Annual Residential Market Report

Review & Outlook 2019

Munster

Key Highlights

SALES

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

Munster house prices to increase by 6% in 2019 – 7% average 12 months ago.

89% of agents reported an increase in Vendor price expectations in Munster, compared to the national average of 77%.

62% of agents reported an increase in market activity in Munster compared to the national average figure of 45%.

Apartments are expected to see the highest increases in values in 2019 – 5%.

45% of agents expect to market new homes in 2019.

2 & 3 bedroom houses and apartments to be in greatest demand in 2019.

A proportion of 7:1 of agents expect demand to outstrip supply across 2 & 3 bed properties, supply /demand balance to be more even for larger 3 & 4 bedroom homes.

RENTS

Rents in Munster are expected to rise by an average of close to 7%.

40% of agents reported a decrease in new landlord instructions.

76% of agents reported an increase in tenant demand, compared to the national average of 73% .

Rent Pressure Zones cited as bringing more rigidity to the market leaving some tenants less willing to move to more suitable accommodation to avoid disproportional rent increases.

OTHER ISSUES

Slowdown in rate of price increase – esp. upper end of price range

Ongoing supply issue leading to excess demand.

Vendor price expectations have risen despite slowdown in rate of house price inflation.

Changing age profile of population suggests that the numbers in the key house buying age. category may fall, while the ageing of the population is likely to lead to a greater level of trade-downs and the need for smaller, more flexible and age-appropriate housing.
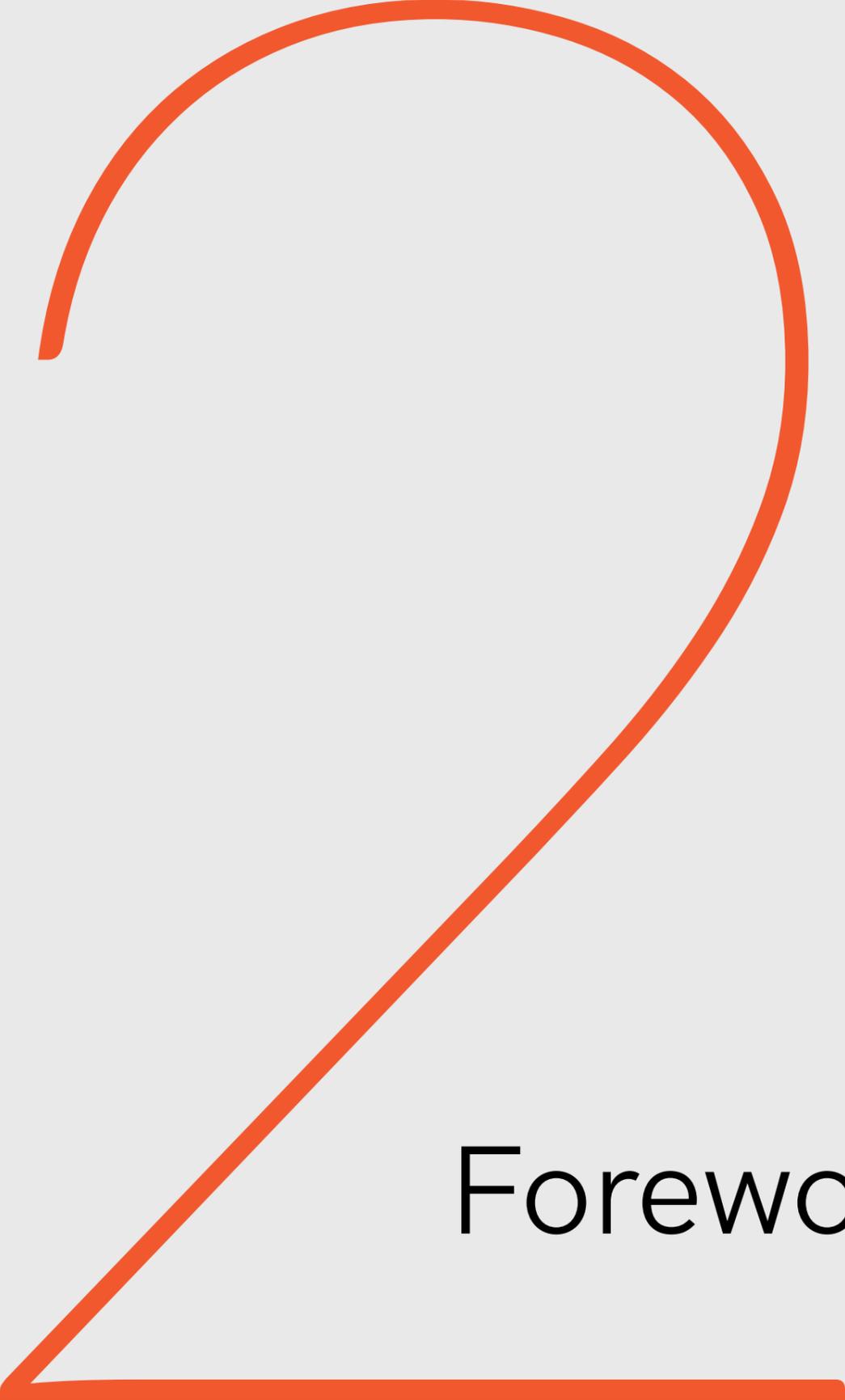
Foreword

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 prices 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 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 2million 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 Irelands 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 be approximately 7% in Munster, 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

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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)
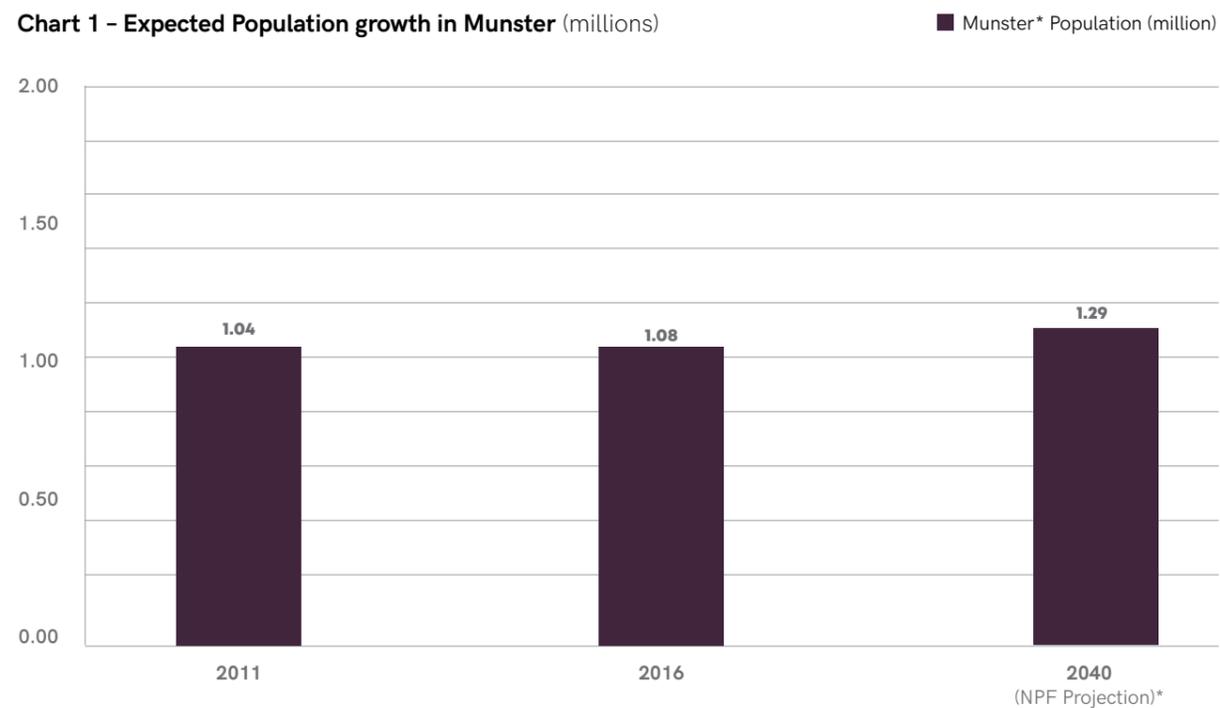**107.9** October 2018 — Up from — **58.7** March 2013

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Population trends in Munster

POPULATION TRENDS IN MUNSTER

The population of the combined South-West and Mid-west regions grew by over 30,000 between 2011 and 2016 (3%). 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 these regions combined from 2016 to 2040 of approximately 200,000. 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 region.

CHANGING AGE PROFILE OF POPULATION IN 2016

Chart 2 shows the changing age profile of the South-West and Mid-West regions combined population between 2011 and 2016. It is clear that the population, similar to the rest of the country is ageing. The proportion of the population in the key house buying age of 25 -34 decreased by almost 15%, while the next younger age group of 15 -24 year olds, fell marginally.

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. 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 1 – Expected Population growth in Munster (millions)   ■ Munster* Population (million)
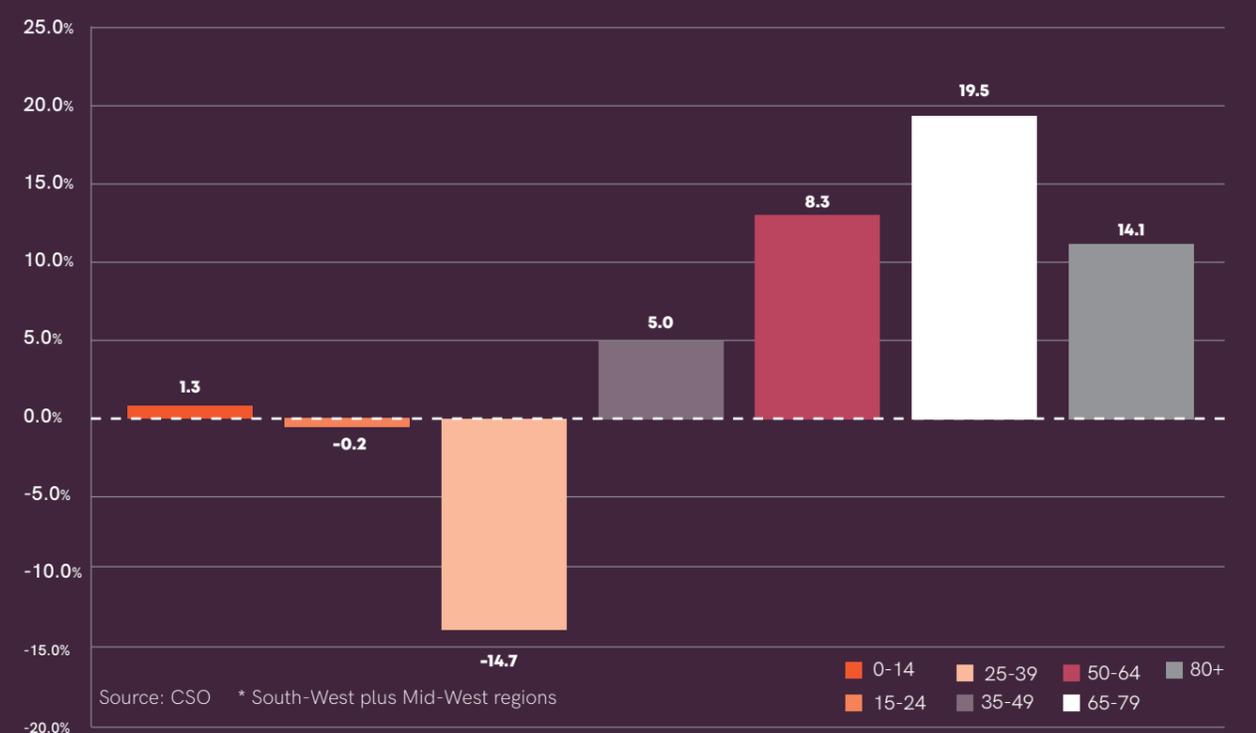

Source: CSO. * Projection by ESRI assuming the national population growth is shared equally between the Eastern and Midlands regions and the rest of the country.

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

Source: CSO   * South-West plus Mid-West regions

0-14   15-24   25-39   35-49   50-64   65-79   80+

EMPLOYMENT AND UNEMPLOYMENT LEVEL AND TREND

Unemployment in Munster fell by approximately 7,000 in the last year, a fall from 7.1% to 5.8% of the labour force. Employment increased by 15,000 over the same period. Unemployment has fallen by 61,000 in the past 6 years while employment has grown by over 74,000 in that time.
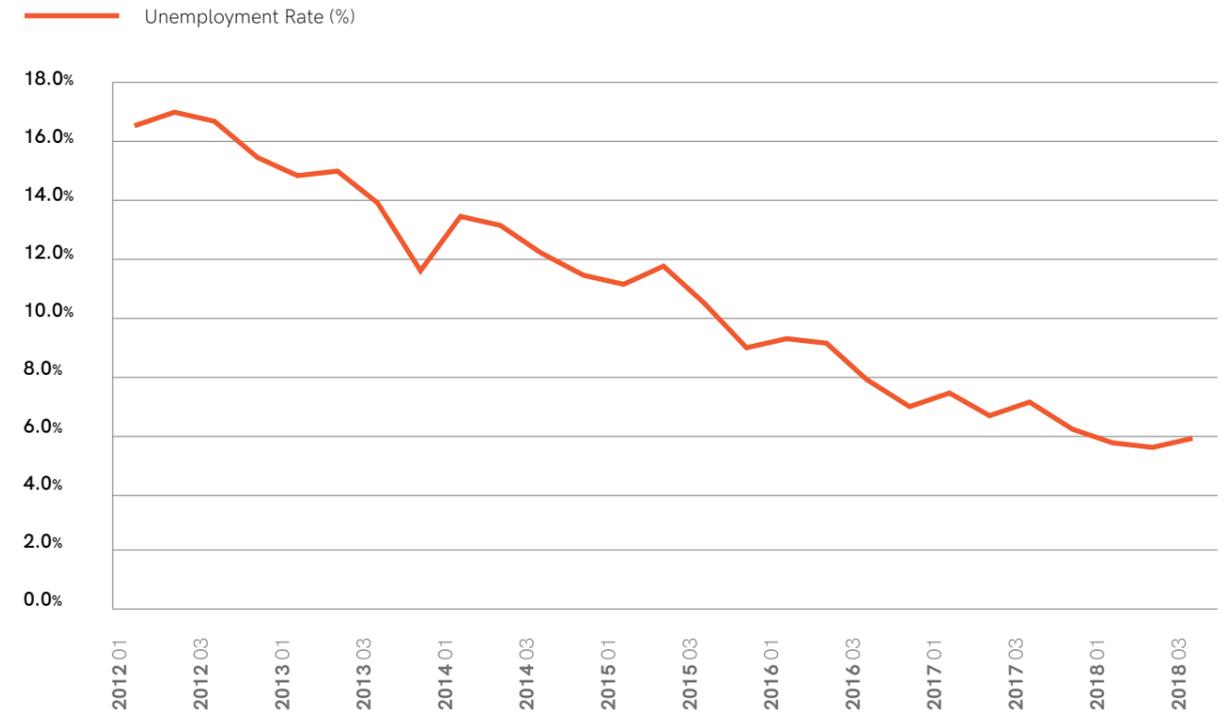
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The unemployment rate has fallen from 16.7% in Q3 2012 to 5.8% in Q3 2018

Chart 4 Unemployment rate – Munster Q1 2012 - Q3 2018

— Unemployment Rate (%)

Source: CSO. South-West and Mid-West regions combined

Chart 3 Employment & Unemployment – Munster Q3 2012 - Q3 2018

■ Employed (000)   □ Unemployed (000)

Source: CSO

RENTAL LEVEL AND TREND

Chart 5 Munster Monthly Average Rent 2012 – 2018 – Selected locations

- 2012
- 2017

| Location	2012	2017
Ennis, Clare		645.55
Cork City		1,080.38
Killarney, Kerry		753.78
Limerick		771.7
Clonmel, Tipperary		721.47
Waterford City		718.7

Source: RTB/CSO

HOUSE STARTS – LEVEL AND TREND

The level of housing starts has grown significantly in the past three years, albeit from a very low base.

The 'Housing Starts' data is published by the Department of Housing, Planning and Local Government. It is drawn from the Building Control Management System (BCMS).

Chart - 6 House Starts Munster (All counties)

- Housing Starts

Year	Housing Starts
2015	1556
2016	2714
2017	3016
2018*	3538
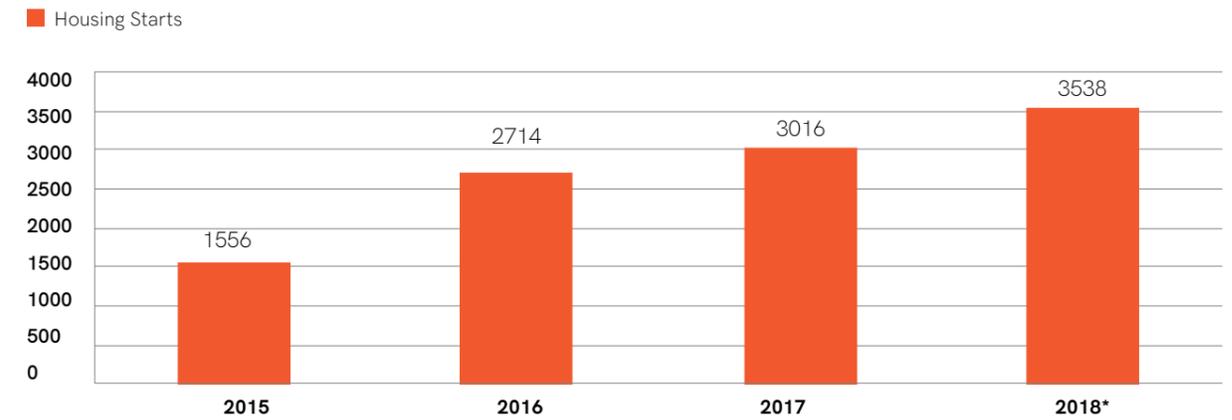
Source: Department of Housing, Planning and Local Government

Our Market
Survey
Results

ACTIVITY LEVEL IN MARKET

Over 60% of respondents reported increased levels of activity in 2018, with just 15% reporting a fall in activity. On a national basis, last year 71% of agents reported an increase in business activity, which suggests that activity is still increasing but a lower percentage of agents are experiencing this trend.

Chart 7 - Level of activity in 2018 reported by SCSI agents, Dublin

■ Increased
■ Remained the same
■ Decreased
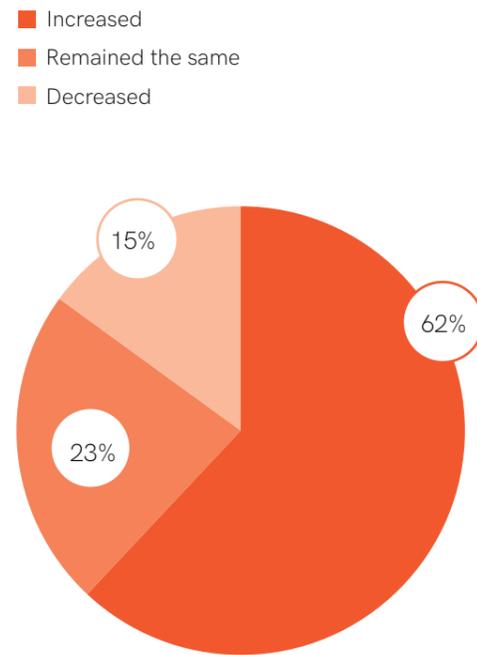
VENDOR PRICE EXPECTATIONS

Almost 90% of respondents indicated that vendor price expectations had increased in 2018 with the remainder indicating that they had stayed the same. No respondent 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 in moderating.

This is consistent with our national expectation figures from our report in 2018 where 92% of agents reported that vendor price expectations increased.

Chart 8 – Vendor Price Expectations in 2018, Munster
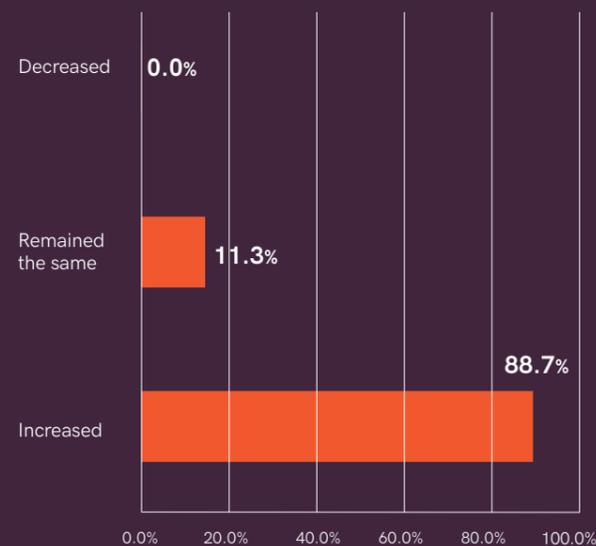
PRICE EXPECTATIONS 2019

94% of SCSI agents expect prices to rise in 2019, with only 2% expecting prices to fall.

The maximum expected price change by any respondent is 10%, while the largest expected price fall by any respondent is 5%.

Chart 10 shows the average price change expected by both those expecting an increase and those expecting a decrease. The overall average expected price change is 5%.

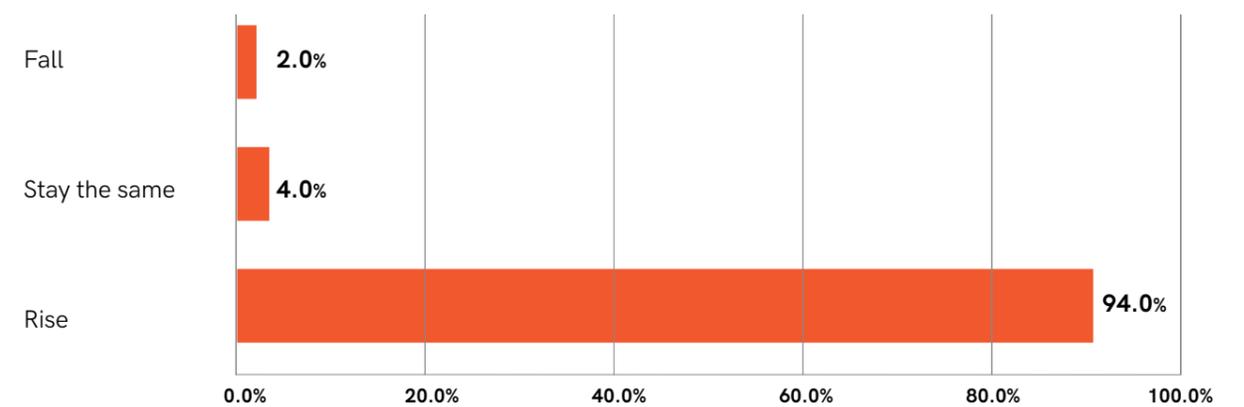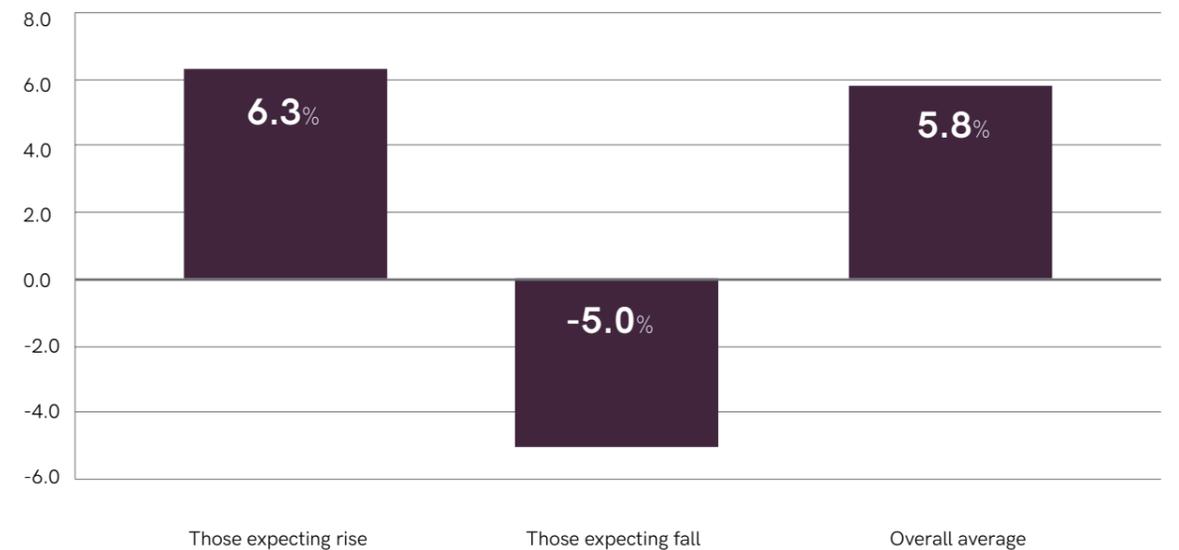**Chart 9 - Price expectation 2019 - Percent of respondents expecting**

Chart 10a – Average expected change in prices 2019

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 4.4% for 4/5-bed detached houses to 6.4% for 1-bed apartments.

Chart 10– Average Expected Price change 2019: 2nd-hand units

■ Average expected price change 2019: 2nd hand units
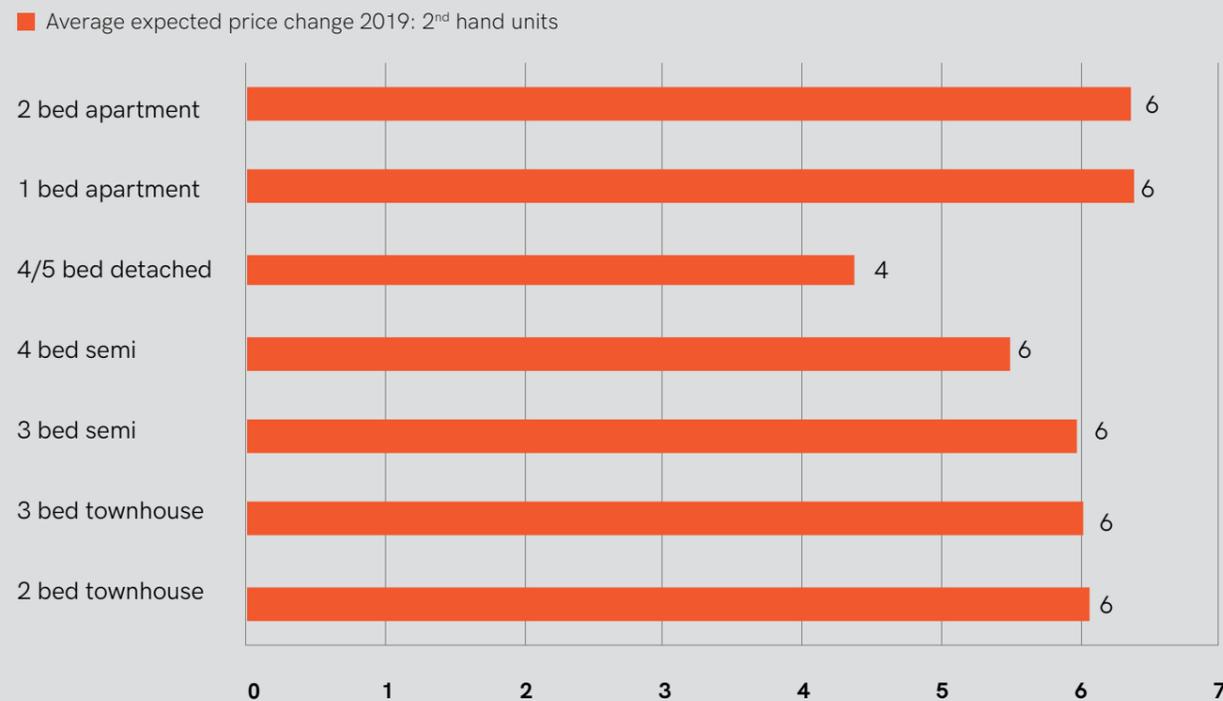
EXPECTED RELATIONSHIP BETWEEN SUPPLY AND DEMAND: SECOND-HAND PROPERTIES

The rise in residential prices in recent years has been, in part, attributed to an imbalance of supply and demand. Respondents to the survey expect this to continue in most segments of the market as shown in chart 11.

An exception is in 4/5-bed detached houses, where the highest percentage of respondents expect demand and supply to reach equilibrium.

Chart 11 – Expected relationship between supply and demand 2019: 2nd hand units.
Percentage of respondents expecting that supply will be:

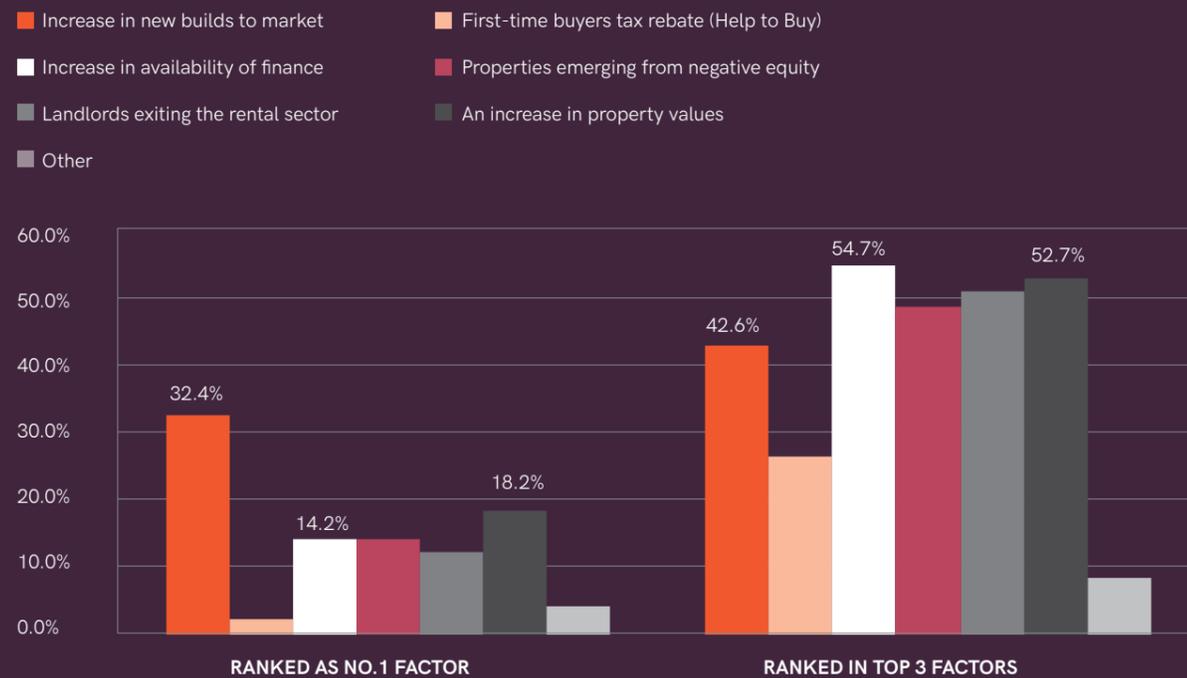■ Greater than demand   ■ Equal to demand   ■ Less than demand
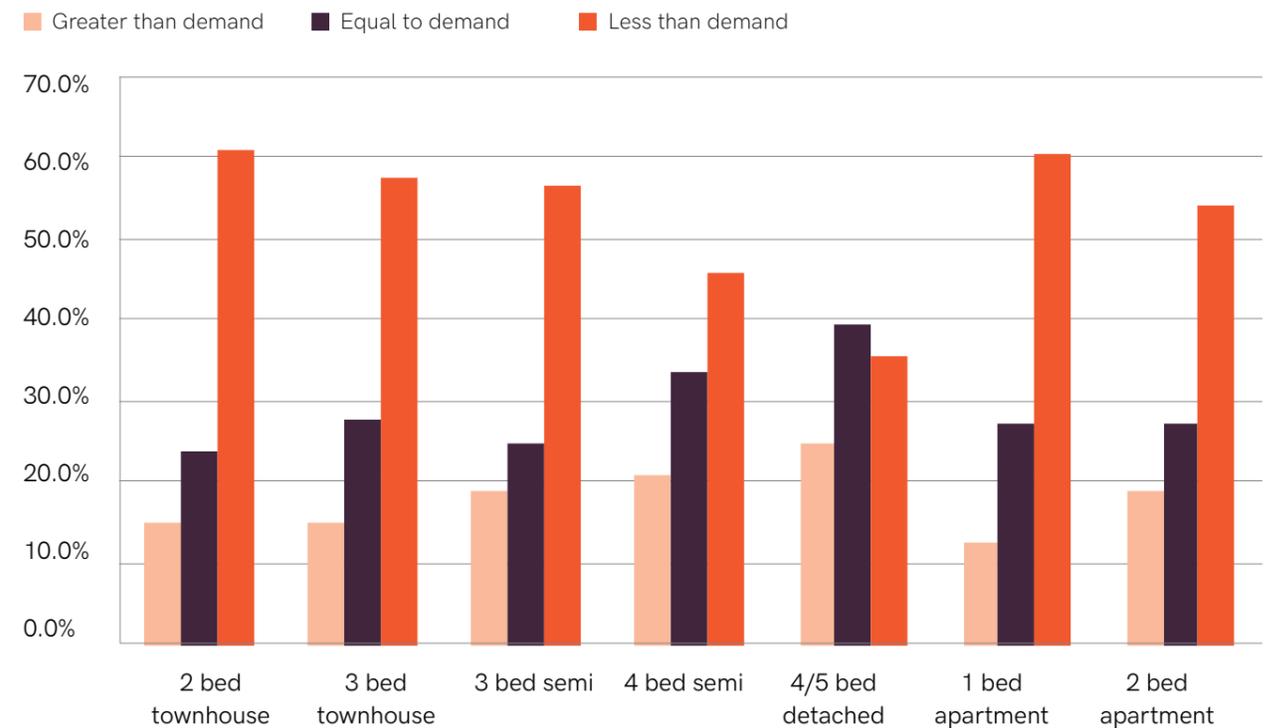
RANKING OF FACTORS LIKELY TO INFLUENCE SUPPLY OF 2ND-HAND UNITS IN 2019

The three most important factors likely to impact on the supply of 2nd-hand residential units in 2019 was, according to SCSI agents, an Increase in the availability of finance, which was ranked number 1 by 14% but ranked in the top 3 by 55% of agents, an increase in property values, ranked in the top three by 53% of agents and an Increase in new-builds to market, ranked in the top three by 43% of agents.

The issue of landlords leaving the market, while important did not feature as strongly as elsewhere.

Chart 12 – Percentage of respondents ranking of factors likely to influence supply of 2nd-hand units in 2019

- Increase in new builds to market
- Increase in availability of finance
- Landlords exiting the rental sector
- Other
- First-time buyers tax rebate (Help to Buy)
- Properties emerging from negative equity
- An increase in property values

Chart values — RANKED AS NO.1 FACTOR: 32.4%, 14.2%, 18.2%; RANKED IN TOP 3 FACTORS: 42.6%, 54.7%, 52.7%

TIME TAKEN TO SELL PROPERTIES

The average time taken to sell a property from receipt of instructions to closure of sale is five and a half months. This is consistent with the Dublin region.
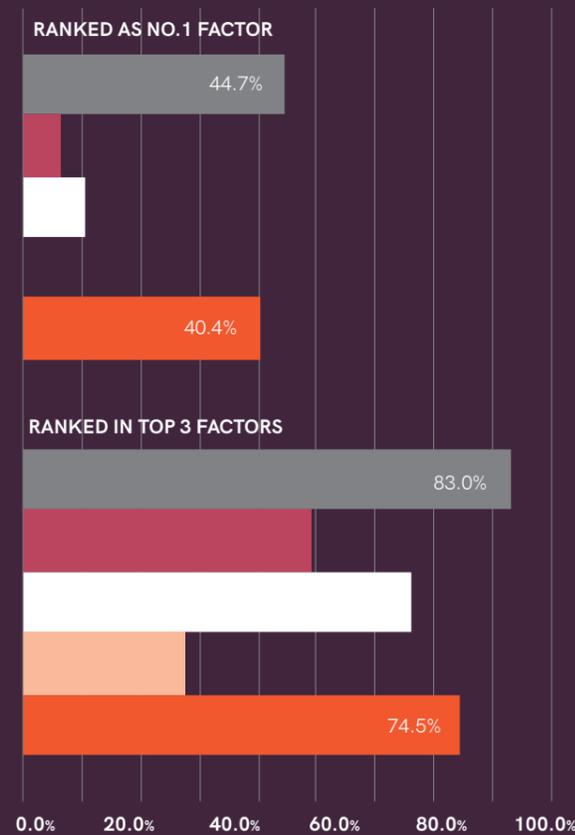
REASONS WHY PROPERTIES MAY NOT SELL

The single most important reason for failure of properties to sell is Concern following building survey, ranked first by 45% of respondents and in the top 3 by 83%. Vendor's price expectations are not met, was ranked first by 40% of respondents and in the top 3 by 75% of respondents. Mortgage issues was ranked in the top 3 by 66% of respondents.

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 5.7% for 4/5-bed detached houses to 7.1% for 1-bed and 2-bed apartments.

Chart 14 – Average Expected Price Change 2019 - New units

Segment	Value
2 bed apartment	7
1 bed apartment	7
4/5 bed detached	6
4 bed semi	6
3 bed semi	7
3 bed townhouse	7
2 bed townhouse	6

0.0   1.0   2.0   3.0   4.0   5.0   6.0   7.0   8.0

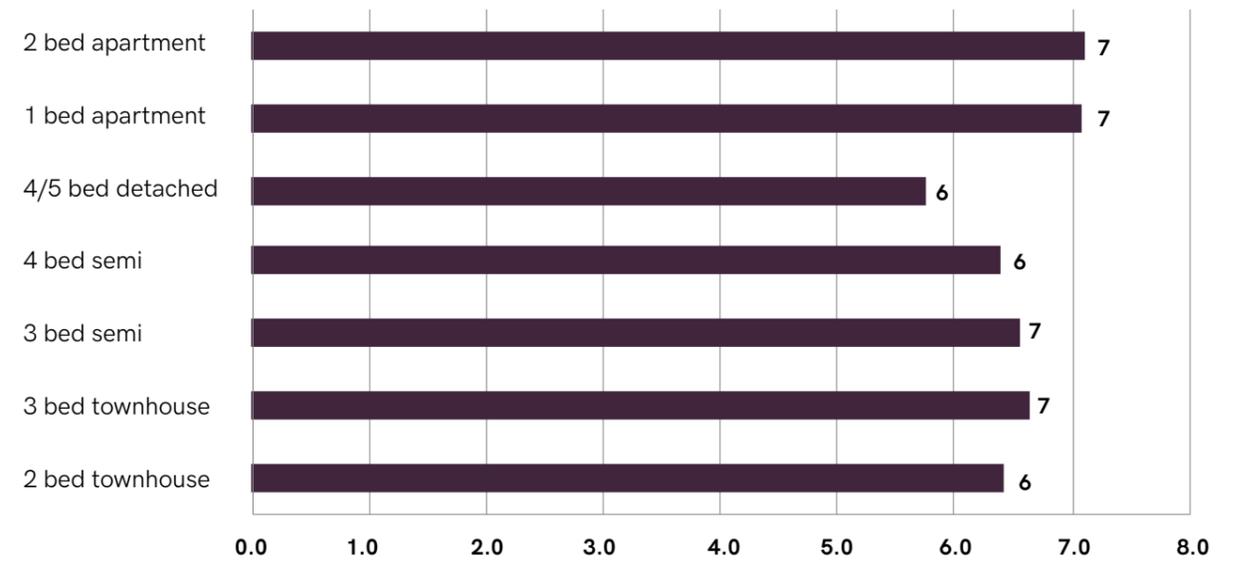**Chart 13 - Reasons why property may not sell**

- 🟧 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

RANKED AS NO.1 FACTOR

- 44.7%
- 40.4%

RANKED IN TOP 3 FACTORS

- 83.0%
- 74.5%

0.0%   20.0%   40.0%   60.0%   80.0%   100.0%

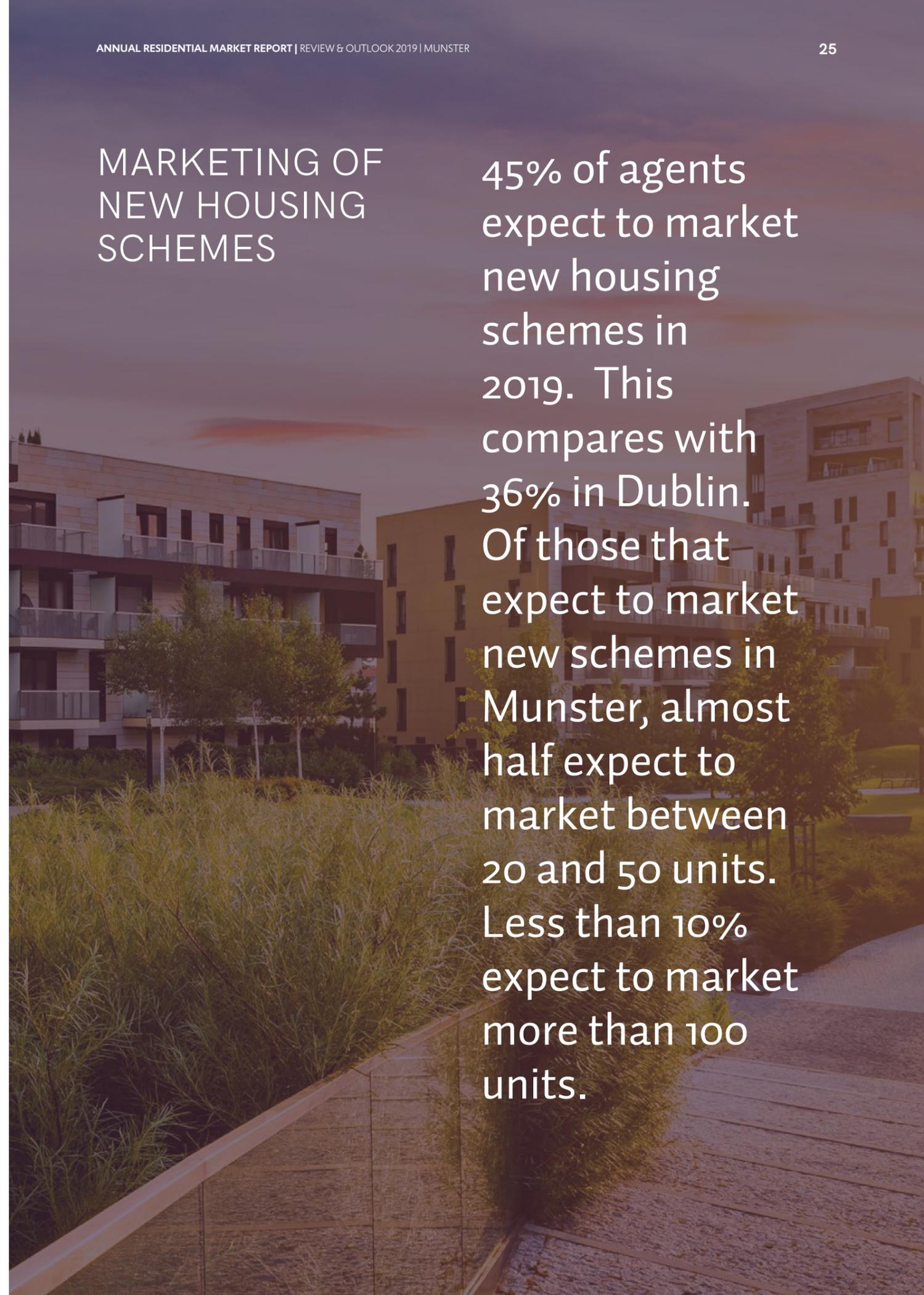# NEW PROPERTIES: EXPECTED RELATIONSHIP BETWEEN SUPPLY AND DEMAND

In all segments of the market, respondents expect demand to exceed supply. The percentage of respondents expecting demand to be greater than supply ranges from 46% for 4/5-bed semi-detached houses to over 70% for 2-bed townhouses.

Chart 15 - 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
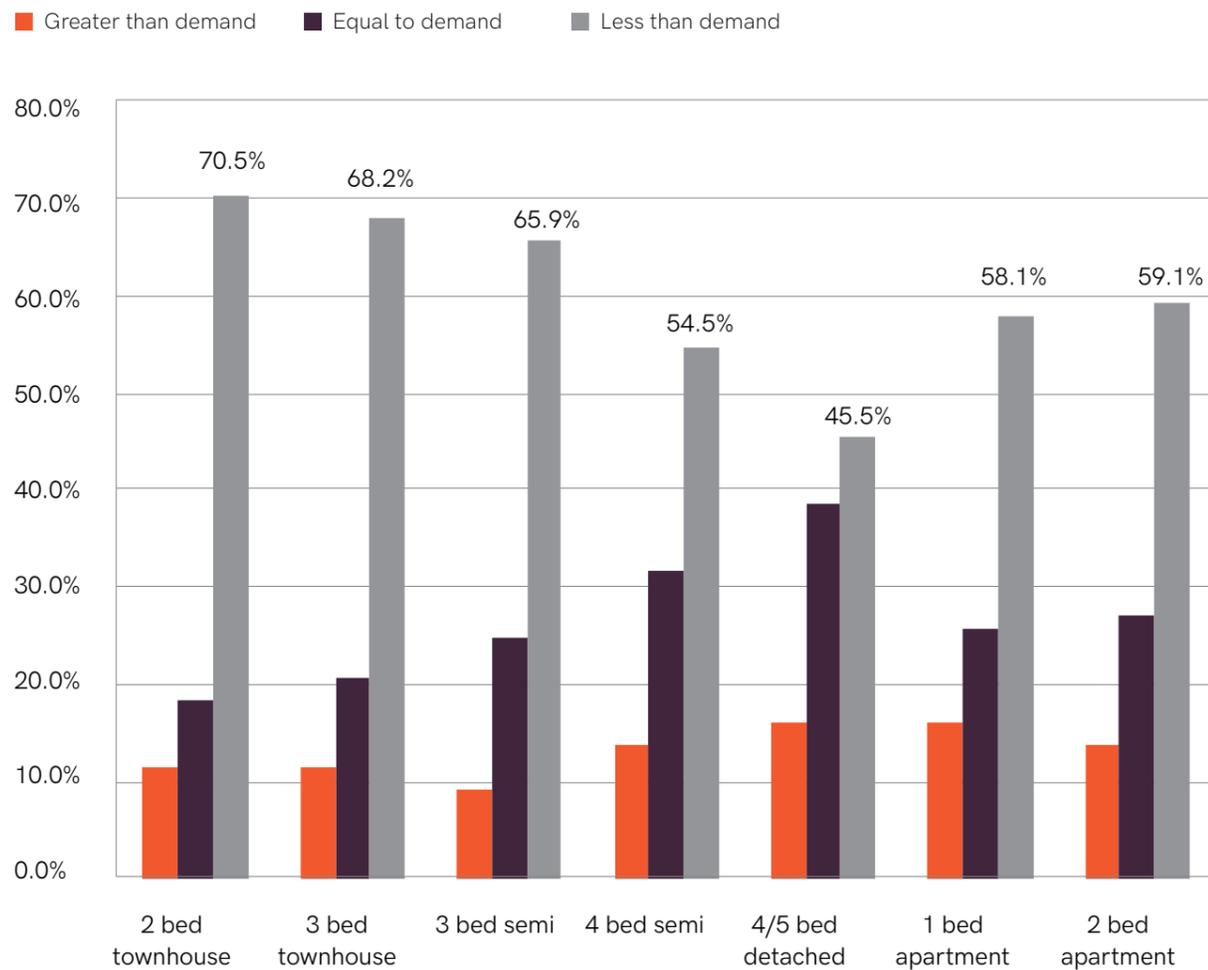
MARKETING OF NEW HOUSING SCHEMES

45% of agents expect to market new housing schemes in 2019. This compares with 36% in Dublin. Of those that expect to market new schemes in Munster, almost half expect to market between 20 and 50 units. Less than 10% expect to market more than 100 units.
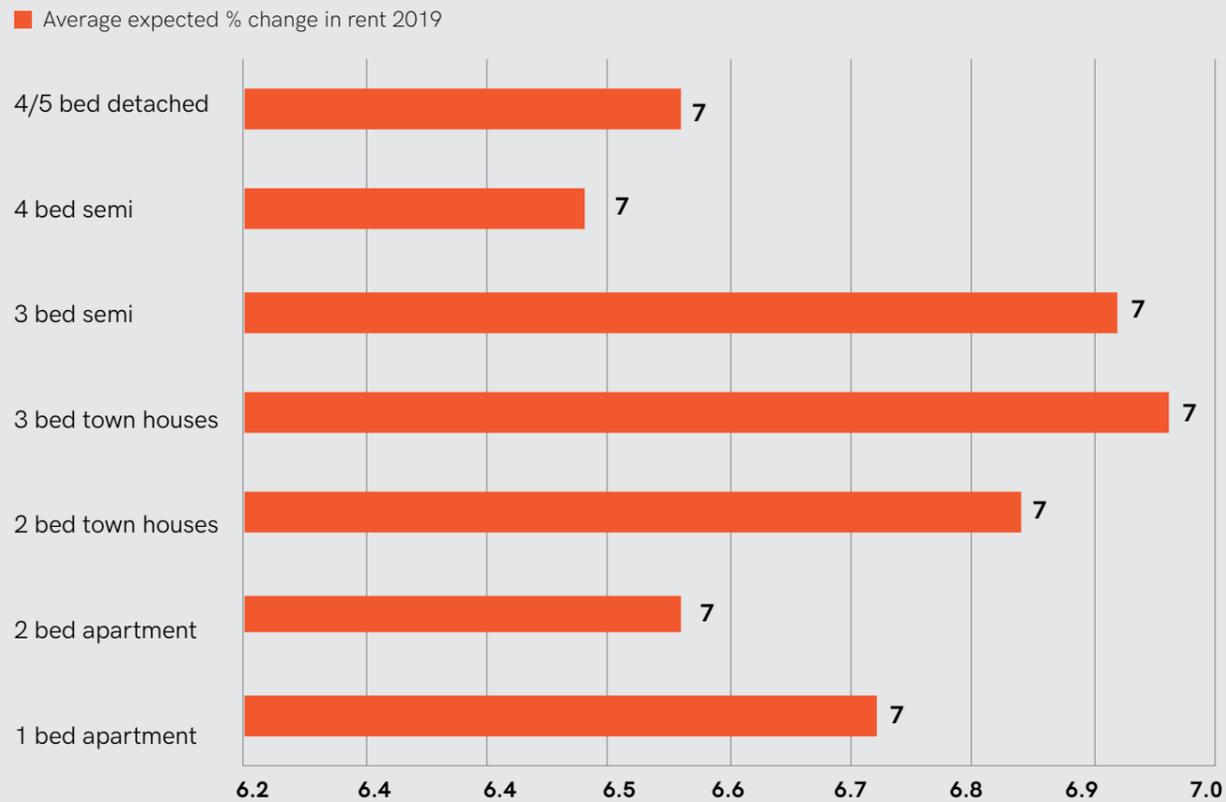
RESIDENTIAL RENTS

Rents are expected to rise by an average of close to 7% across all segments of the market, ranging from 6.5% for 4-bed semi-detached to 7% for 3-bed town houses.
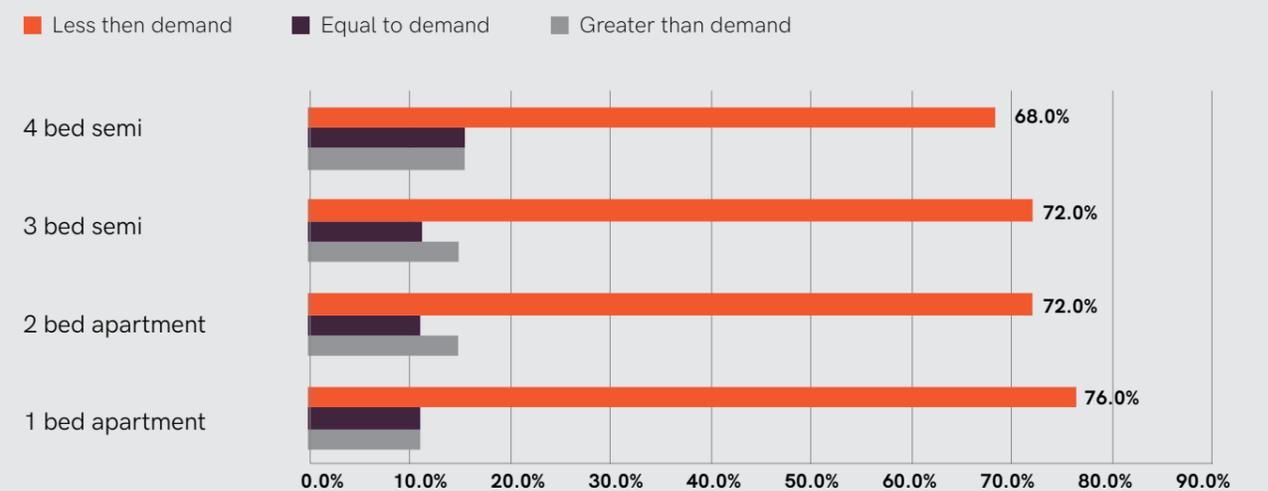
Chart 16 - Average Expected % Change in Rent 2019

■ Average expected % change in rent 2019

Segment	Value
4/5 bed detached	7
4 bed semi	7
3 bed semi	7
3 bed town houses	7
2 bed town houses	7
2 bed apartment	7
1 bed apartment	7

(X-axis: 6.2, 6.4, 6.4, 6.5, 6.6, 6.7, 6.8, 6.9, 7.0)

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

In three of the four identified sectors, over 70% of agents expect demand to exceed supply. For 4-bed semi-detached houses, over two-thirds of respondents expect excess demand.

Chart 17 - Expected relationship between supply and demand 2019: Rental Properties.
Percentage of respondents expecting that supply will be:

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

Segment	Less then demand
4 bed semi	68.0%
3 bed semi	72.0%
2 bed apartment	72.0%
1 bed apartment	76.0%

(X-axis: 0.0%, 10.0%, 20.0%, 30.0%, 40.0%, 50.0%, 60.0%, 70.0%, 80.0%, 90.0%)

ACTIVITY INDICATORS IN THE RENTAL SECTOR

Over three-quarters of agents reported 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.

Forty percent 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 an important factor affecting the supply of 2nd-hand units, although not the most important.

Chart 18 – Activity Indicators: Change over past 12 months
Percentage of respondents reporting that activity will be:

- Up
- Same
- Down

	Up	Same	Down
TENANT DEMAND	76%	20%	4%
LANDLORD INSTRUCTIONS	16%	44%	40%
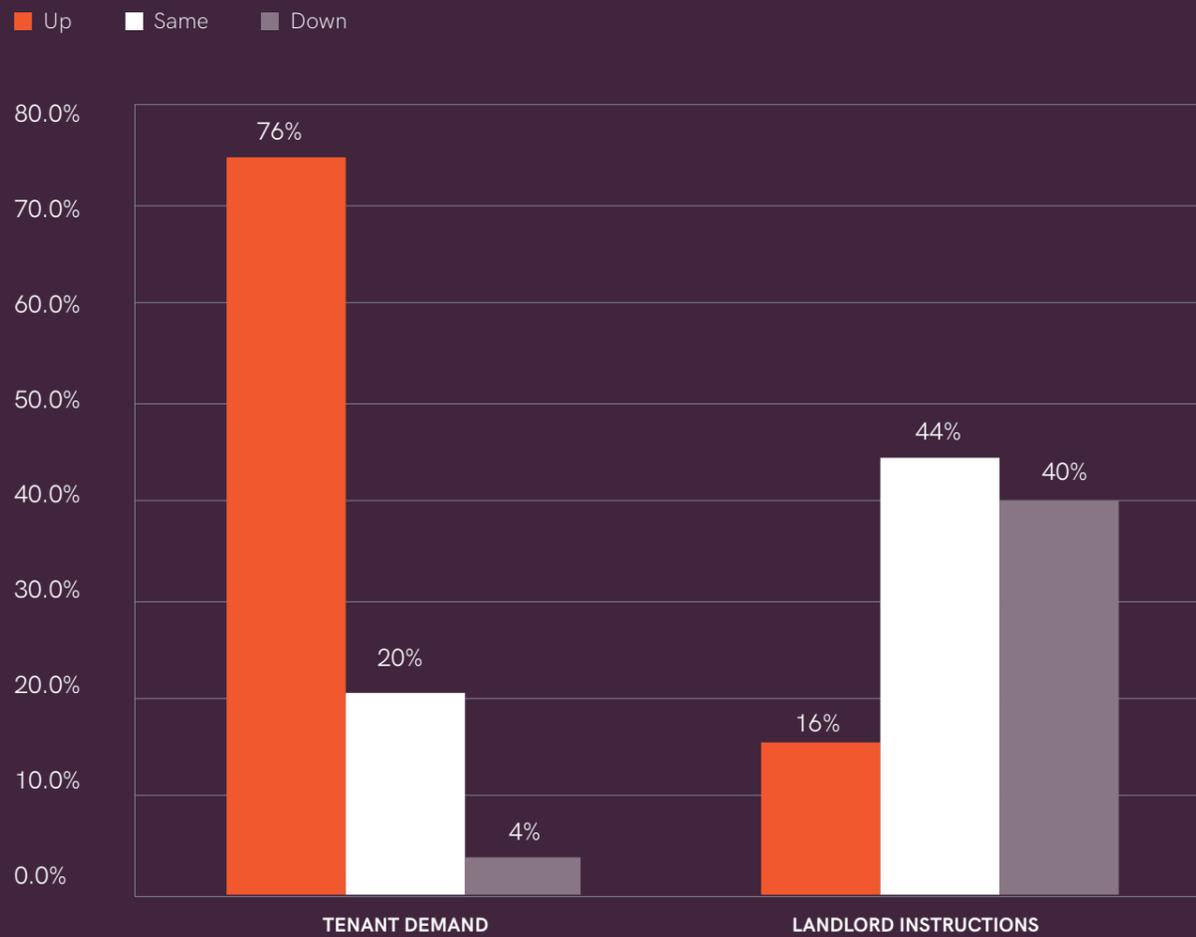
Impact of
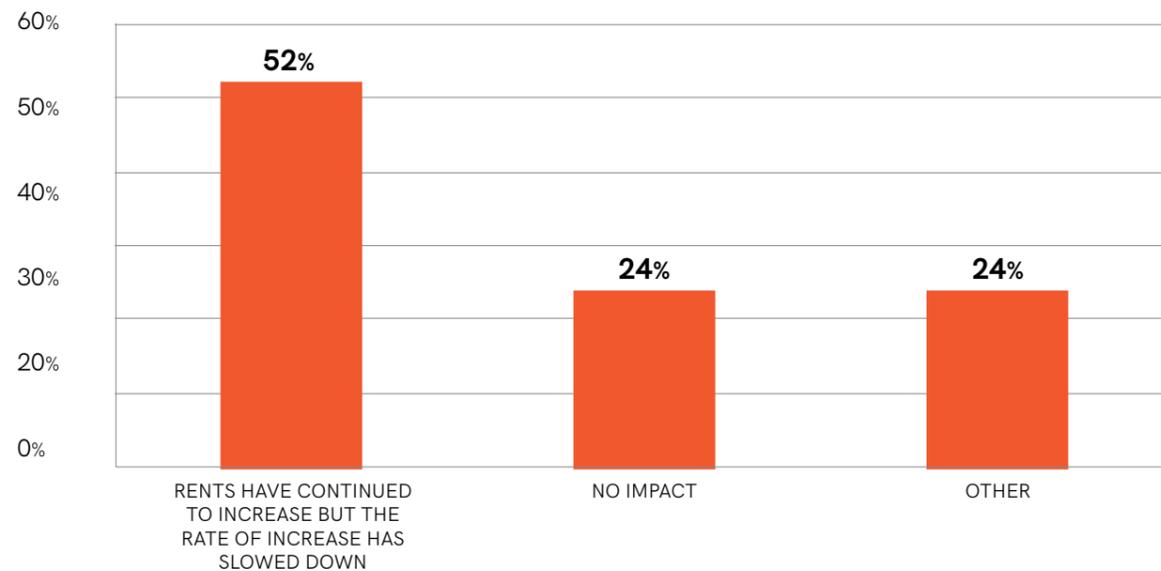Government
intervention
in the market

IMPACT OF GOVERNMENT INTERVENTION IN THE MARKET

The Government introduced Rent Pressure Zones (RPZs) and maximum percentage increases in rent in December 2016. The dominant view (52% 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.

A number of agents offered 'other' possible impacts. Two issues raised 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 the Government measures had added rigidity to the market and left tenant less willing to move to more suitable accommodation (e.g. as a family grows) to avoid rent increases

Chart 19 - Impact of Government intervention in the market:
Percentage of respondents indicating:

Chart showing three bars:
- RENTS HAVE CONTINUED TO INCREASE BUT THE RATE OF INCREASE HAS SLOWED DOWN: 52%
- NO IMPACT: 24%
- OTHER: 24%

Key issues
impacting
the Market

KEY ISSUES IMPACTING THE MARKET

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

The most commonly suggested factor was Brexit and the uncertainty surrounding this.

FACTORS IMPACTING ON BUSINESS IN 2018
Brexit => leading to uncertainty
Availability of finance for house purchasers
Vendors' price expecataions

Figure 1 - Factors impacting business 2018