Lisney
COMMERCIAL REAL ESTATE

INVESTMENT REPORT

Q4 2023

Q4 2023

In Q4 2023, price adjustment and off-market transactions continued in the investment market. It was notable that there were no PRS deals completed for the second consecutive quarter. The industrial sector experienced strong levels of activity accounting for 58% of the total quarterly turnover while the retail sector experienced reasonably good levels of activity given the wider market conditions.

▼ €442m

Turnover

▼ 28

Deals

▲ €225m

Baldonnell Business Park, Dublin 22

Largest Deal

▲ 87%

Dublin

▲ 76%

Off-Market

▲ €15.8m

Average Deal Size Over €1m deals

Arrows represent quarterly trends unless otherwise stated.

Global Economic Backdrop

At the end of 2023, interest rates in the EU and US remain at 22-year highs and while the likelihood of further increases is now more limited, the prevailing elevated rates will mean a subdued investment property market for larger lot sizes for months to come.

The Irish, and indeed global, market in 2023 suffered from falling values, limited activity and negative sentiment with prime yields softening by between 50 and 125 bps. This led to buyer inertia, which was compounded by the mismatched pricing expectations of vendors and purchasers.

Activity

Irish investment market turnover reached €442m across 28 transactions (over €1m) in Q4 2023. This was about half of the ten-year quarterly average turnover figure but considering the challenging global market conditions, this was anticipated. 18 months into interest rate increases in Q4, the annual turnover figure was €1.84bn at the end of December. This is the lowest it has been on a 12-month rolling basis since Q3 2013.

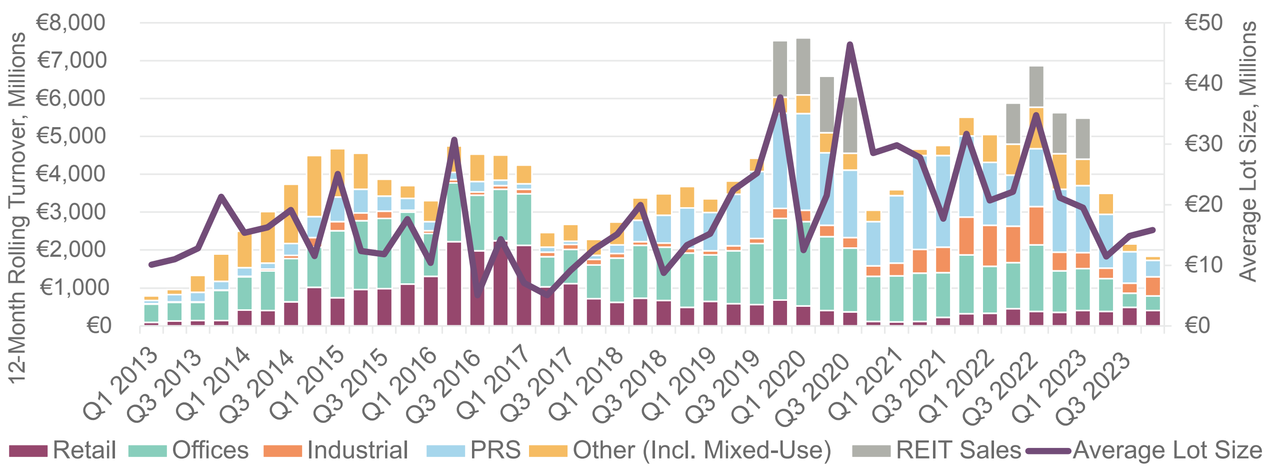
Dublin remained the busiest location for investment in Q4, accounting for 87% of all market turnover. Off-market sales also continued to dominate the market, making up 76% of total turnover in the quarter and 61% in 2023.

International investors remained the most active in the market in Q4 accounting for 64% of the total activity. These investors continue to focus mainly on the industrial and retail sectors – for assets where returns are between 6% and 8% with lot sizes of less than €40m. We are also seeing demand for sectors that showed resilience during covid such as healthcare, supermarkets, as well as student housing.

While there are pockets of liquidity across sectors and lot sizes, the biggest gap is for larger office schemes, generally over €50m in price. It is no coincidence that this is also where the biggest mismatch appears to be between buyer and seller price expectations. Much of this relates to buildings with larger floor plates and concerns around letting voids, particularly if not located in a super core location. There are also concerns around fit-out costs, sustainability requirements, and the costs associated with upgrade works for many buildings.

Demand from private investors for assets priced up to €10m continued in Q4. Activity in this price bracket was strong with 20 deals (out of 28) completed, averaging €3.8m each. This is in line with longer-term trends where, over the last five years there were on average 23 transactions (average deal size €3.81m) in this lot size completed in the last quarter of the year. Demand for such assets is driven by little or no return being made on cash-in-deposit accounts, elevated inflation in the economy (albeit much reduced) and the diminished reliance on third-party finance for purchasers in this lot size.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q4 2023)



Source: Lisney

“€310m

Since 2015, the quarterly average turnover in the PRS sector has been €310m.”

Activity By Asset Type

PRS

For the second consecutive quarter in Q4, there were no PRS investment sales, either existing stock or forward commitments. Since PRS became a part of the Irish market in 2012, there has only been two other quarters where there were no PRS sales, Q2 2023 and eight years ago in Q3 2015. Since 2015, the quarterly average turnover in the sector has been €310m. On an annual basis (but all relating to H1), the PRS sector accounted for 23.3% of the total market turnover with a spend of €427m across 10 transactions.

The market conditions that have helped the PRS market thrive in recent years have weakened. The upward movement in interest rates has eroded the premiums that PRS block values yielded over break-up values (the sale of individual units). Demand has been particularly hit for existing schemes up to €30m that are older and/or in fragmented ownership. For new schemes where forward commitments are required, elevated inflation, construction costs, rental growth caps and softening yields are making viability difficult. In many cases, developers have turned their attention to approved housing bodies (AHBs) and the Land Development Agency (LDA), which continue to have an appetite to buy in bulk in a bid to address the housing crisis nationwide.

OFFICES

Investment in the office sector has been slow to recover to its pre-pandemic levels with turnover at just €385.4m (21% of the total activity) in 2023. Investor demand has been impacted by changes in the occupational market, especially adjustments in the tech industry and continued hybrid working. Demand for the sector is also greatly impacted by EU directives on purchasing and funding properties, particularly around buildings with BER ratings of B3 or lower.

In Q4 2023, only €78.15m was spent of office investment properties and accounted for 18% of the total activity. The average lot size was €15.63m. Notable transactions within the top ten deals included the sale of Trinity Point, 10/11 Leinster Street South in Dublin 2 to OPW for €40m; The Chancery, 3/10 Chancery Lane in Dublin 8 acquired by a private Irish investor for €14m; Building 8 at The Campus in Cherrywood sold to La Francaise for €13m (NIY 5.5%); and Northwood House in Santry purchased by a private Irish investor for €9m (NIY 9.8%). There is a notable trend in the office sector where traded assets are of smaller lot sizes with smaller floor plates.

INDUSTRIAL

The industrial sector continued to experience strong demand both from occupiers and investors. In 2023, there was €507.8m spent on industrial assets with an average transaction size of €24.2m. This made up 28% of investment market turnover in the year with the sector accounting for the largest proportion of turnover for the first time ever. While demand remains for good quality opportunities, many investors are now a little more cautious. Sustainability and energy use are coming into greater focus in this sector.

In Q4 2023, the industrial sector accounted for 58% of the total market turnover with a spend of €258.5m across six transactions and an average deal size of €43.08m. This, however, was skewed by Pontegadea's (linked to Zara founder Amancio Ortega) off-market acquisition of Phase 2 at Mountpark in Baldonnell Business Park for €225m, which was the largest deal of the quarter accounting for 12% of the total turnover and 87% of industrial activity. However, when this transaction is excluded, the average lot size falls to €6.7m.

Other notable transactions included a confidential off-market sale for €20.6m; the sale of a facility in Ballycureen Industrial Estate in Cork for €5.4m (NIY 6.74%); and the sale of 1-3 IDA Industrial Estate in Gorey, Co Wexford for €4.26m (NIY 11.7%. In addition, Aveo Foods acquired Unit 1-3 Cookstown Industrial Estate in Tallaght for €2.1m (NIY 4.75%) and a private Irish investor acquired 24 Ossory Road in Dublin 3 for €1.1m (NIY 11.86%).

ABOVE: Donnybrook Mall,
Dublin 4

RETAIL

TInvestor interest in retail assets is price sensitive and generally focused on well-performing assets where vendor and purchaser pricing is aligned. In Q4 2023, there was €61.56m invested across eight deals, 14% of all market activity. The average deal size was €7.7m. Off-market transactions made up 45% of the sector's activity.

The largest deal was the off-market sale of Douglas Court Shopping Centre acquired for €21.5m. The Griffeen Centre in Lucan was sold to a private Irish investor for €7m (NIY 9.1%). In addition, the momentum in demand for high street assets continued in Q4 with the sale of The Grafton Port Collection in Dublin 2 for €13.5m (NIY 6.8%). The portfolio comprised 4-5 Grafton Street and 44-47 Nassau Street. There were two other properties sold on the surrounding streets and included 18-19 College Green for €4.185m as well as Stand Fast Property's acquisition of 4 St. Stephen's Green for €2.5m (NIY 5.46%).

The remaining three deals were outside Dublin - Bank of Ireland in Carlow acquired by a private Irish investor (€6.4m, NIY 9.47%); 4, 5 & 6 Winthrop Street in Cork also acquired by a private Irish investor (€4.375m, NIY 6.86%); and McDonald's in Balbriggan acquired by McDonald's Irish business (€2.1m, NIY 5.2%).

ABOVE: 36 Grafton Street,
Dublin 2

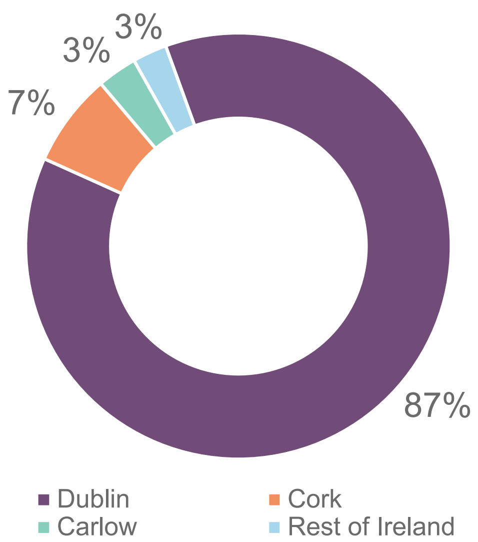
Activity Analysis

Top 10 Investment Transactions Q4 2023

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Phase 2, Mountpark, Baldonnell Business Park, Dublin 22	Dublin	Industrial	€225,000,000
Trinity Point, 10/11 Leinster Street South, Dublin 2	Dublin	Office	€40,000,000
Douglas Court Shopping Centre, Cork	Cork	Retail	€21,500,000
Confidential	Dublin	Industrial	€20,600,000
Trinity Street Car Park, Dublin 2	Dublin	Mixed Use	€18,000,000
The Chancery, 3/10 Chancery Lane, Dublin 8	Dublin	Office	€14,000,000
The Grafton Port Collection, Dublin 2	Dublin	Retail	€13,500,000
Building 8, Cherrywood, Dublin 18	Dublin	Office	€13,000,000
Northwood House, Santry, Dublin 9	Dublin	Office	€9,000,000
Clonmelsh Quarry, Co Carlow	Carlow	Other	€7,000,000

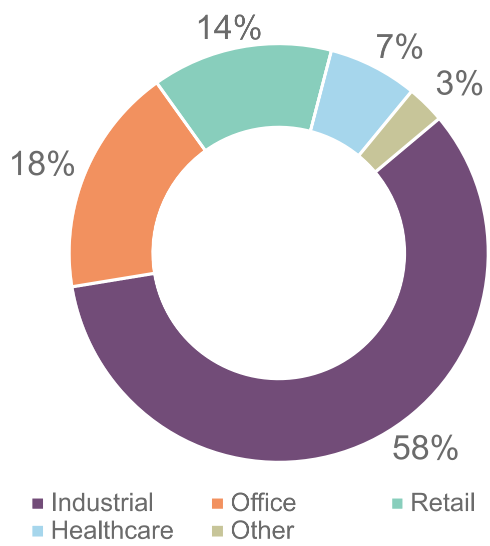
Source: Lisney

Activity By Location (Q4 2023)



Source: Lisney

Activity By Sector (Q4 2023)



Source: Lisney

ABOVE: 19 Wicklow Street, Dublin 2

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q4 2023	5.50%	5.25%	5.25%	4.75%
Quarterly Change	+25 bps	+25 bps	+0 bps	0 bps
Annual Change	+50 bps	+100 bps	+75 bps	+25 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

PRICING

The CRE market in Q4 2023 continued to be impacted by wider global economic, financial and geopolitical factors, which have led to price drops 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 in Dublin increased by 25 bps in Q4, moving from 5.00% to 5.25%. Prime suburban office yields softened by 50 bps to an estimated 8.5%. The prime high street retail along with shopping centres and retail parks have all increased by 25 bps, while the prime industrial and PRS yields remained stable.

The most recent MSCI / SCSI Ireland Property Index figures for Q4 2023 show 'total return' declined by 8.4% on an annualised basis and by 2.5% on a quarterly basis for 'all property'. The 'capital value growth' index fell by 13.1% for 'all property' in the year (-3.8% in the quarter). All sectors faced a capital decline on both an annual and a quarterly basis.

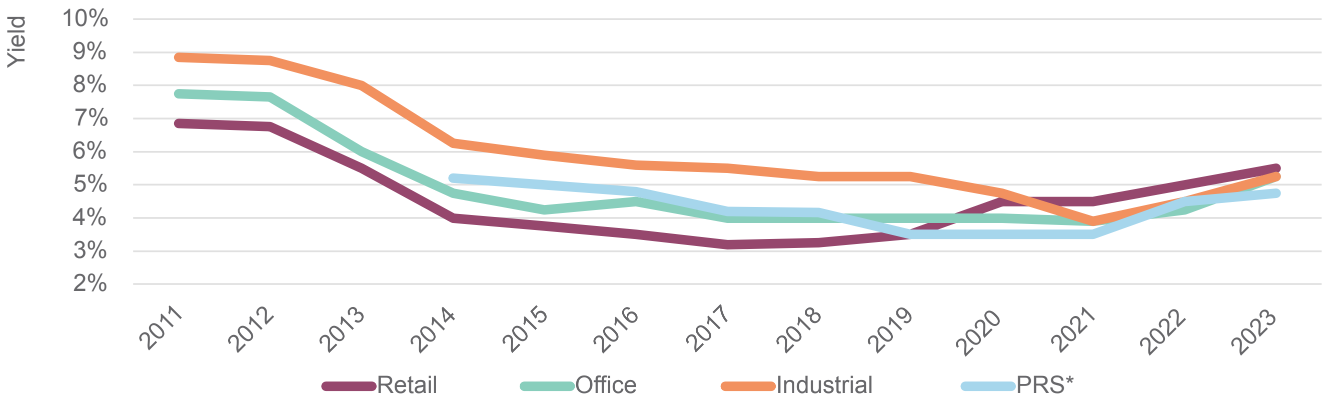
SUPPLY

At the end of Q4 2023, there was approximately €535m worth of on-market investment opportunities available, some of which had deals agreed. However, given the level of activity occurring off-market, this supply figure is larger.

Many would-be purchasers continue to observe the market to see how the situation for owners in stressed or weaker positions evolves. If these owners 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 and adequate returns in core markets. Consequently, in the months ahead, some vendors might test the market with scaled-back marketing campaigns, while others may hold on until early next year to see how interest rates and pricing settles.

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

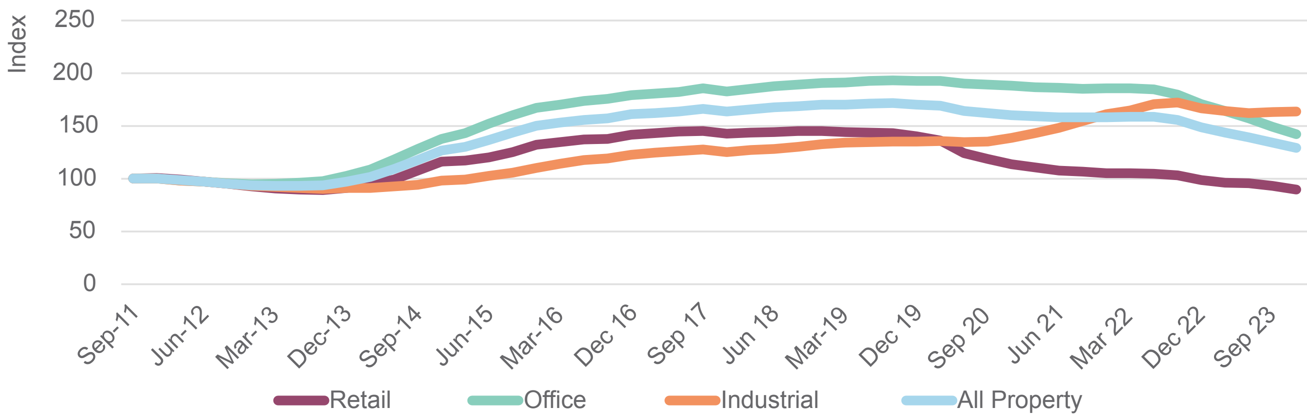
Prime Net Equivalent Yields (2011 – Q4 2023)



* PRS yields assume OPEX at 20% of income

Source: Lisney

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



Source: MSCI, Lisney analysis

We expect yields to soften further in the coming months for offices, shopping centres and high street retail as a number of assets have failed to sell or hit guides in 2023 and remain to be repriced.

Outlook

Borrowing costs are now at their highest level in 22 years in the EU. The main refinancing rate stands at 4.5%, up 400bps since July 2022 via ten consecutive increases. Encouragingly, however, rates appear to have peaked with declines anticipated into the second half of 2024.

For 2024, it is positive that there is some (albeit limited) evidence of appropriate pricing emerging, which should result in deals. How interest rates evolve will be an important factor – a steady decline to more sustainable levels is preferable as faster adjustments could mean greater issues in the underlying economy. Pricing and valuations, particularly in offices, will also be important. The significant cost of improving the sustainability credential of buildings will need to be factored-in to bridge the gap in buyer and seller expectations.

We expect yields to soften further in the coming months for offices, shopping centres and high street retail as a number of assets have failed to sell or hit guides in 2023 and remain to be repriced.

The various domestic and European sustainability policies will continue to impact how buildings are funded and occupied. For some sectors (especially offices), there is a fear that a certain grade of building will become a stranded asset – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead. This will mean further yield softening, particularly for non-prime properties.

Market pricing for shopping centres could be further tested in 2024 with the potential sale of Blanchardstown Shopping Centre and Retail Parks and The Square Town Centre in Tallaght.

Meet The Team

THE LISNEY INVESTMENT TEAM

Jackie Fitzpatrick

Director

James Nugent

Senior Director

Christopher Belton

Director

Lynda Gordon

Divisional Director

Thomas Byrne

Divisional Director

Alannah Kennedy

Surveyor

THE LISNEY RESEARCH TEAM

Aoife Brennan

Senior Director

Ausra Marcelyte

Senior Research Analyst

OUR OFFICES

DUBLIN

St. Stephen's Green House,
Earlsfort Terrace, Dublin 2,
D02 PH42

t: +353 (0) 1 638 2700

e: dublin@lisney.com

CORK

1 South Mall,
Cork,
T12 CCN3

t: +353 (0) 21 427 5079

e: cork@lisney.com

BELFAST

Montgomery House,
29-33 Montgomery Street,
Belfast, BT1 4NX

t: +44 2890 501501

e: belfast@lisney.com