

# IRISH INVESTMENT MARKET

Q4 2019



## OVERVIEW

**The Irish investment market enjoyed a very positive year in 2019, with over €7bn invested either directly in property or through company acquisitions and forward commit transactions.**

An analysis of direct investment sales reveals €4.56bn was invested in the Irish commercial property market in 2019. This figure excludes company purchases such as the acquisition of Green REIT and forward commit PRS transactions. This represents a healthy increase on the €3.23bn recorded in 2018 and is the seventh consecutive year of above trend capital investment.

2019 saw the market defined by a continuing strong appetite for the office sector, a large upsurge in demand for the residential sector and robust investor interest in Dublin.

The 12 months to December end saw the office sector dominate investor interest, accounting for approximately 42% of total investment, translating to a value of €1.9bn.

Following offices, the second most sought after asset class in 2019 was the residential sector, which attracted €1.1bn, or 24% of investment turnover. This compares to just €654m in 2018. Notably, a further €1.3bn was invested in the residential sector through forward commit transactions.

In terms of location, Dublin dominated accounting for €3.9bn of total turnover in 2019 or 87%. Outside of Dublin, Cork captured 4% of capital invested, approximately €187m.

# €4.56bn

DIRECT INVESTMENT VOLUMES REACHED €4.56BN IN 2019.



# 42%

THE OFFICE SECTOR ACCOUNTED FOR 42% OF INVESTMENT SPEND IN 2019.



Direct Irish Investment Market Turnover, 2013 - 2019



Source: Cushman & Wakefield Research





# IRISH INVESTMENT MARKET

## TRANSACTION ACTIVITY

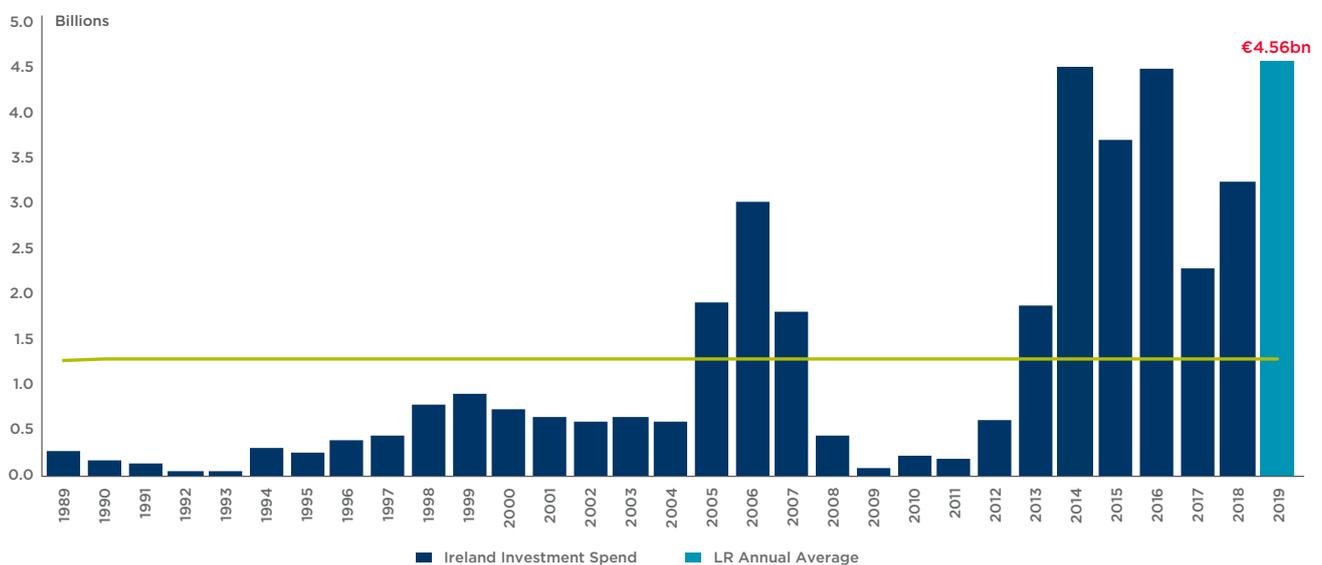
**The Irish investment market experienced a record year of activity in 2019, with €4.56bn recorded in the twelve months. This represents a 41% increase on the turnover recorded in 2018, €3.23bn.**

The significant annual increase in investment volumes in 2019 can be attributed to the presence of a higher

volume of large lot size transactions. In total, twenty deals greater than €50m transacted in 2019, versus seventeen in 2018, bringing the average transaction value from €10.9m in 2018 to €16.5m in 2019.

The outturn of 2019 was boosted by a very strong closing quarter, with approximately €2.1bn worth of direct property assets trading in the three-month period. The most notable transaction of the final quarter and

Direct Irish Investment Market Turnover, 1989 - 2019



Source: Cushman & Wakefield Research

indeed the year in total was the highly sought-after portfolio of offices and one PRS asset, the Cedar Portfolio, which was acquired for €530m by American private equity firm, Blackstone.

Another significant transaction in the final quarter, was the purchase of the Vert platform, comprising 382 residential units at Neptune, Dun Laoghaire, and Elmfield, Leopardstown. Project Vert was acquired for €216.1m by Irish based, Avestus Capital Partners.

Additionally, quarter four witnessed the transaction of a 62.4% stake in St. Stephens Green Shopping Centre. The stake was secured for €175.5m by a fund managed by Davy Real Estate Group.



### Largest Investment Transactions, 2019

| Asset   | Price (€) | Quarter Sold | Sector                | Purchaser   |
|---|-----------|--------------|-----------------------|---|
| Cedar Portfolio, Dublin                               | €530m     | Q4           | Office                | Blackstone  |
| XVI Portfolio, Dublin                                 | €285m     | Q2           | Residential           | IRES REIT   |
| Heuston South Quarter, Dublin 8                       | €220m     | Q2           | Mixed Use             | Henderson Park & Chartered Land                       |
| Project Vert, Dublin                                  | €216.1m   | Q4           | Residential           | Avestus Capital Partners                              |
| Five Hanover Quay, Dublin 2                           | €197m     | Q3           | Office                | Union Investment                                      |
| Stake in St. Stephens Green Shopping Centre, Dublin 2 | €175.5m   | Q4           | Retail                | Davy Real Estate Group                                |
| Point Campus, Dublin 1                                | €171m     | Q4           | Student Accommodation | DWS Group   |
| Nova Atria, Sandyford Dublin 18                       | €165m     | Q3           | Office                | Mapletree Investments                                 |
| Tesco Distribution Centre, Donabate, Co. Dublin       | €160m     | Q4           | Industrial            | KTB Investments & Securities and KTB Asset Management |
| The Reflector, Hanover Quay, Dublin 2                 | €155m     | Q4           | Office                | Deka Bank   |

Source: Cushman & Wakefield Research





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## SECTOR BREAKDOWN

**An analysis of transaction activity by sector reveals that office and residential assets attracted the largest proportion of investment spend in 2019.**

The office sector accounted for approximately 42% of spend, translating to a value of €1.9bn. Dublin absorbed the vast majority of this spend, 94%, most of which was located in the CBD. In addition to the aforementioned transaction of Cedar Portfolio, Five Hanover Quay, Dublin 2, was acquired for €197m by German investment manager, Union Investment.

The strength of investment in the office sector reflects the overall strength of occupier demand. A total of 238,150 sq m of office space was occupied in Dublin in 2019. This marks the sixth consecutive year of take up volumes exceeding the long-run average. The underlying strength of demand in the market is highlighted by the high level of pre-let office space. Approximately 55% of space under construction was pre-let or reserved at the end of 2019.

Moving to residential, a total of €1.1bn worth of assets transacted in 2019, accounting for 24% of total spend. This compares to just €654m in 2018. With limited standing stock options, investors are seeking alternative pathways to enter the under supplied market. As such, the true strength of demand for residential assets is evident in the large value of forward commitments which also took place.

The retail sector absorbed 14% of direct capital investment in 2019 supported by an increased volume of stock launched to the market over the past twelve months. 2019 recorded a total of approximately €641m worth of retail assets, this compares with €477m recorded in 2018. Largely contributing to the increase in turnover was the previously mentioned acquisition of a majority stake in St. Stephens Green Shopping Centre for €175.5m.

The volume of retail investment recorded over the twelve-month period falls below the annual average level recorded since 2013. It must be noted however, that retail assets witnessed large volumes of sales from the period 2014 to 2016, and since then similar transaction volumes have not been achieved due to the shortage of prime stock on the market.

# €1.1bn

Approximately €1.1bn transacted in direct residential assets in 2019.

Mixed use assets recorded a 10% increase in its share of investment activity from the comparable period a year previous, totalling just over €400m in 2019, up from €366m. Largely contributing to this uptick in turnover was the sale of the mixed-use development, Heuston South Quarter. Marathon Asset Management sold the asset for €220m to Henderson Park and Chartered Land.

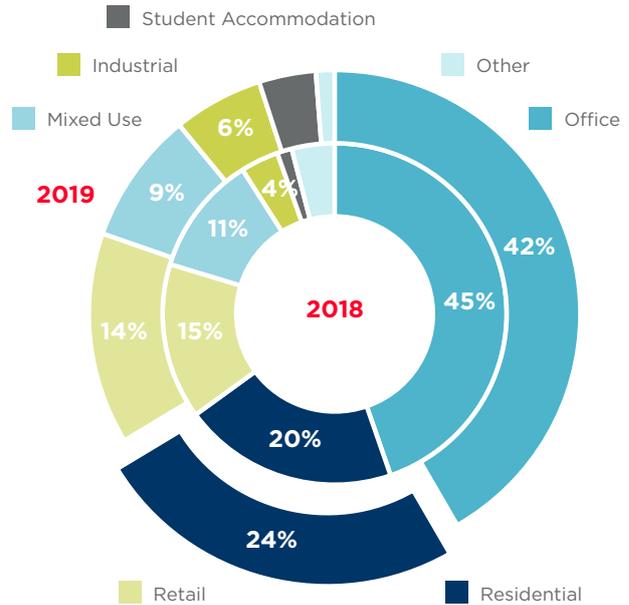
Investors targeting industrial assets accumulated a total of circa €271m in 2019, representing double the capital invested in 2018. Driving total turnover in 2019 was the sale of the Tesco Distribution Centre, Donabate, Co. Dublin.

The distribution centre was acquired by South Korean based KTB Investments and Securities and KTB Asset Management for the keen price of €160m.

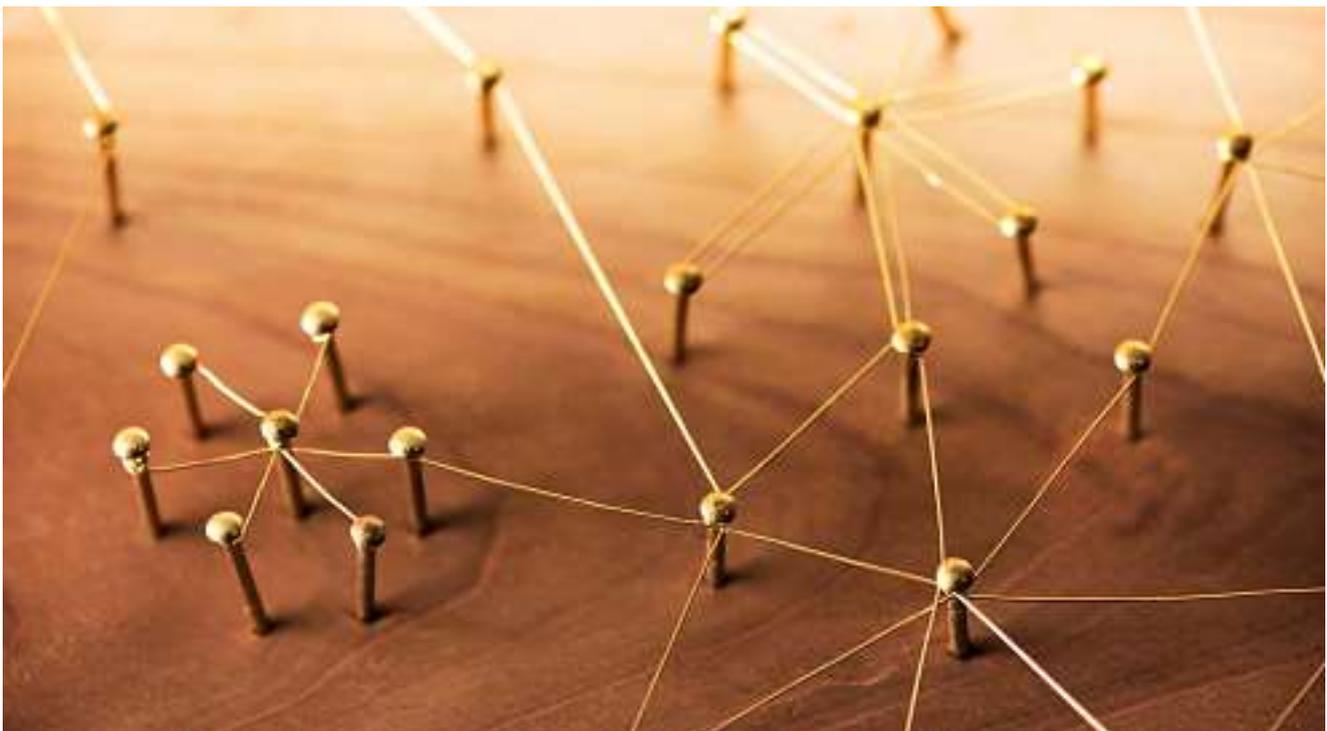
Market intelligence suggests that the sale of the Tesco distribution centre was a once off deal in the Irish logistics market, due to the quality of the asset and the scale it operates at. The transaction strongly demonstrates the clear demand for assets of this calibre, similar to those seen in prime logistic hubs across Europe. The imbalances of the quality and scale of stock in the Irish industrial market is creating barriers for an investor to find an opportunity of the desired condition and capacity.

Lastly, student accommodation represented 4% of total turnover in 2019. However, this was entirely made up of one transaction, the sale of Point Campus, Dublin 1, for €171m purchased by European DWS Group. The remaining 1% of transaction were a combination of hotel sales and other/unknown deals.

### Direct Investment by Sector, 2019 Vs. 2018



Source: Cushman & Wakefield Research



# IRISH INVESTMENT MARKET

## RESIDENTIAL MARKET IN FOCUS

**2019 recorded an exceptional period for the residential investment sector. Capital invested either directly in residential property or through forward commit transactions totalled in the region of €2.5bn.**

An analysis of direct investment into residential assets reveals €1.1bn of turnover transacted, across 31 deals. Driving investment volumes in the market is the shortage of stock, the continuation of rental pressure, and a growing population. In terms of location, Dublin absorbed 81% of this turnover. This level represents the highest value of investor interest in residential assets recorded since the beginning of the detailed data series in 2013.

Largely aiding total turnover was the output recorded in the final quarter of the year. The three-month period to December end accounted for €474m across 12 deals. Notably transactions in the quarter included the aforementioned Project Vert, part two of the Belgrave Fund purchased for €69m and Herbert Hill acquired by German Investment Manager, Real IS, for €55m. Market insight suggests that Real IS have a long term lease agreement in place for social housing with Dublin City Council.

Both domestic and foreign investors were active in the residential market in 2019, with purchaser type dominated by investment managers and REITs. Namely, IRES REIT, Avestus Capital Partners, LRC Group, and Heitman Capital Partners.

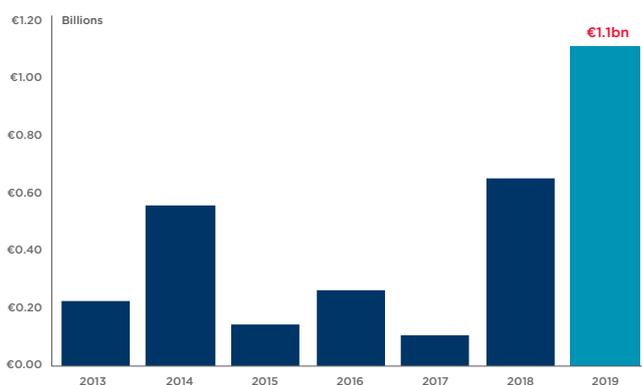
Perhaps the true strength of demand for residential assets can be exposed when illustrating the strong upward projection of forward commit transactions in the market. The following chart displays the percentage share of direct residential investment and forward commit transactions, documenting the rising proportion of forward commits to 54% in 2019, from 22% in 2016.

# 54%

54% of capital either directly or indirectly invested in residential assets comprised forward commits.

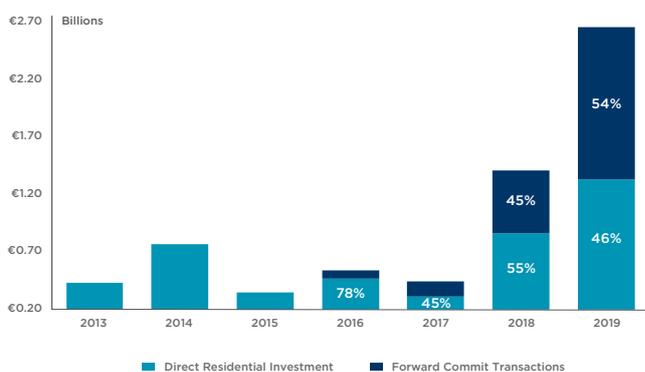


Direct Residential Investment Volumes, 2013-2019



Source: Cushman & Wakefield Research

Percentage Share, Direct Residential Investments and Forward Commit Transactions, 2013 - 2019



Source: Cushman & Wakefield Research

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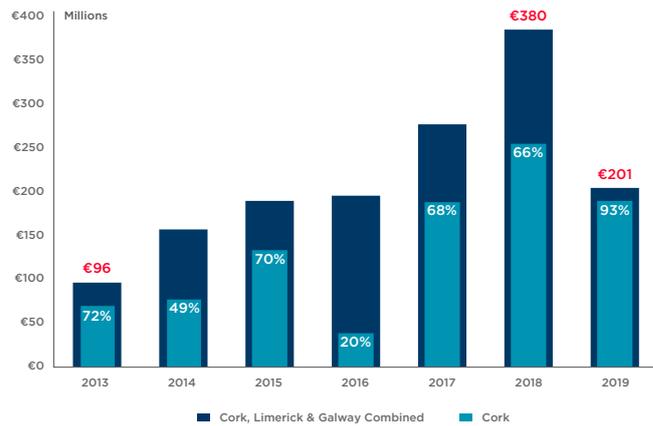
## INVESTMENT BY LOCATION – CORK IN FOCUS

**In terms of location, Dublin eclipsed capital spend absorbing €3.9bn of total turnover or 87%. Outside of Dublin, Cork captured 4% of capital invested, approximately €187m.**

Total capital spent in the regional centres of Cork, Limerick and Galway witnessed below average levels of investment in 2019. A combined €201m transacted across the three regions, with Cork contributing to 93% of this. This compares to €380m in 2018. It must be noted however, that 2018 saw investor interest expand to the regional markets on a substantial scale. Turnover volumes in the regional centres is heavily reliant on “value add” product being available.

Deals of note, outside of the capital, in 2019 include the sale of Mahon Point Retail Park, Cork, for €56m acquired by Iput, the purchase of Westpark Shannon Business Campus, Clare, for €50m by Fine Grain Property and Half Moon Street, Cork, sold to Kennedy Wilson for €36.3m.

Direct Regional Investment Volumes, Cork in Focus, 2013 - 2019



Source: Cushman & Wakefield Research





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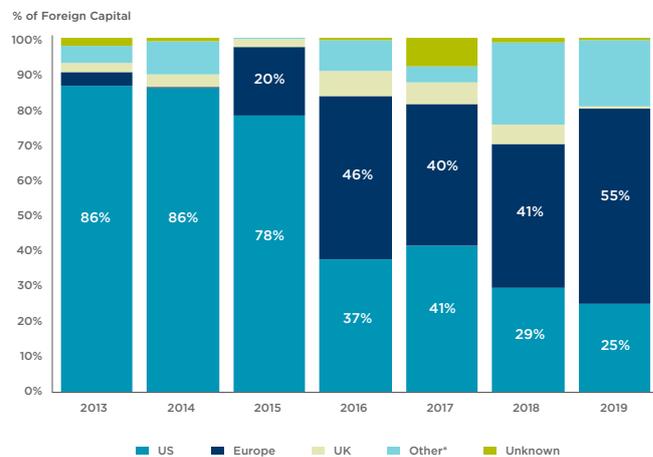
## DOMESTIC VERSUS OVERSEAS BUYER

**In 2019, approximately 56% of capital spend in the Irish investment market was sourced overseas. When analysing the source of investment since 2013, the cycle illustrates the importance of foreign investment, accounting for greater than a third of total turnover throughout the series.**

When analysing activity patterns of overseas and domestic investors, there is a clear pattern in the lot sizes targeted by each. Overseas investors are dominating transaction activity above €50m in value, while domestic investors are more prominent sub €50m. However, 2019 has witnessed some substantially large purchases made by domestic investors such as the XVI Portfolio, Project Vert and St. Stephens Green Shopping Centre, all falling under the €100m+ price category.

When taking a deeper look at the origin of foreign investment, the data illustrates the prominence of US investors from the period 2013 to 2015. However, as the market developed further and now operates in a more mature stage of the cycle, alternative foreign investment comes to the forefront. European investors accounted for 56% of total capital spend in 2019, while Asian investors absorbed 19%.

Breakdown of Overseas Direct Investment, 2013 - 2019



Source: Cushman & Wakefield Research  
 \*Other includes Asian investors which have largely increased their share of the market over 2018/2019

**56%**  
 Approximately 56% of investment spend in 2019 was sourced overseas.

# IRISH INVESTMENT MARKET

## OUTLOOK

**The Irish investment market witnessed a record level of turnover transact in 2019, with many of the trends evident in the past 12 months looking set to continue in 2020.**

Robust occupier demand for office space suggests investment into office assets will remain at the forefront of the market. The lack of residential supply is anticipated to encourage further investment into the Private Rented Sector. Anecdotal evidence indicates a drying up of available standing stock, therefore, the trend of forward commit transactions is expected to be a key feature in 2020. However, further insight suggests the market could witness standing stock assets which would have previously traded three to four years ago being brought back onto the market.

Commenting on the market, Kevin Donohue, Head of Capital Markets, Ireland, Cushman & Wakefield noted;



*“2019 was a buoyant year for the Irish Commercial Property market with over €7bn invested, both directly and indirectly. In terms of direct property investment sales, office and PRS transactions dominated the year, a theme that is likely to persist in 2020. Notably, office yields are likely to harden in the year ahead, on the back of a strong leasing market and a shortage of prime office stock.”*

Forecasted yield outlook for the Dublin market in 2020 has seen an inward movement of prime yields across the sectors of office and industrial. Prime rents are forecasted to increase across the Dublin industrial and office markets, while prime retail rents remain stable for the year ahead.

### Prime Yields Outlook, 2020

| Sector              | Prime Yields Q4 2019 | Outlook 2020 |
|---------------------|----------------------|--------------|
| Dublin Office       | 4.00%                | ↘            |
| Dublin Retail       | 3.50%                | ↗            |
| 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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