

July 2022



Q2 2022

Investment Market Commentary



Q2 2022 At A Glance

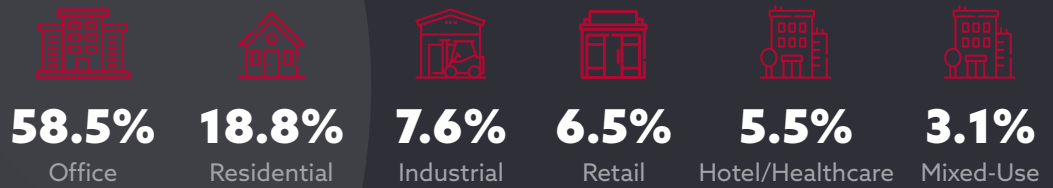


Total Turnover Q2 2022

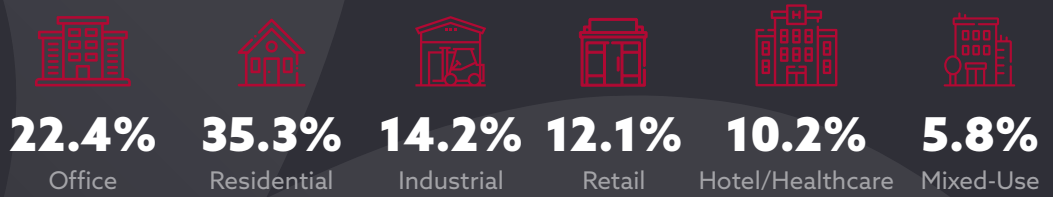
€2.329 billion

(€1.24 billion excluding Hibernia REIT sale)

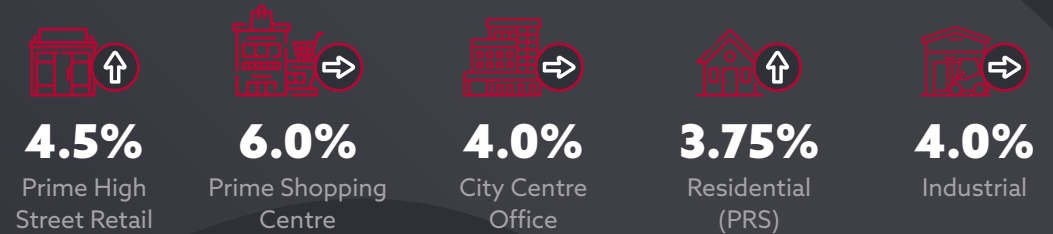
Turnover by Sector Q2 2022



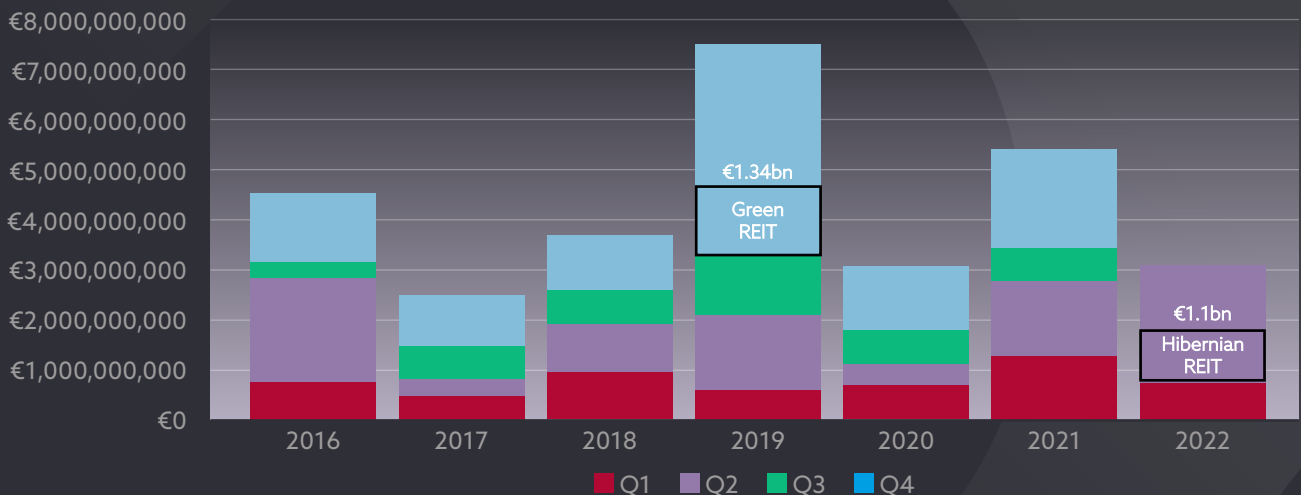
Turnover by Sector Q2 2022 (excluding Hibernia REIT sale)



Prime Yields



Investment Turnover By Quarter



Transactional Activity - Q2 2022

The Irish CRE sector can be viewed in two ways this quarter; with and without the Hibernia REIT sale. A total of €2.329 billion was invested in Irish commercial property across 57 transactions. The largest transaction of the quarter was the sale of Hibernia REIT to Brookfield Asset Management for approx. €1.1 billion. This sale largely distorts this quarter's total turnover and turnover by sector figures. The Hibernia REIT deal aside, a turnover of €1.24 billion indicates a strong investment market.

Unsurprisingly after the Hibernia REIT transaction the office sector finished as the largest sector in the Irish investment market, with €1.365 billion of office turnover occurred throughout Q2, the largest office turnover on record. While the outlook for the office sector looks positive with €567 million of office stock currently on the market the value divide between modern ESG focused offices and older stock is becoming more evident. The industrial sector continued its resurgence since the start of Covid-19, accounting for €176.5 million. However, with only €74 million of industrial stock available the shortage of available stock will subdue its prominence in the overall market turnover. After a very slow start to 2022 the retail sector had a very strong Q2 and with €205 million worth of retail properties on the market a strong H2 is probable. The residential sector continued to perform well with approximately €438 million transacting in Q2. A further €486 million of residential stock is available on the market, however we expect the shortage of prime PRS schemes to subdue supply.



Top 10 Transactions

Property	Sector	Approx. Price (million)	Purchaser
Hibernia REIT	Office	1,089	Brookfield
Magna Drive, Citywest	Residential	122	Confidential
St Edmunds Drive, Citywest	Residential	105	Ardstone
Confidential	Residential	98	Confidential
Blocks 1, 2 and 3 Founders District	Office	97.5	LCN Capital
Confidential	Industrial	68	Confidential
5 Harcourt Road	Office	65	Confidential
Manor West Shopping Park, Tralee	Retail	50	Marlet/Melcorpo
North Ring Business Park	Industrial	49.9	M7
Confidential	Residential	42	Confidential



Residential

Top 4 Deals

Magna Drive, Citywest
€122,000,000

St Edmunds Drive, Citywest
€105,000,000

Confidential
€98,000,000

Confidential
€42,000,000

The Residential sector had the second largest turnover in Q2 2022 accounting for 18.8% of total turnover. €434 million worth of residential turnover occurred across 6 transactions. The largest residential transaction of the quarter was the confidential PRS sale worth €98 million followed by the confidential sale of a social housing block for €42 million.

After accounting for the largest turnover in six out of the last seven quarters, the residential sector has now dropped out of the top spot in two out of the three last quarters.

It is important to note that the Hibernia REIT sale has skewed this quarter's figures and if we are to view this quarter excluding that sale, the residential sector would have been the largest sector accounting for 35.3% of turnover.



Offices

Top 4 Deals

Hibernia REIT
€1,089,000,000

Blocks 1, 2 and 3 of Founders District, Dublin 4
€97,500,000

5 Harcourt Road
€65,000,000

Building 7000, Westpark, Shannon
€20,000,000

After dropping to the fourth largest asset class in Q1 of this year the office sector has roared back into the top spot accounting for 58.5% of total turnover this quarter. Approximately €1.365 billion of office turnover occurred throughout Q2, the largest office turnover on record.

The sale of Hibernia REIT to Brookfield, the global asset management company, for approximately €1.1 billion accounted for 79.75% of office turnover. The Hibernia REIT portfolio consisted of 36 office properties with an occupancy rate of 93% and an office WAULT of 6.4 years.

Other notable sales this quarter were the sale of Blocks 1, 2 and 3 of Founders District by Spear Street Capital to LCN Capital for €97.5 million and Henderson Park's sale of 5 Harcourt Road for €65 million.



Industrial

Top 4 Deals

Confidential
€68,000,000

North Ring Business Park
€49,999,000

Confidential
€30,000,000

Unit 2, Kylemore Park West,
Ballyfermot, Dublin
€7,900,000

After a very strong 2021 where the industrial sector contributed €1 billion of turnover, the sector has continued its renaissance into 2022. In H1 of this year the industrial sector had a turnover of approximately €355 million or 11.5%, with both quarters approximately contributing equally.

The majority of this quarter's industrial turnover has come from two confidential sales of €68 million and €30 million.

It is clear that the sector's biggest impediment is not demand, but the limited supply of tradeable assets which has subdued its prominence in the overall market turnover.



Retail

Top 4 Deals

Manor West Shopping Park,
Tralee
€50,000,000

Eastgate Retail Park
€24,250,000

Corrib Shopping Centre, Galway
€18,250,000

City Square Shopping Centre,
Waterford
€18,025,000

H1 2022 has seen dramatically different quarter performances from the retail sector. After a single transaction amounting to €10.85 million in Q1, Q2 accounted for 11 transaction and €150 million of turnover. Three major shopping centre transactions were the main contributors this quarter with Manor West, Corrib and City Square shopping centres all transacting.

Manor West was purchased by Marlet and Melcorpo for €50 million, while Marathon also completed the sale of both Corrib and City Square shopping centre's for €18.25 and €18 million respectively.

There is currently €205 million of retail investment properties currently on the market indicating a strong H2 for the sector.



Hotel/ Healthcare

Top 4 Deals

Premier Inn, Gloucester Street

€37,000,000

Healthcare Crumlin

€32,000,000

Healthcare Dunshaughlin

€18,500,000

Staycity, Chancery Lane

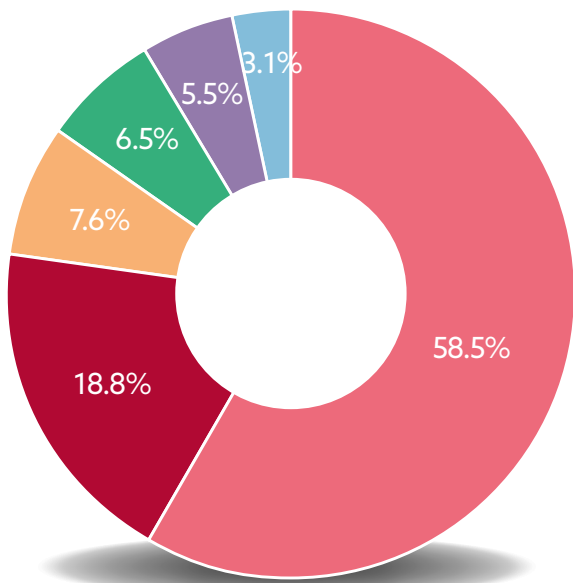
€11,500,000

In a change to market norm, the hotel and healthcare sector was prominent in Q2 of this year. Two hotels and five healthcare facilities transacted this quarter contributing a turnover of €126.65 million (5.5%).

The two hotel transactions included the forward sale of the Premier Inn by Red Rock Developments to Aviva for €37 million and the confidential sale of Staycity in Dublin 8 for €11.5 million. The top healthcare transaction was the confidential sales of the medical facilities in Crumlin and Dunshaughlin for €32 million and €18.5 million respectively.

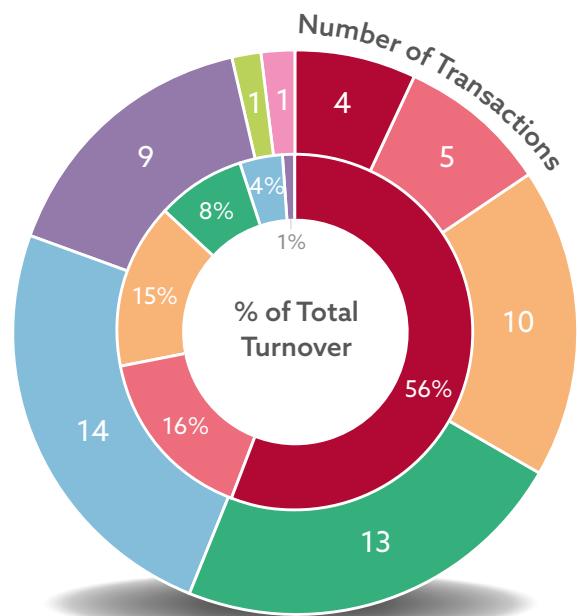


Investor Turnover by Sector



- Office
- Residential
- Industrial
- Retail
- Hotel/Healthcare
- Mixed-Use

Investor Transactions by Lot Size



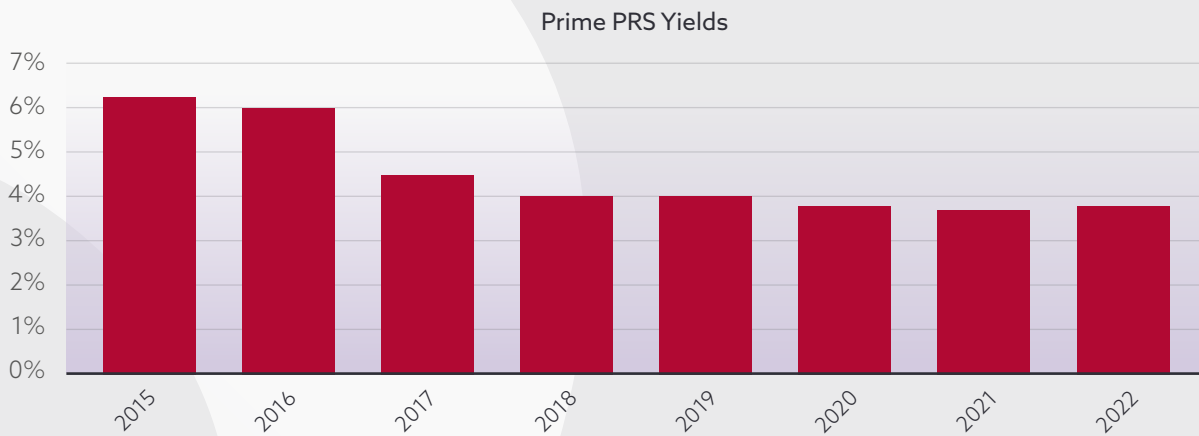
- €100m+
- €50 - €100m
- €20 - €50m
- €10 - €20m
- €3 - €10m
- €1 - €3m
- €500k - €1m
- <€500k

Prime Yields

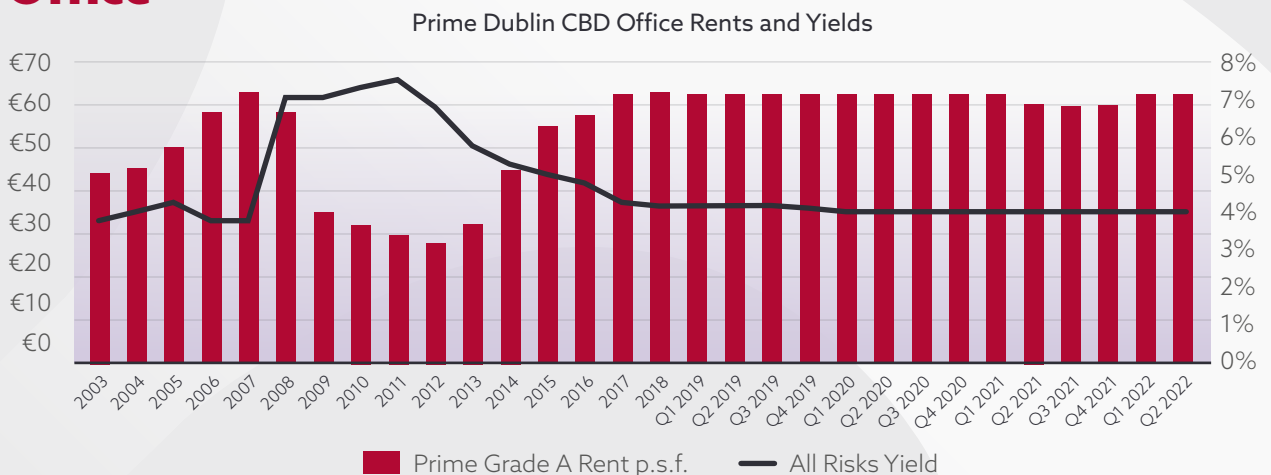
Sector	Q1
High Street Retail	4.5%
Prime Shopping Centre	6.0%
City Centre Office	4.0%
Residential (PRS)	3.75%
Industrial	4.0%



Residential (PRS)

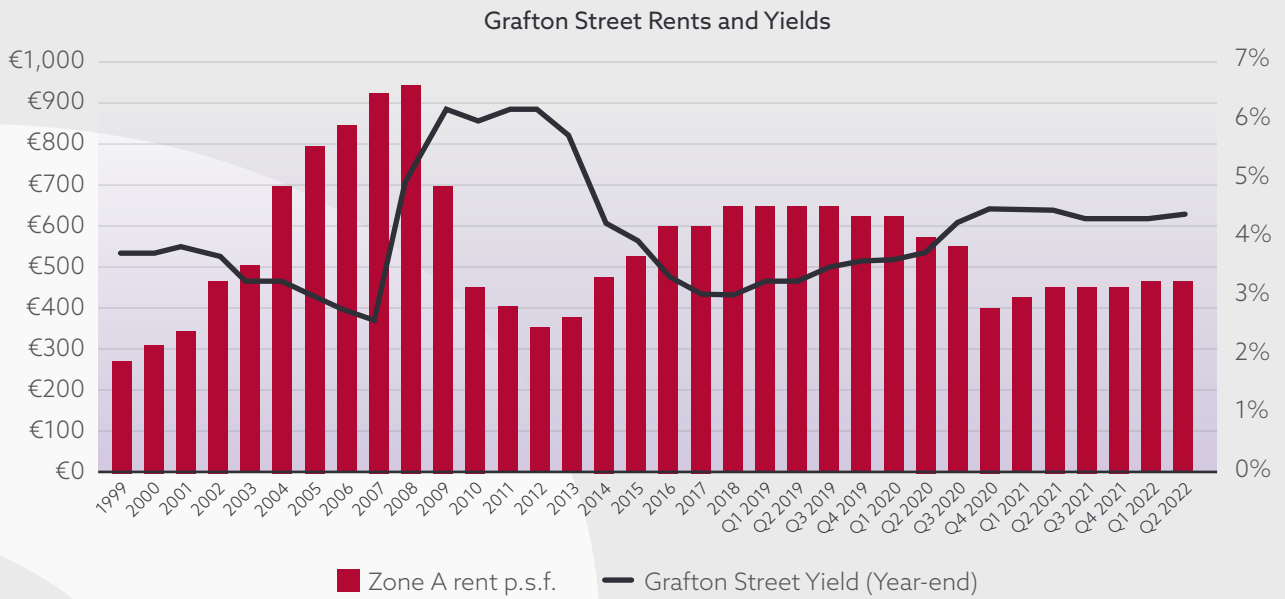


Office

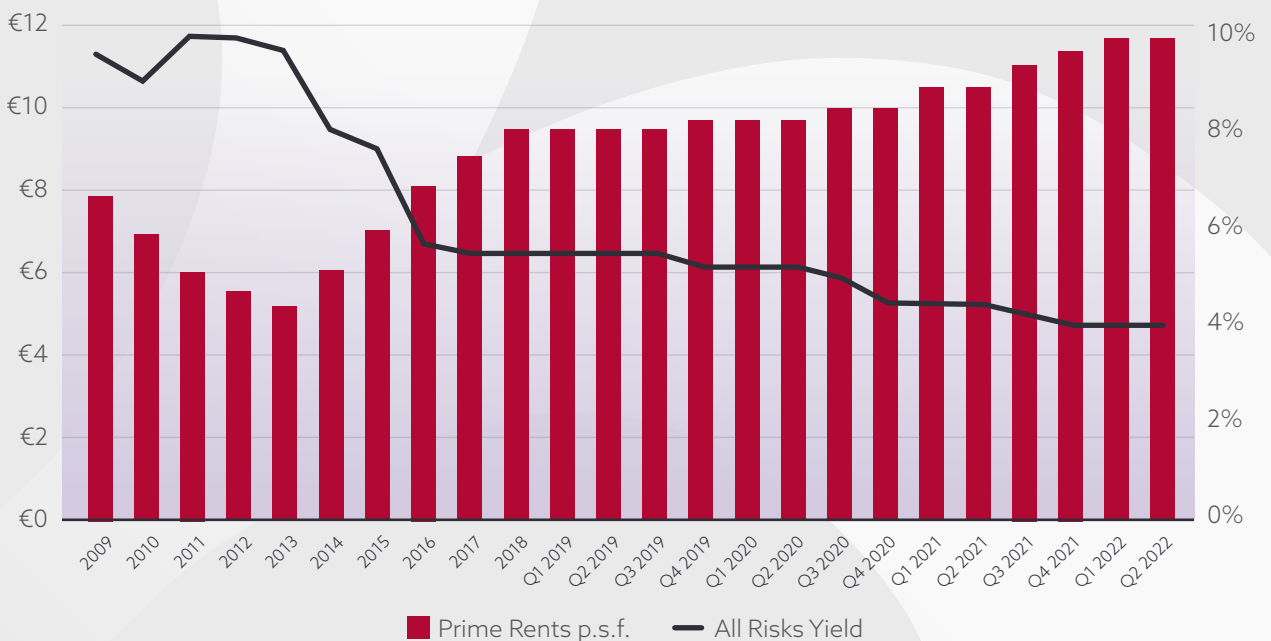




Prime High Street Retail



Industrial

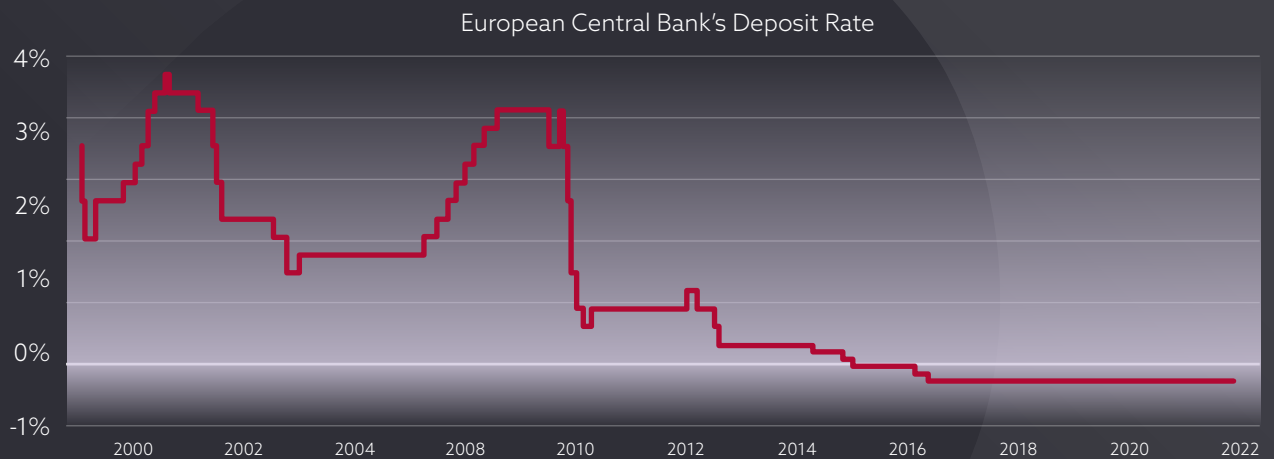
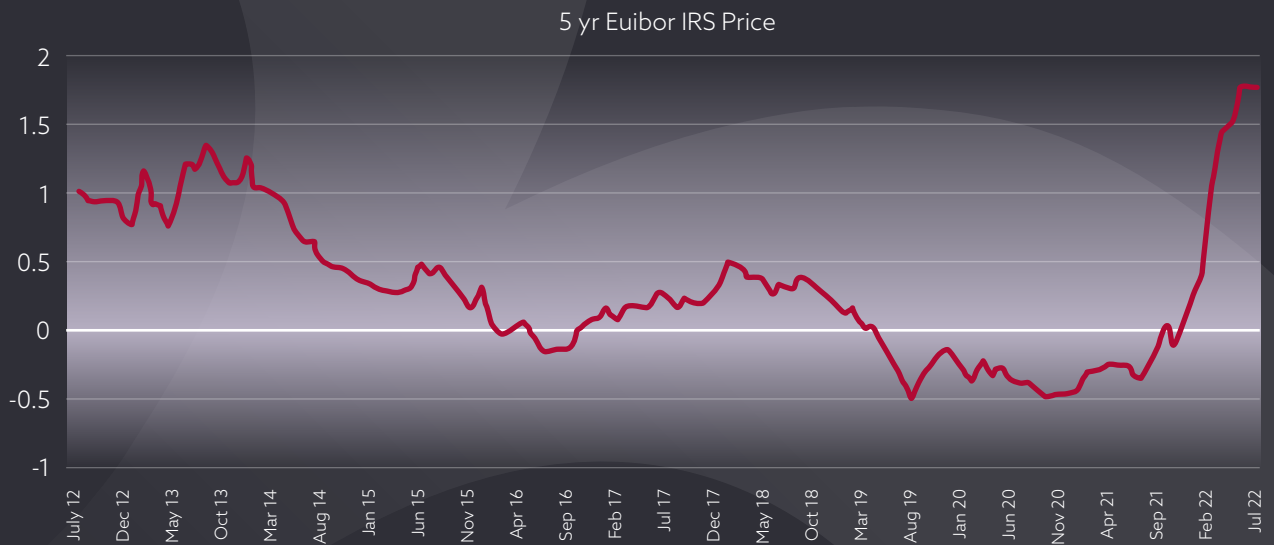




Outlook

Inflation and Interest Rate Key to Short Term Performance

As Q2 finishes there is approximately €1.7 billion of investment stock formally on the market. Having regard to this, and the €3 billion transacted in H1 we anticipate that 2022 will be the third year on record to exceed €5bn. However, this quarter highlights trends that have been emerging since both the inflation crisis struck and the Ukrainian war began. When the Hibernia REIT transaction is stripped out, we can see an emerging shift in the capital allocation which could ultimately impact on investment volumes and property prices for the remainder of 2022 and into next year. Firstly, it is likely that interest rate increases will see prime Irish yields adjusting outwards over the coming months. The key 5 year Euribor Swap Rate has moved out more than 125 basis points since the end of February and currently sits at 1.75%. It is important to note that this key rate has not been higher than 0.5% since 2014!



Source: E.C.B. - By The New York Times

Outlook - continued

Irish inflation



Source: Central Statistics Office Ireland

Similarly, inflation looks set to deliver negative real returns for the prime end of the investment spectrum for the next 12-24 months with a current rate of 8.1% and the EU Commission predicting a rate of 3-4% for 2023!

Consequently, for those sectors that experienced the tightest yields the double impact of interest rates and inflation could see the greatest movement. The hardest hit sector is likely to be residential as it suffers from both limitations on its income growth (as a result of rental caps) with no limitation on its costs. This directly impacts the value of standing stock (even without a yield movement) due to the impact on the Net Operation Income. While the development pipeline does not have this drawback clearly the construction cost inflationary impact will have an impact on viability.

The ESG proof "new-build" end of the office market should see rental growth to protect its position, but outside of this expect material value movement in the more stranded end of the market. To support this transition, we have seen the core office, residential and industrial sectors which comprised 87.3% of turnover in Q4 21 and 88.2% in Q1 22 fall to 72% in Q2 (excluding Hibernia REIT). It is this movement, and the pursuit of assets whose return will outstrip inflation, that we believe we will see the investment community begin to redirect its attention to the likes of life sciences, hotels, ESG offices and retail where either value prevails or better growth prospects exist (or in the absence of any certainty sit on their hands and do nothing). To put this into context Retail, Hotel and Life sciences increased from 1.4% of turnover in Q1 to 22.3% in Q2. This movement is also having regard to the unique backdrop which exists in Ireland in terms of economic growth, demographic profile and the relative health of the Irish consumer.

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