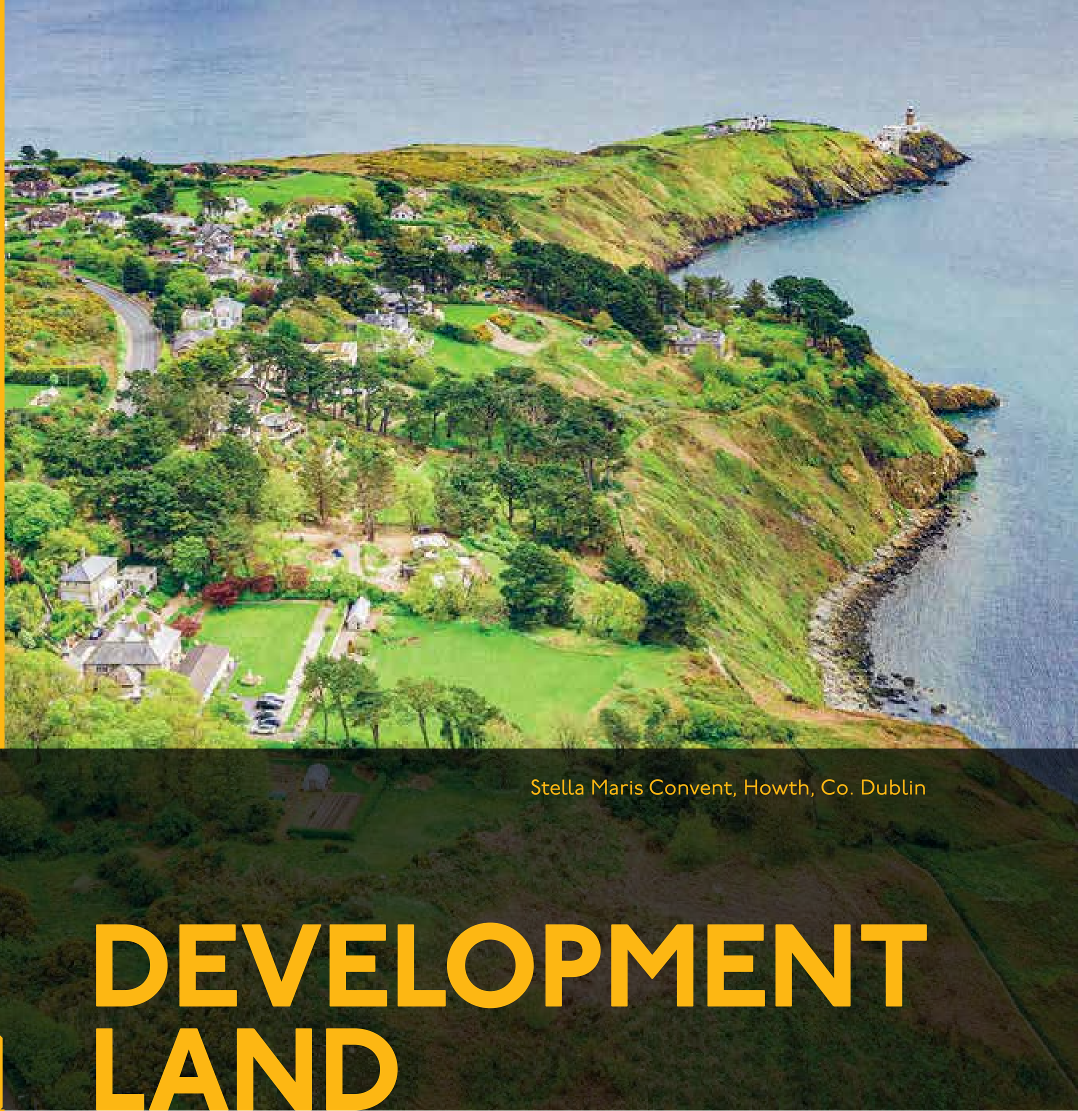
ONE OF THE MOST NOTABLE TRENDS IN 2019 WAS THE **STABILISATION AND ADJUSTMENT IN DEVELOPMENT LAND PRICES**



Stella Maris Convent, Howth, Co. Dublin

02

DEVELOPMENT LAND

DEVELOPMENT LAND & NEW HOMES

GREATER DUBLIN AREA

The development land market in the greater Dublin area continues to perform reasonably well. Activity levels remain good and we estimate that market turnover was about €1.1bn in 2019. While this is less than the combined volume of sales in the GDA in 2018, which was just over €1.45bn, it is notable that there were significantly fewer deals done in 2019 compared to the previous year. This means the average lot size increased to about €15.5m.

Market demand depends on the nature of the purchaser. This will be the case again in 2020. Domestic builders are focusing on the smaller infill sites while overseas investors are concentrating on the larger redevelopment opportunities in the city centre. Premiums are being achieved for sites with planning permission that have a low-risk route to delivery and developer exit. Speculative land purchases without planning are still occurring for well-located sites.

One of the most notable trends in 2019 was the stabilisation and adjustment in development land prices. There were various reasons for this. These include rising construction costs some of which are associated with NZEB (Near Zero Energy Buildings), slowing growth in end values of completed schemes, and developers focusing their attention on getting planning permission and developing-out existing sites rather than acquiring new opportunities. These factors will continue to have an impact on prices in 2020.

LAND REZONING

There are proposals to rezone 20 land banks in Dublin City Council's administrative area, which are currently zoned 'Z6 Employment & Enterprise', to residential, mixed-use, city centre or open space in areas such as Crumlin, Santry and Inchicore. This will be a significant feature of the Dublin land market in 2020 and beyond. On the surface, it is an important measure to assist with housing requirements, however, many of the lands are in fractured ownership and may take some time to convert to higher-order uses. Speed will depend on the availability of alternative industrial accommodation or land for the existing users to move to. Development may begin on industrial lands at the edge of estates and progressively work in over time.

REZONE SITES

PROPOSED ZONING

Source: Dublin City Council

Z1	RESIDENTIAL	Z3 / Z10	NEIGHBOURHOOD FACILITIES / MIXED USE
Z1 / Z9	RESIDENTIAL / OPEN SPACE	Z9 / Z10	OPEN SPACE / MIXED USE
Z10	MIXED USE	Z5	CITY CENTRE
Z1 / Z10	RESIDENTIAL / MIXED USE	Z5 / Z9	CITY CENTRE / OPEN SPACE

> "THE 9% VACANT SITE LEVY IS PAYABLE IN JANUARY, WHICH MAY ENCOURAGE THOSE THAT CANNOT AFFORD OR WANT TO DEVELOP OUT A SCHEME, TO SELL."

Former Glass Bottle site, Poolbeg, Dublin 4

Another feature of the market in 2020 will be the commercial State-sponsored Land Development Agency. Its primary objective is to ensure the optimal use of State land and deliver housing where appropriate. While it was established in 2018, the agency only commenced operations in 2019. We understand that it has about nine projects ongoing.

Supply in 2020 will come from several sources. The 9% vacant site levy is payable in January may encourage those that cannot afford or want to develop out a scheme, to sell. Religious orders will continue to be active, as well as some State-related bodies. Indeed, a number of high-profile sites will likely sell in 2020. The sales process is currently underway for an 80% interest in the former Glass Bottle site. It has moved to the second-round and a conclusion is expected in March. Some, or all, of CIE's 18 acres at Heuston Station is likely to come to the market in 2020. This has the potential for almost 150,000 sqm of commercial and residential development with CIE retaining a 300-year leasehold interest in any future scheme, similar to the process it has adopted at other rail stations. As such, we expect continued activity in the development land market next year and similar to this year, market turnover is likely to be driven by large deals.

NZEB: IN FOCUS

NEAR ZERO ENERGY BUILDINGS

‘NEAR ZERO ENERGY BUILDINGS’ MEANS A BUILDING WITH A VERY HIGH ENERGY PERFORMANCE.

The nearly zero or very low amount of energy required to run the building will come partly from renewable sources (at least 20%), including those produced on-site or nearby. The requirements for NZEB are set out in Part L of the Building Regulations and apply to both commercial and residential properties. Linked to this are additional changes to Part F of the Building Regulations relating to ventilation (the NZEB rating is partly achieved through air tightness and hence effective ventilation systems are required).

The NZEB obligations stem from the EU-wide Energy Performance of Buildings Directive (EPBD). Transitional arrangements are already in place.

ALL NEW BUILDING COMPLETIONS
(AND PROPERTIES HAVING UNDERGONE MAJOR RENOVATIONS)
MUST MEET THIS STANDARD BY
31ST DECEMBER 2020

NZEB WILL UNDOUBTEDLY RESULT IN INCREASED CONSTRUCTION COSTS

This ranges depending on the type of building but in general, according to indicative data from Government,

FOR COMMERCIAL BUILDINGS
it will be
2%-8%
MORE EXPENSIVE

FOR RESIDENTIAL PROPERTIES
it will be
1%-4%
MORE EXPENSIVE

THERE ARE HOWEVER **SIGNIFICANT POSITIVES FOR THE OCCUPIER** IN TERMS OF RUNNING COSTS AND HEALTH BENEFITS

NEW HOMES

Kinsealy Woods, Kinsealy, Co. Dublin

GREATER DUBLIN AREA

We expect 2020 to be a good year in the GDA new homes market. Confirmation in Budget 2020 that the help-to-buy scheme would be retained for a further two years will assist in terms of both supply and demand. This follows on from an uncertain 2019, where from Spring, construction activity appeared to stall as developers did not know if the scheme would be extended and in turn if buyer demand would remain as strong. This meant that many new homes coming to the market in 2019 were later phases of schemes already launched. The delay in confirming the help-to-buy extension resulted in reduced levels of supply available entering 2020, which could have been in place had confirmation been provided earlier in the year. It is also positive that fast-track-planning has been extended for a further two years. Obligations to 'use it or lose it' have not yet been confirmed but such a measure should, in theory, bring on supply more quickly, but only if the scheme is economically viable.

In spite of this, there are potentially some obstacles ahead. In certain parts of Dublin, competition with the private rental sector (PRS) will continue to have an impact on new home supply for owner-occupiers as development viability on a particular site can be positive for the build-to-rent market but not for the build-to-sell market. Additionally, affordability in Dublin city is getting more difficult for first-time-buyers, resulting in growing demand for properties in GDA commuter towns in the sub-€500,000 category.

NEW HOMES

Continually rising construction costs, including meeting NZEB requirements, will also be a factor in the market in 2020. NZEB obliges all new homes to be to an A2 BER standard. While meeting this standard will be up to 4% more expensive, there are significant positives for the occupier. Such homes will be 70% more energy efficient and will emit 70% less carbon dioxide, when compared to new homes built to 2005 standards. For a typical 3-bed semi-detached property, €800 per year will be saved. But in addition to cost savings and a lower carbon footprint, there are other advantages for home-owners in terms of lower maintenance costs and higher specification homes, as well as improved levels of comfort and wellbeing, resulting in better health.

It should also be noted that older homes undergoing major renovations will have to meet new NZEB standards too (generally B2), which will increase the cost of any refurbishment works. This expense in the second-hand market, along with the cost savings and health benefits of new NZEB homes, the tax incentive from the help-to-buy scheme and the turnkey condition of new homes, will mean that many potential buyers in the coming years will be more likely to choose a new home than an older one. Such a trend can already be seen in sales data where new homes are continually making up a greater proportion of total market sales and achieving price premiums.

As already discussed in the second-hand residential section of this report, the Central Bank's macroprudential policies will continue to anchor prices to affordability. While the income multiple will remain at 3.5 times in 2020, we strongly believe that the mechanics of exemptions must be reconsidered with a 12-month rolling basis adopted. This will assist developers in smoothing out their new home sales throughout the year, rather than most occurring early in the year, as has occurred in recent years. This would lead to greater supply as developers could plan demand more accurately.