

Quadrant Real Estate Advisors LLC

Ireland Commercial Real Estate Market Update

4th Quarter 2020



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About Quadrant Real Estate Advisors

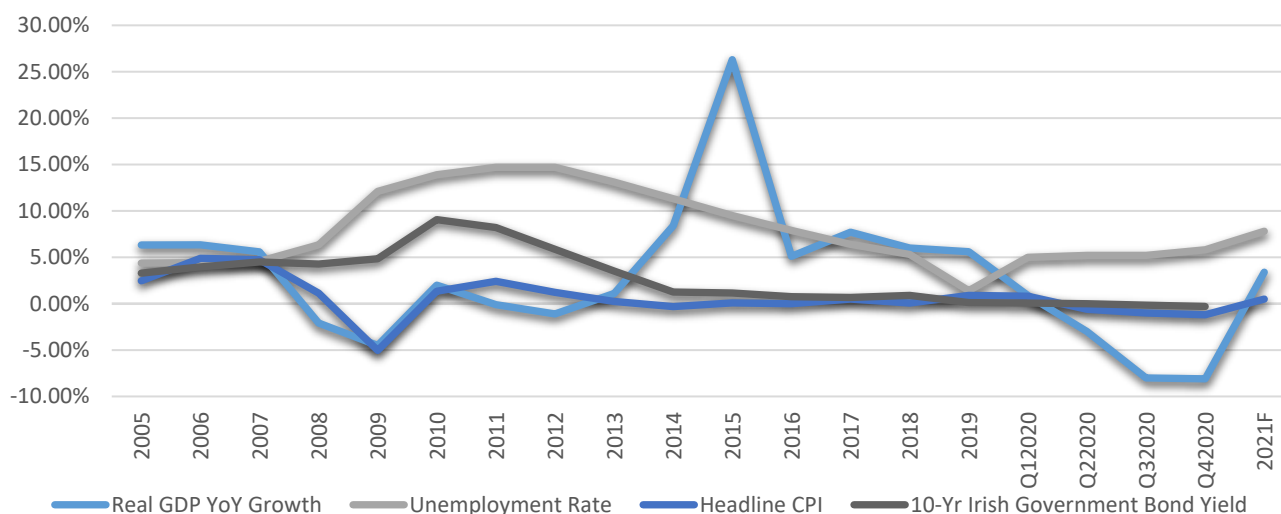
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Since 1993, Quadrant’s senior management has worked together as a team providing the firm’s clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client 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; Walter Huggins, Executive Vice President; and Jessica Eggins, Executive Vice President; Linda Hoard, Executive Vice President; Linda Nel, Executive Vice President.

Ireland Market Summary

- **2020 GDP is forecasted to be -2.0%**
 - Real Gross Domestic Product (“GDP”) growth year-on-year for the quarter ending December 31, 2020 is estimated to be -8.1%, compared to 6.3% in the same period Q4 2019.
 - According to the Ireland Central Statistics Office, the unemployment rate increased by 0.6% to 5.8%.
 - This equates to approximately 2,306,200 people employed in Q4 2020, compared to 2,295,200 employed in Q3 2020.
- **Impact of COVID-19:**
 - Economic growth in Q4 2020 was limited due to imposed COVID-19 restrictions.
 - Ireland announced a lockdown starting January 2021, shutting construction sites, all non-essential retail and reintroduced travel restrictions. These restrictions will be readdressed in April 2021.
- **Inflation**
 - Euro Inflation increased from -0.3% in Q3 2020, to 0.9% in Q4 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 COVID-19. 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 liquidity in the short term.
 - The Euro appreciated in value by 3.42% against the US Dollar to \$1.21 in Q4 2020. Over the same period, the Euro decreased in value by 1.09% against the Pound to €0.90.
- **Key Economic Indicators**



Source: Bloomberg, Central Statistics Office Ireland

- **Interest Rate Benchmarks**

Benchmark	September 2020	December 2020	Basis Point Change
3-month EUR Swap	-0.50%	-0.55%	-5
5-year EUR Swap	-0.43%	-0.46%	-3
10-year EUR Swap	-0.23%	-0.26%	-3
Ireland 10-year Government Note	-0.16%	-0.30%	-14

Source: Bloomberg.

Debt

- Speculative development finance for commercial real estate 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.
- During 2020, COVID-19 significantly impacted the availability of credit, as banks and debt funds moved to the side-lines.
 - However, Quadrant is anticipating a large influx of debt fund capital (particularly targeting Dublin) in 2021.
- 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 focused on Dublin 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 Q4 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
Haliday House & Cheevers Court, County Dublin	County Dublin	€195M	PRS	Q3	Cosgraves	DWS
Bishop's Square	Dublin 2	€183M	Office	Q2	Hines	GLL Real Estate Partners
28 Fitzwilliam St	Dublin 2	€177.5M	Office	Q4	ESB	Amundi
Prestige Portfolio	Various Sites	€145M	PRS	Q3	MKN	DWS
Baggot Plaza	Dublin 4	€141M	Office	Q4	Kennedy Wilson	Deka
Blackwood Square	Dublin 9	€123.5M	PRS	Q4	Cosgraves	Round Hill Capital/QuadReal
The Treasury Building	Dublin 2	€115.5M	Office	Q1	Private Vendors	Google

Source: Savills, 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	Q4 2019	Q2 2020	Q3 2020	Q4 2020
For Rent Apartments					
Prime Rents (2 bedroom)	<i>Positive</i>	€2,500– €2,838	€2,500– €2,840	€2,500– €2,839	€2,500– €2,840
Vacancy Rate	<i>Positive</i>	<1.40%	<1.00%	<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	€ 105.00	N/A	N/A
Occupancy	<i>Very Cautious</i>	81%	21%	19%	8%
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>	6.50% - 8.85%	6.50% - 8.85%	6.50% - 8.85%	6.50% - 8.85%
Cap Rates	<i>Positive</i>	4.75% - 5.50%	4.75% - 5.50%	4.75% - 5.50%	4.75% - 5.50%
City Center Office					
Grade A Prime Rents	<i>Positive</i>	€62.50 - €69.50 per sf	€62.50 - €69.50 per sf	€62.50 - €69.50 per sf	€62.50 - €69.50 per sf
Grade A Vacancy Rate	<i>Positive</i>	4.19%	6.13%	8.49%	8.50%
Overall Dublin Vacancy	<i>Positive</i>	5.05%	6.65%	8.64%	9.10%
Cap Rates	<i>Positive</i>	4.00%	4.00%	4.00%	4.00%
Suburban Office					
Prime Rents	<i>Positive</i>	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf
Vacancy Rate (Grade A)	<i>Positive</i>	6.55%	7.56%	8.92%	11.80%
Cap Rates	<i>Positive</i>	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%	5.50% - 6.00%
Retail					
Prime Retail Rents	<i>Negative</i>	€200 per sf	€200 per sf	€175 per sf	€175-€200 per sf
Retail Parks Rents	<i>Negative</i>	€39 per sf	€40 per sf	€38 per sf*	€38 per sf*
Vacancy Rate	<i>Negative</i>	4.60%	Unavailable	Unavailable	Unavailable
Prime Cap Rates	<i>Negative</i>	4.50% - 4.75%+	4.50% - 4.75%+	4.50% - 4.75%+	4.50% - 4.75%+
Retail Parks Cap Rates	<i>Negative</i>	5.00% – 6.50%	5.00% – 6.50%	5.00% – 6.50%	5.00% – 6.50%

PRS Source: Daft.ie, Cogent, Savills, Bannan, 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-19 Impact**

- Transaction activity in the Cork property market remained slow as a result of the COVID-19 lockdown.
- Demand from both new market entrants and existing companies looking to expand their operations in the city, remain 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 increase by 50% by 2040.
- The city has high-quality infrastructure, superior broadband connectivity and occupational and living costs are considerably lower compared to Dublin and other competing European Cities.
- Office occupancy costs in Cork are approximately 50% lower compared to 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.

- ❖ More than 150 FDI companies are located in Cork.
- ❖ 8 of the world's 10 leading pharmaceutical companies have a presence in Cork.
- ❖ The city is also synonymous with life sciences and ICT.
- ❖ Apple and EMC2, have their European Headquarters in Cork.
- ❖ PepsiCo, Boston Scientific, Intel Security, Tyco, Trend Micro, VMware, Amazon, 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 are located in Cork.

- **Global Business Services** – Cork's multilingual workforce attracts EMEA operations, with functions from supply chain to sales, technical support and finance.

- 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	Q4 2019	Q2 2020	Q3 2020	Q4 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 per sf	€8.00 – €8.75 per sf	€8.00 – €8.75 per sf	€8.00 – €8.75 per sf
Vacancy Rates	<i>Positive</i>	3.50% - 6.20%	3.50% - 6.20%	3.50% - 6.20%	3.50% - 6.20%
Cap Rates	<i>Positive</i>	6.25% - 7.00%	6.25% - 7.00%	6.25% - 7.00%	6.25% - 7.00%
City Center Office					
Grade A Prime Rents	<i>Positive</i>	€30.00 - €32.50 per sf	€30.00 - €32.50 per sf	€30.00 - €32.50 per sf	€30.00 - €32.50 per sf
Grade A Vacancy Rate	<i>Positive</i>	>4.50%	10.70%	12.20%	16.90%
Cap Rates	<i>Positive</i>	5.50%	5.50%	5.50%	5.50%
Suburban Office					
Prime Rents	<i>Positive</i>	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf	€29.50 – €18.00 per sf
Vacancy Rate (Grade A)	<i>Positive</i>	6.55% - 9.00%	6.55% - 9.00%	6.55% - 9.00%	6.55% - 9.00%
Cap Rates	<i>Positive</i>	6.50%	6.50%	6.50%	6.50%

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 current 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 approximately 80,000 people.
- **Quality of life:**
 - Galway is one of Ireland's fastest growing cities - offering employers and employees a very attractive and cost effective 'live, work & play' city.
 - 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.
 - ❖ 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 offices 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	Q4 2019	Q2 2020	Q3 2020	Q4 2020
For Rent Apartments					
Prime Rents (2 bedroom)	<i>Positive</i>	> €2,000	> €1,800	> €1,800	> €1,800
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 - €10.01	€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 - €30.00 per sf	€27.50 - €33.00 per sf	€27.50 - €33.00 per sf	€27.50 - €33.00 per sf
Grade A Vacancy Rate	<i>Positive</i>	4.60%-5.50%	4.60%-5.50%	4.60%-5.50%	4.60%-5.50%
Cap Rates	<i>Positive</i>	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%	5.50% - 5.75%
Suburban Office					
Prime Rents	<i>Positive</i>	€22.50 - €30.00 per sf	€22.50 - €30.00 per sf	€22.50 - €30.00 per sf	€22.50 - €30.00 per sf
Vacancy Rate (Grade A)	<i>Positive</i>	4.90% - 5.20%	4.90% - 5.20%	4.90% - 5.20%	4.90% - 5.20%
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*;
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- *Cogent*;
- *IDA*;
- *Hooke & Macdonald*;
- *Savills*;
- *PWC*;
- *HOTSTATS*;
- *Daft.ie*;
- *IDA*;
- *Cork Chamber Support*;
- *Irish Times*;
- *Property Week*;
- *Quadrant Market Discussions*.

Important Disclosures

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