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INVESTMENT

PROPERTY REPORT

Lisney

Q2

2019

Investment in numbers

ACTIVITY

€1.22bn

€1.22bn investment market turnover

SECTOR

58%

PRS was the dominant sector accounting for 58% of the total spend

LOCATION

DUBLIN

84% of total investment turnover in Dublin

SUPPLY

48%

48% of available stock at the end of Q2 were office opportunities

Heuston South Quarter, Dublin 8

> "Notable increase in off-market activity"

ACTIVITY

The investment market was very strong yet again in Q2 2019 with total spend reaching just over €1.22bn. Activity in Q2 was more than double that of Q1 with the total for the first six months of the year standing at €1.83bn. This bi-annual figure is on a par with H1 2018, but 130% larger than H1 2017.

Strong demand for prime assets in Dublin and Cork was evident in Q2 with large PRS, office, and industrial assets remaining highly sought after. PRS was the dominant sector accounting for 58% of total investment turnover. Offices was the second largest sector at 25%, followed by retail at 12%, mixed-use properties at 4% and industrial at 1.4%.

Dublin led activity in terms of location, accounting for almost 84% of turnover, across 41 transactions. Three of these transactions were part of multi-locational portfolios. Cork accounted for over 12% of the market with some sizeable retail, office and PRS sales. The balance was spread around the country.

International buyers continue to dominate the market, accounting for almost 60% of total investment spend. The average lot size for international purchasers was €39.1m. Domestic purchasers' 41% share had an average transaction price of €12.5m.

Off-market activity continued in Q2 with such deals accounting for one-quarter of turnover across 15 transactions. Notably, two of the top five deals in the quarter were off-market and comprised portfolios of property. Other substantial off-market sales during the quarter were IPUT's acquisition of Mahon Point Retail Park in Cork (€56m); Union's acquisition of Ballast House on Westmoreland Street (€27m); and U&I Group's acquisition of No. 23 Shelbourne Road, Ballsbridge for a reported €25.25m.

The top five sales in Q2 accounted for almost 70% of total turnover (by value) and was dominated by several large PRS portfolios; four out of five transactions.

TOP FIVE SALES Q2 2019

	PROPERTY	REPORTED PRICE	SECTOR
1	XVI Portfolio	€285m	PRS / Residential
2	Heuston South Quarter Portfolio	€200m	PRS & Office
3	Off-Market – Project Turner	€150m	PRS / Residential
4	Fairways, Dun Laoghaire, Co. Dublin	€108m	PRS
5	Citywest Portfolio	€105m	Office & Data Centres
	Total	**€848m**	

Source: Lisney

OFFICES

Offices accounted for one-quarter (€303.8m) of the total investment spend in Q2. This was made up of 19 transactions, one of which was part of the larger Heuston South Quarter deal. The average lot size was almost €16m.

The largest office deal was the €105m acquisition of the Citywest Portfolio by the UK private equity company Henley along with its Irish partner Bartra. This was followed by the office element of HSQ acquired by Henderson Park and Chartered Land; IPUT's acquisition of 51-54 Pearse Street / Magennis Place for €27.2m; U&I Group's acquisition of 23 Shelbourne Road (€25.25m); and Swiss Life's acquisition of the office element of the Lennox Building.

At the end of June, four substantial office investments (each in excess of €150m) were either sale agreed or coming to the end of their respective sale processes. These include 5 Hannover Quay, Bishop's Square, Nova Atria (Sandyford) and The Reflector. The combined quoting prices for these assets are €690m and there is reportedly significant interest from international investors in each of these – particularly from Asia and continental Europe. Starwood is also reported to be preparing to sell their Dublin office portfolio during Q3 2019, with reports in the media suggesting its value is likely to be in the order of €530m. Consequently, H2 2019 is set to be busy in the office sector.

Additionally, Green REIT announced it was selling its portfolio, either via a sale of the REIT structure or alternatively, the direct sale of its assets. This sale process was progressing throughout Q2. Most of this portfolio consists of prime Dublin office investments, which if transacted directly, would greatly increase office investment activity for the year overall.

RETAIL

It was a mixed quarter for the retail investment market as the sector continues to adapt to structural changes in the wider marketplace. The growing uncertainty with prime rental values on high streets and the weaker forecasts for retail investment yields has in certain locations led to a temporary standstill of sorts. This was apparent in Q2 as the 'Henry Street Collection', consisting of three prime high street retail investment and launched in February, was withdrawn from the market.

In spite of this, there were some positive developments in the quarter, including IPUT's acquisition of Mahon Point Retail Park in Cork for approximately €56m. This is an addition to its previous acquisitions of leading out of town retail parks including Carrickmines and Airside.

There were other notable deals in the three months including the retail element of Henderson Park and Chartered Land's acquisition of Heuston South Quarter; the sale of CastleWest Shopping Centre

CastleWest Shopping Centre. Ballincollig Co. Cork

"PRS dominated the market in Q2 with turnover reaching 58%"

in Ballincollig Co Cork; and the sale of a portion of Opera Lane in Cork. There was also a sizeable confidential off-market sale of a Dublin city centre retail investment for just under €10m.

PRIVATE RENTED SECTOR (PRS)

PRS dominated the market in Q2 with turnover reaching 58% of all activity. At €707.4m and 11 deals (three of which were part of larger portfolios), this was a significant increase when compared to Q1. The largest PRS transaction (and Q2 transaction) was IRES' purchase of the XVI Portfolio from Marathon for €285m. This consisted of 815 residential units spread across Dublin and Cork. Other notable sales in the quarter included Henderson Park and Chartered Land's acquisition of 266 apartments in the Heuston South Quarter sale; LRC's acquisition of Project Turner for approximately €150m and DWS' forward purchase of 214 apartments in Fairways in Dun Laoghaire for a reported €108m.

There are numerous domestic and international institutional purchasers actively seeking new opportunities. This demand, along with the significant activity that has occurred recently, means that gross investment yields for new PRS investments in Dublin have hardened and now stand at 5% for prime locations.

During Q2 the Residential Tenancies (Amendment) Act 2019 was passed, which has extended the duration of Rent Pressure Zones to 31st December 2021 and included 19 new areas. The Act also provided further clarifications of what constitutes 'substantial change' in the nature of the accommodation provided, which landlords must satisfy in order to qualify for an exemption from the RPZ rent restrictions. We anticipate that yields on properties where rents are significantly below rental values will move outwards due to this legislation.

INDUSTRIAL

Despite strong levels of demand from institutional investors, the supply of industrial investments remained weak. The largest transaction completed in Q2 was the sale of Unit 1 Stadium Business Park in Ballycoolin for a reported €10.5m. The building extends to 7,300 sqm and is let to Viking Direct on a short-term lease.

> €1.2bn worth of new supply was brought to market

SUPPLY

Approximately €1.2bn worth of new supply was brought to market during Q2, spread across 56 investment opportunities. Over €1bn worth of the new supply was in Dublin (83%) with Cork accounting for just under 12%. Due to the lot size of Golden Island Shopping Centre in Athlone (quoting €41m), Co. Westmeath accounted for 3.4% of new supply.

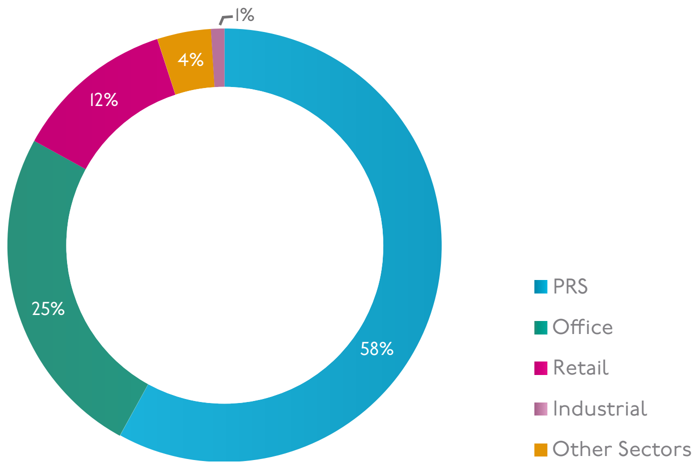
As such, there was a total of €1.33bn available for purchase at the end of the June, with offices accounting for almost half of this. The largest of opportunities available was the prime city centre office block, Five Hanover Quay, with a guide price of €190m. This was followed by Bishop's Square, guiding €180m. Notable retail investments include a 62.4% interest in St. Stephen's Green Shopping Centre, which is quoting €190m; and Eason's' flagship store of O'Connell Street, quoting €24.5m.

In addition to available stock, at the end of Q2 there was €856m worth of opportunities sale agreed and €18.5m under offer. With sale agreed stock, this included €503m of PRS investments across eight opportunities and about €217m of office investments across 11 opportunities.

PRICING

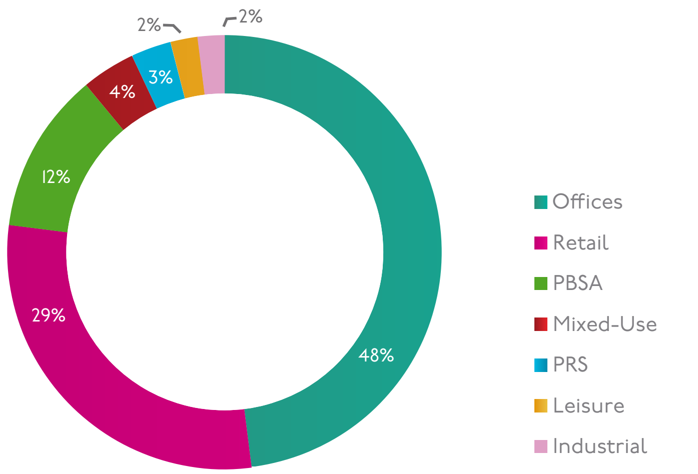
Prime yields were unchanged in most sectors in Q2, apart from PRS. PRS yields (quoted on a gross basis including operational costs) hardened by 20 basis points in the three months. Prime gross yields are well below long-term averages across each sector and further decreases are unlikely in the short-term.

ACTIVITY BY SECTOR Q2 2019



Source: Lisney

AVAILABILITY BY SECTOR Q2 2019



Source: Lisney

PRICING
Q2 2019

PRIME NET EQUIVALENT YIELDS

	END-MARCH 2019	QUARTERLY CHANGE	ANNUAL CHANGE	BELOW LTA
Office	4.00%	-	-	-145bps
Retail	3.25%	-	+5bps	-365bps
Industrial	5.25%	-	-25bps	-240bps
PRS (Gross)	5.20%	-20bps	-25bps	

OUTLOOK

- Strong demand from international investors is likely to continue for prime larger lot sizes, mainly in the office, PRS and industrial sectors due to economic performance and strong occupational markets.
- Off-market sales will remain a significant share of the marketplace throughout 2019.
- Total Irish investment market turnover in 2019 is expected to be between €4bn and €4.5bn, fuelled by some significant PRS and office sales. If the sale of Green REIT's portfolio is transacted as a direct sale of the properties (and not a sale of the REIT itself), then market turnover could be closer to €6bn; the largest ever investment market turnover.
- The PRS sector is likely to account for about one-third of all investment turnover in 2019.

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