

Irish eyes are smiling... commercial property continues to shine

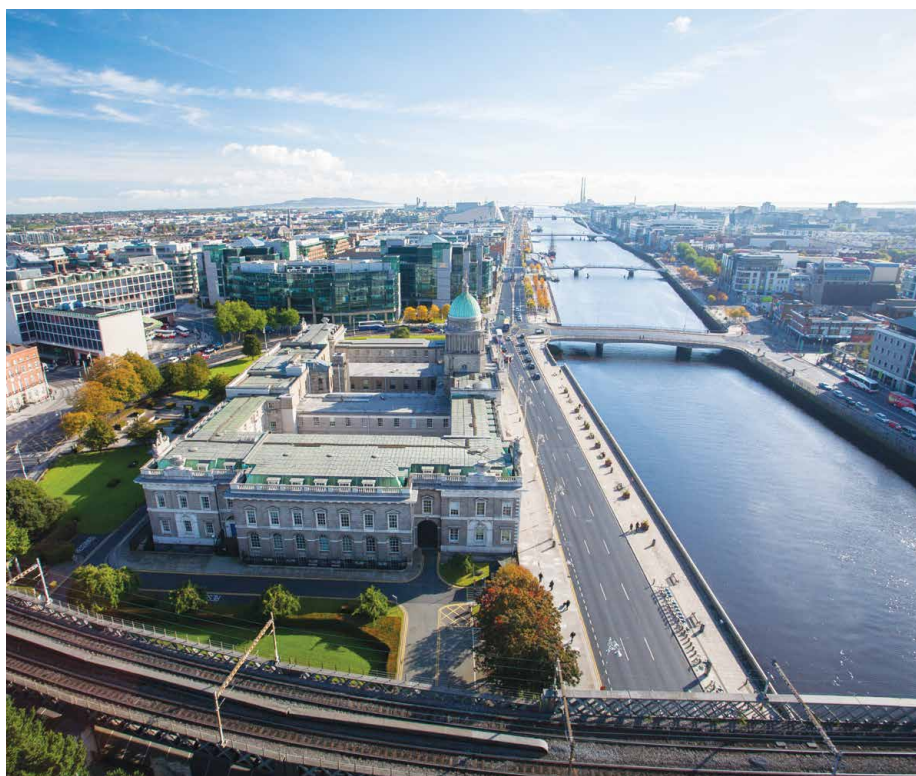


Eimear Moloney,
Senior Fund Manager, Zurich Life

The Irish real estate market continues to shine, generating total returns of 36.3% in the year to end Q1 2015, which puts it among the highest in the MSCI index universe. The sharp turnaround has been led by offices (up 41.1%), with retail (30.5%) and industrial (20.5%) also up strongly.

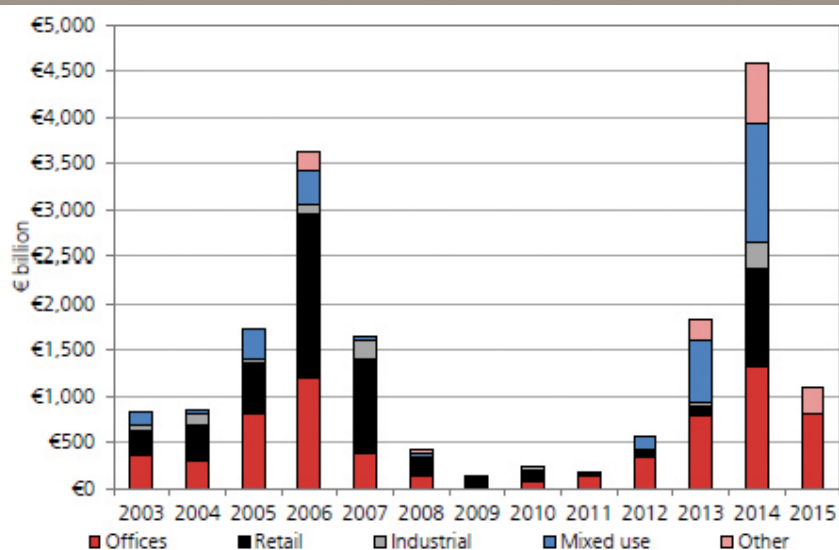
Since the market cycle turned in 2011, the pace of recovery in Dublin's commercial real estate (CRE) investment market has caught many participants and observers by surprise. Dublin's office market has attracted the majority of invested capital, from both public listed companies and private investment vehicles. This was as much a function of demand as well as the pace of supply into the market from managers of distressed real

estate such as NAMA, Lloyds Bank TSB and Ulster Bank. Dublin continues to dominate investment activity; liquidity has picked up for selective product categories in key regional markets but Dublin's CRE market accounts for circa 95% of investment activity. Yields across prime Dublin markets continue to fall and are heading towards levels not seen since 2007.



The Office Market - up 41.1%

Irish CRE investment market - level of activity

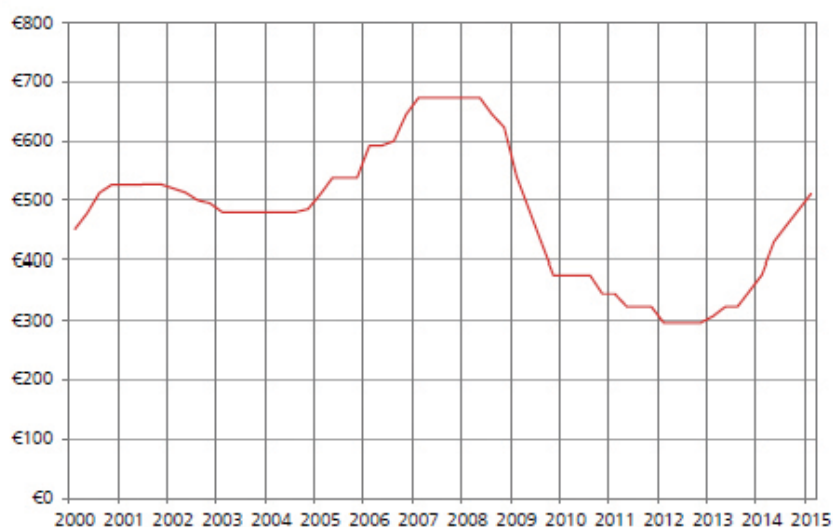


Source: CBRE, JLL.

Pricing for core properties has rallied and yields have compressed at speeds faster than other peripheral markets across Europe. Core Dublin offices, which traded for capital values of €486 per square foot and net initial yields (NIY) of 7.5% in Q2 2012, command capital values of €926 per square foot and NIY of 4.4% today. Investors are buying into a reversionary theme as rents in Dublin's office market, currently €47.50 per square foot, are set to break the previous peak of €62.50 per square foot over the next 24 months.

This backdrop has triggered the return of development activity, with circa 1.2m square feet of office properties now under construction. Tenant demand has broadened out from the Foreign Direct Investment (FDI) sector, which drove activity through the recession, to local, Irish service-based companies and the Irish public sector. The FDI sector is very important to the outlook for Real Estate in Ireland and the demand for office space in the future looks good with:

Prime Dublin rents continue to rise at double-digit levels (€ per square metre)



Source: CBRE.

- Healthy levels of take up continuing.
- More stock coming into the pipeline from development projects, which will come to the market in 2017/2018. But short term supply shortages will get worse and continue to put upward pressure on rents. Prime rents are now €47.50 per sq. ft. but are expected to rise to €55 per sq. ft. by year end. This is also starting to feed out to fringe locations and the suburbs. 5 out of the top 8 deals in Q1 2015 have been outside the Central Business District with the biggest deal being done in Dublin 8.
- Vacancy rates have fallen significantly and activity levels are very high in the office market. 2014 was a very strong year, almost back to 2007 levels although the letting of the Facebook office (over 100,000sq. ft.) in 2014 distorted the 2014 levels with most deals being done in the 2,000-10,000 sq. ft. space.
- Vacancy rates are very low in Central Business District and are also coming down in the suburbs.

The Dublin Office supply pipeline is evident in 2017/2018. Development funding is still very difficult so there is no guarantee that what has received planning or where planning has been applied for that these offices will actually be built. This is because there is private equity involved and debt financing is still difficult to obtain from banks.

The Retail Market – up 30.5%

There has been a notable pickup in consumer sentiment in Ireland as displayed in the pick-up in retail sales and in line with the recovery in employment. Dominant high streets such as Grafton Street and Henry Street, strong shopping centres and major retail parks are all benefitting. Extensions, refurbishments and redevelopments are becoming more evident but no speculative developments are currently planned. Occupancy levels in Dublin's city centre have bounced, with overseas retailers driving the recovery and retail rents are now rising again for prime locations.

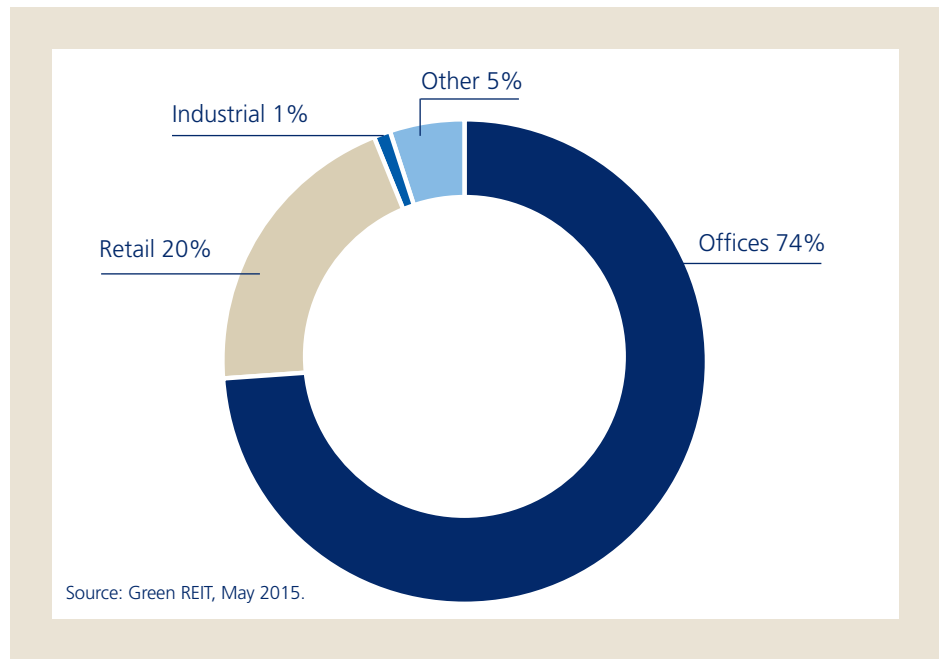
Industrial and Logistics Sector – up 20.5%

Industrial rents are starting to grow after falling 50% from peak and stagnating during 2012, 2013 and early 2014. The recovery is being led by logistics providers and manufacturing end users. The supply of good quality space is limited but current rental values don't justify new development. There is demand for well-located sites around the M50 and rental growth is becoming evident with prime rents now at €70 per sq. metre.

Zurich's 'Fund of REITs'

Zurich's Fund of REITs which was launched in 2014 is currently invested approx. 66% in the Green REIT and 33% in the Hibernia REIT. Green REIT has invested the majority of its financial capacity while Hibernia REIT still has considerable financial capacity to deploy. The current dividend yield (2015) for Green REIT is 2.5% and 1.69% for Hibernia REIT, but these should grow significantly over the next couple of years as rental growth comes through their portfolios. The current split of their portfolios is as follows:

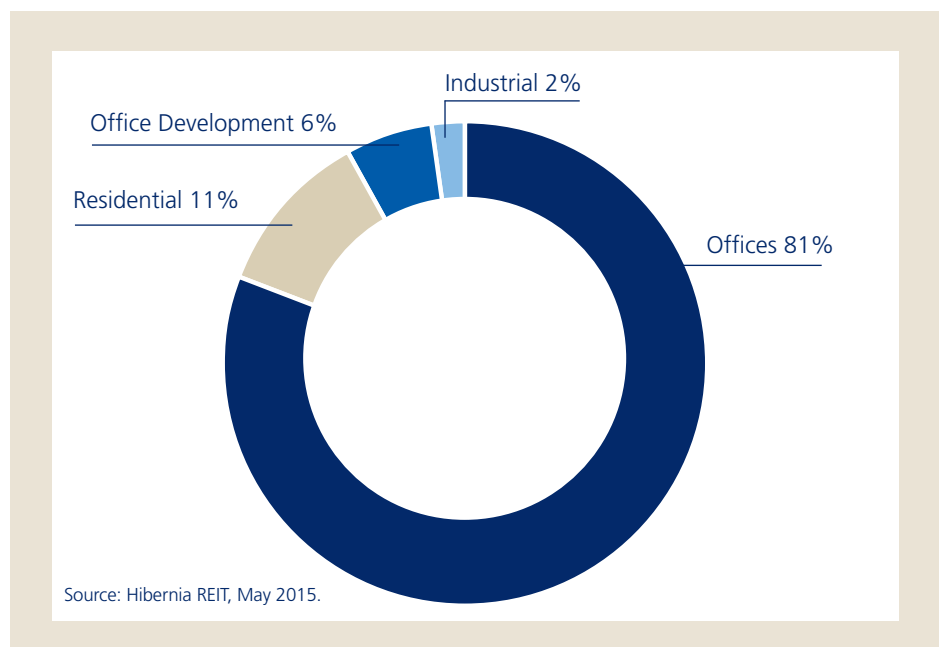
Green REIT



Green REIT has approx. €850m invested with further unused debt facilities of around €350m, some of which will be used for redevelopment and new developments. It has achieved a high portfolio income yield of 6.2% and has committed to a

disciplined approach to further acquisitions that should not dilute this. This should allow Green REIT to generate good NAV growth and dividend growth over the coming years.

Hibernia REIT - Investment asset class mix (%)



Hibernia REIT offers investors direct and concentrated exposure to the office segment of the Dublin commercial real estate market. Since its IPO it has invested €571m. The running yield on the portfolio is 4.4% but there is a strong rental income reversion play as there is 70% of leases to break or review over the next four years.

Current average rents on its portfolio are €34.5 per sq. ft. which is well below current prime rents of €47.50 per sq. ft. Hibernia also has near term development opportunities with its Windmill Lane and 1-6 Sir John Rodgerson Quay which will be among the first new supply to come to the market in Q4 2017 and Q1 2018.

Summary

A lot of the property yield compression has probably already taken place in the office and residential segments, but should continue in other segments given the recovering economy. However the imbalance in available space in Dublin's office market offers a positive backdrop for further rental growth which will flow back to shareholders as dividends under the REIT structure as REIT legislation requires 85% of property income to be distributed to shareholders.

For more information on Zurich's Fund of REITs just speak to your Zurich Broker Consultant or visit zurichlife.ie/brokercentre

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Warning: The value of your investment may go down as well as up.

Warning: Past performance is not a reliable guide to future performance.

Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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Print Ref: ZURL ISA 163 0615

