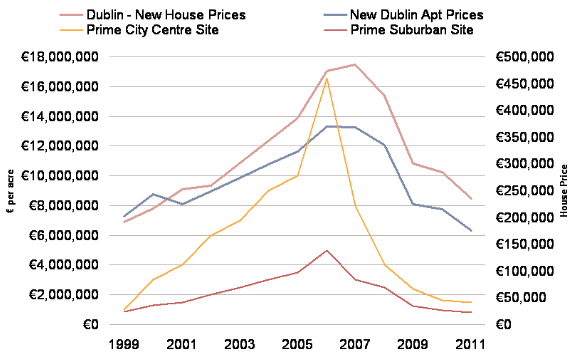
Development and consultancy Market in minutes

Summer 2011

Dublin: Average land and house prices



Source: Savills Research

Prime House/apartment purchase cost per sq ft

Source: Savills Research

“Lack of activity in the development land market, particularly in the last 12 months, has compounded the rapid loss in values that took place between 2008-2010. Values for prime sites are now back to those last transcted in the late 1990’s, with demand for prime commercial sites to lead any recovery.” **Joan Henry (Head of Research)**

- Activity in terms of sales in the development land market has ground almost to a complete standstill in the last twelve months.
- There has been a continued decline in offers received for development property with the exception of a very small number of small infill opportunities.
- As a result, estimated values have slipped further. While most of the drop in land values was evidenced quickly between 2008 and 2010-with values falling between 75-90%-lack of activity has pushed even prime values back closer to minus 90%.
- The cost of purchasing a house per sq ft in Dublin 4 has dropped by 64% between 2006 and where we estimate current sale prices in that location. The cost per sq ft of apartment space in Dublin 2 has fallen by 50% over the same period.
- NAMA has indicated that it will put in place measures to increase activity in the housing market in 2011. Activity by developers in 2011 and into 2012 is expected to be driven by licence agreements and on building out low risk sites for cash flow.
- Any recovery in the land market has to be lead by a return to economic growth, a re-capitaliased banking sector and an increase in the availability of finance.
- Any green shoots of commercial activity in 2012 will be led by prime development opportunities, for example a prime office requirement for large Grade A accommodation in the city centre.

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Market trends

Looking firstly at the commercial land market – construction and sales activity have come to a virtual standstill with any transactions being driven almost entirely by lettings. The Dublin office market will see only 12,000 sqm of space completed in 2011; no new retail space has been or will be started in 2011 and it is currently uneconomical to build any industrial premises. In most instances current industrial values are less than the replacement cost– and this is expected to remain the case for the foreseeable future. Activity at these levels has compounded the downward pressure on both the demand and price achievable for commercial land. We estimate that an acre of commercial land in the primest Dublin location would fetch between €2 to €4m in the current market.

Looking at the residential land market – it has come under increasing pressure from the fact that new house completions are at the lowest quarterly completion levels since 1975. This along with a lack of both confidence and funding is keeping a tight lid on demand for both new and second hand homes. The second half of 2010 and into 2011 has seen a further reduction in the level of offers for sites, with the exception of a very small number of small infill opportunities. For example contracts were signed in December 2010 for a 4.4 acre residential site in Carrickmines, which had planning for 43, 4 and 5 bed houses. The price agreed was €3m, which equates to €675,000 an acre. This reflects a drop of 85% on peak values back to 1998/1999 levels.

There was continued decline in offers received for development property since mid 2010, with the exception of a very small number of small infill opportunities. No significant transactions have taken place but there have been offers accepted on a number of smaller properties. The number of receiverships are increasing, resulting in several development companies with well-located properties - including, land, built apartments and investments - holding stock which we believe are saleable if put on the market at values that reflect current supply and demand conditions.

Outlook

The activity of developers will be focused on building out small low-risk sites for cash flow in the foreseeable future. License agreements are to remain important as a route for developing out smaller ready to go sites. We also expect more housing supply to come to the market as the year progresses as NAMA, banks and receivers release stock. Any recovery in the land market will be led by a return to economic growth, a re-captialised banking sector and an increase in the availabiliy of funding, all of which combined should see dormant housing demand translate into sales. Recovery in the commercial land market is expected to be led by demand for prime sites for example office requirements of Grade A space above a certain size.

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