

INVESTMENT MARKET COMMENTARY

Q2 | 2019



Q2 2019 AT A GLANCE

TOTAL TURNOVER Q2 2019

€1.24 BILLION



DUBLIN ACCOUNTED FOR

75%

OF Q2 TOTAL TURNOVER
(BY VALUE)

TURNOVER BY SECTOR



9%

RETAIL



22%

OFFICE



56%

*Inclusive of HSQ
PRS Element



9%

MIXED USE



2%

INDUSTRIAL



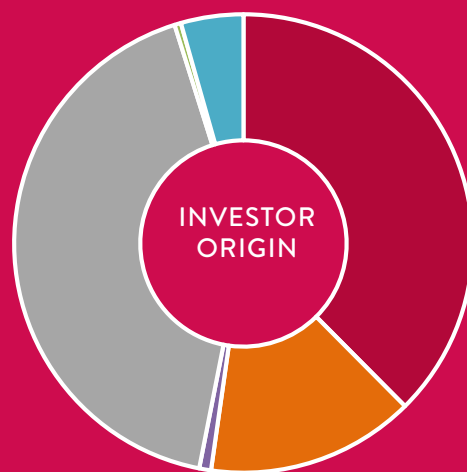
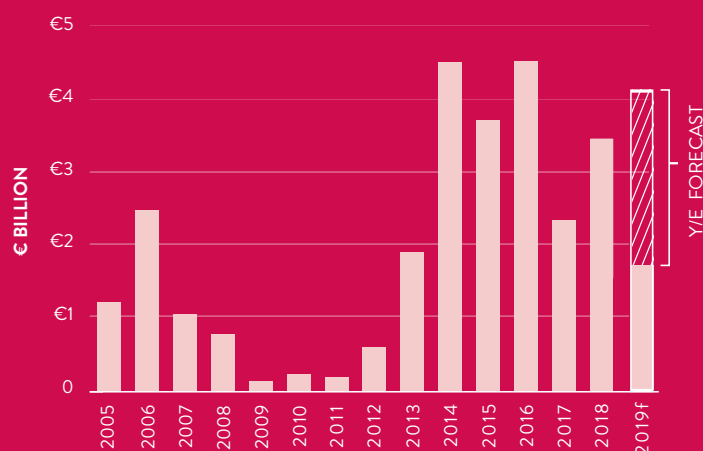
2%

OTHER

PRIME YIELDS

SECTOR	Q2 YIELD	TRENDING
HIGH STREET RETAIL	3.25%	▲
PRIME SHOPPING CENTRE	4.5%	▲
CITY CENTRE OFFICE	4%	▶
RESIDENTIAL (PRS)	3.9%	▼
INDUSTRIAL	5.5%	▶

ANNUAL INVESTMENT TURNOVER





TRANSACTIONAL ACTIVITY

The second quarter of 2019 saw a significant increase in Irish real estate investment values with approximately 53 transactions over the quarter accounting for €1.24bn of spend, an increase of 106% on Q1 2019. The increase is attributable to five considerable sales equating to €868m of value, or 70% of the quarter. The largest transaction of these was the sale by Marathon Asset Management of their residential platform, the XVI Portfolio, to IRES REIT for €285 million / 4% NIY. This was followed by the sale of the PRS led Heuston South Quarter Campus, also Marathon AM, to Henderson Park and Chartered Land for €220 million.



SECTOR ANALYSIS

The **Residential** sector was the top performing market in terms of turnover with over €688 million/ 56% invested this quarter across 8 transactions, including a proportion of the Heuston South Quarter transaction. The largest transaction in this sector was the sale of the XVI Portfolio, comprising 815 units through out the greater Dublin area, by Marathon Asset Management for €285 million to IRES REIT. This was followed by the off-market sale of a large PRS portfolio by TIO (Oaktree) to LRC Group for €150 million. This portfolio comprised a selection of 600 apartments across Dublin, Galway and Cork. Only one PRS forward fund completed during the quarter comprising the sale of The Fairways Scheme in Dun Laoghaire by the Cosgrave Group for in excess of €100 million. The scheme, comprising of 214 apartments, sold for €108 million/ 4.9% Gross Yield and was purchased by DWS Investments for a premium of €13million over its original €95million guide price. The remaining transactions of the quarter, excluding the PRS portion of Heuston South Quarter, fell in to the sub €10 million price band and accounted for just 3% of sector turnover.

The **Office** sector performed well during the quarter, albeit with limited Grade A transactions, with €276 million invested across 16 transactions. Over one third of this was attributable to the sale of the Citywest Office Portfolio by Davy-Hickey Property Group for €105 million to Henley and Bartra. This was the only excess €100 million transaction this quarter. The largest transaction to occur outside of the capital was the sale of Cork Airport Business Park for €21.2 million/ 7.7% NIY to Henley and Bartra. The sale of The Sorting Office, Dublin 2 to Mapletree is specifically excluded from this given it was sold via a forward sale with no committed tenants.

Despite a general negative sentiment the **Retail** sector performed well again on the back of a good first quarter as investors begin to recognise value. Over €110 million was invested in the sector in Q2 across 7 transactions. The two largest transactions of the quarter comprised the sale of Mahon Retail Park for €56 million/ Circa. 7% NIY to IPUT, and the subsequent sale by IPUT of their 35% interest in Opera Lane, Cork for €20 million/ 5.6 NIY to a stakeholder of the Mahon Retail Park sale. The other notable transaction to occur was the sale of Castle West Shopping Centre, Cork for €18 million/ 9.7% NIY to Davy. The remaining 4 transactions for the quarter fell into the sub €10 million price band. In terms of location Cork was the best performing market accounting for 85% of Retail Investment turnover for the period.

There were no transactions in the **Hotel** sector for Q2, however we expect to see an increase in investment in this sector as a number of forward sale transactions are in the pipeline.

Mixed-Use investments accounted for €110 million/ 8.96% of total turnover across nine transactions. For analysis purposes we have excluded the PRS aspect of Heuston South Quarter from this sector given its quantum.

Industrial sales in Q2 2019 totalled €17 million/ 1.4% 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 Q2 2019

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
XVI PORTFOLIO	Residential	€285 million	4% Net	IRES REIT
HEUSTON SOUTH QUARTER, DUBLIN 8	Mixed Use	€220 million	3.9% Gross	Henderson Park & Chartered Land
OFF-MARKET-PORTFOLIO (Dublin, Cork & Galway)	Residential	€150 million	Confidential	LRC Group
FAIRWAYS, DUN LAOGHAIRE	Residential (PRS)	€108 million	4.8% Gross	DWS
CITY-WEST OFFICE PORTFOLIO	Office	€105 million	Confidential	Henley/Bartra

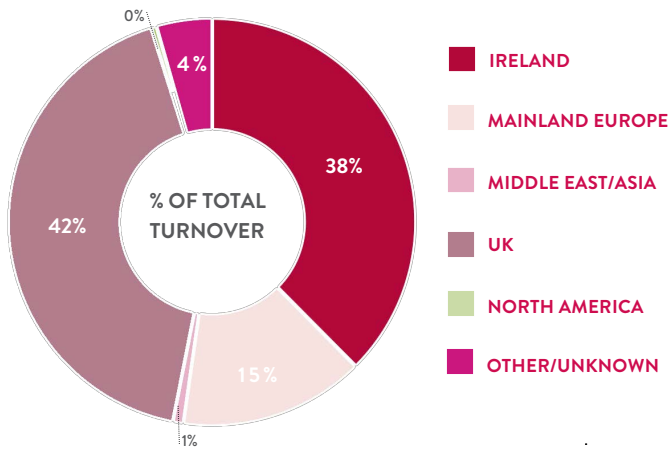
Source: Bannon Research



INVESTOR PROFILE

Overseas capital continues to dominate the investment spend with 50% (€607m) of transactions completed. UK investors, with external capital, accounted for 67% of the overseas spend with a further 15% relating to central European investors. Irish Institutions, including REIT's, had a busy quarter capturing 31.2% (€386m) of transactions dominated by PRS with the balance of spend emanating from private Irish and other international capital. There was limited Asian/Korean capital invested this quarter however this was due to several Grade A office investments trades straddling the quarter. It is likely we will see a high transaction volume from this capital source in Q3.

TURNOVER BY INVESTOR ORIGIN



LOCATION

Dublin continues to dominate with 75% of total transaction value and 64% of transaction volume occurring in the capital. The city of Cork attracted 10% of value dominated by some large retail transactions with the geographical balance having limited foothold.



Fairways Dun Laoghaire PRS Scheme acquired by DWS for €108 million



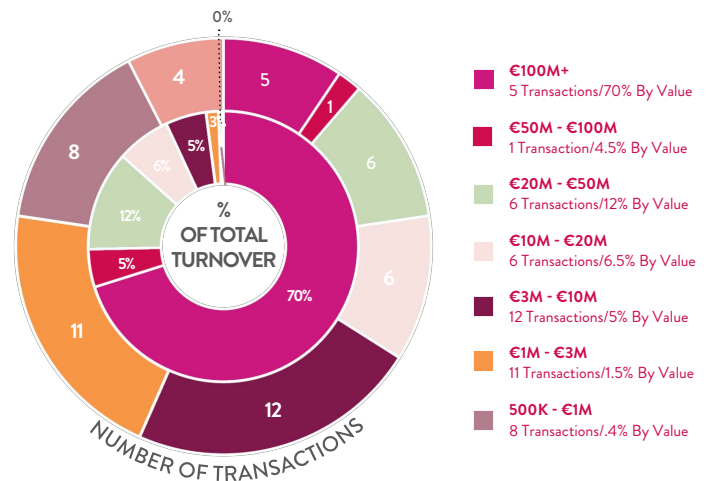
LOT SIZES

This quarter saw a small number of high value transactions account for a large proportion of overall turnover with two transactions in excess of €200 million along with three transactions in excess of €100 million. Collectively these five transactions, four of which were PRS led, accounted for 70% of overall turnover for the quarter.

The average lot size increased to €25.2 million, up almost €10 million on Q1 2019, reflecting the weighting of high value transactions.

INVESTMENT TRANSACTIONS BY LOT SIZE Q2 2019

53 transactions totalling €1.237 billion. Excludes deals below 500k.

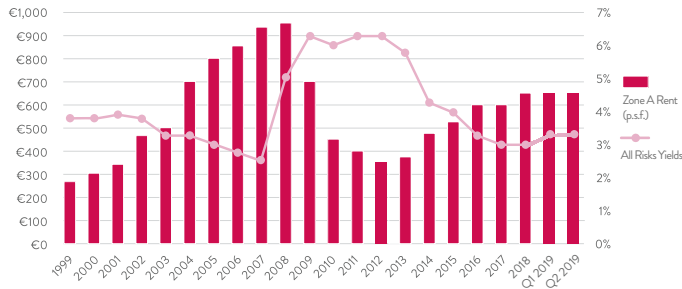


51-54 Pearse Street sold to IPUT for €27.2 million, part let to HJ Lyons Architects.



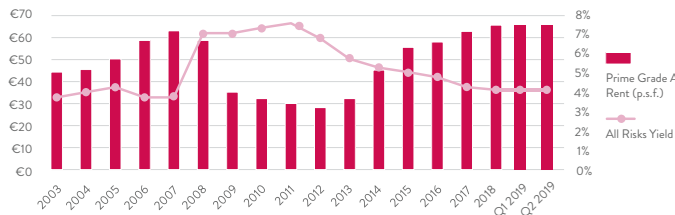
RENTS & YIELDS

GRAFTON STREET RENTS AND YIELDS



There were no high street retail trades during H1 2019 to determine factual yield shifts. What is evident is a general nervousness in the sector driven mainly by sentiment and the flux occurring in the UK market. Based on this sentiment and some peripheral transactions secondary yields for shopping centre and retail assets have moved out.

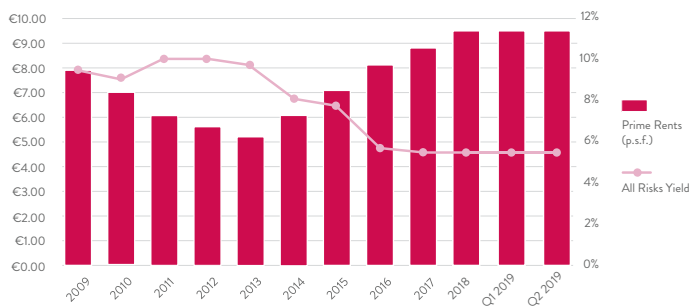
PRIME DUBLIN OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields have remained stable this quarter. There were no prime GRADE A office trades completed however the sales of Ballast House, The Lennox Building and 51-54 Pearse Street for yield ranging from 5.5% to 3% (Reversionary) suggest benchmark yields remain stable at 4.00%.

PRS - The sector continues to strengthen as more PRS assets are completed and offered to the market. Prime yields on Net Income, after running costs, are trending stronger toward 3.90%.

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields remain stable at 5.5% with little activity in this sector this quarter.

Source: Bannan Research

YIELD MOVEMENTS

RETAIL	Q2 YIELD	TRENDING
GRAFTON STREET	3.25%	▲
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	Q2 YIELD	TRENDING
PRIME CITY CENTRE OFFICE	4%	▶
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%+	▶
INDUSTRIAL	Q2 YIELD	TRENDING
PRIME GDA HIGH BAY	5.5%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
RESIDENTIAL	Q2 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 Q3 19 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, 5 Hanover Quay and The Reflector all of which are understood to be at terms agreed stage to international capital (largely South Korean).

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. However, the Brexit deadline of 31st October 2019 is now in sight with no further progress made on the ultimate relationship which will govern the UK and Europe. 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. Furthermore, should Green REIT successfully complete the sale of their entire portfolio this figure will increase further by up to €1.5bn.



ONE TO WATCH: THE RETAIL SECTOR

From an investment perspective retail continues to offer significant value. With retail yields remaining largely flat through the recovery cycle its value relative to other asset classes is beginning to be appreciated. The last quarter has seen some largely opportunistic investors deploying capital in the sector with acquisitions showing exceptional un-gearred returns. These investors include institutions like IPUT who recently acquired Mahon retail Park. Well located retail schemes with good macro and micro fundamentals still offer good value where short hold periods are not the focus.

"With retail yields remaining largely flat through the recovery cycle its value relative to other asset classes is beginning to be appreciated."

Rod Nowlan, Director



Mahon Point Retail Park sold to IPUT for €56 million/ 7% NIY



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




David Courage
Graduate Surveyor
dcourage@bannon.ie

CONTACT

 +353 1 647 7900

 www.bannon.ie

 www.linkedin.com/company/bannon

 www.twitter.com/bannon

PSRA: 001830

Disclaimer: This report is published for general information and is not to be relied upon. It is based on material that we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any warranty or guarantee of same. Reproduction of any part of this publication is not permitted in any form without prior written consent from Bannon