Q4 IRISH INVESTMENT MARKET 2024

BNP PARIBAS REAL ESTATE

NORTH DOCK
North Wall Quay,
North Dock, Dublin 1

Q4 2024 KEY TRENDS

€1.15BN OF TURNOVER IN Q4, INCLUDING ALL ASSETS
highest since Q3 2022 and 2.6x greater than Q4 2023

Brings total turnover for the year to
€2.42 BILLION

Q4 TRADING DOMINATED BY ONE MEGA DEAL
the €575m sale of Blanchardstown Shopping Centre to US buyer Strategic Value Partners (SVP)

RETAIL DOMINATED
with over 50% of the quarter's turnover

OFFICES ACCOUNTED FOR 21%
and residential, driven by a largePurpose-Built Student Accommodation (PBSA) deal
ACCOUNTED FOR 18%

MARKET ACTIVITY

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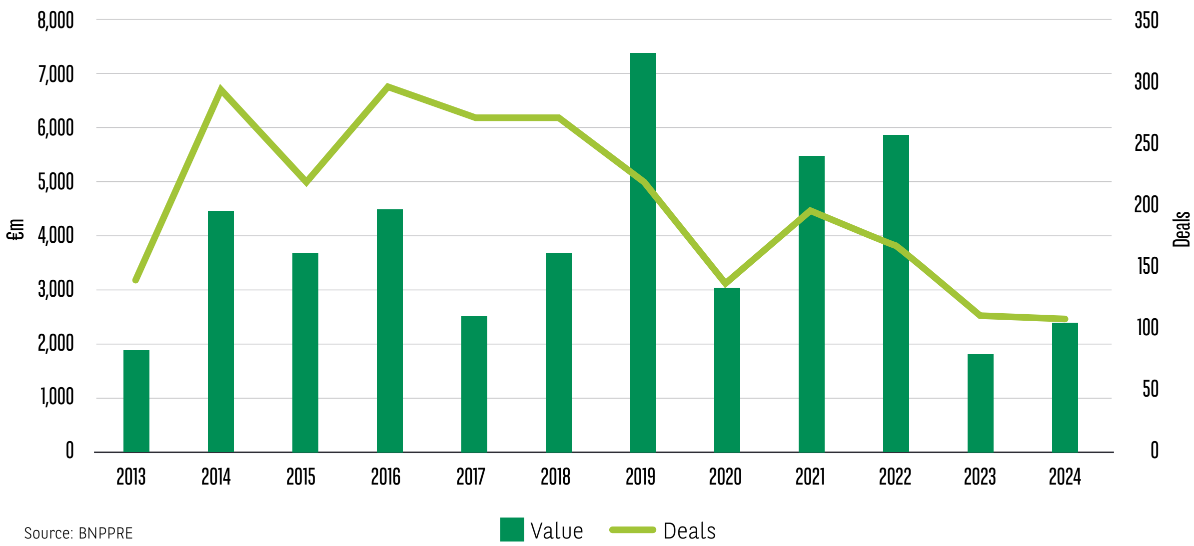
The Irish investment market is inherently seasonal with Q4 accounting for one third of annual spending on income-producing properties over the last 12 years. This pattern held-true in 2024 with €1.15bn of assets trading – accounting for 32.4% of the year's turnover. This represents a 2.6 times multiple of the Q4 2023 total, and was nearly double the Q3 2024 figure. Thirty-five deals were signed between October and end-December, the highest total since Q4 2022. Despite the positive finish, however, the full-year scorecard reveals that just 108 deals were done in 2024, the lowest number since the Global Financial Crisis, while turnover of €2.42bn was the second lowest since 2013. A further indication of subdued underlying activity is that this outcome was despite the sale of two of the four major shopping centres along Dublin's M50 outer ring road; Following Q3's sale of The Square in Tallaght for €130m, Blanchardstown Shopping Centre sold for €575m shortly before year-end.

€1.15b

OF ASSETS TRADING IN **Q4**

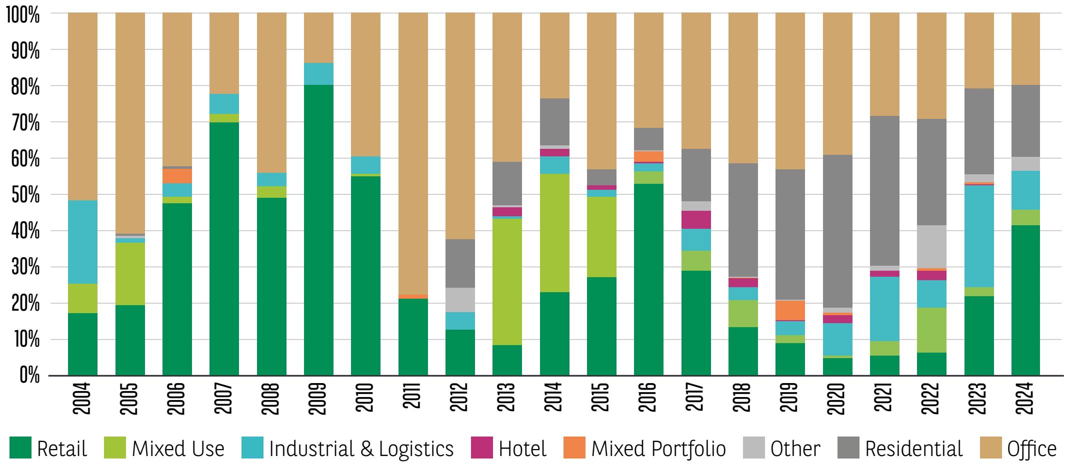
FIGURE 1: INVESTMENT MARKET ACTIVITY



Source: BNPPRE

Blanchardstown was one of five €50m+ deals signed in Q4, bringing the year's total to 11. In line with the broader European trend, this is an increase on the nine large deals that were completed in 2023. As a result, the average deal-size rose from €16.6m in 2023 to €22.4m in 2024. However, also in line with the European trend, the number of €50m+ deals remains well below the 2013-2023 average of 19.8 per year. Contributing factors include a reduction in like-for-like asset values (capital values in the overall MSCI basket are down 27% in nominal terms since September 2019), a compositional shift away from offices to mixed-use and retail investments (large shopping centres aside, these have a lower average price), a shift in trading activity from Dublin to cheaper regional markets, and sluggish price-discovery that has curtailed deal-making for prime office assets.

FIGURE 2: SECTORAL DISTRIBUTION OF INVESTMENT



Source: CSO

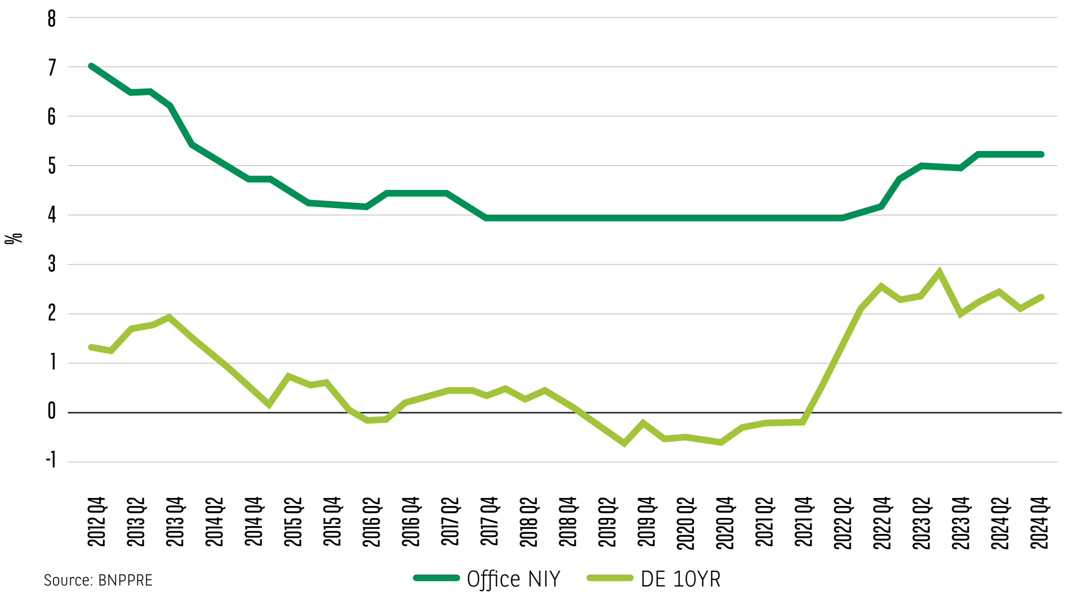
TURNOVER BY SECTOR

Propelled by the sale of Blanchardstown Shopping Centre and a scattering of smaller deals, retail accounted for just over 51% of the Q4 investment spend. As a result, it accounted for the largest share of annual investment for the first time since 2016 – when Blanchardstown and Liffey Valley Shopping Centre (another M50 scheme) both traded.[1] Leaving aside the blockbuster Blanchardstown deal, Q4's smaller transactions followed trends that have been evident in the market for some time. Firstly, and demonstrating that capital remains attracted to lower-priced retail assets in well-populated regional locations, the Bank of Ireland branch in Dooradoyle, Limerick, was bought by a private investor for €1.9m. Secondly, the purchase of a 242 sq m premises at 6 Grafton Street (Bus Stop Newsagent) for €2.75m continues a brisk run of transactions on Dublin's prime shopping streets. For years many of these assets were locked-into long term ownership, but a number of funds have sought to rebalance their portfolios, creating purchase opportunities for private investors in particular. At the same time, the decline in capital values, and investors' confidence in the underlying 'primeness' of these locations despite global uncertainty about how city centres will evolve, has made shops on these thoroughfares a popular buy.

Offices accounted for 21 percent of the investment pie in Q4. Two large receivership deals accounted for three-fifths of the €246m that was spent. The biggest transaction was the purchase of North Dock One and Two. Built in 2020 to a LEED Gold specification and an A3 energy rating, and with 45 metres of river frontage, this asset was bought by US investor Starwood for approx. €85m - well below the initial €130m guide. The selling price equates to an NIY of 5.35% and a capital value of €4,555 per sq m. However, this deal is highly reversionary owing to the 50% vacancy in the property. In the second biggest deal Fine Grain Property bought Connaught House, a 2004 building in Dublin 4, for €64.1m (against an original guide price of excess €80m) at an NIY of 10.1% and a capital value of €5,940 per sq.m.

[1] Blanchardstown Shopping Centre provides a high-profile example of the decline in capital values as it traded for €947m in Q2 2016.

FIGURE 3: DUBLIN PRIME OFFICE YIELD VS GERMAN 10-YEAR GOVERNMENT BOND YIELD



Source: BNPPRE

The drought of fully-let prime office sales in Ireland continued in Q4, and only two such assets have traded since the third quarter of 2022. In the absence of contrary evidence, agents have held prime yields at an indicative 5.25%. However, the lack of trading activity, and the narrowing spread between office and bond yields when the opposite might have been expected due to rising vacancy, shortening lease terms and upward / downward rent reviews, suggest that the price discovery process has not yet fully run its course.

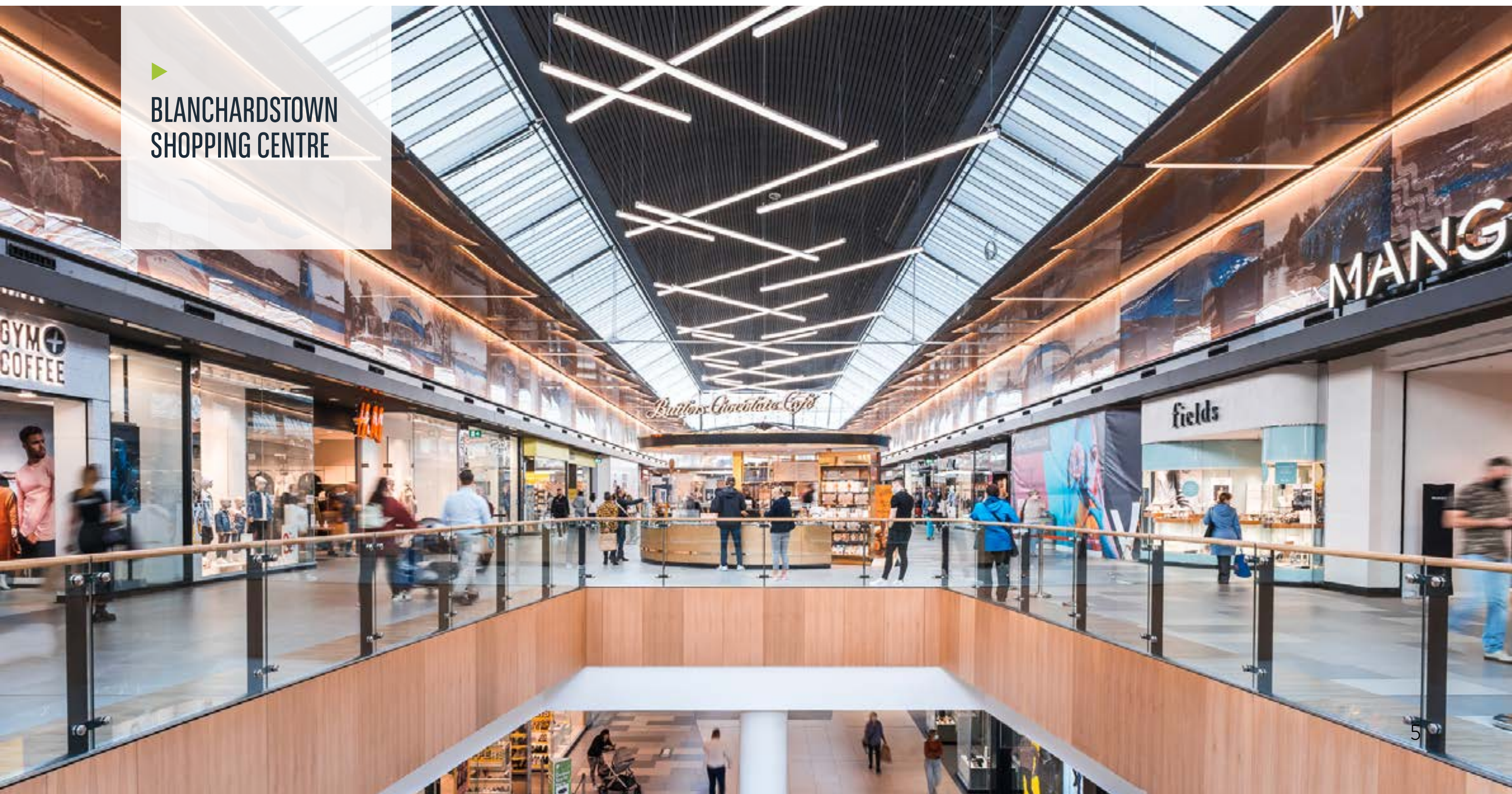
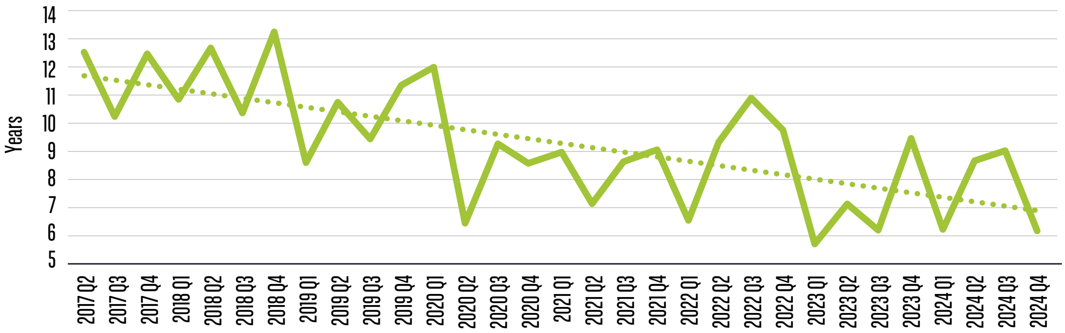


FIGURE 4: AVERAGE LEASE TERM – DUBLIN CITY CENTRE AND DOCKLANDS OFFICES



Source: BNPPRE

Residential attracted the quarter's third largest share of capital with €209.5m being deployed across three investments. As in Q3, the largest living sector transaction involved a purpose-built student accommodation (PBSA) asset. This should not be surprising as Ireland's demographics are very favourable. The country experienced its biggest ever fertility boom between 2007-2012 when over 440,000 babies were born. With the eldest of these now reaching college age, and with further growth in the relevant age cohort almost guaranteed in the coming years, occupational demand is well underpinned by domestic factors. In addition, over one million immigrants have come to Ireland in the last decade, with more than one third being aged under 25.

US company Greystar is an experienced investor in European PBSA having recently completed deals in France, Spain, the Netherlands and Britain. It also knows the Irish landscape well, having deployed €476m on three PRS schemes in Dublin since 2019. In Q4 it made its first move into Irish student accommodation by buying the 996-bed Point Campus Student Accommodation for €150m.

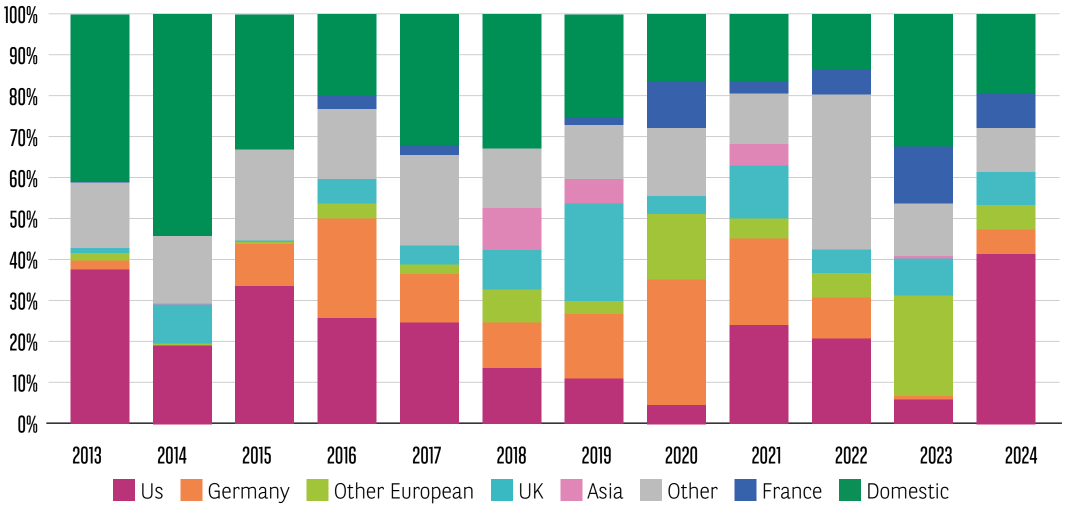
The other large residential deal of the quarter saw New Beginnings buy Block 6, Grand Canal Harbour Dublin 8, from Marlet. This 111-unit block is fully-let to Dublin City Council under a 25 year long-term social leasing agreement, at rents that are reportedly at around 75% of the market rate.

Tight vacancy and robust rental growth in the occupational market attracted almost €2.25bn of capital into Irish logistics property between 2020 - 2023. However, as a geographically peripheral economy that specialises in internationally traded services, and with a small domestic consumer base, Ireland provides limited opportunities to purchase high-quality logistics assets. This, and a perception that warehouses had become fully priced, have caused a slowdown in investment into the sector. Nonetheless, €70.9m of industrial and logistics assets traded in Q4, accounting for 6.2% of the spend. In the biggest transaction State Street bought a high-quality portfolio at Northwest Business Park from Park Developments for €25m. A new build at Tanola Park, Dundalk, with a 20-year lease in place sold for €19m, while logistics specialist Palm Capital bought a unit at Kingswood Drive, Citywest from IPUT for €12.5m.

BUYER TYPE AND ORIGIN OF CAPITAL

With the number of larger deals picking-up and the average transaction-size rising, the investment market became somewhat less fragmented and less domestically driven in 2024. Irish buyers were behind some of Q4's bigger purchases, including Grand Canal Harbour. But, with lower search and due diligence costs, local buyers' competitive advantage is sharpest on smaller-ticket stock. Reflecting this, the domestic share of overall spending declined. French SCPIs came to the fore in recent years for similar reasons to the domestic players – they are typically quite agnostic about sectors and are prepared to seek out well-priced higher yielding assets. BNPPRE advised Altixia REIM on the purchase of one such asset in Q4 – an office building at 14-16 Parkgate Street which they bought for €6.42m, NIY 8.42%. Meanwhile Arkea bought two further offices for a combined total of €21m. These purchases notwithstanding, the French share of total spending has also fallen as bigger deals have begun to creep back in.

FIGURE 5: ORIGIN OF CAPITAL

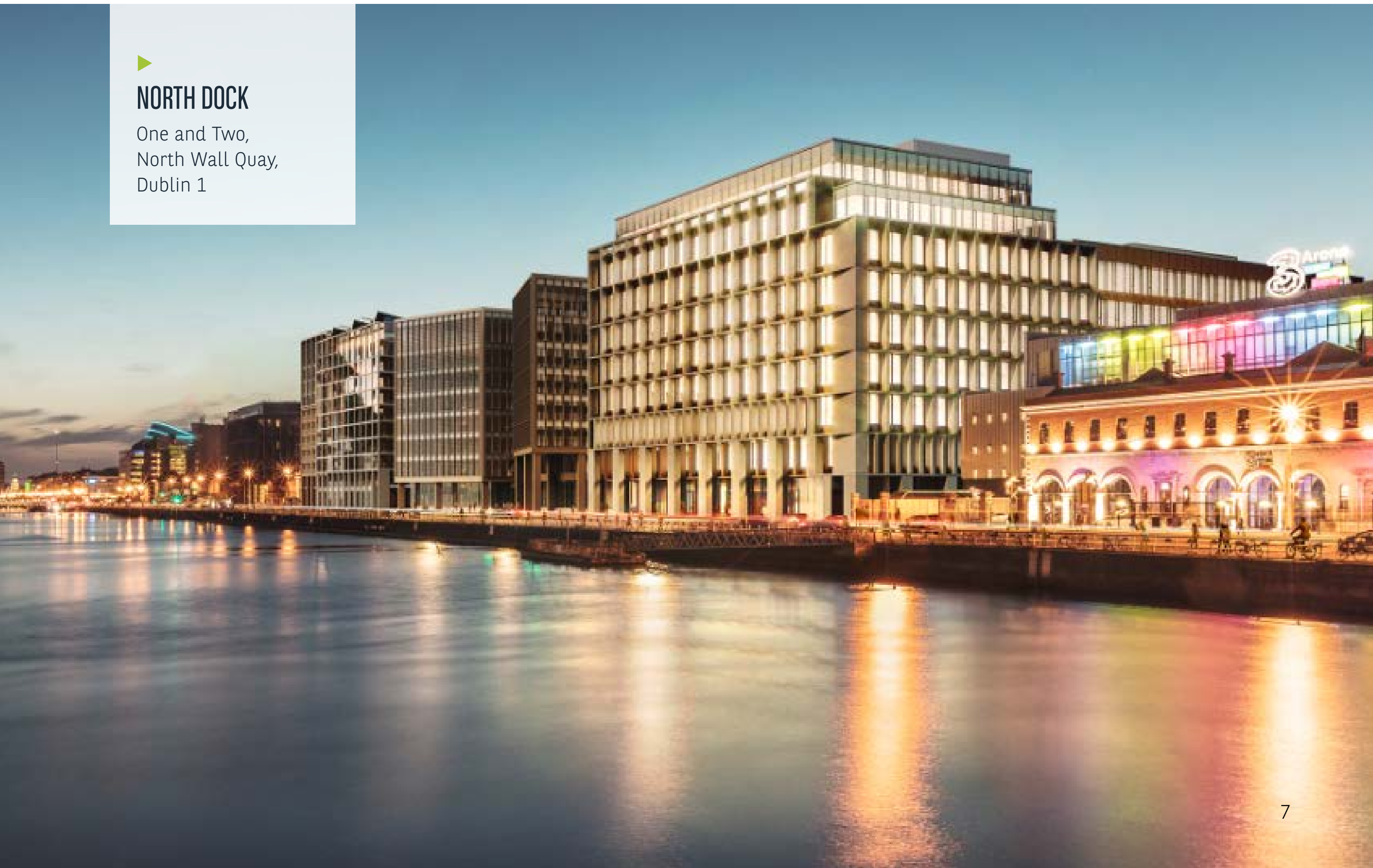


Source: BNPPRE

Moving in the opposite direction, there was a notable return of US capital towards year-end. Again, this is in line with a wider European trend that has seen an 81% year-on-year increase in US investment volumes in 2024. American investors bought Blanchardstown, Point Campus and the North Dock offices in Q4, for a combined spend of €810m. As a result US money was behind four of the year's top-5 deals, and accounted for 42% of spending in 2024, making America the biggest investor for the first time since 2021.

NORTH DOCK

One and Two,
North Wall Quay,
Dublin 1



OUTLOOK

Although trading remains well below average, investment activity improved through the course of 2024. After a very slow start to the year, turnover rose for a third successive quarter in Q4 and the value of sales reached its highest level since Q3 2022. The increased number of larger deals and the return of US capital are also positive developments in the market.[2]

Central banks have quickly moved to a less restrictive monetary stance since June 2024. This may have given rise to expectations that the tightened spread between Irish property and Government bond yields would be re-opened by downward pressure on bonds, making property investments relatively more attractive. However two factors have prevented bond yields from tracking the downward trend in policy rates. Firstly, sovereign debt markets somewhat 'looked through' the recent spike and retreat in policy interest rates. That is, bond yields did not rise to the same extent as base rates on the way up, and less unwinding can therefore be expected on the way back down. Secondly, at a global level, escalating trade tensions have caused markets to price-in a slightly more cautious forward view on global inflation in recent months, triggering bond sales. Consequently, the German 10-year Government bond is now actually higher than where it was when the ECB began cutting policy rates on 12th June.

With bond yields forecast to remain broadly flat, two factors are likely to influence what now happens to the Irish property market in the context of a narrowed yield spread. In sectors where rental growth expectations are justified by supply / demand conditions in the occupational market, trading activity and yields are likely to be more robust. Elsewhere, vendors who are struggling to sell assets at the indicative prime yields that are being quoted may choose to postpone their sales for now, prolonging sluggish trading.

Forecasting market turnover in the new year is always a challenge. However, with subdued trading in prime offices, with limited availability of high-quality logistics assets, with fewer residential opportunities coming to the market pending any review of the rent controls regime, and with the sale of two M50 shopping centres in 2024 contributing to a challenging base, the 2024 total of €2.42bn may be a stretch-goal for 2025 and there is little prospect of a near term return to the 10-year average of €4.06bn.

TABLE 1: NET INITIAL YIELDS (%), PRIME ASSETS

	Q3 2024	Q4 2024	OUTLOOK
Dublin Office	5.25	5.25	↑
Dublin Logistics	5.25	5.25	→
Retail (High Street)	5.50	5.50	↑
Dublin Residential (PRS)	5.00	5.00	→

"With bond yields forecast to be broadly flat and with trading of prime office assets stalled at current pricing, some further outward movement in prime yields is possible"

JOHN MCCARTNEY
Director,
Head of Research,
BNP Paribas Real Estate Ireland

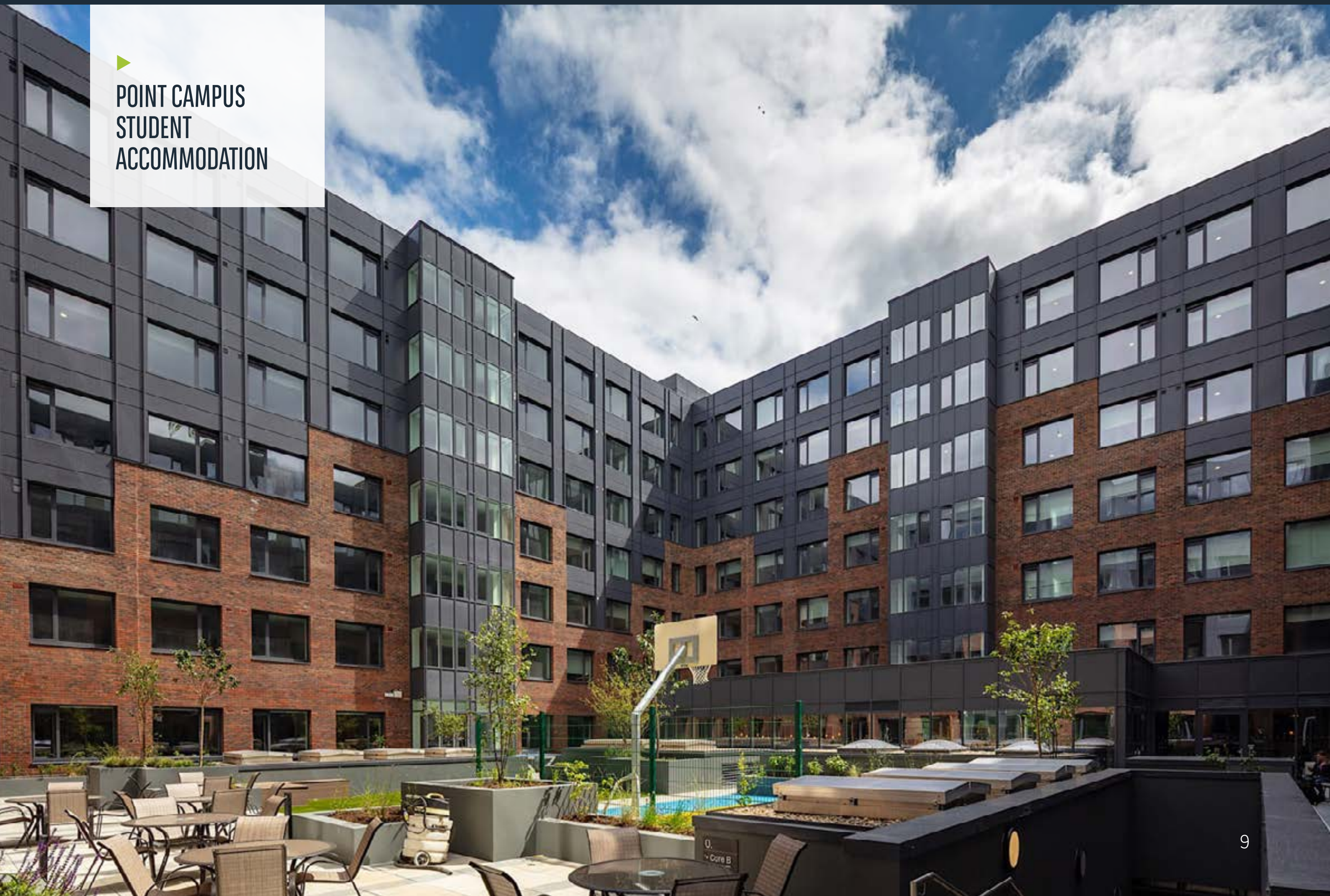
"There are now very clear signals with the return of US private equity investment into Retail & office sectors that the Irish market has turned positively and we are entering a new market cycle"

PETER FLANAGAN
Managing Director,
Head of Capital Markets,
BNP Paribas Real Estate Ireland

[2] Previous research has shown a generally reliable inverse relationship between foreign capital inflows and property yields in both America and Europe (e.g. McAllister and Nanda (2016) Do Foreign Buyers Compress Office Real Estate Cap Rates? In Journal of Real Estate Research, 38, 569 – 594).

TOP 10 INVESTMENT DEALS Q4 2024

	BUILDING	LOCATION	SECTOR	PRICE (€M)
1	Blanchardstown Shopping Centre	Dublin 15	Retail	575
2	Point Campus Student Accommodation	Dublin 1	Residential	150
3	North Dock 1 & 2, North Wall Quay	Dublin 1	Office	85
4	Connaught House, Burlington Road	Dublin 4	Office	64.1
5	Grand Canal Harbour Block 6, off James's Street	Dublin 8	Residential	54.5
6	Park Developments Portfolio, Northwest BP, Ballycoolin	Dublin 15	Industrial & Logistics	25
7	Tanola Place, Dundalk	Co. Louth	Industrial & Logistics	19
8	West Pier Bus. Campus, Dun Laoghaire	Co. Dublin	Office	17
9	Finegrain Portfolio sale	Confidential	Office	14
10	Unit at Kingswood Drive, Citywest	Dublin 24	Industrial & Logistics	12.5



POINT CAMPUS STUDENT ACCOMMODATION

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