

€100bn Irish commercial property market set to triple in 10 years

Over the next weeks, Peter Breen will look at some of the issues surrounding technology in property management. This week he examines the €100 billion Irish commercial property investment market and where it's headed



ABOUT THE AUTHOR

Peter Breen started his career with the Union Bank of Switzerland in London before joining FPS&Sullivan and helping in the set-up of a Jersey-based Residential Property Unit Trust which achieved total returns of 33%. Since returning to Ireland in 2003, he has worked with some of Ireland's highest profile property investors. Peter can be contacted by email on pbreen@adnoble.ie.

homes are now rented, nationally.

The stage is now set for Irish property portfolios to grow dramatically over the coming decade. For the purpose of this article, research was collated from various sources which, when compiled with market assumptions, gives us a good indicator of the scale of assets accumulated by pension funds and private investors since the 1960s when the property investment market started.

Looking overseas

The financial success of both residential and commercial property investors has contributed to the Irish nation outgrowing its ability to buy financially viable property investments at home. It is now widely accepted that growth can only be attained by looking for the less mature markets such as Eastern Europe, South East Asia and Central America.

These types of astute investors are acquiring high yielding properties. As these markets mature, the yields should come down, giving rise to capital appreciation similar to the Irish property capital

growth of the Nineties.

Higher returns generally mean higher risks. But these risks can be mitigated by good market knowledge, research, correct financing levels and effective management.

Approximately 85% of all Irish property investment monies were spent outside Ireland in 2004. In other words, of the €5.9 billion estimated to have been spent on property by Irish investors in 2004, less than €900m was invested in Ireland.

This will quickly become the established pattern. International investing is the key to sustainable portfolio growth as the Irish commercial investment market has reached its investment capacity.

If we assume that the amount invested in property abroad increases by 30% p.a. and monies invested in Ireland decreases by 20% p.a. from 2004, the picture for 2014 would estimate the Irish investment market at home and abroad would be approaching €340 billion. This is calculated using an investment value growth curve which averages a modest 10.74% over the next 10 years.

If average yields (YTL, 5% outside IRL, 6% in Ireland) remained constant, then gross rents would be approximately €20 billion in 2014. These estimates would also indicate that in 2011 the Irish would hold some commercial invest-

home.

With all this property information and tentatively decisions which need to be taken to protect and grow the existing portfolios.

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These investors will have a huge responsibility not only to maintain their investments, but also to maintain the reputation and credibility of the Irish nation as a highly respected part of the business fraternity.

Another change to come will be how we define our competition. At present, we see our competitors as being fellow Irish investors. If we are to truly

property investors, the definition of competitor will be non-Irish property investors in these developing markets.

Financing

The financing of this market is also changing. The overall scale of this market would presently be in the region of €88.5 billion. Assuming an average loan to the value of 70% in Ireland and 60% internationally, insurance market premiums would be about €2.8 billion. If you consider an average of 40% of building values are in bricks and mortar and the average premium on the sum insured is 8%.

All of these markets are also set to grow in proportion to the property investment market over the next 10 years, as well as agency, management and pension funds.

Working back from average

age yields, as outlined previously, rents due to Irish investors for 2005 would be about €6.75 billion.

If we made the further assumption that the average annual value of a lease is €100,000, then already we may have responsibility for over 67,500 investments. If the market were to reach that scale outlined, Irish investors could be responsible for almost 200,000 leases in Ireland and abroad.

At present, even an organisation or investor with 100 leases has a great deal of responsibility with rent collection, rent reviews, expenditure control, valuations, financing, insurance, lease breaks, supplier relations and cashflow management.

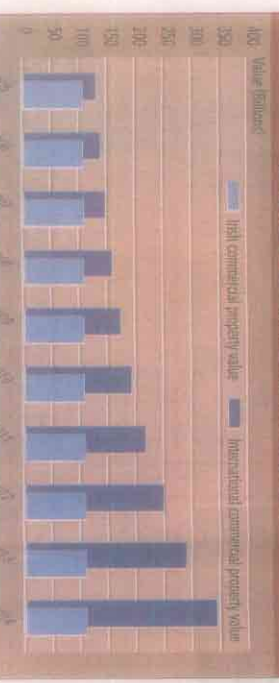
Many large-scale investors have already put property

management software in place to manage their assets. Traditionally they employ people from accountancy backgrounds to administer these systems and the portfolios; although now the scale is such that property people are starting to specialise, giving rise to property managers, performance surveys, performance risk analysts, database administrators and property project finance specialists.

These systems can be as cheap or expensive as an investor's budget allows. Often they can be added as your portfolio grows and the complexity of your requirements grows until eventually you end up with the Rolls Royce of property software solutions.

Next week we will go into more detail on these systems, the information and the operations of property investors

IRISH INVESTMENT MARKET VALUE



Year	High commercial property value (billions)	International commercial property value (billions)
1960	10	0
1965	15	0
1970	20	0
1975	25	0
1980	30	0
1985	35	0
1990	40	0
1995	45	0
2000	50	0
2004	100	20

Square Meters Of Space In The Market (Millions)			
Dublin	Offices	Retail	Industrial Units
	2.56	2.75	3.25
Rest of Ireland	1.28	1.38	1.63
Assumed Weighted Average Capital Value Per Square Meter			
Dublin	Offices	Retail	Industrial Units
	5,925	25,000	1,200
Rest of Ireland	750	10,000	600
Estimated Capital Values (Millions)			
Dublin	Offices	Retail	Industrial Units
	15,172.62	69,750.00	3,900.00
Rest of Ireland	960.29	13,750.00	975.00
Total by Sector	16,132.91	82,500.00	4,875.00
Grand Total		103,507.91	