Ireland

Developers return to Dublin office market

On the waterfront: IPUT has acquired Riverside One, Dublin, as part of a three-year plan

New office developments are under way but the potential for oversupply is giving some developers pause for thought. Guy Montague-Jones reports

Cranes are returning to Dublin's skyline and it is not hard to see why. Ireland is on track to be the fastest-growing economy in Europe for the second year running and rising demand for office space is making itself felt in the rental market. Prime rents are pushing towards €55/sq ft (£40/sq ft), having increased by almost a third last year, and growth is continuing apace this year. Agent HWBC estimates that rents rose by 10% in the first half of the year and predicts that they will carry on rising until at least 2017. The incentive is clearly there to pile into development.

But who is actually developing, how much development is going on – and could there be a looming danger that too many new offices will be built?

Many of the developers from the Celtic Tiger days were wiped out in the crisis and since then access to debt finance to fund development has been limited at best. Some new cash-rich investors have stepped up to fill the void.

Larry Goodman, whose fortune was built in the beef industry, is one such example. His company, Remley Developments, is undertaking one of the biggest and most audacious projects in Dublin – the redevelopment of the former Bank of Ireland headquarters on Baggot Street, which will provide 194,000 sq ft of new space.

The 1970s office buildings have protected status because of their unusual bronze cladding – the story goes that the quantity of bronze used for the external cladding was so high that the construction of the buildings affected the price of the metal. The size of the project, its complexity and the quality of the fit-out is such that the construction cost alone is €100m, with €20m earmarked just for renovating the facade.

A select band of old-guard developers has also returned. Some managed to sidestep the crisis, such as former plasterers, the Comer brothers, who bought the University College Dublin veterinary college site in Ballsbridge for €22.5m in 2013.

Others did not escape unscathed, but were able to hold on through the bad times and had good enough track records to attract the new funding needed to return to the market. Joe O'Reilly, Johnny Ronan and Ballymore are some of the most prominent examples.

"We are seeing the re-emergence of some of the developers of old who managed to keep their heads above water," says CBRE Ireland's head of capital markets, Johnny Horgan. "They had good assets that held them in good stead and also managed to keep hold of their teams."

As rents and values have recovered, the interest of foreign investors in the market has increased and this has been crucial to these comeback stories. Cathal Fitzgerald, a director at corporate finance and debt advisory firm Le Bruin, says the market has filtered out the less competent developers and it is the "good guys with good assets" who have been able to refinance and attract new capital.

With the backing of Abu Dhabi Investment Authority, O'Reilly's Chartered Land won the bidding this summer for two hotels on a seven-acre site in Ballsbridge for about €155m that has planning for flats and a hotel, as well as retail and leisure space. Sean Mulryan's Ballymore has also teamed up with a foreign investor, Singapore's Oxley Holdings, to build out almost 650,000 sq ft of office space in Dublin's north docklands. Oxley bought the site through the National Asset Management Agency (NAMA) last December.

"Those providing the capital don't necessarily have the expertise and local knowledge to do developments themselves," says Declan O'Reilly, a Knight Frank director. "The reality is they want people on board who they are confident can deliver."

Old and new

Ronan is a good example. He has found a number of different capital partners to refinance his pre-crisis debt and support him on new projects. Ronan refinanced out of NAMA in April this year with M&G Investments, Deutsche Bank and Colony Capital in a move that Shane Whelan, the development director of Ronan's property company, Ronan Group Real Estate, says was a landmark moment for the team. "The refinancing means we are much freer to go on the development trail. It means we can bid unfettered for sites," explains Whelan.

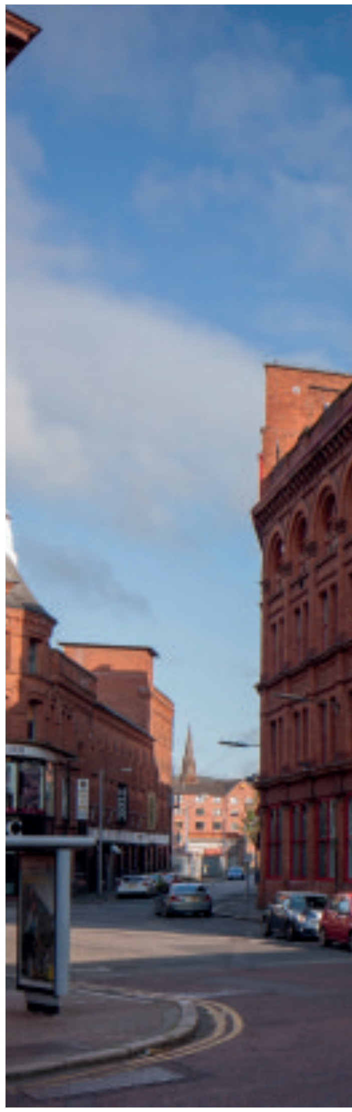
Ronan Group partnered with Development Securities on the 170,000 sq ft Burlington House project (see p49), which is currently under construction, and has a number of other projects at various stages, including Allied Irish Banks' old Bankcentre offices in Ballsbridge where it plans to lodge a planning application later in the year to deliver about 250,000 sq ft of space.

The re-emergence of old developers and the arrival of some new players means there is more development going on than would have been expected two or three years ago. In Dublin, 19 office schemes are currently under construction, according to CBRE. This sounds like a lot, but CBRE Ireland's head of research Marie Hunt says the schemes add up to only about a year's annual take-up (1.8m sq ft) and about 45% of the stock is already pre-let. Looking further ahead, what worries some in the market is that there is the potential for a significantly greater volume of projects. Savills is forecasting a net increase in office space of 10m sq ft, equivalent to more than a quarter of existing supply, over the next seven years.

The potential increase in supply has given some developers pause for thought. Green REIT's co-founder Stephen Vernon says the company's involvement in development is less than it had envisaged when the firm started out two years ago. "There are now a lot of schemes and cranes and as a REIT we think it is right to be conservative."

Taste for success: Five Guys has recently opened its first restaurant in Northern Ireland

Big story: the *Belfast Telegraph* has been based at this one-acre site for 145 years



First move: Ed's Easy DIner has launched in Northern Ireland

Hot off the press: Lisney has been appointed to sell the *Belfast Telegraph* building

Northern Ireland hits the headlines as market recovery continues apace

Sale of historic newspaper offices in Belfast would represent a milestone in city's improved fortunes

For a market that only really started moving again last year, the property sector in Northern Ireland appears to be in remarkably good health.

The rapid recovery is symbolised by the upcoming sale of the offices of the *Belfast Telegraph* building in the city centre. The owner, Independent News & Media, has appointed property agent Lisney to sell the one-acre site – home to the paper's journalists and printing presses for 145 years – in October.

"A sale like this would have been unthinkable not so long ago," says Declan Flynn, managing director of Lisney Northern Ireland. "It is one of the biggest development sites to come to market for many years. For a site of this quality in today's market, we expect a lot of interest from domestic and foreign buyers."

Lisney believes the site could be redeveloped into a 250,000 sq ft scheme to include a mix of offices, student accommodation, residential space and a hotel. Student accommodation is likely to figure prominently in any redevelopment as the new Ulster University is next door, serving 16,000 students. A successful sale would be a major milestone for Northern Ireland. The market has seen next to no development since the crash and investment activity only really got going again last year.

The sale of Project Eagle, which comprised all NAMA's Northern Ireland borrowers' loans, last summer for £1.2bn was crucial in restoring the market to health. It is believed the buyer, Cerberus, has already worked its way through the majority of the loan book, largely by working with borrowers to refinance so they could finally unburden themselves of their legacy debt. For example, Newry-based Parker Green refinanced its Cerberus loans with Garrison Investment Group and Earlsfort Capital earlier this year in a deal that owner Gerard O'Hare described as a "red letter day" not just for everyone at the company but also the wider economy.

"The market is still not fixed, but it is light years ahead of where we were 18 months ago," says Mark Riddell, director of capital markets, Northern Ireland, at Colliers International. "The loan book sales have been important in that regard, creating liquidity."

The big headline-grabbing deals have so far been for retail properties that have come to market out of receivership or as a result of bank deleveraging and been bought by opportunistic funds such as Davidson Kempner, Tristan Capital, Ellandi or Kennedy Wilson.

Last year's sale of two shopping centres – Foyleside in Londonderry and the Forestside centre in Belfast – to Kildare for £130m from Royal Bank of Scotland's wider Project Swallowtail is the biggest example. Retail also looks set to dominate in the coming months with Bangor's Bloomfield centre going on sale via Savills for £54m, reflecting a yield of 7.75%, and the outlet centres, Junction One and the Outlet, being primed for sale through DTZ for £60m.

The encouraging news for potential bidders is that retail fundamentals in Northern Ireland look to be improving. A revaluation of business rates earlier in the year is seen as a key development that has helped entice retailers to open new stores. "The revaluation helped reduce occupier costs and increase demand for retail space," says Criona Collins, retail director at Lambert Smith Hampton (LSH) in Northern Ireland.

In recent months, food chains Ed's Easy Diner and Five Guys have opened their first restaurants in Northern Ireland. Brands such as Skechers, Gap and DW Sports have opened stores in Donegall Place and major lettings have been announced elsewhere.

The office market is also going in the right direction. A dearth of new supply and the expansion of local and international companies including Allen & Overy, Axa and Hewlett-Packard, means there is only about 240,000 sq ft of available grade-A space, according to LSH. As a result, prime rents are rising with several deals secured this year at or above £15/sq ft.

With a number of significant requirements in the market, including Deloitte and EY both looking for up to 60,000 sq ft within the next two years, development is looking an increasingly attractive proposition.

"There could be close to 500,000 sq ft of live requirements in the market, which could potentially kick-start the next development cycle," says LSH director Keith Shiells.

Alastair Todd, partner and head of property at Arthur Cox, Belfast, says it is a matter of time before development activity restarts. "Rents haven't been at a level that would warrant building new offices, but they are on the cusp of reaching that point," he says.

The sale of the *Belfast Telegraph* site is evidence of this shift in the market. So long as the recovery continues, interest in development can only grow. The next question will be whether developers can convince financiers to back them. ■

Whelan says this nervousness is already having a dampening effect on demand for new sites. “Competition is not intensifying. Some are actually pulling back because they are worried about oversupply,” he says.

However, the majority view appears to be that there is little to worry about for now. O’Reilly says: “A lot of the occupiers looking for new space expect a certain quality of accommodation and what we currently have falls short. We are a long, long way off over-development.”

A number of agents and developers point to the availability of debt finance as a crucial difference between this and past development cycles. “In the last cycle you had debt-funded development, which caused all sorts of problems in every part of the market,” says Robert Murphy, a director of agents Murphy Mulhall. “This time around the banks are subdued and it is debt and equity funds who are a lot more clinical.”

‘Cooling effect’

The banks haven’t retreated from development finance altogether. Bank of Ireland set up a specialist construction and development team last summer. “Since then, we have had strong demand and we’re actively funding schemes in retail, office and residential as well,” says Paul McDonnell, head of the bank’s property finance group.

However, the banks are lending more conservatively. Gone are the days of easy access to speculative finance. Bank of Ireland will lend up to 70% loan-to-cost on office developments, but will only consider schemes with pre-lets, says McDonnell. The lack of availability of speculative debt finance is what McDonnell believes will have a “cooling effect”, reducing the risk of oversupply.

Niall Gaffney, chief executive of IPUT, which is the largest unlisted property vehicle in Ireland, says this funding gap is what has given it the confidence, as a debt-free investor, to increase its exposure to development.

Last week, it launched 7 Hanover Quay as the first of several office buildings in a pipeline of up to 400,000 sq ft of both new and refurbished space that it plans to deliver in Dublin city centre over the next three years.

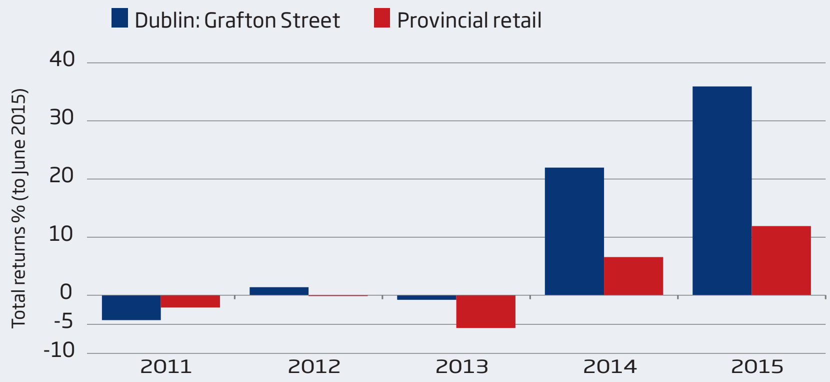
Gaffney believes that a number of the schemes that are in planning or have planning won’t be built. The recovery in asset prices has been so strong that some property owners may be looking to sell instead of moving ahead with redevelopment plans. If they can achieve strong returns just sitting on assets, why take the risks associated with development?

“Some investors could be in a profit-taking mode,” says Gaffney. “The strength of the market has already led to an impasse where some sites have planning and yet they’ve not moved.”

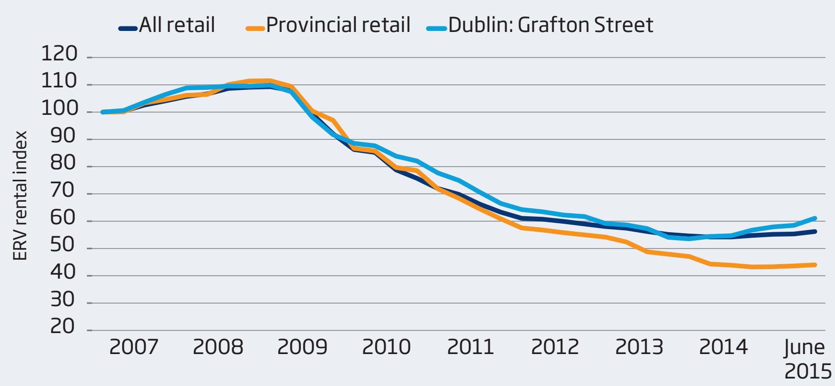
Others have also suggested that some asset managers have no intention to build and are just putting in planning applications as a way of increasing valuations.

Overall, it seems unlikely that Dublin will wake up to an oversupply problem in two or three years. What is more likely is that rental growth will tail off in 2017 as new offices are built and that has to be good for the market as it seeks to retain and continue attracting international businesses.

Retail recovery



Rents bottoming out



Source: MSCI

PropertyWeek.com

Rallying rents fuel recovery hopes

Rental values are starting to climb in Dublin’s prime retail market and there are also signs of growth outside the capital

A turning point has finally been reached in Ireland’s retail market. Having fallen dramatically since the financial crisis, rents appear to have reached a floor and are now even growing strongly in some areas, according to MSCI.

Prime retail in Dublin has led the way. On Grafton Street, the capital’s top shopping street, rents are up 12% over the past year. The recovery has fed strong total returns of more than 30% in Dublin’s city-centre shops. Outside the capital, flickers of rental growth are appearing, with rents climbing 0.3% in the past year.

“Like the UK market, provincial retail has been slower to recover, but there are signs that it is finally picking up again this year,” says Colm Lauder, a senior associate at MSCI. “Economic growth and falling unemployment are having a positive effect on retail sales and that is starting to feed through to higher rents.”

However, the market has an awfully long way to go before it returns to the highs seen before the crisis. Retail rents outside the capital are 61% off peak and capital values are 74% below pre-crisis levels.

The sale of the Cornerstone portfolio to Davidson Kempner this spring demonstrated the gulf that still exists with past valuations. The portfolio of shopping centres included one, Athlone Towncentre, which was trumpeted as a €500m (£363m) scheme in 2007, but was sold with five other centres for just €117m.

With Irish retail sales rising 9.9% in the year to the end of July, according to Ireland’s Central Statistics Office, it looks likely that the large gap separating today’s rents and values with those of 10 years ago will begin to narrow, although a return to these levels is not expected any time soon.

“Pricing wise, yields are looking very attractive for key regional cities, such as Cork, with an equivalent yield of 8.8% at the end of June 2015, versus 4.8% for Dublin’s Grafton Street,” says Lauder.