COMMERCIAL PROPERTY

No big deal as Dublin gets cut down to size

Most of the capital's transactions this year are expected to focus on smaller assets in the sub-€20m bracket. By *Grainne Rothery*

DONAL MURPHY

The imposing Gibson hotel in Dublin 1 is one of the larger projects to come on the market in recent months and is priced by Savills at €87m

After a near record year for investment transactions in 2016, demand for large, prime assets continues to be strong, but a marked shortage of supply is slowing down activity and driving some investors to consider alternative options.

This year's volumes are expected to be substantially down on last year when €4.5bn of commercial property traded. Last year's figure, however, was the second highest ever and just marginally behind 2014's record levels. It was also skewed somewhat by two standout deals that together accounted for €1.5bn or about a third of the total, namely the sales of Blanchardstown and Liffey Valley shopping centres.

Some €775m of investment assets traded in the first half of this year, according to property agent JLL's most recent market report. The firm described the figure as being in line with activity for a normal market and representative of more sustainable investment levels.

The report also noted that the 15-year average for first half investment volumes stands at €760m.

The biggest transactions in the first half of the year included 13-18 City Quay, which sold for €126.3m; Clayton hotel on Cardiff Lane for €40m; the Park portfolio in Carrickmines, Dublin 18, for €38.6m; and the Montrose student accommodation for €37.7m.

Activity is expected to increase between now and the end of the year. "Our sense is that it's going to be a really busy quarter because there's been quite a bit going on during the summer but very little signed," said Marie Hunt, director of research at property adviser CBRE.

Things have already started to happen. Last week, it was announced Singapore-based Keppel DC Reit had bought the B10 data centre in Ballycoolin Business and Technology Park for €66m. Asset manager Real IS AG purchased the Capitol, a mixed-use scheme on Cork's Patrick Street, for €45m on behalf of a German pension fund, and French asset manager La Française Group bought Rohan Holdings' 21 Charlemont for €45m in an off-market deal.

"More than €1.5bn of assets are currently on the market and therefore investment volumes for the year-end could achieve close to €2.5bn," said Hannah Dwyer, divisional director and head of research at JLL.

At the beginning of the year, JLL had been forecasting the year's volumes to be around the €2bn mark. The upward revision is due to a number of larger assets coming to the market in the past couple of months, Dwyer said.

Included in these are The Square Towncentre Tallaght, which has a guide price of more than €233m and is being sold by JLL and Cushman & Wakefield, and the Gibson hotel in Dublin 1, on the market through Savills for €87m.

Due to launch over the coming weeks is block 1 of Dublin Landings, the €700m mixed-use scheme on the North Quays being developed by Ballymore with the backing of Oxley Holdings. All 13,375 sq m of office accommodation in block 1 is understood to have been let to the National Treasury Management Agency. The building, which is due to be ready for fit-out in the first quarter of 2018, is expected to have a price tag of about €150m.

In general, however, larger assets are few and far between with the result that investors chasing larger lot sizes are looking at options such as forward funding.

One such opportunity is the sorting office on Cardiff Lane, Dublin 2, which was launched by CBRE in June on behalf of developer Marlet and M&G Investments. The Henry J Lyons-designed scheme will extend to 18,930 sq m of office accommodation over eight levels. Demolition work has already been carried out on the site and a contractor has been appointed. Completion is expected in the second quarter of 2019.

CBRE's head of investment properties Johnny Horgan said there has been good interest in the sorting office and bids will be invited later this month.

There has also been increased interest in opportunities outside Dublin, said Hunt. Some of the appeal of cities such as Galway and Cork could relate to improved yields.

Dwyer said demand for alternative assets, particularly residential private rented sector opportunities, remains strong, although (again) limited opportunities are available for investment. "Should any further assets be brought to the market, we are expecting them to be met with strong demand," she said.

Dwyer also reported a number of new entrants to the market in 2017, with purchases already completed by European investment firm M7 Real Estate (Fumbally Square in Dublin 8 for about €24m), Canadian property company Camgill (an industrial park and retail park in Ballymount), La Française Forum (21 Charlemont) and AEW Capital Management (42-43 Henry Street), which have not previously been active in the Irish market.

Horgan said investors are drawn in particular to Dublin offices, both because of strong take-up and the pricing.

"We've seen a lot of European markets' yield compress and we haven't quite seen that fully here. Hence we're seeing a lot of interest from the European investors and further afield."

However, strong demand from domestic and international investors together with tight supply is likely to lead to compression in yields for prime core product in the fourth quarter, said Kenneth Rouse, deputy managing director of BNP Paribas Real Estate.

Notwithstanding the strong interest in larger lot sizes, the main focus in 2017 will be on smaller assets, said Brian Gaffney, associate director at property consultancy Murphy Mulhall.

"The prime assets that hit the market generally attract very strong interest, but the bulk of the market this year is going to be centred on the €1m to €10m lot size," he said. "There'll be more sales but less of the high-profile stuff."

Conor Whelan, managing director of real estate adviser QRE, said 86% of investment transactions last year – about 260 of the 297 total – were sub-€20m deals. "While the larger scale transaction will not be as prevalent in 2017, we expect similar if not more transactions in the sub-€20m bracket," he said.

Smithfield distils essence of renewal

Grainne Rothery

BRYAN MEADE

With virtually no office vacancy and good demand from would-be occupiers attracted by low rents, good transport links and the opportunity to locate in an up-and-coming area, the timing could be right to kick off the next wave of development in Smithfield.

Preparing themselves for that wave are developers – and motor dealers – Joe and Patrick Linders, who have planning permission for two schemes totalling more than 25,000 sq m of office, retail and residential space.

It's understood that the Linders, who were involved in redeveloping the west side of Smithfield Plaza with developers Paddy Kelly and John Flynn, are looking for a pre-let for Haymarket House, the smaller of the two schemes, with a view to commencing work early in 2018.

On the site of the old Tully's Tiles warehouse, Haymarket House will include 6,500 sq m of office space and 1,050 sq m of retail, restaurant and cafe use.

On the opposite side of the plaza, the developers received An Bord Pleanala approval late last year for a 17,600 sq m scheme, primarily office space, on the site of the former Irish Distillers headquarters. The development will involve demolishing part of the Irish Distillers building and incorporating the existing stone walls within the new scheme. A pre-let will be sought before work begins on the site.

Declan O'Reilly, at Knight Frank, which plans to start marketing the developments before the end of this year, said the two schemes could transform the area.

"It will bring another 3,000 people to work in Smithfield. When you put it together with the DIT scheme in Grangegorman it's a massive boost for that part of town."

Knight Frank's figures indicate that Smithfield has more than 90,000 sq m of standing office stock, with legal, state and technology tenants dominating the line-up of occupiers.

State entities in the area include the motor tax office, Hiqa, the Road Safety Authority, the Department of Justice and Equality, the Courts Service of Ireland and Dublin city council.

On the tech side, the most significant occupier is Workday, a finance and HR software company that has a 10-year lease on the Kings Building, a 16,500 sq m block built by property developer John Byrne and completed in 2008. Workday became its first occupier when it arrived in 2015.

Another significant Smithfield occupier is animation studio Brown Bag Films, which is based in block C, Smithfield Market. "Smithfield has started to become a trendy location for media and technology occupiers," said O'Reilly.

The area is also seen as offering good value compared with other city centre locations. Earlier this year, Knight Frank reported that rents in Smithfield ranged between €270 and €375 a sq m. However, O'Reilly said he expects the two new Linders buildings to secure rents in the order of €485 to €540 a sq m. "These are state-of-the-art buildings. For a similar building in the docks or Dublin 2, occupiers would be paying €645 to €700 per sq m."

Savills chairman Roland O'Connell, who was involved in letting the Kings Building to Workday, is positive about Smithfield's future appeal. "It's halfway there and just needs a couple more developments to get the full way there."

O'Connell said the planned redevelopment of the fruit and vegetable market on nearby Chancery Street by Dublin city council would represent a further boost to the area.

The council proposes creating a new retail and wholesale market to incorporate a large indoor and outdoor cafe area.

Dessie Kilkenny, director at Savills, also reported good interest from investors in the area. "It is a central location without prime prices," he said. "Occupier demand is very good, infrastructure is very good, and tenant profile is good and has probably improved over the last couple of years. There are a lot of investors in the residential side that won't pay prime prices and Smithfield would be at the top of their alternative lists."

Savills is currently guiding €9.25m for Smithfield Lofts, a residential block of 44 apartments and six town houses, as well as 33 parking spaces, on North King Street.

Kilkenny said interest is coming from a mix of private Irish, private UK and some of the portfolio residential investors. Ires, incidentally, already owns a scheme of 83 units on North King Street.

Smithfield is perfectly placed to kick on with its next wave of development, following the regeneration of the Irish Distillers headquarters

NEW TO MARKET

- A portfolio of two city car parks, a shopping centre and a mixed-use development is being sold by QRE Real Estate Advisers with a combined guide price of more than €50m. The car parks are by Grand Canal, Dublin, and at Cruises Street, Limerick, and are over €15m and €2m respectively. The 3,160 sq m Boroimhe Shopping Centre in Swords is anchored by SuperValu. It is guiding at €10m, reflecting a net initial yield of about 8.2%. Citypoint is a mixed-use building overlooking Eyre Square in Galway. Anchored by TK Maxx, it generates €1.5m-plus a year. QRE wants over €23m for the scheme, reflecting an initial yield of 6.25%.

- Knight Frank is to seek bids for a site by Connolly station and the IFSC in Dublin. The site is offered via a development agreement similar to the model used for CIE lands at Kent Station in Cork and Tara Street in Dublin. The 4.85-acre Connolly station site comprises a car park, buildings and railway sidings. There is an option to develop a two-acre site made up of the airspace above the rest of the sidings and the depot building. The site has permission until 2022 for 50,000 sq m of offices, 6,500 sq m of retail, a 101-bed hotel and 106 apartments but could hold a 68,000 sq m scheme.

- TWM is quoting €49m for four supermarkets let to Tesco and Aldi with a combined annual income of €3.41m and an unexpired lease term of 11.35 years. The four properties are in Sandyford in Dublin, Gorey in Wexford and Roscrea and Cahir in Tipperary. As one lot, the investment represents a net initial yield of 6.67%.

- Finnegan Menton is guiding €7.7m for the Rockfield Penthouse collection, 25 apartments in Dundrum, Dublin 16, being sold on behalf of Gannon Homes. The 18 penthouses and seven two-bed apartments are in the Rockfield and Riversdale developments. The apartments generate annual rent of €460,032 and a gross yield of 6.7%.