INVESTMENT MARKET COMMENTARY

Q1 | 2020

bannon

Q1 2020 AT A GLANCE

TOTAL TURNOVER Q1 2020

€675 MILLION

DUBLIN ACCOUNTED FOR

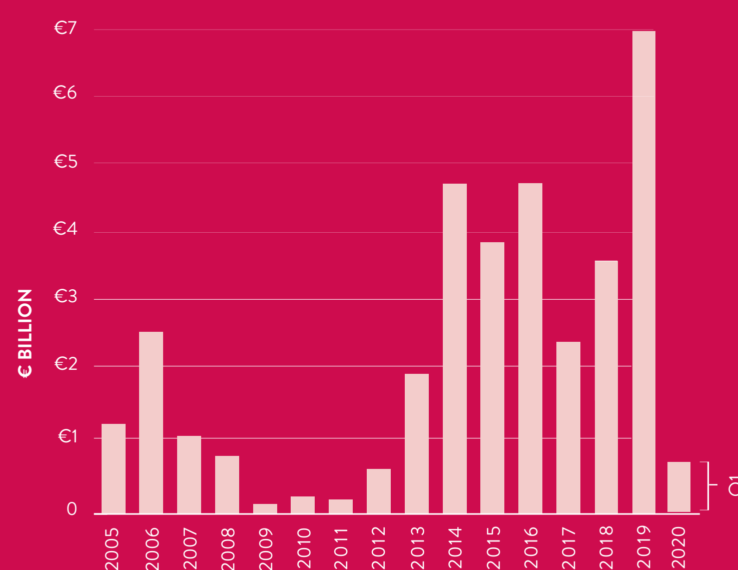
92%

OF Q1 TOTAL TURNOVER
(BY VALUE)

TURNOVER BY SECTOR

54% OFFICE	33% RESIDENTIAL	4.5% RETAIL
4.5% INDUSTRIAL	3% MIXED USE	1% OTHER

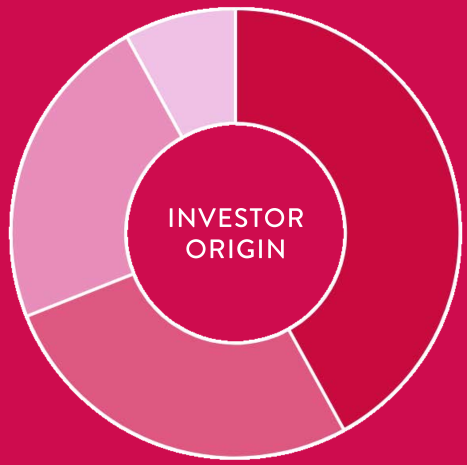
ANNUAL INVESTMENT TURNOVER



PRIME YIELDS

SECTOR	Q1 YIELD	TRENDING
HIGH STREET RETAIL	3.5%	▲
PRIME SHOPPING CENTRE	4.75%	▲
CITY CENTRE OFFICE	4.0%	▶
RESIDENTIAL (PRS)	3.9%	▶
INDUSTRIAL	5.25%	▶

*Pre Covid 19 impact



42% MAINLAND EUROPE
23% NORTH AMERICA
27% IRELAND
8% UNITED KINGDOM

TRANSACTIONAL ACTIVITY

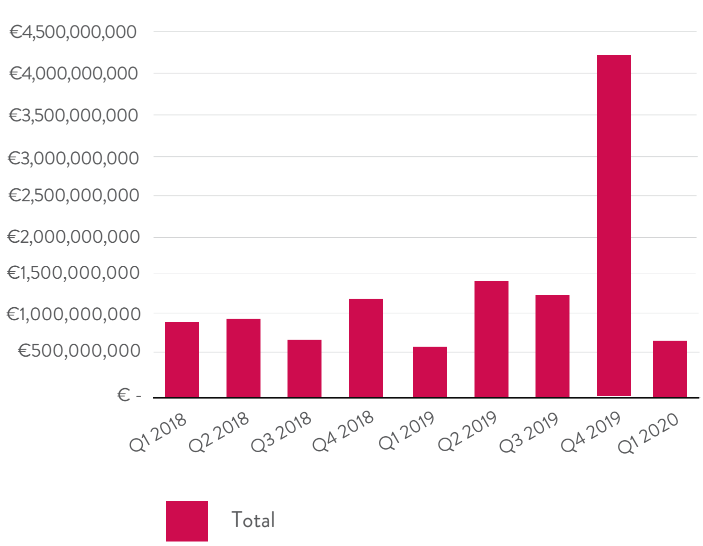
2020 started robustly with economic and market activity maintaining its strong fundamentals as witnessed in 2019. Deal volumes were healthy with €675m of investment transactions across 55 deals. The office sector dominated investment spend with 54% of value attributable to this asset class over the period. However, the saying "a game of two halves" has never been illustrated better than that which has occurred in March. The on-set of the COVID-19 virus has had a dramatic effect on world markets and economies. On a domestic level, Ireland was effectively at full employment, with an un-employment rate of just over 4%. It is now looking likely this figure will rise to 18% in the short term as the economy, and commerce in general, grinds to a halt.

With widespread temporary closures of retail business and the majority of office employee's working remotely the market will witness a period of stagnation as the world assesses the fall out from the pandemic. Whilst it is too early to speculate about the impact on property values this occurrence has created a significant amount of volatility, particularly in the equity markets where Irish Real Estate Investment Trusts have seen their share price fall by 40-50%.

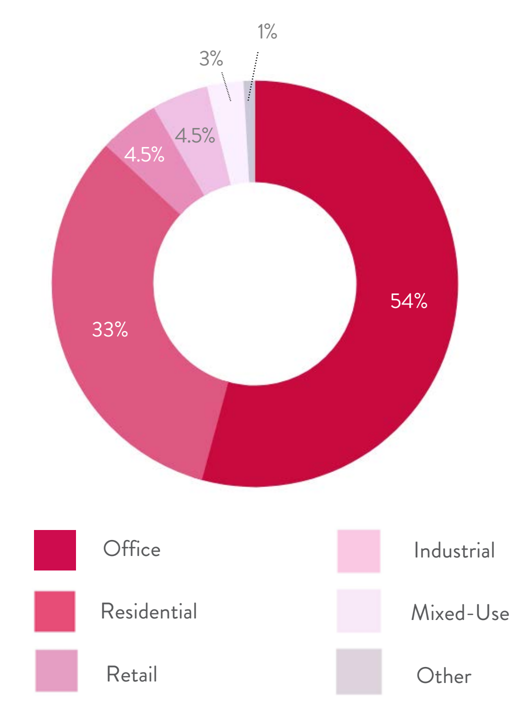
TOP 5 TRANSACTIONS Q1 2020

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
THE TREASURY BUILDING, GRAND CANAL STREET, DUBLIN 2	Office	€115,470,000	4.3%	Google Ireland Limited
FORMER BREWERY BLOCK, NEWMARKET SQUARE, DUBLIN 8	Residential	€85,000,000	Unknown	Round Hill Capital / NBK Capital
LA TOUCHE HOUSE, IFSC, DUBLIN 1	Office	€84,250,000	5.3%	AXA / BCP
BLOCK 4&5 HARCOURT CENTRE, DUBLIN 2	Office	€54,000,000	5.1%	Arena
HERBERTON, DUBLIN 8	Residential	€36,500,000	4.8%	LRC Group

AVERAGE TRANSACTION PRICE PER QUARTER



INVESTOR TURNOVER BY SECTOR



Source: Bannon Research

SECTOR ANALYSIS

Offices dominated the first quarter results with 14 transactions during the period representing 54% (€366m) of turnover. Key deals this period included the well-known acquisition by Google of the Treasury Building, owned by a collection of core investors, for €115m. This sale, whilst for ultimate owner occupation, is another significant investment in the Dublin market by the tech giant. Other notable deals include AXA's acquisition, in conjunction with BCP Capital, of La Touche House, IFSC for excess €84m, Arena Invest's acquisition of 4/5 Harcourt Street for €54m and KanAm's purchase of One Hatch Street for €35.1m.

Residential led transactions continued apace with six deals completed during the quarter accounting for 33% (€221m) of transaction value. As per 2019, a large proportion of deals in this sector are Forward Sale/Forward purchase agreements which will tend to be weighted to Q3/Q4 transactions. It will be interesting to see how demand holds up in this sector post the Covid-19 crises. This is on foot of the supply increase of units as AirBNB and short stay apartments having reduced demand on foot of reduced tourist traffic.

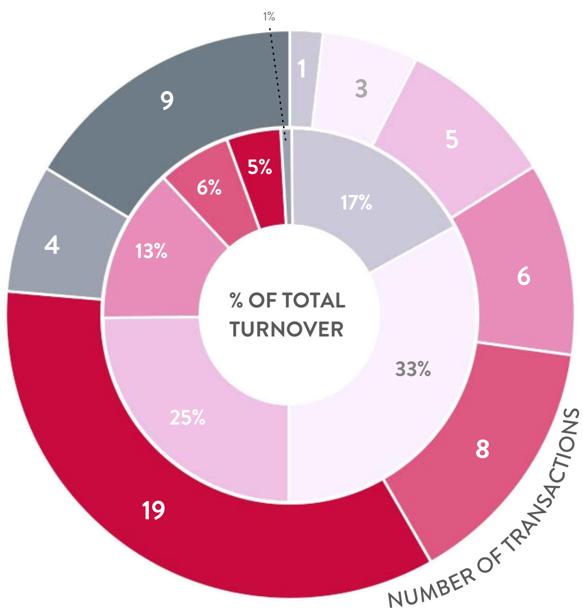
Retail investment spend continues to be low with only €32m of transactional value during Q1. Deals of note include the sale of Eason on Shop Street, Galway to French Fund Manager's, MNK, for €7.33m reflecting a yield of 6.5%. Bannon handled the sale on behalf of Eason. Other deals of note include Davidson Kempner's sale of Westside Shopping Centre for €9.43m (7.3% NIY) to an Irish investment firm. The sector will have subdued performance over the next 6 months as it addresses the many tenant payment and trade performance issues that have arisen out of the Covid-19 crisis.

LOT SIZES

The average deal size for Q1 was approximately €12.3m.

INVESTMENT TRANSACTIONS BY LOT SIZE Q1 2020

55 transactions totalling €675 million. Excludes deals below 500k.



- **€100M+** 1 Transactions/17% By Value
- **€50M - €100M** 3 Transaction/33% By Value
- **€20M - €50M** 6 Transactions/25% By Value
- **€10M - €20M** 6 Transactions/13% By Value
- **€3M - €10M** 8 Transactions/6% By Value
- **€1M - €3M** 19 Transactions/5% By Value
- **500K - €1M** 4 Transactions/0.5% By Value
- **< €500k** 9 Transactions/0.5% By Value

LOCATION

Dublin dominated investment turnover with over 92% of transactions by value. Galway had the second largest spend representing 2.7% of turnover by value.

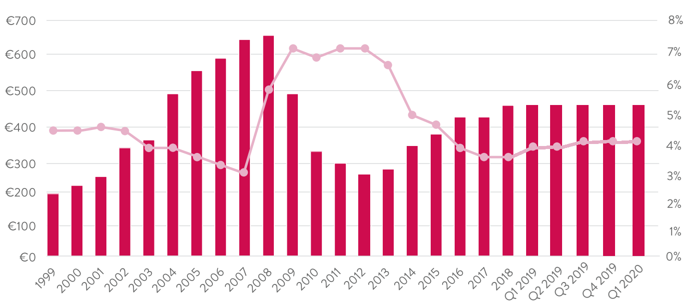
Eason on Shop Street, Galway acquired by MNK for €7.33 million - Bannon acted for the vendor

RENTS & YIELDS
(PRE-COVID 19 IMPACT)

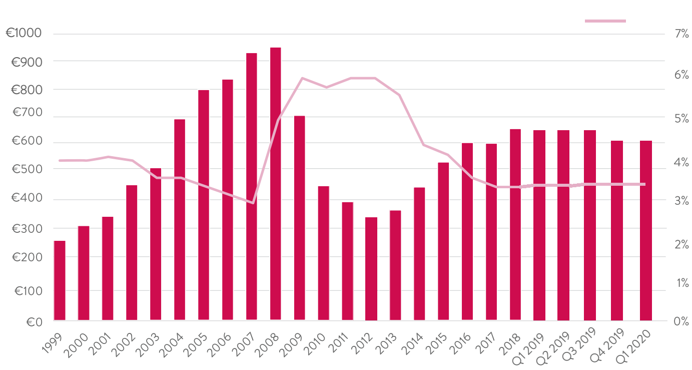
PRIME RETAIL RENTS AND YIELDS

There was no retail transactional evidence on the Dublin high streets during Q1 to illustrate 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. It was anticipated that some prime high street assets would be offered to the market in Q1/Q2 however that is now unlikely. The prime rents and yields detailed below reflect pre-Covid 19 market conditions.

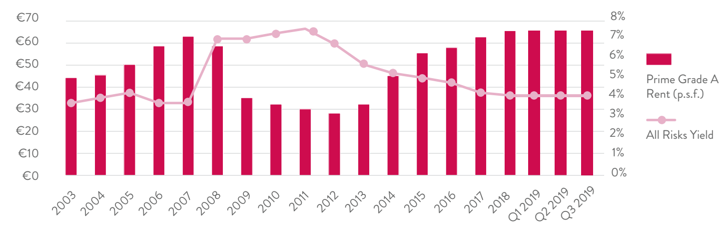
HENRY STREET RENTS AND YIELDS



GRAFTON STREET RENTS AND YIELDS

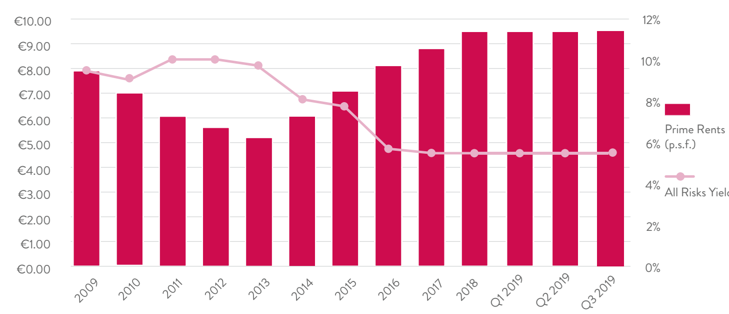


PRIME OFFICE RENTS AND YIELDS



Prime Dublin CBD rents and yields remain stable. The activity in the sector remains robust with a range of super prime office assets currently mid sale process. We would expect the sector to emerge from the Covid 19 crises in a healthy position.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields have remained stable at 5.25% albeit with limited evidence in the sector. Where prime high bay logistics product is available demand remains high from a cohort of European investors. Post Covid-19 the sector will likely emerge in a strong position.

Source: Bannon Research

Fitzwilliam 28 - Bannon handling the sale on behalf of ESB

OUTLOOK

The outlook for Q2 and the balance of 2020 is difficult to predict. The effective lock down measures currently in place across Ireland and Europe have finite dates attached to them. However, these dates are predicated on governments seeing a reduced level of infection and fatalities, which at this juncture are still rising. We expect a strong bounce in activity once restrictions are lifted, in particular within the office sector. On a positive note we are aware of a number of major sales being both prepared for a September launch or at least postponed to this date so assuming we are back up and running it's going to be a busy final two quarters.

From discussions with our domestic and international clients what is certain is Ireland is, and will remain, a highly attractive place to do business. The continued strength of the office market, from both an occupier and investor perspective, will continue to attract much attention and there is unlikely to be much movement in rental values in the medium term, post Covid-19. There is little doubt the temporary reliance on on-line distribution infrastructure will positively benefit the industrial sector. In addition grocery and service led retail has proven itself as a much more resilient sector than previously acknowledged. Retail Parks, in particular those with grocery, pharmacy, and DIY/Technology based users, have proven their robustness with the benefit of low occupancy costs and an ability to use closed stores as distribution hubs as a median to bolster on-line sales.

Conversely, fashion focused high streets and fashion based schemes with high service charge rates have been materially exposed which has been exacerbated by many opportunistic occupiers looking to secure reliefs targeted at businesses genuinely in need.

ONE TO WATCH

It is undoubted that there will be winners and losers across the real estate market post Covid-19. This will stretch from funders, landlords and tenants with cases of insolvency highly likely. However, with this will come some opportunity for those in a position to act.

The entire market will offer opportunity during the second half of the year, albeit this will be dependent on the extent to which real estate values will be impacted in the short term.

Nutley & AIG Buildings, Merrion Road, Dublin 4 - Bannon handling the sale on behalf of Irish Life Assurance plc bannon

Hambleden House
19-26 Lower Pembroke Street
Dublin 2

BANNON CAPITAL MARKETS TEAM

Rod Nowlan
Director
rnowlan@bannon.ie

David Carroll
Director
dcarroll@bannon.ie

Alex Patterson
Divisional Director
apatterson@bannon.ie

CONTACT

+353 1 647 7900
www.bannon.ie
www.linkedin.com/company/bannon
www.twitter.com/bannon

PSRA: 001830