Lisney
COMMERCIAL REAL ESTATE

CORK REPORT

Q4 2023

Q4 2023

Price adjustment and off-market transactions continued to be a part of the Irish investment market in Q4 2023 as steady investor demand for well-priced prime investments remained. In the occupational markets, the available grey office space continued to be more prominent while the industrial market remained constrained by low levels of supply.

▼ €31.275 m
Cork Investment
Turnover

▲ 3
Cork Investment
Deals

▼ €21.5 m
Douglas Court Shopping Centre
Largest Investment Deal

▲ 8,200 sqm
Cork Office
Take Up

▲ 13
Cork Office
Deals

▼ 13.6%
Cork Office
Vacancy Rate

▲ 19,400 sqm
Cork Industrial
Take Up

▼ 11
Cork Industrial
Deals

▼ 1.4%
Cork Industrial
Vacancy Rate

Arrows represent quarterly trends unless otherwise stated.

Investment

ECONOMIC BACKDROP

At the end of 2023, interest rates in the EU and US remain at 22-year highs and while the likelihood of further increases is now more limited, the prevailing elevated rates will mean a subdued investment property for months to come. The Irish, and indeed global, market in 2023 suffered from falling values, limited activity and negative sentiment with prime yields softening by between 50 and 125 bps. This led to buyer inertia, which was compounded by the mismatched pricing expectations of vendors and purchasers..

ACTIVITY

There were three investment transactions in Cork in Q4 2023, which accounted for 7.1% of the market nationwide. The deals included an off-market sale of Douglas Court Shopping Centre for €21.5m to a private investor, a property in Ballycureen Industrial Estate, Co. Cork sold for €5.4m (NIY 6.7%) and an off-market sale of 4, 5 & 6 Winthrop Street in Cork to a private Irish investor for €4.375 (NIY 6.86%).

On an annual basis, Cork accounted for 7.1% of the national turnover with a spend of €95.84m across ten transactions.

Cork Investment Transactions Q4 2023

PROPERTY	SECTOR	PRICE
Douglas Court Shopping Centre, Cork	Retail	€21,500,000
Ballycureen Industrial Estate, Kinsale Road, Co. Cork	Industrial	€5,400,000
4, 5 & 6 Winthrop Street, Cork	Retail	€4,375,000

Source: Lisney

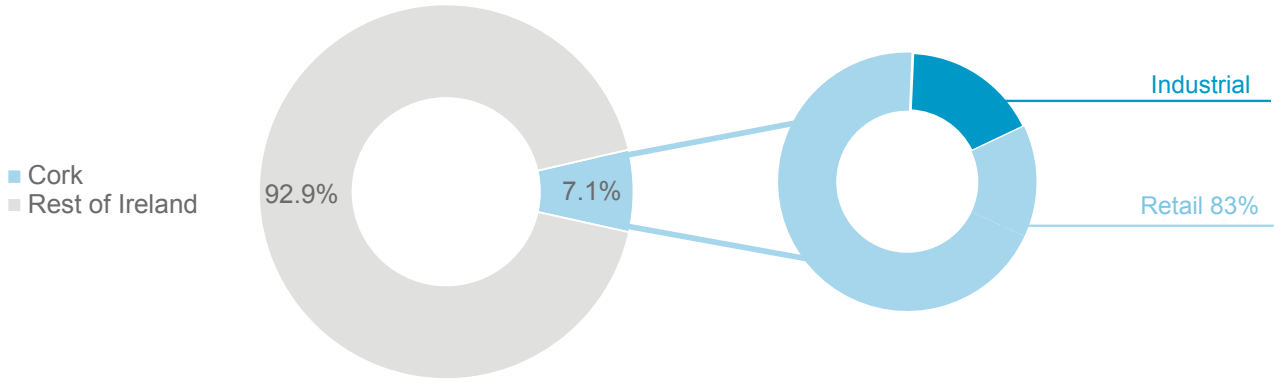
SUPPLY

At the end of December 2023, there was under €20m worth of on-market investment opportunities available in Cork. This included three units at Opera Lane in the city centre, an open-air retail destination forming part of a larger mixed-use residential and retail development. Units 16, 17a and 19 are on the market at a guide price of €5.5m. Given the continued amount of activity occurring off-market, this supply figure is likely higher.

YIELDS

The CRE market in Q4 2023 continued to be impacted by wider global economic, financial and geopolitical factors. With fewer transactions completing nationwide, yields generally softened or remained stable across all sectors of the market in the quarter. In Cork, we estimate that the prime office yield slightly increased to 6.85% at the end of December for the third consecutive quarter, having been at 6.5% at the end of 2022. The prime retail yield in Cork decreased to 7.25% from 7.5% three months prior.

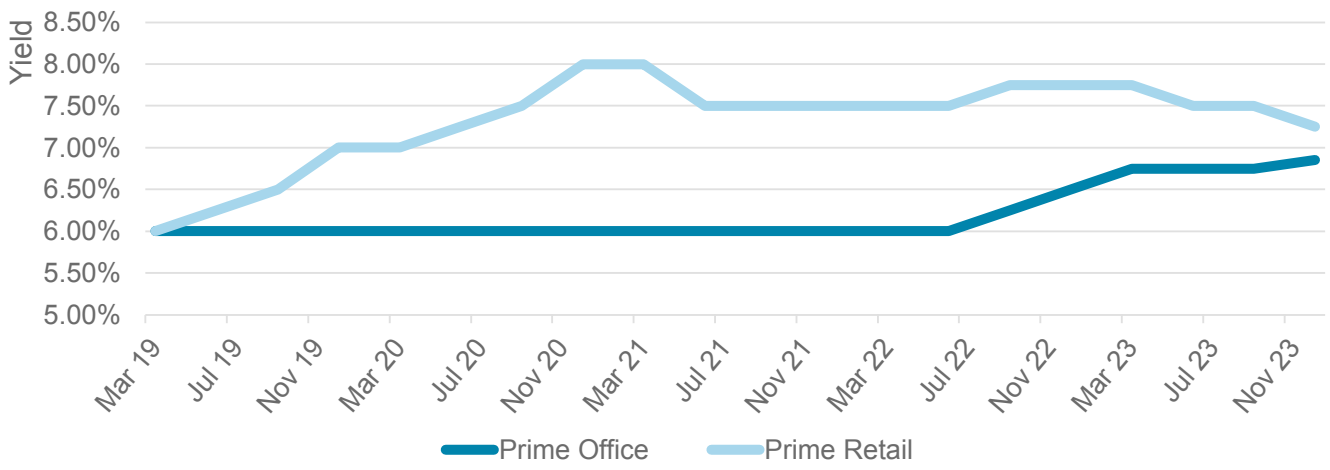
Cork Investment Turnover by Sector (Q4 2023)



Source: Lisney

ABOVE:
85 South Mall, Cork

Prime Cork Yields (Q1 2019 – Q4 2023)



Source: Lisney

INVESTMENT OUTLOOK

While 2024 will be another challenging year, there is evidence of more appropriate pricing emerging. If vendors are realistic on price, then there will be buyers.

Smaller-scale private investors will be active, taking advantage of more favourable yield profiles. In terms of larger, more conservative long term investors, many have signalled that they intend on being back in the market in the latter half of the year, barring no more major external shocks. However, it may take several months for them to move from looking at opportunities to agreeing deals, and any noteworthy increase in market turnover may only emerge in 2025.

The various domestic and European sustainability policies will continue to impact how buildings are funded and occupied. For some sectors (especially offices), there is a fear that a certain grade of building will become a stranded asset – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead. This will mean further yield softening, particularly for non-prime properties.

EU directives are tightening to achieve a climate-neutral building stock by 2050. Failure to meet sustainability criteria risks devaluation of assets. Compliance with the Sustainable Finance Disclosures Regulation (SFDR) and EU Taxonomy is now essential for financing assets and will continue to influence market demand.

Despite the economic factors impacting the market, there is investor demand and there is still a lot of capital seeking a home. It remains to be seen how much of this goes towards Irish CRE but we are optimistic for a recovery in demand.

> **7,000 SQM**
>
> Take-up in the Cork office market in Q3 2023 reached 7,000 sqm across 12 deals.

Office

ACTIVITY

Take-up in the Cork office market in Q4 2023 reached 8,200 sqm across 13 deals, up from 7,000 sqm in the previous quarter. This brought activity levels for 2023 to 29,300 sqm. In Q4 2023, two deals were in excess of 2,000 sqm and accounted for 71% of the take-up. The average deal size in Q4 was 630 sqm, up from 580 sqm in Q3. This, however, was skewed by the top two transactions and if they were excluded, the average deal size would fall to 220 sqm. The average deal size for 2023 was 630 sqm.

The west suburbs region was the busiest accounting for 73% of total activity with both top deals located in this region. This was followed by the city centre region at 13%, south suburbs at 6%, east suburbs at 5% and north suburbs at 1%.

In contrast to the usual trends, sales dominated the market in Q4 accounting for 81% of the take-up with five (out of 13) transactions being sales. The most significant transactions of the quarter included the sale of Building 4 University Technology Centre (3,280 sqm) and the sale of the Former Merchant's Building in Cork Business & Technology Park on Model Farm Road (2,540 sqm). Both were acquired by owner-occupiers. The remaining transactions were each sub 500 sqm and ranged from 110 sqm to 380 sqm.

DEMAND

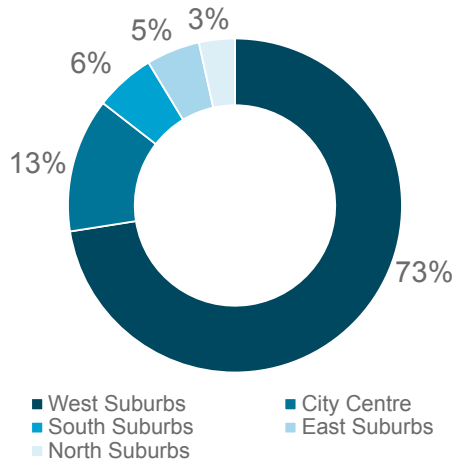
Overall, demand for office space remained subdued in Q4, particularly for suburban office space. There are some active requirements for accommodation over 2,000 sqm, but the majority require space of between 1,000 sqm and 1,500 sqm in the city centre. In addition, there are some indigenous enquiries for smaller units of less than 500 sqm. Tenants are seeking flexibility in lease agreements, with break options being sought within the first five years.

Sustainability and ESG are now key considerations for tenants seeking office accommodation and owners of older office buildings will need to consider strategies to improve the energy efficiency and building ratings of their properties.

RENTAL VALUES

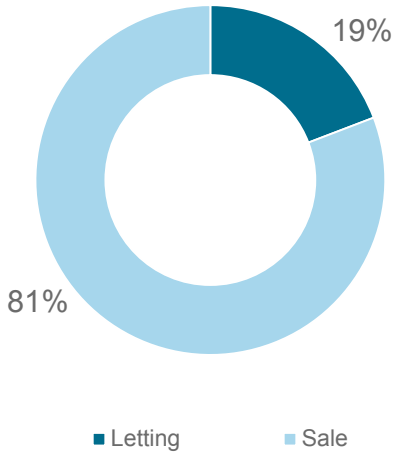
Prime city centre headline rents remained stable at €325 psm (€30 psf) in Q4 2023 having fallen at the beginning of 2023 for the first time since the end of 2020. In the suburbs, prime headline rates also remained stable at €230 psm (€21 psf) while headline rents at South Mall (with the exception of No 85) fell for the second consecutive quarter to stand at €225 psm (€21 psf).

Office Take-Up by Region (Q4 2023)



Source: Lisney

Office Take-Up by Deal Type (Q4 2023)



Source: Lisney

ABOVE:
Cork South Docks

AVAILABILITY

At the end of December 2023, there was 86,800 sqm of available office accommodation in Cork, which was similar to the previous quarter. The largest stock of vacant space was in the city centre, where 51% of all supply was located. This was followed by the south suburbs (37%), the north suburbs (5%), the west suburbs (4%), and the east suburbs (3%).

The shift towards hybrid working models has led to an increase in grey space in office markets globally, particularly among tech occupiers, as job cuts and hiring freezes have slowed demand in this sector. The Cork office market has only started to see an increase in grey space since mid-2023 which continued to increase throughout the year. This is due to occupiers reducing their office footprint, particularly in suburban locations.

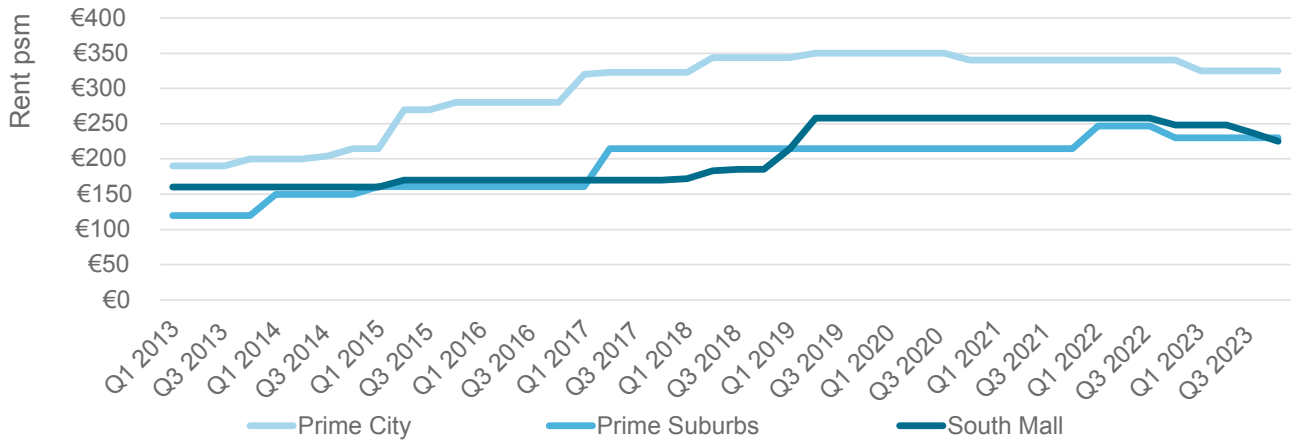
The overall Cork vacancy rate marginally decreased in Q4 to 13.6% from 13.8% three months previous. Focusing on the city centre region, the vacancy rate was 19.1%, up from 17.5% in Q3 2023. The suburbs overall vacancy rate was at 10.5%, down from 11.7% in the last quarter.

CONSTRUCTION

While there were no new schemes completed in Q4 2023, construction continued on Apple's new office building at its campus in Hollyhill in the northern suburbs. When completed, the building will extend to approximately 21,600 sqm and will accommodate 1,300 staff. Works were completed in Q4 to bring Building Two, Horgan's Quay (12,000 sqm office space) to a shell standard internally. We understand that the building will be completed once a tenant has been secured for a large part of the accommodation.

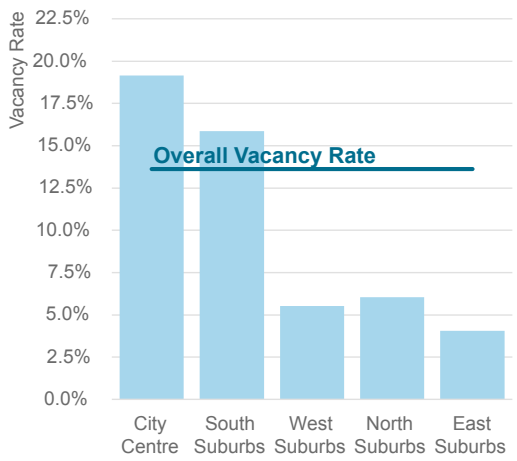
In terms of the construction pipeline, over 142,500 sqm of accommodation (16 schemes) had planning permission at the end of December 2023 but had not commenced. 57% of this is in the city centre and 43% in the suburbs. No new office developments is expected to commence in 2024. It is reported that JCD Group are considering reverting to their original plan to construct apartments on their site at Albert Quay where they have planning permission for a 21,768 SqM office development.

Prime Headline Office Rents (Q1 2013 – Q4 2023)

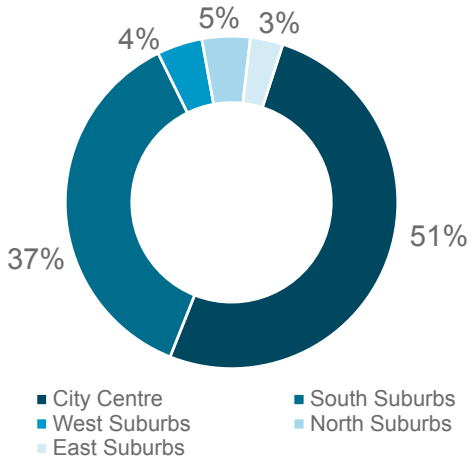


Source: Lisney

Office Vacancy Rate by Region (Q4 2023)



Office Availability by Region (Q4 2023)



Source: Lisney

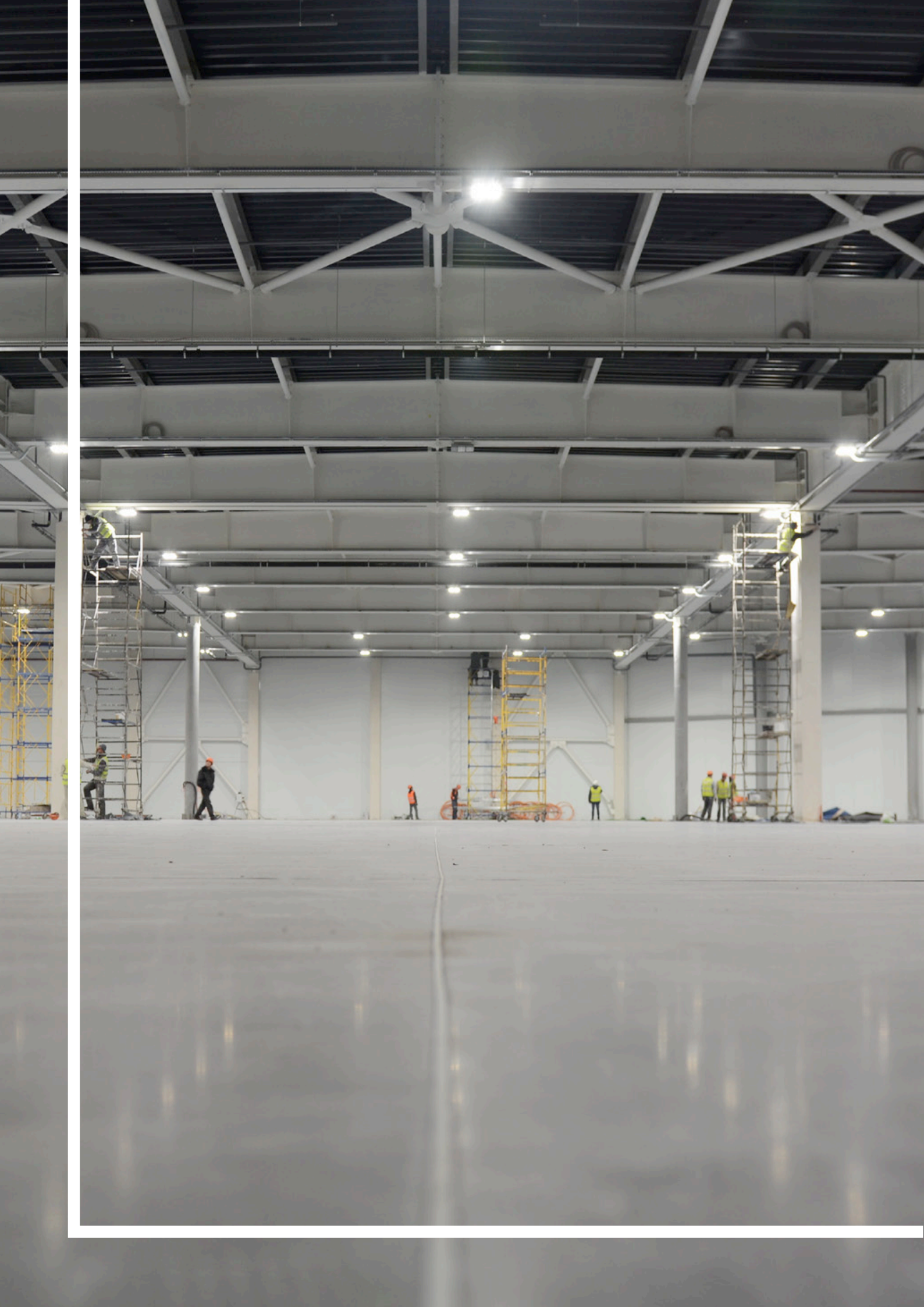
OFFICE OUTLOOK

The grey space availability is likely to intensify in Cork in 2024, albeit not to the same levels as Dublin and other markets. This will push the vacancy rate higher in Cork, following a period of minor decline in the latter half of 2023 (to about 13.6%). On a positive note, grey space generally comes fully fitted, which will be welcomed by tenants struggling to justify the elevated cost of fitting out shell and core accommodation as well as providing occupiers flexibility to make longer-term occupational decisions.

Activity levels will remain muted in 2024 as businesses continue to assess requirements and the wider global economic conditions. The city centre will dominate take-up in the short-term as employers seek to provide wider amenities to their staff. Some suburban locations will do better than others.

Headline rents are likely to hold steady in most regions in 2024. Greater incentive packages may however be on offer to tenants, which will be dependent on how the vacancy rate evolves.

In terms of new developments, unless pre-lets are secured, it is very unlikely any will progress speculatively in the short-term. However, any developments already underway, including Apple's scheme at Hollyhill, will continue.



> Lettings dominated the market accounting for 69% of all space transacted.

Industrial

ACTIVITY

Take-up in the Cork industrial market in Q4 2023 reached 19,400 sqm across 11 deals, up from 16,000 sqm in Q3, bringing the total take up for the year to just under 60,000 sqm. The average deal size in Q4 was 1,770 sqm, up from 1,100 sqm three months prior and the average deal size for 2023 was 1,170 sqm. The east suburbs region was the busiest accounting for 89% of all activity. This was followed by the north suburbs (8%) and the south suburbs (3%).

Lettings dominated the market accounting for 69% of all space transacted. The top three transactions, each in excess of 5,000 sqm, combined accounted for 89% of activity. The largest letting comprised Crane Worldwide taking two new high bay warehouse units (Unit 1A and Unit 1B) in Harbour Gate Business Park, Little Island, with a combined area of 11,820 sqm. The remaining lettings were each sub 700 sqm ranging from 90 sqm to 680 sqm.

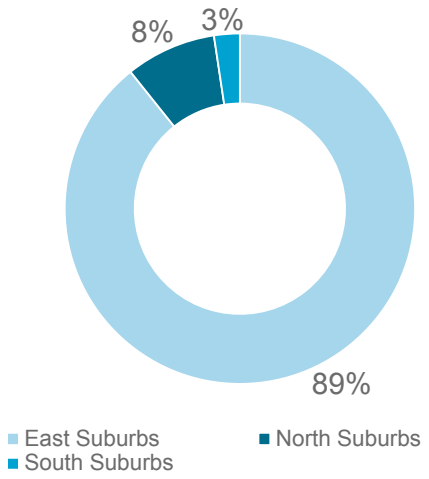
There was a total of three sales in Q4, one of which was in the top three deals. The largest sale was the owner occupier acquisition of the former Henkel property in Wallingstown, Little Island, a 5,430 sqm industrial facility on a site of 2.83 ha. The other two sales included 7 Westlink Park in Doughcloyne Industrial Estate (460 sqm) and Unit 23 in Exchange Business Park (150 sqm).

DEMAND

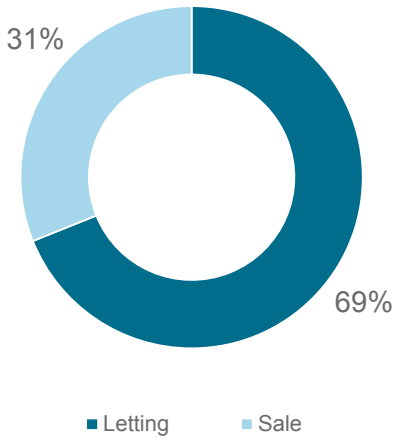
Occupier demand for industrial premises in Cork remained strong in Q4 2023, in particular for well located good quality larger sized units close to the main road network. There was also demand for units ranging between 500 sqm and 1,500 sqm, particularly on the south and west sides of the city. In addition, development land and sites suitable for industrial development are in high demand, but there is very limited availability.

Little Island's appeal as a location for warehousing and logistics operators has been enhanced with the opening of significant sections of the upgraded Dunkettle Interchange, which is due to be fully completed in Q1 2024. This will also improve the appeal of other industrial locations such as Watergrasshill Business Park just off the M8 as drive times through the Jack Lynch Tunnel and Dunkettle Interchange are reduced.

Industrial Take-Up by Region (Q4 2023)



Industrial Take-Up by Deal Type (Q4 2023)



Source: Lisney

RENTAL VALUES

The prime rent for high bay accommodation increased in Q4 to €120 psm (€11 psf) from €113 (€10.50 psf). However, it is likely that the quoting rents for new high bay units in the months ahead will be higher to ensure viability. The limited stock available and the inflated construction costs continue to put rental values under upward pressure, particularly for new developments.

AVAILABILITY

Despite ongoing construction activity, industrial supply in Cork remained extremely tight as newly built warehouses are generally let prior to completion, thus not contributing much to available stock.

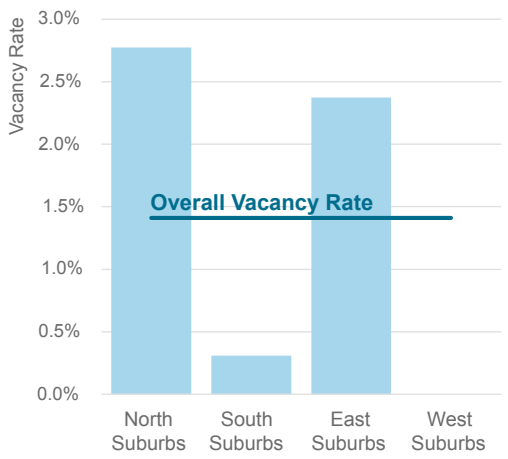
By the end of Q4 2023, there was 20,000 sqm of industrial space available in Cork. This was a decrease from 28,000 sqm available three months prior. As a result, the overall vacancy rate across Cork remained unsustainably low at 1.4%, down from 2.0% in Q3. In terms of regions, the north suburbs had the highest vacancy rate (2.8%). This was followed by the east suburbs at 2.4% while the south and west regions had effectively no availability.

CONSTRUCTION

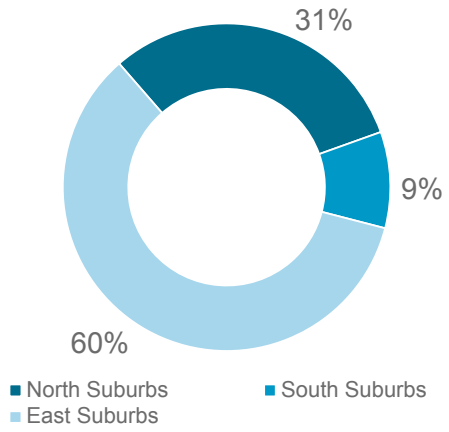
In Q4 2023, two new warehouses ware completed in Cork - Unit 1A and Unit 1B in Harbour Gate Business Park, Little Island (5,910 sqm each). The units were leased to Crane Worldwide in Q4 2023.

As of the end of December 2023, there was just under 25,000 sqm of industrial accommodation under construction, down from 36,700 sqm three months prior. Little Island accounted for 88% of the space under development, with the remaining 12% in the south suburbs. One of the developments is a data centre extending to 7,800 sqm. Three units in Anchor Business Park with a combined area of 14,050 sqm continued construction in Q4 2023. In Westgate Business Park, Unit 6 (1,600 sqm) and Unit 7 (1,500 sqm) are also under construction.

Industrial Vacancy Rate by Region (Q4 2023)

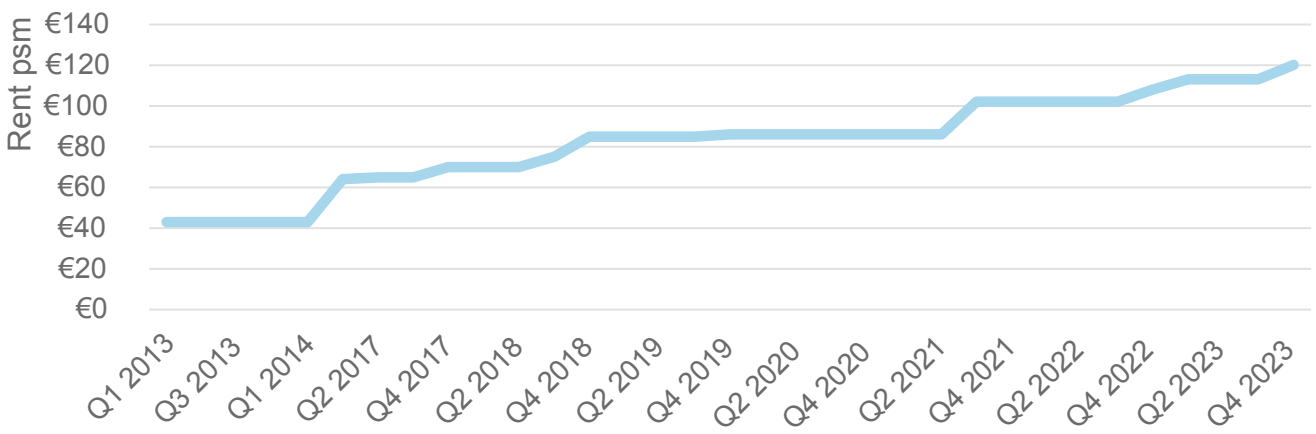


Industrial Availability by Region (Q4 2023)



Source: Lisney

Prime Headline Industrial Rent (Q1 2013 – Q4 2023)



Source: Lisney

ABOVE:
New Data Centre,
Little Island, Cork

INDUSTRIAL OUTLOOK

The industrial sector will continue to experience steady levels of demand. While this is positive, occupiers will experience difficulties sourcing space, which could hold back full-year activity levels.

The low vacancy rate and supply constraints within Cork and its environs will remain, albeit with some fluctuations around the current level in the short-term.

Speculative building will be limited going forward due to the inflated costs of construction and finance. This will mean any larger occupiers in the market may need to agree terms on a design-and-build basis. There is likely to be further rental growth for new buildings.

Retail

The retail industry continues to contend with a rapidly evolving landscape, not just in terms of accelerated technological change but also economic, geopolitical and ecological impacts. E-commerce and an omni-channel offering has become a reality for almost all traditional bricks-and-mortar retailers, while many of the larger brands are looking towards artificial intelligence and augmented reality to meet shoppers' needs.

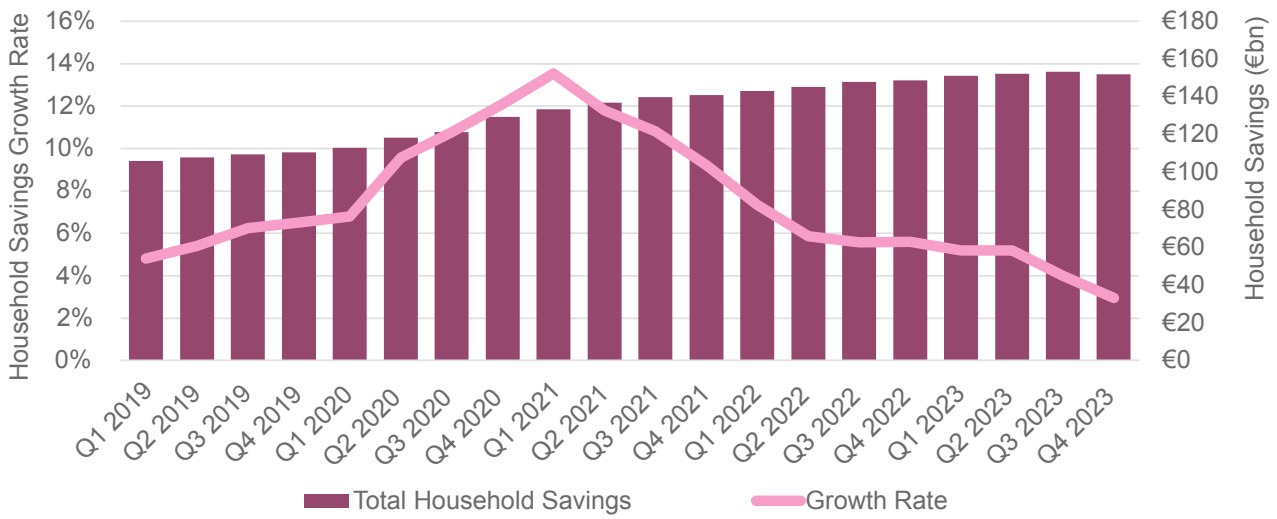
Brexit, COVID and the various ongoing conflicts around the world have forced retailers to adapt quickly in terms of supply chains, but also in terms of the impacts of rising inflation on their customers. Since the pandemic, there is a heightened awareness in society on the environmental impacts across all sectors, and the retail industry is no exception. Brands' sustainability credentials and how they are adapting to fast fashion and embracing the circular economy, among other concerns, will be key to their competitiveness into the future. Despite these wider headwinds, there remain many positive indicators in the Irish retail sector.

SAVINGS

Household deposits in Ireland stood at €151.84bn in November 2023 having reached an all-time high of €153.2bn in September 2023. According to the Central Bank of Ireland, the November figure represented a decrease of €1.265bn in the month and an increase of €4.3bn over the previous 12 months. This included an additional €3.15bn saved by Irish households in 2023 to November, which may seem surprising at a time when the cost of living remains elevated and there are more economic headwinds. However, it may well indicate precautionary savings by some but also a reluctance to spend given the higher costs of goods and services.

This trend in significantly increased savings began during the pandemic with savings growing by 18.2% annually in February 2021, the highest growth rate since 2007. But in more recent times, as consumer activity recovered, this annual growth rate moderated to 5.5% in 2022 and 3.1% in the 12-months to November 2023. As with many economic indicators, consumers' life experiences across society can be different to what the data is showing.

Household Deposits – Annual Rate of Change (January 2019 – November 2023)



Source: Central Bank of Ireland, Lisney analysis

CONSUMER SENTIMENT

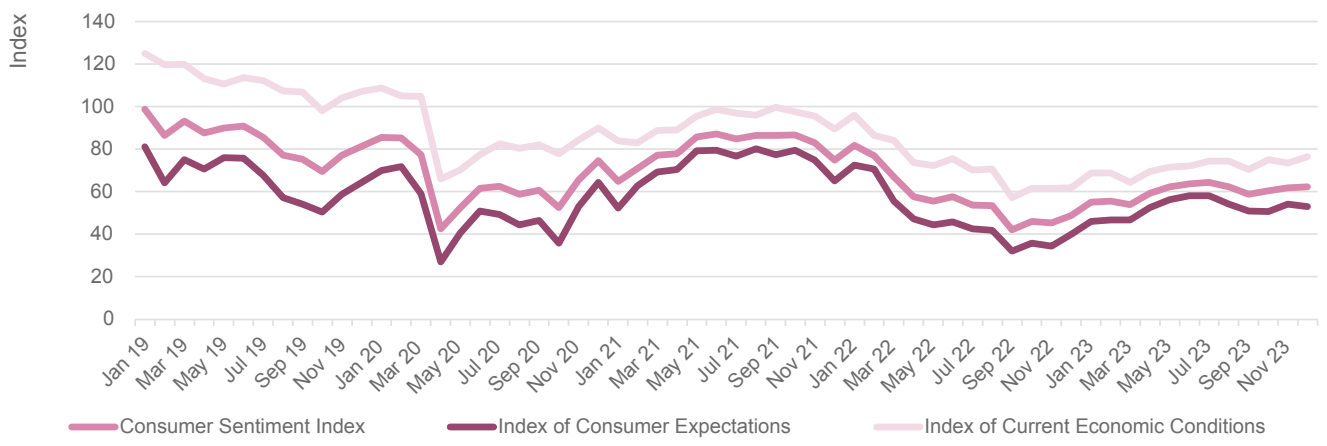
The Irish League of Credit Unions Consumer Sentiment Index increased to 62.4 in December from 61.9 in November and 60.4 in October (a reading over 50 represents growth), hinting at a still tentative easing in cost-of-living pressures and a little less worry about the outlook for household finances. Consumers remain concerned about their financial circumstances and cautious in their thinking about the year ahead, but they are notably less negative and fearful than they were twelve months ago. Two of the five key sub-indices measured by the Credit Union Consumer Sentiment Index increased in the month, i.e. current conditions (76.5 up from 73.5), and major purchases (86.4 down from 84.0). The remaining two decreased: general economic outlook (26.8 down from 27.0), consumer expectations (53.1 down from 54.2), and outlook for the jobs market (54.9 down from 61.5).

INFLATION

The Irish annual rate of inflation (measured by CPI) decreased in Q4 2023; however, it remained over two times higher than the accepted target rate of 2%. It stood at 4.6% in November 2023, up from 3.9% in October and having been at 6.4% at the end of the previous quarter. It remained substantially below 9.2% at its height in October 2022. December was the second consecutive month since September 2021 that the annual growth in the CPI has been below 5.0%. Notably, percentage changes in 'services' significantly outweigh the increases in 'goods' (6.0% v 2.8%), primarily driven by utilities and transport services.

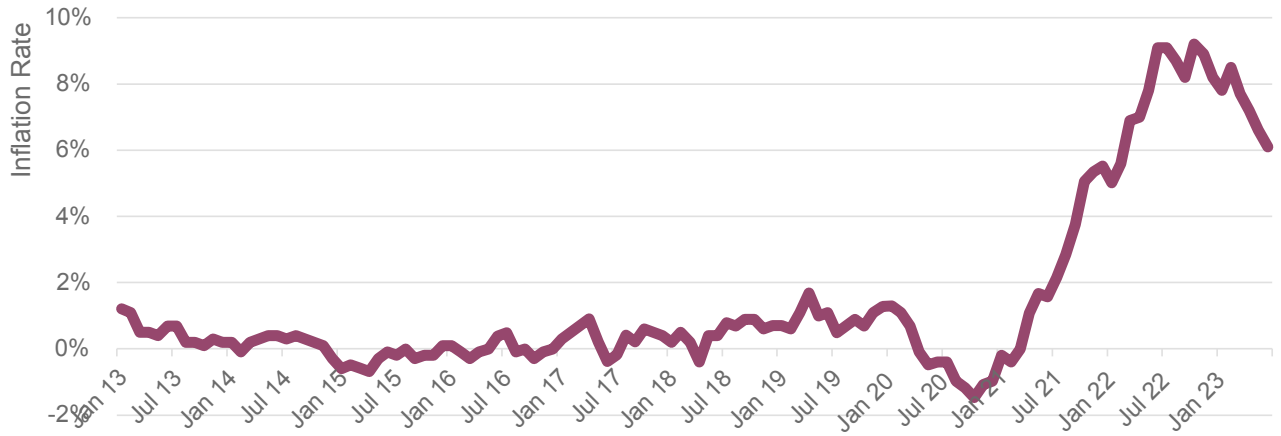
With Russia's invasion of Ukraine the catalyst for much of the increases, it is interesting to view the most significant price changes between February 2022 and December 2023. As to be expected, the most significant changes in the period are increases in 'housing, water, electricity, gas & other fuels' (+30.2%) and 'food and non-alcoholic beverages' (+17.0%). It should also be noted that prices overall were 17.9% higher in December 2023 compared to the onset of the pandemic in March 2020, and with 'housing, water, electricity, gas & other fuels' 46.4% higher.

Consumer Sentiment Index (January 2019 – December 2023)



Source: Irish League of Credit Unions, Lisney analysis

Annualised Rate of Irish Inflation – Pre-War in Ukraine to Present (February 2022 – December 2023)



Source: CSO, Lisney analysis

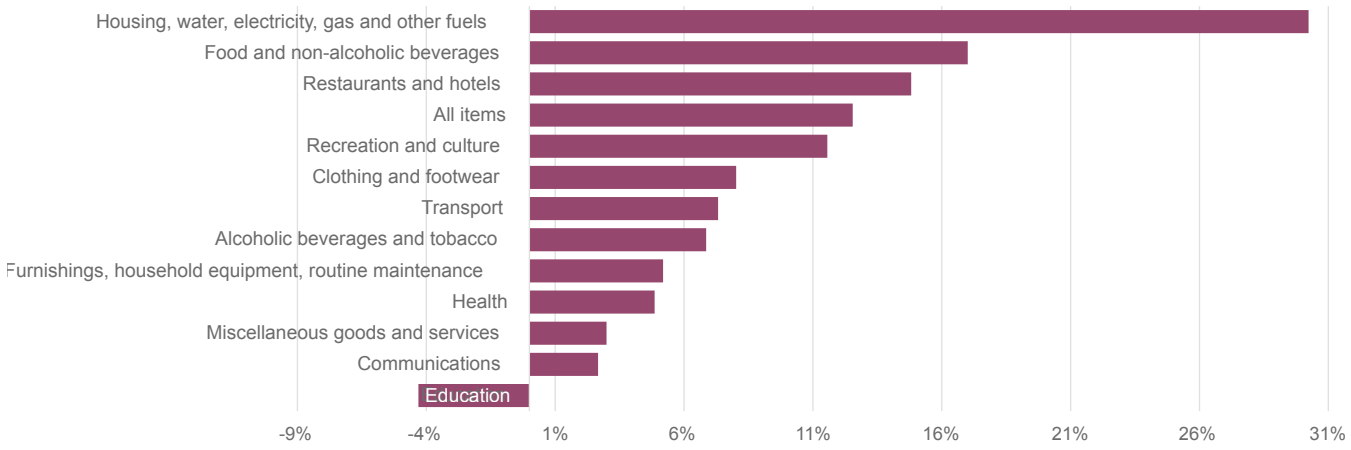
RETAIL SALES

Based on CSO data, there continued to be a divergence in the scale of change in the volume and value of retail sales in the first 11 months of 2023, albeit at a slower pace compared to last year. With inflation high, the value of core retail sales (excluding motor trades) rose by 8.0% in 2022 while the volume of core sales increased by just 0.5%. From January to November 2023, these figures were at 1.4% and 2.1% respectively and 2.1% and -1.2% on an annualised basis.

On a quarterly basis to the end of November, in terms of business sectors, 'motor trades' along with 'automotive fuel' saw the volume of sales growing by 5.5% and 5.0%, and the value of sales growing by 6.4% and 0.7%. In contrast, 'bars', 'department stores', 'hardware, paints, and glass' and 'furniture and lighting' experienced both value and volume declines over the same period.

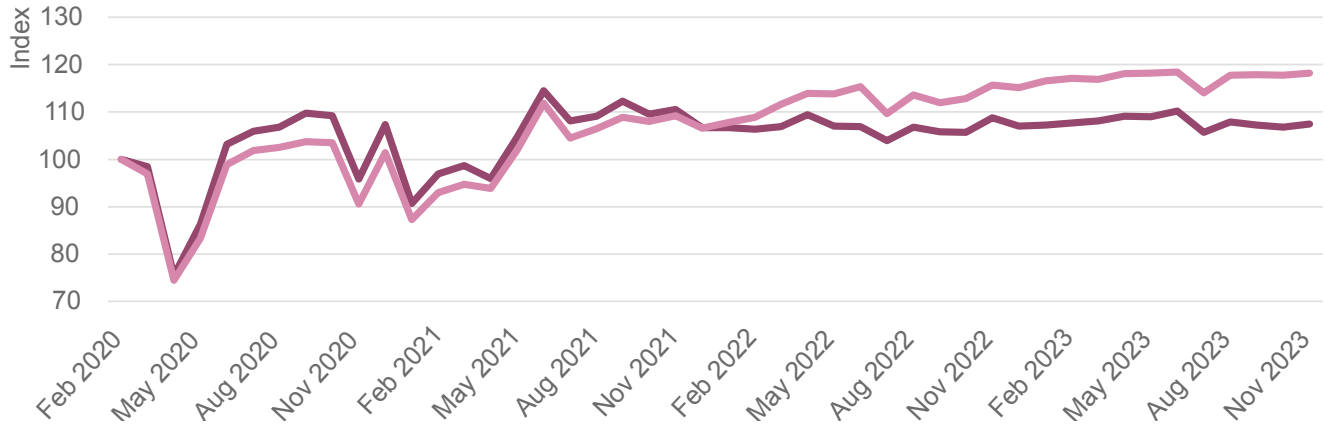
Data from the CSO for August 2023 shows that 5.7% of turnover from Irish registered companies was generated from online sales in the month. This compares to highs of over 15% in the month of May 2020 during COVID lockdowns. However, this only relates to Irish companies and consequently, the proportion of money spent online is significantly higher.

Annualised Rate of Irish Inflation – Pre-War in Ukraine to Present (February 2022 – December 2023)



Source: CSO, Lisney analysis

Volume and Value of Retail Sales (excluding motor trades) (February 2020 – November 2023)



Source: CSO, Lisney analysis

> Data from the CSO for August 2023 shows that 5.7% of turnover from Irish registered companies was generated from online sales in the month.

SOCIAL COMMERCE

According to Statista, online purchases in Ireland accounted for 16.1% of all transactions in 2022, totalling US$5.32bn, slightly down from 16.7% (US$5.7bn) in 2021. Projections indicate that the revenue in the Irish eCommerce market will continue to grow by 8.8%, reaching US$5.78bn in 2023, while maintaining a market share of 16.1%. Going forward, the market is expected to show an annual growth rate of 10.5%, resulting in a projected market volume of US$8.63bn by 2027 in Ireland.

Social commerce has become an integral part of the broader e-commerce landscape globally. In Ireland, it has seen significant growth and adoption in recent years. With a tech-savvy population and a strong presence on social media platforms, Irish consumers are increasingly turning to social media channels like Facebook, Instagram, and TikTok not only for social interaction but also for shopping.

- According to Statista, in Ireland, spending on social media platforms represented 4.0% of total online spending in 2022, up from 2.4% in 2021. Projections indicate continued growth, reaching 5.3% in 2027.
- For comparison, in 2019 social commerce accounted for only 1.8% of total online spending in Ireland. Globally, social commerce accounted for about 13% of global e-commerce in 2022 and is forecasted to grow to about 17% in 2027.
- The rise of social commerce is evident in consumer behaviour, with 30.9% of Irish consumers reporting purchases made through social media platforms in the past year. However, only 17% of businesses consider driving revenue through social media as a goal.

PROPERTY MARKET TRENDS

Patrick Street, the Cork city's main retail thoroughfare, has undergone a revival over the course of 2023. The vacancy rate on Patrick Street was 20% at the end of 2023 and 10% on Oliver Plunkett Street – a reduction from 21% and 12% respectively in December 2022.

Mango, the Spanish retailer, has opened up shop at 106 Patrick Street. Meanwhile, work has commenced on the redevelopment of the former Debenhams store. The first phase will include Intersport Elvery's opening a new store which will front onto Patrick Street. In addition, Primark has been granted planning permission for the redevelopment of their existing store which has frontage onto both Patrick Street and Oliver Plunkett Street. The proposed redevelopment will extend to approximately 8,950 sqm once completed.

RETAIL OUTLOOK

By 1st May 2024, any retailers that warehoused Revenue tax liabilities from pandemic times will have to repay this debt or enter into a phased payment arrangement. While it remains to be seen how this will play out, it may lead to some retailer distress and in turn either renegotiated deals with landlords and/or tenant defaults resulting in store vacancy.

Retailers, restauranteurs, coffee shop and leisure operators will continue to analyse the ongoing viability of their business, focusing on income generation and the prevailing challenges of the increased cost of goods, fluctuating consumer sentiment, elevated energy costs, labour shortages and supply chain issues.

Retail property deals will continue to be softer than pre-pandemic levels with landlords continuing to offer more flexible lease terms and contributions to assist tenants with store and restaurant openings. With landlords and tenants working cohesively, this will mean further demand and activity for stores in the months ahead.

As with all parts of the economy, sustainability has moved up the agenda for retailers. In Ireland, the Climate Action Plan 2023 has a major focus on the circular economy, which will impact the retail trade and in turn the property market in the months and years ahead. Ireland has a current circularity rate of just 1.8%, which lags the 12.8% EU average and as such, will have to make significant progress. Notably, there will be a phased introduction of levies on single-use products (such as coffee cups) and brands, big and small, will need to closely monitor their social and environmental responsibility whilst also considering their operational ability.

1 Social commerce refers to the use of social media platforms and networks to facilitate buying and selling products online. Platforms such as Instagram, Facebook, Pinterest, YouTube, TikTok, and Twitter have already introduced features that support social commerce, such as shoppable posts and live streaming.

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