NCB Quarterly Residential Property Survey Q2 '08

Independent & International

Key points

Residential Market slows in Q2

NCB's Quarterly Residential Property Survey of real estate agents shows that the residential market slowed in Q208 and is likely to remain weak in the coming months. The survey results point to falling activity levels and prices, while the length of time taken to sell a property is rising. Respondents pointed to increasing difficulties with finance, a general lack of confidence in the market and falling prices as central to the current weak market. Looking forward agents remain skeptical about the year ahead with 49% expecting the market to remain the same for H208 through H109, while 29% expect it to get worse. Only 22% expect the market to improve.

Commentary: Residential sector conditions are to remain challenging

Q208 survey results point to ongoing weakness in the Irish residential market. Tighter credit conditions are becoming a problem, especially in relation to first time buyers. Credit rationing in conjunction with the latest hike in rates are exerting significant pressure on demand. Several respondents mentioned a lack of bank finance as a problem for consumers wishing to purchase houses. Banks have curtailed the availability of certain mortgage products such as 100% and interest only mortgages, while looking for lower loan to value ratios. In addition, lenders are raising their eligibility criteria, effectively rationing credit to those with shorter income histories, such as the majority of the first time buyers.

Banks have been raising interest rates on mortgage products as funding becomes more costly. The net impact of this is a jump in the mortgage interest repayments faced by households. The mortgage interest component of the CPI rose 1% between May and June, and 17.2% y/y. This is prior to the ECB's latest 25bps rate hike, which will show up in July's inflation figures. Faced with rising interest rates and falling prices it seems likely that buyers will remain cautious. There is little near term prospect of relief from the ECB, as inflation concerns remain.

The EU Commissions Quarterly Consumer Survey shows that intentions to buy in the Irish market have remained depressed in Q208. The balance of people intending to buy a house in the next 12 months remained at a historic low (-88) for the second consecutive quarter in Q2. Again this is reflected in NCB's Quarterly Residential Property Survey with 93% of the respondents seeing no improvement in the number of viewings.

The most important component of the NCB Survey – the forward looking expectations – shows that market participants remain pessimistic when it comes to the possibility of the housing market improving before the end of H109, with 78% of estate agents expecting no improvement in the market over the next 12 months.

Breda O Sullivan
353 1 6115845

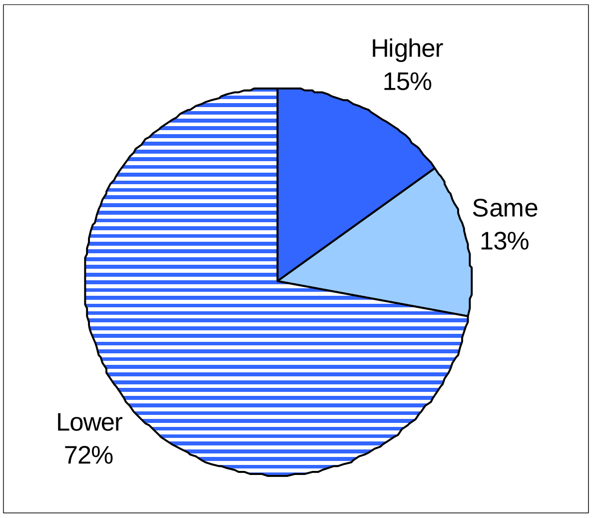
Business activity: lower in Q2 for 72% of respondents

72% of respondents to the NCB Quarterly Residential Property Survey (QRPS) believed overall business activity was lower in Q208 than in Q108, 15% felt activity levels were higher and just 13% felt they were the same.

A number of respondents related slowing activity levels in Q208 to increasing difficulties borrowers were having in getting access to mortgages (see page 8 for some specific comments).

First time buyers were especially hard hit by lack of mortgage availability and tighter lending criteria. Some respondents noted this had become especially pronounced since February.

Figure 1: Overall Business Activity



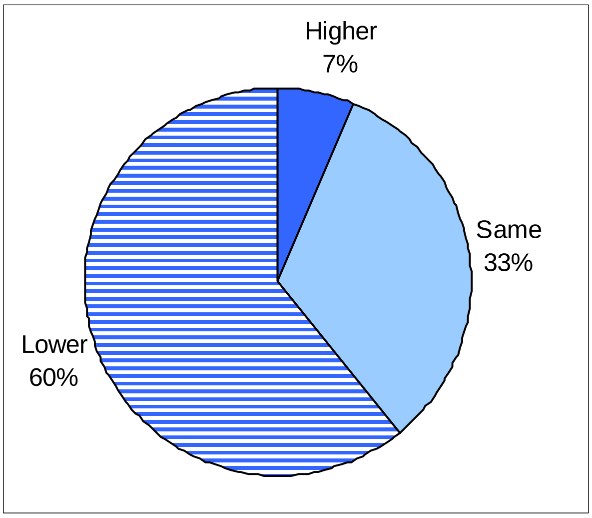
Activity is down across range of indicators

Agents reported weakening across a range of indicators, with the number of viewings, and number of sales agreed down, according to a majority of firms. In addition a majority of respondents reported that the length of time taken to sell a property had increased.

Number of viewings: 93% see no improvement

The numbers of viewings were down according to 60% of agents, with 33% saying they remained the same and just 7% saying they were higher. This is a leading indicator; falling numbers of viewings does not bode well for the market in the near term.

Figure 2: Number of viewings in Q2

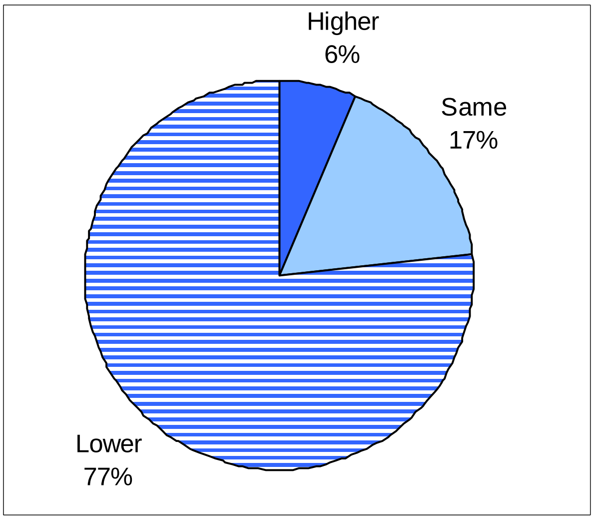


Volume of sales agreed is down

77% of respondents reported that the volume of sales agreed was down in Q2. 17% reported that they were the same, while just 6% reported a higher volume of sales agreed.

Anecdotally this was associated with difficulty in accessing credit and a lack of confidence in the market. Price was mentioned as another important issue with some indications that a stand off between buyers and sellers was continuing. However some agents did note that when properties were correctly priced sales were being agreed, albeit at a slower pace. For details on some of the qualitative comments made, see page 8.

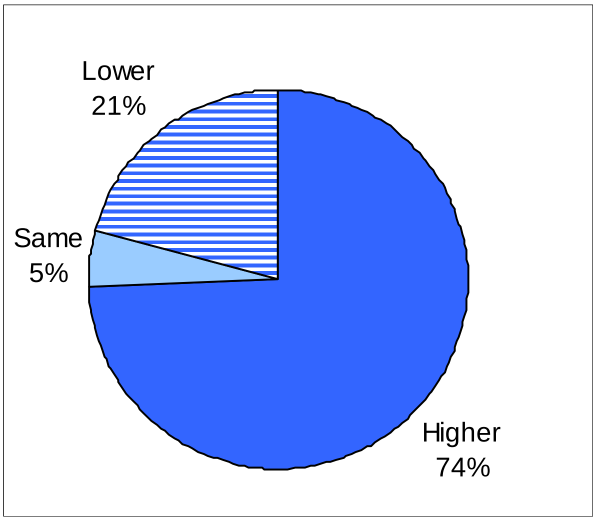
Figure 3: Volume of sales agreed



Length of time to sell is up

Unsurprisingly given the slowdown in sales agreed, the length of time to sell increased according to 74% of respondents. 5% felt it remained the same, while 21% felt it had decreased. In some cases this was attributed to the difference between buyers and sellers expectations and a lack of confidence.

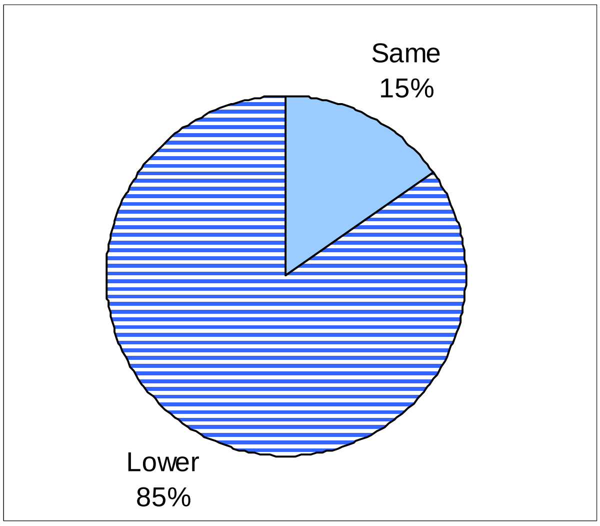
Figure 4: Length of time to sell



And asking prices are falling

85% of agents reported that asking prices had fallen in Q2, 15% reported that they remained static. In no case did an agent report increasing asking prices. This is consistent with a range of data on residential property prices. Some agents reported that vendors were becoming more aware of the new realities in the market and adjusting their prices accordingly and indicated that where houses are priced realistically sales are going through. A number of respondents see stabilisation in asking prices as key to unlocking demand.

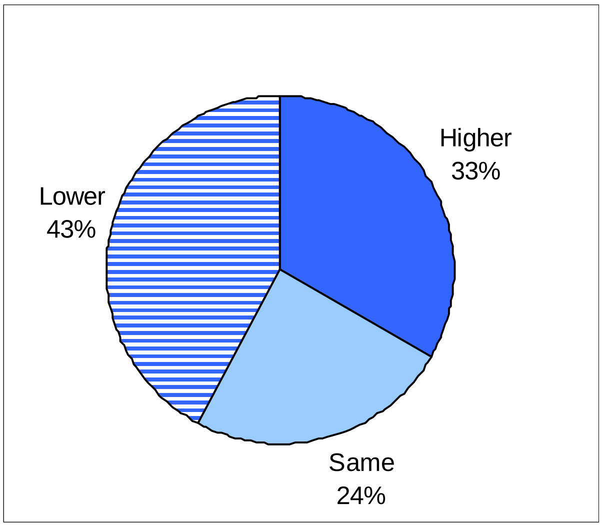
Figure 5: Asking prices



But pace of decreases may be decelerating

In terms of the pace at which prices are falling, the majority reported that revisions to asking prices were lower in Q2 than in Q1. 42% of agents reported that revisions were lower than in Q1, while 33% reported they were higher. 24% said there was no change. This may indicate the rate of price decreases is decelerating.

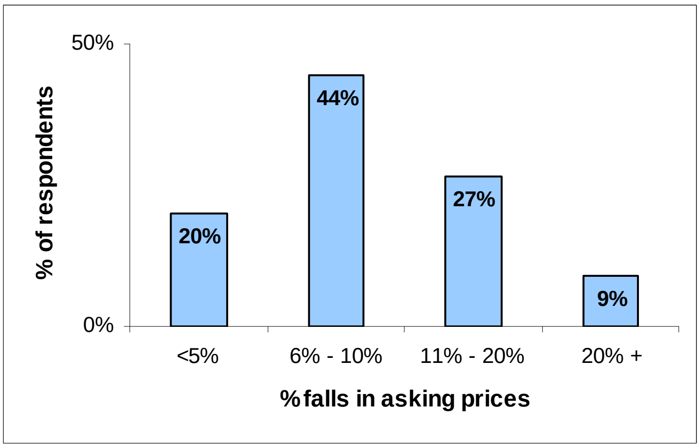
Figure 6: Revisions to asking prices



Magnitude of price decreases

In terms of the magnitude of falls, the majority of respondents (44%) reported that asking prices fell between 6% and 10%. 64% reported that asking price falls were 10% or less, while 36% reported asking price falls of 11% or more between Q1 and Q2.

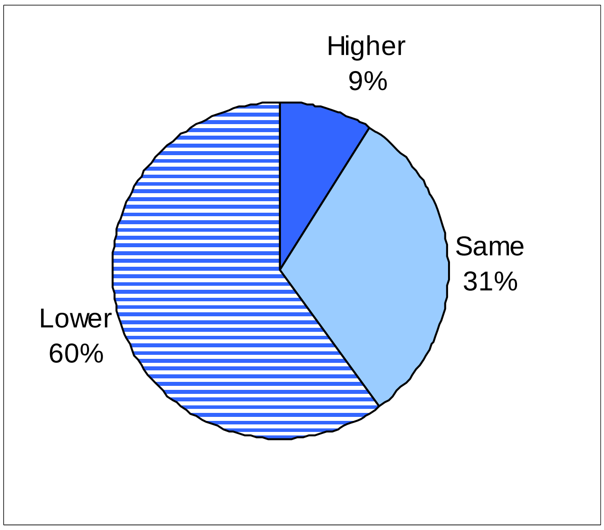
Figure 7: Magnitude of asking price falls



Q2 was worse than expected

60% of agents reported that activity levels in Q2 were lower than they had expected. 31% said that activity was consistent with what they had expected and just 9% reported that the quarter was better than expected. Some agents reported that activity had dipped between Q1 and Q2 as the flow of first time buyers purchasing and viewing houses slowed.

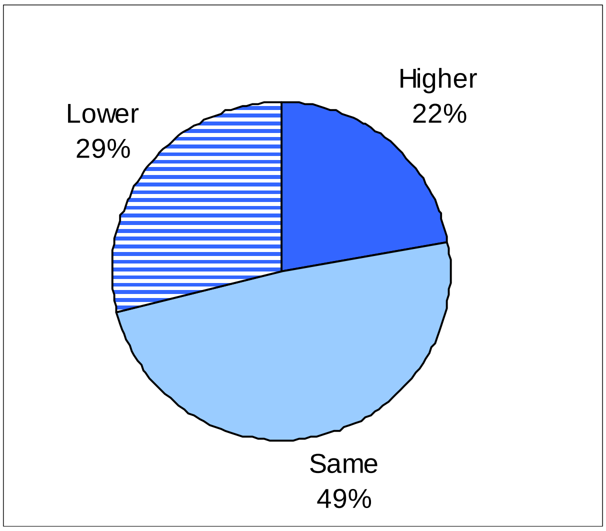
Figure 8: Q2 activity relative to expectations



Outlook for the year ahead

For the year ahead, the majority of agents expect the market to remain the same. Externally determined factors such as surging oil prices and the ECB interest rate level, coupled with the lack of confidence given falling prices are all mentioned as factors weighing on the market. The majority of those surveyed expect the situation to stay the same (49%), 22% expect it to improve, while 29% expect it to get worse. In all a slight balance of respondents (7%) expect the market to deteriorate over the next 12 months.

Figure 9: Outlook for the year ahead



Appendix 1: Results of Q2 residential property survey, % of respondents

Q1 2008	Higher	Same	Lower	Balance between Higher and Lower
Overall business activity	15%	13%	72%	-57%
Number of viewings	7%	33%	60%	-53%
Volume of sales agreed	6%	17%	77%	-70%
Length of time to sell	74%	5%	21%	53%
Average asking prices	0%	15%	85%	-85%
Revisions to asking prices	33%	24%	42%	-9%
Were activity levels in Q2 what you had expected?	9%	31%	60%	-51%
Outlook for next year?	22%	49%	29%	-7%

Appendix 2: Comments from respondents

Activity is happening at a slower pace but sales are getting over the line, seeing increased difficulties' with getting loan approvals and Banks changing parameters on a weekly basis with people who have been previously approved in principle, vendors are taking on board the negative sentiment and have been reducing their prices accordingly.

It's the summer market now hopefully prices will be correcting i.e. at the lower level this September with a bit of activity. Interest hike will determine how active September will be. Static first half of 2009 with a slight increase in second half is expected. Generally purchasers are realistic with most offers; vendors' expectations are still high in some cases. Prices need to stabilise and most likely will do soon.

Prices have generally found a floor, particularly in new homes market. Still a need for some developments to bring prices back to more realistic levels, though this has been done across most new home schemes. When properties are priced appropriately, buyers can be found. Some prospective buyers (first-time mainly) having difficulty securing funding, but it is not impossible and transactions are still happening. Public confidence in the market is still by and large pretty low, reflecting concerns about the wider economy ... public needs to see that prices have stabilised before buyers start to come back in numbers, which probably wont be until at least early next year.

Strong interest from FTB still existing on housing schemes that are affordably priced, the upper end and trade down market is extremely slow to move.

There now seems to be a lack of confidence in the first time buyer market and the banks are not lending them the same amounts as 6 months ago.

Demand is still strong but hindered by financing difficulties.

We have a lot of people who are approved for loans and are just waiting for the fall to stabilise and then make a move again, so we are very hopeful for the coming year.

Overall, my entire outlook is one of uncertainty, but instructions are up. Finance seems harder to get through which isn't helping.

Bank finance has been a problem since February; bad news flow in press is damaging the market.

There is no confidence in the property market, full stop. The next two years will be quiet.

Buyers are ready to buy prices need to be revised.

Realistic prices being achieved, better deals available from builders, the market is hitting bottom, banks driving first time buyers.

Market will remain slow for at least another 18 months.

The market is very slow. Vendors not realistic and buyers are making ridiculous offers.

Appendix 3: Information on the survey

This survey was carried out anonymously by phone and online between June 16th and July 4th 2008. The survey results are based on 47 responses from a total of 185 estate agents contacted via email and followed up with a telephone call.

The average number of employees per firm contacted was 14, with a range from 2 to 120. Firms with large numbers of employees likely represent businesses with multiple office locations.

The data reported is not weighted by size. A preliminary weighting of results by firm size did not alter our results.