Irish housing conundrum: housebuilding recovering slowly despite bottlenecks

DAVY VIEW

In this report we examine current demand and supply-side bottlenecks. To gain further insight, we commissioned a build cost analysis, which indicates that housebuilding may not be viable at present in many areas. However, build costs are not hugely out of line with valuations in Dublin where demand is greatest. Our developer survey found the planning process and infrastructure deficit as the biggest headwinds to building. Although housebuilding now appears to be belatedly picking up, more could be done to alleviate bottlenecks and boost output.

House price inflation to equal 5% in 2015

Residential property prices had a weak start to 2016, with prices declining in two of the previous three months. However, our recent report in conjunction with My Home showed asking prices rising by 2.1% nationally in Q1 2016 and by 0.9% in Dublin, so we would expect to see momentum in Irish house prices build heading into the summer months. We still expect house price inflation to equal 5% by December 2016 and 4.5% in 2017. Price momentum is likely to be stronger outside Dublin where affordability is less stretched.

Demand strong but bottlenecks persist on supply side

Population growth points to strong housing demand, but the mix of units delivered will need to cater to shifting demographics. The supply response has been slow and build costs still look high relative to asking prices. To ascertain the current gap, we commissioned Walsh Associates Quantity Surveyors to detail the current cost of residential construction. The results suggest that build costs are not hugely out of line with house prices – about 41% of Dublin transactions are above estimated build costs – but more could be done to reduce costs to make construction universally viable.

Developer survey highlights planning and infrastructure as headwinds

A Davy-commissioned survey of a number of large Irish developers revealed the planning process and infrastructure (particularly availability of serviced land) as the biggest headwinds to building. Although the availability and cost of land remain an issue for most builders, this pressure has lifted significantly since our last survey in October 2015. Build costs (both labour and materials) remain well controlled, with plenty of capacity left in both.

Efficiency across the sector will be key; reiterate 'Outperform' rating for Cairn Homes

With some pressure remaining on builder margins and project feasibility, we believe that a more consolidated, well-capitalised sector is required. From developers to contractors and sub-contractors, increasing efficiency across the supply chain will be a vital part of growing completions. In order to do this, industry players will need to be confident regarding future demand in the sector.

We are also re-launching our 'Outperform' rating and estimates for Cairn Homes. It continues to be one of the few players in a position to take advantage of a rebounding housing market in Ireland; with a formidable land bank, it will ramp up volumes significantly in the next three to four years.

See the end of this report for important disclosures and analyst certification. All authors are Research Analysts unless otherwise stated.

Cairn Homes
Closing price: 116c

OUTPERFORM
Issued 26/08/15

David McNamara
david.mcnamara@davy.ie / +353 1 6149025

Colin Sheridan CFA
colin.sheridan@davy.ie / +353 1 6149936

research@davy.ie

Financial Data

Cairn Homes :Financial model and valuation analysis

Construction and Housebuilding Sector Review

Contents

Summary

House prices

We expect 5% house price growth this year; price momentum is stronger outside Dublin where affordability is less stretched

We still expect house price inflation to equal 5% by December 2016. As in 2015, price momentum is likely to be stronger outside Dublin given greater room for 'catch-up' and with affordability less stretched. Irish house price inflation in 2016 should be primarily driven by income growth. With wages now growing close to 2% and incomes helped by tax cuts announced in Budget 2016, house prices should be able to rise naturally with households increasing their leverage. With affordability stretched in Dublin, the room for further gains is limited with leverage held in check by the Central Bank's lending rules. Encouragingly, building activity looks like it is belatedly picking up. Planning permissions reached a five-year high in Q4 2015; if sustained, this should help yield an increased flow of new homes to the market in the coming years.

Demand

Demographics point to stronger housing demand, but the housing mix will need to cater for those in the rental and social sectors as well as a growing older age population

Home ownership peaked at 80% of households in 1991 but steadily declined to 69.7% in Census 2011. Due to the low level of transactions, home ownership has likely fallen to 66% by 2016. If this rate falls to the UK rate of 65% by 2020, half of the net annual household formation will be in the rental sector. However, a recovery in homeownership to 68% would stall the recent gains in the number of rented households. In both scenarios, however, net annual owned household formation should grow at a faster pace than in 2011-2016. Thirty-five percent of rented households (about 12% of all households) could be receiving some form of state subsidy for their housing, pointing to a requirement for more affordable and social housing. Half of the housing demand will be in Dublin, where supply is tightest. Demographics point to a growing cohort of younger age groups that could remain in the rental sector for longer and an older age population. Indeed, providing a suitable housing mix could allow older 'empty nesters' to downsize and free up family homes for prospective homeowners.

Supply

A Davy-commissioned study shows that build costs are not hugely out of line with Dublin prices, but construction is not universally viable at present

Anecdotal evidence suggests that builds costs are still well above asking prices. To gain a greater insight, we commissioned Walsh Associates Quantity Surveyors to detail the current cost of residential construction in Dublin. The results show that build costs are still above My Home asking prices in many areas, but about 41% of transactions in the past year have been above estimated build costs. Nonetheless, more could be done to make construction universally viable. The government has updated apartment standards, which should help to make construction more viable in that sector. The government could also reform the BCAR building standards introduced in 2014. These are estimated to add €20-30,000/unit to the cost of construction, and a significant proportion of this cost could be taken out if the system transitioned to a fully public regulated one from the current self-certification private sector model.

Developer survey

A Davy survey of a number of large Irish developers revealed the planning process and infrastructure (particularly the availability of serviced land) as the biggest headwinds to building. Although the availability and cost of land remain an issue for most builders, this pressure has lifted significantly since our last survey in October 2015. Build costs (both labour and materials) remain well controlled, with plenty of capacity left in both. With some pressure remaining on builder margins and project feasibility, we believe that a more consolidated, well-capitalised sector is required. From developers to contractors and sub-contractors, increasing efficiency across the supply chain will be a vital part of growing completions. In order to do this, industry players will need to be confident regarding future demand in the sector.

Recommendations

Based on our findings, policymakers should focus on the following areas to boost output.

- Reform BCAR building standards. A significant proportion of this cost could be taken out if the system transitioned to a fully public regulated one from the current self-certification private sector model.
- Invest in infrastructure. Our developer survey points to a deficit of serviced land. Authorities should ramp up investment in this area to speed up development.
- Expediate the planning process. Our survey suggests that the planning process is still lengthy. Measures to accelerate this could include expanding strategic development zones to new areas.
- Deliver appropriate housing mix. Construction should focus on smaller sized units to suit changing demographics. This could require incentives for the construction sector to deliver the correct mix in the coming years.

Housing market a dysfunctional part of recovering economy

Ireland's recovery has continued in 2016, broadening out from foreign direct investment and exports into domestic-facing sectors

Ireland's recovery has continued at a rapid pace this year. We now expect GDP to expand by 6% in 2016 and 4% in 2017. The recovery is being felt in the labour market, with the unemployment rate falling to a fresh low of 8.6% in March. The government deficit now looks set to equal just 0.3% of GDP in 2016, helped by buoyant tax revenue – particularly from the multinational sector – and with the debt/GDP ratio falling below 90% for the first time since the crisis.

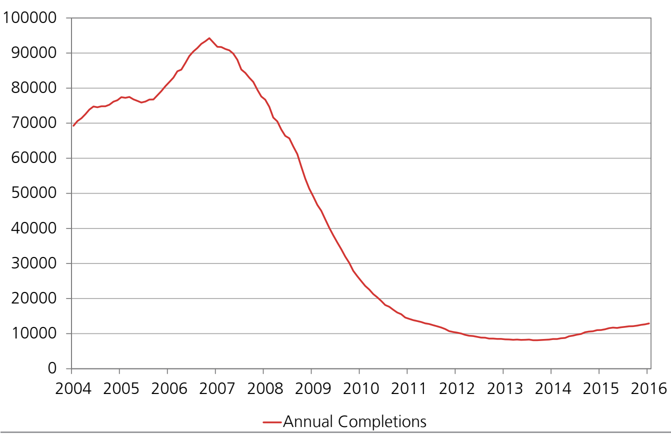
The contribution of the construction sector to Ireland's recovery has been disappointing

One disappointing feature of Ireland's recovery has been the performance of the construction sector. Despite clear latent demand for both housing and office space, construction of new space has still to pick up markedly from a very low base. The CSO's index of construction output at end-2015 was still 70% off the 2006 peak. Residential building was 87% off peak levels and non-residential 37%.

In 2015, Irish housing completions equalled 12,666 – still well short of the 25,000 estimated necessary to meet natural demographic demand from housing. In comparison, housing completions equalled 93,419 in 2006, 78,000 in 2007 and 51,700 in 2008. At current levels, homebuilding in Ireland is still at its weakest level since records began in the early 1970s.

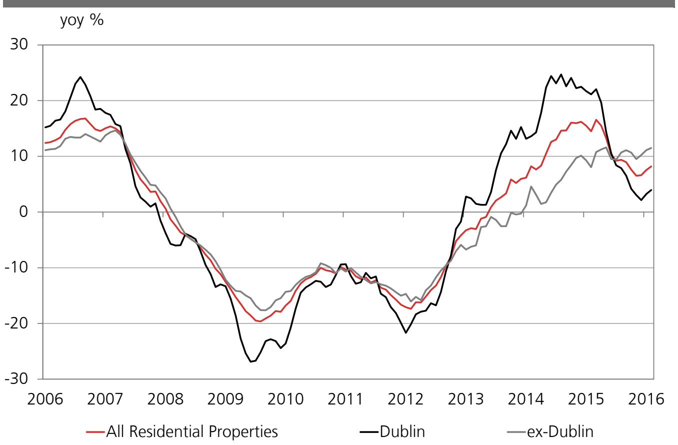
Employment in construction rose by 10% in the year to Q4 2015 to 126,600. However, this compares with peak employment levels of 270,000. Of late, the failure of construction output to respond to latent demand has attracted attention in policy circles. Specifically, given the high labour intensity of the sector, rigidities or supply constraints holding back construction output could pose the risk of a higher structural unemployment rate over the longer term. Currently, the Live Register indicates that close to 50,000 long-term social welfare claimants are ex-construction workers.

Figure 1: Housing completions



Source: Department of Environment

Figure 2: Residential property prices: annual growth



Source: CSO

Central Bank rules mean that house prices will expand by 5% in 2016

The Irish housing market has recently received heightened attention given the 25% annual growth in prices recorded in the capital in the summer of 2014. This coincided with the announcement of new Central Bank of Ireland rules that limit the quantum of more highly leveraged mortgage lending. Specifically, the Central Bank announced that the number of mortgage loans with a loan-to-value (LTV) ratio in excess of 20% would be limited to just 15% of new issuance. Moreover, only 20% of loans would be allowed to have a loan-to-income (LTI) ratio in excess of 3.5x incomes. However, first-time-buyers (FTBs) were exempt from the rules for properties worth up to €220,000.

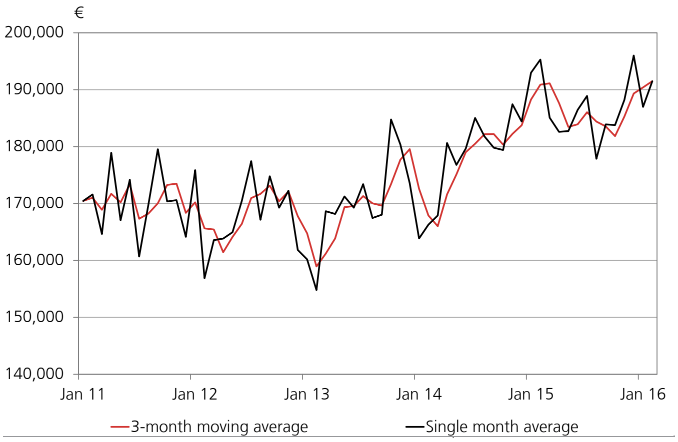
The end of capital gains tax exemptions and mortgage lending rules have helped cool the housing market

The introduction of the new mortgage lending rules, coupled with the end of capital gains tax exemptions, led to elevated transaction levels at the turn of 2015 as potential borrowers sought mortgage approvals before banks were expected to tighten credit. Growth rates in transaction levels, mortgage approvals and prices then moderated through 2015. For the year as a whole, the housing market saw a healthy 5% gain in prices, with transactions levels rising above €10bn for the first time, or by 10% in volume terms to 48,000.

However, My Home asking prices suggest that the market will regain momentum later in the year

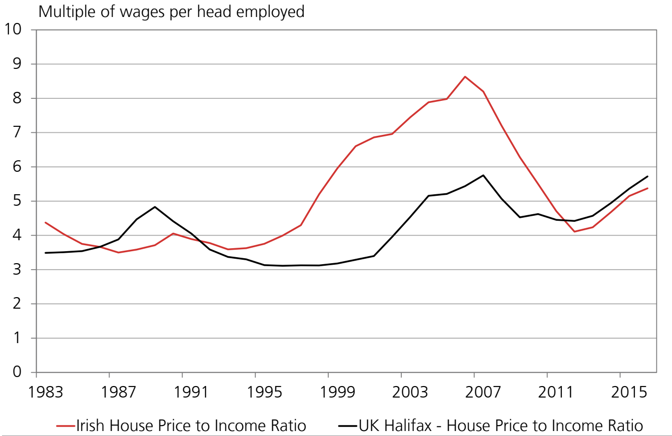
Nonetheless, with Irish households now being prevented from increasing their leverage to drive prices higher, the introduction of the new Central Bank rules has focused attention on how to stimulate housing construction. In large part, the government has become more focused on alleviating supply constraints – for example, by tasking NAMA with targets for homebuilding and plans to introduce a vacant site levy. In December, the Department of the Environment announced new minimum standards for apartment building that are expected to reduce the cost of construction; however, build costs still appear to be above asking prices in many areas.

Figure 3: Average mortgage approval



Source: BPFI

Figure 4: House price to income multiples: Ireland vs. UK



Source: Halifax; CSO; Davy

We expect house prices to grow by 5% this year – broadly in line with incomes – but growth will be stronger outside Dublin where affordability is less stretched

The Residential Property Price Index (RPPI) has had a weak start to 2016. Prices were flat in February and declined in two of the previous three months. The RPPI index for Dublin has fallen for four consecutive months to February, down 3% on its level in October. However, our recent report in conjunction with MyHome showed asking prices rising by 2.1% nationally in Q1 2016 and by 0.9% in Dublin.

Given the normal three- to six-month lag between asking prices and actual transaction prices, we would expect to see momentum in Irish house prices build through the second half of the year heading into the summer months. We still expect house price inflation to equal 5% by December 2016. As in 2015, price momentum is likely to be stronger outside Dublin given greater room for 'catch-up' and with affordability less stretched.

Table 1: House price to earnings ratio by region

	Wages per head employed (€000)	My Home median asking price (€000)	Price/income ratio
West	32.4	120	3.7
South-East	30.3	145	4.8
Midland	32.7	99	3.0
Border	32.0	120	3.7
South-West	35.0	135	3.9
Mid-West	37.6	135	3.6
State	38.1	200	5.3
Mid-East	38.4	195	5.1
Dublin	43.2	270	6.2

Source: CSO; My Home; Davy estimates

Table 2: Residential property prices

	Property price growth
2012	-12.8%
2013	1.4%
2014	12.3%
2015	11.1%
2016F	5.0%
2017F	4.5%

Source: CSO; Davy

Irish house price inflation in 2016 should be primarily driven by income growth. With wages now growing close to 2% and incomes helped by the €600m of tax cuts announced in Budget 2016, house prices should be able to rise naturally with households increasing their leverage. With affordability stretched in Dublin, the room for further gains is limited with leverage held in check by the Central Bank's lending rules.

The lack of housing supply will also support prices. In Q1 2016, the stock of homes available for sale on the MyHome website fell to a fresh low – down 6% on the previous year. Transaction levels were able to rise to €10.7bn in 2015 from €9.3bn in 2014 in the context of a tightening market, with the average time to sale diminishing. In 2015, the average time to sale was 4.7 months, down from 6.4 months in 2014 and 7.3 months in 2016. In Dublin, where supply is most stretched, the average time to sale agreed fell to 3.5 months. However, the lack of properties listed for sale, combined with still exceptionally low levels of housing construction, could soon start to prevent residential property market transaction levels from rising further.

Table 3: Housing completions forecasts

	2013	2014	2015	2016	2017
Completions	8290	11016	12666	14900	17850
Yoy %		33%	15%	18%	20%

Source: CSO; Davy

On completions – our analysis of the supply and demand forces at present suggest that the construction sector has the capacity to build enough new homes to meet the demographic demand of 25,000 new households per annum, but bottlenecks in the short run could hold back activity. We commissioned Walsh Associates Quantity Surveyors to outline the current build costs for a typical multi-unit housing and apartment scheme. The analysis suggests that housing construction may not be viable at present in areas outside of the higher priced Dublin locations in the absence of cost reductions or further house price appreciation. Nonetheless, about 41% of Dublin transactions were above estimated build costs, suggesting that prices are not hugely out of line. A reform of the new BCAR building regulations could take significant costs out of housebuilding – which could help to make marginal developments viable. Indeed, these standards do not apply to one-off houses, which may account for a normalised level of about 25-30% of completions in the coming years.

Construction activity may finally be picking up – planning permissions reached a five-year high in Q4 2015

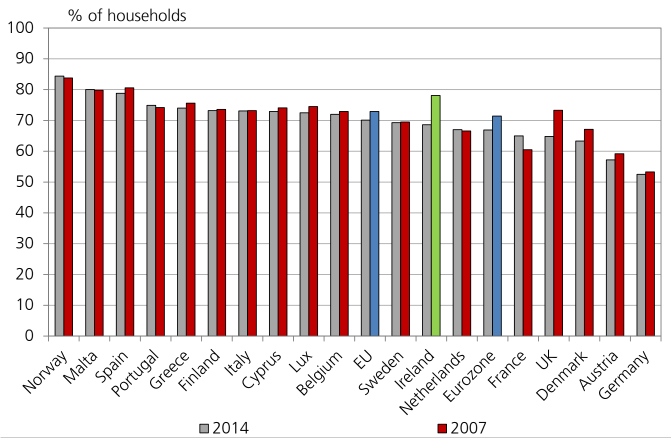
Encouragingly, planning permissions reached a five-year high in Q4 2015 to break 4,000 units for the first time since Q3 2010. It therefore seems that housebuilding activity is belatedly picking up from historically low levels. We are happy to leave our housebuilding forecasts broadly unchanged for the next few years.

Homeownership has fallen dramatically in recent years

Demand: shifting demographics will change housing demand

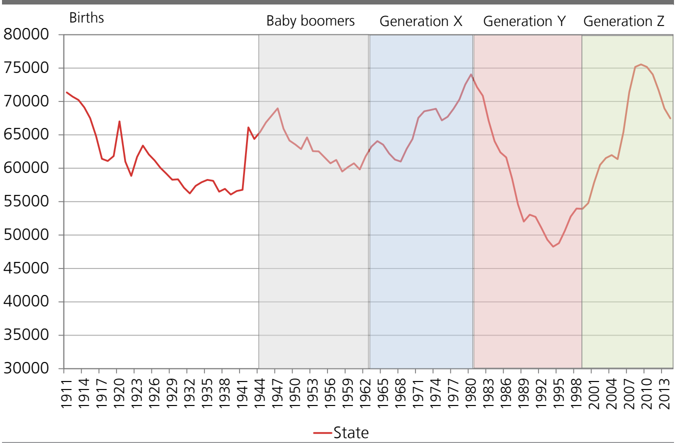
Ireland has traditionally been a home-owning nation. Home ownership peaked at 80% of households in 1991 but has steadily declined since that time to 69.7% in Census 2011. The home ownership rate in urban areas was even lower at 62%. This downward trend is likely to be confirmed when the Census 2016 data are released later this year given the low level of housing transactions since 2011. Indeed, annual Eurostat estimates suggest that home ownership had fallen to 68.6% in 2014, close to the eurozone average of 66.9%. This rate may even fall below the eurozone average in the Census 2016 data. This suggests that a majority of the 20-25,000 net households formed in the past five years were in the rental sector. Population growth points to strong housing demand in the future, but the mix of units delivered will need to cater to shifting demographics.

Figure 5: Homeownership rates, 2014 vs. 2007



Source: Eurostat

Figure 6: Annual births, Ireland



Source: CSO

Demographics suggest that the shift towards renting will continue

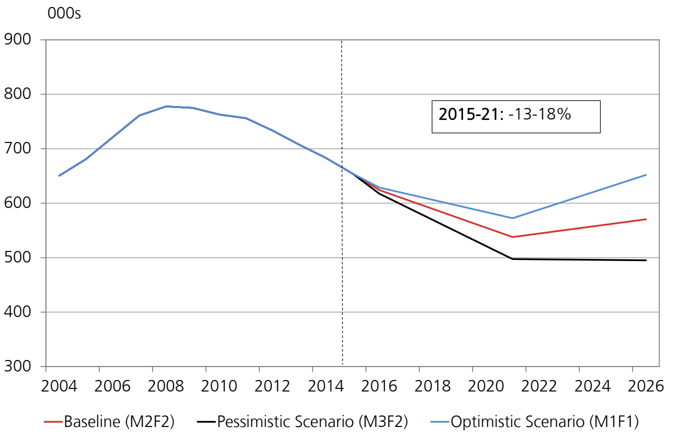
Trend towards renting could continue

Significant shifts in Ireland's demographics suggest that homeownership rates will continue to fall in the coming years. Ireland's post-war baby boomer generation is now at or close to retirement, while the surge in births post-2000 (Generation Z) is now exerting pressure on Ireland's education and health systems and will soon drive demand for housing in the rental sector. In contrast, the 25-34 FTB group (Millennials) will continue to shrink in the coming years due to a combination of a lower birth rate in the 1990s and recent emigration. Annual births fell from a peak of 74,064 in 1980 to just 48,255 in 1994. Since 2009, net migration has been -97,000 in the 15-24 age group and -67,200 in the 25-44 age group.

CSO population projections estimate that between 2015 and 2021:

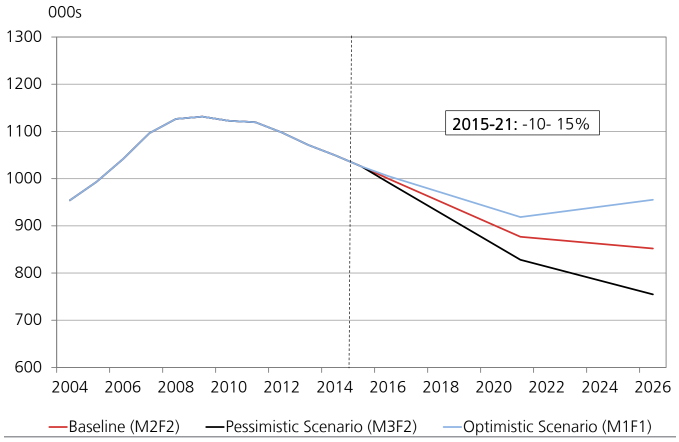
- 15-24 year-old demographic will grow by 72,000 to 89,000 (17-21%);
- 25-34 year-old demographic will fall by 56,000 to 86,000 (13-18%);
- 25-39 year-old demographic will fall by 87,000 to 123,000 (10-15%);
- 65+ year-old demographic will grow by 105,000 to 110,000 (20-21%).

Figure 7: FTB group projections (25-34 years)



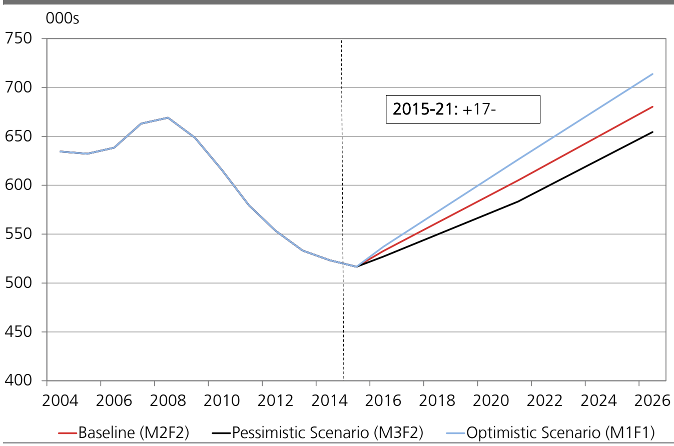
Source: CSO

Figure 8: Expanded FTB age group projections (25-39 years)



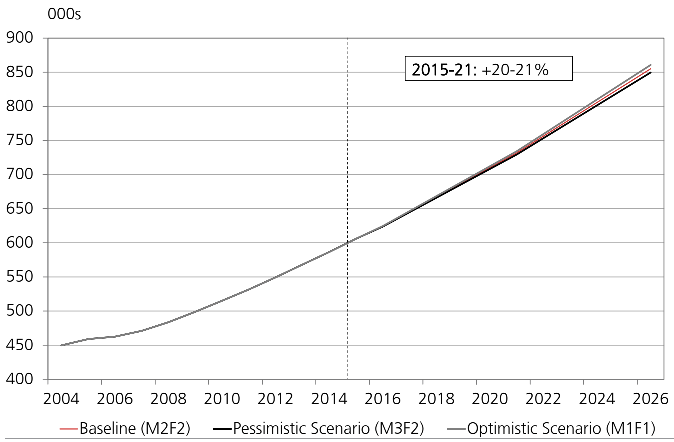
Source: CSO

Figure 9: 15-24 age group projections



Source: CSO

Figure 10: 65+ age group projections



Source: CSO

Definitions

F1: Fertility Rate at 2.1 (2010 levels)

F2: Fertility rate decreases to 1.8 by 2026

M1: Positive net migration by 2016, +30k by 2021

M2: Positive net migration by 2016, +30k by 2021

M3: Net Migration negative for whole period

Ireland's young and old age population is set to increase dramatically

The range of estimates reflects the uncertainty around migration flows in the coming years. However, even in an optimistic scenario of positive net migration from 2016 rising to +30,000 by 2021, the FTB age group (25-35) is still expected to decline by 56,200 (-12.5%). In a worst case scenario, the fall could be 86,000 (18%) if current negative net migration persists. Ireland's 65+ group is forecast to increase by 105,000-110,000 (+20-21%) between 2015 and 2021.

Rented households could account for half of the increase in households between 2016 and 2020

These demographic forecasts all point to a continued rise in the number of rented households in the near term. Indeed, based on the ESRI household formation forecasts and our estimate of the level of homeownership in 2016, we expect the number of rented households to increase to 598,000 from 475,000 in 2011 and the number of homeowners to increase to 1.162m from 1.15m in 2011 when the Census 2016 data are released. This is based on the homeownership rate falling to 66% in 2016 from 69.7% in 2011, in line with the trend in recent household surveys. If the homeownership rate converges with the current UK rate of 65% by 2020, over half of the net households formed in the period 2016-2020 will be in the rented sector.

An alternative scenario would be a recovery in Ireland's homeownership rate to 68%; this would see a net increase in homeowners to 25,000/annum and a net decline in rented households of about 1,000/annum. Overall, in either scenario, it looks like homeownership formation will pick up from historically low levels between 2011 and 2016 in the next five years.

Table 4: Alternative scenarios for household formation: homeowners vs. renters

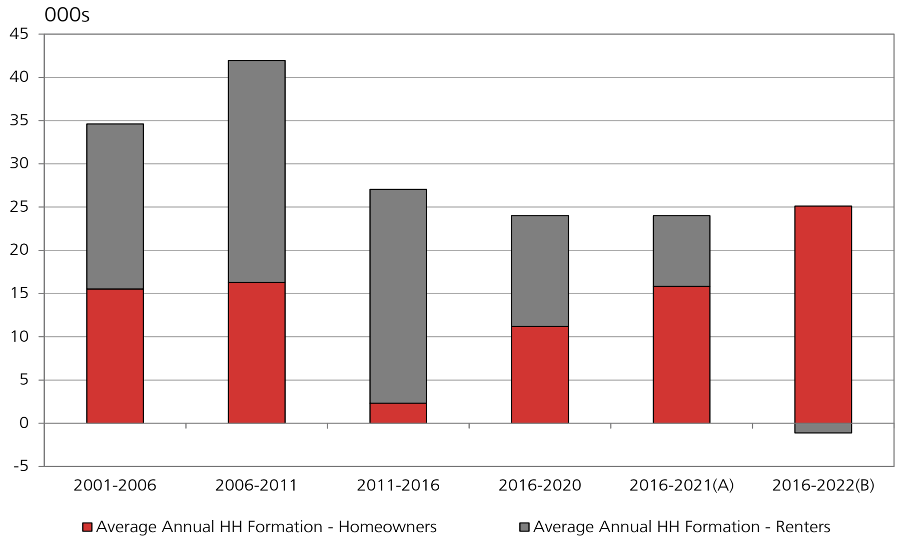
	Households	Homeownership rate (%)	Homeowners (000's)	Renters (000's)	Total household growth	Average annual HH Formation	Homeowners growth (000's)	Renters growth (000's)	Average annual HH formation - homeowners	Average annual HH formation - renters
2001	1,280	77.4%	991	251						
2006	1,462	73.1%	1,068	347	182.4	36.5	77.7	95.3	15.5	19.1
2011	1,649	69.7%	1,150	475	187.0	37.4	81.5	128.2	16.3	25.6
2016E	1,760	66.0%	1,162	598	111.0	22.2	11.7	123.6	2.3	24.7
2020F	1,856	65.0%	1,206	650	96.0	24.0	44.8	51.2	11.2	12.8
2020A	1,856	66.0%	1,225	631	96.0	24.0	63.4	32.6	15.8	8.2
2020B	1,856	68.0%	1,262	594	96.0	24.0	100.5	- 4.5	25.1	-1.1

Source: ESRI ; CSO; Davy estimates

One-third of renters could be receiving state-subsidised housing in 2016 – highlighting the requirement for social and affordable stock

The breakdown of those in the rented sector is also instructive for Ireland's housing requirements. In 2011, 144,000 (30%) of those in the rented sector were in social housing. Moreover, by 2015, 63,826 people in the private rented sector were receiving rent supplement payments from the state. If the number in social housing in 2016 is unchanged on 2011, this suggests that 208,000 people in the rented sector will be receiving some form of state-subsidised housing – 35% of the total rented sector and 12% of all households. This highlights the requirement for more social and affordable units as part of the housing mix delivered in the coming years.

Figure 11: Average annual household formation: renters vs homeowners



Source: CSO; ESRI; Davy

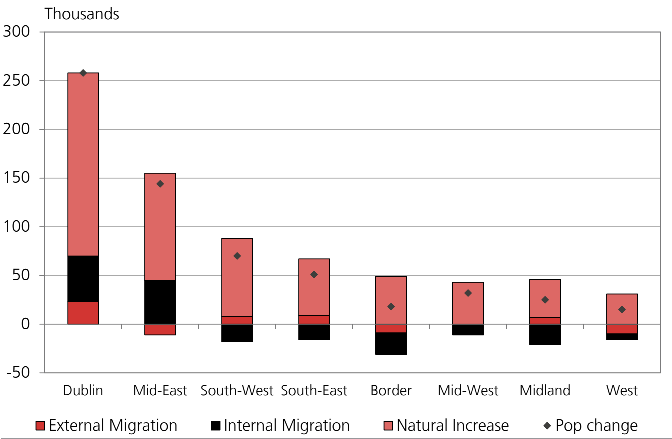
However, the lack of available housing in Ireland's urban areas means the forecast increase in the number of households may not fully materialise. Younger age groups may have been forced to stay 'in the nest' longer due to tight supply, increased rents and more restrictive mortgage lending rules. However, net in-migration of foreign nationals – who tend to form new households at a higher rate – may offset any decline in household formation among nationals.

Demand will be highest in Greater Dublin area

Two-thirds of the national population gain will be in the Greater Dublin area

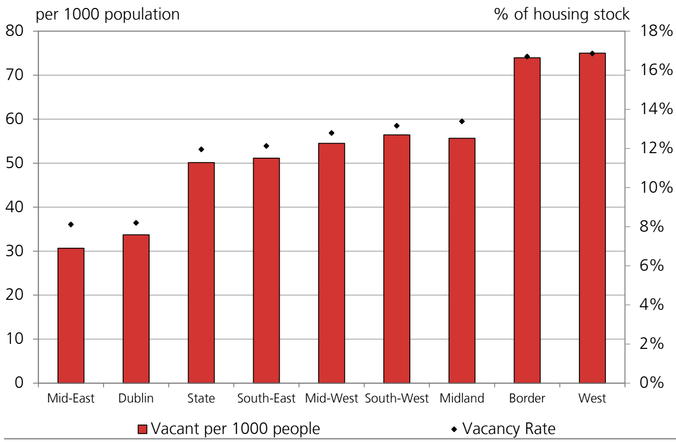
The following two charts illustrate the disconnect between current housing supply and projected future demand. An overall national vacancy rate of 14% in 2011 pointed to ample supply in the near term. However, excluding holiday homes, this figure fell to 12%; in Dublin, the vacancy rate was 8.2%, and we estimate this had fallen below 5% by 2015. In Dublin and the commuter belt counties (Kildare, Meath, Wicklow), the vacant housing stock as a proportion of the population was the lowest of any region in 2011, and confirmation that this gap has worsened is likely when the Census 2016 data are released. In short, Ireland's empty homes are in the wrong places.

Figure 12: Estimated population change 2011-2031, by region



Source: CSO

Figure 13: Vacant housing stock, Census 2011



Source: CSO

The housing requirement for Dublin will be 35,000 between 2014 and 2018

Between 2011 and 2031, the population in Dublin is forecast to grow by 250,000 and by 150,000 in the commuter belt counties; in the five years since the last census, just 8,873 homes have been completed in Dublin and 5,430 in the commuter belt. Taken together, the other six regions will grow by just 211,000. This means that two-thirds of the growth in Ireland's population will be in the Greater Dublin Area (GDA), an area that accounted for just 40% of the national population in 2011.

The Housing Agency has forecast a minimum housing requirement of 80,368 units between 2014 and 2018, of which Dublin accounts for 35,433 units and the commuter belt 12,000. However, in Q3 2014, just 26,580 additional units had been granted planning permission – a 25% deficit. Since that time, just 6,841 further units were granted planning. However, zoned residential land was forecast by the Housing Agency to provide 102,500 units in 2014 – suggesting that there is capacity for a pick-up in housebuilding in Dublin.

Table 5: Dublin supply capacity 2014-2018

	Zoned for development	Min housing requirement	Granted planning (Sept 2014)	Surplus/deficit in 2014
Dublin City	131 hectares	13,751	2,444	-82%
Fingal	1,065 ha	9,617	15,583	62%
Dun Laoghaire	302 ha	3,299	6,070	84%
South Dublin	553 ha	8,766	2,483	-72%
Total	2,333 ha	35,433	26,580	-25%

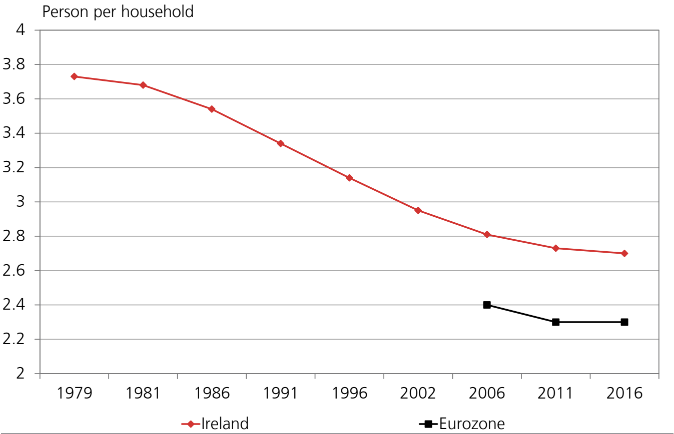
Source: Housing Agency

Construction should focus on smaller sized homes

Average household size is shrinking, yet new build home sizes have been increasing

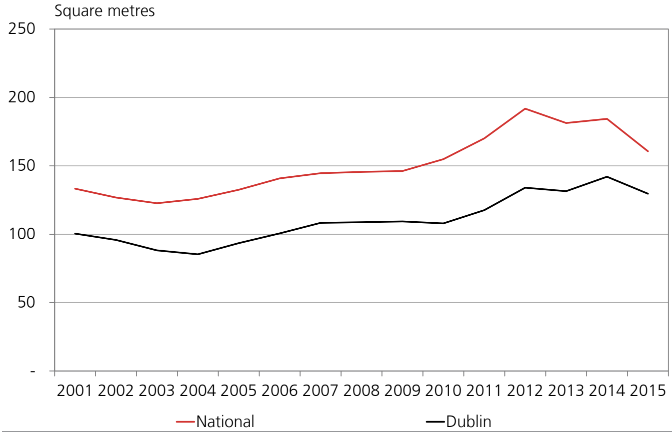
The near-term population projections point to increased demand for single-person and two-person housing designed for both younger and old age cohorts. Ireland's average household size has fallen sharply from 3.14 persons in 1996 to 2.73 in 2011 and is expected to fall below 2.7 in 2016 by the National Housing Agency. The average household size in Ireland is now converging with the eurozone and UK average of 2.3-person households. However, much of Ireland's current delivery of housing stock is focused on larger family homes. In 2015, 48% of homes completed were one-off houses, 39% were scheme houses and just 13% were apartments. Moreover, the average size of housing units has been steadily increasing in recent years. The average size of a dwelling approved by planning authorities, although down on 2014, was 160sq m in 2015, up from 146sq m in 2007. In Dublin, the average unit size increased from 108 sq m to 130 sq m between 2007 and 2015.

Figure 14: Average household size: Ireland vs. eurozone



Source: CSO; Eurostat

Figure 15: Planning permissions: average size of housing unit



Source: CSO

Housebuilding should focus on smaller units in urban areas

Freeing up current housing supply – the 'empty nesters' issue

One way to free up supply of family homes quickly while delivering these alternative tenures is to incentivise 'empty nesters' to move to smaller dwellings. Recent research by the ESRI demonstrated the current inefficient use of the housing stock by older Irish age groups. This research focused on living arrangements of 50+ year-olds – about 875,632 people in 2011. Of those living alone, 59% were living in homes with five rooms or more; of those living with a spouse only, 80% lived in a home with five rooms or more.

This illustrates the large gap that exists between housing requirements and actual usage in Ireland and suggests that a significant proportion of family housing could be freed up if appropriate housing was available for 'empty nesters' to downsize into.

Table 6: Housing structure for individuals aged 50 and above by household structure: 2009-2011 (% of pop)

Household structure	Living alone	Living with spouse Only	Living with children/grandchildren	Living with other relatives	Living with non-relatives
Population over 50 (number)	272,321	283,704	295,088	21,015	4,378
Population over 50 (%)	31.1	32.4	33.7	2.4	0.4
Type of residence:					
Detached house	47.9	60.2	56.5	65.5	45.4
Semi-detached house	23.2	23.6	25.3	16.9	21.8
Terraced house	21.8	14.8	17.5	16.6	23.6
Apartment	6.7	1.2	0.5	1.0	9.3
Other	0.5	0.2	0.1	-	-
Number of rooms*					
1	1.6	-	-	-	-
2	6.7	0.7	0.3	0.8	-
3	13.9	7.1	4.5	4.6	6.8
4	18.4	11.8	11.0	19.0	6.8
5	26.5	25.0	24.1	20.9	24.7
6	19.0	24.0	23.4	23.6	27.5
7	8.7	16.4	15.8	16.2	13.1
8 and above	5.2	14.5	20.6	14.9	21.0
Non-response	0.1	0.5	0.3	-	-

**Includes bedrooms, dining rooms, living rooms and habitable cellars and attics; does not include bathrooms, toilets, corridors, utilities.*

Source: ESRI/TILDA

Empty nesters could be incentivised to free up family homes but will require adequate supply to downsize into

Incentives could include a waiver in property tax or stamp duty on purchases or subsidies for those moving into the private or social rented sector. However, any demand–side supports will need to be accompanied by supply-side measures. This could include planning requirements for developers to build a mix of tenures in particular areas based on demographics or tax breaks on certain tenure types such as student housing or assisted living for older age groups.

In December, the government waived development contributions for new developments in Dublin and Cork priced under €300,000 and €250,000 respectively until 2017 (https://www.davy.ie/research/private/article.htm?id=rentcontrols20151112_12112015.htm). This type of support could be applied specifically to these alternative tenures in areas where demand is greatest.

Supply: construction will be slow to pick up from historically low levels

Supply has been sluggish to respond to demand

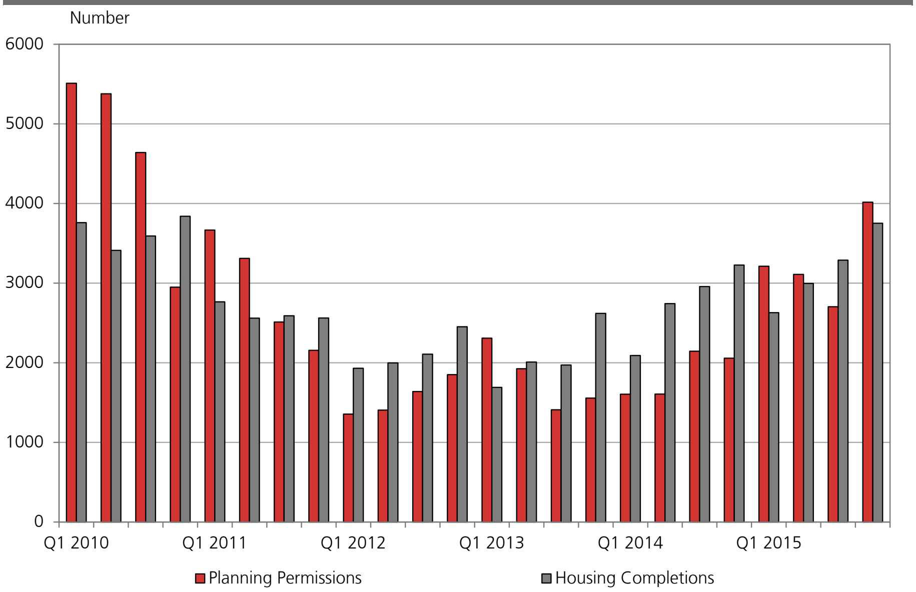
The supply response to the surge in demand has thus far been hampered by bottlenecks in the delivery of housing. These can broadly segmented into availability of land, construction costs and the regulatory environment. Nonetheless, market developments in recent months suggest that these supply-side bottlenecks are beginning to ease.

- In our latest developer survey, respondents suggested that the supply of land has improved in the past year.
- The government has streamlined design requirements for new apartments and cut development levies for multi-unit developments – lowering the cost of construction.
- Planning permissions picked up to a five-year high in Q4 2015.

Changes to design standards should have a positive impact, but construction could be slow to pick up

The various local authorities in Dublin are also currently updating development plans, which should provide greater clarity to developers on planning requirements in the medium term. However, this period of uncertainty while new policy is drafted could mean the delay of some shovel-ready projects. Indeed, our latest developer survey revealed that the lengthy planning process is currently one of the key impediments to delivering supply to the market. A re-submission of plans based on updated standards could see projects delayed by a further six to nine months – suggesting that completions could pick up little this year from the 12,600 units delivered in 2015. However, the planning permission data for Q4 2015 did look encouraging – 4,017 units were granted planning – up from 2,057 in Q4 2014 and the highest total since Q3 2010.

Figure 16: Planning permissions and completions



Source: CSO; Department of Environment

A further impediment identified in the developer survey was the current infrastructure deficit on zoned land. The Housing Agency estimates zoned land for 102,500 units at present in Dublin, but developers surveyed have pointed to the lack of transport and utilities infrastructure as a key impediment to current development.

Build costs still look high relative to asking prices

However, the supply-side response is likely to be muted in the short term. In our [housing report] in November, we discussed some of the impediments to the construction sector ramping up to meet demand. These largely related to the still high cost of construction – which has to some extent been addressed by the policy decisions made by government in Q4 2015. These included changes to the design standards for apartment buildings in December 2015 and a waiving of development levies in Dublin and Cork for multi-unit developments under €300,000 and €250,000 respectively.

Changes to apartment design standards were expected to take up to €20,000 off the cost of a unit

The updated 2015 apartment guidelines retain the minimum floor area standards that were set nationally in 2007 (see table below). However, the updated guidelines also make provision for a smaller studio-type apartment (40m^2) in build-to-rent schemes above 50 units only. The second major change was a dual aspect requirement of 50% compared to the heretofore 85% minimum in Dublin. The number of units per lift core was also increased to eight compared to the current two to four. Crucially, these new national standards usurp various local authority guidelines, which often prescribed larger units and dual aspect ratios. The Department of Environment estimated that the changes would take a further €20,000 off the cost of construction.

Table 7: Minimum national apartment design standards

	1 bed	2 bed	3 bed
Floor area	45 m^2	73 m^2	90m^2
Floor to ceiling height	2.4 m	2.4 m	2.4 m
Balcony size	5sqm	7sqm	9sqm
Dual aspect/apts per core	85% from 50% dual aspect, 8 per core from 2-4 per core		
Other changes	40sqm studio apts permitted in schemes above 50 units		

Source: Department of Environment

We commissioned Walsh Associates to determine the current cost of construction – build costs for a 3-bed semi was €273k and a 2-bed apartment was €266k, excluding land

Nonetheless, industry estimates suggest that build costs are still above asking prices in many areas. To gain an insight into current build costs, we commissioned Walsh Associates Quantity Surveyors to outline the cost of construction for a typical house and apartment scheme in Dublin. The costs outlined in the following table detail the typical per-unit costs of a 3-bed house and 2-bed apartment in a multi-unit scheme. These calculations exclude land and financing costs but include all other build and ancillary costs associated with a typical multi-unit scheme.

The findings show the build cost of a typical 3-bed house (1,171 sq.ft) is €208,825. This excludes land and financing costs. Adding on a profit margin of 15% and VAT at 13.5% gives a final sales price of €272,569. Depending on the location, land costs could bring this total closer to €300,000 in Dublin; outside the capital, land costs and cheaper build costs mean that this total would be lower.

The cost of building a 2-bed apartment at the current Dublin standards (87sq m) comes in at €204,042 before profit and VAT, rising to €266,326 sales price. However, switching to the new national standards could take 15-25% off build costs, depending on the scale and other site-specific factors.

BCAR regulations are estimated to add €20-30k per unit costs but do not apply to one-off housing

Another factor to consider in the build costs is the impact of the BCAR SI.9 building control regulations introduced in 2014. Walsh Associates indicated that these new regulations could add between €20,000 and €30,000 per unit associated with higher quality building materials and the cost of the self-certification process. Schemes started before February 2014 are not subject to these standards, and the new regulations have also been waived for one-off housing – which accounted for 48% of completions and 27% of planning permissions in 2015. Taking these factors into account suggests that the ultimate build cost could be significantly lower in regions outside the capital.

Table 8: Sample housebuilding cost – Co. Dublin

	3-bed house	2-bed apt
Size (sq.ft)	1,171	936
Cost per sq.ft	178.3	217.9
Construction costs	108,800	119,521
Other site costs	57,171	45,099
Other costs (planning, legal, marketing etc.)	42,854	39,422
Total build cost	208,825	204,042
Developer margin @ 15%	31,324	30,606
VAT @ 13.5%	32,420	31,678
Sales cost	272,569	266,326

Source: Walsh Associates for Davy Research

Notes: Cost excludes land and financing costs

At these levels, housebuilding still looks unviable in some areas – about 42% of transactions in Dublin were above €300k in the last year

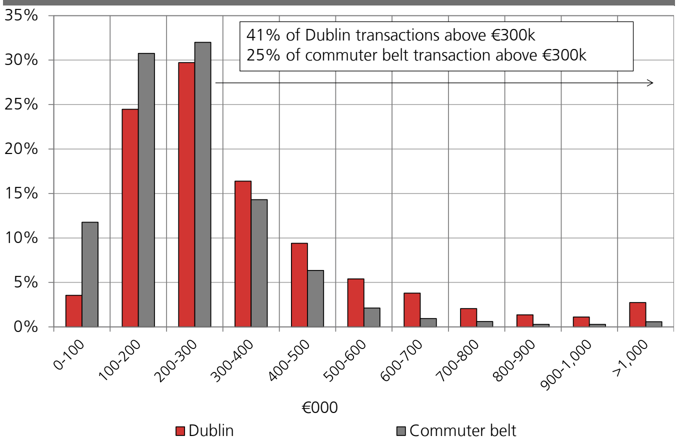
A comparison with median My Home asking prices in in the GDA suggests that current new housebuilding is still not viable in areas outside South Dublin and Wicklow. However, 42% of transactions in Dublin have been above €300,000 since January 2015 – pointing to viability in many areas. Nonetheless, overall house price appreciation would be required to make construction universally viable in the absence of any movement on costs. While labour and material costs are generally sticky, a reform of the BCAR regulations from the current self-certification system towards a fully publicly regulated system could take further costs out of the building process.

Table 9: Median My Home asking prices, 2015 (€)

	3-bed semi d	2-bed apt
Dublin All	325,000	250,000
Dublin City North	335,000	215,000
Dublin North	289,950	195,000
Dublin City South	457,500	295,000
Dublin South	425,000	295,000
Dublin West	259,000	165,000
Kildare	219,000	145,000
Meath	175,000	115,000
Wicklow	275,000	207,500
Cork City	249,500	150,000
Limerick City	145,000	70,000
Galway City	200,000	143,500

Source: MyHome

Figure 17: Housing transactions value bands: Jan 2015-present



Source: Property Price Register

To gain a better understanding of the challenges that may be holding back Irish developers from expanding operations, we conducted a survey aimed at identifying potential bottlenecks

Developer survey

To gain a better understanding of the challenges that may be holding back Irish developers from expanding operations, we conducted a survey aimed at identifying potential bottlenecks. Seven developers participated in the survey, representing a large proportion of the multi-site builders in Ireland.

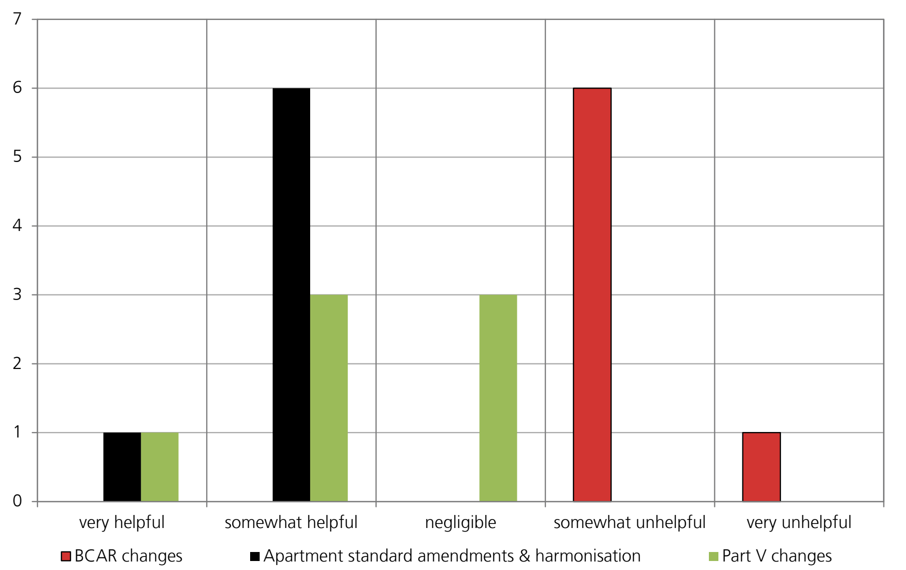
Recent changes

From a regulation perspective, there have been several amendments made. These relate mainly to the planning system, including:

- BC(A)R changes: the introduction of additional administration and oversight of building through S.I.9 of BC(A)R;
- Apartment standards: the relaxation and harmonisation of standards across local authorities lowered the requirement regarding the proportion of dual aspect units and reduced the minimum size of units;
- Part V changes: reduction of social portion of developments from 20% to 10% along with removal of cash settlement option.

We first asked our participants to evaluate the effect of these changes on their business and the building industry in general.

Figure 18: Regulatory changes – effect on business



Source: Davy

In terms of effects on day-to-day business, the BC(A)R changes have been highlighted as a particularly onerous issue. All respondents described these changes as either somewhat unhelpful or very unhelpful to the economics/ability to build.

However, despite the additional cost of the BC(A)R changes (figures of c.€20,000-€40,000 per home were cited), several developers were satisfied that the changes have brought about a better quality product that customers were more likely to trust.

Developers have welcomed the apartment standard changes and harmonisation in general

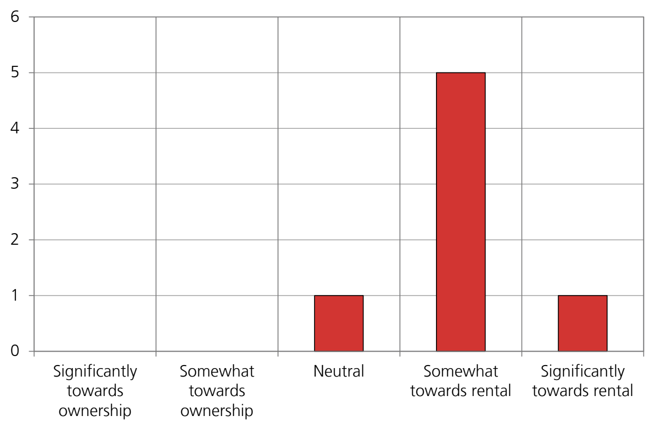
Developers have welcomed the apartment standard changes and harmonisation in general. Despite apartment building representing a relatively small portion of the business of most of those surveyed, the moves to reduce some size and dual aspect standards have been helpful. The dual aspect changes were most commonly cited as being a benefit from an economic perspective, allowing a greater number of units to be built in each individual core. All those surveyed described the changes as somewhat helpful or very helpful to their business.

Responses regarding the changes to 'Part V' regulations were less certain. While some have seen a positive benefit arising from the lower proportion of social housing required, others viewed the inability to cash-settle the liability as a mitigating factor. Several participants have also criticised the inflexibility of the new system, suggesting that in some areas (generally rural) the 10% contribution is too high for local needs and that it will be too low in other areas (mainly cities).

Trends in demand

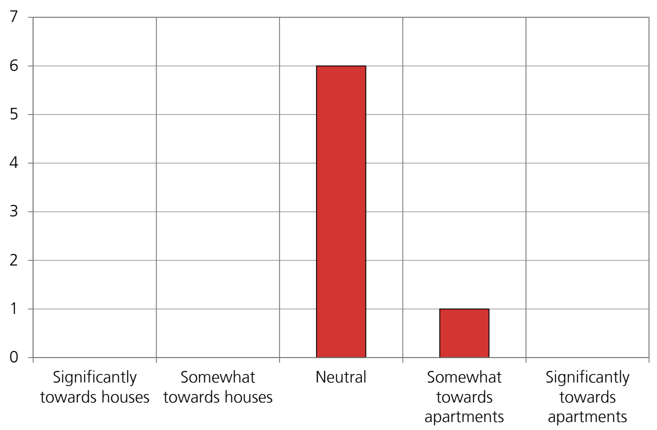
Given the much-publicised Central Bank macro-prudential rules, introduced at the start of 2015, the Dublin market has had a much more benign experience in price momentum and apparent demand.

Figure 19: Trends in demand – ownership versus rental



Source: Davy

Figure 20: Trends in demand – houses versus apartments



Source: Davy

Most of our respondents suggested that the Central Bank rule changes have pushed many people who otherwise may have been home buyers into rental

In general, our respondents have backed up this trend, suggesting that the rule changes have pushed many people who otherwise may have been home buyers into rental. All but one of our respondents reported seeing a recent shift in demand towards rental, and this shift has been almost exclusively attributed to the Central Bank rules.

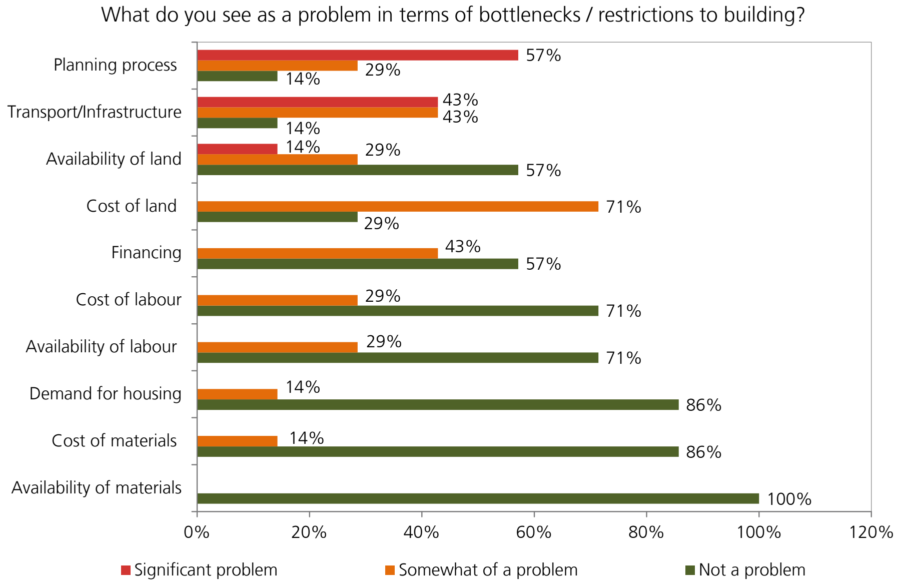
The loan to income (LTI) restriction (only 20% of new lending can be at a LTI multiple above 3.5x) is cited as the most restrictive. Nationally, this should limit excessive price growth given that current house prices are at 5.2x average earnings. However, in Dublin, where the current house price is probably closer to 6x earnings, this is seen as a very limiting factor in terms of demand.

Although most Irish people typically prefer houses over apartments, the above demand effect is also likely to result in some people moving towards apartments.

Obstacles to building

In order to establish a rationale for the slow rebound in residential construction activity, we also asked developers to give their view on a number of potential obstacles. From external forces like planning and infrastructure to day-to-day issues such as labour and materials, we asked whether these issues posed a problem to the potential growth of businesses or the economics to build.

Figure 21: Obstacles to building



Source: Davy

Planning

The planning system has been subject to much criticism from several areas in the recent upturn, and this is also reflected in our survey.

The planning process was seen as the most significant obstacle

The planning process was seen as the most significant obstacle; 57% of our participants viewed the planning process as a significant problem for business, while another 29% believed that the planning process was somewhat of a problem.

Some of the specific issues cited were as follows:

- Lack of consistency: the developers surveyed indicated that some local authorities are far more difficult to deal with than others.
- The overall system is seen by some as too prescriptive in terms of design, etc.
- Length of process: this may always have been a factor, but many of the developers surveyed claim the process takes too long (up to two years to get full planning after appeals).

Despite the objections, several developers pointed out that even with the inherent issues, the country had previously been able to build close to 100,000 units per annum and that it is merely a matter of time as to when a larger capacity to build is facilitated by the planning system.

Our survey suggests that challenges relating to infrastructure remain

Infrastructure

With further investment underway on Dublin's Luas (light rail) system, and projects such as the Metro North at an early stage, infrastructure investment seems to have begun again. However, our survey suggests that challenges remain in this area.

Most of our respondents have flagged this issue as being a problem, and many have suggested that it is likely to worsen in the short to medium term.

Some of the main problems highlighted by developers were:

- Serviced land: although there remains a significant amount of 'zoned' land, much of it is not serviced. The additional time (and expense) that goes into bringing such a site to completion is often too onerous (or costly) for developers.
  - Irish Water was cited as potentially helpful to this issue (despite current objections to the agency); however, current political jostling about the continuation of the agency will be unhelpful.
- Traffic: although somewhat localised, some of our respondents pointed to the M50 as an upcoming major issue. The Dublin ring road is experiencing above previous peak levels of volumes, and the road is seen as close to capacity – particularly around the N4 and N7 junctions.

Further investment in Ireland's infrastructure will be a key issue for whatever government is established in the coming months.

Land

In the developer survey that we conducted in October 2015 ('Davy survey link'), land was highlighted as a significant bottleneck to production. At the time, our respondents suggested that the supply of land into the market was extremely limited (six of seven developers characterised the land market as either 'somewhat undersupplied' or 'strongly undersupplied').

With demand for land also being quite strong at that time, we credited this dynamic as the primary reason for a perceived low acquisition margin (gross margin ex-inflation). We estimated the acquisition margin to be c.14%.

In our current survey, however, the supply/demand dynamics seem to have moved more towards equilibrium. The recent land sales through Project Clear, Cairn's acquisition of Argentum's land portfolio and other transactions demonstrate this rebalance. In stark contrast to our previous survey, more than half of our respondents (four of our seven) do not regard the availability of land as a problem.

Although one of our respondents pointed to availability as a significant problem, this was caveated with the acknowledgement that this was in relation to 'serviced' land (i.e. having utility access available).

We believe that acquisition margins have moved up since our previous survey

In our previous survey, we attributed the low acquisition margin available to developers to the acute undersupply in the land market. However, we believe that acquisition margins have moved up since then, pointing to better margins for Irish builders in the medium term.

Starting up or growing a home builder requires a significant equity outlay

Most developers see a very benign environment in terms of cost pressures from labour or materials, but many were wary of this becoming a problem in the short to medium term

Financing

One of the key issues behind housing supply for the last few years has been financing. With a limited amount of equity available and banks not financing to historical levels, many smaller players have been squeezed out of the market. Our survey has also identified this as a problem.

Three of our respondents suggested that financing is currently somewhat of a problem, while the remainder did not see any current problem. However, this is biased by the nature of financing used by our sample of developers.

Most of the developers in our survey are relatively large within the Irish market and are building on multiple sites. The majority are entirely (or almost entirely) equity funded, mainly due to the difficulty in growing a developer business that must rely on debt funding.

Our research indicates that banks are providing c.60% loan to value debt funding at this point in time. In most cases, however, this is just to fund work in progress. Developers find that in order to obtain debt financing from banks, land must be 'ready-to-go', meaning that it will need to be fully serviced and have full planning permission in place. Starting up or growing a home builder therefore requires a significant equity outlay, and only companies with strong balance sheets are likely to participate meaningfully in the recovery up to the point that debt funding policy becomes substantially looser.

Senior debt from banks is cited as being available under the above criteria at a rate of c.3-5%, while the cost of mezzanine financing (high-teens percent) is generally seen as too restrictive to build.

Labour

Despite the current rate of residential building being considerably below historical levels, there are some suggestions that current capacity is lower than historical levels and thus bottlenecks/pressures may occur at lower levels of activity. This was seen in the UK starting from mid-2013. Potential problems mainly revolve around emigration or re-skilling of pre-existing labour.

Our survey suggests that there are only very limited signs of this effect in the market. Most of the respondents (71%) regarded both the availability of labour and the cost of labour as 'not a problem', with the remainder citing them as 'somewhat' of a problem.

Materials

We asked the developers a similar question in relation to the availability and cost of materials.

The respondents pointed to very little problem with materials. Many plants were mothballed in the post-2007 period; however, there remains plenty of capacity in the system for materials.

Most developers see a very benign environment in terms of cost pressures from labour or materials, but many were wary of this becoming a problem in the short to medium term. It appears difficult to suggest at what level of activity pressures may start to form.

Many developers were worried that the LTI requirement would dampen the market in the medium to long term

Demand

While the Central Bank rules introduced in January 2015 have had an apparent impact on demand for home-ownership across the country (and particularly in Dublin), there still seems to be sufficient demand for developers to continue to build.

Our respondents still see good demand across the country, with 86% of those surveyed saying that the current state of demand would not preclude them from continuing to build.

The Central Bank rules were cited as the biggest drag on overall demand over the course of 2015 and into 2016. Although the new rules have not totally stopped supply at this point in time, many developers cited concerns that the LTI requirement would dampen the market in the medium to long term.

The rules were also seen as unfairly penalising Dublin-based buyers as house price multiples in the capital are above the rest of the country.

Efficiency in the supply chain

In response to questions regarding build costs (both labour and materials), a number of our respondents highlighted the advantage of a fully scaled site. Their rationale for this was that a site with the size to produce at consistently high levels of production (maybe 70 units per annum) would be able to give suppliers of labour and materials visibility and thus confidence.

The benefit of building on these sites (perhaps greater than 100 units), according to developers, was a lower cost to build, driven by more efficient subcontractors who prefer security of employment. When asked about the magnitude of the effect, developers estimated a c.15% difference in cost when building on a fully scaled site. In seeking to verify this, we approached several Irish subcontractors providing both materials supply and labour supply.

Although the magnitude of the effect differed, all of the subcontractors agreed that contracts that give them visibility and sufficient volume are more cost effective and thus cheaper for the developer on a per unit basis. Bigger sites with sufficient production rates allow subcontractors to have full-time personnel on site rather than having to move them around on smaller sites, often with lost time and downtime.

The biggest cost discrepancies between long-term contracts and one-off style businesses seem to be on the labour side, with some subcontractors reporting discounts of 20-30% available for contracts that provide longevity. On the materials side, the effect is smaller, but discounts in the mid- to high-single-digit range appear to be available.

There is a need for large-scale builders who can build off multiple, large sites

Overall, given the cost difference, the future of building in Ireland is likely to be dominated by large-scale sites, where efficiencies can be maintained. This also highlights the need for large-scale builders who can build off multiple, large sites.

According to MyHome.ie, there were at least 67 new sites actively selling homes as of March 2016 in the Greater Dublin Area. Of these, only 18 had more than 100 units. We believe that this leaves some scope for savings in the overall cost of building homes as subcontractors continue to increase efficiency.

Conclusion

Many challenges remain in the home building industry in order for developers to be able to operate efficiently and produce more homes. Improving infrastructure and reducing time/cost in the planning system should be prioritised by a new government, and there remain significant gaps in areas like funding of development.

Builders need to be well-scaled, have access to land and be well capitalised

However, our survey does not offer sufficient evidence to suggest that builders cannot ramp up production. They merely need to be well-scaled, have access to land and be well capitalised. It can take three years to buy a site, go through the planning process and ultimately deliver homes. We therefore think that a rebound in activity is likely, and it is just a matter of time before this is reflected in the starts/completions data. We see a more efficient and consolidated home builder industry emerging in the coming years, made up of players that can overcome the scale and financing restraints of the building landscape.

Cairn Homes – updating forecasts

Following a restricted period, we are re-stating our estimates for Cairn Homes.

We have updated our forecasts to take account of the additional equity raised in the recent placing

Changes from capital raise/Argentum transaction

We have updated our forecasts to take account of the additional equity raised in the recent placing. This has added c.€168.9m in cash to the business.

The Argentum deal (including conditional contracts) has added over 1,400 plots to the land bank. Including the recently announced deals in Maynooth and Cherrywood, the total land bank now stands above 17,000 units. The core landbank (excluding sites that are likely to be traded out) is closer to 11,000-12,000 units. We now see Cairn ending the year with just over €700m in development land (including loan assets).

Allowing for additional work in progress (c.€50m), we now estimate Cairn's net debt position at December 2016 to be c.€101m. This will rise to €185m in 2017 with additional acquisitions and working capital requirements as the company ramps up the number of sites under construction.

Read-across from our survey

Apart from concerns regarding planning and infrastructure, we see the survey as a quite positive read-across for Cairn Homes. We found that builders needed to be well-scaled with large sites and have strong balance sheets; Cairn has both of these attributes.

The most encouraging piece of data from our perspective was in relation to the land market. The increased deal flow (seen in Cairn's transactions) has been an indicator of the land market supply constraints finally freeing up, and our survey has reinforced this view.

With a higher quantity of land coming to the market, this should take the pressure that we highlighted in our last survey off land acquisition margins, allowing builders to make higher margins going forward.

The lack of any issue in relation to labour or material availability should provide some comfort that we are not soon going to see any meaningful cost inflation.

Changes to P&L estimates

At the time of results, management flagged that that building was expected to commence on seven sites by the end of 2016. This is somewhat slower than our expectation for seven sites to be achieved in mid-2016; our new forecasts for volumes in 2016 and 2017 are 115 and 439 respectively (previously 115 and 546). Our gross margin (on house building) estimates are now 15% and 18% for FY2016 and FY2017 respectively (from 16% and 18%).

Cairn remains ideally placed to take advantage of the on-going recovery in the Irish housing market

Our P&L estimates for 2018 onwards remain broadly unchanged, and we still expect the company to achieve its target of over 1,000 units in FY2019, with further growth likely beyond this date. A summary of estimate changes is provided in the following table.

Overall, Cairn remains ideally placed to take advantage of the on-going recovery in the Irish housing market. We reiterate our 'Outperform' rating.

Table 10: Cairn Homes forecast changes

		Old		New		% Chg	
000's	**2015**	**2016E**	**2017E**	**2016E**	**2017E**	**2016E**	**2017E**
Volume	11	115	546	115	439	0%	-20%
ASP (€)	309,182	383,400	358,862	366,566	369,792	-4%	3%
Housing revenue	3,401	44,091	195,939	42,155	162,339	-4%	-17%
Revenue	**3,717**	**44,091**	**195,939**	**42,655**	**162,839**	**-3%**	**-17%**
Gross profit	702	7,055	35,269	6,823	29,721	-3%	-16%
Operating profit	**-3,790**	**555**	**28,269**	**-177**	**22,221**		**-21%**

Source: Davy

Cairn Homes

Analyst: Colin Sheridan CFA
Email: colin.sheridan@davy.ie
Phone: +353 1 6148997
Sector: Home construction

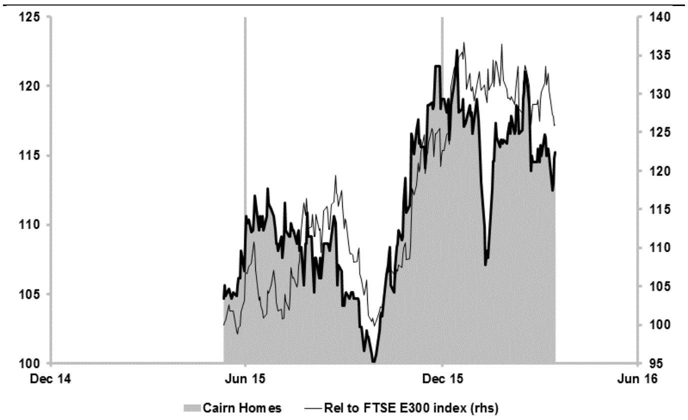
Bloomberg: CRN LN
RIC: CRN.L
http://www.cairnhomes.com

Price (c)	Shares (m)	Mkt. Cap (€m)	E.V. (€m)	Mkt. Cap. / EV (%)	Free float (%)	Daily No. Shares Traded (m)	Daily Value Traded (€m)
116	516.7	596.7	697.9	85.5	96.0	1.348	1.579

SUMMARY ACCOUNTS	Dec13	Dec14	Dec15	Dec16E	Dec17E
INCOME STATEMENT (€M)					
Revenue	N/A	N/A	3.7	42.7	162.8
EBITDA	**N/A**	**N/A**	**-3.8**	**-0.0**	**22.4**
Depreciation	N/A	N/A	0.0	0.1	0.1
Amortisation of intangibles	N/A	N/A	0.0	0.0	0.0
Operating profit	N/A	N/A	-3.8	-0.2	22.2
Other income from operations	N/A	N/A	0.0	0.0	0.0
Share of associate / JV after-tax profits	N/A	N/A	0.0	0.0	0.0
PBIT before exceptionals	**N/A**	**N/A**	**-3.8**	**-0.2**	**22.2**
Group net interest	N/A	N/A	-1.7	-4.4	-4.9
Other finance costs	N/A	N/A	0.0	0.0	0.0
Total finance costs	N/A	N/A	-1.7	-4.4	-4.9
Exceptionals	N/A	N/A	-32.0	0.0	0.0
PBT	**N/A**	**N/A**	**-37.5**	**-4.6**	**17.3**
Tax	N/A	N/A	0.3	0.6	-2.2
Minorities (incl. pref divs)	N/A	N/A	0.0	0.0	0.0
Earnings (basic)	**N/A**	**N/A**	**-37.2**	**-4.0**	**15.1**
Average no of shares (m) - basic	N/A	N/A	233.5	628.3	674.3
Average no of shares (m) - diluted	N/A	N/A	233.5	628.3	674.3
PER SHARE DATA (C)					
EPS Basic	N/A	N/A	-15.9	-0.6	2.2
EPS Diluted (Adj)	**N/A**	**N/A**	**-2.2**	**-0.6**	**2.2**
Cash EPS (Diluted)	N/A	N/A	-2.2	-0.6	2.3
Dividend	N/A	N/A	0.0	0.0	0.0
NBV	N/A	N/A	213.2	105.5	100.6
TBV	N/A	N/A	213.2	105.5	100.6
CASH FLOW (€M)					
EBITDA	N/A	N/A	-3.8	-0.0	22.4
Change in working capital	N/A	N/A	-482.3	-524.0	-199.3
Share-based payments	N/A	N/A	0.0	0.0	0.0
Other operating cashflows	N/A	N/A	-5.0	288.0	100.0
Cash generated from operations	**N/A**	**N/A**	**-491.1**	**-236.1**	**-76.9**
Net capital expenditure	N/A	N/A	-0.2	-0.1	-0.2
Operating cashflow	**N/A**	**N/A**	**-491.3**	**-236.2**	**-77.1**
Net interest	N/A	N/A	-3.5	-4.4	-4.9
Tax	N/A	N/A	0.0	0.6	-2.2
Dividends from associates	N/A	N/A	0.0	0.0	0.0
Dividends to minorities	N/A	N/A	0.0	0.0	0.0
Free cash flow	**N/A**	**N/A**	**-494.8**	**-240.0**	**-84.2**
Dividends to shareholders	N/A	N/A	0.0	0.0	0.0
Acquisitions & investments	N/A	N/A	0.0	0.0	0.0
Business disposals	N/A	N/A	0.0	0.0	0.0
Share Issues / (Buybacks)	N/A	N/A	480.2	168.9	0.0
Translation differences	N/A	N/A	0.0	0.0	0.0
Other	N/A	N/A	N/A	0.0	0.0
Change in net cash / debt	**N/A**	**N/A**	**N/A**	**-71.1**	**-84.2**
BALANCE SHEET (€M)					
Property, plant & equipment	N/A	N/A	0.1	0.1	0.1
Intangible assets	N/A	N/A	0.0	0.0	0.0
Investments in associates / jv's	N/A	N/A	0.0	0.0	0.0
Working capital	**N/A**	**N/A**	**141.1**	**665.1**	**864.4**
Other	N/A	N/A	0.0	0.0	0.0
Capital Employed	**N/A**	**N/A**	**141.2**	**665.2**	**864.5**
Financed by					
Equity capital & reserves	N/A	N/A	498.0	662.9	678.0
Minority interests	N/A	N/A	0.0	0.0	0.0
Preference shares	N/A	N/A	0.0	0.0	0.0
Net Debt / (Cash)	**N/A**	**N/A**	**30.0**	**101.1**	**185.3**
Deferred consideration/debt-related	N/A	N/A	0.0	0.0	0.0
Retirement benefit obligations	N/A	N/A	0.0	0.0	0.0
Net deferred tax	N/A	N/A	0.0	0.0	0.0
Other long-term liabilities	N/A	N/A	0.0	0.0	0.0
Capital Employed	**N/A**	**N/A**	**528.0**	**764.0**	**863.3**
Intangibles amortised	0.0	0.0	0.0	0.0	0.0
Capital employed inc. intangibles	N/A	N/A	528.0	764.0	863.3
Invested capital inc. intangibles	N/A	N/A	528.0	764.0	863.3

CALENDAR	Date	Ex-Div
Interims	27-08-15	
Finals		
AGM	10-05-16	
Updated	19-04-16	

VALUATION	Dec15	Dec16E	Dec17E	Dec15	Dec16	Dec17
				Rel to Sector		
P/E	N/A	N/A	51.4	N/A	N/A	6.4
Dividend Yield (%)	0.0	0.0	0.0			
Free Cash Flow Yield (pre divs) (%)	N/A	N/A	N/A			
Price / Book	0.54	1.09	1.15	0.31	0.68	0.78
EV / Revenue	168.61	16.36	4.80	108.53	12.07	3.91
EV / EBITDA	N/A	N/A	35.0	N/A	N/A	6.0
EV / EBITA	N/A	N/A	35.2			
EV / Operating Cashflow	N/A	N/A	N/A			
EV / Invested Capital	1.19	0.91	0.91			
PEG (Hist P/E/4yr gwth)	N/A					



PRICE PERFORMANCE (%)	1 Wk	1 Mth	3 Mths	6 Mths	YTD	1 Yr
Absolute	2.2	-4.2	-3.0	14.5	-3.0	N/A
Rel to FTSE All-Share	-1.4	-5.5	-8.2	22.8	2.3	N/A
Rel to FTSE Eurofirst 300	-2.1	-6.3	-7.4	19.9	1.5	N/A
Rel to E300 House Gds & Home Const.	1.1	-4.0	-8.5	16.4	0.8	N/A

PRICE AND P/E HISTORY	Price			Fwd P/E		
	High	*Low*	*Yr End*	*High*	*Low*	*Average*
2016	123	107		N/A	N/A	N/A
2015	121	100	119	N/A	N/A	N/A

KEY RATIOS	Dec13	Dec14	Dec15	Dec16E	Dec17E
GROWTH					
EPS Diluted (Adj) (%)	N/A	N/A	N/A	0.0	0.0
Dividend (%)	N/A	N/A	N/A	N/A	N/A
Revenue (%)	N/A	N/A	N/A	N/A	281.8
EBITDA (%)	N/A	N/A	N/A	0.0	0.0
PROFITABILITY / ACTIVITY					
EBITA margin (%)	N/A	N/A	N/A	N/A	13.6
EBITDA margin (%)	N/A	N/A	N/A	N/A	13.7
Revenue / Capital Employed (x)	N/A	N/A	N/A	0.07	0.20
RETURN					
ROCE (before tax, ex. invs) (%)	N/A	N/A	N/A	N/A	2.7
ROE (after tax) (%)	N/A	N/A	N/A	N/A	2.3
Ret. on Inv. Cap. (after tax) (%)	N/A	N/A	N/A	N/A	2.4
WACC (%)	N/A	N/A	N/A	4.5	3.8
FINANCIAL / GENERAL					
EBITDA Int. Cover (x)	N/A	N/A	N/A	N/A	4.6
Group Interest Cover (x)	N/A	N/A	N/A	N/A	4.5
Debt / EBITDA (x)	N/A	N/A	N/A	N/A	8.3
Debt / Equity (%)	N/A	N/A	6.0	15.3	27.3
Debt / Free Cash Flow (x)	N/A	N/A	N/A	N/A	N/A
Avg. Cost of Debt (before tax) (%)	N/A	N/A	N/A	6.7	3.4
Ret. benefits deficit / market cap (%)	N/A	N/A	0.0	0.0	0.0
Dividend Cover (x)	N/A	N/A	N/A	N/A	N/A
Working Capital / Revenue (%)	N/A	N/A	3796.1	1559.2	530.8
Net Capex/Depreciation (%)	N/A	N/A	N/A	107.1	106.7
Tax rate (%) (unadjusted)	N/A	N/A	0.8	12.5	12.5

CAGR (%)	5 Year	10 Year
Revenue (%)	N/A	N/A
EBITDA (%)	N/A	N/A
EPS Diluted (Adj) (%)	N/A	N/A
Cash EPS (Diluted) (%)	N/A	N/A
Dividend (%)	N/A	N/A
TSR	N/A	N/A

MAJOR SHAREHOLDERS	%
FMR Corp	9.6
Fidelity International Limited	9.3
Lansdowne Partners	7.1
Henderson Global Inv. Ltd	6.3
J O Hambro Capital Mgmt	5.2

Important disclosures

Analyst certification

Each research analyst primarily responsible for the content of this research report certifies that : (1) the views expressed in this research report accurately reflect his or her personal views about any or all of the subject securities or issuers referred to in this report and (2) no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Price performance (% change)

Stock	*2011*	*2012*	*2013*	*2014*	*2015*
CAIRN HOMES	NA	NA	NA	NA	NA

Source: Datastream

WARNING: Past performance is not a reliable guide to future performance

Investment ratings

Cairn Homes rating:

Investment ratings definitions

Davy ratings are indicators of the expected performance of the stock relative to its sector index (FTSE E300) over the next 12 months. At times, the performance might fall outside the general ranges stated below due to near-term events, market conditions, stock volatility or – in some cases – company-specific issues. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance.

Our ratings are based on the following parameters:

Outperform: Outperforms the relevant E300 sector by 10% or more over the next 12 months.

Neutral: Performs in-line with the relevant E300 sector (+/-10%) over the next 12 months.

Underperform: Underperforms the relevant E300 sector by 10% or more over the next 12 months.

Under Review: Rating is actively under review.

Suspended: Rating is suspended until further notice.

Restricted: The rating has been removed in accordance with Davy policy and/or applicable law and regulations where Davy is engaged in an investment banking transaction and in certain other circumstances.

Distribution of ratings/investment banking relationships

			Investment banking services/Past 12 months	
Rating	*Count*	*Percent*	*Count*	*Percent*
Outperform	71	53	29	74
Neutral	38	28	4	10
Underperform	12	9	0	0
Under Review	3	2	2	5
Suspended	5	3	0	0
Restricted	4	3	4	10

This is a summary of Davy ratings for all companies under research coverage, including those companies under coverage to which Davy has provided material investment banking services in the previous 12 months. This summary is updated on a quarterly basis. The term 'material investment banking services' includes Davy acting as broker as well as the provision of corporate finance services, such as underwriting and managing or advising on a public offer.

Regulatory and other important information

J&E Davy, trading as Davy, is regulated by the Central Bank of Ireland. Davy is a member of the Irish Stock Exchange, the London Stock Exchange and Euronext. In the UK, Davy is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request. No part of this document is to be reproduced without our written permission. This publication is solely for information purposes and does not constitute an offer or solicitation to buy or sell securities. This document does not constitute investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/strategy discussed in this report may not be suitable or appropriate for all investors. The value of investments can fall as well as rise and there is no guarantee that investors will receive back their capital invested. **Past performance and simulated performance is not a reliable guide to future performance. Projected returns are estimates only and are not a reliable guide to the future performance of this investment.** Forecasted returns depend on assumptions that involve subjective judgment and on analysis that may or may not be correct. Any information related to the tax status of the securities discussed herein is not intended to provide tax advice or to be used as tax advice. Tax treatment depends on individual circumstances and may be subject to change. You should consult your tax adviser about the rules that apply in your individual circumstances.

This document has been prepared and issued by Davy on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been taken in the preparation of this document, we do not guarantee the accuracy or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in any of the securities or may have provided, within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

While reasonable care has been taken in the preparation of the information contained in this document, no warranty or representation, express or implied, is or will be provided by Davy or any of its shareholders, subsidiaries or affiliated entities or any person, firm or body corporate under its control or under common control or by any of their respective directors, officers, employees, agents, advisers and representatives, all of whom expressly disclaim any and all liability for the contents of, or omissions from, this document, the information or opinions on which it is based and/or whether it is a reasonable summary of the securities in this document and for any other written or oral communication transmitted or made available to the recipient or any of its officers, employees, agents or representatives.

Neither Davy nor any of its shareholders, subsidiaries, affiliated entities or any person, form or body corporate under its control or under common control or their respective directors, officers, agents, employees, advisors, representatives or any associated entities (each an "Indemnified Party") will be responsible or liable for any costs, losses or expenses incurred by investors in connection with the information contained in this document. The investor indemnifies and holds harmless Davy and each Indemnified Party for any losses, liabilities or claims, joint or several, howsoever arising, except upon such Indemnified Party's bad faith or gross negligence.

Share ownership policy

Davy allows analysts to own shares in companies they issue recommendations on, subject to strict compliance with our internal rules governing own-account trading by staff members.

We are satisfied that our internal policy on share ownership does not compromise the objectivity of analysts in issuing recommendations.

Conflicts of interest

Our conflicts of interest management policy is available at www.davy.ie/ConflictsOfInterest.

The remuneration of the analyst(s) who prepared this report is based on various factors including company profitability, which may be affected to some extent by revenues derived from investment banking.

Davy is a registered market-maker in the securities of Cairn Homes on the London Stock Exchange.

From time to time, Davy may hold a position or deal in the securities referred to in this report. Should an instance arise where Davy has a holding that exceeds 5% of the issued share capital of a company, this will be disclosed in this report.

Other important disclosures

A description of this company is available at www.davy.ie/RegulatoryDisclosures. A summary of our standard valuation methods is available at www.davy.ie/ValuationMethodologies. All prices used in this report are as of 16:00 April 19th unless otherwise indicated. A summary of existing and previous ratings for each company under coverage, together with an indication of which of these companies Davy has provided investment banking services to, is available at www.davy.ie/ratings.

The data contained in this research note have been compiled by our independent analysts, based on a combination of publicly-available information and the analysts' assumptions and modelling. Further information is available upon request.

This document does not constitute or form part of any offer, solicitation or invitation to subscribe or purchase any securities, nor shall it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. Any decision to purchase or subscribe for securities in any offering must be made solely on the basis of the information contained in the prospectus or other offering circular issued by the company concerned in connection with such an offering.

This document has been prepared by its authors independently of the company or companies covered. Davy has no authority whatsoever to give any information, or make any representation or warranty on behalf of the company or companies. In particular, the opinions, estimates and projections expressed in it are entirely those of the analysts and are not given as an agent or financial adviser of the company or companies.

US Securities Exchange Act, 1934

This report is only distributed in the US to major institutional investors as defined by S15a-6 of the Securities Exchange Act, 1934 as amended. By accepting this report, a US recipient warrants that it is a major institutional investor as defined and shall not distribute or provide this report, or any part thereof, to any other person.

Distribution of research to clients of Davy Securities in the US

Davy Securities distributes third-party research produced by its affiliate, J&E Davy.

Davy Securities is regulated by the Central Bank of Ireland. Davy Securities is a member of FINRA and SIPC.

Davy Securities does not act as a market-maker.

Neither Davy Securities nor its affiliates beneficially own more than 1% of any class of common equity securities of this company. This information was current as of the last business day of the month preceding the date of the report.

Confidentiality and copyright statement