



PRS and the Irish Rental Market

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Executive summary

The demand for rental accommodation in Ireland, primarily in the main urban centres, has shown no signs of abating over the past 12 months. In Q1 2019, there were 356,500 dwellings privately rented in Ireland, an increase of 14,900 from the same period last year. The increase was concentrated in Dublin, where the number of dwellings rented privately increased by 13,800 between Q1 2018 and Q1 2019.

Strong growth in non-Irish national workers underpinning increased demand for rental accommodation

One of the key drivers of the increased demand for rental accommodation is the continued growth in the numbers employed and the composition of the labour market, in particular the large numbers of non-Irish national workers in the labour force. The numbers of non-Irish national workers has risen sharply and are currently above previous peak levels, with 375,300 non-Irish national workers now accounting for 16.3% of total employment in Ireland.

Lack of density, a critical problem

A persistent and well-flagged problem is the lack of residential density in Dublin, with a very low proportion of apartments, and a very high proportion of houses, that make up the stock of residential units in the capital. A report by Eurostat¹ shows that houses account for 60.4% of all dwellings in the Dublin City Council local authority area (that is, excluding the other three local authority areas: Dun Laoghaire-Rathdown, Fingal and South Dublin). By contrast, the proportion of houses in the city of Edinburgh and Berlin are 32.4% and 10.3%, respectively, and as little as 1.3% in the City of London.

There are, however, tentative signs of an increased supply of new apartments in the capital, both in terms of units built and units in planning, with apartment supply now starting to outpace the supply of single-family dwellings.

The percentage of houses increases to around 75% if the wider definition of Dublin is used to incorporate all four local authorities. This is a very particular problem for Dublin that needs to be rectified over time, and places Dublin at a significant disadvantage to peer capitals across Europe. There are, however, tentative signs of an increased supply of new apartments in the capital, both in terms of units built and units in planning, with apartment supply now starting to outpace the supply of single-family dwellings. However, progress remains slow and the actual number of apartments being constructed still falls well short of what is required, due to viability issues.

Viability – still a significant barrier to large-scale standalone apartment developments

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. Essentially, the cost of developing medium- to high-density apartments is still too high, which in turn limits their viability to a small number of locations and to a limited pool of purchasers.

In 2017, the Society of Chartered Surveyors Ireland ('SCSI') published a report² analysing the construction costs of apartments. It found that the costs of building a medium-rise apartment development ranged from €400,000 per unit (excluding VAT) in a suburban location to €578,000 per unit (excluding VAT) in an urban location. With such costs and prospective sales prices, this rules out the ability of the first-time buyer market to afford these type of apartments. In the main, the only prospective buyers of suburban and urban apartment blocks are institutional buyers, in particular the investment, pension and property funds which are seeking to acquire apartment blocks for the private rented sector ('PRS'). Moreover, the presence of institutional buyers in the residential market is the primary reason why large-scale standalone apartment blocks are actually being built.

The presence of institutional buyers in the residential market is the primary reason large-scale standalone apartment blocks are being built.

¹ **Urban Europe** – Statistics on cities, towns and suburbs – housing in cities, Eurostat, 2014

² **The Real Costs of New Apartment Delivery: ANALYSIS OF AFFORDABILITY AND VIABILITY**, October 2017

Continued strong growth in rents

According to the most recent data available from Eurostat, Dublin is the fourth most expensive city in a survey of 53 global cities in which to rent an apartment, up from the sixth most expensive in 2017. Rents in Ireland have outpaced many of its European counterparts over the past decade or more. From January 2006 through April 2019 Irish rents have increased by close to 60%, whereas rents in Germany, France and the UK have made more modest gains of 18%, 19% and 33%, respectively, and rents in the European Union ('EU') as a whole have increased by 25%. The lack of supply - which is being constrained by construction costs - and underlying demand are the reasons why rents are so high in Dublin.

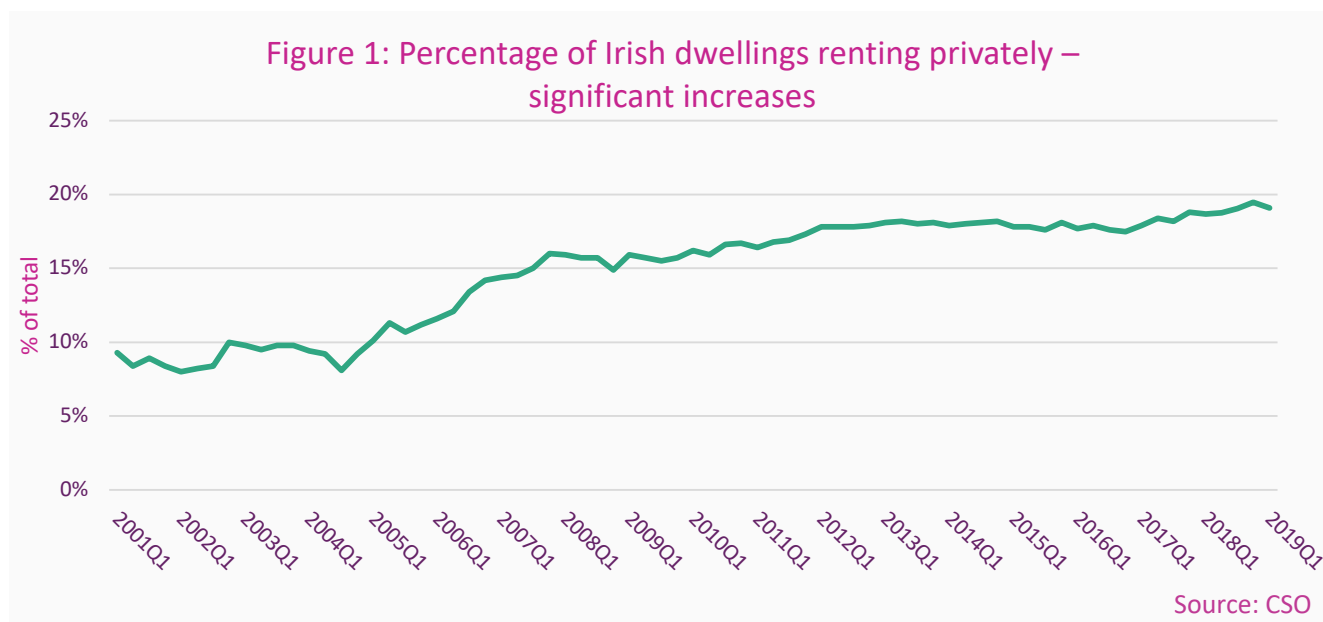
The lack of supply - which is being constrained by construction costs - and underlying demand are the reasons why rents are so high in Dublin.

Supply the only viable, long-term solution

Ultimately, it is increased supply that will provide a sustainable and long-term solution to high rents in Dublin. Currently, only the presence of institutional buyers makes the prospect of increased supply of large-scale standalone apartments viable. Without the presence of institutional buyers of apartment blocks in the PRS sector, the viability issue would be even more pronounced and the supply of new apartments would be even lower.

1. Tenure status in Ireland – rental accommodation growing in importance

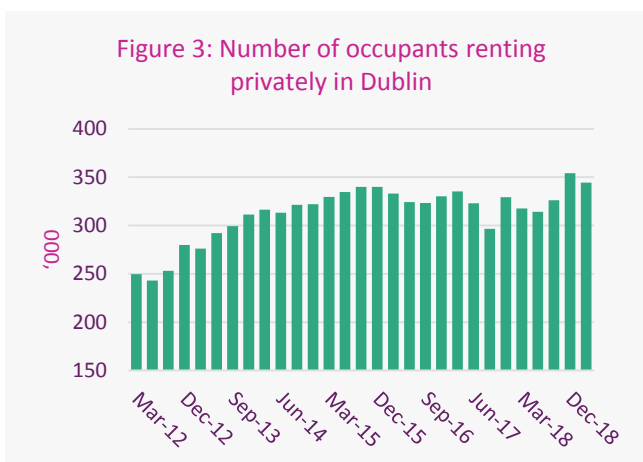
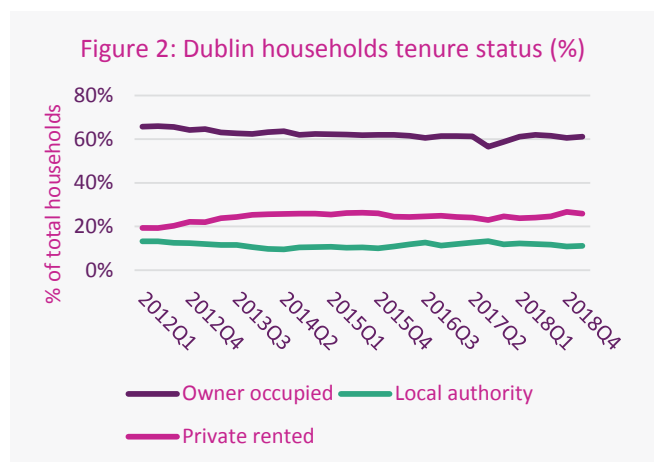
In Q1 2019, there were 356,500 dwellings privately rented in Ireland, an increase of 14,900 from Q1 2018³. Privately rented dwellings now account for 19.1% of total dwellings nationwide, a percentage that has broadly held steady over the past year. However, this figure has risen sharply since 2004, when only 8% of dwellings were rented privately. The total number of people (as opposed to dwellings) renting was 910,300 in Q1 2019.



Higher concentration in Dublin

In Dublin, the figure is significantly higher, with 25.9% of dwellings rented privately, up from 24% in Q1 2018. The actual number of people (as opposed to dwellings) renting privately in Dublin in Q1 2019 was 344,500, an increase of 26,800 in the space of 12 months.

Over the longer-term, the number of people in Dublin renting privately has increased by 95,000 between Q1 2012 to Q1 2019. By contrast, the number of people in owner-occupied homes increased by only 56,100, which highlights the significant growth in private rented accommodation in the Dublin region in particular.

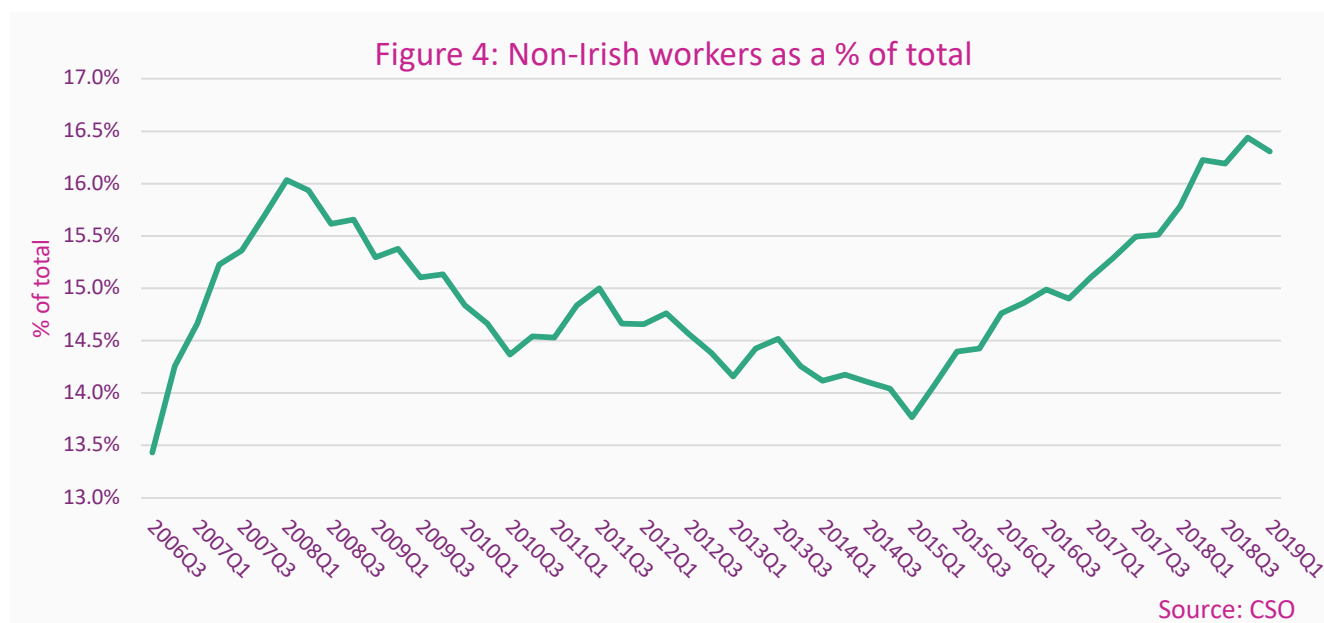


Source: CSO

³ Occupancy of dwelling by Dublin or non-Dublin NUTS3 Region, Central Statistics Office, Q1 2019

Non-Irish workers, a key source of PRS demand

Strong employment growth, especially employment of non-Irish national workers, has been a key driver in the demand for PRS accommodation. Prior to the financial crisis, the number of non-Irish national workers in employment peaked at 355,900 in Q1 2008, accounting for 16% of total employment. Following a fall-off in the number of non-Irish national workers post-2008, numbers have again risen sharply and are currently above previous peak levels, with 375,300 non-Irish national workers now accounting for 16.3% of total employment in Ireland



The importance of international workers for PRS, and particularly for high-end Dublin rental accommodation, has been highlighted in a report on the Dublin Docklands⁴. In 2018, Irish tenants accounted for just 19% of renters in the Dublin Docklands, while 44% of tenants were Europeans and non-Europeans accounted for a further 29%. The remaining 8% of tenants were corporate, double the figure of 4% in 2017. This is a market which had an average rent in 2018 of €2,392, almost 80% above the national average rent.

With rents far in excess of both the national and Dublin averages, it is not surprising that tenants' incomes in this area were also significantly higher than the average – Docklands tenants in 2018 had an average salary of €117,095. It is likely that the demand for high-end and well-located apartments will be driven by high-earning skilled international workers, particularly in the ICT sector, with companies such as Google, Facebook, and LinkedIn all within walking distance of the Docklands.

According to the Central Statistics Office (CSO), average weekly earnings in the ICT sector were €1,257 in Q1 2019, the second highest of any sector, and 63% above the all sector average of €774. Furthermore, ICT weekly earnings continued to grow strongly in Q1 2019, increasing by 5.2% in year-on-year terms.

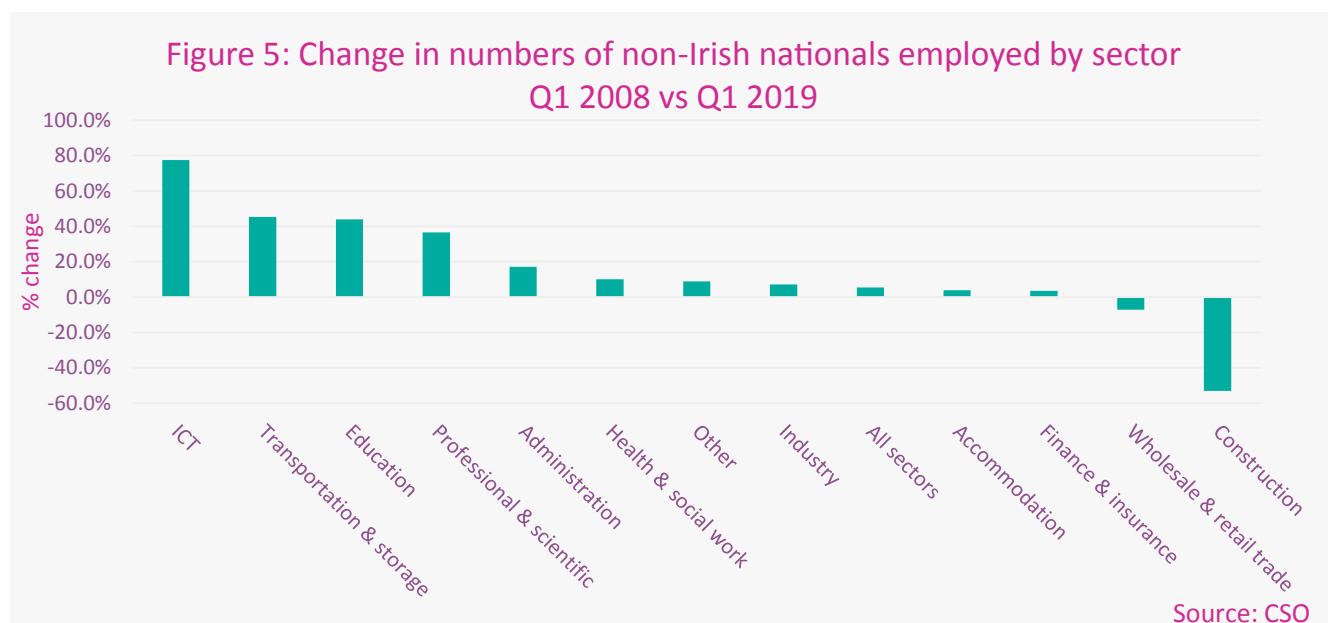
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Changing composition of the Irish workforce

Since employment rates in Ireland bottomed out in Q1 2013, the number of people working in the ICT sector has increased by 29% nationally, with 118,000 now employed in the sector. Between Q1 2013 and Q1 2019, the number of non-Irish nationals working in this sector increased by 83.3% to 33,000.

⁴ The Docklands Residential Report, Owen Reilly, 2019

Indeed, since the previous peak in employment rates in early 2008, the composition of the Irish workforce has changed dramatically, specifically in terms of the numbers of non-Irish national workers. The ICT sector has seen the biggest change, with an additional 14,400 non-Irish nationals in employment, an increase of 77.4% – the largest of any sector. In sharp contrast, the construction sector has seen the biggest decline, with employment figures for non-Irish nationals now 19,100 lower than at the peak in early 2008, a decline of 53.1%.

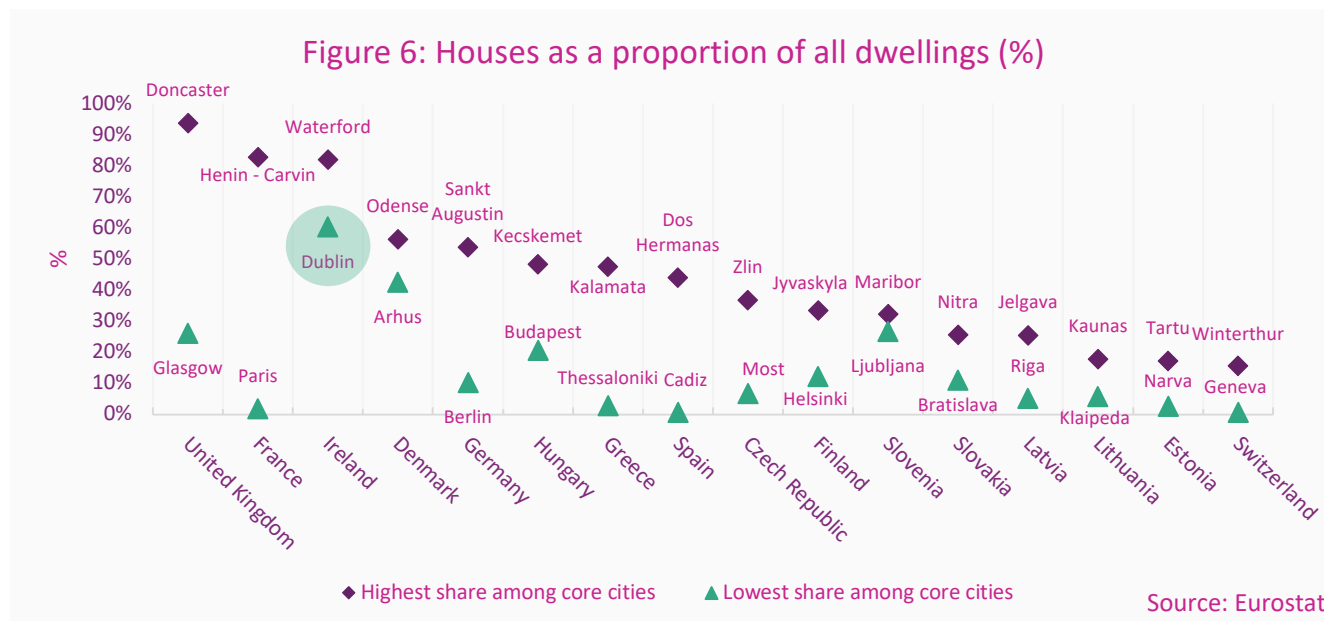


These trends are supportive for PRS demand in Ireland, both as a result of European and international preferences for rental over ownership, and the strong growth of workers in the high-paying ICT sector.

2. Apartment numbers low by European standards, but supply is on the rise

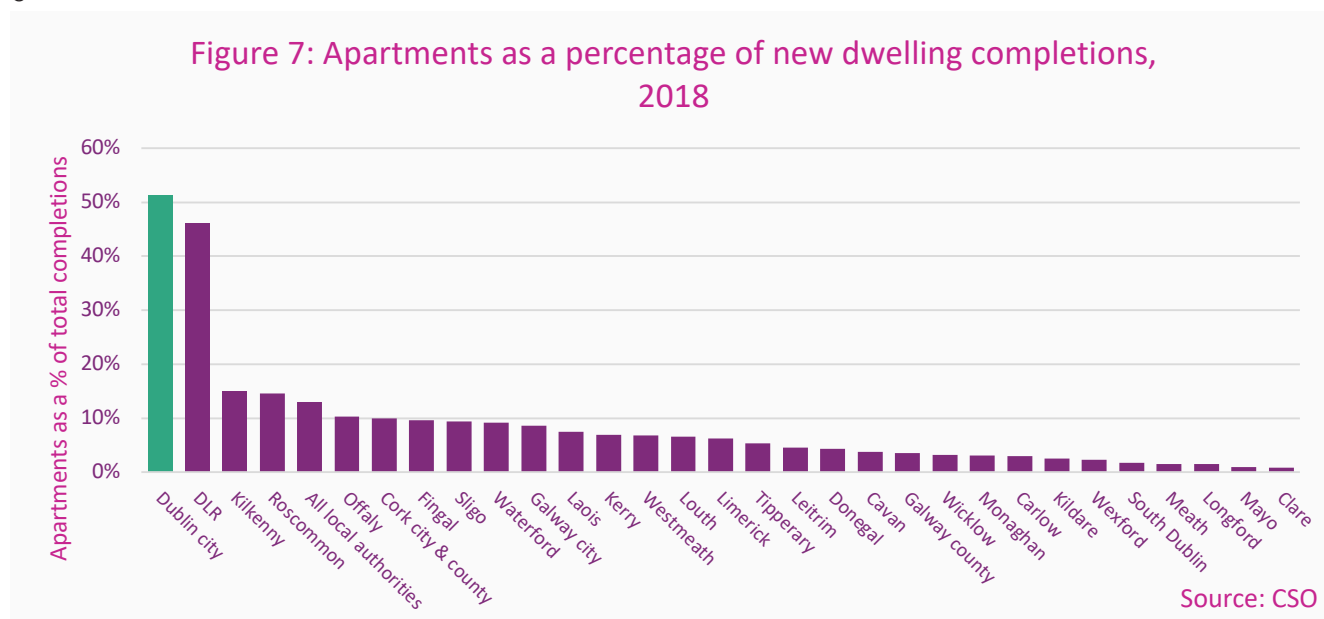
A persistent and well-flagged problem is the lack of residential density in Dublin, coupled with the very low proportion of apartments, and the very high proportion of houses, that make up the stock of residential units in the capital.

A detailed study⁵ by Eurostat listed the number of dwellings by type for over 1,000 European towns and cities. With 144,817 houses, the Dublin City Council local authority area (i.e. excluding the other three local authority areas: Dun Laoghaire-Rathdown, Fingal and South Dublin) finds itself an outlier, not just among capital cities, but also among smaller regional cities around Europe. An analysis of the data shows that houses account for 60.4% of all dwellings in Dublin city. This compares with 32.4% in the City of Edinburgh, 10.3% in Berlin, and as little as 1.3% in the City of London. However, if the wider definition of Dublin is used to incorporate all four local authorities, then houses account for around 75% of all dwellings in the city.



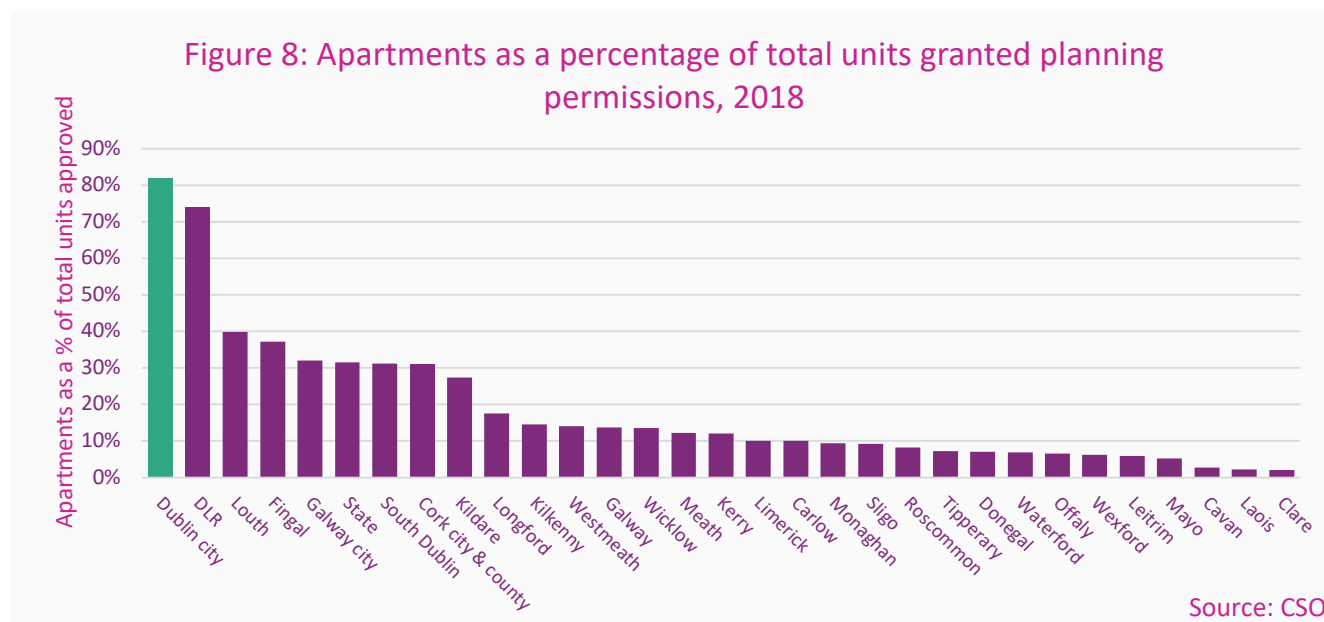
Tentative signs of increased supply

There are tentative signs of an increased supply of new apartments in the capital. There were 942 new apartments built in Dublin city in 2018, a 32.9% increase on the 709 completed in the previous year, making apartments the most dominant type of new build. Indeed, 51.3% of all new dwellings in Dublin city last year were apartments, almost four times the national figure of 13.9%.



⁵ Urban Europe – Statistics on cities, towns and suburbs – housing in cities, Eurostat, 2014

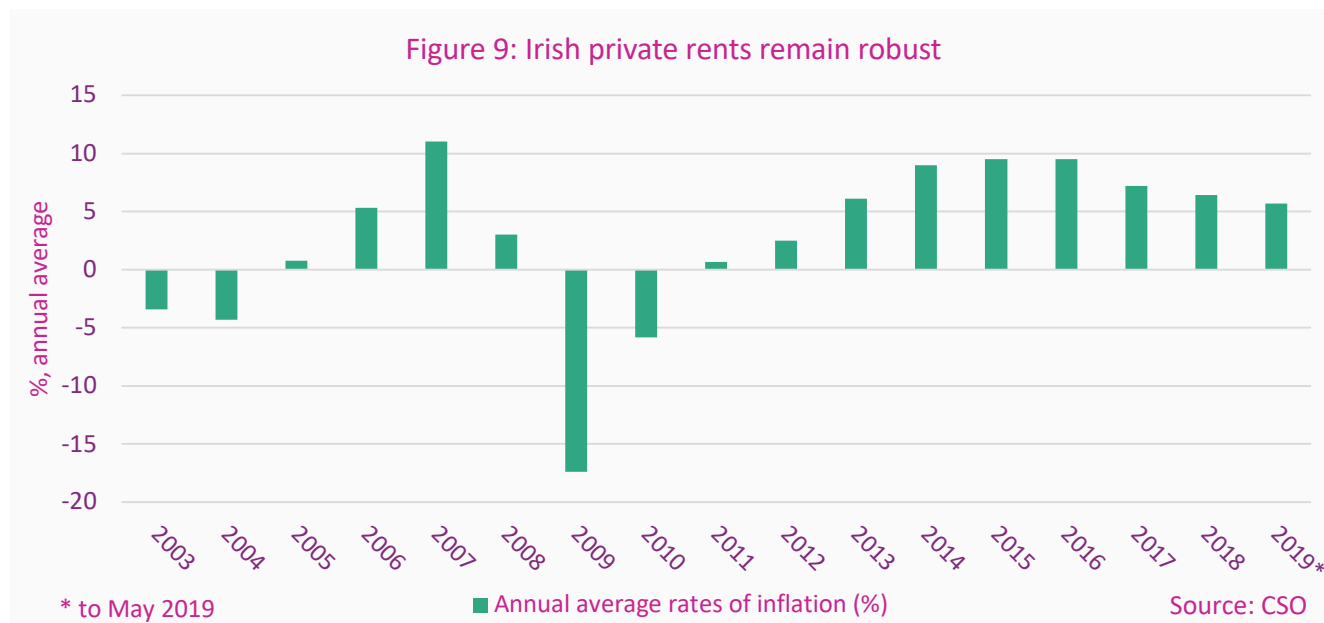
The trend is also evident in the Dun Laoghaire-Rathdown local authority area, where 44.8% of new builds were apartments. Apartments look set to become even more prominent in the capital in the coming years, with the numbers of units approved for planning permission in the city heavily balanced towards this type of dwelling. Of the 2,337 units granted planning permission in Dublin city in 2018, 1,914 were apartments, which accounted for 82% of all units. It should be noted that while the growth rates look very impressive, they are coming from a very low base and much more progress needs to be achieved in the development and supply of apartments in Dublin, particularly in the Dublin City Council local authority area and along key transportation nodes.



It should be noted that while Figures 7 and 8 appear to show that apartment construction is evident in most counties across Ireland, these are not standalone large-scale apartment blocks. Rather, they are duplexes or low-rise apartments that are part of traditional housing schemes and cost much less to develop than the classic medium- to high-rise apartment blocks found in urban centres – and by definition are low-density units as well. In any event, they constitute a much smaller proportion of new units built, or planned to be built, than what prevails in the key urban centres and the Greater Dublin area.

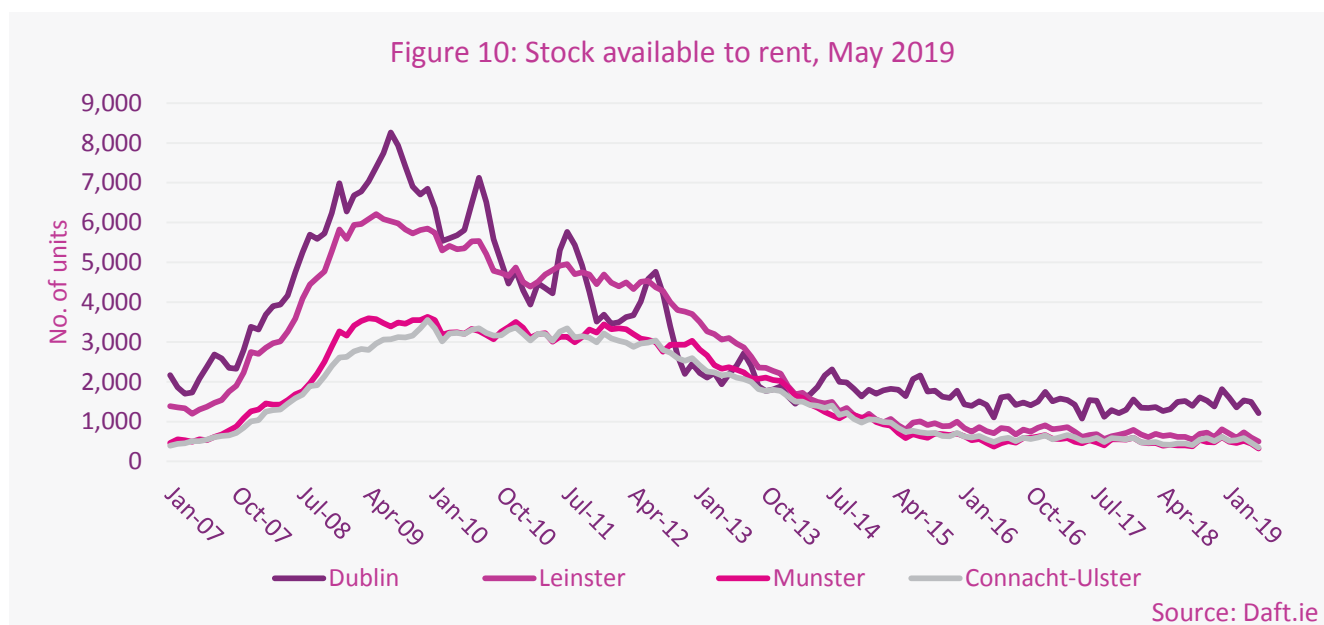
3. Strong rental growth, although moderating

Rents in Ireland have continued to grow strongly over the past year, although the pace of growth appears to have moderated. Private rents, as reported by the CSO, have increased by 5.7% on an annual average basis in the five months to May 2019 which is down from an average annual rate of growth of 6.4% in 2018 and 7.2% in 2017.

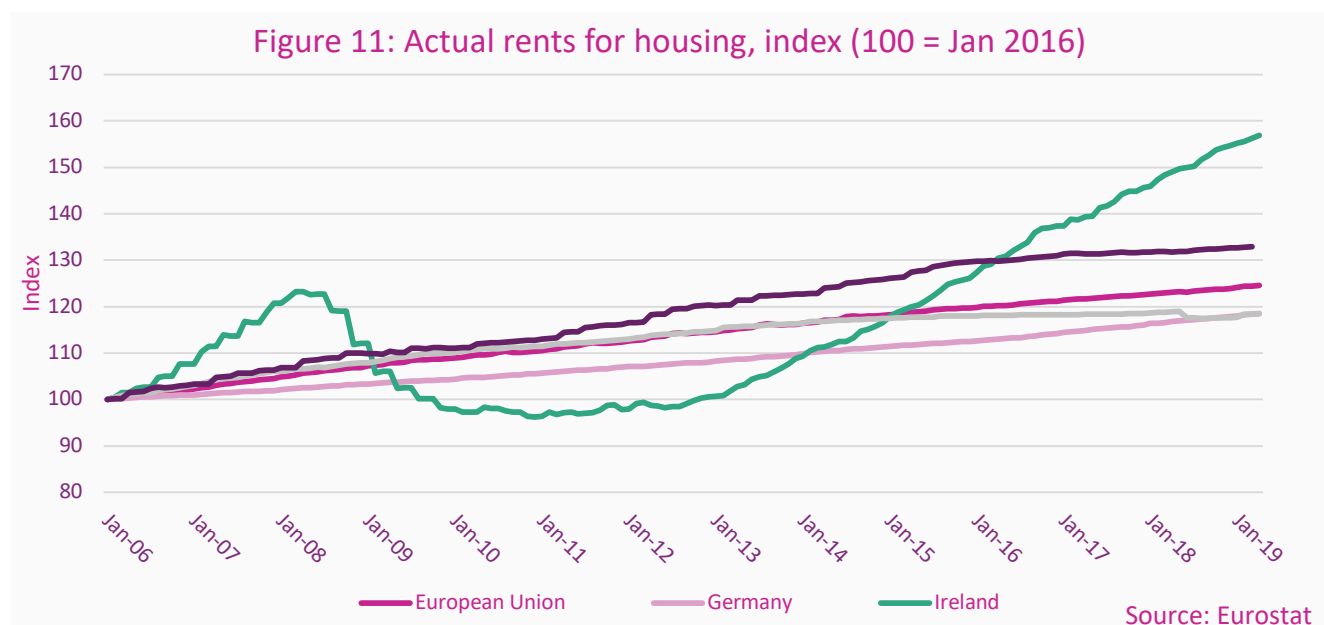


Rental supply still constrained, with vacancy at record lows

The persistently strong growth in rents is due to a strong economy, low unemployment and, critically, the lack of properties to rent. For example, on May 1 2019 there were just 2,700 properties available to rent nationwide on Daft.ie, the lowest ever reported figure for stock on the Irish market, in a series that dates back to the beginning of 2007.

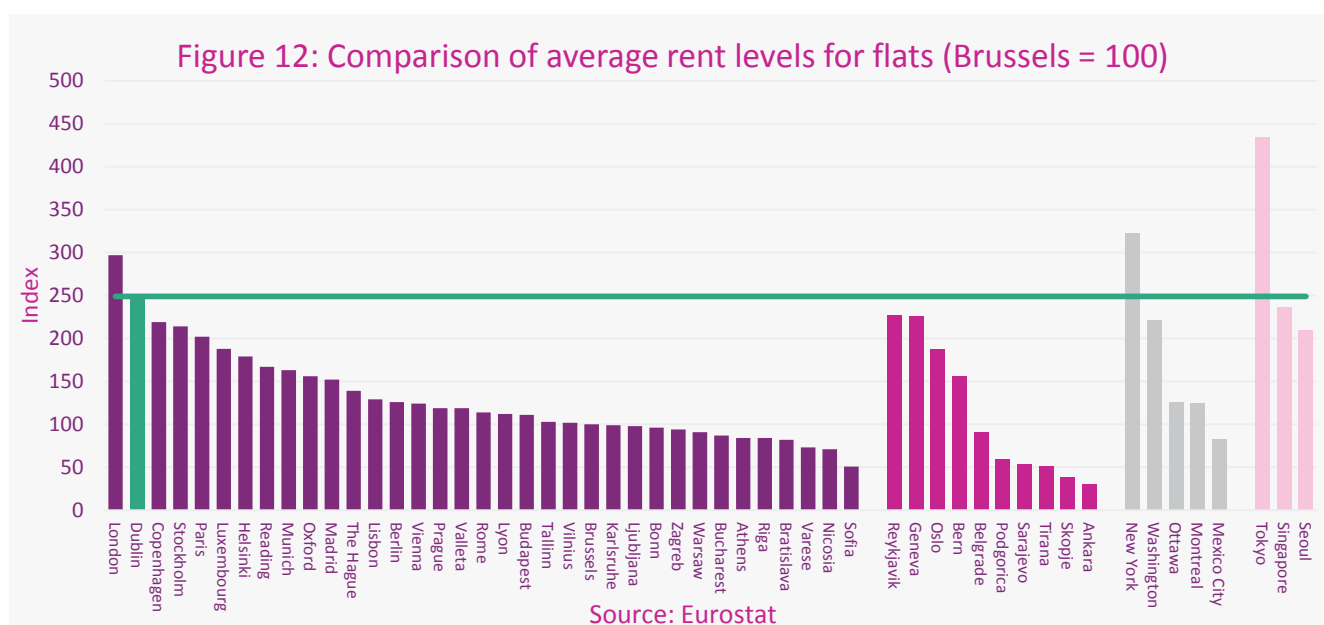


The strong growth in rents in Ireland has outpaced many of its European counterparts, as can be seen in Figure 11. From January 2006 through April 2019, Irish rents have increased by almost 60%, whereas rents in Germany, France and the UK have made more modest gains of 18%, 19% and 33%, respectively, and rents in the EU as a whole have increased by 25%.



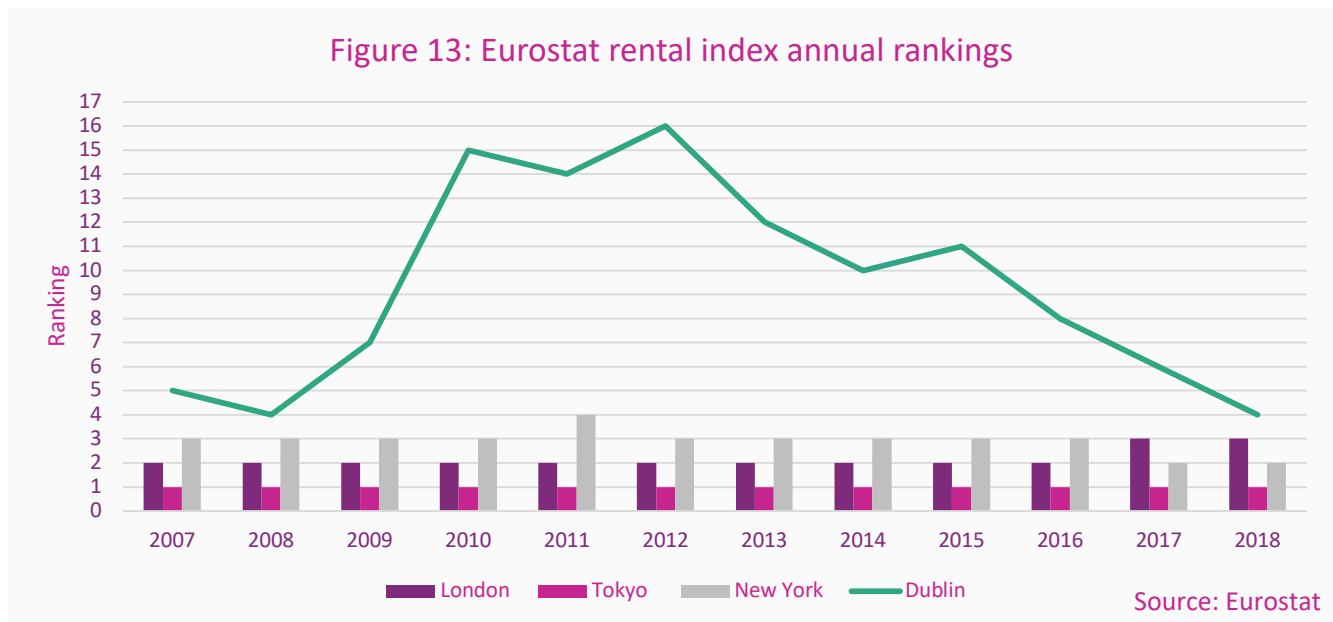
Eurostat rent index – Dublin in the upper echelon of rental markets globally

Not only are rents growing very strongly in Ireland, but rents, particularly in Dublin, are at elevated levels compared with its peer cities across the globe. According to the Eurostat 2018 Current Market Rents report (see Appendix 1 for background information on the report) Dublin had the fourth highest rental levels for a two-bedroom apartment in a survey of 53 cities in 2018, behind Tokyo, New York and London, up from sixth in the previous year.



It is interesting to observe how Dublin's ranking on this index has changed over time, compared with the other cities which complete the top four; London, New York and Tokyo. Since 2007, Tokyo has occupied the top spot as the most expensive city in which to rent an apartment, while second and third position has been traded between London and New York over this period, with London currently occupying second place ahead of New York.

Dublin, on the other hand, has occupied fourth place in both 2008 and 2018, but the ten years in between have featured turbulence not experienced by the three cities ranked above it.



Between 2008 and 2010, Dublin fell from being the fourth most expensive city to the 15th, before moving up to 14th in 2011, and falling again to a low of 16th the following year. In the intervening period, Dublin has slowly made its way back to the top four ranking. This heightened level of volatility in Dublin rents does raise the question about the sustainability of the high level of prevailing rents.

4. Rental affordability – primarily an issue for Dublin and lower income households

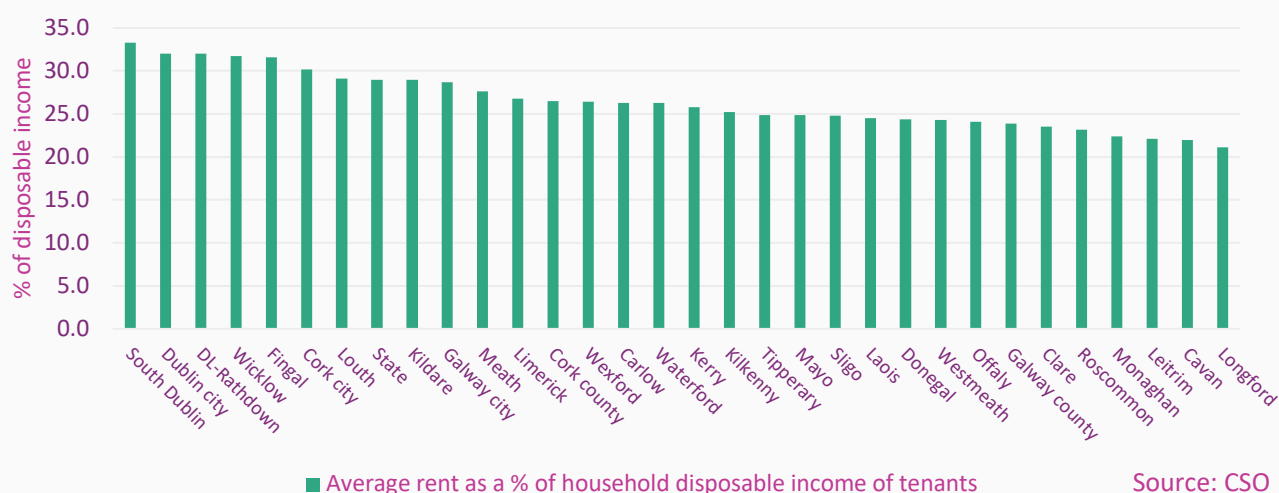
Given the strong growth in rents over recent years, rental affordability has become more of a challenge for certain locations in Ireland and certain household cohorts in Ireland.

Rental payment as a percentage of tenant's household disposable incomes⁶ is highest in Dublin, the surrounding Mid-East region and Cork city. However, rental affordability is particularly challenging for lower-income households, and this is a problem that has persisted over time.

Average rent was 29% of household disposable incomes in Ireland in 2016

According to the CSO, average rent accounted for 29% of tenants' households' disposable income in 2016, just below the 30% benchmark - beyond which affordability becomes increasingly challenging. However, South Dublin (33.3%), Dublin city (32.0%), Dun Laoghaire-Rathdown (32.0%), Wicklow (31.7%), Fingal (31.6%) and Cork city (30.2%) have all breached the 30% barrier. In fact, according to the CSO, the rent burden is 35% or higher in many locations⁷ in Dublin and has exceeded 40% of disposable income of tenants in a small number of locations.

Figure 14: Average rent as a percentage of disposable income of tenants by county, 2016



Source: CSO

Dublin - highest rent burdens

However, it should be noted that the higher rent-to-income burdens of 35% plus in Dublin are generally concentrated in locations where average incomes are lower, rather than in prime locations where rents and incomes are generally higher. Consequently, it is areas where households have lower average incomes that face some of the biggest affordability challenges in Dublin. Households on lower incomes find higher rental costs more acute, as they have much less residual income available to spend than higher-income households, even if both sets of households have the same rent-to-disposable income ratios.

⁶ **Disposable income** - Tax and social insurance contributions were estimated and summed to household level and subtracted from the household gross income in order to calculate the annual household disposable income. The components of household disposable income are household gross income less:

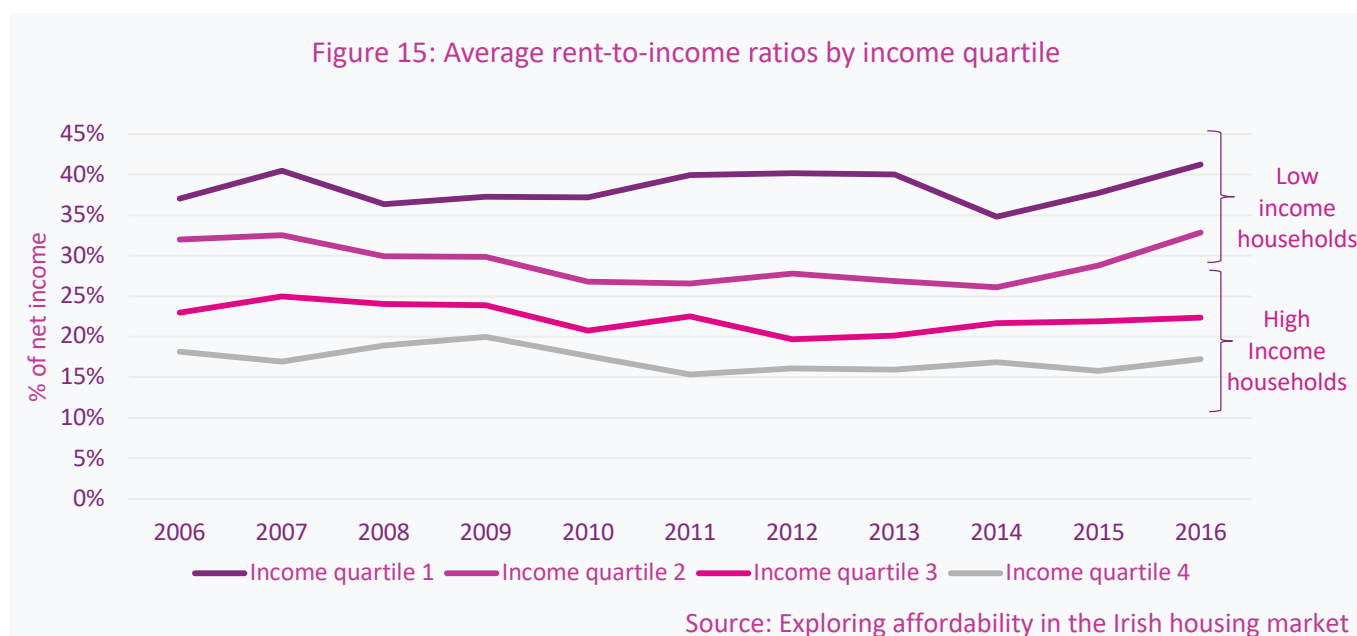
- Employers social insurance contributions
- Tax (including USC) on income or profit
- Social insurance contributions
- Tax deducted at source from individual private pension plans

⁷ The CSO calculated the rent burden for all electoral divisions ('EDs') in Ireland that have at least 20 properties with active tenancies registered with the RTB dataset in 2016. This amounted to 3,409 EDs. EDs are the smallest legally defined administrative areas in the State.

Rental cost burden varies strongly across the income distribution for households

The rental cost burden varies strongly across the income distribution for households. In other words, rental payment as a percentage of disposable income is substantially higher for lower income households. However, this is not a recent phenomenon; rather, it is a longstanding problem. In addition, it is more structural than cyclical in nature, and the rise in rents in recent years has further exacerbated the problem.

According to recently published research⁸, 'the average rent-to-income ('RTI') ratio for households in the bottom income quartile was just over 40% in 2016. This was around 10 percentage points above the figure for the second quartile. The households in the third and fourth quartiles of the income distribution have average RTI ratios of approximately 22% and 17% respectively.' Figure 15 captures the trends in average RTI ratios over time and it is clear that the burden on lower income households is significantly greater than for higher-income households. Furthermore, there has been an increase in the average RTI ratio for the two bottom income quartiles between 2014 and 2016, whereas the average RTI ratio for the higher-income quartiles has remained broadly unchanged.

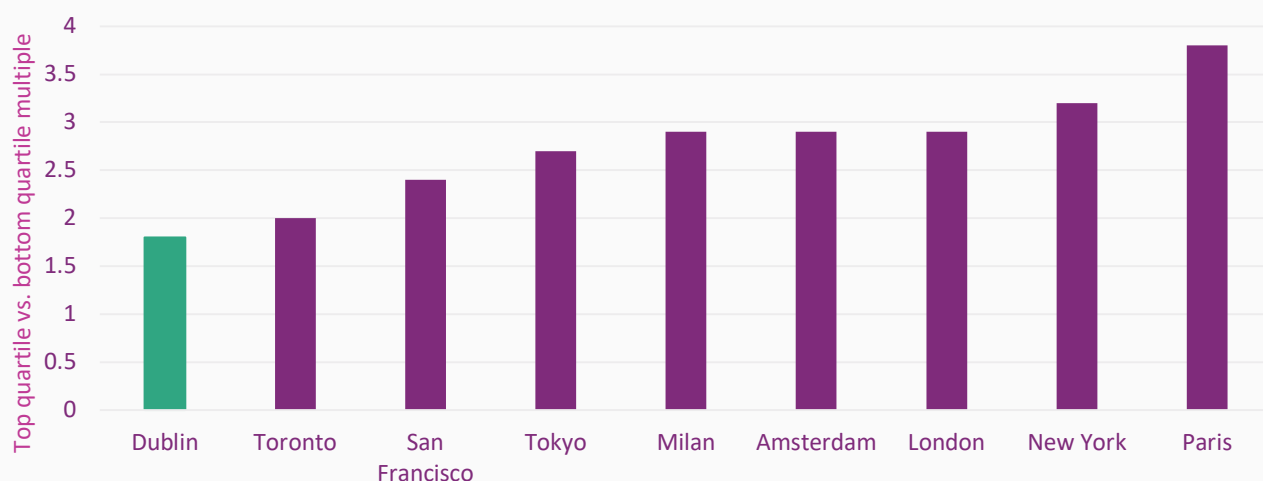


⁸ The Economic and Social Review, Vol. 5, No. 1, Spring 2019, pp. 119-157 - Exploring Affordability in the Irish Housing Market. Corrigan et. al.

Rental affordability, a more pressing issue in secondary locations

As already mentioned, rental affordability is most pressing for lower-income household quartiles in Ireland and is much less of an issue for higher income households, even in prime locations where average rents tend to be higher.

Figure 16: Narrow spread between lowest and highest rents in Dublin



Source: Goodbody Stockbrokers

In our view the pinch point may not be the high-end prime PRS schemes in Dublin but rather those schemes that may not be located in prime areas but are charging prime rents.

This would suggest that rents for prime PRS 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. Recent analysis by Goodbody Stockbrokers⁹ highlighted the fact that Dublin has a narrower spread of rental values from the highest to the lowest, compared with a number of cities across the globe (see Figure 16). As the Goodbody analysis states, 'this highlights the lack of depth of affordability across the city'. In our view the pinch point may not be the high-end prime PRS schemes in Dublin but rather those schemes that may not be located in prime areas but are charging prime rents.

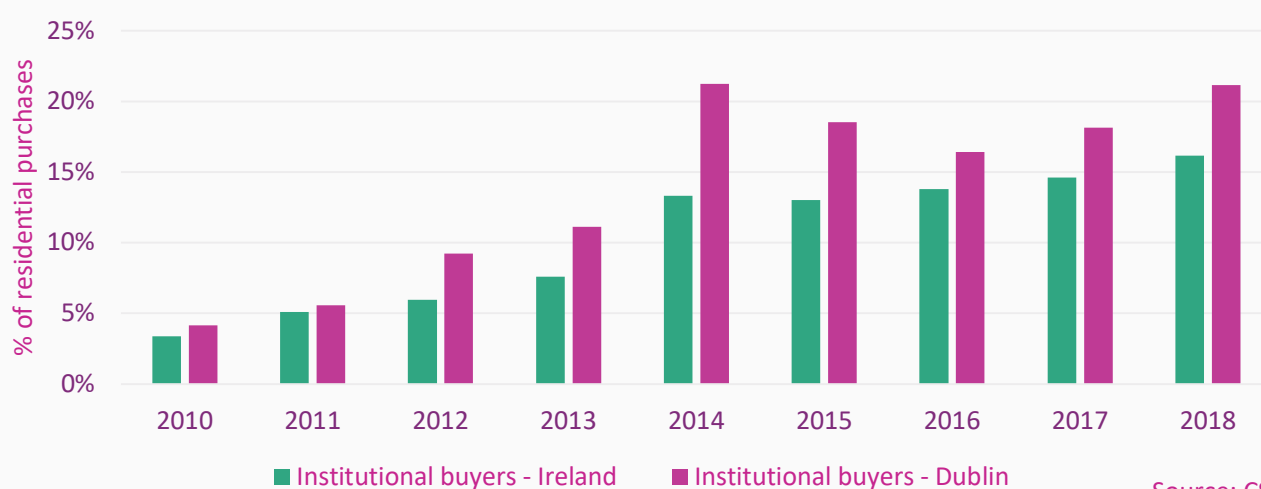
⁹ Irish PRS Residential, Goodbody Stockbrokers, April 2019

5. Growing presence of the non-household sector in the residential market

The non-household (institutional) sector is defined as private companies, charitable organisations and state institutions. This definition constitutes a broad range of institutions ranging from REITs, to pension funds, to approved housing bodies ('AHB') and to local authorities.

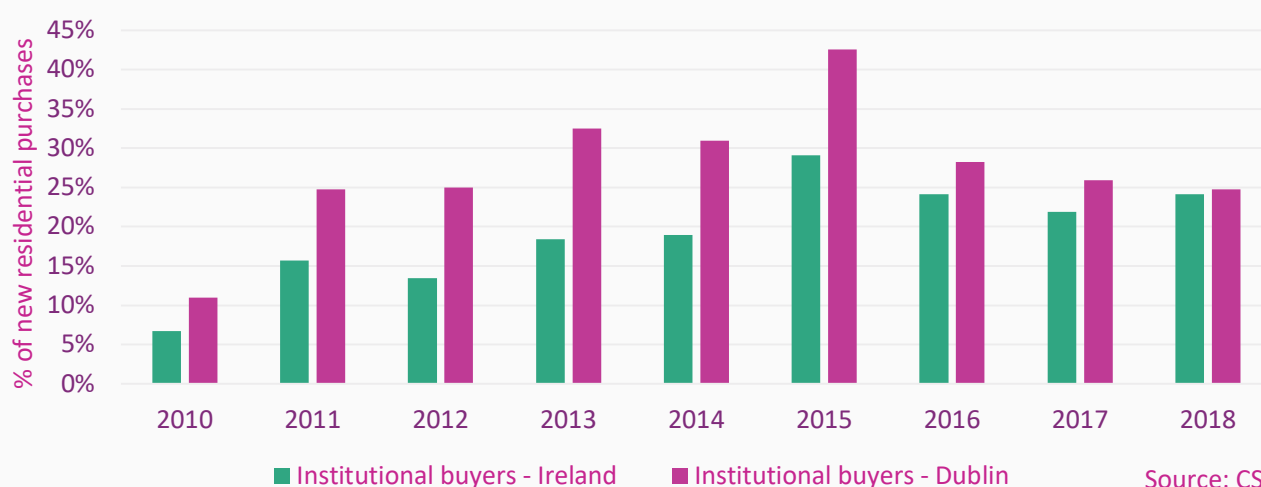
Non-household (institutional) buyers are an increasingly important component of the housing market in Ireland, accounting for 16% of all transactions in 2018, up from 3% in 2010. This trend has continued in the first quarter of 2019, with non-household (institutional) buyers responsible for 14.5% of all transactions. The presence of non-household (institutional) buyers is even more pronounced in the Dublin market, where they accounted for 21% of all transactions last year compared with 4% in 2010.

Figure 17: Share of residential purchases by non-household (institutional) buyers (%) - new and existing residential units



The presence of non-household (institutional) buyers is even more pronounced in the new homes market, accounting for nearly a quarter of all new homes transactions in 2018, compared with 14% in the second-hand homes market.

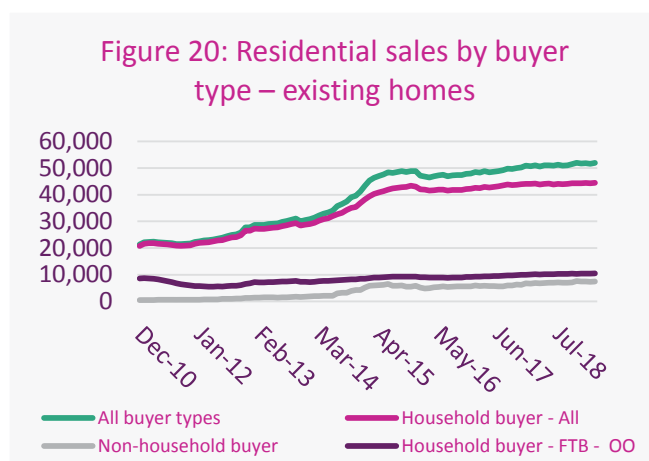
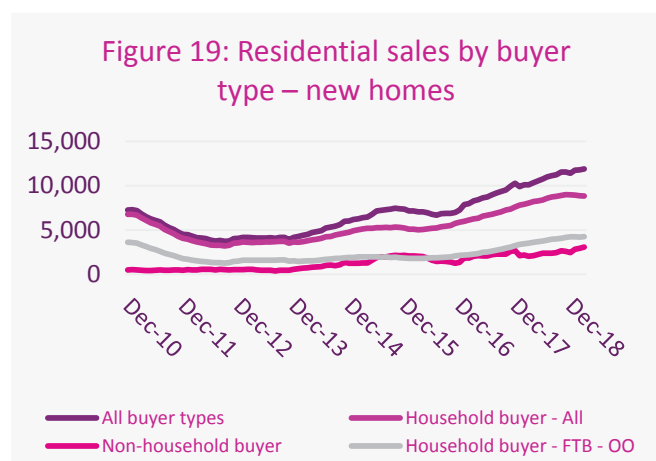
Figure 18: Share of residential purchases by non-household (institutional) buyers (%) - new residential units only



Although the share of new homes acquired by the non-household (institutional) sector has increased over the past seven years, it should be seen in the context of a market where the total number of transactions has grown strongly.

The non-household (institutional) sector accounted for the acquisition of 3,071 new residential units in the 12 months to March 2019, while the household sector acquired 8,821 in the same period.

In terms of the existing homes market, the household sector acquired 44,466 in the 12 months to March 2019 compared with 7,445 units acquired by the non-household (institutional) sector.



Source: CSO

While private institutional capital (such as pension funds, investment funds and REITs) – are major purchases of residential units in the Irish market, public capital in the form of Part V acquisitions, AHBs and local authorities are also very significant buyers of residential property.

6. Viability – still a significant barrier to large-scale standalone apartment developments

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. Moreover, the viability of large-scale apartment construction outside of Dublin does not, for the most part, currently exist.

Development costs the persistent problem

In 2017, the SCSi published a report¹⁰ analysing construction costs of apartments and compared them with prevailing sales prices, thereby highlighting the viability or otherwise of apartment development. It found that the costs of building a medium-rise apartment development ranged from €400,000 (excluding VAT) in a suburban location to €578,000 (excluding VAT) in an urban location.

These cost estimates were calculated before the design standard changes introduced by the Minister for Housing, Planning and Local Government in March 2018. The design standards would have helped to improve the viability of apartment developments, especially those located in close proximity to key transport nodes, as the car parking requirements have been significantly reduced, if not eliminated. However, these guidelines, while improving the viability of apartments, did not make apartment construction universally viable, as the costs were (and continue to be) in excess of what the average owner-occupier household could afford to borrow based on the loan-to-income ('LTI') rules. Furthermore, with construction cost inflation running at approximately 5% to 6% per annum and the introduction of the nZEB¹¹ regulations, we estimate that the costs of medium-rise apartment developments have returned to levels indicated in the SCSi 2017 report.

Institutional (non-household) buyers vital to increased supply of standalone apartments

Generally, given the above construction costs, the only prospective buyers of suburban and urban apartment blocks are institutional investors such as REITs, pension funds and property funds. These institutional investors are able to afford the higher cost of such acquisitions, as they can generate a sufficiently high yield based on the underlying rental income.

In the majority of cases, the construction of apartment blocks is only viable because investment funds have the capacity to pay the high costs involved. It is not the case that these apartment blocks would have been built in any event. This is because the average household/owner-occupier would not be in a position to pay a price high enough to cover the construction costs of standalone suburban and urban apartment blocks. Essentially, the institutional investors in PRS can afford to pay a sufficient premium to the break-up value of the apartment blocks to warrant their development in the first place.

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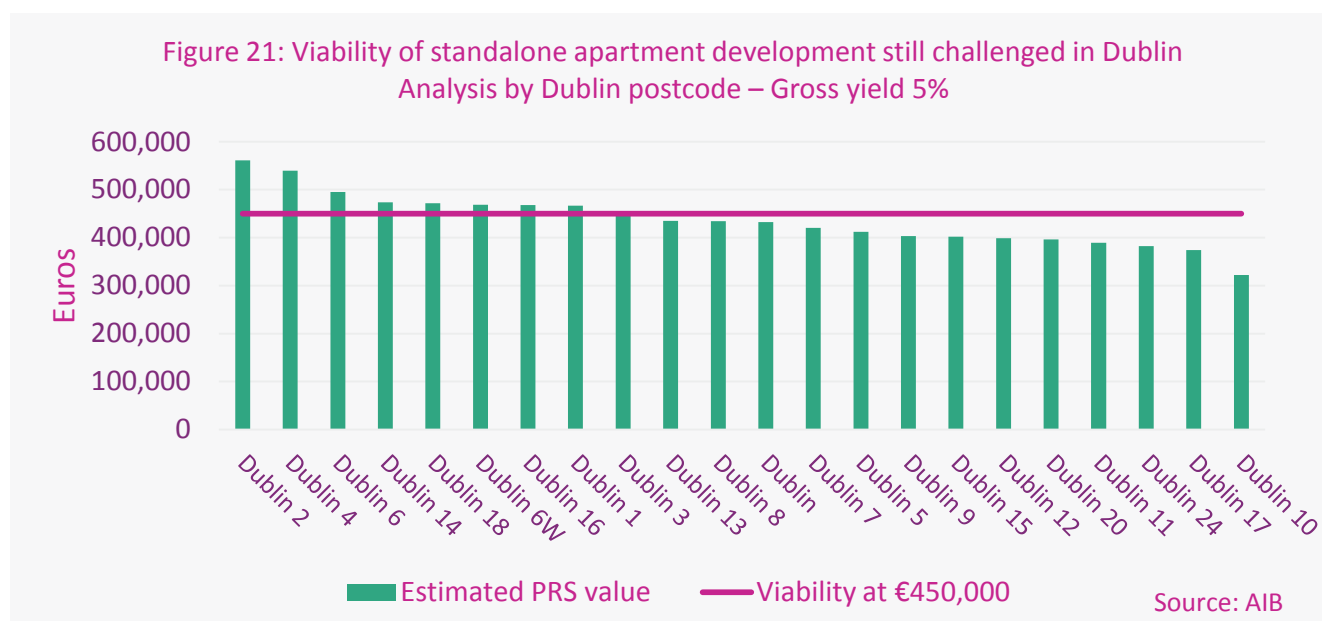
¹⁰ *The Real Costs of New Apartment Delivery* ANALYSIS OF AFFORDABILITY AND VIABILITY, October 2017

¹¹ The European Energy Performance of Buildings Directive Recast 2010 (EPBD) requires all new buildings to be nearly Zero Energy Buildings ('nZEB') by 31st December 2020 and all buildings acquired by public bodies by 31st December 2018. 'Nearly Zero Energy Buildings' means a building that has a very high energy performance. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby.

The nZEB regulations will come into force on 1st November 2019. This means that any dwelling receiving planning permission after 1st November should meet the nZEB standard. Substantial completion must have been achieved by 1st November 2020. After 2020 all homes irrespective of when they received planning permission should achieve the new standard.

Limited number of locations are actually viable

Even allowing for the higher price that PRS investors are willing to pay, there are still only a limited number of locations within Dublin where it is viable to construct standalone apartment blocks. The following charts estimate both the prevailing price¹² per unit that a PRS investor would be willing to pay and the associated costs of development in various locations in Dublin. An estimate of €450,000 as a unit cost of development is used for illustrative purposes, but the true costs will be slightly higher or lower, depending on the location and the site value. Nevertheless, it is a reasonable approximation and highlights the fact that viability for the development of standalone apartments is limited to a number of locations within Dublin.

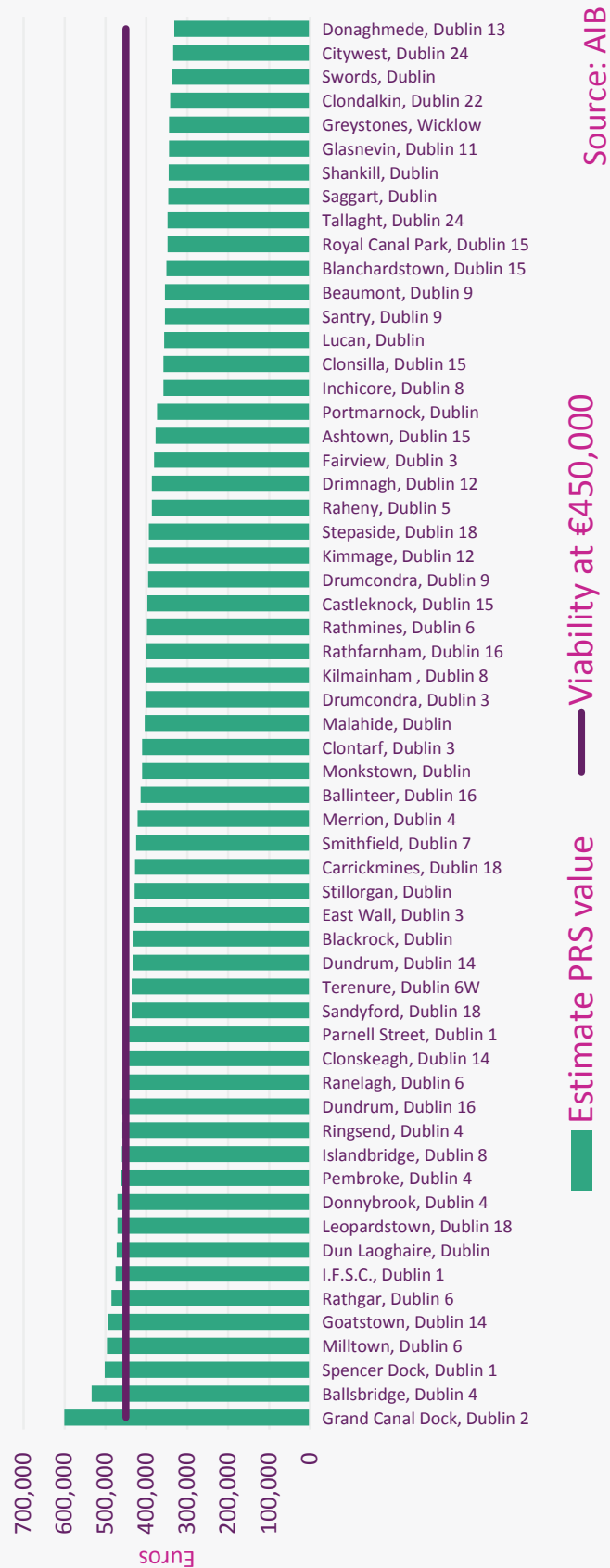


Currently, only the presence of institutional buyers makes the prospect of increased supply of large-scale standalone apartments viable.

Without the presence of institutional buyers of apartment blocks in the PRS sector the viability issue would be even more pronounced and the supply of new apartments would be lower. Ultimately, it is increased supply that will provide a sustainable and long-term solution to high rents in Dublin. Currently, only the presence of institutional buyers makes the prospect of increased supply of large-scale standalone apartments viable.

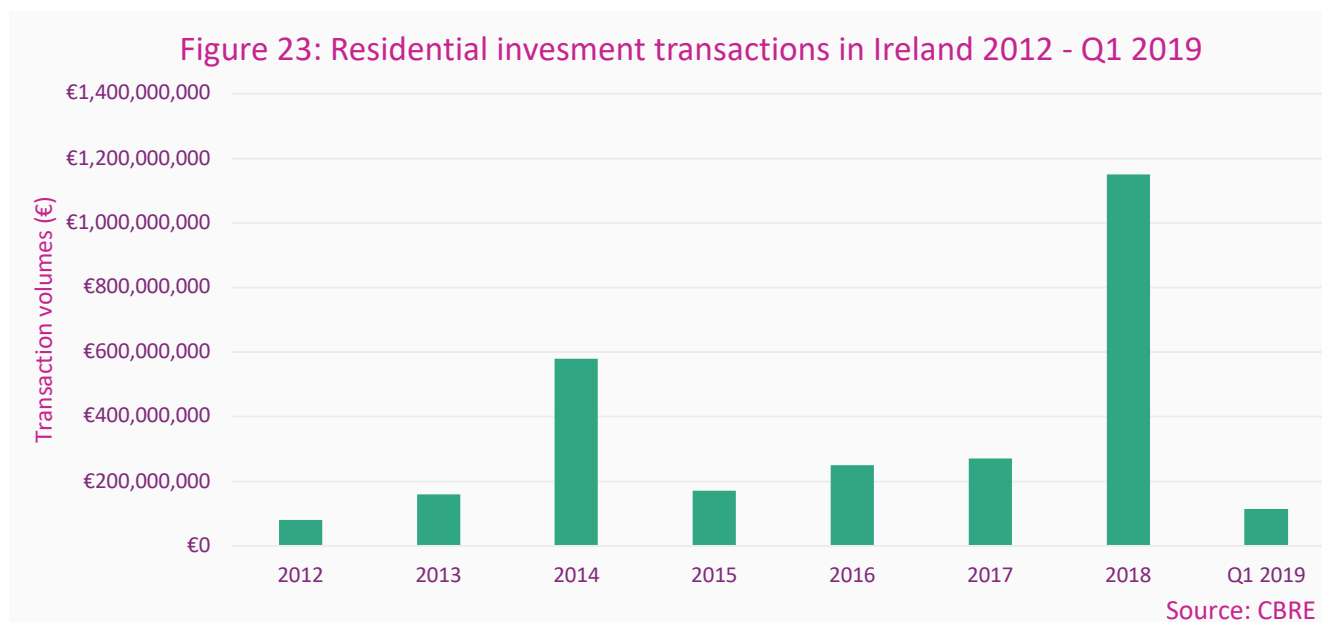
¹² The prevailing price per unit that a PRS investor would be willing to pay is calculated by annualising the monthly asking rent in each location and capitalising it by using a gross yield of 5%. The source of the rent prices is the Residential Tenancies Board (RTB). These rents are for the most part passing rents, and in order to ascertain asking rents, they are increased by 15%.

Figure 22: Viability still challenged in Dublin
Analysis by Dublin location – Gross yield 5%

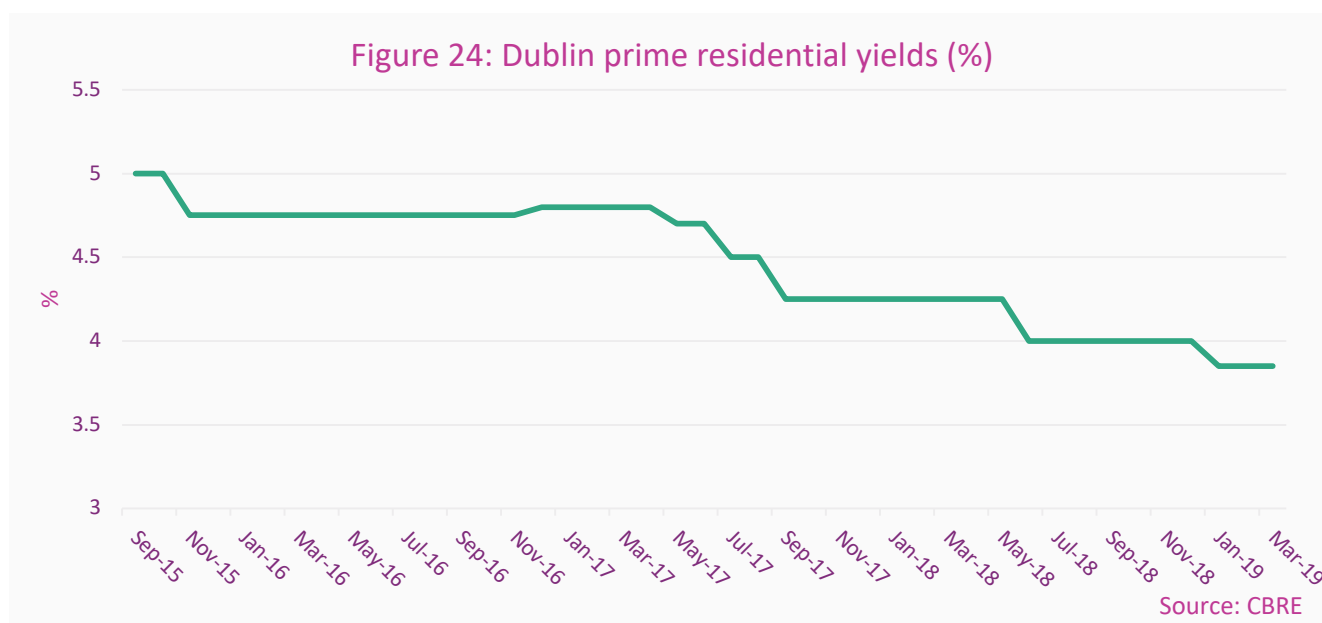


7. PRS as an asset class – remains attractive to institutional investors

PRS has seen extremely strong growth as a sector in Ireland in the past year, with over €114 million of residential transactions completed during the first three months of 2019 alone¹³. Since 2012, there have been more than 130 residential investment transactions of €1 million or more, and 2018 was the strongest year so far. PRS investment has been largely focused on Dublin, with 81% of transactions in excess of €1 million occurring within the capital.

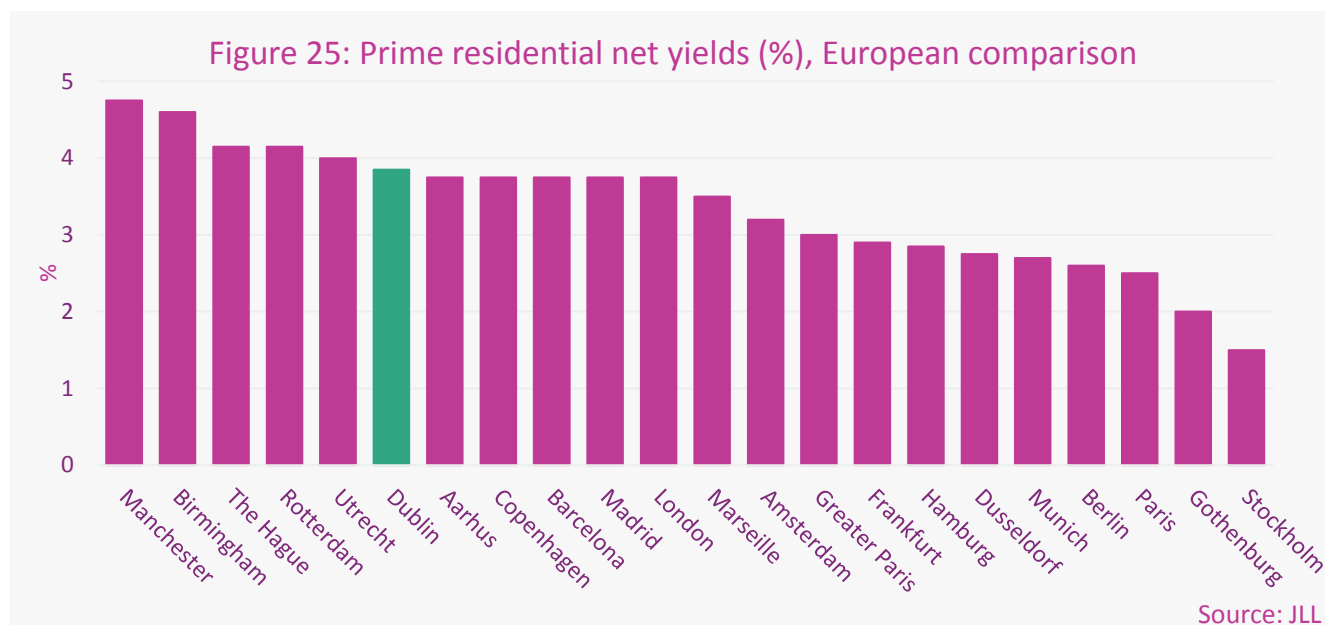


According to CBRE, the volume of institutional equity targeting the residential investment sector in Ireland now exceeds €6.3 billion, with considerable interest from European, Canadian, UK, and US investors. As a result of this strong demand, prime PRS yields have fallen. Prime residential yields in Dublin currently stand at 3.85%, having compressed by 40 basis points in the past 12 months and by approximately 100 basis points over the past two years.



¹³ Ireland Residential Investment Market View, CBRE, Q1 2019

However, despite this yield compression, Dublin PRS is still attractive on a relative basis when compared with many of its European peers. For example, prime PRS net yields are in the region of 3% or less in a number of cities in Germany, France and Sweden.



Benign interest rate environment the anchor for property yields

On a unilateral basis, 3.85% yields are demanding but in an environment where long-term interest rates in Ireland are close to zero, current prime PRS yields are justified. The prevailing low level of yields, on not just PRS, but all property sectors are anchored by this benign interest rate environment. The obvious risk to property values is the impact of possible interest rate increases in the future. However, there does not appear to be any imminent risk of higher interest rates over the coming year given the fact that, as the ECB has stated, ‘...interest rates (are) to remain at their present levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term¹⁴’. The ECB has forecast annual inflation rates of 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. If these inflation forecasts prove to be correct, then the prospect of significantly higher interest rates is remote.

The obvious risk to property values is the impact of possible interest rate increases in the future. However, there does not appear to be any imminent risk of higher interest rates over the coming year

¹⁴ ECB Governing Council Meeting - 6 June 2019 press release

Conclusion

The demand for rental accommodation in Ireland, particularly in Dublin, has shown no signs of abating over the past 12 months. Along with other demographic factors, 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.

However, a persistent and well-flagged problem is the lack of residential density in Dublin, with a very low proportion of apartments, and a very high proportion of houses, that make up the stock of residential units in the capital.

There are, however, tentative signs of an increased supply of new apartments in the capital, both in terms of units built and units in planning, with apartment supply now starting to outpace the supply of single-family dwellings. Nevertheless, progress remains slow and the actual number of apartments being constructed still falls well short of what is required.

As a consequence of strong underlying demand and relatively sluggish supply, rents grew strongly again last year, with Dublin rents now the fourth most expensive in a survey of 53 global cities in which to rent an apartment, up from the sixth most expensive in 2017.

Given the strong growth in rents, rental affordability has become more of a challenge for certain locations in Ireland and certain household cohorts in Ireland. Rental payment as a percentage of tenants' household disposable incomes is highest in Dublin, the surrounding Mid-East region and Cork city. Rental affordability is particularly challenging for lower-income households, but much less so for higher income households.

This would indicate that rents for prime PRS 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.

What is 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 non-existent 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.

In the majority of cases, the construction of apartment blocks is only viable because investment funds have the capacity to pay the high costs involved. It is not the case that these apartment blocks would have been built in any event. This is because the average household/owner-occupier would not be in a position to pay a price high enough to cover the construction costs of standalone suburban and urban apartment blocks. Essentially, the institutional investors in PRS can afford to pay a sufficient premium to the break-up value of the apartment blocks to warrant their development in the first place.

Eurostat 2018 Current Market Rents

The rent data in the Eurostat 2018 Current Market Rents publication are part of a wider programme of work, the objective of which is to compare the relative cost of living of international civil servants, in any place of employment, with that of Brussels, the reference city. The work is carried out by the International Service for Remunerations and Pensions (ISRP) at the OECD and Eurostat, with the assistance of National Statistical Offices.

ACCOMMODATION

Real estate agents are asked to provide the monthly rent for various types of accommodation, excluding charges and utilities, for an unfurnished property. The quality of the accommodation should be good to very good, but not luxurious.

TYPES OF DWELLINGS SURVEYED:

Five different types of dwellings are surveyed:

- Three-bedroom flats
- Two-bedroom flats
- One-bedroom flats
- Non-detached houses
- Detached houses

GENERAL CHARACTERISTICS:

Location: Residential area of good quality

Year of construction or major modernisation: Within the last 10 years

Situation: Middle floor

Outlook: In good, well-lit position

Finish: Floors, walls, sanitary fittings, doors, etc. of good quality

Living area: Total internal habitable area, excluding garage and terraces

DETAILS ON THE NEIGHBOURHOODS

Special attention is given to the neighbourhood, which is a most important determinant for rent level. Since the aim of the entire exercise is to compare like with like, the neighbourhoods surveyed may not necessarily be in those areas where expatriates actually live, but comparable with those actually occupied by officials in Brussels.

These neighbourhoods are described as residential areas of good quality, favoured by expatriates and professional people such as international civil servants, university staff, doctors, managers, etc., who pay their rent themselves (i.e. not paid by their employers).

DETAILS ON THE SURFACE AREA

Within each of the types of accommodation, there are different sizes for total living space, depending on the housing commonly found in each of the different cities. Rental prices for dwellings surveyed in each city are compared with the rent of dwellings (having the same characteristics and the same surface area) found in Brussels, where a larger sample of housing sizes is considered.

Source: 2018 Current Market Rents, Eurostat and iSRP

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