Lisney

OUTLOOK 2021

2021

It should be noted that all 2020 year-end figures are estimates as final information was not yet available when going to print in mid-December. All final year-end figures will be included in Lisney's Q4 2020 Sector Reports, published mid-January 2021.

2021

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DAVID BYRNE
Managing Director

"RESILIENCE IS A WORD THAT IN MY VIEW BEST DESCRIBES THE PROPERTY MARKET IN 2020."

It's fair to say that 2020 was a year like no other, where the sudden onset of a global pandemic seemed at times to almost bring the entire world to a standstill.

The dreadful scenes of untold sadness that flashed across our television screens made us realise how connected we truly are. Yet it also made us acutely aware of the distance that often separates us from our loved ones, not only those living abroad but in these unimaginable times also those living in our own country. Something as basic as the freedom of travel was suddenly taken away from us.

Our vernacular quickly adapted to include words such as Zoom, Social Distancing and Lockdown. Working from home became the new normal, as did remaining within a 5km radius of our homes. Ultimately, 2020 was a year that showed us how quickly the human race can adapt and just how resilient we are.

Resilience is a word that in my view best describes the property market in 2020 and whilst our challenges with COVID-19 are far from over, we believe we will see enhanced activity in all aspects the property market in 2021 as we come closer to overcoming the pandemic.

As we entered lockdown in March, it was impossible to tell how the property market would react once the economy began to re-open. Despite the unimaginable disruption, it remained surprisingly active.

Physical retail struggled and the importance of having an omni-channel presence became ever more evident. Similarly, as public houses were most severely impacted by restrictions, the licensed and leisure trade was particularly effected, although in key areas, demand for licensed properties remained with most buyers taking a longer term view on the trade.

While impacted by sentiment and travel restrictions, investment market activity was still strong, particularly in the PRS and office sectors, as it will be in 2021. The development land market was quieter, but we do expect delayed opportunities to come to the market in the short-term.

With the move to working from home, the office market underwent an almost existential questioning: Would we ever return to the office? In spite of the market's mild hibernation, many significant office deals completed during the year and we believe the demand for office space will remain, although the concept of how we use office space may change.

Industrial was the greatest performer of the year as the logistical implications of both COVID and indeed Brexit continued to ensure demand for warehousing and this will continue to be the case in 2021.

The residential market remained particularly active throughout 2020 as demand far outstripped supply, although we see the demand / supply dynamic evening out in 2021 and believe this market will remain very active. The residential letting market in Dublin saw stock almost double over the course of 2020 as many units usually reserved for the corporate and tourist market became available. Demand in build to rent schemes remained strong, with additional amenities and services these schemes typically offer of enhanced interest to tenants.

As we approached the end of 2020 we finally saw a Brexit trade deal agreed at the eleventh hour, whilst the devil will be in the detail we now ultimately know what we are dealing with. As we begin 2021, regrettably, we are in the midst of a third and seemingly more severe wave of this pandemic with case numbers rising exponentially. The key difference is that we know a vaccine is in place; the speed of rollout of which of course will be vital. Whilst the early part of 2021 will continue to see a degree of uncertainty prevail, it does feel as if a suppressed optimism brims under the surface knowing that a hopeful end of this pandemic is in sight.

> "WHILST THE EARLY PART OF 2021 WILL CONTINUE TO SEE A DEGREE OF UNCERTAINTY PREVAIL, IT DOES FEEL AS IF A SUPPRESSED OPTIMISM BRIMS UNDER THE SURFACE KNOWING THAT A HOPEFUL END OF THIS PANDEMIC IS IN SIGHT."

At Lisney, 2020 marked a year where we focused our attention firmly on 2021 and beyond. We know that the core of our continued success are the people who work with us, our talent and expertise, that are best in class and available for our clients in every aspect of the market. I am exceptionally pleased to say that at the end of the year we made a number of promotions reflecting the depth of the emerging talent we have within the firm and ensuring we continue to provide an unequalled service to our clients in all aspects of the Irish property market in the years ahead.

ONCE RESTRICTIONS EASED IN JUNE AND PHYSICAL VIEWING COULD RECOMMENCE, **THE MARKET PROVED TO BE SURPRISINGLY RESILIENT**

01

LISNEY VIEW

DUBLIN RESIDENTIAL

Trends and official statistics relating to the overall Dublin residential market do not always correlate with what Lisney agents experience on a day-to-day basis. Lisney is most active in the mid to upper-end markets in specific Dublin locations, and so our data is not always representative of the entire Dublin market. Additionally, trends experienced by agents on-the-ground can take some time, perhaps up to six months, to feed through into official market statistics due to the length of time it takes to conclude a sale. The 'Lisney View' set out in this report relates to our experience in the parts of the Dublin market we operate in.

2020 was a strange and surprising year in the Dublin residential sales market.

It started well with steady levels of activity experienced in the first three months; 2,660 second-hand properties sold, a similar level to 2019. Much of this demand was a build-up from late 2019, when purchasers postponed decisions due to Brexit uncertainty. However, the revival of enthusiasm was short-lived and in mid to late March, when COVID-19 became much more serious in Ireland and the first lockdown occurred, uncertainty crept in. The market stalled as potential purchasers could not physically view properties and were relying on virtual viewings. 50% fewer homes were sold in April and May compared to the same period of 2019. Simultaneously, there were worries about the health of the economy and the property market with many commentators anticipating a sharp decline in both. Consequently, over the late Spring and early Summer months, some buyers who had or were close to agreeing sales sought to renegotiate prices. Certain sellers were nervous and accepted reductions, keen to conclude sales. Generally, any revisions to prices were between 5% and 10% less, and with the benefit of knowing the market dynamics since, these purchasers have fared well. During this time, purchasers were equally nervous, worried they would not secure finance at a similar amount, or at all, if they needed to reapply for mortgage approval and so demand remained.

Once restrictions eased in June and physical viewing could recommence, albeit with strict safety procedures in place, the market proved to be surprisingly resilient. There was a definite change in many buyers' requirements and properties close to the coast or with a large garden were highly sought after. It was notable that for higher value properties, buyers were willing to put all their effort into acquiring the right family home, symptomatic of living in non-ideal homes without enough space, during the lockdown.

RESIDENTIAL SALES

-50%

FEWER HOMES WERE **SOLD IN APRIL & MAY** COMPARED TO 2019

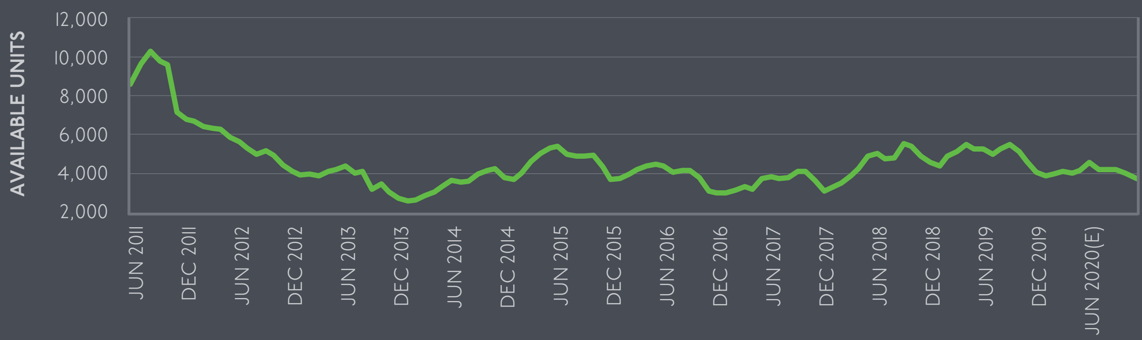
Maintaining second-hand supply at around **4,000 UNITS** across Dublin has assisted in keeping prices relatively **STEADY**

Aurora,
Mount Merrion Avenue,
Blackrock, Co. Dublin

Solid demand and robust levels of activity continued in the second half of 2020. Fortunately, physical viewings were permitted during the Level 5 closures from mid-October to the start of December and this kept the market moving. Market sentiment remained firm, much of which was due the fact that the economy and employment was performing better than expected, and because many potential purchasers found themselves in better financial positions, having saved more of their normal discretionary spend and some with savings from childcare. The fact that house prices were relatively steady was also a factor. According to the CSO, monthly price changes in 2020 across all of Dublin ranged between -0.4% and +0.5%; between the end of March and the end of October, prices fell by just 0.3%.

The key reason for stable prices was lack of supply. The number of second-hand residential properties available to buy in Dublin remained very low throughout 2020, averaging just 4,000 at any given time (compared to 5,000 in 2019). Even the traditional Autumn selling season (starting in early September) did not bring sufficient additional stock to the market. Part of the reason for this is because many potential vendors were unwilling to put their properties on the market during the pandemic as they did not want purchasers entering their homes with COVID-19 cases high. This also resulted in some off-market sales with limited and targeted potential purchasers.

DUBLIN SECOND-HAND RESIDENTIAL SUPPLY (JUNE 2011 - NOVEMBER 2020E)



Source: MyHome, Lisney analysis

> "WHILE THERE WILL BE FLUCTUATIONS THROUGHOUT THE YEAR, 2021 IS LIKELY TO FINISH AT SIMILAR PRICE LEVELS TO THE START."

Hermitage, Westminster Road, Foxrock, Dublin 18

For 2021, we believe the first and second half of the year will be different. In the short-term, supply will remain the key issue, and combined with pent-up demand and good market sentiment, prices will likely hold firm. As the year progresses and a vaccine is hopefully rolled out in stages, vendors will become more confident. Those holding off selling will move to put their properties on the market, but it will take time for stock levels to build up. The success of sales will depend on the condition and quality of the property, along with the price being quoted.

As was the case last year, properties in turnkey condition will be most sought after and are likely to have several potential purchasers bidding on them, while properties requiring work will need to be priced accordingly to attract interest. Many executor sales fall into this category. Construction costs for home refurbishments have increased substantially in recent years and bank finance to carry out the works is becoming harder to obtain as part of the mortgage. Additionally, buyers are competing with existing home owners for heavily-in-demand building contractors. In recent months, this has become more prominent as those who decided not to move following lockdown, but need more space, seek to extend or convert part of their home to suit their new agile working life.

There will be continued demand from expats, mainly returning from London, the Middle East and China. For these, the pandemic has prompted a lifestyle change, particularly if they have parents and family in Ireland, and if they have children of school-going age. While a return was always on the agenda for most, COVID-19 has accelerated the decision. In the second half of 2020, we found that demand from this cohort was focused on the upper-end of the market and not reliant on mortgage finance. This trend will continue, particularly those returning from the UK due to Brexit.

Apartments in suburban village locations were in demand last year and this will continue to be an active part of the market in 2021. Conversely, the city centre apartment market suffered from the start of the pandemic, especially those being purchased by investors. We believe this will be short-lived and into the latter part of 2021, as office occupancy improves and retail trade operates more normally, demand will return from both investors and owner-occupiers.

Purchasers will remain sensitive to asking prices throughout 2021. For vendors, properties quoting realistic asking prices from the start of the sales process will garner the greatest attention. Likewise, damage will be done to purchaser interest in homes quoting over-priced figures. Any change in Dublin residential prices in 2021, positive or negative, will be linked to the economy, employment and consumer confidence. The market for properties priced at under €400,000 is likely to be more greatly affected than those above this level. While there will be fluctuations throughout the year, 2021 is likely to finish at similar price levels to the start.

Alta Vista,
2 Knapton Road,
Monkstown, Dublin

0.8%

RTB'S RENTAL INDEX FOR DUBLIN PROVED RELATIVELY RESILIENT IN FIRST HALF OF THE YEAR

DUBLIN RESIDENTIAL RENTAL MARKET

Following almost a decade of supply shortages and over an 80% increase in rents in the Dublin rental market, the number of properties available to rent doubled in 2020 (those advertised on property portals went from 1,600 in February to 3,200 in December) and overall rents declined.

In the last 18 months, various PRS schemes have completed construction and properties have become available to rent, a trend that will continue this year. However the more significant impact on the market was COVID-19. Supply got a large one-off boost as properties used as corporate and holiday short-term lets became available to tenants seeking longer-term leases.

In spite of this, the market proved relatively resilient in 2020 with the RTB's rental index declining just 0.8% in the first half of the year. RTB data is not yet available for the latter half of the year but from Lisney's experience, we found that rents in PRS schemes generally remained stable up to the final months of the year, but with some declines in certain geographical areas in Q4 (mainly those relying on FDI workers). For properties owned by private landlords, rents have fallen between 5% and 20% depending on location (the suburbs have fared better than the city centre), the quality of the property and the supply in the immediate area.

Emergency rental legislation was introduced twice last year to protect tenants, the second of which will continue to play a role in the market in 2021. Under the Residential Tenancies and Valuation Act 2020, during an 'emergency period' when the country moves to Level 5, certain restrictions come into force in relation to lease terminations and for those impacted by COVID-19, there are provisions in place related to rent arrears.

At the end of 2020, Lisney was dealing with a large cohort of people, many overseas, wishing to secure a rental property early in the new year. This is a positive trend for the market and is representative of workers planning to return to the city. As travel restrictions ease, we believe demand will intensify further. There will continue to be differences in rents achieved in PRS schemes, which generally come with many added facilities and amenities and are often newer and of higher spec than those owned by private landlords.

THE UNCERTAINTY CREATED BY **COVID-19** IN THE VARIOUS OCCUPATIONAL MARKETS, ALONG WITH THE CLOSURE OF BUILDING SITES, **SLOWED DEMAND** FOR LAND.

Dunluce Penthouse, Anglesea Rd
Ballsbridge, Dublin 4

02 GREATER DUBLIN AREA

DEVELOPMENT LAND & NEW HOMES

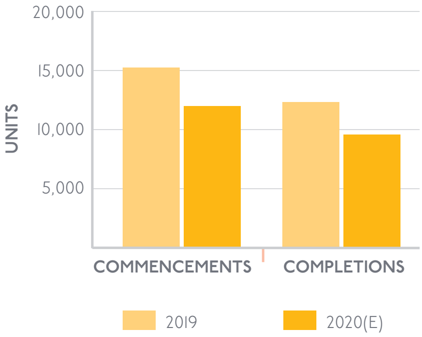
DEVELOPMENT LAND

The development land market had a reasonable level of transactional activity in 2020. Up to December, market turnover in the greater Dublin area was at €250m, substantially less than the €1bn completed in 2019. However, with RGRE and Oaktree completing a €200m deal with NAMA on the former Glass Bottle site in Ringsend towards the end of December, this increased to €450m. With the exception of this large deal, only a handful of deals concluded that had lot sizes of more than €10m with the majority of sales firmly in the smaller size brackets.

The year had started well with most of the other larger transactions agreed in the opening months. However, the uncertainty created by COVID-19 in the various occupational markets, along with the closure of building sites, slowed demand for land. While house-buyer requirements remained and end-values held-up during the year, high profile residential sites did not come to the market. Some larger, generally mixed-use, opportunities that had been put up for sale had their marketing campaigns suspended in Q2, most of which will likely return for sale this year (a notable example was TUD's Aungier Street campus opportunity).

Heading into a new year, available supply is limited (less than €100m) but with property market sentiment improving and the imminent roll-out of a COVID-19 vaccine due, those that had postponed sales will be encouraged to move forward. This will be facilitated through improving purchaser and development funding. There are concerns about the construction industry's capacity with tier one contractors exceptionally busy. That said, requirements from builders for smaller well-located residential infill sites is always present and this will continue.

GDA CONSTRUCTION ACTIVITY (2019 V 2020E)



Source: CSO, Department of Housing, Planning & Local Government, Lisney estimates

HIGH PROFILE RESIDENTIAL SITES DID NOT COME TO THE MARKET

NEW HOME PURCHASER DEMAND
REMAINED RELATIVELY GOOD

In addition, there will be demand this year for larger sites suitable for new home schemes and also lands suitable for PRS or social housing schemes where developers may seek to de-risk development activity by offering forward purchases and forward funding opportunities to investors and housing bodies. Off-market targeted sales will continue, however, high-profile opportunities are also due to come to the market, including the mixed-use transport oriented development on CIE lands beside Heuston Station. The seven year hold period to take advantage of the CGT waiver is approaching for those that bought towards the end of the purchase window in 2014. This will bring certain sites to the market in 2021 as the benefit will continually diminish the longer it is held. Other matters to be conscious of during 2021 include the fact that both the Strategic Housing Development scheme (fast-track planning) and the help-to-buy incentive are due to end in December.

POSTPONED SALES

Prominent Dublin city proposed developments will progress in various ways this year.

- Owners of the former TUD campus on Kevin Street, Westridge, were granted planning permission for 53,000 sqm of offices and 299 BTR units in December and may seek to progress.
- Diageo and Ballymore will likely progress its masterplan of 12 acres at the Guinness Quarter, which will become the first zero carbon district in Dublin.
- CIE is expected to publish a masterplan for its lands beside Heuston Station following which development opportunities will be promoted over time.
- TUD's Aungier Street campus will likely return to the market for sale.
- O'Flynn Construction applied for planning permission on its former Nissan site, to be known as Southwest Gate, in August and further information was requested in October. A decision is now due on this mixed-use scheme (1,137 residential units, 148-bed hotel and 18,000 sqm of commercial space).

NEW HOMES

Despite the unprecedented year that was 2020, new home purchaser demand remained relatively good, from starter homes up to properties priced at over €1m. With show homes closed for several weeks and only reopening in June, there was pent up demand in the summer. The enhancement of the help-to-buy incentive (maximum of €30,000 from the previous level of €20,000) for first-time-buyers (FTB) in the government's July Stimulus intensified this demand for the following three months. Budget 2021 in October extended the higher rate until the end of 2021 and in the final months of the year, FTB were under less pressure to proceed quickly with sales. This will mean that FTB demand and requirement for new homes will persist this year. It will be aided by improving sentiment generally as the COVID vaccine is due and many people's salaries have been restored.

With building sites closed for seven weeks and then not operating at full capacity due to social distancing requirements, new house starts and completions were unfortunately between 20% and 25% less than anticipated in 2020 in the greater Dublin area. This will have implications on market supply this year and may result in a shortfall.

There were challenges in the lending market. Many banks did not appear to offer their quota of mortgage exemptions and some lenders were reluctant to provide loans (or at least as large a loan) to people receiving the Government's COVID-19 wage subsidy scheme payments. This should improve in the coming weeks and months. Also positive was the entry of a new mortgage lender to the Irish market last year, which will hopefully assist in pushing Irish interest rates down.

THE PRIVATE RENTED SECTOR WAS ONE OF THE **LEAST AFFECTED** SECTORS BY THE PANDEMIC.

Fernbank, Dublin 14

03 PREVAILING DEMAND

PRS

PRS continued to be a large part of the development land, lettings and investment property market sectors in Dublin in 2020.

Given its counter-cyclical characteristics and granularity of income stream, along with prevailing demand from occupiers and investors, it was one of the least affected sectors by the pandemic. From a valuation point of view, it was the first sector to have the material uncertainty clause removed, illustrating its resilience.

The investment market was dominated by PRS in 2020 with approximately €1.2bn in turnover, 38% of all investment spend and all of which was in Dublin. The larger schemes generally comprised forward purchases and close to three-quarters of all deals were done off-market, a trend that will continue in the medium-term. We estimate that there is several billion chasing PRS opportunities, which is a mix of domestic and overseas money. Prime yields were stable throughout 2020 at 4.85% gross (i.e. not excluding OPEX).

Developers (and indeed investors) were active in sourcing sites in 2020, preferably with planning permission and close to critical transport nodes. Some very were fixed on locations that are of interest to Approved Housing Bodies (AHB), while others were seeking to cater to the institutional and investment fund market. AHB became much more significant players in the market over 2020 and will continue to be very active this year. Agreements are generally reached with developers prior to construction commencing with deals structured in various ways to suit the parties.

38%

OF THE OVERALL **INVESTMENT MARKET**

2020

€1.2BN IN TURNOVER

ALL IN DUBLIN

Fernbank, Dublin 14

LONG-TERM

Long-term leasing, through enhanced leases and other schemes, will also be a growing part of the PRS market in the 2021. Several opportunities are due to the market in the coming months with enhanced leases in place (85% to 95% of market rent with owner obligations for property management and maintenance). The pricing level achieved on these will provide a good indication for the market going forward.

An Bord Pleanála granted specific build-to-rent (BTR) planning permission for 11 schemes (containing 4,000 units) in 2020. The pipeline of future development at the end of December comprised 10 BTR developments containing 3,750 units awaiting a planning decision and 2,650 units in consultation with the planning body prior to making an application. These numbers do not include the potential PRS schemes that will seek a traditional planning permission.

Within operational PRS schemes, rent collection has remained strong with delinquency rates at about 3% to 5%. Renter demand also remained solid and rental levels in PRS schemes, as discussed in Section 1, have been generally stable since the beginning of the pandemic but with some declines towards the end of the year in certain locations. Tenant's rental affordability will remain in focus this year, and the divergence between new bespoke schemes and older ones will widen; those with high-quality facilities and amenities within the development will do better. With COVID-19 accelerating a change in lifestyle of many, tenant requirements will evolve further. In the latter part of 2020, we already started to see a focus on apartment sizes with many requiring an additional room to use as an office when working from home. Linked to this is the requirement for exceptional broadband connection (many PRS schemes are seeking WireScored accreditation) and suburban locations, but with excellent transport links, are being sought by those who would have traditionally wanted a more central location. In addition, there is a greater focus on softer issues like pet friendly accommodation.

As announced in November 2020, co-living is to be effectively banned in Ireland. About 10 schemes had received planning permission. While the co-living trend had been gathering momentum globally, there was always negative attention in Ireland due to the size of the living accommodation and the numbers potentially sharing space. We continue to believe that if international best practice is followed and schemes are well-designed with adequately-sized personal spaces and limited numbers sharing certain facilities (such as kitchens), this form of accommodation has a place in central Dublin, albeit on a limited basis (perhaps a handful of schemes) to cater for mainly international workers in the city for a number of months. It is not meant to replace traditional housing but to provide options.

DESPITE THE PANDEMIC, **DEMAND REMAINS** AND NEW INVESTORS HAVE ENTERED THE MARKET

04 STILL IN DEMAND

INVESTMENT

In a market sector driven by sentiment and international investors, the Irish property investment market had a relatively good year in 2020, and in the context of a global pandemic, market turnover was €3bn.

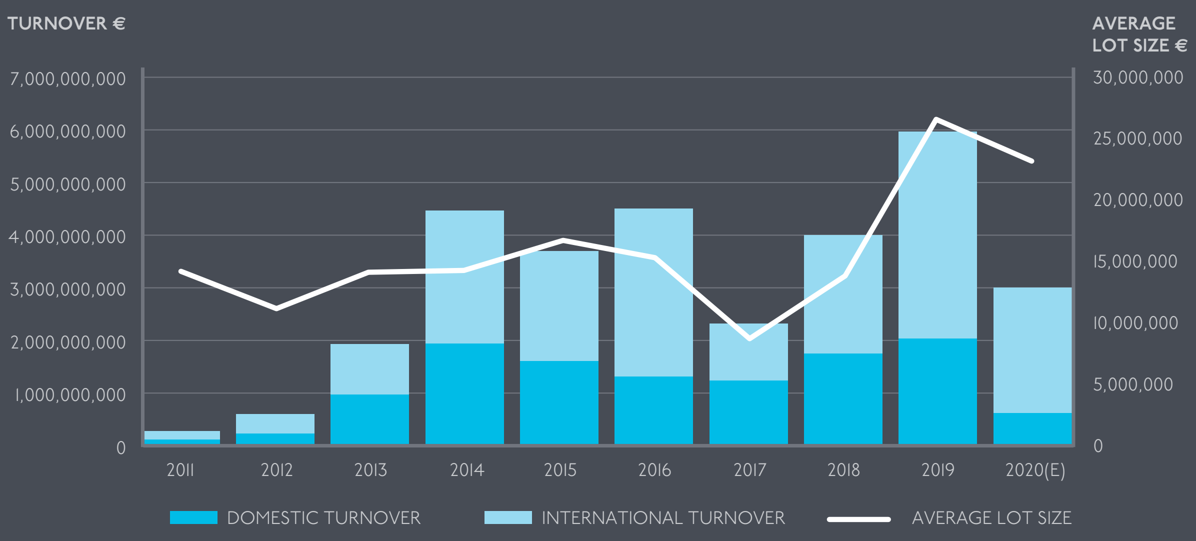
While this was half the previous years' record-breaking €6bn, supply was more limited from April onwards as several potential sales processes were put on hold. The inability to physically show properties between the end of March and into June also had an impact on market turnover for a period. Interestingly, the transaction size remained relatively large with 19 deals done of more than €50m and the average size across the market at €23m.

Some market players expected COVID-19 to bring more value to the sector through declining rents and softening yields. Generally, this has not been the case and despite the pandemic, demand remains and new investors have entered the market. Equally, some investors are pursuing exit strategies, most notably Colony Capital by selling all of its interest here. There continues to be significant capital chasing Irish property investments. Cash on deposit is attracting negative interest rates and some fear a stock market overvaluation. Many investors have a mandate to spend and having unused the funds for much of 2020, they are now seeking to deploy it. Most require at least five years of guaranteed income and all appear to be carrying out greater due diligence on potential purchases.

MARKET TURNOVER

Spencer Dock,
North Wall, Dublin

IRISH INVESTMENT MARKET TURNOVER & AVERAGE LOT SIZE (2011 – 2020E)



Source: Lisney

International travel restrictions did have an impact on overseas buyers seeking opportunities in 2020, and will continue to for at least the first three months of this year, if not the first six. However, those with a local presence are better placed to source and conclude deals. Surprisingly, 80% of turnover related to international investors in 2020 as many of the Irish institutions were absent from the market following closure of their open-ended funds earlier in the year. Travel restrictions also had an impact on potential vendors decision to bring properties to the market, fearing demand would not be as strong. As a result, opportunities were placed with investors off-market through targeted approaches. The general view was that if they did not sell, they could be put to a wider audience in 2021 through on-market campaigns. Indeed, 49% of the total turnover was done off-market in 2020. Many of the larger opportunities touted off-market did not sell. Some did not appear to be pushed vigorously, which bodes well for supply this year.

For the third consecutive year, investment in PRS assets was more than €1bn. It made up at least 38% of the market in 2020 (possibly more when confidential deals are considered) and the majority were done off-market through targeted sales. There were also several forward purchases of schemes under construction, including two substantial deals done by DWS, a Deutsche Bank subsidiary. Both of these trends will continue this year as demand for housing remains and the pipeline of potential development is healthy. Indeed, the less risky nature of this asset class was confirmed in September when the market uncertainty clause relating to PRS asset valuations was lifted but remained in place in all other sectors. Approved housing bodies' involvement in the market will grow this year and they will be seeking forward purchasing deals and will compete with PRS investors for stock. We also anticipate that a number of opportunities with enhanced leases (or other long-term structures) to local authorities will come to the market for private sector investment.

Despite so much of the conversation in the market centred on PRS, offices was the most active, at 41% of total turnover, regaining the top position with some very substantial buildings sold. However, there were also several office sales ongoing at the end of the year including the €400m Bloom portfolio and the €140m One Molesworth Street, both Henderson Park sales. Entering the new year, we estimate that about €1.6bn worth of office property is due to the market this year with more likely to emerge as the year progresses. There will be opportunities outside of prime areas, particularly in some older business parks to consolidate ownerships.

The tough year for retailers, being disproportionately affected by restrictions with rolling store closures and greater online shopping, carried over into the investment market. Just over €115.8m worth of assets were sold in 2020 (4% of the total), much of which was in the first three months of the year. Some more defensive type assets sold as the year progressed including several supermarkets and convenience stores. Many of the larger shopping centres acquired during this property market cycle (mainly between 2014 and 2016) have reduced income streams and in turn the capital value has declined. For retail schemes purchased with debt, equity levels have now likely diminished and as a result, we expect assets to trade in the short-term. It may be the case that an investor, or even a handful of investors, will take a large position in this area, wagering on a recovery in the sector.

49%

OF TOTAL TURNOVER
WAS DONE
OFF-MARKET
IN 2020

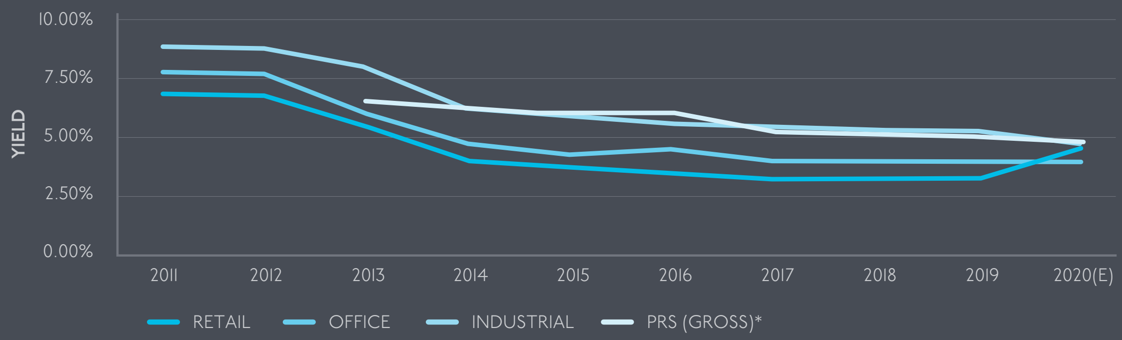
Strand View,
Raheny, Dublin 5

YIELDS

As has been the case for several years, demand for industrial assets significantly outstrips supply. Just €268m was spent on assets in 2020 (9% of the total) as large opportunities did not arise. Notably, three-quarters of industrial turnover related to GIC acquiring Morgan Stanley's equity position in the €200m industrial portfolio managed by Exeter Property Group. The risk profile of this sector continues to reduce given the growing occupational demand from logistics operators. As discussed in Section 6, the new developments under construction in Dublin should provide some institutional grade opportunities for investors in the coming years.

We expect Q1 2020 to be relatively subdued but the remainder of the year will be busy. Some prime market yields may harden, such as industrial and PRS, while retail and more secondary assets are likely to soften further. Pricing in some sectors has been difficult due to the lack of transactions, but this should be clearer as 2021 progresses. For smaller lot sizes (between €1m and €6m), cash purchasers will shore up values, particularly for good quality dry investments. These will mainly comprise those not wishing to have negative interest rates applied to their savings and pensions.

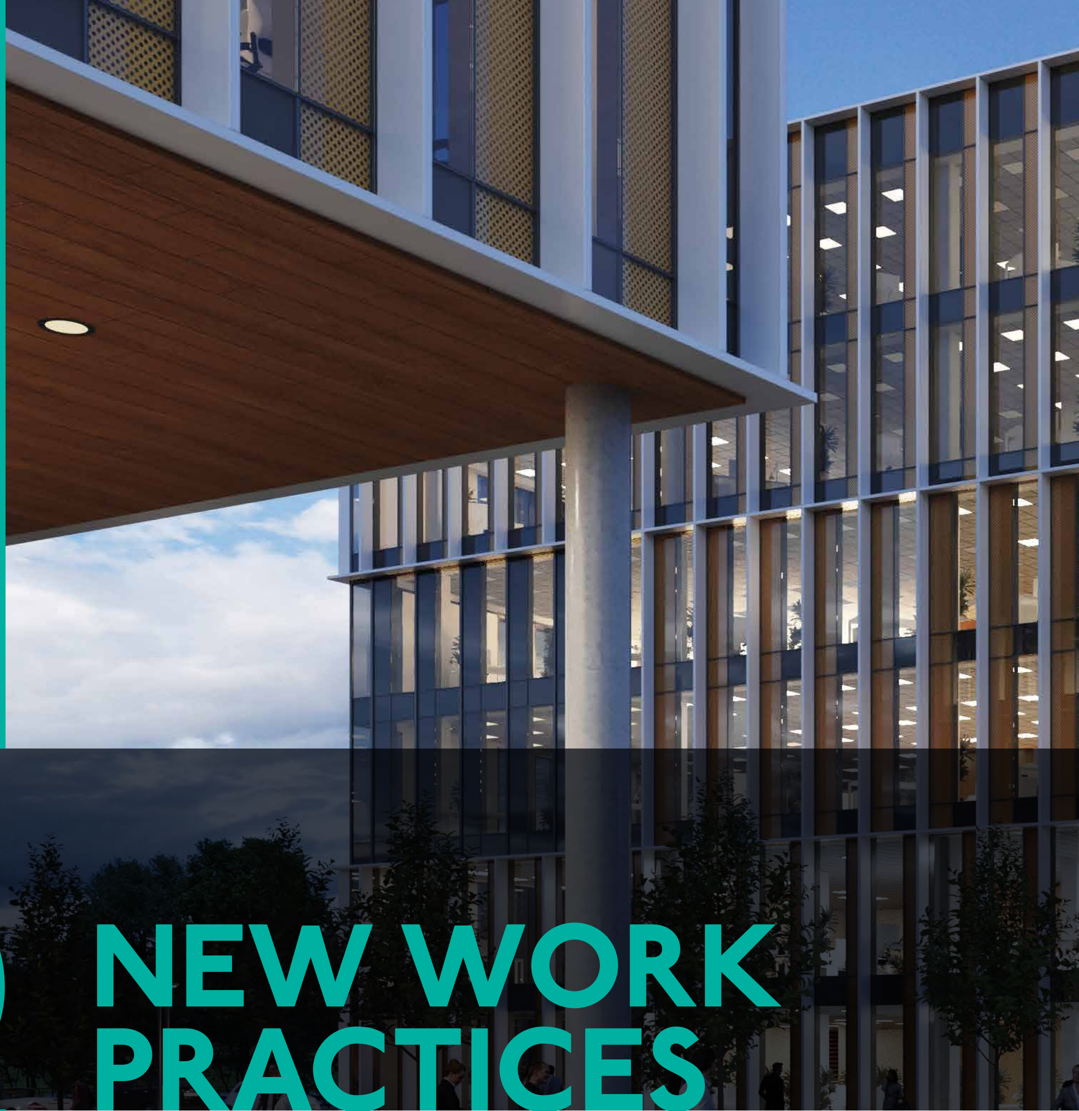
PRIME EQUIVALENT YIELDS (2011 - 2020E)



	RETAIL	OFFICE	INDUSTRIAL	PRS (GROSS)*
END-2020	4.50%	4.00%	4.75%	4.85%
ANNUAL CHANGE	+125 BPS	–	-50 BPS	-15 BPS
DIFFERENCE TO LTA	-34 BPS	-177 BPS	-333 BPS	-66 BPS
DIFFERENCE TO CYCLE HIGH	-234 BPS	-375 BPS	-410 BPS	-140 BPS

Source: Lisney

ONE OF THE BIGGEST TALKING POINTS IN THE SECTOR WAS, AND CONTINUES TO BE, **THE FUTURE OF 'THE OFFICE'.**



05 NEW WORK PRACTICES

OFFICES

The office market had been earmarked to have another good year in 2020 and with strong demand, it started well with almost 90,000 sqm of accommodation transacted in Q1.

This included some very large deals in the tech and financial sectors. However, the effects of COVID-19 took their toll, and with only about 52,000 sqm of transactions completed in the remaining nine months of the year, the market was in somewhat of a hibernation. While deals were done, many had been agreed earlier in the year and most occupiers put their requirements on hold, adopting a wait-and-see approach.

One of the biggest talking points in the sector was, and continues to be, the future of 'the office'. Most workers demonstrated an ability to successfully work remotely last year, self-taught in video conferencing and adopting new work practices. There are numerous surveys globally with conflicting findings; a shift away from the office, a desire to return, or somewhere in between. The debate is still in its early stages, but is complex and effects workers across nearly all professional sectors and industries. In the longer-term it seems that the office will evolve in different ways depending on the policies adopted by individual businesses. Some will require suburban accommodation to be closer to where people live and connect with their changed lifestyles, others will seek to bring all staff back to central locations, while some may allow working from home permanently.

ACTIVITY

90,000 sqm

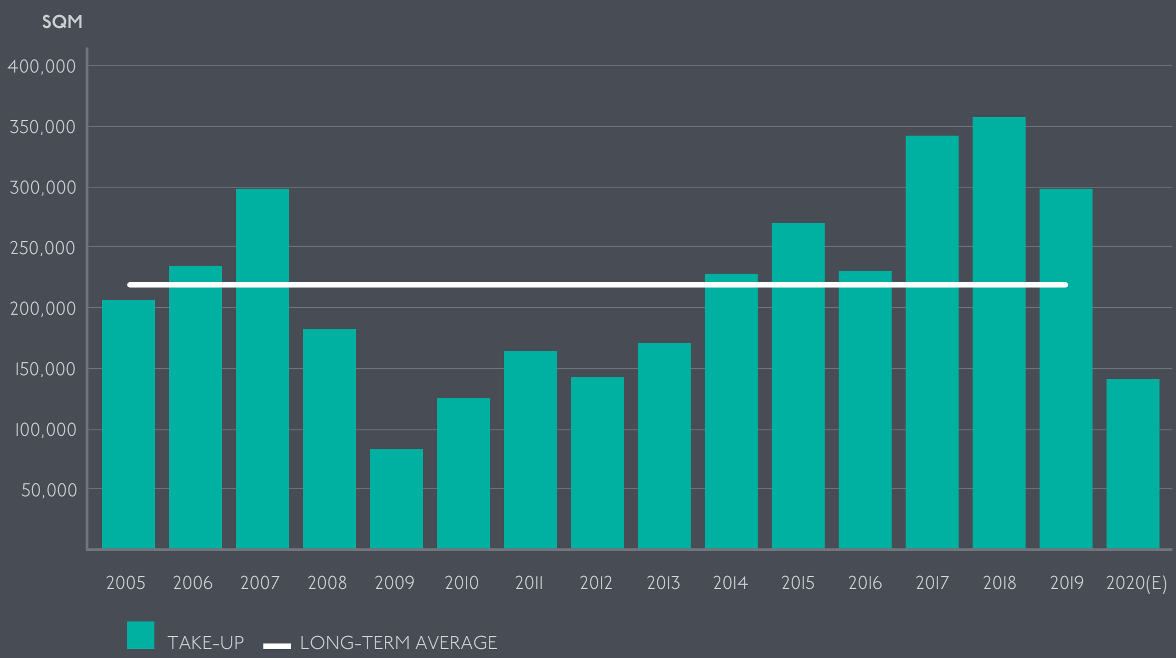
ACCOMMODATION TRANSACTED IN Q1 2020

52,000 sqm

REMAINING 9 MONTHS

Stemple Exchange, Goddamendy, Dublin

MARKET ACTIVITY (2005-2020E)



Source: Lisney

Heuston South Quarter, Saint John's Road West, Kilmainham, Dublin 8

Flexibility was already creeping into the working week prior to the pandemic, but it has now been accelerated. Whatever the path chosen by businesses, it seems likely that some staff in certain sectors will work remotely one to two days a week. On the surface, this might imply that 20% to 30% less space will be required by businesses as hotdesking on days in the office becomes the norm. However, there is a possible counter to this reduction. People have become accustomed to greater personal space in the last nine months and in open plan offices, desk space sizes and distances from colleagues may grow due to personal preferences. It may be the case that it is less the 'work from home revolution' and more the 'office space evolution' and how space is used rather than how much space is used.

Consideration also needs to be given to given to the social aspects of the workplace and developing / maintaining a business culture. Prior to the pandemic, workers were already part of a team and had an established relationship with their colleagues. As new team members join, that bond within a team is best achieved through face-to-face collaboration. Personality and age profile is also a factor. Remote working may suit those more progressed in their careers and/or with families, while younger staff may see the workplace differently. For them it might be more about learning from colleagues, developing friendships and being involved in activities. These cultural and community aspects of an office cannot be under-estimated and will become more important as the office changes. Indeed, even before COVID-19, developers of both city centre and suburban offices were seeking to build-in an 'experience' element, similar to what retailers have been focused on in the last decade. This will need to be to the fore in new office schemes in the future where the office becomes a cultural hub where teams can meet and collaborate.

Despite the lower levels of activity last year, international occupiers accounted for 76% of the market, almost all of which were from the US. While many deals were agreed pre-COVID, it does highlight the continued demand for Ireland at a time when OECD-led discussions between 137 counties continue on a global digital tax – seeking to levy companies in the country where the digital activity takes place and not where they have their headquarters. American companies are generally not in favour of this. Given that Dublin is the European home to many companies impacted by the proposed measures, if implemented it would mean a reduction in Irish corporation tax take. From a property market perspective, very successful firms always need to internationalise and Ireland has always competed on an international stage for FDI and office occupiers. The tax rate is not the only consideration, as Ireland is also known for its stability, consistency and talent. Additionally, resilient sectors such as pharma, medtech and financial services remain an active part of the Irish property market. Over 90 companies, mainly in the financial services sector, have expanded in Ireland due to Brexit. However, this has not had a major impact on the property market and will only have a limited positive effect in 2021 as the Brexit solution for such companies is typically to open an additional office in Dublin rather than move the entire London office to Dublin.

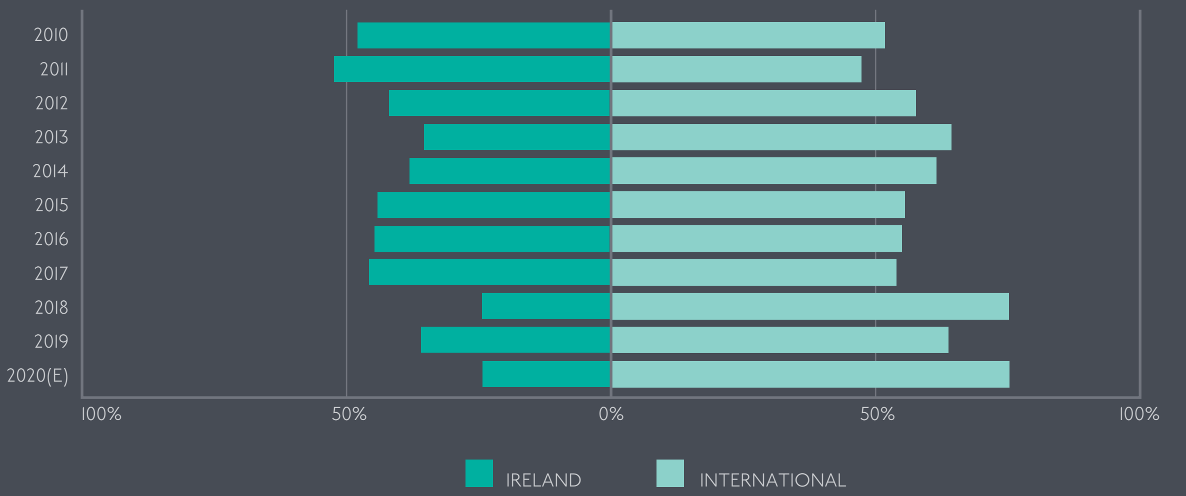
CONTINUED DEMAND

> " WE ANTICIPATE CONTINUED DEMAND IN 2021 AS THERE ARE ALREADY SOME NOTABLE REQUIREMENTS IN THE MARKET. "

1 Warrington Place, Saint Peter's, Dublin

We anticipate continued demand in 2021 as there are already some notable requirements in the market. Big tech companies will continue to power market demand, not least TikTok's plans to grow its offices to 46,500 sqm over the next few years. However, it will be towards the end of the year and into 2022 before activity reverts to healthier levels. Life in business should be getting back to more normality by then as the vaccine is rolled out, particularly in the city centre. Companies will be in a better position to make long-term occupational decisions. In the meantime, there will be downward pressure on rents but at this stage, we are only expecting limited movement, perhaps a swing of approximately 5% principally because the market will be able to take the slack in demand. Unlike in the past, the Dublin office market is not in an over-supply situation. While grey space (sub-lets) will continue to add to supply (107,000 sqm available), the true vacancy rate in Dublin overall was close to 10.2% at the end of December (equivalent to about 1.5 to 2 years' supply). Additionally, only one-quarter of new office accommodation completing construction during 2020 do not have deals agreed with a tenant so it will not significantly add to the vacancy rate. As construction activity cannot be turned on and off easily, schemes under construction will continue and there will be a limited number of new starts, most likely in the later stages of the year.

INTERNATIONAL V IRISH OCCUPIERS (2010 - 2020E)



Source: Lisney

THE SHIFT TOWARDS E-COMMERCE OVER 2020 HAS **INTENSIFIED LOGISTICS SPACE REQUIREMENTS** FROM RETAILERS AND 3PL

Donore Road, Drogheda, Co Louth

06 RESILIENT

DUBLIN INDUSTRIAL

Industrial property was one of the most resilient sectors of the commercial property market in 2020.

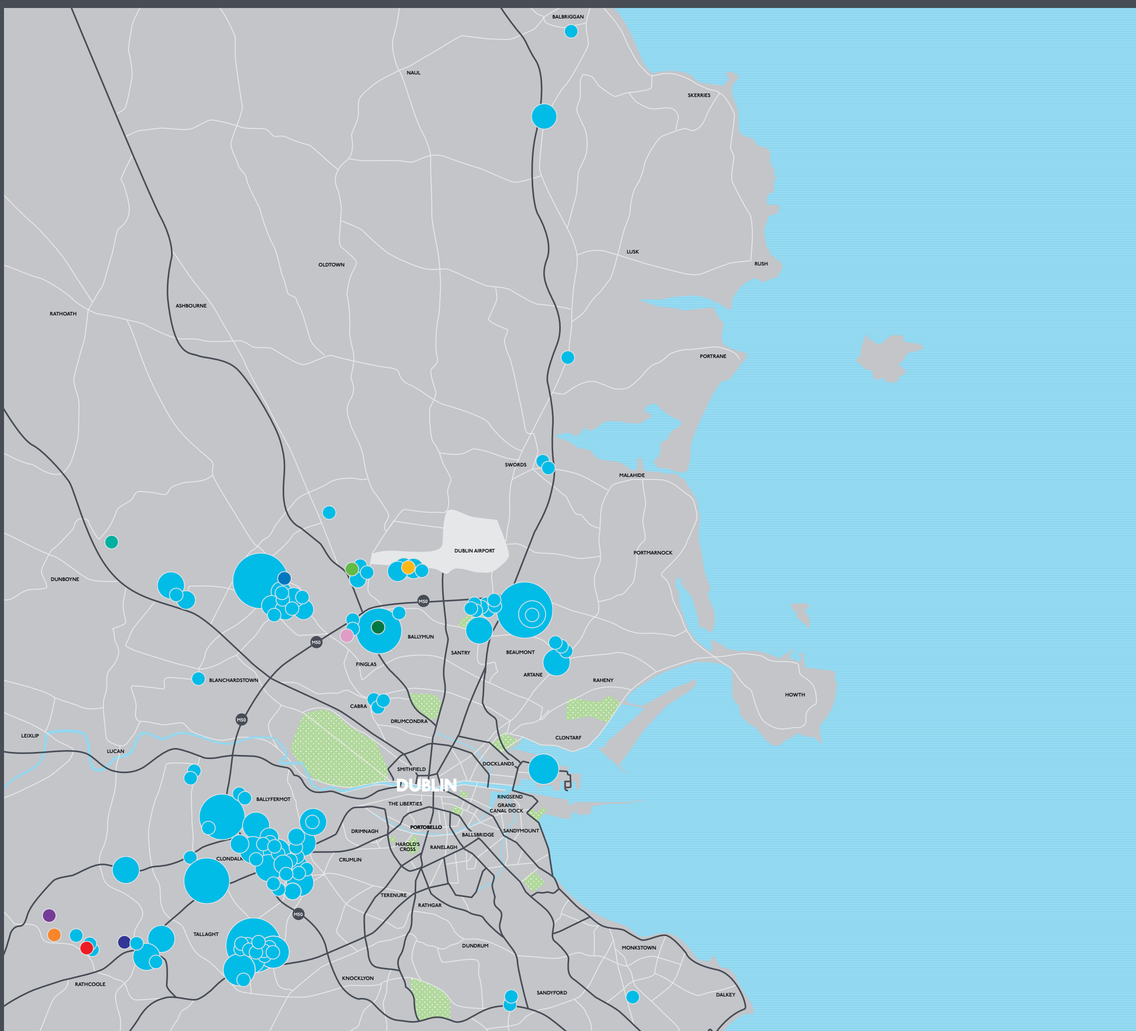
While occupier demand was strong even prior to the pandemic, the further shift towards e-commerce over 2020 has intensified logistics space requirements from retailers and 3PL, in addition to data centre requirements. This has occurred both in Ireland and globally and will continue in the year ahead.

Close to 330,000 sqm of industrial accommodation was transacted last year in the Dublin market. Continuing with the trend of the last two years, lettings rather than sales dominated, split approximately 80 / 20. Traditionally, this split evolves in line with movements in capital values; when they are low, more occupiers are inclined to buy buildings for their own use, but when prices rise occupiers often judge that the money tied up in owning a building could be put to better use. Given that capital values have grown considerably in recent years, the market will be primarily made up of lettings in the medium-term.

While 330,000 sqm of take-up was slightly below last years annual activity figures, it was well ahead of the long-term average (270,000 sqm). Also importantly, it was not fully representative of market demand given the lack of suitable available property. Supply shortages were always going to impact the market in 2020, the increased demand from COVID-19 just exacerbated it. In mid-2020, supply fell to a historic low (under 300,000 sqm) and while it did improve slightly in the second half of the year, the quantity of accommodation available is still about one-third less than at the height of the last property market cycle in 2006 / 2007. The main constraints relate to larger buildings (greater than 7,000 sqm) and in the short-term, it is unlikely that many larger lot second-hand premises will come back onto the market. Consequently, the market will rely on newly build stock.

Construction of new industrial accommodation will be to the fore of the market this year. Since 2016, much of the new accommodation has been delivered by way of design-and-build, both on a rental and sales basis. Some speculative development has occurred and in the majority of cases these units have been taken by an occupier before the premises has been completed. In 2021, we believe there will be much greater levels of speculative building, especially for larger premises. Top headline rents have now reached €110 psm and combined with developer confidence of end-user demand, speculative schemes will commence, taking account of occupier requirements for 10m to 12m eaves and 40m yards. Some examples were already on site entering 2021 and others will start shortly, all available for occupation later this year or into next. At the end of December, there was approximately 125,000 sqm of space under construction with a further 35,000 sqm with planning permission.

NEW INDUSTRIAL STOCK PIPELINE



- BUILDING STOCK
- AERODROME BUSINESS PARK
- BALDONNELL BUSINESS PARK
- HORIZON BUSINESS PARK
- DUBLIN AIRPORT LOGISTICS PARK
- GREENOGUE BUSINESS PARK SITE 1
- GREENOGUE BUSINESS PARK SITE 2
- NORTH WEST BUSINESS PARK
- THE HUB LOGISTICS PARK
- NORTH CITY BUSINESS PARK
- VANTAGE BUSINESS PARK

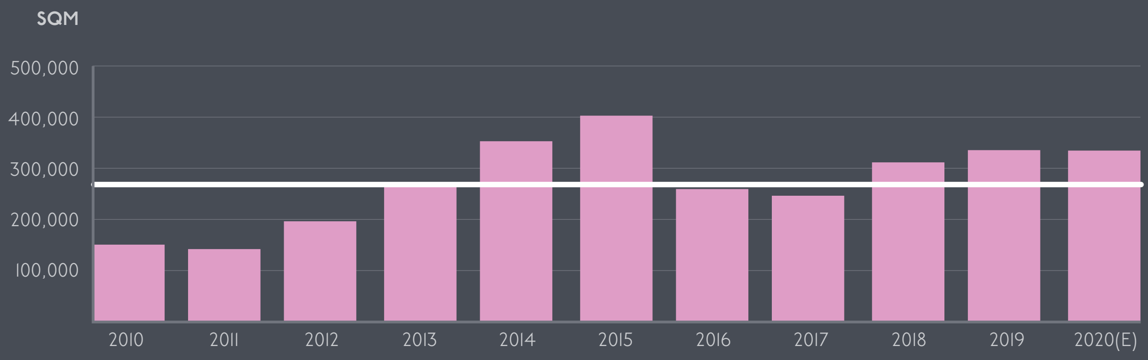
Source: Lisney / CIS

INSIGHTS

THERE WILL BE
NO SHORTAGE OF PROSPECTIVE BUYERS
AS EVIDENCED BY SOME OF THE RECENT EUROPEAN-WIDE PORTFOLIOS SOLD AT ATTRACTIVE YIELDS

Unit A7 A&B
North City Business Park,
Finglas, Dublin 11 –
Harvey Norman leased
from Rohan Holdings

ANNUAL TAKE-UP (2010 - 2020E)



ANNUAL TAKE-UP — LONG-TERM AVERAGE (25 YEARS)

Source: Lisney

INVESTORS

Domestic and international investor demand in the sector is very strong, however in recent years very few institutional-grade industrial investment opportunities have been on offer. Given that most newly constructed stock will be larger in size and occupied on a rental basis for at least 10 years, this construction activity is not only welcome news for occupiers, but also for investors. There will be no shortage of prospective buyers as evidenced by some of the recent European-wide portfolios sold at attractive, yet hardening, yields. In order to capitalise on improving prices, some owner-occupiers may consider sale-and-leaseback deals. This could be a very attractive proposition for those that bought buildings between the 7th December 2011 and the 31st December 2014 and held for between four and seven years. They can avail of capital gains tax relief and given that building values have generally grown by between 40% and 80% since then, significant savings can be made. As the CGT saving continually diminish the longer the property is held past seven years, those looking to benefit are advised to consider a sale sooner rather than later.

“ THERE WILL BE ADDITIONAL SPACE REQUIREMENT TO ENSURE SUPPLY CHAINS ARE NOT DISRUPTED. ”

The Hub Logistics Park, Clonee, Co. Meath

BREXIT

BREXIT

Finally, Brexit is now fully upon us. It will continue to be a feature of the industrial market in 2021 as companies get used to the new paperwork and system. For both Irish and UK companies who import/export to and from the UK and Ireland, it would be prudent for them to hold extra stock. This will result in additional space requirements to ensure supply chains are not disrupted, including bonded warehouses. Amazon is an example; it took over 50,000 sqm in Dublin in 2020.

For Irish and European companies exporting and importing, delays in using the UK as a land-bridge between Ireland and continental Europe (due to increased regulation and checks at UK ports) may result in demand for industrial space closer to Irish Ports, in particular Rosslare. Increased sailings are already in place to Rotterdam and Dunkirk with a trebling of the sailings from Rosslare to Europe. The M1 Dublin – Belfast corridor may also finally see increased demand for space and begin to fulfil its potential.

THE PROPORTION OF **ONLINE SALES** OF THE OVERALL MARKET WENT FROM ABOUT **3% TO OVER 15%**

Canada Goose, Grafton Street, Dublin

07

THE MOVE TO ONLINE

RETAIL

2020 was the year that fiction became a reality. In the retail market, it started-off relatively positive but quickly turned in March as COVID-19 intensified and non-essential retail closed.

In hindsight, there was no comprehension at the time of the huge impact on trading conditions the pandemic would have (the volume of retail sales overall fell by 12% in March and then there was a further decline of 36% in April). With the first lockdown in place for almost three months, consumers were forced online whether they liked it or not (the proportion of online sales of the overall market went from about 3% to over 15%). As such, retailers that had a good online presence benefitted the most. The summer did bring some positivity and improvement with sentiment rising sharply, albeit still below the strong levels witnessed 12 months prior. In addition, the volume of sales increased and was back to February levels in June. It was the year of the staycation and with savings made from not traveling on holidays overseas, along with many benefiting from savings from working for home, money was spent on bigger ticket items such as house refurbishments. This benefitted those in the DIY, furniture, tiling and electrical sectors. Retail sales of such items was between 25% and 35% higher in October than in February. When the second lockdown occurred in the final months of the year, a greater number of retailers were set up online and could sustain a certain level of trade.

+25%

DIY, FURNITURE, TILING AND ELECTRICAL SALES

INCREASED

FROM FEBRUARY TO OCTOBER

CLOSURES

CLOSURES

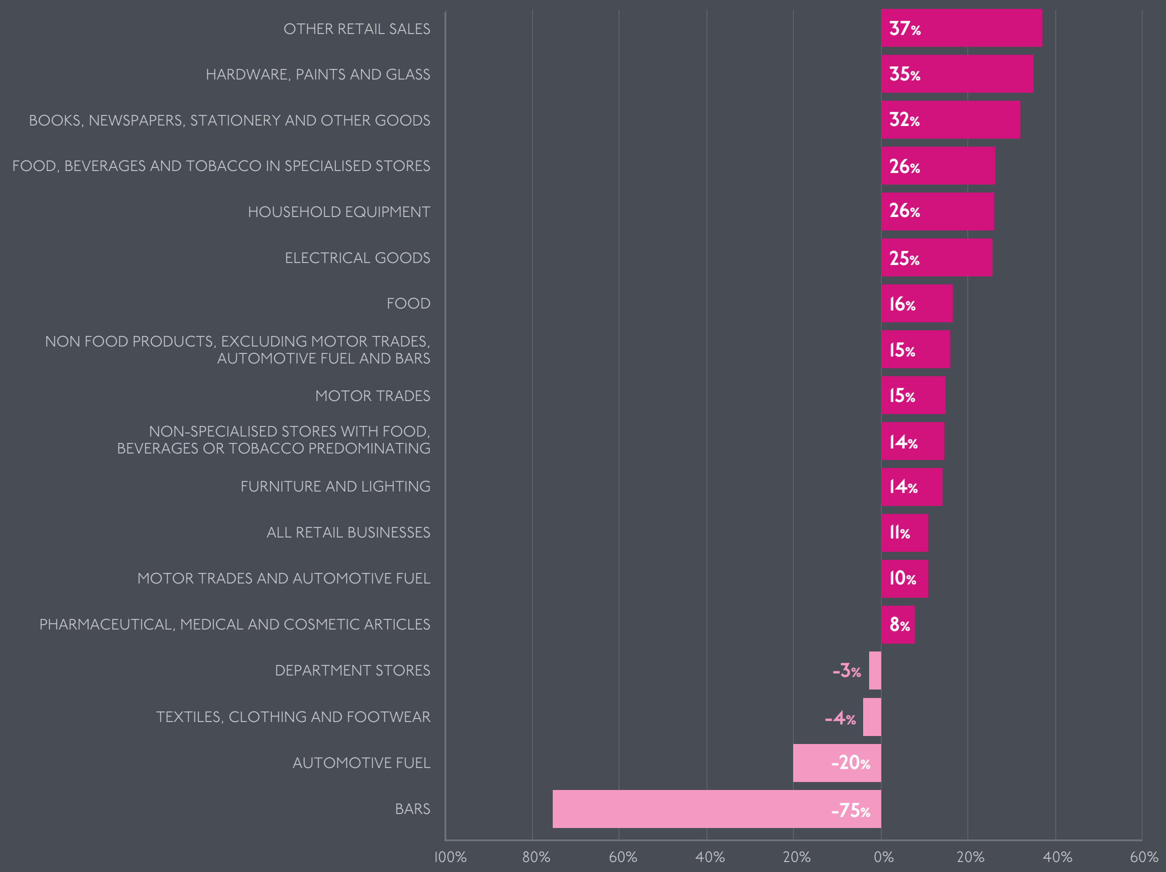
Unfortunately, there were casualties during the year, many of which are high profile brands. The closure of Debenhams was announced in April and was followed by brands such Monsoon, TM Lewin, Le Pain Quotidien, Aldo, Oasis, Warehouse, Cath Kidston and Laura Ashley. Towards the end of the year, liquidators were appointed in Ireland to the Arcadia Group, which includes the Topshop, Dorothy Perkins, Evans, Miss Selfridge and Wallis brands.

Those following the retail crisis in the UK will be familiar with this trend. Many of the brands that have closed were experiencing difficulties pre-COVID and administration was already likely. The CVA (Company Voluntary Arrangements) process in the UK has been a mechanism used by retailers and the F&B industry since 2015 to close unwanted premises, renegotiate rents with landlords and generally tidy up property portfolios. COVID-19 just accelerated the demise of these stores as they were not as future proof as they needed to be or for some, were marred by controversy. The prime shopping streets and shopping centres in Dublin will be hardest hit with the closure of these brands in 2021. Historically, they offered landlords strong covenants, paid the highest rents and were excellent footfall drivers. Unfortunately, there will be no quick fix solution and in the absence of established overseas brands entering the Irish market, much of the unoccupied space will be taken on a short-term, pop-up basis.

ONLINE SHOPPING

The importance of having an omni channel presence became vividly clear in 2020 with survival often depending on it. Consumers are now shopping online for things they would have previously only bought instore. In spite of this, online has become a highly competitive and noisy space. It is increasingly difficult for retailers to be found unless the shopper is already aware of a particular brand with search engines automatically bringing up the online giants such as Amazon, eBay, boohoo and ASOS. The bricks-and-mortar store gives smaller brands a face and personality, and allows the consumer to interact with products and the retailer's values. It also allows for click-and-collect and instore returns, both of which are very important features of retailing now due to the pandemic. During lockdowns, consumers chose to stand in line to avail of click-and-collect or once stores reopened, carry out instore returns rather than wait for home deliveries. As physical store retailers move online, the trend of online retailers taking stores is increasing and will continue to this year. This is particularly true where landlords can be flexible on lease terms, giving retailers the opportunity to experience in store trading for the first time.

VOLUME OF RETAIL SALES CHANGE BETWEEN FEBRUARY AND OCTOBER 2020



Source: CSO

“IN THE RUN UP TO CHRISTMAS, MANY CONSUMERS MOVED TOWARDS SUPPORTING THEIR LOCAL SHOPS, SOME OF WHICH RECENTLY ESTABLISHED AN ONLINE PRESENCE.”

Columbia,
Trinity Street, Dublin 2

SUPPORTING LOCAL

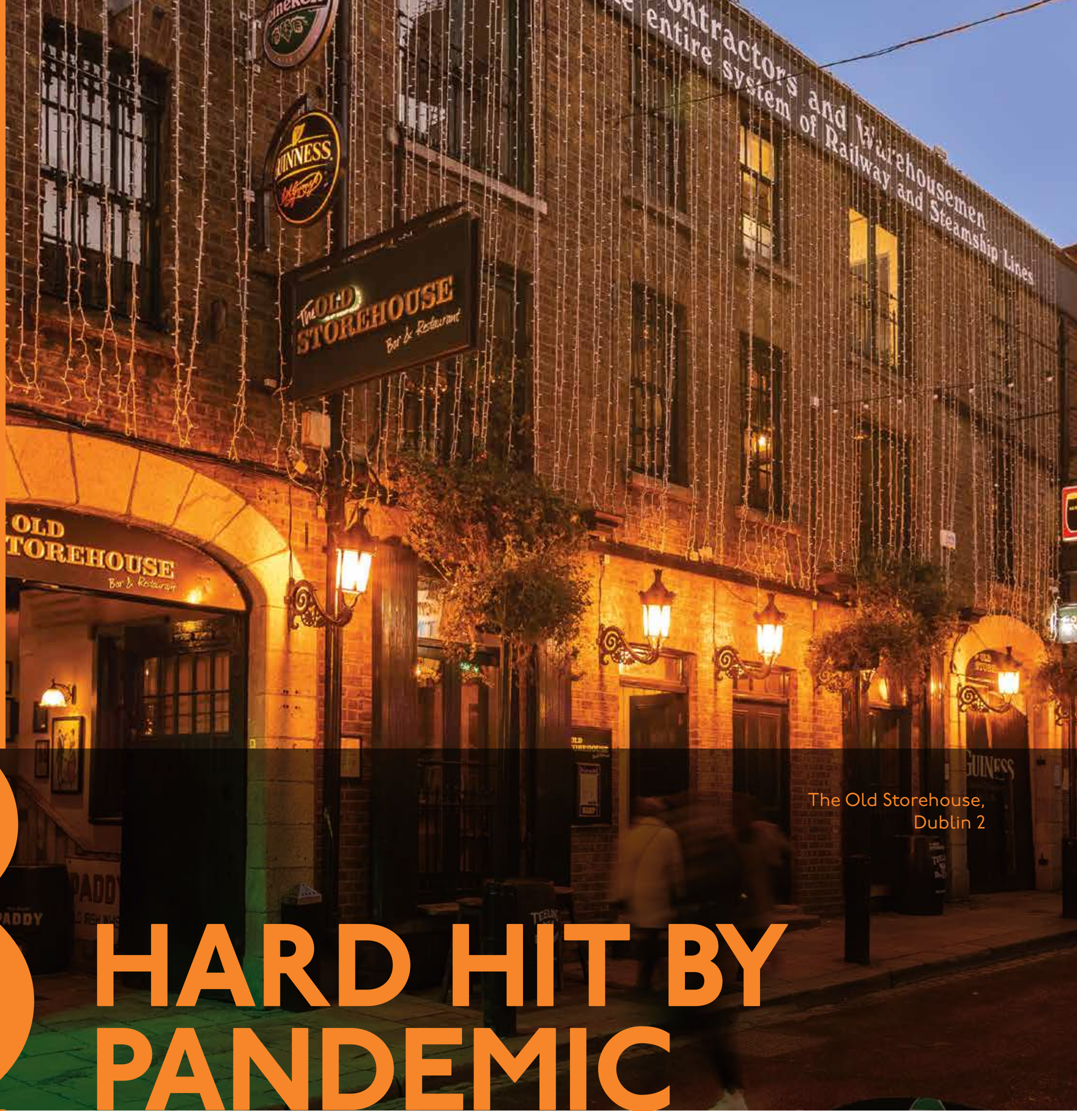
SUPPORTING LOCAL

In the run up to Christmas, there was an increased backlash towards some of the global online giants. Many consumers moved towards supporting their local shops, some of which recently established an online presence; those focused on selling sustainable products; or those highlighting their corporate social responsibility pledges. This trend is likely to continue this year and beyond as greater numbers of small retailers move online and use social media as a platform to generate a loyal consumer following. With these consumers engaged on social media and buy into the ethical values of the retailer, they will act as word of mouth ambassadors of the brand, one of the best forms of marketing.

FUTURE OF RETAIL

When we emerged from the financial crisis in 2014, the world of retail had changed because of online shopping. Undoubtedly, as we emerge from this pandemic, once again there will be shift with AI (Artificial intelligence) and AR (Augmented Reality) becoming a greater part of the shopping experience. This will bridge the gap between the physical store and the online store with ‘try before you buy’ technology in place across beauty, clothing and footwear, among others.

THE GREATEST BLOW HAS COME TO BEVERAGE-ONLY PUBS AND IN PARTICULAR THOSE IN THE CITY CENTRE



The Old Storehouse, Dublin 2

08 HARD HIT BY PANDEMIC

LICENSED & LEISURE

DUBLIN LICENSED PREMISES

The licensed and leisure industry has been the hardest hit sector of the economy by the pandemic with the volume of trade within pubs down by 75% annually according to the CSO. Entering 2021, the impact has varied; many businesses have been shut for nearly ten months, while others have had to close and reopen on more than one occasion. The greatest blow has come to beverage-only pubs and in particular those in the city centre. The three main drivers of turnover in pubs are tourists, nearby workers and nearby residents. For city centre pubs, the first two cohorts have been absent from the market due to travel restrictions and remote working, while the resident population in central areas is relatively low. In the suburbs, businesses have benefited from people being at home, spending more time in their local area and possibly having greater levels of discretionary spend, albeit restricted in numbers by social distancing.

Certain government supports have assisted the industry. The TWSS / EWSS schemes have provided a level of income to publicans and their workers while the CRSS scheme that came about in Budget 2021 in October provided up to €5,000 a week to businesses that were prohibited from opening or where their trade has been reduced significantly due to the restrictions imposed on them. It is likely that more supports will come to assist the industry over the course of 2021. Indeed, banks have also been supportive of operators, realising that customer demand is there and the businesses and those running them are still good operators. For the limited time premises were allowed to open last year, many traded well, averaging about 70% of previous levels in well populated areas.

The market trends from 2020 will remain in the opening months of this year with perhaps more positive trading conditions emerging in Q2 and into Q3. With the vaccine likely to be rolled-out in the coming months, workers can start returning to offices (albeit likely on a more agile basis) and social distancing precautions are likely to become less stringent over time, allowing for greater levels of trade. In terms of a recovery, some pubs will bounce back quicker than others with well-populated areas doing better than those relying on tourism. Hotspots such as Temple Bar will take longer to get back to pre-COVID levels of trade.

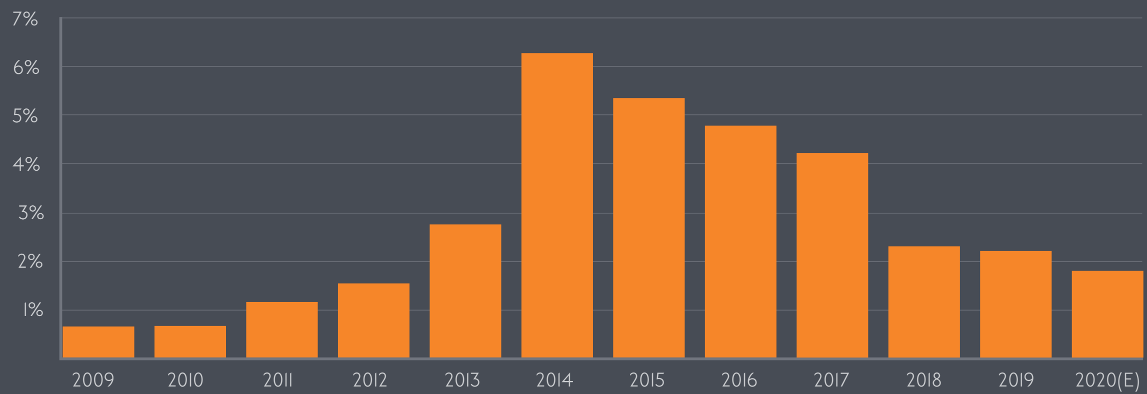
From a property market perspective, even in a year where the industry was effectively closed down, licensed premises sold. Eleven Dublin pubs transacted in 2020 (six in Q1, three in Q2 and one each in Q3 & Q4) with a further seven either sale agreed or with contracts exchanged and remaining to close in 2021. Sales comprised Grainger's on Meath Street; Murray's in Kilmainham; The Sackville Lounge on Sackville Place and Madigan's on Abbey Street Lower (both forming part of a larger property acquisition); The Magic Carpet in Cornelscourt; The Old Storehouse in Temple Bar; The Black Forge Inn in Drimnagh; Ruin Bar on Townsend Street; The Dark Horse plus commercial investments in Blackrock; The Queens in Dalkey; and the Investment Interest in JK Stoutman's on James Street.

This is reflective of the fact that publican appetite to acquire high-profile and established licensed premises will remain, albeit possibly constrained by lending availability in the short-term. Those well-resourced will be keen to engage with sales processes for the right opportunity with the calibre of the premises dictating the price achieved. In addition to traditional demand, requirements from well capitalised funds has emerged recently. These funds are targeting the upper-tier of the Dublin city market and have a preference for scale, seeking established pub groups, or alternatively, acquiring several high value premises simultaneously. The recent sale of The Old Storehouse in Temple Bar to one such fund is an example of this demand and we are aware of other funds actively reviewing Dublin city opportunities.

While this demand is positive, the sales process was more protracted in 2020, often with closing dates delayed and this could be the case again this year. Furthermore, there were sales that fell through (such as The Concorde on Edenmore Avenue and Becky Morgan's on Grand Canal Street), likely victims of ill-timing due to COVID. This, along with the perceived lack to of purchasers in the market, impacted on many potential vendor's confidence, fearful that offers will be opportunistic and low. As a result, several vendors that had been considering offering their business for sale deferred their decision and are waiting until later this year when they believe there will be more certainty. This will mean that the supply of pubs for sale will remain limited, at least in the first half of the year.

In spite of this, the outlook for future activity levels appears to be positive. Deals will continue to occur off-market and the emergence of international investment in the sector will be particularly positive and could push the value of the market well ahead of previous years. Sadly, there will also be sales as a result of the financial impact the pandemic has had on smaller scale publicans. Some will decide not to reopen and potentially retire while others will not be in a financial position to reopen. This may lead to redevelopment opportunities, particularly outside of Dublin.

VOLUME OF LICENSED PREMISES TRANSACTIONS IN DUBLIN (2009 - 2020E)



Source: Lisney

THE PANDEMIC WILL HAVE LONG-TERM IMPACTS, WITH REGULATIONS LIKELY TO BE TIGHTER, AND POTENTIALLY A MOVE TOWARDS SINGLE OCCUPANCY ROOMS

09 HEALTHCARE

TOUGH YEAR DUE TO COVID-19

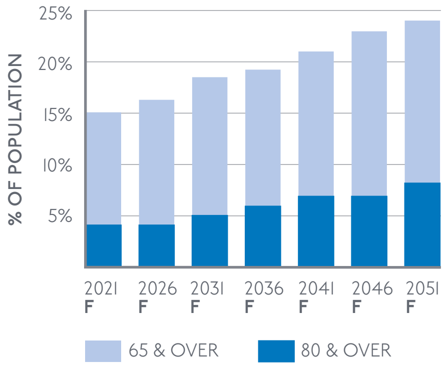
Due to COVID-19, the healthcare sector, both in Ireland and globally, had one of the toughest years ever in 2020.

Nursing homes fought hard to reduce the spread of the virus among vulnerable residents. In primary care centres and surgeries, GP's adopted video technology to diagnose patients and reduce the risk of transmission while hospitals worked hard to maintain a sufficient level of capacity to deal with those requiring treatment. In spite of these difficulties, the sector adapted.

PRIMARY CARE CENTRES

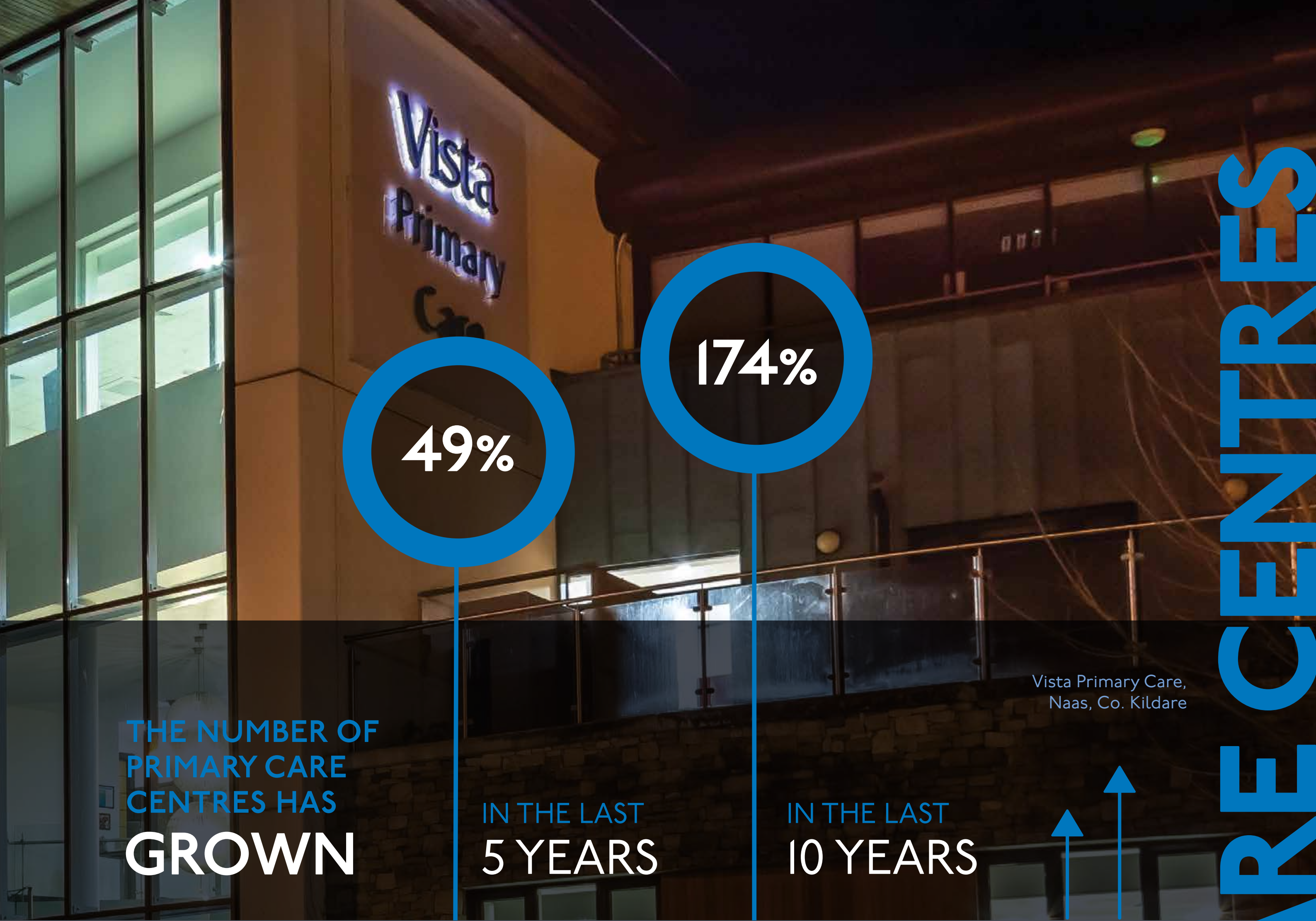
In line with Sláintecare and the National Development Plan objectives, the primary care sector continued to expand last year with eight schemes completed. With a total stock of 148 centres nationwide, the number of centres has grown by 49% in the last five years and by 174% in the last ten years. Further development is ongoing and by the end of 2021, it is likely that an additional 12 centres will be completed. Approximately 55% of the existing stock is privately owned by investors with leases in place. Indeed, investor interest in primary care centres, particularly from those specialising in healthcare internationally, remains strong. The long-term lease structure and inflation-linked rent reviews offered by the HSE is very attractive and there is scope for further hardening of yields in the medium-term. 2021 is likely to be a busy year in the sector.

FORECASTED AGEING POPULATION



Source: CSO

PRIMARY CARE CENTRES



Vista Primary Care, Naas, Co. Kildare

THE NUMBER OF PRIMARY CARE CENTRES HAS **GROWN**

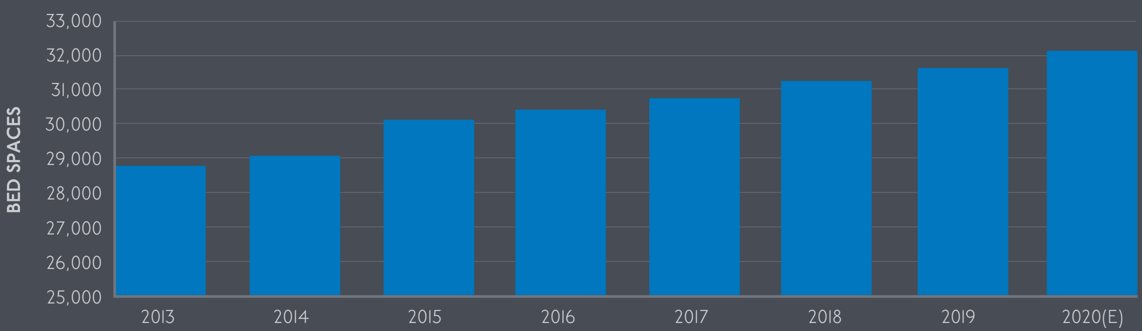
49% IN THE LAST 5 YEARS

174% IN THE LAST 10 YEARS

NURSING HOMES

While nursing homes were very much in the eye of the storm, from a property market perspective, demand remained with several transactions occurring. Consolidation continued and new operators entered the market. The pandemic will have longer-term impacts on the operation of homes with regulations likely to be tighter, greater difficulties sourcing and retaining staff and potentially a move towards single occupancy rooms. Consequently, development and operational costs, along with weekly rates charged to residents are likely to increase. However, with an ageing demographic, requirements for additional modern, purpose-built accommodation will continue. Linked to this, and as witnessed in recent years, operator demand for larger and more efficient developments will continue. In December, there were 32,112 bed spaces nationwide but encouragingly, there was a further 2,064 new beds under construction, in both extensions to existing homes and within new schemes. Interestingly, the average number of beds in new developments under construction is 99, while within the standing stock of existing properties the average number of beds is 56.

NURSING HOME BED SPACE STOCK (2013 - 2020E)



Source: HIQA, Lisney analysis

IRELAND WILL BE ATTRACTIVE AS AN **ENGLISH-SPEAKING ALTERNATIVE TO THE UK POST-BREXIT**

10 FUTURE DEMAND

PURPOSE-BUILT STUDENT ACCOMMODATION

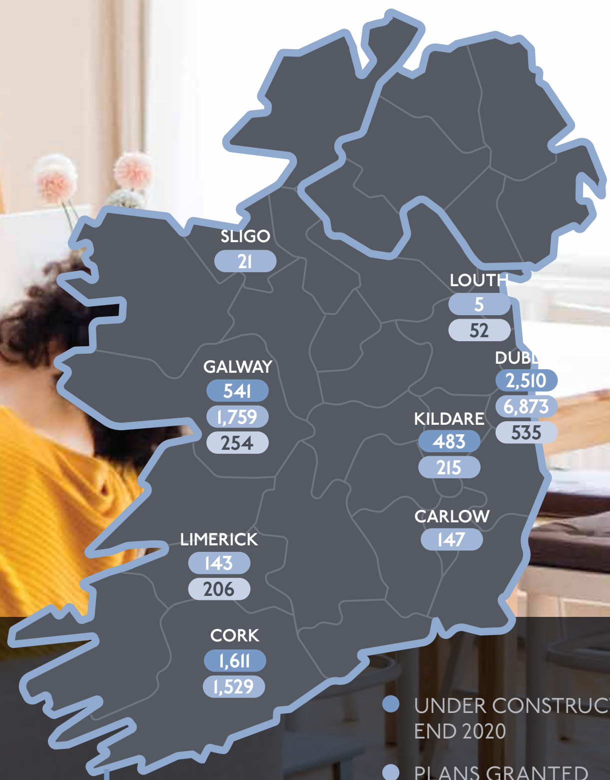
COVID-19 has had a major impact on higher education institutions and student accommodation in Ireland.

All on-campus learning stopped in March 2020 with the academic year finished remotely. For 2020/2021, the majority of learning to date has occurred online but with some essential classes on-campus, adhering to government issued guidance ('Practical Guidance for Further and Higher Education for Returning to On-site Activity in 2020'). This guidance document also specifically highlighted the risks associated with student accommodation and how best to mitigate them.

Predicated leaving certificate grades and COVID-19 has had an impact on domestic and international student numbers in Ireland in the 2020/2021 academic year, both positively and negatively. While official data and breakdown of students is not yet available, it was announced in September that an additional 2,225 places would be made available to incoming students for courses in high demand. Simultaneously, some third-level institutions reported a marked drop in enrolments from international students. Generally, numbers are down by between 30% and 50% but this is likely to be a short-term issue. In the more medium-term (post 2022) opportunities may arise in attracting some of the 145,000 European students that study in the UK annually. With their status changing due to Brexit, Ireland will be attractive as an English-speaking alternative within the EU. Also positive in enticing students to Ireland is the newly established government department lead by Minister Harris. By having a dedicated department overseeing higher education, it is hoped that Irish universities and colleges will move up in global rankings, attracting more overseas students. All of these factors have an impact on future demand for student accommodation.

5,150

BED SPACES UNDER CONSTRUCTION 2020



UNDER CONSTRUCTION END 2020

PLANS GRANTED END 2020

PLANS SUBMITTED END 2020

PIPELINE OF BED SPACES

Source: CIS, Lisney

PBSA SALES

Student accommodation falls within the remit of the Residential Tenancies Act 2020. This legislation introduced temporary restrictions that prohibit PBSA licence terminations during an 'emergency period' (i.e. COVID related Level 5). Should all or part of Ireland move to Level 5 again in 2021, it will take effect. In terms of rents charged for accommodation within PBSA schemes for the 2020/2021 academic year, rates varied depending on schemes but the average advertised headline rent in Dublin was approximately €9,000 for 39 weeks (based on 60 schemes), in line with the previous year. It should be noted that some operators were offering incentives (by way of a gift voucher) to take-up accommodation and as such, the average effective rent was about 2% less overall.

The 2017 targets set out in the National Student Accommodation Strategy progressed further in 2020. We estimate that almost 1,000 bed spaces within three schemes were completed nationwide last year, resulting in a total bed space stock of close to 41,000. To achieve the 2024 target, an additional 13,000 bed spaces are required in the next four years. At the end of 2020, 5,150 bed space were under construction with almost 12,000 beds either with planning permission or seeking it. If all of these progress, the government's overall national target would be exceeded. However, it is likely that at least one-third of these will not be built.

Interestingly, a few operators sought temporarily change of use of schemes or parts of schemes in the second-half of last year, to use the rooms as tourist accommodation for one or two years. Given the difficulties in the tourist industry both now and in the short to medium-term, the benefit of this is limited.

Two PBSA investment opportunities sold in 2020, both in Q1; Newmarket Square (€85m bought by Round Hill Capital and NKB Capital) and NCI in the IFSC (€35.6m bought by Exeter Property). In addition, it was reported that GSA acquired Harrison Street's interest in their JV ownership of several schemes. Between 2014 and 2020, almost €950m worth of PRSA assets have transacted, a very strong level given that Ireland was not a very mature market five or six years ago. While the sector will continue to feel the effects of the pandemic this year, demand from both students and investors will recover. We expect this to be in the 2021/2022 academic year.

THE CORK INVESTMENT MARKET WAS QUIET IN 2020 DESPITE ALMOST **€2.7BN** TRANSACTED NATIONALLY.

11

DEMAND BUT WITH LIMITED SUPPLY

CORK

INVESTMENT

The Cork investment market was quiet in 2020 despite €3bn transacted nationally. There was very little investment product brought to the market in Cork with the market turnover estimated at just €11m for the year. However, it should be noted that investors in the Irish market were firmly focused on PRS in 2020 (given its countercyclical attributes), particularly forward purchases of schemes under construction. 38% of the market comprised PRS sales. However, given the fact PRS development generally remains unviable in Cork (despite schemes having planning), this significant sector was absent from the Cork investment market. Additionally, supply of all other types of assets was limited, albeit international and domestic demand remained for good assets. Prime yields, with the exception of retail, held firm. However, more secondary assets did see prices softening and the gap between them and well-located buildings let to AAA covenant tenants widened. Some smaller opportunities are due to come to the market in early 2021, which will be of interest to local investors.

16,000 sqm

TRANSACTED IN 2020

ACTIVITY LEVELS WERE STRONG IN THE OPENING MONTHS OF 2020, WITH THE YEAR'S TOTAL SIMILAR TO 2019

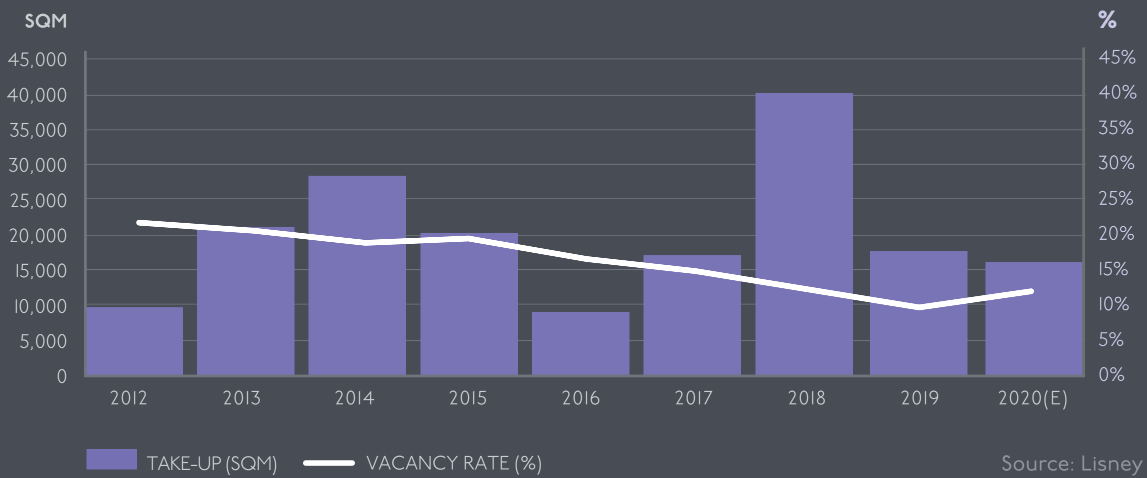
Penrose Dock, Cork

OFFICE

OFFICE

Activity levels were strong in the opening months of 2020 (Q1 take-up was 8,250 sqm) as three large lettings were completed in Penrose 1 and 2. The market quietened in Q2 during lockdown but did recover somewhat in the latter half of the year. 2020 take-up totalled about 16,000 sqm, similar to 2019. This year, demand for space and activity in the market will be closely linked to the recovery in the economy, along with evolving trends in agile working. However, there are reported occupier requirements in the market, mainly from the tech sector. Rents are likely to remain relatively stable, however tenant incentives may increase, notably rent free periods and earlier break options. The 2021 market will be very much about completing building works of ongoing schemes (19,650 sqm of accommodation under construction at the end of the year). While there is close to 146,000 sqm of space with planning, these buildings are unlikely to commence this year unless pre-lets are in place.

CORK OFFICE ACTIVITY AND VACANCY RATES (2012 - 2020E)



Source: Lisney

TRANSACTED
IN 2020

THE MAJORITY WAS COMPRISED OF LETTINGS RATHER THAN SALES

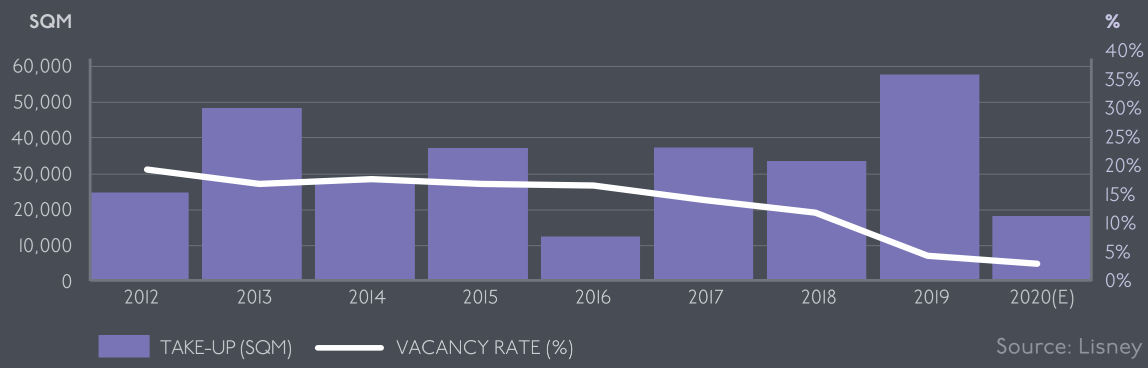
Harbour Gate
Business Park, Cork

INDUSTRIAL

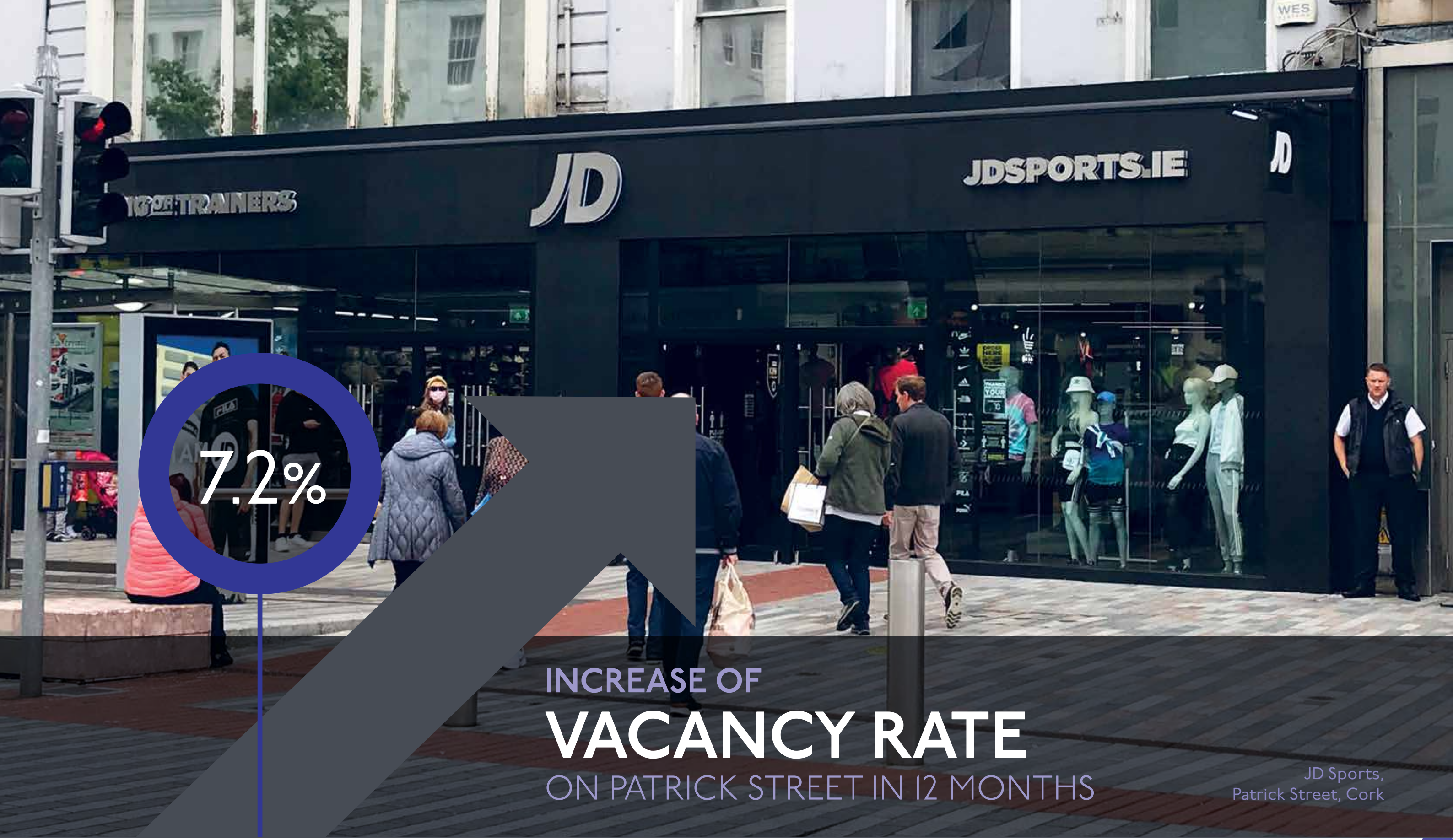
The industrial market was the least affected property sector by the pandemic, and benefited from both additional retailer demand (due to increased online sales) along with changing occupier requirements due to Brexit. Approximately 18,000 sqm of space transacted in 2020 the majority of which comprised lettings rather than sales. The dominance of lettings is a trend also witnessed in other markets and will continue this year. Rents remained stable and by the end of December, the vacancy rate fell to an all-time low of just over 3%.

Three new buildings were completed in 2020 and no new development was under construction at year end. However site clearance had commenced in a number of locations. The pipeline is more positive with 72,140 sqm (across seven proposed developments) with planning permission, some of which will commence in the coming months. New developments with full planning permission at Harbour Gate Business Park, Little Island (18,120 sqm) and at Watergrasshill Business Park (18,140 sqm) will assist in satisfying occupier demand for larger units, but it is unlikely that the vacancy rate will increase substantially in the next 12 to 18 months.

CORK INDUSTRIAL ACTIVITY AND VACANCY RATES (2012 - 2020E)



Source: Lisney

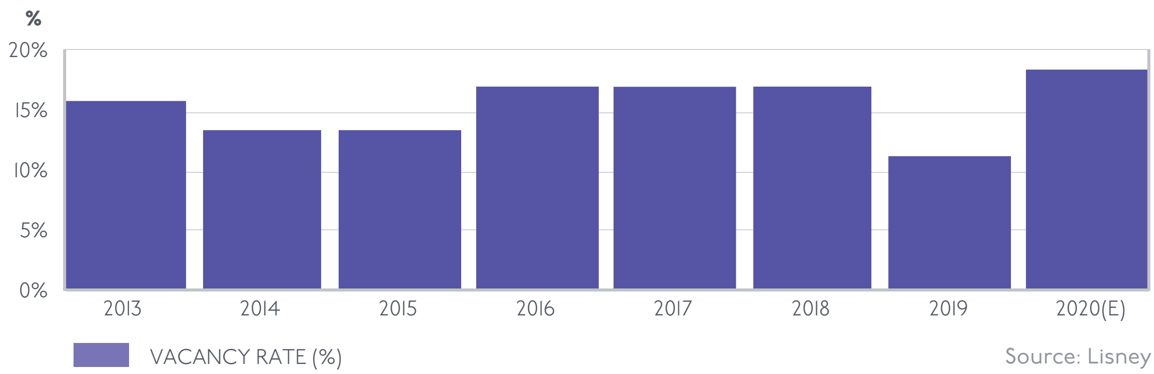


JD Sports, Patrick Street, Cork

RETAIL

The retail sector had a very tough year. The closure of non-essential stores in both Q2 and Q4, along with more online shopping activity had an impact on retailers business in physical stores. Some brands closed permanently in 2020 while others moved fully online. For many of these, there were already difficulties present in their trading model and the pandemic just accelerated the inevitable. The number of unoccupied stores on Patrick Street grew substantially over the year and may increase further in the coming months. The loss of Debenhams was a particularly strong blow to the street. Lisney's Shutter Count survey found a vacancy rate of 18.3% at the end of the year, a 7.2 percentage point increase in 12 months. In spite of all the negative news, CSO data show that overall retail sales have performed well and ended the year ahead of pre-COVID levels. However, this is very sector specific with home, DIY and furnishings performing exceptionally well (as people spend more time in their homes) while clothes, department stores and bars have fallen substantially. Consumer sentiment towards the end of the year was much more positive, which is encouraging for 2021, but they remain cautious and sentiment readings are still not back to February / March levels. This year, established retailer demand will be limited as there are not that many new brands entering the market. In a bit to generate a level of income, landlords are likely to consider pop-up stores, which will generally comprise local retailers. This is positive for the consumer, market activity and footfall.

PATRICK STREET SHUTTER COUNT (2013 - 2020E)



Source: Lisney

“ FUTURE DEVELOPMENT IN CORK CITY CENTRE AND METROPOLITAN AREA IS VERY POSITIVE. ”

Horgan’s Quay, Cork

DEVELOPMENT

Future development in Cork city centre and metropolitan area is very positive. There are ambitious plans for the City Docks (north and south), where the City Council and the Land Development Agency recently announced the establishment of the Cork Docklands Delivery Office to facilitate the mixed-use development programme. In addition, there are longer-term proposals for Tivoli Docks when the Port of Cork moves to Ringaskiddy. Following a high court review the M28 Cork / Ringaskiddy motorway is now likely to proceed, which will further enhance the development of Ringaskiddy into a key trading port with Europe.

In addition, various schemes were granted planning permission recently. In terms of hotels, a 34-storey / 240 room building is planned at Custom House Quay; and further schemes are planned for Morrison’s Quay, Camden Quay, and McCurtain Street with a boutique hotel planned on South Mall. A hotel is under construction at the corner of McCurtain Street and York Hill and the nearby Dean Hotel has just opened. Further purpose-built student accommodation is also planned including UCC’s Crow’s Nest site and Round Hill Capital’s Bandon Road site, both of which are under construction.

In tandem with this, significant infrastructural improvements are earmarked for the city. In addition to the M28 mentioned above, upgrade works at Dunkettle have commenced. There are longer term proposals for a new Luas light rail system from Ballincollig to Mahon, which will link the west and east of the city. Additional improvements are also envisaged for suburban rail services and these will open up new lands for development. The review process for the Cork City and County Development Plans has commenced. For the city area, the new plan will encompass a much larger area following the extension of the boundary in 2019.

-25%

4,500 PROPERTIES
SOLD IN CORK
IN 2020

ABOUT A QUARTER
LESS THAN
2019

1 Millfield,
College Road, Cork

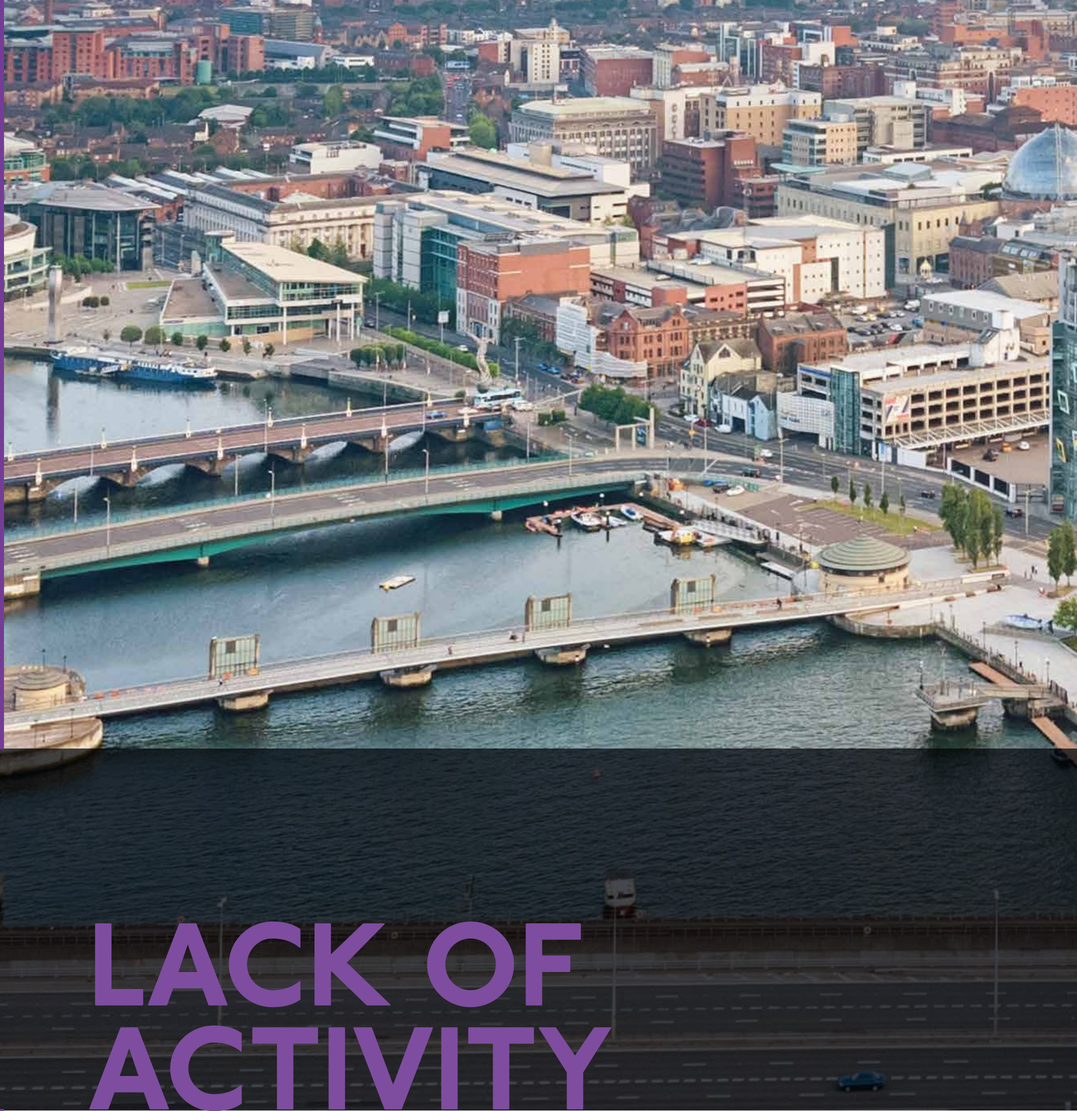
RESIDENTIAL

RESIDENTIAL

Both the second-hand and new homes market remained active last year despite the pandemic. All physical property viewings stopped during the first lockdown and vendors relied on virtual tours to show their property. Once restrictions lifted, the market quickly became active over the summer months. This level of demand remained in the latter part of the year and fortunately physical viewing continued during Level 5 in October / November. We estimate that about 4,500 properties sold in Co Cork in 2020, about a quarter less than the previous year and reflective of the months lost. Most demand was focused on properties priced between €250,000 and €400,000, which is in line with the 3.5 times salary set down by the macroprudential policy.

First-time-buyers were very active in the new homes market, purchasing almost 60% of all new homes (they were at 50% in 2019). This trend will continue in 2021 as the enhanced help-to-buy scheme will be in place until the end of the year. Supply remains an issue and has assisted in keeping prices steady in recent months. As the vaccine hopefully begins to be rolled out in the first half of the year, supply should improve as those vendors worried about having potential buyers through their homes during a pandemic, make the decision to proceed. This will bring much needed opportunities for the trader up / down market.

IT IS ESTIMATED THAT THE **ECONOMY DECLINED BY 15%**, WITH 7% RECOVERY GROWTH EXPECTED THIS YEAR.



12

LACK OF ACTIVITY

NORTHERN IRELAND

The 2020 property market in Northern Ireland was characterised by a lack of activity due to both COVID-19 and the uncertainty of a Brexit trade deal not being reached.

It is estimated that the economy declined by 15% and with 7% recovery growth expected this year, the economic backdrop will remain challenging. Pre-COVID economic activity is not expected to return until 2023.

In spite of the negativity, there is cause for optimism this year. The roll-out of the COVID-19 vaccine began in early December and it is anticipated that the majority of Northern Ireland will be vaccinated by the summer. A Brexit trade deal has finally been reached and despite the fact that full details relating to Northern Ireland are still to emerge, it will remain in the single market for goods and follow the EU customs rules. Greater normality is in sight and from a property market perspective, this new norm will include accelerated social and technological trends.

INVESTMENT

INVESTMENT

Investment market activity was subdued in 2020 with market turnover at about £120m, less than half the five-year average level (£250m). The majority of this was completed in Q1 including the Hammerson sale of Abbey Retail Park in Newtownabbey to Canadian investor Slate for a reported £34m. Another transaction of note was in Q4 and comprised the sale of Amazon's distribution centre in the Titanic Quarter for £27m to UBS Asset Management.

The 2020 performance of investment asset capital values assets greatly depended on the sector. Retail parks and grocery stores fared well in 2020 and will continue to perform this year. Conversely, shopping centres and high streets have been particularly badly affected by the lockdown and values have fallen. In the office sector, 2021 will be a much more stable year and prime properties will perform well in the medium-term.

Funding any investment transaction in the short-term will remain challenging, particularly in the retail sector. However, for those that can see beyond the pandemic, there will be opportunities, particularly with shopping centres and high street assets – perhaps to re-purpose properties and take advantage of the growing demand from the PRS sector.

400,000 SQ. FT
TRANSACTED IN 2019

125,000 SQ. FT
TRANSACTED IN 2020

WE BELIEVE THERE WILL BE A GRADUAL RETURN TO A MORE NORMAL OFFICE BASED WORK ENVIRONMENT

OFFICES

Belfast's office market activity is estimated to have reached 125,000 sq ft last year, significantly less than the 400,000 sq ft competed in 2019 as businesses delayed occupancy decisions. With the majority of office-based staff working from home, all very proficient in video conferencing technology, questions arose about the future of offices and a trend towards more agile working.

While some businesses are reconsidering their property strategies, we believe that generally, once the pandemic has passed, there will be a gradual return to a more normal office based work environment. Perhaps some workers will work from home one or two days a week, but we are not anticipating a full-scale movement out of the office. That said, structural changes in the office market will continue at pace and the growth of the serviced office sector is likely to continue in Belfast.

In terms of new supply, McAleer & Rushe continues with the construction of its 213,000 sq ft Bedford Square development, which has been part pre-let to Deloitte. In a vote of confidence in the market, speculative construction commenced in Q4 on the 155,000 sq ft Paper Exchange scheme on Chichester Street.

There was little evidence of movements last year and prime rents are likely to remain in the £21 to £23 psf range in 2021. However, there may be some repricing of rents for secondary offices.

> "THE LOCKDOWNS, COMBINED WITH THE GROWTH IN ONLINE SALES, HAS HAD A DEVASTATING EFFECT ON A NUMBER OF RETAILERS AND F&B OPERATORS."

RETAIL

RETAIL

Retail property sales and lettings virtually ground to a halt following the closure of non-essential stores in March. The high streets throughout Northern Ireland were all but deserted for the following 12 weeks. While restrictions were relaxed for a time, they tightened again as COVID numbers grew in September and October, and again in December.

The pandemic increased the pace of changes in consumer shopping habits with many traditional bricks-and-mortar shoppers turning to online retail for the first time. Online sales in the UK have increased significantly with approximately 30% of all sales since March 2020 occurring online (the 2019 figure was 19%). The lockdowns, combined with the growth in online sales, has had a devastating effect on a number of retailers and F&B operators including Debenhams, Laura Ashley, Monsoon, Zizzi, Pizza Express and the Arcadia Group, among others.

Overall, the market will face downward pressure on rents and prices this year. However, there are a number of sub-sectors that have performed very well through the pandemic and will continue to do so. Retail parks are an example with many retailers in these schemes permitted to remain open during restrictions and have traded well. Some have expanded in this sector; an example is The Range (a seller of home, garden and leisure products) opening a new 65,000 sq ft flagship store in October on Boucher Road in Belfast. Food retailers have also performed well and there will be further activity in this sector this year, especially from discounters that are actively pursuing new opportunities.

INDUSTRIAL AND LOGISTICS

Industrial and logistic operators were the least affected by the pandemic and provided a vital service when the majority of mainstream retailers were closed. As such, activity in the industrial and logistic property market continued in 2020 despite the pandemic and the looming Brexit difficulties. This was principally driven by those supplying PPE. However, there were also retailer requirements for next day delivery services throughout Northern Ireland with Amazon taking a new 411,000 sq ft distribution centre in the Titanic Quarter. We expect retail and online shopping related demand to continue as distribution warehousing and last mile delivery becomes ever more significant.

RESIDENTIAL

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DAVID BEWLEY
Senior Director

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Senior Director

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Director

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MAEVE FURLONG
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