HWBC

2023 H2 HALF YEAR INVESTMENT SUMMARY

As we previously predicted investment volumes in Ireland struggled to exceed €2bn as the market suffered under the weight of rising interest rates and increasing global uncertainty.

Private investors spotted market opportunities and swooped in, the median deal size was €5m compared to €11m in 2022. This is the lowest market turnover since 2017 and if the Government sale of Valley Healthcare is excluded is the lowest out-turn since 2012.

It is instructive to look at who the most active market participants were; 15% of turnover in the market was driven by one buyer: Pontegadea the family office of Zara owner Amancio Ortega Gaona.

Ortega took the opportunity presented by the lack of institutional and debt driven buyers to acquire an outstanding logistics and prime residential investment in Dublin for over €325m in total assets. Other private investors targeted predominantly retail assets with an average lot size of just over €4m.

Overall private investors either individually or via collective investment vehicles accounted for 62% of the market. These investors will likely be rewarded for investing at or close to the bottom as uncertainty over pricing unnerved many and allowed some hard bargains to be struck.

Part of the reason that private investors have been able to name their price is the absence of other market participants - Institutional investors are nursing losses in their existing property books and with the notable exception of Blackstone, private equity (PE) investors are struggling to raise new funds and are waiting for pricing that may not materialise to deliver returns promised in current fund raising rounds.

French collective investment vehicles continued to play an active role in the market however, some of the more established managers have taken a step back from further acquisitions. New vehicles picked up the slack and were very active in sub €25m lot sizes.

Investment was split broadly equally between the principle sectors however the collapse in residential investment volumes is the most startling change in allocations. The volume of transactions in the residential market fell as the year progressed. Whilst investors are attracted by the continuing occupational demand in the market, rental caps failed to keep place with inflation reducing real income returns. In common with other sectors yields came under pressure as bond rates moved out and investors demanded more return from real estate.

Most aspects of the residential market from land to the acquisition of completed schemes are now dominated by Government money.

Whilst there is now increased confidence that the interest rate raising cycle is at an end it is unclear when rates will start to fall. What we do know is that it will not be a mirrored retraction of policy back to zero. This means that many investors in current schemes will have to accept pricing at levels they would have rejected out of hand 18 months ago.

It is likely that an increasing number will be encouraged or forced to accept pricing by financing issues however we expect to see more activity in renegotiating lending terms than forced sales and have already seen debt positions being converted to equity participation.

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In the early months of 2024 we expect to see private investor activity continue and are advising small syndicates of investors seeking to access higher lot size investments at attractive pricing.

It is likely that most private money will stick to the higher yielding retail, industrial and suburban office markets.

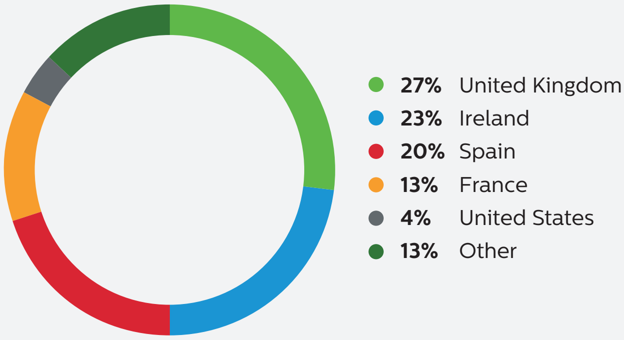
Interesting opportunities will arise in the office market as sentiment and the cost of refurbishment continue to depress prices. Our research shows that a third of the available office space is unlettable by modern standards, even with new completions there is less than two years supply of lettable office space in the Dublin market – pointing to a shortage in 2026. Developers need to start projects now to meet this demand which will mean that prospective sites will start to trade.

At larger lot sizes investors will be watching events at IRES and the proposed sales of The Square and Blanchardstown Shopping Centres. It will be interesting to see how investors capable of writing larger cheques price these investments. Interest in The Square has been stronger than many expected however it is likely that pricing will fall short of initial expectations. IRES investors will no doubt be hoping for a state funded white knight.

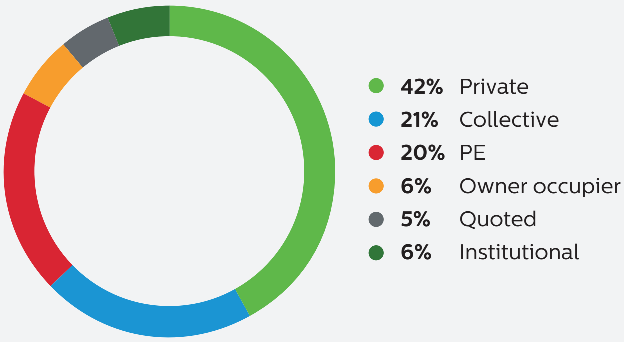
As the year progresses and pricing becomes more established we expect to see Institutional investors start to churn their portfolios releasing buildings that fail to meet anticipated ESG requirements and potential looking to buy more compliant stock where possible.

We expect to see 2024 finish out at higher volumes than 2023; pricing will likely be flat in most sectors with the elections in Taiwan this month and the US at the end of the year both capable of causing further global turmoil.

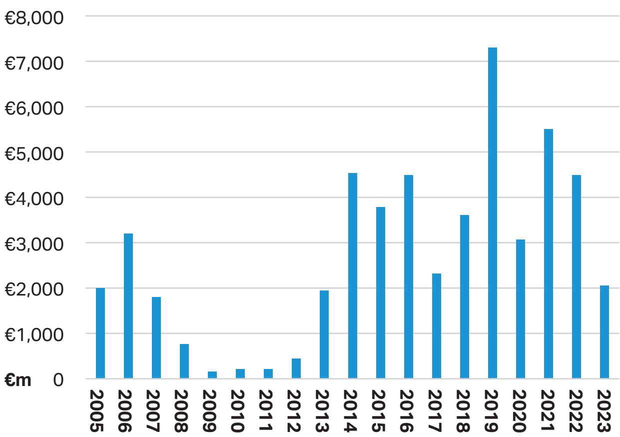
Reported Investor Domicile



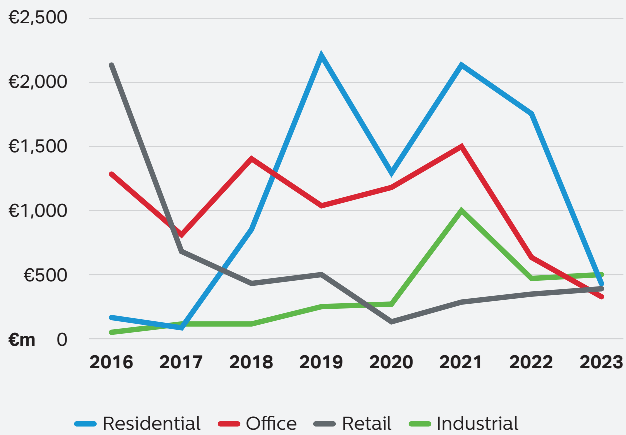
Investor Type



Investment Market Turnover



Sector Allocation 2016 - 2023



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