

IRELAND INVESTMENT REPORT 2020



REPORT

Savills Research

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DOMESTIC ECONOMY

Despite the uncertainties presented by Brexit and a slower-growing global economy, Ireland's economy continues to outperform.

Figure 1: GDP Growth Across the EU, Q4 2019



* Bulgaria, Finland, Luxembourg and Romania unavailable at time of writing.

Output rose by 5.5% in 2019, making Ireland the fastest growing economy in the EU with an expansion rate of more than twice the EU average. Experienced watchers of Ireland's economy will appreciate that the activity of multinational firms tends to inflate standard economic performance metrics such as GDP. However more nuanced indicators confirm a substantive expansion in real economic activity; Modified Final Domestic Demand, which excludes the impact of aircraft leasing companies and on-shored intellectual property, rose by 3% in 2019. Meanwhile total employment rose by a remarkable 3.5% in the full calendar year. Allowing for a modest upward drift in productivity this suggests an underlying expansion of around 4% per annum, including a strong pick-up in Q4.

In terms of jobs growth Ireland remains third in the EU league table and this has triggered a positive chain-reaction within the economy. Unemployment fell from 5.6% to 4.7% during 2019 and now stands at its lowest point since early 2006. This has led to a more competitive labour market resulting in earnings growth of 3.6% per annum. In a low inflation economy, this combination

of employment gains and rising wages has led to a 5.3% rise in real aggregate household disposable incomes.

The strong labour market has inevitably benefited the public finances. Jobs growth and higher wages contributed to an 8% rise in income tax receipts. Meanwhile declining unemployment paved the way for reduced social welfare spending. Both factors fed through to an Exchequer Surplus of €647m in 2019 - the first time since 2007 that a surplus has been run in two successive years (Figure 2).

Continued improvement in the public finances has underpinned the creditworthiness of the Irish sovereign. Ireland's debt is A-rated by all of the main ratings agencies.¹ And recent bond sales provide further insights into external perceptions of the Irish economy; The NTMA raised €4bn of 15-year money on 8th January 2020 at a rate of 0.45%. Demand for this debt was strong and broadly-based with €20bn of orders. More recently a further €500m was raised from the sale of six month Treasury Bills at a yield of -0.535% with a 2.9:1 bid / cover ratio.

Monetary Conditions

With inflation persistently subdued across the global economy all of the major monetary authorities remain firmly in accommodative mode. In America the Federal Reserve reduced rates by 25bp three times between July and October last year. Further reductions were already expected in 2020 but the emergence of Coronavirus has accelerated this. In a decisive move the Fed delivered a 0.5% cut on 3rd March - its first inter-meeting cut since the financial crisis. And, at

Figure 2: General Government Balance

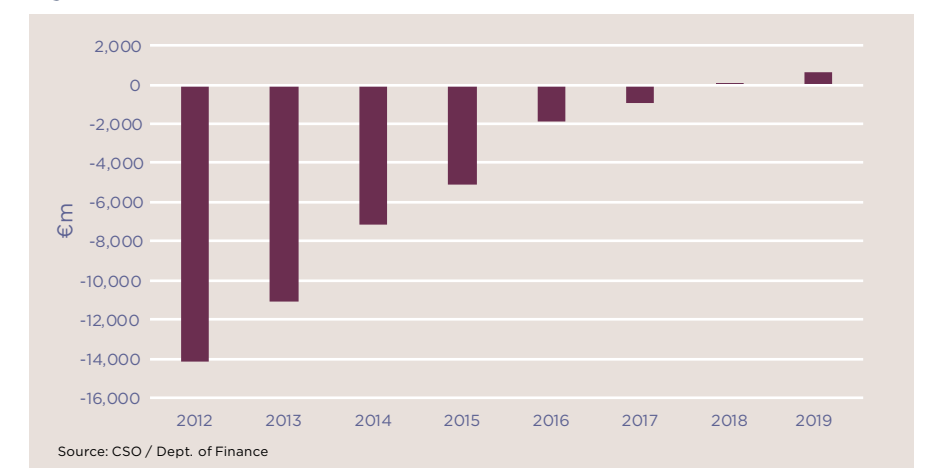
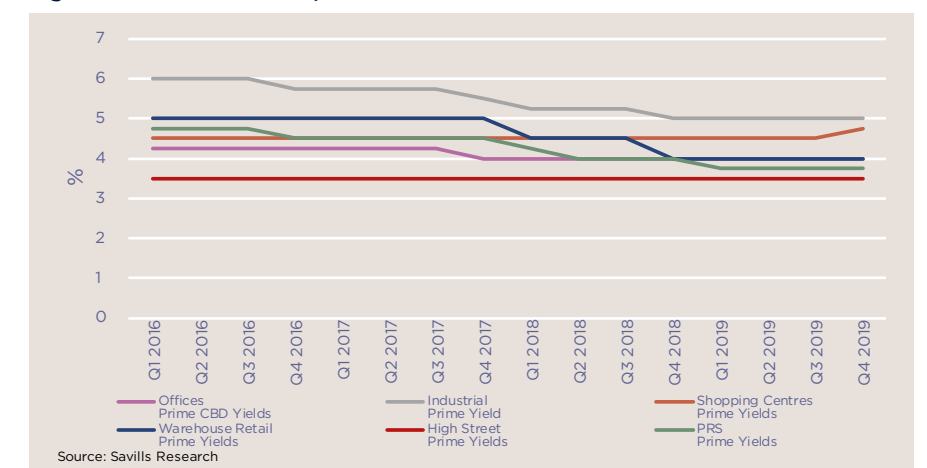


Figure 3: Net Initial Yields, Prime Assets



the time of writing in early March, markets are pricing-in a further 75bp reduction.

The Bank of England followed suit on 11th March, cutting its base rate by a half point. This will put pressure on the ECB to also cut rates further having already reduced its deposit rate and announced the resumption of Quantitative Easing in September after a 9-month hiatus. This monetary environment has naturally driven capital into real assets. And Ireland's ongoing

economic outperformance has led to strong occupier market fundamentals which continue to make it a target for this capital. As shown in Figure 3 this has kept downward pressure on prime yields with PRS assets being particularly targeted and experiencing a 25bp compression in 2019. Given the monetary environment, tight occupational conditions and the pipeline of product to be marketed, Savills believes that there is scope for PRS, office and logistics yields to harden further in 2020.

¹ <https://www.ntma.ie/business-areas/funding-and-debt-management/investor-relations/credit-ratings>

Definitions and Scope

This report covers property investment in Ireland during 2019. The scope generally extends to transactions involving income-producing property assets. As such loan sales and transactions involving properties without a lease agreement in place (including some forward commitment deals) are generally excluded. The exception to this is the Private Rented Sector (PRS). Investors are currently pricing-in negligible void risk and therefore there is no discount for vacant possession. In this context block purchases of both vacant and income-producing residential properties are included within the analysis.

MARKET ACTIVITY

€7.42bn of investment property traded in Ireland during 2019 – by far the highest level of turnover ever recorded in the Irish investment market.

To put this in perspective, even if Project Eblana (the €1.5bn Green REIT mega-deal)² is excluded, turnover for the year exceeded the previous 2014 record by 31% (Figure 4). As outlined above, this was ultimately driven by the 'lower-for-longer' monetary dynamic, Ireland's continued economic outperformance, and a comparatively attractive yield profile. There were 194 separate transactions in 2019, 22% fewer than in 2018 and 35% fewer than 2014 when the number of deals peaked at 298.

Investment By Lot Size

Given the combination of increased turnover and fewer transactions, the average deal-size more than doubled from just over €15m in 2018 to €38.3m in 2019. This reflects two things; Firstly the scale of opportunities that came to the market last year. The most obvious example is Project Eblana, but the Cedar and XVI portfolios (€530m and €285m respectively), were also very large transactions. Indeed, even without these megadeals, 2019 was a year of generally larger deals with 33 transactions of over €50m – the most ever recorded (Figure 5a). As a result the top three transactions actually counted for a smaller percentage of total turnover than in 2016 when Blanchardstown Town Centre and Liffey Valley Shopping Centre traded (Figure 5b).

The second reason for the increase in transaction sizes relates to the identity of the active buyers. Foreign institutions accounted for 36% of purchases in 2019, compared with just 2% in 2013 and nil in 2012. Given the indivisible costs of due diligence

Figure 4: Investment Turnover 2002 – 2019

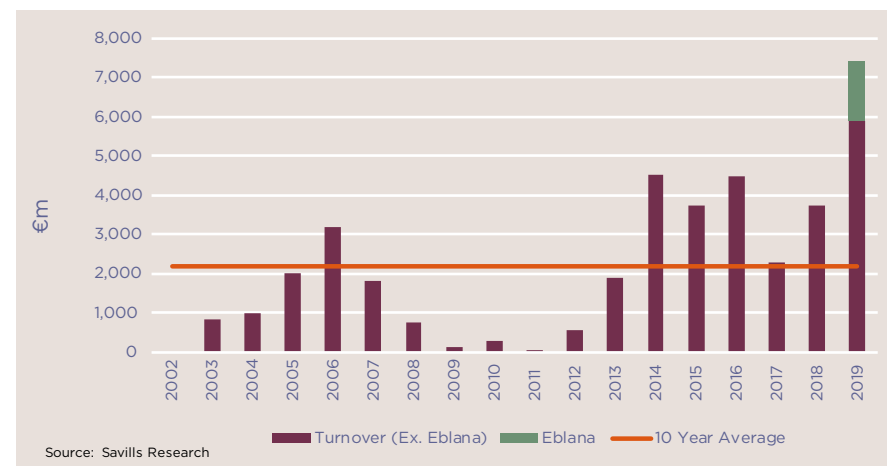
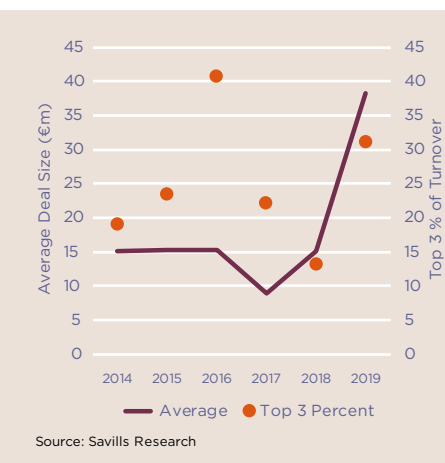


Figure 5a: Number of €50m+ Transactions



Figure 5b: Investment Trends By Lot Size

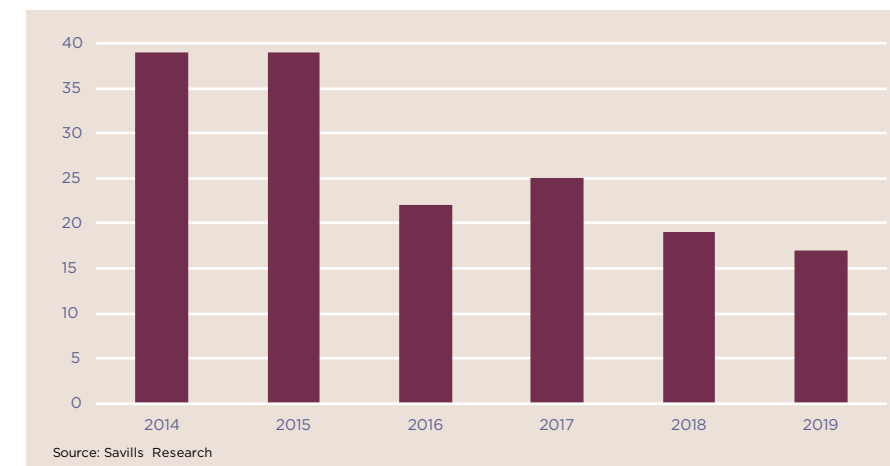


these buyers generally prefer lot sizes of €25m and above, and the sweet-spot for PRS investors is probably in the €80-€100m range.

As shown in Figure 6 the number of portfolio sales has steadily declined in recent years as the post-crisis bulk deleveraging has been worked through. This trend

continued in 2019 with 17 portfolios trading. Nonetheless the scale of the three biggest portfolios – Project Eblana, The Cedar Portfolio and the XVI Portfolio meant that portfolio sales accounted for 43% of market turnover by value.

Figure 6: Number of Portfolio Sales

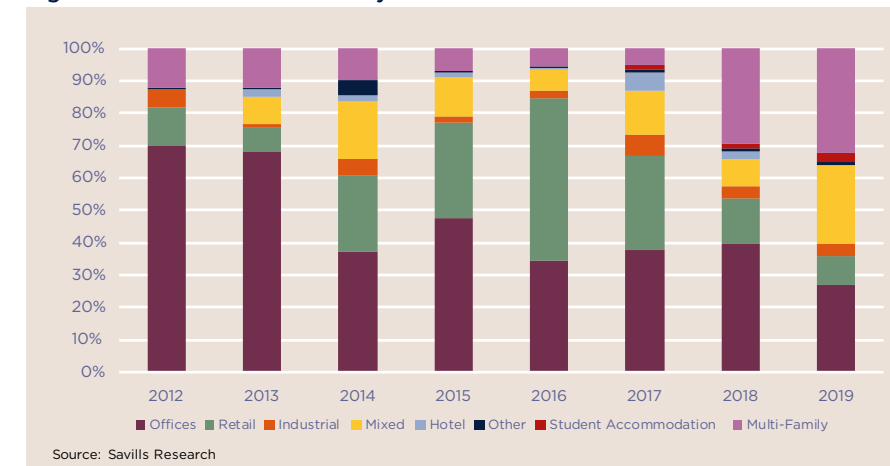


Investment By Sector

For only the second time in a decade offices was not the largest investment sector. Back in 2016 the sale of Blanchardstown and Liffey Valley shopping centres relegated offices to second place, and in 2019 PRS investment of €2.4bn accounted for

32.4% of the year's spend, compared with office investment of €2.01bn (27%). This pattern undoubtedly reflects the unprecedented depth of demand for private rented residential stock in Ireland, and the scale of pipeline apartment development which has provided forward-purchase opportunities. However, it

Figure 7: Investment Turnover by Sector



is important to note that the entire of Project Eblana was coded as a 'mixed use' sale in our statistics. Had the office assets within that portfolio been counted in the offices category then offices would certainly have retained its accustomed position in the pecking order.³

Two other big shifts in the composition of sales in 2019 were; (a) the increased share of mixed use assets in turnover, which obviously reflects the Eblana effect, and (b) the continued decline of retail as a proportion of overall investment turnover. At a global level retail has been somewhat out of favour due to uncertainty about the impact of e-commerce on retailers' business models and a lack of consensus about the alternative business models that might be most successful in the long run. Nonetheless with the population still expanding rapidly, and with low unemployment feeding through to meaningful wage growth, the fundamentals of the Irish consumer economy are very attractive. As a result there continues to be strong investor demand for high-quality retail assets. Notably, the absolute spend on retail property increased by 26% in 2019, from €517m in 2018 to €651m. Therefore the declining share of turnover was due to the bumper year for investment generally, rather than a flight from retail *per se*.

A more detailed analysis of investment within the major real estate segments is provided on the following pages.

² Mostly comprising Dublin offices and logistics assets. The indicated value is gross, before purchase costs.

³ In Q1 2019 Henderson Park, the buyer of Project Eblana, put a package of 5 of the CBD offices it acquired as part of that portfolio back on the market, reportedly seeking a price in excess of €400m.

PRIVATE RENTED SECTOR (PRS)

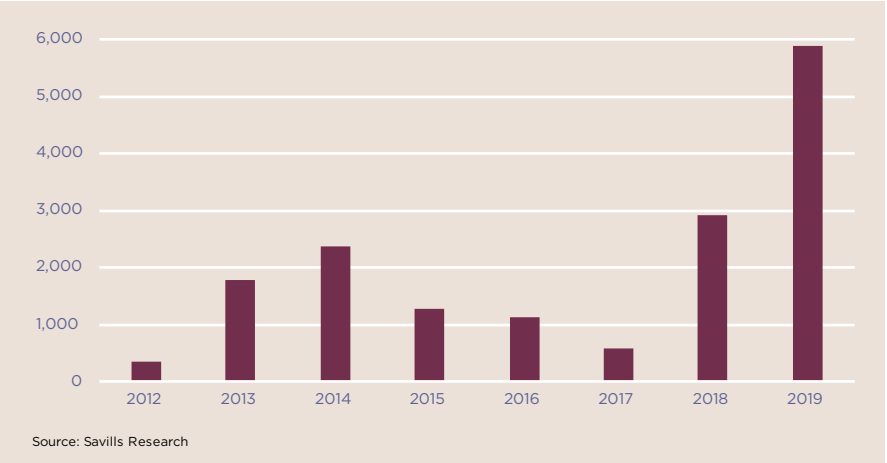
PRS investment more than doubled in 2019, from €1.1bn to €2.4bn (excluding student accommodation and mixed use schemes with a substantial residential content).



Beechwood Court, part of The XVI Portfolio which Savills sold on behalf of Marathon Asset Management to IRES REIT for approx. €285m

This is by far the biggest spend on private rental assets ever recorded in Ireland and firmly consolidates the status of PRS as a mainstream investment sector. In a low interest rate environment investors are targeting PRS because it is perceived to provide diversified and secure income. And capital is particularly attracted to Irish PRS by a perception that rents and occupancy are underpinned by an acutely undersupplied market. Indeed this is confirmed by the data - According to figures from property portal Daft.ie, only 4,610 rental properties were available to let nationally as of 31st December 2019, with 2,023 of these in Dublin. This implies sub-2% vacancy rates in all locations. As a result rents are continuing to

Figure 8: Number of PRS Units Purchased



rise – latest official data from the Residential Tenancies Board show that average rents increased by 8.2% in the year to September 2019, while in Dublin rent inflation is running at 6.6% per annum.

In total 5,884 private rental units were block-purchased in 2019, twice the 2018 figure and 10 times more than were bought in 2017. This means that block-purchasers accounted for 8.8% of all the residential properties that were bought in Ireland last year. A total of 125 blocks were purchased in 52 separate transactions.⁴

PRS Investment By Location

When multi-family investment first emerged in 2012 post-crisis deleveraging was providing plentiful opportunities for buyers to acquire standing assets in Dublin. However as the cycle matured blocks were bought-up and fewer assets became available to buy. This had several effects. Firstly it temporarily restrained investor activity, causing the overall volume of PRS investment to contract between 2015 and 2017. Another consequence was that investors began looking beyond Dublin for opportunities, and the Ex. Dublin share of PRS purchases rose to 23% in 2017 (see Figure 9).

However apartment development in Dublin has picked-up strongly since then; 2,654 apartments were delivered in the capital in 2019 – an increase of 55.3% on 2018. There is also a strong pipeline of construction. Planning permissions were granted for 9,164 units the first three quarters of 2019 – an annual increase of 119%. This has facilitated an uplift in PRS investment and has allowed investors to resume their focus on Dublin. Ninety-six percent of the units that bulk-traded in 2019, incorporating 5,637 dwellings, were in the capital and 25.3% of all the residential properties that traded in Dublin last year were block-purchased by PRS investors.

Figure 9: Percentage of PRS Units Purchased Outside Dublin

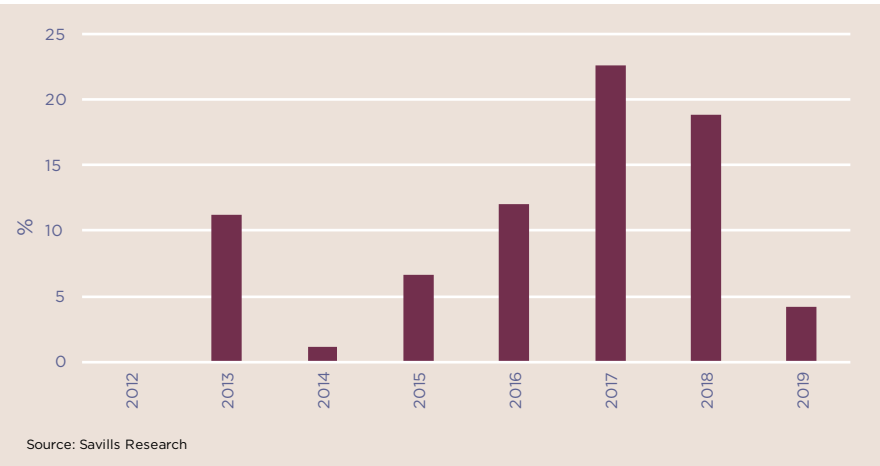
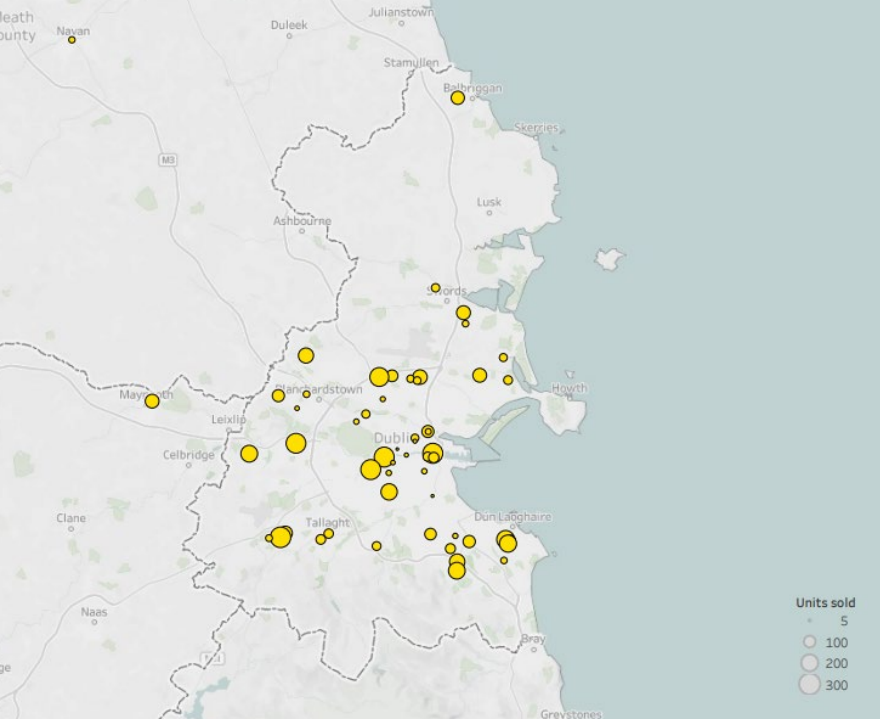


Figure 10: PRS Purchases in The Greater Dublin Area, by Location and Size



The detailed location of the PRS blocks trading in the Greater Dublin Area is mapped in Figure 10.

⁴ Including PRS assets traded within mixed portfolios.

PRS Deal Sizes

The average PRS transaction has increased from €6.64m in 2017 to just over €48m in 2019. This reflects two factors. On one hand the number of units being traded within each transaction has increased since 2017, partly because of forward-purchase opportunities. But it also reflects a sharp increase in the average price being paid per unit by PRS investors.

Figure 12 shows that, when multifamily investment first emerged in 2012, PRS units were trading at a discount to overall Dublin apartment prices. This continued through to 2017. However from 2018 the price being paid for apartments by PRS investors overtook the market average. The mean price being paid per unit by investors leapt by 82% in 2018 and rose by a further 3.5% in 2019 to €408,678. The bald figures show that PRS units are now trading for 23% more than apartments in the mainstream Dublin sales market. Some of this reflects a mix effect - PRS investors tend to be focused on better serviced and more affluent locations and are buying newer, higher specification stock through forward purchase arrangements.

Nonetheless investor appetite for this product, which derives from the continued low interest rate environment and the attractiveness of Dublin's occupational market, has led to a like-for-like premium for block-purchased apartments compared with individually purchased units.

Fractured Ownership

With standing PRS assets becoming harder to source from 2015, one response was for investors to broaden their search beyond Dublin. But another was to acquire units in blocks with fractured ownership. As a result, the number of units traded as a proportion of the total units within the schemes where transactions took place fell from 100% in 2012 to 34% in 2017. Since then, facilitated by development opportunities, the ratio has

Figure 11: Average PRS Transaction Value

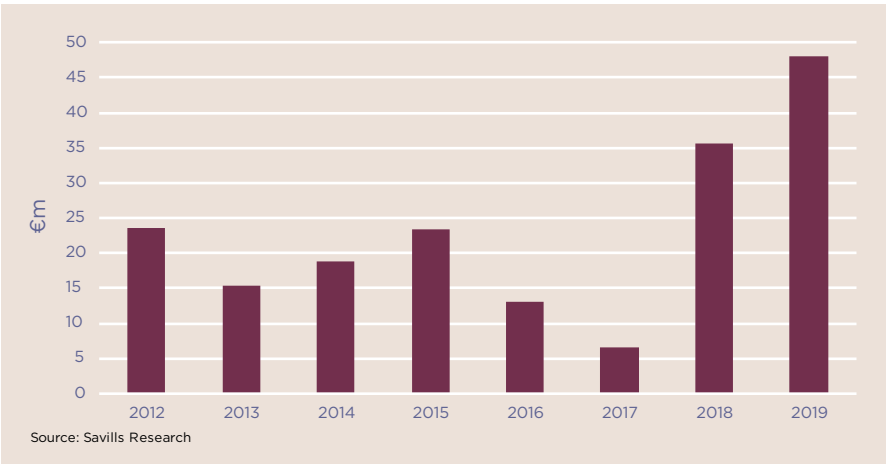


Figure 12: Price Trends in Dublin Apartments: PRS vs Mainstream Market

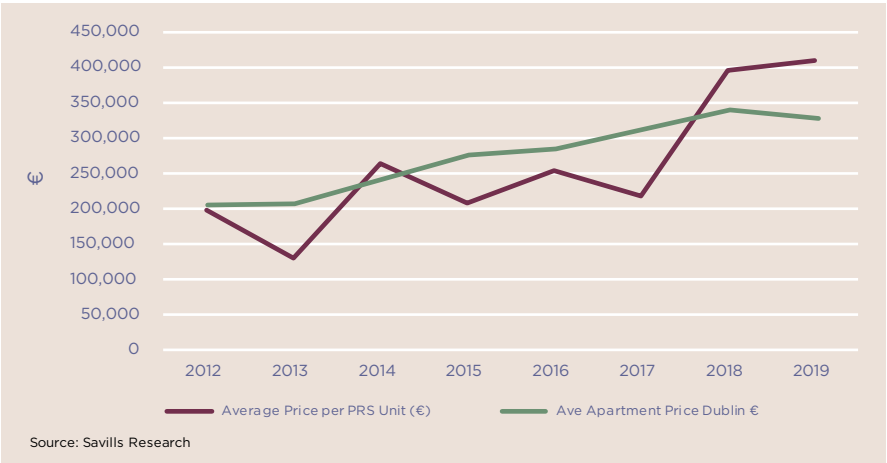
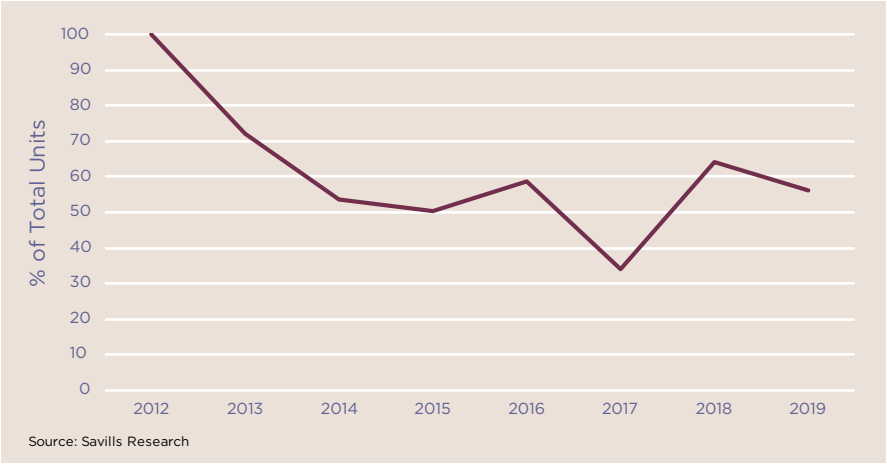


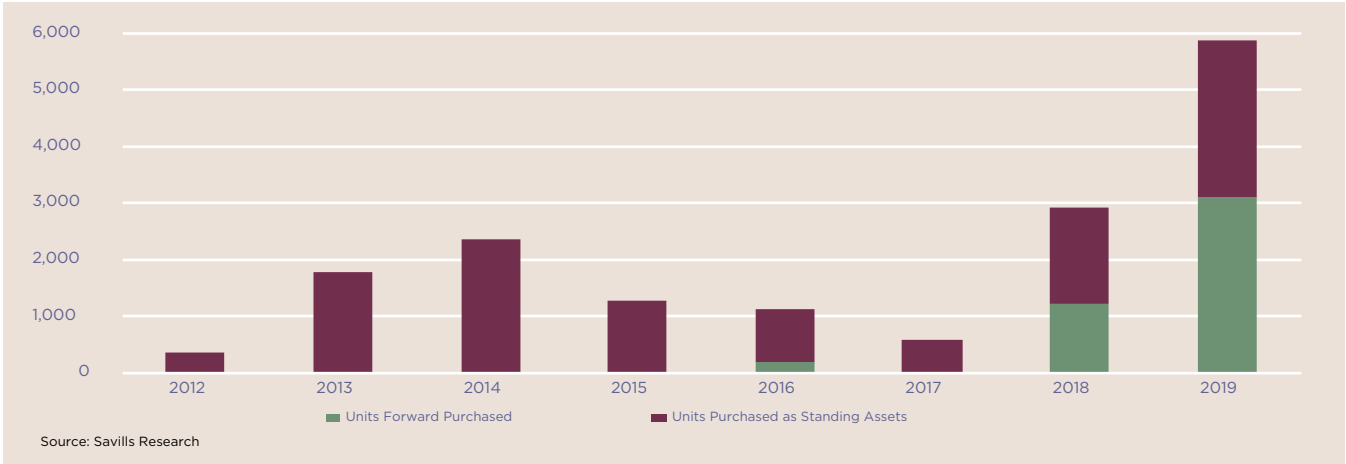
Figure 13: Average Proportion of Units Trading Within Schemes



recovered to 56%. Looking ahead, this is likely to increase further as standing assets will account for a smaller share of the units being traded.



Figure 14: Forward Purchased PRS Units as Proportion of Total Block Purchases



‘Additionality’

A common refrain in the housing debate is that institutional investors are crowding out first time buyers. The fact that PRS investors have been paying more for their properties on average undoubtedly feeds into this. However a closer analysis reveals that 3,110 of the 5,884 PRS units purchased in 2019 (53%) were bought through forward-purchase arrangements. Given the scarcity and cost of finance for speculative

development, and the naturally higher peak-debt levels required to build apartments, there is a strong argument that many of these units would have been delayed or may not have proceeded at all without the presence of institutional investors willing to pre-commit.

Figure 14 shows how the trend of forward-purchases has developed in recent years. In the early stages of the recovery, when there were plentiful opportunities to buy

standing assets, it did not feature. However as that stock was bought-up investors turned their attention to development assets and the forward-purchase route eventually became dominant in 2019. Since the start of 2012 just under 28 percent of block-bought PRS units have been forward purchased. However in the period since 2016 that figure has risen to 43%.

Buyer Nationality

Another narrative in the housing debate is that Ireland’s residential stock is being bought-up by foreign investors. Figure 15 shows that nearly three quarters (74%) of the PRS units that have been block-purchased in Ireland since the start of 2012 have been bought by foreign capital. However the graph also shows that the proportion of units being bought by foreign investors has tapered off in recent years, with just under one third of the units that were block-bought in 2018 and 2019 being acquired by Irish institutions such as IRES Reit, Irish Life Investment Managers and Urbeo, and by local authorities and housing associations.

Savills’ view is that foreign ownership of residential assets is both consistent with Ireland’s place in a globalised economy, and brings many benefits. Most of the foreign capital flowing into Irish PRS is institutional, long-term money. This provides tenants with greater security of tenure as the owners are less likely to sell-out. It may also lead to a better product and better tenant amenities as the building owners are motivated to reduce tenant turnover and therefore to invest more.

Rental Growth And Outlook

Rental growth as measured by the official RTB index is currently running at 6.6% y/y, reflecting tight conditions in Dublin’s occupational market.

However it is clear that the residential market, across all tenures, is gradually becoming more balanced. On one hand this is because population growth, while still strong, flattened over the course of 2019 and may have passed

Figure 15: Breakdown of PRS Units Purchased by Irish and Non-Irish Buyers

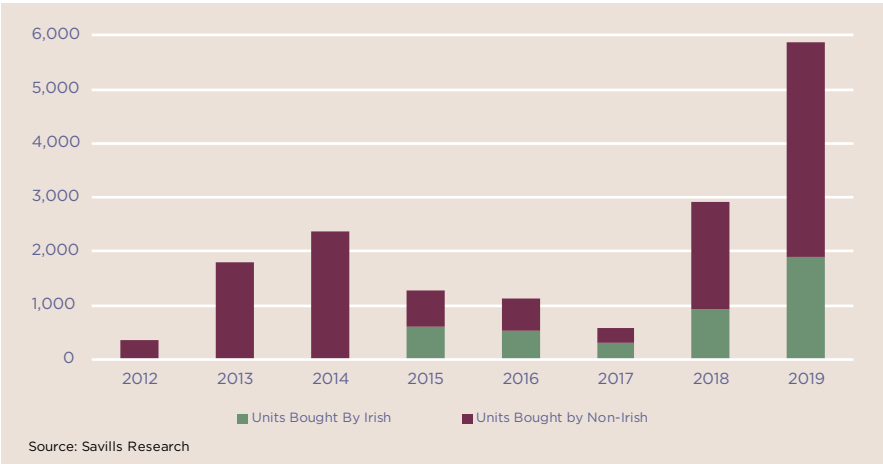
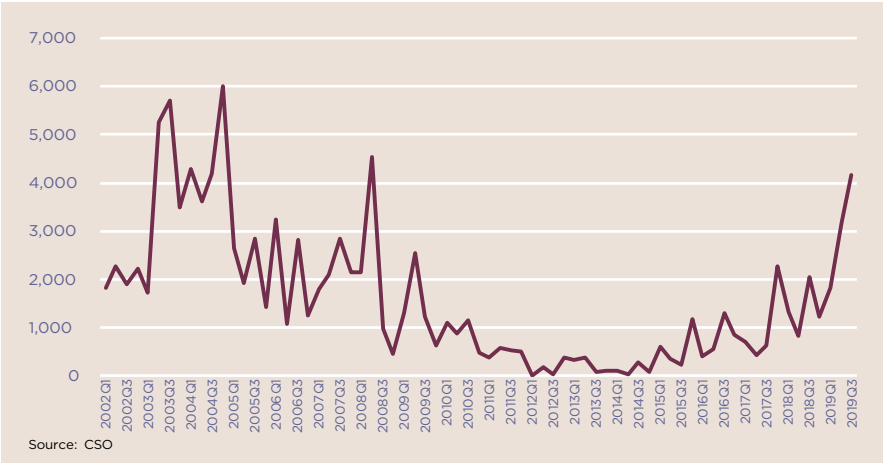


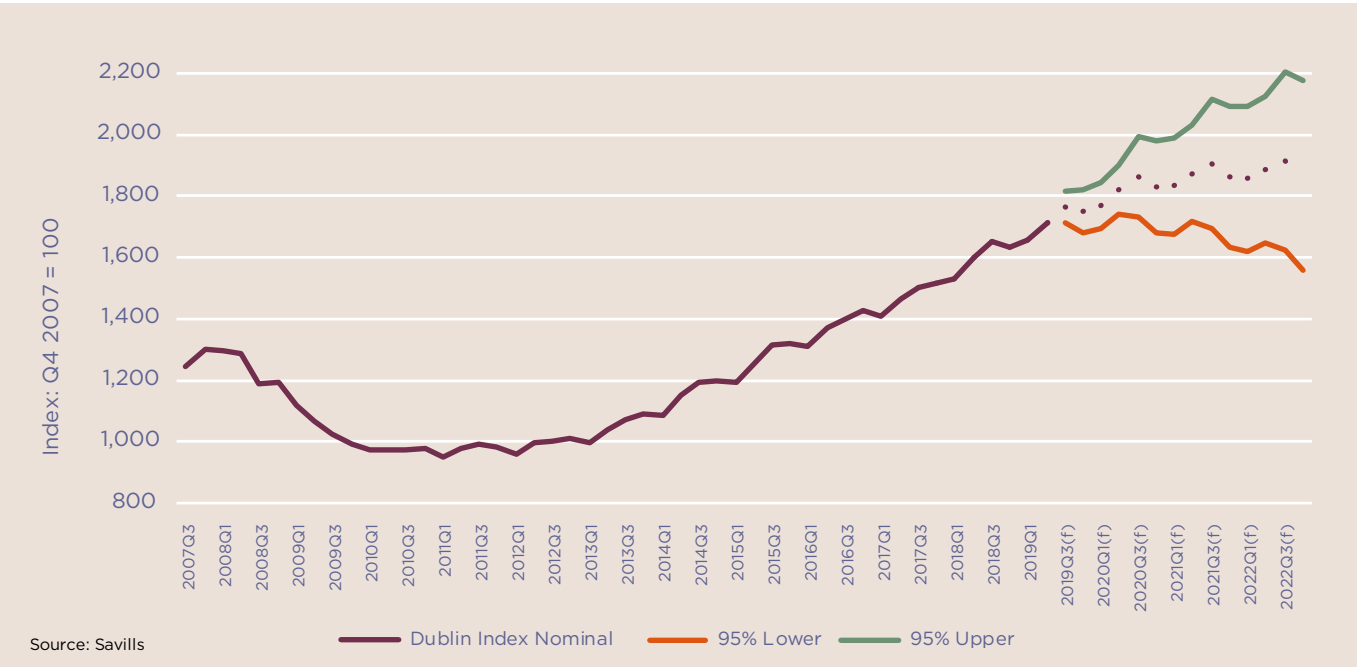
Figure 16: Dublin Apartment Planning Permissions



its peak for the current cycle. On the other hand, there has been a strong supply response to the housing shortage; The narrowest measure of residential development – ‘New Dwelling Completions’ rose by 18.3% in 2019 and now stands at 21,241 - 4.6 times higher than in 2013. The number of completions in Dublin was just under 7,000 units. Notably the New Dwelling Completions metric understates the true level of additional supply

as it excludes Purpose Built Student Accommodation (PBSA), the completion of partially built units and the refurbishment of previously uninhabitable dwellings. Factoring-in all of these elements Savills estimates that total supply in Ireland rose by over 25,000 units last year, and by 8,000 units in Dublin. This has contributed to the slowdown in both House Price Inflation and rental growth.

Figure 17: Forecasts of the RTB Dublin Rents Index 2020 - 2022



Looking ahead, there has been a surge of planning permissions for Dublin apartments. Given the locations it is likely that some of these will not materialise as PRS developments. However, shorter term leading indicators e.g. commencement notices and units under construction suggest continuing PRS output growth over the next 18 months and this will further contribute to a more balanced occupational market. Taking this and demographic trends into consideration Savills is forecasting that the RTB Dublin rents index will rise by just over 4% in 2020 and by a further 1.5% - 2.0% in 2021.

Table 1: Top 10 Multifamily Deals in 2019

Property	Location	Sold	Price €m	Units sold
XVI Portfolio	16 Locations, Dublin & Cork	Q2	285	815
Project Vert	2 Locations, South Dublin	Q4	217	385
Dublin Landings PRS	Dublin 1	Q3	175.5	268
Project Venus Re-trade	Various Locations	Q2	150	600
The Davitt	Dublin 12	Q4	127	265
Heuston South Quarter	Dublin 8	Q2	125	266
St. Edmunds	Palmerstown, Dublin 20	Q4	125	266
Fairways	Dun Laoghaire, Co. Dublin	Q2	108	214
The Quarter at Citywest	Citywest, Dublin 24	Q3	94	282
Mount Argus, Harolds Cross	Dublin 6w	Q3	93	179

OFFICES

Economic Backdrop

As outlined in the introduction, employment in Ireland rose by a remarkable 3.5% in 2019. Reflecting the changing nature of the Irish economy and Dublin's dominance as a primate capital city, 22,900 of the 79,900 net additional jobs (28.7%) were office-based roles in Dublin. Indeed, as shown in Figure 18, Dublin office employment has consistently outperformed the overall labour market, rising by a cumulative 36.2% since the start of 2010 – double the (still respectable) 18.0% recorded in all other sectors and locations.

Closer analysis shows that this growth in Dublin office-based jobs has been broadly based, with strong expansion across various service industry sub-sectors including Information and Communications Technology (ICT), Finance, Insurance and Real Estate (FIRE), Public Administration and Professional Services. Nonetheless ICT has led the way both in terms of the total numbers employed – currently 72,600 in Dublin, and the rate of employment growth – 62% since the start of 2012. We believe this reflects three things. On one hand, Ireland retains many of its traditional advantages as a location for mobile international capital. These include the youngest demographic in the EU27 (providing an inexpensive, tech-savvy labour pool),⁵ use of English as the main spoken language, close cultural ties with the US investor base, and a strong track record in successfully hosting Foreign Direct Investment (FDI) projects. In addition, the digitalisation of the global economy

Figure 18: Growth in Dublin Office Based Employment vs All Other Employment

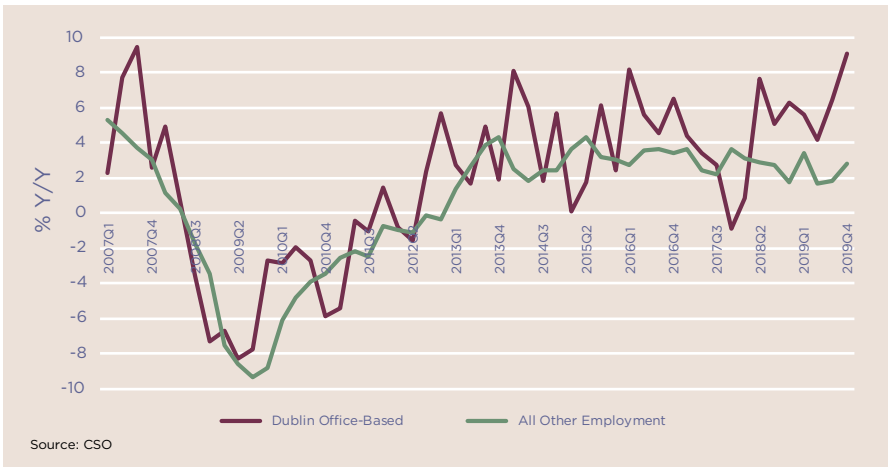
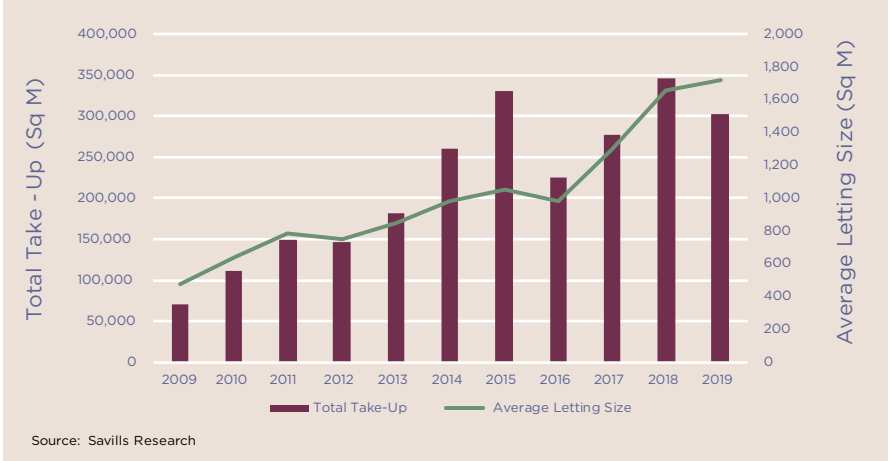


Figure 19: Total Take-Up and Average Letting Size – Dublin Office Market



has led to geographic peripherality becoming much less of an issue for Ireland; The rise of internationally traded services means that being on the western edge of Europe is no longer the barrier it once would have been to running a global business from Ireland. Finally, as discussed later in this report, Ireland has been a beneficiary of OECD-led efforts

to reform the global corporation tax regime. In particular BEPS Mk. I has encouraged multinationals, including tech companies, to demonstrate a material physical presence in Ireland to match the onshoring of intellectual property assets.

Occupational Market

The factors set out above have contributed to rapid growth in the scale of some multinational firms' office requirements in Dublin. Examples of very large lettings to global tech companies in 2019 include Salesforce pre-letting 43,664 sq m at Spencer Place in Q1, LinkedIn pre-letting just under 40,000 sq m at Wilton Park in Q4, Facebook leasing over 16,000 sq m in Sandyford in

Q1, and Amazon pre-letting 15,805 sq m at 2 Charlemont Square in Q4. Two direct consequences of this are illustrated in Figure 19. Firstly, the average letting size has increased sharply. Secondly, overall take-up has surged with lettings exceeding 300,000 sq m in 2019 for the third time in five years.

Looking more closely at the sub-sectors, the pattern of take-up has broadly followed jobs growth. As

shown in Figure 20 ICT continues to be the dominant sector, but the traditional sources of public sector, professional services and financial services also remain active.

Serviced office providers account for less than 2% of Dublin's modern office space. However in flow terms they represented 38,115 sq m of take-up in Dublin in 2018 – 11% of the year's total (they are the major component of 'Real Estate' take-up). However take-up by these flex space providers contracted by almost three-quarters to 10,195 sq m in 2019, resulting in the sector's share of take-up falling to 3.4%. The biggest flex space provider in Dublin is WeWork, which has been behind 77% of all serviced office lettings in the Dublin market since Q4 2017. This company suffered a failed IPO in 2019 and a number of mooted leasing deals in Dublin fell through later in the year. It will be interesting to see how this area of the market develops in 2020 and beyond. On one hand the serviced office offering is clearly meeting an occupier demand for increased flexibility – reflecting shorter business planning cycles. And, at least in Dublin, the entities taking desks from these providers are often reputable multinational brands. At the same time the failure of WeWork's IPO may have made investors wary of serviced office providers and, to date, this is reflected in an approximately 50bp discount on yield.

Another interesting development is that, while Dublin was traditionally a speculative office market, pre-lets have become a bigger feature since the start of the current cycle in 2014. As shown in Figure 22 they accounted for 52.1% of all the office

Figure 20: Dublin Office Take-up By Sector, 2019

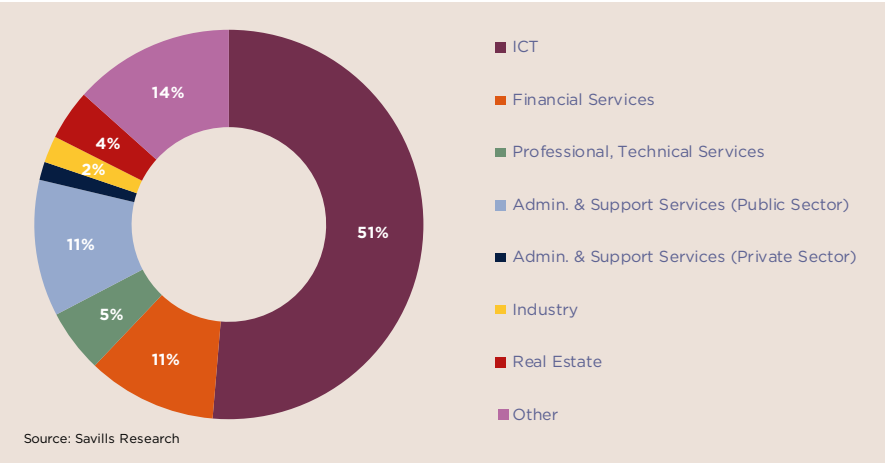
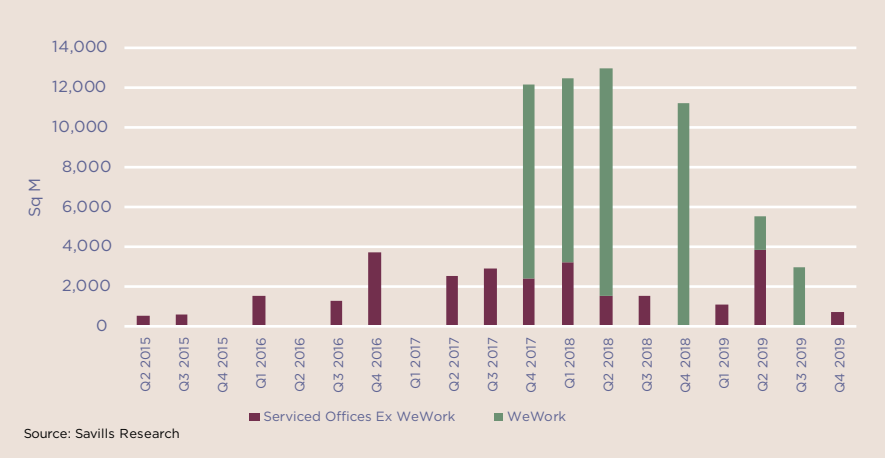


Figure 21: Serviced Office Take-Up in Dublin



⁵ Ireland currently has the highest proportion of people in the EU aged under 24 (33.1%). This compares with an EU average of 25.8%.

space leased in Dublin during 2019 – the highest proportion ever. Two factors are feeding into this trend. On the demand side, the increased scale of the office space requirements that are now emerging in Dublin means that occupiers have to plan ahead because their business space needs cannot necessarily be fulfilled in the speculative market. Meanwhile, on the supply side, the continued tightness of development finance has made it harder to speculatively develop office buildings, meaning that many developers have to wait for a pre-let to get onsite.

The emergence of pre-lets has led to a lag between lettings, which are counted in the current period, and net absorption which will be counted later, when the building completes and immediately becomes occupied stock. This statistical quirk led to absorption substantially lagging take-up in 2019. But, given the scale of recent office-based jobs growth and the quantum of pre-let space currently under construction, this will unwind with a strong recovery in absorption over the next 18 months.

Turning to the supply side of the market, new office construction in Dublin has been remarkably well contained considering the booming economy. Last year just 108,000 sq m of new space was delivered in Dublin, and gross completions have not exceeded 200,000 sq m in any year since the current development cycle began. By contrast, completions of around 300,000 sq m were seen on multiple occasions during the 2000s.

Significant removals of older space for redevelopment have, to a considerable extent, offset the new supply coming onstream. Figure 23 shows that almost 50,000 sq m of

Figure 22: Pre-Lets Share of Total Take-Up

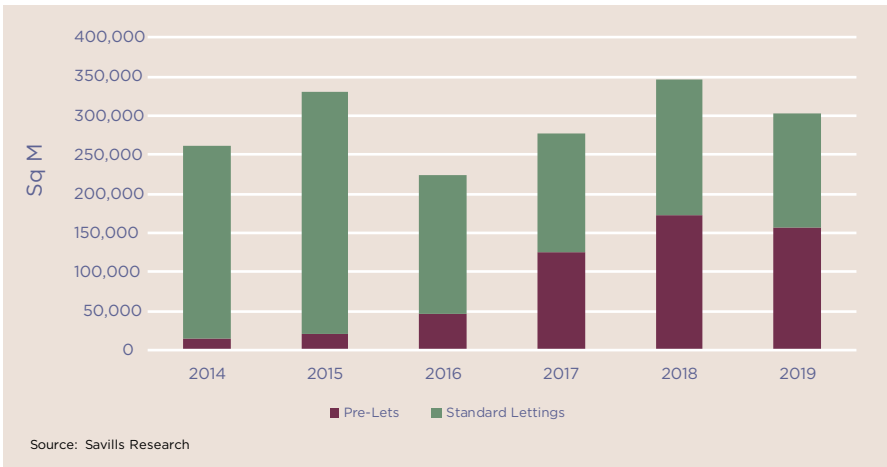
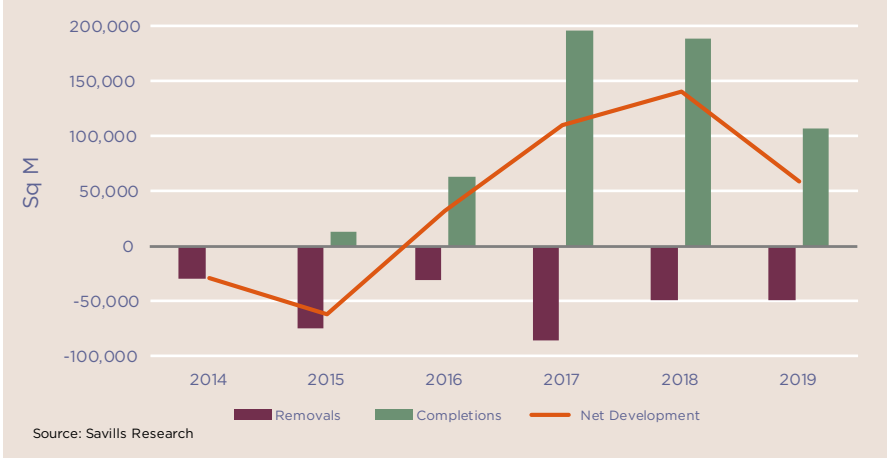


Figure 23: Gross and Net Office Development in Dublin, 2014-2019



older stock was demolished in 2019, meaning that net development was an even more modest 59,166 sq m for the year. Indeed, since this cycle started, 570,154 sq m of new space has been delivered gross. But after demolitions the net increase in stock has only been 252,950 sq m – just 44.3% of the gross development figure.

The coexistence of strong demand and well-contained supply in recent years has pushed the vacancy rate

down to 8.6%. As ever there is significant variation by location and building quality with, for example, just 3.1% of stock in the South Docklands area currently available.

The overall vacancy rate has picked-up slightly from the 8.1% low-point recorded a year ago, reflecting the lag in absorption discussed above. However, vacancy remains well below its 11.1% equilibrium rate and, as such, rents are well underpinned at current levels.⁶

Investment Market Activity

As outlined above, €2.01bn of capital was invested in Irish office assets in 2019, excluding the Project Eblana portfolio which contained a large offices element. Even without these assets, this total exceeded the previous (2015) record spend on Irish office property by 13 percent.

Not counting Eblana, there were 53 office property transactions during the year, with an average deal size of €37.85m – approximately 21% lower than in the PRS sector. Five of the sales were portfolios entirely made up of office buildings. The largest of these was The Cedar Portfolio, a collection of 11 prime buildings mostly in Dublin’s CBD, which Blackstone bought from Starwood in Q4 via an ICAV structure for a whisker less than €530m. But further office buildings were traded as part of mixed-asset portfolios, including the 20 offices formerly owned by Green REIT that traded as part of Project Eblana in Q4. When all of these assets are unpackaged a total of 90 individual office buildings traded across Ireland in 2019 – 9 fewer than in 2018.

Eleven of the office buildings that traded were located outside Dublin, with 7 of them in Cork. One of these, One Albert Quay, is a 15,514 sq m Grade A city centre building which was bought by Henderson Park as part of the Eblana portfolio. Meanwhile Yew Grove REIT continued with its regional strategy by purchasing Building 2600 at Cork Airport Business Park. Other regional assets traded in Limerick, Shannon and Galway.

Figure 24: Vacancy Rate, Dublin Offices



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
2018	186,858	50	3,737
2019	351,845	68	5,174
	1,795,836	452	3,973

However Dublin was again the main focus of investment activity, with 79 buildings trading in total. Of these, seven were period offices (Georgian houses), and details are unknown for a further four. However the bulk of the income-producing offices that traded, 68 properties, were modern (i.e. post 1960) purpose-built blocks.

In total these sales comprised some 351,845 sq m of space. This was the second largest amount of

modern business space ever traded in Dublin, and we have to go back to 2014, when bank deleveraging was in full swing, to find a year when more office stock changed hands. Incorporating last year’s figures some 452 buildings have been traded since this investment cycle began, comprising 1.8m sq m of modern office space (Table 2).⁷ This means that 46% of Dublin’s office stock has been sold in the last seven years.

⁶ Savills estimated the Natural Vacancy Rate for Dublin offices at 11.1% using econometric techniques in November 2019. Details are available by request.

⁷ Although this count includes some buildings that have traded more than once.



Charlemont Exchange, Dublin 2 – Sold by Savills on behalf of Ballymore & Oxley for approx. €145m

Modern Office Investment By Location

Looking initially at the geographical distribution of all office purchases, including ex. Dublin stock and period buildings in the capital, Figure 25 shows that there was a renewed focus on the prime Dublin

2 postcode in 2019, but notably less office investment in other Dublin postcodes and the regions. This reflects the increased availability of prime Dublin 2 properties arising from the sale of the Cedar and Eblana portfolios. Focusing more closely on the

68 ‘modern’ Dublin offices that changed hands, Table 3 sets out the amount of space that traded per location, and the Grade of that accommodation. The map provides the precise location of these 68 trades, by building size and grade.

Figure 25: Number of Office Assets Traded in Ireland By Location

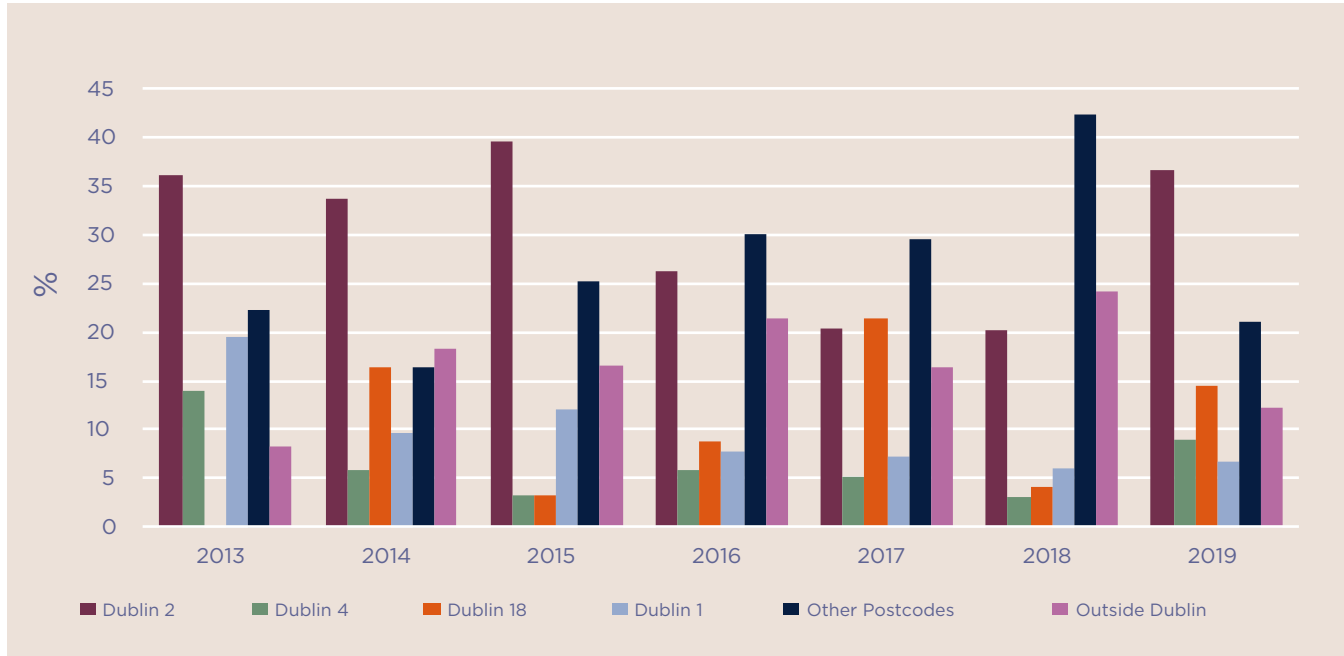


Table 3: Modern Office Sales in 2018, by Location, Size and Grade

	Sales	Sq M	Ave Sq M	% Grade A	% Grade B	% Grade C
CBD (Including Docklands)	34	180,340	5,304	64.9	23.5	11.6
City Fringe	4	13,471	3,368	52.6	1.5	45.9
Suburban	27	143,766	5,325	51.2	31.5	17.3
Other	3	14,268	4,756	0.0	65.3	34.7
Total	68	351,845	5,174	56.3	27.5	16.2

Figure 26: Dublin Office Sales 2019 by Location and Grade

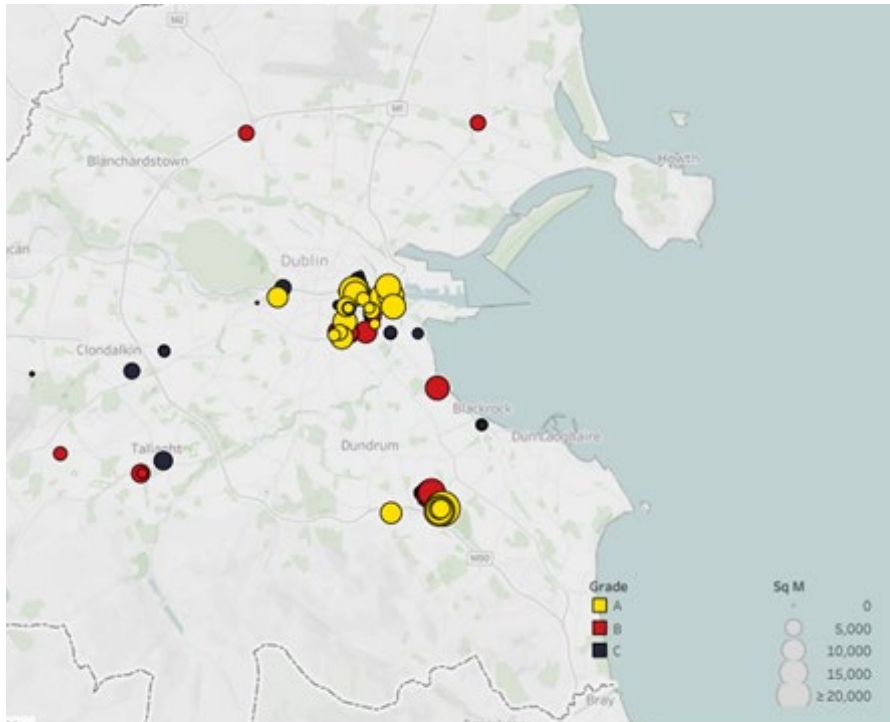
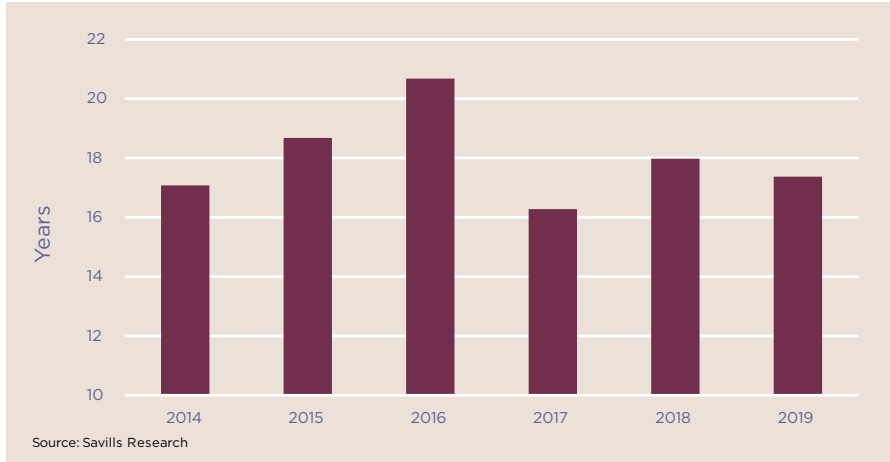


Figure 27: Average Age of Modern Office Blocks Trading in Dublin



Source: Savills Research

Vintage Of Stock Trading

The average age of the purpose-built blocks that traded was only 17.1 years in 2014, when receivership sales provided investors with the opportunity to access prime modern assets at distressed prices. As illustrated in Figure 27, these assets gradually became harder to source in 2015 and 2016, leaving investors to target slightly older properties. However there was a step-change in office construction in 2017. This created opportunities for investors to buy new stock and resulted in a sharp decline in the average age of sold buildings to just 16.3 years. Since then the flow of new office completions has eased, causing the average age of buildings trading to edge back up to 17.6 years. Within this there is significant variation by location, however. In the CBD and docklands, where new development is concentrated, the average age of the buildings that traded in 2019 was 16.4 years.

In our 2017 report we commented on the emergence of forward-funding as means of acquiring Dublin office stock. Fewer such deals are now taking place as office developers have improved access to development finance through traditional sources.

Looking Ahead

Several events contributed to uncertainty in the office investment market during 2019. However some of these concerns have eased since the turn of the year. Undoubtedly the avoidance of a crash-out Brexit in January was positive for Ireland. However it now remains for the UK to negotiate a trade deal with the EU. The nature of this agreement will define the ultimate impact of Brexit on the Irish economy and, by extension, the market for business space. Looking further afield, the ‘Phase 1’ trade deal signed between the US and China on 15th January also brings some stability to the global trade environment.

At the same time, however, there is continuing momentum behind global efforts to address corporate tax avoidance, and this may have implications for Ireland. The first round of the OECD’s BEPS project has, on balance, benefited the Dublin office market. In line with the ‘Permanent Establishment’ concept multinationals seeking to offshore intellectual property assets in Ireland are required by BEPS to demonstrate substance in the local economy. In practice this includes employing more people in Ireland, which may have contributed to some of the very large office lettings that we have seen in Dublin over recent years. However the BEPS project is now moving into a new phase. There are two pillars to BEPS 2.0. Under the first pillar a ‘New Nexus’ concept has been floated which would link taxing rights less to physical presence, and more to the geography of sales. This would present challenges for smaller countries like Ireland which

Table 4: Top 10 Individual Office Deals – 2019

Deal	Size (Sq m)	Price (€m)	Sold	Location
Cedar Portfolio	53,264	530.0	Q4	Multiple Locations
Five Hanover Quay, Dublin 2	15,136	197.0	Q3	Dublin 2
Nova Atria	25,529	165.0	Q3	Dublin 18
The Reflector, Hanover Quay, Dublin 2	11,122	155.0	Q4	Dublin 2
Charlemont Exchange	8,442	145.0	Q1	Dublin 2
No. 3 Dublin Landings, Dublin 1	10,550	115.0	Q4	Dublin 1
Portfolio at Citywest Business Campus	34,281	105.0	Q2	Dublin 24
Block B, Elmpark Green	9,322	53.1	Q4	Dublin 4
Buildings 3,000 & 4,000, Westpark Business Campus, Shannon	18,580	50.0	Q3	Co. Clare
Heuston South Quarter, Dublin 8**	7,081	50.0	Q2	Dublin 8

*Table includes mixed-use buildings with large office element

** Offices element only

could feasibly have to redistribute some of their Corporation Tax (CT) receipts to countries where the goods and services are being consumed. Pillar II proposes a minimum effective CT rate. The level at which this might be set and the method of application are currently being discussed. But it could potentially result in Ireland having to raise its effective CT rate. It could also encourage countries which currently have higher CT rates to target this minimum. Both

factors would present challenges to Ireland’s competitive advantage. In saying all this, however, Ireland has a formidable track record in attracting FDI over many years and, for that reason alone, is seen as a safe option. Furthermore Ireland has navigated its way through BEPS very effectively to date and, aside from the business friendly tax regime, offers many other attractions to mobile international capital.



The One Building, Grand Canal Street, Dublin 2 – Sold by Savills on behalf of Jones Investments to BNP Paribas REIM for approx. €49.5m

RETAIL

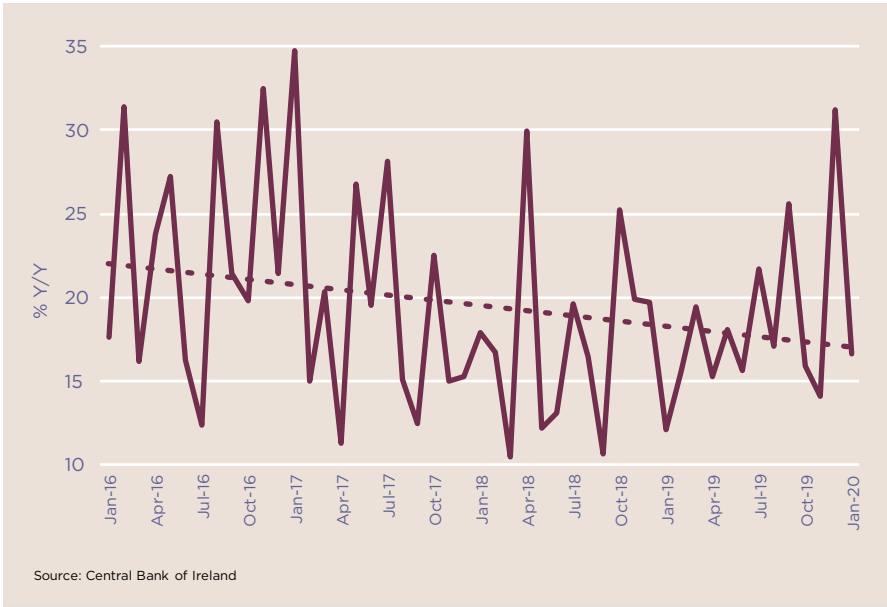


Crescent Link Retail Park, Derry, Sold by Savills for £30m

Economic Backdrop

The fundamentals of the consumer economy remain very strong. Household disposable incomes rose by 6.2% in the year to Q3 2019 due to the fact that more people were at work and that workers were earning, on average, 3.6% more than a year earlier. Given continued low inflation and interest rates this has translated directly into a strong uplift in real living standards. As a result ‘hard’ indicators such as VAT receipts and retail sales are performing strongly. There has also been an expansion in consumer credit which is positive as it feeds directly into households’ spending power and also as it signifies confidence among banks and consumers themselves that they can sustain the debt.

Figure 28: Growth In E-Commerce Spending Using Debit and Credit Cards



Source: Central Bank of Ireland

In the latter part of 2019 some weakness was evident in the ‘soft indicators’, including consumer sentiment. This probably reflected a ‘Brexit effect’ which now appears to have passed – sentiment has recovered somewhat since October. Whether or not this dips again as negotiations on the UK trade agreement kick-off remains to be seen. But, in any event, a key message seems to be that the dip in sentiment towards the end of 2019 did not significantly alter consumers’ behaviour.

While there is no doubting the strength of the consumer economy, a question mark remains about the extent to which consumer demand is translating into occupier demand for retail property. There has been considerable debate about the impact of e-commerce on the performance of retail property. Although there has been some moderation since the rapid expansion phase in 2015/2016, Central Bank data indicate that e-commerce expenditure continues to grow strongly (Figure 28).

This suggests that traditional retailers are conceding market share to e-tailers which clearly creates a direct headwind for the sector. But a less obvious challenge from online retailing is that the internet creates almost perfect pricing transparency, forcing traditional retailers into cutting prices to remain competitive. This pressure is clearly visible within the Irish retail sector. As shown in Figure 29 price discounting is evident in most retail segments (dots below the line). Unless offset by volume sales growth this can contribute to tighter margins and rent-affordability challenges.

While these pressures apply generally, the impact of online competition may differ across retail

Table 5: Consumer Economy Dashboard

Indicator	Latest Publication	Latest % Change Y/Y	1 Year Ago % Change Y/Y
Household Disposable Income	Q3 2019	+6.2	+6.4
Household Net Worth	Q3 2019	+4.9	+7.8
Retail Sales	Jan 2020	+3.7	-0.4
Average Gross Hourly Earnings	Q4 2019	+3.6	+3.2
Total Employment	Q4 2019	+3.5	+2.3
Outstanding Consumer Credit Balances	Jan 2020	+3.3	+3.6
Real Personal Consumption Expenditure	Q4 2019	+2.0	+2.8
Overseas Trips to Ireland	Q3 2019	+0.1	+7.6
Real VAT Receipts	Jan 2020	-2.3	+10.9
Live Register	Feb 2020	-7.3	-16.3
Consumer Sentiment	Jan 2020	-13.5	-10.5

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

Figure 29: Annual Retail Sales & Price Growth by Sector (3-mth Mov. Avg. Jan 2020)



Source: Savills Research, CSO



Phase 2, The Park Carrickmines, Dublin 18 – Savills advised IPUT on the off-market acquisition of this asset for approx. €95m

Figure 30: Retail Rents % Change Y/Y

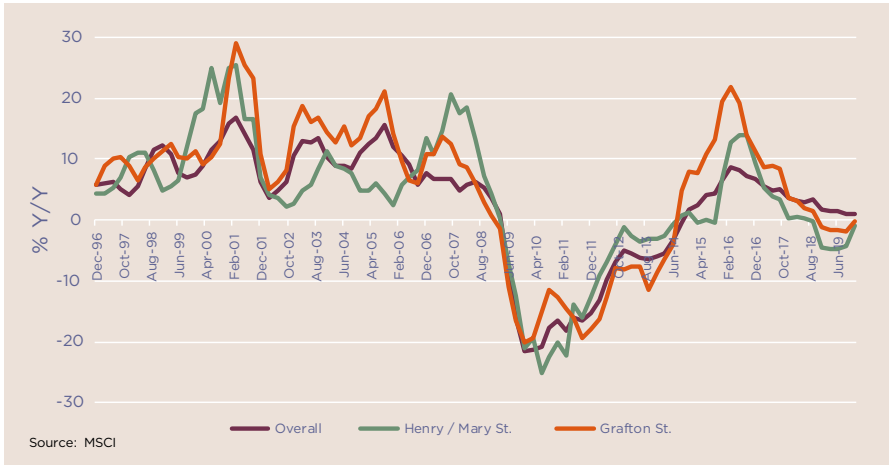
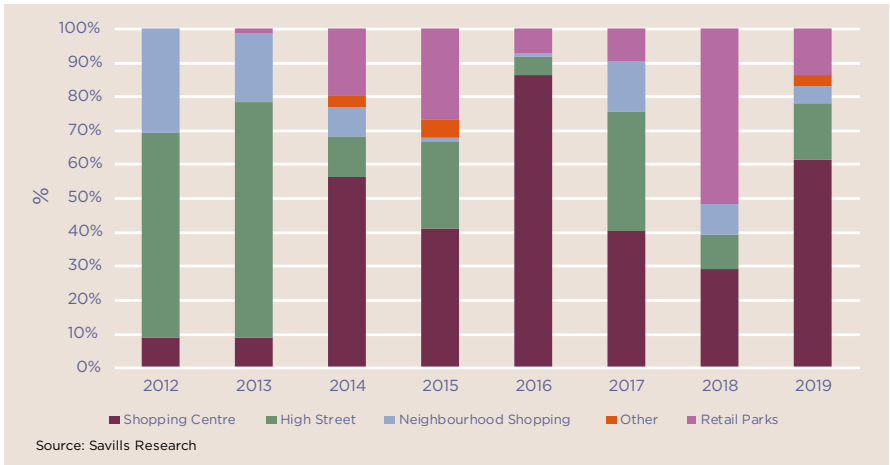


Figure 31: Share of Retail Investment By Sub-Sector



sub-sectors. An emerging wisdom in recent years is that prime high street locations should be more resilient to the online threat as consumers still need a place to physically inspect and experience goods – even if their purchases subsequently happen online. Prime locations are more suited to this ‘showroom’ function because they help to communicate positive brand values. A number of leasing deals are currently agreed on Dublin’s Grafton Street and the latest MSCI data for both Grafton and Henry Streets indicate an improving rental growth story (see Figure 30).

Market Activity

In total just under €651m was spent on income-producing retail property in 2019 – equating to 9% of the year’s total investment turnover. This represents a 26% increase on 2018.

As shown in Figure 31, shopping centres were the dominant target for retail investors. These accounted for 62% of all the retail stores that traded during the year, with a total of €400.75m spent on 10 assets. The biggest retail deal of the year (and the seventh largest overall) was the Q4 purchase of St. Stephens Green

Shopping Centre for €175.5m in Q4 by local buyer Davy. Indeed Davy bought half of the shopping centres that traded last year, accounting for 65% of total spend in the sector. In addition to the St. Stephens Green Centre Davy acquired regional assets in Athlone, Mullingar, Cavan (part share) and Cork. Two other notable shopping centre sales in Dublin during the year were Irish Life Investment Managers’ purchase of IPUT’s 25% share in the Pavilions Shopping Centre in Swords for €71m and German syndicate AM Alpha’s purchase of the Northside Shopping Centre for €49.2m.

Retail park investment fell from €267m in 2018 to €87.5m last year. Over €1bn has been spent on retail park assets since 2013 and, with very limited new development to supply investor appetite, it was perhaps inevitable that this would eventually lead to thinner trading. Two of the three parks that did sell were in Cork – IPUT bought Mahon Retail Park in Q2 for €56m while German discount retailer LIDL bought West City Retail Park in Ballincollig for €6.5m towards the year end.

62 high street shops traded back in 2015 when distressed sales were injecting liquidity to this market. But the number of units trading has now contracted for four successive years as these assets have been bought-up and locked-in to long term ownership. Only 15 high street shops of over €1m traded across Ireland last year, the fewest since 2012. The biggest deal of the year was German Institution DWS’s purchase of 7-9 Henry Street in Dublin for €44m in Q1. Illustrating the illiquidity that exists at this upper end of the market, this unit was only the 10th to be sold in the Henry St. / Mary St. area in the last decade. Moreover, for the second

Figure 32: Number of High Street Shops Traded, by Location

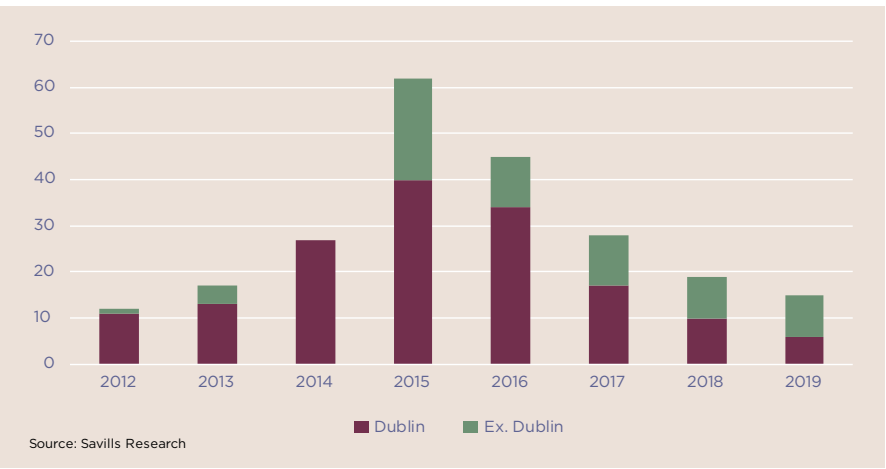


Table 6: Top 5 Retail Deals – 2019

Property	Location	Sub Sector	Quarter sold	Price, €m
St. Stephens Green Shopping Centre	Dublin	Shopping Centres	Q4	175.5
The Pavilions (25% Share)	Dublin	Shopping Centres	Q1	71
Mahon Retail Park	Cork	Retail Parks	Q2	56
Northside Shopping Centre	Dublin	Shopping Centres	Q4	49.2
7-9 Henry Street	Dublin	High Street	Q1	44.27

Source: Savills Research

year in a row, no properties traded on Grafton St. - Dublin’s other prime retailing thoroughfare – due to no units becoming available.

Another trend illustrated in Figure 32 is the increasing regional bias in high street store sales. Four units in Cork sold during the year for an aggregate €28.26m. Five other regional assets in Galway, Limerick and Tralee made up the residual investment in this sector.

A notable trade in the neighbourhood shopping sector was the purchase of the Tesco store in Gorey by French real estate investor Corum AM for €20.75m.

INDUSTRIAL & LOGISTICS

Economic Backdrop

The demand for industrial and logistics space ultimately reflects the extent to which physical goods are being stored and moved within the economy. In turn this depends on the quantity of goods being produced and consumed, and the degree of geographical separation between production and consumption. National accounting practice nets the value of imports (an outflow of money from the Irish economy) against the value of exports (a flow of money into Ireland). But, in a small open economy like Ireland, the additive total of gross goods imports and gross exports can be a useful indicator of demand for supply-chain services, including logistics property.

As would be expected in an outperforming economy, this measure shows that there has been sustained strong growth in the real value of inbound and outbound goods flows over the last three years.

While such financial measures can be useful, they track the demand for warehousing space imperfectly. This is because, even in a bad economy, people can substitute low-value purchases for more expensive buys, with no impact (or even a positive impact) on the physical volume of goods being consumed. Therefore it is useful to supplement our logistics economy dashboard with more tangible measures such as marine and airport freight volumes, road freight volumes, goods vehicle registrations and population growth (a good proxy because everybody needs ‘stuff’). This also shows a broadly positive picture of logistics demand.

Figure 33: Gross Flow of Goods Imports and Exports

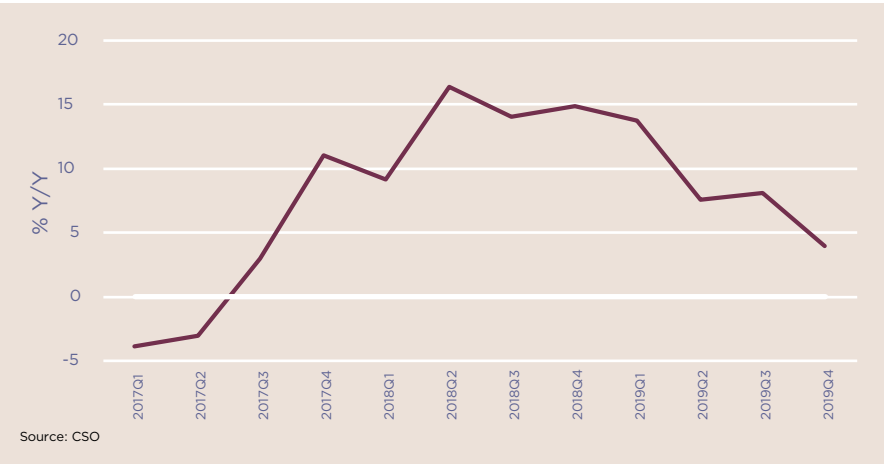


Table 7: Logistics Economy Dashboard

Indicator	Latest Publication	Latest % Change Y/Y	1 Year Ago % Change Y/Y
Road Freight Volume Dublin	Q3 2019	5.2	10.6
Gross Flow of Goods Trade	Q4 2019	4.0	14.9
Industrial Production: Traditional Sectors	Q4 2019	3.2	9.2
Population Growth Dublin	Q4 2019	1.7	1.5
Population Growth Ireland	Q4 2019	1.3	1.2
Road Freight Volume: National	Q3 2019	1.2	11.8

Occupational Market

Reflecting increased movement of goods within the economy, occupier demand for industrial and logistics property was strong in 2019. In total 296,924 sq m of industrial and logistics space was taken-up in Dublin during the year – 3.8% down on 2018, but 11.9% above the long-term average.

This fed through to net absorption of 111,738 sq m. Deconstructing this, 70,320 sq m of the absorption was facilitated by new development, with 31,551 sq m accommodated by the consumption of previously vacant space.⁸ As a result the vacancy rate edged down to 2.5% at the end of 2019.

Inevitably, with vacancy contained at such low levels, there has been upward pressure on rents. The Savills Industrial and Logistics rent index rose by 10% in 2019 and prime rents now stand at approximately €110 per sq m per annum. Looking ahead this is set to continue and we expect to see rents edging-up further in Q1 2020. Savills has recently extended its rent forecasting repertoire to the logistics sector and the econometric models show continued strong rental growth, albeit at a gradually moderating rate, in 2020 and 2021.⁹

Investment Market Activity

Just under €263m was spent on income-producing industrial and logistics property during 2019 – a new record for the Irish market by over 10% compared with the previous peak in 2014. There were 18 industrial / logistics deals during the year, somewhat down on previous years. However the bite sizes were larger with an average value of just under €14.6m per transaction. This reflects two factors. Firstly, driven by the Ireland growth story and by investor perceptions that e-commerce will create an upside for logistics, demand for warehousing assets has seen yields harden by 75bp since 2017, driving up values. Secondly, six of the year’s transactions involved portfolios of multiple logistics buildings.

In addition, to the pure logistics portfolios, a number of buildings at Horizon Business Park also traded as part of the Eblana mixed-asset portfolio. Taking all of these into account 54 industrial and logistics facilities traded during the year.



Dublin Airport Logistics Park, St Margaret’s Road, Co Dublin – Savills advised DWS on the off-market acquisition of various logistics units for approx. €41m

Figure 34: Logistics Take-Up 2009-2019

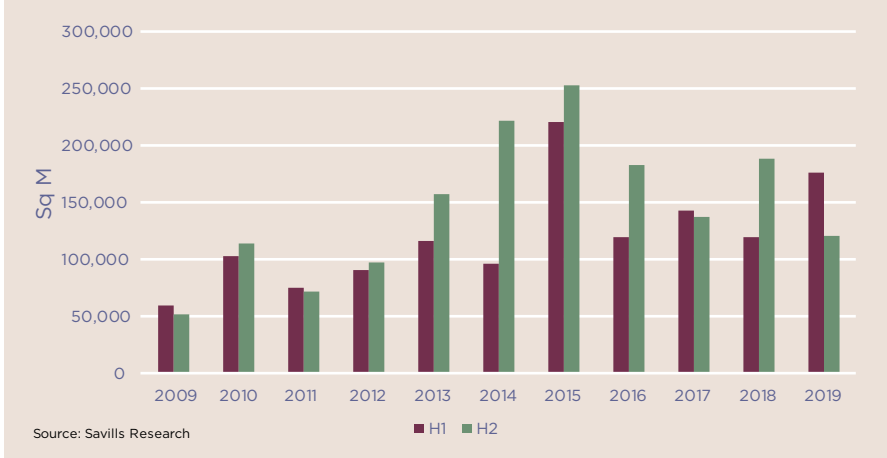
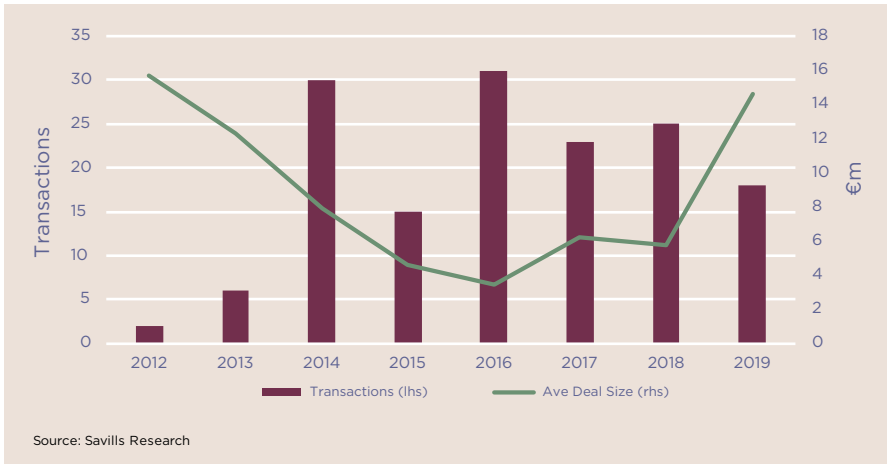


Figure 35: No. of Industrial & Logistics Transactions and Average Transaction Size



⁸ The residual of 9,867 sq m reflects data revisions.

⁹ Savills’ econometric rent forecasting models now cover offices, retail, residential and logistics. Further details are available by request.

Figure 36: Dublin Logistics Sales 2019, by Location, Size and Decade of Construction

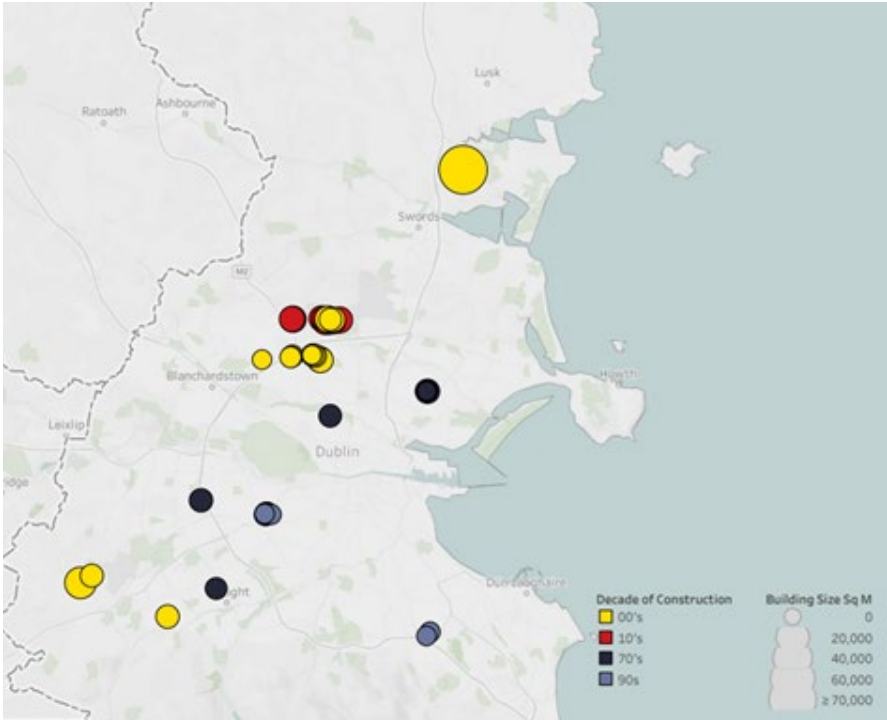


Table 8: Top 5 Industrial Deals, 2019

Property	Location	Sold	Price €m
Tesco Distribution Centre	Donabate, North Co. Dublin	Q4	160.0
The Compass Portfolio	Various	Q4	30.8
Dublin Airport Logistics Park Portfolio	North East Dublin	Q3	18.5
Mygan Business Park Portfolio	North East Dublin	Q3	11.2
Unit 1 Stadium Business Park	North West Dublin	Q2	10.5

Logistics Investment By Location

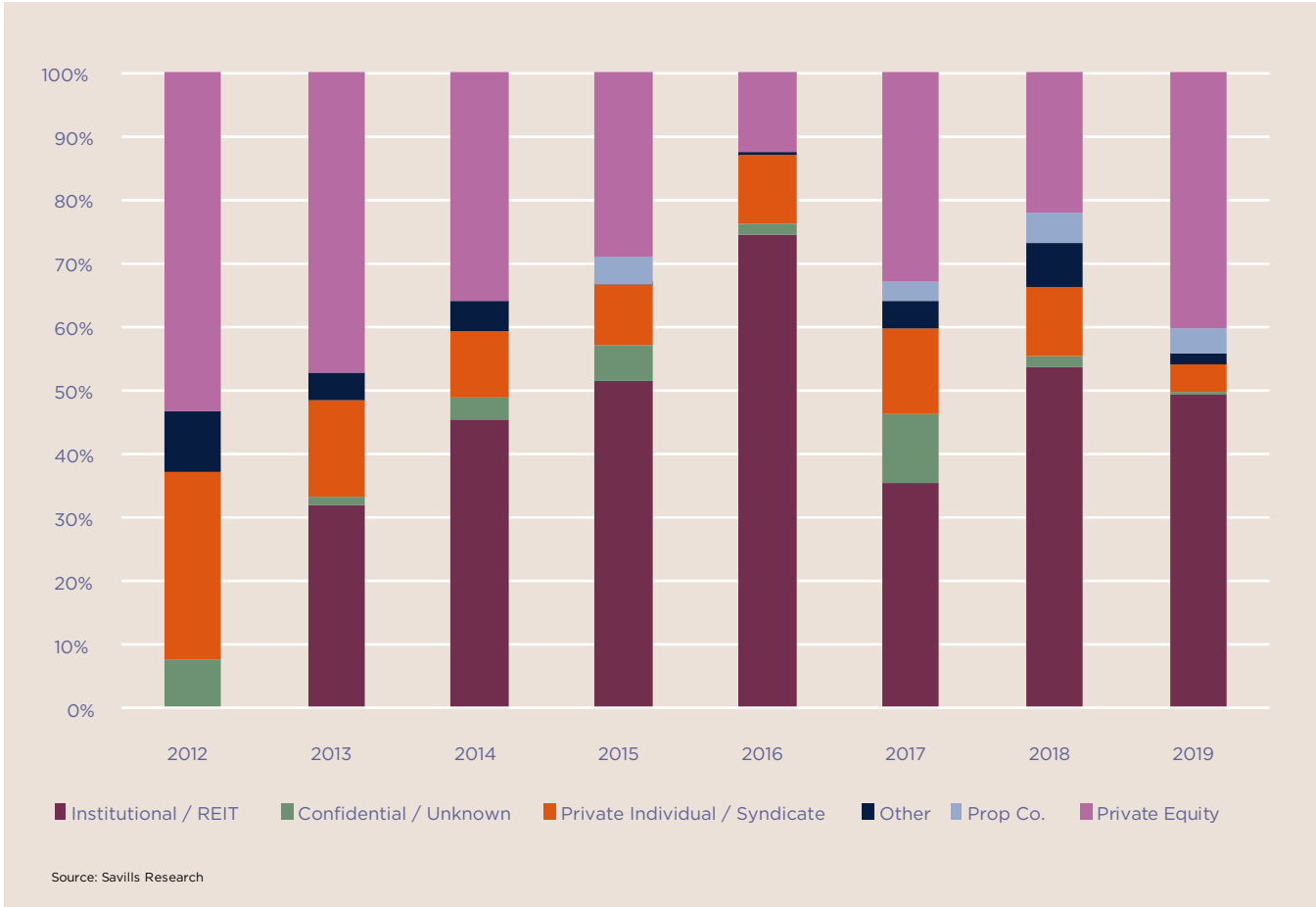
51 of the 54 units that traded in 2019 were in Dublin. Of these, 14 were in the traditional South West corridor, with four in the North West and two in the South East. But most of the assets that traded, 31 in total, were located in the North East corridor near Dublin Airport. Partially this reflects the location of the product that happened to come to the market with several portfolios of assets in this location trading, including multiple unit sales in Dublin Airport Logistics Park, Horizon Business Park, Butterly Business Park, Mygan Business Park and Century Business Park.

The detailed location of the units that traded in 2019 is indicated in the map opposite.



INVESTMENT BY BUYER TYPE

Figure 37: Investment Turnover by Buyer Type

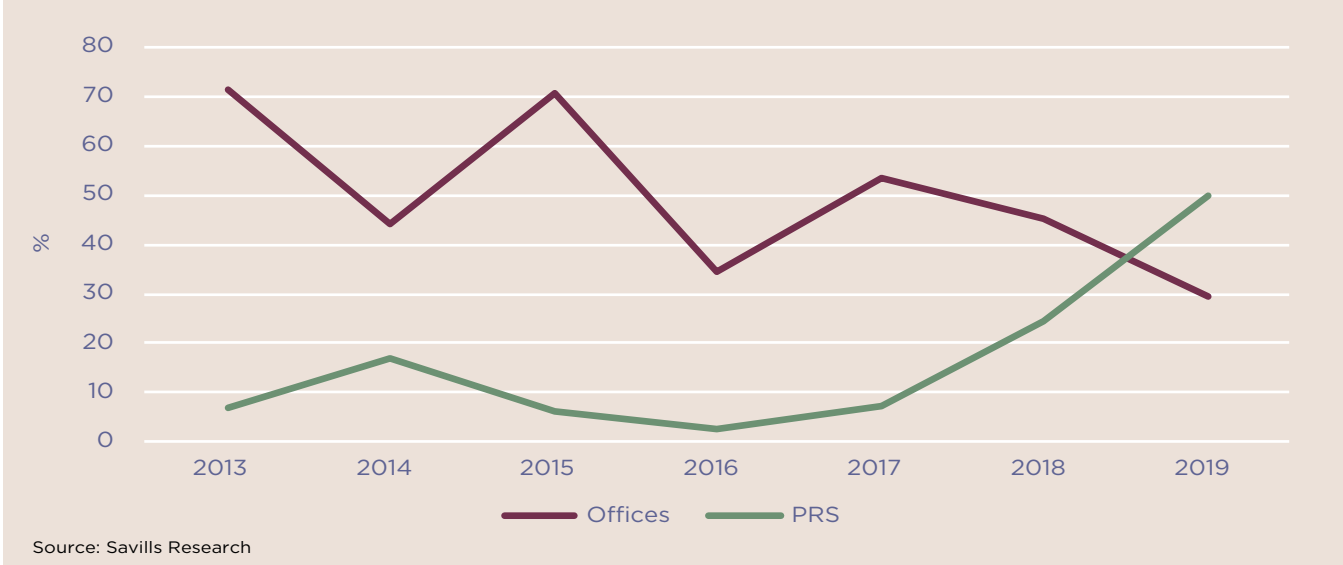


For the sixth year in a row institutions and REITs were the biggest buyers of Irish investment property in 2019. Their spending amounted to €3.65bn – accounting for 49% of the year’s total turnover. Indeed the institutions have accounted for 50% of aggregate spending since 2012, and have deployed €14.4bn of capital during that period. Undoubtedly this reflects the fact that Ireland is now firmly established as a prime investment location, the country risk premium has tightened, and pricing of property assets has hardened in line with the strength of occupational markets.

However, there has been a big shift in what the institutions are buying. As shown in Figure 38, office investments continue to absorb just under one third of the capital deployed by these players. However there has been a surge of institutional money flowing into the PRS sector in recent years and, for the first time in the market’s history, residential assets accounted for both the largest share and an overall majority of institutional spending on Irish property. Institutional demand for Irish PRS reflects the experience of investors in continental Europe that such assets deliver secure and

predictable income due to a stable occupier base with low levels of tenant turnover. Interestingly, institutional investors spent almost €190m on industrial and logistics properties during 2019 – the most capital that they have ever deployed into this sector. This represents a vote of confidence in the domestic economy as, given Ireland’s location, the demand for warehousing space will always depend on local consumption and production. Providing an interesting insight into how Ireland is perceived externally, foreign

Figure 38: Offices and PRS Share of Institutional Spend on Irish Property

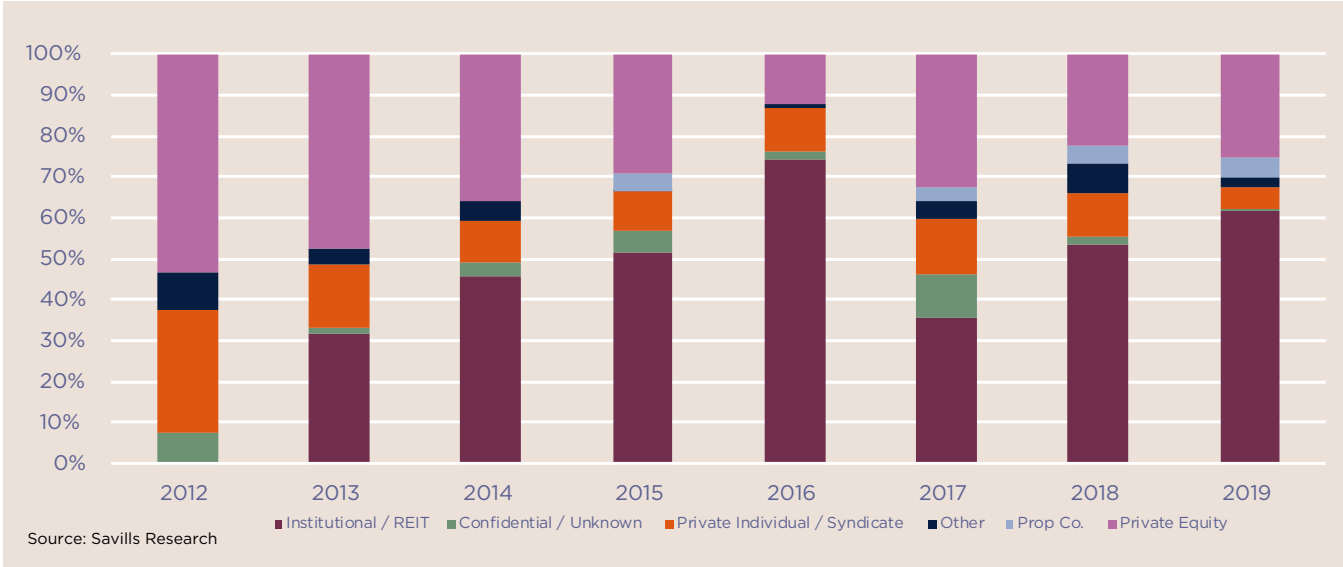


buyers accounted for all three institutional purchases of logistics assets in 2019. Perhaps unsurprisingly, given their funding model and investment objectives, the average deal size for institutional buyers in 2019 was €66.4m - well above the €27m

average for all other buyer types (which itself is heavily inflated by Henderson Park’s acquisition of Project Eblana). Institutions and REITs were on the buy-side of 24 of last year’s 33 €50m plus deals. The Private Equity share of investment spending rose to 40%

- Its highest share since 2013, with almost €3bn spent. However, half of this figure was accounted for by the Eblana deal. If we remove this outlier from the analysis the pattern of trading by buyer type conforms more closely with the expected pattern at the current stage of the cycle (Figure 39).

Figure 39: Investment Turnover By Buyer Type, Excluding Eblana



INVESTMENT BY BUYER NATIONALITY

Big shifts have occurred in the origin of capital entering the Irish property market in recent years. But, as shown in Figure 40, 2019 was the most balanced year ever for the market in terms of where the capital flowed-in from. Irish buyers have accounted for a gradually decreasing share of turnover since 2013. In part this reflects a denominator effect – total investment in 2013 was just €1.9bn and, in relatively thin trading, domestic buyers are always likely to be more prominent. The increasing share of foreign capital since then reflects limitations on the amount of Irish equity, but also improving external perceptions about the Irish economy.

Within the foreign buyer pool US investors have been active since the earliest stages of the recovery and remain so. They deployed €1.3bn in Ireland last year, almost double the 2018 amount. However, given the big rise in overall spend, their share of turnover remained static at 17.6%.

A significant change in the market since 2015 has been the emergence of core institutional money from Continental Europe. European buyers (ex. UK) have spent just under €5bn on Irish property since 2015, with €1.8bn being deployed in 2019. As shown below core institutional investors made up 95% of this and have accounted for almost all of the European inflow in recent years. This capital is attracted to Ireland because of the strong economy, a consistent, business-friendly policy framework, long leases and yields which compare favourably with other prime European cities.

More than half of this capital targeted the PRS sector with European Institutions and REITs spending €915.5m on residential assets in 2019. Examples include

Figure 40: Investment Turnover by Buyer Nationality

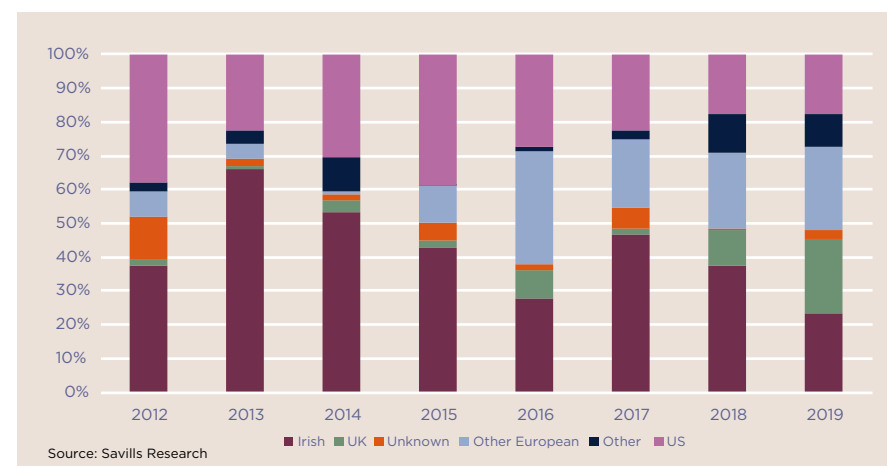
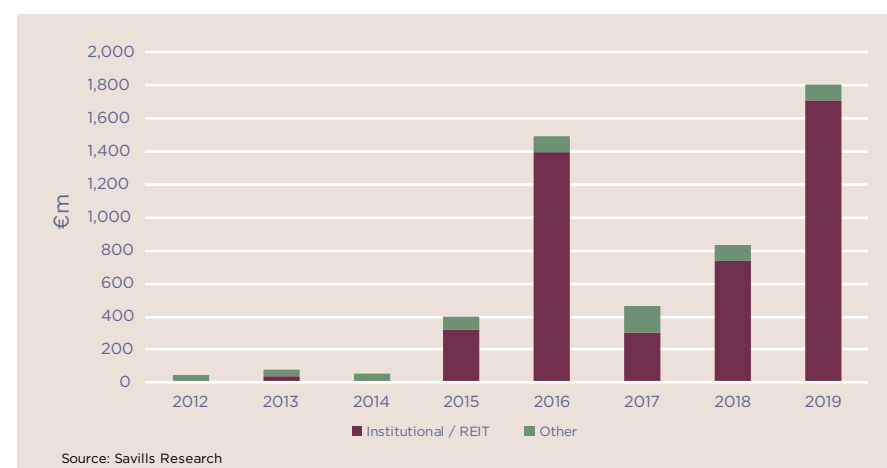


Figure 41: Continental European Investment by Buyer Type



German institutions DWS, Patrizia and Real I.S., purchasing private rental units in South Dublin, And Dutch institution Orange Capital Partners buying apartments in West Dublin and the Belgrave Collection – a portfolio of pre-'63 apartment conversions in various locations around Dublin. The bulk of the remaining capital from non-UK European sources flowed into offices with €570.2m being spent in this sector by continental European investors. The bigger office deals were made by German institutions

- 5 Hanover Quay bought by Union Invest for €197m, The Reflector bought for €155m by Deka and Block B at Elmpark bought by German investment fund Quadoro Doric for €53.1m in Q4.

In last year's report we noted the arrival of Asian money – a phenomenon that had been evident across Europe. Asian buyers, from Singapore and Korea, invested just under €337m in Ireland last year, in offices, hotels and a major grocery distribution centre in North Dublin.

INVESTMENT BY SELLER TYPE

Figure 42 illustrates trends in the identity of vendors over the last eight years. As the cycle strengthened in 2015 and 2016 institutions such as NAMA took advantage of rising values to dispose of assets, while other institutions took the opportunity of selling older assets to rejuvenate their portfolios. However NAMA has become less active in the market and the quality of the Irish institutions' assets is now very high. So, as a result, institutional parties have accounted for a declining share of sales since 2016. On the face of it 2019 bucked this trend. However, if we exclude the sale of the entire Green REIT in Q4, the downward trajectory of the institutions as a source of product continued. Notably, around one quarter (24.8%) of the stock sold by institutions and REITs during the year traded back into institutional ownership.

Property companies accounted for 36% of sales in 2018, a considerable uplift on the preceding years when development was largely on hold. However, due to timing issues, 2019 was quite a modest year for commercial property development and this naturally dragged on investment sales by property companies. Somewhat offsetting this, 2019 was a remarkable year for forward sales of PRS assets, with almost €555m of residential assets being forward-sold by Prop Cos during the year. The net impact was for property companies' sales to ease back slightly during the year – from €1.35bn to €1.15bn.

The conventional wisdom is

Figure 42: Investment Turnover by Seller Type (Ex. Eblana)

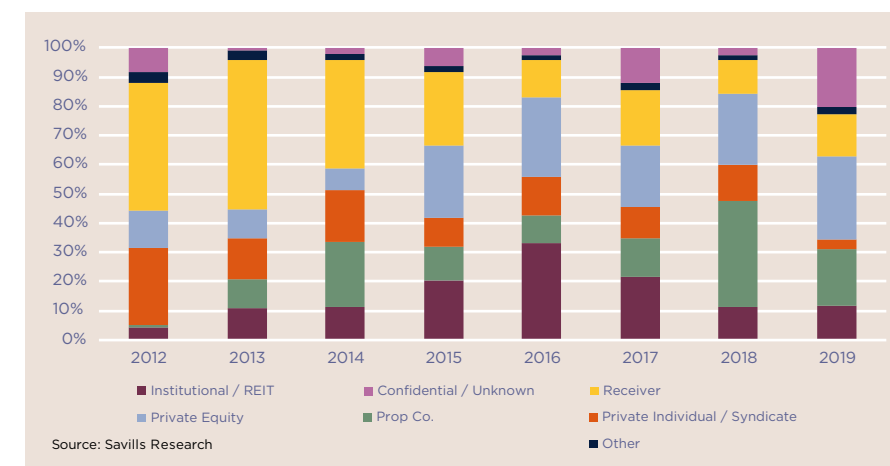
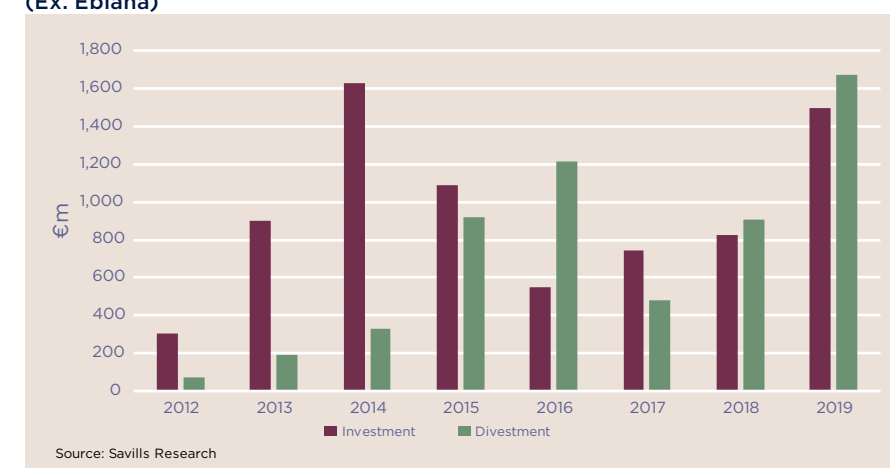


Figure 43: Gross Flows of Private Equity Capital Into and Out Of Irish Property (Ex. Eblana)



that, as markets mature and are perceived to carry less risk, private equity companies with higher return requirements and shorter investment horizons will take profits and seek opportunities elsewhere. In Ireland this trend was bucked in 2019, with €3bn of capital flowing

in from private equity sources and €1.67bn flowing out. Once again, however, Project Eblana obscures the underlying trend. Excluding this from the analysis, PE divested a net €180m from Irish property in 2019, and has withdrawn a net €491m over the last 5 years (Figure 43).

CORK

2019 was another solid year for the Cork investment market with turnover totalling €191m, down from the 2018 figure of €258m which was a record for the market.

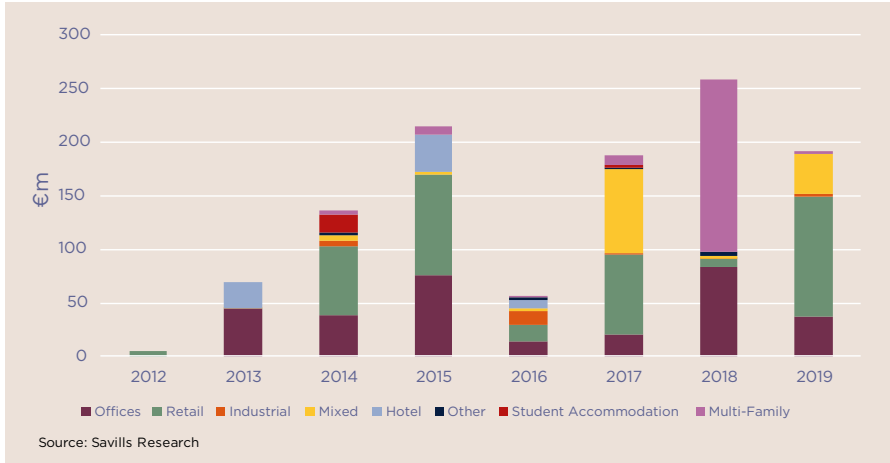
Retail assets accounted for just under 60% of the year's sales, with €112.4m spent. Fifty-six million Euros of this related to IPUT's purchase of Mahon Retail Park in Q2, but there were two other retail deals of €19m and over. Offices accounted for a further 19.5% of turnover, with €21.25m of the €37.3m spent in this sector being accounted for by Bartra's acquisition of five buildings in Cork Airport Business Park. Mixed-use assets, including Kennedy Wilson's €36m purchase of Half Moon Street made up most of the remaining spend.

The Mahon Retail Park and Half Moon Street transactions demonstrate that Cork is increasingly attracting institutional capital from Ireland and abroad and institutions accounted for 73% of the year's purchases. Indeed an increasing number of big-ticket assets in Cork have found their way into stable institutional ownership in recent years having been acquired by IPUT, Kennedy Wilson, Real I.S. and the LRC Group. This has firmly established the Cork investment market as a viable and attractive investment location.

With prime yields approximately 75bps higher than in Dublin across the range of sectors, Cork offers a favourable alternative when investment-grade assets come to market. The challenge for the market remains the scarcity of available stock, both for larger investors and at a more granular level for small-scale investors who are looking for assets with active



Figure 44: Cork Investment Turnover by Sector



asset management potential. While the stock levels are a challenge, Significant development is taking place and Cork is a much more positive location for investment than was the case four to five years ago.

NORTHERN IRELAND

Despite political and macroeconomic challenges, and structural changes in the retail sector, £215m of income-producing commercial real estate assets transacted in Northern Ireland in 2019 - a 23% increase on 2018. Notably the year finished very strongly with 43% of turnover being booked in Q4.

Retail was the biggest sector – a consistent theme since 2010 – and accounted for 43% (£92.7m) of the year's investment turnover. Within this, retail parks were the dominant subsector, with four assets trading for a combined value of over £82m. Office trading was not far behind retail, accounting for 42% (£89.9m) of spending, dominated by the sale of Gateway Offices at Titanic Quarter in Q2 for £34.35m (NIY 5.43%).

Northern Ireland Outlook

The Northern Ireland Investment market performed ahead of expectations in 2019, given the various macro headwinds. The avoidance of a crash-out Brexit is a positive, but with negotiations soon to commence on the terms of the UK's trading relationship with the EU, Brexit will continue to influence investor decisions. However the 2019 General Election result gives greater clarity over the road ahead and restoration of the Northern Ireland Assembly on 11th January 2020 provides further stability for investors.

Figure 45: Investment Turnover, Northern Ireland

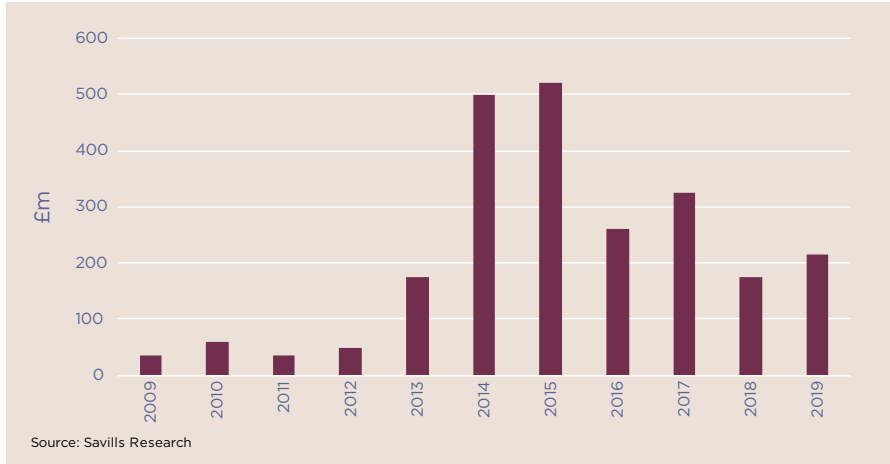


Table 9: Top 5 Investment Deals NI 2019

Asset	Sector	Price £m
Sprucefield Retail Park	Retail	40.0
Gateway Offices	Office	34.35
Crescent Link Retail Park*	Retail	30
James House	Office	16
Victoria House	Office	12.5

*Savills Involved

OVERALL SUMMARY AND OUTLOOK

Investment conditions remained favourable in 2019 as low interest rates and strong occupier markets combined to attract investment capital into Irish property.

Favourable monetary conditions seem likely to continue through 2020 and beyond as the major monetary authorities consider further easing in light of the Coronavirus outbreak.

Notwithstanding the potential for Covid-19 to disrupt global supply chains, the central-case outlook for the Irish economy also remains positive with consensus GDP growth forecasts of 3.7% and 3.3% currently in place for 2020 and 2021 respectively. If these forecasts come to fruition it should translate into strong occupational demand for business space.

2020 and 2021 will see a pick-up in the flow of new office space completions. Reflecting this the vacancy rate, which edged-up from 8.1% to 8.6% in 2019, may nudge upwards again. But absorption from rapid jobs growth and the completion of pre-let buildings will contain this upward drift and vacancy is expected to stay below its equilibrium rate though to late 2021. This suggests that prime office rents are well underpinned at current levels.

Notwithstanding the sectoral challenges to retail and investors' ambivalence to less prime assets, the strong consumer economy provides a favourable backdrop and investor appetite for prime high street stores and retail parks will remain strong. Solid consumer economy conditions should also



Point Campus, Point Village, Dublin 1 – Sold by Savills in Q4 2019 to DWS for approx. €172m

underpin the demand for logistics facilities and, in the case of both sectors, the pipeline of supply is well contained.

The surge in PRS spending has been a key feature of 2018 and 2019 and investors who got in early have done exceptionally well. There remains an unprecedented appetite for Irish rented stock. However the overall residential market is becoming more evenly balanced.

In this context, given the scarcity of standing assets, we may begin to see investors targeting forward-purchase opportunities with shorter lead-in times. Investors will also have to become more selective; In recent years Irish PRS has been something of a one-way bet but, as the residential market normalises, investors will need to be well advised about the schemes and locations they choose.



Benson Building, Sir John Rogerson's Quay, Dublin 2 – Forward Sold by Savills in 2019 to Patrizia for approx. €52.5m

While 2019 was a record year for the investment market, and the central-case outlook is positive, one has to acknowledge the risk factors that exist. At the time of writing Coronavirus has emerged as a major global concern and supply chain disruption could potentially impact negatively on occupier demand across all sectors. There is also an increased perception of policy risk. Stamp Duty rates on commercial property were increased for the second time in 3 years last October and, while the market shrugged this off, further moves of this nature could negatively impact on external investors' perceptions of Ireland as an investment location – particularly if these changes are introduced unexpectedly.

As in many other countries housing has become a major political issue in Ireland. Rent controls were introduced in December 2016 and have been credited with helping

to contain rental growth. But they have certainly not deterred investment. With house prices levelling-out and with rental growth moderating, Savills' view is that further interventions are unlikely and unwarranted. In saying this, until a new Government is formed, there will be a period of political uncertainty.

Some of the main external risks appear to have abated since late 2019. Brexit will re-emerge as an issue in the coming months as negotiations on the terms of Britain's trade deal begin. But the avoidance of a no-deal Brexit is unequivocally positive. US / China trade tensions also appear to have eased, but disagreement between France and America over a digital tax reminds us that these issues also involve EU countries and can escalate. As mentioned above BEPS Mk. I has been good to Ireland and has probably contributed to a step

change in the occupational demand for office space. The proposed timeline for BEPS 2.0 is end-2020 and it remains to be seen how this might impact.

Despite these factors, however, and the unpredictable impact of Coronavirus on global economic activity, the fact is that 2019 was the most balanced year ever for the Irish investment market in terms of where the money came from; European, Irish and UK investors accounted for approximately equal shares of turnover, with US buyers close behind. This, and increased institutional activity, reflect increasingly positive external perceptions of the Irish economy. The central-case forecast therefore is that a strong domestic economy and ultra-low interest rates will see continued robust investment activity in 2020 and beyond.



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