



# INVESTMENT REPORT

Q2 2020



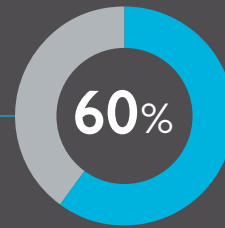
# INVESTMENT IN NUMBERS

## TURNOVER

**€430**  
MILLION

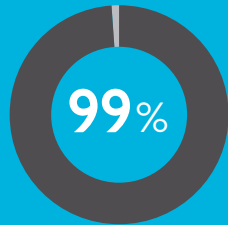
INVESTMENT  
PROPERTY  
SOLD IN Q2

## SECTORS



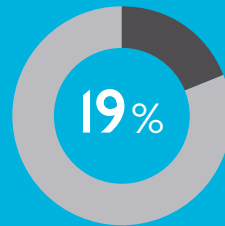
OFFICES COMPRISED  
60% OF ALL SPEND

## LOCATION

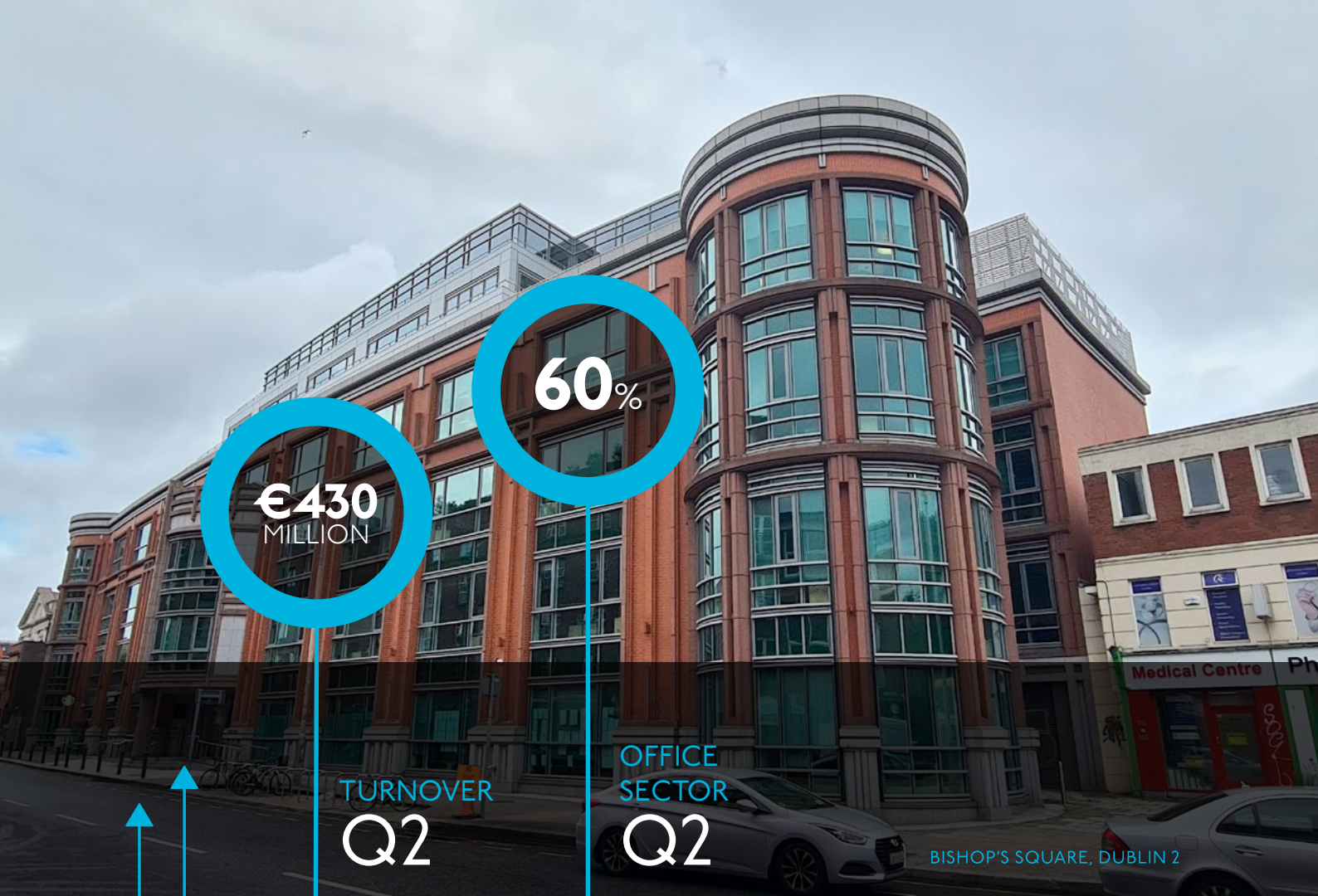


PRACTICALLY ALL  
ACTIVITY WAS  
IN DUBLIN

## OFF-MARKET



FOUR SALES  
OFF-MARKET



## OVERVIEW

Just over €430m worth of investment property transacted in Q2, bringing the total for the first half of 2020 to €1.1bn. In Q2, offices was the dominant sector and there were just two sales outside of Dublin. Investor demand remains, however many continue to observe the market, adopting a wait-and-see approach. There were some examples of price chipping on agreed deals in Q2, however this mainly related to more secondary assets.

## ACTIVITY

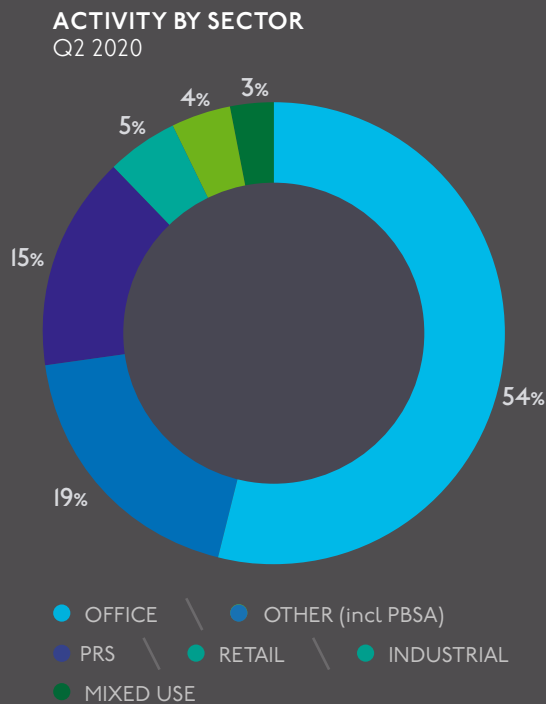
The Irish investment market recorded €430.12m in turnover in Q2 2020 across 20 deals. In the context of a global pandemic where much of the economy was closed, this was a relatively strong level of activity and is higher than some of the quarterly levels achieved in recent years. The average lot size was relatively large, at €21.5m, which is 35% greater than the long-term average. Excluding confidential deals, 85% of all investment turnover in Q2 related to overseas investors, including the two largest. For H1 2020, the total turnover was €1.1bn, which is 46% less than the same period of 2019.

## SECTORS

In Q2, offices was the most dominant sector, accounting for 60% of market turnover. PRS was also active at 15% of the market with industrial at 6%. There was just one retail deal (0.1% of the total) but there was also a large hotel (15% of the market) and several mixed-use properties (2.7%) sold.

### Offices

Almost €260m was spent on office investment properties in Q2 2020. 70% of this related to one sale; Bishop's Square in Dublin 2, where GLL Real Estate Partners purchased the building from Hines for €183m (net initial yield of 4%). Another noteworthy transaction was Aviva disposing of its 29.2% interest in Riverside One on Sir John Rogerson's Quay, Dublin 2 to IPUT (now the sole owner) for a reported €37.5m. In the suburbs, Corum, a French investment fund, purchased Blackthorn House in Sandyford, Dublin 18 for €17.53m.



### PRS

There were four PRS sales in Q2 totalling a combined €64.5m. Three of these were off-market deals. There were several other deals progressing at the end of June. Examples included the forward sales of East Village at Clay Farm in Leopardstown (295 units guiding €130m) and The Prestige Portfolio (three schemes with a combined 317 units guiding €145m). Additionally, two other schemes that were signed prior to COVID-19 (and included in previous quarterly investment figures) have since reached PC with the sales closing at the originally agreed prices. These were developments at Mount Argus, Harold's Cross (purchased by Patrizia) and Ropemaker Place, Dublin 2 (purchased by Real IS). Such sales emphasize confidence in the sector and may assist in the progression of agreed deals in the pipeline.

For standing PRS investments, Q2/Q3 2020 rent collections by landlords from occupiers will be an important bellwether of the sector's resilience. Some of the REITs have released data which positively shows delinquency at between 2% and 5%.

### Industrial

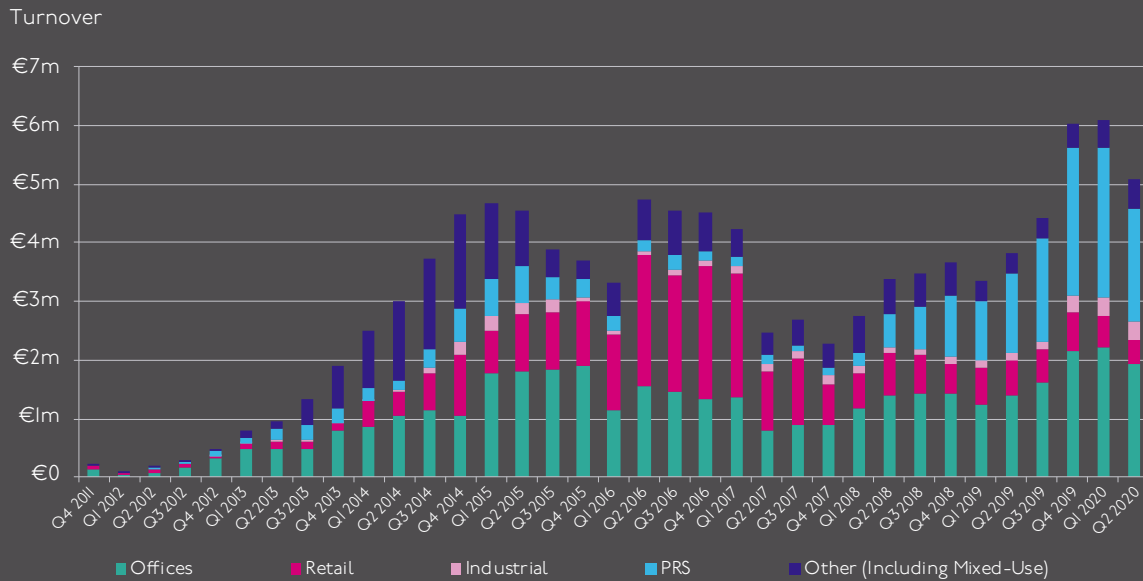
There were three industrial transactions completed in Q2, the largest of which was an off-market deal for €20.7m. Similar to that in the office sector, IPUT consolidated its interest in Unit D Kilcarbery Distribution Park by acquiring Aviva's 50% stake in the property for €6m.

### Retail

Given the ongoing challenging environment in the retail sector, investor activity in the sector was limited in Q2. Just one deal completed, a Spar in Swords that sold for €376,000.

Similar to other sectors, rent collection rates will be important to monitor in the coming months. In the market already, several large retailers are proposing temporary concessions or lease restructures to their landlords, often offering in return an extension to a break clause or extending a lease term. There are a range of options available including incentives, deferrals, rent reductions, rent relief, however most often proposals are to move rents to a turnover basis. In the immediate-term, it will be difficult for landlords to accept this without more knowledge of a store's stabilised turnover. That said, most landlords will be seeking to engage to some degree. With very little demand for accommodation and very few seeking to take-up vacant units in the current climate, landlords need existing retailers and retailers need landlords. All premises will need to be considered on a case-by-case basis, and both parties will need to be fully transparent. All changes to lease structures will have an impact on the asset's pricing but a vacant unit with limited demand and a likely longer void period will have a greater impact. There will be significant efforts in the coming months to stabilise assets.

## QUARTERLY 12-MONTH ROLLING INVESTMENT MARKET TURNOVER (Q4 2011 – Q2 2020)



### DEMAND

A large proportion of investors continue to observe the market, adopting a short-term wait-and-see approach. In the current climate, investor demand is focused on defensive investments; properties let to AAA covenants and those that are counter-cyclical such as PRS which is considered more resilient. Finance remains a concern for many, particularly from banks where increased margins and lower LTV ratios are being sought.

### SUPPLY

Up to €1bn worth of assets were on the market at the end of June 2020. These were at various stages of the sales process but with about 40% still available for sale and the remainder agreed or in advanced negotiations. During Q2, some properties that we sale agreed were price chipped, however this was generally on secondary assets.

Just after the end of Q2, it was reported that US investment firm Colony Capital together with Ronan Group Real Estate are set to dispose of a majority stake in two prime office developments. Both are currently under construction and comprise Fibonacci Square, Ballsbridge (Facebook) and the new Salesforce HQ at Spencer Place, Dublin I. This is very positive supply for the market in Q3.

## PRICING

Prime equivalent yields remained below long-term averages across each sector in Q2. However, during the first half of 2020 there was a softening in prime retail yields (this was evident even prior to the onset of the pandemic) but all others sectors remained stable. All sectors are being watched carefully, not just for COVID-19 related impacts but also any impacts Brexit might have in the latter months of the year. High profile sales that were ongoing at the end of Q2 will confirm prime pricing in the short-term. However, the gap between prime and secondary yields has become wider, a trend that will continue.

## PRIME NET EQUIVALENT YIELDS

	END-JUNE 2020	QUARTERLY CHANGE	ANNUAL CHANGE	BELOW LTA
Office	4.00%	-	-	-186bps
Retail	4.00%	+25bps	+75bps	-63bps
Industrial	5.00%	-25bps	-25bps	-252bps
PRS (Gross)*	4.85%	-	-15bps	-74bps

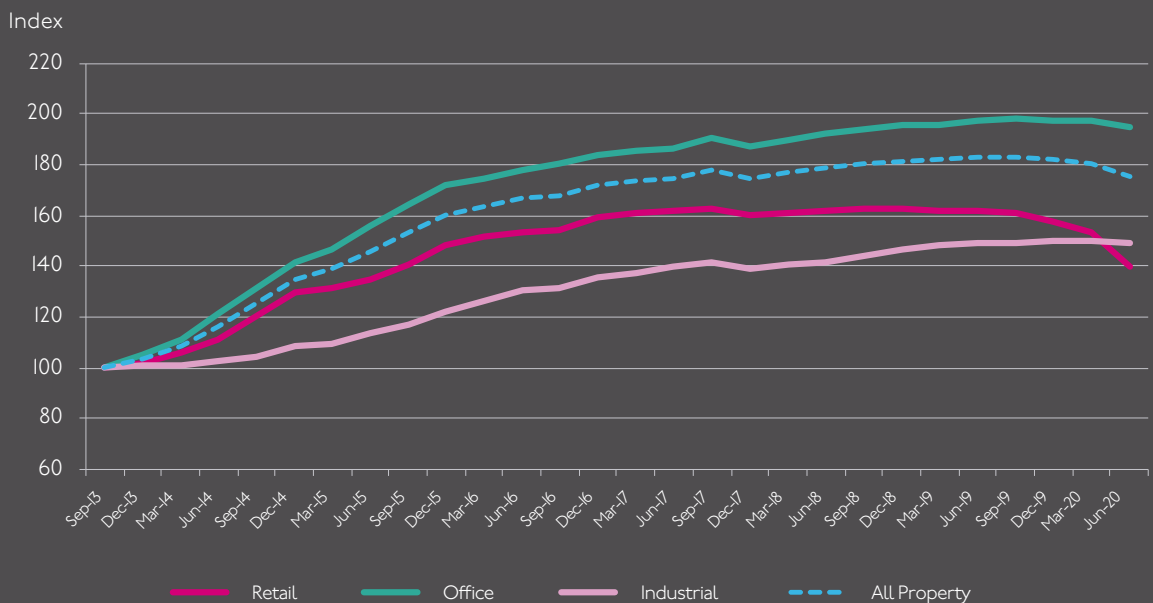
\* PRS yields do not have OPEX accounted for and as such, are on a gross basis.

\* LTA is calculated between Q4 1980 and Q2 2020, except PRS which is between Q4 2014 and Q2 2020.

Source: Lisney

MSCI data for Q2 2020 shows that the overall commercial capital value index declined by 3% in Q2 and by 4.1% in the 12 months to the end of June. However, the various sectors performed differently with the retail index experiencing the largest decline in the quarter, falling by 8.8%. The office capital value index declined by 1.2% in Q2, while the industrial index had the smallest decline at -0.7%.

## MSCI CAPITAL VALUE GROWTH INDEX (Q2 2010 – Q2 2020)



Source: MSCI



RIVERSIDE ONE  
SIR JOHN ROGERSON'S QUAY  
DUBLIN 2

## OUTLOOK

- 1 Even discounting for COVID-19, Q3 in any given year is generally the quietest quarter due to the summer holiday season. As such, we expect Q3 investment market activity to remain limited but with some high-profile assets selling.
- 2 Some vendors will be reluctant to bring opportunities to the market and may have concerns about international travel restrictions given the dominance of international investors in the Irish market. In spite of this, high profile assets will come to the market, Salesforce Tower and Fibonacci Square are key examples.
- 3 Off-market activity was 40% of all market turnover in the first half of 2020. It is likely that there will be a greater number of sales completed off-market in the coming months through targeted processes.
- 4 Rental payments by tenants and delinquency levels will be an important indicator of demand in the latter part of the year. To date, payments in PRS, offices and industrial have held up strongly, which is positive for the market.
- 5 There were several prime assets at sale agreed stage at the end of June, notably 28 Fitzwilliam Street (guiding €168m) and the Prestige Portfolio (guiding €145m). These sales, once concluded, will underpin confidence in prime properties and will establish pricing levels.
- 6 'Material Uncertainty' clauses are likely to remain in place in valuations in the coming months, which means that values will need to be kept under frequent review.

## THE LISNEY INVESTMENT TEAM



**JAMES NUGENT**  
Chairman



**LYNDA GORDON**  
Divisional Director



**CHRISTOPHER BELTON**  
Divisional Director



**THOMAS BYRNE**  
Chartered Surveyor

## THE LISNEY RESEARCH TEAM



**AOIFE BRENNAN**  
Director

## OUR OFFICES

### DUBLIN

St. Stephen's Green  
House,  
Earlsfort Terrace,  
Dublin 2, D02 PH42  
T +353 (0) 1 638 2700  
E [dublin@lisney.com](mailto:dublin@lisney.com)

### CORK

1 South Mall,  
Cork, T12 CCN3  
T +353 (0) 21 427 5079  
E [cork@lisney.com](mailto:cork@lisney.com)

### BELFAST

Montgomery House,  
29-33 Montgomery  
Street,  
Belfast, BT1 4NX  
T +44 2890 501501  
E [belfast@lisney.com](mailto:belfast@lisney.com)