

INVESTMENT REPORT

Q2 2023



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Price adjustment in the Irish investment property market continued in Q2 with limited investment opportunities coming to the market as some vendors continued to adopt a cautious approach and postpone disposals until there is more market certainty. However, we are seeing an increase in off-market investment opportunities. As we have been affirming for 12 months, there generally remains a disconnect between sellers and buyers in terms of pricing, particularly for large assets. However, for lower-value assets (less than €5 million), this is less of an issue.

▼ €332_{psm}

Turnover

▼ 28

Deals

▼ €55_m

Confidential PRS sale

Largest Deal

▼ 69%

Dublin

▲ 61%

Off-Market

▲ >€12.7_m

**Average Deal Size
Over €1m deals**

Arrows represent quarterly trends unless otherwise stated.

Global Economic Backdrop

The global economic landscape continued to have a significant impact on the Irish investment market in Q2. Elevated inflation and tightening monetary policies worldwide have negatively affected commercial real estate values and liquidity.

As a result, Irish investment sales volumes continued to slow in Q2 2023, despite many of the country's economic indicators being positive – notably, Ireland's record-low unemployment rate of 3.8% in June, household savings at an all-time high of €151bn in May and significant exchequer surpluses expected for the next three years.



Activity

In Q2 2023, Irish investment market turnover reached €332.1m across 28 transactions, which brought the total for the first half of the year to €957m. This was the smallest quarter since Q2 2017 and about 63% below the ten-year quarterly average of €896m.

While the activity level was low, considering the challenging global market conditions, it was anticipated. Almost one year into interest rates rising, the Irish investment market has a 12-month rolling turnover figure of €3.49bn.

Dublin remained the dominant location for investment, accounting for 69% of the turnover. This was followed by Limerick and Meath, each at 7%. All other counties and confidential sales accounted for a combined 17% of the turnover. Off-market sales continued to dominate, making up 61% of total turnover in the quarter and 50% in the first six months of the year.

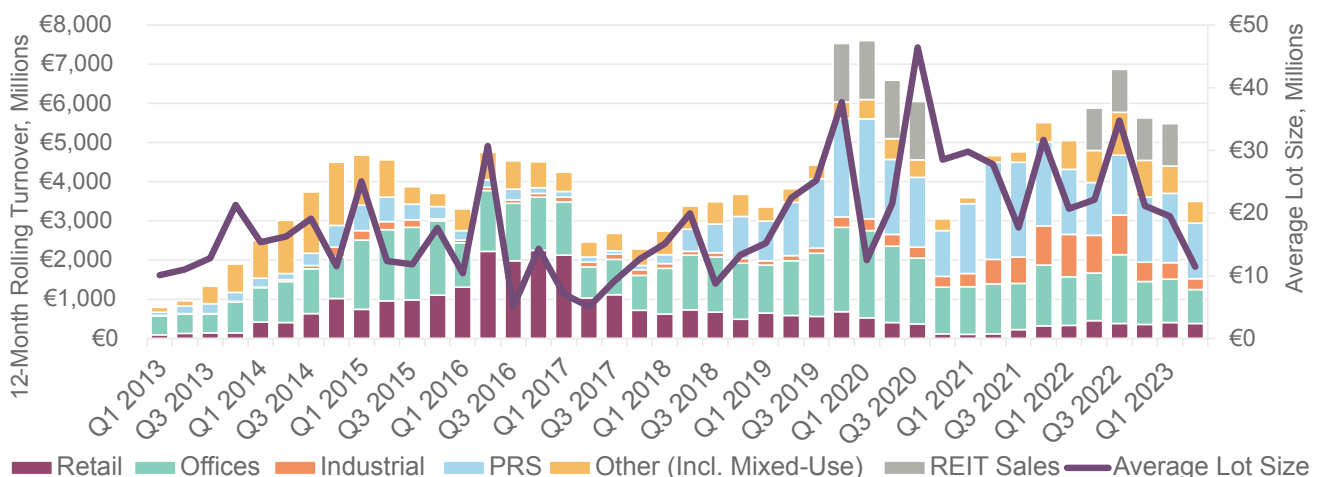
International investors were the most active in the market with a number of new entrants which accounted for over 80% of turnover. A new investor to Ireland, Inter Gestion REIM, secured the B&Q anchor store in Liffey Valley Retail Park, in West Dublin for a reported €26.6m. Iroko Zen continued to add to its portfolio in Ireland in recent months with several acquisitions. Remake Asset Management made its second purchase in Dublin with its acquisition of legal practice Byrne Wallace's headquarters at 87-88 Harcourt Street, Dublin 2 for €34m, the largest office transaction of the quarter. These investors are particularly active across the traditional office, retail and industrial sectors for assets where returns are between 6% and 8% with lot sizes of less than €40m. French SCPI (Société Civile de Placement Immobilier - a real estate investment company) investors accounted for nearly 26% of total spend in Q2.

While international investors remained most active in the larger lot sizes, demand from private investors for assets priced up to €5m remained strong, which in part, was driven by high levels of inflation, low-interest rates on deposit accounts, and the reduced reliance on third-party finance for purchasers in this lot size.

In Q2 2023, the activity levels in the smaller value assets market for properties between €1m and €5m remained consistent. With a total of 12 sales and an average lot size of €2.5m, the market was in line with the long-term trends. Although the number of transactions varied, on average, there were 15 transactions completed in the second quarter of each year over the last five years. The average lot size in Q2 2023 was slightly above both the five-year average of €2.4m and the 10-year average of €2.3m, but below €2.6m in the previous quarter. These assets are usually less impacted by finance costs, and thus, they continue to attract new investments.

Whilst there are pockets of liquidity across sectors and different lot sizes, the biggest liquidity gap at present is for larger office and shopping centre assets, generally in excess of €50m. It is no coincidence that this is also where the biggest mismatch appears to be between buyer and seller price expectations.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q2 2023)



Source: Lisney

Activity By Asset Type

PRS

The market conditions that have helped the PRS market thrive in recent years have somewhat deteriorated with the movement in interest rates eroding the premiums that large PRS sales yielded over break-up values (the sale of individual units). Demand for older and/or fragmented PRS stock, particularly in smaller lot sizes of less than €30m, has also fallen. In addition, high inflation and construction costs, rental growth caps, and softening yields are making it difficult for apartment developments to remain viable. As a result, future development is being hampered and could potentially result in supply shortages in the medium term. Developers have in many cases turned their attention to approved housing bodies (AHBs) which continue to have an appetite to buy in bulk.

Investment in the PRS sector reached €94.5m across six transactions in Q2. This was substantially below €332.5m spent in the previous quarter. The sector accounted for 28.5% of the overall CRE investment market in Ireland in Q2 with an average transaction size of €15.8m, again substantially below an average of €83.1m in the previous quarter and €53m in 2022.

Three out of six transactions were each in excess of €10m and all three were sold off-market on a confidential basis. Combined they accounted for 95% of the sector's turnover. The other three transactions were each sub €3m in lot size and included the sale of Beau Park in Clongriffin, Dublin 13 for €2.7m; the sale of 95A Dundaniel Road in Coolock, Dublin 5 for €1.225m; and the sale of Hoey Court & Grange Lodge Avenue, Beau Park in Clongriffin, Dublin 13 for €1.1m.

OFFICES

Investment in the office sector has been slow to recover to its pre-pandemic levels. In Q2 2023, it comprised just 12.5% of the total activity with €41.7m spent across only three deals and an average transaction size of €13.9m. This is substantially below the pre-pandemic long-term average of approximately 84%. The largest deal in Q2 was the sale of 87-88 Harcourt Street, Dublin 2, which was acquired by Remake for €34m (NIY approx. 6.5%). The second

largest transaction was Iroko Zen's acquisition of Block A in Westland Park, Dublin 12 for €4.97m (NIY 7.7%). 15 Harcourt Street in Dublin 2 was sold for €2.7m (NIY 4.6%).

Activity levels in the office investment sector have been impacted by changes in the occupational market, especially adjustments in the tech industry and working from home. Demand for the sector is also greatly impacted by the EU Taxonomy Regulations on purchasing or funding properties, particularly around buildings with BER ratings of B3 or lower.

INDUSTRIAL

The industrial investment market has been experiencing high levels of demand since the onset of the pandemic, on average accounting for 14% of quarterly turnover since then. While demand continues to be strong, there currently are fewer buyers with active requirements in the market, adopting a wait-and-see approach for the next six to 12 months. Sustainability and energy use are also coming into greater focus in this sector.

In Q2 2023, the industrial sector accounted for 14.5% of the total market turnover with a spend of €48.3m across five transactions and an average deal size of €9.7m. The largest transaction was the off-market sale of the West Portfolio in Dublin, which accounted for over 46% of industrial activity and was sold for €22.25m.

The remaining four deals in Q2 2023 included the sale of Unit 2, Vantage Business Park for €12.75m (NIY 5.14%) to Ario, along with three smaller transactions each of which was sub €9m. Iroko Zen acquired Unit AF40 in Cloverhill Industrial Estate, Dublin 22 for €8.75m (NIY 6.9%); M7 acquired Unit 28 in Cookstown Industrial Estate, Dublin 24 for €2.9m (NIY 7.3%); and a private investor acquired 49/50 Broomhill Close in Broomhill Industrial Estate, Dublin 24 for €1.65m (NIY 7.1%).

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€94.5m

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ABOVE: 19 Wicklow Street,
Dublin 2

RETAIL

In Q2 2023, the retail sector had a strong quarter with €128.86m invested in the sector across 11 deals with an average deal size of €11.7m. This accounted for 39% of the quarter's activity and was substantially up from €65.8m in Q1 2023, however, remained below €150.5m spent in Q2 2022. The off-market transactions dominated accounting for nearly 70% of the sector's activity.

Investor interest and demand for retail investment assets continues to be mixed and price sensitive. While there is demand for well-performing retail parks, vendor and purchaser pricing must align for deals to complete. In Q2, retail parks and retail warehousing units accounted for 81% of the sector's activity, supermarkets accounted for a further 10% and the remainder was high street investments including the Dubray Books stores at No.36 Grafton Street, Dublin 2 (€5.3m, NIY 5.4%) and 83 / 85 Patrick Street in Cork (€2m, NIY 7.5%).

Realty Income Corporation, the S&P 500 company/REIT, purchased two retail parks (Blackwater Retail Park in Navan and City East Retail Park in Limerick) in an off-market transaction for a combined price of €45.9m (NIY 8.5%). A private family office purchased Carlow Retail Park also in an off-market deal for €15.4m. B&Q Liffey Valley, Dublin 22 was sold to Inter Gestion REIM for €26.6m (NIY 6.9%). In a confidential sale, a retail warehouse and a supermarket were sold to a German investor for €26.6m.



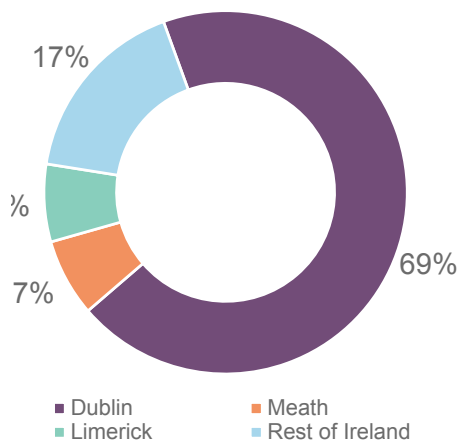
ABOVE: 36 Grafton Street,
Dublin 2

Top 10 Investment Transactions Q2 2023

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
P&C	P&C	PRS	€55,000,000
Blackwater Retail Park, Navan and City East Plaza Retail Park, Limerick	Meath and Limerick	Retail	€45,900,000
87-88 Harcourt Street, Dublin 2	Dublin	Office	€34,000,000
B&Q Liffey Valley, Dublin 22	Dublin	Retail	€26,600,000
The West Portfolio	Dublin	PRS	€24,500,000
Industrial Portfolio	Dublin	Industrial	€22,250,000
Tesco and Woodies, Newbridge, Co Kildare	Kildare	Retail	€18,250,000
Carlow Retail Park	Carlow	Retail	€15,400,000
Unit 2, Vantage Business Park, Co Dublin	Dublin	Industrial	€12,750,000
The Monument Collection	Dublin	Mixed-Use	€12,250,000

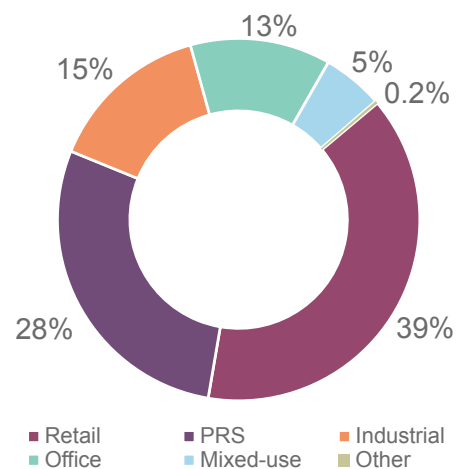
Source: Lisney

Activity By Location (Q2 2023)



Source: Lisney

Activity By Sector (Q2 2023)



Source: Lisney



ABOVE: 8-12 Terenure Place, 2 Templeogue Road and 11A Rathfarnham Road

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q2 2023	5.25%	4.75%	5.25%	4.50%
Quarterly Change	+25 bps	+25 bps	+25 bps	0 bps
Annual Change	+75 bps	+85 bps	+145 bps	+75 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

PRICING

The CRE market in Q2 2023 continued to be impacted by wider global economic, financial and geopolitical factors, which have led to price chipping and a decrease in the number of completed transactions. In turn, yields have softened, the degree to which depends on the sector.

In the office market, we estimate that prime CBD yields in Dublin increased by 25 bps in Q2, moving from 4.50% to 4.75%. Prime suburban office yields also softened by 25 bps to an estimated 7.75%. Prime industrial yields have increased by 25 bps to stand at 5.25% at the end of June. Prime high street retail along with shopping centres and retail parks also moved out by 25 bps. In the PRS market, prime yields remained stable at 4.5%.

MSCI / SCSi Ireland Property Index figures for Q2 2023 show 'total return' declined by 7.7% on an annualised basis and by 2.0% on a quarterly basis for 'all property'. This was largely driven by rental and the yield softening in all sectors. The 'capital value growth' index fell by 12.1% for 'all property' in the year (-3.2% in the quarter). All sectors faced a capital decline on both an annual and a quarterly basis.

SUPPLY

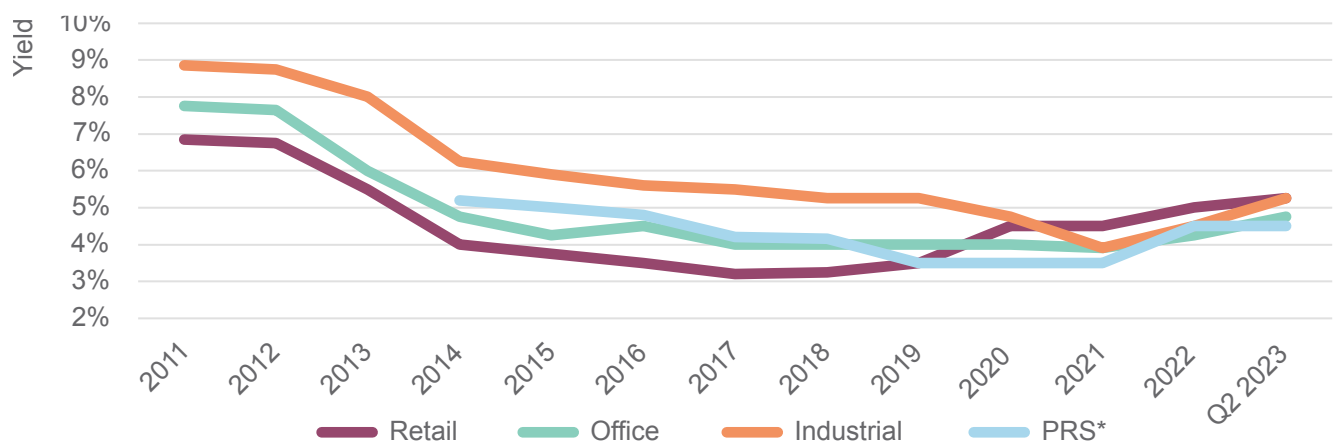
At the end of Q2 2023, there was approximately €650m worth of on-market investment opportunities available, some of which had deals agreed. However, given the amount of activity occurring off-market in recent times, this supply figure is likely higher.

Many would-be vendors are observing the market to see what might happen with investors in stressed or weaker positions. If they are forced to sell, it could impact the market and lead to more pronounced falls in values. Investment strategies are also changing with some investors now considering alternative opportunities like hotels and healthcare due to the lack of supply in the PRS market. Consequently, in the months ahead, some vendors might test the market with scaled-back marketing campaigns, while others may hold on until early next year to see how interest rates and pricing settles.



ABOVE: Blackwater Retail Park,
Navan, Co Meath

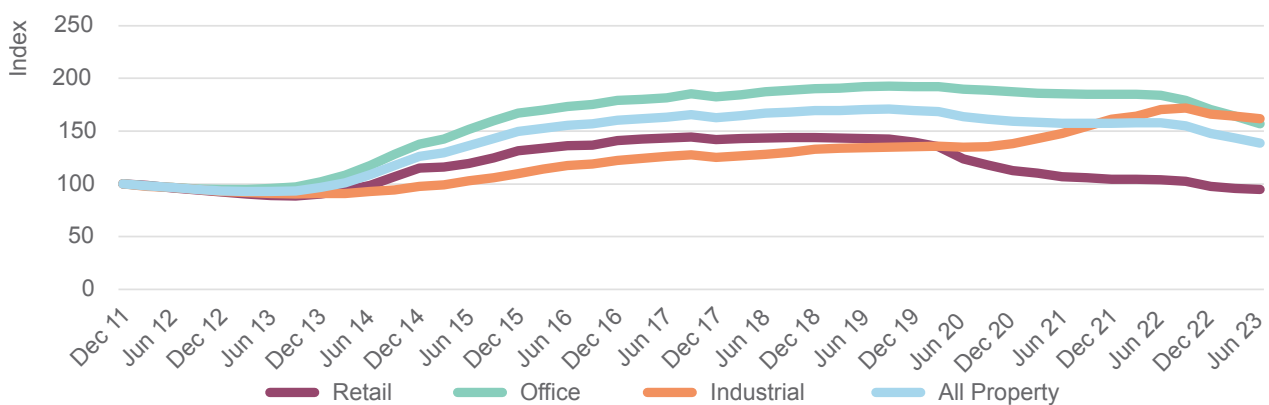
Prime Net Equivalent Yields (2011 – Q2 2023)



* PRS yields assume OPEX at 20% of income

Source: Lisney

MSCI Capital Value Growth Index (Q4 2011 – Q2 2023)



Source: Lisney

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.



Outlook

Borrowing costs are now at their highest level in 22 years in the EU. The main refinancing rate stands at 4%, up 350bps since July 2022 via eight consecutive increases, and the expectations are that July 2023 will see a further 25bps increase and potentially another 25bps in September.

We expect yields to soften further in the coming months as further price discovery materialises across the full spectrum of the market.

EU directives are tightening to achieve a climate-neutral building stock by 2050. As a result, ESG factors and legal regulations are becoming increasingly important within the real estate market, impacting the entire property's life cycle from conception and planning to construction, use, financing, and sale. Failure to meet sustainability criteria risks devaluation of assets. Compliance with the Sustainable Finance Disclosures Regulation (SFDR) and EU Taxonomy is now essential for financing property assets and is influencing market demand. Therefore, the real estate industry must adapt to evolving conditions and take a holistic approach to address ESG aspects.

Market pricing for Dublin shopping centres is set to be tested in the Autumn with the marketing of Blanchardstown Shopping Centre and Retail Park and The Square Town Centre in Tallaght for sale.

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. This is likely to be in the first half of 2024 and once a recovery comes, it will happen quickly.

Meet The Team

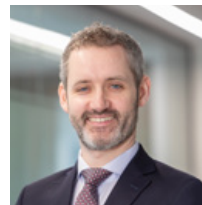
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