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Year of the big spenders

Big deals, strong demand for residential schemes and increased interest from Asia have been notable features of the investment market

The investment market in 2018 exceeded expectations, helped along by some very big deals, with 21 transactions valued at over €50m and 11 breaking the €100m mark. In 2017, just five deals were €100m-plus.

There were 200 deals worth over €1m last year and total investment spend amounted to €3.6bn, up from €2.3bn in 2017, according to JLL figures.

"Irish property maintained its strong performance of recent years, with no slowdown in demand, and mega deals remained a dominant trend, highlighting confidence in the market, particularly from international investors," says Kenneth Rouse, managing director at BNP Paribas Real Estate Ireland (BNP PRE).

The biggest single transaction of the year was the sale of Heuston South Quarter (HSQ) to an Asian investor for €175m. The second largest deal involved Dublin Landings 1, which was bought by German fund manager Triuva for €164m. The sale of Dublin Landings 2 to South Korean Reit JR AMC for €106.5m was another significant deal.

Build-to-rent and PRS assets accounted for about 29% of overall spend, adding up to over €1bn, according to Lisney. This compares with a 5% share of investment spend in 2017 and an average of 13% since 2013. BNP PRE figures indicate that PRS accounted for 37 deals last year.

The largest residential investment – and the fifth biggest deal overall – was Tristan Capital Partners' €140m purchase of 372 apartments currently under construction in Clongriffin, Dublin 13.

Yet offices remained the top performing sector, with €1.5bn invested across 79 deals, making up 42% of total turnover. Five of the top 10 transactions were offices.

CBRE executive director and head of research Marie Hunt says 2019 will see a similar level of activity, led by some large-scale office schemes coming to the market. "We have some good insight on some of the office buildings that are due to come to the market," she says.

Strong demand will also continue for residential schemes. "The occupational fundamentals look excellent," says HWBC director Iain Sayer. "In a European context, even the 4% rental cap is not an unattractive level of rental growth to be receiving every year. I don't think that's necessarily putting investors off. The issues are the lack of stock and the length of time it's taking to get schemes on site, which is a function of the way the planning system is operating."

As regards where the demand will come from, after strong interest and some transactions by Asian investors in Dublin in 2018, Hunt believes there will be more of the same this year. "And we may see some investors from Singapore. We've seen a lot of Singaporean interest but haven't seen anybody transact yet. We think that's coming down the tracks."

French institutions, which have not been particularly active here to date, are also showing a lot of appetite for the Dublin market at the moment, according to Hunt.

While the market is heavily weighted towards Dublin, investors are starting to look at Cork, Galway and Limerick, says Sayer. "But a lot of the larger, foreign-based institutions generally want to invest in larger lot sizes


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of €50m-plus, and there just aren't that many buildings worth that sort of money outside of Dublin."

One asset that did fit into this category last year was the Elysian in Cork, which includes 206 PRS units, as well as retail and office space. It was bought by Kennedy Wilson and Axa IM for €87.5m.

Hunt says the yield differential between Dublin and the regional cities may encourage some investors to examine opportunities outside the capital. However, this demand will be focused on the quality of the asset itself rather than being city-specific.

Despite the high number of large-scale deals, Sayer says the market has become more granular and that the average lot size has fallen. "There will be a few mega deals in a year, but lot sizes are coming back as parts of portfolios are sold down. A lot of the funds that bought big debt portfolios are now selling small assets out of those. We're seeing that come through and the average lot size is about €13m."

There is potential for yield compression in certain sectors, including prime offices, prime build-to-rent, industrial and hotels, says Hunt. "We currently have offices at 4%. If a really large, prime, modern office building were to come to the market, it probably would achieve a keener yield than that."

Retail, meanwhile, seems to be going in the other direction. Sayer feels, however, that there has been some mispricing on retail assets that will perform well. "Clearly the market as a whole is pretty negative towards retail and we're seeing that in the pricing."

Going forward, Sayer believes the Dublin 7 and 8 postcodes will see increased interest. "That seems to be the next place that the big money is going to start to take more seriously," he says.

The largest deal of 2018 was the €175m sale of HSQ in Dublin 8

Two buildings in the Dublin Landings scheme sold last year for over €270m between them