

Merrion Irish Housebuilder Survey

Spring 2009

21st May 2009

IRELAND

CONSTRUCTION & MATERIALS

76% of Housebuilders Surveyed are Currently Not Building

76% of housebuilders surveyed are currently not building, with 36% of builders expecting to deliver zero completions in 2009. The overhang of housing stock is expected to take until H2 2010 at earliest to clear and we now expect unit completions of 16k in 2009 and 14k in 2010. 96% of respondents are seeing lower selling prices year-on-year. Uncertainty over how NAMA will ultimately function is causing effective paralysis in the industry.

- **Build Rates** – 76% of respondents are currently not building, with 53% of these noting that it will be at least a year before they recommence starts. This statistic highlights the depressed state of the housebuilding industry and the current employment levels therein.
- **Volumes** – 84% of respondents expect a decline in unit completions in 2009, with 68% expecting a decline of greater than 50% yoy. 36% of respondents now expect to deliver zero completions in 2009. For 2010, the high level of unsold stock in the market and the lack of building activity at present is likely to result in continued downward pressure on completion numbers. We conclude that there will be 16k new units completed in Ireland in 2009 and 14k in 2010.
- **Inventory Levels** – Respondents now feel it will take until H2 2010 at earliest to clear their stock. This continues the deferral in time necessary to clear the oversupply of stock, with respondents noting a year ago that they thought the overhang would be cleared by H1 2009 and six months ago they felt it would be cleared by H1 2010.
- **National Asset Management Agency (NAMA)** – The uncertainty over how NAMA will ultimately function and the time being taken to establish it is causing effective paralysis in the industry. Even if the end result is positive, respondents note that this uncertainty is resulting in the housebuilding market coming close to a complete standstill.
- **Land Values** – A number of respondents noted that the value of land may have actually fallen to agricultural value or even to zero when worked back from current selling prices after stripping out build costs, levies, VAT etc. 68% of respondents believe that land prices have fallen by greater than 50% from the peak, and almost all note that there is effectively no market in land in Ireland at present.
- **Selling Prices** – 96% of respondents are seeing lower selling prices in 2009 compared with 2008, with 40% of respondents noting a decline of greater than 20% in the past 12 months. 28% of respondents expect further price declines next year, with most of these expecting a decline of 0-10% yoy. No respondent expects prices to rise in either 2009 or 2010.

Our conclusion from the survey is that housebuilders expect the downturn in the Irish new residential market to continue well into 2010. Despite some units currently selling at or below build cost, it will be at least 12 to 18 months before the overhang of stock is cleared from the market. The stagnant level of activity will particularly affect Grafton, McInerney, Abbey and Readymix, with Irish residential construction accounting for less than 5% of business for CRH and Kingspan. For the banks, the risks to credit quality remain on the downside.

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Contents

Merrion Irish Housebuilder Survey – Spring 2009

Survey Background	3
Volumes	4
Selling Prices	6
Market Influencing Factors	8
Land Values	9
Banking Relationships	11
National Asset Management Agency (NAMA)	13
Build Rates	15
Inventory Levels	17
Local Authorities & Part 5 Units	19
Supplementary Budget, Cancellation Rates & Incentives	20
Conclusion	21

Survey Background

Following our last housebuilder survey in October 2008, we conducted our fifth housebuilder survey over seven days in mid May 2009, covering housebuilding companies across the country to assess their outlook for housing completions, new house prices, land values and their view on the issues impacting this outlook. Of the 69 companies we contacted, we obtained 25 responses from senior managers (CEOs, finance or operations directors). We estimate that these 25 companies accounted for c.2,300 completions last year, or c.4.4% of the 51,724 total completions in Ireland in 2008.

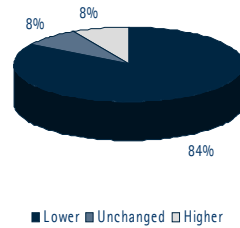
Our sample did not seek to include contract house builders that construct units for other parties who own the land and projects – therefore, our survey does not cover one-off housing and would largely exclude those involved in tax based schemes and direct local authority housing. Our sample also excludes relatively small developers (those with less than 10 unit completions on average per annum in a normal operating environment).

Volumes

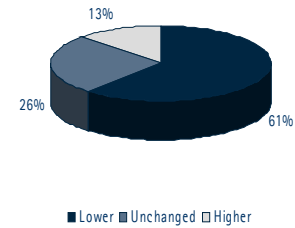
68% Expect A Fall of Greater Than 50% yoy in 2009

On the outlook for completions in 2009, 84% of respondents expect their level of unit completions to decline compared with 2008, an increase from the 61% who projected a decline at the time of our autumn survey last October.

Chart 1: Number of Completions 2009 v 2008
Spring '09 Survey



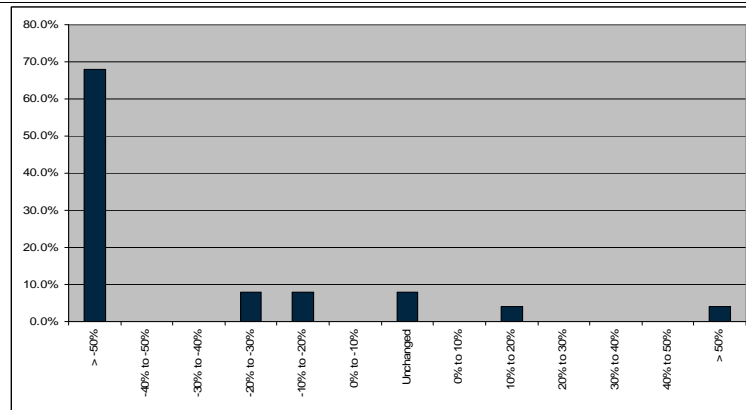
Autumn '08 Survey



Source: Merrion Irish Housebuilder Survey – Spring 2009, Autumn 2008

The expected scale of the year-on-year decline is stark, with 68% of respondents expecting a decline in unit completions of greater than 50% yoy. 36% of respondents expect to deliver zero completions in 2009 (compared with 45% in the autumn survey), with the 8% who are expecting a year-on-year increase coming from very low levels in 2008.

Chart 2: Change in Number of Completions 2009 v 2008



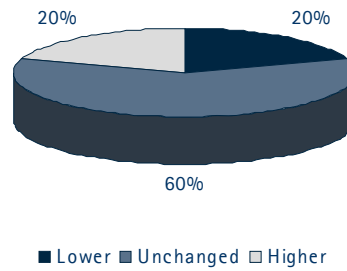
Source: Merrion Irish Housebuilder Survey – Spring 2009

In our last survey, we concluded that there would be c.28k units completed in Ireland in 2009, with c.10k of these coming from one-off / social housing and c.18k coming from private completions. Given the level of stock overhang (page 17) and the number of builders not building at present (76%, page 15), **we revise this forecast down to 16k units in total, with c.9k of these coming from one-off / social housing and only c.7k coming from industry completions.**

Outlook For 2010

20% of respondents expect their level of completions to decline in 2010 versus 2009, with 60% expecting completions to be unchanged yoy. We would highlight that of the 60% expecting no change, just under half of these expect to remain at the zero completions they will deliver in 2009, with most others expecting to remain at a very depressed level of completions. Of the 20% expecting an increase, most of these are from a base of zero or a very low level of completions in 2008.

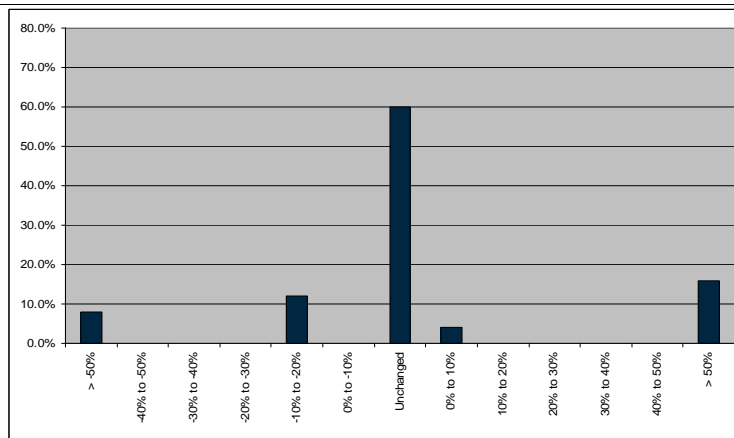
Chart 3: Number of Completions 2010 v 2009



Source: Merrion Irish Housebuilder Survey – Spring 2009

Of the 40% expecting a change in completion numbers in 2010, there is a concentration at the extremities due to the very low levels of completions being dealt with, with 8% expecting a decline of greater than 50% compared with 2009 and 16% expecting an increase of greater than 50% compared with 2009 (due to either being at zero or at a very depressed level in 2009). 28% of respondents expect to deliver zero completions in 2010.

Chart 4: Change in Number of Completions 2010 v 2009



Source: Merrion Irish Housebuilder Survey – Spring 2009

The level of stock overhang nationwide at present (page 17) does not appear to have declined by much since our last survey in autumn. With 76% of builders not building at present and it being likely to take c.12 months to ramp up activity when they do begin building again, **we do not expect the level of unit completions to achieve yoy growth until 2011 at the earliest. As a result, we forecast 14k units to be completed in Ireland in 2010, with c.8k in one-off / social housing and c.6k industry completions.**

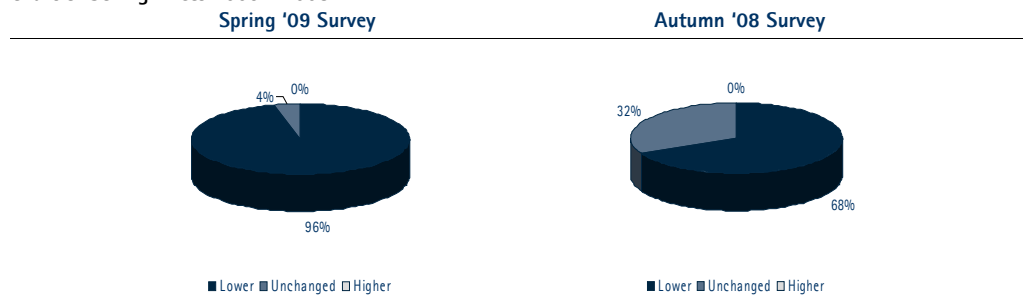
We would note that the housebuilding industry is taking the dramatic measures necessary to cut off the supply of units. This is an encouraging sign, as the industry appears to be reacting in a rational manner to the significant overbuild that took place over the past number of years. However, this will result in a number of years of low new unit completions until the stock overhang clears.

Selling Prices

Pricing Outlook For 2009 Continues To Decline

Since our last survey in the autumn, the pricing outlook for this year has continued to deteriorate. 96% of respondents now note lower selling prices in 2009 versus 2008 levels, compared with 68% in our autumn survey. No respondent expects prices to increase in 2009, the same as in our autumn survey.

Chart 5: Selling Prices 2009 v 2008

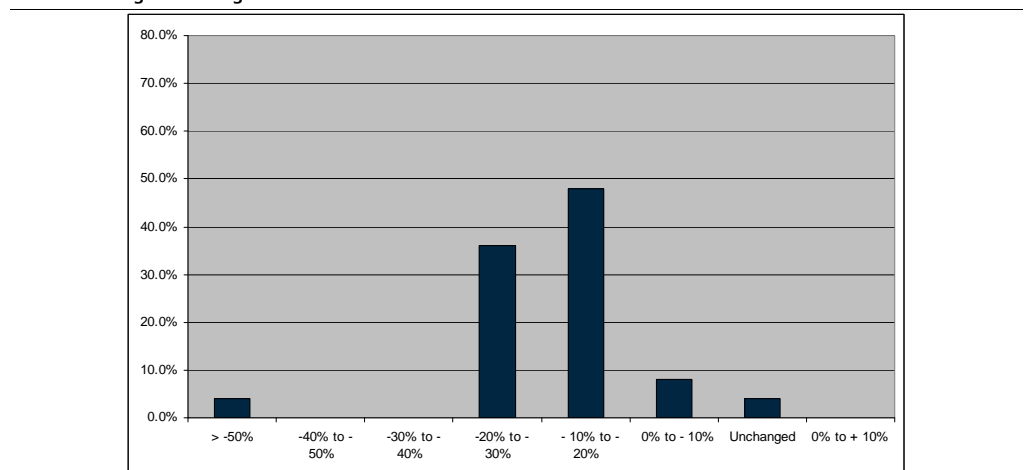


Source: Merrion Irish Housebuilder Survey - Spring 2009, Autumn 2008

Price reductions are now very much part of the mindset of builders, which was not the case a year ago. Builders noted in this survey that the majority of units currently selling are either at or below build cost and as a result, they see limited scope for prices to fall much further in the near future. Apartment prices were noted as having fallen further than house prices, and prices outside the Dublin area were noted as having fallen further than those within the Dublin area.

The vast majority of respondents, 88%, believe that selling prices have fallen by greater than 10% in the past 12 months, with 40% of respondents noting that prices are down by greater than 20% in the past 12 months.

Chart 6: Change in Selling Prices 2009 v 2008



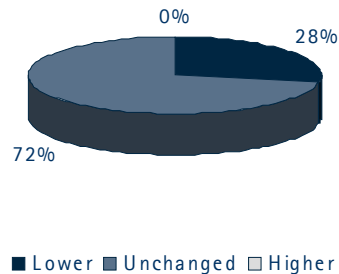
Source: Merrion Irish Housebuilder Survey - Spring 2009

Most respondents noted that prices have fallen further from the peak prices of mid-2006 to early-2007, but pin-pointing in exactly which twelve month period each specific decline has occurred was difficult to answer.

Outlook For 2010

28% of respondents expect prices to fall further in 2010, with the remaining 72% expecting prices to be unchanged yoy. No respondent expects prices to rise in 2010.

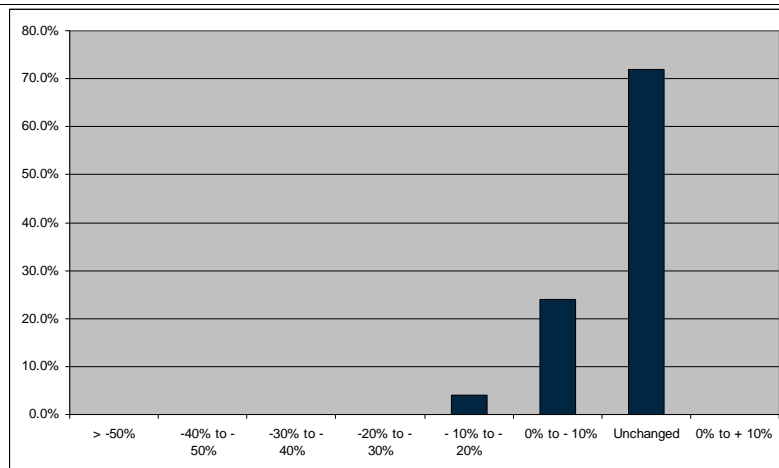
Chart 7: Selling Prices 2010 v 2009



Source: Merrion Irish Housebuilder Survey – Spring 2009

The quantum of price declines expected over the next year is heavily weighted towards a 0–10% price decline, with 24% of respondents within this bracket. 4% of respondents expect prices to decline by a further 10–20% in 2010.

Chart 8: Change in Selling Prices 2010 v 2009



Source: Merrion Irish Housebuilder Survey – Spring 2009

We highlight that previous survey results when compared to the subsequent outcome have proven to be overly optimistic as far as pricing is concerned. However, with many respondents noting that current selling prices are at or below build cost, we would put a greater weight on this survey's responses to future price expectations than previous results.

There was some conflicting commentary from respondents regarding the responsiveness of potential purchasers to reduced pricing, with some noting that if units are priced correctly sales will be made, while others noted that there is a complete buyer's strike occurring at present and that it doesn't matter how much prices are cut by, people are not prepared to make the purchasing decision. The primary reasons behind the current market conditions are detailed overleaf. While prices in some instances are now at or below build cost and as a result, are not expected to decline much further in the short-term, there is no expectation that prices will immediately bounce back. There is a feeling that volumes may improve in H2 2010 or early 2011, with pricing possibly following on c.12 months afterwards.

Market Influencing Factors

Table 1: Main Influencing Factors on the Market at Present

	% of Respondents
Availability of Bank Finance	60.0%
Job Uncertainty	40.0%
Consumer Confidence / Fear of Continued Price Declines	40.0%
Economic Backdrop	8.0%
Oversupply	8.0%
Other	16.0%

Source: Merrion Irish Housebuilder Survey – Spring 2009

We asked respondents what they felt were the primary influencing factors on the market at present:

- 60% of respondents noted that the availability of bank finance was a primary reason behind the current stagnant housing market. Further detail on the current behaviour of banks is detailed on page 11.
- 40% of respondents noted that job security is a primary determining factor behind current market conditions. Potential buyers, other than civil servants, were noted as being very cautious about making a purchasing decision as they are uncertain about their future employment prospects. Pay cuts in the private sector as well as increased taxes and income levies are also contributing to this cautiousness. As a result, more people are adopting a 'wait and see' approach for the coming 6-9 months before making a purchasing decision.
- 40% of respondents noted that consumer confidence and fear of further price declines is a primary reason for the slowing housing market. Many respondents indicated that potential purchasers are very hesitant about buying a house that they feel could be worth less shortly after closing the transaction. There is also fear surrounding having to pay both stamp duty and an ongoing property tax which was mentioned in April's supplementary Budget (further details on the supplementary Budget impact on page 20).
- 8% of respondents noted the general economic backdrop as a primary influencing factor, while another 8% noted the current oversupply of units on the market was having a detrimental effect on purchasers.

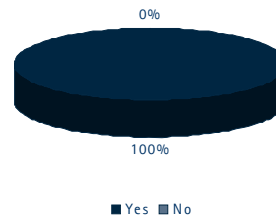
Other factors that were highlighted as contributing to the current market were negative media commentary, the lack of investors in the market and higher deposits being required by banks, with First Time Buyers (FTBs) not having the necessary savings to secure a loan. It was noted by multiple respondents that the market problems are not down to affordability issues as mortgage interest rates and house prices have declined sharply over the past 12 months.

Land Values

Land Values Significantly Down, With No Market

On land prices, 100% of respondents noted that they have seen a fall in the value of land. This is the only question that we received complete agreement from all respondents.

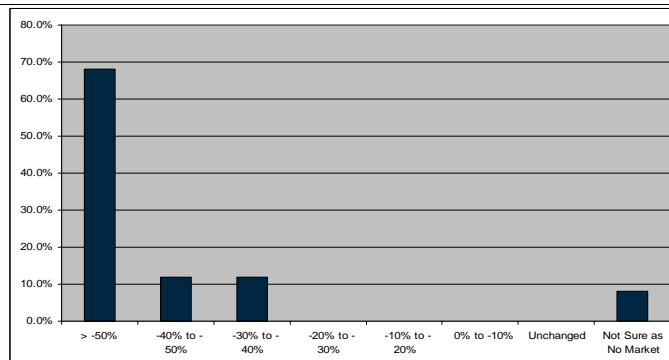
Chart 9: Are You Seeing the Value of Land Fall?



Source: Merrion Irish Housebuilder Survey – Spring 2009

On the quantum of land price decreases, 68% of respondents believe that land prices have fallen by greater than 50% from the peak, although almost all respondents noted that as there is effectively no market for development land in Ireland at present, it is difficult to ascertain exactly what the decline in land prices is. We also asked respondents how much they felt land prices had declined over the past 12 months, but 84% of respondents answered 'Don't Know' to this question and felt that they could make a better estimate of land price decreases from peak to present values rather than over the past 12 months.

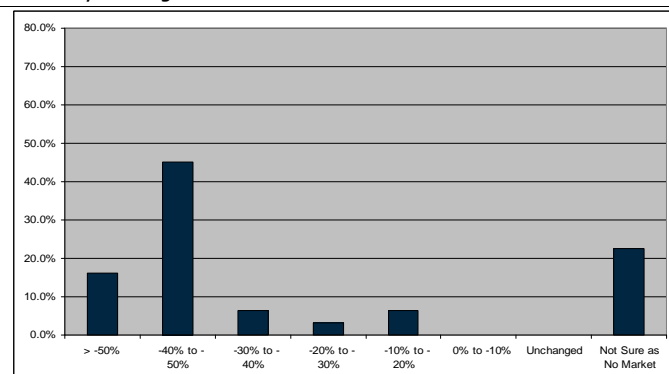
Chart 10: Spring'09 Survey – Change in Land Values v Peak



Source: Merrion Irish Housebuilder Survey – Spring 2009

We note a shift in respondents' answers to the most extreme price decline since the autumn, with some respondents noting that the value of land may actually have fallen to zero when worked back from current selling prices after stripping out build costs, VAT etc.

Chart 11: Autumn'08 Survey – Change in Land Values v Peak



Source: Merrion Irish Housebuilder Survey – Autumn 2008

It was highlighted by the majority of respondents that there is currently no market for development land in Ireland. It is interesting to note that even the more experienced builders, who have been operating in the industry for a long period of time, are also struggling to put an accurate valuation on land.

It is clear that those who have cash and the ability to buy land do not feel that current prices represent appropriate value, potentially implying further price declines before price discovery occurs.

An interesting point that was made by one of the few respondents who is actually building at present was on the requirements to comply with new building regulations. He noted that these additional requirements are costing him an extra €10k/€15k per unit. This is putting further downward pressure on the price of land, and this extra cost may not yet be known to those who aren't building at present.

Banking Relationships

We asked builders a number of questions regarding their relationship with banking institutions:

i) Are banks putting pressure on housebuilders to cut prices?

A surprisingly large number of respondents, 28%, noted that they were in the fortunate position of not having any bank borrowings. Only 16% noted that banks were putting pressure on housebuilders to cut prices in order to move units. Respondents added that they themselves were already cutting prices and so the bank did not have to apply pressure to do so.

ii) Are banks putting pressure on housebuilders to sell other assets – commercial, industrial etc?

No respondent noted that this was the case, with 36% saying it wasn't applicable to them either because they did not have bank borrowings or that they did not have other operating activities.

iii) Are you seeing any evidence that potential buyers with stable incomes are being refused mortgages by banks?

A significant number of respondents, 64%, said that they are seeing evidence of this. Many respondents noted that unless the potential purchaser is a civil servant, they will not receive approval for a mortgage. Others noted that the banks are actively pursuing civil servants as these 'Safe First Time Buyers' are attractive to the bank at present.

Another trend that multiple respondents noted was banks putting a lower value on a property than the builder is willing to sell it for, with the bank only being prepared to give a mortgage on that lower valuation. All respondents who highlighted this trend noted that they feel this is a veiled message from the banks that they are not open for new business. While they may be prepared to give mortgage approval to a civil servant, for almost anyone else, respondents felt that the banks were closed to new mortgage applications.

There was a significant amount of commentary provided by respondents on the current behaviour of banks, which is outlined below:

- 'Banks don't know what to do, they are caught in limbo at present, hiding rather than trying to address any of the problems';
- 'Local bank managers are talking potential purchasers out of buying, saying that prices will fall further';
- 'Irish banks are more supportive to builders than foreign owned banks';
- 'The banks are not lending out money at present as they can't pass on their borrowing costs to customers';
- 'It is possible that banks may fund the unfinished stock to try and get it sold to get their money back. However this could lead to a glut of units next year';
- 'Last year it was speculators coming in looking for price reductions as the house down the road had reduced in price, now genuine buyers are coming in but they can't get the access to the funding';
- 'Local bank managers have been stung by putting people into bank shares, now they are being overly cautious';
- 'The builder is happy to price units to sell but buyers can't get the access to the finance';

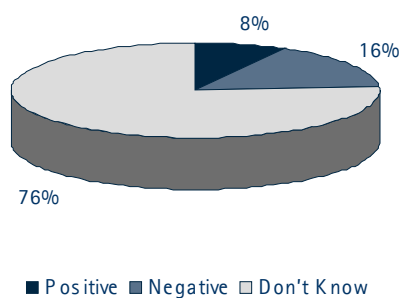
- 'The big problem at present is FTBs getting the deposit together';
- 'Banks are pulling overdrafts as they want the money now';
- 'Banks aren't putting pressure on builders to push on with work because of NAMA';
- 'A lot of property guys have liquidity issues and the banks are currently going easy on them';
- 'Banks are afraid of NAMA, PWC, Financial Regulator, afraid to do anything, not giving any answers on applications';
- 'Banks view anyone who isn't employed in the civil service as 'dicey' customers, people in the construction industry in particular';
- 'Banks won't finance overseas operations any more'.

We also note further commentary on the introduction of the National Asset Management Agency (NAMA) overleaf.

National Asset Management Agency (NAMA)

We asked builders whether they viewed the introduction of the National Asset Management Agency as a positive or a negative for the housebuilding industry. 76% of respondents answered 'Don't Know' as they remain unsure as to how the Agency is going to operate and how extensive its influence will be. 8% of respondents felt that it will be a positive for the industry and 16% felt that it will be a negative. Almost all respondents did note however that regardless of whether it ends up being a positive or negative for the industry, the uncertainty over how it will function, the time being taken to establish it, which loans will be transferred etc, is causing effective paralysis in the housebuilding industry at present. Even if the end result is positive, respondents believe that this uncertainty is resulting in the housebuilding market coming close to a complete standstill.

Chart 12: Do you View the Introduction of NAMA as a Positive or a Negative for the Housebuilding Industry?



Source: Merrion Irish Housebuilder Survey – Spring 2009

We highlight below some further commentary provided by housebuilders on the introduction of NAMA:

- 'NAMA is going to be challenged in the courts, it will be negative for the industry';
- 'If it acts as an agency then it may be good but don't know enough yet';
- 'The market would be better left to sort things out than NAMA';
- 'The success of NAMA will depend on how they price the assets, it could just be putting land back onto the balance sheets of the banks';
- 'If it is an arms length oversight organisation then it might be ok. If they extrapolate plot costs from currently depressed house prices then it will be negative';
- 'Banks are now afraid of their lives to make a decision until they know what way NAMA is going to operate, the uncertainty is paralysing the system';
- 'What might be good for a builder might not be good for the country in the long-term, can see a lot of decisions being contested in the courts';
- 'NAMA won't do much unless it has real power, real teeth';
- 'NAMA is paralysing the system at present, if a long-term view is taken then it could be ok, if they want to front load valuations then its going to be negative';
- 'If NAMA frees up the banks then it could be a positive but not sure until see the details';
- 'Not sure if NAMA will have the ability to lend or fund work in progress';

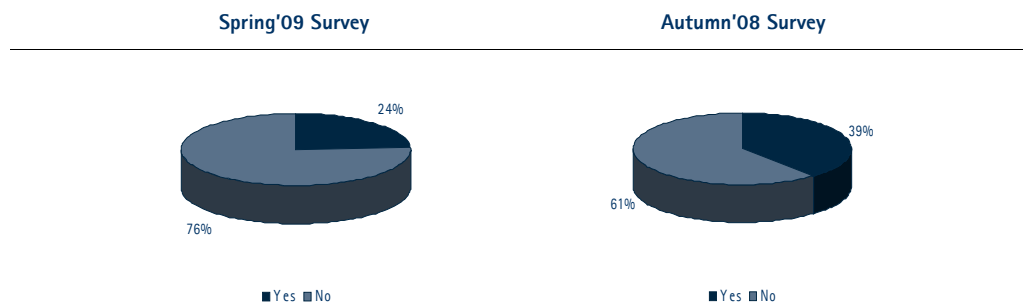
- 'Something needed to be done, the problems need to be dealt with rather than ignored, its like a cancer - it shouldn't be ignored';
- 'Banks being freed up to lend has to be a positive';
- 'Due to cross-collateralisation, if NAMA takes one loan it will have to take them all'.

Build Rates

76% of Builders Surveyed Currently Not Building

We also asked respondents if they are currently building. 76% of respondents are currently not building, an increase on the 61% who weren't building last October. This is an extremely significant number and is perhaps the most dramatic number from this survey. With more than three quarters of those surveyed not building at present, this statistic paints a particularly gloomy picture of the current state of the housebuilding industry and the employment levels therein.

Chart 13: Are You Building at Present?

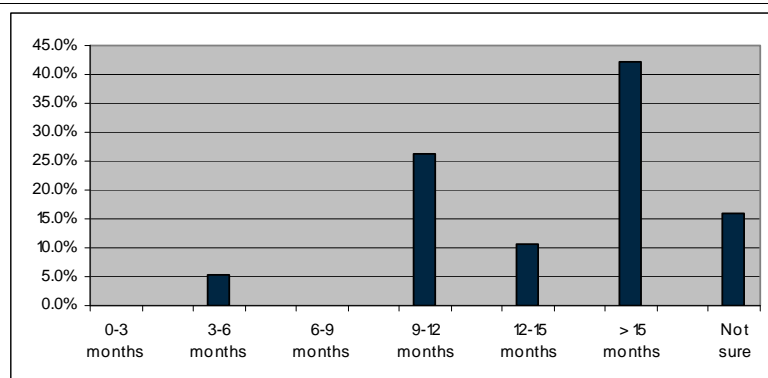


Source: Merrion Irish Housebuilder Survey – Spring 2009, Autumn 2008

53% Of Those Not Currently Building Will Take At Least A Year Before Recommencing Starts

We asked those who aren't building at present when they thought they would be likely to recommence starts. Only 5% said that they would recommence starts in the next 6 months, with an additional 26% saying that they would recommence starts between 6 and 12 months time. 53% indicated that it would be at least one year before they start to build again. 16% of those that aren't building at present said that they weren't sure when they would be recommencing starts as there is so much uncertainty in the market at present.

Chart14: Time Taken before Recommencing Starts



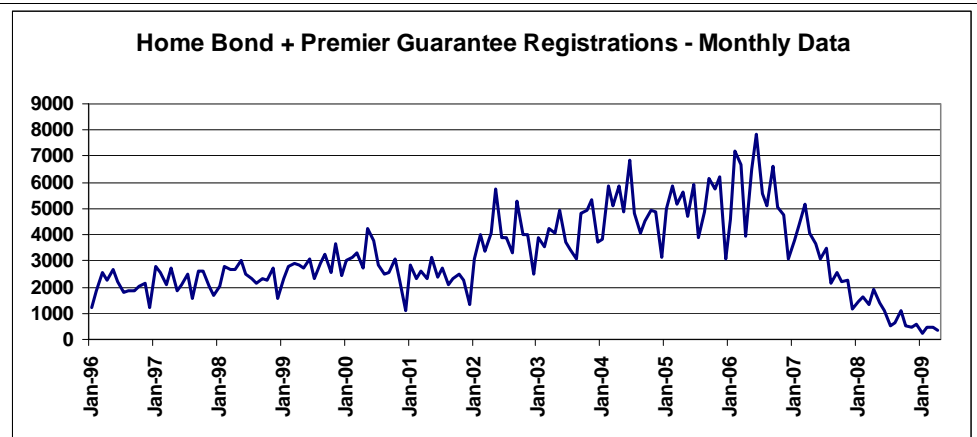
Source: Merrion Irish Housebuilder Survey – Spring 2009

It is worth noting that a number of respondents indicated that there will be a shortfall of supply at some later point in time. Exactly when this will occur is unclear at this stage. Many housebuilders are not building at present and do not expect to recommence building for the next year. As there is a lead time of c.12 months between when a site commences work and when the keys can be handed over to a new purchaser, there is the potential for a temporary gap to occur between supply and demand once demand improves. The regional breakdown of the stock overhang varies throughout the country and different areas will be

affected in different ways. There is the potential for a shortage to occur in the major urban areas such as Dublin, Cork, Limerick and Galway once the existing stock is worked through and this needs to be kept in mind over the coming 18 month period.

We note here the structural insurance data presented by Homebond registrations and Premier Guarantee registrations. This data is used as a proxy for housing starts in Ireland, with Homebond accounting for circa 75% of the registration data and Premier Guarantee accounting for the remaining 25%. This data has declined sharply over the past two years and is presented below. Total registrations in the first four months of 2009 were 1,524, which compares with 6,304 in the first four months of 2008 and represents a 76% decline year on year. 2008 was also materially down on 2007 (-64% yoy), with 17,346 registrations being seen in the first four months of 2007. The 2009 level of registrations in the first four months of the year is less than 10% of the level two years ago. Our survey findings do not highlight any significant potential for starts to increase in the short term.

Chart 15: Total Irish Monthly Registration Data

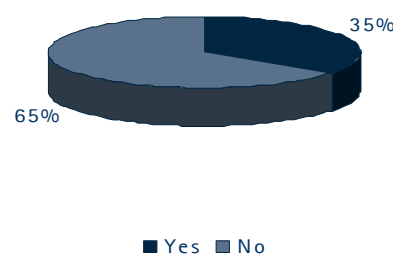


Source: Homebond, Premier Guarantee

65% Of Respondents Not Renting Stock

We also asked builders if they were renting any of their stock at the moment. Of those that have stock on hand currently, 65% noted that they are not renting any of their stock, while 35% said that they were renting stock. Some respondents highlighted issues such as purchasers viewing rented houses as second hand houses, while others simply did not view renting as an option that they would consider. However a number of respondents said that while they previously would not have considered renting their stock, they are now considering this as an option. Rents were also noted as declining at present.

Chart16: Are You Renting Any of Your Stock At Present?

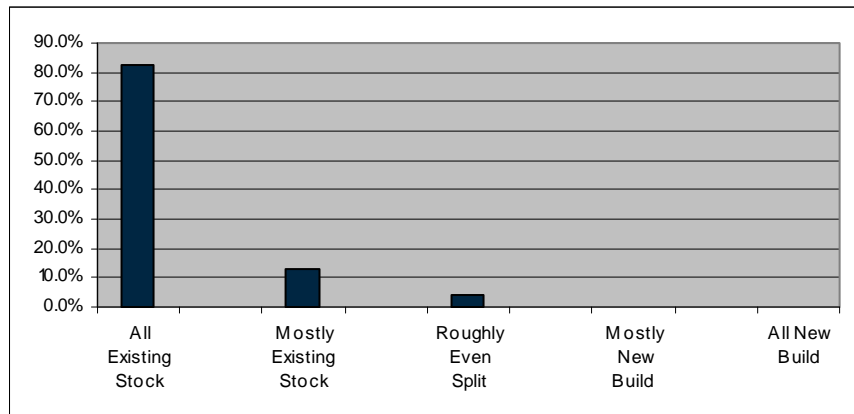


Source: Merrion Irish Housebuilder Survey - Spring 2009

Inventory Levels

We asked builders a number of questions in relation to their inventory levels. For sales that are expected to be made in 2009, we asked would these sales come from existing stock or new build. 2 respondents, or 8%, do not have any stock on hand at present and both noted that they plan to deliver zero completions, and hence zero sales, in 2009. Of those that do expect to make sales this year, 83% expect all sales to come from existing stock, with 13% saying the majority will be from existing stock. Only one respondent noted a roughly even split between existing stock and newly built units.

Chart 17: Origin of 2009 Sales



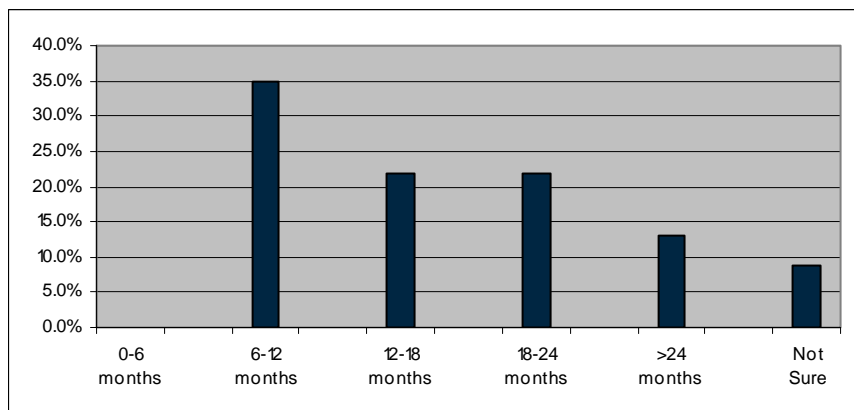
Source: Merrion Irish Housebuilder Survey – Spring 2009

The level of stock overhang within the Irish residential market, coupled with the time that it is likely to take for this overhang to clear, is of much interest. It is difficult to accurately assess this figure as there is no reliable, published data on the topic. We felt that the builders themselves could provide an interesting perspective on this.

Inventory Likely To Take Until H2 2010 At Earliest Before Cleared

We asked builders how long it would take for them to clear their own current levels of stock. Of those respondents who do have stock on hand currently, 35% said that their stock would take between 6 and 12 months to clear, 22% said that their stock would take between 12-18 months to clear and 35% said it would take over 18 months to clear their stock. We also note that 8% of respondents were not sure how long it would take to clear their stock as activity levels are so low at present.

Chart 18: How Long to Clear Existing Stock?



Source: Merrion Irish Housebuilder Survey – Spring 2009

The trend in responses to this question over time has been concerning. In our survey one year ago, the majority of respondents expected their inventory to be cleared by H1 2009. In our survey 6 months ago, the majority of respondents expected their inventory to be cleared by H1 2010. Now the majority expect it will take until H2 2010 at the earliest to clear their inventory. We highlight the previous optimism shown by survey respondents to this question and note the likelihood that the H2 2010 target will stretch into 2011 when we next conduct our survey.

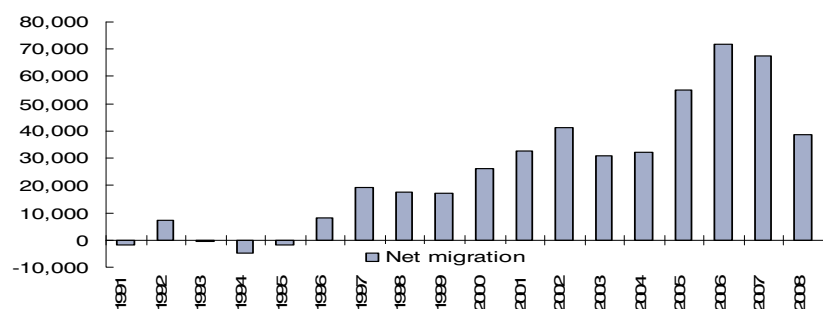
Less Willingness to Estimate Nationwide Overhang

We also asked respondents how long they feel it will take for the overhang in the market to clear, and also how many unsold units they feel are in the market at present. In previous surveys, we had received a reasonable response rate to these questions. However in this survey, 56% of respondents answered 'Don't Know' to how many unsold units there are nationwide, while 72% of respondents answered 'Don't Know' to how long it will take the market as a whole to clear the overhang of units. Of those that did respond, the majority of responses were for between 30k and 40k unsold units nationwide and that it would take between 12 and 24 months to clear, although some respondents noted that it would take over three years to clear the overhang. These results do not differ much from our survey in the autumn. However, we are now six months further down the road.

It was noted by a number of respondents that the time taken to clear the overhang depends on where the units are located, with Dublin, Cork, Limerick and Galway expected to clear their overhang before the commuter belt and the Midlands, which may take a prolonged period of time to work through.

The key question from the demand perspective remains how the demographics of the country develop over the coming 5 year period. Should the net inward migration trend that has been seen over the past decade continue, then the overhang of stock currently in the market may be cleared over the coming 24 months. However should the migration trend reverse, the overhang could take a significantly longer period of time to work through.

Chart 19: Irish Net Migration Trend



Source: Central Statistics Office

Local Authorities and Part 5 Units

We asked builders a number of questions regarding local authorities and Part 5 requirements for social and affordable housing, as the actions of local authorities have the potential to cause significant difficulties for the industry over the coming years.

i) Are you carrying any Part 5 stock at present?

52% of respondents noted that they were carrying Part 5 stock, with 48% noting that they had no Part 5 stock on hand.

ii) Are you encountering any difficulties with local authorities on Part 5 delays?

36% of respondents noted that they are currently encountering difficulties with local authorities. However, a number of other respondents noted that they previously had difficulties with local authorities but now have no Part 5 stock on hand.

iii) Do local authorities have the capability to cause problems for the housebuilding industry if they look for cash in lieu of units?

92% of respondents answered yes to this question, noting that most housebuilders have liquidity issues at present and banks would not be willing to fund such a cash call.

We again received a significant amount of commentary on the difficulties being encountered with local authorities, which we reproduce below:

- 'Government authorities have stopped funding local authorities';
- 'Private units are now at or below affordable unit prices';
- 'Affordable housing waiting lists are fiction';
- 'Builders have difficulties with the local authorities every day of the week';
- 'Local authorities are very slow to give lists of affordable housing names';
- 'If local authorities looked for cash it would be a massive headache for the industry';
- 'Local authorities will have to pay up for their contracted units, stalemate possible';
- 'Had massive difficulty with local authorities, they have no money';
- 'Encountered massive difficulties with local authorities, got a deal across the line with them before Christmas but lucky to have done so';
- 'In addition to the specific Part 5 unit requirements, there are also development levies tied up in the non-Part 5 units that the authorities have not yet received';
- 'People in councils have no commercial knowledge, they don't understand what a six month delay can do to a business';
- 'Social units are what is keeping builders going at present';
- 'It would be futile for local authorities to look for cash in lieu of units as the money just isn't there';
- 'Local authorities can't afford to pay for units'.

Supplementary Budget, Cancellation Rates & Incentives

Impact of the Supplementary Budget in April

We also asked whether the recent supplementary Budget in April has had any impact on the market, to which 84% of respondents noted that there has been no impact. Some noteworthy responses were that the Budget cut the level of mortgage interest relief, so it will now take longer for the market to recover. Another respondent noted that at least the uncertainty over mortgage interest relief and stamp duty is now gone, so people now know where they stand. One other respondent noted that the Budget mentioned the potential introduction of a property tax in the future, which has added to the uncertainty in the market as buyers don't want to pay both stamp duty and an ongoing property tax.

Cancellation Rates Largely Unchanged

We asked respondents about cancellation rates, as an increase in cancellation rates is a good indicator of weakening demand for new housing. 28% of respondents have seen an increase in cancellation rates compared with last year, with 56% saying that cancellation rates are unchanged yoy and 12% saying that rates are lower yoy. 4% noted that they aren't even getting to the booking deposit stage. Those seeing lower cancellation rates this year feel that the quality of purchaser is higher compared with a year ago.

Use Of Incentives Broadly Unchanged

The use of sales incentives often indicates a market that is vulnerable to pricing pressure. As a result, we asked builders if they are seeing any change in the use of incentives. The majority of respondents, 76%, reported that they have not increased their use of incentives in the market versus 2008. Most of these respondents noted that the only incentive that people care about is price and that holidays, cars, white goods etc are of secondary concern to purchasers behind price.

Conclusion

Overall, it appears that 2009 is going to be a very tough year for the housebuilding industry, Our expectation is that 2010 will also be difficult due to the lack of building activity at present and the overhang of stock in the market. Some optimism remains for the second half of 2010, when a pick up in volume activity may occur due to an increased proportion of the housing overhang being worked through at that stage. However, given the slow sales environment at present, the level of registrations being seen with Homebond and Premier Guarantee, as well as more than three quarters of housebuilders surveyed not building at present, we remain cautious on whether the back end of 2010 will prove to be the turning point of this downturn in housing activity. We suspect it will more likely be 2011 at the earliest.

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Disclosure checklist - Potential conflict of Interests

Stock	ISIN	Disclosure (see below)	Currency	Price
Grafton	IED0B00MZ448	3	EUR	2.67
McInerney	IE00B1W38B04	3, 11	EUR	0.14
Abbey	IE0000020408	3	EUR	4.75
Readymix	IE0007267820	3, 11	EUR	0.26
Kingspan	IE0004927939	3, 11	EUR	4.82
CRH	IED001827041	3, 11	EUR	18.14

Source: Bloomberg closing prices of 20/05/2009

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