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**CORK
COMMERCIAL**
PROPERTY REPORT

Lisney

Q4

2019



OVERVIEW

The Irish investment market performed exceptionally well in 2019. Annual turnover exceeded €6bn and in Q4 2019 activity totalled €2.7bn. The Cork investment market has been strong in the past three years, with annual turnover averaging €250m. Both domestic and international investors have focused their attention on the Cork market. Cork's competitiveness, relative to Dublin, was a key driver of this interest. Yields, particularly on prime, prominent assets were more attractive to Dublin.

In 2019, Cork made up 4% of the national investment market, which was generally in line with previous years. Combined turnover for the year was €217m with Q4 totalling €18.4m. The final three months of the year was largely made up of smaller-sized deals.

Several retail opportunities were sold in Q4 including the two largest deals of the quarter. These comprised Eason on Patrick Street, a high-profile asset, that was sold for €6.2m (net initial yield of over 7%); and West City Retail Park in Ballincollig, which sold for €6m. The Ballincollig sale also included a 2.2-acre site with one of the retail units occupied by Lidl on a 25-year lease, while the remaining three units are vacant. Retail units at Paul Street Shopping Centre were offered for sale in Q4. These 19 independent stores produce an annual income of approximately €367,000 and the guide price is €3.65m (net initial yield of 9%).

After a strong Q3, office investment was underwhelming in the final months of the year. The sale of 23-25 South Terrace for €1.3m was the only office deal in Q4. The prominence of prime retail assets for sale in Cork is not expected to continue into 2020 as market attention turns towards the office and PRS sectors once again in 2020



Cork Industrial market in numbers

ACTIVITY



37,300sqm

Strongest quarterly take-up in this market cycle

SUPPLY



60,750sqm

Low levels of availability continued

RENTS



€86psm

Increased by 1.2% in the quarter and in the year

VACANCY RATE



4.6%

Declined further to stand at 4.6% in December



OVERVIEW

Activity in Q4 was exceptionally strong as 15 deals completed. Large transactions characterised the quarter and the average deal size was 2,485 sqm. Total activity exceeded 37,000 sqm, which was far beyond previous quarterly take-up levels. Quarterly activity has averaged 8,000 sqm since 2012. Q4 was more than double that of any previous quarter since 2013. The south suburbs was the primary region attracting attention with 47% of transactions occurring there.

ACTIVITY

Activity was largely concentrated in Little Island, where deals varied substantially in size and included the largest deal of the quarter. This comprised the former Britvic premises in Courtstown Industrial Park, consisting of over 7,300 sqm of accommodation and was let to Pallas Food. Several smaller deals also transacted in Little Island, including three deals under 250 sqm. DPD Ireland also let over 2,000 sqm of industrial space in the area in Q4.

Activity was strong in Ringport Business Park in Ringaskiddy, where three large lettings were completed and combined totalled over 15,000 sqm. Precision Glass Engineering took two of these units (9,000 sqm) with the specialist glass processing company negotiated a long-term lease and is expected to vacate its existing warehouse in City North Business Park. It is understood that a rent in the region of €380,000 p.a. was agreed with PQG however this was subject to a large capital spend by the occupiers. Also in Ringaskiddy, 1,600 sqm of accommodation was let to Environmental Analysis Services. Other large deals included 5,500 sqm of accommodation in Blarney Business Park let for manufacturing purposes.

Lettings dominated activity with just two sales from the total 15 transactions. Both sales were for medium-sized units in Little Island, which are set to be owner-occupied. Due to a lack of supply, no activity occurred in the west suburbs.

RENTAL & CAPITAL VALUES

Prime industrial headline rents grew marginally, by 1.2%, in both Q4 and the calendar year, increasing from €85 psm (€7.90 psf) to €86 psm (€8 psf). A tight supply fuelled this minor increase. A top headline rental level of €86 psm prevailed across each of the Cork regions with the exception of the north suburbs, where rates were lower. In this region, rental growth in Q4 was 14.7% and annually by 22.9%.

After several quarters of stability, capital values grew yet again in Q4. In all areas (with the exception of the north suburbs) annual capital value growth was 13.9% and quarterly growth was 6.2%. At the end of December 2019, industrial capital values were €860 psm (€79.90 psf). In the north suburbs, capital values have been traditionally lower but recently the pace of growth has been notably strong, similar to the rental market. From Q4 2018, values have grown by 28.8% from €590 psm (€54.80 psf) to €760 psm (€70.60 psf). Quarterly growth in the north suburbs was 17.8%.

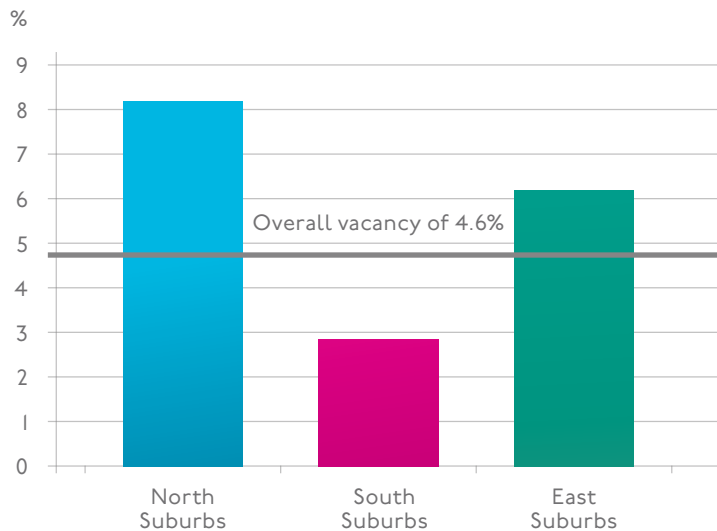
Prime industrial rents and capital values in the north suburbs grew in response to new high bay warehouse buildings under construction at Blarney Business Park. The completion of new warehouses and the higher rents they demand has been the main driving force of this growth.

AVAILABILITY

The overall vacancy rate across Cork industrial stock recorded a new low of 4.6%. Compared to Q3 2019, industrial availability declined by 29.2%, due to the large take up in Q4.

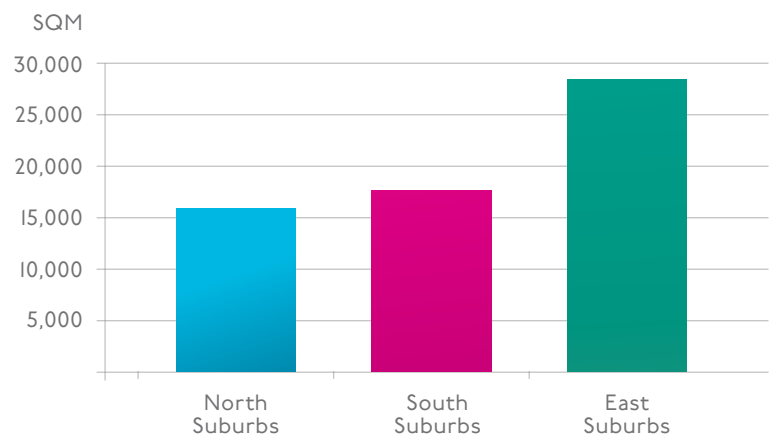
Prime warehouse accommodation continued to be in demand in the south and east suburbs, however the supply of good quality units continued to fall short. Industrial space remained in short supply in the south suburbs where the vacancy rate was 2.8%. At the end of December 2019 there was no availability in the west suburbs. Almost half of overall availability was located in the east suburbs, where the vacancy rate was 6.3%.

VACANCY BY REGION Q4 2019



Source: Lisney

AVAILABILITY BY REGION Q4 2019



Source: Lisney



CONSTRUCTION

Over 11,500 sqm of new industrial accommodation was built in Cork in 2019, most of which was completed in the latter part of the year. 42,500 sqm received planning permission, while 47,000 sqm was in the planning pipeline and awaiting a decision. A decision is due in January 2020 on a planning application for a 19,000 sqm new warehouse development at Harbour Point Business Park, Little Island. Should this scheme be granted planning permission and built, it will significantly add to stock levels in the region.

Planning permission was granted to Progressive Construction for the development of over 5,500 sqm in Blarney Business Park. This came after the developer received permission for the construction of over 1,000 sqm in the same area in Q3 2019 with works beginning shortly after. The same developer, which is associated with John Cleary, was also granted planning permission for 4,400 sqm of industrial space on the South Link Road. Other recent applications include an application from Progressive Construction for 9,300 sqm in Blarney Business Park.



OUTLOOK

- Activity is expected to return to more normal levels in 2020, in line with the take-up seen earlier in 2019.
- The upward momentum in rents and capital values is expected to further encourage new development in the short-term.
- Strong demand from both owner-occupiers and investors is expected to continue, especially for smaller warehouses and light industrial units. Modern high-bay warehouse accommodation with dock-level loading remains scarce and demand is high for this type of space.



Cork Office market in numbers

ACTIVITY



6,300sqm

A healthy level of activity across seven lettings

CONSTRUCTION



66,200sqm

Four schemes under construction with a further 150,000 sqm in the pipeline

RENTS



€350psm

Office rents remained stable for the second consecutive quarter.

VACANCY RATE



9.7%

Increased from 9.5% in Q3 to 9.7% in Q4



OVERVIEW

Market activity in 2019 was quieter than previous years with take-up totalling 17,650 sqm. This was similar to 2017 but weaker than 2018. However, 2018's take-up was skewed by Apple's occupation of its new 15,000 sqm facility in Hollyhill.

Activity for Q4 2019 was healthy and consisted of seven lettings, which varied significantly in size. In terms of location, all but one deal occurred in the city centre, and South Mall remained a popular area. Most activity in the quarter consisted of new accommodation. Take-up in schemes currently under construction, including Penrose Quay and Horgan's Quay, were pre-let as their progress continued with completion of the initial phases estimated for 2020.

ACTIVITY

Cork office market activity totalled 6,300 sqm across seven deals in Q4, all of which were lettings. Deal sizes varied substantially in Q4 2019. While four transactions were under 300 sqm, the remaining transactions were over 1,100 sqm.

The largest deal of the quarter was the letting of three floors (2,800 sqm) in Horgan's Quay. This was let by serviced-office provider Spaces. Pre-lets for new developments dominated activity in Q4. Grant Thornton signed a lease for approximately 1,100 sqm in the new Penrose Dock development which remains under construction. Additionally, almost 2,000 sqm was also pre-let by a tech company in the second building of Penrose Dock.

South Mall remained in demand in Q4 with three transactions occurring on the street. O' Mahony Pike Architects took the first floor (270 sqm) of 1 South Mall. Two smaller South Mall units were taken by PHI Consulting Engineers (75 sqm) and the Simon Community (100 sqm).

RENTS

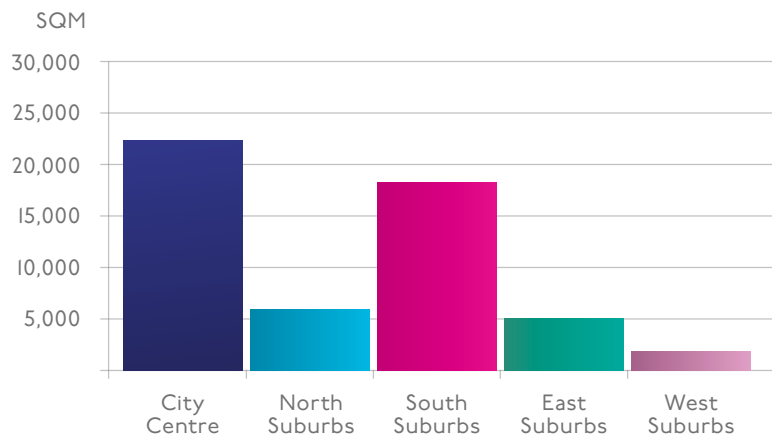
Prime city centre headline rents were stable again in Q4, standing at €350 psm (€32.50 psf) for the second consecutive quarter. Annual growth was at 1.7%. Suburban office rents have remained stable since mid-2017 at €215 psm (€20 psf). On South Mall, upward pressure on rents has been strong but did remain stable in Q4. On an annual basis, growth was 39.5% to stand at €280 psm (€26 psf) at the end of December 2019.

AVAILABILITY

After a number of quarters of substantial supply falls, availability increased slightly by 2.5%. The majority of activity in this quarter consisted of pre-lets and as such, take-up did not negatively impact supply as much as usual. However on an annual basis, availability of office accommodation fell by 15.3%. The overall vacancy rate increased from 9.5% in Q3 to 9.7% in Q4.

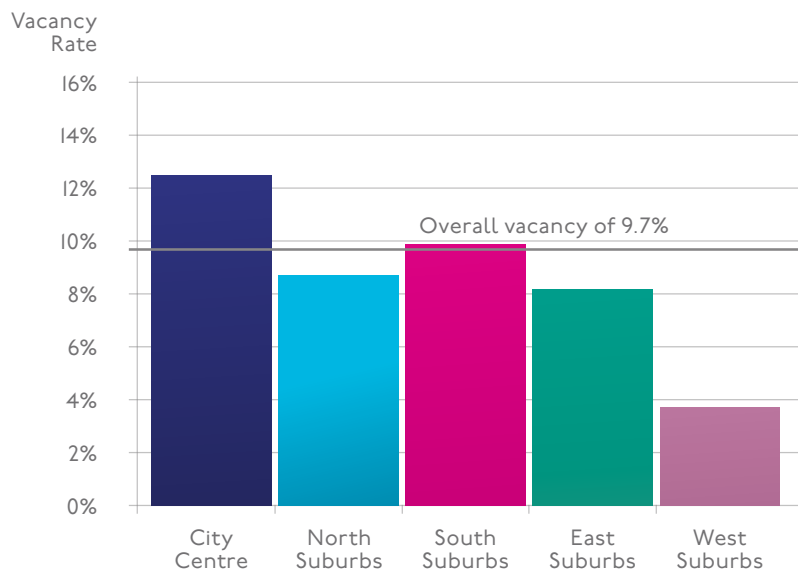
The largest stock of vacant offices was in the city centre, where over 40% of all office availability was located. The south suburbs also provided high levels of availability, as 9.9% of stock in the area was vacant. Supply in the west suburbs remained low. Less than 2,000 sqm of accommodation was available in the west suburbs.

AVAILABILITY BY REGION Q4 2019



Source: Lisney

VACANCY BY REGION Q4 2019



Source: Lisney

CONSTRUCTION

Construction activity remained solid in the office market in Q4. At the end of 2019, approximately 66,000 sqm of accommodation was under construction and an additional 135,000 sqm was in the planning pipeline.

Consisting of approximately 30,000 sqm across three buildings, construction continues on the Horgan's Quay mixed-use development. The hotel element was at the most advanced stage while the offices were also progressing, and the structural phase visible. In addition to office and hotel components, the scheme will include more than 300 apartments. Completion of the office scheme is anticipated for late 2020 and commencement of construction of phase two of the office development is expected for Q1 2020.

Construction of Block B of Navigation Square progressed in Q4 and negotiations for lettings in the 12,000 sqm scheme continued. Block A was completed earlier in 2019 and was occupied by Clearstream. Blocks C and D are scheduled to commence in June 2020.

Construction of the Penrose Dock scheme (23,000 sqm) on Cork's North Quays continued at a quick pace with completion estimated for mid-2020. Two pre-lets were agreed in Q4 2019 and negotiations with potential occupiers in the professional services and tech sector are reportedly at an advanced stage. The scheme, which will be anchored by Grant Thornton, is being built by John Cleary's JCD Group. The developers have indicated that the scheme will

offer flexi workspace, in addition to more traditional leases for long-term occupiers. It is claimed that this approach will bridge the gap between serviced offices and traditional leases by allowing occupiers to avoid long-term leases or costly fit-outs.

Several planning applications were submitted in Q4 2019, most of which were for schemes in the suburbs. In Blackrock Business Park in Mahon, the O'Flynn Group applied for planning permission for 12,000 sqm of office space in a four-storey building with an option for internal sub-division to provide up to 16 office units.

Cork City Council received a planning application from Boston Scientific for an administration building. This 3,220 sqm building will be developed on their existing campus at Cork Business & Technology Park on Model Farm Road.

In the city centre, a planning application was submitted by Quakeside Ltd for the demolition of existing buildings on the site of the former Moore's Hotel on Morrison's Quay. Plans have been submitted for three new own-door office buildings (1,100 sqm) in the existing protected structures and for a new, six-storey mixed-use development comprising both office space and a 183-bed hotel.



OUTLOOK

- Compared to the Dublin market, Cork's strong competitiveness has been a key attraction to occupiers, both nationally and internationally and this is expected to continue. Headline office rents in Cork are approximately half of the rates seen in Dublin and as the development of new high-quality office schemes continue, demand will be strong for Cork office accommodation.
- As quality supply fails to meet demand, pre-lets will become more common in the suburbs.
- Demand remains strong and good levels of activity are expected in 2020 with the completion of Penrose Quay and Horgan's Quay development as well as another phase of Navigation Square.



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