

August 2022

INTRODUCTION: THE IRISH LIVING SECTOR

The Irish living sector is a market in its infancy, truly only coming to the forefront of investor interest in circa 2018. Since then, there has been significant evolution of the scope of which both international and domestic investors classify as “urban” investment choices. Due to the evolving nature of this market, it seems amiss to label urban investment as solely, private rented sector assets. Thus, in keeping with our Global Research move toward reporting on the Living Sector as a whole, we are delighted to adapt our residential investment analysis to include a broader horizon of assets, which better fit investor appetite today.

From a methodology perspective, investment into the Irish living sector can be defined as the purchase of private rented sector, co-living, social housing, purpose-built student accommodation (PBSA), senior living and nursing homes assets.

The following report includes an analysis of key transaction activity trends recorded in the Irish living asset class in the opening half of 2022, followed by commentary on Ireland’s residential rental activity including the Residential Tenancies Board (RTB) latest Q1 2022 results. Finally, the report closes with a discussion of key themes which will shape the market for the remaining six months of the year.



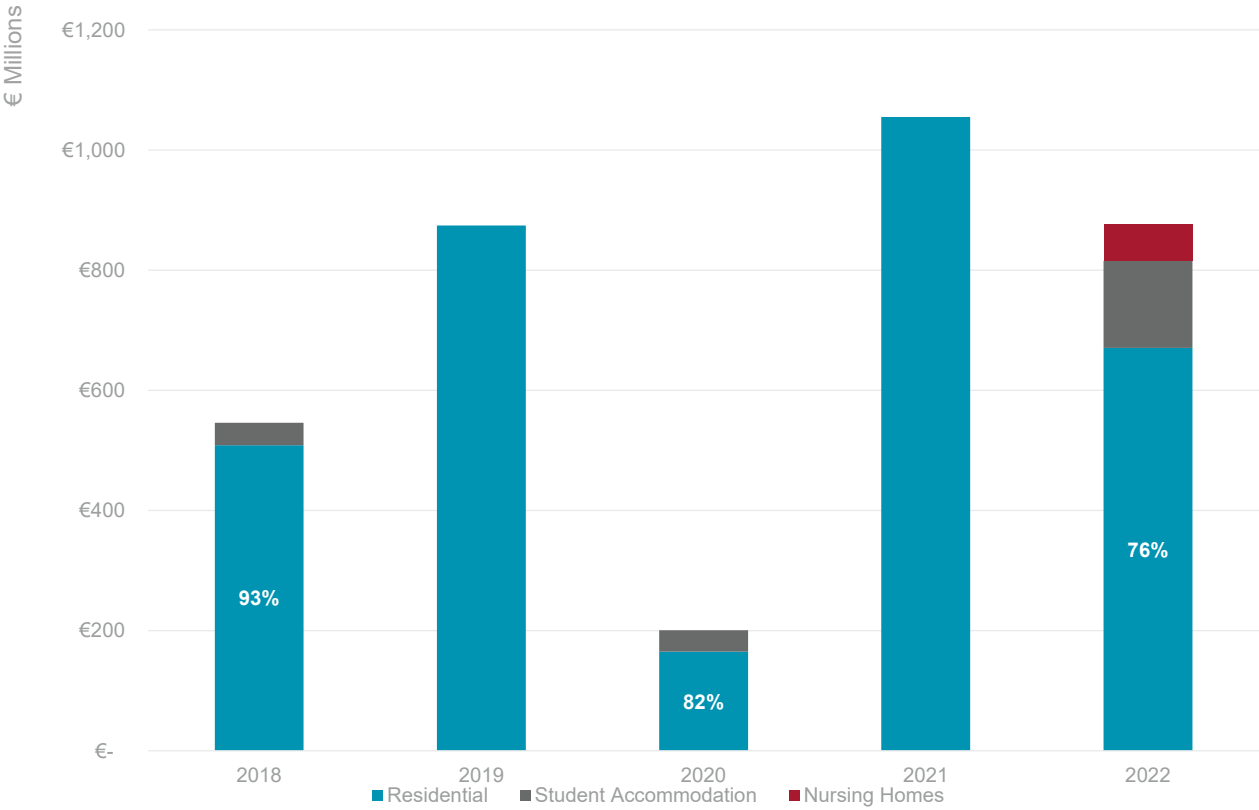
IRISH LIVING SECTOR

TRANSACTION ACTIVITY

The Irish living sector recorded robust levels of turnover in the second quarter of 2022, as strong domestic and international interest remains for the sector. April to June end recorded €499m across nine transactions. Combining this with investor momentum from the first quarter, living investment activity in the first six months of the year now stands at €877m.

This level of turnover represents a marginal decrease when compared with the identical period in 2021, but broadly speaking represents healthy levels of activity relative to the first six months of the year since the living sector truly emerged as an asset class in Ireland in 2018.

Total Capital Inflows Living Assets, H1 Activity, 2018 - 2022



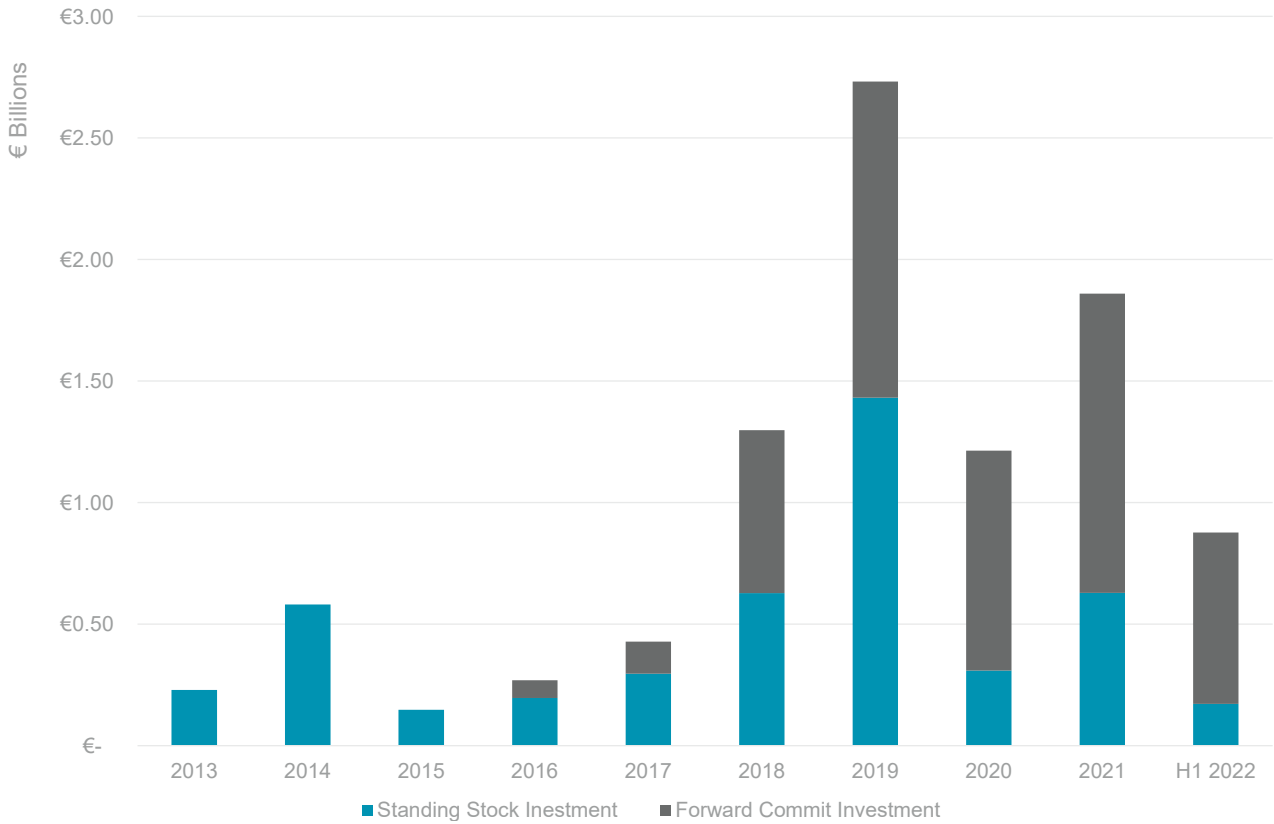
Source: Cushman & Wakefield Research

IRISH LIVING SECTOR

TRANSACTION ACTIVITY

Similar to trends witnessed previously, the larger ticket items continue to be dominated by forward commit transactions. With market players seeking scale, the sheer lack of standing stock has fuelled the drive of investors towards this style of investment. Of the turnover recorded in the first six months of the year approximately 80% was by way of a forward commit style arrangements, while 20% was income generating at the point of sale. However, when considering the longevity of this trend in the short term, it is certainly worth noting the effect construction cost inflation will undoubtedly have on investor choices. As building and materials costs soar, the viability of schemes under construction or due to commence construction is at the forefront of investors' minds when considering the terms of a forward style investment.

Total Capital Inflows Living Assets, 2013 - H1 2022



Source: Cushman & Wakefield Research



Top Transactions, H1 2022

Asset	Asset Type	Price (€) Approx.	No. of Units Approx.	Purchaser	Sale Type
Project Ruby Portfolio, Dublin & Galway	Student Accommodation	€145m	664*	Ares Management Corporation &	Standing Stock
Magna Drive, Citywest, Dublin 24	Residential	€122m	320	Ardstone Capital	Forward Arrangement
St Edmunds, Palmerstown, Dublin 20	Residential	€105m	250	Orange Capital Partners/GIC	Forward Arrangement
14-17 Malahide Road, Dublin 17	Residential	€98m	240	Roundhill Capital	Forward Arrangement
Direct Provision Housing	Residential	€85m	Unknown	Private Irish	Standing Stock

*Bed Spaces

Source: Cushman & Wakefield Research

The largest deal of the year to date was Bain Capital and Carrowmore Property's sale of the Project Ruby student accommodation portfolio for €145m. Initially brought to market in Q1 2020, the process was put on hold due to Covid-19 lockdown measures. Q1 2022 witnessed Ares Management Corporation & Generation Partners purchase the portfolio consisting of 664 student beds across two assets located in Dublin and Galway. The portfolio is Ares and Generation's entry to the Irish student accommodation market and the assets will be added to the joint venture's three existing operational assets in Cardiff, Exeter and Glasgow.

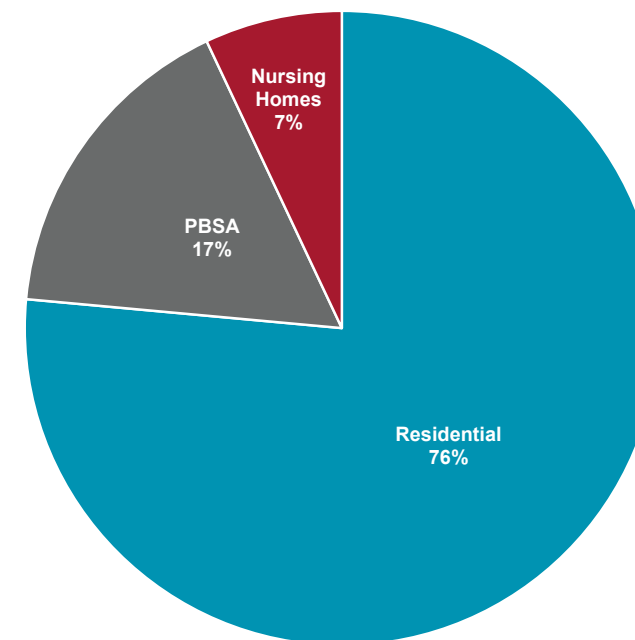
Interestingly, the Project Rugby transaction follows that of another significant student accommodation portfolio to transact in Q4 2021. German real estate investment managers, Patrizia AG acquired Project Lighthouse, a €120m sale of two operational student accommodation assets totalling 576 beds in the closing months of 2021.

Elsewhere, Glenveagh's sale of approximately 320 units at Magna Drive, Citywest, was acquired by Ardstone for €122m. While it is believed that on a joint venture basis, Orange Capital Partners and GIC, acquired 250 units in St Edmunds, Palmerstown for a price in the region of €105m.

When analysing the breakdown of investment by type of asset class, unsurprisingly residential investment assets accounted for 76% of turnover in the first half of the year, while student accommodation accounted for 17%. Anecdotal evidence suggests the demand for PBSA investment opportunities across Europe, similar to Project Rugby and Project Lighthouse is high and from a broad range of capital sources. From an Irish perspective, the strong occupational recovery for the academic year of 2021/22 reflects student demand for high quality accommodation, which has proven attractive to investors.



Total Capital Inflow by Asset Type, H1 2022

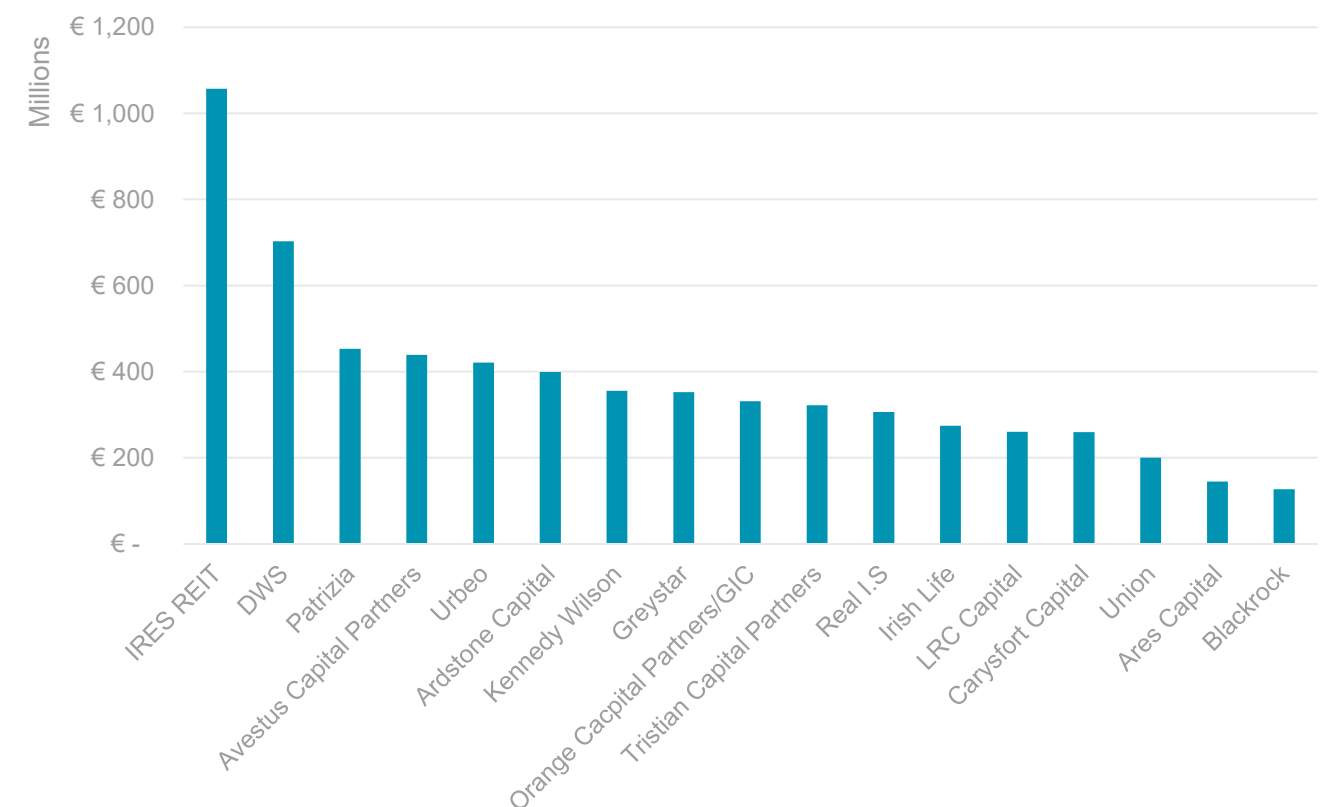


Source: Cushman & Wakefield Research

The attractiveness of the Irish living sector is evident by the continued strong presence of overseas capital in the market. Funds sourced from a foreign investor represented 63% of capital in first six months of 2022, while domestic capital stood at 30% during the same period. The remaining capital is attributed towards joint ventures and confidential deals, accounting for 5% and 1% respectively.

Significant foreign players of recent include, Ares Capital, Union Investment, DWS, Greystar, LRC Group, Patrizia, Tristian Capital Partners, Kennedy Wilson, Orange Capital Partners, GIC, Blackrock to name a few. While the indigenous players of late include IRES REIT, Ardstone Capital, Irish Life, Carysfort Capital, Urbeo, Avestus Capital Partners and non-profit/AHBs such as Cluid Housing Association.

Total* Volumes Invested Across Key Active Market Players, 2013 - 2022



Source: Cushman & Wakefield Research

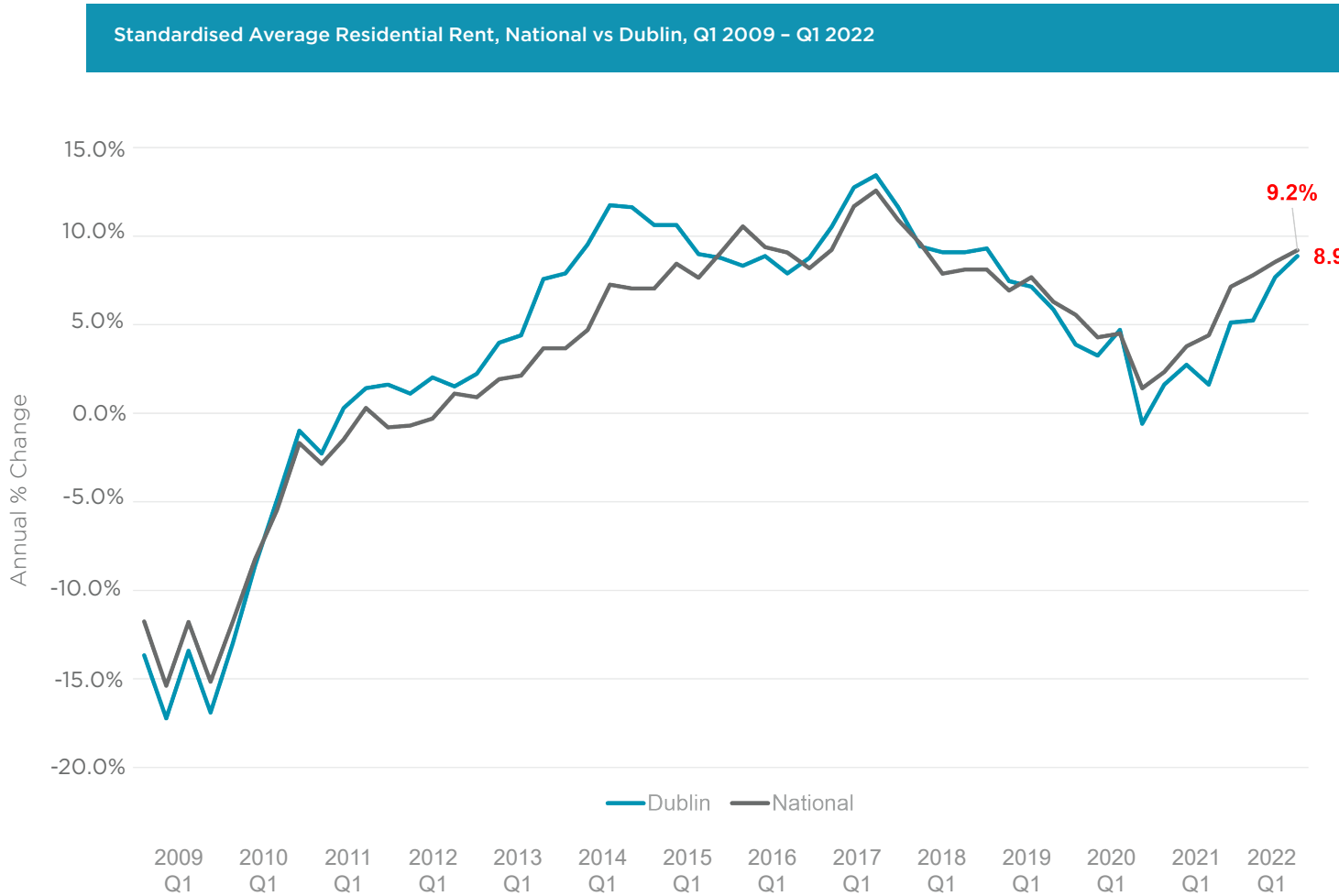
*Includes total value when joint venture took place

RESIDENTIAL RENTAL ACTIVITY

RENTAL GROWTH

The continued disparity between traditional private investors exiting and entering the market is triggering heightened rental inflation. According to the RTB, there were 10,414 new tenancy registrations in Q1 2022, which represents a decrease of 32% on the number of new tenancies included in the index the year previous.

Robust demand coupled with tight supply meant rental growth was recorded at both a national and regional level again in Q1 2022. According to the RTB rental index, national rents increased by 9.2% on an annual basis to €1,460 per month. This level of annual inflation is the highest rate since Q1 2019. In Dublin, average standardised rents sat at €2,015 per month in Q1 2022, this reflects a 3% increase in the quarter, while an 8.9% increase on an annual basis. Although rental caps will see rental increases in existing tenancies remaining much lower than this, the stark rise in rents achieved for new tenancies illustrates the continued upward pressure on the market.



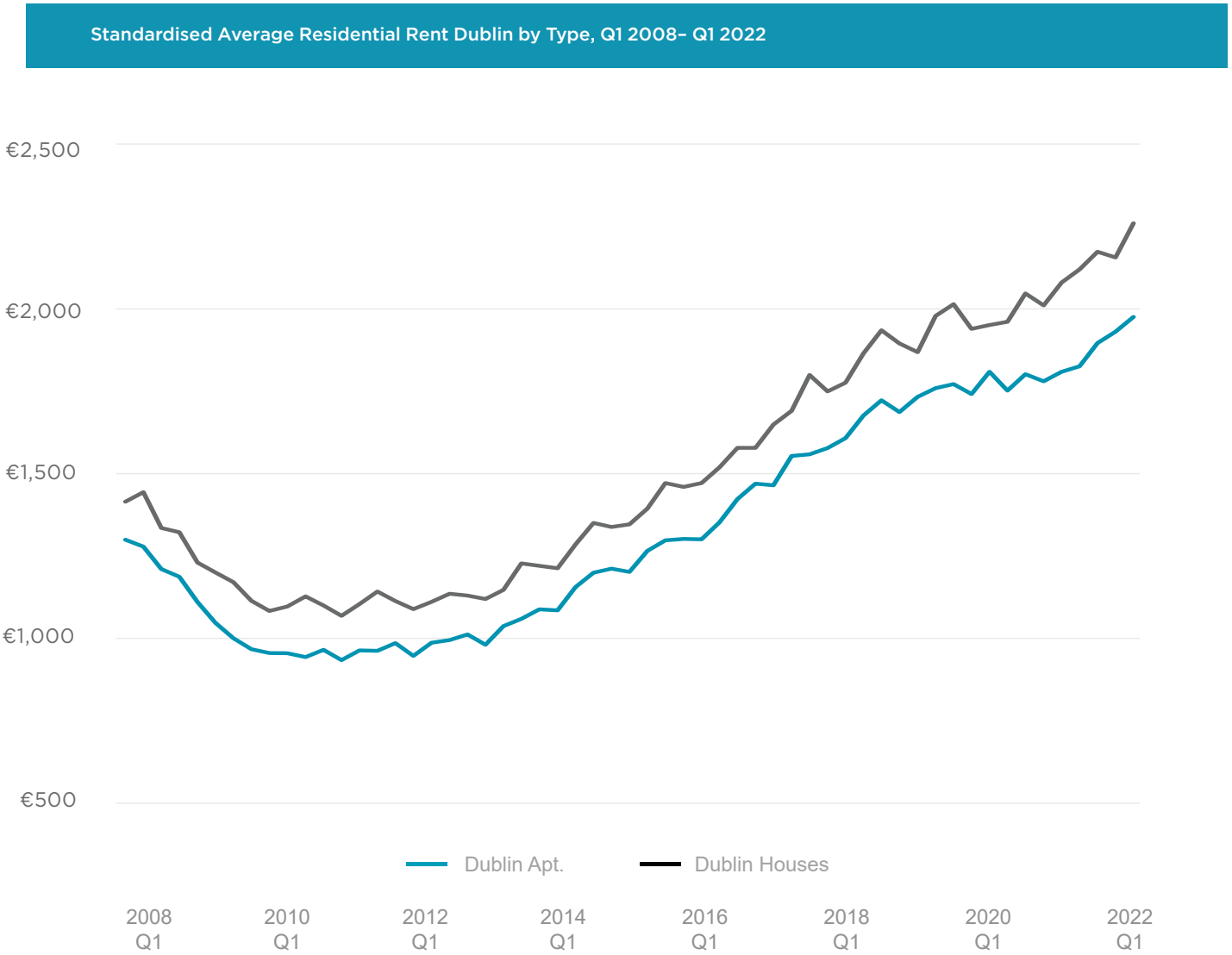
Source: RTB

RESIDENTIAL RENTAL ACTIVITY

RENTAL GROWTH

As expected, rents in Dublin are significantly higher than the rental levels outside of the Greater Dublin Area where average standardised rents were €1,081 in the period. However, rental growth has been much more aggressive outside of Dublin than within the capital, with a forceful 12.1% recorded on an annual basis in the final quarter of 2021. For Q1 2022, rents outside the Greater Dublin Area have increased by 8.8% on an annual basis.

In addition to location, there are of course variations in rental levels across houses and apartment. In Dublin, the standardised average rent for apartments stood at €1,975 per month, a 9.2% increase year-on-year.



Source: RTB

When attempting to capture availability levels in the Irish residential rental market, Cushman & Wakefield conduct a spot check of the number of residential rental advertisements on Daft.ie. A recent spot check carried out in August 2022 revealed availability sat at a starkly low 800 units nationally and 360 units in Dublin. Looking forward in the short term, the sustained misalignment between demand and supply is set to place rental stock levels under pressure, thus maintaining upward pressure on rental levels.

MARKET OUTLOOK

KEY FEATURES OF THE MARKET FOR 2022

In times of increased economic uncertainty, investing in a sector driven by demographic shifts rather than economic shifts is a logical investment approach. Although not immune to the changing environment, overall, the global living sector has proven resilient before, delivering growth and income in difficult times and should continue to do so.

From an Irish perspective, living investors have an important role to play in the delivery of accommodation developments. The summer period has seen a slowed approach to activity as employee annual leave plays a role, however overall sentiment remains evident due to the belief in underlying fundamentals and defensive characteristics of the asset class. To date, there is no evidence to support a change in values or yields in Ireland, however as the year progresses and the cost of debt rises, adjustments are anticipated. Given Ireland's competitive returns compared to other European locations, the adjustment is expected to not be of significant scale. It is expected that investor interest will be heavily concentrated in Dublin and predominately forward commitment style led.



Construction Cost Inflation:

The Irish Home Builders Association have highlighted how rising material prices and barriers to delivering these raw materials is causing a dilemma for developers as the viability of development again comes into question. Surges in timber, steel and insulation prices largely led by supply chain issues have increased the cost of materials needed for construction. According to Construction Information Services (CIF), there is danger that increasing materials costs and supply chain issues will adversely affect the housing delivery promises made by Government. Such a scenario would further squeeze supply constraints in both the homeownership and rental market. However, positively, it has been noted by market intelligence that there is some evidence of a cooling-off of construction costs as summer progressed leading to a market expectation that inflation may begin to ease as we enter the second half of the year. This potential change of pace in construction cost inflation has come through both market intelligence channels and also reflects some indicators of the most recent Commodity Report released by Linesight. Within this Q2 report, Linesight noted copper and steel prices leveling off and softening, with the price of scrap metal also reducing notably.

With the majority of investment in residential assets taking place on a forward commit basis, increased scrutiny of construction costs, contractor engagement, fixed price contracts and timelines to completion will be sought by investors in the short term, with even the possibility of some proposed developments being temporarily "paused". However, the weight of capital seeking to gain a foothold in the market remains strong and with the continued misalignment between supply and demand, investor interest remains robust when combined with quality developer counterparties.

MARKET OUTLOOK

KEY FEATURES OF THE MARKET FOR 2022



Availability of Debt & Cost of Borrowing:

Over the last couple of months finance costs have been rising, which have had an almost instant impact on investor returns and market sentiment. However, market insight suggests that margins and LTV levels are remaining stable for core and core plus transactions. For the right deals, lenders are even willing to slightly lower their margins to remain competitive and absorb some of the increased hedging costs for clients. However, it is undeniable that there are of course downsides to consider when assessing the access to finance environment. Interest rates are dramatically higher due to hawkish ECB, FEB and BoE movements combined with geopolitical turmoil which has ratcheted up inflationary pressures. The cost of borrowing for real estate is now higher than prime yields in some European markets, a situation not seen since the global financial crisis. This will see some form of outward movement on yields. Although there is significant capital to be deployed, it is presently unclear what normalised interest rates will look like. What is clear, is the impact of tighter financial conditions is expected to lead to higher base rates and wider credit spreads in the medium term due to macro-economic uncertainty. That said, positively, lenders are continuing to target core and core plus deals in living sectors, along with logistics and offices.



Green Deals:

In June 2020, legislation on the uniform classification of sustainable investments came into law, also known as EU Taxonomy. The legislation defines criteria for determining which commercial real estate investments may be declared 'sustainable' and what is their impact on environment. Within the buildings sector, the aim is to apply clearly defined green thresholds to new buildings, renovation measures and the acquisition and ownership of buildings. The main aim is to optimise the contribution of the buildings sector to Europe's climate goal by transforming existing buildings and constructing new buildings to a net zero carbon standard.

Global recognition of climate change and the physical risks associated with it have driven up investment in green buildings and clean energy infrastructure. Investors are under pressure from their stakeholders for transparency around their portfolio decisions. This "long term social value" phrase is expected to be a big factor when considering an investment, with buildings not reaching certain criteria facing a much smaller potential investor pool. This will largely impact older stock, as any new product coming out of the ground, due to Ireland's high standard of building regulations, will meet ESG requirements.

MARKET OUTLOOK

KEY FEATURES OF THE MARKET FOR 2022

Senior Living:

The Baby Boomer generation is ageing and set to enter the senior housing market imminently, bringing wealth, growing expectations and a volume of seniors not seen before in the sector. At present, the provision for senior living accommodation across Ireland is severely limited, leaving the older population who wish to improve their standard of living with very few properties that are appealing and fit for purpose. As the senior living property sector evolves in other locations, new innovative operators are changing the course and evolving senior living accommodation into aspirational, lifestyle and care driven communities to provide the future elderly population with superior and more desirable options.

The “Silver Tsunami” is occurring, and one size does not fit all, market insights points to large opportunities within the sector for innovative housing solutions. An aging population and lack of healthcare providers leaves an open space for alternative solutions to arise as add-ons to senior housing. Some examples of these included robotics solutions for daily care services and artificial intelligence (AI) companionship, a renowned illustration of such can be found in Japan where robotic therapy seals have been revolutionizing elderly care. Additionally, smart home technology, biometric sensors and MedTech advances beyond the likes of Telehealth.

Anecdotal evidence from the UK suggests 2022 could be a landmark year for senior living investments as the tailwinds in the sector align and a wave of capital is targeting the space. New operators are entering the market offering seniors more choice of product and tenure. Those who are fully capitalised build out their platforms, providing success stories and learnings from operational communities. This fuels the directive that senior living assets will firmly place itself alongside the more traditional living assets, such as student accommodation and the private rented sector.

Student Accommodation (PBSA):

Across Europe, education enrolment growth rate is continuing to exceed pre-pandemic rates due to domestic and international student demand. Similarly, in the United States, private built student accommodation fared well during the pandemic despite school shutdowns as students still desired to be near campus. From an Irish perspective, it is clear that from 2022 onwards the delivery of new bed spaces within the PBSA market will reduce significantly as commencements for these schemes have slowed. However, the overall outlook from a European perspective is that the PBSA market will continue to follow the evolution and institutionalization that has occurred in the U.S., meaning a greater focus on more amenities and communal spaces combined with greater digital integration offerings for students.

The European Comparison:

Cushman & Wakefield’s European PRS/BTR yield tracker illustrates that Dublin continues to provide higher returns than many other markets. Across Europe, yields in Q2 2022 remained stable in most markets, with the exception of markets such as Paris, Berlin and Oslo, who all reported an outward movement in prime yields. However, market intelligence suggests that it was inevitable rising interest rates would take a toll on the incredibly keen yields recorded in these markets at the start of the year.

European Yields, Prime PRS & BTR Assets, Q2 2022

Market (City Centre Prime)	Net Initial Yield Q2 2022	Quarterly Movement
Amsterdam	2.95%	–
Barcelona	2.90%	–
Berlin	2.70%	UP
Brussels	3.25%	–
Copenhagen	3.00%	–
Dublin	3.70%	–
Edinburgh	4.25%	–
Frankfurt	2.80%	–
Geneva	2.40%	–
Göteborg	2.95%	–
Hamburg	2.35%	DOWN
Helsinki	2.95%	–
Lisbon	4.00%	–
London	3.25%	–
Madrid	2.60%	–
Malmö	3.05%	–
Manchester	3.90%	–
Milan	3.00%	–
Munich	2.00%	–
Oslo	2.75%	UP
Paris	3.00%	UP
Prague	4.10%	–
Rome	3.25%	DOWN
Stockholm	2.75%	–
Vienna	3.00%	–
Warsaw	4.70%	–

MARKET OUTLOOK

KEY FEATURES OF THE MARKET FOR 2022

H2 Activity:

In looking ahead to the second half of 2022, Cushman & Wakefield earlier in the year hosted a “Future of Living” event where a team of industry experts specialising in multi-family, student accommodation and senior living from across Cushman & Wakefield’s global network came together to discuss the rise of the Living sector. The following are their thoughts for the remainder of 2022:

Stephen Screene, Head of EMEA Living:

“In a time of increased economic uncertainty, investing in a sector driven by demographic shifts rather than economics makes real sense. The sector has proven resilient delivering growth and income in difficult times and will continue to do so. The Living investment market remains the most active across Europe, with 12-month investment volumes up to Q1 2022 across Europe exceeding an €108 Billion, this represents approximately 31% of all investment volumes, excluding land”.

Maud Visschedijk, Head of Debt & Structured Finance EMEA:

“In a dynamic lending market environment, lenders are adapting and evolving continuously to remain competitive and continue deploying capital with the lending appetite for living assets remaining strong across the UK and Ireland”

Susan Tjarksen, Managing Director, Chicago:

“The global market has gotten choppy and will remain so with more anticipated interest rate hikes as cap rates are going to be adversely affected and outsized rent growth can't continue indefinitely”.

Amy King, Head of Senior Living UK&I:

“We continue to see a wave of capital targeting the Senior Living sector, backed by strong demographics and an acute undersupply of Integrated Retirement Communities.”

Andrew Smith, Head of Student Accommodation UK&I:

“Students desire to travel and learn appears undiminished by the pandemic. This coupled with a thematic shift by investors towards beds augers well for the European PBSA space. The headwinds of inflation, the war in Ukraine & rising rates place even greater importance on the location and operation of student housing.”

Patrick Hogan, Director, Head of Residential & Specialist Sector Capital Markets Ireland:

“Ireland and particularly Dublin, remains a very attractive location for investors looking to increase their footprints across Europe. This continued investor appetite is providing a high level of confidence to the overall Living Sector, even with the current headwinds of construction cost inflation and rising interest rates. We have yet to see evidence of an impact on yield or capital values within the Living market and the growing imbalance of supply and demand is not going away in the short to medium term.”

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