

PROPERTY PROSPECTS

Property insiders are confident that the market isn't heading for meltdown, as evidenced by our Vox Pop on the following pages. First though, a reality check of some facts and figures

The Permanent TSB house price index for August showed a monthly decline of 0.3%, slower than the average of 0.6% per month seen in the previous five months. Prices in Dublin declined by 0.1%, following three months in which the decreases exceeded 1% per month. In the first eight months of the year, house prices in Dublin were down by an average of 3.9% yoy. New house prices through August declined by 0.4%, the same pace as in July but slower than in May and June. In the commuter areas there was acceleration downwards with a 1.3% decline in August, much faster than in preceding months.

Only 2,530 new housing units were registered by both Homebond and Premier in September, some 60% below the number achieved in the same month in 2006. Third quarter registrations, which can be used as a proxy for housing starts, were behind 52% year-on-year, after contracting by 16% yoy in the opening quarter of the year. On a trailing 12 months measure, registrations totalled 45,170 in September, down 34%.

The Ulster Bank construction index for September pointed to the sharpest contraction of activity since July 2003. Work on civil engineering projects fell at the most marked rate for four years though constructors recorded only a marginal fall in commercial activity.

Property website Daft.ie reported that the average asking price for 15,000 properties advertised on the site was €368,000 in the third quarter, 2% less than in Q2. Since the start of the year, one in ten properties on the site have reduced their asking price.

An October survey of 35 Irish house building companies by Merrion Stockbrokers found that 60% of respondents expect their unit completions to decline in 2008. Respondents commented that sales rates have decreased significantly over the past four to five months. "The change in expectations for 2008 indicates that the slowdown is expected to last for significantly longer than was previously anticipated," said the broker.

Mortgage lending growth fell to 17% in August, well down from the peak of 28% in March 2006. Stamp duty receipts to the Exchequer were down by 6% year-on-year for the nine months to September. In the same period in 2006, the year-on-year growth was 36%.

Commercial property returns came in at an annual rate of 17% in June, compared with returns of 30% recorded for the same period in 2006. The decline in returns in retail property reflected a slowdown in capital value growth, which was 15% annualised in June compared with 25% one year previously. Agents CBRE said "significantly less" development land is being offered for sale around the country compared to this time last year.

Douglas Newman Good secured 53 sales on the weekend of October 13-14 at 'New Quarter' in McDonagh Junction, a new build in the centre of Kilkenny. Sales were boosted by section 23 tax relief.



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Where Now For The Property Market?

THE VOX POP PANEL

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International Property.ie

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Peter Faulkner, Faulkner Packaging

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Tiger International Chartered Surveyors

James Meagher, director, HT Meagher
O'Reilly

Niall O'Grady, head of marketing,
Permanent TSB

Paul Murgatroyd, DNG

We canvassed the views of property players and businessmen about the property market in Ireland and overseas. Here's what they had to say

Is now a good time to buy residential or commercial property in Ireland?

Ian McCarthy, Sherry FitzGerald

If you are purchasing a home for the long term, then a purchase now is a good idea. If you are selling a home to trade up then the old adage applies - if you buy and sell in the same market you neither gain nor lose on each side. Commercial property, especially in the main urban centres, is performing well with positive long term prospects. The one exception is residential development land.

Mark Dolan, Farrelly & Mitchell

Certain opportunities may arise for the opportunistic in the residential market out of the requirement for certain developers to make sales to



Mark Dolan

meet lending requirements. Quality opportunities in the commercial sector may be more difficult to identify.

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James Meagher, HT Meagher O'Reilly

Consumers are afraid of further interest rate hikes and until such time as interest rate reductions are in sight pessimism might prevail. There is value in the residential market presently and over the next three to six months that value will disappear as demand will return. There is a substantial reduction in the construction of new units, which over the next six months will balance supply and demand, regardless of pessimism or optimism. In relation to commercial property, interest rates will reduce over the near future and current prices will look like very good value.

Chris McGrath, Tiger International

A large volume of poor quality housing stock was built over the past number of years; much of this was located in commuter belts and/or was tax driven. Such stock will have to find its true value and I think this level is

considerably below current asking prices. I don't think we will see the full extent of this correction until next year. The Irish commercial investment market has also peaked. There is now limited or no scope for capital growth in the investment market.

Henry Davis, International Property.ie

It can be a good opportunity to buy residential property because it's a buyers' market. There's risk that the market may fall lower, but the upside of this risk is that current rental returns are higher than they ever been. The Irish commercial property market is probably the most overpriced in Europe.

Peter Faulkner, Faulkner Packaging

I believe values have to continue to fall until they can provide a worthwhile yield. Rents are below the cost of servicing the capital costs and the yields are below deposit interest rates. There

Ian McCarthy

are other European markets that offer significantly better yield returns together with the prospect of capital appreciation.

Marian Finnegan, Sherry FitzGerald

Yes to both. In a more risk averse world, property's potential as a source of relatively stable cashflow and a means of risk diversification may prove particularly attractive. I do not anticipate an immediate significant revival in activity or price performance, rather a gradual improvement in market sentiment and demand trends.

Alastair MacDonald, MKO Partners

It is not a good time to get into residential investment in Ireland. It is overvalued and, more importantly, the market thinks it. Commercial is trickier

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to evaluate. While the fundamentals are better than residential, there is still a lot of money chasing product. Generally Irish commercial is not for the amateur. You need to be able to add value rather than be content to sit on your investment.

Marie Hunt, CBRE

House prices have further to fall before they begin to appreciate again. We firmly believe that interest rates have peaked and that supply is coming back to more sustainable rates. So buyers will re-emerge over the coming months. Once the market picks up again, it will not be as easy to get bargains. On the commercial front, the occupier markets are very strong but yields on secondary product are likely to soften over the coming months.



Seamus Keating

John Lowe, Providence Finance Services

It is a good time because you will find one of those unfortunate people who

have to sell at whatever price (separation, bridging interest, etc). In commercial, some of the developers have exceeded their credit and will be willing to do deals in order to get some respite from their lenders. Location is also crucial for both sectors as it is the case that property in a good location will always sell or rent.

Richard Kingston, CMC Capital

There is probably no need to rush into a purchase in anticipation of the market moving ahead. Most forecasts are that prices will level out this year or slide somewhat.

Seamus Keating, Seamus Keating Investments

Residential property does not represent a good investment with rental yields of 3% and no likelihood of capital growth in the short to medium term.

Commercial property represents a better alternative to residential with stronger yields and with less tenant management.



Declan Kennedy

Declan Kennedy, Augusta

I haven't bought residential in the past five years, as there was no value, nor could I see any realistic increase in value beyond speculation. Commercial is a more positive sector, but it's less accessible to investors as the lot size is substantially higher.

Colm Luddy, CB Richard Ellis

If you are looking for a prime house in a prime location, it is a long time since there has been so much choice. In the past, yield compression drove values which tended to benefit both prime and secondary properties. Going

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forward we are likely to see prime properties showing superior returns and in the short term there may be a decline in the value of secondary property.

Paul Murgatroyd, Douglas Newman Good

The market is still on track for a soft landing, despite some commentators continuing to predict a crash. Fundamentally residential property remains a good long-term investment and, as prices fall, so its attractiveness increases. Commercial property has returned a very strong performance in the past two years and the general consensus is that there will be a cooling in this market.

Hubert Fitzpatrick, Irish Homebuilders Association

House prices are now more affordable



Peter Faulkner

than they were at any time in the past three years. With housing output now falling, it is anticipated that demand for new homes will outweigh supply in

2008/2009 putting upward pressure on house prices again.

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Marian Finnegan

Do you think the ECB will raise interest rates in the next six months?

Peter Faulkner

With the dollar/euro exchange rate at north of 1.40 and the recent cut in US rates, there is no scope for the ECB to raise rates without further damaging European competitiveness. Consumer credit demand and retail sales are already in decline. No further artificial cooling measures are needed.

Chris McGrath

I think rates will probably stabilise at current levels for the foreseeable future. Confidence in the market has been eroded and I don't think a 0.5% rise or even fall in interest rates will have a dramatic effect on the market. I think a re-adjustment in the market is now taking place. Further interest rates hikes might accelerate this, but the adjustment will happen regardless.

Marian Finnegan

I do not believe rates will rise given the turmoil in the financial markets.

Hubert Fitzpatrick

I believe that the ECB interest rate has now peaked, and that we will see reductions in the ECB interest rate in 2008.

James Meagher

I don't believe interest rates will rise. However if they do, it will certainly extend the period of uncertainty.

Marie Hunt

The most likely scenario is that interest rates will remain stable at 4% for the foreseeable future.

John Lowe

I think we have reached the top for the current cycle.

Seamus Keating

I think we are at the top of the interest rate curve for the euro.

Declan Kennedy

It's a very sensitive time and almost impossible to predict but if I had to make a call I'd say no. With the financial markets out of synch with the



Richard Kingston



James Meagher

global economy, I think the ECB has bigger fish to fry than over-worrying about inflation.

Richard Kingston

If the strong economic recovery in Germany continues, then the ECB may have to notch rates up to control eurozone inflation. Ditto on any further run-up in energy prices. On the other hand, the US Fed is cutting rates, so the ECB needs to avoid a situation where the euro could become even stronger against the dollar. That may lead the ECB to hold off on another rise over the next six months.

Colm Luddy

I would say it is unlikely in the next six months. If interest rates were increased, then I think the value of secondary property will take a hit.

Ian McCarthy

No. A further rate increase will affect confidence negatively if it is seen as the first of a series similar to what we have just endured. If it is a 25 point increase signalling a 'ceiling' on rates for the short to medium term then it would not 'lobber' the market.

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What's your advice to Buy To Let investors who have bought property in the past three or four years?

Richard Kingston

An investor who fixed the cost of borrowing two years ago will be cushioned from the interest rate increases of the last while. More recent purchasers may be in most trouble; some may be highly leveraged and in a negative cashflow situation with rents not covering outgoings. To cut and run would be an easy option, but is not easily done in today's slow market. Certainly all investors should be reviewing their financials. Hope for the best but prepare for the worst may be the order of the day.

Peter Faulkner

There is virtually no prospect of capital appreciation even in the medium term, so if you have a satisfactory return at present, you should hang in. But if you are subsidising the rental income to cover costs, it is a mug's game.

James Meagher

If investors bought to get in and out in a three to four-year horizon, they should not have been investing in property in the first place. I suggest that they should carry on with their

fundamentally good decision to buy property in the first place.

Marian Finnegan

I would advise them in the first instance to seek good mortgage advice to ensure they are getting the best rate possible. Secondly I would suggest that any investor compares the rent they are charging to market trends. Rents are on the rise particularly in the cities where they have increased by approximately 20% in 12 months.

John Lowe

There are some very good portfolio lending deals out there. Now may be a time to consolidate and look at your interest rates currently being charged. Are your rates competitive? Check with an advisor who has all the lenders on board.



Hubert Fitzpatrick

Marie Hunt

Seamus Keating

Rents are holding firm so this may help towards shortfalls caused by interest rate increases. However yields are poor and investors will have to wait some time to see capital growth again.

Declan Kennedy

Rents, particularly in Dublin, are pretty healthy and unlikely to fall as fewer people commit to buying. I would be very fearful for investors who purchased residential property in Eastern Europe as a pension for themselves.

Colm Luddy

If there is no immediate need to sell, I don't see any compelling reasons to sell into the market today and it might make sense to hold off to see how the market develops.

Alastair MacDonald

Now is not a good time to sell and while the market may go lower, in my opinion it will recover in the medium term. Salary inflation will drive affordability and demand attributable to demographics will recover.

Chris McGrath

Good or well located property owners have nothing to worry about. Owners of other stock will probably find it difficult to sell at this point and probably should wait. I expect the market to pick up again in autumn 2008.

Niall O'Grady

Our experience would indicate that property investors stay in for the medium to long term and selling in the short term based on market weakness has never been the most successful investment strategy in the past. I think the pessimism is overdone and the reality of what's happening in the market is much less dramatic than a lot of people would have you believe. The fundamentals underpinning the housing market remain strong.

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Where in Ireland are the best property investment opportunities?

James Meagher

Property investment should always be in large population centres close to existing or major transport routes. I would recommend anyone to acquire property located conveniently to any of the major infrastructural transports, LUAS extensions, Metro North West etc. When these infrastructural programmes are complete property values will be enhanced enormously.

Alastair MacDonald

Prices have come back in family homes in some of the better Co Meath commuter towns. Stoneybatter cottages for rental purposes are also looking reasonable value - own door, well located to city centre and nearly washing their face. For holiday homes, good value can be found in parts of Donegal in some beautiful locations.

Ian McCarthy

Cork currently reflects strong residential rental yields coupled with a location backdrop of a sea port, an airport, colleges and excellent industry.



Chris McGrath

Marie Hunt

Focus on prime properties in key locations with good transport links and you won't go too far wrong. There is definitely a flight to quality in the current environment.

Mark Dolan

We see strong growth possibilities in particular in the Belfast office market. Belfast office rents lag significantly behind those in Dublin and comparable UK cities.

Peter Faulkner

I would not consider investing in property in Ireland at present, unless it is in a commercial property that you need for your own enterprise. That said, we have yet to see very much in the way of forced sales. No doubt some interesting opportunities may yet arise, as lenders become more aggressive on non-performing loans.

Chris McGrath

Possibly tourist properties near border counties could show some growth as northern buyers use equity from their recent housing boom to buy holiday homes south of the border

John Lowe

In my view northside Dublin and the city centre are the best for growth.

Paul Murgatroyd

Professional investors would be wise to look at the very top of the market and the starter homes market as, with overall demand weaker than it has been for a number of years, opportunities are there to be exploited.

Marian Finnegan

The regional centres of Galway and Cork in particular are excellent value with good thriving rental markets and competitive capital values.



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Henry Davis

market. Careful investment selection and extensive due diligence is required. The pros for Northern Ireland are stable, accessible, easy funding. However the residential boom is over. In the UK, the short-term outlook for commercial is not good. The French residential and commercial markets are still promising. Avoid residential leaseback as these are generally overpriced and beware of forced inheritance provisions. Avoid Costa Del Sol. Prospects for the Portuguese market are very good in all areas outside of Algarve; however banking is difficult and the market still has a legacy of rent control. I would invest in West Germany rather than East and beware of rent control provisions and acquisition costs. For the US, the weakness of the dollar and the depressed property market makes it worth strong consideration.

Henry Davis

For reasonable capital growth, low transaction cost and a decent rental market, the UK will always be the number one choice for Irish investors. For

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Where do you think are the best property investment opportunities outside Ireland?

Chris McGrath

We are now in a new cycle of slower growth. It is not sufficient to buy into a



Alastair MacDonald

Q: What is the collective noun for innovators?



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John Lowe

high growth, high risk, short-term gains, India has to be the place to invest. Northern Ireland has now has very low rental yields and the market has cooled significantly over the past few months. France is the lifestyle investment and there is potential upside in the economy if Sarkozy gets the opportunity to implement his policies. However there are high transaction and ownership costs. There is no capital appreciation in Spain and low appreciation in Portugal's Algarve.

Mark Dolan

Yields appear to have tightened in the larger German cities but opportunities still exist in smaller cities where you can still find strong tenants at a yield which continues to be unobtainable in either the Irish or UK markets.

Peter Faulkner

I like UK commercial property, particularly office and retail. London still has strong rental growth and has a good stock of older buildings which are well located and ripe for refurbishment. Significant yield growth can be achieved by actively managing improvements and securing lettings at much higher rates than currently obtain. I also like Germany, but only the main cities such as Munich, Dusseldorf, Frankfurt etc. I favour



Niall O'Grady

high-end streets with retail at the lower levels and offices above. I would not consider residential investment property in any market.

Ian McCarthy

Germany, France, London, USA, China - in no particular order.

John Lowe

Believe it or not, I favour Spain, despite the recent bad press. It is a short hop, the sun always shines, same currency, growing economy and outside the overdeveloped areas, well worth looking into. France, Portugal and UK commercial are also favourites. In eastern Europe I would never buy residential.

Seamus Keating

The UK is a well managed market where investors can achieve yields of up to 6% on a net basis. Capital growth varies by location and some of the regional cities such as Bristol and Birmingham have good opportunities at present. South Africa is worth looking at too.

Declan Kennedy

Germany is an immensely powerful and fairly shock-resistant economy yet property - particularly commercial - is undervalued. It won't be for long with



Colm Luddy

the economy growing like it is. That's a very attractive combination.

Richard Kingston

After some years of economic underperformance, German commercial property is significantly undervalued versus peer countries.

Alastair MacDonald

Retail in Sweden has great investment potential; there is good value in office also. There is good value in certain residential areas within New York. The interest rate is more likely to fall than rise over the coming three years, the dollar is weak, yields are reasonable and rental demand is good. Singapore is on target to become a world financial capital. I am putting my money where my mouth is here - MKO Partners are active in all three locations.

James Meagher

Three months ago I would have suggested that France and Germany held the best opportunities. Today with the change in yield pattern in the UK, commercial investment in the UK is looking far more attractive now than it has done for the past two or three years, if you take the view that sterling interest rates will reduce in 2008. With the current dollar value, the US also looks very attractive.

