Lisney

INVESTMENT REPORT

Q1 2022

MARKET TURNOVER

€750M

AVERAGE LOT SIZE

€24.5M

LARGEST DEAL

PROJECT RUBY

3 STUDENT ACCOMMODATION BLOCKS

BUSIEST SECTOR

31% IN PRS

INDUSTRIAL REMAINED ACTIVE

23% ACCOUNTING FOR 23% OF ACTIVITY

LOCATION

OVER **70%** IN DUBLIN

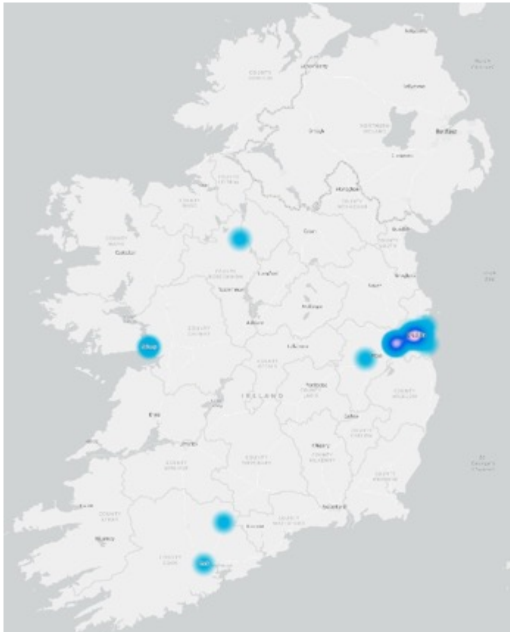
ONE GEORGE'S QUAY PLAZA,
GEORGE'S QUAY, DUBLIN 2

OVERVIEW

Following an exceptionally strong 2021, the Irish investment property market continued to perform well in Q1 2022 with €760m worth of property transacted. Several large deals occurred with the top eight accounting for 83% of the total and each in excess of €30m in lot size. As such, the average deal size across the market remained large, at just under €25m.

PRS market was the busiest in Q1 with four PRS transactions in the top ten deals. The industrial investment sector remained robust with two transactions in the top ten deals. The largest transaction was the sale of Project Ruby, a student accommodation portfolio comprising two schemes in Dublin and one in Galway. This sale accounted for 19% of the total turnover in the quarter. Improved investor sentiment towards some retail sectors continued into 2022, however, it has not materialised into transactions. International investors continued to dominate the market and off-market sales sustained a strong position.

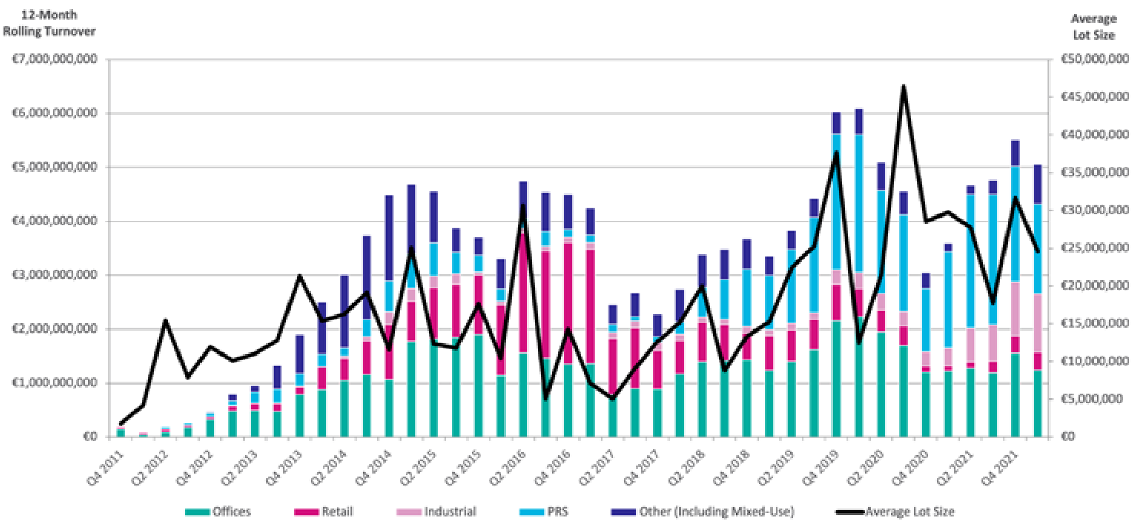
ACTIVITY



Irish investment market turnover reached €760m in Q1 2022 across 31 deals. This was a sizeable level of activity and followed a very robust 2021 when turnover reached €5.5bn. Given the strong levels of activity in the latter part of 2021 and into 2022, the 12-month rolling turnover figure to the end of March was the fourth largest on record, exceeding €5bn.

In Q1 2022, Dublin was the dominant location for investment, accounting for approximately 70% of the turnover (24 deals, but potentially including two other confidential sales, which would bring it up to 74%). This was followed by Kildare at 16.9% (one transaction), Galway at 5.6% (two deals) and Cork at 3.2% (two deals). When confidential deals are excluded, overseas investors accounted for over three-quarters of turnover. They remained most active in the larger lot sizes and were involved in the three largest transactions in Q1. Private Irish investors are most active in the market for assets priced up to €6m. Off-market sales processes continue to make up a large part of activity, particularly for opportunities priced at over €10m, and in Q1 such deals accounted for 57% of spend.

PRIME NET EQUIVALENT YIELDS



Source: Lisney

SOUTH DOCKS, DUBLIN 2

PRS

PRS was the busiest sector in the opening months of the year with almost €233m spent on assets, which accounted for 31% of total annual turnover. The average deal size was €25.9m. This was up from an average size of €13.5m in Q4 2021, but below the average PRS deal size of €44.6m for 2021 as a whole. Seven of the eight PRS transactions were off market with most done on a confidential basis. The largest deal was a confidential off-market transaction located in Dublin at €85m. This was followed by another confidential off-market transaction located in west Dublin at €47m.

OFFICE

The office sector was quieter than normal in Q1 accounting for only 10.4% of the quarter's market turnover. There was almost €79m spent across four deals with an average transaction size of €19.7m. The largest deal was the sale of The Forum, Commons Street, IFSC, Dublin 1, which was bought by Spear Street Capital for €30.8m. Each of the remaining three sales were under €20m lot size. One of the office transactions was completed outside Dublin – the sale of 32 South Mall in Cork for €13.5m (NIY 5.8%). There also was one asset sold off-market for €16.8m.

INDUSTRIAL

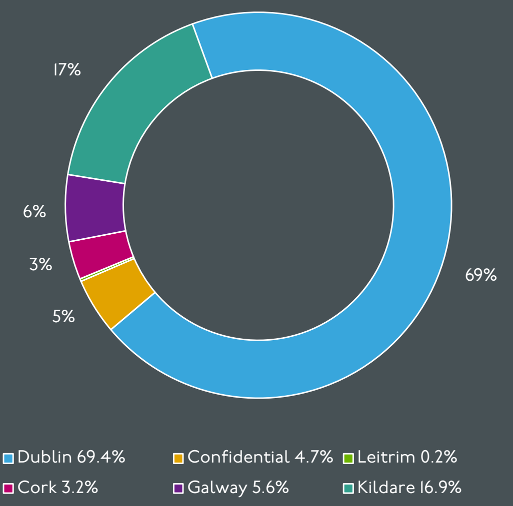
Investment in the industrial sector in Q1 reached €178.4m across five transactions accounting for 23.4% of the total spend. The average transaction size in the sector was €35.7m, significantly higher than is normal. However, it was as a result of Union Investment's forward fund of Primark's new distribution centre in Newbridge, Co Kildare for €128.7m (reported NIY of 3.6%), which will be leased for 20 years and will extend to 55,300 sqm. The second-largest industrial investment transaction in Q1 was an off-market sale of a portfolio of 12 units in Greenogue Business Park and Aerodrome Business Park for €39m. The remaining three transactions included a confidential sale in Dublin (€5.3m), Block 2004, Orchard Ave in Citywest (€4.26m) and Lyon House in Dublin Industrial Estate (€1.15m).

RETAIL

While there is some renewed interest in realistically priced retail assets, it has not yet materialised into deals. There were no high-profile retail investment property sales in Q1 and only three transactions occurred, which combined totalled €22.8m / 3% of turnover. In Dublin, Monastery Shopping Centre in Clondalkin was sold for €2.4m (NIY 6.4%), while there were also sales in Cork and Galway – Junction 14 Motorway Service Area, Fermoy (€10.85m) and eight units in Eyre Square Shopping Centre (€9.575m).

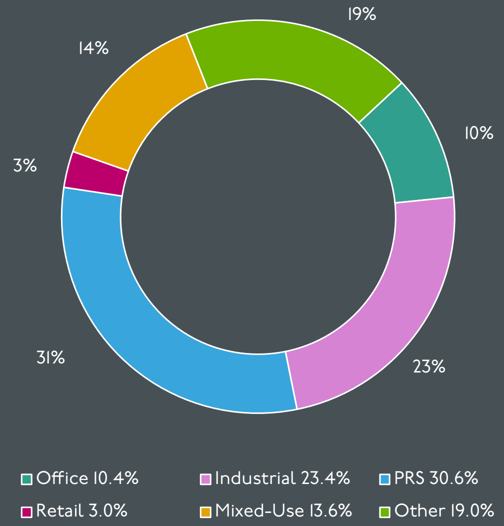
ACTIVITY ANALYSIS

BY LOCATION
(QI 2022)



Source: Lisney

BY SECTOR
(QI 2022)



Source: Lisney

TOP 10 INVESTMENT TRANSACTIONS QI 2022

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE	ON / OFF-MARKET
Project Ruby	Dublin & Galway	PBSA	€145,000,000	Off-Market
Primark Distribution Centre, Newbridge	Kildare	Industrial	€128,700,000	On-Market
P&C	Dublin	PRS	€85,000,000	Off-Market
Point Square, Dublin 1	Dublin	Mixed-Use	€85,000,000	On-Market
P&C	Dublin	PRS	€47,000,000	Off-Market
Greenogue Portfolio	Dublin	Industrial	€39,000,000	Off-Market
P&C	Dublin	PRS	€37,000,000	Off-Market
The Forum, Commons Street, IFSC	Dublin	Office	€30,800,000	On-Market
P&C	P&C	PRS	€19,000,000	Off-Market
Fleming Court, Dublin 4	Dublin	Office	€17,750,000	On-Market

Source: Lisney

PRICING

Over the remainder of the year there will be a firm focus on likely interest rate rises, and its impact on yields. However, to date, the potential increases have not been factored into pricing. In the prime markets, PRS was the only sector to experience yield compression in Q1 while retail, office and industrial yields remained stable. However, since pre-pandemic (Q1 2020) retail yields are 75 bps higher, while the other three sectors hardened; offices by -10 bps, industrial by -135 bps and PRS by -10 bps.

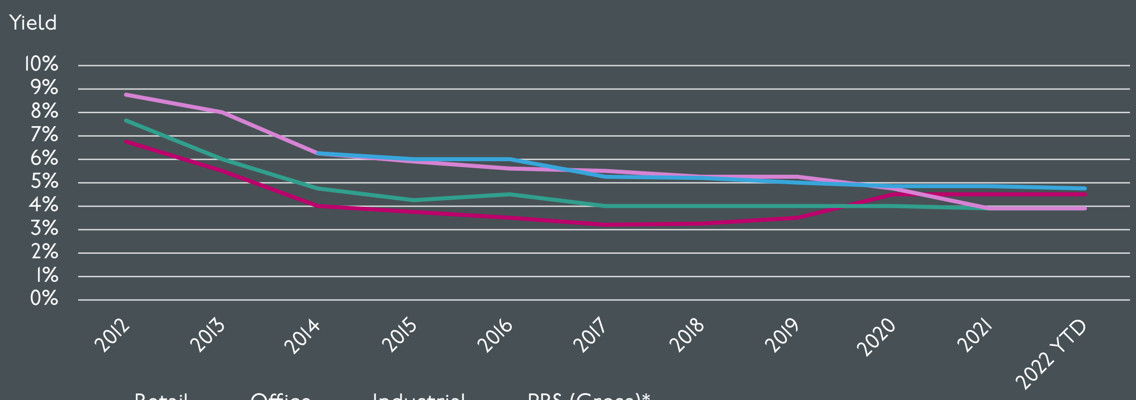
	RETAIL	OFFICE	INDUSTRIAL	PRS (GROSS INCOME)*
Q1 2022	4.50%	3.90%	3.90%	4.75%
Quarterly Change	-	-	-	-10bps
Annual Change	-	-10 bps	-60 bps	-10bps
Pre-Pandemic Change (Q1 2020)	+75 pbs	-10 bps	-135 bps	-10bps
Difference to LTA**	-12 bps	-186 bps	-310 bps	-67 bps
Difference to Q1 2012 (Previous Cycle High)	-240 bps	-390 bps	-510 bps	-175 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 2022, except PRS which is between Q4 2014 and Q1 2022.

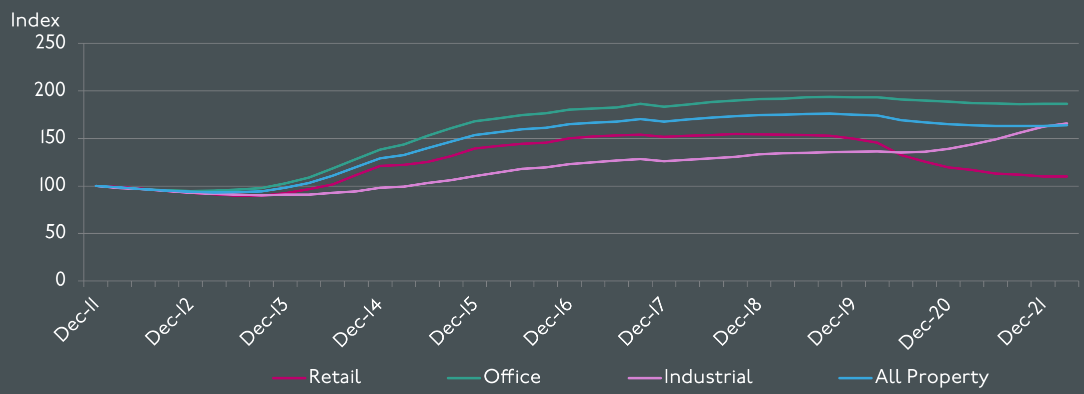
Source: Lisney (Yields), MSCI (Capital Values)

PRIME NET EQUIVALENT YIELDS (Q1 2022)



Source: Lisney

MSCI CAPITAL VALUE GROWTH INDEX (Q4 2011 – Q1 2022)



Source: Lisney

MSCI figures for Q1 2022 show that the capital value index for the industrial sector grew by 2% in the quarter and by 15.3% annually. The index also shows that the capital values in the office sector grew marginally by 0.1% in the quarter, however declined annually by 0.4%. The index representing the retail sector remained steady in the quarter but fell annually by 5.8%. The 'all property' category grew by just 0.3% in the quarter and fell by 0.1% in the year. As can be seen from the chart, over this property market cycle, growth in capital values has been strongest in the office sector but in the past two years, the pace of growth in industrial values has accelerated significantly and overall growth in the cycle is catching up on offices.

SUPPLY

At the end of Q1 2022, there was approximately €1.1bn worth of opportunities available in on-market deals. Of this, approximately 30% related to office opportunities, 21.5% to retail assets and only 7% related to industrial properties. However, given a large amount of off-market activity taking place and the reported targeted sales ongoing, this supply figure is in reality significantly higher.

OUTLOOK

1. Rapid inflation in the price of goods and services globally, in addition to the knock-on impact on interest rates, is a concern for the market and may result in yield movements towards the end of the year. However, prevailing robust investor demand will remain in the months ahead, which will result in continued strong levels of activity.

2. With record levels of investor requirements in the industrial sector, suitable supply will remain the main issue in the sector and will hold back greater levels of activity in 2022. Consequently, demand for secondary buildings will improve further, including those requiring substantial capital expenditure. There will also be instances of investors purchasing industrial lands and developing their own investment stock, similar to IPUT's planned logistics hub at Cherryhound, close to the airport.

3. In the office sector, hybrid working has not deterred investors and there will continue to be strong demand for prime buildings, particularly from international parties. The focus on energy efficiency, potential CapEx requirements and whether or not buildings are capable of being improved, will intensify further. Views on ESG are likely to be extreme depending on the investor type, and sustainability credentials in general will lead to a wider gap in pricing between new and dated properties.

4. Domestic and international investors will continue to pursue PRS opportunities and activity levels will remain strong. However, Government intervention and often negative media attention on the sector is likely to have a growing impact. Some investors may consider different asset classes, but others (from overseas) may move on to other international markets.

5. There are investor enquiries for retail opportunities, albeit focused on the better performing sub-sectors like retail parks. Requirements for high streets remains limited. However, with non-essential retail fully reopened since the beginning of the year, and office workers and tourists beginning to return to the city, demand for high street properties should begin to improve in the months ahead. These properties generally comprise the lower-end of the mid-market (i.e. €5m to €15m) and there are several funds and individuals that focus on the part of the market, that are funded either in cash or by finance.

6. At the lower end of the market (lot size of between €1m and €6m), cash purchasers will shore up values, particularly for good quality investments. These will mainly comprise private domestic investors.

7. Investors interest in alternative opportunities has grown rapidly in recent years and will progress further. Perhaps as a result of the pandemic or just in search of better returns, there is interest in properties backed by tenants operating in the life sciences industry. We are also likely to also see greater levels of private equity / investor interest in the licensed and leisure trade.

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