Lisney
COMMERCIAL REAL ESTATE

INVESTMENT REPORT

Q3 2024

Q3
2024

The Irish commercial real estate market continued on its cautious recovery path in Q3. Investor sentiment improved further, supported by reducing global interest rates. Investor demand was strong across several sectors if the pricing is right, particularly for resilient assets with strong ESG credentials. While off-market deals and smaller transactions dominated Q3, larger opportunities did begin to emerge.

▲ €596.55m

Turnover

▲ 24

Deals

▲ €130m

The Square Tallaght, Dublin 24

Largest Deal

▼ 79%

Dublin Proportion of the market

▼ 60%

Off-Market

▲ €24.85m

Average Deal Size Over €1m deals

Arrows represent quarterly trends unless otherwise stated.

Market Backdrop

The global economy continues to face challenges; among them, it remains impacted by the ongoing geopolitical tensions in the Middle East and in Ukraine, as well as the uncertainty around potential shifts in trade and fiscal policy as a result of newly elected governments around the world (half the world population will have voted in 2024), including the outcome of the US Presidential Election in November.

In spite of this, the overall global economy is relatively stable, largely driven by the US and Indian economies. However, various other advanced economies (like Germany and France) and many emerging economies (including China) remain underwhelming.

Disinflation is a feature of most economies, but service price inflation remains more elevated than goods. With inflation more under control, both the ECB and the US Federal Reserve cut interest rates in September; the former by 60 bps to 3.65% and the latter by 50 bps to a range between 4.75% - 5%. Part of the ECB rate cut was due to a long-flagged technical adjustment to reduce the gap with the deposit rate. Just past the end of Q3, the ECB further cut the main refinancing operations rate by 25 bps to 3.4% (effective 23rd October 2024). Further loosening of rates is expected in Q4 and with these cuts imminent, investor sentiment is more optimistic than 12 months ago. Consequently, the investment property market is likely to experience further uplifts in turnover levels in the coming quarters.

Activity & Demand

In Q3 2024, Irish investment activity reached €596.55m across 24 transactions (greater than €1m), bringing the total for the year to date to €1.27bn. However, activity remained below the 10-year quarterly average of €960m. Large-scale transactions (sales of over €50m) contributed significantly to this growth despite fewer overall deals compared to the previous quarter.

Although overall turnover for the first nine months of 2024 was 9% below 2023 levels, predominantly due to a weak first quarter, activity in Q2 and Q3 outperformed the same period last year by 56% and 34% respectively.

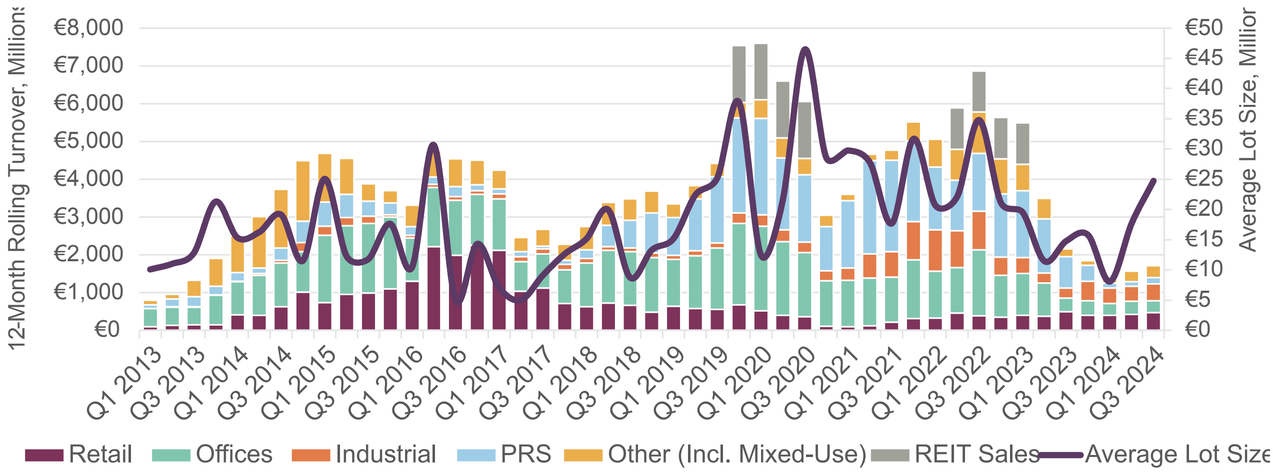
In Q3 2024, Dublin was the busiest location for investment transactions, accounting for 79% of all market turnover. Off-market sales continued to be a prominent feature in the market, making up 60% of total turnover. The average deal size increased substantially, jumping to €24.85m from €17.7m in Q2 and €8.1m in Q1.

Investor interest continued to diversify across asset classes in Q3. The retail sector led investor spending, driven by the €130m sale of The Square in Tallaght, while the office and industrial sectors also experienced a resurgence. Notably, the first significant purpose-built student accommodation (PBSA) transaction since Q3 2022 occurred with Hines acquiring Scape Dublin, a 298-bedroom asset in Dublin 2, for approximately €79m. The accommodation originally opened in 2020, and since the transaction, it has been rebranded as 'aparto Dublin Stephen's Quarter'.

The buyer profile in Q3 was mixed but with notable participation from French, German and UK investors. International investors accounted for 79% of the total spent and they continue to focus mainly on properties where returns are between 6% and 9%. Interestingly, domestic investors' share of the market has been growing in recent quarters and while in Q3 it stood at 21%, for the year to date it was 26%, significantly higher than 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.

Investors continued to show strong interest in resilient sectors that performed well during COVID. These include industrial, retail warehousing, supermarkets and healthcare. In addition, assets with strong tenant covenants and longer WAULTs (typically over six years), as well as a renewed focus on super-prime locations. Good ESG credentials are increasingly more important, especially given the high costs of refurbishment and the challenges in improving BERs in tenant-occupied buildings. While investment appetite in the residential sector remains healthy across Europe, Ireland's rental caps continue to deter many investors.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q3 2024)



Source: Lisney

“ **€143.4m**

Investment in the office sector continued to recover in Q3 2024, with turnover reaching €143.4m. ”

Activity By Asset Type

PRS

Activity in the PRS sector remained at a subdued level in Q3 2024. There were only two PRS transactions in the quarter totalling €44.65m and representing 7.5% of the total turnover. This brings the sector's total activity for the first nine months of 2024 to €167.5m (13.2% of the entire). Between 2018 and 2022, the average PRS sector turnover was €1.7bn annually (€430m quarterly) and the average sector share was 37% annually (38% quarterly). The two transactions in Q3 comprised the off-market sale of a social housing development with a long-term lease for €38m and a private investor's acquisition of Hampton Square on the Navan Road in Dublin 7 for €6.65m.

The market conditions that previously supported a thriving PRS sector have weakened, with higher interest rates reducing block value premiums over break-up values, and ongoing challenges from higher finance and construction costs, as well as rental legislation and affordability issues. While PRS investors have active requirements across Europe, in Ireland, many developers have shifted medium-term focus to approved housing bodies (AHBs) and the Land Development Agency (LDA), which continue to purchase in bulk and/or pre-construction to address the nationwide social and affordable housing crisis.

OFFICES

Investment in the office sector continued to recover in Q3 2024, with turnover reaching €143.4m (24% of total activity) across 11 deals. However, this remained well below the 10-year quarterly average of €334m, bringing the total office sector spend to €246.7m for the first nine months of the year. In Q3, the average lot size was €13.04m, slightly down from €15.1m in the last quarter but substantially up from €3.1m in Q1.

One transaction was in the top five deals and comprised the sale of One Warrington Place in Dublin 2 for €44m (NIY 6.3%). Continuing with the trend of French investor activity, Atland Voisin made its first purchases in Ireland in Q3. It acquired two office properties in Dublin 2; 20 on Hatch for a reported €24m and Kingram House for €10.3m. Kingram House formed part of a wider portfolio owned by Ronan Group Real Estate, which included Connaught House and Bewley's Grafton Street, and was offered to the market on behalf of receivers Grant Thornton. Other notable office transactions included Kilmore House, Spencer Dock, Dublin 2 for €18m; The Wythe Building for €13.5m; and 1 Custom House Plaza in Dublin 1 for €10m.

While concerns persist regarding financing, vacancy rates, and stricter ESG requirements, there are pockets of positivity in the office occupier market with demand for smaller floor plates in the right locations, be it a super prime location close to amenities, or close to affordable Dublin housing where office lettings have shown resilience.

INDUSTRIAL

Activity in the industrial investment sector somewhat rebounded in Q3, however, it was more subdued when compared to recent years. This is due to a lack of opportunities rather than a lack of investor interest. The sector made up 23% of the quarter's market turnover with €135.15m spent on industrial assets across five deals with an average transaction size of €27m. This brought the sector's total for the first nine months of the year to €189m with an average deal size of €13.5m.

Three out of five sales were in the top ten deals, one of which made it to the top five. Two units at Ashbourne Business Park in Co Meath were sold in an off-market sale and leaseback deal to Deka Immobilien for €70m. The property is occupied by Primeline Group, an Irish provider of logistics, distribution, and marketing services. While Deka has invested in property assets in Ireland for many years, this is its first logistics investment in Ireland. The units were completed at the beginning of 2024 and meet the Nearly Zero Energy Building (NZEB) standards with 30% of the total energy needs of the buildings covered by two photovoltaic systems. Additionally, a facility in Swords, Co Dublin was sold off-market to a private investor (the Moffit family) for in excess of €21m, and 100 Northwest Business Park in Dublin 15 was sold to Pictet, a Swiss multinational private bank and financial services company, in an off-market transaction for €13m. M7 Real Estate acquired Units 32, 35 & 36 on Blackwater Road in Dublin Industrial Estate, Glasnevin for €3.4m.

ABOVE: Custom House Plaza, Dublin 1

RETAIL

As was the case in Q1 and Q2, retail was the busiest sector in Q3 2024 with €194.35m invested across five deals, accounting for a third of all market activity with an average deal size of €38.87m. This brought the sector's investment for the first nine months of the year to €404m (32% of total activity). Investor interest in retail assets, particularly in well-performing out-of-town high-yielding opportunities, remained strong.

The largest deal (both retail and overall market) in Q3 was the sale of The Square in Tallaght to Eagle Street Partners and Arrow Capital for €130m (NIY 8.71%). The sale accounted for 29% of the total quarter's turnover and 67% of the quarter's retail market activity. In Cork, Lugus Capital and Patron Capital acquired Blackpool Shopping Centre and Retail Park in an off-market transaction for €48m. In terms of high street sales, 45-47 Henry Street in Dublin 1 was sold to a private Irish investor in an off-market transaction for €10.25m (NIY 6.45%). The remaining two deals were each below €5m.

LEFT: The Courtyard, 40a Main Street, Blackrock, Co. Dublin

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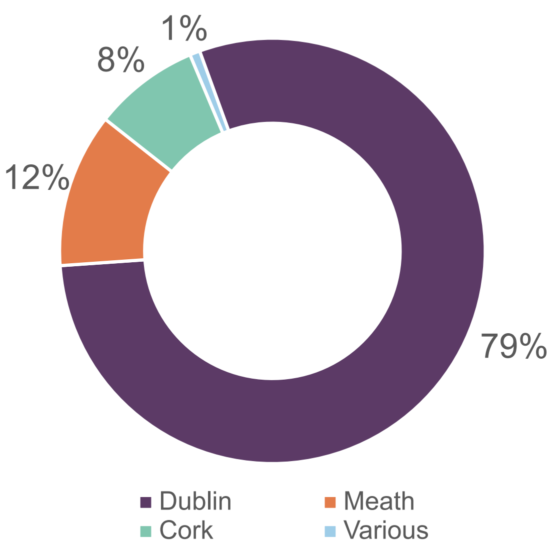
Activity Analysis

Top 5 Investment Transactions Q3 2024

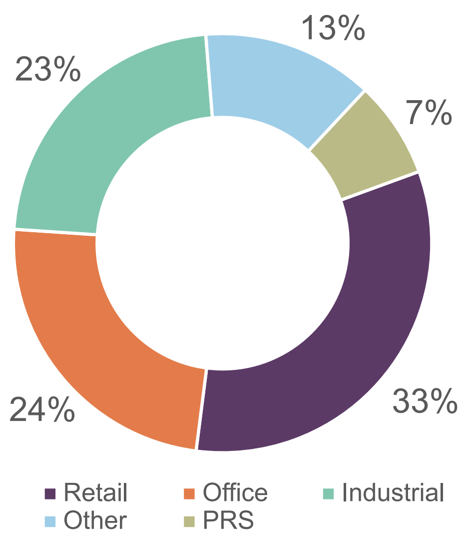
OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
The Square Shopping Centre, Tallaght, Dublin 24	Dublin	Retail	€130,000,000
Scape Dublin, Dublin 2	Dublin	PBSA	€79,000,000
Units at Ashbourne Business Park, Co Meath	Meath	Industrial	€70,000,000
Blackpool Shopping Centre and Retail Park, Cork	Cork	Retail	€48,000,000
One Warrington, Dublin 2	Dublin	Office	€44,000,000

Activity By Location (Q3 2024)



Source: Lisney

Activity By Sector (Q3 2024)



Source: Lisney

ABOVE: 3016-3018 Lake Drive,
Citywest, Dublin 24

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q3 2024	5.15%	5.35%	5.00%	4.75%
Quarterly Change	-10 bps	+10 bps	0 bps	0 bps
Annual Change	-10 bps	+35 bps	-25 bps	0 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

SUPPLY

At the end of September 2024, there was approximately €390m worth of on-market investment opportunities available, many of which had deals agreed. However, considering the off-market sales activity, market supply is substantially larger.

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 and into the new year.

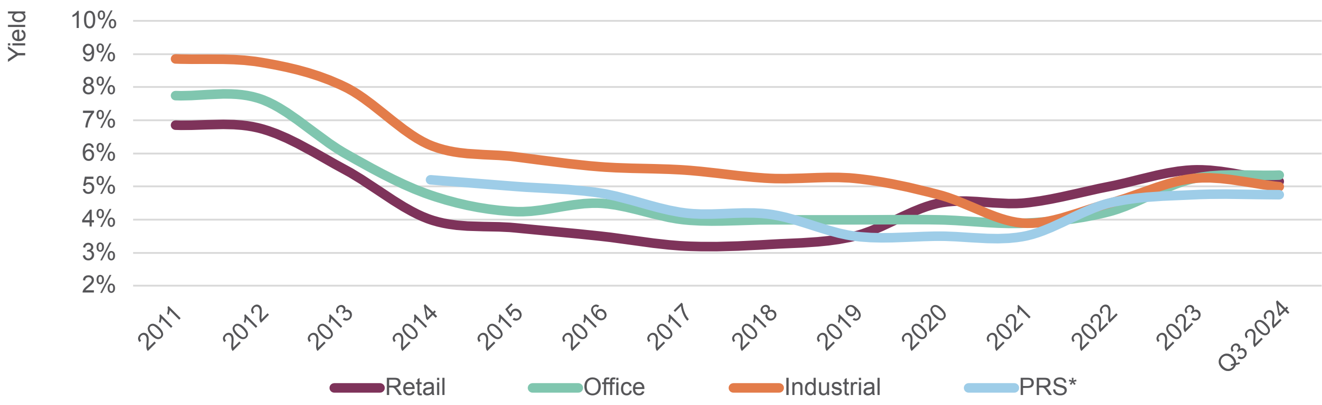
PRICING

In the industrial and PRS markets, we estimate that prime yields in Dublin remained stable in Q3, at 5.00% and 4.75% respectively. Prime Office yields slightly increased from 5.25% to 5.35% while prime suburban office yields decreased to 8.25%. Yields of retail properties on Dublin's prime high streets decreased from 5.25% to 5.15%. Shopping centre and retail park yields remained stable.

The Q3 2024 MSCI / SCSI Ireland Property Index shows that all sectors experienced a capital value decline on an annual basis. On a quarterly basis, industrial was the only sector to show value growth, while the office sector recorded the largest decline

RIGHT: 100 Northwest Business Park, Dublin 15

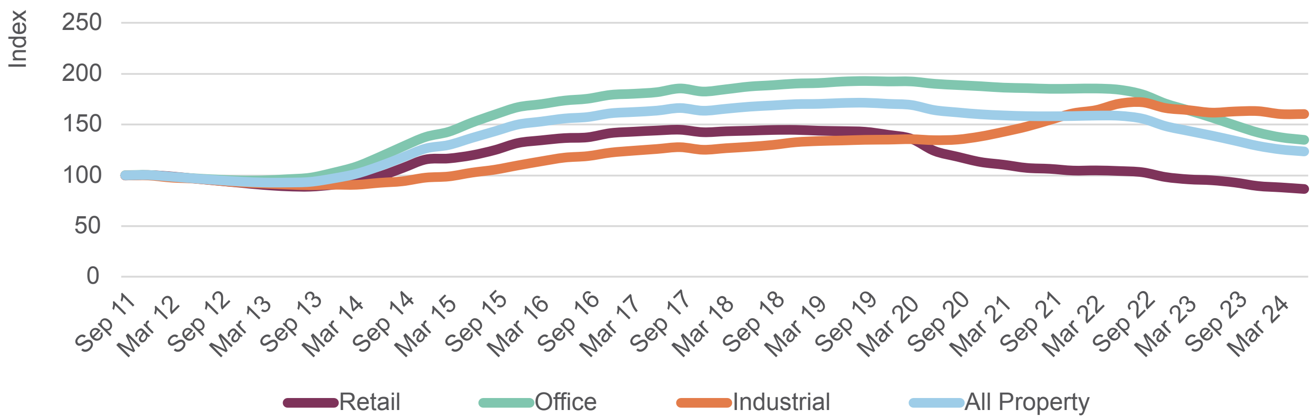
Prime Net Equivalent Yields (2011 – Q3 2024)



* PRS yields assume OPEX at 20% of income

Source: Lisney

MSCI / SCSI Capital Value Growth Index (Q4 2011 – Q3 2024)



Source: MSCI, Lisney analysis

While the ECB interest rate cuts have come too late to save 2024 annual deal volumes, they have provided more certainty about the future direction of rates and do provide a much more positive outlook for 2025.

Outlook

Activity levels are expected to improve further in the final quarter of 2024. Off-market transactions will remain prevalent. The full-year 2024 turnover level will depend on what off-market deals get completed in addition to those on the market – and importantly, how interest rates move further in the coming months. However, annual market turnover is likely to reach at least €1.8bn.

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Pricing and valuations, particularly in offices, will be important in the short-term. The significant cost of improving the sustainability credentials 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.

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