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GLOBAL URBAN FESTIVAL
2025 THEMES

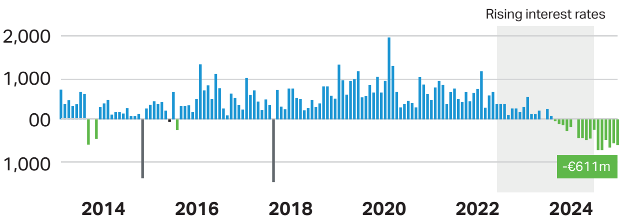
Ahead of MIPIM 2025 in Cannes our Investment Team review what they expect to be the talking points of the conference and where we see the opportunities in the Irish market:

Wizard of Aus

Many business plans rely on an exit to core money. In an Irish context this will often mean a German fund, especially in the €80m+ bracket that is too large for many domestic institutions and too small for the big North American players.

Barkow Consulting reports net out flows from the large German open ended funds of €5.9bn over 2024. These outflows represent redemptions from 2023, most funds require 12 months notice so it is likely 2025 will see further net outflows. As has been well reported German sentiment is currently at a bit of a low and the recent election is unlikely to lift the national mood in the short term.

Open public property funds, Germany, net inflows, by months, in €million.



Source: BC Data, Barkow Consulting

For non- European international capital it is instructive to consider the current 'risk free rate' across the major economies:

4.43% 4.57% 2.47% 1.42% 2.78%

Irish prime yields in most sectors offer a good premium over the 10 year bond rate. Some large economies offer bond returns that compare with Irish real estate and may act as a break on future yield compression in the market as core capital picks the greater rewards on offer elsewhere despite the fundamental strengths of Ireland.

The emergence of Australian superannuation funds as investors in Europe is an encouraging indication that there is core capital looking to diversify from home markets into Europe. We have also seen small pockets of European capital looking for opportunities however this more conservative money is likely to be slow to act on all but the very best opportunities given the turbulent macro situation.

No brown in town

As pricing in the office market becomes clearer thanks to various receiverships, sales and lettings have also picked up pace and it's possible to see how the coming office cycle might develop.

A walk around the Dublin CBD will demonstrate that the runners and riders are jostling at the start of the next development phase. Numerous investors have achieved planning and the leaders are now clearing their sites. The question is not if speculative development will re-start but when.

Whilst the headline vacancy rate in the CBD remains at around 13%. Digging into the various sub-markets reveals uneven distribution with the St Stephen's Green area having much less availability than the North Docks for example.

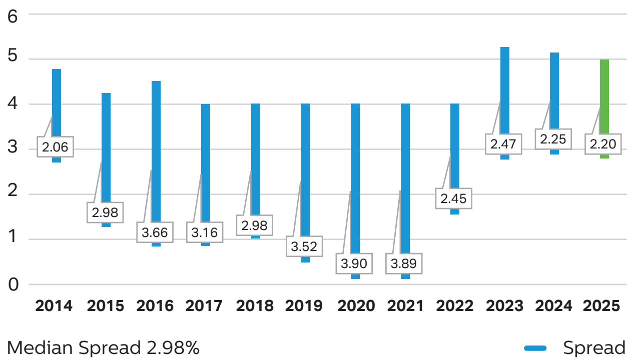
The direction of travel in the market is clear, our analysis of the 2024 lettings shows that all lettings above 20,000 sq ft in the CBD were of BER A rated space. We expect that rents at this end of the market will soon start to touch the €70/sq ft mark that makes new development viable.

Rents in Dublin already look competitive next to rents in Northern England at up to €58/sq ft and way behind the €100/sq ft + seen in some major European capitals. With rental growth once again on the horizon we expect to see yield contraction at the very top end of the market this year.

What happens to the rest of the space? Refurbishment of office space to a BER A rating is a very high bar and often not readily achievable even if you are buying the base building for €500/sq ft or less.

Not every building can be put in to use for international protection (refugee accommodation), so as rents start to rise is there a market for good space that doesn't meet the highest ratings? Pricing will obviously be lower but so then will capex - the current letting market would suggest not but we think it makes for an interesting income driven investment theme

Prime office yield v Irish 10yr spread



Cost of living

MIPIM will see the launch of a number of stabilised residential investments and the market will be waiting with baited breath to see where pricing lands.

Whilst we are waiting for further clarity on the incentives to private investment to be delivered by the new government we remain sceptical that large scale core capital will turn up for stabilised Irish PRS assets.

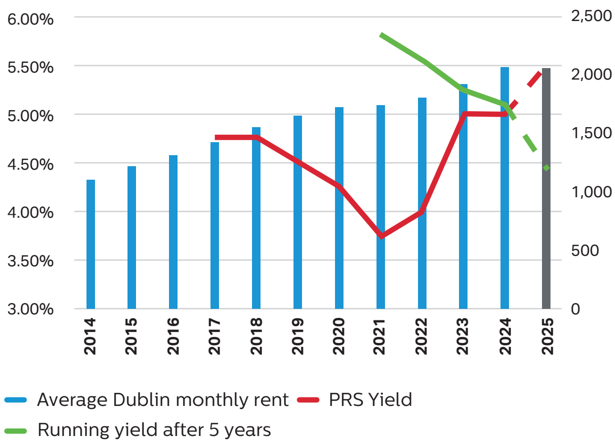
This shortage of Core capital will present opportunities for Core plus type investors however this brings with it Core Plus pricing that will disappoint many promoters and their funders. It remains to be seen if assets will actually be sold at the levels we think the market will offer.

On a brighter note, the realisation by Government that private capital is required to solve the housing crisis is to be welcomed and relaxation of rent caps will mean that some investors will re-look at Ireland albeit affordability will quickly become an issue in the short term.

Tax incentives, however they are delivered, to encourage development are to be welcomed and alongside the piecemeal reforms to the planning system should once again start to deliver opportunities to investors buying sites at rebased prices.

Financing for residential remains plentiful and rather than accept current pricing it is likely that we will see further pref equity deals to see promoters through to the sunnier times ahead.

We think the best opportunities are in sites and refinancing/pref equity to existing schemes.



Bricks 'n mortar are back

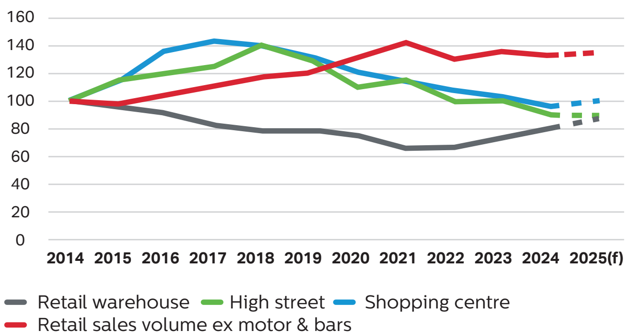
Rental growth is returning to retail markets as low vacancy and a growing population with increased spending power.

The lightening speed with which the former Homebase units were taken up by retail competitors should tell investors everything they need to know about the health of the retail warehouse market. It will be instructive to see if the New Look and Quiz branches generate a similar response in the covered scheme market.

New development, other than the expansion of existing schemes seems unlikely so we expect to see limited rental growth this year reflecting the supply side constraints and demand from retailers looking to grow to meet rising consumer demand. On this basis retail investors are likely to be rewarded with contracting yields on top of income growth likely making it one of the most attractive sectors on a total return basis.

It seems likely that we will see buoyant investment turnover as more of the larger provincial and M50 schemes change hands following the Blanchardstown, The Square and other sales last year. Investors will continue to be focused more heavily on big box or grocery led schemes rather than fashion.

Indexed retail yields v retail sales volume



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