

INVESTMENT MARKET COMMENTARY

Q2 | 2018



Q2 2018 AT A GLANCE

TOTAL TURNOVER Q2 2018
€950 MILLION

TOTAL TURNOVER H1 2018
€1.9 BILLION

TURNOVER BY SECTOR



42%
OFFICE



37%
RESIDENTIAL



19%
RETAIL



2%
MIXED USE

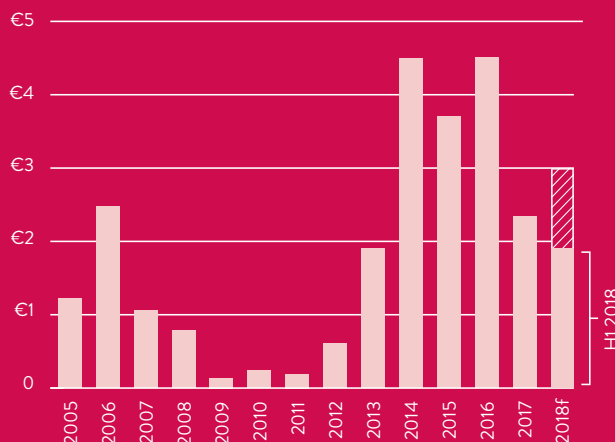
PRIME YIELDS

SECTOR	Q2 YIELD	TRENDING
HIGH STREET RETAIL	3%	▶
CITY CENTRE OFFICE	4.15%	▶
RESIDENTIAL (PRS)	4%	▶
INDUSTRIAL	5.5%	▶



DUBLIN ACCOUNTED FOR
92%
 OF TOTAL TURNOVER

ANNUAL INVESTMENT TURNOVER



- 53% IRELAND
- 15% MAINLAND EUROPE
- 11% MIDDLE EAST / ASIA
- 4% UNITED KINGDOM
- 1% NORTH AMERICA
- 16% OTHER/UNKNOWN



**TRANSACTIONAL
ACTIVITY**

Investment turnover during the second quarter of the year reached over €950 million bringing the total spend for the first half of the year to almost €1.9 billion – more than double the total invested during the first half of 2017. The largest transaction in the quarter was an off-market office investment in Dublin 2 at €160 million.

Investment in residential assets continues to grow with the sector overtaking retail this quarter to become the second most dominant asset class.

Dublin accounted for **92%** of total turnover in Q2 2018.



TOP 5 TRANSACTIONS Q2 2018

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
OFF-MARKET OFFICE INVESTMENT, DUBLIN 2	Office	€160 million	-	Confidential
WESTEND RETAIL PARK, BLANCHARDSTOWN	Retail	€147.7 million	5.3%	Deutsche Bank
SIX HANOVER QUAY, DUBLIN 2	Residential (PRS)	€101 million	-	Carysfort Capital
THE BECKETT BUILDING, DUBLIN 3	Office	€101 million	4.1%	KB Kookmin Bank
FERNBANK, CHURCHTOWN, DUBLIN 14	Residential (PRS)	€100 million	-	Irish Life

Source: Bannon Research



SECTOR ANALYSIS

Offices remain the most popular asset class with €395 million invested this quarter across 16 transactions accounting for 42% of turnover. Notable deals include the acquisition by South Korean bank KB Kookmin of the Facebook occupied Beckett Building for €101 million / 4.1% NIY and the sale of One and Three Gateway to the recently launched Yew Grove REIT for €29 million / 6.4% NIY following their €75 million IPO last month.

Strong growth in office development activity since 2015 has meant that the office market has been somewhat rebalanced with prime city centre rents largely stabilised at a level that is just 2% off peak according to the IPD. This has had a knock-on effect on the investment market in terms of demand, leading to a move away from investment in offices towards other asset classes such as residential (PRS). Still, there is value to be found in the secondary office market, as reflected in Yew Grove Reit's recent acquisitions.

Residential is now the second most dominant sector with almost €350 million invested this quarter across 8 deals. Of this total, the majority was attributable to PRS assets (99% of turnover), with one student accommodation transaction and a pre-63 investment making up the remainder. The most significant residential property transaction this quarter was Six Hanover Quay, a Cairn Homes

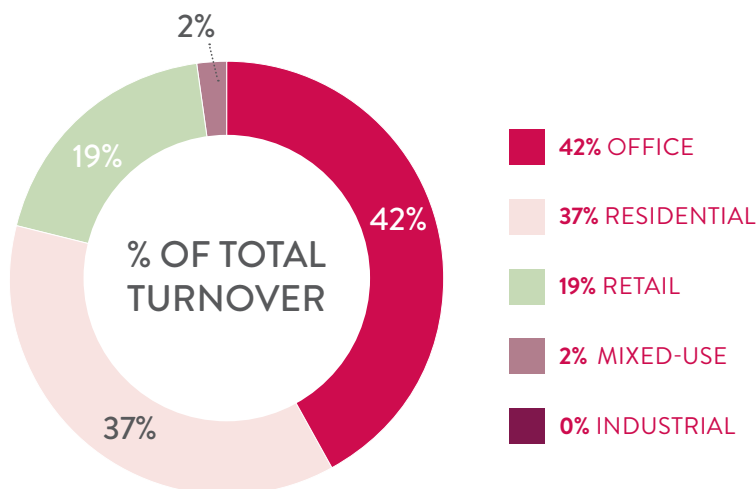
development of 120 apartments which was sold off-market to Carysfort Capital for €101 million. This was followed closely by the sale of 262 apartments at Fernbank in Churchtown to Irish Life for €100 million. Both developments are currently under construction.

Retail investments attracted €180 million this quarter across 13 deals. A large proportion of this total was attributable to the sale of Westend Retail Park in Blanchardstown, which Green REIT sold to Deutsche Bank for €147.7 million / 5.3% NIY. The second most valuable transaction involved the sale of Boroimhe Shopping Centre in Swords to Appian Asset Management for €9.25 million / 8.8% NIY.

A total of €22.5 million was invested in **Mixed-Use** assets this quarter across 8 transactions. The most significant of these was the sale of the former Department of the Environment showroom at 10/12 Trinity Street & 16/17 St. Andrew's Street for €12 million to New Ireland Assurance plc. The property has been refurbished in recent years to provide retail, office and residential space having been purchased in 2013 for €3.7 million.

Industrial properties did not feature this quarter however we expect demand for well-located industrial investments to rise in the coming months in line with strong growth in e-commerce and related activities.

IRISH INVESTMENT TURNOVER BY SECTOR Q2 2018





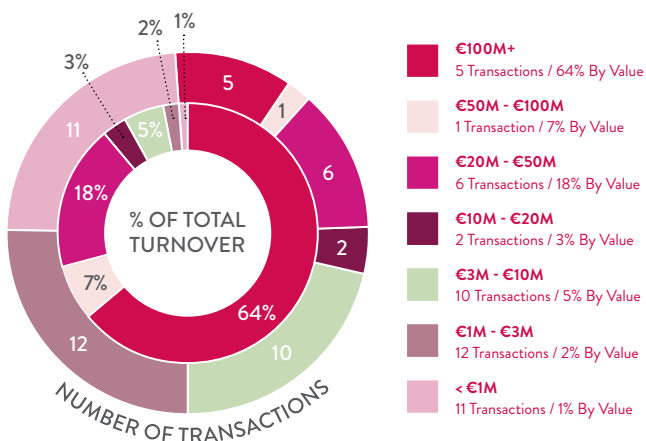
LOT SIZES

The average lot size this quarter was €20.2 million, almost four times the average lot size in the same quarter last year. This was impacted by several large transactions during the quarter with 5 deals worth over €100 million representing 64% of turnover. Nevertheless, the average lot size has been increasing steadily over the past year.

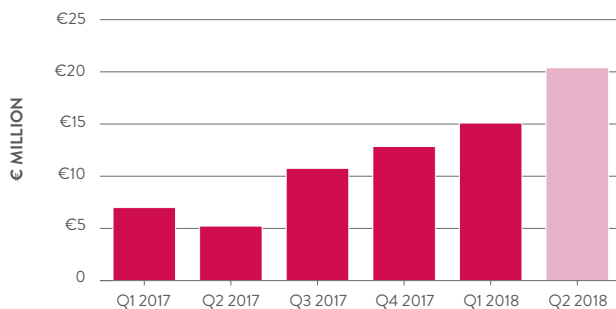
Conversely, while almost half of all transactions fell within the sub-€3 million bracket, these only represented 3% of total turnover.

INVESTMENT TRANSACTIONS BY LOT SIZE

47 transactions amounting to €950 million.



AVERAGE LOT SIZE



Source: Bannon Research



LOCATION

Of the 47 transactions in the quarter, 36 of these were located in Dublin accounting for 92% of total turnover. Of the €875 million invested in Dublin this quarter, 35% was attributable to Dublin 2 assets.

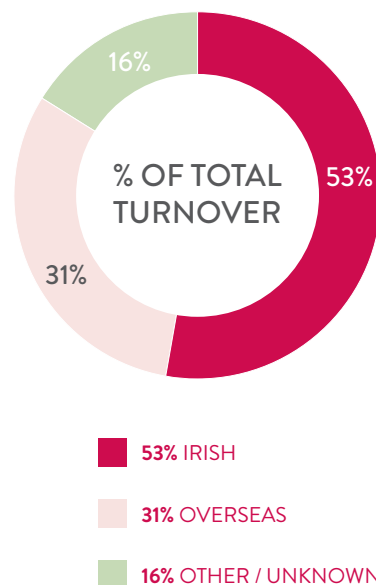
Cork was the second most dominant location with over €65 million invested this quarter representing 7% of turnover.



INVESTOR PROFILE

We are seeing a resurgence in investment by Irish entities, with just under €500 million invested this quarter representing 53% of total turnover. Overseas investment accounted for 31% of turnover this quarter with significant input from South Korean and German investors.

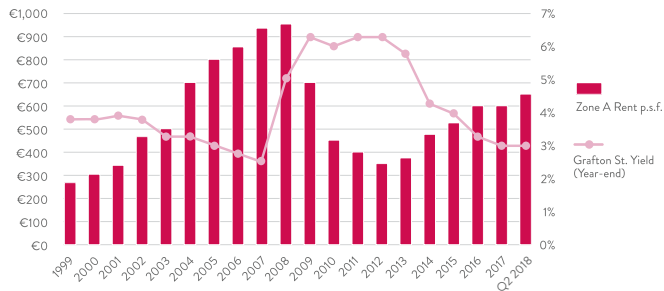
TURNOVER BY INVESTOR PROFILE





RENTS & YIELDS

PRIME RETAIL RENTS AND YIELDS



Prime retail yields have remained stable this quarter with no significant deals signed. Grafton Street yields remain at 3% while on Henry Street yields are stable at 3.25%. The redeveloped 7-9 Henry Street is currently on the market guiding €42.6 million, representing a net initial yield of 3.8% with rental underwrites.

PRIME OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields also remained stable this quarter at 4.15% with the sale of The Beckett Building in Dublin 3 copper fastening this having transacted at €101 million / 4.14% NIY.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields remain stable at 5.5% with limited activity in this sector this quarter.

Source: Bannan Research

YIELD MOVEMENTS

RETAIL	Q2 YIELD	TRENDING
GRAFTON STREET	3%	▶
HENRY STREET	3.25%	▶
PRIME DUBLIN SHOPPING CENTRE	4-4.5%	▶
PROVINCIAL SHOPPING CENTRE	6-6.5%	▶
PRIME RETAIL PARK	4-4.5%	▶
PROVINCIAL RETAIL PARK	6-6.5%	▶
OFFICE	Q2 YIELD	TRENDING
PRIME CITY CENTRE OFFICE	4.15%	▶
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%	▶
INDUSTRIAL	Q2 YIELD	TRENDING
PRIME GDA HIGH BAY	5.5%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
PRS/MULTIFAMILY	Q2 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	4%	▶
PRS GDA	5%	▶

Source: Bannan Research



Westend Retail Park, Blanchardstown



PRS/BUILD-TO-RENT

The Dublin residential market has undergone a significant shift in recent years with demand far outstripping supply for rental property in particular, leading to strong rental growth. Investment in PRS assets continues to grow with over €470 million invested in the sector across 11 deals this year representing 25% of H1 turnover. This compares with 10% of total turnover for the four quarters of 2017.

The sale of Six Hanover Quay and the Fernbank development in Churchtown – both of which achieved in excess of €100 million – demonstrate the depth of capital currently chasing opportunities in this emerging sector of the Irish market.

News of the creation of a joint venture between Kennedy Wilson and AXA Investment Managers – Real Assets, a leading investor in residential assets across Europe and the US, emphasises this shift of core investor focus to Ireland and its growing private rented model. The joint venture will seek PRS development and investment opportunities across Ireland, with particular focus on Dublin and other large urban centres.

We expect other global institutional players to follow suit in moving towards PRS investment and the development of build-to-rent properties, attracted by the long-term returns and limited cyclical movements in the sector.



OUTLOOK

We expect investor appetite to continue to shift towards alternative asset classes with particular emphasis on PRS/build-to-rent opportunities.

Given the **strong start** to the year, and with over **€1 billion worth of investment stock** currently on the market, we are now expecting investment turnover to exceed **€3 billion** by year-end.



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