SOCIETY OF CHARTERED SURVEYORS IRELAND

Annual Commercial Property Review & Outlook 2018

RICS the mark of property professionalism worldwide

Future Analytics
Planning | Research | Economics

Edward McAuley
Head of Practice & Policy

Society of Chartered Surveyors Ireland
38 Merrion Square
Dublin, D02 EV61
Ireland

T +353 (0) 1 644 5500
W www.scsi.ie

Annual Commercial Property Review & Outlook 2018

SCSI

Dating back to 1895, the Society of Chartered Surveyors Ireland (SCSI) is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with the Royal Institute of Chartered Surveyors (RICS), the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the SCSI and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the SCSI and RICS, in the public interest.

This valuable partnership with RICS enables access to a worldwide network of research, experience and advice.

The Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

One of our key objectives is to provide impartial, independent and authoritative advice on key issues for consumers, business and policy makers, as well as advancing and maintaining standards for Chartered Surveyors working in the property, construction and land sectors. All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and Royal Institution of Chartered Surveyors, in the public interest. While we are politically neutral, we are not policy neutral.

Contents

Foreword

This report provides a valuable benchmark of performance of the commercial property market in 2017 and expectations for 2018.

Activity and growth continues across all commercial property types in 2017 and its particularly encouraging to see that activity is also being experienced outside of Dublin. This is very welcome when one considers that the country is emerging from the worst recession in its history. Unemployment now stands at just 6% - down from over 16% - which is at or close to full employment and which illustrates the dramatic progress which has been made in recent years.

The purpose of our Annual Commercial Property report is to provide independent information, to inform debate and to suggest potential solutions to issues being experienced in our commercial sector. The SCSI Annual Property Reports, both residential and commercial, span over 35 years of research, gathered from our nationwide network of members. Gathering property transaction data is continuing to develop in Ireland, but there is always a growing appetite for property market predictions. Our Annual SCSI Property reports provide a useful snapshot of expected market conditions, prices and concerns, both at a national and provincial basis. It's interesting to see how significant market forces such as Brexit may impact our local and national markets. Some of the highlights within the report make it clear that Dublin is far less pessimistic in reaction to the Brexit proposition, compared with other provinces. With series two of negotiations now underway, the likelihood of a hard Brexit appears to have receded somewhat. We will of course be maintaining a watching brief on how events unfold in the course of 2018 and their potential impact on the sector and this will be communicated to our membership in regular Brexit newsletters.

Other reports highlight that technology is hampering business activity as purchasing habits are changing and its clear that this may currently impact property returns and capital values. Whilst this may be more prevalent outside of Dublin, its a compelling case made within this report that businesses urgently need to adapt to this changing environment if they are to survive and grow into a viable business proposition.

Some members have again raised the seriousness of the housing crisis in the capital and in other urban locations on commercial activity. The SCSI is pleased to see the government is exploring different options with regard to shared living accommodation and the Build to Rent sector and we continue to work with the Department of Housing, Planning and Local Government to assist in any way we can on this topic.

Finally, I would like to thank the 400 plus chartered surveyors that responded to the online property survey, the many volunteers that assist and lead projects on behalf of SCSI and of course our members for their continued support in 2017 and the year ahead.

Colin Bray FSCSI FRICS
President

SCSI Survey 2017

National Commercial Survey Summary Highlights

Prime office investment was again a high performer in 2017, particularly in Dublin. Cork also experienced a significant increase in demand for office floorspace.

Industrial rents increased in Dublin and the Rest of Leinster in 2017, but fell in Munster and Connaught/ Ulster. A shortage of modern industrial warehouse stock is a key concern for Chartered Surveyors.

Retail rents remained steady in 2017 in Dublin and the rest of the country.

Annual Rent per SQM

Office Prime Grade A Floorspace

Nationally Excluding Dublin	**Dublin**
€201	€638

Retail Prime Floorspace

Nationally Excluding Dublin	**Dublin**
€837	€6,000

Industrial Floorspace Prime under 500sqm

Nationally Excluding Dublin	**Dublin**
€59	€98

Industrial Floorspace Prime over 500sqm

Nationally Excluding Dublin	**Dublin**
€47	€85

2018 Predictions
by Category

OFFICE

Rent increases across all categories of office floorspace in 2018, with highest increases expected in Munster of up to 7.2% for Prime Grade A floorspace.

INDUSTRIAL

Rent increases across all categories of industrial floorspace in 2018 with highest increases expected in Dublin and Munster. Up to 8.9% for Prime Rents in Munster.

RETAIL

Rent increases across all retail categories in 2018 with a highest levels expected in Rest of Leinster of up to 9% for Prime Retail.

DEVELOPMENT LAND

Rent increases across all development land categories in 2018 with residential development land values expected to increase by 11%, office development land by 7%, retail development land by 6% and industrial development land by 8%.

2018 Predictions
by Region

DUBLIN
Office Rents 5%
Retail Rents 6%
Industrial Rents 6%
Development Land Values 8%

REST OF LEINSTER
Office Rents 1%
Retail Rents 6%
Industrial Rents 6%
Development Land Values 7%

CONNAUGHT/ULSTER

Office Rents 6%

Retail Rents 3%

Industrial Rents 3%

Development Land Values 6%

MUNSTER

Office Rents 5%

Retail Rents 3%

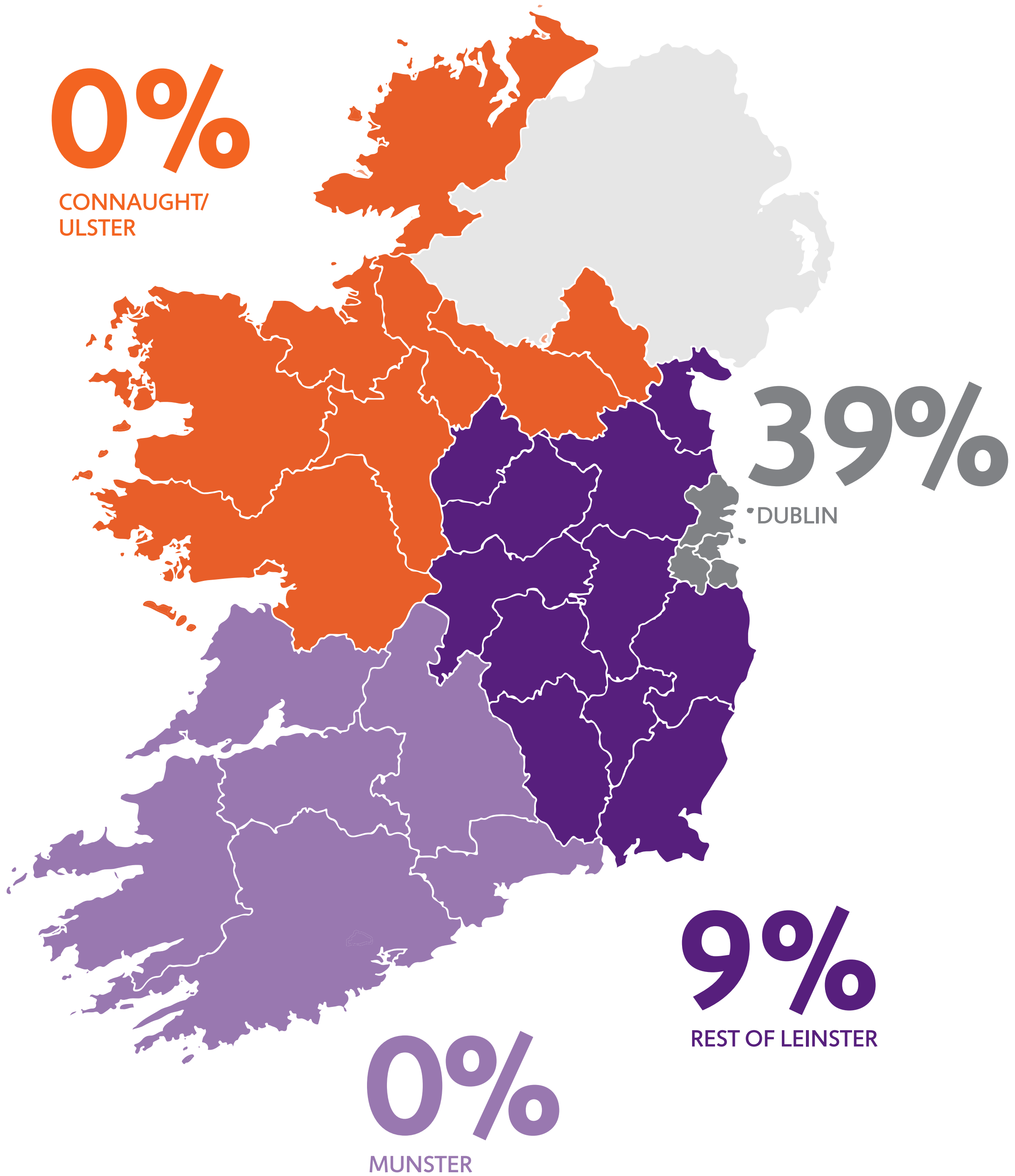
Industrial Rents 8%

Development Land Values 10%

There is difference in opinion amongst Chartered Surveyors across the country regarding the likely impact of Brexit on office demand and business activity. Chartered Surveyors in Dublin are most optimistic about possible positive effects and in general, there is greater optimism for 2018 than in 2017.

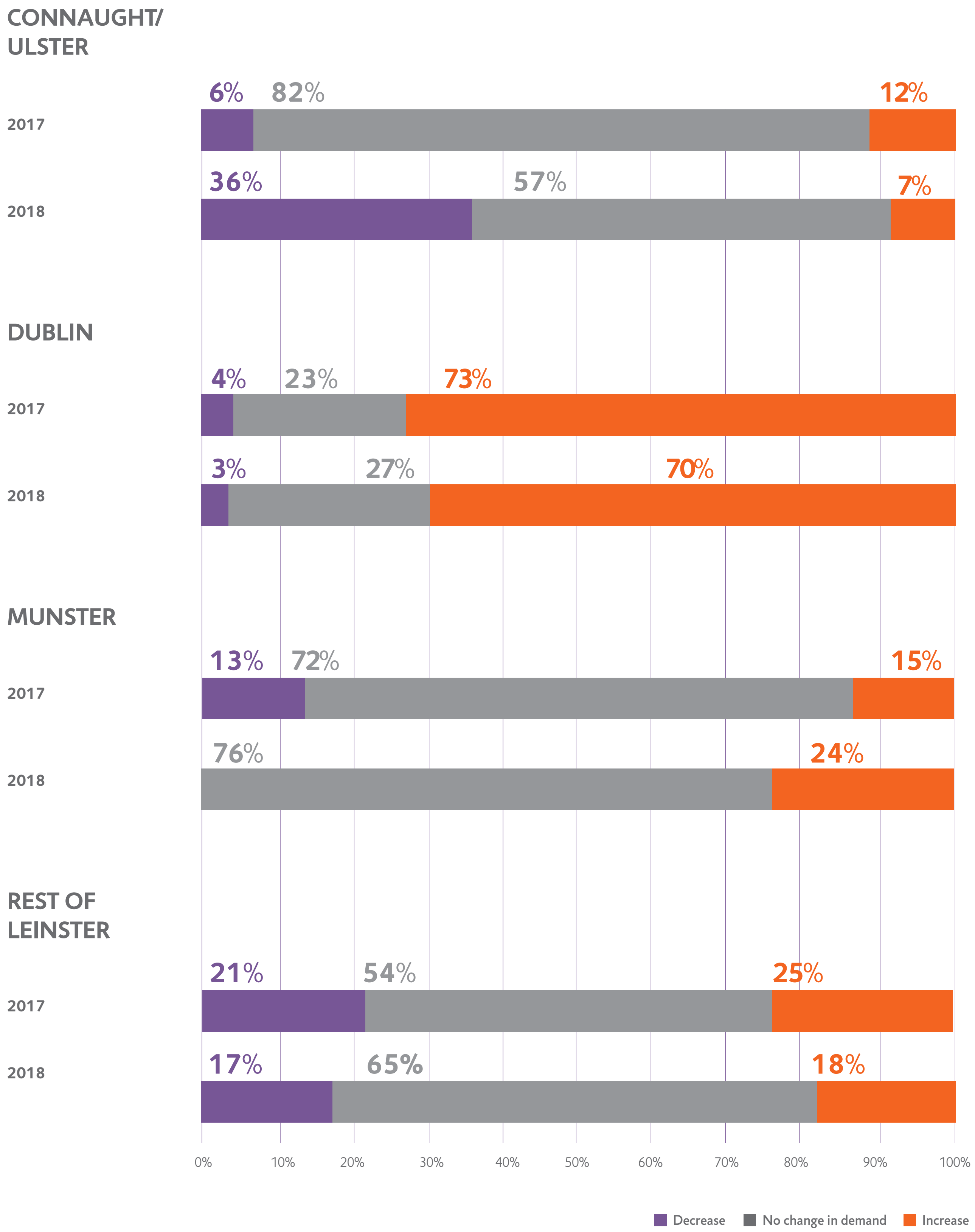
Source: SCSI Survey 2017

Percentage of Chartered Surveyors that think Brexit will have a positive impact on business activity in 2018



Source: SCSI Survey 2016 and 2017

Predicted impact of Brexit on office demand



Overview of the Irish Economy in 2017

The Irish economy continued to see robust growth throughout 2017, with a projected end of year GDP growth of 4.2%, making it the strongest performing economy in the eurozone for a fourth consecutive year.

Economic growth is anticipated to continue to remain robust, albeit, at a more moderate growth of 3.9% for 2018[1]. An increase in full-time employment and consumer spending nationally has helped support this growth, alongside strong domestic investment. With regards to international investment, over the course of 2017, FDI companies created almost 20,000 jobs in Ireland with IDA Ireland confirming that it has exceeded its five-year target.[2] Whilst outlook remains positive, the impact of Brexit continues to generate uncertainty and represents a significant risk in relation to the forecast for 2018.

Visitor numbers from the UK continue to decline, down by 6.7% in January to September 2017 compared to the same period in 2016. This decline follows the UK decision to leave the EU and the subsequent weakening value of sterling, effecting visitor numbers since Q2 in 2016. Despite this reduction in UK visitors, overall visitors have increased in January to September 2017 by 2.9% when compared to the same period in 2016. This has been largely influenced by increases in the number of visitors from North America (up 18.6%) and mainland Europe, particularly Spain (up 15.4%).[3] Overall the total value of tourism and travel earnings from overseas visitors to Ireland in Q3 2017 was €2.3 billion equating to an increase of 2.1% when compared to the same period in 2016.[4]

The main impact of Brexit on the Irish economy to date has been felt through the weaker Sterling exchange rate and most notably in relation to inflation. The Central Bank of Irelands Q4 Bulletin publication in October 2017 recognised this and notes the pass-through from sterling weakness to the Irish market, contributing towards a downward pressure on goods price inflation. As a result, whilst higher prices for services persist, this is somewhat offset by a consistently negative goods price inflation, keeping overall HICP inflation close to zero.[5]

There is a general feeling amongst Chartered Surveyors, particularly in the regions close to the border with Northern Ireland that the weaker sterling value has already impacted investment in property in those areas. Concerns also persist in relation to the problem of affordability within the residential property market and how this might impact the commercial property sector in future. Stephen McCarthy (SCSI Commercial Agency Chairperson & Head of General Retail Agency, Savills, Dublin) points out that while supply / demand imbalances continue to push up prices in the residential market, this dynamic introduces potential risks to the commercial sector; as rising housing costs may have the potential to impact on business relocation decisions and FDI into the country.

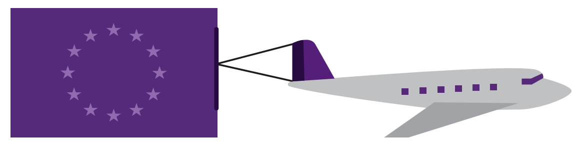
Therefore, while the overall economic performance for 2017 has been positive and the outlook for 2018 remains so, there is significant uncertainty regarding external factors such as Brexit and sustainability of rising accommodation costs. As such, the general mood amongst Chartered Surveyors remains cautiously optimistic about growth in 2018.

[1] Central Bank of Ireland
[2] www.siliconrepublic.com
[3] CCSO figures http://www.failteireland.ie/Utility/News-Library/Overseas-Visitors-to-Ireland-January%E2%80%93September-201.aspx
[4] Central Statistics Office Ireland
[5] HICP (harmonised consumer price index), Central Bank of Ireland, Q4 bulletin 2017

Snapshot of the Eurozone

Economic activity within the eurozone continues to grow, with a GDP growth rate of 0.6% on a quarterly basis in the second quarter of 2017 and by 2.3% on an annual basis.[6] This means the end of 2017 marked the seventeenth consecutive quarter of growth in the euro area.

The continued growth and declining unemployment rates in the Eurozone, indicate a sustained economic recovery that is forecast to steadily improve in 2018. Unsurprisingly, Brexit continues to be the main live issue influencing the European Context, representing both a risk and an opportunity to the Irish economy. While recent negotiations between the UK and the European Union appear positive, there is still significant uncertainty surrounding the future economic picture of the European Union following the UK's departure. Brexit does however present an opportunity for FDI in Ireland. Dublin was ranked 7th place out of 31 European cities for property investment and development in the annual forecast published by PwC and the Urban Land Institute. Ranked according to their overall investment and development prospects, German cities took a number of top spots with Berlin retaining the number one slot as most desirable city, Frankfurt was joint second alongside Copenhagen; and Munich and Hamburg were close behind.[7] As Germany's financial centre, Frankfurt is already experiencing significant benefits from company relocations in the wake of Brexit.



[6] Central Bank of Ireland, Q4 bulletin 2017
[7] PwC, Emerging Trends Europe 2018

A Year in Review

INVESTMENT

Ireland ranked 6th (up one place from 2016) out of 63 countries in the IMD World Competitiveness Yearbook rankings. The sustained corporation tax rate of 12.5% has no doubt continued to influence this ranking. The Irish capital is performing particularly strongly. According to the annual forecast published by PwC and the Urban Land Institute, Dublin is universally viewed as one of the cities likely to benefit from investment following Brexit.

'According to the report, the capital's property market is 'close to fully recovered' with most of the yield compression having already happened. Investors see Dublin as a good location for stable income, with healthy tenant demand from growing companies. The city has developed strong niches in financial services, US tech companies and aviation leasing and its airport is well-connected to the UK and the US. Retail is also a hot topic in Dublin with city centre streets, shopping centres and retail parks being targets for big investors over the previous two years.'

Ilona McElroy, PwC Ireland Real Estate Tax Leader

In terms of the breakdown of investment, this was largely focused in the office and retail sectors, with the office sector once again proving the most successful performing commercial property sector in 2017.

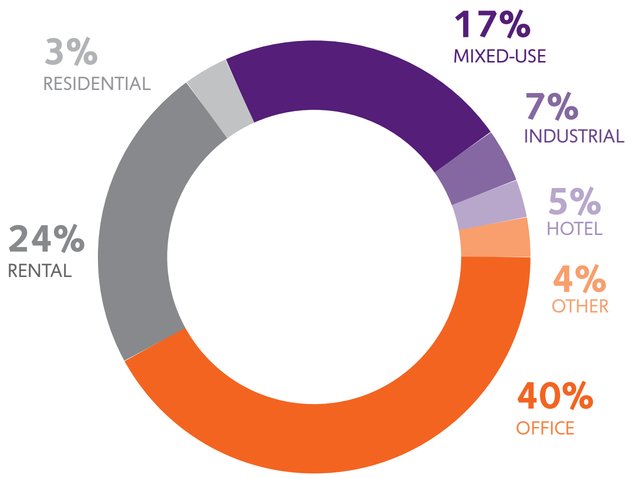
Multi-unit residential investment transactions have also increased, previously accounting for just 6% of the Dublin commercial property investment market in 2016, this has surged to 17% in 2017.[8]

The Budget 2018 increased stamp duty on commercial property transactions from 2% to 6% and is expected to result in investors who previously sourced purely commercial properties, turning their attention to the residential market, with stamp duty levels for multi-family sales unchanged at just 1% for the first €1 million and 2% thereafter. Investors are particularly interested in Build-to-Rent products, with the ability to achieve full market rents that would not be possible for existing stock. Governments efforts to review the underlying costs of apartments, including updating planning apartment design guidelines, is welcomed and seen by the industry as a positive to mature our accommodation sectors, so that there are an array of options for all tenancy types in the future.

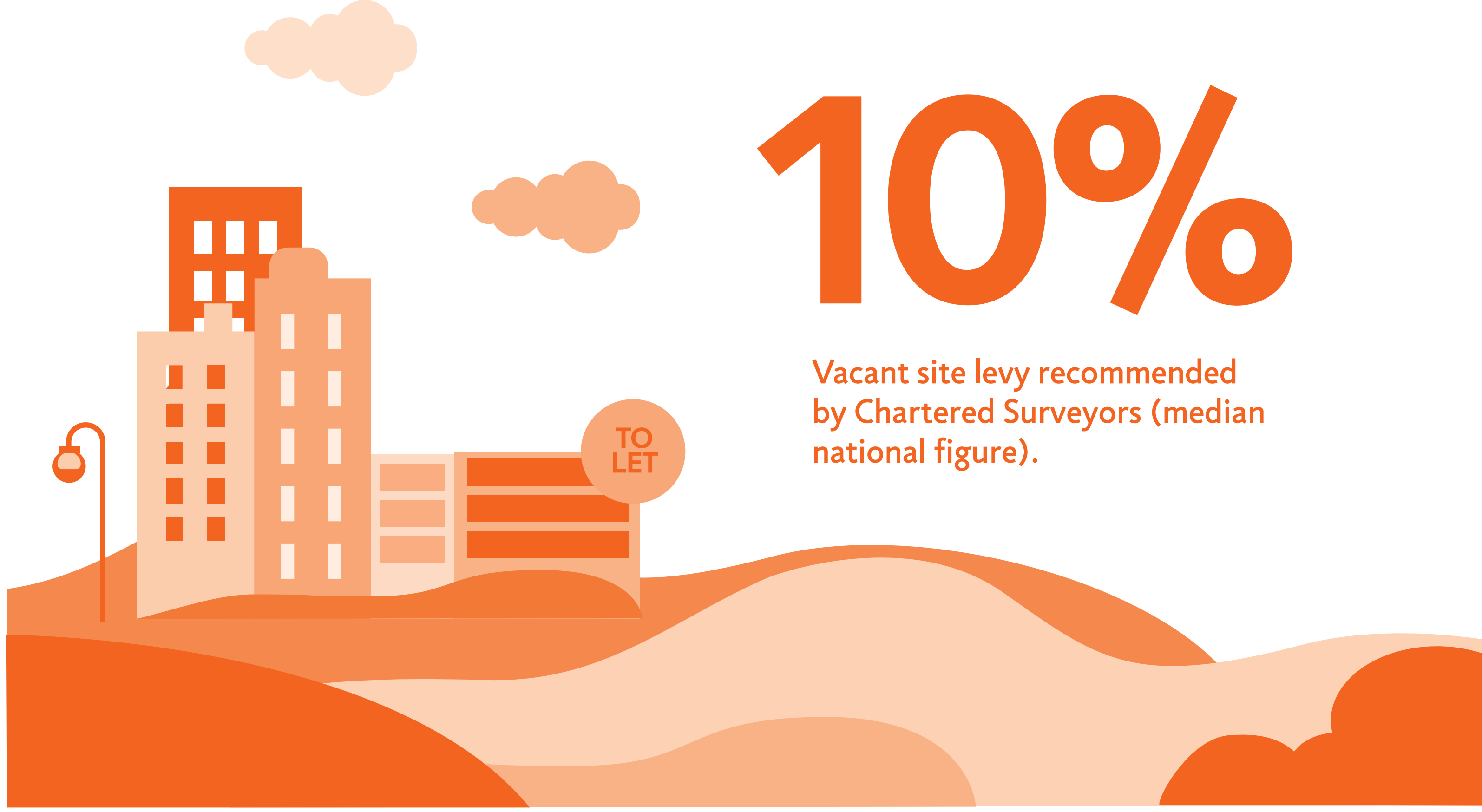
In our survey, we asked Chartered Surveyors their opinion on the level the vacant site levy should be set at. The national median figure is 10%, which is 3% higher than the current rate. The extent of impact that the levy will have upon the supply of development land remains to be seen, but generally the approach is welcomed as a positive measure to encourage supply of development land to the market.

Source: CBRE, Q3 2017

Irish Investment Sales 2017



[8] The Irish Times, Commercial Property, Nov.29 2017



10%

Vacant site levy recommended by Chartered Surveyors (median national figure).

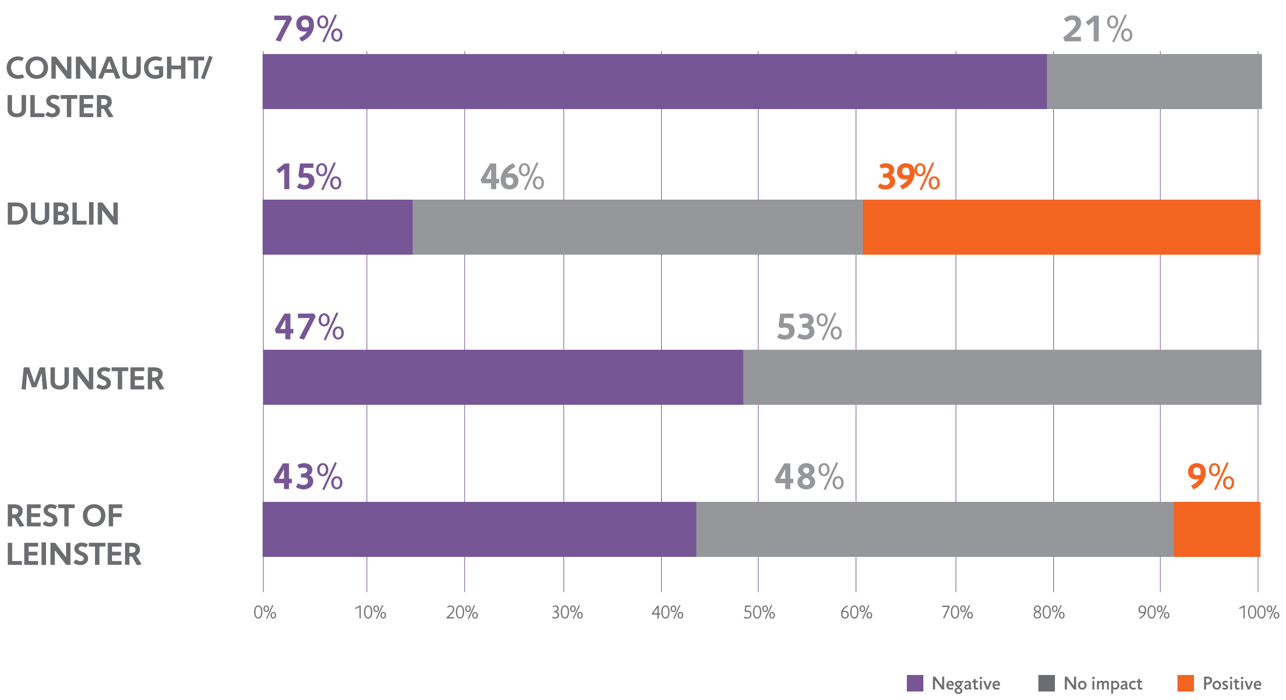
The potential impact from Brexit upon the Irish tourist market is highlighted as a risk and could result in negative impacts on the investment economy. There is also concern amongst Chartered Surveyors that investment in Dublin's infrastructure is not keeping pace with growth.[9] Changes to US corporation tax also represents a risk to the Irish economy. The changes will reduce the rate of US corporation tax from 35% to 20%, along with more recent measures announced that include taxing the offshore income of multinationals. These measures are designed to encourage more investment in the US and are a challenge to Irish tax advantages to attract FDI.

However overall the general mood amongst Chartered Surveyors remains optimistic about investment in the commercial property market in 2018. Padraig Sherry (representative for the SCSI North East Region and Chartered Surveyor at Sherry Fitzgerald) suggests that demand is increasing in the market and that there is strong interest from FDI companies looking to relocate, so the key concern is about supply. Without adequate supply, Ireland will be unable to take full advantage of the opportunities presented by Brexit. Generally, since the initial wave of reaction following the decision from the UK to leave the EU, there is increased optimism from Chartered Surveyors regarding the likely impact on the Irish economy. Recent negotiations regarding the Boarder and further clarity of the likely deals to be made by the UK with the EU as part of their exit has led to an improved outlook.

[9] PwC, Emerging Trends Europe 2018

Source: SCSI Survey 2017

Predicted impact of Brexit on business activity in 2018



EMPLOYMENT LEVELS

Unemployment levels continue to decrease from 7.9% in 2016 to 6.2% in 2017. This is expected to continue to decline in 2018 to 5.6%,[10] with Ireland creating nearly 70,000 additional jobs per annum. This equates to the fastest rate of employment growth in Ireland for the last 10 years, as Ireland nears what is considered near full employment.

The IT sector has been particularly successful, with the number of people employed in IT activities in Ireland growing by 56% in 2011-2016.[11] Potential has also been identified in the banking sector with 4,600 jobs estimated to be generated in Ireland as a result of the relocation of London's largest banks following the UK's decision to leave the EU.[12]

However, much of this growth has and will be focused in Dublin. The Western Development Commission (WDC) in its recently published 'WDC Insights' publication, examined the place of work for workers living in the Western Region. Key findings in the report include that more Western Region workers now leave the region to work, with over 4,200 Western Region residents travelling to Dublin for work, a figure that is up 16.9% since 2011.[13]

Ken Draper (SCSI representative for the Western Region and Chartered Surveyor at Sherry Fitz, Sligo) notes the focus of growth in Dublin. He suggests that the government should intervene to assist in the enhancement of regional centres. "Job growth needs to be dispersed into the Western Region if investment is to be encouraged in those areas."

CONSUMER SENTIMENT INDEX

Consumer spending is an important element of economic growth and the Consumer Sentiment Index (CSI) is a monthly report produced jointly by the ESRI and KBC Bank Ireland. Throughout the year, the trend has been a pattern of 'one and half steps forward, one step back', and this has continued into the end of 2017. Whilst there was a slight drop in CSI experienced in October 2017, this is not considered to be significant.[14] As income growth remains modest for most households and with future uncertainty largely fuelled by Brexit, the result is a CSI that is healthy rather than huge at the end of 2017.

BUSINESS CONFIDENCE

The results of the ISME Quarterly Business Trends Survey for Q3 2017 showed an improvement in confidence in 9 out of 12 indicators. However, the results also clearly indicated that Brexit, economic uncertainty, cost competitiveness and reduced orders are major concerns.[15]

An average of 46% of Chartered Surveyors nationally expect Brexit to have a negative impact upon their business activity, however there is significant variation in opinion across the regions. With 15% of respondents in Dublin and 79% of respondents in Connaught/Ulster expecting negative impacts on business as a result of Brexit.

[10] Central Bank of Ireland, Q4 bulletin 2017
[11] CSO figures
[12] As reported by @FT
[13] http://www.wdc.ie/wp-content/uploads/WDC-Insights-Census-2016-Where-People-Work.pdf
[14] ESRI, publication 'Irish consumer sentiment slightly weaker in October.
[15] ISME Q3 Business Trends Survey, www.isme.ie/news/isme-library/research-reports/trends-survey/q3-2017

A Data Profile
of Dublin and the Regions

Nationally, vacancy rates for commercial properties is 13.3%, with Sligo recording the highest vacancy rate at 18.7%, the lowest rate was recorded in Kerry at 10.5%. (GeoView Q4 2017 Commercial Vacancy Rates Report)

As unemployment continues to decline and job creation is peaking, the uplift in population will exacerbate existing challenges including an increasing demand for public services. The rising cost of living and housing shortages across the country will also create pressure on wage increases.

Dublin

41%
Third Level Qualified

LABOUR FORCE QUALITY

357,947
persons

DISPOSABLE INCOME

€21,633

COMMERCIAL VACANCY RATES IN DUBLIN

12.4%

Dublin recorded the largest annual decline in vacancy rates, falling by 1.3% on the previous year.

Rest of Leinster

30%
Third Level Qualified

LABOUR FORCE QUALITY

248,090
persons

DISPOSABLE INCOME

€17,992

COMMERCIAL VACANCY RATES BY COUNTY IN THE REST OF LEINSTER:

OFFALY 15%	LONGFORD 15%	LAOIS 14%
LOUTH 14%	KILDARE 13%	CARLOW 13%
WICKLOW 12%	KILKENNY 12%	WEXFORD 11%
MEATH 11%	WESTMEATH 11%	

Munster

31%
Third Level Qualified

LABOUR FORCE QUALITY

261,799
persons

DISPOSABLE INCOME

€18,822

COMMERCIAL VACANCY RATES BY COUNTY IN MUNSTER:

CLARE
15%

LIMERICK
15%

WATERFORD
14%

TIPPERARY
14%

CORK
12%

KERRY
11%

Connaught / Ulster

30% Third Level Qualified

LABOUR FORCE QUALITY

166,791 persons

DISPOSABLE INCOME

€17,185

COMMERCIAL VACANCY RATES BY COUNTY IN CONNAUGHT/ULSTER:

SLIGO	19%
GALWAY	16%
LEITRIM	16%
MAYO	15%
ROSCOMMON	15%
DONEGAL	15%
CAVAN	13%
MONAGHAN	13%

Property Review & Outlook 2018
A Snapshot of Dublin and the Regions

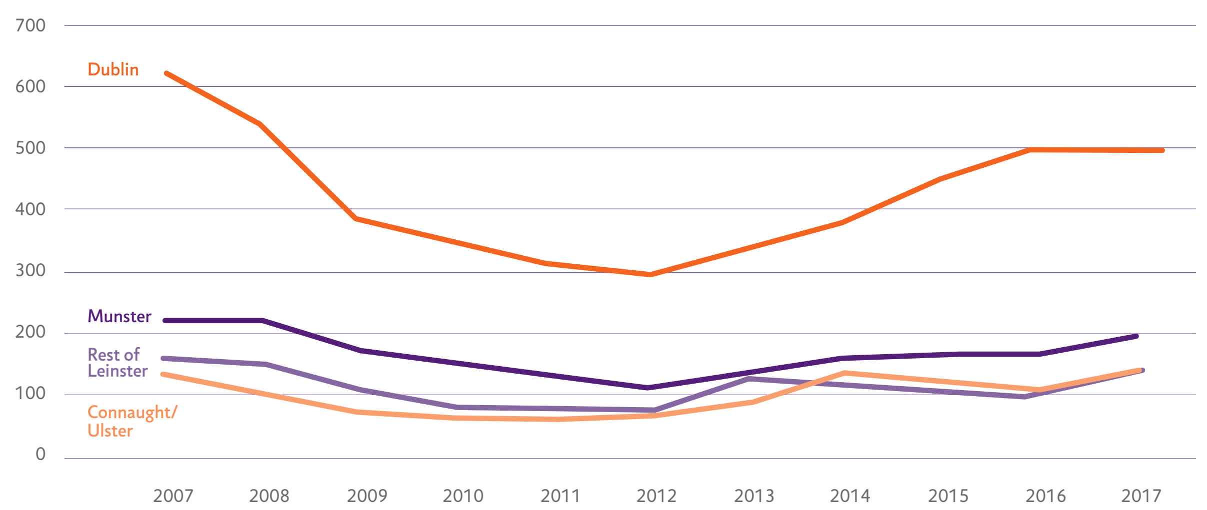
The office property market was the most active commercial property sector in 2017, with a performance that significantly improved on 2016.

OFFICE

Office investment was the most active commercial property sector in 2017, particularly in Dublin where there was a strong take up of office space in 2017. Cork has also experienced a significant increase in demand for office accommodation, particularly in city centre and prime business park locations. The success of the office market in 2017 reflects the pattern of growth over the last few years since the market hit the post-crash low in 2012.

Source: SCSI Annual Review and Outlook Surveys

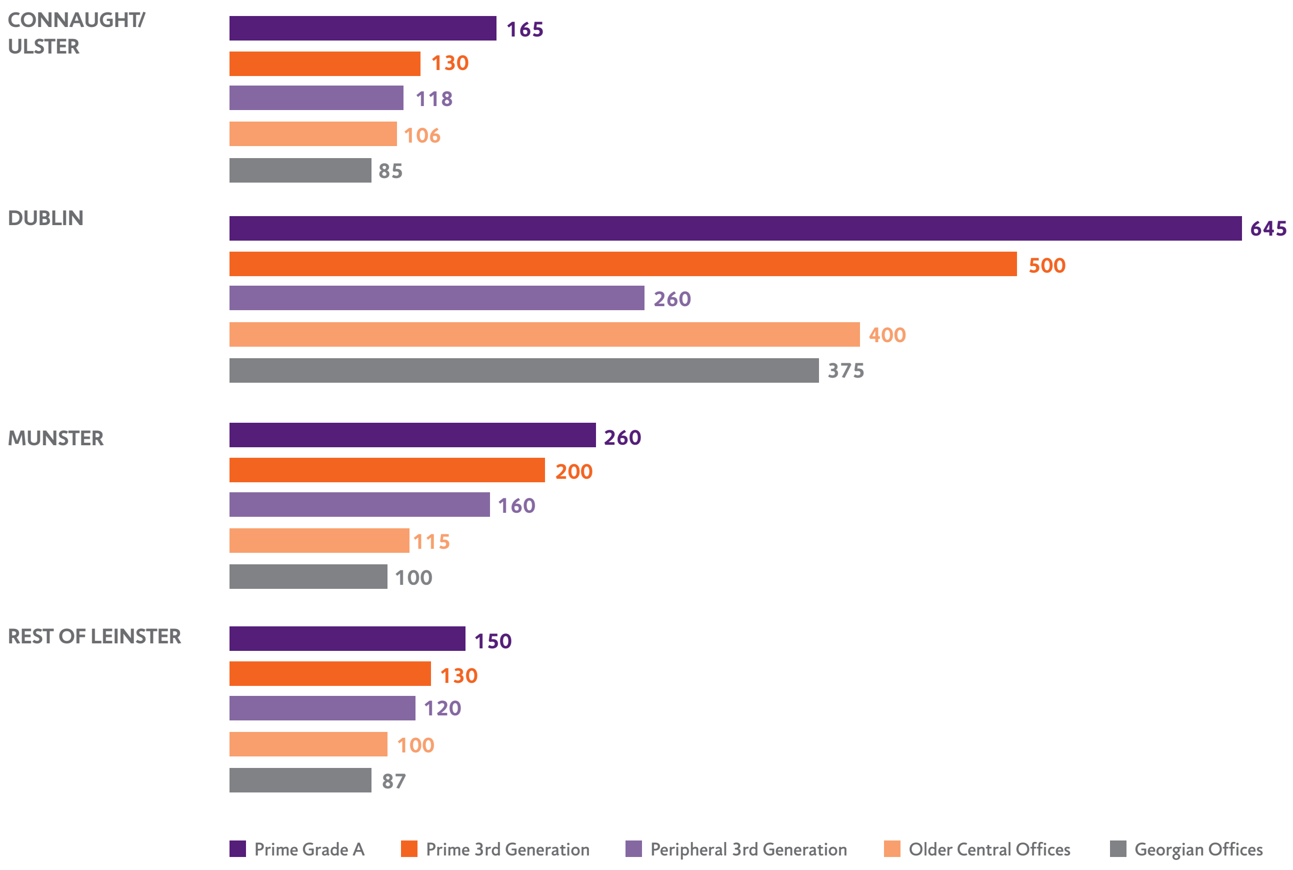
Office Prime 3rd Generation Price per sq m 2007-2017



The largest office investment transactions to sign during Q3 2017 included Blocks 4&5 Harcourt Centre, Harcourt Road, Dublin 2 for circa €47 million and 21 Charlemont, Dublin 2 for roughly €45 million.

Source: SCSI Annual Review and Outlook Surveys

Office Rents (€ per sqm per annum) year end 2017 (median)



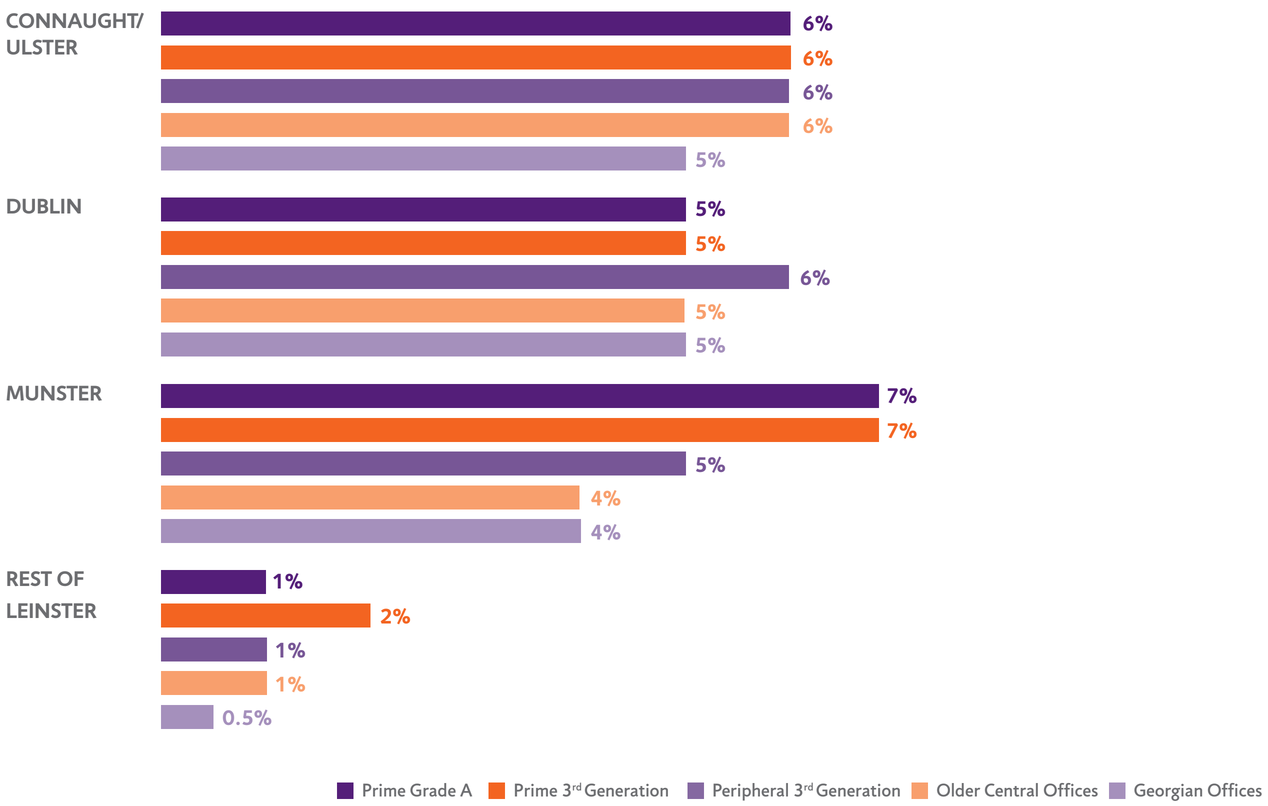
Office Yields (%) at the end of 2017

	Prime Grade A	Prime 3rd Generation	Peripheral 3rd Generation	Older Central Offices	Georgian Offices
CONNAUGHT/ ULSTER	7.1	8.3	9.1	9.1	7.2
DUBLIN	4.2	4.8	5.9	6.1	6.2
MUNSTER	6.4	7.3	8.0	9.1	9.1
REST OF LEINSTER	7.5	7.5	8.3	5.0	5.0

With demand levels for office space predicted to sustain into next year, an upward pressure on rents is expected for 2018. When asked what top three factors will influence the office market in 2018, Chartered Surveyors considered a shortage of grade A office floorspace, suitably sized office space and suitably located office floorspace to be the key factors for the next 12 months.

One emerging division in the office sector is co-working and flexible office space that can be rented by individuals and companies on a short-term basis. WeWork (a shared office space provider) has recently announced its take up of 110,000sq ft of space in two Dublin City Centre locations. Investment on this scale indicates the strength of demand for this type of space and clearly co-working / flexible office space will be one to watch in 2018.

Expectation for percentage (%) increase in office rents in 2018



NOTABLE OFFICE TRANSACTIONS IN 2017 INCLUDE

Facebook letting at The Beckett on East Road in Dublin's northern docklands (190,000 sq ft)

AIB letting at Block H Central Park in Leopardstown (152,000 sq ft)

The OPW at Miesian Plaza on Baggot Street (143,000 sq ft) (Picture on the left)

LinkedIn at Wilton Place (130,000 sq ft)

With demand levels for office space predicted to sustain into next year, an upward pressure on rents is expected for 2018.

Dublin

Office investment in Dublin has seen a very successful year in 2017, with many high-profile transactions. The serviced office sector is also emerging as a key player within the office property sector within Dublin.

OFFICE

70% of Chartered Surveyors consider it likely that ↑ AVAILABILITY OF OFFICE SPACE WILL INCREASE IN 2018

48% of Chartered Surveyors consider it likely that ↔ TAKE UP LEVELS WILL REMAIN THE SAME IN 2018

52% of Chartered Surveyors consider it likely that ↓ VACANCY RATES WILL DECREASE IN 2018

NUMBER ONE CONCERN

1 SHORTAGE OF GRADE A OFFICE SPACE

OTHER KEY ISSUES

- Brexit.
- DCC Rates.
- High demands.
- Lack of housing supply.
- Lack of public transport.
- Traffic and congestion.
- Lack of flexible lease terms.
- Lack of mid-range city centre space.
- LEED specification.
- Lack of smaller size space.

Rest of Leinster

OFFICE

86% of Chartered Surveyors consider it likely that ↔ AVAILABILITY OF OFFICE SPACE WILL REMAIN THE SAME IN 2018

71% of Chartered Surveyors consider it likely that ↔ TAKE UP LEVELS WILL REMAIN THE SAME IN 2018

57% of Chartered Surveyors consider it likely that ↔ VACANCY RATES WILL REMAIN THE SAME IN 2018

NUMBER ONE CONCERN

1 LACK OF DEMAND

OTHER KEY ISSUES

- New offices are not viable in current tax environment.
- No businesses of any scale are interested in locating in provincial towns.
- Uncertainty of Brexit.

Munster

OFFICE

62% of Chartered Surveyors consider it likely that ↑ AVAILABILITY OF OFFICE SPACE WILL INCREASE IN 2018

77% of Chartered Surveyors consider it likely that ↑ TAKE UP LEVELS WILL WILL INCREASE IN 2018

92% of Chartered Surveyors consider it likely that ↓ VACANCY RATES WILL DECREASE IN 2018

NUMBER ONE CONCERN

1 SHORTAGE OF GRADE A QUALITY OFFICE SPACE

OTHER KEY ISSUES

- New developments will not come on stream until 2019.
- There is a need for speculative office development.

REGIONAL OUTLOOK

Connaught/ Ulster

OFFICE

72% of Chartered Surveyors consider it likely that ↔ AVAILABILITY OF OFFICE SPACE WILL REMAIN THE SAME IN 2018

64% of Chartered Surveyors consider it likely that ↑ TAKE UP LEVELS WILL INCREASE IN 2018

64% of Chartered Surveyors consider it likely that ↓ VACANCY RATES WILL DECREASE IN 2018

NUMBER ONE CONCERN

1 SHORTAGE OF SUITABLY SIZED OFFICE SPACE

OTHER KEY ISSUES

- Lack of car parking in the central business district
- Lack of supply
- No new development in the pipeline

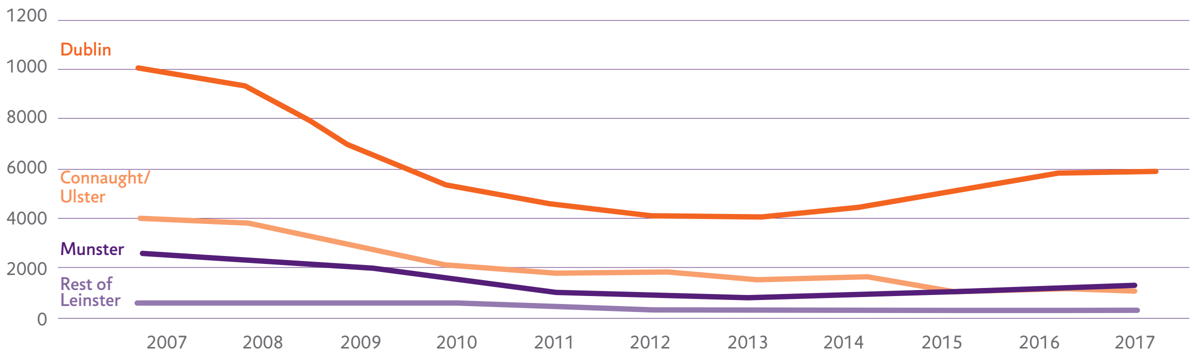
RETAIL

Investment in the retail sector during 2017 has remained steady, with some strong transactions in key retail centres. However, following a dynamic performance in 2016, retail investment in 2017 can be considered modest.

Prime retail floorspace rents continue to grow at a stable rate as has been the pattern over the last few years since the property crash, however rents remain substantially below the Celtic Tiger peak in 2007.

Source: SCSI Annual Review and Outlook Surveys

Prime Retail Floorspace Price per sq m 2007-2017

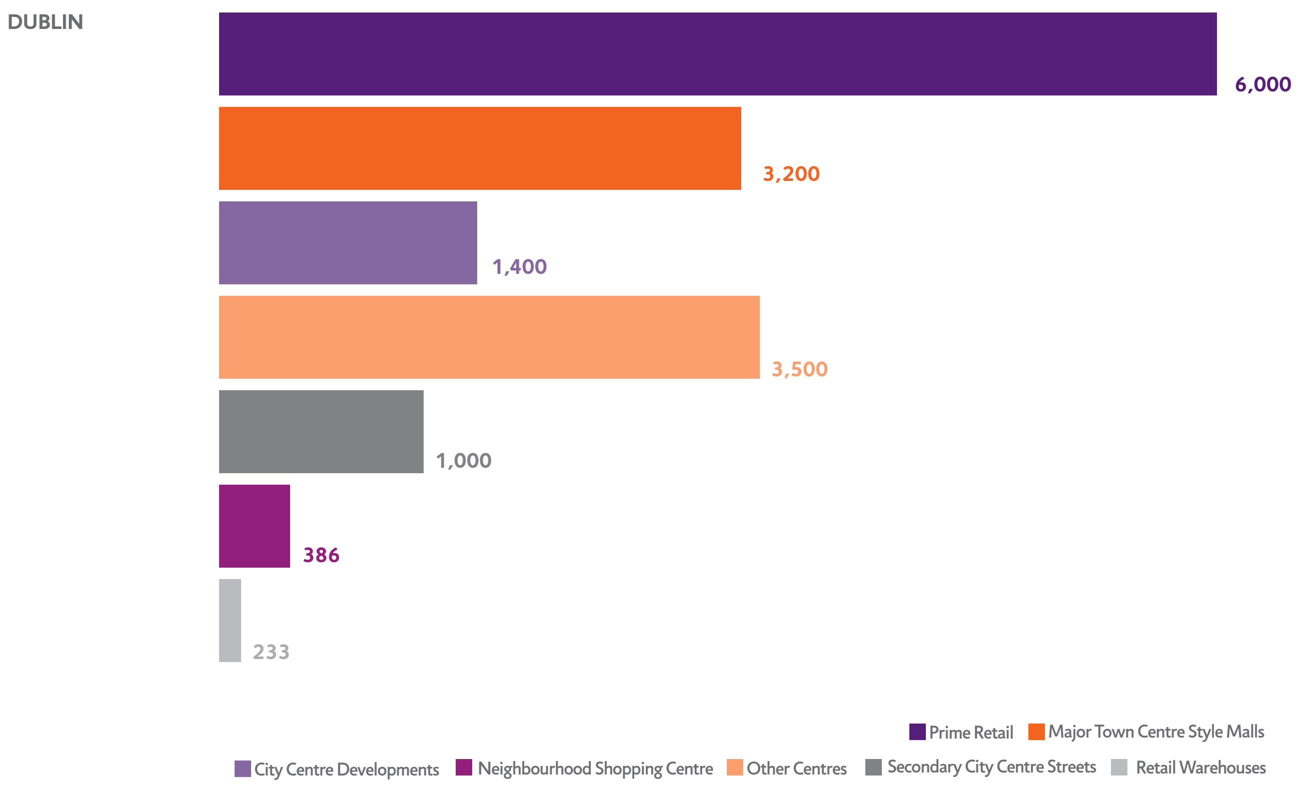


The largest retail investment transactions completed during Q3 2017 included the sale of 100-101 Grafton Street in Dublin for more than €50 million and the sale of Oranmore Shopping Centre in Galway for approximately €16.3 million.

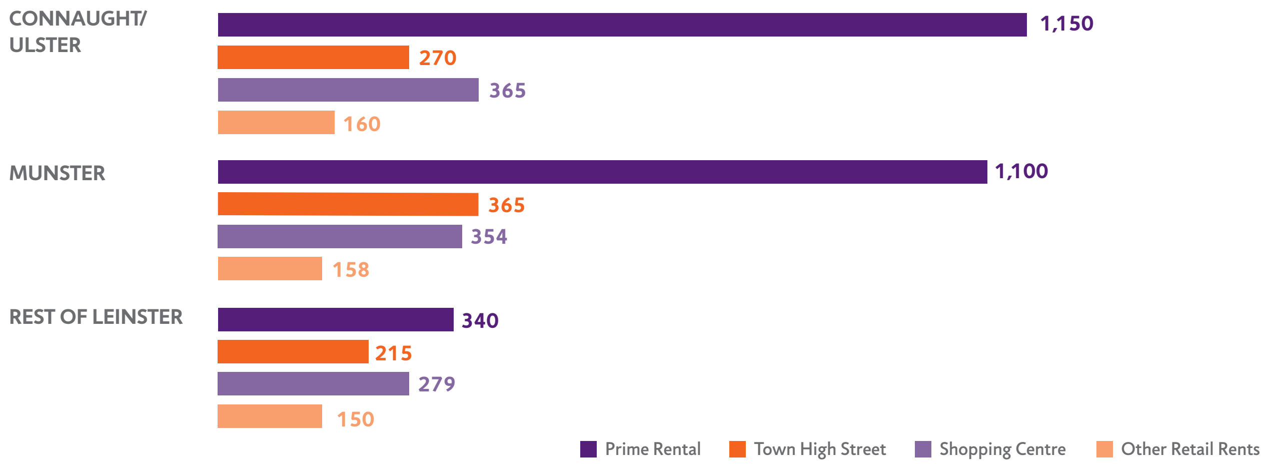
Solid demand remains for well-located neighbourhood shops and shopping centres from service occupiers, food and beverage operators and beauty retailers. Large chain operators continue to favour single stores in prime locations, particularly in the City Centres, rather than rolling out multiple stores across the country. It is likely that uncertainty around Brexit is influencing retailer occupier decisions to focus stores in prime city centre locations. Retail rents for all grades of floorspace continue to grow steadily in all areas, alongside yields in most locations, however premises in prime locations have seen a decline in yields.

Source: SCSI Annual Review and Outlook Surveys

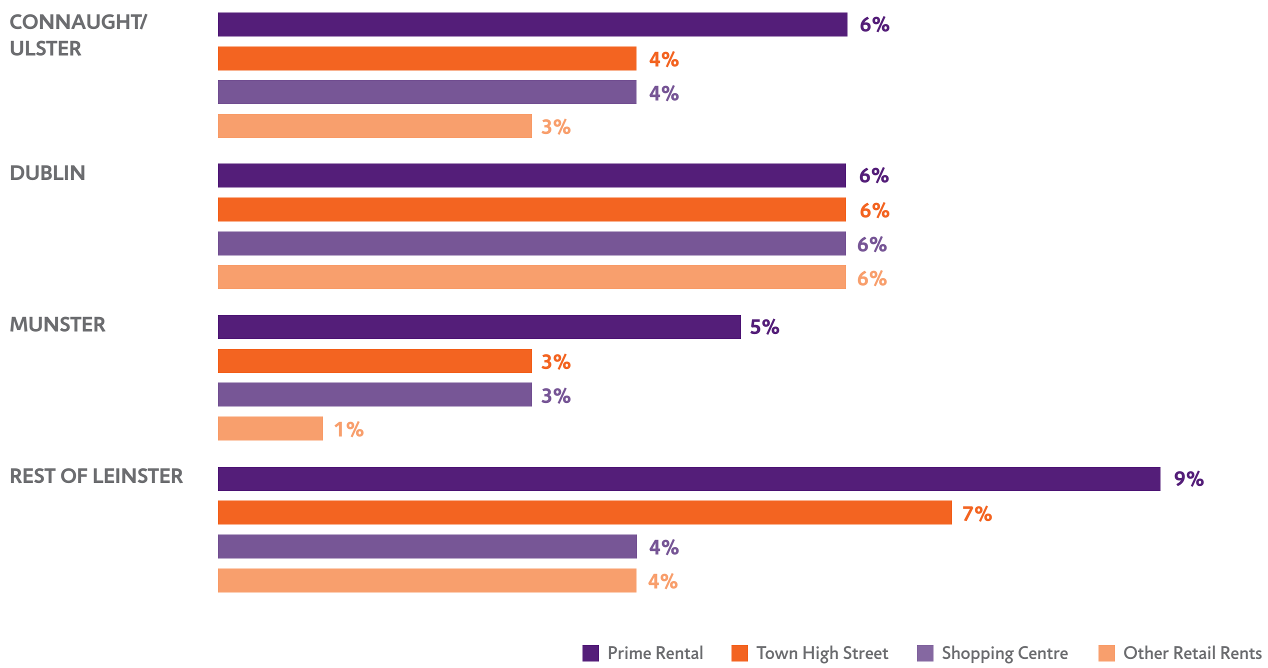
Retail Zone 'A' rents (€ per sqm per annum) year end 2017 Dublin (median)



Retail Rents (€ per sqm per annum) year end 2017 (median)



Expectation for percentage (%) increase in retail rents in 2018



Retail Yields year end 2017 (Dublin)

	Prime Retail	Major Town Centre style Malls	City Centre Developments	Other Centres	Secondary City Centre Streets	Neighbourhood Shopping Centre	Retail Warehouses (Overall rate)
DUBLIN	4.2	5.4	5.8	5.6	6.4	7.2	6.6

	Prime Retail	Town High Street	Shopping Centre	Other Retail Rents
CONNAUGHT/ULSTER	6.8	9.0	9.8	11.4
MUNSTER	7.3	8.7	8.0	10
REST OF LEINSTER	8.8	8.6	8.3	9.0

Concerns have been raised by Chartered Surveyors regarding the impact of a weakening sterling upon the Irish retail market and how this might affect vacancy levels in 2018. Since the UK decision to leave the EU, the exchange rate of sterling against the Euro has dramatically fallen, resulting in prices for goods within the UK that are more attractive to customers. The UK market can be accessed relatively easily by customers in Ireland, with cross boarder activity and an increase in internet transactions. Consequently, a significant impact has been felt on the retail sector, particularly in the lead up to Christmas 2017.

'I'm concerned that a lot of provincial town centres have lost their heart, primarily as a result of online shopping. Unless Government addresses the issue, more Retailers on rural high streets may close. A more proactive response is needed by all to counter the impact of technology in some businesses'

Peter McCreery, representative for the SCSI South East Region and Chartered Surveyor at Sherry Fitz, Kilkenny

When asked, 56% of Chartered Surveyors ranked online shopping as either the first or second most important issue impacting the retail market in their region in 2018 (of these, 35% ranked it as the top issue). Other key factors were considered to be low tenant demand and unsuitably sized floorplates.

NOTABLE RETAIL TRANSACTIONS IN 2017 INCLUDE

The Crampton Buildings in Dublin's Temple Bar, sold for approximately €11.2 million.

The Crampton Buildings include 10 separate retail and restaurant units extending to 1,580 sq m fronting onto Temple Bar, and includes the Elephant & Castle restaurant, Gallagher's Boxty House and Café Nero Ireland. This is almost €3 million more than the block was sold for just over three years ago.

One Molesworth Street, Dublin, a mix of office and retail. Letting by Green Reit properties to Caprice Holdings to open a branch of its Ivy restaurants on the ground floor with a retail area of 8,000sqm at an annual rent of €500,000 per annum.

Dublin

RETAIL

44% of Chartered Surveyors expect that ⟷ DEMAND FOR PRIME RETAIL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

70% of Chartered Surveyors expect that ⟷ DEMAND FOR MAJOR TOWN CENTRE STYLE MALL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

TOP 3 ISSUES

1. ONLINE RETAIL
2. UNSUITABLY SIZED FLOOR PLATES
3. SHORTAGE OF RETAIL UNITS

OTHER KEY ISSUES

- Brexit.
- No dedicated food and beverage malls.
- Oversupply in some locations.

Rest of Leinster

RETAIL

50% of Chartered Surveyors expect that ⟷ DEMAND FOR PRIME RETAIL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

75% of Chartered Surveyors expect that ⟷ DEMAND FOR MAJOR TOWN CENTRE STYLE MALL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

TOP 3 ISSUES

1. UNSUITABLY LOCATED RETAIL UNITS
2. SHORTAGE OF RETAIL UNITS
3. LACK OF CONSUMER DEMAND

OTHER KEY ISSUES

- Lack of interest from major retailers in provincial towns.

Munster

RETAIL

67% of Chartered Surveyors expect that ↔ DEMAND FOR PRIME RETAIL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

50% of Chartered Surveyors expect that ↔ DEMAND FOR MAJOR TOWN CENTRE STYLE MALL FLOORSPACE WILL BE THE SAME AS SUPPLY IN 2018

TOP 3 ISSUES

1. LOW TENANT DEMAND
2. ONLINE RETAIL
3. UNSUITABLY LOCATED RETAIL UNITS

OTHER KEY ISSUES

- A lack of new tenant entrants into the market.

Connaught/ Ulster

RETAIL

75% of Chartered Surveyors expect that ↓ DEMAND FOR PRIME RETAIL FLOORSPACE WILL BE LESS THAN SUPPLY IN 2018

75% of Chartered Surveyors expect that ↓ DEMAND FOR MAJOR TOWN CENTRE STYLE MALL FLOORSPACE WILL BE LESS THAN SUPPLY IN 2018

TOP 3 ISSUES

1. SHORTAGE OF RETAIL UNITS
2. UNSUITABLY SIZED FLOOR PLATES
3. INCREASED TENANT DEMAND

OTHER KEY ISSUES

- Brexit.

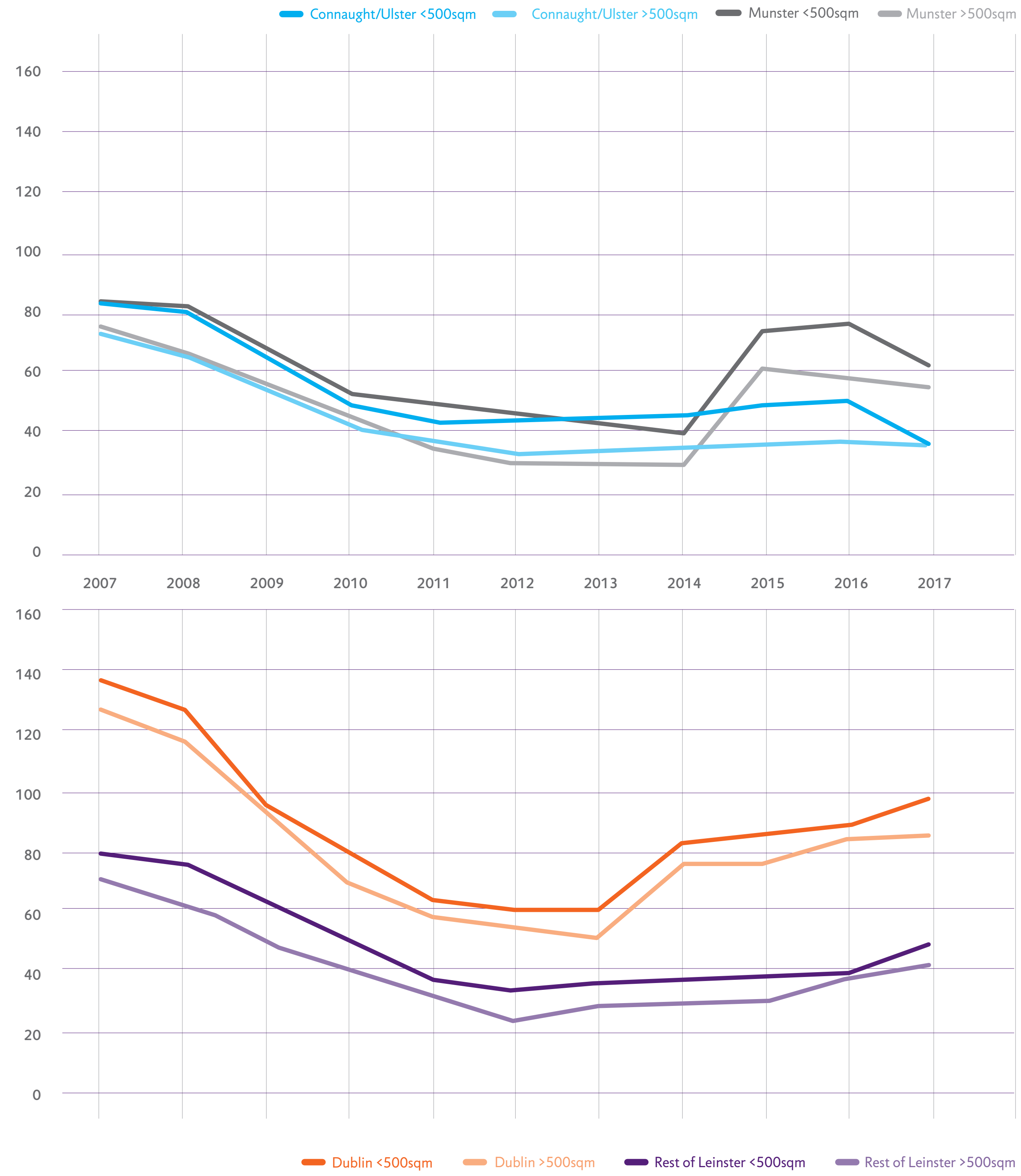
INDUSTRIAL

There has been a boost in investment activity within the industrial sector in 2017 nationally, with all regions reporting an increase in demand. Margaret Kelleher (representative for the SCSI Munster Region and Chartered Surveyor at Lisney, Cork) confirms that in prime locations, the take up of industrial premises in Cork has been particularly strong. There is now concern that the availability of existing stock and pipeline activity (including development land for industrial use), will be outstripped by demand in 2018. This is compounded by a lack of land zoned for industrial activities to the south of Cork city. The potential growth in the sector in all regions is also hampered by a lack of modern warehouse space and this is having a knock-on effect on rental growth in some locations.

When asked what top 3 issues will impact the industrial market in 2018, Chartered Surveyors considered a shortage of modern stock, undersupply and unsuitably sized stock to be the key influential factors for the next 12 months. Brexit is also expected to have a significant impact on the Industrial sector, with the prospect of distribution and delivery centres relocating to Ireland, because of uncertainty regarding the movement of goods from the UK following its departure from the EU. It will therefore be essential that there are modern logistic facilities to fulfil this demand if Ireland is to take full advantage of the opportunities presented by Brexit.

Source: SCSI Annual Review and Outlook Surveys

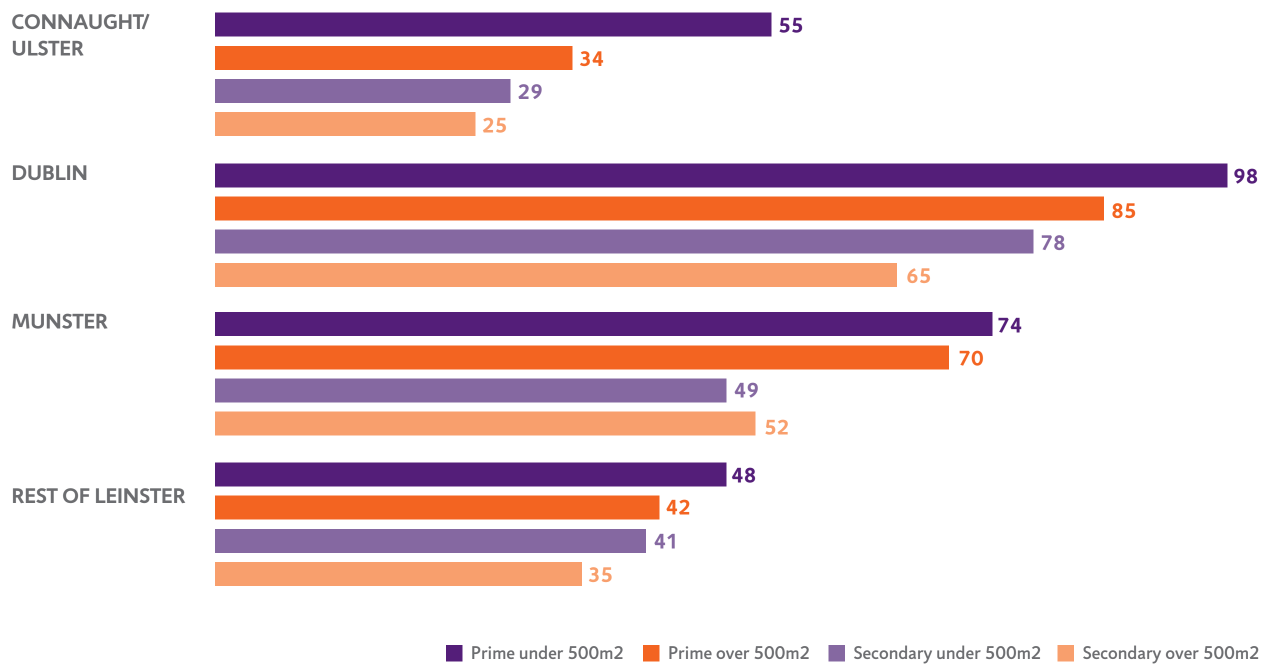
Industrial Rents per sqm 2007-2017



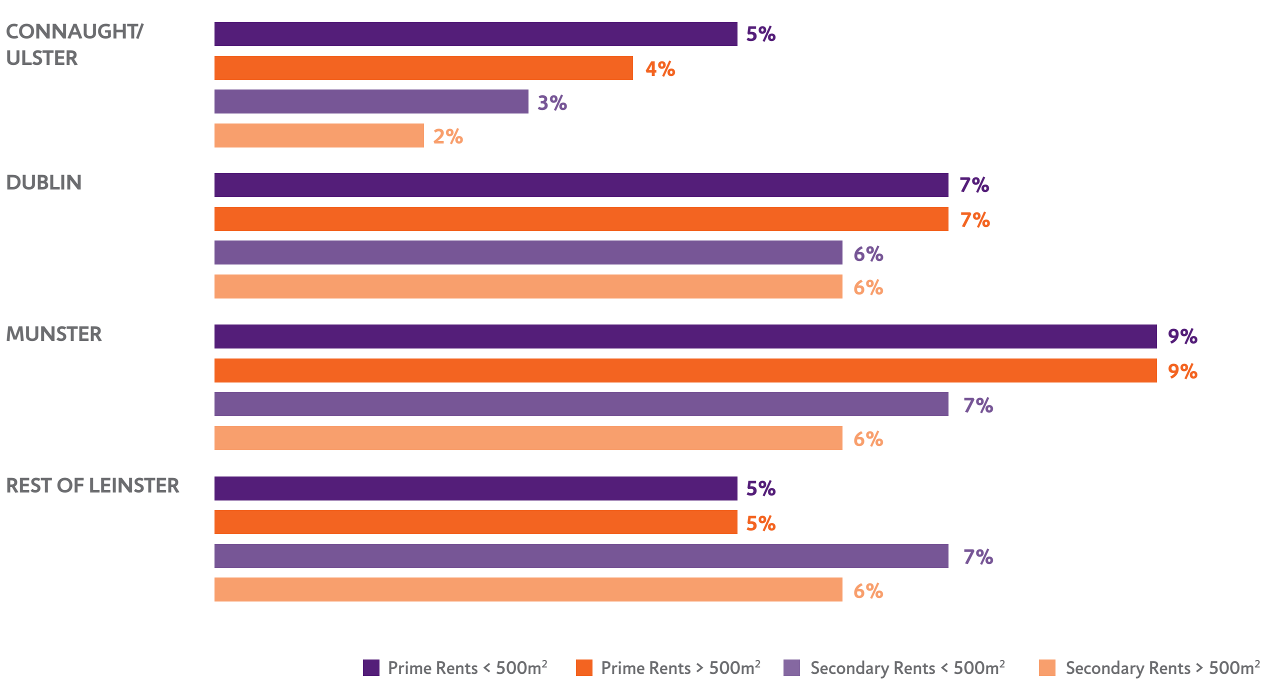
Industrial floorspace yields in 2017

	Prime Rents under 500m2	Prime Rents over 500m2	Secondary Rents under 500m2	Secondary Rents over 500m2
CONNAUGHT/ULSTER	8.9	9.4	9.4	10.0
DUBLIN	6.1	6.0	7.7	7.5
MUNSTER	8.1	8.1	9.5	9.6
REST OF LEINSTER	8.9	9.0	10.0	10.0

Industrial rents per square metre per annum at year end 2017



Expectation for percentage (%) increase for industrial rents in 2018



NOTABLE INDUSTRIAL INVESTMENTS IN 2017 INCLUDE

Unit 624 Northwest Business Park, Ballycoolin, Dublin, 103,000 sq ft for circa €800,000

Tolka Quay Road, Dublin Port, 113,796 sq ft, rent of over €700,000 per annum

Dublin

INDUSTRIAL

48% of Chartered Surveyors expect ↔ SUPPLY TO BE EQUAL TO DEMAND FOR PRIME RENT UNDER 500 SQM FLOORSPACE IN 2018

62% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT OVER 500 SQM FLOORSPACE IN 2018

TOP 3 ISSUES

1. SHORTAGE OF MODERN STOCK
2. UNDERSUPPLY
3. UNSUITABLY SIZED STOCK

OTHER KEY ISSUES

- Brexit.
- Build cost inflation.
- Economic uncertainty.
- Online retail.

Rest of Leinster

INDUSTRIAL

40% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT UNDER 500 SQM FLOORSPACE IN 2018

50% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT OVER 500 SQM FLOORSPACE IN 2018

TOP 3 ISSUES

1. SHORTAGE OF MODERN STOCK
2. UNDERSUPPLY
3. UNSUITABLY SIZED STOCK

OTHER KEY ISSUES

- Brexit.
- Lack of supply.

Munster

INDUSTRIAL

57% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT UNDER 500 SQM FLOORSPACE IN 2018

57% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT OVER 500 SQM FLOORSPACE IN 2018

TOP 3 ISSUES

1. LOW TENANT DEMAND
2. UNSUITABLY SIZED STOCK
3. SERVICE/ INFRASTRUCTURE

OTHER KEY ISSUES

- A lack of speculative development of prime stock.

Connaught/ Ulster

INDUSTRIAL

75% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT UNDER 500 SQM FLOORSPACE IN 2018

75% of Chartered Surveyors expect ↓ SUPPLY TO BE LESS THAN DEMAND FOR PRIME RENT OVER 500 SQM FLOORSPACE IN 2018

TOP 3 ISSUES

1. SHORTAGE OF MODERN STOCK
2. UNDERSUPPLY
3. UNSUITABLY LOCATED STOCK

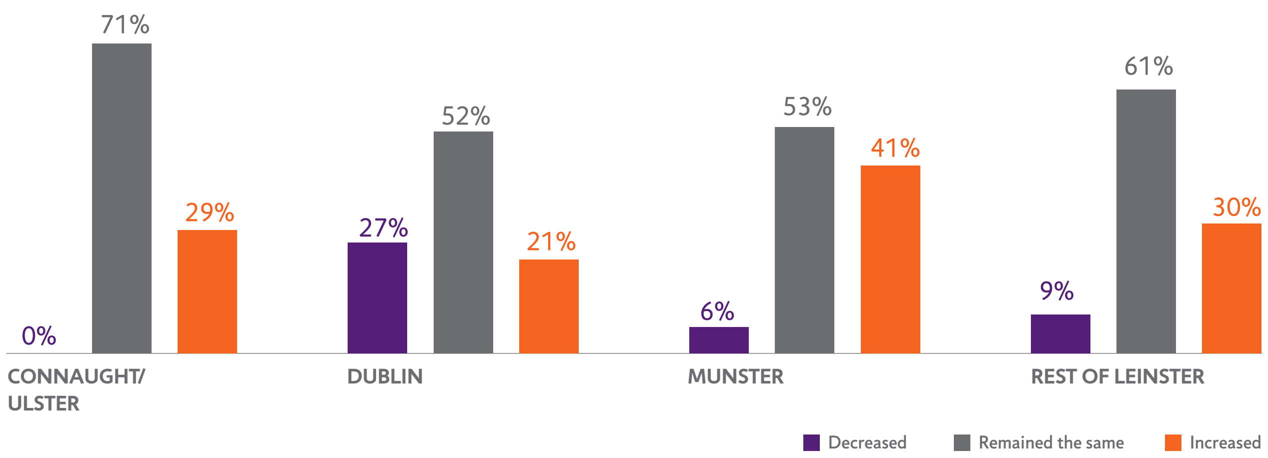
OTHER KEY ISSUES

- Brexit.

DEVELOPMENT LAND

There has been sustained growth in the demand and value of development land in 2017. 57% of Chartered Surveyors consider that the supply of development land has remained the same throughout the year. As a result, it is expected that demand for adequately serviced development land will outstrip supply in 2018.

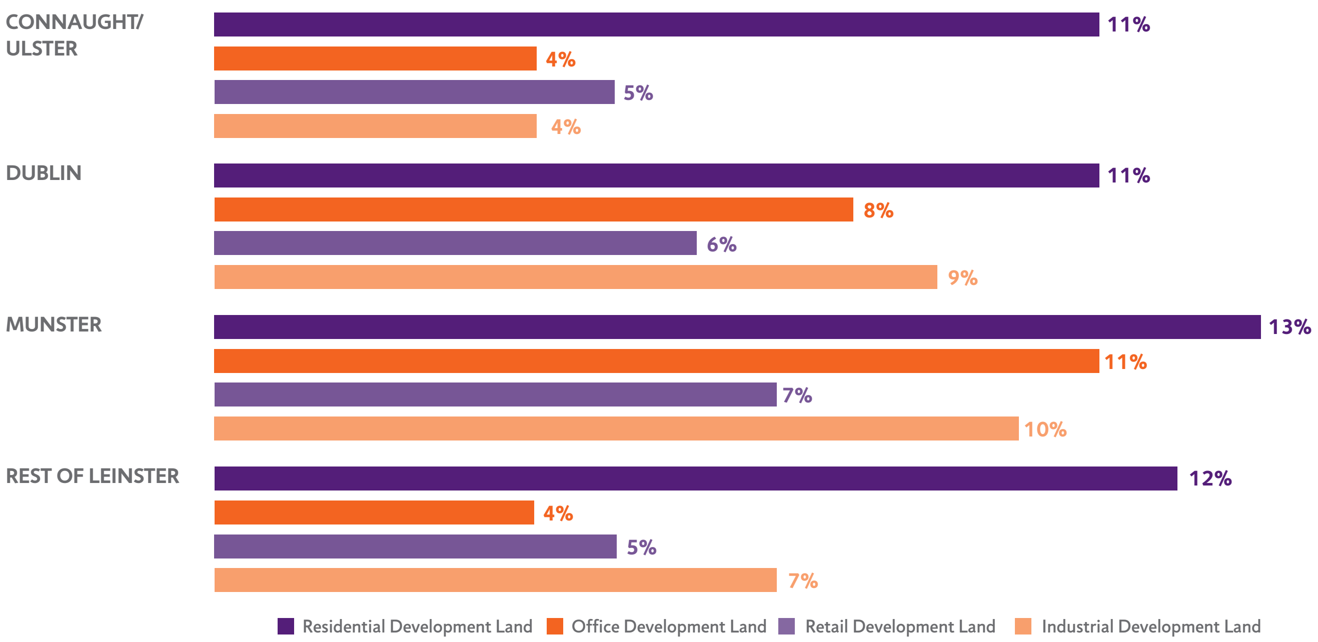
Supply of Development Land in 2017



2017 Development Land Values - Percentage Change in 12 months

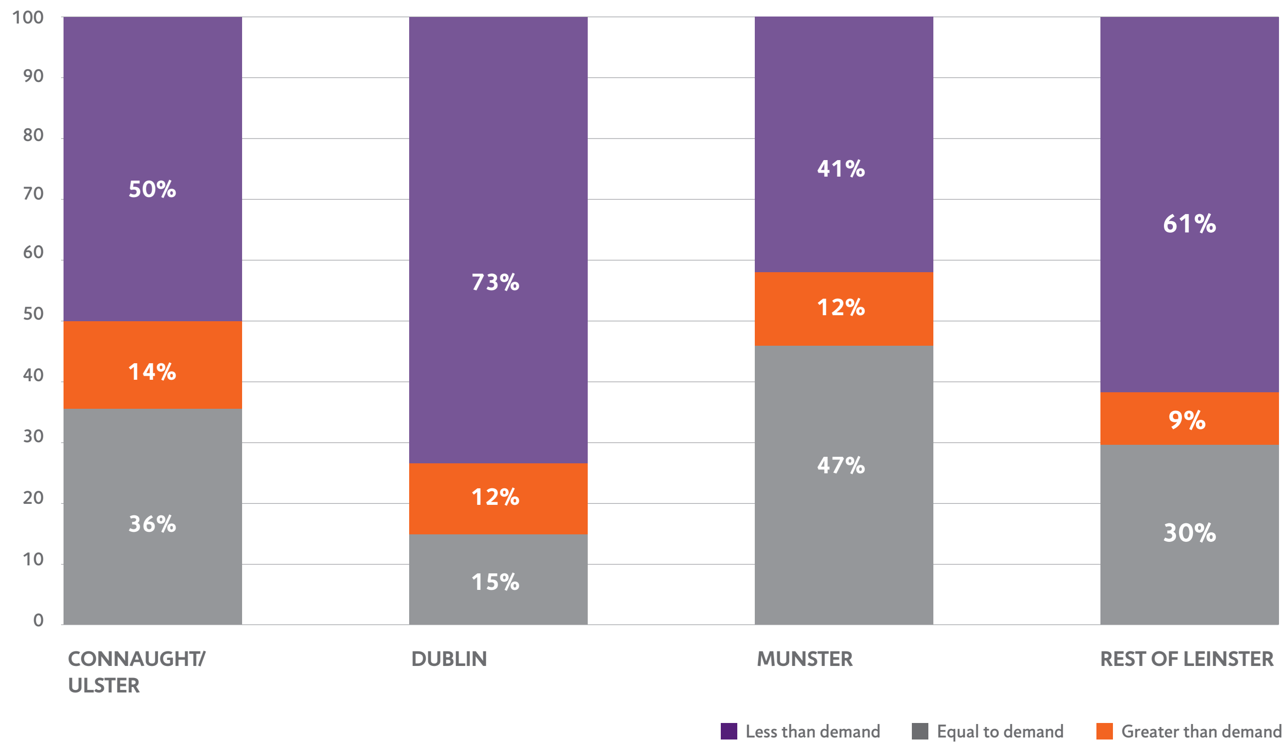
	Residential development land	Office development land	Retail development land	Industrial development land
CONNAUGHT/ULSTER	11.5%	2.2%	4.4%	3.5%
DUBLIN	13.5%	12.3%	6.7%	12.1%
MUNSTER	16.2%	13.5%	8.2%	13.3%
REST OF LEINSTER	15.8%	3.4%	5.7%	8.1%

Expectation for percentage (%) increase for development land in 2018



Source: SCSI Survey 2017

Predicted Supply of Development Land in 2018



NOTABLE DEVELOPMENT LAND SITE SALES IN 2017 INCLUDE

RTÉ lands at Donnybrook, totalling 8.64 acres of land sold to Cairn Homes for €107.5 million. (Pictured right)

Cairn Homes are understood to plan extensive redevelopment of the site for new residential units. (CGI of potential development pictured right)

HOTEL AND LICENSED PREMISES

The capital value of hotels has grown in 2017 and is forecast by Chartered Surveyors to continue to grow into 2018. Licensed premises have been less successful, but values have remained steady in 2017 in most areas, however Chartered Surveyors forecast a reduction in values for a number of locations in 2018.

Percentage change in capital values in 2017

	Prime pubs in principal towns	Secondary pubs in principal towns	Prime rural roadhouses	Prime village pubs	Prime rural pubs	Hotels	Restaurants
CON-NAUGHT/ ULSTER	2.7	1.9	0.8	2.2	2.7	3.6	4.1
DUBLIN	3.8	1.8	1.2	1.1	0.5	6.7	4.1
MUNSTER	2.1	1.6	0.3	1.4	0.7	6.7	1.7
REST OF LEINSTER	5.0	2.4	1.0	1.2	1.3	5.4	4.8

Expected percentage change in capital values in 2018

	Prime pubs in principal towns	Secondary pubs in principal towns	Prime rural roadhouses	Prime village pubs	Prime rural pubs	Hotels	Restaurants
CON-NAUGHT/ ULSTER	2.5%	-1.3%	-1.6%	-0.9%	-2.8%	3.6%	3.5%
DUBLIN	4.5%	1.5%	0.8%	-0.5%	0.0%	6.7%	3.3%
MUNSTER	3.5%	1.7%	1.0%	1.8%	1.0%	6.0%	3.0%
REST OF LEINSTER	7.0%	3.2%	3.8%	1.8%	1.8%	5.2%	5.0%

HEADLINE INVESTMENTS IN 2017 WITHIN THE HOTEL AND LICENSED PREMISES SECTOR INCLUDE THE FOLLOWING

NAMA-backed sale of Carton House hotel and golf resort near Maynooth in Co Kildare, with a closing price believed to be about €57 million.

Tallaght Plaza, a mixed-use development with a hotel, nightclub, offices and retail units in Tallaght Dublin 24 sold for a figure believed to be about €15 million.

SCSI
Society of Chartered Surveyors Ireland
38 Merrion Square
Grand Canal Dock
Dublin 2, Ireland

T +353 (0) 1 661 1794
E info@scsi.ie
W www.scsi.ie

FAC
Future Analytics Consulting Ltd.
23 Fitzwilliam Square South
Dublin 2
Ireland

T +353 (0) 1 639 4836
E info@futureanalytics.ie
W www.futureanalytics.ie

www.scsi.ie.