Commercial Property Fund Update

The Commercial Property market has seen stellar returns since the crash between 2008 and 2011 which resulted in almost a 70% drop in values. Whilst not back to those levels there has been a significant recovery with double digit growth for the last 4 years (see Table 1 page 2). The initial recovery was mainly office based but in the last 18 months this has filtered through to the retail sector due to the increased consumer confidence and spending. Main shopping streets such as Henry St and Grafton St in Dublin have seen increased demand from retailers. Due to the shortage of available office space there has also been increased refurbishment of existing buildings to a high spec.

Image of the redeveloped Boland Mills, Grand Canal Basin, D4.

There are a number of new (Boland's Mills in D4 as an example) and refurbishment schemes that will bring additional good quality stock to the market in the short-term. In terms of new stock, almost 7.5 million sq. ft. of space in Dublin is either under construction or has planning permission. This represents almost 20% of the existing total market size. Of this, 2.7 million sq. ft. will be delivered in the next 3 years with the rest likely to be phased over the following 2-3 years.

<u>Brexit Speculation & Impact</u>

Since the news of Brexit, there has been additional scrutiny of both the Irish and UK Commercial Property sectors (see performance Table 2). Ireland may benefit from decisions made by international firms in the wake of the Brexit vote but at the moment this is still just speculation. The medium-to-longer term impact of Brexit, is one of uncertainty, which will undoubtedly have an impact on Ireland's economy and therefore inextricably its property markets. It is hoped that Ireland's strong forecasted economic growth positions it with enough cushion to react to any future negative shift in markets.

Irish Commercial Property Overview

There is limited risk of over-supply at the moment, provided that the strong demand (averaging 2 million p.a. over the last 10 years) remains. Dublin currently has the capacity to welcome new occupiers into the city. Although there are limited large building options available in the next 3-6 months for immediate occupation, there will be an increase in supply from new and refurbished space from early 2017 and a steady pipeline for the next 3 to 5 years.

With our pro-business environment and proximity to Britain, Ireland is well-positioned from an occupier and investor perspective to benefit from some of the post-Brexit uncertainty. A significant benefit that Ireland now has above the other European countries is that it is the only remaining English-speaking member of the European Union and the Euro. Ireland also has a long tradition of being an open economy, with a young skilled workforce, and a competitive corporate tax rate at 12.5%.

There are already numerous global corporates who have located their EMEA HQs in Dublin. This includes Google, Facebook, Paypal, Microsoft, Intel, eBay, Oracle, SAP, Slack, Indeed, Accenture, AOL and AirBnB.

Some questions however, are already being raised regarding Ireland's ability to absorb any increase in demand. Lack of infrastructure such as transport, accommodation/housing and schools will influence any corporates decisions to relocate here.

Irish Commercial Property Fund Performance

Fund Name	Year to date	1 Year	3 Years	5 Years	10 Years
Aviva Irish Property	5.62%	14.49%	80.85%	93.67%	--
Friends First Property	8.13%	14.71%	72.20%	47.45%	-33.01%
Irish Life Property	6.86%	16.52%	103.53%	154.66%	18.48%
Zurich Life Fund of REITs *	-5.50%	-0.40%	--	--	--

Table 1 - Performance up to 1st August 2016

* The REIT funds are both a property and equity play and have much greater volatility than the until linked fund options. I have focused on the Until Linked Funds in this update but updates and outlook for the REIT funds are also available should clients require these (email me directly and I can forward on REIT update).

UK Commercial Property Fund Overview

Following on from the Brexit vote for the UK to leave the EU and the economic uncertainty which now prevails, the providers outlined below have all temporarily suspended encashments and transfers out/in to their respective property funds. This is under review on a regular basis with each insurer.

UK Commercial Property Fund Performance

Fund Name	Year to date	1 Year	3 Years	5 Years	10 Years
Aviva UK Property	-4.18%	-3.49%	28.24%	33.97%	-7.01%
Friends First Property	-7.15%	-6.58%	36.52%	37.54%	-1.64%
Irish Life UK Property	-3.65%	2.16%	37.03%	30.17%	-2.44%
Standard Life Property	-11.68%	-9.51%	18.12%	27.36%	16.18%

Table 2 - Performance up to 1st August 2016

Fund Encashment Restrictions

For individuals coming up to and intending to retire their benefits no restriction will be applied or for those drawing a retirement income from their ARF funds. For investment clients the moratorium applies. With markets taking a more positive view of the Brexit vote it is expected that the moratorium is only a temporary measure and the funds should return to normal over the coming months.

Outlook

While the Brexit vote increases uncertainty in relation to economic activity for both the UK and Ireland, it will most probably be early-to-mid 2017 before we see the net effect on the UK Commercial Property market.

There is a belief that it could provide some benefit for the Irish Commercial Property sector even if there is an adverse effect on the Irish economy as a whole. It is too early to draw any definite conclusions, however, it would appear reasonable to assume that some financial services sector companies will move functions to Dublin, as well as other EU cities, in order to protect their ability to passport products into EU markets. Assuming some of this happens it would provide additional demand at a time when newly developed space is being brought to the market.

As stated in our Property update in January 2016 returns for Irish Commercial Property are likely to be ***circa 7% for 2016 and 2017*** *(*made up of an initial rental yield of 5% plus 2% annual growth in the underlying rental income stream over time).

Warning: Past performance is not a reliable guide to the future performance of your investment. If you invest in these funds/products, you may lose some or all of the money you invest. The value of your investment may go down as well as up.

Please note - Property should make up part of your strategy for an overall diversified portfolio.

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