February, 2023

Dublin, Ireland

Capital Markets Report

Year-End 2022

Investment Market 2022

€ 5.7bn

Second-largest Year for Investment Volumes

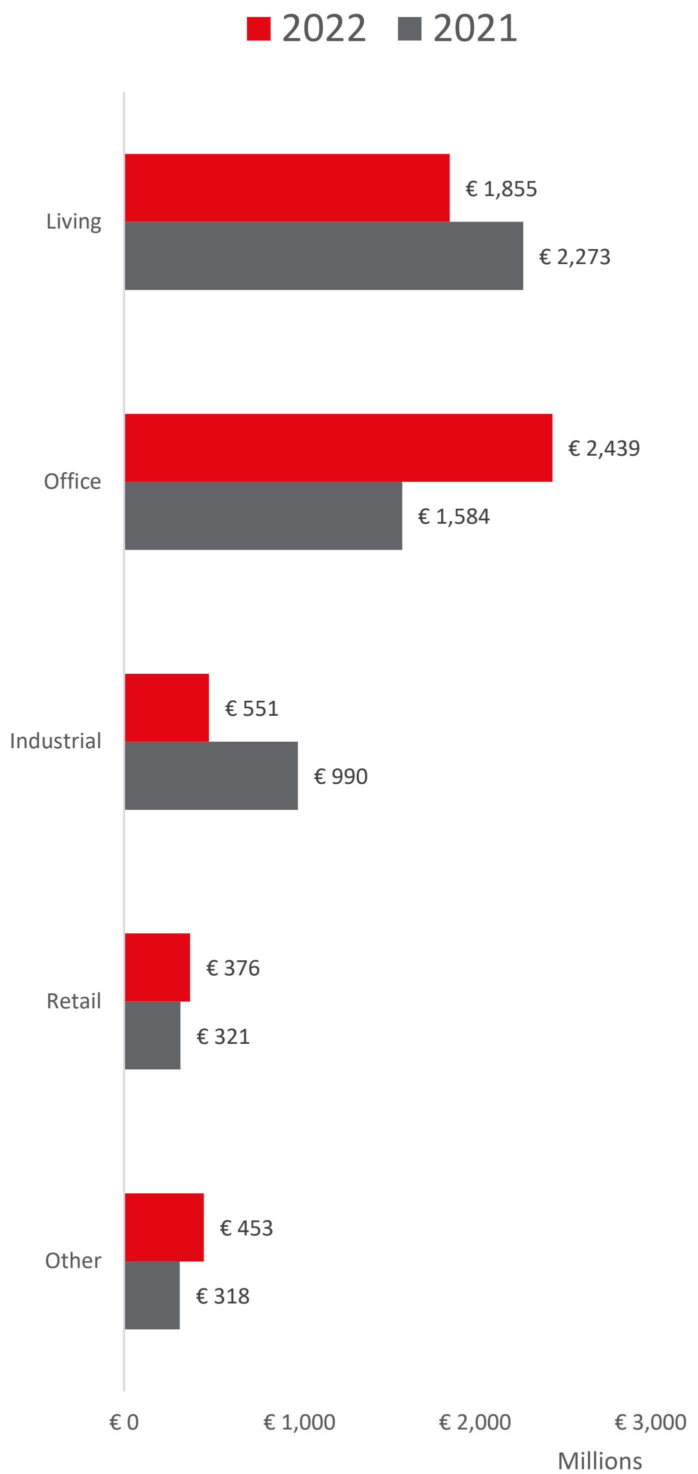
Living
Residential investment was +5.6% above the five-year annual average, with €1.85bn in volumes transacted throughout the year, the third largest on record.

Office
Offices had its largest year on record with €2.43bn invested. Over nine transactions in the sector were above €45m. Dublin 1 was the most active area for investment volumes, propelled mainly by the Salesforce HQ transaction.

Industrial & Logistics
2022 was the second-largest year for logistics, with €551m transacted in the sector, behind only 2021, where a record of €1bn was invested.

Retail
The sector had its strongest year since the beginning of the pandemic in 2020, with €376m invested. It is the most robust performing sector for activity outside of Dublin due to the sales of provincial shopping centres and retail parks.

Alternatives & Other
In periods of readjustment and inflation, investors will seek to diversify their portfolios and seek new growth opportunities. This has been reflected in 2022, where healthcare, student accommodation, hotels, and life sciences were over 11% of the market for the year in terms of volumes. A student accommodation transaction was the largest living deal.



Slowing global growth is forcing investors to be more selective on sector deals

2022 was Ireland's second-largest year for investment with just under €5.7bn spent across 161 deals, which was +2.2% above 2021, and volumes were +29.4% above the five-year average from 2017 to 2021. Office, Living, and Logistics are the leading sectors for investment in 2022, with 43%, 33%, and 10% of the market share, respectively.

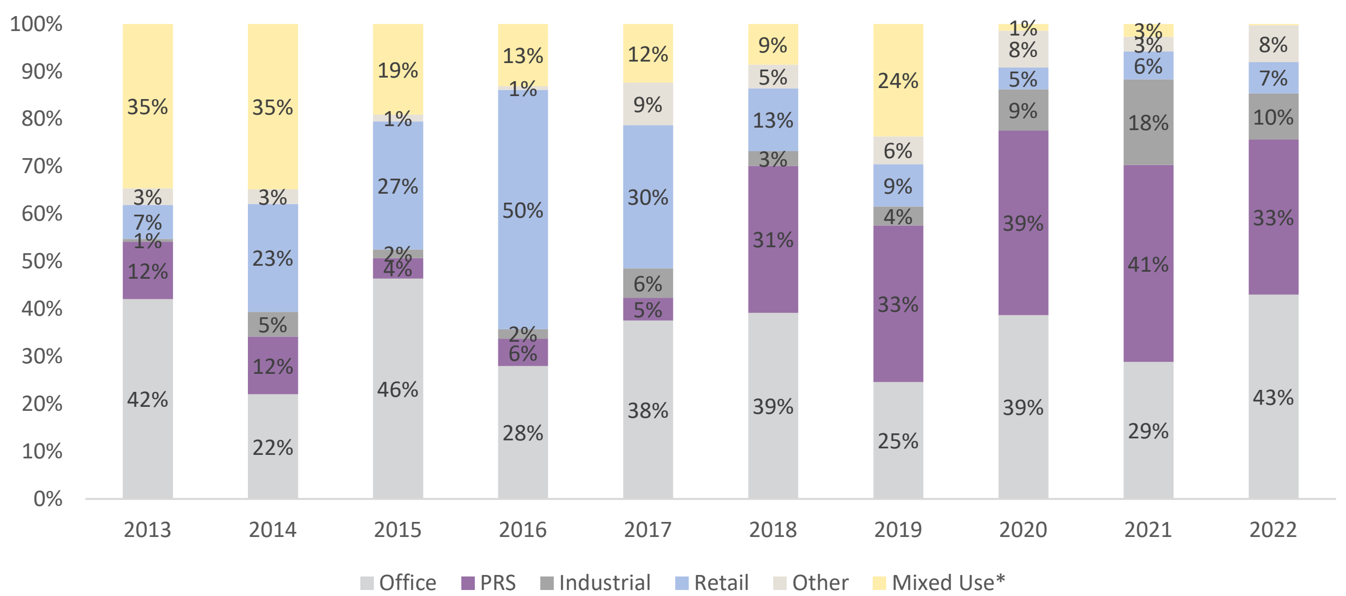
The office sector was the most active in 2022, dominated by two notable transactions. The first, one of the largest single asset office investments in the state's history, occurred, with Blackstone acquiring Salesforce's new European headquarters at Spencer Place in Dublin's North docklands for €500m. The second occurred in Q2 2022, with the acquisition of Hibernia REIT and its portfolio, by Brookfield Asset Management for €1.1bn. These two deals represented 65% of office investment for the year and 28.3% of the total market.

After a record year in 2021, investor interest in logistics assets continued throughout 2022 and was the second-highest on record. The size of the market was only limited by the shortage of stock. Investors will seek to avail themselves of new strategies and market opportunities in the current climate. Transaction activity supports this with the continued rise of alternative assets such as healthcare, hotels, student accommodation, and life sciences. These asset classes were 11% of the market in 2022.

The level of investment throughout the year was healthy despite the unexpected global economic shocks that led to rising interest rates, growing inflationary pressures, and monetary tightening across the board. The increasing cost of debt impacted the market by the fourth quarter, and it was shown in outward yield movement across most asset classes. Economic headwinds have continued into the first half of 2023 and they bring with them implications for real estate. Most notable will be the increased uncertainty affecting decision-making, the challenges to operational expenditure, as well as pressure on capital expenditure, leading to Investors and developers reassessing opportunities and risk.

There is still a significant amount of capital sitting on the sidelines, and investment opportunities will arise as with any adjustment period. The volatility of debt costs will ease, the current phase of price discovery will pass, and more certainty will enter the market as underwriting becomes more apparent and the appetite for risk returns. The period of repricing is likely to see some winners and losers, but forced sellers are expected to be limited. High-growth sectors like Life Sciences and Data Centers will likely emerge from the temporary pause to solid demand. In contrast, the Living sector is expected to remain relatively resilient throughout the downturn and beyond.

Historic Market Share



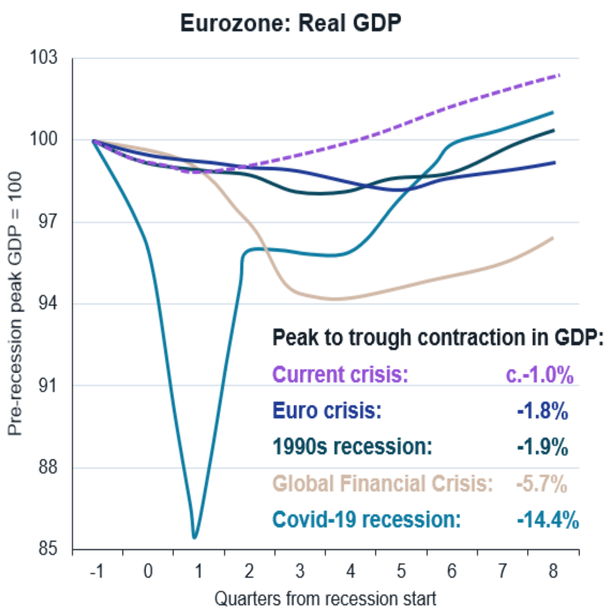
*From 2022 onwards, the predominant asset class was used for mixed-use investments.

Economic Overview

Most economies across Europe are experiencing a downturn in activity, with the prospect of a recession highly probable in certain regions. However, compared to European counterparts, indicators point towards positive growth for Ireland's economy in Q4 2022, which led to an estimated GDP growth of +12.2% for the year.

Any downturn within the Eurozone will be relatively short and shallow. In chart 1, comparing the depth of the contraction and speed of the recovery to previous recessions, the forecast is that the current downturn will be the shallowest of the last five downturns, with peak-to-trough contraction in GDP of around 1%.

Chart 1.



Source: Oxford Economics

In chart 2, assessing the quarter-on-quarter profile for GDP growth (RIGHT side), where a PLUS indicates positive growth and a MINUS indicates contracting GDP, we can see that by Q2 2023, most economies apart from the UK are forecast to be moving out of recession and returning to growth.

It should be noted that Ireland bucks the trend as it did throughout Covid-19 with a robust GDP, bolstered by the presence of more than 1,500 multinationals, among them most of the world's top tech and pharma firms.

Chart 2.

GDP growth (positive or negative), quarter on quarter

	Q4 2022f	Q1 2023f	Q2 2023f	Q3 2023f	Q4 2023f
Ireland	+	+	+	−	+
Eurozone	+	+	−	−	+
Germany	−	−	+	+	+
France	−	−	+	+	+
Italy	−	−	+	+	+
Spain	−	−	+	+	+
UK	−	−	−	−	+

Source: Oxford Economics

Even if the European recovery is delayed, the continent will see the light at the end of the tunnel come the second half of 2023. The UK will be an outlier, though, compared to mainland Europe.

Why short and shallow?

Tight labour markets: There is low unemployment, notably in Ireland, the unemployment rate is 4.4%, an almost two-decade low. Across Europe, there are also high vacancies and rising wages, even as economies tip into recession.

Strong household and corporate balance sheets: These will provide some cushion to insulate the rising cost of living and cost of operating.

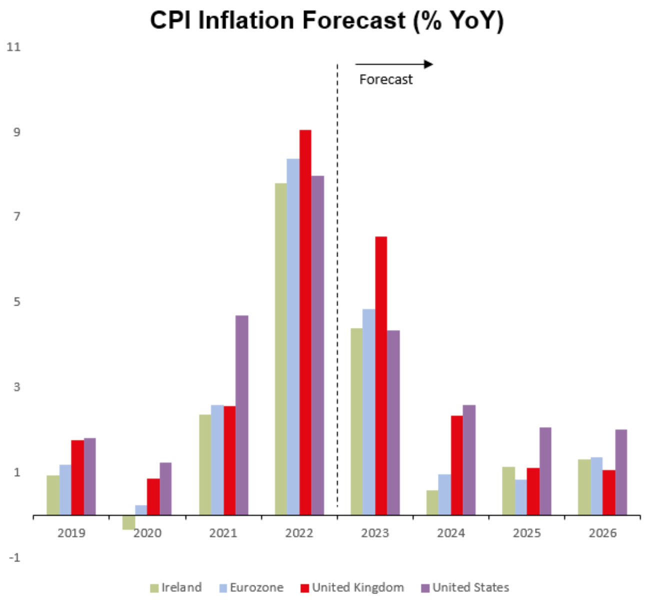
No other "vulnerabilities" as in previous recessions: Like a housing bubble or over-leveraged banks. This prevents the recession from feeding on itself and propagating.

Economic Overview

Inflation

Most economic indicators point towards inflation falling in 2023. If there are no other systemic shocks to the economy, then it is widely believed that the peak of the current inflationary period has passed.

Chart 3.



Source: Oxford Economics, February 2023

Additionally, in January 2023, the Eurozone reported that the inflation rate dropped from double digits of 10.1% to 9.2%, and Ireland dropped from 9% to 8.2%. There are multiple reasons that will contribute to the likelihood of a declining inflation rate:

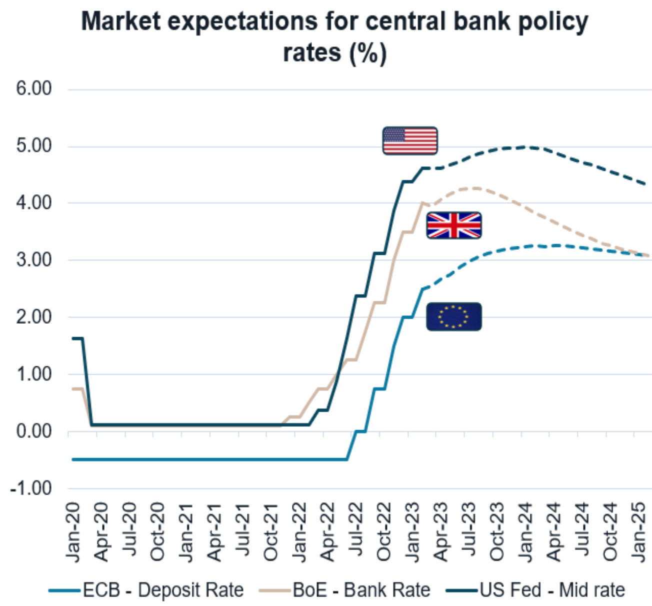
• International commodity prices – including oil and gas – have fallen in price.
• Supply chain disruption eased considerably over the year.
• Currencies strengthened in the last quarter, reducing import prices
• Tightening monetary policy will weigh on domestic demand and price pressures.

But this temporary period of high inflation will leave a legacy:

• Central banks have shifted interest rates which will remain slightly higher than the average rates that were present before.
• Although the rate of change of prices (i.e. inflation) will fall, many costs will remain elevated and will not fall.
• High inflation pushed up all prices, leaving them disconnected from their demand and supply fundamentals. This has distorted the relative prices of goods and services and it will take time (years) for this to be re-established.

This has a significant implication for real estate as construction costs have increased significantly. These costs may fall slightly but are highly unlikely to revert to pre-inflation levels, meaning a legacy of greater build costs. Positively though, price certainty will return.

Chart 4.



Source: Refinitiv; JLL. Data updated to 03.02.2023.

Interest Rates

For the past 15 years, the direction of borrowing costs has been pretty much a one-way bet. With central bank policy rates pushed to near-zero across much of the world during the global financial crisis (GFC) and staying there for a decade, benchmark bond yields and other debt reference costs fell steadily. The policy response to Covid, drove rates lower, and undid the limited tightening that had been seen in the years prior.

Economic Overview

Central banks will tighten further with the potential to overshoot

We are now moving towards a higher interest rate environment. The following year or so will see most major central banks tighten monetary policy further, likely pushing through neutral into contractionary territory.

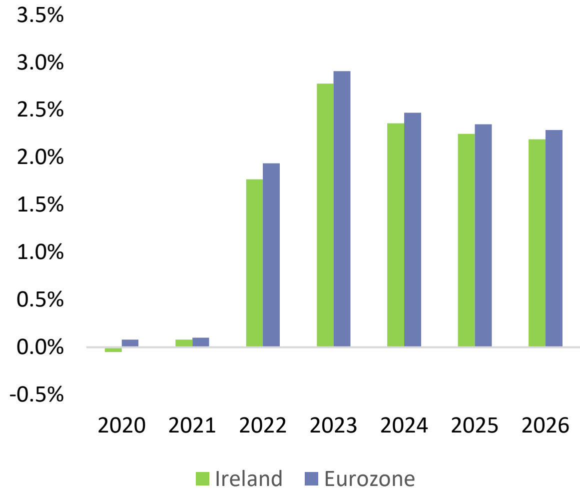
This will be an overshoot, and as growth slows and inflation falls, rates will descend back to neutral, which is neither stimulative nor contractionary on the economy.

The era of cheap money is over, and this adjustment will be a shock. But it is worth noting that the policies are not returning to pre-GFC rates. Economic actors have become far more interest-rate sensitive, meaning that a minor base rate shift today will do the same as a more significant shift in the past, giving central banks 'more bang for each quarter-point-adjustment buck'. The net result is that 'neutral' will be lower, although how low it is unknown.

Uncertainty will persist into the first half of 2023

The critical challenge for commercial real estate is the uncertainty over the adjustment's size, speed and duration. This uncertainty is weighing on real estate capital markets activity and will persist into the first half of 2023. There is still a significant amount of capital sitting on the sidelines, and as with any adjustment period, investment opportunities will arise.

Long-term Government Bond Yields



Source: Oxford Economics, February 2023.

European gas price (EUR per MWh)

Source: Refinitiv.

Prime Yields

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Living	3.60%	3.60%	3.75%	4.00%
Office	3.90%	3.90%	4.10%	4.25%
Industrial & Logistics	4.00%	4.00%	4.25%	4.50%
Retail Unit Shops	4.50%	4.50%	4.50%	4.75%
Shopping Centres	5.75%	5.75%	5.75%	5.75%

Living Investment

The living sector was the second most active, representing a third of the market in 2022. Investor demand remains, and it is driven by the continuing occupier supply/demand imbalance.

However, headwinds can potentially impede the sector. These include rising input costs (construction materials, energy, transport), rising borrowing costs, labour and material shortages, and (fears of) recession, leading to a slowdown in development and forward-funding deals as investors remain cautious, trying to protect their cash flows. Additionally, The sector's growth is impacted by a cumbersome planning system leading to unnecessary delays with new commencements.

There are also tailwinds, with rising retail mortgage rates set to boost rental demand as households (first-time buyers in particular) will rent for longer. A drop in available rental supply is likely to intensify the acceleration in rental growth despite affordability concerns in the market. As stable market conditions emerge into 2023 and beyond and stakeholders adjust expectations, the living sector is poised to remain one of the more favoured sectors within the Irish market.

Elsewhere in the sector, the structural undersupply of student homes (and other resident-specific accommodations) will continue making the investment case for PBSA. Finally, Capex requirements for retrofitting older stock in advance of new regulations will become an increasing challenge for some landlords, while residents will be more conscious about energy efficiency.

Living Investment

European Prime Yields

Top 5 Living Investments 2022

	Property	Sale Price	Purchaser
1	Project Ruby, Student Accommodation	€145,000,000	Ares Capital
2	Project Phoenix, Leinster	€135,000,000	Confidential
3	Brickfield Square, Dublin 12	€123,500,000	Greystar
4	Magna Drive, Citywest, Dublin 24	€122,000,000	Ardstone Capital
5	Churchview, Killiney, Co. Dublin	€110,000,000	DWS Group

Office Investment

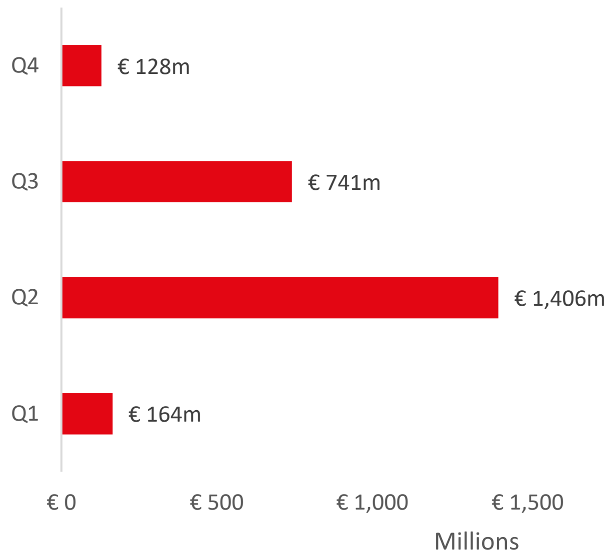
In the face of changing attitudes towards the future of the workplace, the office market has been resilient throughout the pandemic and the aftermath as it continues to navigate structural and cyclical challenges. 2022 was another robust year for the sector, with over €2.4bn invested, and some significant transactions occurring over the last 12 months.

Another boost for the market was the healthy levels of leasing activity within the sector. The Dublin market was in line with the long-term averages for the sector and increased by +50% on the leasing volumes achieved in 2021. Additionally, record prime headline rents were achieved, despite the subdued expansionary ambitions of the tech sector.

As the sector progresses into a post-pandemic world, the flight to quality has come to the forefront. The convergence on quality is bringing about a significant shift in the industry. The relationship between investors and occupiers has long been transitional and sometimes even adversarial. However, the relationship between building owners and occupiers is now evolving to a collaborative approach, forming new partnerships that meet their aligned ESG criteria. Landlords need to deliver sustainably designed buildings, and tenants need to monitor their usage of office accommodation to have their combined sustainability goals.

This flight-to-quality trend will create a bifurcation in the market, with demand for high-quality Grade A space showing greater resilience. Grade B and lower assets will come under increasing pressure and, in some cases, may be unleasable in their current form. There will be growing refurbishments and retrofitting in the Dublin market, as an estimated 86% of office buildings within the region were built before 2018.

Office Investment



European Prime Yields

Top 5 Office Investments 2022

	Property	Sale Price	Purchaser
1	Hibernia REIT Acquisition	€1,089,000,000	Brookfield
2	Salesforce HQ, Spencer Place, Dublin 1	€500,000,000	Blackstone
3	Founders District, Dublin 4	€97,500,000	LCN Capital Partners
4	The Watermarque Building, Dublin 4	€92,250,000	Corum
5	Point Square, Dublin 1*	€13,400,000	Ballybunion Capital

** Comprised of a 240,000 sq. ft shopping centre as well*

Industrial & Logistics

The logistics sector demonstrates resilience with healthy demand levels and strong fundamentals. 2022 was the second-largest year for investment, with €550m transacted in the sector, behind only 2021, where a record of €1bn was invested.

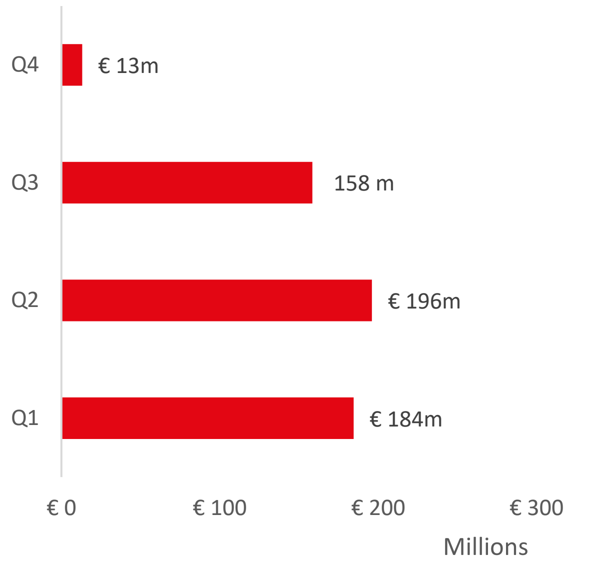
The Dublin market offers healthy returns for investors, with rents anticipated to exceed €12 per sq. ft. in 2023 and favourable prime yields compared to many markets in mainland Europe and the United Kingdom.

Additionally, vacancy rates have reached record lows in Ireland and Europe, with the Dublin Market estimated to be between 1% and 2%. A lack of available space will continue to support the sector as, from a landlord and occupier perspective, there is now a chronic shortage of availability in most size categories, and it is expected to worsen throughout 2023. This is particularly acute in the light industrial sector, with only two live planning applications in the pipeline in Dublin for new schemes, the first since the late 2000s.

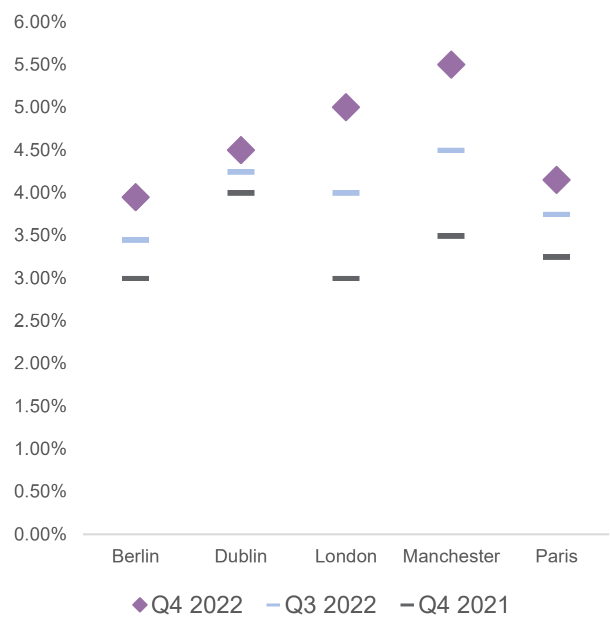
While size and height obsolescence has always been a common problem, ESG requirements are now at the forefront for Industrial property, which typically has lagged behind the other sectors. There will likely be a divergence in the prime sector between buildings with the highest ESG credentials and buildings that do not have them. While this has yet to be thoroughly tested in the market, it has occurred in other jurisdictions and is an indicator for the sector in the years ahead.

Investors with an eye to long-term future-proofing their assets will need to upgrade older buildings to meet this new standard and achieve a high tenant retention level.

Industrial & Logistics Investment



European Prime Yields



Top 5 Industrial & Logistic Investments 2022

	Property	Sale Price	Purchaser
1	Distribution Centre, Co. Kildare	€128,700,000	Confidential
2	Confidential Sale	€68,000,000	Confidential
3	Uniphar Facility	€68,000,000	M&G
4	North Ring Business Park	€49,999,000	M7
5	Greenogue Portfolio	€39,000,000	Kennedy Wilson

Retail

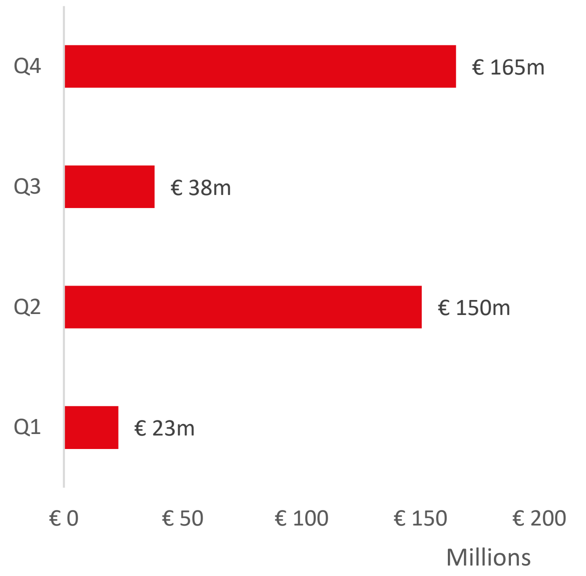
Unlike last year, 2023 is kicking off with better occupancy across the top and medium-tier shopping centres and high streets. The degree of availability created in 2020 opened the door for new and expanding brands to develop bricks and mortar offerings in Ireland. Exclusive brands such as Panerai, Mulberry, Montblanc, IWC, Cartier, and Clarins took advantage of availability, as did Zara, Brown Thomas, Penneys and Flannels for larger units. Whilst spending, for the most part, has improved, increased energy and operational costs hinder margins for many retailers.

Prime rents remained stable in most European countries in the final quarter of 2022. Prime retail rents are expected to remain stable in most European countries in 2023, albeit some pockets of growth may appear, depending on the affordability of rents. Solid growth is expected to return in 2024. Polarisation will continue to play out, with greater occupier focus on prime destinations, where sales continue to remain highly resilient and footfall recovers to pre-COVID levels in select locations.

Most European retail markets have reported outward yield shifts in Q4 2022 as investors have become more cautious about acquiring new stock or halted transaction processes until clarity on pricing improves. The outlook for the European retail investment market in 2023 remains uncertain. A pick-up in investment activity may be observed from the second half of 2023 onwards once inflation eases and debt markets stabilise.

The market is expected to see continued liquidity in 2023 in neighbourhood shopping centres, secondary shopping centre stock and grocery-anchored retail warehouse assets. A broader range of assets is likely to trade once market conditions improve, including major shopping centres, more extensive retail portfolios, and some transactions pushed into 2023.

Retail Investment



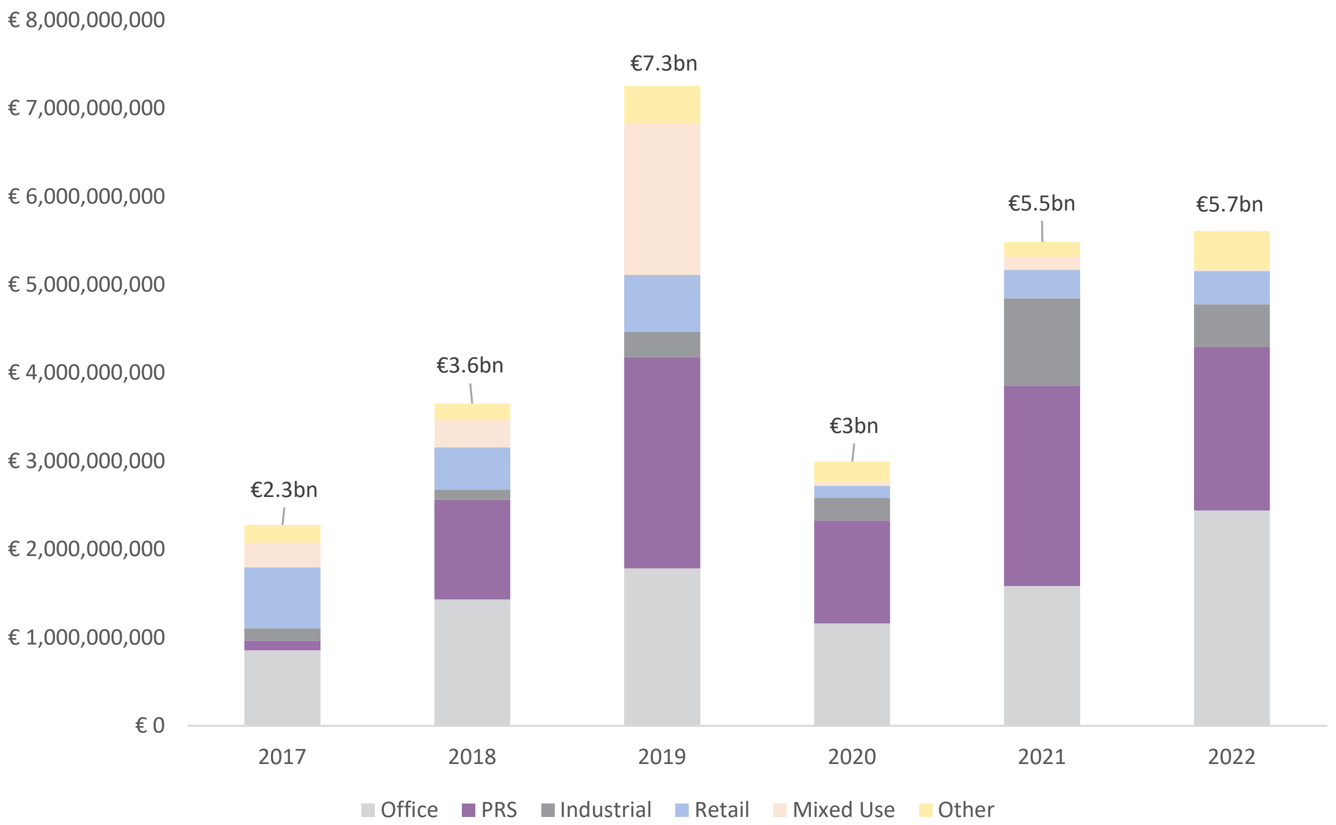
European Prime Yields*

** Unit Shops*

Top 5 Retail Investments 2022

	Property	Sale Price	Purchaser
1	Manor West Shopping Park, Tralee	€55,175,000	Marlet Property Group
2	Confidential	€28,000,000	Confidential
3	Dundlak Retail Park, Co Louth	€25,000,000	Camgill Development Corp.
4	Eastgate Retail Park	€24,250,000	Harvey Norman
5	Confidential	€20,000,000	Confidential

Annual Overview



Prime European Yields

	Office	Industrial	Unit Shops
Amsterdam	3.60%	4.25%	3.60%
Barcelona	4.50%	4.25%	3.85%
Dublin	4.25%	4.50%	4.75%
Frankfurt	3.40%	3.90%	3.20%
Hamburg	3.25%	3.90%	3.10%
London	4.00%	5.00%	2.75%
Madrid	3.90%	4.75%	3.75%
Manchester	5.50%	5.50%	6.00%
Milan	3.75%	4.70%	3.70%
Paris	3.25%	4.15%	3.35%
Warsaw	5.25%	5.25%	5.50%

We can support you with expert advice that reflects your business needs and priorities

John Moran
CEO & Head of Capital Markets
JLL Ireland
john.moran@jll.com

Max Reilly
Senior Director, Capital Markets
JLL Ireland
max.reilly@jll.com

Niall Gunne
Senior Director, Capital Markets
JLL Ireland
niall.gunne@jll.com

Brian Shields
Senior Director, Capital Markets
JLL Ireland
brian.shields@jll.com

Sandra Walsh
Associate, Capital Markets
JLL Ireland
sandra.walsh@jll.com

Claire McDowell
Surveyor, Capital Markets
JLL Ireland
claire.mcdowell@jll.com

Niall Gargan
Head of Research
JLL Ireland
niall.gargan@jll.com