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Yes vote brings much needed certainty for all areas of the property market

International investors lead the way in 2012 & Ireland's commitment to Europe is expected to result in an increase in activity

June 2012

Ireland has voted in favour of the European Treaty on Stability, Co-ordination & Governance.

This is an important development for the Irish economy and for the property market.

Ireland's membership of the European Union since 1973 and membership of the euro since 1999, have resulted in many positive developments across all sectors of the economy and in particular have made Ireland a very attractive location for foreign direct investment.

Dublin is now considered to be a European hub for multimedia/high tech companies with for example Google choosing Dublin as the hub for its European headquarters – purchasing and occupying 20,000 sqm of prime office space in Dublin 4 in 2011.

Multi-national companies continue to play a key role in the commercial property market, occupying prime office space in Dublin city and suburbs and creating valuable jobs in the local economy. Activity in the industrial property market has also been driven by the multi-media/high tech sector, which sees Ireland as a favourable location for cloud computing related business. The attraction of Ireland as a location has been reinforced over the last decade by membership of the euro and the yes vote removes any uncertainty relating to Ireland's position in the European Union.

The positive outcome of the referendum not only re-affirms the importance of Ireland's position as a member of the EU but also re-affirms its commitment to the euro. This is very important regardless of the Greek situation or how that may be resolved. Ireland's work in implementing austerity measures, while at the same time increasing competitiveness and continuing to attract foreign direct investment has been acknowledged internationally and by the bond markets. Extra pressure on Irish bond yields in recent weeks has come from external risk factors rather than from domestic risks.

The yes vote will further increase the interest that international investors have shown in the Irish economy and as a result will support all areas of the Irish property market.

In relation to the commercial property market – positive measures announced in Budget 2012 have resulted in an increase in investment turnover – over €100m of deals have been agreed so far this year – all to international buyers. The yes vote will further add to the positive impact of the budget measures. Our forecast is that investment market turnover could reach €500m in 2012. International investors have been watching the Irish market for some time and see value - commercial property values have fallen by 65% from the peak of the market (IPD data) and evidence from sales completed this year is that investment properties selling in 2012 are in fact transacting at greater than a 65% discount from the peak of the market, depending on location and property details.

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A recognition of value coupled with an increase in prime stock that is expected to come to the market via banks, receivers and NAMA over the coming months, reinforces our view that turnover in 2012 will be higher than for the last number of years combined.

The occupier markets are also expected to benefit from the referendum result – demand for office space has been driven largely by non-Irish & multinational companies – with for example, 230,000 sqm (or two thirds of the total) of Dublin office space let to these occupier types over the three year period 2009-2011. This highlights the fact that, despite the economic downturn and lack of credit available, international occupiers have chosen to expand or take new space in the Dublin market.

The residential market will also benefit from the certainty that a yes vote brings. Additional funding, if required to add capital to the banks, will now be accessible from 2013 via the (European Stability Mechanism ESM), and as such this will allow the Irish banks to gradually return to what would be considered as more normalised lending levels. Mortgage lending is at its lowest level in over a decade, driven primarily by the lack of finance available from the banking sector and a lack of confidence from buyers. This is further highlighted by the fact that households are currently paying back more than they have borrowed which is acting as a drag on activity across the economy. A gradual restoration of confidence is required and the yes vote is a very important step in the process.

As is now well recognised, house prices have fallen by 55% plus depending on the location, apartment prices by more and the country house market has seen drops closer to 70-80% depending once again on the location, zoning of any lands etc.

Obviously external risks remain that will keep confidence levels under pressure in 2012 – the most important being how the Greek situation will be resolved. But with Ireland confirming its commitment to the euro via its yes vote, it is as best positioned as possible to manage any contagion effects from the Greek and wider European issues which are dominating business and political agendas across all economies.

Further Information

Joan Henry
Director of Research
Savills Ireland
+353 1 6181487
+ 353 87 6875066
joan.henry@savills.ie