INVESTMENT REPORT

Q2 2024

Q2 2024

The Irish investment market rebounded in Q2 2024 with international investors dominating activity. There was a sense of improved investor sentiment as the quarter was closing out. Asking prices and purchaser expectations were beginning to become more aligned, and while yields did move out further, this softening is likely to peak in the short-term with buyer indecision coming closer to an end.

▲ €514.3m

Turnover

▲ 29

Deals

▲ €70m

Jameson Orchard, Malahide

Largest Deal

▼ 64%

Dublin

▼ 67%

Off-Market

▲ €17.7m

Average Deal Size Over €1m deals

Arrows represent quarterly trends unless otherwise stated.

Market Backdrop

Mid way through 2024, the global economy continues to face challenges; namely from geopolitical tensions and the persistent cost-of-living crisis. The conflict in the Middle East and the ongoing war in Ukraine risk generating additional adverse shocks to the global recovery.

In spite of this, the global economy has been resilient, but interest rates have not adjusted downward as quickly as anticipated with many rates around the world remaining at two decade highs. Reductions in rates in the US are not likely until the latter half of 2024 as the FED continues to contend with elevated inflation while the ECB cut rates in June 2024 by 25 basis points to 4.25% but it has not committed to any further rate cuts this year.

In the Irish CRE investment market, there was a sense of improved investor sentiment as Q2 was closing out. Asking prices were beginning to become more aligned with potential purchaser expectations, and while yields remained largely stable, the price softening is likely to peak in the short-term with buyer indecision coming closer to an end.

Activity

Irish investment activity recovered in Q2 2024, reaching €514.3m across 29 transactions (greater than €1m). This followed a slow Q1 with only €162m invested. However, activity remained below the 10-year quarterly average of €960m. The second half of the year is expected to improve further, with several large-scale sales anticipated to close across various sectors.

Dublin remained the busiest location for investment in Q2, accounting for 64% of all market turnover. Off-market sales also continued to dominate the market, making up 67% of total turnover. The average deal size increased substantially compared to Q1, jumping from €8.1m to €17.7m.

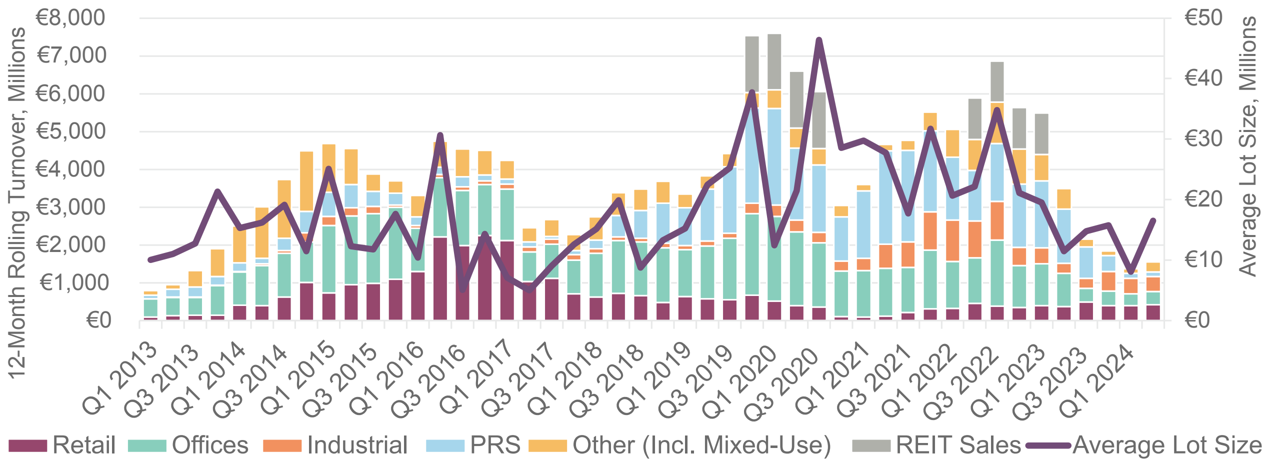
Beyond the dominance of Dublin, investor interest continued to diversify across asset classes. Regional retail parks continued to attract strong investor interest, while demand grew for student accommodation and there was a slight increase in interest in PRS deals, however, rental caps are still deterring many investors. Demand for retail assets on Grafton and surrounding streets in Dublin surged again with private individuals driving the interest.

The healthcare sector was particularly active in Q2 2024, and further deals are due to be completed in the coming months. €76.67m was spent on two significant off-market transactions, accounting for 13.6% of Q2 activity. The larger deal was Healthcare Activos's acquisition of three nursing homes (in Co Dublin, Co Laois and Co Kilkenny) in a sale-and-leaseback deal for €56.67m. The other was Valley Healthcare's acquisition of four primary care centres (in Co Limerick, Co Tipperary and Co Wicklow) for €20m.

The buyer profile in Q2 was largely mixed with significant participation from French, Dutch and UK investors. International investors accounted for 70% of the total spent and they continue to focus mainly on assets where returns are between 6% and 8%. Interestingly, domestic investors' share of the market has been growing in recent quarters and at 30% is significantly higher than their 9% in 2021 and 12% share in 2022 and 2023. However, this is of an overall smaller market and in monetary terms is in fact relatively consistent.

Demand from private investors for assets priced up to €10m continued in Q2 with 13 out of 29 deals in this price bracket. Demand for such properties is predominantly driven by little or no return being made on cash-in-deposit accounts and purchasers' diminished reliance on third-party finance at this lot size.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q2 2024)



Source: Lisney

> €79.28m
>
> A total of €79.28m was spent across two PRS deals in Q2 2024, representing 16% of the quarter's market turnover

Activity By Asset Type

PRS

Following a period of inactivity in the PRS sector in the second half of 2023, investment resumed in 2024 albeit at a subdued level. A total of €79.28m was spent across two PRS deals in Q2 2024, representing 16% of the quarter's market turnover bringing the total activity to €122.85m for the first half of the year (18.2% of half-yearly activity). The two transactions comprised the off-market sale of Jameson Orchard in Malahide to Orange Capital Partners for a reported €70m and a private Irish investor's acquisition of the residential element of the mixed-use Southgate scheme in Drogheda, Co Louth for €9.275m. Jameson Orchard was the largest transaction of the quarter and made up 14% of turnover.

The market conditions that helped the PRS market thrive in recent years remain weakened, including elevated interest rates eroding PRS block value premiums over break-up values (the sale of individual units), continued viability difficulties given higher finance and construction costs, as well as rental legislation and occupier affordability. While PRS investors will be in the market, a large proportion of developers in the medium-term will continue to focus their attention on approved housing bodies (AHBs) and the Land Development Agency (LDA), which continue to have an appetite to buy in bulk to help address the social /affordable housing crisis nationwide.

OFFICES

Investment into the office sector somewhat recovered in Q2 2024 with turnover at €90.77m (17.6% of total activity) across six deals. This compares to just €12.4m spent in Q1 and remains substantially below the 10-year quarterly average of €334m. Investor demand remained impacted by changes in the occupational market, especially lower volumes of take-up. Demand for the sector is also greatly impacted by EU directives on purchasing and funding properties, as well as targets in meeting minimum energy performance standards.

In Q2, the average lot size was €15.1m up from €3.1m in Q1 but below €19.3m in 2023. Two deals were in the top 10 and comprised the sale of 40 Molesworth Street in Dublin 2 and the Elmpark Green Portfolio in Dublin 4. The Molesworth Street property was purchased by Deka Investments for €37.5m (NIY 5.2%) and comprised an LEED Gold, BER A3 building occupied by DLA Piper and Specsavers, while the HSE acquired Starwood Capital's portfolio of offices and ancillary buildings at Elmpark for a reported €22.5m. Other notable transactions included the off-market sales of Grattan Business Park, Dublin 17 for €10.75m (NIY 7.32%) and Block 5 in Richview Office Park, Clonskeagh for €9.62m (NIY 7.46%).

INDUSTRIAL

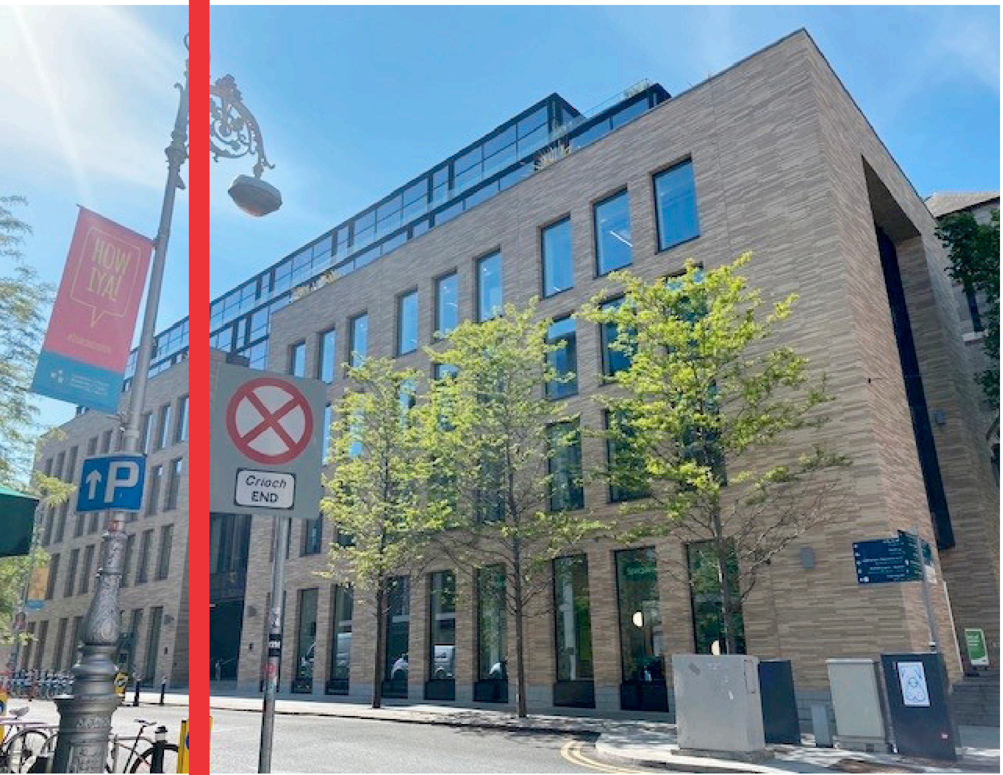
For the second consecutive quarter, the lack of industrial deals was notable in Q2 2024, particularly as it was the best-performing asset class in recent times. The sector made up only 8.3% of market turnover in the quarter and 8% for H1 2024. This was due to the lack of opportunities rather than a lack of investor interest. While demand for high-quality opportunities remains strong, many investors are now more cautious and are paying greater attention to the sustainability and energy efficiency of accommodation in the sector.

In Q2 2024, €42.88m was spent on industrial assets across six deals with an average transaction size of €7.15m. This brought the total for the first half of the year to €53.9m with an average deal size of €6m. Only one sale was in the top ten, the off-market sale of Building 1, Damastown Business Campus, Dublin 15 for €19.5m. Additionally, in Dublin the Air City Collection (4050 Kingswood, Citywest and D2 Airport Business Park) was sold off-market to M7 Real Estate for €11m (NIY 6.6%) while in Cork, a unit in Model Farm Road Estate was sold to MNK Europe for €6.125m (NIY 6.95%).

RETAIL

Retail was the busiest sector in Q2 2024 with €142.85m invested across six deals, accounting for 28% of all market activity with an average deal size of €23.8m. This brought the total spend for the first six months of the year to €209.6m (31% of total activity). Notably, 88.6% of the sector's activity took place off-market in Q2 2024.

Investor interest in retail assets, particularly in well-performing out-of-town high-yielding opportunities, remained strong. The largest deal was the off-market sale of Mahon Point Shopping Centre in Cork, which was bought by French investor Corum for €48m (NIY 7.54%). Davidson Kempner sold Letterkenny Retail Park and Deerpark Retail Park (Killarney) for a combined €40.5m, while Tesco in Balbriggan was sold in an off-market transaction to Realty.



ABOVE: 40 Molesworth Street, Dublin 2

ABOVE: 24 Suffolk Street,
Dublin 2

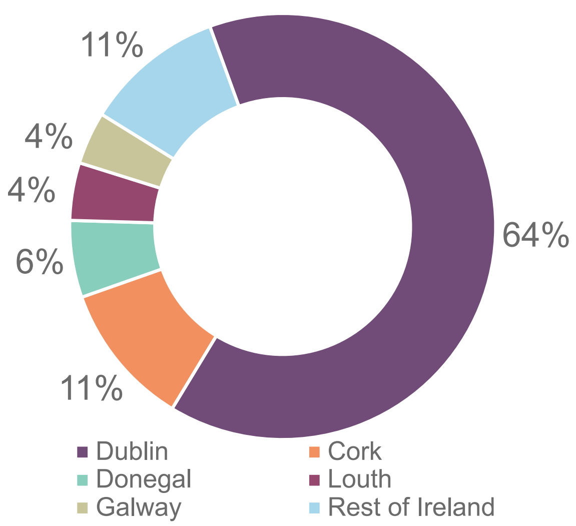
ABOVE: Grattan Business Park,
Clonshaugh, Dublin 17

Activity Analysis

Top 10 Investment Transactions Q2 2024

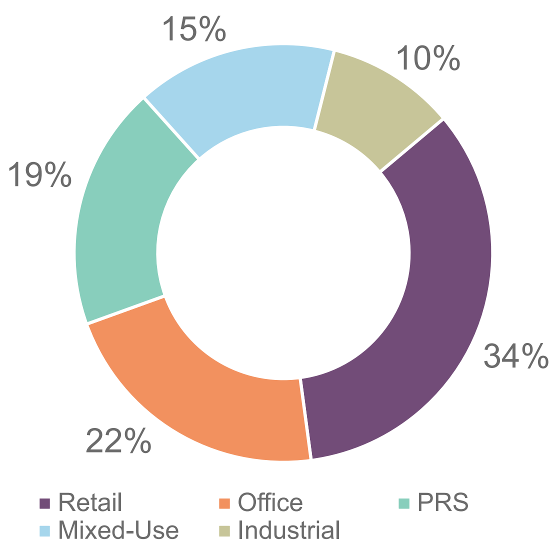
OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Jameson Orchard, Malahide, Co Dublin	Dublin	PRS	≈ €70,000,000
Portfolio of Nursing Homes (Sale-&-Leaseback)	Dublin, Laois, Kilkenny	Healthcare	€56,670,000
Mahon Point Retail Park, Cork	Cork	Retail	€48,000,000
Two Retail Parks (Letterkenny & Deerpark, Killarney)	Donegal, Kerry	Retail	€40,500,000
40 Molesworth Street, Dublin 2	Dublin	Office	€37,500,000
Tesco, Balbriggan, Co Dublin	Dublin	Retail	€26,600,000
Elmpark Green Portfolio	Dublin	Office	€22,500,000
Citypoint, Eyre Square, Galway	Galway	Mixed-Use	€20,500,000
Four Zest Primary Care Centres	Limerick, Tipperary, Wicklow	Healthcare	€20,000,000
Building 1, Damastown, Dublin 15	Dublin	Industrial	€19,500,000

Activity By Location (Q2 2024)



Source: Lisney

Activity By Sector (Q2 2024)



Source: Lisney

ABOVE: 18 Wicklow Street, Dublin 2

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q2 2024	5.25%	5.25%	5.00%	4.75%
Quarterly Change	-25 bps	0 bps	0 bps	0 bps
Annual Change	0 bps	+50 bps	-25 bps	+25 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

PRICING

Prime and secondary yields were largely unchanged in Q2, reflecting both the wider global economic, financial and geopolitical factors as well as the improvements in market sentiment. In the office, industrial and PRS markets, we estimate that prime yields in Dublin remained stable at 5.25%, 5.00% and 4.75% respectively. Similarly, prime suburban office yields remained at an estimated 8.50%. Yields of Dublin prime street assets decreased from 5.50% to 5.25% in the quarter. Shopping centre and retail park yields remained stable.

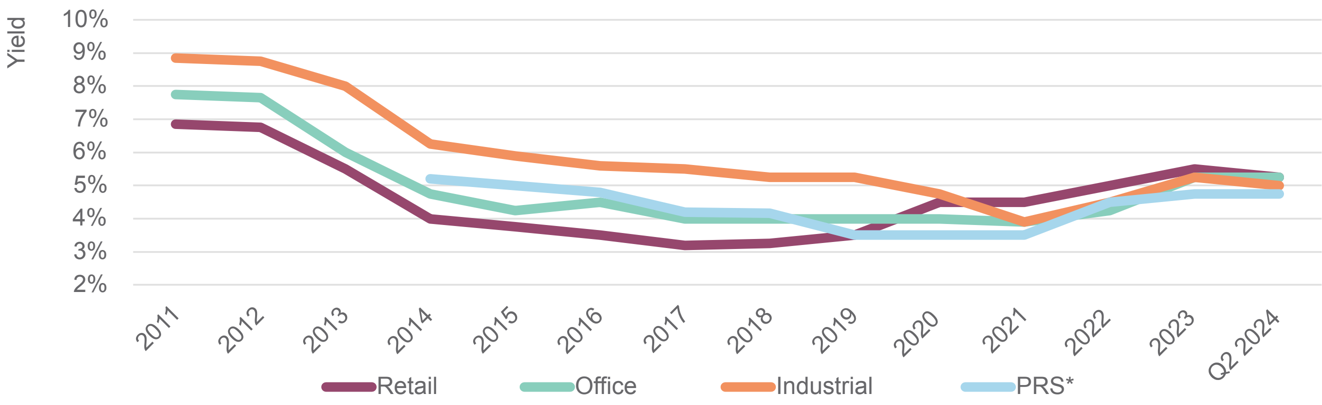
SUPPLY

At the end of June 2024, there was approximately €640m worth of on-market investment opportunities available, many of which had deals agreed. However, there is additional supply available off-market, including the substantial Blanchardstown Centre.

With the general lack of supply and adequate returns on core markets, many investment strategies are changing. Some investors are considering alternative opportunities, notable healthcare, hotels and licensed premises. Given the general improvement in sentiment and more realistic pricing emerging, fresh supply should come to the market in the months ahead, while others may hold on until early next year.

RIGHT: 48 Furze Road, Sandyford Business Park, Dublin 18

Prime Net Equivalent Yields (2011 – Q2 2024)

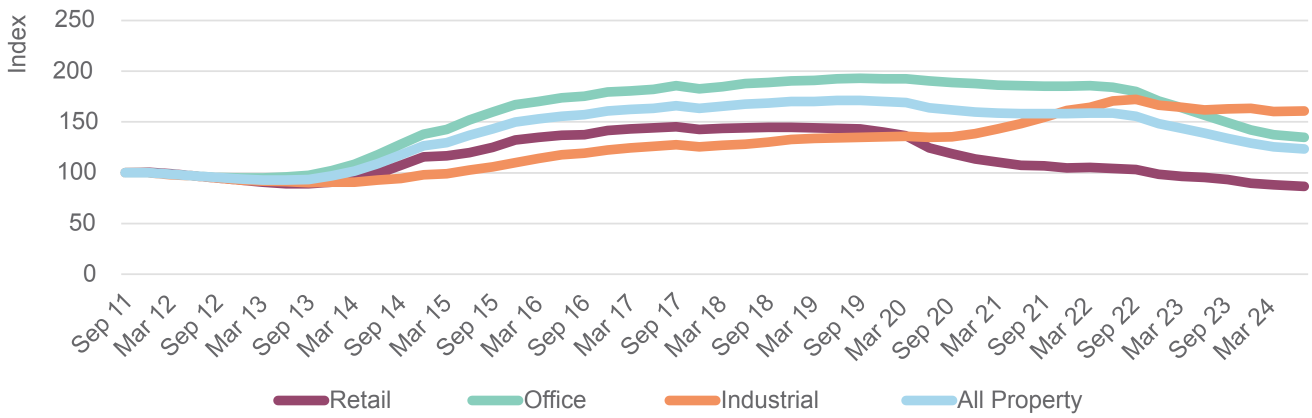


* PRS yields assume OPEX at 20% of income

Source: Lisney

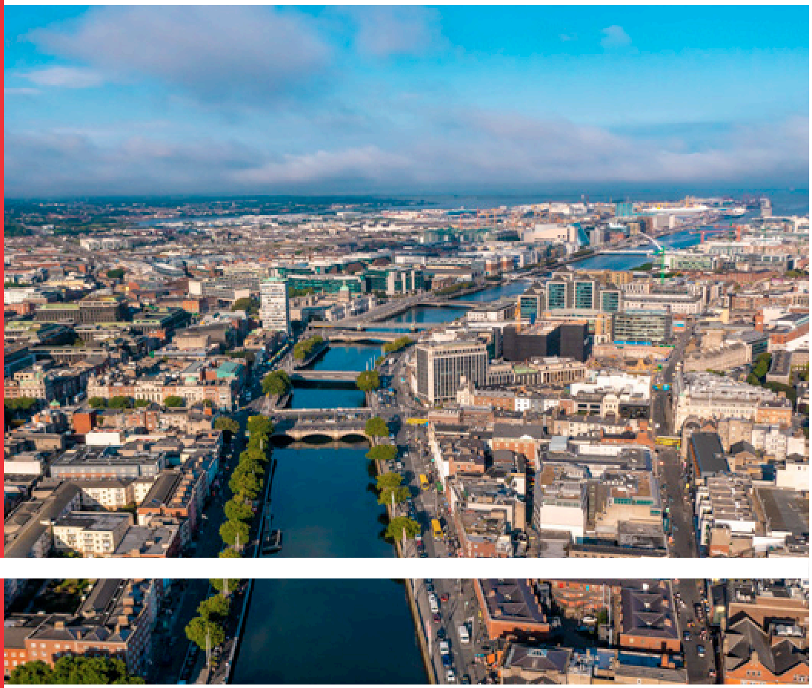
The Q2 2024 MSCI / SCSI Ireland Property Index shows that all sectors experienced a capital value decline on both an annual and a quarterly basis with the office sector falling the most (-14.1% annually and -1.8% in the quarter).

MSCI / SCSI Capital Value Growth Index (Q4 2011 – Q2 2024)



Source: MSCI, Lisney analysis

Activity levels are expected to improve in Q2 and into the second half of 2024, from the decade low reached in the opening months of 2023.



Outlook

Activity levels are expected to improve further in H2 2024. Several larger deals were already in progress entering July and more supply is due in the coming months. Off-market transactions will remain prevalent. The full-year 2024 turnover level will depend on what off-market deals get completed in addition to what assets come to the market in the Autumn – and importantly, how interest rates move in the coming months. However, it is likely to reach at least €1.6bn.

Pricing and valuations, particularly in offices, will be important in the short-term. 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.

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 may mean further yield softening, particularly for non-prime properties.

Demand will continue for industrial assets due to good occupational demand while financing challenges and viability concerns will persist in the PRS sector.

Meet The Team

THE LISNEY INVESTMENT TEAM

Jackie Fitzpatrick

Director

James Nugent

Senior 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

Lisney
Commercial Real Estate

PSRA: 001848

lisney.com

@LisneyIreland