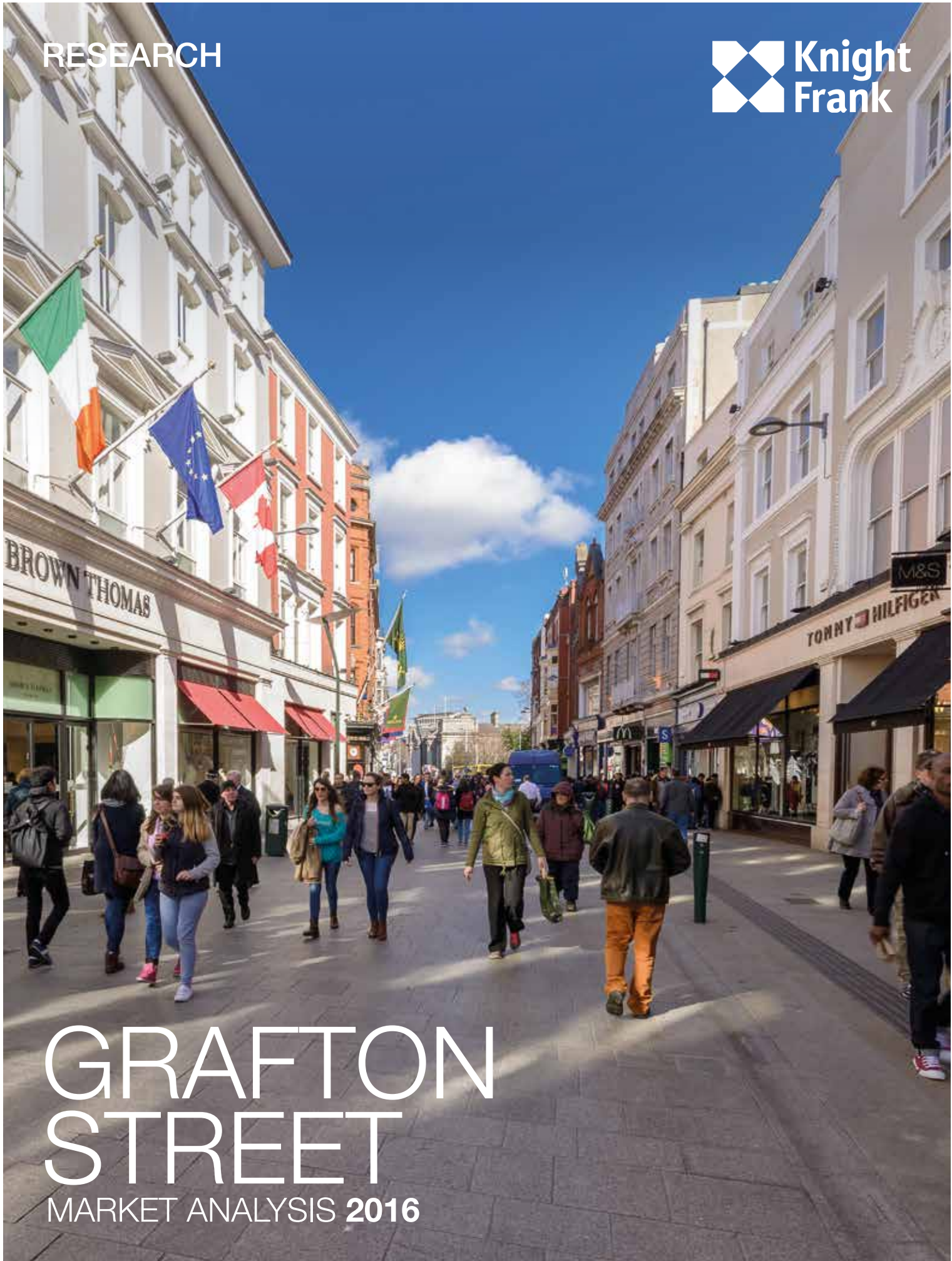


RESEARCH



GRAFTON STREET

MARKET ANALYSIS 2016

TRENDS

ANALYSIS

OUTLOOK

SUMMARY

1. Robust economic growth is driving retail sales on Grafton Street
2. Zone A Grafton Street rents now in the order of €6,500 psm
3. The lack of space on Grafton Street is driving occupier demand for space on adjoining streets, especially from large retailers
4. Strong investor appetite has bid down yields to 3.5%, down from a post-crisis peak of 6.5%
5. Grafton Street and its environs are seeing a wave of capital expenditure with a number of refurbishments and redevelopments ongoing

GRAFTON STREET

Introduction

Grafton Street is Ireland's premier retail destination with a footfall of 57 million per annum. Linking St. Stephen's Green with College Green in Dublin's South City Centre, the thoroughfare, which was pedestrianised in 1982, contains 91 retail units with department stores Brown Thomas and Marks and Spencer anchoring the street. International brands with a presence on the street include Tommy Hilfiger, Massimo Dutti and Hugo Boss, while the shopping centres of St. Stephen's Green, Powerscourt and Royal Hibernia Way also bring footfall to the area.

Economy

The Irish retail property market is benefiting from the ongoing recovery in the economy, with declining unemployment and a return to earnings inflation translating into increased retail spend. Unemployment fell to 7.9% in September, down from a post-crisis peak of 15.1% recorded in February 2012, with employment levels now above two million for the first time since 2008.

Unemployment is forecast to continue to fall with the Economic, Social and Research Institute (ESRI) forecasting that 46,000 new jobs will have been created by year-end 2016. The declining unemployment rate has seen wage

inflation re-emerge since Q1 2014, with average weekly earnings increasing by 0.5% in the year to Q2 2016. The growth in average weekly earnings is primarily being driven by private sector wage growth, which increased by 1.5% over the same period.

Motor sales – a key barometer of consumer confidence – have risen by 10.2% in the year to August according to the Central Statistics Office (CSO). However, the retail recovery has been broad based with the volume of retail sales excluding motors sales increasing by 4.1% over the same period. As a result of the falling unemployment rate and positive wage growth, personal consumption is now playing a greater role in Ireland's economic recovery, which was previously driven by investment and exports.

This feel good factor led to the ESRI/KBC Bank Consumer Sentiment Index hitting a 10-year high earlier this year, although the Index has since retreated slightly due to the mixed Irish election result and the largely unanticipated decision by the United Kingdom to leave the European Union. However, while the Index pared 3.8% in July following the Brexit vote, it has since recovered much of this loss as the severity of the economic shock has so far turned out to be less than initially feared.

Aside from political developments, the other major challenge facing high street retail is the rise of e-commerce, the implications of which are still challenging the traditional bricks and mortar retail market. Interestingly, prime high street retail is benefiting from internet shopping as these stores become showrooms for the leading brands to display their merchandise, with shoppers purchasing on-line at a later date.

Occupier market

Grafton Street is experiencing a significant rebound in occupier interest with a number of prominent international retailers establishing on the street. For example, Victoria's Secret have let 2,152 sq m, of which 505 sq m is located on the ground floor, at 28-29 Grafton Street where they will pay a Zone A rent of €6,400 psm. Other recent deals of note include Dune London's letting of No. 69 and & Other Stories pre-let of the newly redeveloped No. 26-27.

Meanwhile, L'Oréal owned Urban Decay are reported to be taking a sub-lease at 50 Grafton Street which will help strengthen the southern end of the street while IPUT are currently marketing 72 Grafton - which is undergoing a high-spec redevelopment - for a quoting Zone A rent of €7,500 psm.

With the vacancy rate essentially at zero, occupiers are bidding strongly to get a foothold on the street which has led to Zone A rents growing by 25% over the past year alone to now stand at €6,500 psm. However, unlike the office and residential sectors – where rents are near pre-crisis highs – prime retail rents still trade at values that remain significantly below their pre-crisis peaks indicating that there is plenty of scope for further rental growth in the coming years.

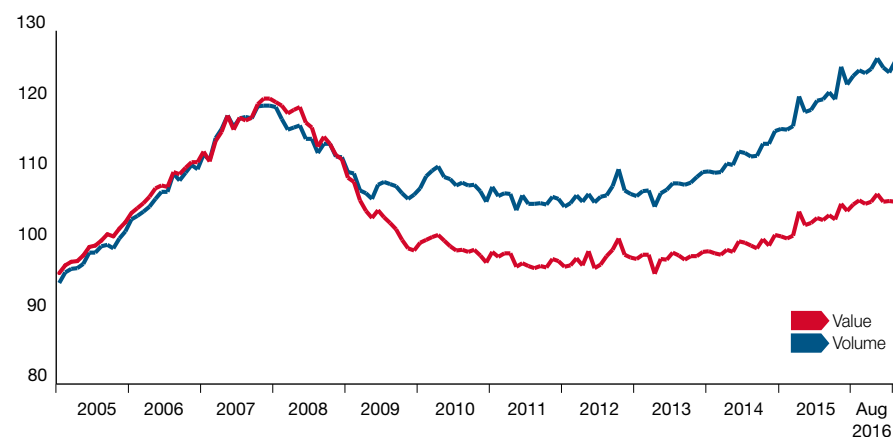
The lack of space on Grafton Street is increasing occupier activity in the surrounding areas, particularly amongst larger retailers for whom the small floorplates on Grafton Street act as a further limiting factor. Examples include H&M and Abercrombie & Fitch locating on streets just off Grafton Street. This activity has resulted in Grafton Street becoming the focal point of an ever expanding retailing hotspot which extends beyond the street itself.

FIGURE 2
Grafton Street Zone A Rents (sq m/yr)



Source: Knight Frank Research

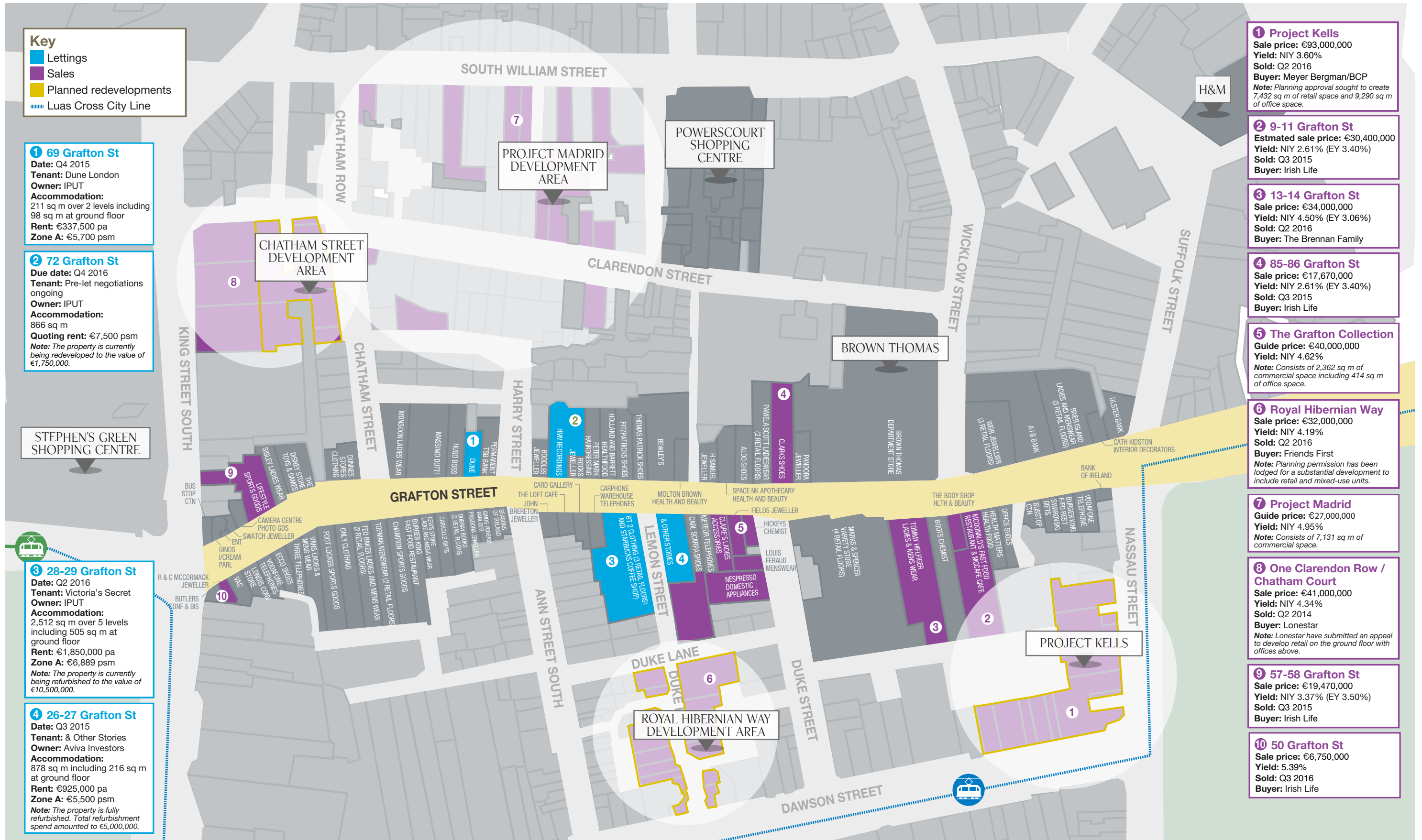
FIGURE 1
Retail Sales Index (Excluding fuel, motor and bar sales)



Source: CSO



GRAFTON STREET



“Irish Life, already one of the largest property owners on the street, further cemented its interest in the street in Q3 with the purchase of 50 Grafton Street.”

Investment

Investors, keen to get into the market at the early stages of the rental recovery, have bid Grafton Street yields down to 3.50% in Q3, down from 4.00% at the same period last year. The main obstacle for buyers looking to make this play is the lack of product now coming to market with long-term Irish institutional investors having substantial holdings on the street.

Irish Life, already one of the largest property owners on the street, further cemented its interest in the street in Q3 with the purchase of 50 Grafton Street for €6.75 million representing a net initial yield of 5.39%.

This added to the acquisitions they made in 2015 which comprised of the Sovereign

Portfolio – which included 7-11 and 85-86 Grafton Street – and the Lifestyle Sports tenanted 57-58 Grafton Street.

Significant investment sales currently on the market include the Grafton Collection, which incorporates a substantial retail block on the corner of Grafton Street and Duke Street. Guiding €40.0 million to give a yield of 4.62%, the property is attracting interest from national and international investors.

In addition, Knight Frank are marketing the ‘Madrid Portfolio’, a 7,100 sq m retail focused portfolio located on the fast appreciating streets directly to the west of Grafton Street, for €27.0 million. With a

FIGURE 3
Grafton Street Yields



Source: Knight Frank



WAULT of 4.56 years, the sale represents the opportunity for investors to gain exposure to the Grafton Street area rental appreciation story with future redevelopment potential.

Development

Grafton Street and its environs are seeing a wave of capital expenditure, with a number of high-profile refurbishments and redevelopments ongoing.

For example, luxury department store Brown Thomas has recently completed a €20.0 million upgrade and reconfiguration of its landmark premises including spending €1.5 million on restoring the façade.

Institutional investors have also been active as illustrated by the aforementioned redevelopment of 26-27 Grafton Street by Aviva Investors and IPUT’s redevelopment of the former Karen Millen store at 72 Grafton Street. Irish Life are also thought to be examining the feasibility of amalgamating four adjoining units on Grafton Street, namely No. 47-50, in order to address the shortage of large floorplates on the street. The company has seen the

advantages of this strategy having purchased 57-58 Grafton Street last year, which underwent an amalgamation prior to sale by vendor Nama.

A number of developers and investors are currently working on taking advantage of the demand from international retailers for large floorplates through a number of redevelopment projects on the streets surrounding Grafton Street. For example, Lone Star are appealing to An Bord Pleanála to allow for a mixed-use scheme on Chatham Street, just off Grafton Street.

The redevelopment will feature a number of retail units and will back onto Lone Star’s existing South King Street development, where tenants include H&M and Zara. Lone Star acquired the South King Street development in 2014 after purchasing loans from IBRC and assets from Chartered Land. Following on from their purchase of Project Kells for €92.0 million earlier in the year, London investors Meyer Bergman and BCP International Property Fund are seeking planning approval for 7,400 sq m of retail space and 9,300 sq m of office space at the corner of Dawson Street and Nassau Street.

In addition, following their acquisition of the remaining 50% stake in Royal Hibernia Way in Q2 of this year, Friends First have submitted plans which will see a substantial upgrading of the shopping arcade. The thoroughfare is expected to benefit greatly as a hop off point for Grafton Street when the new Luas stop on Dawson Street opens next year.

Construction work has also commenced on Green REIT’s One Molesworth which will consist of 2,137 sq m of retail facilities at ground and lower ground levels. Retail in the area will benefit from the footfall derived from the office redevelopments that are currently ongoing on Molesworth Street and which will house over 2,000 office employees when completed.

Finally, having acquired a 35.4% stake in St. Stephen’s shopping Centre in late 2015 for €60.0 million, Madison International Realty and their partners are expected to shortly begin spending €30.0 million upgrading and reconfiguring the 30,000 sq m shopping centre which will further cement the long-term attractiveness of the Grafton Street area.

3.50%

YIELDS DOWN IN Q3, DOWN FROM 4.00% AT SAME PERIOD LAST YEAR.



CAPITAL MARKETS/RETAIL

Adrian Trueick, Director
+353 1 634 2466
adrian.trueick@ie.knightfrank.com

Peter Flanagan, Director
+353 1 634 2466
peter.flanagan@ie.knightfrank.com

Ross Fogarty, Director
+353 1 634 2466
ross.fogarty@ie.knightfrank.com

John Ring, Investment Analyst
+353 1 634 2466
john.ring@ie.knightfrank.com

Shaun Collins, Graduate Surveyor
+353 1 634 2466
shaun.collins@ie.knightfrank.com

Robert O'Connor, Research Analyst
+353 1 634 2466
robert.oconnor@ie.knightfrank.com



© HT Meagher O'Reilly trading as Knight Frank

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by HT Meagher O'Reilly trading as Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of HT Meagher O'Reilly trading as Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of HT Meagher O'Reilly trading as Knight Frank to the form and content within which it appears. HT Meagher O'Reilly trading as Knight Frank, Registered in Ireland No. 385044, PSR Reg. No. 001266. HT Meagher O'Reilly New Homes Limited trading as Knight Frank, Registered in Ireland No. 428289, PSR Reg. No. 001880. Registered Office – 20-21 Upper Pembroke Street, Dublin 2.

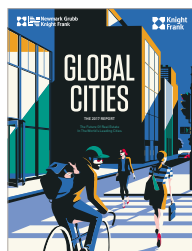
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[2016 New Homes Construction Survey](#)



[Dublin Residential Market Analysis 2016](#)



[Global Cities 2017](#)



[Dublin Office Market Overview Q2 2016](#)