IRELAND SNAPSHOT

NOVEMBER | 2020

ECONOMY

The initial Irish 'V' shaped recovery is fading, according to the latest purchasing manager indices. The Irish composite PMI fell to 46.9 in September, consistent with economic contraction. The services sector (45.8), especially transport, tourism & leisure, continues to struggle. Manufacturing (50.0) has slowed due to supply chain disruption and reduced exports attributed to Covid and Brexit, but aggravated, no doubt, by renewed weakness in the Eurozone (50.4). The latest 'flash' PMI estimate in October shows further Eurozone weakness (49.4). Irish business, financial & related professional services, as well as the TMT sectors, are less impacted, but are also shedding jobs as government support is reduced. The TWSS (Temporary Wage Subsidy Scheme) ended in August and was replaced by the EWSS (Employment Wage Subsidy Scheme) targeted at businesses whose turnovers are expected to remain down by 30% y/y over Q3 and Q4 2020. Despite closure of the TWSS, the Live Register fell modestly in September to 211,492. This stability suggests that many of the 300,000 workers supported by the TWSS may be finding support in the EWSS (data not yet available).

The Irish government also announced a €17.8 billion budget in mid-October which assumes no UK/EU trade deal and no widely available vaccine in 2021. This includes a €3.4 billion recovery fund with measures to prevent further job losses, support businesses forced to shut due to Covid restrictions, further Brexit support, reductions in VAT for hospitality, support for tourism businesses and live entertainment. The corporate rate of taxation remains unchanged at 12.5%, despite ongoing EU pressure for EU-wide corporate tax harmonization. Additional government support may also be forthcoming should the European Recovery Fund disbursement amounting to €1.5 billion in EU grants, along with €90 million in loan guarantees over the next few years. Despite weaknesses in the Irish trajectory, Irish annual GDP is forecast to recover to its 2019 level in 2021 (Oxford Economics, 8th Oct 2020), although the most impacted sectors will lag behind.

***Colliers view:** Ireland's recovery will slow as 2nd wave Covid restrictions are imposed and government employment support moderates. TMT, financial services and manufacturing will fare better. Look for support from the EU recovery fund.*

INVESTMENT MARKETS

After a fairly dismal Q2 (The Covid Quarter), investment activity accelerated in Q3 up by 63% q/q to €700 million compared to €430 million in Q2. Activity in Q3 has returned to its five-year average level. Furthermore, another €1.4 billion of assets are on the market. Deals worth around €430 million are already agreed or under offer, and a number of significant 'off-market' deals are also at advanced stages suggesting momentum may be building for a strong year end. Despite ongoing worries about the trajectory of the Irish economic recovery, further viral waves, Brexit and a tightening of finance, Ireland continues to attract considerable cross border investment led by European capital, especially German capital which accounted for 75% of the total Irish investment. Local private investors remain focused on sub €10 million deals but are hesitating until the economic recovery path becomes clearer. Specialised funds, property companies and institutional investors driven by investment mandates are all actively seeking opportunities in the €20m+ range. Demand remains strong across the PRS, office and logistics sectors, with further substantial volumes of capital forecast to be deployed by year end. New market entrants are evident, primarily European, which further boosts confidence that Ireland remains an important target for global capital. The market is closely monitoring the sale of a number of high profile assets including: One Molesworth, the Bloom Portfolio, 28 Fitzwilliam, Royal Hibernia Way, and 2 Harbourmaster. Who invests and how pricing moves will set the tone for year end.

TOP DEALS Q3 20	LOCATION	SECTOR	PRICE ACHIEVED	BUYER
Cheevers Court	Dun Laoghaire	PRS	€195 million	DWS
Prestige Portfolio	North Dublin	PRS	€145 million	DWS
2 Burlington Road	Dublin	Office	€94 million	KGAL

Retail: The retail sector continues to struggle with the effects and restrictions of Covid-19. Traditional 'bricks and mortar' retail offerings continue to bear the brunt of a sharp fall in both consumer spending and confidence. Retail investment activity during Q3 20 was all but non-existent. Investor expectations of increasing vacancy rates, further rental declines and yield expansion are shaping the narrative. A handful of retail inclusive mixed-use schemes were completed, but pure retail transactions were limited to just two deals: Elkstone's acquisition of Bank of Ireland, Balbriggan for a reported NIY of 7.09%; and 1 Shop Street in Galway, let to 3 Mobile, traded for a reported NIY of 7.72%.

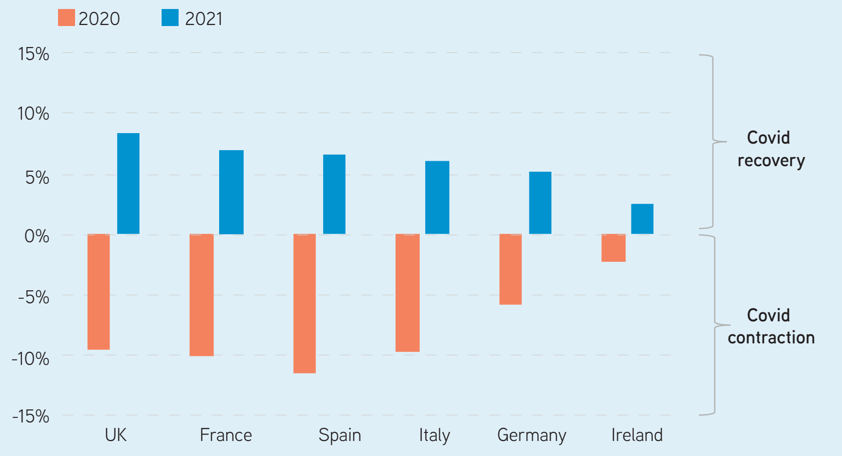
SELECTED RETAIL TRANSACTIONS Q3 2020	VALUE	YIELDS
Dublin Street, Balbriggan (Bank of Ireland)	€5.55m	7.09%
1 Shop Street, Galway (3 Mobile)	€49.2m	7.72%

Offices: Office investment in Q3 amounted to €215m across eight deals, roughly in line with the €260m transacted in Q2. Henderson Park's ongoing disposal / break-up of the Green REIT portfolio accounted for most of the office investment volume during the quarter and also accounted for the largest deal – the sale of 2 Burlington Road to KGAL for €94m reflecting an NIY of 4.31%. The quarters second largest deal was Henderson Park's sale of 30-33 Molesworth Street to KanAm for a reported €59.5m. Elsewhere Corum acquired Building 12 in Cherrywood, from Spear Street Capital for €27.7m, reflecting an NIY of 5.94%.

SELECTED OFFICE TRANSACTIONS	VALUE	YIELDS
2 Burlington Road	€94.0m	4.31%
30-33 Molesworth Street	€59.5m	3.6%
Building 12, Cherrywood	€27.7m	5.94%

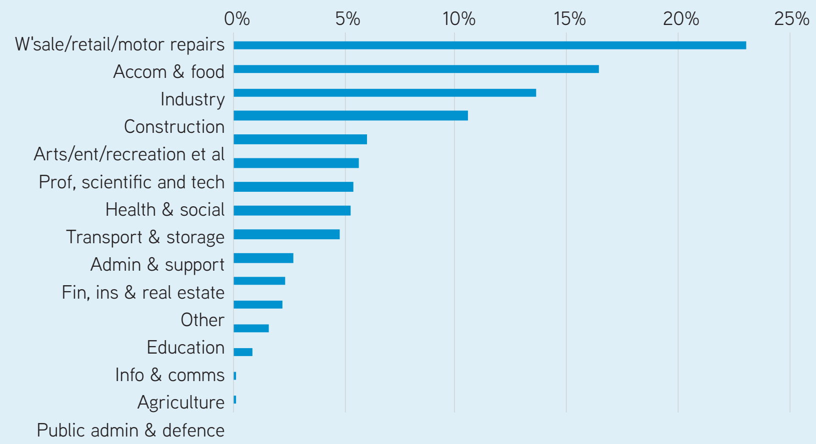
Industrial: The Industrial and Logistics sector continued to perform strongly and the rise of e-commerce (less affected by Covid) continues to underpin activity. Interestingly, Ireland is the only EU country to record export growth in the year to end July. The decline in imports was also the smallest in percentage terms. Despite export weakness in August and September, Ireland will continue to remain relatively resilient in contrast to other EU countries. There were no reported investment deals in the quarter, due to a lack of stock, although a number of high profile, off market transactions are currently at an advanced stage. Mountpark are in the process of disposing of a substantial, international logistics portfolio comprising 11 properties, two of which are in Dublin. The lot size is reported at €530m with an NIY of region 4%. Investment opportunities, at all levels, remain scarce and investor interest in the sector is acute.

FIGURE 1:
GDP FORECASTS FOR 2020 / 2021



Source: Oxford Economics, 20th September 2020

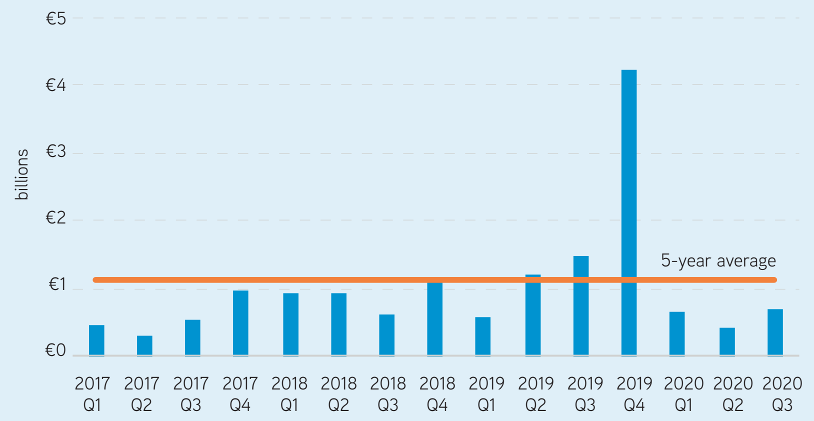
FIGURE 2:
PERCENT OF TWSS RECIPIENTS[1]



[1]Percent of total recipients between 12 March & 31 August, 2020

Source: CSO

FIGURE 3:
QUARTERLY INVESTMENT SPEND



Source: Colliers International

Alternatives – PRS/Hotels/Leisure: Investment transactions in the alternatives sector were also scarce, save for the ongoing banquet of PRS deals. PRS dominated activity across all Irish commercial real estate asset classes with six sizeable deals accounting for 70% of total investment spend in Q3 2020. Highlights included the Prestige Portfolio (317 residential units across four schemes in North Dublin) acquired by DWS (German) for €145m, as well as DWS' completion of a €195m forward funding of Cheevers Court (368 apartments developed by Cosgrave Property Group in Dún Laoghaire). Elsewhere, Park Developments' Clay Farm in South Dublin (192 units) was acquired by Urbeo for a sum reported to be in the region €75m. Forecasts for the sector remain positive and investor appetite remains undiminished at all levels.

SELECTED ALTERNATIVES/OTHER TRANSACTIONS	LOCATION	VALUE
Cheevers Court	Dun Laoghaire	€195m
The Prestige Portfolio	North Dublin	€145m
Clay Farm	Leopardstown	€75m
Johnstown Road	Dun Laoghaire	region €45m
Dolphins Barn	Dublin 8	€6.3m

***Colliers view:** Investment in Irish property has renewed momentum, especially in the PRS sector. Look for a relatively strong year-end despite further Covid restrictions and scarcity of standing assets in the most sought-after sectors.*

OCCUPIER MARKETS

Retail

By August, the retail sector as a whole began to deliver performance figures that fell within the range of normal expectation, although various subsectors were still showing the impact of the April/May lockdown. Year-on-year sales volume growth was 8.9% for 'All Retail' and 5.9% for 'Sales excluding motor, fuel & bars'. Food retailers saw 4.4% growth, while non-food saw strong recovery of 10.1%, driven by household equipment sales that were continuing to recover strongly at a 23.8% y/y rate. Fashion merchandisers also recovered to a -0.7% y/y rate, while sales volumes at bars remains down by 43% y/y. The mixed picture has not been helped by lockdown mark 2 at such an important time of the year. A recent survey (Retail Excellence) found that some two-thirds of retailers still have rent arrears from the April/May lockdown. Around one-third have negotiated turnover-based rents, or discounts of up to 50% on current rents, but many 'household names' have found themselves in court. This has given rise to more discussions about overhauling lease structures reminiscent of the 2009 debate that led to the banning of 'upward-only' rent reviews. Given the new tightening of Covid controls, government intervention is a possibility to prevent a deluge of closures after Christmas. Unfortunately, however the recently published new 'voluntary' Code of Practice (similar to the UK's Code of Practice for Landlords and Tenants published in June 2020) in response to the Covid impact, has done little to assuage retailer fears.

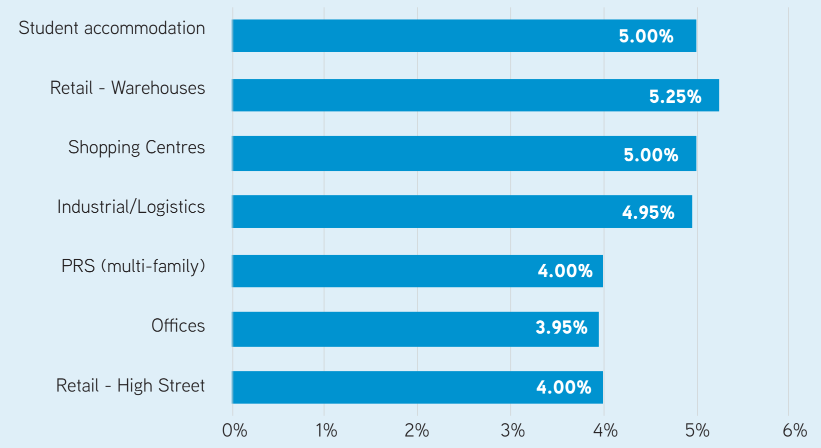
***Colliers view:** Despite a few green shoots, the retail sector's trial's and tribulation are set to continue with new government intervention possible during 2021.*

Offices

As detailed above, the initial Irish 'V' shaped recovery faded in September, although traditional office-based sectors fared better, especially the technology and government sectors which together accounted for around 60% of office take-up in Q3 2020. US companies remain active and accounted for almost half of take-up with domestic entities accounting for the rest. Despite this apparent resilience, Q3 take-up as a whole (235,000 ft^2) remains down by 70% against the ten-year average, although the deal flow suggests momentum may have been building going into Q4. Many companies, though, remain in 'wait and see' mode before finalising expansion decisions. Despite softening of demand, headline rents remain broadly stable at around €65 per ft^2 pa as landlords seek to retain tenants through longer leases. The most notable event of Q3 was Google's decision to abandon plans to lease the former 'An Post' sorting office (202,000 ft^2) with a capacity to house up to 2,000 employees. The decision 'spooked' the market, but Google affirmed its commitment to Dublin which is underscored by the 1.1 million ft^2 that it already occupies. The Irish Times reports that Google along with Amazon, LinkedIn, Facebook and Salesforce together already occupy or are committed to occupy 3.4 million ft^2, enough to house 34,000 workers. Tik Tok also announced in September that they plan to expand their Irish based operations, thus confirming their commitment to Dublin. The Dublin tech hub's critical mass is already well established and likely to continue attracting new tech operators, despite Brexit, the Covid disruption and expectations of changes in workplace formats. Likewise, investor interest remains strong and almost 6 million ft^2 were under construction as of the end of Q3 with 55% of the space already pre-let.

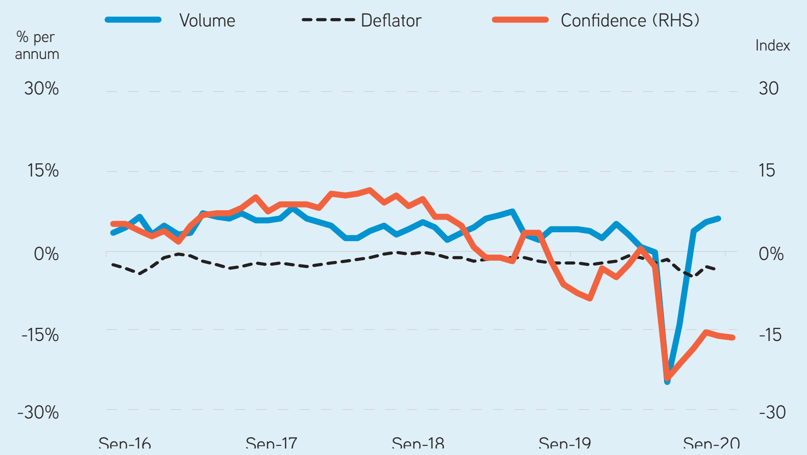
***Colliers view:** The occupier market has improved, but many companies remain in 'wait and see' mode pending clarity on Brexit and Covid. The tech sector remains active, but cautious.*

FIGURE 4:
PRICING (NIY)



Source: Colliers International

FIGURE 5:
RETAIL SALES VOLUME[1]



[1]Volume and deflator through August 2020

Source: CSO, Eurostat

Industrial

Irish industrial sectors continued to perform much better than the services sector, although has weakened in line with a general softening of the economy. September's manufacturing PMI was 50 - the breakeven point between expansion and contraction. Nevertheless, industrial take-up in Q3 was up by 40% q/q with demand driven by Brexit-planning and ecommerce. Prime headline rents in Dublin now stand at €10.45 per sq ft (€112.50 per sq m) supported by ongoing shortages of Grade A distribution space. The market remains a landlord's market with overall availability forecast to fall over the next 12 months. In the meantime, Core Industrial REIT and M7 Real Estate are reported to be looking for 'value add' redevelopment and asset management opportunities, while Rohan Holdings are pursuing planning on a number of new sites. In Q3 20, some 82,685 sq m (890,000 sq ft) of new space was reported to be under construction.

***Colliers view:** Unchanged. The industrial sector will continue to weather the pandemic better than other sectors. Look for further development and transactions to support ecommerce and Brexit planning.*

Hotel

Overall activity across the sector remains in abeyance. In August, Dublin and Regional RevPAR remained down by 80% y/y and 29% y/y with occupancy at 30.1% and 71.8% respectively. Dublin RevPar was €37.70 (€118.70 in 2019) and Regional was €34.20 (€77.50 in 2019). By year end revenues are likely to amount to no more than 25% of 2019 totals and given expectations of renewed and higher lockdown levels and the unlikely revival of tourism and business visits (Dublin Airport passenger numbers were down 89% in July), this figure may prove optimistic. Increasingly, the survival of the sector will rely on government support such as the 'Stay and Spend' rebate and the more general income support schemes. Despite these challenging condition and limited access to finance, development activity in the Irish hotel market continues, with a record 5,400 rooms under construction (71% as new builds) as of the end of June 2020. Most of these rooms will be delivered in Dublin, but activity is also evident outside of the capital, most notably in Cork and Galway. In most cases, the pace of delivery is expected to slow and new projects may be delayed as finance becomes more difficult.

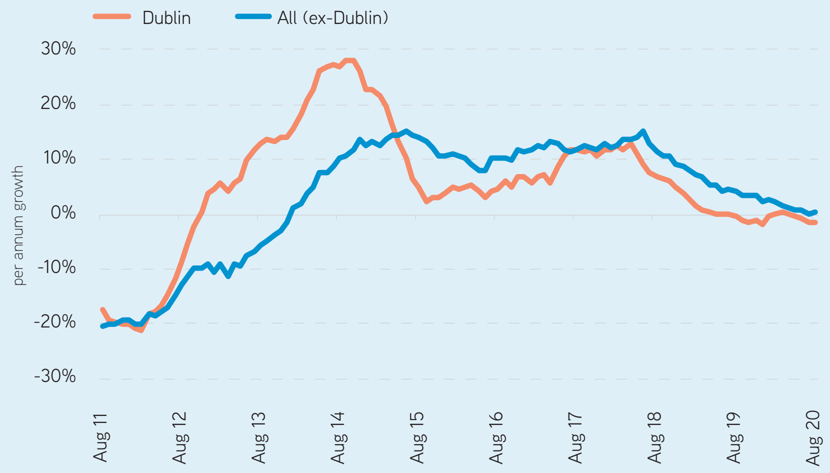
***Colliers view:** Unchanged. Hotel sector recovery remains linked to the pandemic and government support. An upturn may await St Patrick's Day - the traditional start of the Irish tourist season.*

Residential

After a period of slowing growth in 2019, Irish residential prices have stabilised and, with a few exceptions, have remained generally static since the outset of the pandemic in February. The national house price index (ex-Dublin) is up by a modest 1.5% over the pandemic period, while Dublin is down by a modest 0.7%, although Dublin apartment prices grew by a relatively strong 3.1% in line with national apartments which grew by 2.8%. This is due to the result of housing shortages, but also may reflect the arrival of more premium product on the market as investors seek to take advantage of Ireland's supply/demand imbalance. Rents have stabilised after outright month on month declines in April nationally (-2.1%) and in Dublin (-2.6%). The year on year rate in July was running at 1.1% and 0.2% respectively. Despite the increase in international interest in Irish PRS/BTR schemes, the total number of planning approvals for new apartments tumbled from a peak of 9,698 in Q1 2020 to 6,807 in Q2 2020 (CSO 11/09/20), no doubt reflecting direct and indirect impacts of COVID on process and sentiment. A parallel decline in new completions was also apparent with scheme and apartment dwelling completions both down by around 52% from the end of 2019 to the end of Q2. Likewise, in the year to end August, total sales volumes were down in Dublin and the rest of Ireland by 28%. It is important to note the residential market has remained resilient in the face of COVID.

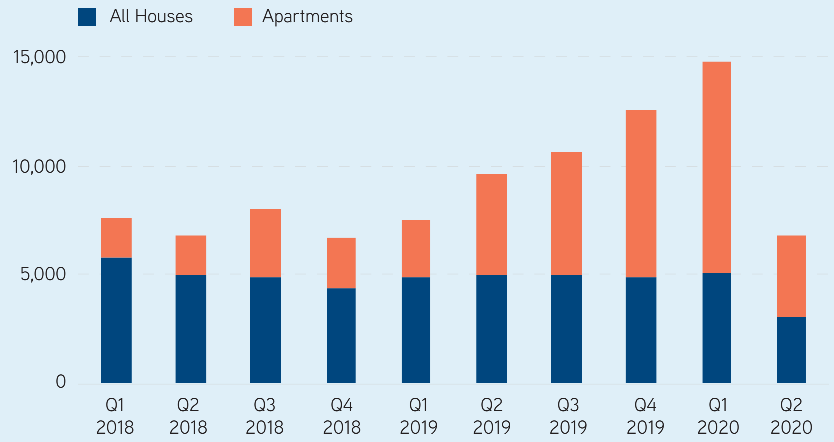
***Colliers view:** Residential prices and rents are stable, but activity slowed dramatically since the onset of COVID uncertainty. Until activity normalizes, price movement will be hard to predict.*

FIGURE 6:
RESIDENTIAL PRICE GROWTH



Source: Central Statistical Office

FIGURE 7:
PLANNING PERMISSIONS GRANTED



Source: Central Statistical Office

FOR MORE INFORMATION

Declan Stone
Managing Director
declan.stone@colliers.com
+353 1 633 3732

CAPITAL MARKETS

Michele McGarry
Director
michele.mcgarry@colliers.com
+353 1 633 3738

BUSINESS SPACE

Nick Coveney
Director
nick.coveney@colliers.com
+353 1 633 3736

Paul Finucane
Director
paul.finucane@colliers.com
+353 1 633 3724

RETAIL

Aiden McDonnell
Consultant
aiden.mcdonnell@colliers.com
+353 1 633 3722

HOTELS AND LEISURE CONSULTANT

Weldon Mather
Consultant
weldon.mather@colliers.com
+353 86 868 4441

ADVISORY SERVICES

Emmett Page
Director
emmett.page@colliers.com
+353 1 633 3725

RESIDENTIAL

Marcus Magnier
Director
marcus.magnier@colliers.com
+353 1 633 3785

RESEARCH & FORECASTING

Walter Boettcher
Director, Research & Economics
walter.boettcher@colliers.com
+353 1 633 3700

Hambleden House
19-26 Pembroke Street Lower
Dublin

Research & Forecasting