

Lisney

COMMERCIAL REAL ESTATE

DEVELOPMENT LAND

H1 2023



H1 2023

The development land market in the greater Dublin area (GDA) remained challenging in H1 2023 amid global economic uncertainties, leading to a slowdown in sales volumes. Demand primarily focused on sites with full planning permission, but it was hampered by elevated construction and finance costs. While market activity levels are expected to improve in late 2023 or early into 2024, caution from funders may continue to impact debt-funded purchases. The outlook for the market remains uncertain due to delays and other issues in the planning system.

▼ €90m

€461 acres

Turnover

▼ 26

Number of Deals

▼ €13m

Confidential sale

Largest Deal

▼ 76%

Dublin

▼ 54%

of Turnover

**Full Planning
Permission**

▼ €3.3m

Average Deal Size

Arrows represent bi-annual trends unless otherwise stated.

Activity

The development land market, like other sectors in the commercial and residential property markets, faced continued challenges in H1 2023 amid the global economic and geopolitical landscape.

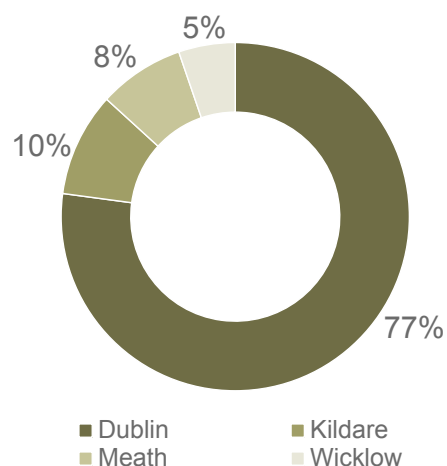
The impact of elevated inflation and tighter monetary policies worldwide has resulted in a decline in commercial real estate values and liquidity, leading to a slowdown in development land sales volumes in 2023. The increasing cost of debt remains a concern. However, there are some positive signs as construction cost inflation, which has been a headwind to market activity, is gradually easing. According to the CSO, building material inflation averaged 6.5% in the year to June 2023, indicating a slight improvement compared to the 13.5% recorded three months prior. It is worth noting that there are notable variations across materials. For example, some steel products were running at over 32%, while timber costs saw a decline of up to 31%.

In the first half of 2023, a total of 26 development sites with combined selling prices of €86m were sold in the GDA. The low sales volume indicates the challenging conditions in the market, driven by uncertainties and cost pressures. Discrepancies between national and local planning policies, along with a rise in judicial reviews of approved planning applications, have contributed to a reduction in the number of development land deals. As a result, developers are taking a cautious approach and adapting their strategies to effectively navigate the evolving market dynamics. For example, many only have demand for sites with full planning permission that are ready-to-go, and which are economically viable.

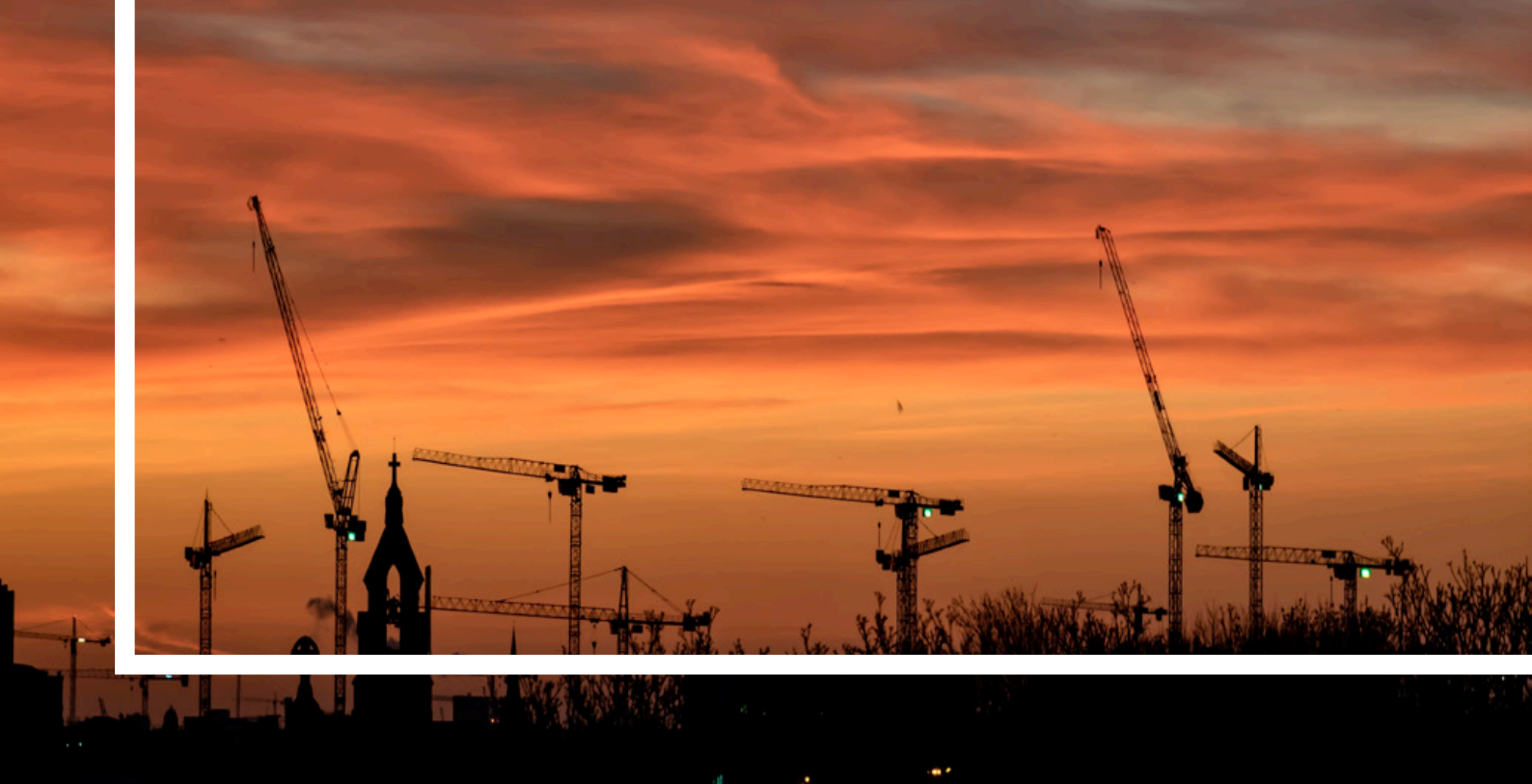
Dublin accounted for 77% of the total turnover in H1 2023, with a further 10% in Co Kildare, 8% in Co Meath and 5% in Co Wicklow. This level of activity was substantially below H1 (€279m) and H2 (€244m) in 2022. Out of the 26 sites sold in H1 2023, 12 had planning permission, making up 7% of the total land sold by size (by acres) and 54% of the turnover.

The average deal size of development sites sold in H1 2023 was €3.4m, a significant decrease compared to €6.58m in H2 2022 and €7.33m in H1 2022. Notably, only two deals were sold in excess of €10m, accounting for 27.3% of the total turnover.

GDA Development Land Activity (H1 2023)



Source: Lisney

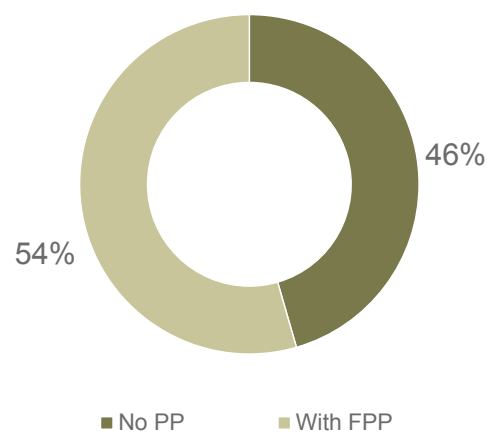


In terms of transactions

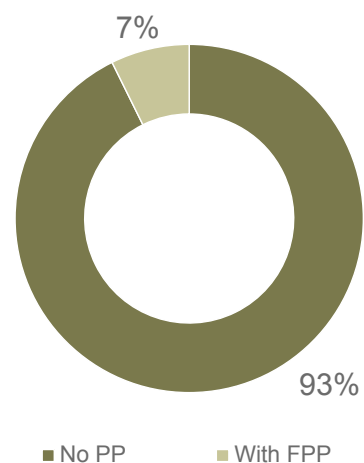
- The largest deal was the €13m off-market sale of 5 acres with planning permission for a 428-unit PRS scheme in South Dublin (€2.6m per acre).
- The second largest deal was a sale of the former Italian Ambassador’s Residence, Lucan House on 30 acres, the terms have been agreed with South Dublin County Council.
- A 0.83-acre site at South King Street was sold for €7.35m or €8.85m per acre. It formed a part of the Dublin 7 Portfolio, which originally comprised two sites. The site offers a redevelopment opportunity and currently has tenants in existing buildings. There was a feasibility study carried out for hotel, residential & PBSA schemes.
- Other notable deals included the sale of a 3.16 acre site with planning permission for 79 residential units in Cabinteely, Dublin 18 for €6.1m / €1.9m per acre, and the sale of a 0.6-acre site at Brookfield Road in Dublin 8 for €6.0m / €9.7m per acre. The remaining sales ranged between €205,000 and €5.9m.

Despite the low levels of activity, more than €170m worth of land was sale agreed in the GDA at the end of June 2023. Over 70% of this was in Dublin with the remainder spread across Co Wicklow and Co Meath. In reality, this figure is likely higher given that about one-third of activity has been taking place off-market in recent times.

Turnover by Planning Status (H1 2023)



Acres by Planning Status (H1 2023)



Source: Lisney

Supply

At the end of June 2023, the number of sites available through on-market sales was limited; about 20 were available in the GDA with combined asking prices of €220m.

In the coming months, new supply is expected to come from various types of vendors. Some will be investors and developers in receivership or forced to sell by funders, while others will be selling due to higher development costs and challenges in progressing with building works. Many developers that acquired sites using secondary funding in the last 36 months may now need to refinance, which might also contribute to the supply.

Demand

Currently, most potential purchasers are only seeking land with planning permission. This is predominantly driven by probable time delays and risks associated with obtaining planning permission.

As more planning applications progress through the system, it is expected that a greater number of ready-to-go sites will come to the market for sale. There is also interest in un-zoned, agricultural land, particularly in the price range of €50,000 to €100,000 per acre. The demand for zoned land without planning permission depends on its location and access to services and amenities. It must be priced right to sell.

The Land Development Agency (LDA) is seeking to expand its land holding by acquiring land from private landowners to accelerate the delivery of affordable housing. Priority will be given to higher-density housing sites in key cities like Dublin, Cork, Limerick, Galway, and Waterford, particularly those near public transport links, employment areas, educational facilities, and public amenities. While the LDA prefers sites with planning permission and the capacity to commence construction in the near term, it will also consider sites that have commenced construction or have a positive planning context.



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However, refinancing may prove challenging given the cost and availability of funds from both traditional and alternative lenders, as such, some will be forced to sell. Furthermore, 'Housing for All' and other policy changes might also impact landowners' decisions to sell, as certain developments may become unviable or more complicated to deliver.

Additionally, various other State entities are also acquiring property assets. The example mentioned about where South Dublin County Council bought Lucan House and adjoining lands (90 acres) in H1 2023 is notable, as is Kildare County Council's acquisition of 50 acres at Feighcullen outside Rathangan. Approved housing bodies (AHBs) also continue to acquire units/sites for housing, often forward purchasing or forward funding schemes. The changes to their financing models have assisted with successful purchases.





In April 2022, the Government introduced measures to assist in development viability and bringing more vacant and derelict homes into use.



Legislation

In recent years, the planning system has experienced significant national policy changes and draft legislative proposals presenting both challenges and opportunities for developers.

NATIONAL PLANNING FRAMEWORK REVIEW

In June 2023, Minister O'Brien announced the commencement of the process to revise the National Planning Framework across five stages up to March 2024. This aims to update data, including population growth projections, demographic shifts, and economic trends.

PLANNING & DEVELOPMENT BILL

Additionally, the new comprehensive planning act remains at draft bill stage going into the Government's summer recess. While the bill and subsequent act were due to be finalised and implemented by mid-2023, this has not occurred. Following various meetings with industry, the Oireachtas sub-committee on the matter released its pre-legislative scrutiny report on the draft bill in April with further work due in the Autumn when the finalised bill will be released. Enactment is now expected in late 2023. Separately, another bill was initiated in July (Planning & Development (Amendment) Bill 2023) focused specifically on reducing ongoing delays with An Bord Pleanála. This has reached second stage in the Dáil before the Oireachtas summer recess.

Waiting for the comprehensive changes to Planning & Development legislation did (and continues to) cause some upheaval in the market. Many are awaiting greater levels of certainty it could provide, especially given the large amount of change in planning and residential policy in recent years. While there are many concerns with the draft bill that was put forward earlier in the year, we are hopeful that the next version will have regard to the matters raised by industry and will ultimately provide much needed certainty to those in the planning and development sector.

RESIDENTIAL ZONED LAND TAX

The Residential Zoned Land Tax will apply to serviced residentially zoned lands from 1st January 2024. The supplemental maps outlining liable lands were published in May 2023 and the final maps will be published in December.

TEMPORARY GOVERNMENT MEASURES

In April 2023, the Government introduced measures to assist with development viability and bringing more vacant and derelict homes into use. These comprised a temporary time-limited waiver in development contributions for 12 months; refurbishment grants for vacant and derelict homes, available to owner-occupiers and investors; and subsidies to kick-start cost rental.

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Outlook

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It is also likely to be the latter part of the year or into 2024 before the demand for sites improves and activity levels increase.

Many primary and secondary funders will remain largely absent from the market in the months ahead, unwilling to lend until there is more certainty on interest rates stabilising. This will mean that cash purchasers will be the dominant buyer type in the short term, but they will only consider deals when they see value. Those requiring debt to acquire lands will find it more difficult, however, some funding will be available to those with debt-free viable sites and are willing to build-out schemes.

Supply will improve by calendar year-end and while these lands will come with reduced asking prices, this will provide opportunities for new owners. Having paid less for the site, their viability level will be different to the previous owner. For deals to complete, vendors and purchasers will need to be aligned on price. Sales processes will be more challenging and subject to planning deals may become more acceptable to vendors with non-refundable deposits being sought.

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