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€3bn bumper year for property sector

Dundrum Shopping Centre, Dublin (Alamy)

The final tally has not yet been counted but the indications are that this year's commercial property investment spend will be somewhere around the €3bn mark. This follows a record 2014, when — according to Savills — over €4.5bn of property assets were traded. This year has been characterised in particular by the arrival of a number of international entrants to the market, including Union Invest, Real IS, Starwood Mortgage Capital and ADIA (Abu Dhabi Investment Authority).

It was a year when opportunistic capital, hedge funds and private equity were replaced by institutional capital, "long only" investment funds, REITs and public companies in the key transactions.

The biggest deal of the year involved the sale of the Project Jewel loan portfolio, which includes Dundrum Town Centre and a 50% stake in the Pavilion shopping centre in Swords and the Ilac centre.

There was very strong interest and the portfolio was eventually bought for €1.85bn by a joint venture of UK Reit Hammerson and German fund Allianz. Underbidders included Hines and Kuwait Investment Authority, and Colony Capital. As it was a loan sale, this transaction is not included in the overall €3bn figure.

Project Jewel is considered the standout deal of 2015 for a number of reasons, including its size and the fact that it includes the most significant shopping centre in the country. Kenneth Rouse, investment and finance, BNP Paribas Real Estate, also highlights the level of interest in Jewel from entities that had never invested in Ireland, which was “very encouraging”.

Another significant deal in recent weeks was the agreement by Cairn Homes plc and Lone Star to buy Ulster Bank’s Project Clear loan portfolio for €503m. The portfolio includes 1,694 acres of land and 31 residential development sites. Over 90% of the land is located in and around Dublin and it represents around 20% of the available residential land in the Greater Dublin area. The transaction, which is expected to be completed by the end of the year, marks the first acquisition for Cairn since raising €400m through its flotation on the London Stock Exchange in June.

“This transaction will unlock the most significant land bank available in Ireland,” said Cairn chief executive officer, Michael Stanley. “Cairn’s share of the portfolio will provide the opportunity to build over 14,000 new homes, with an expected net development value in excess of €2bn.”

One of the big deals at the beginning of the year was the sale of the Project Holly prime office and residential portfolio by Lone Star to Starwood Mortgage Reit for €350m. Included in the portfolio were Iveagh Court, Marsh House and the Watermarque Building.

Also of note was the sale of the 6.8 acre Project Trinity site in Ballsbridge to Joe O’Reilly’s Chartered Land and ADIA during the summer for €170m. “That stands out because it brought ADIA to the market for the first time and because it’s a development project as opposed to an income producing asset,” said Marie Hunt, executive director and head of research at CBRE.

The scale of the portfolios on offer during the year was a key factor in bringing new entrants to the market, according to Hunt. “They’re not going to come into Ireland to buy small assets because they don’t have the footprint on the ground to manage them, but if it’s something of sufficient scale and quality, you’ll attract entrants from overseas and that’s what we saw with the likes of Jewel, Clear and Trinity,” she said.

According to Jonathan Hillyer, director at HWBC, the year's big deals indicate continued interest from overseas investors and increased confidence in the retail market. Apart from Jewel, there was the Hazel provincial retail portfolio and the sale of the National portfolio, which included five retail parks around the country and was sold to US investment fund Davidson Kempner for more than €170m. "All of a sudden, retail's back in vogue."

Dublin city centre retail is rapidly following the trend within the office market, where scarcity of suitable accommodation is leading to so-called "value add" investors scouting out refurbishment opportunities. Clerys department store, Nassau House, currently a mixed retail and office development, and Stephen's Green shopping centre were all the focus of investment activity in 2015 and are set to be redeveloped to cater for the needs of international retailers in the next two years.

For Rouse, one of the more unexpected but positive aspects during the year was the interest in provincial retail Ireland. "The office bid was quite strong but it's unsurprising given the level of rental growth potential there," he said.

"It was very encouraging to see the retail investment market come back as strong as it did, particularly in the high streets in Dublin where the Sovereign portfolio is probably the standout retail trade there," said Rouse. Bought by Irish Life for €154m in June, the assets included prime office and rental properties in Dublin.

Rouse also points to the strength of the office sector in terms of activity. Some of the bigger deals have included the sales of the Bishop's Square office building for a reported €92.5m; a 70.8% stake in Riverside 1 in the Docklands for over €80m; and Block R in Spencer Dock for over €104m. "The volume so far is double what it was last year and 2014 was a record year," said Rouse.

After a couple of years of significant deleveraging by Nama and the banks, next year's activity is expected to be somewhat different. "I think the expectation for next year is that as deleveraging starts to wind down, you're going to see more secondary trading going on," said Hunt. "What's really driving the market now is some of the private equity funds that bought portfolios and loans over the last few years beginning to sell those assets down and working out their exit strategies."

The largest letting of the year was to US cloud-based software company Workday, which agreed to take the remaining 85,000 sq ft in the Kings

Building in Smithfield. Having leased around half the building in 2014, the company now occupies its entire space, which is just over 180,000 sq ft.

Rouse said market conditions remain favourable and many pull factors, including interest rates, will continue to see investors flock to Ireland. And the large funds here will continue to have big investment requirements in 2016, he said. “We’re quite encouraged through a healthy level of enquiries from our international investment network, particularly from new entrants in Europe and Asia, who have long-term investment horizons and are very much focused on Dublin right now.”

The fact that the occupier side is particularly strong will continue to drive activity in the market, says Hunt. “Investors are not going to buy in any jurisdiction just because the economy looks good or pricing,” she said. “But the strength of occupier activity in the background is hugely influential. They’re encouraged by volumes of activity still being recorded in the office market and retailers looking for new premises — all of that is hugely attractive to them.”