Lisney

INVESTMENT REPORT

Q4 2022

MARKET TURNOVER

€761.2m

AVERAGE LOT SIZE

€21.15m

€25.2m

FOR TRANSACTIONS OVER €1M

LARGEST DEAL

€135m

OFF-MARKET PRS PORTFOLIO IN GDA

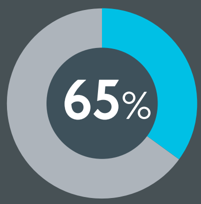
BUSIEST SECTORS

53% PRS

20% RETAIL

11% MIXED USE

OFF-MARKET



OF THE MARKET TURNOVER

LOCATION

OVER **70%** IN DUBLIN

INVESTMENT

DONNYBROOK MALL, DUBLIN 4

OVERVIEW

At the end of 2022, the market was still in the process of discovery with more limited activity occurring or likely to occur in the coming months. In most instances, there remained a disconnect between vendors price expectations and what purchasers (and their credit committees) were willing to pay. Some investors, mainly smaller-scale cash buyers, were willing to buy assets given the reduced competition, but the opportunity had to be a good fit, meeting all of their requirements and available at a discounted price. In most instances, however, investors adopted a wait-and-see approach and continue to want to witness greater levels of certainty in global interest rate stability before they re-engage fully with the market. The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties also came into greater focus. Investors became more interested in BERs and they often sought reports on how ratings could be improved for buildings of B3 or below.

ACTIVITY

In spite of the evolving environment, turnover in the Irish investment market in Q4 2022 was good, reaching €761.2m. Even so, it remained below the €1.14bn quarterly average for the past five years. Q4 figures bring the year's turnover to €4.54bn (compared to €5.51bn in 2021). If the €1.09bn sale of Hibernia REIT to Brookfield Asset Management in Q2 is considered, then turnover for 2022 was almost €5.63bn, and just ahead of the previous year. However, this transaction was completed by way of a company sale rather than the acquisition of individual property assets, hence why it is generally excluded, but is nonetheless significant.

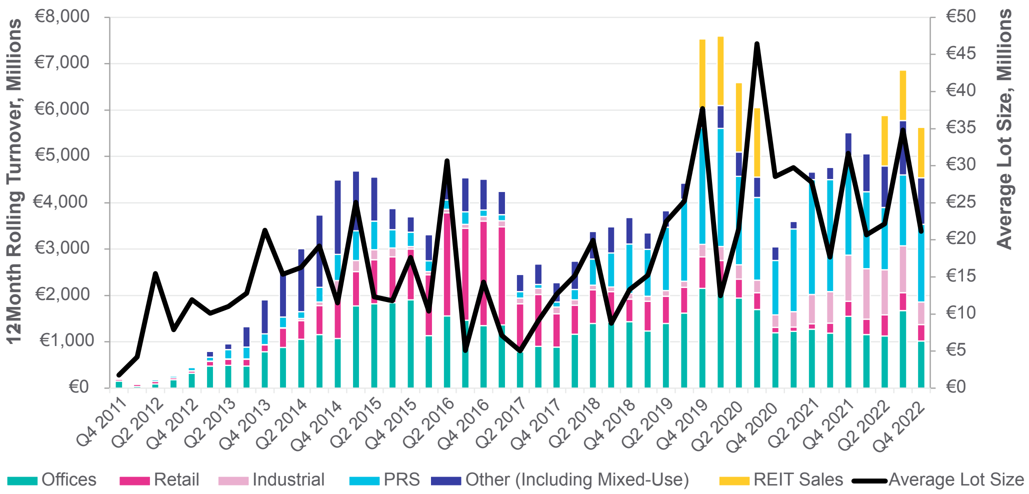
In Q4 2022, Dublin remained the dominant location for investment, accounting for an estimated 70% of the turnover. This was followed by Louth at 5.6% (two transactions) and 4.3% by Galway (two transactions). Off-market sales processes continued to make up a large part of activity, particularly for opportunities priced at over €20m, and in Q4 such deals accounted for over 66% of all transactions.

When confidential deals are excluded, overseas purchasers accounted for 87% of turnover. They remained most active in the larger lot sizes in Q4, while private Irish investors were most active in the market for assets priced up to €10m.

PRS

Despite the often-negative media attention and government intervention, Ireland remains in the midst of a housing crisis with occupier demand for rental accommodation at record levels. The PRS sector remained busy in Q4 with some large transactions completed, often on a confidential, off-market basis, with the sector accounting for 53% of market turnover. There were a total of six PRS transactions in Q4, all of which were sold off-market on a confidential basis. Due to the rising cost, rental growth caps and softening yields, the apartment scheme developments become unviable, which could result in a potential lack of supply in the medium term.

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



Source: Lisney

62-63 MOUNTTOWN ROAD LOWER, GLENAGEARY, CO. DUBLIN

INVESTMENT

OFFICE

The office sector was quieter than normal in Q4 making up just 8.3% of the quarter's market turnover. There was almost €64m spent across seven deals with an average transaction size of €9.1m. The largest deal was the sale of St Stephen's Green House in Dublin 2, which was bought by Novaxia. Each of the remaining six sales were individually under €10m, two of which were sub-€1m. Only two of the office transactions were completed outside Dublin, both in Cork (Building 4700 in Cork Airport Business Park sold for €3.27m / NIY 6.1% and 67/69 South Mall sold for €2m / NIY 2.87%).

Activity levels in the office investment sector is being impacted by the changes occurring in the occupational market, in particular adjustments in the tech industry and WFH. Some of the delays on the occupational side are due to changing economic conditions in major economies, a slower return to the office than anticipated, and consequently businesses taking longer to assess their needs.

INDUSTRIAL

The strong record levels of demand experienced in the industrial investment market in the past 18 to 24 months has reduced. While demand is still good, there are fewer buyers with active requirements as many have adopted a wait-and-see approach for the next six to 12 months. Sustainability and energy use is also coming into greater focus in this sector, especially in new builds. In Q4, the industrial sector accounted for just 1.7% of market turnover with only one transaction completed, a confidential off-market sale for €13m.

RETAIL

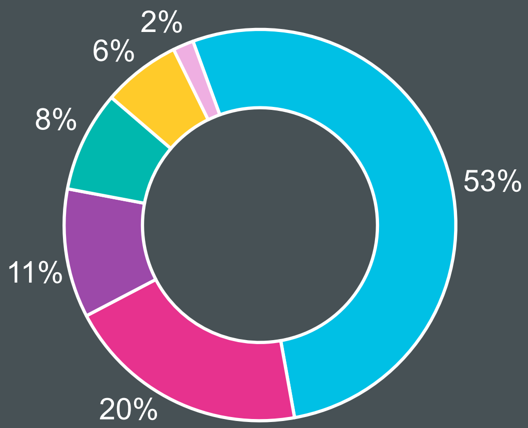
Retail recovered significantly in Q4 2022 with a sector turnover of €153.4m. This accounted for 20% of the quarter's activity and was substantially higher than the €32m completed in Q3 2022 and in line with €150.5m in Q2. There were 12 retail investment transactions in Q4 with an average deal size of €12.8m. Investor interest and demand for retail investment assets is mixed and very price sensitive. While there continues to be demand for well-performing retail parks, for deals to complete, vendors and purchasers must be aligned in pricing. There is less demand for shopping centres as they are currently considered less favourable. However, like retail parks, at the right price, there is demand.

Out of 12 sales in Q4, there were three retail parks, two shopping centres, and one supermarket, indicating investors' interest in such assets. In addition, three assets were sold off-market on a confidential basis. The largest deal was a confidential off-market sale for €28m, followed by the off-market sale of Dundalk Retail Park for €25m and another confidential off-market sale for €20m. The remaining retail park sales included Tullamore retail park (€18.5m / NIY 8.27%) and N4 Axis Centre in Longford (€6.4m / NIY 9.26%). The two shopping centres were Scotch Hall Shopping Centre in Drogheda (€17.3m / NIY 12.05%) and Manor West Neighbourhood Centre in Tralee (€4.95m / NIY 8.35%). The supermarket deal comprised the sale of Tesco on Baggot Street in Dublin 2 for €12m (NIY 5.06%).

INVESTMENT

ACTIVITY ANALYSIS

BY SECTOR
(Q4 2022)



Source: Lisney

TOP 10 INVESTMENT TRANSACTIONS Q4 2022

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Off-market portfolio	GDA	PRS	€135,000,000
P&C	P&C	PRS	€90,000,000
P&C	Dublin	PRS	€75,000,000
P&C	P&C	PRS	€60,000,000
West Wing, Block R, Spencer Dock, Dublin 1	Dublin	Mixed-Use	€48,450,000
St Stephen's Green House, Earlsfort Terrace, Dublin 2	Dublin	Office	€50,000,000
(Guide Price)	Dublin	Other - Hotel	€80,000,000
Premier Inn, Newmarket Yards, Dublin 8	Dublin	Hotel	€36,000,000
P&C	P&C	PRS	€34,000,000
P&C	P&C	Retail	€28,000,000
Dundalk Retail Park, Dundalk, Co Louth	Louth	Retail	€25,000,000

Source: Lisney

PRICING

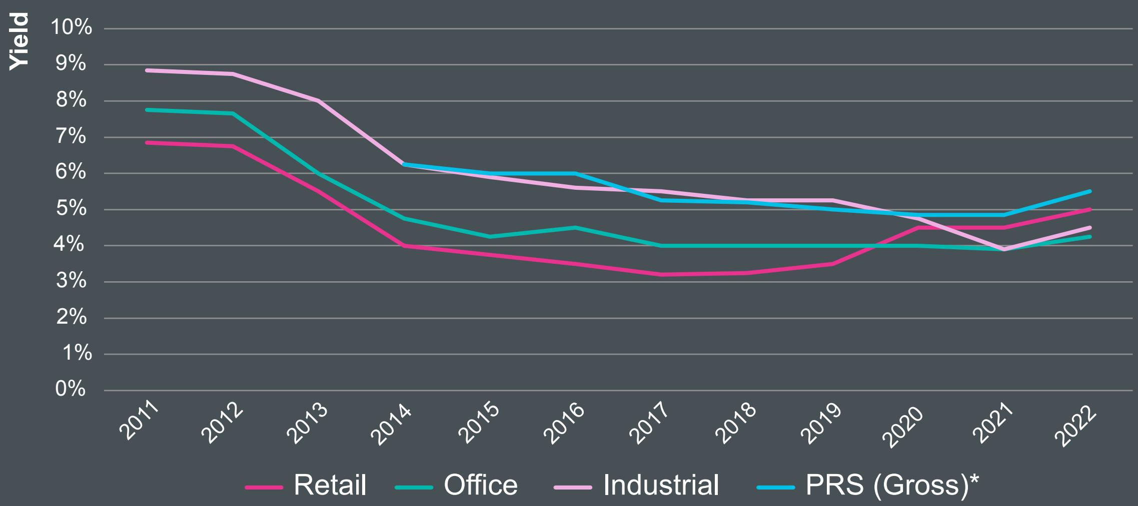
The most recent MSCI / SCSI Ireland Property Index figures are for Q4 2022 where 'total return' grew by -1.5% on an annualised basis (-3.4% in the quarter) for 'all property', but this was largely driven by rental growth in the industrial sector and the yield softening in all sectors. The 'capital value growth' index fell by 6.2% for 'all property' in the year (-4.5% in the quarter). Industrial was the only sector that saw capital growth increase on an annual basis. On a quarterly basis, all sectors faced a capital decline.

PRIME NET EQUIVALENT YIELDS

	RETAIL	OFFICE	INDUSTRIAL	PRS
Q4 2022	5.00%	4.25%	4.50%	5.50%
Quarterly Change	+25 bps	+10 bps	+25 bps	+50 bps
Annual Change	+50 bps	+35 bps	+60 bps	+65 bps

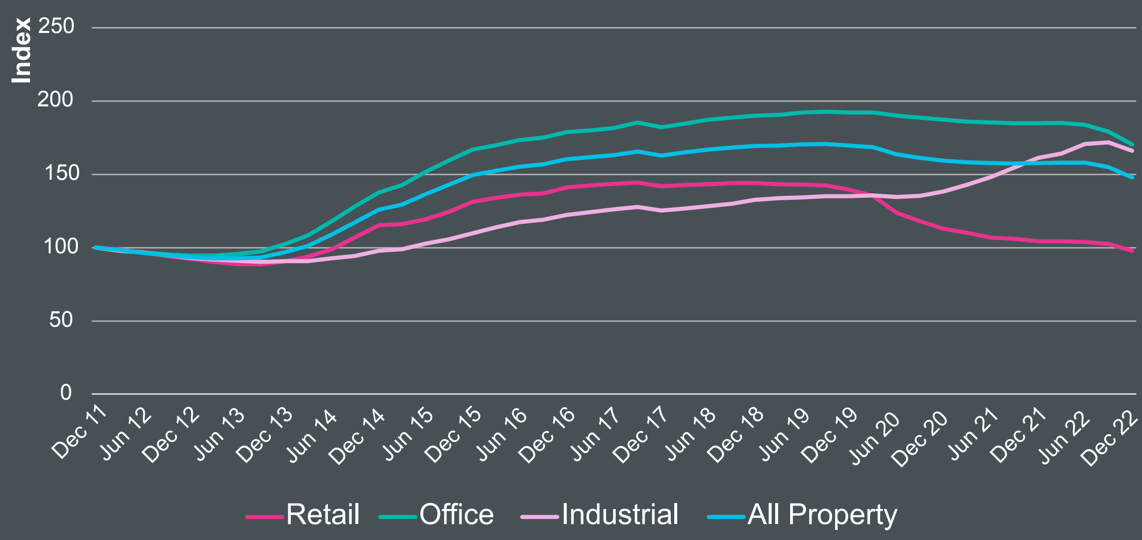
Source: Lisney

PRIME NET EQUIVALENT YIELDS (2011 – Q4 2022)



Source: Lisney * PRS yields do not have OPEX accounted for and as such, are on a gross income basis

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



Source: MSCI, Lisney analysis

INVESTMENT

ST STEPHENS GREEN HOUSE, DUBLIN 2

SUPPLY

At the end of Q4 2022, there was approximately €1.3bn worth of opportunities available in on-market deals, some of which had deals agreed. However, given the exceptionally large amount of off-market activity taking place, this supply figure is in reality significantly higher. As highlighted above, the leasing delays in the occupational markets, particularly in offices, is resulting in a delay of assets being offered for sale. In the months ahead, some vendors might test the market with scaled-back marketing campaigns, only selling if required prices are achieved, while others may hold on until the latter part of the year and see how interest rates and pricing settles.

BLOCK R, DUBLIN 1 - WEST WING SOLD IN Q4 2022

OUTLOOK

1 The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties will come into even greater focus in 2023. Investors interest in BERs will grow further and they will be seeking reports on how ratings could be improved for buildings of B3 or below. However, there are concerns on construction and refurbishment costs in the short to medium term, which will push yields higher in older buildings, particularly offices. Some opportunities that were acquired on a value-add basis in the last four to five years may experience forced sales given the increased costs of works and funding.

2 Last November the Central Bank of Ireland published its Macroprudential Policy Framework for Irish Property Funds, which introduces a 60% debt-to-total assets leverage limit. This will have a five-year implementation period (until November 2027) with funds expected to make a gradual move towards lower leverage levels over that period. Any new funds must now have below 60% leverage to be authorised by the Central Bank. There is an exception for funds that have at least 80% of their assets in social housing (long-term leases). This policy is softer than what was initially envisaged – in 2021 it was suggested that the leverage limit would be 50% with a three-year lead in time. This reduction is welcome and will give property funds more time to comply with the restrictions, particularly now that the market is weaker and falling valuations are already having an impact on loan agreements and debt thresholds. It will also reduce the reliance of the CRE market on Irish bank funding and there is likely to be more funding interest from overseas investors. In the longer-term it will provide a more balanced investor base for the CRE market and make it less susceptible to shocks; higher levels of leverage increase the risk that in a downturn funds may breach loan-to-value covenants. In terms of who this will affect, a 2020 deep dive survey by the Central Bank found that 67% of property funds were single investor funds and within multi-investor funds, 59% of them had leverage below 50%. Consequently, it will not impact all Irish property funds.

3 Prime yields have softened by between 35 bps and 100 bps (depending on sector, location and specification) and are likely to drift further in Q1 2023. Pricing in the next six months will be dictated by cash purchasers, and for some larger deals based on sentiment.

4 Despite the economic factors impacting the market, there is investor demand and there is still a lot of private equity money seeking a home having already been raised. It remains to be seen how much of this goes towards Irish CRE but we are optimistic for a recovery in demand and activity from around September 2023 and once this comes, we believe it will happen quickly.

INVESTMENT

MEET OUR TEAM

THE LISNEY INVESTMENT TEAM

JACKIE FITZPATRICK
Director,
Head of Investment

JAMES NUGENT
Senior Director,
Head of Transactional

CHRISTOPER BELTON
Director

LYNDA GORDON
Divisional Director

THOMAS BYRNE
Divisional Director

CONNEL KING
Graduate Surveyor

THE LISNEY RESEARCH TEAM

AOIFE BRENNAN
Senior Director,
Head of Research

AUSRA MARCELYTE
Senior Research Analyst

KRYSTAL CHIKWE
Research Intern

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

INVESTMENT REPORT
Q4 2022