THE DUBLIN PRS REPORT
1. Dublin is witnessing a large increase in investment in the Private Rented Sector (PRS).

2. The next wave of investment will concentrate on Build-to-Rent opportunities.

3. There has been a move away from home ownership to PRS, with 60% of under 30’s now renting in Dublin.

4. Ireland compares very favourably with other European nations regarding PRS market fundamentals.

5. Design standards introduced by the Government in 2018 will help increase the viability of the Build-To-Rent model in Ireland.

The internationalisation of real estate coupled with its segmentation into alternative investment specialisations – student housing, retirement living and PRS – means there is a supply of specialist global capital to deploy to the right markets. The interest in PRS has primarily been driven by pension funds, who are looking to take advantage of the fact that real wages and residential rents are highly correlated – a relationship they use to offset future liabilities. More generally, a wide spectrum of investors are attracted to having an element of PRS in their portfolio as it exhibits unique risk-return characteristics thus offering portfolio diversification benefits. However, the real potential of PRS lies in the Build-to-Rent model. This is where investors fund the developments and hold for the long-term, with an estimated weight of capital of between three to five billion euros chasing these opportunities in Dublin.

The transition from a buy-to-let to a Build-to-Rent market will be driven by the drying-up of standing investment opportunities coupled with the positive market fundamentals that BTR investors seek. For starters, Dublin is undergoing a population boom with the United Nation’s population forecast, that it will be the fastest growing of any of the 162 cities in Europe with a population greater than 300,000 people between now and 2035, undergoing an expected expansion of 18% over the period.

Furthermore, tighter mortgage underwriting standards has seen bank lending fall to a fifth of the peak in 2006, resulting in a growing cohort of lifetime renters. Finally, there has been a cultural shift in attitudes towards renting in recognition of the flexibility it offers, with this demand particularly strong from the young, internationally mobile professionals working in the tech and finance sectors.

That is not to say that the sector is without its challenges. Despite rents reaching record levels, the costs of construction remain high relative to other European markets, although the Government has introduced a set of design standards to address these challenges. Furthermore, there is limited public data in relation to management/operational costs on which new entrants to the market can base investment decisions. However, with increased interest and confidence in this space, we see PRS continuing to grow in importance and looks set to play a crucial role in relieving the lack of residential supply that has emerged over the last number of years.

### INVESTMENT MARKET ACTIVITY

Institutional investment in Dublin’s PRS market is growing rapidly with allocations to the sector expected to reach €1.5 billion in 2019, which would represent an increase of 61% on 2018 and 57% compared to 2017.

There is a wide variety of capital sources active in the market, with Irish, European and United States funds all competing for acquisitions. German fund Patrizia have been particularly active, purchasing both The Benson Building and Mount Argus for €32.5 million and €93.0 million respectively. Meanwhile, Greystar bought Dublin Landings for €175.5 million, which represented the largest single asset transaction witnessed thus far in the PRS market.

Prime yields have been firmly established at 4.00% with a number of transactions providing evidence at this level, although we may see further tightening as the ECB embarks on another round of quantitative easing which will put further downward pressure on yields.

### BUILD-TO-RENT DEAL STRUCTURING

**Investor**
- PRS investors implement forward funding and forward commitment structures with developers and illustrate a willingness to pay a premium when transacting with well-funded developers.
- Funding new BTR stock rather than purchasing existing apartment stock allows greater scope for maximising operational efficiencies as well as future proofing assets.
- Net prime entry yields range between 4.00% and 5.00%, with expected returns over a 15-year horizon given below:

<table>
<thead>
<tr>
<th>Estimate</th>
<th>Property Type</th>
<th>Yield</th>
<th>Return (RoCE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>BTR</td>
<td>10%</td>
<td>10%</td>
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</tbody>
</table>

### Developer
- **Forward funding**
  - 100% funding solution with payments staggered as milestones of project reached and covenants satisfied
  - Improves Return on Capital Employed (ROCE)
  - Stamp Duty savings are possible
- **Buyers are institutional investors**
- **Forward commitment**
  - No up-front funding, fixed price agreed to be paid on practical completion
  - De-risked disposal at practical completion
  - Stamp Duty on full cost
  - Less risky, wider opportunity set of capital available

### Scheme requirements
- Investment value of between €450 to €800 psf
- Need for scale, ideally with 150 plus units and €50 million plus ticket deal size
- Prime locations or those near good transport links

### FIGURE 1

Dublin PRS investment volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (€ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>301.00</td>
</tr>
<tr>
<td>2015</td>
<td>309.00</td>
</tr>
<tr>
<td>2016</td>
<td>317.00</td>
</tr>
<tr>
<td>2017</td>
<td>325.00</td>
</tr>
<tr>
<td>2018</td>
<td>333.00</td>
</tr>
<tr>
<td>2019</td>
<td>341.00</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
FUNDAMENTAL DRIVERS

Economy

The Irish economy has been the fastest growing economy in Europe for the last five years. Dublin is the most dynamic of economic growth and has seen office take-up expand for six consecutive years to set a new record in 2018 with 3.9 million sq ft transacting. Though it may not reach these heights, 2019 is in line to be another very strong year for the Dublin office market. The tech sector is the main driver of the market, accounting for 46% of activity over the last five years. In (left), Google, Amazon, Facebook, LinkedIn and Microsoft have a total office footprint of 2.3 million sq ft in Dublin, ahead of the 2.2 million sq ft these companies collectively occupy in London.

This growth has led to employment surpassing its pre-crisis peak with 1.76 million people now employed in Dublin according to the Central Statistics Office (CSO), a figure which is expected to rise further on Dublin's growing economy in Europe for the last five years. According to the 2016 Census, over 12% recorded in 1941.

Population

Dublin apartment prices

Dublin apartment prices have doubled since the bottom of the market in 2012, however they remain 30% below their previous peak.

Dublin apartment rents

Apartment rents in Dublin reached their highest lease level since records began in 2007. Rents have been more stable than apartment values with a 2% rise from Q3 2007 to Q3 2019 (f) and are expected to increase by 4% to 6% per year.

Dublin new residential delivery

Although output has been rising in Dublin during the last number of years – growing from 1,600 units at the height of the market in 2007 to just 800 units in 2018 – completion levels have remained consistently below the required annual demand of 11,000 units as identified by our research.

Dublin properties to rent

The number of properties listed as available for rent on Daft.ie is less than a fifth of the peak of 8,264 recorded in Q2 2009. Dublin apartment prices have doubled since the bottom of the market in 2012, however they remain 30% below their previous peak.

KEY MARKET INDICATORS

8,000 new units will be delivered in Dublin in 2019.

Tenure

In Ireland, house ownership has traditionally been the experience for 65% of people.

Mortgage drawdowns

A lack of mortgage financing is challenging households in the PRS across all household ages in Dublin. For example, the number of PRS households in the top 5% income group at a value of 45% per year, the number of outright owners grew at half that rate to just 2%. The number of households to own with a mortgage grew at an even slower rate of 1.6% per annum, illustrating the lack of mortgage financing in the market.

Share of mortgage market

Non-professional buy-to-let investors have traditionally been the providers of rental accommodation in Ireland. In fact, at one stage during (Q3), the 65% share of the mortgage market exceeded the PRS share, which was an indication of the unsustainable credit boom that fuelled the market at this time. However, these individual investors have been exiting the market due to the severe tax burden of approximately 50% on rental income. Their exit is an opportunity for professional PRS investors to fill.

THE DUBLIN PRS REPORT

RESEARCH
### PRS MARKET FUNDAMENTALS: IRELAND IN A EUROPEAN CONTEXT

#### Ireland
- Living in apartments: 5.4%
- Renting from a private landlord: 12.5%
- Paying overburdened rental level: 21.5%
- Average household size: 2.6
- Annual natural population change: 6.1%
- Population increase to 2050: 25.8%

#### EU-28
- Living in apartments: 23.9%
- Renting from a private landlord: 20.0%
- Paying overburdened rental level: 26.3%
- Average household size: 2.3
- Annual natural population change: -0.7%
- Population increase to 2050: -2.0%

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**Figure 11**

Population living in apartments.

**Figure 12**

Population renting from a private landlord.

**Figure 13**

Renting population paying overburdened rental level.

**Figure 14**

Average household size.

**Figure 15**

Natural population growth.

**Figure 16**

Forecast population growth 2020–2080.
**DESIGN STANDARDS**


**Asset class designation**

BTR is now a specific asset class. In order to be classed as BTR, certain covenants must be satisfied such as providing communal and recreational facilities. Perhaps most importantly are the stipulations regarding the holding and disposal of the asset in order to be designated as BTR: ‘the development remains owned and operated by an institutional entity and that this status will continue to apply for a minimum period of not less than 15 years and that similarly no individual residential units are sold or rented separately for that period’.

However, this does not prohibit the selling of the entire scheme to another institutional investor during this time.

**Dwelling mix**

There is no dwelling mix requirement for a BTR scheme under the new guidelines. This means that an entire scheme could theoretically be comprised of studios or one-bed units, although operators would generally prefer some mix of unit sizes.

**Unit sizes**

Studios are included at a minimum size of 37 sq m. In addition, a new category of 2-bedroom apartment has been introduced. While previously 2-bedroom apartments could only be designed for four people habitation with a minimum size of 73 sq m, the new standards introduce a 2-bed standard for three people at a reduced size of 63 sq m. Also, the requirement that the majority of all apartments in a proposed scheme exceed the minimum floor area standards by a minimum of 10% does not apply to BTR schemes.

Shared Accommodation is now permissible with minimum floor areas of 12 sq m for single rooms and 18 sq m for double or twin rooms.

**Dual aspect ratios**

The dual aspect requirement for centrally located schemes has been reduced to 33% from 50%, with the 50% requirement remaining for intermediate and peripheral locations.

**Floor-to-ceiling heights**

Minimum floor to ceiling heights remain at 2.4m (2.7m at ground) but a floor to ceiling height of 2.7m throughout is encouraged in locations where greater height is appropriate. There is no maximum number of permissible units per floor per core for BTR schemes.

**Car parking**

BTR schemes have a default of ‘minimal or significantly reduced car parking provision on the basis that BTR development is centrally located and/or close to public transport services.’