Lisney

INVESTMENT REPORT

Q1 2020

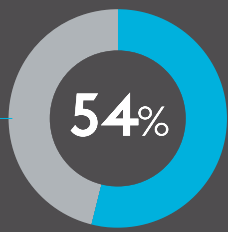
INVESTMENT IN NUMBERS

TURNOVER

€675 MILLION

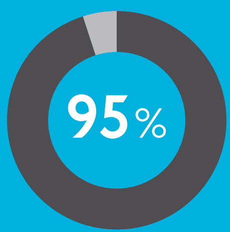
MARKET TURNOVER
IN Q1

SECTORS



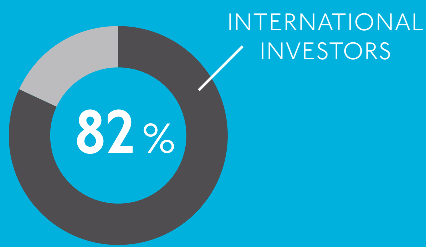
OFFICES WAS THE
DOMINANT SECTOR
ACCOUNTING FOR
54% OF THE TOTAL SPEND

LOCATION

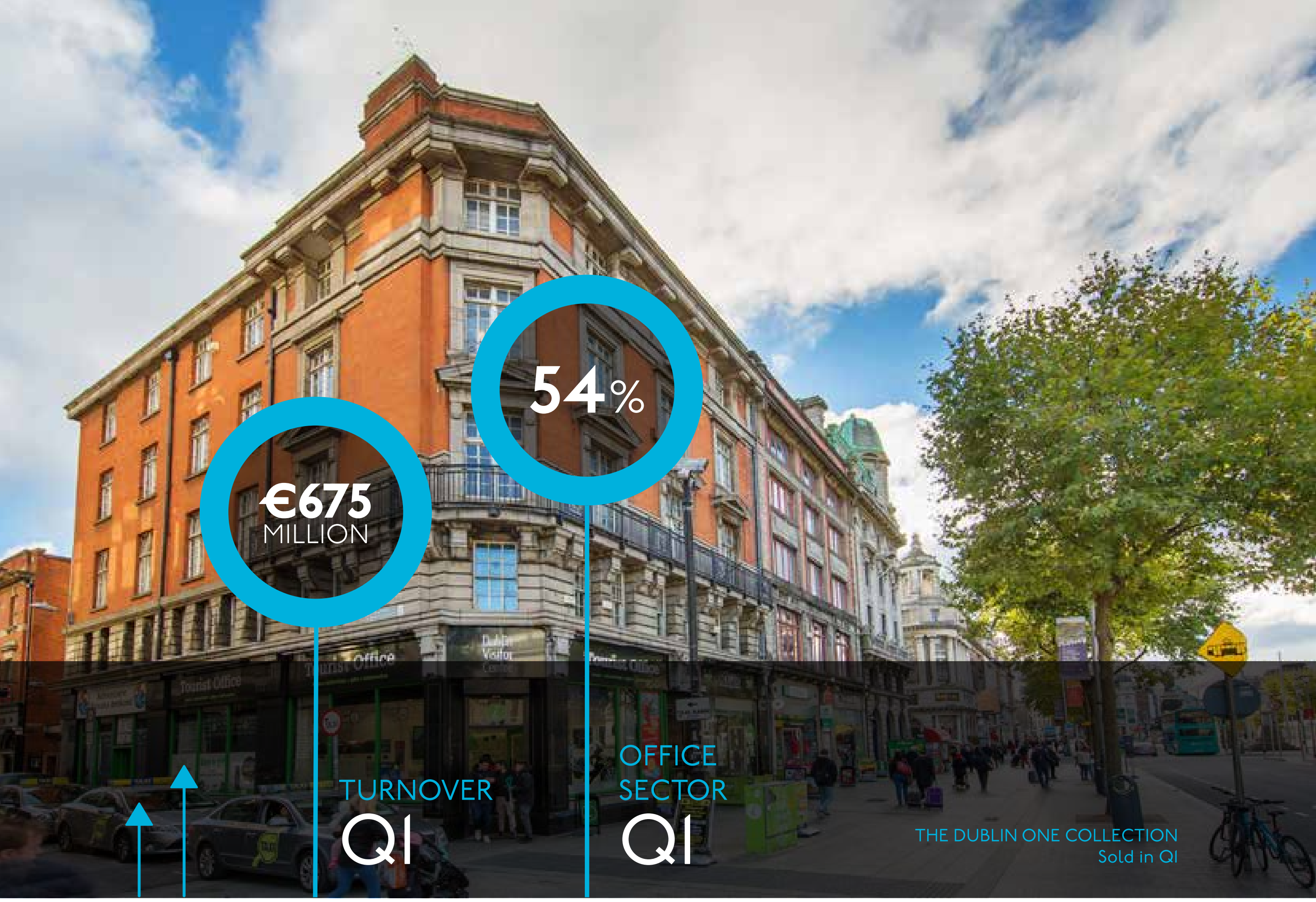


OF ACTIVITY
IN **DUBLIN**

ACTIVITY



OF TOTAL TURNOVER
ACROSS 16 DEALS



OVERVIEW

The Irish investment market in Q1 2020 recorded turnover of almost €675m. The office sector was dominant during the period accounting for just over 54% of investment spend, while off-market transactions again accounted for a significant proportion of activity at 53%. Notably, 82% of investment turnover emanated from overseas investors across 16 transactions, including the ten largest transactions of the quarter. Domestic institutional funds were absent from new purchases in the period, which is possibly due to a reported increase in redemption requests across such funds in recent months.

ACTIVITY

In terms of sectors, offices dominated the opening quarter, accounting for 54% of all activity or €366m. Some very high-profile office buildings transacted in the three months including three of the top five deals. These were:

- The Treasury Building, on Grand Canal Street, Dublin 2 was acquired by Google for almost €115.5m in an off-market sale and was the largest transaction in the quarter.
- La Touche House in the IFSC, Dublin 1 was acquired by AXA IM Real Assets for over €84m.
- Blocks 4 and 5 Harcourt Centre, Dublin 2 was acquired by Arena Invest for €54m.

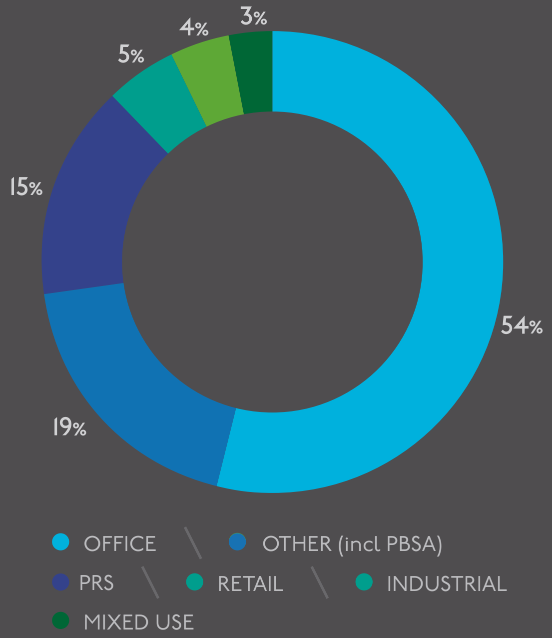
Contrary to recent previous quarters, PRS accounted for a low proportion of turnover at just 15% or €100.5m. This follows on from a very strong Q4 2019 when PRS made up 42% / €1.1bn of quarterly turnover. Demand for PRS assets remains very strong from both domestic and overseas capital. 102 apartments at Herberton, Dublin 8 were acquired in an off-market deal by European property firm, LRC Group, for €36.5m which was the largest of the PRS sales. This investor also acquired a portfolio of 61 apartments, three commercial units and a small site on Rathgar Road in Q1 for a price in excess of €18m. Another off-market deal occurred in north Dublin for approximately €30m, while 40 apartments on Rathmines Square, Dublin 6 were reportedly sold to a European institutional investor for €16m.

ACTIVITY (CONTINUED)

At the end of QI, there were large PRS deals sale agreed such as East Village, Clay Farm (forward purchase of 295 units) and The Cualanor Investment in Dun Laoghaire, Co. Dublin (forward purchase of 368 units). However, due diligence on deals that are sale agreed may take longer in the current market in light of the Covid-19 pandemic.

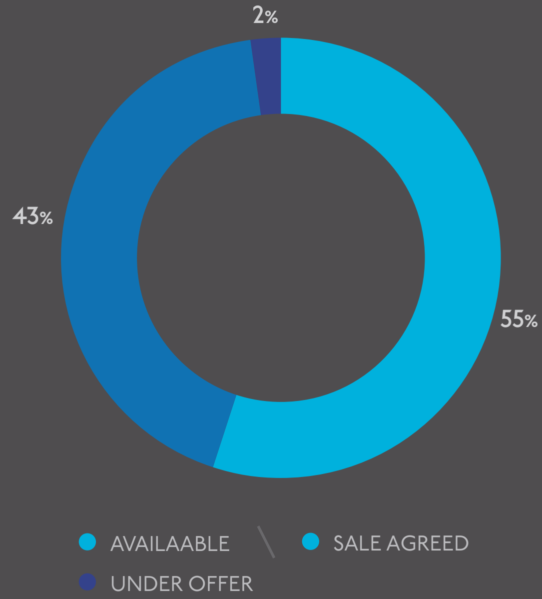
Retail, industrial and mixed-use investments accounted for a combined 12% of total spend while other sectors, which includes Purpose Built Student Accommodation (PBSA), accounted for 19%. There were two significant off-market PBSA transactions in the three months. A 368-bed student scheme on Newmarket Square, Dublin 8 was acquired by Round Hill Capital/NBK Capital for €85m, while US based Exeter Property Group acquired the student residences at the National College of Ireland (NCI) in the IFSC; a 268-bed scheme for €35.6m.

ACTIVITY BY SECTOR
QI 2020



Source: Lisney

SUPPLY STATUS
QI 2020



Source: Lisney

In QI, Dublin led activity in terms of location, making up 95% of turnover, €638.5m. Off-market activity continued in QI, accounting for 53% of turnover across 10 transactions. Three of the top three five deals in the quarter were off-market. These comprised The Treasury Building, Grand Canal Street, Dublin 2 (Office - €115m); Former Brewery Block, Newmarket Square, Dublin 8 (PBSA - €85m); and 102 apartments at Herberton, Dublin 8 (PRS - €36.5m).

SUPPLY

At the end of QI 2020, there was about €1.15bn worth of assets on the market. Of this, over €654m was either sale agreed or under negotiation. This means that just €497m was available for purchase. Of this, mixed-use schemes account for 33%, office 23% and retail a further 22%.

PRICING

Prime equivalent yields remain below long-term averages across each sector. During the quarter there was a softening of prime retail yields moving from 3.50% to 3.75%. Yields for retail assets are expected to soften further in the coming months. Other sectors are being watched carefully given the global Covid-19 pandemic and its potential impact to the global economy and capital markets.

PRIME NET EQUIVALENT YIELDS

	END-MARCH 2020	QUARTERLY CHANGE	ANNUAL CHANGE	BELOW LTA
Office	4.00%	-	-	-190bps
Retail	3.75%	+25bps	+50bps	-90bps
Industrial	5.25%	-	-25bps	-230bps
PRS (Gross)*	4.85%	-	-35bps	

* PRS yields do not have OPEX accounted for and as such, are on a gross basis.

Source: Lisney

STRAND VIEW, HOWTH ROAD, DUBLIN 5
(PART OF THE PRESTIGE PORTFOLIO
CURRENTLY ON THE MARKET)

OUTLOOK

1 As a result of the imposed movement restrictions, as well as the shut down of non-essential businesses, in Ireland and across the world due to Covid-19, we expect a significant fall in investment activity in Q2 2020 and for 2020 overall.

2 Several sales that have been agreed have been put on hold and other assets that were set to come to market for sale have been postponed in the short-term. When and how the investment market recovers will depend on the timeline of containment measures and overall effect on occupier markets.

3 The retail sector has been disproportionately affected by the restrictions imposed. Retail yields will come under sustained pressure in the coming months due to the increased risks associated with tenant covenants and indeed tenant failures, along with risks surrounding market rental levels and rental growth projections. Shopping centres, in particular (where there are heavy service charges and operational costs), will be severely hit and some investors may take the opportunity to sell on the assets.

4 A greater differential in secondary and prime yields will become evident across all sectors in the coming months due to the associated risks. Well-located properties let to AAA covenants will be in demand as they will be viewed as defensive investments, particularly given that the markets may be entering a prolonged period of low interest rates.

5 The availability of bank finance for property acquisitions will be affected in the coming months with increased margins being sought and lower LTV ratios prevailing.

6 Importantly, once Covid-19 is under control and restrictions are eased, the fundamentals for investment in commercial property in Ireland remain strong with property yields set to continue to offer an attractive spread over government bonds and the interest rates offered by banks.

6 If landlords are temporarily assisting affected tenants, they are well advised to document variations carefully, with professional advice, in order to protect their investment value in the longer-term.

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REPORT
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