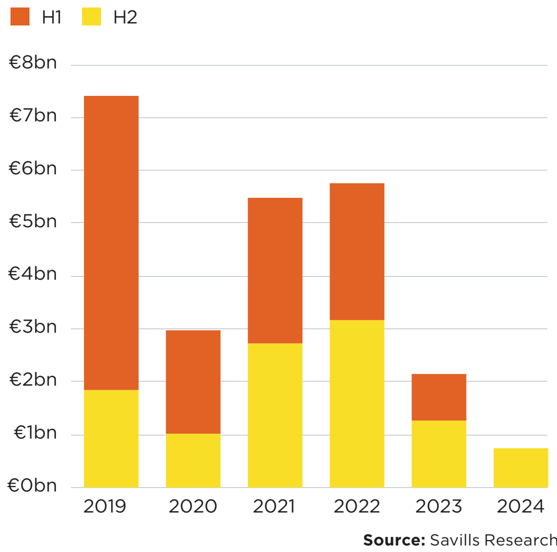
Savills Research – Q2 2024

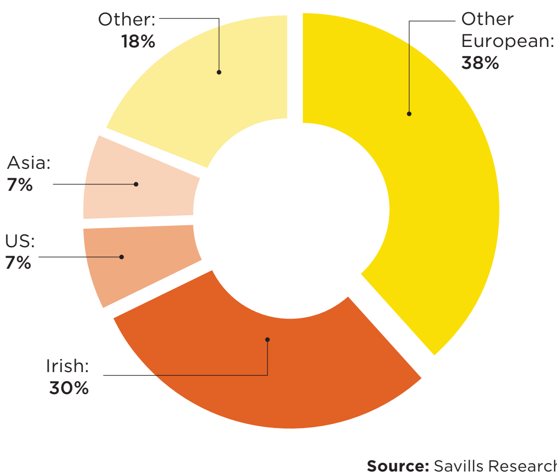
Ireland Investment Market

Figure 1: Investment volumes



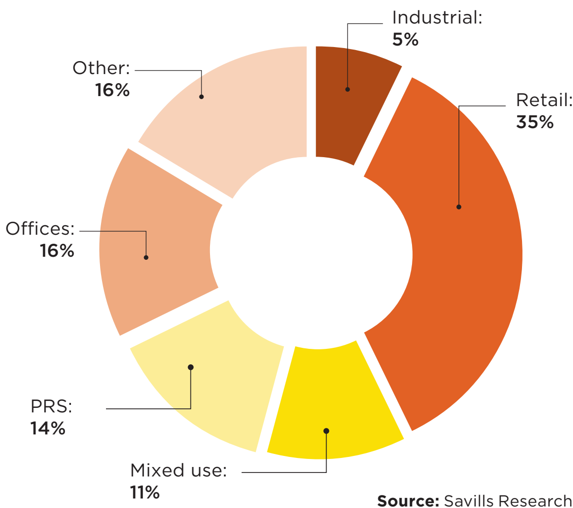
Source: Savills Research

Figure 2: Market share by buyer geography



Source: Savills Research

Figure 3: Market share by sector



Source: Savills Research

Q2 Ireland investment market

Retail assets lead the way with attractive returns for investors.

€574 million worth of deals transacted in Q2, the highest quarter since Q1 2023. While this represented a remarkable 72% increase on the same period last year, turnover for the first half of the year finished 42% lower at €736 million owing to the weak Q1 of this year. While activity for H1 is well below the €1.9 billion 10-year average, the pick-up in deal flow in Q2, coupled with the number of new market entrants who deployed capital in Q2, demonstrates positive sentiment with the general consensus being that the market bottomed out in Q1.

DEAL ANALYSIS

A private off-market deal for PRS units in North Dublin comprised the largest deal of the quarter, trading for €70.0 million. After a lack of significant trades in the living sector for most of 2023, this is now the second quarter in a row where the top deal has been a PRS deal. Following this, Healthcare Activios completed the sale-and-leaseback of a nursing home portfolio to French firm emeis (formerly Orpea) for €56.7 million. The portfolio comprised 322 beds across assets in Portmarnock, Portlaoise and Kilkenny. emeis Ireland is the largest private nursing home group in Ireland with over 2,000 beds across the country. Meanwhile, the deal represented the first investment outside Spain and Portugal for Healthcare Activios which announced a new €650 million pan-European fund last month.

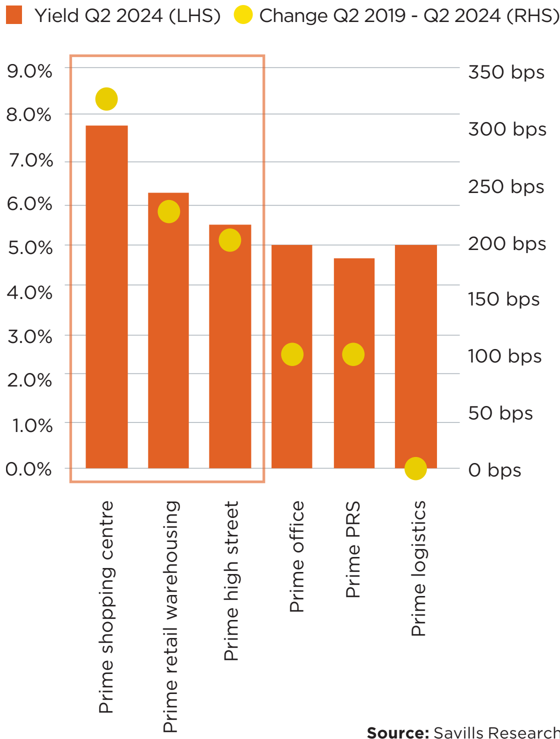
French investors continued showing interest in Ireland as Corum purchased Mahon Retail Park for €50.0 million. The park is anchored by B&Q and hosts eight other tenants. Corum has been active in the Irish market since 2016, acquiring a mix of office and retail assets. The deal marked one of four investment transactions in the Cork market this year as investment looks likely to surpass the five-year average of €155 million as investors are drawn to the strong demographics and growth potential. Lot sizes have increased steadily in recent years, going from €9.6 million in 2019 to €34.7 million in Q2 of this year.

Table 1: Top five deals in Q2

Property	Sector	Vendor	Purchaser	Price	NIY
North Dublin PRS	PRS	Private	Private	€70.0m	n/a
Nursing Homes Portfolio	Other	emeis Ireland	Healthcare Activios	€56.7m	5.4%
Mahon Point Retail Park, Cork City	Retail	IPUT	Corum	€50.0m	7.2%
Blackpool Shopping Centre and Retail Park, Cork City	Retail	Värde	Lugus Capital & Patron Capital	€48.0m	n/a
Letterkenny Retail Park and Deer Park Retail Park	Retail	Davidson Kempner	Investcorp	€40.5m	n/a

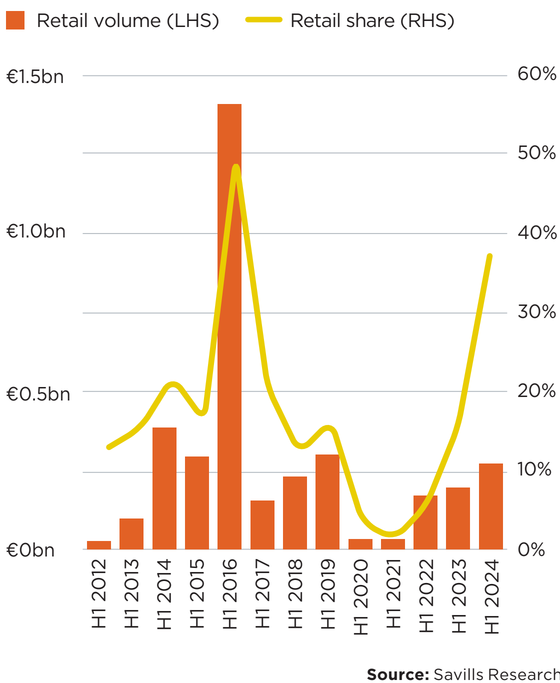
Source: Savills Research

Figure 4: Prime yield movements by sector



Source: Savills Research

Figure 5: Retail investment trend



Source: Savills Research

Another retail deal in Cork was the fourth-largest transaction as Värde Partners disposed of Blackpool Shopping Centre and Retail Park, 10 years after purchasing it for €115 million. The US investor previously looked to sell the scheme in 2017 for €117 million but ultimately the revised price attracted Lugus Capital and Patron Capital to the table.

Closing out the top deals, Investcorp made their first foray into Ireland for what was also their first retail warehousing deal in Europe. Namely, Letterkenny Retail Park in Donegal and Deerpark Retail Park in Kerry were jointly purchased from US-based investment group Davidson Kempner. The parks were originally brought to market in 2022 along with Tullamore Retail Park to form the Cobalt Collection. Tullamore was the only park to trade from the original portfolio, being acquired by Corum for €18.5 million.

RETAIL INVESTMENT

Retail investment now accounts for the highest share of all sectors. While volumes remain 15% below the 10-year H1 average, they are 87% ahead of the five-year average. Correspondingly, retail has seen the largest changes in yields in recent years. Shopping centres, which have been the first asset class subject to receivership sales in this cycle, have experienced the most significant repricing of all the prime property sectors. Yields moved out by 325 bps in the past five years as COVID-19, the continued rise of e-commerce and high inflation impacted sentiment.

This active repricing means that the sector is still attractive to investors, particularly as value-add opportunities for higher cost of capital investors.

YIELDS

Further stabilisation in yields was evident this quarter with prime shopping centres the only sector to move as they expanded by 25 bps to 7.75%.

Like most European cities, we expect yields to remain stable across most sectors with minimal inward movement in the medium-term until the inflation picture becomes clearer. The ECB maintains cautious optimism on the fight against inflation, and is unwilling to give clear guidance on further rate cuts saying that it remains “data-dependent”. This approach seems warranted with inflation in July coming in ahead of expectations at 2.6% (vs. forecast of 2.4%), while core inflation remained unchanged at 2.9%.

Table 2: Yields by sector

Sector	Q2 2024	Q/Q		Y/Y	
Offices - Prime CBD	5.00%	◆	-	▲	50 bps
Offices - Secondary CBD	8.00%	◆	-	▲	125 bps
Logistics - Prime	5.00%	◆	-	▲	50 bps
Logistics - Secondary	6.50%	◆	-	▲	50 bps
Shopping Centres - Prime	7.75%	▲	25 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%	◆	-	▲	25 bps
High Street - Secondary	8.50%	◆	-	▲	75 bps
PRS - Prime	4.75%	◆	-	▲	50 bps
PRS - Secondary	6.50%	◆	-	▲	50 bps

Source: Savills Research

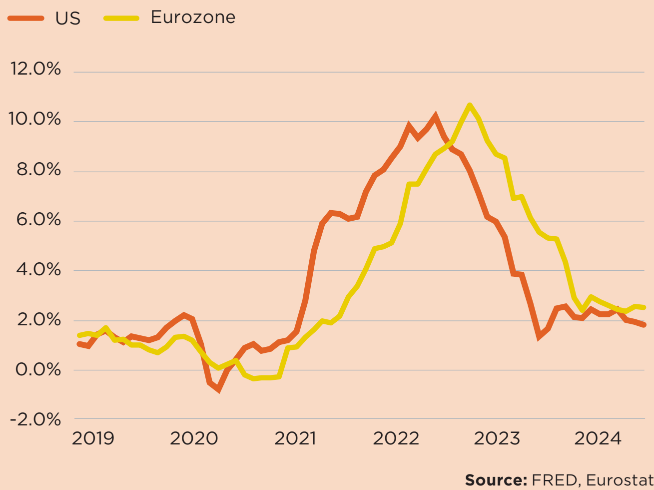
OUTLOOK

A number of sizable transactions across a variety of sectors are under negotiation and expected to close over the coming months. As such, volumes are expected to continue to gain momentum as the year progresses. Several receivership sales processes are ongoing and will help support this anticipated increase in deal activity. These predominantly involve non-prime office and shopping centre holdings which have experienced significant repricing over the past two years and now present attractive value-add propositions for higher cost of capital investors.

Core and core-plus investors remain selective, targeting best-in-class assets that provide secure returns through stable rental growth as well as favourable supply and demand fundamentals. Hence, the living sector, healthcare and logistics assets of suitable lot sizes continue to attract strong investor interest.

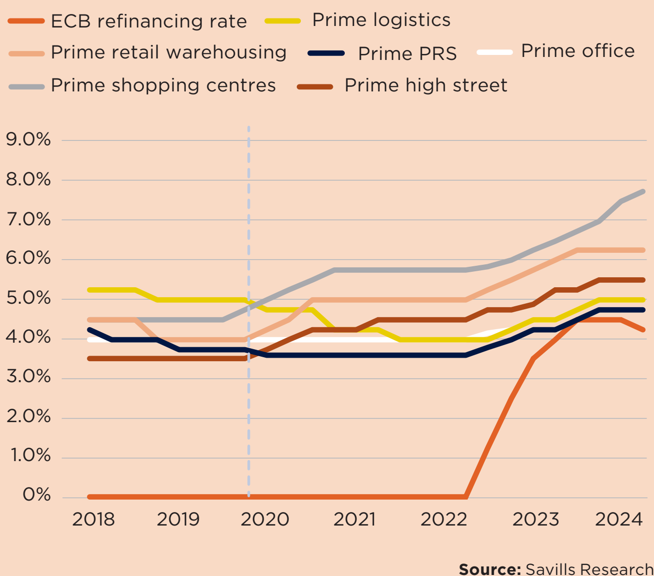
The general consensus is that the market - for the most part - bottomed out in Q1 as investor interest and transactional activity moderately recovered through Q2. However, despite this increase in confidence in the market, the full-year investment volume is projected to remain significantly below the ten-year average of €4.3 billion.

Figure 6: Inflation comparison



Source: FRED, Eurostat

Figure 7: Interest rate vs prime yield movement



Source: Savills Research

Macro view

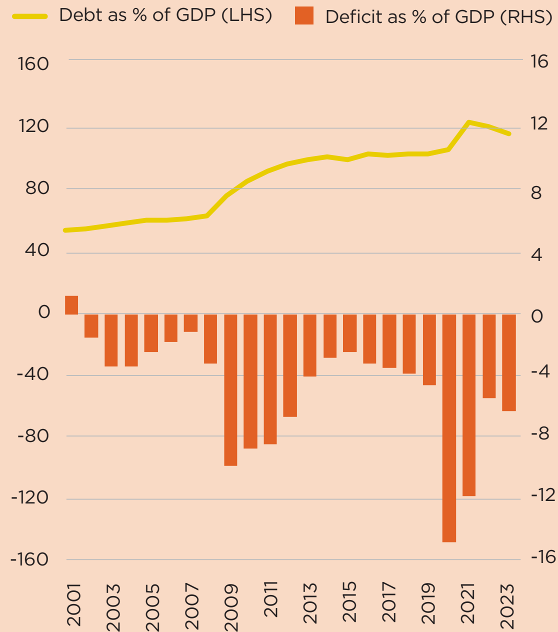
Interest rates, economic and fiscal policies, and real estate yields.

At its June meeting, the ECB implemented its first interest rate cut, nearly two years after the rate hiking cycle started in July 2022. Threats to additional cuts are present as challenges to disinflation in advanced economies could prompt central banks to leave borrowing costs higher for longer. The current market consensus is for two further cuts this year, followed by another three cuts next year before stabilising in 2026. While this represents a significant quantum of rate cuts, it would still leave rates 275 bps ahead of those that prevailed prior to 2022. Thus, higher for longer is still the base case looking forward.

Both economic and fiscal policies present risks. Protectionist measures to gain control over domestic supplies and prices include tariffs and import quotas. These will alter trade and resource allocation and weaken global growth. Meanwhile, fiscal challenges are present as higher debt levels combined with slower growth is pushing fiscal deficits higher. This is particularly concerning in the US, a country at full employment, yet continuing to increase its debt-to-GDP ratio (see next page).

Although the consensus view provides a positive outlook for rate cuts despite economic and fiscal risks, this may not directly translate to yield compression in the near term. Property yields haven't increased at the same rate as interest rates given a myriad of other factors that impact real estate values. We can see that while retail yields have moved out the most, the upward movements initially started as COVID-19 cases started to spread globally, impacting in-store shopping. We expect, in the context of the recent stabilisation of yields, that they will remain at this higher level for longer. Further progress on inflation and a clearer global geopolitical picture will be required to prompt compression in property yields.

Figure 8: US fiscal deficit and public debt level



Source: FRED

Figure 9: Real Broad Effective Exchange Rate for the United States (RBUSBIS)

Source: FRED

Analysis: The US election

With upcoming elections in the United States, and given the close economic ties between Ireland and the US, it is prudent to examine potential policy changes arising from a Republican victory.

CORPORATE TAX RATE

In his first term, Trump decreased the US corporate tax rate from 35% to 21%, where it has remained throughout Biden's term. If elected, Trump has indicated a willingness to further decrease the corporate tax rate, to possibly as low as 15% – the same as Ireland's applicable rate applied to large multinationals. According to the Tax Foundation, lowering the corporate income tax rate to 15% would have a positive impact on the US economy, specifically increasing long-run GDP by 0.4%, wages by 0.4%, and employment by about 93,000 full-time equivalent jobs. Corporate tax rates are an important component of Ireland's competitiveness in attracting and retaining international investment, with a reduction to parity eroding this advantage. However, it is not clear what the net effect on Ireland's economy would be, as historical evidence has shown that lower US corporate tax rates free up additional capital for US multinationals to increase their investment abroad in locations such as Ireland.

FISCAL DEFICIT

To raise money to cover these potential tax cuts, Trump is proposing a number of policies including a 10% tariff on all imports and up to 60% on imports from China. This would raise a maximum of $780 billion per year, insufficient to fund the aforementioned tax cuts and proposed spending measures on immigration, therefore necessitating additional borrowing. However, the US already has the eighth-highest debt-to-GDP ratio in the world during a time when high interest rates are exacerbating the consequences of fiscal deficits. The IMF states that the fiscal deficit has added 0.5% to US inflation and is contributing to its stubbornness. As a consequence, sticky inflation in the US could also make it more difficult to tackle inflation in Europe.

CURRENCY EFFECTS

The US dollar has strengthened in recent years due primarily to having higher interest rates compared to other major currencies. The US is a significant segment of Ireland's export market having accounted for 29% of Irish exports since 2015, with the strong dollar supportive of this demand. However, Republican advisors have been investigating mechanisms to devalue the dollar to support American manufacturers, with Trump stating that they are uncompetitive in international markets due to the dollar's strength. All else being equal, this would make investment in Irish real estate less attractive to US buyers, who have accounted for an average of 20% of commercial real estate investment volumes over the last 10 years. However, it is not clear how devaluation would be achieved, with many of Trump's stated policy proposals supportive of a strong – rather than weak – dollar.

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