Lisney
COMMERCIAL REAL ESTATE

INVESTMENT REPORT

Q1 2023

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Almost one year on, price adjustment in the Irish investment property market continues. Many sellers and buyers remain cautious, biding their time until there is more certainty on interest rates and on wider macro-economic conditions. For higher value assets, there generally remains a disconnect between sellers and buyers in terms of pricing, however, this does not appear to be the case for lower value (<€5m) investments.

▼ €625 psm
Turnover

▼ 31
Q1 Deals

▼ >€100m
Largest Deal in Greenogue Logistics Park

▼ 90%
Dublin

▲ 43%
Off-Market

▲ >€20.2m
Average Deal Size

Arrow direction indicates trend since previous quarter

Global Economic Backdrop

The Irish property investment market was operating within the context of mixed global economic indicators in the opening months of 2023. While headline inflation was coming down in most economies, this was being driven by reversals in energy and food prices with core inflation yet to peak in many countries. Labour markets remained tight which continues to drive stronger than expected demand and which in turn may require tighter monetary policies or policies staying tighter for longer.

Despite some promising signs of stabilisation in the global economy at the beginning of the year, many commentators believe the balance of risks has moved to the downside. The major issues of 2022 continue to some degree (the war in Ukraine, inflation, limited fiscal buffers globally to absorb high debt levels and commodity prices) but they are now also compounded by new financial stability concerns in certain parts of the world. Following many years of low inflation and negligible interest rates, the sharp increases in rates in the last year have begun to have an impact on the financial sector. The turbulence in the US with Silicon Valley Bank and Signature Bank and with Credit Suisse in Switzerland highlights vulnerabilities and the importance of the ability of the financial system to absorb losses.

In Ireland, while the housing and cost of living issues persist, the key economic indicators are pointing in positive directions. Inflation is coming down, the economy is expected to continue to grow by more than 3% this year, household savings are at an all-time high (€150bn), the unemployment rate is below 4%, retail sales are growing (+2% p.a.), and exchequer is expected to have €65bn in budget surpluses in the next three years. As such, the context within which the Irish CRE occupational and investment markets are operating is in a better position than in many other countries. It is the globalised nature of the source of capital in the investment market that is holding back greater levels of activity in the sector.

3B Aungier Street,
Dublin 2

Activity

Regardless of the wider context, most notably the tremors in parts of the global banking sector, the Irish investment market performed well in Q1; market turnover reached €625m across 31 transactions and remained attractive to both domestic and international investors. While this is a respectable level of activity, it is about 45% less than the quarterly average (€1.14bn) in recent years.

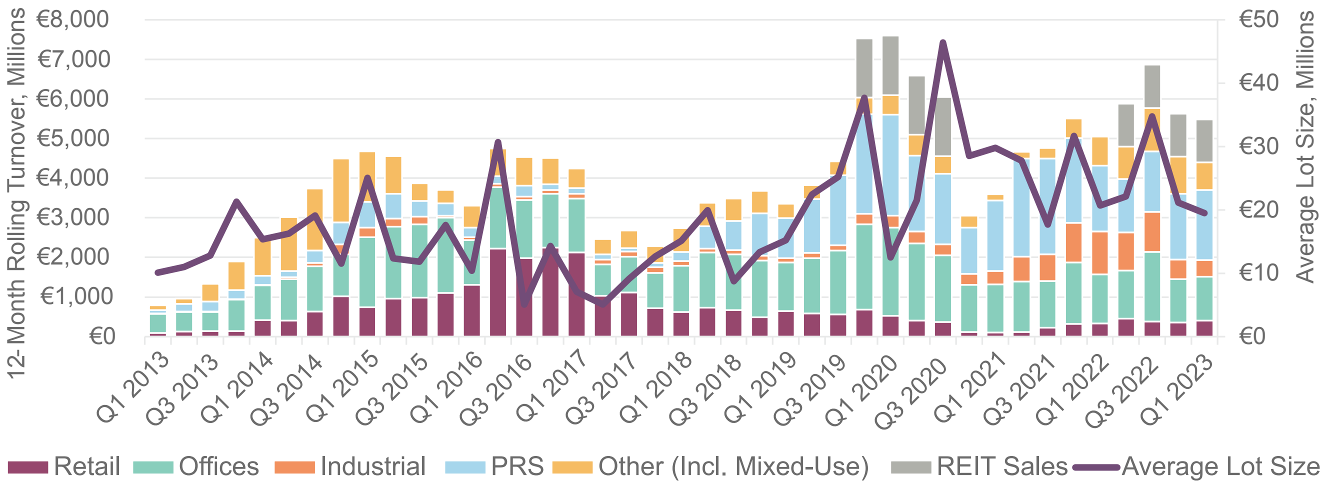
Dublin remained the dominant location for investment, accounting for 90% of the turnover. This was followed by Cork at 5% (three transactions) and 3% by Carlow (one transaction). All other counties accounted for a combined 2% of the turnover (six transactions). Off-market sales continued to dominate, accounting for over 43% of all transactions in the quarter. When confidential deals are excluded, overseas purchasers made up 73% of investment and they remained most active in the larger lot sizes. Private Irish investors were most active in the market for assets priced up to €10m.

In Q1, the smaller value assets market for properties of less than €5m maintained a consistent level of activity compared to previous years. With a total of 18 sales and an average lot size of €1.95m, the market was in line with the long-term trends.

Although the number of transactions varied, on average, there were 22 transactions completed in the first quarter over the last five years. The average lot size in Q1 2023 was slightly above both the five-year average of €1.86m and the 10-year average of €1.7m. These assets are usually less impacted by finance costs, and thus, they continue to attract new investment in the current environment of high inflation and low deposit rates.

Almost one year into interest rates rising, the Irish investment market has a 12-month rolling turnover figure of €5.5bn including Brookfield's acquisition of Hibernia REIT. Even excluding the sale of this REIT, the 12-month rolling turnover figure is €4.4bn, which emulates the 2014 to 2019 period.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q1 2023)



Source: Lisney

> €83.1m
>
> The average transaction size was large at €83.1m and compares to an average of €53m in 2022 and €36m in 2021.

Activity By Asset Type

PRS

Ireland remains in a housing crisis with demand for residential accommodation and rents at record levels. In spite of this, the PRS sector, and in particular the development of new schemes, continues to face challenges with negative media attention and interventions. High construction costs, rental growth caps, and softening yields are making it difficult for apartment developments to remain viable and as a result, are hampering future development potentially resulting in a supply shortage in the medium term. Developers are starting to engage with social housing bodies to provide future social housing while privately rented PRS developments have slowed down.

While investment in the PRS sector reached €332.5m in Q1, the number of transactions has been decreasing. In the opening quarter of 2021, 13 deals were done. This fell to nine sales in the same period of 2022 and just four sales in Q1 2023. Of four transactions completed in Q1 2023, three of them were done off-market and three were in excess of €90m individually. As a whole, the sector accounted for 53% of the overall CRE investment market in Ireland in Q1 with overseas investors continuing to dominate. The average transaction size was large at €83.1m and compares to an average of €53m in 2022 and €36m in 2021.

The largest deal was Pontegadea's acquisition of 6 Hanover Quay in Dublin 2 for €101m. Pontegadea is a Spanish investment company owned by Amancio Ortega, the founder of the fashion brand Zara. The next biggest deal was the sale of Eglinton Place in Donnybrook, Dublin 4 to M&G for €99.5m (agreed in 2022). There were two substantial purchases made on a confidential basis – a development in south Dublin sold for €92m, and another confidential property sold for €40m.

OFFICES

Investment into the office sector has been slow to recover to its pre-pandemic levels. In Q1 2023, it comprised 15% of the total activity with €90m spent across seven deals and an average transaction size of €12.9m. This is substantially below the pre-pandemic long-term average of approximately 47%. The largest deal in Q1 was the sale of Waterside, in Citywest, Dublin 24, which was acquired by Fine Grain for €65.5m (NIY approx. 7.0%). The second largest transaction was Remake's acquisition of Blackrock Business Park for €13m (NIY 8.3%). Each of the remaining five sales were each under €5m. Two out of seven transactions were completed outside Dublin, one in Cork (3 East Gate Road, East Gate Business Park sold for €4.06m / NIY 7.6%) and one in Kildare (Units 4-7, Block F, Athy Business Campus, Co. Kildare sold for €1.08m / NIY 8.42%).

Activity levels in the office investment sector have been impacted by changes in the occupational market, especially adjustments in the tech industry and working from home. Demand for the sector is also greatly impacted by the EU Taxonomy Regulations on purchasing or funding properties, particularly around buildings with BER ratings of B3 or lower.

INDUSTRIAL

The industrial investment market has been experiencing high levels of demand since the onset of the pandemic, on average accounting for 14% of quarterly turnover since then. While demand continues to be healthy, fewer buyers with active requirements are currently in the market, taking a wait-and-see approach for the next six to 12 months. Sustainability and energy use are also coming into greater focus in this sector.

In Q1 2023, the industrial sector accounted for 19% of the total market turnover with a spend of €116.5m across five transactions and an average deal size of €23.3m. The largest transaction of the quarter was a sale in Greenogue Logistics Park in Co Dublin, which accounted for over 16% of the total turnover and over 86% of industrial activity. It was acquired by Ingka Investments for more than €100m. Ingka Investments is a venture capital and private equity arm of Ingka Group, which is the parent company of IKEA. The tenant of the property carries out logistics for IKEA,

The remaining four deals in Q1 2023 included the off-market sale of an industrial and logistics portfolio in Dublin for €14.75m (NIY 5.15%) to Kennedy Wilson, along with three smaller transactions with prices ranging from €500,000 to €630,000 located in Dublin (two) and Athlone, Co Westmeath (one).

8-12 Terenure Place, 2 Templeogue Road together with 11A Rathfarnham Road, Dublin 6

RETAIL

In Q1 2023, the retail sector attracted €65.8m investment across seven transactions, with an average deal size of €9.4m. This accounted for 11% of the quarter's activity. Investor interest and demand for retail investment assets continues to be mixed and price sensitive. While there is demand for well-performing retail parks and shopping centres, vendor and purchaser pricing must align for deals to complete.

The top two deals in Q1 were both shopping centres, with Douglas Village Shopping Centre in Cork sold for €22.975m (NIY 9.56%) to Urban Green Private (an Irish real estate investment company), and Fairgreen Shopping Centre in Carlow acquired by a private investor for €20m (NIY 10.73%). This was followed by a confidential off-market sale of a property in Dublin for €9m, and 87 Grafton Street (Pandora) in Dublin 2 purchased by Woodberry Capital for €7m. The remaining transactions were each sub €5m with one of them sub €1m.

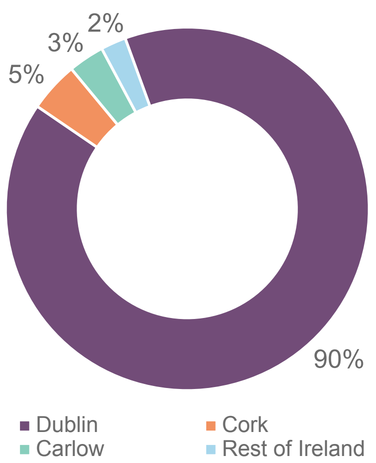
8-12 Terenure Place, 2 Templeogue Road together with 11A Rathfarnham Road, Dublin 6

Top 10 Investment Transactions Q1 2023

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Greenogue Logistics Park, Co Dublin	Dublin	Industrial	>€100,000,000
Opus 6 Hanover Quay, Dublin 2	Dublin	PRS	€101,000,000
Eglinton Place, Donnybrook, Dublin 4	Dublin	PRS	€99,500,000
P&C	Dublin	PRS	€92,000,000
Waterside, Citywest, Dublin 24	Dublin	Office	€65,500,000
P&C	Dublin	PRS	€40,000,000
Douglas Village Shopping Centre, Cork	Cork	Retail	€22,975,000
Fairgreen Shopping Centre, Carlow	Carlow	Retail	€20,000,000
Industrial & Logistics Portfolio, Dublin	Dublin	Industrial	€14,750,000
Blackrock Business Park, Co Dublin	Dublin	Office	€13,000,000

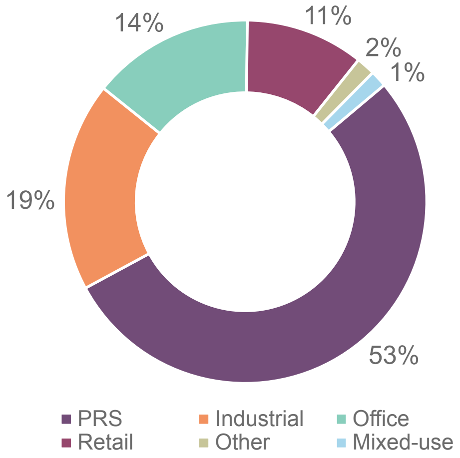
Source: Lisney

Activity By Location (Q1 2023)



Source: Lisney

Activity By Sector (Q1 2023)



Source: Lisney

Donnybrook Mall,
Dublin 4

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q1 2023	5.00%	4.50%	5.00%	4.50%
Quarterly Change	0 bps	+25 bps	+50 bps	0 bps
Annual Change	+50 bps	+60 bps	+110 bps	+75 bps

* PRS yields take into account OPEX of 20%

Source: Lisney

PRICING

The CRE market in Q1 2023 remained impacted by wider global economic, financial and geopolitical factors, which have led to a reduction in pricing and a decrease in the number of completed transactions. In turn, yields have softened, the degree to which depends on the sector.

In the office market, we estimate that prime CBD yields increased by 25 bps in Q1, moving from 4.25% to 4.50%. However, there has been a lack of prime modern supply with strong covenants to test investor appetite and pricing. Prime suburban office yields also softened approximately by 75 bps to an estimated 7.50%. Prime industrial yields have increased, by 50 bps, to stand at 5.0% at the end of March. Prime high street retail along with shopping centres remained stable, while retail parks moved out by 25 bps. In the PRS market, prime deals traded at between 4.0% and 4.5% (on a net basis) in Q1.

The most recent MSCI / SCSI Ireland Property Index figures are for Q1 2023 where 'total return' declined by 4.8% on an annualised basis (-2.0% in the quarter) for 'all property'. This was largely driven by rental and the yield softening in all sectors. The 'capital value growth' index fell by 9.3% for 'all property' in the year (-3.1% in the quarter). All sectors faced a capital decline on both an annual and a quarterly basis.

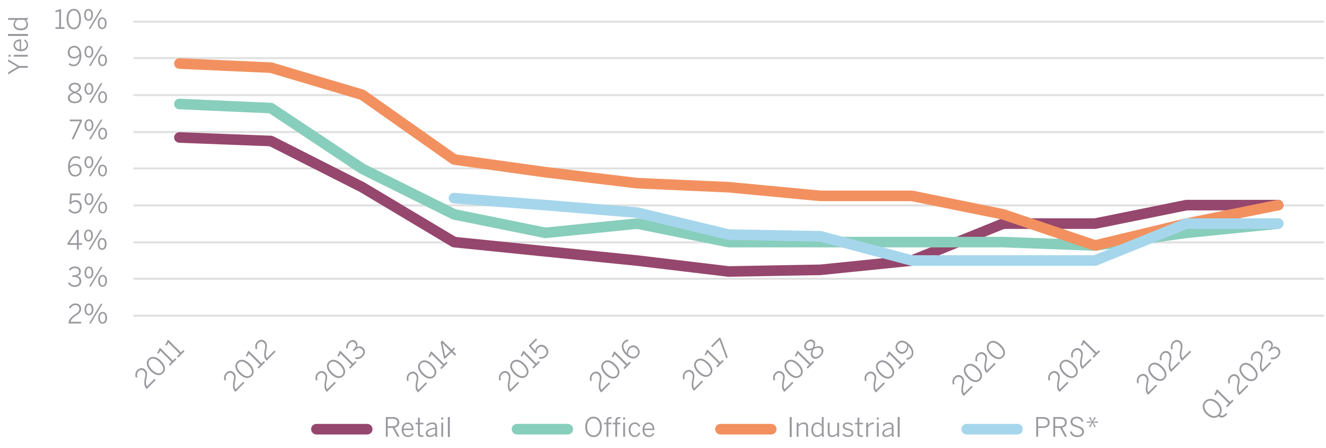
SUPPLY

At the end of Q1 2023, there was approximate €730m in combined asking prices of opportunities available in on-market deals, some of which had deals agreed. However, due to the significant amount of off-market activity taking place, this supply figure is likely to be higher.

Many would-be vendors are observing the market to see what might happen with investors in stressed or weaker positions. If they are forced to sell, it could impact the market and lead to more pronounced falls in values. Investment strategies are also changing with some investors now considering alternative opportunities like hotels and healthcare due to the lack of supply in the PRS market. Consequently, in the months ahead, some vendors might test the market with scaled-back marketing campaigns, only selling if required prices are achieved, while others may hold on until the latter part of the year to see how interest rates and pricing settles.

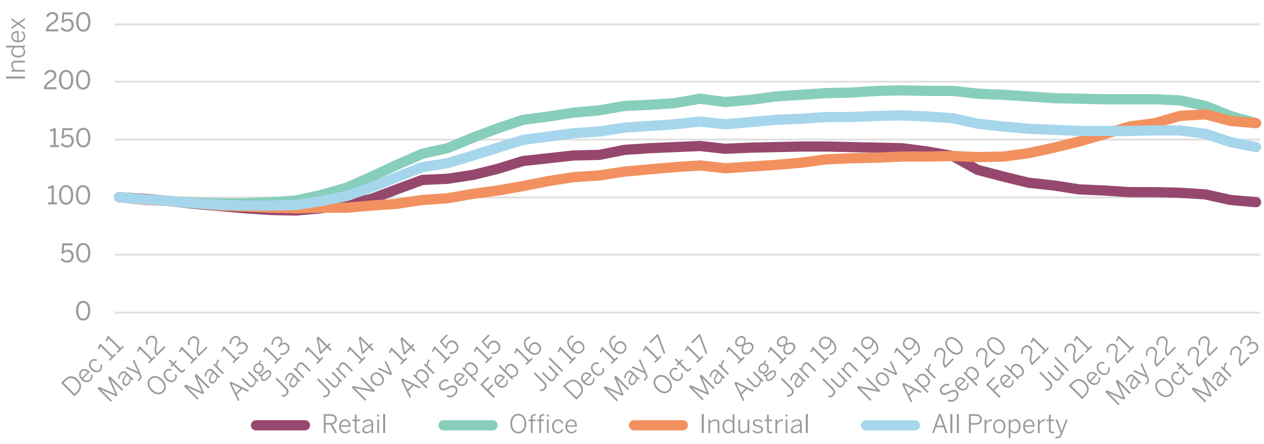
Donnybrook Mall,
Dublin 4

Prime Net Equivalent Yields (2011 – Q1 2023)



Source: Lisney

MSCI Capital Value Growth Index (Q4 2011 – Q1 2023)



Source: Lisney

Pricing in the next six months will be dictated by cash purchasers, and for some larger deals will be based on sentiment.

Outlook

The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties will remain in clear focus for the foreseeable future. Investors interest in BERs and how ratings could be improved is extremely high for buildings of B3 or below. However, there remain concerns on refurbishment costs in the short to medium term, which will continue to push yields higher for older buildings, particularly offices. Depending on the source of finance, 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.

Pricing in the next six months will be dictated by cash purchasers, and for some larger deals will be based on sentiment.

Despite the economic factors impacting the market, there is investor demand and there is still a lot of private equity money seeking a home having already been raised. It remains to be seen how much of this goes towards Irish CRE but we are optimistic for a recovery in demand. Three months ago we expected this recovery from about September, however given the tremors in certain parts of the global banking system, this is now likely to be pushed out to the first half of 2024. However, we still believe that once a recovery comes, it will happen quickly.

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