

# Ireland Development Land Market

savills





# Outlook for 2024

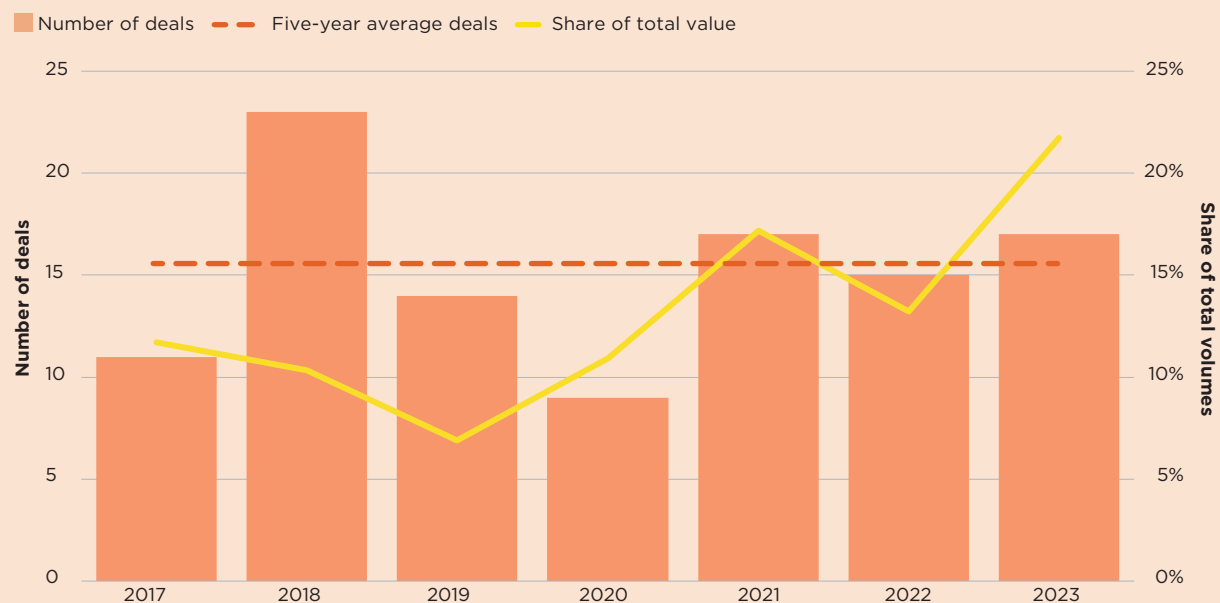
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## Demand strongest for €5–10m lot sizes

In general, smaller lot sizes will be the most active segment of the market in 2024. This is primarily due to funding, as there is less risk funding development costs on small-scale sites than larger ones. For developers, it is incredibly difficult to underwrite large phased developments with the uncertainty of future conditions, and small sites allow quicker access to cashflows. In the current environment, a high discount rate is applied for phasing into the future due to elevated risk free rates along with an elevated risk premium for future uncertainty. The €5–10m range accounted for 22% of deal flow last year, higher than the five-year average of 12%. This lot size was also the only category to remain above the five-year average number of deals that took place. While we expect demand to continue to be highest at this price point, that is not to say larger deals won't occur. However, deals on the larger end are likely to include State involvement either directly through the LDA and county councils or indirectly via AHB agreements.



**Figure 1:** €5–10m lot size analysis



Source: Savills Research

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## Residential and industrial sectors to remain buoyant

We expect the preference for residential sites to remain this year as housing supply continues to lag demand. Higher than expected population growth and increasing government housing targets will no doubt continue to underpin this sector. Involvement from the State will also unlock sites with financing and viability constraints, further adding to activity in the residential market. Lot sizes catering to larger phased developments will likely be targeted by State purchasers with longer term strategic plans. Commercial sites will see competition for those in the right location, however, the current high vacancy rate in the office sector will constrain wider demand. Industrial sites are still witnessing some speculative development and strong performance when brought to market, however, there is a lack of sites available.



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## Planning permission is a necessity

The risks associated with taking a site through the planning system are directing demand towards sites with existing permission. Even sites with residential zoning but lacking planning permission have been slow to move through the market, as few are willing to assume the risk of potential judicial reviews or decision delays. Notably, among the top ten deals, four involved sites without planning. These transactions can be attributed to purchasers with long-term strategic perspectives, demonstrated by entities like the US State Department and Irish State bodies. For commercial investors and developers, incorporating planning risk into financial models proves extremely challenging. Changes in policy and organisational structuring have exacerbated this. While substantial support for An Bord Pleanála will see staffing levels increase by 50% since the start of 2021, the surge in recruitment raises concerns of internal cannibalisation within the planning system, as it draws planners from the county councils thus leaving a shortage of staff elsewhere in the system. In 2022, the Local Government Management Agency stated a shortfall of 541 staff in local authority planning services. As of October 2023, the filling of 100 posts was approved by the Minister which still leaves a significant gap. Additionally, while we support and welcome the new guidelines for Sustainable Residential Development and Compact Urban Settlements, they may temporarily contribute to delays as sites are resubmitted and revised to more efficient schemes. Some smaller sites lacking planning will trade with purchasers capable of taking on higher levels of risk.

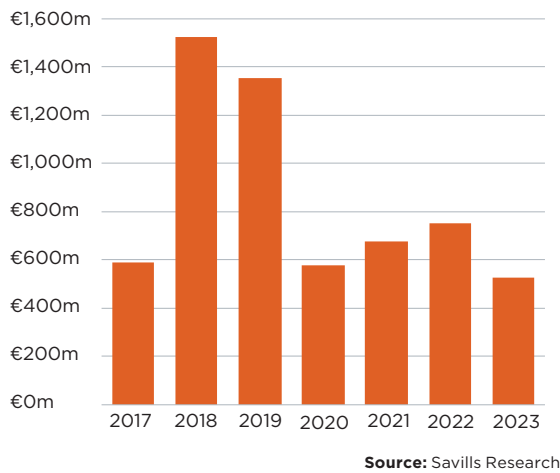
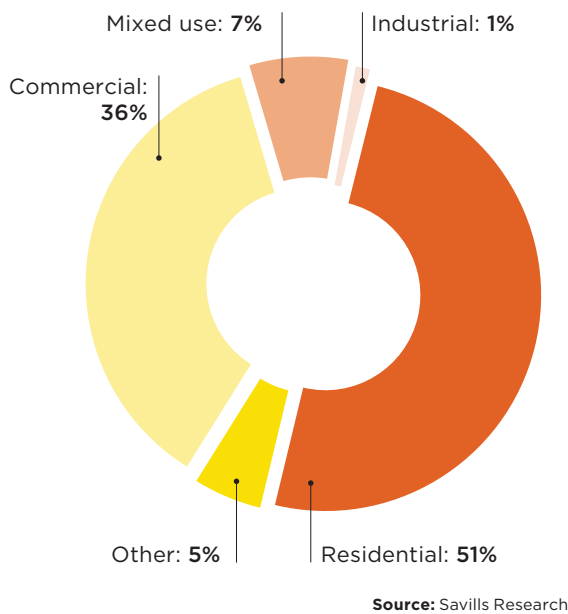


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## Positive sentiment for the year ahead

Increased confidence in the economic outlook has had a positive effect on sentiment. A pipeline of sale agreed deals in excess of €325m and over €430m worth of sites on the market show positive signs for deal flow. Easing inflation in Ireland and across Europe has prompted markets to price in rate cuts for this year. The signalled end of rate hiking activity will enhance credit availability, while rate cuts will reduce debt costs. Headwinds are present, however, in the form of geopolitical tensions that have the potential to impact energy markets and subsequently, construction costs. Upcoming policy changes including the Zoned Residential Land Tax and Land Value Sharing Contribution weigh on the market, the former having been extended until next year and the latter at draft stage. Nevertheless, density and thus viability on some sites will be improved following the publication of the aforementioned Sustainable Residential Development and Compact Settlements Guidelines for Planning Authorities. A moderate increase in activity is expected in line with a more favourable interest rate environment which will reduce debt costs and enhance credit certainty.



**Figure 2:** Development land turnover**Figure 3:** Market share by sector, full-year

## Market activity

Residential leads the way as volumes remain subdued.

In total, €515m worth of development land transacted in 2023 over 79 deals, leading to an average deal size of €6.5m. This is down 31% on 2022 and 47% on the five-year average. Sales volumes reached €320m in Q4, the highest quarter of the year. Activity increased through the year and is set to continue into next with a reserved pipeline of deals amounting to over €325m.

### ANALYSIS

Savills' disposal of the Former Jury's Hotel in Ballsbridge to the US State Department for the development of a new embassy building was the most significant deal by far at €152m, and the only deal above €50m. As the sole commercial deal in the top five, it significantly skewed the breakdown by sector where 36% was accounted for by commercial lands. The deal has been in the pipeline since 2021 and illustrates the extensive strategic nature of the deal.

Despite the contribution of the US State Department deal to commercial volumes, residential lands accounted for half of sales volumes in 2023. The State's role in supplying housing is evidenced by acquisitions from the LDA and Fingal County Council. The former purchased Project Capital North in Clongriffin, with planning for over 1,800 units, from Gannon Homes for €38m through Savills. Additionally, the adjoining site, where planning permission has lapsed, was also acquired from RSM Ireland (receiver), also through Savills, for €6m which could potentially accommodate 500 units. Meanwhile, Fingal County Council purchased a substantial 62-acre site in Swords zoned for residential development with the potential to deliver 1,000 units. It also purchased another site, again in Swords, for €1.5m which contained a feasibility study for 71 units (69 apartments and two houses).

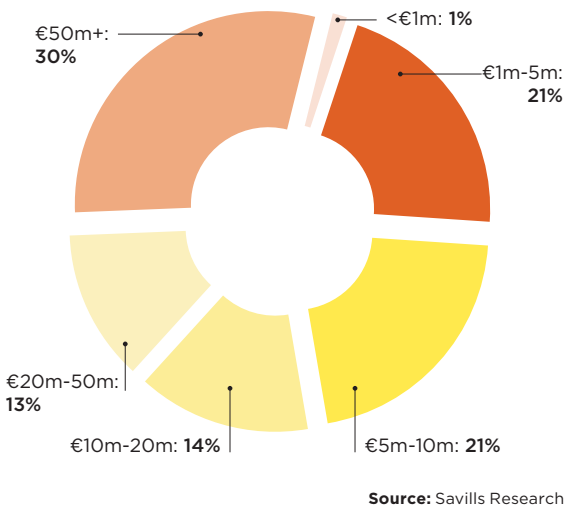
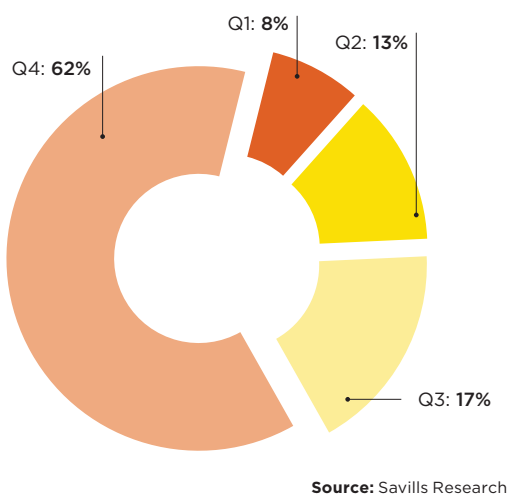
Cork's largest deal was the €15m Maglin site in Ballincollig. The 73-acre lands are situated just outside Cork City. Closing out the top five deals was IRES' sale of Rockbrook in Sandyford to the Comer Group. The site, which has planning permission for 428 build-to-rent apartments, adjoins the Sentinel Building which the Comer Group has owned since 2011.

**Table 1:** 2023 top five deals

Quarter	Property	Planning permission	Sector	Size (acres)	Vendor	Buyer	Price	Price per acre
Q4	Former Jury's Hotel, Ballsbridge	No	Commercial	4.2	Chartered Land/ADIA	US State Department	€152.0m	€36.2m
Q4	Project Capital North, Clongriffin	Yes	Residential	27.4	Gannon Homes	LDA	€38.0m	€1.4m
Q3	Rathbeale Road, Swords	No	Residential	62.0	Private Family	Fingal County Council	€27.0m	€435,000
Q4	Maglin, Ballincollig, Cork	No	Residential	73.0	Private Family	Private	€15.0m	€205,000
Q1	Rockbrook, Sandyford	Yes	Residential	5.0	IRES	Comer Group	€15.0m	€3.0m

Source: Savills Research



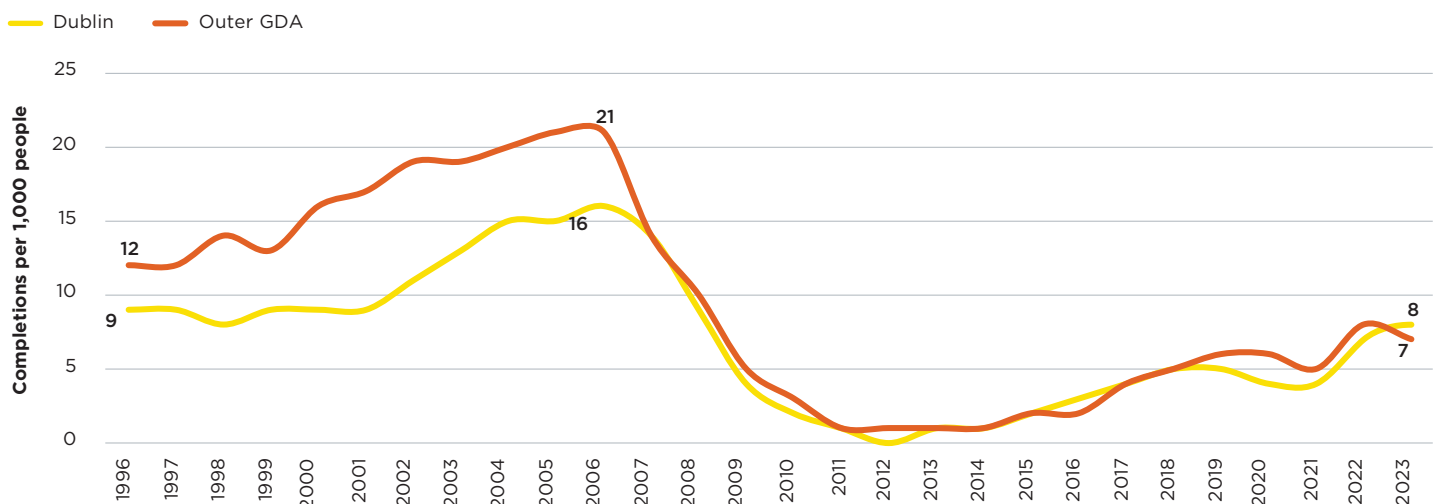
**Figure 4:** Market share by deal size, full-year**Figure 5:** Market share by quarter, full-year

Savills was involved in six of the top ten transactions of 2023. Eight of these top ten closed in the latter half of the year, with six of these completed in Q4. Over the past five years, the fourth quarter has contributed, on average, 41% of the total transaction volumes. However, in 2023, the significance of Q4 escalated and accounted for 62% of total volumes. While this is a reflection of the general trend, we believe it is also representative of stronger market sentiment that will feed into next year.

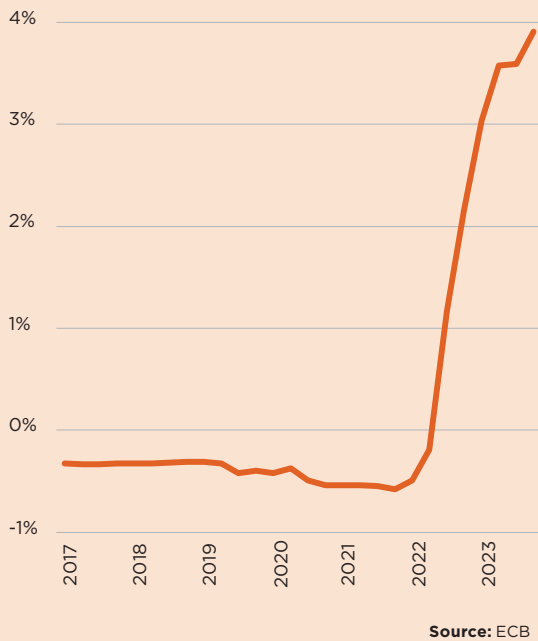
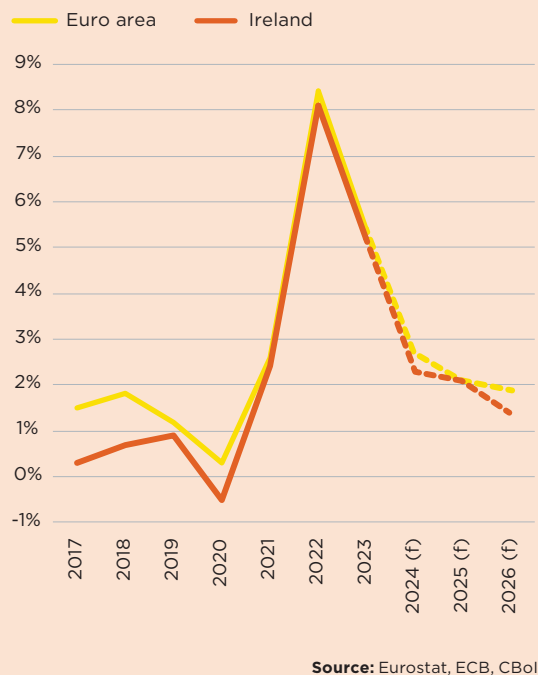
Notably, the number of deals moving through the market has slowed as 79 deals closed, below the five-year average of 116. Analysis of transactions by lot size, as highlighted in the outlook, provides more insight. While a single transaction exceeding €50m constituted 30% of the total volumes, the most resilient category has proven to be the €5-10m range. Remarkably it was the only category to achieve above the five-year average number of deals completed and recorded volumes 85% above the five-year average. This indicates that while there was a pullback in all areas of the market, sites within the €5-10m range continue to be highly favoured among buyers.

At the forefront of transactions are residential sites. Housing delivery in Dublin and the GDA reached eight units and seven units per thousand people each. This is substantially below the respective peaks of 16 and 21 in 2006 and also remains below the level delivered in 1996. The gap between delivery in Dublin and its surrounding counties has narrowed significantly. The need for housing delivery supports sites with planning given the reduced risk of obtaining permission. An analysis of the year's transactions indicates over 3,700 residential units can be accommodated on sites that traded with planning permission. Meanwhile, we estimate those without planning could potentially accommodate over 3,300 units.

👉 In 2023, just eight units per 1,000 people were delivered in Dublin. 👈

**Figure 6:** New dwelling completions per 1,000 people

Source: CSO, Savills Research

**Figure 7: 3-month EURIBOR rate****Figure 8: Inflation expectations**

## Analysis: Development land financing market

Lender preference remains firmly on residential assets.

Interest rates on loans have increased due to hikes from the ECB, subsequently increasing the 3-month EURIBOR rate which serves as the benchmark for development loans. Furthermore, while margins on development loans have displayed relative stability, securing rates on the lower end of the spectrum has become more challenging. Traditional banks offer a spread of 4.0% - 5.0%, while alternatives offer a broader range of 6.5% - 9.0%. At the time of writing, including the 3-month EURIBOR at 4.0%, all-in rates on development loans are between 8.0% - 9.0% from traditional lenders, and 10.5% - 13.0% from alternatives.

### LENDING LEVELS

Loan-to-cost ratios pulled back as lenders exhibited heightened concerns regarding escalating costs. There is increased emphasis on budgetary considerations and cashflows, with lenders frequently requesting increases in contingencies even before the credit agreement stage. Previously, banks were lending up to 65% of development costs, which has contracted to a range of 55% - 60%. Consequentially, not only is capital more expensive, but the percentage coverage of costs has reduced. Alternatives, in contrast, previously extended financing up to 80% - 90% of costs, but have now adjusted to approximately 70% - 75%.

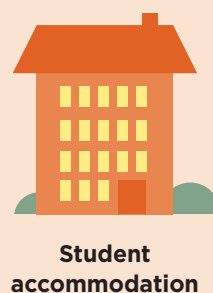
### SECTORAL PREFERENCES

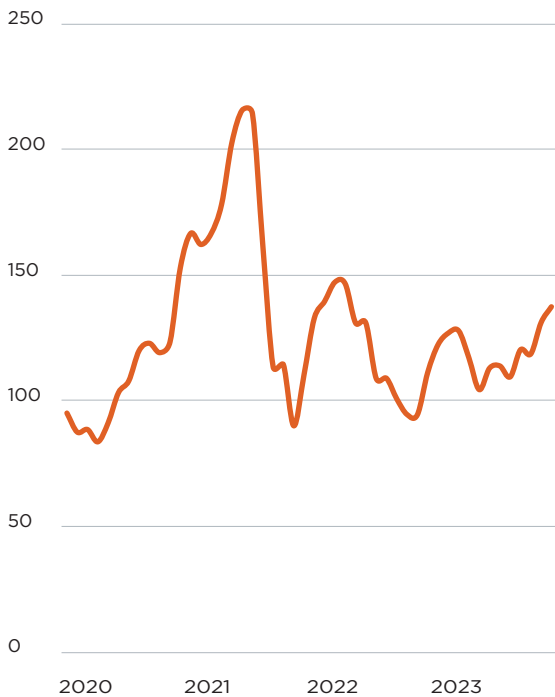
While lenders continue to exhibit a preference for residential assets, there are subsector subtleties within this. Alternative lenders demonstrate an appetite for higher-end schemes, whereas developments within the limit for first-time buyer incentives gain robust interest across all classes of lenders. Similarly, student accommodation, when opportunities arise, remains a favourable choice to all lenders. Meanwhile, finance for the development of large apartment schemes is predominately concentrated on deals involving public entities.

### OUTLOOK

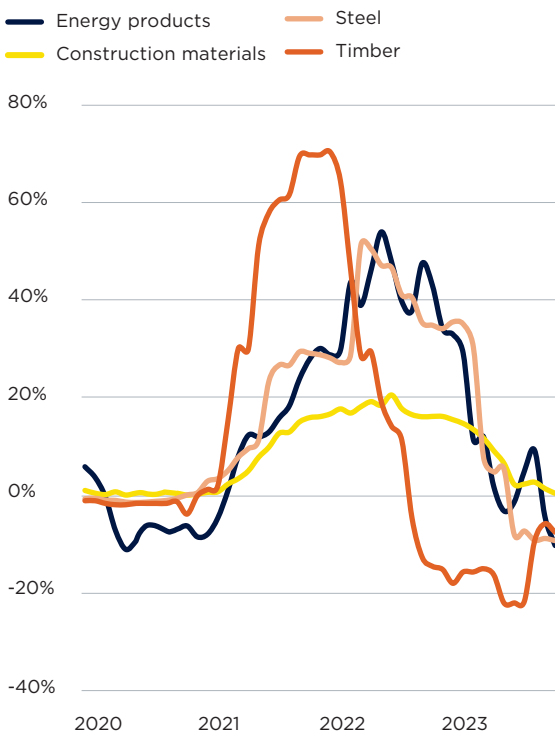
Acknowledging the impact of increased finance costs on development, the combination of restricted leverage levels and lender preferences has significantly constrained access to finance. Despite improved sentiment, with markets factoring in rate cuts this year, it is anticipated that lenders will maintain a cautious stance in terms of risk. Nonetheless, Ireland's domestic economy remains resilient with near full employment levels, and capital will be directed towards areas of demand. A modest uptick in financing activity is expected for the coming year.

### Lender preferences



**Figure 9:** Iron ore \$/ tonne

Source: IMF

**Figure 10:** Annual change in the Wholesale Price Index

Source: CSO

## Macro View: Outlook for construction cost inflation

Undoubtedly, the pandemic played a substantial role in driving the escalation of construction costs, causing disruptions in global supply chains and extremely high levels of demand for home improvements. The Wholesale Price Index for Construction Materials, as monitored by the CSO, witnessed a remarkable surge of 60% from late 2019 to early 2023. It is noteworthy that not all construction materials exhibited concurrent increases, and those experiencing peak prices during the pandemic are currently undergoing a decline.

### STEEL SUPPLY DYNAMICS

Steel witnessed the most significant price movements, peaking at an 81% increase above the levels at the end of 2019. The initial surge can be attributed to the rapid escalation in iron ore prices, a crucial raw material for steel production. As one of the world's leading iron ore producers, the closure of factories in China, coupled with the decision of global governments to maintain construction activities, resulted in a considerable supply-demand imbalance, thereby driving up steel prices. Subsequently, mounting energy pressures created a second sharp increase in prices given the highly energy-intensive production process. The recent uptick in iron ore prices was driven by a surge in China's steel production, as the Government waived the cap on steel output in a bid to support the economy and the property sector. This has not increased steel prices, however, as demand has fallen below supply.

### FELLING LICENCES IMPEDED TIMBER SUPPLY

Timber observed the second-highest movement, reaching a peak of 79% above the level at the end of 2019. However, the price increases initially stemmed from issues related to forest licensing following changes in licensing introduced by the EU to meet environmental requirements. Additionally, a rise in appeals against forestry licences added to the delays. This predicament severely impacted local supply, necessitating suppliers to resort to timber imports to meet demand. Combined with covid factors towards the end of 2021, when the home improvement boom took place, timber prices soared. Heightened demand from the US then prompted Northern European suppliers exporting to Ireland to redirect their supplies to the US market, where premium prices were offered.

### OUTLOOK

Presently, both steel and timber prices have slowed, contracting by 9% and 8% annually as of November 2023 (latest available). The backlog in forest licensing has been cleared and covid supply shortages have washed through the system. Overall construction material inflation has stabilised below 1% as of November, significantly contrasting to the peak of 21% in the summer of 2022. In addition, the ongoing decrease in energy prices, as indicated on the left, is anticipated to steadily alleviate pressures on construction material prices.



# Planning and Development Bill 2023

In November, the Government published the Planning and Development Bill 2023. At over 700 pages, it is the third-largest Bill in the history of the State. The Bill has gone through two of the five stages of review and debate in Dáil Éireann, after which it will progress to a further five stages in Seanad Éireann. Following this, the final Bill is then signed into law by the President. This process is anticipated to be completed in Q1 2024 and when signed into law, it will revise, extend, and consolidate the Planning and Development Act 2000.

## KEY REFORMS INCLUDE:

### 1. Restructuring of An Bord Pleanála (ABP)

ABP will undergo significant resourcing and restructuring, with a new name, An Coimisiún Pleanála (ACP). Roles within ACP will be divided into three key components:

- Planning commissioners, responsible for all decision-making on appeals and overseen by the newly created Chief Planning Commissioner.
- The Governing Board, responsible for governance and organisation.
- Corporate spine, providing support to all of the organisations and functions, and will be overseen by a Chief Executive Officer.

### 2. Increased certainty across the planning system

The introduction of statutory timelines for decision-making, including, for the first time, those applicable to ACP. The headline period for planning authorities to make decisions will remain at eight weeks, with an additional four weeks allowed for applications that require an environmental assessment.

### 3. Reform of the judicial review process

This includes the introduction of a scale of fees and environmental legal cost financial assistance mechanism to improve access to justice and regulate excessive legal costs. Other changes to the judicial review process include:

- Removal of the leave stage.
- Significant limitations on amending grounds for judicial review.
- A requirement for applicants to take part in all previous stages of the applicant's determination before lodging a judicial review (i.e. make observations on the application and lodge a third-party appeal).
- Resident's associations must have a constitution and have taken a vote on whether to proceed with the judicial review, in which there must be a two-thirds majority in favour. Then, the names and addresses of those in favour must be included in the judicial review.

### 4. New provisions for Urban Development Zones

Introduction of provisions for Urban Development Zones in place of Strategic Development Zones. These areas will be a focus for state investment in key enabling infrastructure in order to ensure the potential for development can be realised in a timely manner.

### 5. Extension of development plan lifespans

Development plans will be extended from the current six years to ten years and be more strategic in nature. The cycles of these plans will align with Census data availability. Local elected members will review the performances of these plans after five years and propose necessary amendments to ensure the plan takes account of any wider changes since its inception.

The Bill is a welcome review of the planning system; however, significant attention should be directed to supporting the resourcing of not just ABP but also the local councils. Delays will persist without the necessary administrative power to process the backlog of applications and receipt of new applications. Staffing shortages are considerable across the country and need to be addressed to facilitate a functioning planning system.





## Savills team

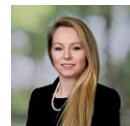
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