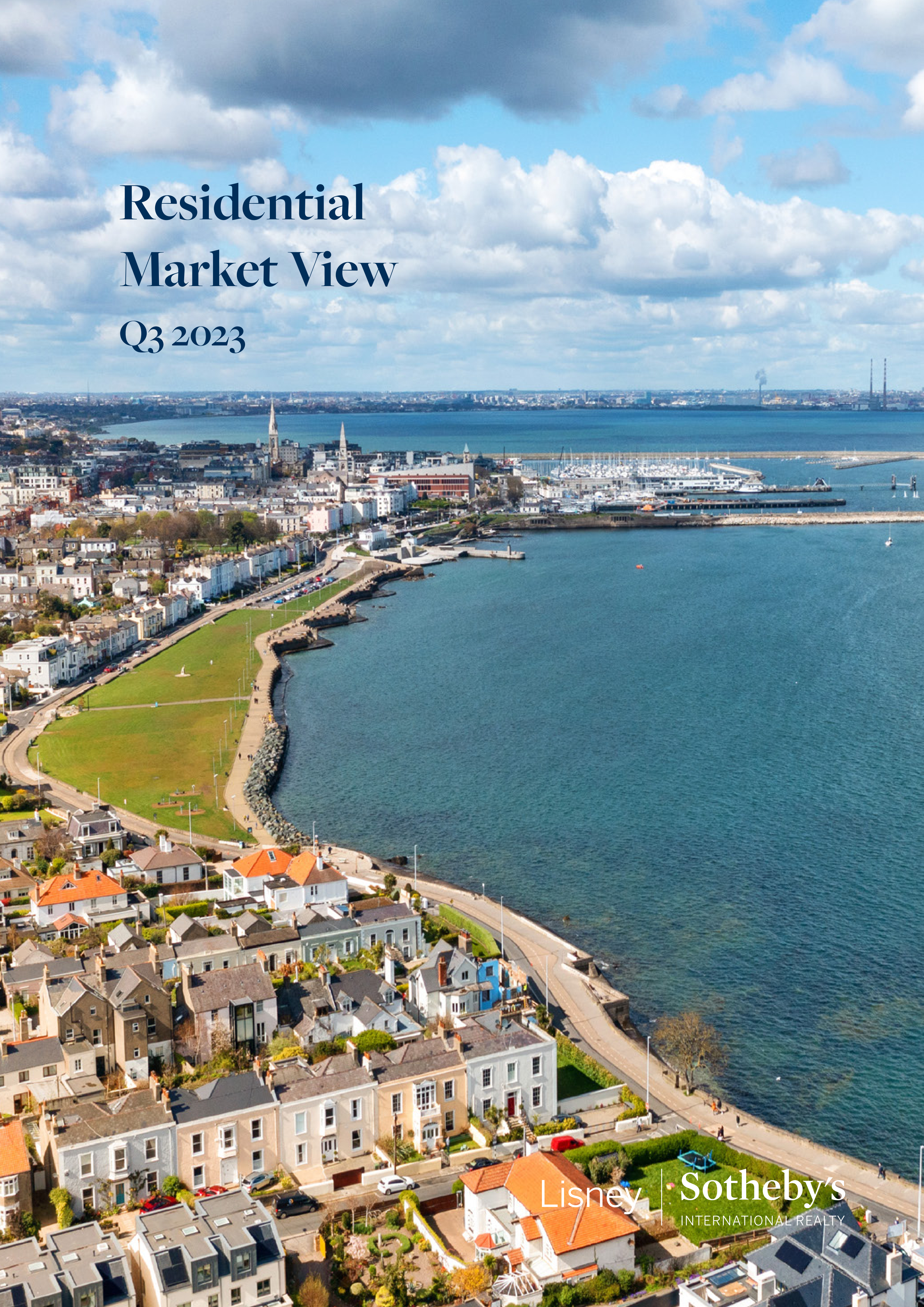
Residential Market View

Q3 2023



Residential Market in Numbers

	Dublin	Cork
House Prices	▼ -1.4% The residential property price index for Dublin houses fell by 1.4%, in the 12 months to the end of July 2023. In the 3 months (May, June & July), the index grew by 0.4%. Source: CSO	▲ +4.5% The residential property price index for houses in the South-West region (Cork & Kerry) grew by 4.5% on an annual basis to the end of July 2023. In the 3 months (May, June & July), the index grew by 0.6%. Source: CSO
Properties Sold	▲ 14,424 Over 14,400 properties were sold across Dublin in the 12 months to end-July 2023 – 1.5% more than in the previous 12 months. Source: CSO	▼ 5,326 Over 5,300 properties were sold across Cork in the 12 months to end-July 2023 - 0.8% fewer than in the previous 12 months. Source: CSO
Supply	▼ 3,300 There were about 3,300 second-hand residential properties for sale in Dublin at the end of September 2023; a similar level to 3 months earlier but 32% fewer than a year previous. Source: MyHome.ie / Daft.ie	▼ 1,650 There were about 1,650 second-hand residential properties for sale in Cork at the end of September 2023; a similar level to 3 months earlier but 14% fewer to a year previous. Source: MyHome.ie / Daft.ie
New Home Construction	▲ 10,418 Over 10,400 new homes completed in Dublin in the 12 months to end-June 2023, an increase of 21% compared to a year previous. 64% were apartments and just 35% houses. Source: CSO	▲ 3,305 Over 3,300 new homes completed in Cork in the 12 months to end-June 2023, an increase of 30% compared to a year previous. Just 11% were apartments with the majority houses. Source: CSO

Mortgages

▼ 51,128

Nationally, mortgage drawdowns reached a 51,128 in the 12 months to June-2023 with a combined value of over €14bn. While this is below the 12-month rolling figures for the past 6 months, it remains ahead of average figures since 2009. FTB accounted for 50% of all mortgages, while top-ups and remortgages at 29% of the total.

Mortgage approvals in the year to August 2023 were over 54,200. While this is a slowdown on the 12-month rolling figure in more recent months, it is similar to early 2022 and ahead of pre-2021. Source: IBPF

* The figures and arrow direction set out in the table above are annualised.

Trends and official statistics relating to the overall residential market do not always correlate with what Lisney Sotheby's International Realty agents experience on a day-to-day basis. Lisney Sotheby's International Realty is most active in the mid to upper price bracket in specific locations, and so our view is not always representative of the entire market. Additionally, trends experienced by agents on-the-ground can take some time, perhaps up to six months, to feed through into official market statistics due to the length of time it takes to conclude a sale. The 'Lisney Sotheby's International Realty View' set out in this report relates to our experience in the parts of the Irish property market we operate in.

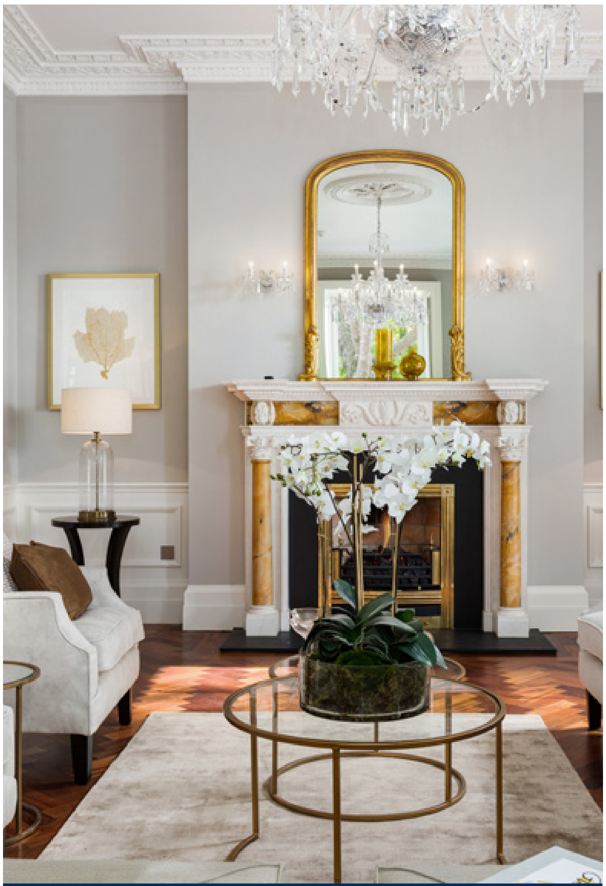
Our View

Dublin

Good start to 2023 but interest rate hikes impacting

The Dublin residential market continues to evolve. Pre-summer 2022, it was very much a sellers' market with built-up pandemic-related savings and low interest rates fuelling exceptionally strong demand. Global geopolitical and macroeconomic factors, primarily due to the war in Ukraine, lead to a less disposable income as the cost of living and interest rates rose. These factors resulted in a less frenzied property market and a balancing of power between buyers and sellers. This continued up until mid-summer 2023 but in the last few weeks of Q3, the market became somewhat flat. Potential purchasers were more cautious as the 10 ECB rate hikes in a year impacted affordability and repayment capacity for a large part of the market (lower to mid-priced homes) where borrowing is most prevalent. At the upper-end, cash purchasers dominate, and it is of less relevance. However, any changes to interest rates and the wider macroeconomic situation affects market sentiment across the board. In spite of this, demand remains strong, and the significant lack of homes for sale means that transactions are continuing and prices are generally stable.

While not all individual experiences fully reflect the broader Irish economic situation, it is encouraging that Irish household savings remain at record highs and grew further in Q3. It is also positive that there is still full employment with most economic sectors struggling to recruit talent. In the property market, house hunters continue to have requirements and viewing numbers remain good if asking prices are realistic. However, a more cautious buyer approach can be seen in the generally slow progression from viewing to making an initial offer. There are some potential buyers adopting a wait-and-see approach; perhaps focused on the macroeconomic situation and/or potentially better value on offer in a few months' time, but also with constrained options due to lack of supply.



Interest Rates

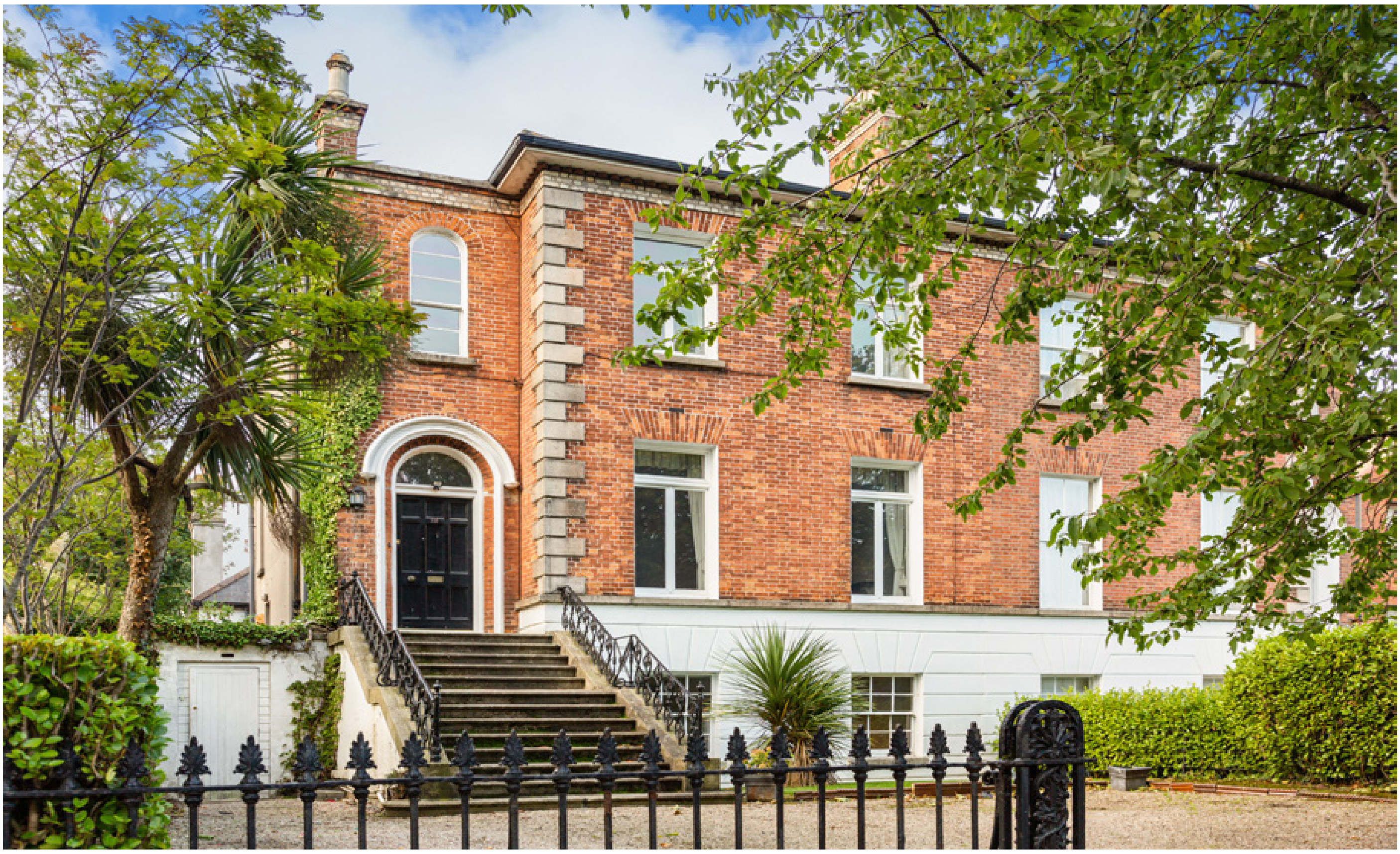
ECB - Main Refinancing Operations

4.5%

September 2023

0.0%

March 2022



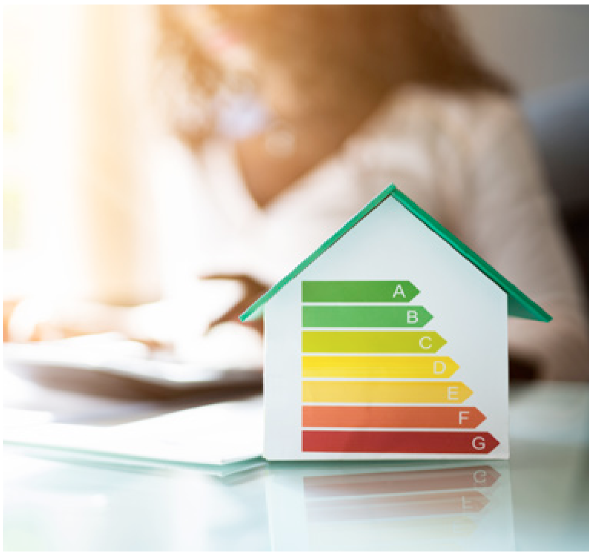
Above: 38 Lansdowne Road, Ballsbridge, Dublin 4

Demand influenced by BERs

Despite the calmer market conditions and purchasers biding their time, demand remains good for quality homes in well-connected desirable locations. Like recent years, properties in turnkey condition or only needing decorative work are attracting greatest demand. Properties requiring deep retrofitting or other construction works are taking longer to sell and must be priced appropriately given the elevated cost of construction materials and availability of labour remaining an impediment. Encouragingly however, there is a sense that these costs have plateaued, and there are more builders now available to quote for work, something that was inconceivable at the start of the year.

Buyers continue to be very price sensitive, unwilling to bid past certain limits, but also unwilling to even view properties with asking prices past their budget. It has been notable in recent times how quickly demand for a property improves when the asking price is reduced by as little as 5%, clearly demonstrating the narrow margins buyers are working off.

With greater awareness around energy prices now and into the future, the performance and efficiency of properties is of considerable interest to buyers. Practically all potential home buyers now ask about the BER of a property before viewing, whereas pre-2022, this was seldom asked and did not constitute a major deciding factor when buying a home. In the existing home market, a BER of A or B is in greatest demand, with ratings of C or below viewed significantly less favourably. The fact that lower 'green mortgage' rates are generally on offer for properties of B3 or better is also contributing to demand.



Lisney Sotheby's International Realty

Various market impediments

Despite the interest rate increases, the greatest impediments in the market remain the chronic lack of supply and delays in completing transactions. September is traditionally a very strong month for homes to come to the market as the Autumn selling season kicks off. The number of homes for sale can often jump by more than 20% in the month, but this boost to supply did not materialise this year with properties available only growing by 1%. This is equivalent to an increase of 40 homes across the entire of Dublin – to 3,400 properties for sale in total. Going back to 2018 for example, the increase in the month of September was just over 750 properties.

There are many well-discussed reasons for the persistent supply constraints in the Irish market over the last decade, but noteworthy at present is vendor fear around the timing of a sale. Many believe now is not a good time to sell given the interest rate environment. In addition, a catch-22 situation remains where potential vendors cannot sell until they buy and cannot buy until they sell. Bridging finance is not available to allow would-be sellers to move on and the dysfunctional rental market is not an option as there is virtually no supply (and there is no sign of improvement in the short-term as private landlords sell up and exit the market in large numbers – the measures in Budget 2024 are unlikely to be enough to keep the majority of small-scale investors in the market). Even if they do try to go 'sale agreed' on a new home, some vendors will not engage until their existing home is sold as they do not want to be involved in drawn-out chain sales. That said, chain sales are becoming more common as there are very few other options open to parties who want to move forward. While still at very small numbers, off-market sales are also growing in popularity, perhaps giving all parties more freedom to assess options, but also allowing the market to be tested without full open market sales campaigns.

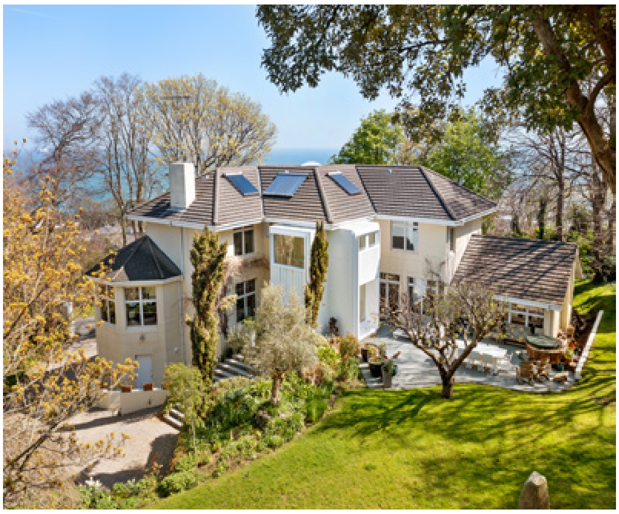
Another critical factor impacting the market is the continued delays in the Probate Office, where a grant of probate if often taking over 20 weeks. Naturally the delays are causing concern for buyers, and many are reluctant to engage with properties when they have no certainty on when a sale could close. This is particularly the case if they are relying on finance and current mortgage offers are due to expire shortly. This is also the category of housing that generally requires most refurbishment works, which is another blow to demand and pricing for such homes. Many solicitors are now advising vendors to postpone sales until probate is granted, which is further affecting supply.

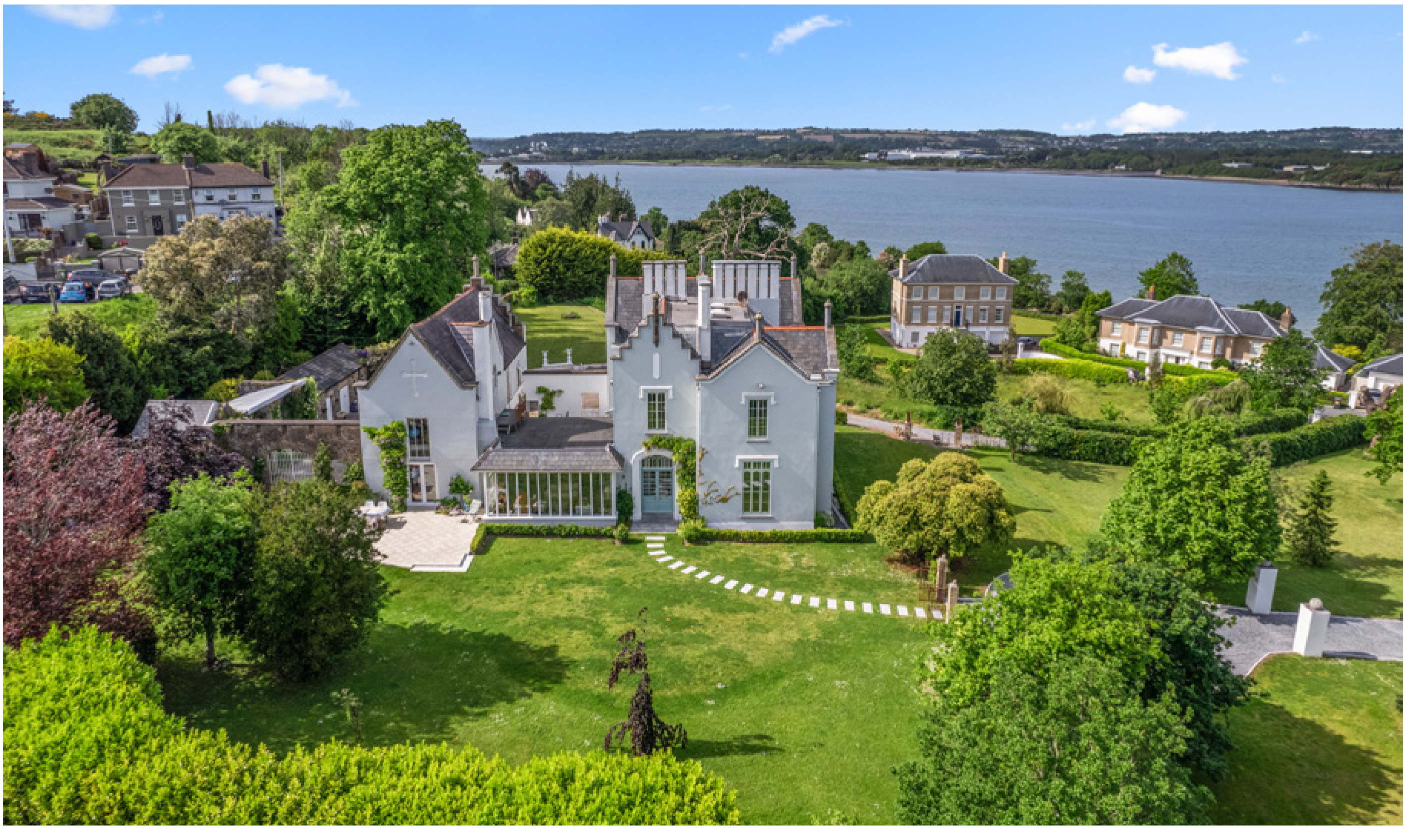
Delays in mortgage drawdowns is also impacting activity levels. Banks are slow in converting 'approved in principle' offers to formal mortgage offers. Much of this could be due to the volume of applications they are receiving; mortgage approvals and drawdowns were at a 15 year high in 2022 and while approvals were 9% lower in the first seven months of the year compared to the same period of last year, they are in line with 2021 and higher than the years prior to that.

Equally, the protracted nature of conveyancing in recent years continues to delay transactions, and it can take several months to move a property from 'sale agreed' to 'sold'. Both buyers and sellers have been working hard in recent months to expediate the process, conscious of loan offers and growing interest rates.

Each of the issues above, along with others, means that sales processes commonly involve property-chains, and consequently the occurrence of sales falling through is higher. It is welcome that the 'Seller's Legal Pack for Property Buyers Bill 2021' has moved to the second stage of Dáil debate. This provides that a full set of legal documents will be made available to potential buyers from the outset of marketing, hence ensuring the sale and conveyancing process moves more efficiently. We fully support the enactment of this Bill.

Below: Katama,
Mount Salus Road, Dalkey





Above: Horsehead House, Passage West, Co. Cork

Cork

Interest rate hikes beginning to bite

Up until recent weeks, the ECB rate hikes had only limited impact on Cork's mid to upper-end market (€300,000 to €1m). However, with 10 increases since July 2022 (collective +450 bps), and combined with the elevated cost of living, they have started to impact buyer confidence, particularly given the prospect of more rate increases to come this calendar year. As a result, property viewing numbers have softened when compared to the first half of 2023. Encouragingly, while buyers are more cautious, transactions are still happening and achieving strong prices especially those that are in turnkey condition and are energy efficient. At the very upper end of the Cork market (€1m+), interest rates are of less a concern with cash purchasers dominating. They continue to have good interest in homes that are detached, in excellent condition and in a costal location, with quality period homes in particular demand.

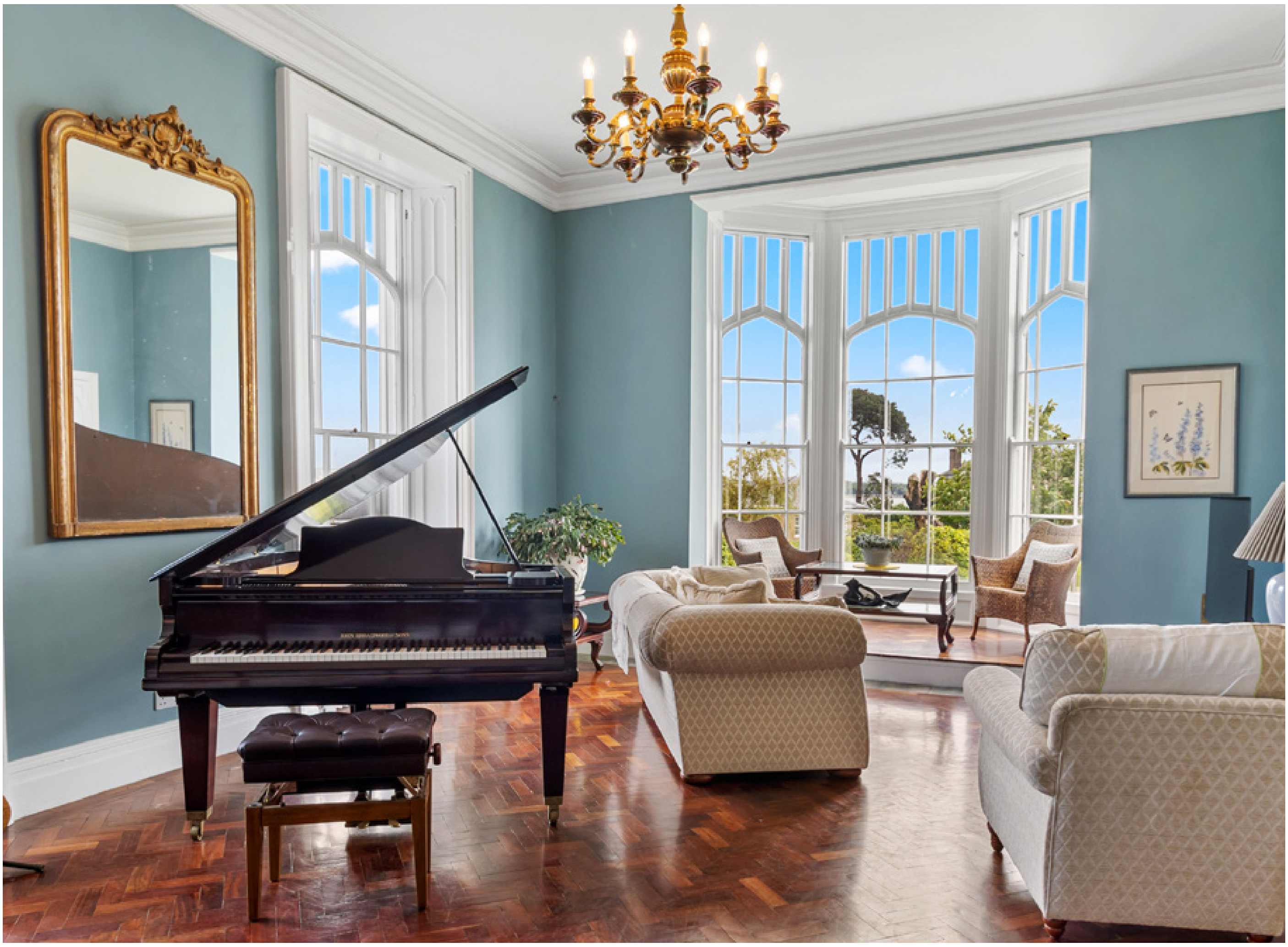
"1,650

Cork supply has been relatively stable in recent months, at around 1,650 second-hand properties advertised for sale"

Supply low but stable

The limited number of homes for sale continues to affect the market and generally push prices higher. At the end of September, there were 1,650 second-hand properties advertised for sale. Supply has been hovering around this level since 2020 and remains below what is required. The traditional increase in supply in September for the Autumn selling season did not materialise this year with many potential sellers caught in a catch-22 situation – unable to sell until they buy and unable to buy until they sell. This trend will continue to hold back activity levels into 2024.

Below: Horsehead House, Passage West, Co. Cork

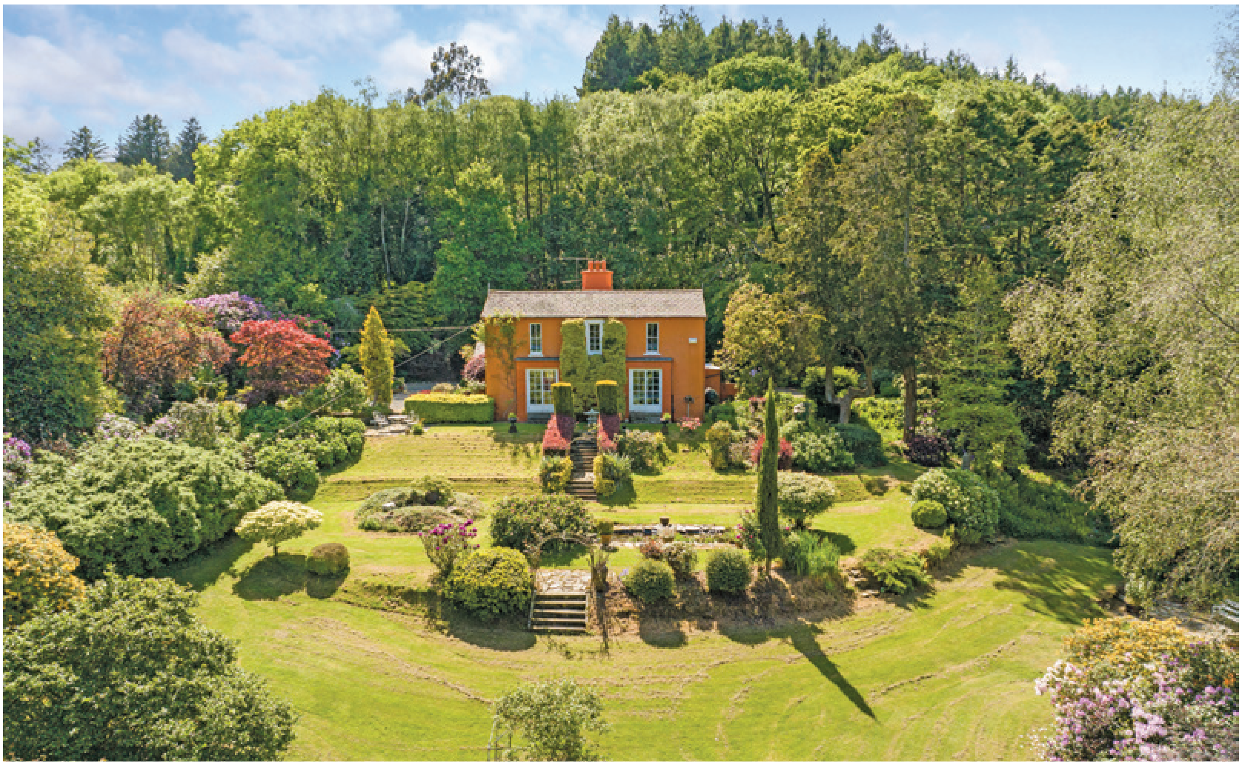


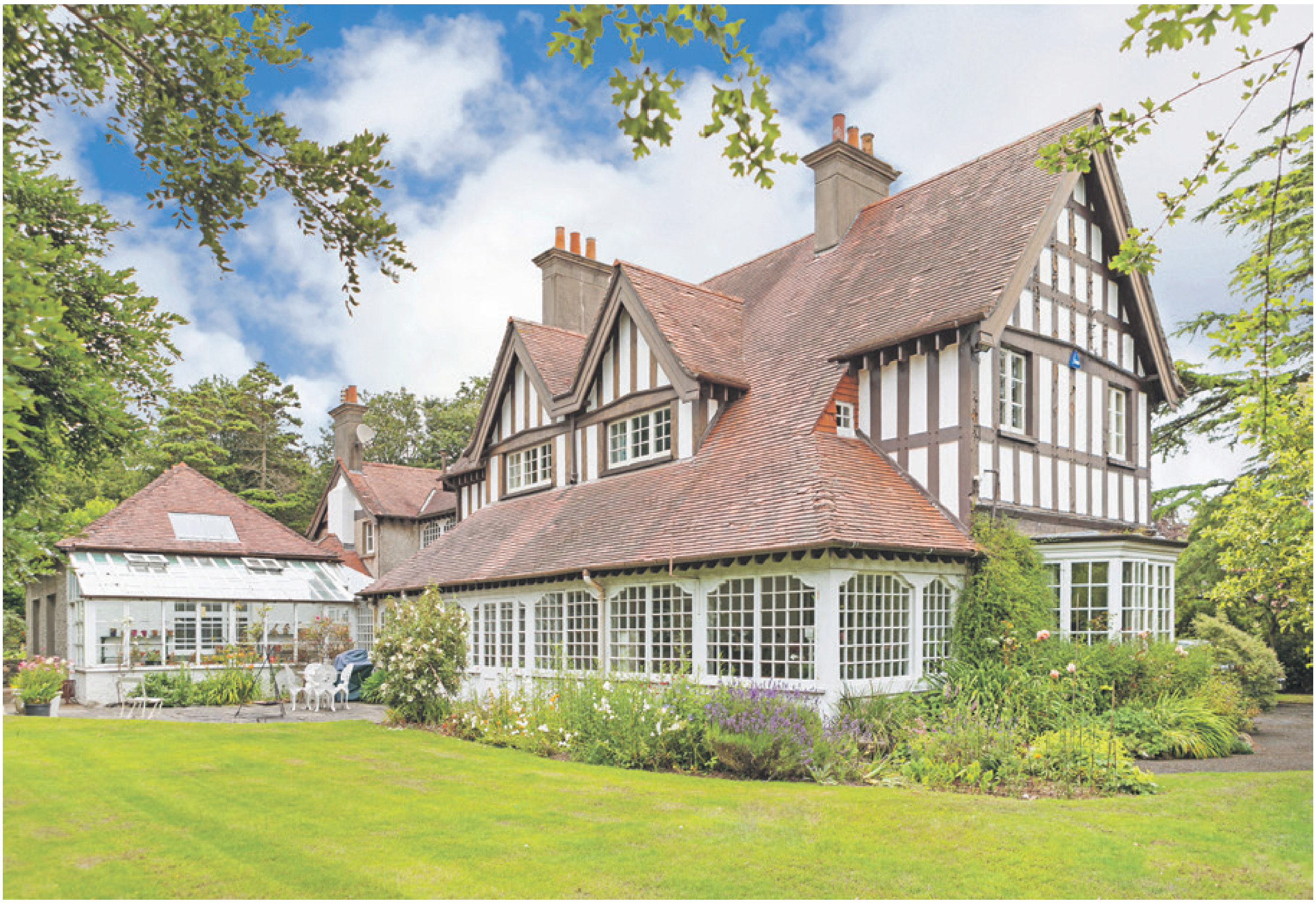
Country Homes

Fluctuating activity but buyers still active

Following on from the Spring and Summer selling periods, activity in the country homes market continues to diverge from the traditional seasonal selling patterns. Entering the historically busy Autumn period, supply is below what is normal and what is required. Consequently, activity levels are fluctuating, even on a week-to-week basis. Nevertheless, the market overall is strong with the most robust levels of activity linked to homes where the asking price aligns with market expectations. Properties that are initially priced above market often undergo price reductions to bring them closer to prevailing levels, and as such are slower to sell.

Below: Glebe House, Woodenbridge, Co. Wicklow





Above: Burleigh Lodge, St Vincent Road, Greystones, Co. Wicklow

Little or no reliance on finance

Both Irish and overseas buyers are active in the country homes market. They generally have little or no reliance on mortgage finance and as such, interest rate hikes are having less of an impact. Like all parts of the Irish residential market, they are more cautious in progressing with purchases given the wider global macroeconomic and geopolitical concerns.

International buyers are the most active at the higher price points with the US and EU playing an increasingly significant role as key market players; demand from the UK has lessened considerably in recent years. They are being assisted by curated digital 'walk throughs', which is helping to identify realistic demand early on. Domestic buyers are seeking homes either as their primary residence or as a second home to be used as a holiday retreat or to live in on a semi-permanent basis (especially those that are Dublin-based).

> Curated digital 'walk-throughs' are now often relied upon and a prerequisite to attract greatest interest.

New Homes

Below: 106 Goatstown, Friarland, Dublin 14

Interest rate rises partially off-set

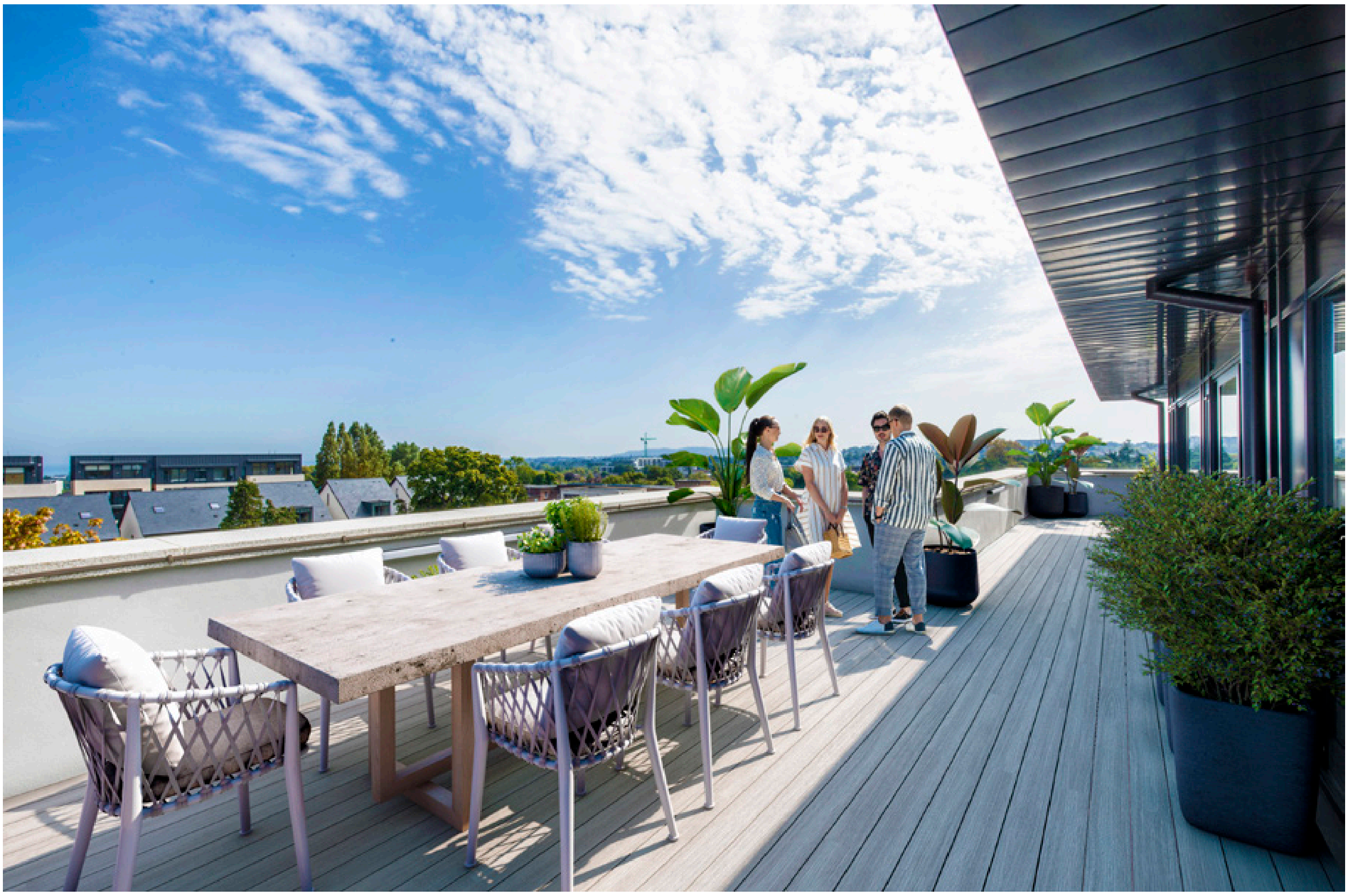
The new homes market has remained very busy in 2023 with strong buyer sentiment outstripping supply. Demand from first-time-buyers (FTB) continued to be particularly strong as they sought to exit the rental market or living with family. The continued increase in interest rates, as well as banks adopting more risk-adverse policies (such as seeking greater levels of information and documentation from borrowers and delaying loan offers) have had an impact on the market in recent months. This has especially affected movers and investors but for FTB, the increases have been somewhat off-set by the increase to loan-to-income (LTI) ratios in January (rising to 4x gross household income from 3.5x).

Attractive A-rating

Newly built homes offer many benefits. Their green credentials have very much come to the fore in the last two years. Given their A-rating under the BER scale, they offer significant savings for homeowners in terms of running costs, which is a very important consideration at present. Green mortgage interest rates are also available, which are typically 30 bps lower than non-green rates (this could be a saving of up to €100 per month on repayments). The turnkey nature of new homes is also very attractive and provides occupiers with a quick and easy settling-in period where no costly refurbishment works or construction are required.

Homes qualifying of government schemes attracting FTB

FTBs have made up 50% of the new homes market in Dublin and Cork in the last six years. However so far in 2023, this proportion has risen to almost 60%, partially due to the government support schemes, but also due to the increases in LTI mortgage ratios. FTB demand is focused on new homes priced under €500,000 that qualify for one or both of the 'Help-to-Buy' scheme (currently the lesser of 10% of purchaser price or €30,000) and/or the 'First-Home-Scheme' (where the State will take an equity stake of up to 30%). Prior to purchasing a home, FTBs are generally in the rental sector. With all the issues in the rental market including record high rents, most renters are eager to move ahead with home purchases. The government assistance has greatly helped with this (and will continue to) in bridging the affordability gap and as such, demand for new homes greatly outweighs supply.



Above: Penthouse, Thornhill Oaks, Mount Merrion, Co. Dublin

> We believe prices in this part of the market will generally remain static for the rest of 2023 and most of 2024.

Supply constraints will continue but prices will remain static

Despite supply remaining weak, there will be limited scope for any price growth in the new homes market in the next 12 to 18 months. Potential buyers will continue to face affordability constraints due to the economy and higher mortgage repayments. The €500,000 threshold for those homes and buyers qualifying for the government schemes will fix pricing levels in many developments – it was a missed opportunity not to increase this level in Budget 2024 and bring a greater number of homes into the schemes' catchment. We believe prices in this part of the market will generally remain static for the rest of 2023 and most of 2024.

Given the market dynamics, many developers (particularly larger players) may look towards bulk sales of entire schemes to government backed purchasers such as approved housing bodies (AHB) and the Land Development Agency (LDA). This will further reduce the number of new homes available to the private market. While this is positive for the social and affordable sectors, it will put even further pressure on private buyers.

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