Lisney

INVESTMENT REPORT

Q4 2020

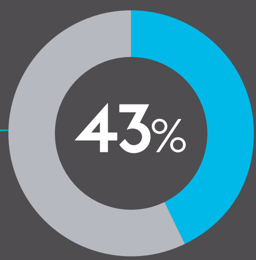
INVESTMENT IN NUMBERS

TURNOVER

€1.26 BILLION

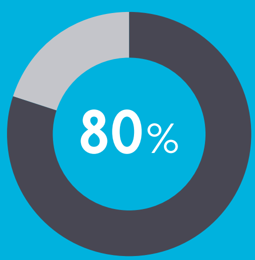
INVESTMENT PROPERTY SOLD IN Q4

SECTORS



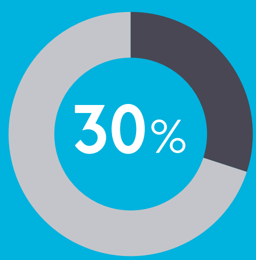
PRS PORTION OF ENTIRE MARKET

LOCATION



IN DUBLIN

OFF-MARKET



14 DEALS OFF-MARKET

INVESTMENT

OVERVIEW

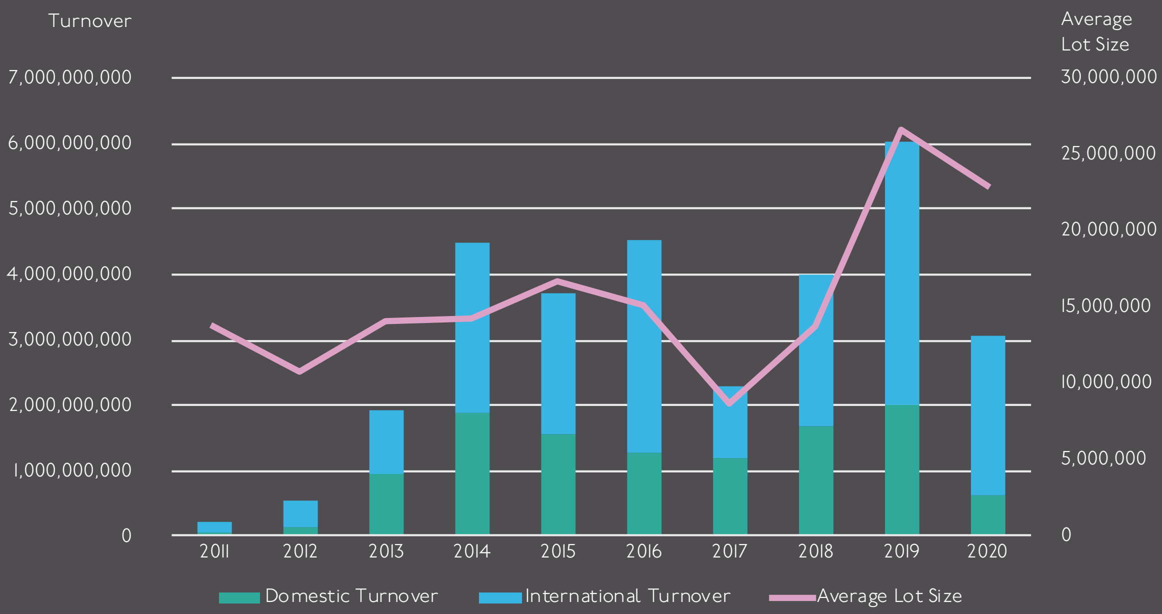
In a market sector driven by sentiment and international investors, the Irish property investment market had a relatively good year in 2020, and in the context of a global pandemic, market turnover was €3bn. While this was half the previous years' record-breaking €6bn, supply was more limited as several potential sales processes were put on hold. The inability to physically show properties between the end of March and into June also had an impact on market turnover for a period. Interestingly, the transaction size remained relatively large with 19 deals done of more than €50m and the average size across the market at €23m. Notably, in Q4, activity levels reached €1.26bn.

International travel restrictions continued to have an impact on overseas buyers seeking opportunities in Q4 2020. This will continue to for at least the first three months of 2021, if not the first six. However, those with a local presence continued to be better placed to source and conclude deals. Surprisingly, 80% of turnover related to international investors in 2020 (and over 60% in Q4) as many of the Irish institutions were absent from the market following closure of their open-ended funds earlier in the year. Travel restrictions also continued to have an impact on potential vendors decision to bring properties to the market, fearing demand would not be as strong. As a result, opportunities were placed with investors off-market through targeted approaches. The general view was that if they did not sell, they could be put to a wider audience in 2021 through on-market campaigns. Indeed, 30% of the total turnover was done off-market in Q4 and for 2020 overall, this was at 45%.

OVERVIEW (CONT'D)

Some market players expected COVID-19 to bring more value to the sector through declining rents and softening yields. Generally, this has not been the case and despite the pandemic, demand remains and new investors have entered the market. Equally, some investors are pursuing exit strategies. There continues to be significant capital chasing Irish property investments. Cash on deposit is attracting negative interest rates and some fear a stock market overvaluation. Many investors have a mandate to spend and having unused the funds for much of 2020, they are now seeking to deploy it. Most require at least five years of guaranteed income and all appear to be carrying out greater due diligence on potential purchases.

TURNOVER & AVERAGE LOT SIZE (2011 – 2020)



Source: Lisney

ACTIVITY

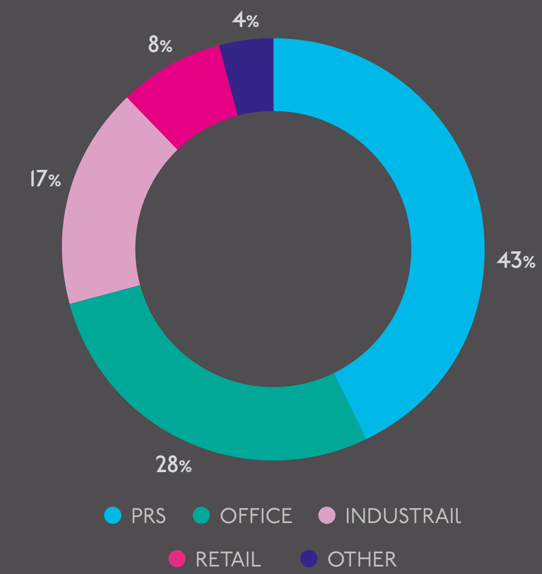
Q4 2020 was the strongest quarter of the year with turnover reaching €1.26bn across 44 transactions. The average lot size was larger than the overall for the year, at €28.6m. Dublin dominated activity yet again, accounting for 80% of all spend. As with Q3, the PRS market was the busiest with 43% of all activity in that sector. This was followed by the office sector at 28.5%, industrial at 16.9% and retail at 8%.

SECTORS

PRS

Almost €536m was spent on PRS assets in Q4, bringing the total for 2020 to €1.2bn. In Q4, seven of the thirteen PRS deals were off-market and many were done on a confidential basis. The largest was a forward purchase deal at €140m. This was followed by Round Hill Capital and Quad Real Property Group's purchase of 297 apartments in Blackwood Square in Santry. Other large transactions comprised IRES's acquisition

MARKET TURNOVER BY SECTOR
Q4 2020



Source: Lisney

of 146 apartments at the Phoenix Park Racecourse in Castleknock (€60m); Irish Life's acquisition of Charleville on Harbour Road in Dalkey (€51.25m for 94 apartments); and Orange Capital's acquisition of Project Connect (€32m for 151 apartments across 10 schemes).

For 2020 overall, it was the third consecutive year where investment in PRS assets was more than €1bn and made up approximately 38% of the market in 2020 (possibly more when confidential deals are considered) and the majority were done off-market through targeted sales. There were also several forward purchases of schemes under construction. Both of these trends will continue this year as demand for housing remains and the pipeline of potential development is healthy.

OFFICES

Investment activity in the office sector was also busy in Q4, totalling €358m or 28.5% of all investment spend in the three months. Some very substantial buildings sold including 28 Fitzwilliam Street (purchased by Amundi Immobolier for €177.5m) and Baggot Plaza (bought by Deka for €141m). There were also several office sales ongoing at the end of the year including the €400m Bloom portfolio and the €140m One Molesworth Street, both Henderson Park sales.

RETIAL

The tough year for retailers, being disproportionately affected by restrictions with rolling store closures and greater online shopping, continued to carry over into the investment market in Q4. However, Q4 was the most active quarter of the year with €100m worth of assets sold. The previous three quarters had a combined €40m in sales, three-quarters of which was in Q1. In Q4, three reasonably large assets sold off-market for a combined €66m. More defensive type assets also sold including several supermarkets / convenience stores.

INDUSTRIAL

While very few industrial assets transacted in Q4, one very large and notable deal occurred with GIC acquiring Morgan Stanley's equity position in the Exeter Group Portfolio for €200m. Overall, industrial sales accounted for 16.9% of Q4 investment market turnover (€212.2m) and 9% of the market in 2020.

The risk profile of this sector continues to reduce given the growing occupational demand from logistics operators. As discussed in Lisney's Q4 Industrial Market Update, the new developments under construction in Dublin should provide some institutional grade opportunities for investors in the coming years.

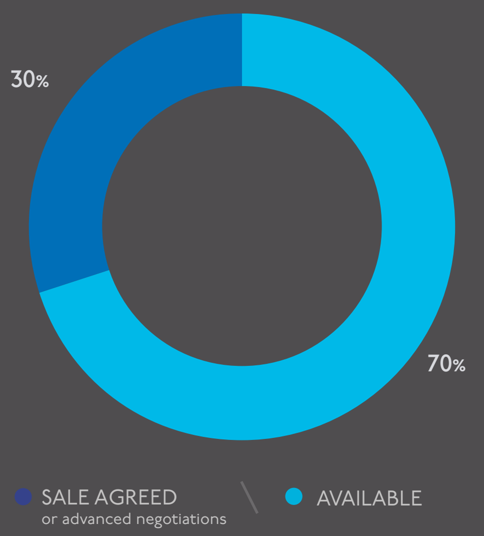
SUPPLY

There was close to €200m worth of assets on the market at the end of December 2020. These were at various stages of the sales process but with about 70% available and the remainder agreed or in advanced negotiations.

PRICING

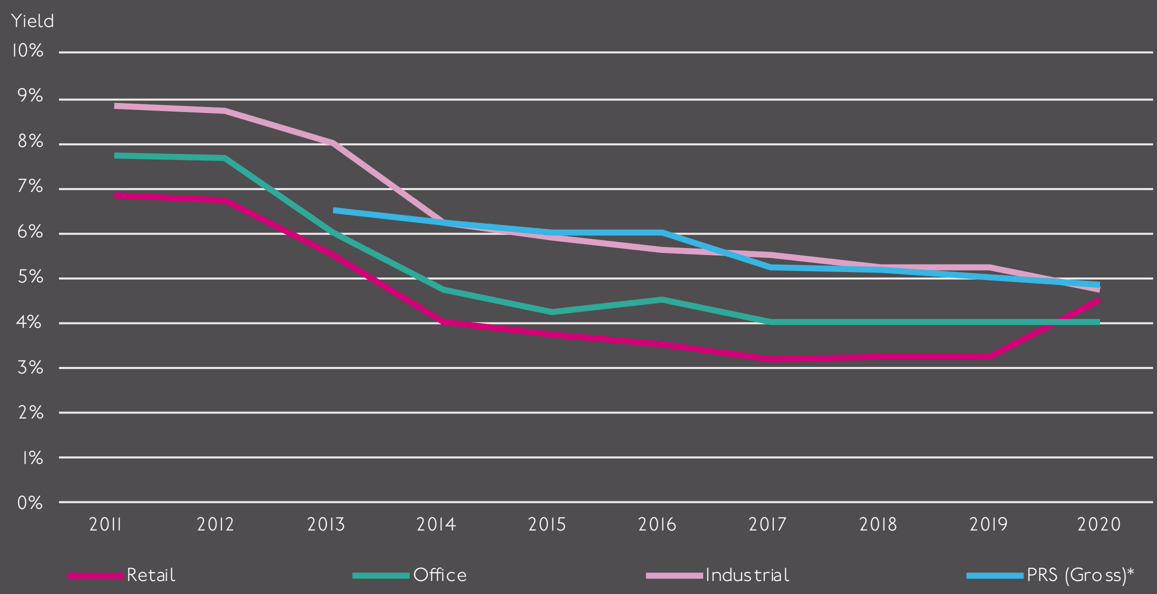
Despite the macro-economic environment, prime equivalent yields remained just at or below long-term averages across each sector in Q4. While most prime yields were stable in the quarter, prime retail yields softened further, as did secondary yields across most sectors. The impacts of both COVID-19 and the Level 5 national lockdown status in early 2021, along with Brexit will weigh on the market over the coming months and will likely push yields out further on non-prime assets.

INVESTMENT SUPPLY
DEC 2020



Source: Lisney

PRIME NET EQUIVALENT YIELDS (2011 – 2020)



Source: Lisney

PRIME NET EQUIVALENT YIELDS

	RETAIL	OFFICE	INDUSTRIAL	PRS (GROSS)*
End-2020	4.50%	4.00%	4.75%	4.85%
Annual Change	+125 bps	-	-50 bps	-15 bps
Difference to LTA	-34 bps	-177 bps	-333 bps	-66 bps
Difference to Cycle High	-234 bps	-375 bps	-410 bps	-140 bps

* PRS yields do not have OPEX accounted for and as such, are on a gross basis.
* Long-Term Average (LTA) is calculated between Q4 1980 and Q3 2020, except PRS which is between Q4 2014 and Q3 2020.

Source: Lisney

BLOCK R, SPENCER DOCK, DUBLIN 1

IN FOCUS

OUTLOOK

1. We expect Q1 and the start of Q2 2021 to be relatively subdued but the remainder of the year will be busy.
2. Some prime market yields may harden in the coming months, such as industrial and PRS, while retail and more secondary assets are likely to soften further. Pricing in some sectors has been difficult due to the lack of transactions, but this should be clearer as 2021 progresses.
3. For smaller lot sizes (between €1m and €6m), cash purchasers will shore up values, particularly for good quality dry investments. These will mainly comprise those not wishing to have negative interest rates applied to their savings and pensions.
4. Approved housing bodies' involvement in the PRS market will grow this year and they will be seeking forward purchasing deals and will compete with private investors for stock. We also anticipate that a number of opportunities with enhanced leases (or other long-term structures) to local authorities will come to the market for private sector investment.
5. We estimate that about €1.6bn worth of office property is due to the market in 2021 with more likely to emerge as the year progresses. There will also be opportunities outside of prime areas, particularly in some older business parks to consolidate ownerships.
6. Many of the larger shopping centres acquired during this property market cycle (mainly between 2014 and 2016) have reduced income streams and in turn the capital value has declined. For retail schemes purchased with debt, equity levels have now likely diminished and as a result, we expect assets to trade in the short-term. It may be the case that an investor, or even a handful of investors, will take a large position in this area, wagering on a recovery in the sector.

MEET OUR TEAM

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