Lisney

OUTLOOK 2020

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It should be noted that all 2019 year-end figures are estimates as final information was not yet available when going to print in mid-December. All final year-end figures will be included in Lisney's Q4 2019 Sector Reports, published mid-January 2020.

“ OUR MARKET KNOWLEDGE IS POWER. ”

DUNCAN LYSTER
Managing Director

AS WE ENTER 2020, IN WHAT CAN BE DESCRIBED AS INTERESTING TIMES, WE SEE MANY MACRO RISKS AND SOME OPPORTUNITIES.

As we enter 2020 in what can be described as interesting times we see many macro risks and some opportunities. We are here to provide our clients with clear thinking and advice.

As the Managing Director of Lisney, I have the pleasure to work with the best clients and colleagues I could hope to. We are deeply proud of our independent, all-island, Irish heritage and believe we reflect modern Ireland’s open, inclusive and flexible culture. We stay true to ourselves, our clients and our partners. In these fast-moving times, we are open to new ideas; innovation excites us. In a world driven more and more by data, we hold research at the very core of what we do. This means we can provide our clients with the information that ensures they make the best property decisions. Our market knowledge is power.

Our people are the best in the business. From the day they join us, we put time and effort into training them, to ensure we can provide the best advice and service to our clients. The stability of our team and the structure of the firm allow us to build and strengthen long-lasting personal relationships with clients.

Duncan

2019 WAS A BUSY YEAR AND FOLLOWS ON FROM A SLUGGISH 2018

01

LISNEY VIEW

DUBLIN RESIDENTIAL

RESIDENTIAL SALES

Trends and official statistics relating to the overall Dublin residential market do not always correlate with what Lisney agents experience on a day-to-day basis. There are various reasons for this. Firstly, Lisney is most active in the mid to upper markets in Dublin, and so our data is not always representative of the entire Dublin market. Additionally, trends experienced by agents on-the-ground can take some time (perhaps up to six months) to feed through into official market statistics due to the length of time it takes to conclude a sale. The 'Lisney View' set out opposite relates to our experience in the parts of the Dublin market we operate in.

2019 was a busy year and follows on from a sluggish 2018 where there was a stand-off between buyers and sellers in terms of their respective sentiment and view of the market.

Affordability had clearly become an issue in 2018 and accordingly, this resulted in a market correction and downward asking price adjustments, much of which occurred in late 2018 and into 2019. As prices became more aligned with affordability, potential purchasers began to engage with the market again and activity levels noticeably improved during the summer months. We expect this improvement in activity to continue into 2020 as vendors price expectations and the amount potential purchasers are willing to pay are more balanced.

The number of second-hand properties on the market for sale grew during the Spring 2019 selling season with over 30% more properties available for sale in March compared to 12 months previous. This, combined with the quantity of new homes on the market, helped to ease supply tensions in the first half of 2019. Maintaining second-hand supply at around 5,000 units (equivalent to a little under six months' worth of second-hand sales) across the entire of Dublin at any given time has assisted in keeping prices relatively steady.

As discussed by Lisney for several years, the lack of bridging finance for those trading up or down continues to be an issue. There are unlikely to be any changes in the situation this year and the problem will remain that potential supply that could come to the market does not as the mover dilemma continues. i.e. movers will be unable to purchase their next home until they sell their existing one, and they will be reluctant to sell their current home until they have secured the property they wish to buy. The result is that many would be sellers and buyers are reluctant to enter the market. New home schemes can be an attractive option for buyers who can use the often-long lead-in time to sell their existing home during that period. This trend will no-doubt continue to be the case in 2020.

Affordability and the Central Bank of Ireland's macroprudential policy was also a key factor in steady overall Dublin prices in 2019. The rules continue to act as an anchor, connecting prices to affordability. In December 2019, the Central Bank concluded its review of the measures and confirmed that there would be no changes to income limits and LTV ratios. One area that Lisney believes needs to be re-examined is how the exemptions are operated. At present this is on a 12-month calendar basis, which means that not all exemptions are being utilised because a potential borrower may have multiple loan offers with various banks and are recorded as a contingent liability with each of them until the loan offer expires. In the last few years this has led to greater levels of activity early in the year and less in the latter part. If the exemptions were operated on a 12-month rolling basis, then there would be greater opportunity to use the full allowance and the market would operate more smoothly.

The uncertainty created by Brexit remained another key factor in the market in 2019 and will continue to be so in 2020. Not surprisingly, this peaked during the autumn selling season when discussions between the EU and UK were heightened. Consequently, some buyers, and indeed sellers, decided to adopt a wait-and-see approach, cautious to make any decisions. This was evident in the number of properties launching to the market in September. It was below what was expected as certain sellers deferred sales while awaiting more clarity. Interestingly, when there was no UK withdrawal agreement reached and Brexit drifted on once again, purchaser viewing numbers grew as buyers began to re-engage with the market in November.

“BREXIT-RELATED SENTIMENT WAS THE BIGGEST FACTOR AFFECTING PURCHASERS AT THE UPPER-END OF THE MARKET IN 2019.”

Woodlawn House, Upper Churchtown Road, Dublin 14

Fernbank, Dublin 14

UPPER-END

Brexit-related sentiment was the biggest factor affecting purchasers at the upper-end of the market in 2019. This is because many buyers active in this part of the market derive their income internationally and were taking a broader economic view before deciding to purchase. In spite of this, in the final two months of the year, there was a noticeable increase in enquiries from UK-based buyers. These were mostly from those working in the banking and legal sectors, who cited employment opportunities as their reason for relocating to Dublin. Such buyers are not immune from challenges in the property market as many are selling in a less buoyant London market. It will be interesting to see if this trend develops into a greater number of sales in the more expensive parts of Dublin in 2020.

In the second half of 2019 there was increased commentary and press coverage about price declines in the upper-end of the market. From our point of view, this lags what we experienced on the ground due to the length of time it takes for sales to conclude. For us, we saw much of this price reduction commenced in 2018. Entering 2020, it is to be welcomed that prices are generally more stable, albeit very sensitive and finely balanced.

2020

Overall, we believe the market will be active in 2020. However, affordability will continue to be an ongoing issue. Properties will need to be priced at levels reflecting prevailing market conditions. Early Spring 2020 could see a burst of activity as buyers who have been biding their time renew their vigour to purchase. This in turn should encourage homeowners who were reticent to place their property on the market towards the end of 2019 to do so. In 2020, we expect prices to be relatively steady with any growth in selected areas likely to be no more than 5%.

DUBLIN RESIDENTIAL RENTAL MARKET

The Dublin residential rental market was yet again exceptionally active in 2019. It will remain so in 2020 due to continued tight supply. However, there will be greater focus on affordability. It is generally taken that a tenant should not spend more than 40% of the household disposable income on rent and the most recent data points towards €1,630 per month in Dublin. Given that the average two-bed apartment in key Dublin locations is above this, we believe asking rents will come under further pressure in 2020. We already started to see this in some locations and schemes in the latter part of 2019 with asking rent reductions observed. It was also evident that it was taking longer to let some properties compared to earlier in the year. Some tenants are now considering properties further from the centre to avail of larger space and lower rents.

The legislation relating to the rental market introduced mid-2019 will have an impact on the market in 2020. Rent Pressure Zones (RPZ) were due to finish at the end of 2019 but have been extended to at least 2021. This means that rental increases will continue to be a maximum of 4% per annum in these areas. Following additions in 2019, RPZ now account for approximately 66% of all tenancies in Ireland and cover the entire of Dublin. However, with the exemptions (properties than have not been in the rental market for the past two years) and new stock entering the market, the RTB's rental index for Dublin continued to increase at a higher annual rate; in the 12 months to the end of June 2019, it increased by 7.3% and by 4.8% in the opening six months of the year.

Despite the fact the number of PRS schemes (i.e. blocks of apartments owned by funds and property companies) are growing, the overall supply of rental properties in Dublin is at best stable and at worst falling as individual private investors continue to exit the market. This is highlighted in the RTB's register of tenancies. Taking the number of tenancies listed by the RTB on a given date in December 2018 and again in December 2019, it can be seen that over the 12 months, this fell by 0.8% for Dublin overall. However, there are various PRS schemes nearing completion and due in 2020 and 2021. The increased stock in this sector in the short to medium-term will assist in stabilising rents. It should be noted however that rents in PRS properties can often be higher compared to properties owned by private landlords. This is because of the additional facilities and amenities provided in many of the schemes, as well as the fact that the properties are generally more modern.

RESIDENTIAL

RESIDENTIAL TENANCIES (AMENDMENT) ACT 2019 IN FOCUS

The measures included in this legislation are very important to note from both a landlord and tenant viewpoint. They were introduced on a phased basis from early June 2019 and will have **IMPLICATIONS FOR THE RENTAL MARKET IN 2020 AND BEYOND.**

All legislation relating to Rent Pressure Zones (RPZ) and the two-year rent review pattern outside of RPZ areas was extended to

31ST DECEMBER 2021
(was due to end on the 31st December 2019)

FOR A TENANCY IN PLACE MORE THAN SIX MONTHS, A LANDLORD MUST GIVE A VALID REASON FOR TERMINATION, WHICH CAN BE ONE OF THE FOLLOWING:

1 **REQUIRED FOR FAMILY MEMBER**
Statutory declaration must be provided and the tenant has the first option on the property if it becomes vacant within 12 months

2 **SALE**
Statutory declaration must be provided, 9 months' notice given and first option to tenant if the property becomes available to rent within 12 months

3 **SIGNIFICANT REFURBISHMENT**
Must be substantial and the termination notice must state if planning permission is required, the name of the contractor, the date and duration of works, and the property must be offered back to the tenant when works are complete

4 **CHANGE OF USE**
The termination notice must state the intended use, a copy of the planning permission, details of the works, the name and duration of the works, and the property must be offered back to the tenant if it becomes a residential property again within 12 months

NEW LEGISLATION

CHANGES TO RPZ EXEMPTIONS – EXEMPTED PROPERTIES MUST HAVE:

- **Not been rented for two years** but all future rent reviews will adhere to the rent pressure formula calculation
- **Have undergone substantial change**, which must consist of a permanent extension that increases the floor area by at least 25%; result in a BER improvement of at least seven energy ratings; or had any three of the following – change in internal layout, adapted to suit disability, increase in number of rooms, where a BER of D1 or lower is improved by three ratings, where a BER of C3 or higher is improved by at least two ratings

NEW MINIMUM NOTICE PERIODS HAVE BEEN ESTABLISHED BASED ON THE **DURATION OF THE TENANCY:**

28 DAYS <6 MTHS	90 DAYS >6 MTHS / <1 YR	120 DAYS >1 YR/<3 YRS
180 DAYS >3 YRS/<7 YRS	196 DAYS >7 YRS/<8 YRS	224 DAYS >8 YRS

A NEW PRESCRIBED NOTICE FOR RENT REVIEWS WITH **NO CHANGES IN TEXT PERMITTED**

REQUIREMENT TO **NOTIFY THE RESIDENTIAL TENANCIES BOARD** OF AN RPZ EXEMPTION

FROM EARLY 2020, **ANNUAL REGISTRATIONS** WITH THE RTB WILL BE REQUIRED

ONE OF THE MOST NOTABLE TRENDS IN 2019 WAS THE **STABILISATION AND ADJUSTMENT IN DEVELOPMENT LAND PRICES**

Stella Maris Convent, Howth, Co. Dublin

02

DEVELOPMENT LAND & NEW HOMES

DEVELOPMENT LAND

GREATER DUBLIN AREA

The development land market in the greater Dublin area continues to perform reasonably well. Activity levels remain good and we estimate that market turnover was about €1.1bn in 2019. While this is less than the combined volume of sales in the GDA in 2018, which was just over €1.45bn, it is notable that there were significantly fewer deals done in 2019 compared to the previous year. This means the average lot size increased to about €15.5m.

Market demand depends on the nature of the purchaser. This will be the case again in 2020. Domestic builders are focusing on the smaller infill sites while overseas investors are concentrating on the larger redevelopment opportunities in the city centre. Premiums are being achieved for sites with planning permission that have a low-risk route to delivery and developer exit. Speculative land purchases without planning are still occurring for well-located sites.

One of the most notable trends in 2019 was the stabilisation and adjustment in development land prices. There were various reasons for this. These include rising construction costs some of which are associated with NZEB (Near Zero Energy Buildings), slowing growth in end values of completed schemes, and developers focusing their attention on getting planning permission and developing-out existing sites rather than acquiring new opportunities. These factors will continue to have an impact on prices in 2020.

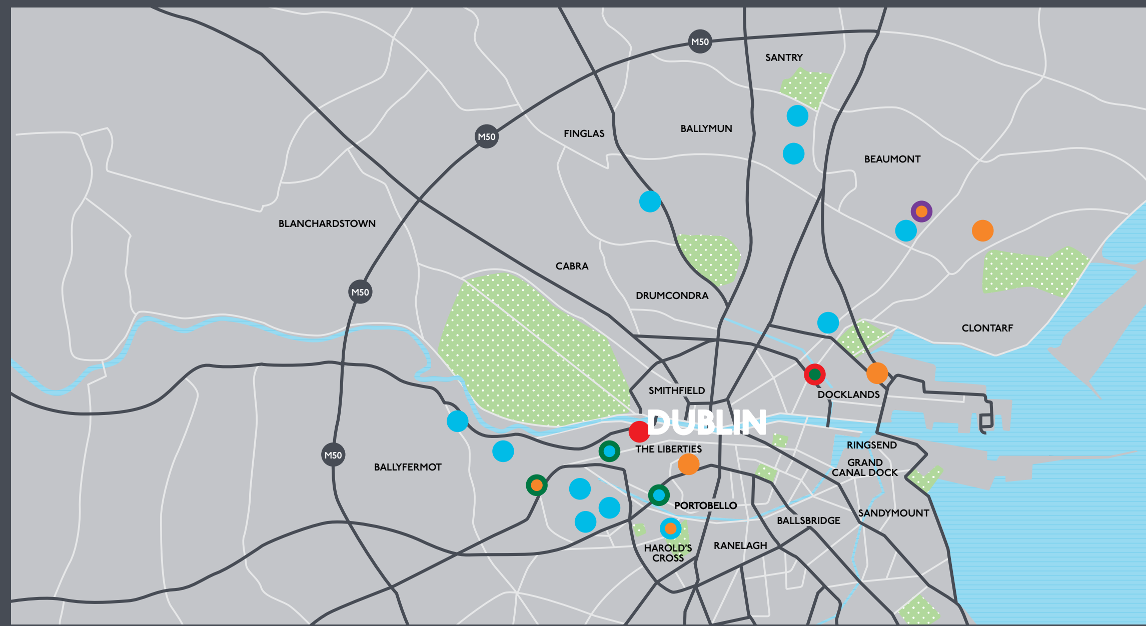
LAND REZONING

There are proposals to rezone 20 land banks in Dublin City Council's administrative area, which are currently zoned 'Z6 Employment & Enterprise', to residential, mixed-use, city centre or open space in areas such as Crumlin, Santry and Inchicore. This will be a significant feature of the Dublin land market in 2020 and beyond. On the surface, it is an important measure to assist with housing requirements, however, many of the lands are in fractured ownership and may take some time to convert to higher-order uses. Speed will depend on the availability of alternative industrial accommodation or land for the existing users to move to. Development may begin on industrial lands at the edge of estates and progressively work in over time.

REZONE SITES

PROPOSED ZONING

Source: Dublin City Council



Z1	RESIDENTIAL	Z3 / Z10	NEIGHBOURHOOD FACILITIES / MIXED USE
Z1 / Z9	RESIDENTIAL / OPEN SPACE	Z9 / Z10	OPEN SPACE / MIXED USE
Z10	MIXED USE	Z5	CITY CENTRE
Z1 / Z10	RESIDENTIAL / MIXED USE	Z5 / Z9	CITY CENTRE / OPEN SPACE

“ THE 9% VACANT SITE LEVY IS PAYABLE IN JANUARY, WHICH MAY ENCOURAGE THOSE THAT CANNOT AFFORD OR WANT TO DEVELOP OUT A SCHEME, TO SELL.”

Former Glass Bottle site, Poolbeg, Dublin 4

Another feature of the market in 2020 will be the commercial State-sponsored Land Development Agency. Its primary objective is to ensure the optimal use of State land and deliver housing where appropriate. While it was established in 2018, the agency only commenced operations in 2019. We understand that it has about nine projects ongoing.

Supply in 2020 will come from several sources. The 9% vacant site levy is payable in January may encourage those that cannot afford or want to develop out a scheme, to sell. Religious orders will continue to be active, as well as some State-related bodies. Indeed, a number of high-profile sites will likely sell in 2020. The sales process is currently underway for an 80% interest in the former Glass Bottle site. It has moved to the second-round and a conclusion is expected in March. Some, or all, of CIE's 18 acres at Heuston Station is likely to come to the market in 2020. This has the potential for almost 150,000 sqm of commercial and residential development with CIE retaining a 300-year leasehold interest in any future scheme, similar to the process it has adopted at other rail stations. As such, we expect continued activity in the development land market next year and similar to this year, market turnover is likely to be driven by large deals.

NZEB: IN FOCUS

NEAR ZERO ENERGY BUILDINGS

‘NEAR ZERO ENERGY BUILDINGS’ MEANS A BUILDING WITH A VERY HIGH ENERGY PERFORMANCE.

The nearly zero or very low amount of energy required to run the building will come partly from renewable sources (at least 20%), including those produced on-site or nearby. The requirements for NZEB are set out in Part L of the Building Regulations and apply to both commercial and residential properties. Linked to this are additional changes to Part F of the Building Regulations relating to ventilation (the NZEB rating is partly achieved through air tightness and hence effective ventilation systems are required).

The NZEB obligations stem from the EU-wide Energy Performance of Buildings Directive (EPBD). Transitional arrangements are already in place.

ALL NEW BUILDING COMPLETIONS
(AND PROPERTIES HAVING UNDERGONE MAJOR RENOVATIONS)
MUST MEET THIS STANDARD BY
31ST DECEMBER 2020

NZEB WILL UNDOUBTEDLY RESULT IN INCREASED CONSTRUCTION COSTS

This ranges depending on the type of building but in general, according to indicative data from Government,

FOR COMMERCIAL BUILDINGS
it will be
2%-8%
MORE EXPENSIVE

FOR RESIDENTIAL PROPERTIES
it will be
1%-4%
MORE EXPENSIVE

THERE ARE HOWEVER **SIGNIFICANT POSITIVES FOR THE OCCUPIER** IN TERMS OF RUNNING COSTS AND HEALTH BENEFITS

NEW HOMES

Kinsealy Woods, Kinsealy, Co. Dublin

NEW HOMES

GREATER DUBLIN AREA

We expect 2020 to be a good year in the GDA new homes market. Confirmation in Budget 2020 that the help-to-buy scheme would be retained for a further two years will assist in terms of both supply and demand. This follows on from an uncertain 2019, where from Spring, construction activity appeared to stall as developers did not know if the scheme would be extended and in turn if buyer demand would remain as strong. This meant that many new homes coming to the market in 2019 were later phases of schemes already launched. The delay in confirming the help-to-buy extension resulted in reduced levels of supply available entering 2020, which could have been in place had confirmation been provided earlier in the year. It is also positive that fast-track-planning has been extended for a further two years. Obligations to 'use it or lose it' have not yet been confirmed but such a measure should, in theory, bring on supply more quickly, but only if the scheme is economically viable.

In spite of this, there are potentially some obstacles ahead. In certain parts of Dublin, competition with the private rental sector (PRS) will continue to have an impact on new home supply for owner-occupiers as development viability on a particular site can be positive for the build-to-rent market but not for the build-to-sell market. Additionally, affordability in Dublin city is getting more difficult for first-time-buyers, resulting in growing demand for properties in GDA commuter towns in the sub-€500,000 category.

Continually rising construction costs, including meeting NZEB requirements, will also be a factor in the market in 2020. NZEB obliges all new homes to be to an A2 BER standard. While meeting this standard will be up to 4% more expensive, there are significant positives for the occupier. Such homes will be 70% more energy efficient and will emit 70% less carbon dioxide, when compared to new homes built to 2005 standards. For a typical 3-bed semi-detached property, €800 per year will be saved. But in addition to cost savings and a lower carbon footprint, there are other advantages for home-owners in terms of lower maintenance costs and higher specification homes, as well as improved levels of comfort and wellbeing, resulting in better health.

It should also be noted that older homes undergoing major renovations will have to meet new NZEB standards too (generally B2), which will increase the cost of any refurbishment works. This expense in the second-hand market, along with the cost savings and health benefits of new NZEB homes, the tax incentive from the help-to-buy scheme and the turnkey condition of new homes, will mean that many potential buyers in the coming years will be more likely to choose a new home than an older one. Such a trend can already be seen in sales data where new homes are continually making up a greater proportion of total market sales and achieving price premiums.

As already discussed in the second-hand residential section of this report, the Central Bank's macroprudential policies will continue to anchor prices to affordability. While the income multiple will remain at 3.5 times in 2020, we strongly believe that the mechanics of exemptions must be reconsidered with a 12-month rolling basis adopted. This will assist developers in smoothing out their new home sales throughout the year, rather than most occurring early in the year, as has occurred in recent years. This would lead to greater supply as developers could plan demand more accurately.

MARKET TURNOVER IS EXPECTED TO BE **STRONG IN 2020,** WITH MANY **LARGE LOT SIZES**

03 INVESTMENT

UNCERTAINTY

Similar to the last two years, uncertainty will be a key aspect of the Irish property investment market in 2020. This stems from both global events and those closer to home.

An Irish general election is due this year and depending on the composition of the new Dáil, further market interventions may be made, which could undermine investor confidence. It appears this is likely to be particularly relevant for PRS (residential) as it is the hottest sector and the most politically charged. If the significant capital (about €7bn) chasing this sector of the market was to disappear, then residential construction would decline and unmet occupier demand would spiral even further.

In spite of this, we expect market turnover to be strong in 2020. There are several high-profile assets due to be put up for sale that will contribute to overall turnover levels. Additionally, the market anticipates that Henderson Park Capital may sell some Green REIT properties. Many of the sales in 2020 will be large lot sizes, notably in the office and PRS sectors. Some could be forward funding or forward purchase opportunities. Off-market transactions will continue to represent a significant proportion of the market. International investors will remain dominant, much of which will comprise funds that have an ability to use internationally sourced debt.

2020 follows on from 2019 where turnover was €6.03bn, the largest amount of investment ever recorded in a year, and 64% more than what was achieved in 2018. This €6.03bn does not include the company sale of Green REIT, which was an additional €1.34bn. What is interesting from 2019 figures is the fact that the average lot size increased further due to the sale of some large assets; averaging close to €27m, up from €13.8m the year previous and just €8.6m in 2017. Demand for the biggest assets mainly came from overseas.

The increase in the stamp duty rate to 7.5% in Budget 2020 was an unhelpful intervention in the market. It means that the rate has now increased by 275% since October 2017. Some investors are concerned that an additional hike in stamp duty to 9% may be on the cards in 2020. Such uncertainty heightens risks in investors eyes and makes the market less attractive. We expect turnover levels to be less in 2020, albeit still at good levels.

PRICING

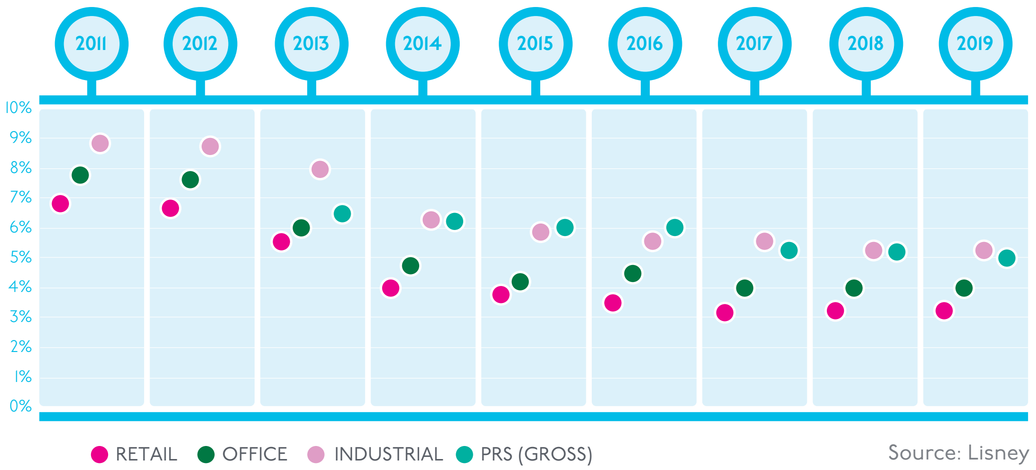
PRICING

Capital values of prime assets were relatively stable in 2019 with the MSCI index showing an 'All Property' growth of 1.6% in the 12-months to the end of September. Of note however is the fact that the 'Retail' sub-index declined in Q2 and Q3. Generally, yields have been stable since 2017 and the pace of rental growth has slowed significantly. Entering 2020, values and yields remain stable but there is likely to be some softening in the retail sector as the year progresses. This has been masked in the last 12 months by the lack of activity in the sector.

Heuston South Quarter, Dublin 8

At the end of 2019, yields were significantly below the highs prevailing in 2012 as the property market began to improve. The average improvement across office, retail and industrial is 365 basis points, while gross PRS yields have improved by about 150 basis points. In 2020, properties offering better returns to investors will be those that carry more risk, either off-prime or requiring capital expenditure. It can be seen in the investment geographical breakdown in the last few years that high-profile investors chasing returns are looking to well-performing regional cities like Cork where stronger yields are on offer. With historically low interest rates forecast for the medium-term, it is expected that the occupational markets will be the key driver of yield shifts in the next few years.

INVESTMENT YIELDS



Source: Lisney

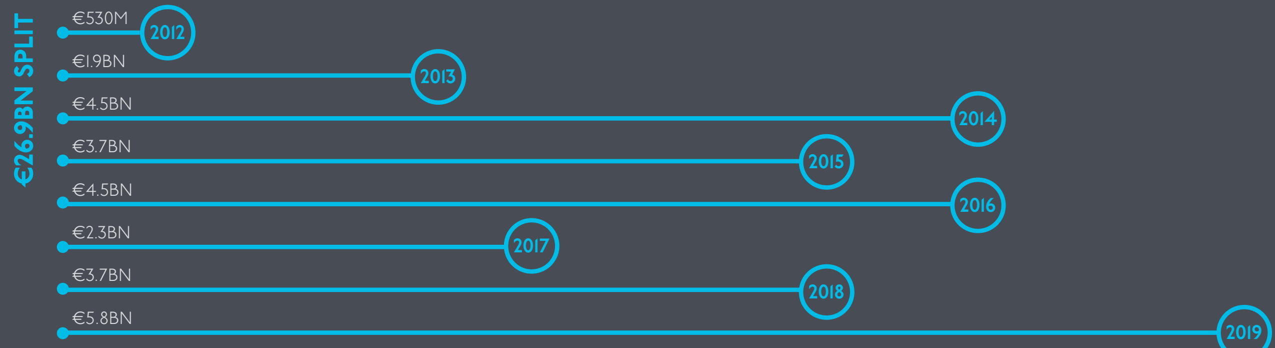
MARKET CYCLE ANALYSIS

Budget 2012 kick-started this property market cycle; one we are now eight years into. Over that time, more than €27bn worth of Irish investment property has transacted as asset sales with a further almost €120bn (nominal value) spent on property-backed loan sales and €1.34bn on Green REIT. Many of the properties have been sold more than once over this time. In 2019 alone, much of the €5.8bn was already sold in this cycle either as asset or loan sales. An assessment of the asset sales since 2012 shows that Dublin has clearly dominated demand, making up 82% of turnover. This is followed by Cork at 5%.

MARKET CYCLE ANALYSIS

SINCE 2012 €27BN HAS BEEN SPENT ON **IRISH INVESTMENT PROPERTY.**

This excludes the almost €120bn spent on property-backed loan sales over the period and the €1.34bn spent on the company sale of Green REIT in 2019.



82% DUBLIN

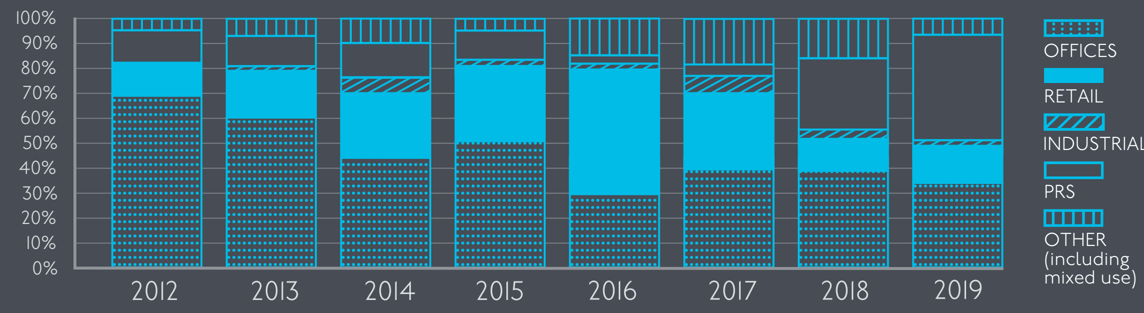
5% CORK

13% OTHER AREAS

As has traditionally been the case in the Irish market, the office sector has dominated the cycle as the investors' sector of choice. But interestingly, its dominance has lessened in the last few years as PRS has risen. On average between 2012 and 2015, offices accounted for 56% of all Irish investment property spend. Since then, the average has been about 35%. Over the same timeframe, the PRS averages have moved from just 13% to 20%, and now at a dominant 42% of the market in 2019. Over the years, both the retail and industrial sectors have adjusted too. Retail was very strong mid-cycle with the sale of numerous large shopping centres and retail parks around the country, but this representation has fallen back. Industrial has generally seen little activity since 2012, averaging just 3%, which is less than half the rate that prevailed in the previous cycle when it averaged about 7%. This change is not due to lack of investor demand, there is significant demand, but is as a result of very little investment grade properties coming to the market in recent years.

We believe that the 2020 market composition will be similar to that seen in 2019. It will be driven by the office and PRS sectors, which combined will likely account for about 70% of market activity. Some better-quality industrial assets may come to the market, while in the retail sector some assets that were bought several years ago may re-trade. If the retail occupational markets do not improve, some buyers that have not seen positive performance may 'cut and run' from the market, particularly with secondary assets.

MARKET COMPOSITION (2012-2019)



Source: Lisney

RENT REVIEWS: IN FOCUS

5 YEAR PATTERN

Rent reviews have been largely absent from the market in recent years. This is due to the five-year pattern on which they fall and the fact that prevailing market rates have often, up to now, been below the historic rents being paid by tenants.

HOWEVER, THERE WAS A SIGNIFICANT **REFOCUS ON RENT REVIEW CLAUSES** IN 2019, A TREND THAT WILL CONTINUE IN 2020.

Market rents are generally quoted in the media and by agents as headline rates. However, when it comes to rent reviews, the new rent is determined by:

NET EFFECTIVE RATES

TAKES ACCOUNT OF ANY **INCENTIVES GRANTED TO INCOMING TENANTS** WHEN TAKING A NEW LEASE, SUCH AS RENT-FREE PERIODS, CONTRIBUTIONS TO FIT-OUT AND BREAK OPTIONS.

FOR LANDLORDS:

A RE-FOCUS ON RENT REVIEWS IS IMPORTANT FOR ACTIVE ASSET AND PORTFOLIO MANAGEMENT.

DRIVING RENTAL INCOME IN BUILDINGS WHERE LEASES HAVE REVERSIONARY POTENTIAL MEANS A **HIGHER CAPITAL VALUE AND IMPROVED TOTAL RETURNS.**

FOR TENANTS:

IT WILL MEAN AN INCREASE IN OUTGOINGS, BUT IT IS IMPORTANT THAT THEY OBTAIN STRONG ADVICE AND REPRESENTATION SO **THAT THEY DO NOT PAY MORE THAN THEY SHOULD.**

ADDITIONALLY, RENT REVIEWS PROVIDE TENANTS WITH THE OPPORTUNITY TO REVIEW THEIR OVERALL PROPERTY REQUIREMENTS, WHICH MAY LEAD TO AN EXPANSION OR A CONTRACTION, OR EVEN A RELOCATION OR LEASE RE-GEAR.

CASE STUDY: OFFICE MARKET

The infographic below shows the movement in the net effective rent of prime office accommodation in Dublin city centre and in the suburbs. Assuming rent reviews were due in early 2009, 2014 and 2019 and that the lease contained an upwards only rent review clause (agreed before such clauses were abolished in February 2010).

IT CAN BE SEEN THAT THERE WOULD HAVE BEEN NO CHANGE IN RENT AT 2014 REVIEW BUT NOW THERE IS THE PROSPECT OF SIGNIFICANT INCREASE, PERHAPS

UP TO 50% GROWTH

	2009		2014		2019
PRIME DUBLIN 2 / DUBLIN 4	€429psm	10 YEAR INCREASE 46%	€302psm	5 YEAR INCREASE 108%	€627psm
DUBLIN PRIME SUBURBAN	€146psm	10 YEAR INCREASE 51%	€131psm	5 YEAR INCREASE 69%	€221psm

Taking the office market as an example, the resurgence in rent review negotiations has been driven by the

SIGNIFICANT GROWTH IN RENTS SINCE 2014

LINKED TO THIS IS THE FACT THAT THE MARKET HAS BECOME MORE OF A LANDLORD'S MARKET AND INDUCEMENTS HAVE REDUCED

CASE STUDY

SUSTAINABILITY

SUSTAINABILITY

There is now a global people-movement focussed on the moral obligations of organisations and their environmental responsibilities. The built environment is not immune from this. Up to now, sustainable changes in the industry have generally been forced on occupiers and developers through building regulations. However, the pace of this people-movement is rapid and for the first time, people-power may force changes in advance of legislative changes. What is now an exception in terms of sustainability, will become the norm. Properties not reaching the desired standards will not only perform poorly but may suffer from both functional and economic obsolescence.

For the investor, a United Nations initiative in 2004 called 'Who Cares Wins' brought sustainable investment principles into focus, by integrating environmental, social and governance (ESG) considerations. Environmental considerations, in particular, are increasingly more important when making property investment decisions given the impact of buildings on greenhouse gas emissions and the fact the risks of climate change are intensifying. Across Europe, NZEB requirements will be mandatory from the end of the year and will ensure that buildings are energy efficient and using an element of renewables. This is a significant step forward from the BER ratings that we have in Ireland, which have been in place for over a decade now and while it states energy performance, it allows inefficient buildings to operate without sanction.

The ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.

ENVIRONMENT	Making investment decisions that are committed to preserving and maintaining the physical world, focusing on energy use, waste pollution and natural resource conservation.
SOCIAL	Socially aware investing examines the social and societal implications of each investment opportunity.
GOVERNANCE	Maintaining strong corporate governance and behaviour structures within the property investment company.

Investors with medium to long-term investment strategies are generally more focused on ESG as it builds long-term value sustainability. The IMF has stated that to date, funds adopting ESG investment criteria do not benefit from any greater returns in terms of performance, however other studies, such as that carried out by MSCI differ, showing better growth. As ESG is in its infancy, it is likely that further data and greater levels of investment over a longer time period is necessary. This will be possible given the pace of growth. The Global Sustainable Investment Alliance reported that ESG investment grew by 34% between 2016 and 2018, and given this adoption rate and the growing awareness, the speed of growth could improve.

For companies, there are other considerations and issues in adopting ESG. For example, there is no universally accepted reporting standard, the time taken to assess opportunities can be longer and this can mean higher fees for individual investors. In terms of reporting standards, both MCSI and GRESB are high-profile providers. MSCI uses ratings to measure a company's resilience to long-term financially relevant ESG risks. It rates companies on an AAA to CCC scale (AAA being the best) according to exposure to ESG risks and how well these risks are managed relative to peers. GRESB (Global Real Estate Sustainability Benchmark) focuses on a climate risk and a resilience score card. It shows how well the fund is managing location specific ESG and climate risks in a property portfolio and scores accordingly to provide a GRESB score out of 100 (he higher the score, the better).

Building on ESG, there are various other ratings and certifications now being applied to buildings, generally but not exclusively in the office sector. 'LEED' or Leadership in Energy and Environmental Design is a green building certification system. It is in ever increasing demand by occupiers given the energy cost savings for them and greater levels of wellbeing for their staff due to improved indoor environmental quality. Linked to this is 'WELL', another rating system that is used for advancing health and wellbeing in buildings.

As the people-movement intensifies and policies follow, there will be greater adoption of these measures in the property market, particularly in the office sector. It is evident already with Irish property funds and REITs. Their ESG scorecard will only improve as investors increasingly move to align their personal values with their investment choices.

THE 15-YEAR TAKE-UP AVERAGE IS **222,000 SQM** & ACTIVITY IN **2019 WAS AHEAD OF THIS**

04

OFFICES

ANOTHER GOOD YEAR

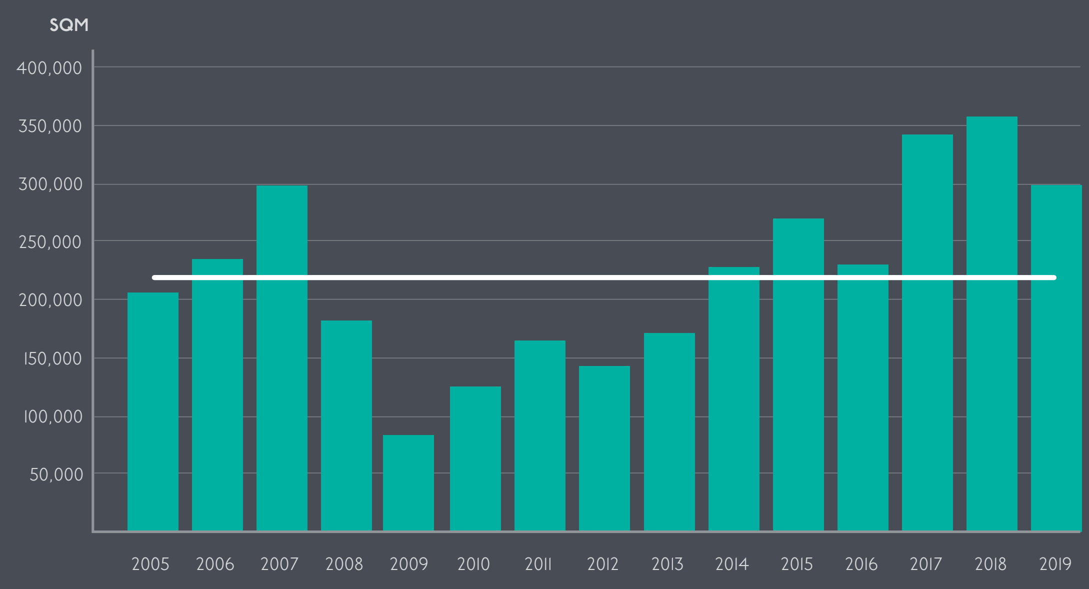
The Central Bank of Ireland acquired 4 & 5 Dublin Landings, adjacent to its existing HQ on North Wall Quay

ACTIVITY

Given the level of demand and the amount of accommodation reserved, 2020 will be another good year for the Dublin office market with take-up likely to be at a similar level to 2019, estimated at 300,100 sqm. While this is less than 2017 and 2018, it should be remembered these were exceptional years and included some very large deals. The 15-year average is closer to 222,000 sqm and activity in 2019 was ahead of this.

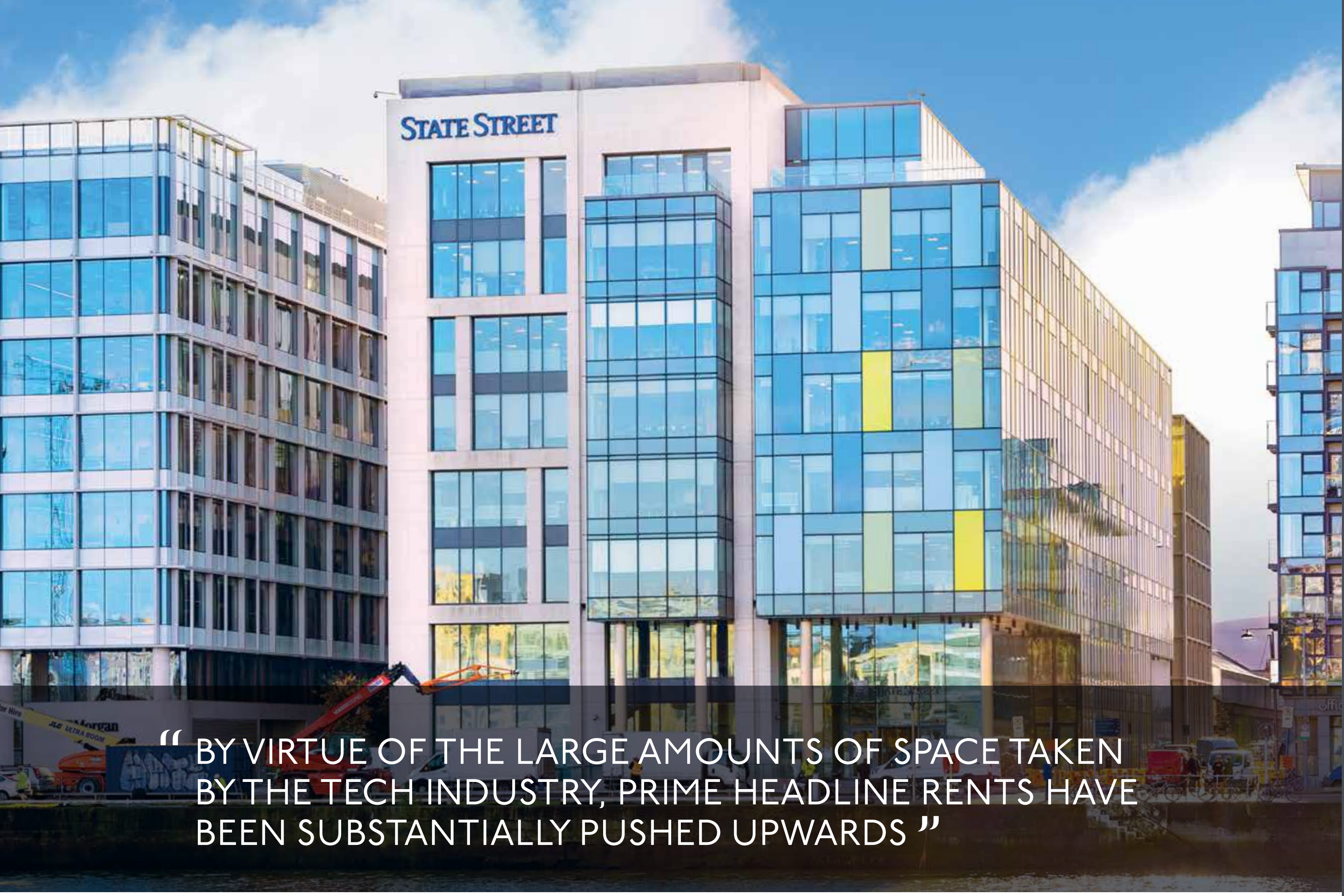
Much of the activity in the last few years has been net absorption as new companies entered the Irish market or occupiers expanded and did not vacate existing stock. The true vacancy rate is now sub-8% and 2019 was always going to be a pinch point given the lack of new building completions. Supply constraints will lead to further hardening of lease terms in the next 18 months with the possibility of rental premiums being paid on selected high-profile buildings. The biggest risk to the office market in the short-term is an external macro-economic event. Over valuations of second-tier tech companies could also pose a risk to demand given the Dublin market is now so dependent on such occupiers.

MARKET ACTIVITY (2005-2019)



Source: Lisney

ACTIVITY



> “ BY VIRTUE OF THE LARGE AMOUNTS OF SPACE TAKEN BY THE TECH INDUSTRY, PRIME HEADLINE RENTS HAVE BEEN SUBSTANTIALLY PUSHED UPWARDS ”

TECH

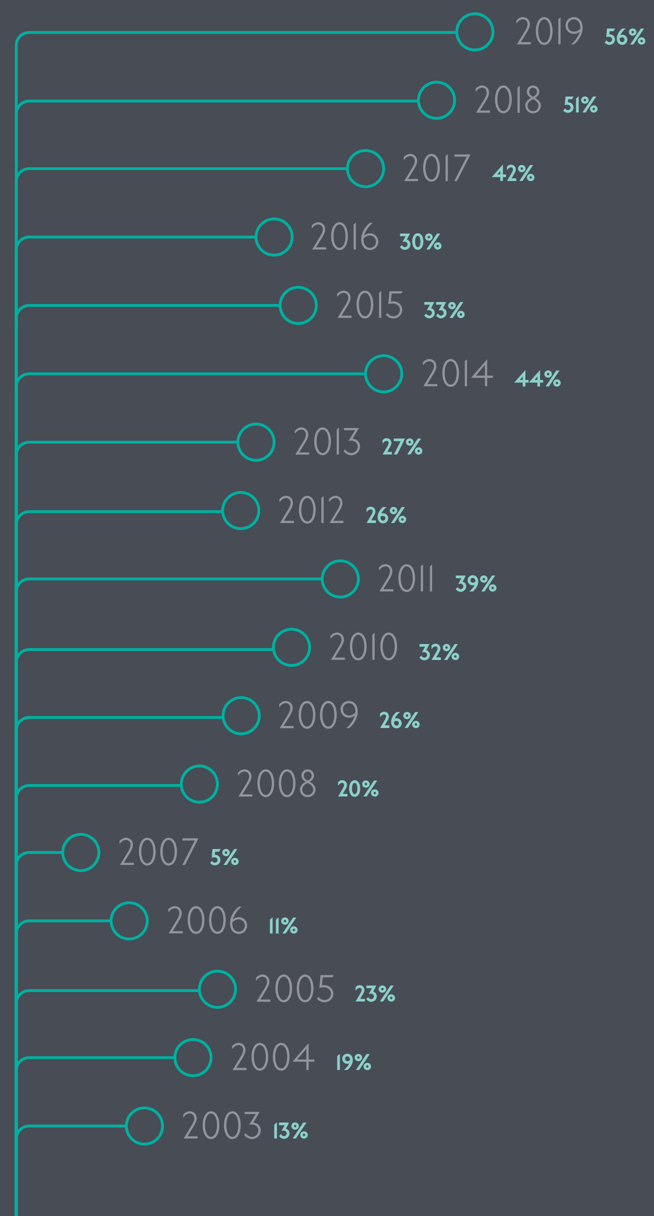
As has been the case for several years, occupiers from the tech industry continue to dominate the market. They took almost 60% of all accommodation in 2019 and are likely to be strong players in the market this year. A drawback of this dominance is the two-tier market that has been created. By virtue of the large amounts of space taken by the tech industry (850,000 sqm since 2012), prime headline rents have been substantially pushed upwards. For many of these companies, rental rates are not a priority given their size. However, for professional services firms that have traditionally made-up a significant part of the market, the level of rent is more important.

To review this further and consider occupiers' ability to pay rent, we have selected several large firms in the tech, accountancy and legal sectors, and compared their turnover per employee. This measure is derived from Irish operations only. We acknowledge some of these companies are conducting business and generating turnover from Ireland but not necessarily in Ireland. We also acknowledge turnover is not a measure of profitability but analysing it on a per employee basis does provide a measure on a like-for-like basis.

The results and the variations between the tech industry and professional services firms is stark. For the legal and accountancy firms reviewed, the range in turnover per employee was between €100,000 and €300,000. While tech companies the range was between €660,000 and €17.5m. The averages can be seen in the infographic on pages 26 & 27. This information shows the differing ability to pay rent and how for some companies, the rate psm is insignificant, while for others it is majorly significant. It is not fair to suggest tech occupiers are callous when it comes to striking a rental deal but clearly it is less of a focus.

TECH DOMINATION

% OF THE DUBLIN MARKET
TAKEN UP BY TECH OCCUPIERS



THE TECH SECTOR COMPRISED
OVER HALF THE MARKET
IN THE LAST 4 YEARS

Source: Lisney

	COMPANY	T/O 2018	EMPLOYEES	T/O / EMPLOYEE
ACCOUNTANTS	KPMG	€414,000,000	3,000	€138,000
	BDO	€66,700,000	510	€130,784
	DELOITTE	€377,000,000	3,115	€121,027
	EY IRELAND	€316,000,000	2,681	€117,866
	PWC	€502,000,000	4,868	€103,122
	GRANT THORNTON	€108,000,000	1,144	€94,406
	MAZARS	€30,300,000	370	€81,892
LEGAL	MCCANN FITZGERALD	€179,400,000	600	€299,000
	DILLON EUSTACE	€53,900,000	200	€269,500
	WILLIAM FRY	€118,700,000	460	€258,043
	MATHESON	€168,700,000	670	€251,791
	ARTHUR COX	€198,500,000	850	€233,529
	A&L GOODBODY	€182,600,000	800	€228,250
	MASON HAYES & CURRAN	€82,000,000	450	€182,222
TECH	MICROSOFT	€24,600,000,000	1,407	€17,484,009
	GOOGLE	€32,200,000,000	3,338	€9,646,495
	FACEBOOK	€18,700,000,000	4,500	€4,155,556
	LINKEDIN	€1,400,000,000	1,103	€1,269,266
	AIRBNB	€600,000,000	550	€1,090,909
	SALESFORCE	€971,400,000	1,158	€838,860
	DROPBOX IRELAND	€132,300,000	200	€661,500
	HUBSPOT	€70,600,000	336	€210,119

TWO -TIERED MARKET

AVERAGE TURNOVER 2018
€9,834,287,500

AVERAGE TURNOVER PER EMPLOYEE
€4,419,589

CAN AFFORD TO PAY **HIGHER RENTS**

TECH SECTOR

AVERAGE TURNOVER 2018
€199,842,850

AVERAGE TURNOVER PER EMPLOYEE
€179,245

RENT BIG FACTOR IN OVERHEADS

NON-TECH SECTOR

(ACCOUNTANTS & LEGAL)

Source: Irish Times Top 1,000 Companies, all figures relate to either 2017 or 2018

Treasury Building, Dublin

140 Pembroke Road, Ballsbridge, Dublin

CONSTRUCTION

CONSTRUCTION

Since construction activity recommenced in 2014, over 411,000 sqm of accommodation has been completed, with a net gain to Dublin's building stock of 11.6%. However, 2019 was a slow year for new office completions with just 37,500 sqm completed across seven buildings. This was always going to be the case given the timing of new starts in 2017 and 2018. 2020 is set to be significantly better with over 280,000 sqm due by the end of the year (70% in the city centre) with a further 140,000 sqm due in 2021 (all city centre), although a small proportion of this might fall into 2022.

The largest scheme due this year is Salesforce Tower at Spencer Place (43,670 sqm), the company's new European HQ. There was much discussion in the media about this building in 2019 as additional building height was sought but refused. Also due to complete is 19,500 sqm at Bolands Quay, which was forward purchased to Google in 2018, along with 18,700 sqm at 4 & 5 Dublin Landings, which was acquired by the Central Bank of Ireland in 2019 and adjoins its existing HQ on North Wall Quay.

2021 will be notable for the completion of over 54,210 sqm of accommodation at Fibonacci Square, Facebook's new campus in Ballsbridge. This accommodation, along with additional space being refurbished and extended on the campus, was pre-let in 2018 in what was the largest ever letting in Ireland and will be the tech company's new European HQ. Also in 2021, 15,000 sqm leased by the OPW in early 2019 in The Distillers Building in Smithfield will complete.

Interestingly, the examples above highlight the fact that most accommodation under construction has already been taken, either by way of pre-let or sales. Of the 420,850 sqm due over the next 24 months, 62% is either taken (leased or sold) or reserved. Focusing just on the city centre, this increases to 71%. In terms of the pipeline, there are several other schemes due to start construction imminently with sites already cleared. These will provide further supply in 2022.

DUBLIN CITY CENTRE - UNDER CONSTRUCTION

Source: Lisney

YEAR OF COMPLETION 2020 / YEAR OF COMPLETION 2021 / YEAR OF COMPLETION 2022

SUPPLY LEVELS HAVE FALLEN BY **65%** SINCE 2013. NEW SUPPLY IS COMING, **BUT IT IS NOT AN ADEQUATE AMOUNT**

05 INDUSTRIAL ON THE UP

Activity was exceptionally strong in H1, but supply constraints and uncertainty caused H2 to stall.

179,600 sqm

H1 2019

150,400 sqm

H2 2019

INSIGHTS

DUBLIN INDUSTRIAL

The Dublin industrial market has been very active since 2013 with annual take-up levels in excess of the 25 year average (275,300 sqm). 2018 (310,700 sqm) and 2019 (330,000 sqm) have been particularly notable with activity above 300,000 sqm.

However, 2019 was a year of two halves; in H1, activity was exceptionally strong, at 179,600 sqm, while in Q3 the market stalled a little. The two key reasons for this were supply constraints and uncertainty.

Supply levels have fallen by about 65% since 2013 and this continued in 2019. There are limited individual properties available with more than 10,000 sqm, some just available on a short-term basis. New supply is coming to the market, but it is not an adequate amount.

In terms of uncertainty, the discussions between the EU and the UK on the Brexit withdrawal agreement in the Autumn was also a factor in the slowdown in activity. Much industrial demand now stems from retailers (as is the case in the UK) and given the uncertainty around tariffs, as well as continued retailer failures in the UK, this is likely to have made some potential occupiers pause and consider their occupational requirements further. The same is true for indigenous businesses with occupational needs. Business sentiment (as measured by KBC Bank Ireland) slipped to a six-year low in Q3 as increased uncertainty led to slower gains in production and hiring, and Brexit was considered to dwarf all other risks to the Irish economy. Nevertheless, 2019 take-up was the highest level recorded since 2015.

We believe 2020 will be a good year for both smaller and larger industrial buildings, but perhaps more difficult for the mid-market. For buildings less than 1,000 sqm, we may start to see owner-occupiers becoming more active. This type of occupier is very interested up to €1m, where companies with a mix of cash and bank funding can purchase a premises up to 1,000 sqm, which allows their business to grow and take on new contracts. Greater levels of demand are starting to come from this part of the market due to strong increases in rents in recent years and the fact that leases entered into in 2014/2015 are now at or close to renewal or rent review stage. Many tenants find themselves in the position where their rent is doubling at review and doing the maths, they often find that debt repayments are less per month. Some negotiations surrounding lease renewals and rent reviews in 2020 may turn into purchaser demand, despite the stamp duty increases in Budget 2020. However, the construction of this size of industrial building is becoming more expensive with increased energy rating and certification requirements. Prevailing rents and capital values do not justify the development of smaller units and as such, occupiers seeking this space will focus on second-hand stock. From a supply point of view, this is positive as it will assist in reducing availability further.

The mid-market (1,000 sqm to 2,500 sqm) may continue to have relatively subdued demand levels in 2020, particularly from purchasers, as has been the case for several years. This is likely due to businesses being cautious with borrowings at this level and deciding the flexibility of leasing is more attractive. When compared to the mid-market, larger buildings have been easier to transact in recent years and this demand is evidenced in the lot sizes of new construction since 2016, which average over 6,000 sqm. However, for SMEs in recent years (and it will be the case in 2020), they are faced with the prospect of either borrowing to invest in a new premises, taking a long-term lease commitment or outsourcing warehousing and distribution. It is this conundrum that has fuelled and will continue to fuel the development of bigger buildings as deciding to go with third-party logistics providers is often the course of action chosen by businesses. This is evidenced with the likes of DHL, Primeline, Kuehne & Nagel, Masterlink and TPN all taking large logistics buildings.

Dublin Port

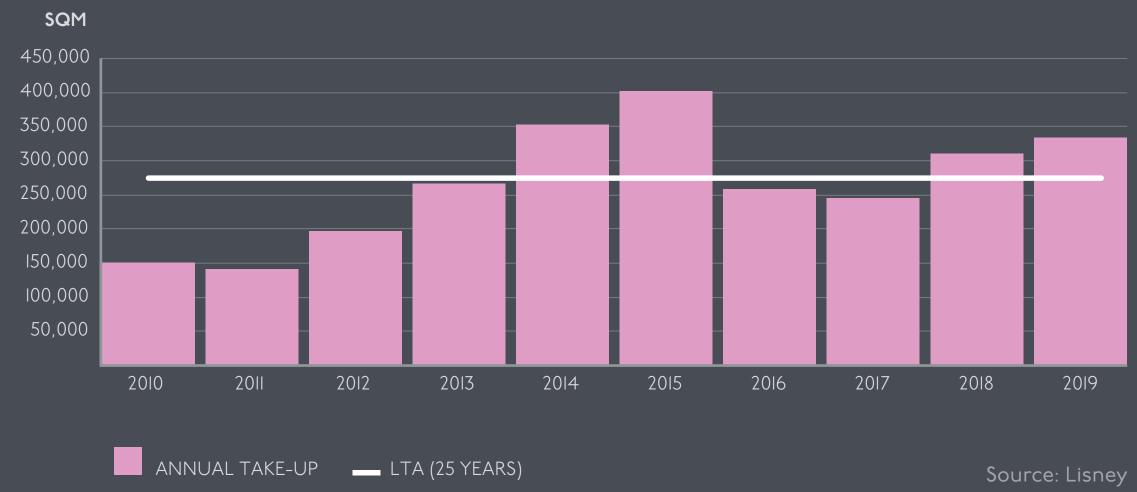
NEW INDUSTRIAL BUILDINGS

NEW INDUSTRIAL BUILDINGS

In this property market cycle, new construction only commenced in 2016 as prevailing rents did not justify development until that time. Since then, several design-and-build properties, along with some spec buildings, have been completed. Combined, these have added 105,150 sqm of accommodation to the Dublin industrial stock levels, 45% of which is in the southwest region, 36% in the northwest and 19% in the north. What is most interesting about this wave of development is the large individual lot size, at 6,200 sqm per building. This is in contrast to the last cycle when much of the new building at that time was for units around 1,000 sqm.

The outlook for 2020 in terms of new stock is positive. There is an additional 38,000 sqm under construction, all of which is in the north or northwest regions. Many of these buildings are larger in size, ranging from 1,400 sqm to 7,250 sqm, hence catering to the demand for bigger units. The majority is being built speculatively but most are likely to be let or sold during the construction process. The main developers currently completing buildings are Rohan Holdings, Park Developments, Erigo Developments and Green REIT.

ANNUAL TAKE-UP

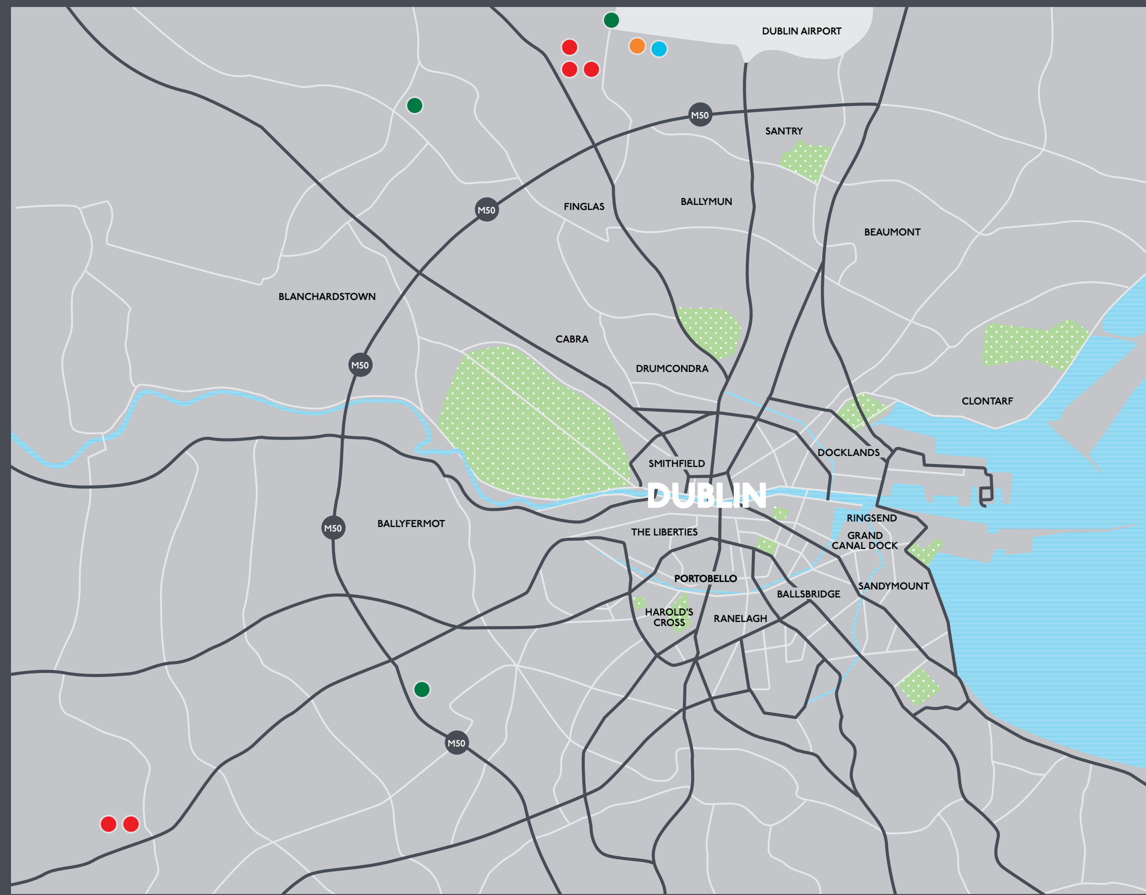


Source: Lisney

TRADE

The reality of trade and manufacturing is that goods have to come into and out of Ireland. Depending on the final Brexit agreement, it may be the case that Irish manufacturers will need to source their materials in the EU and ship directly to Ireland. Indeed, the main shipping lines are already using more direct sailings from the continent, a trend that will develop further in 2020 as containerisation further replaces roll-on roll-off trucks. This will undoubtedly generate additional demand for larger warehouses close to the main ports in Dublin, Rosslare and Cork.

Much work is ongoing in Dublin Port in terms of implementing its masterplan for both the existing Dublin Port area and Dublin Inland Port at the M2/M50 junction. The re-allocation of space and more efficient use of the lands in the city will see some non core port-relates uses move to the inland port. Indeed, a process is underway seeking operators for the container storage yard. This movement from port to inland port is a global trend seen in other European countries, China and the US. It provides an excellent opportunity for investors and developers adjacent to the inland port to benefit from a new industrial cluster.



CONSTRUCTED 2016 CONSTRUCTED 2017 CONSTRUCTED 2018 CONSTRUCTED 2019

Source: Lisney / CIS

In spite of this new development, Dublin industrial supply is still not sufficient. There is an additional 115,000 sqm of space in the pipeline (in the north and northwest regions) where planning permission has been granted but no construction has commenced. However, some will commence in Q1 2020. Overall, this equates to about four-months market take-up and is not enough to meet occupier demands in the short to medium-term.

THE GENERAL TREND IN **SPENDING ON ENTERTAINMENT AND SOCIALISING RATHER THAN MATERIAL GOODS** LOOKS SET TO BE CONTINUED

06

RETAIL

FAST PACED & EVER-CHANGING

The retail property market is now one of the most complex sectors; it is a fast paced and ever-changing environment.

Retailers are faced with numerous issues, from moving consumer demands to the speed of technology advancement, the impact of sustainability to the potential threats from Brexit. From a landlord's perspective, they are adjusting to more flexible lease terms and the continuing impact of upward/downward reviews introduced almost a decade ago. In some situations, they are repurposing retail space that is surplus to requirements.

Economic indicators remain mixed. While employment levels are at an all-time high and average earnings have increased, consumer sentiment remains volatile. In September 2019, the KBC Consumer Sentiment Index fell to a six-year low, largely attributed to Brexit concerns before rebounding in November. There has been a shift in consumer behaviour towards cautious spending. Credit card use has declined but is balanced by debit cards, suggesting consumers are spending albeit more thoughtfully and within their means. The general trend in spending on entertainment and socialising rather than material goods looks set to be continued.

FUTURE FASHION SECTOR TREND:
BARCODES WILL BE SCANNED INSTORE **TO UNDERSTAND THE LIFE CYCLE & SUSTAINABILITY** OF THE GARMENT

ECOMMERCE

ECOMMERCE

With ecommerce advancing rapidly globally, retailers in Ireland and Europe are only at the early stages of use when compared to countries like China. In spite of this, many stores in Ireland are successfully implementing omni-channel shopping and providing a seamless customer experience. Consumers are encouraged to ROPO or 'Research Online, Purchase Offline' or indeed buy online, and post photographs of purchases on Instagram and Facebook. In China, Alibaba's physical stores (or offline stores as they are called), Hema, has gone further. This supermarket allows customers to use a mobile app to scan barcodes throughout the store to identify product information and origin, and to get recipe ideas. This trend is likely to follow into the fashion sector where barcodes will be scanned instore to find complementary clothing to complete outfits and understand the life cycle and sustainability of the garment.

SUSTAINABILITY

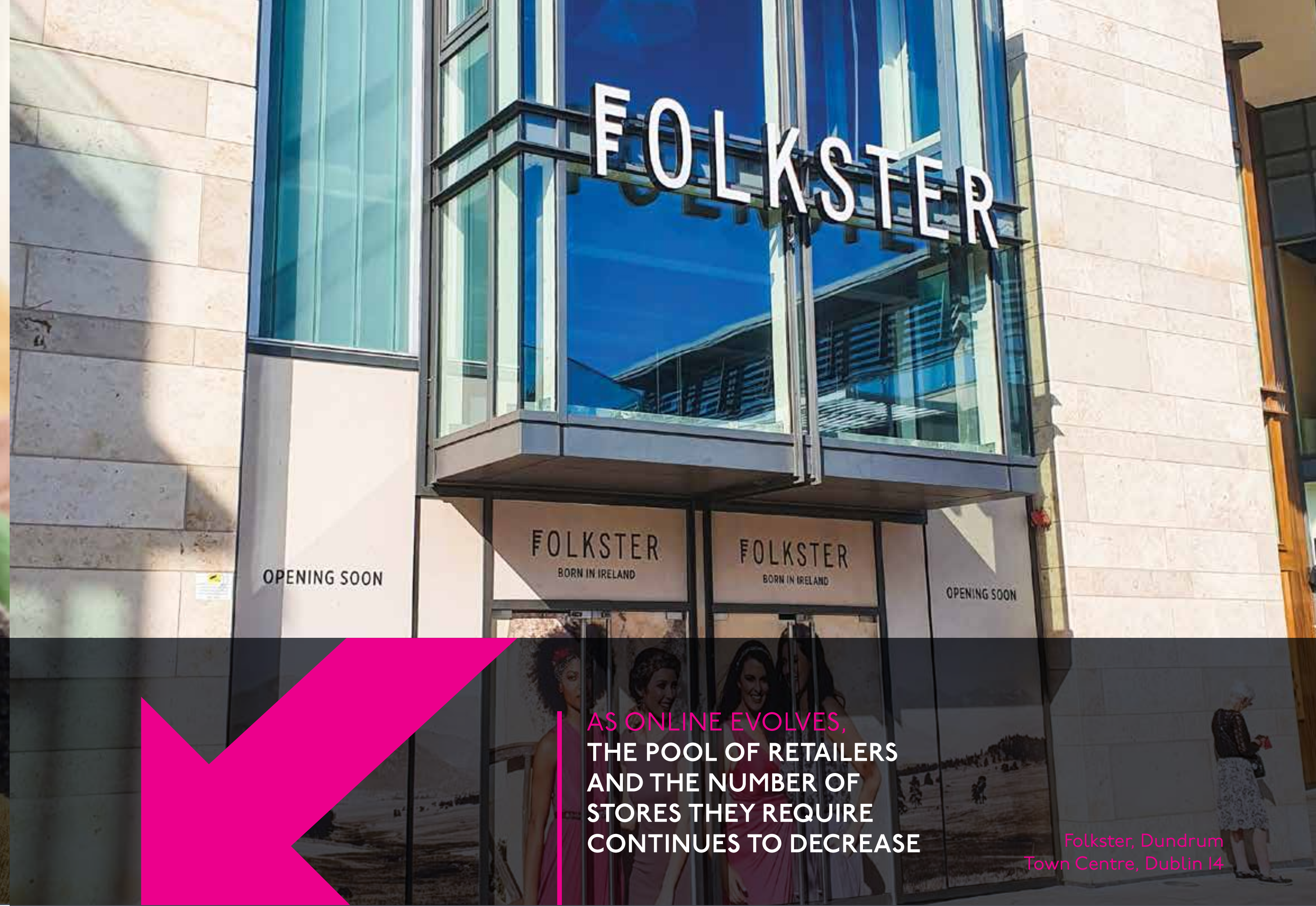
The UN has stated that greenhouse gas emissions from global textiles production is more than all international flights and maritime shipping combined and it is estimated to rise by 60% by 2030. In the fashion industry, enough water to meet the needs of five million people is used annually. Consumers, particularly Millennials and Generation Z, are becoming much more considered when it comes to social consciousness and want to understand a retailer's sustainable credentials. In the UK, 72% of shoppers believe it is important that the brands they shop have sustainable credentials.

Well known fashion brands like Primark and H&M have come under pressure for 'Fast Fashion Retail' and for the use of synthetic fibres in clothing. Both brands defended their position and are already working towards greater sustainability. Primark is selling a sustainable collection of cotton and denim from organic cotton farms and stress that they are creating less pollution as they do not provide home delivery. H&M has its 'Conscious Exclusive' collection and 100% of its cotton is now recycled or from sustainable sources. It is also trialing a rental scheme with collection from their flagship store in Stockholm. The rental clothing market in the US and UK is rapidly evolving with brands such as Rent the Runway (recently valued at $1bn and opened an office in Galway). Closer to home there are some start-ups adopting this approach such as Borrower Boutique and The Nu Wardrobe, which are based on sharing. In the household goods area, Ikea will test furniture leasing in 30 markets this year.

On the grocery side, Iceland led the charge setting a target to remove all plastic from their own label products by the end of 2023. This has been further developed by other supermarket brands. Supervalu is using compostable produce bags in the fruit and veg section and compostable cups for the Frank & Honest brand and Aldi has partnered with Food Cloud, donating surplus food to charities and the community.

With online shopping so accessible, the number of physical stores in retailers' portfolios will diminish. However as both channels are required a greater emphasis now needs to be put on the quality of the in-store shopping experience. Training of employees, hosting events, use of QR codes and improving speed at tills and changing rooms are just some examples of where the consumer experience can easily be improved, and a point of difference created. As the sustainability agenda gathers further momentum, retailers will be further impacted in terms of product range, store design and size and ultimately how they trade in the future and so there are more changes on the way.

RETAIL PROPERTY MARKET



Folkster, Dundrum Town Centre, Dublin 14

RETAIL PROPERTY MARKET

The seismic shifts in the operation of retail businesses is having real effects in the Irish retail property market, albeit at a slower pace than expected. Short-term licence agreements or pop-ups are often being used to fill empty units in the short-term. This extends void periods and allows landlords time to find suitable tenants capable of paying rents that will maintain the rental tone of the shopping centre or high street stores. However, as online shopping evolves, the pool of retailers and the number of stores they require continues to decrease.

In the past, significant demand in Ireland came from the UK. But in the UK, many retailers continue to tidy up their property portfolios through CVAs (Company Voluntary Arrangement), which means they are not now in a position to expand or no longer wish to roll out the same volume of stores they once did. The most notable CVA cases in the UK in 2019 were Mothercare (in the UK only), Mamas & Papas, Links of London, Thomas Cook, Coast, Jack Wills and Debenhams. As the retail property market in the UK is struggling with a glut of vacancies, retailers there have become more accustomed to a property market with sizeable incentives and reduced rents, and therefore if they are in a position to expand into Ireland, they will no doubt expect similar deals here over the coming year.

Across shopping centres and shopping streets in Ireland, there has already been a general shift towards increasing the amount of accommodation devoted to F&B and in a small number of cases, a repositioning of retail into residential. This trend is likely to evolve further as surplus retail is changed into entertainment, hospitality and living / working centres providing for more sustainable community hubs and creating spaces where people want to dwell and connect from the isolation of online shopping.

PRS WAS **43%** OF ALL INVESTMENT SPEND IN 2019

07

PRS

Fernbank, Dublin 14

WELL ESTABLISHED & IN DEMAND

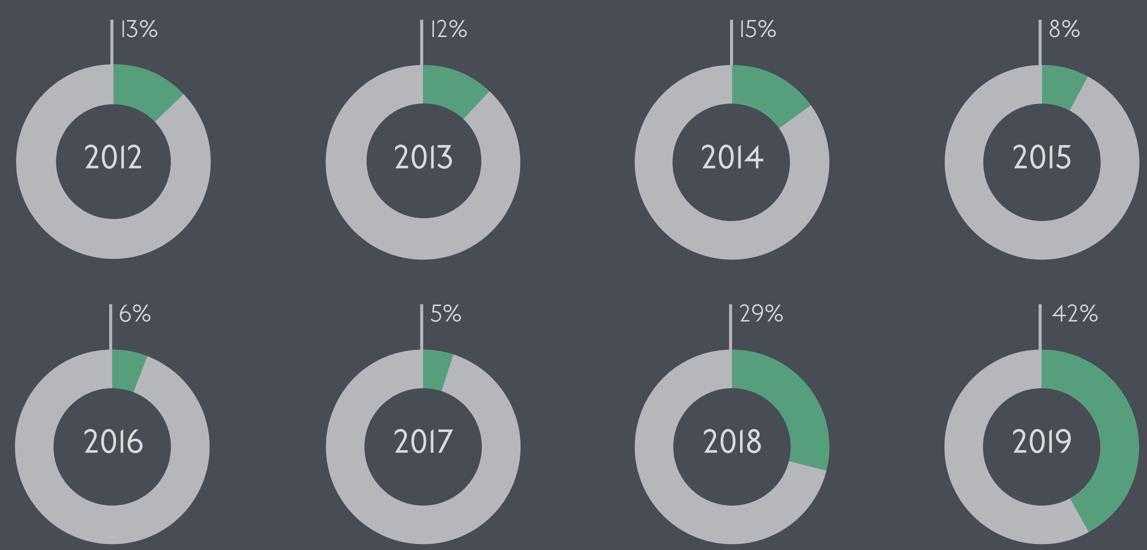
The Private Residential Sector (PRS) is now well established in the Irish market, having emerged as a sector in 2012.

Generally, PRS refers to a block or blocks of apartments that are in single ownership and management, and where there are dedicated amenities and facilities for residents. Since 2012 it has evolved in various stages. Early on, it comprised unsold apartments from the recession era that were originally built-to-sell. Then it moved on to newly built schemes that were originally designed for the individual sales market but acquired before completion. The most recent phase, build-to-rent (BTR), has come about since BTR guidelines were published by Government in 2018. However, some schemes are not seeking specific BTR planning grants, instead seeking a conventional planning permission despite the fact that the property will be in the PRS sector.

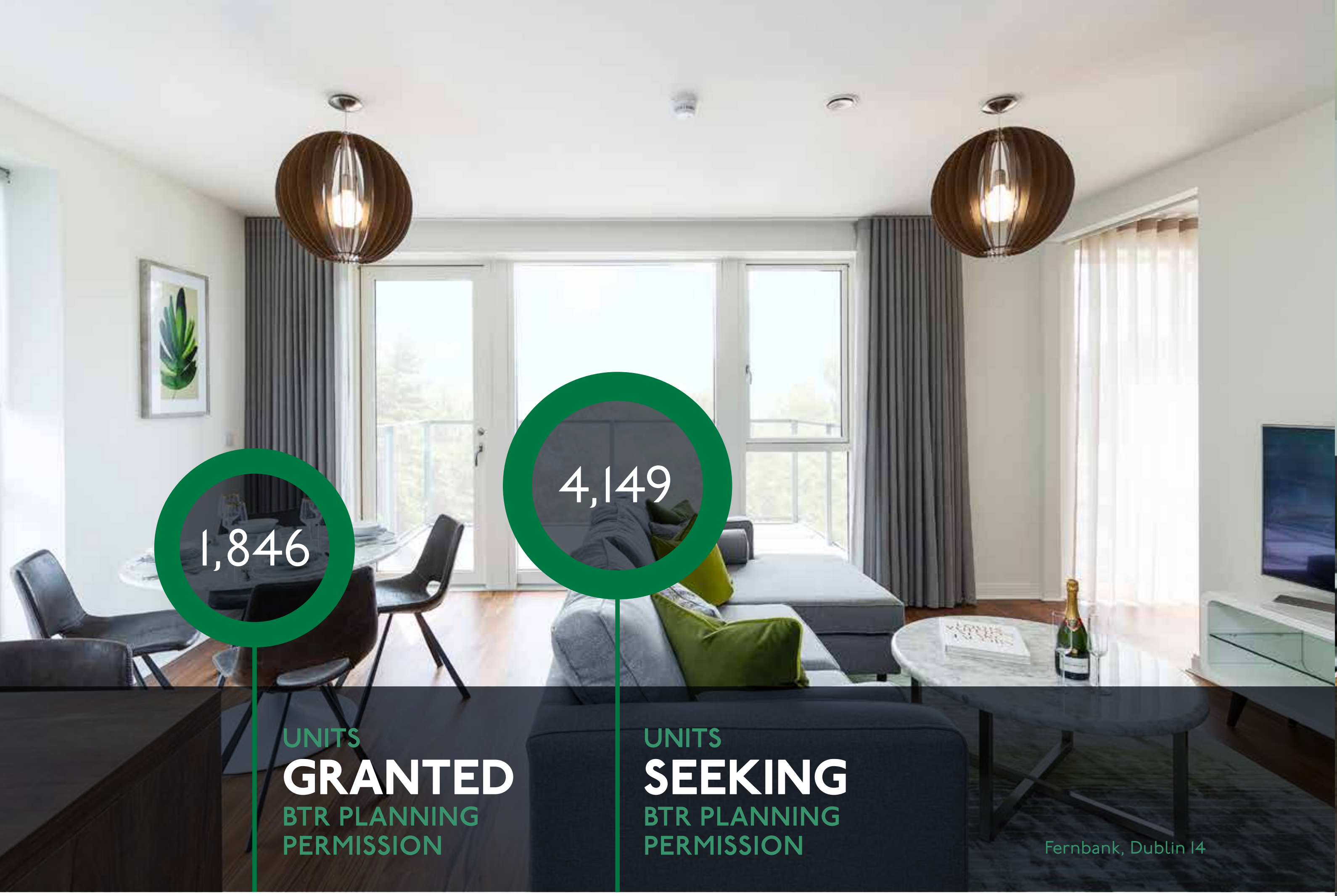
Demand for PRS stems from changing demographics. These include a growing population that is both young and ageing; people getting married later and renting for longer; the fact that Ireland is more international and more urbanised. The evolution of demographics means the way people live is changing. This has implications for the type, size, tenure and location of future housing. While many will always choose more traditional forms of accommodation, others want choice. Being more international, a greater variety of housing options are being demanded, particularly in city areas. FDI companies bring with them highly skilled international workers (jobs tourism) who are accustomed to a different way of living – apartment, city living, close to work. It is this cohort that PRS and co-living is catering to.

Investors and developers are seeking to cater to this demand. In the investment market, €4.7bn has been spent on PRS assets since 2012, both completed and occupied blocks and forward purchases of schemes under construction. As a percentage of the overall investment market, the sector's representation is growing. Having been about 13% of the market in its early years, it was 42% of all investment spend in 2019. This level of investment is similar to other global investment markets such as the US and UK.

PRS INVESTMENT SUMMARY



Source: Lisney



Fernbank, Dublin 14

"WITH URBANISATION, ISOLATION IS AN ISSUE FOR MANY. CO-LIVING OFFERS A MORE SOCIALABLE OPTION TO TENANTS."

Fernbank, Dublin 14

In terms of future supply, based on schemes going through An Bord Pleanála's fast-track system, 1,846 units across seven schemes have been granted BTR planning permission, all of which are in Dublin. A further 4,149 units / 12 schemes are currently seeking BTR permission (two schemes are in Cork). But as noted on the previous page, not all PRS will seek BTR planning grants and it is difficult to give precise figures on these. Data from the Dublin Housing Supply Coordination Taskforce (Q2 2019) show that there are almost 3,800 apartments under construction in Dublin with a further 23,000 apartments with planning permission. A proportion of these will go into the PRS market.

Tenant demand is also a significant consideration in PRS. As the demand / supply imbalance remains in the rental market, PRS schemes carry with them little void risk at present. However, residential rents are at an all time high and affordability concerns are in focus. Understanding tenant mix and their requirements will be important for landlords in the coming years.

CO-LIVING

Co-living is a sub-sector of PRS and is a trend that is gathering momentum globally. It continues to attract further attention in the Irish market, not always positively. The concept is accommodation that has a community centred environment but with private spaces. Generally it comprises an en-suite bedroom and maybe a small kitchenette as private space but with significant communal living and recreational spaces like a games room, laundry rooms, a study, gym, social areas, a kitchen and co-working spaces. It is very similar to purpose-built student accommodation and rents are at all-inclusive rates.

The question often posed is, "have we not always co-lived?". The answer is obviously "yes"; from hunter-gather times right up to Silicon Valley hacker houses and even individuals sharing traditional family homes or apartments. However, with urbanisation, isolation is an issue for many, particularly young professionals working in a new city. While some want traditional type living, others want options. Many do not want to be anonymous, living in a one-bed apartment. And while homeownership may still be a longer-term goal, for a time they may require something more socialable. The modern co-living concept seeks to fulfil this requirement. It is not seeking to replace traditional housing but providing one of a range of options to tenants.

In Ireland, co-living has come to the fore since the publication of the 'Design Standards for New Apartments' in 2018. It sets out various requirements. In terms of sizes, minimum bedroom floor areas range from 12 sqm to 18 sqm with minimum common living areas at 12 sqm per person. For refurbished buildings, other formats will be considered.

Co-living can get negative attention due to the size of the living accommodation. However, international examples suggest that if they are designed well with adequately-sized personal space and adhering to people to living space ratios, they can be successful. There are some notable international examples such as schemes operated by The Collective in London and New York.

The Collective is bringing its model to Ireland. Teaming up with MM Capital, it acquired a site in Fumbally Lane in 2019, where planning permission has been sought for 69 co-living units (unit sizes ranging from 18 sqm to 24 sqm) along with a hotel. MM Capital has also teamed up with SQRE Living, receiving permission for a 129-bed complex on Hill Street near Mountjoy Square in December 2019 with average unit sizes at 19 sqm and 28 kitchen stations. Other operators and developers are also focusing on the market. Bartra Capital applied for three co-living schemes in 2019, one of which was refused, one received planning and one is awaiting a decision. Additionally, Spencer Place Development Company has applied for planning for 84 units at Spencer Dock, adjacent to the new Salesforce office building.

STUDENT ACCOMMODATION

"THE OUTLOOK FOR 2020 AND BEYOND REMAINS POSITIVE WITH OVER 5,800 BEDS UNDER CONSTRUCTION ACROSS FOUR COUNTIES – DUBLIN, CORK, GALWAY AND KILDARE."

Binary Hub, Dublin (Source: Hines)

KEY TRENDS

There were several key trends in the Purpose-Built Student Accommodation (PBSA) sector in 2019, which will continue in 2020. These include the continued expansion of stock levels, the impact of rent predictability measures and the greater reliance on summer income to justify new development.

In terms of stock, 1,700 bed spaces completed construction in 2019, all of which were in Dublin, and added about 3% to supply levels nationwide. The outlook for 2020 and beyond remains positive with over 5,800 beds under construction across four counties – Dublin, Cork, Galway and Kildare. Most of this will complete in 2020 but with some schemes due in 2021. It is notable that construction is being driven by private operators, which account for 80% of the bed spaces with just 20% being built by Higher Education Institutes. In terms of the pipeline, there is a further 10,180 bed spaces either with planning or in the planning system that have not yet commenced construction. However, the demand / supply imbalance remains. The Government's National Student Accommodation Strategy detailed a 2019 demand of 66,441 beds, which is over 25,000 beds more than the current supply.

Rents also continue to increase, albeit at a much-reduced pace to more recent years; now running at 4% per annum in Dublin. For the 2019 / 2020 academic year, the average rent in Dublin was close to €8,900, however this varied between schemes, particularly depending on if they were on or off-campus. Over the last five years, average rents in Dublin have grown by 47%, however it should be noted that our calculation of average now includes a significantly greater number of schemes, all of which are new, of better quality and containing more facilities and amenities – hence not a fully accurate like-for-like comparison. But it does highlight the rental growth trend in recent years, which is the reason why PBSA now comes under the Residential Tenancies (Amendment) Act 2019. This Act means that all tenancies or licences between students and PBSA operators must be registered with the RTB; if located in a rent pressure zone, annual rental increases cannot exceed 4%; and at least 28 days written termination notice must be given to students or seven days in cases of serious anti-social behaviour.

IN DEVELOPMENT

+3%

ADDED TO SUPPLY LEVELS NATIONWIDE

1,700 BED SPACES COMPLETED CONSTRUCTION IN 2019

ALL OF WHICH WERE IN DUBLIN

IT IS NOTABLE THAT CONSTRUCTION IS BEING DRIVEN BY PRIVATE OPERATORS, WHICH ACCOUNT FOR 80% OF THE BED SPACES WITH JUST 20% BEING BUILT BY HIGHER EDUCATION INSTITUTES.

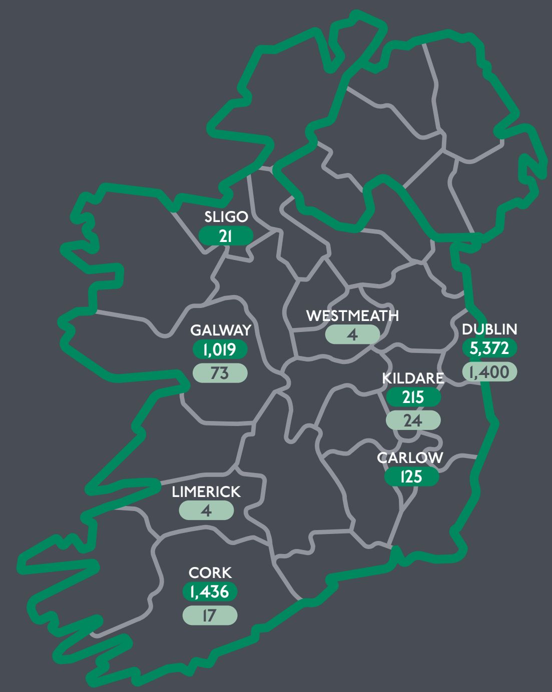
Given that students generally only take accommodation for the academic term (averages about 39 weeks per year), there is additional potential to generate a rental stream from summer lettings to both students and tourists. From schemes publically advertised, it appears that weekly summer rates are generally similar to weekly academic term rates, albeit with some higher. Nightly rates can also be higher. This additional summer income is becoming increasingly more important when considering the viability of potential new schemes. This is due to the fact that the sector is in much greater development competition with the private rental sector (PRS), competition that was less of a factor two to three years ago.

BED SPACES UNDER CONSTRUCTION

UNDER CONSTRUCTION END 2019

Source: Lisney / CIS

BED SPACES IN THE PIPELINE



PIPELINE PLANNING GRANTED END 2019

PIPELINE IN PLANNING END 2019

Source: Lisney / CIS

THE DEMAND FOR BOTH NURSING HOME AND RETIREMENT LIVING ACCOMMODATION STEMS FROM THE FACT THAT **IRELAND HAS A RAPIDLY AGEING POPULATION**

08 INCREASE IN DEMAND

RETIREMENT LIVING

+10%

+5%

31,642 BED SPACES 2019

33,135 BED SPACES 2020

NURSING HOME BED SPACES 2019

Source: HIQA, Lisney

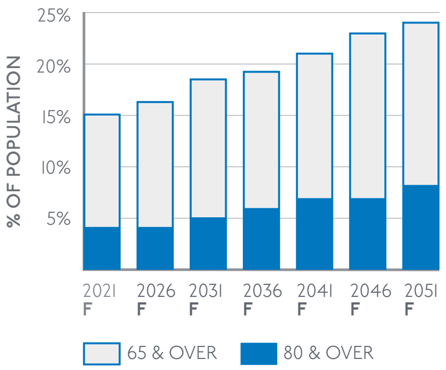
ANALYSIS

DEMAND FOR ACCOMMODATION FOR OLDER PEOPLE

The demand for both nursing home and retirement living accommodation stems from the fact that Ireland has a rapidly ageing population. The CSO's population estimates as at the end of 2018 show that there were almost 673,500 people aged 65 and over in Ireland with over 158,000 of these aged 80 or over. Based on the CSO's most optimistic population projections these figures are set to increase dramatically in the next three decades. The ageing population can be clearly seen in the table opposite where in a little over 10 years' time, 18% of the population will be in the over 65s category and 5% over 80s. More alarmingly, in 30 years' time almost one-quarter of the population will be aged 65 and over.

The Irish property market is not sufficiently catering for its ageing population, and as the country ages further, the nature of residential accommodation provided will need to change. Various housing options are required for older people across the spectrum. For some with greater needs, this will be nursing home care. While for others, it will be retirement villages ranging from sheltered housing to communities with tiered levels of support that provide greater independence while also offering a level of care and amenities.

FORECASTED AGEING POPULATION



Source: CSO

NURSING HOMES

Due to changing demographics, the nursing home industry in Ireland has evolved and expanded in recent years, and will continue to do so. The number of larger operators with multiple centres has increased; there has been a move away from smaller centres to more efficient larger premises; overseas operators have entered the market; and many existing nursing homes have been extended.

At the end of 2019, there were 581 registered nursing homes in Ireland providing 31,642 bed spaces. This is about one nursing home bed space for every 21 people 65 and over or based on those 80 and over, there was one bed space for every five people. This is very similar to England where the figures are 22 and six respectively.

Encouragingly, stock levels continue to increase while simultaneously older accommodation that is no longer suitable is being removed from the market. Between 2013 and 2019, the overall number of bed spaces increased by 10%. However, a further 1,493 are under construction, and assuming no older properties are removed from supply, this will mean that stock levels will increase by a further 5% in 2020 (to 33,135 beds). The longer-term pipeline is also positive. At the end of 2019, planning permission was granted for 4,004 bed spaces nationwide that had not yet commenced with a further 2,034 beds in the planning system. Assuming all of these schemes progress and no older stock is removed from the market, the nursing home bed space stock will increase to almost 39,200. It is worth noting that the Government estimated in early 2019 that by 2031, 36,000 bed spaces would be required but this also takes into consideration the fact that other forms of 'age friendly' accommodation will also be provided over the next decade (this is discussed on the next page) hence reducing the dependence for nursing homes.

> "GIVEN THE AGEING POPULATION, SIGNIFICANT OPPORTUNITIES EXIST FOR INVESTORS AND DEVELOPERS."

RETIREMENT VILLAGES

Retirement villages combine high quality housing options for older people with tailored support services. Such accommodation helps residents maintain their privacy and independence, while also having the reassurance of on-site staff, communal facilities and options for care and support as needed. Lifestyle benefits for residents include a sense of community and lack of isolation; social events, leisure and wellness facilities; lounges, restaurants and cafes; gardens; on-site medical support, safety and security including technology solutions; and cleaning and laundry facilities.

Scheme tenure can be structured in various ways that allow residents to own their property either fully outright or through shared ownership (acquire a long leasehold and then pay rent on the remainder), or to rent. Internationally there is an emerging model of 'rent-to-rent', which allows older people to lease out their family home and use the income to rent a retirement apartment or bungalow.

Retirement communities have been a feature of international markets like the UK, US, Australia and New Zealand for some time with retirement stock levels ranging from about 2% of the total housing stock in the UK to the mid-teens in the US, Australia and New Zealand. In these countries in recent years, there has been an influx of private investment in the sector. However in Ireland, while there are some examples of small-scale schemes, mainly group schemes or sheltered housing, private investment and activity in the sector is minimal. Given the ageing population, significant opportunities exist for investors and developers.

It's estimated that by 2031, there will be the following housing requirements from older people:

Source: Housing Agency

150,000 PEOPLE
AGE FRIENDLY ACCOMMODATION

150,000 PEOPLE
DOWNSIZE WITHIN EXISTING COMMUNITIES

36,000 PEOPLE
NURSING HOME SPACES

OPTIONS

In 2016, the Housing Agency prepared a report entitled 'Housing for Older People: Thinking Ahead'. One finding was that if more age appropriate accommodation was available within existing communities, more older people would be inclined to downsize and could avoid unnecessarily moving into residential care. Following on from this, in February 2019, the Government released a policy statement on housing options for the ageing population, taking account of the varying levels of support required. It estimated that by 2031, there will be the following housing requirements from older people:

- Age friendly accommodation – 150,000 people
- Smaller dwellings designed to meet the needs of older people wishing to downsize within existing communities – 150,000 people
- Nursing home spaces – 36,000 people

These figures relating to 336,000 people account for about one-third of the total with two-thirds of older people remaining in mainstream housing. However, the figures relating to age friendly and smaller dwellings does highlight the potential in the retirement living market for investors and developers across both the mid and upper-markets.

THE OUTLOOK FOR THE DUBLIN LICENSED PREMISES MARKET IN **2020 IS POSITIVE.** THIS FOLLOWS ON FROM STRONG DEMAND FOR PUBS IN 2019

Bruxelles, Dublin 2

€51.3 MILLION

€23.4 MILLION

LOT SIZE €3.7m 2019

LOT SIZE €1.4m 2018

WE ANTICIPATE THAT A SIMILAR NUMBER OF PROPERTIES WILL TRADE HANDS IN THE SUB-€2M PRICE BRACKET

09 STRONG DEMAND

LICENSED & LEISURE

DUBLIN LICENSED PREMISES

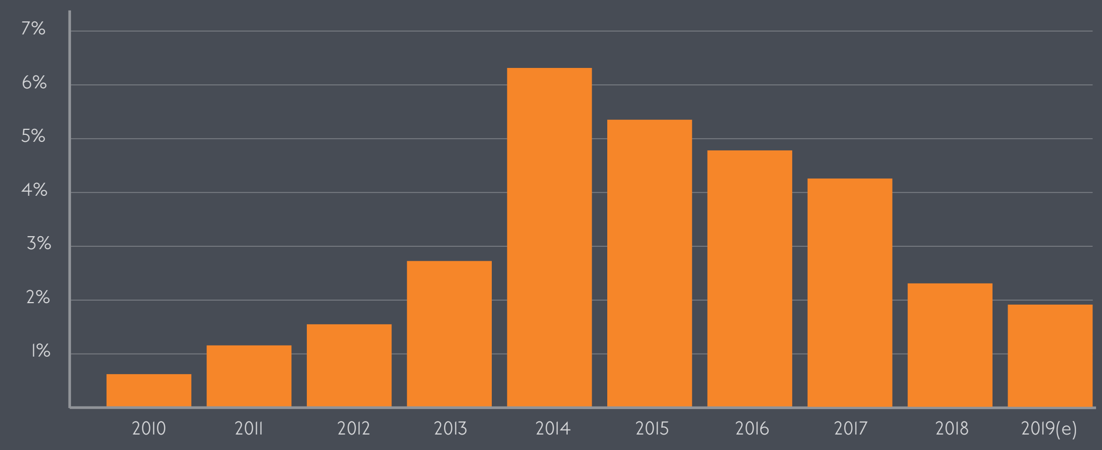
The outlook for the Dublin licensed premises market in 2020 is positive. This follows on from strong demand for pubs in 2019. By mid-December 2019, 14 transactions were completed, which comprised about 2% of Dublin's licensed premises stock. There were also several pubs sale agreed (such as Murray's in Kilmainham, a new opportunity at 37 Dame Street, The Old Punch Bowl in Booterstown, The Bowery in Rathmines and the Magic Carpet in Cornelscourt), which will add to 2020 sales. In 2020, we expect a similar number of transactions to complete. However, it should be noted that more normalised market activity levels are between 3% and 4% of stock each year. Unfortunately, despite the strong demand for properties, supply is not keeping up.

A notable trend in 2019 was the fact that higher value, well-located prime Dublin pubs were sold. The combined achieved prices of the 14 premises totalled €51.3m compared to €23.4m in 2018; increasing the average lot size to €3.7m from €1.4m the year previous. We do not expect to see as many prime assets come to the market in 2020 but we do anticipate that a similar number of properties will trade hands in the sub-€2m price bracket, as is the norm.

Off-market sales generally account for 30% to 40% of the licensed premises market and it remained a notable feature of the market in 2019. The largest off-market deal was Bruxelles on Harry Street, which sold in March to the Louis Fitzgerald Group for a reported €9.2m. In addition, there are some high-value off-market sales due to close in the opening months of 2020 and as such, this is a trend we expect to continue as the year progresses.

Suburban premises continue to be in demand, many of which are being considered for other uses. A high-profile sale in 2019 was Rosie O'Grady's in Harolds Cross, which was sold off-market for more than €5.5m for an alternative use. Additionally, the development potential of certain suburban pubs was highlighted by the sale of Uncle Tom's Cabin in Dundrum, where UTC Developments paid in excess of €3m for the property on 0.8 acres, which is zoned mixed town centre and residential.

PERCENTAGE OF DUBLIN STOCK SOLD (2010 – 2019(E))



Source: Lisney/Morrissey's

“ GROUP OPERATORS AND PROMOTORS WILL HAVE TO BECOME MORE FLEXIBLE AND OPEN TO NEW LOCATIONS OUTSIDE OF THOSE TRADITIONALLY CONSIDERED. ”

Davy Byrnes, Dublin 2

Trading levels have stabilised with only moderate growth forecast and as such, some owners are considering selling, as was the case in 2019. This is positive for activity and supply in 2020 as it will encourage other operators to sell.

DEMAND FOR LICENCES **REMAINS STABLE** WITH LICENCES TRADING AT ABOUT **€50,000**

The Old Punch Bowl, Blackrock, Co. Dublin

OPERATOR DEMAND

Group operators and promotors, such as PressUp and Bodytonic, will continue to be active in 2020. However, when they are seeking new premises, they will have to become more flexible and open to new locations outside of those traditionally considered.

PressUp added to its portfolio in 2019, acquiring a new restaurant lease, Mackenzie's, in the Opus Building at Hanover Quay and the leasehold interest in the Clarence Hotel in Temple Bar. It has further plans for 2020 including a new fully licensed restaurant in the former New Ireland offices on Dawson Street and the new Mayson Hotel on North Wall Quay.

Bodytonic recently took a lease on The Whitmore (former Porterhouse North) in Phibsborough and a lease on Jam Park (the former Wright Venue) at Airside Swords. We understand Bodytonic has further plans to expand. JD Wetherspoon continued its expansion in the Dublin market last year, securing licenses on Camden Street and Abbey Street. The Silver Penny on Abbey Street is open and Keavan's Port Hotel (pub plus an 89-bed hotel) is due to open in early 2020. It also acquired the HQ & Nutbutter bar and restaurant at Grand Canal, Dublin 2. We expect to see further activity in the year ahead from this operator.

SUPPLY

Retirement may also assist in bringing assets to the market in 2020. This was evident in 2019 with the sale of the leasehold interest in The Old Stand on Exchequer Street and Davy Byrnes on Duke Street. The success of these sales is encouraging for publicans who are considering retirement and selling their businesses.

In suburban locations, further supply could come from licensed premises that are on large sites and offer redevelopment potential. Some of these will incorporate a licensed premise use in the future as part of a mixed-use scheme, while others will not. An example of this is German supermarket retailer Lidl offering a site with planning permission for a 500sqm pub on part of the former Belgard Inn in Tallaght.

OTHER FACTORS

OTHER FACTORS

LENDING

The increased lending into the sector, both by pillar banks and non-traditional lenders, will continue. Alternative lenders have become a larger part of the market, particularly targeting large towns and suburban areas, but also competing with the pillar banks for the key-trading areas. We expect this to continue in 2020.

BREXIT

While the sector outlook is largely positive, the impact of external factors such as Brexit remain unknown. In spite of this, the licensed premises industry is an indigenous one and as a result is somewhat insulated from the possible affects of Brexit. It is however reasonable to expect that certain key tourist areas with a reliance on the UK market, such as Temple Bar, could be adversely affected.

LICENCES

Demand for both '7-Day Ordinary' licences and 'Spirit, Beer & Wine Retailers' off-licences remained stable throughout 2019 with licenses transacting at about €50,000. Appetite was derived principally from the off-licence sector with licenses being extinguished and transferred to new retailing concerns such as supermarket and convenience stores. Demand was also present from hotels, although not to the same levels as in the past. We expect to see similar demand in 2020 with licenses continuing to transact within the same price bracket.

THE MARKET TURNOVER WAS ABOUT **€240M** IN 2019 AND REPRESENTED 5% OF THE IRISH MARKET

58,000 sqm

10

CORK COMING ON STRONG

TRANSACTED IN 2019

THE LACK OF GOOD QUALITY STOCK AVAILABLE TO PURCHASE OR LEASE HAS LED TO **RENTAL AND CAPITAL VALUE INCREASES**

INDUSTRIAL

CORK

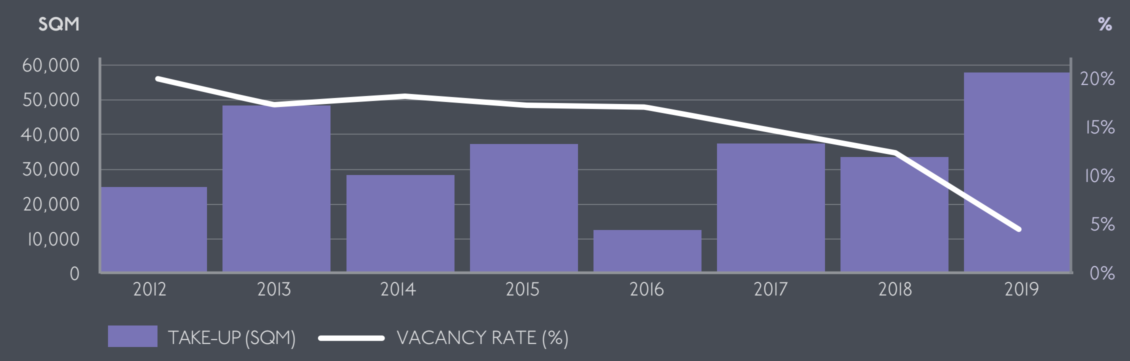
INVESTMENT

Cork's investment market continues to perform strongly, with market turnover at €217m in 2019. It represented about 4% of the Irish market, making it the second busiest location for property investment. Both international and domestic investors were very active in the market with those from overseas interested in prime, high-profile assets. This demand will continue in 2020 as the yields on offer are more enticing than Dublin returns. Interestingly, the retail sector made a resurgence in 2019 with several high-profile sales concluding; Mahon Point Retail Park (€56m), CastleWest Shopping Centre (€18m), a 35% interest in Opera Lane (€20m) and the retail element included in the sale of the Half Moon Street development. There was limited activity in the PRS sector, and the only significant sale was the 62 unit Park Avenue development on South Douglas Road (approximately €18m). We anticipate another good year in 2020 for Cork's investment sector, however the significant retail activity of 2019 is unlikely to continue, but we expect the office and PRS sectors to become the main focus once again.

INDUSTRIAL

With about 58,000 sqm transacted in 2019, the Cork industrial market was active throughout the year. This volume of take-up is in line with the annual average since 2012 and we anticipate a similar level of activity in 2020. There remains a lack of good quality stock available to either purchase or lease, particularly with dock level loading. In recent years, this lack of supply has led to rental and capital value increases. The top headline rent, at €86 psm (€8 psf) has almost doubled since 2012 and grew by 1.2% in 2019, while capital values have grown on average by 14% in the past year. We expect further value increases in 2020, which should encourage greater volumes of industrial development. Just 11,600 sqm was competed in 2019 with further development commencing in Blarney Business Park. Over 38,000 sqm has been granted planning permission and there is a further 36,000 sqm in the planning system. A decision is due in January 2020 on a planning application for a new warehouse development at Harbour Point Business Park, Little Island (19,000 sqm).

CORK INDUSTRIAL MARKET ANNUAL TAKE-UP AND VACANCY RATES (2012 - 2019)



Source: Lisney

15,000 sqm

TRANSACTED IN 2019

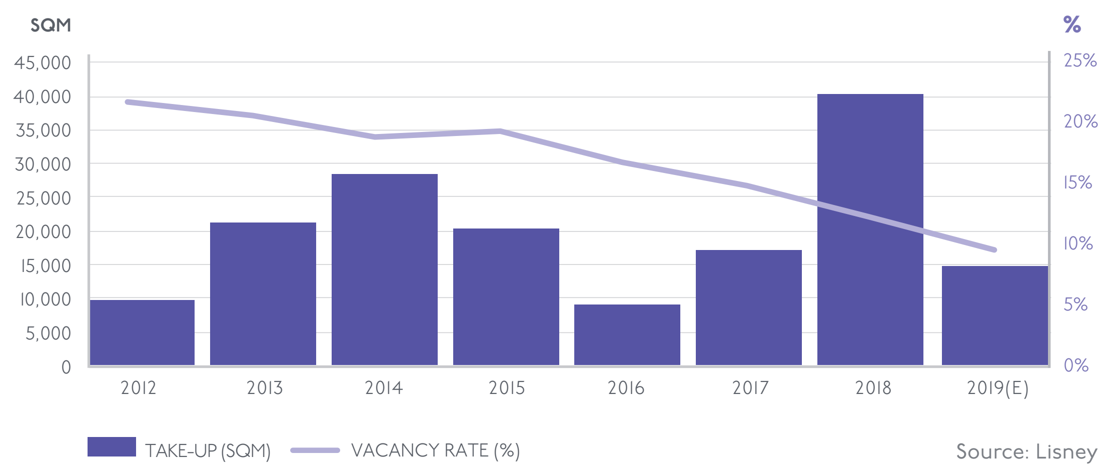
CORK'S OFFICE MARKET WILL REMAIN VERY COMPETITIVE IN 2020 AND ATTRACT BOTH FDI AND DOMESTIC OCCUPIERS

1 South Mall, Cork

OFFICE

The Cork office market was quieter in 2019 when compared to the exceptionally strong levels of activity recorded in 2018 (which was due to Apple completing its 15,000 sqm facility at Hollyhill). We estimate that total take-up in 2019 will be about 15,000 sqm, which is slightly behind the average annual level since 2012 (excluding Hollyhill). In spite of this, demand remains strong and we expect good levels of activity in 2020. Cork's top headline office rent, at €345 psm (€32 psf), is more than half the top Dublin rate, which will mean that Cork's office market will remain very competitive in 2020 and attract both FDI and domestic occupiers. Activity will also be assisted by the new high-quality office schemes that are under construction such as the Penrose Quay and Horgan's Quay developments as well as another phase of Navigation Square. While some of this has been pre-let, much of the 66,000 sqm under construction is being built speculatively and is available. There is approximately 135,000 sqm of office accommodation with planning permission but not yet started. It is split 47% suburbs / 53% city centre. For much of this accommodation to commence, particularly in the suburbs, developers and their funders will require a level of pre-lets to be in place. We expect to see some of these schemes start in 2020.

ANNUAL TAKE-UP AND VACANCY RATES (2012 - 2019E)



Source: Lisney

“THE OLDER AND MORE TRADITIONAL RESIDENTIAL AREAS CLOSE TO THE CITY ARE EXPERIENCING A REJUVENATION OF INTEREST.”

Coraville, Ballintemple, Blackrock

RESIDENTIAL

RESIDENTIAL

Both the second-hand and new homes residential markets remain active in Cork, despite the fact that in 2019 slightly fewer properties sold compared to the previous year. Based on figures available to the end of September, new homes accounted for 15% of all sales, compared to 17% in 2018. This reduction is likely due to the fall-off in schemes coming to the market because of the uncertainty created by the Government not confirming if it would extend the help-to-buy scheme until Budget-Day in October. This had the impact of stalling the market in the Spring. However, now that certainty is restored for a further two years, we believe that new home development will progress once again and 2020 will be a busy year.

In the second-hand market, first-time-buyers remain particularly active, notably up to €450,000. This is in line with the 3.5 times multiplier of salary set down by the Central Bank and reflective of the average salaries across Cork. As a result, there was multiple bidding on properties that were priced correctly in 2019, something we expect to continue in 2020. The older and more traditional residential areas close to the city are experiencing a rejuvenation of interest as more buyers focus on quality of life and easy access to all city centre amenities.

While the uncertainty of Brexit continues to trouble the mid to upper-end of the market in Cork, larger properties continue to sell. There was an increase in the number of Cork sales above €1m in 2019 compared to 2018. The highest price achieved in Cork city in 2019 was for Coraville on the Blackrock Road (€1,825,000), while the coastal locations of Schull, Glandore and Kinsale saw multiple transactions over €1m with Kilfinnan Castle in Glandore achieving €5.732m.

Lisney's residential property value index for Cork grew by 4.5% in 2019, however the pace of quarterly growth has slowed since mid-year. In spite of this, we expect continued increases in 2020, perhaps running at 3% for the calendar year.

RETAIL

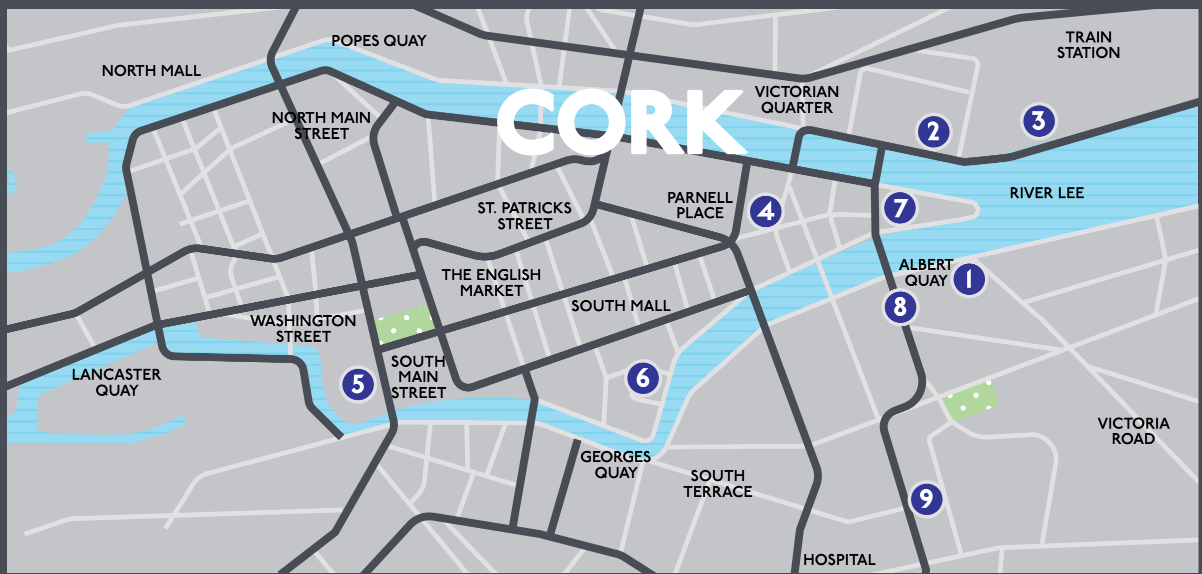
The retail market in Cork, like all other parts of the country, remains difficult with the trading environment for retailers competitive, affected by discounting and online offerings. The fire at Douglas Village Shopping Centre was one of the main talking points in the Cork market in 2019 with this centre now closed while sections are being demolished and rebuilt. Reopening is due in mid-2020. Also in the suburbs, and on a more positive note, Wilton Shopping Centre was granted planning permission for a €100m redevelopment in 2019, which will include rebuilding the Penneys anchor store along with the addition of a cinema and hotel, although the timeline for this is unknown.

At Merchant's Quay Shopping Centre, planning permission was granted last year to revamp the exterior and add a licensed restaurant at the upper level in the space that was previously occupied by Kylemore. Some works have commenced, and we expect these to be completed in 2020. JD Sports is extending its store at the Savoy Centre through to Patrick Street incorporating the former AWear store at Nos.111/112, which has been vacant for several years. The Card Factory opened in the former Oasis store at 77 Patrick Street and in December 2019 it was confirmed that North Face had leased 39 Patrick Street. These new occupiers and redevelopment works on Patrick Street are very positive improvements to the street's landscape.

Lisney's Shutter Count shows that in December 17% of units on the street were unoccupied. This is unchanged from both 2017 and 2018, but is slightly higher than that prevailing between 2011 and 2016 when it averaged 14%.

CORK CITY CENTRE DEVELOPMENT

Construction activity remains strong and proposals continue to be made for new developments in Cork city centre. These are across various property sectors including offices, residential, hotel and student accommodation. The most notable are set out below.



	LOCATION	DEVELOPER	SQM	STATUS
1	NAVIGATION SQUARE, ALBERT QUAY	O'CALLAGAHAN PROPERTIES	33,500	Once complete, Navigation Square will comprise a significant city centre office development, containing four buildings. Block A (13,720 sqm) is now complete and substantially let to Clearstream. Block B (8,830 sqm) is close to completion while Blocks C & D (8,665 sqm combined) have not yet commenced construction.
2	PENROSE DOCK, PENROSE QUAY	JOHN CLEARY DEVELOPMENTS	23,230	Penrose Dock, located on the North Quays, will contain two new office buildings (Penrose One 7,400 sqm and Penrose Two 15,800 sqm) along with the refurbishment of the historic Penrose House. Construction is well advanced and completion is scheduled for May 2020.
3	HORGAN'S QUAY	CLARENDON / BAM	37,100*	This is a major mixed-use scheme that will include three office blocks (37,100 sqm), 302 residential apartments, a 120-bed hotel, and retail and leisure uses (3,000 sqm). Works are ongoing on part of the office element, while the hotel is almost finished. *Office element only
4	THE PRISM, CLONTARF STREET	TOWER HOLDINGS	5,900	Full planning permission has been obtained for a 15-storey office building, adjacent to the city bus station. Construction has not yet commenced.
5	BREWERY QUARTER, SOUTH MAIN STREET	BAM	6,500*	The Brewery Quarter is a mixed-use development on the former Beamish & Crawford Brewery site. Works are nearing completion on the 413-bed student accommodation element but the scheme will also include offices, retail and a new events centre as part of a tourist and cultural hub. *Office element only
6	MORRISON'S QUAY	GREENLEAF GROUP & WARREN PRIVATE	7,800	Planning permission has been submitted for a 183-bed hotel and three offices (1,100 sqm) at Morrison's Island on the site of the former Moore's Hotel. Nos. 11, 12 and 13 Morrison's Quay are protected structures and they will be refurbished for the office space. Premier Inn, owned by Whitbread, will operate the hotel element.
7	CUSTOM HOUSE QUAY	TOWER HOLDINGS GROUP	31,600	A planning application has been submitted (and further information requested by Cork City Council) for a 240-bed, 34-storey hotel along with 25 serviced apartments at the Port of Cork site. As part of the overall scheme, both the custom house and the bonded warehouse will be retained, and retail and cultural spaces will also be included.
8	ALBERT QUAY	JOHN CLEARY DEVELOPMENTS		Planning permission was lodged in October 2019 for 201 build-to-rent apartments under the Strategic Housing Development process on the former Sextant Bar site. The proposed scheme will range in height up to 24 storeys and will contain various facilities and amenities, along with a ground floor café and public plaza.
9	RAILWAY GARDENS, SOUTH LINK ROAD	SEAMUS SCALLY		Planning permission was granted in December 2019 for 118 build-to-rent apartments under the Strategic Housing Development process on a site adjacent to the South Link Road. The proposed scheme will range in height up to 17 storeys and will contain various facilities and amenities.

CITY CENTRE DEVELOPMENT

INVESTMENT MARKET REMAINED SUBDUED WITH MARKET TURNOVER AT **£200M**

+70,000

PRS IS LIKELY TO SEE **SIGNIFICANT GROWTH** IN INVESTMENT VOLUMES

PEOPLE LIVING IN THE CITY BY 2035

CHALLENGING TIMES

BELFAST

INVESTMENT

The investment property market remained subdued in 2019 with turnover estimated at £200m, two-thirds of the five-year average. Given that Northern Ireland is the UK's only land border with Europe, it has frequently been in the headlines. This has resulted in Brexit uncertainty being amplified in the region and investment decisions difficult. Early 2020 is also expected to be challenging for the investment property market. The sector is traditionally dominated by larger transactions, often involving investors from outside of the region. This pool of external investors is now shallower than in the past and is likely to remain as such while the Brexit withdrawal agreement is unresolved. Despite this negativity, the perceived illiquidity has created opportunities for some investors. Those that can take a longer-term view can take advantage of the softening prices and better returns on offer compared to other cities in the UK and Ireland.

To blame all market issues on Brexit would be an over-simplification. Northern Ireland's investment market has traditionally been dominated by retail-led transactions. Given poorer consumer confidence, slowing price inflation and the structural shift in how people shop, the sector has seen a significant pausing in recent times. In spite of this, two retail parks sold in 2019; Crescent Link Retail Park in Derry (£30m / yield of 11.4%) and Sprucefield Retail Park outside Lisburn (£4m / yields of 8.7%). The yields achieved for these investments demonstrate the level of return on offer in Northern Ireland.

When quality investment opportunities are available in the other sectors of the market, there is investor appetite. This is likely to improve over the course of 2020. Rents in the office market continue to grow and there are healthy levels of occupier demand. This means that there may be some investors seeking to sell office investments and capitalise on recent rental uplifts and refurbishments. Notable transactions in 2019 included the sale of a 133,000 sq ft office building in the Titanic Quarter to Citi for £34m and the sale of Donegall House (35,000 sq ft) at 5-7 Donegall Square North for £9.6m / net initial yield of 5.63%.

Investors interested in the industrial sector will continue to be able to purchase existing properties below the replacement cost. Rents in the sector remain static but there will be some upward pressure for quality space in 2020. This will lead to better investment returns and greater levels of demand.

The alternative investment sector, a growing favourite for UK institutions, continues to grow in market share. The challenge for Northern Ireland is to harness some of that capital and deliver the product to facilitate investment. The private residential sector (PRS) is the most likely to see significant growth in investment volumes in the short to medium-term. There are several schemes in the pipeline and these dovetail with the ambitious plans of Belfast City Council to have an additional 70,000 people living in the city in 15 years' time. Having this many extra people living in the city centre will require significant strategic planning in terms of jobs, infrastructure and amenities to facilitate the flow of investment capital. PRS is an area to watch in the coming years.

INVESTMENT

Chichester House

M&S, Carrickfergus

OFFICES

The office occupational market remains active with an estimated 400,000 sq ft transacted in 2019. However, unsurprisingly in the context of Brexit, there was a dip in 2019 take-up when compared to the five-year average level of 450,000 sq ft.

A notable and very positive deal in 2019 was PWC's decision to take a further 46,000 sq ft (in addition to its original acquisition of 155,000 sq ft) to secure the entire of Merchant Square. This city centre building is being developed by Oakland Holdings and is located at the junction of Wellington Place and Upper Queen Street, combining the former Oyster House and Royston House.

Also in 2019, Deloitte announced that it had chosen Bedford Square as the location for its new HQ in Northern Ireland. Bedford Square is a 213,000 sq ft Grade A office development, being delivered by McAleer & Rushe. The development is due for completion in early 2021 and Deloitte will be the anchor tenant, having committed to 100,000 sq ft, which is expected to accommodate over 1,000 staff.

The tech and digital sector remain active, which is very much a positive for the Belfast market. This has been highlighted in recent research released by the government's Digital Economy Council and Digital Economy Advisory Group. It found that Belfast is one of the top four UK cities for high-paying digital jobs with over 16,000 new posts created in the last 12 months. This is a sector to continue to watch in 2020.

Another trend to continue to watch in 2020 is the further expansion of the co-working sector. Most existing operators are now close to full capacity, which provides additional opportunities. A notable new entrant to the market in 2019 was the 30,000 sq ft Eagle Star House on Upper Queen Street. This added 500 desk spaces to the city centre. A key question for the wider market now is if the growing supply of co-working / serviced office space will have a negative impact on the demand for 'traditional' floor plates of less than 5,000 sq ft as has been reported in other regional cities throughout the UK.

Entering 2020, the immediately available supply of Grade A accommodation within Belfast CBD is less than 200,000 sq ft, which is spread across several buildings. Encouragingly, there is still a strong pipeline of new stock due throughout 2020 and 2021.

RETAIL

2019 was another challenging year in the retail market. The ongoing political and economic uncertainty continues to supress consumer confidence, and the strong growth in online sales combined with a weak pound is squeezing retailer's margins. This has led to several high-profile retail insolvencies such as Debenhams, Arcadia, Mothercare, Bon Marche and Monsoon with the inevitable store closures.

Belfast city centre has held up reasonably well. There is good demand from retailers and leisure occupiers, which has maintained healthy occupancy levels and has helped underpin rents. The out-of-town market is also fairing relatively well. In 2019, retailers such as B&M, Lidl, M&S, Iceland and Home Bargains were all active with new openings.

While the strong urban locations and dominant out-of-town retail parks have managed to fill the voids created by retailer failures, some of the more regional locations continue to struggle and this is having a downward effect on rents in these locations. This trend will continue in 2020 and landlords will seek to keep occupancy levels from dipping.

Footfall in the city centre has been assisted by strong and growing tourism numbers in recent times. This will be assisted further in the short-term as the eagerly anticipated Ulster University campus is getting closer to completion. Increased footfall is fuelling selective demand from retailers and restaurant groups, both those entering the Belfast market for the first time or existing occupiers seeking to expand.

INDUSTRIAL

Total industrial activity is estimated to have fallen below 2m sq ft in 2019, a level that was achieved in preceding years. In spite of this, the prospects for 2020 are promising and good levels of activity in the industrial and logistics market is expected. The strongest demand will be from logistics operators, driven by retailers or those connected with ecommerce and online shopping. With this demand, rents of £4.50 psf and above will continue to be achieved on existing stock while capital values will range between £30 psf and £40 psf.

Key recent lettings include Greiner Packaging's take of 113,550 sq ft in Ballygawley, along with Terex taking 105,000 sq ft in Campsie in Derry and Huhtamaki leasing 57,000 sq ft in Antrim. While an investment sale, the most noteworthy industrial-related transaction in 2019 was Antrim Business Park, which comprised 580,400 sq ft of buildings on 30 acres, plus an additional 44 acres of development land. It sold in excess of the £12.5m asking price.

Entering 2020, the supply of warehousing and distribution accommodation greater than 20,000 sq ft remains extremely limited. However, capital values for second-hand stock are still well below the replacement cost, which makes new construction unviable. Demand from retailers for distribution accommodation may result in advanced distribution centres being considered in Northern Ireland, similar to that seen in other parts of the UK.

BELFAST

Various large-scale redevelopment projects are either ongoing or proposed for central Belfast in the coming years. The map opposite outlines some of the key developments.

CITY CENTRE DEVELOPMENT

	KEY DEVELOPMENTS	STATUS
1	ULSTER UNIVERSITY	Ulster University's move from Jordanstown to its new £263m city centre campus is progressing and will be ready for occupation in 2022. The new campus will be in the Cathedral Quarter, the artistic and cultural centre of the city. Work recommenced in 2018 following the failure of the main contractors and phase one is complete. There is significant interest in PBSA in this area, which is acting as a catalyst for regeneration.
2	WEAVERS CROSS (THE BELFAST HUB)	This almost 20-acre site, adjacent to the city centre, has been identified as a new neighbourhood. It is the existing site of the Europa Bus Centre and Great Victoria Street Train Station. At the centre of the proposals is a new public transport hub along with over 1m sq ft of commercial accommodation. Site clearance is complete, and the first phase commenced in December 2019. A key theme of this project is 'regeneration through reconnection', aiming to 'bring to life the area's past, regenerating its present and reimagining its future to benefit the whole community'.
3	BELFAST WATERSIDE (FORMER SIROCCO SITE)	This 16-acre former industrial site is at Short Strand and adjacent to Bridge End and the River Lagan. A masterplan has been devised and in June 2019, Osborne + Co had its proposals approved by Belfast City Council's Planning Committee. This is a £400m scheme comprising 675 residential units, a hotel, serviced apartments and creative working spaces. Additionally, planning permission was granted in August 2018 for a 13-storey, 250,000 sq ft office building, which will be completed 2021. The masterplan also includes proposals for community, cultural and leisure facilities such as cafes, bars, restaurants, a gym and local retail. In terms of the residential element, it will include a mix of home types and tenures to assist in developing a new vibrant community that will include a mix of affordable and social, along with private homes to rent or to purchase.
4	TRIBECA BELFAST (FORMERLY THE NORTH EAST QUARTER)	This 12-acre site in Belfast city centre was previously the Royal Exchange. A £500m regeneration project was proposed, which would have provided 1.5m sq ft of residential, office, retail and restaurant accommodation. However, in 2019 the developers, Castlebrooke Investments, altered designs following opposition. A 10-week public consultation process was carried out and in September, an outline planning application was submitted, which included a reduction in height of the office scheme at the corner of Rosemary Street and North Street from 27 storeys to 10 storeys, as well as the retention of non-listed facades on Donegall Street and North Street. The retail space was downsized and the underground car park at Writer's Square was dropped.
5	ERSKINE HOUSE	Erskine House is on Chichester Street and is nearing completion with fit-out works ongoing at the end of 2019. It comprises a new eight storey, 105,000 sq ft office building with retail space on the ground floor. HM Revenue & Customs has signed an agreement to lease the office space for 25 years and is expected to take occupation in early 2020. Anthropologie, the fashion and lifestyle retailer, has opened a store on the ground floor.
6	BEDFORD SQUARE	McAleer & Rushe continue construction works at Bedford Square on an £85m, 213,000 sq ft Grade A office scheme. This is due for completion in early 2021 and Deloitte will be the main tenant, having already committed to about 100,000 sq ft of space for over 1,000 employees. This will be Deloitte's HQ in Northern Ireland.

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Designed by **FUSE.ie**

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