

INVESTMENT REPORT

Q3 2020



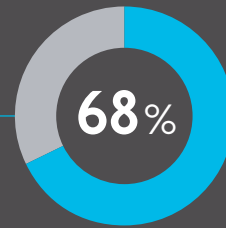
INVESTMENT IN NUMBERS

TURNOVER

€696.5
MILLION

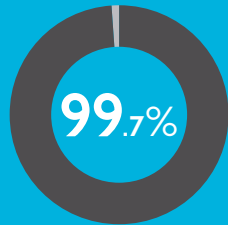
INVESTMENT
PROPERTY
SOLD IN Q3

SECTORS



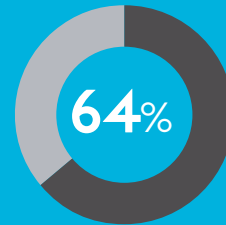
PRS COMPRISED
68% OF ALL SPEND

LOCATION



ALL DEALS BAR
ONE WERE
IN DUBLIN

OFF-MARKET



FIVE DEALS
OFF-MARKET



OVERVIEW

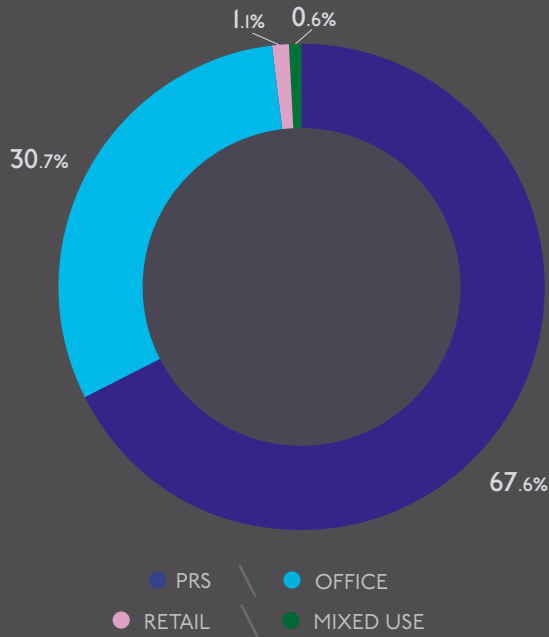
Almost €700m worth of investment property transacted in Q3, bringing the total for the first nine months of 2020 to €1.8bn. In Q3, PRS was the dominant sector and there was just one sale outside of Dublin. Investor demand remains, however international travel restrictions are having an impact on investors ability to travel and complete deals.

ACTIVITY

The Irish investment market recorded €696.5m in turnover in Q3 2020 across 15 deals. In the context of a global pandemic, this is a relatively strong level of activity, but it was dominated by two large deals that made up half of all investment spend.

In Q3, PRS was the most dominant sector, accounting for 67.6% of market turnover. Offices was also active at 30.7% of the market with retail and mixed-use making up the remaining 1.7%. There were no industrial transactions in the quarter.

ACTIVITY BY SECTOR



Source: Lisney

SECTORS

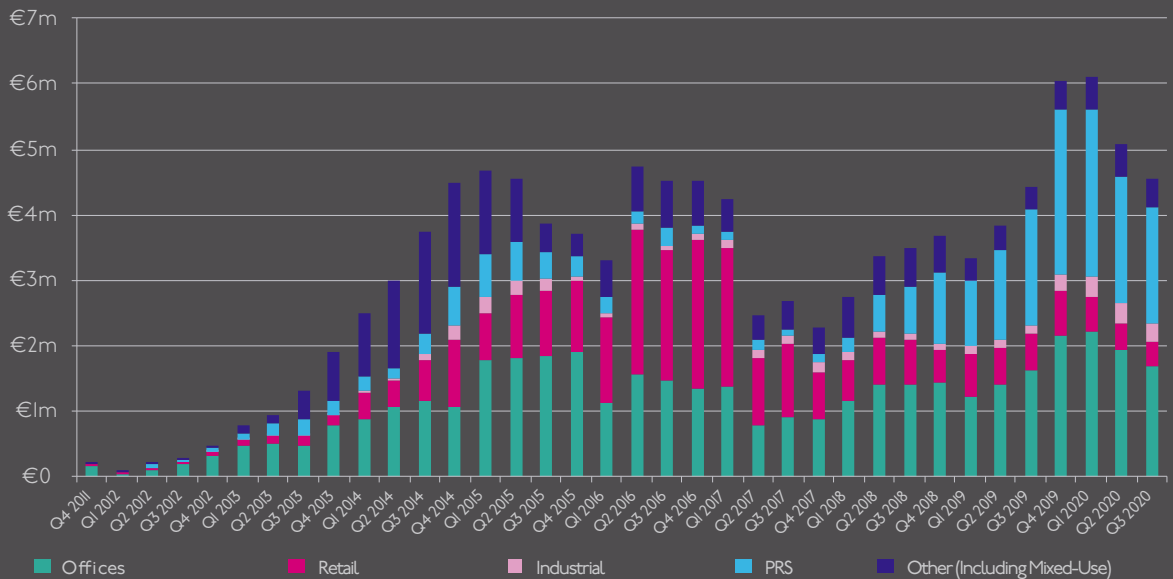
PRS

There were six PRS sales in Q3, totalling a combined €470.8m. Four of these were off-market deals and three were forward purchases. The two largest transactions (with a combined total in excess of €350m) were both off-market and forward purchases, and were both purchased by DWS, a German fund. These comprised 368 units in Cheevers Court & Holiday House, Cualaunor, Dun Laoghaire, and 317 units across four north Dublin developments known as The Prestige Portfolio. Also of note was the sale of Phase 1C at Clay Farm (€75m) and the forward sale of 101 apartments at Johnstown Road in Dun Laoghaire (€45m); both of these were purchased by Irish investors.

OFFICES

Just over €214m was spent on office investment properties in Q3 2020. Almost three-quarters of this related to two buildings that were in the Capital Collection (former Green REIT properties) and sold by Henderson Park. They were 2 Burlington Road, occupied by AIB and purchased by KGAL for a reported €94m, and 30-33 Molesworth Street, a multi-let property purchased by KanAm for €60m.

QUARTERLY 12-MONTH ROLLING INVESTMENT MARKET TURNOVER (Q4 2011 – Q3 2020)



Source: Lisney

DEMAND

A large proportion of investors continue to observe the market, adopting a short-term wait-and-see approach. Travel restrictions remain an issue for international investors and this has posed challenges for full market operation. In spite of this, there are investors with capital that needs to be deployed before year-end, which will have an impact of activity for the remainder of the year.

SUPPLY

Up to €1.9bn worth of assets were on the market at the end of September 2020. These were at various stages of the sales process but with about 80% still available for sale and the remainder agreed or in advanced negotiations.

High profile properties on the market available for sale heading into Q4 included The Bloom Portfolio (George's Quay Plaza, George's Quay House and George's Court) and One Molesworth Street, both former Green REIT property being sold by Henderson Park quoting €400m and €140m respectively. Additionally, Aviva was seeking €80m for the mixed office and retail building Royal Hibernian Way, and IPUT was selling two office buildings in Eastpoint seeking €30m. The market is watching these opportunities closely as their performance will provide short-term indications as to the robustness of the market and will provide an indication on prime pricing. Notably, there were no industrial properties available to purchase at the end of Q3.

In terms of properties with deals agreed and likely to form part of Q4 activity, larger assets included the forward purchase of the office scheme at 28 Fitzwilliam Street (quoting €168m), the forward purchase of a PRS scheme at East Village in Clay Farm (quoting €130m) and the Nutley and AIG buildings at the Merrion Centre (quoting €16.45m).

PRICING

Despite the macro-economic environment, prime equivalent yields remained just at or below long-term averages across each sector in Q3. While most prime yields were stable in the quarter, prime retail yields softened further, as did secondary yields across most sectors. The impacts of both COVID-19 and the Level 5 national lockdown status, along with Brexit will weigh on the market in the final months of the year and will likely push yields out further, particularly those that are not related to prime assets.

PRIME NET EQUIVALENT YIELDS

	END-SEPT 2020	QUARTERLY CHANGE	ANNUAL CHANGE	DIFFERENCE TO LTA
Office	4.00%	-	-	-184bps
Retail	4.75%	+75bps	+150bps	+12bps
Industrial	5.00%	-	-25bps	-250bps
PRS (Gross)*	4.85%	-	-15bps	-71bps

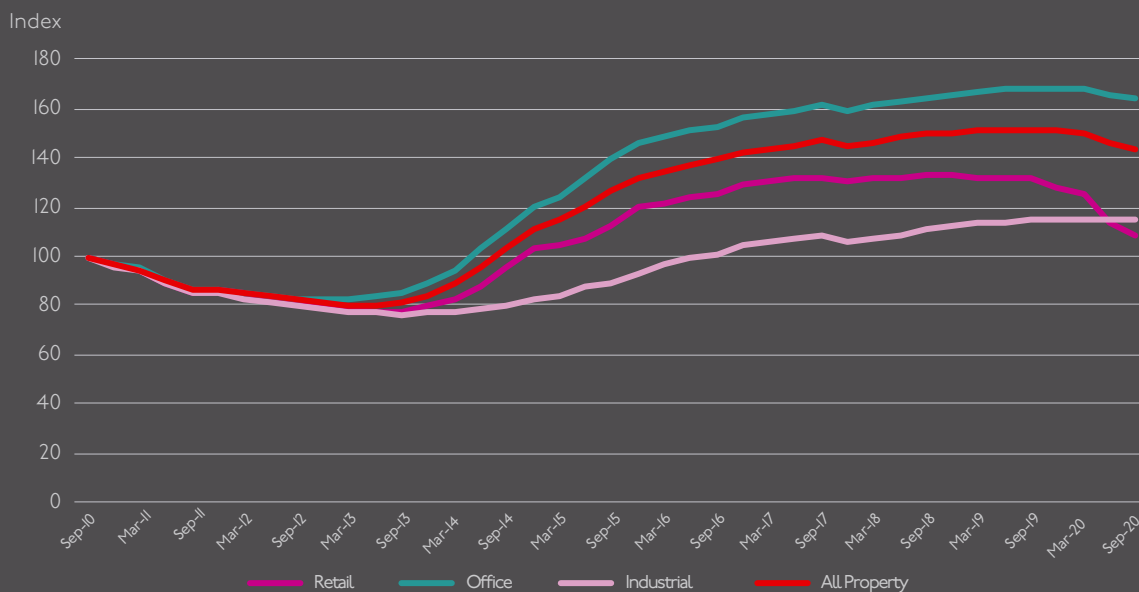
* PRS yields do not have OPEX accounted for and as such, are on a gross basis.

* Long-Term Average (LTA) is calculated between Q4 1980 and Q3 2020, except PRS which is between Q4 2014 and Q3 2020.

Source: Lisney

MSCI data for Q3 2020 shows that the overall commercial capital value index declined by 1.4% in Q3 and by 5.3% in the 12 months to the end of September. However, the various sectors performed differently with the retail index experiencing the largest decline in the quarter, falling by 5.1% (and by -17.7% annually). The office capital value index declined by 2.1% in Q3, while the industrial index actually grew by 0.2%.

MSCI CAPITAL VALUE GROWTH INDEX (Q2 2010 – Q3 2020)



Source: MSCI, Lisney Analysis

OUTLOOK

- 1 Some vendors will remain reluctant to bring opportunities to the market and may have concerns about international travel restrictions given the dominance of international investors in the Irish market (75% of all spend in the nine months to the end of September). However, some of these international investors have representatives on the ground in Ireland allowing them an advantage on assets that are currently available.
- 2 There are a number of negotiations ongoing (off-market) for the sale of PRS stock, both existing stock and forward sales of new stock. This will add to market turnover either in Q4 2020 or Q1 2021.
- 3 Off-market activity was half of the market in the first three quarters of the year. It is likely that there will be a greater number of sales completed off-market in the coming months through targeted processes across all sectors. If these targeted approaches are not successful, then the properties will likely come to the open market.
- 4 While retail yields have moved out, it is very difficult to assess the extent of this given the lack of transactional evidence. Just three retail investment opportunities sold nationwide in Q2 and Q3 with a combined value of €79m. Rental payments by tenants and delinquency levels will be monitored closely in the months ahead and will act as an indicator of demand heading into 2021. To date, payments in PRS, offices and industrial have held up strongly, which is positive for the market.
- 5 Private sector investor demand in social housing is increasing (see Lisney's report on Social Housing Investment) and newly created investment stock (with approved housing bodies or Local authorities as tenants) in this sector is likely to come to the market in the short-term.
- 6 There were several prime assets at sale agreed stage at the end of September. These sales, once concluded, will underpin confidence in prime properties and will establish pricing levels.
- 7 'Material Uncertainty' clauses remain in place in valuations in certain sectors, which means that values will need to be kept under frequent review. However, in the PRS, residential, social housing, institutional grade primary healthcare facilities, industrial / logistics and office sectors, it has been replaced with 'Market Conditions' clauses.

THE LISNEY INVESTMENT TEAM



JAMES NUGENT
Director



LYNDA GORDON
Divisional Director



CHRISTOPHER BELTON
Divisional Director



THOMAS BYRNE
Chartered Surveyor

THE LISNEY RESEARCH TEAM



AOIFE BRENNAN
Director

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

MEET OUR TEAM

INVESTMENT REPORT

Q3 2020

