

# Presentation to the Society of Actuaries

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11<sup>th</sup> February 2014



# Irish Commercial Property Investment Market – The Headlines

- Total Returns turn positive in 2013... + 12.7%
- Income yields .....the initial draw
- Capital growth & office rents on the rise ..
- Over € 2billion invested in 2013 ..€ 4 billion forecast for 2014
- International investors grab the headlines..
- What for the domestic investors...the funds..Reits..
- 145 Transactions reported in 2013...highest on record

# Irish Commercial Property Investment Market – The Headlines

- Dublin CBD focussed recovery ...2 speed recovery
- Offices the preferred sector...prime v the rest
- Where will real estate returns settle...
- Where are the returns.....opportunity funds
- Will institutional capital commit
- Ireland in fashion...for how much longer?

What's behind the headlines.....

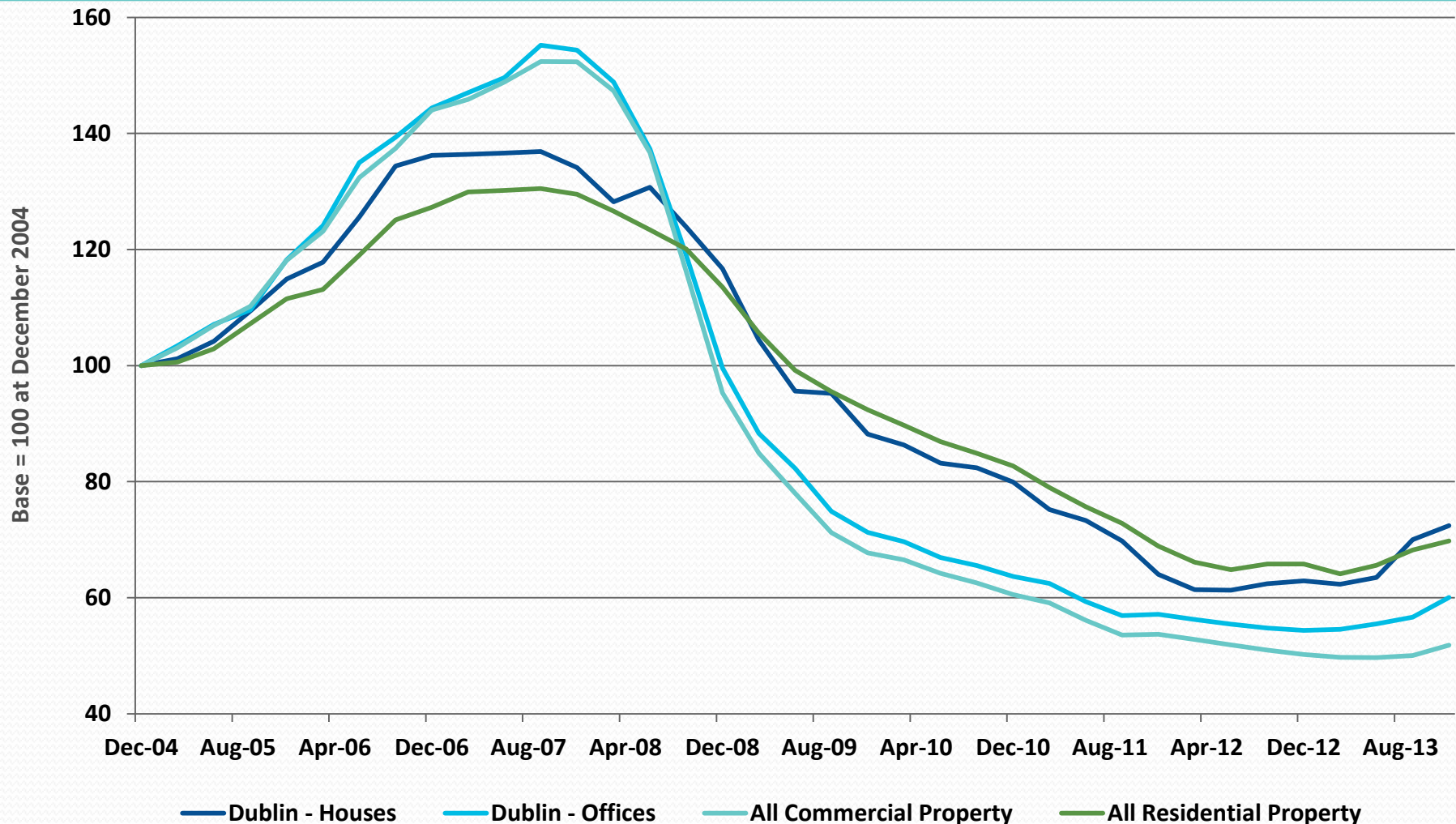
What did IPUT do.....



# Trend: A key market turning point

An MSCI Brand

IPD Capital Value Index versus CSO Residential Price Index (Qtrly)

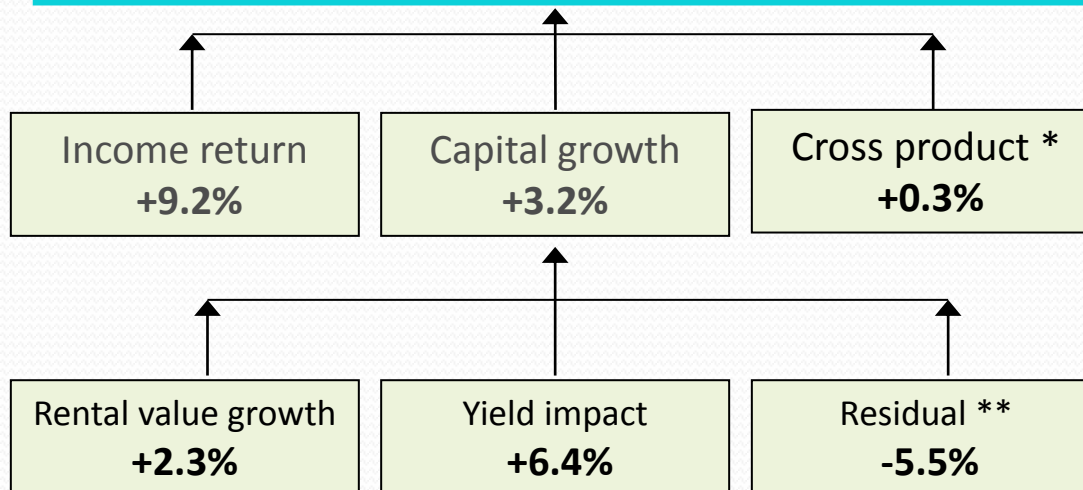


## 2013 Year-on-Year

UK Total return 10.9%

**Total return 12.7%**

Year end: 325 properties  
valued at € 2.4 billion



\* Cross product: capital gain / loss in reinvested income

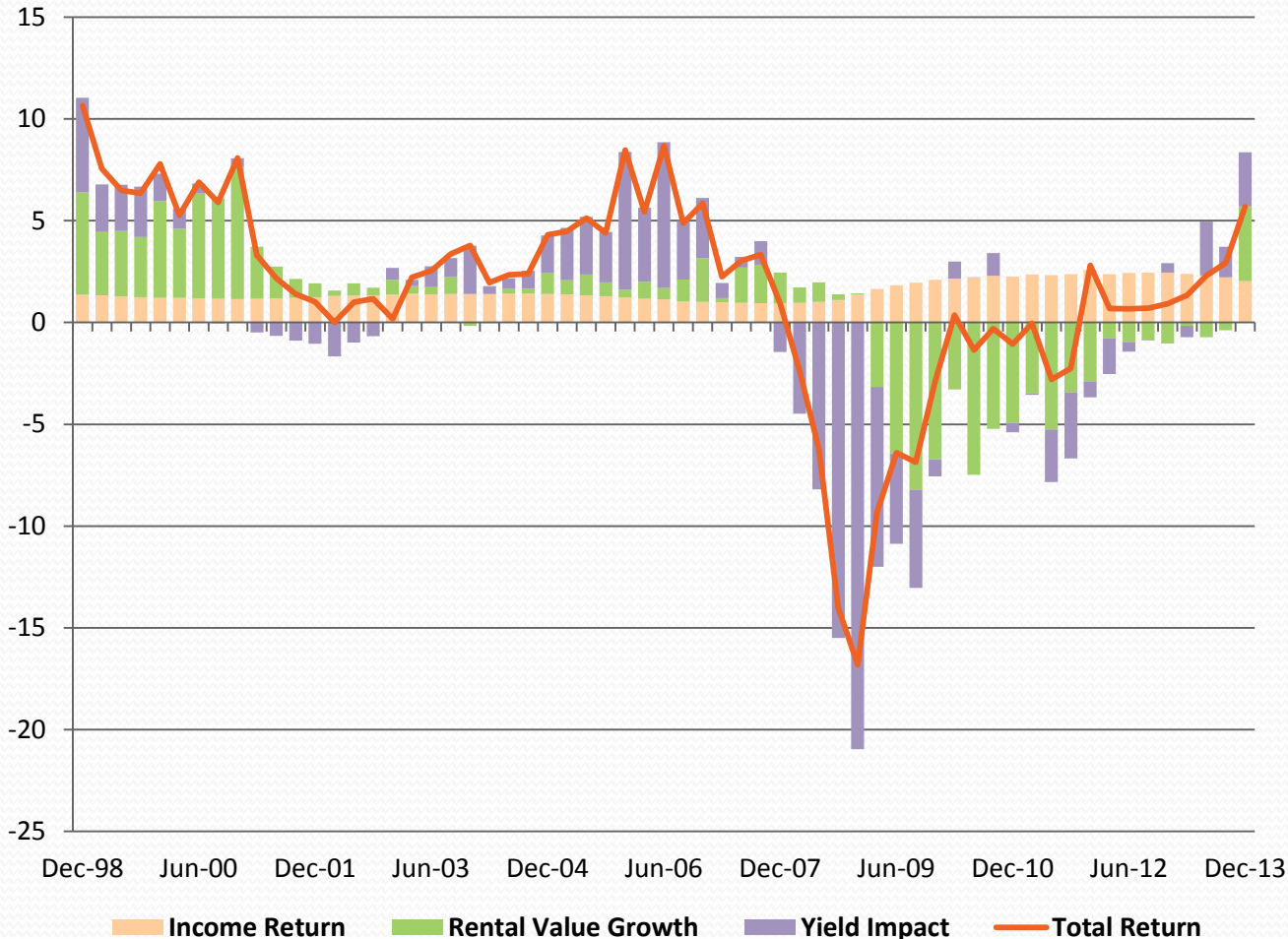
\*\* Residual: impact of delays in income stream, mainly effect of over-renting



# Trend: Drivers of Total Return

An MSCI Brand

A year of strengthening performance as capital values return to growth



2013 saw the return to value growth after 6 years of decline;

Performance was driven by strengthening investor sentiment and growing rents;

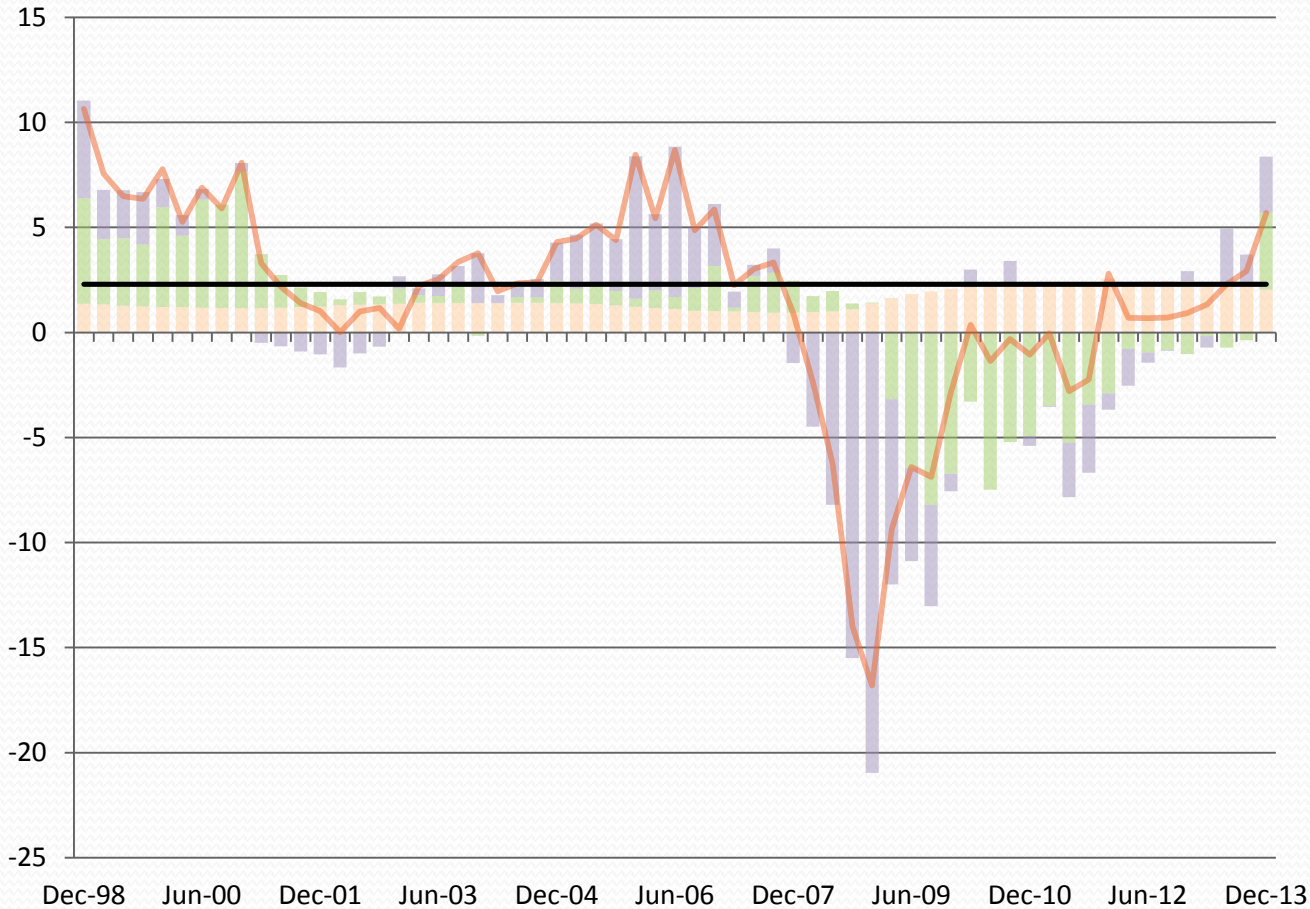
Total Return averaged +3.1% per quarter in 2013



# Trend: Drivers of Total Return

An MSCI Brand

A year of strengthening performance as capital values return to growth



**Total Return averaged +3.1% per quarter in 2013**

**.....beating long term average returns of +2.3% q/q**

**AND**

**Annual Return of 12.7% in 2013**

**.....ahead of 30-year average of 10.2% y/y**

**Income Return**

**Rental Value Growth**

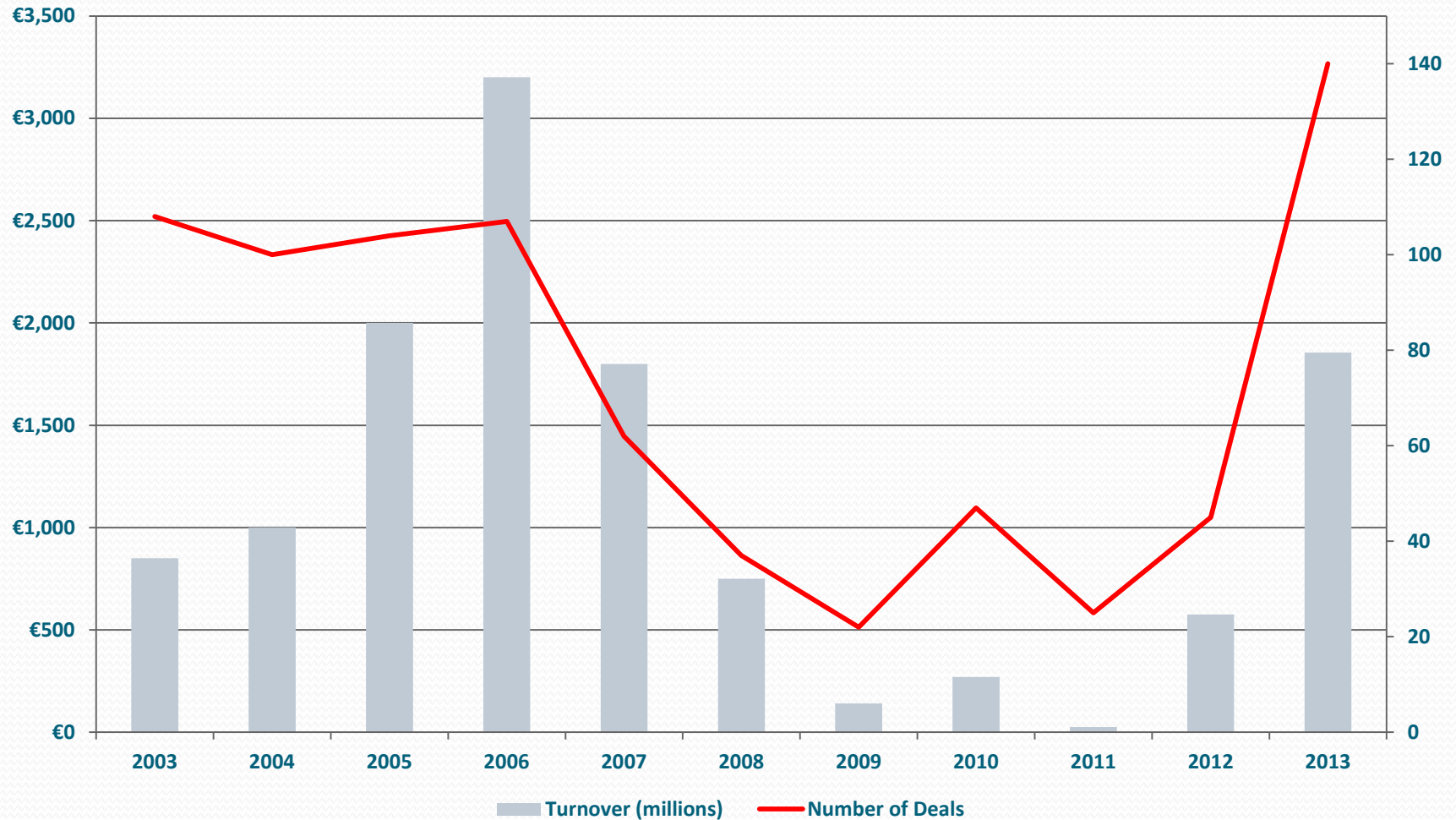
**Yield Impact**

**Total Return**

**Mean TR (1995-2013)**

# Investment Market

## Market Turnover

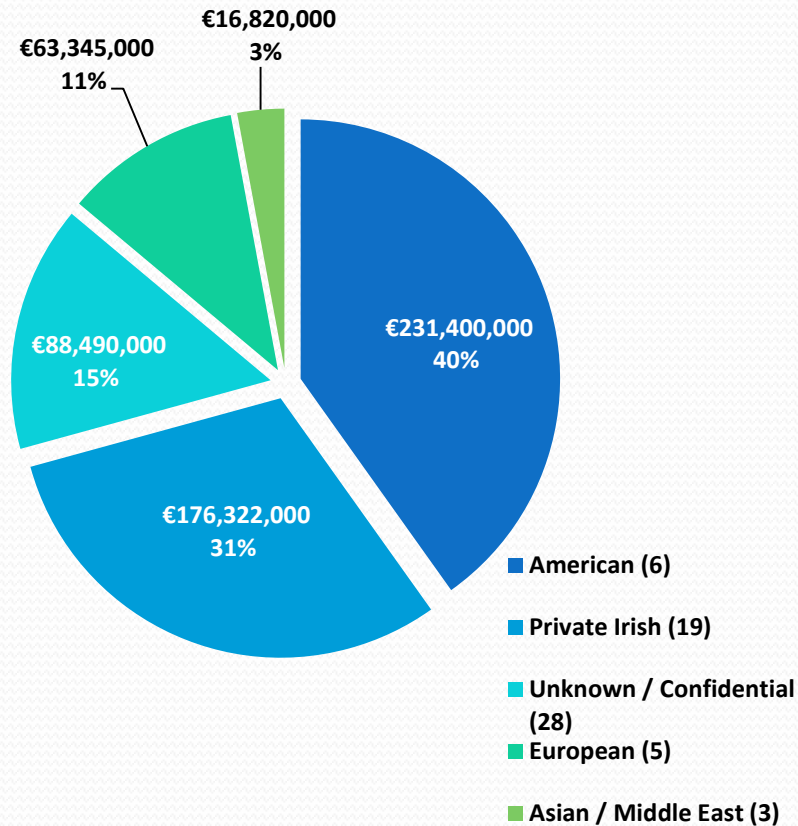




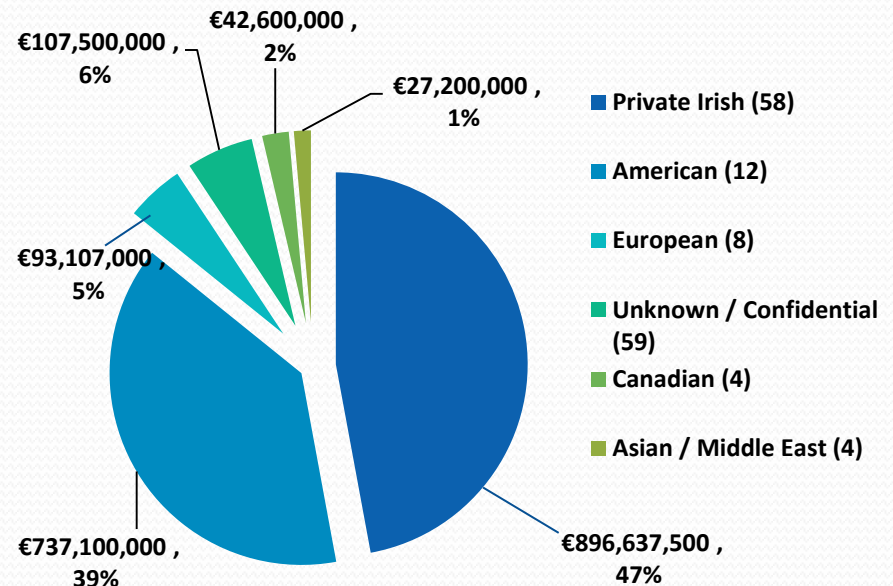
# Investment Market

## Investor Demand

2012



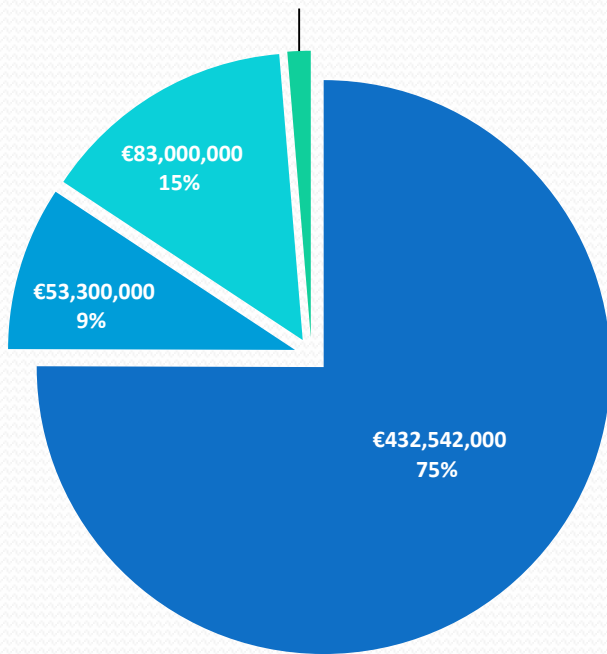
2013



# Investment Market

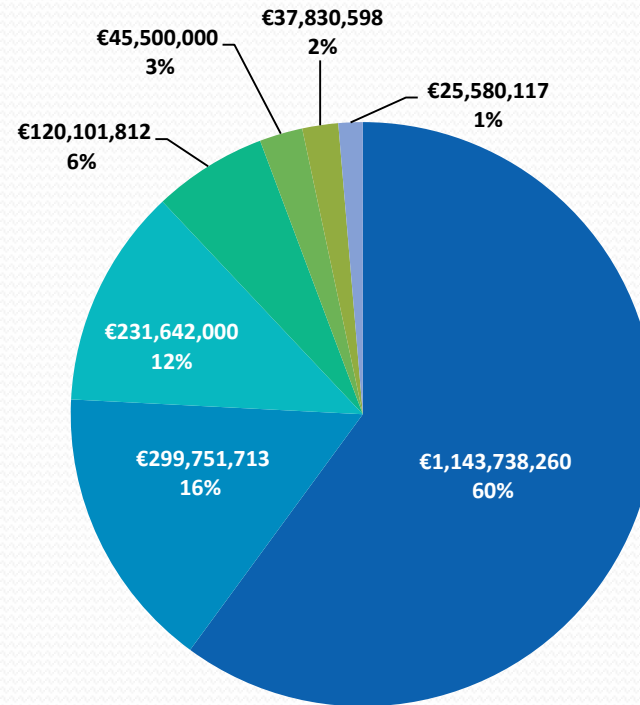
## Sectorial Demand

2012



- Offices (29)
- Retail (5)
- Multifamily (5)
- Industrial (5)

2013



- Offices (43)
- Retail (45)
- Multifamily (16)
- Mixed Use (23)
- Hotel (2)

# Investment Market

## 2013 Notable Investment Transactions

Investment Turnover - €1.85bn

€306m

€152m

€127m

€93m

€82.5m

€75m

€65m

€65m

€58m

€50m

€50m



Opera Portfolio

Income Yield n/a

Eurohypho



Project Arc

Income Yield 7.95%

Danske



Clancy Quay,  
Islandbridge, D8

Income Yield 6.50%

Lloyds / Danske



Bishop's Square,  
Kevin St. Lower, D8

Income Yield 9.87%

Ulster Bank/IPUT



A&L Goodbody HQ,  
IFSC, D1

Income Yield 6.60%

Barclays



Riverside 2, SJRQ, D2

Income Yield 6.28%

Private International



Ulysses Portfolio

Income Yield 8.78%

Lloyds



1 Grand Canal Square,  
D2

Income Yield 6.28%

Private International



75 St Stephens  
Green, D2

Income Yield 7.22%

Lloyds



The Gemini Portfolio

Income Yield 6.37%

Ulster Bank



Irish Airlines Portfolio

Income Yield 10.72%

IRL Pension Fund

■ Enforced ■ Consensual ■ Other

All prices / yields are approximate

Source: Savills Research

# Outlook – Rents & Yields

Jones Lang LaSalle Research –

Dublin Prime Commercial Property Forecasts – Rents and Yields – November 2013

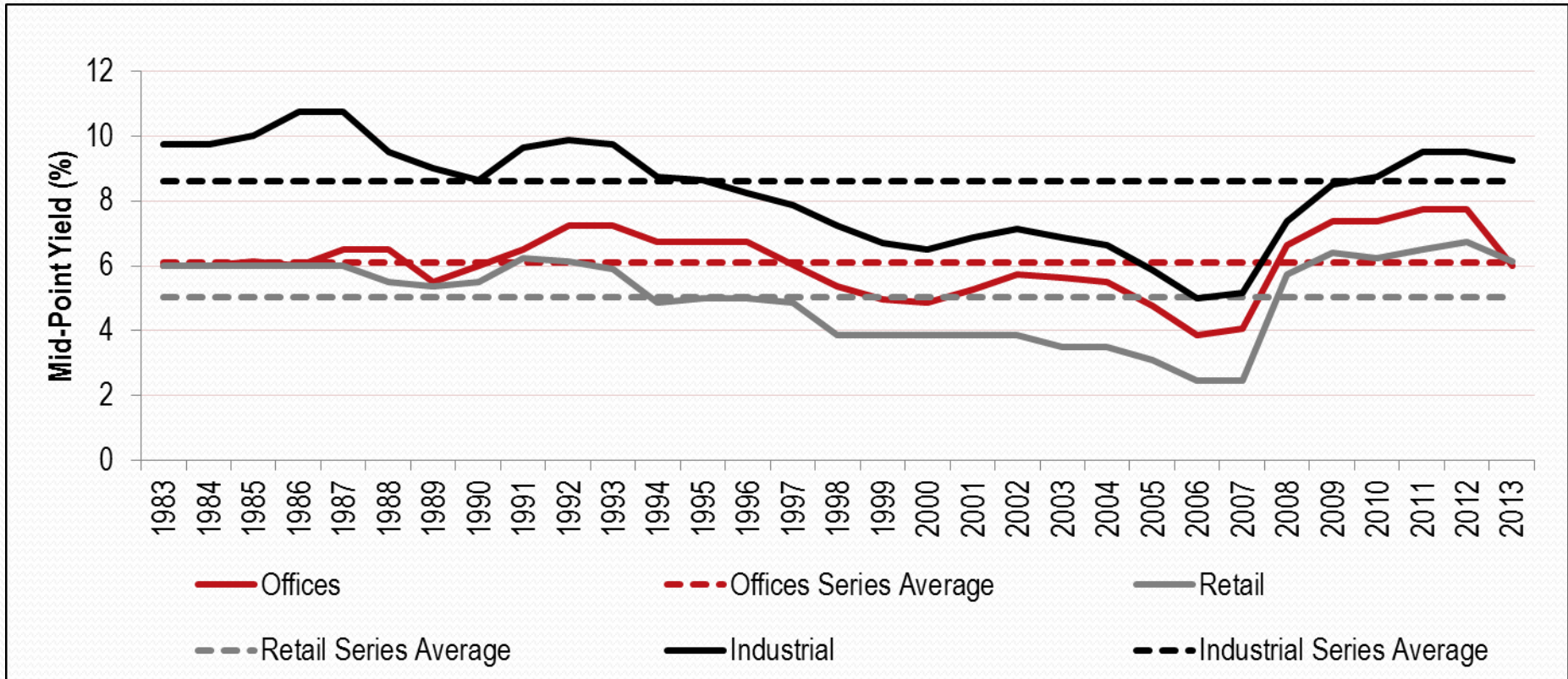
Sector	Indicator	2012	2013	2014	2015	2016	2017
Office	PRIME RENTS (SQFT)	30.0	35.0	37.5	40.0	45.0	45.0
Office	PRIME YIELD (%)	7.25	6.25	6.00	5.75	5.75	5.50
Retail	PRIME RENTS (SQFT)	196.9	195.0	200.0	200.0	205.0	210.0
Retail	PRIME YIELD (%)	6.50	6.00	5.85	5.75	5.50	5.50
Industrial	PRIME RENTS (SQFT)	5.50	6.00	6.50	7.25	7.75	8.25
Industrial	PRIME YIELD (%)	9.00	8.75	8.25	8.25	8.00	8.00

# Outlook

## Long Term Prime Yields

Current Prime Yield  
 5 Year Average  
 10 Year Average  
 Series Average

Offices	Retail	Industrial
5.75%-6.25%	5.75% to 6.50%	8.50% to 10.00%
7.25	6.41	9.10
6.10	4.93	7.56
6.09	5.05	8.59



Source: Jones Lang LaSalle Irish Research, January 2014

# What did IPUT do...

## Investment Strategy 2011-2015

- IPUT Econometric Study on the Dublin Office Market
- Dr John McCartney – RIA & JRE published study
- Forecasted rental elasticity of Demand & Supply
- Natural Vacancy Rate for Dublin offices critically assessed
- Key finding ..
- Central Business District rents will grow 2013 +
- IPUT pursued expansion in CBD Offices 2011 +
- Office Weighting in 2011 of 52%

# IPUT Portfolio – Key Assets



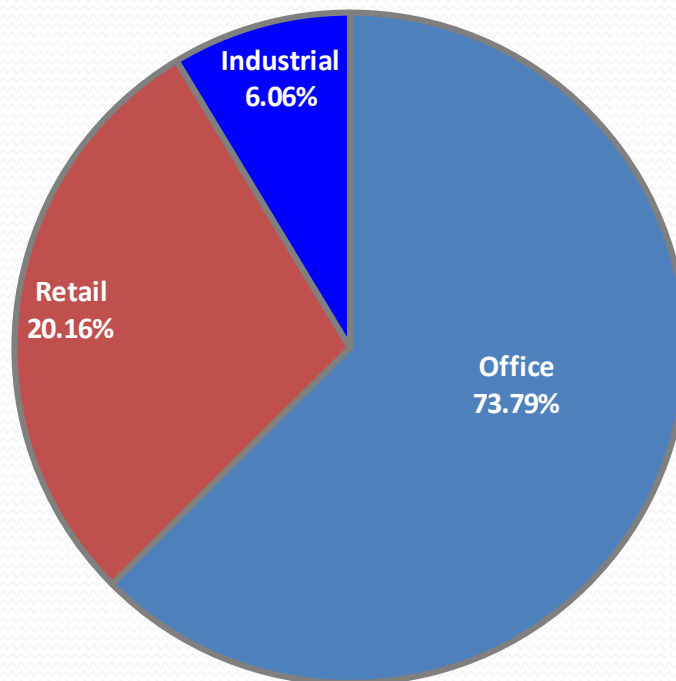
# Portfolio Weighting Analysis 31 December 2013

## Industrial Portfolio

- 93 % modern / high bay units in Dublin

## Retail Portfolio

- 47.26% prime high street units
- 24.41% prime shopping centres
- 13.34% prime retail warehouse



## Geographical Spread

- 96.92% Dublin
- 3.08% Rest of Ireland

## Office Portfolio

94.67% Core Dublin 2 & 4 (CBD)



# Portfolio Activity – Mind the Income & Added Value Focus

- Asset Management
  - Refurbishment programmes
  - Tenant retention
  - Prioritise letting activity
  - Planning Permission / Redevelopment
- Acquisitions - Office Focus
  - € 279.25 million in portfolio acquisitions in 12 months

# IPUT Acquisitions 2013 - Summary

Address /Sector		Purchase Price	Anticipated Income	Anticipated Net Income Yield (actual costs)
25-28 North Wall Quay Dublin 1-Offices		€ 58.00 M	€ 4.00 M	6.60%
Irish Airlines Portfolio Dublin 2- Offices		€ 58.00 M	€ 6.30 M	10.4%
6 Georges Dock, IFSC, Dublin 1 -Offices		€ 21.00 M	€ 1.4 M (when fully let)	6.0-6.5%
1 Grand Canal Square, Dublin 2 -Offices		€ 93.00 M	€ 6.14 M	6.40%
Riverside 2, Sir John Rogerson's Quay, Dublin 2 -Offices		€ 49.25 M	€ 3.30 M	6.50%
<b>Total</b>		€ 279.25 M	€ 20.64 M	7.06%

# IPUT Portfolio Overview at 31 December 2013

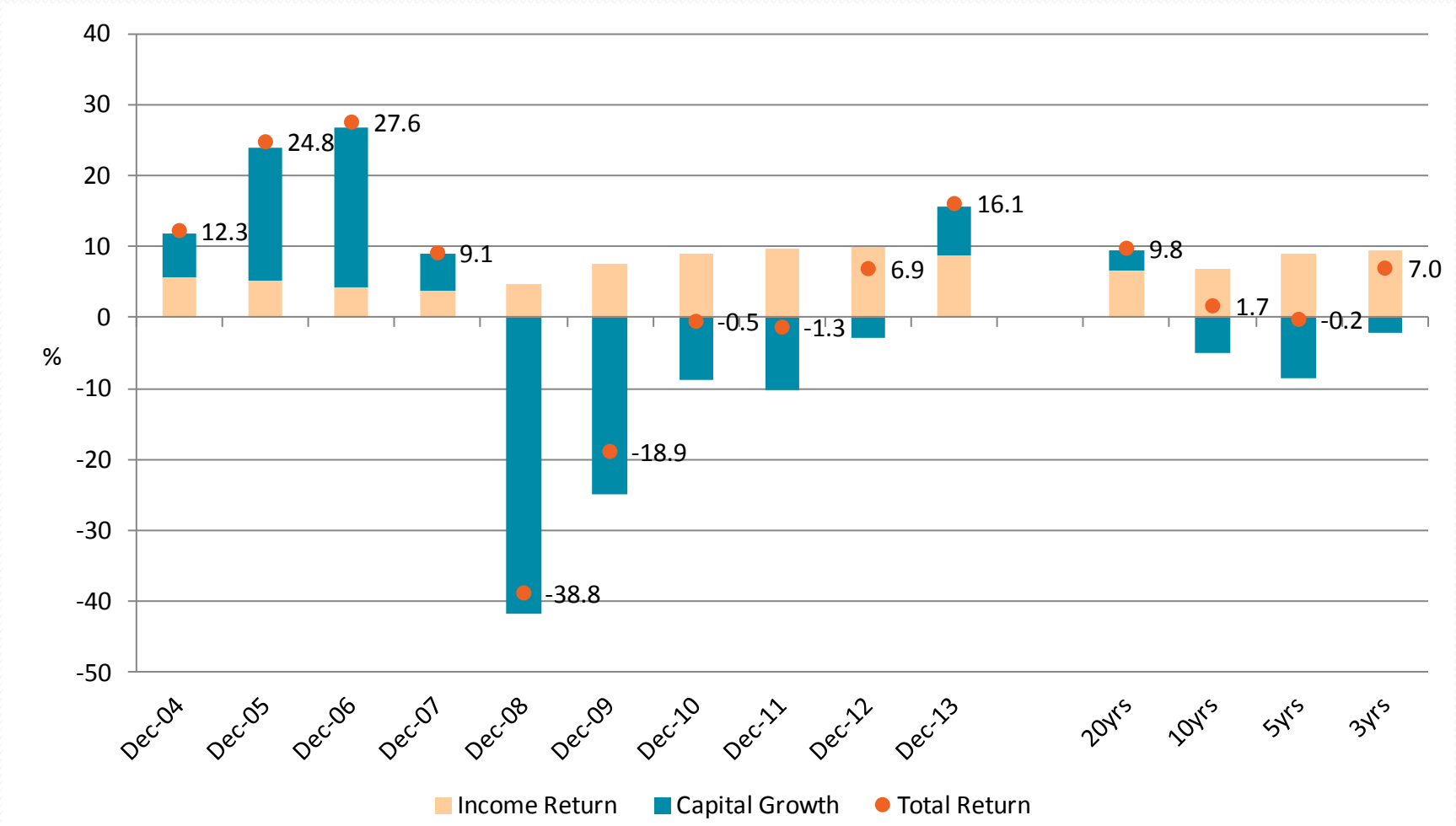
Property Portfolio Value as at 31 December 2013	€ 701 million
Capital Cash held at 31 December 2013	€ 96 million
Portfolio Income	€ 55 million
Portfolio Rental Value	€ 44.2 million
Number of Properties / Tenancies	61 / 243
Portfolio Size	2.75 million sqft (approx)
Rental Recovery Rate 12 months to end December 2013	99.5%
Current Vacancy Rate	6.0% (approx)
Income Return 12 months to 31 December 2013	7.36% (Dec 2013 NAV)
Net Asset Value per share at 31 December 2013	€ 628.40
Weighted average unexpired term	8.0 years



An MSCI Brand



# IPUT Performance Components of Portfolio Return



# IPUT Performance

## Property Portfolio

- Total Return to December 2013 +16.1% (benchmark +12.7%)

## Fund level

- Income Return - 12 months to 31 December 2013 = + 7.58% (based on 31 Dec 2012 offer price)
- Capital Return - 12 months to 31 December 2013 = + 7.52% (based on NAV)

## Key factors in delivering outperformance

- Portfolio structure – characterised by prime, large scale modern assets
- Quality of leases/ tenant strength /income durability
- Strong annual rental recovery rates – 99.50 % at end of December 2013
- Active management

# Market Outlook ...Where will returns settle?

- Improved sentiment despite economic challenges
- Investment market turnover 2014 to approach € 4 billion
- Demand for prime assets outstripping supply
- International Investors continue to lead activity
- Institutional interest growing - replacing the opportunistic equity
- Offices the favoured sector – further rental growth anticipated
- Retail challenged - Prime vs Secondary = greater polarisation

# Where does Real Estate Fit ?

- Role = Consistently provide investors with stable income returns
- Ireland & Dublin = very small in the Global Real Estate investor model
- Punch above our weight .... Usual clichés apply..
- Comparable European cities = offer less value & returns are challenged
- IPUT goals = Acquire large scale, internationally tradeable assets in Dublin
- Annualised returns will be income based at 6% – 7%
- Capital kicker of 2-3% per annum
- Be an “income machine” ...like the REIT model should be.....



# Appendix

**IPUT Acquisitions – 2013**



## Acquisition – 25/28 North Wall Quay Dublin 1



- Acquisition Value - € 58 million – Completed March 2013
- Floor Area – 11,147 sq m – Grade A office space
- Income / Yield on acquisition- € 4.0 million / 6.60%
- Tenant – A&L Goodbody Solicitors - 11 years unexpired
- Value at Year End 2013 - € 61 million

## Acquisition - Irish Airlines Portfolio



- Purchase Price - € 58 million – Completed March 2013
- Floor Area – 240,000 sq. ft.
- Income / Yield on acquisition- € 6.30 million / 10.40%
- Off market portfolio - office buildings in prime central Dublin locations
- Strong tenants - significant opportunities to add value
- Value December 2013 € 67.60 million (+ 16.50%)

## Acquisition - 1 Grand Canal Square, Dublin 2



## Acquisition - 1 Grand Canal Square, Dublin 2



## Acquisition - 1 Grand Canal Square, Dublin 2

- Acquired “off market” in December 2013 for € 93 million
- Grade A Office building constructed in 2006
- 118,000 sq ft with 60 basement car spaces
- Strong Tenant Covenants HSBC Bank, Accenture plc, Actavis plc, BOI
- 9 years average unexpired term
- Income - € 6.12 m per annum
- Initial Yield based on actual costs - 6.40%

## Acquisition - Riverside 2, Sir John Rogersons Quay, Dublin 2



## Acquisition - Riverside 2, Sir John Rogersons Quay, Dublin 2



## Acquisition - Riverside 2, Sir John Rogersons Quay, Dublin 2

- Acquired “off market” in December 2013 for € 49.25 million
- Grade A Office building constructed in 2006
- 73,000 sq ft with 60 basement car spaces
- Strong tenant covenants BNY Mellon and Beauchamps Solicitors
- 7 years weighted average unexpired term
- Income - € 3.3 m per annum
- Initial Yield based on actual costs - 6.50%



**End of Presentation**

**Thank You**