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Key Trends

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Market Outlook



Ireland Residential Investment Market Overview

Research Q2 2022

Special Focus – Debt Market Review

knightfrank.com/research

5.1m

Ireland's population has exceeded 5.1 million, an 8% increase from 4.8 million in 2016.

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Debt pricing

Volatility in the markets starting to put pressure on yields.

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5 KEY TAKEAWAYS

6.6%

Economic growth forecast for 2022, with risks on the downside, as higher interest rates feed into activity.

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77%

of residential investment capital sourced from Europe.

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€432m

Total residential investment spend in Q2 2022.

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ECONOMIC CONTEXT

Despite global economic challenges which have accelerated at pace, the Irish economy continues to expand. Population growth, strong employment levels and a severe housing shortage remain key drivers of residential investment demand.

ECONOMY

Continued disruption from the war in Ukraine is having an accentuated impact across the globe. Forecasts made in January, ahead of the crisis, are largely redundant at a global level, yet useful starting points as to how various economies may weather what now looks set to be a prolonged period of economic turbulence. The World Bank has reduced its global growth forecast for 2022 from 4.1% in January to 2.9%. 2023 and 2024 are expected to see more or less flat growth, with an average of 3% forecast, due to higher commodity prices and interest rates. While all economies are feeling the squeeze, their performances will be impacted to varying extents by underlying factors, in particular the key drivers of economic activity and the labour market.

Economic Growth Forecasts

	2022*	2023*
US	2.5%	2.4%
UK	1%	1%
EURO AREA	2.5%	1.9%
CHINA	4.3%	5.2%
JAPAN	1.7%	1.3%
IRELAND	6.6%**	4.8%
IRELAND MODIFIED DOMESTIC DEMAND	4.3%	3.7%
GLOBAL	2.9%	3%

*World Bank, IMF, EU Commission, Irish Central Bank, Department of Finance, ESRI. ** Risks are that this could be revised downwards as the impact of higher interest rates feeds into activity.

Census 2022 data shows that the population has exceeded 5.1 million, an 8% increase since the 2016 Census which puts the population at a 170-year high.

Employment and labour market data, along with tax revenue, remain in a strong position which reflects the strength of activity in the high value adding sectors that have come to the fore in the Irish economy over the last two years.

The consumer is expected to continue to make a positive contribution, albeit more subdued than in 2021, as concerns about inflation impact real incomes and spending patterns. Higher interest rates, with steeper than expected

increases on the way, will also add to consumer and investor caution.

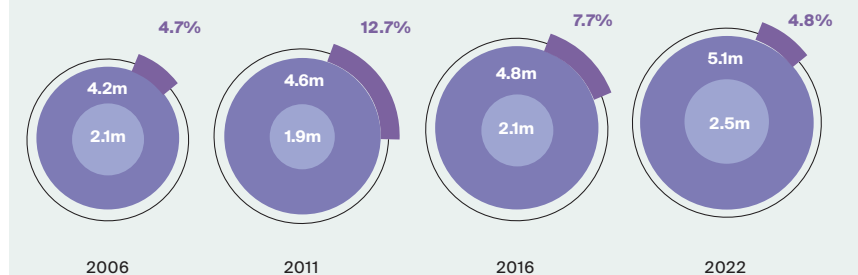
The number of people in employment has reached over 2.5 million, the highest on record and despite the global disruption, employment creation remains evident across a wide range of sectors.

These are a number of supporting factors that continue to position Ireland as well as possible for the on-going global challenges.

While the impact of higher inflation and higher interest rates, along with financial market concerns such as the fall in stock markets and tighter lending conditions, will bring additional caution in the second half of the year, there are enough positive factors in place to allow Ireland to leverage the productivity gains and enhanced position earned by global investors over the last decade.

Population, Employment & Unemployment

Population No. Employed Unemployment Rate



Source: CSO/Knight Frank Research

INVESTMENT MARKET Q2 2022

The Irish investment market has shown significant strength in the first half of the year. Transaction volumes in H1 2022 reached €3.08 billion with the residential market accounting for 26% of total spend, or just over €811 million.

Of that total of €3.08 billion, there was an exceptional transaction (€1.1 billion) in Q2, accounted for by the sale of Hibernia REIT and all its assets to Brookfield Asset Management, a Canadian investment fund.

While Hibernia REIT's portfolio is heavily weighted in office assets, technically as this was a share purchase transaction, the assets are not considered to have transacted as normal sales in the market. The sale does nevertheless underpin global investor confidence in the Irish commercial property sector.

Total investment spend in Q2 2022 was €2.3 billion (€1.2 billion excluding Hibernia REIT) with residential accounting for €432 million or 19%

◆◆
€811 million has been spent on residential investment assets to date in 2022
◆◆

of the total for the quarter or 36% excluding that transaction.

In Q2 2022, there were two residential investment transactions in excess of €100 million, with a further four deals between €20 million and €99 million.

The source of capital for residential investment was quite one-sided in Q2 2022 compared to last quarter, with European transactions accounting for 77% of investment volumes and North America at 23%. The source of capital in Q1 2022 was more evenly distributed

between Europe and North America at 52% and 48% respectively.

For the year to date, 65% of capital has originated from Europe and the remaining 35% came from North America.

SUB-SECTOR ANALYSIS

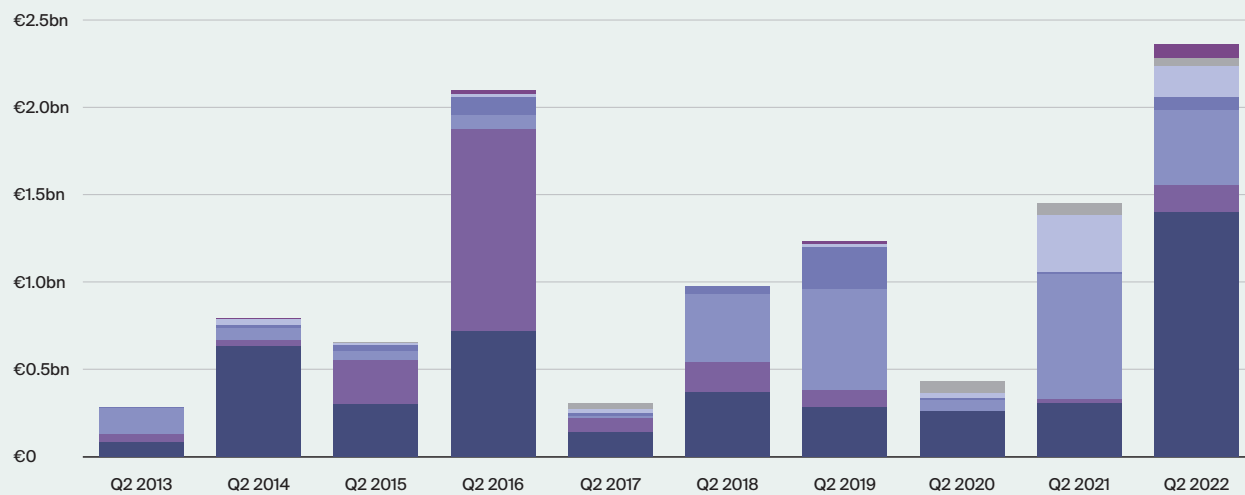
Multifamily transactions remained the dominant sub-sector of the residential market in Q2 2022. Four of the six transactions were multifamily deals accounting for 83% of transaction volumes. The remaining transactions this quarter were social housing deals, accounting for 17% of transaction volumes.

While no transactions took place in the Purpose-Built Student Accommodation (PBSA) space, we see continued interest from large institutional investors to deploy capital into this sector in Dublin and strong regional markets.

Overall, in the year to date, 73% of residential investment volumes in H1 2022 were for multifamily deals,

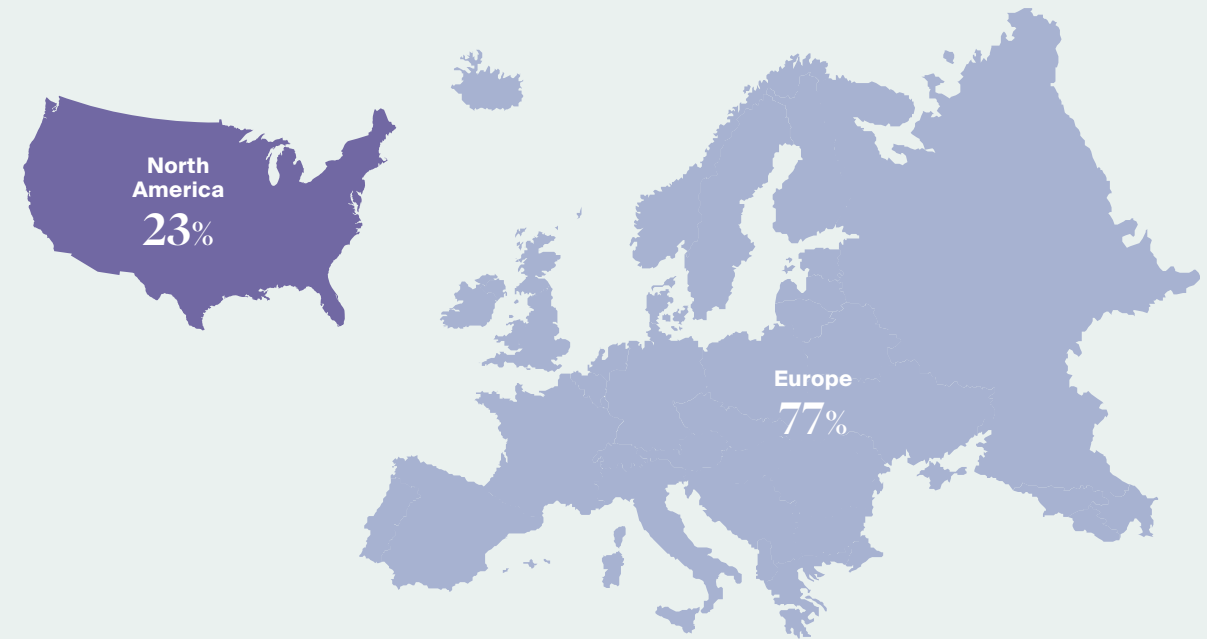
Investment Market Spend by Sector Q2 2013 - Q2 2022

Office Retail Residential Mixed used Industrial Hotel Other



Source: Knight Frank Research

Residential Investment Spend by Source of Capital Q2 2022



Source: Knight Frank Research

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45% of transactions were forward commit in the year to date, while 65% were forward commit in Q2
◆◆

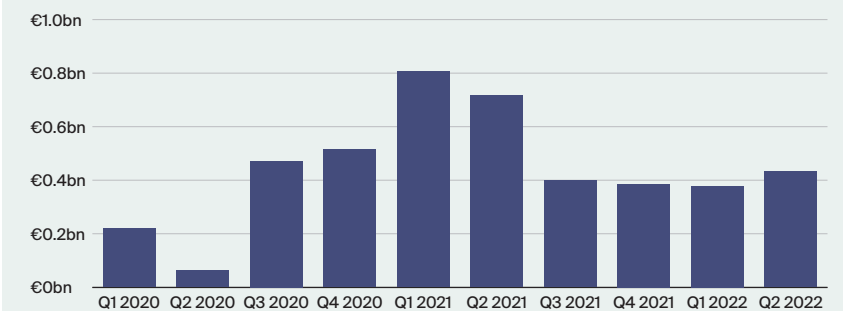
followed by student housing at 18% of transaction volumes and 9% for social housing.

DEAL TYPE ANALYSIS

In terms of deal structures, 65% of transaction volumes in Q2 2022 were forward commit deals, 28% were forward fund and 7% were existing stock. This is a very similar deal structure to that seen in the same quarter last year.

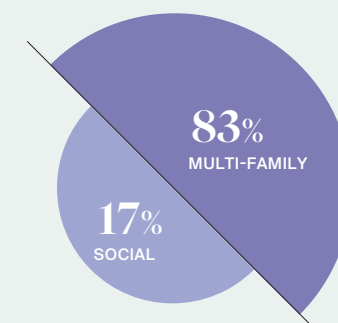
Looking at H1 2022 overall, 45% of transaction volumes were forward commit deals, 40% were existing stock and 15% were forward fund deal structures.

Residential Investment Spend Q1 2020 - Q2 2022



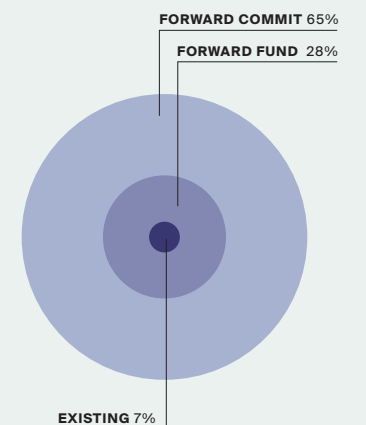
Source: Knight Frank Research

Residential Investment Spend by Sub-Sector Q2 2022



Source: Knight Frank Research

Residential Investment Spend by Deal Structure Q2 2022



Source: Knight Frank Research

SPECIAL FOCUS

DEBT MARKET REVIEW

The first half of 2022 has seen a notable shift in the real estate debt market with the cost of borrowing rising significantly as central banks increase interest rates in an attempt to curb rising inflation.

In June the Bank of England announced its fifth consecutive rise of the base rate since December 2021, increasing it to 1.25%.

The eurozone is now following suit, with the ECB increasing interest rates by 0.5% at its July meeting. This was the central bank's first-rate increase in eleven years in response to a record 8.6% level of inflation for the Eurozone in June.

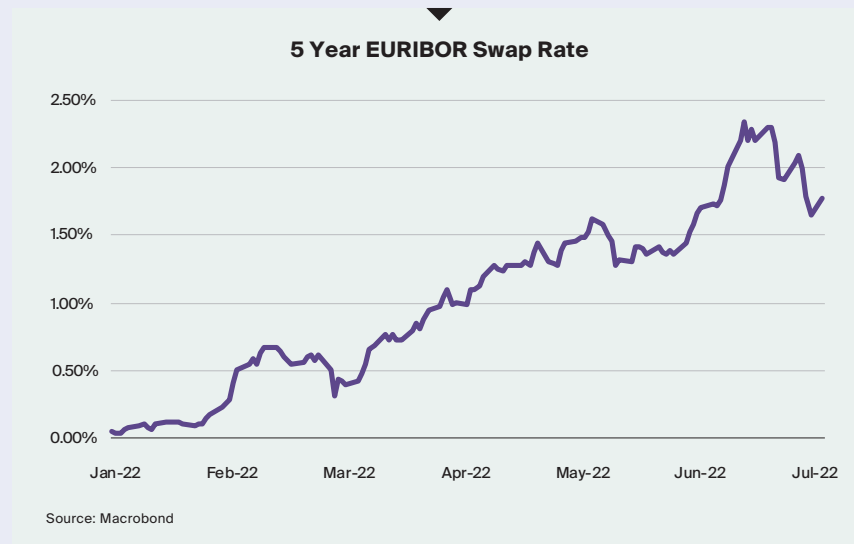
The immediate impact of increases in interest rates, both experienced and predicted, on real estate borrowing is increased hedging costs, be this in the form of an interest rate swap or cap. In recent months there has been a substantial increase in the cost of both swaps and caps.

The Euribor swap rate increased from 0.05% at the beginning of the year to a peak of 2.30% in June before dropping to 1.68% as of July 18th, adding significantly to investor's borrowing costs since the beginning of 2022.

However, despite the overall increased total cost of borrowing, the appetite from lenders to fund build-to-rent

remains very strong. The market is however experiencing a flight-to-quality with lenders shifting their focus to best-in-class assets within the sector.

For such assets competition between lenders remains strong and as a result margin pricing has remained largely unchanged. (Knight Frank Capital Advisors.)



OUTLOOK

1.

Volatility in debt markets is starting to have an impact on pricing across Europe.

2.

A significant level of capital is still ready to deploy into new build core assets across all sub-sectors in the residential investment sector in Dublin, driven by its inflation link.

3.

Rental growth is continuing at a fast pace with a supply shortage being the key issue.

RESIDENTIAL CAPITAL MARKETS H1 2021 V. H1 2022

INVESTMENT SPEND

H1 2021
€1.523 billion

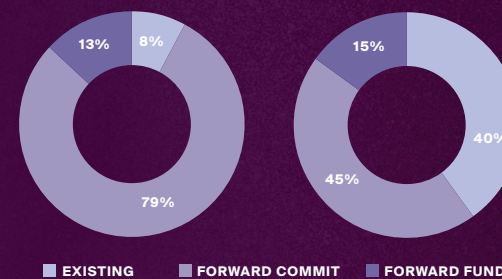
H1 2022
€811 million

In the first half of the year there was a total of sixteen residential market deals. These deals equated to €811 million in spend.

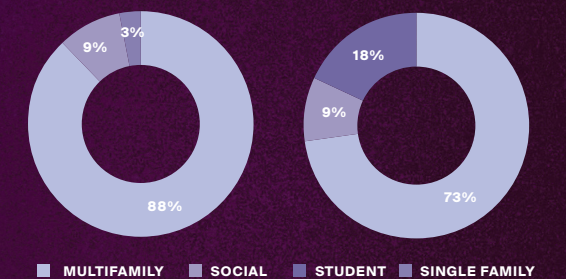
TOP 5 RESIDENTIAL INVESTMENT TRANSACTIONS H1 2022

PROPERTY	SECTOR	STRUCTURE	VALUE (€M)	PURCHASER
PROJECT RUBY	STUDENT	EXISTING	€145,000,000	ARES
MAGNA DRIVE, CITYWEST	MULTIFAMILY	FORWARD FUND	€122,000,000	ARDSTONE
ST. EDMUNDS	MULTIFAMILY	FORWARD COMMIT	€100,000,000	ARDSTONE
14-17 MALAHIDE ROAD	MULTIFAMILY	FORWARD COMMIT	€98,000,000	CONFIDENTIAL
CONFIDENTIAL	MULTIFAMILY	FORWARD COMMIT	€85,000,000	CONFIDENTIAL

Source: Knight Frank Research

DEALS BY STRUCTURE
H1 2021 H1 2022

Source: Knight Frank Research

DEALS BY SECTOR
H1 2021 H1 2022



Dublin Office Market
Overview Q2 2022



Ireland Investment Market
Overview Q1 2022



Dublin Industrial &
Logistics Market Overview
Q1 2022



New Homes Construction
Survey 2022

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