Lisney
COMMERCIAL REAL ESTATE

INVESTMENT REPORT

Q3 2023

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In Q3 2023, price adjustment and off-market transactions continued in the investment market. It was notable that there were no PRS deals completed in the three months and encouragingly, offices remained resilient accounting for 40% of the total turnover. Regional shopping centres and retail parks, as well as industrial property, experienced good levels of activity.

▲ €444m

Turnover

▲ 30

Deals

▲ €81m

George's Quay House, Dublin 2

Largest Deal

▼ 67%

Dublin

▲ 70%

Off-Market

▲ >€14.8m

Average Deal Size Over €1m deals

Arrows represent quarterly trends unless otherwise stated.

Global Economic Backdrop

The global economic landscape continued to have a weighty impact on the Irish investment market in Q3 2023 with elevated inflation and even tighter monetary policies around the world affecting commercial real estate values and liquidity.

While just after the end of Q3, Budget 2024 in early-October is worth noting. There were no direct changes to commercial real estate (such as stamp duty rates) but the review of the structure of funds (launched last year) continues and may impact how property is held in the future.

Activity

Irish investment market turnover reached €444m across 30 transactions in Q3 2023, bringing the total for the first nine months of the year to €1.4bn. It was about half of the ten-year quarterly average turnover figure but considering the challenging global market conditions, this was anticipated.

Almost 15 months into interest rate increases, the 12-month rolling turnover figure was €2.16bn at the end of September. This is the lowest it has been since Q4 2013, albeit Q4 2017 was close.

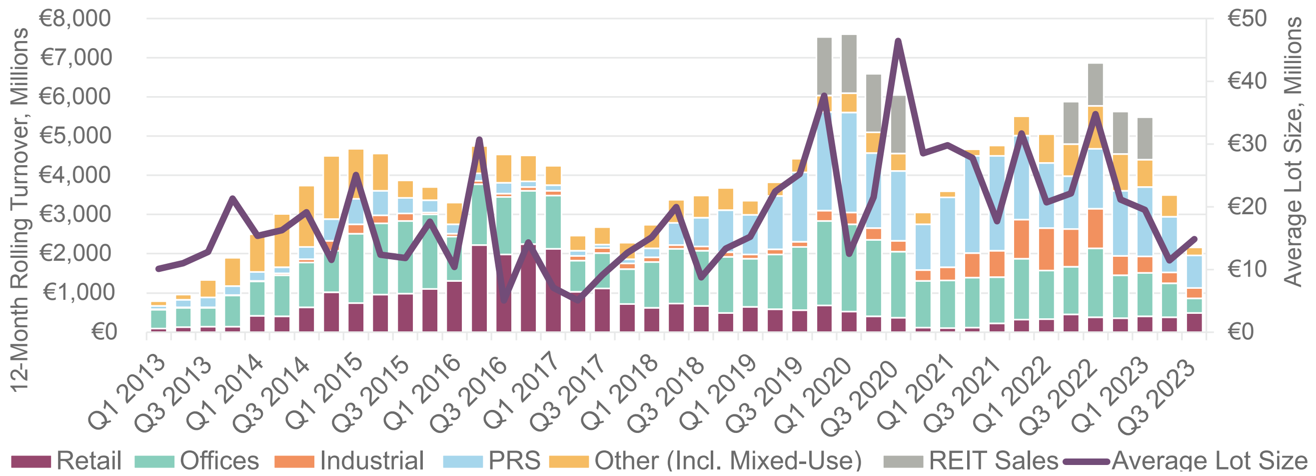
Dublin remained the busiest location for investment, accounting for two-thirds of turnover. This was followed by Cork and Louth, at 7.6% and 6.5% respectively, while portfolios across multi-counties made up 16.7% of the turnover. Off-market sales continued to dominate the market, making up over 70% of total turnover in the quarter and 56% in the first nine months of the year.

International investors, particularly private capital and French SCPI (Société Civile de Placement Immobilier - a real estate investment company) investors, remained the most active in the market. 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.

Demand from private investors for assets priced up to €10m remained good in Q3. At the lower end of this range, between €1m and €5m, activity was strong with 14 deals (out of 30) within this bracket, averaging €2.3m each. This is in line with longer-term trends where, over the last five years there were on average 12 transactions in this lot size completed in the third quarter of the year. Demand for such assets is driven by little or no return being made on cash in deposit accounts, elevated inflation in the economy and the reduced reliance on third-party finance for purchasers in this lot size.

While there are pockets of liquidity across sectors and lot sizes, the biggest gap in recent months remained for larger office schemes, generally over €50m in price. 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 – Q3 2023)



Source: Lisney

€427m

In the nine months to the end of September 2023, a combined total of just €427m (10 deals) was concluded in PRS deals.

Activity By Asset Type

PRS

The market conditions that have helped the PRS market thrive in recent years have weakened. The upward movement in interest rates has eroded the premiums that PRS block values yielded over break-up values (the sale of individual units). Demand has been particularly hit for existing schemes up to €30m that are older and/or in fragmented ownership. For new schemes where forward commitments are required, elevated inflation, construction costs, rental growth caps and softening yields are making viability difficult. In many cases, developers have turned their attention to approved housing bodies (AHBs) and the Land Development Agency (LDA), which continue to have an appetite to buy in bulk.

There were no PRS investment sales, either existing stock of forward commitments, in Q3 2023. Since PRS became a part of the Irish market in 2012, there has only been one other quarter where there were no PRS sales, which was eight years ago in Q3 2015. Since 2015, the quarterly average turnover in the sector has been €310m. However, in the nine months to the end of September 2023, a combined total of just €427m (10 deals) was concluded.

OFFICES

Investment in the office sector has been slow to recover to its pre-pandemic levels with turnover in the sector at just €307m in the first nine months of the year. Investor demand has been impacted by changes in the occupational market, especially adjustments in the tech industry and continued hybrid working. 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.

In spite of the above, the sector regained some momentum in Q3 2023 and at €175m accounted for 40% of the total activity. The average transaction size was €35m. This included the largest deal in Q3; the sale of George's Quay House in Dublin 2, which was acquired by French investor, Corum Asset Management, for €81m (NIY approx. 6.24%). Corum Asset Management has also acquired Building F1, The Campus in Cherrywood for €33.4m (NIY 6.15%) in Q3. A private Irish investor acquired 73-83 Lower Mount Street, Dublin 2 for €31m (NIY 6.95%). J5 Plaza in Finglas was sold to Iroko Zen in an off-market deal for €18.1m while 4 Earlsfort Terrace was acquired by a private Irish investor for €11.85m (NIY 5.97%).

INDUSTRIAL

The industrial sector has experienced strong demand both from occupiers and investors since the onset of the pandemic and has made up 14% of investment market turnover. While demand remains for good quality opportunities, many investors are now a little more cautious. Sustainability and energy use are coming into greater focus in this sector.

In Q3 2023, the industrial sector accounted for 19% of the total market turnover with a spend of €86.3m across eight transactions and an average deal size of €10.8m. Over the first nine months of 2023, just under €250m was spent on industrial assets with an average transaction size of €166m.

The largest industrial transaction in Q3 was Palm Capital's off-market acquisition of two premises in Dublin – Unit D1 in Airport Business Park, Swords and Unit 1A & 1B in Rosemount Business Park, Dublin 15. At €40.75m, this accounted for over 47% of industrial activity in the quarter. Units A & B in Willsborough Industrial Estate, a data centre investment, was also sold in an off-market transaction, for €10m. Other notable deals included the sale of 35 Rosemount Business Park, Dublin 15 to Pictet for €14.175m (NIY 5.6%), Units 35 & 38 in Fonthill Industrial Estate for €10.1m (NIY 4.6%) and Unit 20 in Fonthill Business Park for €6.6m (NIY 5.75%). The remaining three deals were each sub €2m.

ABOVE: 19 Wicklow Street,
Dublin 2

RETAIL

Investor interest in retail assets continues to be mixed. Interest that is present is price sensitive and generally focused on well-performing regional shopping centres and retail parks where vendor and purchaser pricing is aligned.

In Q3 2023, the sector had another relatively busy quarter with €146.46m invested across 13 deals, one-third of all market activity. The average deal size was €11.3m. Off-market transactions also dominated this part of the market, making up nearly 60% of the sector's activity. Shopping centres accounted for 75% of the sector's activity and the largest deal was the off-market sale of the Hexagon Portfolio. This comprised six regional shopping centres (Donaghmede Shopping Centre in Dublin; Letterkenny Shopping Centre in Donegal; Galway Shopping Centre; Laois Shopping Centre in Portlaoise; Parkway Shopping Centre in Limerick, and Longwalk Centre in Dundalk, Co Louth) and was acquired by Davy Real Estate for a reported €74m (NIY 11.0%). Davy Real Estate also acquired Marshes Shopping Centre in Dundalk for €29m (NIY 10.7%). Meridian Point Shopping Centre in Greystones was sold to a private Irish investor for €7.225m (NIY 7.43%).

It is encouraging that high street assets have regained some momentum with three sales completed in Q3. These comprise 83 Grafton Street (€6.1m / NIY 5.14%), 45 Henry Street (€3.7m / NIY 6.14%) and Unit 4, GPO Buildings on Henry Street (€1.33m). Two other properties on Grafton Street came to the market in Q3; 72 Grafton Street with a guide price of €10.5m and 69 Grafton Street with a guide price of €6m. .

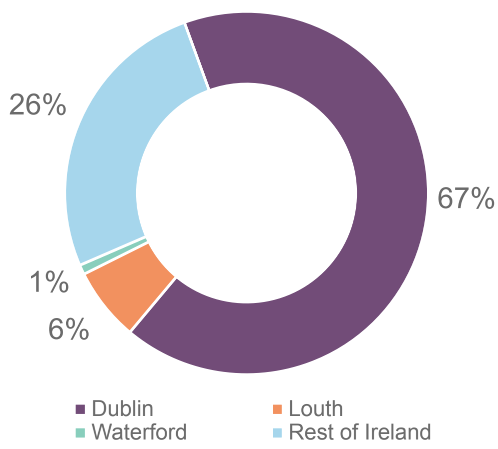
ABOVE: 22 Wicklow Street,
Dublin 2

Top 10 Investment Transactions Q3 2023

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
George's Quay House, Dublin 2	Dublin	Office	€81,000,000
Hexagon Portfolio – Donaghmede, Letterkenny, Galway, Laois, Parkway and Longwalk Shopping Centres	Various – Dublin, Donegal, Galway, Laois, Limerick, Dundalk	Retail	€74,000,000
Unit D1, Airport Business Park, Swords, Co Dublin and Unit 1A & 1B Rosemount Business Park, Dublin 15	Dublin	Industrial	€40,750,000
Building F1, The Campus, Cherrywood, Dublin 18	Dublin	Office	€33,400,000
1 Westfield, Ballincollig, Co. Cork	Cork	Other	€31,350,000
73-83 Lower Mount Street, Dublin 2	Dublin	Office	€31,000,000
Marshes Shopping Centre, Dundalk, Co Louth	Louth	Retail	€29,000,000
J5 Plaza, Finglas, Dublin 11	Dublin	Office	€18,100,000
35 Rosemount Business Park, Dublin 15	Dublin	Industrial	€14,175,000
4 Earlsfort Terrace, Dublin 2	Dublin	Office	€11,850,000

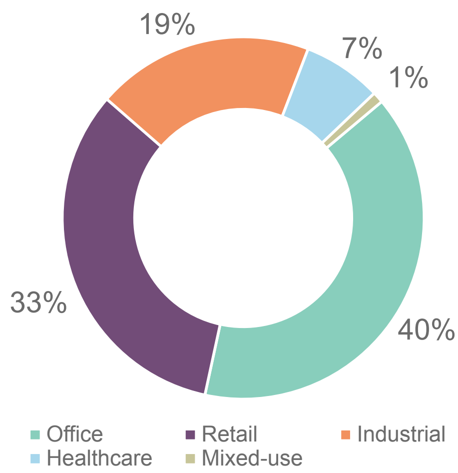
Source: Lisney

Turnover by Location (Q3 2023)



Source: Lisney

Turnover by Sector (Q3 0223)



Source: Lisney

ABOVE: 18 Wicklow Street, Dublin 2

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q3 2023	5.25%	5.00%	5.25%	4.75%
Quarterly Change	0 bps	+25 bps	+0 bps	+25 bps
Annual Change	+50 bps	+85 bps	+100 bps	+75 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

PRICING

The CRE market in Q3 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 Q3, moving from 4.75% to 5%. Prime suburban office yields also softened by 25 bps to an estimated 8% as did prime PRS yields moving to 4.75%. Prime industrial yields as well as prime high street retail along with shopping centres and retail parks have remained stable.

The most recent MSCI / SCSI Ireland Property Index figures for Q3 2023 show 'total return' fell further, declining 2.6% for 'all property' in the quarter and 9.7% in the previous 12 months. This was primarily driven by both rental and yields softening in the office sector. In terms of the 'capital value' index, declines were also experienced on a quarterly and annual basis. 'All property' fell by 14.1% in the 12 months but notably, this index series has declined by 21.6% since Q3 2019. The capital value index for offices have fallen by 16.9% in the year to the end of Q3 and by 22.5% since Q3 2019.

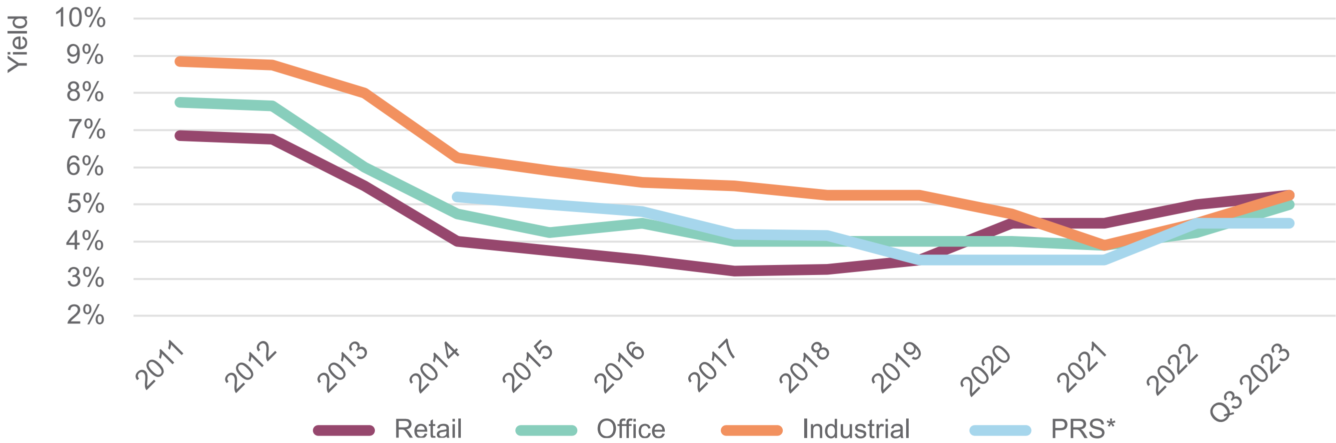
SUPPLY

At the end of Q3 2023, there was approximately €620m worth of on-market investment opportunities available, some of which had deals agreed. However, given the level of activity occurring off-market, this supply figure is likely higher.

Many would-be purchasers continue to observe the market to see how the situation for owners in stressed or weaker positions evolves. If these owners 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 and adequate returns in core markets. 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.

RIGHT: Ground Floor Retail Unit,
Ice Rink, Dolphins Barn, Dublin 8

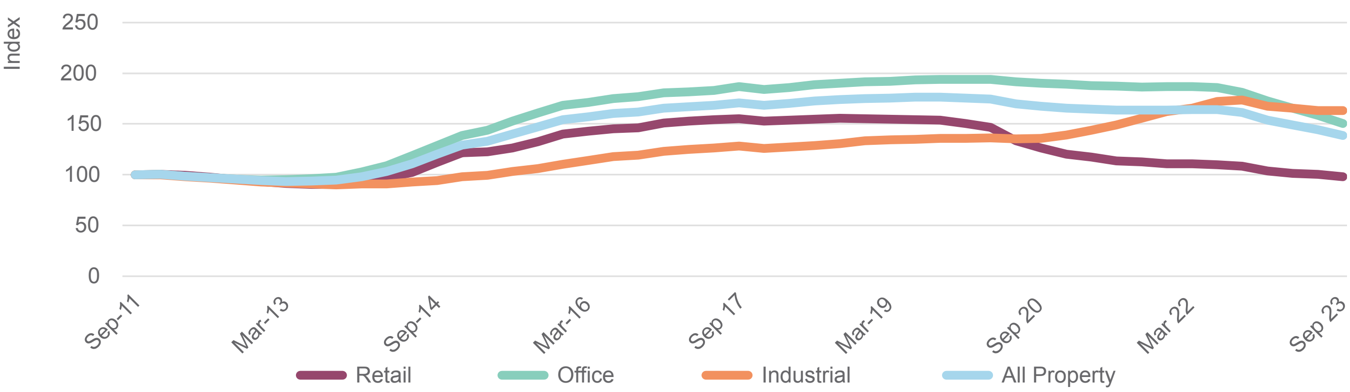
Prime Net Equivalent Yields (2011 – Q3 2023)



* PRS yields assume OPEX at 20% of income

Source: Lisney

MSCI Capital Value Growth Index (Q4 2011 – Q3 2023)



Source: Lisney

Despite the economic factors impacting the market, there is investor demand although awaiting more price certainty.

Outlook

Borrowing costs are now at their highest level in 22 years in the EU. The main refinancing rate stands at 4.5%, up 400bps since July 2022 via ten consecutive increases.

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 shopping centres could be further tested in the months ahead with the sale of Blanchardstown Shopping Centre and Retail Parks and The Square Town Centre in Tallaght.

Despite the economic factors impacting the market, there is a perk up investor demand although awaiting more price certainty.

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