

Ireland Commercial Real Estate Market Update

1st Quarter 2018



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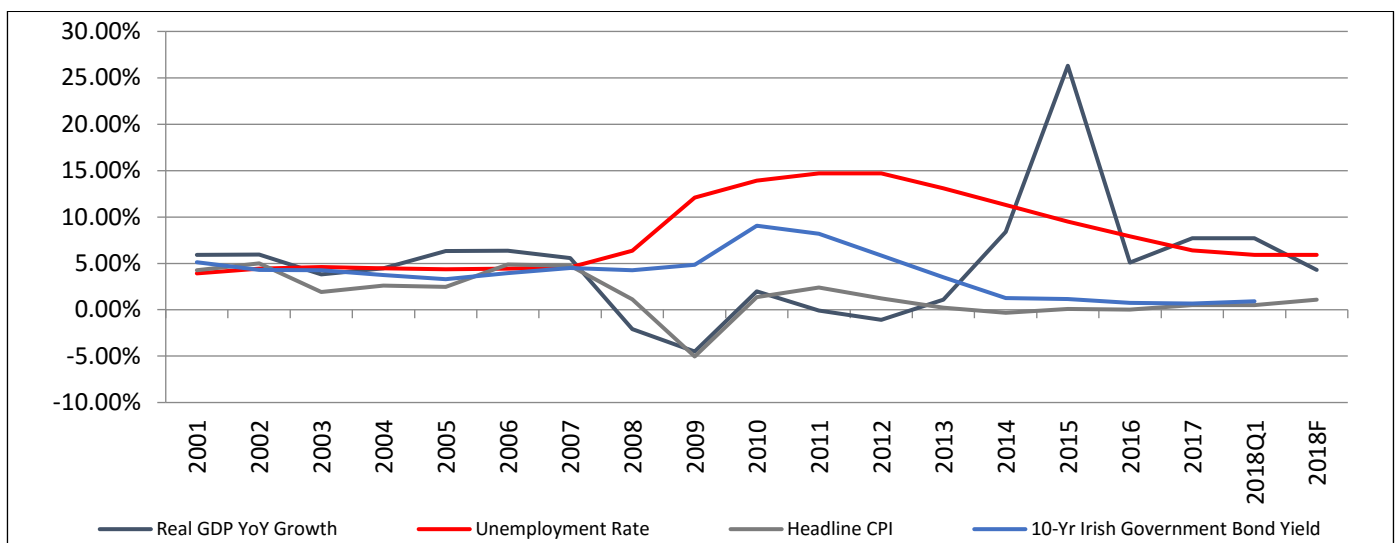
Since 1993, Quadrant’s senior management has worked together as a team providing the firm’s clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management controls 100% of the firm, thereby providing true alignment of interests and accountability.

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

- Real Gross Domestic Product (“GDP”) growth in Ireland year-on-year for the March 2018 quarter is estimated to be 7.7%, up from 5.1% in March 2017.
 - Capital investment and government spending were the main drivers of growth.
 - 2018 GDP is forecasted to be 4.3%.
- The Ireland Central Statistics Office reported that the number of employed people increased by 3.1% in 2017 to 2.2 million people.
- The European Central Bank (“ECB”) Main Refinancing Rate remained unchanged at 0.0% during the quarter.
 - The Governing Council’s inflation (CPI) objective is approximately 2.0%.
 - The ECB confirmed that the monthly net asset purchases from European Central Banks were €30 billion, on average.
 - Such activity will continue through September 2018, or beyond if necessary, to achieve its inflation objective.
 - Euro-area CPI is 0.5% at the end of Q1 2018 and forecasted to be 1.10% for 2018.

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 increased 2.66% against the US dollar to €1.2321 at the end of the current quarter. The euro decreased 0.99% against the pound to £0.87909 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 2017	March 2018	Change
3-month Euribor	-0.33%	-0.33%	0.00%
5-year EUR Swap	0.31%	0.37%	0.06%
10-year EUR Swap	0.89%	0.96%	0.07%

Source: Bloomberg.

- A material property debt capital gap persists on a broad range of under supplied property types.
- 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.
- Furthermore, most non-bank mezzanine lenders require mid-to-high 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 the English 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.), aircraft leasing industry, 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

- **Built to Rent Apartment** sector outlook is **highly favorable**.

For Rent Apartments	
	Q1 2018
Prime Rents (2 bedroom)	€2,275 – €2,800
Prime Yields (2 bedroom)	4.38%
Vacancy Rate	1.40%

Source: Daft.ie, Cogent, Savills, Bannon

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.

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

Educational Centre	Enrollments	Supply 2017	Demand 2017	Total projected supply beds by 2024	Total projected demand beds by 2024
Dublin	80,953	12,432	30,298	28,806	42,375

Source: National Student Accommodation Policy

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

Office Sector Key Metrics			
	Q1 2017	Q4 2017	Q1 2018
Grade A Prime Rents	€62.50 per sf	€65.00 per sf	€65.00 per sf
Grade A Prime Yields	4.65%	4.00%	4.00%
Grade A Vacancy Rate	7.00%	6.08%	5.96%

Source: CBRE

- **Retail** sector outlook is **favorable**.

Zone A Retail Sector Key Metrics			
	Q1 2017	Q4 2017	Q1 2018
Grafton Street	€585 per sf	€585 per sf	€604 per sf
Henry Street	€418 per sf	€418 per sf	€418 per sf
Dundrum	€418 per sf	€418 per sf	€418 per sf
Blanchardstown	€279 per sf	€279 per sf	€279 per sf
Prime Yields	3.25%	3.15%	3.15%
Vacancy Rate	4.60%	4.60%	4.60%

Source: CBRE

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

Industrial Sector Key Metrics			
	Q1 2017	Q4 2017	Q1 2018
Prime Rents	€8.75 per sf	€9.50 per sf	€9.50 per sf
Prime Yields	5.50%	5.50%	5.50%
Vacancy Rates	13.00%	11.50%	11.50%

Source: CBRE

▪ **Hotel** sector outlook is **favorable**.

Hotel Sector Key Metrics			
	Q1 2017	Q4 2017	Q1 2018
ADR	€107.46	€137.00	€149.00
Occupancy	83%	83%	84.5%

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.
- Foreign Direct Investment "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 are 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.
 - Higher-level educational institutions proactively engage with companies to produce industry ready graduates.
 - Tertiary Institutions include University College Cork, Tyndall National Institute and Cork Institute of Technology.
- Business Climate – Prime office rents are approximately half as compared to 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 2017	Q4 2017	Q1 2018
Prime Rents	€25 - €30 per sf	€30 per sf	€33 per sf
Prime Yields	6.50%	5.75%	5.65%
Vacancy Rate (Grade A)	4.50%	4.50%	4.50%

Source: CBRE, Cushman and Wakefield

- Overall Cork vacancy is 14%, with city center vacancy at 19.6%.
 - Although the overall vacancy rate remains relatively high, the majority of this space is old and derelict.
 - The Vacancy rate for center city new office development will deliver prime office units below 4.5%.
 - Currently 451,000 square feet of office space is under construction, of which only 75,000 sq. ft is available for take-up.

- Built to Rent Apartment sector outlook is **highly favorable**.

BTR Summary	
	Q1 2018
Prime Rents (2 bedroom)	€1,525
Prime Yields (2 bedroom)	4.75%
Vacancy Rate	4.40%

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			
	Q1 2017	Q4 2017	Q1 2018
Prime Rents	€209.03 per sf	€209.03 per sf	€118.68 per sf
Prime Yields	6.00%	5.75%	5.75%
Vacancy Rate	8.10%	8.10%	8.10%

Source: CBRE, Cushman and Wakefield

- **Industrial** sector outlook is **favorable**.

Industrial Sector Summary			
	Q1 2017	Q4 2017	Q1 2018
Prime Rents	€5.95 per sf	€6.50 per sf	€6.50 per sf
Vacancy Rate	16.40%	14.70%	14.70%

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 businesses.
- 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 for Data Analytics at NUIG 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 Centre for Research in Medical Devices works with 40 industry partners supporting product development and the creation of new spin-out companies. Cutting-edge science is used to develop the very latest research in biomaterials, stem cells and drug delivery.
 - The Galway-Mayo Institute of Technology’s (“GMIT”), a medical and engineering technologies gateway, offers a range of applied Medical Imaging and Biomedical Simulation technologies for 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 and heat pumps.

The Galway Commercial Real Estate Market

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

Prime Office Summary			
	Q1 2017	Q4 2017	Q1 2018
Prime Rents	€25.00 per sf	€27.41 per sf	€27.50 per sf
Prime Yields	6.25%	6.25%	6.25%
Vacancy Rate (Grade A)	Not available	8.70%	8.70%

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			
	Q1 2017	Q4 2017	Q1 2018
Prime Rents	€204.38 per sf	€222.97 per sf	€222.97 per sf
Prime Yields	6.00%	5.75%	5.75%

Source: CBRE, Cushman and Wakefield

Sources

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

Important Disclosures

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