IRISH RESIDENTIAL

MARKET REVIEW 2018, OUTLOOK 2019

Sherry FitzGerald

OVERVIEW

Stemming from a notable slowdown in the second part of the year, house price growth moderated significantly in 2018. Stricter mortgage conditions and to a lesser extent increased supply of new homes led to a reduction in the rate of price growth.

Average home values in the second-hand market rose 3.7% nationally during 2018, a notable decrease on the 8.4% recorded in 2017. This slowdown was more pronounced in Dublin with prices growing 3.2% last year, in comparison to 8.8% in 2017.

3.7%

ACCORDING TO THE SHERRY FITZGERALD BAROMETER, THE VALUES OF ESTABLISHED HOMES NATIONALLY ROSE 3.7% DURING 2018.

37,200

APPROXIMATELY 37,200 TRANSACTIONS OCCURRED NATIONALLY IN FIRST NINE MONTHS OF 2018, EXCLUDING MULTI-FAMILY/BLOCK SALES.

Sales volumes improved in the year, but this was entirely on the back of rising new home sales, as second-hand home sales nationally stabilised, and even receded slightly in places. Overall, 37,200 homes transacted nationally in the first nine months of 2018, with 12,200 of those occurring in Dublin, equating to growth of 4% and 5% respectively.

The Central Bank's revision to the macroprudential rules in late 2017 had a constraining effect on the mortgage market in the year. After a number of years of rapid expansion, the rate of mortgage activity expansion cooled in 2018, most evidently in mortgage approval rates. Despite a slowdown in house price growth, rents continued to rise steeply across the country, but most distinctly in Dublin.

Increased employment in construction, in conjunction with the Help to Buy scheme helped facilitate increased new homes output in the year, however both output and construction employment levels remain below requirements. Preliminary estimates suggest that in excess of 18,000 new homes were built in 2018. Although this represents a 25% increase year-on-year, it is less than half the estimated number of new homes that were needed for the year. Therefore, while 2018 saw some positive steps taken towards addressing the housing supply deficit, the deficit remains immense.

IRISH RESIDENTIAL MARKET
ECONOMIC OVERVIEW

The Irish economy continues to undergo a period of sustained economic growth. GDP, in seasonally adjusted terms, increased by 0.9% in Q3 2018, however, year-on-year GDP has increased 4.9% compared to Q3 2017.

Construction, as a component of GDP, remains on the rise and was up 16.8% in Q3 2018, in comparison to Q3 2017. Other strongly performing sectors include Information and Communication (+19.5%) and Financial and Insurance Activities (+5.5%).

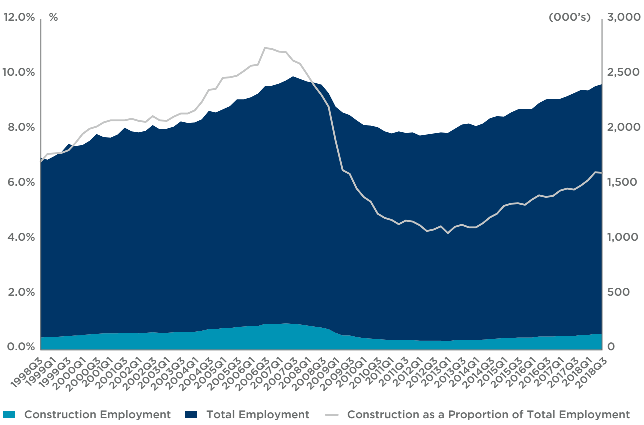
Personal consumption has increased 2.3% since Q1, however there has been a 3.2% decline in modified domestic demand over the same period. Modified domestic demand, an indicator of domestic economic activity designed to limit the distortionary effect that the activities of foreign national companies have on conventional economic measures, declined for two successive quarters for the first time since Q4 2011. Overall, however, the economy remains in good health.

The labour market continues to consolidate also. Employment increased 3.0% annually to Q3 2018, which equates to 66,700 new workers. On the back of this, employment levels grew to further record levels, and now there are over 2.27 million in employment nationally.

Within the labour force, the construction sector has seen the most rapid increase in employment over the past year. In seasonally adjusted terms, employment in the sector increased to 146,500 by the end of Q3 2018, a 14% increase in annual terms. As such the sector accounted for 6.4% of total employment. However, this remains low in historical terms, and remains lower than 1998 levels.

Despite seeing an improvement at the beginning at the year, the second half of 2018 saw a noticeable reduction in consumer sentiment levels. Compared to December

Construction Employment, Q3 1998 – Q3 2018*



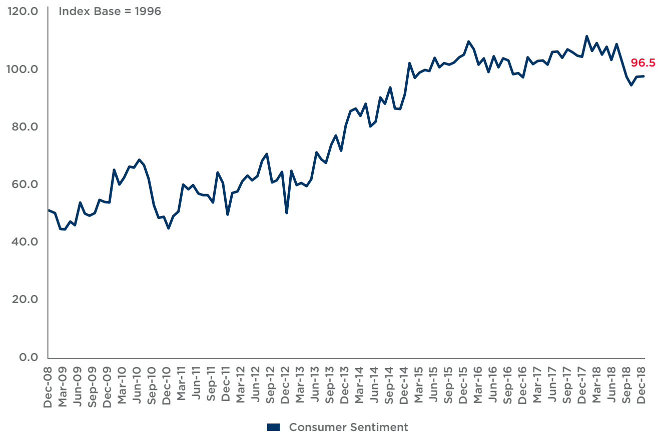
*Seasonally Adjusted
Source: CSO

2017, consumer sentiment dropped from 103.2 to 96.5 according to the ERSI/KBC Consumer Index. In the year, the index noted a deterioration in consumer's expectations, their financial situation and, in particular, in their general economic outlook. Greater concerns surrounding Brexit and its potential impact have been cited as primary factor in these declines. However, consumers remained more optimistic about their future financial situation in December 2018, then they were in December 2017.

Despite the current upward trajectory of the Irish economy, this could easily be derailed if the United Kingdom stumbles out of the European Union without an intermediary deal. The ERSI states that the country's projected rate of growth for 2019 could be reduced from 4% to 2.5%, if the UK were to leave under a World Trade Organisation (WTO) style agreement. Furthermore, some reports have stated that a hard Brexit could leave up to 25,000 Irish jobs vulnerable.

In addition to Brexit, domestic issues may also hamper future economic progress. Capacity constraints may begin to take a greater toll on the economy as it nears full capacity. Inflation and competitiveness issues are likely to become more burdensome on Irish firms.

Consumer Sentiment, December 2008 – December 2018



Source: ERSI/KBC Bank

IRISH RESIDENTIAL MARKET

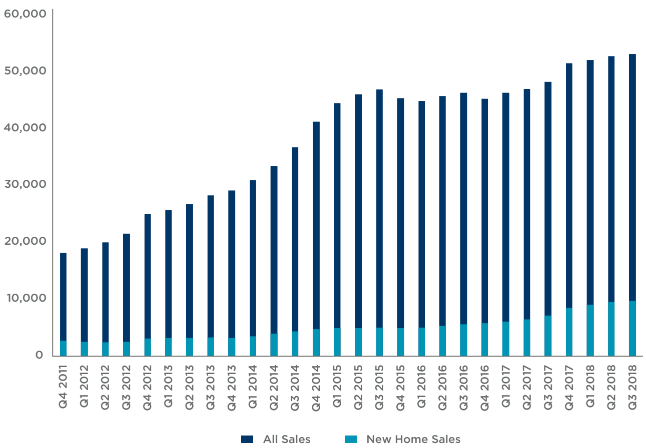
TRANSACTION ACTIVITY

Although the Irish residential market has seen a stabilisation in transaction activity in the second-hand market of late, the volume of new homes sales continues to grow robustly.

The Property Price Register reveals that approximately 39,300 transactions were recorded during the first nine months of 2018 with a total value of approximately €11.6 billion. Due to the time lag in logging data to the Property Price Register, quarter three data is the most accurate data available. If one excludes multi-family/portfolio sales, the figure declines to approximately 37,200, of which 12,200 were in Dublin. On an annual basis, the volume of sales grew by 4% nationally, and 5% in Dublin.

This improvement remains primarily driven by new dwelling sales, aided by "the Help to Buy" scheme. Nationally, approximately 6,700 new home transactions occurred, with 3,000 of these occurring in Dublin. This represented an increase of 23% and 33% respectively.

Transaction Activity – PPR* Annual Series, Q4 2011 – Q3 2018



Source: PPR/Sherry FitzGerald Research
*Excludes multi-family/block sales

Although new home sales continue to be centralised in Dublin and the Greater Dublin Area, Cork and Limerick have seen a notable increase. Over 600 new homes sold in Cork in the first nine months of the year, a 20% increase year-on-year, while Limerick saw a rise of 18% over the same period. In the nine months to the end of September 2018, 18% of all sales nationally comprised of new home sales. This compared to 15% in the equivalent period in 2017.

While activity in the new homes market continues to gather pace, activity in the second-hand market appears to have stabilised. Comparing the opening nine months of 2018 against the same period in 2017, there was only an estimated 300 or so extra properties sold in the second-hand market, a 1% increase year-on-year.

This cooling in the established market is notably evident in Dublin and surrounding counties. Dublin saw a 1% decline in sales year-on-year, as did Meath and Louth. Second hand sales dropped 11% in Wicklow, while Kildare saw modest growth of 1%. In Cork sales remained flat, however Galway and Limerick saw an increase in second-hand sales activity, 5% and 6% respectively.

IRISH RESIDENTIAL MARKET

MORTGAGE ACTIVITY

While mortgage activity continued to grow in the year, there was a definite moderation in the rate of growth in 2018, particularly in mortgage approval levels.

Excluding top-ups and re-mortgages, a total of 32,123 mortgages, with an approximate value of €7.2 billion, were drawn down in 2018. This represented a year-on year increase of 9.3% and 13.5% in terms of volume and value respectively. In comparison, 2017 witnessed a 18.1% year-on-year increase in the volume and a 28.7% year-on-year increase in the value of loans drawn down.

The slowdown in activity is much more evident in mortgage approval figures. In 2018, a total of 36,655 mortgages, excluding top-ups and re-mortgages, were approved nationwide, a 0.6% fall on 2017. Similarly, the volume of First Time Buyers (FTB's) approvals declined 0.8%. The value of mortgages approved rose 2.9% year-on-year, reflecting increases in house prices in the year.

Although by and large growth in mortgage activity slowed in 2018, there was a vast upsurge in re-mortgaging in the year. A total of 5,377 re-mortgages were drawn down last year, a 75% increase on 2017. Similarly, 5,951 re-mortgages were approved, representing a 65% year-on-year increase.

Comparing the Property Price Register data to mortgage drawdown data from the Banking and Payments Federation Ireland during the opening nine months of 2018, indicates that 40% of single property transactions did not have a mortgage attached to the transaction, signifying that these properties were likely to have been cash sales. The comparable figure for the opening nine months of 2017 was 42%.

-0.6%

Excluding top ups and re-mortgages, there was a 0.6% fall in the number of mortgages approved in 2018 compared to 2017.

IRISH RESIDENTIAL MARKET
PURCHASER/VENDOR PROFILES

Among all closed transactions carried out through Sherry FitzGerald in 2018, owner occupiers were the predominant purchaser type, making up 74% of all purchases in Ireland. FTB's comprised half of all owner occupiers.

Profile of Purchasers, 2018

	Ireland*	Dublin
Owner Occupier	74%	77%
Investment	18%	15%
Additional Residence	7%	7%
Other	1%	1%

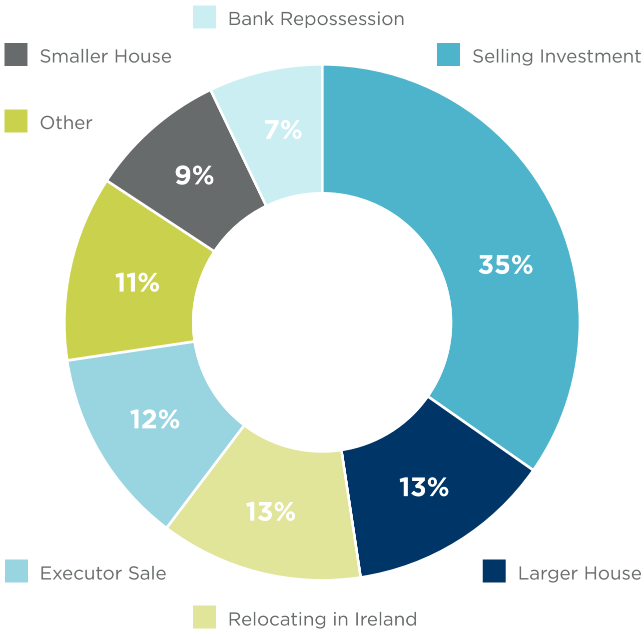
Source: Sherry FitzGerald Research
*Ireland figures include Dublin

Further exacerbating the prolonged crisis in the rental sector, there was a disparity of two to one between investors entering and exiting the residential market in 2018. 35% of all vendors with Sherry FitzGerald were selling investment properties, this is the highest ratio recorded. In comparison, 18% of all purchasers were buying investment properties, a decline for the second successive year. This persistent gap dividing investors entering and exiting the market is a primary factor stoking heightened rental increases.

Percentage of Buyer and Vendors of Investment Properties with Sherry FitzGerald, 2008 - 2018

Source: Sherry FitzGerald Research

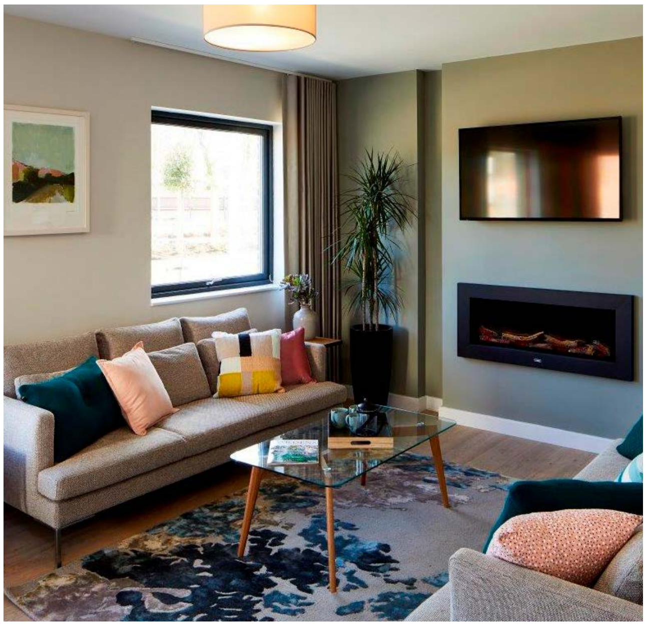
Vendor Analysis, 2018



Source: Sherry FitzGerald Research

35%

In 2018, 35% of all vendors with Sherry FitzGerald were selling investment properties.



IRISH RESIDENTIAL MARKET

RESIDENTIAL PROPERTY PRICE PERFORMANCE

After a period of heightened growth, there has been a notable slowdown in house price growth in the second half of 2018. Within a two and half-year span, beginning at the start of 2016, second-hand house prices increased by 16.8% nationally.

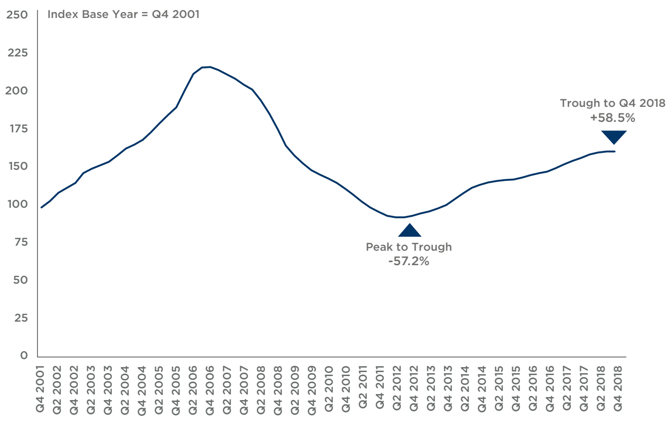
However, this rate of growth has dropped off significantly since Q3 2018. In fact, according to the Sherry FitzGerald Barometer, prices remained static between Q3 and Q4. Overall, the average value of Irish established homes rose by 3.7% during 2018. This compares to growth of 8.4% recorded in 2017.

Price growth in Dublin was lower than the national average. Prices in the second-hand market fell 0.4% in the final quarter of the year, the first quarterly price decline in Dublin since Q3 2015. During the year, average values in Dublin rose by 3.2%, notably lower than the 8.8% recorded in 2017.

The drop off in price growth appears to be strongest at the top-end of the market in Dublin. The price category of €800,000+ saw prices grow by 2.1% in 2018, noticeably below the rate of 5.4% noted in the sub €400,000 category.

When Dublin is excluded from the national figure, prices increased by 4.4% in 2018, compared to growth of 7.9% recorded in 2017. In the regional centres outside of

Sherry FitzGerald All Ireland Barometer of Second-Hand House Prices



Source: Sherry FitzGerald Research

-0.4%

Prices in the second-hand market in Dublin declined 0.4% in Q4 2018.

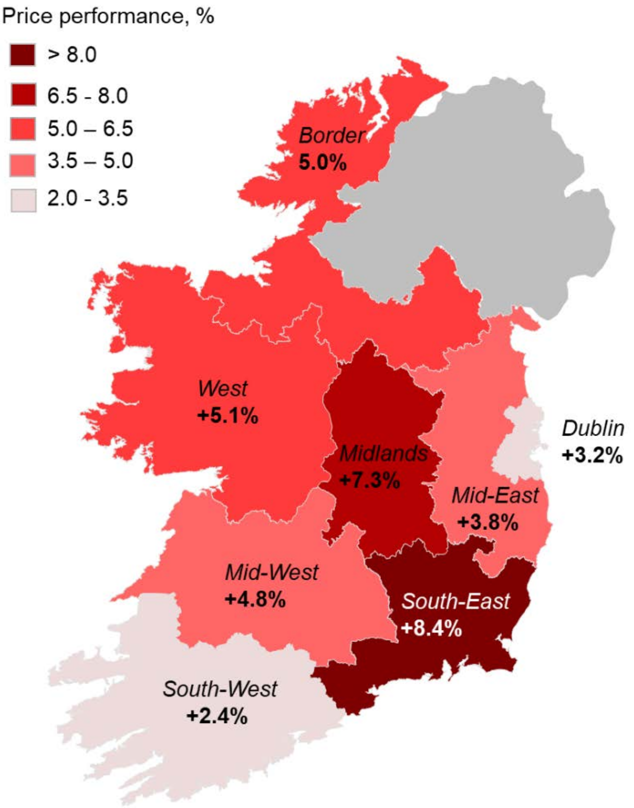
Dublin, Galway recorded the highest increase of 5.2% during the year, while prices in Limerick and Cork increased by 2.2% and 2.1%, respectively.

A review of the residential market during 2018 reveals a moderation in price inflation as the year progressed. A more limited mortgage market due to a tightening of the lending policy introduced towards the end of 2017 and to a lesser extent an improved offering in the new homes market have collectively resulted in the slowdown in the pace of inflation. As such the stabilisation in prices is more likely to be a temporary phenomenon rather than a long-lasting feature of the market.

Examining price growth by NUTS 3 regions, again, the easing in price growth within the second-hand market in the year is evident. In 2017, all NUTS regions witnessed growth of 7% or greater. Whereas only two regions, namely the South-East and the Midlands saw price growth exceed 7.0% over the course of 2018.

The South-East saw prices rise the quickest over the course of 2018, at 8.4%, with the Midlands noting the second fastest, at 7.3%. In turn, these regions were followed by the West, the Border region and the Mid-West where prices advanced by 5.1%, 5.0% and 4.8% respectively. Despite these increases in prices, nationally, prices still remain 32.2% below their 2006 peak, and 33.5% below their peak in Dublin.

Regional Price Performance, Q4 2017 – Q4 2018



Source: Sherry FitzGerald Research

IRISH RESIDENTIAL MARKET

RENTAL MARKET

The rental market remains severely challenged, with rents now 22% above their pre-crisis peak in Dublin and 14% nationally. The latest data from the Residential Tenancies Board (RTB) shows that annually to Q3 2018, rents grew 7.5% nationally and 9.5% in Dublin.

Following on from this sustained period of growth, at the end of the third quarter of 2018, the standardised average monthly rent stood at €1,122 nationally, and €1,620 in Dublin.

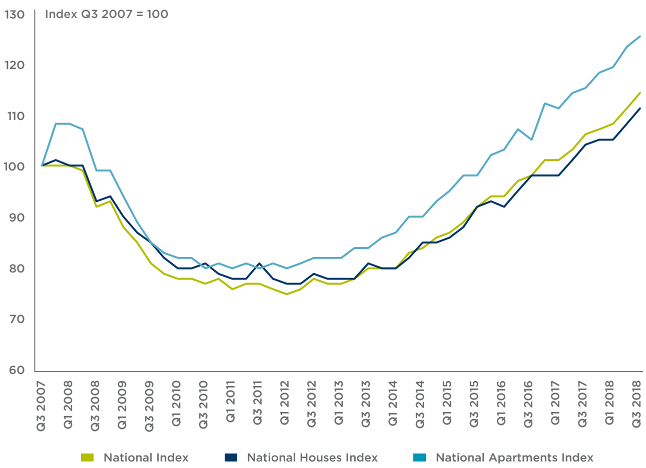
New renters face greater costs of in excess of €250 per month in comparison to existing tenants renewing their lease. The RTB estimates that the standardised average rent for new tenancies in the quarter was €1,208 per month, in comparison to €956 for tenants who had renewed part IV tenancies (i.e. tenants who renewing their lease after 4/6 years).

Despite the urgent need for additional rental supply, there is in actuality a net outflow of investors from the market, further depleting already limited levels of rental stock. Year-on-year, the RTB notes a drop of 2,779 in the number of landlords, a fall of 2,129 in the number of tenancies registered and a drop of 10,723 in the number of occupants registered with the RTB. This exodus of investors from the market corresponds with Sherry FitzGerald's own data.

It is now abundantly clear that private landlords require a more equitable tax treatment particularly given the very favourable tax structure offered to other investment vehicles such as REITs etc. Simply removing PRSI and USC from rental income would have a positive impact on yields.

Steps to address the loss of properties from the rental sector are required immediately. However, they will be only part of the solution. While much has been achieved to date, the market is still too far away from equilibrium. As such, every effort needs to be made to fast track the supply of property to the market in the short to medium term.

Rent Index, Q3 2007 – Q3 2018



Source: RTB

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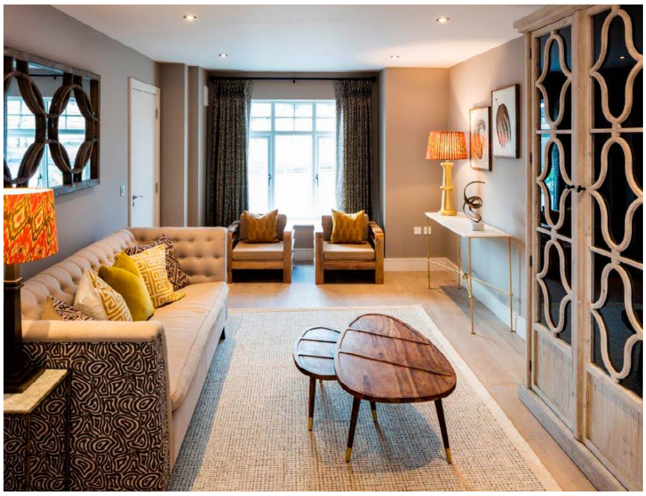
SUPPLY SIDE ANALYSIS

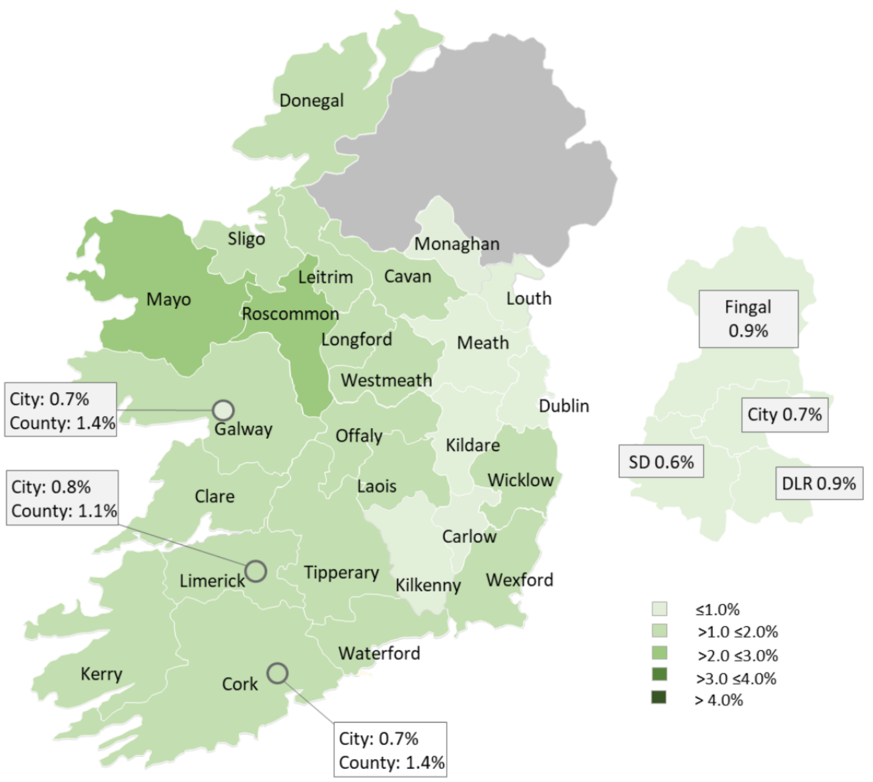
According to a supply analysis taken by Sherry FitzGerald in January 2019, there was approximately 21,200 second-hand properties for sale nationwide.



This was unchanged from twelve months ago, however there was a large upturn in the number of properties for sale in Dublin. Supply rose 25% year-on-year, with approximately 3,900 properties for sale in the capital.

Overall however, supply remains severely constrained. The 21,200 properties for sale only represented 1.1% of the total national private stock. Furthermore, supply levels were below 1% in each of the four Dublin boroughs and in Cork, Galway and Limerick city.

2nd Hand Housing Stock for Sale as a % of the Total Private Housing Stock, January 2019



County	% of Private Second-Hand Stock Advertised for Sale
Monaghan	0.6%
South Dublin	0.6%
Kildare	0.6%
Dublin (City)	0.7%
Dublin (Total)	0.8%
Kilkenny	0.8%
Carlow	0.9%
Fingal	0.9%
Louth	0.9%
Meath	0.9%
Dun Laoghaire-Rathdown	0.9%
Limerick (Total)	1.0%
Sligo	1.1%
Waterford	1.1%
Galway (Total)	1.2%
Clare	1.2%
Westmeath	1.2%
Offaly	1.2%
Cork (Total)	1.2%
Tipperary	1.3%
Laois	1.3%
Wicklow	1.3%
Cavan	1.4%
Longford	1.5%
Wexford	1.5%
Donegal	1.5%
Kerry	1.7%
Leitrim	1.7%
Mayo	2.0%
Roscommon	2.2%
State	**1.1%**

Source: Sherry FitzGerald Research

IRISH RESIDENTIAL MARKET

CONSTRUCTION ACTIVITY

The first three quarters of 2018 saw 12,582 new dwellings completed according to the CSO, signifying a 28% increase on the same period in 2017.

Current estimates suggest that in excess of 18,000 houses will be built this year, which would equate to a 25% increase on 2017. However, this still leaves an estimated supply deficit for the year of more than 20,000 homes.

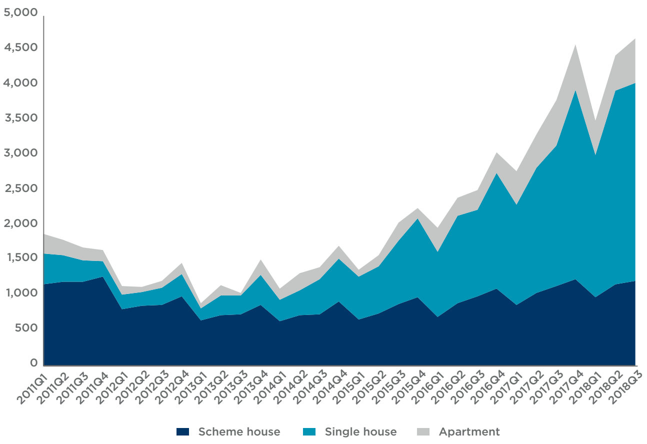
This increase in new homes output has been evident in most of the major regional centres in the country. Just under 4,900 new homes were built in Dublin up to the end of September, a 27% increase year-on-year. Similarly, Cork and Limerick saw jumps of 32% and 47% respectively. Comparatively, growth in construction activity was much more stagnant in Galway, with 473 new homes built in the nine months to September, compared to 472 in the same period in 2017.

This expansion in construction has been driven by a large increase in the number of scheme homes being built.

Over 2,000 new schemes homes have been delivered in each of the past five consecutive quarters. The growth in the number of scheme homes delivered has been striking. Scheme houses made up 61% of all completion in the opening nine months of 2018, compared to just 19% in 2011.

Unfortunately, apartment output has remained stubbornly stable, increasing only marginally from 12% of all completions in 2011, to 13% so far in 2018. In comparison between 2005 and 2010, 21% of all ESB connections were for apartments. However, there may be a pick up in this area following the issue of the revised building height guidelines in December.

New Dwelling Completions by Type, Q1 2011 – Q3 2018



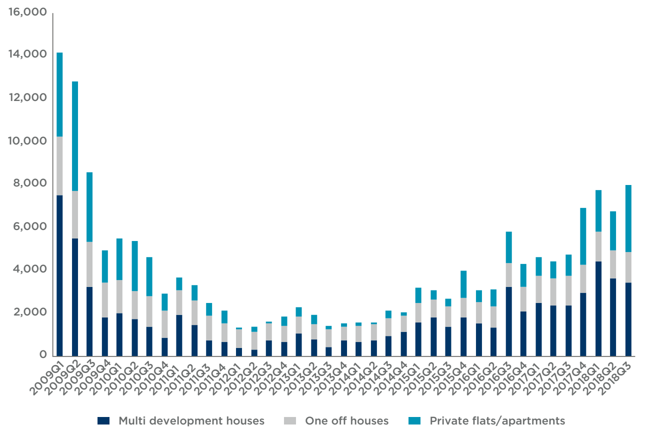
Source: CSO

IRISH RESIDENTIAL MARKET
PLANNING PERMISSIONS

Positively, a total of 8,018 residential units received planning permission in the third quarter of 2018, bringing the cumulative total of planning permissions granted for the year to 22,561, according to the CSO. This represents a 63% increase on the equivalent period in 2017.

5,353 units, or 24% of all units granted in the year to date, have been facilitated under the Strategic Housing Development Planning System. Planning permissions granted for multi development houses and for apartments continue to rise steadily. Combined almost 18,500 units have been granted for both dwelling types in the nine months up to September, a greater number than were granted for entirety of 2017 or any year since 2009.

Planning Permissions by Type, Q1 2009 – Q3 2018



Source: CSO

IRISH RESIDENTIAL MARKET
OUTLOOK FOR THE FUTURE

2018 saw a notable moderation in house price growth, particularly in the second part of the year. Tight credit conditions due to the macroprudential rules, in conjunction with an uplift in supply, combined to deflate the rate of price growth.

Looking further forward into this year, transaction activity in the second-hand market is likely to remain on par with 2018. However, activity in the new homes market should continue to grow, aided by the Help-to-Buy scheme, which is currently due to expire at the end of 2019, and increased supply as construction in the residential sector intensifies. Liquidity should remain constrained in 2019, with the Central Bank opting to leave the mortgage measures untouched. This restriction in credit and uplift in supply should have a dampening effect on price growth.

Nevertheless, house price growth over the past number of years has been supported primarily by a deficit in supply and advancing economic fundamentals, rather than excessive lending. Forecasts for 2019 suggest continued improvement in key determinants of house price growth, namely employment and income. Additionally, the supply deficit is likely to remain significant in 2019, despite an upturn in construction. Consequently, the slowdown in prices experienced at the end of 2018, is more likely to be transient rather than long-lasting in nature.

Based on these assumptions, we expect prices to rise by between 3.5% and 5% next year. However, dysfunction in the rental sector should see rents to continue to increase sharply.

It is important to note that these views are grounded in the belief that there will be no significant interruption to trade or to the economy from Brexit. The UK parliament is still gridlocked with the issue, and a no-deal scenario remains a distinct possibility. The creation of largescale barriers to trade or the erection of a hard border would seriously disrupt the Irish economy and in turn the housing market.

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About Sherry FitzGerald Group

Since its foundation in August 1982, the Sherry FitzGerald Group has grown from a small fledgling company in one location to a nationwide, diversified business operating in 97 different locations. Sherry FitzGerald Group currently employs 650 people across a diversified residential and commercial property business and remains an Irish privately owned business committed to continuing to lead the marketplace as it has done over the last 35 years.

For further information please visit **www.sherryfitz.ie**