Site costs still rising in central Dublin. Analysis of Marlet's purchase of Apollo House.

Marlet Property Group is to pay €56m to acquire the site of the former Apollo House office block in Dublin City centre (Source: Sunday Independent http://bit.ly/KeoApolloHouse).

The figure represents a significant premium on the €40m guide price advertised when the site was brought to the market at the end of September 2018. This price represents an equivalent of €77.7m per acre based on the sites 0.72 acre size. There has been an amount of commentary regarding the closeness of this price per acre to the record paid in 2005 of €84m per acre for the former site of the UCD Veterinary College in Ballsbridge.

The most important difference for Marlet is the fact that the Apollo site came for sale with full planning permission for an 11 storey over basement office building extending to 12,622 sq m lettable area (17,415 sq m GIA including basement). In addition, the Apollo House building has been demolished and the site cleared. Our calculations estimate that the benefit of the planning permission and site clearance total c. €10.6m from savings in design, project management, demolition and cost inflation. i.e. a comparable site value of €64.5m per acre.

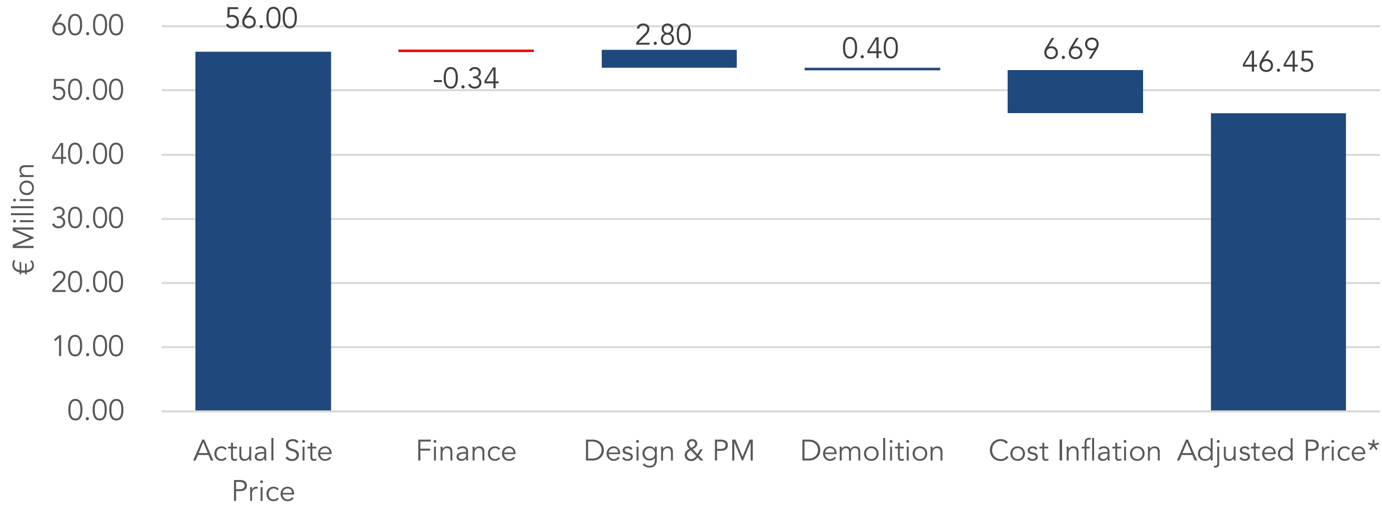

Figure 1 - Estimation of Site Value Without Planning & Demolition

Nonetheless given the price paid it is interesting to analyse the transaction. Taking the building specification and location we have taken the recent letting of 5 Harcourt Road by Green REIT to WeWork on a 20-year lease[1] as a comparable benchmark[2] in order to facilitate analysis of the price paid by Marlet.

[1] Rent €60psf Y1-Y5, €65psf Y6-Y10, then rent review. Fit-Out by Green Reit equivalent to 18 month rent free period.

[2] Source Green REIT Interim Result Presentation 2018.

Estimated Rent	7,349,240	Estimated on completion when fully let. €55psf
NDV	144,981,706	NPV to allow for void & 8.46 % notional purchaser costs. Exit Yield assumed 4.75%
Total Cost	126,071,048	Estimated build cost plus site cost, development levies & fees. Includes financing and tenant incentives
Profit	18,910,657	Estimated total profit on cost
Yield on Cost	5.8%	On estimated build cost plus site cost, development levies & fees. Includes financing and tenant incentives
Profit on Cost	15.0%	On estimated build cost plus site cost, development levies & fees. Includes financing and tenant incentives
Unleveraged IRR	10.8%	

Table 1 - Apollo House Appraisal Outputs

Taking this as the base case we have then analysed the major inputs to quantify their impact on overall return:

		Blended Building Construction Rate (incl basement) Assumed (€ per sq m GIFA)							-
	Rent psf	2,100.0	2,400.0	2,700.0	3,000.0	3,300.0	3,600.0	3,900.0	NDV (€M)
	40	-1.9%	-6.9%	-11.5%	-15.6%	-19.4%	-22.8%	-26.0%	105.8
	45	10.1%	4.4%	-0.7%	-5.3%	-9.6%	-13.4%	-17.0%	119.0
	50	21.9%	15.6%	10.0%	4.8%	0.1%	-4.1%	-8.1%	132.0
	55	33.8%	26.9%	20.6%	15.0%	9.9%	5.2%	0.8%	145.0
	60	45.9%	38.3%	31.5%	25.4%	19.7%	14.6%	9.9%	158.2
	65	57.8%	49.6%	42.2%	35.6%	29.5%	23.9%	18.8%	171.1
	70	69.9%	61.1%	53.2%	46.0%	39.4%	33.4%	28.0%	184.3
		Estimated Total Profit on Cost							

Table 2 - Rental Rate, Average Construction Rate v Total Profit on Cost

		Total Development Cost (incl Land, levies, fees, finance) €M							
		108.4	114.3	120.2	126.1	132.0	137.9	143.8	NDV (€M)
Exit Yield Assumed. Initial Rental 55 psf	4.00%	58.1%	50.0%	42.7%	36.0%	30.0%	24.4%	19.3%	172.0
	4.25%	49.2%	41.5%	34.5%	28.3%	22.5%	17.3%	12.5%	162.0
	4.50%	41.0%	33.7%	27.2%	21.2%	15.8%	10.8%	6.3%	152.9
	4.75%	33.8%	26.9%	20.6%	15.0%	9.9%	5.2%	0.8%	145.0
	5.00%	27.3%	20.7%	14.8%	9.4%	4.5%	0.0%	-4.1%	137.8
	5.25%	21.3%	15.0%	9.3%	4.2%	-0.5%	-4.7%	-8.7%	131.2
	5.50%	15.9%	9.9%	4.5%	-0.4%	-4.9%	-9.0%	-12.7%	125.3
		Estimated Total Profit on Cost							

Table 3 - Development Cost, Exit Yield Assumed v Total Profit on Cost

		Total Cost (€M)						
		108.4	114.3	120.2	126.1	132.0	137.9	143.78
Exit Yield Assumed. Initial Rental Rate 55 per sq ft	4.00%	63.33	57.42	51.52	45.62	39.71	33.81	27.91
	4.25%	53.44	47.54	41.64	35.73	29.83	23.93	18.03
	4.50%	44.48	38.58	32.68	26.78	20.87	14.97	9.07
	4.75%	36.62	30.72	24.81	18.91	13.01	7.11	1.20
	5.00%	29.53	23.63	17.73	11.82	5.92	0.02	(5.89)
	5.25%	22.99	17.09	11.19	5.28	(0.62)	(6.52)	(12.42)
	5.50%	17.16	11.26	5.35	(0.55)	(6.45)	(12.35)	(18.26)
		Estimated Total Profit on Cost (€M)						

Table 4 - Exit Yield, Total Cost v Total Profit on Cost

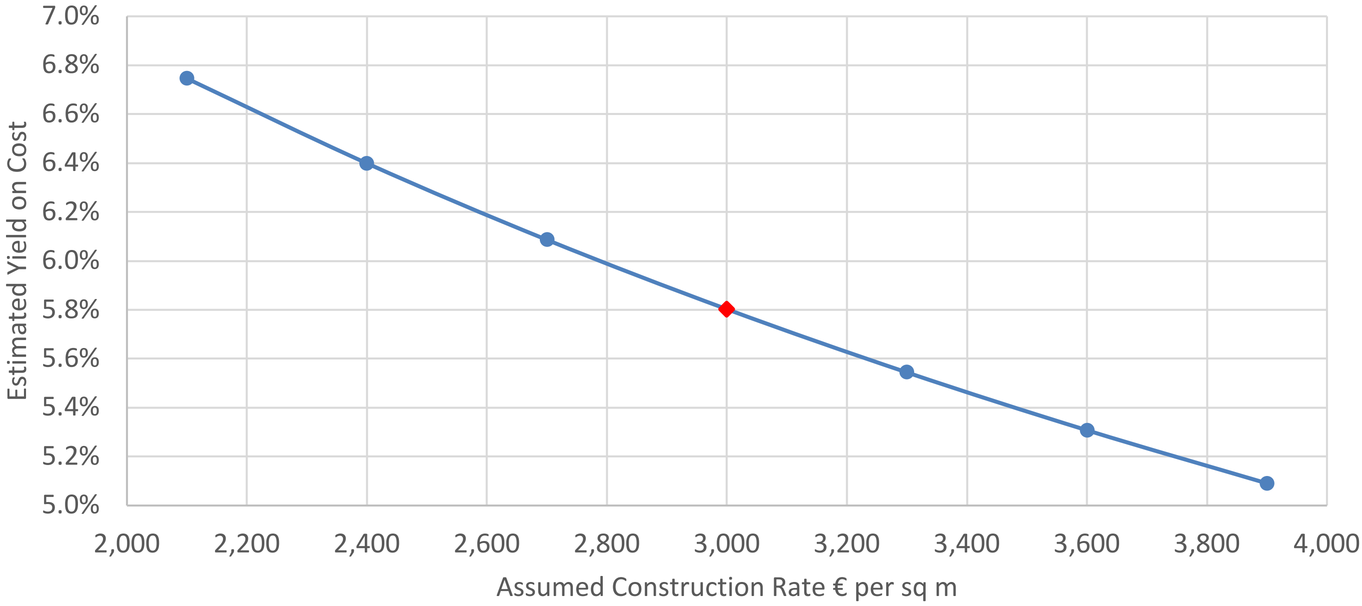

Figure 2 - Average Construction Rate Assumed v Yield on Cost

The analysis highlights the sensitivity of overall return to the construction cost, expected rental rate and exit yield assumed. The fact that the site is ready to go (with assumed completion in 24 months from start on site) and there will be a short time between sale completion and start on site de-risks the project somewhat, however, the rental rate assumptions are at the top of the market. It is to be noted that the Green REIT transaction offered a full fit-out of the building to the WeWork specification – this was equivalent to an 18-month rent free period. Our calculations indicate that this tenant incentive is equivalent to a €5 psf reduction in rent over the course of the 20-year lease.

Should you want to discuss any aspect of this analysis or how Keogh Consulting an assist you in the development and delivery of your property project please email us at info@keoconsult.com