Knight Frank

Ireland Residential Investment Market Overview

Research, Overview of 2021 & Outlook 2022

Special Focus - European Residential Investment Market Trends & Insights

42%

of investor spend in 2021 was on residential assets (€2.3 billion).

Multi-family deals accounted for 83% of that.

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82%

of European investors surveyed by Knight Frank expect to be active in multi-family/single family assets by 2026, compared to 77% in 2021.

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5 KEY TAKEAWAYS

34,000*

housing units are required per annum to meet the needs of the economy and population. There is an acute mis-match between housing supply and demand.

* estimated

PAGE 3

85%

of deals were completed off market, impacting market transparency.

PAGE 5

20%

of spend was on income producing stock which is highly sought after but severely lacking in the market.

page 5

IRELAND RESIDENTIAL INVESTMENT MARKET OVERVIEW 2021

Ireland as a small, open economy, member of the European Union and eurozone, has experienced remarkable growth in core sectors throughout the Covid-19 pandemic. As the economy rapidly re-opens the pace of activity is set to accelerate across all sectors.

ECONOMY

At a most fundamental level the population has been on an upward trajectory since the 1990's and reached over 5 million people in 2021, which is the first time in over one hundred years that there have been more than 5 million people living in Ireland. Positive net migration, where on balance more people came to Ireland than left between April 2020 and April 2021, along with a natural increase in the population of 22,800 over the same period, accounts for the 0.7% increase in the population over that twelve-month period. Looking over a five-year period, the population has increased from 4.7m to 5.1m people, of which 1.4m (27%) live in Dublin.

Decades of government investment in Research & Development, in education and in incentives to attract global companies to Ireland have reaped considerable rewards and created high value adding sectors to the economy. Dublin is now a recognised global centre for TMT/ICT and all the Top global pharmaceutical companies have a presence in Ireland, to include Pfizer and Janssen Pharmaceuticals.

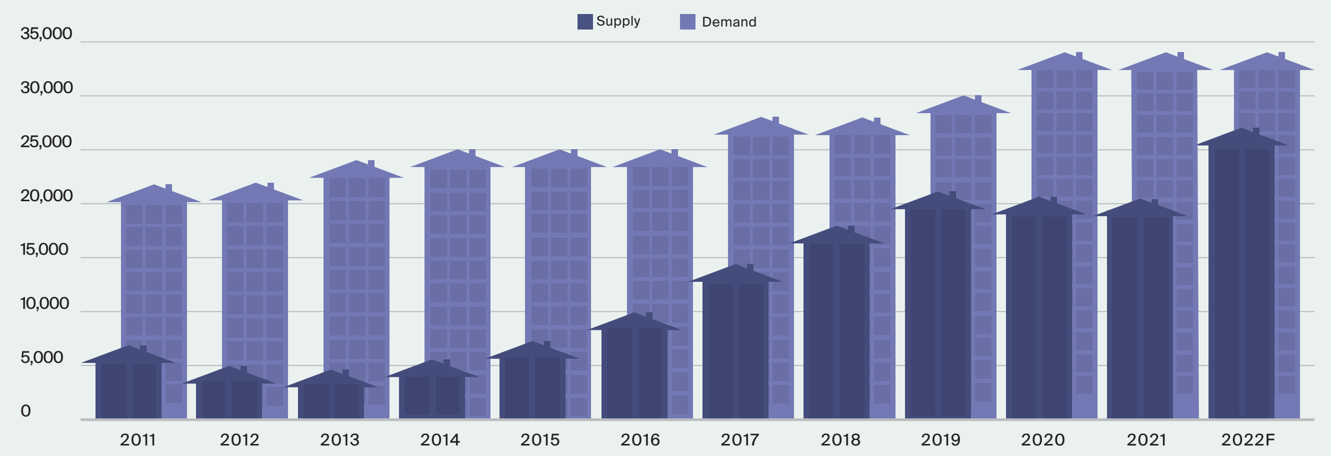
There are 94,700 more jobs now across four key sectors

The shock to the domestic economy of the Covid-19 pandemic has been buffered by the fact that these two sectors along with financial services, insurance and professional services have grown in terms of output and job creation. There are 94,700 more jobs now across four key sectors (1. Industry (including pharma), 2. Finance, Insurance & Real Estate, 3. ICT and 4. Professional, Scientific & Technical). Overall tax revenue collected by the government was the highest on record in 2021 and there was an increase of 17% in income tax receipts, reflecting the high value adding nature of many of these new jobs.

The housing market has struggled to keep up with the evolving pace and nature of demand. Increased population growth in a fast-paced economy, where buyer preferences as well as demand moves fast has left a large mis-match with the supply that has been coming on stream.

Housing supply across all categories of product has failed to meet the estimated range of between 25,000-35,000 per annum that has been required over the last decade.

Housing Supply and Demand



E= estimate F = forecast. Source: Knight Frank Research/CSO/Central Bank of Ireland

The residential capital markets sector has evolved quickly over the last few years in particular as the supply gap became more acute.

Challenges such as inflation and supply chain pressures are somewhat inevitable given global developments over the last two years and will put pressure on most sectors to keep up with the demands faced in a fast-moving economy such as Ireland's.

Overall, the scene is set for this to be an interesting, exciting and rewarding time to be part of the development of the residential capital markets sector in Ireland.

The Irish economy is estimated to have grown by over 15% in 2021 and by over 5% if measured by modified domestic demand. The rapid opening up is expected to give additional momentum in 2022.

INVESTMENT MARKET 2021

The Irish investment market finished strongly in 2021 with a total of €5.525bn of investment spend. This compares to €3.02bn in 2020 and is second only to the record level of €7.28bn invested in Irish commercial property in 2019.

For the second consecutive year, residential investment was the dominant asset class to transact in the market accounting for €2.3bn or 42% of CRE spend, followed by offices at 29% and industrial at 18%. The growth of the residential investment sector in Ireland, which has been evident since 2017 and accelerated dramatically in a short period of time, is in line with the trend witnessed across Europe.

The fundamentals of the Irish economic growth story, coupled with population increases and a supply and demand imbalance has underpinned investor interest in this segment of the market.

Throughout 2021, there were seven deals each in excess of €100mn and a further eight deals between €50mn and €90mn. There were forty-seven residential investment transactions each over €1mn, compared to twenty-seven in 2020 and fifty in 2019.

The largest proportion of residential investment deals was completed in the first half of 2021

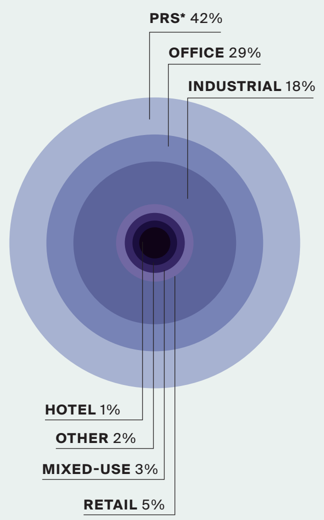
The largest proportion of residential investment deals were completed in the first half of 2021 with transaction volumes tapering off, particularly in Q4 2021. The strength of transactions in the first half of the year is in part due to a carry over of deals from 2020 which took longer to transact due to the upheaval caused by the onset of the Covid-19 pandemic.

While 2021 saw the market return to somewhat more normal conditions, it is taking longer to complete a transaction, once deal agreed.

SUB-SECTOR ANALYSIS

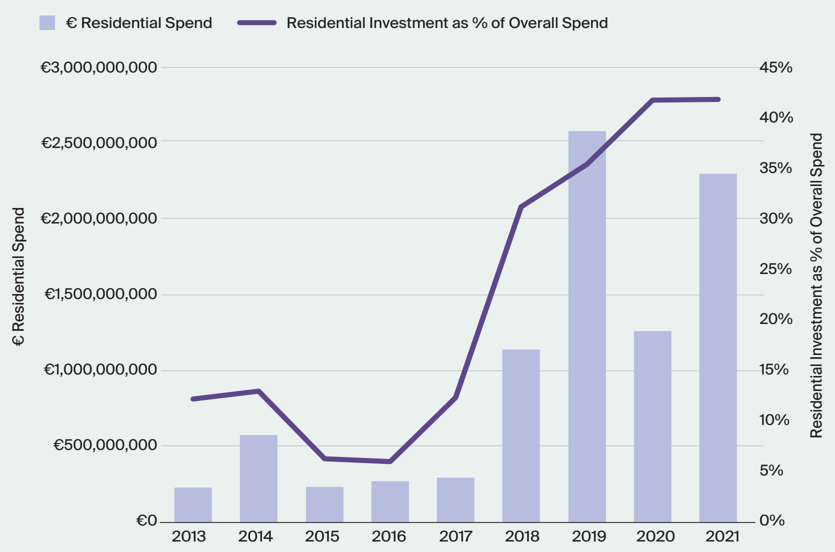
In terms of the various sub-sectors, multifamily deals accounted for 83% of the investment spend throughout 2021.

Investment Spend by Sector 2021



Source: Knight Frank Research
*Includes 2% on student accommodation

Residential Investment 2013 - 2021



Source: Knight Frank Research

Social housing deals comprised 9%, while student accommodation accounted for 6%. Changes to purchasing single family investments which were implemented in 2021, saw this sub sector fall from 11% of residential deals in 2020 to 2% in 2021.

DEAL TYPE - FORWARD FUND VS STANDING STOCK

The composition of deal structures in 2021 was very similar to that of 2020 with forward commit being the dominant deal type. Forward commit deals accounted for 71% of residential investment spend in 2021 followed by existing operational assets at 20% of residential investment volumes.

2021 saw the first forward funding deal complete for a residential investment in the Irish market. The deal completed by Union and Ballymore occurred in the second quarter of 2021 and was the only forward funding deal of the year. We expect 2022 will see further forward funding transactions.

OFF MARKET DEALS VS ON MARKET DEALS

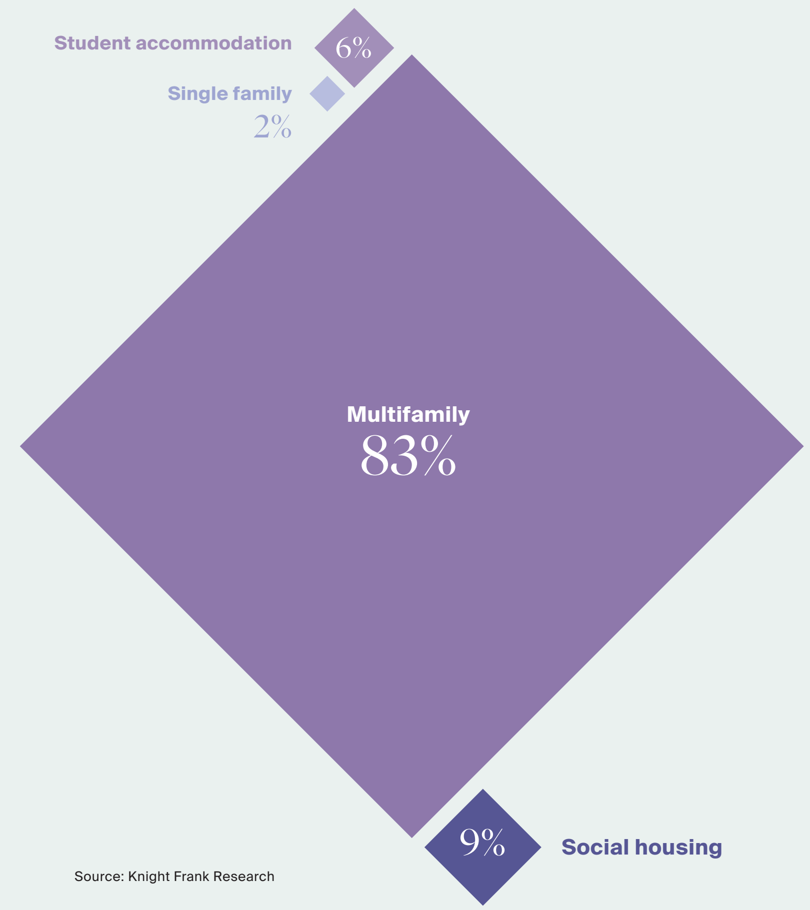
2021 saw a large proportion of residential investment deals occur off market, which accounted for 85% of transaction volumes. The €450mn Ardstone transaction in Q1 2021 has no doubt influenced the increased percentage of off market transactions however, even on a deal-by-deal basis, there were twenty-seven off market deals and eighteen on market transactions for the year.

The increased level of off market deals is sure to impact market transparency as details of gross to net income and yields becomes harder to verify.

85%

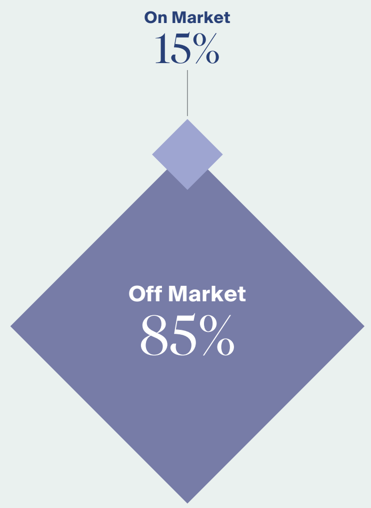
of residential deals were off market

Residential Investment Sub-Sector Analysis 2021



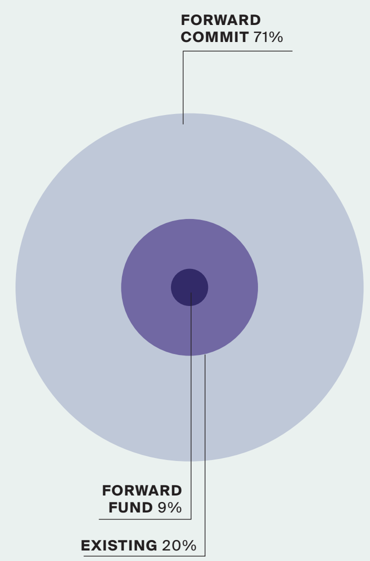
Source: Knight Frank Research

Residential Investment On Market vs. Off Market 2021



Source: Knight Frank Research

Residential Investment by Deal Structure 2021



Source: Knight Frank Research

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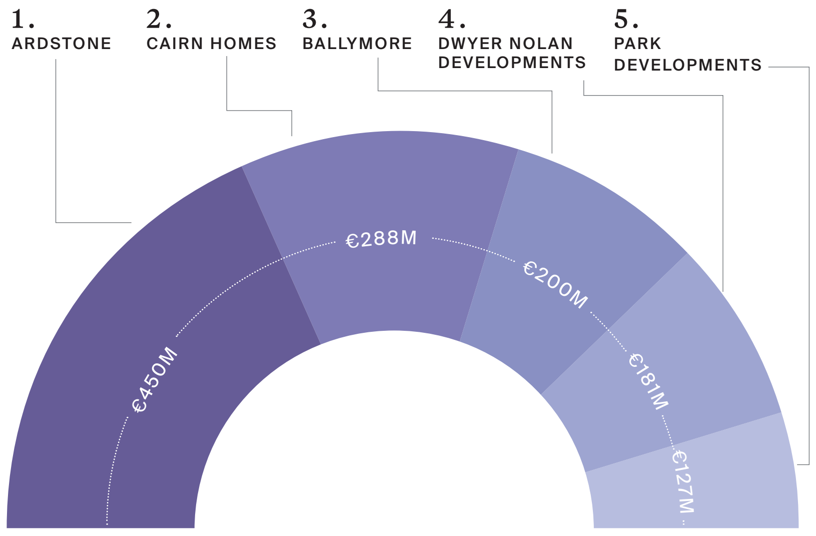
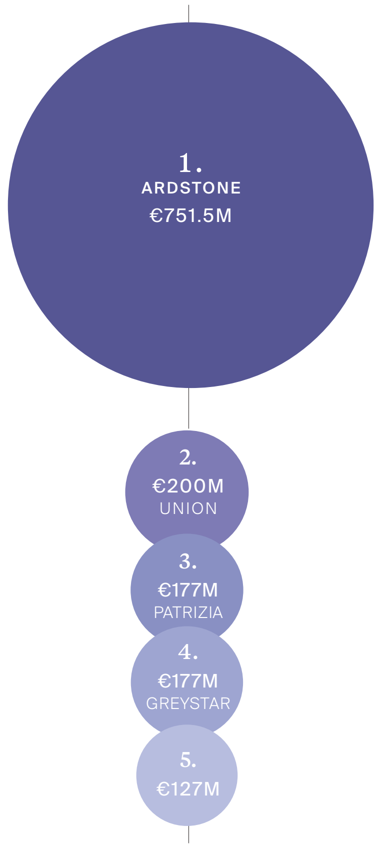
Top 5 Vendors/Developers of 2021, €m



Source: Knight Frank Research

Top 5 Investors of 2021, €m



Source: Knight Frank Research

TOP 10 DEALS OF 2021

PROPERTY	SECTOR	DEAL STRUCTURE	VENDOR	PURCHASER	PRICE ACHIEVED (€M)
ARDSTONE PORTFOLIO	MULTIFAMILY	FORWARD COMMIT	ARDSTONE	ARDSTONE	€450,000,000
8TH LOCK, ROYAL CANAL PARK, ASHTOWN, DUBLIN 15	MULTIFAMILY	FORWARD FUND	BALLYMORE	UNION	€200,000,000
MAYNE COLLECTION	MULTIFAMILY	FORWARD COMMIT	DWYER NOLAN	ARDSTONE	€181,000,000
GRIFFITH WOOD, GRIFFITH AVENUE, DUBLIN 11	MULTIFAMILY	FORWARD COMMIT	CAIRN	GREYSTAR	€177,000,000
EAST VILLAGE, CLAY FARM, DUBLIN 18	MULTIFAMILY	FORWARD COMMIT	PARK DEVELOPMENTS	BLACKROCK/ SW3	€127,000,000
THOMAS STREET, DUBLIN 8 AND PARKGATE, DUBLIN 7 STUDENT ACCOMMODATION	STUDENT	EXISTING	HATTINGTON STREET CAPITAL	PATRIZIA	€120,000,000
PORTFOLIO OF UNITS AT ADAMSTOWN, CO DUBLIN	MULTIFAMILY	FORWARD COMMIT	QUINTAIN	ORANGE CAPITAL PARTNERS	€110,000,000
WINDMILL, CLONSILLA, DUBLIN 15	MULTIFAMILY	FORWARD COMMIT	KIMPTON VALE	URBEO	€73,000,000
ROSELAWN, FOXROCK, DUBLIN 18	MULTIFAMILY	FORWARD COMMIT	RICHMOND HOMES	ABERDEEN STANDARD	€70,700,000
ASHBROOK, CLONTARF, DUBLIN 3	MULTIFAMILY	EXISTING	MKN	IRES REIT	€66,000,000

Source: Knight Frank Research

POLICY AND LEGISLATION

Since the first residential investment transactions in Ireland in 2012, the market has evolved into sub-sectors to include multifamily, student accommodation, social/long term leasing and more recently single family housing.

In a bid to discourage investment in the single family housing market, the Irish Government adjusted the residential stamp duty rate from 1% on the first €1 million and 2% on excess over €1 million to 10% where 10 or more residential houses or duplexes are purchased at a time, or in a year.

The increased rate was effective from the 20th May 2021 and does not apply to local authorities, approved housing bodies, investors acquiring units to lease to a local authority or approved housing bodies or when buying apartments.

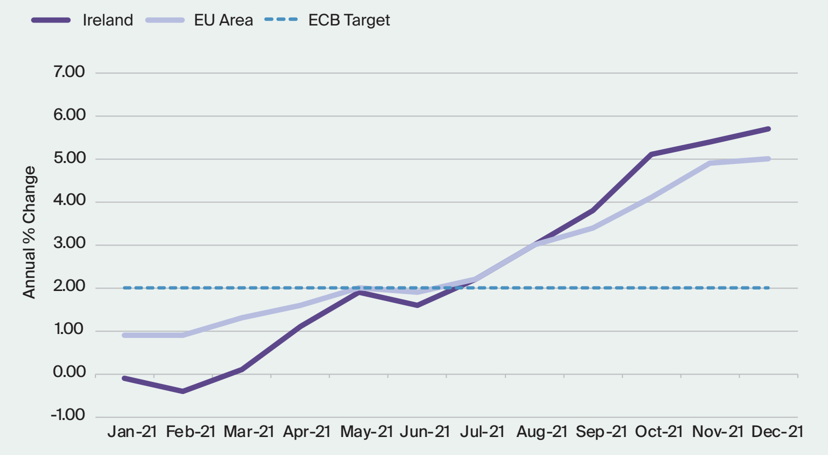
Another recent change to the residential rental sector is a move away from the rent cap of 4% on annual rent in Rent Pressure Zones and towards an indexed linked rent review model using the Harmonised Index of Consumer Prices (HICP). As the aim of the ECB is maintain HICP at an annual rate of 2% per annum over the medium term, this measure was sought to keep rent inflation in line with overall inflation. This change came into effect on 16th July 2021.

Subsequently, in July 2021, Ireland's HICP reached 2.2%, exceeding the ECB target of 2%, increased further to 5.4% in November and to 5.7% in December 2021.

In early November 2021, the Government announced an additional alteration to the rent review mechanism which will cap rent increases at 2% per annum in Rent Pressure Zones (RPZs) when general inflation is higher than 2%. This amendment took effective on 11th December 2021.

While government intervention in the real estate market is not new, 2021 saw a number of changes throughout the year which have impacted the residential investment market. Continued alterations to legislation created a level of uncertainty in the market and going forward we will see sub-markets which had started to gain traction with investors taper off.

HICP Inflation Rate



*Source: European Central Bank

PLANNING & PIPELINE

The current planning system is due for an overhaul in the coming eighteen months. The Strategic Housing Development (SHD) process which was first introduced in 2016 has come to an end and new planning legislation was introduced in December 2021 to replace the SHD process. The Large Scale Residential (LRD) Development Bill was enacted on 14th December 2021. For a short period of time both the LRD and SHD processes will operate while the final SHD applications have worked their way through the system. After that point, the LRD process will become the sole planning consent system.

A Large Scale Residential Development is similar to a SHD in definition whereby both systems cover:

1. a housing development of 100 or more units;
2. student accommodation comprising 200 beds or more;
3. a combination of the two where the threshold is met for either element.

This new bill is designed to bring the planning decision process back under the remit of the local authority and allow for improved public participation via the An Board Pleanála appeals process.

Throughout 2021, many SHD planning applications were held up by Judicial Review. It has been announced that an assessment is being undertaken of the Judicial Review process with the aim of streamlining the review process in order to speed up decision making. The overall goal is to streamline the planning system to allow for the efficient delivery of much needed new homes.

During 2021, the supply of housing, both for owner occupied and rental accommodation remained topical as house prices and rental prices increased. The recently published 'Housing for All' policy projects new housing supply to be on average 33,000 units per annum over the next 10 years to meet demand.

However, the closure of construction sites for prolonged periods in 2020 and 2021 as part of the COVID-19 public health restrictions has impeded the delivery of new housing units.

The Central Bank of Ireland forecast that supply would be 21,700 units in 2021 and 27,000 and 31,000 in 2022 and 2023. Actual total new dwelling completions in Ireland throughout 2021 were 20,443 of which 30%, 6,201 units, have been in Dublin.

SPECIAL FOCUS

EUROPEAN RESIDENTIAL INVESTMENT MARKET

EUROPEAN RESIDENTIAL INVESTMENT TRENDING UPWARDS

The residential investment market in Europe, very much like in Ireland, has grown from being an alternative asset class with relatively low levels of investment ten years ago to one of the dominant asset classes, second only to offices as of Q3 2021. A Knight Frank survey* of residential investors across Europe indicates that the level of investment in this space will increase further in 2022.

Germany, the UK and Spain are markets highlighted by European investors as having the best prospects for investment over the coming five years. Ireland featured strongly in the responses featuring 6th overall.

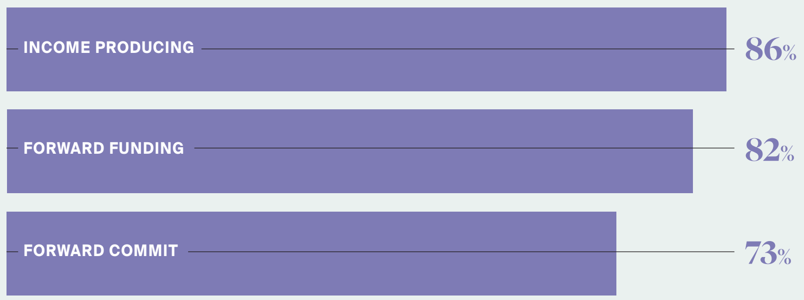
Income producing assets are the most sought after deal type followed by forward funding and forward commit. The largest barrier to investment was listed as the availability of operational stock. This is mirrored in the Irish market, where the majority of investment is forward commit deals and there is a scarcity of core operational assets.

Of the investors surveyed, student housing and multifamily were the sub sectors most investors were currently active with a smaller proportion active in co-living and senior housing.

It is anticipated that further investment will be in multifamily and student over the next five years and further allocations provided for senior and co-living investments. Given Ireland's planning laws in relation to co-living, Ireland will not partake in the growth in this sub-sector.

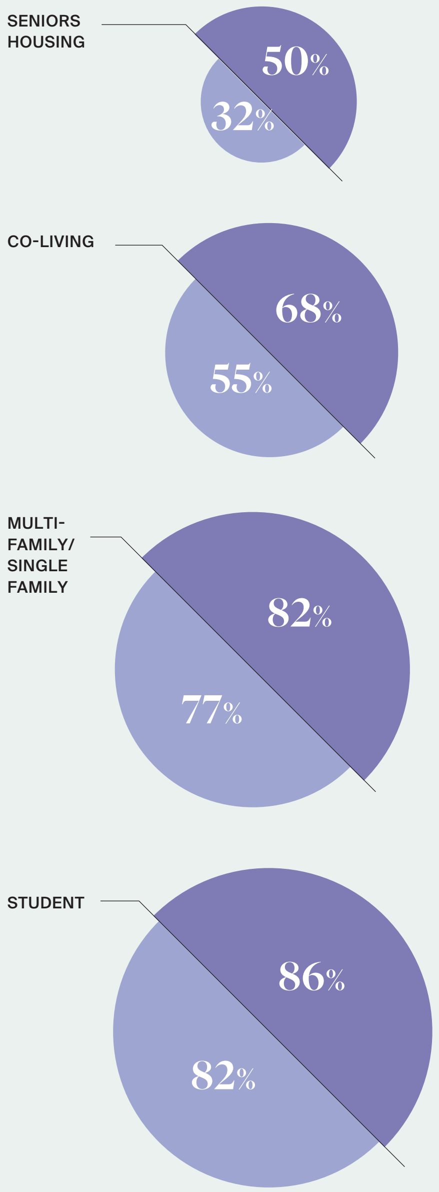
When asked about the biggest risk factors for residential assets, investors listed regulation, rising operational costs, rent control and affordability at the top.

Most Targetted Investment Propositions*



Source: Knight Frank Research
*results from Knight Frank Survey of European Investors 2022 which represents the view of 22 institutional investors, currently active in the RCM sector and who account for €64bn in residential assets under management in the Eur

Sectors in which investors were active in 2021 versus where they anticipate being active in by 2026*



Source: Knight Frank Research
*results from Knight Frank Survey of European Investors 2022

DEBT MARKET

2021 in Review

Recapping on 2021, the year proved to be one of the busiest in the European debt market since the global financial crisis as restrictions began to lift in Q2 and sentiment improved. Across Europe institutional capital once again began to flow into a range of asset classes, with Build to Rent Residential and Logistics remaining the focus of many investors due to their resilience during the pandemic.

The debt market quickly followed the lift in sentiment as lenders began to adopt a more positive outlook for real estate. This, coupled with significant capital to deploy following a difficult year in 2020, led to increased competition between lenders resulting in pricing and leverage returning to pre-pandemic levels.

The Irish debt market also gained momentum with a number of alternative debt providers making a push to enter the historically underserved market. Responding to the undersupplied housing market, residential remains the focus for many lenders, as demonstrated with for example, Goldman Sachs opting to partner with Fairfield Real Estate Finance with a view to lending up to €900 million to help deliver 7,500 new homes in Ireland, across all tenures, over the next three years.

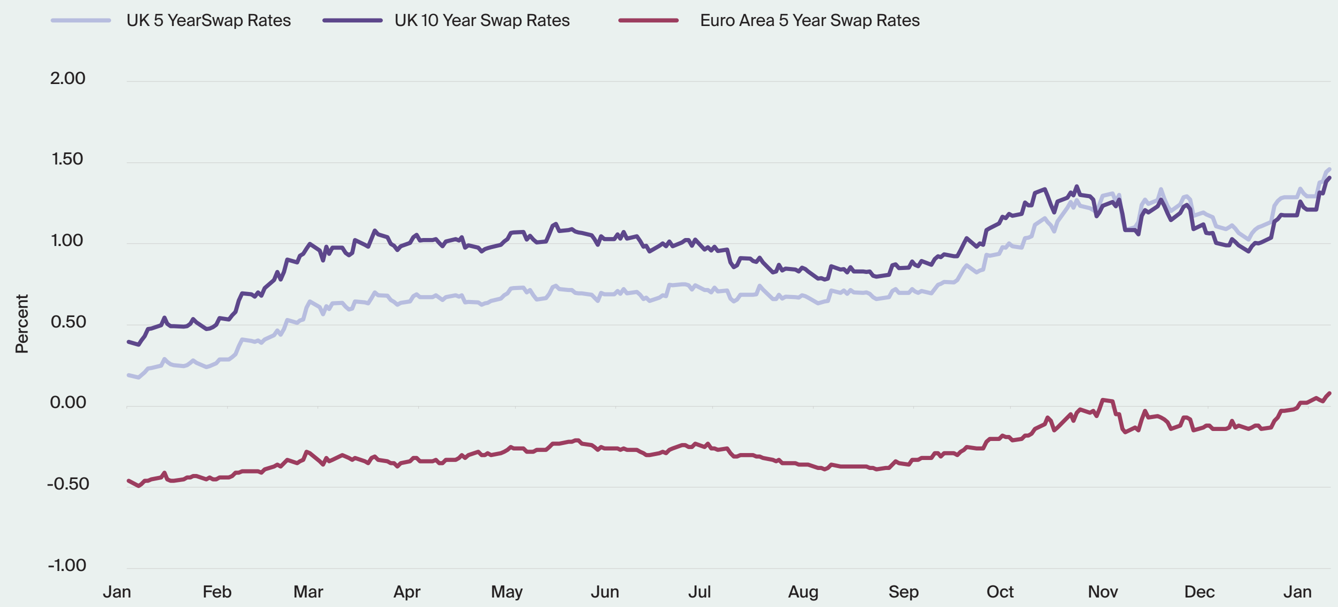
DEBT MARKET OUTLOOK 2022

Looking ahead to 2022, our outlook for the European debt market remains strong. Off the back of a very successful 2021, we are continuing to see a variety of new alternative lenders entering the market alongside existing lenders successfully raising new funds for their debt platforms. We expect this increased liquidity in the market to sharpen debt pricing in the medium term as post-pandemic recovery continues.

Another key theme in the market is inflationary concerns impacting swap rates across Europe. Having enjoyed a number of years in negative figures, Euro swap rates are now in positive territory with the EURIBOR 5 year swap rate rising c. 50 bps in the past 12 months to 0.08%*. Furthermore, EURIBOR forward curves are projected to steadily increase in coming years. As a result, whilst lender margins remain competitive, the total cost of borrowing is projected increase over the course of 2022.

ESG will continue to be at the priority for both investors and lenders in 2022. As lenders continue to offer an increased range of ESG incentives, particularly reduced margins, investors will continue to focus on ways to ensure ESG targets are met. Europe has previously led the way in green finance with nearly half of global sustainable lending coming out of the continent, a trend we expect to continue in 2022.

UK & Euro Area Swap Rates



Source: Knight Frank Research, Macrobond (figures as at 07/01/22)

OUTLOOK

2022

1.

Heading into 2022, we will see a record level of capital flow to invest in the Irish residential investment market with Dublin now firmly positioned as a Tier One European city.

2.

Throughout 2022 we expect to see a considerable increase in forward funding deals being offered to the market.

3.

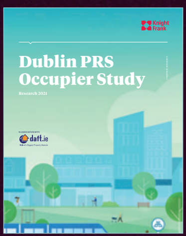
We anticipate Purpose Built Student Accommodation (PBSA) to return to the market with strong appetite for this product be it single assets, portfolio deals and corporate deals.

4.

One to watch for the forthcoming year is the potential impact the new planning legislation will have on the delivery of stock to the market.

5.

Continued competitive investor bidding is expected to result in yield compression in 2022.



Dublin PRS Occupier Study 2021

Dublin Office Market Overview Q3 2021

Dublin Investment Market Overview Q3 2021

New Homes Construction Survey 2021

Please get in touch with us

Research

Joan Henry, Chief Economist &
Head of Research
joan.henry@ie.knightfrank.com

Robert O'Connor, Senior Research Analyst
robert.oconnor@ie.knightfrank.com

Residential Capital Markets

Tim MacMahon, Director
tim.macmahon@ie.knightfrank.com

Emma Courtney, Associate Director
emma.courtney@ie.knightfrank.com

Capital Markets

Adrian Trueick, Director
adrian.trueick@ie.knightfrank.com

Peter Flanagan, Director
peter.flanagan@ie.knightfrank.com

Capital Advisory

Lisa Attenborough, Partner
lisa.attenborough@knightfrank.com

Craig Wilson, Partner
craig.wilson@knightfrank.com

European Residential Capital Markets

Stuart Osborn
stuart.osborn@knightfrank.com

Valuations

Peter Rowan, Director
peter.rowan@ie.knightfrank.com

Laura O'Connell, Director
laura.oconnell@ie.knightfrank.com

Glenn Kealy, Director
glenn.kealy@ie.knightfrank.com

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