

Economic & Commercial Property Highlights

| LEGEND | | INDICATOR | |
|--------|------------------------------|----------------------------------|---|
| 1 | = Most Recent Indicator | Consumer Expenditure | 1 Jan – Sept 2016 |
| 2 | = Status | | 2 +3.2% y/y |
| 3 | = Impact for Property Sector | | 3 Support strong retail demand but slowed in Q2 and Q3 |
| | | Retail Sales (ex. cars & bars) | 1 Q4 2016 |
| | | | 2 3.4% y/y +1.5% q/q. Volume rising faster than value indicating price discounting |
| | | | 3 10.2% y/y growth in furniture and lighting -> demand in retail warehousing sector |
| | | VAT receipts | 1 January 2017 |
| | | | 2 +10.2% on January 2016 |
| | | | 3 Very encouraging start to the year |
| | | Consumer Price Index | 1 December 2016 |
| | | | 2 Overall 0% y/y |
| | | | 3 Household goods - 3.3% -> Price Discounting - continued focus on value retailing |
| | | House Price Index | 1 December 2016 |
| | | | 2 + 8.1% y/y nationally + 5.7% y/y Dublin |
| | | | 3 Prices still 1/3 off peak. Supply/Demand imbalance will continue to support price growth |
| | | House Starts | 1 Year 2016 |
| | | | 2 Over 13,200. Up over 50% on 2015 |
| | | | 3 Continue to provide support for household goods and building materials sectors |
| | | House Completions | 1 Year 2016 |
| | | | 2 Over 14,900. Up 18% on 2015 |
| | | | 3 Continue to provide support for household goods sector |
| | | Consumer Sentiment | 1 January 2017 |
| | | | 2 +11% m/m, +5.33% y/y |
| | | | 3 Up strongly in January but may not be reliable on a short term basis as it has been volatile in recent months. Positive start to year. Early months of 2017 will provide important indication of mood as budget changes start to impact |
| | | Mortgage Drawdowns | 1 Q4 2016 |
| | | | 2 Volume up 14% y/y. Value up 26.1% y/y |
| | | | 3 Creates demand for large household goods |
| | | Unemployment (%) | 1 January 2017 |
| | | | 2 7.1% down 1.4% points y/y |
| | | | 3 Sustain retail demand. Increases demand for commercial space |
| | | Employment (000's) | 1 Q3 2016 |
| | | | 2 Up 57,500 y/y |
| | | | 3 12 of 14 sectors experienced employment growth – recovery is well spread. Largest growth in Accommodation & Food Services and Construction. Supports demand generally |
| | | Total Tax Receipts | 1 January 2017 |
| | | | 2 +6.1% y/y |
| | | | 3 Indicates general economic growth => positive for commercial property |
| | | Bank Lending to household sector | 1 December 2016 |
| | | | 2 Down 4.1% y/y |
| | | | 3 May be indicative of underlying weakness in consumer confidence |
| | | PMI Services | 1 January 2017 |
| | | | 2 61 Further growth following strong growth in last quarter of year |
| | | | 3 Support office sector |
| | | Construction PMI | 1 January 2017 |
| | | | 2 55.7 Down 3.2 points on month but still positive |
| | | | 3 Construction indicators generally paint positive picture |
| | | Industrial Output | 1 December 2016 |
| | | | 2 -12.1% y/y but +3% q/q |
| | | | 3 Modern sector very volatile m/m. Difficult to ascertain trend. Risks for industrial sector |
| | | ISEQ Index | 1 End January 2017 |
| | | | 2 6,392 - +0.8% y/y |
| | | | 3 Volatile – not acting as major counter attraction for property investors |
| | | MSCI/SCSI Index | 1 Year 2016 |
| | | | 2 Total Irish commercial property market return 12.4% |
| | | | 3 Outperformed bonds and equities. Industrial sector highest return at 19.3% |
| | | PMI Industry | 1 January 2017 |
| | | | 2 55.5 -> broadly unchanged in month |
| | | | 3 Suggests continued strength of sector |



Summary

- Continued growth in household goods sector
- Price discounting may be driving this
- Unemployment continuing to fall
- Employment continuing to rise
- Unemployment/employment figures will support consumer demand and retail sales
- Recent improvement in consumer confidence but still volatile
- PMIs still generally positive but weakening
- House prices and activity rising strongly

Global watch

BREXIT
Six months later -
Where are we now?

| | |
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| Brexit referendum June 2016 - result decisive but divisive | <ul style="list-style-type: none">• Political implications in UK<ul style="list-style-type: none">» New Prime Minister» New Chancellor of the Exchequer» Leadership changes in most other parties» Position of Scotland uncertain» Government committed to Brexit» Expect to trigger Article 50 by end March 2017 |
| Policy Measures Taken | <ul style="list-style-type: none">• Corporation tax to be reduced to 17%• Easing of fiscal policy plans |
| EU Stance | No formal negotiations in advance of Article 50 |
| Impact to Date on UK Economy | <ul style="list-style-type: none">• Fall in sterling - down 10% against € and 15% against \$ since June 2016• Economic growth held up well in 2016 defying some predictions. But growth forecasts have been revised downwards by international organisations |
| Impact on Ireland | <p>Hard Brexit will have both positive and negative impacts May lead to withdrawal of service industries from London - Dublin may benefit - The "harder" Brexit is the more likely this is.</p> <p>On the downside, if sterling weakens further, cross-border shopping may pose a threat to retailers in border counties.</p> <p>There is some anecdotal evidence that the fall in sterling has led to some job losses in Ireland.</p> |
| TRUMP The Trump era has begun | <p>Too early to be definitive but policy issues to watch include</p> <ul style="list-style-type: none">» Trade policy => may be more protectionist» FDI policy = > may be less expansionary» Fiscal policy => may be looser giving boost to US domestic economy |

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| Some Recent Investment Transactions | Foreign institutional Funds dominate investor demand <ul style="list-style-type: none">• 1 Georges Dock, IFSC, Dublin 1 – Single let to JP Morgan. Acquired by Catella for approx. €40m representing a net initial yield of 4.32%• 100 Mount Street, Dublin 2 – Multi let refurbished office building. Acquired by Realis from Ardstone for just over €21m which was a net initial yield of 5.25%• 35 Henry Street, Dublin 1 – Prime retail property let to Three Ireland. Acquired by Friends First from Kennedy Wilson for €9.5m being a net initial yield of 4.27%• The Grafton Collection – Prime retail properties including Hickeys Pharmacy, Nespresso, Davy Byrnes. Acquired by Hines from a private investor for approx. €55m, reflecting a net initial yield of 3.33%• Project Madrid – Portfolio of assets off Grafton Street. Friends First acquired most of the assets. Total price approx. €27m which represented a net initial yield of just under 5%. The vendor was a Nama appointed receiver. |
| Events and Issues to watch | Short/Medium Term - ECB Interest Rate policy <p>January meeting of ECB kept rates as they are and gave no indication of intention to raise them in the short term. The continuation of the Quantitative Easing programme announced in December was confirmed.</p> Longer Term Issues - Trends towards online shopping <ul style="list-style-type: none">» Implications for retail and distribution property» Data from UK indicates that online retail sales grew by over 7% in Q4 2016 while in-store sales fell by over 1%.» No firm data for Ireland but surveys have shown that Irish consumers have embraced this mode of shopping |

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SOURCES:

CSO except
VAT and total tax receipts – Department of Finance
House starts and completions – Department of Housing, Planning, Community and Local Government
Bank lending to households – Central Bank of Ireland

Consumer Sentiment – KBC Bank and ESRI
Mortgage Drawdowns – Banking and Payments Federation of Ireland
PMI Services and PMI Industry – Investec, Markit Economics
PMI Construction – Ulster Bank
ISEQ Index – Irish Stock Exchange
MCSI/SCSI Index – MSCI/SCSI