Analysis

Cautious optimism for 2021 as uncertainty prevails

Hannah Dwyer In the real estate market, staying ahead of trends will be crucial this year. While local market sentiment and knowledge remain important, data will be king

As we gladly bade farewell to a dreadful 2020, global market hopes for a return to normality were sadly short-lived as the coronavirus pandemic has stubbornly endured.

Now in our third lockdown in a year, it was bitterly disappointing earlier this month to see Ireland record the highest daily number of confirmed Covid-19 cases globally for every million people.

What does this mean for property markets? Although high Covid-19 cases are impacting markets in Ireland, we are far from alone in this pandemic. There are key lessons we can take from what is happening in countries and markets that are already showing recovery.

Government responses and levels of Covid-19 recovery in markets are directly linked to the performance of the economy and property markets in most geographies.

For Ireland, the recent spike in Covid-19 case numbers will continue to impact consumption patterns and economic performance. But hopefully the government will be able to mitigate further economic scarring as it continues to roll out economic stimulus and support packages.

Globally, property continues to be seen as a strong-performing asset class, with allocations to real estate increasing in the last 12 months.

Investors had a cautious, but confident, approach in 2020, and this is expected to continue, although we expect to see similar levels of activity overall this year. While travel restrictions limited movement and saw investors stay closer to home, overseas investors are expected to remain active.

Defensive strategies

There has been a noticeable shift from some investors in terms of the types of investment they are looking for. The ongoing uncertainty created by the pandemic is forcing them to rethink strategies in a bid to mitigate risk.

This has meant more defensive strategies that focus on stability in income and solid supply-demand fundamentals.

That said, all investors, their risk profile, strategy and objectives are different. Some want to take on greater levels of risk for a higher return, whilst others want relatively steady and therefore 'safer' returns.

There are always opportunistic investors who see disruption as an opportunity and have the capabilities within their funds to take risks. Investment outside of what is seen as more 'traditional' or core asset classes is expected.

The emergence of special debt funds globally targeting assets that can be taken over and asset managed has already started, and we may see some of these special vehicles active in Ireland in the next 12 months.

In 2021, overseas investors are expected to remain active

In Britain there has been a focus by some investors in retail assets that need urgent regeneration and repositioning, or in some cases that can be converted entirely and into different uses (for example, from retail to a warehouse).

There has also been a shift into different sectors that have gained greater importance during the health crisis. Most notably, this includes logistics, with increased activity in online shopping during 'stay at home' guidance periods.

There has also been greater interest in multi-family assets (a part of society where tenants are less likely to have had their employment impacted), and in some alternative sectors such as data centres (buildings responsible for channelling our increasingly online lives) and life science assets (which encompasses a range of medical fields).

Looking at property more broadly, the role of the built environment has and will continue to evolve. How we use and interact with buildings has been forced to change dramatically and quickly in the last 12 months, and owners of buildings will need to maintain functionality by responding to this.

Advancements in technology

The advancements in communication technology have facilitated and allowed change, and while technology will continue to be paramount, additional changes will also be needed.

It is likely that these will be centred on health and safety, with the requirement of buildings to prove that they are functionally safe in a Covid-19 world.

Certifications like WELL will become paramount, and the use of WELL consultants to advise on strategic building compliance will become the new norm. This is not exclusive to office blocks, but retail centres, warehouses and residential too.

Amenities within spaces will also become vital to attract workers into offices, or shoppers into retail stores. The end-user experience will be key for differentiating schemes, and the best ones will succeed.

Placemaking will also gather increased momentum, as investors look to successfully integrate their buildings into the wider area, community and local amenities to positively impact broader socio-economic factors.

While risk can be factored into outlooks and forecasts, uncertainty is much more difficult to gauge, and we are faced with economic and property market uncertainty globally.

This means that over the next 12 months, staying ahead of trends will be crucial. While local market sentiment and knowledge remain important, data will be king, and will be used more than ever in real estate processes.

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An appealing vista: what a post-Brexit property investment market could look like

While new obstacles to trade are sure to emerge, Britain's openness to real estate investors is unlikely to alter. If anything, it will solicit greater investment than before

David Johnson

The Square Mile of London: sterling's fluctuating fortunes against the euro could well dictate appetite for real estate investment in Britain

At 11pm on Friday, December 31, 2020, Britain officially exited the European Union's regulatory orbit, free to seek its fortune as an independent entity.

For property investors, domestic and overseas, the withdrawal has raised multiple questions. Just days before, the British government agreed a trade deal with the EU covering goods but not services. Would any new conditions apply to real estate?

At first glance, very little has changed for property investors. Their ability to buy and sell both residential and commercial real estate remains unhindered.

The December 23 deal allayed any fears of WTO rules applying, along with punitive tariffs and taxes. And access to mortgage finance is as plentiful as ever.

If anything, Brexit has ushered in a period of greater enthusiasm for British property investment. The euro is trading at around 1.10 to the pound, a fall of 9 per cent compared with its most recent peak in February 2020. This alone serves as a major incentive to EU-based investors.

In a December 2020 survey of investors and asset managers, international law firm DLA Piper found that Britain is the most attractive European destination for residential property investment, attracting 33 per cent of respondents, compared with 28 per cent for France, 25 per cent for Germany and 24 per cent for Spain.

"The UK remains an attractive market for investment post-Brexit which should provide confirmation and reassurance that the UK is a vital hub for activity and growth," said Olaf Schmidt, real estate partner at DLA Piper.

How far sterling continues to weaken, or appreciate, against the euro could be a decisive factor in overseas appetite for real estate investment in Britain.

Relative stability

The early signs are of relative stability, based on expectations of a recovering economy post Covid-19 and greater economic predictability following the trade deal.

Of greater immediate concern is the forthcoming Stamp Duty Lad Tax (SDLT) deadline on April 1, when the British government's 'holiday' on the levy comes to an end, accompanied by a new 2 per cent surcharge on overseas property buyers, applied on the same day.

For the buyer of a £10 million residential property in England or Northern Ireland, this will mean an additional £1,445,000 stamp duty payment.

Some commentators argue that a low pound will compensate for this levy, yet since many overseas buyers must already pay a 3 per cent SDLT charge, applied to second homes, the additional charge could be a serious deterrent to investors.

Since many non-British buyers come from countries outside Britain – the US, China, India and Russia among them – their motivations relate to financial security and to future returns, above short-term tax issues.

Partly thanks to the SDLT holiday, British house prices enjoyed growth of 7.3 per cent in 2020, according to the Nationwide Building Society's index, despite widespread fears of erosion or even a collapse in confidence.

This was all the more remarkable given the sharp economic contraction caused by the pandemic and by the restriction of travel and access, limiting estate agency activity.

The prospect of rising unemployment, with income support schemes coming to an end, coinciding with higher stamp duty, could dampen property markets in the months ahead, even if the worst case scenarios outlined by the Office of Budget Responsibility in the case of 'no deal', have been avoided.

Positive indicators

Mortgage approvals in Britain, which reached historic highs in November 2020, could decline as the recession bites.

Irish investors in Britain will have to weigh up the prospective upsides of Brexit – the potential for economic growth, the likely direction of sterling – with a series of positive indicators coming out of Dublin.

The transfer of financial services companies out of London and into other European hubs has accelerated post-Brexit. Thousands of firms have lost their ability to trade across Europe from the Square Mile, and many are selecting Dublin as an alternative.

Many Dublin-based asset managers rightfully argue that Brexit will yield tremendous benefits to the capital. Post-Brexit, Ireland will be the only country in the EU that will have English as its primary language, which makes it a priority location for US, British and Asian companies whose corporate language is English.

International banks and other financial services companies have flocked to the city in recent years, employing more than 38,000 people and boosting demand for real estate, both commercial and residential.

In 2019 alone, Barclays shifted €190 billion worth of assets to Ireland and the International Financial Services Centre hosts more than 500 companies.

Hundreds of thousands of people apply for Irish passports each year – 900,000 in 2019, with more than ever from British residents – and many British companies have established Irish operations in order to benefit from EU residency benefits.

For example, British property group Hammerson applied for a Dublin stock exchange listing in December 2020, aiming to maintain "full and efficient access to the EU market", said a spokesperson.

Since Brexit, EU investors can no longer trade most British shares directly in London, the Financial Times reported in December, as the EU authorities seek to reduce their reliance on London.

In the wake of US technology groups including Google, Twitter and Facebook, many tech firms that might otherwise have considered locating in London are now looking at Dublin.

Almost five years since the May 2016 referendum sent Britain and the EU on separate paths, there is a common desire from investors across the continent to put the wrangling and division behind them and to find common ground.

While some new obstacles to trade are sure to emerge, Britain's openness to real estate investors is most unlikely to alter. If anything, the country will solicit greater levels of investment than in the past.

Investment group CBRE forecasts a 30 per cent increase in British commercial investment this year, arguing that the "settled new relationship with the European Union" will bring new certainty and stability.

"Brexit will rapidly recede into the background as a preoccupation," it predicts. Historically low interest rates, an abundance of capital looking for a return and easing pandemic restrictions will invigorate the market, says CBRE. Residential investors will trust that the same sentiments apply.

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Developing Dún Laoghaire's potential: a plan in four instalments

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cover a broader area extending to the seafront.

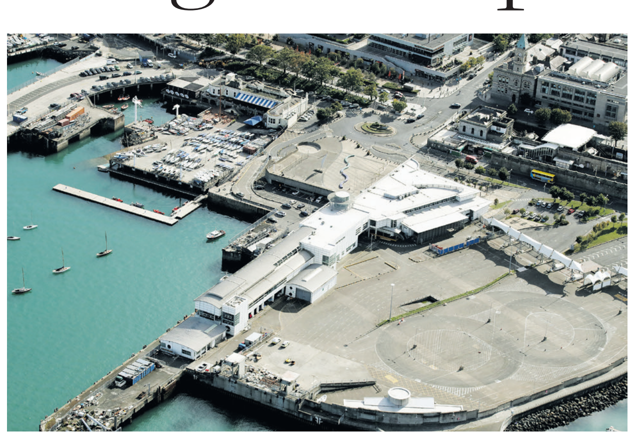
Such branding of urban quarters can work in some cases, as can be seen with Grafton Street in Dublin city centre and the way it had attracted high-end fashion and jewellery stores, or Temple Bar with its pubs and restaurant trade.

However, the Dublin city centre business organisation known as Dublin Town has had mixed success with the Creative Quarter, which is the area west of Grafton Street and extending to South Great George's Street.

Anchored by crafts shops in Powerscourt Centre, apparently the city centre creative quarter works well in attracting tourists, especially from cruise ships. However, for Irish people, the area's main appeal appears to lie in pubs and restaurants.

But Dún Laoghaire planners believe that the county's principal town can turn the smaller, specialist nature of its retail stores to its advantage as this is complemented by experiential pop-up retail activities such as the weekend and Christmas markets.

It is also supported by a range of recreation, wellbeing, tourism, heritage, employment, health, culture and education amenities.



The Ferry Terminal at Dún Laoghaire: there are plans for a tech hub at the site

"The shift in consumer behaviour towards increased demand for 'experiential' retail and the food and beverage sector, places Dún Laoghaire town in a strong position for future growth," the plan says.

"The increase in population in the wider Dún Laoghaire hinterland also offers an opportunity to improve the viability and vitality of the town."

But it also recognises that as small retail stores have closed due to competition from shopping centres, this has resulted in some premises being converted to residential.

On the other hand, it points to the harbour offering opportunities as it changes from its previous role as a commercial port to a marine, leisure, tourism, heritage and innovation destination that is fully integrated with the town.

While progress has been made on connecting the town to the seafront, the council believes more can be done to develop synergies between uses in the harbour and waterfront area and the town.

A number of sites in both the town and waterfront/harbour area offer opportunities for regeneration incorporating a mix of uses. The hospital lands, the Boylan Centre and the former VEC building on Eblana Avenue represent one of the largest remaining potential redevelopment areas within the town centre.

An Interim Framework Plan will seek to retain the existing hospital and community uses on site, together with a mix of complementary uses that will contribute to the town's vitality.

It expects any development on the hospital lands and Boylan Centre to create a network of new streets and public spaces to foster a distinct sense of place that creates an attractive living and working environment.

These streets and spaces are expected to form a series of secondary routes between George's Street, Crofton Road and Marine Road. It will also examine the pedestrianisation of an area between George's Street, Marine Road and St Michael's Hospital.

It also believes that there may be potential for linking new development directly across the Dart line at the train station to the waterfront and marina.

The council also hopes that work on Myrtle Square, a new pedestrian space in front of Bloomfields Shopping Centre, will commence in the coming weeks, Covid-19 restrictions permitting.

This public realm will extend the length of Convent Lane and is designed to stimulate a vibrant streetscape which will encourage footfall throughout Dún Laoghaire town centre.