

INVESTMENT MARKET COMMENTARY

Q1 | 2018



Q1 2018 AT A GLANCE

TOTAL TURNOVER Q1

€937 MILLION

TURNOVER BY SECTOR



58%

OFFICE



3%

RETAIL



18%

RESIDENTIAL



1%

INDUSTRIAL



20%

MIXED USE



0%

OTHER

PRIME YIELDS

SECTOR	Q4 YIELD	TRENDING
HIGH STREET RETAIL	3%	▶
CITY CENTRE OFFICE	4.15%	▼
RESIDENTIAL (PRS)	4%	▼
INDUSTRIAL	5.5%	▶

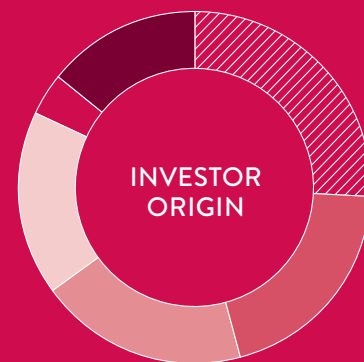
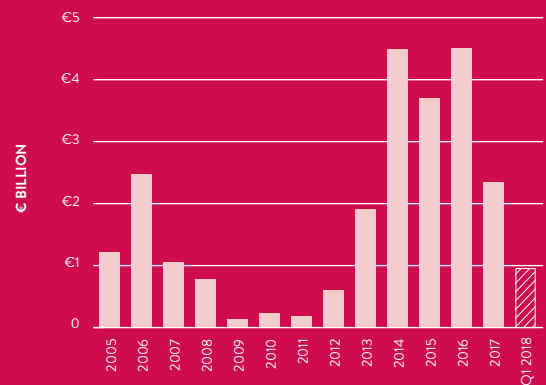


DUBLIN ACCOUNTED FOR

77%

OF TOTAL TURNOVER

ANNUAL INVESTMENT TURNOVER



- 26% NORTH AMERICA
- 20% MAINLAND EUROPE
- 19% MIDDLE EAST/ASIA
- 17% IRELAND
- 4% UNITED KINGDOM
- 14% OTHER/UNKNOWN



Dublin Landings



TRANSACTIONAL ACTIVITY

The opening quarter of 2018 saw a total of €937 million invested in Irish commercial property across 62 transactions, almost double the level seen in Q1 2017. The largest transaction in the quarter was the off-market sale of the Eir HQ at Heuston South Quarter to an overseas investor for €175 million. This was followed by the forward sale of the Ballymore/Oxley Dublin Landings development to Triuva for €164 million / 3.9% NIY.

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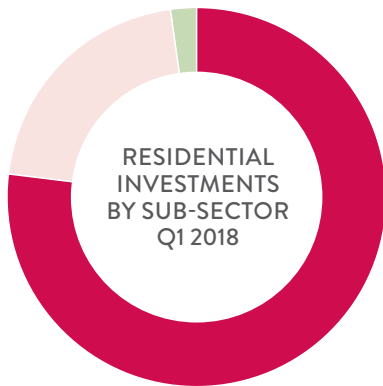
Another significant transaction this quarter was the sale/forward sale of Chatham & King Phase 1 and 2 (pictured right), which Bannon sold on behalf of the vendor for a price in the region of €155 million.



Chatham and King



SECTOR ANALYSIS



Offices remain the most popular asset class with almost €540 million invested representing 58% of total turnover for the quarter. This was boosted by two significant transactions, namely Eir's 21,000 sq.m. head office at Heuston South Quarter and the forward sale of Dublin Landings. With 23 office properties transacted in Q1 offices were the most dominant sector by both value and volume of sales.

Mixed-Use was the second most dominant sector this quarter, with over €190 million invested accounting for 20% of total sales volumes. This was driven by the sale of the Chatham & King development in Dublin 2, acquired by Hines for €155 million. This sale included the existing South King Street development as well as the forward sale of Chatham Court, the second phase of the development which is due for completion in 2019.

The **Residential** sector has now overtaken retail to become the third most dominant sector in Q1 2018 as investment in PRS and student accommodation continue to grow in popularity. A total of €162 million was invested in the sector across 7 transactions,

representing 18% of total turnover this quarter. Of this total, investment in PRS represented 76%, while student accommodation accounted for 22%. The remaining 2% of turnover was attributable to holiday homes. The largest residential property transaction was the off-market sale of the Elysian Building in Cork, acquired by Kennedy Wilson for €87.5 million.

Retail investments amounted to just over €31 million in Q1. This was made up of thirteen sub-€5 million transactions, of which five were Bank of Ireland occupied buildings in various locations across the country.

Industrial sales attracted over €12 million during the quarter, again all sub-€5 million with the largest being the sale of units 1-4 at 88/89 Furze Road, Sandyford for €4.4 million / 6.4% NIY.

TOP 5 TRANSACTIONS Q1

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
HEUSTON SOUTH QUARTER, DUBLIN 8	Office	€175 million	-	Overseas Investor
DUBLIN LANDINGS, DUBLIN 1	Office	€164 million	3.9%	Triuva
CHATHAM & KING, DUBLIN 2	Mixed-Use	€155 million	4.1%	Hines
THE ELYSIAN BUILDING, CORK	PRS	€87.5 million	-	Kennedy Wilson
CUIRT NA COIRIBE, HEADFORD ROAD, GALWAY	Student Accommodation	€35 million	5.6%	Exeter Property

Source: Bannon Research

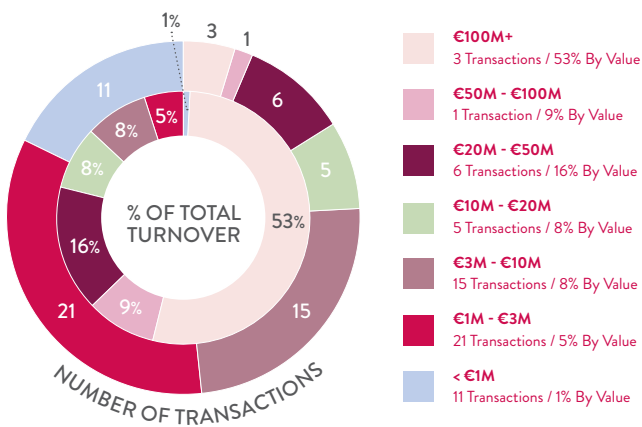


LOT SIZES

Last year we noted that a small number of high value transactions accounted for a large proportion of overall turnover. This trend was more pronounced in Q1 2018 with three transactions greater than €100 million accounting for 53% of total turnover. Conversely, while over half of all transactions in the quarter fell below €3 million, these only accounted for 6% of turnover. The average lot size this quarter was €15.1 million, representing a significant increase relative to the same quarter last year when the average lot size stood at just over €7 million.

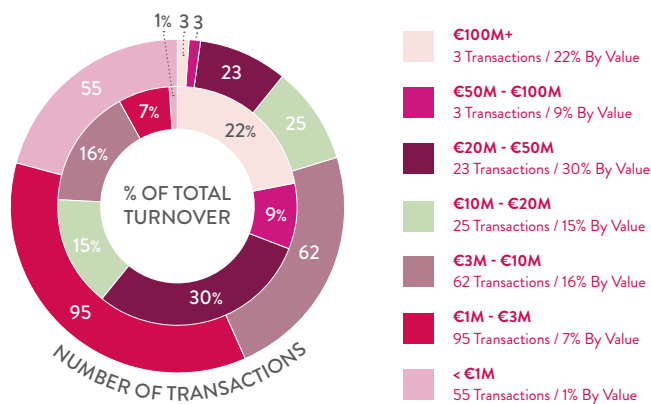
INVESTMENT TRANSACTIONS BY LOT SIZE Q1 2018

62 transactions amounting to €937 million.



INVESTMENT TRANSACTIONS BY LOT SIZE 2017

266 transactions amounting to €2.33 billion.



Source: Bannon Research



LOCATION

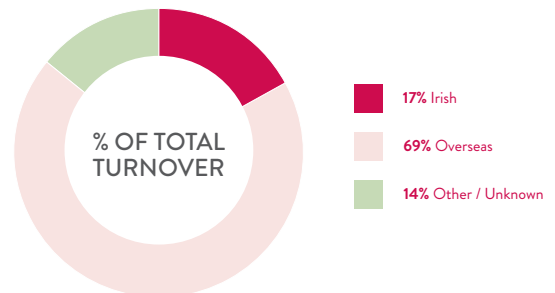
Of the 62 transactions in the quarter, 41 of these were located in Dublin, accounting for 77% of total turnover. Investment in regional locations is growing however with over €100 million invested in Cork this quarter (11% of turnover) and €68 million invested in Galway (7% of turnover). By comparison, Cork and Galway accounted for 8% and 3% of overall turnover in 2017.



INVESTOR PROFILE

Overseas investors continue to invest heavily in the Irish market, accounting for 69% of total turnover in Q1. American investors have been particularly active accounting for 38% of this. Irish-based investors were less active this quarter, accounting for 17% of total turnover compared with 26% in 2017. We are also seeing the emergence of investors from the Middle East/Asia with €175 million invested this quarter accounting for 19% of turnover.

TURNOVER BY INVESTOR PROFILE

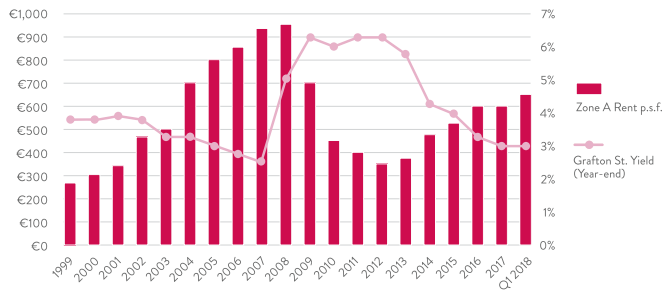


Elysian Building, Cork



RENTS & YIELDS

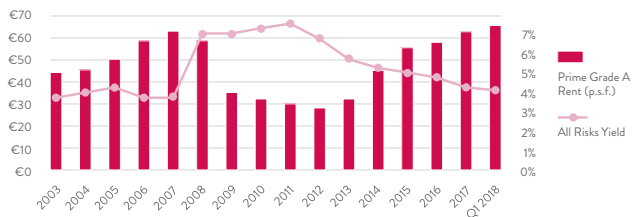
PRIME RETAIL RENTS AND YIELDS



Prime retail yields have remained at 3.0% on Grafton Street and Henry Street lagging by approximately 25 bps at 3.25%. The Skechers unit at 4 Henry Street is on the market this quarter guiding €8.35 million, which would represent an NIY of just under 4% but is expected to achieve in excess of this level.

Source: Bannan Research

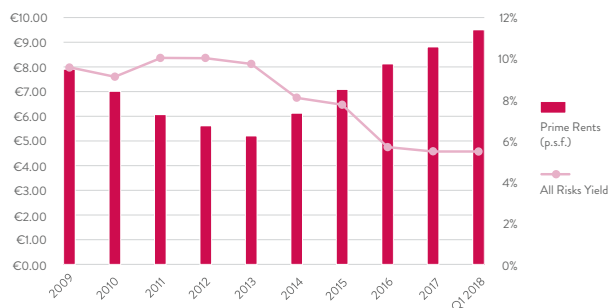
PRIME OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields tightened to 4.15% this quarter to a level just 40bps off the previous cycle peak. The most significant office transaction contributing to this was the forward sale of Dublin Landings for €164 million / 3.9% NIY.

Source: Bannan Research

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields have remained stable at 5.5%. The most recent prime industrial transaction was an off-market deal in Q4 2017 at a reported €30 million / 5.5% NIY.

Source: Bannan Research

YIELD MOVEMENTS

RETAIL	Q1 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	Q1 YIELD	TRENDING
PRIME CITY CENTRE OFFICE	4.15%	▼
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%	▶
INDUSTRIAL	Q1 YIELD	TRENDING
PRIME GDA HIGH BAY	5.5%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
PRS/MULTIFAMILY	Q1 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	4%	▶
PRS GDA	5%	▶

Source: Bannan Research



Elysian Building, Cork



PRS/BUILT-TO-RENT

The emerging PRS / Build-to-Rent sector continues to expand rapidly and is now an established institutional asset class in Ireland.

2018 should see the completion by Roundhill Capital of the Dublin Living portfolio for over €400 million with a large volume of other pre-sale/funding opportunities currently in process. With over €126 million invested in this sector in Q1 alone, compared with just €10 million during the same period last year, we expect investment turnover for this sector to continue to grow rapidly this year.

“Very much like the shopping centre sector, Build-to-Rent is not just a passive income play. These assets represent a living, breathing business where customer focus and brand development are at the heart of return maximisation.”

Rod Nowlan,
Director, Capital Markets



OUTLOOK

- Heading into Q2 there is over €650 million worth of investment stock on the market, of which 33% is sale agreed.
- Investment turnover is forecast to again exceed €2 billion by year-end, with the residential sector and in particular the private rented sector expected to be key contributors.



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