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Dublin City Council

Comhairle Contae Átha Cliath Theas
South Dublin County Council

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AN ECONOMIC AND MARKET ANALYSIS OF THE DEVELOPMENT SECTOR

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

For Dublin City Council

AUGUST 2015

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DISCLAIMER

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 it has been found that the SCSI Construction Tender Price Index has been more reflective of the market over the previous years than other indices. Accordingly, it is recommended that the SCSI Construction Tender Price Index is the most appropriate indexation for the Development Contribution Scheme.

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 Dublin City Council (DCC) 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 Dublin City Council (from January 2014)

The current development contribution rates for Dublin City 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
Dublin City Council	€86.40 per sq.m.	€70.06 per sq.m.

Table 1: Dublin City 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 while 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>LTI</th><th></th><th>LTV</th><th></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>
</table>
</td></tr>
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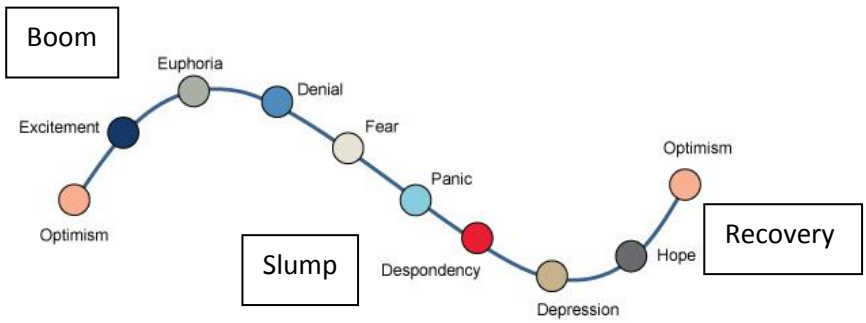
	It should be noted that mover purchasers who wish to carry negative equity from an existing home will not be subject to the rules as they will be utilising specifically tailored mortgage structures. The impact of the regulations is not yet fully known as those with mortgage approval for six or nine months 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 National Building Regulations, the Department of the Environment Community and Local Government's (DECLG) Design Standards for New Apartments and Dublin City Council's (DCC) Development Plan Standards for Residential Accommodation. Examples include, but are not limited to, those standards relating to energy efficiency; basements in higher density schemes and those requirements specifically 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 Dublin City 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 Dublin City Council's administrative area, medium density refers to a minimum of 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 (such as Project Cherry in the DLRCC administrative area) 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 local in nature. This is likely a result of the smaller lot sizes of sites. Off-market deals are also a feature of the market, wherein the sites are usually put to a small number of prospective purchasers and concluded with an informal tender.

- Where sites are shovel-ready, premiums have often been paid. In Dublin City Council's (DCC) administrative area, the key focus remains on high profile mixed-use city centre sites, such as the Docklands and Ballsbridge. This is clearly due to the persistent supply shortages of both residential units and prime modern office accommodation.

- Some noteworthy redevelopment opportunities in Dublin city centre have sold or come to the market in H1 2015. Hibernia REIT was particularly active. In February it acquired the Garda Headquarters on Harcourt Street, Dublin 2 for €70m in an off-market transaction. Leases are currently in place on part of the existing office accommodation, while the new owners lodged a planning application for a new larger office scheme in June. In March, Hibernia REIT also purchased Cumberland House on Fenian Street, Dublin 2, for €49m. The existing 1970s dated office building is on a site of 1.6 acres and again, this property offers significant redevelopment potential for a greater quantity of office accommodation.

- In April, Project Trinity came to the market and the sale is now in its final stages. This comprises the high profile Ballsbridge redevelopment site, Dublin 2, currently housing the Clyde Court and Ballsbridge hotels. The site extends to 2.8ha and has planning permission for a mixed-use high density office, residential, hotel and retail/leisure scheme, which runs until 2021.

- There are other mixed-use sites in Dublin city centre where sales are ongoing such as Tara House on Tara Street, Dublin 2 (where CIE is seeking a development partner on its 0.13ha property) and the former British & Irish Steam Packet site on Sir John Rogerson's Quay (0.72ha guiding €30m). Additionally, a development agreement has been reached on the 0.93ha former An Post site on

Cardiff Lane. As part of this transaction, developers New Generation will provide An Post with a new facility on Ravensdale Road at East Wall in addition to a cash payment.

- 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 Road 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.

- The reduced development contribution rates adopted by a planning authority under a new development contribution scheme have retrospective effect for any planning permission granted before the adoption of the revised scheme (where a commencement notice has not yet been lodged in respect of the development). Where a permitted scheme includes houses or apartments which are not yet all sold, the reduced development contribution should apply to the unsold units (the condition associated with the development contribution can be changed by the planning authority). This will assist in making more schemes viable and as such, construction will commence sooner. In relation to the Part V requirements, the reduction from the 20% social and affordable requirement to 10% social housing provision is, as with the reduced levies, positive in terms of new construction activity.

- In DCC's administrative area, higher density residential development is viable in the south docks and is marginal in the north docks; medium to higher density developments is possible on sites in Dublin 4 and Dublin 6; while in the suburban parts of DCC, medium density development is feasible. However, with end values increasing, viability is spreading to further areas. The development of higher density apartment schemes for multi-family investment purposes in the Docklands are being examined by investors at present, particularly those from overseas. This is to cater for the significant number of FDI employees working in the Docklands areas, who want to live in the city and benefit from city living and proximity to work.

- Following a number of years where office development was not viable in the city centre (i.e. between the canals and into Dublin 4), it did reach a breakeven point in the latter part of 2013 when land values were at about €24.7m per hectare and rents were €366 psm (€34 psf). However, with increasing land values on high profile city centre sites, the breakeven point has moved out. Land values are now in excess of €50m per hectare and therefore, office rents need to be in excess of €510 psm (€47.50 psf). This is not an issue because current prime office rents in the city centre are just in excess of this, at between €520 and €560 psm (€48-€52 psf). Non-traditional office locations (the traditional location is taken as between the canals and into Dublin 4) will generally not become viable in the next five years, for example areas like Park West where a significant proportion of the office property is vacant.

- 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.

- In terms of the interest developers must pay on finance for both 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 DCC's administrative area in the future.

- The North Lotts & Grand Canal Dock planning scheme was approved in 2014, which means that fast-track planning is now available on sites within the SDZ's boundaries. This is very welcome news for the market and the fast delivery of accommodation. Earlier this year, sites within Block 14 and Block 17 of the SDZ received permissions for mixed use schemes, which will greatly assist in providing additional office accommodation to the market in two to three years' time. They include 76 Sir John Rogerson's Quay, Dublin 2, (9,300 sqm offices and 58 apartments); 5 Hannover Quay, Dublin 2, (18,000 sqm offices and 100 apartments); and the former Boland's Mill site (30,000 sqm offices, 42 apartments and retail space).

- DCC continues to advance major urban regeneration schemes on its lands. Commercial redevelopment is either ongoing or planned in various areas, for example in Ballymun Town Centre, the Digital Hub area and at the City Markets in Smithfield. There is also a significant focus on residential projects. Some examples of large schemes that are ongoing, about to commence or due to go to tender in 2015 include the Crampton Buildings (28 apartments), St Teresa's Gardens Phase 1 (50 units), Charlemont Street PPP (79 units) and Dolphin House Phase 1 (100 units). All of these are positive schemes in providing commercial and residential accommodation.

- In a housing construction collaboration, the elected members of DCC, the Department of the Environment, Community and Local Government and the National Treasury Management Agency sought participants in February to explore the options for developing some of the larger sites owned by DCC. In particular, lands at Belcamp/Malahide Road; lands at Cherry Orchard; and lands at Oscar Traynor Road/Malahide Road. Respondents were interviewed on a one-to-one basis in a technical dialogue and we understand that given the level of engagement, it was clear that the market is interested in working with DCC to develop some of its land for a mix of housing types and tenures.

- **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 these sectors in DCC's area, new development will be required and consequently, more land will transact. This is positive for the city and the continued attraction of productive investment. 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 assist by 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 - 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 residential 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 - 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 and 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 the cost of schemes, particularly when at the recovery stage of the property market cycle.
- Design standards - compliance with standards add to the cost of construction.
- 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 and 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 for all Dublin shows growth of 28.7% over this period with the DCC area slightly higher at 31% growth over the 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, DCC slightly less at 10.3%) 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 6), 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 on 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 December.

[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.

- Lisney believes that 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 (see terminology page 4) 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 DCC-area specific data from this, but we believe it is relatively similar). 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 the DCC area 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 currently over-priced.

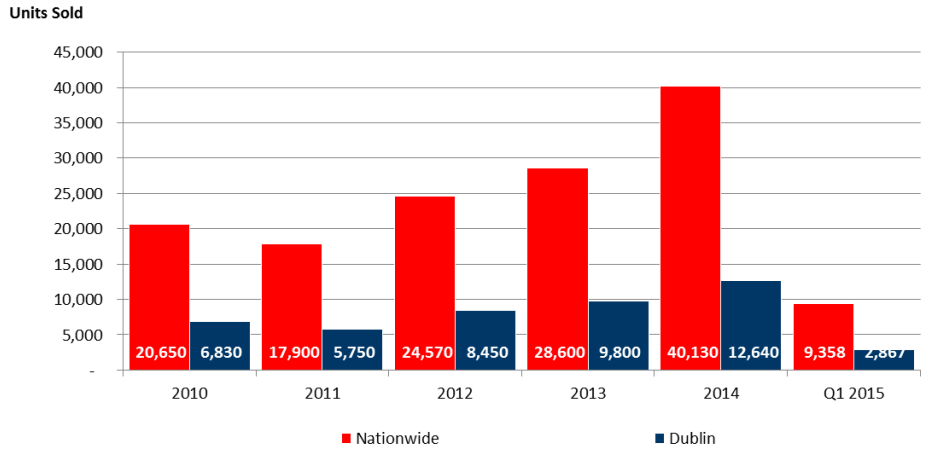


Figure 1: Dublin Residential Units Sold, Source: Property Services Regulatory Authority

- Since 2011, Lisney has highlighted 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 c. 2,800 units.

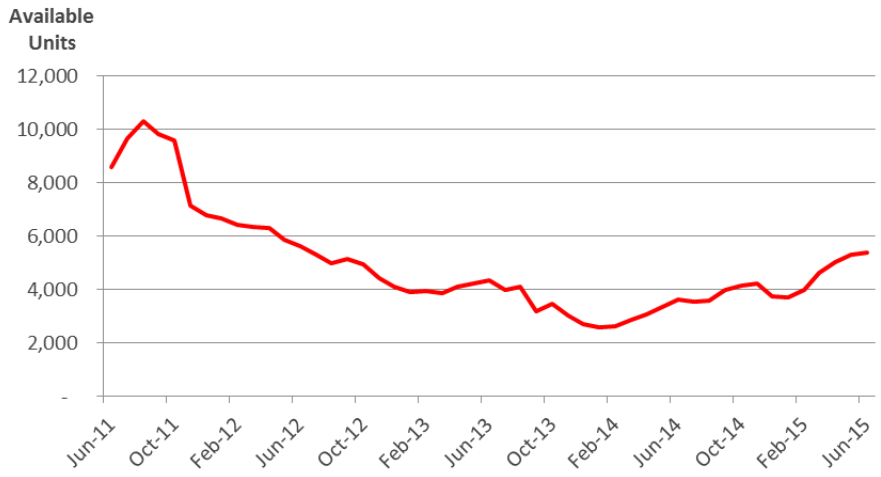


Figure 2: Dublin Supply, Source: MyHome.ie, Lisney

- 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).

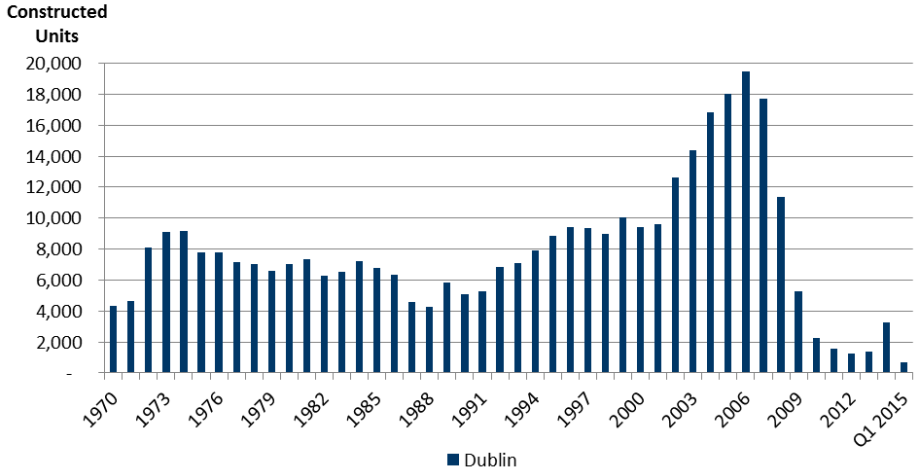


Figure 3: New Residential Construction, Source: DECLG

The map below 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 DCC's area, it can be seen that levels are very low.

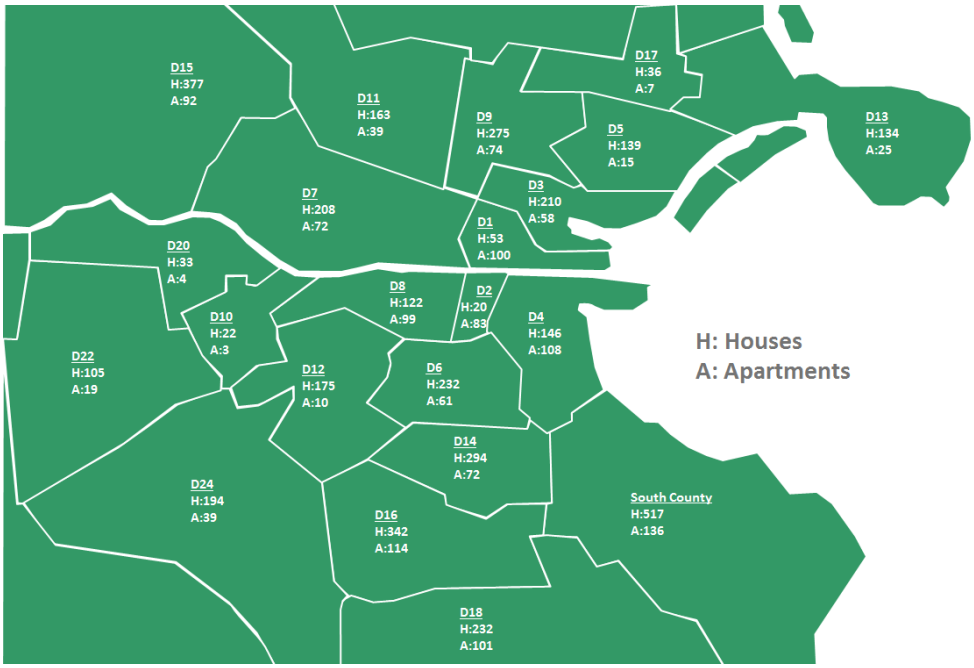


Figure 4: House & Apartment Availability, Source: MyHome.ie

- 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. It is not possible to isolate Dublin or indeed DCC figures from this national level, however, from experience in the DCC area, we have found that cash makes up about 40% of 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.

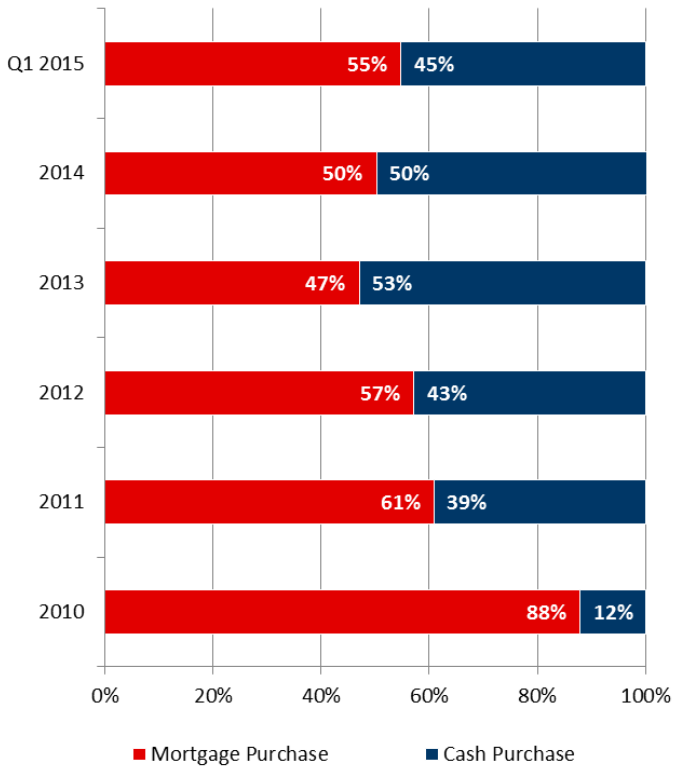


Figure 5: Cash versus Mortgage Funded Purchases, Source: Property Services Regulatory Authority, Irish Banking and Payments Federation, Lisney

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 4) 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 last year. 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 last year run out, which will be in the coming months.

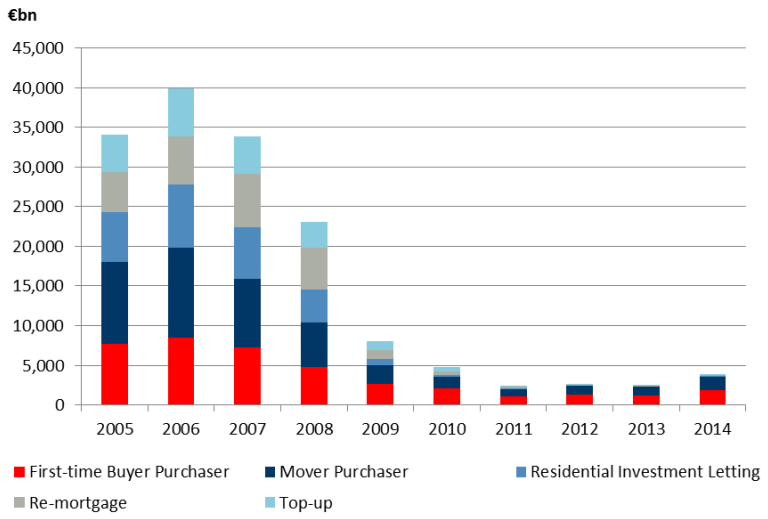


Figure 6: Mortgage Drawdowns, Source: Irish Banking & Payments Federation

- 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 (above €2m), 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%) 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 an apartment 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.

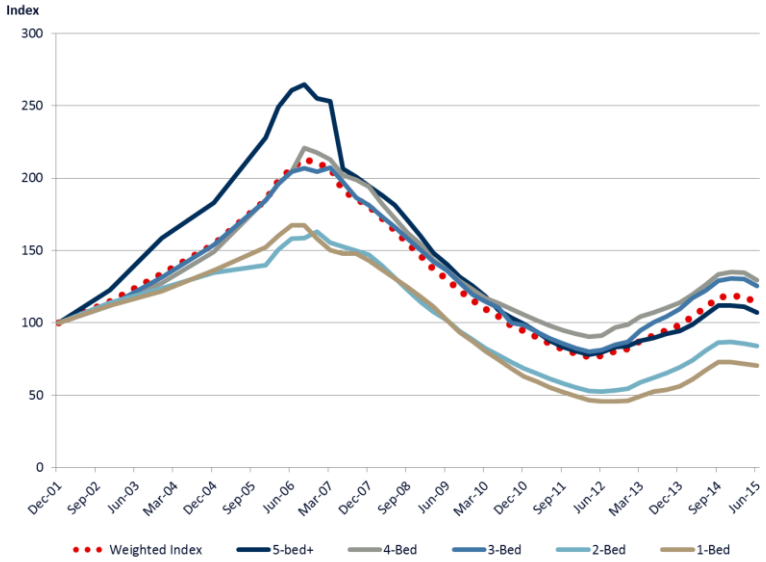


Figure 7: Lisney Dublin Residential Value Index, Source: Lisney

- The Lisney index differs from that of the CSO, which shows that over the first five months of the year, prices fell by 0.7% and over the 12 months, prices are 15.2% higher. However, we believe 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. But as with the Lisney index, these will be relatively small.

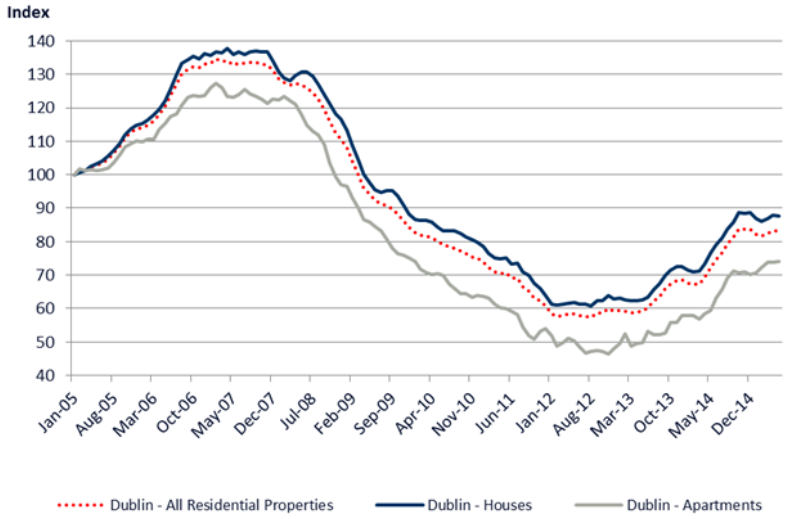


Figure 8: CSO Residential Property Price Index, Source: Lisney

- 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%).

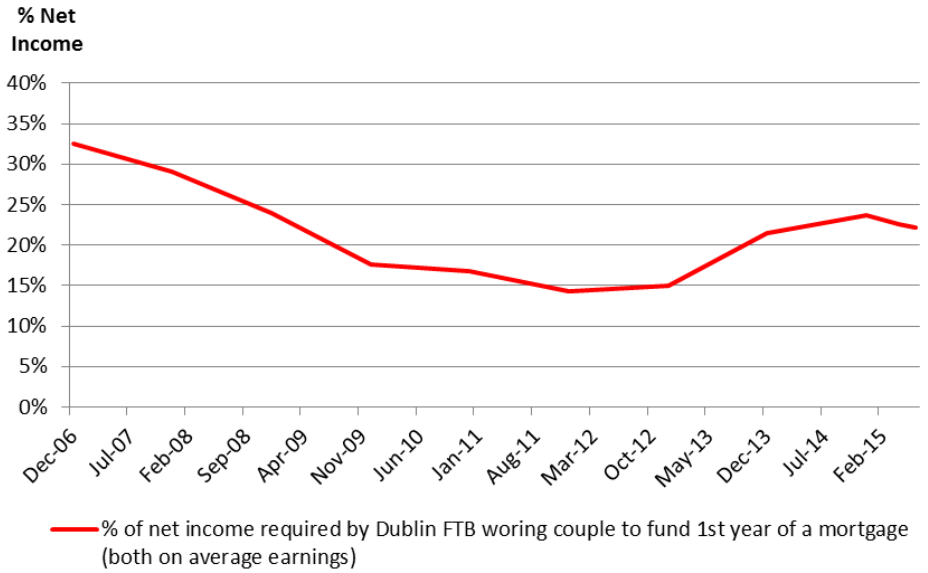


Figure 9: DKM EBS Residential Affordability Index, Source: DKM EBS Affordability Index

- In the rental market, the biggest challenge remains the lack of properties to rent. The greatest demand in the DCC area is for city centre apartments of all sizes. 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%). This information cannot be broken down by Dublin sub-area but from our experience, we believe that generally apartment rents in the DCC area have on average grown by between 10% and 12% with houses at 10%. 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.

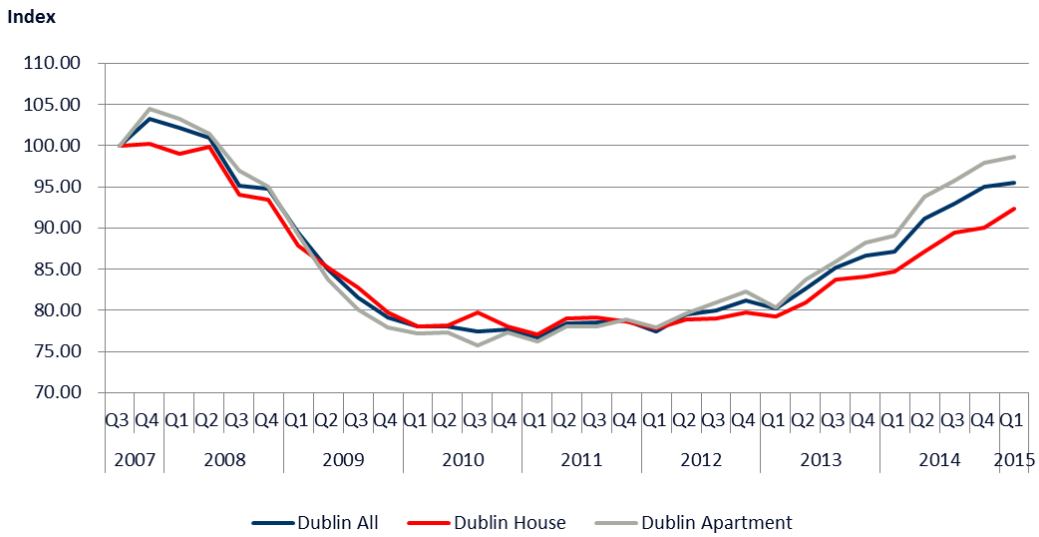


Figure 10: Private Residential Tenancies Board (PRTB) Rent Index – Dublin, Source: PRTB

- 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/dwelling investments (see overview of terminology in section 2.1) in recent years is a major step towards this objective. Since 2012, €944.7m has been spent on multi-family investments in Dublin but it is worth noting that all of these properties were built before the collapse of the market and no new multi-family investments have been built since the market started to recover. Examples of some of the larger sales in DCC administrative area include The Alliance on Barrow Street (€40m in 2012), Clancy Quay in Islandbridge (€82.5m including land in 2013), Richmond Gardens in Dublin 3 (€20m in 2014) and the Plum Portfolio (€77.4m in 2015). Some professional residential landlords are considering developing purpose built multi-family investments, notably in docklands area. Such investors 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 10). 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 DCC's administrative area is included within all of the city centre region and part of each of the suburban regions, i.e. south, west and north. In reviewing the office market for DCC we have focused in the city centre as this is where the majority of office stock in the city is located. By way of information, South Dublin County Council's administrative area is included in part of the west and north regions; Fingal County Council's administrative area is within the north region and Dun Laoghaire Rathdown County Council's administrative areas is within the south suburbs. 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.

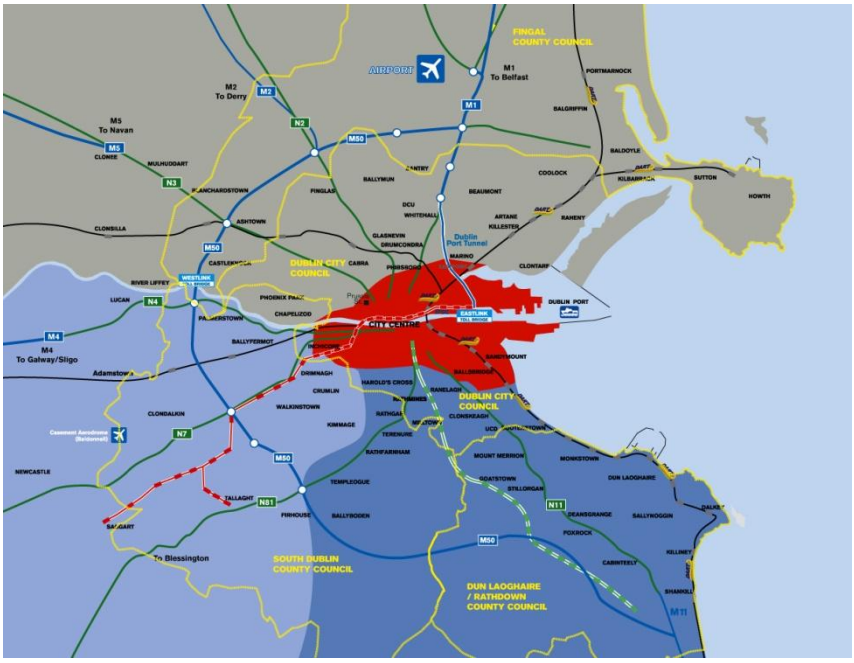


Figure 11: Dublin Office Regions, Source: Lisney

- Following a fall-off in demand for office space in 2006, activity in the Dublin office market 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 (see terminology page 6) at 228,500 sqm. Almost 69% (156,900 sqm) of this in the city centre region. The figure below sets out the proportion of activity between the Dublin regions over the past few years. As is to be expected, the city centre is always the most active office region.

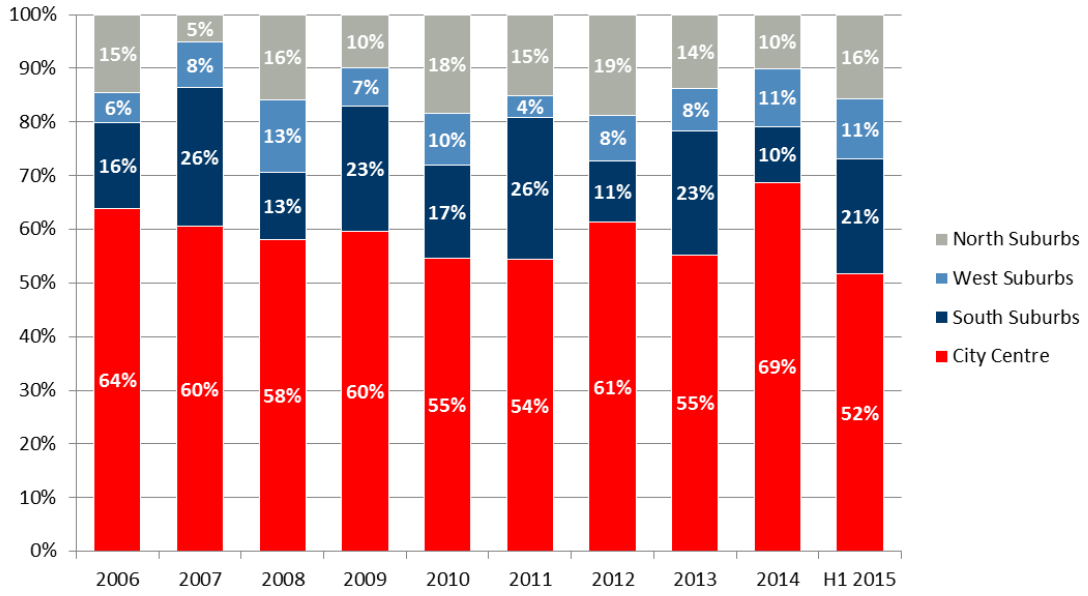


Figure 12: Proportion of Dublin Office Take-Up by Region, Source: Lisney

- Instead of being dominated by domestic occupiers as it was in the past, the Dublin 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%.

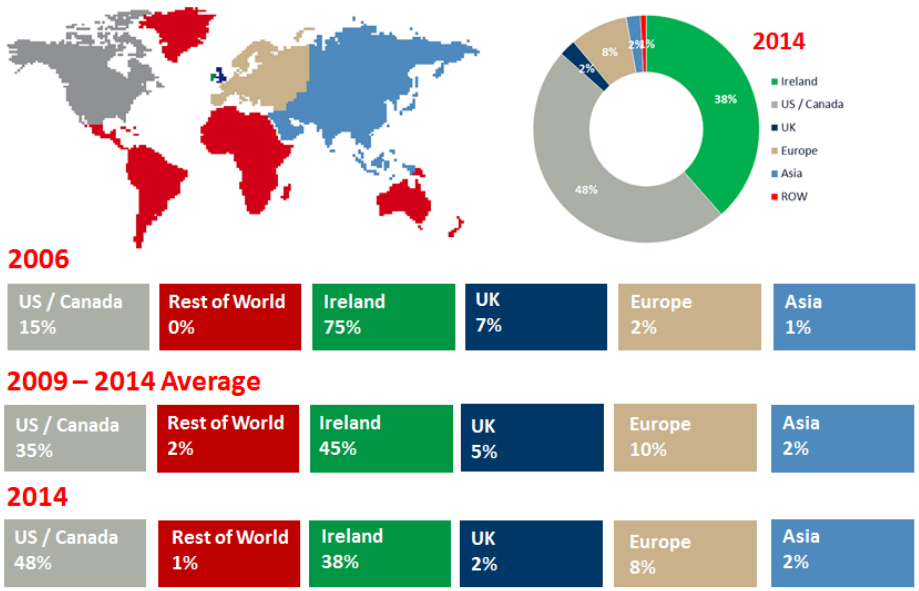


Figure 13: Take-Up by Occupier Origin, Source: Lisney

- The docklands area has been exceptionally active with international occupiers in recent years. The aerial photograph overleaf shows a sample of these.

Plate 1: International occupiers

- 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. 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. These include Yahoo!, Amazon, Dropbox, Oracle, AirBnB, LinkedIn, Google, Zendest, Riot, Twitter, Survey Monkey, Tripadvisor, Facebook, Groupon, LogMeIn, Paraxel, Paypal, AeroFlex, Verzon, Mosaic and SAP.

- 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 for 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).

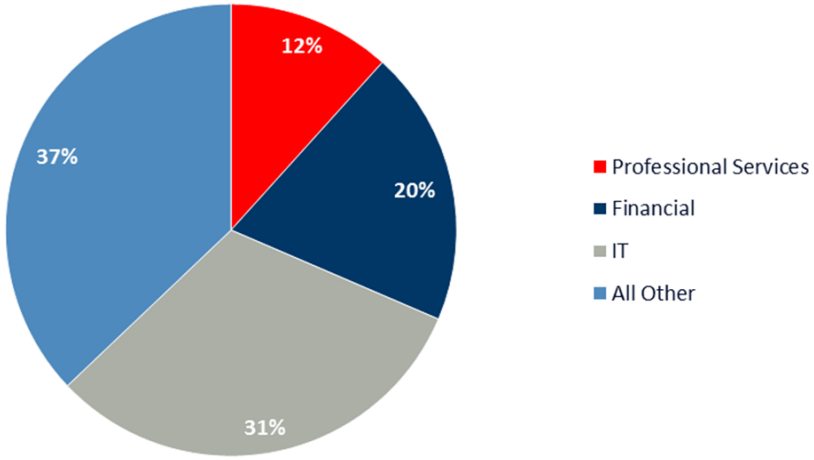


Figure 14: Average Annual Take-Up 2008-2014 by Sector, Source: Lisney

- It is widely acknowledged that Ireland is the global leader in aircraft leasing with nine of the top ten largest companies located here. With demand for such services continually expanding, so too is aviation leasing companies' requirements for office accommodation. In Q1 2015, there were three deals to this sector and the large pre-let to Aercap at LXV (65 St Stephen's Green) was finalised in Q2.
- 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 13.5% at the end of March 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 city centre rate was 11% at the end of Q2 2015 having fallen from a high of 19.2% in Q4 2010 and is generally the lowest of all Dublin office regions.

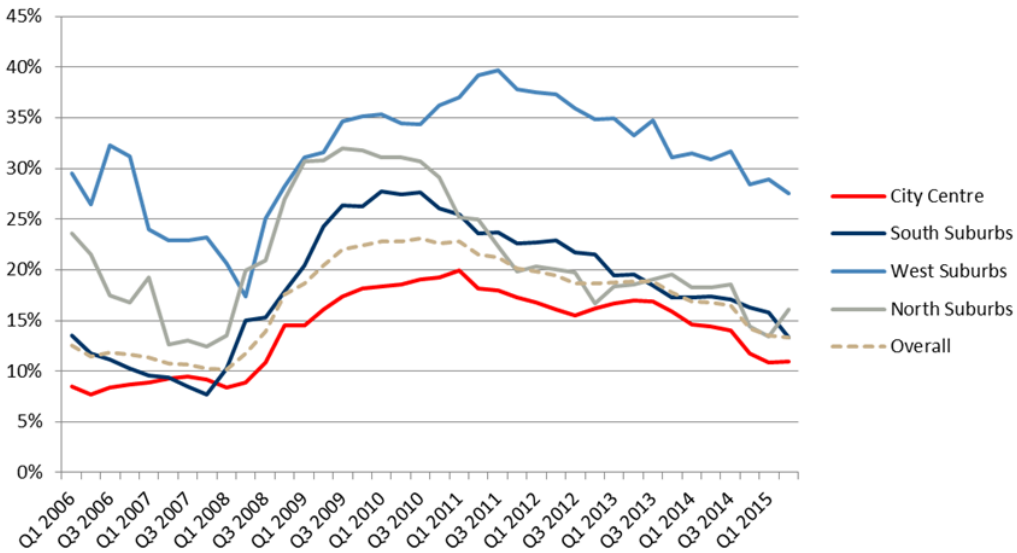


Figure 15: Vacancy Rate 2006-Q1 2015, Source: Lisney

- The current city centre rate of 11.0% 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 35% (86,000 sqm) of the stock that is available in the city centre region is sub-standard and not really capable of being occupied by high quality occupiers. The vacancy rate falls to 7.1% if this space is excluded. Focusing on Dublin 2 and Dublin 4, the vacancy rate is 10.3% and 7.3% respectively. However, if this sub-standard/obsolete space that is available is excluded, the vacancy rate falls to 5.9% and 5.3% respectively.

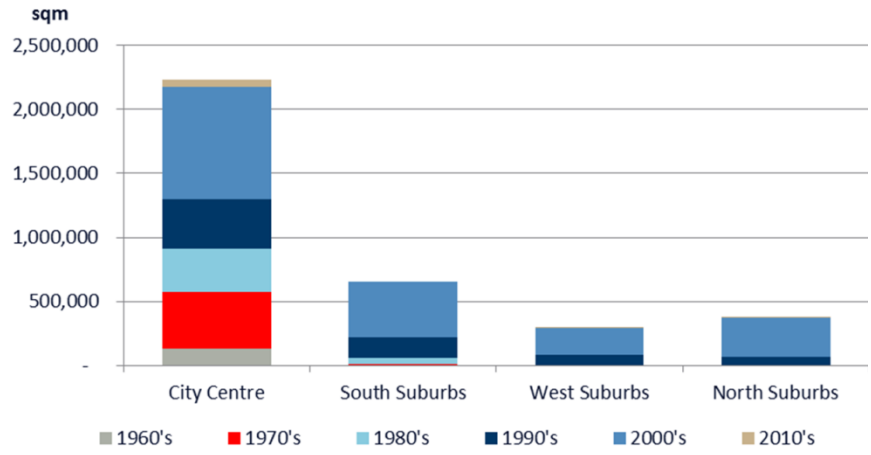


Figure 16: Dublin Office Building Stock - Age Profile by Region, Source: Lisney

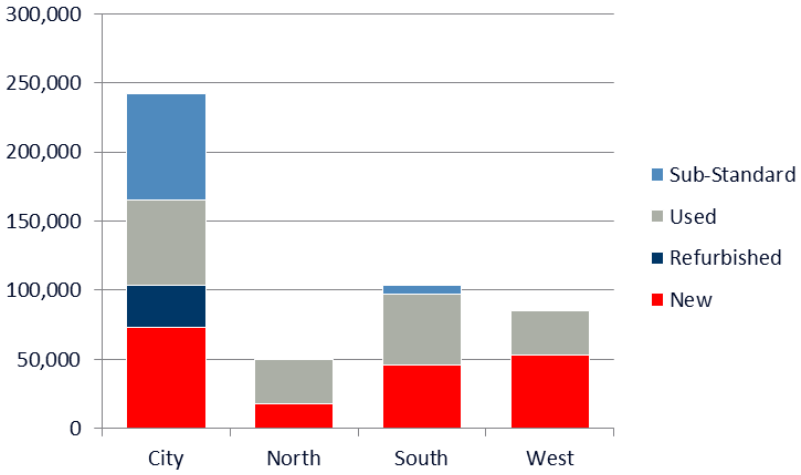


Figure 17: Dublin Office Supply by Grade/Standard, Source: Lisney

- 21% of accommodation that is available was previously occupied and not as attractive as the remaining 43% 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 with nine of these in the city centre region. Of the nine, two are new buildings (Kings Building on Church Street and Prime Gateway in Eastwall), two are refurbished and five are sub-standard.

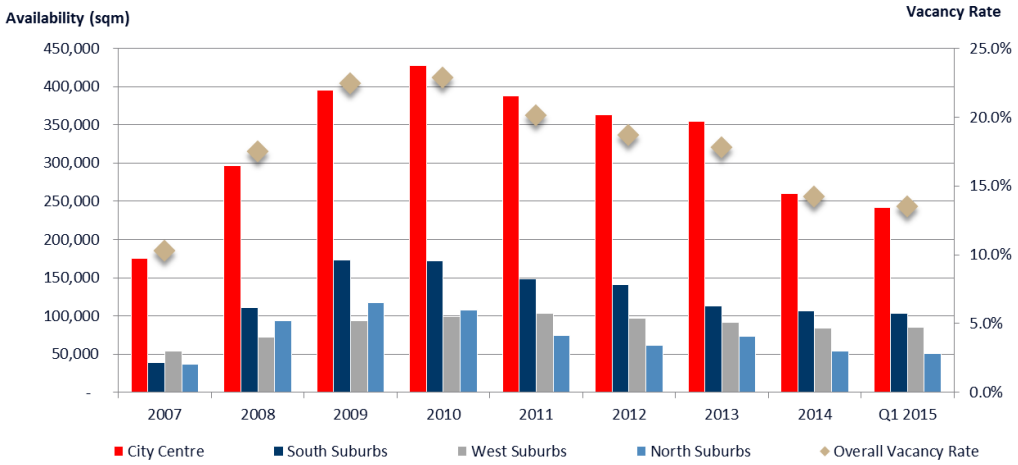


Figure 18: Dublin Availability and Vacancy Rate, Source: Lisney

- This means that new high specification office accommodation is required in the Dublin region, notably in the city centre. In this regard, there are currently only ten schemes under construction, nine in the city centre and one in the south suburbs. Three of the city centre schemes are extensions to existing buildings and comprise Kennedy Wilson's addition of 3,700 sqm to the former Fás building on Upper Baggot Street, the 5,000 sqm extension to the former Bank of Ireland premises on Lower Baggot Street, and an extension to The One Building at One Grand Canal Street by Jones Investments. Of the new builds in the city centre four are pre-let. These comprise LXV St Stephen's Green (5,700 sqm let to Aercap), Earlsfort Terrace (11,750 sq let to Arthur Cox), LinkedIn HQ on Lad Lane (14,000 sqm), and 6-8 Hanover Quay (3,250 sqm let to AirBnB). The buildings being speculatively constructed comprise Burlington House (15,400 sqm) and 21 Charlemount Street (3,350 sqm). In the south suburbs Green REIT is building the 15,800 Block H in Central Park. In addition, we are currently tracking over 30 pending schemes (with a combined potential size of over 500,000 sqm, which is equivalent to about 2.5 years supply) and over 40 more potential redevelopment sites.

- The new schemes currently under construction, plus the 20 buildings being refurbished around the city are insufficient to meet the demand of the Dublin market over the next five years and consequently there is upward pressure on rents. Prime city rents are just above €560 psm (€52 psf). 65 St Stephen's Green (LXV), Dublin 2 is the exception at €645 psm (€60 psf). The level of rent means that schemes are viable and capable of being built. Further office schemes will commence in the short-term (i.e. less than two years) in both the central area and in some traditional suburban office locations.

- 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. We are already seeing signs of this. 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.

- Lease terms continue to harden in favour of landlords. Owners of buildings in prime city centre locations want at least a 10 year lease commitment without any break options. When market conditions were softer during the downturn, tenants were able to secure lease commitments of just

five years. 10 year leases are generally acceptable to most occupiers but if they were any longer, some tenants might start to look towards more flexible locations in secondary or suburban markets.

- Rents will continue to rise in the medium-term due to strong levels of demand and lack of suitable accommodation. Lisney anticipates prime rental growth of 29% over 2015 and 12% in 2016. The chart below shows the percentage annual change in rents. It is clear from this that the property market operates in cycles and following declines in rental values, a rebound always occurs strongly. The declines experienced between 2008 and 2011 where 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. Heading into 2018, Lisney believes office rents may fall slightly due to an increase in the amount of accommodation available as new buildings are completed. However, Lisney does not believe this will be a sustained period of decline, but more a settling of the market at an optimal level of rent.

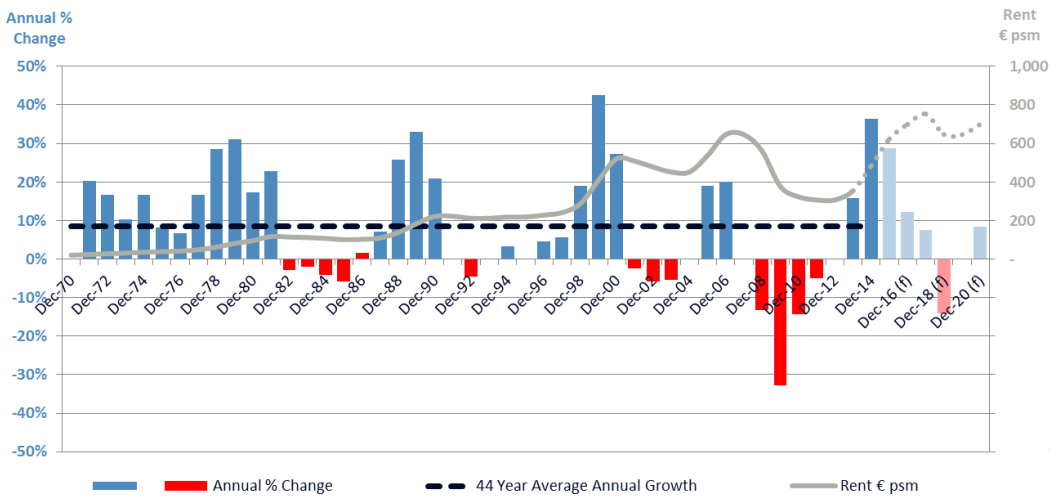


Figure 19: Prime Dublin Office Rents, Source: Lisney

- **<u>Outlook</u>** - more developers and their financial backers will prepare sites and lodge planning applications in the city centre (between the canals) and in the other traditional office locations in the DCC area such as Ballsbridge in the coming years. However, no new schemes will be required in non-traditional office areas over the next five years. By the end of 2015, it is likely that construction will commence on a number of additional office schemes as central sites are currently viable. The vacancy rate will continue to fall and rents will continue to rise relatively strongly in the city centre in the next few years before a more stabilised period is entered. In terms of this stabilisation period, when much of the currently planned space is completed, there may be a brief period where rents fall perhaps about €55 psm (€5 psf) due to the greater choice available but we do not believe there will be a sustained period of decline, more a levelling off so that the market finds its optimal rate.

2.5 Retail

- Within this section, we have provided an analysis of current trends in the retail occupational market (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.

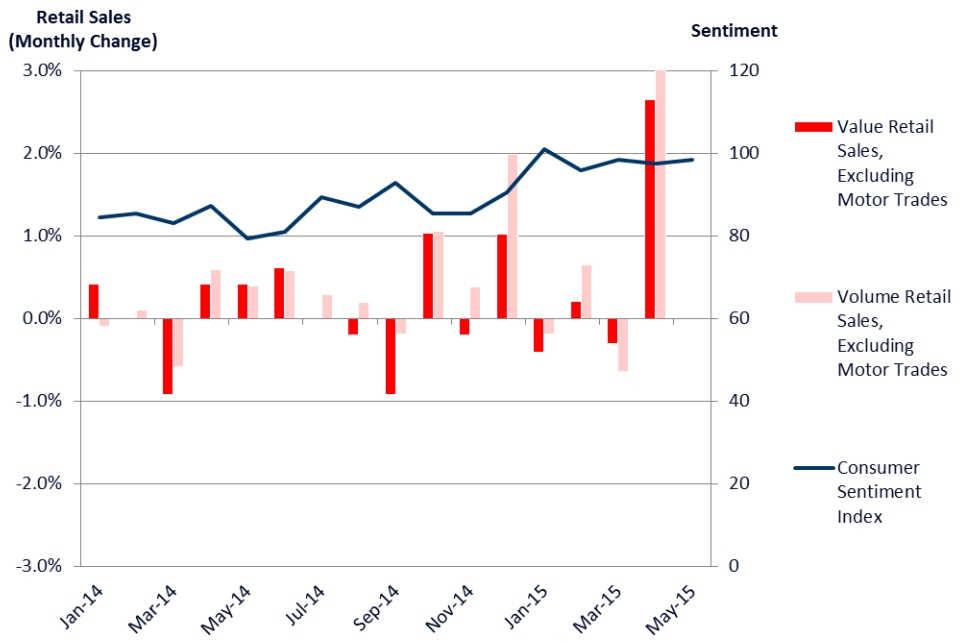


Figure 20: Retail Sales Monthly Change, Source: CSO, KBC Bank ESRI Consumer Sentiment Index

- 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.

- There has been huge demand from restaurateurs' right across the city centre and in prime higher profile suburbs. In Dublin city centre, this is notable on the secondary streets in the Grafton Street area.

- Retailer demand was generally focused on prime pitches last year (Grafton Street / Henry Street), but there are now supply issues in most of these areas. As such, secondary streets adjacent to these areas are becoming well sought after. More tertiary streets and some centres, continue however to find it difficult to attract good quality occupiers.

- In terms of prime areas, Grafton Street, Henry Street / Mary Street 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
Grafton Street	Massimo Dutti, Lifestyle Sports, Argento, Ecco Shoes, Space.NK.Apothecary, HMV, Levis, Vans, Claire's Accessories and Other Stores
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.
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.

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.

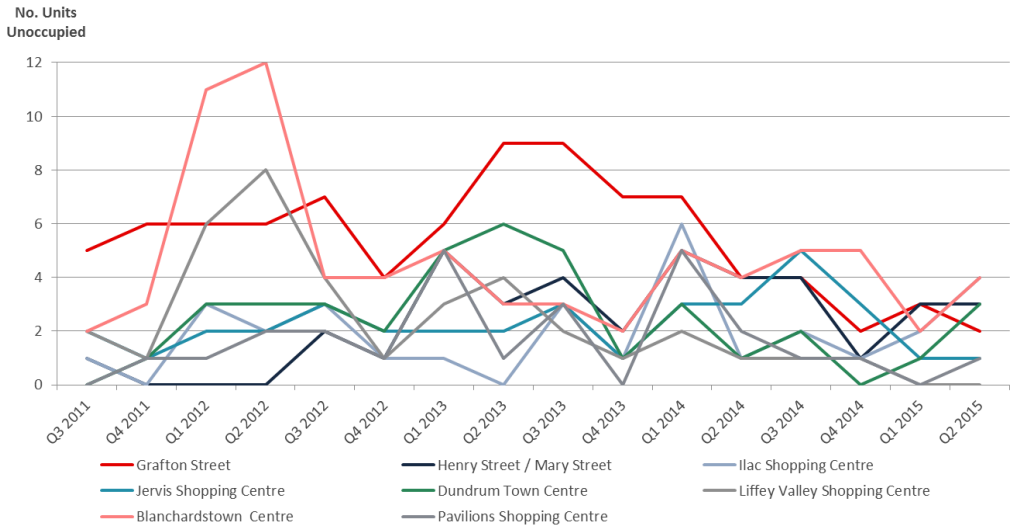


Figure 21: Prime Dublin Retail Pitches - Numbers of Unoccupied Units, Source: Lisney

- In terms of the central shopping area and the category one and two streets, the success in attracting tenants varies with little or no vacancy on some streets (Wicklow Street and Chatham Street) and

close to 25% on others (Lower Mary Street and Capel Street). It has been 18 months since we carried out a full assessment of vacancy levels on category one and two streets, however at that time the average vacancy rate was 11.9%. If shopping centres in the DCC area (greater than 5,000 sqm in size) are taken, they had an average vacancy rate of 15.2% (excluding Ballymum and Crumlin as it rises to 26.5% if they are included). This compares to the overall average for Dublin of 14.9% (i.e. the central shopping streets plus all shopping centres greater than 5,000 sqm in the four Dublin local authorities). 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. The long anticipated Project Jewel loan sale containing loans secured against the ILAC Centre and the Dublin Central development site (as well as Dundrum Town Centre and the Pavilions), came to the market in June. While the sale will not have an effect on the tenants in the centres, the level of interest demonstrates investor confidence in the retail sector. In terms of the Dublin Central site, there will be a new owner of the loans controlling the land, but no development is likely on it in the next five years. 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. Large scale retail development is unlikely to occur in the city centre in the coming years, however, there will be smaller opportunities within the SDZ and regeneration areas. In Ballymun, we understand that a retail study will be prepared as part of the Local Area Plan.

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 DCC's administrative area is within part of all regions. While the industrial building stock is relatively low in DCC compared to other local authority areas, the main regions where stock is located is in the southwest and northwest regions. 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 is what affects the level of new construction.

Figure 22: Dublin Industrial Regions, Source: Lisney

- 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.

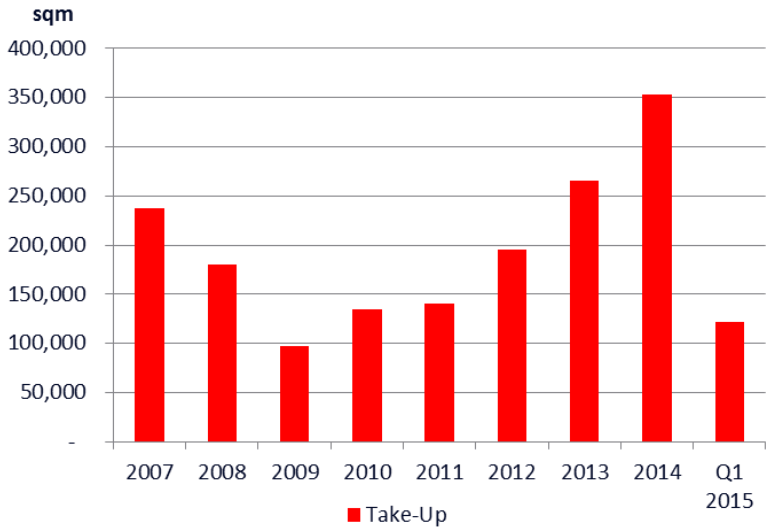


Figure 23: Dublin Industrial Take-Up 2007-Q1 2015, Source: Lisney

- 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 2015, 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.

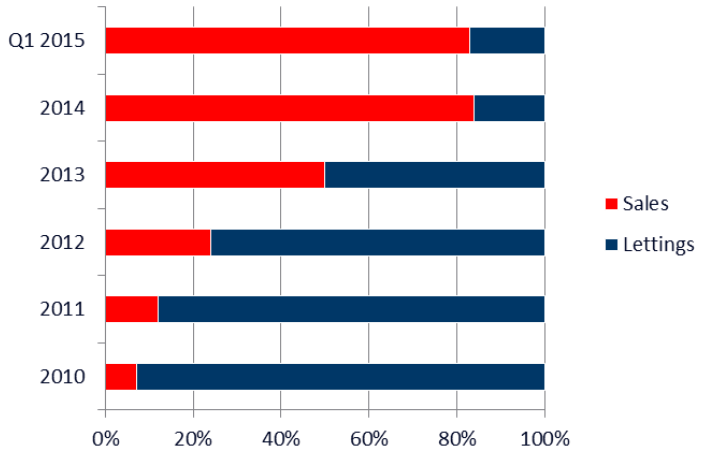


Figure 24: Dublin Industrial Sales v Lettings, Source: Lisney

- 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 (representative of the low levels of industrial building stock in this region). This break down is typical of market take-up for the past few years.

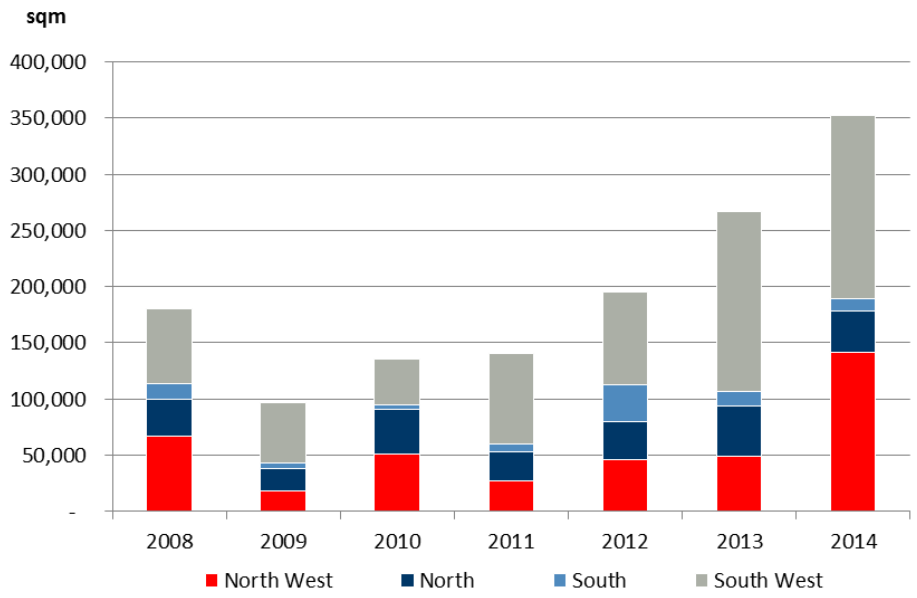


Figure 25: Dublin Industrial Take-Up by Region, Source: Lisney

- In recent quarters there has been a good mix of deals in terms of size. For example, in Q1, 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.

- 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, the amount of vacant property for sale or to rents 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, however none of these were in the DCC area. By way of example of the value of industrial land, a recent transaction involved the sale of the former SIAC lands in Baldonnell Business Park on the Naas Road, Dublin 22. Here, the main lot (12.7 ha) was sold for between €210,000 and €222,000 per hectare. Additionally, smaller serviced industrial sites of about one hectare are achieving up to €400,000 and are on the increase. Industrial lands in DCC's area are constantly under pressure from higher order uses such as residential and other commercial development and as such, lands can sell at higher rates.
- **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. Unlike other local authority areas where there will be opportunities to develop large, well-located, modern buildings in the short-term (on a design-and-build basis at rents ahead of the market rate), this is unlikely in the DCC area given the higher value of the lands. In comparison to some of the other Dublin local authority areas, the building stock of industrial property in DCC's area is much smaller and generally comprises older stock. As to be expected, the trend to redevelop this space to higher value uses will continue in the medium to long-term in areas such as on Bannow Road/Dublin Industrial Estate and parts of the Naas Road. However, any large scale redevelopment could be a number of years away and most likely into the next five year period after 2020. For the Dublin Industrial Estate area, redevelopment will not occur until Luas Cross City is operational. This will push industrial out into the other Dublin local authority areas.

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 the past four years, per quarter, and the percentage yearly change.

The overall pattern in Dublin City from 2012 to 2015 is an increase in numbers. There was a slight decrease in 2013 of 6%. This then increased in 2014 with 38% more consultations. Of note, 2015 has seen a large increase of 165% more consultations when comparing Q1 and Q2 of 2014 with Q1 and Q2 of 2015.

With the exception of Fingal, the 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 experienced a modest decrease between 2012-2013, followed by a more significant increase per annum since.

2012	**South East**	**South Central**	**Central**	**North West**	**North Central**	**Total**
Qtr 1	42	12	11	1	3	69
Qtr 2	37	12	12	2	8	71
Qtr 3	53	8	13	2	4	80
Qtr 4	43	8	23	0	2	76
Total	**175**	**40**	**59**	**5**	**17**	**296**
2013	**South East**	**South Central**	**Central**	**North West**	**North Central**	**Total**
Qtr 1	48	16	12	2	4	82
Qtr 2	59	14	13	2	2	90
Qtr 3	32	7	6	2	7	54
Qtr 4	20	9	17	2	4	52
Total	**159**	**46**	**48**	**8**	**17**	**278**
						6% less than 2012
2014	**South East**	**South Central**	**Central**	**North West**	**North Central**	**Total**
Qtr 1	28	3	12	0	9	52
Qtr 2	20	8	14	2	5	49
Qtr 3	47	4	11	3	5	70
Qtr 4	120	24	28	16	26	214
Total	**215**	**39**	**65**	**21**	**45**	**385**
						38% higher than 2013
2015	**South East**	**South Central**	**Central**	**North West**	**North Central**	**Total**
Qtr 1	67	8	17	18	6	116
Qtr 2	81	12	40	10	9	152
						165% higher than Q1-Q2 2014

Table 3: Dublin City Council Pre-Planning Consultations, Source: Dublin City 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 Building Control Management System (BMCS) 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.

Year/Quarter	Residential	Commercial
2012		
Q1	50	40
Q2	50	24
Q3	55	29
Q4	42	30
2013		
Q1	56	22
Q2	81	20
Q3	73	26
Q4	49	31
2014		
Q1	100	39
Q2	76	34
Q3	56	30
Q4	88	41
2015		
Q1	62	38
Q2	70	27

Table 4: Commencement notices received for residential and commercial developments, Source: Dublin City Council

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.

Dublin City granted 53 no. applications for dwellings, 117 no. 'other', 176 no. extensions and 66 no. alterations and conversions. This is a total of 412 planning permissions granted for Q1 2015. This equates to 102,000sqm of total floor area.

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]
	Residential Schemes	Other				Residential Schemes	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 below table 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	Residential Schemes	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	Residential Schemes	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 below table 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, in Dublin City Council's area. It can be seen that the total number of permissions for houses dipped slightly in 2011, but have since recovered. The largest amount of houses granted in these years was in 2014, having increased considerably since 2011. The total amount of private flats/apartments permitted in terms of units was highest in 2011 and has subsequently fallen very significantly.

Dublin City	2010	2011	2012	2013	2014
Houses					
Planning Permissions Granted (Number of Schemes)	82	53	51	102	143
Units for which Permission Granted (Number)	240	138	236	532	578
Private flats/apartments					
Planning Permissions Granted (Number of Schemes)	34	29	16	31	51
Units for which Permission Granted (Number)	1,163	1,399	207	247	359

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

From the below table 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)	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Residential Schemes	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)	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Residential Schemes	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 DCC area.

3.1 Residential

- The short-term outlook for the residential market in the DCC area is for continued strong demand (particularly for apartments in the docklands and family homes in the inner suburbs), more sustainable price increases (despite the minor falls in recent months) and a continued shortage in supply for at least the next 18 months due to the current built up demand and rising city population. This will feed into further development land sales and increased viability of residential construction.

- There are a number of initiatives, which could assist in a faster delivery of units, such as the housing construction collaboration, fast track planning in the SDZ, and disposing of land by way of licence agreements.

- 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.

- In DCC's administrative area, higher density residential development (greater than 50 units per hectare) is viable in the south docks and marginal in the north docks; medium (35-50 units per hectare) to higher density developments is possible on sites in Dublin 4 and Dublin 6; while in the suburban parts of DCC, medium density development (most likely on infill sites) is feasible. However, with end values generally increasing, viability is spreading to further areas. The development of higher density apartment schemes for multi-family investment purposes in the docklands is a key focus for many investors at present, particularly those from overseas. This is to cater for the significant number of FDI employees working in the docklands areas, who want to live in the city and benefit from city living and proximity to work.

3.2 Office

- Take-up this year and next may be constrained by the lack of available space for occupiers seeking relatively large amounts of accommodation in one building. Rents will continue to rise in the medium-

term. We estimate prime rental growth of 29% over 2015 and 12% in 2016. However, heading into 2018, rents may fall slightly (perhaps by about €55 psm/€5 psf) due to the improvement in supply as new buildings comes on stream. 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.

Viability of a new office scheme in Dublin city centre is reached when market rents are in excess of 510 psm (€47.57 psf), based on a land value of €50m per hectare. This is not an issue now because current prime office rents in the city centre are just in excess of this, at between €520 and €560 psm (€48-€52 psf). Non-traditional office locations (traditional is generally between the canals and into Dublin 4) will generally not become viable in the next five years, for example areas adjacent to Park West where a significant proportion of the office property is vacant.

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 opportunity to develop new large scale retail accommodation in Dublin City is limited in the next five years. However, with the Project Jewel loan sale, the Dublin Central site may come into greater focus, but no development is likely on it in the coming years. There will be opportunities with the SDZ and regeneration areas in the next five years for smaller retail developments as part of mixed-use schemes. In Ballymun, we understand that a retail study will be prepared as part of the Local Area Plan.

3.4 Industrial

- Given the higher value of industrial lands in Dublin City, some industrial occupiers may be encouraged to relocate to more outlying areas in the coming years, which would free up industrial lands for redevelopment into higher order uses. However, this is more of a medium-term trend and unlikely on any large scale over the next five years, although there will be some examples most likely in the Bannow Road/Dublin Industrial Estate area and parts of the Naas Road. In relation to the former, Luas Cross City will greatly assist once operational.

4.0 Analysis of Construction/Development Costs

4.1 Construction/Development Costs and the Tender Price Index

Total development costs comprise both construction costs and development land value. However, all independent measures of costs focus exclusively on construction costs.

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.

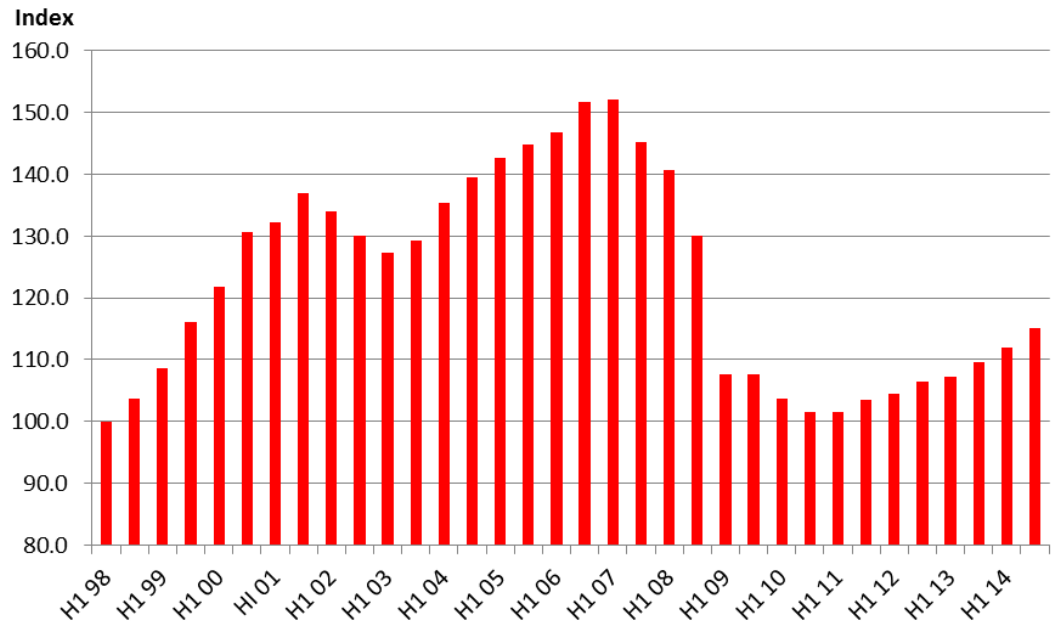


Figure 26: Construction Tender Prices, Source: SCSI

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.

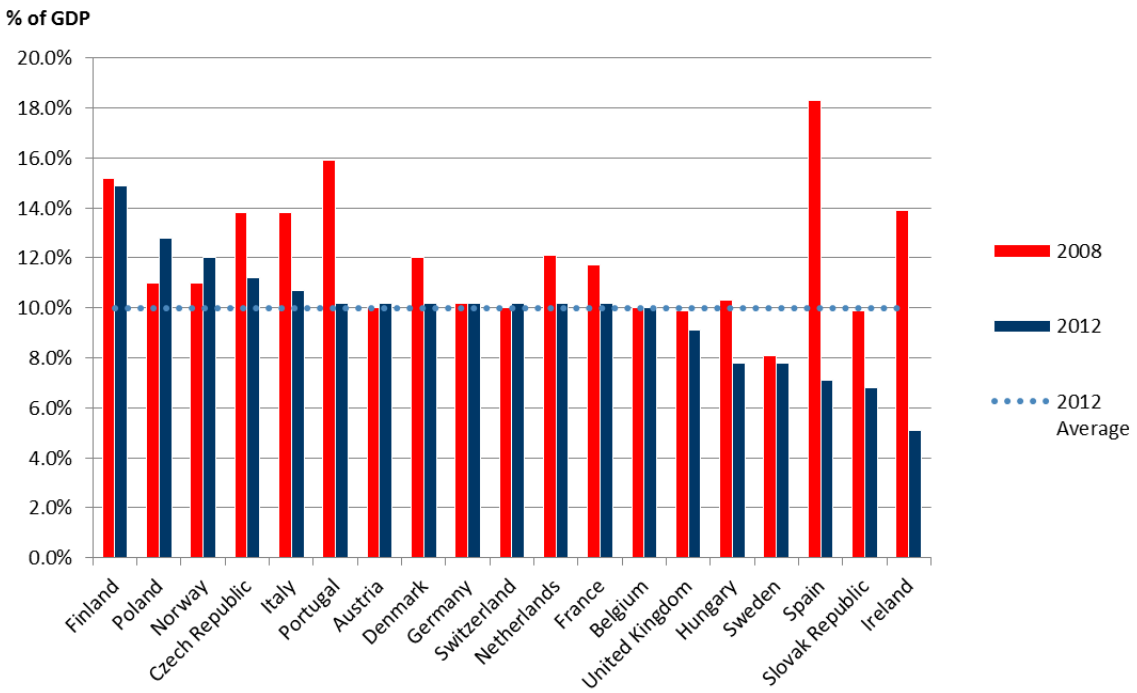


Figure 27: Building and construction output as a percentage of GDP, Euroconstruct countries, Source: Euroconstruct

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. 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 €37m per hectare while prime, viable commercial sites (such as Sir John Rogerson's Quay) are at approximately €50m per hectare. The assessment summarises two schemes (for the DCC 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 €**
Dublin City Council			
Site Cost	0.138 HA	50,000,000.00	6,900,000.00
Construction Costs	7,000.00 M2	1,800.00	12,600,000.00
Development Contribution	7,000.00 M2	70.06	490,420.00
Contribution as % of site cost			7.21
Contribution as % of construction costs			3.89
Contribution as % of site and construction costs			**2.53**

Table 12: Development Contributions on Construction Development Costs for Office Development, Source: ORHT

Scheme 2: Residential Development - 50 no. 2 Bed Apartments (example is based on a prime central site in the Docklands forming part of a mixed-use scheme. The value relates to the residential element of the site)

DEVELOPMENT CONTRIBUTIONS ON CONSTRUCTION DEVELOPMENT COSTS			
RESIDENTIAL - 50 no. 2 BED APARTMENTS	**AREA/M2/HA**	**COST/M2/HA**	**TOTAL €**
Dublin City Council			
Site Cost	0.202 HA	37,000,000.00	7,500,000.00
Construction Costs	5,000.00 M2	1,900.00	9,500,000.00
Development Contribution	5,000.00 M2	86.40	432,000.00
Contribution as % of site cost			5.76
Contribution as % of construction costs			4.55
Contribution as % of site and construction costs			**2.54**

Table 13: Development Contributions on Construction Development Costs, Source: ORHT

5.2 Summary for Dublin City

For the Dublin City Council area it can be seen that for an office development the contributions comprise 2.53% of site and construction costs. For a prime residential scheme, it is working out at 2.54% 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 contribution percentages 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 Dublin City 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.

Higher density residential development (>50 units per hectare) is viable in the south docks and marginal in the north docks; medium (35-50 units per hectare) to higher density developments is possible on sites in Dublin 4 and Dublin 6; while in the suburban parts of DCC, medium density development (most likely on infill sites) is feasible. However, with end values generally increasing, viability is spreading to further areas. The development of higher density apartment schemes for multi-family investment purposes in the docklands are very much the focus of many investors at present, particularly those from overseas. This is to cater for the significant number of FDI employees working in the docklands areas, who want to live in the city and benefit from city living and proximity to work.

Viability of a new office scheme in Dublin city centre is reached when market rents are in excess of 510 psm (€47.57 psf), based on a land value of €50m per hectare. This is not an issue now because current prime office rents in the city centre are just in excess of this, at between €520 and €560 psm (€48-€52 psf). Non-traditional office locations (traditional is generally between the canals and into Dublin 4) will generally not become viable in the next five years, for example areas adjacent to Park West where a significant proportion of the office property is vacant.

The opportunity to develop new large scale retail accommodation in Dublin City is limited in the next five years and is generally unviable. However, with the Project Jewel loan sale, the Dublin Central site may come into greater focus, but no development is likely on it in the coming years. There will be opportunities with the SDZ and regeneration areas in the next five years for smaller retail developments as part of mixed-use schemes. In Ballymun, we understand that a retail study will be prepared as part of the Local Area Plan.

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 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 all regions of Ireland. The index is a measure of the average price adjustments for variant projects and locations and includes for price adjustments to materials and labour costs on construction projects.

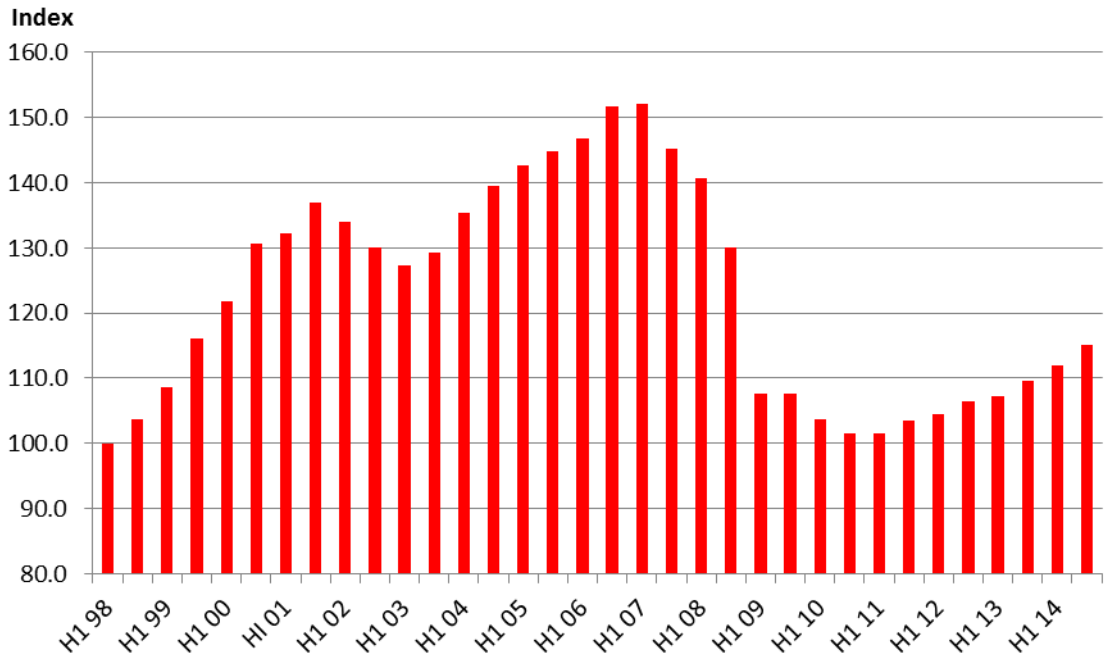


Figure 28: Construction Tender Prices, Source: SCSI

- **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.

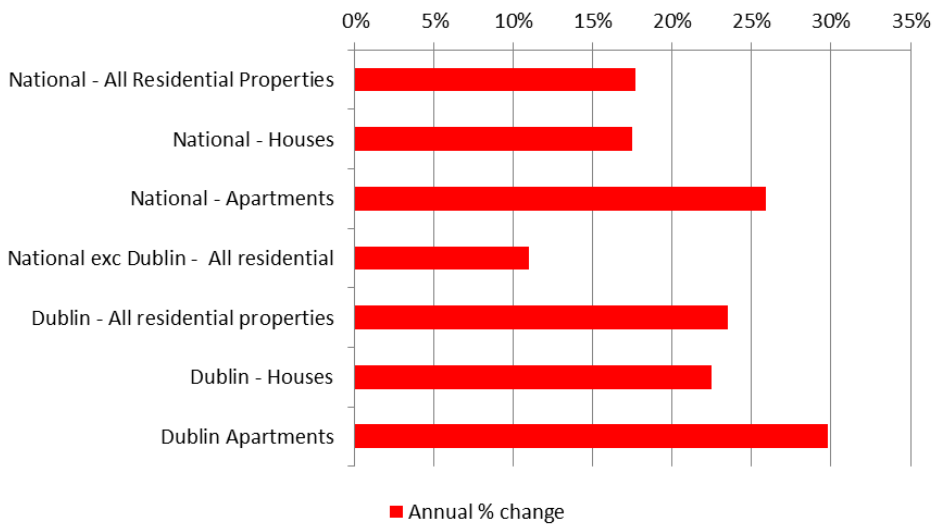


Figure 29: Residential Property Price Index March 2015, Source: CSO

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

Having undertaken this 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 has been found that the SCSI Construction Tender Price Index has been more reflective of the market over the previous years than other indices. Accordingly, it is recommended that the SCSI Construction Tender Price Index is the most appropriate indexation for the Development Contribution Scheme.

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 has been outlined, higher density residential development is viable in the south docks and marginal in the north docks; medium to higher density developments is possible on sites in Dublin 4 and Dublin 6; while in the suburban parts of DCC, medium density development (most likely on infill sites) is feasible. However, with end values generally increasing, viability is spreading to further areas. The development of higher density apartment schemes for multi-family investment purposes in the docklands is a key focus point for many investors at present, particularly those from overseas. This is to cater for the significant number of FDI employees working in the docklands areas, who want to live in the city and benefit from city living and proximity to work.

Following a number of years where office development was not viable in the city centre (i.e. between the canals and into Dublin 4), it did reach a breakeven point in the latter part of 2013 when land values were at about €24.7m per hectare and rents were €366 psm (€34 psf). However, with increasing land values on high profile city centre sites, the breakeven point has moved out. Land values are now in excess of €50m per hectare and therefore, office rents need to be in excess of €510 psm (€47.50 psf). This is not an issue because current prime office rents in the city centre are just in excess of this, at between €520 and €560 psm (€48-€52 psf). Non-traditional office locations (the traditional location is taken as between the canals and into Dublin 4) will generally not become viable in the next five years, for example areas like Park West where a significant proportion of the office property is vacant.

The opportunity to develop new large scale retail accommodation in Dublin City is limited in the next five years. However, with the Project Jewel loan sale, the Dublin Central site may come into greater focus, but no development is likely on it in the coming years. There will be opportunities with the SDZ and regeneration areas in the next five years for smaller retail developments as part of mixed-use schemes. In Ballymun, we understand that a retail study will be prepared as part of the Local Area Plan.

Given the higher value of industrial lands in Dublin City, some industrial occupiers may be encouraged to relocate to more outlying areas in the coming years, which would free up industrial lands for redevelopment into higher order uses. However, this is more of a medium-term trend and unlikely on any large scale over the next five years, although there will be some examples most likely in the Bannow Road/Dublin Industrial Estate area and parts of the Naas Road. In relation to the former, Luas Cross City will greatly assist once operational.

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 Dublin City Council area we can see that for an office development the contributions comprise 2.53% of costs, while for a residential scheme it is working out at 2.54% 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 is the most appropriate indexation for the Development Contribution Scheme.