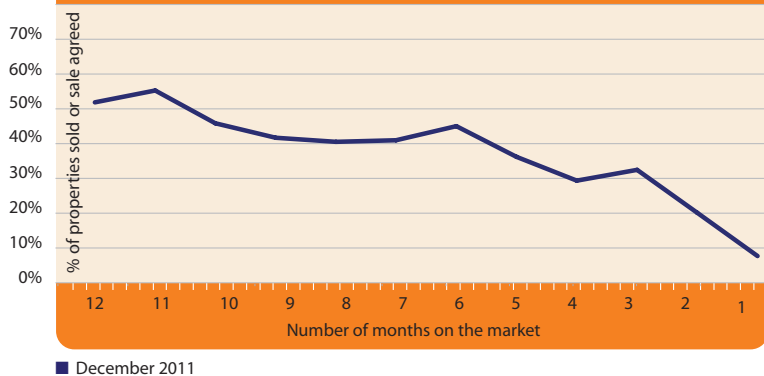
Number of properties on the market and newly advertised, 2007-2011



- There were some very steep falls in asking prices in late 2011 across Leinster, including in Carlow, which had seen asking prices increase slightly between July and September.
- In most counties in the province, prices are now more than 50% below their 2007 peak – in Longford they are almost 60% down.
- The total stock for sale in Leinster continues to fall slowly but steadily and at 14,700 is 17% below the peak of 17,800.
- About one third of properties in Leinster find a buyer within three months but only a further 20% find a buyer within a year.

## How fast are properties selling?

Proportion of properties marked as sale agreed and withdrawn, 2011



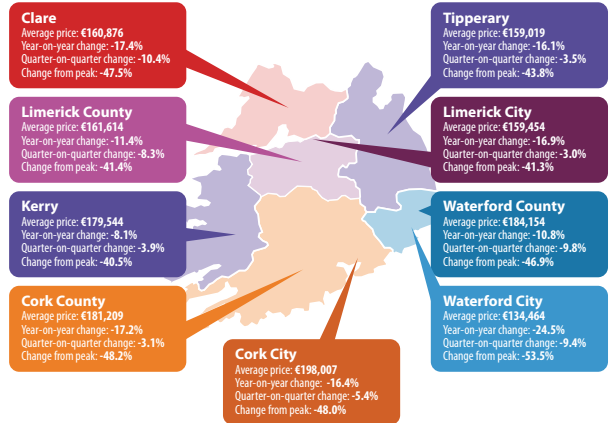
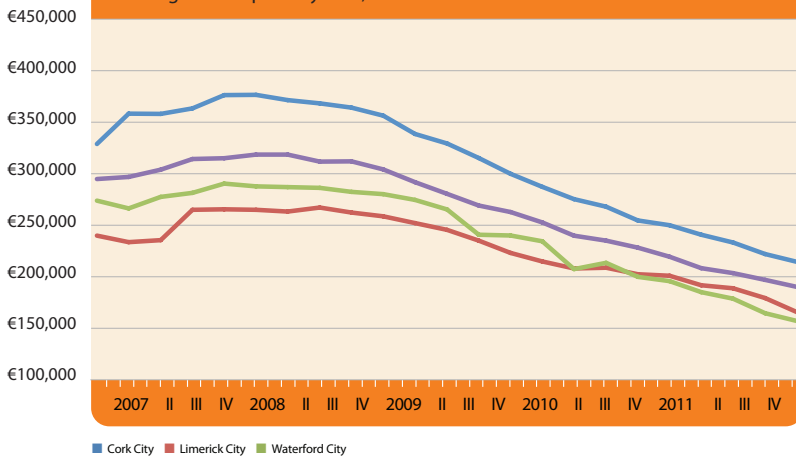


# Munster Trends

An analysis of recent trends in the Munster residential sales market

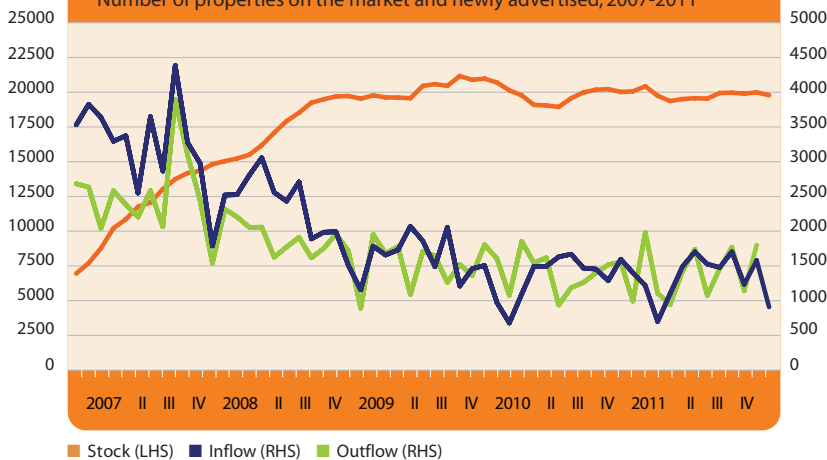
## How have house prices changed?

Average house price by area, 2006-2011



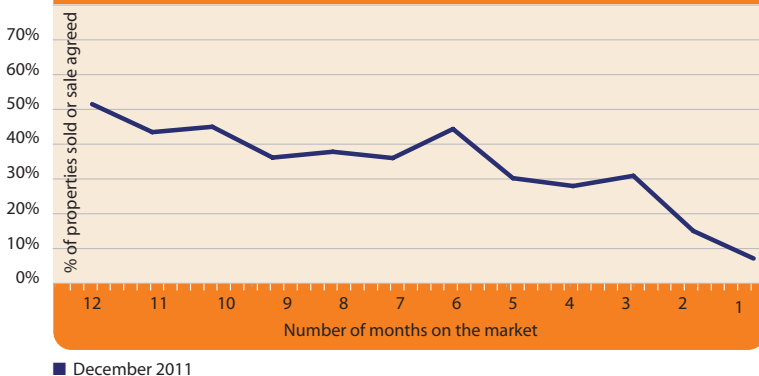
## How many properties are on the market?

Number of properties on the market and newly advertised, 2007-2011



## How fast are properties selling?

Proportion of properties marked as sale agreed and withdrawn, 2011



- Prices throughout Munster fell sharply, including in Limerick where prices are now over 40% below peak levels.
- Despite the sharp falls, Munster has typically seen the smallest falls in asking prices in the country.
- While the stock of properties for sale in Munster fell in the second half of 2012, at 19,000 it remains above the levels seen in early 2010.
- Just under one third of properties listed in Munster find a buyer within three months – but only a further one in six find a buyer within a year.

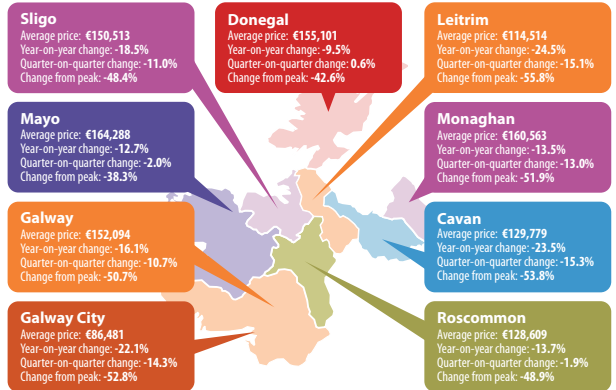
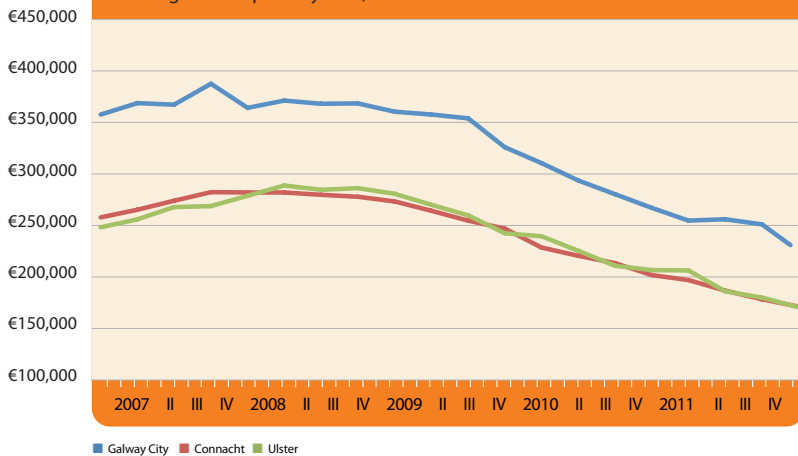


# Connacht & Ulster

An analysis of recent trends in the Connacht & Ulster residential sales market

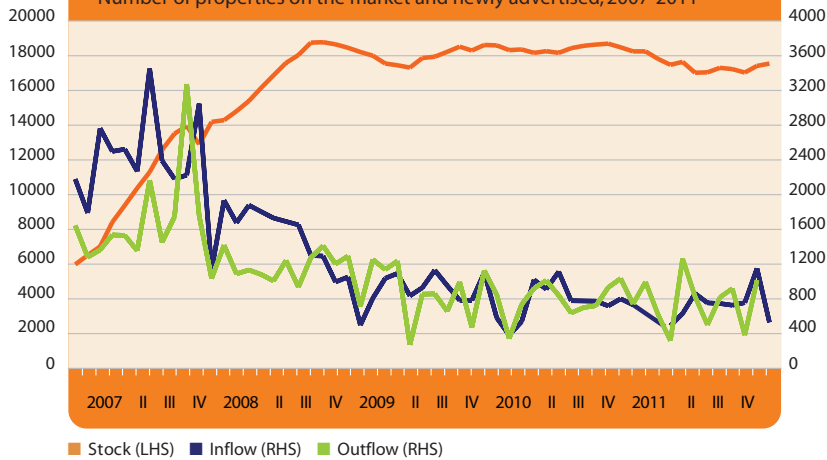
## How have house prices changed?

Average house price by area, 2006-2011



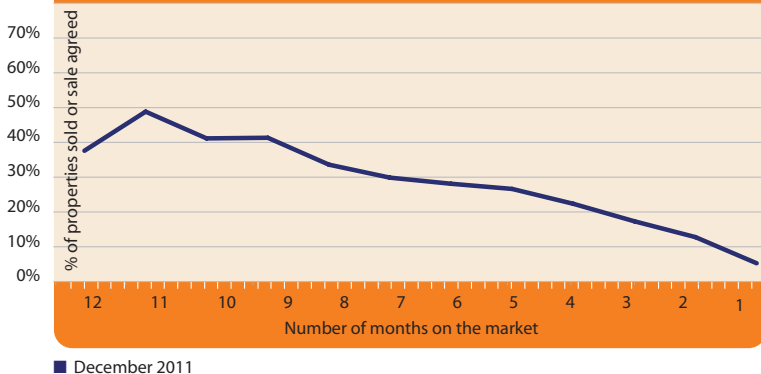
## How many properties are on the market?

Number of properties on the market and newly advertised, 2007-2011



## How fast are properties selling?

Proportion of properties marked as sale agreed and withdrawn, 2011



- Asking prices fell sharply in most counties in the region, including in Monaghan which had seen the average price increase between July and September.
- Prices in Roscommon, however, were relatively stable, following six months of sharp falls.
- There is some evidence of a gentle fall in the total number of properties for sale in Connacht & Ulster, although at 16,800 the figure is still very high.
- It takes about seven months for one third of properties in Connacht & Ulster to find a buyer, compared to three months or fewer elsewhere.



# About the Report

Over the last 10 years, Daft.ie has collected a vast amount of data on the Irish property market. In 2011 alone, over 100,000 properties for sale were advertised on the site.

## About Daft.ie

Daft.ie is Ireland's largest property website. The latest audited report from ABCe (March 2010) shows traffic of 130 million page impressions (pages of information received) and 1.7 million unique users per month across Daft Media's property websites (daft.ie, rent.ie, let.ie, property.ie). This makes Daft.ie the biggest property website in Ireland across all demographics.

## Circulation

We are pleased to announce that the average readership of the 2009 reports was over 55,000 people.

## About the Report

The goal of the Daft Report is to use this information to help all actors in the property market make informed decisions about buying and selling. 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.

This is the Daft.ie House Price Report, the partner to the Daft.ie Rental Report, which will be issued next month. Together, they give house-hunters and investors more information to help them make their decisions. These twin reports mean that Daft is the only objective monitor of trends in both rental and sales markets on a quarterly basis, making the report an essential barometer for anyone with an interest in the Irish property market.

The Daft Report is now almost seven years old and has become the definitive barometer of the Irish residential property market. It is being used by the Central Bank, mortgage institutions, and by financial analysts at home and abroad, as well as by the general public.

## Methodology and Sample Size

The statistics are based on properties advertised on Daft.ie for a given period. The regressions used are hedonic price regressions, accounting for all available and measurable attributes of properties and only coefficients with a very high degree of statistical significance ( $p < 0.001$ ) are used.

The average quarterly sample size for sales over the period 2006-2011 was over 34,000. Indices are based on standard methods, holding the mix of characteristics constant, with the annual average of 2007 used as the base. A working paper on the methodologies employed in both rental and sales markets will be published on the Daft.ie website soon.

Stock and flow statistics are calculated using consistent series for the period covered.

**Coming Next...**

## **The Daft.ie Rental Report 2011 in review, in February 2012**

The Daft.ie Rental Report will be published in February and will include a review of the performance of Ireland's rental market throughout 2011, plus all the usual indices, snapshots, trends and rental yield analysis, providing analysts, tenants, landlords and the public with the most up-to-date information on Ireland's rental market.

### **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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