

INVESTMENT MARKET COMMENTARY

Q1 | 2019



Q1 2019 AT A GLANCE

TOTAL TURNOVER Q1 2019
€598MILLION



DUBLIN ACCOUNTED FOR
96%
 OF Q1 TOTAL TURNOVER
 (BY VALUE)

TURNOVER BY SECTOR



47%
 OFFICE



31%
 RETAIL



19%
 RESIDENTIAL



2%
 HOTEL



1%
 MIXED USE

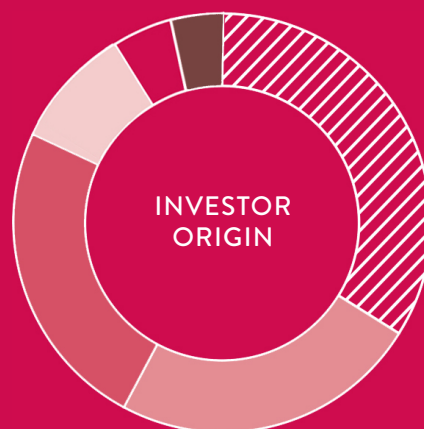
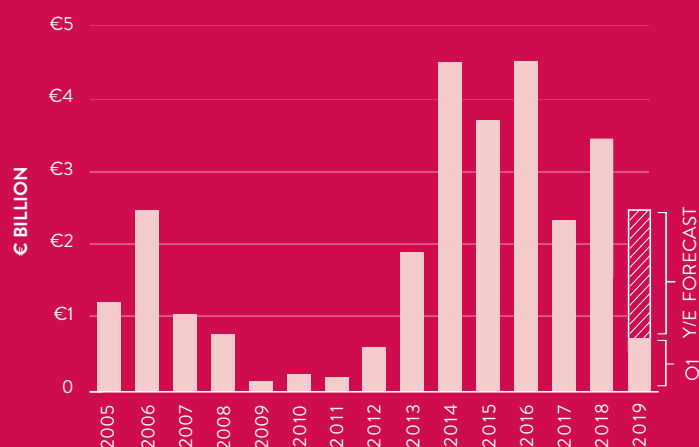


0%
 INDUSTRIAL

PRIME YIELDS

SECTOR	Q1 YIELD	TRENDING
HIGH STREET RETAIL	3.25%	▲
PRIME SHOPPING CENTRE	4.75%	▲
CITY CENTRE OFFICE	4.15%	▶
RESIDENTIAL (PRS)	4%	▶
INDUSTRIAL	5.5%	▶

ANNUAL INVESTMENT TURNOVER



- 36% IRELAND
- 8% NORTH AMERICA
- 24% MIDDLE EAST / ASIA
- 5% OTHER/UNKNOWN
- 23% MAINLAND EUROPE
- 4% UNITED KINGDOM



TRANSACTIONAL ACTIVITY

The opening quarter of 2019 saw a total of €598 million invested in Irish commercial property across 40 transactions. The largest transaction was the off-market sale of the Charlemount Exchange office development, occupied by We Work, to a South Korean investment manager for €145 million / 4.5% NIY. This was followed by the sale of IPUT's 25% interest in the Pavilions Shopping Centre in Swords to Irish Life for €71 million / 4.9% NIY.



SECTOR ANALYSIS

The **Office** sector continues to be the top performing market in terms of value with over €278 million / 46% of total turnover invested this quarter across 13 transactions. Almost half of this was attributable to a single transaction namely Marlet's Charlemount Exchange which they sold for €145 million to Vestus, a South Korean fund, reflecting a net yield of 4.5%. Other significant deals included the One Building, Grand Canal Street for €44 million / 4.2% NIY which is occupied by Stripe (the online payments platform founded by the Coulson brothers) and 77 Sir John Rogerson's Quay which Bannon sold on behalf Hibernia REIT for €36 million. The new owners, a European investment manager, will see a 4.6% initial return from their investment. The balance of office transactions fell into the sub €20 million category with an average lot size of just over €5 million.

The **Retail** sector was heavily invested this quarter and outperformed residential for the first time since Q4 2017. This is largely attributable to a number of large transactions including IPUT's sale of a 25% interest in Pavilions Shopping Centre in Swords for €71 million / 4.9% NIY and the DWS acquisition of 7-9 Henry Street for over €44 million / 3.6% NIY. Other significant deals included Royal Liver Retail Park for €25 million and the sale and leaseback of the Sports Direct store on North Earl Street in Dublin 1 for approximately €20 million. Outside the capital, Fairgreen Shopping Centre in Mullingar was the largest transaction at €7 million / 9.0% NIY.

The **Residential** market saw just over €113 million invested in Q1 across five transactions, the lowest level in over 12 months despite there being significant appetite from investors seeking representation in this sector. North Quarter in Ballymun, a student accommodation scheme of 364 beds, was acquired by AIG for €46 million representing the largest transaction this quarter. Other notable deals included IRES REIT's acquisition of 118 houses in Balbriggan and Donabate from Glenveagh for excess €38 million and a further 52 apartments in Baldoyle which they acquired from a receiver for €14 million.

The City Hotel on Dame Street was the only sale in the Hotel sector this quarter. It sold for just under €12 million representing a 5.1% NIY.

Mixed-Use investments only accounted for €8 million / 1% of total turnover across five transactions.

There were no **Industrial** sales in Q1 2019 however we expect to see some large transactions occurring over the remainder of the year on the back of strong investor demand for this sector.

TOP 5 TRANSACTIONS Q1 2019

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
CHARLEMOUNT EXCHANGE, DUBLIN 2	Office	€145 million	4.5%	Vestas
25% INTEREST IN PAVILIONS SHOPPING CENTRE	Retail	€71 million	4.9%	Irish Life
NORTH QUARTER, BALLYMUN	Residential (Student Accommodation)	€46 million	-	AIG
7-9 HENRY STREET, DUBLIN 1	Retail	€44.3 million	3.6%	DWS
ONE BUILDING, DUBLIN 2	Office	€44 million	4.2%	BNP REIM

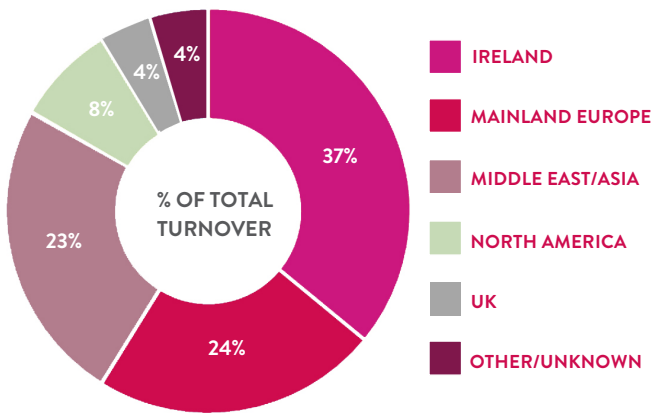
Source: Bannon Research



INVESTOR PROFILE

Overseas investment dominated this quarter accounting for 59% (€351 million) of total transactions with almost half of this from a single acquisition from a South Korean investor. European investors made up a further €137 million including DWS, BNP REIM and Corum with a further €47 million from North America, mostly from AIG. On the domestic front, investment totalled €222m and was primarily driven by the institutional market with Irish Life, IRES REIT and Yew Grove REIT.

TURNOVER BY INVESTOR ORIGIN



LOCATION

Dublin continues to dominate with 96% of total transactions by value (75% by volume) occurring in the capital, up from 85% in 2018. The cities of Cork and Galway only accounted for 2% and 1% respectively which is significantly behind the trend seen over previous quarters.



AIG acquired North Quarter student accommodation for €46 million



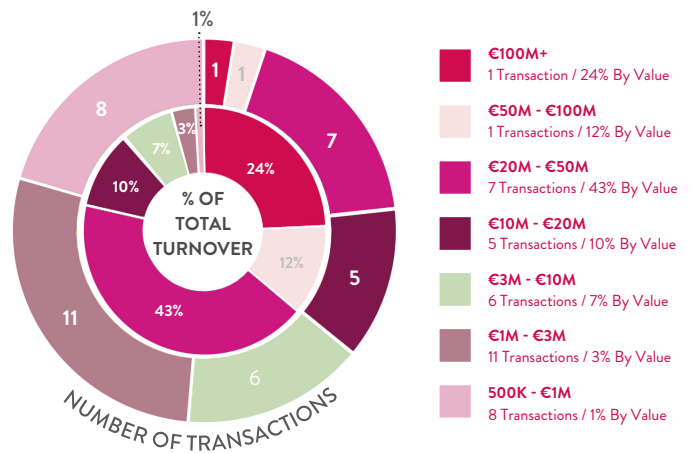
LOT SIZES

Last year we noted that a small number of high value transactions accounted for a large proportion of overall turnover. This trend was less pronounced in Q1 2019 with only one deal in excess of €100 million and one in the €50-100 million price bracket, collectively accounting for 36% of total turnover. Conversely, over half of total turnover (53%) fell into the €10-50million category across 12 transactions. 25 of the 39 transactions fell into the sub €10 category, amounting to just 11% of turnover.

The average lot size this quarter was €15.3 million, slightly behind the 2018 year end average lot size of just over €16 million.

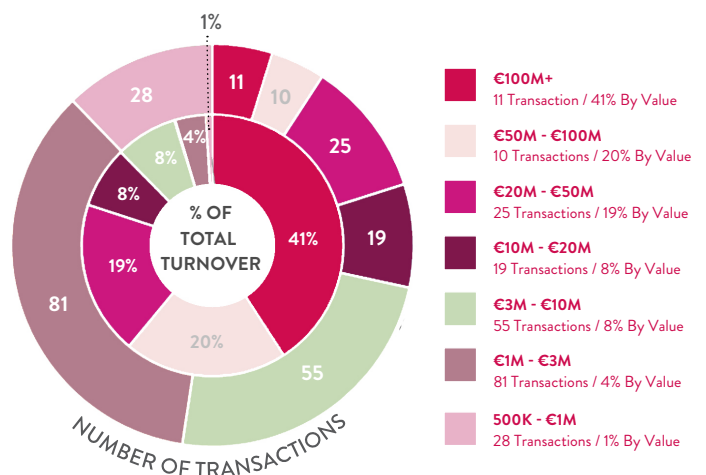
INVESTMENT TRANSACTIONS BY LOT SIZE Q1 2019

39 transactions totalling €598 million. Excludes deals below 500k.



INVESTMENT TRANSACTIONS BY LOT SIZE 2018

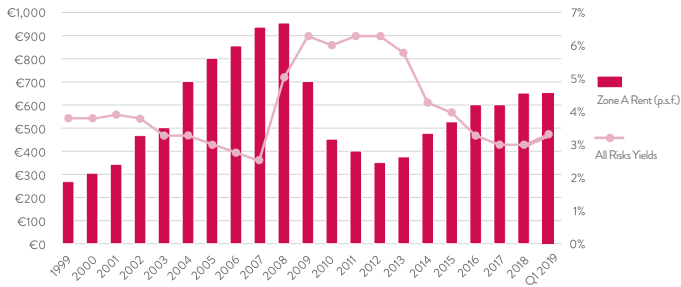
229 transactions totalling €3.688 billion. Excludes deals below 500k.





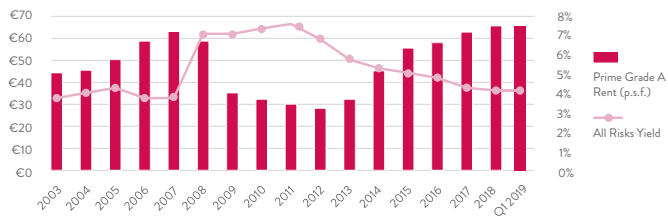
RENTS & YIELDS

GRAFTON STREET RENTS AND YIELDS



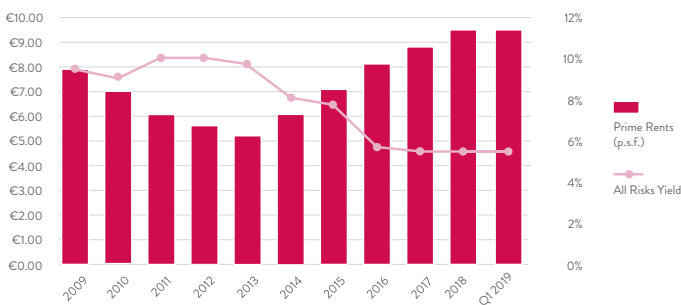
Sentiment continues to negatively impact this sector given the wider issues affecting US and UK retail markets where over-supply and tenant trading issues have been widely reported together with the perceived impact of online sales on traditional bricks and mortar store turnover. There has been no primary evidence this quarter on Grafton Street however we anticipate that the yield on the street has moved to 3.25% on the back of the sale of 7-9 Henry Street (let to Next) concluding at 3.6% NIY (excess €44 million).

PRIME DUBLIN OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields have remained stable this quarter with the sale of Charlemount Exchange, the One Building and 77 Sir John Rogerson's Quay supporting the bench-mark prime yield.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields remain stable at 5.5% with no activity in this sector this quarter.

Source: Bannan Research

YIELD MOVEMENTS

RETAIL	Q1 YIELD	TRENDING
GRAFTON STREET	3.25%	▲
HENRY STREET	3.75%	▲
PRIME DUBLIN SHOPPING CENTRE	4.75%	▲
PRIME PROVINCIAL SHOPPING CENTRE	7%	▲
PRIME DUBLIN RETAIL PARK	4.75%	▲
PRIME PROVINCIAL RETAIL PARK	7%+	▲
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%	▶
RESIDENTIAL	Q1 YIELD	TRENDING
PRIME PRS (NET INCOME BASIS)	4%	▶
PRS GDA*	5%	▶

*Greater Dublin Area

Source: Bannan Research



OUTLOOK

Heading into Q2 there is over €1.2 billion worth of investment stock on the market and a further €550 million sale agreed. Investment in the residential and industrial sectors was relatively subdued thus far this year however we expect to see increased activity in these sectors over the coming quarters on the back of strong investor demand and product in the pipeline.

There is little doubt however that the uncertainty created by Brexit and turmoil in international equity markets is having calming influence on the activity levels in the Irish property market. In this context, we are predicting a return to more typical turnover levels in the region of €2.5bn-€3bn for the year end. However, this excludes the potential forward sale of some major offices, where lettings are agreed, which would increase the year- end total if transacted.



ONE TO WATCH: THE RETAIL SECTOR

With sentiment currently at a low ebb in the retail sector it is likely the supply will increase as some investors seek to reduce their wider exposure to the sector. However, retail in Ireland (by contrast to the US & UK) has strong fundamentals and its strong and relatively consistent returns in the short/medium term may start attracting back some counter-cyclical core and secondary investors seeking value.

"The **value** available in the retail sector is in direct contrast to the **yield** and **rent** levels in the popular rental residential area."

Rod Nowlan, Director





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