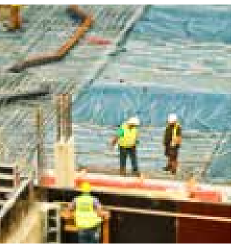
Investment Report 2018

savills

Savills World Research
Ireland Investment








Definitions and Scope

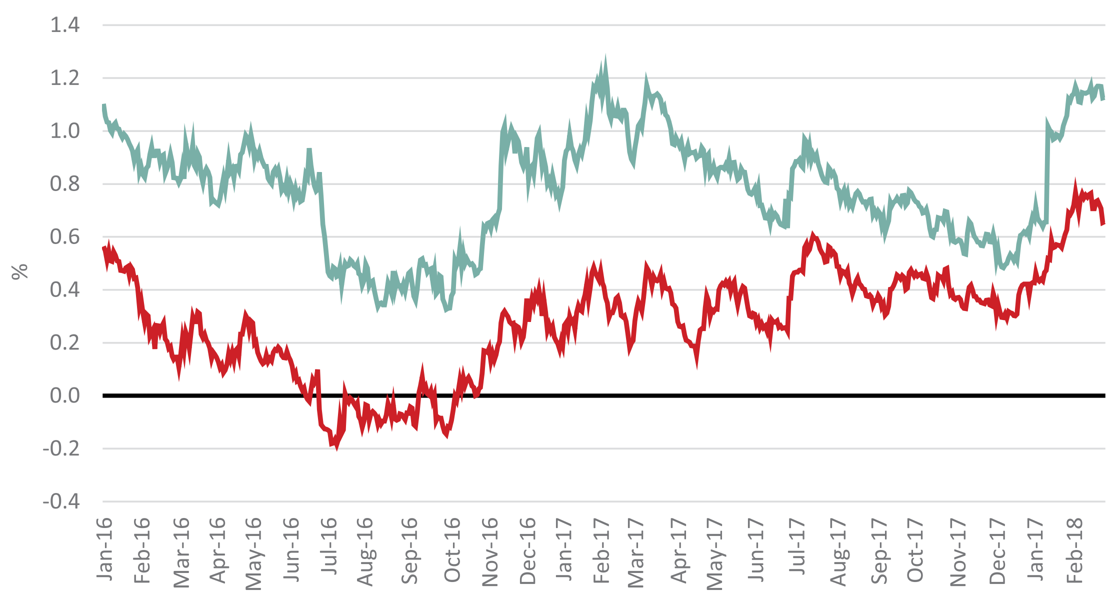
This report covers property investment across the island of Ireland in 2017. Its scope is limited to transactions involving income-producing property assets. As a result loan sales and transactions involving properties without a lease agreement in place (including some forward commitments) are excluded.

Introduction

Ireland's economy continues to perform exceptionally well with output growth averaging 8% per annum over the last four quarters. Almost 50,000 additional jobs have been created in the last 12 months and employment is back to within a whisker of its boom-time peak. The improving labour market has contributed to a marked recovery in Ireland's public finances and a balanced budget is now expected in 2018. Looking ahead, and notwithstanding the ongoing risks associated with Brexit and US tax reform, a strong pick-up in economic growth across Europe should ensure that external demand remains robust. At the same time low inflation, a by-product of Sterling weakness, should underpin domestic demand and feed through to further increases in real living standards. Consensus forecasts are for GDP growth of 3.8% this year and 3.1% in 2019.

While domestic inflation remains well in check, inflationary pressures are building elsewhere in the world as capacity constraints start to bite after 8 years of global expansion. Already this has caused some monetary authorities to take action. In America the Fed has been on a tightening cycle since December 2015, and strong US earnings data in February reinforced the notion that further rate increases are coming. In the UK weak Sterling is contributing to imported inflation, and this forced the Bank of England to raise interest rates last November. Since then tight labour market conditions have prompted comments that further hikes could be on their way sooner rather than later. In the Euro Area there is now growing evidence that that the ECB is becoming progressively less dovish. The monthly bond-buying target, which was reduced from €80bn to €60bn in April 2017, has since been halved to €30bn. Frankfurt has committed to maintaining this level of stimulus until September. Nonetheless, in the face of resurgent Eurozone growth, the tone of recent ECB communications suggests that ultra-low interest rates in Europe may be phased out sooner than was previously expected. Already this is being priced into bond yields with German and Irish gilts drifting higher in recent months.

Graph 1:
German and Irish 10 Year Bond Yields

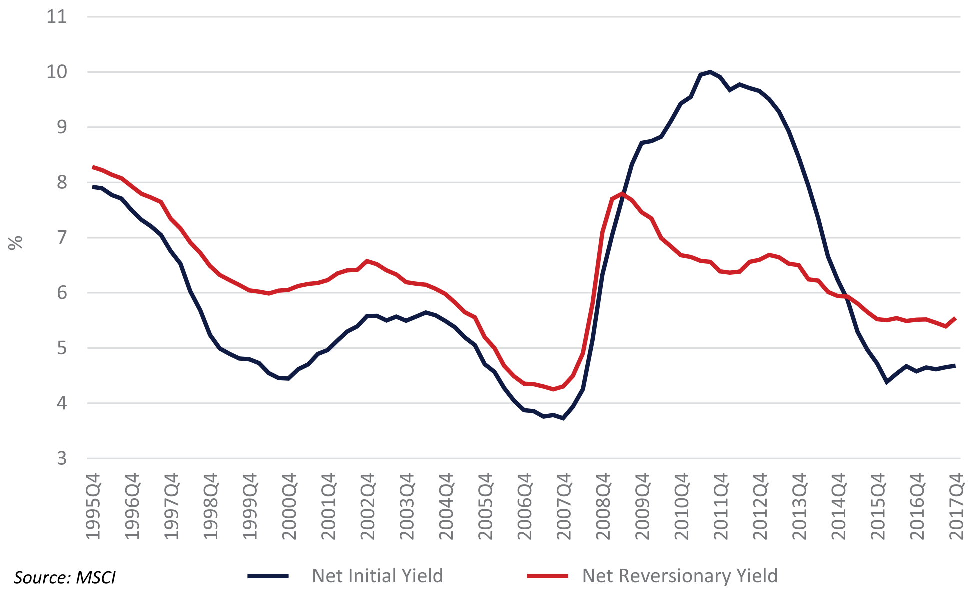


Source: Investing.com

As measured by IPD, capital values for prime investment property in Ireland rose by 1.6% in 2017 – despite a direct hit from last October's stamp duty increase from 2% to 6%. We do not expect monetary developments to have an immediate impact on the pricing of Irish investment property. While the tide is gradually turning, monetary policy remains highly accommodative for the time being. Indeed, the potential for further rental growth and the fact that Ireland's prime investment stock remains under-rented (see Graph 2) could even see yields squeeze lower in certain sectors. Beyond 2018, however, our expectation is for bond yields to move out further. Inevitably, this will lift the required rate of return on property investments, with knock-on implications for yields.

Graph 2:

Prime Property in Ireland Remains Reversionary



Source: MSCI

Market Activity

Following several years of strong trading activity investment sales returned to more normalised levels in 2017. This is entirely as expected – post-crisis deleveraging led to prolific churn within the market but transactions were inevitably going to slow as more-and-more assets traded and became locked-into longer-term ownership.

The headline numbers show that €2.28bn of tenanted property was purchased in 2017. Although this represents a 48.9% year-on-year decline, two atypically large deals – Blanchardstown Town Centre and Liffey Valley Shopping Centre - boosted 2016 turnover by €1.58bn. In comparison the two biggest transactions of 2017 only summed to €395m. Perhaps a more relevant observation, then, is that 2017 sales remained 30% above their 15-year average (see Graph 3).

Interestingly, the proportion of Ex. Dublin sales increased from 14.2% in 2016 to 18.4% in 2017. Cork accounted for 8.2% of all 2017 sales by value – its highest weighting in the current cycle. In part this reflects the influence of two large purchases by German fund Real I.S. – the €45.5m Capitol Building on Patrick Street (Q3) and the €31m M&S store on Merchant's Quay (Q4). But it also reflects the fact that the chase for high quality product is causing investors to cast their net beyond Dublin, with Cork being the next obvious location.

Graph 3:

Investment Turnover by Year

Source: Savills Research

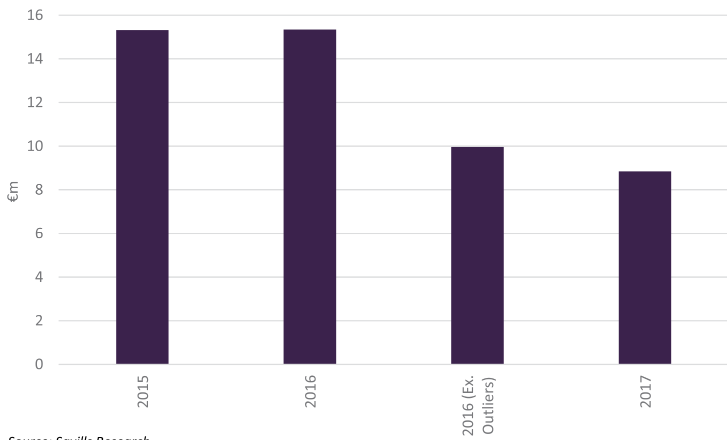
Investment by Lot Size

The average investment deal fell from €15.3m in both 2015 and 2016 to €8.84m in 2017. However if we exclude the two big outlier deals of 2016 the average deal size fell by a much more modest 11.2% (see Graph 4).

In addition to the absence of very large deals in 2017, the sectoral mix of sales played a role in reducing the average transaction size. In particular the share of industrial sales rose from 2.38% of total turnover in 2016 to 6.31% last year. Because industrial units tend to be cheaper – €6.25m on average compared with €9.1m for all other property types - this dragged on the average lot-size. A third factor is that, after four years of busy trading, fewer large standing assets are coming to the market. Consequently forward commitments and development assets are accounting for an increasing share of bigger deals. For the most part, however, these are excluded from the statistics as our definitions do not capture purchases of assets without an agreement for lease in place.

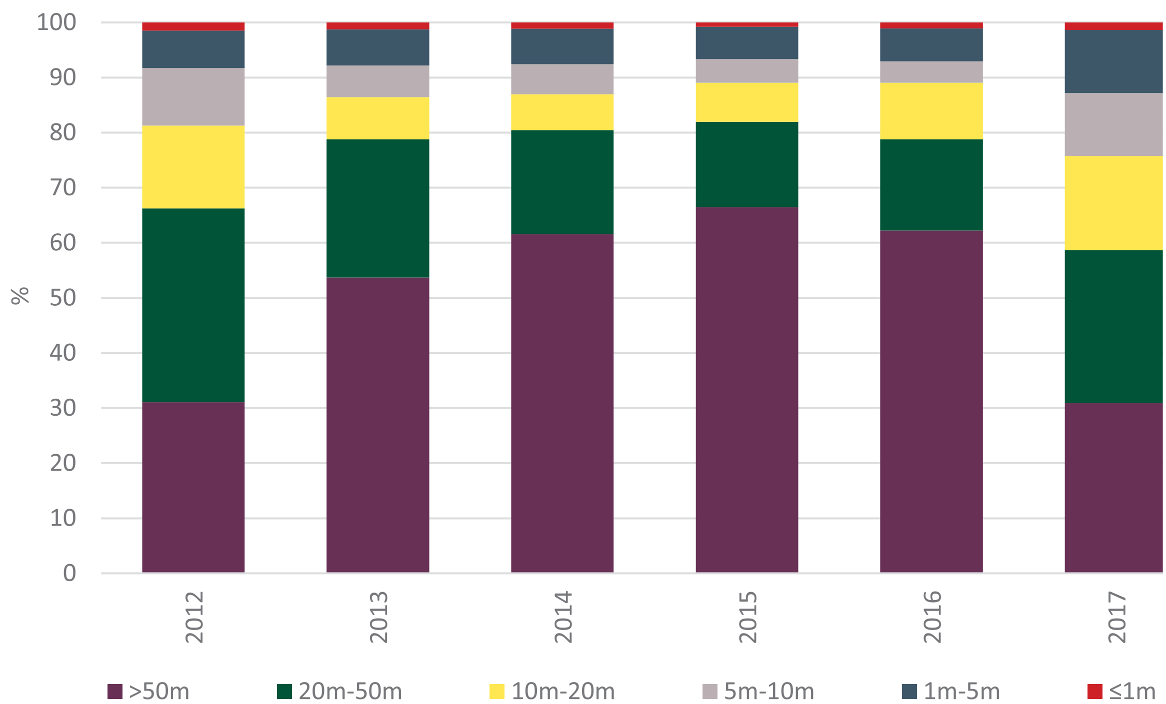
This trend of fewer big deals and more small transactions is clearly illustrated in Graph 5; For the first time since 2012 less than half of the year's investment turnover was accounted for by transactions of €50m or more.

Graph 4:
Average Transaction Size 2015-2017



Source: Savills Research

Graph 5:
Share of Investment Spend by Lot Size

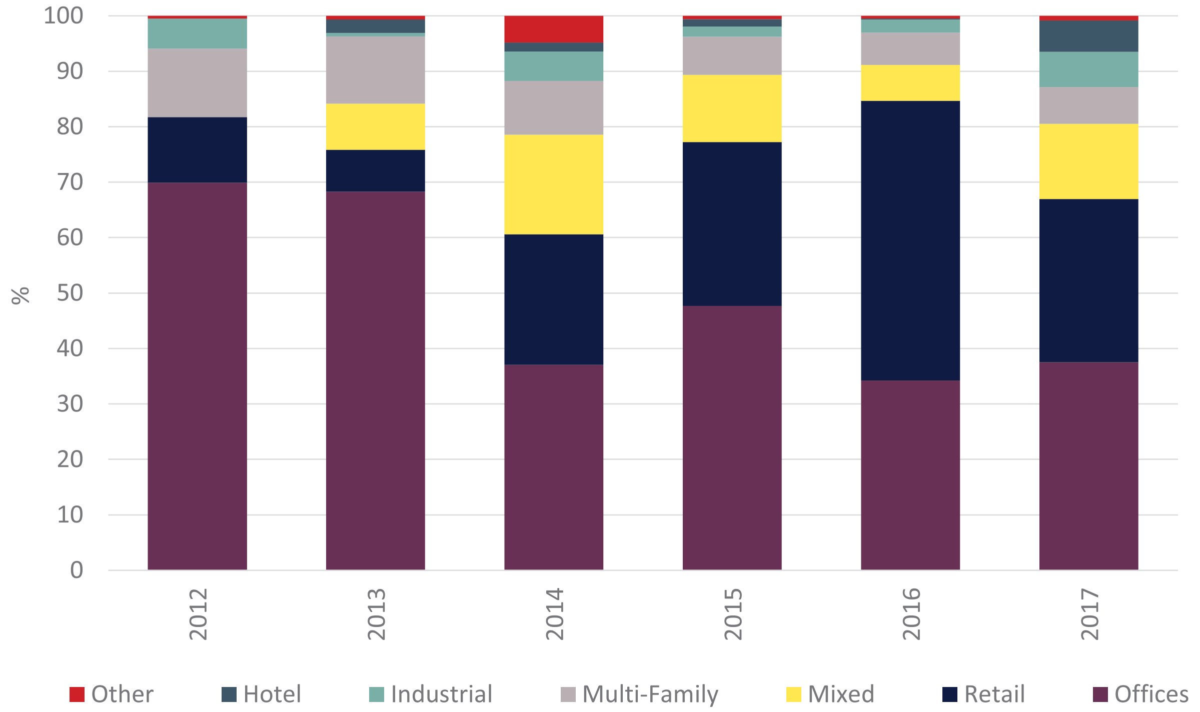


Source: Savills Research

Investment by Sector

For the fourth year in five, offices enjoyed the largest share of investment turnover. Assets of €856m traded in 2017, with 37% of purchases by value taking place in Q4. However the biggest deal of the year involved a retail asset - The Square Town Centre in Tallaght, South West Dublin, which was purchased for €250m by private equity buyers Oaktree Capital Partners in Q4. The Square is the last of Dublin's six major suburban shopping centres to trade in the current cycle. Mixed-use schemes of just under €310m traded during 2017, involving 71 property assets in 64 discrete transactions. The largest of these was the €45.5m purchase of The Capitol Building in Cork. However most of the mixed-use deals were much smaller with an average trading price of €4.84m. Sixty two percent of the mixed-use assets that changed hands were in Dublin while 38% were situated elsewhere in the country.

Graph 6:
Investment Turnover by Sector



Source: Savills Research

Given the continuing imbalance between housing demand and supply there is a strong appetite for well-located multi-family investments. Just under €113m of capital flowed into this sector in 2017. This represented a decline of €147m in the year as the availability of standing assets tightened further. Investors can still find opportunities to buy completed buildings. However, given the scarcity of product, those seeking to deploy larger tranches of capital are increasingly looking to forward commitment arrangements.

As outlined above industrial emerged very strongly as a target for property investors in 2017. This reflects the value that can still be had in industrial units, the buoyant consumer economy which is driving goods more rapidly through the supply chain, and the perceived upside from technology-driven changes in the business-to-consumer distribution channel. €144m was invested in industrial and logistics assets during the year, a 36% increase on the 2016 figure. This brought the industrial share of total investment turnover to 6.3% - the highest percentage in the current cycle.

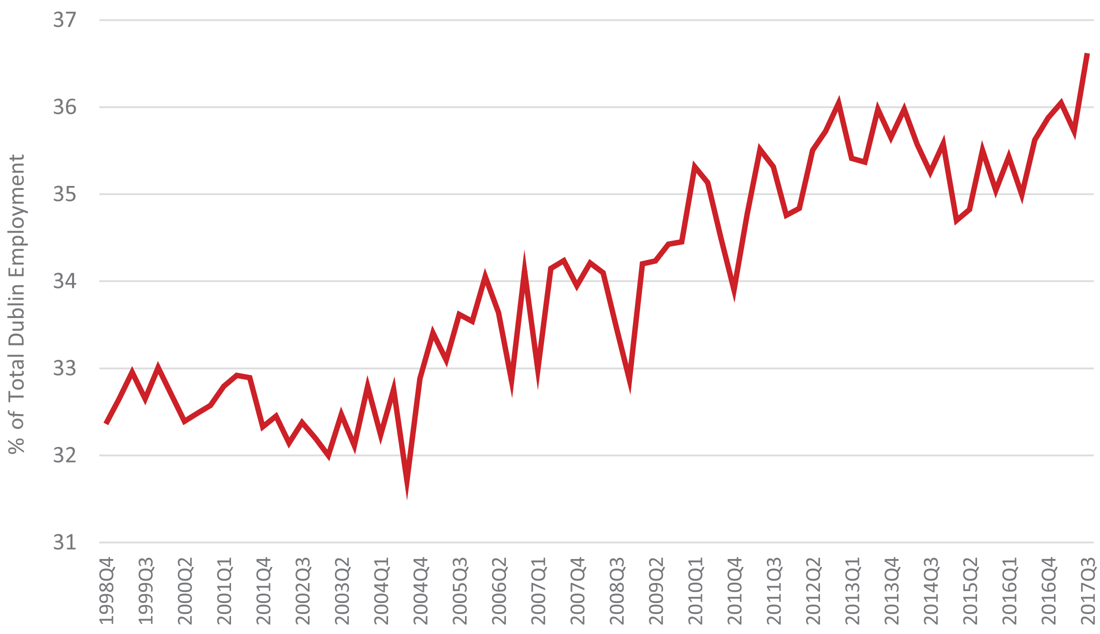
A more detailed analysis of investment within the major real estate segments is provided below.

94 St. Stephen's Green, Dublin 2 - Savills advised on the disposal in Q3 2017 with a quoting price of €20m

Offices

Ireland is currently experiencing 2.2% jobs growth per annum, which is rapid by both historical and international standards. However office-based employment in Dublin is rising even more strongly with 3.6% growth in the year to September 2017. Private Administration, Information and Communication Technology (ICT) and, to a lesser extent, Professional Services are enjoying significant expansion. This has driven the office-based share of Dublin employment to almost 37% – see Graph 7.

Graph 7:
Office Based Employment in Dublin



Source: CSO

Reflecting the labour market trend, 2017 was a record year for Dublin office lettings with take-up of 316,595 sq m. This is 4.7% above the high-water-mark set in 2015 and 6.5% ahead of the 2007 peak. The pattern of lettings has been broadly consistent with the sectoral breakdown of jobs growth and ICT, in particular, accounted for 47% of gross take-up. Given the increased weighting of new entrants and expansions in take-up, net absorption came in at a robust 113,381 sq m for the year.

There was considerable office building activity in Dublin during 2017 with gross completions of just under 200,000 sq m for the year. However, netting against this, 71,063 sq m of older space was removed for redevelopment. As a result, net additions to the Dublin office stock were a much more modest 130,947 sq m.

With net absorption of 113,381 sq m substantially offsetting the 130,947 sq m of additions to stock, vacant space rose by less than 17,000 sq m. Therefore the vacancy rate for purpose-built modern office space across Dublin only edged up marginally - from 9% in December 2016 to 9.2% in December 2017. As ever the vacancy rate varies by location and building quality. To illustrate this, less than 1% of the standing Grade A stock in Dublin's South Docks area is currently available.

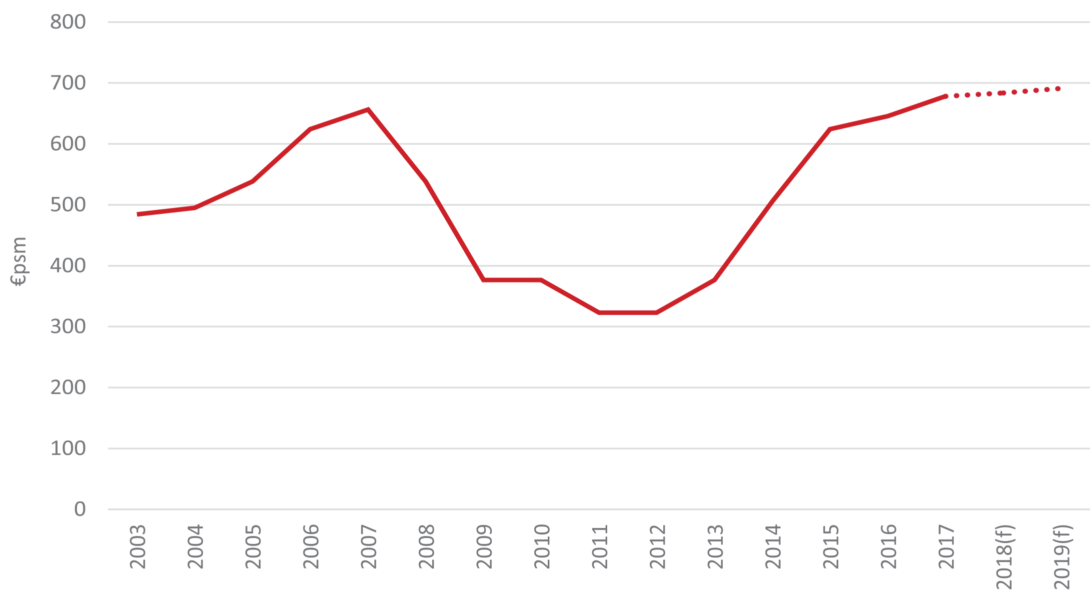
52-55 Sir John Rogerson's Quay - Two prime office units located in Dublin's South Docks guiding in excess of €10.8m

Table 1
Analysis of Movement in the Vacant Stock – Dublin Purpose-Built 2017

	Sq M		
	Supply	**Demand**	**Net**
Completions	196,287		
Withdrawals	-71,063		
Revisions	5,723		
Net Movement in Stock	**130,947**		
Lettings		316,595	
Pre-lets and Churn		-203,214	
Net Absorption		**113,381**	
Movement in Vacant Space			**17,566**

Considerable office building is ongoing in Dublin, with 406,714 sq m currently onsite and under construction. However, 46.6% of this is already committed, and old stock is still being withdrawn from supply for redevelopment. These factors, and the expectation of 2% employment growth per annum out to 2020, should ensure that the vacancy rate only edges up slowly. In any event it will remain below its 12-15% equilibrium level for the foreseeable future. In this context, and despite the fact that prime headline rents have already more than doubled since their 2012 trough, Savills' econometric model is forecasting further modest rental growth of approximately 1% per annum in 2018 and 2019.

Graph 8:
Savills Forecast for Prime Headline Office Rents



Source: Savills Research

Reflecting the continued strength of the occupational market, offices remains a sector of choice for investors. Although the €856m invested during 2017 was 44% down on the previous year's figure, offices' share of total investment turnover rose from 34% to 37.5% in the year. In all, there were 80 office transactions in the year, including office sales within portfolios and sales of mixed-use buildings with a substantial office element. The actual number of office assets traded was 98. Eighty-two (84%) of the offices that changed hands were located in Dublin, with 10% in Cork and the remainder in Bray, Limerick, Galway and Athlone. Of the Dublin offices, 57 were modern purpose-built premises which, in aggregate, accounted for almost 147,000 sq m of space. This brings the total amount of modern office space traded in Dublin since the beginning of 2013 to more than 1.27 million sq m – over one-third of the city's office stock.[1]

[1] Although this figure incorporates some assets that have been traded more than once.

Table 2

Purchases of Purpose-Built Dublin Office Stock by Year

	Sq M	No. Assets	Average Sq M
2013	267,471	66	4,053
2014	406,200	84	4,836
2015	216,624	57	3,800
2016	219,903	70	3,141
2017	146,935	57	2,578
	1,257,133	**334**	**3,764**

Given the increasingly stable ownership of Dublin's prime stock it has become harder to buy bigger, better quality existing assets. Table 2 shows that the average size of traded buildings in Dublin has fallen steadily in recent years. Moreover Graph 9 illustrates that the proportion of Grade A buildings has continued to decline as better quality assets have been bought-up. Indeed, only four Grade A blocks changed hands in 2017.

But perhaps the most striking symptom of the tightening availability of prime offices is the sharp reduction in CBD / South Docks office sales. Graph 10 illustrates that there has been a steady decline in the proportion of modern office sales accounted for by assets in these prime locations.

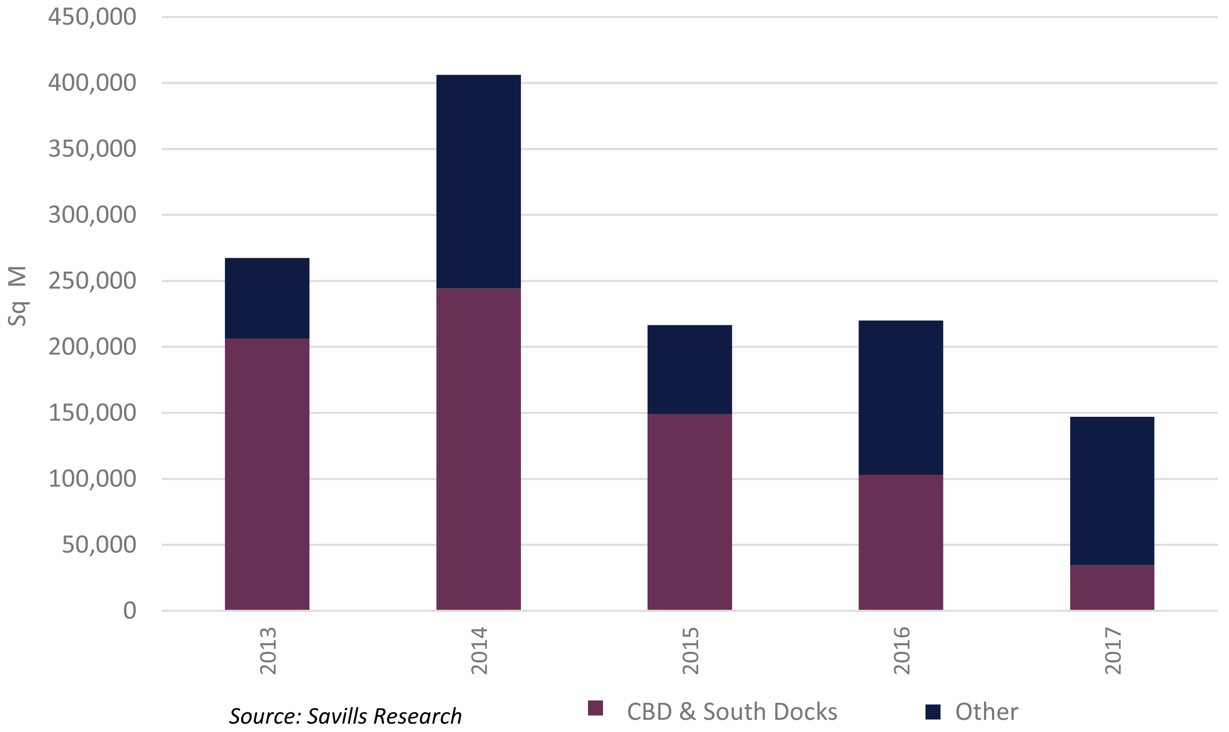
77 Sir John Rogerson's Quay - Sold by Savills in Q3 2017 for €28.7m

Graph 9:

Grade A Share of Office Investment

Source: Savills Research

Graph10:
Geographical Location of Sales



Source: Savills Research

21 Charlemont, Dublin 2 - Acquired by Savills in Q3 2017 for in excess of €45m

13-18 City Quay, Dublin 2 - Savills secured forward commitment of this high profile office development in Dublin's CBD for €126.3m in Q4 2017

Table 3:
Modern Office Sales in 2017, by Location, Size and Grade

	Sales	Sq M	Ave Sq M	% Grade A	% Grade B	% Grade C
CBD (Including Docklands)	12	34,446	2,871	20.8	37.7	41.5
City Fringe	5	11,047	2,209	0.0	96.9	3.1
Suburban	35	91,552	2,616	3.6	75.6	20.8
Other	5	9,890	1,978	0.0	0.0	100.0
Total	57	146,935	2,578	7.1	63.3	29.7

Looking forward, conditions in the occupational market are set to remain tight for the foreseeable future. At the same time Irish office yields continue to look relatively attractive in a European context. Together these factors will support continued investor demand for good quality office assets in 2018. Despite there being less product available than in recent years, capital will find opportunities in several areas. The speculative development pipeline is now beginning to deliver completed space on a significant scale and this will enable investors to deploy capital. As an alternative to development finance, forward commitment arrangements offer investors access to Grade A product. These transactions will continue to provide a route into the market for larger-scale investors in 2018. Re-trades of assets bought by short-term money earlier in the cycle and the ongoing break-up and resale of loan book and portfolio assets will also provide a continued supply of product into the market. This will be facilitated by the shortening of the Capital Gains Tax (CGT) holding period from 7 years to 4 years in the last budget.[2]

Table 4:
Top 10 Office Deals – 2017

Property	Location	Sold	Size (Sq m)	Price, €
Cherrywood Office Portfolio, Loughlinstown	Dublin 18	Q4	40,575	145,000,000
13-18 City Quay*	Dublin 2	Q1	10,940	126,320,000
Gardiner House	Dublin 2	Q3	7,060	60,000,000
Harcourt Centre Collection	Dublin 2	Q3	5,284	47,000,000
The Capitol Building, Patrick Street	Cork	Q3	4,754	45,500,000
21 Charlemont	Dublin 2	Q3	3,422	45,000,000
The Park Portfolio, Carrickmines	Dublin 18	Q2	11,837	38,600,000
76 Lower Baggot Street	Dublin 2	Q4	3,734	35,900,000
5 Harcourt Centre	Dublin 2	Q3	2,683	24,000,000
Chancery Building, Chancery Lane	Dublin 8	Q4	2,708	23,800,000

*Forward Funding Deal

** Table includes office portfolios and mixed-use deals with large element of offices

The Exo Building, Dublin 1 - Savills secured forward funding for this prime office development in Q4 2017

[2] Assets bought between 7th Dec. 2011 and 31st Dec. 2014 could be sold without a CGT liability, conditional on holding the assets for a minimum 7 years before disposal. This holding period was reduced to 4 years in Budget 2018, meaning that the early movers can now already divest tax efficiently

Retail

Ireland has enjoyed a strong labour market recovery since 2012 and the economy is currently creating nearly 50,000 additional jobs per annum. As a result unemployment has fallen from a cycle high of 16% to 6% currently, leading to more competitive recruitment conditions and a meaningful pick-up in earnings growth. The increased numbers at work have meant higher tax revenues and lower social welfare payments, creating fiscal space for the Government to unwind crisis-era austerity taxes.

Table 5:
Retail Economy Dashboard

Indicator	Period	% Change Y/Y
Live Register	Jan 2018	-14.3
Core (ex. Motors) Retail Sales	Dec 2017	+7.3
Consumer Sentiment (3mma)	Feb 2018	+6.3
Overseas Trips to Ireland	Q4 2017	+6.2
Real VAT Receipts	Jan 2018	+5.5
Real Household Disposable Incomes	Q3 2017	+5.3
Consumer Credit Outstanding Balances	Dec 2017	+4.4
Real Personal Consumption Expenditure	Q3 2017	+2.7
Total Employment	Q3 2017	+2.2
Real Average Gross Earnings	Q4 2017	+2.1

Sources: CSO, CBI, KBC Bank Ireland/ESRI, Dept. of Finance.

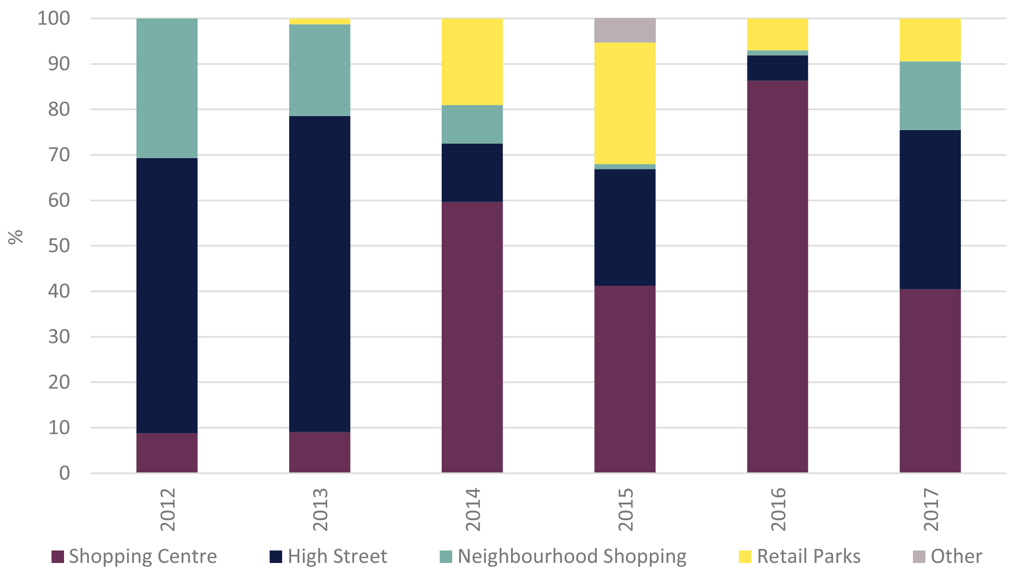
This combination of more people at work, higher gross earnings and lower taxes has boosted consumers' take-home pay by around 5% over the last year. In addition, spending power has been enhanced by a strong expansion in consumer credit since early 2016.

With employment growth at the root of this benign cycle, it is perhaps unsurprising that research by economists at Savills and the ESRI has identified jobs as by far the strongest historical driver of growth in Irish retail ERVs. The extent to which e-commerce has disrupted, or will disrupt this relationship in the future, remains to be seen. So far, however, our econometric model which relies heavily on jobs growth is continuing to do a good job of forecasting ERV movements. When the model was run in Q1 it forecast a 2.2% rise in the IPD retail ERV index over the three remaining quarters of 2017. The actual outcome was an increase of 2.7% suggesting that retail rents, at least for prime assets, continue to follow conditions in the consumer economy.

Boosted by the sales of Blanchardstown (€950m) and Liffey Valley (€630m) Shopping Centres, retail overtook offices as the biggest investment sector by turnover in 2016, accounting for 50% of total market spend. However, with most of the major shopping centres in Dublin and its surrounding counties having already traded, opportunities to acquire large-scale retail assets last year were somewhat fewer. Reflecting this, sales of tenanted retail properties fell from €2.25bn in 2016 to €670m last year – accounting for 29% of investment turnover. In contrast to 2016 only one retail asset - The Square in Tallaght – broke the €100m mark in 2017.

The Grafton Collection - A portfolio of multi-let retail buildings off Grafton Street. Sold by Savills

Graph11:
Share of Retail Investment by Sub-sector



Source: Savills Research

Consistent with previous years, shopping centres and high street stores accounted for the vast majority (75%) of retail investment in 2017, with the former remaining the largest contributor for the fourth straight year. However in contrast with 2016, when 21 shopping centres were sold, just six malls (and a single unit within a seventh) traded in 2017 for a combined €271m. As a result, shopping centres' share of overall retail turnover fell to 40%. It should also be noted that approximately 90% of the value of 2017 shopping centre deals was accounted for by The Square Town Centre in Tallaght which was the single biggest investment transaction of 2017. As mentioned above, this sale represents the last of Dublin's six major suburban malls to trade in the current cycle. Given that most are now in stable longer-term ownership, further trading of shopping centres is likely to focus on smaller neighbourhood malls and regional assets.

Approximately €235m was invested in high street assets in 2017, representing 35% of overall retail spend. Twelve months ago we highlighted the relatively limited opportunities to invest in prime assets of this nature - given that they too are now generally in stable longer-term ownership - and this was again evident in 2017 with just three shops trading in Dublin's Grafton Quarter last year. Unsurprisingly, the biggest high street deal of the year fell within these lots; the purchase of 100-101 Grafton Street by Irish Life for €50.1m.

While Dublin accounted for almost two thirds of high street purchases by value, Cork's share rose sharply to 26%. This compares with just 7% and 3% in 2015 and 2016 respectively. Underpinning this were the acquisitions of M&S on Merchants Quay (€31m) and a three-asset portfolio with a total value of €23.65m which was purchased off-market in Q4. While Cork's increased contribution reflects the opportunities that came to the market, it also demonstrates the strength-in-depth of Ireland's economy; the South West (incorporating Cork and Kerry) has added almost 48,000 net new jobs since the low-water-mark in Q1 2011 – accounting for 15% of Ireland's total jobs growth in that period.

Just over €100m was invested in neighbourhood retail assets last year - four times the 2016 total. One-quarter of this was accounted for by the sale of the Avoca Collection incorporating two stores - one in Rathcoole, West Dublin, and the other in Kilmacanogue, Co. Wicklow - for a combined €26.25m. Excluding this deal, the average lot size in the neighbourhood sector was just under €2.9m last year. This made it a popular investment with private individuals, and 81% of known buyers fell into this category.

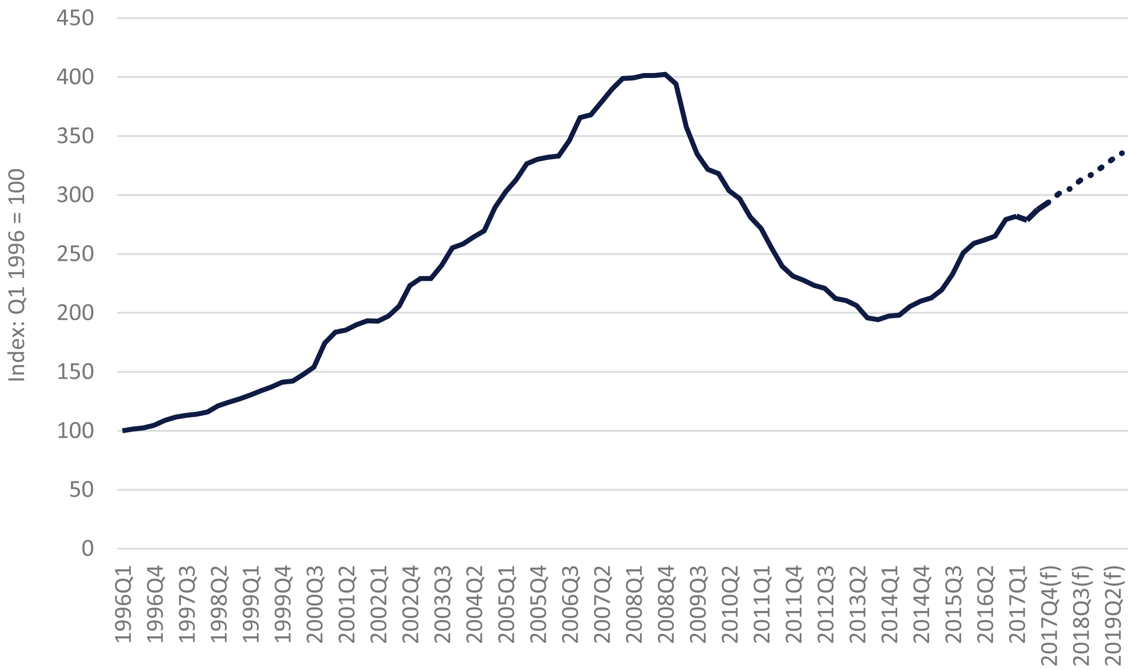
Table 6:
Top 5 Retail Deals – 2017

Property	Location	Sub Sector	Quarter sold	Price, €
The Square Town Centre, Tallaght	Dublin	Shopping Centre	Q4	250,000,000
100 - 101 Grafton Street, Dublin 2	Dublin	High Street	Q3	50,110,000
M&S Merchants Quay, Cork	Cork	High Street	Q4	31,000,000
Avoca Collection (two assets)	Dublin	Neighbourhood Shopping	Q3	26,250,000
Off-market Portfolio (three assets)	Cork	High Street	Q4	23,650,000

73 & 74-75 St. Patrick's Street, Cork - Sold by Savills in Q4 2017 for €6.5m

Ireland's economic backdrop remains favourable for retail property with every dial on the consumer dashboard pointing in a positive direction (see Table 5). Consensus forecasts indicate further compounding jobs growth of 2.3% and 1.9% in 2018 and 2019 respectively. As outlined above, Savills' analysis shows that employment growth is a strong leading indicator of movements in retail rents. ERVs have risen by 20.7% since their cycle low (and by 49.1% in Grafton Street). Our forecasting models are predicting further rental growth of 4% (overall) and 7.9% (Grafton Street) in 2018 with increases continuing into 2019 (see Graph 12).

Graph12:
Grafton Street Rents Forecast Q1 2018 – Q3 2019



Source: Savills Research

With opportunities to acquire large-scale retail assets in and around Dublin now limited, provincial and neighbourhood investment is likely to feature more prominently. With a higher yields and smaller lot sizes, regional assets may appeal to shorter-term private money. There is, however, potential for consolidation in regional retail assets which could provide additional investment opportunities. Forward commitments may also provide opportunities for buyers seeking to deploy more capital. However, while a retail development pipeline now exists, it is quite limited. This suggests that retail's share of investment turnover is likely to remain at a lower proportion of total sales than in the recent past.

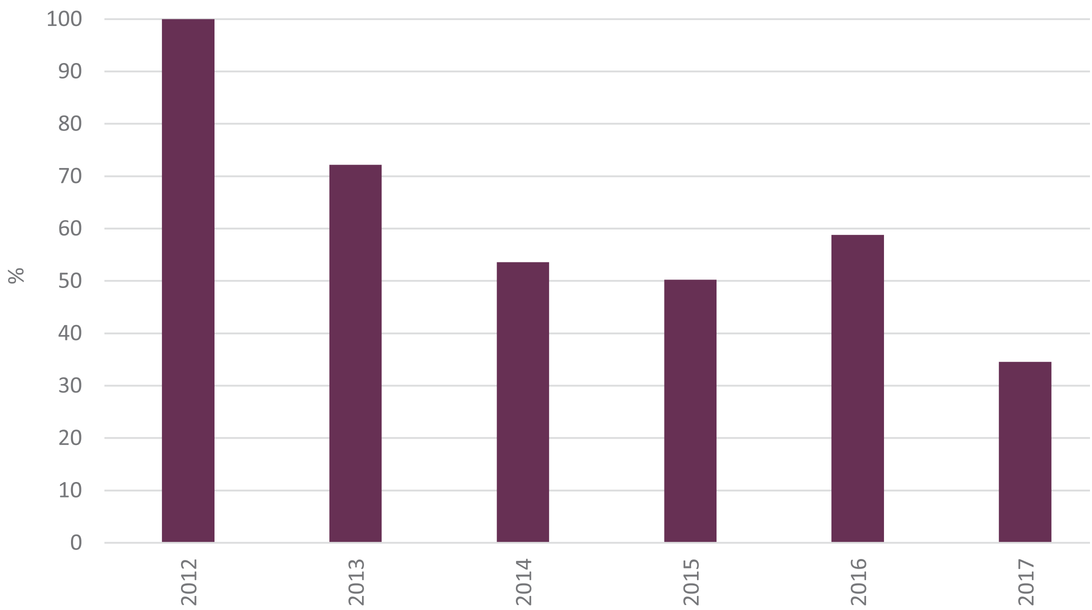
Residential

Due to strong demographic pressures and chronic under-building, residential prices have been rising rapidly over several years, and this continued in 2017. Nationally, house prices rose by 12.3% in the year with Dublin prices increasing by 11.6% off a much higher base. In contrast, latest data show that average earnings only picked-up by 2.5% (nominal). Notwithstanding the fact that tax cuts have provided an additional boost to take home pay, this mismatch, along with strictly controlled mortgage lending, has made owner occupied housing less affordable. Together with factors such as a return to strong in-migration[3], this has contributed to a 39,500 increase in the number of persons renting privately in the year to June 2017. With the supply of rental properties failing to keep pace with demand, vacancy rates have continued to fall and now stand at an estimated 1.4% in Dublin. Inevitably this has led to upward pressure on rents. Notwithstanding the introduction of rent controls in late 2016[4], residential rents rose by 9.5% nationally in the year to September 2017, and by 9.9% in Dublin.

Understandably, given tight conditions in the occupational market and no realistic prospect of this changing in the medium-term, investor demand for Irish PRS product is very strong. In total €112.83m of capital flowed into the sector in 2017, through 17 transactions (excluding student accommodation and mixed-use schemes with significant residential content). This represents a 56% decline on the 2016 investment value (€260m), with the headwind entirely on the supply side of the market.

As described in last year's report, professional investment in the Irish residential sector is evolving rapidly. In the early stages of Ireland's recovery opportunistic investors were able to buy entire, or nearly entire, blocks of apartments that were originally built for sale as individual units. In the intervening years the availability of these assets has become depleted. Investors have responded to this scarcity in several ways. Firstly they have become more willing to accept fractured ownership in schemes where some of the units are held by existing investors or owner-occupiers. This is illustrated in Graph 13. Back in 2012 all multifamily transactions involved buyers taking complete ownership of the blocks. Since then the number of units purchased has been steadily falling relative to the total number of units in the blocks where deals took place. In 2017 597 units were purchased in schemes containing 1,729 units – indicating that, on average, investors were prepared to accept 34.5% ownership.

Graph13:
Units Purchased as Percentage of Total Units



Source: Savills Research

A second response has been to target smaller opportunities. As shown in Graph 14 the average number of units per multifamily transaction has been on a steady downward trend as the opportunities to buy bigger blocks of standing assets have dried up. Tight availability is also causing some buyers to look beyond Dublin for access to this market – as shown in Graph 15 the Ex. Dublin share of purchased units doubled to 24% between 2016 and 2017. Of the multifamily blocks traded last year, three were in Cork and two were in Galway.

[3] Ireland experienced net emigration between 2010-2014. Since then the flow has turned positive, with net in-migration rising from 5,900 in 2015 to 16,200 in 2016 and 19,800 in the year to April 2017. Previous research shows that immigrants are much less likely to be owner-occupiers (see Duffy (2007) *The Housing Tenure of Immigrants in Ireland*. ESRI Working Paper No.188).

[4] A detailed description of these rent controls, along with the derivation of the PRS vacancy rate and formal rental growth forecasts, can be found in Savills report *Shifting Ownership in Ireland's Rented Sector*, November 2017. Available at http://pdf.euro.savills.co.uk/ireland-research/privaterentedsector2017v8.pdf

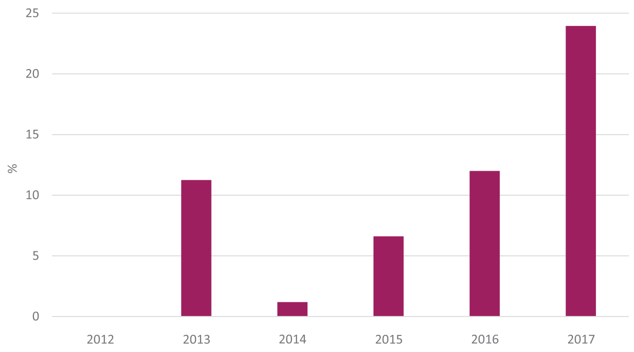
Dublin Living - Ireland's largest PRS opportunity. Currently being sold by Savills for a consideration in excess of €425m

Graph14:
Average Number of Units Per Multifamily Transaction

Source: Savills Research

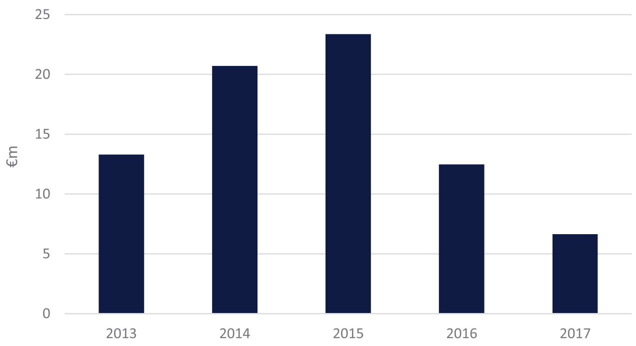
The increased weighting of Ex. Dublin transactions and the trend towards fractured ownership have led to a sharp decline in the average deal size. As shown in Graph 16 the average income-producing multifamily investment peaked at €23.4m in 2015 but slid to just under €6.6m in 2017 as the available product became more granular. This has created opportunities for smaller players to return to the market; the value of private individuals' and syndicates' investment in Irish PRS has risen sharply and their share is now back above 15% of the total multifamily spend.

Graph15:
Percentage of Multifamily Units Purchased Outside Dublin



Source: Savills Research

Graph16:
Average Multifamily Deal Size



The Elysian, Cork - Savills is currently selling this residential investment via an off-market process

Table 7:
Top 10 Multifamily Deals in 2017

Property	Location	Sold	Price €	Units sold
North Bank, North Docks	Dublin 1	Q4	45,000,000	124
The Arena, Tallaght	Dublin 24	Q3	9,000,000	63
Leeside Apartments, Bachelor Quay	Cork	Q4	8,425,000	78
Castleforbes Square	Dublin 1	Q3	6,900,000	28
The Maltings, Watling Street	Dublin 8	Q4	6,800,000	47
Abberley Square, Tallaght	Dublin 24	Q3	5,800,000	50
Cuirt na hAbhainn, Liosban, Tuam Road	Galway	Q2	5,000,000	42
Block 9, Prospect Hill, Finglas	Dublin 11	Q4	4,674,000	28
Culvert Apartments, Pim Street	Dublin 8	Q3	4,050,000	27
Hanbury Mews, Hanbury Lane	Dublin 8	Q1	4,000,000	25

With the market for standing residential investments becoming more granular, investors seeking to deploy larger tranches of capital have turned to design-and-build opportunities. Several distinct approaches are being taken to this. Where development finance is in place some are seeking to access the market by developing their own build-to-rent schemes directly. Examples include IRES the Irish listed REIT, which is currently building rental housing at Hansfield Wood in Clonsilla, and, subject to planning consent, is hoping to build rental apartments at Rockbrook in Sandyford, South Dublin. Kennedy Wilson, which was a large-scale buyer of standing PRS blocks earlier in the cycle, has also transitioned towards this model. It has already developed a build-to-rent scheme at The Vantage in South Dublin and is currently working on Phase 2 at Clancy Quay, and on the residential element of its Capital Dock scheme in Dublin's South Docks. Meanwhile US company Hines is working in partnership with Dutch pension firm APG on plans to develop more than 1,200 purpose-built rental units at Cherrywood in South Dublin.

Others have taken a different approach and have entered into forward commitment arrangements to acquire rental stock. Both Tristan Capital Partners and German institution Patrizia have taken a forward purchase route at Honeypark in Dun Laoghaire. This involves committing in advance to buy a completed block at a fixed price. This mechanism de-risks the project, making it possible for the developer to finance the build-out costs. In a slightly different arrangement Marlet Property Group is in advanced discussions with a preferred bidder to forward fund the development 1,205 rental apartments across four sites in Dublin. In this model the investor buys the site from the developer up-front and then funds the developer to complete the scheme. It is worth reiterating that, although they facilitate capital inflows, these forward commitment deals are generally not captured in our investment figures. Savills' definition of a property investment requires a building to have an agreement for lease in place and to be producing a rental income.

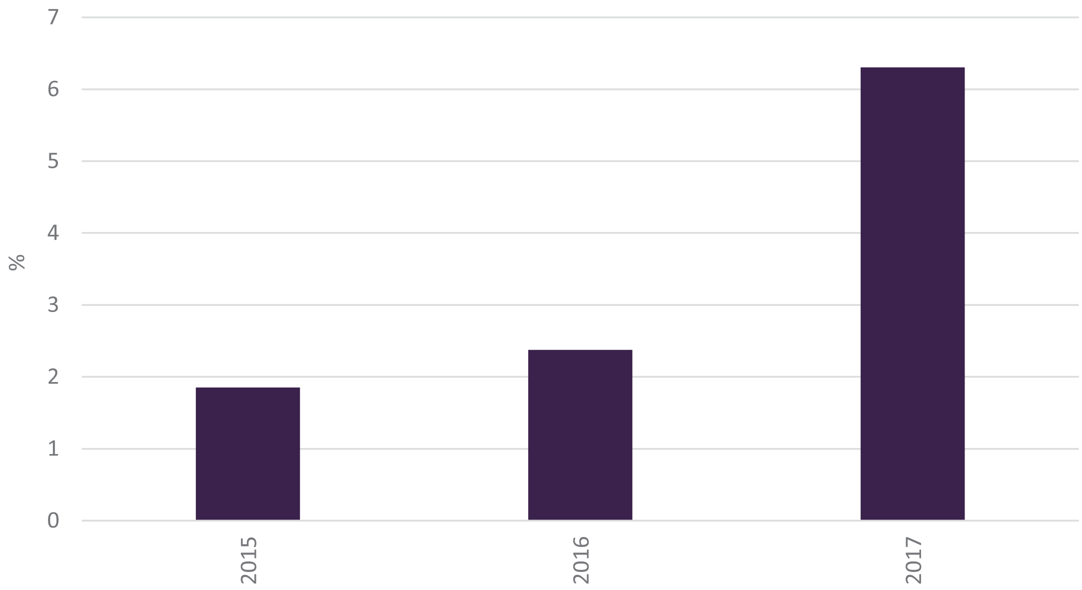
Table 8:
Key PRS Forward-Purchase Transactions in 2017

Investor	Developer	Location	Units	Price €
Patrizia	Cosgrave Property Group	Honeypark, Dun Laoghaire, Co. Dublin	319	132,000,000
Tristan Capital Partners	Dwyer Nolan	Elmfield, Ballyogan Road, Leopardstown, Dublin 18	138	51,000,000
IRES REIT	Dwyer Nolan	Hampton Wood Square, Finglas, Dublin 11	128	40,000,000

Industrial

Last year we highlighted growing investor demand for industrial property assets, with investment in the sector rising by 53% to €106m in 2016. This trend continued in 2017 with a further increase of 36% bringing investment to just under €144m. While industrial property continues to account for a relatively small proportion of overall investment turnover, its share has been growing for three straight years (see Graph 17).

Graph17:
Industrial Property's Share of Total Investment Turnover

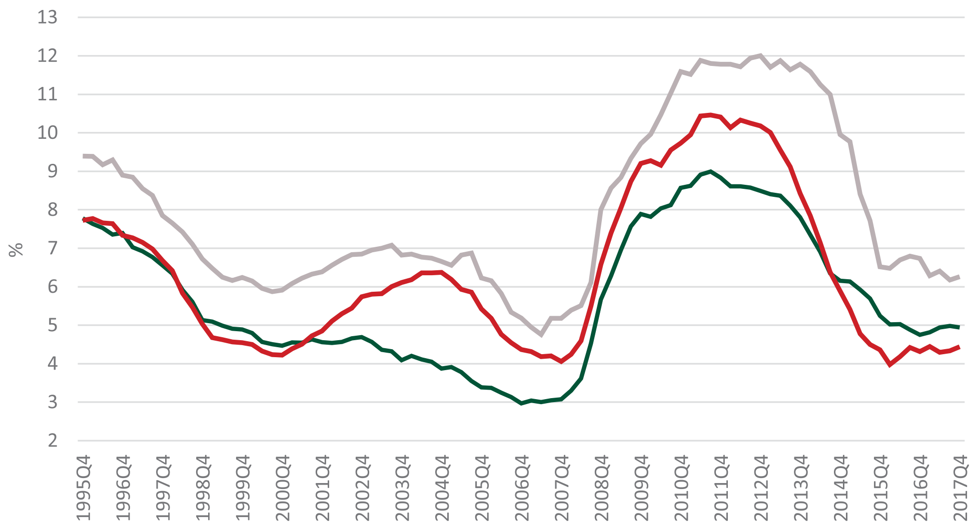


Source: Savills Research

The Gibson Hotel - Sold by Savills in Q4 2017 for in excess of €90m

Several factors are whetting investors' appetite for industrial and logistics units. Most fundamentally the strength of the Irish consumer economy, along with what appears to be a rapid penetration of e-commerce, has led to perceived upside and investors see industrial property as a means of driving total portfolio returns. Indeed, these perceptions are borne out by recent market evidence - MSCI data show that, while the total returns indices on office and retail investments have risen by around 12% in the last 18 months, the industrial index has risen by 17.3%. Furthermore, following years of robust growth in office and retail investment, some funds are seeking to balance their CRE portfolios by increasing their industrial weighting. Finally, despite the appetite for industrial properties, these buildings can still be bought at a significant discount to other asset classes (see Graph 18).

Graph 18:
Net Initial Yields on Commercial Property



Source: MSCI

Notwithstanding a marked pick-up in the average lot size, from €3.4m in 2016 to €6.3m in 2017, a general shortage of good quality large-scale modern properties continues to curtail investment volumes. Just three lots topped €20m last year, while only four exceeded €10m.

Looking ahead the strength of the economy should see continued strong demand for industrial assets. On the supply side, the reduction in the Capital Gains Tax (CGT) holding period from 7 to 4 years means that investors who bought industrial and logistics units between 2012-2014 can either already trade out of them tax efficiently or will shortly be able to do so. This should lead to increased availability of stock.

Development will provide further opportunities for those seeking to deploy larger capital. Some funds and institutions are already developing their own assets while the pipeline of speculative building will provide further opportunities.

Table 9:
Top Ten Industrial Deals in 2017

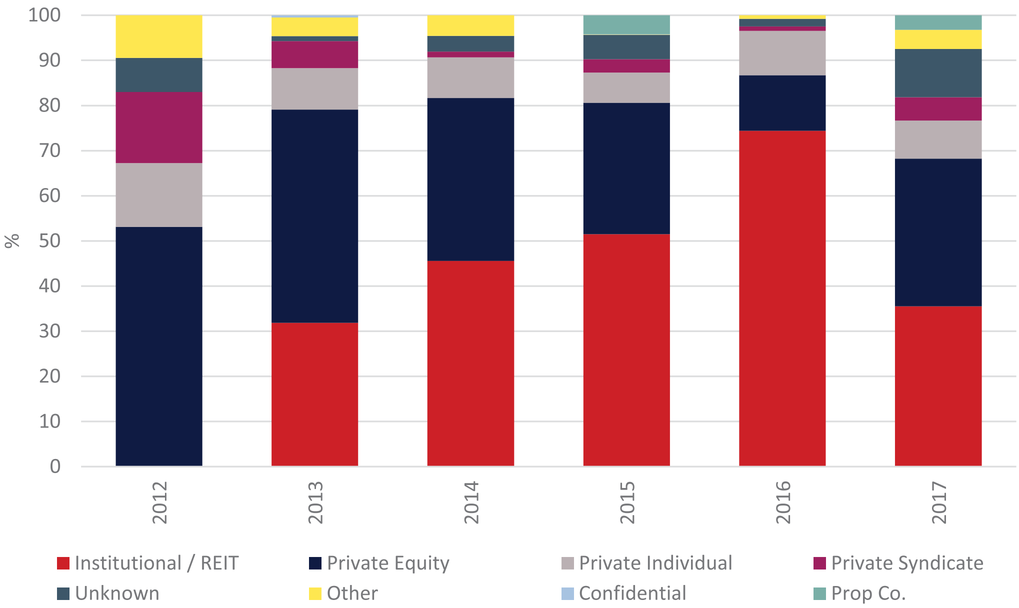
Property	Location	Sold	Price €
Off Market - North Dublin Industrial Investment	Dublin	Q4	30,000,000
Off Market - Unit Q1, Aerodrome Business Park	Co. Dublin	Q1	28,000,000
Unit 2 Merrywell Business Park, Ballymount	Dublin 12	Q3	25,000,000
Unit 21, Fonthill Industrial Park, Clondalkin	Dublin 22	Q2	11,050,000
Unit 1 Stadium Business Park, Ballycoolin	Dublin 11	Q4	8,650,000
Off Market	Not Disclosed	Q3	7,100,000
Building 2 Parkmore Business Park, Galway	Galway	Q1	6,000,000
Building 3, Parkmore West, Galway	Galway	Q4	6,000,000
Galway Crystal, Renmore, Galway	Galway	Q2	3,500,000
Unit 2, Swords Business Park, Swords	Co. Dublin	Q2	€2,850,000

Investment by Buyer Type

The lines between core, core-plus and opportunistic buyers have become increasingly blurred in recent years as investors have adapted their business models. This, along with increasingly competitive market conditions, makes an analysis of buyer types along rigidly defined lines increasingly challenging. Nonetheless there does appear to have been a marked shift in the investor profile. From being absolutely inactive in 2012, institutions and REITs rose to become the dominant buyers in recent years. Their share of turnover rose from 32% in 2013 to almost three-quarters of the annual spend by 2016. In total almost €8bn of core money flowed into the Irish property market over this four-year period. However Graph 19 illustrates that this pattern reversed quite abruptly in 2017; Institutional / REIT investment fell from €3.32bn to just shy of €811m in 2017. This reflects the fact that an increasing proportion of standing investment opportunities in the market do not meet the yield and specification requirements of institutional buyers. In this context, and as discussed above, core investors are increasingly seeking access to the Irish market through development plays – either directly or via forward-commitment arrangements.

Early-on in the economic recovery, risk-embracing Private Equity (PE) firms were the most active buyers in the market, accounting for 53% of total investment turnover in 2012. But with prime assets becoming more fully-priced as Ireland's economy strengthened, this flow of capital slowed in recent years. However PE made a return in 2017 as the higher yielding, more granular assets coming to the market provide a good fit with the investment objectives of private equity investors. In total PE buyers accounted for €745m (32.7%) of investment turnover in 2017.

Graph 19:
Investment Turnover by Buyer Type



Source: Savills Research

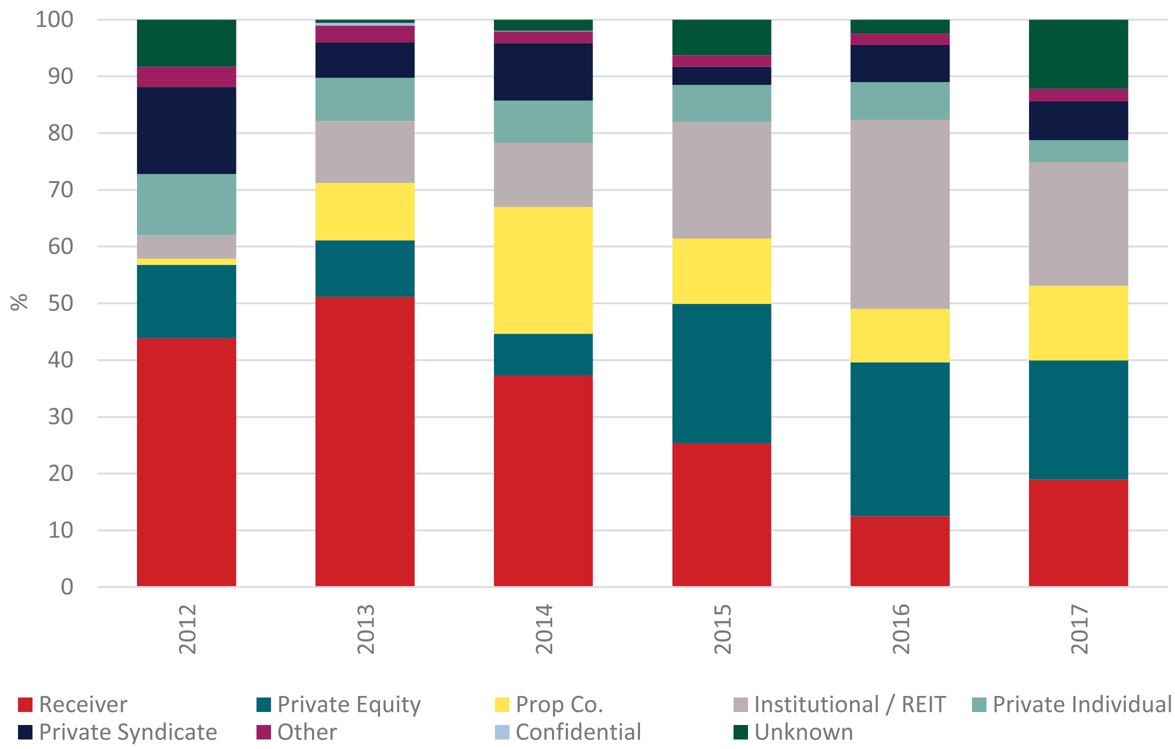
Retail accounted for 45% of the PE spend in 2017. Seven out of the eight high street shops bought by PE investors were regional assets. Similarly, of the three retail parks purchased by PE money, only Ballymount Retail Centre was in Dublin. Offices accounted for one third of the PE spend. Of the 24 office assets bought by these players nineteen were in Dublin. But, of these, only two were in the Central Business District. Among the remainder 11 were in suburban locations and three were in the City Fringe. A further five buildings were bought outside the capital – three in Cork and one each in Limerick and Athlone.

With the strength of Ireland's economic recovery syndication was inevitably going to make a comeback. This source of capital accounted for less than 1% of market turnover in 2016 but rose to 5.2% in 2017. In all, private syndicates organised by various wealth management intermediaries deployed €117.6m in a wide range of assets. The largest syndicate purchase was The Park Collection – which included four buildings in Carrickmines, South Dublin – by Cantor FitzGerald Syndicated Fund for €38.6m in Q2.

Investment by Seller Type

2016 saw very significant selling of older properties by the institutions and REITs as they sought to make room for the €3.32bn of newer properties bought-in to improve the quality of their portfolios. For the second year in succession the institutions remained the biggest sellers in the market in 2017. However, reflecting the fact that their buying activity slowed, the share of sales accounted for by these core investors also fell; from 33.3% in 2016 to 21.8%. Offices accounted for eight of the 19 institutional sales in 2017. Four of these were Grade C buildings, with three Grade Bs and only a single Grade A property. The average age of the office assets being disposed of by the institutions was 18 years. Core investors also traded-out 10 retail assets with two of these being sold as a portfolio. Of the five high street shops sold, three were in Cork and two were in Dublin city centre. Only one of these assets, 100-101 Grafton Street, was traded back into the hands of an institutional buyer.

Graph 20:
Investment Turnover by Seller Type

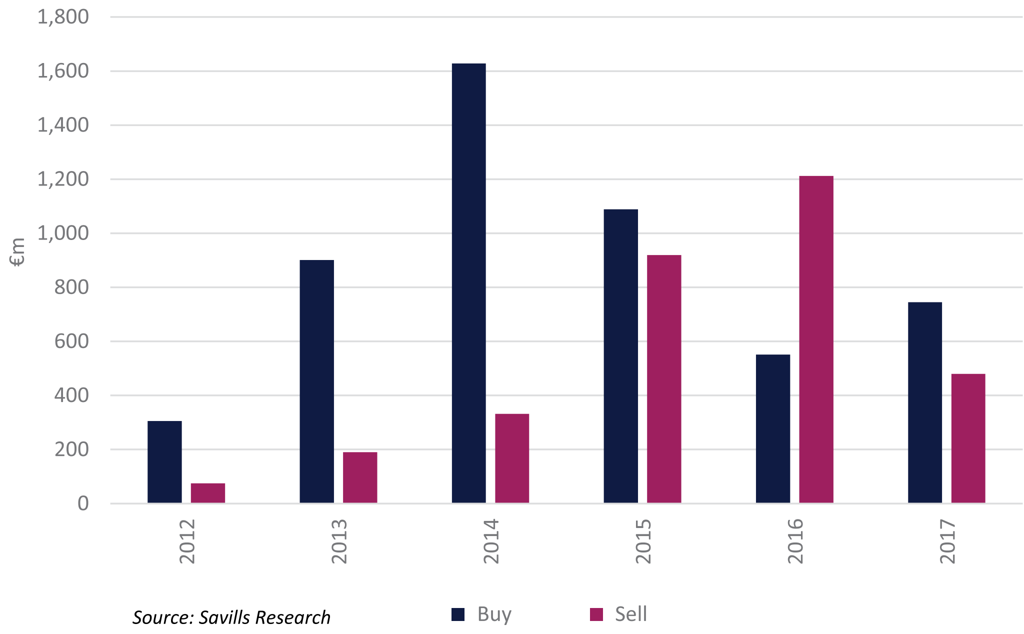


Source: Savills Research

The second biggest seller of income producing property in 2017 was private equity. Given the typical PE investment horizon of 3-5 years it is not surprising to see some of the opportunistic early movers take profits. However it is interesting to note that 2017 PE sales were 60% down on 2016. And, given the pick-up in acquisitions by private equity investors, 2017 saw PE return to being a net investor in the Irish market for the first time since 2015 (Graph 21).

The fact that receivers were on the sell side of two substantial transactions in 2017 – the Gibson Hotel (€90.2m) and the North Bank PRS scheme (€45m) – lifted the share of receivership sales up from 12.5% in 2016 to 18.9% last year. Nonetheless the €432m of receiver sales in 2017 remains a fraction of the €975m and €1.68bn figures recorded in 2013 and 2014 respectively when the post-crisis deleveraging was at its height. With most of the distressed assets now having been worked through, and with the economy expected to continue performing strongly, our view is that receivership sales will remain on a downward trajectory.

Graph 21:
Private Equity Purchases and Sales 2012-2017



Source: Savills Research

Summary and Outlook

Investment conditions remained favourable in 2017. Continuing economic expansion saw occupational markets tighten and rents increase across all sectors of the market. At a global level, monetary policy remained accommodative, leading to a natural channelling of capital into real estate assets. And, given that yields in Ireland remain higher than those in many other European countries, the Irish market particularly benefited from this inflow. Indeed, it is interesting to note that foreign investors continued to account for more than half (53.3%) of the total investment spend in 2017.

Notwithstanding benign conditions, investment turnover fell substantially in 2017. This was entirely as expected given huge market activity over recent years as the post-crisis deleveraging process took place. With many prime assets having traded since 2013 – some more than once – an increased proportion of the existing property stock is now in the hands of longer term capital and a slowdown in transactional activity was inevitable.

As ever, Dublin offices were a key target for investors in 2017, and offices enjoyed the highest sectoral share of turnover for the fourth year out of five. However a notable feature of 2017 was the increased appetite for industrial and PRS investments. In a strongly expanding economy, with technology modifying the relationship between businesses and consumers, and with population growth outstripping house building, we expect this to continue.

After four years of very busy trading the market for standing assets has become more granular. While there are still opportunities for large scale investors to buy prime assets, the trade in existing properties has shifted somewhat towards fringe and regional locations, older buildings and lower price points.

In saying this core investors are continuing to find an outlet for larger tranches of capital through forward commitment arrangements. Moreover, with the speculative development pipeline now delivering significant quantities of new stock, investors will increasingly find opportunities to buy newly completed buildings – particularly offices and residential blocks.

Looking ahead we expect favourable investment conditions to continue. On the demand side, consensus forecasts indicate that Ireland's economy should outperform again in 2018 and 2019. This will underpin occupational markets and our forecast is for further rental growth across all sectors of the market. While interest rates are destined to eventually begin migrating back to more normalised levels, current thinking is that rate hikes are unlikely before mid-2019. On the supply side, we believe the trend towards forward commitment arrangements will continue. But speculative development and re-trades will also ensure ample opportunities for investors of all shapes and sizes to deploy capital.

Table 10:
Yield Matrix.

	Q4 2017	Q4 2018(f)
Offices - Prime CBD Yields	4.00%	4.00%
Offices - Secondary CBD Yields	5.25%	5.25%
Industrial - Prime Yield	5.50%	5.25%
Industrial - Secondary Yield	8.00%	7.50%
Shopping Centres - Prime Yields	4.50%	4.50%
Shopping Centres - Secondary Yields	6.25%	6.25%
Warehouse Retail - Prime Yields	5.00%	4.50%
Warehouse Retail - Secondary Yields	7.00%	6.75%
High Street - Prime Yields	3.50%	3.50%
High Street - Secondary Yields	5.50%	5.50%
Prime PRS	4.50%	4.00%

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