

Unlocking value



Guest comment by **Shane Scully**

Ireland's capital boasts a number of unique strengths when considering residential development, says the founder and chief executive of Eagle Street

Mass transport, mass employment and proximity to retail are key considerations when identifying a site for residential development. Sticking to these fundamentals mitigates risk while unlocking value via ground-up development. However, residential often competes with these alternative uses for scarce land.

Dublin is home to major multinationals, including all of the top five global software companies, all of the top 10 pharmaceutical companies, eight of the top 10 financial services companies; and nine of the top 10 technology companies. The variety of global employers creates a diverse, well-paid workforce fueling demand for already constrained residential accommodation.

Investors look for value in fractured or dysfunctional markets. Due to the lack of homes built within the Dublin market post-global financial crisis and a rapidly growing population, its residential market has a severe supply-demand imbalance. As demand outpaces supply, rents continue to grow for new best-in-class homes, which is going a long way to offsetting softening yields.

Driving demand

The population of Dublin is growing rapidly and projected to reach 2.4 million by 2050. Ireland itself is experiencing strong net immigration, with

approximately 32,000 people arriving per year. However, the current housing stock is not keeping up with demand, which has resulted in high prices and a lack of affordable housing options. Research by the Housing Commission says Ireland may need up to 62,000 homes built per year until 2050 to meet demand. This total is almost double the annual target in the Irish government's 'Housing for All' strategy set out for this decade, and nearly three times what is currently being delivered.

Since the GFC, Ireland has implemented stringent macro-prudential rules to regulate the property market and prevent another housing bubble. While these rules have tapered the build-to-sell market, the unintended consequence is adding further demand to the competitive rental market. This regulation ensures that buyers must have a minimum deposit and a multiple of income to purchase a property. Coupled with the cost-of-living crisis, the net result is that individuals are buying their homes later, further driving demand in the rental sector.

Prime yields in Dublin compare favorably for investors to its European counterparts. With the cost of debt increasing sharply and yields widening, underwrites are being salvaged by significant rental inflation as the rental market continues to be chronically

starved of homes, with fewer than 1,100 available to rent nationwide.

Fixing the imbalance

Ireland was an early adopter of ESG best practice. In 2018, it introduced Nearly Zero Energy Building standards for all new residential construction. Investors benefit from an operational aspect as the quality of build results in direct efficiencies, however, the lower running costs have not yet been accepted by institutional investors, which still prefer to model energy costs from schemes built to a far lower standard.

As a pan-European real estate investment and asset manager, Eagle Street identified Dublin as a key market to create value via ground-up development, with a pipeline to deliver projects in excess of €700 million. The firm has also identified other cities in the British Isles that have a supply-demand imbalance, where new stock can be delivered with very little occupier risk.

The availability of land at the right attachment point is key, as developments need to make an appropriate return with the headwinds of higher debt, higher construction costs and widening yields. After what feels like a "great pause" in the market, we expect purpose-built student accommodation to be one of the first residential asset classes to break ground in the new cycle. ■