Savills Research – Q1 2024

Ireland Investment Market

Q1 Ireland investment market

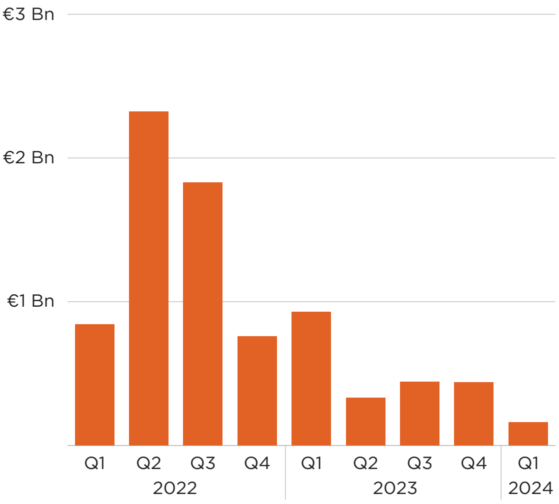
Deal activity hits a post GFC low.

Q1 saw €161.8 million worth of deals transact, representing the lowest value of deals recorded since the aftermath of the Global Financial Crisis (Q3 2012, €116.1 million). In terms of the number of deals, 20 took place which was the same as Q2 2020 following the onset of the pandemic. French SCPI continue to be the most active buyers, helping drive the market share of Mainland Europe to 56%, followed by Ireland at 39%. Looking at sector breakdown, retail accounted for the highest market share at 43%, followed by PRS at 27%, offices at 18%, mixed-use at 7% with industrial and logistics at 5%.

DEAL ANALYSIS

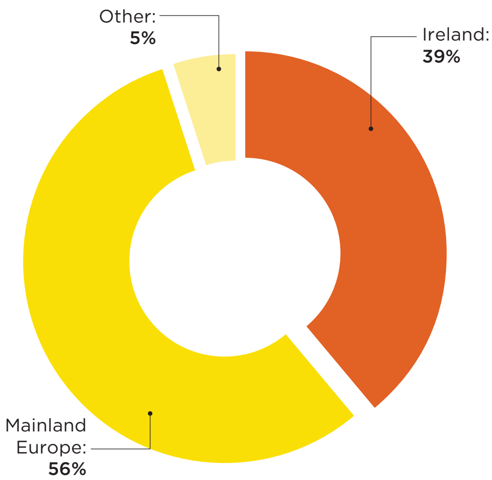
The sale of Shackelton Park, Lucan, Co. Dublin for €42.0 million was the largest deal of the quarter, as Angelo Gordon and their JV partner Carysfort Capital sold to KGAL at a net initial yield of 4.9%. It is noteworthy that a PRS deal was the largest of the quarter given the headwinds faced by the sector in the last 12 months. Helping facilitate the transaction was the sub-€50 million lot size of the sale, as there is currently little appetite for larger lot sized transactions. This was manufactured by the vendor, who broke out the portfolio into a number of smaller lot sizes that are more readily digestible by the market. The second largest deal was the sale of Gulliver's Retail Park for €29.5 million (NIY 7.6%) by Cosgrave Group to Minaun Capital, an investment company run by Stephen McCarthy. The third largest deal was a regional retail park, namely Kilkenny Retail Park, which was sold by Aviva to Iroko Zen for €25.0 million (NIY 8.2%). The fourth largest deal was the sale of 21-24 Capel Street by the ESB Pension Fund to French Fund Inter Gestion REIM for €16.0 million (NIY 7.2%). Finally, the fifth largest deal was the sale of seven and eight Airways Industrial Estate for €7.5 million (NIY 5.6%) by Slate Asset Management to Arrow Capital.

Figure 1: Investment volumes



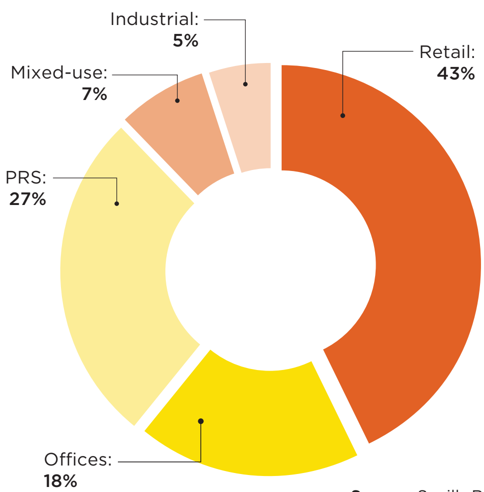
Source: Savills Research

Figure 2: Market share by buyer geography



Source: Savills Research

Figure 3: Market share by sector



Source: Savills Research

Table 1: Top five deals in Q1

Property	Sector	Vendor	Buyer	Price	NIY
Shackleton Park, Lucan, Co. Dublin	PRS	Angelo Gordon & Carysoft Capital	KGAL	€42.0m	4.9%
Gullivers Retail Park	Retail	Cosgrave Group	Minaun	€29.5m	7.6%
Kilkenny Retail Park	Retail	Aviva	Iroko Zen	€25.0m	8.2%
21-24 Capel Street	Offices	ESB Pension Fund	Inter Gestion REIM	€16.0m	7.2%
7 and 8 Airways Industrial Estate	Industrial & Logistics	Slate Asset Management	Arrow Capital	€7.5m	5.6%

Source: Savills Research

YIELDS

Yields showed some signs of stabilisation in Q1, being the first quarter that did not see a broad yield drift across most sectors since Q2 2022. Secondary offices did continue to shift outwards, expanding by another 50 bps to 8.00%, giving a cumulative yield adjustment of 300 bps this cycle. Elsewhere, prime shopping centre yields also moved out by 50 bps, giving a yield of 7.50%. Lastly, secondary high street retail yields moved out by 25 bps to 8.50%. It is worth noting of course that many of the yields quoted in Table 2 provide best estimates given the lack of direct market evidence, as illustrated by this quarter's low investment volumes. It is anticipated that market evidence will improve as the year progresses, with a couple of high-profile shopping centres potentially trading, as well as a number of distressed asset sales coming to the market.

Table 2: Yields by sector

Sector	Q1 2024	Q/Q	Y/Y
Offices - Prime CBD	5.00%	-	50 bps
Offices - Secondary CBD	8.00%	50 bps	150 bps
Logistics - Prime	5.00%	-	50 bps
Logistics - Secondary	6.50%	-	50 bps
Shopping Centres - Prime	7.50%	50 bps	125 bps
Shopping Centres - Secondary	10.50%	-	50 bps
Warehouse Retail - Prime	6.25%	-	50 bps
Warehouse Retail - Secondary	9.75%	-	-
High Street (Grafton) - Prime	5.50%	-	60 bps
High Street - Secondary	8.50%	25 bps	75 bps
PRS - Prime	4.75%	-	50 bps
PRS - Secondary	6.50%	-	75 bps

Source: Savills Research

Macro view

The European Central Bank (ECB) looks set to trim interest rates from June, marking a divergence from the US Federal Reserve which is wrestling with stubborn inflation that is muddying its interest rate outlook. Euro area interest rates are expected to undergo three to four 25 bps cuts this year, reflecting the fact that inflation fell to 2.4% at the end of April, down from the 6.9% witnessed the previous year. Meanwhile, in the United States, inflation at the end of Q1 was 3.5%. While this was down from the 5.0% recorded at end of Q1 2023, annual inflation has increased in the last two months. As a result, the Fed is only expected to make one to two cuts this year, a substantial revision downwards from the six anticipated at the start of the year. Slower progress in tackling inflation in the US nevertheless complicates the ECB's position as lower interest rates weaken the euro relative to the dollar. This, combined with stronger inflation in the US, could create imported inflation that would renew price pressures in Europe. While many are focused on the upcoming rate cuts in Europe, derivative market pricing suggests that further subsequent rate cuts will be moderate and settle at a level of over 350 bps compared to a few years ago, suggesting that an extend and pretend strategy for distressed assets will not work out favourably. This market pricing is also reflected in the Irish ten-year bond yield once again hovering close to the 3.0% mark (up from 2.3% at the start of the year), and the five-year Euribor swap rate remaining stubbornly high at 2.8%.

Figure 4: Currency impacts, USD to EUR

Figure 5: Ireland 10-year bond yield

Source: investing.com

Outlook

Despite the slow start to the year as measured by Q1 investment volumes, we are starting to see a positive change in investor sentiment. While the Q1 turnover was the lowest recorded for nearly 12 years, the quarter was noteworthy due to the number of new launches coming to market which will transact in Q2 and Q3. The reaction amongst active investors to prime opportunities – of which there have been few over the past couple of years - has been positive. In some cases, this has led to a return of competitive bidding over multiple rounds on processes that are live. While not reflective of all parts of the market, it is encouraging to see a return of some core money.

Another noticeable trend so far in 2024 is the number of high-profile receivership processes that are being put in place across the market, primarily relating to office assets that have become challenged. Pricing of secondary stock and suburban offices remains among the most difficult in the marketplace and yields continue to trend weaker. In contrast, we are seeing yields stabilise for best-in-class product with a flight to quality approach evident from many investors.

Interestingly the four highest value receiverships will likely have a combined ask in excess of €400 million, with many of these assets having previously been on the market over the last 24 months seeking considerably higher pricing. Now on offer with significant discounts and being sold through market run processes, we expect that there will be strong interest from opportunistic capital which should set a floor for pricing.

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