Report

Ireland Investment & Funding

Q1 2024

Volumes Low But Momentum Building and Sentiment Shifting

CBRE RESEARCH
APRIL 2024

Volumes Low But Momentum Building and Sentiment Shifting

▼ **€162m**
Q1 2024 Investment Volumes

▼ **€1.3bn**
Rolling 12 Month Investment Volumes

▲ **43%**
Proportion of Retail Investment in Q1

▲ **52%**
Proportion of Mainland European Investors in Q1

▶ **4.50%**
ECB Main Refinancing Rate

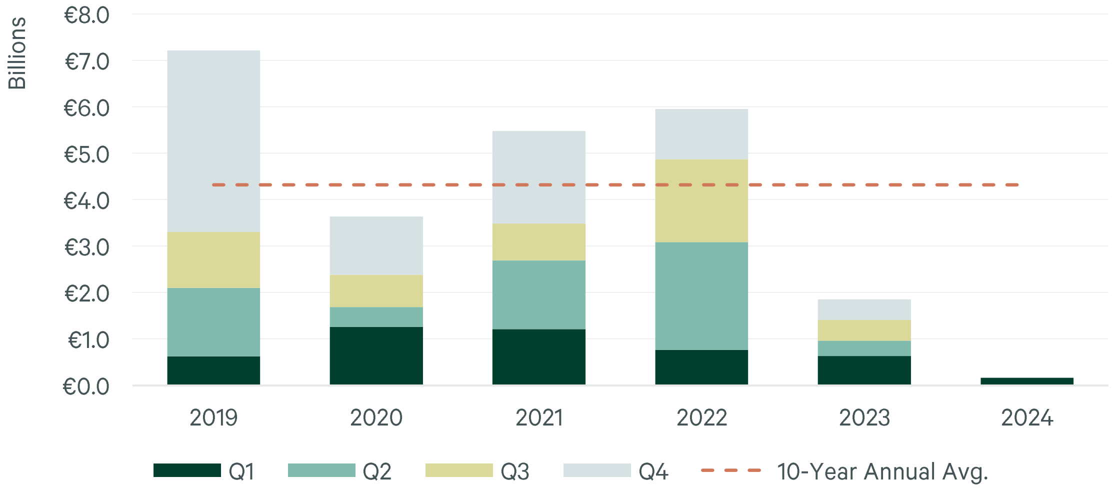
▼ **2.55%**
EURIBOR 3M Swap 5-Year Term

Note: Arrows indicate change from previous period.

Q1 Highlights

- The opening quarter of the year has seen a definite lift in sentiment across European real estate investment markets
- Despite this, Irish investment spend totalled just €162m in Q1, the lowest quarter of spend since Q3 2012, but not reflective of the level of activity ongoing across the market
- Several notable sale processes across sectors are progressing well, with a mix of institutional capital, developers, private investors and public & private bodies all actively bidding
- Retail assets attracted the most capital in Q1 (43% of spend), with two notable retail park deals completing, including the sale of *Kilkenny Retail Park* to Iroko Zen for approx. €25m
- The largest transaction of the quarter was in the residential sector. KGAL closed the purchase of 104 rental units at *Shackleton Park* at a notably strong price point (approx. €42m)
- At the end of Q1, a similar investment opportunity, *Kilcarbery Square*, which consists of 115 stabilised rental units in west Dublin, was put on the market with a guide price of €50m (NIY 5%)
- Prime residential and prime office guideline yields (EY) have held firm in Q1, at 4.75% and 5.0%, respectively, while yields are now stable in a number of other sectors

FIGURE 1: Ireland Investment Volumes - All Sectors



Source: CBRE Research

Investment Market Overview

The opening quarter of the year has seen a definite lift in sentiment across European investment markets. Some of the key trends that emerged from MIPIM 2024 in March and from ongoing conversations with investors in Q1 include:

- *'Beds and Sheds'* are still the sectors deemed most attractive by investors across Europe

- *Discounted offices* on a selective basis are now pricing attractively, with many investors, particularly those with equity, believing that now is the right time to be acquisitive

- Much of the *capital raised* around Europe has an *opportunistic* focus, so higher-yielding investments are where the market will see the most volume this year

- *Core capital and transactions* remain low, but vendors are becoming more realistic regarding asset pricing, and one core transaction completing in the market will likely lead to more trades

Investment Volumes: Lowest Quarter Since 2012

Irish investment spend in Q1 totalled just €162m, across 20 transactions. This was the lowest quarter of spend since Q3 2012, with a particular absence of core and larger-scale deals.

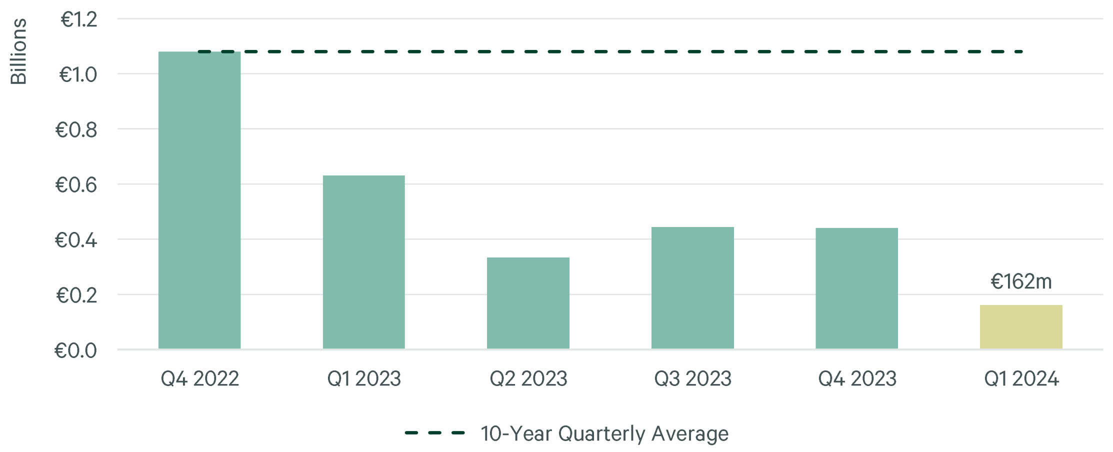
While it was a slow opening three months for deal-closures, this is not reflective of the level of activity that is ongoing across the Irish market. Several notable sale processes across sectors are progressing well, with a mix of institutional capital, developers, private investors and public & private bodies all actively bidding, which should make for a positive Q2 and H2 in 2024.

Investment By Sector: Retail the Most Invested Sector in Q1

High-yield retail investments proved attractive in 2023, and this trend has continued into 2024, with retail assets, particularly 'out-of-town' retail parks, attracting the most capital in Q1 (43% of spend, 8 transactions). Retail is on course to be the most invested sector in 2024 for the first time since 2016.

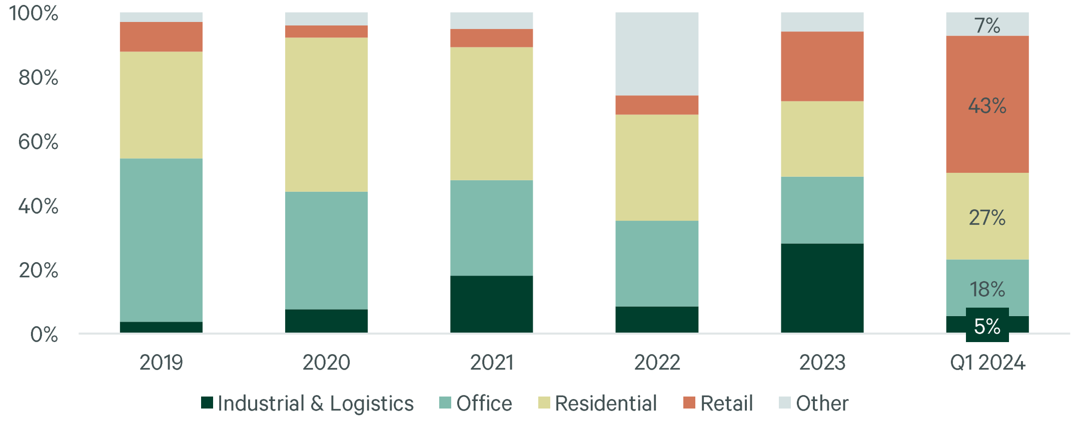
The largest transaction of the quarter was in the residential sector, which accounted for 27% of spend, while mid-size transactions also completed in the office (18% of spend) and industrial (5%) sectors.

FIGURE 2: Ireland Investment Volumes Q4 2022 - 2024 Q1



Source: CBRE Research

FIGURE 3: Ireland Investment Volumes By Sector 2019 - 2024



Source: CBRE Research

FIGURE 4: Key Irish Investment Property Transactions Q1 2024

Property	Location	Primary Sector	Sub Sector	Sale Price (Approx. Million)	Purchaser	Vendor
Shackleton Park, Lucan	Co. Dublin	Residential	MFH/PRS	€42.0	KGAL	TPG Angelo Gordon & Carysfort Capital
Gullivers Retail Park, Santry	Dublin 9	Retail	Retail Park	€29.5	Minaun Capital	Private Irish Family
Kilkenny Retail Park	Co. Kilkenny	Retail	Retail Park	€25.0	Iroko Zen	Aviva
21-24 Capel Street	Dublin 1	Office	City Office	€16.0	Inter Gestion REIM	Confidential
Units at Airways Industrial Estate	Dublin 17	Industrial	Light Industrial	€7.5	Confidential	Confidential

Source: CBRE Research

Purchaser Types: French and Private Capital Active Again in Q1

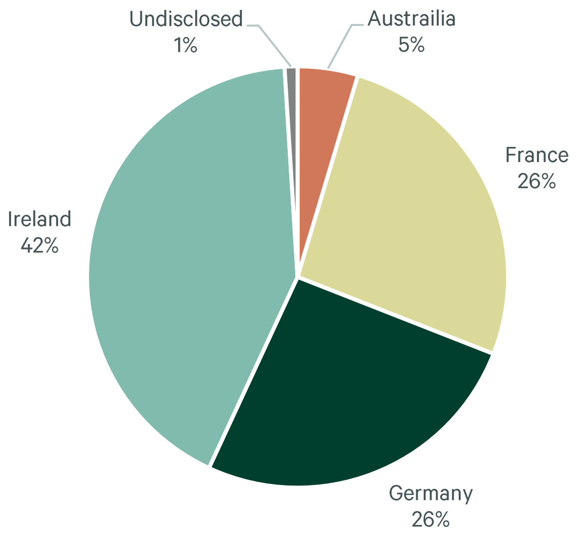
- *Private investors* were particularly active in the Irish market in 2023, accounting for over 33% of all spend and indeed were the purchasers in the top three deals of the year. This has continued into 2024, with private capital accounting for at least 25% of investment in Q1, most notably Irish private family offices acquiring retail assets.

- On the *institutional side*, there was a notable absence of active *North American* capital in Q1, but investors from *mainland Europe* were involved in 52% of all spend. *French SCPIs* continue to be yield hungry and were active at small to mid-lot sizes across sectors. *French investors* accounted for 26% of spend in Q1 following 15% of all investment in 2023.

- The *German institutional funds* who dominated the Irish market by acquiring core and lower yielding assets over much of the last cycle, but who pulled back from the market in 2023, were relatively inactive, with market conditions generally unfavourable to their investment models.

- However, it was encouraging to see *KGAL* active in the residential sector and there is more *institutional interest* evident in some of the notable ongoing sale processes, so we expect these groups to account for more spend later in the year.

FIGURE 5: Ireland Investment Volumes By Origin of Capital Q1 2024



Source: CBRE Research

Residential Investment Overview

Following no residential investment transactions in the second half of last year, German institutional group KGAL closed the purchase of 104 stabilised rental units at *Shackleton Park* in west Dublin in Q1 at a notably strong price point (approx. €42m).

Another similar multifamily (MFH) investment opportunity has just been launched to the market, *Kilcarbery Square,* which consists of 115 stabilised units, also in west Dublin. The guide price is €50m (NIY 5%) and the process is expected to attract strong interest.

Separately, an ongoing sales process involving a prime student accommodation block, *Scape Student Living*, in Dublin 2 has attracted several bidders; hence, residential investment liquidity is generally improving. While separately, Irish Approved Housing Bodies and the Land Development Agency also remain acquisitive.

Private Equity Return Requirements in a Regulated Market

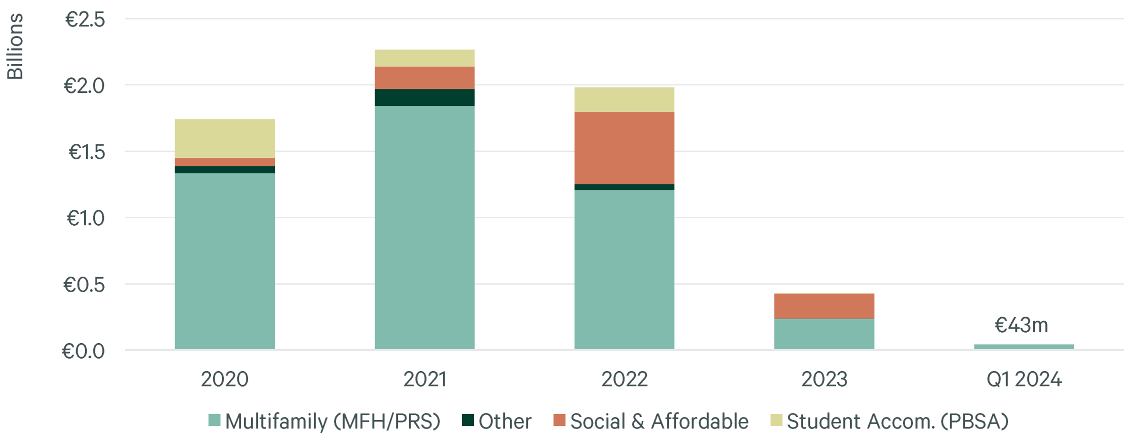
'Beds', particularly private rental stock, continue to be identified as one of the most in-demand real estate sectors across Europe, with structural supply-demand imbalances evident in many European cities. However, investment in the sector in Ireland continues to be dampened by the rent regulations that are currently in place, most notably the inability to rebase rents to the market rate for two years after the end of a tenancy.

Institutional groups around Europe still view the fundamentals of the Irish residential market favourably. But given the current cost of capital, private equity groups are struggling to make Dublin residential investments viable, with rent caps lowering overall investment returns below the required rate. Ultimately, this will have a continued negative impact on transactional liquidity and, in turn, the supply of new private rental stock in the coming years.

Residential Yields Now Stabilising Across Europe

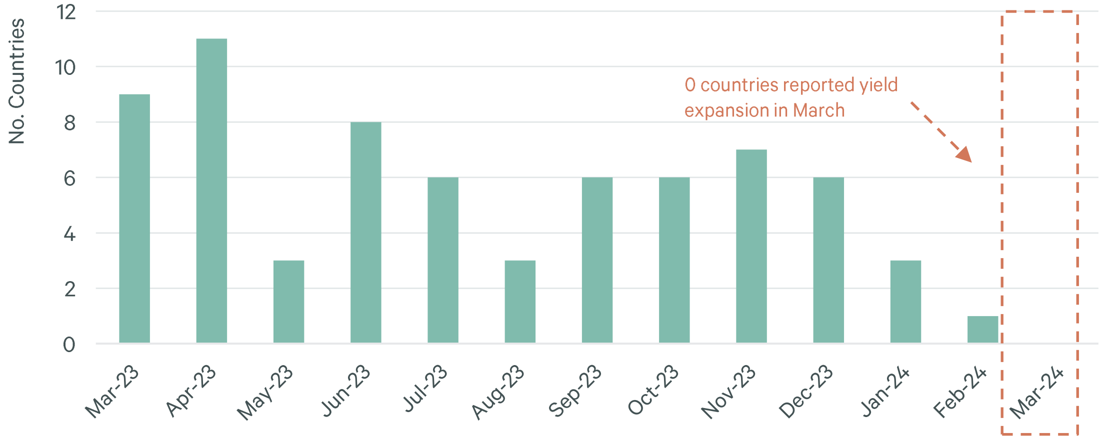
The number of European countries reporting yield expansion in the multifamily sector has slowed in recent months. Of the 17 countries covered by the CBRE European Research team, no market reported yield expansion in March, the first time this has occurred since May 2022.

FIGURE 6: Ireland Residential Investment Volumes* 2020 - 2024



Source: CBRE; *Excludes acquisitions by State entities

FIGURE 7: Number of European Countries Reporting Multifamily Yield Expansion by Month



Source: CBRE European Residential Capital Markets Research

Interest Rates & Yields

Sentiment in relation to inflation and interest rates has shifted in the opening months of the year. Ireland's 12-month CPI reading fell below +2% in March, while the Euro area reading is now also trending towards a similar range (+2.4% in March). Euro area food inflation (+2.7% from +3.9% in March) is falling materially and energy prices (-1.8%) continue to decline, per Eurostat.

These lower inflation readings will likely support the ECB in making the first interest rate cut of this cycle at the June 6th monetary policy meeting. A total of 75 bps of rate cuts in 2024 remains a possibility, which will be supportive of real estate valuations and transactional activity in the second half of the year.

Valuations Bottoming Out in Many Sectors

In Q1, when considering ongoing transactional activity in the Irish market, both prime residential (MFH) and prime office guideline yields (EY) have held firm at 4.75% and 5.0%, respectively.

Yields and valuations in industrial & logistics, hotels, supermarkets and retail warehouses/parks are all now stable, with strong occupational fundamentals, higher investor interest and a lower cost of capital generally available for acquisitions in these sectors.

Office Receiverships & Price Discovery

Valuations of secondary and suburban offices remain under the most significant downward pressure and *higher-leveraged private equity groups* are increasingly exposed to loan defaults on these buildings. There are a number of notable Dublin offices that are currently being sold on behalf of receivers, reflecting this trend, with most of these situated in more 'fringe' areas of the city.

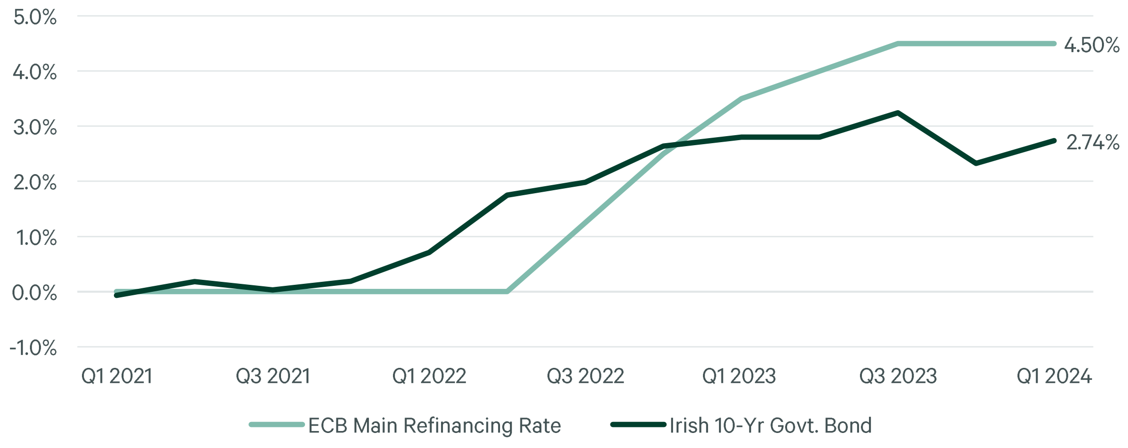
The result of these processes will help set the tone for secondary office pricing in the city going forward. In some instances, it is possible that these buildings will be repurposed for another use.

FIGURE 8: Prime Irish Investment Yields (EY%) - Q1 2024

Sector	Q1 2024	Quarterly Change	Current Trend
Prime Residential (MFH) (Standing Stock)	4.75%	-	Weaker
Prime Residential (MFH) (Forward Commit)	5.00%	-	Weaker
Prime Office	5.00%	-	Weaker
Prime Industrial & Logistics	4.75%	-	Stable
Prime High Street Retail	5.25%	-	Weaker
Prime Retail Warehouse/Parks	6.50%	-	Stable
Prime Student Accommodation (PBSA)	5.25%	-	Weaker
Prime Leased Hotels	5.00%	-	Stable

Source: CBRE Research

FIGURE 9: ECB Main Refinancing Rate (End of Period) vs. Irish 10-Year Govt Bond Yield



Source: ECB; Oxford Economics

Funding Environment

The debt cost backdrop has changed materially over the last six months, with Eurozone reference rates dropping sharply in Q4 of last year. Peak to trough the 3M EURIBOR swap rate (5Y) fell 95 basis points to 2.30% in the final quarter of 2023.

In the opening quarter of this year, swap rates have ticked back up marginally, closing Q1 at 2.55%, but overall, the anticipation of cuts to the ECB base rate starting in June is already contributing to a somewhat more favourable all-in debt cost picture.

Irish Lenders: Residential Strongly Preferred

In the Irish market, residential remains the preferred sector for lenders, with both banks and non-bank lenders predominately focused on the space.

Lending margins being offered on some residential refinancing opportunities are encouragingly keen, specifically in the multifamily housing and student accommodation sectors. Some notable refinancings were completed in these sectors in the Irish market in Q1.

European Lenders: Activity & Interest Levels Noticeably Increasing

Across Europe, the general level of lender interest in new processes launched in Q1 2024 has been much higher than in the previous 12 months. Again, this is especially true for the living sector and for industrial & logistics and data centres.

Some lenders are pivoting away from regional and older office stock with significant CapEx requirements. City centre, prime assets with strong ESG credentials and best-in-class sponsorship continue to secure excellent pricing.

There is varying sentiment around the retail sector, with lender appetite geared in favour of retail parks and food- or convenience-led retail.

FIGURE 10: EURIBOR Swap Rates

EURIBOR 3-Month Swap Rate	End Q1 2024	Quarterly Change	Yearly Change
5 Year Term	2.55%	+25 bps	-34 bps

Source: Chatham Financial

FIGURE 11: Notable Irish Corporate Finance Transactions Q1 2024

Date	Lender	Investor	Deal Structure	Sector	Detail
Q1 2024	Bank of Ireland	Round Hill Capital (CPP Investments) & NBK Capital	Refinancing	Student Accommodation (PBSA)	Senior debt provision for the part refinancing of a student accommodation platform based across Dublin and Cork
Q1 2024	Starz Real Estate	Bartra	Refinancing	Residential (Co-Living)	€26m senior loan for the refinancing of the *Niche Student Living* co-living development of 204 studios in Dún Laoghaire, Co. Dublin

Source: CBRE Corporate Finance

Figure 12: Kilcarbery Square, Clondalkin, Dublin 22

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