Sherry FitzGerald

Review Q1 | 2024

Irish Investment Market

Overview

Investment transactions reached an all time low during the first quarter of 2024 to reach €163 million. The volume of transactions was also subdued with only 20 sales closing during the three-month period.

Retail assets attracted the largest proportion of capital spend since the beginning of the year at 42% while residential assets accounted for a further 27% of turnover.

Investor activity during the three-month period was characterised by smaller sized transactions reflecting the elevated interest rate environment.

Looking to the remainder of the year, the coming months are likely to continue to see primarily smaller sized transactions from investors with equity. Activity is expected to pick up as the year progresses and the anticipated cuts in interest rates filter through to market rates, yielding more positive returns.

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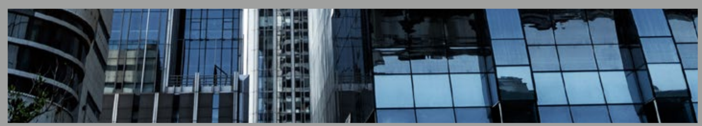


Economic Overview

Provisional data for the Irish economy reveals that the volume of real GDP decreased by 3.2% in 2023. This is compared to growth of 9.4% the previous year and largely reflects a 4.8% decline in exports.

A sectoral analysis reveals that the multinational dominated sectors of the economy saw a large contraction of 6.8% during the year. In particular, value added for the industry sector decreased by 11% in 2023, the first reduction in this sector since 2013. This was counteracted somewhat by an 8% increase in the information and communication sector.

Modified Domestic Demand (MDD) which removes the impact of multinationals and provides a more accurate picture of domestic activity grew by a modest 0.5% in 2023 compared to growth of 9.5% the previous year. This reflects a reduction in modified investment of 7.1%. However, on a positive note, personal consumer expenditure remained resilient rising by 3.1%, despite inflationary pressures and higher interest rates during the year. This was buoyed by the strength of employment which continued to see record levels throughout 2023, to reach 2.7 million for individuals aged 15 to 89 years in quarter four. Subsequently the monthly unemployment rate remained very low in 2023 and into the opening months of 2024, to stand at 4.3% in March for those aged between 15 and 74 years.

The ESRI predict that 2024 will see the economy return to more normalised growth rates with real GDP expected to increase by 2.5% while MDD is forecast to rise by 2.3%.

Rising interest rates impacted growth levels across the Euro Area during 2023 with real GDP rising by an annual rate of 0.4% for the year, compared to 3.4% in 2022. However, the annual rate of inflation in the Euro Area continued to trend towards the 2% target rate reaching an estimated 2.4% in March. In its most recent meeting in April, the European Central Bank (ECB) left the main refinancing rate at 4.5% but showed clear signals that it intends to implement the first interest rate cut in June. A total of three to four cuts are expected during the second half of the year, although rates are not expected to fall to the lows seen during the period prior to the most recent monetary tightening cycle.

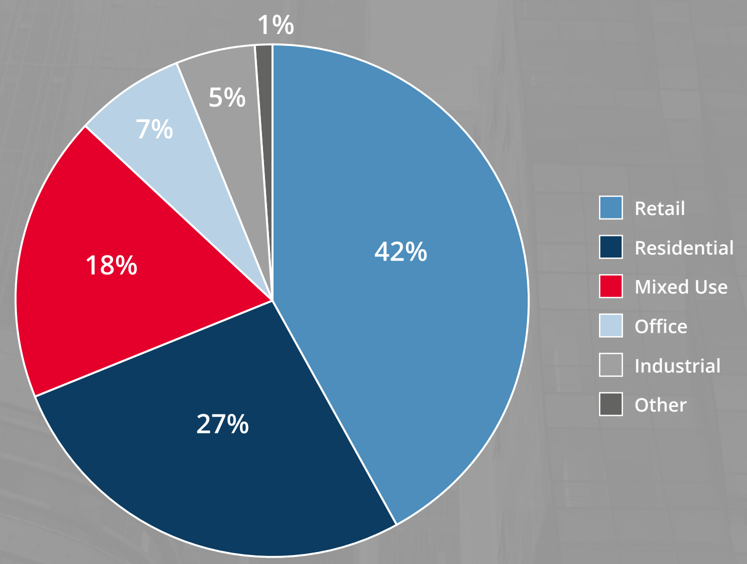
The annual rate of inflation in Ireland as measured by the consumer price index (CPI) continued to fall in March to reach 2.9%, the lowest rate recorded since August 2021.

Section 2

Market Activity

Investment activity in the Irish commercial property market reached an all-time low in the first quarter of 2024 to reach €163 million. This was the sixth consecutive quarter where the value of transactions remained below average, coinciding with the European Central Banks tightening monetary policy.

Investment Turnover by Sector, Q1 2024



Source: Sherry FitzGerald Research

During the twelve-month period ending March 2024 a total of €1.6 billion was invested in commercial property. This is compared to €4.5 billion in the previous twelve-month period and is well below the long-term annual average of €4 billion.

Retail assets remained a key driver of investor interest during the quarter accounting for a significant 42% of total spend. This includes two of the largest transactions during the three month period, specifically Gulliver's Retail Park in Santry which sold for approximately €30 million, while Kilkenny Retail Park was purchased by French investor Iroko Zen for €25 million.

A further 27% of turnover was absorbed by residential assets. This includes the largest transaction of the quarter consisting of the off-market portfolio sale of 105 fully let PRS units with A energy rating in Shackleton Park, Lucan, by Angelo Gordon and Carysfort Capital to KGAL's Core 5 LIFE for approximately €42 million.

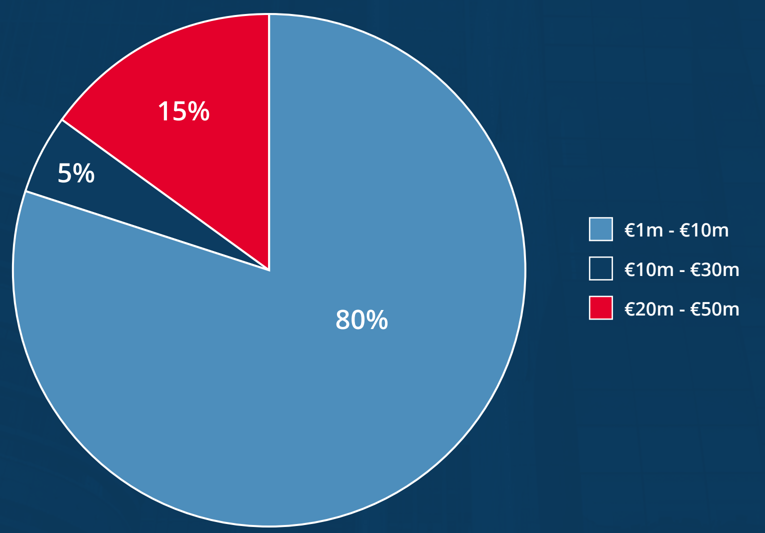
Mixed used properties accounted for 18% of total investment since the beginning of the year. This included a number of assets comprising office over retail accommodation, such as 21-24 Capel Street, which sold for approximately €16 million. Office assets represented a relatively small proportion of total capital spend during the quarter at 7%. In particular, in five out of the last six quarters, office

Selection of Top Transactions, Q1 2024

Asset	Sector	Price (Approx)	Purchaser
Shackleton Park, Lucan	Residential (PRS)	€42 million	KGAL Core LIFE
Gulliver's Retail Park, Santry	Retail	€29.5 million	Off-Market Deal
Kilkenny Retail Park	Retail	€25 million	Iroko Zen
21-24 Capel Street, Dublin 1	Mixed-Use	€16 million	P&C
Dublin 17 P&C Deal	Industrial & Logistics	€7.5 million	P&C

Source: Sherry FitzGerald Research

Volume of Transactions by Lot Size, Q1 2024



Source: Sherry FitzGerald Research

assets' share of total spend remained below average. Industrial assets accounted for a further 5% of total turnover.

The volume of transactions was also very subdued during the three-month period, with only 20 investment sales closing. This represents a decrease of 35% on the corresponding period in 2023, and is the lowest level seen since the second and third quarters of 2020 when activity was impeded by Covid-19 lockdowns.

It is not surprising, given the current interest rate environment, that investment activity during the opening months of the year was driven by smaller lot sizes, with 80% of total transactions ranging between €1 million and €10 million in value. This is considerably greater than levels seen in recent years and well above the long-term average of 63%. Notably for the first time since the second quarter of 2017, there were no transactions exceeding €50 million in value. In contrast, during the same period in 2023, 16% of all investment sales comprised assets valued in excess of €50 million. Only 5% of transactions that closed in the first quarter of 2024 were in the €10 million to €20 million cohort, while the remaining 15% ranged between €20 million and €50 million in value.

Outlook

It is clear that elevated interest rates are continuing to impact the performance of the Irish commercial property market evidenced by the low investment levels and smaller lot sizes transacted in the opening months of 2024. It is now widely expected that the European Central Bank will begin to cut interest rates later this year, with the first cut expected in June. Similarly, the Bank of England in the UK and Federal Reserve in the US are also planning interest rate cuts later in the year, pending satisfactory economic data over the coming months.

This may impact investor activity in the short term, as investors hold off on larger transactions until lending conditions become more favourable. Therefore, the coming months are likely to continue to see primarily smaller sized transactions from investors with equity. However, as the year progresses, activity among both domestic and international investors is expected to increase as the anticipated interest rate cuts filter through to market rates, yielding more positive returns.

The outlook for each of the key markets remains mixed. The office market continues to see strong vacancy rates, as occupiers reduce space requirements due to remote working and more flexible hybrid working conditions, as well as downsizing in the tech sector. Further job cut announcements by large firms such as Citigroup, Cisco, Microsoft, Paypal and Tiktok since the beginning of the year has further added to uncertainty. That said, demand for sustainable and energy efficient buildings remains strong, with many occupiers opting for higher quality accommodation over quantity.

In the residential market, forward fund and forward commit structured investments, which had been a feature of the market in recent years, were curtailed in 2023 by higher borrowing and construction costs. Traditional investment by international and institutional investors was also deterred by the erosion of potential returns due to rising interest rates, and these were further hampered by rental caps. These rental caps are limited to annual increases of either 2% or the rate of inflation as recorded by the Harmonised Index of Consumer Prices (HICP), whichever is the lower. In March,

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the HICP for Ireland fell below 2% for the first time since September 2021 to reach 1.7%. If this remains below 2% it will further dimmish potential returns for PRS properties, likely to further limit supply and add to pressures in the private rental market.

The retail sector remains buoyed by the resilience of consumer expenditure, which grew by 3.1% in 2023. In particular, personal spending in 2023 was 10.2% greater than the pre-pandemic peak in 2019. This positively impacted employment in the sector, with total employment in the NACE cohort that includes retail trade[1] increasing by 6% or 19,600 people in the fourth quarter of 2023 compared to the same period the previous year.

This had a knock-on effect on the logistics and distribution sector, with logistics and industrial assets accounting for a quarter of all capital spend in 2023.

Although investor spend in this sector was relatively low during the opening months of 2024, the market continues to see strong demand for accommodation coupled with limited levels of supply, as higher building and borrowing costs kept speculative development to a minimum. In addition, the pharmaceutical sector, which saw a downturn in exports during 2023 witnessed a rebound during the first two months of 2024. Similarly, the value of manufacturing exports also grew significantly.

Although the growth outlook for the global economy looks positive in the medium term as lower rates of inflation and reduced interest rates improve business and consumer sentiment, headwinds remain. Geopolitical tensions persist which could have implications for both fuel prices and supply chains, which in turn could impact consumer prices, international trade and the outlook for interest rates.

[1] Wholesale and retail trade; repair of motor vehicles and motorcycles

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