# Building Momentum

## Ireland remains an attractive investment location for would-be investors

The strength of the Irish economy is mirrored in strong development activity but supply gaps remain in the residential, student accommodation and hotel sectors.

**Michael Flynn**
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Long regarded as the poster child of economic recovery in Europe following its ascent from the depth of the financial crisis, Ireland continued to surpass many of its European counterparts in 2018. Unemployment remains low at 4.4% and the European Commission has forecast that the Irish economy will grow by a healthy 4.1% in 2019.

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In recent years, the underlying gaps in supply have attracted many of the world's largest and most sophisticated investors, who have entered the market to either develop or fund development projects in all sectors of the real estate market. Supply deficits persist, however, in the residential, student accommodation and hotel sectors.

Each year Deloitte Real Estate publishes its Crane Survey quantifying developments in Dublin, Belfast, Manchester, Leeds and Birmingham. While the individual city results are interesting, a comparison between cities also provides good insights.

## Office

2019 promises to be another eventful year for the office development sector, evidenced by a Dublin skyline dominated by cranes, and new planning permissions and applications for high rise buildings. The continued surge in development has been supported by the strong performance of the Irish economy and the ongoing commitment of international and domestic investors.

> "2018 office development in Dublin surpassed that of Birmingham, Manchester, Leeds and Belfast combined by circa 1 million sq. ft."

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Office space development in Dublin increased from c.4 million sq ft under construction in 2017 to 5.6m sq ft in 2018. The focal point for office development was the Docklands area, both North and South of the River Liffey, with numerous large scale developments currently on site and progressing at pace.

This level of 2018 development in Dublin is significant when compared to relevant UK cities. In the same period, the combined office space under construction in Manchester (2.1m sq. ft.), Leeds (0.8m sq. ft.), Birmingham (1.4m sq. ft.) and Belfast (0.4m sq. ft.) fell short of Dublin by circa 1 million sq. ft. Significant projects that were active in 2018 across Dublin include Capital Dock, Dublin Landings, Bolands Quay, North Wall Quay, The Sorting Office and The Exo Building.

In particular, the world's leading technology companies invested heavily in Dublin real estate throughout the last 12 months, further enhancing job security and reinforcing commitment to the city. The take up of office space has been heavily weighted towards the tech sector, which accounted for over 50%

**Under construction 2018**

| | Dublin | Manchester | Birmingham | Leeds | Belfast |
|---|---|---|---|---|---|
| **Office (Sq. Ft.)** | 5,606,401 | 2,070,897 | 1,405,260 | 804,257 | 414,502 |
| **Residential (Units)** | 4,119 | 14,480 | 5,065 | 2,232 | 124 |
| **Hotel (Units)** | 2,752 | 2,129 | 443 | 297 | 224 |
| **Student Accommodation (Units)** | 4,069 | 1,794 | 2,667 | 2,768 | 761 |

**Number of schemes under construction 2018**

| | Dublin | Manchester | Birmingham | Leeds | Belfast |
|---|---|---|---|---|---|
| **Office** | 34 | 13 | 6 | 6 | 5 |
| **Residential** | 34 | 48 | 20 | 7 | 3 |
| **Hotel** | 20 | 9 | 3 | 1 | 1 |
| **Student Accommodation** | 11 | 3 | 5 | 5 | 2 |

of take up in 2018. Over the course of 2018, Google acquired the Bolands Quay development for a reported €300m, Facebook signed the largest single office letting in the history of the State at Fibonacci Square in Ballsbridge, and LinkedIn agreed a pre-let on IPUT's One Wilton Park development.

Given the recent granting of planning permission for the tallest building in Dublin at Tara Street, and with further applications for high rise buildings in the Docklands in the pipeline, Dublin's strong commercial market looks set to continue.

## Residential

Over the past year, the Dublin residential market has been active, however, the ongoing supply gap remains an issue for both the government and society at large. Market dynamics have conspired in recent years to persistently drive rental rates higher and ultimately delivered sufficiently attractive returns for investors to warrant development. Such trends are unlikely to change substantially over the short term. The necessary correction of the housing shortage will not occur overnight and many challenges lie ahead. Government initiatives to help alleviate the lack of housing stock will come under increased scrutiny, with considerable expectations of the newly formed Land Development Agency (LDA) and Home Building Finance Ireland.

In 2018, we recorded increased year-on-year activity across the residential space in the Dublin City Council area with 4,119 housing units under construction across 34 schemes, up from 3,634 housing units across 42 schemes in 2017. Comparison with UK cities suggests Dublin remains off the pace when it comes to homebuilding in the city centre relative to the city's size. Residential units under construction totalled 14,480 in Manchester, 5,065 in Birmingham and 2,232 units in Leeds.

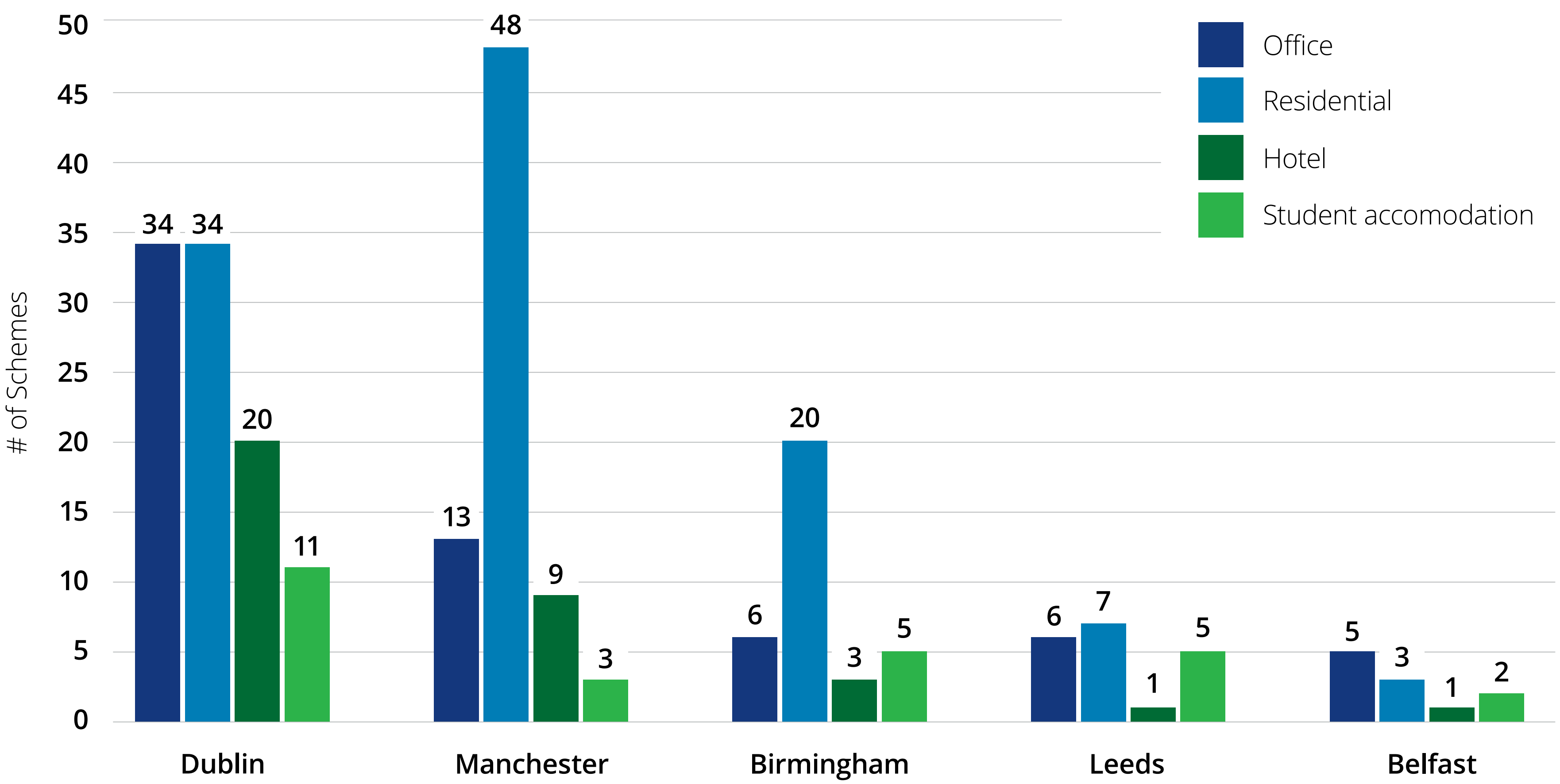
Following years of limited access to development finance, the availability of capital for residential development has now vastly improved. Ireland's emergence from the property crash and wider recession has seen a swathe of new alternative lenders entering the market, all seeking to take advantage of more favourable market economics and the void left by the pillar banks' reduced involvement in the sector. Active alternative lenders in the Dublin market include Activate Capital, Culluan Capital, Brunsfeld, Lotus Investment Group and Castlehaven Finance.

Social housing is also receiving considerable attention and funding, with the sector strongly politicised in the media, and a constant topic of discussion in the Dáil, the tabloids and the broadsheets alike. In September 2018, the Government launched the LDA, with a lofty ambition to build 150,000 new homes over the next 20 years. The LDA's primary objective is to manage the State's own lands, develop new homes, and regenerate under-utilised sites. This initiative is intended to relieve pressure by increasing the supply of both private and social housing across the country.

## Hotel

A strong Irish economy continued to improve the landscape for hoteliers across the country in 2018. Over the year, 11.2 million tourists visited Ireland, spending an estimated €6.1bn. Occupancy in Dublin reached record highs of 90.2% in 2018 while average Revenue Per Available Room (RevPar), a key metric in the hotel industry, rose

**Comparison of Construction Volume across UK & Ireland - Number of Schemes Under Construction in 2018**




Source: Deloitte Crane Survey Series

13.6% to €146.96. It is not clear what impact the VAT rate increase in 2019 will have, however, the high level of activity and demand in Dublin will likely absorb any negative impact of resulting price hikes.

According to Deloitte research, there were 20 hotels under construction in 2018 in the Dublin City Council area, an increase from 9 hotels in 2017. These ranged from new builds like the Hyatt Centric under construction on Dean Street to renovation and extension works like those undertaken at the Radisson on Shop Street. In total, these schemes will add 2,752 rooms to Dublin's hotel stock when completed, up from 929 rooms in 2017. In comparison, the number of hotels under construction in 2018 totalled 9 in Manchester, 3 in Birmingham, 1 in Leeds and 1 in Belfast – cumulatively less than the 20 currently being built in Dublin.

The largest source of tourism to Ireland stems from our closest neighbour, the UK. The uncertainty surrounding Brexit has caused considerable volatility in currency markets and it is currently more expensive for British tourists to visit Ireland. The weaker currency is already having a negative impact on visitor numbers and Brexit developments will be studied closely as hoteliers attempt to gauge the long term implications for Ireland's tourism industry.

In contrast, visitors to Ireland from North America increased by 10.7% in 2018. This was supported by the opening of additional air routes making holidays to Ireland more accessible, a strong US economy that has seen unemployment reach a 48-year low, and the accompanying strong performance of the dollar. Similarly, tourism from mainland Europe increased by over 10% with particularly strong growth in the number of visitors from Germany (up 21%) and Italy (up 14%).

### Student Accommodation

The last 12 months was a busy period for student accommodation development in the Dublin City Council area with 11 schemes under construction due to deliver 4,069 beds on completion. This is a slight reduction on the 4,529 beds that were under construction in 2017. While outside the geographic scope of Dublin City Council, UCD has also commenced construction of large on-campus student accommodation that will increase its existing stock from 3,170 to 6,000 beds on completion. Overall, the volume of student accommodation under development in the Central Dublin area is expected to reduce from current levels in the coming years with large schemes planned in locations outside of the city, such as Tallaght and Sandyford. By comparison, Manchester (3), Birmingham (5), Leeds (5) and Belfast (2) combined have 15 schemes in total under construction.

Demand for student accommodation in Dublin is driven by four principal third level institutions: University College Dublin, Trinity College Dublin, Dublin City University and Dublin Institute of Technology. The overall number of students studying in Dublin represents 43% of the total student population in Ireland with approximately 61,500 full-time students enrolled in these four institutions alone. Notable developments include DIT's new campus in Grangegorman, Trinity's planned innovation campus at Grand Canal Dock and DCU's Campus Capital Development Plan (2016-2020). Given that Ireland has the youngest and fastest growing population in Europe, demand is likely to continue to grow as we move into the future.

Dublin remains structurally undersupplied and a chaotic game of catch up is taking place. The student accommodation crisis is a regular fixture on talk shows each September when the academic year commences. The current stock is insufficient to service the demand for 30,298 beds and, looking forward, a deficit of 17,771 is forecasted for 2019, only to reduce marginally to 13,569 by 2024.

Over the next decade, a significant number of new student accommodation schemes will be required, and for now, given the shortfall in supply and high rents achievable, the development of new schemes remains economically feasible. These market economics have given rise to the entrance of international student accommodation investors such as Global Student Accommodation, Scape and Hattington Capital into the Dublin market.

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It is clear that the overall level of development in Dublin is substantial, particularly when compared to other relevant cities. The only area with a significant supply gap remains the residential sector where a national housing issue has been identified. More needs to happen in the residential space to ensure a balanced development profile in the city.

This article is sourced from **Deloitte Dublin Crane Survey**
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