

Quadrant Real Estate Advisors LLC

Ireland Commercial Real Estate Market Update

3rd Quarter 2020



Atlanta, Georgia • London, England
www.quadrantrea.com



Kurt Wright, CFA
Chief Executive Officer
+1 770 752 6713
kwright@quadrantrea.com



Freddie Sexton
Analyst
+44 203 928 8531
fsexton@quadrantrea.com

Table of Contents

Ireland Market Summary.....	2
Dublin.....	5
Cork.....	7
Galway.....	9
Sources.....	11
Important Disclosures.....	11

Kurt Wright, CFA

Chief Executive Officer

+1 770 752 6713

kwright@quadrantrea.com

Freddie Sexton

Analyst

+44 203 928 8531

fsexton@quadrantrea.com



Atlanta, Georgia • London, England

www.quadrantrea.com

About Quadrant Real Estate Advisors

Quadrant Real Estate Advisors LLC (“Quadrant”) is a United States SEC registered investment adviser and Australian Securities and Investments Commission (“ASIC”) Foreign Registered Corporation (ABN 39 123 863 963). Quadrant has been approved by the Central Bank of Ireland to act as an Investment Manager on behalf of Investment Funds. QREA Europe LLP (“QREA”) is a subsidiary of Quadrant and is authorised and regulated by the Financial Conduct Authority (registration number 610613). As of September 30th, 2020, Quadrant had approximately \$1.29 billion of commercial and multifamily real estate investments under management on behalf of institutional investors. Clients include insurance companies, pension funds and sovereign wealth management funds.

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; Walter Huggins, Executive Vice President; and Jessica Eggins, Executive Vice President.

Ireland Market Summary

- **Impact of COVID-19:**

- Q3 2020 showed signs of recovery as government restrictions eased and economic activity increased. However, the prospects of a second wave and introduction of further lockdown measures, weighed on recovery.
- Ireland announced a 6-week lockdown starting mid-October, shutting down all non-essential work and travel. Education and construction are among a few sectors that will be permitted to remain open.

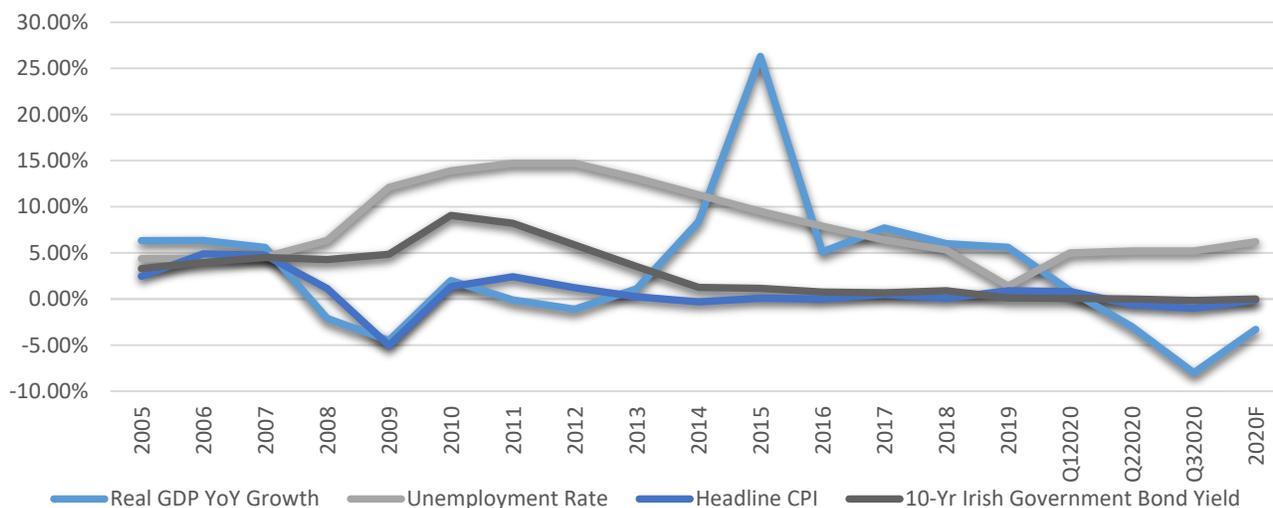
- **2020 GDP is forecasted to be -3.3%**

- Real Gross Domestic Product (“GDP”) growth year-on-year for the quarter ending September 30, 2020 is estimated to be -8.0%, compared to 5.9% in the same period Q3 2019.
- According to the Ireland Central Statistics Office, the unemployment rate remained at 5.2%.

- **Inflation**

- Euro Inflation decreased 60 basis points to -0.3% in Q3’2020.
- The ECB has set an inflation target of approximately 2.00% over the medium term.
 - Interest rates on bank reserves remain unchanged at -0.5%.
 - The ECB’s Quantitative Easing program has been expanded as a result of the COVID-19 pandemic. The Pandemic Emergency Purchase Program (“PEPP”) has expanded the overall QE program to €1.350 billion.
 - The ECB is also temporarily easing capital restrictions for banks, aimed at increasing lending liquidity in the short term.
- The euro appreciated in value by 4.36% against the US dollar to \$1.17 in Q3 2020. Over the same period, the euro rose 0.14% against the pound to €0.91.

- **Key Economic Indicators**



Source: Bloomberg, Central Statistics Office Ireland

- **Interest Rate Benchmarks**

Benchmark	June 2020	September 2020	Basis Point Change
3-month EUR Swap	-0.42%	-0.50%	-8
5-year EUR Swap	-0.35%	-0.43%	-8
10-year EUR Swap	-0.18%	-0.23%	-5
Ireland 10-year Government Note	0.00%	-0.16%	-16

Source: Bloomberg.

- Speculative development finance for commercial assets remains challenging for borrowers to source.
- Given limited competition from lenders, attractive risk adjusted yields of gross 8%+ can be achieved on prudent stretch senior loans.
- Lack of housing, especially in Built-To-Rent (“BTR”) and for sale apartments, remains a significant issue and a compelling medium-term opportunity for property investors.
- The investment market was depressed in Q3 2020 and expected to decrease further in Q4 2020.

Debt

- COVID-19 has significantly impacted the availability of credit, as banks and debt funds moved to the side-lines.
- Banks are likely to be impacted over the long term, as they continue to suffer liquidity constraints.
- **Speculative Construction:** When available, the provision of financing for speculative construction projects is likely to be very limited and provided by:
 - Debt funds and other non-bank private lenders; or
 - Combining of financing from senior banks and expensive mezzanine financing (tends to be covenant and document heavy).
- **Mature, well-let properties:** Significant debt capital remains available for mature, well-let properties.
 - Pricing for debt on mature, well-let property will be significantly influenced by the quality of the underlying income, the sustainability of cashflow and the quality of the tenants and their lease contracts.

Equity

- Equity transactions were constrained in Q3 2020.
- There was approximately €700M worth of investment during Q3 2020.
- Prior to the lock down, Ireland benefited from a significant influx of foreign and domestic equity capital, targeting real estate investments. For example:
 - Kennedy Wilson, Patrizia, Bain Capital, Blackstone, TPG Capital, KKR, Starwood Capital, Greystar, Tristan Capital Partners, DWS, Round Hill, Avestus, LRC Group, Kanam, Corum, Arena, etc.
- By attracting sophisticated investment capital, Ireland has achieved institutional investment status with pension funds, sovereign wealth funds and insurance companies.
- This has resulted in material liquidity; and significant more price stability as compared to the Celtic Tiger days.

2020 Top Transactions YTD

Asset	Location	Price	Sector	Quarter Sold	Seller	Purchaser
Bishop's Square	Dublin 2	€183M	Office	Q2	Hines	GLL Real Estate Partners
The Treasury Building	Dublin 2	€115.5M	Office	Q1	Davy/ILIM & Jayfield Ltd	Google
2 Burlington Road	Dublin 2	€94M	Office	Q3	Henderson Park	KGAL
La Touche House	Dublin 1	€84.2M	Office	Q1	Credit Suisse	AXA IM Real Assets
Clayton Hotel	Dublin 2	€65M	Hotel	Q2	Dalata	Deka
30-33 Molesworth Street	Dublin 2	€60M	Office	Q3	Henderson Park	KanAm Grund Group

Source: Irish Times, IDA, Bannon, Colliers.

Dublin

General Overview

Ireland benefits from a business-friendly environment when compared with other EU countries. This includes 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, Microsoft, 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.), have been significantly expanding their business operations by adding young, highly skilled professionals to support growth.

This is driving demand for:

- 1) high quality office space;
- 2) residential housing (focus on built-to-rent apartments);
- 3) logistics: bulk warehouses, last mile distribution fulfillment and datacenters; and
- 4) hotel rooms.

Despite the interruption caused by the COVID-19 pandemic, these long-term trends are expected to continue when the market returns to normalcy.

Dublin Commercial Real Estate Market Fundamentals

	Quadrant Market Sentiment	Q3 2019	Q1 2020	Q2 2020	Q3 2020
For Rent Apartments					
Prime Rents (2 bedroom)	<i>Positive</i>	€2,500– €2,840	€2,500– €2,840	€2,500– €2,840	€2,500– €2,840
Vacancy Rate	<i>Positive</i>	<1.40%	<1.40%	<1.00%	<1.00%
Cap Rates	<i>Positive</i>	3.85%	3.75%	3.75%	3.75%
Hotels					
ADR (Average Daily Rate)	<i>Very Cautious</i>	€ 138.00	€ 115.00	€ 105.00	N/A
Occupancy	<i>Very Cautious</i>	81.00%	55.10%	21.00%	19.00%
Cap Rates	<i>Very Cautious</i>				
Industrial					
Prime Rents	<i>Positive</i>	€10.25 per sf	€10.25 per sf	€10.25 per sf	€10.25 per sf
Vacancy Rates	<i>Positive</i>	8.85%	8.20%	7.90%	7.00%
Cap Rates	<i>Positive</i>	5.10%	5.00%	4.90%	5.00%
City Center Office					
Grade A Prime Rents	<i>Positive</i>	€65.00 per sf	€65.00 per sf	€65.00 per sf	€62.50 per sf
Grade A Vacancy Rate	<i>Positive</i>	4.19%	4.44%	6.13%	8.49%
Overall Dublin Vacancy	<i>Positive</i>	5.05%	5.06%	6.65%	8.64%
Cap Rates	<i>Positive</i>	4.00%	4.00%	4.00%	4.00%
Suburban Office					
Prime Rents	<i>Positive</i>	€29.50 – €18.00 psf.			
Vacancy Rate (Grade A)	<i>Positive</i>	6.55%	6.14%	7.56%	8.92%
Cap Rates	<i>Positive</i>				
Retail					
Prime Retail Rents	<i>Negative</i>	€275 per sf	€275 per sf	€200 per sf	€175 per sf
Retail Parks Rents	<i>Negative</i>	€39 per sf	€40 per sf	€40 per sf	€38 per sf*
Vacancy Rate	<i>Negative</i>	4.60%	4.60%	Unavailable	Unavailable
Prime Cap Rates	<i>Negative</i>	3.25%	3.50%	4.50%	4.75%
Retail Parks Cap Rates	<i>Negative</i>	5.25%	5.25%	6.25%	6.50%

PRS Source: Daft.ie, Cogent, Savills, Bannion, CBRE, Chartered Land

Hotel Source: STR, HotStats – Data is YTD; representing 4 Star Hotels, Irish Times

Office, Hotel, Industrial Sources: CBRE, Cushman and Wakefield, Savills

Cork

- **COVID Impact**

- Transaction activity in the Cork property market remained slow during Q3 as a result of the COVID-19 lockdown.
- Demand from existing companies looking to expand their operations in the city, and new Office occupier demand remains strong as Cork is a highly desired location for international occupiers.

- **General**

- Cork is Ireland's second largest city located in Munster in the south of the Republic of Ireland
- The region's 220,000 population is expected to grow by 50% by 2040, having been specifically earmarked for expansion by the Irish Government
- The city boasts high-quality infrastructure, superior broadband connectivity, quality buildings and occupational & living costs that are considerably lower than those prevailing in Dublin and other competing centres
- Office occupancy costs in Cork are approximately 50% lower than those prevailing in Dublin while house prices are approximately 27% cheaper than the capital city
- **FDI** - FDI business clusters include Life Sciences & Food and Technology. Global Business Services are becoming increasingly important.
 - Cork is home to more than 150 FDI employers from a range of international locations
 - 8 of the world's 10 leading pharmaceutical companies have a presence in Cork
 - The city is also synonymous with life sciences & ICT and is home to a number of technology clusters
 - 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.
 - 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.
 - For example, Clearstream (subsidiary of the German Stock Exchange; DAX)
- **Highly Skilled Talent pool**
 - More than 66,000 students are enrolled in various third level colleges within commuting distance of the city including international students from over 100 different countries
 - 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, affords a strong foundation for business growth.

Cork Commercial Real Estate Market Fundamentals

	Quadrant Market Sentiment	Q3 2019	Q1 2020	Q2 2020	Q3 2020
For Rent Apartments					
Prime Rents (2 bedroom)	<i>Positive</i>	>€2,000	>€2,250	>€2,250	€ 2,250
Vacancy Rate	<i>Positive</i>	<2.00%	<2.00%	<2.00%	<2.00%
Cap Rates	<i>Positive</i>	3.85% -4.25%	3.85% - 4.25%	3.85% - 4.25%	3.85% - 4.25%
Industrial					
Prime Rents	<i>Positive</i>	€8.00 – €8.75 psf	€8.25 psf	€8.30 psf	€8.35 psf
Vacancy Rates	<i>Positive</i>	6.20%	6.20%	6.20%	3.50%
Cap Rates	<i>Positive</i>	6.25% - 7.00%	6.50%	6.50%	6.50%
City Center Office					
Grade A Prime Rents	<i>Positive</i>	€30.00 - €32.50 psf			
Grade A Vacancy Rate	<i>Positive</i>	>4.50%	9.60%	10.70%	12.20%
Cap Rates	<i>Positive</i>	5.50%	5.50%	5.50%	5.50%
Suburban Office					
Prime Rents	<i>Positive</i>	€29.50 – €18.00 psf			
Vacancy Rate (Grade A)	<i>Positive</i>	6.55%	6.14%	7.56%	8.92%
Cap Rates	<i>Positive</i>	6.50%	6.50%	6.50%	6.50%
Retail					
Prime Rents	<i>Negative</i>	€190 – €220 psf	€200 psf	€200 psf	N/A
Vacancy Rate	<i>Negative</i>	7.50% - 8.00%	7.50% - 8.00%	8.00%	N/A
Cap Rates	<i>Negative</i>	5.75% – 6.25%	7.00%	7.00%	N/A

Apartment for Rent Source: Daft.ie, CBRE, PWC

Office, Hotel, Industrial Source: Crow, CBRE, Cushman and Wakefield, Lisney. Quadrant market discussions

Galway

- **COVID-19 Impact**

- Tourism and retail, vital parts of Galway's economy, was severely impacted by the pandemic and are still affected by the regulations on travel and social distancing.

- **General:**

- Galway is Ireland's fourth largest city and the largest urban center on the western seaboard of Ireland, with a population of almost 80,000 people.

- **Quality of life:**

- High-quality infrastructure, superior broadband connectivity, and occupational and living costs that are considerably lower than Dublin and other competing cities.
- Galway is one of Ireland's fastest growing cities - offering employers and employees a very attractive and cost effective 'live, work & play' alternative to Ireland's east coast corridor.
- Galway is designated to be the 'Creative City', and 'European Capital of Culture' in 2020. In addition, the Lonely Planet Guide named Galway among the 'World's Top 10 Cities for 2020'.

- **FDI:**

- Galway is a global center of activity for Medical Technology, Information and Communications Technology (ICT) with many companies using Galway as a base for establishing and servicing their European and global business.
- With the combination of top tier multinational companies, indigenous ICT firms, a growing start-up culture and significant research capability in the third level sectors, Galway has the potential to be an international niche ICT hub. Indeed, 4 of the 5 largest ICT firms in the world already have a presence in Galway.
- International companies such as SAP, Genesis, Oracle, Fidelity, Boston Scientific, Medtronic, HP and CISCO have a presence in Galway.

- **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 several key 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. The center fosters cutting-edge science which is used to develop the very latest research in biomaterials, stem cells and drug delivery.
- The Galway-Mayo Institute of Technology 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.

Galway Commercial Real Estate Market Fundamentals

	Quadrant Market Sentiment	Q3 2019	Q1 2020	Q2 2020	Q3 2020
For Rent Apartments					
Prime Rents (2 bedroom)	<i>Positive</i>	> €1,800 psf	> €1,800 psf	> €1,800 psf	> €1,800 psf
Vacancy Rate	<i>Positive</i>	<2%	<2%	<2%	<2%
Cap Rate	<i>Positive</i>	4.25% - 4.75%	4.25% - 4.75%	4.25% - 4.75%	4.25% - 4.75%
Industrial					
Prime Rents	<i>Positive</i>	€7.00 - €10.00	€7.00 - €10.00	€7.00 - €10.00	€7.00 - €10.00
Vacancy Rates	<i>Positive</i>	3.00 - 5.00%	3.00 - 5.00%	3.00 - 5.00%	3.00 - 5.00%
Cap Rates	<i>Positive</i>	5.00% - 7.00%	5.00% - 7.00%	5.00% - 7.00%	5.00% - 7.00%
City Center Office					
Grade A Prime Rents	<i>Positive</i>	€27.50 - €33.00 psf			
Grade A Vacancy Rate	<i>Positive</i>	4.90%	5.50%	5.20%	4.90%
Cap Rates	<i>Positive</i>	5.75% - 6.25%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%
Suburban Office					
Prime Rents	<i>Positive</i>	€22.50 - €30.00 psf			
Vacancy Rate (Grade A)	<i>Positive</i>	4.90%	5.50%	5.20%	4.90%
Cap Rates	<i>Positive</i>	5.75% - 6.25%	5.75% - 6.25%	5.75% - 6.25%	5.75% - 6.25%

Apartments for Rent Sources: Daft.ie, CBRE, PWC

Hotel, Industrial, Office Sources: 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*;
- *Hooke & Macdonald*;
- *Savills*;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*;
- *IDA*;
- *Cork Chamber Support*;
- *Irish Times*;
- *Property Week*;
- *Quadrant Market Discussions*.

Important Disclosures

This report is for informational purposes only and does not constitute, form, nor should be construed as an offer to sell or a solicitation of an offer to buy investments or any fund and does not constitute any commitment or recommendation on the part of Quadrant Real Estate Advisors. An investment offering will be made only through a confidential private offering memorandum subject at all time to revision and completion.

The information contained herein is derived from various sources which Quadrant believes but does not guarantee to be accurate as of the date hereof. Neither Quadrant nor any of its affiliates nor any other person makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this newsletter and nothing contained herein shall be relied upon or construed as a promise or reorientation of past or future performance.

