IIM

IRELAND INVESTMENT MARKET BULLETIN H2 2017

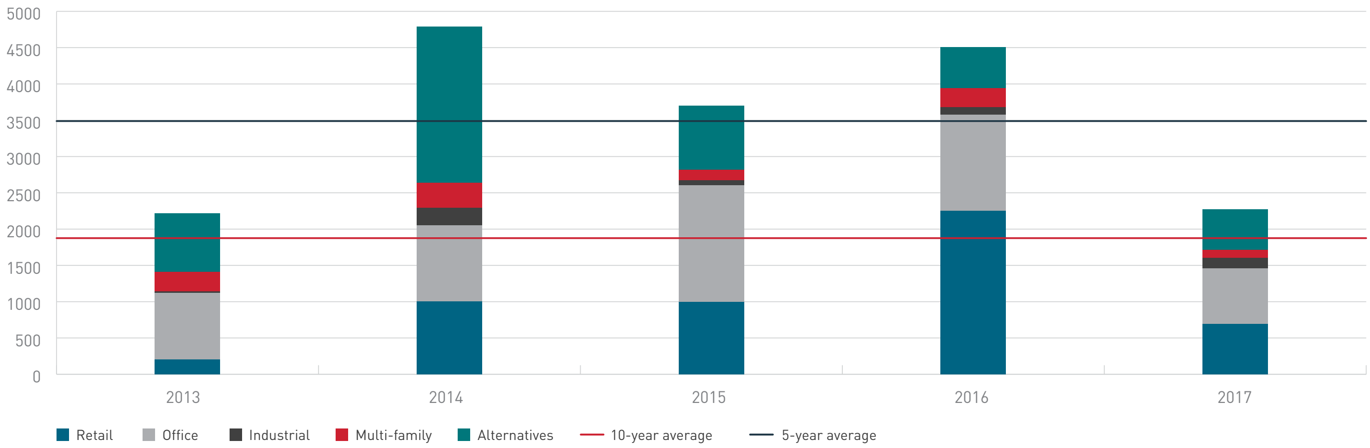
Lambert Smith Hampton

INVESTMENT VOLUME

Investment activity picked up considerably in H2 with approximately double the volume of the subdued H1 transacting. At €2.3bn, investment volume in 2017 was low, standing 35% below the five-year average and 50% below 2016 volume.

On face value, 2017's activity was muted but it must be considered within the wider context. The large scale deleveraging that characterised 2014-2016 has largely completed and the market environment is returning to a normalised level of activity. The key challenge to Irish investment activity is not a lack of demand, but a supply shortage of larger assets. While this is also affected by the reduction in deleveraging, potential investors are struggling to find suitable assets to deploy capital.

ANNUAL INVESTMENT VOLUME BY SECTOR (€M)



Source: LSH Research

SECTOR FOCUS

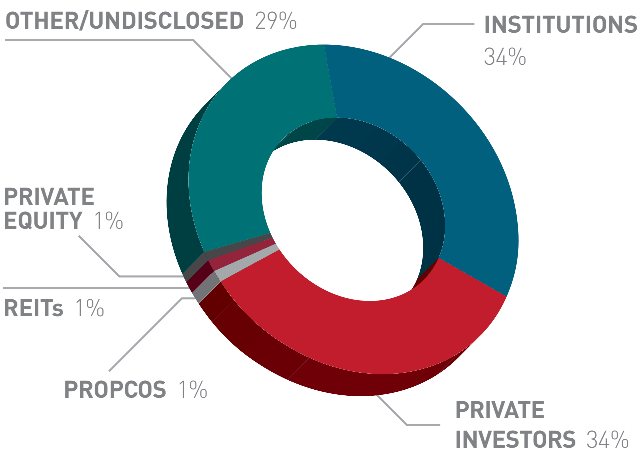
Office accounted for a third of investment volume, totalling €771.0m in 2017. Ninety percent of this was deployed in Dublin and included two city centre offices which sold for over €100m, an undisclosed office for €145m in Q4 and 13-18 City Quay for €126.3m in Q1 (NIY 4.57%).

At €691.6m, retail transactions accounted for 30% of 2017 activity. This was dominated by the €233m sale of The Square shopping centre in Tallaght (NIY 5.52%), although other notable transactions included the €50.1m AIB on Grafton Street (NIY 3.44%) and the €23.0m Parkway Retail Park in Limerick (NIY 7.58%). The hotels and leisure sector continues to grow, with six Dublin hotels changing hands in 2017 at a combined total of over €150m, including the €87m sale of the landmark Gibson Hotel (NIY 4.92%).

Institutional and private investors were each responsible for 34% of volume in 2017, although the pattern of transactions was quite different. Private investors dominated the smaller end of the market with an average lot-size of €4.0m. They were, however, most active and responsible for 179 of 262 deals. Institutional investors purchased almost €642m of assets, predominantly investing in the larger lot-size with an average purchase of €22.9m across 30 deals.

INVESTORS

VOLUME BY INVESTOR TYPE (%)



Source: LSH Research

TOP TEN DEALS 2017

	Sector	Price (€M)	NIY	Quarter	Purchaser	Vendor
The Square, Tallaght	Retail	233.0	5.52%	Q4	Oaktree	NAMA
Off market, Dublin	Office	145.0	-	Q4	Confidential	Confidential
13-18 City Quay, Dublin 2	Office	126.3	4.57%	Q1	Irish Life	Targeted Investment opportunities
The Gibson Hotel, Dublin	Alternatives	87.0	4.92%	Q4	Dekabank	Receiver
Clayton Hotel, Dublin 2 and Clarion Hotel, Dublin 22	Alternatives	62.5	3.86%	Q2	Dalata Group	Receiver
Off market, Dublin	Office	60.0	-	Q3	Confidential	Confidential
100-101 Grafton Street, Dublin 2	Retail	50.1	3.44%	Q3	Irish Life	GLL
4 & 5 Harcourt Centre, Dublin 2	Office	47.0	4.42%	Q3	Ares / Investus	Clancourt Group
The Capitol Building, Cork	Mixed use	45.5	-	Q3	Real IS	JCD
21 Charlemont, Dublin 2	Office	45.0	4.50%	Q3	La Française Group	Rohan Holdings

Source: LSH Research

Q4 2017 PRIME YIELDS

SECTOR	Prime yields			YIELD SENTIMENT
	Q4 2017	3 MONTH MOVEMENT (BPS)	12 MONTH MOVEMENT (BPS)	
Shops	3.25%	◄►	◄►	◄►
Shopping centres	4.50%	▼ 25	▼ 25	◄►
Retail parks	5.50%	◄►	▲ 50	◄►
Office	4.25%	▼ 25	▼ 25	◄►
Industrial	5.50%	◄►	◄►	◄►

Source: LSH Research

OUTLOOK

Reflecting the post-deleveraging environment and a return to more normalised market conditions, investment volume in 2018 is expected to be broadly similar to 2017. While yields for prime assets hardened during 2017, Ireland continues to offer opportunities for potential investors compared with other European locations. In the cities outside of Dublin, in particular, attractive returns are on offer.

The impact of the October 2017 rise in non-residential stamp duty to 6% caused a reduction in property values and pension fund values, and has yet to be fully felt by the Irish commercial property market. While the rise will factor into investor decision making, the market continues to attract competitive interest amongst international investors for good quality product.

Despite healthy investor demand, a shortage of stock, particularly larger assets, has the potential to negatively impact on investment volume. As a result potential investors will be looking to the alternative sectors, beyond Dublin and to rental growth opportunities (particularly in the office sector) in 2018 to satisfy their requirements.

CONTACTS

EDMUND DOUGLAS
Head of Office - Dublin & Galway
+353 1 673 1422
edouglas@lsh.ie

PADDY BRENNAN
Head of Capital Markets - Ireland
+44 (0)28 9026 9206
pbrennan@lsh.ie

DONALL MCCANN
Head of UK Regional Capital Markets
+44 (0)28 9026 9220
dmccann@lsh.ie

NIGEL KINGSTON
Director - Agency
+353 1 673 1419
nkingston@lsh.ie

CLAIRE COLE
Research Analyst – Ireland
+44 (0)28 9026 9235
ccole@lsh.ie

Lambert Smith Hampton