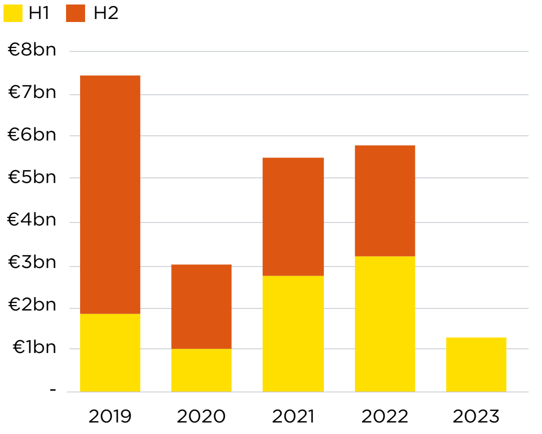
Savills Research – Q2 2023

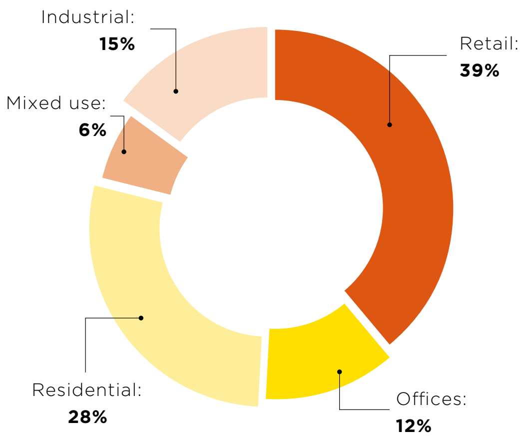
Ireland Investment Market

Figure 1: Investment volumes



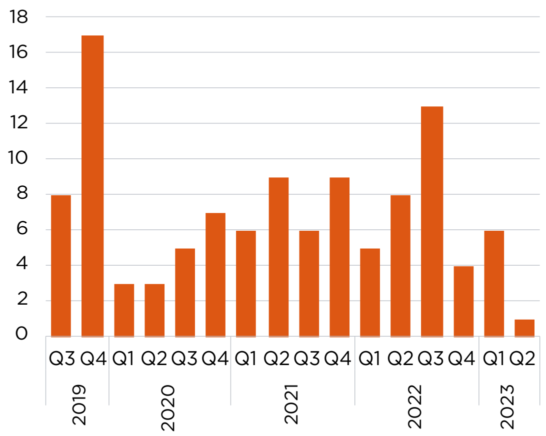
Source: Savills Research

Figure 2: Market share by sector



Source: Savills Research

Figure 3: Deals over €50 million



Source: Savills Research

Q2 Ireland investment market

Yields continue their outward movement as rate hikes bite.

€333.4m worth of investment transactions took place in Q2, representing a fall of 73% compared to Q2 last year even when Brookfield's €1.1bn acquisition of Hibernia REIT is netted out. While investment volumes were down across lot sizes, the drop was largest at the upper end with just one transaction over €50.0m transacting, compared to a five-year average of seven. A confidential residential deal of €55.0m was the largest deal of the quarter, which, along with two other residential deals, brought market share to 28%. Offices had a 12% market share, largely driven by the disposition of 87-88 Harcourt Street, in what was the second largest deal of the quarter, by receiver EY to French Fund Remake for €34.0m.

RETAIL LEADS THE WAY

Retail assets contributed the largest market share by sector, accounting for 39% of activity, representing its highest market share since Q4 2016. The largest deal in this regard was the portfolio sale of City East Retail Park in Limerick City and Blackwater Retail Park in Navan for a combined sum of €45.9m. US fund Realty Income were the acquirer, a significant new entrant given their status as an S&P 500 company with a market cap of €40bn that will invest nationally rather than just Dublin. The next largest transaction was the sale of B&Q, Liffey Valley for €26.6m to another new entrant, Inter Gestion REIM. There is now an extremely active pool of French SCPI funds who have diverse lot size requirements, ranging from €1m up to potentially €100m. Despite challenges across European capital markets, Ireland is faring relatively better than other jurisdictions in terms of still attracting new entrants. The next largest deal was the sale of a Woodies and a Tesco in Newbridge by a private Irish vendor to an undisclosed German buyer for €18.3m. Aviva were also the disposers in the sale of Carlow Retail Park for €15.4m.

Table 1: Five selected transactions

Property	Location	Vendor	Buyer	Price	Approx. NIY
City East and Blackwater Retail Parks	Limerick and Meath	Eden Capital	Realty Income	€45.9m	8.5%
87-88 Harcourt Street	Dublin 2	Receiver (EY)	Remake	€34.0m	6.6%
B&Q, Liffey Valley	Dublin 22	Aviva/ IPUT	Inter Gestion REIM	€26.6m	6.9%
Woodies and Tesco, Newbridge	Kildare	Private Irish	German	€18.3m	7.2%
Carlow Retail Park	Carlow	Aviva	Melcorpo	€15.4m	8.0%

Source: Savills Research

YIELDS

Outward pressure on benchmark investment yields continued in Q2. On the retail side, both prime shopping centre and prime warehousing retail yields moved out by 25 bps while prime high street yields moved out by 35 bps. Secondary retail yields remained the same in Q2, owing to the fact that yields have already moved out by between 75 bps and 125 bps on a year-on-year basis. Although prime office yields held steady at 4.5%, secondary assets moved out a further 25 bps. The latter has now out moved by 175 bps on an annual basis, marking the largest change of any sector. Both prime industrial and secondary yields were unchanged in Q2, but respectively moved out by 50 bps and 150 bps on an annual basis. Secondary PRS yields have also moved out by 150 bps in the past year following a further 25 bps quarterly change, while prime PRS yields held steady in Q2 to give a 65 bps increase over the last 12 months.

Table 2: Yields

Sector	Q2	Q/Q	Y/Y
Offices - Prime CBD	4.50%	-	+50 bps
Offices - Secondary CBD	6.75%	+25 bps	+175 bps
Industrial - Prime	4.50%	-	+50 bps
Industrial - Secondary	6.00%	-	+150 bps
PRS - Prime	4.25%	-	+65 bps
PRS - Secondary	6.00%	+25 bps	+150 bps
Shopping Centres - Prime	6.50%	+25 bps	+75 bps
Shopping Centres - Secondary	10.00%	-	+75 bps
Warehouse Retail - Prime	6.00%	+25 bps	+100 bps
Warehouse Retail - Secondary	9.75%	-	+125 bps
High Street - Prime (Grafton)	5.25%	+35 bps	+75 bps
High Street - Secondary	7.75%	-	+75 bps

Source: Savills Research

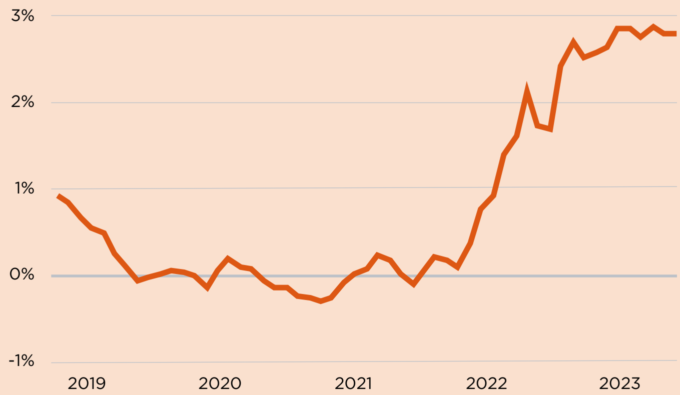
Macro View

Property yields will continue to move outward in H2, as property catches up to the altered capital markets context. Specifically, increases to the risk-free rate largely took place last year and have been relatively stable since then. For example, Ireland's ten-year bond moved from 0.2% to 2.8% between January and October 2022, a level it remains at. At a current prime yield of 4.5% for Dublin offices, the risk premium spread is only 170 bps, or less than half of the 360 bps pre-2022 five-year average. While QE may have artificially inflated the spread during the prior five years, it nevertheless indicates that yields have further to move out to restore order to risk premiums.

YIELD CURVE INVERSION

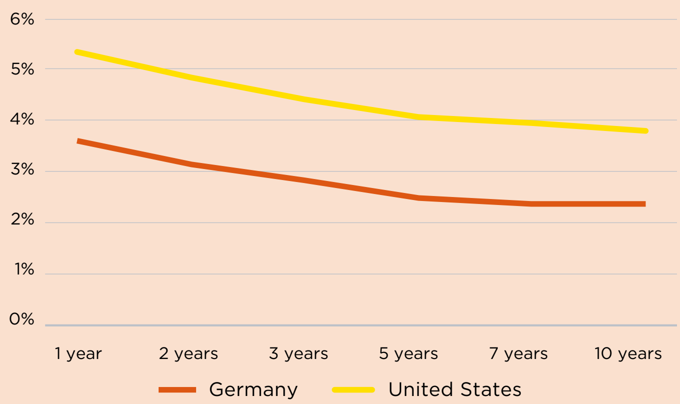
H1 saw a significant deepening of yield curve inversion in government bonds. Taking Germany, their yield curve is currently the most inverted since 1992. Two-year debt now yields 3.2%, which is up approx. 60 bps compared to six month ago. Meanwhile, ten year debt is now yielding 2.4%, which is up only approx. 20 bps compared to six months ago. The deepening of the inversion reflects the still upward near-term pressure on interest rates due to stickier than expected inflation, while the lower longer term rate indicates that interest rate cuts are nevertheless on the horizon in the medium-term. Cuts aren't expected until next year, with the United States going first in H1 and Europe thereafter in late H2.

Figure 4: 10-year Irish government bond yield



Source: Eurostat, Savills Research

Figure 5: Yield curve inversion



Source: worldgovernmentbonds.com, Savills Research

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