

INVESTMENT MARKET COMMENTARY

Q3 | 2018



Q3 2018 AT A GLANCE

TOTAL TURNOVER Q3 2018
€639 MILLION

TOTAL TURNOVER YTD 2018
€2.5 BILLION

TURNOVER BY SECTOR



38%
OFFICE



30%
PRS



12%
RETAIL



11%
MIXED USE



5%
INDUSTRIAL

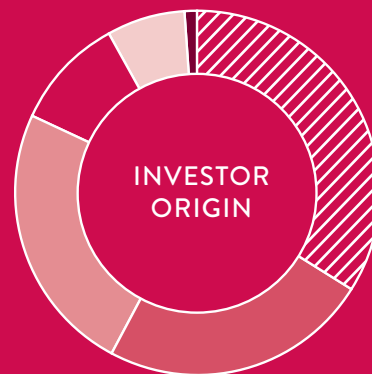
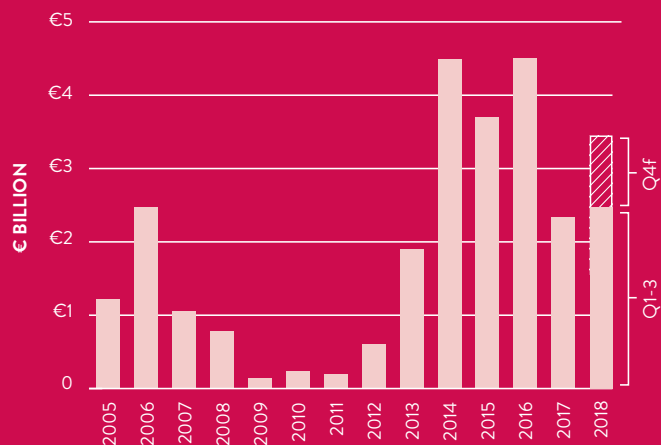
PRIME YIELDS

SECTOR	Q3 YIELD	TRENDING
HIGH STREET RETAIL	3%	▶
CITY CENTRE OFFICE	4.15%	▶
RESIDENTIAL (PRS)	4%	▶
INDUSTRIAL	5.5%	▶



DUBLIN ACCOUNTED FOR
85%
 OF TOTAL TURNOVER

ANNUAL INVESTMENT TURNOVER



- 34% NORTH AMERICA
- 24% IRELAND
- 24% MAINLAND EUROPE
- 10% OTHER/UNKNOWN
- 7% UNITED KINGDOM
- 1% MIDDLE EAST / ASIA



Charlestown Shopping Centre, acquired for €40m



TRANSACTIONAL ACTIVITY

Investment turnover for the third quarter of 2018 reached over €639 million bringing the total spend for the year to date to over €2.5 billion – on par with the total invested during the entirety of 2017. The largest transaction of the quarter was The Grange, a residential complex in Stillorgan, at €126 million.



SECTOR ANALYSIS

Offices remain the most popular asset class with €242 million invested this quarter across 14 transactions accounting for 38% of turnover. Notable deals include the off market acquisition of Belfield office complex by north American Spear Street Capital for €90 million and Credit Suisse's acquisition of Century House in the IFSC which Hibernia REIT sold for €65.3 million / 4.0% NIY and McGarrell Reilly's Sharp Building in Dublin 2 for €56.3 million / 4.4% NIY.

Residential is now the second most dominant sector with almost €194 million invested this quarter across 8 deals, all of which was attributable to PRS assets. The most significant residential property transaction and the largest deal overall this quarter was The Grange, a development of 274 apartments which Kennedy Wilson bought for €126 million. This was followed by an off-market sale for €35 million together with numerous transactions sub €10 million.

Retail investments attracted over €76 million this quarter across 23 deals. Almost half of this was attributable to the sale of Charlestown Shopping Centre in Finglas, which Bovale / NAMA sold for €40 million / 6.6% NIY. The second most valuable transaction involved the sale of 4 Henry Street (occupied by Skechers) to Irish Life for €8.65 million / 3.8% NIY. Other notable sales include Rathborne Neighbourhood Centre in Dublin 15 (€6 million / 8.4% NIY) and Arcadia Retail Park in Athlone (€4.4 million / 8.1% NIY). Bannon handled 64% of all retail transactions this quarter.

Just under €70 million was invested in **Mixed-Use** assets this quarter across 15 transactions. The most significant of these was the sale of office and industrial buildings in Ballycoolin Business Park which Xerox sold for €22.2 million / 9.1% NIY together with City Point in Galway's Eyre Square which Friends First acquired for over €21.8 million / 6.3% NIY.

There were 8 **Industrial** transactions this quarter amounting to €34 million. The most notable transaction was a €22.5 million off market investment in Dublin AirPort Logistics Park which Deutsche Asset Management acquired from Rohan Holdings.

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INVESTOR PROFILE

Overseas investment dominated this quarter accounting for 66% of total transactions with large acquisitions from US Private equity firm Kennedy Wilson, Swiss bank Credit Suisse and others. On the domestic front, investment was primarily driven by the private market with Irish Life and Friends First being the only Irish Institutions active in the market this quarter.

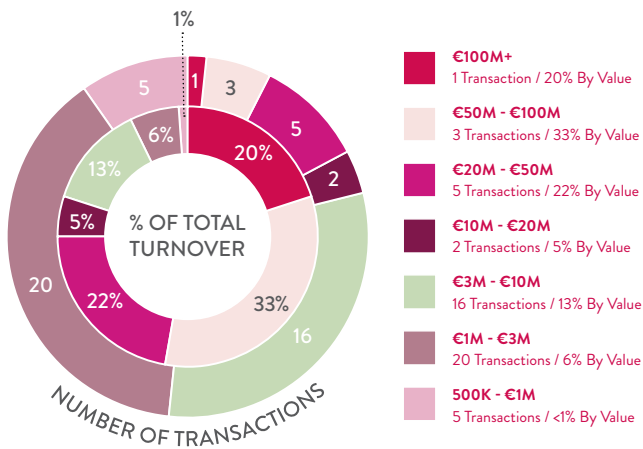


LOT SIZES

The average lot size this quarter was approximately €12 million, down from an average of €18 million for the previous two quarters of 2018. This is reflective of the large quantum of transactions (41 of 52) falling in the €500k-€10 million price bracket with only 1 transaction exceeding €100 million and 3 deals in excess of €50 million. Note the above excludes deals below €500k.

INVESTMENT TRANSACTIONS BY LOT SIZE

52 transactions totalling €635 million (excl. deals below €500k)



Note there were 21 transactions sub €500k

TOP 5 TRANSACTIONS Q3 2018

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
THE GRANGE, BLACKROCK, CO. DUBLIN	Residential (PRS)	€126 million	4.2%	Kennedy Wilson
BELFIELD OFFICE CAMPUS, DUBLIN 4	Office	€90 million	-	Spear Street Capital
NEW CENTURY HOUSE, DUBLIN 1	Office	€65.3 million	4.0%	Credit Suisse
THE SHARP BUILDING, DUBLIN 2	Office	€56.3 million	4.4%	Credit Suisse
CHARLESTOWN SHOPPING CENTRE, DUBLIN 11	Retail	€40 million	6.6%	Private Irish

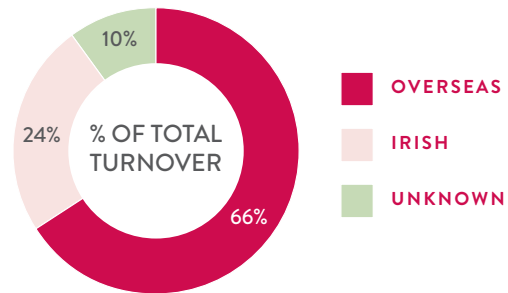
Source: Bannan Research



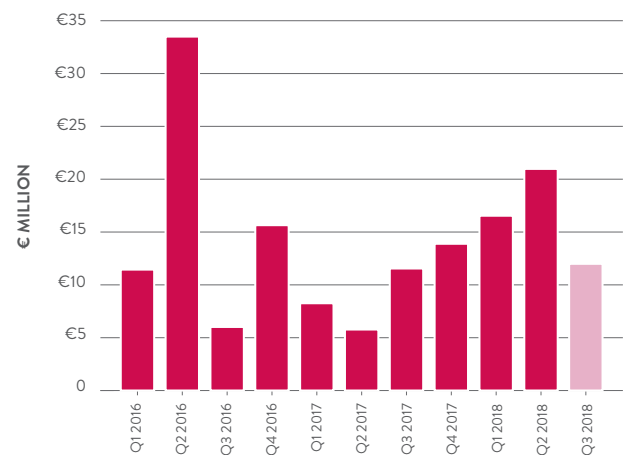
LOCATION

Dublin continues to dominate with 85% of total transactions occurring in the capital, and over half of these occurring in Dublin 2. Regional cities of Cork and Galway accounted for 7% and 4% respectively which is on par with the trend seen over previous quarters.

TURNOVER BY INVESTOR ORIGIN



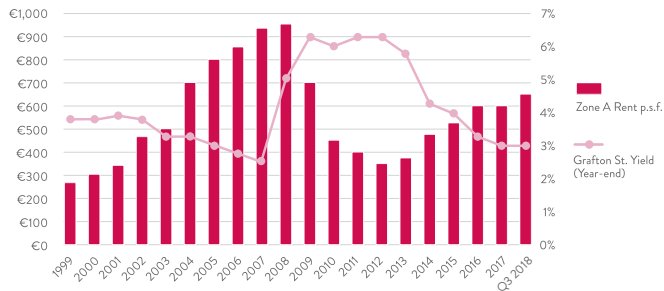
AVERAGE LOT SIZE





RENTS & YIELDS

PRIME RETAIL RENTS AND YIELDS



Prime retail yields have broadly remained stable this quarter with no significant deals done on Grafton Street. The most recent transaction on Henry Street was Irish Life’s acquisition of 4 Henry Street (Skechers) which they acquired this quarter for 3.8% NIY.

PRIME OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields also remained stable this quarter with the sale of The Sharp Building and New Century House copper fastening this having transacted at 4.4% NIY and 4.0% NIY respectively.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields remain stable at 5.25% with minimal activity in this sector this quarter, save for a €22.5 million off market transaction in Dublin AirPort Logistics Park for an undisclosed yield.

Source: Bannan Research

YIELD MOVEMENTS

RETAIL	Q2 YIELD	TRENDING
GRAFTON STREET	3%	▶
HENRY STREET	3.5%	▶
PRIME DUBLIN SHOPPING CENTRE	4-4.5%	▶
PRIME PROVINCIAL SHOPPING CENTRE	6-6.5%	▶
PRIME DUBLIN RETAIL PARK	4-4.5%	▶
PRIME 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	5.25%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
PRS/MULTIFAMILY	Q2 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	4%	▶
PRS GDA	5%	▶

Source: Bannan Research



HOUSE VIEW

Ireland's core commercial markets have undoubtedly stabilised over the last few quarters. As a consequence sales outcomes, particularly on the office side, are becoming increasingly predictable. The sector that continues to surprise to the upside however is the private rented residential sector. NOI yields are now discussed by sales agents in the late 3%'s with limited embarrassment. We do however believe these levels should be treated with a degree of caution, particularly in the absence of rigorous investigation into gross to net assumptions, true product differentiation backed by occupier focused design development and by the establishment of a target market led brand concept. In terms of market buys, we see value in the industrial sector based on rental growth expectation. In addition, experiential led retail such as sustainable town centres and strong city centre are seen as good value. We see in particular an opportunity in the Dublin North City Centre where the majority of the city's future retail and leisure development lies (plus some experiential office schemes) yet it is trading at a 50 basis point yield discount and 50% rent discount to the south city, where future expansion is effectively tapped out. By way of a reminder Grafton Street and Henry Street traded on a par as recently as the early 00's!.



OUTLOOK

Given the strong performance in the year to date, and with over €670 million worth of investment stock currently sale agreed and a further €620 million on the market, we are now expecting investment turnover to exceed €3.5 billion by year-end. We expect investor appetites to continue to shift towards alternative asset classes with particular emphasis on PRS/build-to-rent opportunities.

The sector that continues to surprise to the upside however is the **private rented residential sector**. NOI yields are now discussed by sales agents in the **late 3%'s** with limited embarrassment.



The Grange Kennedy Wilson acquired for €126m



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