Lisney

INVESTMENT REPORT

Q1 2021

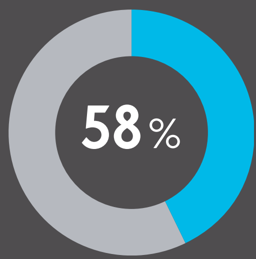
INVESTMENT IN NUMBERS

TURNOVER

€1.22 BILLION

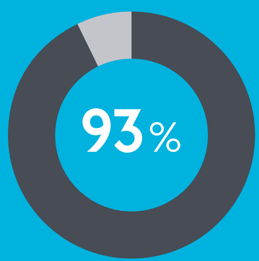
INVESTMENT PROPERTY SOLD IN Q1

SECTORS



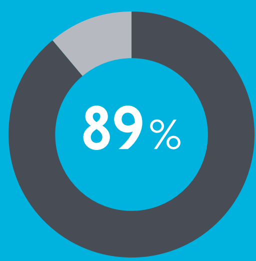
PRS PORTION OF ENTIRE MARKET

LOCATION



IN DUBLIN

OFF-MARKET



8 OF THE TOP 10 DEALS WERE OFF-MARKET

1 & 2 BURLINGTON PLAZA,
BURLINGTON RD, DUBLIN 4

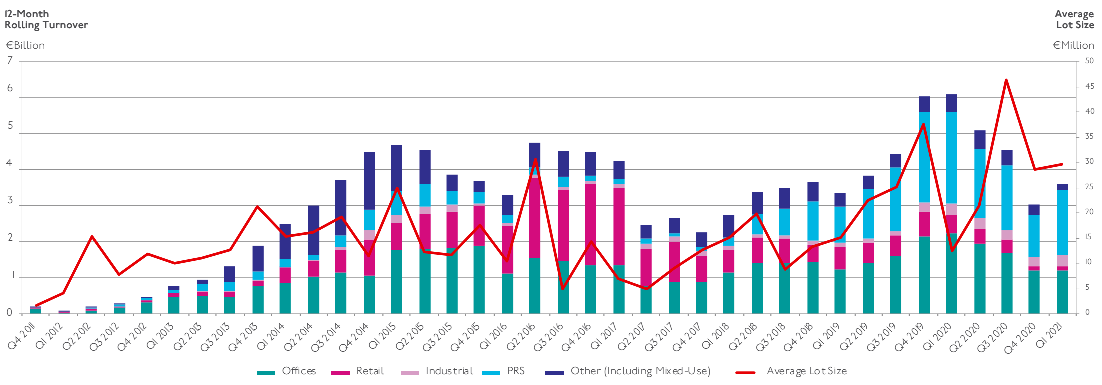
INVESTMENT

OVERVIEW

Following a strong year in 2020, the Irish investment property market performed extremely well in Q1 2021 with €1.22bn transacted. Despite the general economy being in lockdown and property viewings prohibited, market sentiment remained strong and significant capital was chasing opportunities. Several large transactions occurred and even with travel restrictions, international investors continued to dominate the market. The top six deals were all individually over €50m in lot size and accounted for 84% of all turnover. As such, the average deal size remained large, at just under €30m.

Travel restrictions also continued to effect on-market supply with most potential vendors further postponing marketing campaigns in anticipation of greater levels of demand in the second half of the year. International investors with a local presence were better placed to source and complete deals, many of which were off-market. Interestingly, 89% of Q1 market turnover comprised off-market deals, the highest quarterly proportion on record.

QUARTERLY 12-MONTH ROLLING TURNOVER BY SECTOR & AVERAGE LOT SIZE (Q4 2011 – Q1 2021)



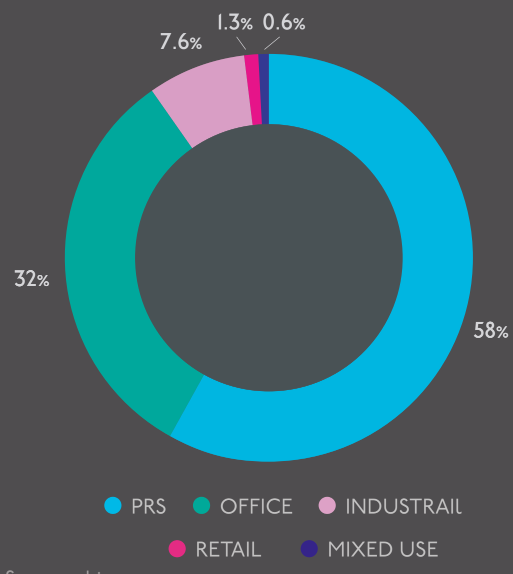
INVESTMENT

ACTIVITY

Q1 2020 investment market turnover reached €1.22bn across 41 transactions. This was an exceptionally strong level of investment given the national lockdown that was in place and the pandemic related economic conditions globally. Properties located in Dublin dominated activity, accounting for 93% of the total (31 deals). There were just two deals in Cork, making up 0.4% of activity.

As with recent quarters, PRS was the busiest sector at 58% of investment spend. This was followed by offices at 32%, then industrial at 8%. While there were 12 deals completed in the retail sector, the lot sizes were small and it accounted for just 1.3% of market turnover.

MARKET TURNOVER BY SECTOR
Q1 2021



Source: Lisney

SECTORS

PRS

Almost €713m was spent on PRS assets in Q1, the largest quarterly figure since Q4 2019. Since 2012, €7.1bn has been invested in PRS in Ireland. Five of the thirteen PRS deals completed in Q1 were off-market, most on a confidential basis. The largest deal in the market in Q1 was a €450m off-market acquisition. German investor, Real IS, was also active and it acquired 134 apartments in Marina Village, Greystones from Glenveagh for €64.5m. In a forward purchasing deal, Irish investor Carysfort Capital acquired 150 units in Shackleton Park, Lucan from Cairn, and Irish approved housing body Clúid along with UK insurance company Legal & General acquired 40 apartments off-market from Dublin Loft Company in Blackbanks, Raheny for €19m.

OFFICES

While there were just five office deals completed in Q1 (three off-market), the sector accounted for almost one-third of market turnover. This was driven by two large off-market sales; The partial sale of the Project Tolka Portfolio and 76 Sir John Rogerson's Quay, both acquired by international investors. Three buildings from Project Tolka were purchased by US investment company Blackstone from Colony Capital for €292m and comprised a 72% interest in the Three Building, 74% interest in Block 1 Burlington Plaza and 74% interest in Block 2 Burlington Plaza. German fund AM Alpha acquired TIO's newly constructed 8,550 sqm building on SJRQ that is part-let to Rabobank for a reported €95m.

RETAIL

Retail trading conditions remained very difficult in the opening months of the year with all non-essential stores remaining closed and restricted from providing click-and-collect services. Consequently, much consumer activity moved online. There were no high-profile retail investment property sales in Q1 but 12 transactions did occur. These ranged in investment value from under €400,000 to €3.2m. The average retail lot size was €1.26m, significantly smaller than the overall market at almost €30m.

The largest sale of the quarter was on Mayor Street in the IFSC where a private investor acquired three ground floor retail units for €3.2m, producing a net initial yield of 8.1%. In the suburbs, 23 Rockhill in Blackrock sold for a report €2.5m (7.6% NIY), while outside of Dublin, a McDonald's drive thru' in Sligo Retail Park sold for €1.875m (6.4% NIY).

INDUSTRIAL

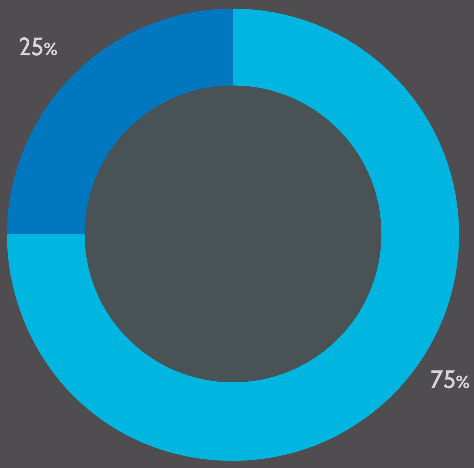
Investment in the industrial sector in Q1 reached €92.2m, across nine transactions. While this accounted for just 7.6% of market turnover, it is not representative of the exceptionally strong level of investor demand present. The risk profile of this sector continues to reduce given the growing occupational demand from logistics operators and others. Suitable supply remains the main issue holding back greater levels of activity.

There were a few industrial transactions of note. The largest was the off-market sale of Mountpark in Baldonnell for a reported €60m to US investor JP Morgan. This comprised the recently developed 30,000 sqm of accommodation occupied by United Drug and Home Store + More. Australian investor Arrow Capital Partners was also active and was involved in four separate industrial transactions; the VWR building in Orion Business Park (€10m), Unit 260 Holly Road Western Industrial Estate (€5m), the Masterlink Buildings in Longford (€4.15m) and Units 9A & 9B Park West (€2.95m). It has been reported that Arrow intends on investing €200m in the Irish industrial sector this year.

SUPPLY

There was €1.3bn worth of assets on the market at the end of March 2021; 36% related to offices, 29% to PRS, 11% to retail and just 0.8% to industrial. Several large mixed-use office and retail schemes were also available including One Molesworth Street (€140m), Royal Hibernian Way (€80m) and Independent House (€29m). Approximately €978m / 75% of the €1.3bn was available with the remainder agreed or in advanced negotiations.

INVESTMENT SUPPLY
MARCH 2021



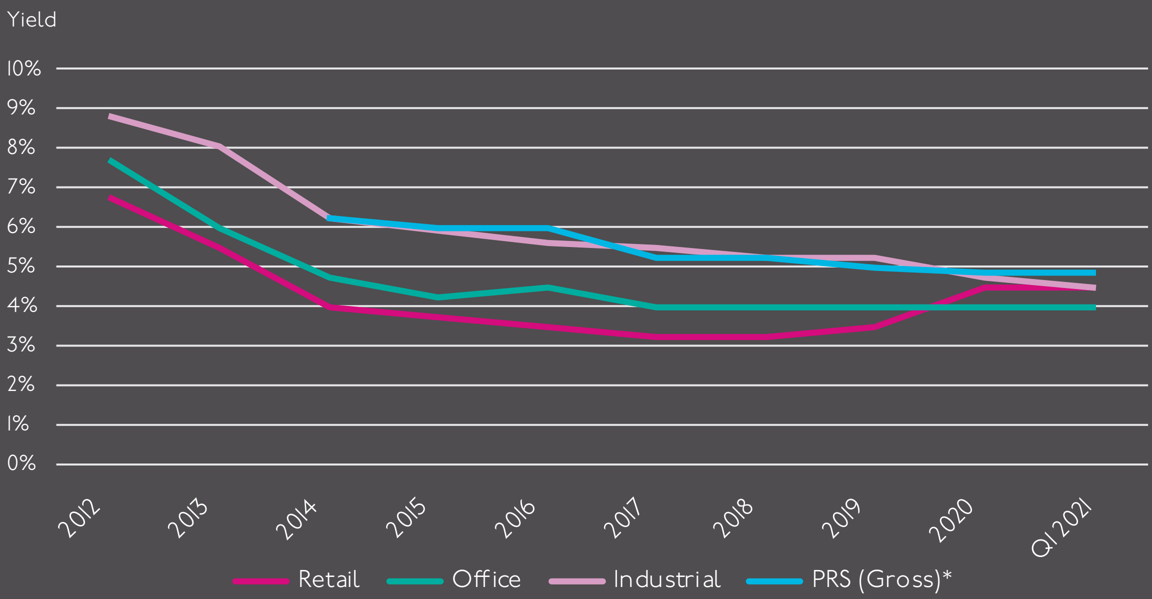
Source: Lisney

DEMAND

International travel restrictions continued to have an impact on overseas buyers seeking opportunities in Q1 and this, along with mandatory quarantine without a negative PCR test, will continue to have an impact on demand into Q2. Nevertheless, it was notable that over 80% of all spend in the first three months of the year related to international investors (but the majority of this comprised the largest deals – and only about one-fifth of the number of deals in the market related to those from overseas), highlighting the continued requirements for large Irish property assets from overseas players. There are various reasons for this. Globally, treasuries / bonds continue to trade near record highs, while cash on deposit is attracting negative interest rates and many stock market indices are at near record highs, hence property is a good home to benefit from returns. Additionally, a yield gap remains between prime Dublin assets and those in other global cities and with a positive economic recovery forecast for Ireland, this adds to the attractiveness of Irish property. Brexit remains a factor in the market. In the UK there is a strong risk of inflation in the short to medium-term, which in turn means an increase in interest and SWAP rates. Investors contemplating investing in the UK now might consider Ireland a better investment location in the medium-term.

INVESTMENT

PRIME NET EQUIVALENT YIELDS (2012 – Q1 2021)



Source: Lisney

PRICING

With the exception of the retail sector, pricing has remained reasonably solid in the prime markets and the pandemic has not generally provided investors with significantly greater levels of value. MSCI figures for 2020 show that the capital growth index for industrial grew by 2.4% annually with offices declining by 2.4% but with retail falling by 20.1%. Notably however, the total return index grew by 8.4% in industrial and 2.2% in offices in the year with retail falling by 16.1%.

Prime equivalent yields remained stable in the prime office and retail sectors in Q1 but prime yields hardened by 25 bps in the industrial sector. All prime yields are just at or below long-term averages. However, some secondary yields soften further as the impacts of the prolonged lockdown and slower than expected roll-out of the vaccine, along with Brexit continues to weigh on the market.

PRIME NET EQUIVALENT YIELDS

	RETAIL	OFFICE	INDUSTRIAL	PRS (GROSS)*
Q1 2021	4.50%	4.00%	4.50%	4.85%
Annual Change	+75 bps	-	-50 bps	-
Difference to LTA	-13 bps	-181 bps	-295 bps	-66 bps
Difference to Q1 2012 (Previous Cycle High)	-240 bps	-380 bps	-450 bps	-165 bps

** PRS yields do not have OPEX accounted for and as such, are on a gross income basis.*
** Long-Term Average (LTA) is calculated between Q4 1980 and Q1 2021, except PRS which is between Q4 2014 and Q1 2021.*

Source: Lisney

OUTLOOK

1 We expect on-market activity in Q2 to be relatively subdued, but some large off-market deals are likely to significantly add to quarterly turnover levels. The second half of 2021 will be busy in terms of new supply to the market and activity levels.

2 Letting transactions stalled or on-hold in the occupational markets as a result of the pandemic will continue to have a knock-on effect on supply as certain buildings due to be offered as investment opportunities will be delayed in coming to the market. Alternatively, investors may price additional risk into offers.

3 Yields on selected prime assets might harden further in the coming months, notably some industrial and PRS schemes. Retail and more secondary properties will soften further but greater levels of activity in these sectors will be required to confirm pricing, which should happen as 2021 progresses.

4 For smaller lot sizes (between €1m and €6m), cash purchasers will shore up values, particularly for good quality dry investments. These will mainly comprise private domestic investors not wishing to have negative interest rates applied to their cash savings. However, at the end of Q1 the supply of such properties was limited.

5 One approved housing body (AHB) transaction occurred in the PRS market in Q1. Such activity will grow in the months ahead. They will be seeking forward purchasing deals and will compete with private investors for stock. We also anticipate that a number of opportunities with enhanced leases (or other long-term structures) to local authorities will come to the market for private sector investment. Given the additional landlord obligations and lower rents achieved, the yield profile of these deals will be different to other PRS stock.

6 Many of the larger shopping centres acquired during this property market cycle (mainly between 2014 and 2018) have reduced income streams and in turn the capital value has declined. For retail schemes purchased with debt, equity levels have now likely diminished and as a result, we expect assets to trade in the short-term (perhaps in the second half of the year). It may be the case that an investor, or even a handful of investors, will take a large position in this area, wagering on a recovery in the sector. There are examples of this in other countries.

7 Core Industrial Properties is due to bring a large portfolio of industrial properties and land to the market in April. Given its scale (reportedly about €180m), it is likely to attract significant interest. This may encourage other potential sellers to pool three or four buildings together and provide investors with a sizeable investment opportunity.

OUTLOOK

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