QUARTERLY INVESTMENT

REVIEW & OUTLOOK

Q4 | 2017

2017 AT A GLANCE

TOTAL TURNOVER

€2.33 BILLION

ACROSS 266 TRANSACTIONS

DUBLIN ACCOUNTED FOR

82%

OF TOTAL TURNOVER

TURNOVER BY SECTOR

40% OFFICE

31% RETAIL

8% RESIDENTIAL

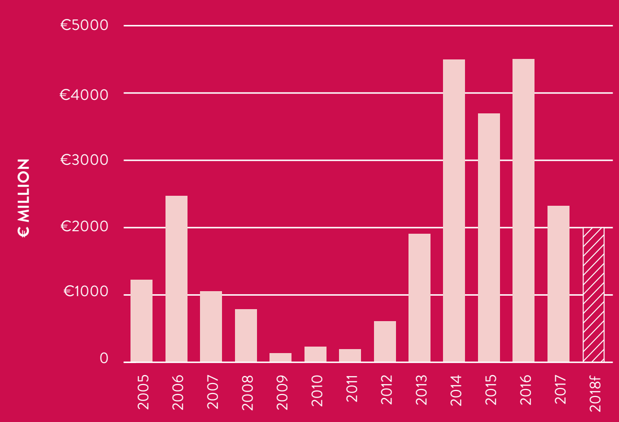
6% INDUSTRIAL

6% MIXED USE

6% HOTEL

3% OTHER

ANNUAL INVESTMENT TURNOVER



PRIME YIELDS

SECTOR	Q4 YIELD	TRENDING
HIGH STREET RETAIL	3%	▶
CITY CENTRE OFFICE	4.25%	▼
RESIDENTIAL (PRS)	4%	▼
INDUSTRIAL	5.5%	▶

35% IRELAND

28% NORTH AMERICA

11% MAINLAND EUROPE

2% UK

24% OTHER / UNKNOWN

TRANSACTIONAL ACTIVITY

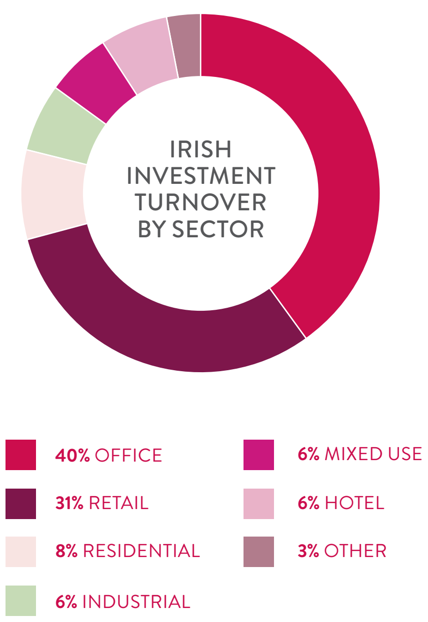
Strong activity in all occupier markets on the back of robust domestic economic fundamentals has meant that the commercial property market remained buoyant throughout 2017. This is despite external developments and subsequent uncertainty, which was offset by strong rental growth driving returns.

2017 saw the return to more normalised transaction levels following several years of insolvency and bank balance sheet deleveraging. Almost €1 billion worth of product transacted in the final quarter bringing the total annual turnover for 2017 to €2.33 billion.

The largest transaction in 2017 was the sale of The Square Towncentre in Tallaght, reported to have transacted well in excess of the €233 million guide. This was followed by the off-market sale of Cherrywood Business Park to US investor Spear Street Capital for a price in the region of €145 million / 6% NIY.

There has been an increase in the proportion of targeted/off-market sales, which accounted for 31% of total turnover in 2017 compared with 13% in 2016. Strong growth in construction and demand levels, particularly in the office sector, has meant that forward funding arrangements have now become a prominent feature of the market. Significant forward funding and forward sale transactions in 2017 included the acquisition of 13-18 City Quay by Irish Life in Q1 for over €126 million / 4.6% NIY and of 21 Charlemont by La Francaise Group in Q3 for €45 million / 4.4% NIY.

The Square Towncentre, Tallaght - Sold by NAMA for in excess of the €233m guide price



SECTOR ANALYSIS

The **Office** sector continues to dominate with just over €937 million invested in 2017 across 73 deals. Off-market transactions represented 46% of this total across 11 deals. The most prominent on-market office transaction was 4 & 5 Harcourt Centre which Clancourt sold for €47 million / 4.4% NIY.

Retail was the second most dominant sector with €725 million transacted in 2017 across 80 deals. The largest retail transaction was NAMA's sale of the majority interest in The Square Towncentre in Q4 for well in excess of the €233 million guide. This was followed by the sale of the AIB occupied 100-101 Grafton Street, acquired by Irish Life for over €50 million / 3.4% NIY.

Investment in the **Residential** sector, and in particular in the Private Rented Sector (PRS), is on the rise with €186 million invested in 2017 across 24 deals. The most significant transaction was the sale of North Bank in the North Docklands to Kennedy Wilson for €45 million / 5.2% NIY. We expect to see a significant increase in activity levels in this sector in the coming 12 months as institutional investors such as Kennedy Wilson and IRES Reit continue to invest heavily. Irish Life, amongst others are also expected to enter this market in 2018 with investment in the build-to-rent sector.

Industrial sales amounted to just under €148 million in 2017, with the largest of these being an off-market investment in North Dublin for €30 million / 5.5% NIY. The largest on-market deal was Friends First's acquisition of Unit 2 Merrywell Business Park in Ballymount for €25 million / 6.2% NIY in Q3.

Mixed-Use investments attracted over €136 million in 2017 with the majority of this being the sale of The Capitol Building in Cork which Real IS acquired for a reported €45.5 million.

Two **Hotel** transactions took place in 2017 amounting to €127 million. The most prominent of these was the sale of the Gibson Hotel in Dublin 1 to Deka Immobilien for €87 million / 4.9% NIY.

TOP 10 TRANSACTIONS OF 2017

PROPERTY	SECTOR	PRICE ACHIEVED	NIY	PURCHASER
THE SQUARE TOWNCENTRE, TALLAGHT, DUBLIN 24	Retail	Excess €233 million		TIO
CHERRYWOOD BUSINESS PARK, DUBLIN 18	Office	€145 million	6%	Spear Street Capital
13-18 CITY QUAY, DUBLIN 2	Office	€126.3 million	4.6%	Irish Life
THE GIBSON HOTEL, DUBLIN 1	Hotel	€87 million	4.9%	Deka
OFF MARKET OFFICE INVESTMENT, DUBLIN	Office	€60 million		Confidential
100-101 GRAFTON STREET, DUBLIN 2	Retail	€50.1 million	3.4%	Irish Life
4 & 5 HARCOURT CENTRE, DUBLIN 2	Office	€47 million	4.4%	Avestus/Ares
THE CAPITOL BUILDING, CORK CITY	Mixed Use	€45.5 million		Real IS
21 CHARLEMONT, DUBLIN 2	Office	€45 million	4.4%	La Francaise Group
NORTH BANK, NORTH DOCKLANDS, DUBLIN 1	Residential	€45 million	5.2%	Kennedy Wilson

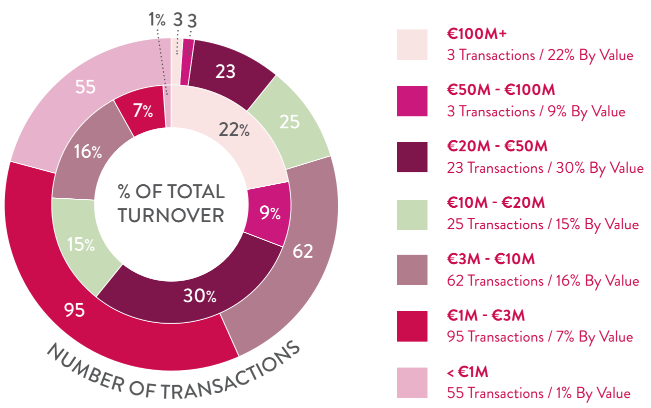
Source: Bannon Research

LOT SIZES

When lot sizes are considered, it is interesting to note that while very few high value deals took place during 2017, the combined value of these made up a considerable proportion of the overall turnover. While just 6 properties valued at more than €50m were sold in 2017, these made up 31% of the total turnover during the year. Conversely, while the majority of transactions (95 deals) fell within the €1-3 million lot size bracket, these only made up 7% of the total turnover by value. In 2016 this difference was more pronounced with 5 transactions at over €100m making up almost 50% of the total turnover for the year.

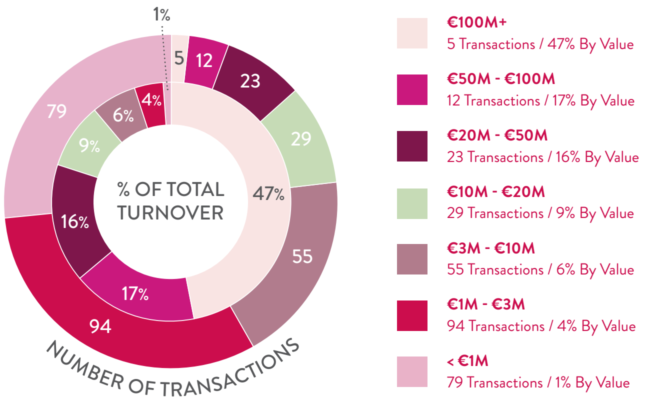
INVESTMENT TRANSACTIONS BY LOT SIZE 2017

266 transactions amounting to €2.33 billion.



INVESTMENT TRANSACTIONS BY LOT SIZE 2016

297 transactions amounting to €4.5 billion.



Source: Bannon Research

LOCATION

Dublin accounted for 186 out of 266 properties sold in the country (or 82% by value), followed by Cork and Galway with 22 and 14 transactions respectively (8% and 3% respectively by value). Within Dublin, the majority of property sales took place in Dublin 2, with approx. €503 million worth of sales accounting for 26% of the €1.9 billion transacted in Dublin overall.

INVESTOR PROFILE

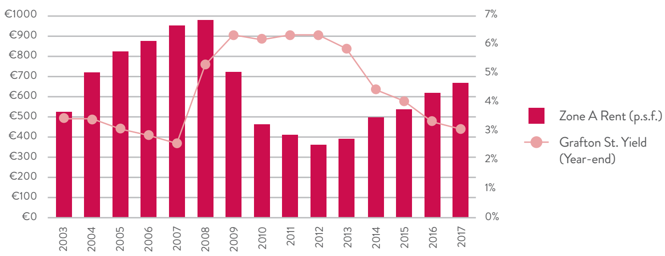
We are seeing a notable increase in the proportion of Irish investors in the market, with 35% of the total spend in 2017 attributable to Irish investors (both institutional and non-institutional), compared with 20% in 2016.

As expected, Brexit and currency devaluations have meant that the proportion of turnover from UK investors has fallen, from 6% in 2016 to 2% in 2017. The proportion of investment from mainland Europe has also fallen, from 31% in 2016 to 11% turnover in 2017, while the proportion of North American investment has increased from 25% in 2016 to 28% in 2017.

13-18 City Quay, Dublin 2 - Acquired by Irish Life for €126m / 4.6% NIY

YIELDS

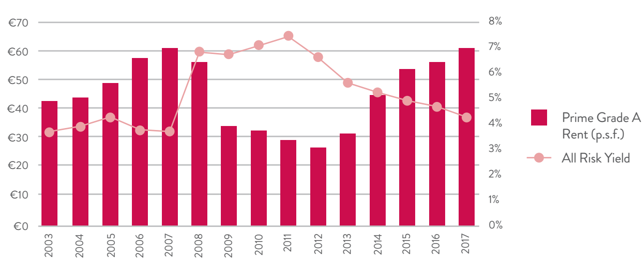
PRIME RETAIL RENTS AND YIELDS



Prime retail yields are currently 3.0% on Grafton Street with Henry Street lagging by approximately 50 bps at 3.5%. The most recent transaction was Irish Life's acquisition of 80 Grafton Street (Molton Brown) for a reported sum of €10.1million which translates to an NIY of 2.5% rising to over 3.75% at the next review in October 2019. Other recent transactions include 100/101 Grafton Street (AIB, 3.3% NIY) and 42/43 Henry Street (Evans, 4% NIY).

Source: Bannon Research

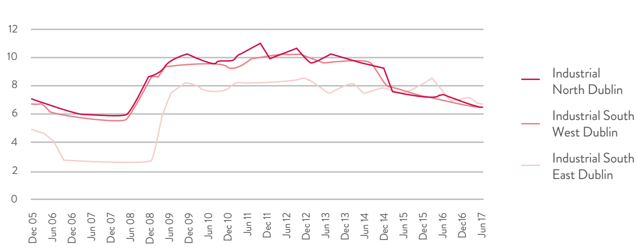
PRIME OFFICE RENTS AND YIELDS



Prime offices reached 4.25% at the end of 2017, 50 bps off the previous cycle peak of 3.75% in 2007. The most significant transaction copper fastening this is the forward sale of Grant Thornton's new offices at 13-18 City Quay, which Irish Life acquired for an initial return of 4.6%.

Source: Bannon Research

EQUIVALENT YIELDS - INDUSTRIAL



Prime high bay industrial product is currently trading at 5.5%. The most recent and largest industrial transaction of 2017 occurred off-market in North Dublin at a reported €30 million / 5.5% NIY.

Source: MSCI

YIELD MOVEMENTS

RETAIL	Q4 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	**Q4 YIELD**	**TRENDING**
PRIME CITY CENTRE OFFICE	4.25%	▼
OFFICE WIDER CITY	5%	▼
SUBURBAN OFFICE	5.5%	▼
INDUSTRIAL	**Q4 YIELD**	**TRENDING**
PRIME GDA HIGH BAY	5.5%	▼
INDUSTRIAL	6%	▼
STANDARD GDA INDUSTRIAL	7-9%	▶
PRS/MULTIFAMILY	**Q4 YIELD**	**TRENDING**
PRIME PRS (NET INCOME BASIS)	4%	▼
PRS GDA*	5%	▼

Source: Bannon Research
*Greater Dublin Area

BUDGET 2018

Budget 2018 was announced on 10th October 2017 and brought about a number of changes from an Irish commercial property investment perspective. The most significant of these are the increase of Stamp Duty on commercial property transactions from 2% to 6% and the reduction of the retention period for CGT relief from seven to four years.

Aside from the obvious impact of the Stamp Duty increase on the portfolio values of the existing holders of commercial real estate, the decision had an unsettling effect on deals agreed at the time but not contracted. As a result of the increased cost of transactions, this will encourage longer hold periods and/or a shift towards alternative arrangements such as share purchase agreements.

Meanwhile the reduction of the seven-year retention period for CGT relief is a welcome change, given its potential to free up land for development and allow early cycle investors to exit positions without attracting tax on value gains. This in turn should add stock to the market in 2018/2019 where demand is outstripping supply for quality investment assets.

OUTLOOK

- Strong economic fundamentals and a buoyant occupational market continue to drive investor demand from both domestic and overseas players.
- We anticipate robust domestic economic recovery translating into more confidence surrounding the wider retail capital markets, especially in the context of an office sector which appears to be cooling off.
- We see some investors looking to "profit take" as they can now sell property acquired in 2013/2014 and still benefit from the CGT relief scheme.
- With over €500 million of investment product sale agreed entering into 2018 and a robust quantum of pipeline supply, we forecast transaction levels for 2018 to again exceed €2 billion.

Strong economic fundamentals and a **buoyant occupational market** continue to drive investor demand from both domestic and overseas players.

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