Knight Frank

Ireland Residential Investment Market Overview

Research, 2022 in Review & Outlook 2023

Special Focus - Active Renter Preferences

12.2%

is the estimate for GDP growth for the full year 2022, making Ireland the fastest growing economy in Europe.

PAGE 3

47%

Of those looking for rental accommodation have been searching for longer than two months.

PAGE 8

€1.85 billion

Worth of residential investments transacted in 2022.

PAGE 4

5 KEY TAKEAWAYS

45%

Forward commit deals accounted for 45% of residential investment spend in 2022.

PAGE 5

59%

Multifamily deals accounted for 59% of residential investment spend in 2022.

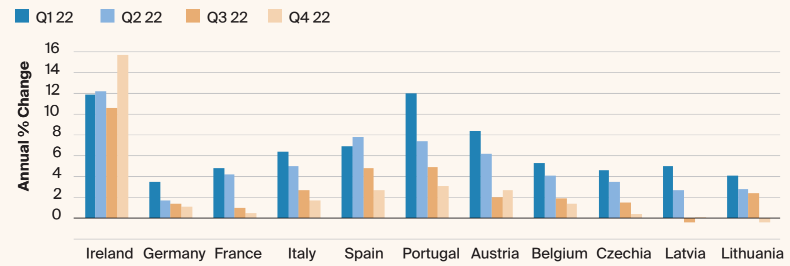
PAGE 4

ECONOMIC CONTEXT

GROWTH

- Ireland was the fastest growing economy in Europe in 2022 (GDP).
- Driven by high value adding sectors including manufacturing.
- Modified domestic demand is expected to have increased by 8% in 2022.
- GDP and modified domestic demand are expected to continue to expand in 2023, albeit at lower rates.

GDP % change, Q4 2022 compared to Q4 2021

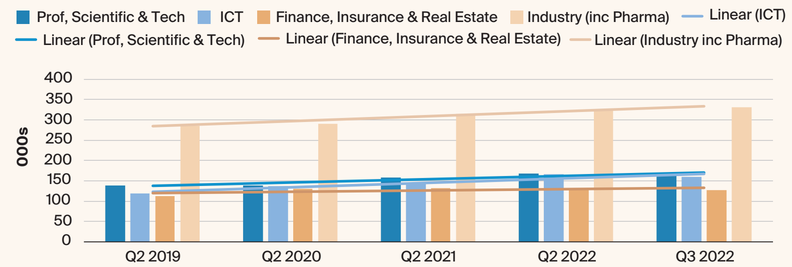


Source: CSO/Eurostat/Knight Frank Research

EMPLOYMENT

- Ireland has the highest number of people employed on record.
- There are close to 260,000 more people employed than in mid-2019.
- While the TMT/ICT sector is experiencing job losses, there are approx. 40,000 more people employed in that sector than there were in mid-2019.

Employment in four key sectors 2019 - 2022

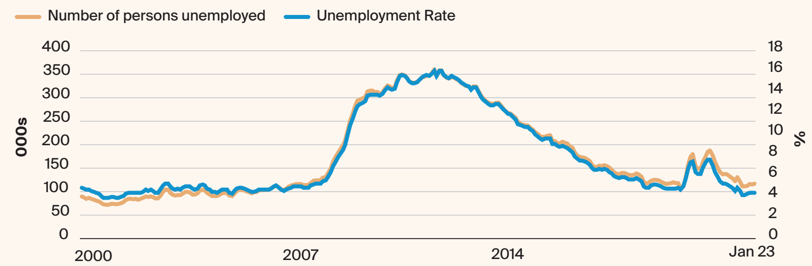


Source: CSO/Knight Frank Research

UNEMPLOYMENT

- The unemployment rate stood at 4.4% in January 2023.
- This is down from 4.9% in January 2022 and 6.8% in January 2021.

Unemployment 2000 - January 2023

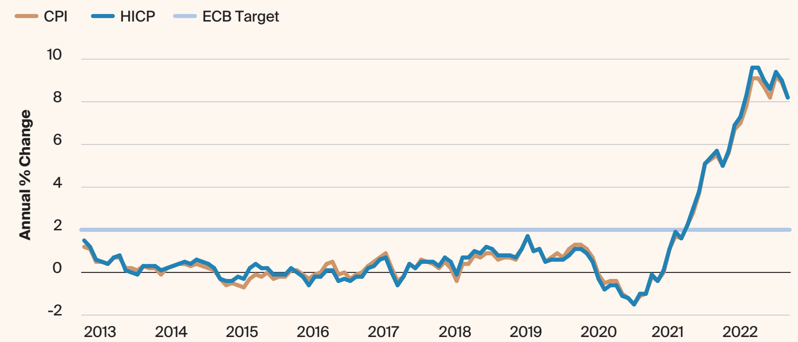


Source: CSO/Knight Frank Research

INFLATION

- Both CPI and HICP increased to over 9% in the middle of 2022.
- Successive ECB rate increases are showing signs of easing inflationary pressures, along with some correction in energy prices.
- 2023 is set to remain challenging with funding and construction costs now firmly at higher starting points. Inflation is expected to have peaked at current levels but is set to remain above 5% in 2023.

CPI & HICP inflation rate 2013-2022



Source: CSO/Knight Frank Research

INVESTMENT MARKET 2022

Irish investment market spend reached €5.8 billion in 2022, including the sale of Hibernia Reit (€1.089 billion). Excluding that transaction, it was the third strongest year on record.

€1.85 billion worth of residential investment spend transacted in the Irish market in 2022 accounting for 32% of CRE spend. This was the second most sought after asset class after offices which accounted for 37% of CRE spend. In the fourth quarter of the year, €401 million worth of residential investment transactions were completed.

SPEND BY QUARTER

Historically, the final quarter of the year has seen the largest number of transactions completing as assets launched earlier in the year are sold and fund allocations for the year are spent. However, 2022 saw the largest proportion of residential investment deals complete in the third quarter with 34% of the full year's residential investment spend occurring across eleven transactions. The final quarter of 2022 accounted for 22% of residential investment spend across 6 transactions.

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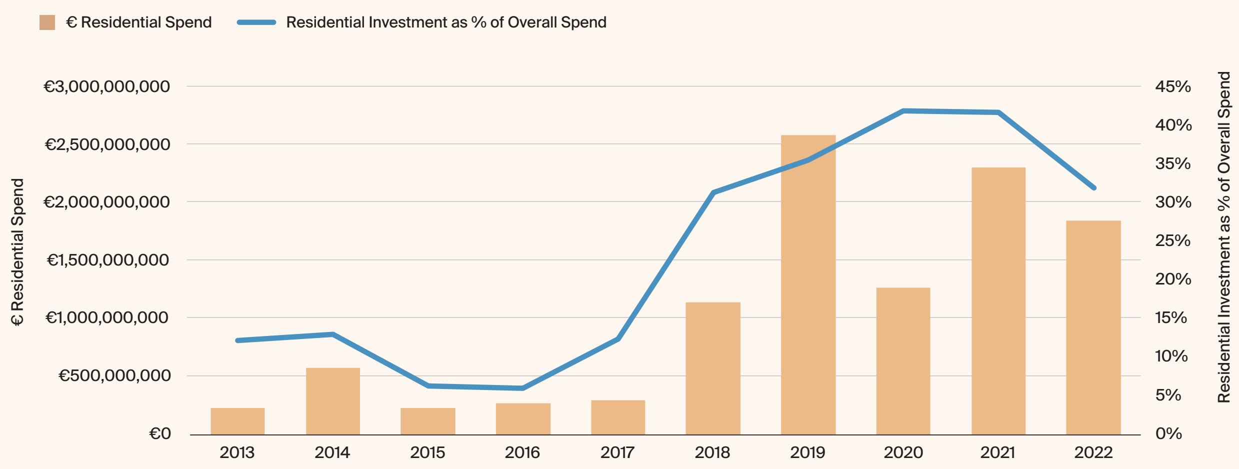
This is not surprising given the volatility experienced in the debt markets at the start of Q3 which continued through to the end of the year and ultimately put a halt to some deals completing.

We will see deals which failed to transact, and those which were paused, emerge in the early part of 2023, albeit at recalibrated pricing.

SUB-SECTOR ANALYSIS

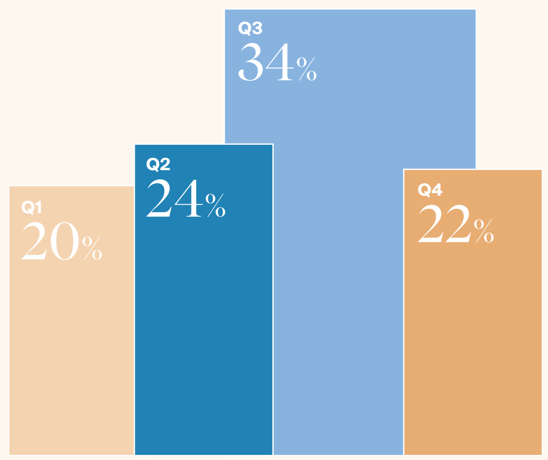
In terms of the various sub-sectors, multifamily deals accounted for 59% of the investment spend throughout

Residential investment spend 2013-2022



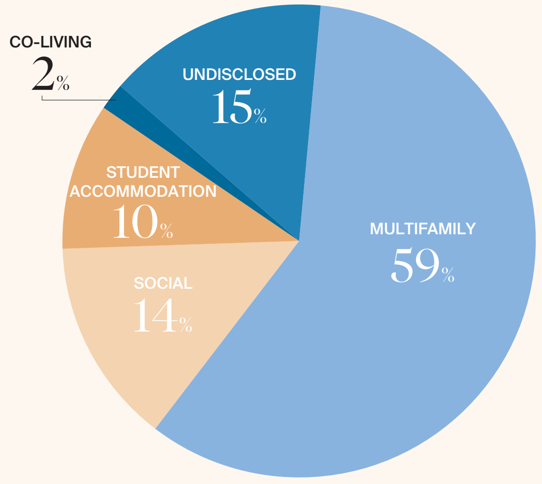
Source: Knight Frank Research

Residential investment spend by quarter 2022



Source: Knight Frank Research

Residential investment spend by sub-sector 2022



Source: Knight Frank Research

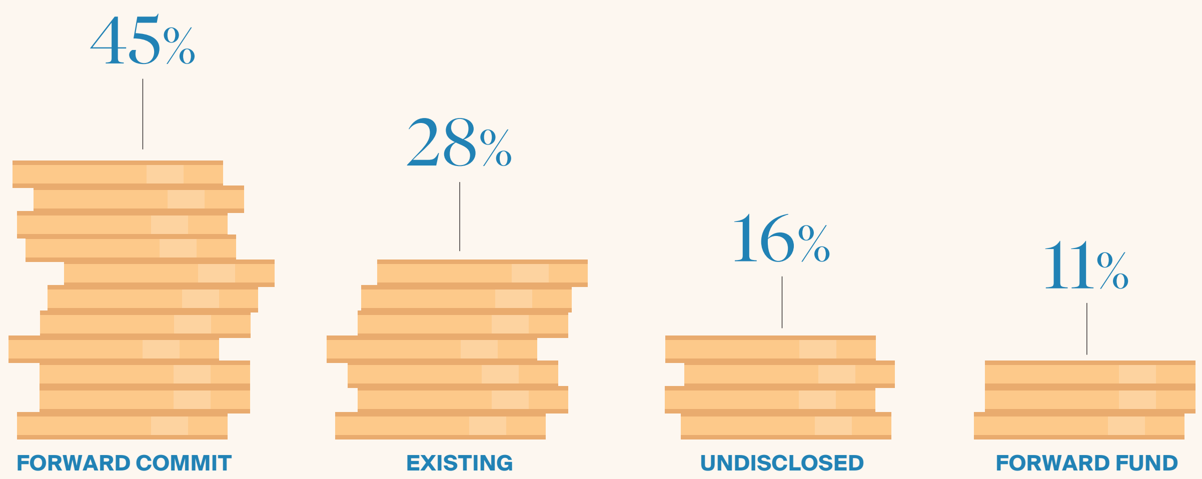
2022. Social housing deals comprised 14%, while student accommodation consisted of 10%. Changes to purchasing single family investments, which were implemented in 2021, saw this sub-sector fall from 11% of residential deals in 2020 to not featuring in 2022. Interestingly, the first co-living investment deal was completed in the fourth quarter of 2022. This sub-sector of the market will be restricted due to the limited number of schemes granted permission prior to the ban on this form of accommodation being introduced.

DEAL TYPE - FORWARD FUND VS STANDING STOCK

There was a shift in the composition of deal structures in 2022 compared to 2020 and 2021. Forward commit deals remained the dominant deal type at 45% of residential investment spend, compared to 70% and 71% of residential investment spend in 2020 and 2021 respectively.

Existing income producing assets accounted for 28% of residential investment volumes, an increase on previous years. Investor appetite for income producing assets became stronger during the second half of 2022, a trend which will continue into 2023.

Residential investment spend by deal type 2022



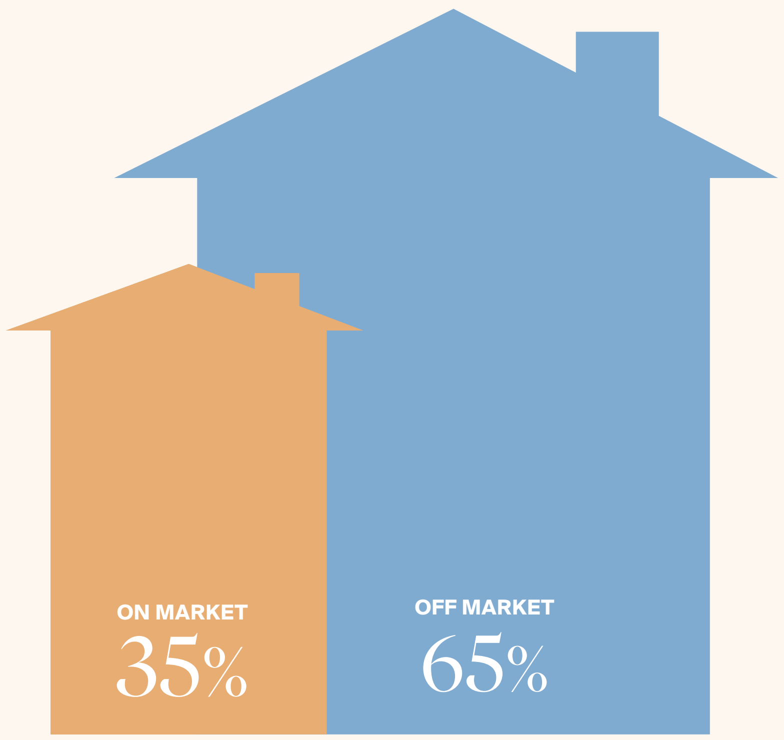
Source: Knight Frank Research

Not dissimilar to 2021, 11% of 2022 transactions were for forward funding deals. The level of forward funding transactions in Ireland is low compared to other EU markets where forward funding is a fundamental segment of the deal pipeline. An increase in forward funding deals would have a positive impact on supply, however their complex nature and length of time to complete mean that investors opt for other deal types to secure stock.

OFF MARKET DEALS VS ON MARKET DEALS

During 2022, 35% of the residential investment deals which transacted were on market processes with the remaining 65% of transactions occurring off market. Interestingly, all residential investment deals in the final quarter of the year were off market processes, which is likely a reflection of the uncertainty in the market caused by global economic and debt market movements.

Residential investment spend on market vs off market 2022



Source: Knight Frank Research

The level of forward funding in Ireland is low compared to other EU markets where it is a fundamental segment of the deal pipeline.

TOP 5 VENDORS 2022*

PROPERTY	PRICE ACHIEVED (€M)
GLENVEAGH	€307,250,000
PARK DEVELOPMENTS	€185,000,000
BRIAN M DURKAN & CO LTD	€157,500,000
BAIN CAPITAL	€145,000,000
GEM CONSTRUCTION	€140,000,000

Source: Knight Frank Research
*Excludes private and confidential vendors and purchasers.

TOP 5 INVESTORS 2022*

PROPERTY	PRICE ACHIEVED (€M)
ARDSTONE	€222,000,000
NEW BEGINNING	€195,189,000
DWS	€166,000,000
UNION INVESTMENT	€151,250,000
ARES	€145,000,000

Source: Knight Frank Research
*Excludes private and confidential vendors and purchasers.

POLICY AND LEGISLATION

2022 was relatively stable in terms of policy and legislation changes impacting residential investment, which was much needed given the multiple changes introduced throughout 2021.

Rent Pressure Zones (RPZ's), which came into effect in January 2017, and were originally intended to last three years, remain in place until the end of 2024. Given the current rates of inflation and the cost of living crisis, it is hard to see RPZ's being lifted in the near term.

RPZ's, while protecting tenants from rental inflation, are having the unintended consequence of restricting tenant movement in the market. Where a tenant's requirements have shifted, for example a change in household size or a desire to live in a different location, they are unable find accommodation which suits their requirements as there is a consistently constrained supply of rental accommodation. The natural tenant turnover has been interrupted.

RPZ's, while protecting tenants from rental inflation, are restricting tenant movement in the market.

Tenancies of Unlimited Duration were introduced on the 11th of June 2022 providing tenants with security of tenure. The legislation means that after six months renting in one place, a tenant has the right to remain in the property for an unlimited duration, so long as the tenant upholds their rental obligations.

Landlords retain the right to end a tenancy in accordance with the 2004 Residential Tenancies Act.

Stamp Duty on Single Family Housing is currently 10% on the purchase of ten or more residential houses or duplexes purchased at a time, or in a year. This measure has discouraged investment funds from buying traditional housing.

Rent Tax Credits were introduced in Budget 2023 to help renters given the spike in inflation during the past 12-18 months.

HICP in Ireland was 8.2% in December 2022, compared with 9.2% in the Euro area in the same period. While HICP is considered to have peaked, it is expected to remain above 5% in 2023.

PLANNING & PIPELINE

New dwelling completions for 2022 were 29,851 units nationwide, which exceeded the full year of 2021 which totalled 20,560. The same trend was seen in Dublin with 10,370 completions in 2022 compared to 6,283 for the full year of 2021. Overall, completions for 2022 were ahead in each region when compared to 2021.

While completions were ahead of previous years, house prices and residential rents continue to increase, a factor which can be attributed to demand outweighing supply. Looking forward, there has been a drop in grants of permission which will impact the future supply of housing.

In the first nine months of 2022, there were 26,580 residential units granted planning, which is a drop of approximately 10% compared to the same period in 2021. When looking at the split between houses and apartments, grants of house permissions were up 19.7% while apartment permissions granted were down 28.6% on the previous year.

There has also been a decline in commencement notices throughout the year which will have a further negative impact on the delivery of housing supply. There are a number of factors contributing to the decline in planning permissions being granted and commencements.

Large house builders are reporting constrained delivery due to planning delays with lengthy wait times on decisions, followed in some cases by lengthy judicial reviews. The viability of schemes has been impacted with ongoing construction cost inflation, labour shortages and material delays.

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OCCUPIER STUDY

Those actively searching for rental accommodation were surveyed over a three-month period in 2022 as part of Knight Frank's third annual Residential Occupier Study. Respondents answered multiple questions, providing a wealth of data in relation to their preferences and choices when searching for a new place to rent.

It is interesting to view the results of the survey against the backdrop of the wider market, policy and planning.

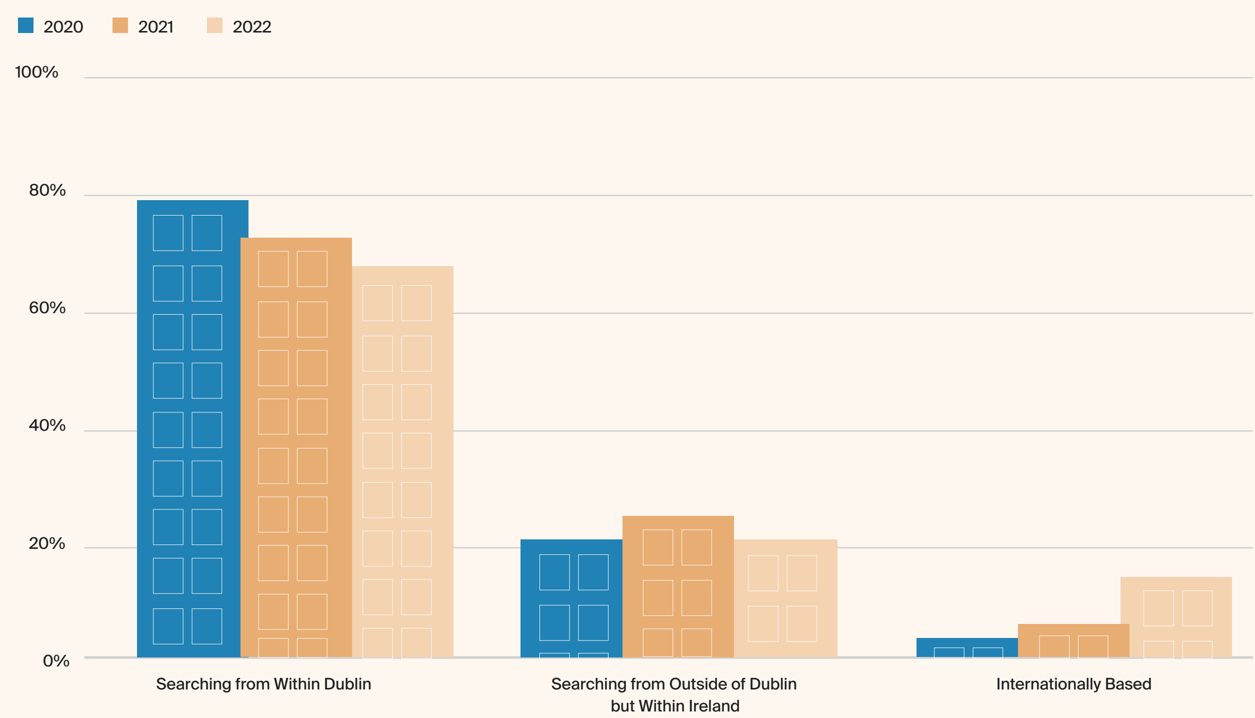
While the dominant group of people searching for accommodation in Dublin are searching from within Dublin, this figure has been decreasing over the past three years. There has been an increase in internationally based respondents searching for accommodation in Dublin which is not surprising given the level of job creation and inward migration over the last three years.

Highlighting the limited supply of rental accommodation in the Dublin market, there has been a significant increase in the time renters spend searching for accommodation. 68% of respondents spend one month or more searching for accommodation, of which 47% are looking for rental accommodation for longer than two months.

Couples, sharers and single persons have a strong preference for renting apartments, typically in urban areas and close to transport links and employment centres – a key requirement for this cohort of renters. They are also more affordable than houses in the same area.

47%, or almost half, of those looking for rental accommodation have been searching for longer than two months.

Where active renters are currently living and searching from



Source: Knight Frank Research

Private investors are leaving the market and the rental properties being sold are not being replaced.

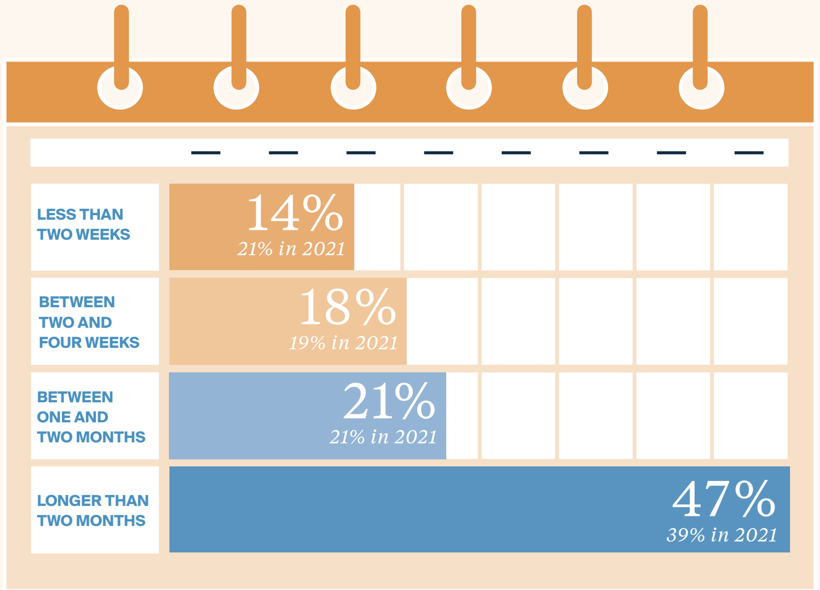
Not surprisingly, families and more so mature families, have a preference to rent houses rather than apartments.

There has however been a shift between 2021 and 2022 with 65% of mature families and 52% of young families preferring to rent a house in 2022 compared to 84% and 73% respectively in 2021.

Affordability concerns, along with record low levels of stock of family homes available to rent, are considerations which can account for this shift.

As is evident from recent data, private investors are leaving the market and the rental properties being sold are not being replaced. This will add further pressure to the rental market and limit the choices available to renters.

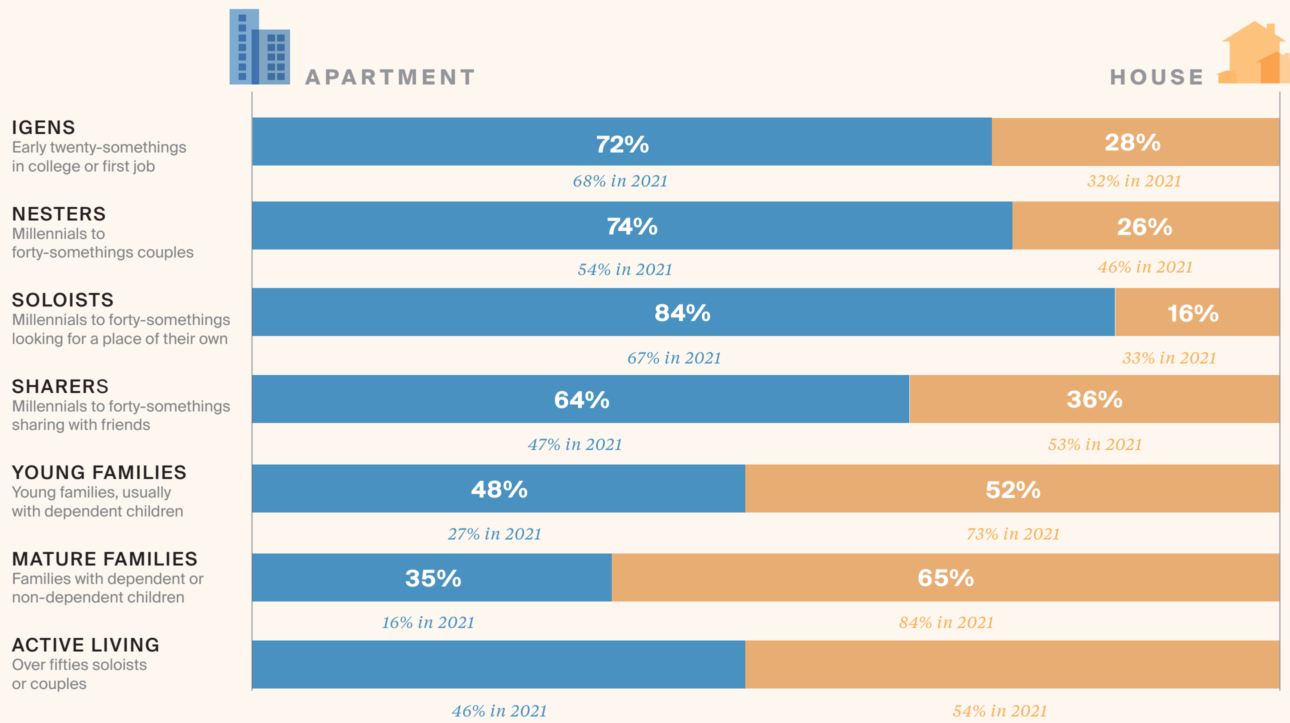
The length of time active renters have been searching for rental accommodation



Source: Knight Frank Research

Those looking to rent face into another year of very limited options across all categories of renter types. Upward pressure on rents is inevitable and the sector is at crisis point in terms of the gap between demand and supply. Everything that can be done to encourage an increase in supply for both active renters and those seeking to purchase, needs to be considered and prioritised.

The type of accommodation being sought after by active renters



Source: Knight Frank Research

OUTLOOK

1.

Ireland's continued positive economic performance has resulted in strong investor interest. However, a lack of clarity on interest rate movements will slow deal execution.

2.

There is a short to medium term focus on sub-€100 million lot sizes due to the lack of debt in the market.

3.

Purpose Built Student Accommodation (PBSA) is in strong demand across Europe and we expect considerable interest in the Irish market into 2023.

4.

Continued housing supply shortages are rolling up year-on-year and creating a larger deficit which is set to continue given planning and cost issues.

5.

Policy and legislation are compounding supply issues with the 2% rental cap reducing natural tenant movement and market supply.

6.

New funds are emerging across the living sectors with Ireland positioned to get strong allocation through 2023 into 2024.

Dublin PRS Occupier Study 2022

Dublin Office Market Overview Q4 2022

Active Capital 2022

Irish investment market report December 2022

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