

Ireland Commercial Real Estate Market Update

2nd Quarter 2019



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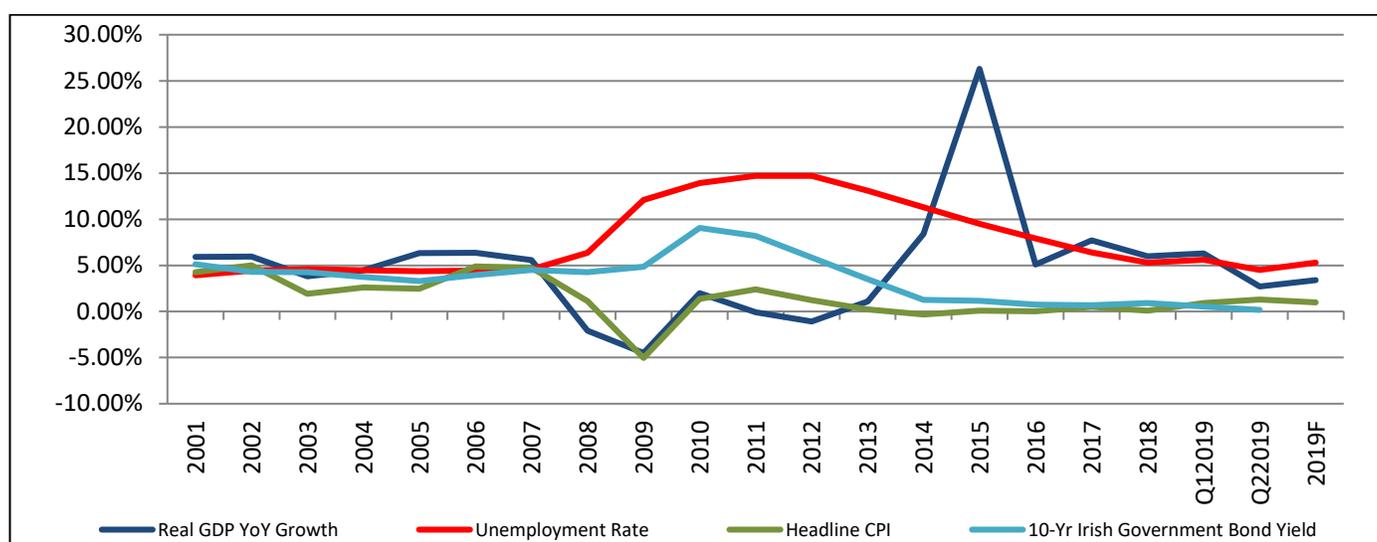
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The firm's executive leadership includes Kurt Wright, Chief Executive Officer; Thomas Mattinson, Executive Vice President; Walter Huggins, Executive Vice President; Frank Linneen, Executive Vice President; and Jessica Eggins, Executive Vice President.

Ireland Market Summary

- **2019 GDP is forecasted to be 3.4%(revised).**
 - Real Gross Domestic Product (“GDP”) growth in Ireland year-on-year for the quarter ending June 30, 2019 is estimated to be 3.4%, down compared to the same quarter for 2018 at 8.4% (revised).
- According to the Ireland Central Statistics Office the number of employed people in Q1’2019 (latest reportable statistic) is 2.3 million people (annual positive change of 81,200 people).
- The European Central Bank (“ECB”) has an inflation target of at least 2%.
 - Euro Inflation decreased 40 basis points to 1.6% in Q2’2019.

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.

- The euro increased 1.43% against the US dollar to €1.1373 at the end of the current quarter. The euro increased 4.08% against the pound to £0.8957 at the end of the current quarter.
- The Brexit vote has led to a moderate increase in Foreign Direct Investment (“FDI”) activity in Ireland as organizations establish a presence in Europe to prepare for post-Brexit.
- Many companies, already established in Ireland, are expanding their existing footprint.
- Lack of housing, especially in Built-To-Rent (“BTR”) and for sale apartments, is perceived to be the biggest threat to the Irish economy, and the biggest opportunity for property investors.

Interest Rate Benchmarks

Benchmark	March 2019	June 2019	Change
3-month EUR Swap	-0.31%	-0.35%	10.93%
5-year EUR Swap	0.01%	-0.23%	-1750.00%
10-year EUR Swap	0.47%	0.18%	-62.00%
Ireland 10-year Government Note	1.12%	1.14%	1.79%

Source: Bloomberg.

- Declining Euribor swap rates resulted in the pricing of debt for income producing assets to tighten considerably.
- Low cost senior financing for property from the clearing banks is generally limited to 65% loan-to-value but is not permitted on speculative development or land.
- Speculative development finance for commercial assets continue to be the most difficult asset class in the market to fund, and a material property debt capital gap persists on a broad range of under supplied property types.
- Furthermore, most non-bank mezzanine lenders require low-to-mid teen returns which is cost prohibitive to Irish property investors for the Irish market.
- Given high demand for cost efficient debt and limited competition from lenders, attractive risk adjusted yields of 8%+ can be achieved on prudent stretch senior loans.

Capital Market Trends

Debt

- **Speculative Construction:** A large capital gap remains for construction or development projects. Financing available for these types of projects are limited to:
 - Debt funds; or
 - Combining of financing from senior banks and expensive mezzanine financing (tends to be covenant heavy).
- **Mature, well-let properties:** There is significant debt capital available for mature, well-let properties. This debt is low-to-moderately priced but tends to be low loan to value coupled with heavy covenants.

Equity

- There has been a significant influx of foreign and domestic equity capital into Ireland, targeting real estate investments. Examples of foreign equity investors:
 - Kennedy Wilson;
 - Patrizia;
 - Bain Capital;
 - Blackstone;
 - TPG Capital;
 - KKR etc.
- By attracting sophisticated investment capital, Ireland has achieved institutional investment status and is becoming the market of choice for sophisticated investors such as pension funds and insurance companies.

Dublin

Ireland benefits from a very business friendly environment, including a 12.5% corporate tax rate, high quality of life, highly educated work force, lower cost of living relative to other European business nodes and English as its main language. This has spurred a strong economic recovery following an especially severe recession and the collapse of the Irish banking system during the GFC.

An influx of leading tech-based companies (e.g. Facebook, Google, Amazon, Airbnb, etc.), a vibrant aircraft leasing industry, large universities as well as a resurgence of the financial services sector, have been the primary drivers of the recovery.

These industries, and their supporting services (auditors, solicitors etc.), are continuously expanding their business operations by adding young, highly skilled professionals to support growth.

This is driving demand for:

- 1) high quality office space into which businesses can expand;
- 2) residential housing (focus on built-to-rent apartments) for new employees;
- 3) retail space near population centers for major retailers seeking prime exposure; and
- 4) hotel rooms for business travelers.

These trends are contributing to positive CRE fundamentals in Dublin.

The Dublin Commercial Real Estate Market

▪ BTR Apartment sector outlook is highly favorable:

○ Under supply/ strong occupier demand

For Rent Apartments				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents (2 bedroom)	€2,500– €2,840	€2,500– €2,840	€2,500– €2,840	€2,500– €2,840
Prime Yields (2 bedroom)	4.00%	3.75% to 4.00%	3.85%	3.85%
Vacancy Rate	<1.40%	<1.40%	<1.40%	<1.40%

Source: Daft.ie, Cogent, Savills, Bannon, CBRE, Chartered Land

Notes: Yields vary based on location and number of bedrooms. Only 2-bedroom apartments in Dublin 1/2/4 have been included in this table. For additional detail on the Residential Market, please contact Quadrant.

Growth assumptions are forecast	
2018 – 2020	4%-5% YOY
2021 – 2022	3% YOY

Source: Daft.ie, Cogent, Savills, Bannon

Additional Comments:

- Quadrant deems these new regulations to be very positive and will encourage long-term, institutional ownership. This will help stabilize prices through cycles.
- In 2018, the Irish Government introduced a new set of apartment design guidelines – ‘Design Standards for New Apartments – Guidelines for Planning Authorities’ – which included measures aimed at boosting construction and investment in PRS:
 - **Asset class designation**
 - BTR is now a specific asset class. In order to be classed as BTR, certain covenants must be satisfied such as providing communal and recreational facilities.
 - Most importantly are the stipulations regarding the holding and disposal of the asset in order to be designated as BTR:
 - “the development remains owned and operated by an institutional entity and this status will continue to apply for a minimum period of not less than 15 years and that similarly no individual residential units are sold or rented separately for that period”.
 - However, this does not prohibit the selling of the entire scheme to another institutional investor during this time.
 - **Dwelling mix**
 - There is no dwelling mix requirement for a BTR scheme under the new guidelines. This means that an entire scheme could theoretically be composed of studios or one-bed units, although operators would generally prefer some mix of unit sizes.
 - **Unit sizes**
 - Studios are included at a minimum size of 37 sq m.
 - In addition, a new category of 2-bedroom apartment has been introduced.
 - While previously 2-bedroom apartments could only be designed for four persons habitation with a minimum size of 73 sq m, the new standards introduce a 2-bed standard for three people at a reduced size of 63 sq m.
 - Also, the requirement that the majority of all apartments in a proposed scheme exceed the minimum floor area standards by a minimum of 10% does not apply to BTR schemes.
 - Shared Accommodation is now permissible with minimum floor areas of 12 sq m for single rooms and 18 sq m for double or twin rooms.
 - **Dual aspect ratios**
 - The dual aspect requirement for centrally located schemes has been reduced to 33% from 50%, with the 50% requirement remaining for intermediate and peripheral locations.

- **Floor-to-ceiling heights**
 - Minimum floor to ceiling heights remain at 2.4m (2.7m at ground) but a floor to ceiling height of 2.7m throughout is encouraged in locations where greater height is appropriate.
 - There is no maximum number of permissible units per floor per core for BTR schemes (previously 4 units per core).
- **Car parking**
 - BTR schemes have a default of 'minimal or significantly reduced car parking provision on the basis that BTR development is centrally located and/or close to public transport services.'

▪ **Hotel sector outlook is highly favorable:**

- **Undersupply / strong occupier demand**

Hotel Sector Key Metrics				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
ADR	€154.36	€145	€141	€132.90
Occupancy	85%	85%	83.50%	89.80%

Source: HotStats – Data is YTD; representing 4 Star Hotels

▪ **Industrial sector outlook is favorable.**

- **Under supply/ strong occupier demand**

Industrial Sector Key Metrics				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€9.49 per sf	€10.76 per sf	€9.85 per sf	€9.29 per sf
Prime Yields	5.50%	5.10%	5.25%	5.00%
Vacancy Rates	11.50%	8.04%	8.04%	8.37%

Source: CBRE, Cushman and Wakefield

▪ **Office sector outlook is cautious.**

- **Balanced supply/ good occupier demand**

City Center Office Sector Key Metrics				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Grade A Prime Rents	€65.00 per sf	€65.00 per sf	€65.00 per sf	€65.00 per sf
Grade A Prime Yields	4.00%	4.00%	4.00%	4.00%
Grade A Vacancy Rate:	2.72%	4.30%	4.94%	4.98%
Overall Dublin Vacancy:	6.71%	5.39%	5.39%	5.65%

Source: CBRE – Please note that Dublin Vacancy comprise all office in Dublin and all office types; overall rent and vacancy can differ greatly between locations and office type.

Suburban Office Sector Key Metrics				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€29.50 – €18.00 per sf			
Vacancy Rate:	6.21	6.21%	6.83%	6.83%

Source: CBRE – Please note suburban office is composed North, South and West Suburban Office; and overall rent and vacancy can differ greatly between locations.

▪ **Retail sector outlook is cautious.**

○ **Under supply of modern, high street/ strong occupier demand**

Zone A Retail Sector Key Metrics				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Retail Rents	€627 per sf	€627 per sf	€627 per sf	€627 per sf
Out of Town Retail Parks Rents	€39 per sf	€39 per sf	€39 per sf	€39 per sf
Prime Yields	3.50%	3.25%	3.25%	3.025%
Out of Town Retail Parks Prime Yields	5.00%	5.00%	5.00%	5.25%
Vacancy Rate	4.60%	4.60%	4.60%	4.60%

Source: Cushman and Wakefield, CBRE

Additional Comments:

- High street retail remains strong.
- Retail at dominant shopping centers (for example Dundrum), remain strong. However, it is imperative that these centers have a life style element and have a leisure focus, for example strong food and beverage offering or a state-of-the-art cinema.
- Major threat to the stability of retail is considerable focus from retailers to potentially utilise the company voluntary arrangement “CVA” process to reduce store numbers and reduce store rents.

Cork

- Cork, with a population of over 500,000 people, is a key driver of regional economic activity in Ireland with an international reputation as a center for the development of technologies that have global strategic importance.
- FDI - FDI business clusters include Life Sciences & Food and Technology. Global Business Services are becoming increasingly important.
 - Apple and EMC2, have their European Headquarters in Cork which is also home to global brands such as Pepsico, Boston Scientific, Intel Security, Tyco, Trend Micro, VMware, Amazon and Qualcomm.
 - Eight of the top ten pharmaceutical companies are based in Cork.
 - Pfizer, Novartis, Janssen, GlaxoSmithKline, Merck and Eli Lilly are amongst the most significant employers in Cork.
- Technology - As many as 50 global technology companies in both manufacturing and services have located in Cork, developing a strong tech cluster.
- Global Business Services –Cork's multilingual workforce attracts EMEA operations, with functions from supply chain to sales, technical support & finance - servicing multiple markets in the local language.
 - Clearstream (subsidiary of the German Stock Exchange; DAX)
- Highly Skilled Talent pool - Cork, with a student population of over 30,000 has a constant supply of graduates.
 - The higher-level education institutions proactively engage with companies in order to produce industry ready graduates.
 - Universities include University College Cork, Tyndall National Institute and Cork Institute of Technology.
- Business Climate – Prime office rents are approximately half of those in Dublin. This, coupled with a highly rated international airport and quality of life afford a strong foundation for business growth.

The Cork Commercial Real Estate Market

- **BTR Apartment** sector outlook is **highly favorable**.
 - **Extremely under supply / strong occupier demand**

BTR Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents (2 bedroom)	€1,500 – €2,000	€1,500 – €2,000	€1,500 – €2,000	>€2,000
Prime Yields (2 bedroom)	4.00%	4.00%	4.00%	3.85%
Vacancy Rate	<4%	<2%	<2%	<2%

Source: Daft.ie, CBRE, PWC

Notes: Yields vary based on location and number of bedrooms. Only 2-bedroom apartments in Cork have been included in this table. For additional detail on the Residential Market, please contact Quadrant.

- **Office** sector outlook is **favorable**.
 - **Under supply / strong occupier demand**

Prime Office Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€30.00 per sf	€30.00 - €33.00 per sf	€30.00 - €33.00 per sf	€33.00 - €34.50 per sf
Prime Yields	6.50%	5.50% – 5.75%	5.50% – 5.75%	5.25%
Vacancy Rate (Grade A)	>6.50%	>6.50%	>6.50%	>4.50%

Source: CBRE, Cushman and Wakefield, Lisney

- *Further comments*
 - Overall Cork vacancy is 10.3%, with city center vacancy less than 4.5%.
 - Although the overall vacancy rate remains relatively high, the majority of this supply is old and derelict.
 - Currently, approximately 553,000 square feet of office is under construction.
- **Industrial** sector outlook is **favorable**.
 - **Balanced supply/good demand**

Industrial Sector Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€6.50 per sf	€6.50 – €6.96 per sf	€6.96 - €7.89 per sf	€7.89 per sf
Yield	7.50%	6.50%	6.50%	6.50%
Vacancy Rate	13.40%	13.00%	13.00%	13.00%

Source: Lisney, CBRE, Cushman and Wakefield

- **Retail** sector outlook is **neutral**.
 - **Under supply / strong occupier demand**

Zone A - High Street Retail Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€122	€120 - €123 per sf	€120 - €123 per sf	€122
Prime Yields	5.50%	5.50% - 6.00%	5.50% - 6.00%	5.50%
Vacancy Rate	8.10%	7.80%	7.80%	7.50% - 8.00%

Source: Lisnev, CBRE, Cushman and Wakefield

Galway

- FDI - Galway is a global center of activity for Medical Technology, Information and Communications Technology with many companies using Galway as a base for establishing and servicing their European and global business.
- International companies such as SAP, Oracle, Fidelity, Boston Scientific, Medtronic, HP and CISCO have a presence in Galway.
- Galway is a University City with a highly educated workforce.
 - The National University of Ireland Galway (“NUIG”) is a world leader in Biomedical Science and Engineering, Web Science, Marine Science, Energy and Environmental Science, Applied Social Sciences and Public Policy.
 - The Insight Centre at NUIG for Data Analytics brings together a critical mass of more than 200 researchers from Ireland's leading ICT centers to develop a new generation of data analytics technologies in a number of key application areas.
 - The CURÁM – the center for research in Medical Devices works with 40 industry partners which supports product development and the creation of new spin-out companies. Cutting-edge science developing the very latest research in biomaterials, stem cells and drug delivery.
 - The Galway-Mayo Institute of Technology, the medical and engineering technologies offers a range of applied Medical Imaging and Biomedical Simulation technologies relevant to companies in the product engineering and design application phase.
 - The Centre for the Integration of Sustainable Energy Technologies is involved in the design of renewable energy systems: solar, wind, biomass, heat pumps.

The Galway Commercial Real Estate Market

- **BTR Apartment** sector outlook is **highly favorable**.
 - **Extremely under supply / strong occupier demand**

BTR Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents (2 bedroom)	€1,500 – €2,000	€1,500 – €2,000	€1,500 – €2,000	>€2,000
Prime Yields (2 bedroom)	4.00%	4.00%	4.00%	4.00%
Vacancy Rate	<4%	<2%	<2%	<2%

Source: Daft.ie, CBRE, PWC

Notes: Yields vary based on location and number of bedrooms. Only 2-bedroom apartments in Galway have been included in this table. For additional detail on the Residential Market, please contact Quadrant.

- **Office** sector outlook is **highly favorable**.
 - **Under supply / strong occupier demand**

Prime Office Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€26.00 - €30.00 per sf			
Prime Yields	6.25%	5.75% - 6.25%	5.75% - 6.25%	5.75% - 6.25%
Vacancy Rate (Grade A)	> 4.60%	> 4.60%	> 4.60%	> 4.60%

Source: CBRE, Cushman and Wakefield

- **Retail** sector outlook is **favorable**.
 - **Under supply / strong occupier demand**

High Street Retail Summary				
	Q2 2018	Q4 2018	Q1 2019	Q2 2019
Prime Rents	€126 per sf	€126 per sf	€126 per sf	€125 per sf
Prime Yields	5.50% - 5.75%	5.50% - 6.25%	5.50% - 6.25%	5.50%

Source: CBRE, Cushman and Wakefield

Sources

- *Bloomberg, www.bloomberg.com;*
- *Central Statistics Office Ireland (CSO), www.cso.ie;*
- *ECB Introductory Statement to Press Conference, www.ecb.europa;*
- *Education.ie;*
- *CBRE;*
- *Cushman and Wakefield;*
- *Lisney;*
- *Bannon;*
- *Cogent;*
- *IDA;*
- *PWC;*
- *HOTSTATS;*
- *Daft.ie;*
- *IDA;*
- *Cork Chamber Support;*
- *Irish Times.*

Important Disclosures

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