



Robert Gallagher is basing his projections on a May 18 restart  
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BUSINESS

# Activate Capital boss opens door to new world of housebuilding

Robert Gallagher downbeat on total of homes built but optimistic about demand

Gavin Daly

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At the start of the year, Robert Gallagher was among the many property professionals “confidently expecting” that 24,000 or 25,000 new houses and apartments could be built in 2020.

The homebuilding sector had made good progress in 2019, with 21,500 new home completions — up from 18,000 the previous year. Gallagher, chief executive of Activate Capital, the largest non-bank lender to residential developers, saw strong demand for homes from Activate borrowers.

“A lot of good things had happened in the market,” he says. “These past few weeks have changed that.”

With building sites closed for six weeks and due to reopen on a phased basis from May 18, Gallagher expects fewer than 15,000 new homes could be built this year. It is “not unreasonable” to

assume the sector will lose a quarter of a year of productivity, he says.

“My view is that 15,000 to 16,000 would be a good outcome. It could possibly be lower. Builders will want to build out smaller phases [of homes] and see what demand is like.”

Gallagher’s forecast is at the pessimistic end of the scale. Last week, the Fianna Fail housing spokesman Darragh O’Brien said 18,000 new homes could be built this year. Goodbody Stockbrokers has pegged the figure at “well below 18,000”.

Backed by the Ireland Strategic Investment Fund and US investment group KKR, Activate has loaned €750m to homebuilders for projects on more than 50 sites. The lender is providing working capital every week to builders who are trying to navigate the changes wrought by Covid-19, allowing it to “feel the pulse” of the sector, according to Gallagher.

“There was a pause period in the early stages, but people are beginning to think about new opportunities in the third and fourth quarter. Everyone is more attuned to the risks involved.”

Activate is funding several projects by builder McGarrell Reilly and is lending for multiple developments by Richmond Homes, Twinlite and Bartra Capital. It is also funding Burkeway Homes on a project in Galway, and Murnane & O’Shea in Cork.

The government’s roadmap for reopening society and business says work can restart on outdoor sites in eight days, but it will not be business as usual. Building companies have to facilitate social distancing and onsite hygiene for workers, and ensure that subcontractors and suppliers are up to speed.

“They will open on a cautious basis, with a ramp-up in productivity. It won’t go back to full production in one day. The danger in shutting down for long is that reignition is harder to achieve,” says Gallagher.

Social-distancing rules mean it will take longer to build properties, further denting supply. Without restrictions, a three-bedroom house takes about 16 weeks to build; large apartment developments are a multi-year undertaking.

“More time usually costs more money,” says Gallagher. “Building larger phases of housing ties up more working capital, so there is a possibility builders will build smaller phases, say 20 homes at a time rather than 50.”

The other variable is buyer demand, which seems likely to suffer in an economy where hundreds of thousands of people have lost jobs, even temporarily. Gallagher says there were indications that buyer demand was relatively stable, however,

with some Activate clients completing home sales last week.

Giving an insight to the market last week, quoted homebuilder Glenveagh Properties said inquiries and virtual viewings from prospective buyers were “strong”, but it expects few new sales until in-person house viewings can restart. Glenveagh’s focus will be on completing homes that are signed or reserved, rather than opening new sites.

If house prices fall in the short to medium term — as many observers expect — builders may cut their output, says Gallagher. Homebuilders have a profit margin of about 16%, he adds, which is modest for the time and risk involved in buying land, securing planning approval, the cost of funding, plus building costs. “There are no super profits in housebuilding,” he says.

Gallagher is hopeful that home completions will bounce back to more than 20,000 next year, though that would still lag the 2019 figure. Before the coronavirus pandemic, it was estimated that 35,000 new homes a year were needed in the Republic.

“I do subscribe to the thesis, pre-Covid, that we need 35,000 [annually],” he says. “Whatever happens in 2020, the volume [of housebuilding] has to go up. The question is, what period does it take to get to that?”

Before Covid-19, some housebuilders called for the Central Bank of Ireland’s mortgage rules — which limit most mortgages to 3.5 times the income of the borrower — to be loosened, even slightly. Gallagher supports the intent of the rules, which prevented people taking on excessive debt, as happened before the 2008 bust.

“I don’t think the Central Bank is the answer,” he says. “I think the question is whether we need a variant of a help to buy scheme, similar to what exists in the UK.”

There, buyers of new homes can get a 25-year equity loan from the government in addition to their mortgage, leaving them requiring only a 5% deposit. The loan is interest-free for five years, but the state shares in any uplift in value if the home is sold.

“I hope the parties interacting about forming a government have housing high on their agenda,” says Gallagher. “The population isn’t getting any smaller. People have to live somewhere.”

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