EXPO REAL 2024 CONFERENCE THEMES

Ahead of the Expo Real conference in Munich at the beginning of October the HWBC team review what they expect the major themes of the conference to be for the Irish market.

1. Consumer power

Ireland continues to run a current account surplus and whilst the source of that extra cash is highly concentrated in corporation tax receipts the Government appears to be doing the right thing and splitting the excess between saving for rainy days and investing in infrastructure.

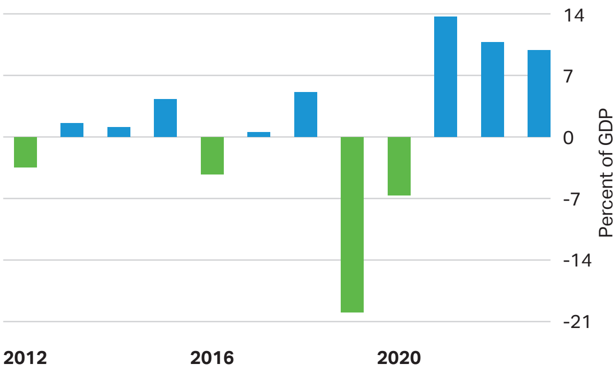
That said the Government is run by politicians and an election is on the horizon – it's therefore likely that there will be some tax cuts for the Irish consumer. Combined with the easing of price inflation and ECB interest rate cuts the consumer could have a few more Euros to spend.

Retail and logistics are the most obvious potential beneficiaries of increased consumer spending and there are significant opportunities in retail markets where yields have remained high reflecting market expectations of limited rental growth. Investors now could be rewarded with growth on top of the attractive running yield.

Comfortable consumers mean employers will need to work harder to retain staff who feel confident to make a change, an important tool in this is the quality of environment meaning improved office space and amenity. We may see a continuation of the push to quality in the office market.

> Retail and logistics are the most obvious potential beneficiaries of increased consumer spending.

Current Account Surplus/ Loss as % of GDP



Value Chg Chg%

Source: Eurostat

2. Where's the exit?

Many business plans relied on an exit to Core money on successful execution of the proposed development/ refurbishment/letting. This money is in short supply – domestic institutions have been under pressure from investor redemptions and are more likely to be sellers than buyers.

Much of the non-domestic core money has been distracted with fighting fires in home markets and has had less attention for non-core European markets such as Ireland.

We think this presents opportunities for Core-plus investors to step in. The current market is ideal for price makers rather than takers and as elongated hold periods erode IRR returns and thus carries. It is increasingly likely that some promoters may choose to sell to the available money.

For patient investors willing to deploy into a market with low volumes of price data the rewards are likely to be significant.

3. Where's the rush?

Veterans of previous downturns would have expected a surge in insolvency appointments as rising interest rates have taken their toll on valuations. Whilst some appointments have been seen, the lending community have been patient to date.

The response largely reflects the changed nature of the Irish market. The depth of the market now is much greater than in previous cycles, many participants are very large well funded international institutions who operate on low levels of gearing and can therefore ride out periods of pricing dislocation.

On the lending side the domestic banks appear to be shaping to dispose of non-performing loans rather than make appointments, conversely non-bank lenders seem to be happier to work through difficult situations albeit in our view this is sometimes an extremely hopeful approach.

Whilst many promoters are hanging on for the coming upturn, in many cases it is unlikely pricing will roar back to such an extent that the accumulated default interest and penalties can be repaid.

4. Back to the Office

Having had a quiet start to the year, Dublin office occupiers came back with a bang and the market saw what is probably going to be the largest letting in Europe this year when Workday agreed terms to take 425,000 sq ft from Marlet in Dublin City Centre.

Combined with a very strong domestic economy the fundamentals for the market look good with limited supply, falling interest rates, increased intensity of office use and focus on environmental matters likely to combine to reduce yields for the best stock.

Pricing for stock that does not make the grade will continue to fall. There is a significant amount of value add capital looking for 'brown to green' type opportunities however at the right price this capital faces competition from refugee accommodation suppliers who appear to be better able to perform in the short term.

The suburbs, offer interesting opportunities, with higher vacancy rates and more lower quality stock twinned with stronger local resistance to temporary accommodation uses. As CBD vacancy rates continue to fall the best quality suburban buildings will likely feel the rising tide next.

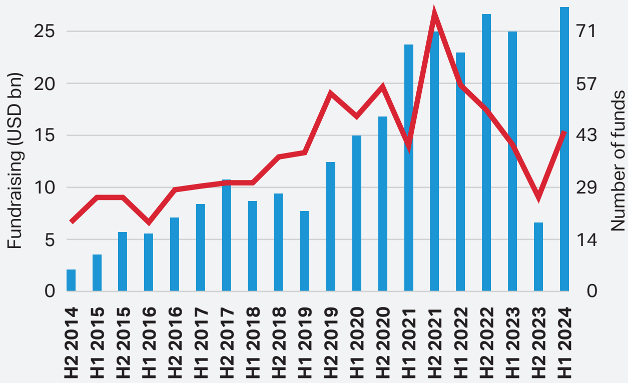
5. Show me the money!!

The market has become very crowded with new asset management shops and SCPI vehicles.

New participants with new ideas are very important to keep the market moving however the sources of capital for these promoters are more limited. Often times these new vehicles are competing with each other for the same capital.

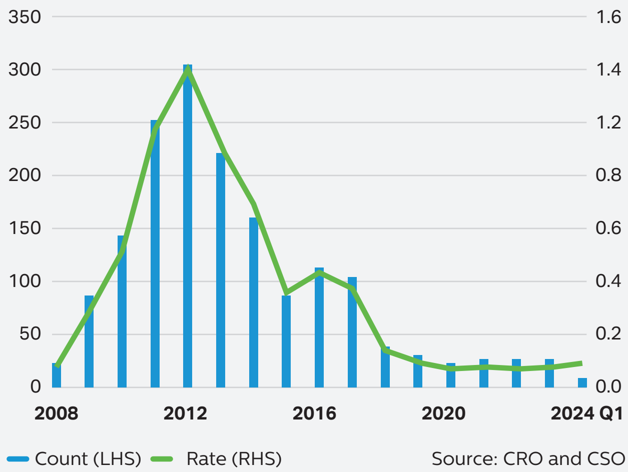
Several processes have been disrupted by promoters putting assets under offer without having completed their fund raising. This can work for unloved assets in slow sectors but for more investable assets and sectors this has resulted in multiple re-offers of stock to the market in a short space of time damaging investor confidence in the asset and the market.

Real estate core plus fundraising at any close



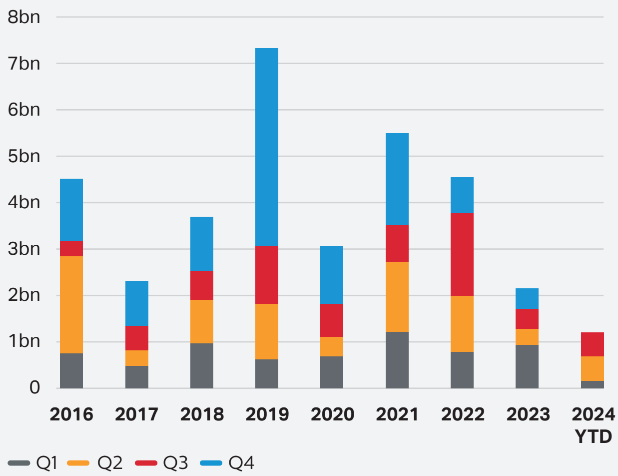
Source: RealfinX Platform

Commercial real estate company receiverships in Ireland



Source: CRO and CSO

Investment turnover Ireland



HWBC

HWBC
80 Harcourt Street, Dublin 2
D02 F449, Ireland

PSRA Number 002098

T 353 1 77 50 500
E info@hwbc.ie
W hwbc.ie

CORFAC International