IRISH

INVESTMENT REPORT

Q2 2021

CUSHMAN & WAKEFIELD

TRANSACTION ACTIVITY:

Despite COVID-19 challenges and travel restrictions, total capital inflow reached approximately €1.45bn across 43 deals in the second quarter of 2021, of which €641.5m were income generating at the point of sale and €805m were forward commit style arrangements. The majority of these forward transactions were PRS assets, with one hotel forward fund and of significance an industrial forward fund.

This brings total capital spend in the Irish commercial property market to just shy of €2.3bn across 79 deals in the first half of 2021. This represents a sizable increase from the €981.7m recorded in H1 2020 across 55 deals. The outturn of January to June end has already surpassed the long run average of €1.9bn for the eighth consecutive year since 2014.

Commenting on the market, Kate English, Chief Economist, Head of Ireland Research & Insights noted;

"The Irish investment market is beginning to see a turning point, as the second quarter saw improved levels of activity. Following a prolonged lockdown at the beginning of the year, availability on the market is tight, however we should see this improve with product launching as we move through the second half of the year".

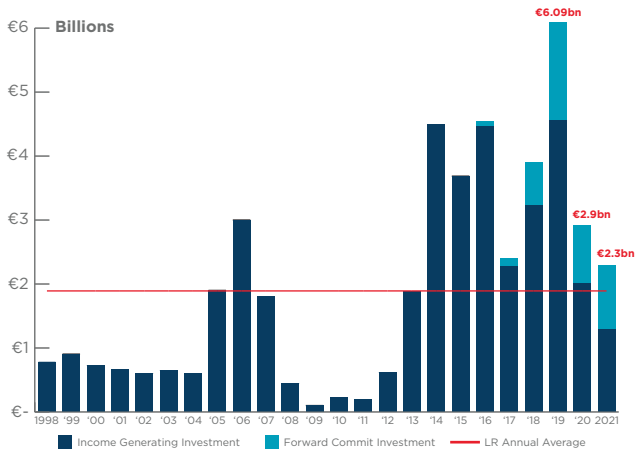
€1.45bn

TOTAL CAPITAL INFLOW REACHED APPROXIMATELY €1.45BN ACROSS 43 DEALS IN THE SECOND QUARTER OF 2021

€641.5m

WHICH €641.5M WERE INCOME GENERATING AT THE POINT OF SALE AND €805M WERE FORWARD COMMIT STYLE ARRANGEMENTS.

Total Capital Inflow, Irish Investment Market, 1998 – H1 2021



Deals greater than €1m. Excludes loan sales, company sales, trading assets and auction sales.

Source: Cushman & Wakefield Research

Top Transactions, H1 2021:

Asset	Price (Approx.€)	Forward Commit Vs. Standing Stock	Sector	Qrt Sold	Vendor	Purchaser
Project Tolka Portfolio, Dublin	€290m	Standing Stock	Office	Q1	Colony Capital	Blackstone
Royal Canal Park, Ashtown, Dublin 15	€200m	Forward Commit	Residential	Q2	Ballymore	Union
Dwyer Nolan Portfolio	€181m	Forward Commit	Residential	Q2	Dwyer Nolan Developments	Ardstone
Griffith Avenue	€177m	Forward Commit	Residential	Q2	Confidential	Greystar
Block A Riverside IV, 70 Sir John Rogersons Quay, Dublin 2	€164m	Standing Stock	Office	Q2	Irish Life	Deka Immobilien

Source: Cushman & Wakefield Research

The largest transaction of the second quarter was German investor, Union Investment, acquisition of 435 apartments and a health centre at Royal Canal Park for €200m.

The largest revenue generating transaction of the second quarter was the sale by Irish Life Investment Managers of block A Riverside IV, 70 Sir John Rogerson's Quay, at €164m to German fund Deka Immobilien.

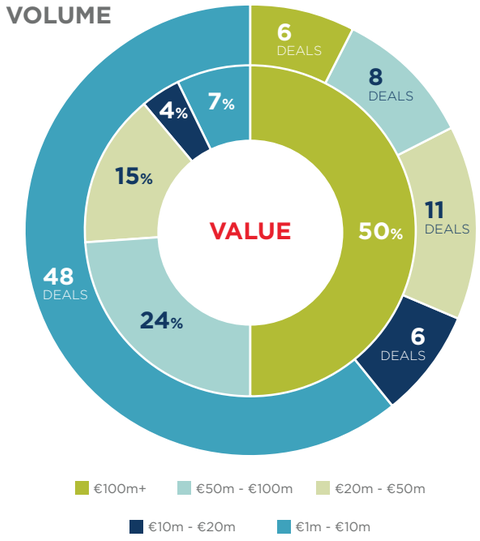
Outside of the Dublin market, the largest regional investment in the quarter was sale of One Navigation Square, Albert Quay, Cork. Located in the city's docklands, French investor Corum Asset Management acquired the office asset for €60m.

When analysing investment activity by location, Dublin dominated 93% of turnover over the six-month period, while investment outside of Dublin recorded 7% of turnover.

In terms of lot size, six assets achieved a price in excess of €100m over the 6-month period, totalling a combined €1.14bn. A number of €100m+ office assets are currently in the market or due to come to the market over the coming months. Examples of such include, One Spencer Dock, which is fully let to PwC on a 25-year lease and Facebook's World Headquarters in Ballsbridge due to launch in Q3 2021. Of interest, insight points to the attractiveness of these assets being strongly linked to how successful the return to the office will be, with many occupiers currently set to open their doors in September.

The €50m-€100m and €20m-€50m lot size brackets accounted for 24% and 15% of turnover, respectively in H1 2021. The largest number of deals transacted in the €1m-€10m price bracket, 48 deals, followed by the €20m-€50m bracket where 11 deals took place.

Total Capital Inflow, Investment Turnover by Lot Size, Volume VS Value, H1 2021



Source: Cushman & Wakefield Research

Despite the hurdles facing foreign investors such as COVID-19 travel restrictions, the attractiveness of Irish commercial property is evident by their continued strong presence in the market. Funds sourced from a foreign investor represented 68% of H1 2021 turnover while domestic capital stood at 22% during the same period. The remaining 10% of capital is attributed towards joint ventures and confidential deals.

INVESTMENT BY SECTOR

As restrictions ease and the vaccination rollout makes significant advances, quarter two witnessed strong levels of investment activity with residential, office and industrial assets appealing most to investor appetite.

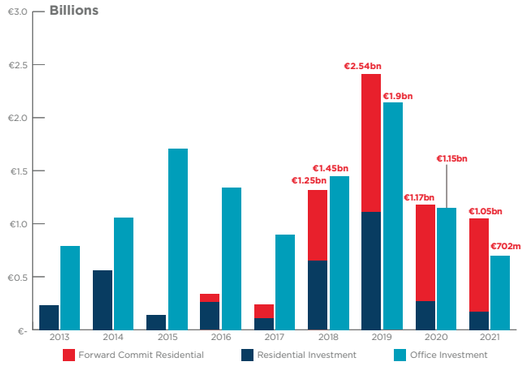
Although take up activity remains below average in the office market, approximately €311m traded in office assets in quarter two, bringing total activity in the first six months of the year to €702m across 17 deals, of which all were income generating at the point of sale. This H1 level represents an increase of 18% from the €595m recorded over the similar period in 2020 and is just shy of the €765m recorded in 2019.

Capital deployed into office assets was mainly located in Dublin, absorbing €638m of turnover, of which, 91% was located in the Central Business District (CBD).

In the second quarter, investment in residential assets with an income attached, totalled approximately €25.1m across two standing stock deals. The majority of which can be attributed towards Cluid Housing's acquisition of Robin Hill, Dundrum. The non-profit association secured the 51 residential units for a price in the region of €23m.

An additional €685m worth of forward commitment transactions also took place in the second quarter. As such, the true strength of demand for residential assets is evident by the large value of forward commitments at the half point of the year, €887m. When added to standing stock transactions, total capital investment into the residential sector surpasses that of the office sector to achieve €1bn in just six months.

Total Capital Inflow, Office and Residential Assets, 2013 – 2021 H1



Source: Cushman & Wakefield Research

€1bn

Total capital investment into the residential sector surpasses €1bn in H1 2021.

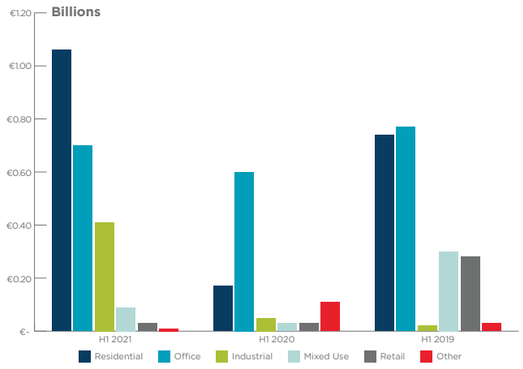
Following the residential and office sector, industrial assets recorded its highest level of activity since Cushman & Wakefield's detailed series began. Considering the strong investor desire to acquire such assets, industrial and logistics will be discussed separately in the following section.

The remaining asset class groups to feature in the first six months of the year comprised of mixed-use, retail, and healthcare. Combined, these asset classes accounted for €126m or 6% of turnover. The majority of which can be attributed towards Glenveagh's forward sale of the planned 262-bedroom Premier Inn hotel, Castleforbes, to German-based Union Investment for €70m.

Approximately €29m of the combined sum is retail assets. The largest retail transaction in the quarter and indeed the year so far was Marathon's sale of Lakepoint Retail Park, Mullingar, Co. Westmeath. Anchored by Woodies, the retail park was acquired by a private Irish investor for the sum of €6.8m. Marathon have also launched the Parks Collection comprising three retail parks for a combined lot size of €78.2m, reflecting a net initial yield of 8.51%. The outcome of this sale will provide a good indication of where pricing lies for such asset following the pandemic.

Interestingly, quarter two witnessed the Centric Portfolio, which included four primary healthcare assets situated in Lucan, Maynooth & Ennis, purchased by MKN Property Group for approximately €3.5m. The asset supports current increasing interest in life sciences and health care.

Total Capital Inflow, Investment Turnover by Sector, H1 Activity, 2021 – 2019



Other includes, Healthcare, Hotel, Student Accommodation & Unknown transactions

Source: Cushman & Wakefield Research

INDUSTRIAL & LOGISTICS MARKET IN FOCUS:

The industrial and logistics sector is one of the standout performers in the first half of the year. A total of €274m worth of traditional investment assets traded in the second quarter, with an additional €50m in the form of a forward fund deal. Combined with quarter one, this brings total capital flows in the six-month period to €411m. This surpasses any annual figure we have for the sector since detailed records began in 2013.

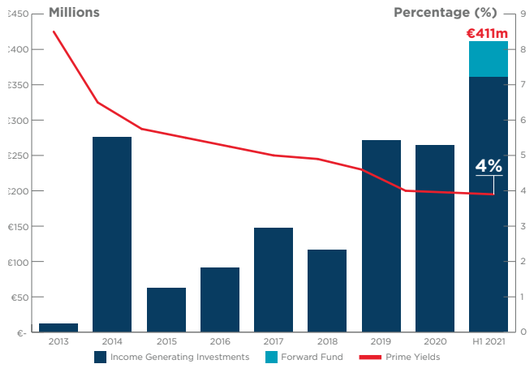
Of particular interest, 2021 so far has witnessed several portfolio investments and one forward fund arrangement. In line with the market narrative since the end of 2020, the grouping of units' and forward commitment style investment arrangements is the future of industrial and logistics transactions. This clearly points towards the imbalances between quality and scale of stock in the market, creating barriers for an investor to find an opportunity of the desired condition and capacity.

Clive Roche, Divisional Director, Capital Markets Ireland, Cushman & Wakefield noted;

"Similar to the rest Europe we are seeing unprecedented investor demand within the Industrial and Logistics sector. With strong market fundamentals and a limited investment supply relative to demand, we are witnessing intense competitive bidding situations which is driving ongoing yield compression across the sector."

Prime yields in the Dublin industrial market currently sit at 4.25% as of the end of June. This is forecast to compress by a further 25 basis points by year end. This compression illustrates the narrowing gap between industrial and office yields, while also, of significance, becoming keener than retail yields.

Total Capital Inflow & Dublin Prime Yields*, Industrial & Logistic Assets, 2013 – H1 2021



*H1 2021 yield point refers to year-end forecast for prime Dublin industrial & logistic yields as of Q2 2021.

Source: Cushman & Wakefield Research

MARKET OUTLOOK

RISKS VS RESILIENCE

At the half point of the year, many of the trends evident in the past 12 months look set to continue as investors focus on the winners from the pandemic, namely industrial/logistic, PRS and core office assets.

Cushman & Wakefield's forecasted yield outlook for the Dublin investment market projects a slight inward movement of prime office yields. Investors are looking positively at the COVID-19 vaccine rollout, while occupiers put plans in place to open their doors again in the Autumn. Although prime yield compression is evident across many European markets, Ireland continues to be an attractive destination in comparison, with some markets recording sub 3.50%.

The yield outlook for the industrial and logistics market forecasts an inward compression of yields by year end to a historical low of 4.00%. Limited supply coupled with strong investor and occupier demand underpin this. Interestingly, insight suggests the market is set to witness a new asset class in terms of quality in the coming years following the construction activity at present.

Prime yield outlook for High Street retail assets is forecast to undergo further yield correction; current projections now estimate yield levels at 4.50% by year end, with shopping centre yields also to undergo outward movement. Transactional evidence is lacking and therefore market sentiment is the driver of yield projection, but, limited capital flows in H1 2021 do indicate a weakening of demand in these two retail sectors. However, in comparison, retail park yields are set to stabilise and trend stronger over the coming quarters, similar to what has been witnessed in the UK since the end of 2020.

Prime Yields Outlook, Q2 2021

Sector	Prime Yields Q2 2021	Outlook 2021
Dublin Office	4.00%	Yield Compression ↘
Dublin High Street Retail	4.25%	Yield Correction ↗
Dublin Industrial	4.25%	Yield Compression ↘

Source: Cushman & Wakefield Research

Bond Yields and Interest Rates Outlook, 2020 - 2025

Year	Bond Yields	Interest Rates
2020	-0.25%	0.00%
2021	0.19%	0.00%
2022	0.20%	0.00%
2023	0.63%	0.00%
2024	1.27%	0.19%
2025	1.91%	0.56%

Source: Moody's Analytics

The following market analysis poses a risk versus resilience evaluation of the Irish investment market for the remaining six months of 2021.

IRISH INVESTMENT REPORT

RISKS

1. COVID-19 Pandemic & Travel Restrictions

Unsurprisingly, when discussing challenges facing the investment market, the COVID-19 health pandemic and the risk of further lockdown measures is at the forefront of minds. Over the past 15 months, pandemic related market disruption has caused many investors to re-think their investment strategies. Now with the looming threat of the Delta variant and the possibility of another large-scale European outbreak, occupiers and landlords alike are still rightly concerned of the risk COVID-19 places on the market. Additionally, investors are facing challenges by way of travel restrictions, not only imposed by national governance but also imposed on a corporate level, with many companies opting for "no-fly" polices.

2. Access to Finance

There are only two pillar banks in Ireland, Allied Irish Bank and Bank of Ireland, and for the best part of a decade, there has been a discussion around the need for a third major player. Ireland's shortcoming in not having a competitive enough corporate banking sector to contest their place on large scale commercial investment deals has restricted investors.

Subsequently, the pillar banks are more selective and, in some cases, limited on what transactions they issue debt for. Irish institutions remain over exposed to retail assets post the damages injured during the financial crisis of 2008. Today, market intelligence points to an unwillingness of banks to lend towards some retail associated assets, particularly those with fluctuating tenant profiles. However, debt on office and industrial assets appears principally available. Positively, in the near term, debt may get cheaper as competition from European institutions strengthens.

3. Pricing Misalignment & Lack of Stock

According to market insight, vendors pricing expectations and investors acquisition expectations are disjointed. This is particularly true on core plus product, whereas, pricing on super prime assets appears more agreeable for both parties. Linked with this is a concern around rent reviews, the market has witnessed some transactional evidence of discounted rents for occupiers.

Additionally, insight points to a lack of stock in the €30m - €80m lot size, despite prevailing demand in this price bracket.

4. Future changes to International Corporation Tax Structure

The discussion centred around global taxation reform is not a new one, however, recent efforts by the OECD and the changing of US administration from Trump to Biden has given this movement a new surge of probability. The OECD proposals would impose a minimum tax rate internationally, while also allowing taxation of digital services companies based on where they do business, rather than where they are legally established. The reluctance to such changes from an Irish standpoint stem from the income generated by our attractive tax offering of 12.5%, income which is very important to our economy.

From a commercial property perspective, Ireland has witnessed US multinational companies re-locating here to avail of a low corporate tax rate since the structure was introduced. Removing this tax incentive has the possibility to negatively impact the attractiveness of Ireland as a place to position your corporate in. However, it is also worth noting that Ireland's economy has evolved significantly since this tax rate structure was introduced, with some arguing that although corporate tax changes will impact Ireland, they will not change the underlying market offering.

Of importance to the discussion of this risk, it has been widely noted that due to the support from the Biden administration for such changes, it is not a question of if this universal tax will be introduced, but a question of when.

IRISH INVESTMENT REPORT

RESILIENCE

1. Strong H2 Offering

Considering the low interest rate environment, there is a demand to deploy capital in commercial real estate. This coupled with prime core stock launching over the autumn period has the potential to act as a catalyst for a prosperous six months. Examples of such assets include the aforementioned One Spencer Dock and Facebook's World Headquarters in Ballsbridge, all set to attract keen investor interest. Market intelligence expects high demand for these assets with a strong competitive bidding process.

At the end of June, there was approximately €212m worth of assets sale agreed. Additionally, there are currently eight assets on the market in excess of €50m, of interest two of those are substantial mixed-use developments of One Molesworth Street and Royal Hibernian Way, guiding at €140m and €80m respectively. The aforementioned Parks Collection, a portfolio comprising three retail parks guiding at €78m, is also set to capture attention.

2. Emerging Assets

Market insight points to the increasing interest in life sciences and healthcare assets across Europe. The pricing of these assets is proving to be very keen as investors compete with one another in order to secure the limited supply. While the growing importance of the environmental, social and corporate governance agenda is also fuelling demand. In Ireland, the difficulty in unlocking these emerging assets is due to a large proportion of the stock being owner occupied and we do not have the critical mass of investment product to satisfy largescale investor demand.

The life sciences and healthcare sectors are forecast to be one of the next big growth prospects of commercial real estate. Ireland is in a unique position for this emergence considering the existing international influence in the pharmaceutical sector and the growing presence of international healthcare operators in Ireland.

Although there is strong demand on the ground for these assets, insight highlights the lack of available product within the sector, therefore, it is important to note that this investor demand may not directly translate into turnover activity in the short term.

Supporting this Jill Geraghty, Divisional Director, Advisory Ireland, Cushman & Wakefield noted:

"A number of international institutional investors have cited Ireland as a key location for life sciences and healthcare investment. The changing landscape of both these sectors will see more real estate investment and development opportunities coming to the fore in the short to medium term, as investors seek alternatives to the traditional asset classes."

3. ESG Efforts

Environmental, social, and governance (ESG) is a framework to assess the risks and resilience of commercial property assets and has come to the forefront of many investor strategies of late. Assets are evaluated according to ESG criteria, with the focus on increasing energy efficiency. Consequently, investors have the knowledge on how to reduce maintenance costs and offer their tenants more efficient space. This is believed to lead to higher investment performance.

Large investment managers are committing to reducing their carbon footprints all while offering occupiers prime open space. Although this trend was well under way before the pandemic with the rise of eco-conscious employees, it has been accelerated by COVID-19 and the strong employee demand for ample working spaces with modern air conditioning.

Market intelligence explains how most investors are willing to pay keen prices for environmentally sustainable assets rather than retrofitting the building to bring it up to standard. Or alternatively, the asset be priced accordingly with regard the cost of bringing the investment up to a desirable BER standard. ESG and responsible investing is set to play a pivotal role in the real estate industry in the future, the opportunity lies with investors to capitalise on it.

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.ie or follow @CushWakeIRL on Twitter.

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