

Investors move in on Ireland's property surge

Real estate groups, builders and lenders eye opportunities as prices and construction increase after 'lost decade'

ARTHUR BEESLEY – DOUGLAS, CORK

The sun glares down as a postman delivers mail in the Borough, a new housing estate overlooking Cork on Ireland's southern coast. A paddling pool by one of the homes shows that families are moving in.

This neat hilltop development was once a shuttered "ghost" estate, one of hundreds of unfinished housing projects that came to an abrupt halt in the Irish crash of 2008. Nania, the "bad bank" established by the government to clean up after the economic crisis, once controlled 335 such estates. Now just six remain on its books.

The belated completion of Borough, until recently a building site, is a fresh sign of a surge in one of the world's most volatile property markets, spurring opportunities for investors in Irish real estate. These include the established investors in Irish property such as IPUT and Kennedy Wilson, new entrants such as Timbercreek of Canada, and listed builders such as Cairn and Glenveagh.

Indeed, commercial property transactions have more than doubled in the past year, approaching €1.85bn in the first half of 2018, according to Davy stockbrokers, citing data from the estate agents CBRE.

Niall Gaffney, chief executive of IPUT, a €2.4bn fund in Dublin with office, retail and industrial holdings, said "a 'lost decade' of under-investment" had led to a "bottleneck" in the sector.

"We're now seeing a phenomenal level of catch-up," said Mr Gaffney, who has dealings with many of the big multinationals that use Ireland as their gateway to Europe.

"Most of the office space and most of the residential space is already spoken for: you're looking at a situation where there's such a pent-up demand in the private rented sector that once it's ready it's going to be leased."

Davy said overseas investors were helping to fuel activity, adding: "German and other European pension funds and investors from Asia and the US are combining with domestic investors in

Home run



Construction workers in Dublin. Housebuilding in Ireland has increased and commercial property transactions have doubled in the past year – Chris Ratcliffe/Bloomberg

Careering ahead Hunt for bricklayers and labourers goes overseas

With building work on the rise as the Irish economy booms, Constantin Popa's construction company is growing rapidly. But the Romanian businessman, who moved to Ireland 11 years ago, has had to search abroad for bricklayers and labourers.

"I have 86 employees, out of which 70 are less than six months in Ireland. I brought them from outside," he said.

As trade groups warn that tens of thousands of additional workers are needed for building sites, Mr Popa has been using his contacts in the diaspora of Romanians around Europe to find workers for other builders in Ireland.

"I'm now recruiting for recruiters, for everything in the construction industry, directly from Romania, from Spain, Italy, Greece, from Romanians who are ex-pats. Because of Brexit they're moving out of the UK," he said.

"At the moment there is a huge demand for labour, qualified and unqualified. It's throughout Ireland. I'm getting calls from Galway, Limerick, Cork, everywhere."

Ireland's builders were hit hard in the crash, with more than 153,000 construction jobs lost between 2008 and 2012 as housing output dropped by 90 per cent. Many left Ireland, taking jobs in Australia, Canada, the US and Dubai.

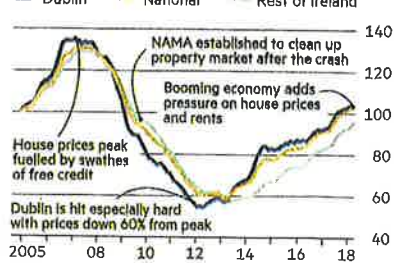
Now a recruitment drive is under way to entice them back. The Construction Industry Federation is liaising with emigrant groups and government bodies to spread the word about opportunities.

Arthur Beesley

Celtic Tiger roars back

Residential property prices (Index)

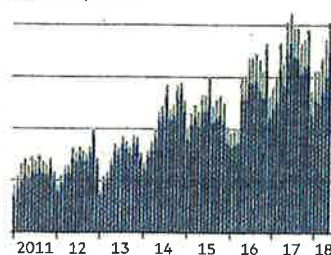
— Dublin — National — Rest of Ireland



Sources: CSO; Banking and Payments Federation Ireland; Thomson Reuters Datastream

Strong rise in mortgage approvals

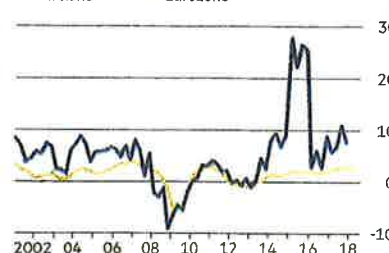
■ Re-mortgage/top-up
 ■ House purchase



Ireland's ups and downs

GDP (annual % change)

— Ireland — Eurozone



Cove

15 OF

Despite fears of an overheating market, an influx of overseas capital has lessened the vulnerability of Irish banks to any sudden downturn, say property investors.

Peter Collins, chief operating officer of Kennedy Wilson Europe, a US group that has built up a €2bn portfolio in Ireland since 2011, said diversification had changed the face of a market once dominated by local money.

"The breadth and depth of investors in the market will make Ireland less prone to the types of cyclical movements seen in the past," he said. "In addition, this recovery cycle has been equity led with much lower debt levels being utilised."

Timbercreek, which makes equity and debt investment in Irish property, has put €100m into the market since last year and plans to do the same again in the next 12 months.

Brad Trotter, Timbercreek's head of debt, said the activity reflected the growing economy and demographics "as opposed to speculation".

He added: "From a fundamentals perspective there's been a lot of foreign direct investment into Ireland, particularly in Dublin. As a result of that there's excess demand for office space; along with that there's a housing challenge."

The Borough in the suburb of Douglas had been derelict for several years when it was taken over in 2015 by Brendan O'Donoghue, a Dublin-based receiver with the accountants Russell Brennan Keane.

Mr O'Donoghue was standing on the

balcony of a newly finished home that was handed over last month to Nama, which plans to complete the remaining "ghost" estates by December.

But the residential market is struggling to keep pace with an economy forecast to grow 5.6 per cent this year and 4 per cent in 2019. Employment has passed pre-crash levels, driving office and residential markets as local companies recover and global companies take advantage of a low corporate tax rate.

Groups expanding in Dublin include Amazon, the online retailer, MSD, the drug business and Autodesk, the software provider.

'This recovery cycle has been equity led with much lower debt levels being utilised'

Double-digit price and rent increases for housing have piled pressure on Leo Varadkar, Ireland's premier, to boost housebuilding. Prices nationally rose 13 per cent in the year to April, up 76 per cent since the 2013 low point. Dublin prices are up 90.1 per cent from the trough.

The hottest sector is private rented housing, with developers selling entire apartment blocks to institutional investors instead of individual buyers. Cairn, a listed builder, last month sold a 120-unit apartment block in Dublin with commercial space in a single lot for

€101m to Carysfort Capital, an investment manager.

With Ireland's open economy still heavily exposed to any turmoil from Brexit or a US tariff war, the sizzling market has come to the attention of international observers. The IMF has said that house prices appear "modestly overvalued" by some measures. The OECD warned of "another property bubble" arising from a cycle of strong price rises, increasing construction activity and rising credit growth.

Mortgage approvals eclipsed €1bn in May, the first time since 2011, according to Goodbody stockbrokers. But this month the Irish central bank, which imposed tough lending caps after the crash, directed lenders to boost capital buffers to guard against shock. Philip Lane, the governor, expects prices to "cool off" as the supply of homes grows.

Revised data show housebuilding has increased significantly, but from a lower base. The number of new dwellings – 14,446 in 2017, and 3,526 in the first quarter of 2018 – is far below the 35,000 per year needed to sustain demand.

Kieran McQuinn, research professor with the Economic & Social Research Institute think-tank in Dublin, said prices "are explained by fundamentals" after a crisis "overcorrection".

But he warned that an "adverse" Brexit or full-blown global trade war could cut incomes and increase unemployment. "That's the kind of scenario under which [property] prices decline. Prices are not going to decline because some sort of a bubble collapses because I don't think there's bubble there – yet."