

## A strong Q2 underpinned by a positive economic backdrop

The Irish economy continued to perform strongly in the first half of 2018, which in turn underpinned the Irish commercial and residential property markets. The monthly unemployment rate for June was 5.1% compared with 6.6% in June 2017 and a high of 16% that occurred in 2012, and places Ireland in the vanguard of European countries with low levels of unemployment. Consumer and business confidence remained high over the first six months of the year, although consumer confidence did fall in June. The general consensus is that economic growth will be in the region of 4.5% this year and should average close to 4% in the coming two years.

### Irish CRE market exhibits strong, albeit moderating growth

The IPD Irish All Property Total Return Index is now above previous peak levels. The annual rate of growth increased slightly from that seen at the end of 2017 with the annual increase of 6.8% in the 12 months to March 2018. This is an increase on the 6.4% at the end of 2017, but is lower than the 11.1% growth in the 12 months up to March 2017. These gains have been underpinned by a strong economy and a low interest rate environment.

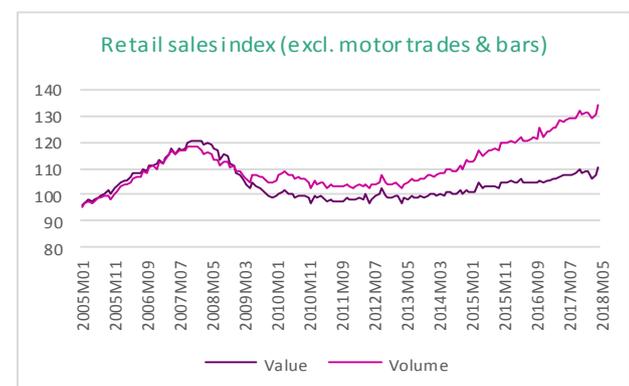
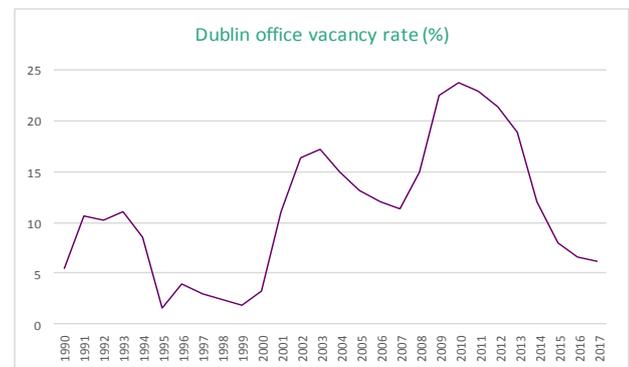
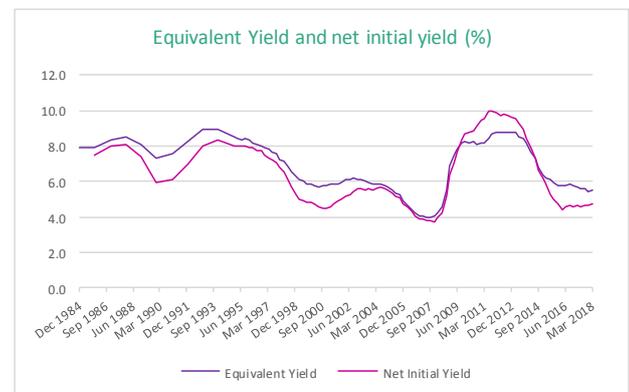
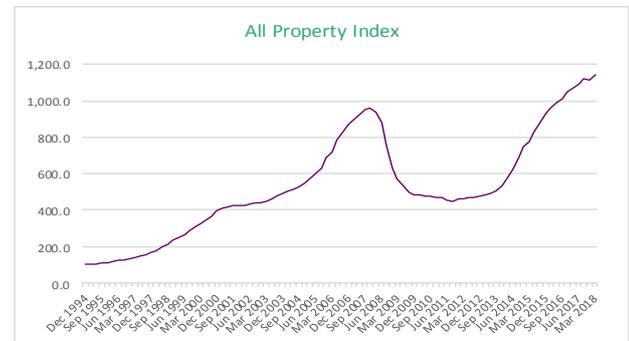
However, close attention will have to be paid to future market returns. Returns broadly in line with the growth of the economy are sustainable – growth much higher will be a cause for concern. The all property net initial yield was 4.7% in Q1'2018. Yields appear to have stabilised around the 4.6% to 4.7% region over the past year, as per the IPD data. While this may not prove to be the absolute low in the current cycle, it would be a positive if the market could form a base around current levels.

### Dublin office market – supply accelerating, but fundamentals robust

After five years of inactivity between 2011 to 2015, Dublin saw 3.1m sq.ft. of new office supply being completed in 2016 and 2017, all of which is now fully occupied / committed. Record amounts of office take up has occurred in recent years and has easily absorbed this supply.

Over the coming years, the supply and demand balance appears to be in broad equilibrium. Approximately, 4.9 million sq.ft. of new office supply is expected to be completed by 2021, with a planning pipeline for an additional 4.1 million sq.ft. However, of this 4.1 million sq.ft in planning, only 1.1 million sq. ft. has a greater than 50% chance of being completed.

Given the increased level of supply, rents should moderate - In the absence of a large scale influx of investment banks into Ireland due to Brexit, prime rents are expected to peak in 2019 / 2020 at around €70 sq.ft. The office market is broadly in balance, but any significant deterioration in economic activity or a sharp increase in interest rates could see the office market correct more significantly.



### Retail market – underpinned by a buoyant economy

Prime retail rents have recovered but are still significantly below peak levels that were achieved in 2007. Prime retail yields have fallen sharply after peaking at c.9% in 2011 and have now fallen to close to the 4.0% to 4.5% region. This decline in yields has been driven by strong institutional investment demand and a sharp decline in the risk free rate (that is, 10 year government bond yields) and a buoyant domestic economy.

Retailers continue to focus on the better performing shopping centres, retail parks, and high streets, all of which are boasting negligible vacancy (if any), which in turn is boosting rental growth prospects in these locations. This has been accentuated by the impact of the internet and online sales activity, with retailers needing less space and a focus on the best / optimum locations – leading to distinct winners and losers in terms of retail locations. Direct comparisons with the US (over-retailed) and UK (BREXIT) retail markets are misplaced as both of these markets are suffering idiosyncratic issues that are not applicable to Irish and European retail markets.

### Residential house prices continue to increase

In the year to May, residential property prices at a national level increased by 12.4%. This compares with an increase of 13.5% in the year to April and an increase of 10.9% in the twelve months to May 2017. In Dublin, residential property prices increased by 10.7% in the year to May. Residential property prices in the Rest of Ireland (i.e. excluding Dublin) were 14.1% higher in the year to May. Overall, the national index is 20.4% lower than its highest level in 2007.

Recently released CSO figures indicate that new housing supply in 2017 was 14,446, 25% lower than the ESB connections data that have been used as a proxy until now. However, the trend appears to be positive, with a 46% year on year increase in supply in 2017, and a 26% year on year increase in Q1 2018. Nevertheless, with estimated demand running at approximately 35,000 per annum, it will be 2020 at least before supply and demand are in balance.

### Rents out pace house price growth

Increasing demand for rental accommodation has driven rents to record levels, and unlike house prices, above their 2007 peak. With the exception of 2015, Dublin rents have risen by 10% or more every year since 2013, and are now on average 81% higher than their lowest point. Outside the capital, rents have increased by 52% in the same period, highlighting the significant focus of demand on Dublin. Dublin rents have now risen for 26 consecutive quarters, and 22 nationally. A key issue is an acute supply shortage. Consequently, this growth is likely to continue in the short term, but should be curtailed as more housing and PRS supply emerges over the medium-term.

	May 2018 Rent (€ psm)	May 2018 Yield (%)
Source: CBRE		
<b>Retail</b>		
Prime High Street Shops (Zone A)	6,500	3.15
Good Secondary High	4,500	4.50
Prime Cork Shops	4,500	5.75
Provincial High Street Shops	4,500	6.75
Super Prime Shopping	3,900	4.00
Prime Shopping Centres (Zone A)	3,500	4.75
Secondary Shopping Centres (Zone A)	2,800	7.00
Prime Retail Warehouses	360	5.00
Secondary Retail Warehouses	320	6.75
<b>Offices</b>		
Prime City Centre Dublin	673	4.00
Secondary City Centre Dublin	377	5.25
Suburban Dublin	296	6.00
Prime CBD Cork	312	5.75
Prime Provincial	270	7.00
<b>Industrial</b>		
Prime Dublin	130	5.50
Secondary Dublin	100	8.00
Prime Provincial	90	10.00

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