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INVESTMENT
PROPERTY REPORT

Lisney

Q1

2019

Investment in numbers

TURNOVER



€608.6_m

Activity in the property investment market reached €608.6m

SECTOR



47.4%

Offices was the dominant sector accounting for 47.4% of total investment turnover

LOCATION



DUBLIN

91.7% of total investment turnover in Dublin

SUPPLY



42%

42% of new supply to the market in Q1 were PRS opportunities



The One Building, Grand Canal Street Lower Dublin 2. Stripe HQ

“
 Notable
 increase in
 off-market
 activity”

ACTIVITY

Activity in the property investment market reached €608.6m in the opening three months of the year. This compares to €940m in Q1 2018, which was 54% higher. Dublin continued to lead activity, accounting for 91.7% of the total, across 29 transactions.

An interesting development over 2018 was the notable increase in off-market activity. This continued into Q1 2019 with off-market deals accounting for nearly 70% of turnover across 12 transactions. The largest of these was the sale of the Charlemont Exchange office scheme to South Korean-based fund, Vestas Investment Management, for approximately €150m representing a 4.4%

net initial yield. Other off-market deals included the purchase by Irish Life and Clyde Property Fund of a 25% stake in The Pavilions Shopping Centre in Swords from IPUT for approximately €71m and The One Building (HQ of Stripe) on Lower Grand Canal Street was reported to have sold for €49.5m to an international investor.

International buyers continue to dominate the upper-end of the market accounting for four of the top five transactions. In terms of new entrants to the market, Vesta Investment Management (REIT) referenced above, was a notable example. There is considerable demand for larger lot sizes from investors in Asia, Europe and North America, while domestic demand remains strong for offices, industrial, PBSA and 'add value' opportunities.

“ Offices represented 47.4% of activity across 13 transactions ”

OFFICES

As is usual, the office sector was the busiest sector in Q1. It represented 47.4% of activity (by value) across 13 transactions, four of which were off-market. This was the largest representation of the office sector in a year, having been at 39% of the market in 2018. The largest deals were Charlemont Exchange (€150m) and The One Building (€49.5m), mentioned above. However, in addition, 77 Sir John Rogerson Quay was sold to a German real estate company for approximately €36m; South Point on Harmony Row was acquired by a European investor for €12.7m; and Newenham Court at Northern Cross was sold to an Irish investor for €10.4m. The other eight deals were lot sizes varying between €700,000 and €8m. The majority of these were in Dublin except for three sales in Cork, Limerick and Portlaoise.

RETAIL

The resilience of the retail market was evident during the quarter with 15 retail investment transactions in Q1 accounting for over €186m (30.6%) of turnover. This representation was more than double that of 2018 as a whole (at 13%). There were some notable sales including the 25% stake in The Pavilions; the new Next flagship store at 7-9 Henry Street (acquired by DWS for approximately €44.27m); the reported sale of Sports Direct on North Earl Street (€20m); and Royal Liver Retail Park, which sold for approximately €25m.

PRIVATE RENTED SECTOR (PRS)

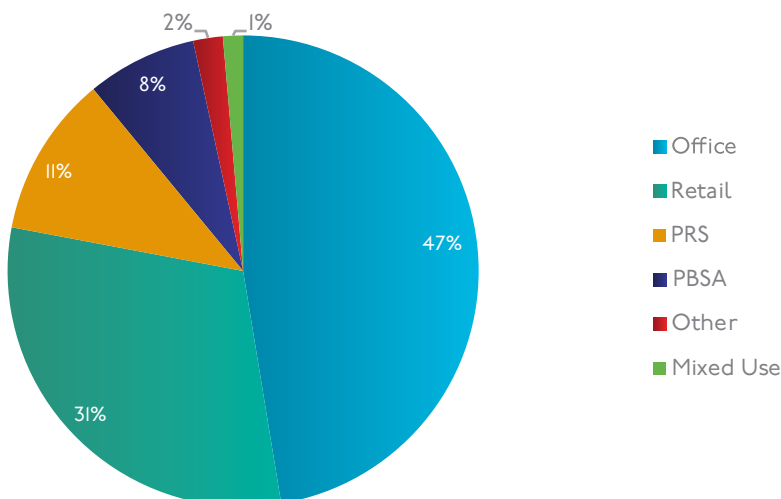
Just four PRS investments sales transacted in Q1, accounting for 11% of activity (€67.3m). IRES was involved in two of these transactions – 118 apartments at Taylor Hill and Semple Woods off-market for a reported €38.2m and 53 units at The Coast in Baldoyle for a reported €14.3m. The low level of activity in Q1 is not reflective of the strong demand that is present for this sector. At the end of March there were several large schemes at sale agreed stage, which should complete in the coming months and significantly add to activity levels. Additionally, there was almost €580m worth of schemes available, €398m of which came to the market in Q1 2019.

OTHER SECTORS

There was one notable PBSA transaction in the opening quarter, which was the forward purchase of the 364-bed North Quarter in Ballymun for approximately €46m to insurance company AIG. This student accommodation block is due for completion in 2020 and will also contain some retail and coffee shop space.

In an off-market deal, Dublin Citi Hotel in Dublin 1 sold for approximately €11.9m. There were also some mixed-use transactions in the three months, the largest being the sale of Kandoy House in Fairveiw for €2.6m (NIY 6.91%) and in an off-market deal, 2-4 Bridge Street in Dublin 4 was sold to an overseas investor for approximately €1.85m. Outside of Dublin, a mixed-use investment on Kennedy Road in Navan sold for €1.85m, while in Cork, 17-20 Douglas Street sold for €1.4m.

ACTIVITY SECTOR Q1 2019





Charlemont Exchange, Charlemont Street
Dublin 2. WeWork Offices

“
Approximately
€978m of
investment
property was
launched
during the
quarter”

SUPPLY

Uncertainty in terms of the form and timing of Brexit and its potential impact on the investment market and wider Irish economy appeared to delay the release of new investment opportunities to the market at the start of the quarter. However, new supply picked up considerably throughout March. In total, approximately €978m worth of investment property was launched during the quarter (both on and off-market) with 98.5% of this in Dublin.

Significantly, nearly 42% of this supply was made up of PRS investment opportunities including 268 units at Dublin Landings in the north Docklands being developed by Ballymore and 266 apartments at Heuston

South Quarter owned by Marathon. In addition to this, a large PBSA scheme came off-market.

Office investment opportunities accounted for 20.8% of new supply with sizeable assets launching including The Reflector on Hanover Quay at a quoting price of €155m.

At the end of Q1, the combined asking price of all investment opportunities available was €1.52bn. A further €290m was either sale agreed or in legals. Also, a number of high-profile office (CBD & suburban) and industrial investments are being prepared for sale and are expected to come to the market in Q2 2019. In terms of the industrial sector, this is positive as there were no industrial transactions in Q1.

PRICING Q1 2019



PRIME NET EQUIVALENT YIELDS

	END-MARCH 2019	QUARTERLY CHANGE	ANNUAL CHANGE	BELOW LTA
Office	4.00%	-	-	-145bps
Retail	3.25%	-	+5bps	-365bps
Industrial	5.25%	-	-25bps	-240bps
PRS (Gross)	5.20%	-	-5bps	

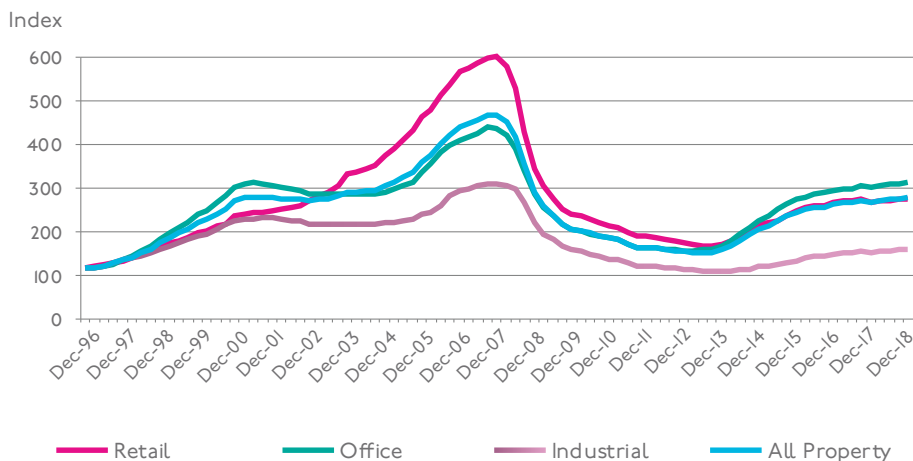
Source: Lisney

Prime yields were unchanged in Q1. In the past year, the PRS and industrial sectors have experienced improvements. Generally, prime net equivalent yields are well below long-term averages and further decreases are unlikely in the short-term.

The most recent release from MSCI (previously IPD) in relation to commercial property performance is year-end 2018. In that calendar year, the capital value growth

index for all property types increased by 4%. This varied greatly between sectors with retail capital value growth at just 1.7% over the year, offices at 4.4% and industrial leading the way at 5.6%. In overall terms, the 4% growth compares to 2017 at just 1.7% and 2016 at 7.3%. The index shows that while prices have grown by 83% since early 2013 (the beginning of this market cycle) but remain 40% below the previous cycle peak (Q4 2007).

MSCI INDEX Q4 1996 - Q4 2018



Source: MSCI



OUTLOOK

- Strong demand from international investors likely to continue for prime larger lot sizes, mainly in the office and PRS sectors due to economic performance and strong occupational markets.
- Off-market sales will remain a significant share of the marketplace throughout 2019.
- Total investment market turnover in Ireland in 2019 is expected to be €2.5bn.
- The PRS sector is anticipated to account for about one-third of all investment turnover in 2019.

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