

INVESTMENT MARKET COMMENTARY

2019 REVIEW
2020 OUTLOOK



2019 AT A GLANCE

TOTAL TURNOVER 2019

€7.5 BILLION*



DUBLIN ACCOUNTED FOR

c.90%

OF TOTAL TURNOVER
(BY VALUE)

TURNOVER BY SECTOR



9%

RETAIL



30%

OFFICE



36%

RESIDENTIAL



20%

MIXED USE



4%

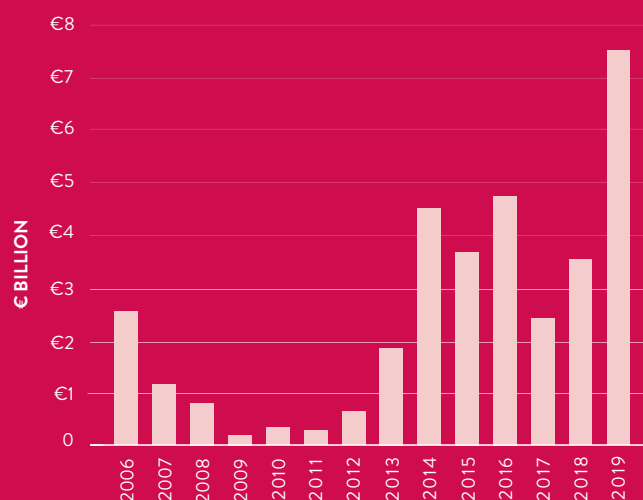
INDUSTRIAL



1%

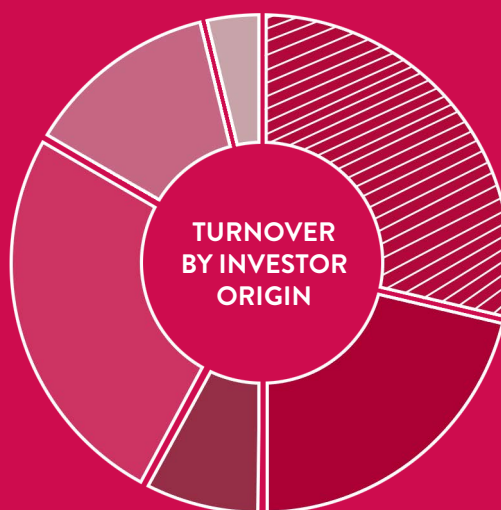
OTHER

TOTAL ANNUAL INVESTMENT TURNOVER



PRIME YIELDS

SECTOR	Q1 2020 YIELD	TRENDING
HIGH STREET RETAIL	3.5%	↑
PRIME SHOPPING CENTRE	4.75%	↑
CITY CENTRE OFFICE	4.0%	→
RESIDENTIAL (PRS)	3.75%	→
INDUSTRIAL	5.25%	↓



*Incl. Green REIT sale



TRANSACTIONAL ACTIVITY

2019 witnessed the largest volume and value of transactions ever recorded in the Irish market with a staggering €7.5bn of CRE deals completed. Whilst this value included a number of super prime portfolios, notably the Green REIT sale, together with some vacant possession prime office forward sales this was still a staggering result, particularly with the uncertainty of Brexit looming for the majority of the year.

Q4 in particular was exceptional with circa. €4.2bn of deals, representing 56% of total annual turnover. This turnover was dominated by the Green REIT sale to Henderson Park for a reported after €1.34bn (comprising 32% of Q4 alone). The balance of the Q4 turnover was dominated by residential investment with over €1.34bn (32% of Q4 value) of deals occurring across 25 transactions followed closely by prime offices at 23%. With the Green REIT sale predominantly comprising prime offices in Dublin and Cork, the office sector attracted more capital spend throughout Q4.

High value transactions/portfolio's were a dominant feature of 2019 with over 20 deals in excess of €100m which equated to 64% of investment value for the year. This statistic reflects the weight of international capital seeking super prime assets and portfolios in Ireland albeit heavily focused on the Dublin market. The Irish capital base is now completely internationalised with US, Asian, European and domestic players all having transaction representation throughout the year.

We expect to see a continuation of new entrants to the market in 2020 where prime assets are made available. In particular, we expect a wider range of core European funds to consider the Irish market with a focus on the prime office sector.



SECTOR ANALYSIS

Offices remain the target asset class given the improving domestic economic performance, strong office take-up and stabilised market rents. Approximately €1.54bn of transactions occurred throughout 2019, excluding the Green REIT Sale, which if included would bring this figure to excess €2.5bn. The €1.54bn occurred across 56 separate asset/portfolio transactions, the largest of which was Starwood Mortgage REIT's disposal of Project Cedar, a Dublin CBD backed prime office portfolio, to Blackstone for a reported €530m. The largest standalone asset sale was Mapletree's purchase of Marlet's Sorting office, with vacant possession, for €240m followed by Union's acquisition of TIO's 5 Hanover Quay for €197m (4.1% NIY).

Residential investment continues its acceleration of market share with a cohort of international and domestic institutions chasing product of varying types. This includes standing investments, pepper pot portfolios together with top end purpose built PRS forward sale/funds. Throughout 2019 50 transactions occurred equating to €2.7bn of sales. The largest transaction of the year was Marathon's divestment of their PRS platform of 815 units across a number of locations for €285m to listed specialist PRS investor, IRES. This was followed by Tristan Capitals re-sale of their Neptune and Elmfield assets in Dun Laoghaire and Ballyogan Road respectively to Avestus for excess €216m.

Retail investments had a chequered year, amid wider US/UK pressures in the sector, resulting in negative yield movement across all sub-sectors. A total of €650m was transacted in the sector in 2019 across 46 deals. The collective sale of a 100% interest in St. Stephen's Green Shopping Centre, for €175m, was the stand out deal of the year. Davy Real Estate acquired the scheme from a trio of owners, namely Irish Life, Madison and a private investor. The yield level paid was circa. 4.0% however this was subject to a number of short-term deals to facilitate the potential re-development of the scheme hence not reflective of the market. The only high street deal to occur was DWS's acquisition of the Blue Building on Henry Street, which is occupied by Next, for circa. €44.25m reflecting a yield of circa. 3.6%. Other notable sales throughout the year included the sale of Golden Island Shopping by Credit Suisse and Castlewest Shopping Centre, Ballincollig. Both were acquired by Davy Real Estate.

Industrial investment sales were limited in comparison to the wider market performance. Whilst €273m of transactions occurred across 19 deals this statistic is skewed by one mega deal comprising the sale of Tesco's Ireland's main distribution centre for €154m reflecting 4.50% to a South Korean investor. Demand across this sector is exceptionally high from institutional investors, however, the lack of institutional product is the stymieing factor. Where quality product is offered to the market we can expect prime yields to be tested.



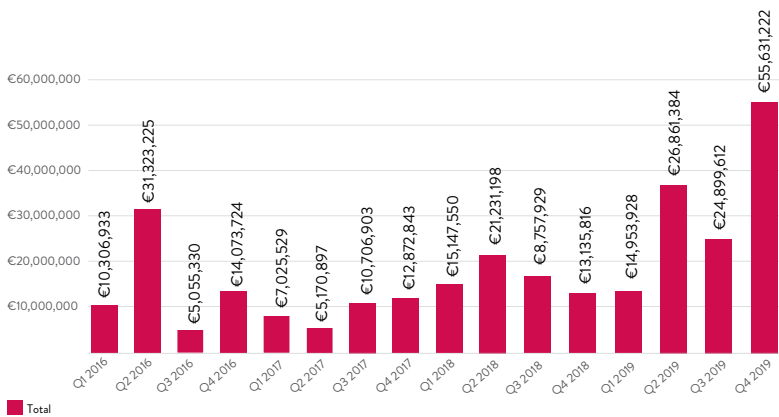
ESB's, Fitzwilliam 28

TOP 12 TRANSACTIONS*

PROPERTY	SECTOR	QUARTER	PRICE	NIY	PURCHASER
CEDAR PORTFOLIO, DUBLIN	Office	Q4 2019	€530 million	n/a	Blackstone
XVI PORTFOLIO	Residential	Q2 2019	€285 million	4.1%	IRES
HEUSTON SOUTH QUARTER, DUBLIN 8	Office / Residential	Q2 2019	€255 million	n/a	Henderson Park
THE SORTING OFFICE, DUBLIN 2	Office (Vacant Possession)	Q2 2019	€240 million	4.0%	Mapletree
PROJECT VERT (NEPTUNE /ELMFIELD)	Residential	Q4 2019	€216 million	4.1%	Avestus
FIVE HANOVER QUAY	Office	Q3 2019	€197 million	4.1%	Union Investment
DUBLIN LANDINGS *PRS ELEMENT	PRS	Q3 2019	€175.5million	4.1%	Greystar
ST. STEPHEN'S GREEN SC	Retail	Q4 2019	€175.5 million	4.0%	Davy
PORTFOLIO B - STUDENT ACCOMMODATION	Residential	Q4 2019	€171 million	n/a	Confidential
NOVA - ATRIA SANDYFORD	Office	Q3 2019	€165 million	5.5%	Mapletree
THE REFLECTOR BUILDING	Office	Q4 2019	€155 million	4.2%	Deka
TESCO DISTRIBUTION CENTRE, DONABATE, CO. DUBLIN	Industrial	Q4 2019	€154 million	4.5%	KTB

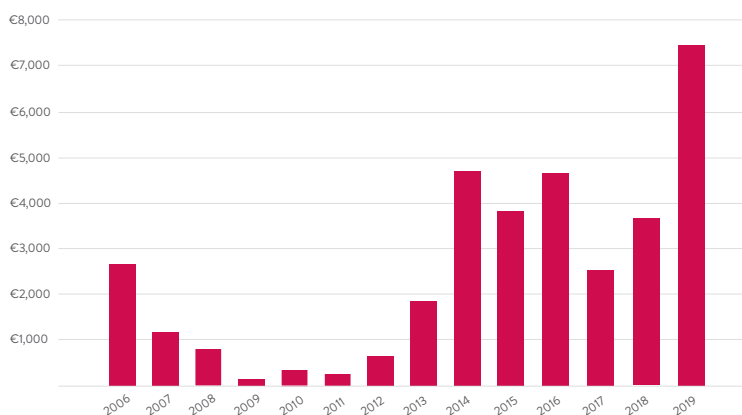
* The Henderson Park acquisition of the Green REIT portfolio has been omitted from the above table.

AVERAGE TRANSACTION SIZE PER QUARTER



Eason, 113-115 Patrick St. / 2-5 Drawbridge St., Cork

TOTAL ANNUAL INVESTMENT MARKET TURNOVER (€m)



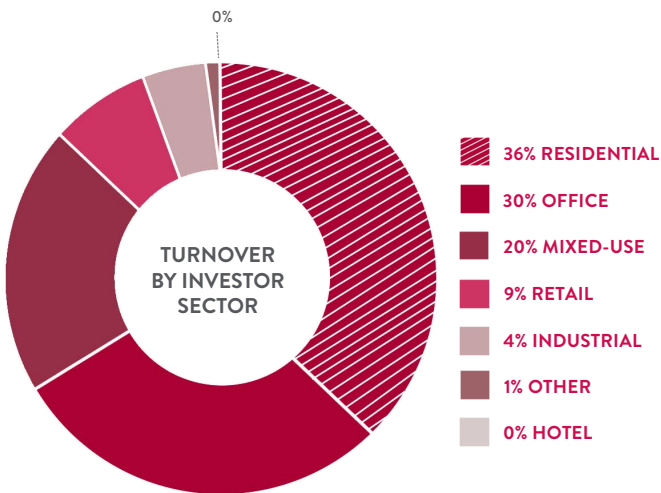
Eason, O'Connell Street & Abbey Street, Dublin 1



INVESTOR PROFILE

The internationalisation of the Irish market is continuing and growing quarter on quarter. Approximately 71% (€5.3bn) of the years turnover can be attributed to international capital. If we compare this to 2018 when 66% of the €3.8bn spend (€2.44bn) originated from overseas capital it shows a major increase (120%) of overseas spend in the market. This is an encouraging statistic in the context of Irish economic performance and confidence in its continued growth.

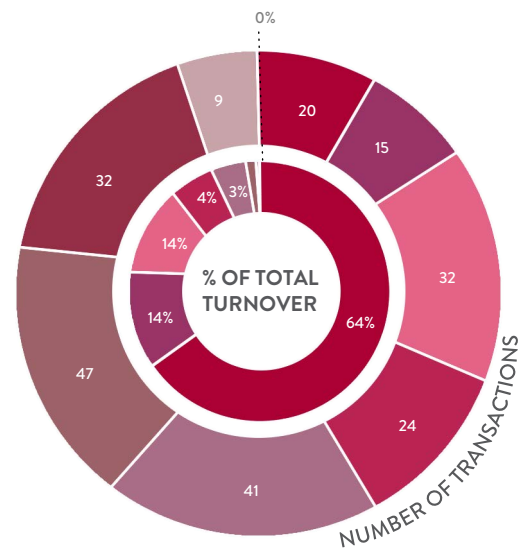
INVESTOR TURNOVER BY SECTOR



LOT SIZES

The average deal size for 2019 was approximately €34m, up significantly on 2018's €16m. However, given the level of high value portfolio sales which occurred, this figure is not reflective of average lot sizes. We would expect this to return to normalised levels in 2020.

INVESTMENT TRANSACTIONS BY LOT SIZE 2019



LOCATION

The Dublin market continues to dominate Ireland's investment spend, with close to 90% of transaction value occurring in the city and suburbs. By comparison Galway, Cork and Limerick accounted for just 6% of investment volumes over the period. Given the level of commercial construction currently occurring in Cork we would expect it to have an increased share of spend in 2020.



Nova Atria Sandyford Acquired by Maple tree for €165 million

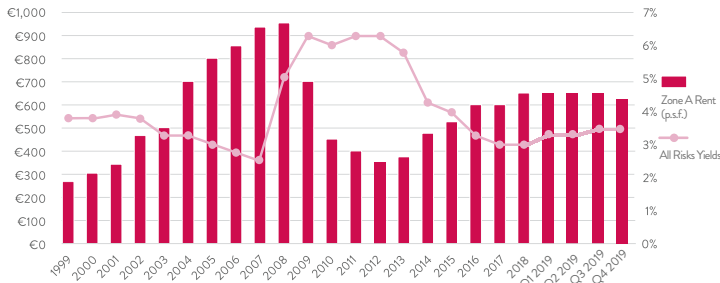


Dublin Landings PRS Element acquired by Greystar for €175.5 million



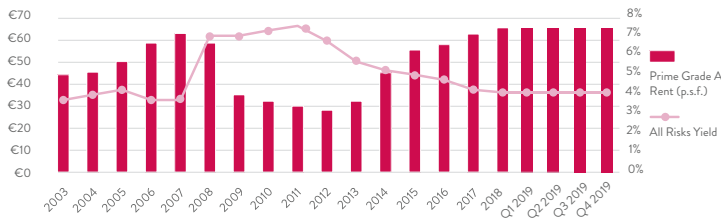
RENTS & YIELDS

GRAFTON STREET RENTS AND YIELDS



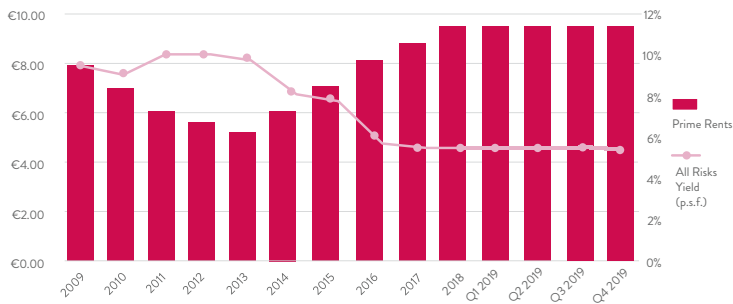
There has been limited retail transactional evidence on the high streets throughout 2019 to illustrate factual movements in yield levels, however, the general sentiment in the sector has resulted in a valuation yield shift across all sub-sectors. This is as a result of limited investor appetite. We will likely see some high street assets offered to the market in 2020 which will set a tone for the sector.

PRIME DUBLIN OFFICE CBD RENTS AND YIELDS



Prime Dublin CBD office rents and yields have remained relatively stable since Q4 2019. We would expect nominal yield contraction to occur during 2020 which will be evident in the upcoming coming super prime sales of the ESB's, Fitzwilliam 28, which is being handled by Bannon's Capital Markets. In addition, Henderson Park have launched the first tranche of the Green REIT portfolio to the public market, The Capital Collection. This portfolio of four prime office assets includes One Moleworth Street.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields have contracted to circa. 5.25% albeit with limited evidence in the sector. We are aware of two prime deals being prepared for market, and it is likely both sales will test and break the above yield level, setting a new benchmark for the sector.

Source: Bannon Research

YIELD MOVEMENTS

RETAIL	Q4 YIELD	TRENDING
GRAFTON STREET	3.5%	▲
HENRY STREET	3.75%	▲
PRIME DUBLIN SHOPPING CENTRE	4.75%	▲
PRIME PROVINCIAL SHOPPING CENTRE	7.5%+	▲
PRIME DUBLIN RETAIL PARK	4.75%	▲
PRIME PROVINCIAL RETAIL PARK	7.5%+	▲
OFFICE	Q4 YIELD	TRENDING
PRIME CITY CENTRE OFFICE	4%	▶
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%+	▶
INDUSTRIAL	Q4 YIELD	TRENDING
PRIME GDA HIGH BAY	5.25%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
RESIDENTIAL	Q4 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	3.75%	▼
PRS GDA*	4.5%	▶

*Greater Dublin Area

Source: Bannon Research



OUTLOOK

The outlook for 2020 is positive with a range of prime office stock already on the market which should attract strong interest. This includes ESB's Fitzwilliam 28 together with the first tranche of Henderson resale of part of the Green REIT portfolio.

Residential led investment will continue to be highly sought after as investors continue their pursuit of quality assets to build large platforms. Expect yields in this sector to continue to contract. Investors will be eagerly watching for any political interference around rent caps which could emanate from the formation of the next government.

Retail is likely to be an interesting asset class for 2020 as existing owners and potential investors evaluate the sector and determine what level of exposure they want to the sector. This consideration could see some interesting opportunities.

As we come out from under the Brexit shadow into a backdrop of continued low interest rates, the allocation to Irish Real Estate looks likely to accelerate. Early indications in 2020 show renewed interest from all the established European funds with the expectation of multiple new entrants. These new investors will take the place of the Korean Funds who appear to be taking a timeout to assess their 2018/2019 acquisitions, a number of whom had exposure to WeWork.

Forecast turnover is difficult to predict at this point, however, we would anticipate another strong year with the €4bn mark likely to be exceeded yet again.



ONE TO WATCH:

In anticipation of a stable yield environment and limited rental growth, value add will be the name of the game for 2020. Post purchase lease up, asset re-purposing, extending or refurbishing, particularly with a "green perspective", will need to be front and centre for those wishing to enjoy any returns outside the "norm". However, taking this additional risk with the intention of reducing it for improved returns requires solid commercial advice and an eye for "the angle".

“All macro and micro factors are pointing to another stellar year for Irish CRE transactions. The weight of capital in the prime end of the market has never been as strong which is a testament to Ireland Inc's wider performance.”

Rod Nowlan, Director



Half Moon Street Cork acquired by Kennedy Wilson for €36.3 million /6.6% NIY



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