Savills World Research - Ireland Investment

REPORT

Savills Research

Ireland Investment Report 2019

Introduction

Domestic Economy

Definitions and Scope

This report covers property investment in Ireland during 2018. 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.

John McCartney
Director of Research
Savills Ireland
+353 1 618 1427
john.mccartney@savills.ie

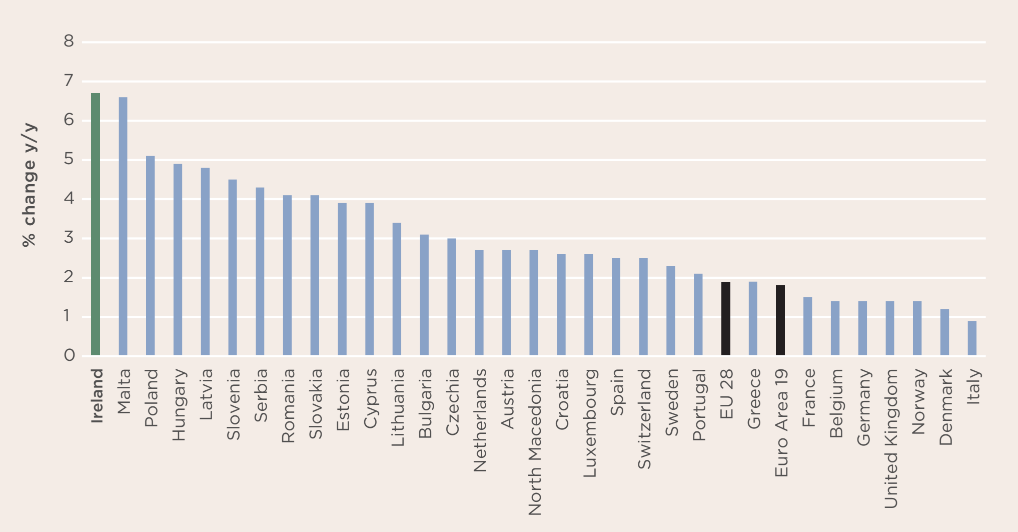
Ireland's economy continues to perform well with output rising by 6.7% in 2018. Indeed, Ireland is currently enjoying the strongest GDP growth in the EU, with the expansion rate running at more than four times that of EU heavyweights Germany and France.

Given Ireland's small size and openness, multinational activity can inflate traditional measures of economic performance such as GDP. However total employment rose by 2.3% in 2018 and, allowing for the fact that labour productivity generally trends upwards over time, this corroborates the notion that underlying output growth is in the region of 4% per annum.

Arising from strong jobs growth, unemployment fell from 6.1% to 5.4% in 2018, creating a more competitive labour market. As a result earnings growth ticked up from 2.0% per annum to 4.1% by year-end. A combination of employment gains, rising wages and modest tax cuts has driven a 5% rise in aggregate household disposable incomes over the last 12m.

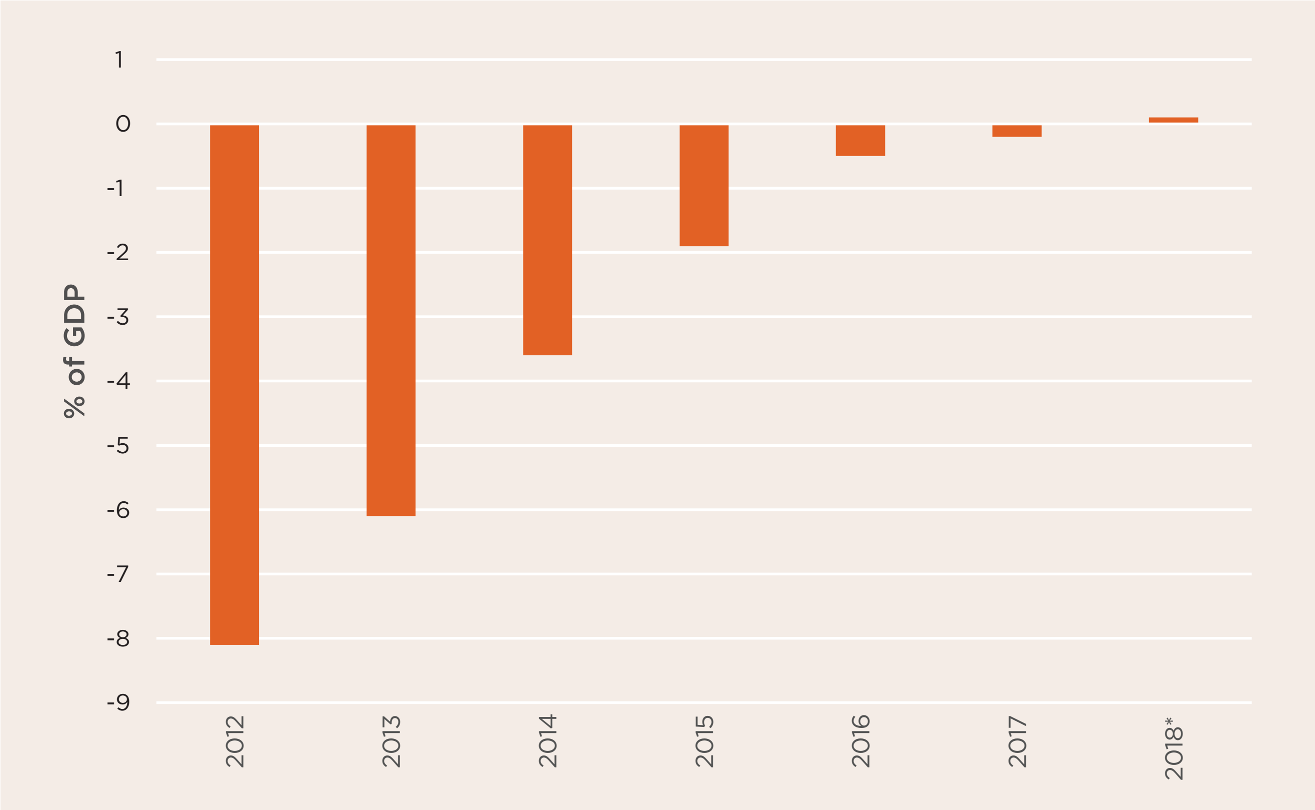
While jobs growth has fed through to higher income tax receipts and reduced spending on unemployment benefits, the star performer on the fiscal side during 2018 was Corporation Tax (CT) which rose by 26.6% to almost €10.39bn. Despite increased Government spending the strength of revenue flows restored the underlying General Government Balance to positive territory for the first time since the financial crisis, with an estimated surplus of around 0.1% of GDP (Figure 2).

Figure 1: GDP Growth Across the EU, 2018



Source Eurostat

Figure 2: General Government Balance



*Estimate
Source CSO, Savills Research

Continued improvement in the public finances has underpinned the perceived creditworthiness of the Irish sovereign. Ireland's Government debt has an A rating or equivalent with all of the main ratings agencies.[1] And recent NTMA bond sales provide further insights into external perceptions of the Irish economy; In the first fund-raising event since QE was shut-down in December the NTMA went to market with a 10-year bond on 9th January 2019. Orders of €18.1bn were placed for €4bn of new loans. Further issuances of 10 and 18-year money on 14th February were also oversubscribed.

Monetary Conditions

Interest rates have a defining impact on the returns required by property investors. In America the Federal Reserve began monetary tightening in December 2015 and this continued with four further rate increases in 2018. However, with a recent cooling in the global economy, the pace of monetary tightening appears to be easing. Fed Chairman Jerome Powell's language in the January and March Federal Open Market Committee meetings was notably less hawkish and markets are now pricing-in a low probability of the Fed increasing rates further in 2019. In the UK, the Bank of England has already raised rates twice in the current cycle – by 25bp in November 2017 and again in August 2018. However, inflation has slowed since then and currently stands at a two-year low of 1.8%. In February the Bank of England reduced its 2019 and 2020 growth forecasts from 1.7% to 1.2% and 1.5% per annum respectively, and any further tightening will depend on the evolution of the economy and risks relating to Brexit.

In the Eurozone Quantitative Easing was discontinued in December 2018. In March the ECB reduced is Euro Area GDP growth forecasts from 1.7% in both 2019 and 2020 to 1.1% and 1.6% respectively. Pointing to a weaker near-term growth outlook and muted underlying inflation, the ECB's Governing Council also changed its forward guidance on interest rates, committing to leave rates unchanged "at least through the end of 2019".[2]

In summary, interest rates are now expected to stay lower for longer as the major central banks await clarity on economic conditions and risks to the growth outlook.

Read-Across for Irish Real Estate Investment

Monetary policy remains accommodative and, as noted above, monetary tightening appears to have stalled for now. This is feeding through to continued strong demand for risk-bearing assets, including property, keeping downward pressure on yields. The demand for investment property in Ireland is also being driven by the real economy. Strong inward investment,[3] rapid jobs growth and rising disposable

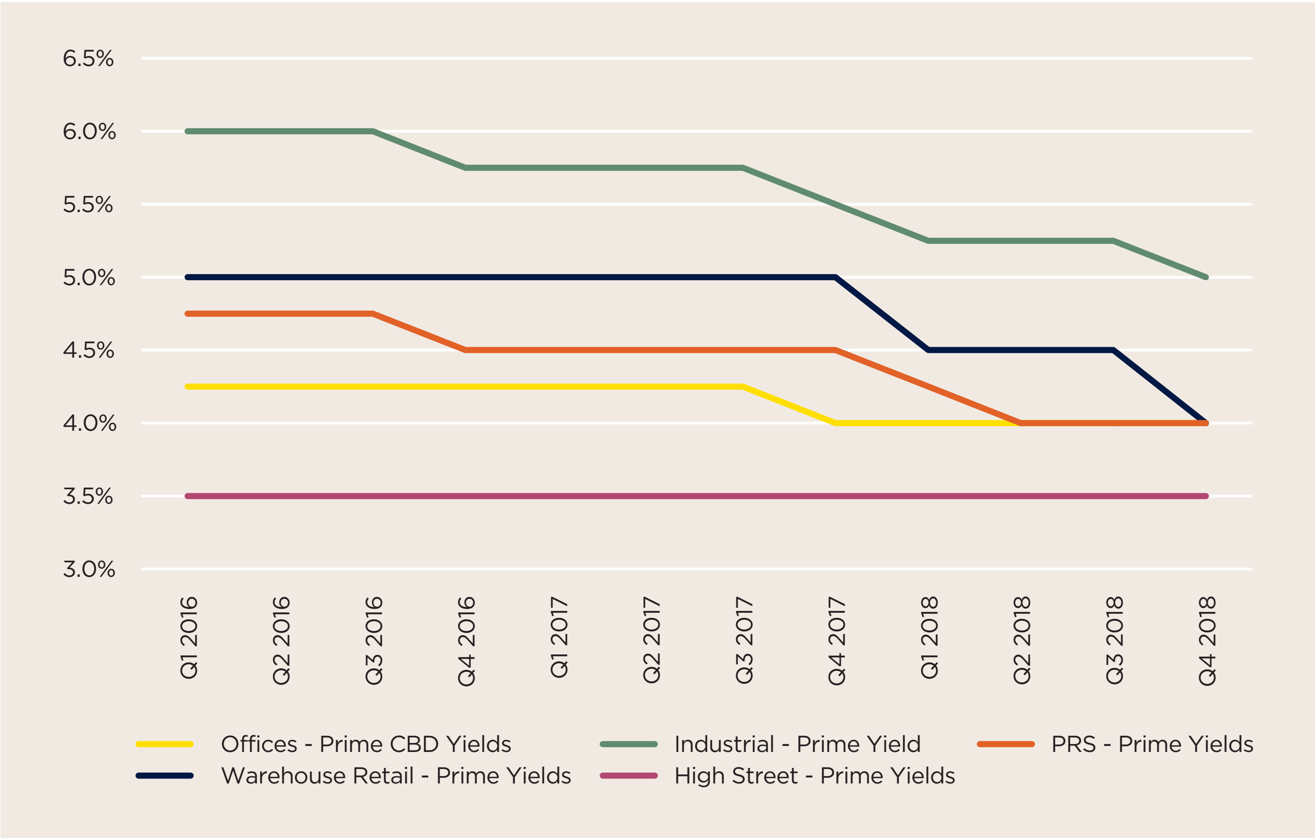
[1] https://www.ntma.ie/business-areas/funding-and-debt-management/investor-relations/credit-ratings
[2] Whereas at its previous meeting on January 24th it had guided "at least through the summer of 2019". Moreover in follow-up questions at the press conference ECB president Mario Draghi revealed that some Council members had argued for the guidance to be changed to March 2020.
[3] In January 2019 IDA Ireland announced that 229,057 people are now employed in its client companies – the highest number ever. Net additional jobs grew by just over 14,000 in 2018.

Fernbank – Acquired by Savills in Q2 2018 for €138.5m

incomes have led to tight occupational markets and low vacancy rates. This has driven rental growth in the residential, industrial and office sectors, and in some segments of retail. Nonetheless the prime investment stock remains under-rented on average.[4] In this context, and with macro forecasts predicting continued economic expansion, rental growth expectations are broadly to the upside.

In last year's report we predicted that real estate investment yields could squeeze lower in certain sectors. For the reasons discussed above this has come to pass with logistics, retail warehousing, PRS and, at the margin, prime office yields all tightening. Meanwhile high street retail yields held steady.

Figure 3: Net Initial Yields by Sector



Source Savills Research

[4] Q4 2018 MSCI data show a 70bp spread between net initial and net reversionary yields at the overall market level.

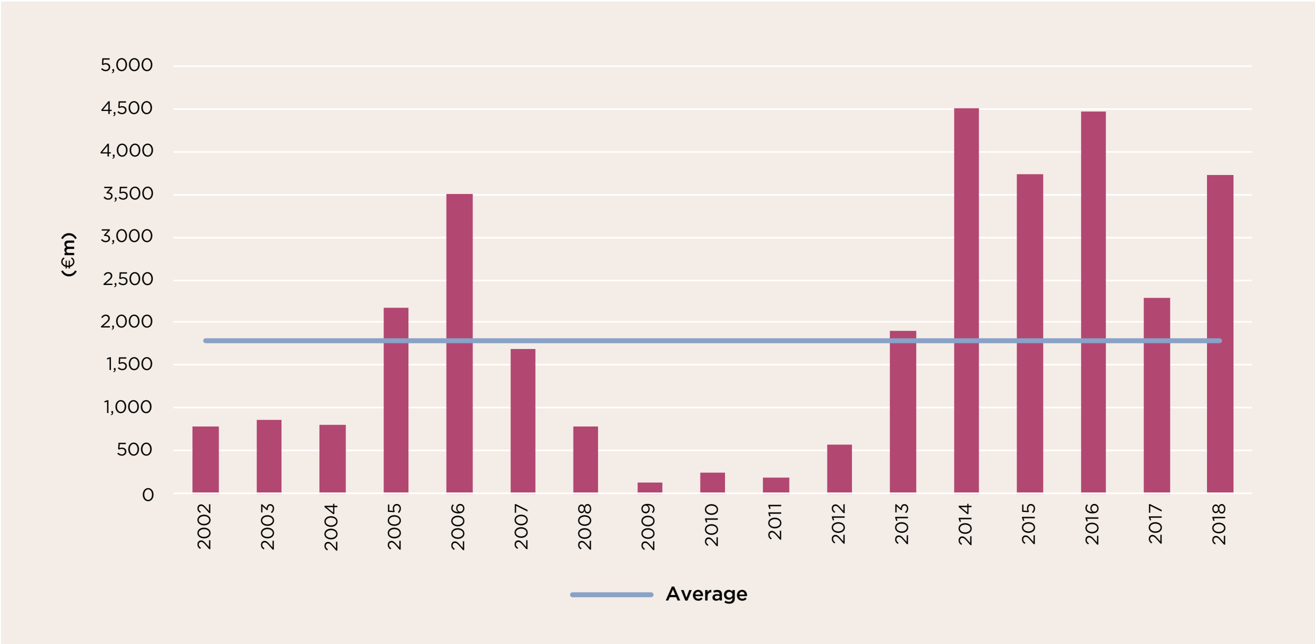
Market Activity

Some €3.72bn of investment property traded in Ireland during 2018. This represents a 63% increase on the 2017 figure, although it is a little below the record turnover levels seen between 2014-2016 when the deleveraging process was in full swing (Figure 4).

Benign investment conditions, as outlined above, fed into this uplift. But several other factors also contributed, including the number of large assets that came to the market. In total there were 10 transactions of €100m or greater in 2018, compared with just three in 2017. All of the larger deals in 2018 were single asset purchases and, as shown in Figure 5, the number of portfolio sales has steadily declined in recent years as bulk deleveraging has been accomplished.

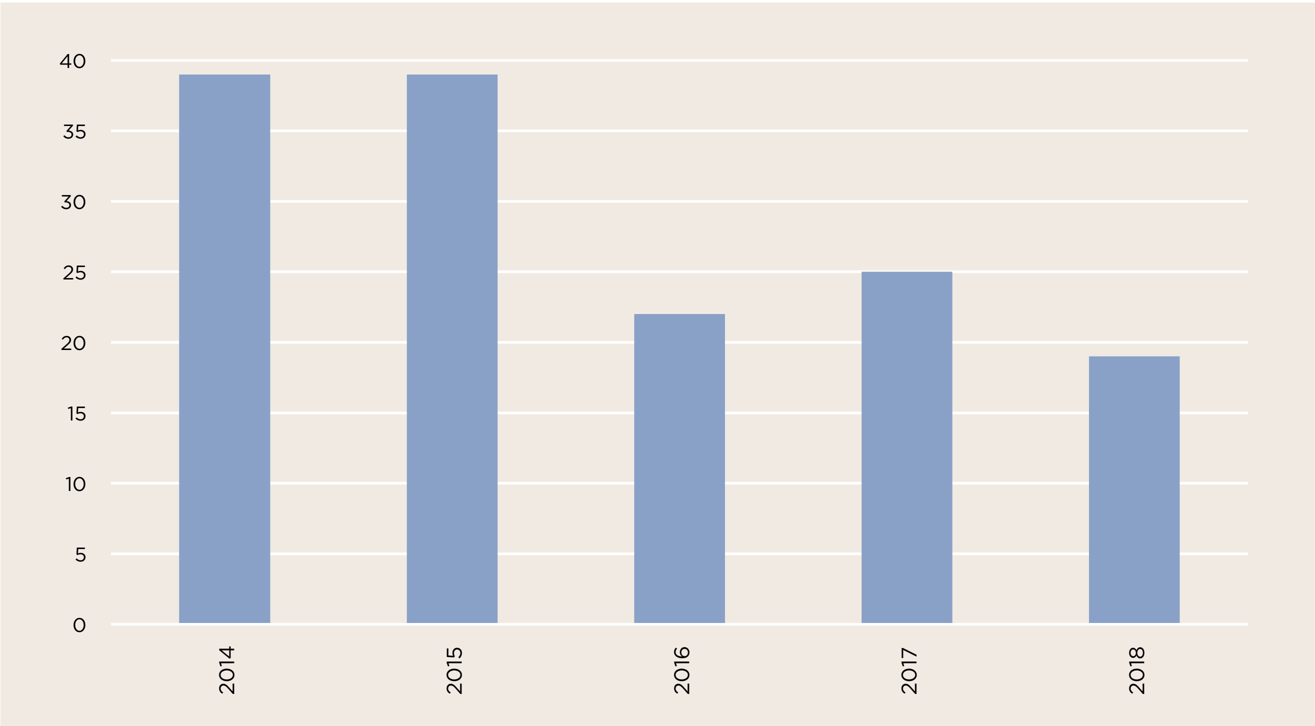
Another factor that facilitated increased investment turnover during 2018 was the continued ramping-up of development activity. As well as providing business space and residential property for Dublin's rapid expansion, new development has created opportunities for investors to deploy capital. Five of the top ten investment deals of the year involved development assets. Notably four of these were either PRS assets or included an element of PRS.

Figure 4: Investment Turnover 2002 – 2018



Source Savills Research

Figure 5: Number of Portfolio Sales



Source Savills Research

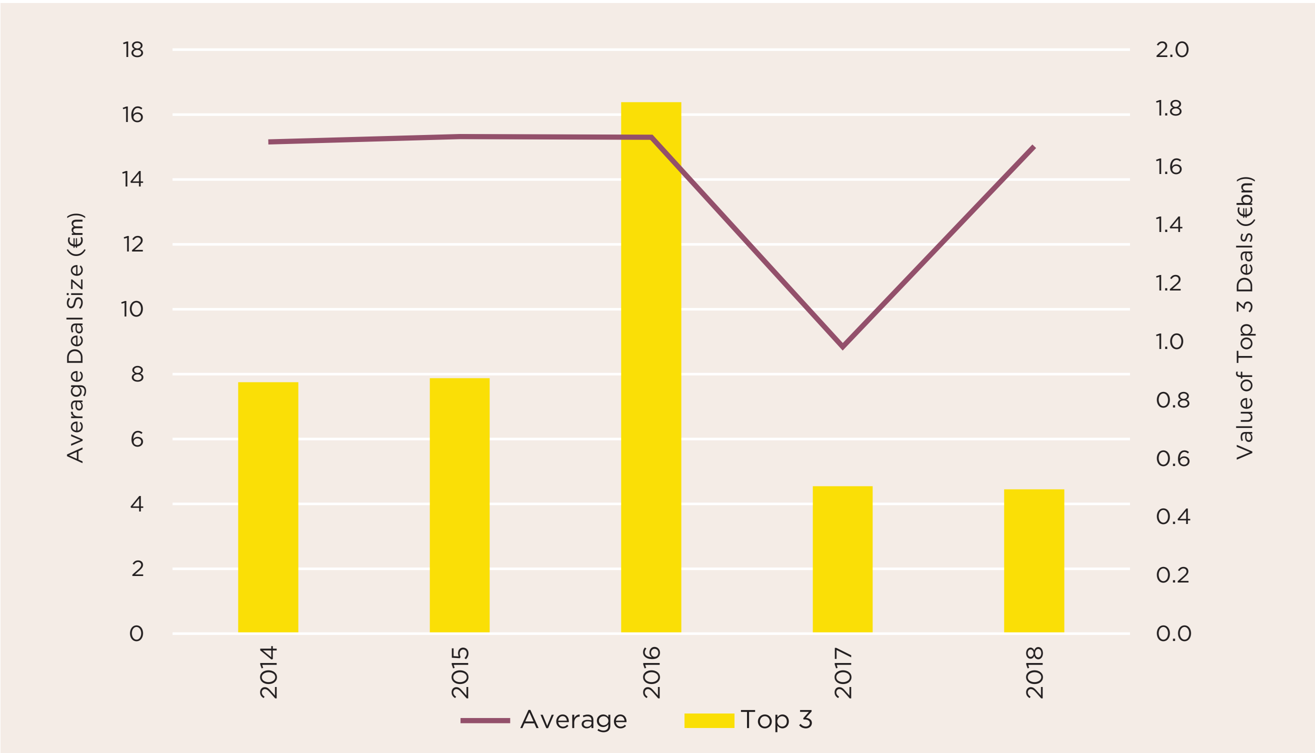
Heuston South Quarter – 20,268 sq m bought for €175m in Q1 2018

Investment by Lot Size

Arising from the greater depth of large opportunities, the average deal size increased from €8.84m in 2017 to just over €15m in 2018 (see Figure 6).

Notably, although there were more large transactions, the scale of the very biggest deals was somewhat smaller than in recent years. As mentioned above this reflects the fact that fewer portfolios are now coming to the market. But it also reflects the fact that the biggest retail assets in-and-around Dublin have now been traded. In stark contrast to 2016 when the two biggest purchases of the year - Blanchardstown Town Centre (€950m) and Liffey Valley Shopping Centre (€630m) - accounted for over one third of the year's investment spend, the biggest transaction of 2018 was the €175m purchase of Heuston South Quarter offices by CK Hutchison Holdings - the company behind the Three telecoms brand - and the top two deals only accounted for 9% of turnover.

Figure 6: Investment Trends By Lot Size



Source Savills Research

Chatham & King – Sold by Savills in Q2 2018 for €155m

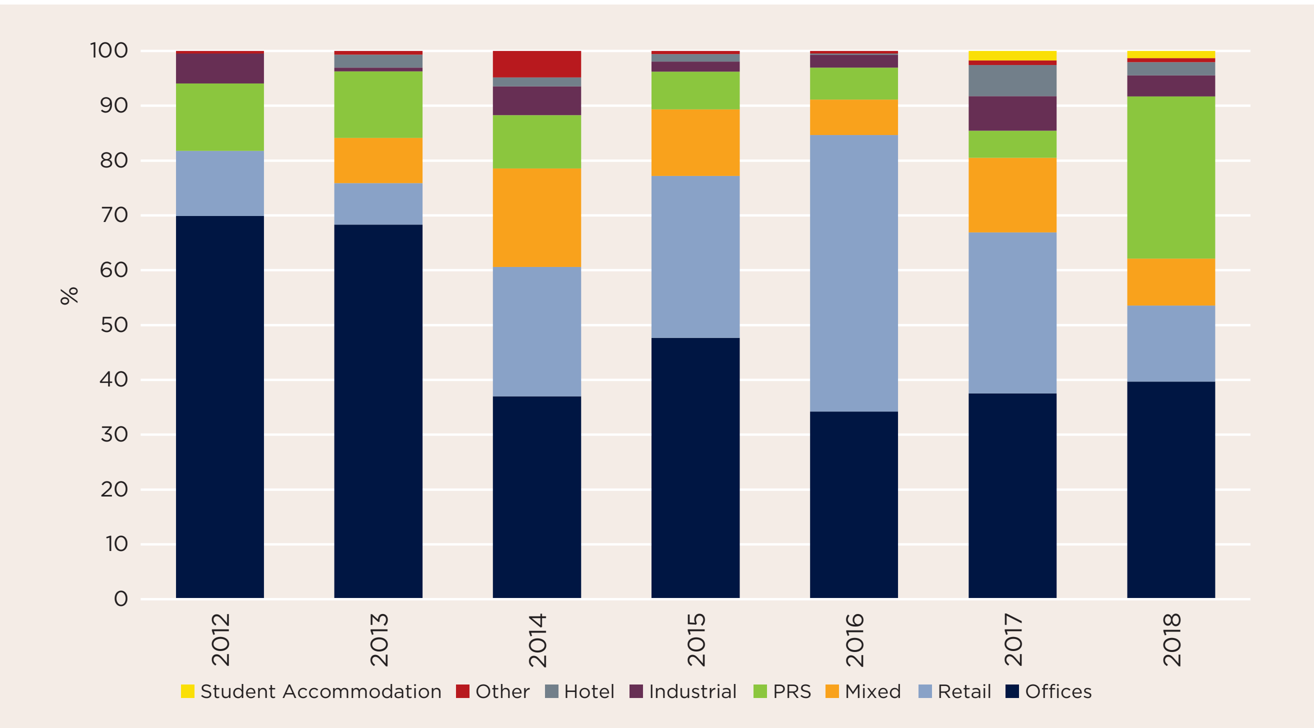
Investment by Sector

Office assets typically account for the largest share of investment spending on property, and this remained the case in 2018. €1.48bn was spent on offices during the year – just under two fifths of the annual investment turnover. Investor appetite for office assets really reflects the strength of the occupational market. In Dublin some 156,000 sq m was added to the office stock during the year (after accounting for decommissioned older space). At the same time, with office-based employment rising sharply, just over 182,000 sq m of space was absorbed.

This has driven the vacancy rate down to 8.1% across the entire of Dublin – its lowest since the turn of the century and well below the equilibrium vacancy rate of 12% - 15%. Vacancy rates in the CBD now stand at 5% while the vacancy of Grade A stock in this location is lower still at 4.8%.

However while net new development is well controlled, the gross flow of new building has been sufficient to create opportunities for investors to deploy capital in this space. This facilitated a 73% increase in spending on office assets during the year.

Figure 7: Investment Turnover by Sector



Source Savills Research

The second biggest spend was on PRS assets with just over €1.1bn invested. It is interesting to trace the evolution of this over time. Early in the economic recovery, opportunistic investors could buy apartment blocks which were originally built for individual sale, but which were left overhanging the market during the crisis. This led to a €740m inflow of investment to the sector between 2012-2014. However as the economic recovery matured and these overhanging assets were bought-up it became harder to deploy capital into this sector, leading to a slowdown in PRS investment between 2015-2017. However, as with offices, the occupier market is very strong. The estimated PRS vacancy rate in Dublin is now 1.38% and investors perceive that the market will remain undersupplied for some years to come. This has led to expectations of further strong rental growth and an enormous weight of money chasing PRS investments. Increasingly this capital is finding opportunities in forward commitment plays.

The other big shift during 2018 was a 23% contraction in retail property investment. There are several reasons for this. As outlined above many of the larger retail assets have already been traded in the current cycle. In addition, and despite the strong consumer economy, there has been a softening of investor sentiment towards retail property in Ireland - just as in other countries. This reflects ongoing anxiety at a global level about the extent to which e-commerce is eroding the requirement for physical retail space, and uncertainty about how the online and physical retail channels will ultimately come to co-exist in an integrated business model (or models). UK developments are also having an impact on the Irish retail scene; a slowdown in the UK consumer economy along with acute Brexit-related uncertainty have led UK retail brands to focus more on their home market than to plan expansion campaigns in overseas markets like Ireland.

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

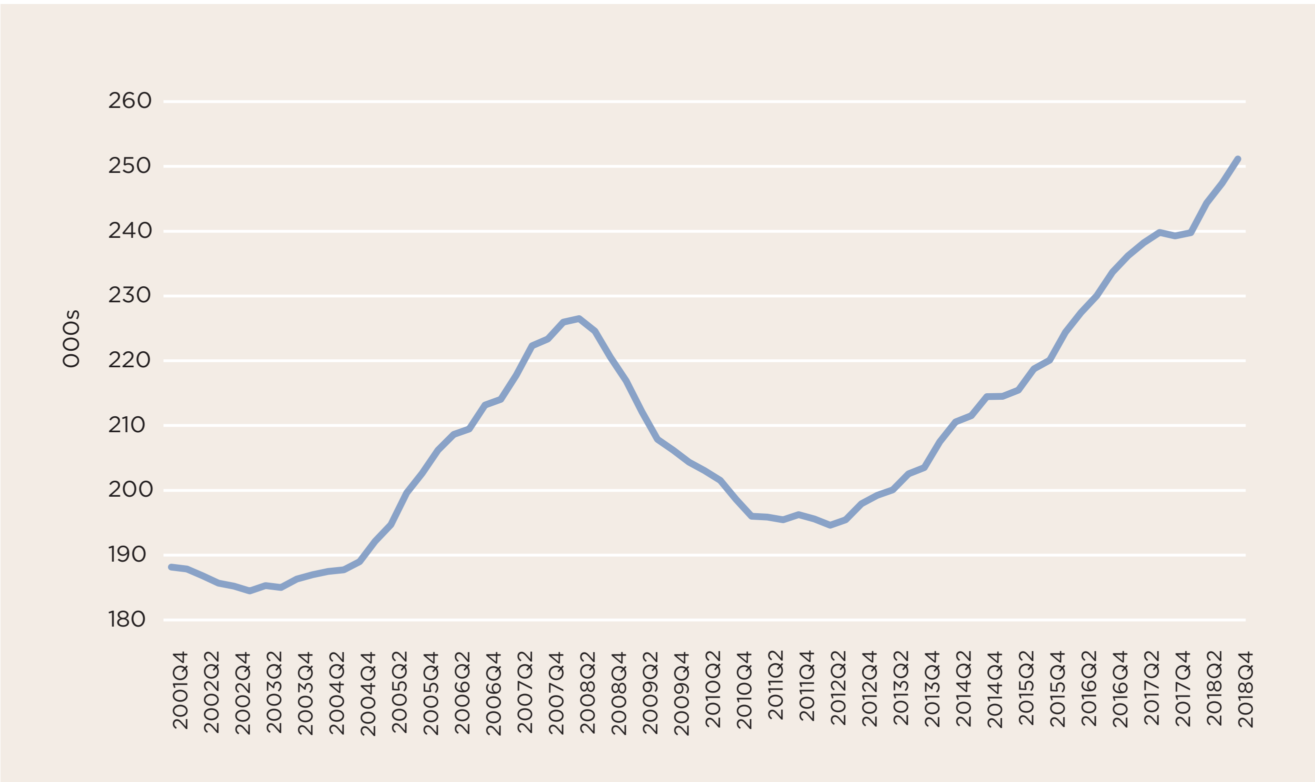
Offices

Occupational Market Conditions

As outlined in the introduction, total employment across Ireland rose by 2.3% in 2018. More than half of the new jobs created were in Dublin.[5] Within Dublin, office-based employment is now rising by 6.3% per annum, and fifty-eight percent of all the capital's new jobs (15,000 in total) were in office-based sectors.

Employment growth fed directly into a record year for Dublin office lettings. As shown in Figure 9 some 345,783 sq m of office space were taken-up in the year, 4.7% above the 2015 record. Even without the very large 80,826 sq m prelet to Facebook at the former Bankcentre in Ballsbridge, 2018 would have been the fourth strongest year of take-up in the history of the Dublin office market.

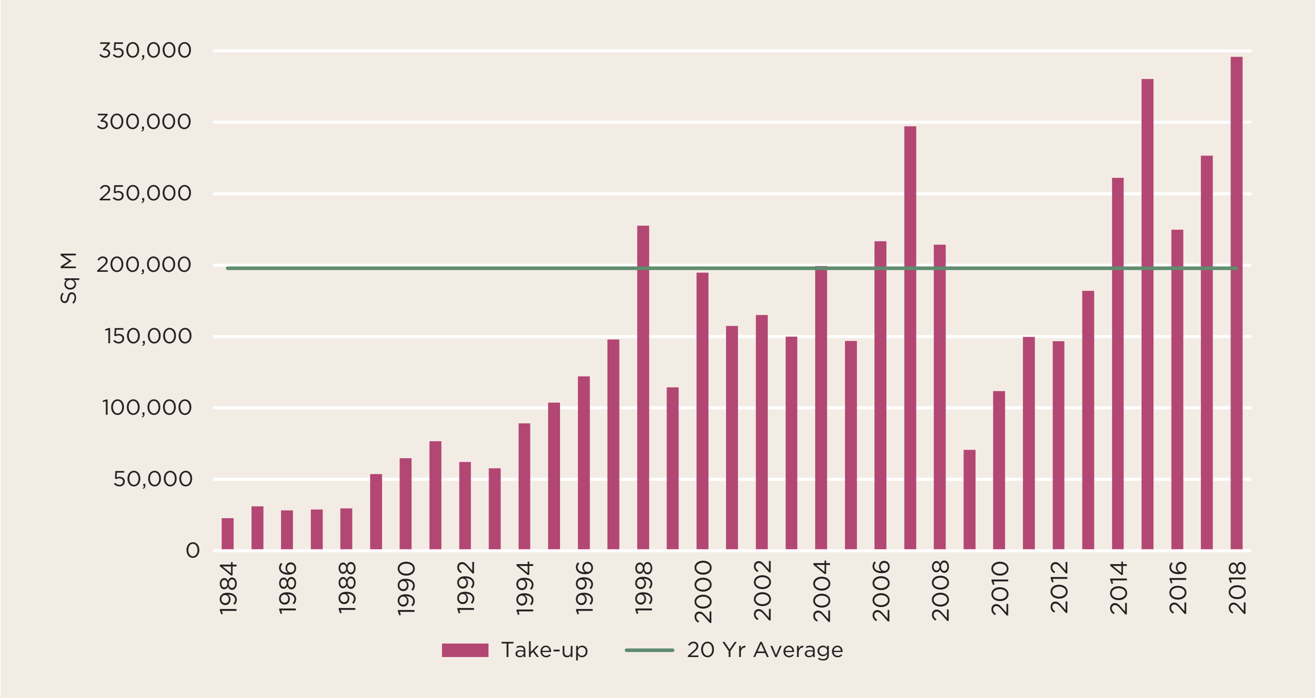
Figure 8: Dublin Office-Based Employment



Source CSO

[5] The quarterly employment data are predicated on place of residence rather than place of employment. As such the Dublin jobs growth figures exclude people living in other counties (e.g. Wicklow, Meath, Louth and Kildare) but working in Dublin. For this reason the quoted figures arguably understate Dublin's dominance in the Irish labour market.

Figure 9: Dublin Office Take-UP



Source Savills Research

Headline figures show that ICT firms accounted for 191,570 sq m (55%) of the year's take-up. Of course these numbers are influenced by the large Facebook letting. But, in another sense, they actually understate the influence of tech on the market because flex-space providers took a further 38,115 sq m and the ultimate occupiers of the sublet desks are often ICT firms.[6]

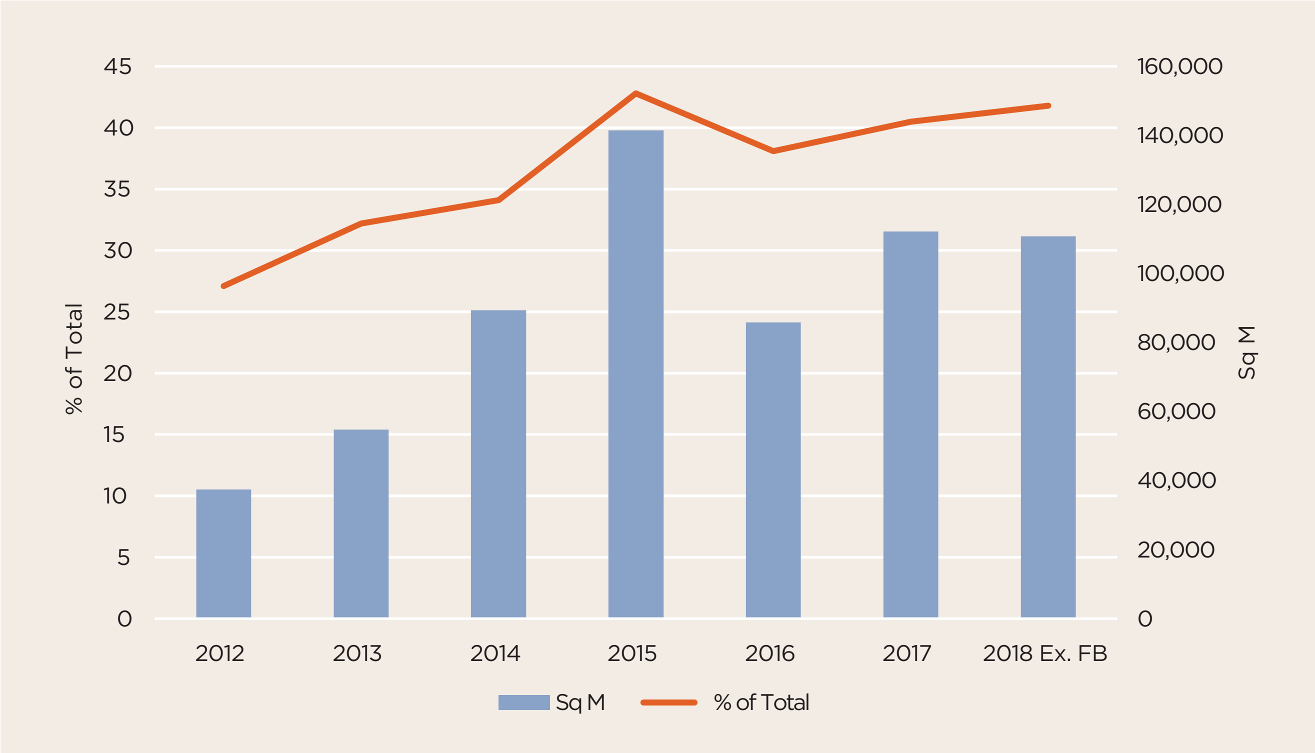
Even if we exclude the large Facebook deal, Figure 10 shows that the amount of space being taken by ICT firms, and their share of total market activity, have been trending strongly upwards. The global technology industry continues to grow and so we should not be surprised that its requirement for office space in all locations is rising.

But Ireland has particularly benefited from inward investment by tech firms that have been attracted to the country by a blend of factors. These include close cultural and historic ties with the US, use of English as the main spoken language, a longstanding low rate of CT, a system of common-law, and the proactive targeting of technology investment by IDA Ireland. Ireland's benign demography has also played a role – the higher proportion of young people provides a technologically adroit and relatively inexpensive local labour pool and creates a youthful 'vibe' which, notwithstanding high housing costs, makes Irish cities attractive to internationally mobile technology workers.[7]


Project Swap – portfolio of prime Dublin office buildings. Transacted by Savills.

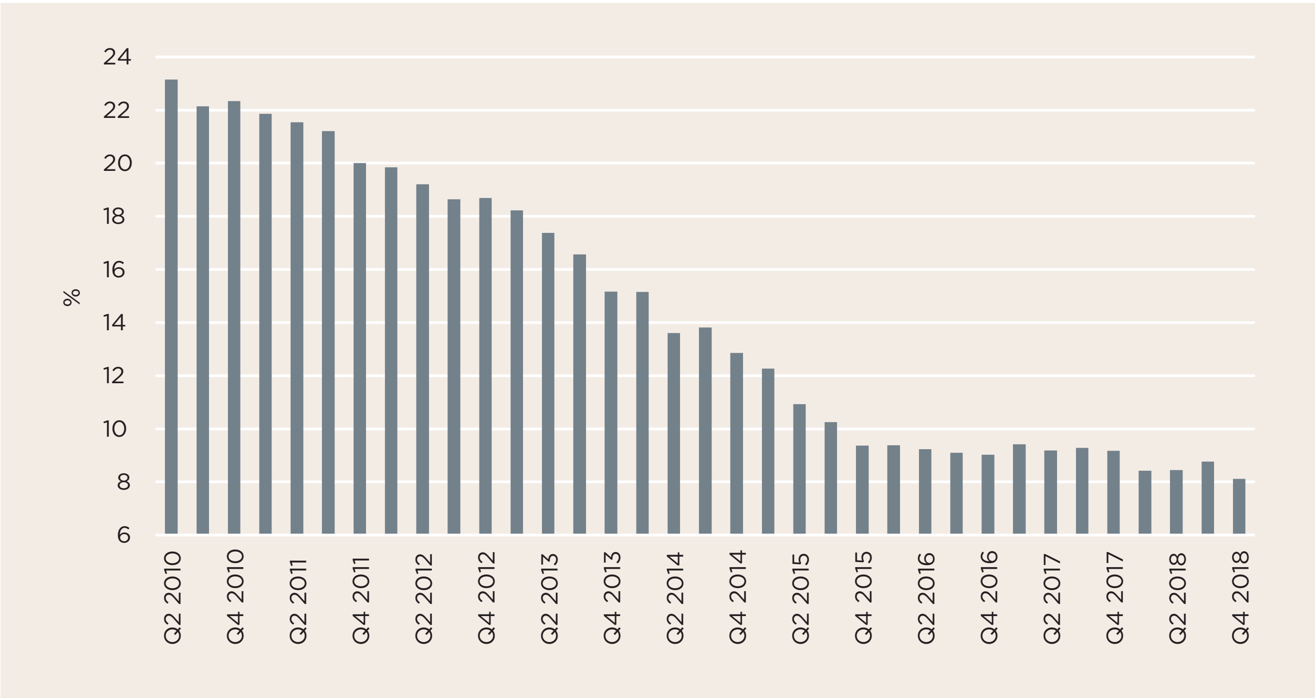
[6] WeWork was the most active serviced office provider in the market during 2018, taking 31,904 sq m of Grade A space in Dublin 2 and in the North Docks. But Regus, IWG and Us & Co. were also active in this space.
[7] For a more detailed discussion of these topics see Savills Dublin Office Market in Minutes, Q4 2018 (published February2019) http://pdf.euro.savills.co.uk/ireland-research/market-in-minutes/dublin-office-market-in-minutes---q4-2018.pdf

Figure 10: ICT Take-Up 2012-2018



Source Savills Research

Figure 11: Vacancy Rate Dublin Office Market



Source Savills Research

Strong take-up converted into 182,189 sq m of net absorption in the Dublin office market during 2018. As noted above this was considerably in excess of new development, after demolitions are taken into consideration. As a result the vacancy rate fell to 8.1% of stock and now stands at its lowest level since 2000. With the Natural Vacancy Rate in Dublin estimated at 12-15%, the current supply / demand balance is consistent with rent inflation. Indeed prime headline ERVs rose by 3.2% in 2018 and currently stand at around €700 per sq m per annum, although the bulk of lettings are happening in the €590 - €645 per sq m range.

Looking ahead, consensus macro-economic forecasts point to a continued strong demand for office space in Ireland – albeit the margin of error around these forecasts has been widened by external events including Brexit. At the same time the supply pipeline remains well controlled. In gross terms approximately 165,000 sq m is set to complete this year, 13% less than 2018. After demolitions, net additions to the stock will be smaller still – at between 115,000 and 120,000 sq m. Moreover it is notable that over two-fifths of the space that is expected to deliver this year is scheduled for Q4, raising the possibility of delivery slippage into 2020. In this context Savills' forecasting model is predicting further growth in prime headline rents in 2019. However, it is worth pointing out that growth in headline rents flattened in the second half of 2018 as landlords became more focused on lease terms, covenants and securing income than on driving top-line rents *per se*.

Investment Market Activity

Reflecting the continued strength of the occupational market, offices remain a target for investors. As noted above, almost €1.48bn was invested in the sector during 2018. This represents a 73% increase on 2017 and accounts for 40% of the total investment spend during the year. The number of investment sales which included office assets rose by 8% in the year to 86.[8] However, because some of these were portfolio transactions, the number of office buildings that traded exceeded the number of deals at 99.

There was a sharp increase in regional office sales during 2018 with 24 buildings outside Dublin changing hands. The largest single office transaction outside the capital was the €25m Plassey Portfolio which contained three buildings in Limerick. However there were also two deals of over €20m in Galway during the year, and a €16m portfolio in Letterkenny, Co. Donegal was bought by Yew Grove REIT. In Cork over €58m of income-producing office property was purchased in 2018, with 10 properties trading. If anything a scarcity of modern office stock has been the impediment to growth in the Cork investment market. However the current development cycle, which is city centre focused, should provide a platform for a new round of investment in Cork in 2020 as major developments at Horgan's Quay, Navigation Square and Penrose Dock near completion.

As ever, however, the transactional activity centred on Dublin where there were 66 deals involving 75 separate assets. As mentioned above, the biggest deal of the year across all sectors was the €175m purchase of offices at Heuston South Quarter by Hong Kong company CK Hutchison Holdings in Q1. Also in Q1 Triuva, a Frankfurt-based institutional investor, paid €164m for No.1 Dublin Landings. This is a prime waterfront building, fully let on a long lease to a Government covenant (the National Treasury Management Agency), and unsurprisingly it set a new cyclical benchmark for the market with a net initial yield of 3.94%.

Of the Dublin offices that traded in 2018, 50 were modern purpose-built properties which, in aggregate, accounted for almost 187,000 sq m of space. This brings the total amount of modern office space traded in Dublin since the beginning of 2013 to more than 1.44 million sq m – equivalent to 37.3% of the city's office stock (see Table 1).[9]

Table 1: 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
Total	**1,443,991**	**384**	**3,760**

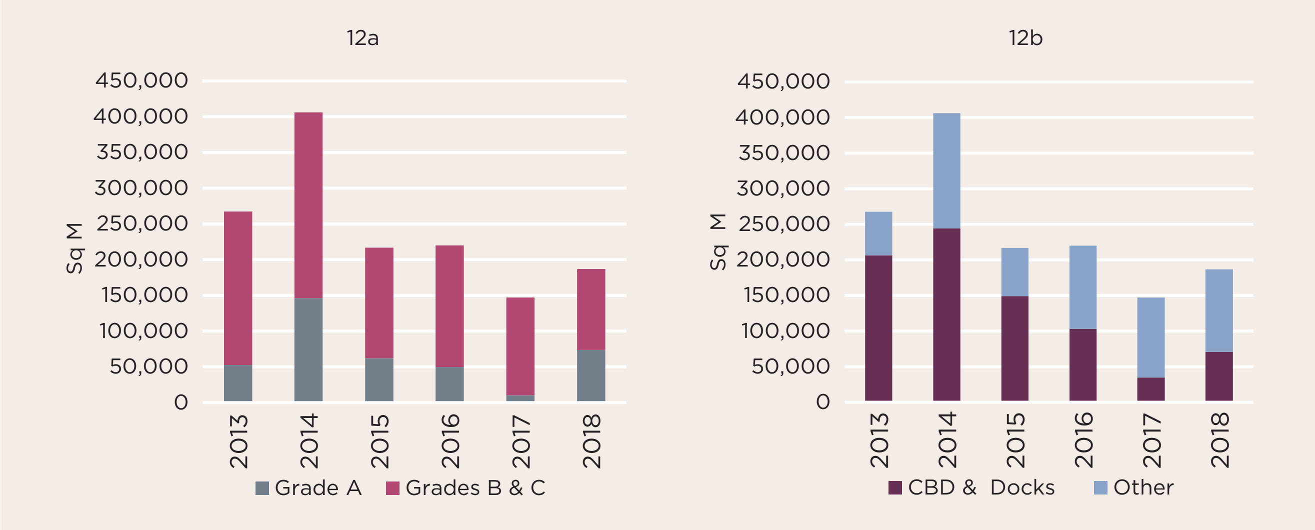
Project Swap – portfolio of prime Dublin office buildings. Transacted by Savills.

Inevitably, given this degree of trading activity, much of the prime stock has found its way into the hands of its long-term owners by now. However, while this had made it harder to buy prime assets in recent years, new development is supplying a flow of investment opportunities. Eighteen percent of the office space bought last year was new-build stock, completed in either 2017 or 2018. All of this was located in the prime Dublin 1, 2 and 4 postcode areas.

In last year's report we flagged that a scarcity of opportunities had been driving capital into lower quality Grade B and C buildings and out of the CBD over time. However, as shown in Figures 12a and 12b these trends reversed in 2018. With development providing opportunities to access new builds in prime locations, the proportion of Grade A increased from 7% of the space traded in 2017 to 39% in 2018 – the highest percentage in the cycle-to-date. Table 2 summarises investment activity in the Dublin modern office market during 2018.

[8] This number includes sales of mixed-use buildings with a substantial office element.
[9] Although this figure incorporates a small number of assets that have been traded more than once.

Figure 12a: Grade A Share, and 12b: CBD & South Docks Share of Modern Dublin Office Investment



Source Savills Research

Table 2: Modern Office Sales in 2018, by Location, Size and Grade

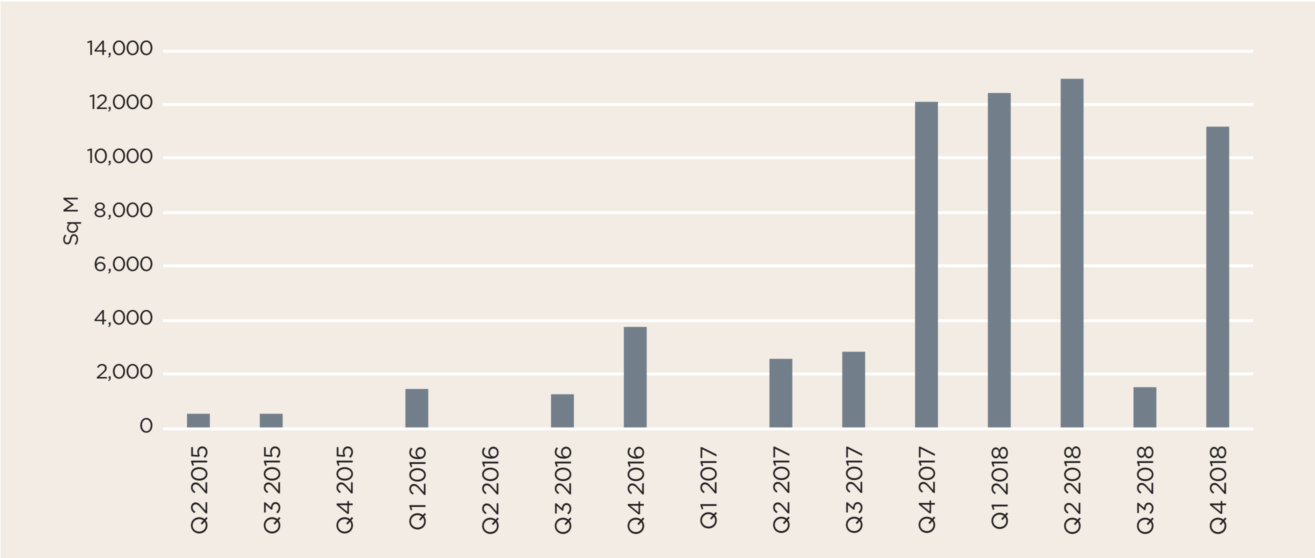
	Sales	Sq M	Ave Sq M	% Grade A	% Grade B	% Grade C
CBD (Including Docklands)	20	70,753	3,538	54.2	31.5	14.3
City Fringe	8	61,172	7,647	57.5	40.4	2.1
Suburban	21	45,457	2,165	0.0	49.5	50.5
Other	1	9,476	9,476	0.0	100.0	0.0
Total	**50**	**186,858**	**3,737**	**39.3**	**42.3**	**18.4**

One & Three Gateway – Sold by Savills in Q2 2018 for €29m

Looking ahead, Brexit, geo-political tensions and the slowing global economy have contributed to an increased sense of uncertainty. Nonetheless, the Irish economy is carrying strong momentum and consensus forecasts are for GDP growth of 4% in 2019 and a further 3.4% in 2020 – robust rates of expansion by historical and international standards. Should these predictions come to pass the demand for business space in Dublin will remain strong. At the same time, although there is a quantum of pipeline space scheduled to deliver in 2020 and beyond, the supply of additional new office space is set to be quite modest in 2019. This suggests that vacancy rates should remain flat or even push a little lower in 2018, and this will underpin rents and capital values.

Regardless of political and economic outcomes, however, uncertainty is already feeding into occupational market trends in ways that could ultimately impact on investors and their strategies. The spread of US business culture and the need for agility in a more uncertain environment have created a demand for more flexible lease arrangements. As shown in Figure 13 there has been a sharp increase in the amount of space being leased to serviced office providers who sublet on more flexible terms to occupiers who do not want to commit to traditional leases. Flexible workspace providers accounted for more than 11% of Dublin office take-up in 2018 – a comparable figure to London where uncertainty is understandably acute due to Brexit. This raises challenges, and opportunities, for traditional landlords. When leasing space to serviced office providers, investors must form a view on voids in the sublet space and price-in the indirect risk. But they may alternatively decide to compete directly with serviced office providers. Inevitably this would mean softening their lease terms and offering more flexible contracts, but it would also create the opportunity for a positive rent offset.

Figure 13: Take-Up by Serviced Office Providers – Dublin Modern Offices



Source Savills Research

Table 3: Top 10 Individual Office Deals – 2018

Property	Location	Sold	Size (Sq m)	Price, €m
Heuston South Quarter	Dublin 8	Q1	20,268	175
1 Dublin Landings, North Wall Quay	Dublin 1	Q1	13,376	164
Chatham & King*	Dublin 2	Q1	2,853	155
2 Dublin Landings, North Dock	Dublin 1	Q4	8,850	106.5
The Beckett Building, East Road	Dublin 3	Q2	14,875	101
Belfield Office Campus	Dublin 4	Q3	c.9,500	90
New Century House, IFSC	Dublin 1	Q3	7,393	65.3
George's Place, Smithfield	Dublin 7	Q4	11,632	56.6
The Sharp Building, Hogan Place	Dublin 2	Q3	4,157	56.3
31-36 Golden Lane	Dublin 8	Q2	2,787	25.5

**Table excludes portfolios but includes mixed-use deals with large office element*

6 Hanover Quay – Savills advised on the disposal in Q2 2018 for €101m

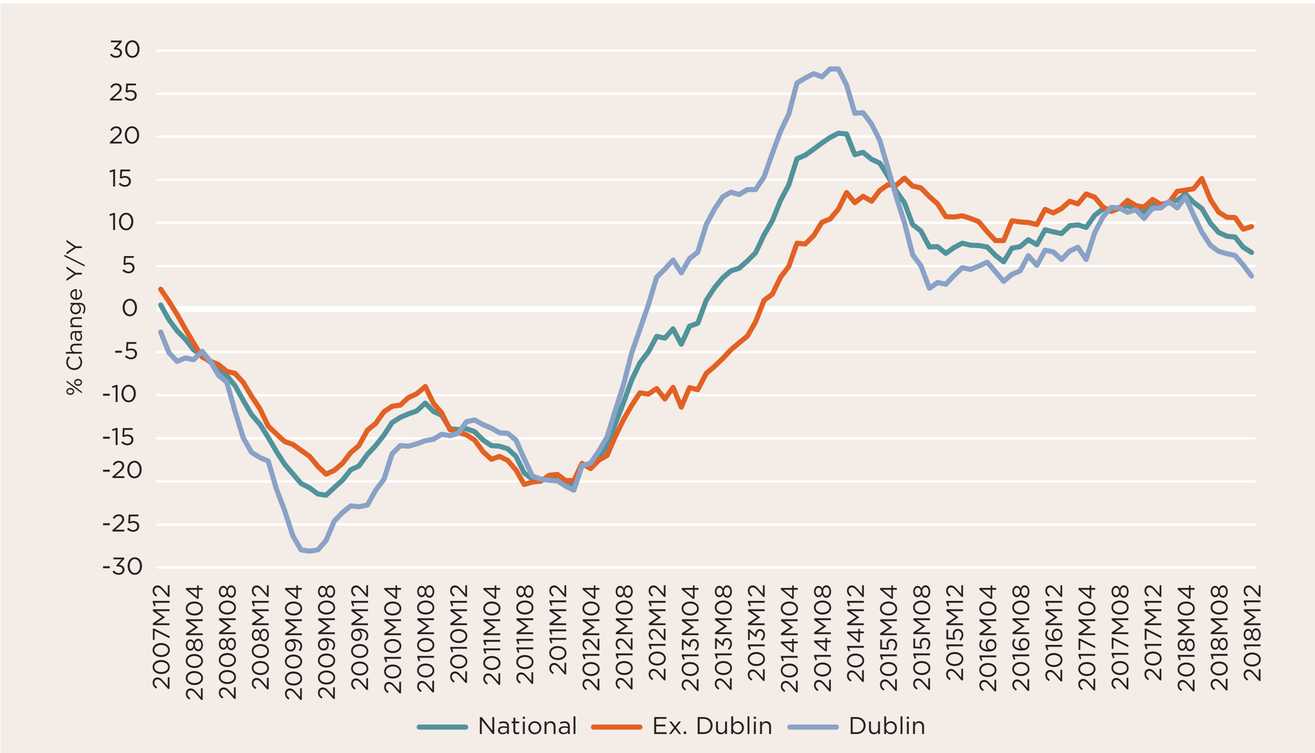
Private Rented Sector (PRS)

Perhaps the biggest story of 2018 in the Irish investment market was the strength and depth of demand for PRS residential assets. Just over €1.1bn was spent during the year on pure-play residential investments, not including mixed use schemes with a substantial residential content. This is two-and-a-half times greater than the previous record spend on PRS back in 2014. In all, residential property (ex. Student Housing) accounted for 29.6% of the total investment turnover in 2018 – making it the second biggest sector behind offices.

Occupational Market Conditions

As with offices, investor appetite for PRS derives from conditions in the occupier market. Ireland's population grew at its fastest rate for ten years in 2018 as a strong pick-up in net inward migration outstripped a slowdown in the natural increase. This has fed through to additional demand for residential property. On the supply side, new dwelling completions rose by over 25% in 2018. With more developer-friendly apartment standards and with 35,774 new dwellings in Dublin either under construction or awaiting commencement with full planning permission, we expect this trend to continue. Nonetheless, Savills estimates that residential output in 2018 was only three-fifths of what was required. As a result, the market continued to tighten in 2018, and residential property prices have continued to rise (Figure 14).

Figure 14: House Price Inflation by Location

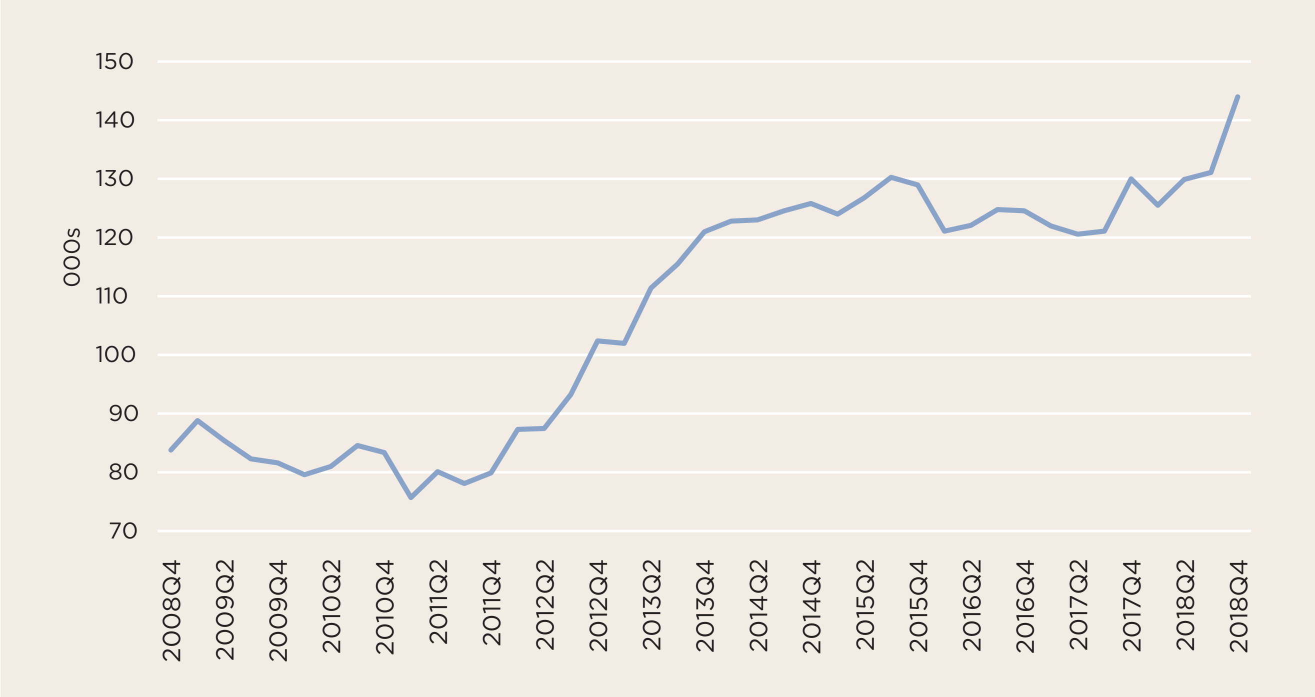


Source CSO

With House Price Inflation (HPI) outstripping earnings growth in recent years, and with more tightly regulated mortgage lending since 2015, affordability has become a greater challenge for putative owner-occupiers – particularly in Dublin where prices are highest. This has precipitated a tenure shift to the PRS. 26.7% of households in Dublin now rent privately and, as shown in Figure 15, the number of households in this tenure rose by 10.8% in 2018.

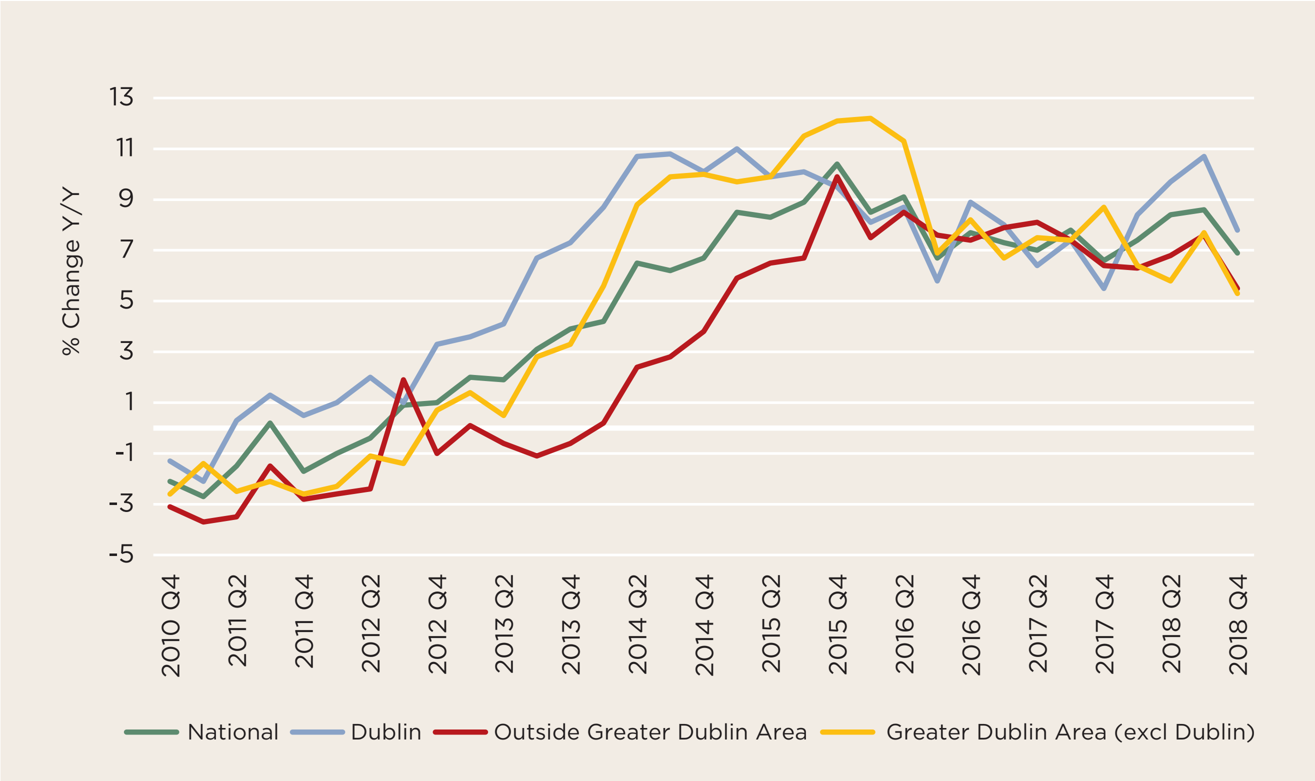
In a generally undersupplied residential market the shift to private renting has concentrated inflationary pressure on rents. According to latest data from the Residential Tenancies Board (RTB) rents are currently rising by 6.9% per annum nationally and by 7.8% in Dublin (Figure 16).

Figure 15: Dublin Households Renting Privately



Source CSO

Figure 16: Rent Inflation by Location

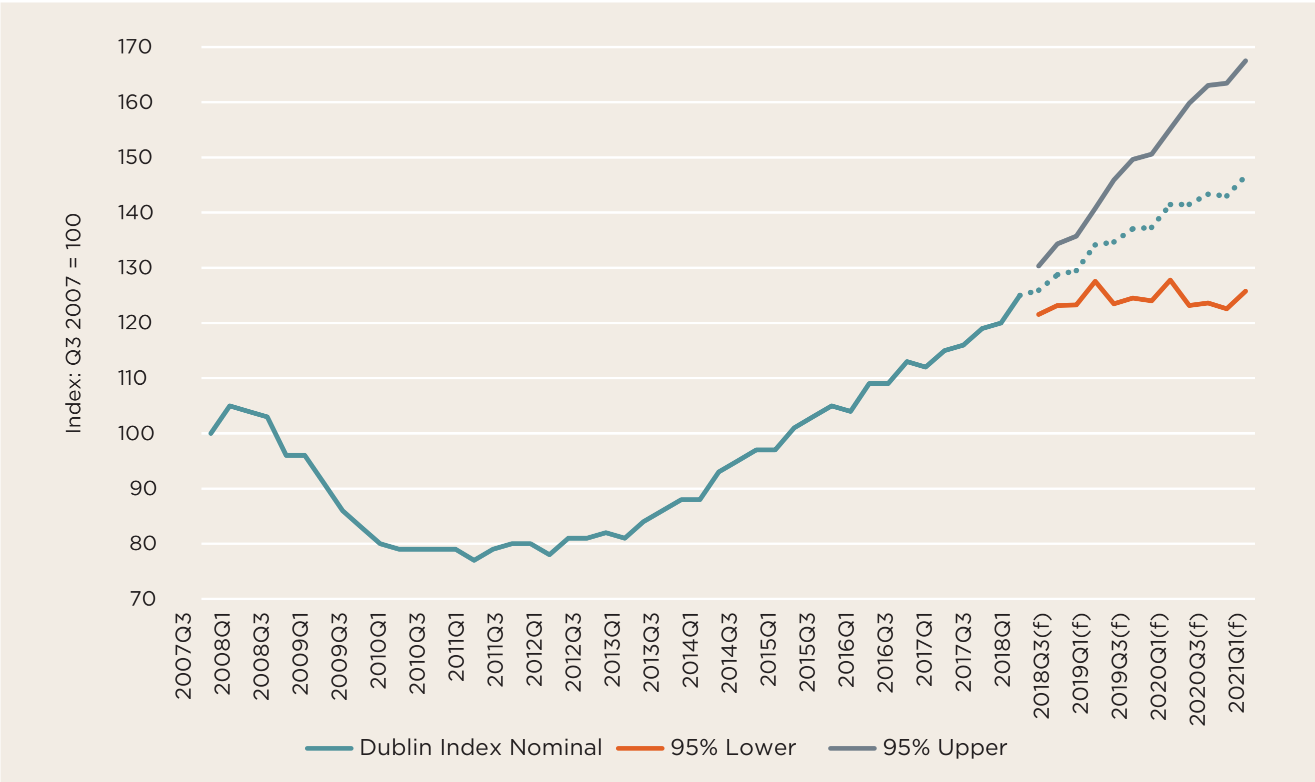


Source RTB and ESRI


The Elysian, Cork – Savills advised on the disposal in Q2 2018 for €87.5m

Savills' analysis indicates that population growth is likely to ease somewhat over the coming years.[10] Equally, as noted above, we expect the pick-up in housing supply to continue. Inevitably these trends will narrow the gap between demand and supply and, as this happens, both HPI and rent inflation should moderate. Indeed, the signs are that this process is already underway; Dublin HPI steadily softened from 13% per annum in April 2018 to 4.2% by December, and has since eased back further. RTB figures show that rent inflation also moderated in Q4. However, given the extent of current undersupply, and the pace of convergence between supply and demand, Savills' analysis suggests that the residential market will remain undersupplied until at least 2023. Logically this suggests further growth in rents and capital values over the medium-term – albeit at more sustainable rates than in the recent past. In keeping with this narrative, Savills' econometric forecasting model is predicting compound rental growth of 17.3% in Dublin over the 3 years between Q3 2018 – Q2 2021 inclusive.[11] It is these expectations which are driving continued investor appetite for PRS product, particularly in Dublin.

Figure 17: Residential Rent Forecasts, Dublin



Source Savills Research

[10] As the population ages there will be fewer women in the childbearing age cohort and therefore fewer births, even assuming a constant fertility rate. At the same time a greater number of persons aged 65+ will lead to a continued increase in annual deaths. The net effect will be a continued slowdown in the 'natural increase' (the excess of births over deaths). Although migration can be somewhat unpredictable, we do not expect higher net in-migration to fully offset this trend in the longer term.

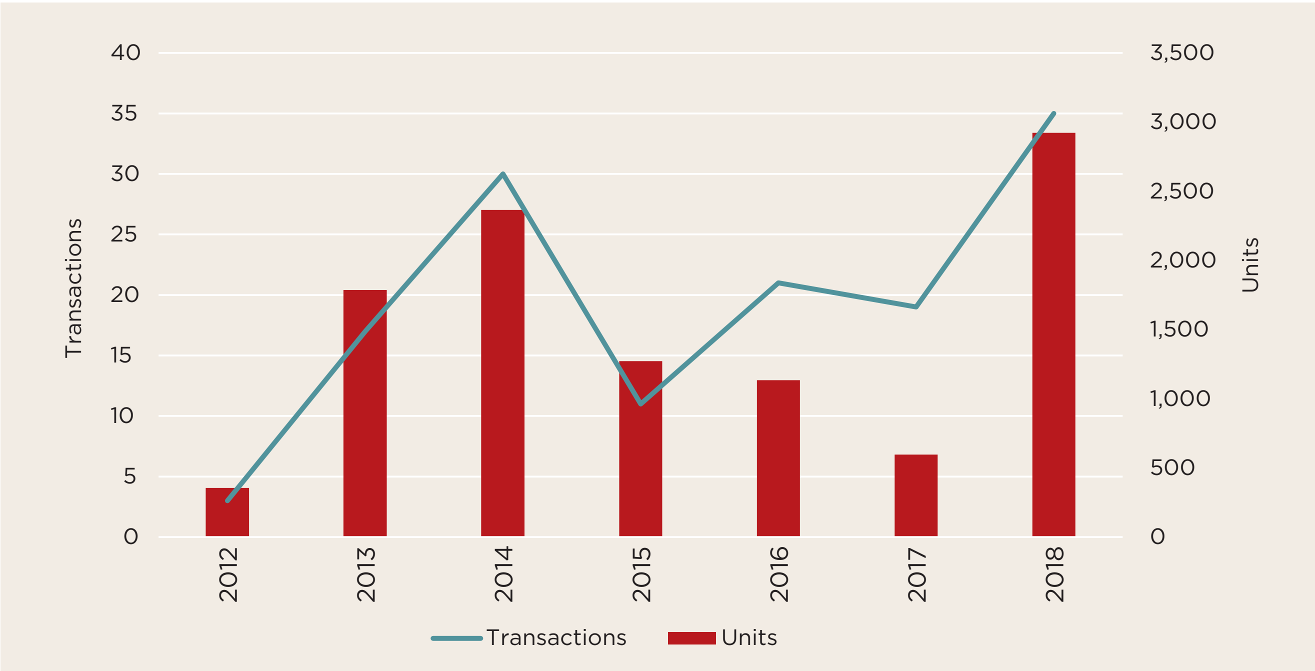
[11] This equates to an annualised average of 6.2% per annum. The lines adjacent to the dotted forecast in Figure 17 display the 95% confidence interval. For a detailed description of the Savills rent forecasting methodology please see https://pdf.euro.savills.co.uk/ireland-research/a-rent-forecasting-model-for-the-private-rented-sector-in-ireland.pdf

Investment Market Activity

Including pure PRS schemes and mixed-use schemes with a substantial PRS content, there were 35 transactions in 2018 – a record for the Irish market. In total, these sales comprised 2,923 dwelling units – 24% up on the previous record for the market in 2014.

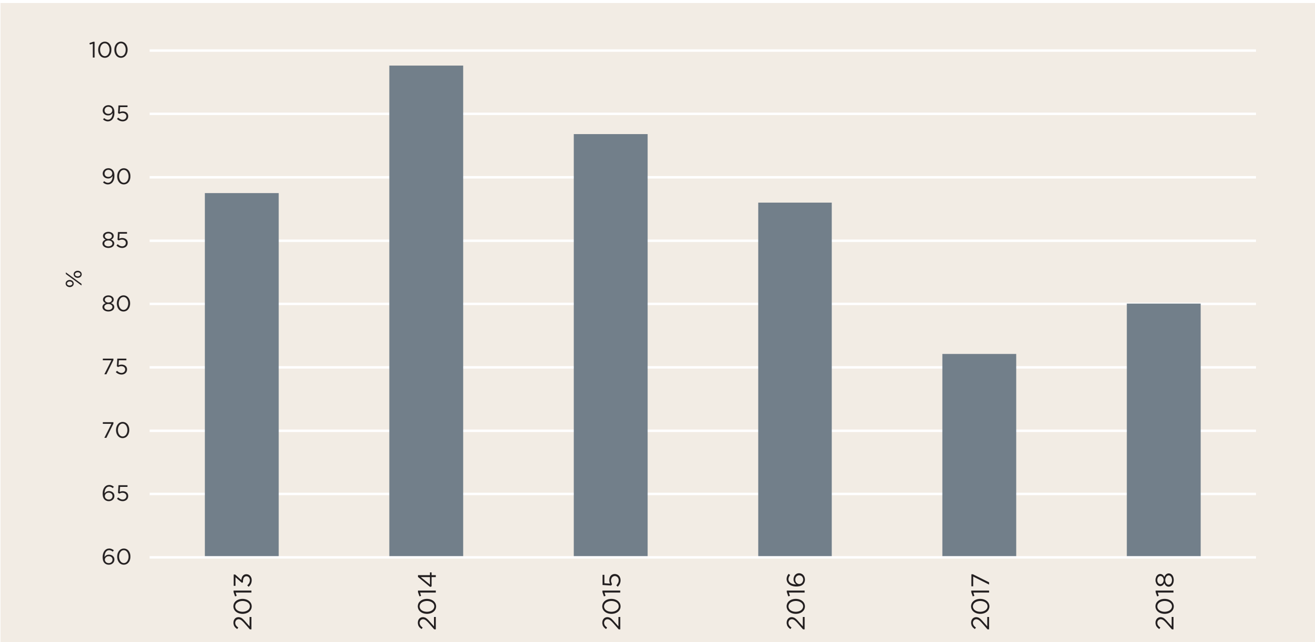
Population growth is strongest in the Greater Dublin Area[12] and, as a result, Dublin has traditionally been the focus for PRS investors. Nonetheless, as opportunities to deploy capital became scarcer and more granular, Dublin's share of PRS sales declined between 2014 and 2017. However, as shown in Figure 19, this trend halted last year and actually began to reverse. Some 2,373 residential units were block-purchased by PRS investors in Dublin during 2018 – accounting for four-fifths of total PRS purchases. As an indicator of the growing scale of institutional involvement in the residential sector, the 2,373 PRS units purchased equate to 11.1% of all residential units bought in Dublin during 2018. And, between 2012 – 2018, block purchasers have now bought 9,291 units in the capital – 8.1% of all the residential properties that have been purchased.

Figure 18: PRS Transactions and Units Sold



Source Savills Research

Figure 19: Dublin Share of PRS Unit Sales



Source Savills Research

[12] Population growth in both Dublin itself and in the surrounding Mid-East counties of Wicklow, Meath, Kildare and Louth was 1.5% in 2018. This compares with 1.05% elsewhere.

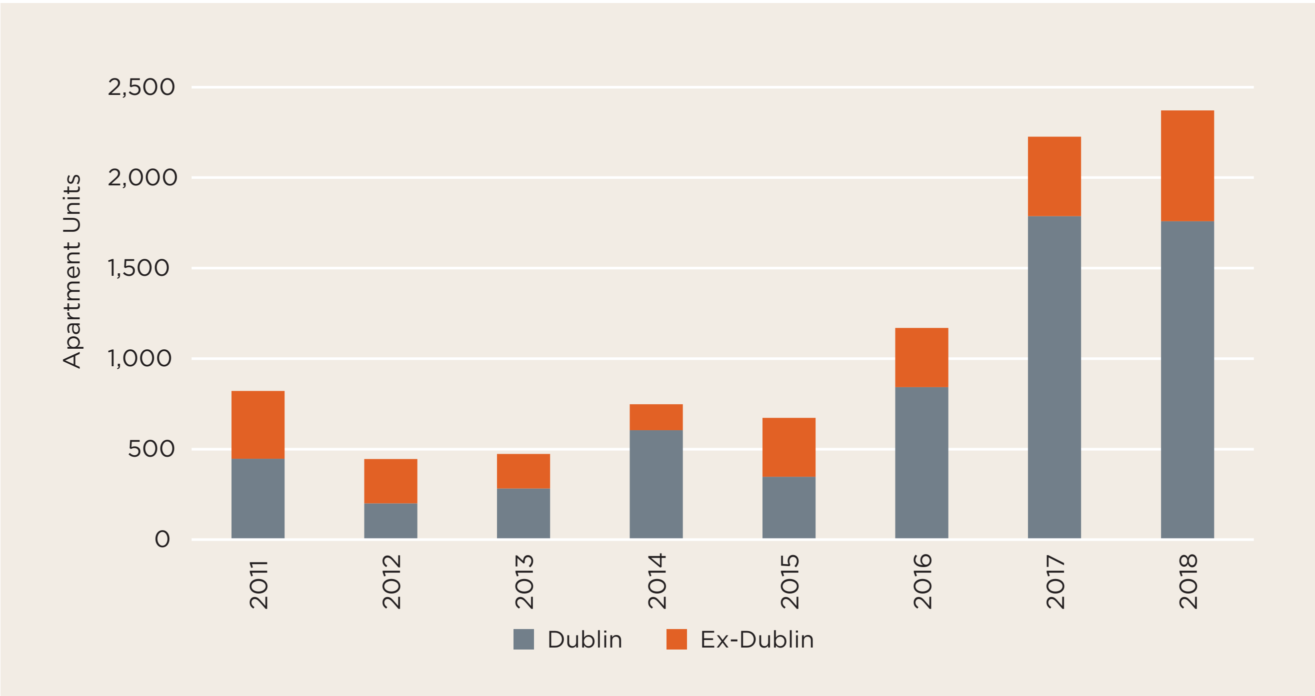
Apartments at Fernbank

The pick-up in Dublin's share of PRS transactions has been facilitated by increased apartment development. 4,736 units were delivered in Dublin between 2015 and 2018. Most of these have been built with individual resale in mind. However with prime rents at their current levels, and with yields hardening, the block sale route has become an attractive option for developers as it removes risk and provides a quicker return on capital. This has led to some build-to-sell schemes being entirely bought-out by investors during the construction phase – facilitating an increased flow of capital into PRS. Examples include Fernbank in Churchtown Dublin 14, a 262-unit scheme initially being built by Park Developments for individual unit resale, but which was bought-out by Irish Life Investment Managers for €138.5m in Q2. Another example is 6 Hanover Quay, an upmarket scheme of 120 units in Dublin 2 that started out on a build-to-sell basis, but which was sold en-bloc by Cairn PLC to Angelo Gordon, also in Q2. Savills was involved in both transactions.

While proactive buyers are snapping-up speculatively developed build-to-sell product and converting it to rental use, forward commitment arrangements are also providing a route for investors to buy into *ab initio* PRS schemes. Examples of this include a project by Tristan Capital Partners and Twinlite at Clongriffin in North Dublin and a 216-unit apartment scheme being built by Cosgrave Group at Bridgefield in Santry – also in North Dublin.

In recent years property investors have used various forward commitment models but forward purchase has now become the preferred arrangement for PRS investment in Ireland. This reflects the fact that development finance has become more widely available over the last 12m, that it is a less complicated mechanism than forward funding, and that it does not require the investor to take on development risk.

Figure 20: New Apartment Completions, Dublin and Ex. Dublin



Source CSO

Planning Policy and Design Standards

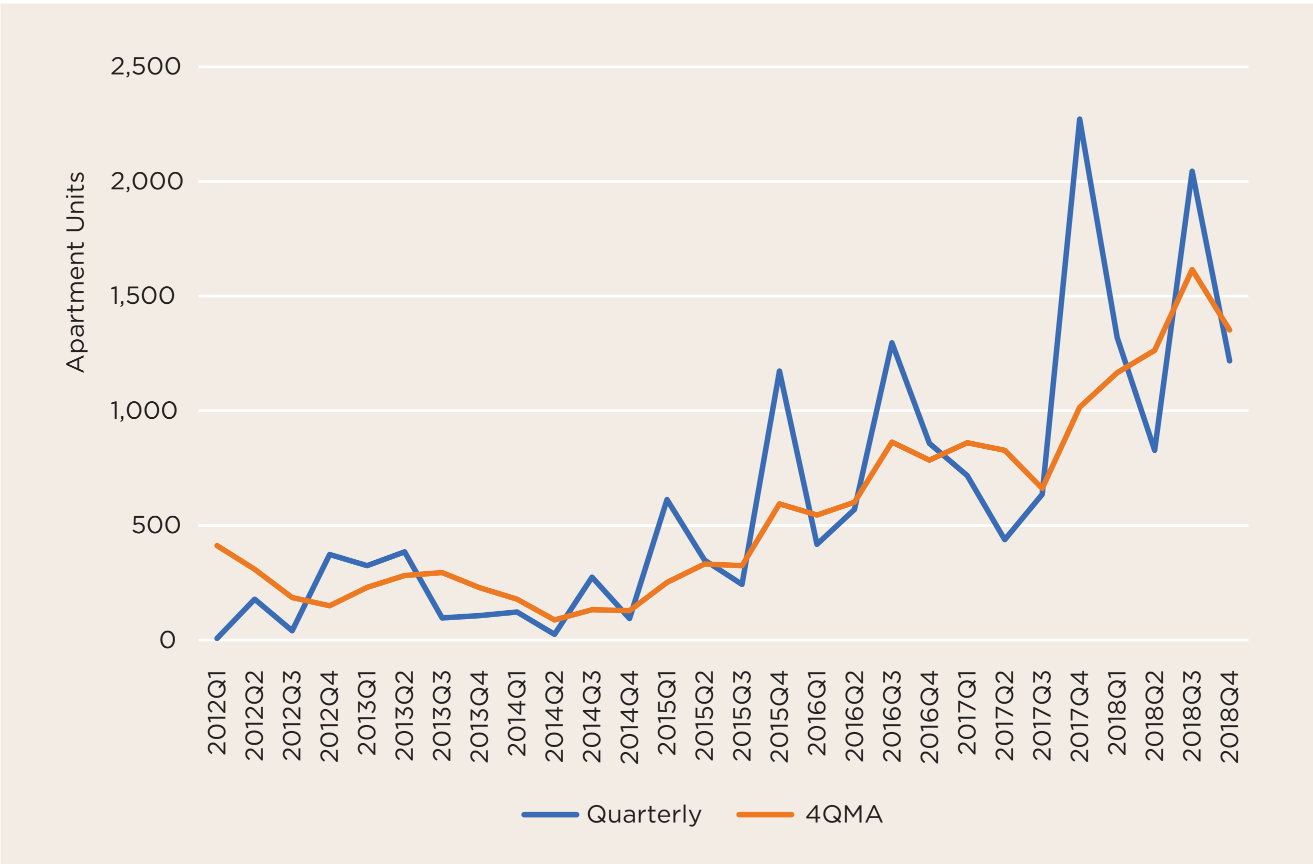
New apartment design standards were introduced in March 2018 aimed at balancing end-user functionality with commercial viability. At the same time specific planning guidelines for purpose-built PRS schemes were also introduced. Developers who opt for this PRS-specific planning designation can benefit from flexibility on internal storage, unit sizes, unit mix and minimum car parking provision. However there are also obligations including a requirement to provide resident amenities and, critically, a no-break-up clause to ensure that the block will remain owned and operated by a single institutional entity for at least 15 years.

In addition, on 7th December 2018 new Ministerial guidelines on urban development and building heights were adopted. These aim to encourage taller buildings than those previously permitted in urban areas.

The immediate effect of the March 2018 changes was to temporarily delay development as some parties waited for clarity on the new planning regime, while others who already had planning consent reapplied for variations. However now that the new design standards are in place, and particularly since the Minister has emphasised that these can be taken as settled policy for the years ahead, this delay appears to be unwinding. As shown in Figure 21 there has been a pronounced increase in the number of apartments being granted planning permission in recent quarters. This is particularly so in the Dun Laoghaire Rathdown and Dublin City Council areas where high density development is well supported by transport infrastructure. Nonetheless planning applications are recovering from a low base and, notwithstanding the recent increase, only 5,409 apartments across Dublin received planning consent in 2018.

6 Hanover Quay

Figure 21: Dublin Apartments Granted Planning Permission



Source CSO

Looking ahead there are several factors that PRS investors will need to consider;

- More moderate HPI – As the overall residential market moves closer to balance HPI and rental growth are likely to settle at more sustainable levels.
- Faster Earnings Growth – We believe there is still some hidden slack in the labour market.[13] Nonetheless there has been a pick-up in earnings over the last 12m and as the economy moves towards full employment wage inflation is likely to strengthen.
- Affordability to Improve – With the prospect of earnings growth outstripping HPI home ownership should gradually start to become more affordable.

Vacancy rates in Dublin's private rented sector currently stand at 1.38%, compared with an estimated equilibrium vacancy rate of 5.19%. Given this degree of undersupply PRS units in all locations can be readily let and this will remain the case over the coming years. Likewise, as outlined above, further rental growth is likely, albeit at more sustainable rates. In the longer term, improving affordability could eventually see some PRS schemes being sold down to owner occupiers and the private rented offering becoming more concentrated in city centre locations and in areas close to public transport links.

Table 4: Top 10 Multifamily Deals in 2018

Property	Location	Sold	Price €	Units sold
Marrsfield	Clongriffin, Dublin 13	Q4	140	372
Fernbank	Churchtown, Dublin 14	Q2	138.5	262
The Grange	Stillorgan, Co. Dublin	Q3	126	274
6 Hanover Quay	Dublin 2	Q2	101	120
The Elysian	Cork	Q1	90	206
Bridgefield	Santry, Dublin 9	Q4	84	216
Elmfield	Sandyford, Dublin 18	Q2	68.5	185
The Belgrave Collection	Dublin 2,4 & 6	Q4	68.5	265
Project Merrion	Dublin 2	Q4	47.05	69
The Square, Hampton Wood	Dublin 11	Q2	40	128

Retail

Consumer Economy Conditions

Notwithstanding a recent dip in consumer sentiment, Ireland's consumer economy is performing very strongly. Rapid jobs growth has created a virtuous circle, leading to higher wages, lower taxes and, ultimately, growth in household disposable incomes. Reflecting this, most indicators on the consumer economy dashboard are strongly positive – see Table 5.

Table 5: Consumer Economy Dashboard

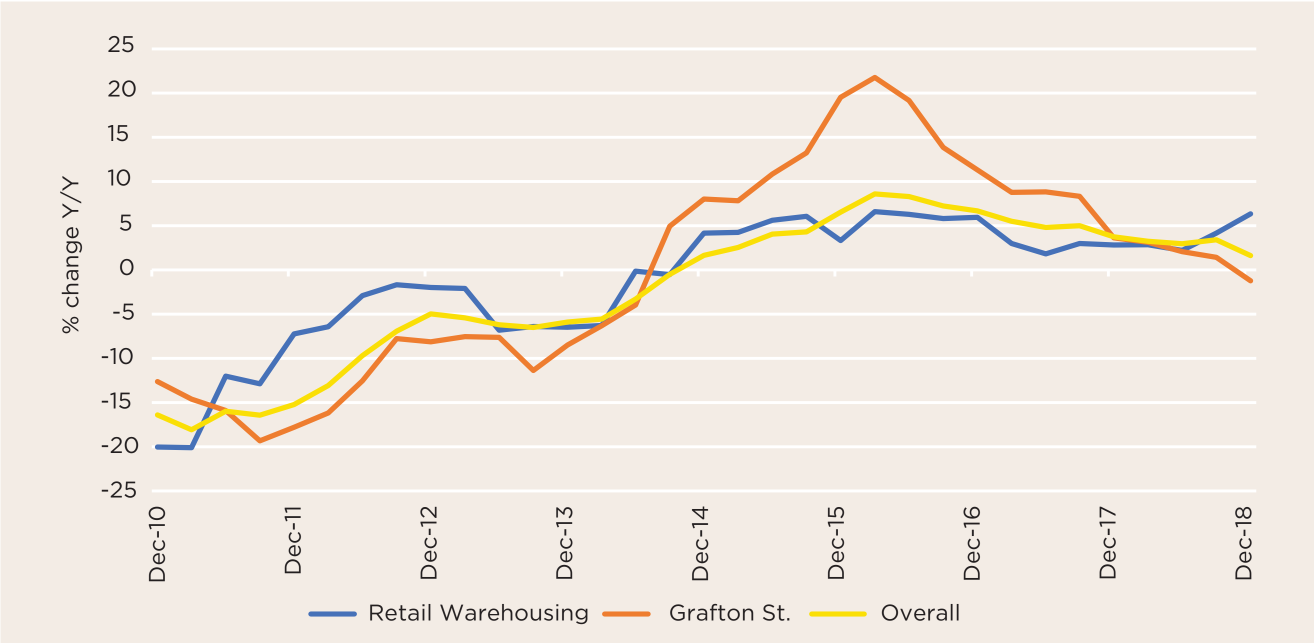
Property	Period	% Change Y/Y
Live Register	Feb 2019	-16.3
Overseas Trips to Ireland	Q4 2018	+6.3
Real VAT Receipts	Feb 2019	+4.3
Real Household Disposable Income (4QMA)	Q3 2018	+5.2
Total Retail Sales	Feb 2019	+5.3
Total Employment	Q4 2018	+2.3
Real Personal Consumption Expenditure	Q4 2018	+2.6
Real Average Gross Earnings	Q4 2018	+3.3
Consumer Credit Outstanding Balances	Dec 2018	+2.8
Consumer Sentiment (3mma)	Feb 2019	-11.6

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

[13] There is scope for further employment growth from the live register - unemployment is currently 1.6 pp above its pre-crisis low. There is also scope to deploy Ireland's human capital more intensively through converting part-time jobs to full-time (the PT ratio is currently 20.3% compared with a previous low of 16.9%) and through increased labour force participation (the current participation rate is 62.2% compared with 66.7% in 2007).

While there is no doubting the strength of the consumer economy a question mark remains about the extent to which this is translating into occupier demand for retail property. Despite very little new retail floorspace being added in recent years, ERV growth in the MSCI basket of institutionally held retail properties more than halved in 2018 and now stands at just 1.6% per annum (Figure 22).

Figure 22: Retail Rents % Change Y/Y

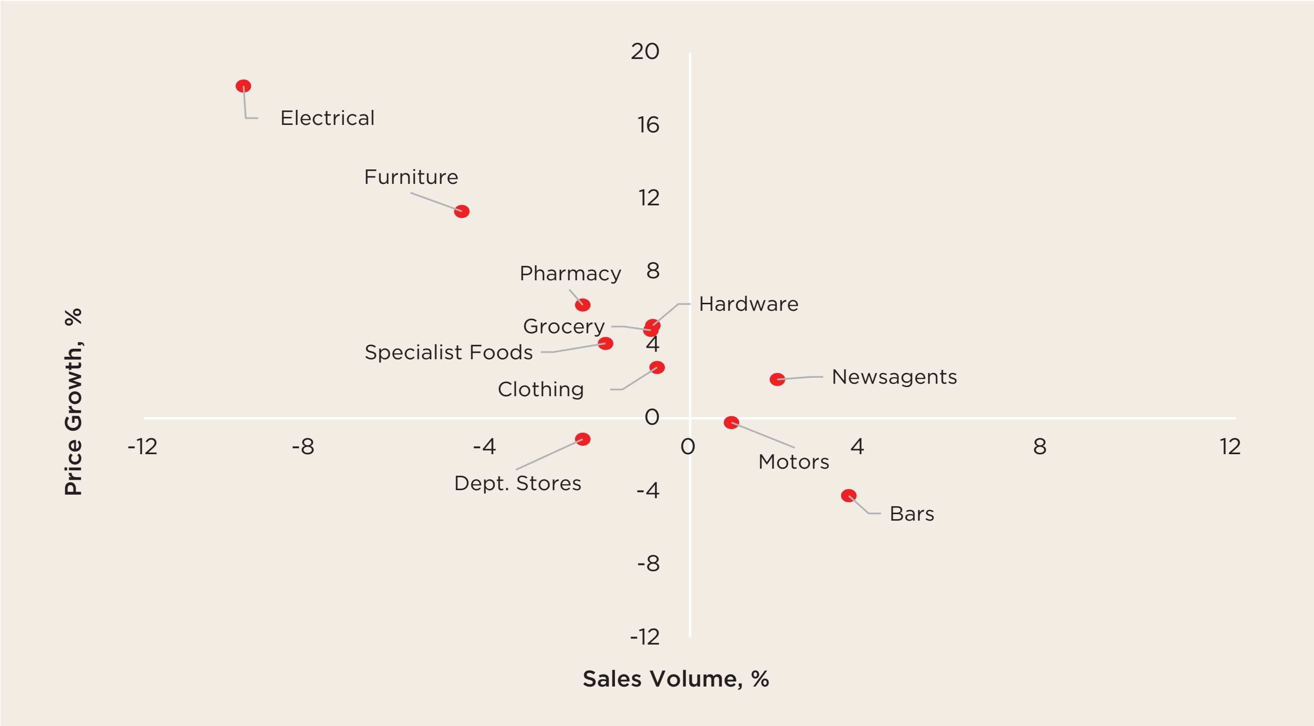


Source MSCI

There has been considerable debate about the extent to which e-commerce is impacting on the performance of retail property. Traditional retailers have ceded market share to e-tailers and, unless this is offset by growth in the overall market, it will subtract from performance at the tills and the quantity of retail space required. But a less obvious challenge from online retailing is the fact that the internet creates almost perfect transparency, forcing traditional retailers into cutting prices to remain competitive with the online offering. This pressure is clearly visible within the Irish retail sector. As shown in Figure 23 price discounting is evident in most retail segments (dots to the left of the vertical line). Unless compensated for by volume sales growth this can weaken profitability and create resistance to higher rents.

Charlestown Shopping Centre – Sold by Savills in Q3 2018 for €44m

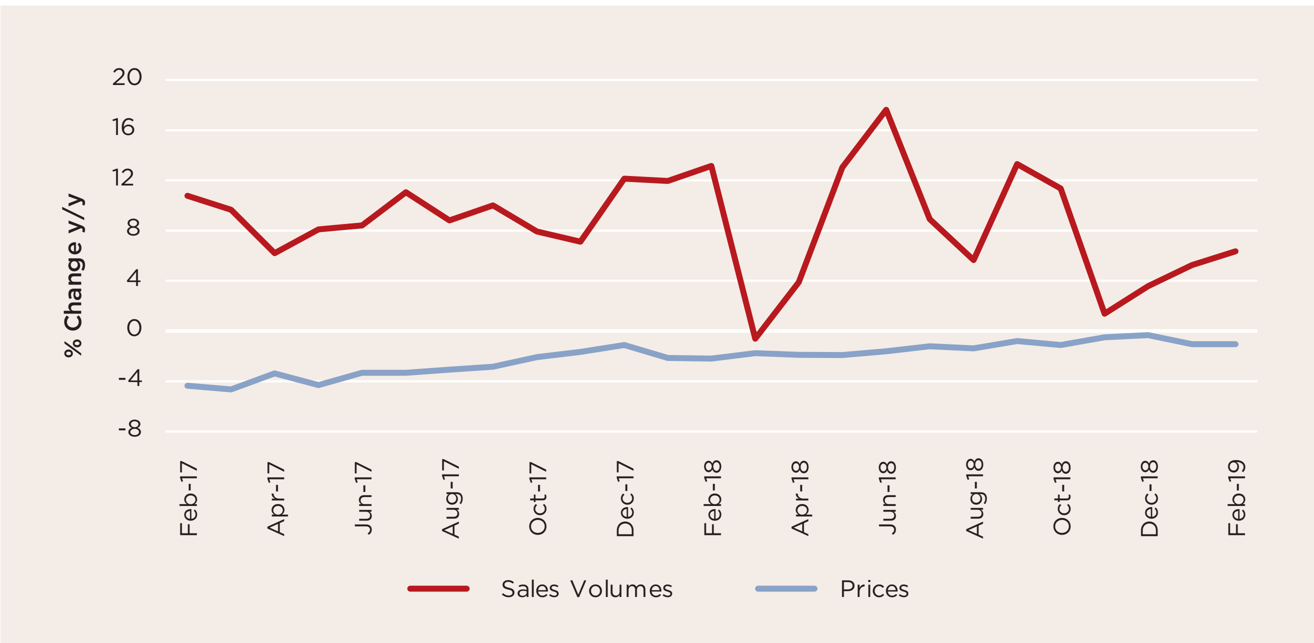
Figure 23: Annual Retail Sales & Price Growth by Sector (3-mth Mov. Avg. February 2019)



Source CSO, Savills Research

While these pressures apply generally, the impact of online competition may differ across retail 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. However the latest MSCI data for Grafton Street, Dublin's premier retail location, suggest ERVs edged back by 1.2% in 2018. Grafton Street is a short thoroughfare by international standards, and this finding is based on sparse leasing evidence, so it is premature to read too much into it. However one possibility is that even prime retail locations are being impacted by a strong reliance on UK brands. Some of these are under pressure in their home market because of the global challenge of online competition, but also because of a weak consumer economy and Brexit uncertainty.[14] Preoccupation with these issues has naturally caused some UK retailers to take their focus off international expansion.

Figure 24: Hardware Stores - Trend in Volume Sales and Average Prices Over Time



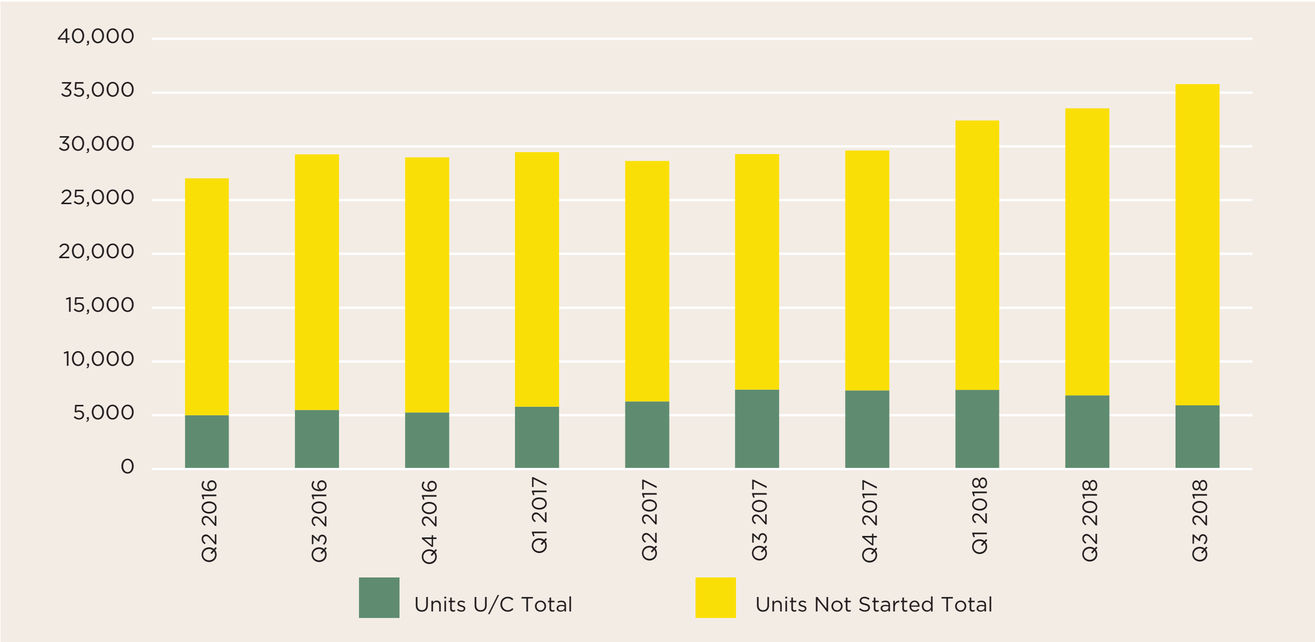
Source Savills Research, CSO

[14] Since the Brexit referendum in June 2016 a weak Pound has contributed to imported inflation in the UK which has undermined the real value of pay increases.

Westend Retail Park – acquired in Q2 2018 for €147.7m

The other segment that is considered to be more insulated from online competition is retail warehousing. The online business model is arguably less suited to trade in bulky durable goods, and this seems to be corroborated by UK research which shows that DIY, gardening and homeware businesses are the sectors least penetrated by internet sales. In Ireland, retail warehousing outperformed in 2018, with ERVs in the MSCI basket rising by 6.3%. In addition to greater immunity from online competition this may reflect the strength of underlying demand for goods that are traditionally sold in retail parks. As shown in Figure 23 above, sales in Electrical Goods (+18.2%) and Furniture stores (+11.3%) are growing strongly year-on-year (dots above the horizontal axis). This is also true to a lesser extent of Hardware stores (+5.1%). Moreover, in the latter case, deflation has now virtually been eliminated – see Figure 24. We believe the strength of demand for bulky products such as furniture and white goods derives not only from the strong consumer economy but also from the ramping-up of housing supply. New dwelling completions rose by 45% in 2017 and by a further 25% in 2018. The fact that all of these units need to be fitted out and furnished creates a natural demand for the goods traded from big-box units in out-of-town locations. In this context we believe that demand for retail warehousing space will continue to benefit from residential construction. Latest data from the Dublin Housing Supply Coordination Task Force (DHSCT) show that, as of end-September 2018, 35,774 residential units were either on-site, under construction, or had full planning permission in place - a 22% increase on the year previously.

Figure 25: Dublin Residential Development Pipeline



Source DHSCT

Investment Market Activity

In total just under €517m was spent on income-producing retail property in 2018 – equating to 14% of the year's total investment turnover. This represents a 23% decline on 2017 and is the lowest retail investment total since 2013. The biggest deal of the year was the Q2 purchase of Westend Retail Park in Blanchardstown by DWS for €147.7m. Symptomatic of the fewer opportunities that arose to buy large-scale retail assets, the value of top three retail buys summed to €286.7m in 2018. This is 9% lower than the €314.1m in 2017, and massively lower than the €1.76bn spend on the top three retail assets in 2016 when two of the big M50 shopping centres and a major retail centre in Kildare traded.

In terms of activity by sub-sector, several trends are noticeable. Firstly, only 19 high street retail units changed hands in 2018 – the lowest number since 2013. As can be seen in Figure 26, post-crisis deleveraging created more plentiful buying opportunities early-on in the economic recovery. However, since 2014 more of the units on Dublin's prime high streets have become locked-in to long-term institutional ownership, and this has contributed to the slowdown in transactions.[15] The one transaction that did occur during 2018 on Dublin's prime retail streets - Grafton St. and Henry St. – reinforced this trend; No. 4 Henry Street was bought by Irish Life from a private investor for €8.65m in Q3.

Figure 26: Share of Retail Investment by Sub-Sector

Source Savills Research

The other clear pattern in Figure 26 is the sharp increase in retail park investment. In part this was opportunity led – the top two transactions (Westend Retail Park and Phase 2, Carrickmines Retail Park) accounted for 91% of total spending on retail warehousing assets during the year. But it also reflects fundamental demand for this type of asset. In the immediate aftermath of the economic crisis the demand for retail park assets evaporated as residential construction halted and consumers stopped spending on non-essentials such as homewares, furniture and electrical goods. However, since the recovery, stores selling these items have consistently traded well and investors are seeking opportunities, particularly in out-of-town locations that are heavily populated and can benefit from further residential development.

The two biggest retail transactions of the year involved retail park assets, and over €267m was spent on retail warehousing property in 2018 - 52% of the total retail spend. Reflecting the perceived quality of the better retail warehousing assets, prime yields tightened by 100 basis points – the sharpest compression of all property sectors – during 2018, and 97% of the capital flowing into this sector was institutional.

Notwithstanding a cooling global economy and the build-up of external risks, the consensus view is that Ireland's economy will continue to perform well, with 100,000 additional jobs expected this year and next. Therefore consumer demand should remain strong. This should underpin retail rents and Savills believes that the general negative sentiment towards retail property should apply less in Ireland. However, despite the strength of the Irish consumer economy there has been variation in the performance of retail property by subsector. The fact that out-of-town retail warehousing is somewhat insulated from online, benefits from strong demographic trends, and will see a tailwind from further growth in new homes construction, means this sector should outperform.

[15] 24 Units on Dublin's Grafton St. and Henry St. have traded in the last seven years. But only 5 of these deals have happened since 2016.

Table 6: Top 5 Retail Deals – 2018

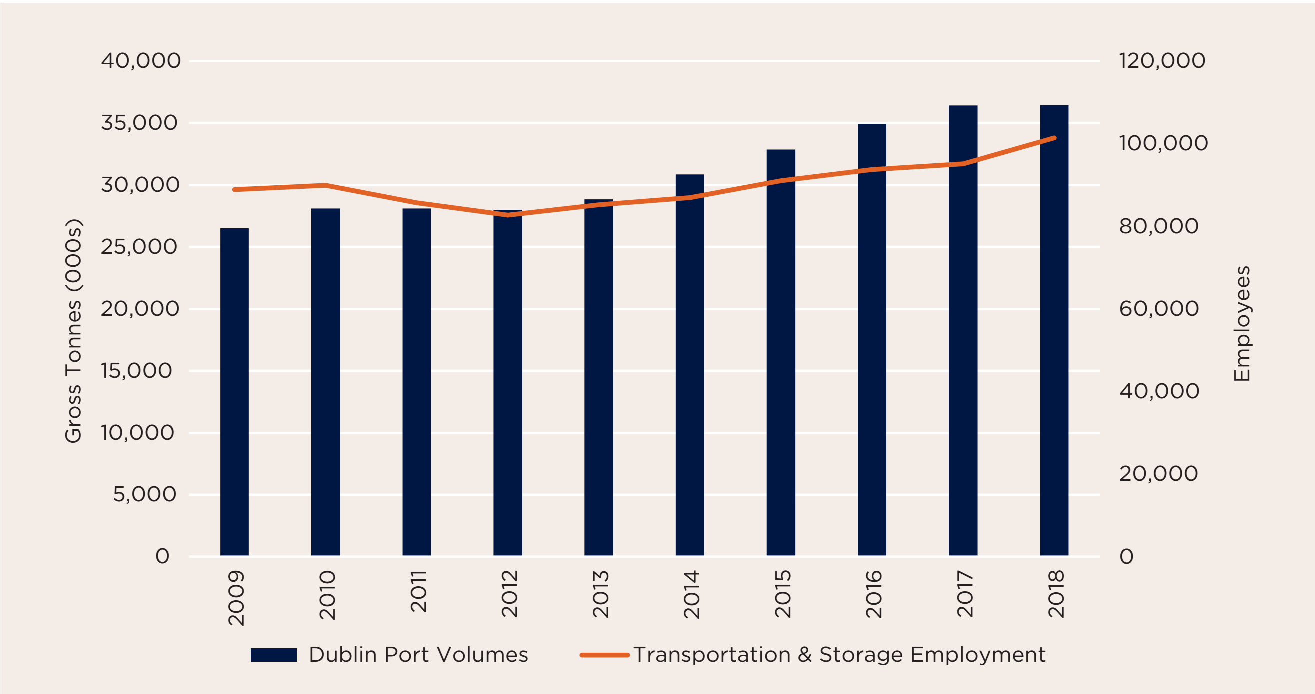
Property	Location	Sub Sector	Quarter sold	Price €m
Westend Retail Park, Blanchardstown	Dublin	Retail Park	Q2	147.7
Carrickmines Retail Park, Phase 2	Dublin	Retail Park	Q4	95
Navan Shopping Centre (Part Interest)	Meath	Shopping Centre	Q4	44
Charlestown Shopping Centre	Dublin	Shopping Centre	Q3	40
McDonagh Junction Shopping Centre (Part Interest)	Kilkenny	Shopping Centre	Q1	24.5

Industrial & Logistics

The demand for 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. Financial measures such as expenditure are not always effective in tracking these things 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. For this reason more tangible measures such as industrial production, goods imports and exports, marine and airport freight volumes, road freight volumes, goods vehicle registrations and population growth (a good proxy because everybody needs 'stuff') may provide greater insights.

Like many other economies Ireland is now restructuring towards service activities. However the manufacturing PMI has been in constant expansion since May 2013 – a period of 70 consecutive months. This is having a positive impact on the business-to-business transit of goods. In addition, population growth suggests that the consumer goods requirement is rising. Taken with the fact that production is increasingly happening outside Ireland and away from the consumer, this is a positive driver of the demand for logistics services. Indeed this is corroborated by various tangible indicators; the combined volume of goods being imported and exported rose by 12.5% in 2018, goods vehicle registrations rose by 5.4% in the year, while freight volumes and logistics employment have also been rising (Figure 27). All of this is feeding into the demand for warehousing space.

Figure 27: Dublin Port Throughput Volumes and Employment in Transport & Storage



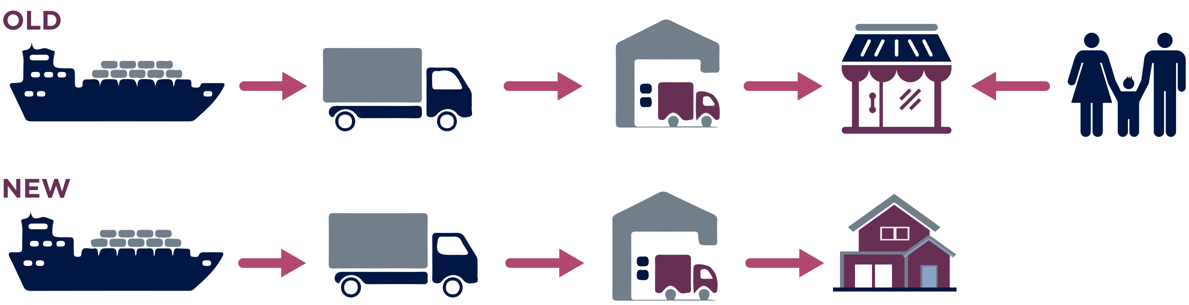
Source Dublin Port Compnay, CSO

Dublin Airport Logistics Park Portfolio – Acquired by Savills in Q3 2018 for €22.5m

A frequently asserted view is that the transition from traditional retailing to e-commerce is driving the demand for more logistics space, but we feel that this argument is somewhat simplistic. The upper panel of Figure 28 maps the traditional supply-chain for consumer goods. Let us imagine that imported goods enter Ireland at a marine or airport. The goods are then transported to a warehousing facility. From there they are delivered to retail outlets where consumers collect them. The lower panel shows the impact of a switch to e-commerce. Assuming that underlying demand remains unchanged, the same amount of produce enters the country, is transported to, and is stored in a logistics facility. Only the mode of consumer access is altered. Instead of consumers collecting their items at a shop, the goods are delivered directly to consumers' homes or workplaces.

This comparison demonstrates that e-trading does not automatically imply an additional requirement for logistics space. Instead the space required derives from the amount of goods being produced and, particularly in a service-orientated economy, being consumed. However this is not to say that e-commerce is irrelevant. E-tailing is impacting on logistics operators because delivery to the customer is making outbound orders smaller and more numerous. As a result the nature of logistics properties is likely to evolve towards smarter buildings which make greater use of robotics to pick orders. This may have knock-on implications for structural features such as eaves heights, loading facilities and external circulation areas.

Figure 28: Impact of E-Commerce on Logistics Demand

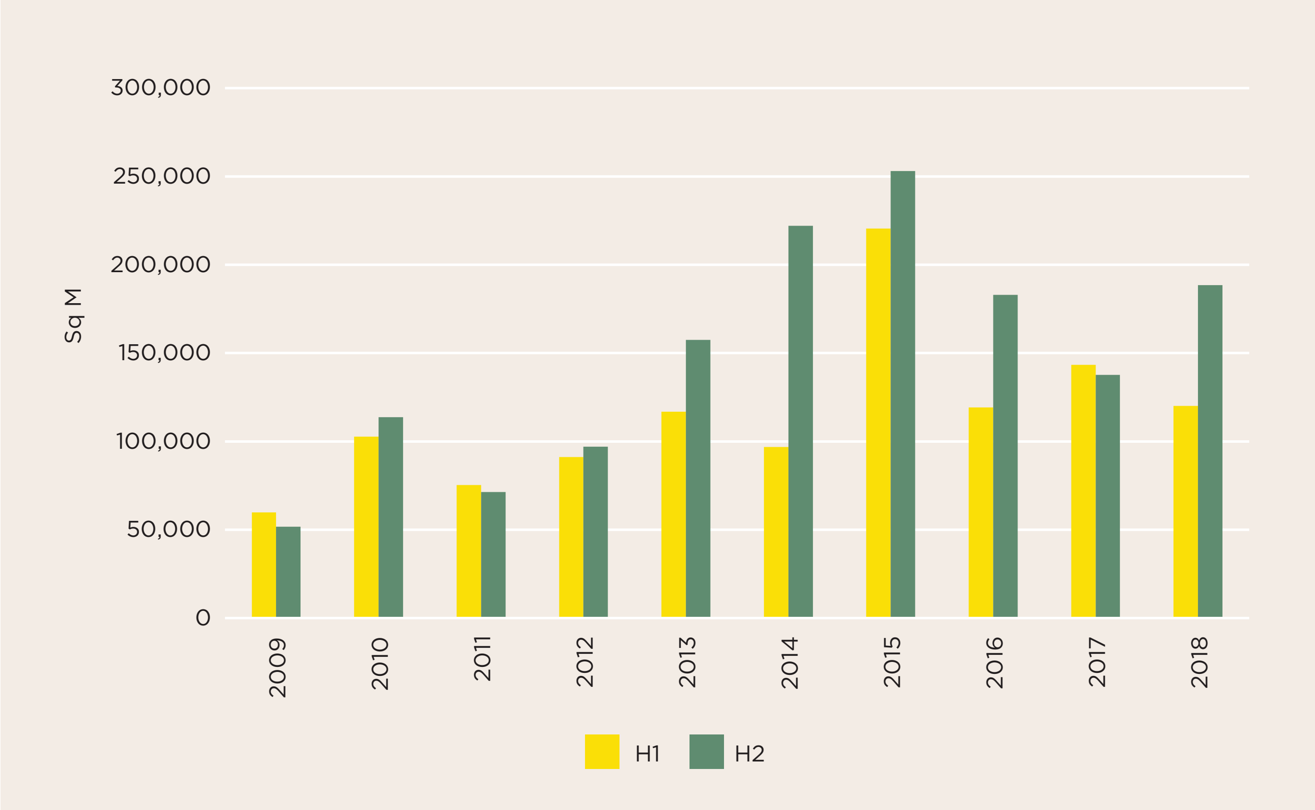


Occupational Market Conditions

Reflecting increased consumption and movement of goods within the economy, occupier demand for industrial and logistics property was strong in 2018. In total 308,659 sq m of industrial and logistics space was taken-up in Dublin during the year - 9.8% up on 2017, and 17.7% above the long-term average. Sixty-one percent of this was taken in the second half of the year. Net absorption averaged about one third of the space that was taken-up during the year and, with only limited development activity, this resulted in falling vacancy. The vacancy rate across Dublin now stands at just under 3% and, as a result, there is upward pressure on rents. Latest MSCI data show that ERVs for a sample of prime logistics properties rose by 1.9% in the year to December and headline rents currently stand at approximately €100 per sq m per annum. [26]

[26] For more detail on the occupational market for industrial and logistics space please see Savills' latest Dublin Logistics Market in Minutes Report Q4 2018 http://pdf.euro.savills.co.uk/ireland-research/dublin-logistics-market-in-minutes---q4-2018.pdf

Figure 29: Logistics Take-Up 2009-2018



Source Savills Research

Investment Market Activity

In total €143.1m was spent on income producing industrial and logistics property during 2018 – almost exactly in-line with the 2017 figure. However with a bigger overall investment spend in 2018, the industrial share of turnover fell from 6.3% to 3.8%. Twenty-six assets traded during the year (28 in 2017). There were two portfolio sales. One of these included two properties in Willsborough Industrial Estate, while three units at Dublin Airport Logistics Park traded for a combined €22.5m in Q3. Only two buildings outside Dublin were sold – The Harvey Norman warehouse in East Coast Business Park, Drogheda, and a unit in Crawford Business Centre in Cork. There were two deals of over €20m in the year; The aforementioned portfolio in Dublin Airport Logistics Park and a single unit in the same park which sold for €30m.

Given the investor appetite for logistics, expectations of continued rental growth, and the limited amount of tenanted stock that has come to the market, prime yields pushed lower by 50 basis points during the year and now stand at 5%. At current rent levels this makes build-to-rent development viable and has led to a resumption of speculative construction in the last two years. Building will commence on at least 70,000 sq m of further new logistics space in Dublin during 2019 and development will continue to provide opportunities for investors to deploy capital.

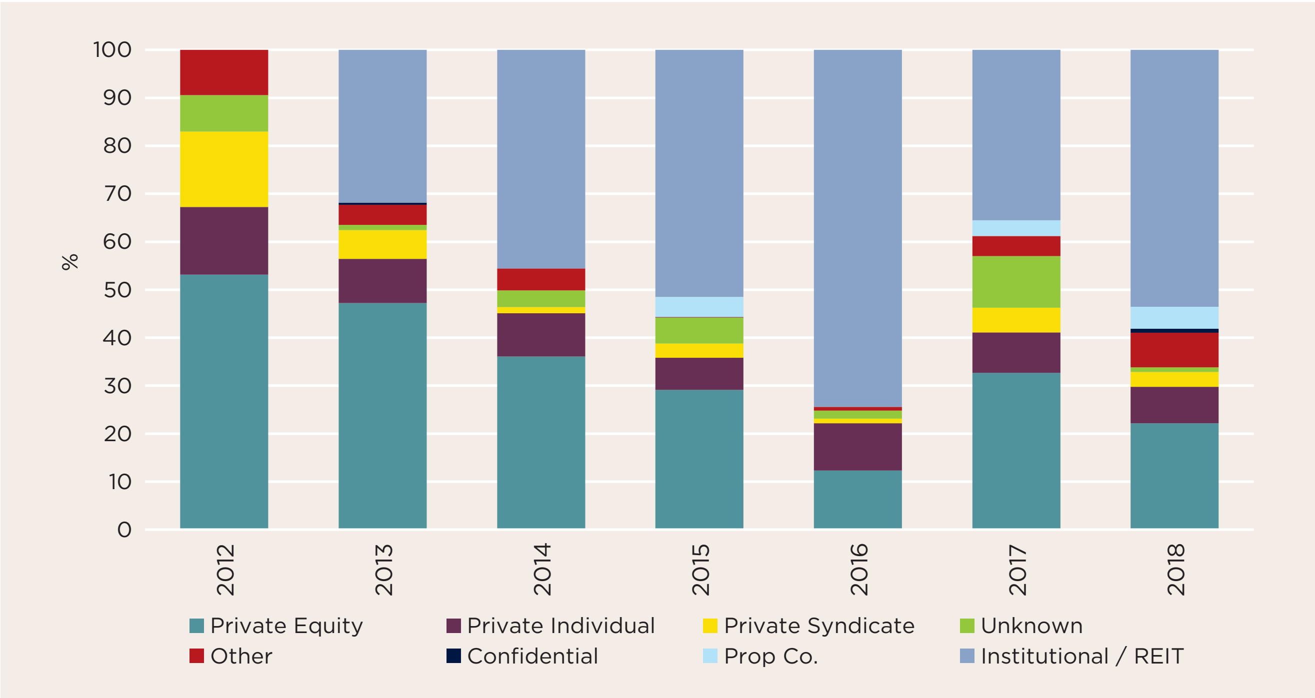
Table 7: Top 5 Industrial Deals, 2018

Property	Location	Sold	Price €m
DHL Unit, Dublin Airport Logistics Park	Co. Dublin	Q4	30.0
Dublin Airport Logistics Park	Co. Dublin	Q3	22.5
Westlink Industrial Estate	Dublin 10	Q4	13.87
White Heather Industrial Estate	Dublin 8	Q4	13.1
500 Greenogue Business Park	Co. Dublin	Q4	12.0

Investment by Buyer Type

For the fifth year in a row institutions and REITs were the biggest buyers of Irish investment property in 2018. Their spending amounted to just under €2bn – accounting for 54% of the year's total turnover and, indeed, of the aggregate spend over the last 5 years (Figure 30). Undoubtedly this reflects the fact that the Irish economic recovery is now firmly established and that pricing for property assets has hardened in line with the strength of occupational markets.

Figure 30: Investment Turnover by Buyer Type



Source Savills Research

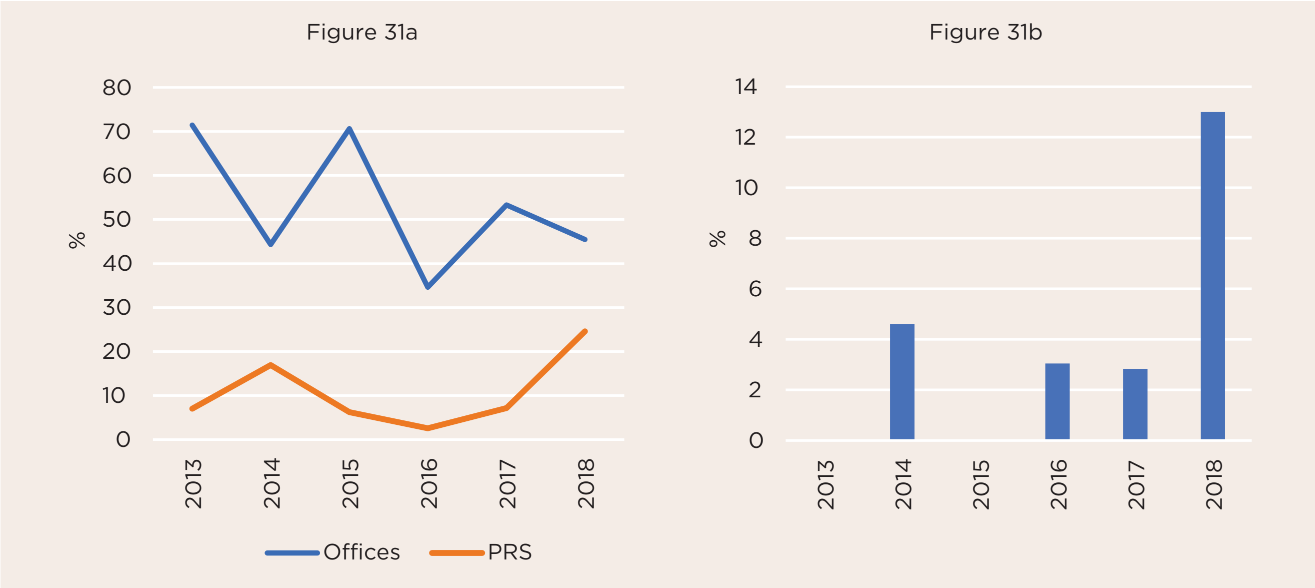
However, there has been a big shift in what the institutions are buying. As shown in Figure 31a, office investments continue to absorb a major share of the capital deployed by these players. However, as the recovery in occupational markets has broadened, institutional money has become more receptive to other sectors, and the proportionate spending on offices has gradually reduced.

Since 2016 PRS has attracted more institutional money. As discussed above, this reflects increasing opportunities to deploy capital into residential assets - both through the opportunistic interception of speculative schemes and through forward commitments. But institutional interest in PRS also reflects the fact that residential property tends to deliver a risk / return profile that aligns with the investment objectives of this long-term money.

In the immediate aftermath of the economic crisis it took time for the benefits of recovery to reach consumers. As a result institutional investors had limited appetite for Irish retail assets, and spending in the sector was quite subdued (see Figure 7 earlier in this report). Since then, however, the consumer recovery has become firmly established and the institutions have become willing buyers of prime retail assets. To date their attention has largely been focused on prime high street units and, where the opportunity arises, shopping centres. However, as shown in Figure 31b, retail warehousing has recently begun to attract a bigger share of the institutional spend. In 2018 REITs and institutional investors bought just under €260m of retail park assets – accounting for 13% of their total spend during the year and 96% of their spending on retail property. As noted above, however, the opportunities that came to the market had a bearing on this with the top two transactions accounting for 91% of the retail warehousing spend.

Fernbank Apartments

Figure 31a: Office and PRS Share of Institutional Spend and 31b: Retail Park Share of Institutional Spend



Source Savills Research

Perhaps unsurprisingly, given their funding model and investment objectives, the average deal size for institutional buyers in 2018 was €45.4m - well above the €8.5m average for all other buyer types. Institutions and REITs were on the buy-side of 15 of last year's 22 €50m plus deals.

The other clear trend in Figure 30 is the gradual decline of Private Equity money within the overall investment spend. Back in 2012, when confidence was still fragile and yields were softer, these players accounted for 53% of turnover. But that figure has slipped quite steadily to 22% at present. Six of the top-10 PE buys in 2018 were PRS assets. The remaining larger PE purchases were Core+ or Value-Add office buildings in Dublin, and a small number of regional office assets.

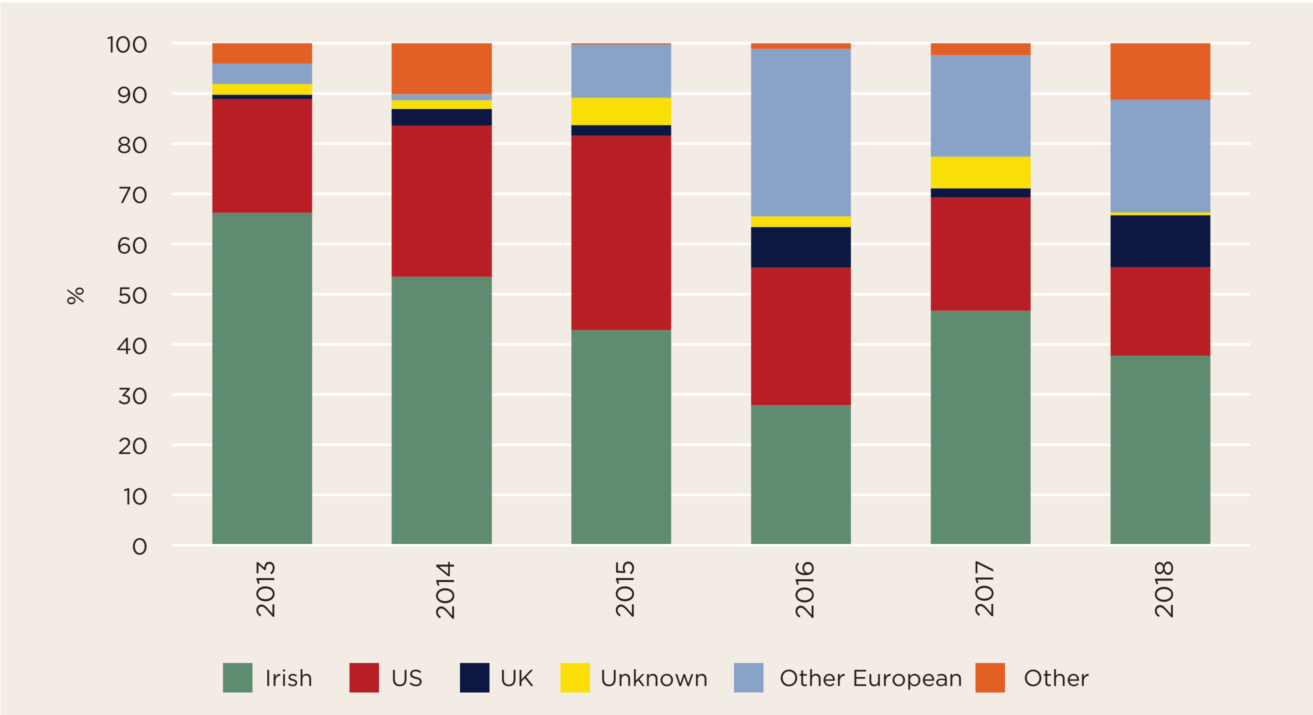
The Elysian, Cork

Investment By Buyer Nationality

As perceptions of risk around the Irish economy have receded the investment market has become increasingly international. Domestic investment has eased back from 66% of investment turnover in 2013 to 38% last year (Figure 32).

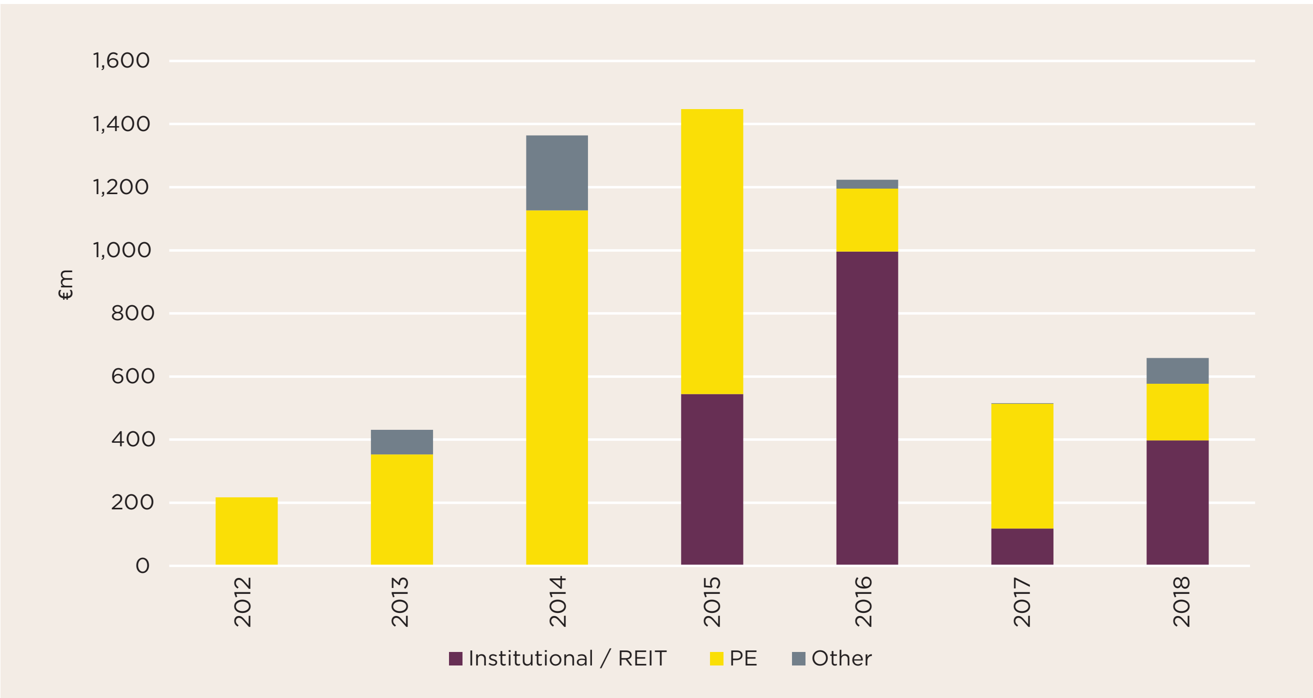
US buyers have been active since the earliest stages of the recovery and remain so. Last year US buyers spent almost €660m on Irish investment property – a 28% increase on 2017. As discussed in previous reports, however, the profile of the American investors is evolving over time. Back in 2012 when the Irish market was distressed, all of the US investment came from private equity sources. However, as the market has recovered and pricing has hardened, the US spend has become more balanced and institutional buyers accounted for three-fifths of American investment in Ireland last year (Figure 33).

Figure 32: Investment Turnover by Buyer Nationality



Source Savills Research

Figure 33: US Investment by Buyer Type



Source Savills Research

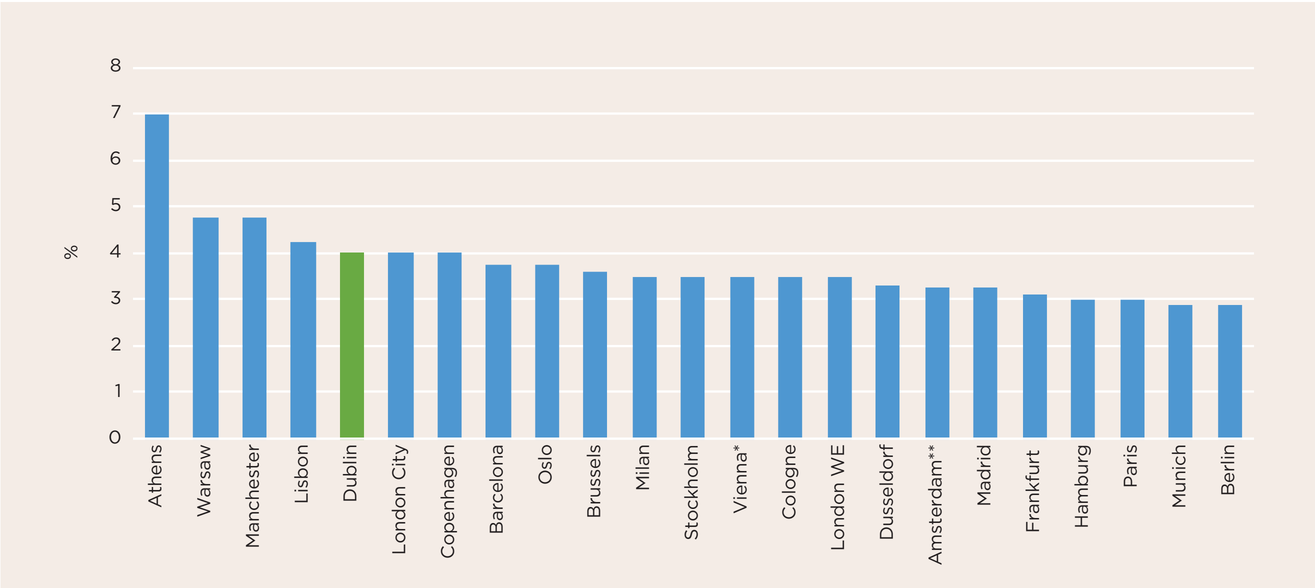
Chatham & King

As can be seen in Figure 32 European core money began to enter the Irish market in 2015, initially led by German institutions such as Union Invest, Real IS and Patrizia. The German funds remain active and were buyers in two of the top five deals in 2018; Triuva purchased a prime office building, No. 1 Dublin Landings, for €164m in Q1, while DWS bought Westend Retail Park in Blanchardstown for €147.7m in Q2. However a wider pool of continental European money has joined since 2016 with Swiss and French buyers particularly active. Credit Suisse bought two prime office blocks in 2018 for a combined total of €121.6m, while La Francaise Group, which also bought a prime Dublin office investment in 2017, spent €20.5m on the World Rugby headquarters at 8-10 Lower Pembroke St..

Perhaps the most notable new development in 2018, however, was the arrival of Asian money - a phenomenon that has been evident across Europe where Singaporean, South Korean and Hong Kong investors are all now among the biggest non-European spenders behind the US.[27] Hong Kong investors have traditionally focused on the UK as their main European target and were less active there during 2018. With a softer domestic market they are also seeking value in their cross-border trades. As shown in Figure 34, Dublin office yields remain very competitive by European capital city standards and this attracted Hong Kong investor Cheung Kong to buy a 20,000 sq m office block at Heuston South Quarter in the biggest deal of the year.

South Korean investors spent €5.6bn on European income-producing real estate in 2018, an 11.4% increase on the previous year, and are focused particularly on single-let CBD offices and €100m+ ticket sizes. Korean money was behind two of the 5 biggest office deals of the year in Dublin. In Q4 JR AMC spent €106.5m to buy No. 2 Dublin Landings, a new 8,850 sq m building in the North Docks, while the Kookmin Bank bought the 14,875 sq m Beckett Building on East Road for €101m.

Figure 34: Net Initial Yields, Prime Office Buildings Q4 2018



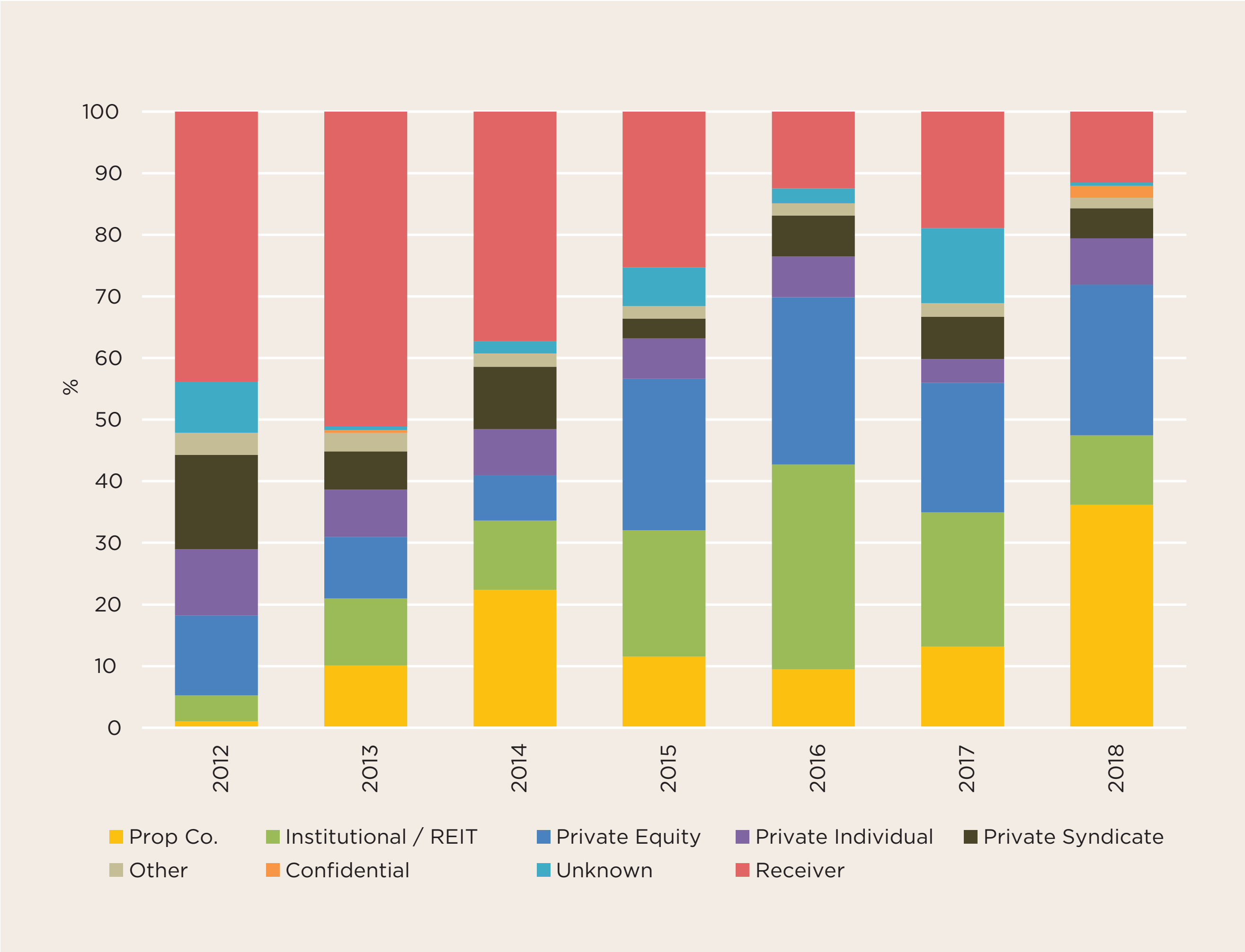
* Latest Available Q3 2018
** Gross Yield
Source Savills Research

[27] Activity by Asian investors in Europe has partly been driven by the increased strength of Asian currencies relative to the Euro. The HK Dollar, Singapore Dollar and South Korean Won appreciated by 9.4%, 6.5% and 4.4% respectively over the 12m to 1st Feb 2019.

Investment by Seller Type

Figure 35 shows the knock-on influence that development – particularly in the office and PRS sectors - is now having on the investment market with property companies' share of sales rising steadily in recent years to 36% in 2018. Six of the top-10 investment deals of the year involved new buildings or forward commitments on development assets.

Figure 35: Investment Turnover by Seller Type



Source Savills Research

As outlined in previous reports private equity companies have become more prominent on the sell side of the market in recent years as the bargain hunters that deployed capital in the early stages of the recovery have begun to take profits. Reflecting the maturity of the market, PE was a net divestor from Irish property in 2018 - for the second year out of the last three. While €6bn has been invested by private equity players since 2012, €4.1bn has been divested.

Equally reflecting how far the market has come since the early stages of the recovery, receivers' share of sales has been on a steady decline. Receivers divested €432m of property in 2018, compared with sales of €1.68bn back in 2014.

In general the REITs and institutions are now holding very good quality stock and, although they continue to acquire and develop their own assets, there is now less need for them to recycle older stock. In absolute terms they sold €419m of property in 2018, less than one-third of their sales in 2016.

Summary and Outlook

Investment conditions remained favourable in 2018 as low interest rates overlapped with strong occupier markets. As of Q1 2019 this scenario looks set to continue.

At a global level all of the major monetary authorities are now in 'wait and see' mode and interest rate increases appear to be off the table for the immediate future. This should ensure an ongoing appetite for property assets. Strong growth, and a consensus view that this will continue, should attract a significant share of this investment to Ireland. Indeed there has been a notable widening of the buyer pool in recent years; Initially US money flowed-in, followed by core German investment, then by capital from a wider range of European countries. And now we are seeing Asian investors buying large-scale property assets in Ireland.

In the offices sector, prime yields in Dublin remain above the European average. At the same time rent expectations are underpinned by a tight occupier market and low vacancy rates. This has led to a weight of domestic and international money chasing Dublin offices. Looking ahead, although the global economy is slowing and Brexit poses a particular risk, Ireland's deepening integration with the global economy means that occupier demand for office space in Dublin will continue growing. However the development pipeline remains well-contained and, if anything, vacancy rates are likely to budge lower in 2019. In these circumstances effective rents should continue to tick-up and prime office yields could edge down. Notwithstanding the fact that more than one third of the office stock has traded since 2013, development will continue to provide opportunities for investors.

The expansion in PRS investment has been one of the major themes of 2018, and investor demand remains very strong for Irish residential property assets. Benign macroeconomic conditions, strong population growth and a sluggish supply response have led to a chronically undersupplied market, ensuring sub-2% vacancy levels across all locations and strong rental growth. Assisted by planning changes we are now beginning to see a pick-up in residential construction output. In due course this will cause rental growth to moderate from current unsustainable levels. However the large gap between supply and demand, and the rate at which this can be narrowed, mean the Irish residential market will remain undersupplied until 2023 at the earliest, and that rents will continue on an upward curve. This will attract further capital and, already in the opening months of 2019, we are seeing yields sharpen below 4%. As with offices, construction development will provide opportunities for PRS investors and we are likely to see the first true purpose-built rental blocks emerging in prime rental locations.

Given strong jobs creation, rising disposable incomes, and rapid population growth, Ireland's consumer economy is very robust. Despite investors' ambivalence towards retail property at a global level, stores in Ireland's prime locations are trading well and continue to attract capital. The retail warehousing sector is currently outperforming in both the occupational and investment markets, and this should be sustained as the flow of new housing development strengthens.

The buoyant consumer economy is also contributing to a requirement for more warehousing and logistics space, and Brexit uncertainty may also be feeding into this. Strong occupier demand has pushed vacancy rates below 3% and rents are rising – factors which are attracting investors. The perennial challenge for investors in Irish logistics is sourcing product, but the development pipeline is now flowing and will provide opportunities to deploy capital through 2019 and beyond.

33 Molesworth Street,
Dublin 02
+353 (0) 1 618 1300

Savills Investment Report 2019

Research

John McCartney
Director of Research
Savills Ireland
+353 1 618 1427
john.mccartney@savills.ie

Investments

Domhnaill O'Sullivan
Director of Investment
Savills Ireland
+353 1 618 1364
domhnaill.osullivan@savills.ie

Fergus O'Farrell
Director of Investment
Savills Ireland
+353 1 618 1311
fergus.ofarrell@savills.ie

Dessie Kilkenny
Director of Investment
Savills Ireland
+353 1 618 1401
dessie.kilkenny@savills.ie