

Savills Research – Q3 2021

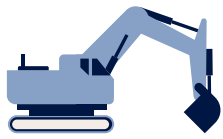
🕒
**MARKET
IN
MINUTES**
Savills Research

Irish Development Land Market

savills

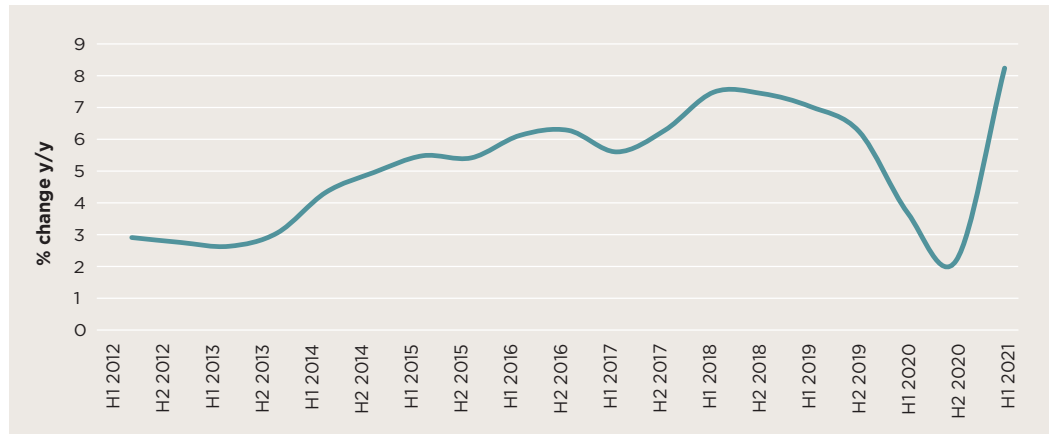


Macro view • Land sales • Planning

**86%**increase in turnover
compared to Q2**Construction**cost inflation has
rebounded strongly**28%**of land sales have potential
for commercial use**LRD**planning process aims to
reduce judicial reviews**3%**Zoned Land Tax to replace
vacant site levy

Macro view

Land sales volumes increase substantially on a quarterly basis but remain below long-run averages

Figure 1: SCSi Tender Price Index

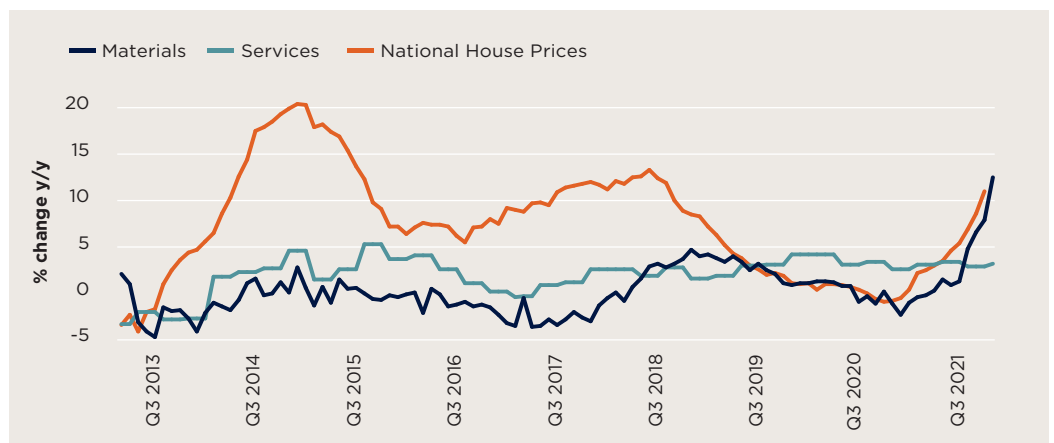
Source: SCSi

The pandemic continues to disrupt the economy with supply chain challenges and labour shortages impacting both the delivery of residential and commercial properties. Nevertheless, steady residential price growth has supported the demand for land with potential for residential development. In fact, residential prices have grown 10.6% in the year to August with half of this growth occurring in the past three months according to the CSO.

Notwithstanding, rising cost inflation is also a concern. Data from the CSO's Consumer Price Index (CPI) indicates annual inflation rose to 3.7% in September, up from 2.8% in August. Inflation of this magnitude hasn't been seen in the Irish economy since October 2008, with Ireland experiencing average annual inflation of just 0.6% throughout the 2010s. Expectations are that this inflation spike is transitory, and while it is expected to exceed 4.0% this year, next year it will fall

back below 2.0% according to the Department of Finance. While the rate of commercial construction inflation decreased significantly at the onset of the pandemic, it has since rebounded considerably with the SCSi Tender Price Index recording growth of 8.3% between July 2020 and June 2021. This sharp rise can be attributed to pent-up demand, supply chain disruptions and shortages in both materials and labour.

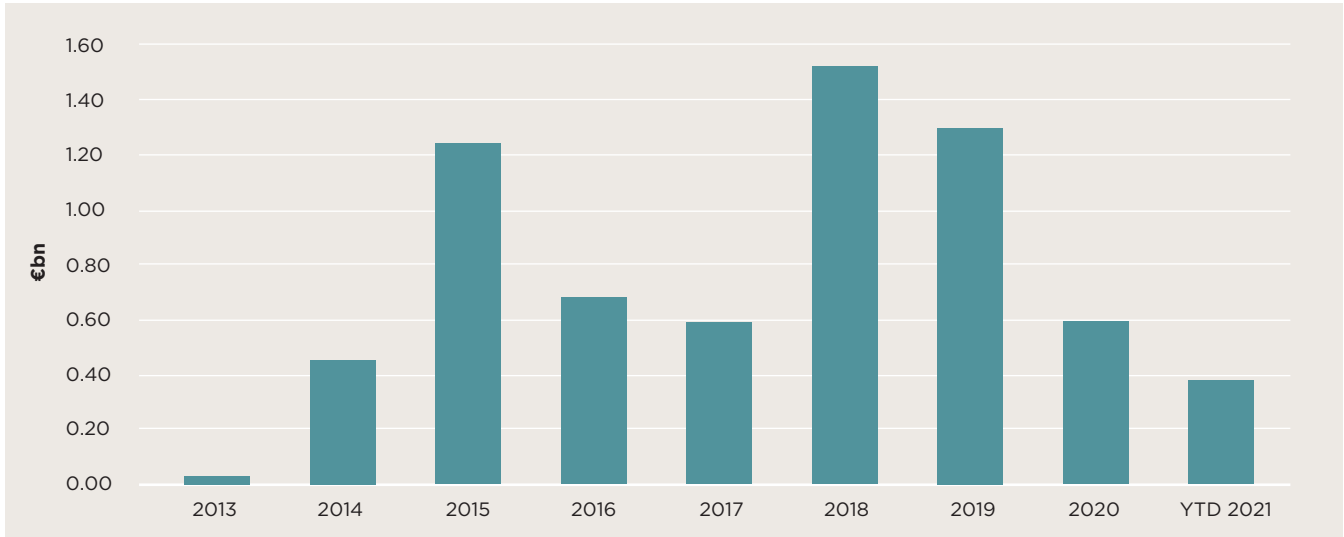
Although the SCSi Tender Price Index is based on commercial construction the same factors are impacting the residential market. Maintenance and repair of dwellings – a sub-index of the CPI – recorded growth of 6.8% in the year to September. Looking further into this, the cost of services increased by 3.2% whereas materials increased by 12.5%. As we can see in Figure 2, house prices and material costs have risen in tandem since mid-2019 with the former slightly outpacing the latter meaning overall viability hasn't been eroded.

Figure 2: Maintenance and repair of dwellings inflation

Source: CSO

Land Sales Market

Figure 3: Development land turnover



Source: Savills Research

Land sales nationally totalled €184m in Q3 2021, bringing year-to-date turnover to €378m. This represents a decline of 19% compared to the quarterly average of €227m witnessed over the last five years. Crucially, however, the market appears to be turning a corner in its recovery from the pandemic with turnover increasing by 86% compared to the €99m that traded in Q2 2021.

Top Deals

The largest deal of this quarter was Eagle Street Partner's purchase of the six-acre site at Castleforbes Business Park for €78.5m from Glenveagh. The site has planning permission for 702 residential apartments and 219 hotel rooms. The residential component is for build-to-rent units and will become part of its growing private rented sector portfolio.

1-6 City Quay made up the second-largest deal of the quarter and was purchased by KC Capital for €40.5m. This site represents one of the last remaining undeveloped waterfront sites in the city centre and received interest from several motivated bidders pushing the final price over the €35.0m guide price. The asset has the potential to accommodate an office building extending to approximately 142,600 sq ft, subject to planning permission. Most importantly, this sale

demonstrates that appetite for commercial development in the CBD is still robust as we emerge from the pandemic.

Other notable deals that transacted in Q3 include Millennium Park in Naas, 92/93 St. Stephen's Green, Mountview in Citywest, and Lands at Inchinappa in Ashford, Co. Wicklow which sold for a combined total of approximately €40.0m. All sites have a variety of potential uses, representing a shift away from the preceding two quarters where residential sites accounted for the majority of the top five deals.

Outside the Greater Dublin Area three deals were completed comprising of lands at Creagh in Gorey, Slane Road in Drogheda and Cregg House in Sligo. Combined these transactions amounted to €10.7m representing just 5.8% of total turnover. This is an increase on Q2 where just one deal was completed in Cork for €3.5m.

€40.5m

1-6 City Quay was the second-largest deal of the quarter and was purchased by KC Capital

Table 1: Top 5 deals by price achieved

Property	Postcode	Potential Use	Size (acres)	Price Achieved	Price per acre
Castleforbes Business Park	Dublin 1	Residential	6.0	€78.5m	€13,083,333
1-6 City Quay	Dublin 2	Commercial	0.6	€40.5m	€73,637,090
Millennium Park, Naas	Co. Kildare	Mixed Use	142.4	N/A	N/A
92 / 93 St. Stephen's Green	Dublin 2	Commercial	0.3	N/A	N/A
Mountview, Citywest	Dublin 24	Residential	9.3	€9.2m	€995,698

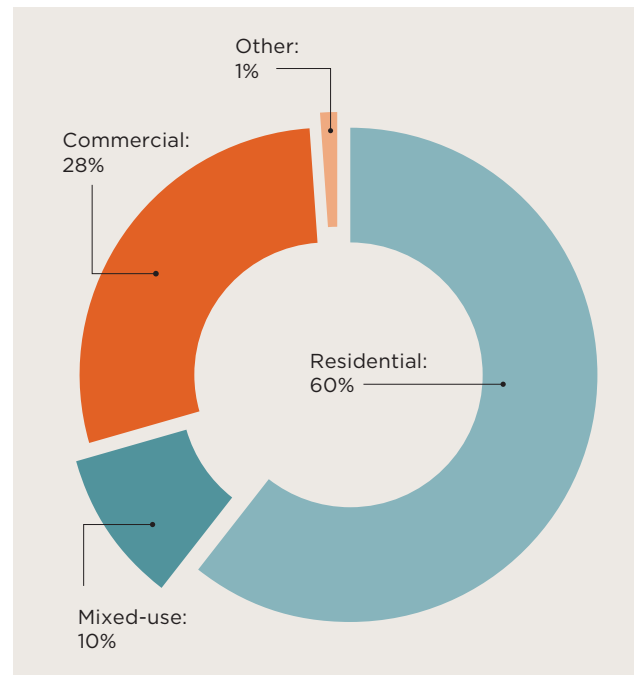
Source: Savills Research

Despite this, land with the potential for residential development still accounted for 60% of turnover and was driven by the resurgent housing market, marking an increase of 13% compared to Q2. Appetite remains for sites both with and without planning permission, although demand is understandably strongest for sites with full planning permission given the high prevailing level of planning uncertainty. The share of sites with potential for industrial use in Q2 was significant at 36% whereas they did not account for any turnover in Q3. This is due to the lack of available sites with just one new industrial site brought to the market in Q3, and which has already gone sale agreed and is due to close before the year end.

Looking ahead, there are several high-profile sales currently on the market that are expected to sign in the final quarter, which would add additional turnover of between €150 and €200 million to the full-year sales volumes. Demand for development land remains strong and we expect sites coming to the market to see strong interest from developers as we move into 2022.

🗨️ **Between €150m and €200m worth of land sales are expected to be achieved in Q4.** 🗨️

Figure 4: Turnover by potential use



Source: Savills Research

Zoned Land Tax

In Budget 2022, the Government announced its intention to introduce a new Zoned Land Tax (ZLT) which will replace the current Vacant Site Levy (VSL). This new tax is being introduced to incentivise the activation of land suitable for residential use. The rate will start at 3% and be calculated based on the market value of the site. There is a two-year lead-in period for lands zoned before January 2022 and a three-year lead-in for land zoned after January 2022. Therefore, it will not come into full effect until at least 2024.

The introduction of the ZLT at the 3% rate is lower than the current 7% rate for the VSL, and it is the latter that will continue until the ZLT is in place. The greatest difference between the two is that the ZLT will be administrated by the Revenue Commissioners. This will place the onus on the landowner to self-report rather than the local authorities to investigate as is currently the case under the VSL. However, the local authorities will retain a role by being responsible for publishing maps with the relevant sites plotted. Finally, the new tax will focus on all land zoned and serviced for housing, regardless of plot size, with the view of incentivising the development of small sites in town centres. In comparison, the VSL is limited to owners of land larger than 0.05 of a hectare.

The long lead-in time is in recognition of the many issues that will need to be ironed-out before the new tax is implemented. For example, the treatment of mixed-use sites is an obvious complication in terms of calculating the amount due. Additionally, what will happen to regionally zoned lands which can often be developmentally unviable due to challenges such as density restrictions? Will the role of the local authorities in the tax lead to a repeat of the same issues that thwarted the VSL? Questions also surround the planning system and whether a more progressive system is forthcoming. Planning processes have the potential to last two years or more, especially in cases where a judicial review occurs, during which time the owner would be liable to a tax at 3% per annum. These queries will need to be addressed and finalised prior to the introduction of the tax. The fear is that by layering on additional cost uncertainty, the new tax may have the unintended consequence of reducing the availability of zoned residential land.

3%
the new Zoned Land Tax rate will start at 3% and be calculated based on the market value of the site

Large Scale Residential Development Process

In 'Housing for All', the Government announced its replacement for the Strategic Housing Development (SHD) process. While the SHD process was always intended as a temporary arrangement, the flood of SHD judicial reviews confirmed that it could not continue in its current form.

In place of the SHD process, the new 'Large Residential Development' (LRD) process is expected to come in to effect in early 2022. The Government intended to initiate the LRD process on 29th October 2021 but this has been delayed. A new deadline for the last SHD pre-application consultation requests and SHD applications is to be announced by the Government.

Aside from providing some certainty on timescales for pre-planning engagement, developers may not notice much difference between an LRD application and a conventional planning

application. Planning applications will be determined in the first instance by the Planning Authority within the normal eight week period. This decision is open to third-party appeals to An Bord Pleanála in timescales similar to a conventional appeal. The ABP decision is then open to judicial review challenge. The Government hopes that by allowing for greater public representation throughout the planning process, the desire for judicial review of large residential developments will be reduced.

For proposals involving 100+ housing units or 200+ student bed spaces, an applicant must follow the LRD process. One notable change from the SHD process is that up to 30% of a proposal can now comprise commercial uses, up from the 15% cap in SHD applications. The Government has confirmed that the LRD process will not apply within Strategic Development Zones.

👉 In place of the SHD process, the new 'Large Residential Development' process is expected to come in to effect in early 2022. 🗨️



Lands at Delgany, Co. Wicklow with FPP for 18 houses – currently sale agreed in excess of the guide price of €2.25m

The final details of the LRD have yet to be published but we understand that the stages and timescales will be as follows:

Pre-Planning Stage

Applicants must engage in a minimum of two pre-planning meetings with the Planning Authority, with one being the ‘final consultation meeting’. An applicant’s request for a ‘final consultation meeting’ commences the following statutory timescales:

- By week four: Meeting must be held between the applicant and Planning Authority
- By week eight: Planning Authority must issue its ‘opinion’ as to whether the documents submitted by the applicant ‘constitute a reasonable basis for making an application’
- By week sixty: Application must have been submitted or the process restarts. Opinions are valid for one year only.

A fee is payable to the Planning Authority for the ‘final consultation meeting’ but not the prior pre-planning meetings.

“ Aside from providing some certainty on timescales for pre-planning engagement, developers may not notice much difference between an LRD application and a conventional planning application. ”

Planning Application Stage

- Conventional eight-week determination period
- Public observations can be made on the application
- The Planning Authority can request Further Information but only in respect of certain elements
- Four week period post-decision for appeals to An Bord Pleanála

Planning Appeal Stage

Should any first or third-party appeals be submitted, ABP has a 16-week target within which to make a decision. This period can be extended if an oral hearing is required, or if ABP cannot make its decision within 16 weeks.

Overall, the LRD process takes some helpful elements from the SHD process such as the rigid deadlines for a ‘final consultation meeting’ and the need for a written ‘Opinion’ from the Planning Authority. Limiting of the scope for Further Information requests during the application is also helpful, albeit we hope this does not increase the chances of legal challenges by aggrieved parties.

We believe that more can be done to reduce the decision timescales as 16 weeks at appeal is still too long when you consider Planning Authorities are afforded eight weeks to make a decision. The Government should provide further personnel and financial resources to ABP to allow it to make decisions at a reduced timescale.



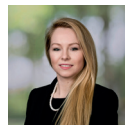


Savills team

Please contact us for further information



John Swarbrigg
Director, Development
Agency & Consultancy
+353 (0) 1 618 1333
john.swarbrigg@savills.ie



Ebba Mowat
Divisional Director, Development
Agency & Consultancy
+353 (0) 1 618 1413
ebba.mowat@savills.ie



Andrew Sherry
Divisional Director, Development
Agency & Consultancy
+353 (0) 1 618 1452
andrew.sherry@savills.ie



Raymond Tutty
Associate Director, Planning
+353 (0) 1 618 1316
raymond.tutty@savills.ie



John Ring
Director, Research
+353 (0) 1 618 1431
john.ring@savills.ie



Andrew Blennerhassett
Research Analyst
+353 (0) 1 618 1705
andrew.blennerhassett@savills.ie



Cara McDowell
Graduate Research Analyst, Research
+353 (0) 1 618 1317
cara.mcdowell@savills.ie