Lisney

2015

Review **2015** & Outlook **2016**

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The supply and demand mismatch remained a fundamental issue in the Dublin residential market in 2015.

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CORK

CORK

The residential market in Cork continued to strengthen in 2015 with price growth experienced in the key urban areas.

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OUR VIEW

INTRODUCTION

There's no doubt the property market has improved with a general uplift in values and volumes across both residential and commercial property markets.

There's no doubt the property market has improved with a general uplift in values and volumes across both residential and commercial property markets. It's clear that Ireland is now firmly on the target list for foreign investors with a substantial amount of overseas capital still chasing property assets.

Last year, the commercial aspects of our business were exceptionally busy. Some of the highlights included assisting with the sale of Project Arrow (NAMA loan book with a par value of approximately €6bn); the acquisition of Block R Spencer Dock on behalf of the Central Bank of Ireland (€104m); the sale of the Bloodstone Building for Blackstone; and the sale of a significant development site on Sir John Rogerson's Quay in Dublin city centre. We were also pleased to appoint Ronan Diamond as a director of the company in recognition for the outstanding work he has done in our professional services/valuations department. Other promotions included both Maeve Furlong and Christopher Belton who were appointed as divisional directors.

On the residential side of our business we were busier than ever. Our sales volumes and values were up on previous years and ahead of PSRA benchmarks. During the year we opened a new Dundrum office which is being run by Darren Chambers (described by the Irish Times as a 'Lisney firebrand') who relocated closer to home from Drumcondra where he had spent the previous 13 years. Eoin O'Toole now heads up the Drumcondra office having spent the last five years working directly with Darren. We also promoted Louise Kenny to a divisional director and she relocated from the city centre and is doing great things now running our Terenure office. Over the next 12 months there'll be plenty more activity in the residential market and towards the summer we'll be opening a new office in Killester as part of our plan to grow our business in targeted areas with our eyes on some further locations.

In the coming year, we've a strong pipeline of development work both with new homes and office schemes. Related to this we are particularly pleased to be selected as a joint agent to the iconic Boland's Quays scheme where approximately 18,515 sqm of new offices will soon be constructed replacing the existing mill building.

Due to the global merger of Cushman &Wakefield and DTZ we will no longer be Cushman & Wakefield's affiliate partner in Ireland as through the merger of the two businesses (C&W and DTZ), the new entity inherited a 20% ownership in a local business in Ireland. For our part we have traded as Lisney for over 80 years and whilst this is disappointing, our ethos and team are committed to providing our valued clients with an outstanding service.

As we progress through 2016 we've further changes planned that will bring Lisney through the next phase of expansion. After a four year term as managing director, I'm pleased to tell you that Duncan Lyster will take over the position from the 1st April and I will step back into office agency on a full time basis.

As ever, we'd like to thank all our clients and friends for their continued support and we look forward to working with you in 2016.

JAMES NUGENT MANAGING DIRECTOR
January 2016

02

A VIEW ON 2016

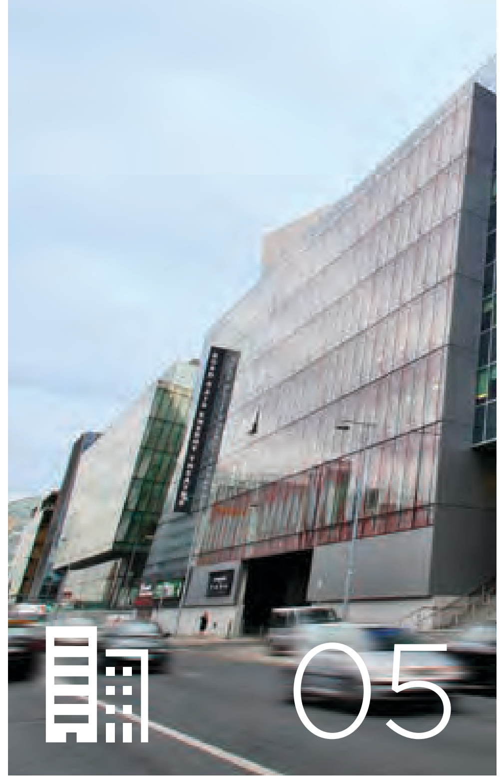
Residential 2016 should be a more stable year in Dublin with prices likely to increase at a sustainable 3% overall. Due to the lending rules, prices will need to align with buyers' affordability.

01

Investment With pricing maturing over 2014 and 2015, the best investment opportunities in 2016 will involve taking greater risk. Investors who can develop, refurbish, extend, lease or asset manage properties should make strong double digit returns.

02

Offices The amount of good quality available space will dwindle and occupiers will have little choice towards the end of 2016. In the short-term, premiums will return for leases of well-located city centre offices.



05

Loan Sales Following a number of bumper years, 2016 is likely to be the last significant year of property-backed loan sales in Ireland.

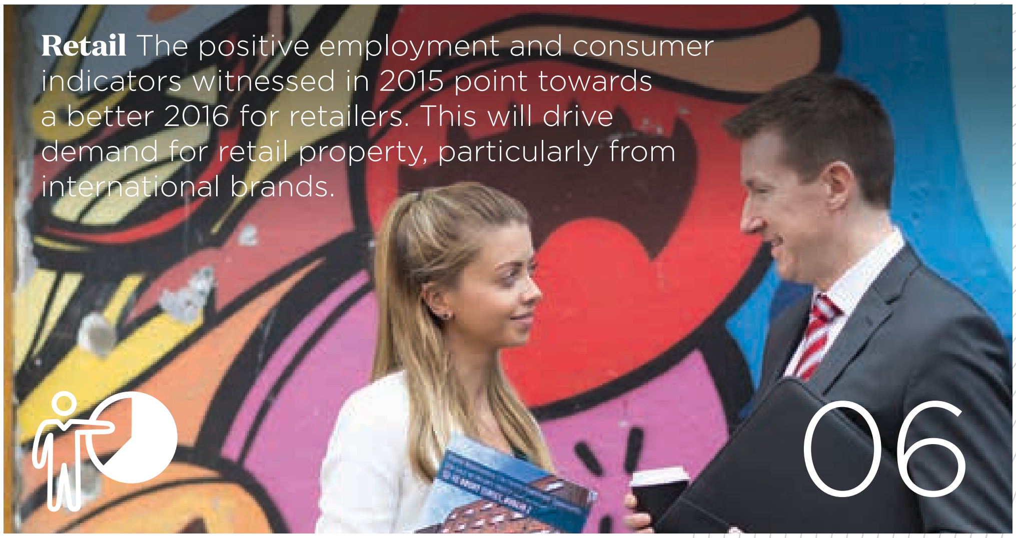
FOR SALE

03

Development Demand will remain greatest for sites with planning permission in Dublin and the surrounding commuter towns, in addition to other key urban areas. A number of high profile sites are due to come to the market in 2016.

04

Lisney's sneak peak at what's coming in the year ahead in the property market.



Retail The positive employment and consumer indicators witnessed in 2015 point towards a better 2016 for retailers. This will drive demand for retail property, particularly from international brands.

06

New Homes The impact of the Urban Regeneration and Housing Act 2015 and the new guidelines on apartment sizes are likely to start to be seen in 2016, which should lead to an increase in planning applications.

07

Industrial Pre-letting and pre-sales transactions, in addition to speculative development, will increase in the medium-term. The rental and capital values sought for these buildings will be at higher economical rates that justify development.

08

Cork Across all commercial sectors, prime yields will continue to contract and rents will increase. In residential, the supply of second-hand properties for sale should improve as should the number of new properties constructed.

09

Northern Ireland The volume of investment transactions in 2016 will depend on whether the remaining larger distressed assets will be subject to restructure or sale. In offices, the availability of good quality stock will remain an issue and some occupiers will be forced to consider older space.

10

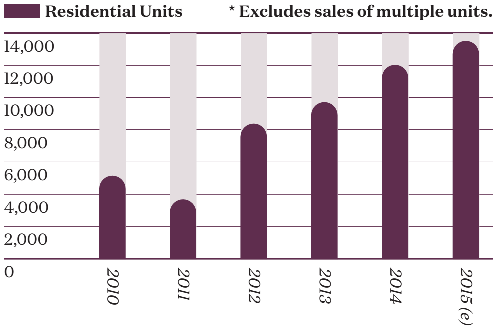
02

LIVING QUARTERS

RESIDENTIAL SALES

The supply and demand mismatch remained a fundamental issue in the Dublin residential market in 2015.

DUBLIN RESIDENTIAL UNITS SOLD* 2010 - 2015



Source: *Property Services Regulatory Authority, Lisney*

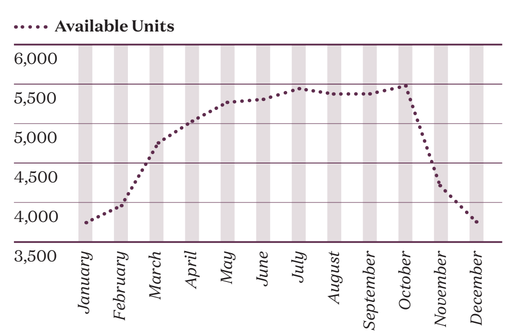
ABOVE:
Longacres
Portrane, Co Dublin
€1.4m

New home construction was well below the required levels and while the number of second-hand properties for sale increased in the early months of the year, this did fall back to lower levels towards the end of the year. The new mortgage rules on the amount banks can lend on a purchase had an impact on the market and were a key talking point throughout the year. In spite of this, the volume of sales increased when compared to previous years. While the number of cash purchasers remained high, their representation did fall slightly.

Following exceptional price growth in 2013 and 2014, we saw prices correct in 2015 as both buyers and sellers adjusted their expectations. Buyers were suddenly more constrained in what they could borrow and ultimately pay for a property and consequently, vendors had to appreciate that prices were linked with both savings and earnings.

The Central Bank's macro prudential regulations on the required size of a deposit and earnings multiple to buy a property were introduced at the end of January. There is no doubt that the rules had an effect on the market, most critically in Dublin. First-time buyers were very restricted and found themselves having to save for longer. But the impact was also evident at the mid-level market, between €400,000 and €700,000, where buyers were much more constrained, particularly as a result of the earnings multiple requirement. As a result, there was some evidence of a two-tiered market, whereby purchasers who were heavily reliant on finance could afford to spend less compared to those who had access to cash.

SUPPLY IN DUBLIN 2015



Heading into 2015, expectations for growth were favourable, albeit a little unsure given the uncertainty surrounding the introduction of the mortgage rules and the ending of the CGT holiday. We noticed the pace of price growth slowing in the final few months of 2014, but in spite of this, we did expect to see a small increase over 2015. This was not to be the case. We witnessed price falls in the first half of the year, before prices stabilised and then grew slightly in Q4. In the parts of Dublin we operate in, the Lisney index of prices ended the year 4% less than 12 months previous.

Despite the softening in prices, the number of properties sold grew when compared to recent years. Over the first nine months of 2015, just under 10,000 properties transacted in Dublin (this excludes multi-unit sales), a 20% increase on the same period of 2014 and a 58% increase on 2013. While the full years' data is not yet available, it is likely that about 13,500 properties sold. This would mean that 2.5% of Dublin's housing stock changed hands, well ahead of 2014 when just 2% of the stock was sold. International evidence indicates that between 3% and 4% of the stock should transact annually.

Comparing units sold to new mortgage drawdowns gives an indication of the number of cash purchasers in the market. This data is only available on a nationwide basis, but demonstrates that of the 32,100 properties sold nationwide up to the end of September, 54% (or 17,200 properties) were mortgage funded with the remaining 46% purchased fully with cash. Cash purchasers made up 50% of the market in 2014 so their dominance declined slightly.

ABOVE:
22 Delbrook Manor
Ballinteer, Dublin 16
€780,000

BELOW:
42 Claremont Road
Sandymount, Dublin 4
€1.67M

ABOVE:
1 Auburn Villas
Rathgar Road, Dublin 6
€940,000

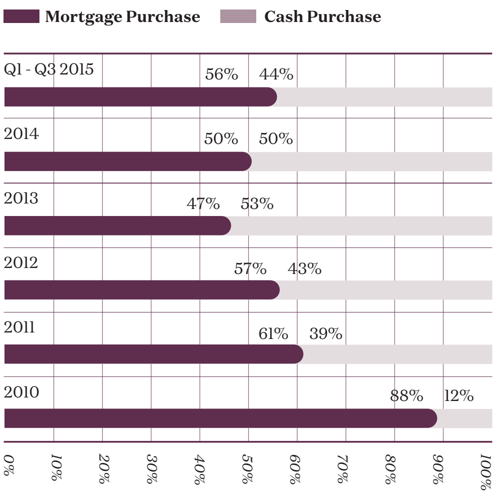
BELOW:
1 Sleeping Meadow
Kilternan, Co Dublin
€845,000

BELOW:
20 Farney Park
Sandymount, Dublin 4
€950,000

LEFT:
Elstow
25 Knapton Road
Monkstown €1.6m

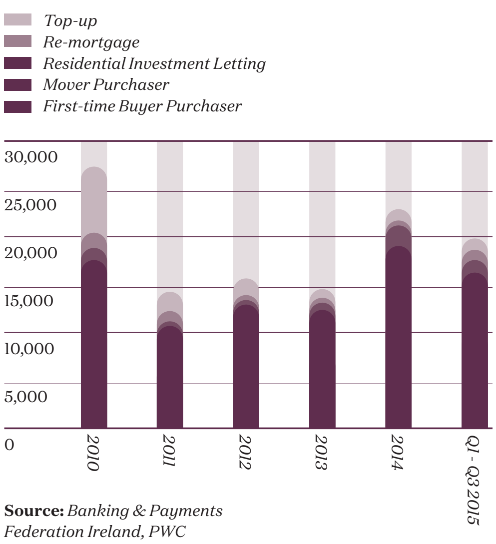
BELOW:
Phoenix Hill
Islandbridge, Dublin 8
€760,000

CASH PURCHASER V MORTGAGE PURCHASE (NATIONWIDE)



Source: *Property Services Regulatory Authority, Banking & Payments Federation Ireland, Lisney*

BPFI/PWC MORTGAGE MARKET PROFILE
NUMBER OF RESIDENTIAL MORTGAGE LOANS



Source: *Banking & Payments Federation Ireland, PWC*

From our experience, the percentage of cash purchasers in Dublin is generally less than the national figure. Surprisingly, we have found that most of our cash sales are for houses at prices greater than €1m. This upper-end of the market is made up of a relatively small cohort of potential purchasers. Their demand was strong for prime properties and when such a property came to the market, there was often multiple bidders competing.

Interestingly, new mortgages increased by 30% in the first three quarters of the year compared to the same period of 2014. However, the vast majority of these were likely to have been approved prior to the introduction of the new rules.

In terms of new construction, only about 2,850 units were built in Dublin in the year. This is 13% fewer than that of the previous year and almost 65% below the long-term (45-year) average. The lack of building is a very hot topic and it is very unfortunate given the demand that is present. Ideally, at least 7,000 residential units per annum are required.

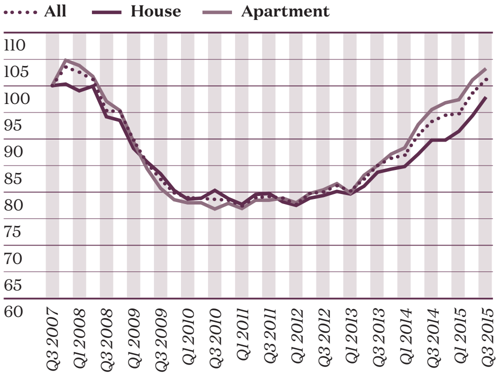
With second-hand supply, the number of properties for sale increased on a monthly basis over the first six months of 2015, going from about 3,700 properties to 5,400. However, over the second half of the year, the numbers started to fall again and at the end of December was back to approximately 3,700.

LEFT:
Shieling Square
Howth Road, Raheny – 27 apartments leased in the scheme since November 2015.

RENTAL MARKET

The demand for rental properties in Dublin was unrelenting in 2015. With supply at exceptionally low levels and rents continuing to rise, the market was very challenging for those wishing to rent accommodation.

PRTB DUBLIN RENT INDEX



Source: *Private Residential Tenancies Board*

The latest rental index by the PRTB shows that Dublin rents grew by 8.7% over the 12 months to the end of September 2015 with houses rising by 9.3% and apartments by 8.3%. This means that Dublin rents are just 2.3% below 2007 levels and have risen by 32.3% since 2011 when they were at their lowest levels.

In terms of supply, Daft.ie data show that the number of available rental properties in Dublin remained at low levels throughout the year, at between 1,500 and 1,800 at any given time. This compares unfavourably to five years previous when the average supply was close to 6,000 units. This undersupply is due to increasing demand (growing population and future purchasers renting for longer) and from our experience, the falling number of landlords in the market.

In a bid to protect tenants in the private rental sector from rapidly rising rents, the government introduced a number of measures in early November. Notably, landlords will now only be able to increase the rent every two years rather than annually and tenants must be given 90 days' notice of any uplifts. As part of this, landlords must provide the tenants with details of three comparable lettings, i.e. similar rent levels in place for similar unit types in the area. While the impact of this has yet to be seen (Q4 PRTB rental data not yet released), it may be the case that the 24 month rent freeze will lead to some loading of rents as landlords look to build in some growth, and while supply is short, this is going to be difficult to avoid. However, it has been stated that the restriction will only last for four years and then the legislation will cease. This means that by 2020, landlords will be in a position to once again review rents as often as the lease contract allows. In terms of the 90 days' notice, it is almost treble existing periods but it is not a major cause for concern.

Where some issues may arise, particularly for small scale private investors with one or two properties (as opposed to larger investors with hundreds of units), is in sourcing comparable lettings. Landlords currently rely on prevailing quoted rents listed on property portals such as Daft and MyHome as the basis for calculating market rates. This is because there is no publically accessible database of residential lettings. Consequently, it will be very difficult for investors to get full information of lettings to provide the required three comparisons. In this regard, the PRTB currently produces a register of all tenancies with the address, house type, number of bedrooms and the floor space, but no rental levels are listed. Searching this register is very cumbersome and it is not user friendly. But it can and should be improved so that landlords and tenants will have reliable data to base any rent review on.

Measures relating to the termination of a lease were also announced. Where landlords wish to terminate a lease so that they can either sell the property

or allow a family member to take up occupation, a statutory undertaking must be given so that no tenants are required to vacate under misleading circumstances. Linked to this, increases in notice periods were introduced.

A new deposit protection scheme will also come into operation. This will be managed by the PRTB, which will hold the rental deposit for the duration of the lease. At the end of the lease the deposit will be returned to the tenant unless there are any disputes. If a dispute arises, the parties will apply to the PRTB for dispute resolution. On the face of it, this appears to be a sensible measure. However, the mechanics of it and the speed at which deposits will be returned may pose an issue for tenants, particularly those who need it for on a new tenancy.

Additionally, tax reliefs will be introduced to encourage landlords to rent their properties to tenants in receipt of social-housing supports such as the rent supplement. These landlords will be able to claim 100% interest relief, up from the current 75%. However, accommodation must be provided for a minimum of three years and registered with the PRTB.

Another notable measure affecting the rental market in 2015 was the introduction of the new apartment standards in December. Where schemes of 50 or more apartments are being built specifically for the rental market (referred to as 'build-to-let managed schemes'), then some studio apartments will be permitted. We believe this is a positive step and is in line with the Government's Construction 2020 strategy where there was a policy towards professionalising the private rental sector. While some argue that it is a return to shoebox apartments, we are of the opinion that well-designed studio apartments have a place in the market (as they do in other leading cities globally) and will be in demand, particularly by single people working in international companies in the docklands.

ABOVE LEFT:
22 Limekiln Road,
Terenure, Dublin 12
€491,000

ABOVE RIGHT:
47 The Rise
Glasnevin, Dublin 9
€480,000

BELOW:
Ballystrahan
St Margaret's, Co Dublin
€550,000

OUTLOOK

01: *The Dublin residential sale market adjusted and stabilised in 2015. As such, we believe that 2016 will be a more steady year in Dublin with prices likely to increase at a sustainable 3% overall. Due to the lending rules, prices will need to align with buyers' affordability.*

02: *Ultimately, we believe that the macro prudential rules are a positive development. All participants now know where they stand – buyers have a clear understanding of what they can borrow and vendors appreciate their expectations have to adjust accordingly. However, we welcome the confirmation by the Governor of the Central Bank that the rules will be reviewed in 2016. We believe that Dublin and other higher value urban areas may need to be considered in isolation of the rest of the country.*

03: *With Australian company Pepper entering the market as a new lender, competition among mortgage providers should improve in 2016.*

04: *The new measures in the rental market provide some security to tenants. But they do not address the bigger issue, which is the lack of supply. Further incentives need to be implemented to assist with this – though new construction or encouraging private landlords to enter (or indeed remain) in the market by reversing some of the policies targeted at them in recent years (such as subjecting rent to PRSI and USC, landlords liable for the LPT, and reducing mortgage interest relief).*

04 DEVELOPMENT LAND & NEW HOMES

Demand for development land in Dublin in 2015 continued to stem from the supply shortages of both residential units and prime modern office accommodation.

ABOVE:
115 acres M7 Kildare Town junction
Zoned part residential and part industrial
Sold for €3.5m

Activity in the sector started off slowly early in the year, when compared to the previous year. Much of this was due to the uncertainty surrounding the Central Bank's regulations on residential mortgage lending. However, activity levels strengthened as the year progressed with some notable mixed-use city centre redevelopment opportunities and suburban residential sites selling.

Buyers remained a mix of national and international investors / developers. For larger opportunities, it was evident that blended buyers were a feature of the market, whereby international private equity financiers were joining forces with local developers who had experience and market knowledge. For smaller, infill sites, the market was much more indigenous in nature. Land values across some areas continued to increase, particularly sites benefitting from planning permission.

Home buyers are once again considering towns within commuting distance of Dublin due to higher prices in the capital and more affordable homes in these areas. As a consequence, over the year, there was a notable increase in demand for residential sites in the counties surrounding Dublin with some strong prices paid. Various sales in Kildare, Wicklow and Meath are examples. Of particular note is a site in Maynooth, Co Kildare that NAMA disposed of by way of licence agreement with builders in a bid to fast-track residential development. This comprised a 15 acre site with planning permission for 136 units. In evaluating proposals, the agency took account of the level of the offer and structure, the builder's track record and proof of funding.

Outside the greater Dublin area and the other larger cities, demand for sites was weaker but improving. In these areas, not all development is yet viable but is becoming more so given the growth in residential prices over 2015 (according to the CSO, nationwide prices, excluding Dublin, grew by 9.6% in the year to November 2015).

KEY DUBLIN DEVELOPMENT LAND TRANSACTIONS

In terms of high profile opportunities, some significant sales occurred in central Dublin. Of particular note, Project Trinity (the site of the Ballsbridge and Clyde Court hotels) was acquired by Chartered Land in conjunction with the Abu Dhabi Investment Authority for a reported €170m. The entire extends to 6.8 acres and has planning permission for a mixed-use high density office, residential, hotel and retail / leisure scheme, which runs until 2021. Demolition is due to start on the Clyde Court Hotel early in 2016 to make way for a residential scheme. Also in Ballsbridge, part of the AIB Bankcentre campus (four vacant office buildings on 3.7 acres) was acquired by Ronan Group Real Estate and Cardinal Capital for approximately €67.5m.

Hibernia REIT was active in terms of redevelopement opportunities in the first few months of the year. In February, it acquired the Garda HQ on Harcourt Street for a reported €70m in an off-market transaction and in March, it purchased Cumberland House on Fenian Street for €49m.

Other mixed-use sites in Dublin city centre where transactions occurred included 20-27 Sir John Rogerson's Quay / Lime Street (1.8 acres) and Tara House on Tara Street, where CIE was seeking a development partner on its 0.3 acre property. Additionally, in a deal valued at a reported €40m, a development agreement was reached on the 2.3 acre former An Post site on Cardiff Lane with New Generation and M&G.

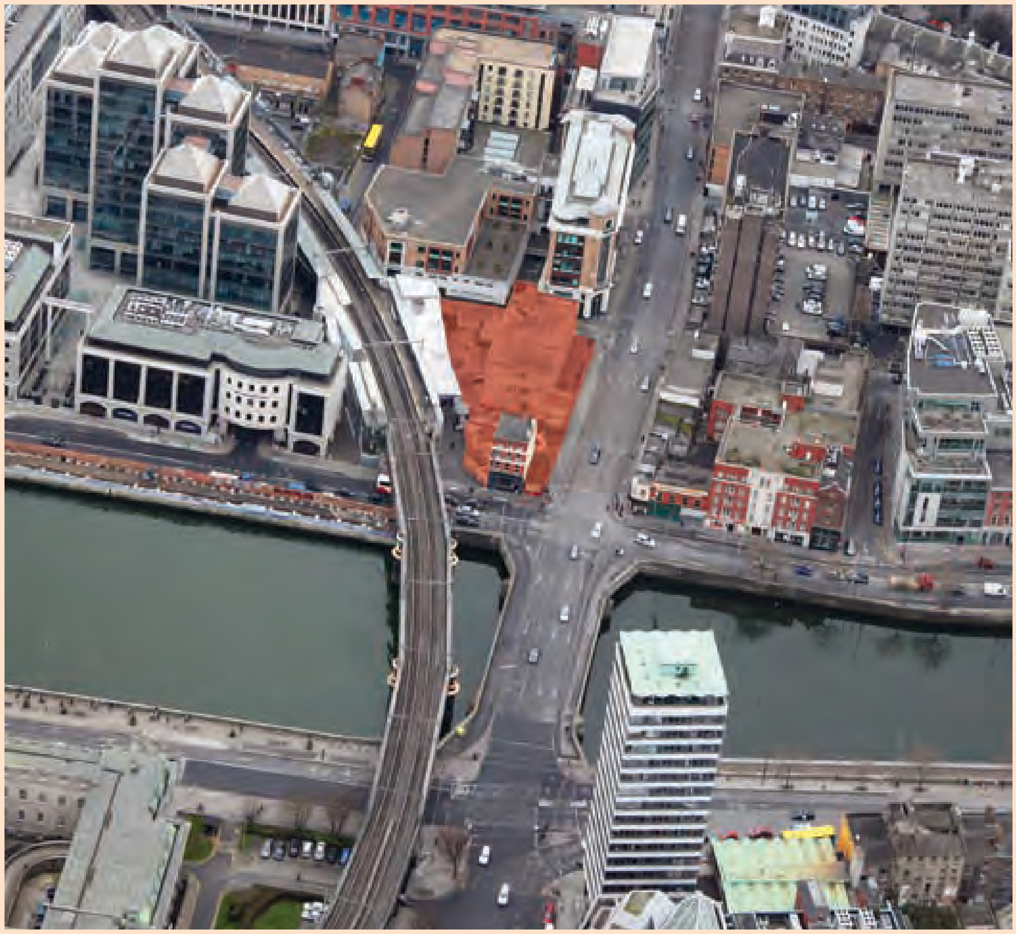
New Generation also bought a number of suburban residential sites. Examples included the former Kylemore Clinic in Killiney (3.3 acres) for €5m, the Walled Garden at Wyckham Point in Dundrum (2.8 acres) for a €7m and the former Europa Motors site in Blackrock (1.3 acres) for €7.5m.

In terms of other residential sites, Knockrabo in Mount Merrion (18.4 acres) was one of the largest housing sites to sell in Dublin during the year. Its future development potential is limited by the fact approximately 8 acres of the site, including a setback, is reserved for the proposed Eastern By-Pass. In spite of this, it has planning permission for 88 units plus the preservation of the existing gate lodge. In Goatstown, a 50% interest in the former sports grounds of the Irish Glass Bottle Company (10.0 acres) was sold for €7.75m, while in Rathgar on Orwell Road, Cairn Homes purchased Marianella (8.1 acres with planning for 111 units) for a reported €42m. On Brennanstown Road, the Barrington Tower site (7.8 acres with planning for 149 units) is understood to have been sold for less than the asking price of €18m; in Rathfarnham, Bolton Hall on 4.8 acres (planning for 20 new units) achieved €4.7m; and in Stillorgan, the former Esmonde Motors site (1.4 acres) was sold for €5m.

Mid-year, it was announced that DCU were the purchasers of the 16.7 acre All Hallows campus in Drumcondra, which is likely to be used for student accommodation. Nearby, Dalymount Park in Phibsborough was bought by Dublin City Council but it has been reported that this site will remain in sporting use.

ABOVE:
20-27 Sir John Rogerson's Quay/Lime Street
1.8 acre city centre mixed-use site

FOCUS ON: DEVELOPMENT VIABILITY AND FINANCE



RIGHT:
CIE agreed a deal with a development partner on its 0.3 acre Tara Street property.

The viability of new property construction depends on various factors relating to the cost of construction and the end value of the scheme.

With property values generally improving, this side of the equation has become more favourable and consequently further schemes became realistic in 2015. This is further supported by recovering employment and the economy. However, some costs can still be an issue such as VAT on new housing, development levies (despite the reductions), increased standards in terms of energy efficiency and compliance (which are positive but more expensive to implement) and rising tender costs (up by 5.5% in 12 months to Q2 2015).

Another cost to the developer is the interest they must pay on finance, both on site acquisition and on construction. Over the last 18 months, the availability of finance has improved but is still nowhere near an optimal level and its cost can vary significantly depending on financier. Current sources in the market include:

- **Private Equity** – funds that have joined up with Irish developers and directly financed projects. The cost of this capital varies but can be expensive. Rates in the early to mid-teens have been known to be charged but developers who are only seeking capital to construct are willing to accept these rates.

- **IPOs** – Cairn Homes floated on the London Stock Exchange in June and raised approximately €400m in new capital to fund its purchase and development of sites in Ireland. Other players in the market may also be considering this route.

- **REITs** – similar to Cairn Homes IPO, the three listed Irish REITs (Green, Hibernia and IRES) are primarily funded through stock market investors.

- **Strategic Investment Fund** – the former Pension Reserve Fund has become the Ireland Strategic Investment Fund (ISIF), the aim of which is to facilitate a redeployment of the resources on a commercial basis to areas of productive development. There is a requirement for 'double bottom line' whereby any investment must provide an economic impact as well as an investment return. Activate Capital, a joint venture between ISIF and private equity firm KKR (split 65/35), was set up as a lending platform for property development with €500m to invest.

- **NAMA** – it has funded residential schemes at very low rates of approximately 6% for developers whose loans are still managed by NAMA.

- **Banks** – traditional bank lending is generally, although there are exceptions, only on offer on very prime opportunities in key areas and they must already have planning permission.

- **Cash** – there are various domestic builders who are using their own cash to fund purchases and schemes mainly of a smaller nature.

DUBLIN NEW HOMES

The New Homes market was very much in the spotlight in 2015.

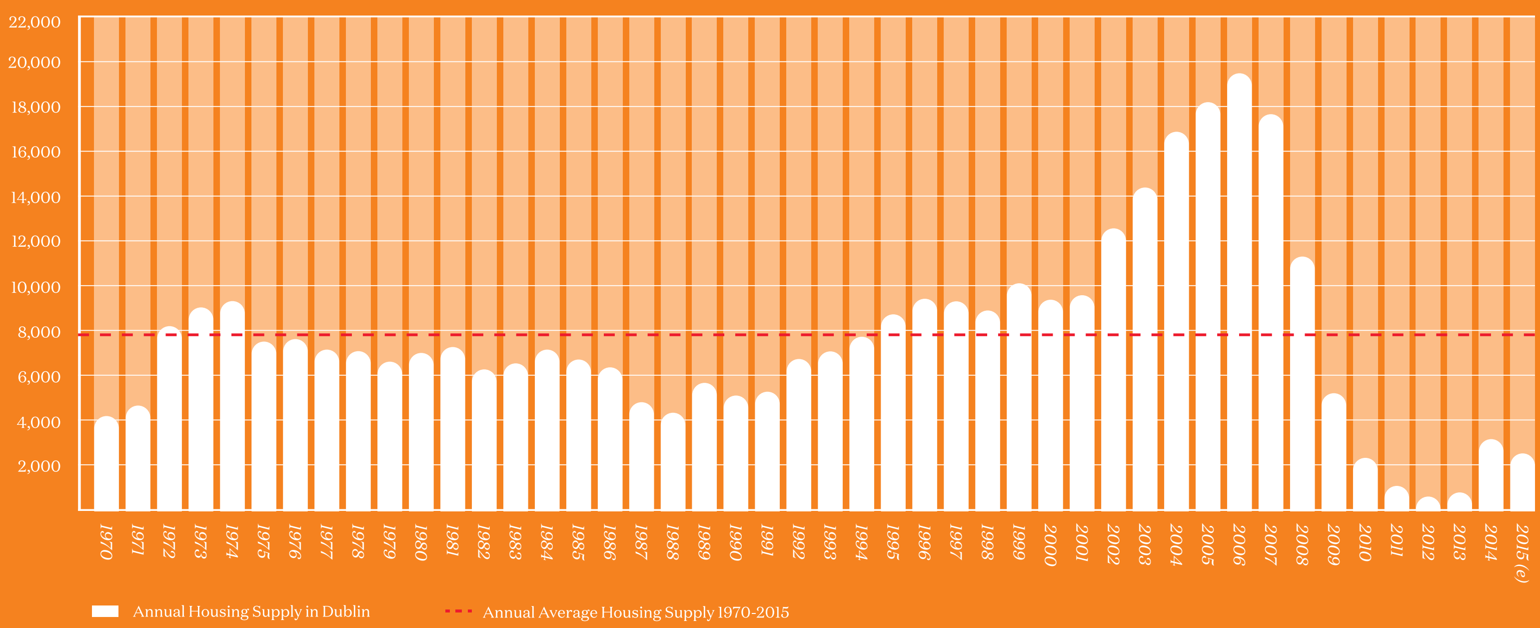
With approximately 90 new homes schemes on the market in Dublin at the end of December, the under-supply of new units was very evident. But it is worth noting that this is 80% more schemes than 12 months previous.

The viability of new construction in additional areas did improve over the year and was further enhanced by the Urban Regeneration and Housing Act 2015 in July. This legislation retrospectively applied lower development contribution rates on planning grants from prior to the 2013 / 2014 revisions while also reducing the Part V requirement to 10% social housing (previously 20% social and affordable required) and increasing the minimum units threshold to nine (from four). In addition to this, the Department of the Environment Community & Local Government issued new apartment guidelines in December, which standardised minimum sizes and other requirements nationwide. In the larger urban areas, these new standards will assist in improving the feasibility of schemes.

The impact of these measures will only start to be seen in 2016 and as such, new construction remained relatively weak in 2015. Only about 2,850 units were built in Dublin over the 12 months. This is 13% fewer than the previous year and almost 65% fewer than the 45-year average annual figure. We are of the opinion that at least 7,000 units per annum are required in Dublin.

In 2014 the Housing Agency quantified residential demand in key urban areas. For Dublin, it estimated that there was a requirement for 37,700 units over the five years from 2014 to 2018 inclusive – 5,700 units (2014), 6,600 units (2015), 7,800 units (2016), 8,600 units (2017) and 9,000 units (2018). However, in 2014 and 2015 only about 6,100 units were built. As such, supply has already fallen behind by 6,200 units in two years and this will put further pressure on the sector in the coming years.

ANNUAL HOUSING SUPPLY IN DUBLIN
1970-2015



Source: *Department of the Environment Community & Local Government, Lisney*

OUTLOOK

01: *Demand will remain greatest for sites with planning permission in Dublin and the surrounding commuter towns, in addition to other key urban areas. The number of planning applications are likely to increase.*

02: *A number of high profile sites in Dublin are due to come to the market in 2016. Examples include the mixed-use lands at Spencer Dock, Dublin 1; the Irish Glass Bottle site in Ringsend; the re-launch of Baggot Street Hospital, Dublin 4; plus various large parcels of institutionally-zoned land.*

03: *The new apartment guidelines allow for the inclusion of studio apartments in schemes of 50 or more units, but these must be developed as 'built-to-let' managed schemes. This means that there will be strong demand in the short-term for well-located sites suitable for multi-family residential schemes.*

04: *The Governor of the Central Bank has said that the mortgage rules will be reviewed once a full year's data is available. This is likely to be the second half of 2016. While it is unknown whether the required deposit percentages and/or the earnings multiple will change, greater flexibility for the first-time-buyers who make up a large part of the new homes market, particularly in Dublin, would be welcome.*

05: *The Planning and Development (Amendment) (No. 2) Bill was initiated in December 2015. It seeks to establish an independent planning regulator as a response to the recommendations of the Mahon Tribunal. This regulator will assess development and local area plans, in addition to regional spatial and economic strategies. They will also have investigative powers to review planning authorities and An Bord Pleanála on their systems and procedures. It is likely that this legislation will move through the Houses of the Oireachtas in 2016, which will be very positive for all planning and development matters in the future.*

06: *The four Dublin local authorities will finalise the contents of their new development plans in 2016. These will set out a roadmap of policies for the following six years.*

05 RETURN ON INVESTMENT

2015 will be looked back on as a strong year in terms of activity and pricing with total turnover reaching €3.7bn.

ABOVE:
Facebook's HQ
4/5 Grand Canal Square
Sold for €233m

It was probably the last of the bumper years in terms of the volume of sales as both the banks and NAMA have unwound the majority of loan books built up in the boom. On investment turnover charts, 2015 will appear as the year that turned to a downslope. However, it is a very strong level of turnover given the size of our economy when measured against other European countries.

The biggest investment story of the year was not a property sale but a sale of loans (called Project Jewel) secured against Dundrum Shopping Centre, Dublin Central site on O'Connell Street, The Pavilions Shopping Centre (50% interest) and ILAC Shopping Centre (50% interest). The UK listed REIT Hammerson, together with German insurer Allianz, bought the loans from NAMA in a €1.85bn deal. Remarkably, if the value of this transaction was included in the total property sales figure, then 2015 turnover would jump by 50%.

A number of very prime assets came to the market and transacted quickly. Examples included Facebook's HQ in Grand Canal Square and McCann Fitzgerald's building on Sir John Rogerson's Quay. At the smaller end of the market, private investors were slow to return in the first half of the year following the closure of the seven year Capital Gains Tax exemption in December 2014. However, in the final months of 2015, this cohort was once again active as confidence in the wider economy took hold. The supply of properties for private investors typically came from the buyers of the large granular loan books in recent years.

In terms of the breakdown of deals making up the €3.7bn, the majority (based on value) at almost 72% were located in Dublin. The comparable Dublin figure in 2014 was 89%, which clearly shows that demand spread in 2015 as a greater proportion of activity occurred in regional cities and other non-prime markets.

Similar to recent years, the office sector was the most active, making up 55% of the market turnover. This was followed by retail at 30%, multi-family residential at 8.5%, industrial at just 1.6% and mixed-use and others at a combined 4.5%.

In recent years, investment levels in the industrial market have been low, mainly due to the lack of available investment grade properties. However, the sector did make a small rally in the second half 2015 with some notable sales concluding. Specifically, a prime portfolio of four investments developed by Rohan was sold off-market for a strong price that reflected a net equivalent yield of sub-6%. This signals the purchaser's belief that rental growth is coming (industrial rents are still at levels last seen in the mid-1990s).

BELOW:
Dundrum Town Centre
Part of the Project Jewel loan book

THE TOP 20 TRANSACTIONS IN 2015

Property	Sector	Location	Reported Price
Project Molly	*Offices*	*Dublin*	*€450,000,000*
4 & 5 Grand Canal Square, D2	*Offices*	*Dublin*	*€233,000,000*
Elm Park, D4	*Offices & Multi-Family*	*Dublin*	*€190,000,000*
The National Portfolio	*Retail*	*Various*	*€177,200,000*
Central Park	*Offices*	*Dublin*	*€155,000,000*
Sovereign Portfolio	*Offices & Retail*	*Dublin & Cork*	*€154,000,000*
Cornerstone Portfolio	*Retail*	*Various*	*€117,350,000*
Hazel Portfolio	*Retail*	*Various*	*€115,000,000*
Block R Spencer Dock, D1	*Offices*	*Dublin*	*€104,000,000*
Bishops Square, D2	*Offices*	*Dublin*	*€92,000,000*
Tallaght Cross West, D24	*Multi-Family & Retail*	*Dublin*	*€83,000,000*
Riverside One, Sir John Rogerson's Quay, D2	*Offices*	*Dublin*	*€80,500,000*
Plum Portfolio	*Multi-Family*	*Dublin*	*€77,400,000*
Bloodstone, Sir John Rogerson's Quay, D2	*Offices*	*Dublin*	*€70,000,000*
Harcourt Square, Harcourt Street, D2	*Offices*	*Dublin*	*€70,000,000*
Frascati Shopping Centre, Blackrock	*Retail*	*Dublin*	*€69,120,000*
St Stephen's Green Shopping Centre, D2	*Retail*	*Dublin*	*€61,000,000*
Beaux Lane House, D8	*Offices*	*Dublin*	*€60,500,000*
Manor West Shopping Centre, Tralee	*Retail*	*Kerry*	*€58,550,000*
1 Albert Quay, Cork	*Offices*	*Cork*	*€58,000,000*

FOCUS ON: INVESTMENT MARKET NORMALISATION

ABOVE:
RiversideOne
McCann Fitzgerald
Sold for €80.5m

On a quarterly rolling 12 month basis, investment activity levels began to fall in Q2 2015. With €3.7bn of transactions completed in the year, pessimists might express it as a fall of 16% compared to 2014. But 2014 must be recognised as a record high.

We expect that investment market turnover will continue to fall to a more sustainable and normal market level in the short-term. This is likely to be in the order of €2bn pa with 2013 to 2015 seen as the high point in terms of activity.

There is no doubt that there were fewer buyers competing for assets in 2015 than in 2014. This was not only due to the CGT relief ending, but also because of more mature pricing.

Between mid-2012 and the end of 2015, prime yields on office and retail properties reduced by 355 bps and 315 bps respectively. Rates are now well below the 35-year, long-term average rates (between 130 and 180 bps less) and consequently, the ability of investors to buy now and then resell properties in a short period of time at a substantial profit has diminished significantly.

The lack of debt funding for speculative development means that developers have sought, and continue to seek, to join with funding partners though a variety of pre-funding, forward sale and other equity funding structures. The nature of this funding and the requirement of development partners to unwind their positions on the completion of the schemes, means that the supply of investment properties to the market will improve in the medium-term.

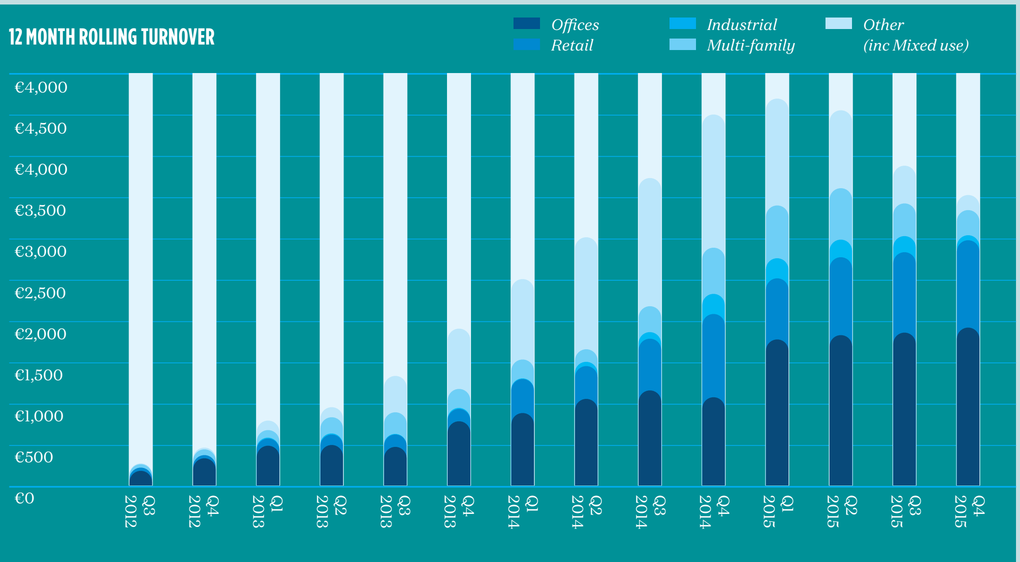
Between mid-2012 and the end of 2015, prime yields on office and retail properties reduced by 355 bps and 315 bps respectively.

As 2015 drew to a close there were more off-market opportunities with discretionary sellers trading assets. These discretionary sellers were not bound by the obligations that many Receivers, NAMA borrowers and other bank encouraged sales have been in the last number of years. There has been and will be further re-trading as the early movers look to capture their gains and the long-term owners with lower target returns move into a more stable market.

INVESTMENT PER CAPITA (1,000 POPULATION)

Source: *Lisney, Cushman & Wakefield*

12 MONTH ROLLING TURNOVER



Source: *Lisney*

OUTLOOK

01: *There will be greater levels of construction in key urban areas due to the supply shortages in the multi-family residential and office markets. With new construction viable in these areas, it is hoped that developers and their funders will move early to avoid a greater spike in rents – rent spikes are ultimately not good for the market. These new schemes will be sold, which will give core investors the first opportunity in many years to buy new, high quality assets with the benefit of collateral warranties.*

02: *2016 will see the first of a number of high profile rent reviews that may have repercussions for the investment market. Those carrying out the rent reviews in older leases that contain 'upwards only' rent review clauses will use prevailing rental evidence taken from leases that contain 'upwards and downwards' rent review clauses. The analysis of this is likely to lead to much argument between parties. Some high profile examples that will be watched with interest include a number of the offices of law firms such as McCann Fitzgerald and Eversheds. In 2010 in the wake of the upwards / downwards legislation, we forecast that two tiers of pricing in the investment market would emerge. As the rent review situation progresses, we expect that this will now materialise with a weighing likely to differentiate between old and new assumptions.*

03: *Investment market pricing has matured over the last 24 months and the best investment opportunities now involve taking greater risk. Investors expect that the returns from property are higher than cash or gilts because of the associated risks. This continues to be the case however, with interest rates looking set to rise, property returns will be well scrutinised. Those who can develop, refurbish, extend, lease or asset manage properties should make strong double digit returns.*

04: *The strong levels of activity in the occupational markets mean that vacancy is often now seen as an opportunity by investors. As the supply shortages become more acute, which they will in 2016, the landlord's position strengthens. This creates opportunities to lengthen lease commitments and look to 'fix-out' future rents with stepped rents or 'caps' and 'collars' on rent review to insulate owners from the increased volatility the upward and downward rent review regime will have on rents. This should have a positive impact on investment property valuations and improve the potential to secure efficient debt.*

05: *It is likely that a new record high office rental rate will be reached in the next two years (the previous high was €646 psm / €60 psf in 2007) as supply falls further behind demand. This has a knock on effect on the suburban markets as more cost sensitive occupiers look beyond the city centre. The scope for rental growth in certain suburbs in percentage terms is huge and we expect that astute investors will make significant returns here in the short-term.*

ABOVE, LEFT:
Block R Spencer Dock
Sold for €104m

ABOVE, RIGHT:
Central Quay
Sale Agreed
Bloodstone
Sold for €70m

06

OFFICE WORK

Activity in the Dublin office market continued at very strong levels in 2015 with 270,000 sqm of accommodation taken-up.

ABOVE:
Recently completed 65 St Stephen's Green was leased by Aercap in Q2 at a reported record rent of €646 psm (€60 psf).

This was the second highest annual level of activity on record and was only surpassed in 2007 when the figure was 299,000 sqm.

As has been the case for a number of years, the IT sector dominated the market, making up one-third of all transactions. Notable deals in this sector included Twitter taking a pre-lease of 7,900 sqm in Cumberland House; Sage taking 4,200 sqm in Central Park, Leopardstown; and Google taking 2,500 sqm in 2 Grand Canal Plaza. The financial sector was also very active, representing 18% of the market. However, the largest letting of the year, Bank of Ireland taking Baggot Plaza (12,000 sqm), made up one-quarter of this.

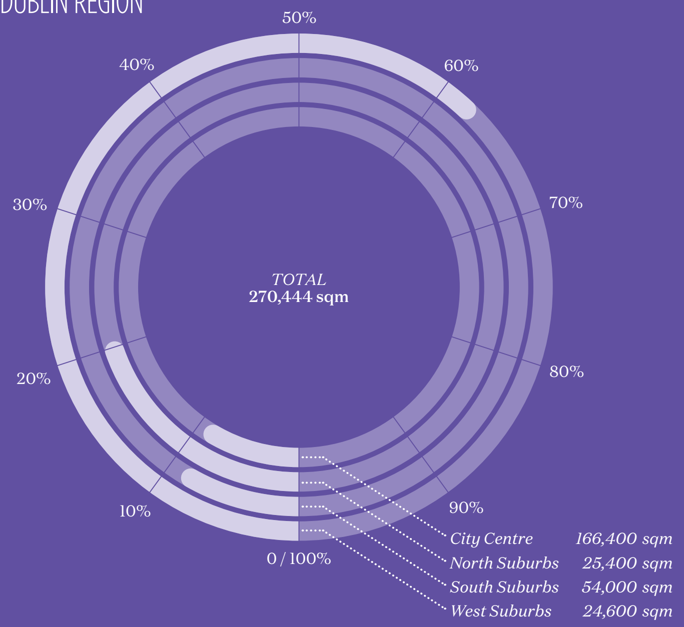
FDI occupiers were the most active, accounting for 56% of activity with companies from the US making up almost three-quarter of this. However, domestic tenants did represent a larger part of the market (at 44%) when compared to 2014 (at 38%).

This is very positive and demonstrates the improving economy.

In Dublin city centre, where 62% of activity occurred, lease terms became more landlord-friendly with the average lease length increasing and rent free periods reducing. Rents also persisted upward. The city centre experienced particularly large uplifts with Lisney's rental indices showing a 30% increase. This index is now just 13% less than at the peak of the market. But the suburbs also saw rental growth, in particular the south suburbs, which increased by 23% in the year.

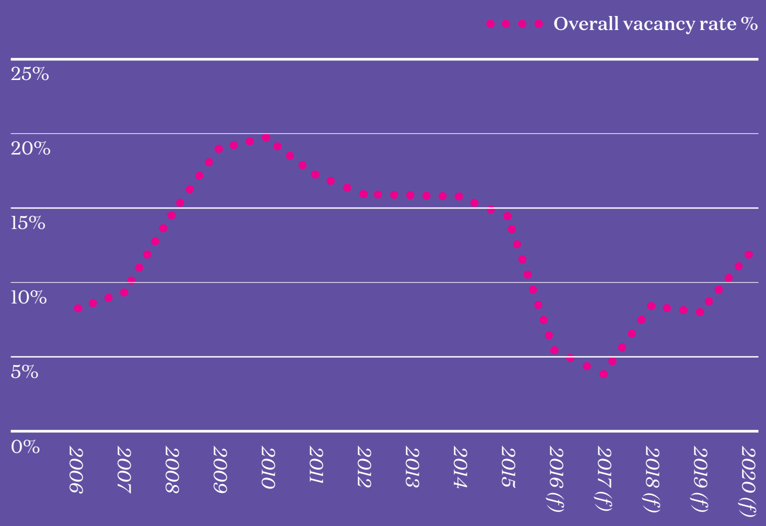
Vacancy rates continued to fall throughout 2015 and ended the year at 11.2% for the Dublin market overall. The headline rate in the city centre region was 9.3%, however excluding sub-standard space, this fell to 6.1%.

TAKE-UP
DUBLIN REGION



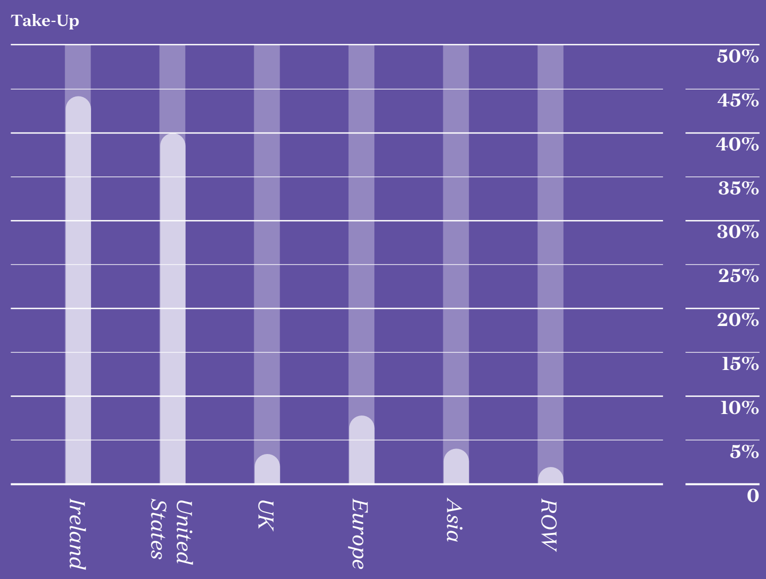
Source: *Lisney*

CITY CENTRE HEADLINE VACANCY RATE



Source: *Lisney*

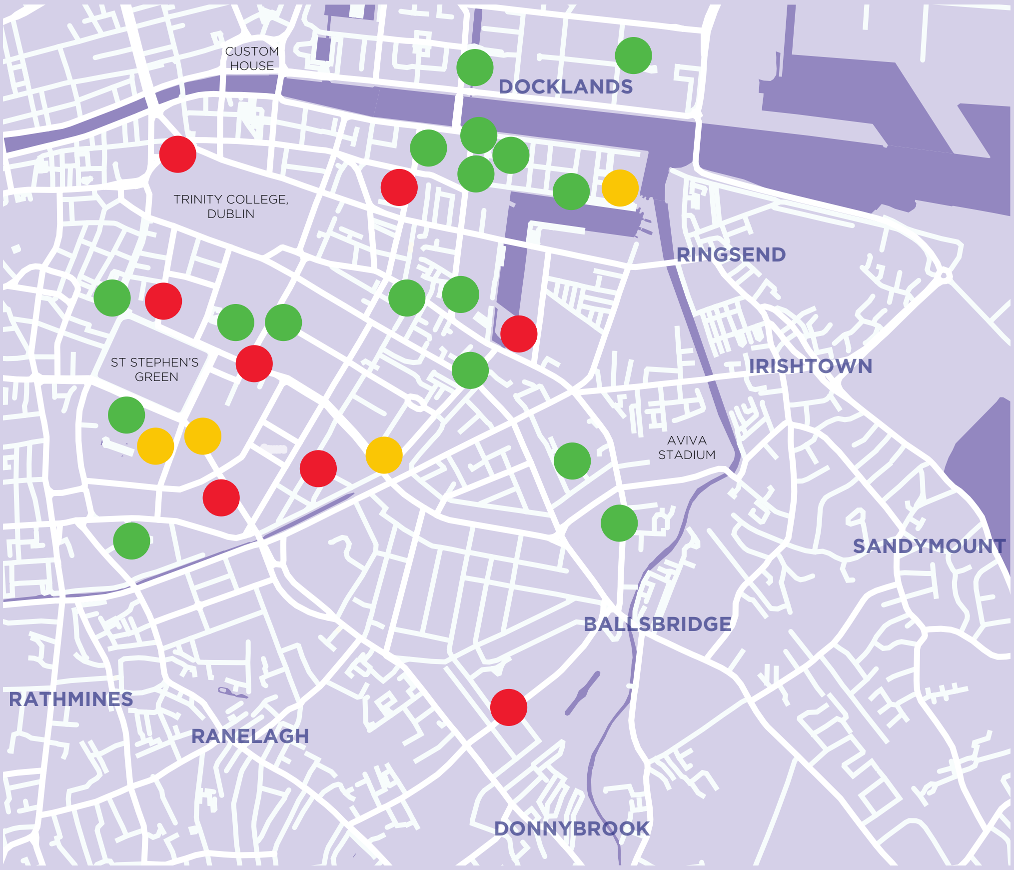
OFFICE TAKE-UP
OCCUPIER ORIGIN



Source: *Lisney*

IN FOCUS: ARE WE LIMPING FROM ONE CRISIS TO ANOTHER?

NEW OFFICE SCHEMES UNDER CONSTRUCTION OR PLANNED



Speculative building under construction

Pre-let building under construction

Buildings in the immediate pipeline

In the last 10 years, the average amount of office accommodation transacted annually in the city centre was 113,000 sqm.

It seems the property market is always in some form of crisis with either too much or too little supply of available accommodation. Consequently, values often fluctuate from boom to bust. With this environment in developer's minds, there has been much discussion as to whether the office market will be over-supplied in the next few years. While nobody really knows the answer, it is possible to look at what is happening and formulate an informed opinion.

Cranes are returning to the horizon and already there are 12 schemes or extensions to existing buildings onsite in the city centre (with a further three ongoing in the suburbs). When the city centre buildings are combined, these will provide for 103,500 sqm of new accommodation. Various occupiers have already committed to taking almost 58% of this, which leaves 43,700 sqm still requiring occupiers. In addition, there are currently about another 40 schemes planned for the city centre, totalling in excess of 560,000 sqm. But realistically only about half of these will commence in the next two years.

While the headline vacancy rate in Dublin 2/4 ended 2015 at 7.8%, much of this space is substandard and in need of refurbishment. If this is excluded, then the vacancy rate falls to 5.7%. In the last 10 years, the average amount of office accommodation transacted in the city centre region annually was 113,000 sqm.

However, dividing the amount of space transacted annually by the amount of space to be built / available is far too simplistic. The pertinent issue is to interpret our historical net-absorption rate (the amount of space transacted less the amount of space returned to the market) as this quantifies the expansion or contraction in a market. When this is combined with space coming to the market, it is a better measure to calculate future vacancy rates.

Accordingly, we have prepared some models based on headline vacancy rates, which show that the city centre vacancy will continue to fall over 2016 and 2017 but then we expect it to start rising from 2018, when we estimate it will be approximately 8% by the end of that year. By 2020, the rate could potentially rise to over 12%. Clearly, much of this is based on the assumptions that all 40 schemes commence construction and net absorption continues at average levels.

What this reveals is that tenants will experience a rollercoaster ride over the next few years with rents likely to push up towards €754 psm (€70 psf) due to a lack of availability. However, this will be a short lived phenomenon and prime city rents are likely to stabilise somewhere around €592 to €646 psm (€55 to €60 psf) over the longer-term.

OUTLOOK

01: *The amount of good quality space available will dwindle. Occupiers will get frustrated by having little (if any) choice towards the end of 2016. This problem will be more apparent in the city centre.*

02: *Ireland will lose inward investment in the short-term due to a lack of office space in Dublin.*

03: *Some occupiers will be forced to choose locations and buildings that they would not consider if the circumstances were different and more options were available.*

04: *Rental levels will continue to increase and in the city centre it is possible some occupiers will be forced to pay up to €754 psm (€70 psf). Other lease terms (such as break options, rental penalties, etc.) will be dictated by landlords with little flexibility being given to occupiers.*

05: *The market will continue to be led by North American occupiers and super-sized professional practices most of which generate income mainly unrelated to the Irish economy. Consequently, indigenous businesses and small to medium sized professional practices will feel under pressure to sustain Dublin city centre rental levels. In turn they may look to the suburban markets.*

06: *There will be a short-term return of premiums on offer for leases of well-located and well-presented city centre offices.*

07: *In percentage terms, suburban office rents are likely to witness exceptional rental growth, which will be much greater than that of city centre properties.*

08: *Rent reviews will be fought aggressively by both sides. Given that arbitrator's awards are now reasoned some apportionment of blame may come back towards professional advisors and it is possible that disgruntled landlords and tenants may pursue professional advisors for bad advice.*

09: *In a bid to address the supply issues, NAMA will back a number of new office developments concentrated in the Dublin docklands areas.*

10: *A number of new schemes will commence construction speculatively during the course of the year with much of this supply not coming to the market until 2018/2019.*

BELOW:
Block H Central Park
Currently under construction in the south suburbs.

LEFT:
Cumberland House
Twitter leased spaces in Q2

07

THRIVING INDUSTRY

The Dublin industrial market experienced yet another strong year with take-up reaching 400,000 sqm.

BELOW:
McQuaid O'Flanagan Warehousing and Transport
Leased the former Wincanton premises (10,570 sqm) at Tolka Quay in Dublin's docklands

This is only the fourth time in 21 years that activity has reached this level and the first time since 2006. It is notable that there were 12 very large transactions that each exceeded 7,000 sqm. These represented just over one-third of all activity and the majority, 65%, were sales.

Interestingly, Amazon accounts for approximately 11% of 2015 activity in Dublin, acquiring two large buildings with a combined total floor area of 44,850 sqm. Amazon's recent rapid expansion and acquisition of industrial property in Dublin began in 2010 when it acquired a building in Blanchardstown. The following year, it bought Tesco's former distribution facility in Greenhills and then a building in Clonshaugh in 2013 and a second in Greenhills in 2014. Building on its presence in the Tallaght and Clonshaugh areas, it acquired the former Jacob's biscuit factory (26,400 sqm) on Belgard Road in Q3 2015, which was the largest transaction of the year, and in the same quarter, it also acquired the former Diamond Innovations facility (18,450 sqm on 24 acres) in Clonshaugh. Amazon's speedy acquisition of industrial space is not just an Irish trend and it has been reported by the Estates Gazette's senior researcher, Andrew Troy, that the online retailer accounted for approximately 15% of the total activity in the UK in 2015.

Owner-occupiers remained very active in 2015, having dominated the market for the last two years. This is because sales prices were below a building's replacement cost. However, their strength began to decline as the year progressed with demand from those wishing to lease growing. As a result, rents started to increase, particularly for well-located modern buildings. Lisney's rental indices show that prime Dublin rates grew by 11.4% over the 12 months.

The amount of available accommodation began to fall in 2015, dipping below the 950,000 sqm mark for the first time since 2009. This meant that the overall Dublin vacancy rate ended 2015 at approximately 15%.

Supply constraints for certain types of industrial properties, which started to emerge in 2014, continued into 2015. It was particularly evident for larger buildings in established industrial locations. For buildings greater than 7,000 sqm, there were just three buildings available at the end of 2015 and none of these have an eaves height greater than 10m.

As a result, design-and-build options were considered by some occupiers. Notably in Q3, Fynes Logistics agreed the first pre-sale in seven years of a new warehouse facility in Horizon Logistics Park, close to Dublin Airport. Once complete, this will extend to about 2,000 sqm and the sale price is understood to be just under €3.3m. Green REIT is the investor behind this development and it has simultaneously commenced construction on an adjacent site of the first speculatively built industrial property in Dublin since 2007. This spec-built warehouse will be approximately 4,150 sqm and is due to be completed by Q2 2016.

BELOW LEFT:
Symantic
Acquired an 11,200 sqm building plus two sites totalling 6 acres in Orion Business Campus, Blanchardstown

BELOW RIGHT:
X2 Heathrow
The UK's first multi-storey industrial building

INDUSTRIAL LAND

Following on from a pick-up in activity in 2013 and 2014, demand for industrial zoned land continued in 2015 with a number of deals concluding. Early in the year, lands at the Cherryhound interchange on the M2 motorway (60 acres of part industrial / part agricultural lands) were purchased by Fingal County Council in a best bids process. Nearby, NAMA sold 74.9 acres of logistics park lands known as Airlink for approximately €200,000 per acre.

In Q3, the M1 Business Park in Balbriggan was put up for sale. On offer were 157 acres of undeveloped land plus the freehold interest in 22.6 acres of developed lands with a guide price of €6.15m.

In the greater Dublin area, two notable industrial parks were sold in Co Kildare. There was a formal tender process for a substantial part of Tougher Business Park, which comprised 84 separate building assets plus undeveloped land and it achieved in excess of €16m. Additionally, Millennium Park, which comprised a mix of office and industrial land was acquired by Tetrarch Capital for a reported €36m.

IN FOCUS: URBAN LOGISTICS

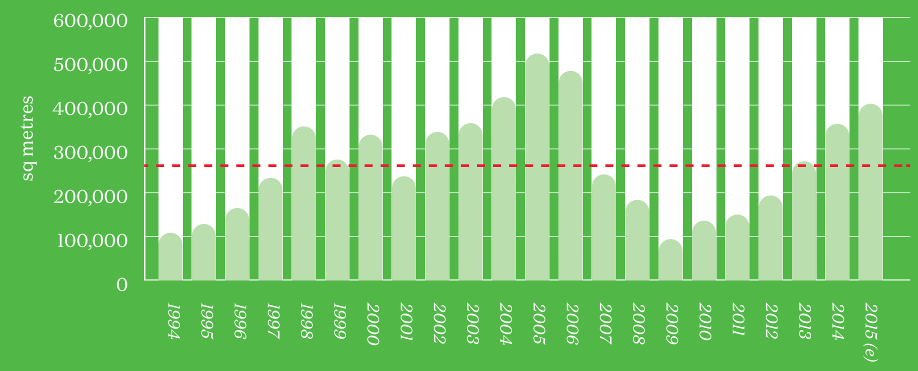
In many large cities internationally, there has been an emerging trend whereby retailers are taking small warehouse facilities close to key urban centres. These 'urban logistics' premises allow 'same-day' or even 'within-the-hour' delivery of products purchased by their customers online. Having mega sheds on motorway junctions well outside of the centre would not allow for this as the products need to be as close as possible to where people live and work. Proximity is also necessary for items returned by customers, which is becoming increasingly important.

The demand for land for housing and higher-order commercial uses has traditionally pushed industrial uses to the periphery. However, the need for 'urban logistics' has led to the emergence of multi-storey warehousing. Such buildings are common in Hong Kong, China, Japan and Singapore, but Segro's X2 at Heathrow Airport was the first of its kind in the UK. This building comprises eight individual industrial units, four on each of the two levels, plus ancillary office accommodation. Full lorry access and loading is available on both levels with the upper level accessed via concrete ramps. The X2 was just 50% more expensive to build than a conventional warehouse. Normally, a premises of its size (approximately 22,300 sqm) would require a site of about 12.4 acres and would have a site coverage of 45%. But the site used for X2 was approximately 6.4 acres, almost half the size, and the site coverage was 86%.

While it may be a number of years out before developers and owner-occupiers consider multi-story industrial facilities in Dublin, it may enter the market in the future as the industrial sector competes with other uses for limited central space. Retailers will continue to represent a growing proportion of industrial market activity due to growing online sales, and added to their need for 'urban logistics' premises to supply these consumers, multi-storey industrial properties may need to enter the marketplace in the medium-term.

OUTLOOK

DUBLIN INDUSTRIAL TAKE-UP
1994-2015



21 Year Average Annual Take-up

Source: *Lisney*

01: *As the supply of available accommodation falls further, demand for the top quality space will intensify. This will lead to competitive bidding on some buildings, both those for sale and to let. Consequently, rents and capital values of these buildings will increase further and possibly more rapidly in 2016. But it will not just be prime buildings experiencing growth, all types of quality, size and location of stock will undergo an increase in values.*

02: *An additional consequence of the supply constraints will be that the demand for well-located industrial lands will intensify and this will result in rising land values.*

03: *Pre-letting and pre-sales transactions, in addition to speculative development, will increase in the medium-term with a rise in planning applications for industrial buildings. The rental and capital values sought for such buildings will be at higher levels that represent the 'economical' rate that justifies development, rather than the lower, market level at present.*

04: *Good value will remain in the short-term for owner-occupiers wishing to purchase a property but this is rapidly diminishing.*

05: *Sales prices on second-hand buildings are likely to stay below the cost of replacement in 2016, but this gap will tighten significantly over the year and consequently, the number of good deals on offer will fall-off into 2017.*

06: *Notable returns are on offer to investors willing to carry out improvement works to older buildings. This could include improved yard and office facilities, a new roof, new exterior cladding, etc. A number of buildings underwent such improvements in 2015. Examples include 260 Holly Road in Western Industrial Estate (7,060 sqm) and the former Manvick premises on Turnpike Road in Ballymount (leased by SIG plc). It is likely that further opportunities will be considered in 2016.*

LOAN SALES

It was yet another busy year in the Irish loans sales market. It was also a busy year for property agents assisting both vendors and potential purchasers price the assets held as security.

Please note, all prices detailed below relate to the face value of the loans and not sales prices.

Based on publically reported sales, we estimate that approximately €21.9bn of property-backed loans were sold.

NAMA was particularly active in 2015 and disposed of some very high profile portfolios. Its' largest sale was the €6.25bn Project Arrow to Cerberus. This portfolio was very granular in nature and comprised over 1,900 assets, mixed between commercial and residential properties. The agency also sold Project Jewel, the much sought after portfolio of shopping centre loans with a face value of €2.57bn. This comprised Dundrum Town Centre plus adjacent lands, a 50% interest in the Ilac Centre, a 50% interest in the Pavilions Shopping Centre and the Dublin Central retail site on O'Connell Street. NAMA also sold three additional smaller portfolios – Projects Boyne (€287m), Arch (€608m) and Maeve (€786m) in the year.

In terms of Irish banks, Permanent TSB disposed of Projects Leinster (€1bn), Munster (€500m) and Connacht (€481m), which included both commercial and residential properties that were held as a mix of performing and non-performing loans. Leinster and Munster were purchased jointly by Deutsche Bank and Apollo, while Connacht was purchased by CarVal. Additionally, the liquidators of IBRC disposed of a portfolio of previously unsold residential mortgages with a nominal value of €406m to Mars Capital.

Of the foreign banks disposing of loans, RBS / Ulster Bank sold four portfolios across the island of Ireland. Notably, Project Clear concluded towards the end of the year and reportedly included 31 residential development sites mainly located in the greater Dublin area. With a face value of over €2bn, this was purchased by Cairn Homes and Lone Star and means that up to 1,700 acres of land are now likely to be actively managed in the short-term either through asset sales or development agreements with existing asset owners. Lloyds, in its final sale of non-core Irish assets, sold Project Poseidon (€3.7bn) in two tranches with Goldman Sachs and CarVal acquiring the larger tranche of mainly impaired assets.

OUTLOOK

01: *While the total volume of loan sales in 2016 is unlikely to reach of the levels of the previous two years, it will still be a busy year and possibly the last year of significant loan sales in Ireland.*

02: *IBRC, Lloyds and RBS / Ulster Bank have now completed their deleveraging. But NAMA still has an estimated €38bn of gross non-core real estate, some of which is likely to be subject to a loan sale process. AIB and Bank of Ireland are also potential loan sellers in the short-term.*

09

RETAIL THERAPY

The retailing environment continued to improve over 2015.

In the 12 months to the end of November, the volume of core retail sales (i.e. excluding motor trades) increased by 8.9% but encouragingly, growth was experienced across all key business sectors. This means that the amount of goods being sold has increased by 17% since the lowest point in the market in 2013 and is now just 2% below peak 2007 levels.

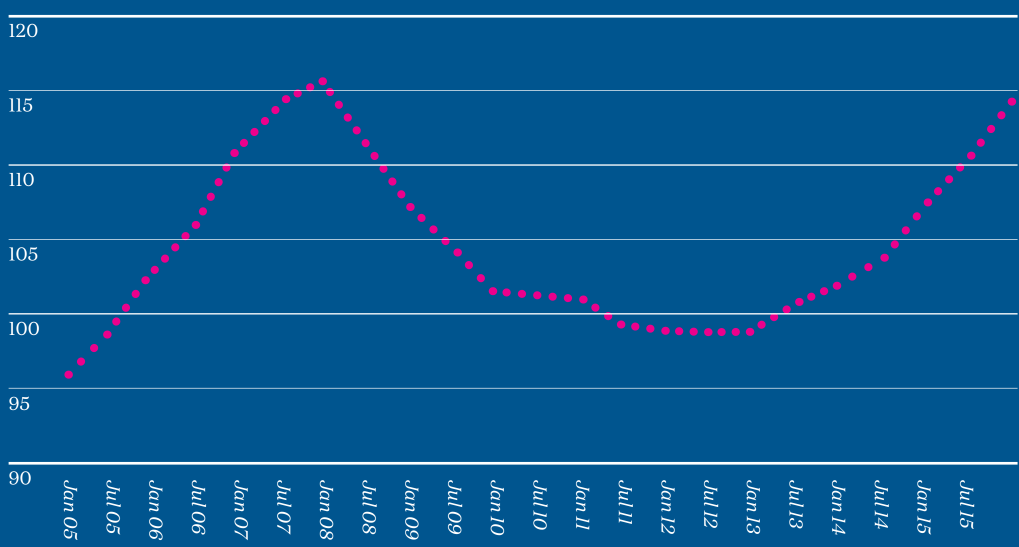
As a result of this improved environment, demand for new stores from both domestic and overseas retailers grew. In Dublin, vacancy rates remained at very low levels on the prime high streets and in key shopping centres. According to Lisney's rental indices, overall retail rents increased by 10.4% in the year. Notably, rental growth was seen in retail park schemes, which is representative of the improving economy and demand for bulky household goods.

YEAR-ON-YEAR CHANGE IN THE VOLUME OF RETAIL SALES (NOVEMBER - NOVEMBER)

	2015	2014	2013	2012	2011
ALL RETAIL SALES (EXCLUDING MOTOR TRADES)	9%	4%	1%	0%	-1%
FOOD STORES	5%	3%	1%	1%	1%
DEPARTMENT STORES	14%	6%	0%	8%	-6%
TEXTILES, CLOTHING AND FOOTWEAR	6%	7%	6%	-3%	-2%
BOOKS, NEWSPAPERS AND STATIONERY	1%	-3%	-5%	-8%	-4%
FURNITURE AND LIGHTING	18%	21%	14%	-5%	3%
ELECTRICAL GOODS	22%	8%	5%	12%	7%
HARDWARE, PAINTS AND GLASS	6%	3%	2%	-2%	-4%
FOOD	5%	2%	1%	1%	1%

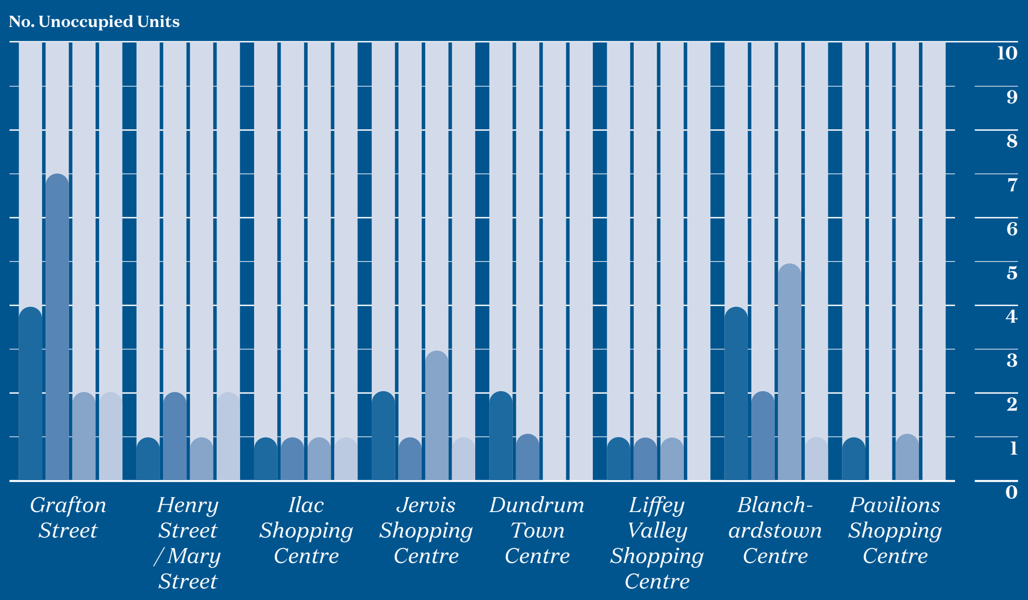
Source: Central Statistics Office

VOLUME OF RETAIL SALES - ALL RETAIL BUSINESSES, EXCLUDING MOTOR TRADES



Source: *Central Statistics Office*

LISNEY SHUTTER COUNT (2012 - 2015)



Source: Lisney
The Lisney Shutter Count comprises an analysis of closed and non-trading retail units. We have relied solely on what is visible on-site and have not made any further enquiries as to the units' status. Units are registered as unoccupied even if a lease is in place or if undergoing fit-out / refurbishment. The analysis does not include external units that form part of shopping centres. Temporary lettings, such as those for Christmas are excluded. Pop-up stores (which appear on-site to be more than just temporary lettings) are included in the analysis, which may distort the figures given that certain centres do not utilise such arrangements.

OUTLOOK

01: *The positive employment and consumer sentiment indicators witnessed in 2015 point towards a strong 2016 for retailers. This will drive demand for retail property across the country, particularly in the larger urban areas.*

02: *The final months of 2015 saw the number of enquiries for the Henry Street area increase considerably. This will translate into deals in the northern city centre retail core in 2016. Enquiries for retail space in smaller towns outside of Dublin also increased and will led to retailers taking space in the short-term.*

03: *The uplift in demand for units from UK and international brands will continue. This will spread and will not just be for prime city areas.*

04: *Since mid-2013, the sale of 'furniture and lighting' and 'electrical goods' have grown considerably with the volume of sales up by about 60% and 23% respectively. This is very positive in terms of increased activity in the bulky goods, retail parks sector.*

05: *One of the biggest difficulties in 2016 facing retailers seeking prime stores in Dublin is limited availability. This will be particularly the case on key shopping streets and in shopping centres where there are virtually no vacant units.*

06: *The influx of further new restaurants and coffee shops to the market will face difficulty as very little suitable space is currently available in the city centre. This may result in premiums being paid for leases.*

12 MONTHS

January

S RS

2015 started off on a positive note with the volume of **retail sales** increasing by 3.3% in January and by 8.8% in the 12 months. 6 Grafton Street, **Bus Stop,** newsagent was let to another newsagent operator. **Ecco Shoes** took a lease on 47 Grafton Street at a reported rent of €210,000 per annum. **Bewley's** announced its intension to close its Grafton Street store for a number of months for refurbishment with the café's 140 staff made redundant.

February

S RS

The owners of **Liffey Valley Shopping Centre** announced plans for a €26m expansion of the centre. **Karen Millen** closed its store on Grafton Street but confirmed its long-term future in Ireland. Irish **grocery market** sales were up by 1.2% in the three months to the end of February, following the strongest Christmas figures since 2010. **Tesco** sales in Ireland declined 6.3% in the year to February.

March

S RS

Mango, the fashion retailer, opened its flagship store at 46/47 Henry Street. Nos. 50 and 87 Grafton Street, the former O2 shops were placed on the market as it rebranded to **Three. BB's Coffee & Muffins** chain was sold to a group of investors for a reported €10m. The **Grafton Group,** operators of the **Woodie's DIY** chain, reported a 56% increase in pre-tax profits. Dublin city councillors approved plans for the €3m redevelopment of the fruit and vegetable markets in **Smithfield.**

April

S RS

Next announced its plans to close its Grafton Street store with **Hugo Boss** lined up as the new tenant. **HMV** moved into the former **Karen Millen** store at 27 Grafton Street on a temporary basis. **Mango** took over the former **Awear** shop in the Blanchardstown Centre. **SuperValu's** market share overtook **Tesco** for the first time. Tesco had been market leader for over 10 years. **Ladbrokes** Irish retail business entered examinership but later exited in July with the closure of 52 of its 196 outlets.

May

S RS

Fitzwilliam Finance Partners gained control of **Arnotts** by reaching an agreement with **Apollo** to acquire its 50% stake. Dublin city councillors approved plans to sell a site on **Ballymun Main Street** to the **Alanis Group** for the construction of a new shopping centre. Key money re-entered the Dublin market when **Lacoste** put its Wicklow Street lease on the market, quoting €100,000. The lease was subsequently taken by **Joules**, which opened in November.

JUNE

S RS

Clerys on O'Connell Street was sold by **Gordon Brothers** to **Natrium Ltd** and the department store was immediately closed. **Dealz** announced its long-term plan to operate 70 stores in Ireland, adding to its existing 41 stores. **Project Jewel** loan sale went on the market. It contained the loans relating to Dundrum Town Centre, the Dublin Central retail development site and 50% interests in the Pavilions and Ilac Shopping Centres. This was bought by **Hammerson & Allianz Real Estate** in November.

OF RETAIL THERAPY

Key

↑↓ Monthly movement - Increase or decrease

S = Sentiment (KBC / ESRI Consumer Sentiment Index)

RS = Retail Sales (CSO Volume Retail Sales, excluding motor trades)

July

S ↓ RS ↑

As part of the **development plan** review, Dublin City Council established a working group to examine the issue of cafes and restaurants replacing city centre shops. **Brown Thomas** began a €1.5m revamp of its Grafton Street store. The well-known **Brooks & Co** curiosity shop on Lower Baggot Street closed. **Easons** announced plans to invest €3m in its flagship store on O'Connell Street. **Best menswear** and **Mothercare Ireland** went into examinership.

Left
Avoca
on Suffolk Street

August

S ↑ RS ↑

Poundland purchased discount store rival **99p Stores.** Retail Ireland sought the scrappage of the **private car ban** from parts of the city centre as it said the proposal would have serious implication for the future viability of the city centre. In April, **Toys "R" Us** announced plans to open up to six new outlets in Ireland and in August took stores in Blanchardstown and Limerick.

September

S ↓ RS ↓

Jigsaw reopened in Dublin, eight years after pulling out of the market. It took a 10 year lease on 34 South Anne Street. Department store **Boyers** announced its plan to close in January 2016. **Pandora** relocated from 35 to 87 Grafton Street, the former O2 store beside Brown Thomas.

OCTOBER

S ↑ RS ↓

Dublin City Council released its draft scheme of special planning control for **O'Connell Street** and surrounding areas, the aim of which is to govern future use and redevelopment of properties. **Sports Direct** entered into an agreement to purchase the other 50% stake in **Heatons** department store. Retailers welcomed the reduced cost of processing debit card payments introduced in Budget 2016. **Aéropostale** opened its first Irish Store in Liffey Valley Shopping Centre.

November

S ↑ RS ↑

The Selfridges Group, which already owns Brown Thomas in Ireland, acquired Arnotts from Fitzwilliam Finance Partners. **Retail Ireland** predicted the best Christmas for retailers since 2008. The Pratt family sold luxury retail brand **Avoca** to **Aramark** (a US catering group) for €60m. Aramark plans to internationalise the brand. **Black Friday** was questioned by retailers who suffered poor sales in the run up to the day. **Flight Centre** took 2 Dawson Street as its flagship store in Dublin. **Best Menswear** successfully exited examinership, securing the jobs of 130 employees. **Dealz** leased its 50th store with the discounter taking the former Social Welfare office on Thomas Street in Dublin 8.

December

S ↑ RS ↑

Consumer confidence reached a ten year high, the strongest reading since January 2006. Noticeable increase reported in Northern Ireland shoppers in border towns taking advantage of the **weak euro.** Plans announced to create a **new retail area** at the Nassau Street / Dawson Street junction. **Iceland** opened its 10th Irish store on Talbot Street. A stake in **St Stephen's Green Shopping Centre** was sold and a new development director appointed, which is likely to see the rejuvenation on the centre.

10 CORK

INVESTMENT

The Cork investment market remained very active in 2015.

A number of substantial transactions completed across a range of property sectors by both domestic and overseas investors. This is not only as a result of the recovery in the Irish and local economy, but also the prospect for strong rental growth and occupier demand in Cork.

Generally, demand for investment opportunities continued to outweigh supply. Unlike in previous years, international investors actively sought investment opportunities in Cork and other regional cities in 2015. The greatest demand was for office, retail and multi-family opportunities.

Prime yields for these asset classes ended the year as follows:

PRIME YIELDS	
Offices	*6.75% - 7.75%*
Retail	*6.00% - 7.00%*
Multi-Family	*6.50% - 8.00%*

In terms of multi-family properties, investors such as the REITs, pension funds and private investors were attracted to these due to the strong residential rental market, notably, the prevailing under-supply, strong occupier demand and forecasted rental uplifts. Capital values of residential units remained below the cost of replacement in many instances and this has made the sector very attractive.

ABOVE:
46 Grand Parade
Purchased by Crawford College of Art in September.

Transactions
The largest investment deal of the year was Green REIT's off-market acquisition of One Albert Quay. This new office development is currently under construction and substantially pre-let. The price achieved will depend on how much of the building is leased at completion but will range between €55m and €58m. Other city centre office investment to sell included 80a South Mall, 13 South Mall, 67/69 South Mall and 46 Grand Parade, while in the suburbs, 4500 Cork Airport Business Park (€765,000) and Link Road in Ballincollig (€630,000) sold.

In terms of the retail sector, both Bank of Ireland and Aldi in Ballincollig were sold by receivers for €5.4m and €4m respectively. In the city centre, the former Quills building at 106/107 Patrick Street and 85 Patrick Street were sold early in the year with 5/6 Emmett Place, 4/5 Princess Street and 47 Patrick Street transacting later in the year.

Multi-family residential blocks continued to attract interest with units within schemes at Hartys Quay (50 apartments for €7.66m) and Douglas (35 apartments for €5.5m and 12 apartments for €2m) completing during the year. On-going sales of student accommodation schemes at Bishopstown (7 townhouses with 39 bed spaces for €1.7m) and Glasheen Road (25 townhouse units with 77 bed spaces for €6m) all experienced strong interest.

In October, the 191-bed Clarion Hotel at Lapp's Quay was purchased by the Dalata Hotel Group for a reported €35.1m. As this was an investment sale, the tenant, Choice Hotels Ireland, will continue to operate the hotel under the Clarion brand.

Property assets in Cork formed part of the various loan sales that concluded in 2015. The most notable were Wilton, Douglas Court and Blackpool Shopping Centres.

OUTLOOK

01: *Demand for investment assets in Cork will continue to exceed the supply of properties coming up for sale, particularly good quality buildings with good tenants on long lease terms.*

02: *Prime yields will contract further and rents will increase, especially in prime locations.*

03: *Investment assets that were part of the various loan sales in recent years will come to the market in greater numbers in 2016. These will attract significant interest from both private and institutional investors.*

LEFT:
Ballycurran Industrial Estate
Kinsale Road, Cork,
Let to Felan Trading for 10 years Sale Agreed.

OFFICES

Cork office take-up exceeded 20,300 sqm in 2015. While this is less than 2014, it is still a strong level of activity.

International companies remained active with the likes of Opentext, Bluepoint, Arup, Centrica, Regus, Malwarebytes and Asytec taking space in 2015.

The new office scheme at One Albert Quay, which is nearing completion, dominated city centre enquiries in the year. This building has changed the quayside landscape over the past 12 months and once complete, will bring new life to the City Quarter / docklands area. New pre-lettings in the building were announced during 2015 with Malwarebytes, Arup and Investec taking a combined 4,000 sqm. This adds to the 8,300 sqm let to Tyco and PwC in 2014. We understand the remaining 2,800 sqm was under active negotiations at the end of the year.

The dominance of One Albert Quay has put pressure on the other top quality modern buildings that were available in the city. Such examples include City Quarter, 5/6 Lapps Quay and 11 Anglesea Street, which extend to a total of about 3,800 sqm. Some activity occurred in these buildings, but the issue (excluding City Quarter) is the shortage of large single floor plates.

On the South Mall, there were a number of smaller transactions completed during the year, ranging between 140 sqm and 350 sqm. Reports indicate that deals were pending at the end of December at the refurbished 12 South Mall. There were also a number of investment sales on South Mall during the year, notably numbers 80a, 67-69, 13 and the ongoing sale of 89/90. This illustrates investors' confidence that once these buildings are modernised through capital expenditure, tenants will be secured.

2015 ended with approximately 95,000 sqm of office accommodation available across Cork city and suburbs. This represented a vacancy rate of 19.4%. In the city centre, about 40,000 sqm was available. While this is a large level of supply, only a limited amount is of modern quality.

Top city centre headline rents ranged between €248 and €280 psm (€23–€26 psf) at the end of 2015. In the suburbs headline rates were between €118 and €161 psm (€11–€15 psf) with some exceptions at higher levels. Rents on South Mall were at similar levels to modern space in the suburbs running at between €108 - €161 psm (€10–€15 psf) depending on size and specification.

New Construction

The success of One Albert Quay, in addition to the demand for new, top specification accommodation, means that further new construction is likely in the short-term.

In the city centre, potential new schemes include Trinity Quarter at South Terrace / Copley Street, where 22,800 sqm of office accommodation is planned, and Anderson Quay where 14,000 sqm is proposed. It is likely that partial pre-lettings at rents in excess of €300 psm (€28 psf) will be required before any development will commence. In addition, the former Capitol Cinema site on Patrick Street contains a substantial amount of office accommodation (3,350 sqm) which could also be delivered in the short-term. However, this is a different proposition as pre-lets of the retail space can underpin the scheme in tandem with the offices.

In the suburbs, JCD (which is also building One Albert Quay) is progressing its plans for 32,500 sqm of office accommodation at Central Plaza in Mahon. A 6,000 sqm building is in the pipeline in Eastgate Business Park. The latter is very positive given the low levels of supply in this park and the demand that is present there. Other possible new construction in the suburbs include sites at Phase 2 Cork Airport Business Park and Ballincollig Town Centre. These have the capability to bring 28,000 sqm to the market in the medium-term.

LEFT:
11 Eastgate Avenue
Little Island, Cork

BELOW:
One Albert Quay
Cork

OUTLOOK

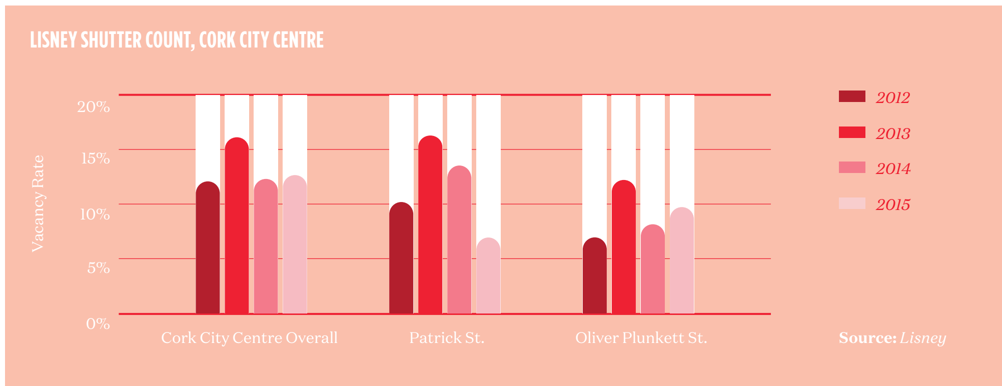
01: *The remaining space at One Albert Quay will be taken up early into 2016. Once fully let, this building will represent a positive change for the east side of the CBD. It will also mean that activity in other prime city buildings will improve.*

02: *Due to the lack of modern city centre space, refurbishment of older buildings in the city centre will continue. Further new construction will also commence in 2016, however these will need to involve an element of pre- letting agreements. Design-and-build schemes may also be a feature of the market.*

03: *Rents will increase in certain key locations in both the city and suburbs.*

RETAIL

Prime retail pitches were the focus of expansionary retailers in Cork in 2015 with secondary and tertiary locations experiencing little activity.



OUTLOOK 2016

01: *2016 will be an active year in the Cork retail market. As further clarity emerges on the planned retail development in the city, developers / investors will seek to secure anchor and top quality tenants.*

02: *The first rent reviews that contain 'market' rent reviews (i.e. rent can go up or down) will start to emerge in 2016. These will be vigorously contested by both landlords and retailers, who will have differing opinions on how the market has evolved in the last five years.*

ABOVE:
Superdry store
Patrick Street

Over the year, some landlords acknowledged that required rental levels needed to be readjusted and that units required capital expenditure to secure tenants.

Many of the retailers who agreed deals in the city centre in late 2014 opened their doors to trade in the second half of 2015. Examples included Superdry and Holland & Barrett on Patrick Street, and Sketchers on Opera Lane. Other new entrants on Patrick Street included Hairspray and Pandora with Vision Express due to open in early 2016. Nandos opened its second Cork outlet, in the former Meadows and Byrne store on Academy Street.

In the suburbs, there was activity in the retail parks for the first time in a number of years. Notably, TileHaven and Ez Living took units in Eastgate Retail Park, while the home and leisure retailer, The Range, is due to open a 5,580 sqm store there in early 2016.

City centre vacancy rates remained relatively unchanged in December 2015 when compared to 12 months previous. Taking all key retail streets, the overall rate was 12.8%. However, this is significantly less than two years ago when it was 16.5%. On Patrick Street, there were 11 unoccupied units, which translated into a vacancy rate of 13.3%, unchanged from 2014 but down on the 15.7% recorded in 2013. Oliver Plunkett Street, which celebrated its 300th anniversary in 2015 and also won the annual Great Street Award by London's Academy of Urbanism, ended the year at 9.6% vacancy.

New Construction

There are a number of new developments planned, which will improve the city centre retail offering and streetscape in the short to medium-term.

- Primark has assembled a site at Patrick Street / Oliver Plunkett Street / Cook Street and it is likely that a planning application will be lodged in early 2016.
- Planning permission was sought for the re-development of Merchants Quay Shopping Centre. This application sought to amalgamate a number of the smaller units and create larger accommodation to satisfy modern retail requirements.
- An Bord Pleanála granted permission for the €50m redevelopment of the Capitol Cinema site at Grand Parade, which will provide 4,650 sqm of retail space in addition to offices and a food innovation centre.
- The former Victoria Hotel on Patrick Street was sold in September and is likely to house a new retail-led mixed-use scheme in the future.
- Clarendon Properties acquired the former Quills and A-Wear buildings on Patrick Street, adjacent to its Savoy Centre, in 2015. A future redevelopment of the entire is likely.

INDUSTRIAL

There was steady take-up of industrial property in 2015 with activity exceeding 37,000 sqm. Strong exports, particularly from many multi-nationals located in Cork, was the driving force of demand for warehouse space.

Capital values increased slightly over the year, but these uplifts were from a very low base. Values remained well below the reinstatement cost and as a result, there was continued strong demand from owner-occupiers. Sales dominated the market, accounting for 74% of the space transacted.

Two large sales made up 40% of the annual activity. These were DB Schenker's acquisition of three adjoining units in Courtstown, Little Island (7,830 sqm) and the receiver-led sale of the 7,650 sqm former Southern Fruits warehouse on Centre Park Road (although this is likely to be redeveloped in the medium-term).

The east suburbs region was the most active area, particularly Little Island, where about one-third of all activity occurred. These were a mix of sales to owner-occupiers and lettings. There were also a number of investment sales in Little Island, which ranged between €480 psm and €540 psm (€44.60–€50 psf) for larger units (greater than 1,000 sqm) with smaller units achieving about €785 psm (€73 psf).

Industrial rental values were fairly flat in 2015 with typical rents in the region of €43 - €48 psm (€4–€4.50 psf). The largest letting of the year was to Expeditors and comprised a 2,730 sqm unit in Westgate Business Park.

With no new construction and less second-hand space coming to the market, the vacancy rate fell and was 17.4% at the end of December compared to 18.2% a year previous. Generally, there is now a shortage of well-located modern warehouse units particularly those greater than 1,400 sqm and with dock level loading. For the first time in many years, a design-and-build transaction was agreed towards the end of 2015 for a unit of approximately 2,800 sqm in Little Island. This was to Kings Laundry at a reported rent in the region of €75 psm (€7 psf), well ahead of market rates, and at a level which was required to justify development.

LEFT:
Unit 15A Euro Business Park
Little Island, available to let

OUTLOOK

01: *The announcement that government funding will be provided for the Dunkettle Interchange upgrade was welcomed in 2015 as this will improve accessibility to the industrial estates and business parks in Little Island once complete.*

02: *Despite little movement in 2015, there will be upward pressure on rental values in 2016. This will be particularly the case for well-located buildings close to the N40 South Ring Road.*

03: *Owner occupiers will continue to be the main purchasers of vacant industrial property but investors will become more active.*

04: *Vacancy rates will fall further across all regions.*

05: *With rising values and limited supply, particularly of larger buildings, new design-and-build development will be considered. However, rents will need to be at higher economical levels that justify development and not just market rates.*

LAND

The number of development land sales in Cork city and suburbs increased in 2015 when compared with recent years.

This is primarily due to the continued shortage in supply of residential properties for sale and the need for new modern office developments. Demand was particularly strong for high profile city centre mixed-use sites and key well located infill residential development sites in established suburban locations.

In terms of city centre sites, one of the most notable to be brought to the market in 2015 was the former Esso filling station (0.8 acres) at Lancaster Quay. This was in active negotiations at the end of the year in excess of €3m and benefited from a planning grant for 50 apartments. Other high profile sites included a 1.1 acre brownfield site in Wilton, adjacent to CUH, which achieved a reported €2.5m. Additionally, there was strong bidding recently on the Square Deal premises (0.8 acres) on Washington Street, which ended the year under negotiations at about €6.5m.

Outside of the city centre, a 6.1 acre plot with planning permission for 18 detached houses in Blackrock sold for €3m; and the former Eir site (5.1 acres) in Ballintemple was brought to the market late in the year and went sale agreed close to €4m.

Industrial development land was also a feature of the Cork market in 2015. As the availability of well-located, modern buildings dwindled further, some owner-occupiers began to consider purchasing zoned industrial lands. Indeed, a number of industrial land deals were concluded in 2015 at sale prices in the region of €100,000 per acre.

There was also increased activity in the agricultural land market in 2015. Farmers with expansion plans continued to be the main drivers in the market as they took advantage of good opportunities to increase their landholdings. Evidence also suggests that the majority of purchasers were substantially funded in cash and required little bank lending. One of the most notable agricultural land sales in Cork in 2015 was the sale of a 49 acre residential farm in Aghabollogue, Coachford, which sold at auction for €18,500 per acre.

OUTLOOK

01: *House price inflation and the shortage of stock means that it is economically viable for a builder to construct new homes in certain parts of Cork. The Housing Agency report in 2014 stated that the various urban settlements in Cork required over 7,000 new units to be constructed between 2014 and 2018. In 2014 and 2015, only about 2,000 of these were built, which means that at a minimum, 5,000 houses are required in the next three years. As only 61% of these are earmarked for the city and suburbs there is significant scope for development in established commuter towns such as Carrigaline, Midleton, Cobh and Carrigtwohill. Some of this new housing will be delivered by finishing partially completed developments in these locations. But will also come from land sales in these areas.*

02: *Developers are acutely aware of the shortages in supply and this will result in greater activity in the development land sector during 2016 and will put upward pressure on land values.*

03: *New schemes will be constructed in the short-term on lands acquired during 2015.*

04: *Key greenfield and brownfield sites that have remained undeveloped in the city and suburbs will see feasibility studies completed by stakeholders for medium density mixed-use and residential schemes with a strong emphasis on three and four-bed semi-detached houses.*

OUTLOOK

01: *There will be an increase in the number of second-hand residential properties for sale coming to the market in 2016. There will also be an increase in new homes being constructed but this will fall well short of the 2,000 plus units required annually to meet the ongoing demand for a normal functioning market.*

02: *The ongoing positive indicators relating to the economy and employment, will encourage funds and private developers who have acquired development land over the last number of years to bring schemes to the market. The increase in prices will justify development and will assist in meeting the prevailing pent up demand.*

RESIDENTIAL

The residential market in Cork continued to strengthen in 2015 with price growth experienced in the key urban areas.

BELOW:
Croi Na Coille
Brookwood, Crosshaven,
Co Cork

This was fuelled by the fact that demand continued to outstrip supply, especially throughout the metropolitan area. As with recent years, cash purchasers were a key element of the Cork market. While this shows homebuyer confidence, it also highlights the Central Bank's lending policy restrictions.

In spite of the restrictions, indications from the Property Price Register at the end of December were that the volume of sales continued to increase over the year, albeit at a slower pace to the last two years. The register also shows that the average sales price increased by about 7%. At the upper end of the market, it is interesting that there was an increase in the number of houses sold for prices above €1m with €2.6m the highest price reached for a detached home in Blackrock.

Residential development is viable in many parts of Cork. However, new home construction continued to be well below that anticipated in 2015 with fewer than 200 units built in the City Council's administrative area and less than 1,000 in the County Council's area. Twice this amount is required annually.

Rental Market

The new central bank lending restrictions on mortgage lending means that individuals and families have to rent for longer before contemplating purchasing. This had an impact on the residential rental market with rents in Cork rising by approximately 8% over 2015 due to the shortage in supply. The lack of rental accommodation has had an impact on the multinational who are finding it more difficult to attract the senior personnel required for their business development. However, as 2016 progresses this situation should start to ease. A two year limit on reviewing rents was introduced towards the end of 2015 to try and curtail excessive rental growth. However, rents in Cork city are already very close to peak levels and we anticipate further growth in 2016.

ABOVE:
Mosman
Douglas Road,
Cork

BELOW:
96 Willowbank
Church Road,
Blackrock, Cork

NORTHERN IRELAND

INVESTMENT

The Northern Ireland investment market has grown considerably since 2012. At that time, the total volume of sales was only £75m, however in 2015 this figure grew to over £420m.

ABOVE:
Erneside Shopping Centre
Acquired by Ellandi and Tristan Capital Partners for £34.5m

It is evident that confidence has returned to the market and as a result, new investors have bought assets in Northern Ireland in the past 12 months. Examples include Ellandi, Roxspring, M&G and Chenavari.

A notable feature of 2015 was the greater number of individual transactions and a reduction in the concentration of high profile portfolio sales. In excess of 40 deals were completed, which is more than double that of 2014 (when 60% of the total was accounted for by Project Swallowtail).

We understand that Cerberus has dealt with the majority of Project Eagle. However, it still has the considerably more granular Projects Rathlin and Aran to work through. Given the scale of these, Cerberus may consider its own portfolio sale in a bid to speedily exit the market. Additionally, Ulster Bank has reportedly almost completed its distressed deleveraging and Bank of Ireland is expected to accelerate its programme in 2016 by taking advantage of the improving market conditions.

Pricing

Traditionally, returns on offer from investment properties in Northern Ireland have been in excess of the rest of the UK, over 1% higher in some cases. However, this 'yield gap' became difficult to quantify in 2015. In the retail sector, this was because most properties were over-rented, while in the office and industrial sectors, it was due to the lack of supply of prime opportunities. However, given the amount of capital in the market seeking investment assets, the gap tightened by between 50 and 100 bps over 2015, which is likely to be maintained in the medium-term.

RIGHT:
Donegall Arcade
Belfast, Acquired by Sports Direct in Q4

FAR RIGHT:
Bloomfield Shopping Centre
Bangor, acquired by Ellandi and Tristan Capital Partners

Transactions

The majority of the investment properties that transacted in 2015 were retail focused with several high profile sales achieving strong values. The prices achieved were assisted by the long awaited rates revaluation in 2014 and the continuing recovery in consumer sentiment.

Office investment transactions totalled about £150m. This is more than in previous years and is not surprising given the pace of rental growth in the sector. There were a number of deals involving older office properties as investors focused on refurbishment angles and the enhanced returns on offer once works are complete.

The multi-family sector witnessed a more active year, specifically with Bank of Ireland bringing a portfolio of 500 units to the market in Q3. In industrial, investment in the sector remained challenging due to the lack of prime product.

KEY TRANSACTIONS FOR 2015

Property	Sector	Reported Price £m	Net Initial Yield	Date	Purchaser
Fairhill SC Ballymena	*Retail*	*£45.60*	*8.6%*	*Q3*	*Roskspring*
Ernside Shopping Centre	*Retail*	*£34.50*	*8.5%*	*Q1*	*Ellandi with Tristan Capital*
Boots, 35-47 Donegall Place	*Retail*	*£13.82*	*8.5%*	*Q2*	*Private Investor*
Lisnagelvin Retail Park, Derry	*Park*	*£16.75*	*6.5%*	*Q3*	*Pradera & Tristan Capital*
Showgrounds Retail Park, Omagh	*Retail*	*£27.00*	*7.0%*	*Q3*	*M&G*
Valley Retail Park, Newtownabbey	*Retail*	*£7.15*	*11.7%*	*Q3*	*UK REIT*
29-33 Clarendon Road	*Office*	*£6.65*	*7.2%*	*Q3*	*Private Investor*
Clarendon House	*Office*	*£24.70*	*N/A*	*Q1*	*Belfast City Council*

OUTLOOK

01: *Strong demand will continue as further new entrants come to the market.*

02: *The volume of transactions will depend on whether the remaining larger distressed assets will be subject to restructure or sale. Bank of Ireland still has a considerable number of distressed properties to deleverage, which when combined with Cerberus' projects Rathlin and Aran will result in an active 12 months for the market.*

03: *Normal market activity (i.e. not distressed sales) will account for a greater proportion of activity in 2016. Many property funds and companies bought assets in recent years and having intensively asset managed the buildings will now look to capitalise on this and resell to an institution.*

04: *The emergence of new debt and equity partners has stimulated activity and facilitated several high profile refinances. Given the volume of refinancing completed in 2015, it is expected that secondary trades out of portfolios will be a theme in 2016.*

05: *It is likely that some of the new debt partners will remain in the market beyond the 'refinance window' that the Cerberus acquisition of project Eagle created. Their approach to finance, which is not as risk adverse as others, will provide a platform to stretch equity and bridge the traditional mezzanine debt position. While this comes at a cost it does fill a funding gap that exists in the Northern Ireland market for certain types of transaction.*

06: *The 'corporation tax effect' is back on the agenda due to the most recent political agreement. However, its introduction has been delayed until 2018 and therefore its effectiveness as a selling point in the short-term has been diluted.*

OFFICES

Activity in the Belfast office market was relatively subdued in 2015 with take-up reaching approximately 210,000 sq ft, 40% less than 2014.

This is largely due to a lack of availability rather than a reduced appetite from occupiers. The largest letting of the year was to PwC (21,200 sq ft) on Laganbank Road. This was followed by Whitehat Security taking 9,000 sq ft in the Linenhall Building.

There is currently a combined unsatisfied requirement for in excess of 330,000 sq ft of space across central Belfast, including a number of sizable requirements. Invest NI has estimated that there will be a need for about 680,000 sq ft over a three year period from 2014 – 2017, focused on traditional office locations. This is interesting as in the period 2012 – 2014, FDI activity resulted in an average take-up of 143,000 sq ft per annum.

The supply of Grade A and B accommodation continued to fall in 2015 with availability standing at 150,000 sq ft and 338,000 sq ft respectively at the end of the year. It is worth noting that a significant proportion of this is in small floor plate sizes across a large number of buildings. This makes it difficult for Belfast to satisfy large scale requirements particularly those that are likely to be originating from overseas. Outside the traditional city centre core, the last remaining floor at City Quays (CQ1) is understood to be under offer. The second phase of this scheme, (CQ2) totalling 96,000 sq ft, is under construction but will not be available for occupation until Q2 2017.

The lack of Grade A space being built remained the key issue in the office market in 2015. While the City Quays development is welcome, the absence

OUTLOOK

of a significant development pipeline in the city centre core means that supply will remain tight in the short-term. The only city centre scheme under construction at the end of the year was the City Council's building on Adelaide Street, but this will not add to supply levels given that it was pre-sold.

Due to the healthy level of demand and lack of supply, prime rents remained under upward pressure in 2015 and exceeded £15.50 psf, the highest on record. Consequently, incentive packages continued to reduce. It has been recognised that in order to justify new speculative development, rents must grow to in excess of £18 psf. While reaching £18 psf is a large uplift, this level remains extremely competitive when compared with other large cities across the UK and Ireland.

Invest NI Report
In 2014 Invest NI recognised that there was a market failure in the Northern Ireland office market. As such, it commissioned a report on the nature and extent of this failure in early 2015. It found that the lack of available office accommodation and the absence of new development was the key cause. It was acknowledged that this was mainly due to constrains on funding. Invest NI is now exploring the option of providing mezzanine or equity finance to developers to act as a short-term intervention and stimulate new office development. This is positive for the market.

01: *As vacancy rates fall further, the availability of good quality stock will continue to be an issue. Occupiers will be forced to consider previously occupied stock, albeit in some cases refurbished, Grade B stock.*

02: *Headline rents and incentive packages will continue to come under pressure due to the lack of top quality space.*

03: *Refurbishment of older buildings in key locations will become more prevalent.*

04: *The viability of previously uneconomic schemes will be assessed as a result of rising rents. Additionally, the acquisition of sites for speculative development will intensify.*

05: *The much awaited Corporation Tax reduction will come into force in April 2018. In the next two years, the impact of this will be seen in the office market as developers increases speculative development (assuming they can secure funding) in anticipation of growing demand from FDI.*

LEFT:
City Quays 2 (96,000 sq ft)
Under construction and due to be ready for occupation in Q2 2017

ABOVE:
City Quays 1
Last remaining floor under offer.

RETAIL

Much was expected of the Northern Ireland retail market in 2015, primarily due to the adoption of the rates revaluation in April, which brought much needed reductions to high streets and the main shopping centres.

BELOW:
New Gap Store
Opened on Donegall Place

This, together with improved consumer sentiment, materialised for Belfast city centre's prime pitches with a notable increase in demand witnessed.

In terms of activity, Gap, Sketchers and DW Sports opened new stores on Donegall Place, while Aldo reopened and Zara increased in size. Additionally, the Inditex Group's Stradivarius brand is understood to have agreed terms on the former Barratts unit at the corner of Castle Lane. On Castle Lane itself, the Danish discounter, Tiger, opened a store.

Victoria Square also had a busy year with the opening of Boux Avenue, Mango, Warehouse, Karen Millen, Goldsmiths Boutique and Swarovski. The nearby Castlecourt Shopping Centre filled a number of its vacant units with new lettings to Yours Clothing, Bon Marche, Schuh Kids and Jack & Jones.

The demand from restaurant operators for Belfast is at an all-time high. At the newly opened Boucher Square, Frankie & Benny's, Nando's, Ed's Easy Diner and Costa have opened units. In the city centre in Victoria Square, Zizzi, Kua Aina and Five Guys were added to the food offering.

A busy year meant that there was a substantial reduction in vacancy rates. In Belfast city centre's prime retailing area, the rate fell from 19.8% at the end of 2014 to 12.5% in 2015. Additionally, prime out of town retail locations returned the lowest vacancy levels observed since 2011 at 13.4%.

ABOVE:
Five Guys
Victoria Square

OUTLOOK

01: *With various new retailers opening their first stores in Belfast in 2015, other new entrants will be attracted in the short-term, which will add to demand. Established retailers will also consider expansion plans, possibly into other towns around the region.*

02: *There are a number of active retailer requirements for Belfast going into 2016. This continued demand will mean that vacancy rates will fall further and rents will continue to rise. It is likely that headline prime rents will reach £150 psf Zone A in 2016, which would be an uplift of about 25% from the start of 2015.*

03: *As prime rents continue to rise, secondary areas will come more into focus to accommodate retailer demand. This will mean that the pace of decline in secondary vacancy rates will pick up.*

INDUSTRIAL

Demand for industrial units in the greater Belfast area remained strong in 2015, both from owner-occupiers and tenants.

This was particularly the case in Mallusk Industrial Estate in Newtownabbey, where a combined 65,000 sq ft was transacted. Examples of lettings here included DeliverNet, Breezemount, Aalco Metals and Indesit all taking space.

In Ballymena, 2015 was yet again a challenging year for manufacturing industries with Michelin Tyre deciding to wind down its truck tyre factory and close in 2018. This follows JTI deciding to close in 2014. While this is distressing news for the sector, there are other positive stories of companies investing in their premises. For example, Lidl is expanding its distribution facility in Nutts Corner with a £20m investment and RLC Engineering is investing £35m in a new 100,000 sq ft facility in Newtownabbey. Additionally, in Portadown, Simply Fruit recently completed a new factory and the Deluxe Group is on site constructing new premises. In Co Tyrone, the recently merged dairy company, LacPatrick Group, is investing £30m where work is already underway.

One of the most notable properties on the market during the year was that of the former Tryrone Brick premises in Dungannon. It extends to 240,000 sq ft on 70 acres and at the end of December was sale agreed to a local company with major expansion plans.

The overall vacancy rate in the greater Belfast area ended 2015 at just below 10%. There were however regional differences with Mullusk at 15.5%, Dargan / Duncrue at 8% and Newry at 6.3%

Units of less than 10,000 sq ft represented the majority of supply, however the number of units available has dropped by nearly 50% since 2013. Available units ranging from 10,000 to 50,000 sq ft have also dropped in the year and there was only one self-contained unit over 50,000 sq ft available in December. Requirements for units greater than 50,000 sq ft could also be accommodated in Mallusk, however this would require the amalgamation of multiple units.

BELOW:
Giant's Park Cleantech Hub
Comprising 340 acres on the North Forshore was launched to the market in late 2015.

OUTLOOK

01: *There is a lack of good quality industrial accommodation and potential occupiers can struggle to find suitable premises. In spite of this, prevailing rents do not yet make it viable to construct new buildings. Unfortunately, reaching the breakeven point could be some way out.*

02: *Film production companies have entered the market in recent years and it is expected that there will be further demand from this sector in the short-term.*

03: *Industrial zoned land is viewed as expensive by many, particularly when compared with purchasing existing industrial facilities. However, as supply diminishes further, there will be more land deals.*

04: *Giant's Park Cleantech Hub, comprising 340 acres on the North Foreshore, was launched in 2015. Expressions of interest are currently sought from companies in the cleantech sector wishing to cluster their activities with similar companies. Significant activity is likely to occur here in 2016 and beyond.*

05: *With the introduction of the new lower 12.5% corporation tax rate in 2018, it is likely that the Northern Ireland industrial market will experience an uplift in demand for space, particularly from larger multinationals.*

LIS-NEWS 2015

New Dundrum office

In April, Lisney opened a new residential office on Main Street, Dundrum. The office is managed by Dundrum local Darren Chambers who has worked with Lisney for over 20 years. Prior to opening, we decided to brighten up our window with some help from the students at Scoil Naithí in Ballinteer. We asked them to design their dream house in a project called 'Is leor don dreoilín a nead' or 'Home is where the heart is'. The results were fantastic and all entries were on display for the months of February and March.

LISNEY SEMINAR

Lisney held another property seminar in Chartered Accounts House in April. It was a morning seminar that focused on new fund structures for property with guest speakers from Matheson & Goodbody.

GAA Sponsorships

This year we celebrated our 11th year as sponsor of the annual 'Mini All Irelands' with CLG Na Fianna in Glasnevin. Each year, this event involves the participation by over 500 local boys and girls between the ages of six and ten in both hurling and football leagues. It is held during June and ends with a fantastic family finals day.

We were also delighted to commence sponsorship of the nurseries in both Naomh Olafs (Dundrum / Churchtown) and Ballinteer St Johns in 2015. Through these, children between the ages of four and seven learn to play GAA sports each week. 2015 also marked our 5th year as sponsor of Ballinteer St Johns annual mini-leagues, an event we have supported since it began.

RUN IN THE DARK/ MARK POLLOCK TRUST

In November, 25 Lisney staff took part in the 'Run in the Dark' fundraiser organised by the Mark Pollock Trust. The trust has a small team of people who are focused on finding and connecting people worldwide to fast-track a cure for paralysis. Lisney provides office space to the Mark Pollock Trust team as part of our Corporate Social Responsibility programme.

Check out **www.markpollocktrust.org**

Lisney topics of 2015

MOVEMBER

In November, six Lisney staff took part in the global cancer awareness event, Movember. John O' Sullivan, David Byrne, Darren Burke, Darren O'Shaughnessy, Nick Barber and Andy Mullins sported some fantastic looking Mo's for the month. Our Twizy even got involved.

STEPHEN ROCHE GRAND PRIX

In June the Stephen Roche Grand Prix, hosted by Orwell Wheelers took place in Dundrum. 2015 was the first year it featured a women's race, where equal prize money was given to both men and women. Lisney was delighted to be the main sponsors of the women's race with the Lisney Twizy acting as lead car. The race took place on a 1.3km circuit in the housing estate where Stephen Roche grew up. World Champion, Orla Hendron, took part in the race, which was won by Irish cycling champion Fiona Meade.

Terenure 5Mile Run

Lisney's Terenure office sponsored the Terenure 5 Mile race which took place in May this year. Formerly known as the Dublin 5 Mile Classic, 2015 was the races 31st year. The fast 1.5 lap course starts and ends at Terenure College. Members of the Lisney team also took part in this year's race.

Lisney.com

It was a long wait but we are delighted with the fresh new look of Lisney.com, which was launched in October. We hope you like it too!

A WELCOME TO OUR NEW STAFF MEMBERS

In 2015 Lisney recruited 39 new staff members across the various different departments in our Dublin, Cork and Belfast offices. We are delighted to have these newbies on board and they have already made a big impact on our success.

MEET THE TEAM

OFFICES


James Nugent
Managing Director


Paul Hipwell
Divisional Director

INDUSTRIAL


Cathal Daughton
Director

RETAIL


Emma Coffey
Divisional Director

INVESTMENT


Ann Hargaden
Chairman

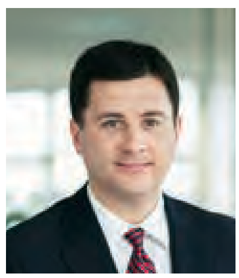

Duncan Lyster
Director


Hugh Linehan
Head of Investment Funds


Christopher Belton
Divisional Director

PROFESSIONAL SERVICES


Brian Gilson
Director


Ronan Diamond
Director


Michael Horan
Divisional Director


Shane O'Beirne
Divisional Director

RESIDENTIAL AGENCY


David Bewley
Director


John O'Sullivan
Director


David Byrne
Director


Ciaran Cassidy
Divisional Director

CORK


Margaret Kelleher
Director


Edward Hanafin
Director


Patricia Stokes
Residential Manager

DEVELOPMENT LAND

Ross Shorten
Director

NEW HOMES

Helen Moore
Director

RESEARCH

Aoife Brennan
Divisional Director

COMPANY SECRETARY

Sharon Murphy
Director

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Director

Maeve Furlong
Divisional Director

PROPERTY & FACILITIES MGMT

John Birmingham
Divisional Director

Tom Davenport
Commercial Rating

Darren Chambers
Divisional Director

Stephen Day
Divisional Director

Louise Kenny
Divisional Director

Rory Kirwan
Divisional Director

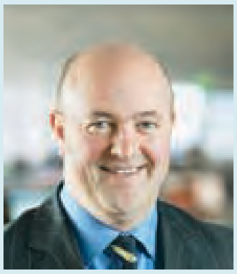
Robert Lawson
Divisional Director

NORTHERN IRELAND

Declan Flynn
Managing Director, NI

Nicky Finnieston
Director

Gareth Johnston
Director



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Director

Ciaran O'Kane
Director

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