

# INVESTMENT MARKET COMMENTARY

Q3 | 2019



bannan

# Q3 2019 AT A GLANCE

TOTAL TURNOVER Q3 2019

## €1.2 BILLION

### TURNOVER BY SECTOR



### PRIME YIELDS

SECTOR	Q3 YIELD	TRENDING
HIGH STREET RETAIL	3.5%	▲
PRIME SHOPPING CENTRE	4.75%	▲
CITY CENTRE OFFICE	4.0%	▶
RESIDENTIAL (PRS)	3.9%	▶
INDUSTRIAL	5.5%	▶

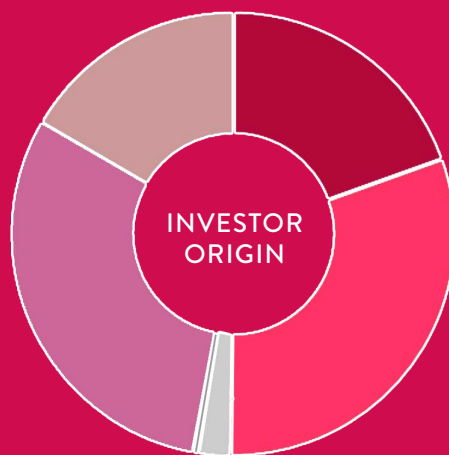
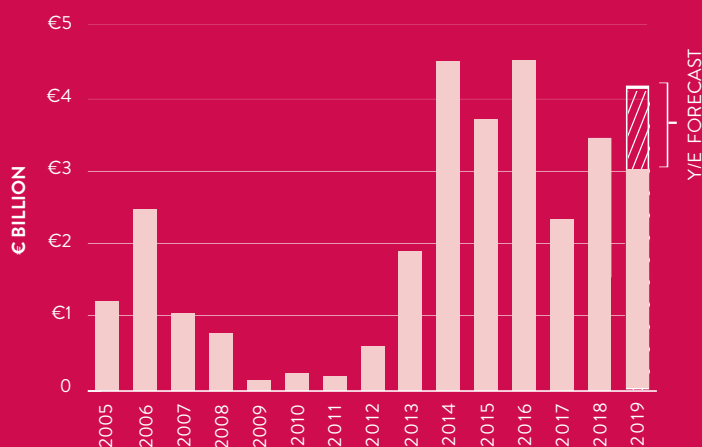


DUBLIN ACCOUNTED FOR

## 83%

OF Q3 TOTAL TURNOVER  
(BY VALUE)

### ANNUAL INVESTMENT TURNOVER



- 39% MAINLAND EUROPE
- 31% NORTH AMERICA
- 18% IRELAND
- 1% UNITED KINGDOM
- 2% MIDDLE EAST / ASIA
- 9% OTHER/UNKNOWN



## TRANSACTIONAL ACTIVITY

The third quarter of 2019 saw another strong performance for Irish real estate investment with approximately 48 transactions over the quarter accounting for €1.22bn of spend bringing total turnover for the first 9 months of the year to in excess of €3 billion.

This represents a 51% increase in transaction volume on the same period in 2018. The strong performance was bolstered by three considerable sales equating to €537.5m of value, or 43% of the quarter. The largest transaction of these was the sale of Five Hanover Quay by Oaktree to Union Investment for €197 million / 4.1% NIY. This was followed by the sale of the Dublin Landings PRS Scheme by Ballymore/Oxley to Greystar for €175.5 million.



## SECTOR ANALYSIS

The **Residential** sector was the top performing market again this quarter in terms of turnover with over €593 million/ 49 % invested this quarter across 12 transactions. Although another strong performance for the sector it failed to deliver the impressive turnover levels seen in Q2 this year hampered by significantly smaller lot sizes with only one transaction completing for in excess of €100 million.

The largest transaction in this sector was the sale of the Dublin Landings PRS Scheme by Ballymore/Oxley for €175.5 million to Greystar. This was followed by the forward sale of 282 apartments at the Quarter, City West by Cairn to Urbeo for €94 million.

The remaining transactions of the quarter vary in lot size with five sales ranging between €20 million to €55 million with the balance falling into the sub €10 million bracket.

The **Office** sector performed well during the quarter with €466 million invested across 11 transactions providing an increase of 59% on transaction value seen in Q2 2019. Over three quarters of this was attributable to two sales. The largest transaction in this sector was the sale of Five Hanover Quay by Oaktree to Union Investment for €197 million / 4.1% NIY.

This was followed by the sale of the Nova-Atria Building in Sandford by Blackstone to Mapletree for €165 million. The largest transaction to occur outside of the capital was the sale of Westpark Shannon Business Park for €50 million to Fine Grain Property. The remaining 8 transactions fell below the sub €20 million price band and accounted for 11.5% of sector spend.

Despite a relatively strong H1 the **Retail** sector accounted for just 3% of Investment Spend this quarter equating to €30 million across 11 transactions. The largest transaction of the quarter occurred outside of Dublin and comprised the sale of Tesco Gorey for €20.7 million/7.1% NIY to French Asset Managers Corum.

The remaining nine transactions for the quarter fell into the sub €5 million price band.

Although a relatively subdued quarter for the retail market regional shopping centres and retail properties outside of Dublin continue to attract investors seeking value due to the significantly higher yields being achieved relative other asset classes.

There were no transactions in the **Hotel** sector for Q3, however we expect to see an increase in investment in this sector as a number of forward sale transactions are in the pipeline. Following a recent vote by Dublin city councillors to limit the number of hotels being built in the city in what has been described as an effort to halt the “increasing erosion of cultural life and space” it remains to be seen what impact if any this will have on this sector.

**Mixed-Use** investments accounted for 4% of total turnover across ten transactions. The largest of these was the sale of the Half Moon Street development in Cork for €36 million/6.6 NIY.

**Industrial** sales in Q3 2019 totalled €37 million/ 3% of total turnover however we expect to see some large transactions to occur over the remainder of the year on the back of strong investor demand for this sector.

## TOP 5 TRANSACTIONS Q3 2019

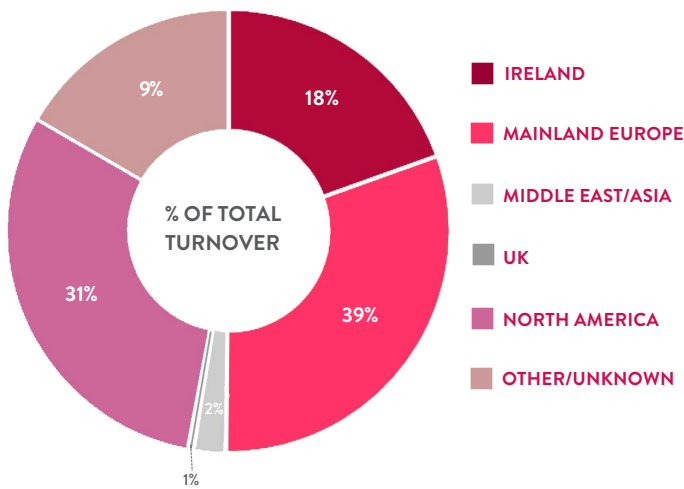
PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
FIVE HANOVER QUAY	Office	€197 million	4.1%	Union Investment
DUBLIN LANDINGS *PRS ELEMENT	PRS	€175.5 million	4.1%	Greystar
NOVA-ATRIA, SANDYFORD	Office	€165 million	Confidential	Maple Tree
THE QUARTER, CITYWEST	PRS	€94 million	4.4%	Urbeo
MOUNT ARGUS *PRS ELEMENT	PRS	€93 million	Confidential	Patrizia



### INVESTOR PROFILE

Overseas capital continues to dominate the investment spend with 52% (€644m) of transactions completed. European investors accounted for 39% of the overseas spend with a further 31% relating to North American investors. Investment by Irish Investors including Institutions was relatively subdued this quarter, capturing just 20% (€241m) of transactions. There was limited Asian/Korean capital invested this quarter. However, with several Grade A office investments currently in advanced legal stages with this capital source we expect this to rise in Q4.

### TURNOVER BY INVESTOR ORIGIN



### LOCATION

Dublin continues to dominate with 83% of total transaction value and 71% of transaction volume occurring in the capital. The city of Cork attracted 5% of value dominated by a number of large small Office transactions with the geographical balance having limited foothold.



Nova Atria Sandyford Acquired by Maple tree for €165 million



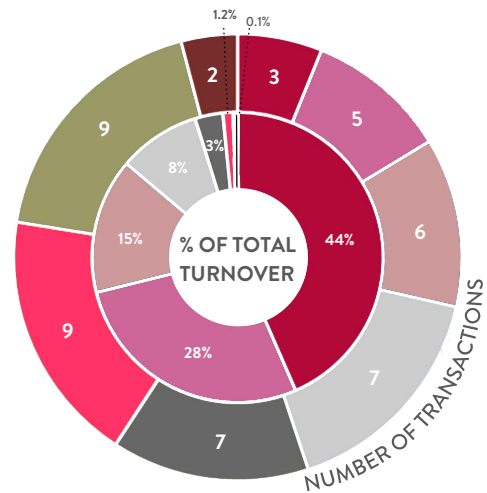
### LOT SIZES

This quarter again saw a small number of high value transactions account for a large proportion of overall turnover with three transactions in excess of €100 million along with two transactions in excess of €90 million. Collectively these five transactions, three of which were PRS led, accounted for 59% of overall turnover for the quarter.

The average lot size remained at €25.2 million for Q3 2019, reflecting the lower number of overall transactions and lower number of high value transactions seen this quarter relative to Q2 2019.

### INVESTMENT TRANSACTIONS BY LOT SIZE Q3 2019

48 transactions totalling €1.22 billion. Excludes deals below 500k.



- **€100M+**  
 3 Transactions/44.2% By Value
- **€50M - €100M**  
 5 Transaction/28% By Value
- **€20M - €50M**  
 6 Transactions/15.3% By Value
- **€10M - €20M**  
 7 Transactions/7.7% By Value
- **€3M - €10M**  
 7 Transactions/3.1% By Value
- **€1M - €3M**  
 9 Transactions/1.2% By Value
- **500K - €1M**  
 9 Transactions/.5% By Value
- **< €500k**  
 2 Transactions/.1% By Value

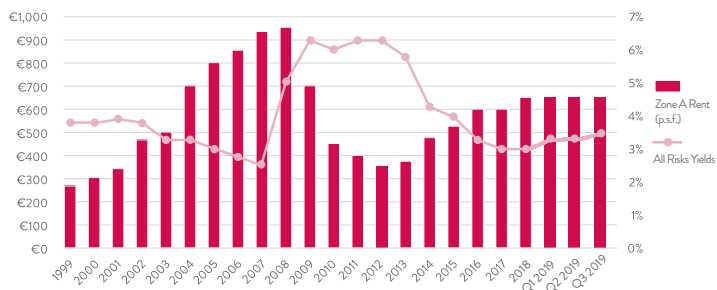


Dublin Landings PRS Element acquired by Greystar for €175.5 million



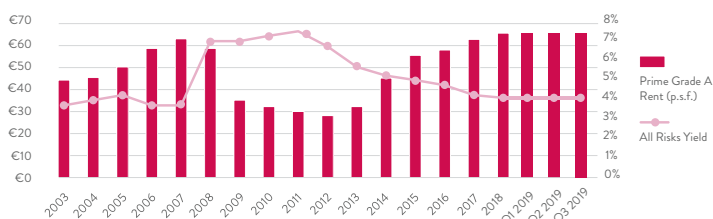
## RENTS & YIELDS

### GRAFTON STREET RENTS AND YIELDS



There were no high street retail trades during Q3 to determine factual yield shifts. However, weakened sentiment and general nervousness in the market have caused prime High street yields to move out by 25 basis points.

### PRIME DUBLIN OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields have remained stable during Q3 factually reflected by the sale of Five Hanover Quay for €197 million /4.1% NIY to Union Investment. This was the only Prime CBD transaction to have completed this quarter.

### PRIME INDUSTRIAL RENTS AND YIELDS



**Industrial** -Prime High Bay yields remain stable at 5.5% with relatively subdued activity in this sector during the quarter.

**PRS** -The sector continues to strengthen with an increasing appetite for PRS assets among Overseas and Institutional Investors. Prime yields on Net Income, after running costs remain at 3.9% albeit we expect this to tighten further during Q4.

### YIELD MOVEMENTS

RETAIL	Q3 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	Q3 YIELD	TRENDING
PRIME CITY CENTRE OFFICE	4%	▶
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%+	▶
INDUSTRIAL	Q3 YIELD	TRENDING
PRIME GDA HIGH BAY	5.5%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
RESIDENTIAL	Q3 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	3.9%	▶
PRS GDA*	5%	▶

\*Greater Dublin Area

Source: Bannan Research



## OUTLOOK

There is currently €1.2bn of investment stock on market heading into Q4 2019 with over 50% of this at agreed or legal stages. The bulk of this relates to some Prime Grade A office buildings which includes Bishops Square and The Reflector all of which are understood to be at terms agreed stage to both International and European capital.

We expect investor demand will remain strong across the office and PRS sectors given the continued solid performance of the Irish economy bolstered by low bond yields, low interest rates and fluctuating equities markets. Given the yield gap evident in bond yields vs prime real estate yields its likely the capital base active in Ireland will widen. At the time of publishing the Brexit impasse remains un-resolved at a parliament level. It appears likely that the EU will ratify an extension to the UK's departure until the new year with the chance of a UK election by year end a distinct possibility. The outcome of this process remains the single biggest risk to Irish economic performance and is having a major drag on the non-prime and smaller lots sizes in the Irish investment market.

We are now forecasting year end turnover to exceed €4bn given the level of high value transactions that have launched and are either completed or at an advanced stage. This is exclusive of the Green REIT sale.



## ONE TO WATCH: THE RETAIL SECTOR

The retail sector, whilst not high on some investors agenda, continues to offer exceptional returns vs. other sectors. While it is acknowledged that external factors will mean that there are winners and losers in this sector it is evident from performance indicators collected by this office ie. (footfall, turnover etc.) are at odds with the sentiment being expressed by investors.

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“Investor demand remains robust in the Irish market and we expect to see strong activity during Q4 across the sectors”.

David Carroll, Director

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



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