Quarter 4, 2017

Q4

THE LISNEY DEVELOPMENT LAND & NEW HOMES REPORT

Lisney

The Difference

Overview

Despite the good levels of demand, transactional activity in the development land market was subdued in H2 2017, similar to earlier in the year. Most of the development land that traded comprised relatively small lot sizes, apart from some notable exceptions including the sale of the RTÉ lands in Donnybrook, Dublin 4.

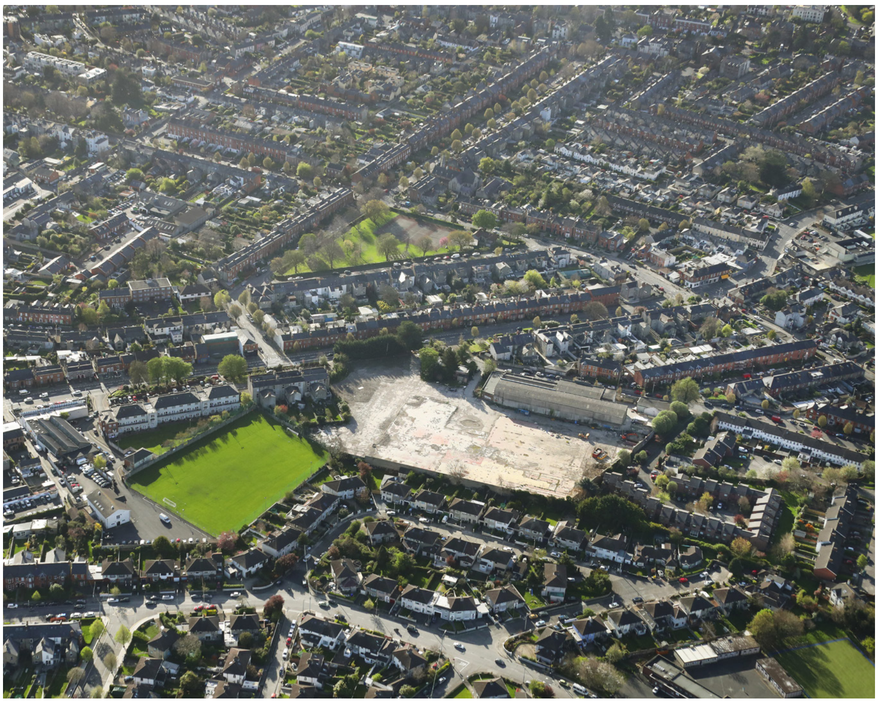
Prime city centre sites suitable for residential type use were most in demand, particularly for student accommodation and PRS residential schemes. Forward funding of PRS emerged in mid-2017 with Marlet Property Group and M&G Investments bringing 'Dublin Living' to the market. This portfolio of four sites is expected to achieve around €500m and is due to close in early 2018. Demand for PRS sites will intensify in 2018 due to proposed changes to apartment standards. The amendments put forward have relaxed car parking and dual aspect requirements, in addition to increasing the number of units per core and permitting smaller unit sizes. These modifications are very positive in terms of reducing building costs, which will make schemes that are currently marginal, viable.

In terms of purchasers, infill sites have mostly been attracting domestic buyers. However, with larger development sites, purchasers were primarily international private equity firms, often in partnership with Irish developers. Cairn Homes Plc and Glenveagh Properties Plc were also very active in the latter part of the year and are expected to take part in both on and off-market purchases in 2018.

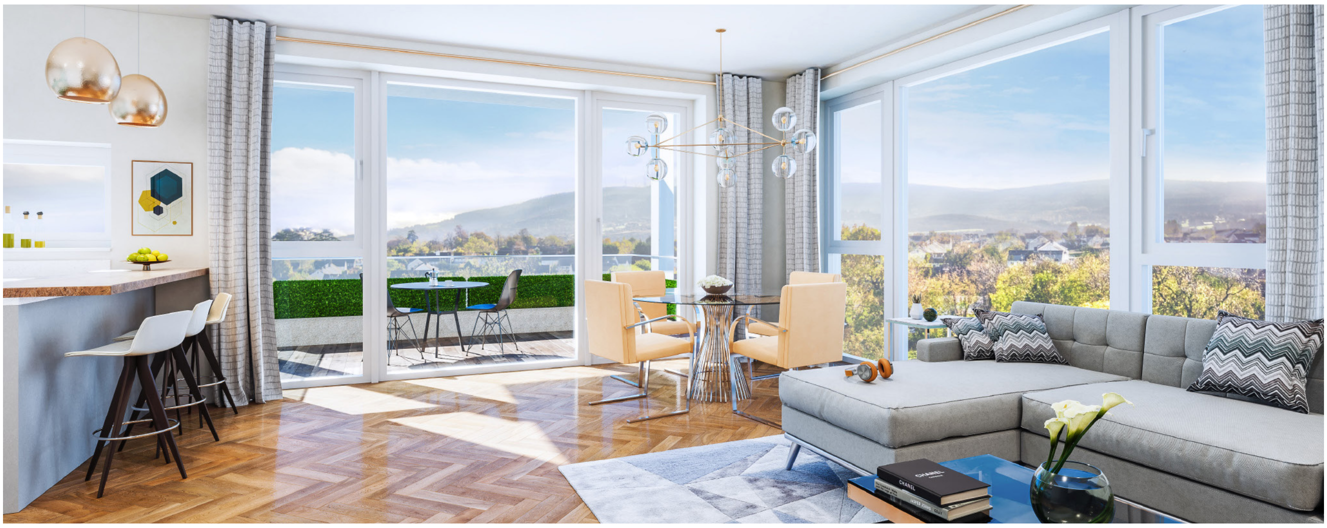
There was also keener interest in medical and nursing home sites in 2017. These sectors offer significant potential and demand is likely to continue.

Budget 2018

Budget 2018 in October introduced changes to the vacant site levy. In the first year (2019), the rate of 3% will remain, however for all subsequent years it will rise to 7%. This measure is intended to encourage development on vacant sites in regeneration areas and prevent land hoarding. It may bring some sites to the market, but might not have as much an impact as anticipated given the structure of the legislation. The amendments to the CGT waiver hold period (reduced from seven to four years) is likely to have a greater influence on the market. It means that sites purchased in 2012 and 2013 can now be sold and the vendor can take the full uplift in value without occurring a CGT liability. However, the increase in stamp duty may eat into this somewhat.



Harold's Cross Road, Harold's Cross, Dublin 6W



Fernbank, Churchtown

Also announced in Budget 2018 was the creation of a new vehicle known as Home Building Finance Ireland (HBFI), which will provide debt funding to commercially viable residential development projects. €750m of the Ireland Strategic Investment Fund is to be made available to developers, through NAMA. Up to 80% of the price of the development project is to be made available to developers through the vehicle, at an interest rate of 8%. This has the potential to give a needed boost to the residential development market.

Some notable sales in the second half of 2017 include:

- Springfield House, Foxrock, Dublin 18; 1.65 acres with full planning permission for 23 residential units. The site sold for a reported €5m.
- Project Montrose RTÉ, Donnybrook, Dublin 4; 8.64 acres of land (Mixed Zoning- Z2 and Z12) at its Montrose complex sold for €107.5m (substantially more than the €75m guided).
- Mount Tallant Avenue, Harold's Cross Road, Dublin 6W; a residential site with planning permission for 66 units. The site of 3.43 acres sold for €16m.
- 3 Arkle Road, Sandyford, Dublin 18; an office site with planning permission. The 1.66 acre site sold for €6.25m.

Some development sites new to the market in Q4 include:

- A brownfield site at Abbey Street Upper, Dublin1 adjacent to the Jervis Luas stop. The 0.87 acre site was out to tender at the end of the year, guiding €14m.
- The former Stella Cinema Deerpark Road, Mount Merrion. The 0.84 acre site is zoned for 'Neighbourhood Centre' and has full planning permission for 48 apartments and 4 office units. The site was on the market at a guide price of €7.5m.
- St. Mary's Home, Pembroke Park, Dublin 4. On 0.86 acres, the property is zoned Z2 'to protect and/or improve the amenities of residential conservation areas', and was on the market guiding at €5m.

Future Supply

In addition to sites that may come to the market due to the changes in Budget 2018 mentioned above, there are some notable examples that are due. These include lands at Kinsealy, the Tech-Crete site in Howth, a site on the Stillorgan Road, a site at the Grange in Stillorgan, and the Eir site just off Exchequer Street in the city centre.

Strong demand for infill residential development sites in mature parts of Dublin will remain a feature of the market, particularly those with full planning permission. Also in such areas, given the success of the Marianella residential scheme in Rathgar, it is likely that further institutional owners will consider disposing of surplus zoned lands in the short-term. Nama will also be a source, much of which is likely to be through its licensing model, which allows developers to gain possession of housing sited on the payment of an initial fee and then reimburse Nama once the houses are sold.

In newer suburban areas, there is only a limited supply of large sites suitable for immediate development. While lands may be zoned for housing, many lack essential infrastructure, which will impact on their demand and price.

New Homes H2 2017

2017 saw double-digit price growth over the year and the ongoing demand / supply imbalance will ensure that upward pressure remains on residential prices in 2018. However, the impact of the Central Bank loan-to-income restrictions and limited wage inflation within the economy will moderate price rises somewhat. We estimate price increases in Dublin of about 7.5% in 2018.

With the various initiatives within Rebuilding Ireland starting to take effect, the number of new homes completed and on-site commencements increased significantly in 2017. At the end of Q3 2017 there were 7,400 units (3,770 houses and 3,630 apartments) under construction in Dublin. When compared with Q3 2016, this is an increase of 34% (houses +55% / apartments

+18%). It is also notable that there were 22,000 units (9,000 houses and 13,000 apartments) with planning permission across the county but had not commenced at the time. This bodes well for 2018 and we expect the supply of new homes to gather pace. This will be further enhanced by positive economic and demographic factors boosting demand.

The impact of the Strategic Housing Development (fast track planning) system has already been felt. In the first three months of its existence (July - October 2017), 6,000 dwellings applied to stage one of the two stage process.

The demand for new homes was evident at all levels of the market in Dublin throughout 2017 with launches of starter home developments in locations including Lucan (Shackleton Park), Baldoyle (Silverbanks) and Adamstown (St. Helens); all of which have attracted strong interest from buyers. Quality family homes at the mid to upper level of the market continued to perform strongly. Some notable new homes launches in Q4 included Broadlands (Killiney), White Pines (Rathfarnham), Stanford Park (Foxrock) and The Grove (Goatstown).

In addition, the first significant new apartment schemes in a number of years were brought to the market in 2017. Bloomfield House (Donnybrook), Hollybrook at Robswall (Malahide) and Eustace Court (Dun Laoghaire) were some of the new apartment developments launched in Q4 2017.

2018 will see the launch of luxury apartments in areas including Ballsbridge, Rathgar, Churchtown and Mount Merrion. We anticipate these to be a particular target for the trading-down market.

Developments of starter homes in the outer fringes of Dublin and the surrounding commuter belt areas in Kildare, Meath and Wicklow performed strongly in the latter part of 2017. Schemes brought to the market included Stoneleigh (Naas, Co. Kildare), Ballinahinch (Ashford, Co. Wicklow) and The Willows (Dunshaughlin, Co. Meath). These areas will continue to perform strongly in 2018 due to their greater affordability and the retention of the Help-to-Buy scheme in Budget 2018.

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