Lisney
COMMERCIAL REAL ESTATE

Lisney
Sotheby's
INTERNATIONAL REALTY

OUTLOOK 2024

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FOREWORD

2023 is a year that once again, sadly, will be remembered most notably for the outbreak of another global tragedy; namely the warfare between Israel and Hamas in Gaza and the unspeakable atrocities occurring before the eyes of world since October.

At a global and humanitarian level, we can only hope that 2024 will bring a de-escalation of the atrocities both in Gaza and in Ukraine.

Since 2020, we have experienced and witnessed some of the most remarkable and dramatic events of a lifetime. A global pandemic, two horrific wars, increasingly extreme weather events as climate change continues to impact our lives and of course many global economies grappling with high inflation resulting in rapid successive interest rate increases to temper the pace of growth. The term permacrisis seems appropriate since the onset of Covid-19 some four years ago.

Despite so many geopolitical and economic headwinds, the fundamentals of the Irish economy continue to hold up well, there is full employment with the numbers employed at historic highs (2.66m people) with many sectors dealing with labour shortages; consumer sentiment in December 2023 was higher than 12 months previous. Despite concerns over a drop in exchequer

returns toward the end of the year, in November they stood at €22bn year to date approximately 4.2% higher than the same period last year. Importantly, Eurozone inflation has fallen to 2.4% from 10.6% this time last year. Whilst these are all positive indicators of the economy, it is also true that many continue to struggle in the face of the sharp increase in cost of living in Ireland over the last number of years. The adequate supply of housing and the homelessness crisis remains our single greatest societal challenge with multi-generational impacts of this felt in the population.

DESPITE SO MANY GEOPOLITICAL AND ECONOMIC HEADWINDS, THE **FUNDAMENTALS OF THE IRISH ECONOMY CONTINUE TO HOLD UP WELL**

We know that property markets are cyclical by nature and as we enter 2024, I am more optimistic about the outlook for the property market. It is likely that we are at the peak and perhaps even on the downward side of the interest rate cycle. Once more certainty emerges around where interest rates may settle, savvy investors will immediately see opportunities in the marketplace and perhaps similar to the recovery after the Global Financial Crisis, those who act first will see the greatest reward. 2024 will certainly continue to hold many challenges, however the hope is that we may return to more stabilised market conditions in commercial property particularly, most likely into the second half of the year.

At Lisney, we are committed to delivering best in class service and advice for our clients both in the commercial and residential markets in which we operate across our brands Lisney Commercial Real Estate and Lisney Sotheby's International Realty. With a history spanning nine decades we have witnessed many property cycles both good and challenging, and in a world of uncertainty, knowledge and informed perspective are invaluable. I hope you find the information within this Outlook both informative and insightful and that it will provide you with added advantage in the property market in the year ahead.

David Byrne,
Managing Director

MARKET OVERVIEW

In both the commercial and residential property markets, many of the dominant trends from the latter half of 2022 continued throughout 2023 and will continue for much of 2024.

Global interest rates are having the widest impact on the world of property, but so too are elevated construction costs, delays in the planning system, greater moves towards sustainability and the evolution in building occupancy.

With interest rates reaching 22-year highs in the EU and US, the investment market had further price adjustments last year with values now down more than 25% but with significant variations across sectors.

Prime yields generally drifted out by 50 to 125 bps in the year with offices and PRS impacted the most and retail, industrial and more alternative assets to a slightly lesser extent. There will be further yield softening this year and prices will fall further, but with some sectors more stable than others. Wider risks in both the office and PRS sectors will be in greater focus and these issues will need to be factored into valuations and pricing to bridge the gap between vendors and purchasers.

The office market will continue to encounter challenges in 2024, from both an occupational and investment viewpoint. Many of the post-pandemic trends will remain, the most obvious of which is WFH / hybrid working, which along with adjustments in the tech industry, will continue to feed into grey space and reduced levels of activity. Sustainability is also a key factor and while it affects all parts of the built environment, it is high on the list for the office sector. Various European and domestic policies will continue to affect how properties are funded and occupied. With offices, there is a fear that Grade B buildings will become stranded assets – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead.

The industrial / logistics market will also become more focused on ESG factors and various new builds and refurbishments will seek LEED and other certifications. In a bid to reduce carbon footprints, more will consider glue-laminated timber frames as an alternative to steel. Despite some softening in demand from the very strong take-up during the pandemic and a lack of supply, industrial market activity this year will remain strong.

The land market has been challenged for several years now, greatly impacted by uncertainty in planning policy (the new Planning & Development Bill was due to be finalised last year but with the latest draft just published it will be at least Q2 before it is enacted) and the endless delays in getting a finalised planning permission. It has also been affected by construction cost inflation (labour and materials – albeit now more stable and potentially falling in 2024) and elevated finance costs (if available at all). The outlook for 2024 is more positive in terms of land sale activity and sentiment will improve as the year progresses.

Finally, in the parts of the residential market that we operate in, prices have generally remained stable over the year and will likely do so again this year. With interest rate rises, buyers are more price sensitive and cautious (at the very upper-end of the market where cash purchasers are more dominant, this is of less relevance) but in spite of this, the greatest impediments in the market remain the chronic lack of supply and legal delays in completing transactions.

Across all sectors, many of the same trends are going to continue to affect the market in 2024. How interest rates evolve will be key – a steady decline to more sustainable levels is preferable as faster adjustment could mean greater issues in the underlying economy.

Aoife Brennan,
Senior Director, Head of Research

THE INVESTMENT MARKET HAD FURTHER PRICE ADJUSTMENTS LAST YEAR WITH VALUES NOW DOWN MORE THAN

RESIDENTIAL

The significant lack of homes for sale will mean that transactions will occur, and prices will be generally stable, but potential purchasers will remain cautious.

OUR VIEW

Trends and official statistics relating to the overall residential market do not always correlate with what Lisney Sotheby's International Realty agents experience on a day-to-day basis. Lisney Sotheby's International Realty is most active in the mid to upper price bracket in specific locations, and so our view is not always representative of the entire market. Additionally, trends experienced by agents on-the-ground can take some time, perhaps up to six months, to feed through into official market statistics due to the length of time it takes to conclude a sale. The 'Lisney Sotheby's International Realty View' set out in this report relates to our experience in the parts of the Irish property market we operate in.

DUBLIN

NO DRAMATIC FALL-OFF IN DEMAND EXPECTED

The Dublin residential market continues to evolve. Pre-summer 2022, it was very much a sellers' market with built-up pandemic-related savings and low interest rates fuelling exceptionally strong demand. Global geopolitical and macroeconomic factors, primarily due to the war in Ukraine, lead to a less disposable income as the cost of living and interest rates rose. These factors resulted in a less frenzied property market and a balancing of power between buyers and sellers. This continued up until mid-summer 2023 but over the course of the second half of last year, the market became somewhat flat – a trend that will continue this year with no dramatic fall off in demand but also no bounce in activity. The significant lack of homes for sale will mean that transactions will occur, and prices will be generally stable.

Censure House, Howth, Co. Dublin

Potential purchasers will remain cautious in the opening months of 2024 as elevated interest rates continue to impact affordability and repayment capacity for a large part of the market, particularly for those seeking lower to mid-priced homes, where borrowing is most prevalent. As interest rates begin to adjust downwards, likely in the second half of the year, this caution may lessen but will depend on the cause of the interest rate falls – a quick move downward may signal wider issues in the economy. At the upper-end of the market, cash purchasers dominate, and interest rates are of less relevance. However, any changes to interest rates and the wider macroeconomic situation affects market sentiment across the board. While not all individual experiences fully reflect the broader Irish economic situation, it is encouraging for the year ahead that Irish household savings remain at record highs, growing more than €4.5bn (+3%) in the first 10 months of 2023. It is also positive that there is still full employment with many economic sectors seeking to recruit talent, and inflation continues to ease falling four percentage points last year (to about 5%).

28 Grosvenor Road, Rathmines, Dublin 6

BACKLOG WAITING TO RIGHT-SIZE

House hunters continue to have requirements and viewing numbers remain good if asking prices are realistic. However, a more cautious buyer approach can be seen in the generally slow progression from viewing to making an initial offer. Buyers will continue to be very price sensitive, unwilling to bid past certain limits, but also unwilling to even view properties with asking prices past their budget. It has been notable in recent times how quickly demand for a property improves when the asking price is reduced by as little as 5%, clearly demonstrating the narrow margins buyers are working off.

There are some potential buyers adopting a wait-and-see approach; perhaps focused on the macroeconomic situation, but also contending with constrained options due to lack of supply. There is also a large cohort of would-be sellers waiting to trade-down and right-size their housing requirement. The lack of forward options for them means a continuous vicious circle where their homes are not available to those wishing to trade-up. The absence of bridging finance and the complete lack of homes to rent to facilitate moves means it is easier for many to just remain in houses that are too large and not adequately meeting their needs.

BUYERS WILL CONTINUE TO BE VERY **PRICE SENSITIVE,** UNWILLING TO BID PAST CERTAIN LIMITS

Seapoint House, Seapoint, Co. Dublin

DEMAND INFLUENCED BY BERs

Purchaser demand will remain fixed this year on good quality homes in well-connected desirable locations. Like recent years, properties in turnkey condition or only needing decorative work will attract greatest demand. Properties requiring deep retrofitting or other construction works will take longer to sell and must be priced appropriately given the cost of construction materials and availability of labour remaining an impediment. Encouragingly however, there is some evidence that these costs have plateaued and there are more builders now available to quote for work.

With greater awareness around energy prices and a desire to reduce carbon footprints, the performance and efficiency of properties is of considerable interest to buyers. Practically all potential home buyers now ask about the BER of a property before viewing, whereas pre-2022, this was seldom asked and did not constitute a major deciding factor when buying a home. In the existing home market, a BER of A or B is in greatest demand, with ratings of C or below viewed significantly less favourably. The fact that lower 'green mortgage' rates are generally on offer for properties of B3 or better is also contributing to demand.

The continued prevalence of WFH is also impacting demand. Properties that have a dedicated home office, high speed internet and a flexible design layout to accommodate remote working are very attractive.

LACK OF SUPPLY AND DELAYS

Despite interest rate being at the highest level in 22 years, the greatest impediments in the market remain the chronic lack of supply and delays in completing transactions. It seems unlikely that the upcoming Spring selling season beginning in March / April will bring any meaningful improvements in supply – as was the case in the Autumn selling season last year where the traditional bounce of about 30% in properties for sale in September did not materialise. That said, some further supply this year will come from ex-rental homes (notably apartments) as private landlords sell up and exit the market in even larger numbers. The measures from Budget 2024 last October are not enough to keep the majority of small-scale investors in the market and there is a fear of what further measures could be introduced by a future Government.

There are many well-discussed reasons for the persistent supply constraints in the Irish market over the last decade, but noteworthy at present is vendor fear around the timing of a sale. Many believe now is not a good time to sell given the interest rate environment. In addition, a catch-22 situation remains where potential vendors cannot sell until they buy and cannot buy until they sell. Bridging finance is not available to allow would-be sellers to move on and the dysfunctional rental market is not an option as there is virtually no supply. Even if they do try to go 'sale agreed' on a new home, some vendors will not engage until their existing home is sold as they do not want to be involved in drawn-out chain sales. That said, chain sales are becoming more common and will continue to be a feature of the market this year as there are very few other options open to parties who want to move forward. While still at very small numbers, off-market sales will continue to grow in popularity, perhaps giving all parties more freedom to assess options, but also allowing the market to be tested without full open market sales campaigns.

THE GREATEST IMPEDIMENTS IN THE MARKET REMAIN THE **CHRONIC LACK OF SUPPLY** AND DELAYS IN COMPLETING TRANSACTIONS

Another critical factor that will impact the market this year is the continued delays in the Probate Office, where a grant of probate is taking 22 weeks from lodging. Naturally the delays are causing concern for buyers, and many will be reluctant to engage with properties when they have no certainty on when a sale could close. This is also the category of housing that generally requires most refurbishment works, which is another blow to demand and pricing for such homes. Many solicitors are now advising vendors to postpone sales until probate is granted. Given that probate sales are making up at least one-third of supply at present (and higher in certain areas), it will further affect supply levels this year.

Delays in mortgage drawdowns will also impact activity levels in the months ahead. With fewer lenders in the market since Ulster Bank and KBC exited last year, banks are slow in converting 'approved in principle' offers to formal mortgage offers as they forensically assess documentation. Equally, the protracted nature of conveyancing in recent years continues to delay transactions, and it can take several months to move a property from 'sale agreed' to 'sold'. Both buyers and sellers will work hard to expediate the process, conscious of loan offers and prevailing interest rates.

Each of the issues above, along with others, will mean that sales processes this year will often involve property-chains and the heightened likelihood of sales falling through. It is welcome that the 'Seller's Legal Pack for Property Buyers Bill 2021' has moved to the second stage of Dáil debate. This provides that a full set of legal documents will be made available to potential buyers from the outset of marketing, hence ensuring the sale and conveyancing process moves more efficiently. Lisney Sotheby's International Realty fully supports the enactment of this Bill.

Carthy's Green, Stepaside, Dublin 18

CORK

BUYERS CAUTIOUS BUT TRANSACTIONS COMPLETING

Generally, the trends in the Dublin market outlined above follow through to the Cork market. Supply constraints and delays in concluding deals will remain the key impediments in the market this year, while buyer caution will also be to the fore. Interest rates and repayment capacity will also be considerations into 2024, and unlike Dublin, the 22-year highs in ECB rates are impacting the upper-end of the market as well as the lower and mid-market. Demand is focused on turnkey properties that are energy efficient. For those seeking higher priced homes, their demand is focused on quality period properties in coastal locations and in excellent condition.

SUPPLY LOW BUT STABLE

The limited number of homes for sale will continue to affect the market, however demand and prices are likely to remain reasonably static this year. The number of homes for sale has been relatively stable since 2020 and is below what is required. The traditional increase in supply in March / April is unlikely to bring any significant improvements as potential sellers will remain caught in a catch-22 situation – unable to sell until they buy and unable to buy until they sell. This trend will continue to hold back activity levels throughout 2024.

DEMAND IS FOCUSED ON **TURNKEY PROPERTIES THAT ARE ENERGY EFFICIENT**

Horsehead House, Passage West, Cork

Glenmore House, Clonee, Co. Meath

COUNTRY HOMES

INTERNATIONAL BUYERS FOCUSED ON HIGHER PRICED HOMES

Many of the trends at the upper-end of the Dublin market remain relevant for country home sales. Demand in 2024 will continue to be driven by those with little or no reliance on mortgage finance and as such, the interest rate hikes will have limited impact in terms of affordability. However, the wider macro-economic conditions surrounding interest rate movements could affect sentiment and potential purchasers will be cautious.

International buyers will be the most active in the Irish country homes market this year, especially for the highest priced properties. Those from overseas will be a mix of Irish abroad but also citizens of other countries seeking a full-time or part-time holiday home in Ireland. Buyers from the US and EU countries will feature strongly while UK demand, with the exception of expats, will continue to feature less. These buyers will often be assisted by curated digital 'walk throughs', which will help identify realistic demand early in the house-hunting process. Domestic buyers will continue to seek homes either as their primary residence or as a second home to be used as a holiday retreat or to live in on a semi-permanent basis (especially those that are Dublin-based).

SUPPLY ALSO AN ISSUE IN COUNTRY HOMES MARKET

The supply of country homes and estates across Ireland remains below what is normal and what is required to fulfil demand, a trend that is unlikely to improve in the near-term. Consequently, activity levels will continue to fluctuate, even on a month-to-month basis. Nevertheless, the market overall is strong and in 2024, the most robust levels of activity will continue to be linked to homes where the asking price aligns with market expectations. Properties that are initially priced above market will likely undergo price reductions to bring them closer to prevailing levels, and as such will be slower to sell. As with other parts of the residential market, prices are likely to remain relatively stable over the year.

Caragh House, Prosperous, Co. Kildare

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DEVELOPMENT LAND

The outlook for 2024 is positive. Building materials and interest rates have likely peaked and declines are expected over the course of the year.

ACTIVITY

CHALLENGES EASING

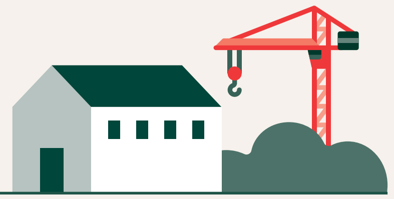
The development land market has been challenged for several years; greatly impacted by uncertainty in planning policy and endless delays in getting a finalised planning permission. In the last two years construction cost inflation (labour and materials) and elevated finance costs (if available at all) have also greatly impacted the viability of new schemes and hence demand for land. Activity in the market was subdued last year across the country, albeit boosted toward the end of 2023 by the LDA's €44m acquisition of land in Clongriffin. In the Greater Dublin Area, it is estimated that market turnover was about half the level of the preceding two years and about two-thirds less than the 10-year average.

Encouragingly however, the outlook for 2024 is more positive. Building materials and interest rates have likely peaked and declines are expected over the course of the year. In addition, the new Planning & Development legislation is earmarked to be enacted mid-year, and it is hoped it will speed up the process. These factors, along with the fact that land values have been adjusting since 2019, means that the development land market is in a better position going into 2024, albeit with obstacles remaining and new ones emerging. The Residential Zoned Land tax was postponed for one year in Budget 2024 but this will remain an uncertainty in the market until maps are finalised. So too will the proposed Land Value Sharing mechanism, among other policies.

Brighton Road, Foxrock Village, Dublin 18

Clongriffin, Dublin 13

THE PUBLIC SECTOR THROUGH THE LAND DEVELOPMENT AGENCY, LOCAL AUTHORITIES AND APPROVED HOUSING BODIES WILL BE THE **KEY PURCHASERS OF LAND** IN 2024



PURCHASERS & FINANCE

STATE FUNDED BODIES WILL DOMINATE

The public sector through the Land Development Agency, local authorities and approved housing bodies will be the key purchasers of land and forward commitments of schemes in 2024. Significant government funding is available, however individual bodies' capacity constraints may hold back activity.

In the private sector, as with last year, many primary and secondary funders will remain largely absent from the market in the opening months of 2024, reluctant to lend on land until interest rates begin to come down and there is more certainty on the direction of the economy generally. There may however be some construction lending for those with debt-free viable sites. That said, there remains an acute shortage of 'beds and sheds', which will drive demand. Cash purchasers will be in a very good position, but they will only consider deals when they see value.

SUPPLY

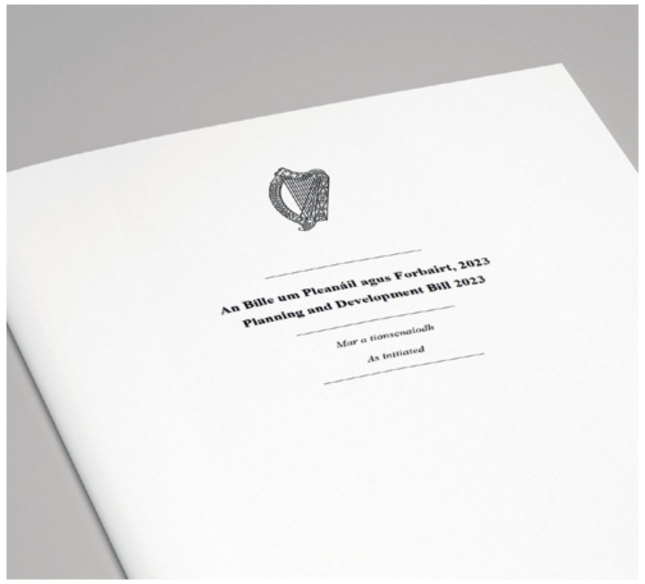
EMANATING FROM VARIOUS SOURCES

Supply this year will come from various sources, including those who have postponed sales in recent years, from institutions, and from those who are not now in a position to develop out schemes. Some supply will come from developers and investors that acquired sites using secondary money in recent years and need to refinance. Given the cost and availability of finance from both traditional and alternative lenders, refinancing will be difficult, and some will be forced to sell.

The Land Development Agency will generate much of its land supply from State and Semi-State bodies but will also engage with private sellers. Private developers will be utilising the various schemes on offer to develop out affordable purchase and rental, including Croí Cónaithe (Cities) and STAR (Secure Tenancy Affordable Rental Investment Scheme).

PLANNING & DEVELOPMENT BILL, 2023

JUDICIAL REVIEW REFORM IS ESSENTIAL



A comprehensive new planning act replacing the 2000 legislation was due in 2023. However, following stakeholder engagement and some redrafts of the original Heads of Bill, the finalised Bill was not published until late November. It will now be mid-2024 at the earliest before it reaches the final stages of the Oireachtas and signed into law. There is likely to be further amendments prior to that. The aim of a new legislation is to bring clarity, certainty and consistency to how planning decisions are made.

Key reforms are set out below along with comments on potential benefits and/or issues. For all measures, the final legislation and then how policy works in practice in the years ahead will need to be monitored. If there are operational issues, then any adjustments must happen quickly – Ireland must have a planning system fit-for-purpose to address the housing crisis and position the country in the right direction in terms of infrastructure going forward.

REFORM	COMMENT
10-year development plans (with review at year five)	• Lengthening the timeframes of local authority development plans from six to 10 years is positive. It will mean plans are more strategic in nature with better long-term outcomes. • It will be critical that plans align promptly to Census data – the Bill states within 'two years, which period shall begin on the second occurrence of a census of population'. There is a fear that this is too slow given how critical data-driven policy is for success.
Increased alignment across all tiers of planning	• Policies and guidance will be more consistent throughout all tiers of planning, from national (NSS) to regional (RPGs) to local (development plans, UDZs, etc). • Ministerial guidelines and policy directives will be upgraded to National Planning Statements, approved by Government. • On the surface, both of these measures appear positive.

REFORM	COMMENT
New provisions for Urban Development Zones (RDZ)	• Local authorities will be empowered to designate areas with significant development potential as UDZs, where the State will have an increased focus on enabling infrastructural investment to allow the development potential of city lands to be realised. • It is hoped UDZ designation will assist in reducing planning risk, and if that is ultimately the case it will be positive in terms of speeding up housing and other development in areas of most demand.
Restructure of An Bord Pleanála (ABP)	• To be renamed An Coimisún Pleanála (ACP), and there will be a separation of its corporate governance and its planning decision role as an appeals body. Mandatory statutory timelines for decisions will be put in place. • Dividing its governance and operational roles is a welcome move in terms of wider confidence in the body. The mandatory statutory guidelines are also welcome but unless the significant number of unfilled planner roles currently available are taken up and the body fully resourced with staff, it will not be able to meet these timelines. • Given the prevailing backlog of cases with ABP of about 18 months (≈ 30,000 housing units), it would be a welcome move to work out any existing applications in ABP and not move them over to a new organisation – let ACP begin afresh on day one with a chance of meeting the statutory timeframes.
Reform of the planning Judicial Review process	• The legislation proposes to reform aspects of planning judicial reviews with changes such as removal of leave for application; refinement of grounds; clarification of sufficient interest and the introduction of a new Environmental Legal Cost Scheme. • Given that JRs are one of the key reasons for delays in the planning system at present (over 30,000 residential units with the Courts, in addition to the 30,000 with ABP), reform of the process is essential. • It seems sensible that if an application for a JR does not win that it will now bear its own costs (reducing vexatious claims, although can apply for legal aid that is means tested). However, if a claim is upheld, the applicant will be able to recover costs in line with a scale of fees. • New restrictions have been placed on what constitutes an eligible party to seek a JR. They must have a 'sufficient interest in the matter' and must be 'directly or indirectly materially affected by the matter'. The body taking the case must have existed for more than one year as a limited company, have a constitution that promotes environmental protection, and have more than 10 members. On the surface this is positive (again around vexatious claims) but how it works in practice will be watched carefully.

3 NEW HOMES

The green credentials of newly constructed dwellings have greatly added to their attractiveness in the last two years.

ACTIVITY & DEMAND

BUSY MARKET WITH STRONG PURCHASER SENTIMENT

The new homes market will remain busy in 2024 with continued strong buyer sentiment that will outstrip supply. Elevated interest rates as well as banks adopting more risk-adverse policies (such as seeking greater levels of information and documentation from borrowers and delaying loan offers) will be a feature of the market, at least for the first half of the year. This will particularly affect movers and investors but for FTB, the increases will remain somewhat off-set by the higher loan-to-income (LTI) ratios that were introduced in January 2023 (rising to 4x gross household income from 3.5x).

The green credentials of newly constructed dwellings have greatly added to their attractiveness in the last two years and will continue to do so this year. Given a new home's A-rating under the BER scale, it offers significant savings for homeowners in terms of running costs, which is a very important consideration at present. Green mortgage interest rates are also available, which are typically 30 bps lower than non-green rates (this could be a saving of up to €100 per month on repayments). The turnkey nature of new homes is also very attractive and provides occupiers with a quick and easy settling-in period where no costly refurbishment works or construction are required.

The median (average) price of a new home in Dublin grew by almost €40,000 between October 2022 and October 2023 (+8.7%), while existing second-hand homes grew by a substantially less €5,000 (+1.2%). Nationwide the figures were €36,200 and €17,000. While a large part of this discrepancy in the pace of price growth can be attributed to the green credentials, the various government support measures for FTB are also factors.

FTBs have made up 50% of the new homes market in Dublin and Cork in the last seven years. However, over 2023, this proportion moved closer to 60%, partially due to the government support schemes, but also due to the increases in LTI mortgage ratios. FTB demand is focused on new homes priced under €500,000 that qualify for one or both of the 'Help-to-Buy' scheme (currently the lesser of 10% of purchaser price or €30,000) and/or the 'First-Home-Scheme' (where the State will take an equity stake of up to 30%). Prior to purchasing a home, FTBs are generally in the rental sector. With all the issues in the rental market including record high rents, most renters are eager to move ahead with home purchases. The Government assistance has greatly helped with this (and will continue to), bridging the affordability gap. As such, demand for new homes will continue to greatly outweigh supply in 2024.

IN 2023, FIRST TIME BUYERS MADE UP ALMOST

OF THE **NEW HOMES MARKET** IN DUBLIN & CORK

UP FROM **50%** IN THE LAST 7 YEARS

Broadmeadow View, Rowlestown, Co. Dublin

SUPPLY

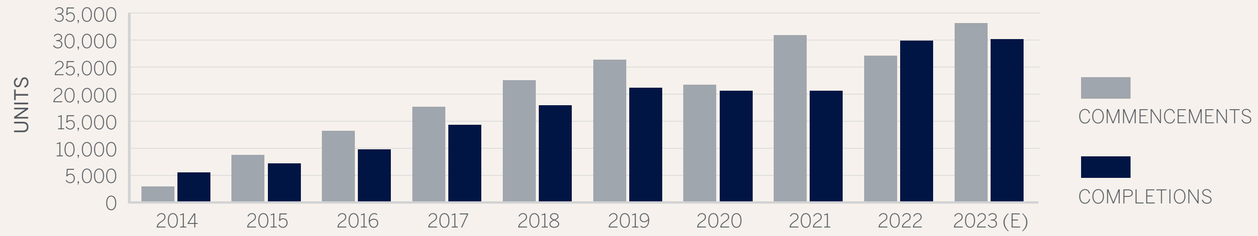
COMMENCEMENTS STRONG DESPITE ELEVATED COSTS

New home starts and completions were strong last year despite the higher cost of building materials, labour and finance. Commencements nationwide were about 33,000 with close to 20,000 of these in the Greater Dublin Area; this was the highest level in 16 years. Completions are estimated to be at a similar level to 2022 of about 30,000 units. Interestingly, apartments nationwide will make up about one-third of the total – just five years ago this figure was as low as 12% and in single digit percentages prior to that.

Part of the reason for the reasonably healthy construction statistics given the wider market context, is due to the temporary time-limited waiver of section 48 development contributions that was introduced in April last year. Dwellings going onsite before 24th April 2024 and completed no later than 31st December 2025 can avail of this waiver. The government has not yet made an announcement on the possibility of any extensions to the waiver, despite expiring at the beginning of Q2. Building activity remains below what is required and must ramp up further in 2024 to meet unfulfilled demand as well as new demand from an ever-growing population. As such, to keep the positive momentum in construction statistics progressing, it will be vital this is retained, ideally for at least a further two years. Similarly, the continued retention of the Help-to-Buy Scheme and the First Home Scheme is critical to maintaining FTB demand.

A potential S48 waiver extension, continued FTB schemes, along with the introduction of the new Planning & Development legislation later this year, should provide greater certainty to developers and confidence to build. Much of their focus will be on public bodies given the significant funding available to the Land Development Agency, approved housing bodies and local authorities. Through various State-backed schemes, such as Croí Cónaithe (Cities) and STAR (Secure Tenancy Affordable Rental Investment Scheme), many developments will be directed towards social and affordable homes (both on a sale and cost-rental basis). While this is very positive for the social and affordable sectors, and for the market generally, it will put even further pressure on private buyers.

RESIDENTIAL DEVELOPMENT



Source: CSO, Department of Housing, Local Government & Heritage, Lisney analysis.

4 INVESTMENT

Encouragingly, there is some (albeit limited) evidence of appropriate pricing emerging, which should result in deals, but H1 2024 is likely to be flat in terms of activity levels.

MARKET CONTEXT

GLOBAL INTEREST RATES IMPACTING

Entering 2024, interest rates in the EU and US remain at 22-year highs and while the likelihood of further increases is now more limited, the prevailing elevated rates are unlikely to begin to fall until at least mid-2024. This, along with the demands of meeting ESG credentials (much of which is not factored into valuations) and a changing occupational demand (especially in offices), will mean a continued subdued investment property market for much of this year. The Irish, and indeed global, market suffered from falling values, limited activity and negative sentiment last year. This led to buyer inertia, which was compounded by the mismatched pricing expectations of vendors and purchasers. As a result, investment market turnover nationwide (≈ €2bn) was at about one-third of the annual average of the past five years. It is 10 years since the combined volume of transactions was this low.

Encouragingly, there is some (albeit limited) evidence of appropriate pricing emerging, which should result in deals, but H1 2024 is likely to be flat in terms of activity levels. How interest rates evolve will be an important factor – a steady decline to more sustainable levels is preferable as faster adjustments could mean greater issues in the underlying economy. Pricing and valuations, particularly in offices, will also be important. The significant cost of improving the sustainability credential of buildings will need to be factored-in to bridge the gap in expectations. Overall demand should improve over H2.

PRICING

PRICES WILL FALL FURTHER

Data from MSCI to the end of September 2023 show that capital values in the CRE market (all property types) was down by 22% in the last three years and we estimate a further 3% decline in the final months of the year. This brings the total value adjustment to nearly 25%. However, there are differences across sectors. Retail assets have been in decline since early 2019 and based on MSCI data have fallen by 37% since then. For offices, there were some falls in value over the pandemic period, but the pace of decline intensified in mid-2022, and has now fallen by 22%. Notably however, industrial values held firm over COVID and only began to fall as interest rates rapidly rose. Since the end of 2022, the MSCI index for industrial has only declined by 3%.

3B Aungier Street, Dublin 2

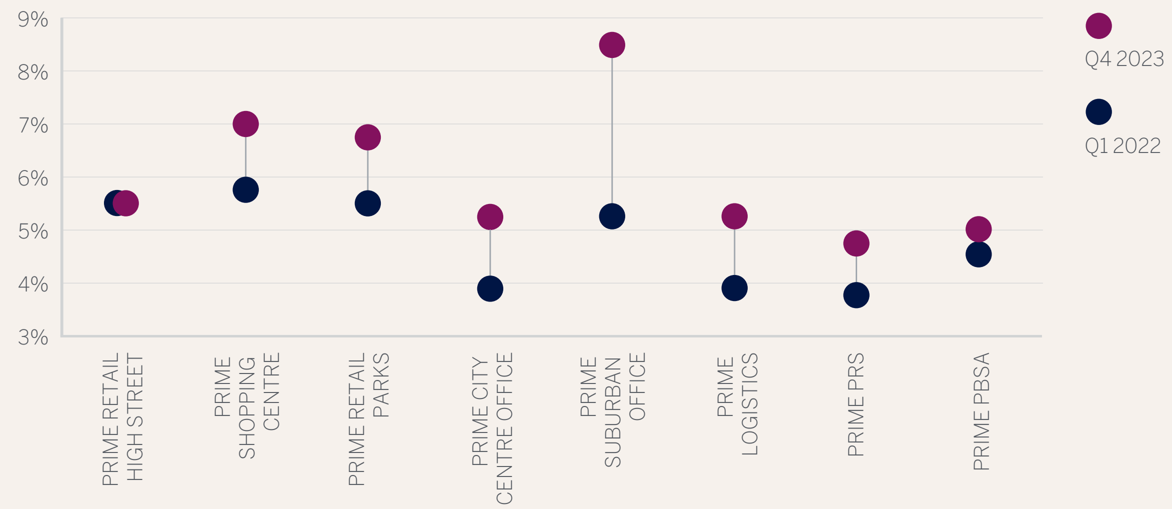
Capital value falls were predominately driven by yield softening. Over the course of 2023, prime yields generally drifted out by 50 to 125 bps with offices and PRS impacted the most and retail and industrial to a slightly lesser extent. For most investors to re-engage in the market, further price adjustments are required with particular focus on the cost of ESG upgrade works. Consequently, yields will move out further and prices will continue to fall in 2024, particularly in the first half of the year.

ACTIVITY

OFF-MARKET DEALS WILL CONTINUE

The various sectors of CRE will continue to perform differently this year, heavily influenced by the local and global economy, geopolitics, sustainability and occupier trends. Even within sectors, assets will perform differently. However, across the sectors, many transactions will continue to be done off-market. Positively, some larger investors are earmarking a return to the market in the second half of the year, albeit for institutions this will depend on their structure – open ended funds may be constrained by redemptions, while specific mandated funds will be more flexible. They will be assessing what is on offer and at what price. It will likely be the end of the year and into 2025 before they conclude deals. Some smaller scale buyers with cash will be in the market throughout the year, taking advantage of fewer competitors, but opportunities will have to be a good fit, meeting all their requirements, and available at a realistic price.

PRIME YIELD MOVEMENTS



Source: Lisney.

SECTORS

INDUSTRIAL SECTOR THE MOST ACTIVE

For the first time ever, the industrial sector was the busiest part of the investment market last year with several large portfolios sold. There are high-profile investors with active requirements, which means demand will remain robust 2024. Attraction will continue to stem from the strong underlying occupational market as well as the yield profile offered. Sustainability concerns will heighten in this sector over the course of the year with some investors pricing-in the cost of upgrade works.

36 Grafton Street, Dublin 2

CERTAIN FUNDERS UNWILLING TO FINANCE OFFICES

Also for the first time on record, the office sector was the least active of the four key market sectors. Changing occupier requirements since the pandemic as well as concerns about some buildings (BER of B3 or lower) becoming stranded assets are the key challenges. In the months ahead, certain funders will remain unwilling to finance office purchases, which will impact demand levels. For those with money to spend, office opportunities will need to be priced appropriately for deals to conclude. Investors will be focused on super prime locations where properties can be easily re-let if tenants vacate. Dublin will continue to compete with other European cities, including larger UK cities, where better returns are on offer. Some standing investments with growing LTV ratios and in need of re-financing could become distressed and come to the market for sale. Additionally, institutional investors will be assessing the costs of upgrading older buildings, particularly around M&E to achieve BER ratings of A or high B. This could result in a re-set of values to account for the works.

PRICES HAVE BEEN ADJUSTING FOR LONGER IN RETAIL

The retail market had a good year in 2023 with notable levels of activity around retail parks, regional shopping centres offering double-digit returns, and smaller lot size prime high street buildings. Prices have been adjusting in this sector for longer and there are very few vacant stores on prime pitches and in centres and parks that trade well. Demand will continue this year both from larger investors and from privates but prices will need to be attractive.

INTEREST RATES HAVE GREATLY IMPACTED PRS

The PRS sector was extremely active in recent years, with demand strong for both standing stock and forward commitment deals. However, interest rates have greatly impacted this market in the last 12 months. Notably, there were no deals completed in the sector in the second half of 2023 with only a limited number concluded earlier in the year. Despite the ongoing rental crisis across the country and demand for accommodation, many investors will continue to stand back from this sector in 2024 – fearful of a changing Government and legislation, as well as concerns about construction viability. However, government-supported bodies, such as the LDA, AHBs and local authorities, will be active in seeking schemes for affordable cost-rental and social lets.

8-12 Terenure Place, 2 Templeogue Road, Terenure, Dublin 6

SUSTAINABILITY

INTENSIFICATION OF REGULATIONS

EU directives will continue to tighten to achieve a climate-neutral building stock by 2050. These directives impact a property's life cycle – from conception and planning to construction, use, financing, and sale. Compliance with the Sustainable Finance Disclosures Regulation (SFDR) and EU Taxonomy is now essential for financing property assets and is influencing market demand. Value-add investors generally step into this type of market on the basis of 'buy it, fix it, sell it', however the cost of finance makes it difficult for them to be active at present. Failure to meet sustainability criteria will result in a significant devaluation of assets. This is already beginning to materialise but will intensify in 2024. Therefore, the real estate industry must continue to adapt to evolving conditions and take a holistic approach to address ESG aspects.

FAILURE TO MEET SUSTAINABILITY CRITERIA WILL RESULT IN A **SIGNIFICANT DEVALUATION OF ASSETS**

5

OFFICES

Entering 2024, many of the prevailing trends in the Dublin office market are the same as 12 months ago.

MARKET DYNAMICS

POST-PANDEMIC TRENDS PERSIST

Entering 2024, many of the prevailing trends in the Dublin office market are the same as 12 months ago. Hybrid working practices and adjustments in the tech industry continue to impact demand. These trends have resulted in significantly lower levels of take-up than the long-term average; a growing vacancy rate due to grey space and speculatively built schemes; as well as occupiers seeking flexible terms on fully fitted space as they continue to assess their requirements. Notably, Dublin is not alone in dealing with a post-pandemic shifting office market, markets around the world are too. And as with global markets, the impact of these changes will be compounded by the ever-increasing gap between buildings fulfilling ESG criteria and those that are not – from a rental and capital value perspective, but also from a funding, operational and demand standpoint.

ACTIVITY & DEMAND

MORE CERTAINTY ON REQUIREMENTS

An estimated 120,000 sqm of office space was taken-up during 2023, less than half the previous 10-year annual average of 243,000 sqm. While some improvement in activity is likely this year, reverting to the pre-pandemic norm is unlikely in 2024. On the demand side, there was about 60,000 sqm of active requirements in the market at the end of 2023, which bodes well for the first half of this year. In addition, while gone are the days of employees being in the office five days a week, many employers are now insisting on a certain level of office contact each week rather than fully remote. As 2024 progresses, this will increase the occupancy levels of buildings and generate more certainty for businesses on space requirements, which will ultimately result in market activity.

55 Charlemont Place, Dublin 2

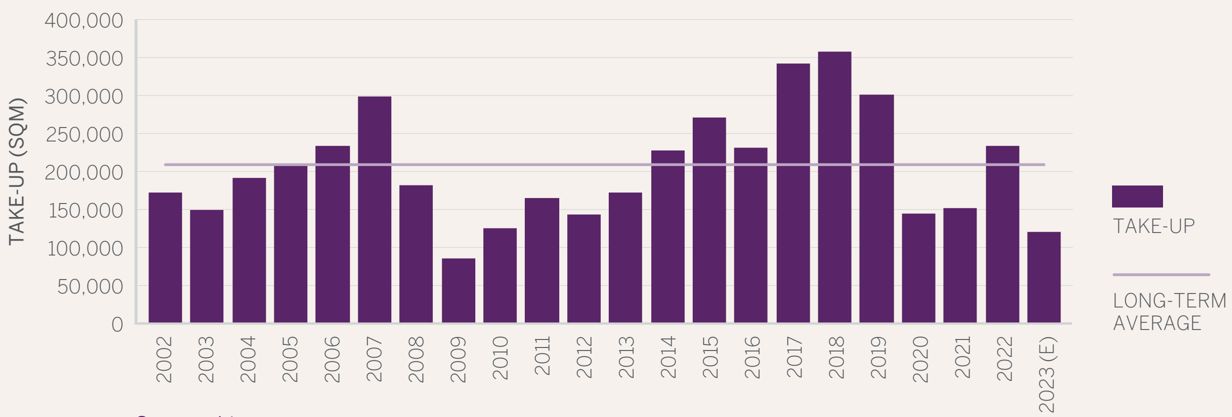
2 Stemple Exchange, Blanchardstown Corporate Park, Dublin 15

THERE WAS ABOUT **60,000**SQM OF ACTIVE REQUIREMENTS IN THE MARKET AT THE END OF 2023 WHICH **BODES WELL**

PROFESSIONAL SERVICES FIRMS WILL BE THE MOST ACTIVE IN 2024

Despite the retrenchment of many tech firms, the sector still played an important role in the Dublin office market last year, accounting for about one-fifth of take-up and was the second largest group taking space. However, professional services firms were the most active with financial firms and the State also active. These three sectors are likely to be busy again in 2024, with most focus on the city centre and some selected suburban regions. Where suburban space is required, there appears to be an emerging trend (albeit still very minor) of occupiers seeking space in areas close to where affordable housing is available for employees.

ACTIVITY



Source: Lisney.

Termini, 3 Arkle Road, Sandyford, Dublin 18

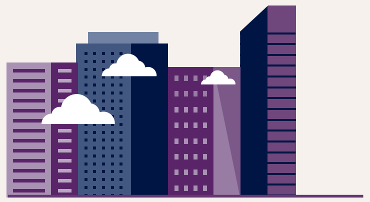
MEDIUM-TERM HORIZON FOR US OCCUPIERS TO MOVE INTO EXPANSION MODE

Occupiers originating from the US have on average made up half of the Dublin office market in the last decade, with 2018 to 2020 particularly strong years. In 2022 and 2023 the proportion fell to about one-third. Demand from US businesses will be at reduced levels again for most of 2024. However, as interest rates in the US settle and parent companies are under less pressure to cut costs, it is likely that many will be back in expansion mode and investing in Irish operations. In the more medium-term, this will be positive for market activity.

SUPPLY

PEAK OF GREY SPACE

With changing market trends, the headline vacancy rate across Dublin was almost 16% towards the end of last year, its highest level since 2013. The rate has more than doubled since early 2020 when it was just 7.2% with much of the increase comprised of new speculatively built buildings (4.9 percentage points of the vacancy rate) as well as grey space. Despite the rapid rise in grey space from effectively zero pre-COVID to about 205,000 sqm currently, the pace of sub-lets coming to the market has slowed and should peak this year. It currently makes up close to five percentage points of the vacancy rate and 31% of all availability. The supply of this type of accommodation will continue to be of interest to many companies seeking space in 2024, particularly if it comes on flexible terms and is fully fitted, hence providing them with more time to assess the future but also a substantial capital expenditure saving on fit-out.



DESPITE THE
RAPID RISE IN GREY SPACE
FROM EFFECTIVELY ZERO PRE-COVID TO ABOUT
205,000SQM
CURRENTLY, THE PACE OF SUB-LETS COMING TO THE MARKET HAS SLOWED AND SHOULD PEAK THIS YEAR.

CONSTRUCTION & SUSTAINABILITY

NO NEW BUILDINGS DUE PAST 2025

Works will continue this year and next on office buildings already on-site, but there will be little or no new starts in the near term. Inflated construction and finance costs (albeit likely to reduce this year) as well as a high headline vacancy rate, reduced market activity and macro-economic conditions will be the key risk factors holding back development. As of now, no new buildings are due in 2026 and beyond. This brings with it future risks, particularly in three to five years' time when there will not be enough A rated / zero-emission buildings to meet the demand arising from occupiers' 2030 ESG commitments (or 2027 commitments by some). Developers, investors and funders need to keep this in mind and not over-correct.

STRANDED ASSETS

Sustainability is an ever-increasing consideration across all parts of the built environment, but none more so than the office sector – both from a regulatory standpoint but also from a moral and wellbeing perspective. Various European and domestic policies will continue to influence how properties are funded and occupied. With offices, it generally makes most financial sense to fully refurbish / rebuild (if permitted due to embodied carbon) older Grade C buildings, and this cost will be reflected in their value. However, it will be a more difficult situation with Grade B buildings and there is a realistic fear many will become stranded assets – too modern to justify the high cost of upgrading to A or high B ratings on the BER scale, but also not meeting the sustainability standards required. Certain landlords will carry out the works regardless and accept the cost. Going forward, which party takes responsibility for the M&E systems will become a hotly negotiated point for landlords and tenants, as will the level of service charge.

The Exo Building, Dublin 1

6

INDUSTRIAL & LOGISTICS

2024 will be another active year in the Dublin industrial and logistics market.

DEMAND & ACTIVITY

RENEWED INTEREST IN M1 CORRIDOR

2024 will be another active year in the Dublin industrial and logistics market. This follows on from 2023 where activity was about 10% behind the 10-year annual average of 310,000 sqm. There is just over 460,000 sqm of combined occupier requirements in the market, which is equivalent to about 18 months take-up. As such, there will be demand but it will be softer than in the last three and a half years and more in line with pre-pandemic times. However, the lack of suitable supply may hold back transactions in this calendar year and some occupiers will need to agree design-and-build deals with developers to get the quantity and specification of accommodation they require.

There is also the question of how immediate some of these requirements are; globally, industrial and logistics occupiers are taking longer to make decisions given the wider economic and geopolitical uncertainty. Some might delay their final decision until they have greater sight of future contracts as 2024 progresses. That said, there are high profile logistics companies and retailers with immediate needs, and these will be fulfilled this year. Examples include An Post and JYSK.

In addition, certain 3PL operators with contracts in Ireland and the UK are reviewing the Irish market as a hub for both locations. In the past, such contracts were fulfilled from the UK but with Brexit, it is more advantageous for some of those importing goods from Europe to have operations in Ireland. In the short to medium-term this is likely to result in greater demand for space along the M1 corridor towards Northern Ireland, with some occupiers already showing renewed interest. This is best highlighted by Smyths Toys' decision to open a 37,300 sqm distribution hub in Dundalk North Business Park, which will be fully operational in 2024.

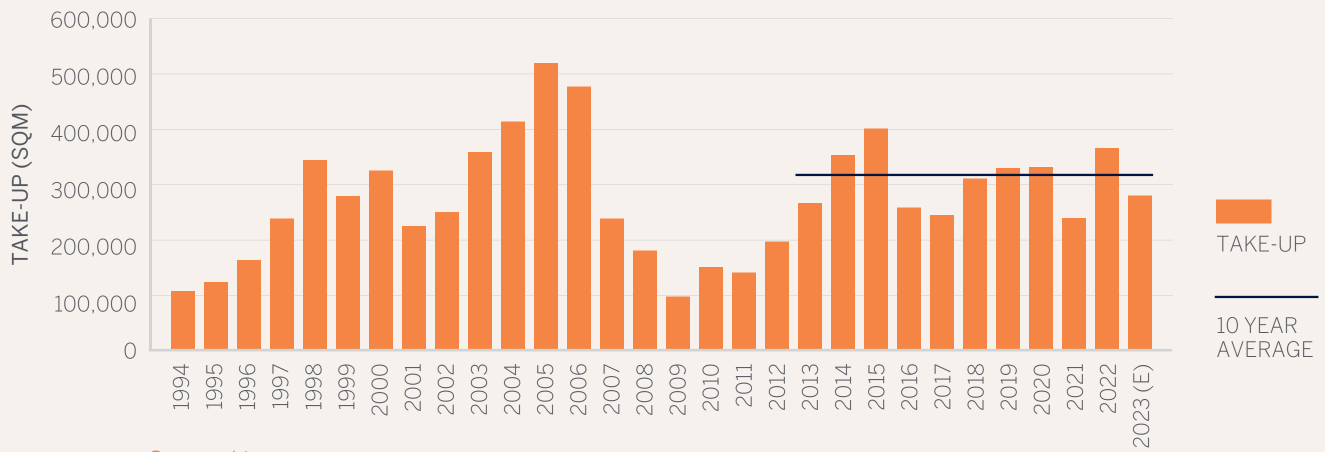
SUPPLY & CONSTRUCTION

HISTORICALLY LOW VACANCY RATE PERSISTS

Supply constraints will remain the number one issue in the market this year with Dublin's vacancy rate lingering below 2%, equivalent to less than six months' supply. About 60,000 sqm of new accommodation is currently under construction and still available. Even if it remains untaken by PC, it will only add 50 bps to the vacancy rate. This historically low vacancy rate sub-2% has persisted since mid-2022 and is unlikely to improve significantly in the near-term. Consequently, some businesses will continue to occupy premises that are no longer adequate and delay expansion plans, while others that are entering the market or are unwilling to put business growth on hold, will need to engage with developers. They will be accommodated through design-and-build agreements, both on a rental and sales basis. For very large requirements, occupiers might take two adjacent buildings so that any future reletting risk can be offset, and the properties' investment value protected to a greater degree – some funders will demand this.

Despite the overall market shortages, commencement of speculative new buildings will continue to be slow in the months ahead. This is due to the elevated cost of construction and finance, as well as softer investment yields. Encouragingly, there are signs that construction cost, and indeed interest rates, have plateaued (some contractors are standing over costs from early 2023) and this could mean improvements in the level of new building starts as the year progresses. Consequently, it will be important for developers to have planning grants in place and be ready to move on site quickly when required. We estimate that there is close to 255,000 sqm of industrial / logistics space with planning grants in Dublin – about nine months' supply. Luckily, given the shorter development period compared to other property market sectors, developers should be able to pivot quickly.

ACTIVITY



Source: Lisney.

Greenogue Logistics Park, Rathcoole, Co. Dublin

TERMS

LANDLORDS WILL REMAIN BULLISH

Across all quality of industrial buildings and locations, headline rents continued to grow last year, making it the 11th consecutive year of rental growth. However, the very strong pace of growth from 2020 to 2023 will continue to slow and while there may be some further rental increases this year, it will be at a much-reduced speed and no more than 5% in the calendar year. For many occupiers, there is a ceiling on what they can pay for accommodation and maintain business viability, particularly those in the logistics / distribution sector. Despite this, many landlords will be bullish and want to drive rents, especially for new or upgraded buildings as they will need to cover the capital expenditure required to upgrade buildings to meet ESG and BER targets. However, they are likely to increase the incentives given to tenants including shorter leases and/or more frequent break options. With interest rates at a 22-year high, owner-occupiers seeking to buy vacant premises will remain very limited, but capital values still will still push forward due to lack of availability.

ESG

MORE DEVELOPERS LOOKING AT GLUE-LAMINATED TIMBER FRAMES

Environmental sustainability will continue to grow in importance in the industrial and logistics market this year. Landlords will be more focused on ESG factors relating to new and refurbished buildings, seeking LEED and other certifications. This comes with an added cost, which will be passed on to the tenant. Given the large carbon footprint of the operations of logistics companies, some will be seeking to reduce the embodied carbon in their warehouses and may consider timber-frame (glue laminated timber) premises instead of a steel frame (this is up to 20% more expensive than steel, albeit dependent on when the materials were bought in recent times). Green clauses are also becoming more common in leases as investors seek to make good on their ESG promises and meet EU and domestic policies, especially around finance.

7

RETAIL

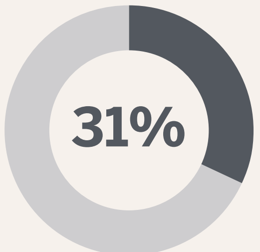
The retail industry continues to contend with a rapidly evolving landscape, not just in terms of accelerated technological change but also economic, geopolitical and ecological impacts.

GLOBAL CONTEXT

PERIOD OF IMMENSE CHANGE

The retail industry continues to contend with a rapidly evolving landscape, not just in terms of accelerated technological change but also economic, geopolitical and ecological impacts. E-commerce and an omni-channel offering has become a reality for almost all traditional bricks-and-mortar retailers, while many of the larger brands are looking towards artificial intelligence and augmented reality to meet shoppers' needs. Brexit, COVID and the various ongoing conflicts around the world have forced retailers to adapt quickly in terms of supply chains, but also in terms of the impacts of rising inflation on their customers. Since the pandemic, there is a heightened awareness in society on the environmental impacts across all sectors, and the retail industry is no exception. Brands' sustainability credentials and how they are adapting to fast fashion and embracing the circular economy, among other concerns, will be key to their competitiveness into the future.

Despite these wider headwinds, there remain many positive indicators in the Irish retail sector. In terms of the consumer, household savings continue to grow and are at historic highs (€153.1bn – up from €148.6bn 12 months ago and €110.5bn at the end of 2019); there is full employment with the numbers employed also at historic highs (2.66m people) and many sectors still dealing with labour shortages; the volume of retail sales is steady when compared to the last two years; and inflation (CPI) has eased by over four percentage points in the last year (to 5.1%). Consumer sentiment in December 2023 was significantly higher than 12 months previous, but it was notable that while some pressures on households were easing (such as reducing energy costs and hopes that interest rates have peaked), others remained (including worries about a softening jobs market and a slowing economy). That said, not all consumers' lived experiences are alike, and there are many continuing to struggle with a higher cost of living and limited discretionary spending budgets. This is a concern for the ongoing health of the retail industry, which is the largest indigenous sector of the economy, employing over 320,000 people nationwide and generating about €7bn in tax revenue (12% of GDP) annually.



OF IRISH CONSUMERS REPORTING PURCHASES MADE THROUGH SOCIAL MEDIA PLATFORMS IN THE PAST YEAR

Henry Street, Dublin 1.

ONLINE SHOPPING

THE CONTINUED RISE OF SOCIAL COMMERCE

CSO data provides an overview of online retail sales in Ireland, which has been fluctuating between 5% and 8% of all core retail sales since early 2022. It had reached highs of 15% during COVID lockdowns. However, as this only accounts for Irish companies, it does not provide the full story and a large portion of Irish consumer spending is unaccounted for. Data from Statista (an independent specialist in surveys and data gathering) show that online purchases in Ireland accounted for 16.1% of all transactions in 2022, totalling US$5.32bn (about €5.1bn) with expectations that 2023 to reach US$5.78bn (or €5.4bn), an 8.6% growth but with the market share staying at 16.1%. By 2027, online purchases are expected to exceed US$8.63bn (over €8bn).

In recent years a large part of online shopping has been facilitated through social media – or 'social commerce'.

Social commerce refers to the use of social media platforms and networks to facilitate buying and selling products online. Platforms such as Instagram, Facebook, Pinterest, YouTube, TikTok, and X have already introduced features that support social commerce, such as shoppable posts and live streaming.

Social commerce is a trend that has surged in recent years and is now an integral part of the broader e-commerce landscape globally. With 91.7% of the Irish population over 18 using one or more social media platforms, social commerce is set to continue to impact the Irish retailing landscape in 2024 and in the years ahead. Statista has highlighted some notable figures:

- Spending on social media platforms represented 4.0% of total online spending in Ireland in 2022, up from 2.4% in 2021 and 1.8% in 2018. Projections indicate continued growth, reaching 5.3% in 2027.
- Global comparisons highlight the continued room for growth in Ireland – social commerce accounted for about 13% of global e-commerce in 2022 and is forecasted to grow to about 17% in 2027.
- The rise of social commerce is evident in consumer behaviour, with 30.9% of Irish consumers reporting purchases made through social media platforms in the past year. However, only 17% of businesses consider driving revenue through social media as a goal.

PROPERTY MARKET

CAUTION BY THOSE CONSIDERING PROPERTY MOVES

Vacancy levels across the key Dublin city centre high streets and suburban shopping centres continued to fall over the course of 2023 with mainly international brands entering (or re-entering) the market and taking space. There was also an element of expansion in the market with some well-performing retailers growing their footprint. The vacancy rates on Grafton Street (pedestrianised section) and Henry Street / Mary Street were at 7.7% and 12.9% respectively in December 2023. There was also good demand for accommodation in retail parks with many schemes around the country now fully occupied.

There is likely to be a more cautious start to this year by retailers and F&B operators considering property moves. They will continue to analyse the ongoing viability of their business, focusing on income generation and costs. There are many factors that could impact viability, including footfall patterns, potential further reductions in consumers discretionary spending, business debt (including warehoused tax liabilities) and rental affordability. One or more of these factors could result in some retailers going out of business and in turn, an increase in vacancy rates.

For existing tenants, especially smaller indigenous retailers, many will continue to work with their landlords, particularly as the repayment of warehoused Revenue liabilities fall due in May (the retail sector had the second largest outstanding liability of €28.8m in November 2023). Any agreements will be on a case-by-case basis taking account of location and business specifics. Where deals cannot be reached or business models no longer make sense after several difficult trading years, stores will close. Encouragingly, there are several retailers with active requirements and new deals will continue to be done this year if terms are acceptable to both tenants and landlords. It appears that headline Zone A rents on key trading pitches have stabilised, which is positive for the year ahead.

8 LICENSED & LEISURE

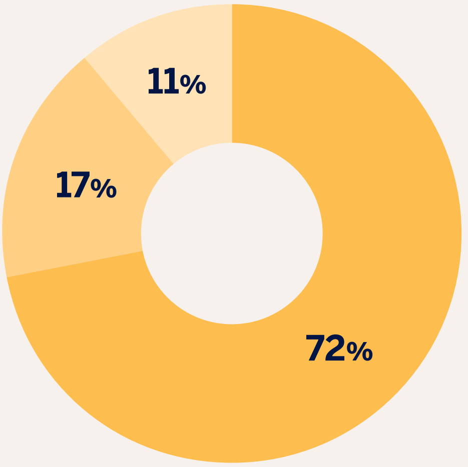
Demand will continue to be focused on large premises in affluent suburbs as well as properties in the city centre.

PUBLICANS WILL REMAIN MOST ACTIVE

Following on from a solid 2023, activity in the licensed premises property market will remain good in Dublin and in most of the larger regional cities this year; particularly in the €1m to €3m price range. Demand will continue to be focused on large premises in affluent suburbs as well as properties in the city centre with scope for premium pricing and at least four days of high-volume trade. Requirements will be softer for some food-driven premises and for those in off-prime locations; in these cases, vendors and purchasers are unlikely to be aligned on pricing. Similar to other property market sectors, off-market deals will continue as those with demand actively target premises in required locations or potential vendors test the market quietly.

The profile of purchasers will also continue as per 2023 with publicans most active followed by investors. Developer demand will be more limited as site values of suitable redevelopment opportunities will stay below the existing use value as a licensed premises – due to the prevailing elevated cost of construction and finance, as well as the cost of planning delays. Private equity purchasers did not conclude any deals last year, but they were active and did agree terms on several assets that did not complete for a variety of reasons. This cohort of purchaser will continue to actively seek opportunities in 2024 and we expect to see a few transactions in the €6m+ value bracket as the year progresses.

2023 BUYER PROFILE - DUBLIN



Publican
Investors
Developers / Others

Source: Lisney.

18
LICENSED PREMISES
WERE SOLD IN DUBLIN IN 2023 WITH COMBINED SALES PRICES OF
€45m

McCloskeys, Morehampton Rd, Dublin 4

HEADING INTO 2024, THERE ARE
12 LICENSED PREMISES
IN DUBLIN SALE AGREED WITH A COMBINED VALUE OF
€28m

RISING OPERATIONAL COSTS TO CONTINUE

In terms of the trading environment, the licensed premises sector has been contending with increased costs in recent years, some of which have been passed on to customers, and some which have not. Examples in the past 18 to 24 months include higher energy and insurance costs, as well as increased product costs from Diageo and Heineken.

This year there are further headwinds in terms of costs with the national minimum wage increasing by 12% in January (to €12.70 per hour). Given that staff costs comprise 60% to 70% of a typical licensed premises operating expenses (and 30% of revenue), this may impact the profitability, and indeed the viability, of some operations, especially those without the ability to increase prices. It could mean many publicans will have to do more work for less return in 2024. This may influence their decision whether to continue in the trade or not, and we do expect to see more cost-impacted premises come to market in 2024.

Another challenge facing the hospitality industry this year, including some publicans, is Revenue-related warehoused debt from pandemic times. This includes VAT, PAYE (Income Tax, PRSI, USC and LPT), TWSS and EWSS where interest is being charged at 3% and is due to be paid in full on 1st May 2024.

9

HEALTHCARE

Further closures are likely this year with smaller nursing homes in more rural areas most at threat.

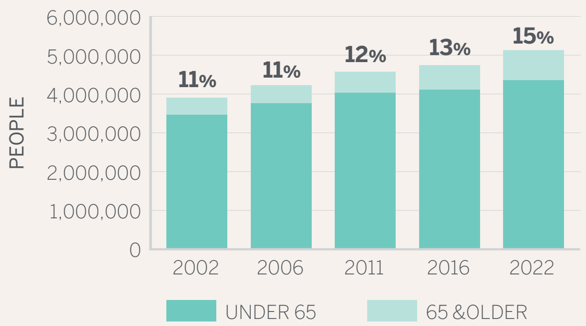
OPERATIONAL CHALLENGES REMAIN

According to an independent report by PWC mid last year, there have been more than 30 nursing home closures in the last three years resulting in a loss over 900 bed spaces. These were mainly in regional areas and resulted in some residents being relocated outside their communities. The closures are partly indicative of the operational challenges the sector faces due to ever-rising costs, including meeting infection prevention control requirements, inflationary pressures in energy and food, as well as staffing shortages. The report highlights that the operational cost per care of resident has increased by 36% in three years, which is mismatched to the marginal increases in Fair Deal rates. This is unsustainable for many nursing homes and further closures are likely this year with smaller homes in more rural areas most at threat. Budget 2024 did allocate an additional €45m to the sector, which is welcome but does not meet what is required.

OLDER POPULATION CONTINUES TO GROW

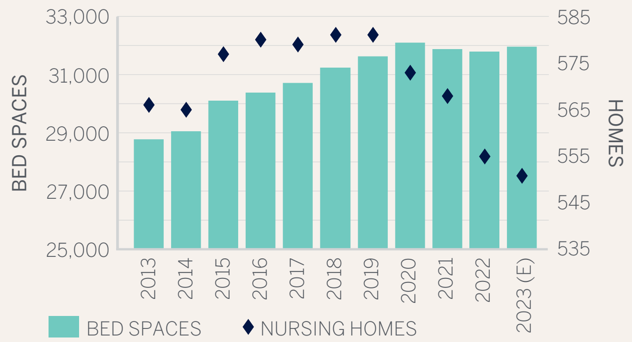
Census 2022 data released last year shows the pattern of an ever-increasing older population. Over the course of two decades the number of people aged 65 years and over increased by 78% (to 776,000) but more importantly for the nursing home sector, the number aged 85 and over grew by 102% to almost 85,000 people. As a portion of the population those over 65 now account for 15%, and this is set to grow strongly in the years ahead, creating continued demand for nursing home accommodation. Towards the end of 2023, there were 43 projects under construction, containing 3,700 bed spaces. 35 were new schemes while eight were extensions. The medium-term pipeline is reasonably positive with approximately 5,300 beds across the country with planning permission but with no construction works commenced. Some of these beds are unlikely to proceed for a variety of reasons so it will be critical that further schemes are planned. The sector has attracted much interest from both domestic and international investors and operators in recent years. This has not disappeared, but they will continue to be cautious in 2024.

POPULATION



Source: CSO, Lisney analysis.

NURSING HOME STOCK



Source: HIQA, Lisney analysis.

10

PURPOSE-BUILT STUDENT ACCOMMODATION

Despite the exceptionally strong occupier, operator and investor demand, new supply continues to lag behind what is required.

DEMAND

INTERNATIONAL STUDENTS REACH 15% OF STUDENT POPULATION

Student numbers across Ireland continue to grow, which is a very positive indicator for continued PBSA demand. The most recent data is from the 2022 / 2023 academic year, and it shows that there were almost 257,000 students enrolled in Higher Education Institutions with 199,000 of these in full-time education. Since 2016 (six years), full-time student numbers have grown by 10.2%. However, more importantly in terms of the student accommodation sector, the number of international students has jumped by 42% to 33,500 (15% of the student population in Ireland). The numbers from India and China in particular have increased considerably, up by 264% and 67% respectively over the six years and combined make up over 8,000 students in full-time education. Brexit impacts in the UK, along with greater Government focus on the higher education sector in Ireland (with a dedicated cabinet minister) have been two of the key reasons for growth in the sector. The availability of on or near-campus accommodation for these international students is essential in continuing to attract them and the economic benefits they bring.

While the student population has grown substantially in a short space of time, the Government anticipates further growth of about 14% by 2030, which would result in nearly 30,000 more students in full-time education. Combined with the ongoing rental / housing crisis in Ireland, as well as the elevated number of domestic students commuting unsustainably long distances several times a week to university or college, occupational demand for the PBSA sector will remain exceptionally strong in 2024 and beyond. Indeed, most operators are at full capacity. Many continue to experience early pre-bookings and re-bookings from existing residents.

CONSTRUCTION

FALLING BEHIND 2017 STRATEGY TARGETS

Despite the exceptionally strong occupier, operator and investor demand, new supply continues to lag behind what is required. In the Government's 2017 Student Accommodation Strategy, an additional 21,000 bed spaces were anticipated by the end of this year. As of January 2024, just under 14,000 bed spaces have been delivered with a further 2,800 (across 11 schemes) under construction nationwide. This leaves a shortfall of over 4,000 bed spaces. While more than 8,000 bed spaces have planning permission in place, only about 3,000 of these have a realistic chance of being built. This drop off is mainly because of higher construction and funding costs impacting viability, but also alternative uses on the site now being more attractive. In addition, there are approximately 3,000 bed spaces currently awaiting a planning decision. Many of these are being held-up by delays in the wider planning system.

INVESTMENT

ATTRACTIVE COUNTER-CYCLICAL QUALITIES

In the investment market, there was only one small PBSA deal of note last year. This was not necessarily due to a lack of demand but rather no on-market supply of prime, modern opportunities. Given the counter-cyclical nature of the asset type, investor sentiment remains strong for well-performing schemes. Yield softening in the sector has been considerably less than most other sectors in the last 18 months with prime net yields on new schemes estimated at 5%, however given the lack of activity this is based on sentiment rather than transactional evidence. There will continue to be demand for opportunities this year if suitable supply becomes available, either on or off-market, and if there is more certainty around interest rates and pricing.

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CORK

The Cork investment market did slightly better than the nationwide average, with market turnover ahead of three of the last 10 years.

INVESTMENT

GLOBAL INTEREST RATES HAVING THE WIDEST IMPACT ON THE PROPERTY MARKET

Entering 2024, interest rates in the EU and US remain at 22-year highs and while the likelihood of further increases is now more limited, the prevailing elevated rates will mean a subdued investment property for most of this year. The Irish, and indeed global, market in 2023 suffered from falling values, limited activity and negative sentiment with prime yields softening by between 50 and 125 bps. This led to buyer inertia, which was compounded by the mismatched pricing expectations of vendors and purchasers. Nationwide, market turnover was at about one-third of the annual average of the past five years, and it was at the lowest level in 10 years. For Cork, the market did slightly better with turnover at half the previous five-year annual average, and ahead of three of the last 10 years.

While 2024 will be another challenging year, there is evidence of more appropriate pricing emerging. If vendors are realistic on price, then there will be buyers. Smaller-scale private investors will be active, taking advantage of more favourable yield profiles. In terms of larger, more conservative longer-term investors, many have signalled that they intend on being back in the market in the latter half of the year, barring no more major external shocks. However it may take several months for them to move from looking at opportunities to agreeing deals, and any noteworthy uptick in market turnover may only emerge in 2025.

The impact of various domestic and European sustainability policies will continue to impact how buildings are funded and occupied. For some sectors (especially offices), there is a fear that a certain grade of building will become a stranded asset – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead. This will mean further yield softening, particularly for non-prime properties.

DEVELOPMENT LAND

NEW PLANNING & DEVELOPMENT BILL STILL NOT ENACTED

The land market has been challenged for several years now; greatly impacted by uncertainty in planning policy (the new Planning & Development Bill was due to be finalised last year but with the latest draft published in November it will be at least Q2 before enacted) and the endless delays in getting a finalised planning permission. It has also been affected by construction cost inflation (labour and materials - albeit now more stable and potentially falling in 2024) and elevated finance costs (if available at all).

In Cork, only one significant ready-to-go residential site sold last year. In spite of this, the outlook for this year is more positive in terms of land sale activity and sentiment will improve as the year progresses. The Land Development Agency and Approved Housing Bodies will be active, and along with private developers, their demand will be focused on sites benefiting from planning permission. As development viability improves with stabilised / falling costs, we are hopeful some of the larger sites purchased in Cork City in recent years will begin to be built out. Some of these, such as at the former Goulding's site in the docklands, will benefit from the Government's new Secure Tenancy Affordable Rental (STAR) investment scheme.

South Docks, Docklands, Cork

OFFICES

GREY SPACE BEGINNING TO EMERGE IN CORK

The Cork office market, as with office markets around the world, will continue to contend with post-pandemic occupier trends this year; namely WFH / hybrid working and adjustments in the tech industry. In other markets, this has led to significant increases in grey space (sub-lets), including in Dublin where there is now over 200,000 sqm available, equivalent to one years' take-up. The Cork market has been relatively immune to this growing global trend with only about 5,700 sqm of grey accommodation available – three months average take-up. However, 2024 is likely to be the year where this intensifies, albeit not to the same levels as other markets. This will push the vacancy rate higher in Cork, following a period of minor decline in the latter half of 2023 (to about 13.8%). On a positive note, grey space generally comes fully fitted, which will be welcomed by tenants struggling to justify the elevated cost of fitting out shell and core accommodation, as well and providing occupiers flexibility to make longer-term occupational decisions.

THERE IS
5,700SQM
OF GREY ACCOMMODATION AVAILABLE IN THE CORK MARKET –
3 MONTHS
AVERAGE TAKE-UP

Westfield Office Quarter, Ballincollig, Cork

Activity levels will remain muted this year as businesses continue to assess requirements and the wider global economic conditions. The city centre will dominate take-up in the short-term as employers seek to provide wider amenities to their staff. Some suburban locations will do better than others. Headline rents remained relatively stable last year (albeit depending on location, between 4% and 9% down compared to early 2022) and are likely to hold steady in most regions this year. Greater incentive packages may however be on offer to tenants, which will be dependent on how the vacancy rate evolves.

There is over 140,000 sqm of office space with planning permission but not yet commenced across Cork. Unless pre-lets are secured, it is very unlikely any of this will progress speculatively in the short-term. However, any developments already underway, including Apple's scheme at Hollyhill, will continue.

INDUSTRIAL

VACANCY RATE REMAINS BELOW 2%

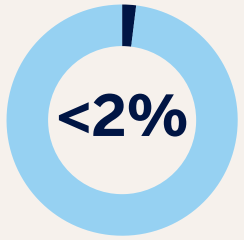
The industrial sector will continue to experience good levels of demand in 2024, which follows on from another very strong year of activity last year. While this is positive, occupiers will experience severe difficulties sourcing space, which could hold back full year activity levels. The vacancy rate remains sub-2% and options are limited. However the nature of demand will change, moving from strong levels of pharma-related logistics occupiers (where requirements are now fulfilled and rental rates are of less significance) to more traditional domestic occupiers seeking buildings up to 1,500 sqm. There is very little suitable supply for these and unfortunately, given prevailing rental and capital values, along with the cost of construction (including finance), such premises are not viable to build. Rents are likely to continue to increase, which will be required to justify new developments. Speculative building will remain limited given the elevated costs and softer investment yields. This will mean certain occupiers with active demand may need to agree terms on a design-and-build basis.

OFFICE RENTS REMAINED RELATIVELY STABLE, ALBEIT BETWEEN

4% & 9% DOWN

COMPARED TO EARLY 2022

THE VACANCY RATE FOR CORK'S INDUSTRIAL SECTOR REMAINS AT



RETAIL

PRIME VACANCY RATE REDUCING

Despite the wider global environment and potential headwinds, there remain positive indicators in the Irish retail sector. In terms of the consumer, household savings continue to grow and are at historic highs (€153.1bn – up from €148.6bn 12 months ago and €110.5bn at the end of 2019); there is full employment with the numbers employed also at historic highs (2.66m people); the volume of retail sales is steady when compared to the last two years; and inflation (CPI) has eased by over four percentage points in the last year (to 5.1%). Consumer sentiment in December 2023 was significantly higher than 12 months previous, but it was notable that while some pressures on households were easing (such as reducing energy costs and hopes that interest rates have peaked), others remained (including worries about a softening jobs market and a slowing economy).

These positive consumer trends have supported good levels of retailer occupancy on prime high streets and in key shopping centres and retail parks. Retail parks have been performing very well in terms of footfall and trading levels and have attracted significant investor interest in recent times. The vacancy rate on Patrick Street was 20% at the end of 2023 and 10% on Oliver Plunkett Street – a reduction from 21% and 12% respectively in December 2022. By 1st May 2024, any retailers that warehoused Revenue tax liabilities from pandemic times will have to repay this debt in full. While it remains to be seen how this will play out, it may lead to some retailer distress and in turn either renegotiated deals with landlords and/or tenant defaults resulting in store vacancy.

MacCurtain Street, Victorian Quarter, Cork

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NORTHERN IRELAND

Elevated interest rates, along with the sustained lack of finance on offer for property purchases, will mean those with cash will be most active in the property market and set pricing.

INVESTMENT

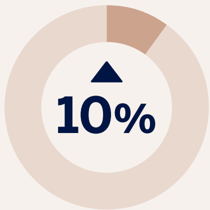
LOCAL INVESTORS DOMINATING DEMAND

Entering 2024, interest rates in the UK are just coming off a 15-year high, while rates in the EU and US remain at 22-year highs. The likelihood of further increases is now more limited and downward adjustments are anticipated in the second half of the year, however the prevailing elevated rates, along with the sustained lack of finance on offer for property purchases, will mean those with cash will be most active in the property market and set pricing. This is similar to last year when demand was dominated by locally-based investors, mainly high net worth individuals with UK and international funds absent from the market.

Despite the wider economic and geopolitical issues both locally and globally in 2023, investment activity performed well with turnover estimated to have been between £310m and £320m, a similar level to that achieved in 2022 and around 10% ahead of the 10-year annual average. The retail sector was by far the most active, as has traditionally been the case in NI, but as also was the case in other global markets last year. Yields and rents have been adjusting for longer in this sector and the vendor / purchaser gap in pricing expectations is not as wide as in other sectors. Retail assets will attract significant interest again this year, particularly supermarket-anchored shopping centres and retail parks that are trading well. On-market supply should improve as 2024 progresses. This will be driven by banks and other funders putting pressure on those who need to refinance but cannot afford to do so given the raised cost of finance and the likely changes in LTV ratios.

INVESTMENT ACTIVITY PERFORMED WELL, WITH TURNOVER ESTIMATED TO HAVE BEEN BETWEEN

£310m - £320m



AHEAD OF THE 10-YEAR ANNUAL AVERAGE

OFFICES

NEW BENCHMARK IN OFFICE SPECIFICATION

Like last year, activity levels in the Belfast office market are expected to remain relatively subdued in 2024. This is not unique to Belfast; office occupiers globally continue to assess their future space requirements in a post-pandemic world. Staff trends around WFH / hybrid working will remain a feature and is likely to result in more occupiers seeking to off-load excess accommodation as grey space (sub-lets).

While no new office accommodation is under construction or due to commence in the near-term, four new Grade A buildings were completed in the last 12 to 15 months. Each of these is to BREAAM Excellent standard, setting a quality benchmark in the city. They comprise The Ewart (210,000 sq ft), Olympic House (146,000 sq ft), Paper Exchange (155,000 sq ft), and City Quays 3 (250,000 sq ft). However, with slower market conditions, a significant amount of space remains available in these buildings, which has added to the vacancy rate.

In the medium-term, and again as with office markets globally, a key challenge will be the significant number of secondary buildings that require large capital expenditure to meet sustainability / ESG standards. There is a fear that some of these could become stranded assets as it will be unviable to carry out the works required to justify the uplift in rental and capital values. Consequently, many will be earmarked for alternative uses including residential, hotels and student accommodation, but conversion viability may also be an issue.

4 NEW

GRADE A OFFICE BUILDINGS WERE COMPLETED IN THE LAST 12 TO 15 MONTHS IN BELFAST

INDUSTRIAL

DESIGN-AND-BUILD PROJECTS ADVANCE

The lack of supply will remain the biggest issue in NI's industrial market this year. It will hold back stronger levels of activity. Despite the shortfall in accommodation, new schemes in general remain unviable to construct, mainly due to elevated building and finance costs. However some limited speculative construction may still occur, and additional design-and-build projects will advance with occupiers required to pay an economic rent / purchase price to justify development. There are some notable examples to the northwest of Belfast city in Nutts Corner where this has already occurred – Sysco Ireland has taken a 200,000 sq ft distribution facility that is under construction, while a planning application has been lodged on behalf of Jans Group for a 240,000 sq ft unit.

There will be continued upward pressure on rental and capital values in 2024. In tandem with plateauing (or falling) construction and finance cost over the course of the year, speculative construction may become viable towards the end of the year and into 2025 in areas where demand is strongest. In the meantime, occupiers with immediate requirements will need to seek design-and-build solutions at rates ahead of the market.

RETAIL

STRONG DEMAND IN RETAIL PARKS

The retail sector in NI continues to be impacted by the after-effects of the pandemic (greater move to e-commerce), the various conflicts around the world and wider macro-economic issues globally (inflation, interest rates, higher cost of living). Both retailer and consumer sentiment continue to be affected, which has a knock-on impact on demand for stores. Greatest demand for property solutions is coming from discount retailers and homeware brands, which are seeking units in retail parks that are trading well. Encouragingly, there are several high-profile brands either seeking space in NI or have recently secured stores. Examples include Pret A Manger (UK F&B), Miniso (Chinese homeware) and Mary Brown's Chicken (Canadian F&B). Over 2024, demand will persist for prime retail pitches, as bricks and mortar stores play an important role in supporting brands' omni channel offering. However, secondary and tertiary pitches will continue to face challenges in terms of escalating vacancy rates and falling rental levels.

DEVELOPMENT LAND

NEW AFFORDABLE PROVISION IN DEVELOPMENT PLAN

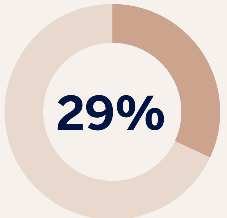
Despite the continued economic headwinds, particularly relating to interest rate and build cost inflation, demand for well-located land with development potential across NI remains strong. Planning and infrastructure related constraints continue to curtail the amount of consented development land being brought to the market, which has to a certain extent underpinned land pricing when sites do transact.

Belfast City Council adopted its new Local Development Plan in May 2023. One of the key new policies relating to residential development is 'Policy HOU5 (Affordable Housing)', which provides that any new scheme of five or more units must contain a minimum provision of affordable housing equivalent to 20% of the overall total.

BUILD TO RENT

ALMOST 1,200 BTR UNITS DUE IN BELFAST CITY CENTRE

It is very positive news that construction of the first institutionally-backed BTR scheme in NI started in Q3 2023. It is in the Titanic Quarter and will be a 627-unit scheme to be known as the Loft Lines. It is being forward funded by Legal & General with Watkin Jones, Grahams and Lacuna the delivery partners. In addition, Belfast Harbour's City Quays 4 BTR scheme of 260 units has been recommended for approval with construction likely to start in the first half of 2024, while McAleer & Rushe's 300-unit BTR scheme on Corporation Street is due for approval shortly. These will be welcome modern rental stock in Belfast city centre.



OF STUDENTS (20,200) ARE NOW FROM OUTSIDE NORTHERN IRELAND.

INTERNATIONAL STUDENTS HAVE THE GREATEST DEMAND FOR PBSA AND THIS GROWTH BODES WELL FOR THE CONTINUED GROWTH IN THE SECTOR

PURPOSE-BUILT STUDENT ACCOMMODATION

INTERNATIONAL STUDENT NUMBERS GROW

In the 2021 / 2022 academic year, there were 69,500 students enrolled in Higher Education Institutions across NI, almost 46,000 of which were studying on a full-time basis. The numbers have grown by a substantial 24% in the last decade as more undergraduate and postgraduate places opened-up, and more overseas students were attracted to the region. It is notable that 29% of students (20,200) are now from outside NI, including a large proportion (14,600) from non-UK / non-EU countries. International students have the greatest demand for PBSA and this growth in numbers bodes well for the continued growth in the sector across NI. In Belfast city centre, the opening of the new Ulster University campus at the Cathedral Quarter in early 2023 is also positive for the future demand for bed spaces in the city as the campus is home to 36,000 students.

With a current stock of 9,000 bed space across NI (7,800 in Belfast) and 5,600 further beds either under construction or in the planning system in Belfast, the pipeline is healthy (bed spaces will be available for just over one-fifth of all students) and likely to grow further. Queen's University Belfast recently announced a requirement for an additional 3,000 bed spaces in the next five years. Given the counter-cyclical characteristics of PBSA as an investment class, there will be investor demand for this sector in the years ahead. Indeed, the sale of Vita's 269 bed scheme on Bruce Street last year is a notable example, achieving a NIY of approximately 5.85%.

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