

Annual Residential Market Report

Review & Outlook 2019





Key Highlights

SALES



National house prices to increase by 4% in 2019, down from an average of 8% last year.

Dublin prices to increase by 5% in 2019 down slightly from the predicted 8% average 12 months ago.

67% of agents reported an increase in Vendor price expectations – this is down considerably from last year’s 92% national average.

33% of agents reported an increase in market activity, with 30% reporting a decrease. This is in sharp contrast to the 71% national average figure stated last year.

5 times more agents expect demand to outstrip supply across 2 & 3 bed properties, with demand /supply balance set to equalise across 3 /4 bed property types.

Marketing new homes in Dublin – 36% of agents expect to market new homes in 2019 which is consistent with last year’s report. Half of those agents expecting to market new schemes, expect to market less than 100 units.

RENTS



National & Dublin average rents to increase by 5% .

Landlords exiting the rental sector, was ranked number 1 as a key factor in the market by 25% of respondents and ranked in the top 3 by 72% of respondents.

70% of agents across Ireland reported an increase in tenant demand compared to the national average figure of 81% last year.



Foreword

I am delighted to launch our 36th Annual Residential Property Review & Outlook Report, compiled on the expertise of our auctioneering & estate agency members across the country. 2018 was a busy year for many, although not evenly experienced across the regions and we are encouraged to hear from members that activity has and is continuing to increase year-on-year.

The Irish economy continued to grow strongly in 2018. Most of the key economic indicators which impact the residential housing market point to continued positive performance in the sector. There are clear challenges in 2019 and, apart from obvious ones like Brexit, the threat of higher interest rates increasing mortgage payments and general affordability may become a factor sooner rather than later.

Nonetheless, the Central Bank, ESRI and other commentators have optimistic outlooks for economic performance of c. 4.5% GDP in 2019. All projections, however, are based on the assumption (or hope!) that an acceptable deal between the UK and EU will be agreed to avoid a hard Brexit, as our economic wellbeing is highly dependent on a favourable outcome.

The Central Bank's mortgage lending rules have had the intended effect of containing property price rises. Although new housing delivery increased, as viability improved in more locations, new apartment and house delivery costs remain challenging, with tender price inflation a significant factor for the market. We hope that the newly formed Land Development Agency will quickly increase the supply of State-owned land to the market to support supply at affordable levels.

We engaged extensively with policymakers in 2018 on how to better use existing buildings for residential use and we are pleased to see these proposals being put into action. The last Census report over 2 million housing units in Ireland, many of which are unused or underutilised. So while new supply is important in many locations, finding better ways to use our existing stock can also improve supply, rejuvenate areas and revitalise communities. The Government's recent report - Bringing back homes - Manual for the reuse of Existing buildings - outlines what supports are now available to undertake this much needed renewal. We published our 'Rejuvenation of Ireland's Small Town Centres' report last year, and strongly recommended the reuse of existing buildings on high streets to

tackle the decline of our towns and villages. We are pleased to note that Vacant Housing Officers have been appointed in many local authority areas to streamline the development process.

The residential rental sector has experienced further rent inflation in 2018. Our members accurately predicted the annual rent inflation rates as reported by the RTB of 5.4% for existing tenancies and 8% for new tenancies. The SCSi prediction for 2019 is that rent inflation will remain unchanged for Dublin at 4-5%, despite a raft of regulatory changes.

Attracting and retaining skilled staff has been an ongoing challenge for businesses. It's encouraging to see that the increased number of school-leavers considering property as a career choice. The CAO points for most third-level property courses are on the rise and the prospects for those new entrants looks very positive. In our 'Employment Opportunities and Skills Requirements 2018 Report', the demand for qualified property professionals is considered to remain high, even in periods of lower economic growth, due to the continued undersupply of graduates during the downturn and the increased demand for professional services from corporate, institutional and statutory agencies. Encouragingly, many students identify the achievement of chartered status as their goal, with global recognition as an additional benefit.

I would like to thank our members for taking the time to complete our survey and provide their expert insights, which have proved uncannily prescient in previous years. We appreciate your continued support and commitment during 2018 and very much look forward to working with you in 2019.

Yours Sincerely

ÁINE MYLER

DIRECTOR GENERAL

T: + 353 (0)1 644 5500







Clonmore,
Shrewsbury Road, Co. Dublin.
Sold in October 2018 for €8.1m

National Economic Trends



Unemployment

5.3%
December 2018

▼
Down from

16%
January 2012



Employment

2,273.2⁽⁰⁰⁰⁾
Q3 2018

▲
Up from

1,863.2⁽⁰⁰⁰⁾
Q1 2012

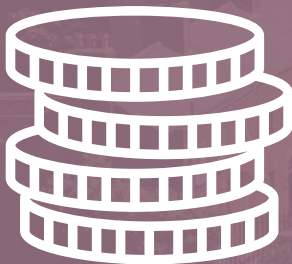


Consumer Expenditure

€25,542 b
Q3 2018

▲
Up from

€21,781 b
Q1 2012



VAT

€14.1 b
Year 2018

▲
Up from

9.7 b
Year 2011



Mortgage Approvals*
Value

€8.46 b

Dec 17 - Nov 18



Up from

€2.37 b

Year 2012



Mortgage
Drawdowns* Value

€7.04 b

Q4 17 - Q3 18



Up from

€2.09 b

Year 2011

* House Purchase only



House Completions

17,161

Q4 17 - Q3 18



Up from

4,575

Year 2013



Residential Prices
(Index)

107.9

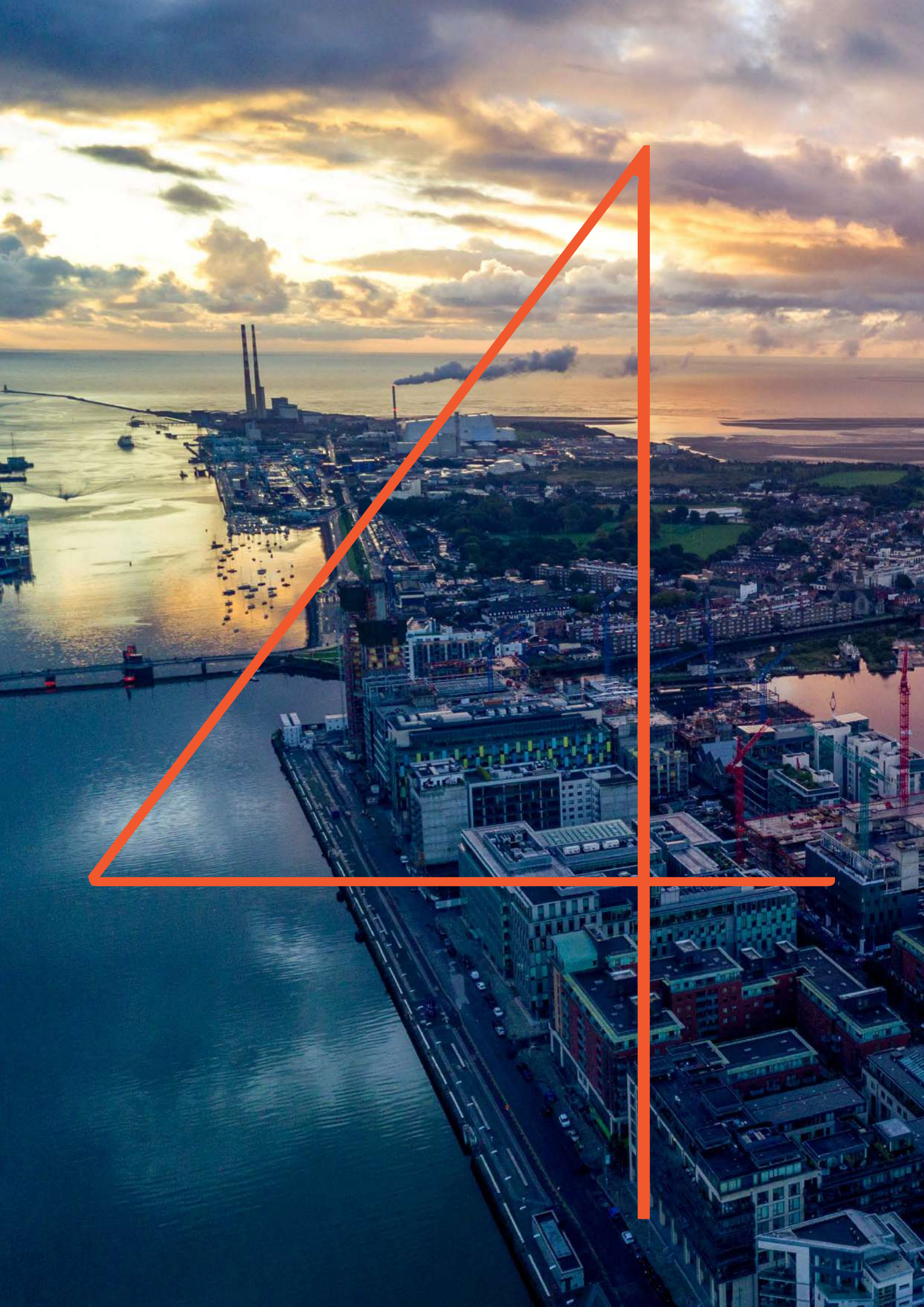
October 2018



Up from

58.7

March 2013





Population trends in Dublin

POPULATION TRENDS IN DUBLIN

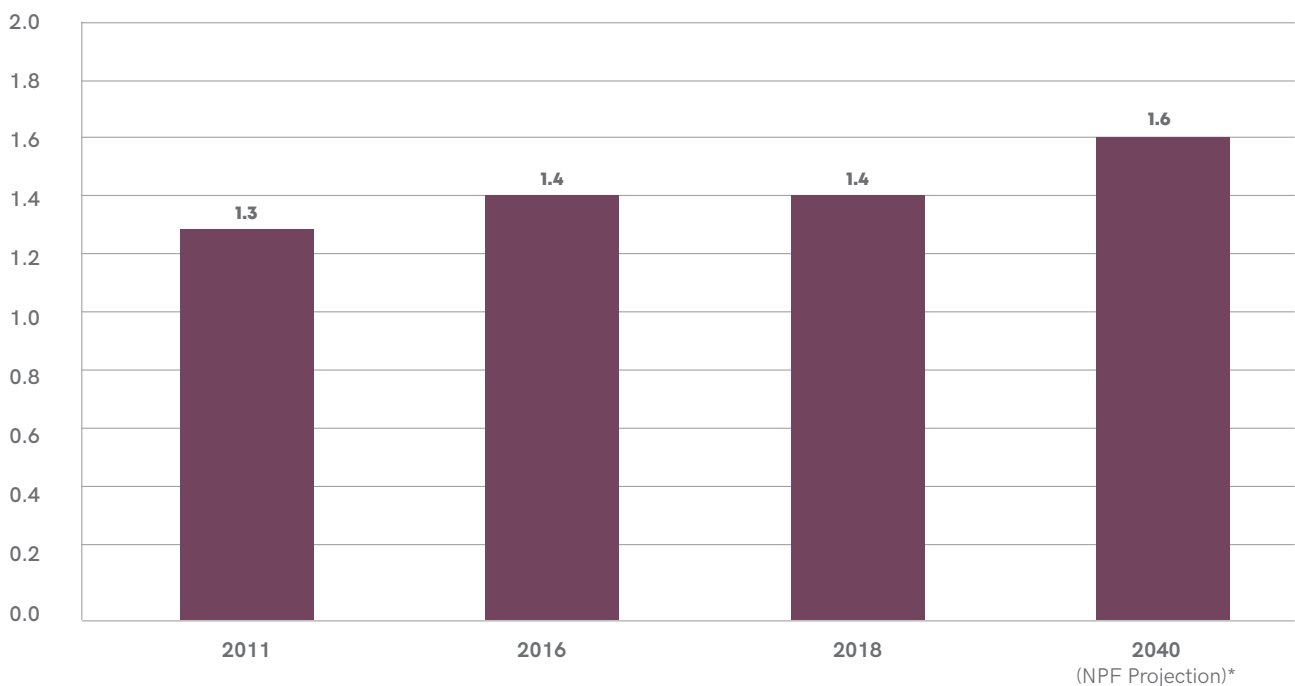


The population of Dublin grew by over 74,000

The population of Dublin grew by over 74,000 between 2011 and 2016 (5.8%) and by a further 32,000 in the following two years. This rate of growth continues to place pressure on the residential market.

The National Planning Framework published in February 2018, projects a population growth for Dublin from 2016 to 2040 of approximately 245,000 or close to a quarter of a million. This is based on an assumption that the national population growth is shared 50:50 between the East and Midlands Regions and the rest of the country. Based on this projection and on the expected household size, it suggests an ongoing demand for housing in the Dublin area.

Chart 1 - Projected Population in Dublin (million)



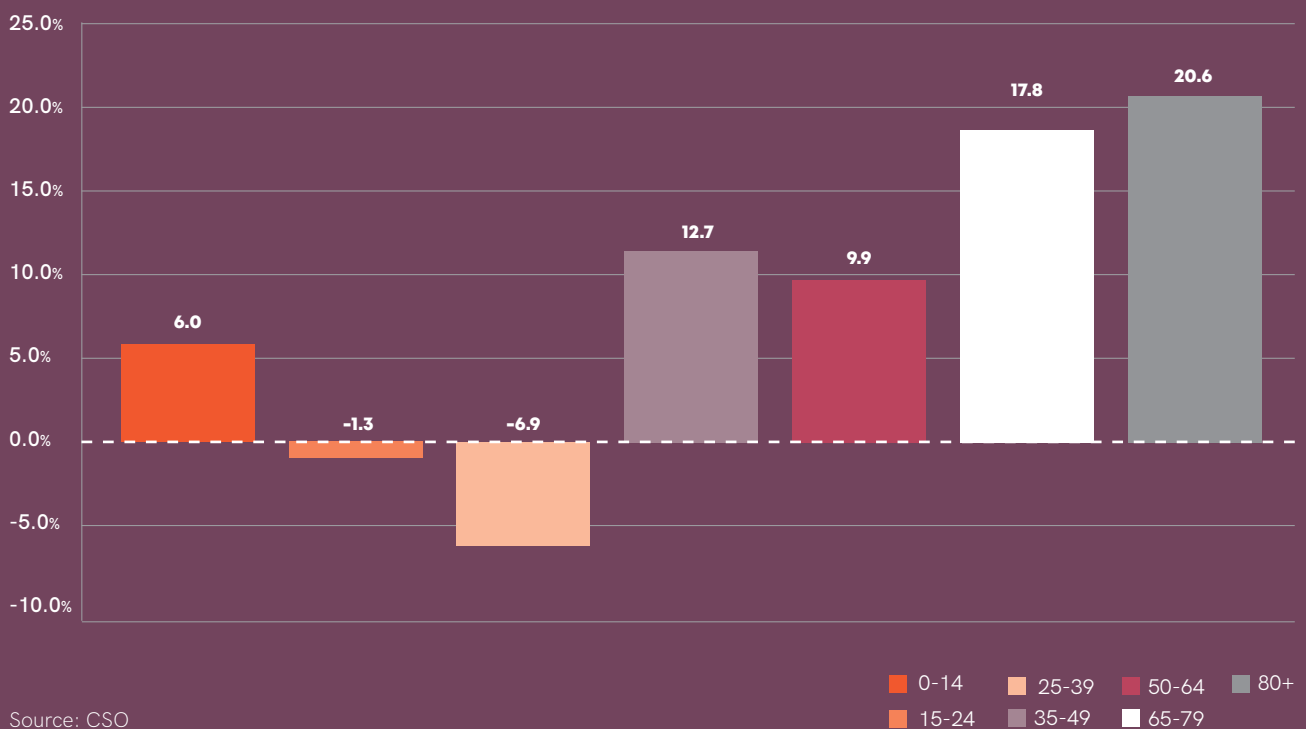
Source: CSO. *Projection by ERSI assuming the population growth is shared equally between the Eastern and Midlands regions and the rest of the country

CHANGING AGE PROFILE OF POPULATION IN 2016

Chart 2 shows the changing age profile of the Dublin population. It is clear that the population, similar to the rest of the country is ageing. While the proportion of the population in the key house buying age of 25 -39 increased by almost 13%, the next younger age group of 15 -24 year olds, fell by almost 7%. This suggests that as this group moves into the house buying age category, the number of potential buyers will fall.

A noteworthy feature of the population change in the 2011 - 2016 period is the significant ageing of the population, with the greatest growth taking place on the over 65s and over 80s in particular. This will give rise to a changing profile of buyers as trading-down is likely to become a greater part of the market and the need for smaller but more age-friendly houses will impact on the type of supply required.

Chart 2 - Dublin Population: Percentage change by Age Group 2011-16



EMPLOYMENT AND UNEMPLOYMENT LEVEL AND TREND

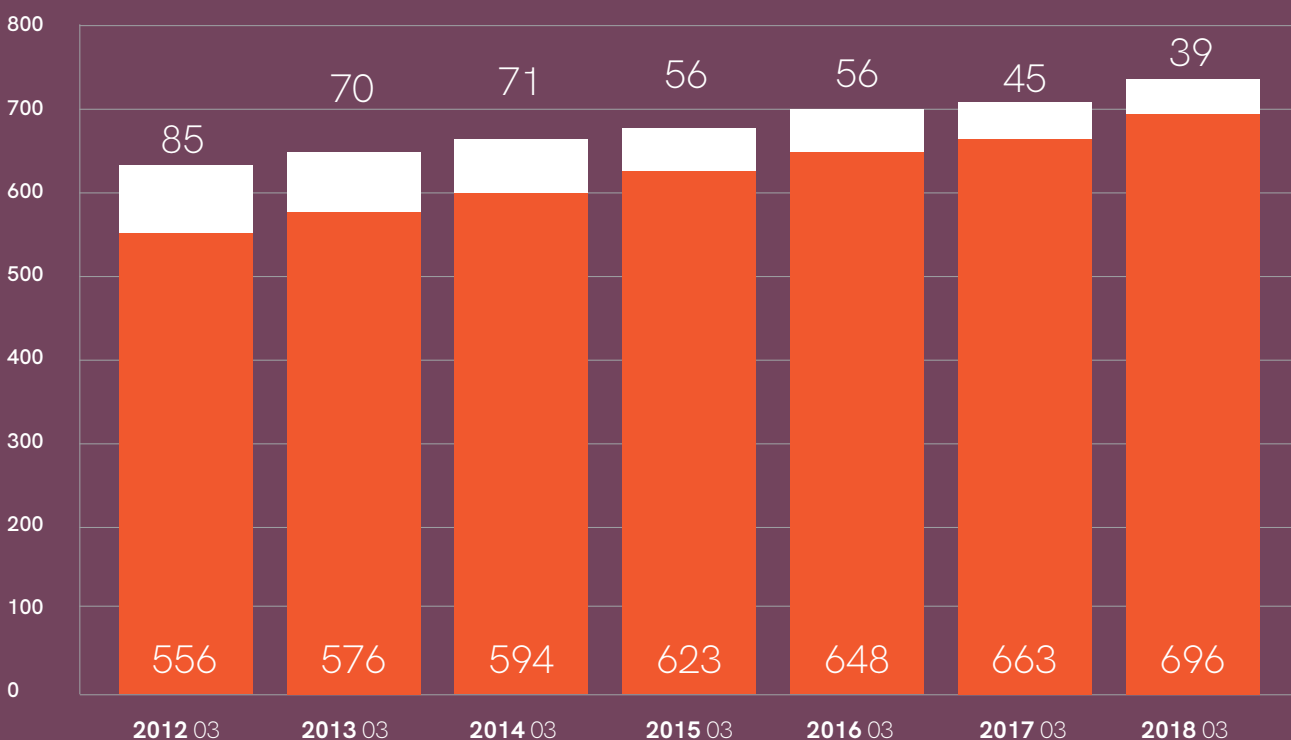
Unemployment in Dublin fell by approximately 6,000 in the last year, a fall from 6.3% to 5.3% of the labour force. Employment increased by 33,000 over the same period. Unemployment has fallen by 47,000 in the past 6 years while employment has grown by over 140,000 in that time.



The unemployment rate has fallen from 13.6% in Q3 2012 to 5.3% in Q3 2018

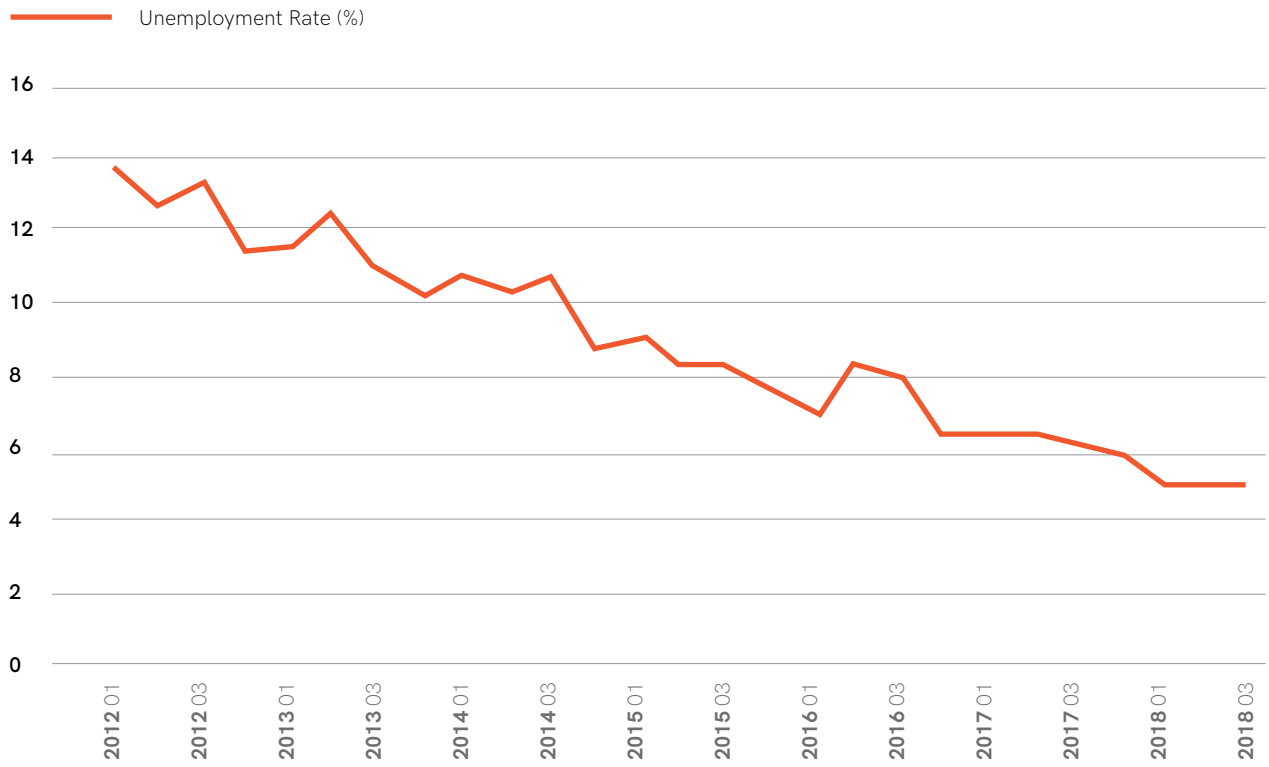
Chart 3 - Employment & Unemployment - Dublin Q3 2012 - Q3 2018

■ Employed (000) ■ Unemployed (000)



Source: CSO

Chart 4 - Unemployment rate – Dublin Q1 2012 - Q3 2018

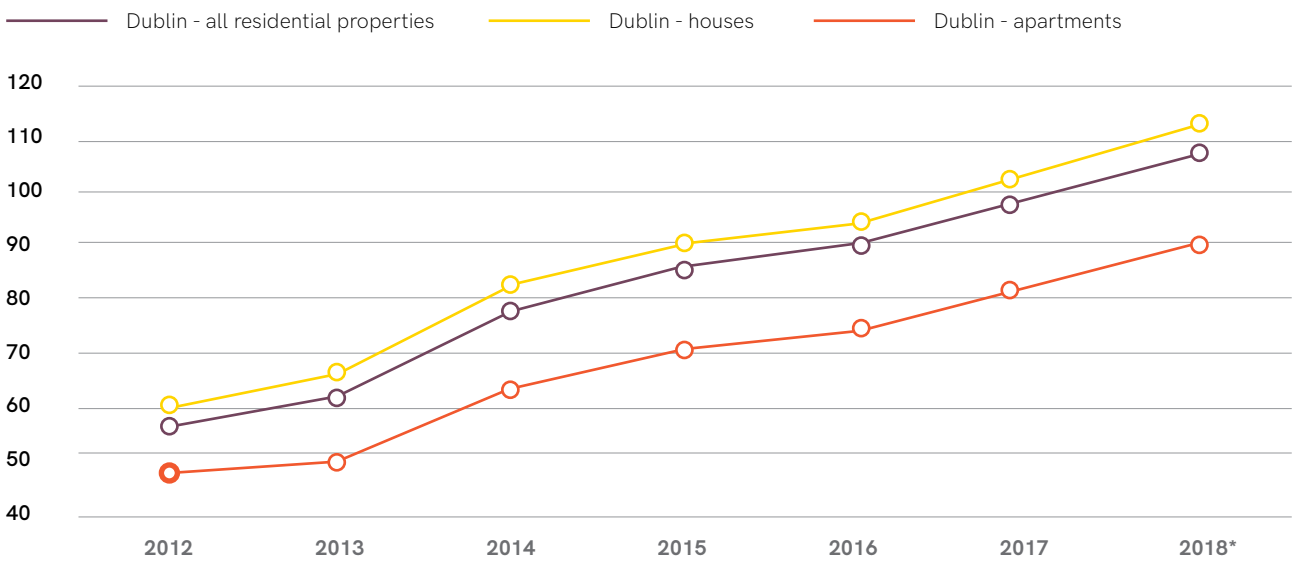


Source: CSO



HOUSE PRICE LEVEL AND TREND

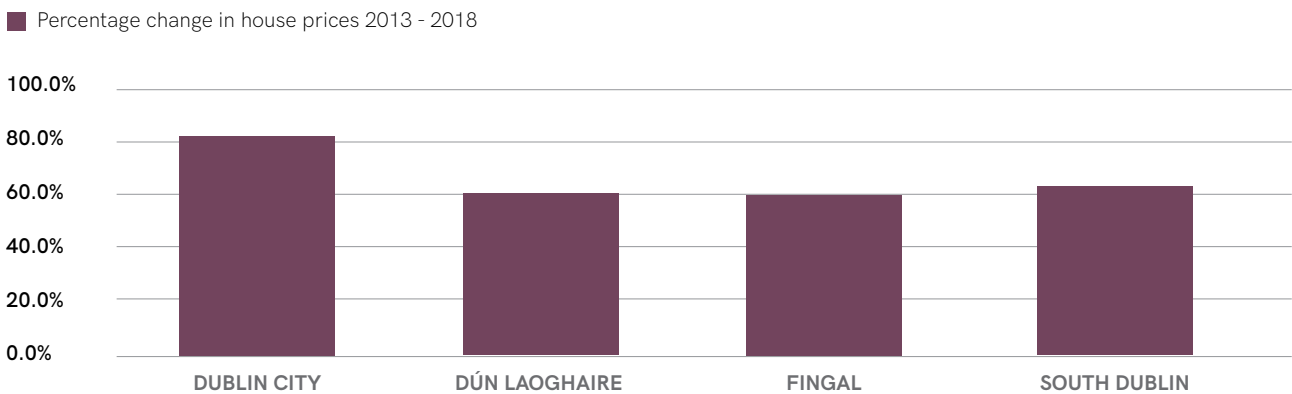
Chart 5 - Dublin Residential Prices 2012 - 18



Source: CSO Residential Property Price Index (Jan 2005 = 100). * January - October 2018

Values in Dublin city have grown by over 80% in the period from 2012 to 2018, compared to approximately 62% in each of the other three local authority areas.

Chart 6 - Percentage change in house prices 2013-18

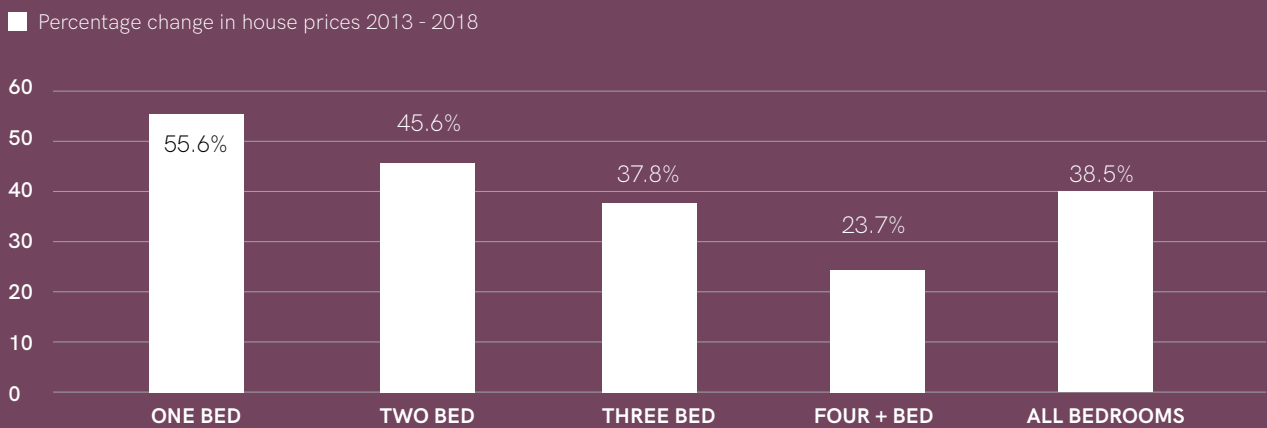


Source: CSO

RENTAL LEVEL AND TREND

Average rents in Dublin have grown by almost 40% in the past 5 years, with the highest rate of growth in one-bed apartments where rents have increased by 56%.

Chart 7 - Percentage change Average Dublin Rent Q3 2013 to Q3 2018

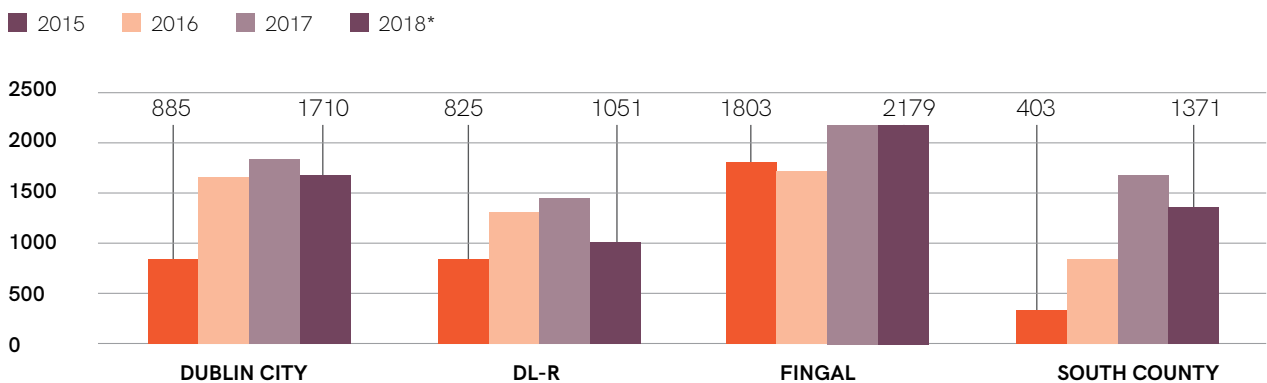


Source: CSO/RTB

HOUSE STARTS - LEVEL AND TREND

The level of housing starts has grown significantly in the past three years, particularly in Dublin City and Dublin South, although the latter is from a very low base in 2015.

Chart 8 - House Starts 2015 - 2018*



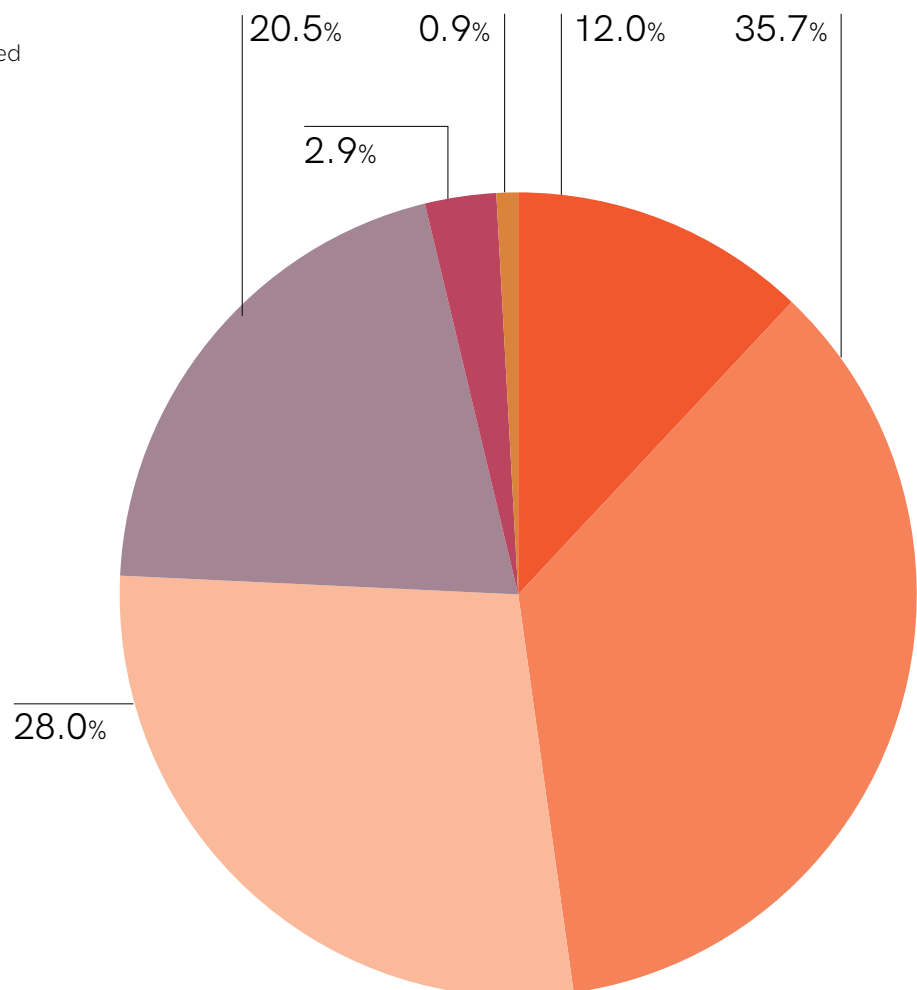
Source: Department of Housing, Planning and Local Government. * Jan - Oct 2018 only

HOUSING COMPOSITION 2016

The dominant residential type is semi-detached houses, accounting for more than one-third of all units in 2016. This is likely to change over time as apartment development accelerates.

Chart 9 Percentage distribution of housing units by type - Dublin 2016

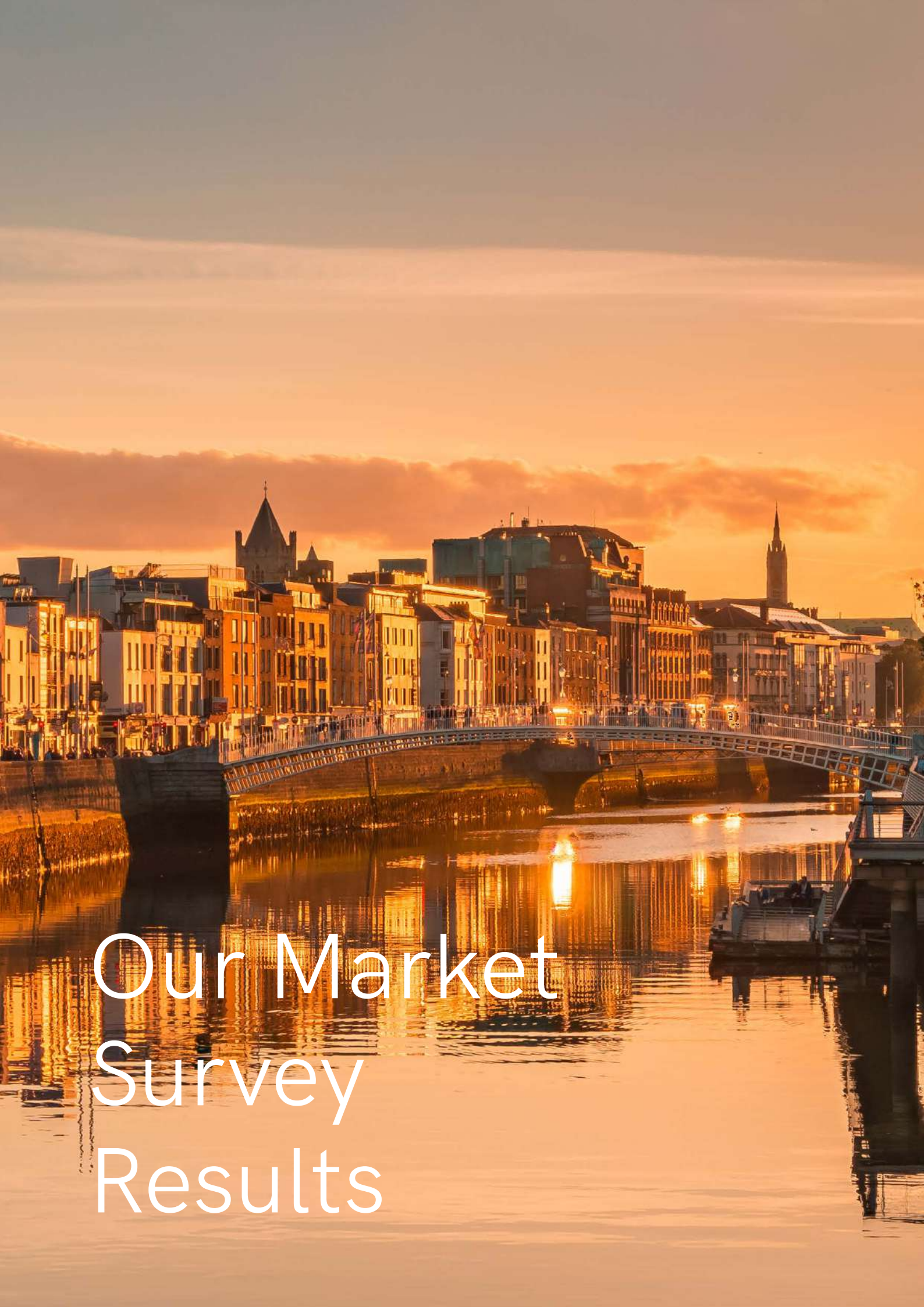
- Detached house
- Semi-detached house
- Terraced house
- Flat or apartment in a purpose-built block
- Flat or apartment in a converted house or commercial building
- Bed-sit



Source: CSO







Our Market Survey Results

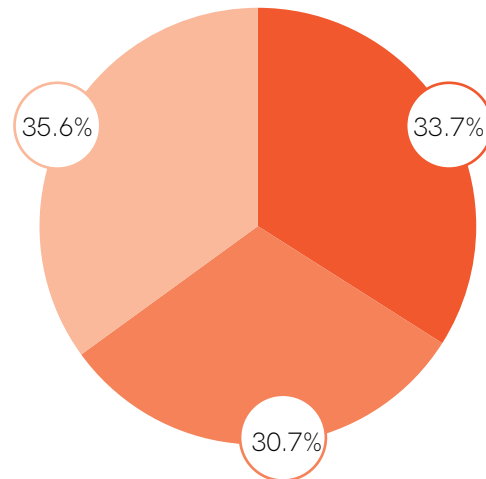
ACTIVITY LEVEL IN MARKET

Unlike 2017, when there was a clear indication of increased market activity, this was not the case in 2018, when there was almost equal numbers reporting increased, decreased and static levels of activity.

The percentage of respondents reporting increased levels of activity ranged from 21% in Dún Laoghaire-Rathdown to 38% in Dublin City.

Chart 10 - Level of activity in 2018 reported by SCSi agents, Dublin

- Increased
- Remained the same
- Decreased

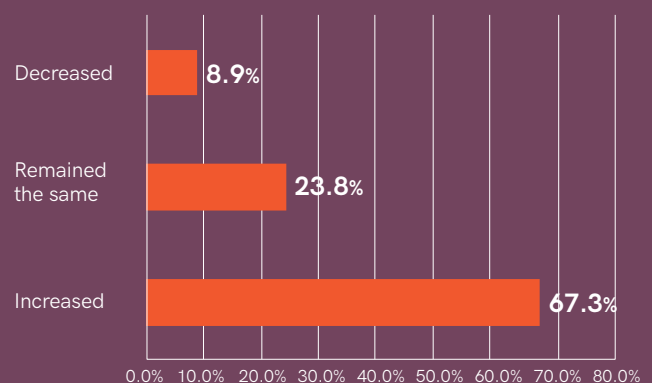


VENDOR PRICE EXPECTATIONS

Two-thirds of respondents indicated that vendor price expectations had increased in 2018 with a further quarter reporting that they had stayed the same. Less than 10% reported a decrease in vendor price expectations. A view was expressed that vendors' price expectations may now be unrealistic, particularly in the context of a market where value growth is moderating.

There was little difference in this across local authority area with Dún Laoghaire-Rathdown indicating a slightly lower percentage reporting an increase (62.5%).

Chart 11 - Vendor Price Expectations in 2018, Dublin



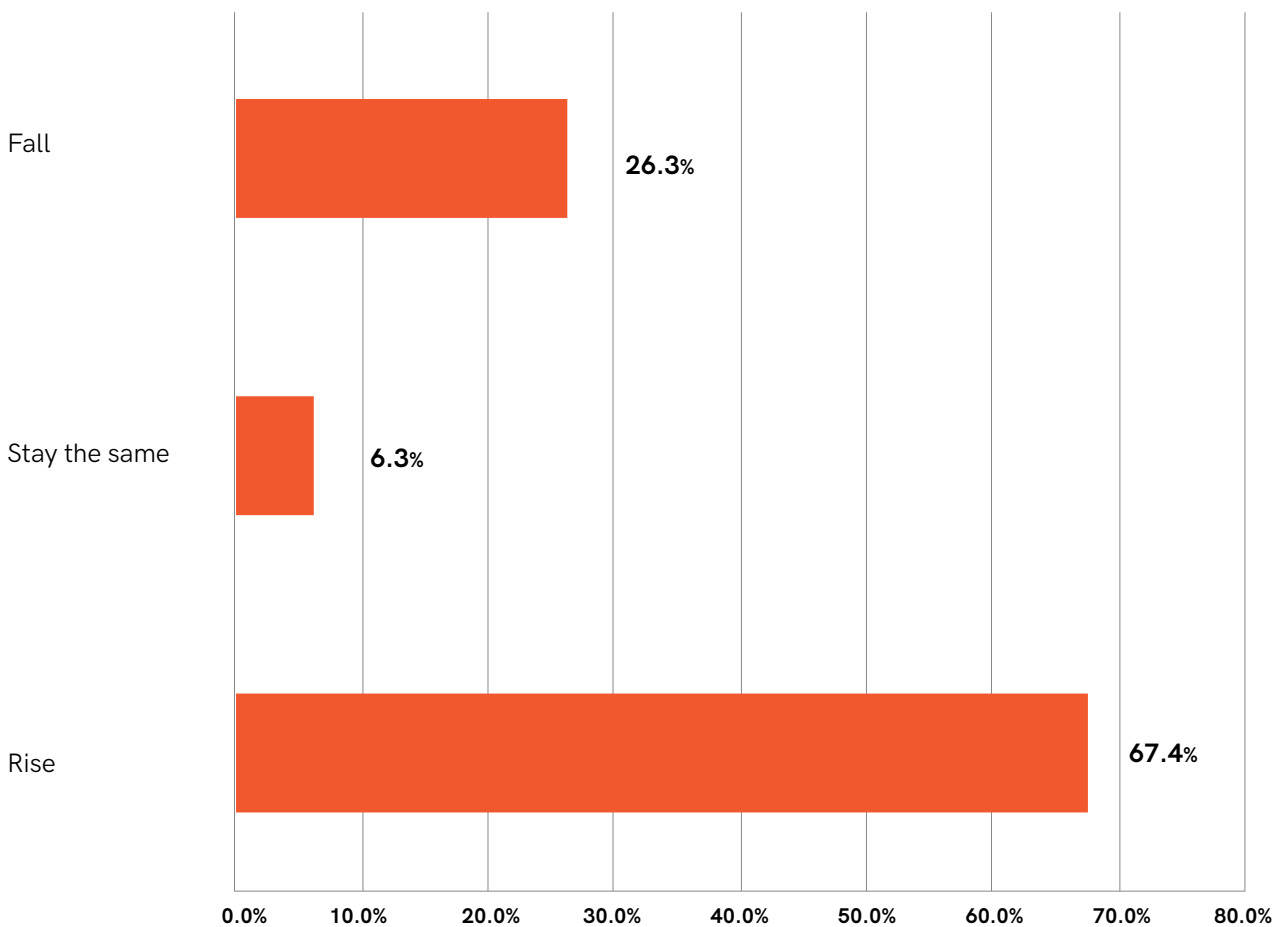
PRICE EXPECTATIONS 2019

Two thirds of respondents expect prices to rise in 2019, with 26% expecting prices to fall.

There is some variation in the expectation of price change with 75% of respondents in Dún Laoghaire-Rathdown expecting price increase compared to 55% of respondents in Dublin City. Conversely just 1 in 6 respondents in Dún Laoghaire-Rathdown expect prices to fall compared to 1 in 4 in Dublin City.

The maximum expected price change by any respondent is 15% (Dublin City), while the largest expected price fall by any respondent is 20% (South County Dublin).

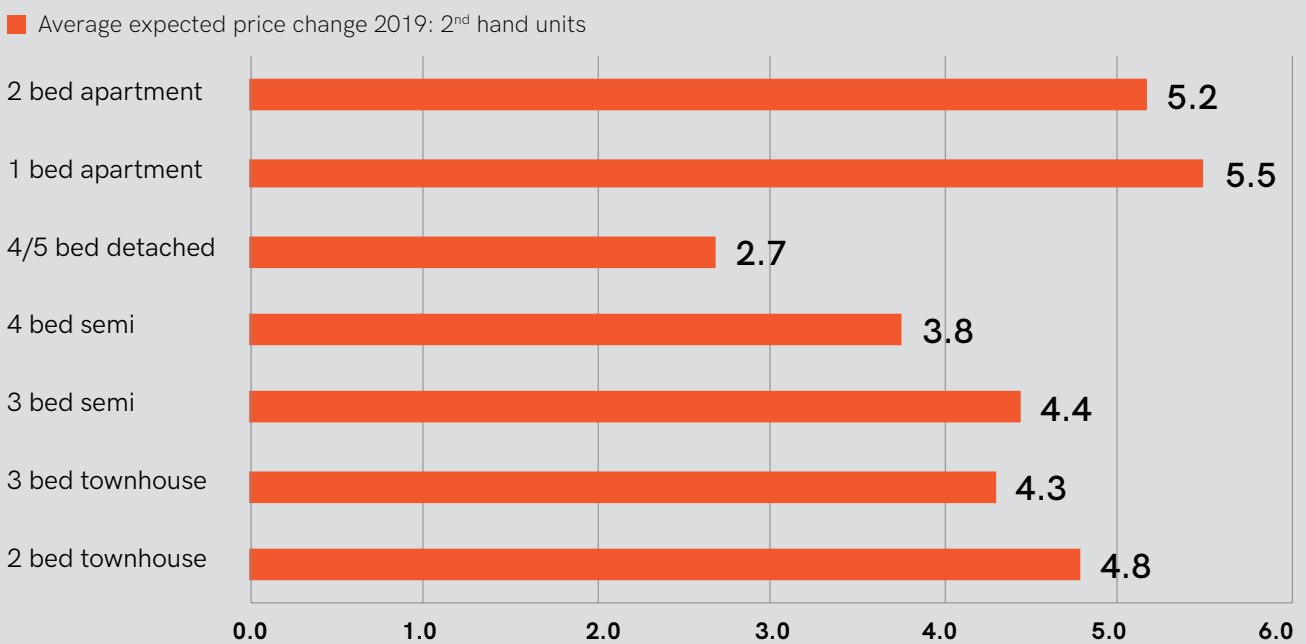
Chart 12 - Price expectation 2019 - % of respondents



SECOND-HAND PROPERTIES - EXPECTED PRICE CHANGE 2019

Each of the identified segments of the second hand residential market are expected to show price rises in 2019, ranging from 2.7% for 4/5-bed detached houses to 5.5% for 1-bed apartments

Chart 14 - Average Expected Price change 2019: 2nd-hand units



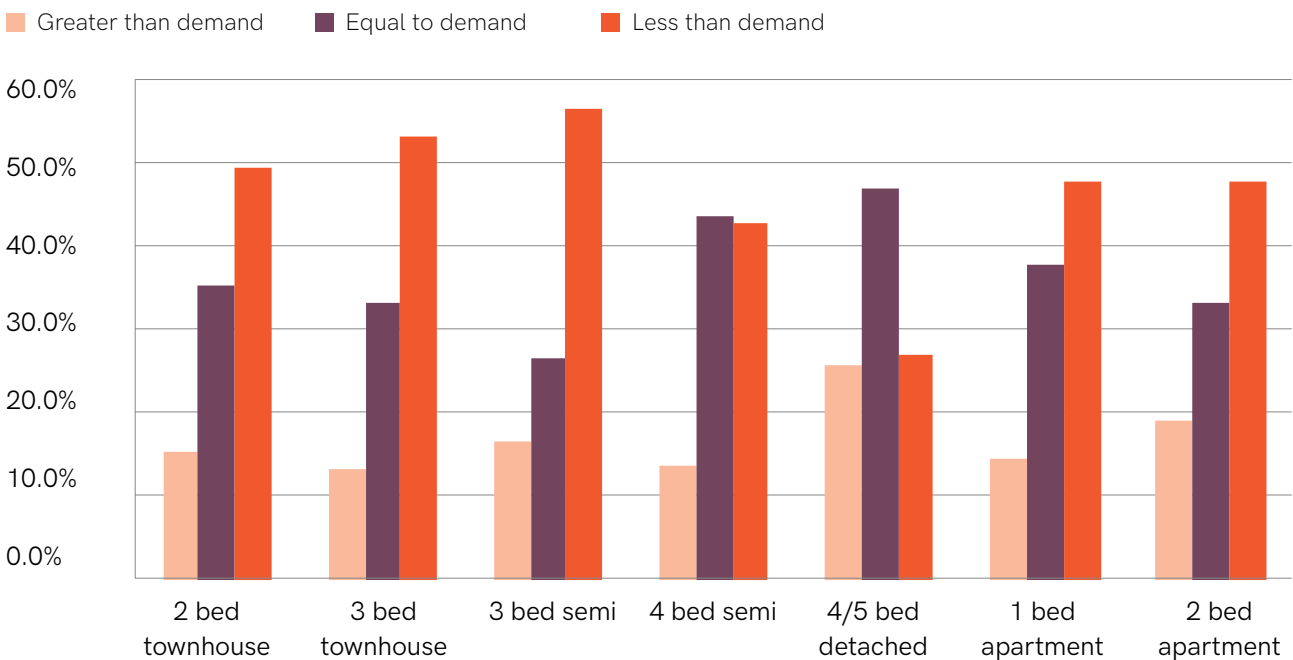
EXPECTED RELATIONSHIP BETWEEN SUPPLY AND DEMAND: SECOND-HAND PROPERTIES

The rise in residential prices in recent years has been, in part, attributed to an imbalance of supply and demand. Agents expect this to continue in most segments of the market as shown in chart 15.

The exceptions are in 4-bed semi-detached and 4/5-bed detached houses, where the highest percentage of respondents expect demand and supply to reach equilibrium. However, in the case of 4-bed semi-detached houses, 43% still expect demand to exceed supply compared to 13% who expect supply to exceed demand.

Percentage of respondents expecting that supply will be:

Chart 15 - Expected relationship between supply and demand 2019: 2nd hand units.



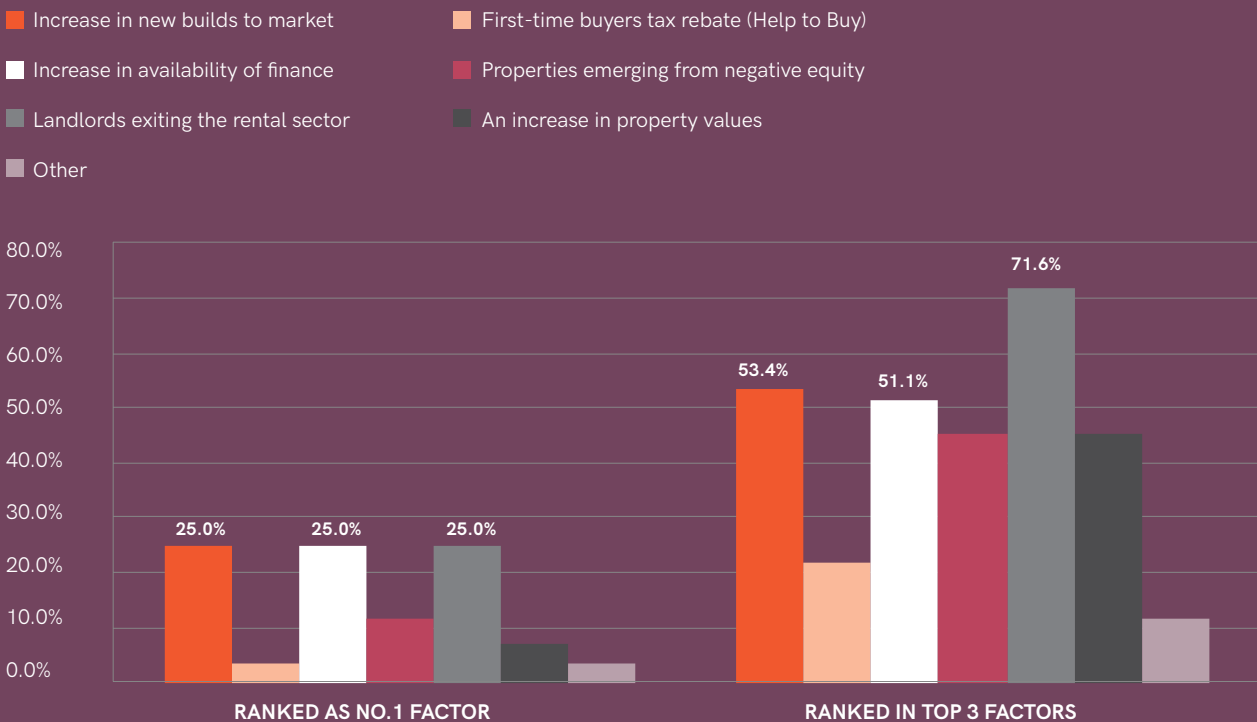
Within the Dublin area, Dublin City is expected to show the greatest excess demand, particularly in 1-bed apartment (for which 59% of respondents expect excess demand), 2-bed apartments (61% expect excess demand), 2-bed townhouses (57% expect excess demand) and 3-bed townhouses (63% expect excess demand).

RANKING OF FACTORS LIKELY TO INFLUENCE SUPPLY OF 2ND-HAND UNITS IN 2019

The most important factor likely to impact on the supply of 2nd-hand residential units in 2019 was, according to the survey respondents, Landlords exiting the rental sector, which was ranked number 1 by 25% of respondents and ranked in the top 3 by 72% of respondents.

Other important factors are likely to be an Increase in the availability of finance and an Increase in new-builds to market, ranked in the top three by over half of respondents. The issue of landlords leaving the rental market is attributed to the recent government intervention in the market, (Rent pressure zones, rent caps), the Anti-Evictions Bill 2018 (currently going through the legislative process) and the general compliance requirements.

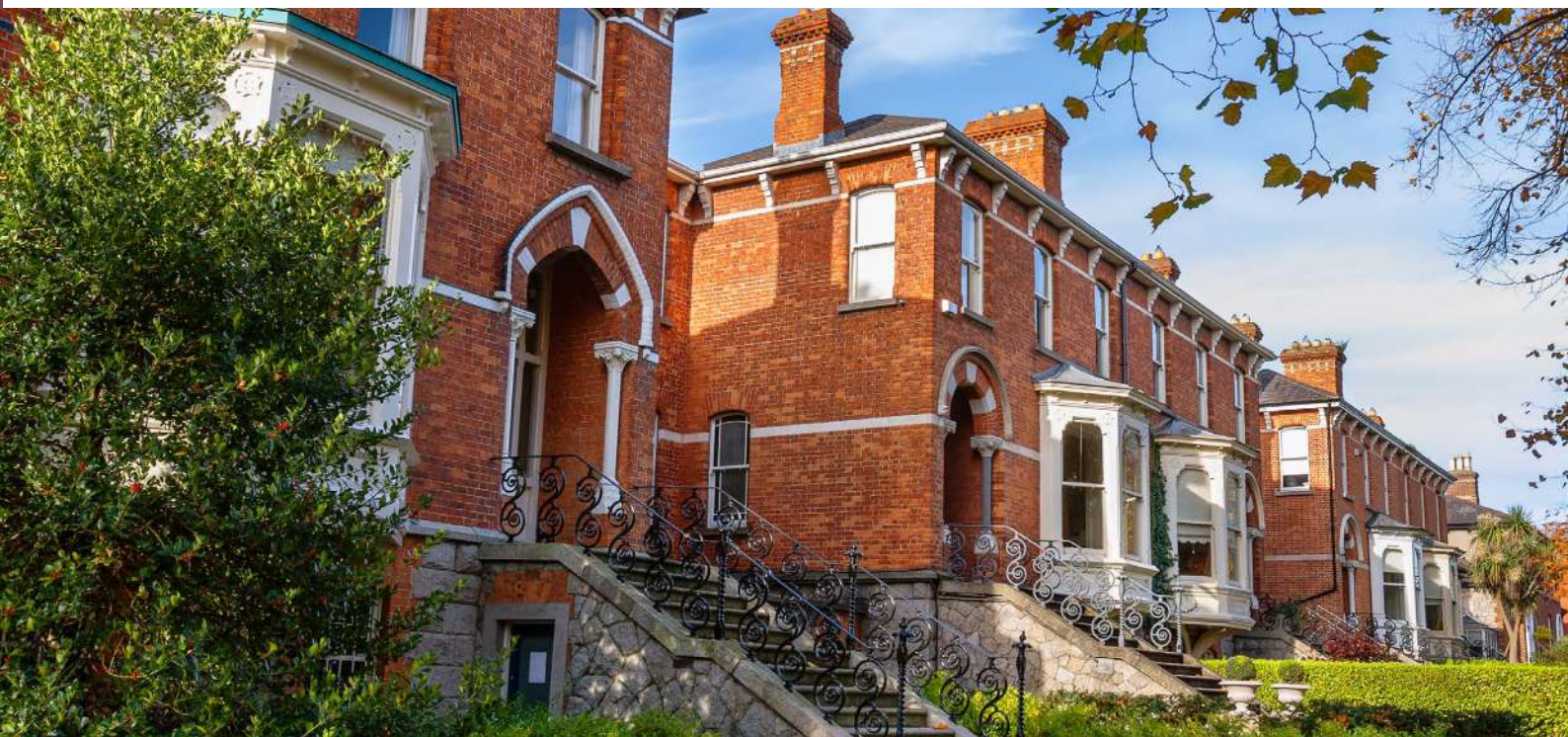
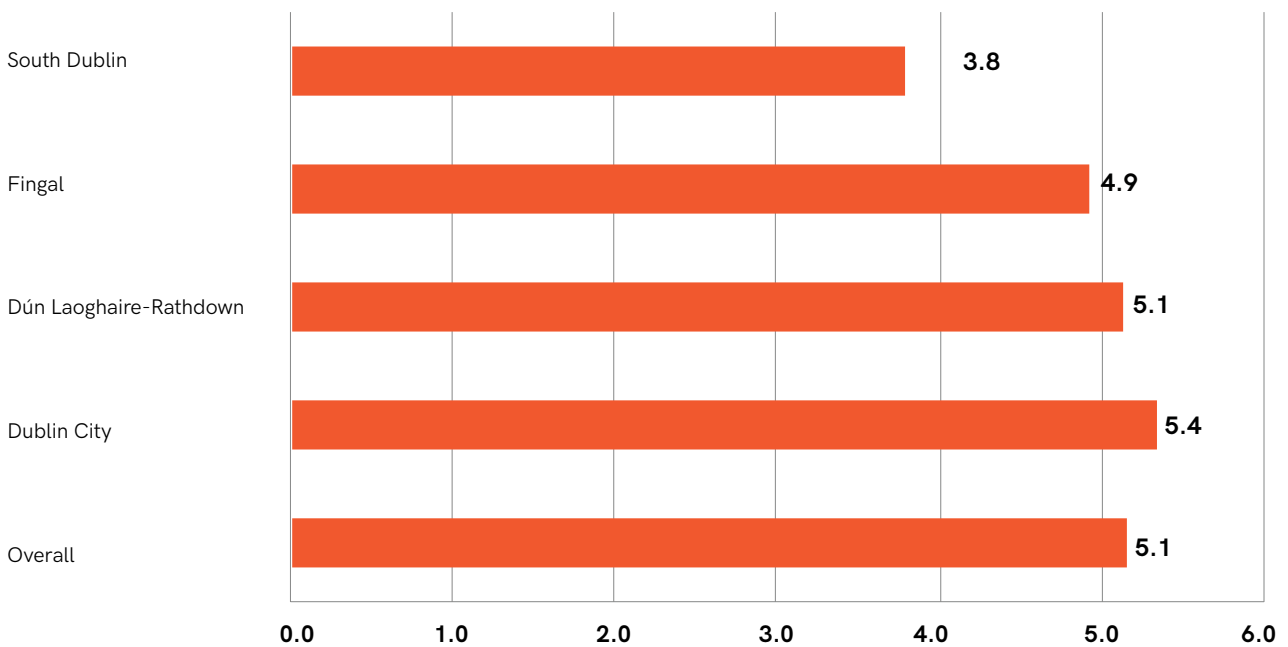
Chart 16 – Percentage of respondents ranking of factors likely to influence supply of 2nd-hand units in 2019



TIME TAKEN TO SELL PROPERTIES

The average time taken to sell a property from receipt of instructions to closure of sale is just over 5 months, with little difference between Dublin City, Fingal and Dún Laoghaire-Rathdown. The time taken is somewhat shorter in South Dublin at a little under 4 months

Chart 17 - Average number of months from receipt of instructions from the vendor to closure of a sale

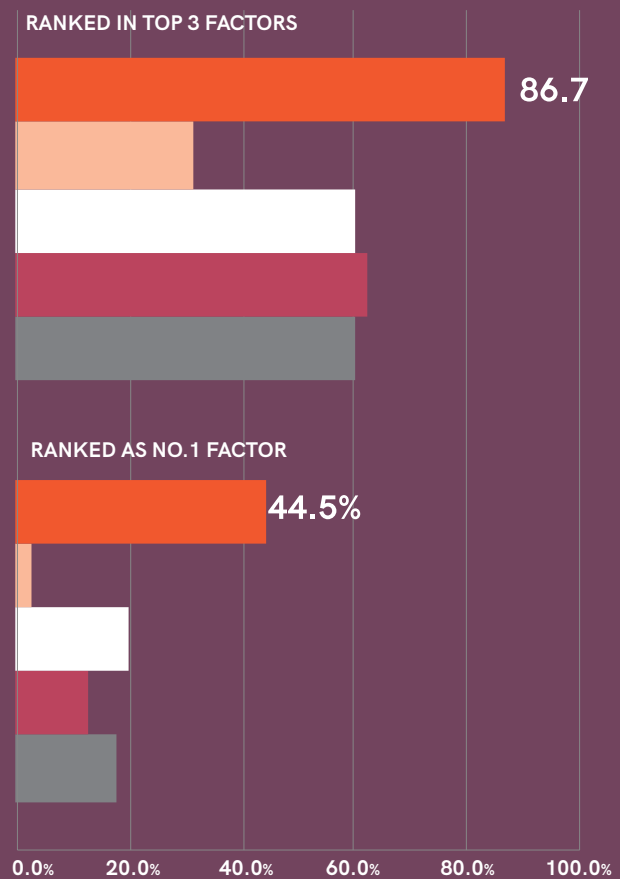


REASONS WHY PROPERTIES MAY NOT SELL

The single most important reason for failure of properties to sell is that Vendor's price expectations are not met, ranked first by 45% of respondents and in the top 3 by 87% of respondents. Mortgage issues was ranked first by 20% of respondents.

Chart 18 - Reasons why property may not sell

- Vendor's price expectations are not met
- Vendor decides not to sell for reasons other than price
- Mortgage issues
- Purchaser finding another property
- Concern following building survey

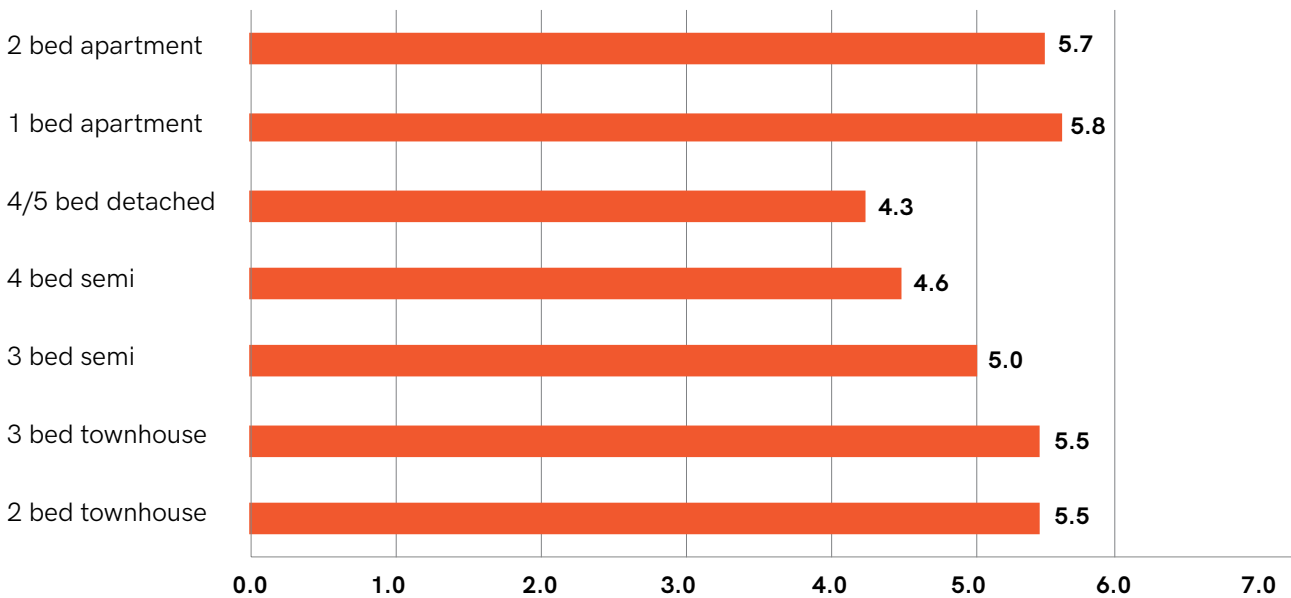


This is an important finding in the context of the earlier view expressed by agents that vendors' price expectation may now not be realistic.

NEW PROPERTIES – EXPECTED PRICE CHANGE 2019

Each of the identified segments of the new residential market are expected to show price rises in 2019, ranging from 4.3% for 4/5-bed detached houses to 5.8% for 1-bed apartments

Chart 19 - Average Expected Price Change 2019 - New units



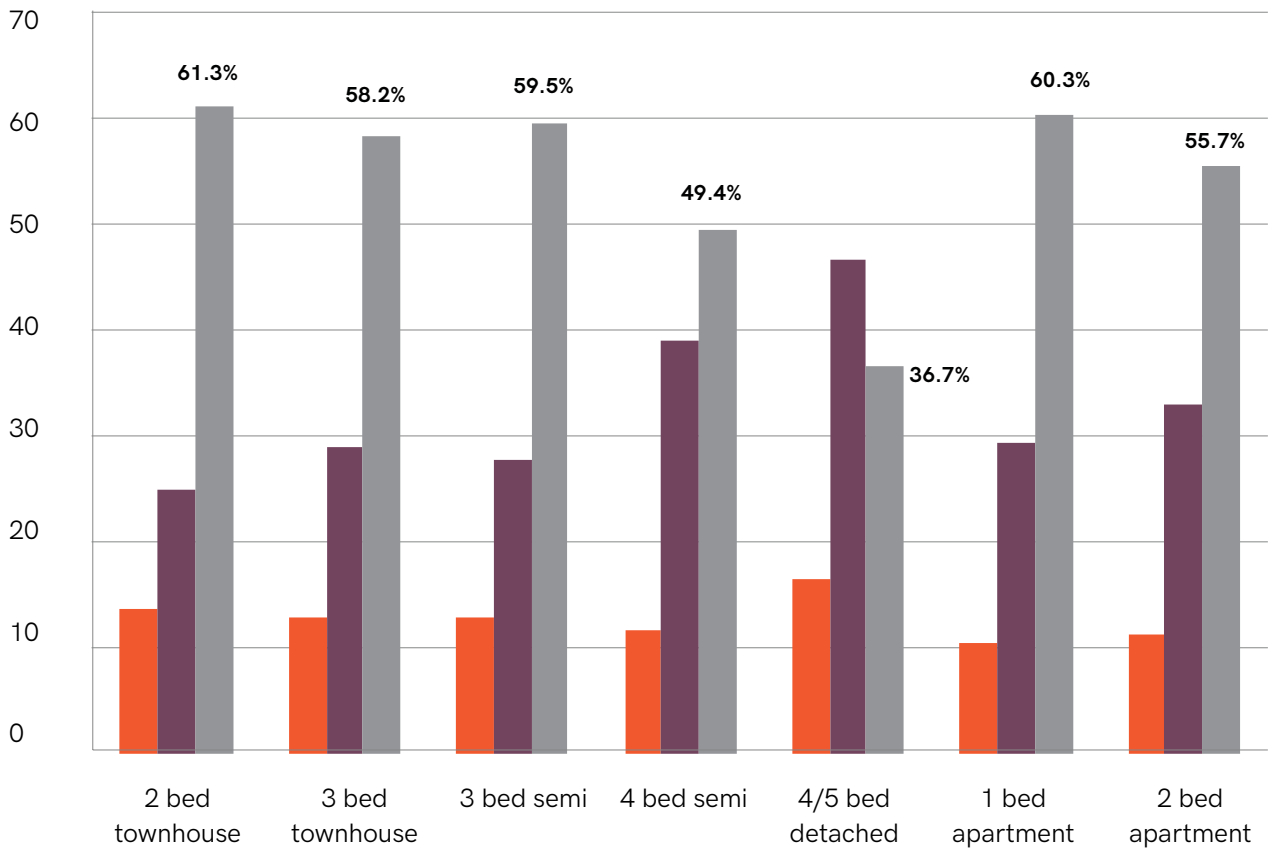
NEW PROPERTIES: EXPECTED RELATIONSHIP BETWEEN SUPPLY AND DEMAND

In all segments of the market except 4/5-bed detached houses, respondents expect demand to exceed supply. The percentage of respondents expecting demand to be greater than supply ranges from 49% for 4-bed semi-detached houses to over 60% for 2-bed townhouses and 1-bed apartments.

Chart 20 - Expected relationship between supply and demand 2019:

New units. Percentage of respondents expecting that supply will be:

■ Greater than demand
 ■ Equal to demand
 ■ Less than demand



MARKETING OF NEW HOUSING SCHEMES

36% of agents expect to market new housing schemes in 2019. Less than 20% of agents in Dún Laoghaire-Rathdown expect to do so, while 38% of agents in Dublin City do. While this might appear somewhat at odds with the expected increase in supply, it may reflect the fact that there are a fairly limited number of firms who tend to be involved in sales of new developments.

Across the four local authority areas, 44% of those who expect to market new schemes, expect to be involved in the marketing of at least 100 new homes in 2019 while a further 22% expect to market between 50 and 100 new homes.



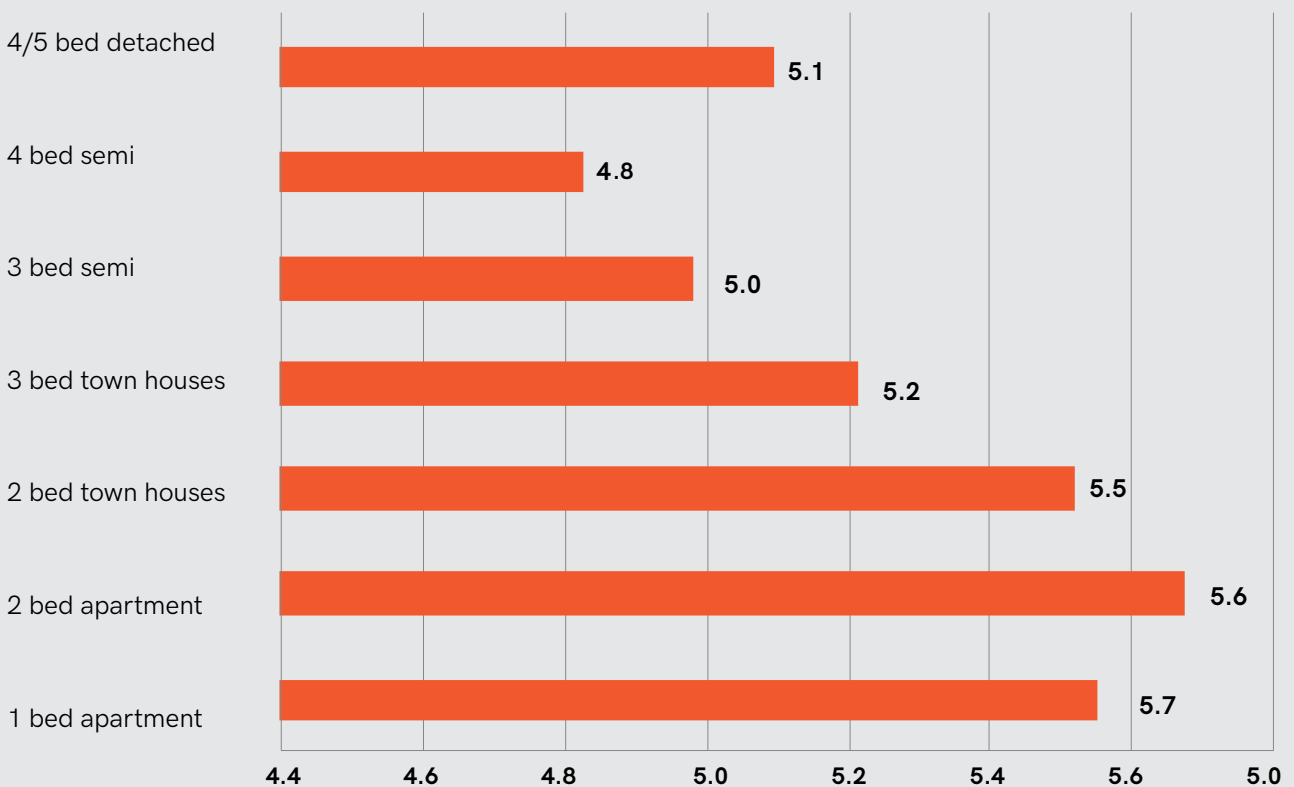


RESIDENTIAL RENTS

Rents are expected to rise by an average of about 5% across all segments of the market, ranging from 4.8% for 4-bed semi-detached to 5.7% for 2-bed apartments

Chart 21 - Average Expected % Change in Rent 2019

■ Average expected % change in rent 2019





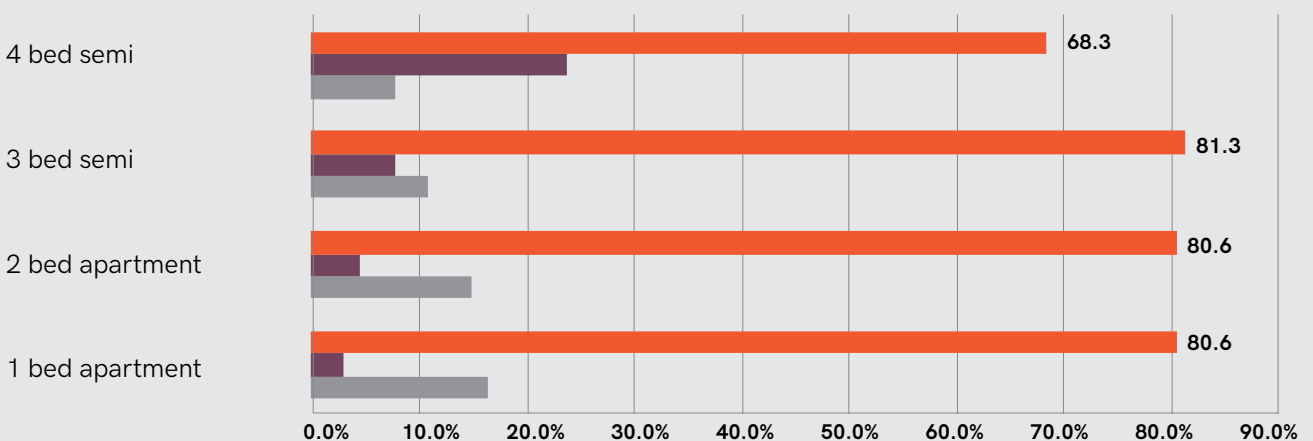
EXPECTED RELATIONSHIP BETWEEN SUPPLY OF AND DEMAND FOR RENTAL PROPERTIES IN 2019

In three of the four identified sectors, over 80% of respondents expect demand to exceed supply. For 4-bed semi-detached houses, over two-thirds of respondents expect excess demand.

Chart 22 - Expected relationship between supply and demand 2019:

Rental Properties. Percentage of respondents expecting that supply will be:

■ Less than demand
 ■ Equal to demand
 ■ Greater than demand

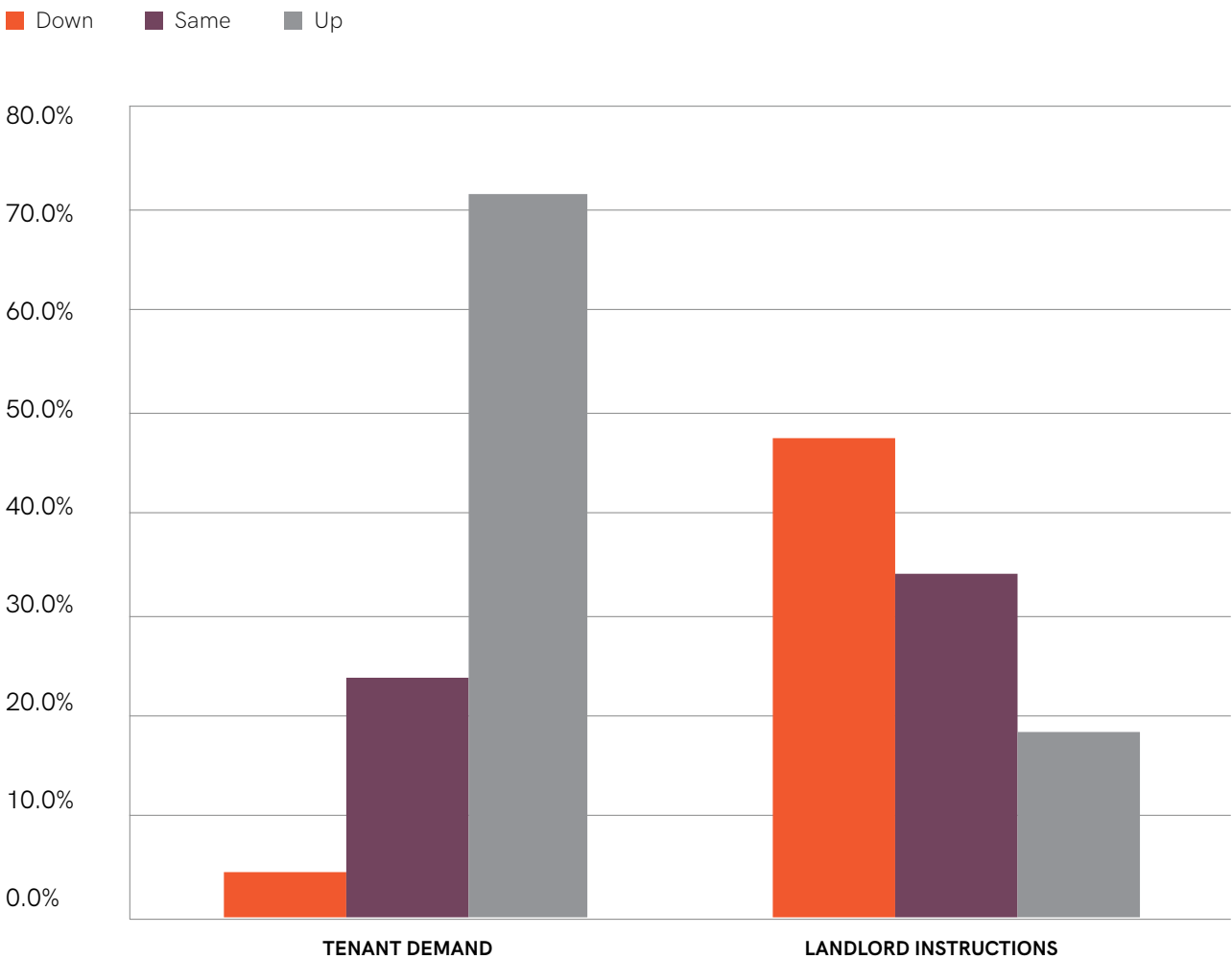


ACTIVITY INDICATORS IN THE RENTAL SECTOR

Over 70% of respondents report an increase in tenant demand in 2018. This reflects the supply and also the affordability problems that many people face in relation to house purchase, partly based on the Central Bank lending constraints.

Almost half of respondents report a decrease in landlord instructions. This may reflect the reported trend of landlords exiting the rental market and is consistent with the finding of an earlier question which identified this as the single most important factor affecting the supply of 2nd-hand units.

Chart 23 - Activity Indicators: Change over past 12 months Percentage of respondents reporting that activity will be:









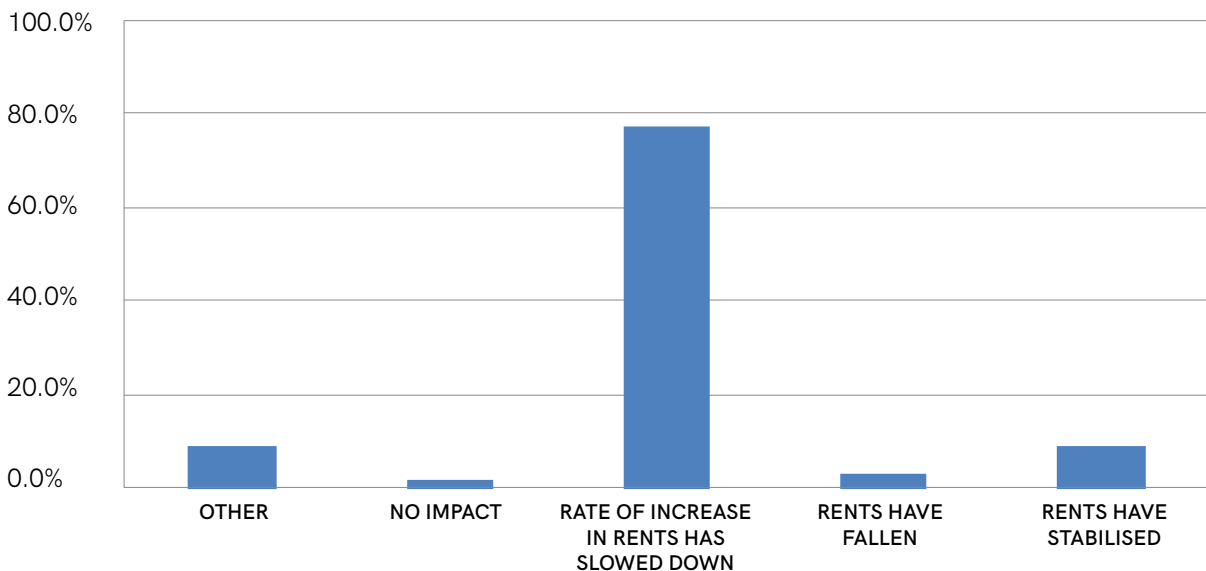
Impact of Government intervention in the market

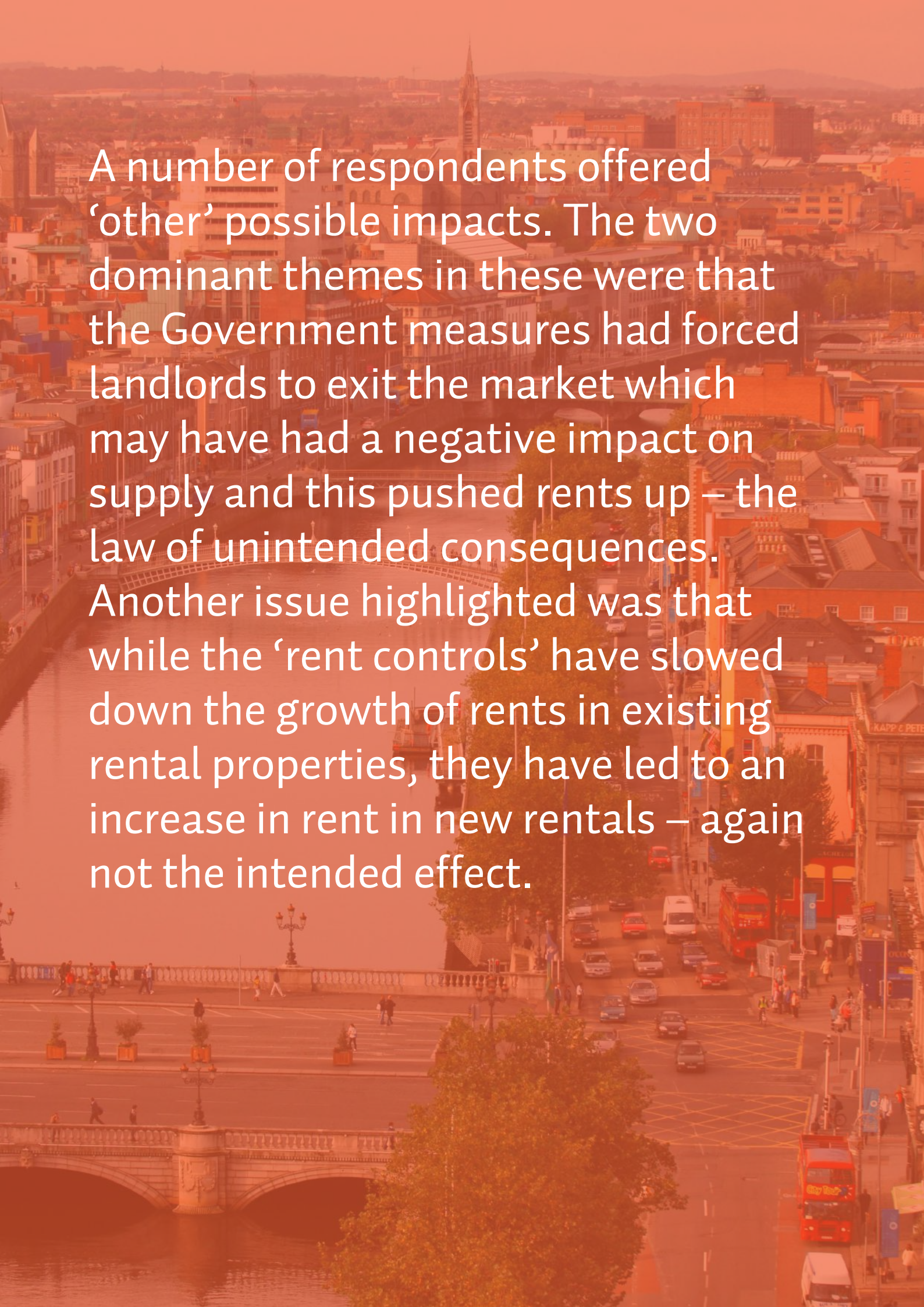
IMPACT OF GOVERNMENT INTERVENTION IN THE MARKET

The Government introduced Rent Pressure Zones (RPZs) and maximum percentage increases in rent in December 2016. The overwhelming view (77% of respondents) was that while rents have continued to rise, the impact of the Government intervention has been to slow down the rate of increase.

Chart 24: Impact of Government intervention in the market:

Percentage of respondents indicating:



An aerial, high-angle photograph of a city street, likely in London, showing a wide road with a bridge crossing a river. The scene is bathed in a warm, orange-red light, suggesting either sunrise or sunset. The text is overlaid on the image in a white, sans-serif font. The text discusses the impact of government measures on the rental market, specifically mentioning landlords exiting the market and the resulting increase in rents, both in existing and new properties.

A number of respondents offered ‘other’ possible impacts. The two dominant themes in these were that the Government measures had forced landlords to exit the market which may have had a negative impact on supply and this pushed rents up – the law of unintended consequences. Another issue highlighted was that while the ‘rent controls’ have slowed down the growth of rents in existing rental properties, they have led to an increase in rent in new rentals – again not the intended effect.





Key issues
impacting
the Market

KEY ISSUES IMPACTING BUSINESS IN 2018

Respondents were asked to specify factors that impacted on their business in 2018, either positively or negatively. There was no single dominant factor highlighted. However the following issues were identified. These are largely issues that impacted negatively on business.

FACTORS IMPACTING ON BUSINESS IN 2018

Government Intervention in Rental market - Led to landlords exiting market

Planning Delays

Lack of Finance both for Developers and Purchasers

Central Bank Lending Restrictions - leading to

Affordability issues

Availability of staff

Slowdown at upper end of market >€500,000

Airbnb leading to lack of units to rent longer term

An important issue raised was that the Central Bank lending constraints has led to a market that operates differently in the second half of the year relative to the first. The reason suggested for this is that the banks use up their 'exemption' limits in the first part of the year and are therefore more constrained in their lending in the second half. The result is that potential buyers, depending on mortgage finance will have less 'firepower' in

bidding or buying houses, leading to either a slower market or more constrained price growth. A suggested solution by one respondent to this was that the level of exemptions permitted by the Central Bank might be divided into two half year periods in the same way that car registrations are now divided into the January- June and July - December periods. This could of course be extended to quarterly or more frequent intervals.

An aerial photograph of a city at dusk. The sky is a deep blue, and the city lights are beginning to glow. In the background, there are rolling hills or mountains. The city below is densely packed with buildings, and a prominent cable-stayed structure is visible in the middle ground. The overall mood is serene and urban.

LAND DEVELOPMENT AGENCY

There were very mixed views in relation to the likely impact of the newly established Land Development Agency on the development land market. On balance, the view was that it would be mildly positive in that it would increase supply but it is likely that it would take a few years to 'get going'.



Design by:



Future Analytics
Planning | Research | Economics

Society of Chartered Surveyors Ireland

38 Merrion Square, DO2 EV61, Dublin 2, Ireland

T: + 353 (0)1 644 5500 | E: info@scsi.ie

www.scsi.ie