2017

THE DIFFERENCE

2016 REVIEW &
2017 OUTLOOK

Lisney

WELCOME

THE DIFFERENCE

17

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Our View

2016 saw a change at the helm of Lisney with James Nugent becoming Executive Chairman, following four years as Managing Director. I would like to thank him for guiding us safely out of the recession and handing over a firm in good shape.

The environment in which we operate saw major political events including the election of a minority Irish government in February and the UK's momentous decision to leave the EU in June. As the year drew towards a close, the US elected Donald Trump as its next president. In light of such major change, it is surprising that the market kept functioning as well as it did.

The changes to tax treatment of some corporate structures made following Budget 2017 were not a welcome development for the market.

Rents grew in all sectors as economic growth in Ireland outstripped our European neighbours.

Investors continued to buy commercial investments with the second highest level of investment turnover ever recorded, witnessed in 2016; at close to €4.5bn. We had our share of success in this market with significant sales for Blackstone in Central Quay for over €50m and for a NAMA appointed Receiver in St Edmund's, Liffey Valley for over €35m.

Other highlights for Lisney included handling the sale of the Central Bank building on College Green and acting on behalf of IKEA on its new store in The Park in Carrickmines. Our industrial team cemented their place at the front of their market advising the buyer of a significant industrial portfolio called Project Ore. Our development land team had some very successful sales including the 2ha seafront site known as Roslyn Park in Sandymount.

We continued to be a leader in advising on the real estate aspects of the loan-sale market; advising either buyers or sellers in Projects Emerald & Ruby, Project Gem, Project Pluto and Project Oyster.

In the residential market, we sold 30% more houses for over €1m in 2016 than 2015. We are pleased to be opening a new residential branch on the Howth Road on Dublin's northside in January 2017.

Residential lettings have been in the news of late as rents have continued to grow at close to 10% per annum in 2016. Our teams based in Dublin and Cork are providing a premium service and achieving excellent results for our clients; notably at the Elysian in Cork and Shieling Square in Dublin.

As 2016 drew to a close, legislation to control rental increases was passed. The new controls will limit rental increases to 4% per year; or 12% over three years in designated 'rent pressure zones'. It has been implemented immediately in the four Dublin local authority areas and in Cork city. This will have consequences for the investment market but also, more worryingly, for the supply of new rental stock.

Our new homes team sold out another scheme in Dundrum in 2016 and is shortly due to launch a new scheme of high quality houses at Broadlands in Killiney. We also successfully launched a scheme of 27 beautiful apartments in a former convent building in Blackrock, Cork. We have built a high quality new homes team from scratch in recent years and are looking forward to taking a significant market share in the coming years.

In Cork, we had some great results for clients including selling a long term ground lease on a 6 acre development site for CIE at Kent Station. The site will be developed in to a significant mixed use scheme in the heart Cork City.

One of strongest divisions is our advisory team, which has expanded its offering to support many REITs, QIAIFs and ICAVs. We continue to provide high quality secured lending, lease advisory and expert witness work.

Our team in Belfast continues to perform well, in a market with real challenges ahead with BREXIT looming. They completed the largest investment deal of the year in Northern Ireland at Bloomfield Shopping Centre in Bangor for £54m; where they advised Ellandi and Tristan.

A reorganisation of our business in 2016 has brought our property management business into the advisory group and we are starting to see the benefits with some significant new instructions. These included a number of buildings at Deansgrange Business Park recently being added to the management book.

2016 saw us say goodbye to Cushman & Wakefield as a partner. Lisney has been, and will continue to be, a proudly independent Irish company owned and run by a group of professionals who put their clients first without question.

Our future is in focus and we were delighted to have Aoife Brennan, our head of research, join the Board. This move promotes one of our brightest and commits senior resources to expand a team that has and will provide our clients with the best information and analysis in the market.

Ann Hargaden has decided to retire from the Board. She joined the firm over 30 years ago and we're delighted that she will continue to work with us as a consultant and bring her many great qualities to bear for many more years.

As always the world we operate in changes and we are determined to be on top of the markets we operate in and provide our clients with the right advice.

We look forward to working with you in 2017 and beyond.

Duncan Lyster
Managing Director
January 2017

A VIEW ON 2017

RESIDENTIAL

The Dublin residential market stabilised somewhat in 2016 as both buyers and sellers had to align expectations in order to close a sale. The Lisney index of prices grew by 3.8% in 2016. The opening and closing quarters of the year saw the greatest growth at 1.4% each. Price growth in 2017 will be moderate with our models suggesting between 4% and 5%.

OFFICES

Unlike many other parts of the economy, Brexit should have a positive impact on the Dublin office market in 2017. There will be increased activity from companies looking to relocate from London and elsewhere in the UK as a result. This is likely to culminate in various deals being agreed towards the end of 2017. New office construction will continue to be one of the main talking points of the year. In terms of what was under construction at the end of 2016, the figure reaches almost 320,000 sqm in the entire Dublin region.

RETAIL

Vacancy rates in Dublin and in prime retail locations nationwide have reached extremely low levels. With little or no new construction underway, expansion opportunities in key areas will be difficult for the foreseeable future. There is an increasing variance in the level of rents that different types of retailers can pay. Restaurants and food operators have been the driving force behind the increase in rents.

INVESTMENT

Entering 2017, the investment market has the least certain outlook since the depths of the downturn. This is mainly due to the immense volume of property that has transacted since 2012. In spite of this, we expect to see private investors and investment funds continue to buy property as an income generating, real asset. There are still good opportunities in major Irish towns and cities at prices well below replacement cost.

DEVELOPMENT/ NEW HOMES

The development land market continued to perform well in 2016, with a relatively strong volume of sales achieved. The supply of new homes remained suppressed during 2016, in spite of strong demand and positive economic fundamentals. In the latter part of 2016, there were positive signs that the supply of new residential property was gaining momentum, with a number of developers commencing on-site. This momentum will gather pace in 2017, with a number of large multi-phase developments due to get underway. Demand will be buoyant for residential sites in 2017, particularly those that are suitable for starter homes.

INDUSTRIAL

The strong activity over the previous two years in the industrial market continued into 2016. Sales activity did drop in 2016, due to the scarcity of stock but also due to the number of owners that have purchased buildings under the Capital Gains Tax holiday. This will continue to limit the number of properties coming to the market for sale up to 2020.

LOAN SALES

While not as busy as recent years, the loan sale market was active in 2016. Yet again, NAMA was a very busy player in the market. Apart from NAMA, Danske Bank and RBS (Ulster Bank) were also sellers during 2016.

CORK

Demand for prime investment assets in the Cork region will remain strong. Construction will commence on new office schemes in 2017, however no new speculative development is anticipated in the retail or industrial sectors. In the residential market, construction is expected to start on a number of schemes in the suburbs and satellite towns to meet growing demand.

NORTHERN IRELAND

The Northern Ireland property market in 2017 will experience similar challenges to those of 2016. The uncertainty that Brexit has brought to the capital markets will take time to play out. The lack of available properties, particularly larger buildings, will remain a concern in the office and industrial markets. Prime Zone A rents will increase during the year.

Lisney

RESIDENTIAL

01

KILTERNAN LODGE, KILTERNAN

RESIDENTIAL SALES

The Dublin residential market stabilised somewhat in 2016 as both buyers and sellers had to align expectations in order to close a sale.

SALES REVIEW 2016

The market was price sensitive and for a property to be attractive to purchasers, the price had to be right. In the parts of Dublin we operate in, the Lisney index of prices grew by 3.8% in 2016. The opening and closing quarters of the year saw the greatest growth at 1.4% each.

The number of properties sold in Dublin over the first nine months of 2016 was on a par with the same period in 2015 with just under 10,000 properties transacted (this excludes multi-unit sales). While the full year's data is not yet available, it is likely that about 13,500 units were sold. This means that 2.5% of the total housing stock changed hands, similar to 2015 and ahead of 2014 when just 2% sold. International evidence indicates that in a normal functioning market, between 3% and 4% of the stock transacts 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 shows that of the 32,100 properties sold (excluding multi-unit sales) 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 a similar proportion of the market in 2015 but were higher, at 50%, in 2014.

There were three distinct markets in operation during the year – first-time-buyer, trading-up and premium homes. The first-time-buyer market remained very active, particularly for houses priced up to €500,000 within close proximity of Dublin city centre. Demand exceeded supply, resulting in competitive bidding for homes in this category. The difficulties faced by a first-time-buyer in purchasing a home were clearly documented throughout the year; however potential aids were introduced in the final months of the year.

A 'Help to Buy' scheme, comprising an income tax rebate for first-time-buyers, was introduced in Budget 2017. This scheme will allow eligible purchasers to avail of an income tax rebate of 5% of the purchase price on a newly built house priced up to €400,000. A maximum relief of €20,000 can occur. Where a first-time buyer signed a contract to purchase a new residence up until 31st December 2016, the new homes may be valued between €400,000 and €600,000, and thereafter €500,000. However, the maximum relief remains at €20,000, therefore getting relief on the first €400,000 of the purchase price.

Furthermore, at the end of 2016, the Central Bank eased deposit rules for first-time-buyers. Such purchasers will now only require a 10% deposit on the entire purchase price with no additional equity necessary on values above €220,000. This change to the rules was broadly welcomed. The task of saving a 20% deposit was exceptionally difficult for most first-time buyers given the high tax environment and strained rental market that prevails. These measures combined should provide a greater degree of certainty and encouragement for first-time-buyers in 2017.

The trading-up market in Dublin remained very active throughout 2016 but was exceptionally price sensitive. Many potential buyers were reluctant to sell their existing home before securing a new property. And where they required some mortgage funding, they were unable to effectively compete with cash buyers or those who had sold when bidding for a property. It became more common to agree a sale of a property to a buyer who had also just sale agreed their own home. This essentially created an undesirable chain situation - if the sale of the buyer's house fell through, the sale of the house they were purchasing also fell through.

The increase in the number of people wishing to trade-up reflected a greater confidence in the Irish economy. Many buyers were in a better position to deal with either negative equity in an existing property or had equity in an existing property, which allowed onward movement. The ability to retain tracker mortgages being offered by some banks was also a motivating factor in this market.

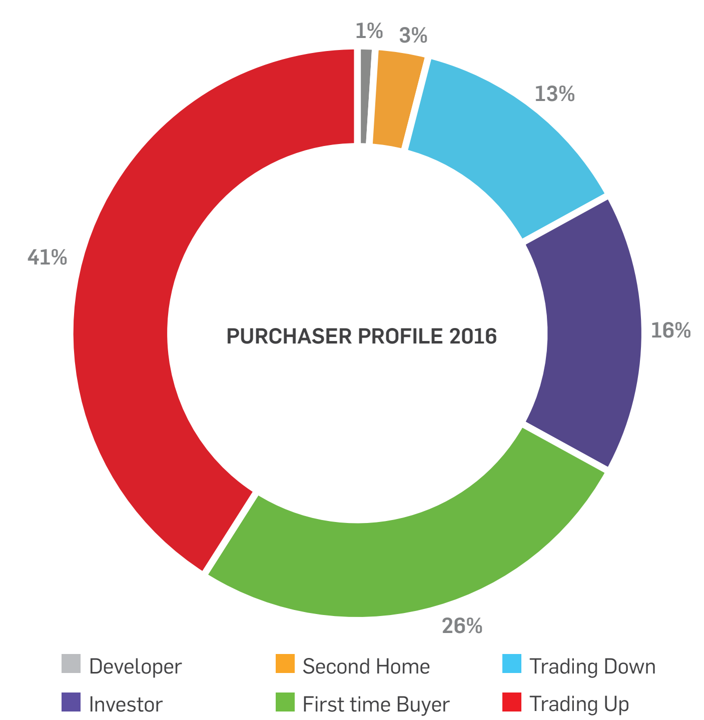
The upper end of the market was particularly strong in the first half of 2016, with a notable increase in local buyers competing within this market. This reflected increased confidence in the Irish economy as the market had been dominated by expats. However, the global uncertainty created by Brexit and the result of the US presidential election had an effect on this part of the market mid way through the year. Consequently, the second half of 2016 was somewhat quieter in terms of demand for houses priced in excess of €2m as buyers cautiously waited to see what the effects of both Brexit and the US presidential election would be.

An analysis of the profile of sales through Lisney's Dublin branches in the year reveals some interesting trends.

Focusing on purchasers, the largest cohort was those trading up at 41%.

First-time-buyers were also active at 26%, investors accounted for 16%, those trading down were at 13%, second home purchasers were at 3% and developers made up 1% of the total.

On the sales side, 28% of vendors were selling investments. Those trading down accounted for 21% and those trading up accounted for 17%.



SOURCE: LISNEY

OUTLOOK FOR 2017

With a degree of uncertainty behind us, 2017 will be another stabilising year. Price growth will be moderate with our models suggesting between 4% and 5%.

2017 will be a strong year for good apartments in modern schemes. Although large numbers of investors are leaving the market, some are entering it (albeit fewer than those selling). These are not as constrained by negative equity and other legacy issues and view property as a safe investment. Most consider such a purchase as part of their pension planning. Apartments within close proximity to the city centre and its amenities will remain very active, attracting owner-occupiers and investors alike.

The Central Bank's macro prudential rules will continue to curb price inflation, particularly for movers. The changes to deposit requirements for first-time-buyers should see increased activity in this part of the market in the early months of 2017 as potential purchasers will be able to enter the market more quickly. This will have a knock-on effect on those wishing to trade up, who will see greater demand for their existing home.

For premium homes in excess of €2m, the market may be sluggish at the start of 2017. Currency fluctuations in both sterling and the US dollar will continue to have an impact on this market as buyers wait for the opportune time to purchase an asset in euro. Demand will however remain strong for prime, uncompromised homes in turnkey condition.

In 2016, Lisney saw an increase of 30% in sales for houses priced in excess of €1m. This increase in activity in the market will tempt more empty nesters into selling in 2017. However, those wishing to trade down will be faced with competition in the active mid-market. This cohort often discovers that the price differential between the larger property they are selling and the smaller property they are buying is not as wide as they had hoped. However, the greatest deterrent for those trading down is the lack of suitable accommodation. An increase in the supply of correctly sized apartments, bungalows or even two-storey homes would encourage more empty nesters to consider a sale.


2 WHITEBEAM ROAD, CLONSKEAGH


HUGHENDEN, GLENAGEARY


13 MOUNTAIN VIEW ROAD, RANELAGH


THE OCTAGON, DALKEY


24 MAPLE ROAD, CLONSKEAGH


SILVERDALE, SANTRY


WINDERMERE, FOXROCK

RESIDENTIAL LETTINGS 2016

- The Dublin residential letting market was very much in the spotlight in 2016. Demand remained exceptionally strong and in many instances the rents achieved exceeded those of previous peaks. A chronic lack of supply was the main driving force behind increasing rents and those wishing to rent found it very challenging to find accommodation.
- The latest rental index released by the RTB shows that Dublin rents grew by 7.2% over the 12 months to the end of September 2016 with houses rising by 2.9% and apartments by a substantial 10.1%. This implies that Dublin rents are now 4.8% above their previous peak in Q4 2007 and have risen by 41.5% since 2011 when they were at their lowest levels.
- Demand was strongest for one and two-bed apartments within close proximity to the city centre. Rents for one-beds ranged from €1,300 to €1,600 per month and for two-beds from €1,600 to €2,200 per month.
- The family home market of three and four-bed houses also remained very active with very little choice below €2,500 per month. There is no doubt that the severe shortage of properties available in this sector is producing 'super rents' in some instances that are not sustainable in the long-term.
- The higher end of the letting market (in excess of €5,000 per month) is dictated by specific demand and mostly confined to executives relocating to Ireland for a period of time. The demand for staff by international office occupiers directly impacts this sector as top executives compete to secure a home in a relatively limited market.

REMBRANDT HOUSE, MONKSTOWN

OUTLOOK FOR 2017

Given the severe shortage of accommodation, combined with increasing demand, the Dublin residential rental market will remain very strong in 2017. It should be remembered that the private landlord plays an important role in providing a vital service in a functioning economy and should be encouraged to stay in the market. Until this happens (by reducing the taxes charged), rental levels will remain high.

Tenants working for large FDI companies will remain a large part of demand in 2017. This will be particularly evident in the docklands area where those working in the likes of Google, Facebook and LinkedIn will continue to struggle to find suitable accommodation.

As 2016 drew to a close, legislation to control rental increases was passed. The new controls will limit rental increases to 4% per year; or 12% over three years in designated 'rent pressure zones'. It has been implemented immediately in the 4 Dublin local authority areas and in Cork city. This will have both positive and negative impacts on the market. While it is a positive step from a tenant's point of view in terms of greater certainty and lower rents, it may act as a further deterrent for landlords seeking to enter the market. Additionally, it may also persuade existing landlords to exit the market, thus reducing the already low level of supply of rental properties.

Lisney

DEVELOPMENT LAND AND NEW HOMES

02

DEVELOPMENT LAND REVIEW 2016

The development land market continued to perform well in 2016, with a relatively strong volume of sales achieved.

BOTANIC ROAD, GLASNEVIN

Prime city centre sites suitable for hotels and offices were well sought after and it was notable that there was demand for sites suitable for student accommodation and 'build-to-rent' multi-family residential projects. Land values across some areas continued to increase; particularly sites benefitting from planning permission.

From a residential point of view, there continued to be extremely strong demand for infill development sites in mature parts of Dublin; especially those with full planning permission. Simultaneously, there was a limited supply of large sites in secondary areas, which were zoned for housing but with many lacking essential infrastructure.

With larger development sites, purchasers were primarily international private equity firms, often in partnership with Irish developers. Conversely, smaller infill sites attracted mainly domestic purchasers.

The 'Rebuilding Ireland' action plan was released by the Government in July 2016. It seeks to identify major urban housing development sites. These must be zoned and have the potential to deliver significant numbers of additional homes close to key areas of demand. Sites have been identified within the four Dublin local authority areas and will be provided with the necessary infrastructure to enable the construction of both private and social housing.

ROSLYN PARK, SANDYMOUNT

In light of the difficulty many developers are experiencing obtaining development finance for residential schemes, Nama has adopted a licensing model to aid the construction of new homes. This sales method allows developers to gain control of housing sites on the payment of an initial fee and then reimbursing NAMA once the houses are sold.

In 2015 a site in Maynooth was offered to the market on this basis and a deal was completed with Anthony Neville Homes. A site at St Edmunds in Liffey Valley was brought to the market using this licence arrangement towards the end of 2016 and a preferred bidder has been selected. Another site at Ballycullen was on the market at the end of December and a bidder will be selected in early 2017.

In 2016, there was considerable interest in well-located Dublin city centre office buildings with potential for refurbishment or redevelopment. Examples of this include ACC Bank's premises on Charlemont Place, which reportedly sold for €50m. Hume House, D4 was bought by Irish Life for approximately €35m. The property benefited from planning permission for a new 16,900 sqm office building. Clanwilliam Court (Blocks 1, 2 & 5), were bought by Hibernia REIT (€51m) and Grand Parade, Dublin 6 (Irish Nationwide HQ) was purchased by Hines for about €37m. In addition, the Central Bank on Dame Street was sold.

NOTABLE TRANSACTIONS IN 2016

- **A development agreement interest in a six-acre waterfront site at Spencer Dock in the north Dublin docklands sold for €43m. It has planning permission for a 169-bedroom hotel, more than 31,580sqm of offices and 165 apartments.**
- **25 acres of development land, Stocking Portfolio, with planning permission for 253 houses at Stocking Avenue in Rathfarnham, Dublin 16, and 68 apartments and houses in 11 different residential schemes, sold with a guide price of €39m.**
- **2.4 acres in Point Village, sold for close to €28m. It is a prime site in Dublin's docklands with planning permission to accommodate 935 student beds.**
- **The Rehab Group's, Roslyn Park complex in Sandymount, D4. This 5.2 acre site had a guide price of €12m and sold for significantly higher.**

IN FOCUS: DUBLIN CITY DEVELOPMENT PLAN

The Dublin City Development Plan 2016–2022 came into effect in 2016.

In the run up to its finalisation, building heights and densities in the city centre came into focus once again with many questioning whether these development standards addressed the current accommodation crisis sufficiently.

In terms of residential development, the new development plan allows apartment blocks of up to 24m in height (equivalent of eight storeys) in low-rise city areas. 10 mid-rise locations in the city are identified in the plan and heights of up to 50m (16 storeys) are permitted in these areas. For the four high-rise areas (Docklands, Connolly, Heuston and George's Quay) heights greater than 50m are permitted.

Under the previous development plan, residential buildings in low-rise areas were only permitted to be six storeys so the increase to eight in the most recent plan is a welcome development as it will assist in increasing the supply of new homes. We do not believe that it has gone far enough. Alone, it will not be adequate to meet the ever increasing residential requirement. Changing demographics remain the greatest driver of property demand with the Irish population projected to increase by 9% to almost five million by 2021, according to CSO figures. Dublin represents a substantial 30% of this figure and consequently, the intensity of demand will only increase in the coming years.

MAGEE BARRACKS, KILDARE SOLD BY LISNEY

With the 10 mid-rise locations (50m), again we believe that the heights put forward are generally too low and there should be greater flexibility. There is appetite from developers to build higher buildings. But each building will differ with regards to its economic viability and as such, this will only be on certain sites.

A failure to permit tall buildings and the desire to preserve Dublin as an overall low rise city is no longer viable. Tall buildings should be encouraged in more locations. Obviously, these must be suitable locations and not, for example, over-shadow Georgian Dublin. If it is considered that a site is only redeveloped once every 50 to 100 years, then any plot that is built upon and does not maximise the floor area, is a lost opportunity for generations.

The construction of high quality tall apartment buildings will be a large part of the solution to the current housing crisis and in accommodating future housing demand. But this is in addition to reducing urban sprawl and cross-commuting, and sustaining the government's investment into public transport infrastructure. Ireland has lagged in relation to embracing high-rise living; however, many households are now just one or two persons and this trend is increasing. It is often said that Irish people do not like apartment living, but in our experience, young professionals and international FDI staff want to live in the city and especially in the docklands.

It is very positive to see that the docklands area is identified for high-rise (50m+) development. New construction in this area over the past 15 or so years has been very uniform and in our opinion, too low. Given the width of the River Liffey and the size of the area, greater heights could have been adopted. This would have meant that the visual impact of the quays would have been more interesting and greater amounts of accommodation would have been built, something which is now greatly required.

NEW HOMES REVIEW 2016

The supply of new homes remained suppressed during 2016, in spite of strong demand and positive economic fundamentals

New housing output levels were far below underlying demand. In terms of new construction, only 3,402 new units were built in Dublin in the first ten months of 2016. This is well below an optimum level of about 8,000 units required each year.

Significant pressure on the Government and other interested parties during 2016 resulted in various initiatives aimed at increasing the supply and affordability of new homes. Notably, the Minister for Housing, Planning and Local Government, Simon Coveney, introduced the 'Rebuilding Ireland' action plan in July 2016. One of the pillars of the plan is to dramatically increase the delivery of new homes. Among the measures included is a fast-track planning process for large schemes, combined with the establishment of a fund to provide infrastructure to lands zoned for housing. It is hoped that this will double the current supply of new homes and deliver 25,000 new units per annum nationwide.

A multitude of factors, including a lack of availability of development finance and high costs of construction (VAT on new home sales and local authority development levies in particular), have resulted in many residential sites being economically unviable. Meanwhile, the Central Bank rules have made it difficult for many purchasers to obtain mortgages. This has resulted in increased pressure on the rental market and a significant increase in Dublin based buyers considering more affordable homes in commuter towns such as Kildare, Meath and Wicklow.

A 'Help to Buy' scheme, comprising an income tax rebate for first-time-buyers, was introduced in Budget 2017. This scheme will allow eligible purchasers to avail of an income tax rebate of 5% of the purchase price on a newly built house priced up to €400,000. A maximum relief of €20,000 can occur. Where a first-time buyer signed a contract to purchase a new residence up until 31st December 2016, the new homes may be valued between €400,000 and

TANEY GREEN, DUNDRUM

HAZELBROOK SQUARE, WHITEHALL

SCHOLARSTOWN WOOD, RATHFARNHAM

ALDERLIE, ADAMSTOWN

BROADLANDS, KILLINEY

> In 2016, most of the new homes activity in Dublin consisted of relatively small schemes of high-end homes, and moderate size developments of homes at the mid-level of the market

€600,000, thereafter €500,000. However, the maximum relief remains at €20,000, therefore getting relief on the first €400,000 of the purchase price.

At the end of 2016, the Central Bank eased deposit rules for first-time-buyers. The €220,000 cap on mortgage lending for first-time buyers with a deposit of 10% no longer applies. First-time-buyers will now be able to obtain a 90% LTV mortgage on the full loan amount.

In 2016, most of the new homes activity in Dublin consisted of relatively small schemes of high-end homes, and moderate size developments of homes at the mid-level of the market. Examples of the higher-end schemes include Taney Green, Dundrum and Ardilea Crescent, Clonskeagh. In many cases, purchasers of these units are cash funded or are not credit constrained by the Central Bank's restrictions. In the mid-level schemes, such as Hazelbrook Square in Churchtown and Scholarstown Wood in Rathfarnham, some purchasers have benefitted from parental assistance.

Large scale developments of starter houses or apartments have traditionally been the main focus of the new homes sector. In 2016, such schemes have not been prominent. The few schemes of this kind that launched during the year, such as Hollywoodrath, D15 and Alderlie in Adamstown, have been successful. However, the low margin on new starter homes for the developer and the affordability issues experienced by first-time-buyers, has led to many similar sites being economically unviable to build.

OUTLOOK FOR 2017

Demand will be buoyant for residential sites in 2017, particularly those that are suitable for starter homes.

The Government's 'Rebuilding Ireland' action plan will enable an increased number of large-scale residential developments to successfully obtain planning permission. Meanwhile, the assistance to local authorities with the provision of infrastructure will significantly expedite construction works on many sites.

New apartments in the mid to upper section of the market will re-emerge strongly in 2017. A number of large apartment schemes including Marianella, Rathgar; Lansdowne Place, Ballsbridge; Mount Argus, Harold's Cross; and several developments in the docklands are due to come to the market. These schemes will attract strong interest from all categories of purchasers.

The cost of construction remains too high and a strong argument remains for the temporary reduction of VAT on new homes and a reduction in the cost of local authority development levies. Such measures would increase the economic viability of many projects and ultimately help to increase supply. We expect continual lobbying of the Government in relation to these issues in 2017.

The recent measures introduced in the Finance Bill to change the tax treatment of firms using ICAV (Irish Collective Asset-management Vehicle), QIAIF (Qualifying Investor Alternative Investment Fund) and Section 110 structures will also have an impact on the land market. Many of the international firms active within Ireland have utilised such vehicles when purchasing development sites in recent years. These firms will now have to reassess their business plans as they may incur significant tax liabilities on new purchases.

The build-to-rent residential sector emerged in Dublin in 2016 and looks set to expand significantly in 2017. This is a well-established asset class in cities in the US, UK and continental Europe. Various international pension funds and investors have identified Dublin as an ideal location for such opportunities. Minister Coveney has instructed planners and local authorities to prioritise the facilitation and delivery of these schemes and we expect this sector to be one of the fastest growing asset classes in Dublin in 2017.

The introduction of the 'Help to Buy' scheme, combined with the reduced Central Bank deposit requirements, will improve the ability of first time buyers to access the new homes market. However, while the reduced deposit requirements will increase the number of eligible purchasers, the Central Bank's loan-to-income requirements at 3.5 times gross income are still in place. This places a cap on potential purchasers' buying power and will consequently continue to affect the viability of some developments.

Private investors have been largely absent from the market in recent years, however there has been a significant increase in enquiries from this sector in buy-to-let units. This trend will increase in 2017.

In the latter part of 2016, there were positive signs that the supply of new residential property was gaining momentum, with a number of developers commencing on-site works. This momentum will gather pace in 2017, with a number of large multi-phase developments due to get underway.

Lisney

INVESTMENT

03

CENTRAL QUAY, DUBLIN 2

THE YEAR THAT WAS...

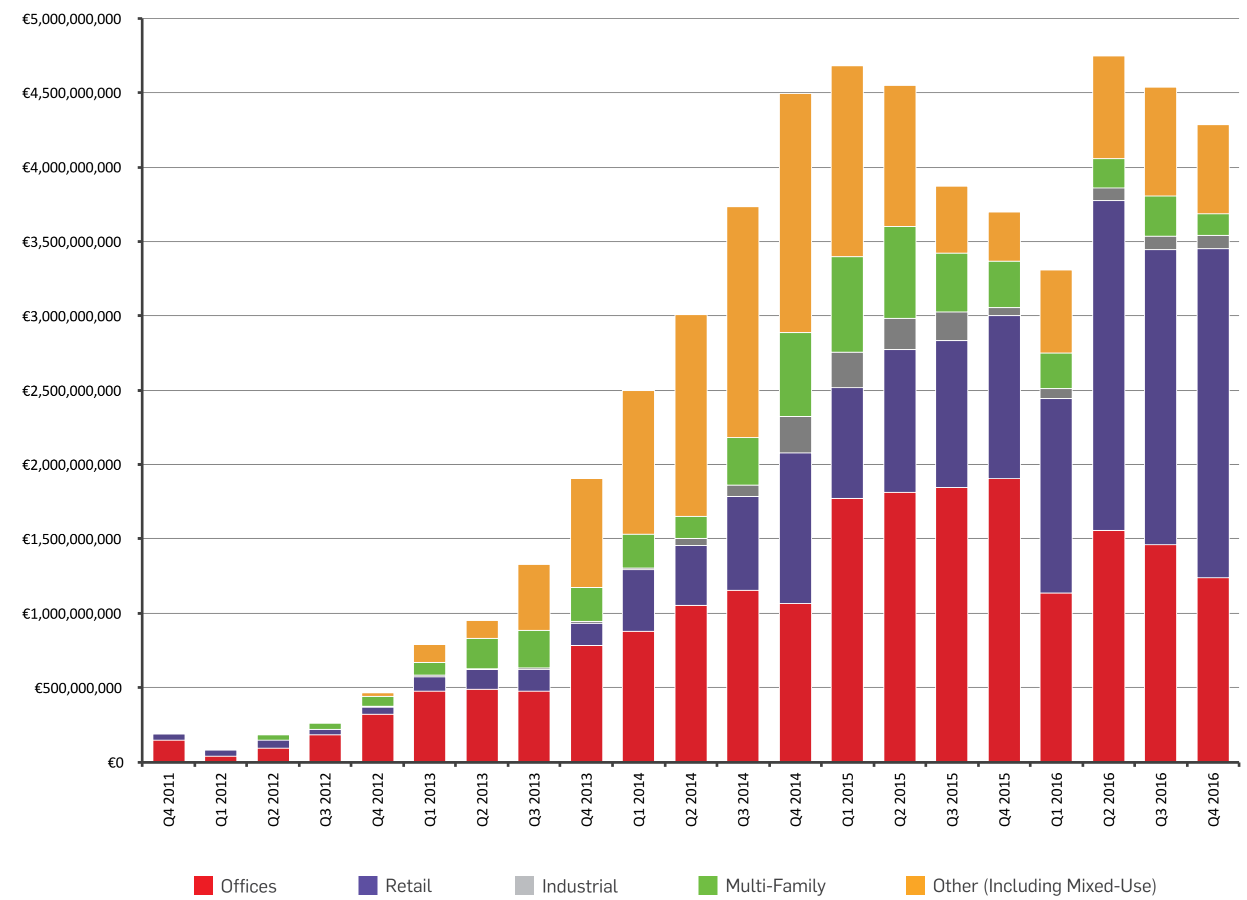
2016 will be seen as the year that the large-scale sale of loan books and property by financial institutions, following the crash, came to an end.

With an investment turnover of almost €4.5bn, 2016 ranks as the second largest year historically in terms of direct real estate investment (i.e. excluding loan book sales). 2014 was the only year that saw more investment assets traded in terms of value; however 2014 had the benefit of the Capital Gains Tax holiday incentive.

In terms of activity, there were a number of differences in 2016 when compared with recent years. Firstly, activity was very unevenly spread across the 12 months with about 50% of the full year's turnover concentrated in Q2. Additionally, unlike recent years where the office sector had dominated, the retail sector topped the list in this cycle; making up half of 2016's total. Along with some notable city centre transactions, including the €40m Grafton Collection portfolio, this was primarily thanks to two of the largest Dublin shopping centres changing hands. The Blanchardstown Centre was sold to Blackstone, making it the largest single direct property deal in Irish history at €950m. Liffey Valley Shopping Centre also traded with BVK the new owner. Also in 2016, The Allianz Real Estate and Hammerson joint venture took control of Dundrum Town Centre, following their loan acquisition in 2015. The trend towards retail is reflective of the growing confidence in the sector on the back of real economic growth. However, it is also due to a maturing office market, which has led the way for the last four years and where prices have increased by 85% over that period, compared with 55% in retail.

In terms of prime office transactions, the largest deal of the year was PwC's 21,000 sqm HQ in Spencer Dock, which sold in Q2 for €240m. Following this, the sale of 65

12 MONTH ROLLING TURNOVER

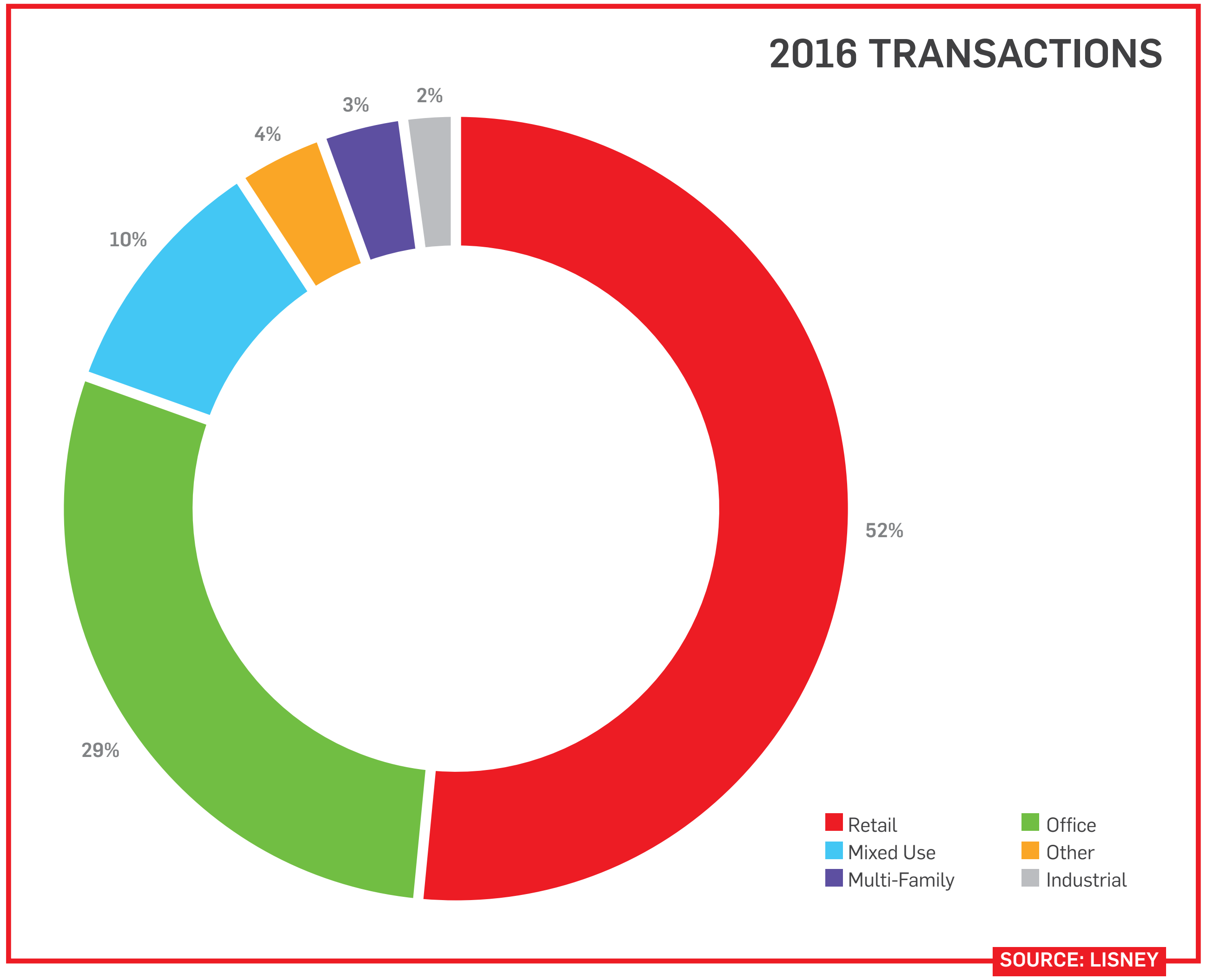


SOURCE: LISNEY

St Stephen's Green (the recently constructed Aercap House) for a reported €85m, set a new top rate per square metre in this cycle, at close to €15,000 psm. In the suburbs, there was a significant lack of opportunities on offer. The most notable sale was that of the 8,100 sqm Block 2, South County Business Park, which included a short remaining lease to Microsoft. Despite the additional development potential on a site of almost 6 acres, it was relatively slow to trade, but ultimately sold for a little over €20m or €2,500 psm. Other less prime suburban locations saw assets trading below replacement cost with medium-term secure cash flows.

2016 also saw some significant multi-family residential investments change hands. Examples included the 197 unit Neptune Building in Honey Park, Dun Laoghaire (€72.5m) and 160 apartments at St Edmund's, Palmerston (€35m).

> **"2016 ranks as the second largest year historically, with an investment turnover of almost €4.5bn"**



2016 was a year that saw an increasing number of tower cranes appear on the Dublin skyline; now close to 60 in the city centre. The expected flow of new development stock into the investment market is not very significant, particularly against a backdrop of almost €4.5bn of turnover. Much of the development pipeline is being carried out by well capitalised long-term owners including Kennedy Wilson, IPUT, Hibernia REIT, Green REIT and IRES. It is doubtful the market will get an opportunity to buy many of these new buildings, but their lettings will assist in guiding the market on pricing for newly let buildings with open (i.e. upward and downward) rent review clauses, which have been a relative rarity. Total returns in the commercial investment sector have been running at unsustainable annual levels (up to 40% for all property and higher in the office sector), however it did start to cool somewhat as 2016 drew to a close, running at about 16% according to MSCI (formerly IPD).

PRIME EQUIVALENT YIELDS

PRIME YIELDS	DECEMBER 2016	DECEMBER 2015
Office	4.5%	4.25%
Retail	3.5%	3.75%
Industrial	5.7%	5.9%
PRS (Residential)	6% (Gross)	6.25% (Gross)


BLANCHARDSTOWN CENTRE

OUTLOOK FOR 2017

Entering 2017, the investment market has the least certain outlook since the depths of the downturn.

The uncertainty is mainly due to the large volume of property that has transacted since 2012, combined with uncertainty caused by a shift in global politics. In spite of this, we expect to see various trends continue and others unfold.

The completion of the first wave of new office development in 2017 may see the opening of a pricing gap. Better specified buildings with full warranty packages will command stronger pricing than older stock where obsolescence will become an issue and capital will be required in the medium-term.

We anticipate that capital values in the multi-family residential investment market will continue to rise, reflecting growing rents and income security. There are a number of owners with a significant numbers of units in this sector. There are also some new entrants looking to build scale so that they can drive efficiency and keep net incomes as close to gross rent as possible.

With regards to new construction, we expect to see more investors looking to make forward commitments. This will be particularly the case in the multi-family residential market where demand is dramatically outstripping supply and leasing risk is minimal. However, any further government intervention could see investors shy away from the sector. Investor involvement in new construction is essential if we are to ease the housing shortage in the relatively short-term.

The tax treatment of property and loan book investors is generating headlines and some change is likely as certain structures are no longer feasible. Consequently, we will see an exit in the short-term by some investors or they will look to accelerate their disposal programmes. Conversely, we have started to see investors who are in the seven year holding period required to qualify for the CGT holiday, ignoring strong offers and holding out into a reasonably uncertain outlook.

Office market pricing will be dictated by the age old supply/demand equation. With much space potentially deliverable in schemes that have planning and in the docklands SDZ. If significant amounts of speculative space commenced construction, we expect that pricing in the office market could ease. Over the second half of 2016, occupier demand appears to have thinned, given the general uncertainty in the corporate world as a result of President elect Donald Trump and Brexit.

PWC SPENCER DOCK, DUBLIN 1

There are major unknowns that will hang over the market and contribute to a significant reduction in trading levels in 2017. The general uncertainty in the political world globally, manifesting itself in a new regime in the US and the UK, combined with domestic issues in regard to Corporation Tax arrangements with multinationals are making predicting future growth increasingly difficult.

The interest rate outlook remains benign but the political changes coming in the US and UK could change this. From our research, we know that the long-term correlation between interest rates and yields is limited. In fact, yields are much more closely correlated with economic growth; therefore we do not expect to see yields move outwards as a result of higher interest rates.

Private investors will continue to buy property as an income generating, real asset. There are still good opportunities in major Irish towns and cities at prices well below replacement cost. Supply for private investors will continue to be fuelled by parties who have bought loans in bulk and are working through a clearing process.

Following the sale of the three largest shopping centres in Dublin, we expect more activity in the retail sector in 2017. Many expect The Square in Tallaght and other smaller retail holdings to come to the market. Additionally, there will be further re-trading of retail assets bought earlier in the cycle and these are likely to be focused on prime Dublin streets where rents are moving upwards and investors are betting on that trend continuing.

Financing new development will remain difficult despite the strong demand in the office and residential sectors. The scars from the crash remain in lending and in recent years it was clear that many developers were unable to commence construction without an investor partner, typically from abroad. As such, investors with capital to deploy are and will continue to fill the funding gap. Both investors and tenants will use this disconnect to extract value in terms of improved returns over standing stock and keener rental deals.

Construction cost inflation started to cause some problems for forward funding deals in late 2016. This issue is likely to grow in significance in 2017. Many schemes with planning are now being repriced at tender or pre-tender stage and viability is under threat. Cost inflation is running dramatically ahead of normal levels (more than 6% annually), which is largely due to capacity constraints. With many materials originating in the UK, a weaker pound sterling will soften the blow for a while but Brexit could cause significant issues in the supply chain in Ireland when it actually occurs.

Lisney

LOAN SALES

04

NAMA HQ, TREASURY BUILDING, DUBLIN 2

2016 REVIEW

While not as busy as recent years, the loan sale market was active in 2016.

Yet again, NAMA was a very busy seller in the market. In June, it sold Project Abbey, the name given to loans associated with Harcourt Developments. The face value of these loans was reportedly €650m and Apollo was the purchaser.

Also in June, it was reported that Oaktree had been selected as preferred bidder to buy the Projects Emerald and Ruby loan books offered by NAMA. These were multi-borrower baskets of loans and the face value was reported at €3.9bn. In August, Project Beara with a nominal value of €250m, was disposed of to Deutsche Bank.

In December, NAMA agreed the sale of Project Gem to Cerberus. It is understood that the loan book was secured against approximately 400 properties with almost 40 different borrower connections. Also as the year came to a conclusion, we understood that Project Tolka, also for sale by NAMA, was sale agreed. With a nominal value of approximately €1.5bn, this group of loans had been on and off the market a number of times.

Apart from NAMA, Danske Bank and RBS (Ulster Bank) were also sellers during 2016. In August, Danske Bank agreed a deal with Cerberus on Project Pluto. This was a large loan book made up of multiple borrowers and secured against mainly residential properties across Ireland. Project Oyster was sold by RBS in October to Cerberus. It comprised loans with a face value of approximately €2.15bn from 900 borrowers and was a mix of business debt, buy-to-let residential investments and owner-occupier mortgages.

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

Lisney

OFFICES

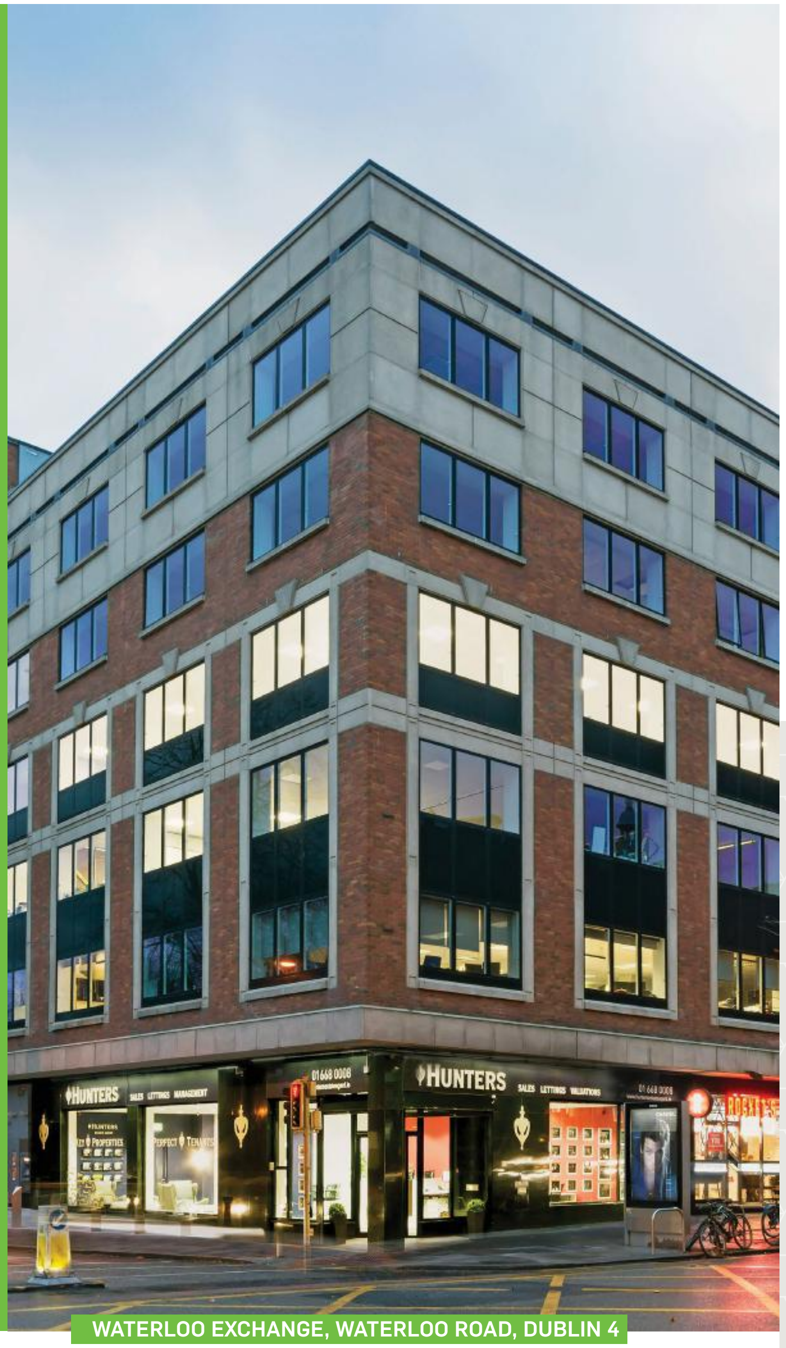
05

OFFICE INTELLIGENCE

Activity in the Dublin office market continued at very strong levels in 2016.

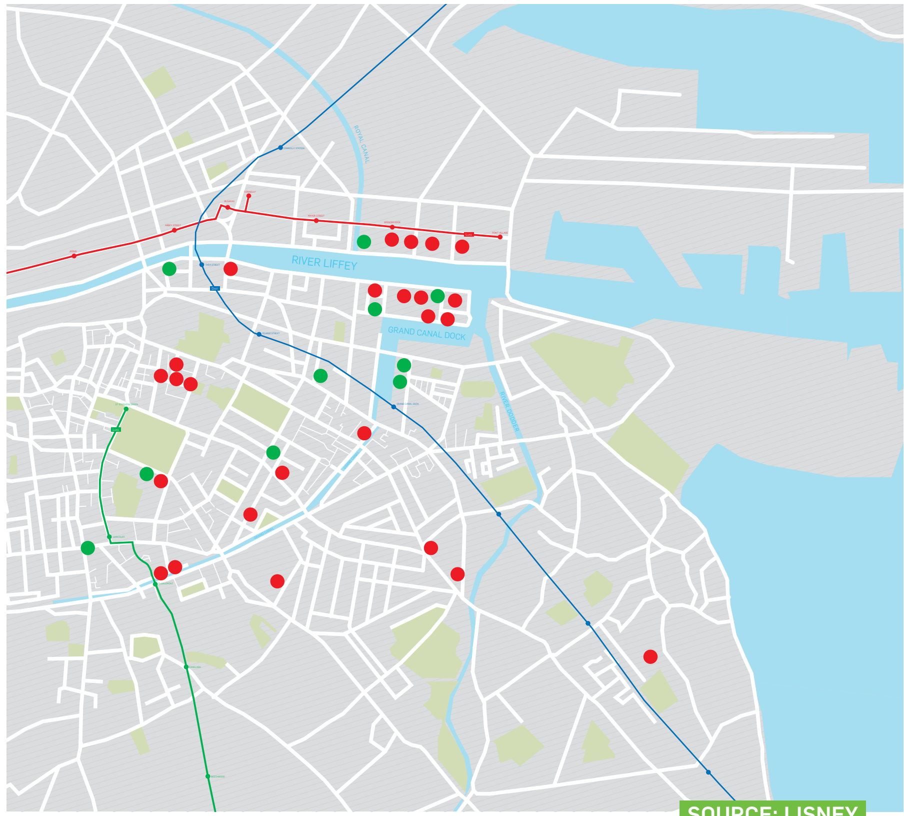
2016 REVIEW

- The IT sector maintained its significant presence in the market with well-known global firms like Google and Salesforce taking additional space.
- Following a number of years when international occupiers were the dominant players in the market, Irish firms became increasingly present and accounted for almost half of all transactions in 2016.
- Total take up for the year reached a sizable 232,600 sqm. The net absorption for the year was also high at 100,400 sqm.
- The city centre was the most active region in 2016, a trend that has become increasingly dominant in recent years. The working environment and the associated lifestyle benefits remain a selling point for companies attracting highly skilled staff, in a very competitive environment. Enticing and retaining international staff in Dublin means having a city centre office; particularly for larger IT companies. Many companies have been very successful in attracting young mobile staff who wish to spend a few years in Dublin gaining experience in a specialised field, while also benefitting from an attractive lifestyle.
- Rising rents and falling vacancy rates remained key characteristics of the Dublin office market in 2016. Significantly, the overall Dublin vacancy rate fell below 10% for the first time in 16 years and at the end of the year stood at 9.5%. However, the main feature of the year was the volume of new supply in the pipeline. Just 14,800 sqm of new space was completed in 2016 and this is essentially the first wave of development to be delivered into the market since 2008.
- Prime city centre rents are now in the region of €603 psm (€56 psf). Suburban locations are achieving rents between €178 psm to €269 psm (€16.50 - €25 psf).



WATERLOO EXCHANGE, WATERLOO ROAD, DUBLIN 4

OFFICE NEW BUILD SUMMARY Q4 2016



SOURCE: LISNEY

Under Construction   Pending Development

> The overall Dublin office vacancy rate fell below 10% for the first time in 16 years

OUTLOOK FOR 2017

New office construction will continue to be one of the main talking points in 2017.

Almost 320,000 sqm of office accommodation was under construction at the end of 2016 in the entire Dublin region. Close to 36% (or 113,550 sqm) of this is pre-let, mid-let or being developed by owner-occupiers with a further 6% (or 17,750 sqm) reserved and due to be let in the coming months. The remaining 188,450 sqm is speculative and will be added to supply when completed, if not let beforehand. The future construction pipeline is harder to predict. We estimate construction will commence on a further 46,500 sqm in 2017 / 2018 and complete before 2020. The annual net absorption, or net effective take-up, over the last 10 years averaged 83,000 sqm. Given the pipeline of new supply up to 2020 (potentially up to 235,000 sqm), in addition to any refurbishments that will occur over that period, plus used space coming back to the market, we believe that demand will continue to outstrip supply.

As things stand, and assuming no major external shocks, we do not see any basis for negative sentiment about an oversupply.

Finance for speculative office development remains virtually impossible to get from Irish banks, which appear only interested in schemes with pre-letting agreements. Consequently, speculative development finance is coming mainly from international sources such as Deutsche Bank. This is normally at higher rates to reflect the added risk. When it comes to lease negotiations, the financial benefit the developer has from getting a lower rate of finance with a pre-let is effectively shared with the tenant, who receives a much better rental deal. This is in the form of greater rent free periods and/or lower rents.

Given the constraints with development finance, the market will be effectively self-regulated in the coming years. Specifically, not all ready and willing developers will be in a position to start construction when they wish. This means that the supply of new space will be curtailed.

The downturn saw the bankruptcy of a number of prominent Irish developers and an exodus of development expertise. Those currently leading the way in development include Green REIT, Hibernia REIT, NAMA and IPUT. None of these is a traditional-type developer. As the investment objectives of REITs mature, it is uncertain if they will continue to build. Therefore, in the short to medium-term, there is a strong possibility that international developers (and not just investors / financiers) will consider building in Dublin and will fill a potential void.

Unlike many other parts of the economy, Brexit should have a positive impact on the Dublin office market in 2017. There will be increased activity from companies looking to relocate from London and elsewhere in the UK as a result. This is likely to culminate in various deals being agreed towards the end of 2017. In spite of this, it is important not to exaggerate the impact of Brexit on the market. During 2016, a number of deals were incorrectly labelled as Brexit-related. A number of companies are undoubtedly undertaking due diligence and assessing potential relocation options across Europe. Dublin is just one option, but a very real option, given the Irish tax structure and reputation as a relatively easy place to conduct business.

Rental growth will moderate in 2017. With annual city centre increases having been as high as 38% in recent years, we expect the price curve to mature and plateau. Lease terms will remain in favour of landlords with long-term lease commitments of at least 10 years prevailing for prime new developments. Greater flexibility will be available in older secondary buildings and the suburbs. Rent free periods will continue to shorten but will remain lengthy for pre-let deals.

Leases with a rent review due in 2017 will see dramatic rental increases. Those that commenced in 2012 were agreed when prime rents were only €307 psm (€28.50 psf) and tenants have benefitted from very good value over the past five years. However, over that timeframe, such rents have risen by 104% according to the Lisney Commercial Rental Index. As such, reviewed rents will have a significant impact on tenants in terms of a company's cost structure.

GOLDEN LANE, DUBLIN 8

CENTRAL BANK, DAME STREET, DUBLIN 2

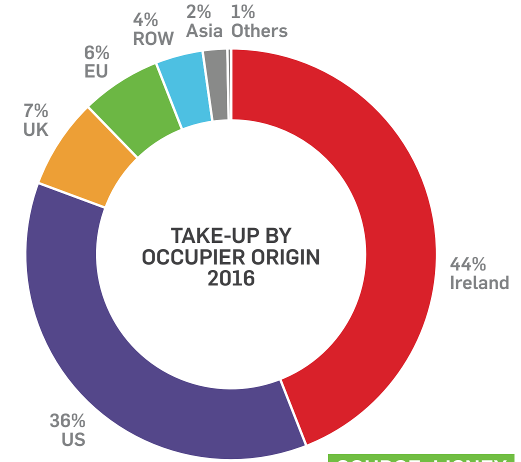
As a result of the rental increases in the city centre, tenants may now consider relocating to the suburbs where rents are less than half of the prime city rate. We believe this is possible; however it is more likely to occur if a long-term, 10 year view is taken. This is because the cost of relocating and fitting out a new office is prohibitive and frequently outweighs any rental savings.

Historically, overseas shocks have disproportionately affected the Irish office market. As such, prevailing macro-economy and international events pose the greatest threat to the market in the short-term. Anti-establishment movements have gathered momentum across the globe, with Brexit and the US elections key examples. Such views will also influence European affairs, mainly in Italy and France. Dublin is a gateway to Europe and a strong euro area is good for Ireland and the Dublin office market. In the US, President Elect Trump has pledged to reduce US corporate tax to 15% from 35%. This has the potential to damage Ireland's ability to attract US FDI as the cost / benefit for these companies to locate large parts of their business would reduce, perhaps significantly. The EU Common Consolidated Corporate Tax Base would have a similar effect.

OFFICE RENTS

6.1%

The Lisney index of overall Dublin office rents continued to grow in 2016; however at a slower pace than previous years.

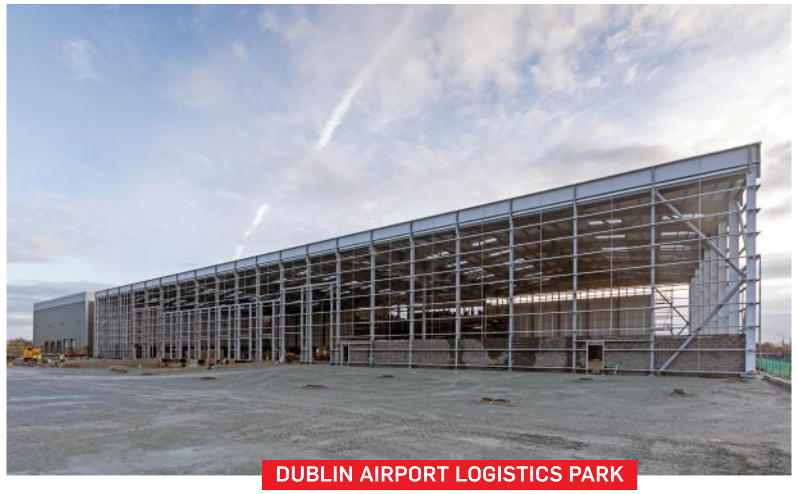


SOURCE: LISNEY

Lisney

INDUSTRIAL

06



DUBLIN AIRPORT LOGISTICS PARK

INDUSTRIAL REVELATION

The strong activity over the previous two years continued into 2016.

The overall level of take-up for 2016 (at an estimated 300,000 sqm) is down on 2015 levels; however it is still a healthy figure. At the end of 2016, there was approximately 964,000 sqm of vacant industrial accommodation on the market. This represented an overall Dublin vacancy rate of close to 14.0%.

Focusing on long-term take-up, over the past 22 years the average annual level was 267,000 sqm. The main reason for the reduction in 2016 was the lack of supply of good quality, modern stock. Occupiers continued to struggle to find the right buildings and sought turnkey facilities built to their specific requirements. This resulted in an increase in design-and-build activity over the year.

One of the largest lettings in 2016 was a pre-let to Uniphar in Greenogue Business Park (9,300 sqm) for Sandymark Construction Limited. This building will be used by Uniphar as a central medication distribution centre. The reported rent is at €97 psm (€9 psf), which is approximately 15% ahead of top market headline rates for existing space. As such, this is the economic rent required to justify a new build, and was one of the first pre-lets to be agreed since 2007. On the pre-sales side, Fynes Logistics agreed the first such deal in seven years at the start of 2016. The new warehouse facility will be in Horizon Logistics Park, close to Dublin Airport at around €1,615 psm (€150 psf).

When the volume of stock is examined, there is just 380,000 sqm of accommodation with 8m eaves and above.

For stock with 7m eaves and above, the figures is 470,000 sqm. Therefore, approximately 50% of total supply has eaves height of less than 7m.

In terms of speculative development, Green REIT continued with its building works in Horizon Business Park and is expected to proceed with further speculative development in the immediate future. Rohan Holdings has also embarked on a substantial development programme that will deliver close to 28,000 sqm of speculative warehouse space across Dublin over the next few years. Parks to be developed by Rohan include Dublin Airport Logistics Park, North City and Southwest Business Park at Cheeverstown.

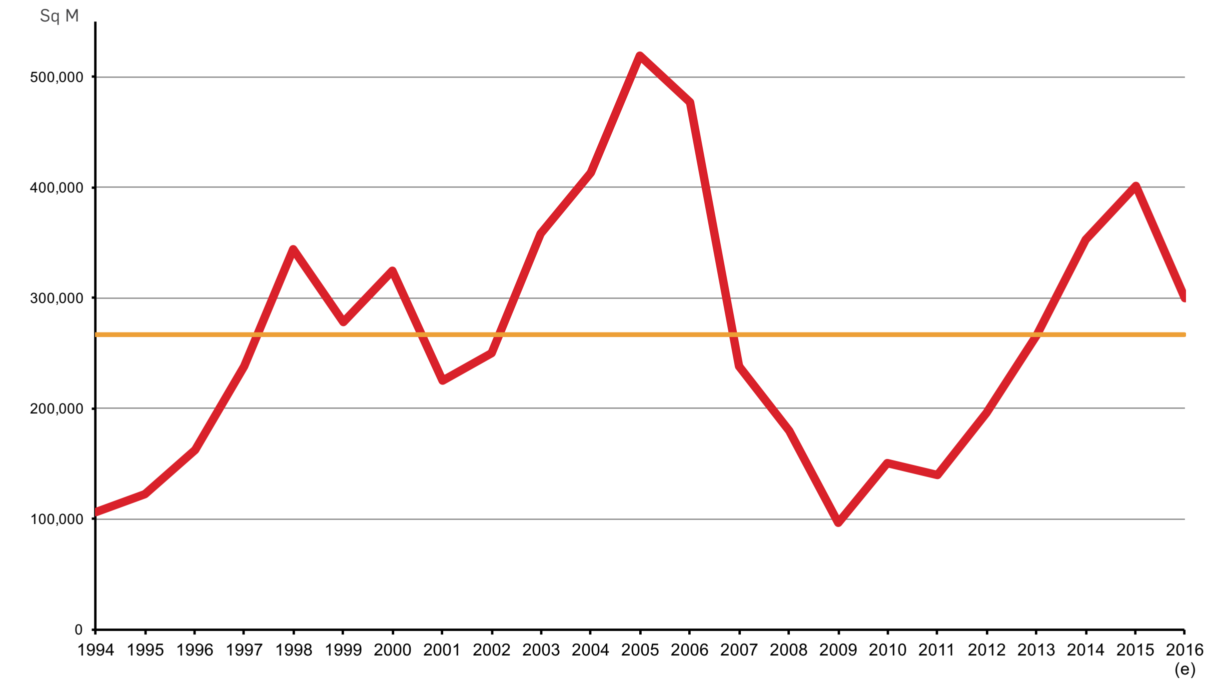
There were some significant industrial land transactions in 2016. While the volume of sales was down on 2015 levels, demand remained healthy throughout the year. Of note, Dublin Port acquired a substantial north Dublin land bank, adjacent to Dublin Airport Logistics Park, as part of the its long-term plan to alleviate the restricted land it has in the port, while freeing up additional areas for cruise ships and other uses; M1 Business Park lands (72.8 ha / 180 acres) at Balbriggan, were sale agreed at the end of December; and 66.3ha (164 acres) at Sillogue, adjacent to Horizon Business Park (just north of the M50), were sold.

INDUSTRIAL RENTS

12%

The Lisney index of overall Dublin industrial rents continued to grow in 2016.

INDUSTRIAL TAKE-UP, LONG-TERM AVERAGE



SOURCE: LISNEY

IN FOCUS: GOING UNDERGROUND?

The Hounslow Warehouse Project is an interesting model that could have application in Ireland.

A UK property investment company, Formal Investments, has recently submitted a planning application to Hounslow Council for a 186,000 sqm underground warehouse in west London. The hope is that such a development would assist in alleviating the city's logistics shortfall in that area.

The project will include a 110-acre landscaped park sitting above the covered industrial facility, similar to the car park beneath Hyde Park, SW1. When complete, the premises will be split into individual units of 7,500 sqm.

While the land is classified as green belt and building above ground is restricted, gravel extraction is allowed; assisting the viability of the project. The development will be phased using a construction method called sealed top-down construction, which is normally used in city centre developments and was used to build The Shard in the London Bridge Quarter. Construction takes place beneath a reinforced concrete slab, which is laid beforehand with the landscaping to follow on top.

There is likely to be considerable interest from distribution occupiers in this underground warehouse as occupiers will be taking advantage of the proximity to Heathrow Airport and London city centre. Rents are likely to be less than prime rents in the general area, given the unusual nature of the scheme. If planning is granted in 2018, it is estimated that it could take seven to ten years to complete, on a phased basis.

It is very possible that such a warehousing facility could be developed in the Dublin market in the future as the demand for 'urban logistics' increases. The benefits are two-fold. Consumers who live and work in the city would benefit from 'same day' or even 'within the hour' delivery of goods purchased online and also, the city's main retailers would receive deliveries in a co-ordinated manner. It would also help alleviate traffic congestion.

RECTORY FARM, HOUNSLOW

BROOMHILL, TALLAGHT

THE OUTLOOK FOR 2017

Sales activity dropped in 2016 due to the scarcity of stock but also due to the number of owners that have purchased buildings under the Capital Gains Tax holiday (i.e. investors who purchased properties between December 2011 and December 2014 are only eligible for the CGT waiver on disposal if they hold them for a minimum of seven years). This will continue to limit the number of properties coming to the market for sale up to 2020. It may also lead to a number of short-term lettings with locked-in purchase options.

Prime industrial rents are growing strongly due to the diminishing supply of good quality modern stock. Headline rents for existing well located modern accommodation are in the order of €85 psm (€7.90 psf). Yields continue to reduce as many investors still see the attractiveness of this asset class. Capital value growth has outpaced the growth in rents and will continue to do so throughout 2017.

Sale prices on second-hand buildings will hover below the cost of replacement in the medium-term but this gap will tighten significantly over the next six to 12 months.

There will be further refurbishment of older buildings in good locations, such as Dublin and Baldoyle Industrial Estates on the north of the city and in Western and Ballymount Industrial Estates in the southwest.

Planning applications for new industrial buildings will continue to increase as demand for pre-letting, pre-sale and speculative development rises in the medium-term.

Smaller industrial land plots will continue to increase in value and lot sizes of one to five acres currently command between €200,000 and €300,000 per acre. This is set to increase further over the next few years.

Depending on the products being supplied into and out of the UK, the uncertainty from Brexit will continue to make some logistics companies anxious. Many financial institutions are also acting very cautiously, particularly when lending to the Irish food sector. Approximately 40% of Irish agri-food and drink exports go to the UK and with the reduction in the value of sterling, it has become more expensive for Irish exporters to sell their goods; thus their business plans will be less certain.

RETAIL

07

2016 RETAIL YEAR

JAN

The **KBC / ESRI Consumer Sentiment Index** rose to a 15 year high with expectations for the year ahead positive following strong Christmas sales.

SuperValu continued as market share leader, capturing 25% of the grocery market but Dunnes Stores made the largest gains.

Another landmark store in the O'Connell Street area, **Boyers**, closed its doors after 100 years.

The 110,000 sqm **Blanchardstown Centre** was put on the market by **Green Property** and was eventually sold in June to **Blackstone** for a reported €950m.

For the fourth time since the 1990s, a liquidator was appointed to **XtraVision**. The company, owned by **Hilco Capital** since 2013, operated 83 stores across Ireland, which have all since closed.

FEB

The **general election** took place on the 26th February but it took 63 days to form a government. This, along with **Brexit** and other global worries, resulted in significant uncertainty and consumer sentiment experienced the largest monthly drop in 17 months.

Ann Summers leased the former Pamela Scott premises at 3 Henry Street. A number of retailers had expressed an interest in the store resulting in competitive bidding. A Zone A rental rate of €4,845 psm was agreed.

MAR

1916 commemorations began and retailers benefited from an early Easter.

SuperValu remained the grocaery market leader with a market share of 23.1%. **Tesco** stayed in second place at 22.2% and **Dunnes Stores** were at 21.8% at the end of the month.

APR

TK Maxx opened a store in **Douglas Village Shopping Centre**, its second store in Cork and its 23rd in Ireland. As is usual with this retailer, it agreed a deal whereby rent would be set on a percentage of turnover basis, reportedly at 5% with a 24 month rent free period.

British department store **BHS** was put into Administration. Rescue attempts failed and the decision to wind down the 88 year old company and close all 163 stores came in June.

MAY

IKEA signed a lease on their second store in Dublin, a smaller 'Order and Collect' facility. The opening adds to the success of Carrickmines Retail Park as Ireland's number one retail park.

Sports Direct bought Boyers' former store on Talbot Street for €12m. This added to Sports Direct's investment in Ireland in 2016 with the firm having acquired the outstanding shares in the Heatons chain in March.

JUN

The United Kingdom voted to exit the EU following a referendum. This immediately had an impact on the sterling / euro exchange rate making it more favourable for consumers to shop in Northern Ireland.

In one of the few lease premium deals of the year, **Loake Shoes** acquired the lease of French tea company, Palais des Thes, at 31 Wicklow Street, Dublin 2. A premium of €75,000 was paid.

The US women's lingerie company **Victoria's Secret** was reported as the new occupier of 28-29 Grafton Street, Dublin 2 formally occupied by **BT2**. The retailer is paying a Zone A rent of €6,900 psm.

JUL

The ownership of **Dundrum Town Centre** officially changed as **Hammerson** and **Allianz Real Estate** concluded an agreement with Chartered Land. This followed the sale of the loans relating to the centre in 2015.

GNC, the American health food brand, opened a store on Henry Street at a Zone A rent of €3,400 psm.

AUG

Consumer sentiment, measured by **KBC Bank Ireland** and the **ESRI**, recovered most of the post Brexit fall.

Further expansion of **Liffey Valley Shopping Centre** was granted permission with an Olympic-sized ice rink a key element. Affordable retail units and a Garda office will also form part of the development.

The High Court approved the restructuring of **Debenhams**' Irish arm with discounts applied to unsecured creditors and various leases restructured.

SEPT

Following the reopening of a number of stores in 2015, **HMV** announced the closure of stores in Ireland once again. The **HMV** brand will focus on an online video streaming service with owners, **Hilco Capital,** investing €6.4m into the venture.

Harvey Norman confirmed expansion plans as sales in its 13 Irish stores increased by 10%. The retailer is actively seeking to move into regional markets.

Retail Excellence Ireland reported that Dublin retailers experienced declines in sales of between 25% and 60% on the days of Dublin Bus strikes.

OCT

L'Oreal lodged a planning application for change of use at 50 Grafton Street, which it plans to operate as a "high class shop" under one of its brands. Under the Grafton Street Area of Special Planning Control a number of uses, including cosmetics, requires planning permission for change of use.

Topshop announced that it is to open a new store in the Jervis Shopping Centre. This centre is currently home to a number of **Arcadia** brands including **Wallis, Miss Selfridge, Burton, Topshop and Topman.** The five stores will be replaced with one 1,900 sqm store. The rent is reported to be €1.25m.

NOV

The US presidential election took place with Donald Trump elected the new president.

Bypassing SuperValu and Tesco, **Dunnes Stores** was identified as Ireland's largest grocery retailer, increasing its market share to 22.6%. The success is largely down to its "Shop and Save" campaign whereby shoppers receive a €10 voucher for every €50 spent.

Avoca opened its 12th store, in Dunboyne, Co. Meath, which is the largest Avoca store in Ireland.

DEC

A brand owned by the Swedish retail company **H&M**, **& Other Stories,** finally opened its doors at 26/27 Grafton Street. The building, which was previously occupied by **A-Wear** and **HMV**, has undergone extensive refurbishment works to create a light-filled store.

Penneys opened a new 5,000 sqm store in the recently finished western extension of **Liffey Valley Shopping Centre.**

ZIZZI, DUNDRUM TOWN CENTRE

2016 REVIEW AND OUTLOOK FOR 2017

2016 was a year of uncertainty for retailers and consumers both internationally and at home.

Brexit, the US Presidential elections and domestically, the general election and stability of the government, caused volatility in consumer sentiment and fluctuations in consumer spending. This uncertainty will continue into 2017 as consumers get to grips on how these macro issues will impact upon their households and spending capacity.

The ultimate effects of Brexit on the Irish economy, retailers and consumers are still unknown. However, some short-term impacts have already emerged. Retailers are coming under pressure as sterling weakens and their cost base rises. They also have the added problem of consumers travelling to Northern Ireland to benefit from cheaper products. This will continue to be an issue for them and their business plans in 2017.

CSO data show that the volume and value of retail sales rose by 4.3% and 2.1% respectively in the 12 months to November 2016 (motor trades excluded). Notably, the gap between the volume and value of core retail sales remained throughout 2016 with the former now just 2.5% behind peak 2007 levels, while the value of sales remained 12.5% behind peak levels. The shift in consumer buying patterns is now evident and the trend in heavy price discounting that was a feature of 2016 is likely to continue into 2017. Consumers are well accustomed to seeking out a bargain and steer towards discounted items. Retailers will need to find innovative ways to try change consumer behaviour and increase the value of retail sales as this trend has been in place since the recession. Interestingly, Dunnes Stores has put its recent success as Ireland's number one supermarket down to encouraging larger shopping trips through its innovative "Shop and Save" promotional campaign, which has been hugely successful countrywide.

Vacancy rates in Dublin and in prime retail locations nationwide have reached extremely low levels. This has had a negative impact on retailers in recent times as they seek to source new locations and grow their businesses. With little or no new construction underway, expansion opportunities in key areas will be difficult for the foreseeable future.

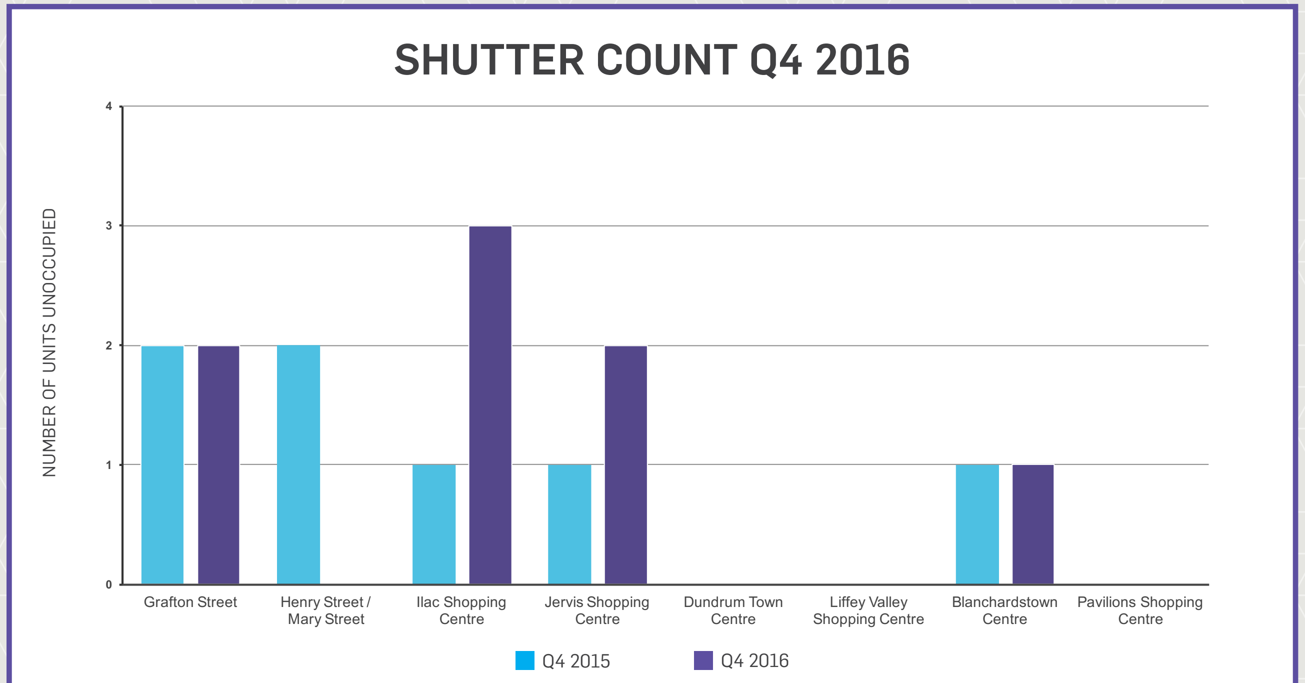
Requirements for stores from new entrants into the Irish market stalled somewhat in 2016. As a result, demand softened and rents did not increase quite as quickly as anticipated. Additionally, only a limited number of lease premiums were achieved on the open market. However, we

envisage that demand from international brands will increase in 2017 as they look to expand into new markets such as Ireland. Due to the limited availability, this demand together with the requirements from existing retailers, should lead to rental growth and a greater number of leases being sold.

With existing retailers less likely to roll out a large number of new stores than they did in the past, many are now getting to grips with their internet savvy and time-starved consumers. Increasingly, it is about brand awareness and driving internet sales. IKEA opened its first 'Order and Collect' store in Ireland in 2016 and this is a trend that many retailers may look to follow as internet sales continue to grow. Internet retailing has become a fundamental part of the multi-channel retailing strategies for many of Ireland's retailers and will continue to gain ground throughout 2017.

The sale of numerous shopping centres and retail schemes across the country has meant ERVs and required rents have been pushed out considerably. There may be some rebalancing required over 2017 between landlord's expectations and retailers' capacity to pay rents. There is an increasing variance in the level of rents that different types of retailers can pay. Restaurants and food operators have been the driving force behind the increase in rents in schemes. This is something that landlords will need to take cognisance of if they are to ensure a good tenant mix in schemes in the years ahead.

IKEA, CARRICKMINES



SOURCE: LISNEY

CORK

BEAUTIFUL SOUTH

Investor appetite in Cork remained strong in 2016, particularly for offices and retail. However, the supply of investment product was limited.

5100 CORK AIRPORT BUSINESS PARK

INVESTMENT REVIEW 2016

There were a number of notable office transactions. These included the sale of Building 5100 Cork Airport Business Park (excess €5.5m guide price); 1 South Mall (excess guide price of €3m); 24/25 South Mall (€1.15m); and 89/90 South Mall (€4m).

In the retail sector; 4/5 Winthrop Street, let to McDonald's restaurant, sold for a reported €5.5m (net initial yield (NIY) 6.4%); 47 Patrick Street, let to Game Stop, sold for €1.85m (NIY 6.95%) and with a rent of almost €680,000 pa; the Harvey Norman premises on Kinsale Road sold for €8m (NIY 8.1%).

There was also strong demand for multi-family residential investments, although there were very limited opportunities for investors. The Leeside apartments on Bachelors Quay, comprising 78 units, were offered for sale at a guide price of €10m.

Other deals due to complete in early 2017 include 72 Patrick Street, let to Boots, guiding €6m / NIY 8.6% and Merchants Quay Shopping Centre with 29 retail units and a rent roll of €1.47m was guiding €12.5m.

At the end of 2016, prime equivalent yields were as follows:

PRIME EQUIVALENT YIELDS

SECTOR	PRIME YIELDS
Offices	6.50% - 7.50%
Retail	5.75% - 6.75%
Multi-Family	6.50% - 7.50%

1 SOUTH MALL, CORK CITY

OUTLOOK FOR 2017

Demand for prime investment assets in the Cork region will remain strong. Many properties are still selling for below replacement cost and the returns available are attractive when compared to yields in Dublin.

Private investors will continue to seek suitable opportunities for their pension funds as returns from property outperform other asset classes.

Many investment assets that were part of the various loan sales in the past three to four years will be offered for sale in 2017, as the international equity funds who acquired them will seek to sell non-core properties.

We expect further capital value appreciation, although the rate of increase will slow.

Demand for larger lot sizes over €10m may be more subdued as international investors focus more on the Dublin market.

Due to strong rental growth and occupier demand, interest in multi-family investments, of all lot sizes, will continue throughout 2017. We also expect to see new development of student accommodation blocks as there are a number of active planning applications on the western side of the city.

CORK OFFICE REVIEW 2016

Demand for high quality modern office space was strong in 2016.

This was particularly the case among indigenous occupiers seeking space in the city centre where such requirements increased dramatically from 2015. In terms of activity, notable transactions included Regus securing 1,100 sqm in Phoenix House and CKT Solicitors relocating to 1/2 George's Quay. Another notable transaction in the city was UCC's acquisition of the historic Cork Saving Bank building at 1 Lapps Quay for over €1.4m. The University has plans to open a city centre Business School in the property. In the suburbs, notable transactions included Teamwork.com securing 1,500 sqm in Park House, Blackpool and FMC International, a global chemical company, leasing approximately 1,200 sqm at 11 Eastgate Avenue, Little Island.

Prime city centre headline rents are now in excess of €270 psm (€25psf). In the suburbs, headline rents increased during 2016 and ended the year ranging between €130 psm and €162 psm (€12 psf - €15 psf). There were some exceptions such as Citygate, Mahon, which achieve higher rates. Rents on South Mall are at similar levels to modern space in the suburbs, depending on size and specification.

While the headline vacancy rate ended the year at approximately 17.0%, the majority of this accommodation is substandard and in need of refurbishment. Of total availability, stock is split 40:60 city centre / suburbs.

Due to falling vacancy levels, unsuitable availability and ongoing demand, further new developments commenced during the year. The Capitol scheme on Grand Parade progressed well during the year and will provide over 5,000 sqm of prime speculative office accommodation when complete in early 2017. Facebook (Oculus VR) has reportedly agreed to lease 1,400 sqm on the top floor of this JCD scheme. On Albert Quay, a planning decision on O'Callaghan Properties' Navigation Square (28,800 sqm) was appealed to An Bord Pleanála in October with a decision due in 2017.

Furthermore, marketing of the Trinity Quarter development commenced during the year. The proposed five-storey waterfront scheme at South Terrace / Copley Street will extend to 22,800 sqm and will have the benefit of large floor plates of up to 3,900 sqm surrounding an internal courtyard. There is full planning permission for the development and discussions are ongoing to secure a pre-letting.

11 EASTGATE AVENUE, LITTLE ISLAND

TRINITY QUARTER, CORK CITY

OUTLOOK FOR 2017

Although stable entering into 2017, rental levels are expected to increase in both the city and in the suburban business parks.

It will be a prerequisite, before development can commence on potential schemes, that substantial pre-lets are secured. Rental levels will need to exceed €323 psm (€30 psf) to ensure viability.

There will be further refurbishments and lettings of older buildings in the city centre with a particular emphasis placed on improving the South Mall.

In terms of schemes at pre-planning stage, permission is likely to be sought for 4,000 sqm adjacent to Kent Railway Station in early 2017. This will form part of a potential €100m mixed-use development of 200 apartments and a hotel. CIE agreed development terms on the site following a tender process in 2016 for the 6.1 acres with Clarendon Properties and BAM.

Cork will continue to attract FDI occupiers as rents are competitive when compared to rates for similar accommodation in Dublin – almost half the rate.

Given the shortage of high quality suburban office accommodation and the ongoing demand from the FDI sector, construction will commence on new schemes in 2017. These will include a new 6,500 sqm building on Site 2100 Cork Airport Business Park and Navigation Square to the east of One Albert Quay. Additionally, JCD is expected to commence a 32,500 sqm development at Central Plaza in Mahon and also development a 6,000 sqm building in Eastgate Business Park. Other possible schemes include Phase 2, Cork Airport Business Park and Ballincollig Town Centre.

RETAIL REVIEW 2016

- Throughout 2016 the retail core in the city centre continued to improve. New retailers included Søstrene Green on Patrick Street; Carluccio's restaurant on French Church Street and Boojum on Winthrop Street.
- Construction commenced on the most significant retail development in recent years, 'The Capitol' and is due for completion in Q1 2017. It will deliver 4,200 sqm of retail accommodation over two levels. While no formal announcements have yet been made, sports and household retail users are envisaged for the scheme.
- Planning permission was granted for the redevelopment of Merchants Quay Shopping Centre in 2016. The centre was, however, subsequently offered for sale in September with the benefit of the new planning and any redevelopment will rest with a purchaser.
- Taking all main shopping streets into account, the city centre vacancy rate stood at 15.0% at the end of 2016. This compares to an overall rate of 12.8% 12 months previous. On Patrick Street, there were 11 unoccupied units, which translated into a vacancy rate of 15.0%; up on the 13.3% recorded in 2015. The increase in vacancy is due to a number of site assemblies underway to facilitate the development of larger retail units and anchor stores. Oliver Plunkett Street ended the year with a 7.7% vacancy rate; a reduction from the 9.6% figure in 2015.
- Significant announcements in the suburbs included TK Maxx opening in Douglas Village Shopping Centre; KFC commencing construction on a new drive-thru restaurant in Douglas Court; and The Range anchor store to open in Eastgate Retail Park Little Island in January 2017.

THE CAPITOL SITE

OUTLOOK FOR 2017

There will be asset enhancement projects in most of the suburban shopping centres. In the last number of years, the loans associated with the centres have sold. These include Blackpool Shopping Centre and Retail Park, Ballincollig Shopping Centre, Douglas Court, Wilton Shopping Centre and most recently in Q3 2016 Douglas Village Shopping Centre. In each instance, there are plans for an improved tenant mix through retailer targeting and selective development/extension to some centres. This is positive news for suburban retailing.

The city centre will see further improvements in activity in the short-term, particularly on Patrick Street where the new units in assembled blocks by Clarendon Properties and Davy Real Estate will be completed; in addition to a new enlarged Penneys store that is planned.

As things stand, no new speculative development is anticipated in 2017.

INDUSTRIAL REVIEW 2016

2016 commenced sluggishly, however transactional activity improved as the year progressed.

With little or no new development and a limited supply of second-hand space coming to the market, the overall vacancy rate for Cork continued to fall; ending the year below 16.0%.

In the east suburban region, there were a number of notable transactions in Little Island. In Euro Business Park, DHL took a lease on 1,150 sqm in Unit 15A while a neighbouring 150 sqm unit was sold in Q4 for €1,150 psm. In Courtstown, a large 3,050sqm was sale agreed in December following competitive bidding. The price achieved was €672 psm, 50% above the guide.

The most significant industrial land sale was also in Little Island, where JCD purchased the 13 ha (32 acres) former Mitsui Denman site for approximately €250,000 per hectare (€100,000 per acre). JCD has since obtained planning permission for three data centres on part of the site.

The limited supply of modern industrial buildings of over 1,000 sqm, with dock level loading facilities, remained a feature of the market.

Capital values increased during the year and prime values for larger buildings ended the year between €540 and €590 psm (€50 - €55 psf). There were also significant increases for smaller units of less than 250 sqm. Rental values also increased over 2016 and were between €48 and €59 psm (€4.50 - €5.50 psf).

OUTLOOK FOR 2017

Vacancy rates will continue to fall as no new speculative development is likely to commence in 2017.

As the vacancy rate falls and tenants compete for the limited stock of modern, well-located units, there will be upward pressure on rentals.

For new construction and design-and-build lettings to commence, rents will needs to move towards €86 psm (€8 psf) to justify development.

Any new construction will be by owner-occupiers or developers doing a design & build on the basis of a pre-sale or letting.

As the supply of modern buildings remains tight, owner-occupier interest in development sites is likely to increase.

Capital values will increase as supply falls and more bank funding becomes available. This will be particularly the case for owner-occupier purchasers.

We are likely to see new construction activity on some of the available sites in existing business park developments, including Harbour Point Business Park and Anchor Business Park.

There will be a greater interest in the Ringaskiddy area from warehousing and logistics companies as a result of the proposed major upgrade of the N28 and the planned relocation of the Port of Cork.

SITE AT KENT STATION

DEVELOPMENT LAND REVIEW 2016

Although relatively healthy, the number of development land sales in 2016 was less than in 2015.

Various development sites earmarked for student accommodation transacted on the western side of the city. On Lancaster Quay, a 0.8 acre site was acquired by Ziggurat, student accommodation providers, for a reported €3m. In addition a 0.9 acre site at Farranlea Road sale agreed at €1.6m, towards the end of the year. A planning application has been sought for student accommodation on this site also.

In terms of residential land sales, prices achieved were in excess of €600,000 per acre in prime urban areas. Examples included sales in Model Farm Road, Ballintemple and Blackrock. There was active bidding on all residential development sites brought to the market in 2016.

One of the more unusual development opportunities offered for sale was a river front redevelopment site at Kent Station / Horgans Quay. It was 6.1 acres and was offered to the market by CIE by way of a 300 year ground lease at an annual rent, or alternatively, 10% of the market rent achieved for the new development following construction. The proposal envisages new high spec offices, apartments for the rental market, a hotel / aparthotel, hospitality and retail uses. A masterplan for the entire site is likely to be presented in 2017.

OUTLOOK FOR 2017

Due to the current volume of third-level students in Cork, student accommodation schemes are planned in key areas in 2017.

The strong appetite for residential development sites, particularly those with good infrastructure access, will continue.

The Local Area Plans in Cork County areas are being reviewed with submissions from property owners due in January 2017. It is likely that certain sites will be zoned for residential development including in Bishopstown and Rochestown. This will free up prime land for housing development.


BLACKROCK HOUSE

RESIDENTIAL SALES REVIEW 2016

The second-hand market performed well in 2016, with demand continuing to outstrip supply.

This resulted in the prices achieved being greater than the asking in many cases. There was particularly strong price growth in the Cork market in the opening months of the year. Lisney's index of Cork residential values indicated a growth figure of 8.6% for 2016.

Cash purchasers were again a key cohort in the market, accounting for in excess of 40% of all transactions. Data from the Residential Property Price Register show the volume of sales, in the nine months to September 2016, stood at 3,580 units. This was on a par with 2015 and suggests that 1.5% of Cork's housing stock changed hands in the nine month period. International evidence indicates that, in a normal functioning market, between 3% and 4% of the stock transacts annually. In addition, this represents 6.6 units for every 1,000 of the population in the same period.

Throughout 2016, a number of multi-family apartment schemes were brought to the market and achieved strong prices. In terms of individual apartment sales, schemes such as Eden in Blackrock, and Elden and Maryborough Ridge in Douglas, have appealed to a range of purchasers including first-time-buyers, investors and those trading-down. Prices achieved in these apartment sales have been on a par with traditional homes on a cost per square metre basis. This demonstrates a confidence from purchasers which had been absent in the Cork market for a number of years.

Positively, new construction commencement levels for the first ten months of the year stood at 1,258; a 70% increase from the same period in 2015, albeit from low levels. Completions in the same period, stood at 1,448. This represents a 44% rise on the comparable period last year.

OUTLOOK FOR 2017

We expect price inflation of 5% and above in 2017. However, this is against a backdrop of residential prices that are still well below their peak level in 2007.

Purchaser demand will strengthen further in 2017. A number of new schemes being developed in the metropolitan Cork area will help satisfy part of this demand.

Construction is expected to start in a number of schemes in the suburbs and satellite towns to meet the growing demand. Examples include new developments in Douglas, and Ballincollig.

RESIDENTIAL LETTINGS REVIEW 2016

- The demographics of the rental sector in Cork in 2016 was a mix of a mobile international workforce who choose to live in Ireland for a period of time and young professionals who want to purchase in the medium-term.
- Many potential purchasers continued to be in a position where they had no option but to rent for longer periods. This was despite the fact that repaying a mortgage on a traditional three-bed semi-detached house was less expensive than the prevailing rental levels.
- There are approximately 35,000 rental properties in County Cork, however just 321 units were on the market to let in December, which represents 0.9% of the stock. The rental market outpaced expectations during the year with rents increasing 14% year-on-year according to the Residential Tenancies Board (RTB). This was primarily due to record low supply levels.
- There were variations in rental levels for similar properties in different locations. For example, a two-bed apartment in the Elysian in Cork city centre achieved an average rent of €1,450 per month with a similar type unit in Ballincollig achieving €1,250 per month.

THE ELYSIAN, CORK CITY

OUTLOOK FOR 2017

Strong employment creation across all sectors, together with a limited supply of residential properties to let, will put further upward pressure on rents in 2017.

We expect rents to grow by between 7% and 9% in 2017 and 2018 for new lettings where the cap on rent increases will not apply.

We are likely to see build-to-rent apartment developments in the city for the first time over the year.

Lisney

NORTHERN IRELAND

09

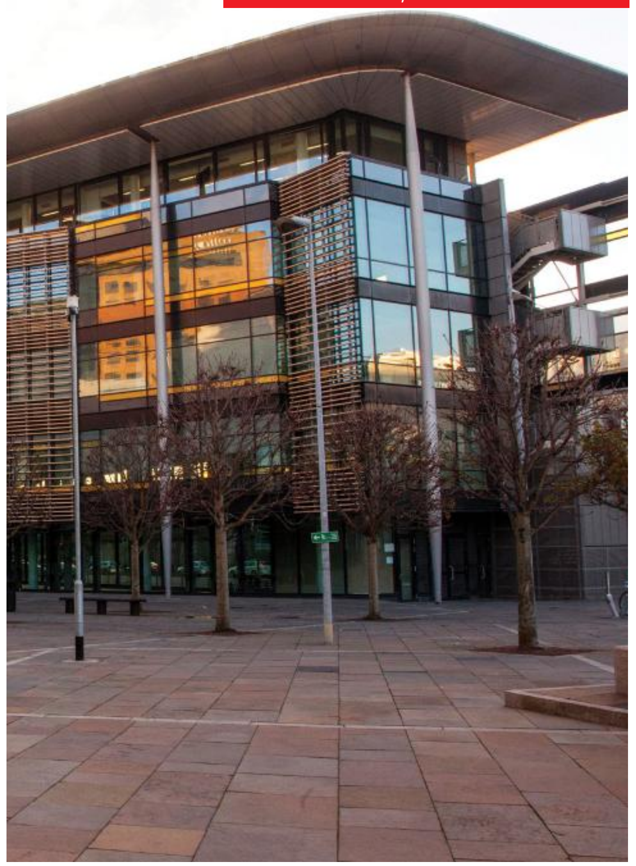
NORTHERN LIGHTS INVESTMENT

Cautious optimism was replaced by uncertainty in 2016 as Brexit unsettled the market.

2016 REVIEW

- The property market sentiment in Northern Ireland at the start of 2016 was best described as cautiously optimistic. However, as the year progressed, that was replaced with uncertainty. A number of factors have affected confidence levels. The most notable was Brexit and the lead up to polling day on the 23rd June. This caused investors and business owners to stall decision making until the future political and economic landscape could be better determined.
- Investment volumes for 2016 very much mirrored confidence levels, with larger transactions and lot sizes dominating in the first half of the year. Transaction volumes decreased substantially from the end of June. In spite of this, the sector was opportunity-let and where assets were priced correctly to reflect the ongoing risk, they did transact.
- The largest investment transaction of the year was recorded in Q1. Ellandi & Tristan Capital purchased Bloomfield Shopping Centre in Bangor for £54m (net initial yield (NIY) of 7.66%). Other notable deals included The Outlet & Junction One purchased by the Lotus Group and Tristan Capital for £32m / 9% NIY; Damolly Retail Park was bought by the MJM Group for £30.72m / 7.4% NIY; Melcorpo acquired Capital House on Wellington Place for £11m / 8.1% NIY; and Oxford House & Gloucester House, Chichester Street were bought by Wirefox for £7.75m / 9.5% NIY).

CAPITAL HOUSE, WELLINGTON PLACE



> There is confidence in the long-term sustainability of the market

OUTLOOK FOR 2017

Confidence is emerging in the long term sustainability of the Northern Ireland investment market.

The investment market in 2017 will experience similar challenges to that of 2016. The uncertainty that Brexit has brought to the capital markets will take time to play out and, combined with this, there are concerns that inflation will rise in 2017 in the wake of a falling pound. We expect the air of hesitation in the market to continue with no clear guidance on when Article 50 will be triggered. An extended exit timeline will certainly increase investor uncertainty. However, as the UK's future within Europe becomes clearer, we may see activity accelerate in an attempt to catch up.

In 2017, investors will continue to proceed with caution and investment market turnover will be subdued. However, as with all periods of uncertainty, opportunities will emerge. The devalued pound has created a renewed interest in the UK market from non-UK investors. There is a perception that there is value in the Northern Ireland market; particularly in the office and retail sectors. We expect this to materialise into deals in 2017.

In the retail sector, a number of prime shopping centres are due to come to market in early 2017. Significant interest is expected with investors from the UK hoping to take advantage of the Northern Ireland yield gap.

Additionally, the fact that a number of institutional investors have started to show interest in the province demonstrates that there is confidence in the long-term sustainability of the market. This will play an important role in shaping the market in 2017.

Pricing will be fundamental and assets that are priced correctly will continue to transact. It is likely that the opportunistic purchasers of the last few years will begin to look for viable exit strategies.

BLOOMFIELD SHOPPING CENTRE, BANGOR

INDUSTRIAL NORTH

The impact of Brexit was felt locally in the form of restricted industrial take-up.

2016 REVIEW

- Brexit had a major impact on the industrial market in Northern Ireland in 2016 with many businesses delaying decisions pre-June on the assumption that there would be a calmer climate after the vote. Positively, a number of manufacturers have experienced increased export volumes due to a weaker pound.
- The largest industrial transaction of 2016 was the sale of the former Shackleton Barracks site in Ballykelly to MJM Group for £1m. The group intend to use the Shackleton site for a new business fitting out private planes, which it said will create an initial 100 jobs.
- The supply of industrial accommodation in established provincial locations is limited and occupiers with specific requirements are having difficulty finding the right product. Consequently, these occupiers are reviewing alternative locations overseas.
- Headline industrial rents for existing stock in good locations are in the order of £43 psm (£4 psf) with capital values reaching £484 psm (£45 psf).

SHACKLETON BARRACKS

OUTLOOK FOR 2017

The lack of available properties, particularly larger buildings, will remain a concern.

It is doubtful that any new development will commence until rents reach viable levels. This needs to be approximately £54 psm (£5 psf).

Indigenous companies seeking to purchase their own building are paying a premium for suitable space.

Demand for space less than 2,000 sqm remains strong, however design-and-build projects for owner-occupiers will become increasingly central in meeting the requirements of larger occupiers with specific requirements such as overhead cranes, cold stores, food production and high eaves.

OFFICE OPPORTUNITY

A healthy office market was fuelled by demand and a lack of supply.

2016 REVIEW

- A lack of supply, combined with pent-up demand, set the tone for the office market in 2016. The available stock levels were unable to accommodate many of the larger requirements but in spite of this, take-up levels generally were encouraging reaching approximately 41,800 sqm.
- Notable deals in the year included lettings to Macon (700 sqm) and BRS Golf (950 sqm) in the newly completed, and now fully let, CQ1. Meanwhile, Pearson Management Services acquired a sizeable portion of Millennium House on Great Victoria Street (1,450 sqm).
- Also, at the end of December, KPMG acquired approximately 3,600 sqm in the Soloist building. This letting is reportedly agreed at a new headline rent of £230 psm (£21.50 psf). This move will see the last remaining available substantial Grade A accommodation in Belfast city centre taken up.

Headline rents in City Quays 2 are at £230 psm (£20 psf) and as mentioned previously, headlines of £230 psm (£21.50 psf) are being achieved in the city centre.

- A number of schemes received planning permission in 2016 and while this was encouraging they are unlikely to be delivered before 2018. Therefore, the supply constraints will remain in the short-term. City Quay 2 at Belfast Harbour will be completed in 2017 and will deliver 8,350 sqm of office accommodation. However, much of this space has been agreed or is under negotiation.
- Positively, the Belfast Harbour Commission is expected to submit a planning application in early 2017 for the development of a third phase of this City Quay project. This proposal will reportedly provide 13,950 sqm of Grade A office accommodation and completion will be in mid-2019.

OUTLOOK FOR 2017

The number of cranes in the skyline entering into 2017 paints a positive picture, when compared with 12 months ago and will assist in alleviating the serious supply shortages.

Similar projects include the Weaving Works on Adelaide Street, a former linen warehouse that has the potential to deliver 2,300 sqm of space and Londonderry House, a mixed-use development that could provide 5,100 sqm of office space on Chichester Street.

In terms of demand, the outlook is good; however the level of activity will depend on whether developers can meet ever increasing requirements.

While the future is less certain than 12 months ago due to Brexit, the fundamentals of the Northern Ireland property market remain solid.

The lack of new supply will create opportunities for refurbishment projects. An example includes the proposed redevelopment of Oyster House on Wellington Place (currently going through the planning system) where there is the potential to provide 15,000 sqm of accommodation.

SHOP NORTH

The retail market showed improvement in 2016 with an encouraging number of new developments.

2016 REVIEW

- The retail market continued to improve in 2016. Consumer confidence in Northern Ireland is measured by Danske Bank and for Q3 2016, the index recorded a marginal decline; following the EU Referendum. Although a decline was recorded, the contraction is not worrying. Very little has actually changed for consumers in Northern Ireland as Brexit has not yet happened. The main impact for households at the moment relates to exchange rates and interest rates.

- There was a rise in cross border shoppers taking advantage of the euro / pound exchange rate, which was good for retailers in the second half of the year. Simultaneously, footfall in key areas increased dramatically, which resulted in improved tenant demand and a high level of new deals being agreed. New entrants to the Belfast market include Stradivarius, Søstrene Green, Kiko Milano, The Entertainer, Moss Bros and Zizzi. Prime Zone A rents ended 2016 at £1,400 psm (£130 psf).

- Vacancy rates were at an already low level at the start of the year but continue to decline as retailers took new space. This retailer demand was driven by lower occupancy costs as a result of the commercial rates revaluation in 2014. The overall prime vacancy rate in Belfast fell to 10.5% by the end of 2016.

- Outside of Belfast, there was increased retailer activity in schemes such as the Abbeycentre, Bloomfield Shopping Centre and Ards Shopping Centre. Combined, these centres had lettings to retailers such as Next, JD Sports, Superdrug, New Look, B&M, Jack Jones, Bon Marche and TK Maxx. As a result we have seen prime vacancy rates, across the province as a whole, drop from 14.6% in 2015 to 13.8% in 2016.

- Encouragingly, a number of retail developments started in 2016. In Newry, the next phase of The Quays commenced and is due to be completed in July 2017. Tenants will include Next and Pure Gym. The redevelopment of Laganside Retail Park in Lisburn is also nearing completion. TK Maxx and Pure Gym have committed to stores here. In addition, Lotus Group has just announced a planned investment of £30m to revitalise Junction One Retail Park in Antrim. The development of these schemes, combined with major investments in refurbishing schemes like the Richmond Centre and Cityside, highlight the level of demand and investor confidence in the retail market.

OUTLOOK FOR 2017

We expect continued improvements in sentiment and demand in 2017.

Good quality, available retail space in Belfast will be at a premium. We expect to see more premium retail brands entering the market.

Prime Zone A rents will increase during the year, possibly hitting £1,610 psm (£130 psf).

Activity will spread to regional towns as high streets start to fill up; particularly the border towns.

There will be further retail development, which will be driven by specific retailer requirements.

LIS-NEWS 2016

NEW HOWTH ROAD OFFICE

We are delighted to announce we are opening a new residential office on the Howth Road. The office will be managed by **Adam Clarke** who joined Lisney in 2016. Adam has over 26 years of experience working in residential sales in established Dublin suburbs on the north-side. Together with **Barry O'Driscoll** and **Jennifer Mac aBháird**, the new team will focus on providing clients the best advice for all their property needs in **Howth, Clontarf and the surrounding areas**.

TEMPLEOGUE SYNGE STREET

2016 was our first year to **sponsor the Templeogue Synge Street mini All-Irelands**. This week-long event held in Terenure VEC grounds, coincided with the week of the All-Ireland senior football final in September. The event was an enormous success with more than double the number of boys and girls taking part than the previous year.

GAA SPONSORSHIPS

Lisney remains committed to supporting a number of GAA clubs local to our office network.

2016 was our 12th year sponsoring the **CLG Na Fianna mini All-Irelands** in Glasnevin. This annual event involves over 500 boys and girls rom 6-10 years of age, playing both hurling and football.

Lisney also supports the **Ballinteer St Johns GAA** club, sponsoring the weekly nursery and this year was our 6th year to sponsor the annual mini leagues.

We are also delighted to continue with our sponsorship of **Naomh Olafs GAA** club nursery in Sandyford for the second year.

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, focused on finding a cure for paralysis. Lisney has provided office space for the past two years to the Mark Pollock Trust team as part of our **Corporate Social Responsibility programme**.
Check out **www.markpollocktrust.org.**

INTERNAL RESEARCH

We are proud of the service we provide in Lisney but we also know that there is always room for improvement. In 2016, we started conducting **regular surveys of our customers**. The results are used to assess performance and see where we can improve on our service to clients; as well as to implement staff development and training. If you have any feedback for us, we are always delighted to hear from you.

LISNEY SEMINARS

Lisney held two property seminars this year. **'Vision 2020 – An Outlook for Ireland's Property Market'** was held jointly with **Future Analytics Consulting in Chartered Accounts House** in April. It focused on insights into how the market will develop towards 2020 with guest speakers from **Hines and Goodbody.**

On the residential side, Lisney hosted a **'Planning for the Future'** seminar in October for those who are thinking of downsizing as a future option. The event took place in Dun Laoghaire with a keynote speaker from **Hudson Solicitors**.

TERENURE 5MILE RUN

In May, **Lisney's Terenure office sponsored the Terenure 5 Mile** race for a second year. 2016 was the races 32nd year, which was formerly known as the Dublin 5 Mile Classic. The fast 1.5 lap course starts and ends at Terenure College.

ACTIVITY IN THE BELFAST OFFICE

Throughout the year Lisney employees in Belfast, took part in a range of activities to raise funds for Northern Ireland's largest homeless charity, the **Simon Community NI**. This was the firm's first ever official charity partner. The events included Deep River Rock Belfast City Marathon and Marketing Manager Chris Campbell took on the full 26.4 mile challenge.

In December, five members of the team took part in **Homelessness Awareness Week**, by sleeping overnight on the street. The money raised by Lisney will assist the charity in providing vital resources for those in need.

STEPHEN ROCHE GRAND PRIX

In June, the **Stephen Roche Grand Prix hosted by Orwell Wheelers**, took place in Dundrum. Lisney was the main sponsor of the women's race for the second year running. This is the only female race in Ireland where equal prize money is given to both men and women. World Champion, Orla Hendron, took part in the race, which was won by Susie Mitchell.

A WELCOME TO OUR NEW STAFF MEMBERS

In 2016 Lisney recruited **16 new staff members** across the various different departments in our Dublin and Cork offices. We are delighted to have these newbies onboard and they have already made a big impact on our success.

GRADUATE EVENING

Lisney hosted a **property graduate open evening** on 10th November at our head office on Earlsfort Terrace. The evening gave graduates an opportunity to meet some of our directors, chartered surveyors, negotiators and current graduates, and to take a look around the office.

RESIDENTIAL VIDEOS

As part of our marketing package, Lisney now offers **property videos**. With many buyers based abroad, viewing is not always an immediate option. That is why we have invested in producing high quality property videos. Have a look at our YouTube channel, **Lisney Ireland** for examples!

MORE CHARITY EVENTS!!

Lisney was delighted to present **Aware** with a cheque for €2,682, which was raised at our annual charity **table quiz**.

Lisney staff showed off their baking talents when the **Great Irish Bake**, in aid of **Temple Street Foundation**, was held in our head office.

MEET THE TEAM

TRANSACTIONAL

Investment


Duncan Lyster
Managing Director


Ann Hargaden
Consultant


Hugh Linehan
Head of Investment Funds


Christopher Belton
Divisional Director

Retail


Emma Coffey
Divisional Director

Offices


James Nugent
Chairman


Paul Hipwell
Divisional Director


Maeve Furlong
Divisional Director


Peter Stapleton
Director

Industrial


Cathal Daughton
Director

Development Land


Ross Shorten
Director

New Homes


Helen Moore
Director

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