Irish residential real estate – building better futures

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The prospects for Irish residential real estate are compelling and underpinned by demand drivers, structural change and undersupply. Ireland's residential real estate market has experienced insufficient new building over several years. The statistics are stark: in the six years to 2023, there was an annual average shortfall of 35% in terms of new supply relative to the level of government-estimated national housing demand, following a period of 10 years of almost no new supply.

It's a people business

French philosopher Auguste Comte is quoted as having said: "Demography is destiny." Ireland's demographics are the most compelling in Europe. It has the second fastest growing population in Europe and is forecast to grow significantly in the coming decades compared to falling population in the European Union (EU) as a whole (Chart 1). Growth is coming from a combination of natural expansion and economic migration. The country has the second youngest population in the EU after Cyprus. These demographic tailwinds are both a support for the strongly performing Irish economy in absolute terms and a fundamental catalyst for growth of the Irish residential real estate sector. In this sense, Ireland's 'destiny' is a particularly favourable one.

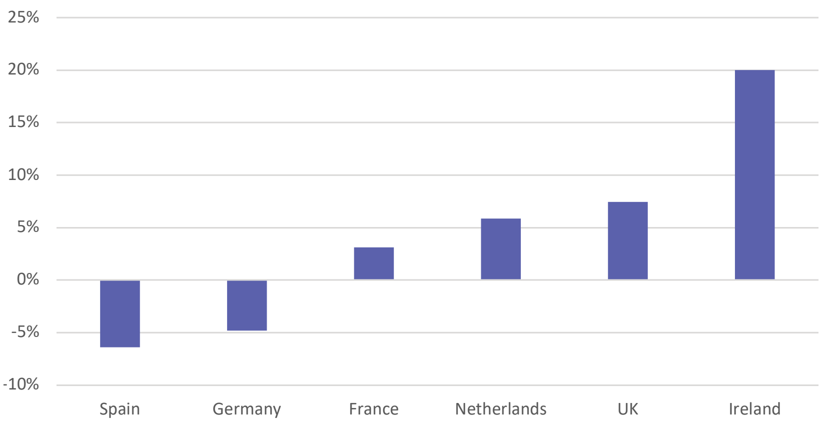
Irish residential market

Ireland is converging on certain European norms including smaller household sizes, where people are more likely to live in apartments. There is significant room for catch up: only 8% of Irish people live in apartments compared to 24% in Europe as a whole. At the same time, the proportion of renters versus owner occupiers is growing towards European norms. The Private Rented Sector (PRS) market is relatively new in Ireland, growing from a standing start in 2013 and now representing just 1.5% of national housing stock. It has an important role to play in addressing the undersupply of residential property in Ireland. The ILIM managed residential fund is helping to reduce this undersupply, delivering properties with favourable ESG credentials.

More broadly, reflecting the basic human needs associated with residential property, historically we have seen international residential investment markets typically hold up better in a downturn and recover quicker than commercial real estate sectors.

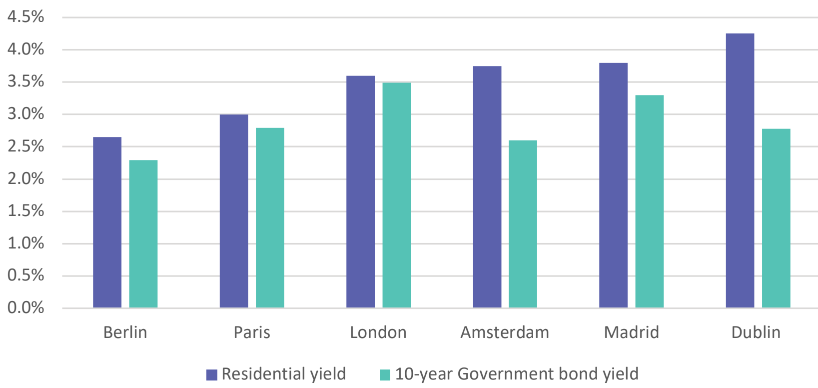
Irish residential investment pricing is attractive in a European context. Dublin prime residential yields are above the vast majority of European peers, while also comparing favourably in terms of the spread over respective government bond yields (Chart 2).

Chart 1: Population Growth Forecast (2017 to 2050)



Source United Nations

Chart 2: Irish and European Yields (March 2023)



Source CBRE & Bloomberg as of 31st March 2023

Green, in more ways than one

New high quality residential real estate in Ireland can bring significant ESG benefits for investors, as well as residents and wider society. In Ireland, building regulations demand a very high level of energy efficiency, future proofing the new stock. The homes in the ILIM managed Irish Residential Property Fund are all new and have A ratings from a Building Energy Rating perspective. Our latest developments are fully electric with no fossil fuel heating or cooking. Heat recovery ventilation is the norm in these homes providing energy efficient and healthier homes for residents. The target audience of renters are less likely to own cars and the ILIM managed residential fund has bought apartments that are located close to transit infrastructure enabling shorter commutes and better lifestyles.

From a social perspective, the Irish market has effective regulation, which aims to protect tenants from the impact of dramatically increasing rents, while still allowing core style returns for investors. In new schemes, 20% of the homes must be delivered as social or affordable housing. Larger landlords offer long-term security of tenure to tenants, provide community to renters who are often new to Ireland and provide a level of service and amenity which is new in the Irish market.

For institutional investors, governance is a core value. The ILIM managed residential fund sits in an ICAV, which is a Central Bank of Ireland regulated entity. Reflecting its ESG credentials, it achieved a GRESB[1] 5-star rating last year.

The Irish economy

Ireland's economy has been growing strongly for a number of years, outstripping our European neighbours. This has been supported by numerous multinational corporations locating and expanding in Ireland. There are many reasons for this including low corporation tax rates and access to a skilled, English-speaking workforce within the EU. The global minimum corporate tax rate of 15% for companies with turnover of over €750m, which is set to be implemented from January 2024, will increase corporation tax in Ireland for large multinationals from the current 12.5%. This should have a limited impact on Ireland since the power of inertia may mean the big corporates are likely to stay in the country. Fiscal dynamics in Ireland are also robust, with a government surplus of 1.6% of GDP posted in 2022 at a time of high and rising deficits globally.

Conclusion

There is a compelling fundamental case for Irish residential property, supported by structural undersupply and strong demographic and economic tailwinds. International investors that are seeking diversification and strong ESG credentials from a core strategy should consider investing in Irish residential real estate and help to build better futures.

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FOOTNOTES:
1 Source: GRESB | Global ESG Benchmark for Real Assets