AN ECONOMIC AND MARKET ANALYSIS OF THE DEVELOPMENT SECTOR

(AND THE FACTORS INFLUENCING DEVELOPMENT IN THE FOUR DUBLIN LOCAL AUTHORITY ADMINISTRATIVE AREAS)

For South Dublin County Council

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Executive Summary

Development contributions are a key instrument to facilitate Local Authorities in the provision of infrastructure and facilities for their administrative area. Such public infrastructure and facilities are central to achieving sustainable development and supporting the type of environment that people wish to live in, and one where communities and businesses can thrive. Development contributions ultimately provide essential resources to support the implementation of development plans (through the provision of physical and social infrastructure).

The four Dublin Local Authorities commissioned Future Analytics Consulting, Lisney and O'Reilly Hyland Tierney and Associates to undertake this *Economic and Market Analysis of the Development Sector*, including consideration of the factors influencing development in the four Dublin Local Authority administrative areas.

The purpose of this analysis is to inform the preparation of a new Development Contribution Scheme for each of the four Local Authorities, which will operate from 01 January 2016 through to 31 December 2020.

As part of the *Economic and Market Analysis of the Development Sector*, a dedicated report has been prepared for each Local Authority area, recognising the unique characteristics which prevail in the property market in each area. The reports encompass: an economic analysis of the current general economic situation across various sectors of the property market within each Local Authority area; an assessment of likely trends in the development sector during the lifetime of the proposed scheme (2016-2020) within each Local Authority area; an analysis of current and future trends in construction and development costs; an analysis of the impact of development contributions on development costs and, as such, development potential and values; and, an evaluation of indexation types followed by a recommendation on the most appropriate indexation to be applied to development levies during the lifetime of the scheme.

Development contributions are an important resource for the delivery of public infrastructure and facilities. They are also one of a number of costs to a developer, and are thus a consideration in determining viability. Changing property values, land values, state interventions in the market (e.g. mortgage lending criteria), finance availability and constructions costs are some of the other key components which will influence the level of development over the next five years.

Overall, it is important to note that the outlook in the property sector is generally positive but the market remains in recovery mode following a protracted downturn and as such, is still fragile in some areas. Not all new construction is currently viable and end demand is not uniformly spread throughout the four Dublin Local Authority areas.

Based on the analysis conducted, the research recommends the application of the *SCSI Construction Tender Price Index*, which is a measure of the average price adjustments for variant projects and locations. The Index includes for price adjustments to materials and labour costs on construction projects.

1.0 Introduction

The four Dublin Local Authorities (Dublin City Council, Fingal County Council, South Dublin County Council and Dun Laoghaire Rathdown County Council), appointed the project team of Future Analytics Consulting, Lisney and O'Reilly Hyland Tierney and Associates to conduct this *Economic and Market Analysis of the Development Sector*, and to consider the factors influencing development in the four Dublin Local Authority administrative areas.

The analysis will inform the review of the existing Development Contribution Scheme for each of the four Local Authorities, and the preparation of new Development Contribution Schemes for the period 01 January 2016 to 31 December 2020.

The purpose of this report is to provide an economic and market analysis which will help to inform South Dublin County Council (SDCC) of existing and future market conditions and to ensure that the right balance is achieved between raising funds for infrastructure and not unduly imposing excessive costs that result in reduced economic activity, limit job creation opportunities or facilitate unsustainable development.

1.1 Development Contribution Schemes

Each Local Authority is required to make a General Development Contribution Scheme under Section 48 of the Planning and Development Acts 2000-2014. The contribution scheme outlines the rate of contribution to be paid in respect of public infrastructure and facilities benefiting development in the area of the Local Authority, and that is provided, or that it is intended will be provided, by or on behalf of a Local Authority.

The scheme shall state the basis for determining the contributions to be paid in respect of public infrastructure and facilities and shall state the basis for determining the contributions and shall identify the different classes of public infrastructure and facilities to be provided and shall have regard to the actual estimated cost of providing the classes of infrastructure and facilities. The scheme may allow for the payment of a reduced contribution or no contribution in certain circumstances, in accordance with the provision of the scheme.

This document, an *Economic and Market Analysis of the Development Sector*, will help to inform the preparation of the Development Contribution Scheme for the period 01 January 2016 to 31 December 2020 and will form the basis for determination of the specified contributions.

1.2 Contributions and Infrastructure and Facilities Provision

Contributions are collected by a Local Authority in order to provide infrastructure and facilities for the city or county. The income generated from development contributions is a critical source of capital funding for the four Dublin Local Authorities which is utilised to part fund essential public infrastructure. The type of infrastructure provided includes roads, surface water/flood relief works, urban regeneration, parks and community facilities and amenities. This type of public infrastructure is essential for sustainable development in order to provide the type of environment that people wish to live in and that communities and businesses can thrive in - it is for the benefit of the population of the city and county. Furthermore the economic recovery of the city and county is dependent on having the type of infrastructure in place that facilitates a return to sustainable growth.

1.3 Legislative and Policy Context

Sub-section (1) of Section 48 of the Planning and Development Act, 2000 enables a planning authority, when granting a planning permission under Section 34 of the Act, to include conditions requiring the payment of a contribution in respect of public infrastructure and facilities benefiting development in the area of the planning authority, and that is provided, or that it is intended will be provided, by or on behalf of a Local Authority (regardless of other sources of funding for the infrastructure and facilities).

A number of changes to the legislative and policy context relating to the making of Development Contribution Schemes have occurred or have been proposed in recent years.

The ***Urban Regeneration and Housing Act, 2015*** amends Section 48 of the Planning and Development Acts 2000-2014 to allow that development contributions can be lowered to reflect lower contribution rates that would apply had the scheme been granted planning permission at that time. If a commencement notice has not been lodged or where the development comprises houses and one or more of those houses has not been sold the planning authority shall apply the change. The latter is only to apply to those houses that are yet unsold.

The Act introduces a vacant site levy. A site is considered to be vacant if in the case of residential land it is situated in an area in need of housing, the site is suitable for the provision of housing and the site or the majority of the site is vacant or idle; and in the case of a site consisting of regeneration land, the site is vacant or idle and the site being vacant or idle has adverse affects on existing amenities or reduces the amenities provided by existing public infrastructure and facilities. The Local Authority must make a determination as to the market value of the site and shall levy the owner every year from 2018 onwards a percentage of the assigned fixed value (0%, 0.75%, 1.5% or 3%). The vacant site levy may provide an incentive to landowners and developers to bring sites forward for planning and development. The implications of payment of the levy and the requirement to bring sites forward may have interactions with viability depending on the market at the time.

The Act amends Part V of the Planning and Development Acts 2000-2014. The previous 20% social and affordable housing requirement has been reduced to 10% social housing. Furthermore, the Act amends Section 97 of the 2000 Act, by increasing the threshold upon which the social housing requirement would become applicable, from the current position of schemes greater than 4 no. housing units, to schemes greater than 9 no. housing units.

Development Contributions: Guidelines for Planning Authorities was published by the Department of Environment, Community and Local Government (DECLG) in 2013. This provides guidance to Local Authorities in relation to the making of the Development Contribution Schemes. There are a number of requirements which must be incorporated into the scheme. These include but are not limited to: reduced rates or waivers for development in town centres; reduced rates for temporary permissions; reduced charges for renewable energy developments; and promoting the development of areas prioritised in the core strategy (sets out how the development plan is consistent with national and regional legislation and sets out the zoning requirements for residential use) prepared by the Local Authority. The spirit of the Guidelines is oriented, in the main, towards those locations where the impact of the economic downturn has been most severe and where such interventions can stimulate sustainable economic activity and development patterns. Accordingly, given the position of Dublin city and county as the economic driver for Ireland as part of the NSS Gateway, development areas across the four Dublin Local Authorities are deemed to have equal status (in importance) as facilitators for sustainable growth.

Irish Water is now the responsible authority in relation to the provision of water services. The water element of Development Contribution Schemes has therefore been removed in order to reflect this change. Since January 2014, Irish Water now levies a charge in respect of water services infrastructure provision for developments granted planning permission.

An annual ***Local Property Tax (LPT)*** charged on all residential properties in the State came into effect in 2013. The LPT is collected by the Revenue Commissioners. The LPT is levied on any building or structure (or part of a building) which is used as, or is suitable for use as, a dwelling and includes grounds of up to one acre. The LPT does not apply to development sites or farmland. The tax payable is based on the market value of relevant properties and this is declared through self-assessment of the value. **It is prudent to note that the LPT is a tax payable to the Revenue Commissioners and does not provide income to Local Authorities for use for the provision of infrastructure (such infrastructure is facilitated via 'Section 48' provisions within the Planning and Development Acts 2000-2014).**

1.4 Current Contribution Rates for South Dublin County Council (from January 2014)

The current development contribution rates for South Dublin County Council are listed below. The rates reflect a reduction introduced from 01 January 2014 given that Irish Water is now the responsible authority in respect of water supply and waste water services.

	Residential	Commercial
South Dublin County Council	€85.06 per sqm	€78.68 per sqm

Table 1: South Dublin County Council Development Contribution Scheme Rates

2.0 Economic Analysis

The following section provides an analysis of the prevailing conditions and five year outlook for the property market, focusing on development land, residential, office, retail and industrial. The general factors influencing development are discussed in conjunction with an analysis of the land market and then trends in the other property market sectors are reviewed thereafter.

2.1 Overview of Terminology

Before reviewing the property market and for the avoidance of any doubt on the meaning of certain terminology throughout this section, we have set out in the table below a list of some of the key words and phrases used with a brief explanation of each.

<table>
<tr><td>Affordability</td><td>Affordability relates to a potential purchaser's ability to get and then fund a mortgage each month. There are a number of components to affordability including property prices, mortgage interest rates and disposable income.</td></tr>
<tr><td>Capital Gains Tax (CGT)</td><td>Budget 2012 introduced measures whereby an investor purchasing either residential or commercial property, between the start of 2012 and the end of 2014, could avail of a seven year waiver from capital gains tax once they held the property for a minimum of seven years. This encouraged a significant volume of investment over the three years and in particular, in the second half of 2014. In the residential market, this was particularly noticeable in the apartments market and did assist in driving prices upwards at a fast pace in 2014. This benefit has now ended, which means that a large proportion (but not all) of investor demand has left the market. This may be feeding into the slight falls in prices over the opening months of 2015.</td></tr>
<tr><td>Central Bank Restrictions on Residential Mortgage Lending</td><td>This legislation was introduced in January 2015, the aim of which is to encourage prudent lending by implementing strict limits on the amount lent relative to a purchasers' income and the value of the property and as such, reducing the risk of prices reaching unsustainably high levels. There are different rules for first time buyers (FTB), mover purchasers (MP) and investors in terms of loan-to-income (LTI) and loan-to-value (LTV) ratios. There is scope within the legislation to amend the limits set out below as market conditions change.
<table>
<tr><th></th><th colspan="2">LTI</th><th colspan="2">LTV</th></tr>
<tr><td>First Time Buyer</td><td>3.5 x gross income</td><td rowspan="2">20% of all FTB and MP mortgages can exceed this limit per year</td><td>90% up to €220,000 property value (i.e. 10% deposit)

80% on balance over €220,000 property value (i.e. 20% deposit)</td><td rowspan="2">15% of all FTB and MP mortgages can exceed this limit per year</td></tr>
<tr><td>Mover Purchaser</td><td>3.5 x gross income</td><td>80% loan (i.e. 20% deposit)</td></tr>
<tr><td>Investor</td><td>No income limits</td><td></td><td>70% loan (i.e. 30% deposit)</td><td></td></tr>
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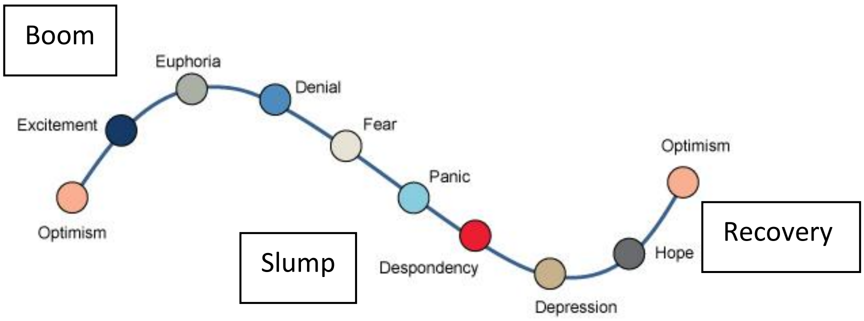
	It should be noted that mover purchasers who wish to carry negative equity from an existing home will not be subject to the rules as they will be utilising specifically tailored mortgage structures. The impact of the regulations is not yet fully known as those with mortgage approval for six or nine months that pre-dates the commencement of the rules are still working through the system and because so much of the market is made up of cash purchasers. However, it is evident that in conjunction with other factors (see page 10), these rules have dampened the market in the Dublin region with values falling slightly over the opening months of the year.
Development Land	Development land refers to zoned lands capable of being developed with buildings. Development lands can be greenfield (have not been previously developed – usually outer suburbs lands) or brownfield (buildings were previously on the land – usually more central locations).
Development Land Value	Development land value refers to the price potential purchasers would pay for zoned land (i.e. this is different to property value which refers to actual constructed buildings, see below).
Design Standards	Reference to design standards in this document refers to the Department of the Environment Community and Local Government's (DECLG) National Building Regulations and SDCC's development management standards. Examples include, but are not limited to, those standards relating to energy efficiency, basements in higher density schemes and the various requirements relating to apartments (size, cores, aspect, floor to ceiling height and balconies).
FTB	First Time Buyer - a person buying a residential unit who has not previously owned a home.
High Density	In the case of South Dublin County Council's administrative area, high density refers to greater than 50 residential units per hectare.
Marginal Sites	Sites that are just at or close to viability. A small negative change in any one factor relating to end value or cost can make a scheme unviable.
Medium Density	In the case of South Dublin County Council's administrative area, medium density refers to 35 - 50 residential units per hectare.
MP	Mover Purchaser - a person buying a residential unit who has previously owned a home.
Multi-Family Investment	A block of residential units, each in separate occupation but with one overall owner, e.g. a block of 50 apartments owned by an investor but with 50 individual lettings.
Off Market	Not publically advertised.
Pre-Let	Constructing a new building with an occupier (either tenant or owner-occupier) in place before construction starts. This is a less risky type of construction as it is known from the outset that the building will generate income once complete. Banks are more willing to finance such construction.
Property Market Cycle	Recognised theory suggests that the property market follows a predictable cycle and has three recurring phases - boom, slump and recovery. International evidence suggests that cycles can range from four to 12 years. The process is illustrated in the diagram below:

	 The Dublin property market is currently in the early recovery stage.
Property Value	Property value refers to the price potential purchasers would pay for constructed buildings (i.e. this is different to development land value as set out above).
Speculative Construction	Constructing a new building with no occupier (either tenant or owner-occupier) in place before construction starts. This is the most risky type of construction as the developer does not know if the building will generate income once complete. Banks are generally reluctant to finance speculative construction.
Take-Up	The amount of empty accommodation either let to a tenant or sold to an owner-occupier over a period of time - generally annually or quarterly. Sometimes this is referred to as 'activity'.
Vacancy Rate	The amount of empty accommodation available to rent or buy, divided by the total stock of accommodation.
Viable / Viability	A new property development is viable if the end value of the completed scheme exceeds all costs associated with development including an element of profit for the developer, i.e. ***End Property Value*** (Commercial or Residential) *Less* ***Development Costs*** • Construction Costs • Letting and Disposal Costs • Fees and Development Levies • Finance on Construction Costs • Site Acquisition Costs (Site + Finance) *Equals* ***Developers Profit (expressed as a % of Costs)*** For a scheme to be viable, a developer in the current market generally requires a profit of 15% of construction cost but this may increase for certain types of development that are considered very risky or a very large project. This measure of 15% of construction cost is the accepted industry standard and it is at this level due to the high levels of risk associated with development and because a developer cannot get funding unless this level of profit is factored into the analysis. Sometimes developer's profit is represented as a percentage of end-value (which is a lower percentage). However, it is not an accurate measure of risk to the developer and is rarely used. New construction will generally not commence if it is not viable because the developer would not break even and will lose money.

2.2 Development and Land

- The mid 2000's were years of exceptionally strong residential and commercial property development and the development land market peaked in 2007. For the following two years, schemes were completed but little or no new construction commenced. During this time (2008/2009) and for the following three or so years, only a very limited number of sites either came to the market or were sold. Additionally, new construction levels ran at all-time low rates. Small infill sites in the suburbs were the first to be offered to the market in late 2012 due to their improving viability. In the latter part of 2013 some larger parcels of land started to come to the market and this trend strengthened in 2014.

- 2014 was the strongest year since 2007 in the development land market with supply, demand, activity and values all increasing across the Dublin region. However, activity slowed slightly in the first quarter of 2015 (due to fewer sites coming to the market) before picking up again in Q2. Demand is still very strong. 2014 was notable for the sale of larger sites and while smaller sites dominated Q1, some larger sites have come to the market in Q2.

- Purchasers were a mix of national and international investors/developers in 2014. For larger sites it was evident that blended buyers were in the market whereby international private equity financiers were joining forces with local developers who had experience and market knowledge. However, in the opening months of 2015, the market became more Irish in nature. This is likely as a result of the smaller lot sizes of sites. Off-market deals are also a feature of the market. With sales such as these, the sites are usually put to a small number of prospective purchasers and concluded with an informal tender.

- While not within SDCC's boundary, it is important to recognise some of the high profile sales either recently completed or currently ongoing in the Dublin region. These sales are important because they provide an overview of trends generally in Dublin land sales. Noteworthy redevelopment opportunities sold in the city centre include the Garda Headquarters on Harcourt Street in Dublin 2 (€70m) and Cumberland House on Fenian Street in Dublin 2 (€49m). Currently for sale is Project Trinity (the Clyde Court and Ballsbridge hotels); Tara House on Tara Street, Dublin 2; the former British & Irish Steam Packet site on Sir John Rogerson's Quay, Dublin 2; and the former An Post site on Cardiff Lane, Dublin 2. In terms of some of the suburban residential sites (in all four of the Dublin local authority areas) where sales were completed in the first half of the year, examples include the 0.51ha former Europa Motors site in Blackrock (€7.5m); the 3.3ha Marianella site on Orwell Road (€42m); 7.8ha at Barrington Towers, Brennanstown Road (€18m); 6.7ha at All Hallows in Drumcondra; 13.9ha at The Spawell in Templeogue (€9m); and a 0.51ha site on Parnell Road, Dublin 12 (€2.3m). Examples from 2014 include a 9.9ha site on Scholarstown Road, Dublin 16 (€37m) and 27.5ha site at Hollywoodrath in Tyrrelstown, Dublin 15 (€11.5m); a 5ha site on Bray Road in Cabinteely (€13m) and a 3.26ha on Limekiln Lane in Greenhills, Dublin 12 (€7.8m).

- As mentioned in section 1 of this report, the Urban Regeneration and Housing Act 2015 was signed into law in late July and impacts on property development. The changes to Part V and retrospectively reducing development contributions on existing planning permission will enhance the viability of projects in certain areas. The impact of the vacant site levy will not be known until 2019/2020 when it comes into operation and it will need to be monitored.

- Where sites are shovel-ready, premiums are often paid. This is clearly due to the persistent supply shortages of residential and office accommodation. In SDCC's administrative area, the key focus remains on medium density residential development.

- Generally, medium-density residential development (35-50 unit per hectare) is viable in most of SDCC's administrative area – from Scholarstown, Dublin 16 as far as Saggart, Co. Dublin. In terms of higher density (greater than 50 units per hectare) along the Luas, there are still a number of over-hanging schemes where issues need to be resolved before new high density construction becomes viable and construction commences, this may take some time.

- Office development is just approaching viability in Citywest Business Campus, where top rents are at €200 psm (€18.50 psf). Within the next two years, we believe about 14,000 sqm of office accommodation will be built in this park (to the rear of SAP's building) with potential for up to another 10,000 sqm possible in the follow three years to up to 2020. This is as a result of persistent demand for accommodation in this area and rising rents (rents have increased by 33% in Citywest in the last two years).

- In March 2014 planning permission was granted for the development of two independent extensions to Tallaght Town Centre. The north extension will comprise an anchor with eight mall units while the southern extension is at level three and comprises an anchor store. The proposed development is as a result of market demand for more retail in this location. Additionally, works are ongoing in providing an extension to Liffey Valley Shopping Centre, whereby a new anchor store will be added plus restaurants and an upgraded cinema. Again, this is viable construction due to the demand for another anchor store in the centre and more food units. In the next two to three years, the only other notable retail development likely in the SDCC area will be a further extension to Liffey Valley Shopping Centre.

- While new industrial property construction is not currently viable in the area (or in any part of the country), a limited number of new schemes will progress in SDCC in the next few years. This is due to the lack of large, modern units, for which there is strong demand. However, prevailing rents (€74 psm / €6.90 psf) are still well below the level required for a developer to breakeven (approximately €150 psm / €14 psf). This will mean that potential occupiers will have to enter into design-and-build deals with developers and pay an "economical" rent rather than the market rate. This economical rent will be higher and is the level that justifies development.

- The viability of any new construction depends on various factors relating to the cost of construction and the end value of the scheme. With property values generally improving, this side of the equation has become more favourable. However, there are a wide range of costs that can still be an issue for a developer considering construction. Examples include rising tender costs, the cost and availability of finance for both site purchase and construction (for some but not for all), rising land values, design standards (see overview of terminology in section 2.1), VAT on new housing, Part V requirements and local authority development contributions. The severity of the impact of each of these costs varies from scheme to scheme and changes depending on location and type of property being developed. Some of these costs are changing continually, certain ones becoming more favourable and others more expensive, which have both a positive and negative impact on viability.

- Another cost to the developer is the interest they must pay on finance, both on site acquisition and on construction. Over the last 18 months, the landscape for development funding has changed with its availability improving. The cost of finance can vary significantly depending on financier. Current sources in the market include:

    - Private Equity - funds such as M&G Global, Centrebridge, Oaktree, King Street Capital and Broadhaven have joined up with Irish developers and directly funded various projects. The cost of this capital varies significantly from low levels to rates in the late teens;

    - NAMA - it has funded residential schemes at very low rates of approximately 5% for developers such as Cosgrave Property Group, Gannon Homes, Park Developments and Bovale Developments;

    - IPOs - Cairn Homes PLC floated on the London Stock Exchange in June and raised approximately €400m in new capital to fund its purchase and development of sites in Ireland. The cost of this finance is effectively zero;

    - REITs - similar to Cairn Homes' IPO, the three listed Irish REITs (Green, Hibernia and IRES) are funded through money raised from the stock market;

- Strategic Investment Fund - the €7bn former Pension Reserve Fund has now become the Ireland Strategic Investment Fund, the aim of which is to facilitate a redeployment of the resources on a commercial basis to areas of productive development. Infrastructure and property can form part of this, however any proposals must comply with the requirement for 'double bottom line' whereby it must provide an economic impact and an investment return;
- Banks - traditional bank lending is generally only on offer on prime opportunities in key areas and only for development (i.e. not site purchase). There is an emerging trend of blended rates from mainstream banks with mezzanine debt providers;
- Cash - there are various domestic builders who are using their own cash to fund purchases and schemes.

- NAMA plans to fast-track residential development by way of licence agreements with builders. It is currently running a test case in Maynooth, Co Kildare by selling a 6.1ha site with planning permission for 136 units. In evaluating proposals, NAMA will take account of the level of offer and structure, the potential purchaser's track record and proof of funding. Therefore, those with an existing construction platform capable of delivering the units within a certain timeframe will be best placed to be successful. Should this method of sale prove successful, NAMA will roll out further sites in the greater Dublin area in this manner. The key benefits are that the developer never actually buys the site so no stamp duty is payable and no large upfront site acquisition payments need to be made, possibly just a deposit (depends on the deal structure but perhaps about 10% of the site value) and then as completed units are sold, a percentage of the sale price goes to the land owner. It is a useful way to curtail land hoarding and expedite the delivery of units into the market place. Such a format could be used for some key sites in SDCC's administrative area in the future.

- **Outlook** - the outlook for the development land market over the next five years is positive. With improving economic conditions and a growing population, there will be demand for residential and commercial properties in the short-term. Given that there are supply constraints in some parts of the property market in the SDCC area, new development will be required and consequently, more land will transact. The most important factors influencing viability and the level of new development over the next five years will be:
  - Changes in property values - the greater the increase in property values, the more property is likely to be developed as rising prices assists be making new construction viable.
  - Changes in land values – the greater the land value, the higher end property values need to be for a scheme to be viable. If land values increased dramatically, then areas that are currently viable to develop new accommodation may no longer be unless property prices can increase to match this (this just relates to new land sales and if a developer purchased land earlier in the property market cycle, this will be less of an issue). Generally speaking if land prices increase by 30%, then end property prices need to increase by 5% to match it (if all other costs remain static).
  - State intervention - unexpected changes to legislation can affect prices and viability. For example, changes to mortgage lending criteria (discussed on page 4) have had a negative effect on the market in the first half of 2015 and if other unexpected interventions were to occur, these too could have an impact (these could be positive or negative). The recent implementation of the Urban Regeneration & Housing Act 2015 is another example with the vacant site levy and the changes to Part V likely to have an impact on the development land market and on viability in the coming years.

- Finance - as mentioned above, the availability of finance for site purchase and construction has improved significantly over the last 18 months. For future development to occur at a reasonable pace, finance needs to remain available at reasonable rates.
- Local Authority development contributions – while only part of a wide range of costs to the developer, the levy rate does have an impact on viability of schemes, particularly when at the recovery stage of the property market cycle.
- Local authority development standards - increased standards above and beyond building regulations adds to the cost of construction and does affect the viability of schemes.
- Construction cost - as noted in the analysis for the projection for construction tender prices 2016-2020 the market has developed from a bottoming out period in 2010-2011 with modest inflation in the period 2012-2013 with a more acute increase in 2014. It is anticipated based on current market conditions that the period 2016-2020 will be a continuation of increasing construction tender prices the scale of which will be dependent on market influencing factors including (but not limited to), (i) construction output as % of GNP, (ii) available labour & specialist construction companies and (iii) development of key sectors of residential, offices and retail.

2.3 Residential

- This section focuses on the sales and lettings markets in Dublin. The trends discussed below relate to both new and second hand properties as this provides an overview of the entire residential market, which is required when considering future new construction. It should be noted that the majority of purchasers do not distinguish between new and second hand residential units when buying a property.
- Between 1996 and 2006, residential property prices in Dublin grew by 419%[1]. The market then peaked in Q3 2006 and prices continued to fall for the following five and a half years until Q1 2012[2]. This was one of the OECD's largest and most protracted downturns.
- A significant recovery occurred very quickly between mid-2012 and the end of 2013 (our index shows growth of 28.7% over this period). As sentiment strengthened and potential purchasers saw prices rising, greater numbers were encouraged back into the market, many having waited on the side-lines for a number of years. In the context of low levels of supply and large amounts of cash, this had a compounding effect and further fuelled the market. In the early part of 2014 prices continued to increase (rising 12.6% over the first six months) and the gap between vendors' expectations and what purchasers were willing to pay widened. With much attention on the market, those looking to buy were more cautious of high asking prices and very focused on affordability (see terminology page 5), which was weakening. In the latter part of 2014, prices continued to rise but at a slower pace (growth of 0.9% in Q4 compared to an average 6% in each of the previous three quarters based on Lisney's index) and much of this was driven by investors availing of the CGT waiver (see terminology page 5) before the end of the year.
- Residential prices increased too quickly in 2014 and since the start of 2015, the market has been correcting itself as it entered into a settling down period with some price declines. The ending of the CGT waiver for investors plus the introduction of the Central Bank's new rules on mortgage lending

[1] Permanent TSB / ESRI House Price Index.
[2] Based on Lisney' Dublin Residential Value Index. It should be noted that the CSO index records a later peak (August 2007) and a later trough (August 2013). This is due to the composition of each index. The CSO's Residential Property Price Index is based on mortgage drawdowns and excludes cash purchases, which has been making up a large part of the market, for the analysis. Additionally, by basing an index solely on the mortgage market, there is a time lag in data by a number of months. Lisney's index is based on the valuation of a basket of properties and as such, there is no time-lag on the data and all categories of purchasers are considered.

also had an impact. Consequently, 2015 got off to a slower start throughout Dublin with approximately one third fewer residential units sold in Q1 compared to the last three months of 2014 (please note that it is not possible to isolate SDCC-area specific data from this). Despite this, Q1 2015 was more active than Q1 2014 with the number of sales in Dublin up by about 36%, and based on initial estimates, Q2 sales are likely to be higher than the same period last year. While some of the activity early this year could be a hangover from the huge levels of activity in the run up to the CGT deadline, we believe that it also shows that demand is still strong. So far in 2015, there remains significant demand from prospective buyers seeking properties in all parts of SDCC but they are very much focused on price and affordability. As such, homes with sensible asking prices are attracting greater levels of interest and selling quickly but purchasers are more reluctant to consider properties that they perceive to be over-priced.

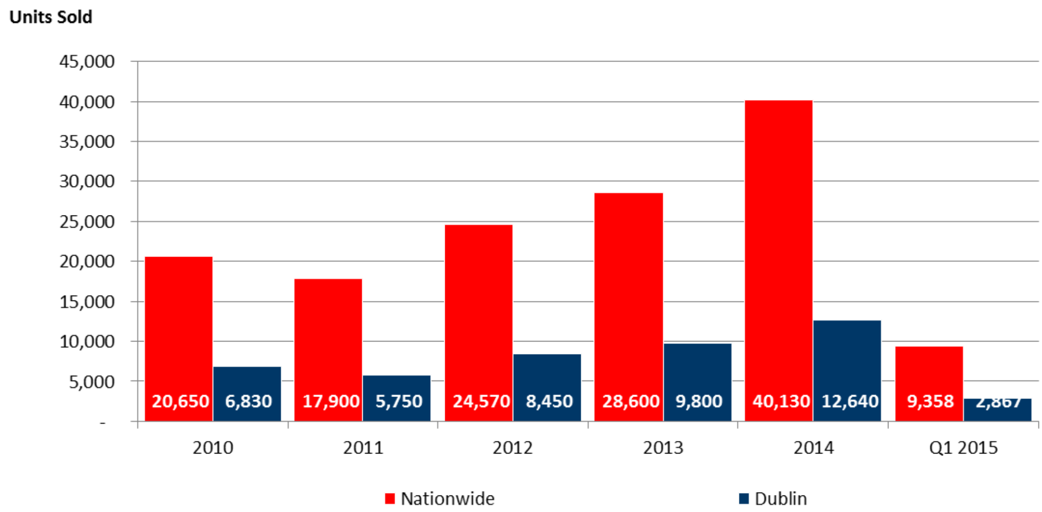


Figure 1: Dublin Residential Units Sold, Source: Property Services Regulatory Authority

- Since 2011 Lisney has been highlighting that there are residential supply constraints in Dublin. Half way through 2015, the problem is as acute as ever despite some improvements over the last 18 months. In percentage terms, the number of residential units for sale has increased by about 110% since January 2014, which is quite large. However, percentages can be misleading and the actual increase is about 2,800 units.

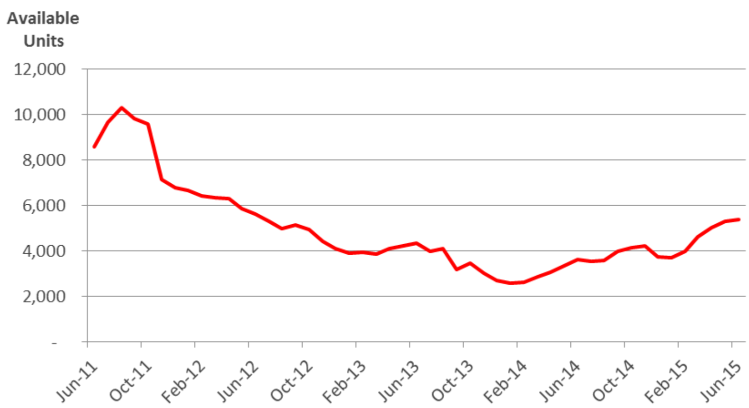


Figure 2: Dublin Supply, Source: MyHome.ie, Lisney

- With overall supply in Dublin currently at just under 5,400 units (half of what it was in mid-2011), this is not enough to provide adequate choice to potential buyers. It is difficult to see how this can improve significantly without intensification in new home construction. As is well reported, residential building remains at very low levels with only 3,270 units built in Dublin in 2014 and just 650 in Q1 2015 - the long-term average (1970-2014) is close to 8,000 per year (or 2,000 a quarter).

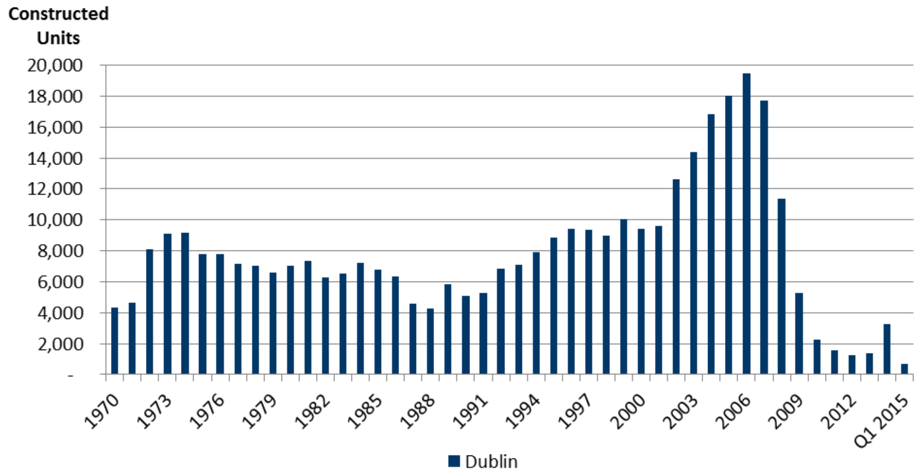


Figure 3: New Residential Construction, Source: DECLG

- The map overleaf shows by area (i.e. former Dublin postcode districts) the number of houses and apartments available for sale as at the start of July 2015. For SDCC's administrative area, it can be seen that levels are low levels.

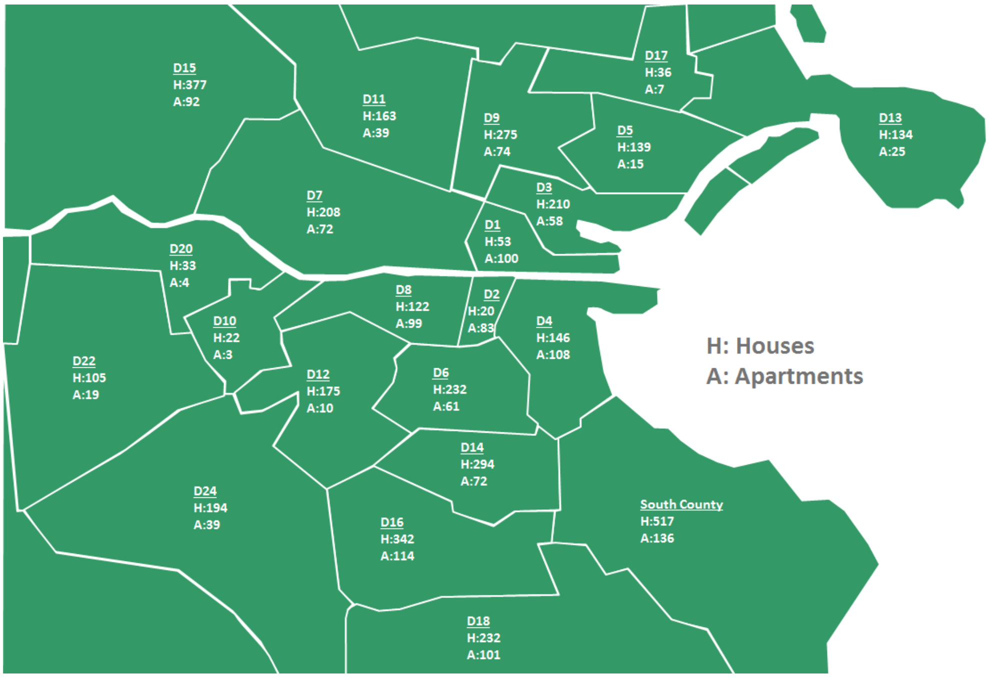


Figure 4: House and Apartment Availability, Source: MyHome.ie

- Cash purchasers are still a very large part of the Irish residential market. Figures are not yet available for Q2 of this year, but Q1 data show that 45% of purchases nationally were made fully by cash. While it is not possible to isolate Dublin or indeed SDCC-area figures from this national figure, from experience in Dublin, we have found that cash makes up about 40% of our sales. These generally comprise properties being bought for investment purposes and higher value homes. First time buyers and those trading up (up to a value of about €1m) are normally financed, however some have larger amounts of equity/deposits than others.

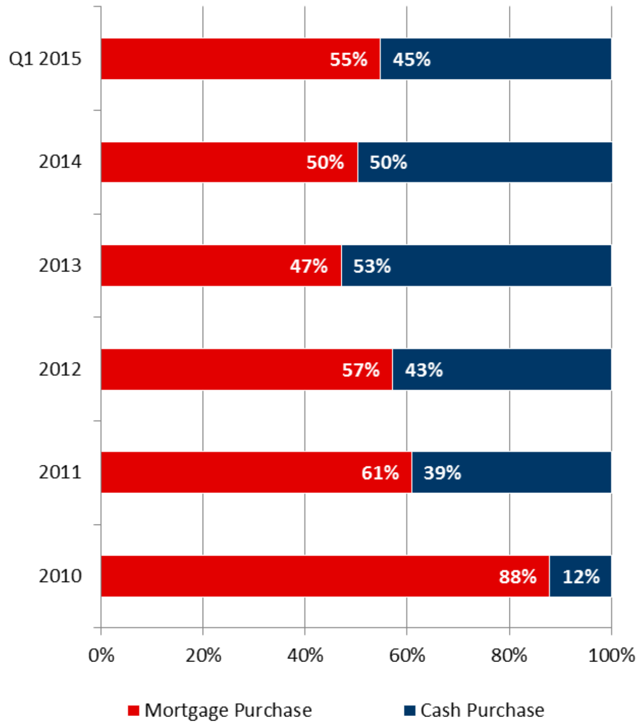


Figure 5: Cash versus Mortgage Funded Purchases, Source: Property Services Regulatory Authority, Irish Banking & Payments Federation, Lisney

- Over the past 18 months the availability of mortgages from banks to potential home owners has become much more favourable. Indeed, banks are now competing with each other for mortgage business. This is in stark contrast to two to three years ago when very little mortgage finance was on offer. However, the issue remains that lending criteria (LTV and LTI - see terminology page 5) are now much stricter than in the past and as such, the numbers seeking mortgages has declined.
- The chart below shows how mortgage lending completely collapsed as the recession took hold. While it does not look significant on the chart, there have been increases in the last year. Taking Q1 2015, €983m was drawn-down in mortgage lending, 70% more than Q1 2014. In terms of the numbers of mortgages given out, they totalled 5,618, a 64% increase year-on-year. These are national level figures and while county level data is not available, it does provide an overall trend. It is important to remember that this most recent data on lending relates to approvals that pre-date the Central Bank rules on deposit amounts and income ratios. It is unlikely that the full impact of these restrictions on mortgage lending will become apparent until all approvals from 2014 run out, which will be in the coming months.

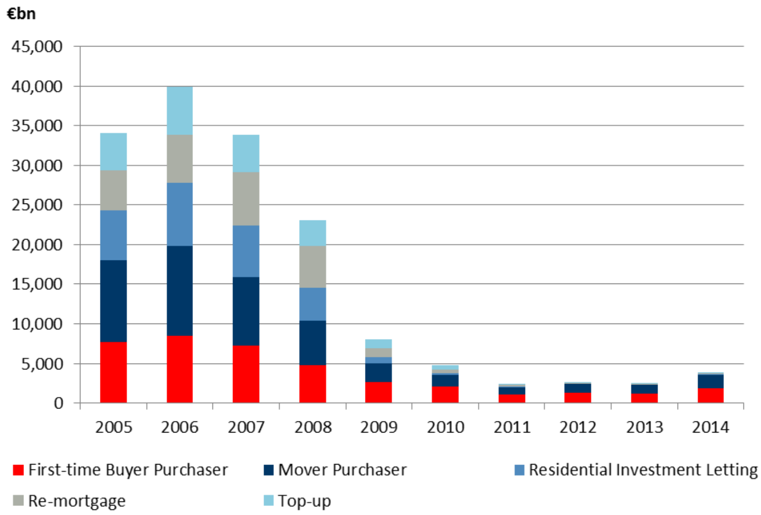


Figure 6: Mortgage Drawdowns, Source: Irish Banking & Payments Federation

- In terms of this Central Bank's regulations on lending, we believe that in the coming years, they will have the most impact on the new homes market. In a large number of cases (albeit not all), new homes are targeted at the FTB end of the market. Imposing a limit of €220,000 on the amount a FTB can borrow with only a 10% deposit (i.e. 90% LTV) will have an impact on the type and specification of homes that developers will consider building. While FTB will only have to have the 20% deposit on the balance over €220,000, given the nature of this type of purchaser in terms of their ability to save large amounts, they are unlikely to pay significantly more than this level (perhaps only willing to spend €30,000 to €50,000 more). As such, a large part of the new homes market will need to be at prices close to €220,000 and not significantly more. There is also likely to be an impact on mid-level purchasers who are trading up. The amount of money they have to spend on a new property will be reduced, which could in turn dampen residential price inflation. Generally speaking, this is the aim of the regulations. However, for those with good levels of equity in their existing homes, it is likely to be less of a problem. For buyers at the very upper-end of the market, the affect will be more limited because this category of purchaser generally has a lot of equity/cash when buying so it will not make a difference to them.
- Lisney's Residential Value Index for Dublin fell slightly over the first half of 2015 (by 3.9% for Dublin overall) and as a result, the annual rate of growth slowed to 2.8% to the end of June (following an annual growth rate of 21.3% in the 12 months to the end of June 2014). It is useful to look at these price changes by way of example. If a house was valued at €300,000 at the start of this year, it is now about €290,000 but was €250,000 at the start of 2014 and €195,000 at the bottom of the market in 2012.

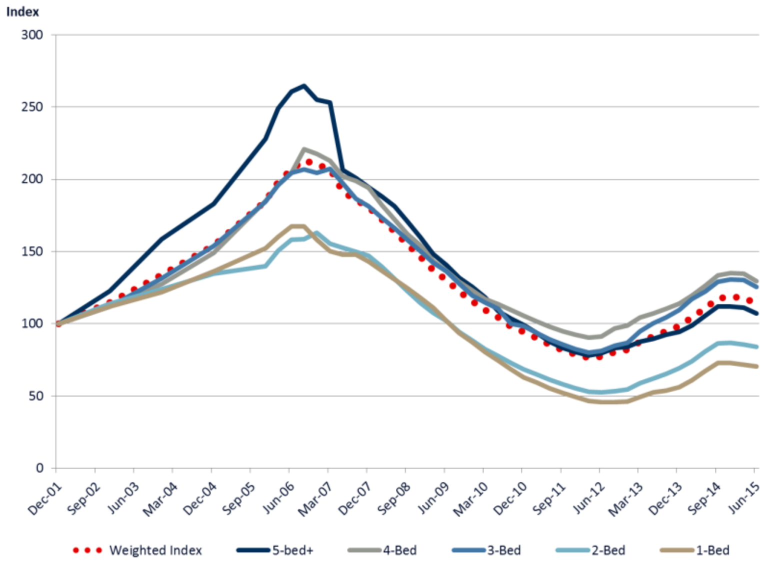


Figure 7: Lisney Dublin Residential Value Index, Source: Lisney

- The Lisney index differs from that of the CSO, which shows that over the first six months of the year, prices fell by 1.1% and over the 12 months, prices are 11.1% higher. However, it is believed that because this index is based solely on mortgage drawdowns, there is a lag on the data and further price falls will be seen in the coming months.

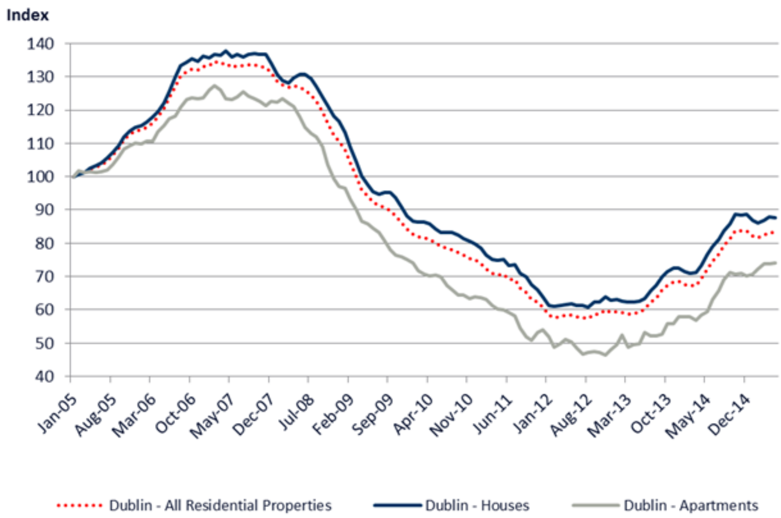


Figure 8: CSO Residential Property Price Index, Source: Lisney

- Affordability is a key issue in Dublin and it relates to a potential purchaser's ability to get and then fund a mortgage each month. There are a number of components to affordability including property prices, mortgage interest rates and disposable income. Based on data from the CSO, average earnings did not change over 2014 (but are likely to improve in 2015) and interest rates generally remain at high levels for new borrowers. As such, property prices are the determining factor of affordability at present and with the price declines over the last six months, affordability has improved.
- According to the DKM EBS Affordability Index, a first time buyer couple in Dublin on average earnings (based on the CSO's Earnings and Labour Costs Survey with Dublin incomes assumed to be 10% higher than buyers nationally) required 22.6% of their net income to fund a mortgage in April 2015 and June

was estimated at 22.1%. This is down from 24.3% in October 2014 (the corresponding figure for December 2011 when the Dublin market was at its most affordable was 14.3%).

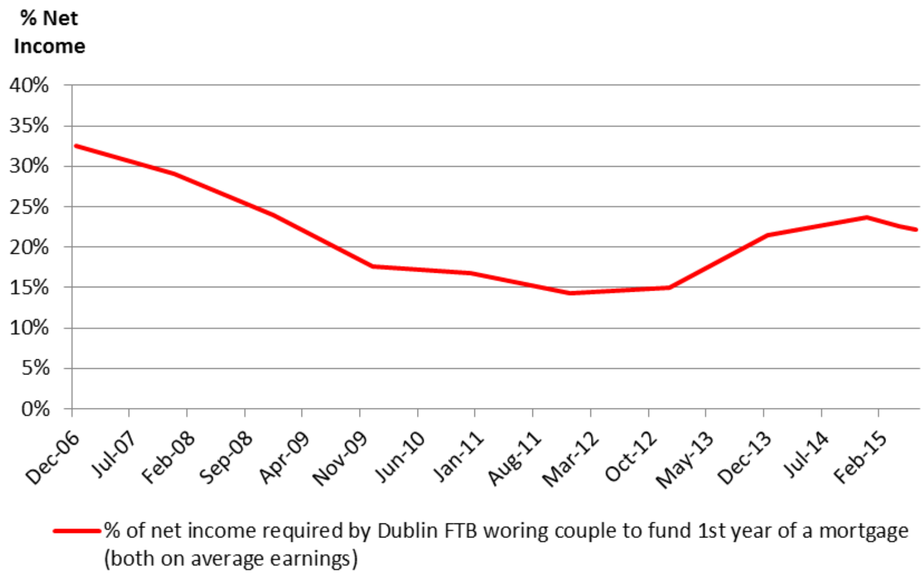


Figure 9: DKM EBS Residential Affordability Index, Source: DKM EBS Affordability Index

- In the rental market, the biggest challenge remains the lack of properties to rent. Across the SDCC region, there is high demand for both apartments and houses. This demand is at an all-time high and the market is really struggling to keep up with this pressure with most units letting at the first viewing. As a result, many tenants are choosing to renew their leases rather than look for alternative accommodation.
- The Private Residential Tenancies Board (PRTB) Rent Index shows that Dublin rents rose by 9.6% in the 12 months to the end of Q1 2015 with apartments (+11%) growing at a faster pace to houses (+7%). Since the market bottomed in early 2011, the PRTB index for Dublin overall has risen by almost 24% and remains just 8% below the peak of the market.

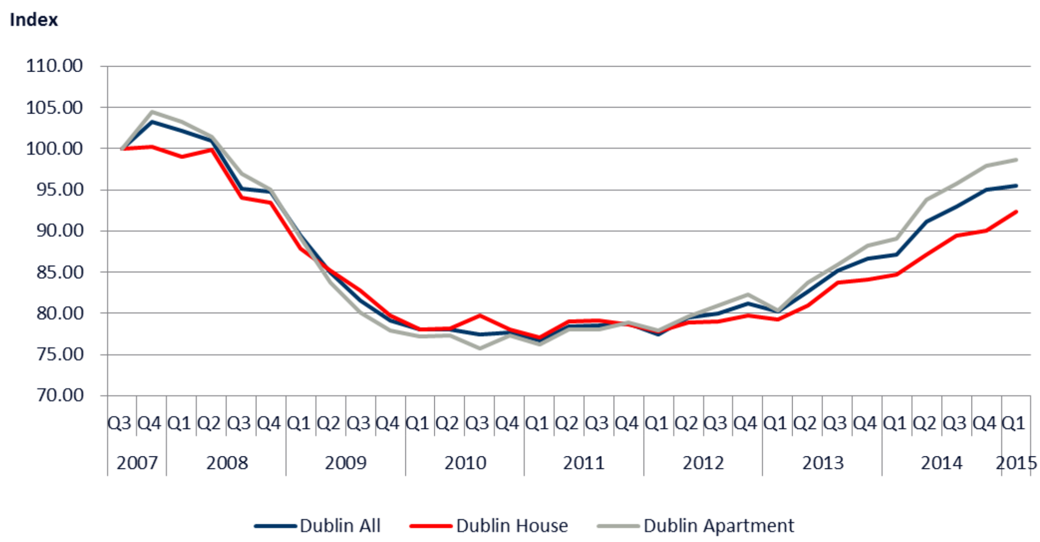


Figure 10: PRTB Rent Index – Dublin, Source: PRTB

- In terms of the future of the private rental sector, the Government's Construction 2020 strategy was notable in April 2014. An objective of the plan is to develop a national policy towards professionalising the private rental sector. REITs and other large-scale investors willing to invest in multi-family investments in recent years is a major step towards this objective. Since 2012, €944.7m has been spent on multi-family investments in Dublin (examples of sales include those in Tallaght, Greenhills, Lucan and Palmerstown) but it worth noting that all of these properties were built before the collapse of the market and no new multi-family investments have been built completed the market started to recover. Professional operators such as these can generally provide a higher standard environment and longer lease tenures. This will assist in creating a more long-term housing option for those who do not view renting as a temporary solution before buying a home. In the long-term, this will assist in providing a more stable rental market and help counter large movements in rents

- **Outlook** - there continues to be strong demand from potential purchasers for both new and second hand properties and the outlook for the Dublin residential market is generally positive despite the minor falls in values in recent months. In the context of an improving economy, increasing employment, improving retail sales and consumer confidence, there is an underlying strength in the residential market. Supply of new units is unlikely to improve greatly in the next 18 months and this will keep the pressure on the market in terms of increasing prices. Following such a robust 2014 in terms of price increases, and indeed the price recovery over the 18 months prior to this, we believe that in the short to medium-term, prices will closely track affordability and growth rates will be much more sustainable. There may be some minor falls in prices in the coming months as the effects of the Central Bank's regulations take hold. However, we do not believe that this will be for a sustained period or that there will be large scale decline. However, the market will become more stable and annual increases will be smaller and more sustainable. We estimate 20% growth over the next five years or 3.7% per annum compounded. Rising prices will assist in making further schemes viable as end-values will exceed the costs that are currently affecting construction (as discussed on page 8). This will encourage greater volumes of new construction. But it takes time for construction to recommence following such a prolonged period of very limited development as developers need to re-establish their platforms (i.e. hire staff, equipment, obtain funding, get planning permission, etc.) for delivering units.

2.4 Offices

- For the purposes of analysing the office property market, Lisney divides Dublin into four regions as set out in the map below – City Centre (red), South Suburbs (dark blue), West Suburbs (light blue) and North Suburbs (grey). Please note that SDCC's administrative area is primarily within the west suburbs region with a small part in the south region. In reviewing the office market for SDCC we have focused generally on the west suburbs region as that part of SDCC area in the south suburbs contains very little office stock. However, it should be noted at Parkwest (which is in DCC's area) is also within the west suburbs region and consequently can distort figures given the large levels of availability there. The key office location in the SDCC administrative area is Citywest. All analysis below is based on Lisney's office regions.

- Within this section, we have provided an analysis of current trends in the office occupational market (i.e. trends relating to end-users who are renting offices or buying offices for owner-occupation) because this affects the level of new construction.

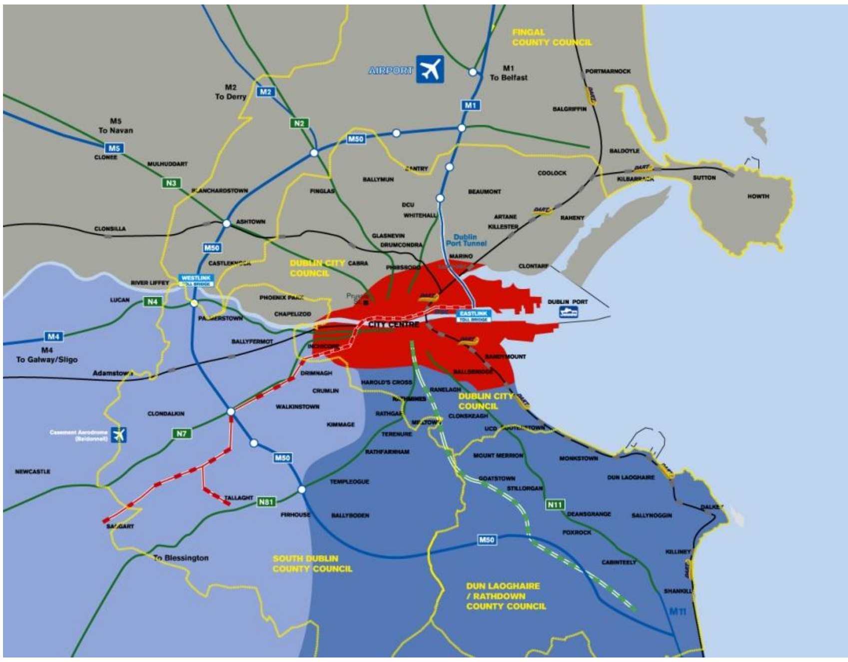


Figure 11: Dublin Office Regions, Source: Lisney

- Following a fall-off in demand for office space in 2006, activity in the Dublin office market (all regions) started to improve in Q3 2010. Since then, activity levels have been consistently strong and 2014 was the third strongest year on record with the annual level of take-up at 228,500 sqm. 11% (25,100 sqm) of this in the west suburbs region. The table below sets out the proportion of activity between the Dublin regions over the past few years. As to be expected, the city centre is always the most active region but the west suburbs region has been performing well so far this year representing 16% of all take-up in H1. This was due to lettings in Citywest (SAP, GSK and Wincor Nixforf) and Tallaght (Cabot Financial and Belgard Solicitors).

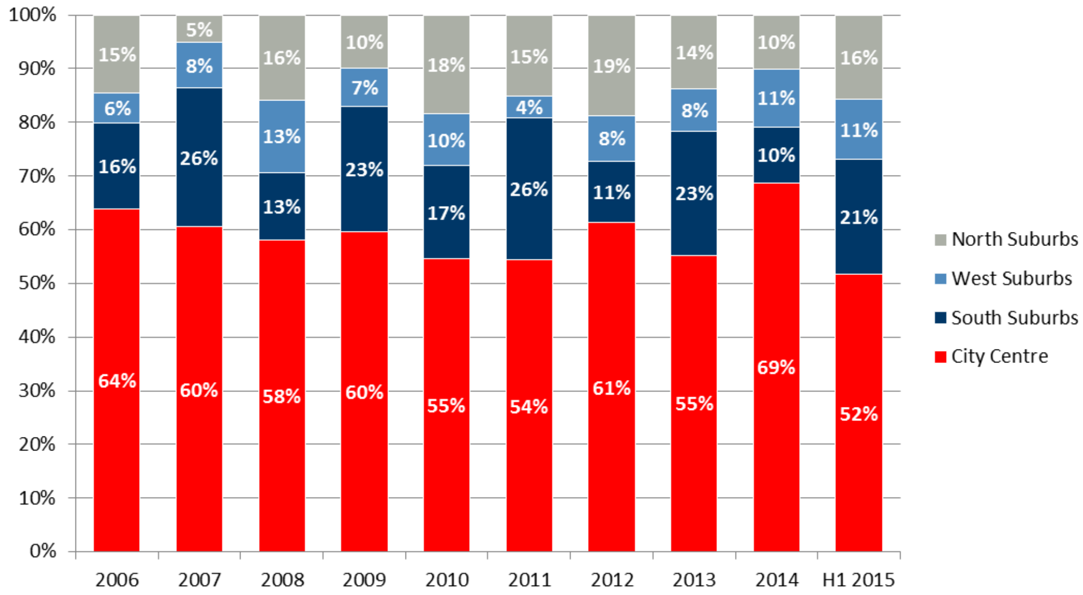


Figure 12: Proportion of Dublin Office Take-Up by Region, Source: Lisney

- Instead of being dominated by domestic occupiers as it was in the past, the Dublin office market has become much more international in nature. In 2006, 75% of take-up related to Irish companies but in Q1 2015, it was just 41%.

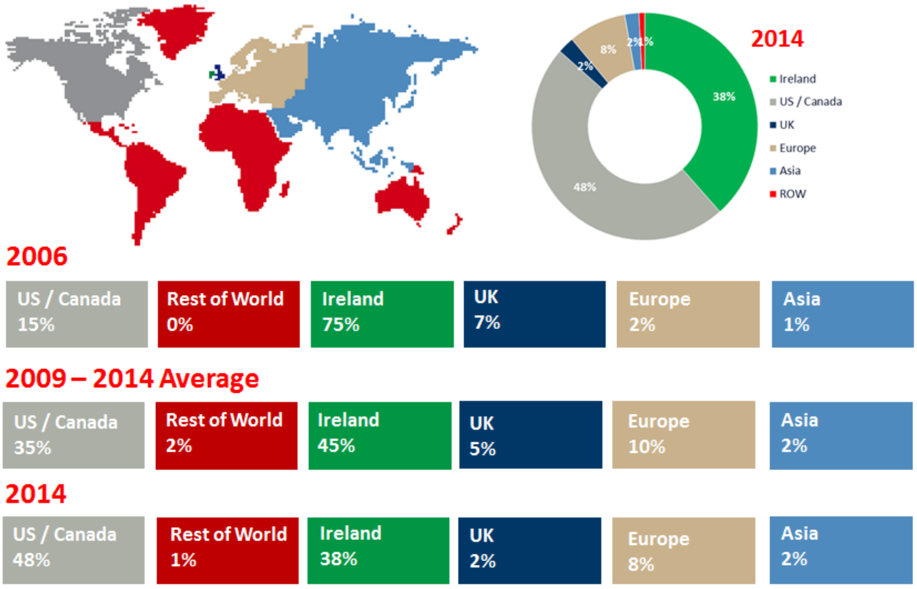


Figure 13: Take-Up by Occupier Origin, Source: Lisney

- Reviewing the list of occupiers that have taken space in Dublin over the past 18 months, it is clear that Dublin is seen as one of 'the' places to be amongst IT and related industries. While much of this is in the city centre, occupiers are also increasingly active in the suburbs. In Q1 2015, occupiers from this sector accounted for half of all activity and 44% in 2014. Some of the world's largest and most recognisable names from this sector have taken space over the last year and a half. Examples in the west suburbs include SAP and Wincor Nixforf and there is opportunity for the west suburbs, namely Citywest, to attract further international technology companies in the coming years, particularly given the supply issues in the city centre.
- Encouragingly, both the financial services and professional services sectors are experiencing a revival and contributed 17% and 10% respectively to take-up in Q1 2015, following a 15% and 10% representation in 2014. These sectors had been relatively absent from the market from a number of years and the increase in demand is no surprise. It is likely that both sectors will become a bigger part of the market in the short to medium-term as activity in the domestic economy strengthens further (professional services firms are dominated by domestic companies rather than FDI).

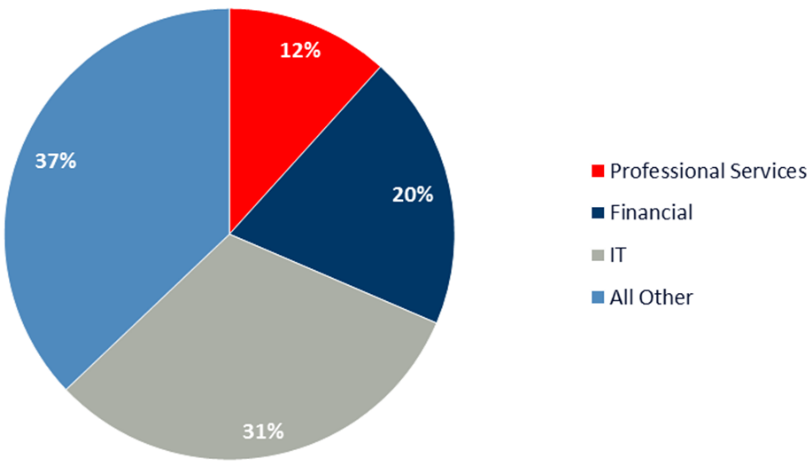


Figure 14: Average Annual Take-Up 2008-2014 by Sector, Source: Lisney

- The vacancy rate in Dublin (i.e. all regions) has been in decline since the end of 2010. Having peaked at 23.1%, it was 13.3% at the end of June 2015. Traditionally, between the mid-1980s and 1995, the rate averaged 6.5%, before falling to just over 3% in 2000. Following the dot-com bubble and 9/11, the rate jumped to over 20% and was reverting to more normal levels when the crisis hit in 2007. The west suburbs rate was 27.5% at the end of Q2 2015 having fallen from a high of 39.7% in Q3 2010. However, this is not an accurate assessment of SDCC's office market because a substantial amount of vacant property is in Parkwest. If this is excluded, then the vacancy rate is approximately 20%. In terms of Citywest, there is currently 14,800 sqm of office accommodation available.

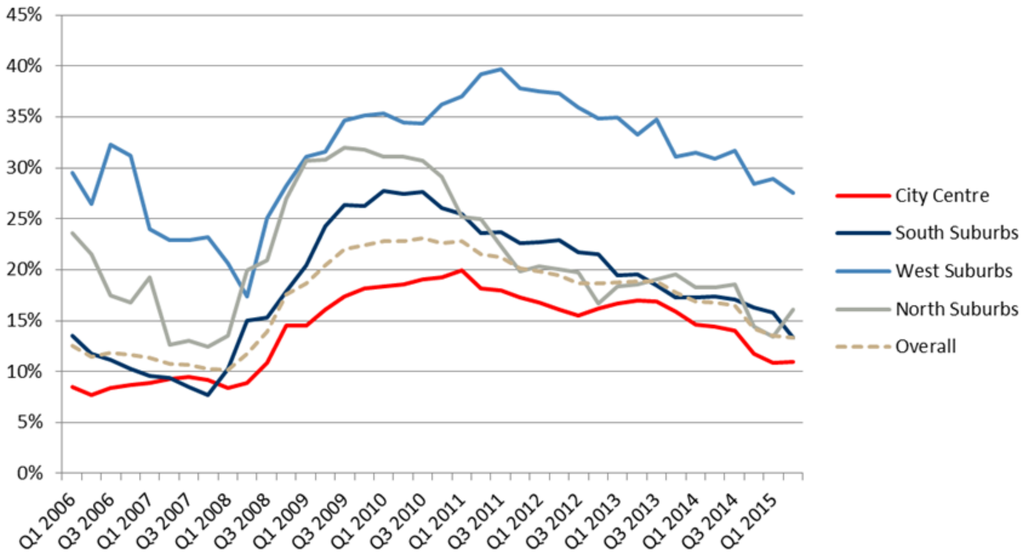


Figure 15: Vacancy Rate 2006 – Q1 2015, Source: Lisney

- The current total Dublin rate (all regions) at 13.5% may seem a little high, however, actual availability is lower than this. Indeed, there has been much discussion and publicity about the lack of high quality office stock in Dublin. About 17% of the stock that is available is sub-standard (however only a small amount of this relates to the south and west suburbs with 92% of it relating to the city centre) and not really capable of being occupied by high quality occupiers.

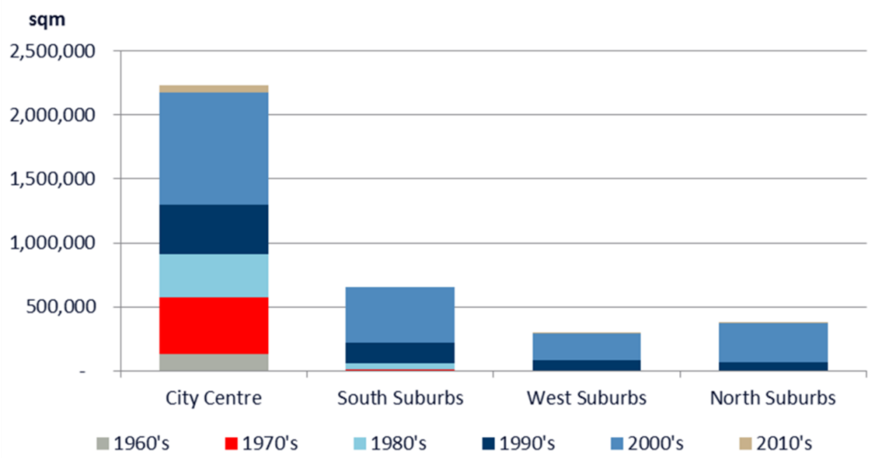


Figure 16: Dublin Office Building Stock – Age Profile by Region, Source: Lisney

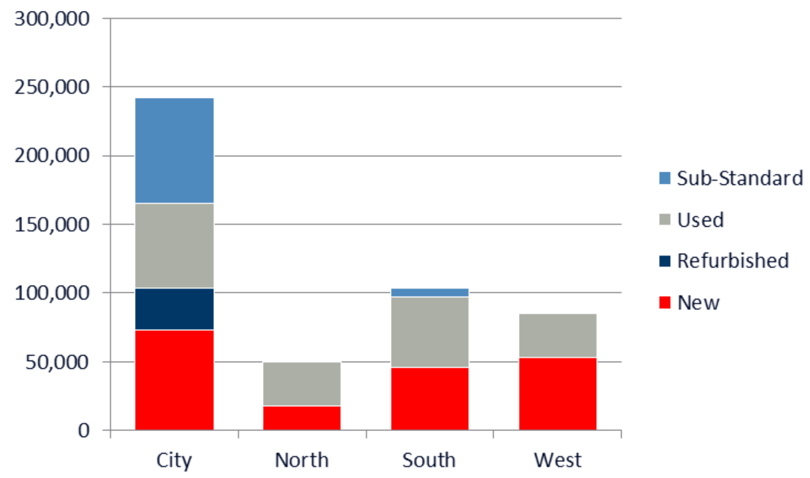


Figure 17: Dublin Office Supply by Grade/Standard, Source: Lisney

- A further 37% of supply was previously occupied and not as attractive as the remaining 46% that is either new or refurbished stock. There are also constraints in terms of the size of the buildings that are available. There are currently 16 buildings greater than 5,000 sqm available in the entire Dublin region (notably only one in SDCC's area - Junction House in Airton Square, Tallaght), some of which would not be acceptable to large corporations. This means that new high specification office space is required in the Dublin region. In this regard, we believe that a number of new buildings (totalling 14,000 sqm) will be constructed in Citywest within the next two years with potential for up to another 10,000 sqm possible in the following three years.

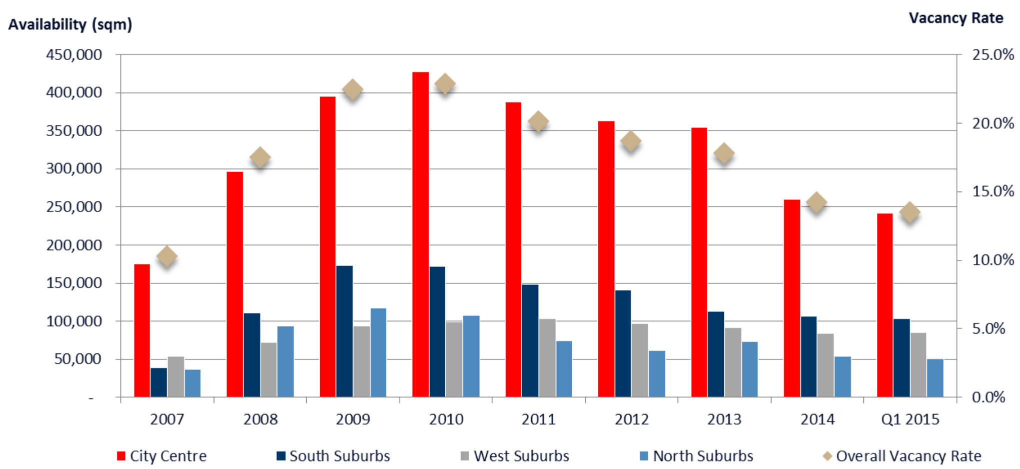


Figure 18: Dublin Availability and Vacancy Rate, Source: Lisney

- Despite the lack of office accommodation in the Dublin market generally, there are only a limited number of new schemes under construction. None of these are in the west suburbs with two in the south suburbs (but in DLRCC's area) and the other nine are in the city centre.
- These sites in the city centre and south suburbs regions, in addition to the buildings currently under refurbishment are insufficient for the Dublin market. Consequently upward pressure on rents continues to build. Prime west suburbs rents are now at €200 psm (€18.50 psf) in Citywest. This level of rent means that schemes are approaching viability and capable of being built. The prevailing market rent in Tallaght is currently less and as such, new construction is not yet viable.

- Sourcing the right accommodation has become an even bigger issue than rising rents for tenants. The traditional preference for expanding companies is to relocate to a bigger building. However, this might not now be a realistic option. Consequently, those wishing to expand may now either have to postpone plans or chose satellite offices a distance away from their current space. Signs of this are beginning to be seen. For example, Mason Hayes & Curran took space on Ringsend Road, Dublin 4, and Google took space in East Point, Dublin 3. This trend could also be symptom of 'near sourcing'. This is a practice more common in the UK where large professional services companies, primarily based in the city centre, locate certain office functions in cheaper suburban locations (or even regional locations) while maintaining high profile offices in the city centre. This trend could be of benefit to west suburbs and indeed office locations in Tallaght and in Citywest.

- Lease terms continue to harden in favour of landlords. Owners of buildings are starting to seek longer lease commitments, some for 10 years without any break options (outside of Citywest a break is generally included). When market conditions were softer during the downturn, tenants were able to secure shorter lease commitments.

- Rents will continue to rise in the medium-term in the SDCC area. As mentioned, prevailing rents in Citywest are currently €200 psm (€18.50 psf). This is up from rates of around €145 psm (€13.50 psf) in early 2013 (i.e. +33%) and growth will continue at least up to 2018 with perhaps some minor falls then as there will be more options for space in the Dublin market generally. However, we do not believe this will be a sustained period of decline, but more a settling of the market at an optimal level of rent. As can be seen from the graph below, the property market operates in cycles and following declines in rental values, a rebound always occurs strongly. The declines experienced between 2008 and 2011 were the most severe in Dublin history, falling to levels well below the cost of construction. Much of the strong growth in the last two years represented a recovery of this sharp decline, but was compounded by a lack of available, modern accommodation. Please note that the chart below refers to prime city centre office space as our data series of the city centre goes back further, which helps show long-term trend. However, the overall trend in the office market cycle is similar in all Dublin suburban areas.

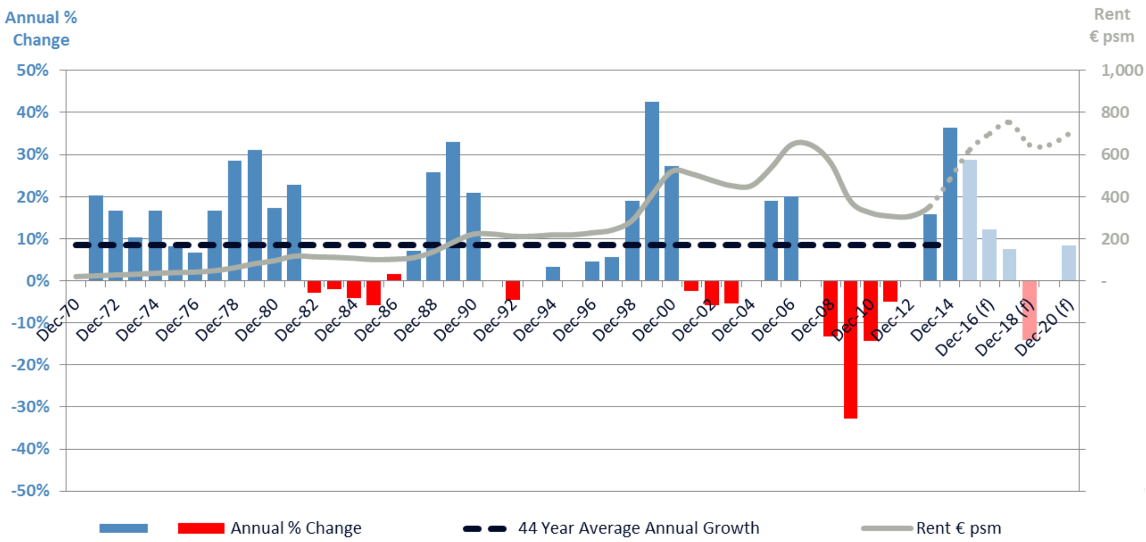


Figure 19: Prime Dublin Office Rents, Source: Lisney

- **Outlook** - landlords in Tallaght and Citywest will benefit from shortages of city centre space in the next two years and there will be increased levels of take-up in these areas as a result. Rents have already risen in the west region by 46% (average of all office areas in the region) in the last two years and this trend will continue. Sites will be prepared and planning lodged in Citywest and we estimate that up to 24,000 sqm could be built in the next five years. Other offices locations in SDCC's area will take longer, such as Tallaght and it is likely to be into the next five year period before schemes are built there.

2.5 Retail

- Within this section, we have provided an analysis of current trends in the occupational markets (i.e. trends relating to end-users who are renting retail units or buying retail units for owner-occupation) because this affects the level of new construction.

- Following record years in consumer sentiment and spending where retail sales were increasing by between 5% and 10% each year (according to Central Statistics Office figures), a peak was reached in January 2008. Significant declines then occurred over the following two years with the volume of sales falling by almost 26% and the value of sales by almost 31%. Retail sales then bounced along with little overall movement for the following three years before more meaningful increases started to occur in 2013. Over 2013 and 2014, the volume of sales increased by 12% while the value increased by 9%. At the end of January 2015, the volume of sales remained 11% below the height of the market in late 2007 while the value of sales remained 22% less.

- While there was better retail sales and sentiment in 2014, it is important to point out that this was mixed. There were months over the year where sentiment was at its strongest level in seven years before falling off and then bouncing back once again. This reflected the influence of ongoing economic events. Into 2015, sentiment remained inconsistent, reaching the highest level since February 2006 in January but then falling off again in February and recovering slightly in the following months. That said, it is still at very strong levels. Retail sales have gained in strength over the opening months of the year and in April 2015, the volume of sales had increased by 11.9% in the year. Retailers had been reporting that the growth in sales is partly driven by price reductions and that consumers are still looking for a bargain, however, the value of sales is now also increasing strongly, rising by 8.3% in the year to the end of April.

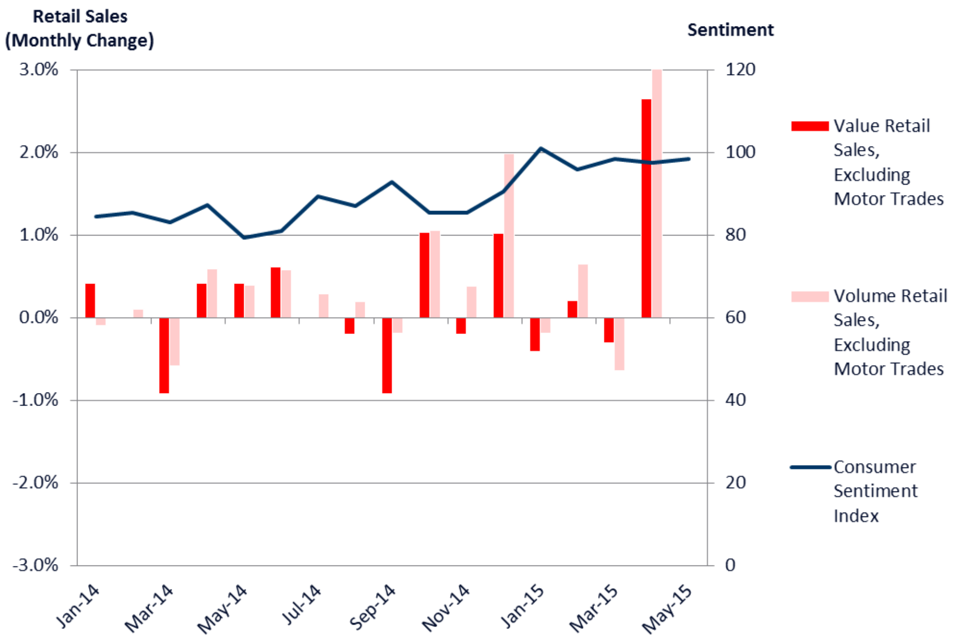


Figure 20: Retail Sales Monthly Change, Source: CSO, KBC Bank ESRI Consumer Sentiment Index

- All of this points towards a gradually improving retail market. This was confirmed in the most recent Quarterly National Accounts from Q4 2014, which showed that consumer spending grew by 2.1% year-on-year in the quarter, the strongest performance since Q1 2008. However, it should be noted that it is still a fragile part of the economy as evidenced in recent months with well-known and established retailers going into examinership.

- The retail property market experienced the first real signs of a recovery in 2014. There has been uplift in activity in Dublin with a noticeable increase in retailer demand generally. Retailers are a mix of Irish operators and franchisees, in addition to new names from the US, UK and Europe. Larger domestic retailers and multi-nationals are focused on prime stores with smaller Irish / local retailers taking local units.

- In terms of prime areas, Grafton Street, Dublin 2, Henry Street, Dublin 1, and the regional scale suburban shopping centres in Dublin attracted some top retailers in the last 18 months. Examples are set out below:

Street/Shopping Centre	Retailers
Liffey Valley Shopping Centre	Lifestyle Sports and Specsavers.
Blanchardstown Shopping Centre	Mango, L'Occitane, Gerard, Home Collection, Superdry, Tiger, Sketchers and Milano.
Pavilions Shopping Centre	Premodonna, Great Outdoors, Pandora and Samsung.
Grafton Street	Massimo Dutti, Lifestyle Sports, Argento, Ecco Shoes, Space.NK.Apothecary, HMV, Levis, Vans, Claire's Accessories and Other Stories
Henry Street / Mary Street, Ilac Shopping Centre, Jervis Centre	TK Maxx, Mango, Starbucks, Pamela Scott, I-Connect, Parfois, Dealz, Pandora, Direct Sports, Authentic American Style, Liverpool FC, Eddie Rockets, Change Lingerie and Carraig Donn.
Dundrum Town Centre	TK Maxx, Mint Velvet, Samsung, Michael Kors, Superdry, Imaginarium and Diesel.

Table 2: Retailers by Location, Source: Lisney

- Vacancy rates in these areas are very low, some with no vacancy at all. The chart below show the number of unoccupied units in prime areas over the past four years.

Figure 21: Prime Dublin Retail Pitches - Numbers of Unoccupied Units, Source: Lisney

- In terms of district centres outside of the key areas, demand and vacancy levels vary depending on location. Many continue to perform very well and attract tenants (both local and multiples) with low vacancy, while others have vacancy rates in the high teens. It has been 18 months since we carried out a full assessment of vacancy levels of Dublin shopping centres (i.e. all centres greater than 5,000 sqm in size), however at that time the average vacancy rate of centres in the SDCC's area was 14.3%, which was relatively similar to the overall Dublin average of 14.9%. Since this survey was carried out, we believe that vacancy levels will have fallen slightly, perhaps by one or two percentage points. Theory suggests that a normal vacancy rate is around 5%-7%, this allows for retailer movement and choice.

- **Outlook** - the retailing outlook is positive. In terms of retail property, lease lengths will start to increase for prime units and the use of temporary licence agreements will reduce. Prime locations will continue to be the focus of retailers but demand will continue to spread out and secondary vacancy rates will fall. We are aware of various retailers actively seeking stores, which is good news and will add to activity in the short-term. New retail development has not occurred in the last eight years (a limited number of exceptions to this where extensions to existing shopping centres have occurred) due to the fact that there is such a large supply of retail accommodation in many parts of Dublin with some areas significantly 'over-shopped'. Consumer spending has not been strong enough for retailers to justify new stores and as such, some existing units (mainly outside of prime retailing areas) have remained vacant. Two notable extension schemes are due soon in the SDCC area - The Square Tallaght and Liffey Valley. Both of these extensions are positive news and are due to the demand that is present. However, in the next five years it is likely that the only other significant retail development will be another extension to Liffey Valley Shopping Centre, but there will be smaller opportunities, perhaps as part of mixed-use schemes heading towards 2020.

2.6 Industrial

- For the purposes of analysing the industrial property market, Lisney divides Dublin into four regions as set out in the map below - South, Southwest, Northwest and North. Please note SDCC's administrative area is mainly included within the southwest region. All analysis below is based on Lisney's office regions.

- Within this section, we have provided an analysis of current trends in the industrial occupational market (i.e. trends relating to end-users who are renting industrial buildings or buying industrial buildings for owner-occupation) because this affects the level of new construction.

Figure 22: Dublin Industrial Regions, Source: Lisney

- Of all Dublin industrial regions, the southwest contains the largest amount of industrial building stock, accounting for approximately 55% of the total in Dublin. Key areas include Ballymount, Tallaght, Clondalkin and Grangecastle.

- Following a number of strong years of activity, the Dublin industrial market experienced a significant slowdown between 2009 and 2012. However, both 2013 and 2014 were strong in terms of the amount of accommodation transacted with 2014 being the strongest year on record. This was very much driven by the huge volume of sales in the second half of the year by those seeking to avail of the capital gains tax (CGT) holiday (see terminology page 5). The first half of 2015 has continued to perform well, despite the fact the CGT relief has ended. This is because significant value remains in purchasing larger industrial facilities as sales prices are generally well below the replacement cost. This value will remain in the short-term, however prices will rise over the rest of the year and in the medium-term will get back closer to replacement /construction cost.

- Sales have traditionally made up about 60% of the Dublin industrial market. However, with little or no finance available during the downturn, this figure fell as low as just 7% in 2010. For the last two and a half years, sales have rebounded and once again dominate the market. In 2014, 84% of all deals (by size) were sales, a trend that has continued into 2015 with the figures at 79% in Q1. In fact in Q1 this year, the top five deals were sales and when combined accounted for over half of the quarterly activity. Each of these sales were of buildings greater than 8,000 sqm.

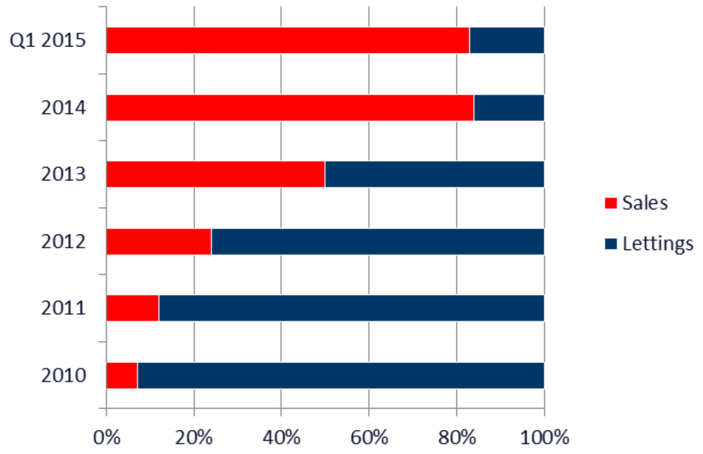


Figure 24: Dublin Industrial Sales v Lettings, Source: Lisney

- The majority of industrial deals generally occur in the traditional southwest region. For example, in Q1 2015, 49% were in the southwest and this was followed by the northwest (30%), north (14%) and only 7% in the south. This break down is typical of market take-up for the past few years.

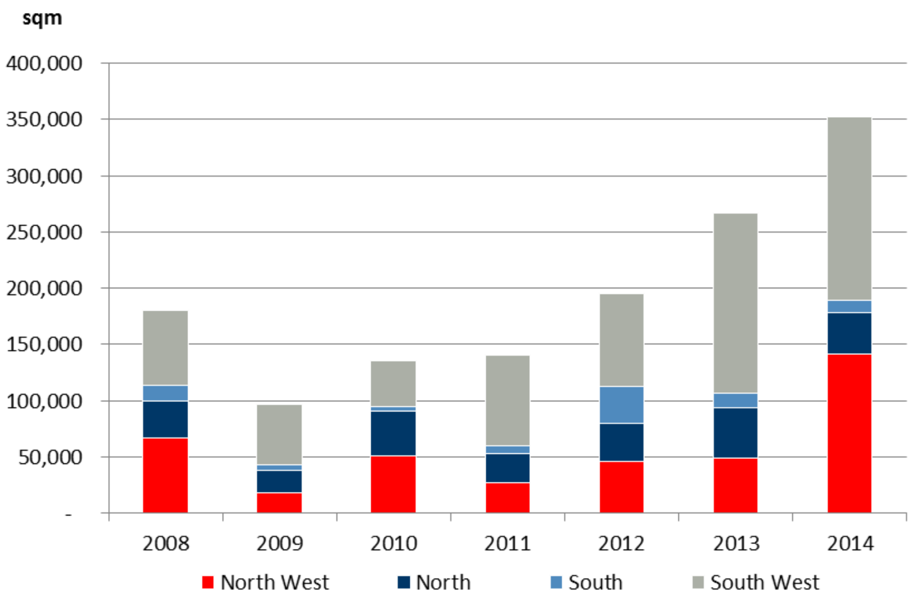


Figure 25: Dublin Industrial Take-Up by Region, Source: Lisney

- In recent quarters there has been a good mix of deals in terms of size. For example, in Q1 2015, almost 60% of total activity (30 deals) was for buildings of less than 1,000 sqm. In terms of the amount of space taken, these represent just 12% of the total. A large number of transactions in this size category is a good indicator of new business ventures and an improving domestic economy. Many of these occurred in the southwest region.

- Larger deals (between 4,000 and 7,000 sqm) accounted for 11% of the number of transactions but 58% of the accommodation taken in Q1 2015. There were five very large deals, each in excess of 8,000 sqm. There is now a shortage of such buildings in Dublin given that there has been no speculative industrial development in Dublin in over seven years and constraints have emerged. With only a limited number of large buildings remaining on offer, particularly in prime areas, demand is falling well short but prevailing rents are still not high enough to justify new construction on a speculative basis.

- Despite the fact that activity in the Dublin industrial market has been running at record highs, supply has remained relatively steady. Generally each quarter for that last while the same amount of second-hand space has come to the market as has been taken up. Consequently, the overall vacancy rate was close to 18% at the end of Q1.

- In spite of the improving market, potential tenants still require flexibility when taking a lease. They can still obtain favourable rental deals with incentives, but quoting prices for modern stock is on the increase and has risen to over €74 psm (€6.90 psf) for prime buildings. Rents can however range from as low as €35 psm (€3.25 psf) up to this level. Some tenants seeking larger buildings have found landlords much less flexible on lease terms in the last year. In many situations, if a tenant has specific building requirements, it can prove difficult to find an ideal property.

- Production by manufacturing industries (excluding those involved in mining, quarrying, electricity generation and gas production) increased by 32% year-on-year to the end of February 2015. But since late 2013, when the index was at a low point, it has risen by 58%. In terms of turnover, the relevant index has increased by 39% since late 2013 and 24% in the last year. Notably, production and turnover relating to the manufacture of consumer goods has increased strongly over the period, which bodes well for the demand of industrial accommodation in the medium-term.

- The demand for industrial zoned land has increased over the last 12 to 18 months with a large number of deals being concluded. One of the recent transactions was the sale of the former SIAC lands in Baldonnell Business Park on the Naas Road, Dublin 22, which is within the SDCC area. Here, the main lot (12.7 ha) was sold for between €210,000 and €220,000 per hectare to UK investors. Additionally, smaller serviced industrial sites of about one hectare are achieving up to €400,000 and are on the increase.

Outlook - there are still variances in the rental levels achieved depending on building quality, size and location. However, across all types of industrial buildings, rents will increase over the coming years. For larger buildings, particularly those in prime locations, competitive bidding will occur as occupiers vie to get the space. With the supply of large, well-located, modern buildings tight, some developers/investors are actively looking at speculative development once again. However, this is only if a pre-let or pre-sale has been done on an adjoining site and even still, getting finance can be difficult. There are now opportunities for design-and-build, particularly for larger specialised premises but the tenant will have to pay a higher ‘economical’ rent (approximately €100 psm/€9.30 psf) that justifies development rather than current market rates (€74 psm/€6.90 psf). SDCC’s administrative area is ideal for such development. The trend to redevelop older industrial accommodation to higher value uses will also become a feature of the market in the medium to long-term (in all Dublin local authority areas). This means that industrial will be pushed out further, which will be to the benefit to parts of SDCC’s area. It will be imperative for SDCC to have an adequate supply of serviced land capable of taking new industrial development. Grangecastle IDA Business and Technology Park, Dublin 22, has been an enormous success and more land needs to be secured and zoned west of the park in order to continue to provide suitable supply to keep attracting high quality employers to the county.

2.7 Pre-Planning Consultations

Pre-planning consultations can be used to indicate the level of planning activity which may arise over the forthcoming years. The below table shows the pre-planning consultation figures for Q1 for the past four years and the percentage yearly change.

The overall trend in South Dublin has been an increase in consultations: however these numbers have remained more consistent than in other Councils. The figures rose from 69 in Q1, 2012 to 82 in Q1, 2013. The figures decreased by 37% for the same period (Q1) in 2014, but then recovered significantly in Q1, 2015.

With the exception of Fingal, all four Dublin Local Authorities experienced an overall increase in pre-planning consultations between 2012 and 2015. The numbers in Dun Laoghaire Rathdown increased in 2013 and 2014, but then dropped again, but were still higher than in 2012. Fingal experienced a drop in consultations in 2013, with a slight recovery in 2014. South Dublin experienced an increase, followed by a drop and then another increase. Dublin City likewise, experienced an increase, then a drop and then another significant increase.

South Dublin County Council	
Q1 2012	**69**
% Change	-
Q1 2013	**82**
% Change	*+19%*
Q1 2014	**52**
% Change	*-37%*
Q1 2015	**116**
% Change	*+123%*

Table 3: South Dublin County Council Pre-Planning Consultations, Source: South Dublin County Council

2.8 Commencement Notice Activity

Commencement notices provide an insight into the development taking place in the County at a particular time. It is worth noting however, that the BCMS system was introduced in March 2014 and this may have distorted the figures in 2014. In particular there was an increase in the number of notices prior to the introduction of the BCMS which may have inflated the Q1 figures.

South Dublin County	
Q1 2012	
Residential (minus extensions)	**7**
% Change	**-**
Other	**7**
% Change	**-**
Q1 2013	
Residential (minus extensions)	**7**
% Change	0%
Other	**6**
% Change	-14%
Q1 2014	
Residential (minus extensions)	**23**
% Change	+329%

Other	**13**
% Change	+217%
Q1 2015	
Residential (minus extensions)	**17**
% Change	-26%
Other	**6**
% Change	-54%

Table 4: Commencement notices received for Q1, for 'residential' and 'other' developments, Source: SDCC

2.9 Planning Permission Activity

The latest CSO Statistical Release in 2015 classifies planning permissions granted for the first quarter of 2015 by County and by type of development.

South Dublin granted 16 no. applications for dwellings, 21 no. 'other', 65 no. extensions and 13 no. alterations and conversions. This is a total of 115 planning permissions granted for Q1 2015. This equates to a total floor area of 58,000sqm.

Summary of Planning Permissions granted, Q1 2015, classified by region, county and type of development										
Planning Region and County	Number of Permissions **(Note figures below are not individual units)**						Total Floor Area (000 sq.m)			
	New Construction		Extension	Alteration and Conversion	Total		New Construction		Extension	Total[1]
	Dwellings	Other					Dwellings	Other		
Dublin	**138**	**228**	**468**	**129**	**963**		**185**	**38**	**43**	**265**
Dublin City	53	117	176	66	412		80	9	13	102
Dun Laoghaire-Rathdown	38	35	140	33	246		27	1	9	38
Fingal	31	55	87	17	190		44	10	14	68
South Dublin	16	21	65	13	115		33	18	6	58
State	**1,065**	**1,041**	**1,454**	**335**	**3,895**		**517**	**229**	**206**	**952**
[1] For categories where floor area is a relevant measure										
Note: 0 implies less than 500sq m										

Table 5: Summary of Planning Permission Granted, Q1, classified by region, county and type of development, Source: CSO Statistical Release, 18th June 2015

From the table overleaf we can see the type of planning permission granted in Dublin (all four Dublin Local Authority areas) in the first quarter of 2015. In total there were 138 permissions granted for dwellings. In relation to new construction there were: 47 no. permissions for civil engineering projects; 1 for other buildings for social use, 7 for government, health and education; 3 industrial buildings; 1 building for agriculture and 12 commercial buildings.

Number of Planning Permissions granted, Q1 2015, classified by region, type of development and functional category									
	Functional Category **Note figures below are not individual units, but permissions)**								
Type of Development and Planning Region	Dwellings	Commercial Buildings	Buildings for Agriculture	Industrial Buildings	Govt-, Health and Education	Other Buildings for Social Use	Civil Eng.	Other	Total
Dublin									
New Construction	138	12	1	3	7	1	47	157	366
Extension	424	19	-	3	19	3	-	-	468
Alteration and Conversion	63	44	-	1	11	10	-	-	129
State									
All Developments	**2,288**	**274**	**178**	**86**	**188**	**68**	**313**	**500**	**3,895**
- No permissions									

Table 6: Number of Planning Permissions Granted, Q1 2015, classified by region, type of development and functional category, Source: CSO Statistical Release, 18th June 2015

The below table shows that the permissions granted equate to a total of 222,000sqm of new construction floor area. There is a further 43,000sqm of extensions granted.

Total Floor Area Planned (000 sq.m.) in new construction and extensions, Q1 2015, classified by region and functional category							
	Functional Category						
Type of Development and Planning Region	Dwellings	Commercial Buildings	Buildings for Agriculture	Industrial Buildings	Govt., Health and Education	Other Buildings for Social Use	Total[1]
Dublin							
New Construction	185	17	1	6	13	1	222
Extension	20	7	-	0	15	1	43
Total New Construction and Extension	205	24	1	6	28	1	265
State	**587**	**59**	**97**	**95**	**103**	**11**	**952**
[1] For categories where floor area is a relevant measure							
- No Permission							
Note: 0 implies less than 500sq m							

Table 7: Total Floor Area Planned (000sqm) in new construction and extensions, Q1 2015, classified by region and functional category, Source: CSO

The table overleaf displays the number of planning permissions for both houses and private flats/apartments granted by year and the total number of units granted per year. It can be seen that the total number of permissions for houses dipped in 2012, but have now recovered. The largest amount of houses granted in these years was in 2011, but has since decreased. The total amount of private flats/apartments permitted in terms of units increased up to 2012, but has subsequently declined.

South Dublin	2010	2011	2012	2013	2014
Houses					
Planning Permissions Granted (Number)	49	39	23	28	41
Units for which Permission Granted (Number)	74	808	148	543	323
Private flats/apartments					
Planning Permissions Granted (Number)	15	12	5	7	7
Units for which Permission Granted (Number)	144	183	292	13	29

Table 8: Planning permission granted for new houses and apartments by county, type of dwelling, statistical indicator and quarter, Source: CSO

From the table overleaf we can see that planning permissions granted for government, health and education buildings has declined from since 2013, with a slight uplift in Q1 of 2015. The number of civil engineering projects on the other hand has increased since a low point in 2011, and Q1 of 2015 looks to be a continuation of this trend. Commercial buildings granted permission have remained broadly consistent in 2013-2014, following a significant drop between 2011 and 2012. Q1 of 2015 has recorded a total that would suggest the levels reached in 2013-2014 will be maintained during 2015.

Dublin (New Construction)	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4
Dwellings	74	83	88	53	42	69	59	62
Commercial Buildings	15	25	17	9	5	10	10	15
Buildings for Agriculture	..	..	5	2	2	1	2	1
Industrial Buildings	5	5	3	2	3	3	4	3
Govt., Health and Education	9	13	11	5	5	4	9	7
Other Buildings for Social Use	2	9	7	3	2	2	5	3
Civil Engineering	20	36	34	13	23	15	24	17
Other functional categories	77	59	64	49	54	58	60	78

Dublin (New Construction)	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1
Dwellings	77	76	102	105	103	112	124	128	138
Commercial Buildings	13	13	12	19	15	17	12	7	12
Buildings for Agriculture	2	..	3	3	..	2	..	2	1
Industrial Buildings	4	1	5	11	7	7	8	2	3
Govt., Health and Education	7	13	6	6	6	3	7	3	7
Other Buildings for Social Use	3	1	2	1	2	4	4	3	1
Civil Engineering	26	31	35	50	75	42	48	30	47
Other functional categories	59	62	83	143	178	131	162	137	157

Table 9: Planning permission granted (number) by region, type of development, functional category and quarter, Source: CSO

3.0 Assessment of Likely Trends

While most trends are discussed in Section 2 Economic Analysis above, set out below is a summary of the key trends in the various sectors over the period 2016-2020. Overall, it is important to note that the outlook is generally positive but the market remains at the early recovery stage of the property cycle following a protracted downturn and as such, is still fragile in some areas. Not all new construction is currently viable and end demand is not uniformly spread throughout the SDCC area.

3.1 Residential

- The short-term outlook for the residential market in the SDCC area is for continued strong demand, more sustainable price increases (in spite of the minor falls in recent months) and a continued shortage in supply for at least the next 18 months. This will feed into rising house prices, further development land sales and increased viability of residential construction.

- The Central Bank rules will have an effect on the residential market in the short-term and will reduce the pace of inflation in house prices. Growth in the next five years will be aligned to potential purchasers' affordability and will be at more sustainable levels, we estimate on average growth at about 3.7% per annum.

- The viability of any new construction depends on various factors relating to the cost of construction and the end value of the scheme. With property values generally improving, this side of the equation has become more favourable. However, there are a wide range of costs that can still be an issue for a developer considering construction. Examples include rising tender costs, the cost and availability of finance for both site purchase and construction (for some but not for all), rising land values, design standards (see overview of terminology in section 2.1), VAT on new housing, Part V requirements and local authority development contributions. The severity of the impact of each of these costs varies from scheme to scheme and changes depending on location and type of property being developed. Some of these costs are changing continually, certain ones becoming more favourable and others more expensive, which have both a positive and negative impact on viability.

- Medium-density residential development (35-50 units per hectare) is viable in most of SDCC's administrative area - from Scholarstown, Dublin 16 as far as Saggart, Co. Dublin. In terms of higher density (greater than 50 units per hectare) along the Luas, there are still a number of over-hanging schemes where issues need to be resolved before new high density construction becomes viable and construction commences.

- To expedite the delivery of housing units new models, such as licencing agreements, will need to be considered.

3.2 Office

- Landlords in the west suburbs (within which SDCC is located) will benefit from shortages of city space in the next two years and there will be increased levels of take-up in this region, most notably in Citywest. Rents have already risen by 33% in the last two years in this region and this trend will continue.

- Following a number of years where office development was not viable in the SDCC area, we believe that such development is now approaching viable in Citywest Business Campus. Within the next two years, we believe about 14,000 sqm of office accommodation will be built in this park (to the rear of SAP's building) with potential the up to another 10,000 sqm possible in the follow three years to up to

2020. Other parts of the county where there is an established office market will take longer to become viable.

3.3 Retail

- While still fragile, more positive retailing conditions have been experienced in the last 12 months as the economy continues to improve. As a result, the retail property market has benefited. This is likely to continue in the short-term and the demand for retail accommodation will remain. While prime locations will continue to be the focus of retailers, demand will continue to spread out and secondary vacancy rates will fall.

- The extensions of The Square Tallaght and Liffey Valley Shopping Centre are very positive and is due to demand for accommodation in these centres. However, further large scale retail development is unlikely in SDCC's area the short-term with possibly only another extension to Liffey Valley Shopping Centre likely.

3.4 Industrial

- Industrial rents will rise and demand will remain in the SDCC's area over the next five years. While new industrial property construction is not currently viable in the area (or in any part of the country), a limited number of new schemes will progress in SDCC in the next few years. This is due to the lack of large, modern units, for which there is strong demand. However, prevailing rents are still well below the level required for a developer to breakeven. This will mean that potential occupiers will have to enter into design-and-build deals with developers and pay an "economical" (approximately €150 psf / €14 psf) rent rather than the market rate (€74 psf / €6.90 psf). This economical rent is higher and is the level that justifies development.

- SDCC's area will benefit in terms of increased demand due to the redevelopment of industrial property in the city centre and south suburbs.

4.0 Analysis of Construction/Development Costs

4.1 Construction/Development Costs and the Tender Price Index

We understand that the four Dublin local authorities wish to focus on total development costs, which comprises both construction costs and development land value. However, all independent measures of costs focus exclusively on construction costs and as such, the commentary below generally relates to this part only.

With regard to development land values, there is no official data series tracking changes in values. This is due to the fact that this sector of the market is very difficult to accurately track given that every site is unique and its value depends on a wide range of factors (for example, end-use property values; land use zoning; density and design standards; availability of services; transport infrastructure; accessibility to amenities; cost of constructing buildings on the site, etc.). The development land sector is unlike the residential, office, retail or industrial sectors where it is possible to track changes in property values as there is a greater ability to predict demand and supply trends, and buildings can be compared more easily than various parcels of land.

Notwithstanding this, we have provided some indicative values relating to prime lands in section 5.1 and an analysis of its relationship to development contributions.

Forecasting future development land values is very difficult given the range of issues that affect it. As discussed in section 2 (and having regard to the above), if end property values increase by 5%, then land values increase by approximately 30% (all other factors remaining constant). But the opposite is also true if property values decrease, then land values decrease exponentially. Therefore, small changes in property values (either up or down) greatly impact land values. Land values did increase between 2012 and 2014 - however, with reported falls in residential values plus the impact of the Central Bank's rules on lending, these will have an impact on land values in the short-term.

For an assessment of construction tender prices in Ireland, the latest Construction Tender Price Index published by the Society of Chartered Surveyors Ireland (SCSI) is referenced. The trend on the latest published index outlines from a peak in 1H 2007 at 152.0 to a steep decline to 101.5 by 2H 2010-1H 2011.

The level of tendering in the period in 2010-2011 was generally accepted by industry as unsustainable and it can be inferred from the tender price index that the period 2010-2011 was a bottoming out phase.

The period 1H 2011-2H 2013 is reflected by steady increases with more pointed/accelerated growth in 2014. The annual increase for 2014 was 5%. One should note however that despite the increase of 5% over 2014 the tender price index is at a similar index number to 2H 1999 which outlines that the current level is relatively low.

The trend for the index for 2015 is projected to be upward with continued increased activity in the construction industry.

There are specific market factors which will influence the tender price index in the coming years which are now outlined in further detail.

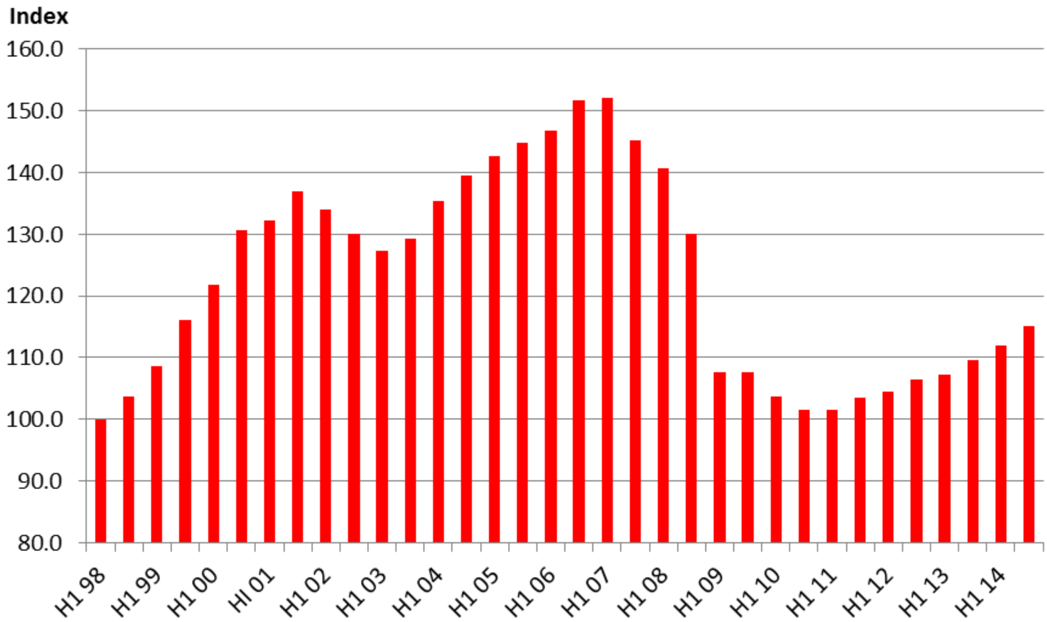


Figure 26: Construction Tender Prices, Source: SCSI

4.2 Market Factors Influencing Future Construction Costs

Construction Output as a percentage of GNP outlines a current level of 6.4% down from 23.9% in 2007 and currently well below the European average of 10% (all as outlined in the graph overleaf and based on latest available information). As Ireland's economy continues to grow and public finances improve, it is anticipated that construction output as a % of GNP will increase towards the European average of 10%. This increased volume in construction output will generate upward pressure on construction tender prices.

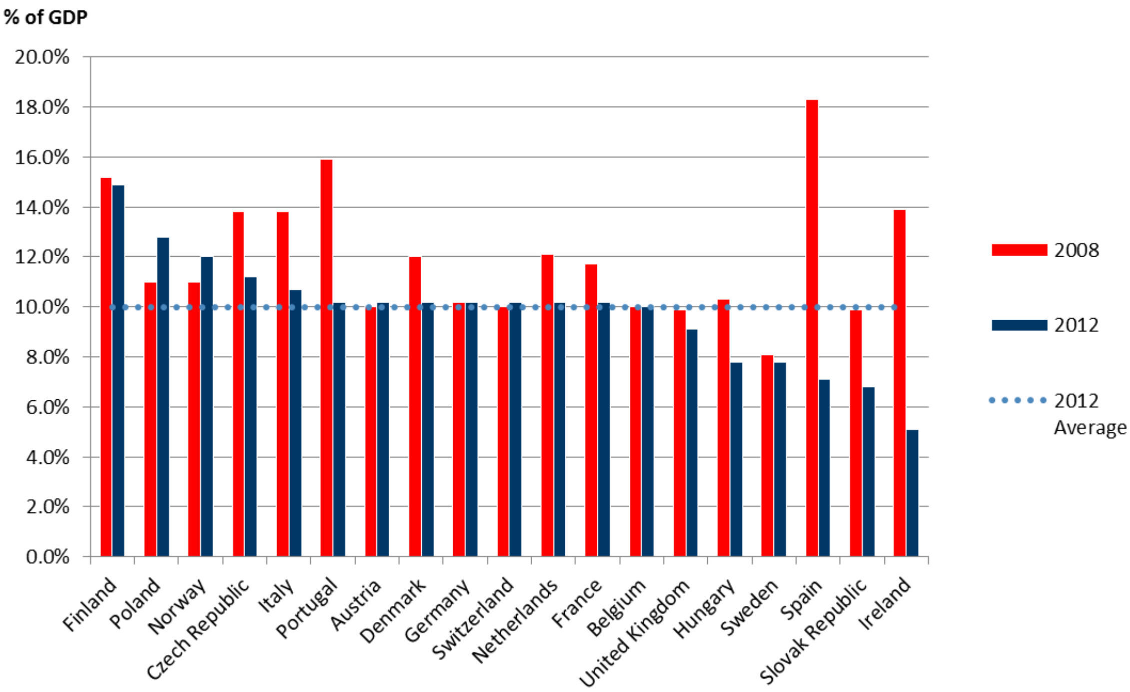


Figure 27: Building and construction output as a percentage of GDP, Euroconstruct countries, Source: Euroconstruct

Country	2008	2012	Country	2008	2012
Finland	15.1%	14.6%	Switzerland	10.2%	10.4%
Poland	11.4%	12.7%	Netherlands	12.3%	10.4%
Norway	11.4%	12.2%	France	11.4%	10.3%
Czech Republic	13.3%	11.2%	Belgium	10.2%	10.2%
Italy	13.0%	10.9%	United Kingdom	9.9%	9.0%
Portugal	15.6%	10.8%	Hungary	10.5%	7.5%
Austria	10.4%	10.7%	Sweden	8.1%	7.5%
Denmark	12.2%	10.5%	Spain	18.6%	7.0%
Germany	10.3%	10.5%	Slovak Republic	9.6%	6.5%
Ireland	13.8%	5 .0%			
		Western Europe (EC-15)		11.8%	9 .9%
		Eastern Europe (EC-4)		11.5%	11.0%
		Euroconstruct Countries (EC-19)		11.8%	10.0%

Table 10: Building and construction output as a percentage of GDP, Euroconstruct countries

Available labour resources is a current challenge for the construction industry in Ireland. This is marked by 2 key consequences arising from the recession, (i) low levels of output of skilled trade persons from apprenticeship programmes and graduates from 3rd Level Education Institutions and (ii) departure of construction labour force and specialist construction companies to other markets e.g. Australia and mainland Europe, etc.

This will in the short term continue to place upward pressure on construction tender prices as the required labour force is currently adjusting. We set out hereunder a summary of the % change and absolute change in occupations between 2006 and 2011 which is now resulting in a shortage of key trades and specialist contractors.

Occupations	2006	2011	(%) Change	Absolute Change
Carpenters and joiners	37,769	29,937	-20.7	-7,832
Other building and civil engineering labourers	37,234	24,737	-33.6	-12,497
Electricians and electrical maintenance fitters	25,726	20,359	-20.9	-5,367
Plumbers, heating, ventilating engineers and related	15,965	15,012	-6.0	-953
Builders and building contractors	17,119	12,939	-24.4	-4,180
Painters and decorators	12,652	11,416	-9.8	-1,236
Bricklayers and masons	15,645	10,004	-36.1	-5,641
Plasterers	13,641	9,626	-29.4	-4,015
Mechanical plant drivers/operatives and crane drivers	12,632	9,272	-26.6	-3,360
Pipe layers/pipe jointers and related	9,788	9,248	-5.5	-540
Welders and steel erectors	9,028	7,524	-16.7	-1,504
Civil and mining engineers	6,858	6,217	-9.3	-641
Architects, town planners and surveyors	6,819	6,123	-10.2	-696
Road construction workers and kerb layers	8,802	6,067	-31.1	-2,735
Scaffolders, riggers, steeplejacks and other trades n.e.s.	6,614	5,736	-13.3	-878
Building managers	6,351	5,250	-17.3	-1,101
Floorers, floor coverers, carpet fitters and planners, tilers	2,944	4,763	61.8	1,819
Sheet metal workers	3,152	3,652	15.9	500
Cabinet makers	4,055	3,454	-14.8	-601
Building inspectors and quantity surveyors	3,203	2,908	-9.2	-295
Roofers, slaters, tilers, sheeters and cladders	6,347	2,528	-60.2	-3,819

Architectural, town planning, building/civil eng. technicians	3,078	2,441	-20.7	-637
Draughtspersons	2,497	2,227	-10.8	-270
Glaziers	1,156	1,064	-8.0	-92
Rail construction and maintenance workers	548	404	-26.3	-144
All construction related occupations	265,568	209,454	-21.1	-56,114

Table 11: Labour force in construction occupations 2006 and 2011, Source: CSO

4.3 Market trends in the construction market

- **Residential**

For the past five years, new dwelling construction has been running at the lowest levels since records began in 1970 and well below the long-term average rate (3,270 built in the four Dublin local authority areas in 2014 compared to an annual long-term average of 8,000 units and a peak of 19,500). In the next five years, new construction will come from traditional developers (either funded by NAMA, international partners, some banks and cash) and new players in the market such as REITs, other investors/developers listed on the stock market and private equity funds. How quickly residential units can be delivered will depend on the range of factors relating to viability of schemes (values and costs), the availability of site acquisition and construction finance, the availability of skilled construction workers and the commitment of public finances to social housing.

- **Offices**

Following a six year period where no new office developments commenced construction, a number of new schemes started in the first half of 2015. The trend of new construction is very positive and required. In addition, there are various properties currently undergoing refurbishment to bring them up to a higher, more modern standard. Consequently, new construction is taking the form of (i) demolition of existing buildings with new build and (ii) upcycle/enhancement of existing building to modern office requirements. It is anticipated that the number of office construction projects will increase over the coming years and will occur in both the city centre and established suburban markets.

- **Retail**

New retail construction has been limited to some existing shopping centre extensions and units as part of mixed-use schemes for the past six years. This was due to the poor consumer sentiment and sales and the fact that many areas are considered ‘over-shopped’. Despite improved sentiment and retail sales over the past 12 months, this sector of the market remains fragile and new retail construction in the short-term is likely to be limited to further extensions of well-performing centres and retail units as part of larger schemes (including SDZ and regeneration areas).

4.4 Predicting the Future: Projection for the Construction Tender Price Index 2016-2020

The Construction Tender Price Index has developed from a bottoming out period 2010-2011 with modest inflation in the period 2012-2013 circa. 2.5% per annum to a more pronounced increase in 2014 of circa. 5%.

A selection of key market factors influencing future tender prices, including but not limited to (i) construction output as a % of GNP, (ii) availability of labour and specialist resources to the construction industry, (iii) status of key sectors residential, offices & retail, support the view that the tender price index should follow an upward trend over the period 2016-2020.

In the 1st phase of the period 2016-2020 we anticipate that tender price inflation will increase on the 2014 results, to annual increases of circa. 7%-8% whilst in the 2nd phase is likely to tail-off to less pronounced increases of circa. 4%-6% as additional labour resources become available and demand requirements for the noted key sectors are supplied with constructed buildings.

As an overall assessment it may be prudent to anticipate an average annual increase of circa. 5%-6% per annum to the tender price index for the period 2016-2020. It is important to note that the Irish Construction Tender Price Index is also subject to external market/international adjustments e.g. dot-com crisis and financial crisis which our assessment does not provide for.

5.0 Analysis of Impact of Development Contributions on Construction/ Development Costs

Development contributions comprise one element of development costs. Over time, the importance of the contributions as a percentage of development costs has varied as costs have changed. Given current market conditions, in theory, increasing development contributions should proportionally reduce the value of the land. This is particularly the case on marginal sites where development just about breaks even and the developer does not have the capacity to allow increased levies to eat into profit.

When the market was significantly stronger in the mid-2000s, then increased levies were absorbed by higher property prices rather than lower land values. The new Central Bank rules on mortgage lending now somewhat limit values and as such, this reduces the ability of any increase in levies to be absorbed and is more likely to reduce land values going forward.

In the short-term, we believe that any increases to development contributions would have an impact on land values. There is also the additional consideration that any increases to development contributions has the effect of adding to the range of costs that impact viability and in some cases, it might make schemes unviable for a period of time until end-values increase. This delays future development in marginal areas.

5.1 Current Contribution Rates and Development Costs

This section outlines the current contribution obligations as a percentage of overall development costs. When reviewing total development costs, land values must also be considered. In relation to residential land values, it is our opinion that prime sites are currently at approximately €2.7m per hectare while prime, viable commercial sites (such as Citywest) are at approximately €740,000 per hectare. The assessment summarises two schemes (for the SDCC area) with the associated construction costs and site values expressed as a percentage of the development contribution cost. These are based on worked examples - however it must be remembered that real estate is heterogeneous and every site will be subject to different costs. Each of the tables excludes VAT, and the contribution is exclusive of Irish Water levies.

Scheme 1: Office Development - 7,000sqm Corporate Headquarters

DEVELOPMENT CONTRIBUTIONS ON CONSTRUCTION DEVELOPMENT COSTS			
OFFICE BUILDING - CORPORATE HQ	**AREA/M2/HA**	**COST/M2/HA**	**TOTAL €**
South Dublin City Council			
Site Cost	0.607 HA	740,000.00	450,000.00
Construction Costs	7,000.00 M2	1,700.00	11,900,000.00
Development Contribution	7,000.00 M2	78.68	550,760.00
Contribution as % of site cost			122.39
Contribution as % of construction costs			4.63
Contribution as % of site and construction costs			**4.46**

Table 12: Development Contributions on Construction Development Costs for Office Development (ORHT)

Scheme 2: Residential Development - 50 no. 2 Bed Apartments

DEVELOPMENT CONTRIBUTIONS ON CONSTRUCTION DEVELOPMENT COSTS			
RESIDENTIAL - 50 no. 2 BED APARTMENTS	**AREA/M2/HA**	**COST/M2/HA**	**TOTAL €**
South Dublin City Council			
Site Cost	0.267 HA	2,470,000.00	660,000.00
Construction Costs	5,000.00 M2	1,800.00	9,000,000.00

Development Contribution	5,000.00 M2	85.06	425,300.00
Contribution as % of site cost			64.44
Contribution as % of construction costs			4.73
Contribution as % of site and construction costs			**4.40**

Table 13: Development Contributions on Construction Development Costs, (ORHT)

5.2 Summary for South Dublin

For the South Dublin County Council area it can be seen that for an office development the contributions comprise 4.46% of site and construction costs. For a residential scheme, it is working out at 4.40% of site and construction costs.

The office building development provides for a development contribution cost as a % of the development costs ranging from 2.53%-4.46% with a blended average for the four Dublin Local Authorities of 3.63%.

The residential building development provides for a development contribution cost as a % of the development costs ranging from 2.54%-4.40% with a blended average for the four Dublin Local Authorities of 3.69%.

It is worth noting the variance in the contributions rates within the four Dublin Local Authorities with a particular example being Dublin City Centre which is currently experiencing a surge in new office buildings with a higher construction cost than South Dublin due to location and limitations for building contractors and thus attracting a lower rate of contribution.

It is prudent to note however, and as outlined in our analysis of construction costs in the years 2016-2020, that it is anticipated that this will be a period of construction tender price inflation.

5.3 Other Factors Interacting with Development Contributions and Development Costs

It must be understood that development contributions are only one factor in relation to the cost of construction. There are many elements that contribute to overall construction costs and as indicated above the make-up of these elements as a percentage of overall costs vary over time.

The critical factor in relation to delivery of development is viability and there are many factors which influence this. As highlighted in the introduction, the development context in relation to the legislative and policy landscape has changed since the adoption of the last contribution scheme. These changes may affect site viability including: the vacant site levy; the application of lower development contribution rates where this applies to developments granted under previous higher rates; or reduced Part V requirements.

The vacant site levy may encourage the bringing forward of sites for development in certain areas. However this may affect viability depending on the strength of the market at the time.

The application of lower development contribution rates for previously granted development where the current rates are lower than those attached to the permission may encourage development of sites and may positively influence viability.

Reduced Part V requirements which lessen the requirement from 20% social and affordable housing to 10% social housing provision as part of residential schemes will positively affect site viability. It is speculated that the reduction in this requirement will assist in bringing more sites forward for development and therefore the overall provision of housing both private and social will increase.
In the current market developers continue to struggle with the viability of development. Land acquisition costs remain high and this is a significant factor in the viability of bringing these sites forward for development.

While contributions are attached as a condition to developments, local authorities have recognised that the upfront requirement to pay the entire contribution prior to the commencement of development can place financial pressure on developers and have accordingly allowed for staged payments of the contributions.

As the sector recovers and more development begins there will also be a corresponding pressure to provide and upgrade infrastructure. The councils will need to ensure the resources and funding to see that these services are delivered. As the development sector tentatively recovers an appropriate balance needs to be struck between ensuring that adequate provision is made for infrastructure requirements whilst not hindering development.

5.4 South Dublin and Viability

The viability of any new construction depends on various factors relating to the cost of construction and the end value of the scheme. With property values generally improving, this side of the equation has become more favourable. However, there are a wide range of costs that can still be an issue for a developer considering construction. Examples include rising tender costs, the cost and availability of finance for both site purchase and construction (for some but not for all), rising land values, design standards (see overview of terminology in section 2.1), VAT on new housing, Part V requirements and local authority development contributions. The severity of the impact of each of these costs varies from scheme to scheme and changes depending on location and type of property being developed. Some of these costs are changing continually, certain ones becoming more favourable and others more expensive, which have both a positive and negative impact on viability.

As previously outlined, medium-density residential development (35 to 50 units per hectare) is viable in most of SDCC's administrative area - from Scholarstown, Dublin 16 as far as Saggart, Co. Dublin. In terms of higher density (>50 units per hectare) along the Luas, there are still a number of over-hanging schemes where issues need to be resolved before new high density construction becomes viable and construction commences.

Following a number of years where office development was not viable in the SDCC area, we believe that such development is now approaching viability in Citywest Business Campus. Within the next two years, we believe about 14,000 sqm of office accommodation will be built in this park (to the rear of SAP's building) with potential the up to another 10,000 sqm possible in the follow three years to up to 2020. Other parts of the county where there is an established office market will take longer to become viable.

The extensions of The Square Tallaght and Liffey Valley Shopping Centre are very positive and is due to demand for accommodation in these centres.

Industrial rents will rise and demand will remain in the SDCC's area over the next five years. While new industrial property construction is not currently viable in the area (or in any part of the country), a limited number of new schemes will progress in SDCC in the next few years. This is due to the lack of large, modern units, for which there is strong demand. However, prevailing rents are still well below the level required for a developer to breakeven. This will mean that potential occupiers will have to enter into design-and-build deals with developers and pay an "economical" (approximately €150 psf / €14 psf) rent rather than the market rate (€74 psf / €6.90 psf). This economical rent is higher and is the level that justifies development.

6.0 Indexation

Applying indexation to the contribution scheme provides an adjustment mechanism to the contribution rate to allow for any increase or decrease in the cost of provision of infrastructure. There are various indices that can be used for this purpose. Prior to 2010 the Local Authorities applied the Construction Tender Price Index. In 2010 it was agreed that the Wholesale Price Index (Buildings and Materials) produced by the Central Statistics Office (CSO) was the most appropriate inflation index to apply to the scheme.

6.1 Choice of Index

There are a number of indices which could be used to reflect changes in the market over the life of the scheme. There are a number of long established and widely used indices. These are outlined below.

- **Wholesale Price Index (Building and Construction Materials) - CSO**

The Wholesale Price Index is compiled by the Central Statistics Office (CSO). The index incorporates imported and home produced goods sold by manufacturers and wholesale outlets. The index provides a general indication of price trends in the building and construction materials sector. The prices reflect an 'average' over a mixture of products from many companies throughout the country. They also reflect prices for both long-term and short-term contracts and for high and low volume civil engineering works.

There are a number of issues that may arise with this index. Large scale major works contracts might impact on emerging price changes on the index. Also, while prices may appear to be increasing, negotiations down the line may mean these prices are not achieved.

The most recent figures from the CSO (June 2015) show that building and construction all materials increased by 1.6% in the year since May 2014.

Materials	Index		Monthly % Change			Annual % Change
	Apr 2015	*May 2015*	*Mar 2015*	*Apr 2015*	*May 2015*	*May 2015*
All materials	*108.6*	*109.1*	*0.7*	*0.4*	*0.5*	*1.6*

Table 14: Wholesale Price Index (Excl VAT) for Building and Construction, Materials (Base 2010 = 100) by Type of Material, statistical indicator, Source: CSO

Materials	2010 M03	2011 M03	2012 M03	2013 M03	2014 M03	2015 M3
Wholesale Price Index (excl. VAT) for Building and Construction Materials (Base 2010 = 100)	98.6	101.5	103.6	105.6	106.7	108.2
Percentage change over 12 months in Wholesale Price Index (%)	…	2.9	2.1	1.9	1.0	1.4

Table 15: Wholesale Price Indices (excluding VAT) for Building and Construction Materials (Base Year 2010 as 100), Source: CSO

- **Construction Tender Price Index - SCSI**

The Construction Tender Price Index is an independent assessment of construction tender prices complied by the Society of Chartered Surveyors Ireland (SCSI). The index is based on actual tender returns for non-residential projects during the period in question. It is predominantly based on new build projects with values in excess of €0.5m and covers all regions of Ireland. The index is a measure of average prices increases across differing project types and locations.

The latest Construction Tender Price Index published (11th February 2015) by the SCSI shows that tender prices increased by 5% in 2014.

Construction tender prices in Ireland increased by 2.9% in the second half of 2014. The annual increase for 2014 was 5.0%.

It is largely based on new build projects with values in excess of €0.5m and includes for all regions of Ireland. The index is a measure of the average price adjustments for variant projects and locations. The Index includes for price adjustments to materials and labour costs on construction projects.

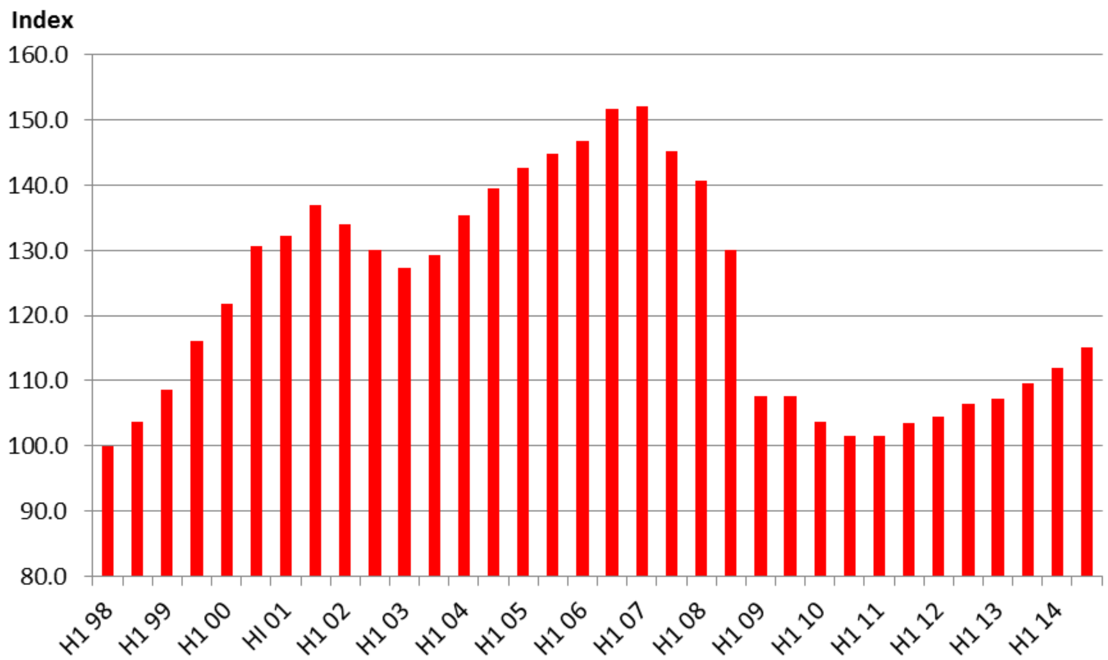


Figure 28: Construction Tender Prices, Source: SCSI

- **Residential Property Price Index**

The residential property price index measures the change in the average level of prices paid for residential properties sold in Ireland, mix-adjusted to discount the effects of varying property characteristics. The index is compiled and published on a monthly basis. The sample for the Residential Property Price Index consists of the eight main mortgage lending institutions in the state.

According to the CSO Statistical Release, 28th April 2015, Dublin residential property prices rose by 1.1% in March. Year on year, Dublin residential prices were 22.8% higher than in March 2014. Dublin house prices were 36.9% lower than their peak, while Dublin apartment prices were 42.2% lower than their peak.

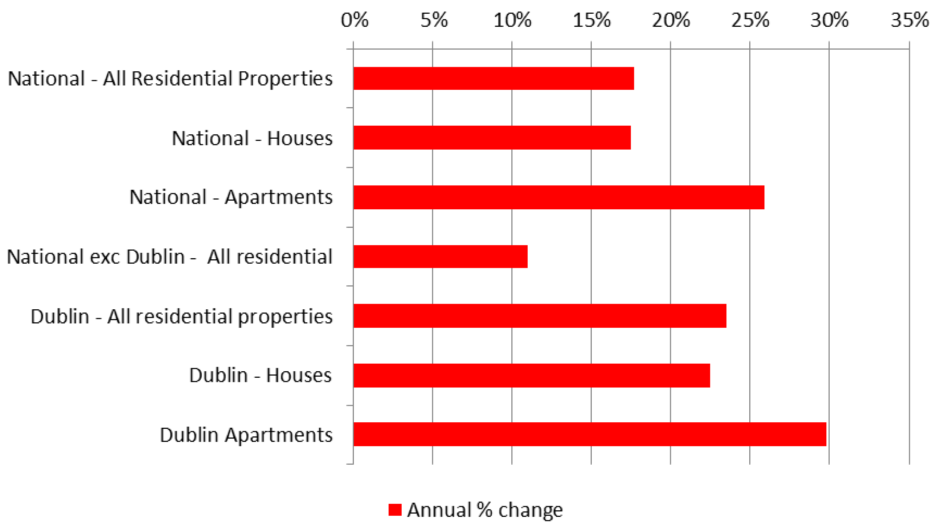


Figure 29: Residential Property Price Index March 2015, Source: CSO

Dublin - all residential properties			
Period	**RPPI current base Jan. 2005 = 100**	**Percentage changes**	
			12 months (%)
2005	106.7		
2006	126.1		18.2
2007	133.0		5.5
2008	120.7		-9.2
2009	91.6		-24.1
2010	78.3		-14.5
2011	66.5		-15.1
2012	58.4		-12.2
2013	63.4		8.4
2014	76.7		21.0

Table 16: Residential index for all residential properties in Dublin, Source: CSO

- **Production in Building and Construction Index - CSO**

The quarterly production in building and construction index provides quarterly statistics on output in the sector. The index monitors trends in the value and the volume of production in building and construction. The primary purpose of the index is to measure changes in value added at constant prices.

The principal difference between the value and volume indices is that the volume index traces the quantitative volume of production (i.e. effect of price changes excluded) each quarter. The Capital Goods price index for Building and Construction is used as the price deflator for this series.

Seasonally adjusted production in building and construction index (Base: Year 2010 = 100)		
	Volume Index	**Value Index**
Q1 2014	95.4	93.7
Q4 2014	99.3	98.5
Q1 2015	96.7	100.3
Quarterly % change	-2.6%	1.8%
Annual % change	1.4%	7.0%

Table 17: Seasonally Adjusted Production in Building and Construction Index, Source: CSO

On an annual basis, the volume of output in building and construction increased by 1.4% in the first quarter of 2015. There was an increase of 7.0% in the value of production in the same period. The annual rise in the volume of output reflects year-on-year increases of 21.8% and 3.4% respectively in residential building and non residential building work. The volume of output in civil engineering fell by 1.3% in the year to Quarter 1 2015.

Indices of Total Production in Building and Construction Sector (Base 2010=100, seasonally adjusted) by Type of Building and Construction, statistical indicator and Year					
	2010	**2011**	**2012**	**2013**	**2014**
All building and construction					
Value of Production Index in Building and Construction	100.1	81	79.8	89.3	97.9
Volume of Production Index in Building and Construction	100.1	83.6	80.1	89.5	98.3
Building (excluding civil engineering)					
Value of Production Index in Building and Construction	100	84.4	75.6	87.3	98.2
Volume of Production Index in Building and Construction	100	86.5	76.9	88.2	98.2
Residential building					
Value of Production Index in Building and Construction	100.2	71.3	63	70.3	82.7
Volume of Production Index in Building and Construction	100.3	73.1	64.2	70.9	82.6
Non-residential building					
Value of Production Index in Building and Construction	99.7	95.7	86.5	102.6	111.7
Volume of Production Index in Building and Construction	99.7	98.1	88	103.2	111.6
Civil engineering					
Value of Production Index in Building and Construction	99.7	75	88.1	93.1	97.2
Volume of Production Index in Building and Construction	99.7	77	89.7	94	97

Table 18: Production in Building and Construction Index, Source: CSO

6.2 Performance of Indices over Time

The table overleaf provides a summary of the performance of the various indices over time and the pros and cons associated with the various indices.

Index	% Change per Year	Pros	Cons
Construction Tender Price index	Fell from a peak in 2007 up to 2010 and levelled. Over the past three years prices have risen.	• Would have tracked the market better • Is a long established index • Is an independent index	• Is subject to over-correcting as contractors bid competitively during periods of downturn • Not spread evenly across all rates (e.g. increases in preliminaries and in key trades such as mechanical and electrical services)
Wholesale (Building and Construction Material) Index	This increased in 2011 and 2012 by 2.3% and 2.2% respectively. In 2013 and 2014 the figures were 1.3% and 1.4% respectively.	• Carried out by CSO	• Susceptible to currency fluctuations, and pricing factors and supply/demand variables outside of the local market
Residential Property Price Index	Declined since 2010	• Would have tracked the market better • Carried out by CSO	• Only residential • Only tracks mortgage draw-downs from 8 lenders • Excludes cash purchases which have made up most of the market activity
Building and Construction Index	Declined from 2010 to 2012, but increased again in 2013 & 2014 and is nearly back at 2010 levels	• Carried out by CSO	• Is not suited to the current requirements

Table 19: Performance of Indices and Pros and Cons

Figure 30: Performance of Indices over Time, Source: CSO, SCSI, FAC

6.3 Recommendation on Indexation

In compiling the report for economic and market analysis of the development sector and the factors influencing development for the period 2016-2020 in the four Dublin Local Authorities, it is recommended that the SCSI Construction Tender Price Index is adopted.

The Construction Tender Price Index was first issued in 1998 and is the only independent assessment of construction tender prices in Ireland. The Index is compiled by Quantity Surveying members of the Society of Chartered Surveyors Ireland (SCSI).

7.0 Conclusions

7.1 The Likely Trends

As has been outlined, the construction industry is recovering and 2014 was the strongest year since 2007 in the development land market with supply, demand, activity and values all increasing across the Dublin region. The outlook for the development land market is positive and additional supply of sites will come to the market in the coming months. Development activity should increase in the short-term on sites with planning.

The outlook for the Dublin residential market is positive. However supply is unlikely to improve greatly in the next 18 months. In the short to medium-term prices will closely track affordability and growth rates will be much more sustainable. In terms of office development, despite the lack of office accommodation in the Dublin market generally, there are only ten new schemes under construction, nine of which are in the city centre. Consequently upward pressure on rents continues to build. The retailing outlook is also positive. Prime locations will continue to be the focus of retailers but demand will continue to spread out and secondary vacancy rates will continue to fall.

The viability of any new construction depends on various factors relating to the cost of construction and the end value of the scheme. With property values generally improving, this side of the equation has become more favourable. However, there are a wide range of costs that can still be an issue for a developer considering construction. Examples include rising tender costs, the cost and availability of finance for both site purchase and construction (for some but not for all), rising land values, design standards (see overview of terminology in section 2.1), VAT on new housing, Part V requirements and local authority development contributions. The severity of the impact of each of these costs varies from scheme to scheme and changes depending on location and type of property being developed. Some of these costs are changing continually, certain ones becoming more favourable and others more expensive, which have both a positive and negative impact on viability. How quickly further schemes come on stream will depend somewhat on how the factors influencing values and costs evolve in the next few years.

As previously outlined, medium-density residential development (35-50 units per hectare) is viable in most of SDCC's administrative area - from Scholarstown, Dublin 16 as far as Saggart, Co. Dublin. In terms of higher density (greater than 50 units per hectare) along the Luas, there are still a number of over-hanging schemes where issues need to be resolved before new high density construction becomes viable and construction commences.

Following a number of years where office development was not viable in the SDCC area, we believe that such development is now approaching viability in Citywest Business Campus. Within the next two years, we believe about 14,000 sqm of office accommodation will be built in this park (to the rear of SAP's building) with potential the up to another 10,000 sqm possible in the follow three years to up to 2020. Other parts of the county where there is an established office market will take longer to become viable.

The extensions of The Square Tallaght and Liffey Valley Shopping Centre are very positive and is due to demand for accommodation in these centres. However, further large scale retail development is unviable and unlikely in SDCC's area the short-term with possibly only another extension to Liffey Valley Shopping Centre likely.

Industrial rents will rise and demand will remain in the SDCC's area over the next five years. While new industrial property construction is not currently viable in the area (or in any part of the country), a limited number of new schemes will progress in SDCC in the next few years. This is due to the lack of large, modern units, for which there is strong demand. However, prevailing rents are still well below the level required for a developer to breakeven. This will mean that potential occupiers will have to enter into design-and-build deals with developers and pay an "economical" (approximately €150 psf/€14 psf) rent rather than the market rate (€74 psf/€6.90 psf). This economical rent is higher and is the level that justifies development.

Despite the improvements in the property market over the past two years in terms of increased demand and improvements in land and property values, it is still a fragile market as evidenced by falls in residential values in recent months. If development levies in the entire Dublin area were to be increased, then they would have an impact on the viability of marginal schemes, which would result in delayed development until such time as end property values increased enough to justify development in these areas. However, given how quickly market conditions can change, we believe this situation should be monitored as appropriate.

7.2 Construction and Development Costs Implications

As discussed, development contributions comprise one element of overall construction costs and the impact has varied over time. It has been shown that development contributions as percentage of development costs has changed over the past number of years.

In relation to commercial development the percentage of construction costs amounts to 4.1% which is an increase since 2010, rising from 2.5% (based on previous reports). The development contributions as a percentage of development costs in relation to residential development are nearly on par with the 2010 figure, having risen to 7% in 2012, but falling back to 4.8% in 2015. However it should be noted that the water element of the contribution is not included in the most recent figure as this is now levied separately by Irish Water.

For the South Dublin County Council area we can see that for an office development the contributions comprise 4.46% of costs, while for a residential scheme it is working out at 4.40% of construction costs. As above this does not include a water contribution.

It can be seen that in the office market development contributions are making up a higher proportion of the cost than since the making of the last scheme. In relation to contributions for residential development they are making up a similar portion of the construction costs.

7.3 Recommendations on Indexation

An outline of the various types of indices was provided. Looking back at the historic trends and how the various indices have tracked the market it can be seen that the SCSI Construction Tender Price Index has been the most reflective of the market over the previous years. It is therefore recommended that the SCSI Construction Tender Price Index should be applied to the new Development Contribution Scheme.