

Savills Research – Q2 2022

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MARKET  
IN  
MINUTES  
*Savills Research*

# Ireland Development Land Market

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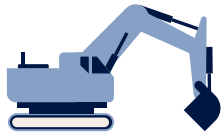


Macro view • Land sales • Market analysis



**€194m**

Turnover from land sales reached €194m in Q2



**18.5%**

rise in construction costs is impacting viability



**60%**

of sales were for residential sites



**Strong appetite**

for industrial sites as vacancy levels remain tight



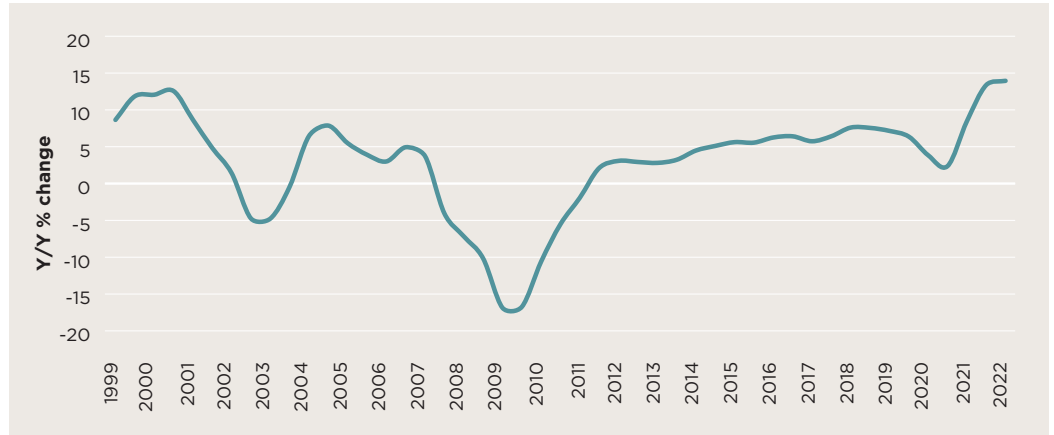
**€50m**

Two deals over €50m transacted in Q2

## Macro view

Land sales volumes reach their highest level since 2019

**Figure 1:** SCSi Tender Price Index



Source: SCSi

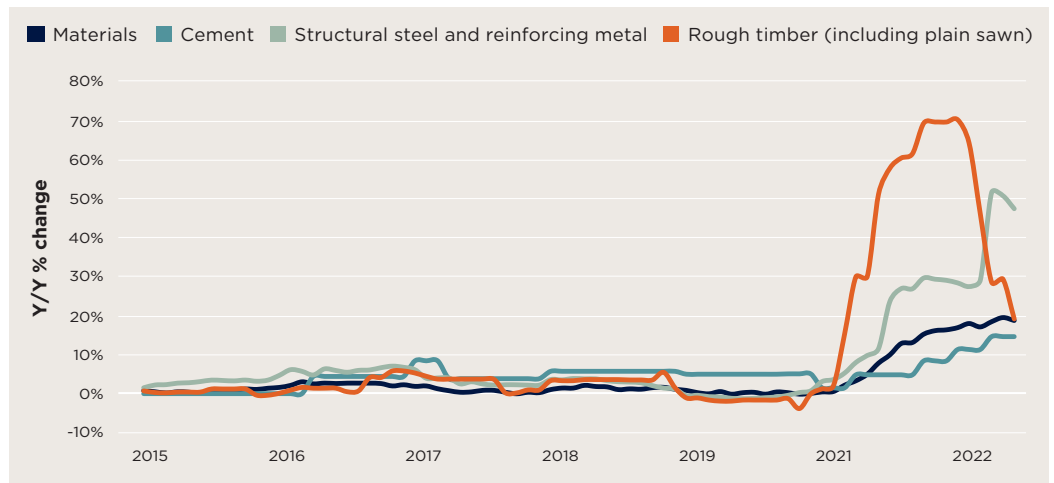
Construction costs continue on an upward trajectory with the SCSi's Tender Price Index recording the highest six-month and yearly increases since the creation of the time series, reaching 7.5% and 14% respectively. Previous price increases were highly linked to the easing of Covid restrictions in 2021, which released pent-up demand and created a strong need for construction activity. The continued increase in the index is prompted by the war in Ukraine which has led to a high inflationary environment, on top of previous Covid-related supply chain disruptions, and additional labour shortages leading to higher labour costs.

Total construction material costs have been consistently rising since Q1 2021 with an annual increase of 18.5% recorded in June 2022. Breaking down cost inflation by materials, rough timber continues to be in high demand and further exacerbated by Ukraine, Belarus and Russia being large suppliers of timber to the European market. The cutting of supply from these

regions has placed pressure on other markets to supply timber for construction projects. Although Ireland produces timber it is the stronger Scandinavian wood that is used in timber frame construction, supplies of which are now being spread further across the European market. For structural steel, prices have spiked due to the need for natural gas in the production of steel products. As Russia and Ukraine are large producers of energy materials this has pushed up gas prices, thus increasing steel prices. Additionally, Russia is a substantial exporter of steel products to Europe which has severely impacted supply.

The continuous upward trajectory in the two indices shows high costs associated with the construction sector which has filtered to the market, with projects stalling or being delayed due to viability concerns. Many sites that were bought in the last two years were purchased on assumptions that are no longer applicable to the current environment.

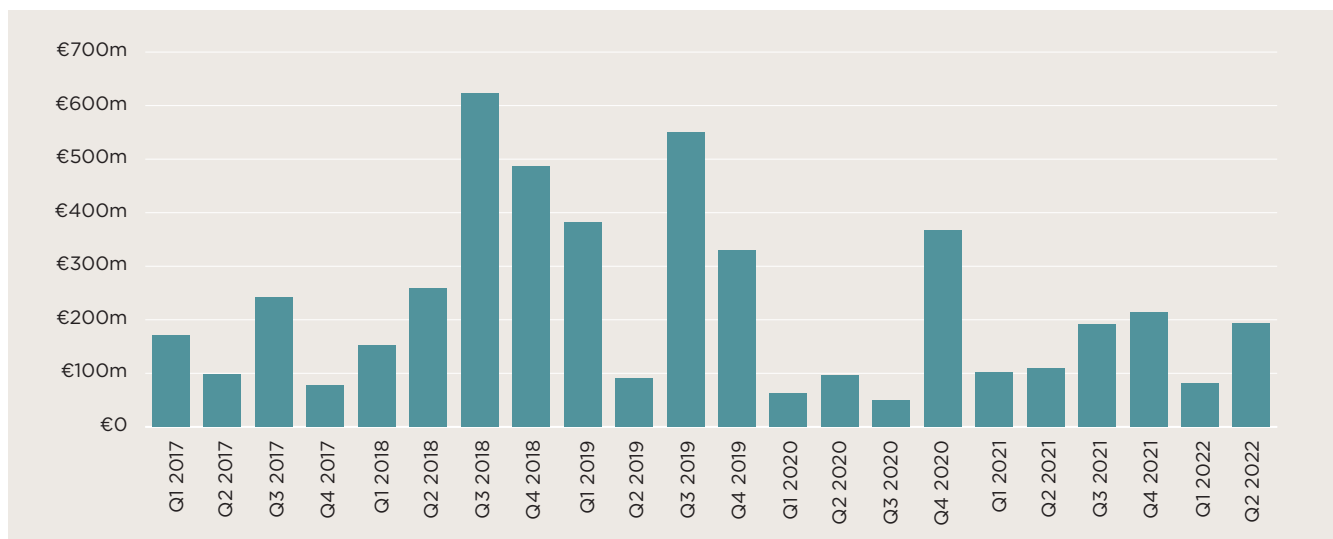
**Figure 2:** Construction material cost inflation



Source: CSO

# Land sales market

**Figure 3:** Development land turnover



Source: Savills Research

Land sales nationally totalled €194m in Q2, bringing year-to-date transactions to €276m. Despite the strong headwinds facing the sector, activity has picked up significantly this quarter after a more subdued start to the year with just €82m worth of land transacting in Q1. Indeed, H1 turnover has reached the highest level since the pandemic began, 73% higher than H1 2020 volumes and 31% above 2021. Looking ahead the sector remains relatively positive with in excess of €287m worth of sites sale agreed and a further €368m on the market. Despite these buoyant figures, the supply of sites coming to the market remains constrained, with a number of deals are taking place off-market as respective parties targeting specific purchasers for a swifter transaction.

## Top deals

Eagle Street's acquisition of 1-4 East Road in the Docklands for €63.0m marks the quarter's largest deal. 1-4 East Road is a 5.2-acre site sold by Glenveagh with planning permission in place for a residential scheme of 554 apartments and 43,000 sq ft of mixed commercial space comprising retail and offices. The site is adjacent to Castleforbes Business Park which was acquired by the firm in 2021 in the largest land deal of the year, and both sites are ideally located

to supply PRS units to the north docklands office market. When developed, these sites will add a combined 1,256 units to Dublin's city centre rental market as well as commercial space and 219 hotel rooms. The rental units will be managed through Eagle Street's operating platform 'Resident Space'.

The second-largest transaction was IPUT's purchase of a 118-acre greenfield site located at the M2 Cherryhound Interchange for €50.1m. The site contains no planning permissions but is zoned for general employment under the Fingal County Development Plan and, subject to master planning and permissions, could provide up to 1.6m sq ft of logistics space. Neighbouring this site is Airlinks, a 64-acre site bought by the firm in 2021 which included planning permission for logistics units. Combined, these two sites will form the Nexus Distribution Centre, potentially adding 2.3m sq ft of LEED Gold or BREEAM Excellent space to the industrial and logistics market. Upon completion, this will bring IPUT's logistics portfolio to 5.5m sq ft.

## 118 acres

**IPUT's purchase of Killamonan Business Park was the largest land parcel sold in Q2.**

**Table 1:** Top 5 Deals Q2 2022

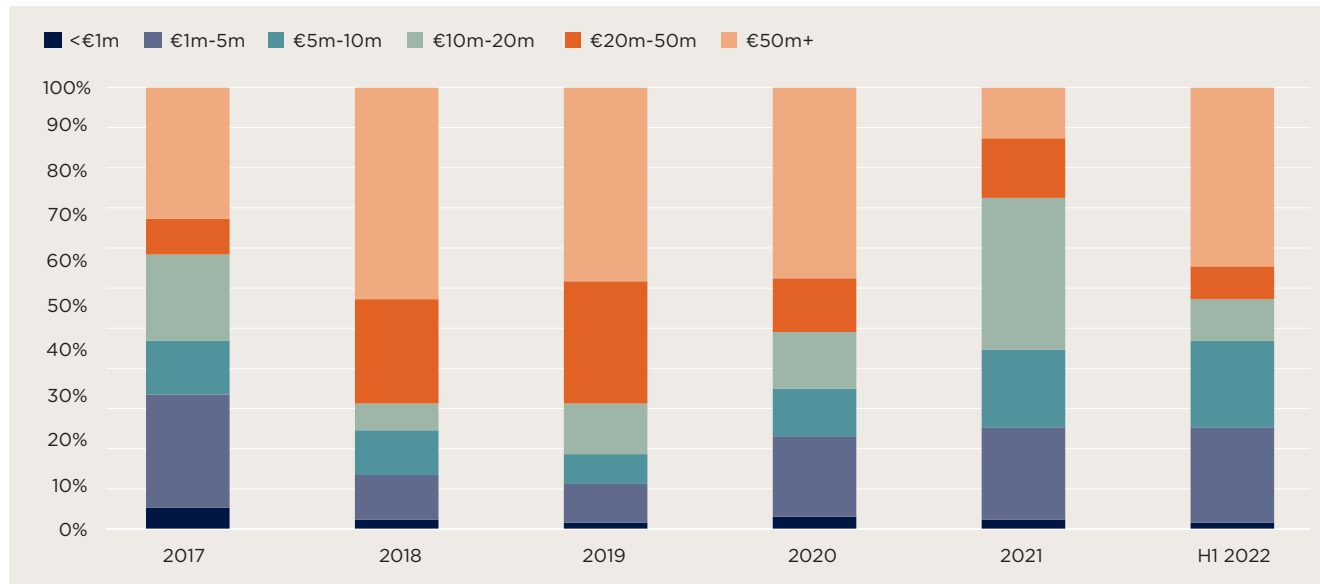
| Property                                                      | Planning Permission | Potential Use | Size (acres) | Price Achieved | Price per acre |
|---------------------------------------------------------------|---------------------|---------------|--------------|----------------|----------------|
| 1-4 East Road, Dublin 3                                       | Yes                 | Residential   | 5.2          | €63m           | €12,100,000    |
| Killamonan Business Park, Cherryhound Interchange, Co. Dublin | No                  | Industrial    | 118.4        | €50m           | €420,000       |
| Off-market, Kildare                                           | Yes                 | Mixed-use     | 100.0        | P&C            | P&C            |
| Turvey Avenue, Donabate, Co. Dublin                           | Yes                 | Residential   | 2.9          | €8m            | €2,600,000     |
| Dalkey Manor, Co. Dublin                                      | Yes                 | Residential   | 2.3          | P&C            | P&C            |

Source: Savills Research

Two large transactions over €50m each were completed this quarter and accounted for 58% of total volumes. This contrasts with Q1 where the two largest deals were Molyneux House, a unique office building that is to become a 247-bedroom hotel, and Beech Hill, a vacant office block with three feasibility studies for a range

of mixed-use prospects. The two deals traded for €20.1m and €14.3m, respectively. Looking to the rest of the year, there are five deals sale agreed in the €20m-50m bracket, adding to a combined €178m. Meanwhile there are currently two sites over €50m that are available on the market.

**Figure 4:** Turnover by deal size



Source: Savills Research

👉 Two large transactions over €50m each were completed this quarter and accounted for 58% of total volumes. 📈



## Sectoral analysis

The residential sector comprised the highest percentage of land sales with a 60% market share in Q2 and 53% in the first half of the year. Industrial sites continued to increase their share of turnover, rising to 28% in Q2, up from 10% the previous quarter, and well above the long-run quarterly average of 3%. Land in the industrial sector continues to experience strong demand with the occupational market experiencing a vacancy rate of just 1%, and with a limited supply of sites, oversaturation in the market is highly unlikely. Meanwhile, demand remains for robust well-located office sites in the city centre which are rare to come to market. One such property is the An Post building on St. Andrew's Street, which is sale agreed in excess of the €9.5m guide price.

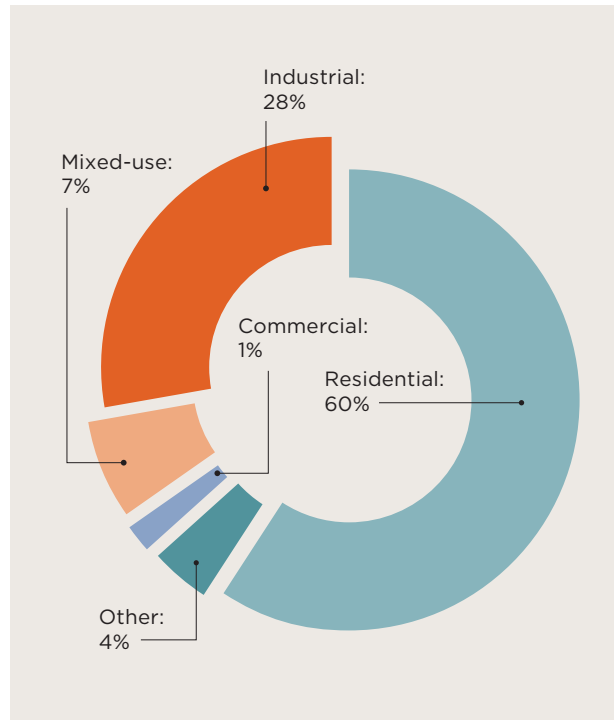
## Locational analysis

Dublin continued to account for the lion's share of sales at 82% of land transactions in Q2 and 75% in H1. Sales in the wider GDA performed strongly accounting for a combined 21%, above the five-year average of 11%. Within the wider GDA, Wicklow proved the most popular this quarter with two-thirds of transactions taking place in the county, however, the largest deal took place in Kildare. Outside of the GDA, just three transactions took place namely in Cork, Laois and Louth for a combined total of over €5m.

# 82%

of land transactions took place in Dublin in Q2.

**Figure 5:** Turnover by potential use



Source: Savills Research



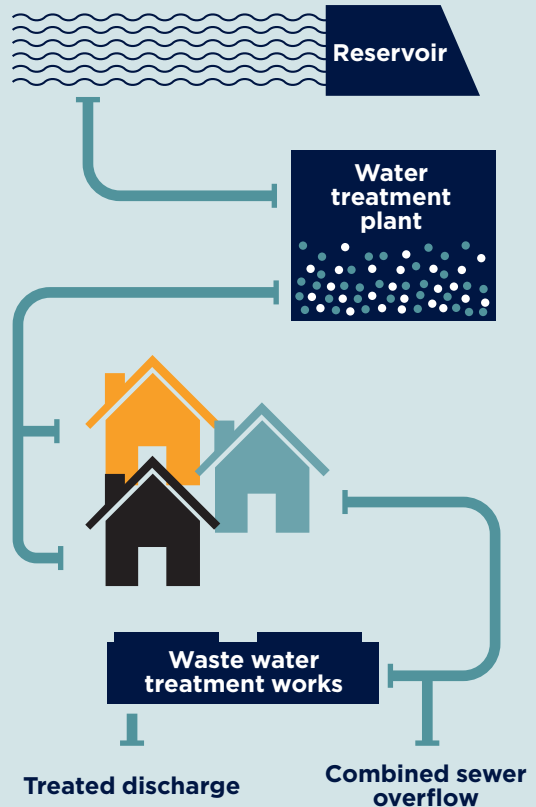
## Examining the role of Irish Water

Discussion with developers has highlighted that the significant time taken in servicing a residential development site with water and wastewater access is acting as a barrier to development. Water supply and treatment were previously handled on a demand basis by each local authority, which resulted in a disjointed and under-invested system. These legacy issues have given way to deterioration and leakage across water and wastewater networks, as well as capacity issues, as urban expansion and population growth continue.

Many water supply services are vulnerable in terms of capacity with just a 2% headroom above normal demand for water supply to locations in the GDA. A key target of the firm's Water Services Strategic Plan includes increasing the capacity headroom at treatment plants through the issuance of standard operating procedures and standardisation of parts to align with targeted growth in national and regional development plans. However, the standardisation and regulation of the network are causing delays and increased costs for developers given the running of each project and connection through Irish Water-appointed contractors.

Reliance on the exchequer for a significant portion of funding and improvement in EU standards meant operational budgets were tight with asset maintenance falling behind. Additionally, the national domestic water charges were to provide a guaranteed income stream to the firm but were suspended in 2016 following public protests. Nonetheless, Irish Water invested €2.3bn in water services infrastructure between 2014-2017 with a further €6.1bn to be spent between 2019-2024. Resources will be allocated by a risk-based approach in which the likeliness of strategic assets to constrain growth is analysed alongside input from national planning policy on constraints restricting the delivery of housing in urban areas.

**Figure 6:** Responsibilities of Irish Water



Source: Irish Water





## Savills team

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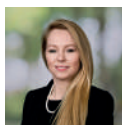
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