Ireland Commercial Real Estate Market Update

1st Quarter 2017

QUADRANT
REAL ESTATE ADVISORS

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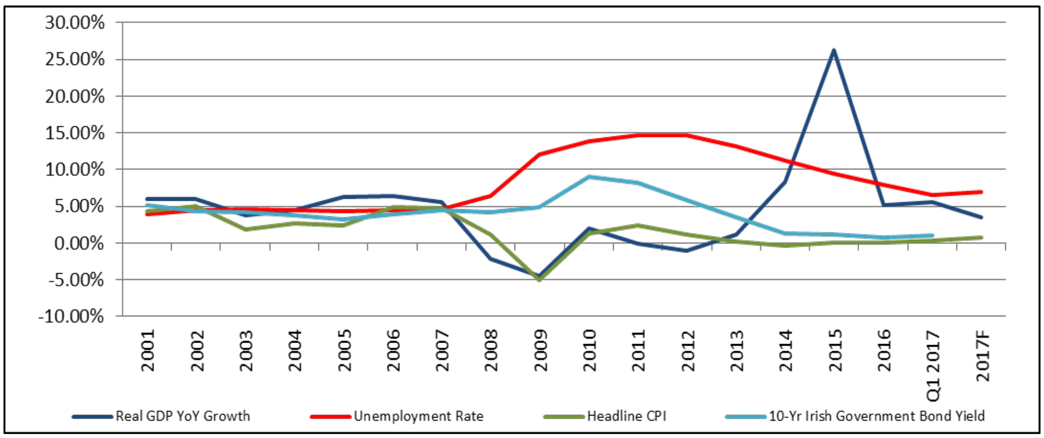
Ireland Market Summary

- Real Gross Domestic Product ("GDP") growth in Ireland year-on-year for the March 2017 quarter recorded 5.6%, up compared to same quarter for 2016 at 3.9%.
- 2017 GDP is forecasted to be 3.5%, down from 5.2% in 2016.
- The European Central Bank ("ECB") Main Refinancing Rate remained unchanged at 0.0% during the quarter.
- The ECB confirmed that the monthly asset purchases, which were on average €80 billion per month would run until the end of March 2017. Thereafter, monthly asset purchases on average of €60 billion will continue from April 2017 through December 2017, or beyond, if necessary to achieve the Governing Council's inflation aim of approximately, 2.0%.
- Euro area annual inflation is 0.7% at the end of Q1 2017 and forecasted to be 0.8% in 2017.
- The Irish unemployment rate has fallen to a nine-year low of 6.4% in the current quarter. The unemployment rate is projected to decline below 6% by summer 2017.

Key Economic Indicators



Source: Bloomberg, Central Statistics Office Ireland
1) The 2012 10-Yr Irish Government Bond Yield is a linear interpolation of the 2011 and 2013 yields because no benchmark 10 year bond existed in 2012. A consensus forecast for the 2016 10-Year Irish Government Bond Yield is not available as of the issuance of this report.
2) Real GDP YoY Growth for 2015 was revised to reflect corporate inversions.

- The euro increased 1.3% against the US dollar to 1.0652 at the end of the current quarter. The euro decreased 0.6% against the pound to 0.84852 at the end of the current quarter.
- The Brexit Referendum continues to cause dislocation in the market due to uncertainty of what Brexit means for Britain and the rest of Europe. It is however, expected to positively affect the Irish market as firms seek to relocate to euro-denominated areas. The government anticipates the economy to continue to grow faster than the rest of the Eurozone this year and next, albeit, at a slower rate than in recent years.
- Cap rates remained stable across Dublin Office, Retail and Industrial sectors during Q1 2017.
- Office vacancy rates in Dublin increased during the quarter with Grade A vacancy rate in Dublin 2/4 at approximately 3.0% at the end of Q1. The overall office vacancy rate in Dublin is 7.0%.

Prime Property Yields (cap rates)

Property Type	December 2016	March 2017	Change
Office (1)	4.65%	4.65%	0.00%
Retail (2)	3.25%	3.25%	0.00%
Industrial (1)	5.75%	5.50%	-0.25%

Source: CBRE, Savills

(1) Metric presented for property in the greater Dublin area.
(2) Metric presented for the high street retail district of Dublin.

Benchmark Rates

	December 2016	March 2017	Change
3-month Euribor	-0.32%	-0.33%	-0.01%
5-year EUR Swap	0.08%	0.18%	0.11%
10-year EUR Swap	0.66%	0.76%	0.10%

Source: Bloomberg.

- Demand for debt remains strong and a material property capital gap remains for prudent, cost efficient financing of a broad range of under supplied property types.
  - Low cost senior financing from the banks is generally limited to 65% loan-to-value and not permitted on speculative development.
  - Furthermore, most non-bank mezzanine lenders are too expensive for the Irish market.
  - As a result of limited competitive financing, attractive risk adjusted yields of 8% plus can be achieved on stretch senior loans.
- The Brexit vote may lead to an influx of foreign direct investments ("FDI") to Ireland in the medium to long term, driving more demand for office space, residential and hotels.

Dublin

Dublin is the largest city in, and the capital of, the Republic of Ireland. Home to nearly 40% of Ireland's population, the city is the country's cultural and social hub. Dublin is also the center of Ireland's economic infrastructure. According to the Dublin Chamber of Commerce, the greater Dublin region accounted for 42% of Ireland's 2014 GDP (most recent data available).

Ireland's business-friendly tax environment (a general corporate tax rate of 12.5%), has spurred a strong economic recovery following an especially severe recession and the collapse of the Irish banking system during the 2008-to-2009 global financial crisis. An influx of leading tech-based companies (e.g. Facebook, Google, Amazon, Airbnb, etc.), as well as a resurgence of the financial sector, have been primary drivers of the recovery.

These industries (among others) are hiring thousands of new employees each quarter, bringing in young, highly skilled professionals. This is driving demand for 1) high quality office space into which businesses can expand, 2) residential housing (including, increasingly, rental housing) for new employees, 3) retail space near population centers for major retailers seeking prime exposure, and 4) hotel rooms for business travelers. All of these trends are contributing to positive CRE fundamentals in Dublin.

The Dublin Commercial Real Estate Market

- **Dublin Office** sector outlook is **favorable**.

  - Prime rents remain stable throughout Q1 2017 at €62.50 per sf, an increase of 14% year-on-year (City Centre); up from €55 per sf a year ago.
  - Prime yield (cap rate): 4.65% (City Centre), remaining stable from the previous quarter.
  - Gross take-up (absorption) in Dublin during the first quarter totaled 538,196 sf with an additional 538,196 reserved in the capital at the end of Q1.
  - At the end of the quarter, 30 office schemes were under construction in Dublin, accounting for approximately 4,413,203 sf of new office space available to the market between now and early 2019; 21% has already been pre-let.
  - The overall vacancy rate in Dublin increased during Q1 2017 to 7.0%.
  - The Brexit referendum may lead to a potential increase in demand for Dublin office properties as firms from London seek to relocate to alternative Euro-denominated capitals.
    - Financial services is a major source of job creation in Dublin, in particular, the fund asset management industry. This industry (over €3 trillion) employs a large work force including investment managers, accountants, legal, fund managers, depositaries etc. In the wake of Brexit, certain fund asset managers are reportedly seeking to relocate their fund activities to either Dublin or Luxembourg in order to maintain access to European investors.
    - Service firms such as audit firms (PWC, KPMG, Deloitte, etc.) and law firms (Arthur Cox, William Fry etc.), are all expanding to service the above growth.

- **Dublin Multi-family** sector outlook is **highly favorable**.

  - The Dublin multi-family market is significantly undersupplied, with Savills forecasting a need for approximately 17,200 new units per annum to satisfy demand due to population growth.
  - Consequently, recent data under the Freedom of Information Act? reported that only 2,076 homes were built in 2016. This statistic is a fraction of the estimated 15,000 that were provided by the Department of Housing based on electricity connections. This method has been used since 1970's, and thus, approximately 35,000 units are needed to meet demand in the market.
  - The Brexit vote may increase demand further as office occupiers seek to relocate staff to Dublin over the medium term.
  - Furthermore, political announcements made during the year have boosted the Irish multi-family development sector:
    - The appointment of a dedicated Minister for Housing in the new administration.
    - Publication of the recommendations of the Government's Housing Committee.
    - The announcement of a new Local Infrastructure Housing Fund, which will help the viability of development.
    - Relaxation of height restrictions in Dublin City.
    - The publication of new development plans in some local authorities.

  - Additionally, the government has implemented a number of new supply-side measures to promote construction in the multi-family and residential sectors including:

- Rebates of local authority levies in respect of affordable housing developments in Dublin.
- Reduced minimum design standards to cut apartment building costs.
- The National Asset Management Agency ("NAMA") to deliver 20,000 residential units before the end of 2020.

- **Dublin Retail** sector outlook is **favorable**.

- Prime (Zone A) rent approximation: €585 per sf (Grafton Street); €418 per sf (Dundrum); €418 per sf (Henry Street); €279 per sf (Blanchardstown).
  - Zone A represents the first 20 feet of storefront that is closest to the window. Rent approximations for the entire ground floor are not available.
- Prime yield (cap rate): 3.25% (High Street), stronger from the previous quarter.
- 2017 Q1 sales were positive with increases in value and volume. Retail sales increased 2.8% for the quarter and 6.3% year on year.
- Low vacancy rates will continue through 2017 due to the lack of retail stock in the pipeline.
- The Brexit referendum is expected to have little, if any negative impact to the Dublin Retail market.

- **Dublin Industrial** sector outlook is **favorable**.

- Prime rent approximations: €8.75 per sf, an increase of 25% year over year.
- Prime yield (cap rate): 5.50%, remaining stable from the previous quarter.
- Activity was primarily focused on the Dublin South West (N7) corridor, accounting for 23% of all sales and lettings in Dublin during Q1 2017. The North East (N1/M1) corridor accounted for 19% of activity, while 18% occurred in the Dublin North and South West (N2/N81) corridor.
- Take-up volume in the first quarter reached 545,935 sf, down 28% from the same quarter last year. The decrease is due to a shortage of new modern stock in core locations.

Note: For industrial property in Ireland, industry convention is to include both lettings and acquisitions by owner-occupiers in the total take-up for the period.

- **Dublin Hotel** sector outlook is **favorable**.

- As of February 2017, RevPAR in Dublin was €107.46, up 3.7% year over year.
- PWC's European cities hotel forecast for 2017 predicts that Dublin could see 8.7% Revpar growth.
  - Ranked first in occupancy at 83% for forecasted 2017 and 2018,
  - The average Room Rate is forecasted to be up 8.0% year over year to €138.
- The Irish Tourism Industry Confederation ("ITIC") estimates that Dublin requires an additional 5,000 new rooms by 2020 to manage increased tourist numbers.
- Savills believes the Docklands, O'Connell St. area, Christchurch, The Liberties and Dublin Airport provide the best opportunity for hotel development.
- According to CBRE, 66 Irish hotel transactions of more than €800 million closed in 2016.
- Fáilte Ireland reported a pipeline of 80 new hotel projects, of which 65 are anticipated to be open by 2020.

Secondary Markets

- There has been an increased focus and international interest on cities outside of Dublin as multinationals cement their footprint in Ireland.
- FDI has targeted Galway and Cork as key cities for business growth.
  - Galway has a large presence in technology, life sciences and services sectors.
  - Cork employs approximately 30,419 people in a strong cohort of companies across all sectors with particular strengths in healthcare pharmaceuticals, technology (Apple HQ) and engineering.

Key Figures as of Q1 2017*:*

	Galway	Cork
Market Stock	3.2 million Square Feet	6.1 million Square Feet
Take Up 2016	60,892 Square Feet	231,424 Square Feet
Availability	262,639 Square Feet	70,000 Square Feet
Vacancy Rate	8.0%	11.5%
Under Construction	0 Square Feet	53,819 Square Feet
Completions 2016	24,218 Square Feet	170,608 Square Feet

Source: Cushman and Wakefield

- Office vacancies in Galway and Cork are 8% and 11.5%, respectively. Such vacancies are primarily older, inefficient, single B and C buildings.
  - Overall, the demand for large, Grade A office space in these cities is high, as existing stock tend to be old and outdated.
- While an increase in FDI in Cork and Galway may lead to growth in the labor market, the lack of new apartments (both for rent and for sale), may suppress further economic expansion.

Sources

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Important Disclosures