

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 92%, residential prices remain 23% 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 and 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.

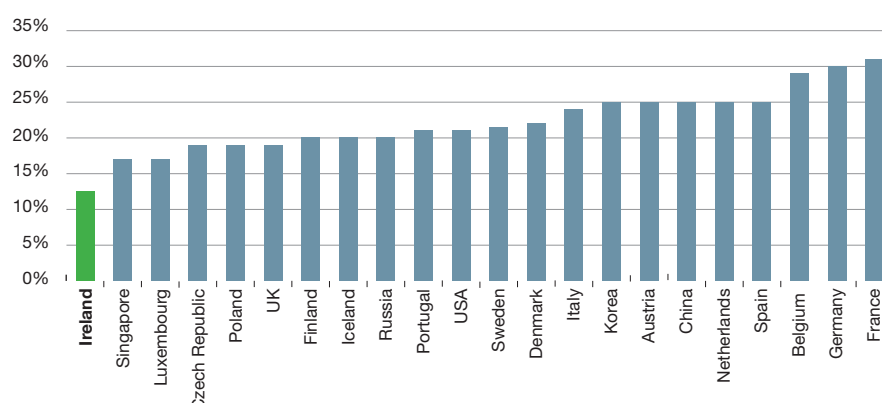
While a favourable tax rate acts as a significant pull factor, Dublin's young,

highly educated English speaking workforce is also of central importance for employers:

- 33% of the population is aged under 25, the highest rate in Europe¹
- 56% of 30-34 year olds have a degree or higher compared to an EU average of 41%²
- Ireland has been the best country in the world for attracting high-value foreign direct investment for seven years running³

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

FIGURE 1
Selected global corporate tax rates



Source: Deloitte

facilitated by Dublin Airport, which offers excellent global connectivity due to its strategic geographic position between Europe and the United States.

Educational draw

Dublin's educational institutions have a growing reputation abroad with international student numbers expanding by 31% between 2015-2018⁴. 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 every year 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.

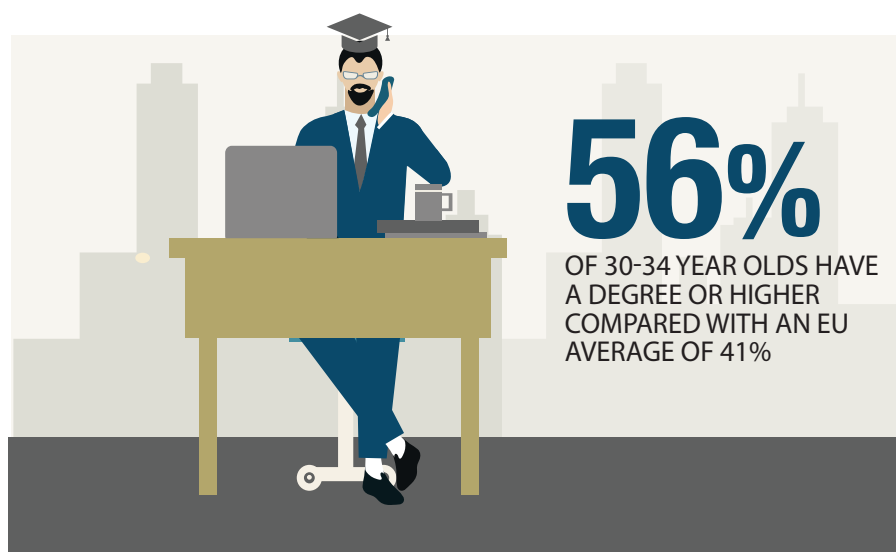
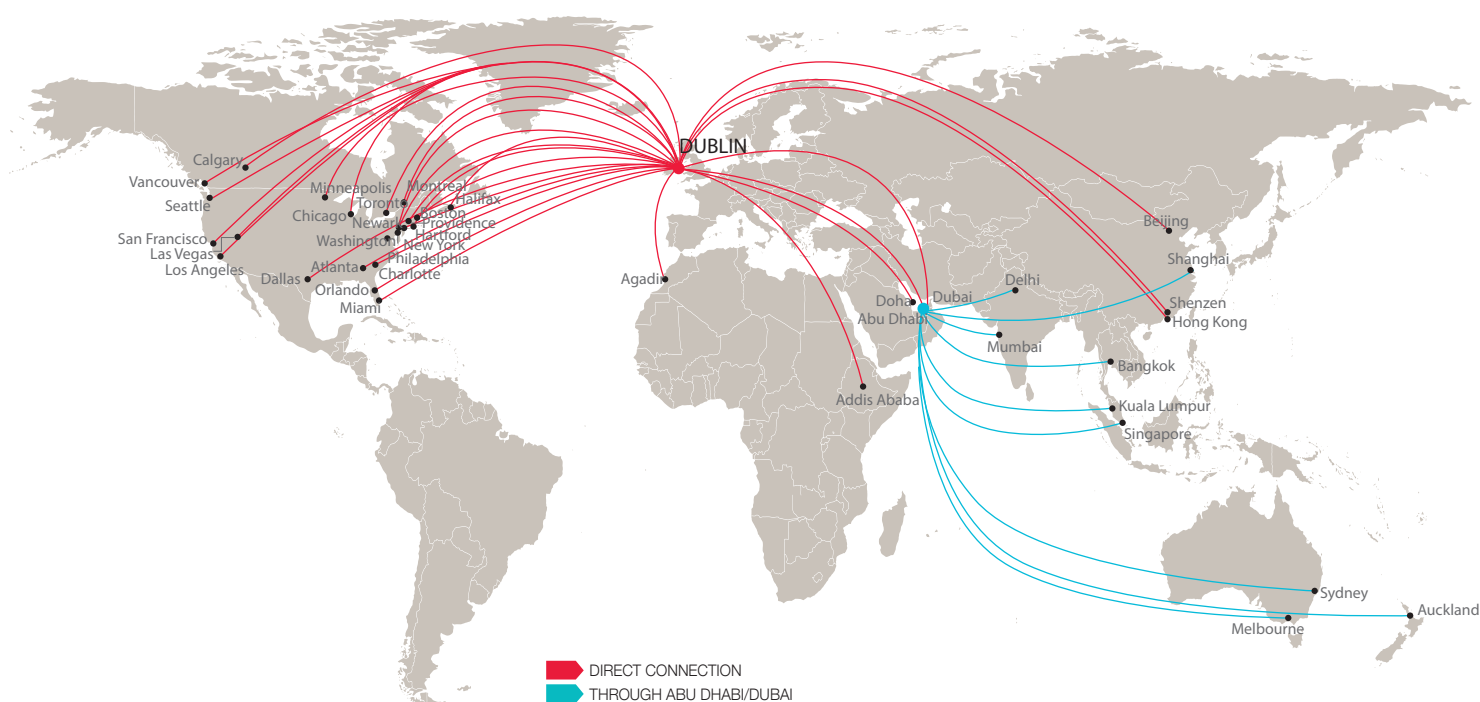


FIGURE 2

Flight connectivity ex Europe



Source: Knight Frank Research

⁴ Higher Education Authority



Lifestyle appeal

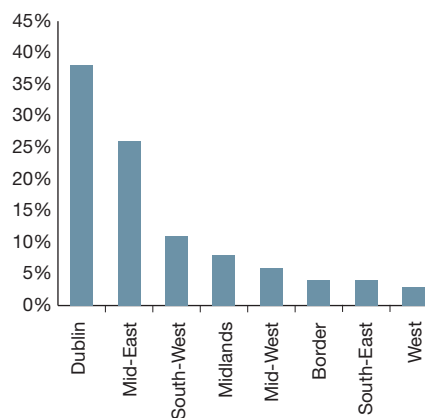
In addition to the commercial and educational appeal, Dublin also has attractive cultural and lifestyle pull factors. Chief amongst these is the city's rich literary heritage with Oscar Wilde, Samuel Beckett and James Joyce just some of the famous writers and playwrights to hail from the city. Indeed, 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 2017⁵. 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 2017-2036



Source: Knight Frank calculations based on CSO Regional Population Projections 2017-2036

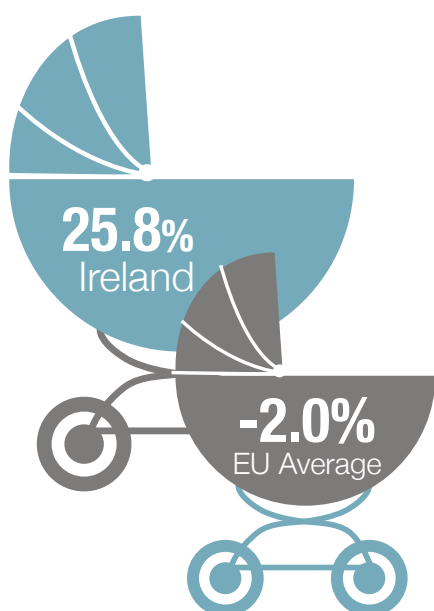
latest census, over the period 1991- 2016, the population grew by 35.1% compared to a growth rate of 7.0% for the EU as a whole. Leinster – the province in which Dublin is located – accounted for 55% of the population in 2016, which represented a 5% increase on 2011.

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 state⁶. The high growth rate is set to continue with Eurostat projecting that the population of Ireland will increase by 25.8% during the period 2020 to 2080 compared to a decline of 2.0% for the EU.

Due to trends in urbanisation, Dublin is set to benefit most from this population growth. According to the United Nations,

FIGURE 3

Population projections 2020-2080



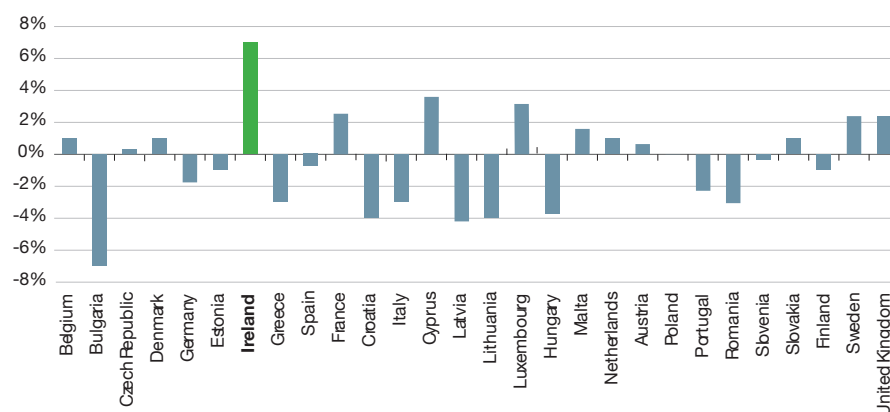
Source: Eurostat

Demographic drivers

Ireland is experiencing a population boom, providing a natural long-term source of demand for housing. According to the

FIGURE 4

Natural population growth rate



Source: Eurostat, data for 2017

⁵ Horse Racing Ireland
⁶ Eurostat

75% of people in Ireland will live in urban areas by 2050, up from just over 60% currently. Analysing the average of six population growth scenarios to 2036 undertaken by the Central Statistics Office (CSO), 38% of Ireland's population growth will be concentrated in Dublin. Furthermore the commuter belt counties comprising the Mid-East region (Meath, Kildare, Wicklow) have the next highest potential accounting for 26% of projected growth. Clearly then, Dublin will be the focal point of future population growth which will underpin long-term demand for housing.

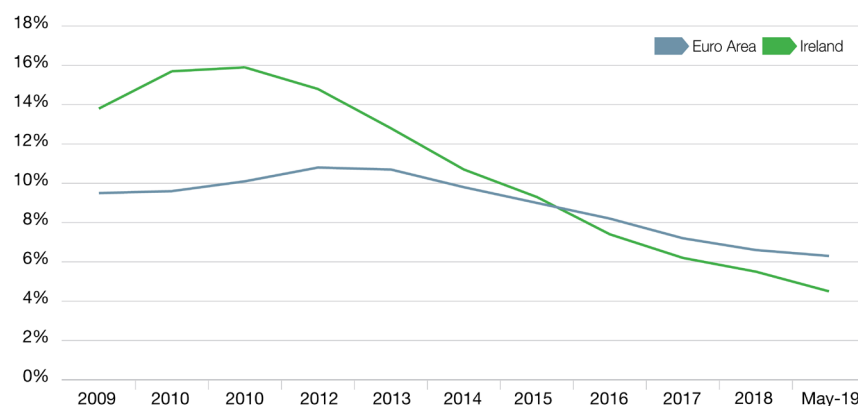
Economic drivers

The strong performance of the residential market is underpinned by an out-performing economy with Ireland boasting the fastest growing economy in Europe for the last five consecutive years⁷.

As a small open economy, much of Ireland's success has been rooted in its ability to attract Foreign Direct Investment (FDI) with Dublin in particular the favoured location for this investment. In the latest 'Global Cities of the Future'

FIGURE 6

Unemployment trends



Source: Eurostat

report by Financial Times linked company FDI Intelligence, Dublin was ranked as the top large city in the world for FDI as well as commanding the top spot in the Economic Potential category. Taking the tech sector as an example of this FDI effect, four of the five largest companies in the world – namely Google, Facebook, Amazon and Microsoft/LinkedIn – 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 London⁸.

This growth has driven employment levels in Dublin to now stand at over 700,000 and led to unemployment declining to a near 14-year low of 4.5%⁹. Additionally, Brexit may provide a further boost to Dublin with relocations of well-paid office jobs expected. Our research shows that Dublin remains at the forefront of the race for Brexit-related office moves with 86 announcements, ahead of Luxembourg (55), Paris (47), Amsterdam (47) and Frankfurt (41)¹⁰.

UNEMPLOYMENT IS AT A NEAR 14-YEAR LOW

4.5%



⁷ Eurostat
⁸ Knight Frank
⁹ CSO
¹⁰ Knight Frank

RESIDENTIAL MARKET OVERVIEW

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

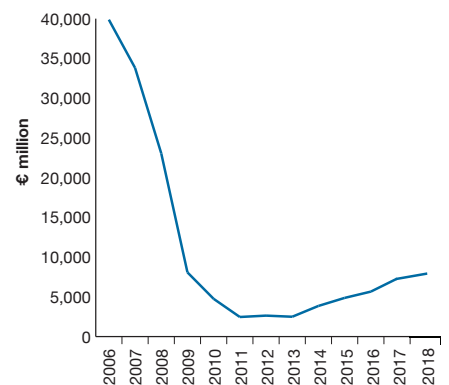
“In contrast to the latter stages of the Celtic Tiger, the residential market is now dominated by first-time buyers illustrating that the market is being driven by positive fundamentals rather than unsustainable speculation.”

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%¹¹ 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 92% although they remain 23% below peak¹². Meanwhile, rents fell by 27% peak-to-trough but now exceed their previous high by 27%¹³.

A lack of new supply has been driving these increases. While 6,924 units were delivered to the market in 2018 – a 24% increase in comparison to the 5,578 units that were completed in 2017¹⁴ – this falls well short of the annual demand in Dublin for 11,000 units identified by 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 €8.7

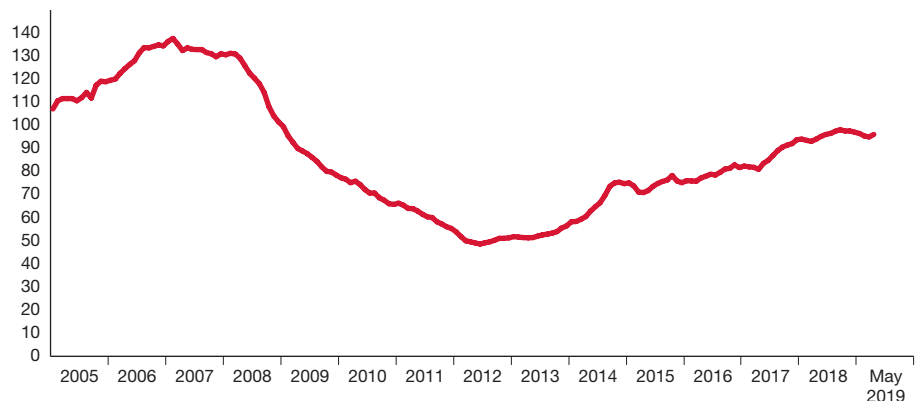
FIGURE 8
Mortgage drawdowns



Source: BPF

billion in 2018¹⁵. 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 aimed at avoiding another credit fueled bubble. The Central Bank measures included introducing borrowing limits of 3.5 times income and

FIGURE 7
Dublin residential price index



Source: CSO

¹¹ CSO
¹² CSO
¹³ RTB
¹⁴ CSO
¹⁵ BPF

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.

As a result, first-time buyers now account for 48% of mortgages compared to approximately 20% leading up to the crash¹⁶. 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 speculation¹⁷.

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 17%¹⁸ 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 with international investors accounting for 70% of all property investment transactions in 2018. With Dublin's residential market fundamentals 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.



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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 €68,349 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 €2,004 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	1,389 sq ft	366 sq ft	388 sq ft ²	269 sq ft
Transaction tax ³	€10,000	€68,349	€28,250	€300,000
Property taxation ³	€1,491	€2,004	€12,551	€1,896

¹ Knight Frank Research as of Q1 2019

² Refers to new developments only for New York

³ Based on €1 million home

RESIDENTIAL

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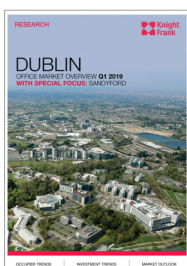


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