INVESTMENT

2018 REVIEW & 2019 OUTLOOK

bannon

2018 AT A GLANCE

TOTAL TURNOVER JUST UNDER

€3.7 BILLION

ACROSS 268 TRANSACTIONS

DUBLIN ACCOUNTED FOR

85%

OF TRANSACTIONS (BY VALUE)

TURNOVER BY SECTOR

41% OFFICE

31% RESIDENTIAL

13% RETAIL

9% MIXED USE

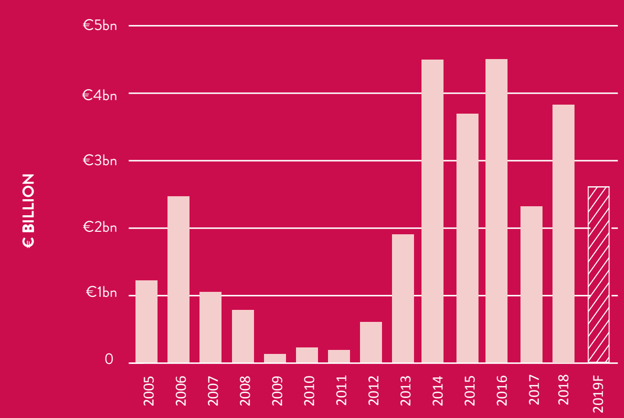
3% INDUSTRIAL

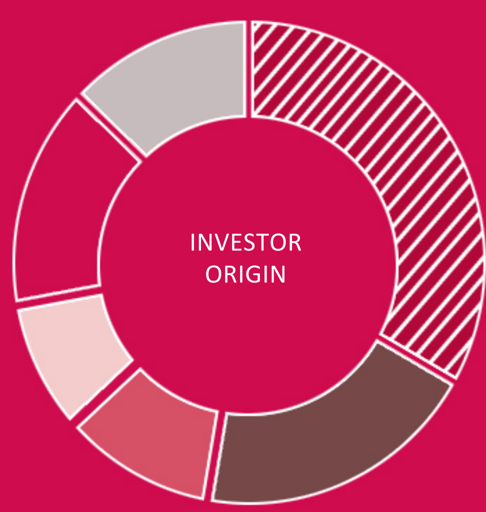
3% HOTEL

PRIME YIELDS Q4 2018

SECTOR	Q4 YIELD	TRENDING
HIGH STREET RETAIL	3.25%	▶
PRIME SHOPPING CENTRE	4.15%	▶
CITY CENTRE OFFICE	4.15%	▶
RESIDENTIAL (PRS)	4.00%	▶
INDUSTRIAL	5.5%	▶

ANNUAL INVESTMENT TURNOVER





33% IRELAND

19% MAINLAND EUROPE

11% MIDDLE EAST / ASIA

9% UK

15% NORTH AMERICA

13% OTHER / UNKNOWN

TRANSACTIONAL ACTIVITY

There was strong investment activity across all sectors of the market in 2018 on the back of robust domestic economic fundamentals. This is despite external uncertainty in the UK and wider global markets.

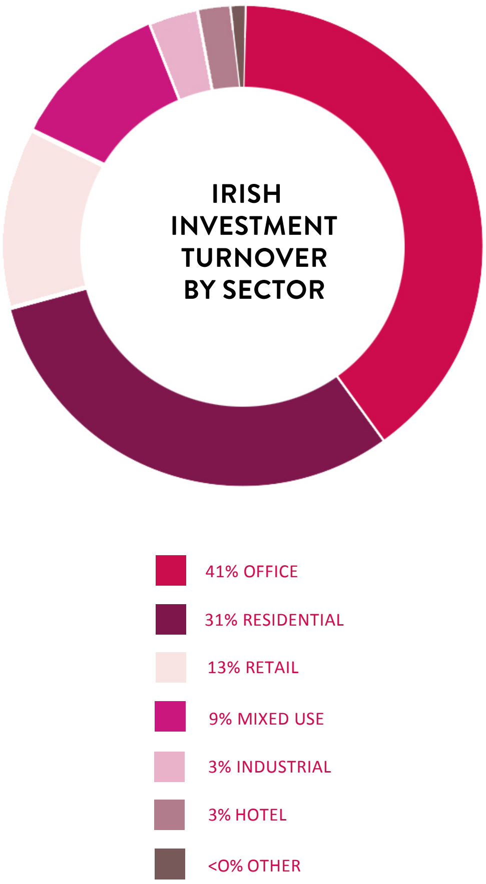
Total turnover concluded at just under €3.7 billion, significantly ahead of the 2017 figure of €2.5 billion and more in line with 2015 turnover levels. The surge in investor demand for PRS opportunities is largely attributable to this increase with over €1.1 billion invested in this sector throughout 2018 equating to circa. 2,500 – 3,000 units.

The largest transaction of the year was the off-market sale of Heuston South Quarter's office development, reported to have been acquired by the principles behind Hutchinson Whampoa (3 Mobile) for €175 million. This was followed closely by the sale of No. 1 Dublin Landings to Triuva for a price in the region of €164 million / 3.9% NIY.

There has been a notable increase in the proportion of targeted/off-market sales which accounted for 44% of total turnover in 2018 compared with 27% in 2017 and 15% in 2016. This is a trend that we see continuing into 2019.

Strong growth in construction and demand levels, particularly in the office and PRS sectors, has meant that forward funding arrangements have become a prominent feature of the market. Significant forward funding and forward sale transactions in 2018 included the acquisition of 372 units in Clongriffin by Tristan Capital Partners for €140 million and Irish Life's acquisition of Fernbank, Dundrum for €130m.

No.1 Dublin Landings - Sold to Triuva for a price in the region of €164 million / 3.9% NIY



SECTOR ANALYSIS

Offices remain the most popular asset class with €1.496 billion invested throughout 2018 across 76 transactions accounting for 41% of turnover. Off-market transactions represented 43% of this total across 12 deals. Notable deals include the aforementioned Heuston South Quarter and No. 1 Dublin Landings together with The Beckett Building and No. 2 Dublin Landings which sold for €101 million (4.1% NIY) and €106 million (4.2% NIY) respectively.

Residential is now the second most dominant sector with over €1.136 billion invested in 2018 across 36 deals, 96% of which was attributable to PRS assets. The most significant residential property transactions of the year included deals in Clongriffin and The Grange together with the forward sale of 120 units in Six Hanover Quay for €101 million and Irish Life's acquisition of 262 units in Fernbank, Churchtown for €130 million. Outside the capital, Kennedy Wilson acquired The Elysian Building in Cork for a reported sum of €90 million.

Retail investments attracted just under €492 million across 72 deals. Nearly half of this was from two Retail Park sales namely Westend Retail Park which Green REIT sold to DWS for €147.7 million / 5.3% NIY and a €95 million off-market deal which is understood to be IPUT's acquisition of Phase 2 The Park, Carrickmines.

Just over €332 million was invested in **Mixed-Use** assets during 2018 across 47 transactions, representing 13% of total turnover. The most significant of these was the Chatham & King development just off Grafton Street which Hines acquired for a reported sum of €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 early 2020.

Industrial sales attracted just under €120 million in 2018 across 24 deals. The majority of these fell into the sub €5 million category with the most notable deals of the year being a €26 million off-market transaction believed to be DHL's Facility in Dublin AirPort Logistics Park and DWS's acquisition of several buildings in the same park from Rohan Holdings for €22.5 million.

TOP 10 TRANSACTIONS OF 2018

PROPERTY	SECTOR	QUARTER	PRICE ACHIEVED	NIY	PURCHASER
HEUSTON SOUTH QUARTER	Office	Q1 2018	€175 million	Confidential	Asian Investor
NO.1 DUBLIN LANDINGS	Office	Q1 2018	€164 million	3.9%	Triuva
CONFIDENTIAL OFF MARKET	Office	Q2 2018	€160 million	Confidential	Confidential
CHATHAM & KING	Mixed Use	Q1 2018	€155 million	Confidential	Hines
WESTEND RETAIL PARK	Retail	Q2 2018	€147.7 million	5.3%	DWS
CLONGRIFFIN PRS	Residential (PRS)	Q4 2018	€140 million	Confidential	Tristan
FERNBANK, CHURCHTOWN	Residential (PRS)	Q2 2018	€130 million	Confidential	Irish Life
THE GRANGE, STILLORGAN	Residential (PRS)	Q3 2018	€126 million	4.2%	Kennedy Wilson
NO.2 DUBLIN LANDINGS	Office	Q4 2018	€106.5 million	4.2%	JR AMC
THE BECKETT BUILDING	Office	Q2 2018	€101 million	4.14%	KB Kookmin Bank

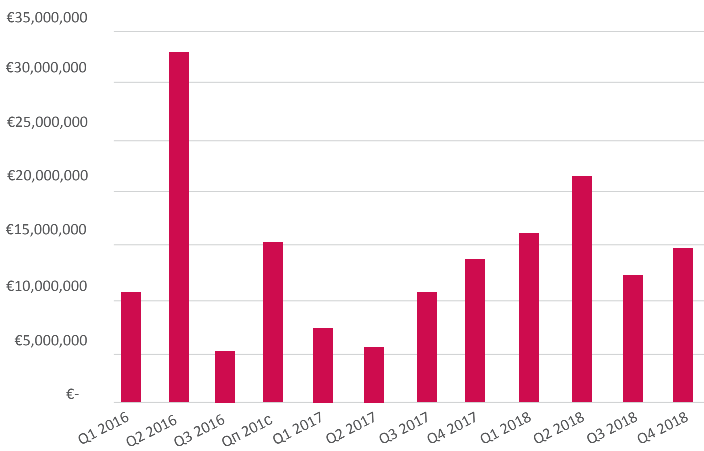
Source: Bannon Research

LOT SIZES

The average lot size in 2018 was approximately €16 million, up from an average of €10 million for 2017 and slightly behind the average of €17 million in 2016. This is reflective of the higher portion of transactions falling in the €100m+ price bracket in 2018.

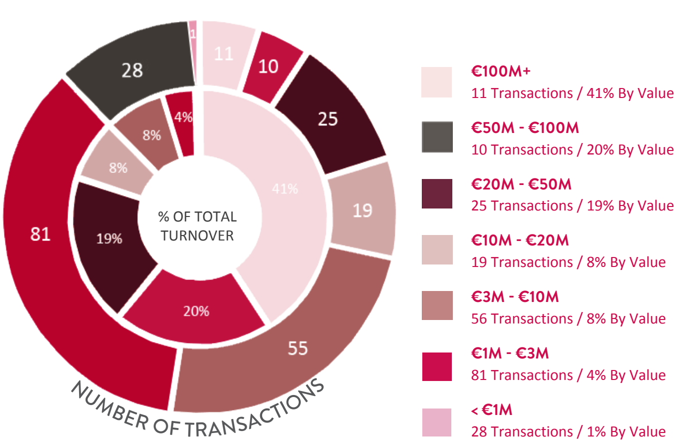
AVERAGE LOT SIZE

(excl. deals below €500k)



INVESTMENT TRANSACTIONS BY LOT SIZE 2018

229 transactions amounting to €3.688 billion
(excl. deals below €500k)



Source: Bannon Research

LOCATION

Dublin continues to dominate with 85% of total transactions occurring in the capital, with almost a quarter of these occurring in Dublin 2. The cities of Cork and Galway accounted for 7% and 3% respectively which is on par with the trend seen over previous quarters.

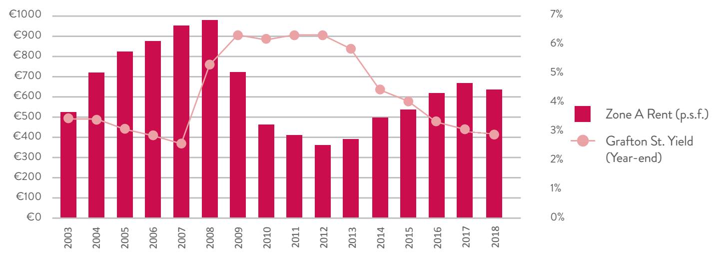
INVESTOR PROFILE

Overseas investment dominated this quarter accounting for 66% of total transactions with large acquisitions from several Asian investors together with North American and European Investors, Triuva, Hines, DWS, Tristan, Kennedy Wilson, Credit Suisse amongst others. On the domestic front, investment was primarily driven by the institutional market with Irish Life, IPUT, IRES REIT, Friends First and Yew Grove REIT.

Chatham & King, Dublin 2 - Sold by Hudson to Hines for €155 million. Bannon advised the vendor.

YIELDS

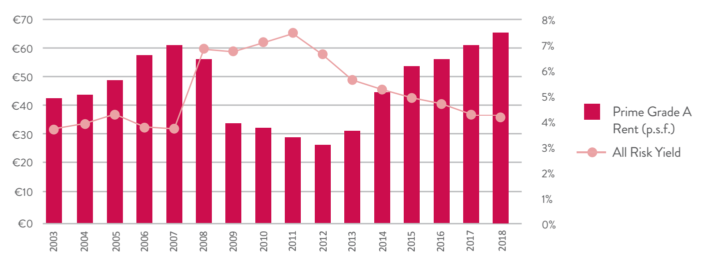
PRIME RETAIL RENTS AND YIELDS



Sentiment in the sector has been negatively impacted 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. This sentiment has particularly impacted the shopping centre and retail park market domestically with a number of failed sales. Whilst no meaningful transactions have occurred in the last quarter it is accepted that yield levels have moved out across secondary retail assets.

Source: Bannon Research

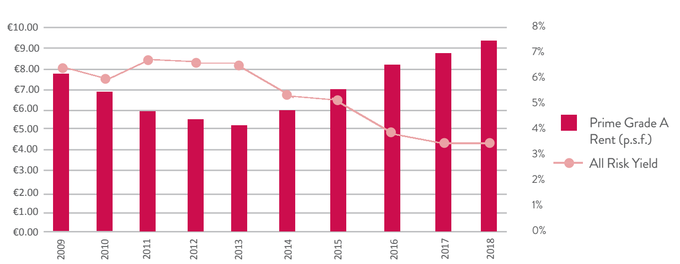
PRIME OFFICE RENTS AND YIELDS



Prime Dublin CBD office yields have remained stable this quarter with the sale of No. 2 Dublin Landings maintaining the bench mark prime yield. Interestingly, on a European basis, prime yield discounts are widely accepted where occupiers are operating co-working / serviced office operations i.e. We-Work etc. The No. 2 Landings transaction did not witness such a discount proving international confidence in the Dublin market.

Source: Bannon Research

PRIME INDUSTRIAL RENTS AND YIELDS



Prime high bay industrial yields remain stable at 5.5% with minimal activity in this sector this quarter, save for two off market transactions in Dublin AirPort Logistics Park for undisclosed yield's.

Source: MSCI

YIELD MOVEMENTS

RETAIL	Q4 YIELD	TRENDING
GRAFTON STREET	3%	▶
HENRY STREET	3.5%	▶
PRIME DUBLIN SHOPPING CENTRE	4.5%	▶
PRIME PROVINCIAL SHOPPING CENTRE	6.5-7%	▲
PRIME DUBLIN RETAIL PARK	4-4.5%	▶
PRIME PROVINCIAL RETAIL PARK	7%+	▲
OFFICE	**Q4 YIELD**	**TRENDING**
PRIME CITY CENTRE OFFICE	4.15%	▶
OFFICE WIDER CITY	5%	▶
SUBURBAN OFFICE	5.5%	▶
INDUSTRIAL	**Q4 YIELD**	**TRENDING**
PRIME GDA HIGH BAY	5.25%	▶
INDUSTRIAL	6%	▶
STANDARD GDA INDUSTRIAL	7-9%	▶
PRS/MULTIFAMILY	**Q4 YIELD**	**TRENDING**
PRIME PRS (NET INCOME BASIS)	4%	▶
PRS GDA*	5%	▶

*Greater Dublin Area

Source: Bannon Research

2019 OUTLOOK

The PRS sector was the biggest growth market of 2018 and will continue to be for 2019 with the potential to outstrip the transaction value of the office market albeit a small number of super prime high value office forward funds may halt this. Considering this asset class did not exist in Ireland pre-2016 it is an exceptional performance. We anticipate the level of forward fund and forward sale transactions in this sector to accelerate given cost / benefit to developers delivering product and lower risk levels associated with doing multi-unit deals to institutional investors. This will also be applicable to student accommodation schemes in the short term. This shift in supply focus will be to the detriment of the private consumer market where it is likely to continue to diminish the level of apartment stock available for sale to individuals.

With over €617 million worth of investment stock currently sale agreed and a further €580 million on the market, we are expecting the strong performance of 2018 to continue into 2019. There is little doubt however that the uncertainty created by the Brexit deadline and turmoil in international equity markets will have a subduing influence on the activity levels in the Irish property market. We expect to see widening in yield profiles between the prime and secondary markets of each sector which may offer some much needed value to the market outside the core plus institutional sectors.

In addition, with a 23% of market turnover now derived from forward sale/funding it is unlikely that construction supply, in particular new speculative office development, will continue at the pace required to maintain these turnover levels. In this context we are predicting a return to more typical turnover levels in the region of €2.5bn-€3bn for the year ahead. This excludes the potential forward sale of a couple of major office letting deals just agreed.

One to watch: Retail Dublin's Northside

- Retail is now all about the "experience" and globally city centre offerings appears to meet the wants and needs of generation Y & Z (who now represent a staggering 55% of the Irish population).
- The south side of Dublin City has dominated Dublin City's retail growth for the past two decades and has seen prime Zone A rates recover to €7,000 per Sqm (70% of the streets rent review peak).
- However, the south city's capacity for further retail expansion to meet the needs of a very fickle shopping public is limited both geographically (due to natural boundaries like St Stephens Green, Trinity, the CBD) and physically due to the warren of historic streets and listed buildings.
- The confined expansion of the south side retail core has seen it move northwards towards College Green, only a stone's throw from O'Connell Street. The extension of the Luas Cross City Line from Grafton Street to O'Connell Street has further helped this movement.
- The barriers between the two shopping destinations are likely to continue to blur with nearly all major retail redevelopment projects focused on the north side of the city. As a consequence, it is likely that rental levels which are 50% higher on Grafton Street will start to rebalance.
- North city already plays host to the single biggest conglomeration of anchor stores and MSUs on this island. Its extended retailing district hosts the largest Penney's, Dunnes, M&S, Debenhams, Next, and Zara in the country and the single largest department store (Arnott's).
- Due to extensive availability of land and buildings (including the 5-acre Dublin Central Site) potential future expansion of Dublin City Centre retailing is undoubtedly going to be disproportionally focused on the north city and the Henry Street areas looks set to start its fight back for its previously held supremacy.

The Grange, Stillorgan - Kennedy Wilson acquired for €126m

Hambleden House
19-26 Lower Pembroke Street
Dublin 2

BANNON CAPITAL MARKETS TEAM

Rod Nowlan
Director
rnowlan@bannon.ie

David Carroll
Divisional Director
dcarroll@bannon.ie

Alex Patterson
Divisional Director
apatterson@bannon.ie

Cillian O'Reilly
Surveyor
coreilly@bannon.ie

CONTACT

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

PSRA: 001830