Prospects for the Irish property market

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Six factors shaping prospects

- Unwinding
- Oversupply
- Weak new demand
- Reduced existing pool and mobility
- Downward spiral of economy and accessing credit
- Confidence and caution

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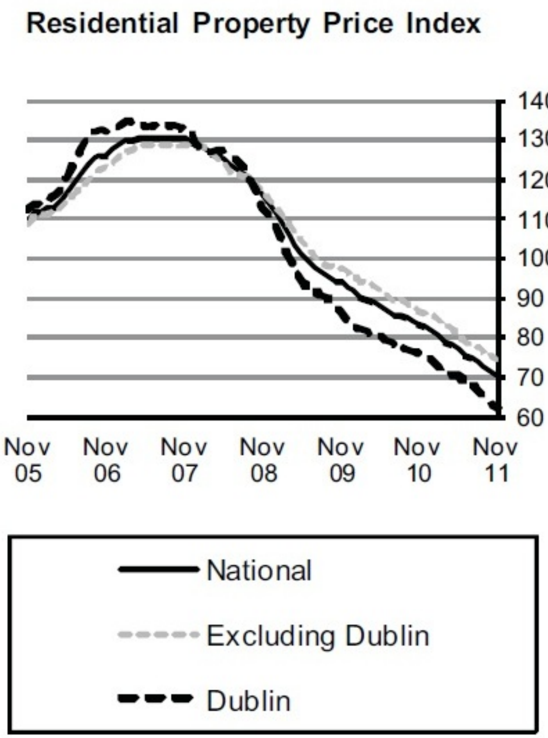
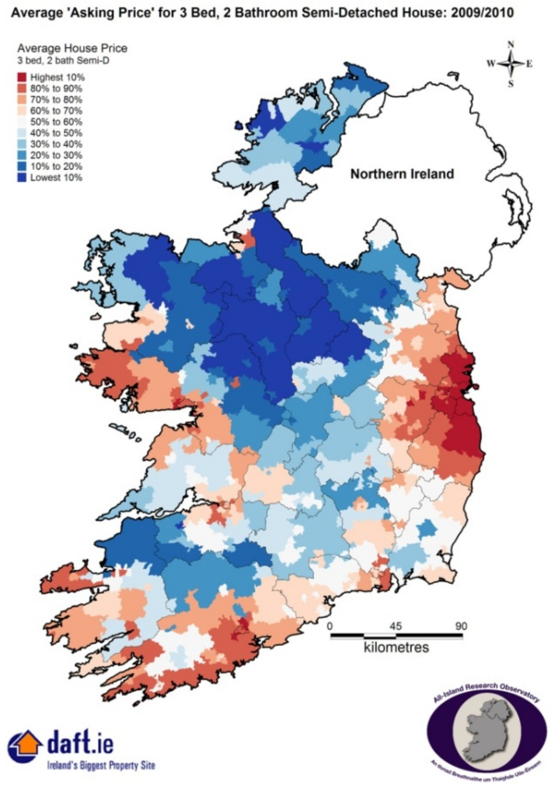
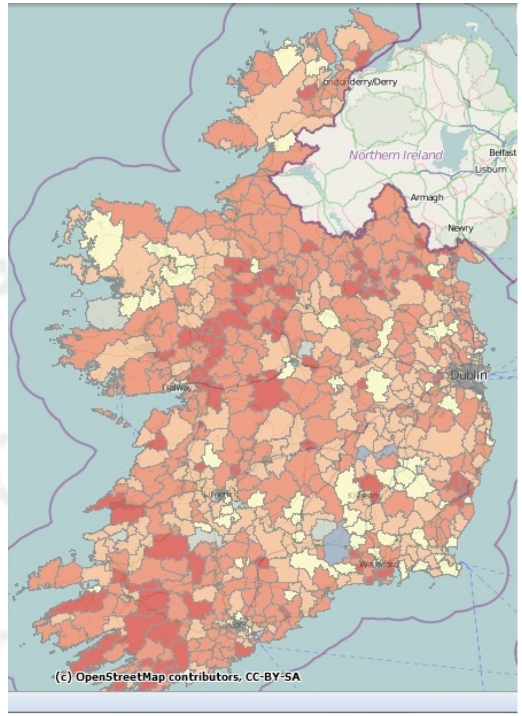
Still unwinding







- **CSO, Nov 2011**: *House prices in Dublin are 52% lower than at their highest level in early 2007. Apartments in Dublin are 58% lower than they were in February 2007. Residential property prices in Dublin are 54% lower than at their highest level in February 2007. The fall in the price of residential properties in the Rest of Ireland is somewhat lower at 42%. Overall, the national index is 46% lower than its highest level in 2007.*

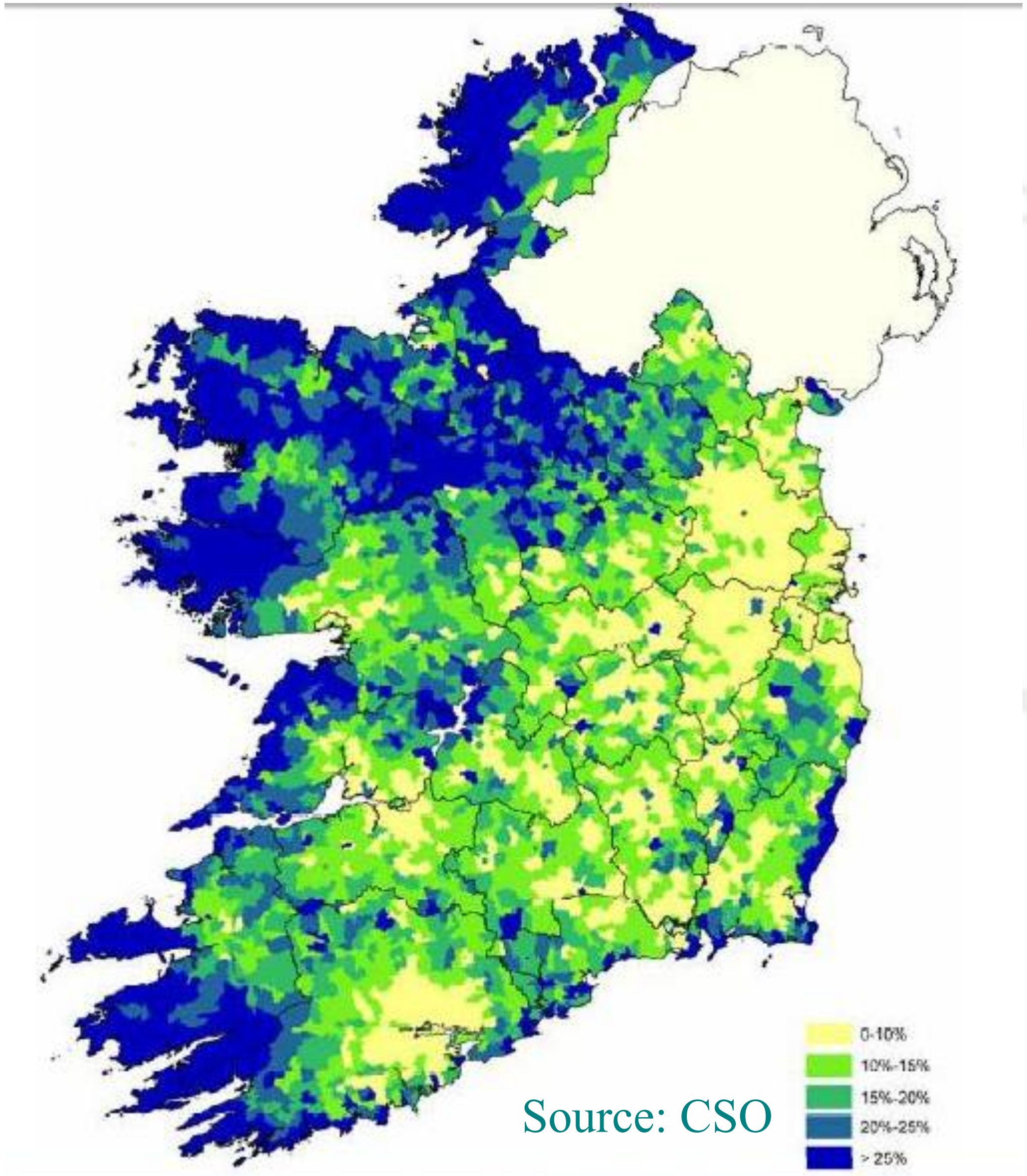
Projections

Residential Property In Ireland		Peak to
Source	Date	Trough
Ronan Lyons (4)	Jan 2012	60%
Rob Kitchin	Jan 2012	60%
NAMAwinelake	Dec 2011	65%
Bloxham	Dec 2011	51%
Irish Independent economist poll	October 2011	49%
Goodbody	August 2011	60%
Fitch	August 2011	50-67%
Standard and Poor's	May 2011	33%
Central Bank - baseline scenario	March 2011	55%
Central Bank - adverse scenario	March 2011	59%
Merrill Lynch	January 2011	
Ronan Lyons	January 2011	60-65%
Fitch	October 2010	45%
Goodbody	Aug 2010	50%+
David McWilliams	Aug 2010	60%
NIRSA	July 2010	60%
EU Adverse Stress Test	July 2010	46%
EU Benchmark Stress Test	July 2010	42%
Kevin O'Rourke	July 2010	70%
Moodys	July 2010	45%
Goodbody	July 2010	50%

Source: NamaWineLake

Oversupply

Housing vacancy 2011 (Census)



Source: CSO

294,202 units

Oversupply
c. 80-100,000 (6% base rate)

10 counties >20% vacancy (inc. holiday homes)

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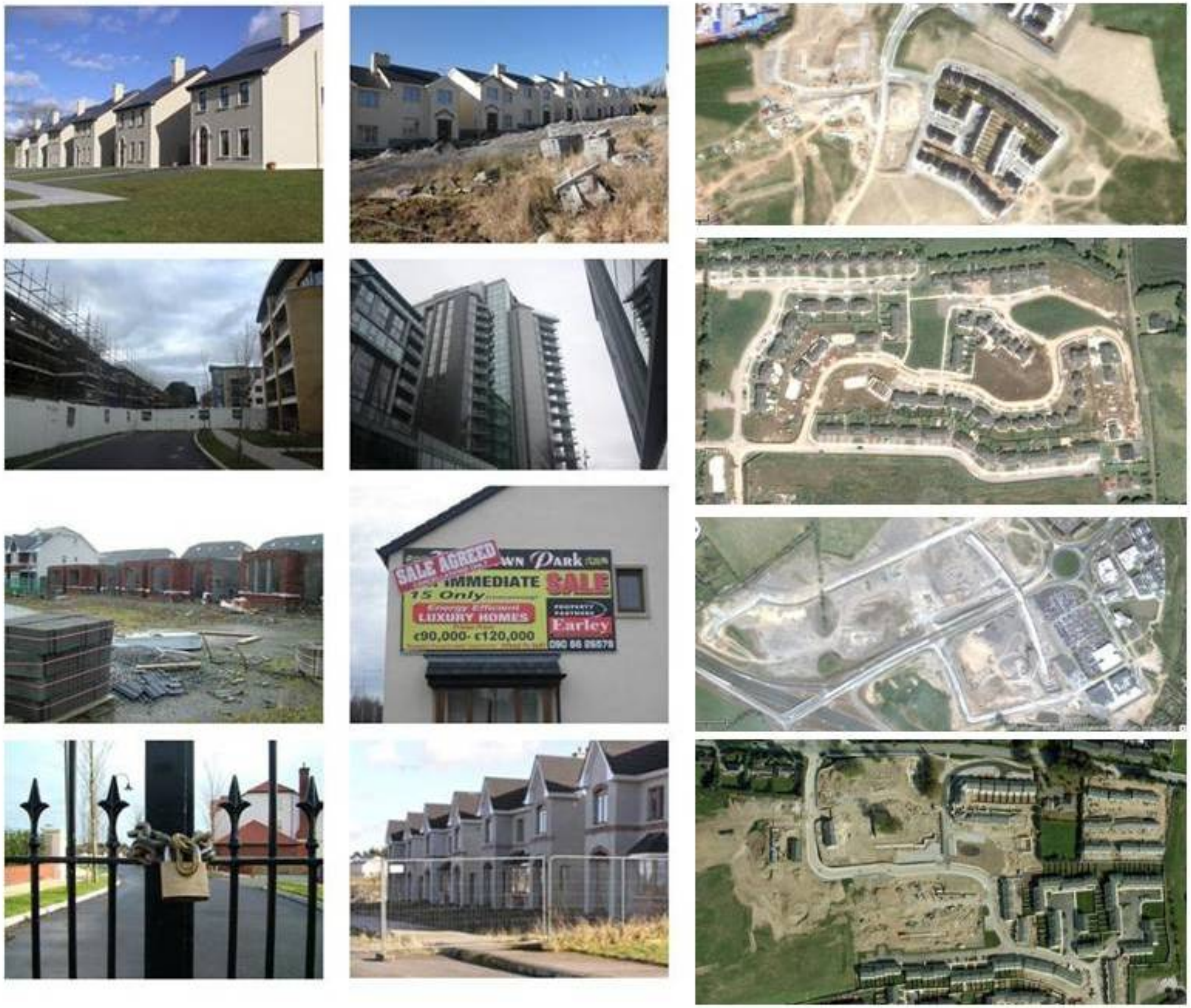
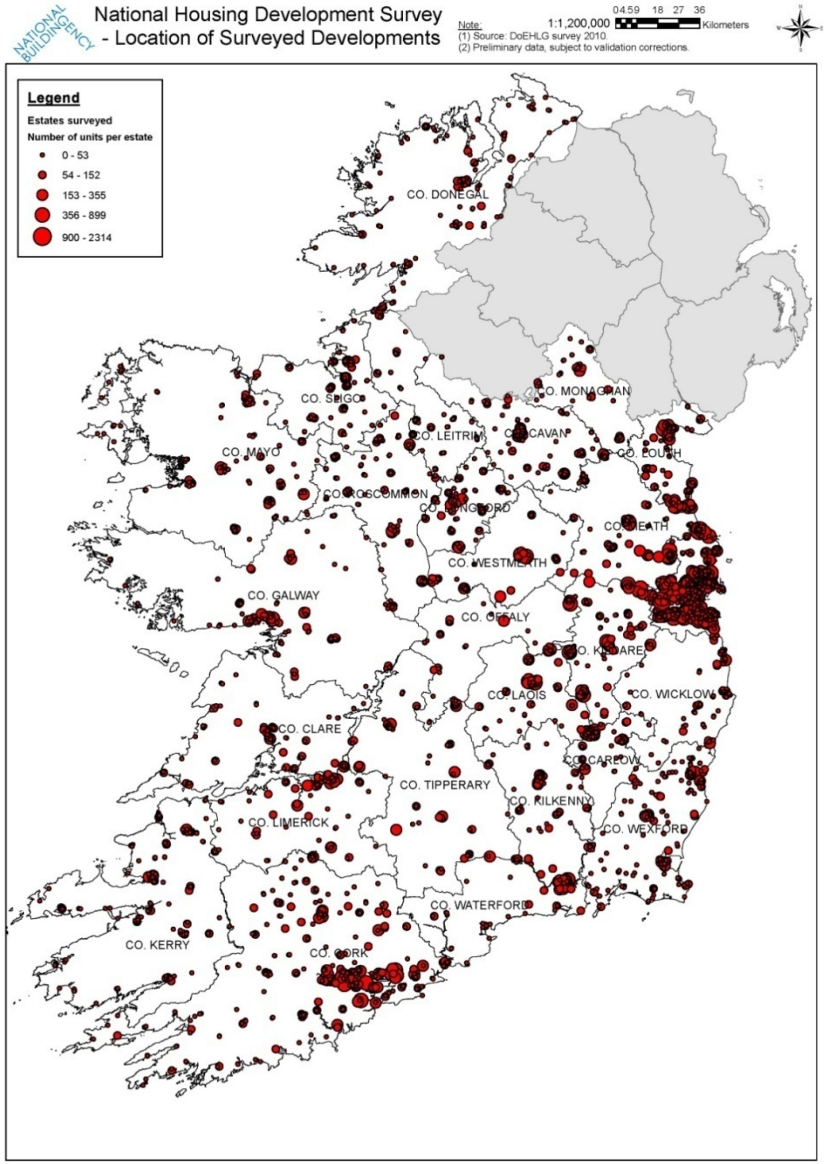
Unfinished estates



The Numbers

- Unfinished estates **2,846/2876**;
- Number of units in these estates: **121,248/122,048**
- Planning permission for an additional: **58,025/59,282**

- Number occupied: **78,195/85,538**
- Vacant/UC: **43,080/36,510 (-15.25%)**
- Units complete and vacant: **23,250/18,638 (-20%)**
- Nearly complete units: **9,976/8,794;** Under-construction: **9,854/9,078;** NC and UC **(-9.9%)**



Source: DECLG

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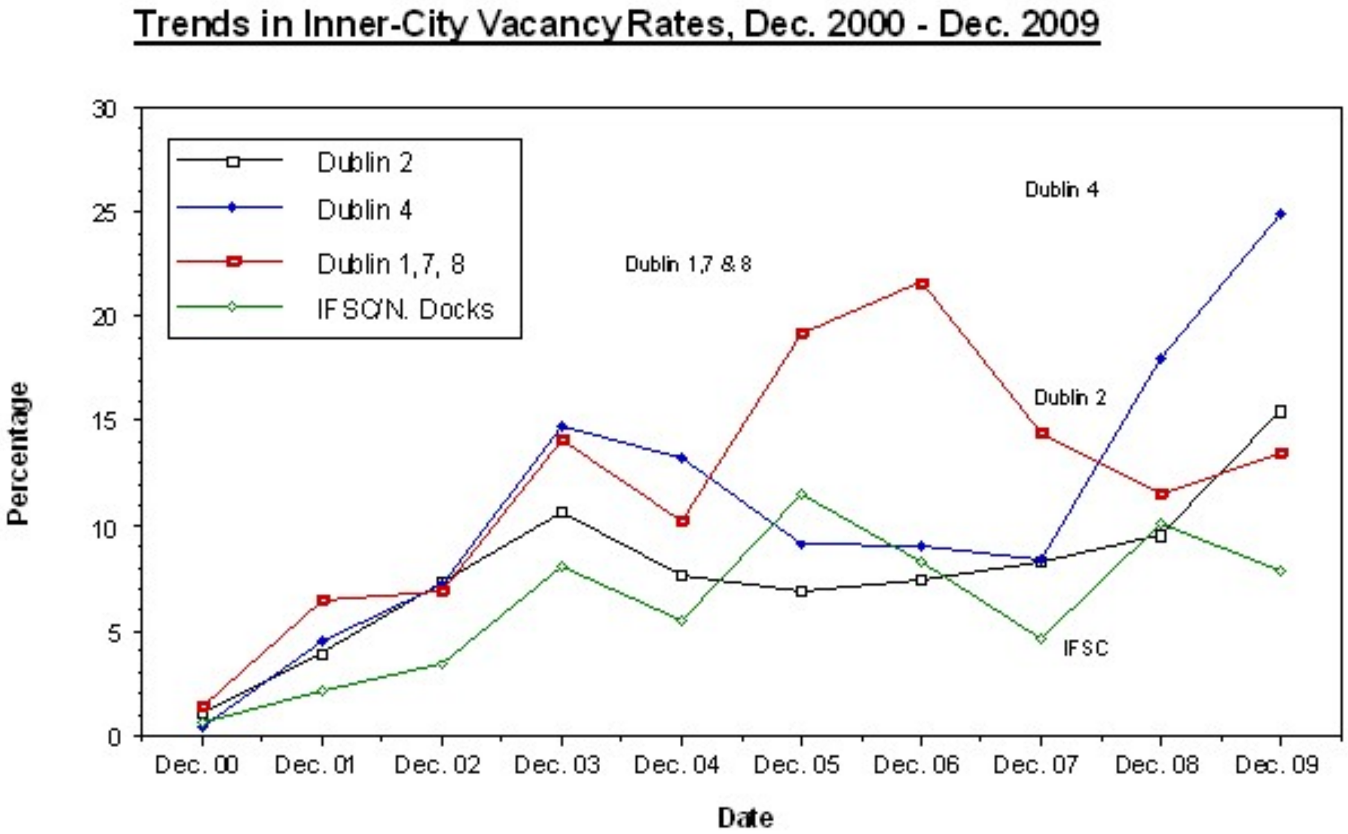
- **Change in occupancy 2010-2011**
- 105 (3.6%) estates had a fall in the level of occupancy
- 1,536 (54%) estates had no change in the level of occupancy.
- 573 had a change of 1-2 ; 287 estates had a change of 3-5.
- That is, vast majority of estates experienced very little change in the level of occupancy between 2010 and 2011. Top 100 estates (3.5%) with the most positive change in occupancy accounted for 60.7% of all newly occupied units.

- **Completion and activity**
- Development Complete, but still >10% vacancy – 701
- Development Not Started – 109
- Unfinished Housing Development, Active – 244 (429 sites, 2010; -43%)
- Unfinished Housing Development, Inactive – 1822

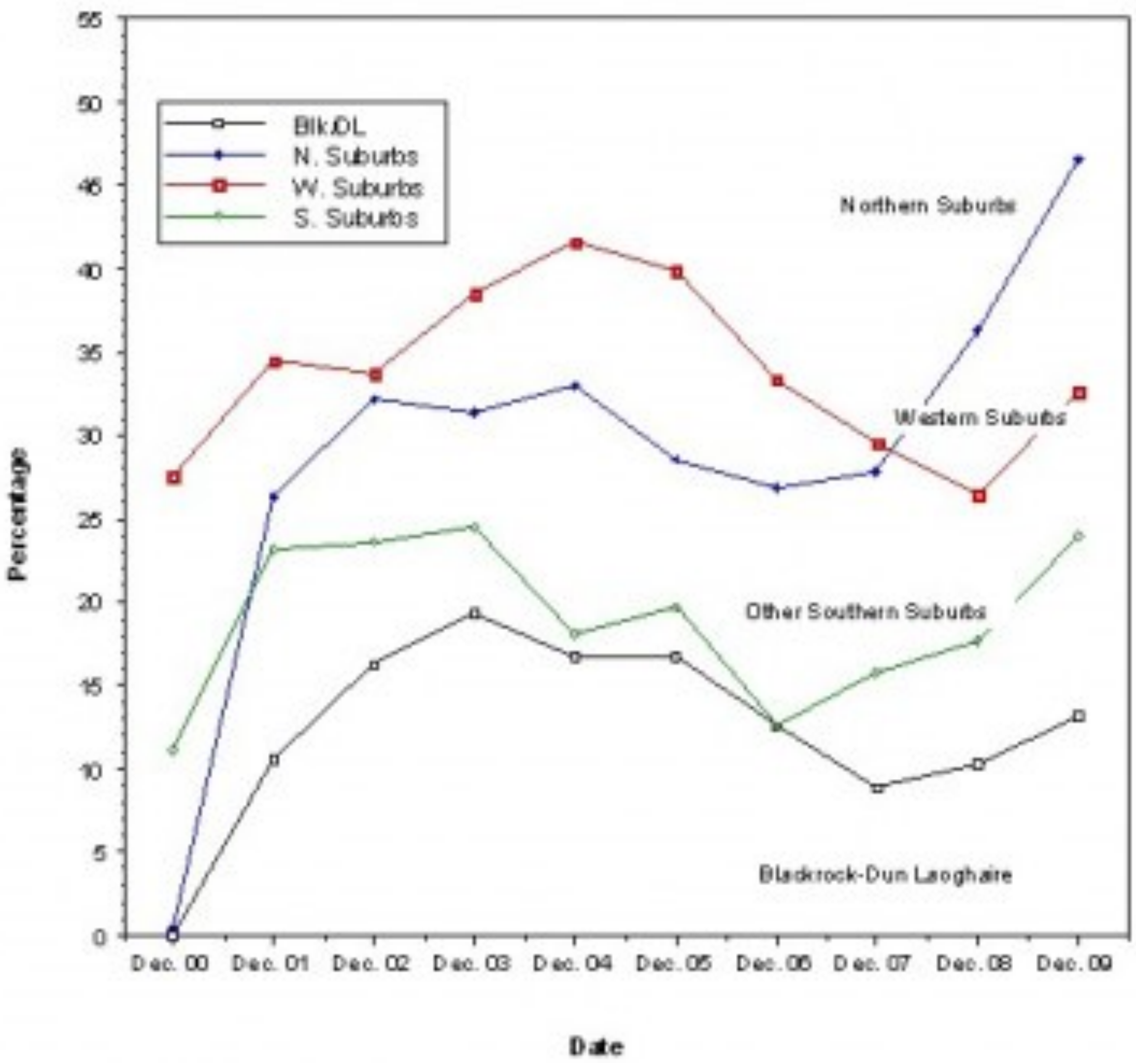
Commercial property

Office vacancy >20% in Dublin



(Source: Savills & The Centre for Urban & Regional Studies, TCD, 2010)

Trends in Suburban Vacancy Rates, Dec. 2000 - Dec. 2009



(Source: Savills & The Centre for Urban & Regional Studies, TCD, 2010)

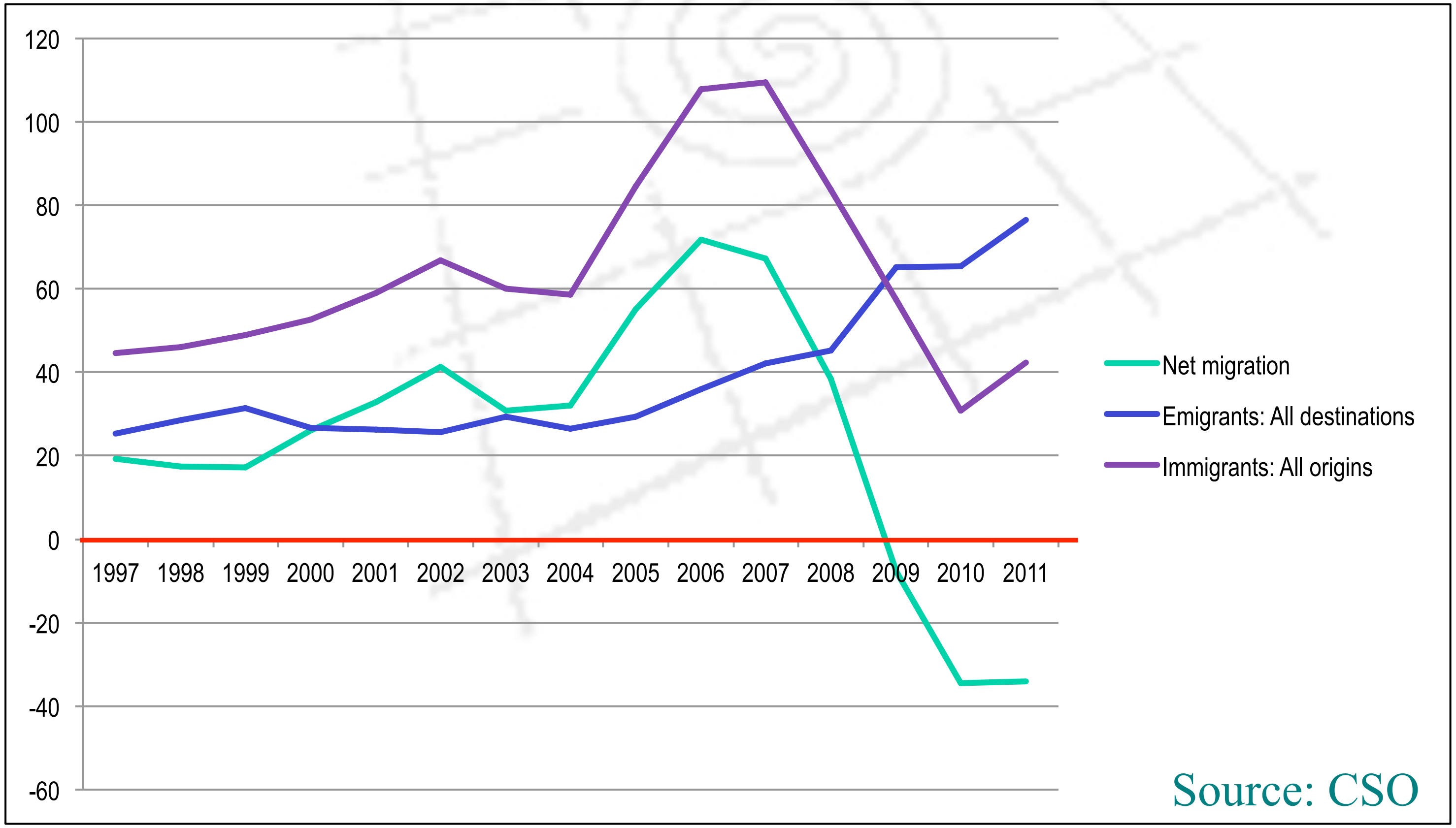
- 26% oversupply of hotel rooms
- retail space doubled 2005-2010
- Land: -70 to 98%

Source: CB Richard Ellis Research

Weak new demand

Demographic trends

- Population growing through natural increase, but rate is presently low (11.4K in 2010; 13.6K in 2011)
- (a) household formation age group emigrating;
  (b) children aged 0-5 will not be buying any time soon



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Shrinkage in household size

- Shrinkage in household size has been an important driver of demand
- Average household size has fallen from 3.34 in 1991 to c. 2.61 in 2011
- However, the process of household fragmentation is affected by economic circumstance
  - children more likely to stay at home
  - parents less likely to separate
  - young adults more likely to share property to keep down costs
- These are often choices, not a compulsion, and until the wider economy recovers such household fragmentation will weaken

Reduced existing pool and mobility

Negative equity

- According to the Central Bank:
  - 1 in 3 household mortgages in the state are in negative equity
  - 50% of investor, buy-to-let properties are in negative equity
- Whether owners want to trade-up or down, move to another part of the country, or disinvest, they are locked into their present property unless they are prepared to realise a loss
- Significantly reduces the potential pool of traders until prices rise sufficiently that they can trade
- Restricts recovering market to FTBs and those not in negative equity

Mortgage arrears

- 62,970 households (8.1% of mortgages) are more than 90 days in arrears
- A further 36,376 have restructured their mortgages
- Looks set to keep rising as households struggle to meet debt commitments
- Might well be joined by investors on interest only mortgages if they are asked to start paying down the capital
- Further, 25% of properties have more than one loan secured against them
- Potential for distressed assets to come onto the market that will keep prices low

Downward spiral of economy and accessing credit

- The Irish economy has been severely weakened over the past four years and household income and access to credit is much reduced
- Austerity measures are biting through various tax increases and deductions
- Radical change in financial circumstance for many through unemployment (14.3%) or underemployment (LR: 443K)
- An unstable Europe and general weak global economy is having a deadening effect
- The banks are reluctant to lend for mortgage credit
- Even if a household wanted to purchase a property, their own reserves are depleted and their access to credit restricted
- This is unlikely to change until the wider international and national economy recovers and the banks have worked through their corrections

Confidence and caution

- Confidence in the property market and the property sector in general is at an all time low
- The crash in prices, negative equity, mortgage arrears, unfinished estates, uncertainty over NAMA, construction issues such as pyrite problems and Priory Hall have undermined faith in housing market for homes and investments
- Confidence seems set to remain weak and buyers in future will proceed with caution
- Growth when it does occur will most likely be marginal and hesitant, perhaps after a short dead cat bounce

Conclusions

- Prospects for the Irish property market is presently weak
- I would like to provide a upbeat, positive assessment, but the evidence does not support such a view
- Ireland's property crash, aligned with the weak domestic and international economy, is severe
- The market is likely to recover in principle cities first, but it will take a long time to recover in many places
- The priority should be to tighten supply and demand to the point where households are competing for property – starting to build before this will flatline the market
- We need robust housing planning models using demographic and labour market data at fine spatial scales as the foundations to revised development plans before embarking on any new major house building programmes

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