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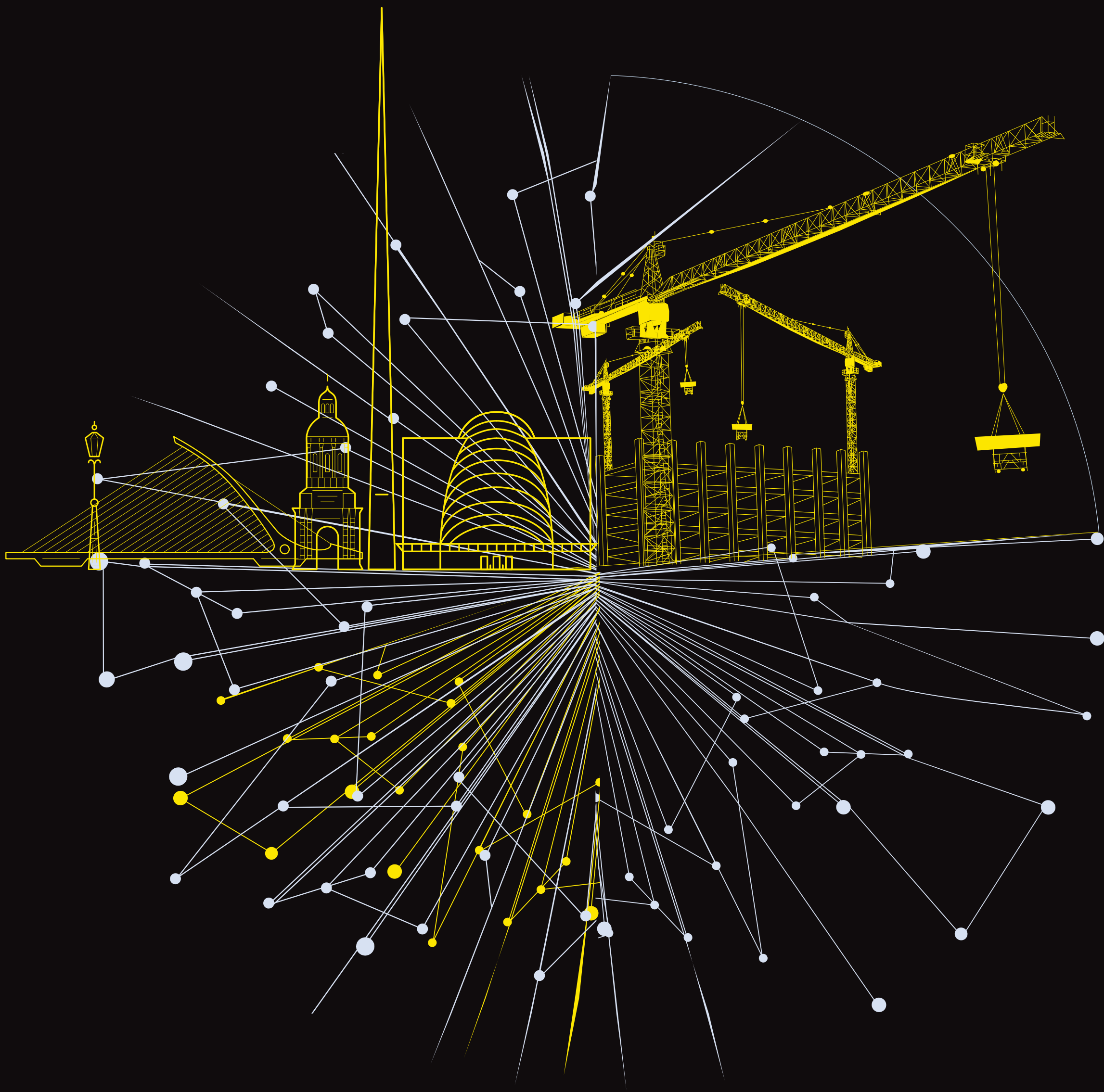

Crane Survey 2023

Planning & Development Statistics

Report 2023

Introduction

Welcome to the Deloitte Annual Crane Survey report. This report provides a detailed analysis of the development landscape in the Republic of Ireland. It discusses indicators across the development cycle; planning applications, planning permissions granted, commencements and completions. Such indicators are reviewed across both the residential and commercial property markets with key trends highlighted in each.

In addition to analysing development activity, the report also provides an overview of the draft Planning & Development Bill, a review of the current funding landscape and finally tax changes which impact the market.

The Crane Survey Event – Do we Count Cranes?

Sadly not, the Deloitte Crane Survey originated in the UK 26 years ago and has grown to be a respected and trusted brand over that time. We use the Crane as a metaphor as it is a clear symbol on the skyline that activity is happening beneath, and therefore counting cranes is a logical concept for investigating construction activity. Over the 26 years however, technology and databases have been crucial to providing our clients with bestin-class advice, so our practice of merely counting cranes has ceased and we have expanded our capabilities. Our research is based on data taken from a variety of sources and we then check every statistic to ensure we deliver robust and reliable data and insights.

Economic Overview

Before reviewing the development landscape at present, it is worthwhile to take stock of the current economic environment, focussing on a number of data points which impact the sector in particular.

2022 began on a high, as at the end of January, all Covid-19 restrictions were lifted. Expectations for the year ahead lifted as individuals, businesses and the construction sector looked positively towards a period of uninterrupted activity, i.e., no lockdowns. Economic forecasts were also positive, with economic expansion predicted for the year, both domestically and internationally.

However, as we now know, this period of stability was short-lived, as the world awoke to the news of the war in Ukraine on February 20th 2022. This devasting event was the catalyst for rapid inflation and rising interest rates, to levels not seen either within Ireland, Europe or further a field in quite some time. These changes created greater downside risks to economic forecasts, with the world economic outlook recording substantial revisions by the middle of the year. This volatility also played on sentiment, as both consumers and businesses assessed the impact of higher energy costs on their budgets.

Remarkably, despite all these challenges, economic performance in Ireland persevered, with economic forecasts even improving as we approached the final quarter of the year and entered 2023. Preliminary annual data reveals, Real GDP grew by 12.0%, just marginally below expectations, in 2022. Importantly, modified domestic demand, which strips out the often over stretching international side to the economy, returned a growth rate of 8.2%. Such growth is noteworthy in any given year, not alone when recorded during one such as 2022. Industry (excluding construction) and Information and Communication were the key sector drivers, with growth of 23.0% and 11.3% respectively in the year. The two sectors combined account for 57.9% of GDP in 2022. Looking to construction, the sector accounted for 1.9% of the GDP, and recorded an annual increase of 14.4%. However, despite the rise, the sector remains 2.8% below 2019 in terms of output.

Beyond GDP, modified domestic demand and personal consumption, both regarded as more reflective of the domestic economy, performed strongly in 2022 as a whole. Similarly, the labour market also showed resilience. Total employment increased 6.6% in 2022, with a total of 2.57million persons employed as of the end of Q4 2022. The unemployment rate also remains at historic lows. For example, as of February, the monthly rate sat at 4.3%.

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Inflation in Focus

When discussing economic indicators, a key talking point of 2022 was inflation, both nationally and globally. In Ireland, inflation for 2022 as a whole averaged at 7.8%, largely inline with expectations. January inflation data, both within Ireland and Europe, were showing positive signs of further easing, however flash estimates for February have not followed the same path. The EU Harmonised Index of Consumer Prices (HICP) for Ireland increased 8% annually and 1.4% in the month.

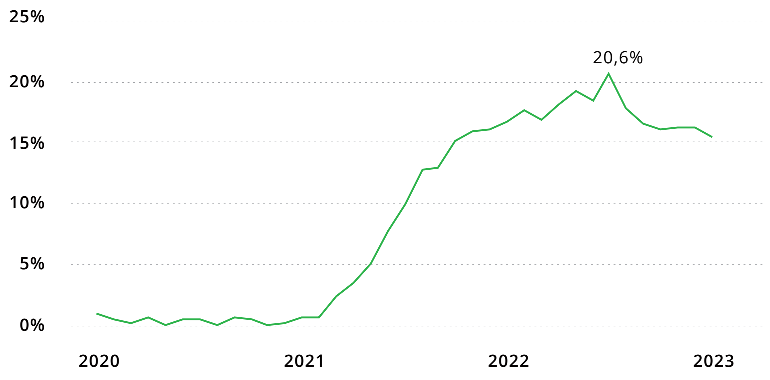
Overall, forecasts by the Central Bank of Ireland in their Q1 2023 publication, released in March 2023, place HICP at 5% in 2023 and 3.2% in 2024.

Well documented through out the year, energy prices were a key driver of inflation in 2022. Although this was already in motion in the second half of 2021, the war in Ukraine saw this climb higher. For example, the energy component of CPI reached a high of 54.1% annual growth in June 2022. As of January 2023, this figure had declined to 33.1%. It is worth noting however that January marked two consecutive monthly declines in energy price growth. The Central Bank of Ireland is forecasting HICP (excluding energy) growth of 4.3% and 2.9% in 2023 and 2024 respectively.

Looking specifically at the construction sector, overall CPI growth and of course rapid energy price growth negatively impacted the sector. However, of equal if not greater interest was materials price inflation. Construction costs have experienced two shock events over the past three years. Firstly, a supply chain shock caused by Covid-19 and the Suez Canal blockage and secondly the energy shock, this year.

According the to SCSI Tender Price Index, median national tender price inflation in 2022 rose 11.5% on an annual basis. The first half of the year recorded growth of 7.5% with this easing to 4% in the second half of the year. The SCSI index report also anticipated that for the first half of 2023, tender price inflation would be similar to H2 2022, and therefore there is optimism that the moderation in price growth would continue.

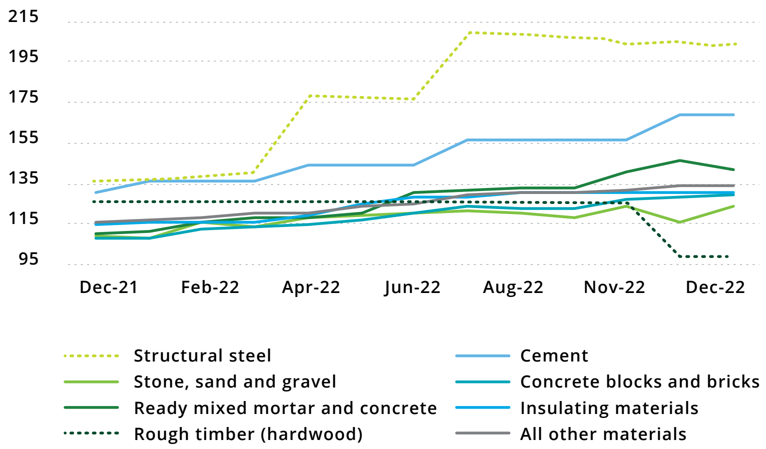
Annual % Change, Wholesale Price Index
Construction & Building Materials, Jan 2020 – Jan 2023



Source: CSO

Outside of the SCSI Tender Price Index, the detailed CPI series produced by the CSO also provides useful insights. According to the CSO, Building & Construction Materials increased by 17.5% in 2022. In line with trends in the SCSI index, price growth eased from significant highs between April and July.

Monthly Wholesale Price Index,
by Material Type, Dec-21 – Dec-22



Source: CSO

It is important to also look beyond these headline figures, as if one splits the industry between high tech and high complexity projects, the inflation rate differs. For example, inflation for commercial office blocks, with high amounts of structural steel ran higher in 2022 than a housing project which uses timber. Structured and reinforcing steel recorded annual price growth as high as 51.3% in April 2022, and although it has since declined, to growth rates in the mid-30s towards the end of the year and start of 2023, it differs greatly to trends in timber, which have now recorded annual declines since September.

Interest Rates in Focus:
As inflation rose rapidly in 2022, Central Banks responded by raising interest rates. The European Central Bank, (ECB) was later to move on rate rises than the Federal Reserve in the US, The Bank of Canada and the Bank of England. However, in July the ECB announced the first-rate rise, 50 basis points. In total the ECB have increased interest rates by 300 basis points since July 2022. At the time of writing, the next monetary policy council meeting was due to take place on March 16th, for which the council had made it very clear at their last announcement, that another 50 basis points would be applied. Expectations are that further rises will occur through out 2023, however at a slower pace than we have seen over the past nine months. Closely reading the language of the ECB will be pivotal when attempting to assess their next moves.

The path of interest rates will be closely watched by all those in property market, as their increases (or decreases) have a direct impact on the cost of debt to finance such developments, while also have impacted yields and yield outlook.

Housing Demand & Demographics:
Lastly, 2022 saw our first Census recorded since 2016. This crucial population survey is vital for government policy, in particular housing policy. Although we await the detailed Census data releases, which will provide fantastic insight into demographic and household trends, preliminary data released reinforced the understanding that Ireland's population has continued to grow at a faster pace than expected.

According to Census 2022, Ireland's population now sits at 5.12million. This represents an increase of 7.6% since Census 2016 and is the highest population recorded since 1841. A key driver of population in recent years has been net inward migration, which returned to a positive figure in 2015 following years of net outflow following the fallout of the financial crash.

Also released in the preliminary data was information regarding the stock of housing. As per Census 2022, the stock of housing was 2.12million. This is up 6% on 2016, which is an improvement from the drastically low rise of just 0.4% between Census 2011 and Census 2016. Worryingly, the number of dwellings per 1,000 of the population has declined in both 2016 and 2022 Census data results.

Between 2011 and 2016 census, housing stock increased by just 8,800 units. Between 2016 and 2022, housing stock increased by 120,000.

The validity of housing stock counts provided by the Census have been contested in recent years, with effective issues raised. However, placing that debate to the side, what is not disputed is that population continues to grow at a faster pace than expected within Ireland. This, coupled with a move towards smaller average household sizes, places greater demand on the residential market. This fact needs to be taken into account when looking at policies surrounding the future supply of houses and must be remembered when looking at current delivery.

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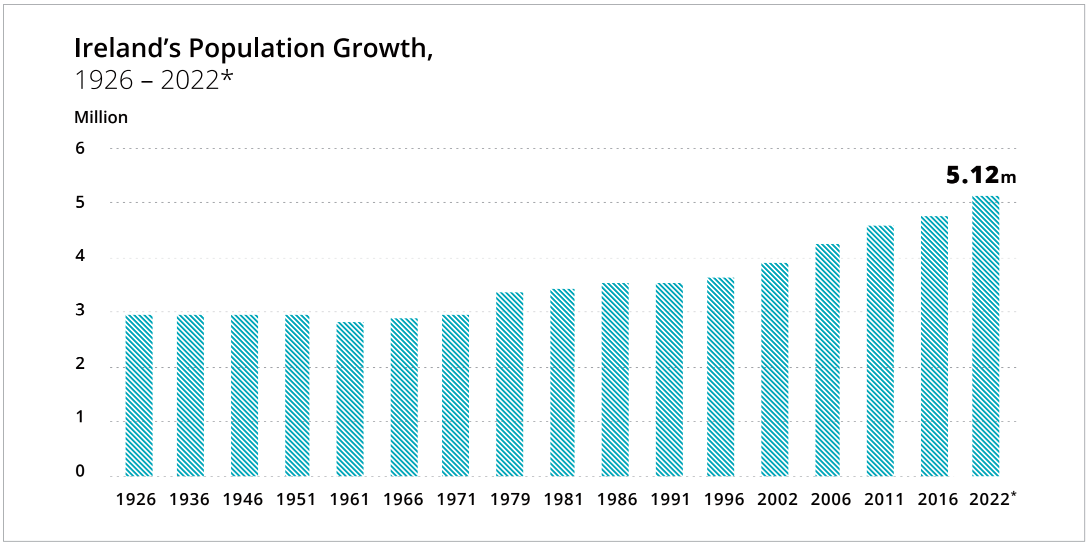
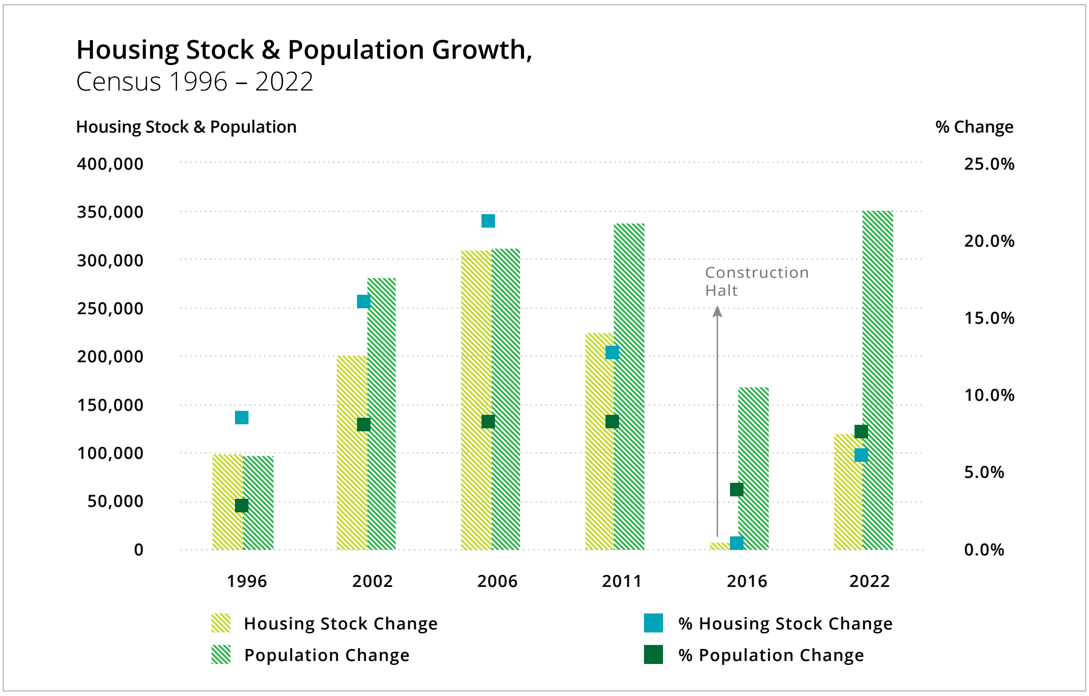


Source: CSO * Preliminary Census 2022 Data



Source: CSO

Overall Economic Outlook, 2023F – 2024F

% Change	Projections		
	2022	2023F	2024F
GDP	12.0	5.6	5.1
Personal Consumption	6.6	4.8	3.7
Modified Domestic Demand	8.2	3.1	2.9
Unemployment Rate	4.5	4.4	4.4
HICP	8.1	5.0	3.2

Source: Central Bank of Ireland, Quarterly Bulletin 01, March 2023

Development Activity
Residential

New Supply Delivered in 2022

Performance indicators relating to development activity in the residential market proved mixed in 2022. On a positive, the market recorded a much-improved level of new completions, however concerns emerged for commencements data and therefore the ability for this improved level of delivery to hold over the coming years.

Beginning with new completions, a total of 29,851 units completed construction during 2022. This represents an annual increase of 45% on 2021 and is the highest volume of completions since the early 90's. The figure surpassed government targets set out in Housing for All, however, the total remains significantly below argued market demand. Depending on sources, this figure can range from 35,000 units per annum to 61,000 units per annum.

A look beyond this headline figure reveals the role apartments have played in the increased delivery. Scheme houses accounted for 51% of all units completed in 2022, while apartments accounted for a further 31%. A total of 9,166 apartments completed construction in 2022, a substantial rise of 79% in the 12-month period. Remarkably, the addition of +9,100 new apartments to the housing stock, compares to delivery of just under 3,500 units in 2019 and some 1,150 in 2016.

The remaining 5,522 new units completed in 2022 comprise single houses.

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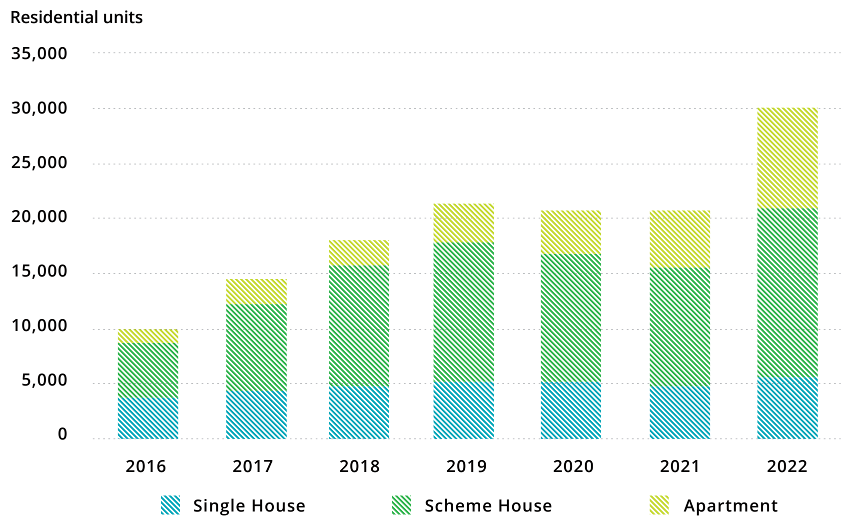
Residential New Completions By Type,
2016 - 2022



Source: CSO

Dublin & the Commuter Belt In Focus: In terms of location, Dublin absorbed 35% or 10,370 new units in 2022. Within Dublin delivery was heavily weighted towards apartments, which accounted for two thirds of new units completed. Within Dublin's four Local Authorities, there is a clear distinction in trends. Dublin City Council recorded the highest volume of new units, 3,882 in total. Key to this delivery was apartments, which accounted for 93.0% of completions. Dun Laoghaire-Rathdown was second on the delivery table, with apartments driving this at 76.8%. In contrast, Fingal County Council and South Dublin County Council areas saw apartments account for a much smaller proportion of delivery, approximately one third in each. Instead, scheme houses were the key delivery type within each of these Local Authorities.

Well reported in recent months, there is substantial market uncertainty regarding the viability of apartment delivery, due to higher delivery costs, higher interest rates and therefore higher yields. Sentiment in large scale residential investment or the Private Rental Sector (PRS) declined in 2022 as the yield outlook changed. Investment transactions in the sector are expected to be relatively limited in the first half of 2023. This leads to warranted concerns regarding the future delivery of apartments. Given the importance of apartments in the rise of new completions in 2022, and particularly within Dublin, this places vulnerability or notable risk to future supply within Dublin. Looking beyond Dublin, the commuter belt of Kildare, Meath and Wicklow recorded delivery of 6,047 new completions in 2022. This is a welcomed increase of almost 2,000 units from 2021, and a rise of over 4,400 new deliveries from completions in 2016. In contrast to Dublin, scheme homes make up the largest proportion here, over 4,500 new completions. Apartment delivery in the three counties combined sits below 900 units in 2022.

Source: CSO

Cork, Limerick, Galway:
The regional centres such as Cork, Limerick and Galway saw a combined delivery of 5,212 units in the twelve-month period, with Cork accounting for the bulk of this, 3,089 units. It is worth noting that almost a quarter of this delivery is in single units, i.e., self builds and therefore have no real impact on the open market. Cork has also experienced the largest growth in delivery since 2016 across the three key regional centres. The increase in activity in Cork, follows trends in commercial real estate, where it also saw the most activity across both office and logistics development over the past number of years.

Overall, the median price of new homes transactions in Cork County, according to CSO data was €355,000 in 2022, an annual increase of 4.6%. In the Cork City, this median value sits higher at €490,000. However, it is worth noting in 2022, the volume of new homes transactions recorded in the city versus the county is much lower.

Galway follows Cork in terms of new completions in 2022, with a total of 1,336 units delivered in the twelve months. Here, single units account for a greater share, at 38%. Although 2022's delivery is much improved from 2016 which just surpassed 500 units, when you exclude self builds, the volume delivered to the market remains notably low. In terms of median values for new homes as per the CSO, Galway sits largely in line with Cork, at €350,000. Again, the city median sits higher at €410,000 and is based on a better city/county breakdown than was evident in Cork.

Lastly, in Limerick just under 800 new residential units completed construction in 2022. This reflects an annual increase however when single builds are removed, brings new supply to just 561 units.

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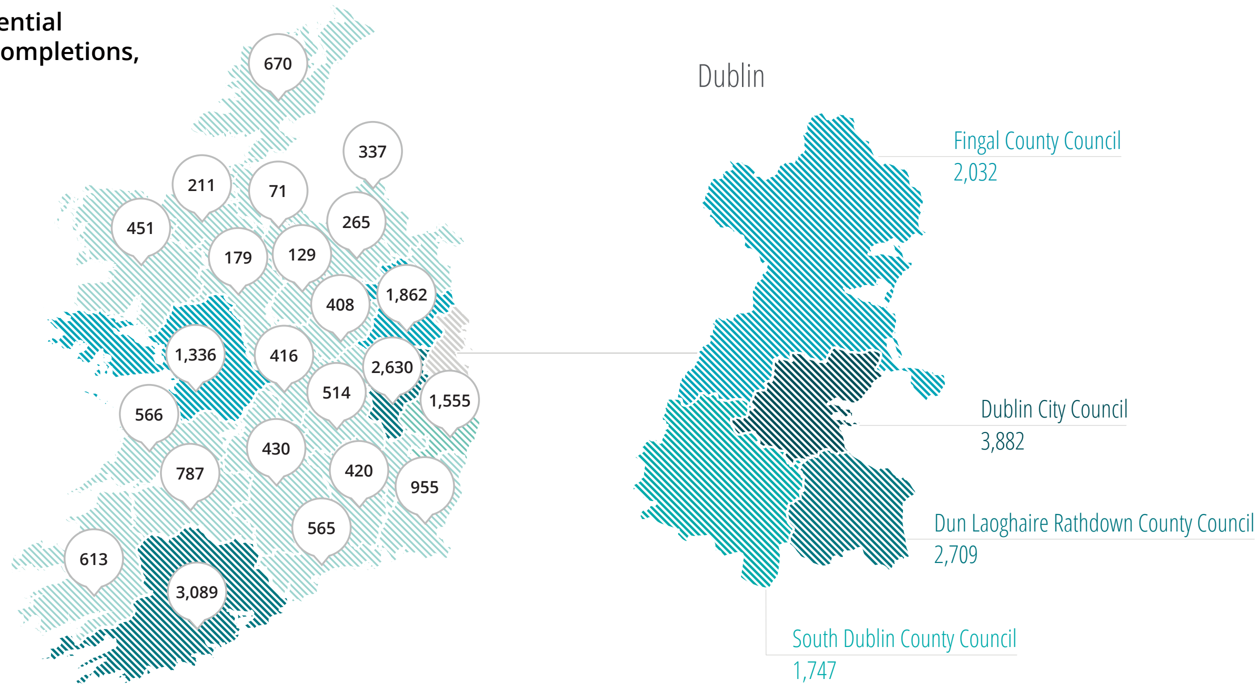
Residential new completions, 2022



Source: CSO

Commencements Data

Looking beyond completions, attention looks towards the pipeline, ranging from commencements, permissions and applications. Commencement's data is the best indicator of immediate supply and therefore 2022 data supports market concerns regarding the volume of completions in 2023.

During the twelve months, commencements declined to 26,957 units, reflecting an annual decrease of 12.3%, more in line in 2019 levels. May recorded the highest volume of commencements, with 2,746 units, with the volume declining towards the autumn and winter months. Monthly volatility is to be expected with commencement data, however the monthly average needs to reach 2,750 units, to reach the government delivery target set out in Housing for All of 33,000 units per annum. In reality, this monthly figure needs to be higher again, if delivery is to not only meet the target delivery figure, but also reach the true demand figure mentioned previously in this report. In January, a further 2,108 units commenced construction. Although an improvement from December and the average for Q4 as a whole, caution most be applied to the positivity placed on this growth. If commencements were to continue at this rate, it would total just under 25,300 new units. This monthly data will need to be monitored closely, however at present market intelligence suggests a significant rise is not expected unless market dynamics regarding planning and viability were to change.

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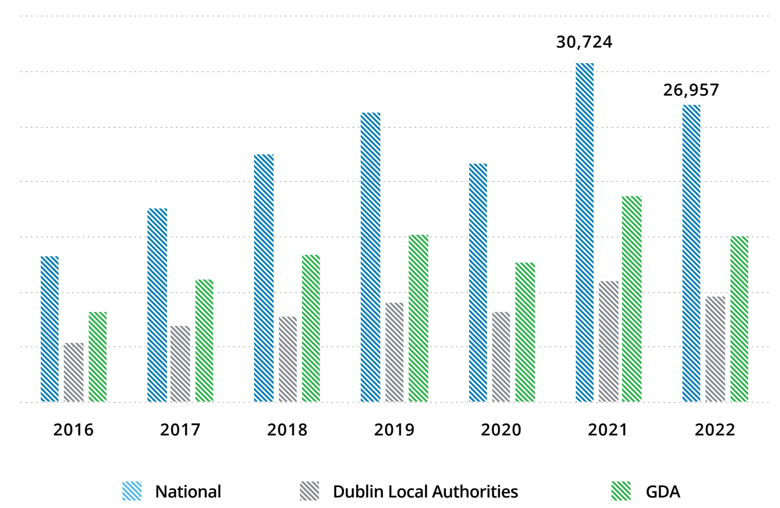


New Residential Commencements,
All Units*, 2016 - 2022

Source: Department of HLGH

*All units, include single, one-off builds also. This is important to note as they totalled 4,695 units in 2022.

What is not included in commencements data published publicly by the Department of Housing, Local Government and Heritage is a breakdown of commencements by type. Deloitte Real Estate Research conducted an analysis on all commencements of 20 units or more during 2022. This figure sits lower than total commencement figures as it aims to exclude self builds, or particularly small "boutique" schemes. The totalled amounted to just under 21,500 units in the year.

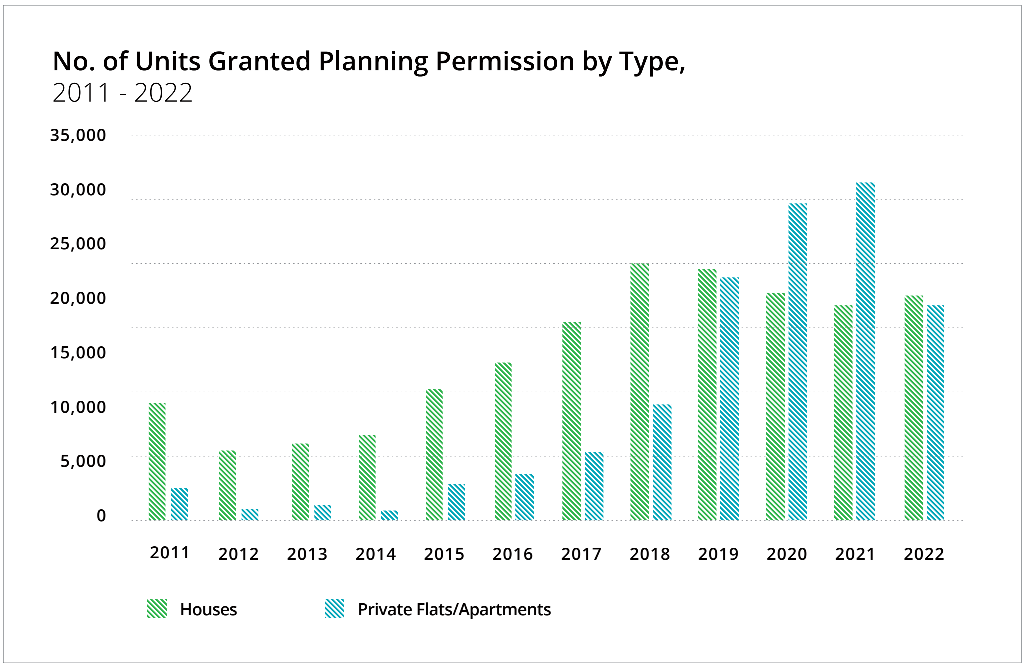
Of this figure, half are apartments or duplexes, with the remaining being houses. Similar to 2022 completions, apartment and duplex commencements are largely located in Dublin, 74%. However, the most standout result from this analysis was the change from the first six months of the year, the final six months of 2022. Commencements of apartments or duplexes declined by 34% in H2 2022 compared to H1 2022. In contrast, housing commencements declined just 5%. This decline is not surprising and reflects sentiment within the market.

Although an improvement from December and the average for Q4 as a whole, caution most be applied to the positivity placed on this growth. If commencements were to continue at this rate, it would total just under 25,300 new units.

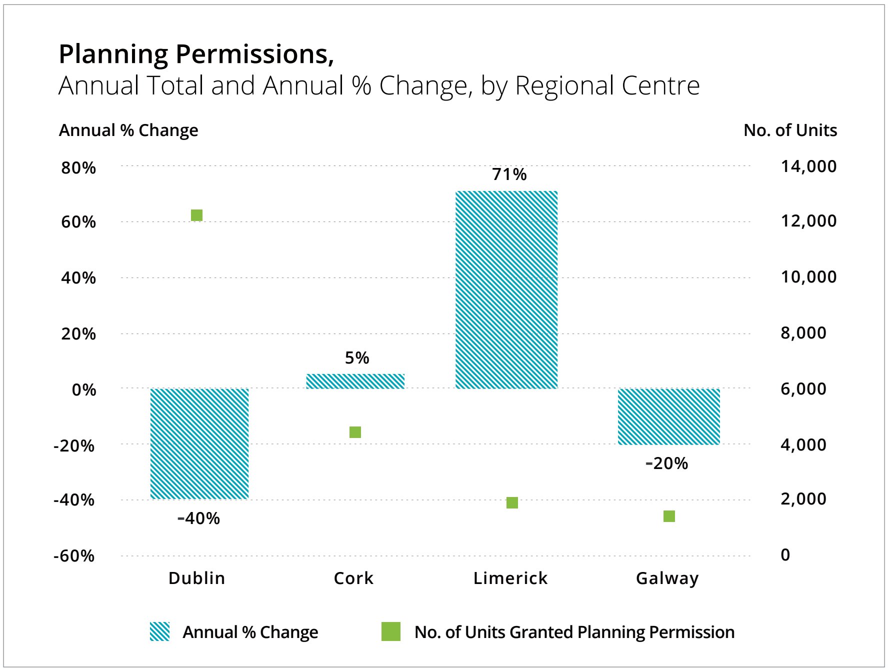
Planning Permissions:

Planning permissions recorded in 2022 are a further reinforcement of the concerns regarding future delivery. A total of 34,177 units were granted planning during the twelve-month period, reflecting an annual decline of 21%. Worryingly, this represents the first annual decline since 2012 and is the lowest volume of planning permissions granted since 2018.

Delving deeper into this fall, a striking split between apartments and houses emerges. The volume of apartments granted planning permission experienced the largest decrease, 36% annually. In contrast, there was a 4% rise in houses granted planning permission. Albeit marginal, houses account for the majority share of planning permissions, which sees a revert to historical trends following two years of the reverse.



Source: CSO



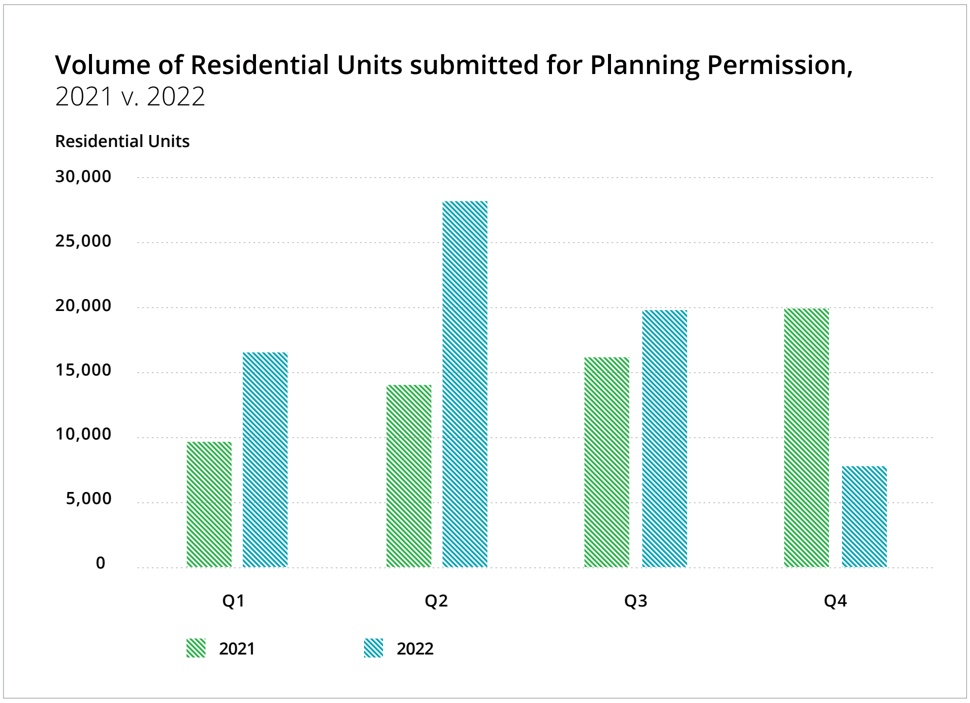
Source: CSO

The disappointing decline in planning permissions in 2022 is a statistical reflection of struggles experienced and the low levels of sentiment surrounding planning.

Market intelligence indicates there is a growing frustration by stakeholders surrounding delays in the planning system. This is well reported, and the draft Planning and Development Bill is government's attempt to resolve this issue. The disappointing decline in planning permissions in 2022 is a statistical reflection of struggles experienced and the low levels of sentiment surrounding planning. Planning permissions are the pipeline for future supply and therefore any downward trend is acutely worrying for the outlook of future completion figures.

From a location perspective the trends differ, with not all areas experiencing the decline. However, this is reflective of the low bases in many areas outside of Dublin and the dominance of apartment delivery within Dublin. Therefore, the decline in apartment planning permissions, more severely impacts the capital's total figure.

A clear example of this is Limerick, where planning permissions increased by a substantial 71% in 2022, however total volume sits just above 1,800 units. Interestingly, Cork also saw a rise in the twelve-month period, 5%, however the figure is lower than five years previous.



Source: Deloitte

Planning Applications

Lastly, planning applications data for 2022 again reflects challenges within the market at present. An analysis of all planning applications submitted for residential development of 20 units or more revealed a notable fall off in the final quarter of 2022. Although fluctuation is to be expected to some degree, this fall off is unsurprising given sentiment within the market. Anecdotal evidence would suggest a growing reluctance to submit an application due to the costs it incurs, knowing the likely delays.

A total of 521 applications were recorded in our analysis, totalling over 72,500 residential units. This is an increase of close to 12,700 units from 2021, while the volume of applications submitted in 2021 stood slightly higher at 527. The increase in units is accounted for by a particularly high Q2, and within this, April. In April, the top ten planning applications amounted to over 7,130 units.

Key Takeaway:
2022 was a positive year for residential completions of new units. The total volume of units delivered to the market was the highest volume during this development cycle. However, trends in commencements data indicate this improvement is unlikely to be sustained in 2023. With just under 27,000 commencements in 2022, completions are expected to be in this range in 2023. Although not a substantial decline, it is worth remembering it continues to sit below the debated true market demand figure. Trends in planning permissions also echoes future supply concerns, as not surprisingly a fall back from 2021 was recorded. Planning applications returned an overall robust volume figure, however the notable fall off in the final quarter of the year needs to be monitored and does potentially reflect growing frustration regarding backlogs in the planning system.

Questions need to be asked on why this decline was recorded and what is preventing the market from continuing to see a rise in new delivery. Market intelligence would lead us to believe the issue revolves around planning, costs, funding and infrastructure. Combined, these create viability concerns and are making it challenging for development activity to continue to improve. Positively, these issues are interlinked, and therefore changes to one element, may positively impact another.

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29,851
Completions in 2022

26,957
Commencements in 2022

34,177
units recieved planning permission

72,500
planning applications

Planning & Development Bill 2022

Key Elements

The Draft Planning and Development Bill 2022 was published on January 26th and is currently undergoing pre legislative scrutiny by the Joint Committee on Housing, Local Government and Heritage. Following conclusion of pre-legislative scrutiny, the next stage will see the Final Bill being published and put before the Houses of the Oireachtas.

Placeholders have also been included in certain sections of the draft Bill where technical issues still need to be finalised. These include the actual timelines for decision making by An Comisiún Pleanála and for the procedure for the making of development plans by local authorities.

The Draft Planning Bill includes the following key elements:

An Bord Pleanála will be re-named An Coimisiún Pleanála and its decision-making and governance structures separated. It will consist of Planning Commissioners (consisting of a Chief Planning Commissioner and up to 14 full-time Planning Commissioners), who will replace the Chairperson and Board Member roles. A new Governing Executive (led by a Chief Executive) will be responsible for the organisation's governance and organisation.

Statutory mandatory timelines for all consent processes, including An Bord Pleanála (The Commission) decisions, to bring certainty to the planning consent process. Timelines are being introduced for appeals and consents applications made to ABP (including Strategic Infrastructure Developments). Where ABP fails to make decisions with these timelines, it will be subject to fines. The exact timelines will be included in the finalised Bill and introduced on a phased basis.

Judicial Reviews Reform (JRs): **there will be timelines for various steps in the JR process.** ABP (The Commission) will be able to correct an error of fact or law in a planning decision. The draft bill provides that there will not be any order for costs in any such proceedings unless the Court considers that the proceedings are frivolous or vexatious or an abuse of process. Legal challenges would have to be taken by a named individual or individuals, and a company which takes a judicial review must be registered for more than a year and have at least 10 members.

Strengthened legal status for Ministerial guidelines: Ministerial guidelines and policy directives will be upgraded to 'National Planning Policy Statements' and 'National Planning Policy Guidance'. These will be approved by Government. Alignment of other planning documents with these guidelines will be mandatory. The intention is to set out a clear framework for a plan led system of planning and development based on an integrated hierarchy of plan making.

Development Plans will be extended from six years to ten years, with a review after Year 5. Plans will be more strategic in nature. They will give a strong sense of what is being planned for particular areas before any planning applications emerge. This is intended to ensure that public engagement is focused on the plan-making rather than individual planning application stage. Local Area Plans will be replaced by specific types of area based plans.

Regional Spatial and Economic Strategies: Regional Assemblies will adopt RSES with a 10-20 year timeline, with the Strategy to commence review within 6 months of any NPF review and update.

There will be increased capacity for local authorities to utilise Compulsory Purchase Orders (CPO) in pursuance of their functions, including clarity on provisions to allow local authorities to acquire vacant or derelict properties for onward sale, for example to develop for residential use. This will support the Town Centre First initiative

Development Activity
Commercial

Development activity within the commercial real estate market varies, as the fundamental drivers of demand in each sub section of the market differs. For the purpose of this report, Deloitte's Real Estate Research, have focussed primarily on office and logistics development.

The office and logistics market have both gone through exceptional periods, as Covid-19 has had a long lasting, fundamental impact on the demand within both. For logistics, Covid-19 accelerated an already present yet growing occupier and investor demand. The shift to on-line retail and supply chain pressures, saw demand within the market intensify. The sector became one of the star performers of the investment market, with rapid rental growth and limited vacancy driving returns. According to MSCI, total returns for the sector reached a high of 26.3% on annual basis in December 2021, compared to just 4% for offices and -2.1% for retail during the same time period. This growing demand, saw vacancy rates decline, with record low single digit rates recorded by many of the commercial agencies in 2022.

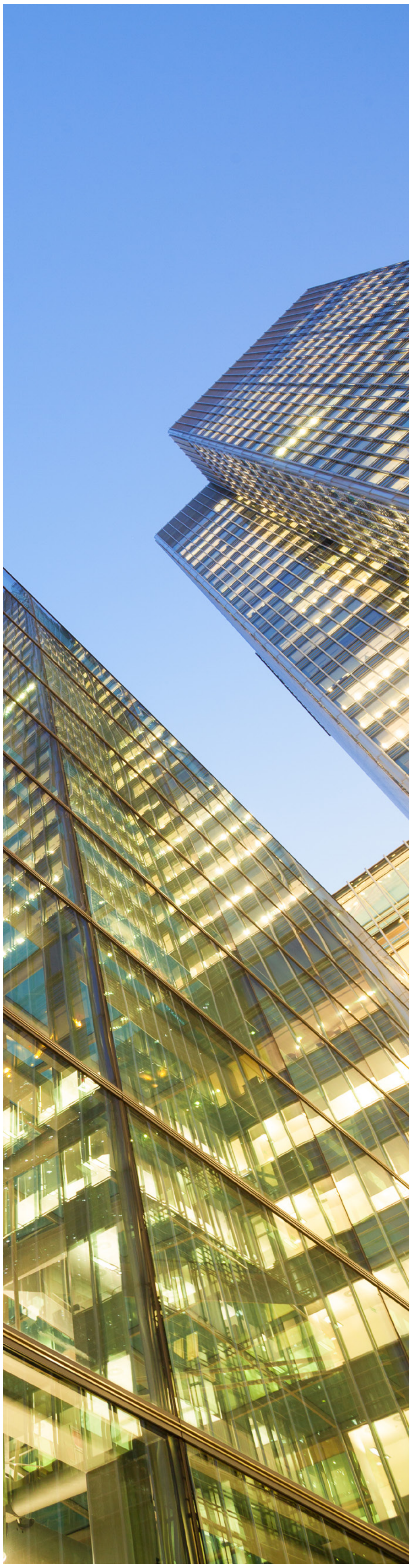
In contrast, for the office sector Covid-19 raised new questions surrounding the future of work and therefore the future demand for office space. Three years later, there are still many questions which are yet to be crystalized in terms of workplace strategies, however what has become clear is that the office will play a role. Demand within the market returned rather quickly towards the later end of 2021 and into the beginning of 2022, with many of the commercial agencies announcing a return to pre-covid levels of leasing activity.

However, the weakening of the tech sector has dampened occupier sentiment, which when combined with again that uncertainty regarding work-place strategies, has led to a fall in demand. Investment in the sector have also declined and vacancy levels have increased. The rise in sublease space and high volumes of space due to complete over the coming two-year period creates the expectation that this vacancy rate will continue to rise. For example, as of the end of Q4 2022, the Dublin office vacancy rate was reported to be at 12-13%, depending on the source.

All else remaining unchanged, the modification in occupier sentiment, along with rising vacancy rates would place questions on office development.

ESG requirements by both public and private sector occupiers is a key feature of not only the quality of new delivery, but also a feature of demand for new space and thus development activity in both.

However, an important element, which is consistent across both the logistics and office market is ESG. ESG requirements by both public and private sector occupiers is a key feature of not only the quality of new delivery, but also a feature of demand for new space and thus development activity in both.

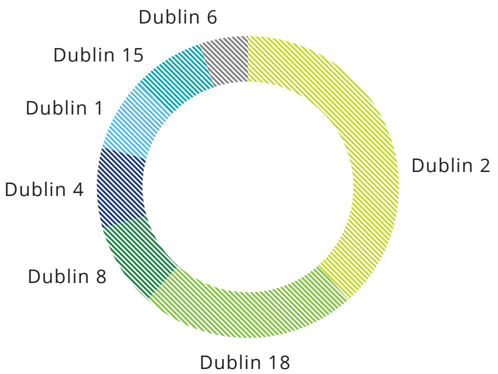


Office Market Development Activity: Despite the questions surrounding office development in recent years, 2023 continued to see planning permissions lodged. These ranged from new builds, redevelopments, extensions, demolition and re-builds.

In total, Deloitte's Real Estate Research recorded 21 planning applications for purpose-built office space, in excess of 1,000 sq m in size. The majority of this is within Dublin, with others located in Cork, Kildare, Sligo, Wexford and Monaghan.

Within Dublin, the applications amount to just under 300,000 sq m of gross office space across 15 applications. The largest application comprised the development of 5 office blocks, on Blacktorn Avenue, in Sandyford Business Park, Dublin 18. In 2019, the site was reportedly acquired by Oakmount and Core Capital, with planning permission for 5 office blocks, for €17million. The new application represents minor alterations to the existing planning in terms of the scale of office space to be developed on site, approximately 46,600 sq m.

Dublin Office Planning Applications
(Gross Office Space Sq M), 2022, By Postcode

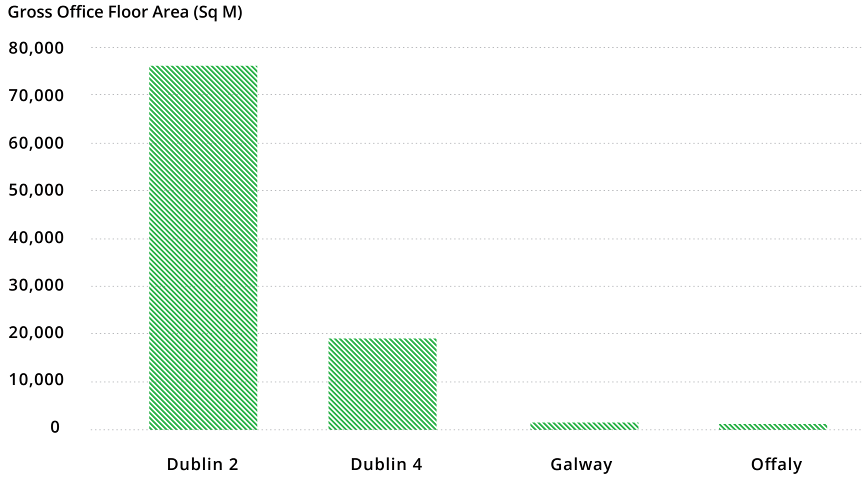


Source: Deloitte

Other interesting planning applications within the capital, include 2 applications located in Dublin 2. Both include demolition and redevelopment of existing buildings, which at present are not in their entirety office space. They also include, apartments, car parks and even a cinema building. Combined, the two schemes are to provide 55,500 sq m of gross office space. Since their latest applications in 2022, both have received planning permission. Hibernia REIT are the owners of one such site, at Clanwilliam Court, Dublin 2. Appeals have reportedly been lodged since the decision in October 2022, by both Google and Aviva.

Other planning applications of note include 1 & 2, Ballsbridge Park, Dublin 4, both of which also received subsequent planning permission in the year. Formerly known as Zurich House, 1 Ballsbridge Park received planning permission for demolition of the existing 5-storey building, and the construction of a new 8-storey over basement building of 19,150 sq m in size. Work began on site at the end of 2022, with the demolition now complete. At 2 Ballsbridge Park, the planning permission includes a vertical and lateral extension along with internal modifications and reconfigurations. The revised size reaches almost 16,200 sq m.

Office Commencements (Sq M),
2022, By Location



Source: Deloitte

A total of 282,350 sq m of office space was granted planning during 2022 across 24 sites. Dublin accounted for 211,300 sq m of this, with Dublin 2 and Dublin 4 dominating.

Moving away from planning applications, to plans granted, once again activity is Dublin focused. A total of 282,350 sq m of office space was granted planning during 2022 across 24 sites. Dublin accounted for 211,300 sq m of this, with Dublin 2 and Dublin 4 dominating. In Dublin 4, the aforementioned 1 & 2 Ballsbridge Park are included. Outside of this, it also saw planning granted for a two-storey extension measuring 1,050 sq m at Block A, No. 2 Shelbourne Buildings, Shelbourne Road. The extension by IPUT will also see a green roof added and alterations to the existing façade. Lastly, planning permission was granted for the demolition of Carrisbrook House, and construction of a new office block of 12,700 sq m gross area. An appeal has since been lodged against this decision, for which the outcome has yet to be decided.

In Dublin 2, a total of 108,600 sq m of gross new office space had plans granted during the 12 months. Schemes of note in Dublin 2 include redevelopments at Clanwilliam Court, mentioned previously, close to 29,800 sq m at Charlemont Street & Richmond Street and 17, 500 sq m at 1 & 2 Grand Canal Quay. The only extension noted was for the Treasury Building, which was purchased by Google in 2020. The extension will see the total gross floor area rise to 20,950 sq m.

Just one scheme was granted planning permission in the suburbs, 12,250 sq m of office space at Cherrywood, Dublin 18. Occupier demand within the suburbs has reportedly struggled since Covid-19, with occupiers' preference largely pivoting to prime city centre. The best building in the best location has emerged on top following Covid-19, as employers seek to have space which entices employees into the office. Lastly, unsurprisingly, commencement activity within the office sector was limited in 2022. A total of 97,700 sq m of space commenced during the 12-month period. Within Dublin, the figure amounted to 95,150 sq m, of which Dublin 2 accounted for the 80%. It is worth bearing in mind, that commencements here refer also to site clearance and demolition work. For example, the largest scheme to commence was at Charlemont Street and Richmond Street, where demolition and site clearing work began in the final quarter of the year. The mixed-use scheme is set to see approximately 29,750 sq m of gross office floor space delivered.

Demolition work also began at the Annex Building, beside Google's Treasury building, where the demolition of the existing 3 storey building has completed, with a 10-storey 9,900 sq m office block to replace it.

The only extension to have commenced in 2022 was at Block B George's Dock, otherwise known as 15 George's Quay. The existing 5 storey building is undergoing significant refurbishment, while two additional floors will also be added to the building. The works will result in a new gross office floor space of 7,550 sq m. IPUT who are onsite at 15 George's Quay announced in January the pre-letting of just under 3,000 sq m of space to Aon on the 3rd to 6th floors. The space is due to complete in Q2 2024.

Spotlight on ESG Trends in Development

A significant focus of development and indeed demand at present in the Dublin office market is ESG, in particular, energy performance. This is being led by developers, occupiers, investors and of course legislation. Already stipulations are in place by the EU Energy Performance of Building Directive (EPBD), with this conversation evolving further each year.

A breakdown of the details of office space under construction at present highlights this increased focus by the market. As of March 2023, Deloitte recorded development activity (including demolition works) under way at over 338,000 sq m of office space in the capital, with delivery expected between 2023 and 2026. Of this space, the majority is located within Dublin 2 (68%), followed by Dublin 1 and Dublin 4.

Interestingly, close to 60% have clearly indicated their intentions to achieve LEED Gold or LEED Platinum via their brochures or development websites. Also evident, is the target to achieve WELL certifications, Wired Scored, BREEAM or less common, a Smart Score or Cycling Score. Cycling Score, according to the certification itself, seeks to outline "how active commuter-friendly your buildings are". Glencar House, under construction in Ballsbridge Dublin 4 and due to complete construction in 2023, has advertised it will seek Cycling Score Platinum, while so too has 25 North Wall Quay, due for completion in 2024.

Coopers Cross, where two buildings to measure a combined 36,850 sq m is the first Irish commercial development to certify as Smartscored. The Platinum rating implies "Enhanced data availability, smart controls and sensors throughout support efficient and effective use of energy, water, light, heating, and ventilation."

Outside of certifications, it has become common practice for brochures of new schemes under development to include details regarding cycling spaces, EV chargers, shower rooms and changing facilities.

ESG considerations are expected to remain a central part of future office development or even more so, office refurbishment. As occupier preferences place increased importance on energy requirements, greater questions will be asked as to the suitability of older stock within the city centre and suburbs. In order to bring these back into the demand bracket, significant work will need to be undertaken, however will this take place in form of extensive refurbishments, demolition and rebuild, or perhaps even change of use?

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One to Watch

2023 is likely to see increased narrative on the potential for change of use of obsolete office blocks. Although there are many questions surrounding the viability of this concept, from a cost, planning and management perspective to name a few, this question is likely to remain topical. This debate is not confined to Ireland, with conversation present in Europe, the UK, New York and Calgary, amongst others. Calgary for example provides an interesting working case study. As part of the Downtown Calgary Development Program, the city council has committed to $100 million on converting vacant office space to residential. The application period for the first phase concluded in 2021, while a second application period took place in summer/autumn 2022. Five conversion projects have been approved with others in final stages. These approved projects amount to 61,800 sq m of office space and will create 707 residential units.

Outside of offices, ESG considerations are also evident in logistics development. Remember, exceptionally tight supply in an environment of high demand is a fundamental driver of this new supply, however ESG requirements are driving the type of delivery.

As of March 2023, Deloitte's Real Estate Research was monitoring logistics construction of approximately 174,000 sq m in the Dublin market. In the Southwest, space was under construction at the time of writing in Greenogue Logistics Park, Aerodrome Business Park, Mountpark Baldonnell, Browns Barn City West and South West Business Park. In the Northwest, development was under way at Vantage Business Park, North West Logistics Park and Quantum Logistics Park. In Mountpark, Unit F and Unit G are the last two units under way in the successful scheme. When completed, the two units will provide just under 14,000 sq m of new space. Both units are due to PC in April and at the time of writing, one unit was reportedly let agreed. Highlighting that prominence of ESG, both are targeting BREEAM Excellent accreditation. They also advertise EV charging spaces and shower facilities.

Other units under construction in Quantum Logistics Park and Browns Barn City West, (totalling 40,000 sq m) are also targeting BREEAM Excellent accreditation.

Beyond BREEAM, the market is also seeing logistics units under construction, also target LEED accreditations. For example, across Vantage Business Park, South West Business Park and again Quantum Logistics Park, targets of Gold and Silver accreditations have been advertised, with each unit under way at these parks also highlighting BER ratings of A2 and A3.

Lastly, at Quantum Logistics Park, the market will also see its first timber frame unit constructed. Unit 4, measuring 6,855 sq m is pre-let to Maersk and due for completion in Q2 2023. The building will also be the first net zero carbon logistics building in Ireland.

Outside of what is currently under construction there is a significant volume of space in the pipeline with plans granted. As of March 2023, Deloitte recorded 227,000 sq m across key industrial parks and locations. Much of this is located in parks already under way, such as Vantage Business Park, Dublin Airport Logistics Park and North West Logistics Park. Others are located in more recently purchased land. For example, 72,600 sq m across 5 units granted planning permission in February 2023, at lands at Cherryhound, purchased by IPUT in 2021. Delivery is expected to continue to be phased, with pre-lets sought.

As of March 2023, Deloitte's Real Estate Research was monitoring logistics construction of approximately 174,000 sq m in the Dublin market.

Funding in Focus

Current Landscape & Considerations

As mentioned in the first section of this report, 2022 saw interest rates rise as the ECB attempted to tame inflation. This fact, combined with wider economic headwinds changed the funding landscape, both for investors and developers. It is worth noting from the outset, that although there are several challenges and considerations within the market, Ireland remains an attractive location with a significant volume of domestic and international capital providers seeking to deploy capital into Irish real estate.

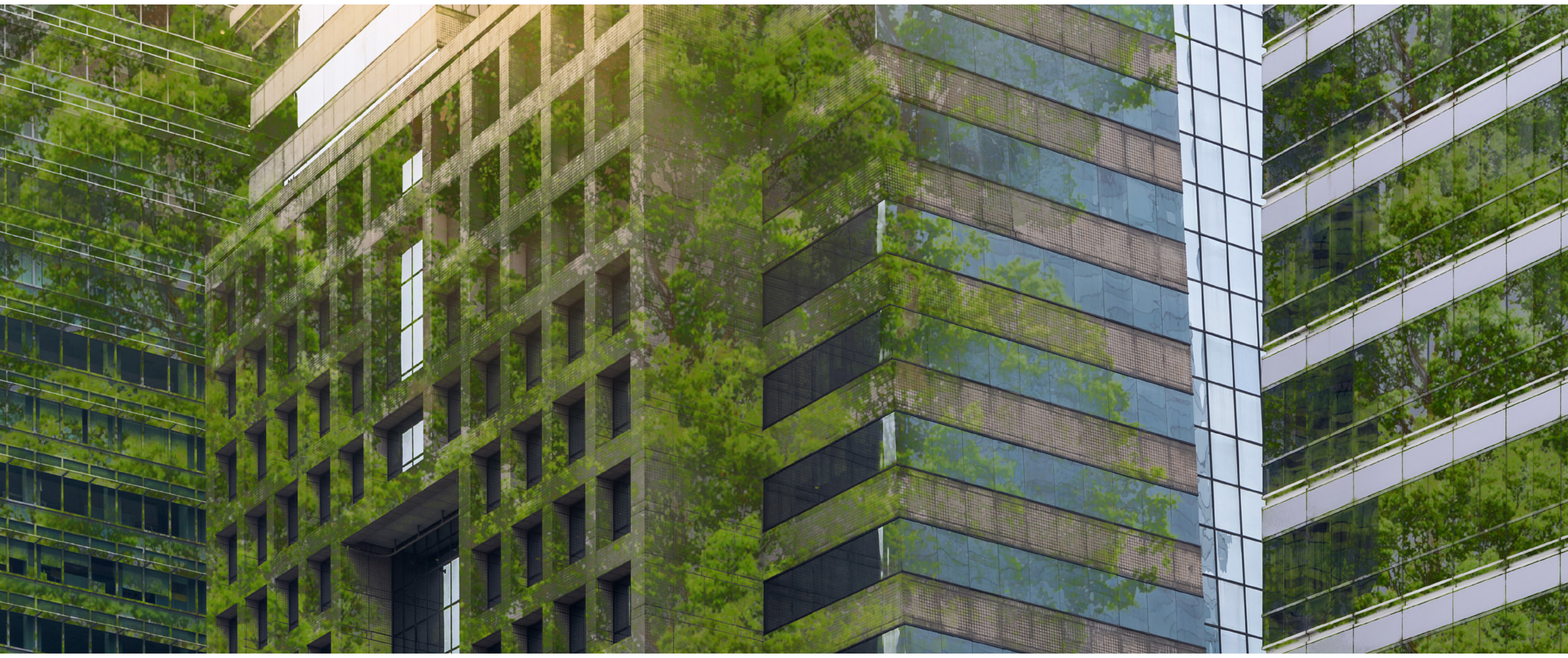
In saying that, risk appetite amongst traditional banks has softened, although there are nuances and sector variations. The current environment is however creating opportunities for alternative lenders and debt funds. In essence, viability is at the core. Where projects are viable and well structured, funding can be secured with various debt and equity options available.

Given the sharp movement in base rates lenders are focusing on coverage ratios such as Debt Yield, Interest Cover ("ICR") & Debt Service Cover ("DSCR"). This is impacting the sizing of investment facilities and some development facilities where the developer is seeking to build and hold or a speculative development strategy. Secondly, credit committees have increased their requirements around the levels of due diligence and scenario analysis that need to be carried out. Thirdly, we are seeing high levels of volatility in interest rate swaps and cap prices. The flexibility offered by the lender on the type of hedging instrument and strike levels can significantly impact the overall cost of financing for the borrower. In the current environment we recommend that borrowers carefully consider the hedging requirements being sought by the lender and fully understand the overall cost and level of interest rate risk mitigation they are securing prior to agreeing heads of terms.

Lastly, higher interest rates and therefore cost of funding will continue to have an impact on the value of assets, with yields expected to widen further this year. Valuations will be closely monitored as 2023 progresses, particularly as the impact on such may put pressure on LTV covenants in existing facilities. Borrowers may now find themselves outside of the current lending parameters in their relationship bank and as a result, will need to look at alternative sources of capital for refinance.

Overall due to the changing environment, borrowers are encouraged to explore all their funding options and ensure the opportunity is structured appropriately in order to secure the most attractive funding package.

In essence, viability is at the core. Where projects are viable and well structured, funding can be secured with various debt and equity options available.



ESG Considerations:
The green agenda and ESG is continuing to increase in prominence in conversations with funders. Many funders have greater capital allocations weighted towards assets that have green credentials. Interestingly, we are seeing some margin reductions for qualifying "green" assets.

In contrast, ageing stock and assets which don't boast strong ESG credentials are subject to larger capex provisions. This can put additional pressure on cashflows & covenant levels that are already strained due to increased finance costs.

Viability Challenges:
Developers have seen viability being challenged on a number of fronts over the past 12 months with this expected to remain a key concern in 2023. Viability has come under further pressure due to the increased funding costs; continuing delays in planning approvals and increases in large residential schemes being held up in lengthy judicial review process; yields on residential and commercial property widening, impacting the exit price on schemes; and construction material costs. These known issues have created an acute challenge in the viability of apartments schemes in particular, as developers struggle to secure a price that will cover the cost of construction and offer a sufficient level of profit on cost that will attract a funder. Government intervention is required if we are going to see acceleration in the development of many of the existing planning permissions for apartment schemes. Although not immune to the challenges the wider market is facing, the funding landscape for own door housing developments is more favourable, due to both a lower proportionate spend on materials and greater flexibility around phased delivery of the schemes.

Although not immune to the challenges the wider market is facing, the funding landscape for own door housing developments is more favourable.

Funding Market Solutions for Consideration

Debt Solutions

- Alternative funders and Debt Funds continue to be prominent in the Irish market offering viable alternatives to traditional banks.
- Debt Funds operate in the market space above Traditional Banks and typically offer Unitranche type facilities.
- They typically take a first secured position on an asset and offer higher leverage through a mix of Senior and Junior debt at a blended rate.
- Sitting above these are Junior Debt or Mezzanine Finance providers.
- They can assist borrowers in securing additional leverage or can provide the ability to secure debt facilities on higher risk opportunities such as land without planning or commercial assets that are yet to secure tenants

Equity Solutions

- For borrowers or financing structures that are already highly levered or unable to take on additional debt, there are equity solutions available.
- These can be by way of Ordinary Equity, Preferred Equity and Promote type structures:

Ordinary Equity is the highest risk capital as it is first loss and therefore seeks the highest level of return.

Preferred equity is ranked ahead of ordinary and typically is structured as a debt type instrument allowing some level of security over the assets and therefore a lower level of return to reflect the lower risk.

A promote structure is an incentivised equity return structure, usually between a developer and an equity partner

Funding Strategy Reviews

- Borrowers should seek to conduct a full review of their funding structures, funding strategy and their capital stack. This can be done internally or with the assistance of an experienced debt advisor.
- A funding strategy review will give borrowers a helicopter view of their financing arrangements, covenant headroom, impact of base rate movements etc.

Transaction Structuring

When seeking to raise equity, particularly in a developments deal, it is important to ensure that the transaction is structured appropriately to maximise its impact. Equity can be raised either:

- Project by Project; or
- At Group Level

Project by Project allows the borrower to retain greater control of the overall Group, however an investor will need to be identified for each project which carries high execution risk and greater transaction fees.

Group Level usually involves the agreement of a business plan from the outset and capital being deployed into multiple projects. This may be more cost efficient, as an investor will benefit from visibility or recourse on wider group cashflows.

Viability Challenges

While viability, particularly in apartment schemes, remains a challenge, there are a number of avenues that can be explored to mitigate this.

- Optimised planning permission to ensure efficient design.
- Value engineering / an assessment on potential cost savings.
- De risking the project by securing an adequate offtake to an institutional investor or government entity, that will cover the cost of the development and provide an appropriate level of profit for the developer.
- Avail of any Government supports that are intended to increase supply of housing stock e.g. Croí Cónaithe or Project Tosaigh

New Leverage Limits for Irish Real Estate Funds

The Central Bank of Ireland ("CBI") has introduced macroprudential limits in order to prevent excessive levels of leverage across the property fund sector and to limit liquidity mismatches for Irish-authorised property funds. The measures which took effect from 24 November 2022 include a 60% leverage limit on the ratio of property funds' total debt to total assets. Real estate funds established on or after this date will have to comply with the leverage limit. The CBI will not authorise a new real estate fund after this date which does not comply with the leverage limit.

Existing Irish real estate funds have been given a five-year transitional period to comply. The implementation period time is to facilitate, "a gradual and orderly adjustment to the measures". The CBI has also acknowledged that the transitional period also reflects the current macro-economic environment, acknowledging the rising interest rates and a slowdown in global and Irish economic growth since the measures were originally considered in 2021.

Based on initial feedback received, there are no immediate intentions to abandon existing investment structures as a result of the changes. For new investments however, a more detailed assessment of the benefits and costs of the use of regulated vehicles compared to unregulated vehicles will need to be considered.

More background detail here CBI Macroprudential Measures | Deloitte Ireland

Residential Zoned Land Tax ("RZLT")

It may be recalled that the RZLT is a Housing for All initiative geared towards activating land for residential development purposes. The RZLT operates as an annual 3% tax charge on the market value of in scope lands on the relevant valuation date (the first of which is 1 February 2024). On 1 November 2022, each local authority in the country published draft RZLT maps containing lands within their remit. This land represented what publishers considered to be in scope of the RZLT.

Since the original draft RZLT maps were first published, it has been reported that almost 1,700 submissions were made by landowners nationwide prior to the end of the submission window of 1 January 2023. The purpose of the submissions made were to appeal the inclusion of land as being within the scope to the RZLT charge.

Client feedback suggests that:

01. A broad interpretation of the RZLT was taken by local authorities when deciding which land should be in scope for the first draft maps. It is also noteworthy from the appeals published in January 2023 that a large number of landowners appear to dispute their land as being in scope on the grounds of infrastructural deficits or lack of service capacity preventing current development of the land.
02. Assisting with the preparation of RZLT appeal submissions has been a huge drain on the capacity of planning consultants to undertake what would otherwise be their day-to-day activities. So much so that some developers have noted it is not currently possible to make an appointment with a planning consultant to discuss bringing forward new developments.

While the feedback above may be a cause for concern when considering the urgent need for new developments, one would also have to question how the capacity of local authorities and potentially An Bord Pleanála will be impacted by having to review and make determinations with respect to the submissions made.

The RZLT operates as an annual 3% tax charge on the market value of in scope lands on the relevant valuation date (the first of which is 1 February 2024)

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Real Estate Advisory team

Our Real Estate Advisory team can provide you with strategic support at all stages throughout the property development life cycle. By combining property expertise and business advisory skills, we apply in-depth insight drawn from our understanding of all industries and sectors into one integrated solution. Our core Real Estate advisory team comprises of Chartered Quantity Surveyors, Chartered Valuation Surveyors, Chartered Town Planners and Chartered Arbitrators. The team is then supported by Deloitte Tax and VAT Advisory, Debt & Capital Advisory and consultancy divisions, to service every aspect of your property portfolio requirements.

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Real Estate Finance team

Our Real Estate Finance team help clients raise capital (equity and debt) for property development and investment. We assist our clients in optimising commercial terms, managing key risks and maximising business flexibility. We raise in excess of €2billion per annum for Irish clients and have a strong global network of equity investors, international banks and direct funders.

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Real Estate Tax Advisory team

Our experienced team of Tax advisors offer a wide range of real estate tax advisory services including, but not limited to, pre-bid support, full tax due diligence to identify and quantify tax risks and opportunities, tax advice on a suitable holding and financing structure and exit strategies. We also offer a wide range of post completion services including assistance with ongoing direct and indirect tax obligations, support with refinancing and reorganisations in addition to optimisation of reliefs such as capital allowances.

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Government & Infrastructure Advisory team

Our Infrastructure and Government Advisory team supports businesses, shareholders, boards, governmental and public sector officials on infrastructure investments and projects in both the public and private sector. We provide financial, commercial, and procurement advice supported by a financial modelling team and a depth of project experience, both in Ireland and overseas.

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Sustainability team

Our sustainability practice provides end-to-end support for organisations to systematically address the sustainability opportunities and threats they are facing. Our team is comprised of multi-disciplinary experts in climate science and decarbonisation, risk management, operations transformation, climate accounting and reporting, service innovation and stakeholder communications and engagement.

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Audit & Assurance

Our Real Estate Audit team provide services to both privately owned and public interest entities. The team are committed to excellence and to enhancing the trust of our clients. Quality is our top priority, and by focusing on innovation including utilising our world-class technologies, we continue to raise the bar on quality and deliver greater value to our clients.

Our experienced Real Estate assurance team provide a range of services to our clients including complex accounting advice, internal control assessments, finance function assurance services and ESG and sustainability reporting advice.

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