

IRISH INVESTMENT MARKET

Q1 2020



OVERVIEW

The commercial property market began 2020 with healthy levels of investment turnover. However, as the quarter drew to a close the market entered uncharted territory as the local and global economy addresses the onslaught of Covid-19.

The latest research from Cushman & Wakefield reveals Irish investment turnover reached approximately €525m across thirty-eight deals over the three-month period. This represents a 3% increase on the €508m recorded over the identical period in 2019.

The opening quarter saw the market dominated by a strong appetite for the office sector. Office assets accounted for 64% or €336m of investor spend in the first three months of the year. The strength of the office market is supported by the robust occupier demand, endorsing the asset class as one of the most attractive markets for investors.

Outside of offices, investor interest in the residential market remains prominent, accounting for 13% of investment activity in the quarter.

In terms of location, Dublin trumped investor appetite absorbing 94% of turnover from January through to the end of March.

Overseas capital accounted for approximately €386m of the quarter's turnover with international investors particularly active in the higher end of the market.

€525m

APPROXIMATELY €525M TRANSACTED IN THE IRISH INVESTMENT MARKET IN THE OPENING QUARTER OF 2020.



64%

OFFICE ASSETS ACCOUNTED FOR 64% OF TOTAL INVESTMENT TURNOVER IN Q1 2020.



Key Statistics, Q1 2020

Total Value Transacted

€525m

Number of Deals	38
Largest Deal of the Quarter	Treasury Building, Approx. €115.5m
Most Dominant Sector	Offices - €336m
Dublin Vs. Outside of Dublin	€492m v. €33m
Overseas Vs. Domestic Capital	€386m v. €114m

Source: Cushman & Wakefield Research



INVESTMENT MARKET

TRANSACTION ACTIVITY

The opening months of 2020 illustrated the healthy demand for Irish investment assets, as supported by robust capital flows and positive occupier activity noted in the office market in particular.

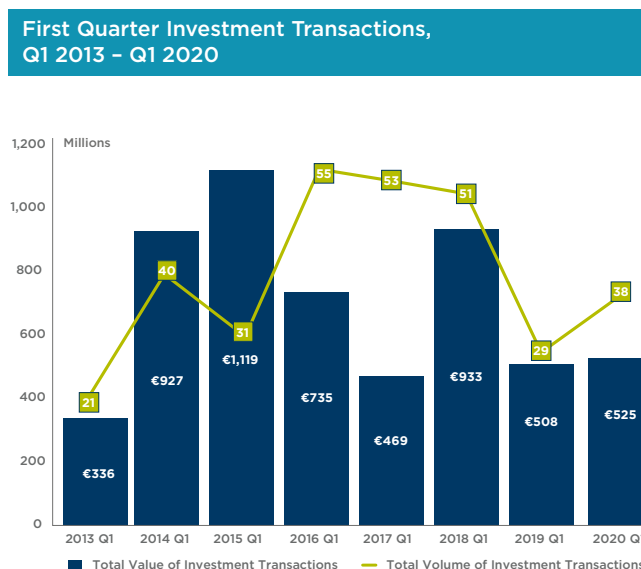
The Irish investment market recorded turnover of €525m across a total of thirty-eight deals from January through to March end. Turnover increased by 3%, when compared to the equivalent period in 2019.

As the quarter ended, the development story of Covid-19 began to unfold in Ireland and uncertainty nested itself amongst all markets. The ultimate impact the virus will have on economic growth and in turn the commercial real estate sectors remains unknown.

The largest transaction of the quarter was the acquisition by Google of the Treasury Building, Grand Canal Street, located in the heart of Dublin's Central Business District (CBD). The US tech giant, purchased the office asset for circa €115.5m. In line with the corporates preference of owning its own premises, market insight suggests the purchase will enable Google to increase its workforce by up to 1,200 employees. It is perhaps notable that the Treasury Building was the only property which sold in the €100m+ price bracket in the quarter, while in comparison, there were three transactions in this price bracket in quarter one 2019.

Other Dublin office transactions of note in the quarter include, La Touche House, also located in the CBD, purchased by European based investment manager, AXA IM Real Estate for in excess of €84m, and the sale of Block 4 & 5 Harcourt Centre, acquired for €54m by Arena.

The most notable residential transaction was Herberton, Dublin 8, comprising of 102 units, acquired by LRC Group from Deloitte for €36.5m. While, US-based Exeter Property Group acquired a student accommodation scheme at the National College of Ireland (NCI) for €35.6m. The 268-bed scheme is located in the IFSC, Dublin 1.



Source: Cushman & Wakefield Research

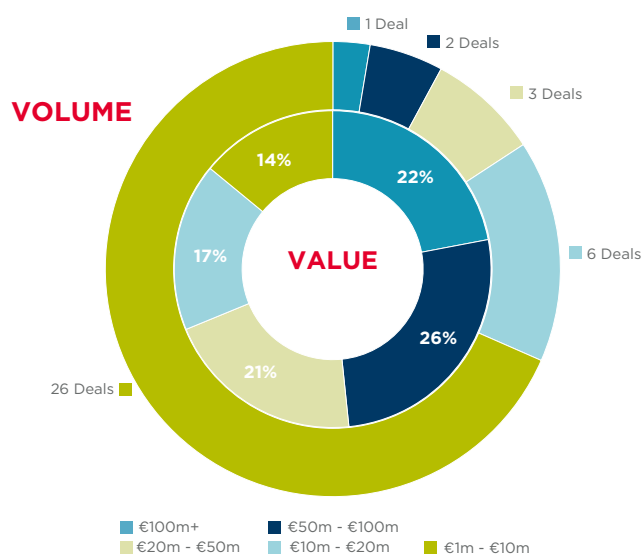
Top Investment Transactions, Q1 2020

Asset	Price (€ Approx.)	Sector	Purchaser
Treasury Building, Grand Canal Street, Dublin 2	€115.5m	Office	Google Ireland Limited
La Touche House, IFSC, Dublin 1	€84.3m	Office	AXA IM Real Estate
Block 4 & 5, Harcourt Centre, Dublin 2	€54m	Office	Arena
Herberton, Dublin 8	€36.5m	Residential	LRC Group
National College of Ireland, IFSC, Dublin 1	€35.6m	Student Accommodation	Exeter Property Group

Source: Cushman & Wakefield Research

Examining investment activity by lot size in the quarter reveals that the €50m-€100m price bracket was the most active in terms of value, accounting for 26% of total turnover recorded. Whereas, the €1m-€10m price bracket captured the largest amount of transactions this quarter, 26 deals.

Investment Transactions by Lot Size Q1 2020, Volume Vs. Value



Source: Cushman & Wakefield Research



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INVESTMENT BY SECTOR

A sector analysis of investment activity reveals the office market dominated transaction activity for yet another quarter. Continued interest from both domestic and foreign investors saw the office market account for 64% of the total value spent in the first three months of the year, approximately €336m.

The sum of investment recorded in office assets is largely driven by the previously mentioned sale of the Treasury Building. However, the remaining circa €221m that transacted across a further eleven deals illustrates the robust demand for office investment. Interest in the office asset class is driven by high levels of leasing activity. In quarter one, a total of 45,150 sq m of office space was taken up and an impressive 85,050 sq m was signed in the Dublin office market.

When analysing the concentration of capital invested into office assets by location, Dublin absorbed €334.6m of turnover. Unsurprisingly, within the Dublin office market, investors were most attracted to office assets located within the CBD, absorbing €310m of total office spend.

Office investment activity outside of the CBD, in the suburbs and secondary locations, accounted for €25m over five deals. The acquisition of Phoenix House, by a private Irish investor for €16m was the top transaction recorded outside of the CBD. Considering there are a number of office assets on the market outside of the CBD, such as Blackthorn House, Dublin 18, guiding at €18m and the Aurora Building, Dublin 15, guiding at €17m, suburban and secondary locations could experience an increase in transaction activity in the year.



Second to offices, the residential sector saw the most activity. A total of €70.5m worth of turnover was recorded across three standing stock residential assets in the period, this represents an increase from the €29m recorded in quarter one of 2019.

Interestingly, all residential investment recorded in the quarter was located in the South Dublin suburbs of

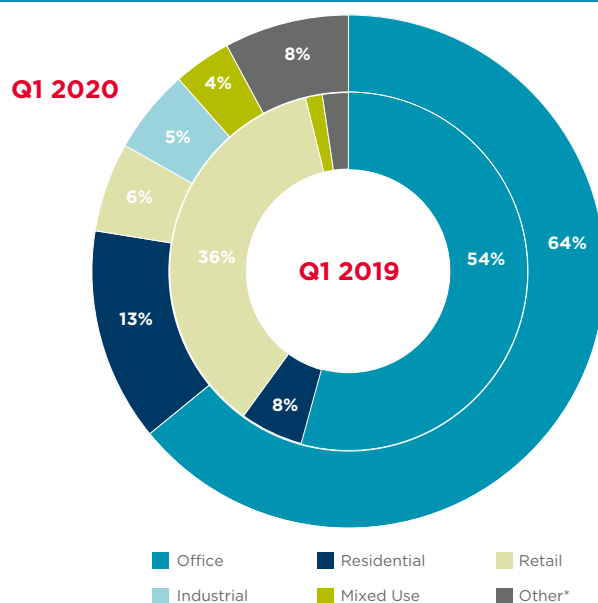
Dublin 8 and Dublin 6. Aside from the aforementioned Herberton, the Rathgar Road Collection, Dublin 6, was also acquired by LRC Group for €18m, while Rathmines Square, Dublin 6, was purchased by Avestus Capital Partners for €16m.

Retail assets accounted for €29.6m over seven deals in the quarter, largely down from the €183.6m recorded over the same period in 2019. However, it must be noted, that quarter one 2019 displayed a significant annual increase in the value of retail investment sales, boosted by large transactions such as the sale of a 25% stake in The Pavilions Shopping Centre for €71m.

Covid-19 aside, it is arguable that the retail sector is experiencing a seismic shift of its foundation. Given the existing international concerns on the health of the global retail market entering the pandemic, the performance of retail assets in 2020 is worth monitoring carefully.

The remaining asset class groups to feature in the opening quarter were industrial and mixed-use assets, accounting for €28m and €19m respectively. Comprising of the combined other assets category in quarter one 2020, was one student accommodation asset and two healthcare assets.

Investment Transactions by Sector, Q1 2020 Vs. Q1 2019



Source: Cushman & Wakefield Research

*Other includes Student Accommodation, Healthcare & Hotel Transactions



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INVESTMENT BY LOCATION & INVESTORS IN THE MARKET

In terms of location, Dublin saw the largest proportion of investor activity in the quarter, capturing 94% or €492m worth of investment spend. The concentration of investor appetite in the capital in the opening quarter is not surprising, similarly large percentages of spend were recorded in the opening three months of 2018 and 2019.

Investment spend outside of Dublin totaled €33m, with the Galway market accounting for approximately 4% of this. Driving investment activity in Galway was the sale of Westside Shopping Centre, purchased by domestic investors Elkstone for a price in the region of €9.5m. Additionally, 33 Shop Street, was acquired by Irish property development group MKN for €7.4m.

The opening three months for the investments market witnessed both international and domestic capital flowing. Overseas investors accounted for €386m of the quarter's turnover, with most of the international activity concentrated in the higher end of the market. 53% of the overseas capital invested into Irish commercial real estate originated from the United States.

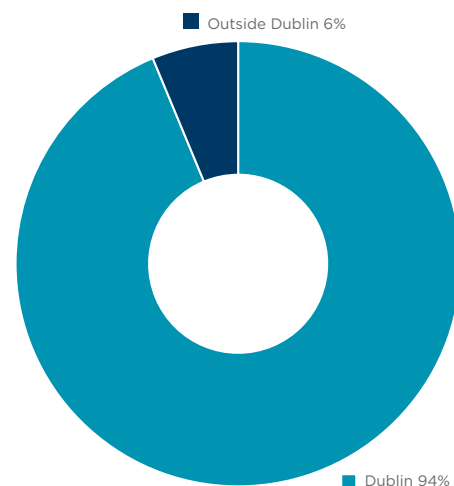
Examples of overseas investors active in the market in Q1 2020, were well-known investment managers such as AXA IM, Arena, LRC Group, Exeter Property Group and Corum.

Domestic investors in the opening quarter accounted for 22% of the quarter's turnover and were particularly active in the sub €20m price bracket.

74%

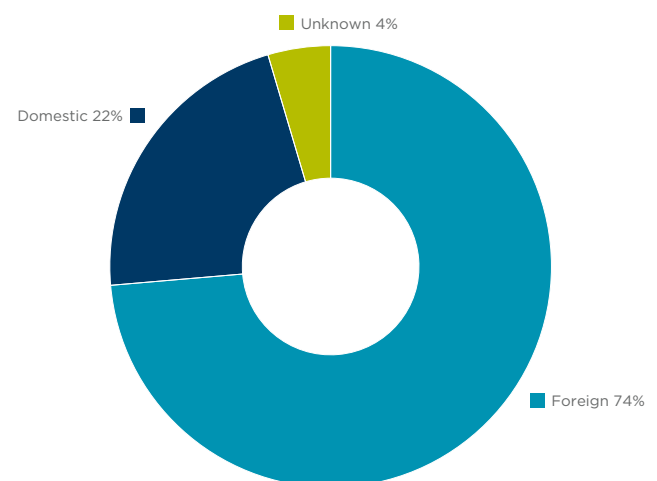
Overseas investors accounted for 74% of total capital spent in the first three months of the year.

Investment by Location, Q1 2020



Source: Cushman & Wakefield Research

Investors in the Market, Q1 2020



Source: Cushman & Wakefield Research



IRISH INVESTMENT MARKET

MSCI/SCSI IRELAND PROPERTY INVESTMENT INDEX RESULTS & YIELD OUTLOOK

Looking at the most recent MSCI/SCSI results, the quarter one property index shows the initial impacts of Covid-19 are muted. However, as with most indicators at present, quarter two results are expected to provide greater clarity and understanding of the fallout created.

The quarter one results from the Irish Property Index indicate returns remain broadly positive for Irish commercial property and largely in keeping with existing trends within the index. A total return of 0.8% was recorded in the first three months of 2020, this compares to 1.4% in quarter one 2019.

At present, returns are exclusively income led. The first quarter saw income returns of 1.1%, while capital growth was -0.4%.

Notably, the quarter one results show the growing polarisation between retail and other major sectors. The market recorded deficit figures for total returns and capital growth of -1.5% and -2.7% respectively. Market insight suggests that Covid-19 has accelerated the already declining value of retail assets.

Key Performance Indicators, Irish Property Index, Q1 2020

Segment	Total Return	Income Return	Capital Growth	Market Rental Value Growth	Equivalent Yield Impact
All Property	0.8	1.1	(0.4)	0.2	(0.6)
Industrial	2.2	1.5	0.6	0.4	0.1
Office	1.4	1.1	0.4	0.1	0.2
Retail	(1.5)	1.3	(2.7)	0.4	(2.9)

Source: MSCI

Green indicates an increase in the growth/return from Q1 2019, red indicates a slowdown in growth/return from Q1 2019, black indicates no change from Q1 2019

Lastly, when attempting to look forward, activity in the commercial investment market over the coming quarters will be strongly influenced by Covid-19, the longevity of the public health policy and the subsequent economic fallout. With property viewings and construction activity all impacted by the spread of Covid-19, it is inevitable a temporary hold on investment activity will take place for at least the coming quarter.

Commenting on the market in the opening quarter, Kevin Donohue, Head of Investment, Cushman & Wakefield Ireland noted;

“The first quarter of 2020 began very positively with a wall of capital chasing limited stock. However, due to the Covid-19 pandemic many investors have, since the end of March, put their investment requirement on hold until there is greater clarity on the short to medium term impact of Covid-19 on the global economy and local markets respectively.”

The forecasted yield outlook for the Irish market in 2020 has seen a slight outward movement of prime yields, similar to the trends across other European markets. At the time of writing, outward movements are projected for prime yields across the sectors of office and retail, while industrial yields are forecasted to remain stable for the year ahead.



Prime Yields Outlook, 2020

Sector	Prime Yields Q1 2020	Outlook 2020
Dublin Office	4.00%	↗
Dublin Retail	4.00%	=
Dublin Industrial	4.90%	=
Regional Office	5.25% - 6.25%	=
Regional Retail	5.50% - 7.00%	↗
Regional Industrial	6.25% - 8.00%	↘/=

Source: Cushman & Wakefield Research

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