
Q3

**IRISH
INVESTMENT
MARKET
2024**



**BNP PARIBAS
REAL ESTATE**

Q3 2024 KEY TRENDS

HIGHEST QUARTERLY TURNOVER SINCE Q1 2023

with €601.4m of investment
property purchased

INVESTMENT SPENDING UP 36% Y/Y

and up 17% Q/Q

RETAIL ATTRACTED THE BIGGEST SHARE OF CAPITAL FOR THE THIRD SUCCESSIVE QUARTER

accounting for 32%
of turnover

OFFICES ACCOUNTED FOR 11 OF THE QUARTER'S 24 TRANSACTIONS

its highest share of
deals on record

OFFICE SALES CONCENTRATED

in older assets

DOMESTIC INVESTORS RESPONSIBLE FOR THE BIGGEST CAPITAL FLOW YTD.

However, evidence of US and
German capital re-emerging

MARKET ACTIVITY



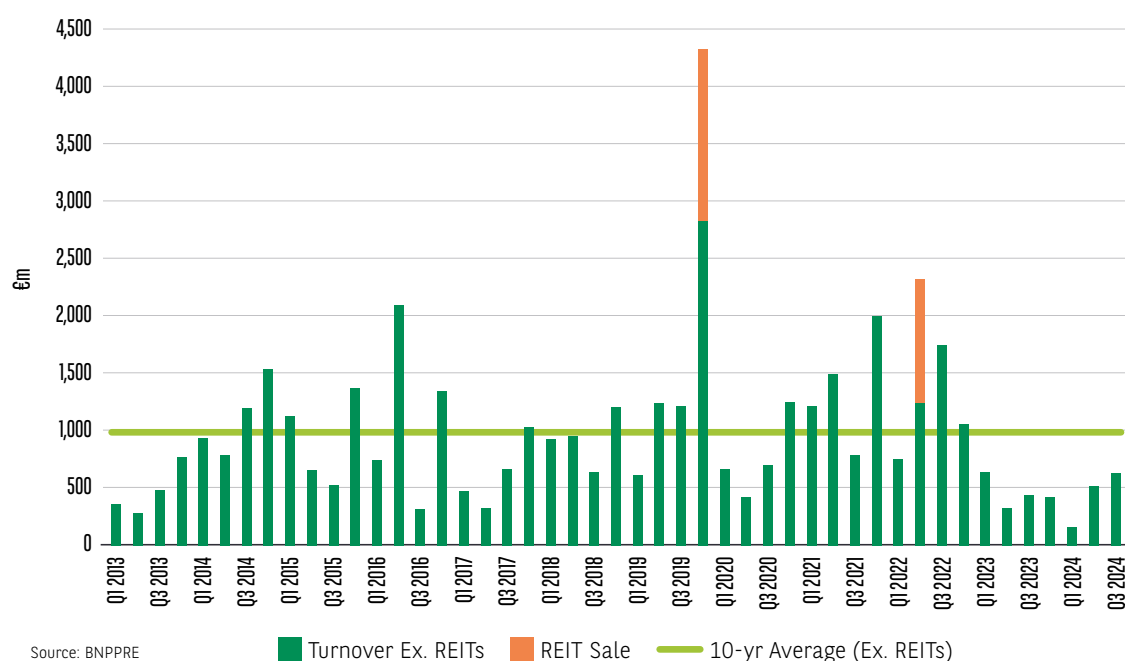
JOHN MCCARTNEY
Director & Head Of Research
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Although Q3 is traditionally a quiet period, investment turnover picked-up for the second successive quarter between July and September, with just over €600m of income-producing real assets changing hands. This represents a 36% year-on-year uplift, and a 17% increase relative to Q2. Despite being boosted by a €130m shopping centre deal, investment

spending remained 38% below its 10-year average, even if the major REIT sales in 2019 and 2022 are excluded. A further glimpse into market conditions comes from the fact that only 24 deals were signed in the quarter – the second fewest in four years and less than half of the 10-year average.

€601.4m
OF ASSETS TRADING IN Q3

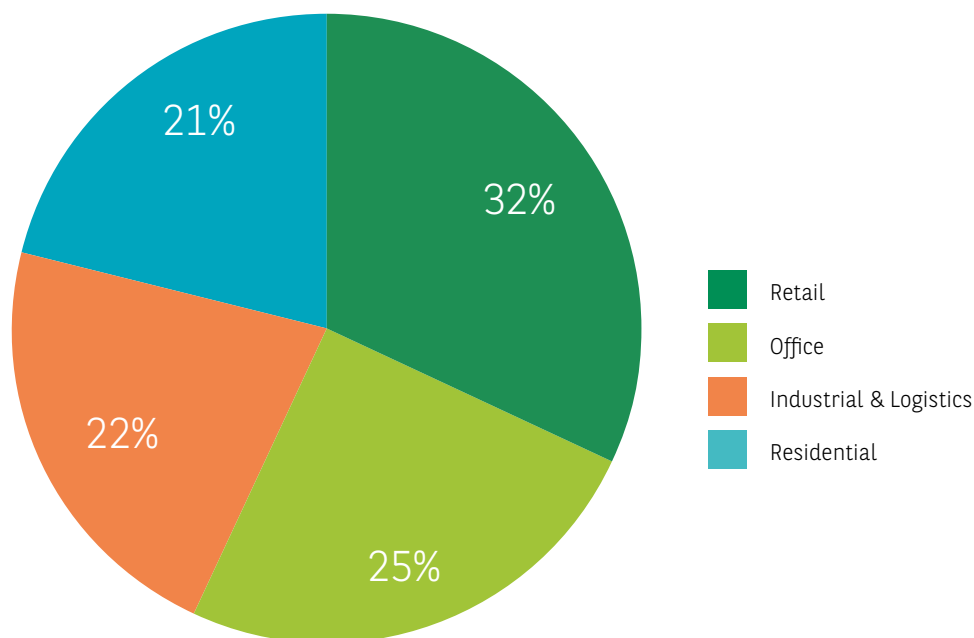
FIGURE 1: INVESTMENT MARKET ACTIVITY



After a vacuum of larger transactions in Q1, three €50m+ deals signed in Q2 and this was repeated in the third quarter. Reassuringly, these larger investments incorporated a mixed basket of assets, including the aforementioned shopping centre, a purpose-built student accommodation block (€79.5m), and a €70m logistics lot. The buyer pool was also geographically well diversified, with the capital for these assets being drawn from the UK, America and Germany respectively. Ultimately this

speaks to Ireland's overarching attractions as an investment location such as its young demographic profile and macro-economic growth potential. It also makes the point that international capital remains available for larger lot-sizes where the right assets are available and correctly priced. Overall, the average deal size was driven to just over €25m by these larger transactions – its highest level since 2022.

FIGURE 2: INVESTMENT TURNOVER BY SECTOR, Q3 2024

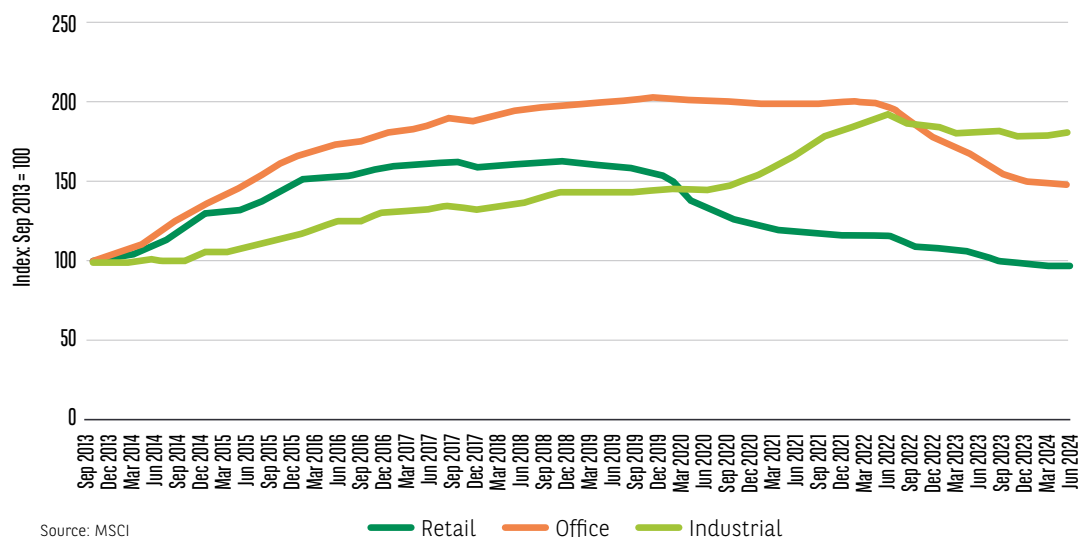


Source: BNPPRE

TURNOVER BY SECTOR

For the third quarter in a row, retail enjoyed the highest share of investment turnover, accounting for almost one third of total spending between July and September. Several factors are feeding into this trend. Most importantly, rapid population growth, the strong labour market and increasing real wages provide a favourable backdrop for consumer demand. In turn this underpins the occupational market. In addition, there has been more aggressive price adjustment in retail than in other sectors of the property investment market. As shown in Figure

3, discounts were already being applied to retail assets as early as 2017, reflecting concerns about the structural threat of online shopping. Pricing took a further hit during Covid as non-essential retail stores were prevented from trading. As a result of these discounts, there is now a perception that retail provides value opportunities for investors, particularly in the more defensive segments (such as grocery and retail parks), in convenience shopping and in regional locations.

FIGURE 3: MSCI CAPITAL VALUE INDICES BY SECTOR

Five retail assets were purchased in Q3, for a combined €194.4m. Two-thirds of this sum was attributable to The Square shopping centre in Tallaght which was bought in a receivership sale by Arrow Capital Partners / Eagle Street for €130m. This represents a big discount to the €627m that the centre was valued at in 2007, and to the €250m that was paid in 2017 by the current vendor Oaktree. The other big-ticket retail deal was the €48m sale of

Blackpool Shopping Centre and Retail Park in Cork, which was bought by Lugus / Patron Capital at a yield of 11.4%. This brings the total number of retail parks bought so far this year to seven (six of which are in regional locations).

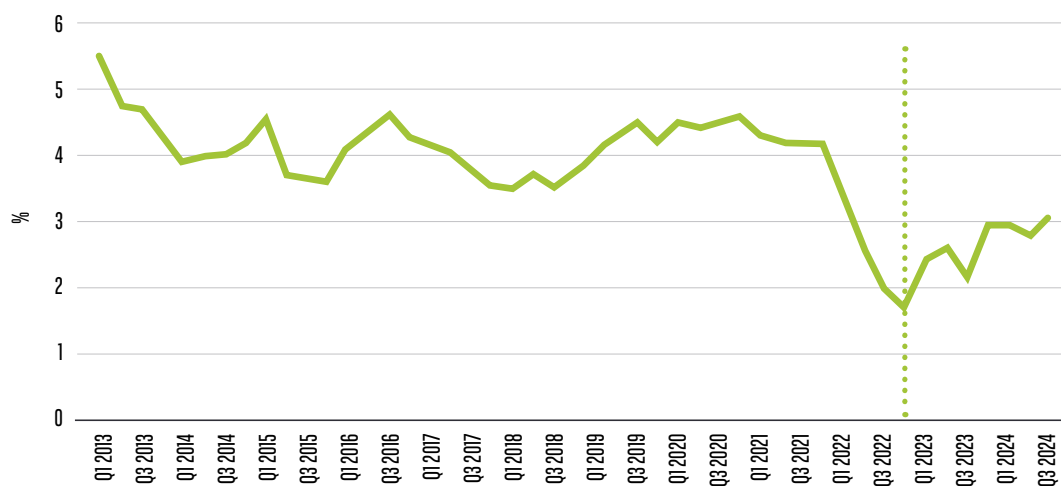
Opportunities to buy stores on Dublin city's prime retail thoroughfares have traditionally been scarce. However, this market has become more liquid as



some institutional owners have sought to rebalance their portfolios by divesting of high street shops. IPUT's sale of two Grafton St. premises in Q2 has now been followed by the sale of 45-47 Henry St. by Irish Life Investment Managers in Q3. This asset

was bought by a private Irish investor for €10.25m at a net initial yield of 6.46%. As we move into the final quarter, a further four Grafton St. shops, and additional units on the adjoining streets, are on the market.

FIGURE 4: YIELD SPREAD BETWEEN PRIME DUBLIN OFFICE NIY AND GERMAN 10-YEAR BOND



Source: BNPPRE

Offices have traditionally been a mainstay of the Irish investment market. Between Q1 2013 and Q4 2022, 212 purpose-built offices traded in Dublin's prime city centre and docklands locations. A combined €10.2bn was spent on these assets, accounting for nearly 24% of the capital inflow during that period. However, trading came to a near standstill between the start of 2023 and Q2 2024, with only seven such properties changing hands, an average of just over one per quarter compared with 5.3 per quarter during the previous decade.

A cogent explanation for this slowdown is that the spread between prime office yields and the risk-free rate of return¹ narrowed dramatically in 2022 as bond rates shot up and property yields were slower to adjust (see Figure 4). Tighter yield spreads can be justified by reduced risk perceptions or increased rental growth expectations. However, in a context of slowing macro-economic growth, shortening lease terms, a structural shift to remote working and rising office vacancy, the market judged that these conditions were absent, and that Dublin offices had therefore become overpriced.

This narrowing of the prime yield gap has started to reverse. Between its low point in Q4 2022 and the end of Q3 2024 the spread reopened by 143

basis points. Just under one third of this adjustment came from falling bond rates, with the remainder coming from a 100 bps softening of prime yields to an estimated 5.25% currently. Nevertheless, a continued trading vacuum suggests that the adjustment has been insufficient to attract capital into prime Grade A buildings. Only two such offices have been bought in Dublin over the last two years. These include 40 Molesworth St. (bought by Deka in Q2) and the Wythe Building, a small 2019 office on Cuffe St. which was purchased for €13.5m at a yield of 6.43% in Q3.²

In contrast, however, trading in older and less prime buildings has picked-up quite dramatically. In addition to the Wythe, ten Dublin offices changed hands in Q3, with seven of these being in prime city centre locations. The quarter's biggest office deal saw Irish Life Investment Managers sell One Warrington to a private investor for €44m at a yield of 6.4%. In the second biggest transaction, BNPPRE advised Atland Voisin on its purchase of 20 on Hatch. This well-located block with a C3 energy rating traded for €23.25m at 9.2% NIY, reflecting a weighted average lease break of 2.9 years. Receivers acting on behalf of the Ronan Group supplied three of this quarter's buy opportunities. Kilmore House, a 2007 building of just under 10,000 sq m, sold for €22m at a yield

¹ Represented by the German 10-year government bond yield.

² The Wythe is 100% occupied, with lease breaks in approximately 3.5 years.

of 7.73% while Kingram House, a period front-office with a 2007 extension to the rear, changed hands for €10.3m at a net initial yield of 7.31%. 6/7 Harcourt Terrace is a smaller 750 sq m office which a private Irish investor bought for €3.8m at a NIY of 8.56%.

The common denominator is that these assets, which generally traded at yields of 6-9%, were priced to sell. It appears that vendors of older buildings have onboarded the implications of required capital expenditure into their expectations, and most of the offices that traded in Q3 were sold at a discount to their stated guide prices.³ In contrast, vendors

of Grade A blocks appear to be holding firm on pricing. With the ECB expected to further loosen its monetary stance, there is optimism that bond yields will push lower, perhaps driving capital into Grade A Dublin offices without the need for further yield decompression. This may transpire, but it is not guaranteed. Notwithstanding expected cuts to policy rates, forecasters are predicting flat Government bond yields over the medium term. Indeed, in this context it is notable that Irish and German 10-year bond yields actually rose in October after the quarter ended,⁴ despite a well-anticipated ECB rate cut on the 23rd of the month.

FIGURE 5: OFFICE PRIME YIELD SPREADS VS OCCUPATIONAL MARKET SUPPLY



A further consideration is that, even if bond yields were to fall, this would not necessarily drive investment into Grade A Dublin offices. This is because Dublin competes for international capital with locations that would also benefit from the lower risk-free rate of return. Figure 5 helps to assess the current competitiveness of Dublin's Grade A office investments in a European context. Looking at the vertical axis, the spread between the estimated prime office yield in Dublin and the yield on German 10-year Government bonds is larger than in most western European capitals. Given Dublin's advantages as an investment location – it is the EU's only English-speaking capital, it is an established global technology hub, it has a favourable

demographic profile, and is highly integrated within the global economy – this certainly does not scream overpricing. However the horizontal axis shows that Dublin also has one of Europe's most fully-supplied occupational office markets.⁵ Particularly as rent escalation is typically upward or downward by open market review, rather than by indexation which is common across continental Europe, the existing yield spread in Dublin may be justified by relatively weaker rental growth prospects.⁶ Indeed, given the current lack of transactions, the spread may have to widen further to trigger more active trading of modern offices. The unanswered question is whether this widening will come from a retreat in bond yields or further yield decompression.

³ Colliers | Q3 2024 Capital Markets Report

⁴ By 22 and 26 basis points respectively.

⁵ The supply index is just the sum of the current office vacancy rate and projected growth in total stock by end-2028, both measured in percentage terms.

⁶ The outlook for rental growth in Grade A buildings is discussed in BNPPRE's latest Dublin Office Market Report [BNPPRE Q3 2024 Dublin Office Market Report | BNP Paribas Real Estate Ireland](#)

Tight vacancy and robust rental growth in the occupational market attracted almost €2.25bn of capital into Irish logistics property between 2020 - 2023. However, as a geographically peripheral economy that specialises in internationally traded services, and with a small domestic consumer base, Ireland provides limited opportunities to purchase high-quality logistics assets. This, and a perception that warehouses had become fully priced, have caused a slowdown in investment into the sector. Nonetheless, €135.4m of industrial and logistics assets traded in Q3, accounting for 22.5% of the spend. In the biggest transaction two newly built units at Ashbourne Business Park were bought by German investor Deka Immobilien in a €70m sale and leaseback deal with Primeline Group. Two other €20m+ logistics deals were signed in the quarter; the

purchase of Unit F, Kilcarbery Business Park for €28m and the National Museum of Ireland central storage facility in Swords for €21m.

As previously reported, elevated interest rates, competition from State buyers and the strictures of Ireland's rent control system, have curtailed institutional investment in the private rented sector over the last 18 months. €124.2m of capital was deployed in residential assets during Q3, making it the strongest quarter for the sector since Q1 2023. However this total was dominated by the above-mentioned sale of the Scape student accommodation complex – a 298-bed scheme on Aungier St. which was purchased by US investor Hines for €79.5m. Aside from this, only two other residential assets traded in the quarter.

100 NORTHWEST BUSINESS CAMPUS

BNPPRE Advised
Purchaser Pictet

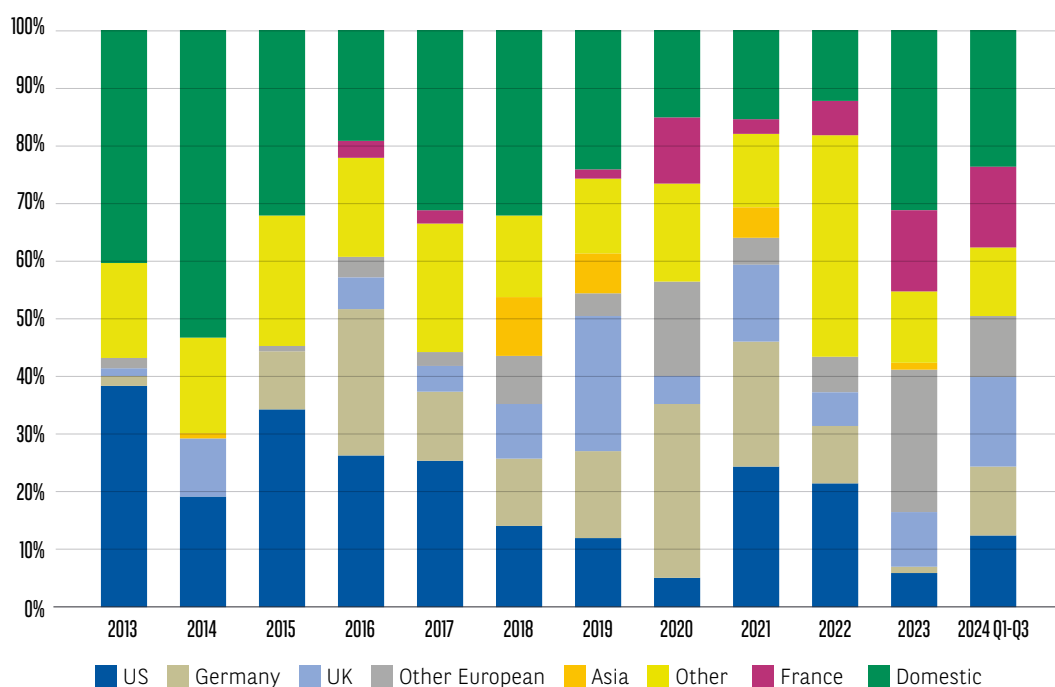


BUYER TYPE AND ORIGIN OF CAPITAL

Domestic buyers, who face lower search and due diligence costs in a fragmented market, remain active. However, with foreign players behind the quarter's top three deals, the domestic share was pushed marginally below its long-term average of 27%.

The Square shopping centre in Tallaght was the largest asset to trade in Q3 and was purchased by Arrow Global / Eagle Street Partners. Along with the Patron Capital / Lugus purchase of Blackpool Shopping Centre and Retail Park, this drove the UK to top spot, with just over 30% of the quarter's spend.

FIGURE 6: ORIGIN OF CAPITAL



Source: BNPPRE

German investors became very active in the Irish market between 2016-2021, accounting for nearly one-fifth of the capital deployed. However, their market share halved in 2022 as interest rates rose, and they almost completely disappeared in 2023 with only one purchase that year.⁷ However, although the number of deals remains well down on previous years, German investors have made something of a comeback with substantial purchases in each of the last three quarters. Assets purchased include the Shackleton Park PRS scheme (€42m in Q1, bought by KGAL), the 40 Molesworth St. office building (€37.5 in Q2, bought by Deka) and, most recently, logistics units in Ashbourne (€70m, also bought by Deka). Given the investment objectives of the German institutions and the stringent due diligence processes that German

buyers adhere to, their year-to-date market share of 11.7% suggests that Irish real assets may now be beginning to attract core money again.

French investors, mostly value-driven SCPIs, have made an average of four investments per quarter over the last two years, and they have consistently been the market's most active foreign players. They remained involved in Q3 with two purchases – both of which were Dublin 2 office investments bought by Atland Voisin – 20 on Hatch and Kingram House. With fewer deals, however, their share of the market spend has gradually slipped from 30.3% in Q1 and 18.5% in Q2 to 5.6% in Q3.

OUTLOOK

Although trading activity remains well below average, there is a sense that investment market conditions are gradually improving as we approach year-end. Turnover rose for a second successive quarter in Q3 and the value of sales reached its highest level since Q1 2023. The domestic share of spending has edged below its long-term mean, and there is a perceptible shift in the mix of international buyers in the market. The re-emergence of US and German investors feels particularly significant. Together they accounted for 35% of the investment flow between 2016-2022. However their combined share plummeted to just 7% in 2023, before rebounding to 24% this year.

Moreover the re-engagement of institutional players like Hines, Realty Income Corporation and Deka Immobilien is an endorsement of Ireland's continuing attractions as an investment location, and provides reassurance that international capital is becoming available again for core assets.





With the ECB cutting policy rates for a third time in October, monetary easing is now well underway. Falling bond rates have helped to widen yield spreads and this, together with realistic vendor expectations, appears to have stimulated trading in retail shops and older office blocks. Despite a recent uptick, there is optimism that risk-free returns will continue to be driven down by lower policy rates. If realised, this should drive capital into European real estate markets. However the extent to which this would impact on asset pricing depends on rental growth prospects, and the markets most likely to benefit are those where low vacancy rates and an absence of legislative barriers justify expectations of rental growth ahead.

As we enter the home straight it is natural to consider likely year-end totals. Clearly turnover for the year is destined to land well short of the €4.27bn 10-year average. However, with €1.28bn of investment banked in the first three quarters, with over €350m of property currently on the market, and with the possibility of several sizeable deals, including Blanchardstown Shopping Centre, closing before year end, turnover for the year could exceed €2bn with a fair wind.



⁷ The €18.25m purchase of Woodies and Tesco retail stores in Newbridge, Co. Kildare.

TABLE 1: NET INITIAL YIELDS (%), PRIME ASSETS

	Q2 2024	Q3 2024	OUTLOOK
 Dublin Office	5.25	5.25	➔
 Dublin Logistics	5.25	5.25	➔
 Retail (High Street)	5.50	5.50	➔
 Dublin Residential (PRS)	4.75	4.75	➔

“ Yield spreads may have to widen further to trigger more active trading of Grade A offices ”

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BLOCK 2 BLACKROCK BUSINESS PARK

Bought in Q3



TOP 10 INVESTMENT DEALS Q3 2024

	BUILDING	LOCATION	SECTOR	PRICE (€M)
1	The Square, Tallaght	Dublin 24	Retail	130
2	Scape Student Accommodation	Dublin 2	Residential	79.5
3	Units at Ashbourne Business Park	Co. Meath	Logistics	70
4	Blackpool Shopping Centre and Retail Park	Co. Cork	Retail	48
5	One Warrington	Dublin 2	Office	44
6	Hamilton Gardens, Cabra	Dublin 7	Residential	38
7	Unit F Kilcarbery Business Park	Dublin 22	Logistics	28
8	20 on Hatch	Dublin 2	Office	23.25
9	Kilmore House, Spencer Dock	Dublin 1	Office	22
10	National Museum of Ireland Central Stores, Swords	Co. Dublin	Logistics	21

BLACKPOOL SHOPPING CENTRE AND RETAIL PARK



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