Lisney
COMMERCIAL REAL ESTATE

Lisney
Sotheby's
INTERNATIONAL REALTY

OUTLOOK 2025

4 INVESTMENT

Irish property investment market performance will be much improved in 2025.

- Having fallen by 135 bps in H2 2024, ECB **interest rates** are forecast to fall by a further 115 bps, to 2%, over the course of 2025. This, along with the formation of a stable Irish government, will greatly assist in the recovery of the market. Headwinds will remain, linked to potential taxation changes in the US (tariffs and corporation tax), the continued impact of EU sustainability directives and the desire to meet ESG criteria, and the global implications of the geopolitical conflicts in the Middle East and newly elected governments globally becoming more protectionist. In spite of this, we are very optimistic for an improved performance in Ireland's property investment market in 2025.

- **Demand** will come from a variety of sources but will evolve as the year progresses. French investors were very dominant in the market last year and will remain active buyers, including some new French entrants. There will also be other European investors in the market with German buyers likely to make a larger impact towards the latter half of the year as they are not generally first movers. Certain North American buyers were active last year, and they will be back in greater numbers this year. Private Irish investors (generally seeking lots up to €5m) have been buyers in the last two to three years and will remain so in 2025 (but greater amounts of stock will be required to fulfil their demand). Encouragingly, Irish funds were active again in the latter part of 2024 and will have demand once again this year for good quality opportunities.

- **Distressed sales** will increase this year; certain investors are now in breach of their loan-to-value covenants with funders and not in a position to refinance. This will be most prevalent in the office sector where certain large lot sized properties have experienced between 40% and 60% loss in value. Certain retail and industrial assets, as well and more alternative sectors, will be less impacted as they are generally not as distressed.

- For the market overall, we expect continually improving **supply** as the year progresses with more on and off-market opportunities materialising. This will come from distressed sales but also from vendors that were waiting on improvements in the market.

- 2024 market **turnover** reached €2.4bn, slightly better than 2023, but was made up of several chunky trades. 2025 will exceed this, likely to reach €3bn, but this will be contingent on what comes to the market from distressed sources. Q1 2024 was a trough in terms of turnover, and we will continue to see a quarter-on-quarter improvements in the level of deals in the year ahead.

- Compared to two to three years ago, there is now a much improved understanding of the impact of **sustainability** across all sectors, and it remains a key factor in decisions and pricing. To date, it has impacted the office market to the greatest extent, however with improvements in the occupational sector (more staff based in the office, greater

North Dock House, Dublin 1

3016-3018 Lake Drive, Citywest Business Campus, Dublin 24

demand, levelling-off of vacancy) and with values having been hit hard in recent years, we believe we are nearing the low point for many office buildings in terms of prices. With fewer investors sitting on the fence in 2025, there will be improvements in both investment levels and the values of certain buildings, particularly as the year progresses.

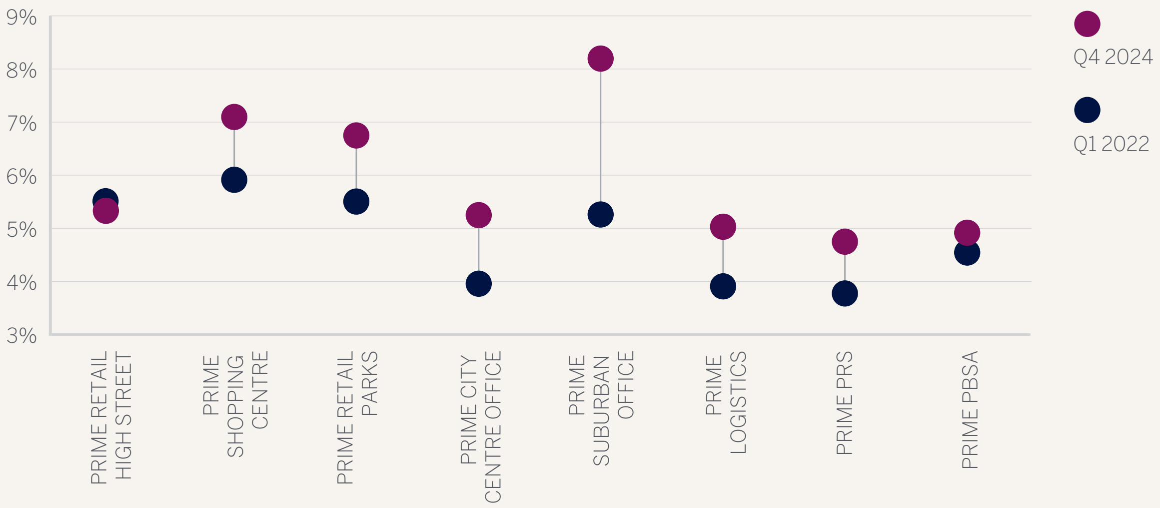
- The influence of sustainability measures is also a growing trend in the **industrial and logistics** sector and in 2025, landlords of both new and refurbished buildings will continue to focus on sustainability and seeking certifications. The occupational market will remain strong, albeit with occupier demand reverting to more normal (pre-COVID) levels but the vacancy rate staying below 2%. This will be positive for investor sentiment and demand for investment opportunities will be strong this year, but with a lack of suitable opportunities likely to hold back transaction levels.

- **Retail** was the busiest sector within the Irish investment market in 2024. Shopping centres and retail parks where tenants are trading well remain most in demand this year – albeit smaller scale private investors who are less focused on ESG will continue to acquire individual prime high street stores. Investor confidence in the sector will be maintained in 2025 with many seeking to take advantage of the 40% decline in values since early 2019.

- **PRS** requirements, especially from international funds, will remain limited in 2025 – but these investors will be active in the sector in other countries across Europe without rent caps. State-backed purchasers, most notably AHBs, will continue to do forward funding and turnkey deals on apartment blocks and will absorb most of the new opportunities.

- Since early-2022 (when interest rates began to climb), office **yields** have softened by between 150 and 275 bps depending on location, quality and lot size, while retail and industrial assets have performed better, with yields generally increasing by up to 100 bps. Yields will harden in most sectors over 2025, the exception will be offices where a stabilisation of yields is more likely.

PRIME YIELD MOVEMENTS



Source: Lisney

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