Lisney

CORK COMMERCIAL MARKET REPORT

Q1 2021

CORK INVESTMENT IN NUMBERS

NATIONWIDE TURNOVER

€1.22 BILLION

INVESTMENT PROPERTY SOLD NATIONWIDE IN **IN Q1**

CORK

€5.425 MILLION

ALMOST **FOUR PERCENTAGE POINTS HIGHER** THAN 12 MONTHS PREVIOUS

LARGEST CORK DEAL

€4.9 MILLION

MIXED-USE OPPORTUNITY IN MIDLETON

PRICING

PRIME YIELDS REMAINED STABLE IN THE QUARTER ACROSS ALL SECTORS

WATERSEDGE, MIDELTON

INVESTMENT

OVERVIEW

Irish investment market turnover in Q1 2021 was €1.22bn. Nationwide, PRS dominated the market, accounting for 58% of the total. This was followed by offices at 32%, industrial at 7.6%, retail at 0.6% and mixed-use at 0.6%.

The Cork market was quiet with just €5.425m, or 4.9% of the total turnover related to Cork, across two sales. The largest deal made up 90% of the Cork total and was at Watersedge in Midleton. It comprised apartments, a drive-thru restaurant, offices and retail within a mixed-use scheme. In the city, the investment interest in AIB on North Main Street also sold (€520,000). There is a break option in the lease in 2022 and the achieved price resulted in a net initial yield of 16%.

At the end of March there was close to €25m worth of properties available in the county, many of which were smaller lot size retail opportunities. The largest asset on the market was Building 4 in Eastgate, Little Island, an office property let to MACOM Technology Solutions. It is anticipated that several opportunities will be brought to the market in the coming months, adding to transactional activity in the second half of the year.

With a dearth of transactions and investor activity in the Cork market in Q1, prime yields across all sectors remained stable. However, more secondary and tertiary yields softened further. The gap between top quality stock and more dated buildings will continue to widen in the months ahead. There are several retail investment opportunities for sale on Patrick Street and when transacted will assist in establishing prime pricing in the sector.

CORK OFFICES IN NUMBERS

ACTIVITY

3,070
SQM
ACROSS FOUR
TRANSACTIONS

VACANCY RATE

13.4%

ALMOST FOUR PERCENTAGE POINTS
HIGHER THAN
12 MONTHS PREVIOUS

CONSTRUCTION

11,100
SQM
TWO SCHEMES UNDER CONSTRUCTION WITH A **FURTHER 177,350 SQM IN THE PIPELINE**

RENTS

€350
per SQM
PRIME CITY CENTRE
HEADLINE RENTS
REMAINED STABLE

HORGAN'S QUAY, CORK

OVERVIEW

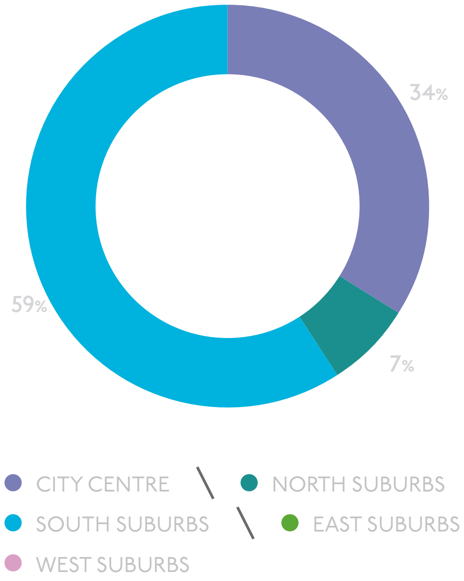
With COVID-related restrictions continuing, the majority of office workers continue to work from home, which is expected to be the case until the autumn. In this context, Cork office market activity in Q1 was weaker than in recent quarters with only four transactions completed. The amount of available stock on the market remained relatively stable in the three months, only increasing by 900 sqm. As a result the vacancy rate remained at 13.4% but it was almost four percentage points higher than 12 months previous.

ACTIVITY

Cork office market activity totalled 3,070 sqm across four deals in Q1. While this is about 50% less than in the previous quarter, it was in the context of the pandemic and the level 5 national lockdown where physical viewings were not possible. The average deal size was 770 sqm but ranged between 215 sqm and 1,380 sqm, and all were lettings.

The largest transaction of the quarter comprised a 1,380 sqm letting of the second floor of Unit 5100 Cork Airport Business Park in the south suburbs to Poppolo, which exercised an option to expand in the building. Nearby in the south suburbs, Altertec took 420 sqm in Building 2, Forge Hill Lodge in Togher. In the city centre, business representative group IBEC took 370 sqm in the recently completed new accommodation at Penrose One. There was one deal in the north suburbs, a 215 sqm letting at 1B The Atrium in Blackpool. There was no transactional activity in the west and east suburbs.

TAKE-UP BY REGION
Q1 2021



Source: Lisney

OFFICES

DEMAND

Despite the prevailing wider market conditions, occupier demand remained steady. Several potential occupiers, including those from state agencies, health and tech sectors, have active requirements. Indeed, Apple announced that it is to occupy 3,720 sqm in the newly built accommodation at Horgan's Quay. This office requirement had been put on temporary hold in the first half of 2020 due to the pandemic but will now progress in the coming months. This is a major boost to the resilience of the city centre market.

RENT

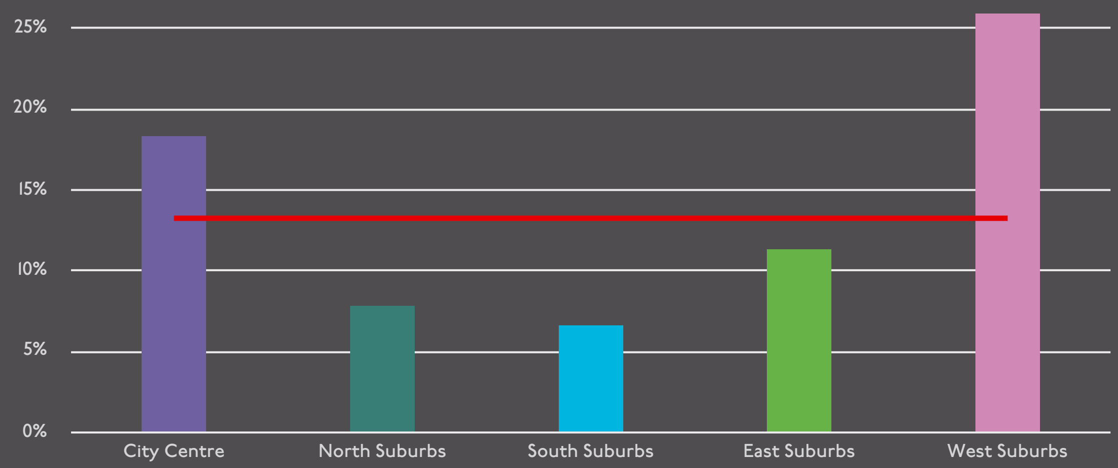
Prime city centre headline rents remained stable yet again in Q1, standing at €350 psm (€32.50 psf). Similarly, prime headline suburban rates remained at €215 psm (€20 psf); not having moved since mid-2017. On South Mall, the headline rate was €258 psm (€24 psf).

AVAILABILITY

Supply levels increased slightly in the opening quarter of the year, growing by 900 sqm or 1.1%. However, on an annual basis and since the onset of the pandemic, supply has increased by almost 28,000 sqm, or 52%. The largest stock of vacant accommodation was in the city centre, where just over half of all supply was located. This was followed by the west suburbs (19%), the south suburbs (15%), the east suburbs (at 9% - 6% relating to Little Island) and the north suburbs at 6%.

At the end of March, the overall Cork vacancy rate was 13.4%, up from 9.6% 12 months previous. The city centre rate was just over 17% and the suburbs overall at 10%.

VACANCY RATE BY REGION
Q1 2021



Source: Lisney

CONSTRUCTION

Commercial building sites were closed for the entire of Q1 due to the country's Level 5 status and will not reopen before the 5th May. As such, office schemes under construction were delayed further. At the end of March, approximately 11,100 sqm of accommodation was under construction across two schemes; one in the city centre and the west suburbs. The city centre scheme, the speculatively developed accommodation on the former Beamish & Crawford, the Counting House (6,500 sqm) is due for completion in the coming months. In Ballincollig (west suburbs), almost 4,600 sqm is under construction at the former Supernova indoor play facility.

Almost 177,000 sqm of accommodation (23 schemes) had been granted planning permission at the end of March 2021; half in the city centre, half in the suburbs. The largest scheme was in the south east, at Loughmahon where 17,100 sqm has been granted permission across two blocks. This is followed by two 14,000 sqm schemes in the city centre at Anderson's Quay and Penrose Quay.

OUTLOOK

1 Occupier demand particularly from the FDI sector is likely to remain subdued in the short-term due to COVID-related factors such as restricted international travel. However many office workers have work from home fatigue at this stage and with the roll out of vaccines, we believe there will be a renewed focus on staff getting back into the office in the second half of the year. As such, enquiries and activity levels will begin to improve.

2 Prime rents are likely to remain stable in the short-term with a number of high profile office developments coming on stream. With increasing new city centre office developments there will be competition to secure tenants and more attractive incentives may be on offer from landlords.

3 Despite remaining relatively stable in Q1, supply will increase further in the short-term. The office element of the Counting House will finish speculative construction, adding to availability and a certain amount of unwanted space will be returned to the market by tenants as grey space (sub-lets).

3 The attractiveness of the city centre as a working and living environment will continue to improve in the medium-term, which will assist the office market. Planning permission was confirmed by An Bord Pleanála in March for the €150m development at Custom House Quay. The development will comprise a five star hotel and commercial complex, and will be Ireland's tallest building at 34 storeys. Additionally, the Government has allocated €353m to the Cork Docklands Project. It is envisaged that this will transform the area into a recreational, residential and commercial hub, and prime the docklands for significant follow-up private sector development. It has been reported that O'Callaghan Properties, which purchased the 31 acre former Origin site in the docklands for €47.5m in 2019, is due to submit a planning application later this year for the first phase of a new large-scale development.

CORK INDUSTRIAL IN NUMBERS

ACTIVITY

5,860
SQM

REASONABLE LE
OF QUARTERLY
ACTIVITY

RENTS

€86 PSM
€8 psf

PRIME HEADLINE RATES
REMAINED STABLE

VACANCY RATE

2.8%

REMAINED AT AN
EXCEPTIONALLY
LOW RATE

SUPPLY

37,500
SQM

DECREASED BY 16.8%
IN THE THREE MONTHS

UNIT 1 HARBOUR GATE BUSINESS PARK, LITTLE ISLAND

INDUSTRIAL

OVERVIEW

The most notable feature of the Cork industrial market in Q1 was the exceptionally low vacancy rate, standing at 2.8% at the end of March. Take-up reached 5,860 sqm, smaller than the quarterly average figure but was in the context of the pandemic and the lockdown. Given that construction sites were closed, no new premises completed construction.

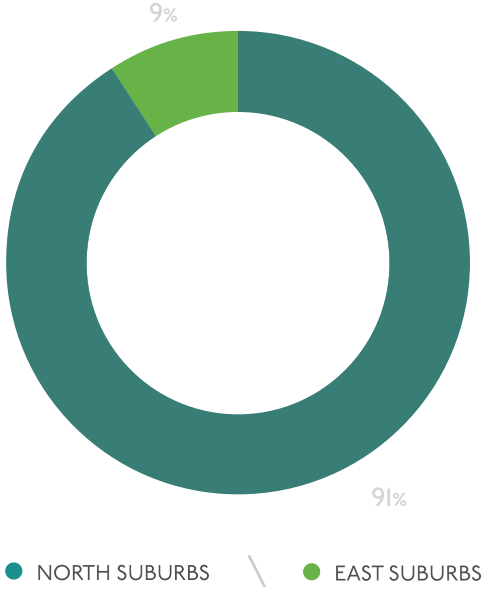
ACTIVITY

Following a strong Q4 2020, activity in the Cork industrial market in the opening months of 2021 fell to 5,860 sqm. This was across four deals; three lettings and one sale. The average lot size was 1,465 sqm but this was distorted by one large deal in the north suburbs with transactions ranging in size between 90 sqm and 4,650 sqm.

The largest transaction of the quarter was a letting and it comprised a pre-let of 4,650 sqm at Unit 9004 in Blarney Business Park (north suburbs) to DHL. This building is under construction and is due to be completed later this year. Also in the north suburbs, Irish company Electric Skyline took 680 sqm at Units 8/9 Sarsfield Court in Glanmire.

In the east suburbs, there were two small transactions in Little Island. Kedington, an Irish IT infrastructure company leased 440 sqm in Harbour Point Business Park (Units 201/202) and nearby, SL Painting purchased Unit 603 (90 sqm).

ACTIVITY BY REGION
Q1 2021



Source: Lisney

DEMAND

The industrial sector has been very resilient throughout the pandemic and while only a handful of deals completed in QI, occupiers are focused on their future property requirements. Demand remains strong, particularly for units in the sub-1,000 sqm size bracket and especially in the south and west suburbs where there is very little stock available. Brexit is still on occupier's minds and there are several Brexit-related warehouse requirements in the market. It is interesting that DHL Express has started a cargo operation between Cork Airport and its largest European hub at Leipzig in Germany. This will involve a dedicated aircraft flying five days a week from Cork.

RENTAL VALUE

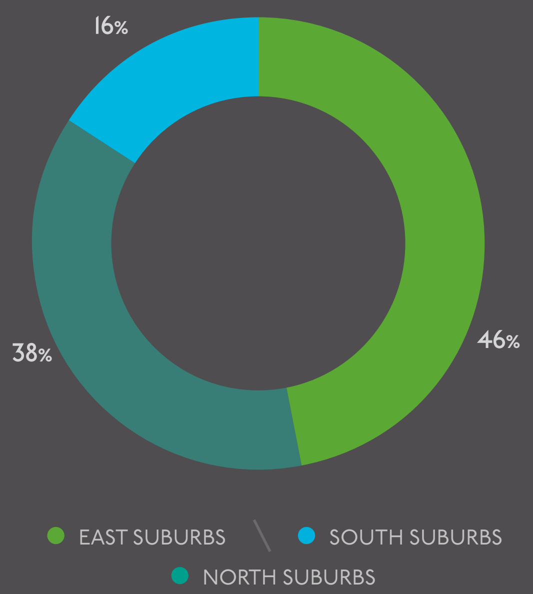
Prime industrial headline rents were unchanged in QI at €86 psm (€8 psf) for all Cork regions. Since the end of 2012, rates have doubled in line with growing demand and falling supply. However, rents have been generally stable for the past two years.

AVAILABILITY

The overall vacancy rate across the Cork industrial market remained exceptionally low in QI, standing at 2.8% at the end of March. The vacancy rate has been unsustainably low for almost two years, having fallen below 10% in the first half of 2019. In terms of regions, the north suburbs had the highest rate, at 7.3% but the west suburbs was at 0% where there was no supply.

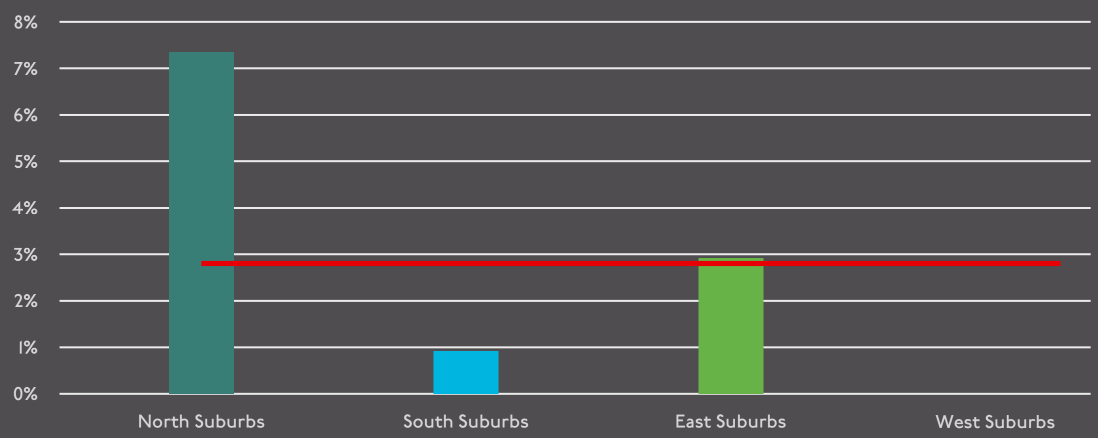
In terms of the amount of stock available, market supply was 27,650 sqm at the end of March with 46% of this in the east suburbs, 39% in the north suburbs and the remaining 16% in the south suburbs.

SUPPLY BY REGION
QI 2021



Source: Lisney

VACANCY RATE BY REGION
QI 2021



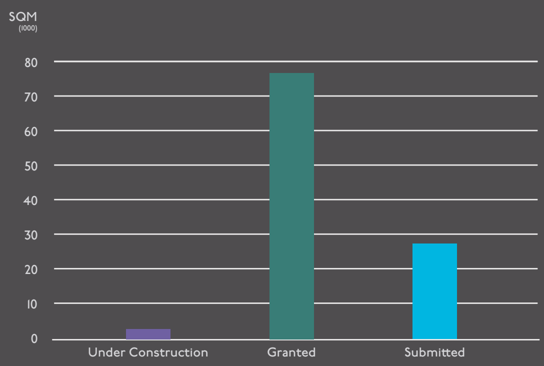
Source: Lisney

CONSTRUCTION

Given that building sites were closed for the entire of Q1, there was no new industrial accommodation completed in the opening months of the year. Despite the historically low vacancy rate, just one premises was under construction at the end of March, the 4,650 sqm pre-let of Unit 9004 Blarney Business Park, being built by Progressive Commercial Construction (a JCD company).

The pipeline of development is more healthy with 76,500 sqm of accommodation having been granted planning permission and a further 18,000 sqm seeking permission. Over two-thirds of all industrial pipeline is in the east suburbs at Little Island. Encouragingly, the first building of the 19,000 sqm development at Harbour Gate Business Park, Little Island is due to commence in Q2. To the north of the city at Watergrasshill Business Park, just off the M8, there is planning for just over 18,000 sqm across four buildings and the developer intends to commence construction on a 6,285 sqm high bay warehouse in the coming months.

DEVELOPMENT PIPELINE
Q1 2021



Source: Lisney

OUTLOOK

1. The vacancy rate within Cork city and its environs remains exceptionally low at 2.8%, well below the typical equilibrium level. It is envisaged that the vacancy rate will fluctuate around this level in the short-term.
2. The typical marketing and sale/letting period for available warehouse units has reduced and there is generally immediate active interest on any opportunities that are brought to the market. This will continue.
3. Given the historic low vacancy rate, combined with steady occupier demand, rental and capital values are likely to increase in the second half of 2021.
4. Works are due to commence on the new Harbour Gate Business Park development in Little Island once Level 5 restrictions are lifted on commercial construction sites in Q2. Site clearance works had commenced in Q4 and there is full planning permission for almost 19,000 sqm across four high-bay premises with up to 15m eaves and unit sizes ranging from 1,600 sqm to 11,740 sqm. This is the most significant new warehouse development in Little Island for over 10 years and is very positive for the market.
5. There is evidence of growing investor interest in the industrial sector with strong demand and active bidding on any investment opportunities that are offered for sale. This will result in downward pressure on yields and purchaser demand for any new buildings completed.

INDUSTRIAL

31-32 PATRICK STREET

CORK RETAIL

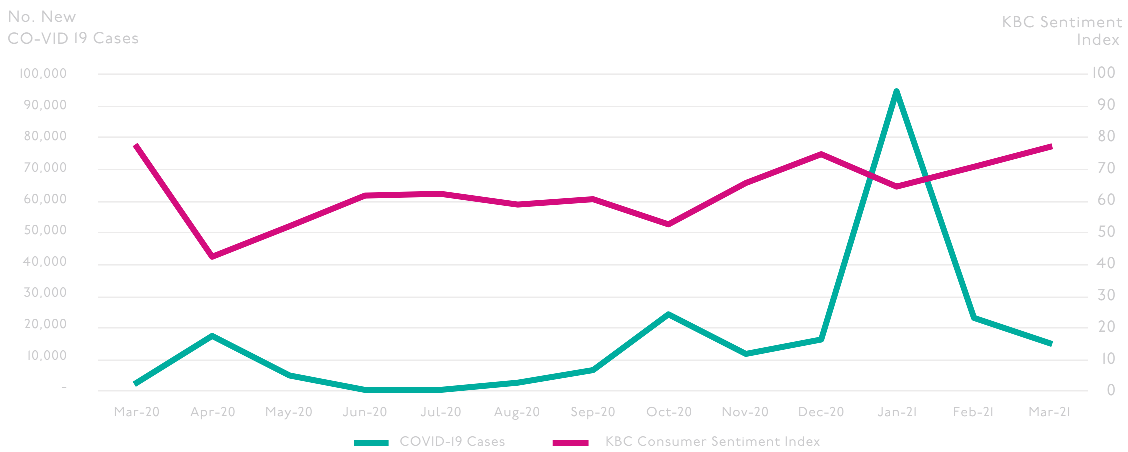
RETAIL

OVERVIEW

From lows in January, consumer sentiment improved in each of the following months in Q1. This was in the context of a level 5 lockdown and closed non-essential retail, but also move positively, the beginning of the COVID-19 vaccination roll-out. The March sentiment index reading from KBC Bank Ireland was 77.1, a significant improvement on the 64.9 reading in January. Notably, the March reading was at a 12-month high and was at a similar level to that of early March 2020.

Over the past year, it was evident that consumer sentiment was very much linked to reported numbers of new COVID cases. When numbers were high starting into 2021, sentiment was down, however as the number of new cases came under greater control, sentiment began to improve.

KBC CONSUMER SENTIMENT INDEX



RETAIL UNIT AT EAST DOUGLAS VILLAGE

RETAIL

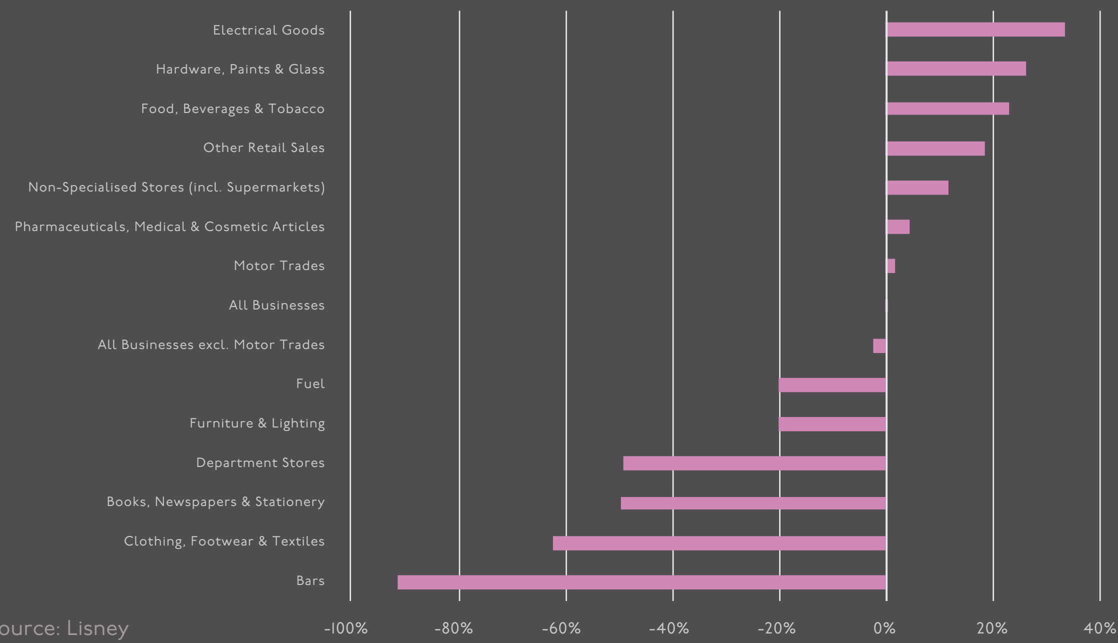
It should also be recognised that KBC Bank Ireland's sub-indices on current economic conditions and consumer expectations also improved over the quarter, at 88.8 and 69.3 respectively in March. Indeed the forward looking part of the survey found that consumers were focused on post-pandemic improvements in the economy and jobs, but also that household savings are likely to remain higher in the future. Irish households saved an additional €13bn in 2020 with outstanding mortgage debt and personal loan debt in the economy also falling (by 3.6% and 15.5% respectively) as liabilities were paid down and additional new borrowings were not taken up. This possible future trend of saving more is likely to have an impact on the extent of a re-opening rebound in consumer spending in late-Q2 and into Q3.

RETAIL SALES

Following a strong end to 2020, the CSO's indices tracking the volume and value of core retail sales (excluding motor trades) fell significantly in the month of January (by 15.9% and 14.4% respectively). While declines or lower growth can happen in any January following the Christmas period, the monthly decline this year was much more pronounced than other years. The closure of non-essential retail from the end of December had an obvious impact. While still closed in February, retail sales did pick-up slightly in the month with the volume growing by 2.5% and the value by 2.7%. While March figures are not yet available, non-essential retail remained closed in the month, which will impact figures.

Over the pandemic period so far, overall core retail sales are down by 3.9% (volume) and 8.4% (value). However, there are major variations across sectors, some experiencing significant declines (such as bars, clothing, footwear and textiles) while DIY related sectors have grown.

RETAIL SALES INDEX – VOLUME OF SALES
CHANGE FEBRUARY 2020 – FEBRUARY 2021

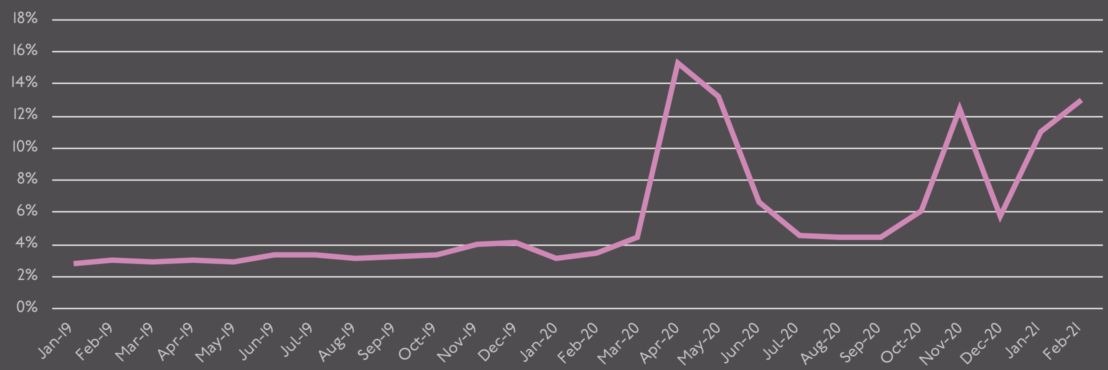


Source: Lisney

Interestingly however, the pace of growth in DIY / household type sectors has slowed in more recent months. Overall for the year, the sale of 'hardware, paints & glass' and 'electrical goods' are up by 25.6% and 33.5% respectively. However, the growth rate in the first six months of the pandemic was 26% and 19%, while it was 0% and 12% in the second six month period. While seasonality might be a factor, it may also indicate that many consumers have completed the DIY / improvement works required in their homes in the first lockdown and into the summer last year, and it may be the case that such strong increases will not be witnessed this year. Equally, when bars and restaurants reopen, likely in some capacity in the summer, there will be significant improvements in these sectors, which will add greatly to overall sales.

Following strong levels of online retail sales during previous lockdowns, the proportion of goods sold online grew again in Q1. Prior to the onset of the pandemic, online sales averaged 3.3%. this grew to between 7% and 15% in lockdown 1 and then up to 12.4% in lockdown 2. In January and February 2021, it was at 11% and 13% of all sales. While these figures will decline once non-essential retail reopens, the longer-term rate is likely to be higher than 3.3%, probably close to 5%.

VACANCY RATE BY REGION
Q1 2021



Source: CSO

RETAIL

MEET OUR TEAM

THE CORK COMMERCIAL TEAM

MARGARET KELLEHER
Company Chairperson

EDWARD HANAFIN
Senior Director

DAVID MCCARTHY
Divisional Director

NICHOLAS O'CONNELL
Senior Surveyor

AMANDA ISHERWOOD
Chartered Surveyor

LAURA PRATT
Surveyor

THE LISNEY RESEARCH TEAM

AOIFE BRENNAN
Senior Director

OUR OFFICES

CORK
1 South Mall,
Cork, T12 CCN3
T +353 (0) 21 427 5079
E cork@lisney.com

DUBLIN
St. Stephen's Green House,
Earlsfort Terrace,
Dublin 2, D02 PH42
T +353 (0) 1 638 2700
E dublin@lisney.com

BELFAST
Montgomery House,
29-33 Montgomery Street,
Belfast, BT1 4NX
T +44 2890 501501
E belfast@lisney.com

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