Q2 IRISH INVESTMENT MARKET 2024

BNP PARIBAS
REAL ESTATE

Q2 2024 KEY TRENDS

STRONGEST QUARTER SINCE Q1 2023
with €514.3m of investment property sold

TURNOVER UP 56% Y/Y
and up 220% Q/Q

RETAIL REMAINED THE LARGEST SECTOR WITH €142.9M DEPLOYED,
accounting for 28% of turnover

Office trading remains subdued but
40 MOLESWORTH STREET POTENTIALLY A BENCHMARK DEAL

'OTHER INVESTMENT' DRIVEN HIGHER BY €76.7M SPEND
on two large healthcare assets

RE-EMERGENCE OF CORE INSTITUTIONAL INVESTORS
with substantial knowledge of the Irish market a positive sign

TURNOVER LIKELY TO REACH €1.5BN, BUT COULD EXCEED THIS FIGURE
if large off-market deals get signed

MARKET ACTIVITY

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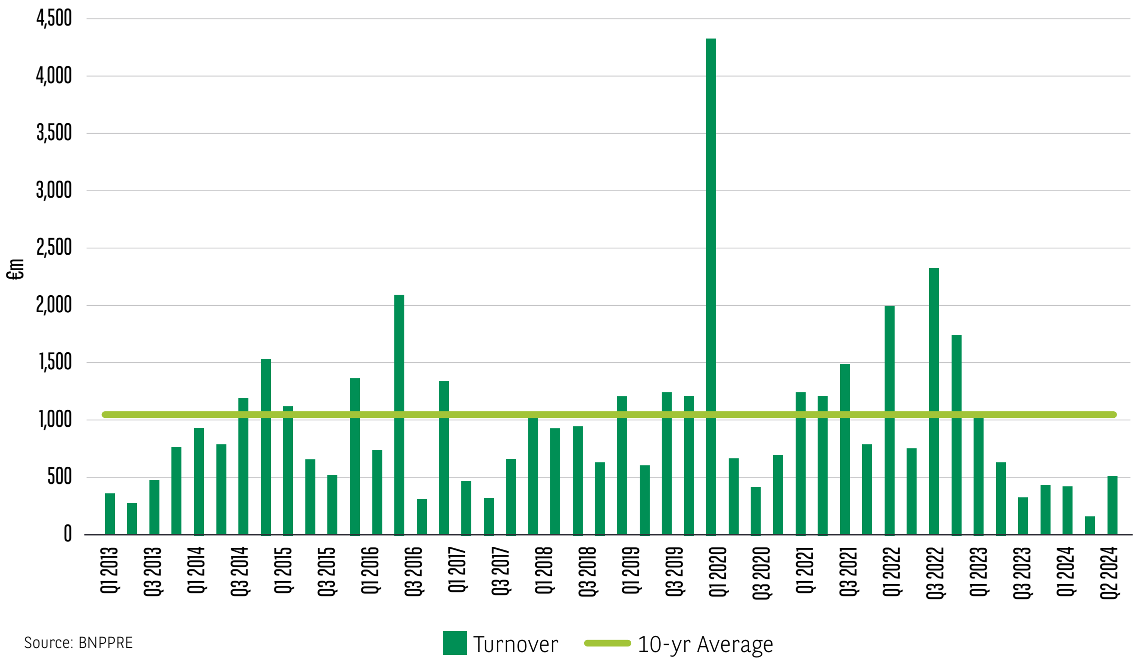
Q2 normally accounts for the second largest share of Ireland's annual investment turnover. On cue, the market picked-up notably between April and June with €514.3m of income-producing real estate changing hands. This represents a 56% year-on-year uplift, and a 220% increase relative to Q1 which was the quietest quarter for over a decade. Encouraged by the realisation of an expected interest rate cut in June and the completion of a benchmark core office deal, there are signs that the market is beginning to emerge from the deep freeze of the last 15 months. Nonetheless, only 29 deals were done in Q2 compared with a 10-year average of 54, and total spending remained stuck at less than half of the 10-year average.

€514.3m
OF ASSETS TRADING IN **Q2**

FIGURE 1: INVESTMENT MARKET ACTIVITY



Source: BNPPRE

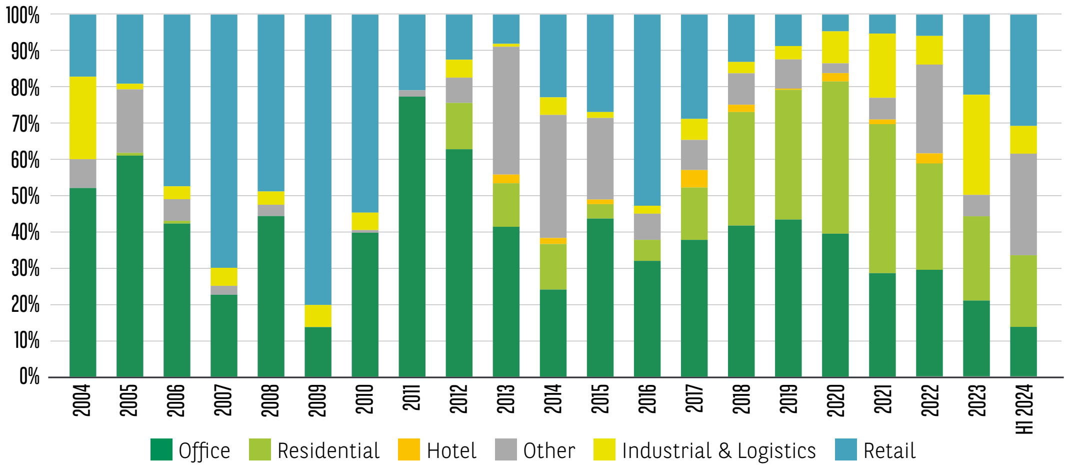
Three €50m+ transactions drove the average deal size from €8m in Q1 to €17.7m in the second quarter. These are the first deals of such a scale to be signed in six months which, in itself, reflects that more favourable dynamics are beginning to unfold. Beneath these transactions, however, the market remains quite fragmented. Private Irish investors, who have a competitive advantage in uncovering mispriced assets in the local market, remain the modal buyer-type. Their dominance, coupled with their natural focus on sub-€20m opportunities, is tending to suppress deal sizes. In addition, with investors prioritising defensive assets with secure income, there has been a shift to segments such as regional retail where average values are lower. Nevertheless, our view is that yield expansion has been arrested by the inflection in interest rates, and so one factor that was dragging on the average value of deals has abated. Stripping-out the quarter's three largest deals, the average lot size in Q2 was just under €13m. This remains well below the 10-year average of €19.5m, but it does indicate some recovery compared with Q1.

TURNOVER BY SECTOR

Looking at the sectoral distribution of spending, some familiar patterns are clearly visible. Most obviously, the downward trend in office buying has continued. Office buildings were once the mainstay of the market, attracting almost €14bn of capital between 2004 and 2019, and accounting for nearly two-fifths of total investment spending during this period. However, as illustrated in Figure 2, the office share of investment has progressively fallen-away since then with €92.6m of capital deployed in H1, accounting for just 13.7% of the total spend.

The nature and location of the transacted offices reflects the fact that many investors in the current market are motivated by value, yields and rental income. Three of the nine buildings that traded in H1 were regional assets. A further three were in city fringe / suburban districts of Dublin. And, of the three offices that traded in Dublin city centre, one was an older purpose-built block while another was a period building.

FIGURE 2: SECTORAL DISTRIBUTION OF INVESTMENT



Source: BNPPRE

Nonetheless, the remaining office transaction is a potential benchmark deal. Given elevated interest rates, and lingering concerns about the occupational market[1], investors have been hesitant to meet vendors' asking prices for core office assets in Dublin. As a result, the last such building to trade prior to Q2 was the Salesforce headquarters in Spencer Place (bought by Blackstone in Q3 2022). However Deka Immobilien broke the impasse in Q2 with the €37.5m purchase of 40 Molesworth Street. Deka has been investing in Ireland for nearly twenty years, during which time it has developed comprehensive market knowledge and a network of trusted advisors. Its latest purchase is a 3,110 sq m A-rated building

[1] For a detailed update on the Dublin office market please see our Q2 2024 report: BNPPRE_Irl_Q2 2024 Dublin Office Report_0.pdf (bnpparibas.ie)

which stands on one of Dublin's very best office pitches, and the 5.16% initial yield sets a pricing benchmark that should help create a path for further prime office deals.

In contrast to the decline in office investment, the flow of capital into income-producing shops has been trending up since 2020. This has continued and, indeed, become more pronounced in 2024. The second quarter saw €143m of retail assets traded across six transactions. This brings the half time total to €212m, accounting for 31.4% of spending in the first six months.

As referenced in previous commentaries, the defensive properties of some retail segments – including retail warehousing, grocery and convenience – have attracted capital given increased macro uncertainty and a growing reliance on un-earned income as the global population ages. Consistent with this, three retail parks traded in Q2. In the largest of these deals IPUT sold Mahon Point Retail Park in Cork to Corum for €50m, leaving the fund now exclusively focused on prime Dublin locations. Meanwhile US investor Davidson Kempner sold Letterkenny Retail Park in Donegal and Deerpark Retail Park in Kerry to Bahrain-based new entrant Investcorp for a combined €40.5m.

Investor appetite is particularly strong for grocery stores in suburban locations and provincial towns where rents are well underpinned by economic and demographic conditions. In Q2 the Tesco Store at Millfield Shopping Centre in Balbriggan, north Co. Dublin, was bought by US investor Realty Income Corporation for €26.6m. In nearby Portmarnock, four neighbourhood retail units at St. Marnock's Bay were bought by a private investor for €2m.

Opportunities to buy stores on Dublin city's prime retail thoroughfares have traditionally been scarce. However, this market has become more liquid as some owners have sought to rebalance their portfolios by divesting of high street retail assets. In Q2 IPUT sold two units on Grafton street which it no longer considers core; Numbers 69 and 72 traded as a portfolio for €16.25m at a yield of 5%. This brings to nine the number of units that have changed hands on the street since the start of 2022.

As previously reported, elevated interest rates, and the strictures of Ireland's rent control system, have curtailed institutional investment in the private rented sector. It is therefore somewhat against the run of play that, for the second successive quarter, the biggest deal was a PRS purchase. In this case, Dutch investor Orange Capital Partners bought 136 units at Jameson Orchard in Malahide, Co. Dublin, for €70m. This represents the fund's fifth Irish PRS purchase since the beginning of 2018, with over one thousand units acquired in total.

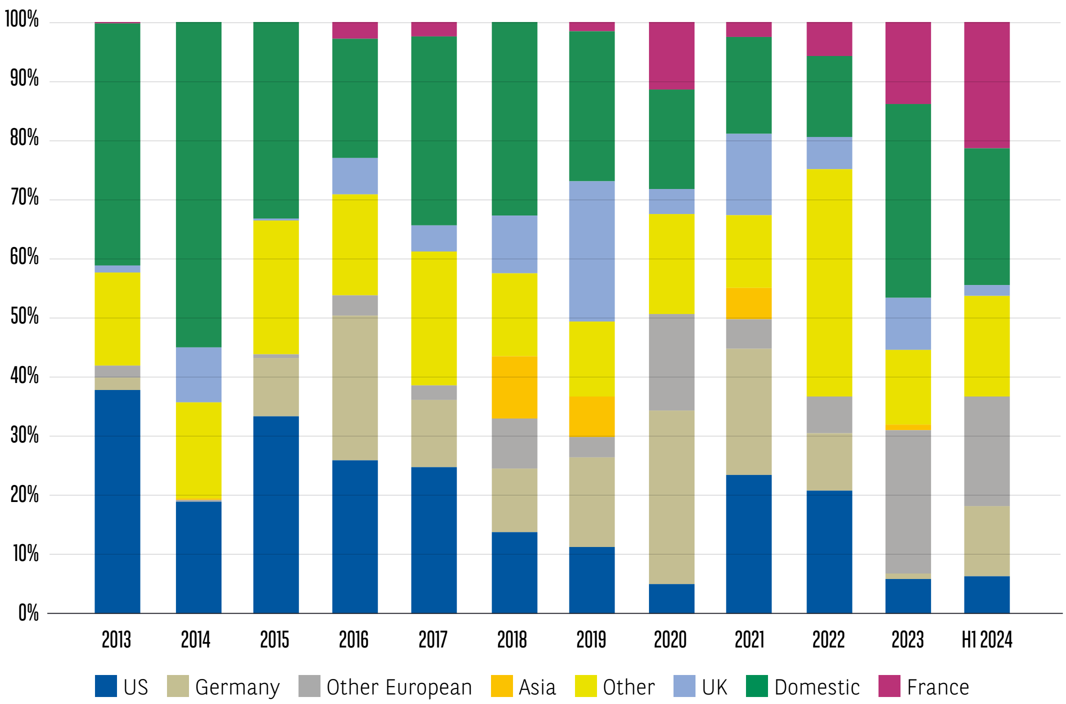
Given tight vacancy and robust rental growth in the warehousing and logistics sector, almost €2.25bn of capital was attracted to Irish logistics property between 2020 - 2023. This year opened slowly with just €7.5m spent in Q1, primarily due to the scarcity of high-quality product. However there was more action in Q2 with six deals – four in Dublin and one each in Cork and Limerick. The largest of these was the purchase of Building 1, Damastown Close in Dublin 15, by owner-occupier West Pharma for €19.5m. However, with some developers retaining rather than selling their new-builds upon completion, and with the logistics development pipeline slowing, the market for modern warehousing units remains supply constrained. Accordingly, total logistics property investment in the first half of 2024 fell by 71% year-on-year.

Perhaps the most notable trend in Figure 2 has been the expansion of the 'other' category. By its nature this residual incorporates a broad church of unclassified assets from communications masts to childcare facilities. But half of the 'other' deals since the start of 2023, and 83.4% of the spend, have involved healthcare assets, with demographic trends and Government-backed income often underpinning the investment rationale. The largest healthcare transaction of Q2 saw Spanish investor Healthcare Activos purchase a portfolio of three nursing homes comprising 332 beds from operator emeis Ireland in a €56.67m sale-and-leaseback deal. Meanwhile Valley Healthcare bought a portfolio of four primary care centres for €20m.

BUYER TYPE AND ORIGIN OF CAPITAL

Domestic buyers, who face lower search and due diligence costs in a fragmented market, continue to be the most active buyers, accounting for 23% of total spending in the first half of the year. However they were closely followed by French investors whose market share reached 21.3%. With elevated interest rates impacting the cost and availability of debt capital, cash-buyers have an advantage. French SCPIs, which are typically cash funded vehicles, have responded to this and have been particularly prominent on the buy side.

FIGURE 3: TURNOVER BY ORIGIN OF CAPITAL



Source: BNPPRE

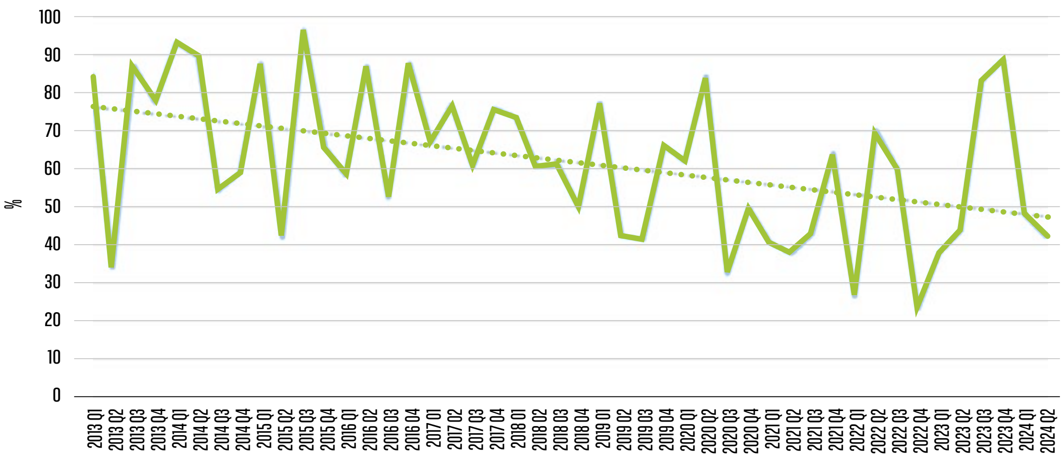
French investors tend to be value-driven and, assuming their yield objectives are met, are often agnostic between commercial sectors and locations. True to form, the €95m of French capital that flowed into Ireland during Q2 was scattered across retail, office, logistics and mixed-use assets. The biggest French purchase of the quarter was by Corum which, as mentioned above, bought Mahon Point Retail Park in Cork for €50m at yield of 7.23%. Corum is another investor that knows the Irish market well, having been involved in over 20 transactions since 2017 across a diverse range of locations and sectors. In other notable French deals, Arkea bought two assets - Citypoint, a €20.5m mixed use scheme in Galway city, and Plantation House, an older office block with long income in Dublin's Herbert Street, which it purchased for €7.6m.

American investors have purchased nearly €8.9bn of Irish property assets since 2013, making them the most prolific foreign investors in the market. However two things have dampened the scale of US involvement in recent years. Firstly, the US inflows have been significantly offset by €5.7bn of divestment as the first wave of early-movers after the Global Financial Crisis have taken their profits and sold-out. Secondly, many of the remaining US buyers are core investors who are seeking prime assets. At elevated interest rates, the pricing of these assets has not adjusted sufficiently to unlock a dramatic increase in the flow of US core capital. However, the US share of turnover tentatively picked-up from 6.1% in 2023 to 6.8% in the first half of 2024. Moreover, the fact that core US money is believed to be competing for major assets including Blanchardstown Shopping Centre suggests a more meaningful recovery in US investment flows may be coming.

REGIONAL TRENDS

As shown in Figure 4, investors have traditionally focused on Dublin, with 68% of total spending between 2013 and 2019 being concentrated in the capital. However, two factors have gradually weakened Dublin's dominance in recent years. Firstly, there has been a shift in the buyer type from core investors seeking prime assets to value-add and core+ players who are more motivated by yields and stable rental income. This shift in investment objectives has driven capital to the regions. Related to this, there has been a shift from overseas back to domestic buyers, with the latter's superior local knowledge conferring a natural advantage in uncovering mispriced regional assets. The combination of these factors has driven Dublin's share of investment turnover down to 52.2% since the beginning of 2020. In contrast, as indicated in Table 2 below, regional assets accounted for 3 of the top 5 deals in Q2.

FIGURE 4: DUBLIN SHARE OF INVESTMENT TURNOVER



Source: BNPPRE

OUTLOOK

While Q2 2024 will not be remembered as a stellar quarter for the Irish investment market, some significant positives have nonetheless emerged. With the monetary cycle having turned, and with the prospect of further interest rate cuts ahead, there are signs that core institutional money may finally be starting to mobilise, and it is notable that foreign investors with significant knowledge of the Irish market have been active again in Q2. Deka Immobilien's purchase of 40 Molesworth Street is significant both in this respect, and insofar as it provides the market with much-needed comparable evidence which should pave the way for further deals ahead.

Admittedly, turnover remained below half of its 10-year quarterly average. Nonetheless, spending appears to be moving in a positive direction. Even if we discount the 220% quarter-on-quarter uplift because of an extraordinarily quiet opening to the year, Q2 spending is still up 56% year-on-year. Moreover the forward looking indicators are also trending favourably; overall liquidity has improved with the estimated value of product on the market rising by 25% in Q2. Meanwhile, the value of sale agreed property has risen by 63% compared with Q1, and now stands at its highest level since Q3 2022.

With €674.8m of assets traded at the halfway point in the year, with a further €640m on the market, and with agents reporting more competitive bidding on better quality stock, our Q1 forecast that market turnover could reach €1.5bn this year remains realistic. Indeed, if some of the core assets that are known to be available off-market – including Blanchardstown Shopping Centre and the Square in Tallaght – trade within the calendar year, the outcome could be closer to €2bn.

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

	Q1 2024	Q2 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	→

> “Private Irish investors, who have a competitive advantage in uncovering mispriced assets in the local market, remain the modal buyer-type. But the reemergence of core institutional investors – particularly those with significant knowledge of the Irish market is symptomatic of improving conditions”

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72 GRAFTON STREET
Dublin 2.
Sold in Q2.

TOP 10 INVESTMENT DEALS Q2 2024

	BUILDING	LOCATION	SECTOR	PRICE (€M)
1	Jameson Orchard, Malahide	Dublin	Residential	70.00
2	Nursing Homes Sale & Leaseback	Dublin, Laois & Kilkenny	Other	56.67
3	Mahon Point Retail Park	Cork	Retail	50.00
4	Letterkenny & Deerpark Retail Parks	Kerry & Donegal	Retail	40.50
5	40 Molesworth Street	Dublin 2	Office	37.50
6	Tesco Millfield Shopping Centre, Balgriggan	Co. Dublin	Retail	26.60
7	Elmpark Green Portfolio	Dublin 4	Office	22.50
8	Citypoint, Eyre Square	Galway	Mixed-Use	20.50
9	Zest Primary Care Centres	Cork, Limerick, Tipperary, & Wicklow	Other	20.00
10	Building 1, Damastown Close, Damastown Industrial Park	Dublin 15	Industrial & Logistics	19.50

40 MOLESWORTH STREET

Dublin 2.

A benchmark office transaction

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