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AIB rented sector report finds institutional funds crucial to development of large scale apartment blocks

- Importance of institutional investors crucial for development of large scale apartment blocks
- Challenges in building large scale apartment blocks in Dublin, not viable to build large scale apartment blocks outside Dublin
- High levels of rents outside prime locations probably not sustainable

AIB's 'Private Rental Sector and the Irish Rental Market' report highlights the challenges and opportunities facing the construction industry in the rental sector. Authored by Head of Real Estate Research Pat O'Sullivan, the report is the latest in a series on the property sector by AIB's Real Estate Finance Team.

A key finding of the report is that the viability of apartment construction remains challenging in many parts of Dublin and this continues to constrain the supply of new residential units in the capital. Currently the construction of large-scale apartment schemes outside of Dublin is not, for the most part, viable.

The report also finds the presence of institutional buyers in the residential market is the primary reason why large-scale standalone apartment blocks are being built. Without the presence of institutional buyers of apartment blocks in the private rental sector (PRS) the viability issue would be even more pronounced and the supply of new apartments would be even lower.

Given the growth in rents, rental affordability has become a challenge in certain areas and cohorts. Rental payment as a percentage of tenants' household disposable incomes is highest in Dublin, the surrounding mid-east region and Cork city. And also that affordability for lower income households is particularly challenging.

One of the key drivers of the increased demand for rental accommodation is the large numbers of non-Irish national workers in the labour force, who inherently have a preference to rent.

Donall O'Shea, Head of Real Estate Finance, AIB states "Ultimately, it is increased supply that will provide a sustainable and long-term solution to high rents in Dublin. There are tentative signs of an increased supply of new apartments in the capital, but progress remains slow and the actual number of apartments being constructed still falls well short of what is required."

Pat O'Sullivan, Head of Real Estate Research, AIB says "Rents for prime Private Rental Sector properties in the very best locations are affordable by higher income cohorts (absent an economic shock that would see incomes fall), but it does indicate that the high levels of rents outside the prime locations are probably not sustainable."

Pat continues "Further compounding the problems of supply and affordability is the fact that the viability of large-scale apartment construction remains challenging in many parts of Dublin and generally not viable outside of Dublin. Essentially, the costs of developing medium- to high-density apartments are still too high, which in turn limits their viability to a small number of locations and to a limited pool of purchasers. That is, viability is limited to certain parts of Dublin and for the most part only because of the presence of institutional purchasers."

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