Lisney

INVESTMENT REPORT

Q2 2022

MARKET TURNOVER

€1.24bn

€2.33bn including sale of Hibernia REIT

AVERAGE LOT SIZE

€22.5m

€23.4m

FOR TRANSACTIONS OVER €1M

LARGEST DEAL

€122m

MAGNA DRIVE, CITY-WEST, DUBLIN 24

321 UNITS PRS DEAL

SECTOR ANALYSIS

35% PRS

22% OFFICE

17% INDUSTRIAL

12% RETAIL

OFF-MARKET

50% OF THE MARKET TURNOVER

LOCATION

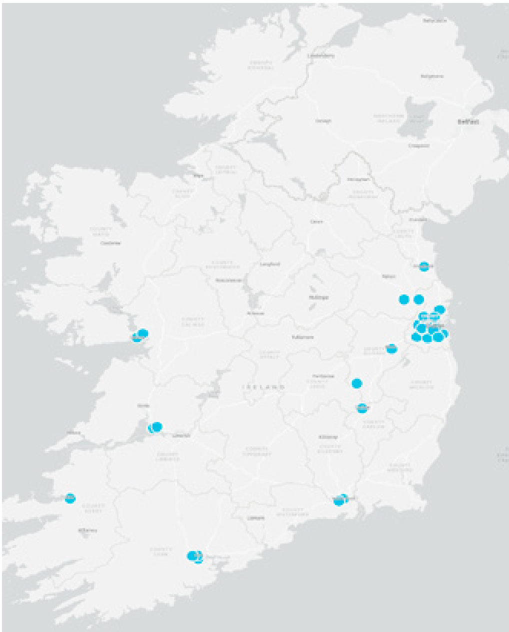
OVER 79% IN DUBLIN

101 GEORGE'S STREET UPPER, DUN LAOGHAIRE, CO. DUBLIN

OVERVIEW

The investment market remained strong in Q2 2022 with turnover reaching €1.24bn and bringing the total spend for the first half of the year to €2bn. The big news story of the quarter was the sale of Hibernia REIT to Brookfield Asset Management for €1.09bn. The transaction was completed by way of a company sale rather than the acquisition of individual property assets. As such, it is not included in the Q2 2022 investment market turnover figures, but it should be noted alongside given its significance in the property market.

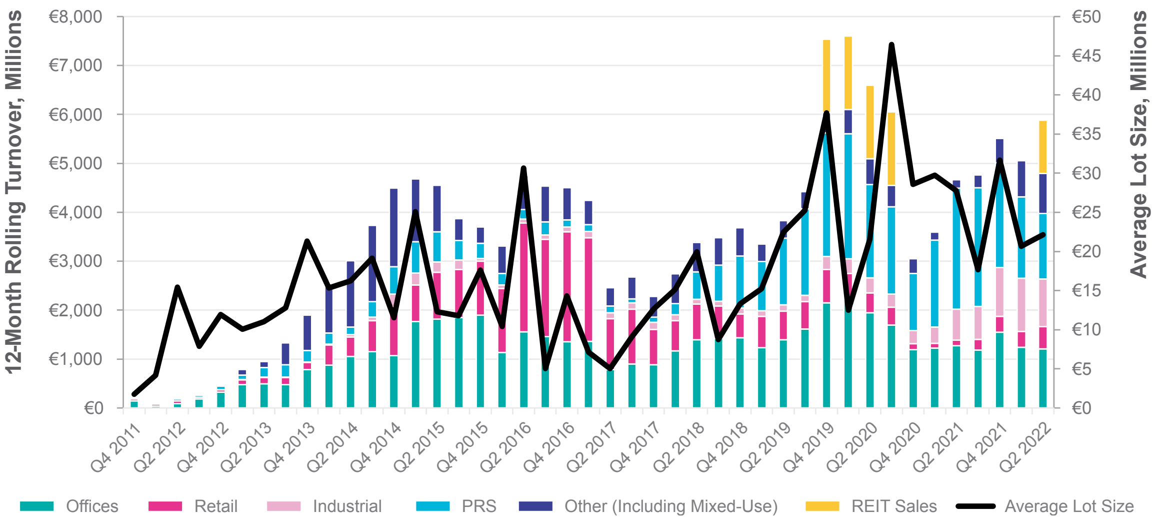
The PRS sector was the busiest in Q2 accounting for 35% of the overall activity with five PRS transactions in the top ten deals. Following a weak start of the year, the office sector made a comeback in Q2 2022 and accounted for 22% of the market, up from 10% in Q1. This was followed by the industrial sector at 17%, the retail sector at 12%, mixed-use sector at 3% and all other type assets at 10%. Top 10 deals accounted for 60% of the total turnover and each was in excess of €40m. The largest transaction was the forward purchase of a 321 unit PRS scheme onMagna Drive in Citywest. This sale accounted for 10% of the total turnover in the quarter. The average deal lot size was €22.5m (€23.4 for transactions over €1m). With demand also focused on non-traditional alternative investments, it was notable that there were five healthcare/medical properties as well as two hotel sales. International investors continued to dominate the market and off-market sales sustained a strong position.



ACTIVITY

The Irish investment market remained strong in Q2 2022 with turnover reaching €1.24bn. This was almost twice the previous quarter's activity level (€760m) bringing the total amount spent on investment opportunities in the first half of the year to €2bn. The 12-month rolling turnover figure to the end of June was the sixth largest on record, at just under €5bn. However, if the sale of Hibernia REIT is included (despite being a company sale) the H1 2022 figure was €3.09bn and the 12-month rolling figure was €6.09m at the end of June.

QUARTERLY 12-MONTH ROLLING TURNOVER BY SECTOR & AVERAGE LOT SIZE (Q4 2011 – Q2 2022)



Source: Lisney

In Q2 2022, Dublin was the dominant location for investment, accounting for an estimated 79% of the turnover (39 deals). This was followed by Cork at 4.9% (three transactions), Kerry at 4.4% (two deals), and Galway at 3.1% (three deals). Off-market sales processes continued to make up a large part of activity, particularly for opportunities priced at over €20m, and in Q2 such deals accounted for nearly 70% of spend.

When confidential deals are excluded, overseas purchasers accounted for over 50% of turnover. They remained most active in the larger lot sizes in Q2, while private Irish investors were most active in the market for assets priced up to €6m.

PRS

PRS was the busiest sector in Q2 2022 with almost €440m spent across six deals, accounting for 35% of total quarterly turnover. The average PRS deal size was substantially larger than the market overall, at €73m compared to €23m, and the Q2 average was also substantially higher than the average size of €26m in Q1 2022 and €44.6m in 2021. Five of the six PRS transactions were in the top 10 deals with three of them completed on a confidential basis. The largest deal comprised a 321 unit scheme on Magna Drive in Citywest for €122m. This was followed by Ardstone's €105m acquisition of a 252 unit scheme at St Edmunds Drive in Palmerstown. The two transactions combined accounted for 18% of the total quarterly spend.

OFFICE

Following a quiet start to the year, activity in the office investment sector improved in Q2 accounting for 22% of turnover, up from 10% in Q1. There was almost €280m spent across 17 transactions with two of these in the top 10 deals. The average transaction size was €16.3m. The largest deal was the sale of Blocks 1, 2 and 3 Founders District in Dublin 4, which was bought by LCN Capital Partners for €97.5m. This was followed by the sale of 5 Harcourt Road for €65m. Each of the remaining sales were under €20m in lot size, two of which were outside of Dublin, both in Co Clare; Building 7000, Westpark in Shannon (€20m) and Dromore House, East Park, Shannon (€14.725m/NIY 7.11%).

INDUSTRIAL

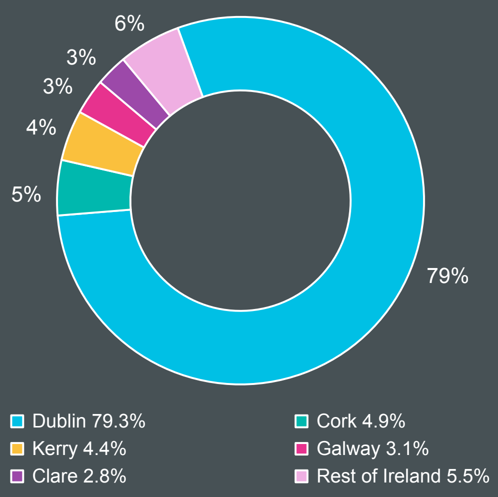
With demand for industrial assets remaining strong, investment in the sector in Q2 reached €206m across 12 transactions accounting for 16.6% of the total spend with two sales in the top 10 deals. The average transaction size in the sector was €17.2m. The largest transaction was a confidential off-market sale in Dublin for €68m. The second-largest transaction was the sale of North Ring Business Park which was acquired by M7 for €39m. This was followed by another confidential off-market transaction in Cork at €30m. The remaining transactions were under €20m lot size, three of which were outside of Dublin - two in Galway and one in Wexford. In Galway, French investor Corum acquired Units 20-29 Mervue Business &Technology Park for €19.4m (NIY 7.23%), while the Curtis Wright Building in Parkmore West Business Park was sold for €1.325m (NIY 72%). In Waterford, 120-124 IDA Industrial Estate on Cork Road was sold to a private Irish investor for €1.68m (NIY 5.97%).

RETAIL

The retail sector recovered significantly in Q2 2022 with a turnover of €150.5m over ten deals accounting for 12% of the quarter's activity. This was up substantially from just €23m / 3% in Q1 2022. There were 10 retail transactions in Q2 with an average deal size of €15m. The top five retail sales included four shopping centres and one retail park, indicating renewed investors' interest in such assets. The largest deal was a sale of Manor West Shopping Park in Tralee for €55.175m (NIY 8.86%), followed by a confidential sale of a retail park in Cork for €24.25m. The other three shopping centres were acquired by private Irish investors and comprised Corrib Shopping Centre in Galway (€18.25m, NIY 9.2%), City Square Shopping Centre in Waterford (€18.025m, NIY 7.76%) and Ashbourne Town Centre, Co. Meath (€13m, NIY 11.5%). In addition, Iroko Zen SCPI acquired Tesco in Rathfarnham, Dublin 16 for €10.14m (NIY 5.28%). The remaining transactions were sub €4m each.

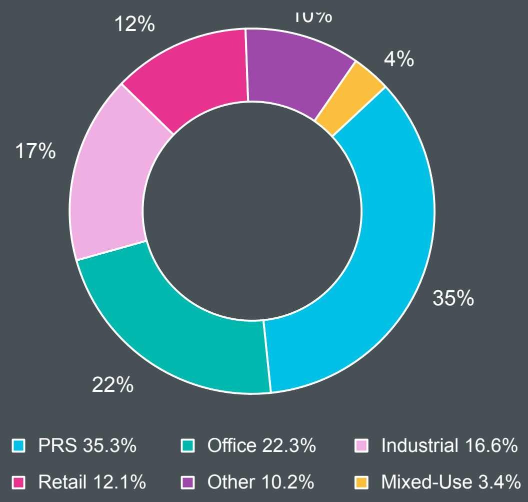
ACTIVITY ANALYSIS

BY LOCATION
(Q2 2022)



Source: Lisney

BY SECTOR
(Q2 2022)



Source: Lisney

TOP 10 INVESTMENT TRANSACTIONS Q1 2022

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Magna Drive, Citywest, Dublin 24	Dublin	PRS	€122,000,000
St. Edmunds, St Loman's Road, Palmerstown, Dublin 20	Dublin	PRS	€105,000,000
P&C	Dublin	PRS	€98,000,000
Blocks 1, 2 and 3 Founders District, Donnybrook, Dublin 4	Dublin	Office	€97,500,000
P&C	Dublin	Industrial	€68,000,000
5 Harcourt Road, Dublin 2	Dublin	Office	€65,000,000
Manor West Shopping Park, Tralee, Co Kerry	Kerry	Retail	€55,175,000
North Ring Business Park, Santry, Dublin 9	Dublin	Industrial	€49,999,000
P&C	Dublin	PRS	€42,000,000
P&C	P&C	PRS	€40,000,000

Source: Lisney

PRICING

Despite the growing pace of inflation globally and the resultant increases or confirmation of increases in interest rates in the short-term, prime Irish CRE yields were not impacted in Q2. In fact, prime industrial yields compressed further in Q2 while retail, office and PRS yields remained stable. Since pre-pandemic (Q1 2020) only retail yields are softer, by 75 bps, while the other three sectors hardened; offices by -10 bps, industrial by -135 bps and PRS by -10 bps. Given the external economic and geo-political environment globally, there will be a firm focus on interest rates and the impact on yields both domestically and internationally.

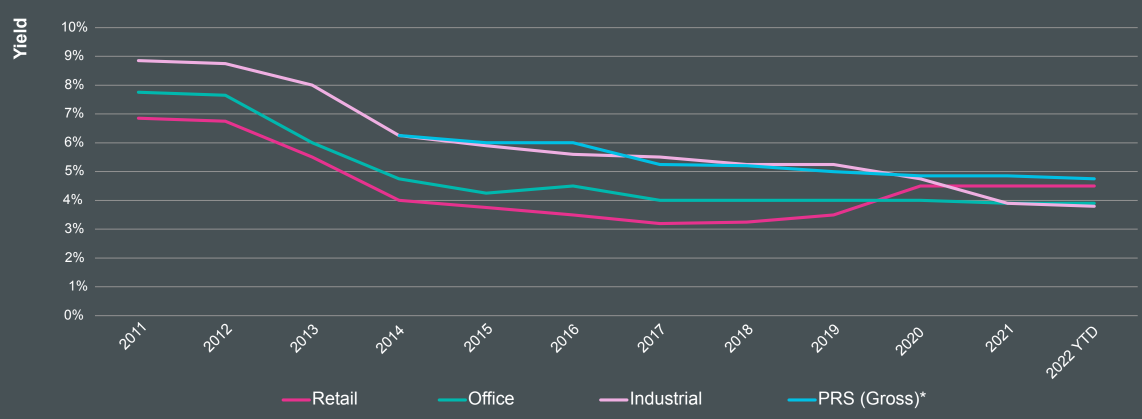
	RETAIL	OFFICE	INDUSTRIAL	PRS (GROSS INCOME)*
Q2 2022	4.50%	3.90%	3.80%	4.75%
Quarterly Change	-	-	-10 bps	-
Annual Change	-	-10 bps	-70 bps	-10 bps
Pre-Pandemic Change (Q1 2020)	+75 pbs	-10 bps	-145 bps	-10 bps
Difference to LTA**	-12 bps	-186 bps	-320 bps	-67 bps
Difference to Q1 2012 (Previous Cycle High)	-240 bps	-390 bps	-520 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 Q2 2022, except PRS which is between Q4 2014 and Q2 2022.

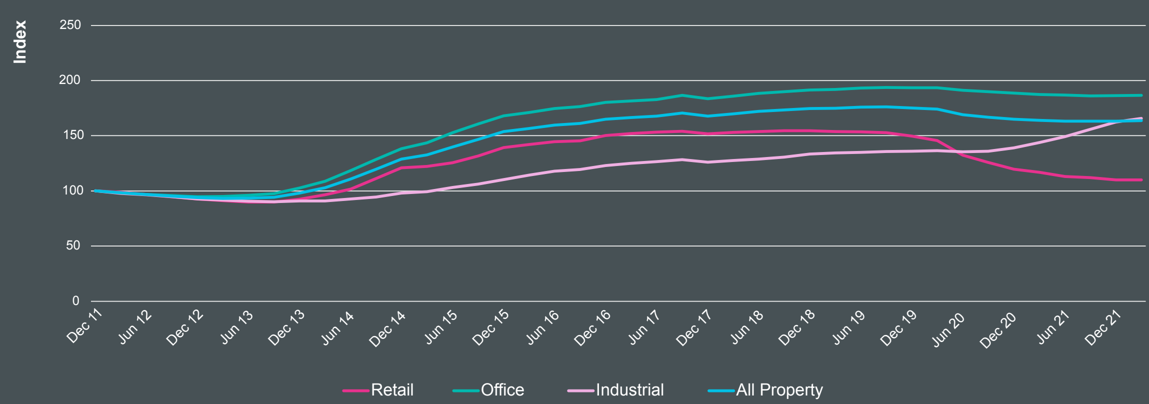
Source: Lisney

PRIME NET EQUIVALENT YIELDS (2011 – Q2 2022)



Source: Lisney

MSCI CAPITAL VALUE GROWTH INDEX (Q4 2021 – Q2 2022)



Source: MSCI

The MSCI / SCSI Ireland Property Index 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 Q2 2022, there was approximately €1.75bn worth of opportunities available in on-market deals. Of this, approximately 33% related to office opportunities, 27% to PRS assets, 12% to retail properties and only 4% related to industrial properties. However, given the exceptionally large amount of off-market activity taking place, 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 investor demand will remain in the months ahead, which will result in continued levels of activity.

2. With record levels of investor requirements for industrial properties, suitable supply will remain the main issue in the sector and will hold back greater levels of activity in 2022. Consequently, demand for secondary assets will improve further, including buildings 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 Dublin Airport.

3. In the office sector, hybrid working has not deterred investors and there will continue to be 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 and shopping centres. Requirements for high streets remains limited. However, with non-essential retail fully reopened since the beginning of the year, and office workers and tourists returning 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 such as healthcare and student accommodation 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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