

# BNP PARIBAS REAL ESTATE GUIDE TO INVESTING IN DUBLIN 2020

in collaboration with:



 **IDA Ireland**



**BNP PARIBAS  
REAL ESTATE**

Real Estate  
for a changing  
world

# KEY FIGURES 2019

BNP Paribas Real Estate

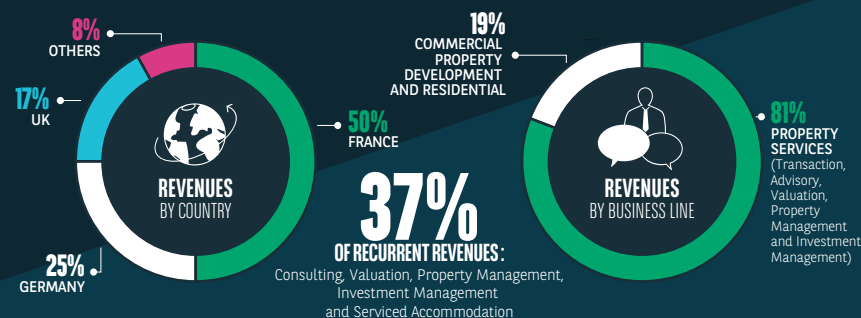
2019 RESULTS

**€1.010 BN** OF REVENUES

**€203M** of net profit before tax

**€898.5M** in equity capital

## BREAKDOWN OF REVENUES



## A COMPLETE OFFER FOR INNOVATIVE SOLUTIONS

**COMMERCIAL PROPERTY DEVELOPMENT**

116,600 sq.m started  
245,000 sq.m of schemes under construction in Europe

**ADVISORY (TRANSACTION, CONSULTING, VALUATION)**

€553.3M of revenues, with 5.9M sq.m of commercial real estate provided to users  
€318m in commercial real estate investment transacted

**PROPERTY MANAGEMENT**

€110.4M of revenues  
43.7M sq.m of managed portfolio (60% outside France).

**RESIDENTIAL PROPERTY DEVELOPMENT**

€727M of sales volumes  
2,500 housing units started in France

**INVESTMENT MANAGEMENT**

€30.1Bn of assets under management in Europe  
+4.8% vs 2018



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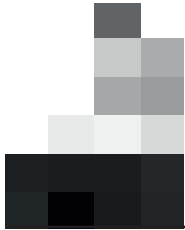
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# FOREWORD



“Irish commercial real estate continued to deliver exceptional returns throughout 2019, against a backdrop of strong political, social and economic fundamentals.”

## Kenneth Rouse

Managing Director  
Head of Capital Markets  
BNP Paribas Real Estate Ireland

Ireland's robust performance continues to cement the country's position as an excellent place in which to invest and do business. This annual publication from BNP Paribas Real Estate Ireland looks at the market fundamentals, with a particular focus on Dublin commercial property, and asks what is in store for 2020 and indeed the decade ahead.

We entered the 'roaring 20s' with a confident outlook, with total investment turnover of €7.3bn recorded in 2019 and the market displaying few signs of weakness. As Europe's fastest growing economy for six consecutive years, the Irish commercial property market is increasingly on the radar of international investors. A low-risk option with healthy occupier demand and favourable demographics, our safe and stable society, common law legal system and straightforward tax regime add to market appeal.

Growing interest from global investors is evidenced in the evolution of the mega-deal (€100m+) in the past five years, with 18 such transactions completed in 2019 displaying a steady increase year-on-year when compared with the 4 mega-deals transacted in 2014.

This trend is set to continue as real estate allocations grow, crucially providing investors with consistent income and real value, particularly in a sustained low interest rate environment. Spreads between real estate yields and investment grade corporate bonds have never been greater.

Still, there are some challenges on the horizon for real estate, including issues related to housing, climate change and sustainability as well as the outcome of Brexit negotiations and how that may impact on the Irish market. Progress however is being made on national issues, including housing provision, and climate change too is a concern that Irish Government, society and enterprise are addressing.

The global impact of the COVID-19 pandemic is also now being experienced in Ireland and is affecting all business sectors including real estate. Nevertheless, the fundamentals of commercial property markets are slower moving than those of bond and stock markets. Property investors, as we know, are generally in 'for the long haul', and appreciate the durability of hard assets.

The institutional shift in focus towards ESG (Environmental, Social and Governance) has seen sustainability and green lending also become hot topics. At the World Economic Forum held in January 2020, climate change was top of the agenda, with the top 5 global risks all identified as 'green'.

When it comes to climate change, real estate is viewed as a major offender, with the industry challenged to place a greater emphasis on greener, more sustainable, carbon neutral buildings, in order to satisfy demand from society, regulators and investors. Obvious issues arise around dealing with existing stock; in-

cluding conversion and repurposing to create sustainable real estate. BNP Paribas Real Estate can provide the solutions to this potential real estate ticking time bomb.

There are many reasons to invest in Ireland, not least the high calibre investment advice, management and advisory services provided by the dedicated BNP Paribas Real Estate Ireland team in Dublin.

In this report, we provide in-depth analysis of the different market sectors and compelling investment rationale, as well as a complete investor toolkit of essential local knowledge. Our sincere gratitude goes also to EY, Eugene F. Collins Solicitors, AIB and IDA Ireland for their various expert contributions to this edition of the Investing in Dublin guide.

We hope it provides some useful insight to the Irish real estate market, and we look forward to bringing our vast domestic and international commercial property expertise to your real estate needs going forward.

# IRELAND AND DUBLIN BY NUMBERS



In the **TOP 15**  
most innovative  
countries  
in the world<sup>3</sup>



**#1**

IN THE WORLD

for inward investment  
by quality and value<sup>1</sup>



**#1**

IN THE WORLD

for attracting and  
retaining talent<sup>1</sup>



**#6**

IN THE WORLD

in terms of economic  
freedom<sup>2</sup>



**#1**

IN THE WORLD

for investment  
incentives<sup>1</sup>



**7th**

IN THE WORLD

most competitive  
economy<sup>1</sup>



<sup>1</sup> IMD World Competitiveness Yearbook 2019

<sup>2</sup> Economic Freedom Index 2019

<sup>3</sup> Global Innovation Index 2019

IRELAND  
IS HOME TO:

The **TOP 5** global  
software companies



**14** of the top **15** medical  
technology companies



**ALL** of the top  
pharma companies



**8** of the top **10** industrial  
automation companies



**18** of the top **25** financial  
services companies



#1

for Brexit relocation  
decisions among financial  
services firms<sup>5</sup>

#3

in European Cities  
and Regions of the Future<sup>6</sup>

#5

in top 10 global FinTech  
Locations of the Future<sup>7</sup>

#8

in the world for career  
opportunities<sup>8</sup>

DUBLIN



**4.93m** Population of Ireland



Youngest population  
in Europe:  
**33%**  
of population under  
25 years of age



**1.9m** inhabitants  
in the Greater Dublin Area  
40% of total  
population of Ireland



Public transport  
trips in Dublin  
reached  
**243 million**  
in 2019 (+8.7%)

## COMMERCIAL PROPERTY

**€7.3bn** investment turnover<sup>4</sup>  
in Ireland in 2019



**43%** office



**36%** residential



**9%** retail

Dublin represented **88%** of total  
turnover

## DUBLIN OFFICE MARKET



**309,847m<sup>2</sup>** take-up in 2019



**53%** TMT



**18%** public sector



**220,000m<sup>2</sup>** delivered in 2019

# IRELAND AND DUBLIN BY NUMBERS

- 1 IMD World Competitiveness Yearbook 2019
- 2 Economic Freedom Index 2019
- 3 Global Innovation Index 2019
- 4 Includes residential investments (e.g. PRS)
- 5 EY Financial Services Brexit Tracker 2019
- 6 Financial Times fDi European Cities and Regions of the Future 2020/21
- 7 Financial Times fDi FinTech Locations of the Future 2019/2020
- 8 EY-DKM Dublin Economic Monitor 2020

# 10 KEY REASONS TO INVEST IN IRELAND

## 1 EUROPE'S FASTEST GROWING ECONOMY

The Irish economy has recorded several years of strong, sustainable growth with 2019 the sixth consecutive year in which Ireland has emerged as the fastest growing economy in the Eurozone. Irish GDP rose by 8.2% in 2018 and by a further 5.5% in 2019, supported by rising employment and wages, moderate inflation and rising investment from both the government and from foreign investors. GDP is expected to be negatively impacted by the COVID-19 pandemic however this will be on a global scale. The full impact of this remains to be seen.

Ireland is now one of the only English-speaking countries in the Eurozone and has been ranked first in the world for attracting and retaining talent. Dublin has experienced a significant influx of major technology, pharmaceutical and financial companies over recent years. This supports a robust office occupier market which in turn enhances Ireland's attractiveness from an investment perspective.

## 2 FAVOURABLE DEMOGRAPHICS

Ireland has the youngest population in Europe with a third of the population under 25 years' old making Ireland's dependency ratio very favourable. Ireland's population is forecast to rise by one million people by 2040 with the pace of growth expected to be stronger in Dublin and the surrounding areas, where almost 40% of the population live and work. Ireland's young workforce is very adaptable and highly educated with Ireland's education system ranked amongst the top 10 in the world. Ireland also holds the second highest rate of tertiary education attainment in the EU.

## 3 DOMESTIC STABILITY

Ireland offers a high degree of economic and political stability with the benefit of a common law legal system and favourable tax structure which is relatively straight forward to understand. Ireland is strongly aligned with the European Union and benefits from the common trade area and access to talent from across

Europe. The climate is temperate and is generally spared from natural disaster and Ireland consistently ranks highly on the Global Peace Index making it one of the world's safest countries in which to live. This marks Dublin out as the optimal place for investors seeking to minimise uncertainties from external global and geopolitical risks.

## 4 A SUSTAINABLE INVESTMENT MARKET

Ireland has demonstrated a remarkable real estate recovery with investment in commercial real estate reaching a record €7.3 billion in 2019. This represents an increase of 97% relative to 2018. The Dublin market has a good degree of liquidity with foreign equity investing in tandem with domestic investors. There is also a significant spread between prime real estate yields and long-term investment grade bonds demonstrating a high degree of relative value in the Irish market.

Historically low interest rate policies have gone hand in hand with economic weakness and low inflation across Europe. The 10-year German bond yield was negative throughout the latter

half of 2019 with banks now being charged a premium to deposit liquid assets with the European Central Bank. The consensus is that this period of low interest rates is likely to last into 2020 and beyond, supported by monetary policy, moderate economic growth, low inflation, ongoing risk aversion and the continued abundance of global liquidity. In light of this, a natural gravitation towards investment in real estate is likely to continue thanks to the secure income stream and higher return on investment on offer. Ireland is well positioned to benefit from the abundance of capital which overseas investors are seeking to deploy in real estate in this low interest rate environment.

## 5 DIVERSE AND HEALTHY LEVEL OF OCCUPIER DEMAND

As the urbanisation of Irish society continues, the Dublin office market is experiencing a long-term trend in the expansion of global Technology Media and Telecommunications (TMT) companies, such as Amazon, Facebook, LinkedIn and Salesforce, who have all progressed plans to create major office campuses for their EMEA headquarters in Dublin in recent years. These have become the driving force of Dublin's oc-



cupational market and backbone of commerce and innovation.

The Dublin office market is very varied in its occupier makeup, unlike other European capital cities which tend to be dominated by financial and professional services. Office take-up in Dublin reached close to 310,000 sq.m in 2019 marking the third strongest year on record, with TMT companies accounting for more than half of this space. Large financial organisations are located all around Dublin, while State entities also expanded rapidly in 2019 accounting for 18% of take-up.

In Ireland commercial office leases are generally longer than in most continental markets (typically 25 years with a break after 10-12 years) and lease terms are generally more favourable to the investor than the equivalent in other countries. Other things being equal, investing in Dublin can provide a further element of medium-term income stability.

## 6 STRONG CONSUMER ECONOMY

Steady gains in employment levels, incomes and expenditure across Ireland are having a knock-on effect on the Irish consumer economy, which, despite considerable global uncertainty and fluctuating consumer sentiment, has been performing considerably well in recent years.

The latest figures from the Central Statistics Office (CSO) show employment levels to have increased by 3.5% during 2019 with a record 2.36 million people in employment, while average earnings have also increased by 3.5%. This led to growth in gross disposable incomes of 4.8%. While the economy has been badly impacted by the global COVID-19 pandemic, with store closures leading to widespread job losses, the government has made great efforts to

assist those affected and encourage employers to retain their staff where possible. It is hoped that this will lead to a more rapid recovery once the virus has come under control.

## 7 INCREASING FOCUS ON ESG

The Irish real estate sector is experiencing an increasing focus and demand for sustainability, supported by the introduction of Near Zero Energy Building (NZE) regulations. More than 500,000 sq.m of new or refurbished Grade A office space has been delivered in Dublin during the past three years, with speculative office development now well underway in regional locations too. With the advent of global building standards such as LEED, BREEAM and WELL certification, these offices are being designed and built to a quality and specification that can be understood and valued by global occupiers and investors alike.

Environmental, Social and Governance (ESG) factors have become a key determinant in investment decisions thanks to a growing emphasis on and understanding of the negative impact of climate change. Investors want to ensure that these factors have been taken into account and will be mitigated throughout the life-cycle of their properties. There has been increased focus on 'impact investing', which involves the implementation of benchmarking strategies such as the Global Real Estate Sustainability Benchmark (GRESB) or the creation of bespoke investment criteria to ensure that investment portfolios meet certain ESG standards. This is set to continue to grow during 2020 and beyond.

## 8 MARKET DISRUPTERS AND THE ALTERNATIVE

A lack of supply has led a surge in residential development activity across Ireland and in

Dublin in particular. This in turn has provided opportunities for investors in the form of investment and forward funding opportunities in the build-to-rent (BTR) and purpose-built student accommodation (PBSA) sectors. The residential sector accounted for 36% of total turnover in 2019 with Irish and overseas investors alike now recognising the appeal of the stable, long-term returns on offer from this growing market sector.

The continuing emergence of technology as a solution to overcome challenges in the real estate industry is disrupting traditional methods and shaping the Irish and global real estate sectors. Irish developers are increasingly implementing 'smart' technology which in turn impacts on the attractiveness and efficiency of new properties and ultimately on investment values.

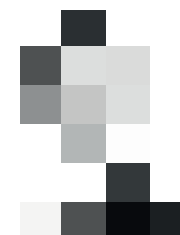
## 9 FOREIGN DIRECT INVESTMENT

Ireland is ranked No. 1 in the world in terms of the total value of Foreign Direct Investment projects, while Dublin has separately been ranked No. 3 overall in the fDi Intelligence European Cities of the Future ranking and No. 1 for Brexit relocation decisions among financial services firms.

Ireland generates substantial inward investment year upon year with strengths in key high-value sectors such as ICT, financial and business services and life sciences. Ireland has become the global technology hub of choice when it comes to attracting the strategic business activities of TMT companies and Dublin has earned the reputation for being the heart of TMT in Europe.

## 10 AN INCREASING ACCESS TO DEBT

With the improving sentiment in the investment market the availability of debt has continued to grow. We are in a relatively low interest rate cycle coupled with tight lending margins as banks look to grow their loan books on a selective basis after years of deleveraging. This has translated into borrowers being able to secure attractive financing terms on core Dublin assets. With city centre properties generally having a stable and diversified income profile there is an increasing number of both local and foreign financial institutions who are offering competitive debt terms.



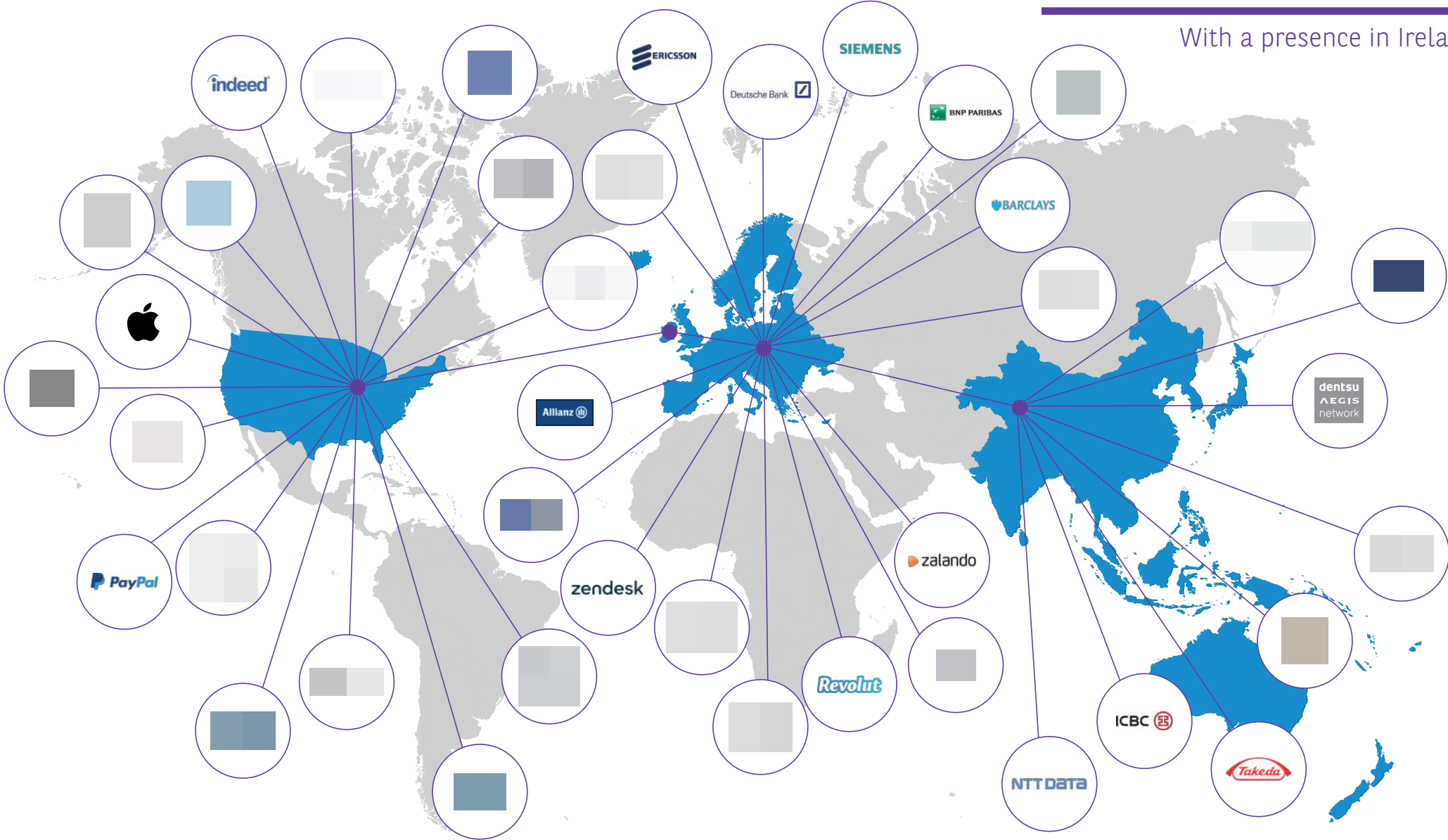
**Damien McCaffrey**

Director, Investment  
BNP Paribas Real Estate Ireland



# CUTTING-EDGE GLOBAL COMPANIES

With a presence in Ireland





# IDA IRELAND: DUBLIN REMAINS THE LOCATION OF CHOICE FOR FOREIGN DIRECT INVESTMENT

“**Dublin continued to absorb a significant amount of Foreign Direct Investment (FDI) in 2019. It is the country's leading city of international scale and remains an attractive place for investors to locate.**”

The FDI performance over the past five years has been unprecedented. Employment levels in IDA Ireland's client companies has now reached 245,096 which is the highest ever number employed in the multinational sector, exceeding targets set by the government contained in IDA Ireland's Strategy, Winning: Foreign Direct Investment 2015-2019.

End of year results published in January show another strong performance in 2019, which saw 250 investments made with 21,844 jobs created in FDI companies in the final year of IDA Ireland's current strategy. The net gain was 13,867 additional jobs.

Dublin shows a remarkable capacity to attract foreign direct investment and has developed an international reputation as a hub for Financial Services and FinTech, Technology and International Operations centres, amongst others. Companies who choose to locate parts of their business in Dublin include its rich and diverse talent pool and the attractive business environment as key factors in their investment decisions.

The success of Dublin in 2019 in attracting mobile foreign direct investment is nothing new in that the capital has regularly represented Ireland's strongest card when it comes to competing for 'hard won' mobile investments in a highly

competitive global environment. Dublin has long since been a location of choice for many multinationals looking to invest and reinvest in Ireland to service the European marketplace.

2019 saw that portfolio further enhanced with significant investments from the likes of LinkedIn, Indeed, Salesforce, LogMeIn, and Facebook to name a few. Dublin's credibility and value proposition for FDI is particularly impressive when you consider the diverse range of projects it wins for 'Ireland Inc.' from a wide range of sectors and activities such as Digital Media, Life Sciences, International Financial Services and Information & Communications Technology (ICT), amongst others.

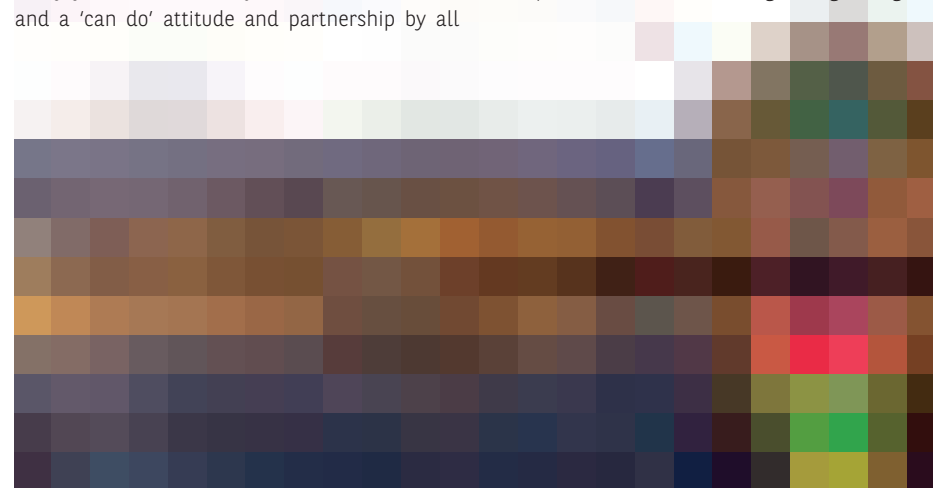
Dublin's track record, particularly in respect of supporting many leading technology companies' EMEA operations (e.g. Google, Facebook and LinkedIn) and attracting the next wave of global technology companies such as HubSpot and Airbnb, has seen parts of the city rebranded as the 'Silicon Docks'. This is an illustration of the hive of activity and vibrancy that these companies have brought to a small part of the city and is regularly referenced in many corporate board rooms all over the world.

It should be noted that the success of Dublin over many years is a result of sustained investment and a 'can do' attitude and partnership by all

stakeholders, both public and private, in respect of education, infrastructure, utilities, enterprise supports and placemaking. Consequently Dublin and its world class business ecosystem often attract the focus and inquisitive glare of competitor jurisdictions and their representatives. In order for the rest of the country to thrive, we must continue to invest in making Dublin a great place to live and work. Other global cities are already doing this and 'placemaking' is becoming a real area of competitive advantage in cities across the world. We must also ensure that there is solid vision for Dublin so that it can continue to act as a magnet for investment.

We must not be complacent however when it comes to sustaining our competitive position and in enhancing our value proposition for the ever complex and evolving needs of FDI. Dublin must continue to lead the way in supporting the next wave of investments in commercial and residential property solutions that meet the needs of mobile investments and their employees.

Investments from the likes of Ronan Group Real Estate (RGRE), Kennedy Wilson, IPUT, Marlet, Ballymore, NAMA and the various REITs active in the Irish market, amongst many others are crucial for future proofing Dublin's capacity and competitiveness in sustaining and growing the

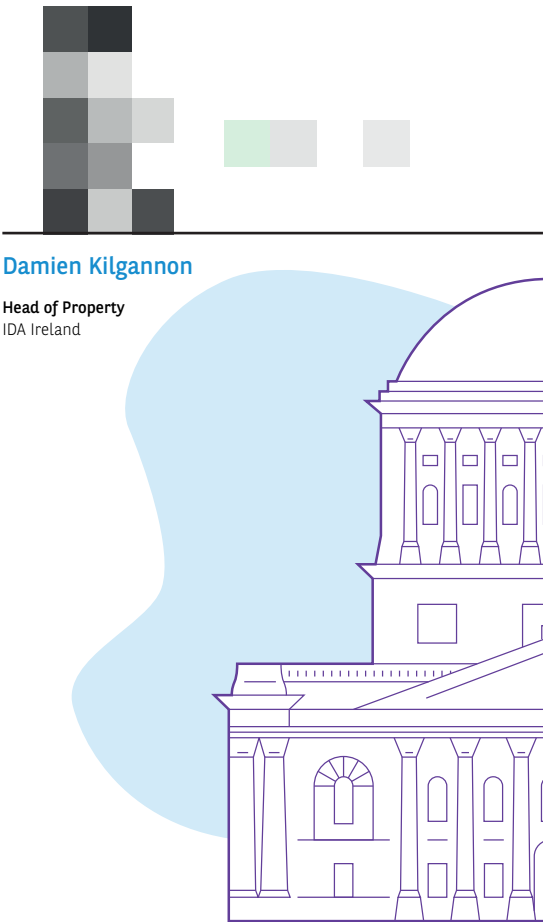


existing base of FDI whilst remaining relevant and competitive in relation to winning new name investment flows as they present themselves. The city and its accessible suburbs are set to undergo something of a transformation over the next number of years with the scale of planned development. It is our collective responsibility to ensure placemaking, sustainability and urban excellence are at the core of every urban development. The successful adoption of the government’s Urban Development and Building Height Guidelines enabling compact growth through height and density in the most appropriate locations is a positive first step in delivering this ambition. The sense of opportunity is everywhere at present in relation to the property market.

Finally, talent remains the biggest driver for IDA client companies in their international investment location decisions. We must be conscious that attracting the right talent is not only a function of the job opportunity itself, but very much a function of the attractiveness of the location in which the job opportunity presents. In this regard it is important to note that the availability of quality and affordable residential accommodation is a key competitiveness factor for FDI.

Our strategy for the period 2020-2024 will be informed by the backdrop of the COVID-19 pandemic and the as yet-to-be fully determined impact it will have on the Irish and global economies and businesses. We had already observed significant downside risk in the marketplace over the next five-year period with those risks emanating from the possibility of an economic correction in key source markets, continued trade tensions, subdued global economic growth and from domestic challenges related to competitiveness and the carrying capacity of the economy.

We were fortunate to have entered 2020 on the back of strong growth. Our value proposition continues to be strong, we are well positioned as a gateway location to Europe and are committed members of the EU. We are business friendly and supportive. Talent continues to be an important asset. Being competitive is more important than ever for our client companies to continue to grow and develop and as Ireland expands its footprint across the globe, seeking out new markets from which to win investment.

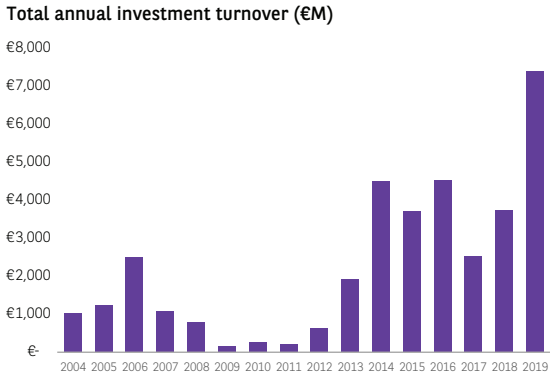


# IRELAND’S INVESTMENT MARKET OVERVIEW 2019

“Several years of strong, sustainable growth, rising employment and wages, and moderate inflation underpin Ireland’s healthy economy. Against this backdrop, the past year has been characterised by record levels of investment in Irish real estate.”

Total investment in Irish commercial real estate (including residential investments) reached a record €7.3 billion in 2019. This total represents an increase of 97% or near-doubling of turnover relative to the previous year and marks the sixth consecutive year in which total turnover exceeded the ten-year average.

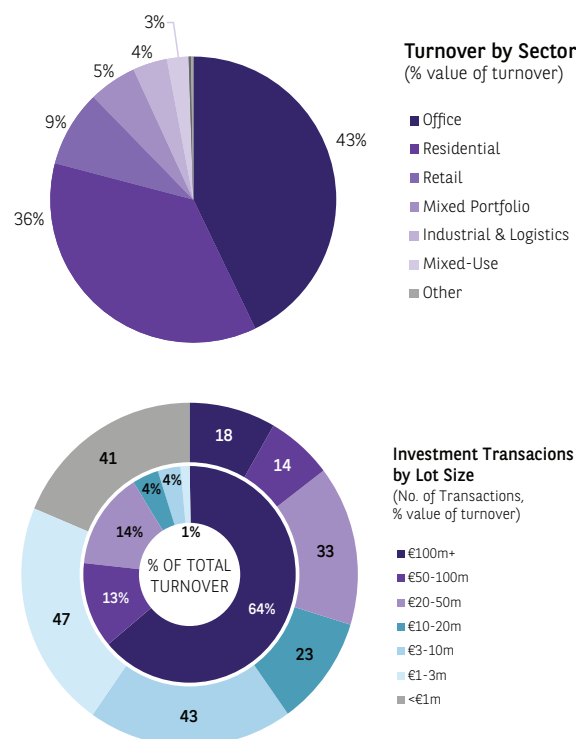
The number of mega-deals (€100m+) continues to increase demonstrating high liquidity in the market with 18 such deals completed during the year accounting for 64% of turnover. This has been driven by strong competition for prime office and PRS assets in particular, from Irish and international investors from an increasingly varied spread of countries.



Source: BNP Paribas Real Estate Research

Dublin remains the most popular location for investment, accounting for €3.2 billion or 88% of total turnover. While there has been less investment in regional locations, it is worth noting that this is a factor of a lack of prime opportunities coming to market as opposed to a lack of interest among investors. We are now seeing a rise in speculative investment in Cork, Galway, Limerick and Waterford which, along with further progress on the government’s Ireland 2040 re-

gional development plans, will provide further opportunities for investors in the coming years.



Source: BNP Paribas Real Estate Research

Turnover for 2019 was boosted by the inclusion of a number of sizeable portfolio sales. These include the sale of the Green REIT portfolio (95% Dublin, 88% office) to Henderson Park for a price in the region of €1.5 billion, and of Starwood's Project Cedar Dublin office portfolio to Blackstone for €530 million.

The largest single-asset transaction of the year was the sale of Five Hanover Quay to German fund Union Investment for €197 million. German investors including Union Investment,

DWS, Patrizia and Deka Immobilien were particularly active in the Irish market in 2019, accounting for more than €1.1 billion or 15% of total turnover. This is a significant increase of 163% relative to 2018 when investment from Germany reached €428 million.

Core CBD office assets maintain their allure, seen as defensive investments with domestic and overseas investors alike competing for best-in-class stock. This is evidenced by recent portfolio sales as well as the high values achieved for prime assets such as Five Hanover Quay and The Reflector. As a result, despite a shift towards residential investment during 2019, the office sector again emerged as the top performer accounting for 43% of total turnover.

The residential sector continued to attract strong interest in 2019 with €2.7 billion invested representing an increase of 128% relative to 2018. This was largely attributable to the forward selling

of PRS blocks however some student accommodation assets also featured. Notable among these was the sale of the 966-bed Point Campus Student Accommodation complex – the largest private student accommodation scheme in Ireland – to German fund DWS for €171 million.

Retail bounced back somewhat in 2019, boosted by the sale of St. Stephen's Green Shopping Centre to Davy for €175.5 million. A total of more than €635 million was invested in retail during 2019 representing an increase of 31% relative to 2018.

We are seeing a notable shift towards the development of more mixed-use assets such as Central Plaza and the Clerys Quarter that comprise retail, office, leisure and residential elements. This diversification of asset types puts an emphasis on 'place-making', which is attractive to investors as it allows schemes to be active at all times, rather than just during the day or night.

The strong growth in investment into Irish real estate is in stark contrast with the situation being experienced in the UK where commercial property investment volumes declined by an estimated 18% annually. Ireland represents a compelling alternative to the UK for overseas investors who are attracted by the underlying strength of the Irish economy and comforted by the fact that Ireland's legal system is similar to those in the US and the UK which facilitates investment.

## OUTLOOK 2020

Irish commercial real estate continued to deliver exceptional returns throughout 2019, against a backdrop of strong political, social and economic fundamentals. We entered 2020 with a confident outlook and, despite the current global challenges related to the COVID-19 pandemic, we believe the fundamentals for real estate investment remain strong.

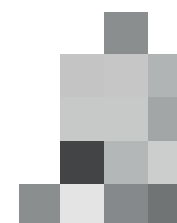
The consensus is that the current period of low interest rates is likely to last, supported by monetary policy, moderate economic growth, low inflation, ongoing risk aversion and the continued abundance of global liquidity. In light of this, a natural gravitation towards investment in real estate is likely to continue with Ireland likely to be a beneficiary of this.

Still, the uncertainty triggered by COVID-19 may lead to the short-term suspension of in-

vestment activity. It is unlikely that Q1 turnover will be impacted to a large extent, as a number of large transactions were carried over from last year which have already completed. However, Q2 should see a notable slowdown in activity, due to the impact of uncertainty which will suspend investment decisions.

It is hoped that, provided the current strict measures are adhered to and the number of cases levels off in the coming weeks, the market will begin to recover towards the end of Q2, leading to a surge in pent up activity by Q3.

Externally, Brexit also continues to pose a threat to the Irish economy which may impact on the investment market. The formal exit took place on January 31st 2020 and we have now entered the transition period in which the UK and the EU negotiate withdrawal terms. The transition period will last until December 31st 2020, but may be extended by up to two years. With no clear consensus on the exact withdrawal agreement as yet, the effects of Brexit on the Irish market remain to be seen. Nevertheless, strong domestic economic fundamentals and the continued attractiveness of Ireland as a place to invest should provide a buffer to some potentially negative impacts.








Kate Ryan






Associate Director  
Head of Research  
BNP Paribas Real Estate Ireland

## SUMMARY OF INVESTMENT SALES – 2019






### TOP 5 OFFICE TRANSACTIONS

PROPERTY	PRICE	YIELD	PURCHASER
 <b>Project Cedar Office Portfolio,</b> Dublin City Centre	€530m	c. 5.0%	Blackstone
 <b>Five Hanover Quay,</b> Dublin 2	€197m	4.1%	Union Investment
 <b>Nova Atria Buildings,</b> Sandymount, Dublin 18	€167m	c. 5.7%	Mapletree
 <b>The Reflector, Hanover Quay,</b> Dublin 2	€155m	4.2%	Deka Immobilien
 <b>Charlemont Exchange,</b> Dublin 2	€145m	4.5%	Vestas Investment Management




### TOP 5 RETAIL TRANSACTIONS

PROPERTY	PRICE	YIELD	PURCHASER
 <b>St. Stephen's Green Shopping Centre,</b> Dublin 2	€175.5m	c. 4.0%	Davy
 <b>Pavilions Shopping Centre (25%),</b> Swords, Co. Dublin	€71m	4.9%	Irish Life Investment Managers
 <b>Mahon Point Retail Park,</b> Cork	€56m	7.0%	IPUT
 <b>Northside Shopping Centre,</b> Coolock, Dublin 17	€49.2m	3.6%	AM Alpha
 <b>7-9 Henry Street,</b> Dublin 1	€44.3m	3.6%	DWS

### TOP 5 RESIDENTIAL TRANSACTIONS

PROPERTY	PRICE	YIELD	PURCHASER
 <b>XVI Portfolio,</b> Dublin	€285m	4.0%	IRES REIT
 <b>Project Vert: 382 units at Elmfield,</b> <b>Leopardstown &amp; Honeypark, Dún</b> <b>Laoghaire, Co. Dublin</b>	€216.1m	c. 3.5%	IRES REIT
 <b>Dublin Landings PRS,</b> North Wall Quay, Dublin 1	€175.5m	4.1%	Greystar
 <b>Point Campus Student Accommodation,</b> Dublin 1	€171m	c. 4.75%	DWS
 <b>214 units at The Fairways,</b> Dún Laoghaire, Co. Dublin	€108m	4.9%	DWS

### TOP 5 INDUSTRIAL & LOGISTICS TRANSACTIONS

PROPERTY	PRICE	YIELD	PURCHASER
 <b>Tesco Distribution Centre,</b> Donabate, Co. Dublin	€160m	c. 4.3%	KTB Investments and Securities & KTB Asset Management
 <b>Compass Portfolio: Units at</b> <b>Greenogue Business Park and</b> <b>North Park, Co. Dublin</b>	€30.8m	5.1%	M7 Real Estate
 <b>Unit at Dublin Airport</b> <b>Logistics Park, Co. Dublin</b>	€18.5m	-	DWS
 <b>Units 4 &amp; 5 Mygan Business</b> <b>Park, Dublin 11</b>	€11.2m	4.8%	Confidential
 <b>Unit 1 Stadium Business</b> <b>Park, Dublin 15</b>	€10.5m	6.5%	Confidential

Note: Large mixed-asset portfolio sales not included.

# DUBLIN'S OFFICE MARKET

“2019 was another exceptional year for the Dublin office market with strong occupier demand and a healthy development pipeline contributing to the total take-up of close to 310,000 sq.m by year-end.”

2019 was the third strongest year on record with take-up again well exceeding the ten-year average. There were 7 'mega-lettings' whose size exceeded 10,000 sq.m. These deals had a significant impact on the market in 2019, accounting for 52% of take-up. The Technology, Multimedia and Telecommunications (TMT) sector was again the top performing sector in 2019 with more than 165,000 sq.m or 53% of total take-up attributable to this sector. The largest TMT lettings were to Salesforce, LinkedIn, Facebook and Amazon, which combined represented 115,397 sq.m or 37% of total take-up.

## RECENT HISTORY

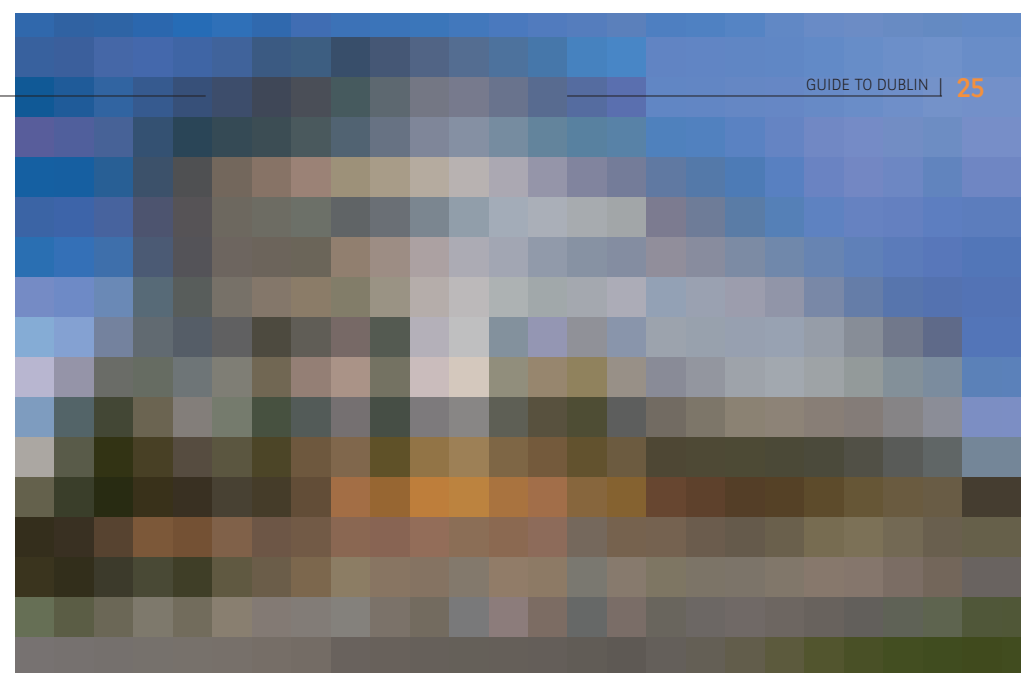
In 2007, all construction activity in the Irish property market ceased almost overnight. The office market was worst affected and prime rents fell from a high of close to €700 per sq.m to as little as €323 per sq.m in 2010 with limited take-up and vacancy rates fluctuating to over 25%. In 2011 / 2012, the market started to emerge from its slumber and demand increased steadily buoyed by favourable take-up from Foreign Direct Investment (FDI) occupiers predominantly.

Despite the surge in demand, limited new office buildings were constructed between 2007 and 2015 in Dublin due to a shortage of development finance and insufficient rental return, causing a massive shift in the landlord's favour. In 2015, office rents increased by 25% in one year alone with continued growth evident ever since.

Since 2015, new development has emerged across the city skyline to alleviate the demand side pressures curtailing the market. Between 2015 and 2019 almost 545,000 sq.m of new or refurbished office space was delivered in Dublin, with the majority (76%) of this space having been delivered in the city centre.

## EMERGING TRENDS AND CURRENT CYCLE

The focus of occupier demand has been largely on the city centre since 2015 but 2018/19 saw strong growth in take-up in city fringe and suburban districts, which accounted for 29% of take-up in 2019. The south suburbs in particular have seen increased activity with global companies including Facebook, Google



South County Office Campus, Sandyford, Dublin 18

and Mastercard now recognising the appeal of well-connected suburban office locations such as the Sandyford Business District where the TMT sector has accounted for 75% of take-up over the past three years. This trend will continue to evolve in 2020 as occupiers seek more cost effective solutions.

Increased occupier demand for office space in non-CBD locations and the availability of well-serviced and well-located land for development has led to increased development activity in city fringe and suburban locations. Key developments delivered or under construction during 2019 include the South County Office Campus (Mr. Cyril McGuire - 28,000 sq.m), Two & Three Dublin Airport Central (Dublin Airport Authority - 20,000 sq.m), Block I Central Park (Green REIT / Henderson Park - 10,000 sq.m), Termini (Aldgate Developments / Starwood - 20,500 sq.m), The Seamark Building, Elm Park (Chartered Land / Starwood - 17,000 sq.m),

Building 9 Cherrywood (Hines - 11,000 sq.m) and Nova Atria South (Blackstone - 16,000 sq.m). Areas close to amenities and on good public transport lines are considered attractive.

## Brexit

Brexit is having an impact on the office market in Dublin in particular with more than 80 companies having announced plans to move to or expand within Dublin since the 2016 vote. BNP Paribas Real Estate have been tracking letting activity among these companies and note that more than 30,000 sq.m has been leased to firms including JP Morgan, Aptiv, Coinbase and Bank of America since the vote. In Q3 2019 UK law firm DLA Piper signed a lease for a new office in Dublin 2. DLA Piper follow other UK-based law firms Pinsent Masons, Fieldfisher and Simmons & Simmons who have also set up new bases here in recent years. Ireland has emerged as an attractive option for such firms

in light of Brexit thanks to its common law and English-language legal system.

The current tech boom in Dublin is also likely to be in part linked to Brexit with US multinationals expanding rapidly in Ireland rather than in the UK with a view to retaining access to European markets and talent.

### Serviced Offices

The serviced office or co-working sector continues to have a visible impact on the Dublin office market with existing operators including We-Work and Iconic Offices as well as new entrants Knotel leasing a combined 8,287 sq.m during 2019. This is a marked decline relative to 2018 which saw more than 40,000 sq.m leased to such companies. In total, serviced office providers now occupy more than 120,000 sq.m across Dublin with a number of further deals in progress. So, despite substantial doubts over the co-working model during 2019, this buoyant market trend looks set to last.

The role of the serviced office sector is notable in relation to Brexit with many of the Brexit movers we have identified currently operating out of serviced offices across the city. This is a trend that is likely to continue with many companies opting to take flexible office space to set up their Irish operations before committing to a longer lease.

### RENTS AND LEASE TERMS

Overall the office sector has seen the strongest rental recovery of all asset classes with rental values currently at a level that has now surpassed the previous peak according to MSCI data. Prime CBD office rents remain in the region of €670 per sq.m with moderate rental growth expected in 2020 as new supply becomes avail-

able. Rental levels in excess of these figures will be achieved in certain instances where occupiers lease premium penthouse suites or can avail of attractive lease flexibility and existing quality fit-outs. Inducements by way of rent free are standard and are generally between 6-9 months for standard lettings in CBD and 12 months upwards for prime suburban offices.

Total take-up 2019:

**309,847M<sup>2</sup>**

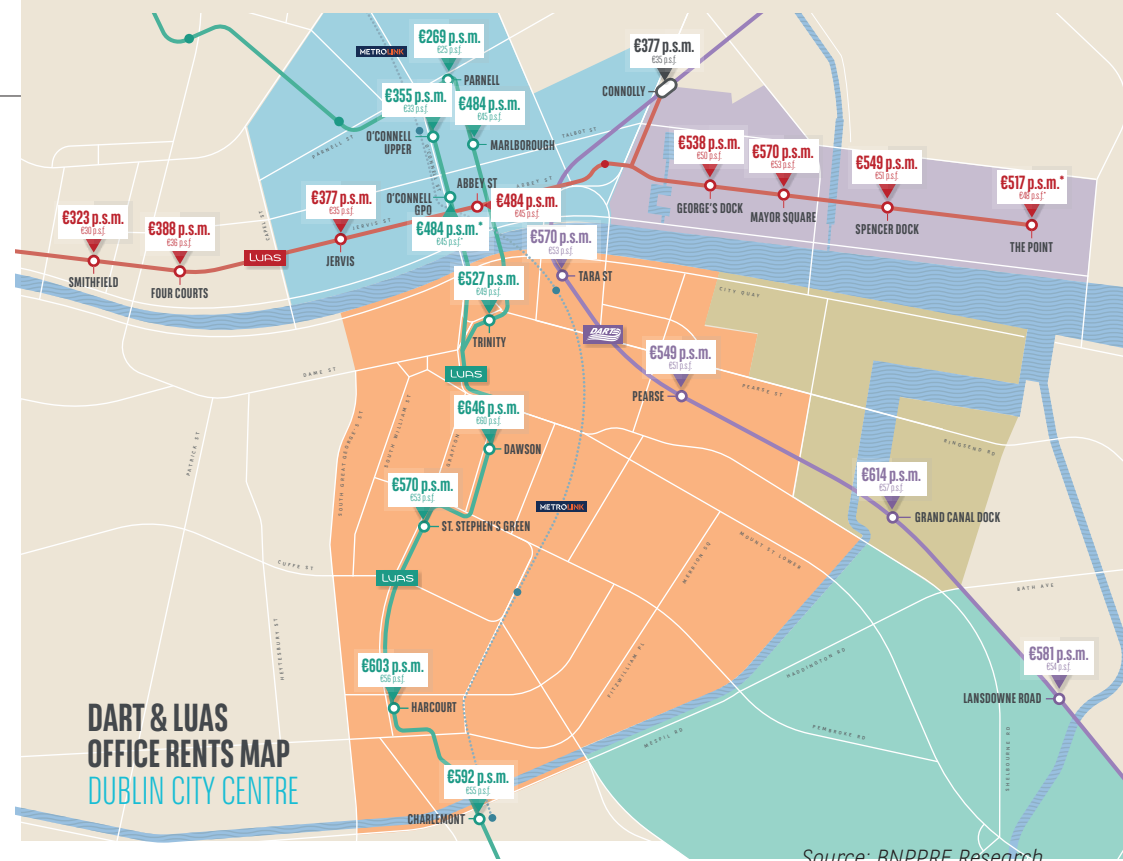
Prime rents 2019:

**€670/M<sup>2</sup>**

The BNP Paribas Real Estate Dart & Luas Office Rental Price Map<sup>1</sup> charts average rental levels 2017-2019 along the various public transport lines in Dublin. This map aims to demonstrate the spread between headline rents achieved in prime CBD locations (with the most prime location being in the Dawson Street area) vis-à-vis those being achieved in other parts of Dublin. Rents in city fringe and suburban locations are lower but are rising while CBD rents remain stable as occupiers move away from the city centre locations, attracted by the delivery of modern office accommodation, improved accessibility and access to talent pools.

Typical lease terms in the current market are 15-20 years with the earliest breaks for new Grade A developments achievable at year 10. Suburban office space can generally expect to achieve break options closer to year 10 and perhaps sooner for secondary office space. Breaks are usually subject to certain conditions

<sup>1</sup> DART and LUAS are light rail services operating in Dublin. City centre figures are calculated on the basis of net internal area (NIA), while suburban rents are based on the gross internal area (GIA), as per market norms.



Source: BNP Paribas Research

including a standard 12 month notice period. In many cases, a rental penalty may be a condition of the break option particularly in the city centre. Inducements by way of rent free periods are standard and are generally between 6-9 months for standard lettings in the CBD and 12 months upwards for prime suburban offices.

Upward only rent reviews were prohibited in leases which commenced after the 28th February 2010. Rent reviews, where they are set out in leases from February 2010, are to the market rent on an open market basis (i.e. upwards or downwards). Rent reviews are usually every 5 years. The new rent may be agreed between the landlord and tenant (or respective representatives) and is based primarily on comparable market lettings. The emergence of CPI linked rent reviews and % cap and collar mechanisms particularly at year 5 has emerged in to the of-

fice market and are becoming more commonplace. In default of agreement there is a provision in the lease for referral to third party and the lease will dictate whether an arbitrator or independent expert will be elected to set the new rent.

On the basis that tenants occupy premises for a period in excess of 5 years, they have an automatic right of renewal by law on expiry of the lease and can apply for a new lease of 20 years or such lesser term as a tenant may nominate. It will not however be fixed for a period of less than 5 years without the landlords agreement. Under recent legislation, all tenants of commercial premises can contract out of their statutory right of renewal providing greater flexibility to landlords and tenants when negotiating the terms of the lease.



## SUPPLY

Close to 220,000 sq.m of office space was delivered in 2019, bringing total office stock in Dublin to more than 4.2 million sq.m by year-end. Construction is underway on a further 310,000 sq.m of space due for delivery during 2020. Of this total, almost 50% is pre-committed which further underpins the strength of tenant demand in the Dublin market. This means that despite the significant levels of stock under construction, strong demand for office space and the potential for further growth thanks to rapid TMT expansion and Brexit relocations mean Dublin is unlikely to see an oversupply of office stock any time soon. Despite this, new office development activity has slowed somewhat over the past year with less speculative projects moving on site.

Development during the 2015-2018 period was concentrated around the city centre, with more than 90% of all space delivered in 2018 being located in Dublin 1, 2 or 4, largely around the North and South Docks. This is consistent with the pattern of demand with more than 70% of take-up occurring in the city centre. Nevertheless, as with demand for space and take-up, and as a result of almost all of the prime city centre development sites being accounted for, development began to move out of the city in recent years with close to 40% of the space delivered during 2019 located in city fringe and suburban locations.

## OUTLOOK 2020

Recruitment is becoming an increasingly important consideration for occupiers and many TMT occupiers are using their real estate to attract and retain staff in a very competitive environment. We are now seeing a shift towards offices and campus-style developments

being developed with the end user in mind. This means that leasing negotiations can commence earlier than they otherwise would have and allows the occupier to collaborate with the developer throughout the design and construction process. In addition, securing a blue-chip tenant cements the eventual investment value of the asset with overseas purchasers in particular attracted by the secure and stable long-term income on offer.

There is a growing emphasis on green initiatives and smart technology within buildings, particularly among global technology and finance operators. These occupiers are attracted by the potential to build a community and scale up quickly and easily without disrupting staff. BNP Paribas Real Estate see this as a growing trend. Similarly, we see the refurbishment and repurposing of properties across all sectors as a growing trend for 2020. This will be particularly relevant for the office market in light of sustainability strategies with older stock requiring substantial retrofitting in order to remain attractive to increasingly 'green-minded' occupiers.

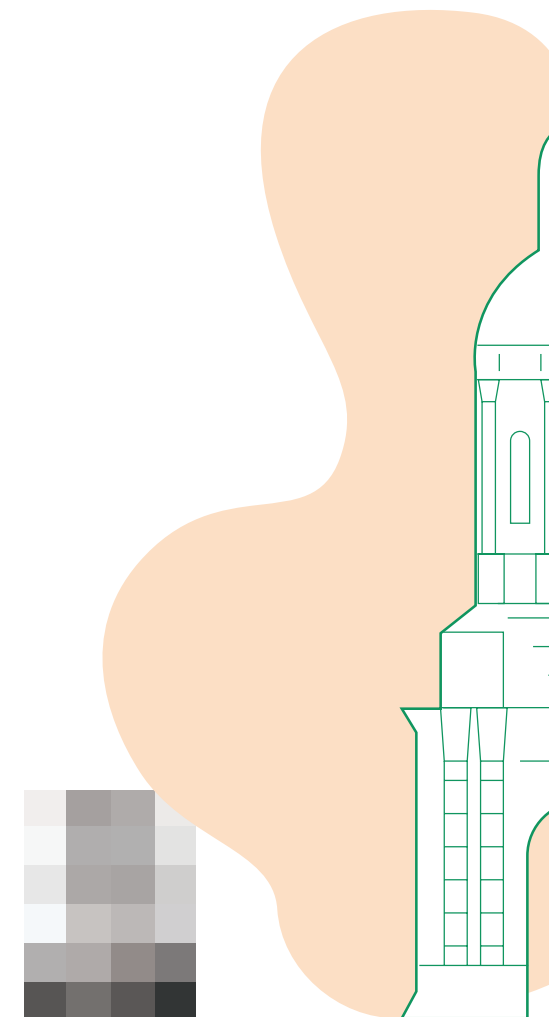
With a significant quantum of new office supply under construction, the Dublin office market is expected to function at much more sustainable levels going forward, allowing occupiers reasonable choice, developers viable margins and informed investors competitive returns. The high levels of pre-letting activity on newly delivered office stock has led to a significant tightening of supply in city centre locations, in particular Dublin 1, 2 and 4. With a large proportion all of the city centre development pipeline for 2020 already pre-committed, supply shortages will push occupiers with large size requirements to city fringe or prime suburban locations this year. Similar shortages of space are now being seen in suburban location with

occupiers such as Google, Facebook and Mastercard taking large amounts of space in the south suburbs in particular during 2019. Nevertheless, in contrast with the CBD, several large development sites remain active in the suburbs to service continued growth in demand. We expect rent levels for prime suburban office developments to continue to increase for this reason.

The forecast for the Dublin office market remains positive. Foreign Direct Investment, largely from North America but increasingly from the UK and other European locations, remains a key driver of demand, while Indigenous growth and Brexit-related activity will further support take-up in 2020 and beyond.

It is difficult at this point to predict the impact that the current COVID-19 pandemic will have on the office market. We expect office take-up for Q1 2020 to be particularly strong, above 100,000 sq.m, thanks to the inclusion of a number of large transactions which were carried over from Q4 2019. However, the restriction of movement and closure of non-essential businesses is likely to impact negatively on Q2 take-up with many companies suspending leasing transactions until the situation becomes more clear.

On a broader scale, a large scale 'work from home' experiment has been unexpectedly triggered which may impact the occupier market in the longer term. On one hand this may prompt companies to reconsider prior reservations in relation to flexible working arrangements, leading to a decline in the amount of space needed. On the other, it may reinforce the value of the physical office and the benefits associated with a shared workspace. Time will tell.



**Keith O'Neill**

Executive Director  
Head of Office Agency  
BNP Paribas Real Estate Ireland



## DUBLIN OFFICE MARKET – KEY DISTRICTS

The Dublin office market provides in excess of 4 million sq.m of office space and can be divided in to the following key districts

DISTRICT	RENT / SQ.M	COMMENT
Prime CBD	€570-700	The traditional central business district (CBD) is the most historic and sought after location within the city. The district surrounds St. Stephen's Green and the main shopping hub of Grafton Street in Dublin 2. Office space in this area is at a premium and in high
South Docks	€610	Emerged in the early 2000s as an alternative to the traditional CBD and at first attracted major legal firms but since has become the location of choice for the TMT sector. This is the part of the city that is most active in terms of new activity and take-up.
North Docks & IFSC	€570	Dublin's earliest docklands regeneration scheme led to the development of the International Financial Services Centre (IFSC) in the early 1990s. The IFSC is home to some of the world's most important financial institutions. Since the early 2000s developments have continued beyond the IFSC and eastwards along the North Docks.
Ballsbridge / Dublin 4	€580	Dublin 4 largely provides high-end residential accommodation with a growing commercial district largely centered around Ballsbridge. This is an affluent part of town with growing appeal and increasing levels of construction activity.
North Suburbs	€250-355	Home to the city's airport, this part of Dublin is seeing increased levels of activity. The new development at Dublin Airport Central and the planned Metro North rail line are likely to be the catalyst for further new development.
South Suburbs	€250-320	The most established "out-of-town" location for occupiers, it has seen notable take-up in the last 18 months and continues to see considerable demand as occupiers identify cheaper alternatives to the city.
West Suburbs	€120-240	Office locations in the southwest suburbs of Dublin, largely concentrated around Citywest and Tallaght in Dublin 24. These are further from the city but the LUAS Red Line provides connectivity to the city centre. The large amount of residential development activity as well as plans for a major extension at The Square Shopping Centre in Tallaght may encourage further development in the coming years.

# DUBLIN'S RETAIL MARKET

Dublin with a vibrant, young and cosmopolitan population is Ireland's capital city and the primary retail destination. Approximately 1.9 million people live in the Greater Dublin Area with this figure set to grow to 2.2 million by 2031.

At the beginning of 2020 the outlook for the retail market was extremely positive. While the retail sector may have been undergoing a well-documented structural shift, the consumer economy was in a healthy place with just about every measurable KPI looking favourable. This coupled with a well-documented undersupply of prime retail property, a legacy of underdevelopment following the 'Noughties' recession, meant that retailers in almost all sectors were performing well.

Events of recent weeks following the global outbreak of COVID-19 have caused enormous disruption for Irish consumers and retailers alike. This was particularly pronounced in the F&B and leisure sectors which were hit immediately by restrictions on movement and tourism. Cafés and restaurants have moved to take-away only, while non-essential businesses were told to close. Supermarkets and pharmacies are trading strongly and online grocery delivery services are also experiencing high demand. What has become very clear is that the omni-channel approach to retailing is more important than ever with retailers who have em-

braced this model likely to benefit most from a move to online retailing during this period.

We have already seen short-term impacts on economic growth and business activity with store closures leading to widespread job losses. On this point, the government have made great efforts to assist those affected and it is hoped that in many cases the impact will only be temporary. Long-term consequences are still unknown, however the current consensus amongst economic commentators is that a rebound in the global economy will commence in H2 2020.

When the clouds disperse on COVID-19, other realities such as Brexit will need to be met head on by retailers. This chapter will outline the dynamics of the Dublin retail market, which are evolving alongside consumer behaviours and needs and in keeping with a modern, vibrant European capital.

## DUBLIN CITY CENTRE RETAIL

Dublin has a relatively small in-town retail offer primarily focused in the immediate environs of two pedestrianised streets; Grafton Street south of the River Liffey and Henry / Mary Street on its north side. Unlike many other European capital cities, Dublin does not have a defined or recognized 'luxury' retail Street with many up-

market retail brands to date remaining content to trade as concessions within Brown Thomas.



### Grafton Street and Environs

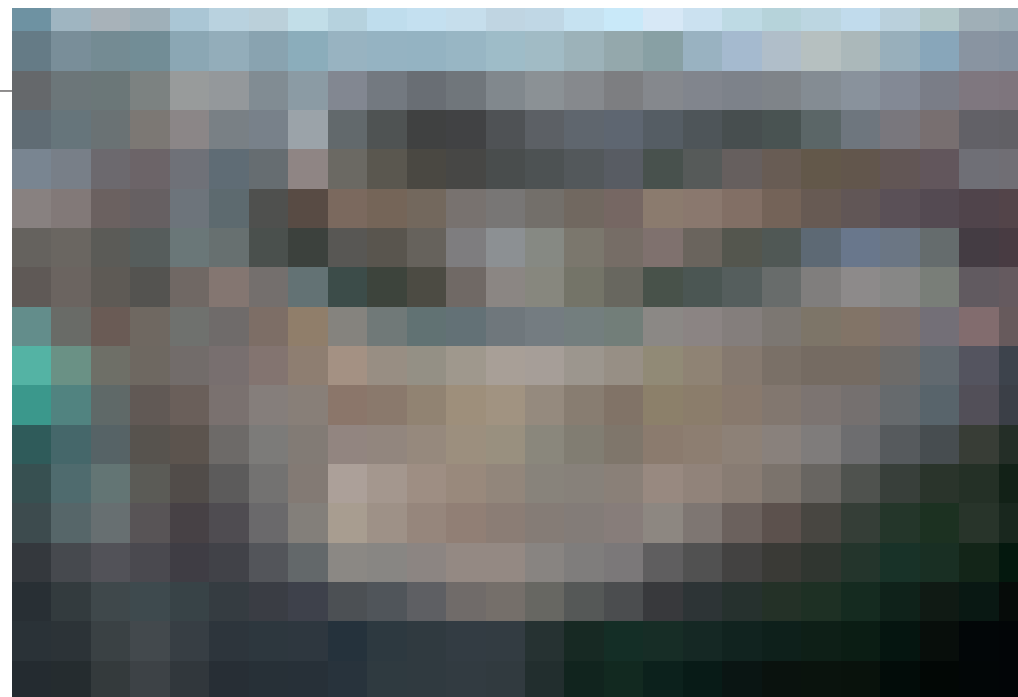
Located on the south side of the River Liffey, Grafton Street is a 515 metre long pedestrianised street and Ireland's highest profile and most sought-after high street retail location. The street is home to 90 retail units with a combined retail area of over 34,000 sq.m. The major occupiers on the street are the upmarket department store Brown Thomas and M&S who trade directly opposite one another. The iconic Bewley's Café represents a key attraction and focal point on the street. The tenant line up has been reinvigorated with the recent arrival of a host of international retailers including The White Company, Rituals and The North Face. Unlike many other European capital cities, Dublin does not have a defined or recognised 'luxury' retail pitch with many of the upmarket retail brands to date remaining content to trade as concessions within Brown Thomas.

There are a number of complementary streets intersecting with or running parallel to Grafton Street. Dawson and Nassau Street in particular have become more important in the retail hierarchy given the launch of the new LUAS line and the substantial development activity taking place in the area. St. Stephen's Green Shopping Centre, which was developed in 1988, is the only enclosed shopping mall on Grafton Street. The shopping centre was in joint ownership until 2019, when the entire was acquired by Davy for more than €175 million. With the centre now under sole ownership it is likely that plans for its redevelopment will progress.

### Henry Street and Environs

Henry Street on the north side of the city centre perceived to be less upmarket than Grafton Street and more mass market. Mary Street, an extension of Henry Street, was considered secondary to Henry Street until the Jervis Shopping Centre opened in 1996. Today the two streets are seen as one long pedestrianised high street which act as the principal retail thoroughfare on the north side of the city. Henry / Mary Street is approximately 450 metres long, bounded by O'Connell Street to the east and Jervis Street to the west. There are 62 retail units on the street, less than the 90 units on Grafton Street, however the units are larger with ground floor areas (not including department stores) averaging 187 sq.m compared with an average of 132 sq.m on Grafton Street.

A notable feature of Henry / Mary Street is the number of department stores. There are five department stores on the street – Arnotts, Dunnes Stores, Debenhams, Marks & Spencer and Penneys (Primark) – with a combined retail area of almost 55,000 sq.m or 67% of the total retail area on the street. This compares with just two department stores on Grafton Street



*Grafton Place, Dublin 2*

whose combined retail area represents 45% of the total. The Penneys store which doubles as its global HQ is also believed to be their busiest outlet in Ireland.

Henry Street houses two enclosed shopping schemes, Jervis Centre, which opened in 1996, and the Ilac Centre which was originally developed in 1981 has recently been substantially refurbished. The long planned 'Dublin Central' development site is located immediately adjoining. If and when this scheme gets off the ground it will improve the attractiveness of both the Ilac & the general Henry / Mary Street retailing precinct.

### Dublin City Centre Development Pipeline

Significant regeneration is also taking place in the form of major mixed-use developments either under construction or in planning.

On the south side there are two developments planned which should go some way to address-

ing the extremely limited of supply of larger retail floor plates in the south city centre and also units capable of accommodating the extensive demand from established or prospective F&B operators seeking a city centre presence.

Construction and leasing is progressing on the redevelopment of Central Plaza (former Central Bank HQ) on Dame Street which will include some 3,270 sq.m of retail and 1,460 sq.m. of F&B space along with 8 floors of office space on completion. This development will link the prime Grafton Street retail pitch with Temple Bar, Dublin's most important leisure and tourist destination, a location with many similarities to London's Covent Garden.

Developers Meyer Bergman and BCP are also constructing a major retail and office development on the corner of Dawson and Nassau Street which will deliver a total of 7,728 sq.m of retail space. The landmark scheme, which is expected to become a natural extension of the Grafton Street shopping precinct, will be

known as 'Grafton Place' and is due for completion in 2022.

Over on the north side, construction is ongoing on the redevelopment by new owners Europa Capital, Oakmount and Core Capital of the former Clerys department store, now known as the 'Clerys Quarter'. This scheme is set to incorporate a significant retail element alongside office, hotel and leisure uses. Hammerson's Dublin Central site on O'Connell Street represents an unrivalled opportunity to provide the first major retail scheme in Dublin City Centre since 1996. Hammerson have engaged an architect and are believed to be examining various development options, however a new planning application has yet to be submitted. This development has the potential to transform the city landscape, delivering a significant volume of retail space, along with a complementary mix of leisure, residential and offices across the vast 2.1 hectare site.

This year has seen the continuation of a strong leisure and food & beverage market. Permission has also been granted for the development of a new boutique Everyman Cinema on Dawson Street which will be the only cinema on the south side. This can only be positive for Dublin's prime high streets, increasing the attractiveness of the city centre as a leisure destination.

#### Dublin City Centre Rental Outlook

Rental levels on Grafton and Henry / Mary Street peaked in 2008 with the Grafton Street Zone A rental tone exceeding €8,000 per sq.m and rents on Henry / Mary Street reaching close to €6,000 per sq.m. Following this, rents fell sharply during the recession, bottoming out at €2,500-€3,500 per sq.m before slowly beginning to increase again from 2012 onwards. As of mid-2013, Zone A rents on Grafton Street stood at €3,390 per sq.m. This was followed by strong

growth with Zone A rents rising to €4,800 per sq.m by 2015.

Prime headline Zone A rents on Grafton Street have now reached €7,000 for the few larger, well-configured units and just under €6,000 for standard units, while rents on Henry / Mary Street have now reached €4,800 per sq.m. Rents stabilised during 2019 thanks to ongoing external uncertainty as well as a lack of appropriately sized units, however once the new supply comes on stream we expect that this will command higher rents due to pent up demand.

#### **DUBLIN OUT OF TOWN RETAIL**

Five large out of town retail schemes account for more than 40% of all Dublin shopping centre supply.

- 1 The Blanchardstown Centre** – Blackstone / Multi Corporation (111,480 sq.m)
- 2 Dundrum Town Centre** – Hammerson / Allianz (120,000 sq.m)
- 3 Pavilions Shopping Centre Swords** – Hammerson / Irish Life (45,500 sq.m)
- 4 Liffey Valley Shopping Centre** – BVK (71,379 sq.m)
- 5 The Square Shopping Centre** – Tallaght – TIO / Oaktree (53,652 sq.m)

#### The Blanchardstown Centre, Dublin 15

This is the largest overall shopping scheme in Ireland when the adjoining retail park and leisure space is included. It opened in 1996 and the core shopping centre comprises over 59,000 sq.m anchored by Dunnes Stores, Debenhams, Primark and M&S. It was acquired by Blackstone in 2016 for close to €950 million representing the largest single property transaction ever in the Irish market. While not perceived



as being as upmarket as Dundrum its South-side counterpart it draws from a wide catchment and is a hugely popular destination for retailers and continually operates at near 100% occupancy. Three extensions (Central Mall, Blue Mall & Red Mall) are advanced at the Centre with pre-letting agreed with a range of occupiers including Hollister, Mango, Cosmo, Aldi, Natuzzi, and Insomnia.

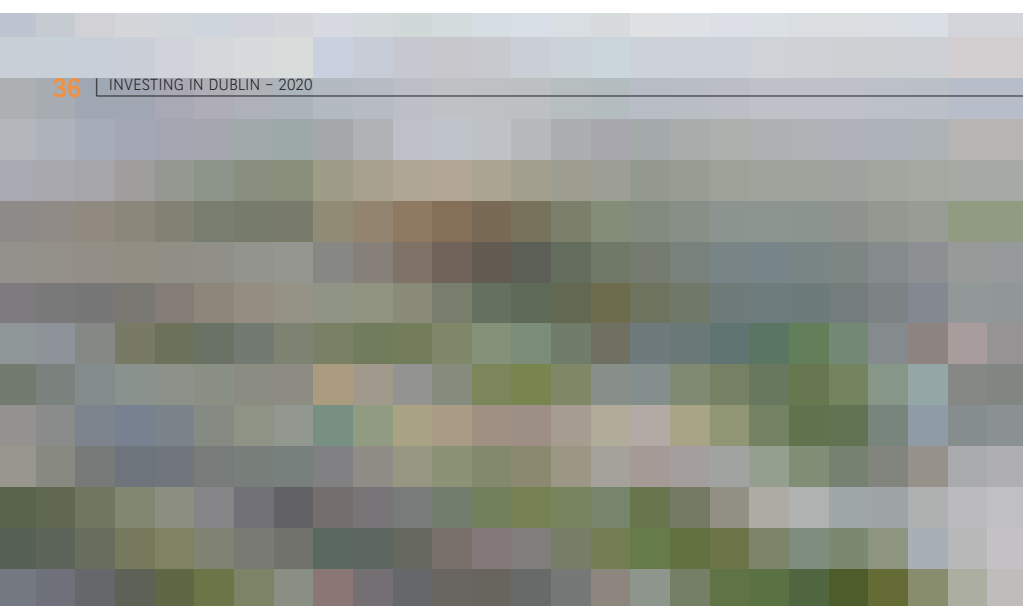
#### Dundrum Town Centre, Dublin 14

This is located in an affluent south Dublin suburb on the LUAS light rail line and opened in 2005. It has arguably the best tenant mix of any shopping scheme in Ireland with a line up including Penneys (Primark), M&S, Harvey Nichols and Hollister. The scheme also includes a large and successful range of complementary restaurant occupiers. A new dining and leisure area is currently under construction at the scheme with further new F&B tenants lined up and due to open this year. Planning which was previously received for a second phase has

now lapsed and a fresh planning application is expected. House of Fraser, which has been the major department store in the centre since it opened in 2005, is set to vacate its premises in the coming months. Two floors of the former House of Fraser unit will be occupied by Brown Thomas, who will open a flagship store in Dundrum in 2021. Penneys are reported to be in advanced discussions to move from their current unit to occupy the remaining two floors.

#### Pavilions Shopping Centre, Swords, Co. Dublin

This is located in Swords in North County Dublin. It originally opened in 2001 and was extended in 2006 with cinemas and additional retail including Zara. It is anchored by Dunnes Stores and SuperValu and includes Next, River Island, H&M and Mango in its line-up. We expect that previous plans to extend are being revisited following the acquisition by Irish Life of a 25% stake in the scheme during 2019. The scheme is now jointly owned by Irish Life and Hammerson.



Q3 at The Park, Carrickmines, Dublin 18

### [Liffey Valley Shopping Centre, Dublin 22](#)

This is located on the M50 at the junction with the N4 and opened in 1997. It is anchored by M&S and Dunnes Stores. It has historically suffered somewhat due to its proximity to the much larger Blanchardstown Centre and lack of critical mass. However with both Penneys and Tesco having opened new outlets in recent times this gap is narrowing. Planning permission was refused in 2017 for an additional 22,000 sq.m and the owners are expected to make a fresh application.

### [The Square Shopping Centre, Tallaght, Dublin 24](#)

This was Ireland's first regional scale town centre scheme which opened in 1990. The scheme is anchored by Dunnes Stores, Tesco and Debenhams department store. Other major occupiers include H&M, River Island and Boots. The current customer base is more local rather than regional. Set over three trading levels, the layout can prove a little confusing at times. The scheme was acquired by TIO / Oaktree in late-2017 with plans for its redevelopment now pro-

gressing. This will involve the addition of more than 21,500 sq.m across a range of retail and F&B units along with internal and external re-configurations. The extension has the potential to bring new life to the scheme which is located in one of Dublin's largest suburbs.

The above are all located on or close by the M50 orbital motorway and all had or have live planning permissions to extend. By far, the two most dominant schemes are The Blanchardstown Centre in the northwest of Dublin and Dundrum Town Centre in south Dublin. A sixth major out of town scheme is planned by Hines at lands at Cherrywood set to provide up to 53,550 sq.m of new retail and leisure accommodation with a smaller 30,000 sq.m hybrid retail development planned by IPUT adjacent to the highly successful retail parks at The Park, Carrickmines.

## PRINCIPAL RETAIL PARKS

The first retail park opened in Ireland in 1990. After a slow start the sector took off and there are now fourteen principal retail parks in Dublin with a total floor area of close to 250,000



Main retail parks in Dublin

sq.m. Overall vacancy rates are currently below 2% with ten of the principal schemes operating at 100% occupancy. Rental growth will continue to feature in this sector in the short to medium term with sales of household goods continuing to outperform all other sectors.

The five largest retail parks account for more than 60% of total retail warehousing supply in Dublin. These are:

- 1 **Blanchardstown Retail Parks** – Blackstone / Multi Corporation (36,388 sq.m)
- 2 **Airside Retail Park** – Irish Life / IPUT / Albany Homes (34,617 sq.m)
- 3 **The Park, Carrickmines** – IPUT (30,934 sq.m)
- 4 **Liffey Valley Retail Park** – Eircom Pension Fund / InTrust (25,842 sq.m)
- 5 **Westend Retail Park** – DWS (18,782 sq.m)

### [Blanchardstown Retail Parks, Dublin 15](#)

The retail parks forming part of the overall Blanchardstown shopping complex provide the

largest concentration of retail park space in Ireland along with the most impressive tenant mix. The first phase at Blanchardstown Retail Park (Retail Park 1) was completed in 1997 with the launch of seven retail warehousing units. Retail Park 2 was delivered in 1999 with a further thirteen retail warehousing units and an ancillary coffee pod unit. An extension to Retail Park 2 was completed in 2007 adding a further four units. In total, the Blanchardstown Retail Parks are home to 24 retail warehousing units and one ancillary unit with a total GLA of 36,388 sq.m. Major occupiers include Woodie's DIY, Harvey Norman and Currys PC World.

### [Airside Retail Park, Swords, Co. Dublin](#)

This is located in Swords, north Dublin close to the airport. It is the largest stand-alone retail park scheme in Ireland, extending to close to 35,000 sq.m. Unlike its principal counterparts the uses are restricted to 'Bulky Goods' and no 'Open Use' (i.e. fashion etc.) retailers are permitted. Phase One opened in 2001 with nine units and a further seven units were delivered

as part of Phase Two in 2005. Major occupiers include B&Q, Woodies, Harvey Norman, PC World and Smyths Toys.

[The Park, Carrickmines, Dublin 18](#)

This scheme is located in the affluent South Dublin and is the dominant scheme in the catchment area. It was built in two phases with part of Phase Two having permission for ‘open use’ retailing. TK Maxx, Mothercare, IKEA, Harvey Norman, Lifestyle Sports and Next Home are among the current occupiers. Owners IPUT received planning permission in 2019 develop out an adjoining 7.7 hectare (18 acre) site known as Q3. The proposed new design-led development will comprise 11,154 sq.m of retail warehousing space, alongside neighbourhood retail, food & beverage outlets, leisure & entertainment space including a 7-screen cinema and additional office and residential uses.

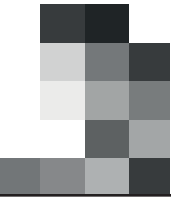
[Liffey Valley Retail Park, Clondalkin, Dublin 22](#)

Liffey Valley Retail Park or ‘The Retail Park, Liffey Valley’ is located in West Dublin with easy access from the M50 motorway. Although under separate ownership, it forms part of the overall Liffey Valley Shopping Centre retail offer. The park was developed in 2000 and there are two elements to the scheme. The first comprises a stand-alone B&Q store with a gross floor area of close to 10,000 sq.m. This is the largest individual retail park unit in Dublin. The second element is an adjoining parade of twelve retail warehousing units and one ancillary unit with a total GLA of 15,859 sq.m. Decathlon are expected to open a unit in the park, subject to receipt of planning permission.

[Westend Retail Park, Blanchardstown, Dublin 15](#)

Although under separate ownership, Westend Retail Park immediately adjoins The Blanchardstown Centre and forms part of the overall retail offer. The park opened in 2001 and is currently fully occupied. There are sixteen retail warehousing units at the scheme and a further three ancillary units bringing total retail space to 18,782 sq.m. The park is zoned Town Centre and is often referred to as a ‘shopping park’ despite being predominantly retail warehousing units. It has full open use consent and with no DIY anchor, it is the closest Ireland has to a dedicated fashion park. Occupiers include Next, New Look, GAP and Nike.

RECENT NEW ENTRANTS TO THE IRISH RETAIL MARKET	
LEON	Decathlon
Jysk	The White Company
Oliver Bonas	Rituals
Lindt	Ace & Tate
FAO Schwarz	Le Pain Quotidien
Karl Lagerfeld	Hotel Chocolat



Eoin Feeney

Deputy Managing Director  
Head of Retail Agency  
BNP Paribas Real Estate Ireland

# LAND & DEVELOPMENT

“Robust occupier market fundamentals and high levels of construction activity across all sectors made 2019 another strong year for the Irish development market.”

The opportunities for real estate development in Ireland remain very favourable given the country’s established status as a socially, politically and economically stable place to live, work and invest. Robust occupier market fundamentals and high levels of construction activity across all sectors made 2019 another record year for the Irish development market. The development land market performed very strongly in terms of transaction values and volumes in 2019, with turnover of approximately €1.2 billion. This was despite Brexit which had a pausing effect on the market during 2019 as developers considered the potential economic impact this may have on Ireland.

MARKET DYNAMICS

Like in 2018, the residential sector dominated the development market in 2019 largely driven by activity in Dublin. A total of 21,241 residential units were delivered across Ireland during 2019 representing an increase of 18% relative to 2018. However, the housing market in par-

ticular continues to suffer from a lack of supply with Ireland producing approximately half of the 40,000 units required to meet the prevailing housing shortage, a challenge which is likely to continue in the short to medium term, and remain a key part of government housing policy. The market has tried to address this through PRS and alternative residential sectors such as co-living and student accommodation with keen demand for development sites in these sub-sectors.

The ESRI has estimated that by 2040 the national population will increase to 5.6 million people, at which stage an estimated 42% of the population are estimated to be living in Dublin and its 3 surrounding counties of Kildare, Meath and Wicklow

Acute supply shortages and rising investor demand, along with a rise in the amount of people renting for various reasons, have led to a significant rise in the number of apartments being constructed across the country. 3,644



apartments were delivered during 2019 representing an increase of 60% relative to 2018. This momentum in apartment construction is showing no sign of abating with planning permission granted for 12,923 apartments during the first nine months of 2019 representing an increase of 87% year-on-year. This compares with a decline of 6% in the number of houses granted planning permission during the same period.

The PRS sector continues to dominate the development market, as this asset class has become more and more attractive to institutional investors looking to diversify portfolio returns and risk. Similarly, there is very strong demand for CBD office development sites, driven by continuing occupier demand in a sector that has seen record take-up levels, rents and yields in recent years.

There has been a stabilisation in rental and house price growth rates which should help create a more sustainable market as prices and rents align more with earnings and affordability. A combination of this and increased construction cost inflation has slowed down the delivery of development projects. Construction cost inflation, in particular, has continued to increase at rates of approximately 7-9% per annum, presenting a significant challenge for developers to deliver projects, prompting an emerging trend towards modular construction in an effort to offset this.

While its application has been questioned, the government's introduction of a Vacant Site Levy on development land has depressed prices for sites which have been put on the Vacant Site Register, also serving as a motivator for land owners to sell.

## NOTABLE DEALS

### Former DIT Kevin Street Campus, Dublin 2

A 1.4 hectare site located 400m from Stephen's Green, this was acquired by Westridge Real Estate backed by global institutional investor York Capital for a reported €140 million in 2019. A feasibility study prepared for the sale suggests it is capable of accommodating up to 53,000 sq.m of commercial space. The sale followed a highly competitive bidding process which is understood to have included Tier 1 developers such as Ronan Group, Chartered Land and Ballymore.

### Cherrywood

Lone Star / Quintain are understood to have acquired a 48.5 hectare site in Cherrywood, South Dublin for a price in excess of €120m from Hines and King Street Capital. The site is understood to have potential for the development of over 3,000 residential units. Quintain entered the Irish market in 2019 with plans to develop 9,000 homes and more than 50,000 sq.m of commercial space across three sites in Adamstown, Cherrywood and Portmarnock.

### Glass Bottle Site

The National Asset Management Agency (NAMA) is understood to be at second round stage with a number of Tier 1 developers, reportedly including Ballymore, Hines, Lone Star / Quintain and Marlet, for an 80 per cent stake in the former Irish Glass Bottle Site in Ringsend, Dublin 4. This is a 10 hectare site in Dublin 4 which was marketed during 2019 for a price in excess of €125 million.

The site along with an adjoining 5 hectare site has been reported to have scope to deliver 3,500 residential units (25% of which would comprise

social and affordable housing) and 100,000 sq.m of commercial space along with schools and community uses. Results of the process are expected to be announced at the end of March 2020.

## EMERGING TRENDS

There has been much debate in recent years about intensifying and optimising the use and efficiency of infrastructure in Dublin, a low to mid rise city, and capitalising on the opportunity to secure the city's international standing where many of its investors and residents come from countries and cities where 100m plus buildings are commonplace.

The release of new Building Height guidelines and construction of two major city centre developments above 80 metres tall (Kennedy Wilson's 22-storey Capital Dock scheme and Ronan Group's 23-storey Tara Street development, both in Dublin 2), Dublin is rightly seeing an increased focus on potential heights for new developments which is a trend we see continuing in the future.

We are seeing a greater focus on technology within development schemes as planners, designers and developers of new buildings look to optimise the use of data and digital tools to differentiate and future-proof development schemes. The use of technology can improve efficiencies for occupiers, owners and building managers, while also enhancing development and investment returns.

With more and more global attention on ESG issues such as carbon neutrality and the energy efficiency of buildings, the sustainability of real estate assets is very much high on the agenda of all new development schemes. While this may increase the overall cost of delivery, developers are seeing the longer term life cycle

benefits of producing higher quality buildings. We see this trend gaining increased momentum during 2020.

## OUTLOOK 2020

Following the General Election in February 2020, further government interventions are expected in the coming years. In 2019, for example, the government increased commercial Stamp Duty to from 6% to 7.5% which had a negative impact on land prices. Based on pre-election commentary from various political parties, further government interventions are expected, to include changes to housing policy with suggestions of further increases in stamp duty, residential 'rent freezes' and a potential increase in the minimum percentage of social and affordable component required in residential developments from 10% to 20%.

Developers with schemes under construction will also be impacted by the government's Emergency Measures Bill proposed on 25 March 2020. This bill addresses the impact of COVID-19 on the labour market, supply chains and costs amid calls to close construction sites or restrict activity in response to health and safety and public health guidelines.

The Emergency Measures Bill also includes provisions which, if enacted, effectively freeze Local Authority / Appeal Board requirements to make decisions on planning applications - potentially until November 2020. While the government has highlighted that the planning authority offices remain open for business, and that these measures are precautionary and will only be actioned if necessary, the effect of any freeze in planning decisions could result in a

significant slowdown in development activity and give rise to further costs as a result of delays in development projects.

While the disruption of COVID-19 has had a pausing effect on the development market in Q1 2020, the predominant sentiment remains positive for 2020 and beyond, with considerable capital pursuing quality development stock.

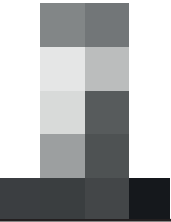
As the year unfolds, we expect 2020 trading volumes and values to be lower than that seen in 2019 as a result of the current situation. In the expectation that the virus is relatively contained towards the end of Q2 and normal business resumes across the country, there could be significant market activity in the latter half of the year.

Forward funding and forward commit deals are expected to feature more in the PRS market in 2020 as developers seek to deliver a pipeline of units and grow market share.

We expect demand for office development sites to continue, particularly in Dublin's CBD, supported by occupier requirements, prevailing take-up levels and rents. Technology and sustainability will feature centre stage in future schemes which will also include a greater role for green finance.

In light of strong tourism growth, record occupancy levels and demand for hotels in Dublin in recent years, and with a growing number of new market entrants keen to establish their brands and grow market share here, we see the demand for suitable development sites in this sector continuing to grow through 2020 as the market tries to re-balance sectoral undersupply. On the other hand, the hotel and hospitality sectors were among the hardest hit by the

COVID-19 pandemic which may cause a rethink in development and growth strategies in this sector.



Bobby Lloyd

Director  
Land & Development  
BNP Paribas Real Estate Ireland

# PROPERTY MANAGEMENT

In the normal course, commercial leases for multi-let building services are arranged by the landlord for the common area and the costs are recovered from the occupiers by way of a service charge. The other principal occupational charges are as follow:

### SERVICE CHARGES

Occupiers of multi-let commercial property such as offices, shopping centres and mixed-use schemes are obliged to pay an annual service charge for the provision of communal services such as general maintenance, security, utilities and cleaning etc. These obligations will be specifically detailed in their lease agreement. The apportionment of an occupier's service charge liability will be typically based on the pro rata percentage floor area of the occupier's demise to the overall lettable floor area of the building

Service charge ranges for various main asset classes are outlined in the following table. The levels can vary depending on the size and age of the building, quantum of communal plant and level of service specification required by the building and meet the expectation of commercial occupiers.

### Service charge ranges for various prime asset classes:

PROPERTY TYPE	SERVICE CHARGE (€ / M2)
Office	€70.00-90.00
Shopping Centre (Enclosed)	€97.00-178.00
Retail Mall (Open)	€43.00-75.00
Retail Park	€10.75-27.00
Industrial / Logistics (Estate Charge)	€16.25-37.75

### SINKING FUND

A sinking fund is a communal reserve for the building which can be used to fund future upgrades and renewal / refurbishment of the common areas and replacement of the main plant and systems such as passenger lifts, roof surfaces, security systems and redecoration. It



should be an essential consideration for occupiers that the building has an adequate sinking fund in place with an appropriate annual provision to fund these future works which occur during the building's lifecycle. Not only will a sinking fund mitigate large levies in future years, it will also limit the impact on the occupier's cash flow during the tenancy.

INSURANCE

While it is usual for a landlord to arrange appropriate insurance cover for a building, the occupier will be charged for their portion of the annual insurance premium. These insurances normally cover fire and material damage, consequential loss of rent and service charges, engineering, public liability for the common area and employers' liability for on-site staff. The level of insurance premium varies depending on the value of the building, age, type of construction, levels of cover and historic loss ratio. Typical insurance costs are in the region of €2.70-4.85 per sq.m.

RESIDENTIAL OCCUPIER COSTS

Multi-unit residential complexes are governed by the Multi-Unit Development (MUD) Act 2011 which was enacted into legislation in 2012. This relatively new legislation brought a much needed reform and structure to this sector and clearly sets out the procedure for the management and governance of Owners Management Companies (OMC). Upon purchase of a property in a managed residential complex, owners become members of an OMC. The responsibility for governance and overall operation of these companies rests with the Directors of the OMC

who are made up of its members. For residential developments it is now a legal requirement under the MUD Act to form an OMC and the obligations for the payment of service charges, which includes insurance and sinking fund provisions, is specified in the lease agreement. Residential service charges vary from complex to complex. The level of service charge will typically be based on the quantum of communal services provided to the complex, maintenance requirements and the specification agreed by members of the OMC at the Annual General Meeting. While service charges in residential complexes can vary depending on the specific maintenance requirements, the average service charges in residential complexes are set out as follow:

Average service charge ranges for residential properties:

PROPERTY TYPE	AVERAGE ANNUAL SERVICE CHARGE
1 bed apartment	€900-1,100
2 bed apartment	€1,300-1,500
3 bed apartment	€1,700-2,000
House	€450-800

RESIDENTIAL RENT REVIEWS

The Residential Tenancies Act prohibits the landlord from setting a rent that is in excess of

market rent. If a landlord intends reviewing the rent, they must inform the tenant, in writing, a minimum of 90 days before the new revised rent is due to take effect. In general, a landlord can only review the rent once in any 24-month period, and cannot review within 24 months of the commencement of the tenancy, except in limited circumstances such as complete refurbishment of the property which affects the market rent of the dwelling.

Rent certainty measures were introduced by the Irish Parliament in late-2016 due to rapidly rising rental levels. Rent Pressure Zones (RPZ) were introduced in certain locations where rents are highest and rising. In these locations, for a tenancy that began on or after the 24th of December 2016, the landlord can review the rent each year and it can only be increased by a maximum of 4%. For tenancies which began before this date, the landlord can only review the rent every 24 months and after the first review annually thereafter.

WITHHOLDING TAX / COLLECTION AGENT

If a landlord resides outside the Republic of Ireland (i.e. non-resident landlord) and rent is paid directly to that landlord or to their bank account either in the State or abroad, income tax at the standard rate of tax (currently 20%) must be deducted from the gross rent payable. Failure to deduct tax may leave the tenant liable for the tax that should have been deducted. Where the non-resident landlord appoints an agent, who is resident in the State and collecting the rent, the tenant should pay the gross rent to the agent without deduction of income tax. The agent is then chargeable to tax on the rents as 'Collection Agent' for the non-resident

landlord and is required to submit an annual tax return and account for the tax due. BNP Paribas Real Estate acts as Collection Agent on behalf of a number of our clients.

PROPERTY MANAGEMENT PORTFOLIO IN IRELAND

In Ireland our Property Management business has grown substantially in recent years and our portfolio 2019 can be summarised as follows:

RENT COLLECTED	€31,200,000 p.a.
SERVICE CHARGES COLLECTED / EXPENDED	€5,300,000 p.a.
FLOOR AREA UNDER MANAGEMENT	310,323 sq.m
RESIDENTIAL UNITS MANAGED	1,823 units
GROSS REALISATION FROM SALES TO YEAR-END 2019	€150,486,270

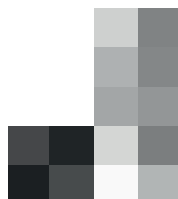
OUR BESPOKE PROPERTY MANAGEMENT SOLUTIONS

At BNP Paribas Real Estate, we take pride in our proactive and hands on approach to the management of our clients' property assets. We actively seek to identify and implement efficiencies to streamline the buildings cost base and maintain the buildings to the highest standards, which protects and enhances the long-term asset value.

We aim to provide first class services that are essential to the management of your real estate

assets, utilising the entire Group's know-how to improve the profitability of your investments and long-term value while reducing the cost of your assets and maximise the quality of work environments.

We have made sustainable development a key to our management ethos so that it becomes an integral part of the everyday running of properties. Our ethos and track record of continually delivering and indeed exceeding our clients' expectations has allowed us to develop strong long-term relationships with our clients.



**Brendan Egan**

**Executive Director  
Property Management**  
BNP Paribas Real Estate Ireland



# WORKPLACE SOLUTIONS AND STRATEGIC DESIGN CONSULTANCY

## PLANNING, PROJECT MONITORING & DUE DILIGENCE

Working with BNP Paribas Real Estate gives you access to a wealth of appraisal and project monitoring expertise. This will help you make the right real estate decisions, ensuring that your property is constructed, extended or modified to the highest quality, providing flexible and sustainable space to meet your operational and performance requirements. Our Workplace Solutions and Strategic Design Consultancy department can:

- Provide guidance and advice in respect of the planning process in Ireland, both for works that require permission and exempted development
- Prepare planning application documentation, planning reports for new buildings, extensions, change of use etc. and Section 5 Declarations of Exemption
- Undertake project monitoring of occupier fit-out works on behalf of landlords for all project types
- Compile Due Diligence reports in respect of the planning history of a particular site, building or unit

## DESIGN AND SPACE PLANNING

Working with our experienced architecture and design team will help you create efficient, inspirational and motivational working environments, enhancing property value and performance. We provide the following value-related services enabling you to ensure that your property assets make a significant contribution to the success of your business:

- Design and planning of buildings and internal spaces for offices, retail and all types of commercial buildings
- Advice for occupiers in co-ordination with landlord design teams to ensure efficient, cost effective and compliant design solutions
- Space utilisation studies and floor area analysis for office fit-outs
- Advice in respect of building control, building regulations and other statutory obligations for landlords and occupiers
- Building evaluation analysis and space planning audits to meet current and future needs of clients for expansion or down-sizing

## BUILDING SURVEYING

By choosing BNP Paribas Real Estate you have a partner with vast experience in building surveying and technical due diligence. This means you will fully understand the condition of a building, the risks and opportunities it presents and have confidence in your decision making with the assistance of:

- Schedules of conditions reports and dilapidation reports for lease agreements
- Building surveys and Photographic Record Surveys for all types of buildings
- Specialist environmental, sustainability and structural surveys and building services audits & reports for all building types
- Capital works analysis reports for sinking funds and life cycle analysis
- Budget costs and reinstatement costs for all building types
- Health and safety building and occupant audits, inspections and reports

## PROJECT MANAGEMENT

BNP Paribas Real Estate has a track record of delivering high quality sustainable projects to programme and budget, exceeding clients' business objectives. Our approach is to take ownership and responsibility for all aspects of the project, where the project manager acts as an interpreter, coordinator and motivator responsible for driving the project to a successful completion. This can include:

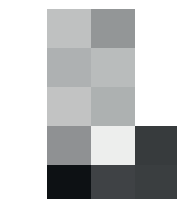
- Setup and project management of construction projects, including new build, refurbishment and fit out.
- Advice to occupiers and / or landlords at all stages of the development process, from inception to completion

- Project monitoring advice for occupiers during shell and core stage of development and again during the fit-out stage
- Oversee occupier works, on behalf of landlords and vice versa, across all our regions
- Management of Due Diligence and feasibility studies including option appraisals
- Tendering and selection of project design and construction teams

## ENVIRONMENTAL SUSTAINABILITY

BNP Paribas Real Estate are committed to making a substantive contribution to the low-carbon energy transition for our clients. We can provide management and advice in respect of retrofitting and refurbishing of existing commercial building stock to achieve NZEB compliance, to include:

- High level analysis of existing buildings to provide guidance and costing to clients interested in exploring the options available to upgrade their buildings
- Detailed analysis, costings and project management/ project delivery



**Jerry Corcoran**

Divisional Director, Head of Workplace  
Solutions and Strategic Design Consultancy  
BNP Paribas Real Estate Ireland

# LEASE ADVISORY

BNP Paribas Real Estate Ireland's experienced Professional Services team carry out valuation projects and strategic real estate consultancy services for private landlords, investors, developers, public sector entities and financial institutions. Our local market and financial knowledge enables us to provide the best advice to our clients in respect of their commercial or residential real estate assets.

## OFFICES

Despite prime rents remaining stable in 2019, rents in excess of this have been achieved in certain instances, as previously noted. That said, tenant incentives have gradually reduced with the effect that the net effective rental has arguably increased. This is a positive feature for landlords engaged in rent review negotiations as the net effective rental is paramount and forms the basis of rent review evidence in the market with headline rents discounted to reflect tenant incentives.

With new ways of working on the rise (whether remotely or at home) the concept of co-working or serviced office space is gaining traction. This model disrupts the idea of having to own or lease spaces in order to use them, instead pool-

ing shared resources and exchanging services. The concept of co-working offers occupiers more mobility and much coveted flexibility. Notwithstanding concerns in relation to the long-term viability of some co-working companies, the increasing demand for flexible working and growing number of brands now seeking to operate in Dublin demonstrates that this model is here to stay. Indeed, many landlords (e.g. Hines, British Land, HB Reavis) are now incorporating their own co-working brands to take advantage of this burgeoning market trend.

It is true to say that flexible workspace has moved from a niche part of the office market to become a dominant sub-sector. Given the change, consideration must be given to the way in which we conduct valuations and the characteristics we must consider for properties providing flexible workspace. In Ireland the majority of co-working space is let on conventional leases in line with market trends. Standard lease arrangements can be valued with an appropriate approach (such as the investment method), with no need for complexity. However, a general sense of caution must be taken in relation to co-working companies, most of whom may not have substantial credit histories. This point has come to the fore over the past year,

particularly in light of controversy surrounding a failed IPO by WeWork. Yields applied to capitalise lease interests need to be carefully considered and seen to derive from appropriate and comparable sources. Attention should be given to establishing covenant strength. Reviews and commentary about the industry are commonplace, giving transparency to the market's operation and attaching qualities to certain operators. This induces both positive and negative value for the brand, and the operational reputation of flexible workspace providers.

Rent review activity remains at the forefront of the office sector particularly in Dublin as landlords seek to capitalise from the well-documented increase in rents within the sector over the preceding several years. Activity remains strong and the sheer volume of transactions provides a substantial body of evidence for establishing rental values at the relevant review date. However, tenants are reluctant to accept the substantial increases proposed by their landlords with the result that referrals for third party determination have gradually increased – good news for rent review surveyors whose expertise is once again being called upon to act on behalf of both landlord and tenant entities.

The trend of increasing headline rents isn't simply a feature of the core Dublin office market or the north/south suburbs, it is a feature replicated in provincial cities including Cork, Galway and Limerick. Whilst all three locations have experienced rental inflation in 2019 the pace of growth has slowed to single digit percentage rates.

So what of the elephant in the room, Brexit, and predictions as to how it may affect the local commercial property markets? Having voted to leave the EU back in June 2016 the formal exit process has been enacted. The general consensus is that the full effect of Brexit remains somewhat of an unknown entity however what is now certain is the UK is leaving and trade agreements now need to be negotiated to understand how the economic landscape will develop in a post-Brexit era.

“ **BNP Paribas Real Estate Ireland has an experienced lease advisory team available to help landlords and tenants to negotiate the best lease terms to support business strategy and objectives.** ”

## HIGH STREET RETAIL

The pattern of continuing office rental growth that has emerged since 2012/2013 has not been mirrored across the retail sector to the same degree. The retail market is evolving to meet changing consumer demands and the challenge for the market is adapting to this change. Despite the challenges, healthy demand remains for prime retail space along Grafton Street and Henry/Mary Street, with large international retailers opting for a prime retail pitch to showcase their products.

Grafton Street remains the premier shopping destination in Dublin and areas in its immediate vicinity have benefited from the rejuvenation it has enjoyed. Dublin's secondary retailing streets such as Dawson Street, Clarendon Street, Exchequer Street, South William Street, Wicklow Street and Chatham Street have become popular with retailers seeking to take advantage of the discounted rates available on the off prime streets located within close prox-

imity of Grafton Street. Furthermore, there are a number of substantial redevelopments underway in various locations around the city. The completion of these developments presents an opportunity to expand the prime retail pitch out from Grafton Street onto nearby secondary retailing streets. We expect the rents in these alternative locations will correspondingly increase with existing leases granted on a market rent review basis deemed reversionary.

Rent review activity in the retail sector continues to be fragmented and the outcome of these rent reviews are highly sector, size and location specific. New letting evidence, which is the prime source for establishing prevailing market rent levels, has been extremely measured in the retail sector for the prime pitches. The level of rent review activity has remained subdued for retail leases held under traditional lease structures containing upwards only rent review clauses agreed in mid-2000s given their over rented nature. Prime headline Zone A rents have still not exceeded the levels witnessed in the peak of 2008/2009 when Grafton Street Zone A rents reached in excess of €8,030 per sq.m and Henry/Mary Street registered circa €5,500 per sq.m Zone A. Leases agreed post February 2010 (as opposed to leases drawn on upward only provisions agreed prior to this date) can continue to expect rental uplifts at rent review. This is illustrated by several recent rent review settlements on Grafton Street which have been agreed in the region of €6,190 per sq.m, illustrating upward movement in rents for leases agreed post-2010 and drawn on a market rent review pattern. This is a positive trend for landlords. New letting transactions remain centred on the prime retail locations and consequently rent review activity is concentrated on the prime streets with lower levels of activity recorded in the other locations.

Provincial retail is a sector that continues to be somewhat volatile, with high vacancy and sluggish activity levels. The prime locations such as Patrick Street in Cork, where a large proportion of the buildings along the street are Protected Structures, providing traditional style retail accommodation with small inflexible floor plates which are unsuitable for international retailers or those seeking anchor stores. Those properties offering modern buildings with excellent profile and large flexible floorplates continue to experience high levels of interest. Large floor spaces are rare in the city, which places a premium value on flexible, modern retail units.

Retail continues to receive negative press, attributable to the growth of e-commerce and the continuing adversity amongst experienced by our neighboring retailers in the UK. 2019 witnessed a number of retailers encountering difficulty, with Monsoon and Arcadia in the spotlight and Debenhams undergoing a process of restructuring. Further retailer CVAs cannot be ruled out as they utilise the process to reduce store numbers and work towards cutting costs. That said, the high street has proved time and time again that it is more resilient than it is given credit for.

The retail outlook for 2020 will be cautious, with flexibility remaining a key aspiration for retail occupiers. We expect break clauses or multiple break clauses to be a prerequisite for many and a key component of future adaptability against changing business and economic influences.

## INDUSTRIAL & LOGISTICS

Like our European counterparts, the growth of the industrial market in Ireland is for the most part driven by the continued growth of online retail. Over the past number of years leasehold transactions have accounted for a large propor-

tion of activity in this sector and as such headline rents have generally witnessed upward pressure since 2012/2013.

With availability of stock low, 2019 saw rental growth continue with average headline rentals for a modern warehouse in the region of €97 - €110 per sq.m, depending on specification, scale and lease terms. Rental growth is expected to continue in the short to medium term, as demand for industrial space outstrips supply coupled with the rising cost of construction. Additional construction cost inflation associated with the Nearly Zero Energy Building (NZEB) standards that came into effect in late 2019 will ensure that rents continue on this upward trajectory. Headline rent levels need to keep pace with inflation in construction costs to justify future development.

Transactional activity continues to be dominated by lettings rather than purchases however this sector has witnessed some exceptional investment transactions in 2019, not least the Q4 2019 sale of the Tesco distribution facility in Donabate, north county Dublin, in an off-market deal at a reported figure of €160 million. This is an exceptional deal for what is Ireland's largest built structure and is unlikely to be repeated in the coming years.

That said, the owner occupier market remains stable for smaller industrial requirements up to the €1m price bracket. Occupiers can purchase premises with funding to facilitate the expansion of their businesses. This has been driven by the significant increase in rents. If we take for example, a 5-year lease from 2014 which is due for renewal, tenants can find themselves facing a substantial rent increase in some cases having come off a low base set in 2014. Purchasing can be a more attractive alternative where repayments on a mortgage could be less

than the monthly rental. Lease renewal and rent review negotiations can subsequently turn into a sales transaction.

The risk of a no deal Brexit has subsided and the UK's measured exit from the EU will provide some form of comfort to landlord and tenant occupiers. Exactly how trade between the UK and Europe develops remains to be seen.

## DISPUTE RESOLUTION

As predicted, the increase in rent review activity across all asset types has resulted in an increase in third party referrals to either Expert Determination or Arbitration. This is especially true in the office sector in Dublin where the growth in headline and net effective rents since 2011 has created reversionary growth for the purpose of rent review activity.

Whilst there has been an undoubted increase in general rental values for offices over the preceding 7-8 years there remains a divergence between the expectations of landlord and tenant entities in terms of rental values at the relevant review date hence the increased incidence of third party referrals. A similar feature, but with a lower incidence of referral, is the retail and industrial/warehouse sector.

Some parties may prefer a private appointment as opposed to an appointment made by the President of The Society of Chartered Surveyors Ireland (SCSI) for reasons of expedience. The increase in referrals to third party has correspondingly resulted in the SCSI having an increased volume of applications and not unusually it can take on average circa 3 months to formalise a Presidential appointment. As a result we advise clients that seeking a private appointment is preferable from a timing perspective compared with the default

position of a SCSI appointment. There are instances of course whereby the parties are unable to agree on a private appointment and therefore the formality of a SCSI appointment is unavoidable.

One of the unique features of an arbitral process in Ireland is the requirement for an oral hearing if one of the parties so requires and increasingly this process is being adopted in preference to a documents only procedure. Another feature of an arbitral process is the issue of costs and how these are held to be borne by the parties (Section 21 of the Arbitration Act 2010). Unless the parties agree on how costs are to be dealt with, the use of Calderbank offers will become a feature of the process. Their prevalence in the local market is quite measured however it is prudent to protect our clients' financial interests by considering same.

A natural consequence of the increased incidence of referrals to Expert Determination or Arbitration is the increase in determinations and reasoned awards that seek to deal with key issues such as:

- Upward only vs. market rent reviews
- Headline vs. net effective rents
- Assumed term

Whilst determinations and awards are generally deemed confidential to the parties the precedent they establish is quickly disseminated around the commercial marketplace. One such award that considered the issue of headline vs. net effective rents, amongst other factors, related to the 2018 rent review on the Bank of Ireland leased office space on Mespil Road. This is one of only a few awards that dealt with the contentious issue of what adjustments should apply to a lease drawn on upward-only reviews relative to rental evidence drawn on leases

agreed post February 2010 and subject to market rent reviews (upward or downward).

Landlords and tenants should be fully briefed and understand the procedural and evidential process associated with third party referral before agreeing to engage in such a process and ensure their surveyor has the appropriate skills to ensure a successful outcome to what is an involved process.

## IMPACT OF COVID-19

The evolving COVID-19 pandemic will affect all aspects of the commercial and residential property markets in Ireland both from both a rental and capital value perspective and the depth of its impact will be determined by the length of time it takes to get the crisis under control – an imponderable estimate at this stage.

It will be some time before we see rental incidence from all asset classes that reflects the potential impact of the current situation flush through in the form of new letting transactions. Therefore rent reviews currently under negotiation, or those with an effective date prior to the current developments, are likely to be unaffected, albeit possibly delayed. We estimate that the retail sector in particular (including F&B) will be particularly badly impacted by the protective measures introduced by the government, so attempting to instigate a rent review on this asset class at present needs to be sympathetically considered.

If the current measures introduced by the government are short-term and temporary in nature then we believe their impact on rent review activity will be restricted to time delays associated with negotiations or arbitral processes. If the measures were to increase in severity and/or extend for an indefinite period of time with a

corresponding impact on rental values across all asset classes then we could witness arguments being presented by tenants for a reduction in rent at review. If conceded, these would extend for the period to next review. We believe the more likely scenario is that prudent landlords will consider temporary abatements / concessions / deferrals as opposed to permanent reductions in rent, however it is clear that landlords and tenants will need to work in unison to ensure survival through this current crisis.

From a business rates perspective, the government has sought to take the lead in providing some form of financial assistance to commercial occupiers. In this area, the most recent announcement indicated the government will be deferring rates payments for the most immediately impacted businesses primarily in the retail, hospitality, leisure and childcare sectors for a period of three months until the end of May 2020. This is a programme of deferment and not a business rate holiday as seen in the UK for example and ratepayers are pushing for greater government assistance to get them through this difficult interim period.

From a valuation perspective the impact is again unquantifiable at this early stage in the evolution of the pandemic. While all observers generally acknowledge there will be a short to medium-term negative impact, the question is how negative and for how long. The RICS and the Royal Institution of Chartered Surveyors (RICS) have sought to provide some guidance to professional members in terms of the impact of COVID-19 on Red Book compliant valuations. If deemed appropriate, members are advised that they can introduce a 'Material Uncertainty' qualification into their reports. BNP Paribas Real Estate has sought to get ahead of the curve by introducing their own qualification to include in valuation reports surrounding valuation un-

certainty and we have and will continue to follow internal guidelines and the advice of our professional body in this regard.



**Paul Harvey**

Executive Director  
Head of Professional Services  
BNP Paribas Real Estate Ireland



## CAPITAL ADVISORY

“ **BNP Paribas Real Estate can provide strategic funding advice and transaction support that is tailored to achieve the financial objectives of our clients and deliver deal execution.** ”

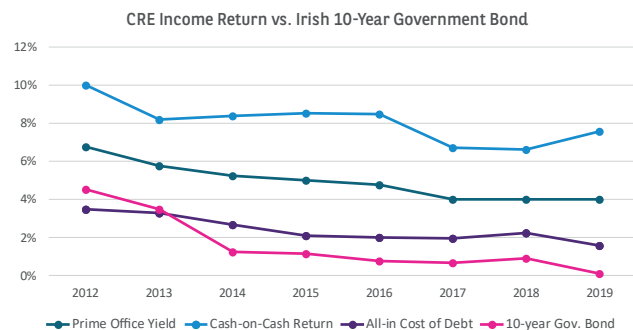
The real estate finance market continued to evolve in 2019 with an increasing number of funders seeking to lend on Irish commercial real estate projects. At the prime end of the market this had led to competitive pricing among domestic and international lenders, with borrowers ultimately benefiting by being able to secure low debt margins and corresponding swap rates, thereby securing robust cash-on-cash returns for their investments.

The COVID-19 pandemic which emerged in early 2020 has triggered a shock to real estate financing markets. While the situation remains extremely fluid and debt markets are too volatile to know how pricing and structures will be affected, people are displaced and the market has instantly lost its efficiency. When a disruption of this scale occurs banks immediately focus on existing clients, reassess the risk across

their portfolios and suspend any deals that are not financially contracted. This means that the pipeline will slow, although at this point it is difficult to say for how long.

In general, notwithstanding the current situation, investors have become increasingly focused on income returns as a key investment metric. For those who utilise gearing as part of their strategy the combination of leverage levels and debt pricing achievable has a significant impact on this. The graph on the next page demonstrates the spread between cash-on-cash returns available on geared prime office investments versus the 10-year Government Bond. It is clear from the graph that when it comes to investment in real estate – whether geared or ungeared – the prime office sector is still an attractive investment proposition.





Source: BNP Paribas Real Estate Capital Advisory

Ireland's main pillar banks (AIB and Bank of Ireland) remain prudent in their lending practices and are somewhat more constrained in relation to their exposure to risk since the Global Financial Crisis. Notwithstanding this the pillar banks continue to provide a steady flow of conservative funding as they seek to rebuild their balance sheets.

Over the past ten years we have seen the emergence of the alternative lending platforms as a response to a gap in the market whereby traditional lenders could not provide the funding required by certain investors or developers. Alternative lenders with different strategies such as development, unitranche (whole loan) or mezzanine finance provision and the ability to deploy capital efficiently are now well established the Irish real estate finance market and continue to expand their market share.

## OPERATIONAL REAL ESTATE

Operational real estate such as build-to-rent, student accommodation, hotels, aparthotels, retirement living and healthcare continue to become more mainstream for institutional investors seeking steady long-term income

streams. These income streams are capable of rising alongside inflation, making them attractive to institutional investors. As such, these so-called 'alternative' assets are no longer on the periphery for lenders.

Lenders now have a better understanding of how to underwrite operational assets. The underwriting process typically involves three dif-

ferent stages – the construction phase, the stabilisation phase and the operational phase. As no income will be generated during construction phase, it is critical that the rent and operating costs are robustly underwritten at the outset to ensure once the asset becomes fully operational the debt burden is sustainable.

As alternative real estate dovetails with the conventional investment sectors of offices, retail and logistics, and in line with changing market trends, we expect to see continued funder appetite for this burgeoning sector.

## GREEN FINANCE

The commercial real estate industry and its lenders are increasingly focused on the Environmental, Social and Governance (ESG) implications of the business they conduct. At BNP Paribas Real Estate we believe aligning financing requirements alongside sustainability ambitions can only lead to positive outcomes for our clients.

As a result of the Paris Climate Agreement the commercial real estate industry and its stakeholders looking at the ESG implications of the business they conduct. Sustainability has become a key factor in decision-making, with

many investors now integrating ESG benchmarking processes such as the Global Real Estate Sustainability Benchmark (GRESB) into their portfolio analysis tools. Occupiers are also becoming more focused on sustainability and demanding that the buildings they occupy meet the highest standards.

As such, ESG has become a key focus of lenders too. Why are they focusing on this?

- Future regulation
- Stakeholder demand
- Lowering reputational risk
- Better risk / return profile

This has led to the advent of 'green loans', which aim to support the transition to a sustainable built environment where new developments or major refurbishments of commercial buildings achieve or aim to achieve the highest green building certifications (e.g. LEED and/or BREEAM). This accreditation can ensure:

- Reduced greenhouse gas emissions
- Optimised energy efficiency
- Flexibility so that buildings can evolve over their lifetime
- Increased wellbeing factors for the occupiers within the building

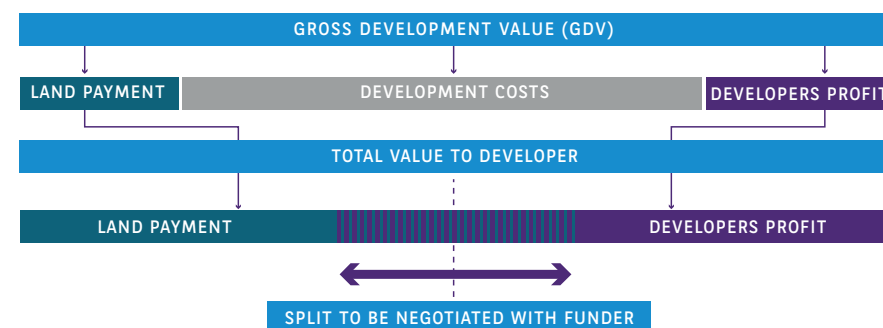
Moving into 2020 and beyond we expect to see significant growth in green loans and sustainability-linked lending as the industry further aligns its ESG ambitions and values with finance requirements.

## FORWARD FUNDING / FORWARD PURCHASE

Forward funding and forward purchase structures have been prominent in the market in recent years, with an ever-increasing demand from institutional investors. These investors have limited planning and development risk appetite and are continually seeking ways to deploy capital and secure product. From a developer's perspective, a forward purchase allows them de-risk the exit strategy and assist the funders underwriting the scheme, whereas a forward funding structure provides the funding solution and is likely to enhance the developer's project returns through achieving:

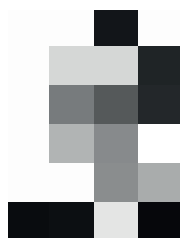
- An agreed land price at the outset
- Additional bullet payment at practical completion
- Development management fees throughout for delivering the project

A typical forward funding transaction is structured as follows:





BNP Paribas Real Estate understands how finance and debt are intrinsically linked to real estate transactions. Our expert advisors, who themselves have a wealth of experience across the financial services sector, can provide innovative financial advisory assistance to our clients to deliver financing solutions across the capital structure and provide strategic advice on major investment decisions. By providing integrated property and financial expertise we offer clear, straight-forward and effective advice to deliver or appraise our clients' transaction objectives at every stage of the real estate life cycle.



**Robert Murphy**

Director, Business Development  
& Capital Advisory  
BNP Paribas Real Estate Ireland

# IRISH REAL ESTATE FINANCE

## Advice from AIB Real Estate Finance

The Irish economy and commercial real estate market continue to be underpinned by solid fundamentals. The real estate cycle is mature and now in its seventh year of expansion, while the evolving COVID-19 pandemic is likely to add pause to the market. However, in a multi-asset context, real estate still offers attractive risk-adjusted returns. Income returns may be considered low but remain elevated compared with, for example, fixed income assets, such as investment grade corporate bonds. As a result, investors searching for yield continue to target global property markets and the Irish market is no exception.

AIB is a leading provider of finance to the real estate sector. AIB is very active across both commercial real estate investment and commercial and residential development with an established market position and key differentiators such as speed of execution and strong upfront analysis.

### COMMERCIAL REAL ESTATE INVESTMENT

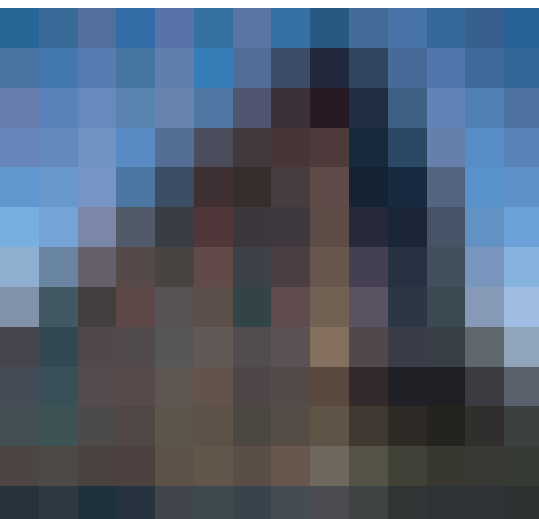
AIB Real Estate Finance offer a range of funding solutions for all major real estate asset types

such as office, retail, logistics and multi-family (PRS) investments throughout the major cities and towns in Ireland. Our wide array of customers range from domestic professional investors to global institutional investors across a variety of corporate structures and SPVs, including ICAVs, REITs, limited Corporate Partnerships, etc.

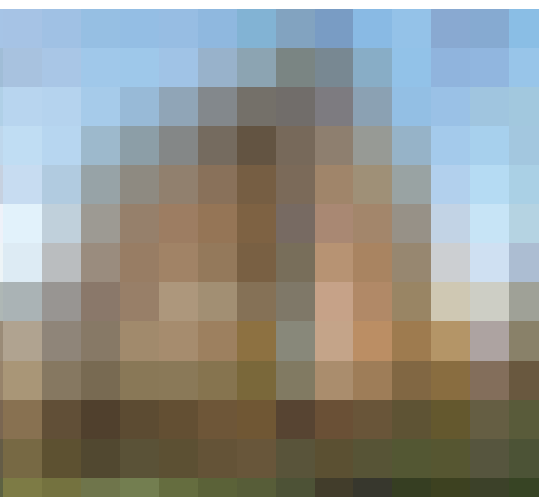
Our teams have the specialist knowledge to respond to market requirements whilst providing attractive finance packages (senior debt, mezzanine debt, loan on loan financing, etc.) that will support our clients. We also work with external alternative lenders to enable a total funding solution to our clients particularly with a mezzanine tranche or via a whole loan structure.

AIB Real Estate Finance underwrites CRE investment loan amounts from €10 million to in excess of €100 million on a bi-lateral or syndicated basis. Typical maximum senior debt leverages range between 60% - 65% Loan-to-Value with a particular emphasis on asset quality, location, tenant strength, income risk profile and promoter and asset manager expertise.

Sample deals include the following:



*Carysfort Capital - Opus, 6 Hanover Quay D2.*



*Roundhill Capital - Bridgefield, Santry D9.*

For loan requirements less than €10 million, these can be accommodated through AIB's extensive business centre and branch network.

### DEVELOPMENT FINANCE

Our Development Finance team offers a variety of financing products for both residential and commercial development. We have a deep understanding of the sector and long standing relationships with key industry players.

#### Commercial Development

AIB Real Estate Finance back office, retail and industrial developments throughout the country. Our team designs structures tailored to each project's funding needs. We regularly provide investment loans on completion through our Commercial Real Estate Investment team, in cases where the development is for a medium term hold or for onward sale. Presently, our team is providing senior finance for several landmark office developments.

#### Residential Development

AIB Real Estate Finance is proud to support many International and Irish development groups as well as local development businesses. Backing residential development is a strategic priority for AIB. AIB continues to play a strong role as a senior debt provider and is primary funder to live developments that will deliver over 8,000 units.

#### PRS

Our Development Finance team also supports customers on both the development of PRS schemes and the operational aspect on completion. Given the scale of some of these projects, AIB can either act as sole funder or Lead Arranger as part of a Bank syndicate. Over the

course of 2019 we have underwritten transactions that are core to our customers' ambitions in the PRS marketplace.

The above is a very high level summary of the lending approach of AIB Real Estate Finance. For more information please do not hesitate to contact us.

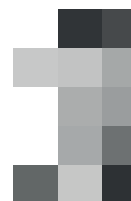


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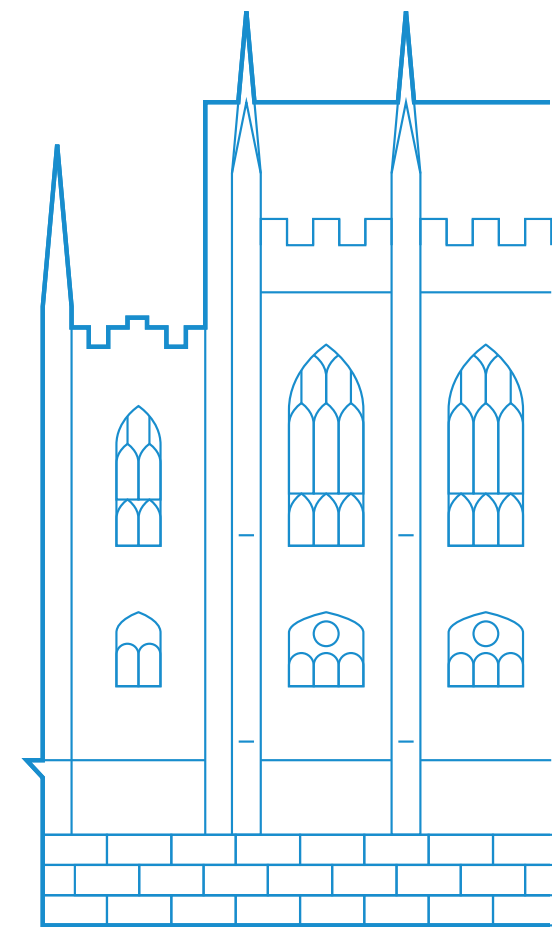


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# IRISH REAL ESTATE LAW

Advice from Eugene F. Collins Solicitors

Real estate law in Ireland is primarily based on legislation and as a member of the European Union where there is a clash between domestic Law and European Law, the latter takes precedence. Common law also plays an important role in the interpretation of legislation and in the determination of disputes regarding property. Specific legislation will apply in specific cases.

This guide will discuss the main types of property investments, but the same steps will apply when investing in alternative sectors such as healthcare, nursing homes, retail, hotel and licensed premises, industrial and other property investment opportunities in Ireland. It sets out some key considerations for investors in Ireland including types of real estate ownership, the systems of registration, typical owners/investment structures, purchasing and leasing procedures, tax, planning and environmental considerations. Finally, we will consider some developing trends in the market.

## OWNERSHIP OF REAL ESTATE

Lawyers normally refer to rights over property as interests in property. There are several types

of interests that can be created in property, the two most common being freehold (perpetual) and leasehold (for a specific number of years).

## FREEHOLD OWNERSHIP

Generally speaking, a freehold owner is someone who has the exclusive right to possession of property with no landlord above him and is therefore the absolute owner of the property.

## LEASEHOLD OWNERSHIP

A leasehold owner has the right to exclusive possession of property normally limited for the duration specified under the lease subject to payment of rent and performance of covenants. In most leases the landlord has what is known as a reversion such that, when the period of the lease, comes to an end, the landlord has the right to get the property back.

A tenant under a long lease (e.g. 999 years) can also be described as the owner of property, as these long leases are generally seen as freehold equivalent leases. The reason they are leases is so that an element of control can be maintained by a landlord like in a shop-

ping centre or for a management company in relation to shared services or common areas. Shorter leases are generally referred to as occupational leases which we will discuss in the context of commercial leases at a later point in this guide.

## REGISTRATION OF OWNERSHIP IN IRELAND

Ireland has two separate systems for recording transactions in relation to property:

- The Registry of Deeds system operated by the Registry of Deeds
- The Registration of Title system operated by the Land Registry

Both systems are under the control and management of the Property Registration Authority. The two systems are mutually exclusive in the sense that in a particular transaction relating to property the title will be either:

- “unregistered” (i.e. the title is not yet registered in the Land Registry and so the Registry of Deeds system applies) or
- “registered” (i.e. the title has been registered in the Land Registry and so the Registry of Deeds system is irrelevant).

Any unregistered property purchased in the state since 2011 is subject to compulsory first registration. When the title documents are accepted for registration the original title documents are retained and permanently filed in the Land Registry. The Land Registry record/folio includes a map, the name of the legal owner and information about certain third-party rights and any charges/security registered against the property.

The title shown on the folio is guaranteed by the Irish Government which is bound to indemnify any person who suffers loss through a mistake made by the Land Registry.

## RESTRICTIONS ON FOREIGN OWNERSHIP OR OCCUPATION

There are no restrictions on non-resident persons owning property in Ireland. Incorporated entities, statutory bodies and private individuals can acquire and exercise rights over property in Ireland. However, anti-money laundering legislation requires that a number of checks be carried out on potential buyers and the identity of the buyer, ability to fund a deal and source of funds will need to be verified.

Property is often acquired either by way of direct purchase or through a company acquisition. The process of incorporating a company in Ireland is relatively straightforward but of course needs to be considered on a case by case basis. It is important to choose the right company type for your venture for example a private company limited by shares, a trust or collective vehicle structure. Usually tax advice dictates what the best route is.

If a foreign company is selling real estate in Ireland, legal opinions may be required from a lawyer in the relevant country to ensure all legal requirements are satisfied for example ensuring documentation is correctly executed on closing.

## DUE DILIGENCE PROCESS

The principle of caveat emptor (let the buyer beware) applies in Irish real estate law. Therefore, a huge emphasis needs to be placed on the investigation of title process. The process of investigation of title involves the review and

examination of the seller's title with a view to ascertaining whether or not the seller is in a position to give so-called "good marketable title" to the buyer. It should also be clear whether the property is held subject to or with the benefit of any third-party interests e.g. charges, leases, easements or rights. In the case of a registered title, the process is greatly simplified.

Searches are a vital tool in the due diligence process, they are carried out in relevant government bodies which will reveal what liabilities, charges or burdens may affect the property, the status of the seller from an insolvency point of view and details relating to planning will also be returned. Any adverse search results should be produced to the seller for explanation or discharge or further investigation may be required. Planning documentation will need to be reviewed and an inspection of the planning documentation can be carried out by the engineer or architect at the offices of the local authority. Surveyors and or architects may be engaged to carry out a structural survey of the property. Depending on the nature of the transaction, an environmental expert may also be engaged to provide an environmental report in respect of the property.

Generally, on larger transactions, commercial and legal due diligence is assisted with help of online data rooms which allow access to large volumes of documentation and sellers can obtain reports such as building condition and measurement reports which can be relied upon by the purchaser.

At times employees are also transferred with the property and the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 (TUPE) applies. It would be advisable from an early stage that

employment law advice is obtained in order to ascertain whether or not TUPE applies and if so what its impact might be.

## THE PROCESS OF PURCHASING REAL ESTATE

Generally speaking, the sale of real estate is a four-stage process as follows:

### 1. [Sale Agreed](#)

Heads of Terms (non-binding) dealing with the commercial points are agreed between the buyer and seller and usually negotiated through property agents. Sometimes refundable booking deposits are requested at this stage.

### 2. [Due Diligence](#)

Pre contract enquiries should be raised by the buyer which are not standardised as such. These are based on the documents uploaded to a data room or contained in the copy title documents issued by the sellers' solicitors. More queries can be raised once a contract is in place, but it would be prudent to raise any major concerns at the pre-contract stage. Negotiations and settling terms between the parties generally takes 6 to 8 weeks. Once the due diligence process is complete contracts are signed and exchanged. Confidentiality agreements may be put in place at this stage between the parties.

### 3. [Contract for Sale](#)

The seller's solicitor drafts the Contract for Sale and sends it to the buyer with all accompanying title documentation. There is a standard form Contract for Sale for use in property transactions in Ireland containing markets standards terms and conditions. The general conditions make a number of assumptions about the prop-

erty and place certain obligations on the seller; however, these conditions can be varied or dis-applied on a case by case basis.

The warranties normally provided are contained in the general conditions of the Contract for Sale and relate to matters such as notices, planning compliance, boundaries, easements and identity and the existence of any other interest in the property. These warranties can be excluded or amended by agreement in the special conditions of the Contract for Sale and this is where the due diligence process is extremely important. A binding contract exists once the signed contracts have been exchanged and the contract deposit is paid.

### 4. [Closing](#)

Normally, there is a 4 week period between the exchange of contracts and completion of the sale, but these can happen simultaneously or in whatever time period the parties agree. The seller risks losing their deposit if he/she fails to go through with or pulls out of the purchase. On the closing date, the buyer transfers the balance purchase monies and the seller executes the transfer deed transferring the legal title to the buyer. To complete the effective ownership of property, it is necessary to register the transfer in the Land Registry but this is not a precondition to completion.

## REAL ESTATE FINANCE

Lending institutions will also want peace of mind that the property being secured is "good marketable title" and will usually attach several condition precedents before the drawdown of funds can take place.

Most commonly the property is charged as security in favour of the lender. In addition or

alternatively, the rental income or other benefit derived from the asset may be charged. The most common forms of security are as follows:

1. Legal mortgage or charge over the freehold or leasehold real estate
2. Floating charge over the assets held by a company from time to time (while such a charge does not attach to any specific asset, it crystallises and becomes a quasi-fixed charge on the happening of any specific event of default)
3. Assignment over rental income

The lending institution will have its own lawyers who will generally investigate title in tandem with the purchaser's lawyers. If finance is being obtained it will also be necessary to register the mortgage/charge in the Land Registry or Registry of Deeds, where appropriate.

## COMMERCIAL LEASES

The normal type of commercial lease has, for many years, been for a term between 20 and 35 years. However, shorter terms or break options every 5 or 10 years are currently being negotiated between landlords and tenants.

Unlike a Contract for Sale, there is no prescribed form of commercial lease and therefore they are freely negotiated documents subject to applicable legalisation. Like purchasing property, heads of terms (non-binding) are agreed between the parties typically through property agents. The timeline for completion can vary on a case by case basis depending on the nature of the lease being taken and the property in question. There is a legal requirement that all commercial tenants file details of their lease interest with the Property Services Regulatory Authority and non-compliance carries a penalty fine.

Prior to signing a commercial lease, an Agreement for Lease (AFL) may be entered into which provides for a binding agreement between the landlord and tenant who agree to enter a lease at some point in the future. An AFL is usually put in place when a tenant cannot immediately occupy the property due to outstanding conditions, for example the property in question is a shopping centre which needs to be developed by the landlord or vacant possession needs to be achieved before the lease can be granted to the tenant. An AFL can also often deal with supplementary information on the condition and history of the property.

The key terms negotiated between the parties to a lease are as follows:

#### Rent

Rents are usually calculated on a square footage basis and the most common basis for rent is fixed. The initial rent will be agreed by the parties with rent reviews occurring usually every 5 years. Since 2010, upward only rent reviews are unlawful in new leases. Review on rents are generally based on open market rent value or have caps and collars.

#### Term

Typically, a commercial lease falls into two categories; a lease on a short-term basis for a term of up to 5 years; or a lease on a medium to long-term basis, which would generally be considered a term from 10 years to 25 years. A tenant's break option in a lease represents a potential opportunity for a tenant either to relocate to cheaper or more appropriate premises or to renegotiate the terms of its lease, usually break options provide for one or more dates on which the lease can be terminated subject to conditions including notice and payment of a penalty.

#### Repair and insurance responsibilities

Commercial leases in Ireland are either of a full repairing and insuring nature (FRI leases), whereby the tenant will be subject to extensive repairing obligations or in the case of a commercial unit forming part of a building or multi-unit development, the tenant is typically obliged to repair and maintain the internal non-structural parts of the unit and to pay a contribution towards the costs of repairs which is typically paid through a service charge (IRI leases).

In a long-term ownership or lease of an entire building, responsibility on payment of insurance generally remains with the tenant. With a shorter lease, or a lease of a unit or part of a building, the landlord generally insures, and the tenant must pay the cost of the insurance premium.

#### Commercial Alienation

Tenants are commonly permitted to transfer assign or sub-let their interest, however, typically a commercial lease will place restrictions on a tenant's contractual right to assign or sub-let without the landlord's prior written consent. Irish legislation states the landlords cannot unreasonably withhold consent to the transfer of the whole property but can refuse consent to a transfer of part of the property. The landlord in providing consent can impose restrictions which normally concern the financial status of the third party and are entitled to require a guarantor or rental deposit.

#### Renewal

There is a legislative right to a new tenancy for business tenants in occupation for a period of at least 5 years known as the business eq-

uity. Contracting out of this business equity is permitted and landlords will typically require a tenant to renounce on their entitlement to claim a new tenancy prior to signing by way of deed of renunciation. Legislation does have a number of carve outs to defeat these tenants' renewal rights including redevelopment or good estate management subject to compensation for disturbance being paid to the tenant.

#### Grounds for termination

Landlords may generally terminate the lease in the event of non-payment of rent or breach of covenants not remedied or if the tenant and or the guarantor becomes insolvent.

There is no general statutory entitlement for a tenant to terminate a lease during the term. Accordingly, in the current climate, tenants are reluctant to enter long leases without having a break option or a number of break options over the course of the term. Leases also often contain a clause permitting a tenant to terminate in circumstances where the building has been destroyed and has not been reinstated by the landlord within a specified period (usually 3 years).

### **PLANNING CONTROLS**

Planning permission is required for any development on property unless specifically exempt. An application must be made to the relevant Planning Authority for permission to erect any buildings, to make alterations or additions to existing buildings or to change the use of any property or buildings. Planning and property use controls are regulated by the local planning authority in the area where any development is carried out. The Planning Authority may grant permission with or without conditions or refuse permission. Certain large scale environmental, transport

and energy infrastructure may be classified as strategic infrastructure for which a fast track planning process will apply and in such cases application for planning permission is made directly to the Planning Board (known in Ireland as An Bórd Pleanála).

If the application is made to the Planning Authority the applicant and third party objectors can appeal the Planning Authority's decision to the Planning Board. For a strategic infrastructure application there is no appeals mechanism. However, the decisions of the Planning Authority or of the Planning Board may be subject to an application for judicial review to the High Court. If developments occur without planning permission the landowner can make an application for retention permission.

### **BUILDING CONTROLS**

Building regulations govern amongst other things the design, construction and alterations of buildings in Ireland. When buying or leasing property it is essential that satisfactory evidence is provided for by the seller that outlines the property in question has been built in compliance with the building regulation and planning permissions. A relatively new and transparent Building Control Amendment Regulations (BCAR) system now exists in Ireland which allows a purchaser to inspect an online register for confirmation of compliance.

### **ENVIRONMENT CONTROLS**

For certain large-scale developments and all strategic infrastructure projects, an Environmental Impact Statement must be submitted with the planning application.

Planning Authorities also regulate and permit the operations of less intensive environmental

activities whilst the national environmental authority, the Environmental Protection Agency (EPA), regulates larger scale environmental and waste operations. The EPA has extensive monitoring, reporting, investigative and enforcement powers. Much of Ireland's environmental and waste legislation originates from the EU. Where a company breaches such legislation, its directors may incur personal liability.

When a building is constructed, sold or rented a Building Energy Rating Certificate (BER) detailing its energy consumption must be provided to the prospective buyers or tenants. The Certificate must be accompanied by an Advisory Report and it is valid for 10 years unless there is a material change in the building, for example an extension, a significant deterioration in the fabric of the building or a change of heating system or type of fuel used in it. Legislation sets out certain categories of buildings which are exempt which include national monuments, protected structures, buildings used as a place of worship and certain agricultural and industrial buildings.

Liability for environmental contamination is not limited to the polluter although the polluter is likely to be pursued in the first instance but can extend to the owner of the property affected.

## TAXES

Ireland's tax system collects tax by both direct and indirect means. Liability to direct taxation in Ireland is generally based on residence whilst an indirect taxation liability is usually referable to the value of the chargeable item. Specialised tax advice should always be obtained when considering investment in Ireland. Generally, with all property transactions there is tax to pay. The main taxes are:

### Stamp Duty

The Buyer will have to pay stamp duty at the rate applicable at the time of purchasing which is charged on the consideration payable for the property. The buyer of property is accountable for stamp duty within 30 days from the date of the transfer.

### Value Added Tax (VAT)

As a general rule most disposals of property developed or re-developed within the last 10 years will attract VAT. A buyer may be entitled to recover VAT, depending on the buyer's VAT status and the purpose for which the property is used. Detailed analysis is required to determine the correct VAT treatment and reliefs on the disposal of property.

### Capital Gains Tax

The seller is accountable for tax on a gain arising on the disposal of property (other than a principle private residence) irrespective of tax domicile. The standard rate of tax is currently 33% and buyers can be held liable for unpaid capital gains tax on the property.

### Commercial Rates

The occupier is also liable for rates (a local authority service tax charge). Rates levied by local authorities are payable in respect of commercial properties and the level of rates are set by the relevant local authority depending on the location of the property.

### Water Rates

In Ireland, users of non-residential water services must pay a charge to local authorities.

This charge is based on the amount of water consumed and is monitored through a metering system.

### BID (Business Improvement District) Scheme

A BID is a defined area within which businesses are required to pay an additional rate levy in order to fund projects within the district's boundaries. The additional charge or levy is ring fenced and used to finance shared common projects. Whether or not BID rates are applicable will be dependent on the location of the property.

## EMERGING TRENDS

### Green Leases

There are currently no specific "green obligations" commonly found in leases in Ireland. However, as more businesses are faced with rising energy costs and become concerned about carbon footprint reduction and sustainable green building, green leases are growing in popularity in Ireland. This type of lease includes clauses dealing with a way for tenants and landlords to work together to save money and reach building efficiency goals. Every green lease will be different based on buildings improvement, design constructions and certifications. Clauses will typically provide how the building will be occupied, operated and managed in a sustainable way. Adopting a green lease structure can make property more desirable and attract responsible tenants who understand that saving energy effects their bottom line.

### Co-living

Co-living is a relatively new concept in Ireland, and it is an expansion of Ireland's build-to-rent

(BTR) market. The aim is to optimise space in urban areas. These shared accommodation developments, akin to student residences for adults, involve short-term accommodation and operated on a club-like basis with payment of membership fees. Residents are allocated private rooms with access to recreational facilities dedicated solely for use by residents. Professional managing agents deal with the day-to-day administration of the buildings and communal facilities in a similar manner to student accommodation.

### Co-working

Co-working spaces are particularly popular with start-ups, freelancers and corporate teams. This increasing trend in Irish real estate has many implications for how companies operate and there are many attractions to such a set-up. The major benefit to a co-working arrangement is that you can use a desk or office space for as little as a day or a month. This is great for those who do not wish to be tied down to a lengthy agreement. Another potential benefit to the co-working arrangement is that the rent is not fixed for a year (or 5 year) period and so you can pay month to month and then vacate the space if you do not wish to pay for another month. This has had a significant impact on short-term or small space office deals in the market.

### Internet Sales / Click & Collect

Purchasing patterns show that growth in online sales cannot be ignored and is limiting the length of leases being entered in to by retail tenants. Retailers with online platforms and high street presence must consider shop sales, internet sales and internet sales at the store. There is now a debate surrounding online sales and whether actual stores are the bricks and

mortar to online sales. Any turnover clause will normally provide that anything generated at the store is part of turnover. Click & Collect services therefore must be included as part of turnover otherwise it unfairly leaves tenants with a way of getting around turnover rent obligations.

Please note that this guide is a high-level summary of some key considerations and points for real estate investors, investing in Ireland. It is provided for information purposes only and does not constitute legal or other advice. Specific advice should be sought in specific cases.



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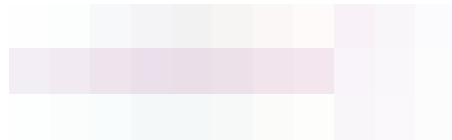
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# TAX CLINIC

## Advice from Ernst & Young (EY)

EY Dublin's Irish property taxation overview provides a brief introduction to Ireland's property tax system, taking us from acquisition right through to disposal.

### ACQUISITION OF IRISH PROPERTY

#### Transfer Taxes

Stamp duty is an Irish transfer tax payable by the purchaser on the acquisition of Irish situate property regardless of tax residency status. The applicable rate depends on the category of property.

Residential property is liable to stamp duty at a rate of 1% on the first €1m of the consideration paid, with the excess liable at 2%. Non-residential property is liable to a flat rate of 7.5% applicable on and from 9 October 2019. Transitional arrangements preserving the previous 6% rate apply to instruments executed before 1 January 2020 where a binding contract existed prior to 9 October 2019 and the instrument contains a certificate to that effect.

A partial rebate scheme may reduce the rate of stamp duty on certain residential developments where stamp duty was paid at the 7.5% rate (or previous 6% rate) if construction oper-

ations for a residential development commence on the land pursuant to a commencement notice within a period of 30 months following the date of the conveyance. The refund is liable to a clawback if certain criteria are not satisfied. The transfer of shares in a company incorporated in Ireland (including a REIT) attracts stamp duty at a rate of 1% on the consideration paid subject to certain anti-avoidance provisions relating to shares deriving their value or the majority thereof from Irish land.

On a prima facie basis, there is no charge to stamp duty on either the issue or transfer of shares or units in a Qualifying Investor Alternative Investment Fund ("QIAIF") (a particular type of Irish regulated fund vehicle which can hold investment property) or a foreign equivalent collective investment fund. There is a category of such fund called an Irish Real Estate Fund ("IREF"), broadly a fund which derives more than 25% of its value from Irish real estate assets, and certain anti-avoidance provisions can apply to the transfer of units in IREFs.

The anti-avoidance provisions referred to impose a 7.5% rate of stamp duty on certain transfers of shares in companies (Irish and non-Irish), interests in partnerships and units in IREFs that derive their value or the greater part of their value,



directly or indirectly, from Irish situs non-residential land and buildings. The provisions apply where the transfer results in a change in control and the property was held as trading stock, or held with the object of either realising a gain from its disposal or its development.

### [Value Added Tax \(VAT\)](#)

Under current VAT legislation introduced in 2008, the general rule is that if a property has not been developed within the last 20 years its sale is exempt from VAT. Where a property has been developed but is sold before it is completed VAT will apply to the sale at 13.5%.

Where a developed property has been completed and is sold for the first time within 5 years of the date of completion of the development, then it is treated as 'new' and it will be subject to VAT at 13.5%. In addition, where such a property is sold for the second or subsequent time, it can still be treated as 'new' for VAT purposes, with VAT automatically applying, if the sale occurs within the 5 year period as above and the property has been occupied for less than 24 months since completion.

In the event that a commercial property is not 'new' as defined, its sale is VAT exempt. However, the purchaser and seller may nonetheless jointly elect to apply VAT on the sale (VAT rate 13.5%) in order for the vendor to retain entitlement to VAT recovery of the development/acquisition costs of the property.

The sale of residential property is generally subject to VAT where the property is being sold by the person who developed it, even where the property is not 'new' as defined. Again, VAT applies at 13.5% to the sale.

The sale of second-hand residential properties is exempt from VAT. There is no option permitted to tax the sale of exempt residential property.

Where properties are sold which are let or have been let, VAT "transfer of business" relief may apply to the sale whereby VAT is not chargeable. However, administrative obligations apply to the vendor and, in some instances, there can be VAT implications for the purchaser.

### **HOLDING OF IRISH PROPERTY**

Irish source rental income is taxable in Ireland regardless of the tax residence of the recipient. A prescriptive list of expenses generally associated with renting property are allowable as deductions for tax purposes including, under current rules, interest on borrowings applied in the "purchase, improvement or repair" of the underlying property.

Accounting depreciation is not an allowable deduction for Irish tax purposes. However, capital allowances (tax depreciation) in the form of wear and tear allowances and industrial buildings allowances can be deducted against net rental income where certain qualification criteria are met.

Wear and tear allowances on qualifying items of plant and machinery may be available at a rate of 12.5% as a deduction over an 8 year period. Industrial buildings allowances, usually at a rate of 4%, may also be available in respect of a specified range of commercial buildings.

Income of Irish tax resident companies is subject to corporation tax at rates of 12.5% and 25%. Rental income will generally be subject to corporation tax at 25%, unless it can be shown to be part of a trading activity and it is accepted practice to tax the income at 12.5%. If the Irish

tax resident company is closely controlled, then it may also be liable to a surcharge in respect of non-distributed income referred to as "the close company surcharge". This can increase the effective tax rate on rental income up to 40%.

A non-Irish tax resident company in receipt of rental income from Irish situate property that is not derived from an Irish branch or agency will be subject to the standard rate of income tax, which is currently 20%. A non-Irish tax resident company is not liable to the close company surcharge.

An Irish tax resident individual in receipt of rental income is liable to income tax at his/her marginal tax rate (that is, 20% or 40%), the Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) (where applicable). A non-Irish tax resident individual in receipt of Irish source rental income is liable to income tax at his/her marginal tax rate and also USC.

Where the owner of a property is non-Irish tax resident, the tenant will be required to withhold tax at 20% on the payment of rent to the landlord and remit this withholding tax to the Irish Revenue Commissioners, unless an Irish tax collection agent is appointed. The non-Irish tax resident landlord is entitled to file a tax return with the Irish Revenue and seek a refund of any excess withholding tax over its actual income tax liability.

Alternatively, the non-Irish tax resident landlord can appoint an Irish resident tax collection agent to collect the rent on its behalf. This will enable the agent to receive the rent without deduction of tax; however, in such a case, the agent must account for the tax on behalf of the non-resident landlord.

### [Irish regulated funds holding Irish property](#)

An Irish regulated fund (i.e. a QIAIF which is authorised by the Central Bank of Ireland) is not subject to Irish tax on income/gains arising on assets held by the fund. This includes Irish property assets held by such a fund.

Investors in QIAIFs, however, may be subject to exit tax in respect of distributions/deemed distributions received or gains arising from their holdings of units/shares in the fund. There are two forms of exit tax that must be considered in this context, namely Investment Undertakings Tax ('IUT') and Irish Real Estate Funds Tax ('IREF Withholding Tax').

In general, IUT will apply to Irish resident individuals/companies and to certain other non-exempt Irish entities investing in the fund. The applicable rate of IUT will be 25% for corporate investors and 41% for individual investors (although this rate may be increased to 60% in certain cases, specifically where the investor has the ability to select or influence the selection of the assets of the fund). IUT should not apply to non-Irish resident investors. IUT-exempt investors (including non-Irish resident investors) may, however, be subject to exit tax on distributions/gains arising on their holdings of units/shares in IREFs. It should be noted that, to the extent that an investor is already subject to IUT, then that investor should not also be subject to IREF Withholding Tax.

Subject to certain limited exemptions (see below), distributions paid to non-Irish tax resident investors and other IUT exempt investors or gains arising from their holdings of units/shares in the IREF are subject to a 20% IREF withholding tax where the distributions/gains arise from the holding of Irish real estate assets. For certain investors, it may be possible

to reclaim a portion of this IREF withholding tax from the Revenue Commissioners where the investor is tax resident in a territory that has entered into a double tax treaty with Ireland and the rate of withholding tax under the relevant treaty is less than 20%.

There will also be a 20% IREF withholding tax on the gross proceeds of sale where the units/shares in the IREF are directly sold by an existing investor to another investor. The obligation to withhold the relevant amount will lie with the new investor acquiring the units. To the extent that the amount withheld exceeds the tax which would have arisen on the actual gain accruing to the selling investor, that investor may claim a refund of the excess from the Revenue Commissioners. Furthermore, a statutory advance clearance regime for certain direct and indirect investors may apply to obviate the requirement to withhold tax in certain instances. As noted above, certain limited categories of investors will not be subject to IREF withholding tax. In general, these investors include:

- Irish and equivalent European Union (EU) or European Economic Area (EEA) pension schemes, Approved Retirement Funds (ARFs), Personal Retirement Savings Accounts and EU cross-border schemes holding units in the IREF directly or indirectly
- Other Irish regulated funds or equivalent funds authorised by a Member State of the EU or the EEA
- Irish life assurance funds and equivalent European Union (EU) or European Economic Area (EEA) approved overseas life assurance funds
- Irish charities and credit unions and Irish “section 110” companies

The term ‘equivalent’ above means that such non-Irish funds must, broadly be subject to the same supervisory and regulatory arrangements applicable in Ireland.

Finance Act 2019 introduced certain anti-avoidance provisions for IREFs which are targeted at limiting the degree to which certain expenses can be applied to reduce profits subject to IREF withholding tax. These include interest limitation rules which apply a 20% fund level tax liability on interest deemed to be excessive. Broadly, these measures apply where the total debt exceeds an amount equal to 50% of the cost of the IREF assets or where the ratio of the IREF’s income to its interest expense falls below a 1.25:1 ratio. There is a carve out for third party interest in certain scenarios. Furthermore, any expenses incurred by an IREF that are not wholly and exclusively laid out for the purpose of the IREF business will be treated as income subject to tax at 20%.

#### Irish Real Estate Investment Trusts

The Irish Real Estate Investment Trust (REIT) structure was introduced into Irish law in 2013. Irish REITs are listed Irish companies used to hold investment properties, which provide a return for investors similar to that of a direct investment in property.

Qualifying income and gains of a REIT arising from its property rental business will be exempt from Irish corporation tax at the level of the REIT. Instead, the REIT is required to distribute 85% of its rental profits (and with effect from Finance Act 2019 certain gains on the disposal of properties to the extent that the proceeds of disposal are not reinvested or used to repay debt) annually and pass the tax obligation onto its shareholders. It does this by applying a dividend withholding tax of 25% (20%



*Grand Canal Dock, Dublin 2*

prior to 1/1/2020) on its distributions made to all investors (that is both Irish and non-Irish tax resident investors), unless the investor is an exempt qualifying investor e.g. an Irish pension scheme or charity. These exempt investors may receive distributions gross subject to completion of a specific declaration.

For a non-Irish tax resident investor it may be possible to obtain a partial refund of, or to claim a credit for, the dividend withholding tax deducted against a home jurisdiction tax liability under the terms of a relevant tax treaty between Ireland and the non-resident investor’s home jurisdiction. A non-resident investor should not be subject to Irish capital gains tax on the disposal of shares in a REIT, on the basis that it is a publicly quoted company. Irish tax resident individual investors are liable to income tax at their marginal tax rate (20% or 40%), together with USC and PRSI on receipt of distri-

butions from the REIT. Such investors are also liable to CGT (currently at 33%) on gains arising from a disposal of their shares in the REIT.

Irish tax resident companies in receipt of distributions from a REIT, unless trading in stocks/shares, are subject to corporation tax at 25% and to corporation tax on chargeable gains realised on a disposal of their shares in the REIT, applying capital gains tax principles.

#### Vacant Site Levy

The Urban Regeneration and Housing Act 2015 introduced legislation providing for the establishment of a vacant site register in relation to idle or vacant sites consisting of an area of land exceeding 0.05 hectares.

Subject to an appeals procedure, a vacant site levy is payable each year to the local authority

for a site appearing on such register until the site is removed from the register. For the levy to be lifted, development must commence on the vacant site

The levy is payable in arrears each year, this means that the levy in respect of 2020 will be charged in 2021. The levy is calculated at 7% of the value of the site for the relevant year.

### [VAT on Leases](#)

The letting of commercial property is VAT-exempt in Ireland. The landlord may opt to charge VAT on the rent (at the standard VAT rate of 23%), ensuring that the landlord retains entitlement to VAT recovery on all costs relating to the property. VAT registered tenants may be entitled to recover the VAT on the rent as a credit in their VAT returns.

There is no option available to tax the letting of residential property which is always VAT-exempt. Therefore, where a landlord purchases a residential property that is subject to VAT, the landlord will not be entitled to recover this VAT.

### [Stamp Duty on Leases](#)

Stamp duty is charged both on the rent and also on any premium payable under a lease. The rate of stamp duty payable on the rent depends on the term of the lease:

- Where the lease is indefinite or for a term not exceeding 35 years, the rate of duty is 1% of the average annual rent.
- Where the lease is for a term exceeding 35 years but not exceeding 100 years, the rate of duty is 6% of the average annual rent.
- Where the lease term exceeds 100 years

the rate of duty is 12% of the average annual rent.

- No stamp duty is payable in respect of a lease of residential property for an indefinite term or for a term not exceeding 35 years, provided the annual rent does not exceed €40,000.

Where a premium is payable in respect of a lease, the rate of duty applicable is the same as that which applies in respect of transfers of property; 7.5% on non-residential property and 1% on residential property up to €1m with the excess liable at 2%.

An assignment of a leasehold interest is charged to stamp duty as a transfer of property.

### [Rates and Charges](#)

A property tax, known as Rates, applies to most commercial buildings in Ireland. The Rates vary between local authorities and are payable by the occupier of the premises on the date the Rates become payable.

Local Property Tax (LPT) applies to Irish situate residential properties. LPT is a self-assessed annual tax. A property is liable for LPT if the property was residential property on the valuation date of 1 May 2013.

The current valuation date for LPT is 1 May 2013 and applies for all years up to and including 2020. The next valuation date for LPT will be 1 November 2020 and will apply for the years 2021, 2022 and 2023. The LPT liability date for 2013 was 1 May 2013 and for every other year it is 1 November in the preceding year. Therefore, the LPT liability date for 2020 is 1 November 2019 and the liable person on 1 November 2019 must pay the LPT for 2020.

Property values are currently organised into valuation bands. An LPT rate is assigned to each band. Market values up to €1m are assessed at the mid-point of the €50k band, e.g. a property valued between €300,001 and €350,000, is assessed on 0.18% of €325,000. These valuation bands are subject to change in conjunction with the change in valuation date for LPT such that new bands may apply with effect from 2021 and subsequent years.

No banding applies to property values over €1 million and an actual valuation for the property must be declared. The actual value is then assessed at 0.18% on the first €1 million and 0.25% on the portion of the value above €1 million. From 2015 onwards, local authorities can vary the LPT base rate on residential properties. The base rate is the rate that applied in 2014. The local authority can increase or decrease the LPT rate by up to 15% from the base rate.

Certain residential properties are exempt from LPT including inter alia new and unused properties purchased from a builder/developer during the period 1 January 2013 to 31 October 2020, are exempt for all years up to and including 2020. Other exemptions also apply for charities, nursing homes and residences for incapacitated persons. Where LPT remains unpaid it becomes a charge on the property.

### [SALE OF IRISH PROPERTY](#)

Assuming held on investment account as opposed to on trading account, gains arising on the disposal of either Irish property or shares in an Irish tax resident company/non-Irish tax resident company deriving the majority of its value from Irish real estate by an individual investor (whether or not Irish tax resident) are subject to Irish Capital Gains Tax at 33%. Gains arising to an Irish tax resident company are subject to

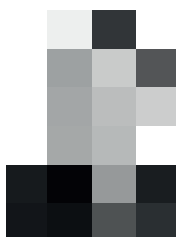
the same level of taxation but are generally assessed as corporation tax on chargeable gains. An exemption from Capital Gains Tax applies to gains realised on a disposal of land and buildings situate in any European Economic Area (EEA) State (including Ireland) where the land/buildings were acquired in the period commencing on 7 December 2011 and ending on 31 December 2014. Originally, there was a requirement that the land/buildings be held for 7 years to qualify for the exemption. This was changed such that a full capital gains tax exemption now applies where the lands/buildings are held for at least 4 years from the date that they were acquired and are disposed of at any time between the 4th and 7th anniversaries of acquisition. Tapering relief applies where the land/buildings are held for more than 7 years. An Irish tax resident company, or a non-Irish tax resident company trading through a branch or permanent establishment in Ireland, which develops or deals in land for sale as part of its trade will be subject to Irish tax on gains from the disposal of land at either 12.5% (broadly where the land has been fully developed by or for the company) or at 25% (where the sale is of undeveloped or partially developed land).

### [ONGOING AND FUTURE TAX CHANGES](#)

International tax policy changes driven by the EU AND OECD, including the Base Erosion and Profit Shifting ("BEPS"), Anti-Tax Avoidance Directive ("ATAD") and the OECD's Multilateral Instrument ("MLI") initiatives have resulted and will continue to result in significant changes to Irish and international tax legislation. Whilst the above commentary does not specifically address the detail of such changes, how they will impact the taxation of Irish real estate transactions now and in the future is increasingly something that should be considered on a case by case basis. Prospective interest lim-

itation rules, recently introduced anti-hybrid rules, expanded transfer pricing provisions and EU Mandatory disclosure provisions related to cross border transactions in particular should warrant close consideration in the context of assessing Irish real estate transactions from a tax perspective, particularly for international investors.

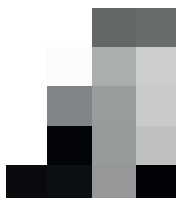
Please note that this article is aimed at providing a general overview based on current Irish tax law of the topics discussed and it is not intended to be either exhaustive or definitive. Specific tax advice should be sought when entering into any Irish property transaction.



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# 6 BUSINESS LINES in Europe

## A 360° vision

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### Alliances\*

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#### HUNGARY \*\*

#### IVORY COAST

#### JERSEY

#### LATVIA

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\* June 2018

\*\* Coverage in Transaction, Valuation  
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