



THE INSIDER TRACK FROM INDUSTRY EXPERTS

Doing Property Deals in Ireland: Key Insights from Industry Insiders

Panel debate, Guinness Storehouse, Dublin | October 23, 2019





Stephen Bell
CEO, Cullaun Capital

Demographics, customer preferences and regulatory changes are all affecting the Irish property market, and they'll continue to do so. As an industry, we can't stand still and provide yesterday's solutions to tomorrow's needs.

We believe we are at an important juncture, but there is not enough dialogue between people with different views and different opinions. As a result, **potentially good solutions get shot down early because they are not perfect.**

The desire for headlines and soundbites can lead to the oversimplification of what are actually quite complicated problems. The fear of social media damnation can leave people just wanting to talk about the beige and non-controversial.

At Cullaun, we wanted to play our part in addressing this by holding an event in the Guinness Storehouse to celebrate our first year in business, at which an invited panel would discuss some of today's critical issues in property development.

We wanted to create a space where ideas could be shared by people with very different perspectives, all of whom are passionate about finding solutions and making a positive difference to Ireland.

I'm delighted to say we succeeded in our aim, and were proud to play host to a lively, fascinating debate. This report collates the burning topics of the evening and the key insights shared by our panellists.

Cullaun Capital is an Irish-based bespoke multi-asset class lender. Within a year of our first loan in November 2018 we will have provided more than €140m in lending facilities to our borrowers.



Vincent Wall
Moderator

Vincent is a broadcaster and communications consultant. He presents the daily Newstalk FM morning show Breakfast Business, a dynamic and insightful half-hour analysis programme of the latest Irish and international business and economic developments.



Fidelma McManus
Partner, Commercial Property
Beauchamps

Fidelma heads Beauchamps' specialised Housing team. With particular expertise in complex conveyancing, she is an acknowledged market leader in the acquisition, development and management of social housing. Her practice includes the acquisition, structuring, financing, disposal and leasing of all types of property.



Mike Flannery
CEO
Bartra Capital Property

Previously COO of CIE Group, Finance Director of Ireland's third-largest construction contractor and a director of one of Ireland's largest development entities, Mike now runs Bartra. A chartered accountant, his career has also spanned corporate finance, investment banking and aircraft leasing.



Brian McEnery
Partner & Head of Healthcare
BDO Dublin

Brian is an ACCA fellow and former Global President, and currently chairs the ACCA Public Sector Forum in Ireland. He is a Corporate Finance Partner in BDO Ireland and specialises in healthcare and public sector consulting. He was a director of NAMA for nine years.



Arthur O'Brien
Managing Director
C+W O'Brien Architects

Arthur has worked on an international portfolio of development schemes in a variety of sectors and markets over the past two decades. The C+W O'Brien Architects team is particularly interested in the possibilities of using modular construction techniques in public and private sector residential projects.



Derek Poppinga
Managing Director
Mm Capital

Co-founder of real estate investment and development firm, Mm Capital, which has invested more than €100m in the Irish market, Derek has also held a number of investment banking and principal investing roles at Morgan Stanley, Bridgewater Associates and H.I.G. European Capital Partners.



Is it useful to frame the challenges in the housing sector as a “crisis”?

Opening the debate, moderator Vincent Wall put it to the panel that Ireland doesn't have a housing crisis, but an accommodation crisis. Architect Arthur O'Brien was first to respond, stating that he does not believe the statistics support the use of the word “crisis” as 2,500 more houses had been built than had been bought up to March 2019.

“There is certainly a shortage of social housing, but if you look at that shortage on a European-wide scale, is it any more or less than our European partners?” he asked. “We rank 14th in terms of provision with 8.9% of our stock in social housing. The people who rank below us are at 2%, 3% and 4%. A few above us have a considerably higher figure than that. Our nearest neighbour, the UK, is at about 17%.”

He acknowledged, however, that Ireland has a shortage of affordable housing for first-time buyers, with average prices pushing past €300,000 and out of the reach of many younger people.

Fidelma McManus of Beauchamps argued strongly in favour of calling the current situation at least an accommodation crisis, given homeless figures, the shortage of nursing home beds, and the lack of appropriate and affordable housing for students. She cited the lack of affordable options for the “squeezed middle”.

The panel also pointed to issues with perception and language around housing issues. BDO

Dublin's Brian McEnery noted that while many people thought there was a glut of property in Ireland following the global financial crisis, there wasn't. He referenced a 2012 survey of the 15 wealthiest nations in Europe showing Ireland having the lowest number of houses per 1,000 of population at 342.

“We can't say we don't at least have an accommodation crisis.”

Fidelma McManus

Derek Poppinga of Mm Capital added that the tendency of the media to sensationalise housing-sector issues as a “crisis” didn't help. The use of the word crisis tends to lead to attempted political quick fixes, whereas real enablers of supply need years to come on stream.

Key takeaways

- There is undoubtedly a shortage of affordable housing in Ireland
- Quick fixes don't exist – increasing supply will take time

02. What will our children and our parents say?

Both Mike Flannery of Bartra and architect Arthur O'Brien made strong cases for **the need for new typologies in the market**. Both referenced that up to two-thirds of younger people live alone through choice into their mid 30s. The elderly may find themselves living alone again for other reasons.

For both personal and environmental reasons, younger people don't want to commute for two or three hours a day to work in urban centres. They don't necessarily buy into the culture of ownership that once dominated in Ireland and are not looking for houses, argued Mike, but for somewhere affordable to stay to enjoy the experience of a city or country.

“We are patronising young people when we say, ‘We will tell you what your choices are.’”

Mike Flannery

Ireland is only at about 60% urbanisation, he added, compared with an average trending towards 80% elsewhere. “We are going to have to change the whole range of typology,” he said. “It's not possible to give everyone a front garden, a back garden and three bedrooms even if they wanted it.”

Furthermore, our children will be disappointed in us if things don't change. “The large family house will be a pariah of the green agenda in another ge-

neration. People will say, ‘How could you?’ They will look at our housing like we would have looked at the landed gentry of the previous century, saying, “You ruined the planet to have space inside your house that you didn't need and wasn't functional”.

“We have to look now at how we are going to fit more of us into smaller spaces with better facilities,” he said, adding that planners are broadly on board with the need to change typologies and densities.

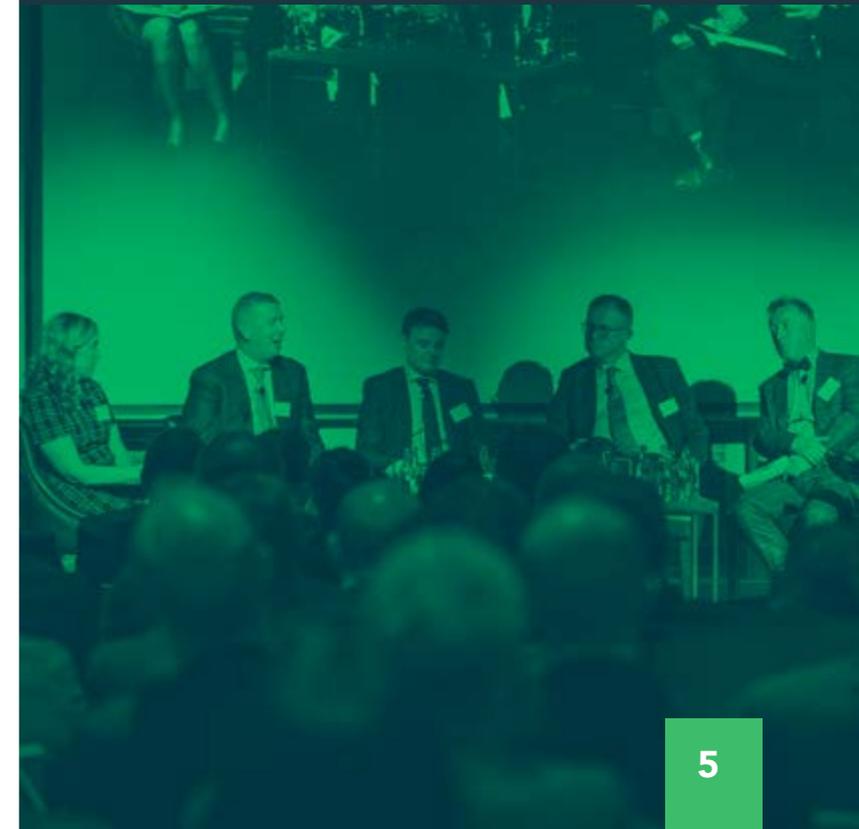
Arthur agreed, pointing out that co-living can suit people under 35. Co-living is going to grow, but it'll only make 1% or 2% of the market, but that's OK. “Planners, certainly Dublin planners, have made a huge effort to explore and try to understand the whole concept of co-living, but we all have a lot to learn.”

Brian added that the number of people over 65 will have increased by a million by 2050. “If we don't produce Nursing Homes that support the required models of care and dignity, we are going to have real problems. We need integrated care, more long-term care settings, more delivery through home care. But we need to think through the whole problem so the elderly have choices too.”

Key takeaways

- New typologies are badly needed to meet changing demographic needs
- While co-living is a solution, it will comprise only a tiny percentage of the market

It's time to be more responsible in meeting housing needs, not only to address today's market but to be mindful of tomorrow's planet.



How can we address an annual shortfall of 10,000+ units?



Affordable housing in particular is needed, as are plans to cope with an ageing population.

The panel agreed on the need for considerably more new housing units than the 21,000 or so currently being built. **“Housing is very, very complex,”** said Brian McEnery. “It’s behavioural, it’s economic, it’s developmental and it’s governmental. And it takes time. When the pipeline stopped [during the bust], as it did very abruptly, it is slow to rebuild.”

New Zealand could inspire us, he said, as it has introduced initiatives such as bonds for smaller housebuilders and rezoning land with a view to having seven years’ supply in the pipeline, on a par with the need in Ireland.

Derek Poppinga pointed to cost inflation as the biggest challenge in the sector and emphasised

the need to consider solutions such as modular housing. “Could you click your fingers and have 40,000 units? Absolutely not, because of the skills gap. We’re seeing some lands with planning that are probably becoming unviable due to cost inflation. We need more resources going to training, ideally attracting more people to the industry, and more innovation.

“Modular, from a cost perspective, is pretty much on a par, but the great advantage of it is speed. All of a sudden you can recycle the labour force in a far more effective and efficient manner. In the UK, probably close to 20% of the market is being delivered from modular construction. In the US, it’s closer to 35% to 40%. In Ireland, it’s virtually zero. However, one of the main players in the UK market is from Ireland.”

Referencing Brian’s comments on the need for quality nursing home provision, he noted, “If we do build the right solutions for older people, we will also see existing stock being recycled properly, boosting the general supply”.

Key takeaways

- Innovative thinking, a focus on skills and an openness to modular housing are all needed to drive up supply.
- Far more diverse integrated care options in much greater numbers will be needed to accommodate Ireland’s ageing population



Market stability and public-private partnerships needed to drive results

We need to deliver good places to live and work, within sustainable communities, and we can't do that without a cohesive approach, said Fidelma McManus.

She pointed to the much-discussed Vienna model, which sees most of the citizens in affordable public rental housing, as something that could work here but would need a significant culture shift over time.

“We have to look at different models now and solutions for the market in seven, 10 or even 12 years' time. There has to be a cohesive approach with joined-up thinking from all of the stakeholders involved so we don't end up back here. We all know private developers have the ability to do it, but we need to **intertwine the efficiencies of the private sector with the policies and long-term goals of the public sector.**”

She agreed with Arthur O'Brien that publicly-held land banks should be released and argued that **an affordable rental model is a must for Ireland.** “That is going to require State subsidies and the freeing up of State land, and the only way to justify that is that the asset is retained by the State.”

Two-thirds of developments approved under the Strategic Housing Development (SHD) scheme have not yet happened, said Vincent Wall, asking if developers were also holding land banks? Not intentionally, said Mike Flannery.

“**Strategic housing is a classic example of where more tinkering won't help.** The SHD process has been in operation for three years and at the same time all the density guidelines changed,” said Mike.

“Anyone who thinks it was possible to change the entire planning system to try to create a more affordable product and more density, and then have people on site building stuff quickly, really doesn't understand the complexities involved.” He commented that if we are still having this debate in two years, the implied criticism might be valid, but reiterated that any further uncertainty could cause developers and lenders to back off the market.

Derek Poppinga agreed, describing property development as similar to a “super-tanker”. “These things take years to go through the system. The more it's changed, the more the tanker becomes uncertain and goes offline. **We need stability.**”

Key takeaways

- The public and private sectors need to collaborate in a cohesive way on long-term plans
- More than anything the market needs stability so it can plan for the long term

