

# Ireland Commercial Real Estate Market Update

1<sup>st</sup> Quarter 2019



Atlanta, Georgia • London, England  
[www.quadrantrea.com](http://www.quadrantrea.com)



**Kurt Wright, CFA**  
Chief Executive Officer  
+1 770 752 6713  
[kwright@quadrantrea.com](mailto:kwright@quadrantrea.com)



**Linda Nel, CA(SA), CPA**  
Senior Vice President  
+1 770 752 6726  
[lnel@quadrantrea.com](mailto:lnel@quadrantrea.com)

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### **Kurt Wright, CFA**

Chief Executive Officer

+1 770 752 6713

[kwright@quadrantrea.com](mailto:kwright@quadrantrea.com)

### **Linda Nel, CPA, CA(SA)**

Senior Vice President

+ 1 770 752 6726

[lnel@quadrantrea.com](mailto:lnel@quadrantrea.com)



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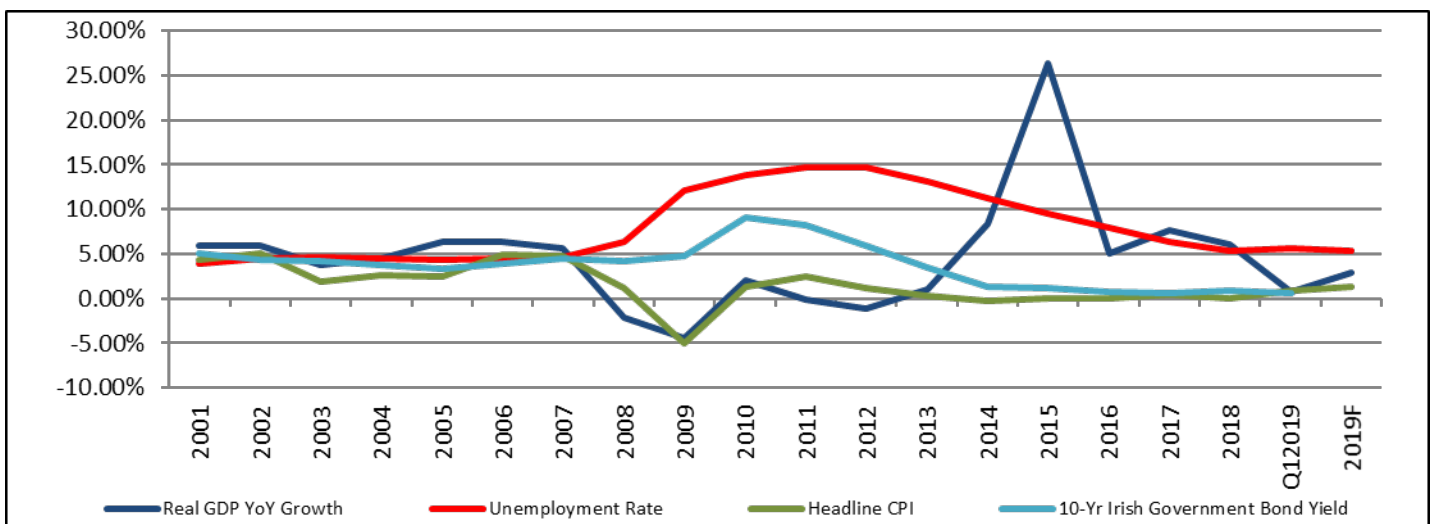
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The firm's executive leadership includes Kurt Wright, Chief Executive Officer; Thomas Mattinson, Executive Vice President; Walter Huggins, Executive Vice President; Frank Linneen, Executive Vice President; and Jessica Eggins, Executive Vice President.

## Ireland Market Summary

- **2019 GDP is forecasted to be 3.2%.**
  - Real Gross Domestic Product (“GDP”) growth in Ireland year-on-year for the quarter ending March 31, 2019 is estimated to be 0.8%, down compared to the same quarter for 2018 at 7.7% (revised).
- According to the Ireland Central Statistics Office the number of employed people in Q4’2018 (latest reportable statistic) remained stable at 2.3 million people (annual change of 50,500 people).
- The European Central Bank (“ECB”) Main Refinancing Rate remained unchanged at 0.0% during the quarter.
  - Euro Inflation decreased 40 basis points to 2.0% in Q1’2019 – reaching the ECB’s inflation target.
  - Euro-area CPI is 104.36 at the end of Q1 2019, up from 102.91 a year ago.

### Key Economic Indicators



Source: Bloomberg, Central Statistics Office Ireland

1) The 2012 10-Yr Irish Government Bond Yield is a linear interpolation of the 2011 and 2013 yields because no benchmark 10 year bond existed in 2012.

- The euro decreased 2.23% against the US dollar to €1.1218 at the end of the current quarter. The euro increased 4.26% against the pound to £0.86064 at the end of the current quarter.
- The Brexit vote has led to a moderate increase in Foreign Direct Investment (“FDI”) activity in Ireland as organizations establish a presence in Europe post-Brexit.
- Many companies, already established in Ireland, are expanding their existing footprint.
  - Lack of housing, especially in Built-To-Rent (“BTR”) and for sale apartments, is perceived to be the biggest threat to the Irish economy, and the biggest opportunity for property investors.

**Interest Rate Benchmarks**

Benchmark	December 2018	March 2019	Change
3-month EUR Swap	-0.31%	-0.31%	0.65%
5-year EUR Swap	0.20%	0.01%	-92.93%
10-year EUR Swap	0.81%	0.47%	-41.82%

Source: Bloomberg.

- Persistent low Euribor swap rates resulted in the pricing of debt for income producing assets to tighten considerably.
- Low cost senior financing from the clearing banks is generally limited to 65% loan-to-value but is not permitted on speculative development or land.
  - Further, most Pillar Banks do not give borrowers credit for land value.
- Speculative development finance for commercial assets continue to be the most difficult asset class in the market to fund, and a material property debt capital gap persists on a broad range of under supplied property types.
- Furthermore, most non-bank mezzanine lenders require low-to-mid teen returns which is cost prohibitive to Irish property investors for the Irish market.
- Given high demand for cost efficient debt and limited competition from lenders, attractive risk adjusted yields of 8%+ can be achieved on prudent stretch senior loans.

## Dublin

Ireland benefits from a very business friendly environment, including a 12.5% corporate tax rate, high quality of life, highly educated work force, lower cost of living relative to other European business nodes and English as its main language. This has spurred a strong economic recovery following an especially severe recession and the collapse of the Irish banking system during the GFC.

An influx of leading tech-based companies (e.g. Facebook, Google, Amazon, Airbnb, etc.), a vibrant aircraft leasing industry, large universities as well as a resurgence of the financial services sector, have been the primary drivers of the recovery.

These industries, and their supporting services (auditors, solicitors etc.), are continuously expanding their business operations by adding young, highly skilled professionals to support growth.

This is driving demand for:

- 1) high quality office space into which businesses can expand;
- 2) residential housing (focus on built-to-rent apartments) for new employees;
- 3) retail space near population centers for major retailers seeking prime exposure; and
- 4) hotel rooms for business travelers.

These trends are contributing to positive CRE fundamentals in Dublin.

## The Dublin Commercial Real Estate Market

- **BTR Apartment** sector outlook is **highly favorable**.

For Rent Apartments				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
<b>Prime Rents (2 bedroom)</b>	€2,275 – €2,800	€2,500– €2,840	€2,500– €2,840	€2,500– €2,840
<b>Prime Yields (2 bedroom)</b>	3.75% to 4.00%	3.75% to 4.00%	3.75% to 4.00%	3.85%
<b>Vacancy Rate</b>	<1.40%	<1.40%	<1.40%	<1.40%

Source: Daft.ie, Cogent, Savills, Bannon, CBRE

Notes: Yields vary based on location and number of bedrooms. Only 2-bedroom apartments in Dublin 1/2/4 have been included in this table. For additional detail on the Residential Market, please contact Quadrant.

Growth assumptions are forecast	
<b>2018 – 2020</b>	<b>4%-5% YOY</b>
<b>2021 – 2022</b>	<b>3% YOY</b>

Source: Daft.ie, Cogent, Savills, Bannon

- **Student-Housing** sector outlook is **highly favorable**.

Educational Centre	Enrollments 2019	Volume Supply 2014 - 2019	Volume Unmet Demand 2018/2019	Total projected supply beds by 2022	Supply to Undressable demand in 2022
<b>Dublin</b>	87,506	64,151 Beds	33,605 Beds	125,441	46%

Source: National Student Accommodation Policy, Global Student Accommodation

- **Hotel** sector outlook is **highly favorable**.

Hotel Sector Key Metrics				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
<b>ADR</b>	€154.36	€136	€145	€141
<b>Occupancy</b>	85%	83%	85%	83.50%

Source: HotStats – Data is YTD; representing 4 Star Hotels

▪ **Office** sector outlook is **favorable**.

Office Sector Key Metrics				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Grade A Prime Rents	€65.00 per sf	€65.00 per sf	€65.00 per sf	€65.00 per sf
Grade A Prime Yields	4.00%	4.00%	4.00%	4.00%
Grade A Vacancy Rate: 2/4	5.96%	4.53%	4.30%	3.90%
Grade A Vacancy Rate: non-prime location	n/a	7.32%	6.09%	5.39%

Source: CBRE

▪ **Retail** sector outlook is **favorable**.

Zone A Retail Sector Key Metrics				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Grafton Street	€585 per sf	€603 per sf	€603 per sf	Not Available
Henry Street	€418 per sf	€418 per sf	€418 per sf	Not Available
Dundrum	€418 per sf	€427 per sf	€427 per sf	Not Available
Prime Yields	3.15%	3.15%	3.15%	Not Available
Vacancy Rate	4.60%	4.60%	4.60%	Not Available

Source: Cushman

*Further Comments:*

- High street retail remains strong.
- Retail at dominant shopping centers (for example Dundrum), remain strong. However, it is imperative that these centers have a life style element, for example a state of the art cinema.

▪ **Industrial** sector outlook is **favorable**.

Industrial Sector Key Metrics				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Prime Rents	€9.50 per sf	€9.85 per sf	€10.76 per sf	€9.85 per sf
Prime Yields	5.50%	5.25%	5.10%	5.25%
Vacancy Rates	11.50%	8.23%	8.04%	8.04%

Source: CBRE

## Cork

- Cork, with a population of over 500,000 people, is a key driver of regional economic activity in Ireland with an international reputation as a center for the development of technologies that have global strategic importance.
- FDI - FDI business clusters include Life Sciences & Food and Technology. Global Business Services are becoming increasingly important.
  - Apple and EMC2, have their European Headquarters in Cork which is also home to global brands such as Pepsico, Boston Scientific, Intel Security, Tyco, Trend Micro, VMware, Amazon and Qualcomm.
  - Eight of the top ten pharmaceutical companies are based in Cork.
  - Pfizer, Novartis, Janssen, GlaxoSmithKline, Merck and Eli Lilly are amongst the most significant employers in Cork.
- Technology - As many as 50 global technology companies in both manufacturing and services have located in Cork, developing a strong tech cluster.
- Global Business Services - Cork's multilingual workforce attracts EMEA operations, with functions from supply chain to sales, technical support & finance - servicing multiple markets in the local language.
- Highly Skilled Talent pool - Cork, with a student population of over 30,000 has a constant supply of graduates.
  - The higher-level education institutions proactively engage with companies in order to produce industry ready graduates.
  - Universities include University College Cork, Tyndall National Institute and Cork Institute of Technology.
- Business Climate – Prime office rents are approximately half of those in Dublin. This, coupled with a highly rated international airport and quality of life afford a strong foundation for business growth.



## The Cork Commercial Real Estate Market

- Office sector outlook is highly favorable.

Prime Office Summary				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Prime Rents		€30.00 - €33.00 per sf	€30.00 - €33.00 per sf	€30.00 - €33.00 per sf
Prime Yields		5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%
Vacancy Rate (Grade A)		6.5%	6.5%	6.5%

Source: CBRE, Cushman and Wakefield, Lisney

- Overall Cork vacancy is 9.5%, with city center vacancy at 4.5%.
  - Although the overall vacancy rate remains relatively high, the majority of this supply is old and derelict.
  - There currently is 451,000 square feet of office under construction, of which only 75,000 sq ft is available for immediate take-up.

- BTR Apartment sector outlook is highly favorable.

BTR Summary				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Prime Rents (2 bedroom)	€1,525	€1,500 - €2,000	€1,500 - €2,000	€1,500 - €2,000
Prime Yields (2 bedroom)	4.75%	4%	4%	4%
Vacancy Rate	4.40%	<4%	<4%	<4%

Source: Daft.ie, Cogent, Savills, Bannon

Notes: Yields vary based on location and number of bedrooms. Only 2-bedroom apartments in Cork have been included in this table. For additional detail on the Residential Market, please contact Quadrant.

- Student-Housing sector outlook is favorable.

Educational Centre	Enrollments	Supply 2017	Demand 2017	Total projected supply beds by 2024	Total projected demand beds by 2024
Cork	30,570	3,788	5,486	5,490	7,391

Source: Education.ie - 2017; CSO

- Retail sector outlook is favorable.

Zone A - High Street Retail Summary			
	Q3 2018	Q4 2018	Q1 2019
Prime Rents	€123 per sf	€120 - €123 per sf	€120 - €123 per sf
Prime Yields	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%
Vacancy Rate	7.80%	7.80%	7.80%

- **Industrial sector outlook is favorable.**

<b>Industrial Sector Summary</b>			
	<b>Q3 2018</b>	<b>Q4 2018</b>	<b>Q1 2019</b>
<b>Prime Rents</b>	€6.96 per sf	€6.50 – €6.96 per sf	€6.50 – €6.96 per sf
<b>Vacancy Rate</b>	13%	13%	13%

Source: Lisney, CBRE, Cushman and Wakefield

## Galway

- FDI - Galway is a global center of activity for Medical Technology, Information and Communications Technology with many companies using Galway as a base for establishing and servicing their European and global business.
- International companies such as SAP, Oracle, Fidelity, Boston Scientific, Medtronic, HP and CISCO have a presence in Galway.
- Galway is a University City with a highly educated workforce.
  - The National University of Ireland Galway (“NUIG”) is a world leader in Biomedical Science and Engineering, Web Science, Marine Science, Energy and Environmental Science, Applied Social Sciences and Public Policy.
  - The Insight Centre at NUIG for Data Analytics brings together a critical mass of more than 200 researchers from Ireland's leading ICT centers to develop a new generation of data analytics technologies in a number of key application areas.
  - The CURÁM – the center for research in Medical Devices works with 40 industry partners which supports product development and the creation of new spin-out companies. Cutting-edge science developing the very latest research in biomaterials, stem cells and drug delivery.
  - The Galway-Mayo Institute of Technology, the medical and engineering technologies offers a range of applied Medical Imaging and Biomedical Simulation technologies relevant to companies in the product engineering and design application phase.
  - The Centre for the Integration of Sustainable Energy Technologies is involved in the design of renewable energy systems: solar, wind, biomass, heat pumps.

## The Galway Commercial Real Estate Market

- Office sector outlook is **highly favorable**.

Prime Office Summary				
	Q1 2018	Q3 2018	Q4 2018	Q1 2019
Prime Rents	€27.41 per sf	€26.00 - €30.00 per sf	€26.00 - €30.00 per sf	€26.00 - €30.00 per sf
Prime Yields	6.25%	5.75% - 6.25%	5.75% - 6.25%	5.75% - 6.25%
Vacancy Rate (Grade A)	8.70%	4.60%	4.60%	4.60%

Source: CBRE, Cushman and Wakefield

- Student-Housing sector outlook is **favorable**.

Educational Centre	Enrollments	Supply 2017	Demand 2017	Total projected supply beds by 2024	Total projected demand beds by 2024
Galway	24,085	3,230	5,491	4,702	6,652

Source: Education.ie – 2017; CSO

- Retail sector outlook is **favorable**.

High Street Retail Summary			
	Q3 2018	Q4 2018	Q1 2019
Prime Rents	€126 per sf	€126 per sf	€126 per sf
Prime Yields	5.50% - 6.25%	5.50% - 6.25%	5.50% - 6.25%

Source: CBRE, Cushman and Wakefield

## Sources

- *Bloomberg*, [www.bloomberg.com](http://www.bloomberg.com);
- *Central Statistics Office Ireland (CSO)*, [www.cso.ie](http://www.cso.ie);
- *ECB Introductory Statement to Press Conference*, [www.ecb.europa](http://www.ecb.europa);
- *Education.ie*;
- *CBRE*;
- *Cushman and Wakefield*;
- *Lisney*;
- *Bannon*;
- *Cogent*;
- *IDA*;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*.

## Important Disclosures

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