

Ireland Commercial Real Estate Market Update

2nd Quarter 2017



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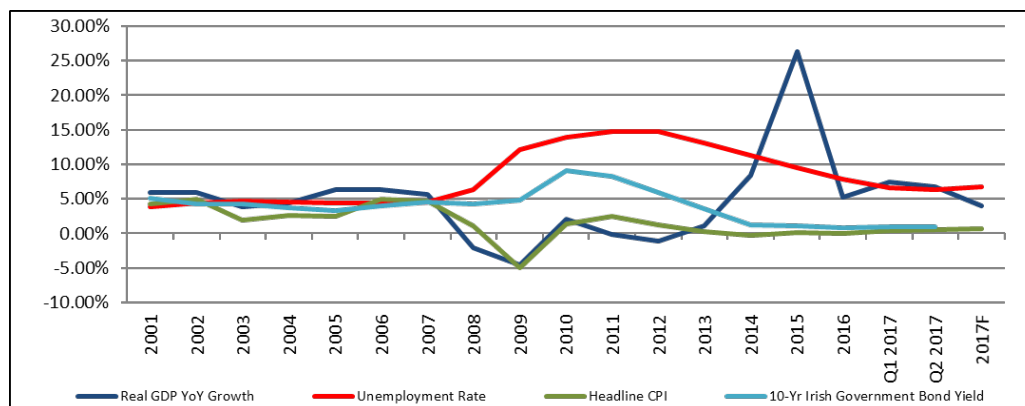


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Ireland Market Summary

- Real Gross Domestic Product (“GDP”) growth in Ireland year-on-year for the June 2017 quarter is estimated to be 6.7%, up compared to the same quarter for 2016 at 3.3%.
- 2017 GDP is forecasted to be 4.8%, down from 5.1% in 2016. GDP up 6.1% on an annual basis in the first quarter.
- 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 of €60 billion will continue through December 2017, or beyond, if necessary to achieve the Governing Council’s inflation aim of approximately, 2.0%.
- Euro area annual inflation is 1.1% at the end of Q2 2017 and forecasted to be 1.5% for 2017.
- The Irish unemployment rate has fallen to a nine-year low of 6.3% in the current quarter. Employment growth is 3.5%. The unemployment rate is projected to decline below 6% in the coming months, projected to reach 5% by end of next year.

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 7.3% against the US dollar to 1.1426 at the end of the current quarter. The euro increased 3.4% against the pound to 0.87710 at the end of the current quarter.
- 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. Brexit is continuous to dominate domestic concern given Ireland’s close relationship with the UK. The post-exit trade arrangement between the UK and Europe will be key in determining the impact on the Irish economy, but it may be some time before there is clarity. While Brexit may bring opportunities in the shape of relocating FDI, the uncertainty it has given rise to and the generally unsettled external environment continues to cause dislocation. Domestically, the uptick in construction activity in Dublin and secondary markets could prove faster and stronger than originally projected.
- Cap rates remained stable across Dublin Office, Retail and Industrial sectors during Q2 2017.

- Lack of housing, especially built to rent (BTR) and for sale apartment, is perceived to be the biggest threat to Irish economy. Current construction is not sufficient to meet demand, a key contributor to the pressure on house prices, with annual increase coming in at 11.9% in May.
- Office vacancy rates in Dublin decreased slightly during the quarter with Grade A vacancy rate in Dublin 2/4 at approximately 2.0% at the end of Q2. The overall office vacancy rate in Dublin is 6.5%.

Prime Property Yields (cap rates)

Property Type	March 2017	June 2017	Change
Office ⁽¹⁾	4.65%	4.65%	0.00%
Retail ⁽²⁾	3.25%	3.25%	0.00%
Industrial ⁽¹⁾	5.50%	5.50%	0.00%

Source: CBRE

(1) Metric presented for property in the greater Dublin area.

(2) Metric presented for the high street retail district of Dublin.

Benchmark Rates

	March 2017	June 2017	Change
3-month Euribor	-0.33%	-0.33%	0.00%
5-year EUR Swap	0.18%	0.28%	0.09%
10-year EUR Swap	0.76%	0.90%	0.14%

Source: Bloomberg.

- Demand for debt remains strong and a material property capital gap persists 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.

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 financial cultural and social hub. Dublin is also the center of Ireland's economic infrastructure.

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, and their supporting services (e.g. – auditor, solicitors etc.), 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 Q2 2017 at €62.50 per sf, an increase of 4% year-on-year (City Centre); up from €60 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 second quarter totaled 1,087,155 sf for a total of 1,614,587 for the first half of the 2017. The leasing for 2017 was significant and 68% higher than the same period in 2016.
 - At the end of the quarter, 33 office schemes were under construction in Dublin, accounting for approximately 4,520,842 sf of new office space available to the market between now and early 2019; 23% has already been pre-let.
 - The overall vacancy rate in Dublin decreased during Q2 2017 to 6.5% compared to the previous quarter of 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, financial service companies are reportedly seeking to relocate their activities to either Dublin, Frankfurt or Paris in order to maintain access to European investors.
 - Service firms such as audit firms (e.g. - PWC, KPMG, Deloitte, etc.) and law firms (e.g. - Arthur Cox, William Fry etc.), are all expanding to service the above economic 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.
- The Savills estimate contemplates approximately 15,000 units reported to have been added according to the Department of Housing based on electricity connections. This methodology is one that has been in use since the 1970's.
- However, recent data under the Freedom of Information Act reported that only 2,076 homes were built in 2016, thus approximately 35,000 units are needed to meet demand in the market.
- The Brexit vote may further increase demand for housing as companies domiciled in Britain 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 which is consistent with the previous quarter.
- 2017 Q2 sales were positive with increases in value and volume. Retail sales increased 1.7% for the quarter and 7.3% 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: €9.25 per sf, an increase of 6% for the first half of 2017.
- Prime yield (cap rate): 5.50%, remaining stable from the previous quarter.
- Activity was primarily focused on the Dublin South West (N81) corridor, accounting for 35% of all sales and lettings in Dublin during Q2 2017. The North East (M1) corridor accounted for 18% of activity, while 12% occurred in the Dublin North and South West (M2/N7) corridor.
- Take-up volume in the second quarter reached 752,742 sf, up 27% from the same quarter last year. Comparatively the first half of 2017 compared to 2016 is on par exactly for volume.

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 increase 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 expected increase in tourist .
- 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 Cork and Galway as key cities for business growth.
 - Cork employs approximately 30,419 people in a strong cohort of companies across all sectors with particular strengths in healthcare pharmaceuticals, technology (Apple HQ) cyber security and engineering.
 - Galway has a large presence in technology, life sciences and services sectors, and is supported by strong tourism sector.

Office Key Figures as of Q2 2017:

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

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