Ireland Residential Investment Market Overview

Q1 2023

Spotlight on Key Trends in The European Residential Investment Market

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5 Key Takeaways

2.6m*

people in employment, the highest number ever.

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*rounded from 2,574,500

4.3%

unemployment, the lowest rate in 20 years.

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€332.5m

worth of residential investment transactions in Q1 2023.

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60%

of residential investment transactions were multifamily deals.

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€67.96bn

invested in the European living sector in 2022.

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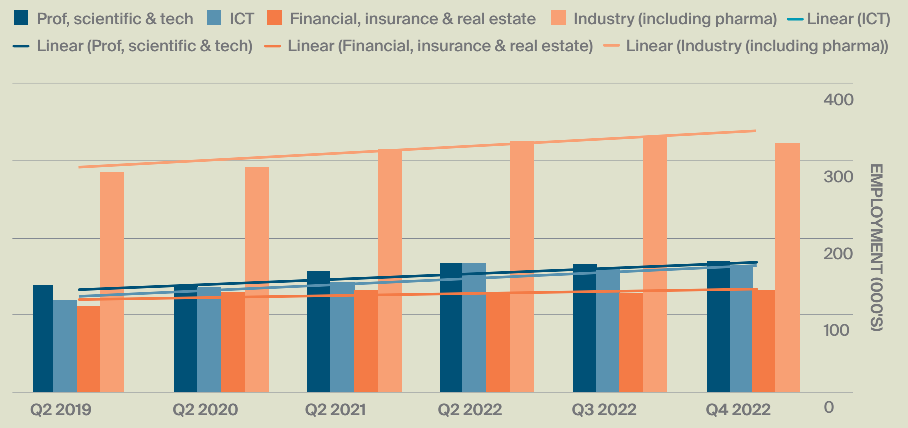
Economic context

EMPLOYMENT
Ireland continues to have the highest number of people employed on record.

Despite some job losses in the ICT/TMT sector, compared to mid-2019, there were 45,000 more people employed in this sector at the end of 2022.

Employment in the high value Medical and Pharmaceutical sectors is a key engine of employment growth and of export demand.

Employment by economic sector



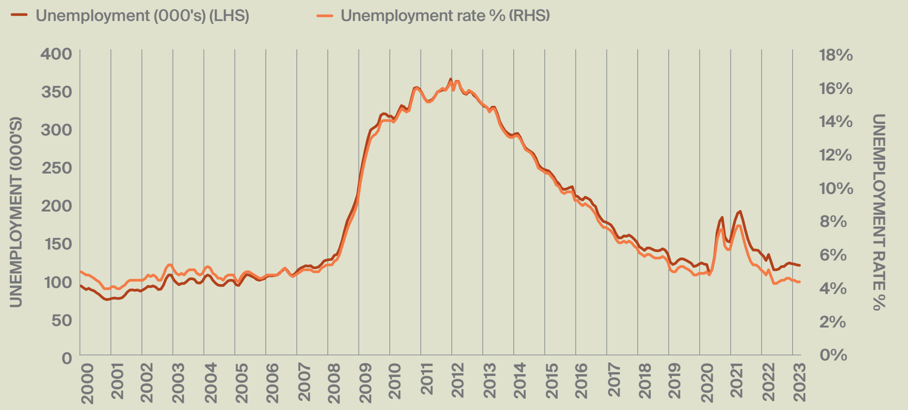
Source: CSO/Knight Frank Research

UNEMPLOYMENT
The unemployment rate remained at 4.3% at the end of Q1, compared to 5% in Q1 2022.

At this rate, unemployment remains at its lowest level in twenty years.

The unemployment rate for men is 4.1% and 4.6% for women.

Unemployment 2000 – March 2023



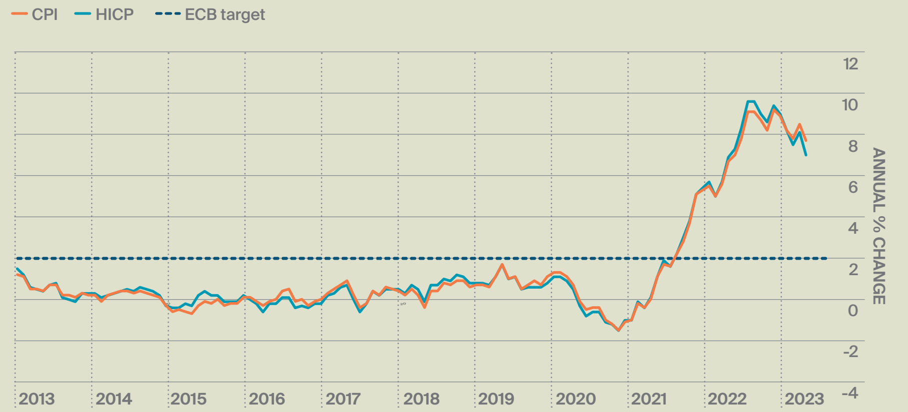
Source: CSO/Knight Frank Research

INFLATION
Both CPI and HICP increased to over 9% in the middle of 2022.

Successive ECB rate increases are showing signs of easing inflationary pressures, along with some correction in energy prices.

CPI fell to 7.7% in March, compared to 8.5% in April while HICP fell from 8.1% to 7%.

Ireland – CPI & HICP inflation rate



Source: CSO/Knight Frank Research

Investment market Q1 2023

Q1 saw €621m worth of investment transactions complete which, given the current conditions in global real estate markets, is a good result. Residential investment transactions accounted for 54% of total spend.

Residential investment, or investment in the living sector, was the dominant asset class in Q1, a trend seen for the past three years. Overall, €332.5m worth of residential investment deals transacted (54% of total investment spend). Four transactions made up the €332.5m, three of which were lot sizes in excess of €90m.

€332.5m

worth of residential investment deals transacted in Q1 (54% of total investment spend).

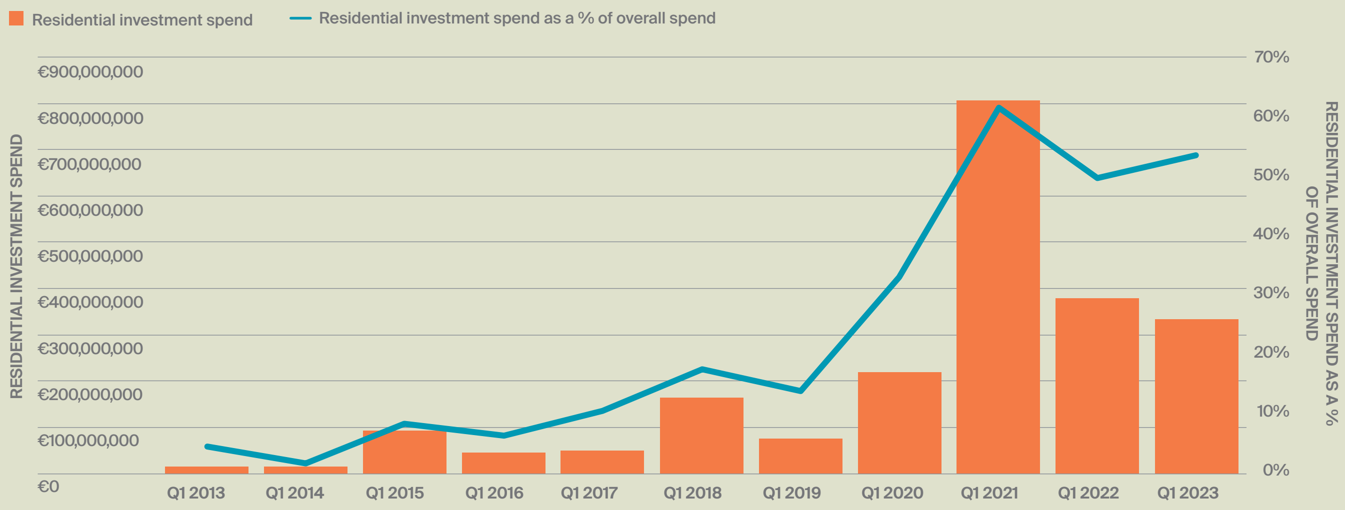
"Off market deals have been the predominant deal type over the past number of years."

Residential investment spend by sub-sector Q1 2023

Multifamily	60%
Social / public sector	40%

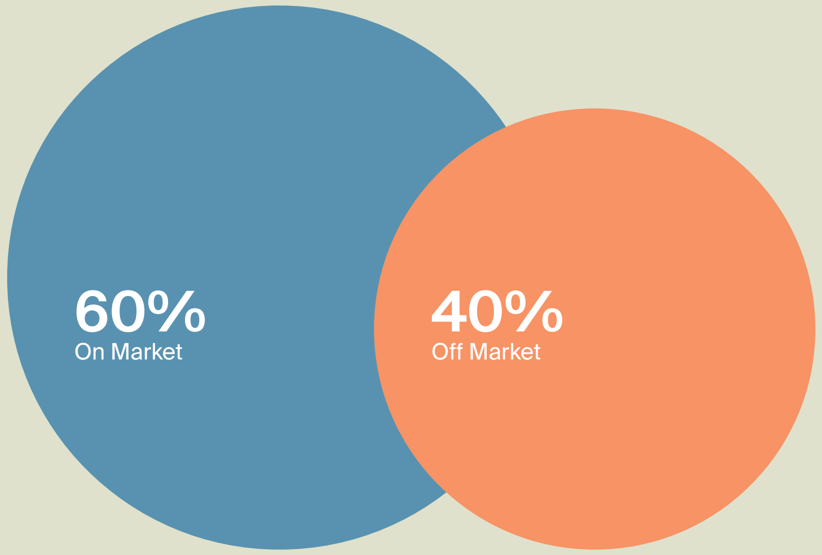
Source: Knight Frank Research

Residential investment spend 2013-2022



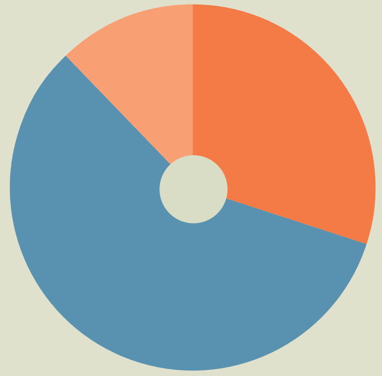
Source: Knight Frank Research

Residential investment spend on market off market Q1 2023



Source: Knight Frank Research

Residential investment spend by deal type Q1 2023



Existing	30%
Forward Commit	58%
Undisclosed	12%

Source: Knight Frank Research

SUB-SECTOR ANALYSIS

In terms of the various sub-sectors, multifamily deals accounted for 60% of residential investment spend in Q1 with social housing deals/public sector purchases accounting for 40%. Investment by State bodies or State backed bodies is expected to be an increasing feature of the market in 2023.

OFF MARKET DEALS VS ON MARKET DEALS

Off market deals have been the predominant deal type over the past number of years.

They accounted for 40% of residential investment spend in Q1 and were comprised of the aforementioned social housing deals/public sector purchases. The two multifamily deals were on market processes.

DEAL TYPE – FORWARD FUND VS STANDING STOCK

2022 saw more investor interest in existing income producing/standing stock assets and that was reflected in the composition of deals. In Q1, existing income producing/ standing stock assets accounted for 30% of residential investment spend which is a small increase on the overall 2022 figure of 28%.

Outlook

1. Yields are expected to move out in the short term to reflect current liquidity in the market and the current debt environment.

2. Smaller lot sizes and income producing assets will be at the forefront of investor requirements.

3. The living sector will continue to lead in terms of both investor demand and transactional activity in Ireland and across Europe in 2023.

Spotlight on European Residential Investment Market

The living sector in Europe accounted for 20% of total investment transactions in 2022.

This segment of the market has grown considerably over the last ten years. (15% in 2013 to 20% in 2022).

EUROPEAN LIVING SUB-SECTORS

European residential investment totalled €48.76 billion in 2022, 72% of the total living sector spend last year. This is the lowest share of the past 10 years, typically averaging 80%.

This is not unsurprising given the diversification of the living sector in that period. European Purpose-Built Student Accommodation (PBSA) totalled €16.16 billion in 2022, 24% the total living sector spend last year.

This is the highest share of the past 10 years, typically averaging 14%. In 2022, senior living investments accounted for €3.05 billion across Europe.

> "European residential investment totalled €48.76 billion in 2022, 72% of the total living sector spend last year."

OUTLOOK

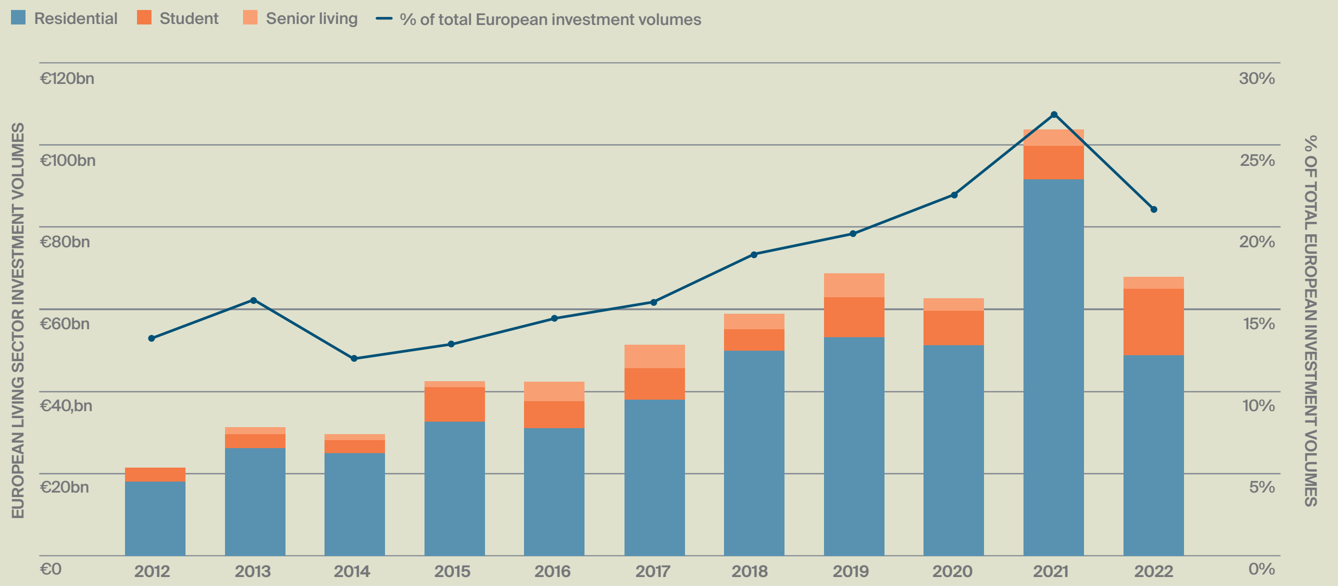
All categories within the living sector will remain in demand in 2023, with the challenging debt market conditions set to be the greatest barrier to transactional activity.

€588bn

was invested in the living sector across Europe over the last ten years, with 41% of that occurring over the 2020 – Q1 2023 period.

European living investment

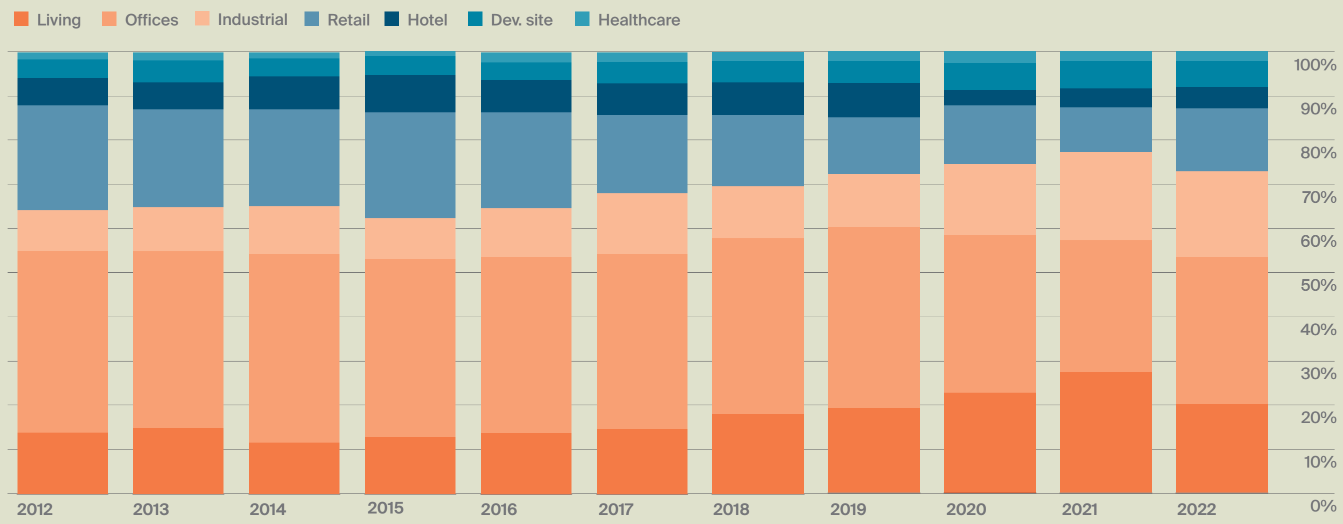
European living investment volumes over the past 10 years



Source: RCA, Knight Frank Research

European investment 2021-2022

Percentage breakdown of total European transactions across all sectors



Source: Knight Frank Research, RCA

MARKET VIEW

European debt markets

BANKING SECTOR NERVES

Following the collapse of three major regional banks in the US and the sell-off of Credit Suisse in Europe, there has been continued nervousness in the banking sector on whether there is further contagion to come. Banks have experienced significant outflows of cash in recent weeks with many retail investors opting to move savings to money market funds offering greater returns and security. Banking share prices have also seen significant loses as investors are increasingly nervous on the resilience of some banks as rate hikes continue. As a result, the capital available for direct and indirect lending may be restricted in the short term as banks reassess their balance sheets.

CONTINUED EXPANSION OF ALTERNATIVE LENDERS

In more recent years we have seen an increased number of debt funds and alternative lenders enter the Irish market, primarily offering more lucrative development loans before being refinanced on completion by traditional senior lenders. However, as alternative lenders continue to expand their sources of capital to include those with lower risk and return requirements, we anticipate the pool of senior lenders to expand with the living sector firmly remaining the sector of choice.

LIVING SECTOR FUNDAMENTALS

The Irish living sector market remains one of the most appealing in Europe as demand for quality housing continues to far outstrip supply. Lenders looking to deploy capital in 2023 will prioritise strong markets such as this, capable of protecting future cash flows and exit values by way of annual rent reviews and continued investor demand, at a time when uncertainty remains in other sectors. As a result, there has been a comparatively small movement in margin pricing for the sector as lenders seek to increase their exposure and further diversify their loan book away from asset classes experiencing significant value correction.

FUTURE RATE PROJECTIONS

As inflation is anticipated to subside towards the end of 2023, many now project we are nearing the peak for interest rates in the Eurozone. 3-month Euribor is currently expected to peak in September 2023 above 3.70% before beginning a steady decline to approximately 2.80% by the end of 2024. What this means in practise, after a long period of rising hedging costs, is that the price of both interest rate swaps and caps is expected to fall as greater stability in interest rates is predicted beyond 2024.

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New Homes Construction Survey 2023

Dublin Office Market Report Q1 2023

Dublin Logistics & Industrial Market Review 2022

Ireland Residential Investment Market Overview Q4 2022

Ireland Investment Market Overview Q4 2022

Active Capital 2022

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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