IRISH

INVESTMENT MARKET

Q4 2021

CUSHMAN & WAKEFIELD

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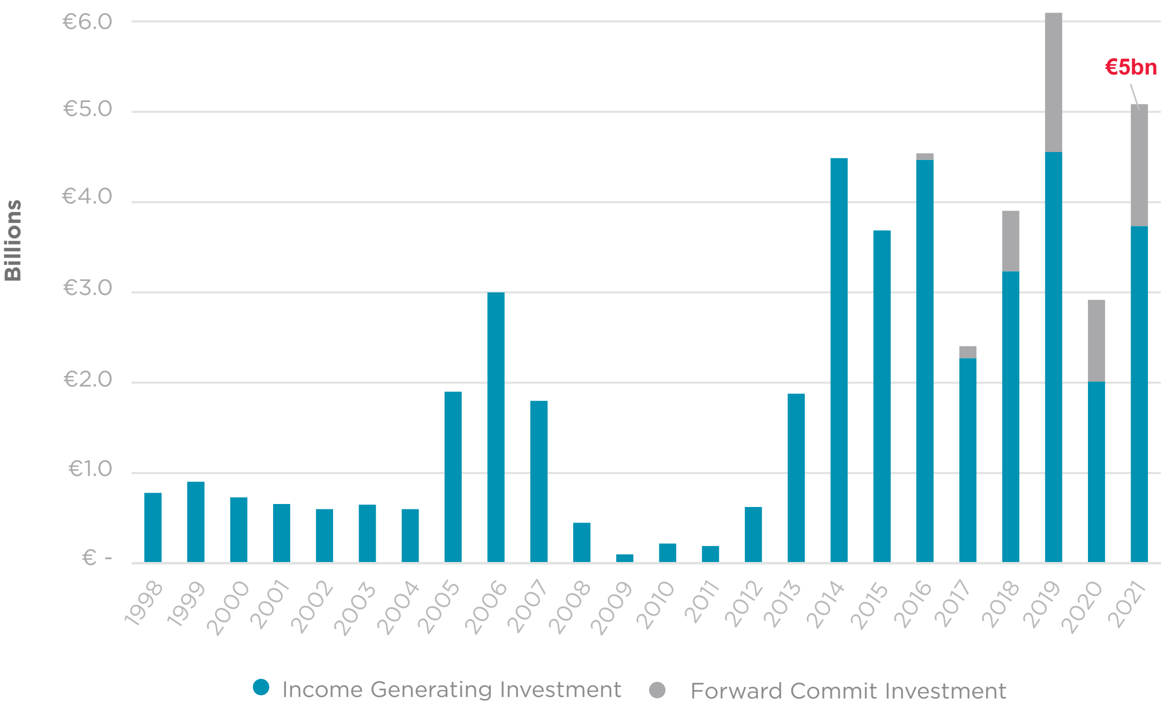
TRANSACTION ACTIVITY

In the face of COVID-19 related market challenges, the Irish commercial property market enjoyed a prosperous end to 2021. The final three months of the year witnessed just shy of €2bn worth of commercial property assets trade hands, of which the vast majority were income generating at the point of sale and approximately sub €10m were by way of a forward commit style arrangement.

This brings total capital inflow in the Irish investment market to an impressive €5bn across 173 deals in 2021. This level of turnover is second only to 2019's volume of €6.1bn and represents a significant increase from the €2.9bn achieved in 2020.

The outturn over the 12-month period has comfortably surpassed the long run average of €2bn for the eight-consecutive year since 2014.

Total Capital Inflow, Irish Investment Market, 1998 – 2021



Deals greater than €1m. Excludes loan sales, company sales, trading assets and auction sales.
Source: Cushman & Wakefield Research

Top Transactions, 2021:

Asset	Price (Approx.€)	Asset Class	Quarter Sold	Vendor	Purchaser
Serpentine Buildings, Ballsbridge, Dublin	€395m	Office	Q4	Serpentine Consortium	Blackstone
Project Tolka Portfolio, Dublin	€290m	Office	Q1	Colony Capital	Blackstone
Irish Portion of Exeter Portfolio	€285m	Industrial	Q4	Exeter	GIC
Royal Canal Park, Ashtown, Dublin	€200m	Residential	Q2	Ballymore	Union
Industrial Portfolio, Dublin	€196m	Industrial	Q4	York Capital	Palm Capital/ KKR

Source: Cushman & Wakefield Research

The largest transaction of the final quarter and indeed the year as a whole was US private equity giant, Blackstone, acquisition of the Serpentine Buildings, which closed in Q4 for a price in the region of €395m. The deal secures Blackstone's ownership of just under 340,000 sq ft of office space within the wider 900,000 sq ft Facebook campus.

Of interest, Blackstone acquired two of the four €100m+ office transaction in 2021, the second procurement taking place in the first three months of the year where the Project Tolka Portfolio came into their procession for €290m.

The closing months of 2021 recorded the two largest industrial and logistics investment transactions since Cushman & Wakefield's detailed series began. The Irish portion of the Exeter Group portfolio taking first place, acquired by Singapore based GIC for approximately €285m. While a nationwide industrial portfolio also sold in the closing quarter for a price in the region of €196m, acquired on a joint venture basis by Palm Capital and KKR.

Outside of the Greater Dublin Area, the largest regional investment in the year was the sale of One Navigation Square, Albert Quay, Cork. Located in the city's docklands, French investor Corum Asset Management acquired the office asset for €60m.

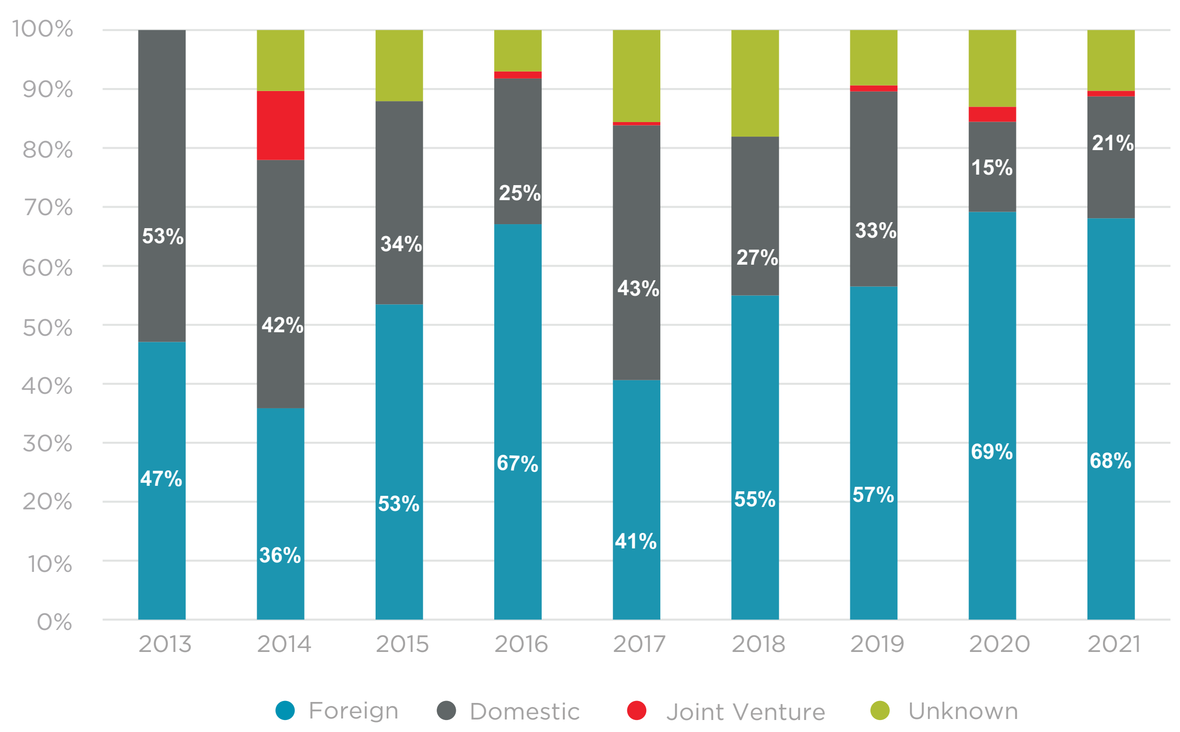
When analysing investment activity by location, Dublin dominated 81% of turnover in the year. Investment outside of Dublin recorded 8% of turnover, while portfolios with nationwide locations accounted for 11% of turnover.

In terms of lot size, twelve assets achieved a price in excess of €100m over 2021, totalling a combined €2.4bn, approximately 47% of all turnover recorded. The €50m-€100m and €20m-€50m lot size brackets accounted for 23% and 18% of turnover, respectively in 2021. The largest number of deals transacted in the €1m-€10m price bracket, 101 deals, followed by the €20m-€50m bracket where 31 deals took place.

Positively, the attractiveness of Irish commercial property is evidenced by the continued strong presence of overseas capital in the market, despite travel impediments created by COVID-19 restrictions. Funds sourced from a foreign investor represented 68% of 2021 turnover, largely in line with that of 2020.

While domestic sourced capital stood at 21%, an improvement on their share of the market from 2020. The remaining 11% of capital spent in 2021 is attributed towards joint ventures and off-market transactions.

Total Capital Inflow, Investment Turnover by Source of Capital, 2013-2021



Source: Cushman & Wakefield Research

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METEORIC RISE OF INVESTMENT IN INDUSTRIAL & LOGISTIC ASSETS:

The rising star of the final quarter and indeed the year as a whole was the industrial and logistics sector. Quarter four witnessed industrial assets finish second on the leader board, achieving €568m worth of turnover across 7 transactions. Impressively, this puts the asset group ahead of residential and just marginally behind offices. Arguably, industrial assets could be named investors top pick of the quarter, as the turnover level office assets achieved in the three-month period is largely inflated by the largest transaction of the year, Blackstone's acquisition of the Serpentine Buildings.

The acute shortage of good quality stock coupled with strong occupational demand has created total capital inflow of a historic €1bn in 2021, surpassing all annual records for the asset class since Cushman & Wakefield's detailed series began in 2013.

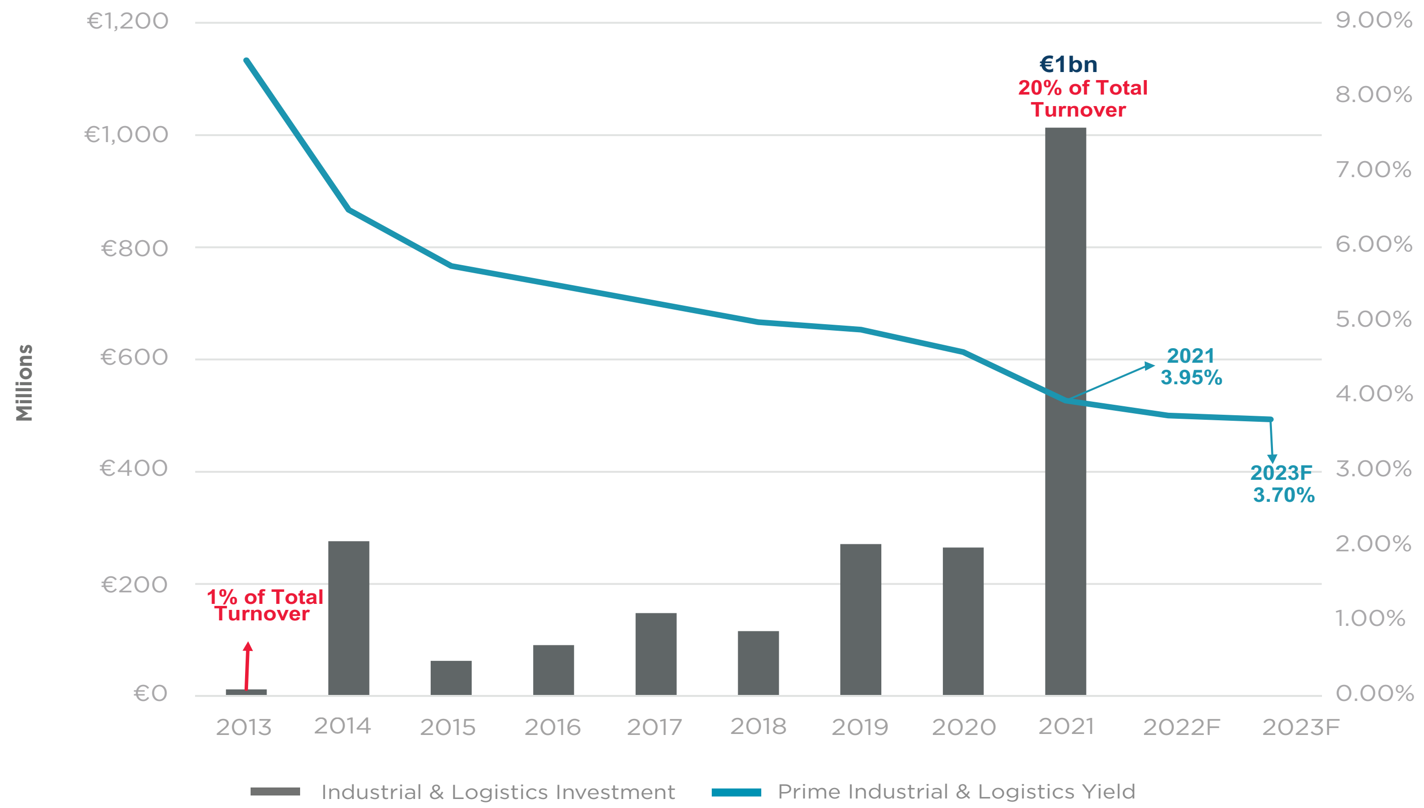
Similar to the European picture, the Irish market is experiencing unprecedented investor demand. Considering the limited investment supply, market insight comments on the intense competitive bidding situations witnessed in 2021. As of the end of December 2021, prime yields in the Dublin industrial market recorded a historic low of 3.95%, having contracted inwards from 4.25% at the midpoint of the year. Unsurprisingly, Cushman & Wakefield's forecasted yield outlook for 2022 predicts a further inward movement of 20 bps to 3.75%. When compared to other major European cities, the Dublin market remains competitive, for example prime yields in Manchester and Prague are likely to achieve 3.50% for 2022.

Analogous to the yield movement happening in Dublin, the regional logistics markets of Cork, Limerick and Galway are all forecasted to record prime yield compression of 25bps in 2022.

Of particular interest, 2021 witnessed several portfolio investments and one forward fund arrangement. In line with the market narrative since the end of 2020, the grouping of units' and forward commitment style investment arrangements is the future of industrial and logistics transactions. The grouping of assets illustrates the current imbalances between quality and scale of stock in the market, creating barriers for investors to find opportunities of the desired condition and capacity.

Looking to the year ahead, investor demand for industrial and logistics assets is unwavering. A good example of this is the sale agreed Primark distribution centre in Newbridge, Kildare, for a price expected to be in the region of €128m. Of note, this transaction is by way of a forward fund arrangement and signifies what is arguable the crux of the industrial investment market in 2022, lack of stock.

Total Capital Inflow & Dublin Prime Yields, Industrial & Logistic Assets, 2013 –2021



Source: Cushman & Wakefield Research

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INVESTOR APPETITE 2021

Aside from the impressive performance by the industrial and logistics sector, investor appetite continued to be robust for residential and office asset offerings.

Although the final quarter was muted for residential assets contributing just €265m, when combined with year-to-date volumes, total capital inflow for residential investments reached €1.7bn in 2021. Accounting for 34% of total annual turnover, the majority share, the residential investment sector surpasses that of the office investment sector for the second consecutive year in a row.

When analysing investment into residential assets further in the year, those with an income attached totalled €502m across 30 standing stock deals. While, €1.23bn was sold by way of a forward style arrangement.

The half point of the year recorded the bulk of residential investment activity, with five of the six €100m+ deals transact during that period. The largest deal of the final quarter was 147 units in Roselawn, Dublin, sold to investment manager, Aberdeen Standard Investments for a price in the region of €70m.

Propped up by the largest deal of the year, approximately €720m traded in office assets in quarter four, meaning office investment accounted for approximately €1.6bn across 41 assets in the year as a whole. 2021's turnover represents an increase from the €1.1bn recorded in 2020 but reflects a decrease from the €2.1bn recorded in 2019, however it should be noted that 2019 was a record year for the Irish commercial property market.

Capital deployed into office investment assets was mainly located in Dublin, absorbing €1.46bn of turnover, and in line with the narrative recorded in the office occupier market, approximately €1.3bn of this was located in the Central Business District (CBD).

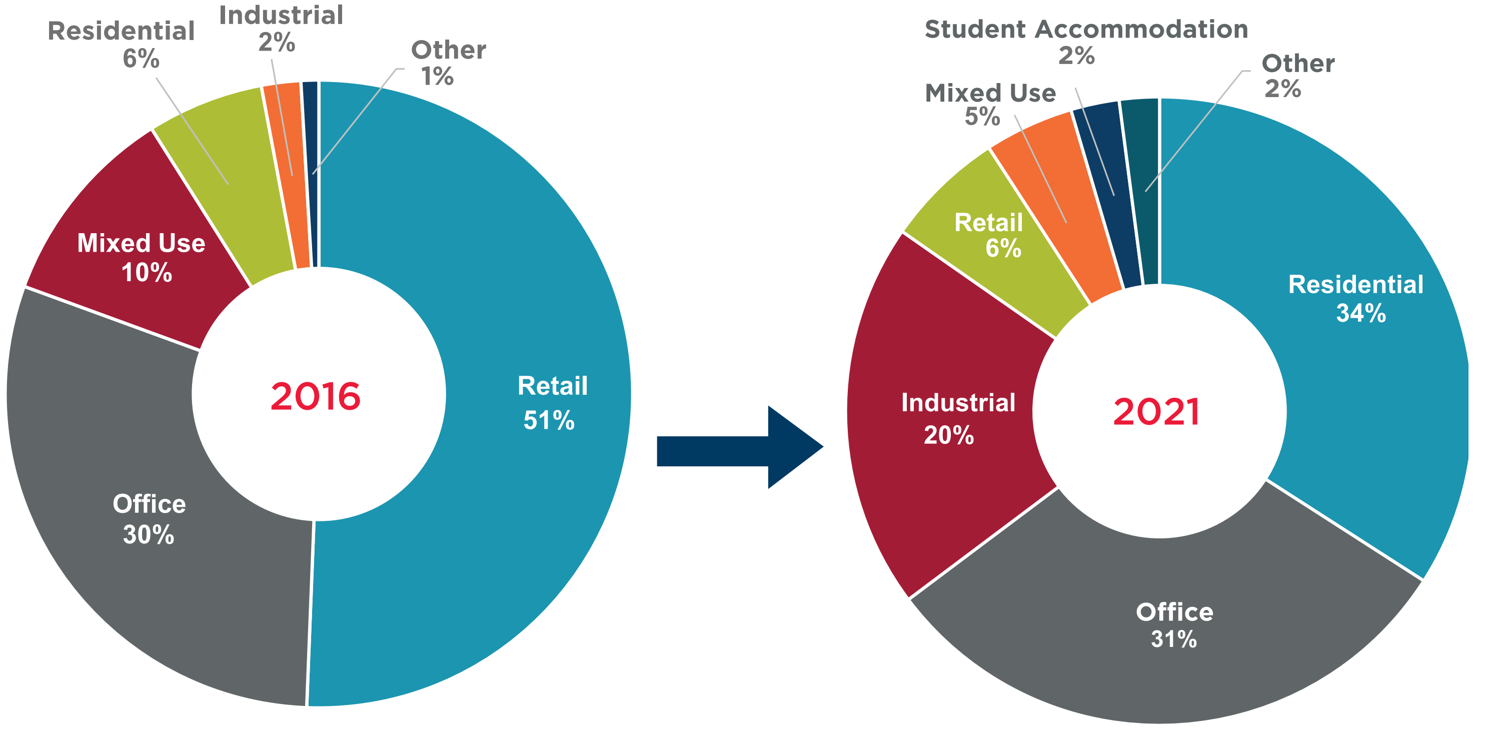
Of note, the final quarter of 2021 saw a pickup in retail activity, led by Marathon's sale of the Parks Collection, a portfolio of three retail parks, acquired by Marlet Property Group for €74m. Quarter four recorded €173.4m worth of retail assets trade hands, bringing total spend in the year to just shy of €313m across 27 transactions. Market intelligence notes how the outcome of the Parks Collection sale provides a good indication of where demand, and in turn, pricing lies for such assets following the initial market shock of the pandemic.

Mixed use assets accounted for €234m in 2021. The largest mixed use transaction of the year was Aviva's sale of Royal Hibernian Way on Dawson Street to a private Irish investor for €74m. Closely followed by Glenveagh's forward sale of the planned 262-bedroom Premier Inn hotel, Castleforbes, to German-based Union Investment for €70m

While student accommodation contributed €126m to 2021's turnover, a very significant chunk of this can be attributed towards two affiliate groups of Patrizia acquiring Dublin based, Thomas Street and Parkgate for €120m. The assets provide a combined 576 student homes in the city centre.

The remaining asset class group to feature in 2021 was the other category, accounting for approximately €105m or 2% of turnover. Of interest, the other category recorded the Centric Portfolio, which included four primary healthcare assets purchased by MKN Property Group for approximately €3.5m. The transaction supports current increasing interest in life sciences and health care, however with limited assets available in the market at present.

Total Capital Inflow, Investment by Sector, 2016 VS 2021



Source: Cushman & Wakefield Research
Other includes, Healthcare, Hotel, Education & Leisure Facilities & Unknown transactions

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MARKET OUTLOOK

Despite all the uncertainties on which 2021 commenced, the Irish investment market displayed resilience throughout the year. Activity, as expected, was constrained in the opening quarter, as lockdown measures restricted the free flow of overseas and even domestic investors. However, as we moved through the summer and autumn periods, movement improved and with-it, activity in the market, leading to what was a particularly prosperous closing quarter.

It is of no surprise, that beds, sheds and meds will continue to feature strongly in investors preferences at home and abroad in 2022, however availability of assets will dictate how they fair in the Irish market. It is worth noting that despite the diversification taking place, offices will also continue to feature strongly also. Occupier demand in offices has turned, with funds across Europe continuing to signal prime CBD offices as a target class. On the flip side, retail has struggled, however opportunities within the asset class, particularly in the form of retail parks, are one to watch for the coming year.

COMMENTING ON 2022 OUTLOOK, KEVIN DONOHUE, HEAD OF CAPITAL MARKETS IRELAND, NOTED:

"Investment activity in Ireland in 2022 may reach record levels, as we expect a buoyant year for the market. Ireland, especially Dublin, is seen as a core investment location within the Eurozone, attracting a diverse range of investors. Aside from offices, logistics and PRS, we have witnessed increased investor activity in the retail sector, especially in retail warehousing. 2022 will see this trend continue, with some shopping centres appearing on investors agendas again as the recovery in trading and footfall levels supports this."

Looking ahead to 2022 a number of key themes will shape the market.

1. ESG

A trend well under way before the pandemic, 2022 will see investors further prioritize ESG factors. Global recognition of climate change and the physical risks associated with it have driven up investment in green buildings and clean energy infrastructure. Investors are under pressure from their stakeholders for transparency around their portfolio decisions. This "long term social value" phrase is expected to be a big factor when considering an investment.

Market intelligence explains how most investors are willing to pay keen prices for environmentally sustainable assets rather than retrofitting the building to bring it up to standard. Or alternatively, the asset be priced accordingly with regard the cost of bringing the investment up to a desirable BER standard. Leading from this, 2022 is likely to see the concept of 'green premium and brown discount' come to the fore. Insight suggests the focus will lie more so on 'brown discount' as pricing for older stock is moving out and will continue to do so due to the costs of refurbishments.

ESG and responsible investing are set to play a pivotal role in the real estate industry in 2022, the opportunity lies with investors to capitalise on it.

2. Green is Good

Sticking in line with ESG efforts, it is worth noting a recent spotlight report conducted by Cushman & Wakefield Global on sustainability's impact on office investment pricing. The report conclusively found LEED-certified office assets have consistently performed at a premium when it comes to pricing across quality classes and geographies. The report found that, when keeping quality and class constant, LEED certified Class A urban office sales generated a 25.3% price per square foot premium over non-certified buildings, while LEED-certified Class A suburban office achieved a 40.9% premium over noncertified assets. Additionally, Cap rates for LEED-certified office buildings are noticeably lower than comparable non-certified office sales.

Although the findings of this report are focused on the US office market, it has indisputable relevance to the European market. The increasing preference for sustainable space among Class A office tenants and the growing ESG efforts made by intuitional investors are expected to continue these relative premiums on sustainable assets into the future.

3. Inflation & Interest Rates

Receiving a lot of media headlines in 2021 was the rapid acceleration of price inflation and with it the discussion on the forecasted movement in interest rates. Prices in Ireland soared in 2021, the annual average rate of inflation in the year was +2.4%. This compares to a fall of 0.3% for 2020 and an increase of 0.9% for 2019. The largest year-on-year price increase was recorded in December 2021 when prices rose by 5.5% compared to the previous December.

Irish inflation does not stand alone, the US witnessed consumer prices climb 7% in 2021, the largest increase since 1982, while the Bank of England reported an annual increase of 5.4% in December 2021.

With these intense bouts of price inflation Central Banks have come under pressure to address the cost of borrowing. This has led to differences of opinions between the European Central Bank, the Federal Reserve and the Bank of England.

The US Federal Reserve and the Bank of England have signalled a shift in their thinking on the issue. The Fed and the Bank of England believe the need to retire the word "transitory" when describing inflation and have consequently suggested an unwinding of bond purchases. The US central bank indicated the faster tapering will be accompanied by three inflation-cooling interest-rate hikes in 2022, the first might come as soon as March.

Whereas the European Central Bank is operating on a different school of thought and believes the current hike in inflation will be transitory, hence the ECB have so far ruled out an interest rate rise in 2022.

Historically, property performance has been more sensitive to the economic demand environment than to inflation, despite many leases being linked to inflation.

Ireland, Bond Yields and Interest Rates Outlook, 2020 - 2026

Year	Bond Yields	Interest Rates
2020	-0.25%	0.00%
2021	0.19%	0.00%
2022	0.05%	0.00%
2023	0.46%	0.00%
2024	1.14%	0.19%
2025	1.82%	0.56%
2026	2.31%	1.31%

Source: Moody's Analytics

Over the longer-term inflation adjusted property returns tend to be positive, suggesting that property keeps up with inflation, albeit returns are sticky to price changes in the short term. Similarly, when we analyse property yield movement versus government bond yields movement, we see a delayed reaction at turning points, suggesting a lag between any change in the risk-free rate and property pricing.

Whether the current bout of inflation proves transitory or not, interest rate outlook will play a pivotal role in the Irish commercial property market as investors look to seek out the best debt alternatives.

4. Merger & Acquisition's

Finally, another noteworthy one to watch for 2022 is merger and acquisition activity. The market has already recorded some examples of this. For example, Oxford Properties acquiring M7 Real Estate and more recently, the reported ongoing acquisition of Yew Grove REIT by Slate. This merger and acquisition activity is providing big capital sources a platform to enter and grow within commercial real estate markets and could be a trend we see more of as investors looks to increase their market share.

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YIELD OUTLOOK

Cushman & Wakefield's forecasted yield outlook for the Dublin investment market projects a slight inward movement of prime office yields in 2022. Although prime yield compression is evident across many European markets, Ireland continues to be an attractive destination in comparison, with some markets recording sub 3.45%.

Unsurprisingly, the yield outlook for the industrial and logistics market forecasts further inward compression in 2022. Limited supply coupled with strong investor and occupier demand currently underpin the historic low of 3.95%. Of note, market insight suggests the market is set to witness a new asset class in terms of quality in the coming years following the construction activity at present.

Prime yield outlook for High Street retail assets is forecast to undergo further yield correction; current records show yield levels at 4.50%. Transactional evidence is lacking for prime high street assets and therefore market sentiment is the driver of yield projection. However, in comparison, retail park yields are set to trend stronger over the coming quarters, similar to what has been witnessed in the UK and Germany since the pandemic began.

Prime Yield Outlook, 2022

Sector	Prime Yields Q4 2021	Outlook 2022
Dublin Office	3.85%	Yield Compression ↘
Dublin High Street Retail	4.50%	Yield Correction ↗
Dublin Industrial	3.95%	Yield Compression ↘

Source: Cushman & Wakefield Research

CONTACT DETAILS

AUTHORS

Kate English

Chief Economist,
Head of Ireland Research & Insights

+353 (0) 1 639 9206
kate.english@cushwake.com

Katie O'Neill

Economist
Research & Insights, Ireland

+353 1 639 9200
katie.oneill@cushwake.com

Kevin Donohue

Head of Capital Markets Ireland,
Director Ireland

+353 1 639 9234
kevin.donohue@cushwake.com

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