The Daft.ie House Price Report
An analysis of recent trends in the Irish residential sales market
2012 Q1

Introduction by Seamus Coffey, Lecturer in Economics, UCC
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According to this latest daft.ie report, the first quarter of 2012 provided the least change in the property market since the middle of 2007. Asking prices continued to fall, but the drop of 1.4% is the smallest quarterly drop since the market collapse began in earnest in 2008. Meanwhile, in the rental sector, stabilisation has been present for almost two years and nominal rents at the start of 2012 are no different than they were at the start of 2010.

Measuring the fall

Measuring prices in the Irish property market continues to be an art rather than a science. Using mortgage market data, the Central Statistics Office reports that house prices fell by over 4% in the first two months of the year. When looking at falls from the peak, though, a different picture emerges. The daft.ie report shows a total fall of 52%, compared to 49% in the CSO index. The scope for divergence in estimates of falls from the peak will hopefully be put to an end when a National House Price Register is launched later this year.

House prices are always and everywhere a function of bank lending, but they do have a fundamental value to which they must eventually return. This can be given as a ratio to household income or, more usually, annual rents. A good guide is that house prices should be somewhere between 12 and 15 times the annual rent that a property can generate. This is a range that should never be ignored but often is.

A market that has normal level of activity would be near the top of this range but a malfunctioning market will be towards the lower figure and possibly even below it. And Ireland does not have a properly function property market.

A depressed market

Data from the Irish Banking Federation show that there are fewer than 4,000 mortgages being drawn down each quarter, with around half of these going to first-time buyers and a further third to mover-purchasers. The remainder is largely accounted for by re-mortgages and top-ups. The residential investment borrower has virtually disappeared.

Anecdotal reports suggest that around 30% of all purchases are by cash buyers. This cannot be independently verified but a figure close to it would suggest that around 4,000 residential property transactions a quarter. Ireland has a housing stock of around 2 million units. An annual turnover rate of less than 1% is indicative of a market that continues to be distressed.

The stock of properties for sale on Daft.ie in March 2012 was 54,000, which is the lowest level in four years. This could be because properties on the market are selling quicker or because the number of properties being offered for sale is declining. The speed at which properties on Daft.ie found a buyer did increase slightly in the first quarter but two-thirds of properties remain on the market for four months or longer before finding a buyer.

Recovery will require lending – that reflects fundamental value

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Thinking like investors
The average asking price for the first quarter of 2012 was €176,000. In order to justify that price using the above range, the monthly rent should be somewhere between €1,000 and €1,250. Averages do not provide the necessary insight and this must be done on a town-by-town or even a street-by-street basis.

For example, a three-bed house in Cork City had an average asking price of €189,000 in the first quarter. The average asking rent for a similar property is €850 a month. The annual rent is still more than 18 times the asking price. At a ratio of 15 times annual rent, a monthly rent of €850 should equate to a price of around €155,000. By this metric, asking prices for three-bed houses in Cork City are still around one-sixth over-valued. This can be repeated right around the country. With the inability and unwillingness of banks in Ireland to issue loans a fall below this level is all but guaranteed.

The importance of lending
Just as the banks are almost certain to cause an undershooting of property prices relative to their fundamental value they must accept the responsibility for the market bubble that peaked almost five years ago. The banks based their lending model on the prices that people were willing to pay for properties, but seemed to ignore the fact that the price someone was willing to pay was based on how much a bank was willing to lend to them.

A house in a particular estate may have sold for €350,000 because one bank was willing to lend one purchaser the money for such a transaction. The other banks provided similar mortgages to other buyers on the basis that the first transaction provided the “market value”.

The price reflects the amount of money that someone is willing to pay for a good. Value reflects the benefits that a good can offer. In most cases, these are the same but this does not have hold. Residential property provides accommodation service. As a result of the madness of the boom, we now have thousands of households paying a price for accommodation far in excess of the value they are receiving.

This reality must be addressed and the burden of the mortgage debt is largely a function of the actions of the banks so they must offer what ever forbearance is necessary to assist households. The banks must also realise that there are thousands of homeowners who will never be able to repay the huge loans they issued to them. It is very difficult to gauge the number of unsustainable residential mortgages that need to be ended but it could be anywhere between 15,000 and 30,000. These are households who are in deep mortgage arrears and negative equity and have little prospects of recovery.

The banks must face up to losses that exist on these loans. The homeowners must accept that they will never be in a position to repay the loan and that by surrendering the property they will be able to make a fresh start. Households with unsustainable mortgages must be allowed to do so.

The recovery in the housing market will not be when prices start to rise; the recovery will be when activity starts to rise. With our ailing banks still in no position to lend and the many problems created by the bubble still outstanding there is no sign that this is about to change.
Percentage fall in asking prices from the peak to Q1 2012

- Galway: €153,950 (1.2%)
- Sligo: €139,382 (-5.4%)
- Mayo: €155,494 (-5.4%)
- Roscommon: €117,903 (-8.4%)
- Galway City: €188,639 (1.2%)
- Clare: €156,010 (3.0%)
- Limerick City: €158,772 (-6.8%)
- Kerry: €167,648 (-6.6%)
- Limerick: €155,874 (-3.6%)
- Waterford: €175,245 (-4.8%)
- Waterford City: €127,751 (-6.7%)
- Cork: €171,530 (-5.3%)
- Cork City: €188,147 (-5.0%)
- West Dublin County: €171,655 (-4.8%)
- Dublin City Centre: €165,506 (4.0%)
- South Dublin City: €214,635 (-1.3%)
- South Dublin County: €332,491 (3.0%)
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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.

-1.4%

The first quarter of 2012 saw the smallest quarterly fall in asking prices since 2007. The average asking price for the quarter was €177,000, compared to €366,000 in mid-2007.

Small fall follows sharp fall
The small fall in early 2012 follows the final quarter of 2011, which saw the sharpest fall yet (8%) in prices.

Dublin and commuter county prices stable in first quarter
The average asking price in Dublin and its hinterland rose by up to 0.3%, compared to a fall of 4.5% in Munster.

Selling conditions improve slightly
33% of properties found a buyer within four months, compared to 30% in late 2011.

Stock for sale high but falling
There were 54,000 properties for sale in March 2012, the lowest level in four years.
What can I ask for? Can I afford it?

Average house prices across Ireland, by county and bedroom number, Quarter 1 2012

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<tr>
<th>Daft.ie Snapshot of Asking Prices Nationwide (figures in thousands)</th>
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Dublin Trends
An analysis of recent trends in the Dublin residential sales market

- Asking prices rose in two regions of the capital in early 2012: the city centre and south county Dublin.
- Elsewhere in the capital, prices are 20% lower than a year previously.
- There were 5,000 properties for sale in Dublin in March 2012 - the lowest level since mid-2007.
- Selling conditions improved slightly in Dublin in early 2012, with 40% of properties selling in 3 months.
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.

There were 14,000 properties for sale in Leinster in March 2012, with the total falling slowly but steadily since mid-2008.

In Leinster, the proportion of properties selling within four months rose from 30% to 36% between December and March.
Munster Trends
An analysis of recent trends in the Leinster residential sales market

- 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.

- Compared to other regions, Munster has seen a smaller fall in the total number of properties on the market.

- Munster also did not see the increase in activity witnessed in other areas: the proportion of properties selling in four months was unchanged.
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.

The total number of properties for sale in Connacht-Ulster has fallen slowly over the last 18 months but still remains high.

There was some improvement in activity in Connacht-Ulster, with 26% of properties selling in four months in March, compared to 23% in December.
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.

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.
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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Coming Next…

The Daft.ie Rental Report
2012 Q1, in May 2012

The Daft.ie Rental Report will be published in May and will include a review of the performance of Ireland’s rental market in early 2012, 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.