IRISH PRS MARKET

Q3 2021

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TRANSACTION ACTIVITY

Activity in the Private Rented Sector (PRS) continued throughout the summer months and into the third quarter of 2021, as strong domestic and international interest remains for the sector. Quarter two witnessed €710m, while quarter three recorded €414m of assets transact in their respective periods.

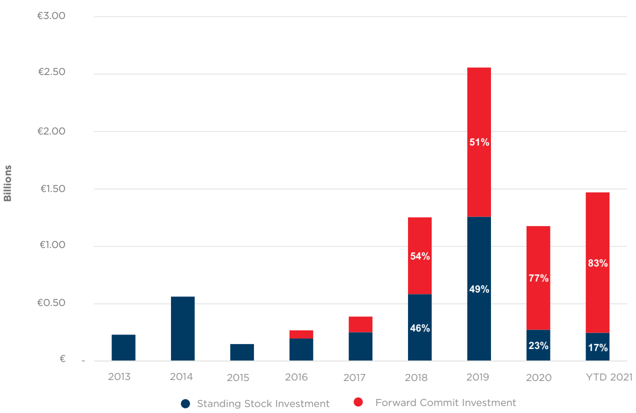
This brings total capital spend in the market to just shy of €1.5bn across 34 deals in the nine months to September end 2021. This represents a sizable increase from the €638.8m recorded in the same nine month period in 2020 and is almost identical to the approximate €1.47bn recorded over 29 deals in 2019, perhaps suggesting that the residential investment market is beginning to align with the trajectory recorded 'pre-pandemic'. It is worth noting that 2019 is the strongest year of turnover on record in Cushman & Wakefield's detailed series.

When considering year to date figures, it is important to note that they do not include the LRC and Castle portfolios. Both of which received keen investor interest and were guiding on the market for approximately €1.5bn combined, however, they are yet to trade hands.

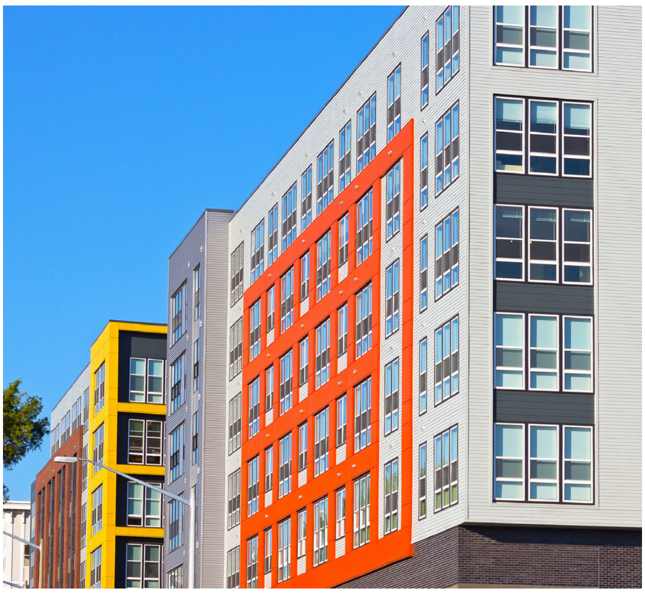
Similar to trends witnessed previously, the larger ticket items continue to be dominated by forward commit transactions. With market players seeking scale and the sheer lack of standing stock this trend is here to stay. Of the turnover recorded in the year to date, approximately €245m were income generating at the point of sale and in the region of €1.2bn were forward commit style arrangements.

When analysing the type of investment by number of units, over 2,500 residential units have traded via forward investment in the year so far, while 700 units have traded via standing stock investment. It can be argued without the presence of this style of investment that the scheduled 2,500 units may not be delivered to the market.

Total Capital Inflows, Residential Assets, 2013 – 2021 YTD



Source: Cushman & Wakefield Research



Top Transactions YTD 2021:

Asset	Price (€) Approx.	No. of Units	Purchaser	Quarter Sold	Type
Royal Canal Park, Ashtown, Dublin	€200m	495	Union	Q2 2021	Forward Arrangement
Dwyer Nolan Portfolio, Dublin	€181m	400	Ardstone	Q2 2021	Forward Arrangement
Griffith Avenue, Dublin	€177m	385	Greystar	Q2 2021	Forward Arrangement
East Village, Clay Farm, Dublin	€127m	295	Blackrock	Q2 2021	Forward Arrangement
Adamstown Station, Dublin	€110m	Unknown	Orange Capital Partners/GIC	Q3 2021	Forward Arrangement

Source: Cushman & Wakefield Research

The largest deal of the year so far was the acquisition of approximately 495 apartments by German investor, Union Investment, for a price in the region of €200m. Transacted in quarter two, the forward-funding deal was seen as a vote of confidence for international activity within the market in the face of travel restrictions imposed by COVID-19. Of note, the transaction is Union's first investment in the Irish residential market and one of its first residential deals in Europe.

Also transacting in quarter two, the Dwyer Nolan Portfolio was acquired by Ardstone Capital for €181m. With approximately 400 apartments, the portfolio is spread across three North Dublin schemes, Santry Place, Hampton Wood and Windermere.

The largest deal of the third quarter was within the 200-acre Adamstown Station scheme. The development was purchased on a joint venture basis, which saw Orange Capital Partners and Singapore based GIC come together to commit €110m to Quintain.

Of the top ten deals by turnover achieved in the year to date, nine of them are forward commit style arrangements. Significant standing stock deals to transact in the year so far, include Glenveagh's 135 units at Marina Village in Greystones which was purchased by Real IS for €64.5m, while quarter three witnessed Gannon sell The Casino, Malahide, for approximately €29m.

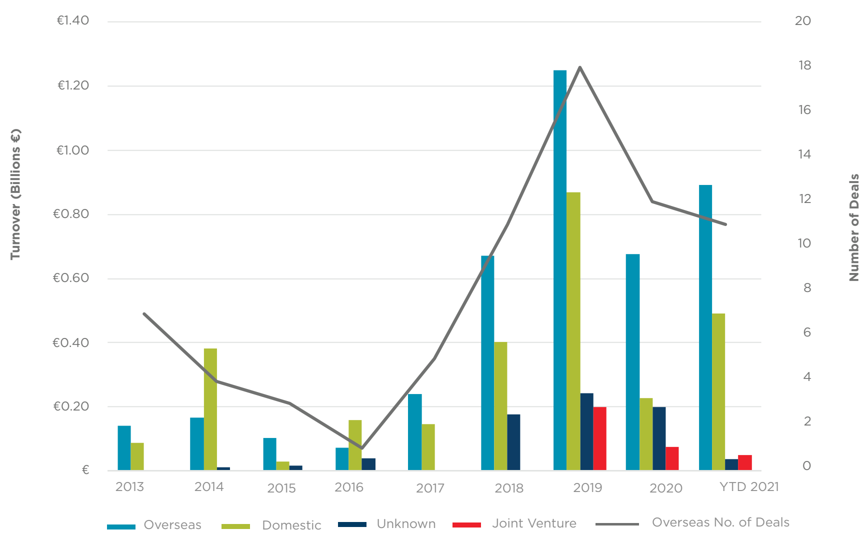
IRISH PRS MARKET
SOURCE OF CAPITAL & MARKET PLAYERS

The attractiveness of Irish PRS is evident by the continued strong presence of overseas capital in the market. Funds sourced from a foreign investor represented 61% of YTD 2021 turnover while domestic capital stood at 33% during the same period. The remaining 6% of capital is attributed towards joint ventures and confidential deals.

Of interest, in the nine months to September end 2021, 11 overseas backed deals closed, this is just one short of that recorded over the twelve-month period in 2020. Given the hurdles facing investors such as COVID-19 travel restrictions, the dip in both the volume and value of foreign activity in 2020 when compared to 2019 is unsurprising. However, of note, this dip is relatively small despite travel embargos.

Significant foreign players of recent include, Union Investment, DWS, Greystar, LRC Group, Patrizia, Tristian Capital Partners, Kennedy Wilson, Orange Capital Partners and GIC, to name a few. While the indigenous players of late include IRES REIT, Ardstone Capital, Irish Life, Carysfort Capital, Urbeo, Avestus Capital Partners and non-profit bodies such as Cluid Housing Association.

Source of Capital, Residential Assets, 2013 – 2021 YTD



Source: Cushman & Wakefield Research

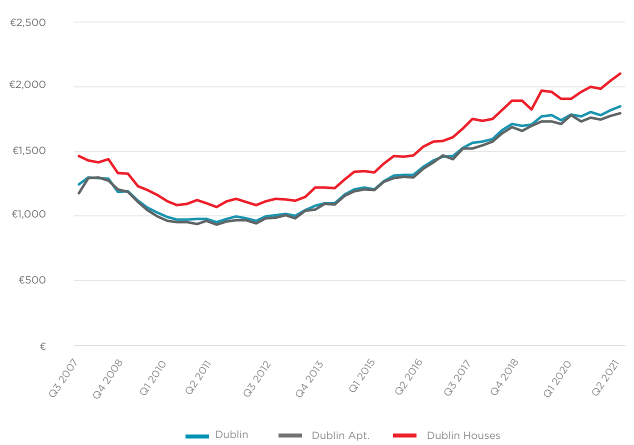
RENTAL ACTIVITY
RENTAL GROWTH

Against a backdrop of strong demand coupled with tight supply, rental growth at both a national and regional level has again been recorded in Q2 2021. According to the RTB, national rents increased by 2.4% in the quarter and rose 7% year on year in Q2 2021. This level of annual inflation is the highest rate since Q1 2019; however, it is important to note that this annual analysis is comparing against Q2 2020 which saw a quarterly decline in rents, in the initial period of COVID-19.

In Dublin, average standardised rents sat at €1,848 per month in quarter two 2021, this reflects an increase of 1.6% in the quarter and 4.4% on an annual basis. As expected, rents in Dublin are significantly higher than the rental levels outside of Dublin where average standardised rents were €1,058 in the period. However, rental growth has been much more aggressive outside of Dublin than within the capital. Rents outside of Dublin have increased by 4.1% when compared with the previous quarter and 10.4% on an annual basis.

In addition to location, there are variations in rental levels across houses and apartment. The standardised average rent for houses stood at €1,347 per month, this represents a rise of 9.1% year-on-year. While the standardised average rent for apartments stood at €1,379 per month, a 5.5% increase year-on-year.

Standardised Average Rent Dublin, Q3 2007 - Q2 2021



Source: RTB

IRISH PRS MARKET
AVAILABILITY SNAPSHOT

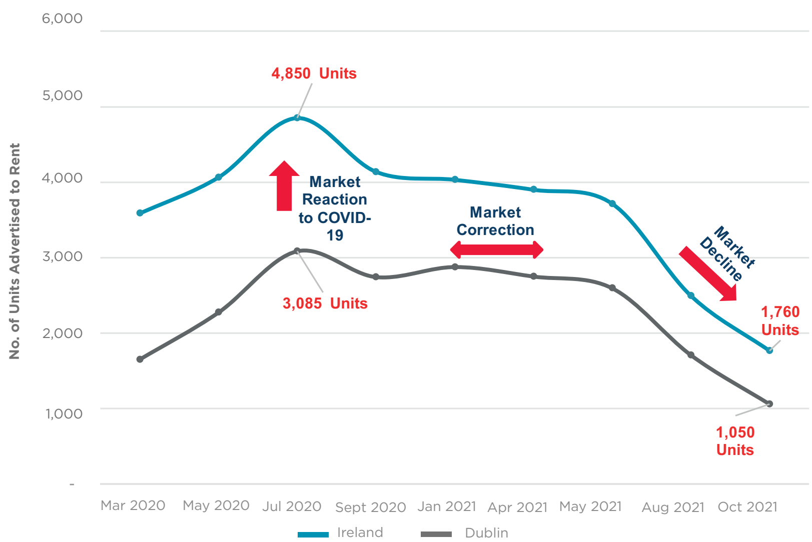
When attempting to capture availability levels in the Irish rental market, Cushman & Wakefield conduct a spot check of the number of residential rental advertisements on Daft.ie. When investigating the level recorded in the wake of the pandemic, we witnessed availability rise to approximately 4,850 units nationally and 3,085 in Dublin in July 2020.

Following this high, advertised availability stabilised for a period, before beginning on a rapid downward trajectory over the summer months. A recent spot check carried out in October 2021 revealed availability sat as low as 1,760 units nationally and 1,050 units in Dublin. According to these spot checks, advertised availability is now lower both nationally and in the capital than it was directly before the pandemic.

A breakdown of the type of units available within the most recent spot checks for Dublin, reveals most units are two bed properties, followed by one bed properties. Corresponding with the majority size of the units advertised to let, apartments account for most of the availability within Dublin.

Looking forward, recent availability trends combined with increased demand through the return to schools, colleges and the gradual return to offices is likely to have placed further upward pressure on rental levels in the third quarter. The final quarter of the year typically trends weaker, however, the expectation for 2021 as a whole is for stronger rental inflation than witnessed over the past two years.

Advertised Residential Rental Availability on Daft.ie*



Source: Daft.ie / Cushman & Wakefield Research

*Gross spot check of number of advertisements for residential units available to let on a given day. Does not always exclude double ups, luxury lets, student accommodation or short term lets which may fall under the category of residential rent on Daft.ie, however best attempts are made to do so. Also does not account for multiple units available under the one advertisement. Numbers rounded to the nearest 5.

IRISH PRS MARKET

MARKET OUTLOOK

Overall, investment volumes into the private rented sector in Ireland are set to continue to grow and investors have an important role to play in the delivery of high-density developments. It is expected that this investment will be predominately forward commitment style led and heavily concentrated in Dublin, at least in the short term.

The following paragraphs outline key features of the market for the final quarter of the year.

01.

THE POLITICAL ENVIRONMENT

Political events of recent, such as Budget 2022 and the announcement of the new Housing for All programme, saw a welcomed commitment made to housing of €4bn per annum. In addition to this, some changes were made to the current market conditions and new measures introduced.

The ending of long-term leases by Local Authorities and Approved Housing Bodies (AHB) is of particular interest to institutional residential investors. These leases had created an active cohort of the market, however, now with the intention to phase out these structures' questions remain over whether leasing will continue to be open to private developers.

It was also announced that Rent Pressure Zone's (RPZs) will remain in operation until 2024. However, now linking rental increases to the Harmonised Index of Consumer Prices (HICP) in attempt to remove the 'target' of 4%. Market insight notes that the extension of the RPZ legislation may promote a two-tier rental market in micro city locations as new product is delivered, while also has the potential to slow the release of units as landlords aim to maximise market rents through phasing.

Receiving a lot of airtime recently, both at a global and national level, is rising price inflation. The most recent figure for HICP as of September 2021, is now just under 4%. The rise is unfortunate timing for the government off the back of their decision to link rental increases with the metric, however it also could be indicative that intervention in the market may not always have the desired affects. To combat this, a recent announcement made in a bid to regulate rental increases, heard Minister for Housing Darragh O'Brien, cap rental increases at 2% or link to HICP if this value falls lower.

The European Central Bank states the current rise in inflation will be transitory, however it can be argued that the build-up of savings during lockdown, combined with supply chain disruption, may keep upward pressure on prices for well into next year.

Harmonised Index of Consumer Prices (HICP), Jan. 2019 – Sep. 2021

Source: Eurostat

02.

THE EUROPEAN PICTURE

PRS also outperformed several other key property sectors within Europe in the past 12 months due to its income stability and capital value resiliency. According to Real Capital Analytics data, investment in Europe, totalled €51.9bn in the 12 months to Q3 2021. Mainly, PRS yields in Q3 2021 remained stable across most European markets, however, yield compression was recorded across some Swedish markets as well as Berlin, Oslo, Zurich and Manchester.

Commenting on European performance, David Hutchings notes,

"The residential real estate investment sector continues to gain traction across Europe, with activity increasing as the pool of active investors and developers deepens further. At Cushman & Wakefield we are forecasting that the sector, as a whole, could overtake offices as an investment class within the next 5 years. To most of our investor clients, this is a structural market shift, resulting in sustained demand."

INTERNATIONAL PARTNER, HEAD OF INVESTMENT STRATEGY, EMEA CAPITAL MARKETS.

03.

FORWARD DEAL STRUCTURES

It is expected that forward commit transactions will continue to be a key feature in the closing quarter of 2021 and into 2022. While typically, the market has recorded forward commits on a purchase basis, 2022 may see forward-fund style structures emerge, such as that witnessed in quarter two of this year where Union Investment entered the funding agreement of Royal Canal Park. Forward style arrangements are satisfying investors demands for scale in a market where limited standing stock exists.

Something which has been slightly more prevalent in the market of late has been the need for rental underwrites or rental guarantees, as a means to provide security to investors while waiting for units to be occupied once the scheme is complete. It should be noted that at present, less than 12 months between commitment to income generation is the preferred timeframe. However, as we exit 2021 and begin to look beyond COVID-19, it is expected that less requirements for rental guarantees will be necessary.

04.

RENTAL TONE

When investigating the current rental tone of the market, Cushman & Wakefield notes a nervousness in relation to continued government intervention. In addition to this, a two-tier rental market has emerged, comprising essentially new stock (institutionally funded and managed) versus older stock (traditional individual landlords). Both investors are essential to market supply.

Looking specifically at professional managed schemes, two features are worth noting. Firstly, market intelligence indicates that at present, there are examples of recent new schemes outperforming rental underwrites due to continued strong demand within a market of dwindling supply. Secondly, it is believed that as the institutionally funded/professionally managed side to the rental market becomes more established, with more schemes being delivered and therefore more high quality product becoming available , a rental price differential should emerge between those with amenity provisions and those with no amenity provisions.

05.

PIPELINE

With standing stock availability levels receding, it is welcomed news to hear of sites submitting applications for planning permission or indeed being granted planning. Some examples of sites in Dublin which have submitted applications include, 884 units on the Old Dundrum Shopping Centre site, 2,718 units in Balgriffin and 1,007 apartments in Cherrywood. A site which has recently been granted planning permissions includes 1,047 units at the O'Devaney Gardens site in Dublin 7, however, this site is now subject to a judicial review. Market insight again highlights concerns around rising judicial review cases, with developers and investors building projected time spent on the proceedings into their project timelines. At the time of writing, it was reported that sites of significant scale such as 299 units at the former DIT Kevin Street site and 482 units on Golf Lane in Carrickmines were up for judicial review.

Considering the Strategic Housing Development (SHD) planning scheme is scheduled to be terminated in February 2022, market intelligence expects there to be a notable increase in SHD applications prior to its termination.

06.

CO-LIVING

In November 2020, the Irish government placed a ban on all new planning applications for co-living schemes. This ban did not impact those with planning already granted, nor those already within the planning process. At the time of the announcement, there were approximately 14 planning applications for the accommodation type, comprising more than 2,100 bed spaces. A number of additional schemes did enter the planning system before the ban was signed into law in late December, with over 2,000 units now estimated to have received planning.

This has created a niche market within residential investment for which questions remain as to where it goes from here. For example, limits for scale may reduce new operators looking at the asset class and also raise queries on the feasibility of the delivery of schemes without such new capital.

The market may now see vendors with such sites looking at their options and potentially submit for change of use to other accommodation assets such as senior living.

07.
FINAL QUARTER

In looking ahead to the closing quarter of 2021, Patrick Hogan comments:

"We anticipate year end volumes to exceed €2BN as investors look to deploy further funds before year end. Looking into 2022, we would be confident that investment volumes will continue to grow year on year and we already have strong visibility of a number of new funds looking to invest in Ireland from 2022. The availability of ready to go opportunities for investors is a concern, especially when considering rising construction costs and continued political interference in the market."

HEAD OF RESIDENTIAL CAPITAL MARKETS IRELAND, CUSHMAN & WAKEFIELD.

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