IRISH

DEVELOPMENT LAND MARKET

Q2 2021

TRANSACTION ACTIVITY:

Following the sharp slowdown in activity in 2020 due to COVID-19 related market challenges, the Irish development land market witnessed an increase in activity in the first six months of 2021. Quarter two recorded approximately €128.7m worth of turnover across 28 deals, almost three times the amount achieved in the same quarter in 2020 when the COVID-19 pandemic began to impact the Irish market.

This brings total spend in the Irish development land market to just shy of €257m across 67 deals in the first half of 2021. This represents a sizable increase from the €160m recorded in H1 2020 across 51 deals.

Commenting on the market, Brendan Smyth, Director, Head of Development Land, Cushman & Wakefield Ireland noted;

"The market appears to be primed for a significant level of activity in Q4 2021 with a large number of properties currently being prepared for sale. With increasing concern around the dysfunctional planning system, the continuing focus remains on sites with full planning permission in the Greater Dublin Area and commuter belt."

Of note, the first six months of 2021 recorded an annual increase in the number of sites sold. However, it is undeniable that the volume of transactions in the development land market has been on a downward trajectory since 2017. The decline in transaction volumes is strongly linked to rising development costs and a lack of suitable sites for development projects.

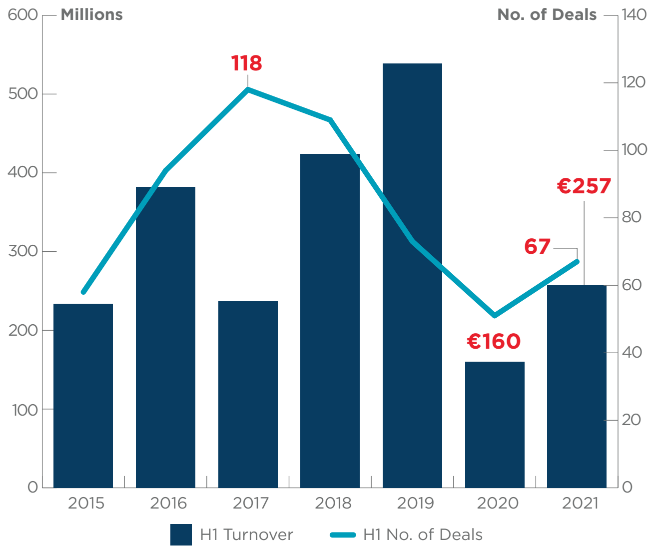
€128.7m

QUARTER TWO RECORDED APPROXIMATELY €128.7M WORTH OF TURNOVER ACROSS 28 DEALS

€257m

TOTAL SPEND IN THE IRISH DEVELOPMENT LAND MARKET WAS APPROXIMATELY €257M IN H1 2021

Irish Development Land Market H1 Activity*, 2015 – 2021



*Includes the Greater Dublin Area of Dublin, Kildare, Meath and Wicklow, and the regional centres of Cork, Galway and Limerick

Source: Cushman & Wakefield Research

The largest transaction of quarter two and the year so far was the M2 Airlinks site at the Cherryhound Junction, Co. Dublin, acquired for €26m by IPUT. At approximately 64.5 acres, the site has the potential scope to offer 65,000 sq m of industrial and logistics space according to a feasibility study prepared for the sale.

Of particular note, the site sold well in excess of its guide price of €18m. This level of demand and competitive bidding is strongly linked with the site's structural attributes, such as its commercial location, but also with the growing presence of E-commerce for retailers' businesses.

Another significant commercial offering to sell in the second quarter was the sale of 77 acres in Liffey Business Campus, Leixlip, Kildare. The parcel of land is part of a larger €100m deal to acquire the former Hewlett Packard (HP) campus. It is believed the value attributed towards the 77 acres is in the region of €20m.

The top residential development site sold so far this year was The Papermill, Clonskeagh, Dublin. The residential development site was acquired by an American private investment firm, Bain Capital, for €18.5m. The 3.4-acre site has planning permission for 126 apartments, while also full planning permission for the refurbishment of 10 existing terraced period houses on Clonskeagh Road.

Another noteworthy residential development sale was that of 49.3 acres on Blessington Road for €10.5m. Located adjacent to Naas Racecourse, the lands were offered with full planning permission for 385 houses.

Top Development Land Transactions, H1 2021

Property	Development Type	Quarter Sold	Size in Acres (Approx.)	Price Achieved (Approx.)
Airlinks, Cherryhound Junction, Co. Dublin	Commercial	Q2 2021	64.5	€26m
Liffey Business Campus, Leixlip, Co. Kildare	Commercial	Q2 2021	77	€20m*
The Papermill, Clonskeagh, Dublin 6	Residential	Q1 2021	3.4	€18.5m
Abbottstown Business Park Lands, Ballycoolin, Dublin 15	Commercial	Q2 2021	67.7	€13.8m
Blessington Road, Naas, Co. Kildare	Residential	Q1 2021	49.3	€10.5m

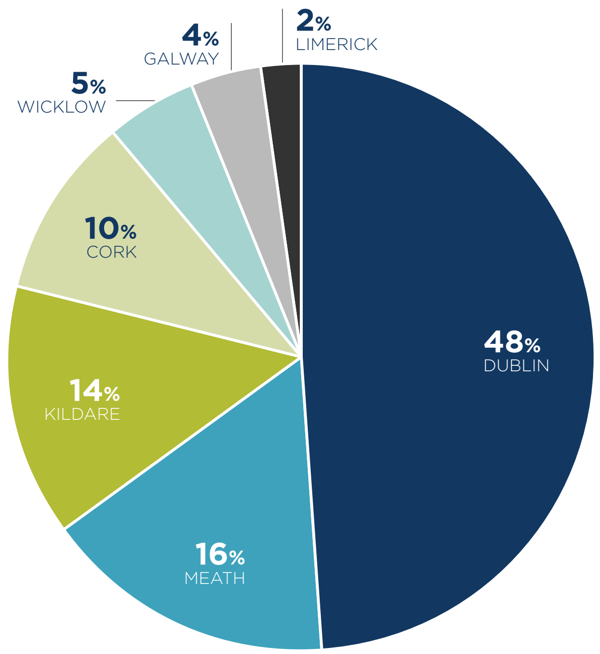
*Part of a larger €100m deal. Development land value estimated based on approximate price per acre, according to market experts.

Source: Cushman & Wakefield Research

Turnover at the half point of the year was largely driven by the Greater Dublin Area (GDA), comprising Dublin and its neighbouring counties of Kildare, Meath and Wicklow, which accounted for 84% of total spend. Dublin absorbs the majority of this turnover, totalling €125m of the €215.7m recorded.

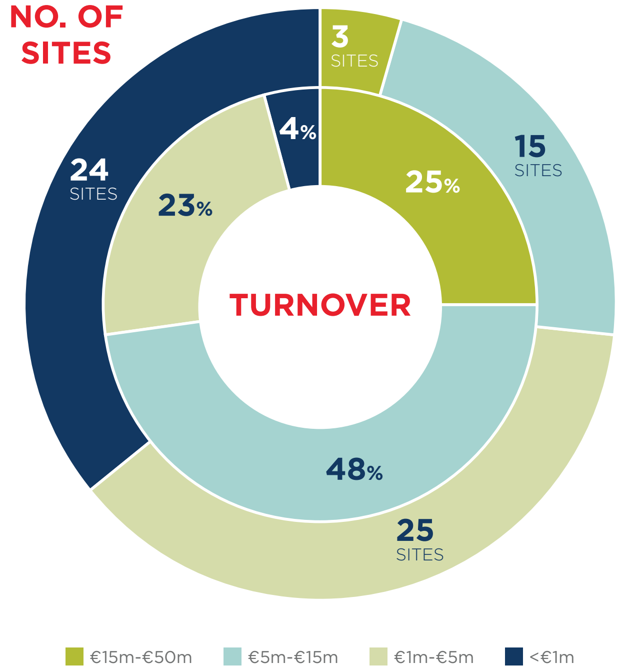
The regional centres of Cork, Limerick and Galway combined account for approximately €41m at the end of June. Similar to what was witnessed in Dublin and the GDA, the regional capital Cork absorbs the majority of the combined turnover, totalling €25m.

Development Land Activity by County, H1 2021



Source: Cushman & Wakefield Research

Development Land Activity by Lot Size, Sites Sold Vs Turnover Activity, H1 2021



Source: Cushman & Wakefield Research

In terms of lot size, the largest number of deals transacted in the €1m-€5m price bracket, 25 sites. This is followed by 24 sites sold in the sub €1m price range. There were no land transactions closed in the €50m+ price category at the half point of the year. Notably, 2020 also did not record any site sold in excess of €50m.

The €5m-€15m lot size generated the most turnover, 48% or €122m, while the €15m-€50m recorded approximately €64m over three development land sales.

LAND BY TYPE OF DEVELOPMENT:

Following the continued growth of the Private Rented Sector and strong demand for residential units, sites sold for the purposes of residential development accounted for the largest percentage share of turnover in the opening six months of the year. Development land sites which are expected to be utilised for residential purposes accounted for 57% of turnover or €146m over 45 sites. An analysis of H1 activity from 2015 onwards illustrates the strong proportion of turnover levels residential development sites have accounted for over the past six years, ranging from at least 40% to as high as 80% of capital spend.

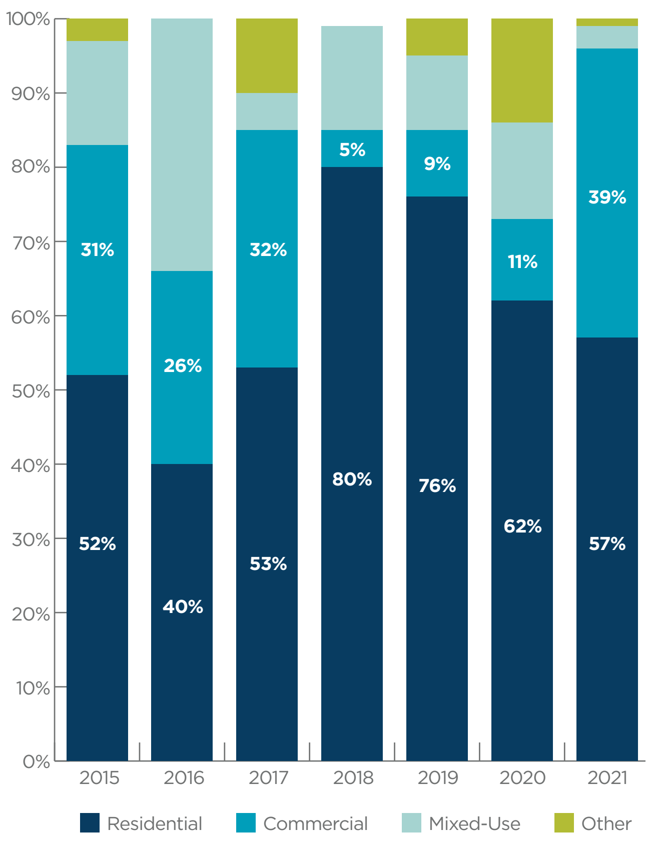
The value of capital invested in sites to be used for commercial development purposes has risen in the opening half of 2021 when compared with H1 activity historically. In line with the top transactions recorded, commercial development sites accounted for 39% of turnover or just shy of €101m by June end 2021. This compares with just 11% and 9% in H1 2020 and 2019, respectively. Harmonious with market insight, demand remains robust for commercial sites of significant scale, however the supply of such sites is falling short and satisfying developer requirements for commercial or even mixed-use schemes represents a significant challenge.

Interestingly, four of the commercial sites sold in H1 2021 are zoned for industrial and logistics development purposes. Combined they accounted for €60.6m worth of capital spend, which represents 60% of the total commercial land spend in H1 2021. In line with the strong demand witnessed in the Irish investment market for industrial and logistics assets and the critically low levels of availability in the occupier market, industrial and logistics development land offerings could continue to improve the overall commercial market share for the remaining six months of the year.

Sites to be used for mixed use development purposes accounted for approximately €7m across 7 deals, accounting for 3% of total turnover. The largest mixed-use offering 2021 has recorded so far was the €2.9m sale of City House, Newmarket, Dublin, which has a feasibility study showing potential for approximately 2,800 sq m of office space and 32 apartments.

The remaining 1% of transaction activity in H1 2021 comprised the Other category, including the 33-acre sale of Balheary, Newtown, Swords, Co. Dublin which has a zoning objective as a Metro Economic Corridor.

Land Activity by Type of Development, H1 Activity, 2015 - 2021

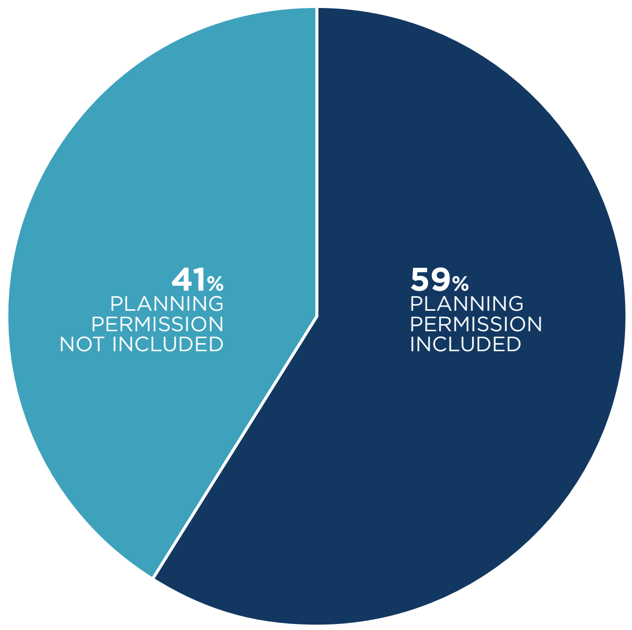


Source: Cushman & Wakefield Research

Lastly, market sentiment has repeatedly highlighted how strong demand is for sites which include some form of planning permission at the point of sale. As gross development costs are high and rising, the development viability of speculative land purchases on long term land or land without planning permission is being questioned.

When analysing development land activity from January to June end, approximately 59% of land transactions sold with some form of live planning permission included, whereas 41% of sites sold without any planning permission attached.

Development Land Turnover, Planning Permission Included at Point of Sale Vs. Not Included, H1 2021



Source: Cushman & Wakefield Research

MARKET OUTLOOK

RISKS VS RESILIENCE

At the half point of the year, many of the trends evident in the past 12 months look set to continue into the final two quarters.

It is anticipated that sites for residential development located in well situated areas will continue to favour purchaser appetite. While sites to be used for commercial development purposes could strengthen further, insight points to the lack of suitable stock as a barrier to this.

Undoubtedly, market activity will also be influenced by key challenges such as further lockdown measures and site closures due to COVID-19 restrictions, the lack of 'shovel ready' sites and access to finance.

The following market analysis poses a risk versus resilience evaluation of the Irish development land market for the remaining six months of 2021.

RISKS

1. Rising Judicial Reviews

There are two major points to consider when submitting for planning permission which could potentially mean your application is rejected, and as a consequence, developers are working the potential delays into their project timelines. One of these is the judicial review system.

Planning decisions of the planning authority and An Bord Pleanála are subject to Judicial Review (JR). This is the general procedure for challenging the legality of decisions of the administration. In 2019, 4% of all Strategic Housing Development (SHD) schemes were brought up for JR. In 2020, this had increased to 30% and market intelligence expects this percentage to rise even further again in 2021. This rise is believed to be associated with the decrease of cost involved in putting forward an objection.

Due to rising number of judicial review cases, developers are increasingly concerned about the success of their planning permission applications and are now building into their project timelines a projected time spent on the proceedings. According to market insight, if a JR is taken out against your application, there is a high probability of your planning application being thrown out, essentially meaning the developer must then start the entire process again to obtain permission for development.

2. Part V Provision

The other major point to consider when submitting for planning permission is the Part V provision. Part V is a mechanism by which Local Authorities can obtain a percentage of land zoned residential for social housing purposes. Earlier this year the Affordable Housing Bill 2021, approved an enlargement of Part V from 10% to 20% in every local authority area. The increase now allows for a minimum 10% requirement for social homes and up to a further 10% requirement for affordable homes, where required.

However, developers have flagged concerns over the lack of clear guidance on how this increase will be calculated on the site values. Combined with this uncertainty, market insight points to the increase having a potential negative impact on the gross development costs going forward and thus taking away from the land value.

3. The Building Materials Crisis

Surges in timber, steel and insulation prices largely led by supply chain issues have increased the cost of building materials needed for construction. From a manufacturing standpoint, COVID-19's impact on the market has meant months have been lost due to forced closures. The Irish Home Builders Association have also highlighted the large delays and congestion in customs and ports due to ramifications of Brexit.

Additionally, competition for raw materials from the United States is overpowering. The US has been subject to a generous quantitative easing programme over the past 12 months as a direct result of COVID-19. This injection of capital by the Central Bank into the economy has created funds which are being made available for residential and commercial building programmes. This in turn has led to vast amounts of materials being taken off the market by well-funded corporations.

Soaring material prices and barriers to delivering these raw materials is causing a dilemma for developers as the viability of development again comes into question. Despite aspirations that construction price inflation will have settled by the end of 2021, there is currently no evidence of such, with some developers even entirely modifying development blueprints from timber frame construction to block construction, purely from a viability perspective.

4. The Labour Crisis

Further to the building materials crisis, insights from developers suggest there is also a labour shortage. Market players are calling on government and educational bodies to incentivise employees into trades and construction, with a particular focus of those coming of traditional college admission age.

The effect of COVID-19 on the market and individuals' livelihoods, saw migration of foreign workers returning home when the pandemic began. Connected to this, a further exodus of employees can be attributed towards the growth of the logistics sectors, where previously outdoor construction workers have chosen to move into indoor warehousing and facilities, according to anecdotal evidence.

This departure of workers from construction coupled with contractors desperately attempting to make up lost time due to COVID-19 closures, is ultimately leading to greater costs for developers as there is a surplus of work but not enough employees to complete it, thus competition for employees is high.

RESILIENCE

1. Shared Equity Scheme

The Irish governments introduction of the shared equity scheme will allow the State to pay up to 30% of the cost of new homes in return for a stake in the property, the aim being to make it easier for individuals to gain a foothold on the property ladder. The scheme has the potential to make development affordability more viable, particularly in certain types of dwelling structures such as apartments and duplexes.

Although the scheme has been received well by developers and land purchasers, there is still a consensus amongst the market that the details need some fine tuning, with the Central Bank and the ESRI warning that the demand side initiative in a supply constrained market may result in upward pressure on house prices.

2. Sites Including Planning Permission

Hypothetical development plans are difficult to fund due to uncertainty around the gross development costs, including the time and resources spent preparing for planning permission. Development sites which include planning permission at the point of sale eliminate these uncertainties. Thus, sites with approved development plans are in high demand.

Additionally, due to the affordable housing bill and the increase on stamp duty only applying to sites granted development permission post a certain date, developers are even more keen to purchase land with previously acquired planning permission. Market insight gives an example of a site in Dublin with a feasibility study of 100+ residential units with a number of developers actively pursuing the land, but when the changes to stamp duty rates were announced none of the active developers were prepared to commit immediately due to the site having no planning permission pre-dating the stamp duty amendment.

Thus, prices being paid for ‘shovel ready’, ‘ready to go’ sites, which avoid these types of issues are generally selling with a healthy premium attached to the asking price.

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