IRISH COMMERCIAL PROPERTY PRIME RENTS & YIELDS MONITOR

Q2 2018

CUSHMAN & WAKEFIELD

COMMERCIAL PARTNER OF SHERRY FITZGERALD

OVERVIEW

The following report outlines rent and yield movements in the core Irish commercial property sectors of offices, industrial and retail.

Based on prime property, this analysis provides current and forward looking estimated movements in rental and yield variables. Five-year forecasts for each property sector in Dublin are produced using a rigorous econometric model and qualitative analysis, based on local market expertise. Reflecting market dynamics, a similar analysis is carried out for the regional centres of Cork, Limerick and Galway.

Irish commercial property has experienced a positive opening half to 2018, with strong occupier and investment statistics evident. In general, rental growth is evident across all sectors, however the rate of current and forecasted growth varies. Yield compression is also a feature of the market at present, both in Dublin and the regional centres. However, as interest rates are due to rise in late 2019, incremental upward movement is evident from 2020 onwards.

€646

DUBLIN PRIME OFFICE RENTS ARE €646 PER SQ M AND ARE EXPECTED TO REMAIN AT THIS LEVEL FOR THE REMAINDER OF THE YEAR.

€91

PRIME INDUSTRIAL RENTS IN DUBLIN ROSE TO €91 PER SQ M IN Q2, WITH FURTHER RENTAL GROWTH FORECASTED FOR THE SECOND HALF OF 2018.

Offices

	Prime Rent (€ per sq m)			Prime Yield (%)		
	Q2 2018		Q4 2018F	Q2 2018		Q4 2018F
Dublin	€646	→	€646	4.00%	→	4.00%
Cork	€350	→	€350	5.65%	↘	5.50%
Limerick	€325	↗	€350	6.50%	↘	6.25%
Galway	€296	↗	€323	6.25%	→	6.25%

Retail

	Prime High Street Rent (€ per sq m)			Prime Yield (%)		
	Q2 2018		Q4 2018F	Q2 2018		Q4 2018F
Dublin (Grafton Street)	€6,750	→	€6,750	3.50%	↘	3.25%
Cork	€2,350	→	€2,350	5.50%	→	5.50%
Limerick	€1,000	→	€1,000	6.00%	↗	6.50%
Galway	€2,400	→	€2,400	5.75%	↘	5.50%

Industrial

	Prime Rent (€ per sq m)			Prime Yield (%)		
	Q2 2018		Q4 2018F	Q2 2018		Q4 2018F
Dublin	€91	↗	€100	5.25%	↘	5.00%
Cork	€85	→	€85	7.50%	↘	7.25%
Limerick	€59	→	€59	8.50%	↘	8.00%
Galway	€75	↗	€80	8.00%	↘	7.75%

Source: Cushman & Wakefield Research

OFFICE MARKET

Having surpassed previous peak levels, current prime Dublin office rents stand at €646 per sq m. A positive upward trend of new supply has resulted in a slowdown in the pace of inflation.

Forecasts suggest that prime rents will remain unchanged for the remainder of the year, and into 2019 also. Slight upward pressure is anticipated in the latter part of the five-year forecast period, as new completion levels ease, increasing prime rents to €673 per sq m in 2020. The forecasted average annual rental growth rate for Dublin is at 1.7% for 2018-2022.

Although there are a number of specific deals which have occurred above our prime headline figure, such transactions are considered unique and not reflective of the wider market.

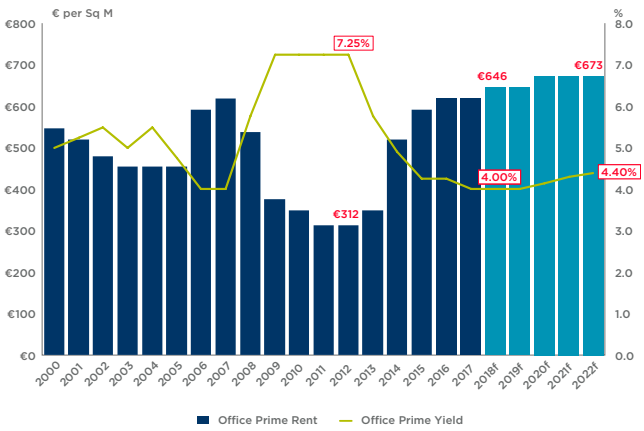
In the Dublin suburban markets, rents have also stabilised, sitting between €323 - €325 per sq m at the end of Q2. They should also remain at this level for year-end.

Providing some European context to the Dublin market, the latest DNA of Real Estate Report by Cushman & Wakefield reveals prime rents in Luxembourg city saw an annual increase of 6.4% to €600 per sq m in Q2 2018. Frankfurt saw rents rise 7.7% annually to €504 per sq m, while in Paris (CBD) rents rose 3.1% to €825 per sq m.

Of the three regional centres, prime office rents were highest in Cork. At the end of Q2 2018, Cork's headline rents sat at €350 per sq m per annum, representing an annual uplift of 11.1%. The Cork office leasing market recorded a very strong opening half to 2018. Following a positive first quarter, activity gathered pace in the second quarter, bringing take up in the year to date to 35,550 sq m, compared to just 8,250 sq m recorded in H1 2017. Driven by strong demand and falling supply, gradual rental growth is forecast to continue out to 2020, where rents will stabilize thereafter.

In Limerick, prime rents stood at €325 per sq m at the end of June 2018. Take up activity in H1 2018 was limited in the Limerick office market, as a lack of Grade A product to meet tenant requirements restricted

Dublin Office Prime Headline Rents (€) & Yields (%)



Source: Cushman & Wakefield Research

occupation activity. Rental levels are expected to remain at this level for year-end, with upward pressure resulting in rents rising to €360 in the latter half of the five-year forecast period. Interestingly, with the suburbs dominating construction activity in Limerick, rents for prime space in the suburbs increased by 10% on an annual basis in Q2 2018, reaching €237 per sq m. Better quality suburban space is being increasingly sought after.

Lastly, prime rents in Galway sat at €296 per sq m in Q2 2018, representing annual growth of 10%. Further rental growth is expected for year-end, with rents to meet €323 per sq m.

In terms of yields, prime yields in Dublin have remained at 4.00% over the past six months, equivalent to the peak of the market in 2006/2007. With strong demand continuing to be evident from both overseas and domestic investors, yields are anticipated to remain at this level for the coming two years, while expected interest changes in late 2019, sees rates rise to 4.15% in 2020 and by 15-25 basis points out to 2022.

Again comparing to the European market, average prime yields for Europe overall sat at 4.42% in Q2, with markets such as Amsterdam and London (City) recording yields of 4.00%. London (West End), Paris and Frankfurt have prime yields sub 4%, ranging between 3-3.5%.

In H1 2018, the office sector attracted the largest proportion of investment activity, 55% or € 878.1m. Examples of transactions achieving such yields, include No. 1, Dublin Landings which was purchased by German Investment Manager, Triuva, for an initial yield of 3.94%, and The Beckett Building, East Road, D3 purchased by Korean Kookmin Bank with a yield of 4.1%.

In the regional centres, Cork has the witnessed the largest change in prime yields over the past twelve months. At the end of June, prime yields stood at 5.65%, unchanged from the previous quarter, however down 35 basis points from Q2 2017. Cork has witnessed the strongest compression in office yields of the three regional centres over the past twelve months. This is not surprising given that the volume of investment activity in Cork has increased significantly over the past 18 months, and is the main driver of regional activity. Forecasts for year-end show further inward movement, expected to reach 5.50% by end 2018.

Prime office yields in Galway stood at 6.25%, unchanged from the year previous, and are anticipated to remain stable for year-end. In Limerick, yields sat at 6.50%, down from 6.75% the year previous and forecast to move to 6.25% by year-end.

4.00%

Prime yields in the Dublin office market currently sit at 4.00%, equivalent to the peak of the market in 2006/2007.

RETAIL

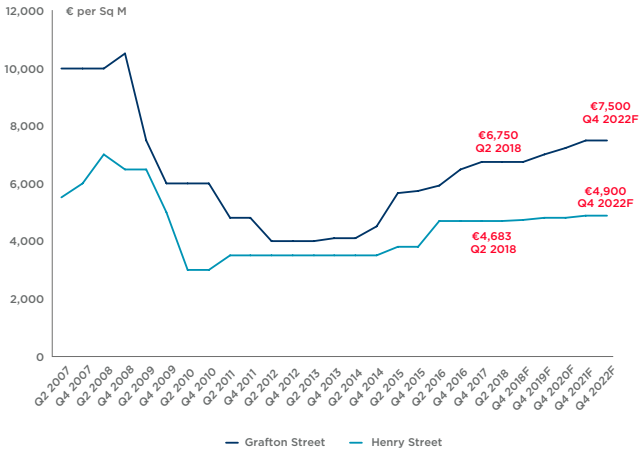
Growth in prime Dublin retail rents has slowed over the past twelve months, with annual inflation of just 3.8% on Zone A Grafton Street, and Henry Street rents remaining stable in Q2 2018.

Prime rents on Grafton Street stood at €6,750 per sq m at the end of June and are anticipated to remain at this level for the remainder of the year. However, rents are expected to increase moderately thereafter, at an annual average inflation rate of 2.1% over the five-year period.

On Henry Street, prime rents stood at €4,683 per sq m at the end of June. Slight rental inflation of 1.4% is anticipated for year-end, bringing rents to €4,750 per sq m. Incremental rises are expected for the succeeding years out to 2022, at an annual average increase of 0.9% over the time period.

What is clear from the accompanying graph illustrating Grafton Street and Henry Street rents is the re-emergence of the gap between rental levels on both streets. In the pre-crisis era, at the peak of the market, rents on Henry Street were almost two thirds of those on Grafton street. This disparity was almost eradicated once rents plummeted, and remained insignificant for almost four years. However, once the market turned, and upward rental pressure began to emerge, the gap between the streets was reinstated. Forecasts for both streets present further divergence, with rents on Henry Street being almost two thirds that of Grafton Street in 2020.

Grafton Street & Henry Street Zone A Prime Rents (€ per Sq M)



Source: Cushman & Wakefield Research

The slowdown in high street prime rental inflation is evident across the European market also. The average annual rental growth in Europe overall was -0.3%. However, there were significant disparities across markets.

Rental growth is stronger in Dublin's prime shopping centres. The table above outlines current headline rents, together with their year-end forecast. The stronger growth rates evident in the shopping centres coincide

Prime Dublin Shopping Centres, Rents (Zone A, € per Sq M)				
	Q2 2018	1 Yr Growth Rate	5 Yr CAGR	Q4 2018F
Dundrum Town Centre	€4,650	0%	4.4%	€4,650
Blanchardstown Centre	€3,250	10%	5.4%	€3,400
Liffey Valley Shopping Centre	€3,000	11%	5.9%	€3,100
Pavilions Shopping Centre, Swords	€2,200	10%	8.0%	€2,300
The Square Tallaght	€1,500	20%	5.5%	€1,600

Source: Cushman & Wakefield Research

with retail's varying levels of performance across different segments of the market in the IPD quarterly index results.

Prime high street rents in the regional centres of Cork Limerick and Galway were also stable during the first half of the year, with no movement since year-end. However, compared to the same period last year, upward movement was recorded in each of the three markets. In Cork, prime rents increased by 4.4% annually in Q2 2018, to €2,350 sq m. Prime rents on Galway's Shop Street increased by 9.1%, to €2,400 per sq m, while on Limerick's O'Connell Street/Cruises Street rents increased by 5.3% annually to €1,000 per sq m.

Given the improving consumer demand, underpinned by wage growth and employment levels, combined with a shortage of quality prime retail units of size, there is room for further upward growth in the regional centres, albeit at a moderate pace. Five-year forecasts show annual average growth rates of between 2-3.5%.

It is worth noting that in Limerick, the Crescent Shopping Centre can be argued as the prime shopping destination. Rental levels in the Crescent surpassed O'Connell Street/Cruises Street in 2017, and currently sit at €1,100 per sq m. This is set to continue with forecasts for year-end indicating further growth to €1,200 per sq m.

In terms of yields, prime Dublin yields for Grafton Street and Henry Street sat at 3.50% and 3.75% respectively at the mid-point of the year. Investor appetite remains strong for units on both streets, with institutional investors being a key player in bids for this asset type. Given the limited availability on these streets, competitiveness is leading to further potential for a tightening in yields on Grafton street, with the forecasts for year-end suggesting 3.25%. The market is to stabilise at this level for 2019, before a slight shift upwards in line with interest rate changes. For Henry Street, yields are forecasted to remain at 3.75% for the next two years.

In the regions, yields stood at 5.50% in Cork, 5.75% in Galway and 6.00% in Limerick at the end of Q2, with little deviation anticipated over the short-term.

Regional Prime Headline Rents, Q2 2018	
Cork	**Rent (€ per Sq M)**
Patrick Street	€2,350
Galway	
Shop Street	€2,400
Limerick	
O'Connell Street/Cruises Street	€1,000
Crescent Shopping Centre	€1,100

Source: Cushman & Wakefield Research

INDUSTRIAL

The industrial market was the last of our core sectors to enter recovery, and this is evident by the continued strong rental growth visible in the market.

However, another key factor driving rental growth at present is construction costs. This is driving pricing in build costs and essentially rental levels also. At the end of Q2, prime logistic rents stood at €91 per sq m, an annual increase of 11%. This is forecasted to rise to €100 per sq m by year-end and with an annual average growth rate of 5.6% between 2018 – 2022.

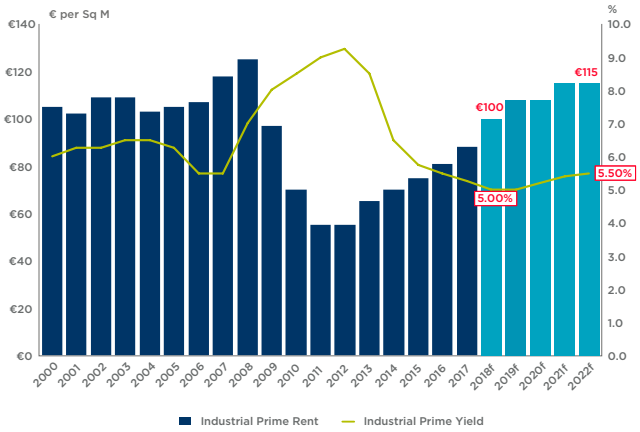
Similarly, yields in Dublin's prime industrial market have witnessed considerable movement over the past few years. At the end of June 2018, prime yields stood at 5.25% and are expected to reach 5.00% by year-end. Yields are not expected to go below this level, and instead remain relatively stable for the short term, with slight upward movement again in the latter half of the five-year forecast.

Interestingly, across Europe yield compression was strongest in logistics, with the overall European figure declining 14 basis points to 5.95%. This is a historic low, which also coincides with the trend in Dublin where the previous low which was 5.5%, has now been surpassed. Once again, this varies across different countries and cities. For example, in the UK prime yields sat at 4.48%, in France at 4.79% and in Germany at 4.63%.

Investor appetite for industrial product has increased over the past 18 months. The sector saw its share of investment activity rise to 6% in 2017, and despite a weaker than expected opening half to the year, anecdotal evidence shows demand remains high for the asset class.

Regionally, rental growth is also evident. In Cork, rents stood at €85 per sq m at the end of Q2 2018, up from €70 per sq m during the same period last year. In H1 2018, Cork was the strongest performer of the three regions, with transaction activity reaching an impressive 15,750 sq m, despite a lack of prime available product.

Dublin Industrial Prime Headline Rents (€) & Yields (%)



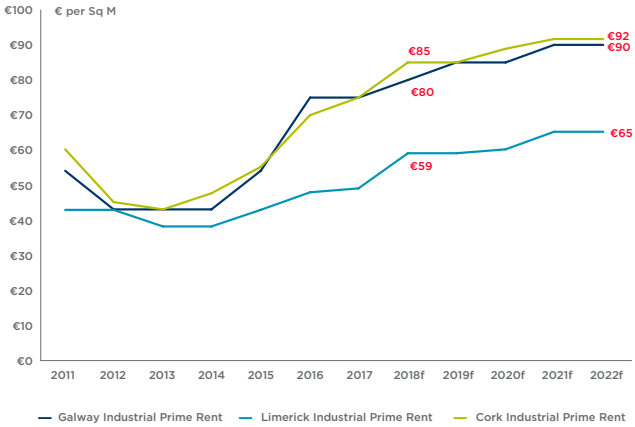
Source: Cushman & Wakefield Research

Similarly Cork yields moved inward from 7.75% in June 2017, to 7.50% in June 2018. Forecasts suggest prime yields in Cork will tighten as the second half of the year progresses, to 7.25% at year-end, and moving to 7.00% in 2019. Strengthening investor interest in Cork, from both domestic and overseas investors, will put downward pressure on yields.

In Galway, prime rents remained stable at €75 per sq m at the end of H1 2018. Given the limited supply within the market, rental inflation to €80 per sq m is anticipated for year-end, while the average annual rental inflation between 2018 and 2022 is 3.8%. Yields in Galway currently sit at 8.00%, and are expected to move inward to 7.75% by year-end. However, yields are expected to stay at this level for the short-medium term.

Lastly, the Limerick market sees rents remain significantly below Cork and Galway. At the end of Q2 2018, prime rents sat at €59 per sq m, however a notable rise from the €48 per sq m recorded in Q2 2017. Prime yields in Limerick declined to 8.50% in Q2 2018, down 50 basis points from the same period last year. Yields are forecast to move to 8.0% by year-end, and remain stable at this level.

Regional Prime Headline Industrial Rents (€ per Sq M)



Source: Cushman & Wakefield Research

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