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Monthly Monitor

September 2017

Irish Commercial Property

Commercial property, be it offices, retail or industrial, has long been recognised as an important constituent of a balanced investment portfolio. Good quality investment property which is let to sound business tenants offers a secure running income yield which, if managed well, can be expected to grow over time. This income yield can be made more secure when it is derived from a diversified portfolio of such assets.

The average income yield on commercial property in Ireland is around 5.8% and as such is very attractive relative to the income returns available from most other classes of investment.

The Irish commercial property market has experienced a period of strong growth over the past 4 years and some observers are suggesting that the market recovery has played itself out with little further upside from current levels.

It is indeed the case that one, albeit important category of property is now back to value levels in line with the top of the market. Prime office rental levels in the centre of Dublin are now around €60 per sq. ft., a level last witnessed in 2008. This rental is however well underpinned by a healthy tenant demand and as such is not likely to soften anytime soon. Equally though there is not likely to be much further growth from here given the volume of new office development now underway and as such new investors are likely not to be focusing on this sector from now. This is significant given that prime city centre office

Apart from this sector however values remain well below the levels witnessed in the boom years with the discount relative to the top of the market varying from 30% in the case of prime central Dublin retail property to 50% plus in respect of many other sectors such as prime suburban offices, industrial and provincial retail.

Of course, it is not necessarily the case that property assets are attractive just because they are much cheaper than the levels witnessed during the boom. A more fundamental measure of relative value is the basic cost of developing new assets and it remains the case that at current levels it is even still possible to acquire property investments at prices substantially below the cost of developing those assets. A further important factor in arriving at the conclusion as to whether any particular investment property represents attractive value is whether there is likely to be growth in the rental value of that property over time. This requires an understanding of the dynamics of supply and demand for the various types of property in various locations.

The suburban Dublin office market is a market where it is still possible to acquire investment properties which are let at rental levels of circa €20 per sq. ft. The economics of developing new office stock in the suburbs dictate that rents of at least €25 per sq. ft. are required for a developer to be in a position to cover his costs and as such no new office development is likely to be undertaken in the suburbs unless/until rents have exceeded this level. At the same time rents in central Dublin have more than doubled in the last 3 years and many occupiers are turning to the suburbs for their needs. This trend has mopped up most of the quality space available in the better suburban locations and with no new development underway rents are inevitably hardening as occupiers compete for what space remains available.

While the final shape of Brexit will take some time to form we expect that the steady flow of new businesses locating in Dublin and the larger urban centres around Ireland will add to the recovery in demand for most categories of property resulting from the continued growth in the domestic real economy over the coming years. This demand will not just be for office buildings but, given the fact that such businesses usually offer good quality employment, the boost in demand will be for all forms of property including retail and residential.

With the value of most categories of property still reasonable and income yields well ahead of other investment classes, the prospects for Irish commercial property are relatively good given the added prospect of value growth over the next few years.



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Appian Unit Fund Prices

1 September 2017

Appian Value Fund	140.47
Appian Equity Fund	173.93
Appian Small Companies Opportunities Fund	199.41
Appian Liquidity Fund	106.05
Appian Ethical Value Fund	97.73
Appian Burlington Property Fund	105.93

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