

Ireland Investment Market



Outlook for 2022

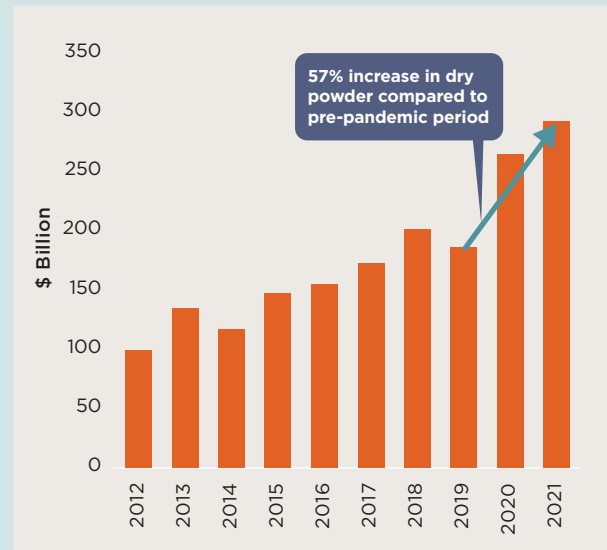
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Investment volumes to remain high

Last year, we saw €5.5bn worth of investments transact, and we expect a similarly strong performance in 2022. Capital fundraising for deployment to global real estate by US private equity firms has reached record levels with \$300bn of dry powder available to spend, which is 57% ahead of 2019 levels. Blackstone – who accounted for the two largest Dublin office transactions in 2021 – have \$37.2bn of dry powder to deploy alone. There also continues to be a wall of capital from European long-income funds, which will see them retain their position – held for the last three years – as the largest buyers in 2022.

“2021 saw €5.5bn worth of investments transact, and we expect a similarly strong performance in 2022.”

Figure 1: US private equity dry powder



Note: 2021 through December 20th

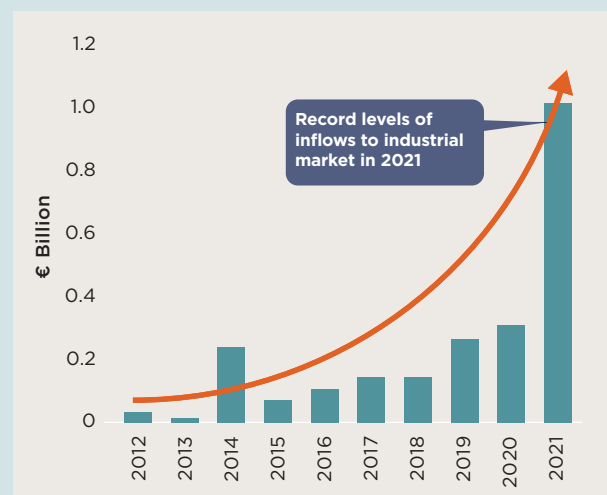
Source: Preqin, Bloomberg

2

Momentum behind sectoral favourites to continue

Investment into the industrial market topped €1bn for the first time in 2021, as the sector emerged as an institutional grade product in its own right. We expect this sectoral momentum to continue in 2022, with the lack of investable stock of scale the only limiting factor on volumes. In order to overcome this, investors are looking at creating their own product with forward funding deals set to become a significant part of the market in 2022. The PRS sector is witnessing similar trends, with the strong momentum now behind forward funding arrangements key to unlocking new supply.

Figure 2: Industrial investment volumes



Source: Savills Research

3

Better growth alignment across sectors



While the industrial and PRS sectors continued to grow through the pandemic, the retail sector was adversely affected by pandemic restrictions, impacting occupier and investor sentiment. Investment liquidity in this market was low even before the pandemic, with the lack of pricing evidence adding to underwriting uncertainty and impacting sales volumes. In this regard, the sale of 'The Parks Collection' Portfolio by Marathon Asset Management in 2021 has provided valuable price discovery and we expect to see more regional retail disposals come to the market in 2022. Offices are also set for heightened activity on the back of the pivot back to the office combined with resilient fundamentals through the pandemic period.

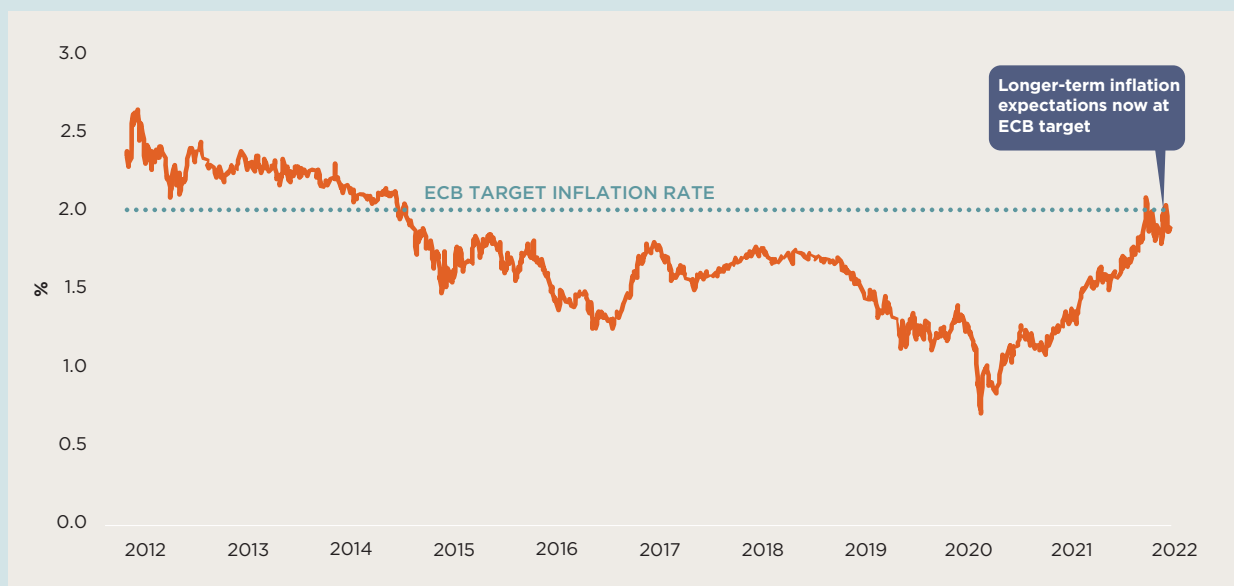
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Inflation is the key macro uncertainty

Without doubt, inflation is the key macro theme to monitor in 2022. While the Federal Reserve and the Bank of England have embarked on aggressive monetary tightening, the ECB has maintained that the fundamentals in Europe warrant a slower approach. In fact, it plans to continue with €0.5trn of monetary stimulus pencilled in for this year, to add to the €2.0trn already spent over the last two years. Inflation has, however, run ahead of their own expectations, with

the ECB staff forecasts for 2022 upgraded to 3.2% in December from 1.7% in September. Such large revisions over short horizons underlie investor nervousness on the topic. However, while longer-term inflation expectations have increased (as signalled by the 5yr, 5yr Forward Inflation Expectations Rate), they have only climbed to 2%, which is in-line with the ECB target rate. If this number grows significantly further, expect the ECB to act and raise rates earlier than currently signalled.

Figure 3: 5yr, 5yr Forward Inflation Expectations Rate



Source: Bloomberg

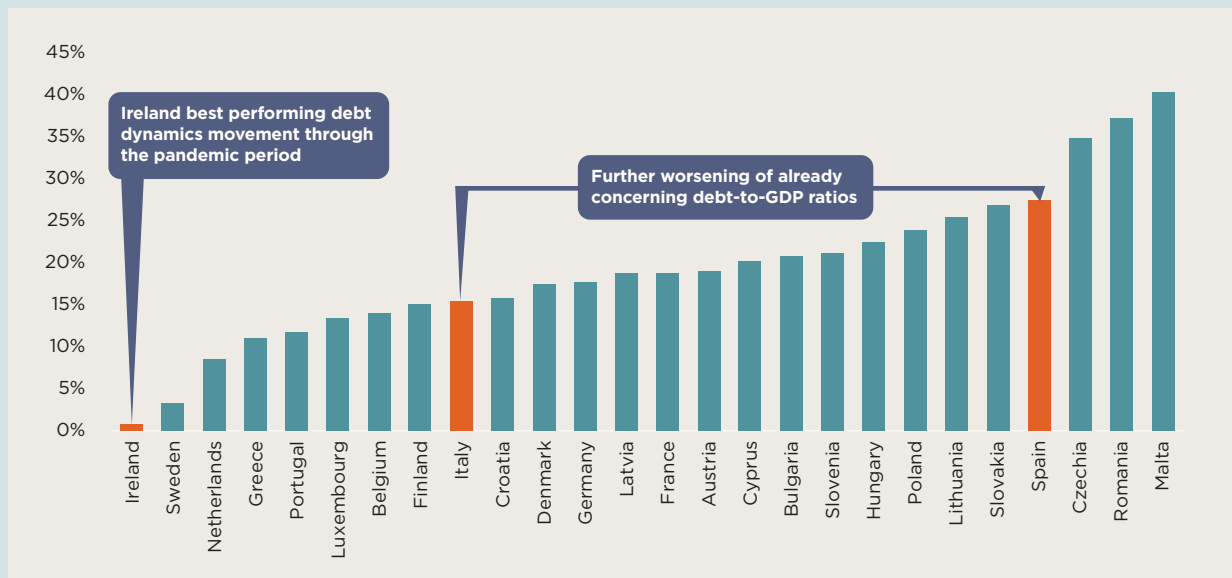
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Can the liquidity tap be turned off without affecting sovereign solvency?

Perhaps the main reason that Europe is reluctant to raise interest rates is the capacity of some peripheral European countries to shoulder higher interest costs. While this concern pre-dates the pandemic, two years of economic stagnation combined with increased government spending has exacerbated the problem. Italy, in particular, is too big to fail and the pricing of their sovereign debt will be a key data point to monitor in 2022. Under the worst case scenario, we may see a repeat of the eurozone crisis that engulfed Europe a decade ago. This time, however, the ECB’s capacity to fight the threat of

sovereign solvency in a high inflation environment may be an intractable problem to solve. Therefore, investors will be paying special attention to the stability of the macro environment that they invest into in 2022. While debt-to-GDP ratios have increased across Europe through the pandemic, Ireland has performed the strongest in this regard. Ireland’s debt to GDP ratio has only increased by 1%, while Italy has seen its increase by 18% and Spain by 28%. Ireland’s stability through the crisis will enhance its relative attractiveness to deploy capital in the context of an increasingly concerning sovereign solvency outlook.

Figure 4: Change in debt-to-GDP ratios, Q4 2019 to Q3 2021



Source: Eurostat

6

Real estate provides an effective hedge

In the context of low prevailing interest rates and increasing inflation risk, investors tend to seek refuge in tangible assets such as real estate due to their simple and predictable cash flow structures. Ireland’s lease structures provide especially good protection for investors, with little to no operational cost inflation exposure while having income streams that are regularly marked to market. Leases with CPI linked or other index structures will perform especially well in an inflationary environment. Retail assets also tend to perform strongly, especially those where rent is linked to underlying revenue streams, ensuring a direct exposure to price inflation.





7.1%

expansion in domestic economy expected in 2022



€5.5bn

transacted in 2021, the second highest level ever



117%

growth in retail investment volumes last year



-1.5%

secondary logistics saw the strongest yield compression

Macro view

Pandemic period affirms the resilience of the Irish property market, as investors eye the post-pandemic landscape.

Whilst risks remain on the horizon, there are plenty of economic positives at the start of 2022. Starting with the latter, the reopening of the economy will provide tailwinds across property sectors with GDP expected to grow by 8.7% in 2022, while the domestic economy is set to expand by 7.1%¹. The rebound in consumer activity that began last year will gather pace, with consumer spending expected to grow by 9.4% this year following a 5.8% expansion last year. This will set the foundation for renewed interest in retail assets in the year ahead. While demand rebounds, it is supply-side factors that are primarily driving inflation worldwide. Pandemic linked supply chain problems will take time to ease, with related raw material, energy, semiconductor and labour shortages continuing to feature, but at a declining rate.

While the ECB will come under pressure to act on inflationary pressures, its tools are limited to demand-side measures which may prove ineffectual when the source of inflation is largely supply-side driven. Nevertheless, they may feel compelled to act in order to keep inflation expectations anchored. The bond market has already started to price in potential rate changes, albeit in a volatile fashion. This will represent a new dynamic for the real estate sector after a long period of low-interest rates, but opportunities remain across a broad spectrum of areas. Some sectors remain an effective hedge against long-run inflationary pressures, while other sectors are undergoing structural changes in their core tenant markets. These underlying influences will continue to provide favourable conditions for investment in 2022.

“ Interest rate rises will offer a new dynamic for the real estate sector after a long period of low rates. ”

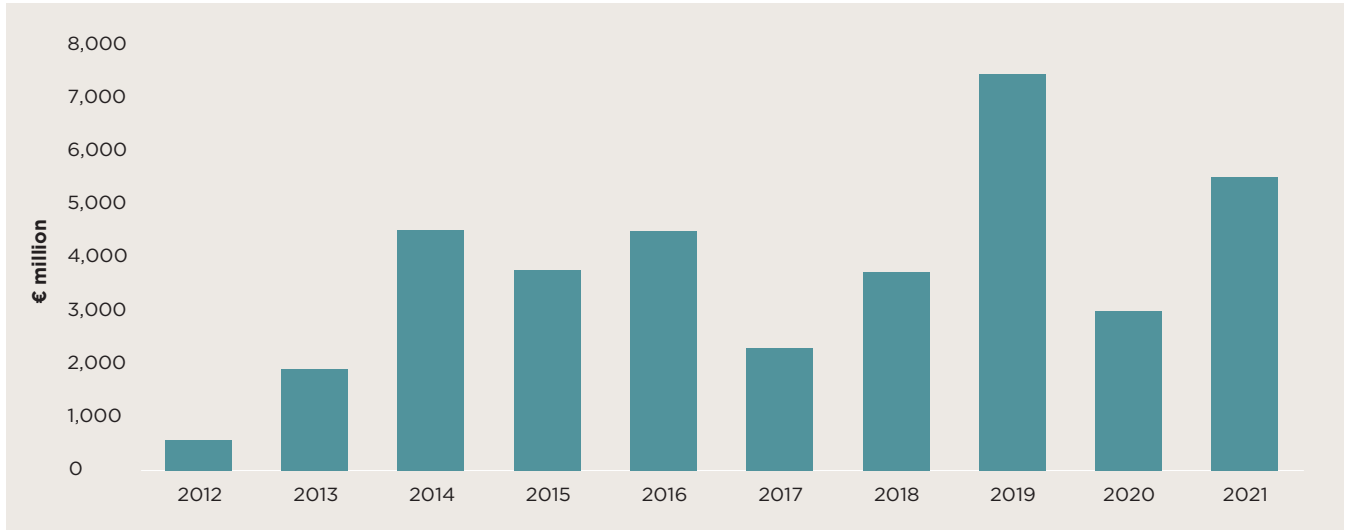


76 SRJQ, Dublin 2

¹ Central Bank of Ireland, Quarterly Bulletin 01/ January 2022

Investment flows

Figure 5: Investment volumes



Source: Savills Research

€2.0bn was invested in Irish commercial real estate in the final quarter of 2021, bringing full-year investment volumes to €5.5bn – 57% higher than the long-run average. Despite restrictions on property viewings at the start of 2021, the first-half of the year still contributed approximately half (49%) of full-year volumes, higher than the 41% average. It is worth noting that this is the first time that both halves of the year saw over €2.7bn transacting, illustrating the depth of demand for assets in the Irish market.

The average transaction value in 2021 was €28m, significantly above the five-year average of €20m, but fewer than average number of deals transacted (198 versus 226). The past few years have seen a trend of fewer sales but increases in the average transaction value, with transactions over €50m taking a more substantial share of total investment volumes (73% in 2021 compared to five-year average of 60%). This points to a market increasingly becoming more amenable to large international pools of capital, where the average lot size would typically be larger.

💬 **This is the first time that both halves of the year transacted over €2.7bn.** 🗨️

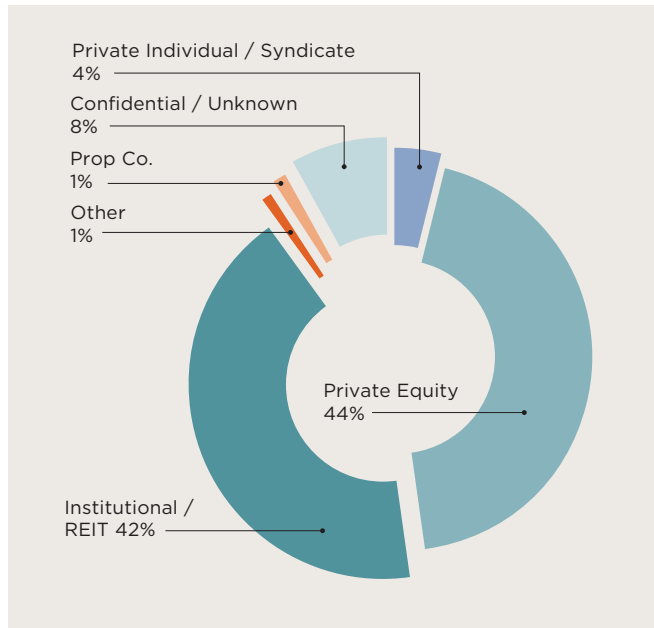


Investor analysis

Private equity (44%) and institutional capital (42%) contributed 86% of investment volumes for the year. European investors were the most active purchasers in 2021, with 39% of investment volumes. This is down from 52% in 2020 as investment from the US took a larger market share accounting for 24% of turnover, compared to 10% a year previously.

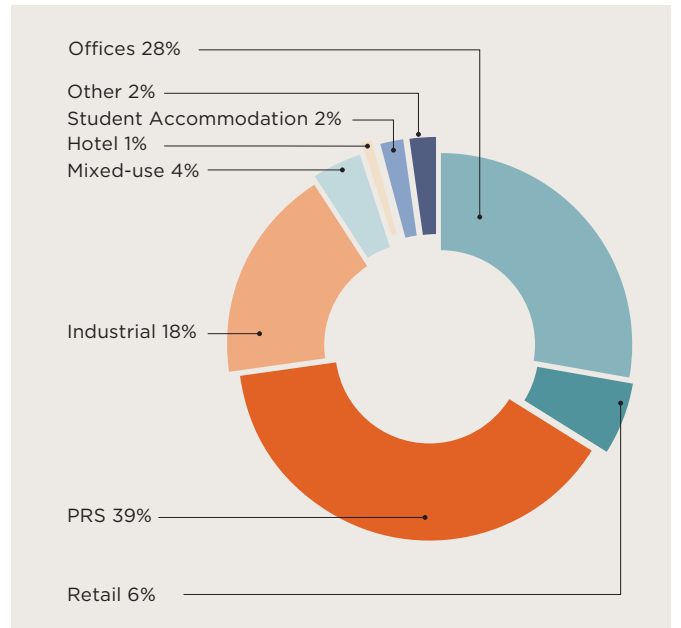
Irish investors saw their market share fall to its lowest level since the series began with 17% of transaction volumes, again underlining the internationalisation of the market. Regarding disposals, property companies were the most active in trading out of their positions as they accounted for 34% of disposal volumes.

Figure 6: Investment turnover by buyer type



Source: Savills Research

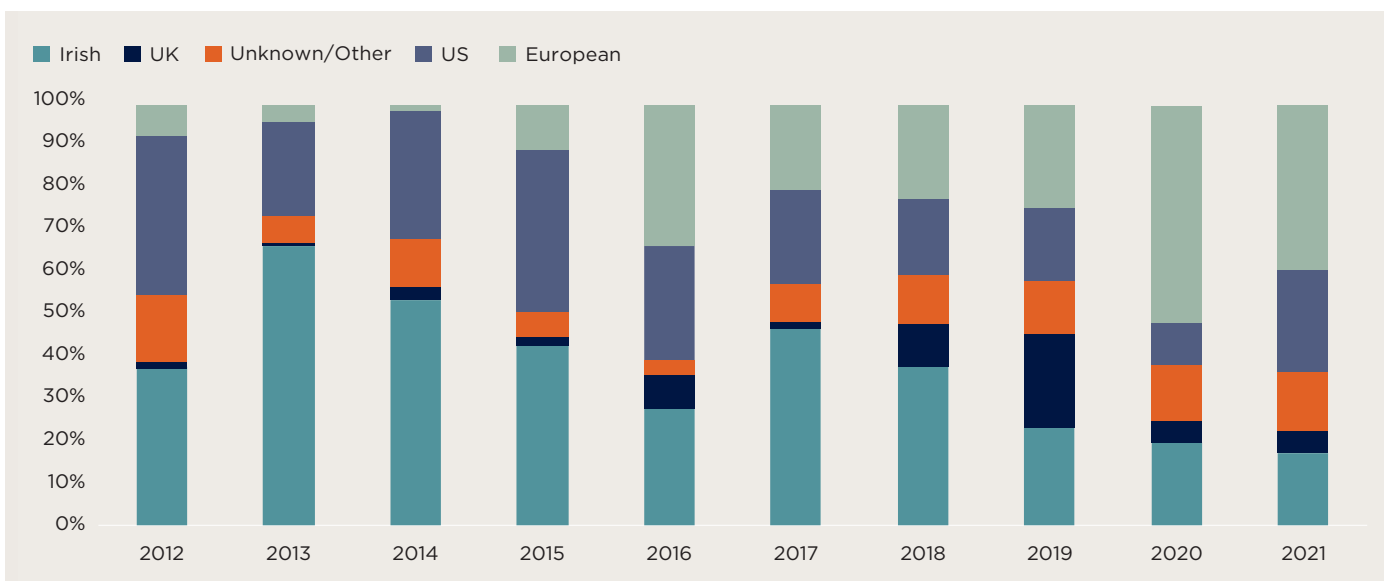
Figure 7: Investment share by sector



Source: Savills Research

👉 Private equity and institutional capital contributed 86% of investment volumes. 👈

Figure 8: Investment turnover by nationality



Source: Savills Research

PRS market

Table 1: Top PRS deals

Quarter	Property	Vendor	Buyer	Price
Q1	Ardstone Portfolio	Ardstone	P&C	€450.0m
Q2	8th Lock, Royal Canal Park, Dublin 15	Ballymore	Union Investment	€200.0m
Q2	Dwyer Nolan Portfolio	Dwyer Nolan Developments	Ardstone	€181.0m
Q2	Griffith Wood, Dublin 9	Cairn Homes Plc	Greystar	€176.5m
Q2	East Village, Clay Farm, Dublin 18	Park Developments	Blackrock/SW3	€127.0m

The rise of the PRS sector continued in 2021, accounting for 39% of volumes and outperforming the rest of the market. In total, €258m worth of assets were traded in Q4, bringing the yearly total to €2.1bn, which compares to the €1.2bn sold in 2020. Several factors are contributing to the growing importance of the PRS sector in Ireland. These include a critical shortage of suitable rental accommodation, demographic changes, and inward migration driven by multinational companies active in the tech and finance sectors. Investment in the area is funding the creation of much-needed supply, with the built-to-rent sector the main driver behind the increase in new residential commencements in Dublin. The use of forward purchase structures provide certainty of exit for developers in the industry. 76% of PRS transactions used these structures in 2021, a new high for the series.

The largest PRS - and the largest commercial real estate - transaction of the year was the Ardstone Portfolio, comprising

€258m

worth of assets were traded in Q4, bringing annual volumes to €2.1bn as compared to €1.2bn in 2020.

of 900 residential units that transacted in Q1 for €450m. The second largest PRS deal was Union Investment's forward fund of 435 apartments from Ballymore for €200m. The Royal Canal Park site in Ashtown sold in Q2 and was the German institutional fund's first investment in the Irish residential market. The Dwyer Nolan portfolio was the third largest transaction in the sector in 2021, with the transaction seeing 398 units change hands across three sites in Santry, Finglas and Clongriffin in north Dublin.



Ashbrook, Clontarf, Dublin 3

Retail market

Interest in the retail sector gained traction in 2021, with turnover of €307m representing an increase of 117% on the previous year. While uncertainty remains from a difficult pandemic period and evolving shopping habits, value opportunities are presenting themselves. High street retail has been particularly hard hit, but as the economy opens up and people return to the city, it is a growth story that many investors will seek exposure to. In particular, prime assets that offer strong income protection in the short-term, with rental growth prospects over a longer horizon, will be the first to recover in 2022 as pandemic related risks clear.

Retail parks performed well during the pandemic, driven by steady demand for electrical goods, furniture, food, and household items. These assets tend to be well located, helping them facilitate returns and click-and-collect orders whilst remaining popular with retailers due to their cheaper rent and larger unit sizes. As a result, investors increasingly view them as assets with strong defensive characteristics and a favourable income-risk profile. Consequently, retail parks formed the two largest transactions in the retail sector last year. The largest retail transaction of 2021 was a collection

of prime retail parks across Ireland. Marlet purchased the Parks Portfolio for €74m from Marathon Asset Management at an initial yield of 8.6%. The acquisition of Nutgrove Retail Park by German fund AM Alpha for more than €66m was the second largest retail transaction of the year. Transaction activity was not limited to retail parks, with the sale of Citywest Shopping Centre forming the third largest retail transaction. Ardstone Capital paid €30m for the convenience led centre and its adjoining lands, which have planning permission for 290 apartments.

€307m

Interest in the retail sector gained traction in 2021, with turnover of €307m representing an increase of 117% on the previous year.

Table 2: Top retail deals

Quarter	Property	Vendor	Buyer	Price
Q4	The Parks Collection	Marathon Asset Management	Marlet	€74.1m
Q3	Nutgrove Retail Park, Dublin 14	Davidson Kempner	AM Alpha	€66.3m
Q4	Citywest Shopping Centre, Co. Dublin	Goldman Sachs	Ardstone	€30.3m
Q4	Adamstown Town Centre	Quintain	Savills IM	€25.8m
Q3	26/27 Grafton Street, Dublin 2	Aviva Investors	Deka	€25.4m



Belgrade Retail Park, Tallaght, Dublin 24, sold as part of the The Parks Collection



Donnybrook House, Dublin 4

Office market

Q4 provided a boost to office market investment with €721m transacting, bringing annual spend to €1.6bn – behind only 2019 in the previous five-year period. It is hoped that the momentum generated in the final quarter will continue into 2022, with the return to the office now in train. The sector's fundamentals are positive with the vacancy rate and headline rents remaining relatively stable during the pandemic. This is likely to result in a renewed momentum behind new construction, as supply remains tight in prime areas and there continues to be significant demand for new and efficient space, especially with buildings that meet the increasingly important ESG requirements. While yields on prime office assets have remained stable at 4.00%, we would expect the right product to trade significantly below that level if brought to the market.

The largest office transaction of both Q4 and the year was Blackstone's acquisition of a substantial portion of Meta's new European campus in Ballsbridge. The holding was sold for €395m by the Serpentine Consortium - a syndicate of private individuals and companies - with strong bidding from a range of parties. This transaction highlights the depth of capital and confidence international investors have in the office market, despite uncertainty surrounding the pandemic and any material changes to traditional

€1.6bn

worth of office investments took place in 2021 – behind only 2019 in the previous five-year period.

working practices. Blackstone's enthusiasm for the sector has been present throughout the year. Their acquisition of a majority interest in the office focused portfolio Project Tolka for €290m was the second largest office transaction of the year. This sale forms part of U.S. private equity firm Colony Capital's disposal of its wider Irish property interests and withdrawal from the market. The deal, which concluded in Q2, saw Blackstone secure ownership of a 75 per cent interest in the Burlington Plaza office complex on Burlington Road and a 72 per cent stake in the Three Building at 28/29 Sir John Rogerson's Quay and Whitaker Court. Dekka's acquisition of 70 Sir John Rogerson's Quay from Irish Life was the third largest transaction of the year, with the asset changing hands for €164m in Q2. Matheson, Ireland's largest law firm, recently committed to a new long-term lease, providing income security for the new landlord at an initial yield of 4.1%.

Table 3: Top office deals

Quarter	Property	Vendor	Buyer	Price
Q4	Serpentine Buildings, Dublin 4	Serpentine Consortium	Blackstone	€395.0m
Q1	Project Tolka, Dublin	Colony Capital	Blackstone	€290.0m
Q2	70 Sir John Rogersons Quay, Dublin 2	Irish Life	Dekka	€164.0m
Q4	One and Two Dockland Central, Dublin 1	Hibernia REIT	Commerz Real AG	€152.3m
Q1	76 Sir John Rogersons Quay, Dublin 2	TIO	AM Alpha	€95.0m

Other sectors

Table 4: Other top deals

Quarter	Property	Vendor	Buyer	Price	Sector
Q4	Project Tiger (Irish Assets)	EQT Exeter	GIC	€285.0m	Industrial and Logistics
Q4	Project Core	Core Industrial REIT	KKR/Palm Capital	€196.0m	Industrial and Logistics
Q4	PBSA assets in Dublin 7 and Dublin 8	P&C	Patrizia	€120.0m	Student Accommodation
Q2	Liffey Park Business Campus, Kildare	O'Flynn/Blackrock	Stoneweg	€95.0m	Industrial and Logistics
Q2	Premier Inn, Castleforbes, Dublin 1	Glenveagh	Union	€70.0m	Hotel

Source: Savills Research

Table 5: Yields by sector

Sector	Q4	Annual Change
Offices - Prime CBD	4.00%	0.00% ◆
Offices - Secondary CBD	5.00%	0.00% ◆
Industrial and Logistics - Prime	4.00%	-0.25% ▼
Industrial and Logistics - Secondary	4.75%	-1.50% ▼
Shopping Centres - Prime	5.75%	0.00% ◆
Shopping Centres - Secondary	9.25%	0.00% ◆
Warehouse Retail - Prime	5.00%	0.00% ◆
Warehouse Retail - Secondary	9.50%	0.00% ◆
High Street - Prime	4.50%	0.25% ▲
High Street - Secondary	7.00%	0.00% ◆
PRS - Prime	3.60%	0.00% ◆
PRS - Secondary	5.00%	0.00% ◆

Source: Savills Research

The industrial and logistics market continued to grow in 2021 as €1bn worth of assets traded – a record for the sector. Strong macroeconomic fundamentals and expectations of future growth in occupier demand stemming from growing e-commerce sales combined with barriers to new supply make industrial assets attractive to investors. The top three transactions in the 'Other' category took place in Q4, illustrating the strong finish to the year. The largest was the Irish component of the Project Tiger portfolio acquired by GIC from EQT Exeter for €285m. Second, was Palm Capital's €196m purchase of the Core Portfolio. Third, was Patrizia's acquisition of two standing student accommodation schemes in Dublin 7 and Dublin 8 for €120m, although the assets will be siloed into two separate funds; namely the Pan-European Property LP and Europe Residential Plus funds. The largest mixed-use asset to change hands was Royal Hibernia Way in Dublin, which sold for €74m in Q3 to a private Irish individual. The property comprises 78% office space and 22% retail, with the vast majority of the office space leased to the Davy Group. The asset traded a tight net initial yield of 3.54%, as the property has strong reversionary and asset management potential.

€1bn

The industrial and logistics market continued to grow in 2021 as €1bn worth of assets traded.



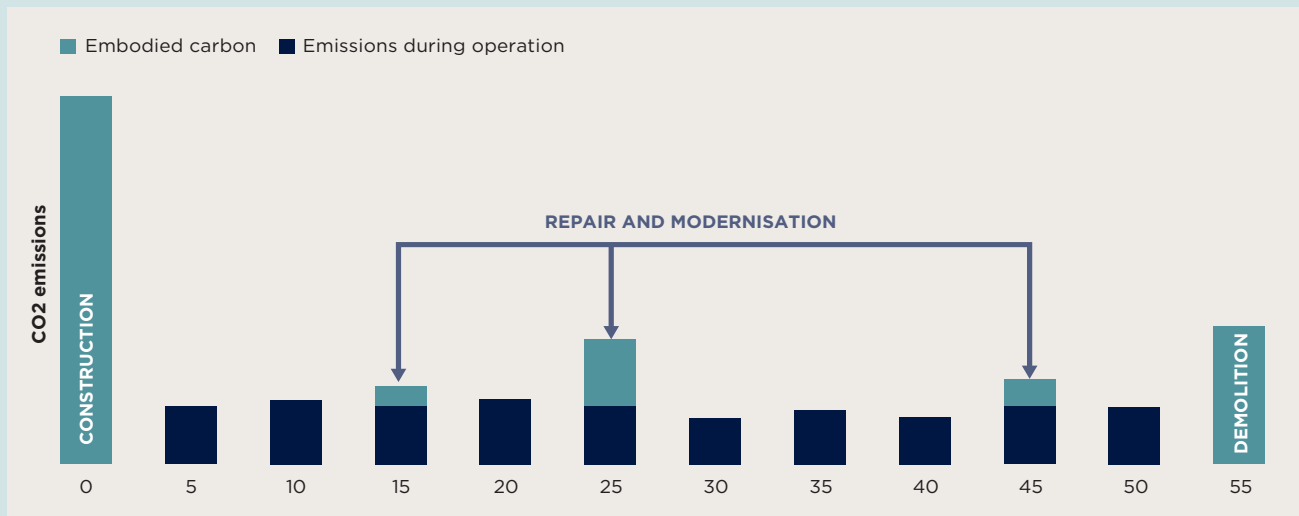
ESG Outlook

Investor considerations to evolve further in 2022

While ESG investment considerations have been en vogue for a number of years now, the lack of a European-wide regulatory taxonomy is inevitably leading to diverse approaches to sustainability. Much of the ESG approaches - due primarily to ease of measurement - have focused on the green credentials of new builds, but we will likely see an increased emphasis on

the green refurbishment of existing buildings going forward. This is because the embodied carbon released during construction is at least as important as the carbon released over the operational lifetime of a building. We are already aware of funds that have raised capital targeting this strategy and we expect this trend to harden in 2022.

Figure 9: Schematic distribution of CO2 emissions in the life cycle of a property



Source: Savills in reference to London Energy Transformation Initiative



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