

Savills Research – Q1 2022

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MARKET
IN
MINUTES
Savills Research

Ireland Investment Market

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Macro view • Investment flows • Sectoral analysis



€762m

worth of deals transacted



6.9%

annual HICP inflation rate



€36m

average industrial and logistics lot size



Mega transactions
on the rise

Macro view

As rising inflation presents challenges across the economy, Ireland compares favourably to its European neighbours on a relative basis.

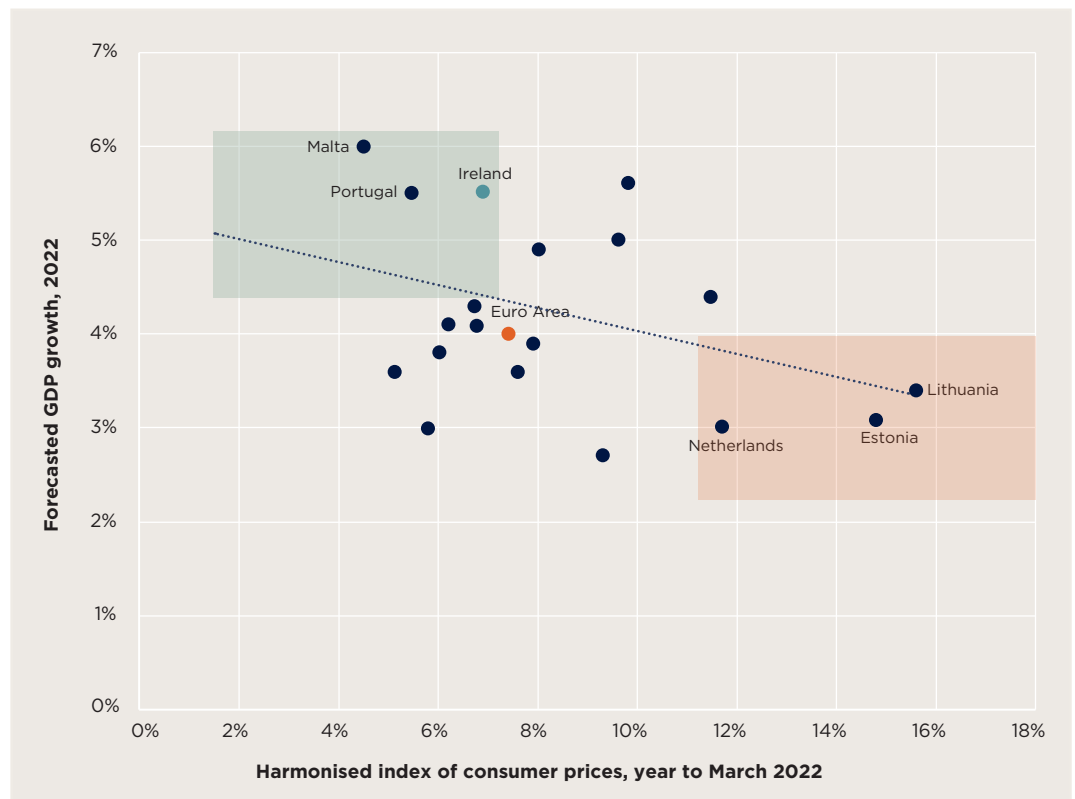
How unique is Ireland's inflation rate?

Rising inflation continues to be a significant headwind for real estate investors and the economy in general, running at 6.9% y/y in March¹. Ireland isn't alone in this regard, with disruption as a result of both the pandemic and the conflict in Ukraine driving inflation globally. With the IMF now forecasting inflation of 5.7% for advanced economies in 2022 - up from projection of 3.9% in January - corresponding GDP expectations have been reduced to 3.3% from 3.9. As a result they have revised down their forecasts for 2022

global GDP by 0.8 percentage points to 3.6% from its January forecast. Ireland's annual inflation (6.9%) and forecasted 2022 GDP growth of 5.5%, however, compare favourably to other European economies, as the Eurozone has seen average price rises of 7.4% y/y and forecast GDP growth of 4.0%. As illustrated in Figure 1, there is a negative relationship between inflation and economic growth, with countries that are experiencing lower inflation levels expected to see higher GDP growth across 2022.

“ Ireland's annual inflation of 6.9% and forecasted 2022 GDP growth of 5.5%, compare favourably to other European economies. ”

Figure 1: Forecasted GDP growth 2022 v inflation year to March 2022



Source: Eurostat, ECB

¹ ECB (March, 2022)

Breaking down inflation

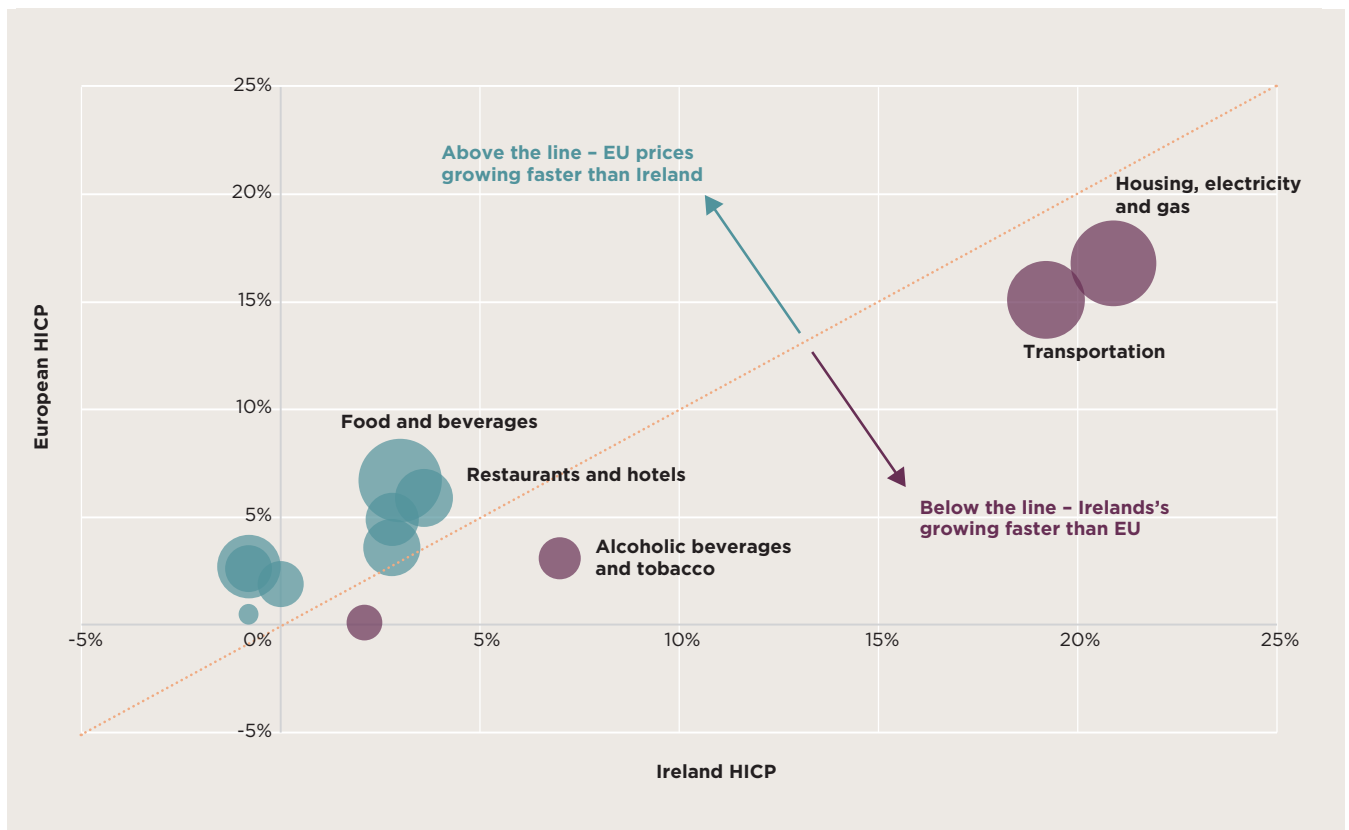
Much of the differences in inflation between countries can be attributed to the combined housing and energy sector, the food sector and domestic policies surrounding them. The housing and energy sector accounts for the largest weighting in the calculation of HICP at 17.9% of the basket, while food and beverages have the second-largest weighting at 16.6%. Ireland has been more relatively impacted by inflation in the housing and energy sector, which rose by 20.9% in the 12 months to March compared to 16.8% in the EU. Just 11.8% of Ireland's energy came from renewable sources in 2021, down from 13.3% in 2020². This low level explains much of the overall inflation in the country, as increasing energy prices impact a larger portion of the economy. In countries where renewables make up a greater percentage of their total energy mix, they have seen lower levels of energy inflation. For example in France, where nuclear energy makes up 70% of their total energy mix, overall inflation is running at the second-lowest levels in the EU behind Malta.

The growth in energy prices has also filtered through to other heavily dependent sectors, as seen by the growth of transportation costs of 15.1% in the EU and 19.2% in Ireland over the same period. Where Ireland has slower price growth compared to the EU average – and a major reason why the overall inflation rate is below that of the European average – is in the food and beverages sector. Ireland's prices in this sector have grown by 3.0% compared to the European average of 6.7%, as domestic beef and dairy industries shield Ireland.

3.0%

growth in Ireland's food and beverages prices compared to the EU average of 6.7%.

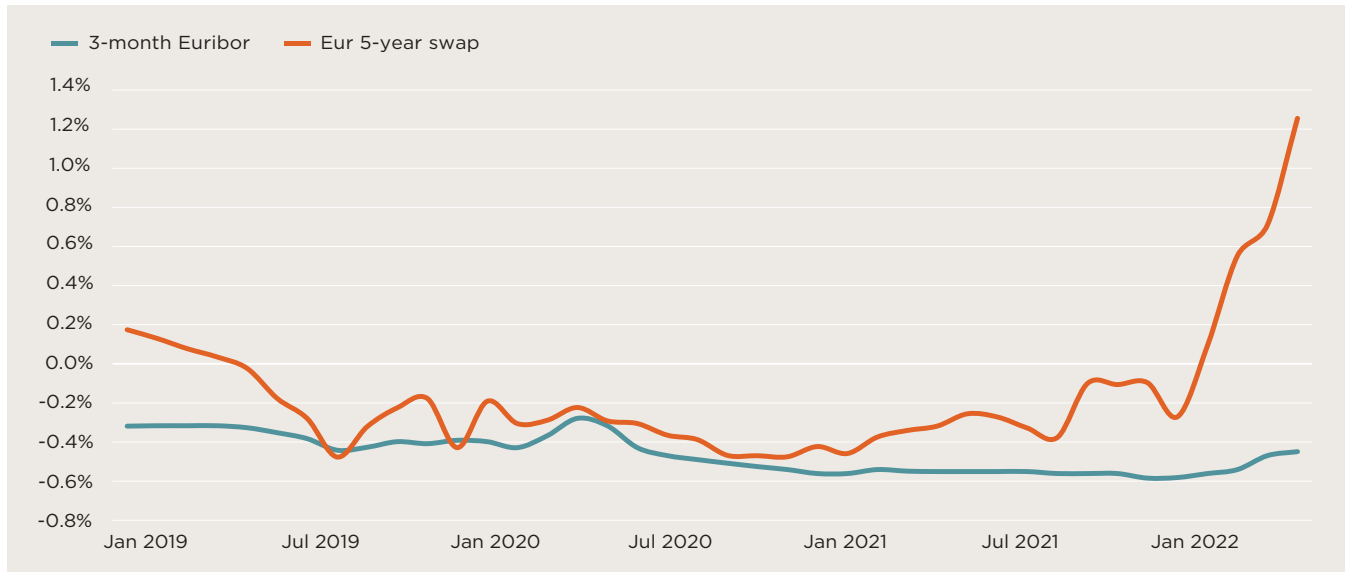
Figure 2: Inflation by sector, year to March (size of the bubble indicates category weighting in Ireland)



Source: Eurostat

👉 Ireland has been more relatively impacted by inflation in the housing and energy sector, which rose by 20.9% in the 12 months to March compared to 16.8% in the EU. 👉

² Sustainable Energy Authority Ireland (SEAI)

Figure 3: Euribor v European Swap Rate

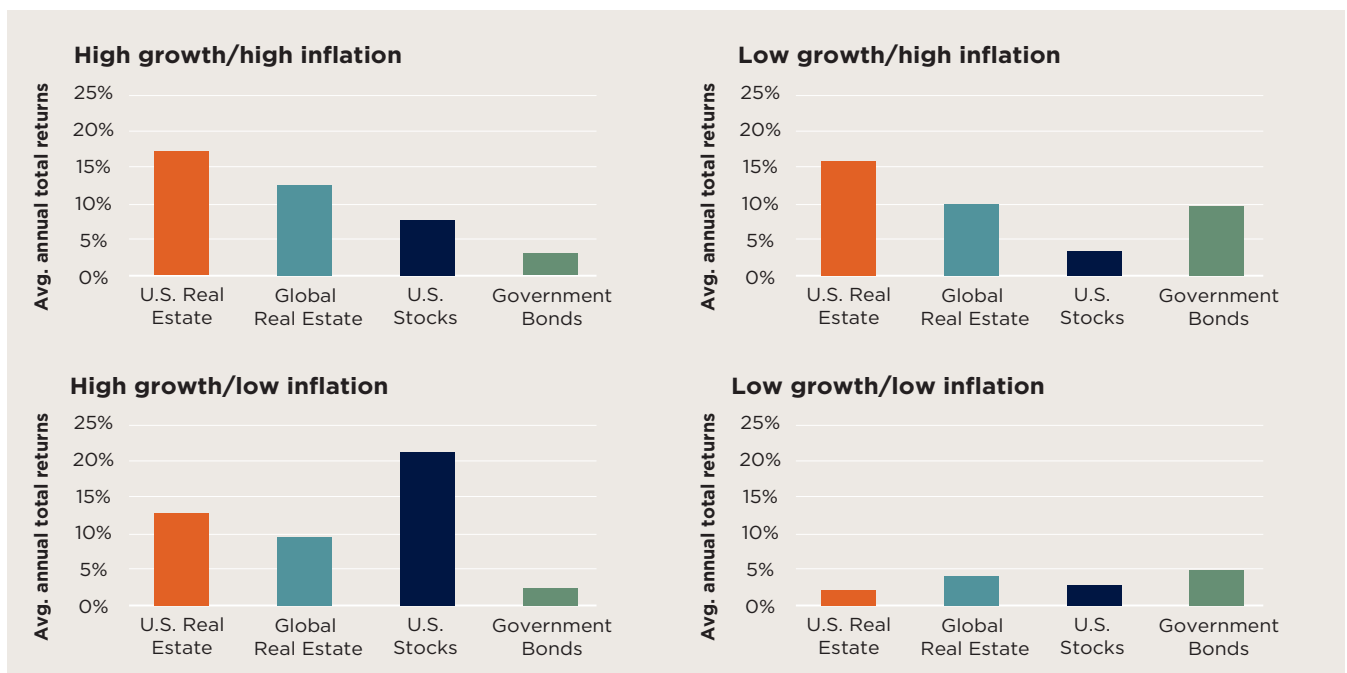
Source: Euribor, Investing.com

Inflation's impact on the CRE market

The commercial real estate (CRE) sector will not be immune to rising inflation. Development and financing costs are rising as monetary policymakers debate a more hawkish stance in an attempt to slow inflationary pressures. European nominal interest rates haven't increased yet and the interbank Euribor rate has remained stable, a key determinant in the cost of funds for real estate. The ECB, however, is stuck between tackling inflation and keeping the economy growing as the war in Ukraine continues, with Euro interest rates swap rates increasing rapidly. Increases in the cost of finance may

reduce transactional volumes and widen yields as investors look to offset rising debt costs by limiting purchase prices in an attempt to claw back returns. The internationalisation of Ireland's real estate market also brings into question how interest rate rises in the U.S., which have increased 75 bps since the start of the year, will affect funding for investors who raise capital financing in the U.S..

However, a positive for the CRE sector that may offset the negative financing environment, is the sector's perception as a strong hedge against inflation. In periods of high inflation, real estate assets offer

Figure 4: Total returns of asset classes in the U.S.

Source: BlackRock Investment Actions, Bloomberg, Barclays, NCREI, MSCI, S&P500

protection through income and capital growth as rents rise and replacement costs increase. Rental growth occurs typically in periods of demand-pull inflation as strong economic growth feeds through to occupational demand. In contrast, replacement costs increase in periods of cost-push inflation, inflating capital values.

The current inflationary environment appears to be chiefly associated with cost-push inflation, with the Building Cost Tender Price Index in Ireland up 13% in 2021 (SCSI). Notwithstanding, cost-push inflation has historically weighed heavily on economic

growth, slowing GDP and eventually feeding through to occupational demand.

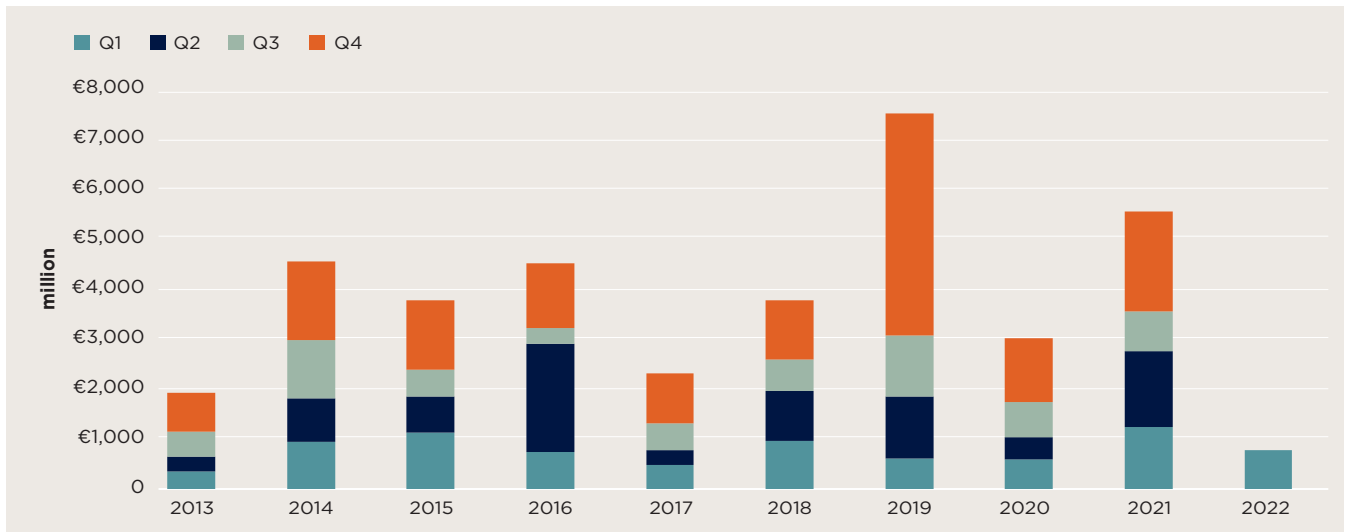
The combination of strong economic growth whilst costs are increasing may buoy markets for existing real estate across the medium-term as investors look for assets that have a strong inflationary hedge. In such environments, the total returns of real estate assets have typically outperformed other investment asset classes, as highlighted in U.S. markets in Figure 4.

“ In high inflationary environments, the total returns of real assets have typically outperformed other investment asset classes. ”



Investment flows

Figure 5: Investment volumes



Source: Savills Research

€761.5m was invested in the Irish property market in the first quarter of the year. Whilst this represents a fall of 38% on 2021's levels, it remains 9% higher than the ten-year Q1 average of €700m. The proposed takeover of Hibernia REIT by Brookfield Asset Management and Blackstone's reported advanced negotiations for the Salesforce campus further highlights the strength of investor sentiment. If both transact as expected this year, they will significantly bolster the year's transactional values.

There were 33 transactions in Q1, below the ten-year first quarter average of 46 transactions. Crucially, the average transaction value in Q1 of €23.1m was 31% higher than the ten-year Q1 average of €17.6m. This reflects a trend in the Irish investment market of fewer sales but significant jumps in the average transaction value. The movement toward larger lot sizes stems from a greater concentration of institutional capital in the marketplace, which demand investments of scale in order to deploy capital.

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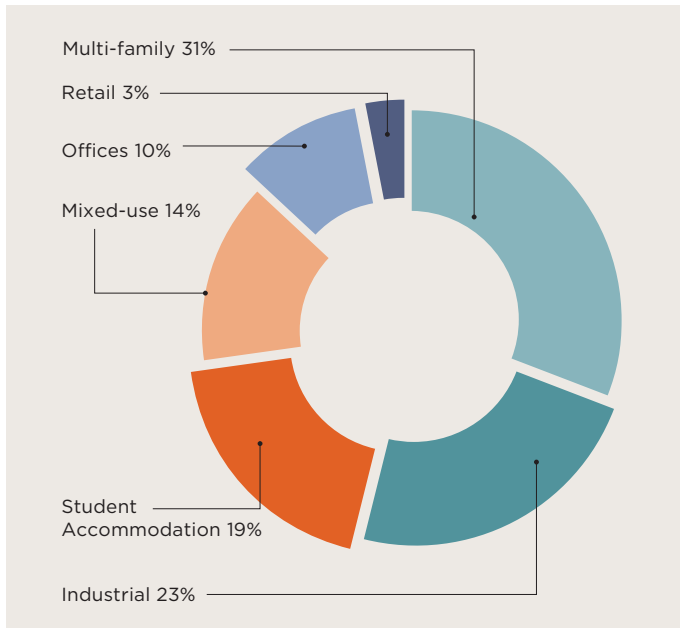


Investor nationality and type

U.S. investors were the largest buying cohort in Q1, contributing 33% of investment volumes. In a change to a recent trend where Irish investors have seen falling market share, Q1 saw 31% of investment volumes come from Irish investors, a large increase on the 17% market share seen across 2021. Q1 also saw Irish investors' average lot size increase to just under €15m, 46% higher than this cohort's ten-year

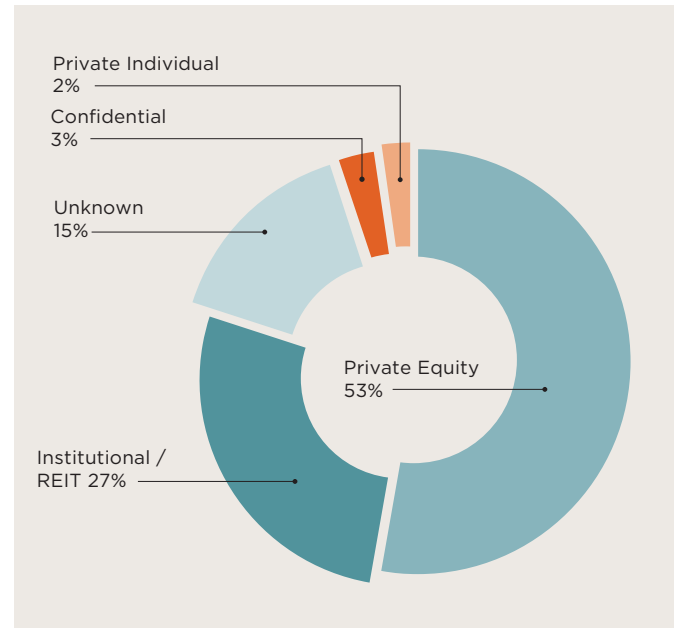
average of €10m, as Irish private equity firms started to purchase large lot-sized assets above €50m. Private equity (53%) and institutional capital (27%) were the largest buyer types in the market. Two large deals (one in the industrial sector and a student portfolio) saw the percentage of solely Dublin transactions fall from 82% in 2021 to 57% in Q1 2022.

Figure 6: Investment share by sector



Source: Savills Research

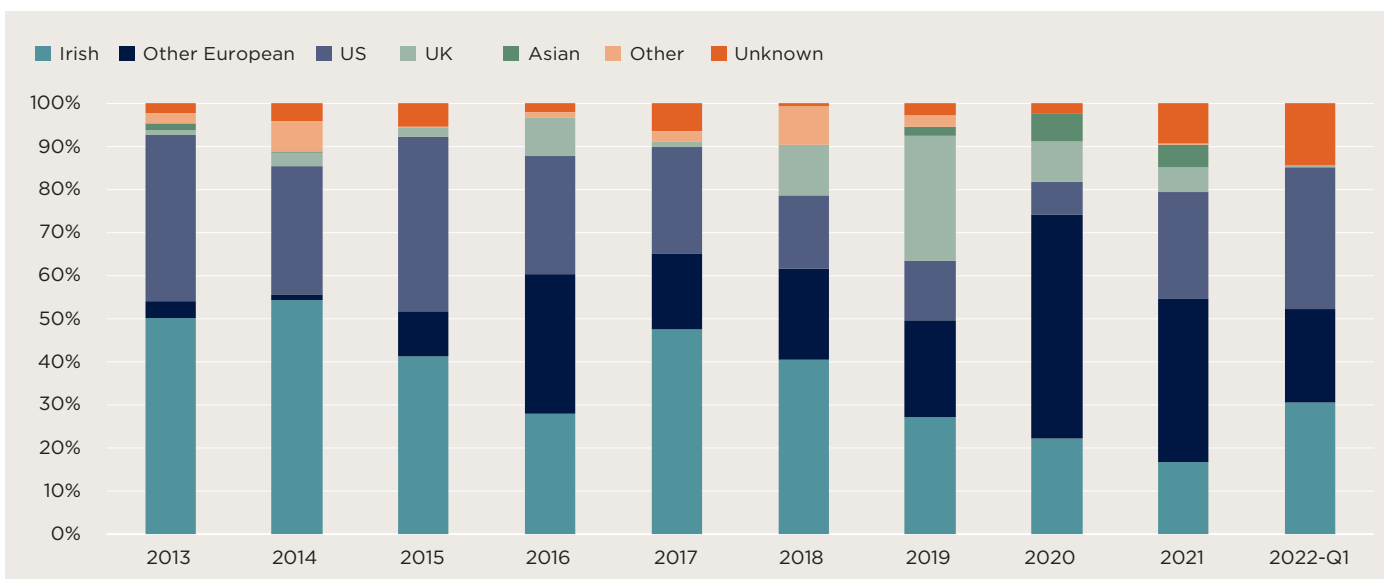
Figure 7: Investment turnover by buyer type



Source: Savills Research

💡 Q1 saw 31% of investment volumes come from Irish investors, a large increase on the 17% market share seen across 2021. 📈

Figure 8: Investment turnover by nationality



Source: Savills Research

Multi-family market

Multi-family assets continue to attract the largest investment share in the Irish market, accounting for 31% of investment volumes in Q1, totalling €232.9m. The top three multi-family transactions of the quarter were all private and confidential transactions. The average deal size in the first quarter of €25.9m was 5.5% below that of the 10-year average of €27.4m as fewer large transactions came to the market with just one transaction of €50m+ recorded. However, the nine multi-family deals transacted in the quarter was the second-highest Q1 on record, behind only Q1 2021 when 13 transactions took place.

Real I.S. completed their purchase of Block D Marina Village in Greystones for €19.0m this quarter, the fourth largest multi-family transaction of the quarter. This adds to their previous acquisition of blocks E-H in the scheme in Q1 2021. The seller in each case is Glenveagh Homes with the asset scheduled for completion in December 2023. The purchase will be placed in the Real I.S. open-ended BGV IX fund that targets core and core-plus investments.

The fund primarily focuses on the PRS, office and logistics market and aims to distribute 2.75-3.00% per annum. The asset is being used to diversify the investment fund and stabilise investor distribution by buying into the strength of the Irish economic recovery from the pandemic. MM Capital's transaction of Dunlin House in Dublin 3 was the 5th largest multi-family transaction of the quarter. The asset comprises 35 apartments within a single block of a larger development and traded for €13.3m.

Across the year, we expect transaction volumes in the multi-family sector to remain strong. 2022 is expected to see the strongest delivery of multi-family units since before the GFC. Forward purchase structures, which typically transact a few quarters before completion, are likely to translate these new units into greater transactional activity. However, growing risks in the form of rising construction and financing costs could limit new multi-family commencements and, in turn, transaction volumes in the coming years.

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Table 1: Top multi-family deals

Property	Vendor	Buyer	Price
Multi-family Asset	P&C	P&C	€85.0m
Hansfield, West Dublin, Dublin 15	P&C	P&C	€47.0m
Multi-family Asset	P&C	P&C	€37.0m
Marina Village, Greystones, Wicklow	Glenveagh	Real I.S.	€19.0m
Dunlin House, Clontarf, Dublin 3	Irish Developer	MM Capital	€13.3m



Industrial and Logistics market

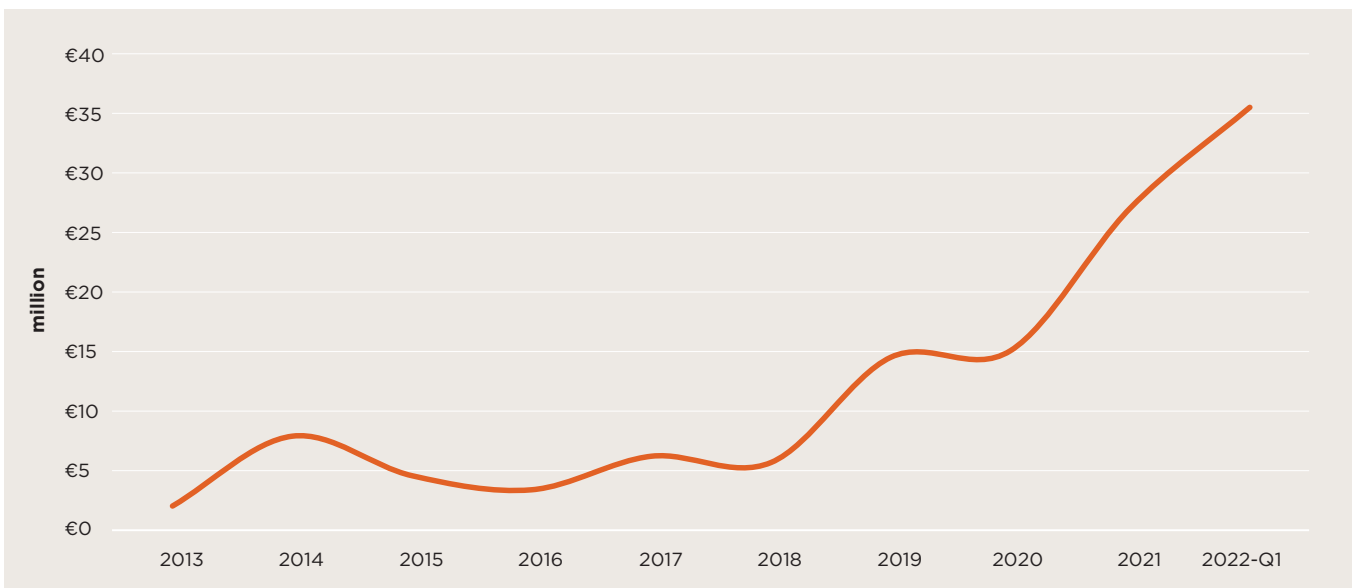


Primark Distribution Centre, Newbridge, Kildare

The industrial market saw €178.4m transact in the first quarter of 2022, a record total for Q1. Union Investment's forward funding of Primark's new distribution centre for €128.7m was the largest industrial transaction of the quarter. The transaction generated interest from multiple buyers and traded at a yield of 3.6%. Forward funding deals are becoming more common in the industrial and logistics marketplace where, like the multi-family sector, investors are using these structures to create their own

supply and guarantee stock in a market where standing stock is under-supplied and over-demanded. An off-market portfolio of 12 industrial units was the second-largest industrial and logistics transaction of the quarter. The fourth-largest transaction of the quarter was 2004 Orchard Avenue, City West. The modern light industrial warehouse benefits from a strong location in South-west Dublin and traded well despite a relatively short WAULT of 4.5 years.

Figure 9: Industrial investment average lot size



Source: Savills Research

Table 2: Top industrial and logistics deals

Property	Vendor	Buyer	Price
Primark Distribution Centre, Newbridge, Kildare	Barola	Union Investment	€128.7m
Industrial Portfolio, Greenogue, Dublin	Private Irish	P&C	€39.0m
Confidential	P&C	P&C	€5.3m
Block 2004 - Orchard Avenue, Citywest, Dublin 24	New Ireland	P&C	€4.3m
Lyon House, Glasnevin, Dublin 9	Private Irish	Private Irish	€1.2m

The industrial and logistics occupier market remains very tight, with the Q1 vacancy rate running at 1.1%. Occupier demand continues to grow on the back of solid expansion in the e-commerce space, which has filtered through to the investment market. Average lot sizes for industrial and logistics assets have rapidly evolved over the last three years. In the first quarter of 2022, the average transaction was €35.6m, up from the yearly average of €14.6m in 2019. This growth highlights the movement of industrial and logistics assets to be a key component of institutional portfolios and now has an average lot size that meets these buyers' investment characteristics, in

€35.6m

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turn pushing yields tighter. The shortage of new supply coming to the market continues to be a problem for the sector and, similarly to the multi-family market, could provide a headwind for transaction volumes this year.

Office market

Table 3: Top office deals

Property	Vendor	Buyer	Price
The Forum, IFSC, Dublin 1	Hibernia REIT	Spear Street Capital	€30.8m
Fleming Court, Dublin 4	Aberdeen Standard	Sofidy	€17.8m
Palmerstown House, Dublin 2	State Street Global Advisors	Private Irish Individual	€16.8m
32 South Mall, Cork	P&C	P&C	€13.5m

The office investment market saw a quiet opening to the year with just €79.8m worth of assets transacting. The sector has seen its share of overall investment eroded in the first quarter, falling to just 10%, as the strong growth in the multi-family and industrial sectors and the lack of prime stock coming to the market has constrained market share. However, sector fundamentals appear strong for the underlying tenant base. Confidence in the sector should grow in response to this strong performance across the year with the full return to the office. There are a number of prime office assets that are currently on the market, with a combined value of €322m.

The largest office deal of the quarter was Hibernia REIT's sale of the Forum in the IFSC. The building comprises 47,000 sq ft of office space and was purchased by Spear Street Capital for €30.8m. Spear Street Capital, a U.S. private equity firm with existing exposure to Dublin's office market through investments in the

Cherrywood development in South Dublin and the Belfield office campus in Dublin 4. Spear Street Capital typically acquire assets that have reached an inflection point, where intensive leasing efforts or capital expenditure generate value. The Forum's vacant possession provides strong opportunistic characteristics in this regard for the new investor.

Fleming Court in Dublin 4 transacted for €17.8m and was the second-largest office deal of the quarter. French investor Sofidy made the modern Dublin 4 asset its third significant investment in the Irish office market since Q3 2021. While the asset had been generating €883,000 annual rent for outgoing owners Aberdeen Standard, there is strong reversionary potential with a fully let office expected to generate more than €1.4m annually. State Street Global Advisors' sale of Palmerstown House in Dublin 2 for €16.8m to a private Irish individual was the third-largest transaction of the quarter.

Other significant transactions

Table 4: Other top deals

Property	Vendor	Buyer	Price	Sector
Project Ruby Student Portfolio	Bain Capital	Ares	€145.0m+	Student Accommodation
Point Square, Dublin 1	Nama appointed receivers	P&C	€85.0m	Mixed-use
Fermoy Motorway Service Area, Cork	Private Irish	Private Irish	€10.9m	Retail
Eyre Square, Galway	Marathon	P&C	€9.6m	Retail
Otter House, Naas Road, Dublin	Private Irish	Private Irish	€6.0m	Mixed-use

Source: Savills Research

The largest transaction of the quarter was the sale of a portfolio of three student accommodation assets for in excess of €145.0m, two of which are located in Dublin and the other in Galway. U.S. investment fund Bain Capital sold the portfolio to Ares Real Estate Group for a sub 5% yield. The portfolio was due for sale before the outbreak of the pandemic, which hit occupancy. With the return of in-person learning and international students, a decision was made to re-market the asset and it is understood that the student blocks are now effectively fully occupied.

Point Square, the mixed-use asset in the North Docklands, was the second-largest 'Other' transaction and third-largest overall transaction of the quarter. The asset comprises 103,000 sq ft of office space and 242,000 sq ft of retail, with the Deka owned Gibson Hotel forming part of the broader scheme. The annual rent roll of €4.9m is split 80% in favour of the office assets. The transaction provides a strong opportunity to implement asset management strategies to grow the retail rent roll in a location undergoing

significant commercial and residential development. The largest dedicated retail asset to trade in the quarter was Fermoy's Motorway Service Area, which sold for €10.9m. The asset benefits from long leases to Ard Services and McDonald's and has an annual passing rent of €765,000 per year and traded for a yield of 6.4% between two private Irish entities.

€145m

The largest transaction of the quarter was the sale of a portfolio of three student accommodation assets for €145m, two of which are located in Dublin with the other in Galway.



Table 5: Yields by sector
(based on transactions up to Q1-2022)

Sector	Q1	Annual Change
Offices - Prime CBD Yields	4.00%	0.00% ↔
Offices - Secondary CBD Yields	5.00%	0.00% ↔
Industrial and Logistics - Prime Yield	4.00%	-0.25% ▼
Industrial and Logistics - Secondary Yield	4.50%	-1.50% ▼
Shopping Centres - Prime Yields	5.75%	0.00% ↔
Shopping Centres - Secondary Yields	9.25%	0.00% ↔
Warehouse Retail - Prime Yields	5.00%	0.00% ↔
Warehouse Retail - Secondary Yields	8.50%	-1.00% ▼
High Street - Prime Yields	4.50%	0.25% ▲
High Street - Secondary Yields	7.00%	0.00% ↔
PRS - Prime Yields	3.60%	0.00% ↔
PRS - Secondary Yields	4.50%	-0.50% ▼

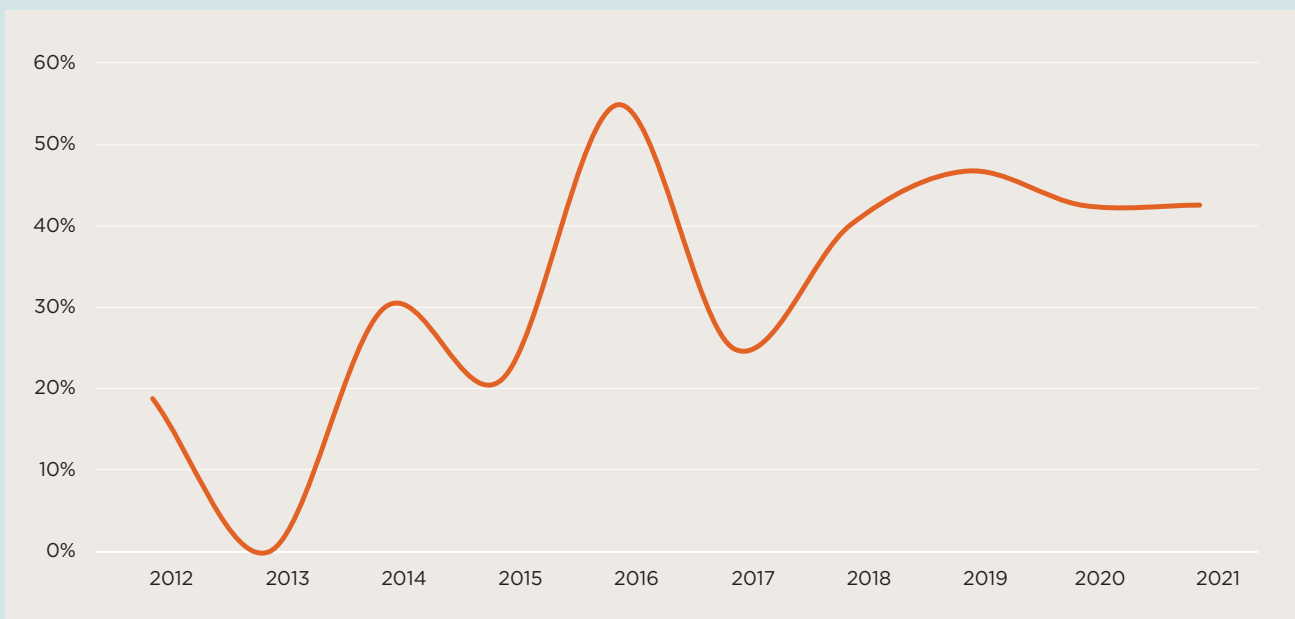
Source: Savills Research

Case Study: The rise of mega deals in Dublin

The interest in mega-transactions in Dublin has recently been fuelled by Brookfield Asset Management's proposed acquisition of Hibernia REIT and Blackstone reportedly being in advanced negotiations to acquire the Salesforce campus. To better understand how this segment of the market has grown, we have looked at all transactions over €100m, removing portfolio transactions, to focus on individual assets. We can see in Figure 10 that there has been steady growth in the importance of these mega-transactions to the overall market. In 2012 mega-transactions accounted for 19% of total investment levels, but this has exceeded 40% every

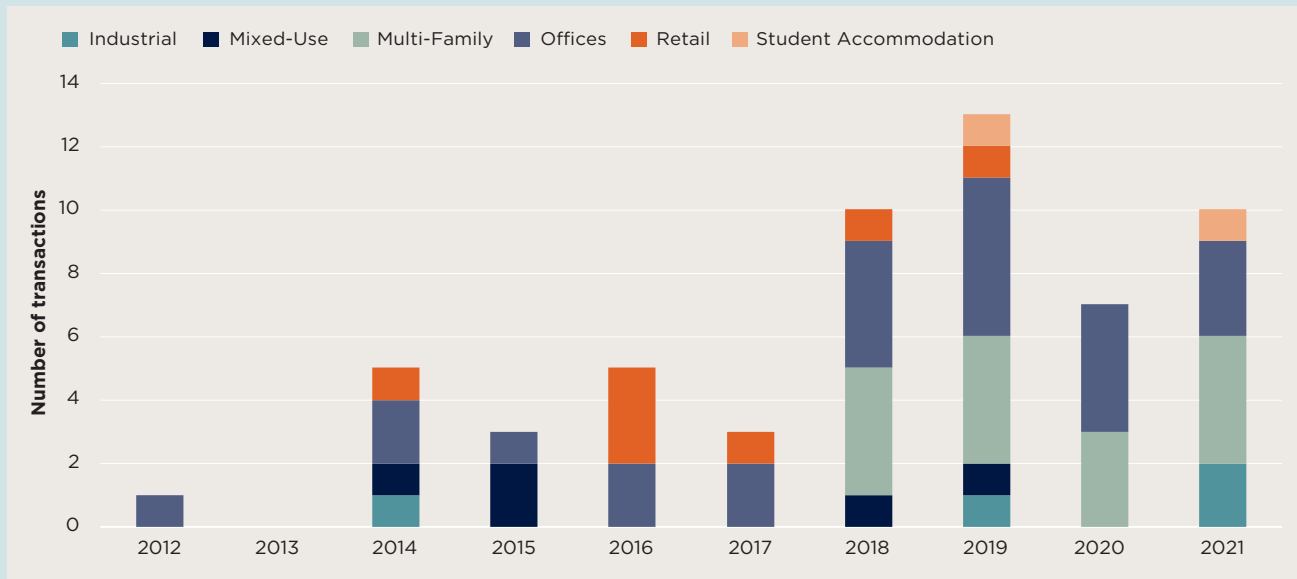
year since 2018. 2016 provided a large jump in the series and showed the highest mega-transaction market share at 55% of total volumes, as both Liffey Valley Shopping Centre and Blanchardstown Town Centre traded in the year for a combined value of €1.6bn. As we look at the number of transactions by sector type (Figure 11) over this time period, we can see there has been a reduction in the number of retail transactions since these landmark sales in 2016. However, the emergence of the multi-family sector in 2018 and the growth of office lot sizes has pushed the total number of mega-transactions completed in the past four years.

Figure 10: Mega-transactions (€100m+) share of investment market



Source: Savills Research

“ There has been steady growth in the importance of these mega-transactions to the overall market. ”

Figure 11: Number of transactions over €100m by sector

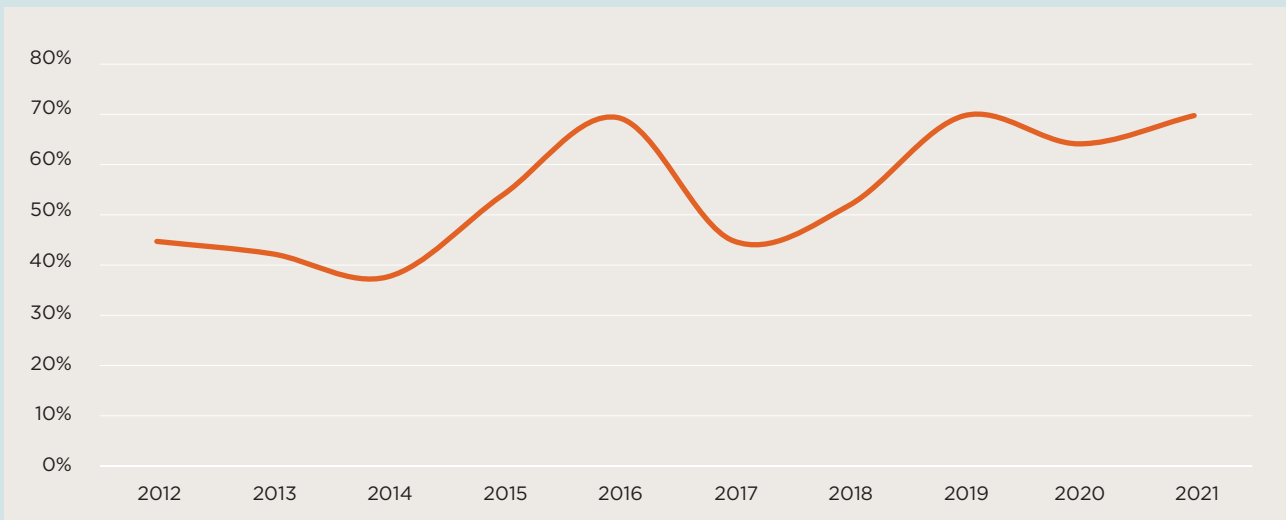
Source: Savills Research

Tech covenants the key driver

With U.S. private equity funds raising record levels of capital (\$300 billion – Prequin) to deploy globally in 2022, some of this capital will inevitably be directed towards European and Irish real estate. Since the GFC, there has been a growing focus from international capital on the Irish market. Specifically, international institutional and private equity funds have increased their market share from 44% in 2012 to 69% in 2021. These funds are responsible for the vast majority of mega-sized transactions (92%). These funds need the scale

that mega-transactions provide and move the needle in their large portfolios. Dublin's attractiveness as a market for these large pools of capital has increased over time, as the city has become home to a multitude of tech companies whose large workforces can fill the office space and residential accommodation that generate these mega-transactions. These companies are among the biggest in the global economy such that the overall rental costs of these offices form a small percentage of their global revenues.

“These funds need the scale that mega-transactions provide and move the needle in their large portfolios.”

Figure 12: International institutional and private equity market of investment market

Source: Savills Research

What does it mean for the market?

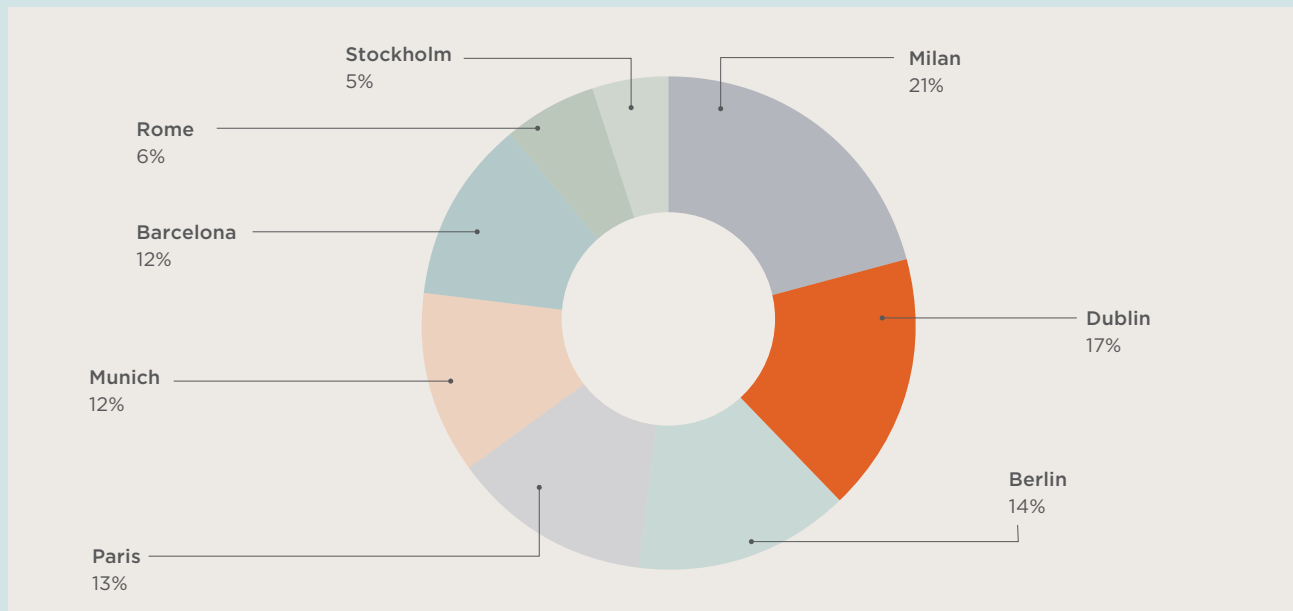
The growth in big-ticket purchases in Dublin's real estate market signals that the risk associated with assets at this level has started to change. Until recently, purchasers of mega-sized assets built illiquidity discounts into pricing as the number of buyers willing to purchase at this elevated level were few and far between. Therefore, the ability to exit assets of scale was uncertain. One Spencer Dock, which was Ireland's largest single office investment when it traded in 2016, highlighted this illiquidity. The asset was sold for €242.0m to Middle Eastern investors at a NIY of 4.70% - 45bps higher than the prevailing prime yield of the time at 4.25%. As the number of transactions and the prices paid in this segment of the market has increased, so too has the number of participants in the market. This in turn has brought greater liquidity. A statement office asset of similar scale and prestige in 2022 wouldn't trade at the same discount to the prime market yield as One Spencer Dock did in 2016, as the number of willing buyers would be sizeable.

Blackstone's interest in the new Salesforce Campus at Spencer Place in the North Docklands shows this greater

appetite for larger lot sizes prevailing in the current market. The asset, which was initially granted planning permission in 2017, was separated into different blocks and leases seemingly to provide lot sizes in tune with the Irish market. However, Blackstone's interest in the entirety of the office campus in Spencer Place, and similarly their recent €400m purchase of part of Meta's new HQ in Ballsbridge from The Serpentine Consortium, highlights the lot sizes these funds are now comfortable purchasing at. The latter deal transacted in Q4 2021 for a NIY of 4.0% and, in-line with the then prime benchmark yields. In other words, there was no discount for the large lot size. Interestingly Blackstone has already built a large presence in Dublin's office sector, with the city accounting for 17% of Blackstone Property Partners Europe Holdings S.à r.l. office portfolio, second only to Milan. Buying at this scale provides operational benefits to purchasers, as there isn't the same need to build-out an operating platform as there is with a portfolio of smaller purchases.

💡 Greater market participants at this level helps the market by providing more exit options for developers and their funders 💡

Figure 13: Blackstone Property Partners Europe Holdings S.à r.l., office portfolio, (% of GAV)



Source: : Blackstone BPEEH

The greater number of players and liquidity in this market segment has brought further stability by opening up the market to buyers that require large lot sizes. This has brought a further improvement in market efficiency and

transparency, thereby reducing risk and improving liquidity in a positive feedback loop. But more crucially, having greater market participants at this level helps the market by providing more exit options for developers and their funders.



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