

**BUILT TO RENT
JUSTIFICATION REPORT**

CAREY TOOLS SITE
ALBERT QUAY, CORK

20TH JUNE 2019



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Overview

INTRODUCTION

We CBRE Cork have prepared this report on behalf of JCD Developments who propose to develop 201 apartments at the Carey Tools Site, Albert Quay, Cork.

This report provides a supporting rationale for the provision of 201 build to rent units as the scheme presented to An Bord Pleanála.

As identified in the Departmental Apartment Guidelines, 'Sustainable Urban Housing: Design Standards for New Apartments (2018)' there is now a requirement for 'a new format of residential accommodation that has the potential to emerge as a distinct segment within the overall urban accommodation sector'



Private Rented Sector – Cork Overview

PRIVATE RENTED SECTOR DEMAND: CORK

The private rented sector in Cork City accounts for 26% of households, a significantly larger proportion than the private rented sector in the wider county (16%) and across Ireland as a whole (18%). The only other two areas in Ireland to have such a high proportion of private renters are the cities of Dublin and Galway.

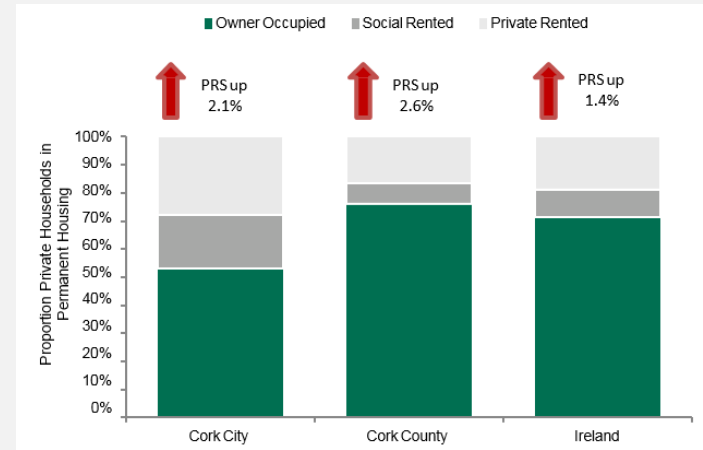
During the intercensal period (2011 to 2016) the proportion of private renters in Cork increased faster than the national average, at 2.1% compared with 1.4%, with over 260 new private rented households created in the city over the past five years. The increasing number of private rented households in Cork is creating demand for, and putting pressure on, appropriate housing. Reflecting the demographics of the renter population, and their preference for living in vibrant, central locations, this demand is most pronounced in the city centre. Demand will mostly be for smaller units, rather than typical ‘family’ stock.

According to CSO data, 62% of existing private rented households in Cork are aged under 35, so will be post-university, typically young professionals. There are 8,088 private rented households currently in the City that fall into this category. As this data only looks at the age of the reference person of each private household, and only those in permanent housing, this measure does not capture the full extent of demand and likely excludes the 30,000 students currently living in the city with many living in private rented rather than student accommodation.

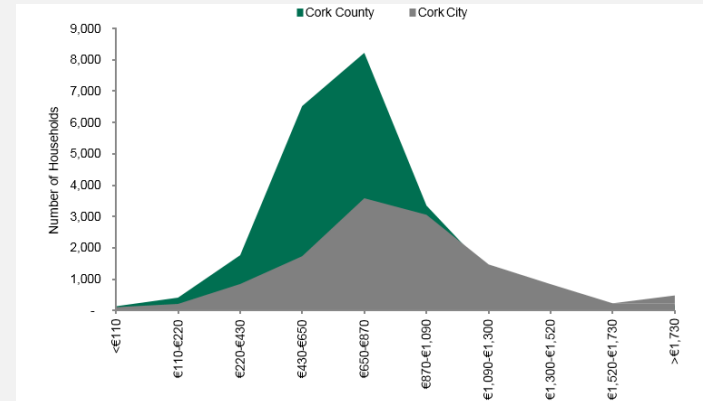
There is clearly a huge opportunity to provide good quality PRS accommodation in Cork, given the increasing levels of demand, including new international corporate renters, and the students and private renters in the city already. It should also be noted that while there is considerable depth of demand in the City.

Renters are generally much more transient than owner occupiers and open to new areas, thus expanding the potential demand pool considerably. New international companies arriving in Cork and the planned opening of the new Business College in the City within the next five years will compound these trends.

Housing Tenure



Depth of the Market, Private Rented Households in Permanent Housing 2016



Cork Demographics

The population of Cork City and County combined is in the order of 542,868. Within this demographic Cork City with its newly expanded boundary accounts for 220,000 people.

55% of this population are less than 39 years of age, which is appealing to potential employers. There were 1,372 births in Cork city in 2017 and 5,472 in Cork County giving rise to the birth rate of 11.2% in the City Region and 12.9% in Cork County (on par with the national average).

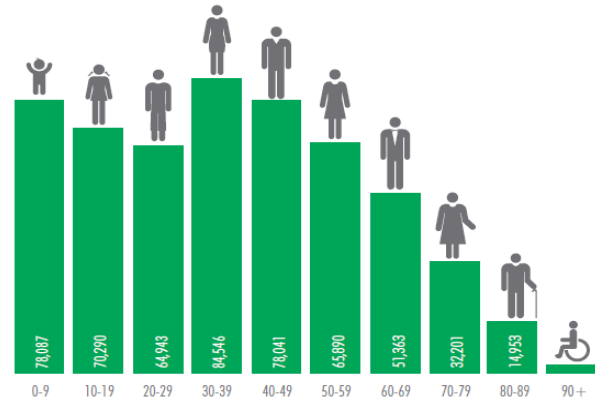
According to the most recent Census of Population, 14% of the population of Cork in the last Census were non – nationals.

In 2018 the Irish Government released a comprehensive strategic national plan entitled Ireland 2040 (www.ireland2040.com), looking at plans to accommodate the anticipated 1 million extra population, that Ireland is expected to have to accommodate over the next 20 years.

This plan points to significant potential to grow Ireland’s second city, Cork by significantly investing in the city and region’s infrastructure and encouraging more investment into Cork. The plan anticipates that the population will grow by 55% over its current level of 220,000 by 2040. **Approximately half of this growth is expected to be achieved by transient non-nationals many of whom will work directly in Cork’s burgeoning FDI sector**, which currently accounts for 169 companies and 38,000 employees in the South West Region. On this basis a supply of good quality city centre residential rental stock is essential to meeting the demands of this projected growth.

Some of the initiatives envisaged for Cork under this plan include improvement to bus, rail and port facilities, the development of the new Cork Events Centre, investment in the 500 acre Cork Docklands to include two new bridges traversing the River Lee, two new hospitals, improvements to educational facilities, investment in drainage and flood defence works, improvement in the road network and a €200m investment by UCC to include a new Business School in excess of 200,000 sq.ft.

AGE BREAKDOWN OF CORK POPULATION 2016



Private Rented Sector – Why The Appeal?

SATISFYING DEMAND

The target market for a bespoke PRS development in Cork is primarily young professionals. The City is now an established hub for large multinational companies including Apple, Facebook VR, Amazon, Johnson Controls and Deutsche Borse to name but a few. These companies have been attracted by, and reinforced the City as, a vibrant centre for a young skilled workforce. The socio-demographic make-up of the City includes a majority of single and couples households; these are predominantly child-free households. The 'City Centre Mix' and 'Upwardly Mobile Enclaves' groups who dominate the City Centre almost exclusively rent. These are well educated individuals, with higher than average disposable incomes. They like to socialise and therefore be located in the City Centre. However, they will be relatively early on in their careers so affordability, despite their higher salaries, will be a consideration.

Increasingly apartment sharing has become the cultural norm for many 20 to 30-somethings and therefore, although individual apartments may be the preference, sharing is also prevalent. We also believe that there could be a family/professional cohort who want to live in larger style units but this cohort predominantly prefer the offer of standard family housing in suburban locations.

This is reflected in the proposed unit mix which emphasises smaller unit typologies which have been informed by the Department of Housing, Planning and Local Government's Sustainable Urban Housing Design Standards for New Apartments published in March 2018.

Graduates, young professionals, and more mature professionals who are also looking for a more sophisticated product, plus divorcees and retirees will be attracted to apartments build under this government promoted model. This is a growing cohort and there is little to cater for this market in terms of current stock. In addition, we know from up-and-let bespoke rented schemes (of which there are very few and none being pure PRS), that smaller unit sizes i.e. one bedroom units, have experienced fast take-up rates. This is partly due to the demand for single person units, and partly due to the price point. It is obviously much more affordable for one person to live on their own in a one-bed or a studio apartment. These units are most successful in schemes where there are additional amenities and facilities so the small unit sizes are less of an issue.

AMENITY OFFER

Car parking is often thought to be essential for the more expensive units in single occupation. The subject site however is in the city centre and within a 5 minute walk of the city's main retail hub (surrounding St Patrick's Street) and most notable cultural destinations and going out areas, as well as the traditional CBD (South Mall). However, many of the international companies operating from Cork are located outside the City Centre. Therefore car parking for executive commuters is a must (although more junior employees are likely to use the provided shuttle buses services). The proposed scheme proposed 69 car parking spaces which in our opinion is appropriate for its size and location.

PRS development would also contain the following communal amenities:

- At least two lifts per core in order to allow one lift (for example, a service capacity lift) to be used during tenant moving in/out, or if one lift is out of order.
- A central welcoming concierge, which is ideally linked to all cores, and therefore all units. This should be double height and connected visually to either the amenity or the apartment area. This can be used for leasing and management of enquiries, for friends to wait for each other, and as a 'shop window' for future tenants.
- A multi-function room, which could potentially be a yoga studio or screening room, at c.50 sq m.
- A resident's Lounge/Kitchen area, available for hire: c.100-150 sq m (this could have the potential to break up into smaller spaces when required, e.g. a smaller space to be hired out for a meeting, or a larger space to be hired out for a party).
- Fitness room and dry gym facilities
- Child care options (on or off site) and play area on site
- Roof terrace, breakout area.

The above amenities will be in place to cater for the needs of the tenants within the proposed development.

Rental Market – Current Developments

NEW BUILD RENTAL MARKET

There have been almost no new residential schemes completed in Cork in recent years. As such, there are just four prime 'modern' (albeit it over 10 years old) schemes that currently have units offered to the rental market, all were originally intended for sale and none were built in the last 10 years. This means that the schemes won't have been specifically designed for private rent and won't have the full amenity and professional management offer that will be delivered at the Carey Tools site. They also vary in terms of quality of product. Some are being rented through Buy to Let landlords, although others are being professionally managed. However, these schemes do provide a benchmark for rental levels in the local market.

New Build Comparable Schemes (2 bedroom units):

No.	Scheme	Headline (2 bed)	Market
1	The Elysian	€2,500 pcm	Prime
2	Altus Apartments	€2,100 pcm	Prime
3	Lancaster Gate	€1,800 pcm	Prime
4	Opera Lane	€1,800pcm	Prime

All of these schemes are considered prime in the context of the local Cork market, but are each comparable in rental terms to the proposals for the subject site in different ways. The Elysian is the largest and newest of the schemes. Construction was finished in 2008 but, given market conditions at the time, few units sold. Subsequently, most units were retained for the rental market. The scheme is the only one of the four to offer a concierge and also includes car parking, individual balconies and some river views.

The building is now at 100% occupancy with a let up rate of 10 units per month on average and it is well known that there is a waiting list for tenants seeking units in the scheme.

The other schemes are all much smaller (in terms of available units to rent) and although they have a far superior design quality compared with other rental properties in Cork, and are well located, most with waterfront views, they still don't have additional amenities. Altus is the only other scheme with a professional management offer, although Lancaster Gate could offer a management suite if required.

These schemes are also now relatively dated, particularly in relation to their internal specification. Given that they will not have benefitted from the up-keep and maintenance of a professional landlord, the majority of the units are now looking relatively tired.

These schemes typically have a handful of highly desirable units with fairly unique attributes – high floor, good aspect / view etc. – and renters will clearly pay a premium for this. The take-up rates of the more expensive units are reportedly very quick, often within a week, substantiating the fact that there is considerable demand at this end of the market.

Cork – Current Rental Schemes



The Elysian

Units	211
Complete	2008
Height	6-8 storeys plus 17 storey tower
Amenities	Concierge, car parking, balconies, communal gardens, some river views
Rent pcm	1 bed = €1,400 2 bed = €1,850 to €2,500 3 bed = €2,500 3 bed pent = €3,000

- Letting of block managed by Savills estate agency.
- Initial fast lets in advance of sale with rents c.20% lower than comparable schemes
- Predominantly young professional singles, couples and sharers letting 1 and 2 bedroom units.
- Many work at major international companies including Dell, Apple and EMC.
- Some will use company shuttle buses to get to work but most see car parking as a necessity



Altus Apartments

Units	29
Complete	2006
Height	6 storeys
Amenities	Car parking, balconies/ terraces, some river views
Rent pcm	1 bed = €1,300 2 bed = €2,100 3 bed pent = €2,500

- Let and managed by Trading Places estate agency.
- Many tenants remaining in the block for c.3 years, therefore limited availability.
- As this is only a small development demand outstrips supply. Units that do come up tend to let within a week.
- Quieter and relatively further from the city centre than The Elysian, which many see as a positive. 'More Exclusive'.
- Large balconies and good views.
- No concierge or other amenities.



Lancaster Gate

Units	200
Complete	2007
Height	6 -7 storeys
Amenities	Jury's Inn facilities (membership required), video entry 'regular' onsite management, balconies/ terraces and river views
Rent	1 bed = €1,300 2 bed = €1,800 prime 3-bed €2,200

- Interiors are dated, but the units hold their price.
- It is perceived locally as a nice place to live.
- Many of the apartments have great views over the river.
- Tenants can use the facilities at the nearby Jury's Inn hotel for a membership fee. The office includes fitness facilities, a swimming pool and sauna.
- Car parking included with some units.



Opera Lane

Units	61
Complete	2009
Height	3 storeys (on top of retail, 4 storeys)
Amenities	Balconies, car parking
Rent	1 bed = €1,300 2 bed = €1,800 3 bed = €2,250

- Units at this development very rarely become available for the rental market and therefore price information given is out of date.
- Tenants within the building tend to stay for more than 2 years.
- This is the most centrally located of the comparables and has an excellent roof terrace looking over the city centre.
- Floor plates here are generally quite large.
- Young professional couples and sharers.

Cork Occupier Market

BUILD TO RENT – RENTER PROFILE

Population growth of 20% over the next 10 years is a reasonable expectation of for Cork when weighed against the Governments Strategic Development Plan unveiled in February 2018, which projects a 50% increase in population to 2040. If the status quo prevails population growth will far outstrip household growth indicating an increase in demand smaller households.

The private rented sector is the fastest growing tenure in Cork. There is now a total of c. 13,000 private rented households in the city accounting for 26% of the population.

Reflecting the demographics of the renter population and a preference for living in vibrant central locations this demand is most pronounced in the city centre where there will be most demand for smaller units rather than typical family stock.

According to Experian socio-demographic analysis, the 'City Centre Mix' and Upwardly Mobile Enclaves' are the largest groups living within the City.

According to CSO data 62% of existing private rented households in Cork are aged under 35 and 8,088 private rented households fall into this category.

There is clearly a huge opportunity to provide good quality PRS accommodation in Cork given the increasing levels of demand and low levels of supply into this sector. The city tenant mix includes new international corporate renters, post graduate students, and private renters in the City already.

It should also be noted that while there is a considerable depth of demand in the city it is also likely that renters will move from other parts of County Cork for the right product at the right price in the city centre location. Renters are a more transient cohort than owner occupiers and are open to new areas thus expanding the potential demand pool considerably.



Cork Residential Rents

According to Daft.ie, who track rental transactions across Ireland, average rents increased by 11.4% in 2018. With growth being more pronounced for smaller units.

Rental growth of 55% over the last five years in Cork has led to a 'Rent Pressure Zone' being introduced in the City. This will cap future rent rises at 4% per annum, although it does not limit the level at which new rents can be set. Although this will cause rental growth in Cork to slow compared with the last few years, 4% per annum is still a strong rate of growth, with BTR investors prepared to underwrite schemes with 3% or more forecast annual rental growth.

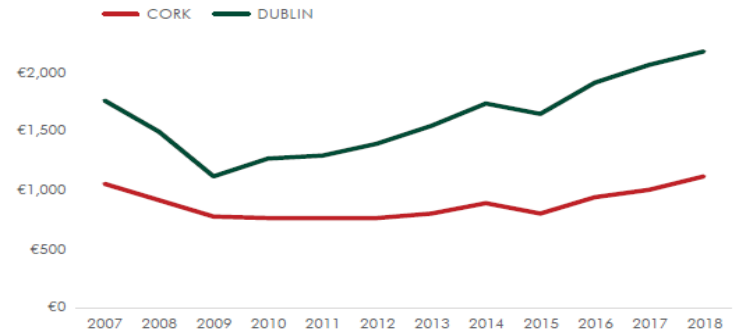
Average rents range considerably in Cork, with a two-tier market emerging in the City. Average rents in the City are in the region of €1,314 pcm while Cork County was recorded at €941 pcm as the end of 2018. These rents are averages across the rental spectrum and are dominated by second hand stock and there has simply been no supply of new apartment stock into the private sector for over 10 years.

Based on the rents being commanded for the four rental schemes outlined above this demonstrates that there is a significant premium for more high quality, high-end rental property, against a background of no new supply.

It should be noted that in contrast to Cork, rents in Dublin city centre are averaging €1,928 pcm representing a 32% premium over Cork levels. This obviously reflects why Dublin is ahead of Cork in new apartment delivery but it also reflects the value proposition that Cork has to offer for employers and employees alike.

In creating new supply it will obviously help to contain rent price inflation and ensure greater choice and affordability for prospective tenants.

AVERAGE MONTHLY RENTS IN DUBLIN VS CORK 2007 - 2018



Source: Daft.ie

Justification – Carey Tools Site

The site is located at a pivotal point in Cork City Centre just at the gateway to Cork's 390 acre south Docklands Area.

The immediate environs include the 170,000 sq.ft. One Albert Quay office building which completed in 2016 and is anchored by Johnsons Controls with other significant tenants including PWC, ARUP and Horton Works amongst others. It currently contains over 1,000 workers.

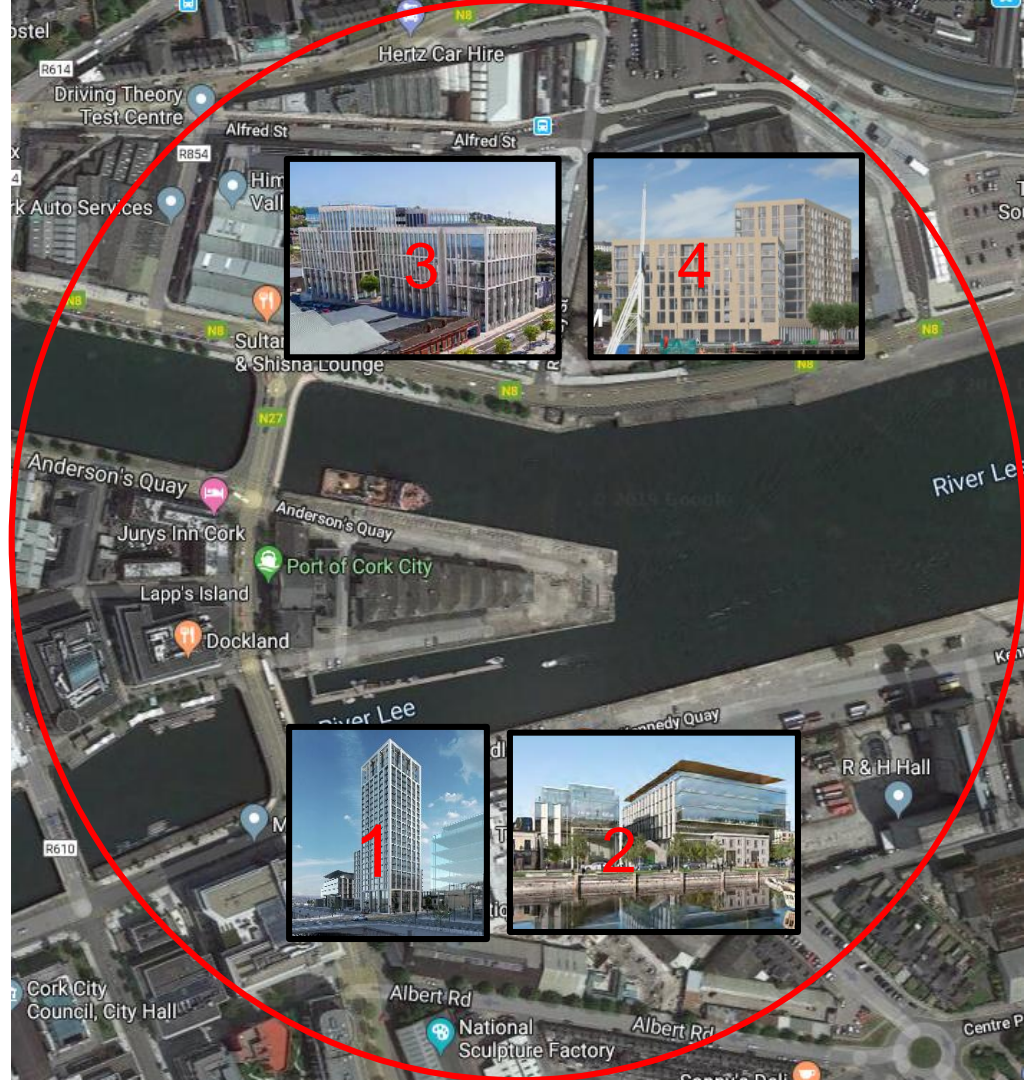
On the immediate eastern boundary of the subject site is the Navigation Square office development which is being built in 4 phases and will comprise 310,000 sq.ft. when complete. At this stage Deutsche Borse have recently taken occupation of enough accommodation to house 700 workers and the entire scheme has capacity for 2,500 workers.

On the northern bank of the River Lee JCD Developments are currently in the construction phase of the 250,000 sq.ft. Penrose Dock development. Pre-leasing activity is underway and with completion due in April 2020 it will cater for over 2,000 workers.

Adjoining Penrose Dock is the Horgan's Quay mixed use development where a 136 bedroom hotel and 80,000 sq.ft. of offices are under construction. Planning permission is also in place for over 300 apartments but development has not yet commenced.

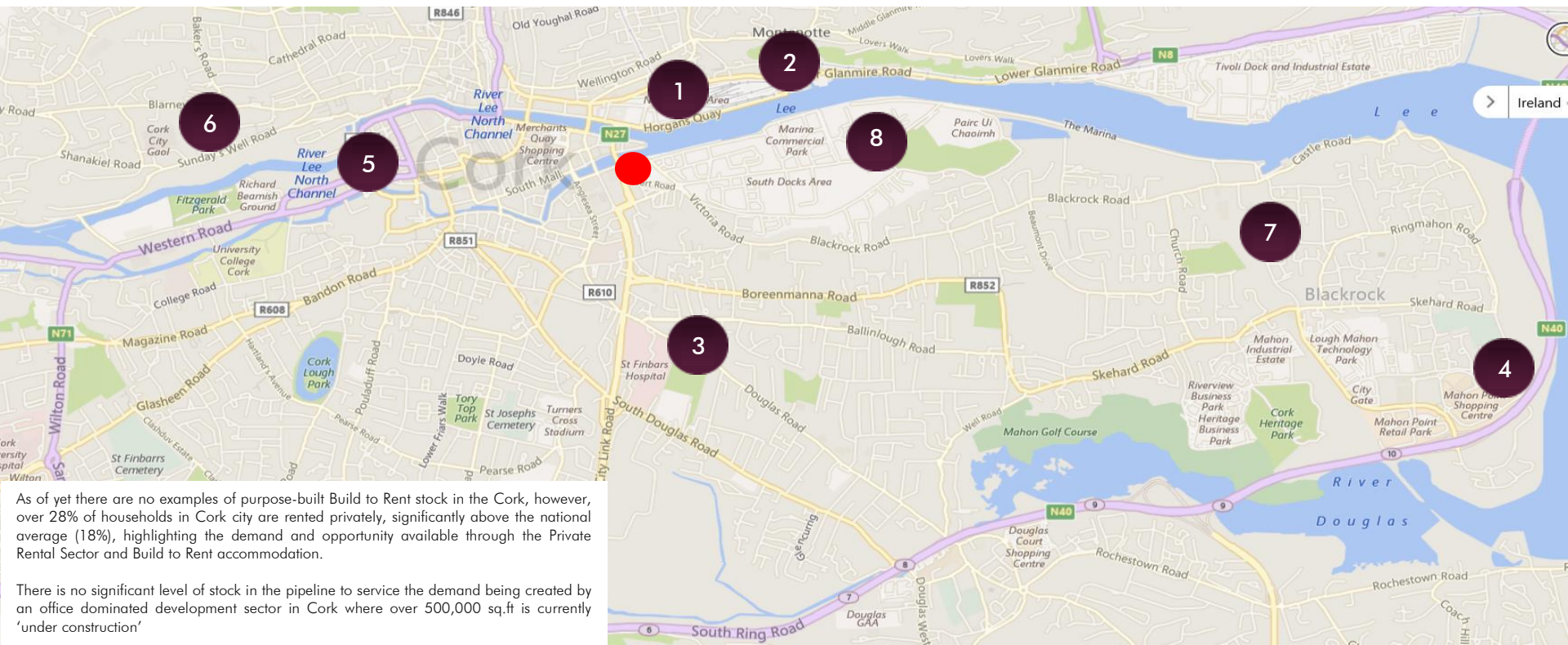
Finally less than 400m west of the subject site is a 1.46 acre site which has recently been purchased by UCC for a 250,000 sq.ft. business school which will have capacity for approximately 4,000 students once complete in 2023.

- 1 - Subject Site
- 2 - Navigation Square
- 3 - Penrose Dock
- 4 - Horgan's Quay



Planning Pipeline in Cork

- 1 Horgan's Quay**
307 apartments
- 2 Water Street, North Docks, Cork**
304 Apts which includes a 17 storey tower (**expired**)
- 3 Nemo Site, Douglas Road, Cork**
153 Apts & 51 Houses with double basement and 370 parking spaces
- 4 Jacobs Island, Mahon, Cork**
413 Apts in 6 blocks with a signature 25 storey tower
- 5 Lancaster Gate, Western Road, Cork**
88 apartments
- 6 Good Shepard Convent, Sunday's Well, Cork**
234 Apts, includes the Convent building which is listed and fire damaged
- 7 Eden, Blackrock, Cork**
270 apartments (**in planning**)
- 8 Former Ford Site**
1000 apartment potential



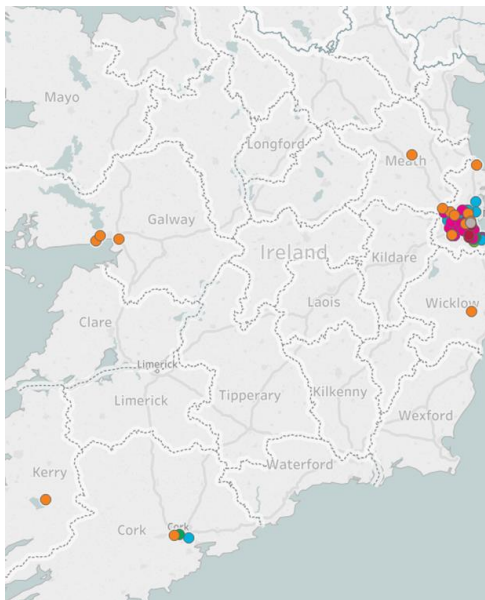
As of yet there are no examples of purpose-built Build to Rent stock in the Cork, however, over 28% of households in Cork city are rented privately, significantly above the national average (18%), highlighting the demand and opportunity available through the Private Rental Sector and Build to Rent accommodation.

There is no significant level of stock in the pipeline to service the demand being created by an office dominated development sector in Cork where over 500,000 sq.ft is currently 'under construction'

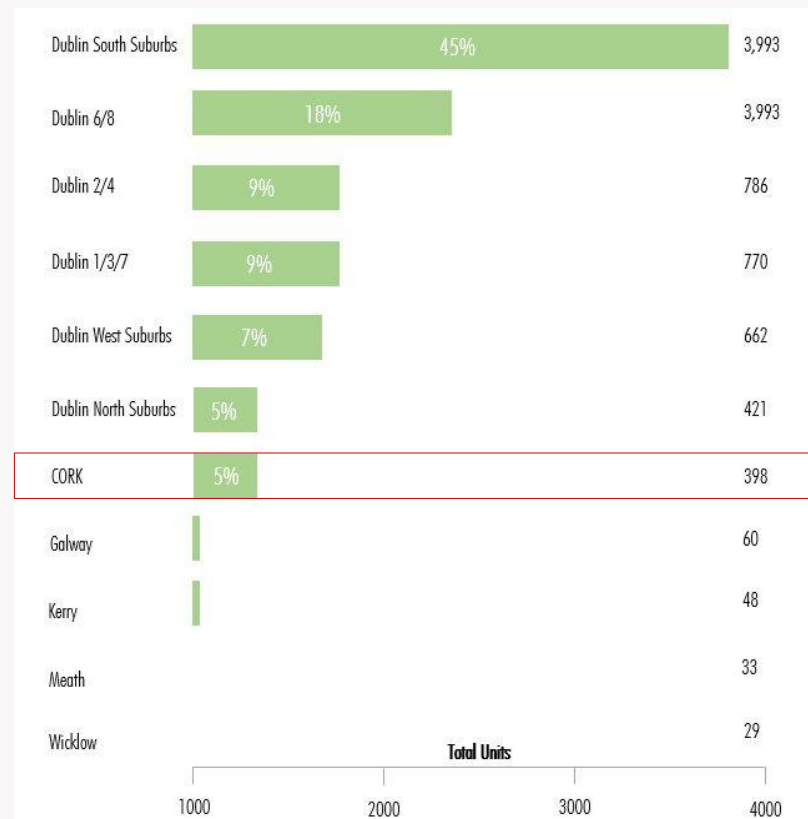
Ireland's Build to Rent Market

Approximately 8,800 residential units are owned by institutional investors in Ireland. 45% of the units (3,993) are held by institutional investors and are located in South Dublin – followed by Dublin 2/4 at 18% of the units (1,627).

Currently, only 5% of institutionally held residential units are located in Cork. Nationally the predominant market participants are Kennedy Wilson and I-RES REIT. The majority of their holdings in Dublin with the exception of The Elysian, Cork which was acquired by Kennedy Wilson in 2018.



Residential Units by District



Apartment Development In Cork - Conclusion

In considering all of the above factors we believe there is an overwhelming case for the Built to Rent Residential Model in Cork.

This type of accommodation is not yet supplied in its true form in the Cork market, as previous schemes were designed on a Build to Sell basis and they generally lack the amenities and overall sustainability and efficiency of the BTR model as it currently stands.

The population of Cork is set to increase dramatically over the next 20 years and as part of the launch of the National Strategic Plan 2040, Tanaiste Simon Coveney in the unveiling of the plan for Cork on 19th February 2018 envisaged that 40% of this growth would be accommodated in Cork City Centre on existing brownfield sites effectively tripling the population of the core city centre area.

In addition the Tanaiste announced that the 17 storey Elysian tower containing 211 apartments would set the benchmark for height, scale and density for any future development in the City Centre.

The growth in Cork's economy over the past 5 years in particular has been exceptional with IT@Cork confirming that in the tech sector alone employment has increased by more than 60%.

It is self evident in the current scale of office development in Cork that to keep pace with new job creation levels, residential supply into the private sector is a vital need and a symbiotic relation has to be achieved for the long term.

In addition with new high density supply in the right location it will create a walking city environment that will also sustain ground floor businesses in the food & beverage, retail and general hospitality sectors.

In conclusion this report along with the supporting planning documentation will provide the Board with details of the scheme and the design influences of the proposal. On this basis we trust that they will be convinced by the immediate need for this new Built to Rent residential offer.





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