INVESTMENT INSIGHT

DUBLIN

RESIDENTIAL MARKET ANALYSIS **FOR INTERNATIONAL INVESTORS**

TRENDS | ANALYSIS | OUTLOOK

SUMMARY

1. Dublin is the capital city of Ireland, Europe's fastest growing economy
2. In addition to economic opportunities, Dublin has a rich cultural and lifestyle offering
3. Ireland is undergoing a population boom, underpinning long-term demand for housing
4. Despite recovering by 98%, residential prices remain 20% below their previous peak level
5. Dublin compares very favourably to major international cities across a range of metrics

INTRODUCTION

As the capital city of Ireland, Europe's fastest growing economy, Dublin's residential market is increasingly on the radar of international investors. This report examines the factors driving this heightened interest.

Overview

The appeal of investing in Dublin's residential market is underpinned by the city's commercial success, which is complemented by its educational and lifestyle offering. Dublin is a dynamic, outward looking city, and home to the European Headquarters of many of the world's leading companies including Google, Facebook, Twitter, LinkedIn and Microsoft to name just a few. Dublin's success in attracting these companies is a reflection of the wider success the city has had in positioning itself as a leading global business and financial hub within the EU.

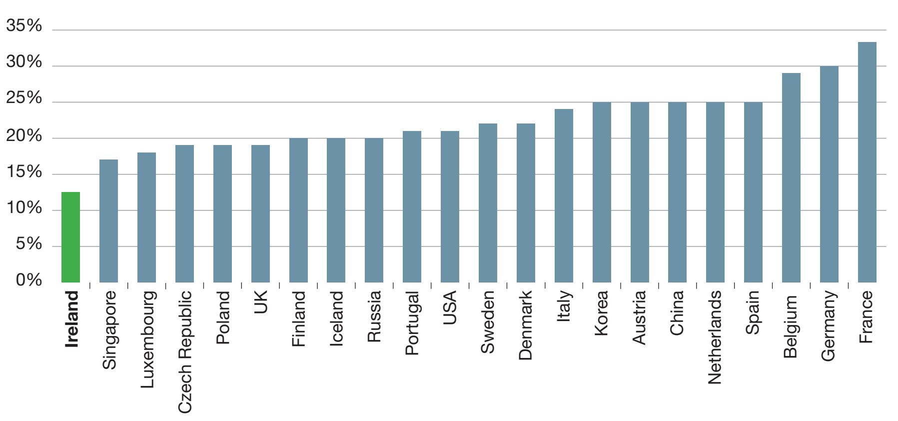
The draw of Dublin can be attributed to soft and hard factors. For instance, Ireland's long history of emigration enables the country to yield substantial soft power by leveraging its influence with the Irish diaspora in senior positions in major multinationals. At a more hard-nosed business level, Dublin's low corporate tax rate of 12.5% is one of the lowest 'onshore' statutory corporate tax rates in the world.

While a favourable tax rate acts as a significant pull factor, Dublin's young, highly educated English speaking workforce is also of central importance for employers:

- 33% of the population is aged under 25, the highest rate in Europe[1]
- 54% of 30-34 year olds have a degree or higher compared to an EU average of 40%[2]
- Ireland has been the best country in the world for attracting high-value foreign direct investment for seven years running[3]

The incentivised tax treatment that businesses enjoy also extends to individual investors. There are a number of fund structures that allow tax efficient investing through vehicles such as the Qualifying Investor Alternative Investment Fund, which is open to suitably qualified investors making a minimum initial subscription of €100,000. As a further incentive, the Immigrant Investor Programme has been established which allows non-EEA nationals and their families, who commit to an approved investment in Ireland, to secure residency status. The ease of investing in Dublin is facilitated by Dublin Airport, which offers excellent global connectivity due to its strategic geographic position between Europe and the United States.

FIGURE 1
Selected global corporate tax rates

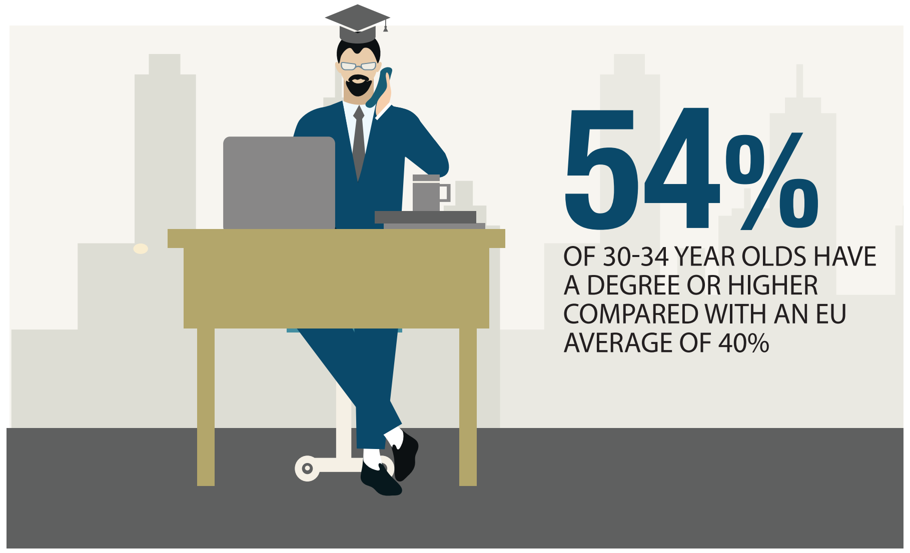


Source: KPMG

[1] Eurostat
[2] Eurostat
[3] IBM Global Location Trends 2018

Educational draw

Dublin's educational institutions have a growing reputation abroad with international student numbers expanding by 17.5% between 2014-2017[4]. Dublin is increasingly becoming a primary destination to study medicine for students from Asia with the Royal College of Surgeons, University College Dublin and Trinity College Dublin all offering medical training to overseas students. Trinity College, which has sister colleges in the universities of Cambridge and Oxford in the United Kingdom, is Ireland's most prestigious university and attracts thousands of tourists annually to its historic campus in Dublin City Centre.

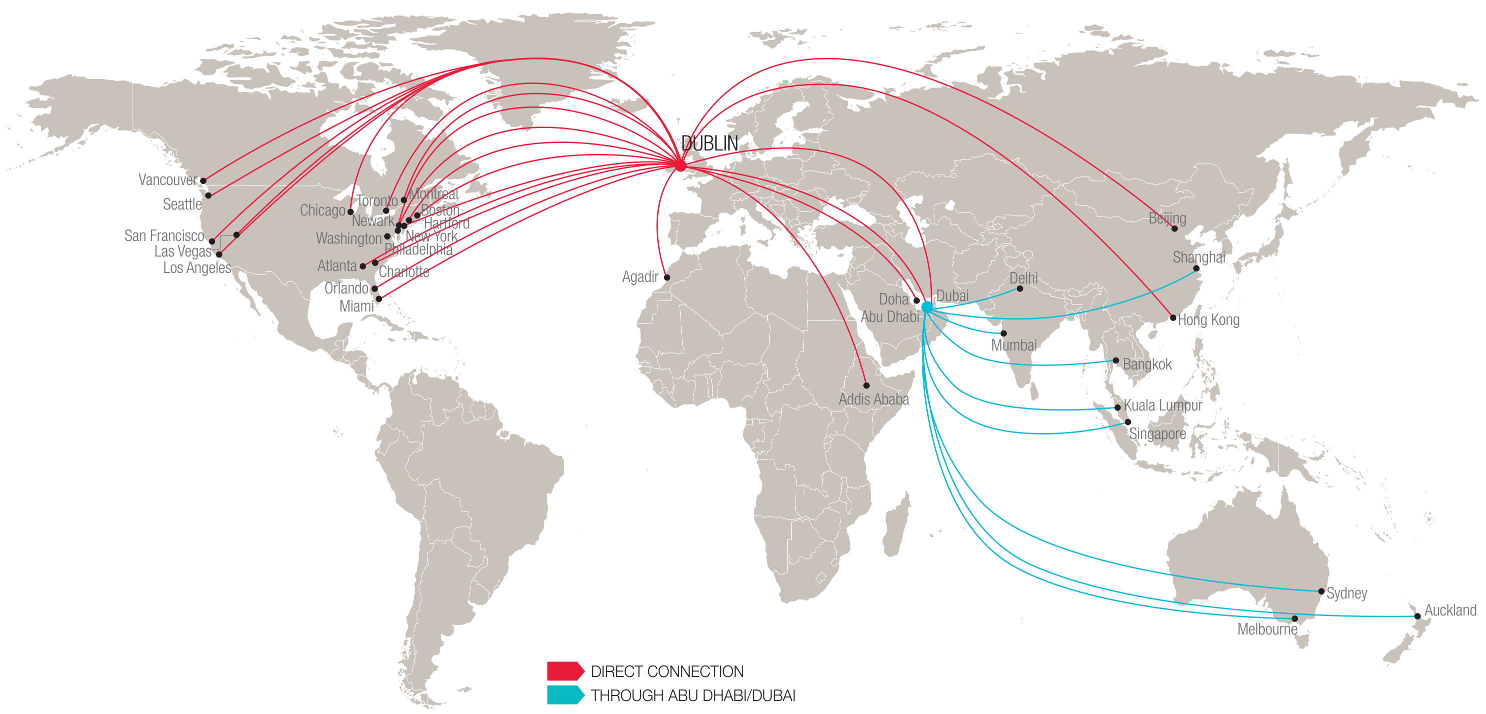


IRELAND – UNITED STATES PRECLEARANCE

Ireland has an aviation preclearance agreement with the United States since November 2008. Under the agreement, passengers of all United States bound flights from Dublin and Shannon Airport are fully cleared for immigration, customs, agriculture and security controls before leaving Ireland. This means that passengers travelling to the United States are treated as domestic passengers on arrival and do not face any further entry controls.

From the passenger's perspective, the preclearance process allows for more efficient use of preboarding time at Dublin Airport. The experience on arrival is also greatly improved as it avoids a lengthy entry process and allows transit passengers to remain airside for connecting flights.

FIGURE 2
Flight connectivity ex Europe



Source: Knight Frank Research

[4] Higher Education Authority

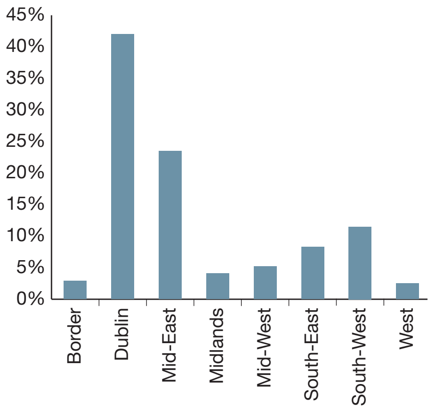
Lifestyle appeal

In addition to the commercial and educational appeal, Dublin also has attractive cultural and lifestyle pull factors. Chief amongst these is the city's rich literary heritage with Oscar Wilde, Samuel Beckett and James Joyce just some of the famous writers and playwrights to hail from the city. Indeed, Dublin was the setting for Joyce's great 20th century novel, Ulysses.

Dublin's environs offer fantastic outdoor activities, especially in the golfing and horse breeding arenas. Ireland is home to over 400 golf courses, producing some of the world's leading professionals including Rory McIlroy, Darren Clarke, Graeme McDowell, Paul McGinley and Padraig Harrington. Irish golf courses, renowned worldwide for their picturesque landscapes and rich heritage, attracted 257,000 people to play in 2017 according to Fáilte Ireland. Famous courses include the Old Head Golf Links in Cork and The K Club located just outside Dublin .

Ireland is one of the largest thoroughbred breeding nations in the world with 6,777 registered breeders basing their operations here in 2017[5]. These include John Magnier's Coolmore Stud, Prince Khalid Abdullah's Juddmonte Farms, Sheikh Mohammed bin Rashid Al Maktoum's Darley Stud and Sheikh Hamdan Al Maktoum's Derrinstown Stud.

FIGURE 5
Projected share of population growth 2016-2031



Source: CSO

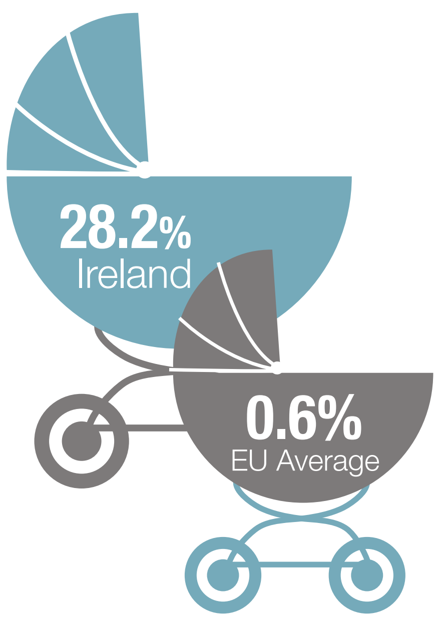
Demographic drivers

Ireland is experiencing a population boom, providing a natural long-term source of demand for housing. According to the latest census, over the period 1991- 2016, the population grew by 35.1% compared to a growth rate of 7.0% for the EU as a whole. Leinster – the province in which Dublin is located – accounted for 55% of the population in 2016, which represented a 5% increase on 2011.

A high fertility rate in conjunction with lower mortality rates, has resulted in a natural annual population growth rate of 6.6%, which is far in excess of any other European state[6].The high growth rate is set to continue with Eurostat projecting that the population of Ireland will increase by 28.2% during the period 2020 to 2080 compared to just 0.6% for the EU.

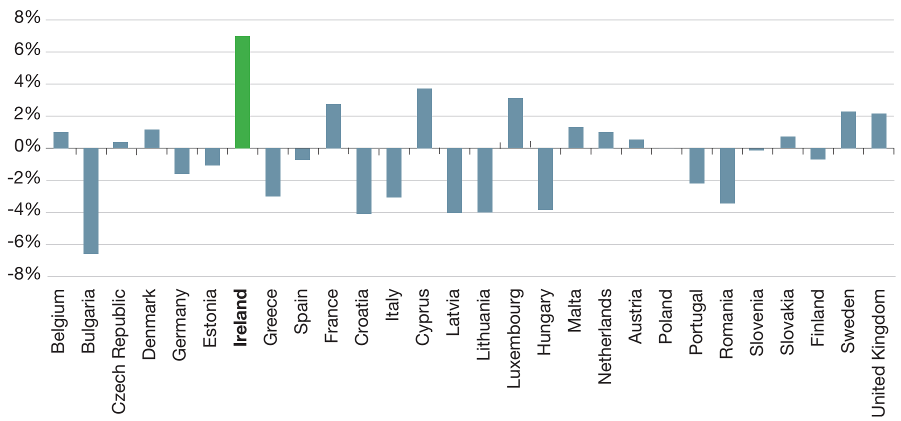
Due to trends in urbanisation, Dublin is set to benefit most from this population growth. According to the United Nations, 80% of people in Ireland will live in urban areas by 2050, up from just over 60% currently. According to the Central Statistics Office (CSO), by 2031, over 40% of Ireland's population growth will be concentrated in Dublin. Furthermore, the counties surrounding Dublin in the Mid-East region (Meath, Kildare and Wicklow) have the next highest potential accounting for approximately 25% of projected growth. Clearly then, Dublin will be the focal point of future population growth which will underpin long-term demand for housing.

FIGURE 3
Population projections 2020-2080



Source: Eurostat

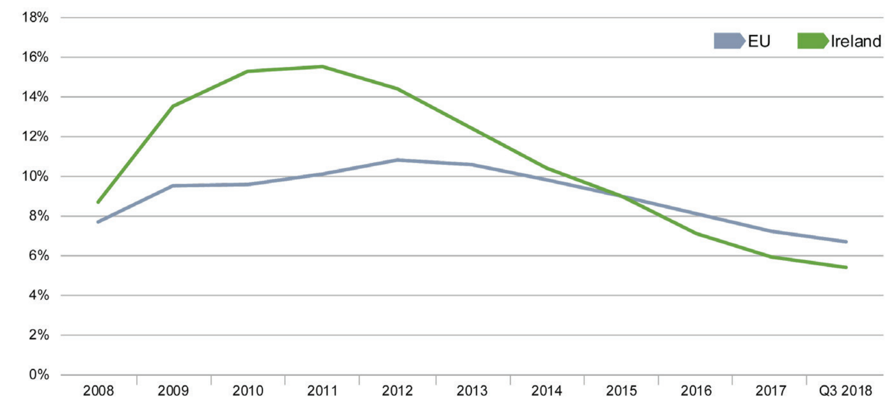
FIGURE 4
Natural population growth rate



Source: Eurostat

[5] Horse Racing Ireland
[6] Eurostat

FIGURE 6
Unemployment trends



Source: Eurostat

Economic drivers

According to the Economic and Social Research Institute (ESRI), the Irish economy is expected to have grown by 8.2% in 2018, making it the fastest growing economy in Europe for a fifth consecutive year. Growth is supported by heightened foreign investment inflows, which has seen the unemployment rate fall to 5.4% at the end of Q3 2018, below the Euro area average of 6.7%[7].

The tightening labour market has placed upward pressure on wages, which grew by 3.2% in the year to Q3 2018[8]. This has boosted personal consumption which is on course for a 2.6% expansion in 2018[9]. Government debt as a percentage of GDP declined from a peak of 120%[10] during the height of the euro crisis and is projected to have finished 2018 at 64%[11]. Meanwhile, tax revenue was 8.3% higher in 2018 when compared to 2017[12].

The improvement in the public finances, combined with the strong momentum behind economic growth, led to Ireland's sovereign credit rating being upgraded to A+ by Fitch in December 2017. Ireland's success in turning around its finances following the euro crisis has earned it a 'star pupil' reputation in Europe and created the stable environment which has spurred large capital inflows from international investors. Additionally, Brexit may provide a further boost to Dublin with relocations of well paid office jobs from London expected, adding an additional layer of high-value demand to the residential market.

[7] Eurostat
[8] CSO
[9] ESRI
[10] NTMA
[11] NTMA
[12] Department of Finance

"In contrast to the latter stages of the Celtic Tiger, the residential market is now dominated by first-time buyers illustrating that the market is being driven by positive fundamentals rather than unsustainable speculation."

RESIDENTIAL MARKET OVERVIEW

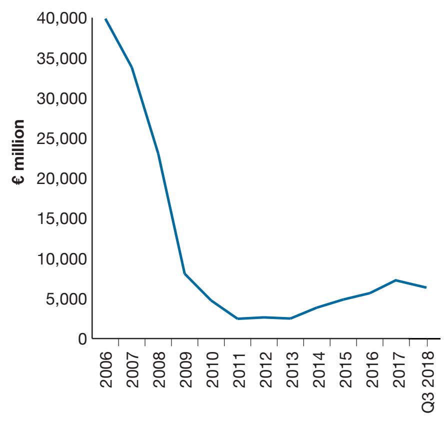
The Dublin residential market is characterised by a chronic lack of supply which is driving price and rental inflation.

Ireland was one of the worst affected countries of the Global Financial Crisis (GFC) as an overvalued residential market underwent a correction simultaneously as the GFC hit. In the aftermath, prices fell by almost 60%[13] in Dublin, making it one of the worst housing crashes on record anywhere in the world. However, as it became clear that the market had substantially overcorrected, prices rebounded strongly, recovering by 98% although they remain 20% below peak[14]. Meanwhile, rents fell by 27% peak-to-trough but now exceed their previous high by 22%[15].

A lack of new supply has been driving these increases. We estimate that 7,500 units will be delivered in 2018. While this represents an increase in comparison to the 5,585[16] units that were delivered in 2017, it falls well short of the annual demand in Dublin for 11,000 units as identified in our research.

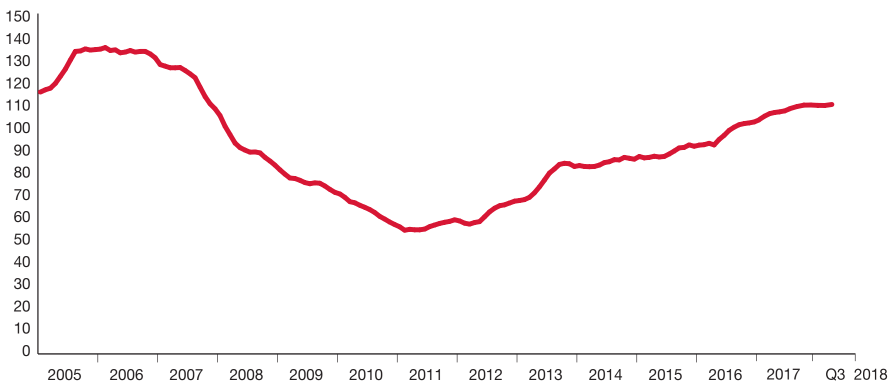
A scarcity of mortgage financing continues to be one of the main factors behind the lack of new supply, with the value of mortgage lending in Ireland falling from €39.9 billion in 2006 to €6.1 billion in Q3 2018[17]. While part of this fall has been due to the tightening of the availability of domestic bank funding following the GFC, the decline can also be attributed to the macro-prudential measures introduced by the Central Bank in 2015 aimed at avoiding another credit fueled bubble. The Central Bank measures included introducing borrowing limits of 3.5 times income and the requirement for a 20% deposit, reducing to 10% for first-time buyers while buy-to-let investors require a deposit of 30% loan-to-value.

FIGURE 8
Mortgage drawdowns



Source: BPFI

FIGURE 7
Dublin residential price index



Source: CSO

[13] CSO
[14] CSO
[15] RTB
[16] CSO
[17] BPFI

As a result, first-time buyers now account for 49% of mortgages compared to approximately 20% leading up to the crash[18]. Furthermore, buy-to-let investors now account for 2% of the market compared to approximately 20% previously which is a further sign that the market is being driven by positive fundamentals rather than unsustainable speculation[19].

Summary

The Dublin residential market represents a unique opportunity for investors to gain exposure to Europe's fastest growing economy. In addition to being Ireland's economic engine, with average incomes 15%[20] higher than the State, Dublin is also the focal point for Ireland's population boom which will ensure a long-term demand for housing.

With many advanced economies experiencing the dual forces of weak economic growth and aging populations, Dublin has stood out as a beacon of growth. In the process, the city has attracted the attention of some of the world's largest investment funds such as Singapore's Oxley Holdings who are developing a mixed-use scheme with Ballymore extending to over one million sq ft in the heart of Dublin's docklands. With indicators such as prices, rents and supply all pointing in a favourable direction from an investor's point of view, the outlook remains bright.

These same dynamics have also raised the market's profile for international individual investors who are also attracted by Dublin's educational and lifestyle offering in addition to the aforementioned economic case. And while the residential market faces serious issues such as the difficulty in obtaining mortgage financing, this creates an opportunity for foreign buyers who are not hindered by funding obstacles. In this context, international interest is only set to grow.

[18] BPFI
[19] BPFI
[20] CSO

Strawberry Hill House, Vico Road, Dalkey, Co. Dublin

International comparison

Dublin compares favourably to London, New York and Hong Kong across a range of metrics as illustrated in the table below.

Examining the purchasing power of one million euro in Dublin, one can purchase approximately five times the amount of prime space than in Hong Kong and nearly four times the amount of prime space than in London and New York. Furthermore, transaction taxes are much lower with an investor paying €10,000 on acquisition of a one million euro property in Dublin compared to €68,730 in London, €28,250 in New York and €300,000 in Hong Kong. For the same property, annual property tax would be €1,491 in Dublin compared to €1,828 in London, €12,551 in New York and €1,896 in Hong Kong.

Category	Dublin	London	New York	Hong Kong
How much space will €1 million buy[1]	1,399 sq ft	377 sq ft	366 sq ft[2]	269 sq ft
Transaction tax[3]	€10,000	€68,730	€28,250	€300,000
Property taxation[3]	€1,491	€1,828	€12,551	€1,896

[1] Knight Frank Research as of Q3 2018
[2] Refers to new developments only for New York
[3] Based on €1 million home

RESIDENTIAL

James Meagher, Director
+353 1 634 2466
james.meagher@ie.knightfrank.com

Donal Courtney, Surveyor
+353 1 634 2466
donal.courtney@ie.knightfrank.com

Evan Lonergan, Director
+353 1 634 2466
evan.lonergan@ie.knightfrank.com

Ray Palmer-Smith, Director
+353 1 634 2466
ray.palmer-smith@ie.knightfrank.com

Barry Feenan, Associate Director
+353 1 634 2466
barry.feenan@ie.knightfrank.com

Rena O'Kelly, Director
+353 1 634 2466
rena.okelly@ie.knightfrank.com

Peter Kenny, Associate Director
+353 1 634 2466
peter.kenny@ie.knightfrank.com

Guy Craigie, Associate Director
+353 1 634 2466
guy.craigie@ie.knightfrank.com

RESEARCH

John Ring, Head of Research
+353 1 634 2466
john.ring@ie.knightfrank.com

Robert O'Connor, Research Analyst
+353 1 634 2466
robert.oconnor@ie.knightfrank.com

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