Lisney
COMMERCIAL REAL ESTATE

INVESTMENT REPORT

Q1 2024

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The Irish investment market returned the lowest level of quarterly turnover in nearly a decade in Q1 2024. International investors, in particular French SCPI and private capital, were most active while retail remained a resilient sector. Encouragingly, towards the end of the quarter, there was growing investor optimism with sentiment improving across Europe. The gap in pricing appeared to be closing and many buyers have been signalling a return to the Irish market in the months ahead.

€162m

Turnover

20

Deals

€42m

Shackleton Park, Lucan, Co. Dublin

Largest Deal

75%

Dublin

70%

Off-Market

€8.1m

Average Deal Size Over €1m deals

Arrows represent quarterly trends unless otherwise stated.

Market Backdrop

While there was a sense of improved investor sentiment at the end of Q1 2024, interest rates in the EU and US remained at 23-year highs. Any downward corrections in rates are not expected in Europe until June at the earliest and further into H2 2024 in the US as the FED continues to contend with elevated inflation.

Despite some international headwinds, Irish economic indicators remain relatively positive. Inflation was 2.9% in March, the first time since August 2021 that it was below 3%; early estimates for GDP indicate an increase of 1.1% in Q1; the economy remains at work with an unemployment rate of 4.3%; the volume of core retail sales grew by 1.6% in the year; household savings reached an all-time high of €153.6bn; and exchequer returns remain in surplus with income tax and VAT performing well reflecting the strength of the underlying domestic economy.

In the Irish CRE investment market, there was a sense of improved investor sentiment as the quarter was closing out. Asking prices were beginning to become more aligned with potential purchaser expectations, and while yields did move out further, this softening is likely to peak in the short-term with buyer indecision coming closer to an end.

Activity

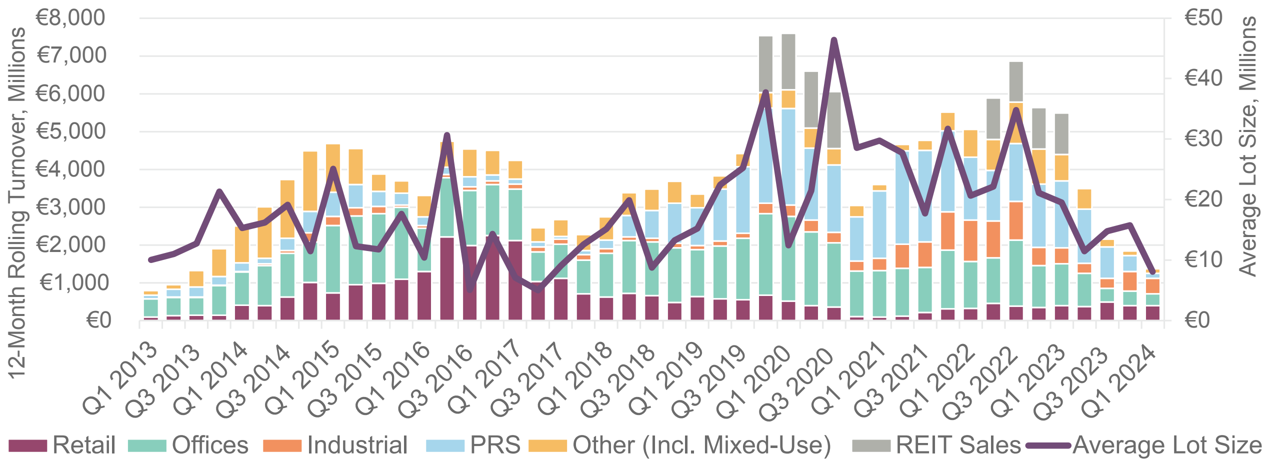
There was increased optimism in European CRE investment markets as Q1 progressed, but in spite of this, Irish investment activity only reached €162m (across 20 transactions greater than €1m), the lowest level since Q3 2013. Notably, core and large-scale deals were scarce but improvements are due in the months ahead with several significant opportunities agreed. These include a proportion of The Square in Tallaght, a Lidl portfolio, and Mahon Retail Park.

Dublin remained the busiest location for investment in Q1, accounting for 75% of all market turnover. Off-market sales also continued to dominate the market, making up 70% of total turnover. The average deal size was €8.1m, which was substantially below the opening quarters of 2023 and 2022 at €16.5m and €29.6m respectively – the long term average is €17.5m.

International investors, particularly French SCPI (Société Civile de Placement Immobilier - a real estate investment company) investors and private capital, remained the most active in the market in Q1. International investors accounted for 61% with French SCPI investors accounting for 30% of total activity in the quarter. These investors continue to focus mainly on assets where returns are between 6% and 8% with lot sizes of less than €40m. Notably, the domestic investors' share has been growing over the last years and in Q1 2024, it stood at 39%, having increased from 30% in 2023 and from only 13% in 2022.

Demand from private investors for assets priced up to €10m continued in Q1, with most of the activity (16 out of 20 deals) being in this price bracket. Demand for such properties is predominantly driven by little or no return being made on cash-in-deposit accounts and diminished reliance on third-party finance for purchasers in this lot size.

Quarterly 12-Month Rolling Turnover by Sector & Average Lot Size (Q1 2013 – Q1 2024)



Source: Lisney

> **€43.6m**
>
> A total of €43.6m was spent across two PRS deals, representing 27% of the total market turnover.

Activity By Asset Type

PRS

Following two consecutive quarters without any PRS investment sales, Q1 2024 marked a resurgence in activity. A total of €43.6m was spent across two deals, representing 27% of the total market turnover. The two transactions comprised the sale of a six-unit apartment block at Winstonville in Clontarf for €1.6m to a private investor and KGAL's off-market acquisition of Shackleton Park in Lucan, which was the largest transaction of the quarter accounting for 26% of the total turnover. Shackleton Park comprises 104 units and was sold for a reported €42m.

The market conditions that have helped the PRS market thrive in recent years remain weakened, including elevated interest rates eroding PRS block value premiums over break-up values (the sale of individual units), continued viability difficulties given higher finance and construction costs, as well as rental legislation and occupier affordability. While PRS investors will be in the market, a large proportion of developers will continue to focus their attention on approved housing bodies (AHBs) and the Land Development Agency (LDA), which will continue to have an appetite to buy in bulk to help address the housing crisis nationwide.

OFFICES

Investment in the office sector remained slow in Q1 2024 with turnover at just €12.4m across four deals (7.8% of the total activity). Investor demand continued to be impacted by changes in the occupational market, especially lower volumes of take-up and requirements for fully-fitted accommodation (rather than newly completed stock that needs fit-out). Demand for the sector is also greatly impacted by EU directives on purchasing and funding properties, as well as targets in meeting minimum energy performance standards.

In Q1, the average lot size was just €3.1m, substantially down from €19.3m in 2023 and €28.9m in 2022. The transactions comprised the sale of Athlumney House in Navan, Co Meath for €4.4m (NIY 9.1%); Block 2, Galway Financial Services Centre for €3m (NIY 9.0%); Block A in Cork Business & Technology Park in Cork for €2.65m (NIY 7.96%); and Riverbank House in Dublin 4 for €2.5m (NIY 8.9%). All were sold to private Irish investors with large-scale international purchasers absent, albeit hindered by a lack of suitable supply.

INDUSTRIAL

There was a distinct lack of industrial deals in Q1 following a period in 2023 as best-performing asset class. This was due to the lack of opportunities rather than the lack of demand and interest from the investors. However, while demand remains strong 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 Q1 2024, there was only €11m spent on industrial assets across three deals with an average transaction size of €3.7m. This made up only 7% of investment market turnover in the quarter. The three transactions included a confidential off-market sale for €7.5m; the sale of Units 1-7 in Garryglass Business Park, Co Limerick for €2.3m (NIY 7.11%); and the sale of Units 1-3, Blackberry Business Park in Limerick for €1.25m (NIY 6.1%).

RETAIL

Investor interest in retail assets, particularly in well-performing out-of-town high-yield opportunities, remained strong in Q1, and it was the busiest sector. €66.7m was invested across seven deals, accounting for 41% of all market activity. The average deal size was €9.5m, up from €7.7m in Q4 2023. Notably, off-market transactions made up 85% of the sector's activity.

The largest deal was the off-market sale of Gulliver's Retail Park in Santry, Dublin 9 acquired for €29.5m (NIY 7.62%). Kilkenny Retail Park was sold in an off-market transaction to Iroko Zen for €25m. In addition, Park Pointe Retail Centre in Dun Laoghaire was sold to a private Irish investor for €4.3m (NIY 6.73%). The remaining four deals ranged from €1.4m to €2.5m.

ABOVE: Block 2 GFSC,
Galway

ABOVE: 24 Suffolk Street,
Dublin 2

ABOVE: Athlumney House,
Navan, Co. Meath

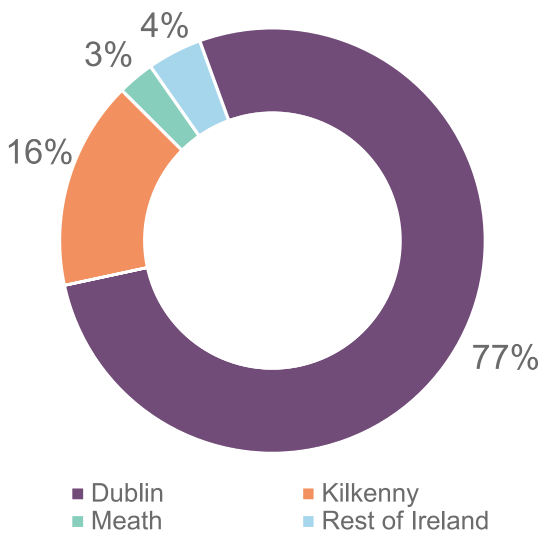
Activity Analysis

Top 10 Investment Transactions Q1 2024

OPPORTUNITY	LOCATION	SECTOR	REPORTED PRICE
Shackleton Park, Lucan, Co Dublin	Dublin	PRS	€42,000,000
Gulliver's Retail Park, Santry, Dublin 9	Dublin	Retail	€29,500,000
Kilkenny Retail Park, Co Kilkenny	Kilkenny	Retail	€25,000,000
21-24 Capel Street, Dublin 1	Dublin	Mixed-Use	€16,000,000
7&8 Airways Industrial Estate, Santry, Dublin 9	Dublin	Industrial	€7,500,000
6/7 Dawson Street, Dublin 2	Dublin	Mixed-Use	€7,100,000
Athlumney House, Navan, Co Meath	Meath	Office	€4,400,000
Park Pointe, Honeypark, Glenageary Road Upper, Dun Laoghaire	Dublin	Retail	€4,300,000
24 Suffolk Street, Dublin 2	Dublin	Mixed-Use	€3,635,000
Block 2, Galway Financial Services Centre, Galway	Galway	Office	€3,000,000

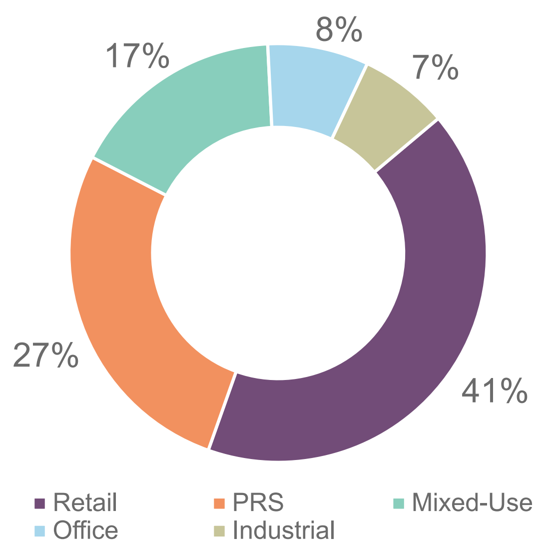
Source: Lisney

Activity By Location (Q1 2024)



Source: Lisney

Activity By Sector (Q1 2024)



Source: Lisney

ABOVE: 18 Wicklow Street, Dublin 2

Prime Net Equivalent Yields

	RETAIL	OFFICE	INDUSTRIAL	PRS*
Q1 2024	5.50%	5.25%	5.00%	4.75%
Quarterly Change	0 bps	0 bps	-25 bps	0 bps
Annual Change	+50 bps	+75 bps	0 bps	+25 bps

* PRS yields assume OPEX at 20% of income

Source: Lisney

PRICING

Prime and secondary yields were largely unchanged in Q1, reflecting both the wider global economic, financial and geopolitical factors as well as the improvements in market sentiment. In the office and high street retail markets, we estimate that prime yields in Dublin remained stable at 5.25% and 5.50% respectively. Similarly, prime suburban office yields remained at an estimated 8.50%. Shopping centre yields did however increase, by 20 bps to 25 bps in the three months, while retail parks yield remained unchanged. Yields on PRS assets also remained stable at 4.75%, whereas prime industrial yields decreased to 5.00% in the quarter.

The most recent MSCI / SCSI Ireland Property Index figures for Q1 2024 show that the ‘total return’ index declined by 7.9% on an annualised basis and by 1.4% on a quarterly basis for ‘all property’. The ‘capital value growth’ index fell by 12.7% for ‘all property’ in the year (-2.7% in the quarter). All sectors faced a capital decline on both an annual and a quarterly basis.

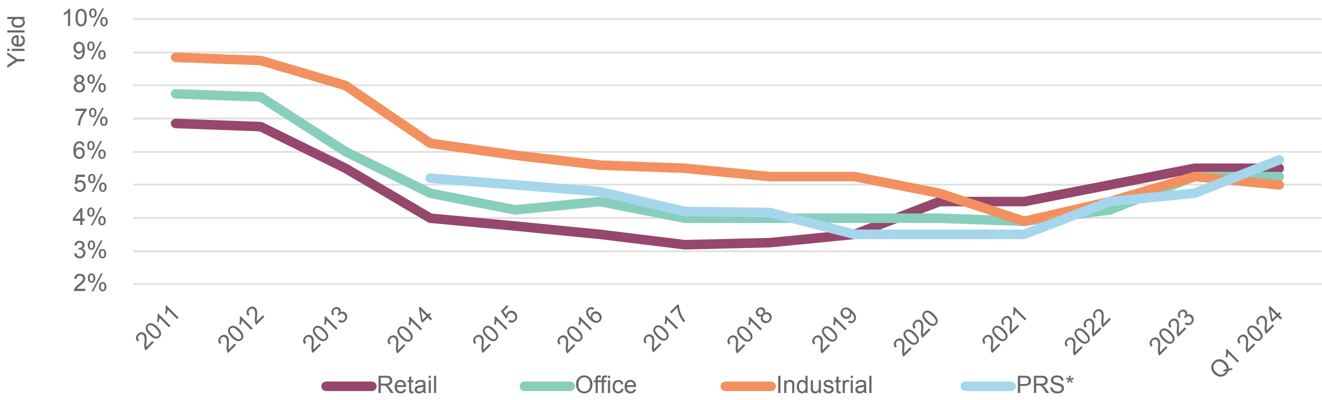
SUPPLY

At the end of March 2024, there was approximately €511m worth of on-market investment opportunities available, many of which had deals agreed. However, given the level of activity occurring off-market, this supply figure is larger.

Many would-be purchasers continue to observe the market to see how the situation evolves for owners in stressed or weakened positions. 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. Given the generally improvement in sentiment and more realistic pricing emerging, fresh supply should come to the market in the months ahead, while others may hold on until early next year.

RIGHT: Block A Cork Business & Technology Park, Cork

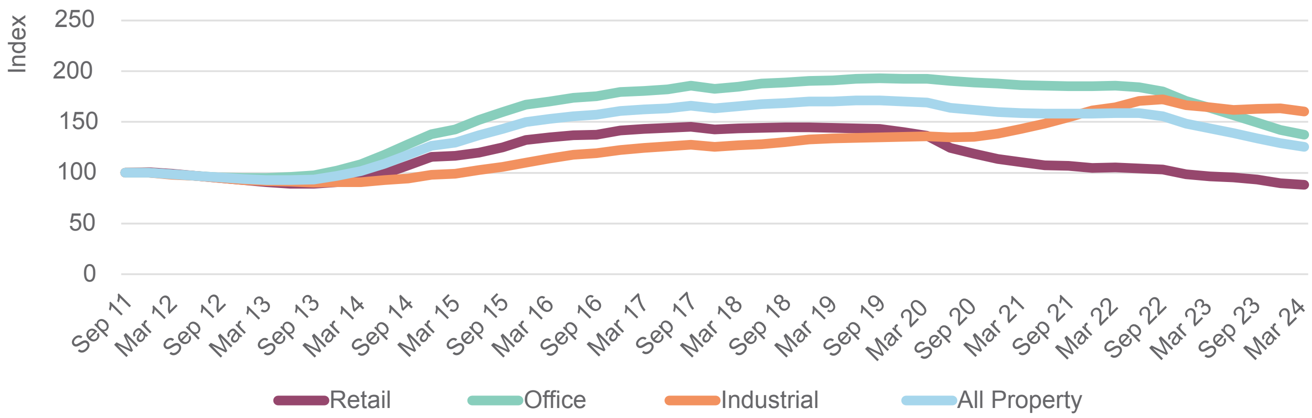
Prime Net Equivalent Yields (2011 – Q1 2024)



* PRS yields assume OPEX at 20% of income

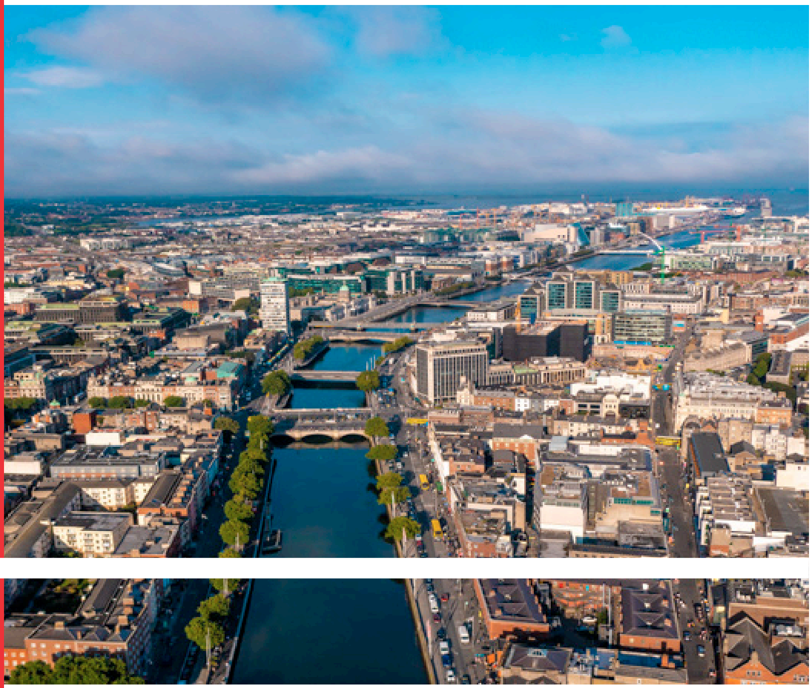
Source: Lisney

MSCI Capital Value Growth Index (Q4 2011 – Q1 2024)



Source: MSCI, Lisney analysis

Activity levels are expected to improve in Q2 and into the second half of 2024, from the decade low reached in the opening months of 2023.



Outlook

Activity levels are expected to improve in Q2 and into the second half of 2024, from the decade low reached in the opening months of 2023. Several larger deals were already in progress entering April and more supply is due in the coming months. Off-market transactions will remain prevalent.

Borrowing costs are now at their highest level in 23 years in the EU. The main refinancing rate stands at 4.5%, up 400 bps since July 2022 through ten consecutive increases. Many market commentators are suggesting the first rate cut from the ECB will come in June 2024 but that will depend on ever changing dynamics with the ECB remaining cautious and non-committal regarding future rate paths.

Pricing and valuations, particularly in offices, will be important in the short-term. The significant cost of improving the sustainability credential of buildings will need to be factored-in to bridge the gap in buyer and seller expectations.

The various domestic and European sustainability policies will continue to impact how buildings are funded and occupied. For some sectors (especially offices), there is a fear that a certain grade of building will become a stranded asset – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead. This will mean further yield softening, particularly for non-prime properties.

The industrial sector will remain active due to strong occupational demand while financing challenges and viability concerns will persist in the PRS sector. Market pricing for shopping centres will be further tested in 2024 with the potential sale of Blanchardstown Shopping Centre and Retail Parks.

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