



Eddie Byrne, left, chief executive of Ires Reit, and William McMorrow, chairman and chief executive of Kennedy Wilson

Ires Reit vs Kennedy Wilson: The battle for the title of Ireland's biggest landlord

US-based Kennedy Wilson and partner Axa have been eating into the lead of Ires Reit but there is more to the story than portfolios



Killian Woods
Business Journalist
of the Year

has gone from controlling 2,000 Irish rental homes to 3,510 units in the space of five years.

The two landlords may be neck-and-neck in terms of their portfolios, but the financial records of each company show they both have different stories to tell.

Gulf in rents

New financial records for Kennedy Wilson, led by chief executive William J. McMorrow, have forecast its joint venture with Axa is expected to generate net rental income of €82.8 million this year.

Last year, Ires Reit recorded €65.5 million net rental income and recent half-year results would suggest it is set for a similar level this year after it posted €33.3 million net rental income in the first six months of this year.

But with a gulf in average rents charged by each landlord and significant changes to rent controls coming next year, Ires

Reit potentially has room to boost its fortunes in a bigger manner compared to its US counterpart.

Eleanor Frew, equity research analyst at Barclays Investment Bank, said when investors look at large landlords such as Ires Reit, one key metric they assess is rental growth potential.

The average rent in Ires Reit's portfolio has been rising in recent years, but growth has been stunted by changes to rent regulations.

Previously there was a 4 per cent cap on annual rent increases, but that was revised in 2021. Now any rent increase must match the rate of inflation, but not exceed 2 per cent. At times in the second half of last year, inflation was as low as 0 per cent and 0.1 per cent.

Since the end of 2018, average rent charged by Ires Reit has risen from €1,599 to €1,823, up 14 per cent.

But annual rental growth in its portfolio has slowed to between 1 per cent

and 2 per cent in the past two years due to tighter controls on rent increases. Recent results for Ires Reit showed its rents only rose by 0.5 per cent in the first six months of the year.

Meanwhile, Kennedy Wilson has seen stronger rental growth since 2018, driven by new-build homes unaffected by rent controls and let at premium rates. Since then, its average monthly rent has risen 24 per cent, from €2,003 to €2,500.

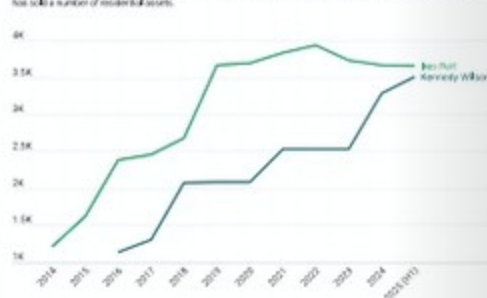
Ires Reit's legacy stock, stuck at old market rent levels, has limited growth, but its fortunes may soon change.

In June, following the government's announcement to change rental sector regulations next year, Barclays upgraded its outlook for Ires Reit's stock.

A briefing note published by Barclays forecast "earnings growth potential for them to hit the 8 per cent target level that we think marginal investors are looking for".

Ires Reit and Kennedy Wilson Irish rental portfolios

Kennedy Wilson has rapidly expanded the number of rental homes it controls in Ireland in recent years while Ires Reit has sold a number of residential assets.



Source: Ires Reit and Kennedy Wilson

Growth potential

Speaking to the *Business Post* about the future prospects of Ires Reit, Frew said these metrics for the company would get the attention of more investors.

"It would certainly give it more growth potential and would make it more attractive on the traditional metrics that equity investors use to look at stocks. It would increase its earnings yield for instance, a key metric for real estate equity investors."

She added that data released by the company in August has given greater insight into the rental growth potential at Ires Reit over the coming years.

"What's interesting within the proposed legislation changes for Ires is that the portfolio is currently let about 19 per cent below market level. So when the regulation changes and the tenant moves out, they will theoretically be able to increase the rent to the market level."

"Then the key question is, because they can only raise rents to market rate when they start a new contract, how many tenants will actually move out?"

At present, the firm's current tenancy turnover rate is around 14 per cent.

"The company on their earnings call said they don't expect tenant turnover to fall below 10 per cent, which is quite positive," Frew said.

Prior to the announcement about changes to rental regulation, Barclays forecast earnings per share growth of 1.7 per cent between now and the end of 2029 at Ires Reit.

Analysis by Barclays said that "even slight upside from relaxed regulation" could see the group approach a return level of 8 per cent, while a moderately favourable outcome could see the earnings per share growth as high as 6.8 per cent.

"The growth profile could increase from a 1.7 per cent growth on my previously published numbers up to above 6 per cent should 15 per cent of the units be reset. So quite interesting growth numbers there."

"That would then make them one of the better listed European residential plays, for sure," Frew said.

"In terms of future earnings growth,

maybe not as good as Grainger [the UK-listed landlord], where the rental growth is unregulated and they've got a big development pipeline, but better than the German residential companies where rents are also regulated but we also expect to see earnings impacted by increasing financing costs over time."

Surge in stock

Kennedy Wilson has edged towards overtaking Ires Reit as Ireland's biggest landlord, but will the US fund actually take the title?

The US asset manager's Irish rental stock has surged in recent years because a number of long-term residential projects planned since before the pandemic have been completed in quick succession.

Most recently, it completed the letting of 232 units in a Dublin block called the Cornerstone.

Now, Kennedy Wilson's financial filings show it has no ongoing residential projects in Ireland at present. So unless it moves into acquiring properties, its stock could remain stagnant at the 3,500 mark.

Meanwhile, Ires Reit does have its eyes on expansion.

Earlier this month, Byrne of Ires Reit said the company plans to reinvest the cash it has generated from the recent sale of underperforming assets into buying more rental homes.

Even though Kennedy Wilson has no Irish projects in its pipeline, the company has signalled it is keen to reimagine its approach to expansion in Ireland.

Last year, McMorrow, chief executive of Kennedy Wilson, said the company was exploring how it could assist other institutional investors enter the Irish market. And just last month, he reiterated the company's intentions to double down on investment into residential property worldwide, and potentially in Ireland.

"We've certainly been more active geographically in the US, although depending on some changes in policy in Ireland, there could be an additional attraction to Irish assets going forward," McMorrow said.



Leadership Appointments

Designer Group is pleased to announce the appointment of three new Directors to our Senior Management Team.

John Sheridan, Pre-Construction Director, **Seamus Lacey**, QEHs Director, and **Alan Woods**, Engineering Director will join the leadership team led by Paul Nicholls, Group Managing Director.

As a leading Mechanical and Electrical engineering company, Designer Group is delivering large scale and complex projects for major multinational clients across Ireland, the UK, Europe, Africa and North America.

These appointments strengthen the company as the expanded leadership team continues to drive Designer Group's growth as a trusted partner delivering projects to the highest standards of safety, quality, and innovation.



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