

# PRS MARKET OVERVIEW

## OUTLOOK 2020



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NEW HOMES

# INTRODUCTION

This report provides an overview of the performance of the PRS sector in Ireland during 2019. Given all that has unfolded since the end of 2019, specifically in relation to COVID-19, this data may seem somewhat historic. However, analysing market trends in recent years does provide a useful backdrop to determine the impact that this particular economic shock will have on investment flows. Equally given the almost unique infancy of the PRS market, historical reference points are very limited for comparison purposes.

In reviewing 2019, it is clear that the growth in institutional investment in the Irish residential market continued its upward trajectory throughout the year, with turnover reaching a record €2.54bn across 51 deals. This equates to more than double the level of activity achieved in 2018. Since 2011, over €5bn of capital has now been invested in the residential sector in Ireland. Capital flows have increased considerably in recent years, heightened by a significant rise in forward commit transactions, which have become a key feature of the Irish PRS market.

In the past twelve months, forward commits accounted for approx. €1.3bn or 51% of activity, up from €531m in 2018. Such transactions are providing vital new stock to a rental market which has seen a reduction in stock levels over the past few years.

The rapid growth in investor interest in the Irish PRS sector over the past two years has been a product of market fundamentals, with a plethora of factors at play. Amongst the backdrop of a growing population, the residential market

has witnessed a housing shortage. This housing shortage has placed young professionals in rental accommodation for a longer period than perhaps desired. In addition to this, the rental market has witnessed an exodus of smaller individual landlords as demonstrated by residential sales breakdowns and tenancy registrations. This decline has caused the demand for rental accommodation to outstrip supply, placing upward pressure on rents.

This upward rental pressure, particularly at the top end of the market had showed signs of easing towards the end of 2019 and start of 2020, however in the near term this pressure will be tested with the world wide pandemic, reduced travel and rising unemployment. Unemployment is expected to rise significantly in the coming quarter, from just 4.7% at year end to 18% at the end of quarter two. While government policy implemented a 90-day rent freeze, and also blocked evictions to aid those who are suffering financially during this pandemic.



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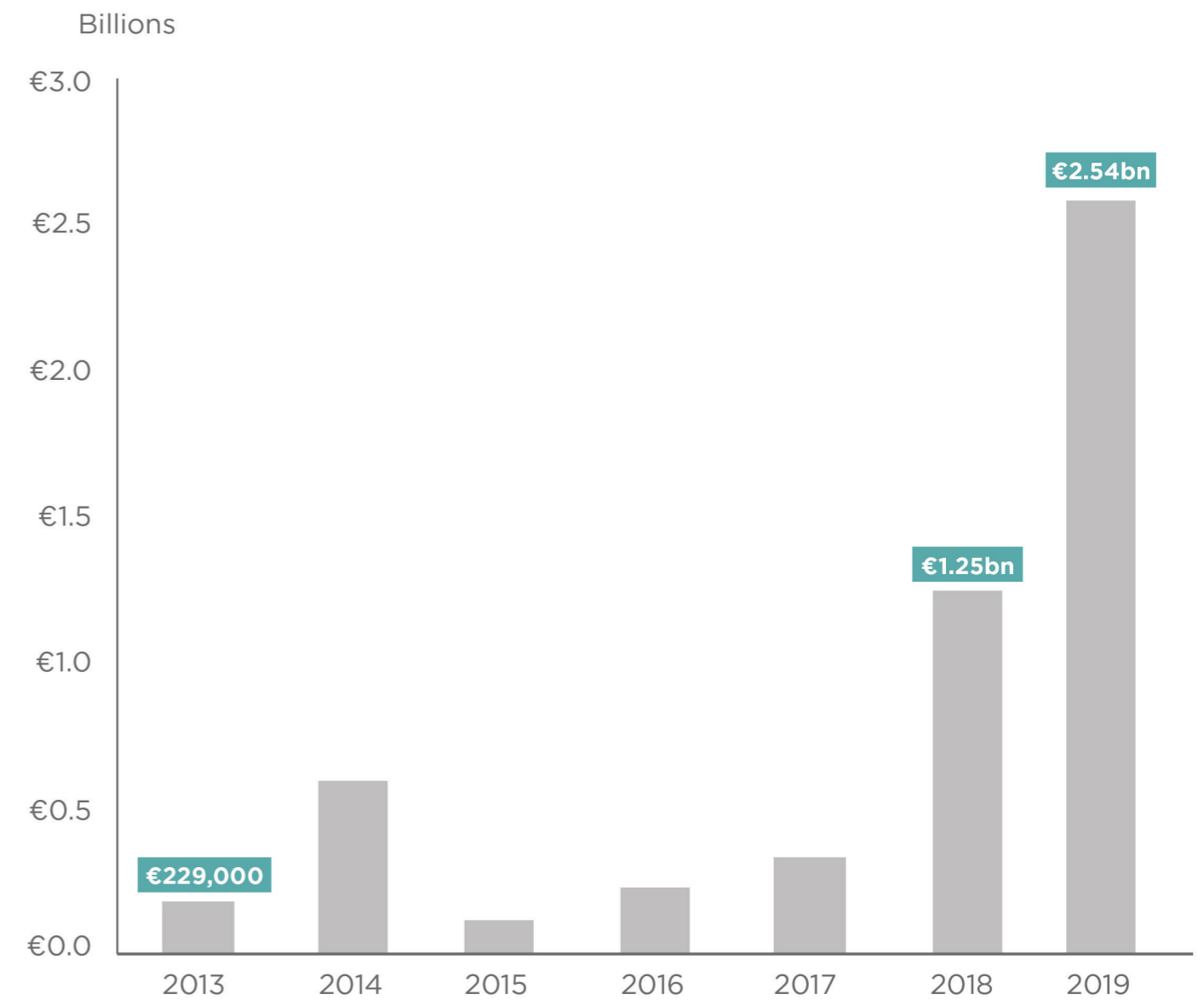
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# 01 TRANSACTION OVERVIEW

The PRS market ended 2019 with an exceptionally strong quarter. A total of €1.09bn transacted in the three-month period across 22 transactions. This brought the year-end total to €2.54bn, a sizeable increase on the €1.25bn recorded in 2018.

## PRS TRANSACTIONS, 2013 - 2019



Source: Sherry FitzGerald Research/Cushman & Wakefield Research/RCA

2019 turnover was boosted by several large-scale transactions and portfolios which saw the average sized deal increase to almost €50m, up 23% year on year. In total, there were eight transactions above €100m in 2019.

The largest transaction of the year was the XVI Portfolio. Acquired for €285m by IRES REIT, the portfolio comprises of 815 buy-to-let properties primarily located in Dublin, with one lot of apartments situated in Harty's Quay, Cork. Other notable transactions included the acquisition of Project Vert by Avestus Capital Partners for €216.1m and Dublin Landings by Greystar from Ballymore International Developments Limited and Oxley Holdings Limited for €175.5m.

## TOP TRANSACTIONS 2019

Asset	Price (€)	No. of Units	Purchaser	Standing Stock Vs. Forward Commit
<b>XVI Portfolio</b>	€285m	815	IRES REIT	Standing Stock
<b>Project Vert (Neptune &amp; Elmfield)</b>	€216.1m	382	Avestus	Standing Stock
<b>Dublin Landings PRS</b>	€175.5m	268	Greystar	Forward Purchase
<b>Heuston South Quarter</b>	€135m*	266	Henderson Park & Chartered Land	Standing Stock
<b>Off-Market Nationwide</b>	€132m	537**	LRC Group	Standing Stock

Source: Sherry FitzGerald Research/ Cushman & Wakefield Research /RCA

\*Approx. residential proportion of transaction total

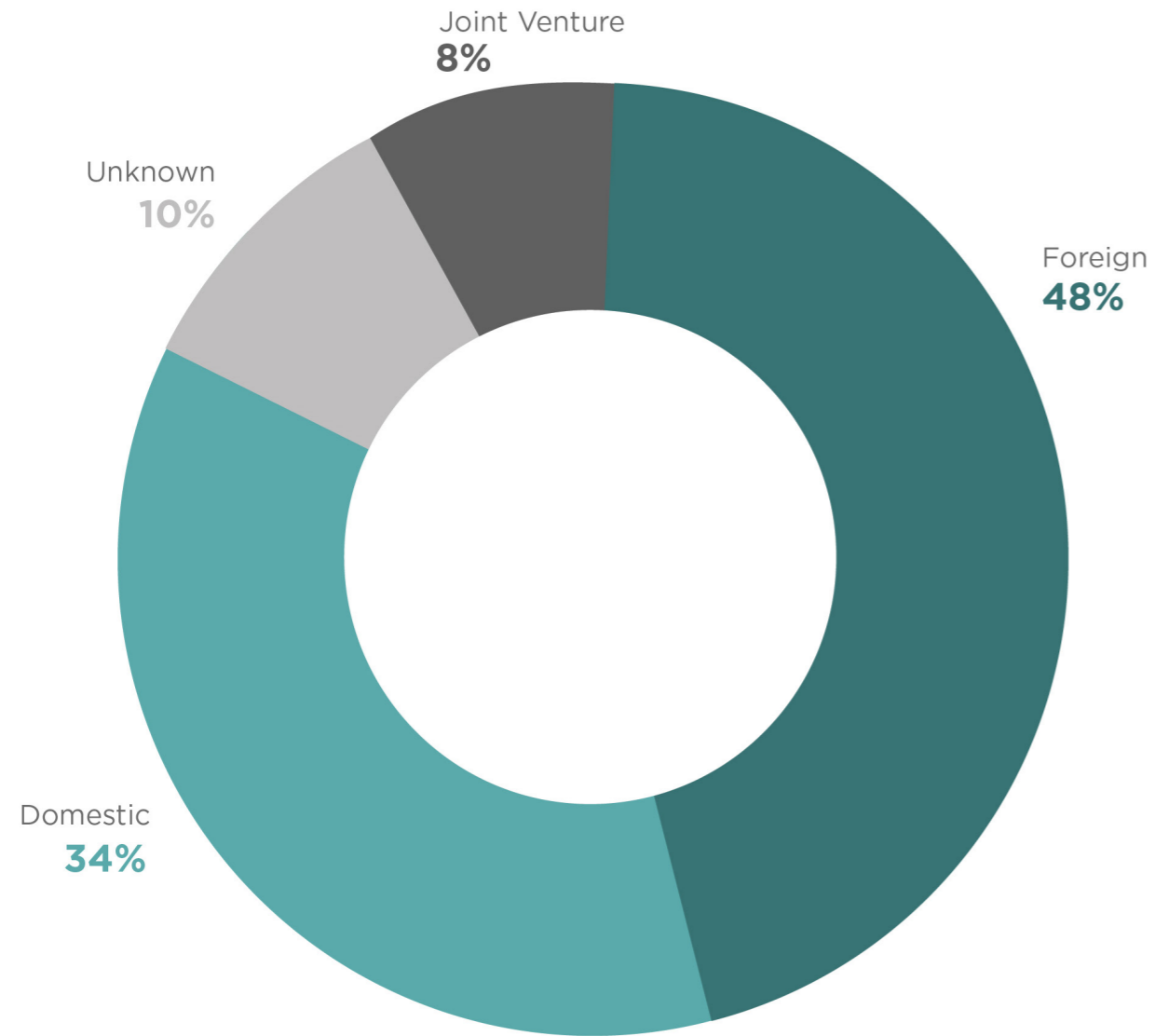
\*\*Approx. No. of units

In terms of the source of capital, 48% of the volume of spend was from foreign investors. Examples include, Avestus, Patrizia, Real IS, LRC Group and DWS. A new entrant to the market in terms of overseas investors was Heitman Capital Partners. Overseas investment is primarily focussed on larger lot sizes, with just four deals sub €10m assigned to foreign investment. This is akin to the overall investment market which also sees overseas capital focussed on larger lot sizes and higher value assets.

Domestic investors are also an active and vital ingredient of the PRS market. IRES REIT continues to feature, while also seeing Irish Life Investment Managers and Urbeo active in the market. In total €870m was accounted for by domestic investors.

The remainder of spend is attributed to joint ventures and confidential unknowns. A feature of the market, particularly in the second half of the year, was a large volume of off-market confidential transactions.

## PRS TRANSACTIONS 2019, SOURCE OF CAPITAL



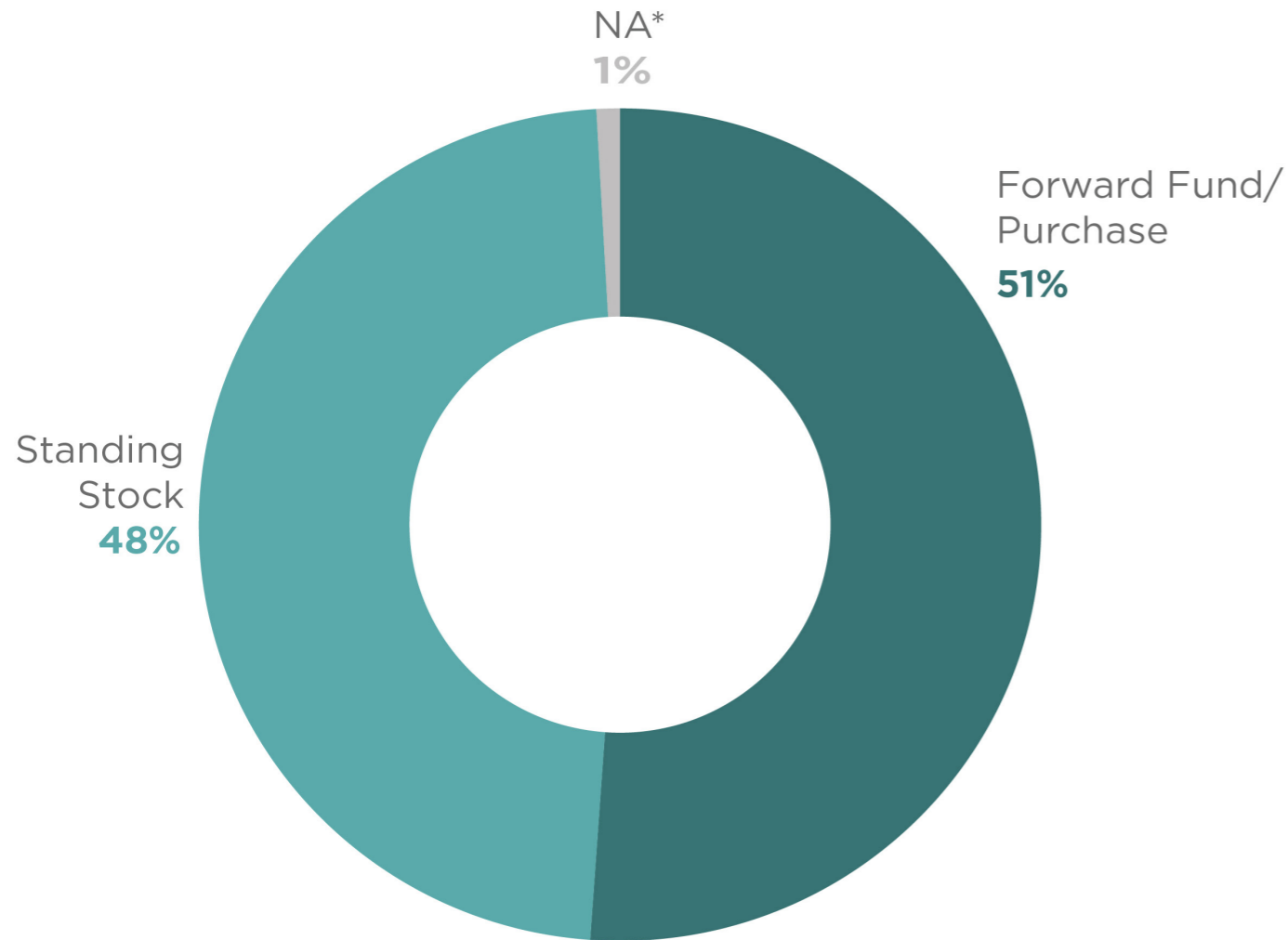
Source: Sherry FitzGerald Research/Cushman & Wakefield Research /RCA

The rise in PRS transactions in 2019 also included a rise in the volume of forward commit transactions, which have become a key feature of the market. Approximately 17 forward commit transactions were recorded totalling a value of €1.3bn. This compares to approximately €531m in 2018.

These sales comprise almost 2,850 dwelling units, which arguably would not otherwise be built. This figure highlights the vital role that the private rented sector can play in the supply of units to the rental market.



## PRS TRANSACTIONS 2019, STANDING STOCK VS. FORWARD COMMIT



Source: Sherry FitzGerald Research/Cushman & Wakefield Research/RCA

In terms of location, to date, PRS activity has been largely focused on Dublin. Approximately 90% of the 2019 spend took place in Dublin, with activity outside the capital largely focused on the Greater Dublin Area and Cork. This highlights the limited viability of the PRS market outside large unit centres and is not anticipated to change in the near-term.

Following a stellar year in 2019, transactions will be down in 2020. Uncertainty will place a pause on investor action. However, many of the core market fundamentals which have attracted investors to the market will remain unchanged once we emerge from this crisis. The baseline assumption for most economic forecasts shows a bounce and return to activity in the second half of the year, however the PRS market may not see the closure of many deals until 2021.





02

## RENTS & YIELDS

As demand continues to outstrip supply, average rents continued to trend upwards in 2019, albeit at a slower pace than in recent years. The most up to date statistics from the Rental Tenancies Board (RTB) show annual rental growth of 5.0% in Q4 2019 in Dublin, compared to 7.7% for the comparable period in 2018.

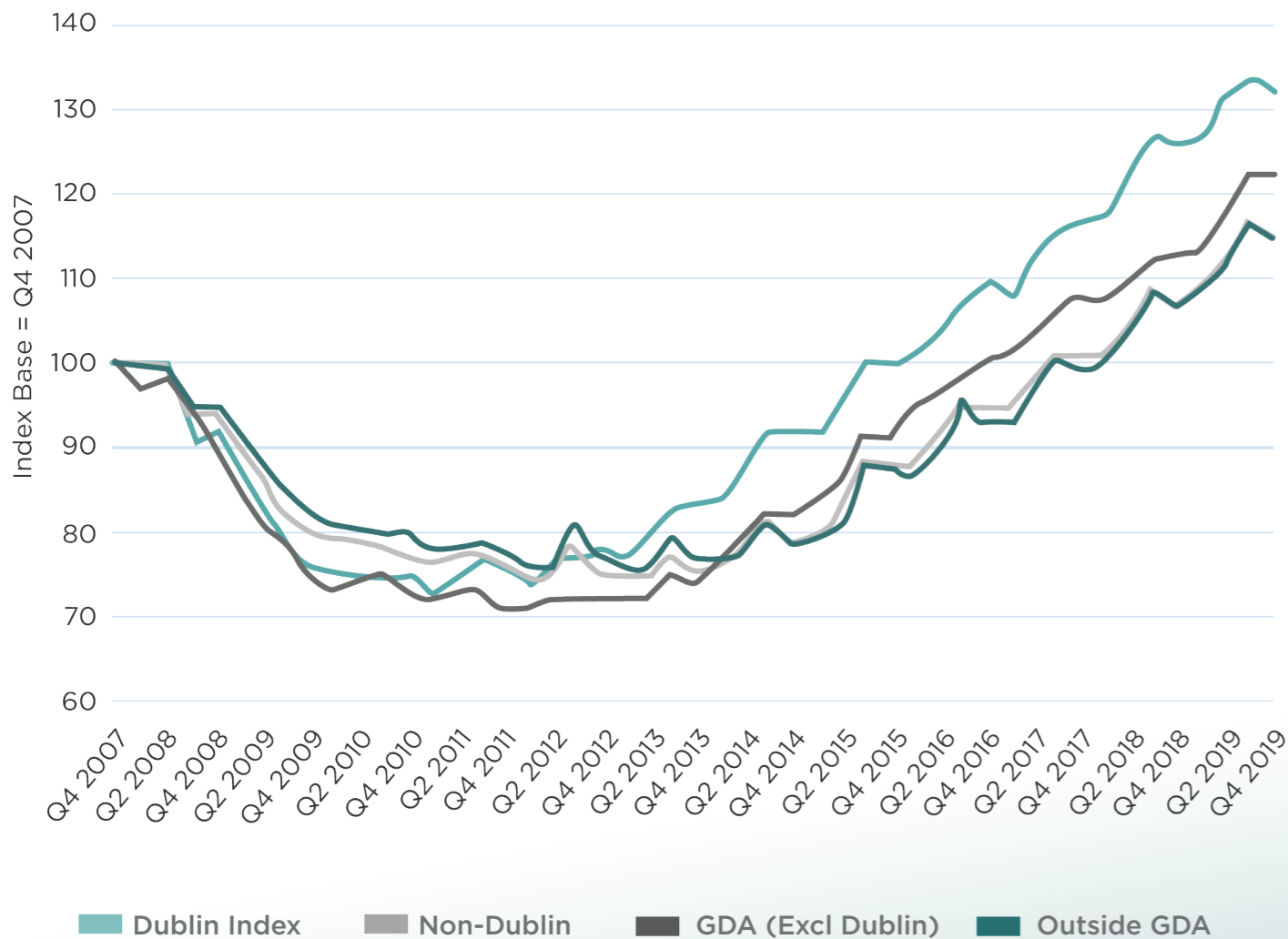
In Dublin, the average standardised monthly rent stood at €1,716 in quarter four, however the RTB data also shows this varies widely across the county's local electoral areas. For example, Stillorgan had the highest standardised average rent at €2,266 per month, followed by Blackrock and Dun Laoghaire at €2,040 and €1,986 per month respectively. At the opposite end of the scale, the local electoral area of Rush-Lusk had an average standardised rent of €1,404 per month in Q4 2019.

Outside of Dublin, rental growth is stronger, with annual growth of 7.7% in the rest of the GDA excluding Dublin, and 7.8% outside the GDA. It is worth noting that 41.9% of the tenancies registered to the RTB in Q4 2019 were located in Dublin. The Dublin led proportion of the rental market is not surprising given demographic trends, and also supports the concentration of PRS investment in Dublin as noted earlier.

Anecdotal evidence from the beginning of 2020 suggested a slight easing on asking rents at the upper end of the market in Dublin, however active stock was limited.



## RTB ALL PROPERTY INDEX, Q4 2007 – Q4 2019



Source: RTB

Looking forward to the near term, unemployment is expected to rise significantly in the coming quarter, with the ESRI suggesting an increase from just 4.7% at the end of 2019 to 18% at the end of quarter two 2020. However, at the time of writing, the general consensus is this is a temporary shock to the economy. In an effort to protect those who are suffering financially during this pandemic, the government has implemented a 90-day rent freeze initiative together with a temporary ban on evictions.

Beyond this point, rent collections are likely to be a point of focus over coming months.

Moving to yields, the widening of the investor pool over the past two years has increased the volume of capital seeking to invest in Ireland's PRS market. This has caused a contraction in yields. 2019 saw prime yields compress further to 3.75%, reflecting a decrease of 25 basis points over the twelve-month period. This is reflective of net initial yields, off an assumed Net Operating Income, and for prime new product.

Further compression, particularly for "super prime" product, was expected in 2020. However, this tightening is set to be delayed, as the market pauses to take stock of the uncertainty unfolding from the COVID-19 crisis.

# 03

## OUTLOOK 2020

As the COVID-19 pandemic continues, markets are digesting the impact of this economic shock in terms of its short and medium-term implications. The task of providing an outlook for the months ahead is difficult, as we witness a fluid and rapidly evolving situation. In line with the extent of the downturn in the economy, residential investment transactions are expected to fall significantly in H1 2020. Investor activity is expected to re-emerge as the economy recovers, however the timing of this is dependent on the pandemic easing and the lifting of social distancing polices.

The “macro” position within the country remains in so far as the demand for homes continues to outstrip supply, while development activity continues to be relatively restrained. Entering into the crisis, the PRS held a more resilient position than perhaps some other sectors within the commercial real estate market, demonstrating the attractiveness of PRS investment as an asset class.

Investor sentiment remains positive for the PRS market as the market fundamentals and imbalance within supply and demand will still be there post COVID-19. PRS is still seen as one of the more relatively secure asset class. Product that was being prepped to come to the market after Easter is now likely to be held, with a large number of assets possibly launched to the market later in the year.

It is important to note that as the PRS market has emerged from a “niche” sector to a more main-stream sector, the investor pool has become more diversified and consequently, deeper. This maturation should aid the PRS market’s ability to recover quickly with an increase in transactional activity towards the back end of the year.

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