

Ireland Commercial Real Estate Market Update

3rd Quarter 2018



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Table of Contents

Ireland Market Summary.....	2
Dublin.....	4
The Dublin Commercial Real Estate Market.....	5
Secondary Markets.....	8
Sources.....	9
Important Disclosures.....	9

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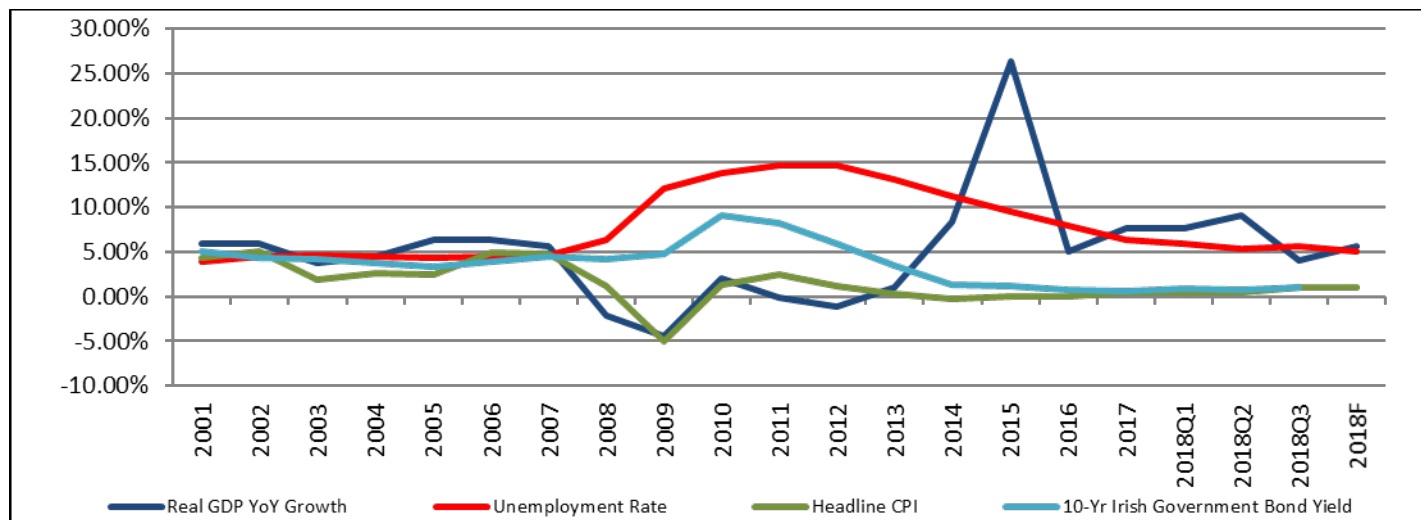
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The firm's executive leadership includes Kurt Wright, Chief Executive Officer; Thomas Mattinson, Executive Vice President; Walter Huggins, Executive Vice President; Frank Linneen, Executive Vice President; and Jessica Eggins, Executive Vice President.

Ireland Market Summary

- **2018 GDP is forecasted to be 5.6%.**
 - Real Gross Domestic Product (“GDP”) growth in Ireland year-on-year for the September 2018 quarter is estimated to be 4.1%, down compared to the same quarter for 2017 at 4.3%.
 - GDP was supported by a rebound in personal household consumption and a positive contribution from net exports.
- According to the Ireland Central Statistics Office the number of employed people in Q2’2018 (latest reportable statistic) remained stable at 2.2 million people.
- The European Central Bank (“ECB”) Main Refinancing Rate remained unchanged at 0.0% during the quarter.
 - Euro Inflation increased to 2.2% in Q3’2018, the highest inflation rate since 2012, and reaching the ECB’s goal to breach 2% inflation.
 - The ECB announced that it will have bond purchases reduced from €30 billion to €15 billion per month from October.
 - Euro-area CPI is 2.1% at the end of Q3 2018 and forecasted to be 1.70% 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 decreased 0.68% against the US dollar to €1.1604 at the end of the current quarter. The euro decreased 0.005% against the pound to £0.88582 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	June 2018	September 2018	Change
3-month Euribor	-0.32%	-0.32%	0.00%
5-year EUR Swap	0.27%	0.39%	0.12%
10-year EUR Swap	0.87%	0.99%	0.12%

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 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		
	Q2 2018	Q3 2018
Prime Rents (2 bedroom)	€2,450 – €2,800	€2,500– €2,840
Prime Yields (2 bedroom)	4.00%	3.75% to 4.00%
Vacancy Rate	1.40%	<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.

Growth assumptions are forecast	
2018 – 2020	4%-5% YOY
2021 – 2022	3% YOY

Source: Daft.ie, Cogent, Savills, Bannon

- **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				
	Q3 2017	Q4 2017	Q2 2018	Q3 2018
Grade A Prime Rents	€63.50 per sf	€65.00 per sf	€65.00 per sf	€65.00 per sf
Grade A Prime Yields	4.25%	4.00%	4.00%	4.00%
Grade A Vacancy Rate: 2/4	6.18%	2.96%	2.72%	4.53%
Grade A Vacancy Rate: non-prime location	8.00%	6.08%	6.17%	7.32%

Source: CBRE

▪ **Retail sector outlook is favorable.**

Zone A Retail Sector Key Metrics				
	Q3 2017	Q4 2017	Q2 2018	Q3 2018
Grafton Street	€585 per sf	€585 per sf	€625 per sf	€603 per sf
Henry Street	€418 per sf	€418 per sf	€425 per sf	€418 per sf
Dundrum	€418 per sf	€418 per sf	€418 per sf	€427 per sf
Prime Yields	3.15%	3.15%	3.50% - 4.25%	3.15%
Vacancy Rate	4.60%	4.60%	4.60%	4.60%

Source: Cushman

▪ **Industrial sector outlook is favorable.**

Industrial Sector Key Metrics				
	Q3 2017	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€9.25 per sf	€9.50 per sf	€9.49 per sf	€9.85 per sf
Prime Yields	5.50%	5.50%	5.50%	5.25%
Vacancy Rates	11.50%	11.50%	11.50%	8.23%

Source: CBRE

▪ **Hotel sector outlook is favorable.**

Hotel Sector Key Metrics				
	Q3 2017	Q4 2017	Q2 2018	Q3 2018
ADR	€160.44	€137.00	€154.36	€136
Occupancy	85%	83%	85%	83%

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

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			
	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€30 per sf	€33 per sf	€30.00 - €33.00 per sf
Prime Yields	5.75%	5.65%	5.50% – 5.75%
Vacancy Rate (Grade A)	4.50%	4.50%	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 space 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 take-up.
- BTR Apartment sector outlook is **highly favorable**.

BTR Summary			
	Q1 2018	Q2 2018	Q3 2018
Prime Rents (2 bedroom)	€1,525	€1,500 – €2,000	Not yet released
Prime Yields (2 bedroom)	4.75%	4%	Not yet released
Vacancy Rate	4.40%	<4%	Not yet released

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			
	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€120 per sf	€122 per sf	€123 per sf
Prime Yields	5.75%	5.50%	5.50% - 6.00%
Vacancy Rate	8.10%	8.00%	7.80%

Source: CBRE, Cushman and Wakefield

Industrial sector outlook is **favorable**.

Industrial Sector Summary			
	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€6.50 per sf	€6.50 per sf	€6.96 per sf
Vacancy Rate	14.70%	13.4%	13%

Source: Lisney, CBRE, Cushman and Wakefield

Galway

- FDI - Galway is a global center of activity for Medical Technology and 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			
	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€27.41 per sf	€27.50 per sf	€26.00 - €30.00 per sf
Prime Yields	6.25%	6.25%	5.75% - 6.25%
Vacancy Rate (Grade A)	8.70%	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			
	Q4 2017	Q2 2018	Q3 2018
Prime Rents	€125 per sf	€126 per sf	€126 per sf
Prime Yields	5.75%	5.75%	5.50% - 6.25%

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*.

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