Lisney

Lisney
Sotheby's
INTERNATIONAL REALTY

OUTLOOK

2023

CONTENTS

FOREWORD

2022 was another year where extraordinary and unanticipated global events shaped the world in which we live.

As we moved further away from the most severe impacts of COVID-19 there was a cautious sense of optimism that a greater sense of normality and stability would return to our lives. However, this optimism was short lived and at a global level, 2022 will be remembered most notably for Russia's unlawful invasion of Ukraine in February and the atrocities of war that were to follow.

A series of events converged which resulted in significant volatility in the property market both in Ireland and internationally. An energy crisis caused by the war in Ukraine, a cost-of-living crisis with inflation on the brink of double digits for the first time since the 1980's resulting in the ECB aggressively raising interest rates from record lows to 2.5% in a matter of months, the first such increases in almost 11 years.

Understandably, with so much economic uncertainty, we began to feel the impact in the commercial markets by the summer. Whilst there was divergent performance across sectors, there was a notable slowdown in transactional activity as volatility in the debt markets filtered into sentiment, pricing, and deal flow. A period of 'price discovery' followed and the deployment of capital was tempered as buyers adopted a wait and see position.

In saying that, there is still strong recognition internationally of Ireland's standing as a location to deploy capital with over €5.5bn invested in commercial property last year as accurately priced assets continued to attract attention.

The residential market remained buoyant with demand continuing to outstrip supply. The national narrative around

2022 WAS A VERY EXCITING YEAR IN LISNEY AS WE CONTINUED TO INVEST HEAVILY IN THE BUSINESS, MOST NOTABLY WITH THE ACQUISITION OF THE **SOTHEBY'S INTERNATIONAL REALTY FRANCHISE** FOR OUR RESIDENTIAL BUSINESS WHICH HAS PROVEN A GREAT SUCCESS.

solving our nation's housing crisis continued with some advancements throughout the year but undoubtedly this remains Ireland's greatest social challenge to be addressed.

Overall, the underlying demand and fundamentals underpinning the commercial and residential markets remain strong, with the Irish economy well placed to weather a much-anticipated global slowdown. Undoubtedly, challenges will continue into 2023 however a hopeful moderation in inflation will see stability emerging in interest rates toward the second half of the year and we believe transactional activity will increase again significantly as pent-up demand is unleashed once greater stability returns to the market.

2022 was a very exciting year in Lisney as we continued to invest heavily in the business, most notably with the acquisition of the Sotheby's International Realty franchise for our residential business which has proven a great success. In addition, we welcomed 37 new staff to the business in the year reflecting our growing client base across our commercial, valuations and residential businesses.

Despite the various challenges which might be faced by the property sector in any given year, the most enduring will be subject of sustainability and the role the real estate sector must play in this space. This will remain a central tenet of our strategy in 2023 as we work with colleagues and the communities in which we operate for a more sustainable future for all.

1

RESIDENTIAL SALES

Market stability will depend on how supply evolves and on the wider political and economic issues.

DUBLIN

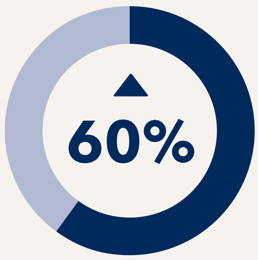
MORE OF A POWER SHARE

At the start of 2022, the market was characterised by buyer frustration. However over the summer months this quickly pivoted and what was very much a sellers' market became more of a power share. The 10% to 13% annual growth rate in Dublin prices registered since mid-2021 eased and purchasers became more price sensitive. This was due to global geopolitical and macroeconomic factors, most notably the war in Ukraine, rapid rises in the cost of living (especially energy), interest rate hikes for the first time since 2011, and less disposable income. It is evident that 2023 will be a more challenging year for the market and the timing of sales will be very important for success. It will also be important for sellers to have all contracts and legals in place as soon as possible; there is evidence of purchasers seeking price reductions when the conveyancing process drags on, particularly if they are subject to interest rate increases due to the delay. Buyer price sensitivity will remain, at least for the first six months of the year, and we do not foresee increases in prices. Market stability, especially in the second half of the year, will depend on how supply evolves and on the wider political and economic issues, both at home and around the world.

Not all price points in the market will perform uniformly. At the upper end (+€1m), there is still a large number of sales occurring both on and off-market. Given the elevated cost of construction at present, turnkey properties will do best and will attract premiums. These types of transactions often have international buyers or expats involved and are not

DUBLIN SUPPLY
STEADILY INCREASED OVER THE YEAR

THE NUMBER OF PROPERTIES FOR SALE WAS ALMOST



HIGHER AT THE END OF THE YEAR

Sandyford House, Sandyford, Dublin 18

generally relying on too much finance (if at all). The most difficult part of the market will be the mid-market (€500,000 to €1m), where buyer affordability (greatly affected by the cost-of-living and interest rate increases) and sustaining prices will struggle. Vendor expectations in this category will need to alter for sales to conclude. The apartment sector will likely remain steady, driven by the lack of stock available to owner-occupiers in core areas.

SUPPLY STEADILY INCREASING

While Dublin supply was at an all-time low in January 2022, it steadily increased over the year. Heading into the new year, the number of properties for sale was almost 60% higher than 12 months previous. This will mean fewer instances of frustrated buyers bidding far in excess of asking prices in the coming months. Part of the supply increase is being fuelled by weary investors selling their buy-to-lets as life as a landlord has become too challenging with rent caps and eviction bans, and possible additional changes. Further investors will leave the market this year, which is good news for buyers but bad news for renters and will cause even more difficulties in a severely undersupplied lettings market.

Very little supply has come from bank sales in the last five or six years. In recent months there has been a small number of these creeping back into the market. This year will determine if this is a reflection of the current situation or the start of a potentially bigger issue. At this point in time it seems likely that it is the former given the exceptionally strong employment levels and general wage growth.

The majority of supply this year will come from those wishing to trade up or down. Unlike in more recent years, the catch-22 situation of being afraid to buy until you sell, or sell until you buy, has lessened. Greater supply means better options and a stabilisation in prices will mean that a purchaser's buying power will not diminish if it takes them some time to source a new home. That said, the absence of bridging finance will still cause issues for those living in homes too large for their needs.

THE MAJORITY OF SUPPLY THIS YEAR WILL COME FROM THOSE **WISHING TO TRADE UP OR DOWN**

GREATER SUPPLY MEANS **BETTER OPTIONS**

17 Raglan Road, Ballsbridge, Dublin 4

12 Sandycove Avenue North, Sandycove, Co. Dublin

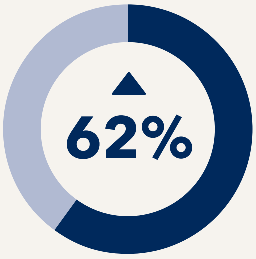
MORTGAGE MARKET GAPS

The changes to the Central Bank's macroprudential policy on mortgage lending are positive. Since the beginning of the year, LTV limits are now 90% for both movers and FTB, while LTI limits increased to 4x gross household income for FTB. As these changes were announced last October, many potential buyers held off purchasing a home in the final months of the year, and there may be an initial flurry of built-up activity, particularly from FTB. In spite of this, the benefit is likely to be relatively limited with any advantage in the immediate term negated by interest rate rises.

Fewer mortgage providers, with the exit of KBC and Ulster Bank from the Irish market, will result in further delays in approvals, drawdowns and ultimately the sales process, which will be an unwelcome feature this year.

Green mortgages will become a greater element of the market in 2023 for those that meet the environmental standards (generally minimum BER of B3). A gap may begin to develop between homes with better and poorer BERs as potential buyers will be focused on cutting costs from both mortgage repayments but also ongoing running costs of the home.

CORK SUPPLY
INCREASED BY



OVER
2022

THIS WAS FROM A LOW
BASE IN JANUARY AND THE
MARKET REMAINS UNDER-SUPPLIED

CORK

DEMAND FOR TURNKEY

Wider political and economic events are also impacting demand, supply and activity in the Cork residential market. Not all properties and price points are performing uniformly. However, a trend that carries through the market is the demand for turnkey properties that are energy efficient. This is due to the current inflated cost of any required building works in older homes and higher running costs in an environment of rapid energy inflation. While Cork supply increased by 62% over 2022, this was from a record low base in January and the market remains under-supplied. The commencement of construction of new homes began to fall back in the second half of last year as funding and construction costs increased. This will continue to be an issue in the market this year and will further impact supply. All buyer types will be affected but particularly FTB.

BUYERS RETURNING TO IRELAND

The upper end of the market will remain strong this year, but supply will not meet demand. This will be driven by Irish people who have been living overseas for several years and with the greater prevalence of remote working since COVID means they can now move home while working for companies based overseas. Many are cash buyers or just require small mortgages, which has been assisted by strong currency exchange rates. The mid and entry level parts of the market will experience affordability issues to a greater extent due to interest rate increases and less disposable income available to fund mortgage repayments. FTB in particular are affected, particularly if they have the added cost of renting. However, changes to the mortgage rules in terms of LTI will assist this cohort somewhat, as will the two government backed schemes relating to the purchase of new homes – First Home Scheme and Help-to-Buy. Despite the challenges, the overall market will be active this year, particularly as the year progresses.

Lairakeen House, Banagher, Co. Galway

COUNTRY HOMES

CASH PURCHASERS WILL CONTINUE TO DOMINATE

Many of the trends at the upper end of the Dublin and Cork markets are also relevant in country homes. Demand continues to be driven by those with little or no reliance on mortgage finance. As has become tradition, international buyers will be the most active in the Irish country homes market this year, especially for the higher priced homes. Those from overseas will be a mix of Irish abroad but also citizens of other countries seeking a full-time or part-time holiday home in Ireland. The majority will be from the US but European countries will also feature strongly. UK demand, with the exception of expats, will continue to feature less than was the case pre-Brexit. Domestically, there will be demand from Dublin-based buyers who are seeking a second home either as a holiday retreat or to live there on a semi-permanent basis.

Purchasers working in the tech sector have been active in the market in recent years, but this may lessen in 2023.

PURCHASERS WILL WANT TO SEE FAIR VALUE

New supply to the market will be a little slow in the early months of the year, but by spring, the number of country homes coming to the market will grow. While the country homes market will continue to be active and perform well, accurate pricing will be critical to successful sales. Buyers will be cautious given the wider macro-economic and political concerns, but demand will be resilient if buyers see fair value. The presence of overseas interest will remain an influencing factor in domestic buyers bidding strongly. If asking prices are too high, potential buyers (from home and abroad) will just stand back.

2 DEVELOPMENT LAND

The development land market remains challenging. Significant construction cost inflation, along with the higher cost of finance, has impacted the viability of schemes.

ACTIVITY

LOWER PRICES ACHIEVED

The development land market remains challenging, a trend that will continue into much of this year. Significant construction cost inflation in the last 18 months (various materials up anywhere between 10% and 110%), along with the higher cost of finance (if available at all), has impacted the viability of schemes. This has led to significantly reduced levels of activity in the market and lower prices being achieved. It is likely to be at least mid-2023 before demand for sites improves and into the second half of the year before activity levels increase.

PURCHASERS

CASH TO DOMINATE

Many primary and secondary funders will remain largely absent from the market in the opening months of 2023, unwilling to lend until there is more certainty on interest rates stabilising.

This will mean that cash purchasers will be the dominant buyer type in the short-term, but they will only consider deals when they see value. Those requiring debt to acquire lands will find it more difficult, however some funding will be available to those with debt-free viable sites and are willing to build-out schemes.

St Mary's Church, Ballsbridge, Dublin 4

SUPPLY

VARIOUS TYPES OF VENDORS

Supply this year will come from various sources, including those who have postponed sales in recent years, from institutions, and from those who are not now in a position to develop out schemes due to rising costs or changes to policy. Some supply will come from developers and investors that acquired sites using secondary money in the last 24 months and need to refinance. Given the cost and availability of finance from both traditional and alternative lenders, refinancing will be difficult, and some will be forced to sell.

LEGISLATION

2000 ACT TO BE REPLACED

A comprehensive new planning act is due in 2023, which will replace the 2000 Act and all of its amendments. Waiting for this legislation did cause some upheaval to the market last year, as many were awaiting the certainty provided by new legislation. This was especially significant given the large amount of change in planning and residential policy in recent years. Once adopted, it should assist in providing greater certainty to developers and landowners. It should also help in addressing the long delays in planning decisions, addressing the appointment of staff to An Bord Pleanála, which is vastly under resourced, along with streamlining judicial reviews.

The Residential Zoned Land Tax will apply to serviced residentially zoned lands from the 1st January 2024. However, the final identification of applicable land will be in the coming months, and it will be important for landowners to make submissions to the relevant local authority if they intend on keeping lands in their existing use for the foreseeable future.

It has been reported that the apartment regulations are due to be amended, removing the different minimum requirements set out for Build-to-Sell and Build-to-Rent apartments. It is unclear yet what minimum standards will be set for all apartment or if they will be different to the existing Build-to-Sell standards. This may have a large impact on the viability (positive or negative) of apartment lands, depending on how the standards change.

A COMPREHENSIVE NEW **PLANNING ACT IS DUE IN 2023** WHICH WILL REPLACE THE 2000 ACT.

WAITING FOR THIS LEGISLATION CAUSED SOME UPHEAVAL TO THE MARKET LAST YEAR, AS MANY WERE AWAITING THE CERTAINTY PROVIDED BY NEW LEGISLATION.

3

NEW HOMES

In 2022, nationwide housing completions were at their highest level in 13 years, but this still remains well below what is required. Many schemes that were viable 12 months ago are no longer so due to uncertainty.

DEMAND

ENHANCED BY GREEN CREDENTIALS

While buyer sentiment was impacted by cost-of-living increases and interest rate rises in H2 2022, demand remained for new homes. The green credentials of newly constructed dwellings have greatly assisted and will continue to do so this year. Meeting NZEB standards and having a BER of A2 or higher adds greatly to their attractiveness in an energy crisis. Additionally, the availability of lower rate green mortgages means the impact of rising interest rates is less significant than in the second-hand market.

In spite of these positive features, demand was not as strong in the final months of the year. Some buyers deferred purchasing a home in Q4 as they were waiting on the changes to the Central Bank's macro-prudential policy to come into effect – from the beginning of January the loan-to-income ratio increased to four times gross income. This is positive for purchaser demand and activity levels in the coming months. However, as the year progresses, supply and declining completions will become an issue.

SUPPLY

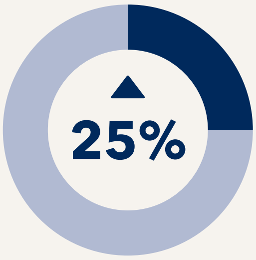
OUTLOOK DOWNBEAT

Nationwide housing completions last year were at their highest level in 13 years with an estimated 26,000 units finished. While this is about 25% higher than the previous three years, it remains well below what is required, and unfortunately the outlook for this year is downbeat. With rising construction costs taking hold, commencement notices for new schemes began to decline last summer. This unfortunately means that from mid-2023, new home supply will drop-off.

Many schemes that were viable 12 months ago are no longer so. While developers continue to complete current phases of schemes, they remain reluctant to start new phases or go on new sites until there is more certainty on costs and contractors' capabilities. This is across the board in terms of dwelling types. However apartments will be most impacted, and even apartment schemes in prime locations will be unviable in the short-term and will not progress.

Hanover Quay Dublin 2

26,000 UNITS FINISHED
THIS YEAR



HIGHER THAN PREVIOUS 3 YEARS

THIS REMAINS WELL BELOW WHAT IS REQUIRED

FIRST-TIME-BUYERS

GOVERNMENT SCHEMES WILL ASSIST

First-time-buyers make up just over half of the new home market and continue to benefit from government-backed supports. The Help-to-Buy scheme remains in place this year and next, which has significantly benefited buyers and market supply in recent years and will continue to do so in 2023.

The First Home Shared Equity scheme is also in place but to date has been relatively under-subscribed. Much of this appears to be due to lack of knowledge, as well as an apprehension of shared home ownership. In spite of this, we believe this route of home ownership will progress this year as higher interest rates will make it a more attractive proposition.

4 INVESTMENT

Prime yields have softened by between 35 bps and 75 bps and are likely to drift further in Q1.

ACTIVITY

OPTIMISTIC FOR RECOVERY

The dynamics in the investment market quickly changed last summer as global interest rate rises took hold. Deals that were agreed earlier in the year had their prices chipped and the market went into a process of price discovery. As a result, prime yields have softened by between 35 bps and 75 bps (depending on sector, location and specification) in the last six months and are likely to drift further in Q1. Pricing in the next six months will be dictated by cash purchasers, and for some larger deals based on sentiment.

Entering 2023, the market is still in that process of discovery and limited activity is occurring or likely to occur in the coming months. In most instances there is a disconnect between vendors price expectations and what purchasers (and their credit committees) are willing to pay. Some investors, mainly smaller scale cash buyers, are willing to buy assets now with less competition, but the opportunity must be a good fit meeting all their requirements, and available at a discounted price. In most instances however, investors have adopted a wait-and-see approach and want to witness greater levels of certainty in global interest rate stability before they re-engage fully with the market.

While there is no crystal ball to predict when this will occur or if other unforeseen circumstances will arise, it is likely to be into the second half of the year. We are optimistic for a recovery in demand and activity from around September and once this comes, we believe it will happen quickly. This is evidenced from previous market cycle experience but is also compounded by the fact that all types of investors have funds to spend. All are simply being prudent at present, unwilling to make substantial purchases knowing assets and perhaps funding will be cheaper in a few months' time.

WE ARE OPTIMISTIC FOR A RECOVERY IN DEMAND AND ACTIVITY FROM AROUND **SEPTEMBER** AND ONCE THIS COMES, WE BELIEVE IT WILL HAPPEN **QUICKLY**

SECTORS

DIFFERING PERFORMANCE

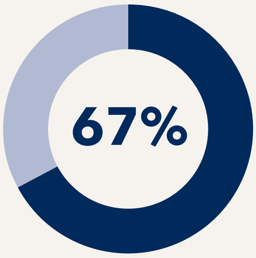
The various sectors of the commercial property market will continue to perform differently this year, heavily influenced by macro events and occupier trends. Even within sectors, assets will perform differently. High street retail along with shopping centres will attract very limited interest unless priced to sell; greatly impacted by the cost of living and the performance of fashion retailers. Conversely, supermarkets and services-led schemes will attract greater interest, but pricing will be key.

In industrial, demand remains from various categories of investors who are willing to bid counter-cyclically. Some deals are likely to be done off-market in the coming months but at yields more than 50 bps higher than 12 months ago. In offices, concerns over the tech industry and WFH will be in investors minds and given the generally large lot size, many investors in this category will be holding off until the latter part of the year. However, if priced appropriately, there will be buyers for opportunities. Investors are becoming more focused on super prime locations where properties can be easily re-let if tenants vacate.

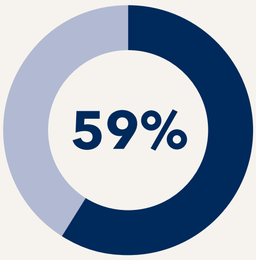
The PRS sectors has been extremely active in recent years and despite the housing and rental crisis, many investors may hold off investing further into the sector in the early part of 2023, particularly if they are involved in forward deals. Land is repricing quickly and while still unsustainably high, construction costs are beginning to move in a downward direction. Better value will be on offer later in the year, however investors will continue to watch government intervention in the sector, along with planning reform.

Salesforce HQ, Spencer Place, Dublin 1

A 2020 DEEP DIVE SURVEY BY THE CENTRAL BANK FOUND THAT:



OF PROPERTY FUNDS WERE **SINGLE INVESTOR FUNDS**



OF MULTI-INVESTOR FUNDS HAD **LEVERAGE BELOW 50%**

TRENDS

ESG TO THE FORE

The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties will come into even greater focus this year. Investors will be interested in BERs and will be seeking reports on how ratings could be improved for buildings of B3 or below. However, there are concerns on costs in the short to medium term, which will push yields higher in older buildings, particularly older office buildings. Some opportunities that were acquired on a value-add basis in the last four to five years may experience forced sales given the increased costs of works and funding.

MACROPRUDENTIAL POLICY FOR IRISH PROPERTY FUNDS

Last November the Central Bank of Ireland published its Macroprudential Policy Framework for Irish Property Funds, which introduces a 60% debt-to-total assets leverage limit. This will have a five-year implementation period (until November 2027) with funds expected to make a gradual move towards lower leverage levels over that period. Any new funds must now have below 60% leverage to be authorised by the Central Bank. There is an exception for funds that have at least 80% of their assets in social housing (long-term leases).

This policy is softer than what was initially envisaged. In 2021 it was suggested that the leverage limit would be 50% with a three-year lead in time. The reduction is welcome and will give property funds more time to comply with the restrictions, particularly now that the market is weaker and falling valuations are already having an impact on loan agreements and debt thresholds.

The Sorting Office, Dublin 2

It will also reduce the reliance of the CRE market on Irish bank funding and there is likely to be more funding interest from overseas investors. In the longer-term it will provide a more balanced investor base for the CRE market and make it less susceptible to shocks; higher levels of leverage increase the risk that in a downturn funds may breach loan-to-value covenants.

In terms of who this will affect, a 2020 deep dive survey by the Central Bank found that 67% of property funds were single investor funds and within multi-investor funds, 59% of them had leverage below 50%. Consequently, it will not impact all Irish property funds.

5 OFFICES

Demand and activity will be weaker in the first half of the year but will strengthen as 2023 progresses.

SUPPLY

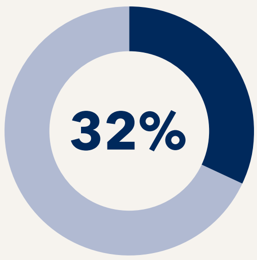
TECH AND THE RISE OF GREY SPACE

The two main talking points in the Dublin office market last year were the adjustments in the global tech industry and continued remote / hybrid working. Both trends resulted in the rise of grey space, where there is now 180,000 sqm available and more is due in the coming months. Currently, this is 32% of all supply and accounts for 4.2 percentage points of the 13.2% vacancy rate across Dublin (or 5.1 percentage points of the 13% city centre vacancy rate).

On the surface, this appears to be bad news for the market's short to medium-term outlook. However, when considered with other market dynamics, it is not as grave as it might first appear and will facilitate previously deferred moves. Grey space provides fully fitted accommodation, which is very welcome in today's market given that the cost of fit-out has almost doubled in the last two years. It also provides more flexible deals for occupiers who are still trying to ascertain their space requirements in the context of wider global economic conditions and hybrid working. International big tech has dominated both the office property market (between one-third and a half of activity) and indeed the competition for talent in recent years. We now expect to see some of the smaller scale companies, many of whom are indigenous, take advantage of recent trends; hiring staff and taking additional office space. Also positively, the IDA reports continued strong job growth by FDIs last year (almost 32,500 positions created) and further growth is projected in the first half of this year. It should also be pointed out that many of the large tech companies had very ambitious staffing targets over the last three to four years and may never have been able to fill all the office space they hold.

180,000 SQM

GREY SPACE AVAILABLE, WHICH IS CLOSE TO



OF ALL SUPPLY

3 SECTORS TO WATCH IN 2023:

1. HIGHLY PROFITABLE PROFESSIONAL SERVICES FIRMS
2. SMALLER SCALE INDIGENOUS TECH
3. THE IRISH STATE

1 Sir John Rogerson's Quay, Dublin Docklands, Dublin 2

DEMAND

REQUIREMENTS LINKED TO ESG

Entering 2023, there are active requirements in the market and about 130,000 sqm of space is reserved. It is likely that demand and activity will be weaker in the first half of the year and strengthen over the second half. While activity will come from across the sectors, three to watch in 2023 will be the highly profitable professional services firms (such as those in the legal and accountancy profession), as well as smaller scale indigenous tech and the Irish State. Demand generally will vary between short-term needs where flexibility is critical (including demand for serviced office space), but BER and other sustainability measures are less important, and those with longer-term demand, particularly larger companies, where property solutions must be ESG compliant.

Linked to this varying type of demand are varying lease terms. In 2023, the change in headline rents (up or down) may be connected to a sector's ability to pay and the types of buildings they choose.

For older buildings, incentive packages offered by landlords will be greater, which is likely to be followed in time by softer headline rents. The increase in the vacancy rate generally across the market due to additional grey space will also be a factor. For newer buildings conforming to ESG criteria, terms and rents may hold firm given the relative limited supply.

Buildings with BERs of B3 or lower (generally considered Grade B and Grade C, of which there is over 1.5m sqm of accommodation in Dublin), will be watched closely. Investors are already focused on how to improve these buildings when considering acquiring them. For many large-scale occupiers, they will have ESG promises to keep and will only consider newer and more efficient buildings. This is also true for the Irish State where it has promised to vacate <B3 accommodation by 2030. However, some exceptions may arise if the grey space on offer is at competitive rates, which will be difficult to ignore.

Nova Atria, Sandyford Business Park, Dublin 18

CONSTRUCTION

NEW & REFURBISHED BUILDINGS

Works will continue on office buildings under construction (280,000 sqm currently), however there will be little or no new starts in the near term. The higher cost of both finance and building materials are the main reasons but changing market dynamics is also a factor. Unfortunately, this creates future risks in the market, particularly in three to five years' time when there will not be enough A rated buildings to meet the demand arising from occupiers' 2030 ESG commitments. Developers, investors and funders need to keep this in mind and not over-correct.

Grade B accommodation will be watched this year and next. It will offer opportunities to braver investors and developers that can add value. Some will consider large-scale refurbishments, where prevailing office standards can be met within the existing shell. However others will consider alternative uses. Instances are already evident in Dublin where a building in Park West is being converted into a hotel and in both Tallaght and East Wall Road where conversion to refugee accommodation has occurred. Such conversion has been part of other markets for many years. In the UK for example, it is possible to convert vacant and underused offices into residential use without seeking planning permission since 2013. Lessons were learned from the initial phases of this scheme including required standards on size and light, but also around quality and location.

WORKS WILL CONTINUE ON OFFICE BUILDINGS UNDER CONSTRUCTION (280,000 SQM)

HOWEVER THERE WILL BE LITTLE OR NO NEW STARTS IN THE NEAR TERM.

THIS CREATES FUTURE RISKS IN THE MARKET

PARTICULARLY IN 3 TO 5 YEARS' TIME

6 INDUSTRIAL

The commercial property market dynamics changed as interest rate increases took hold, but the industrial sector remained the star performer.

ACTIVITY

HIGH PROFILE REQUIREMENTS

While the overall commercial property market dynamics changed last summer as interest rate increases took hold, the industrial occupational sector remained the star performer. There are numerous high-profile occupiers currently seeking space or negotiating deals, and entering the new year, combined requirements exceeded 460,000 sqm across Dublin. This is equivalent to between 15 and 18 months take-up. On the surface, this suggests another good year in 2023. However, some of these deals are sizeable and if one or two are put on hold, there will be a negative impact of activity levels, particularly in H2.

SUPPLY & CONSTRUCTION

LESS THAN 6 MONTH'S STOCK

Supply constraints are also likely to affect activity levels this year. Dublin's vacancy rate is now sub-2% with less than six months stock available. Consequently, many of the larger requirements will need to be accommodated by design-and-build agreements, some of which may be across two buildings to off-set future re-letting risk. Despite the overall market shortages, commencement of speculative new buildings will be slower because of higher construction costs but also yield softening in the investment sector and the cost of finance. Notwithstanding, it will be important for developers to have planning grants in place and be ready to move on site quickly when required. Occupiers with smaller requirements may need to settle for accommodation that is not a perfect fit either in terms of specification or location, or both. However on a positive note, construction of smaller / trade counter type units will recommence this year; none have been built in over 15 years.

COMBINED REQUIREMENTS EXCEEDED

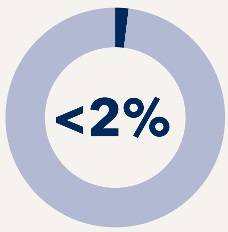
460,000 SQM

ACROSS DUBLIN

THIS IS EQUIVALENT TO BETWEEN

15 & 18 MONTHS TAKE-UP

DUBLIN'S VACANCY RATE IS



WITH **LESS THAN SIX MONTHS** STOCK AVAILABLE

Peregrine House, Dublin Airport Logistics Park

TERMS

LANDLORDS TO REMAIN BULLISH

Headline rents continued to grow last year with prime rates rising by almost 20% and reaching levels beyond that of the mid/late-2000s. This was due to both higher construction costs but also competition for buildings. The pace of growth this year will be slower as there is a ceiling on what 3PL operators can pay with their margins on contracts tight. Landlords will remain bullish on lease terms with any new buildings achieving 25-year leases with break options pushed out to year 12 or 15. Given the rise in interest rates, owner-occupiers seeking to buy vacant premises will remain more limited, but capital values will still push forward due to lack of availability.

TRENDS

ESG

ESG is coming more into focus in the logistics space for larger landlords and occupiers. Given the large carbon footprint of the operations of logistics companies, many are seeking to reduce the embodied carbon in their warehouses. For example, timber-frame (glue laminated timber) warehouses are being considered instead of a steel frame, where the frame can be 30% more expensive. While we have seen a few examples of this in Dublin, it is a trend that will grow in the years ahead. Green clauses are also becoming more common in leases as investors seek to make good on their ESG promises and meet the EU Taxonomy Regulations.

CITY EDGE MOVING FORWARD

The City Edge project continues to move forward with a high-level strategic framework released mid-2022. While this is a 50-year project and there is some way to go before it is placed on a statutory basis, businesses in the area need to be aware of what is proposed. It is a welcome plan for regenerating and intensifying uses close to the city centre. However, it appears little has yet been considered on how to accommodate many of the industrial building occupiers that will be displaced. The success of the project will greatly depend on this and where alternative accommodation or zoned land will be created.

7 RETAIL

There will be a cautious start to 2023, due to challenges including increased cost of goods, fluctuating consumer sentiment, rising energy costs, labour shortages and supply chain issues.

CAUTIOUS START

There will be a cautious start to this year. Retailers, restaurateurs, coffee shop and leisure operators will continue to analyse the ongoing viability of their business, focusing on income generation and the prevailing challenges of the increased cost of goods, fluctuating consumer sentiment, rising energy costs, labour shortages and supply chain issues.

In the latter months of 2022, there appeared to be more of an acknowledgement and acceptance that there has been a change in the city centre footfall, particularly regarding office workers and hybrid working. Tuesday, Wednesday and Thursday are the busiest weekdays in city centre and while there is a push from employers to increase the number of staff coming into the office, retailers report that footfall is ultimately down two days a week.

The impact of this on retailers is being exacerbated by the squeeze in discretionary spending as overall household costs continue to rise with inflation at 8.9% in November 2022. This is also evidenced by the CSO's data on core retail sales where a gap has emerged between the volume and value of sales, particularly since April. While value of sales (or how much is taken in at the tills) increased by 3.6% in the year to October 2022, the volume of sales (or the amount of goods sold) decreased by 4.5%.

READJUSTED DEALS

In the property market, the changing trends in footfall and spending are affecting rental affordability for many operators. Landlords who offered abatements during the pandemic want to revert to pre-pandemic levels while some tenants do not foresee the same level of turnover being achieved going forward. Negotiations between the parties will happen in 2023, which will be location and business specific. Where deals cannot be reached or business models no longer make sense after three difficult trading years, stores will close and the general vacancy rate will rise.

The CVA process in the UK has not gone away. While the number of retailers going into voluntary arrangements declined over COVID, some high-profile brands entered CVA last year including Poundstretcher, AMT (Coffee specialist), Joules, Misguided e-commence fashion and TM Lewin. With changing businesses models as noted above, further retailers are earmarked to enter CVA this year. While this relates to UK multiples, it will impact their operations in Ireland.

Notwithstanding, Grafton Street had a very good year in 2022. The vacancy rate (based on the number of units) fell to 7.6% with seven new operators taking stores. These retailers were mainly from overseas and agreed deals on adjusted terms to those sought prior to the pandemic. While the vacancy rate is higher on Henry Street (close to 13%), there will be further interest in this area during the year. The mixed-use scheme at Clerys Quarter on O'Connell Street, along with the sale of the former Debenhams store (if concluded in early 2023), will bring new life to this northern shopping core.

OMNI CHANNEL FOOD OFFERING

Similar to fashion and household retailing, there is now an omni channel expectation from operators in the food business. This includes click-and-collect, online delivery or eating on the premises are all now demanded by the consumer. Experiential dining will grow further this year, but with

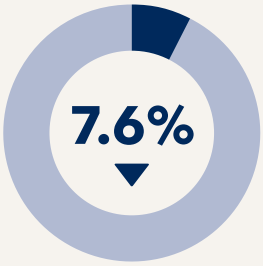
Lego Store, Grafton Street, Dublin

prices rising, there will be a greater expectation from consumers that they are getting service and value for their money. Those less impacted by rising costs and with a greater ability to spend, will have higher expectations. Those with more constrained spending will still seek good quality food at a reasonable price point, while those operators in the middle may suffer.

SUSTAINABILITY

As with all parts of the economy in 2022, sustainability moved up the agenda for retailers. Larger operators in the market are keeping a close eye on their social and environmental responsibility whilst also considering their operational ability. Supply chain resilience, circular economy and eco light packaging are terminology being increasingly used. This will continue to move up the agenda for both big and small retailers over the year as consumers, particularly younger consumers, focus on brands that align with their values.

GRAFTON STREET'S VACANCY RATE
FELL TO



WITH 7 NEW OPERATORS
TAKING STORES

8 LICENSED & LEISURE

The outlook for licensed premises property market in Dublin and most other larger regional cities remain positive this year.

TRADE STABILISED, BUT LOCATIONAL DISTINCTIONS

The licensed trade returned to relative stability last year following almost two years of COVID-related disruption. However, the market became more polarised over this period with significant distinction emerging between city centre and suburban trading locations. This will continue to be the case in 2023. Pubs in well-populated suburban areas, particularly those that serve food, will continue to benefit from consumers spending more time in their local areas as they hybrid work. Conversely, city centre premises will endure a partial absence of customers, especially the post-work Friday trade. However, tourism will be an important element for many of these central pubs, especially over the summer months.

CHALLENGES HAVE NOT GONE AWAY

While trade levels have stabilised, there are many challenges remaining for operators. Continued staffing shortages, wage growth and transition to a national living wage, record high utility costs, increases to product pricing and the hospitality VAT rate reverting to 13.5% (on food sales) in February are real concerns. However, there are also positive trends. Budget 2023 introduced grants towards energy costs to assist the viability of operations. In addition, the publication of the Sale of Alcohol Bill in October seeks to reform and streamline licensing laws to support the night-time economy in the future, which will have a positive impact once enacted later this year.

PREMISES IN DEMAND

The outlook for the licensed premises property market in Dublin and most of the other larger regional cities remains positive this year. Successful transactions will be rooted in existing owners' appetite to engage and continued funding from pillar banks as well as non-traditional lenders. The number of deals done off-market will be strong, as is the case in various other property sectors. Vendor and purchaser price expectation has realigned in recent months, mainly due to the consistent volume of sales last year, which should assist in getting deals done this year. Large suburban premises in well-established and densely populated areas will be in greatest demand as they possess the scale and capacity to sustain high volumes of food and beverage sales.

In Dublin, publicans were the dominant buyer type in 2022, followed by investors, developers for alternative use and then private equity (PE). This is the likely profile hierarchy again in 2023 as publican and investor confidence continues to improve. Redevelopment opportunities may attract less interest given the ongoing issues with construction finance and costs. PE had an exceptionally strong involvement in the market in 2021, which lessened considerably last year. This is not due to a lack of demand but rather availability of top tier premises. If suitable opportunities (high profile premises that meet all the requirement criteria) become available either on or off-market over the year, PE purchasers will feature strongly in the market. To date, most PE purchases have been in Dublin, but demand will move to the other cities.

THERE ARE MANY CHALLENGES REMAINING FOR OPERATORS.

CONTINUED STAFFING SHORTAGES, WAGE GROWTH & RECORD HIGH UTILITY COSTS

ARE REAL CONCERNS

Dudley's, Thomas Street, Dublin 8

Activity outside of the larger regional cities within more rural areas will remain more subdued (with the exception of established tourism regions) and will continue to be characterised by the closure of non-viable businesses. Demand for premises will generally remain limited to those from the local area. The closure of some pubs will improve the supply of publican licences as they are discharged when the property closes. While closures are unfortunate for the immediate area initially, it does offer an opportunity for alternatives uses and many grants and planning exemptions are now available for conversion to residential.

9 HEALTHCARE

The healthcare sector remained difficult in 2022. Severe staff shortages along with rising operational costs are issues across all parts of healthcare.

CHALLENGES REMAIN

Even with the reduction in COVID-related challenges, the healthcare sector remained difficult in 2022. Severe staffing shortages along with rising operational costs are issues across all parts of healthcare, while inadequate fair deal rates is a major issue for nursing homes. These concerns are greatly impacting the profitability of healthcare operations.

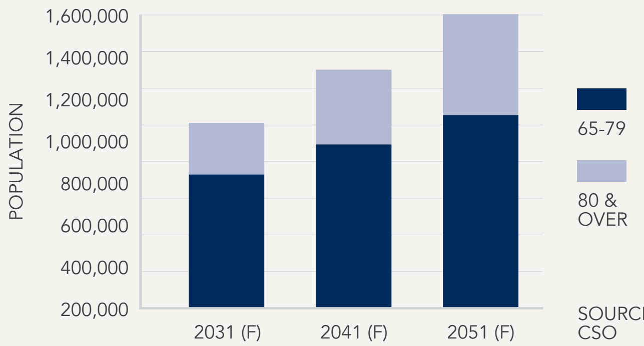
SUPPLY-SIDE ISSUES IN NURSING HOMES

Nursing home development activity has also slowed and is likely to slow further this year as the operational issues above, as well as the higher cost of construction works and development finance is making schemes unviable. Indeed, developers and operators are continuing to adopt a wait-and-see approach on sites that come to the market. This is likely to last for much of 2023, until at least construction and funding costs diminish. It is unfortunate that this slowdown coincides with a reduction in bed numbers generally – as older and smaller inefficient and non-compliant premises close or are used for other purposes.

In spite of the supply side issues, demand from operators and indeed residents remains. Recently released Census 2022 demographic information shows a continued upward trend in the number and proportion of people over 65, which is set to continue to increase for the next three decades. Recent CSO data also shows that 'healthy life years' in Ireland (i.e. the number of years past 65 that people will live in a healthy condition) is declining. Consequently, there is an essential need in the longer-term for nursing homes and independent senior living in Ireland. The sector has attracted much interest from both domestic and international investors and operators in recent years. This has not disappeared, but they will continue to be more cautious in 2023.

CENSUS 2022 DATA SHOWS A **CONTINUED UPWARD TREND** IN THE NUMBER & PROPORTION OF PEOPLE OVER 65

FORECASTED AGEING POPULATION



SOURCE: CSO

10 STUDENT ACCOMMODATION

Given the counter-cyclical nature of the asset type, investor sentiment remains strong.

OPERATIONAL MODEL CONTINUES TO EVOLVE

From an occupational point of view, purpose-built student accommodation schemes are performing very well. The majority are at full occupancy and the operational model continues to evolve. Within some schemes, the traditional 40 week academic year letting has moved to a full 52 weeks. Some are experiencing early pre-bookings and re-bookings from existing occupiers. This is reflective of the fact that many schemes cater to international students that often remain in Ireland for the full calendar year. It also reflects the crisis generally in housing where students are seeking more certainty on their housing need out of term. As across all sectors of the property market, ESG is increasing in importance, particularly around environment and social. Developers and operators are building in sustainability measures, while the in-house team is very focused on the community created within the building and shared space.

CONSTRUCTION COSTS AN ISSUE

While several new schemes reached practical completion last year in Dublin and Cork, higher construction and funding costs will hinder significant growth and new starts this year. Third-level institutions are likely to become more involved in developing their own accommodation, availing of better funding terms. There is also likely to be a greater focus on regional towns and cities (outside of Dublin and Cork), which have experienced very little development over this market cycle.

COUNTER-CYCLICAL CHARACTERISTIC

In the investment market, there were two notable deals last year, with Project Ruby the largest. Given the counter-cyclical nature of the asset type, investor sentiment remains strong. Unlike most other sectors where softening has been greater, prime yields have only moved out by about 10 basis points in the last 12 months and there will be demand for opportunities this year if suitable supply becomes available, either on or off-market.

11

CORK

The Cork investment market will remain quiet for at least the first six months of the year, whereas the industrial sector will continue to experience good levels of demand in 2023.

INVESTMENT

YIELDS HAVE SOFTENED

As with the rest of the country, the Cork investment market will remain quiet for at least the first six months of this year. Most investors have adopted a wait-and-see approach, delaying decisions until there is greater certainty on interest rate stabilisation (particularly in the EU and US) and a better understanding of where prices will settle. As the market went into this period of price discovery in Q3 2022, price chipping occurred generally across Ireland. While few transactions have occurred in Cork, this still means that yields have softened by between 25 and 75 bps to date with further outward movements likely in the months ahead, perhaps by a further 50 bps depending on sector. In spite of this, we are positive about a recovery once there is more certainty on the global outlook and the cost of finance, hopefully in the latter part of 2023. In tandem with this demand and price recovery, the impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties will come into greater focus. Investors will be much more interested in BERs and will be seeking reports on how ratings could be improved for buildings of B3 or below.

DEVELOPMENT LAND

CASH BUYERS WILL DOMINATE

The development land market experienced many similar trends to that of the investment sector in 2022. Prices fell as schemes became unviable; impacted by severe construction cost inflation, higher costs of finance (if available at all), and further government policy changes. A comprehensive new planning bill is due in early 2023, which will replace the 2000 act and all of its amendments. Waiting for this legislation did cause some upheaval to the market last year, as many were waiting for the certainty provided by the new act. Cash purchasers will be the dominant buyer type of land in the short-term, but they will only consider deals when they see value.

OFFICES

GREY SPACE DUE

The two main talking points in the office sector last year were working from home and the tech industry, not just in Cork but across all major urban areas. Grey space (or sub-lettings) coming mainly from tech occupiers has been slower to impact the Cork market. It is about 12 months behind Dublin where almost 32% of all supply is now categorised as grey. However, this trend is now beginning to become more noticeable in Cork with several occupiers considering subletting surplus accommodation. This will push the vacancy level higher in 2023 (currently at about 14%) and may impact headline rents, which have been stable in Cork since 2020. Even if rents remain unchanged, there will be greater incentive packages on offer from landlords. On a positive note, grey space is normally fully-fitted, which will provide cheaper solutions for businesses requiring flexible, short-term accommodation.

INDUSTRIAL

SUPPLY HOLDING BACK ACTIVITY

The industrial sector will continue to experience good levels of demand in 2023. While this is positive, occupiers will experience severe difficulties sourcing space, which could hold back full year activity levels. The market now has a vacancy rate of less

Counting House, South Main St, Cork

than 2% and options are limited. Any new buildings being developed have been taken mid-construction and as such, have not added to supply.

Speculative building this year will be limited due to the rising costs of construction and finance. This will mean any larger occupiers in the market may need to agree terms on a design-and-build basis. All of this will result in further rental growth in the months ahead, having already increased by 11% last year. A new data centre recently commenced construction in Little Island, one of three proposed data centre buildings that were granted planning several years ago. This is a sector / occupier type that has been inactive in the Cork market to date, and will be interesting to watch.

RETAIL

ADJUSTED TERMS

The retail sector, including those in the food and beverage industry, has been severely impacted by global events in recent years. Just as the sector was beginning to make a post-COVID recovery in early 2022, rising inflation and the resultant increase in interest rates and weaker consumer sentiment began to take hold. In spite of this, property deals have and are occurring on key retailing pitches with the vacancy rate on Patrick Street at 21% and 12% on Oliver Plunkett Street (based on the number of units). While recent deals have been on adjusted terms to those sought in 2019, opportunities are on offer to those retailers who are in a position to capitalise on them.

12 NORTHERN IRELAND

The NI Business Rating Revaluation 2023 will shift the burden of rates liability across the sectors.

INVESTMENT

CASH BUYERS WELL PLACED

While some high-profile investment opportunities transacted last year, others that came to the market in the second half of the year have yet to secure buyers. Interest rate increases in all major economies have severely impacted the cost of finance for investors, which further impacts the price they can pay for assets and pushes yields out. This year, vendors will give greater consideration to the timing of potential sales, and it is likely that buyer activity will be quiet in the initial months of the year but improve as there is greater knowledge on when interest rates will stabilise. That said, experienced investors are well accustomed to head winds and know that opportunities will emerge as yields edge out. Cash buyers will be well placed as access to traditional debt finance is constrained. They will dictate pricing in the coming months.

OFFICES

ESG WILL GAIN FURTHER TRACTION

The office market will remain in transition this year, adjusting to the post pandemic norm of remote or hybrid working. Encouragingly, a gradual staff increase in occupation of offices is anticipated for this year and unfulfilled occupier requirements that were put on hold during COVID are being reconsidered and new entrants are emerging. Rising building costs and lower market absorption rates in the last three years means that the delivery of new Grade A office buildings in 2023 will be limited. Albeit four new builds are due that will deliver a combined 45,500 sqm; The Ewart, Olympic House, City Quays and Paper Exchange. ESG will continue to gain traction and become more relevant for landlords and tenants in 2023. While minimum EPC standards for GB do not apply yet in NI, it will have a growing impact as corporate occupiers apply their GB policy standards to new leases.

INDUSTRIAL

HIGH-BAY WAREHOUSING REMAINS WELL SOUGHT AFTER

The industrial occupier market will remain active this year. Owner-occupiers and tenants will continue to bid strongly for existing good quality industrial properties. Supply of new buildings to the market will be hampered by rising build costs, which will put further pressure on capital and rental values. In spite of the value increases, speculative new builds in the immediate term may be limited, impacted by interest rates and wider factors. High-bay warehousing remains well sought after and building location has and will continue to be of less significance due to its scarcity. In the absence of speculative development, demand for design-and-build options will help drive industrial land values in the right locations.

RETAIL

ONLINE DECLINE AND RATES REVALUATION DELIVERING OPPORTUNITIES

Given the rising cost of living and wider macro-economic issues globally, consumer sentiment was impacted last year, and the retail property market suffered. In spite of this, there is more positivity for bricks-and-mortar this year as shopping habits are changing post COVID and the business rates revaluation will take affect from April.

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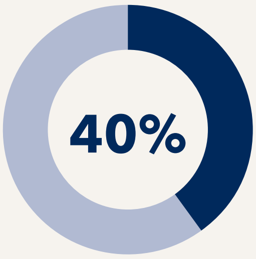

OF TRADE WITHIN BUSINESSES THAT OFFER THIS SERVICE

Online retail sales across Northern Ireland peaked during the pandemic and has since fallen back. A recent Barclays survey about retailing in NI shows the growth in popularity of omni channel shopping with click-and-collect now accounting for almost 40% of trade within businesses that offer this service. It also found that there is still considerable consumer support for high streets and retailers believe that operating a physical store is vital to their success. The rising cost of logistics premises is also affecting their ability to provide affordable delivery and online services. This bodes well for high street and shopping centre demand and activity in 2023.

The NI Business Rating Revaluation 2023 will come into effect on 1st April and with it a shift in the burden of rates liabilities across the sectors. Retail will benefit the most and savings may be significant enough to act as a catalyst for retailers to expand or relocate to more desirable locations that are now more affordable.

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