The Islamic finance industry in Ireland

By Simon O'Neill

The Irish government continues to build upon the steps contained in the Finance Act 2010 to support and provide equivalent taxation treatment for Shariah compliant transactions. Implementation of the International Financial Services Strategy (IFS 2020) launched in 2015, of which Islamic finance is a part, is well underway with specialized subcommittees established and due to report to the government shortly on the progress and implementation of the action points. Significant milestones in 2015 involved the hosting by University College Dublin of the inaugural Islamic Finance and Law Conference in May 2015; the launch of the Islamic Finance Council of Ireland (IFCI); competitive bidding by sovereign wealth funds for Irish assets, including Kuwait Investment Authority and Abu Dhabi Investment Authority (ADIA); and the listing of the US$500 Million APICORP Sukuk on the Irish Stock Exchange.

Review of 2015

2015 has been a year of consolidation as the Irish economy has returned to stable and sustained growth. The Irish property market in particular returned to buoyant condition at all levels, including large asset and loan portfolio disposals, with some investors exiting particular investments and realizing significant profits. There has been a significant growth in non-banking finance in the Irish market as borrowers and companies seek to access credit and investment to grow their businesses and refinance existing loan facilities.

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International investors have been extremely active in the market, bidding on the large portfolio disposals undertaken by NAMA and the 'pillar banks' (AIB and Bank of Ireland) involving some of the largest transactions in the history of the Irish state. In addition, there have been significant portfolio disposals by Ulster Bank Ireland and Permanent TSB. The Project Jewel portfolio sale saw intense bidding for loans attaching to the prestigious Dundrum Town Center and 50% of the Ilac Shopping Center and Pavilions Shopping Center for a reported EUR1.85 billion (US$2 billion) to Allianz and London-based Hammerson.

Separately, the Project Trinity portfolio involved a sale of what was once dubbed the 'Knightsbridge of Dublin' being acquired by Chartered Land and ADIA, representing a landmark acquisition in Ireland by ADIA. This acquisition of a prime 6.8 acre site located in Ballsbridge, Dublin 4, comprised two well-known existing hotels with the benefit of planning permission, valid until December 2021, for a new 1.5 million square feet new urban quarter comprising 490 apartments, a 152-room stand-alone hotel and 77,000 square feet of retail and associated commercial and leisure space. This acquisition by ADIA, a sovereign wealth fund owned by the emirate of Abu Dhabi, marked a significant commitment and deployment of capital from the Middle East in the Irish market.

It is anticipated by CBRE that up to EUR400 million (US$433.37 million) of retail investment opportunities and another EUR400 million of office investment opportunities will be formally launched for sale in the closing months of 2015.

The IFCI formed in 2015 is a not-for-profit entity promoting the development and growth of Islamic finance in Ireland and providing information about the principles and operation of Islamic finance. The IFCI is a private sector initiative which, coupled with the government focus on Islamic finance through subcommittees established under the IFS 2020, will shine the spotlight on opportunities for Islamic finance in Ireland.

Preview of 2016

As Middle East investors continue to seek new markets offering attractive investment returns, further opportunities will no doubt come to the market in 2016.

While the sale of interest-bearing loan portfolios would not be appropriate for Shariah compliant investment, further property portfolio disposals by banks, receivers and loan acquirers will give rise to investment opportunities for sophisticated investors to add value through asset management.

It is inevitable that further opportunities will arise from the significant loan portfolio acquisitions in 2015 as investors seek to fund acquisitions from entities which have purchased distressed loan portfolios or from borrowers seeking investment to refinance portfolio loans.

The growing emphasis internationally not only on Islamic finance but on ethical and sustainable responsible investment is shifting the focus of investment firms and the investing public. Further growth in the corporate Sukuk market should be anticipated and also to meet the growing requirement for non-traditional bank finance.

Conclusion

There is substantial growth opportunity for Islamic finance as Middle East investors become more aware of the Irish market, the breadth of investment opportunities available, the availability of Shariah compliant solutions and the requirement and growing acceptance of corporates and borrowers to avail of non-bank/non-traditional finance options.

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