

PRESS RELEASE – JANUARY 2007

Major Report on the Republic of Ireland House-building Market 2007

AMA Research has published the 2nd Edition of the “House-building Market – Republic of Ireland 2007”. The report should be of particular interest to individuals and institutional investors, and provides a comprehensive and easy to use review of the rapidly evolving Irish house-building sector.

The Irish housing industry has experienced a decade of sustained growth in recent years with new housing completions breaking all growth predications and expected to reach 92,000 completions in 2006. The second edition of this report focuses on the characteristics, recent developments and leading suppliers to the sector. The report concentrates on the key organizations within the house-building market and provides a comprehensive review of the major aspects of the new house-building sector.

Areas covered in the report include a detailed assessment of the house-builders market in terms of housing completions and a review of the major house-builders in terms of development activity, key house-building and financial indicators, recent corporate activity and forecasts of major trends.

The Report also provides an overview of the house-building market in Ireland, both on a National and Regional basis including house-building completions, analysis by sector (private/public), house prices, house-moving market, housing and development land, planning issues, forecasts of future trends.

Analysis of market developments have been based upon both quantitative and qualitative assessments of both primary and secondary source data. Interpretation of relevant data has been undertaken to explore and support trends within the house-building market and to provide a basis for forecasts of future prospects. The report comprises of **83** pages and **29** tables and charts and is available now, priced to give excellent value, for money at **£650**.

Editors Note:

Enclosed is a summary of the report. Please use brief extracts if you wish, but we would request that references to company market share are not published with our prior permission. If you require further information please consult our website, or contact: -

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NB: It would be appreciated if a copy of the review could be forwarded to AMA Research. Thank you.

SUMMARY

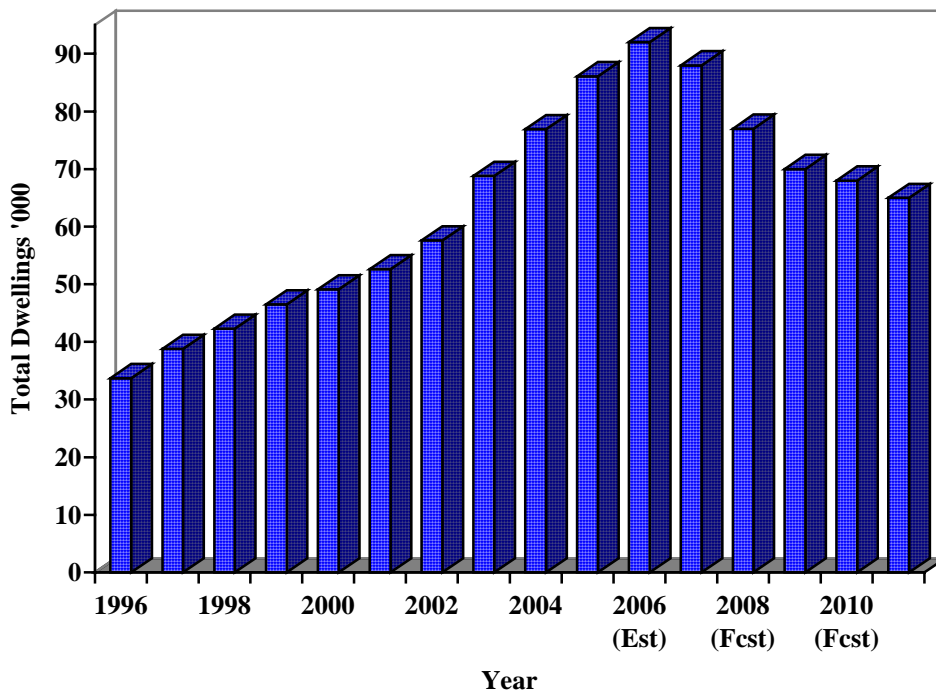
The pace of growth in residential house-building in Ireland over the past decade has been remarkable, with completion numbers continuing to rise year on year.

Just ten years ago, Ireland was building around 34,000 dwellings or around 9 units per 1,000 of the population. In 2006, an estimated 92,000 new homes were built, which equates to over 21 units per 1,000 of population. As a result housing has become a key sector of both the economy. Residential construction accounted for around 66% of total construction output in 2006, and consequently, the construction industry has become very dependent on the housing sector. The gross value of housing output (new and repair and maintenance) was just over €24 billion in 2006, which is equivalent to almost 14% of GDP.

The private housing sector accounted for over 93% of the total housing output during 2005, while **local authority housing** accounted for almost 5% and the **voluntary and co-operative housing** sector accounting for just 2% of total output. Social housing output was worth just €1.2 billion in 2005.

The rising trend in the volume of housing completions over the past 10 years is illustrated in the chart below together with estimates to 2011: -

Chart 1: Ireland – House-building Completions 1996 - 2011



Source: DOEHLG/AMA Research

New dwellings are now being completed at a rate of over 21 units per 1,000 of population in the Irish Republic, adding around 5% to existing housing stock. Housing output, which is now occurring at a faster rate than household formation in the Republic, is currently running at four times the European average and around 7 times the UK average. However, despite Ireland's exceptional rate of house building, its stock still remains quite low (410 units per 1000) relative to the EU average (475 units). Therefore, Ireland has been attempting to catch up in recent years.

Rising disposable incomes, record employment and greater competition in the mortgage market and the low interest rate environment since joining EMU have been **major contributory factors** in the rise in value of the house building market to the Irish economy. Even though interest rates are set to rise again in 2007, it is thought that this is unlikely to dramatically impact overall demand in the market. Other key influences of housing demand going forward include population rises, with inward migration now accounting for over 60% of the increase in the most recent Census period in 2006. With net immigration expected to average 50,000 per annum up to 2011, before slowing to 40,000 per annum up to 2016, it is estimated that Ireland's population will exceed 5 million by 2015, representing an average annual increase of around 2.0% and a 20% increase on the 2006 Census estimate of 4.2m.

On a **regional basis**, Dublin accounts for the largest proportion of houses built in the Irish Republic, with the East Region (which includes the Greater Dublin Area) accounting for 35% of total housing units completed in 2005. Activity in the commuter counties around Dublin remains strong with Kildare forecast to have around 5,000 completions in 2006, up from 3,584 in 2005 and in Meath completions are estimated to reach around 4,000.

Other regions experiencing high volumes of house building included the Southeast Region (Carlow, Waterford, Wexford, Kilkenny, South Tipperary) with 10% of total completions and the Southwest (Cork, Kerry), which accounted for 15% of total completions, of which around 10,000 were estimated to be in Cork City and County.

The Northeast Region, which includes the counties of Cavan, Louth and Monaghan, recorded the smallest proportion of residential output in 2006, with just 6% of total Irish completions.

The average **price** of a new house in Ireland rose by 11% to just over €272,000 in 2005, with the average price of a new house in Dublin rising to €386,000. More than a third (34.3%) of all dwellings sold in 2005 cost in excess of €300,000. The rate of house price growth in 2006 is expected to be around 12% for the year, and higher than expected, when compared to 9.3% for the full year of 2005. These estimates would increase the national average price of a new house to over €307,000 and to around €405,000 in Dublin.

Looking ahead, more moderate growth in **house prices** is possible over the next few years, with moderation to around 7% occurring 2007 and between 3-5% in 2008 from 12% in 2006.

Over a longer term, **planning permission** data indicates that there could be a significant downturn in housing output. The number of permissions would appear to have peaked in the first half of 2005 and the rate of slowdown in permissions appears to be accelerating, with permissions down by 33% in the second quarter of 2006. The decline in the number of permissions granted highlights the impact of delays and refusals in the planning process. Furthermore, difficulties in obtaining suitable development land, especially in the Dublin area, also contribute to obtaining planning permission.

Although the number of planning permission still exceeds that of actual completions, the gap between the two is becoming less pronounced, with just 13,200 units with planning permission uncompleted in 2005, compared with 42,000 in 2000. This declining trend in planning permissions, which commenced in 2005, is one indication at least that Ireland will eventually build fewer houses than it currently does

The **supply structure** for the Irish house-building market is highly fragmented with a large number of small to medium sized companies, many of whom specialise in repair and maintenance activities. The sector is so fragmented that it is estimated that no one player has more than 2% of the market. A booming property market and surging house prices have generated considerable profits for Ireland's leading private builders.

Due to the highly fragmented nature of the Irish house-building industry and the very small number of publicly quoted house-builders, it is difficult to gauge the profitability of the sector. There are just two publicly quoted firms **Abbey** and **McInerney** and a higher number of smaller unquoted firms, of which the larger include **Ballymore Properties, Bovale Developments, Castlethorn Construction, Gannon Homes, Manor Park Homebuilders, Menolly Homes, Piers Contracting** and **Shannon Homes**.

In Ireland **Off-site manufacture (OSM)** of house-building components has gained in popularity and the Irish prefabricated housing market has now risen significantly from just 2% of the total housing construction market to 25% over the past 10 years. While still a relatively new concept in Ireland, the idea of "flat pack" homes has been gaining support in recent times, with a good many developments around the country. Specifically, **Timber frame** housing in Ireland has increased share of the total housing market from 5% to around 30% over the past five years and is now the key driver of the prefabricated or off-site sector in Ireland. Around 26,000 new dwellings were thought to have been completed in Ireland using timber frame as the primary method of construction and forecasts predicts that this figure will rise to around 50% in the next 5 years.

Future demand for new housing over the medium to long-term will be influenced by a number of factors including overall economic stability, affordability, population trends, household formation, migration levels and investor activity. On the supply side, housing completions will be very much dependent upon house prices, construction costs and the price of housing and development land. A further potential constraint facing the market is the cost of consumer borrowing, which is expected to rise over the next year, with Euro-zone interest rates expected to rise to 3.75% by the end of 2007, further increases in energy prices and the risk of the Euro weakening against the US dollar.

The Irish house building sector is therefore set to slow gradually over the next two years, but will still remain a key component of the Irish economy and construction industry. Rising consumer incomes and investment remain the drivers of growth, with funds from maturing SSIA accounts and the election in 2007 expected to underpin construction activity in the short term while strong growth in employment and consumption will boost the demand for non-residential buildings.

An assessment of the current rate of house building concludes that annual completion numbers seen to date are unsustainable over the medium term and that Ireland will eventually build fewer houses than it currently does. Housing supply is forecast to peak at 92,000 completions in 2006 and remain at relatively high levels in 2007 (88,000 completed units) before declining slightly to 77,000 units in 2008, as economic growth slows and the impact of maturing SSIA's begins to diminish and output falls more in line with sustainable demand.

After 2008, a more sustainable rate of completions is forecast of around 65,000-70,000 units per annum up to 2011. This level of demand depends on the continued decline of household sizes towards the EU average and further affordability constraints due to rising interest rates and increasing energy prices. Further rises in interest rates are forecast for 2007 with the rate set to increase to 3.75% in early 2007.

The weaker outlook for construction values is being driven by more cautious prospects for the house building industry. Should housing completions remain at around 90,000 per annum over the period to 2008 then this would generate much stronger growth in construction output compared to current forecasts.