

IRELAND INVESTMENT MARKET BULLETIN

2016 Market Summary

- Investment in 2016 far exceeded expectations with a total turnover of €4.50bn.
- Two large retail deals accounted for €1.60bn of transactions.
- Investment activity continues to be concentrated in Dublin with investor appetite starting to spread throughout the regions.
- Investment activity in Ireland is expected to remain resilient despite the global climate of uncertainty.

The Irish economy

There has been a strong economic rebound in the Irish economy in recent years. The recovery has been demonstrated with GDP growth of over 4% in 2016, falling unemployment, increasing wage growth, a boost in investment and rolling back of austerity measures.

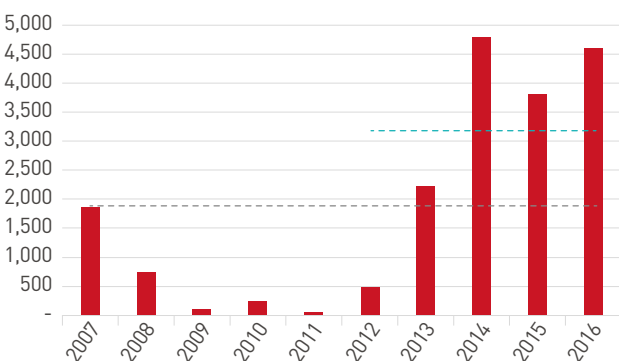
Gradual economic growth is forecast in 2017 despite the uncertainty associated with Brexit and the prominence of the 'hard Brexit' scenario by the UK government. GDP is predicted to increase by 3.5%, Irish fiscal policy will remain neutral and structural reforms will prioritise economic growth.

Whilst economists are urging caution with regard to Brexit, it is undoubtable that there is opportunity for Ireland in the forthcoming years. Ireland is a gateway to the EU for businesses and will be an attractive option for those wishing to re-locate from London. For business investors Ireland has a skilled workforce, excellent infrastructure and an attractive corporate tax rate, albeit speculation of cuts to US corporation tax, may have an adverse impact on Ireland.

Investment volumes

Investor spend was strong in 2016 with a total €4.50bn, exceeding the forecast of €3bn and a 21% increase on 2015. Activity in 2016 was the second highest recorded over the last decade and just short of the €4.8bn high in 2014.

INVESTMENT VOLUME (€M)



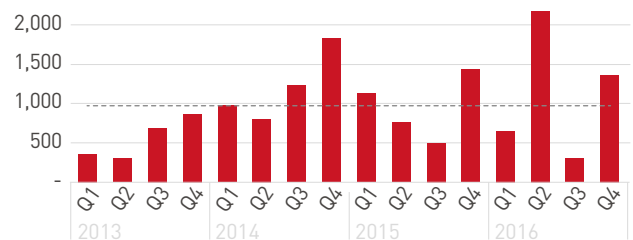
Source: LSH Research — €m --- 10 year average 5 year average

Quarterly Investment volumes

Quarterly investment activity across 2016 varied with transaction peaks and troughs. The steady start in Q1 was followed by the highest quarterly turnover on record at over €2bn in Q2. The severe slowdown in Q3 was the result of caution in the immediate period after the UK Brexit referendum coupled with a lack of product in the market. Turnover in the region of €1.3bn in Q4 returned to above average levels.

It must be noted that the strong performances in Q2 and Q4 were boosted by large retail transactions. In Q2 Blanchardstown Shopping Centre sold for around €975m and in Q4 Liffey Valley Shopping Centre sold for approximately €630m.

QUARTERLY INVESTMENT VOLUME (€M)



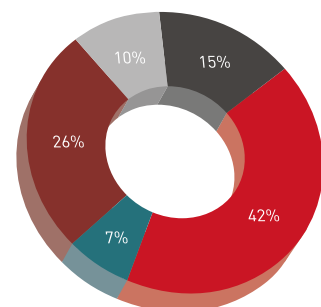
Source: LSH Research — €m ---- Quarterly Average

Investment volumes

Private equity investors were the most active in 2016 accounting for two-fifths of investment volume. Institutional investors were also very active and were responsible for around €1.1bn of investment, a quarter of the total volume.

VOLUME BY INVESTOR TYPE (%)

- Private investors (national & international)
- Private equity
- Irish pension fund
- Institutional (including REITs)
- Other/undisclosed



INVESTMENT

Sector analysis

2016 investment was dominated by retail and office deals. Retail investment at €2.3bn accounted for half of total investment volume, significantly larger than volume in recent years. This was boosted by Blackstone acquiring Blanchardstown Shopping Centre from Green Property for approximately €975m, and reportedly the largest deal in the history of the state.

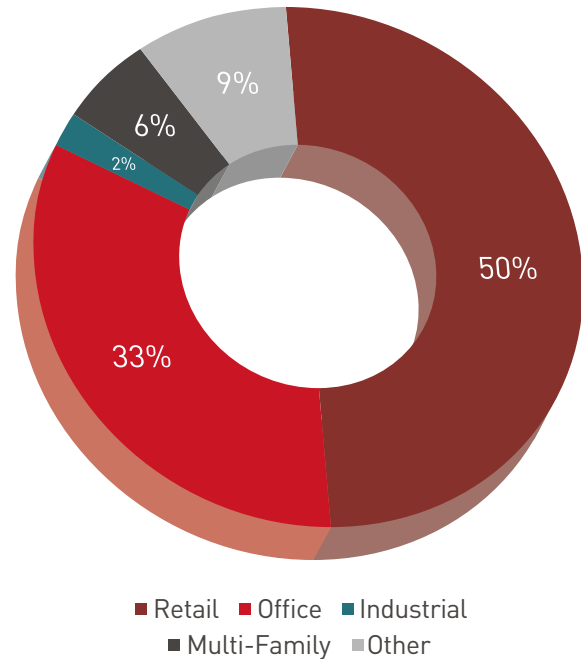
At €1.5bn office transactions accounted for one third of the total investment volume. The €240m sale of One Spencer Dock in Dublin to an international fund and €140m sale of The Oval in Dublin to Patrizia were notable deals in this sector.

Whilst investment in the industrial sector accounted for only two percent of the total volume this equated to over €100m and was consistent with investment in 2015. Two industrial units at Rosemount Business Park in Dublin sold for €17.8m to IPUT Plc and a portfolio of units in Dublin and Cork sold off-market for €13m to a private investor.

Investment in the multi-family sector was strong at six percent. The Neptune Building in Dun Laoghaire sold for approximately €72.5m to a private investor and the Elm Park development in Dublin was bought by IRES for a reported €59m.

Deals in 'Other' sectors of the market accounted for 9% of the total transaction volume. Examples included the sale of the mixed-use Times Building in Dublin for €50m, Parnell Car Park in Dublin for €11.8m, student accommodation at Blackhall Place in Dublin for €11.5m and the Maldron Hotel in Cork for €8m.

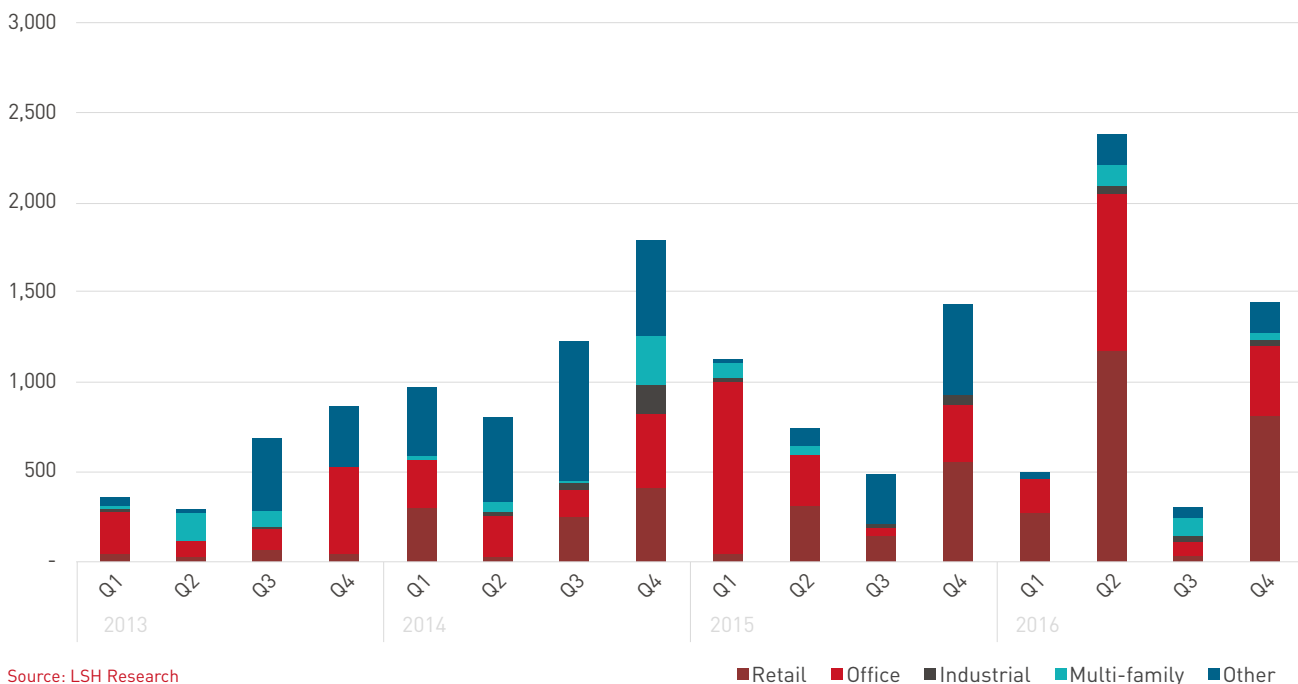
PROPORTION OF INVESTMENT VOLUME BY SECTOR (%)



Source: LSH Research

Quarterly investment volume by sector (€m)

The uplift in office and retail investment is illustrated in the quarterly breakdown by sector, with significant deals in these sectors in Q2 and Q4 2016.



Source: LSH Research

Top deals by quarter

The table below details the top five deals in each quarter, and provides further evidence that large amounts of capital are still being deployed in the retail and office sector. Demand remains strong within the shopping centre investment

market. In three of the four quarters the top deal was for a key retail scheme throughout Ireland, specifically Whitewater (Q1), Blanchardstown (Q2) and Liffey Valley (Q4) shopping centres.

TOP FIVE DEALS BY QUARTER 2016

	Sector	Price Achieved (€M)
QUARTER 1		
Whitewater Shopping Centre, Newbridge	Retail	180.0
Central Quay, Sir John Rodgerson Quay, Dublin 2	Office	51.3
Golden Island Shopping Centre, Athlone	Retail	43.5
Royal Hibernian Way, Dawson Street, Dublin 2	Mixed	32.0
8 Hanover Quay, Dublin 2	Office	32.0
QUARTER 2		
Blanchardstown Shopping Centre, Dublin 15	Retail	975.0
One Spencer Dock, Dublin 1	Office	240.0
Project Kells, Nassau Street & Dawson Street, Dublin 2	Office	93.0
St Stephens Green, LXV, Dublin 2	Office	85.0
Elm Park, Dublin 4	Multi-family	59.0
QUARTER 3		
The Neptune Building, Dun Laoghaire	Multi-family	72.5
Hume House, Dublin 4	Office	35.0
Geata Na Cathrach, Fairgreen, Galway	Mixed use	20.0
The Apex Collection, Dublin	Office/Industrial	19.7
Coldcut Park, Clondalkin, Dublin	Multi-family	18.3
QUARTER 4		
Liffey Valley Shopping Centre, Dublin 22	Retail	630.0
Wilton Park House, Dublin 2	Office	60.0
Velasco Building Dublin 2	Office	58.0
Harbourmaster 2, IFSC, Dublin 1	Office	53.0
Times Building, D'Olier Street, Dublin 2	Mixed use	50.0

Source: LSH Research

Market performance

Current sentiment suggests prime yields in retail and office assets will hold at their current level, we anticipate a fall in industrial yields.

Q4 2016 YIELDS

SECTOR	PRIME YIELDS		YIELD SENTIMENT
	Q4 2016	12 MONTH MOVEMENT (BPS)	
Retail	3.25%		
Office	4.50%		
Industrial	6.00%		

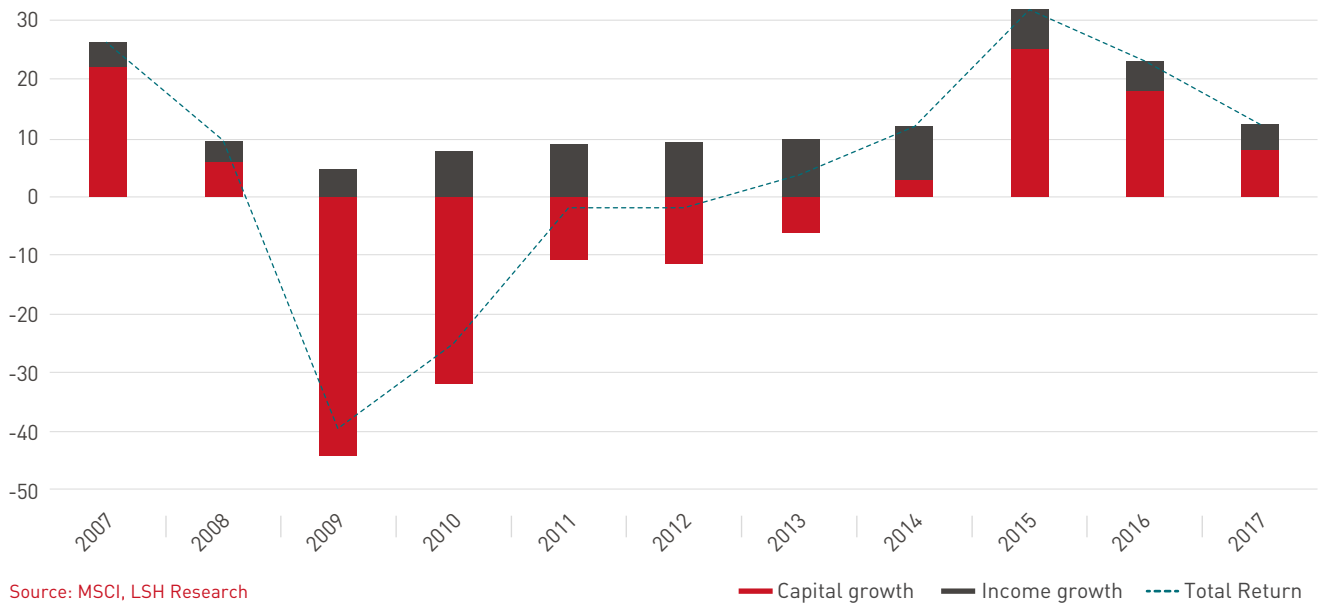
Source: LSH Research

Both capital growth and income returns have shown positive activity since 2013 and a turnaround in fortunes since the global financial crisis in 2007.

Since 2014 total return has been driven by capital growth. However, there has been a reduction in total return from

31.8% in 2014 to 12.1% in 2016. Yield compression has resulted from a multitude of market factors including increased demand from national and international investors, a lack of re-trade and product in the marketplace, and a change in buyer profile. We expect total return to remain relatively stable in 2017.

PROPERTY RETURNS (%)



Outlook

The outlook for 2017 is one of positivity despite a global climate of uncertainty. The Irish economy is expected to grow and strengthen, and the resilience shown in Ireland since the global financial crisis will continue.

GDP is forecast to increase by over 3% annually in 2017 and 2018, and Ireland will remain amongst the strongest and fastest growing economies in the EU.

We expect investment activity to remain buoyant with investors continuing to explore opportunities across Ireland.

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