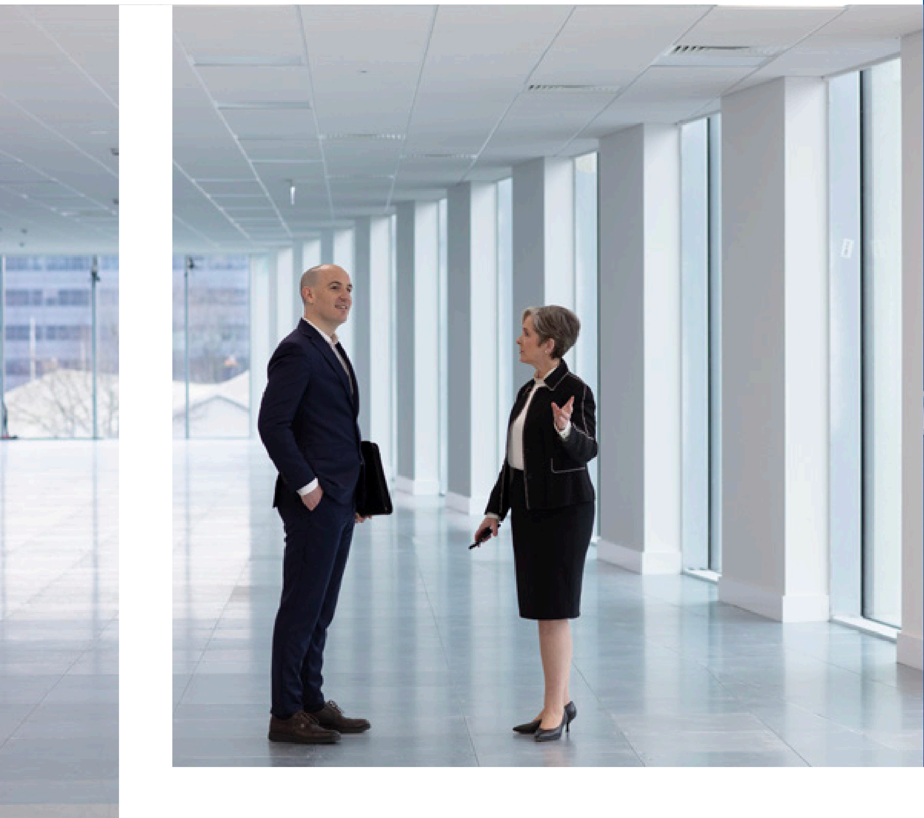
CORK REPORT

Q1 2024



Q1 2024

Despite growing optimism in European investment markets in Q1 2024, the Irish investment market remained subdued at the lowest turnover in nearly a decade. 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.

▼ €2.65 m
Cork Investment
Turnover

▼ 1
Cork Investment
Deals

▼ €2.65 m
Block A, Cork Business & Technology Park
Largest Investment Deal

▼ 6,650 sqm
Cork Office
Take Up

▲ 17
Cork Office
Deals

▼ 13.5%
Cork Office
Vacancy Rate

▼ 2,000 sqm
Cork Industrial
Take Up

▼ 7
Cork Industrial
Deals

▲ 2.1%
Cork Industrial
Vacancy Rate

Arrows represent quarterly trends unless otherwise stated.

Investment

ECONOMIC BACKDROP

While there was a sense of improved investor sentiment at the end of Q1 2024, interest rates in the EU and US remained at 23-year highs. Any downward corrections in rates are not expected in Europe until June at the earliest and further into H2 2024 in the US as the FED continues to contend with elevated inflation. Despite some international headwinds, Irish economic indicators remain relatively positive. Inflation was 2.9% in March, the first time since August 2021 that it was below 3%; early estimates for GDP indicate an increase of 1.1% in Q1; the economy remains at work with an unemployment rate of 4.3%; the volume of core retail sales grew by 1.6% in the year; household savings reached an all-time high of €153.6bn; and exchequer returns remain in surplus with income tax and VAT performing well reflecting the strength of the underlying domestic economy.

In the Irish CRE investment market, there was a sense of improved investor sentiment as the quarter was closing out. Asking prices were beginning to become more aligned with potential purchaser expectations, and while yields did more out further, this softening is likely to peak in the short-term with buyer indecision coming closer to an end.

Cork Investment Transactions Q1 2024

PROPERTY	SECTOR	PRICE
Block A, Cork Business & Technology Park, Model Farm Road, Cork	Office	€2,650,000

Source: Lisney

ACTIVITY

There was only one investment transaction in Cork in Q1 2024, which accounted for 0.6% of the market nationwide. The deal included the sale of Block A in Cork Business & Technology Park for €2.65m to a private investor (NIY 7.96%).

SUPPLY

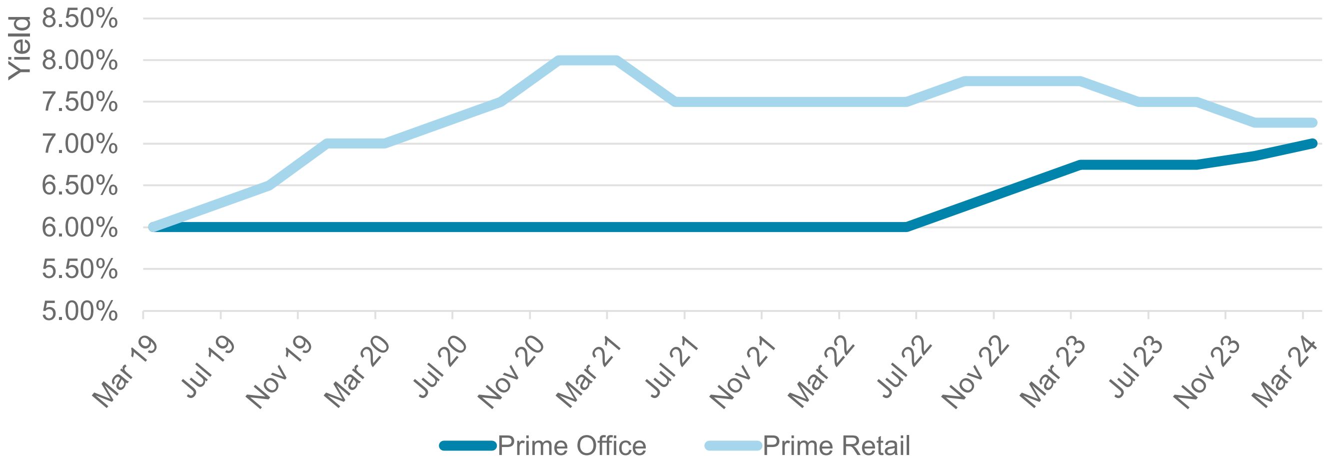
At the end of March 2024, there was under €20m worth of on-market investment opportunities available in Cork. This included three units at Opera Lane in the city centre, an open-air retail destination forming part of a larger mixed-use residential and retail development. Units 16, 17a and 19 are on the 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 Q1 2024 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 7.0% at the end of March for the fourth consecutive quarter, having been at 6.5% at the end of 2022. The prime retail yield in Cork remained stable at 7.25%.

BELOW:
Block A Cork Business & Technology Park

Prime Cork Yields (Q1 2019 – Q1 2024)



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 cx

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.

“

6,650 SQM

Take-up in the Cork office market in Q1 2024 reached 6,650 sqm across 17 deals, .

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Office

ACTIVITY

Take-up in the Cork office market in Q1 2024 reached 6,650 sqm across 17 deals, down from 8,200 sqm across 13 deals in the previous quarter. In Q1 2024, only one deal was in excess of 1,000 sqm and accounted for 16% of the take-up. The average deal size was 390 sqm, down from 630 sqm in Q4.

The city centre region was the busiest accounting for 67% of total activity with the largest deal located in this region. This was followed by the east suburbs region at 22%, south suburbs at 8% and north suburbs at 3%.

Lettings dominated the market in Q1 accounting for 85% of the take-up with only one (out of 17) transaction being a sale – EHS International's acquisition of a building in Wallingstown, Little Island (970 sqm). The largest transaction of the quarter was the letting of 1,100 sqm in Thompson House on McCurtain Street to JRAP Solicitors. PwC has announced an additional 150 jobs in Cork for 2024 and has expanded its office space in One Albert Quay by 50%, leasing an extra 830 sqm. Other notable lettings included JW O'Donovan Solicitors leasing 700 sqm in 26/27 South Mall and Zoom taking 670 sqm at City Quarter. The remaining transactions were each sub 500 sqm and ranged from 62 sqm to 470 sqm.

DEMAND

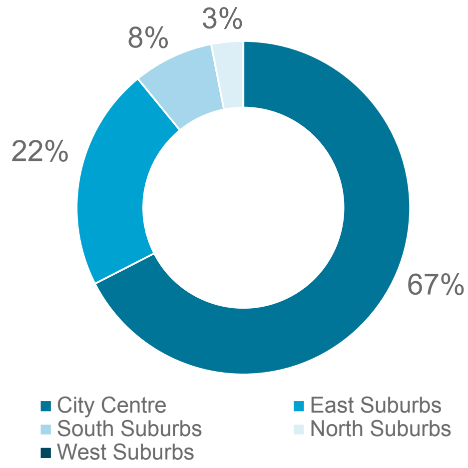
Overall, demand for office space remained subdued in Q1, with limited requirements, particularly for suburban office space. Most activity comes from indigenous professional service firms and state bodies. There are some active requirements for accommodation of between 1,000 sqm and 1,500 sqm in the city centre. There are also some indigenous enquiries for smaller units of less than 500 sqm.

Sustainability and ESG remain 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

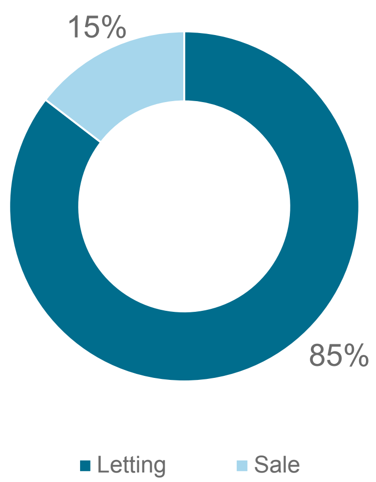
Prime city centre headline rents remained stable at €325 psm (€30 psf) in Q1 2024 having fallen at the beginning of 2023 for the first time since the end of 2020. Prime headline rates in the suburbs also remained stable at €230 psm (€21 psf) as did the rents at South Mall, which remained at €225 psm (€21 psf).

Office Take-Up by Region (Q1 2024)



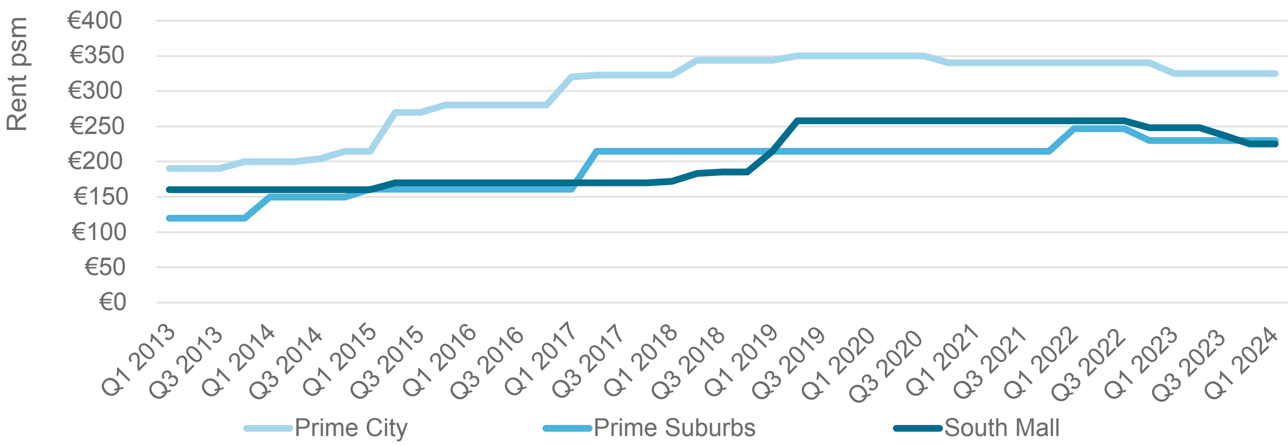
Source: Lisney

Office Take-Up by Deal Type (Q1 2024)



Source: Lisney

Prime Headline Office Rents (Q1 2013 – Q1 2024)



Source: Lisney

AVAILABILITY

At the end of March 2024, there was 85,600 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 49% of all available stock is located. This was followed by the south suburbs (40%), the north suburbs (5%), the west suburbs (4%), and the east suburbs (2%).

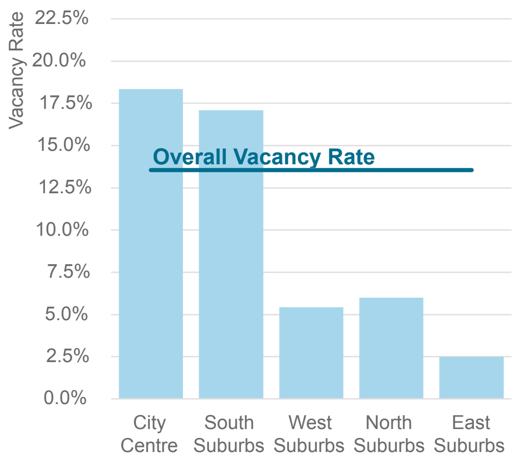
The overall Cork vacancy rate marginally decreased in Q1 to 13.5% from 13.6% three months previous. Focusing on the city centre region, the vacancy rate was 18.3%, down from 19.1% in Q4 2023. The suburbs overall vacancy rate was at 10.8%, marginally up from 10.5% in the last quarter.

CONSTRUCTION

While there were no new schemes completed in Q1 2024, 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 have been completed on Building Two, Horgan's Quay to bring it to a shell standard internally.

In terms of the construction pipeline, approximately 111,400 sqm of accommodation (14 schemes) had planning permission at the end of March 2024 but had not commenced. 45% of this is in the city centre and 55% in the suburbs. No new office developments are expected to commence in 2024. It is likely that developers will focus more on residential with apartment developments to commence on Horgan's Quay and in Docklands.

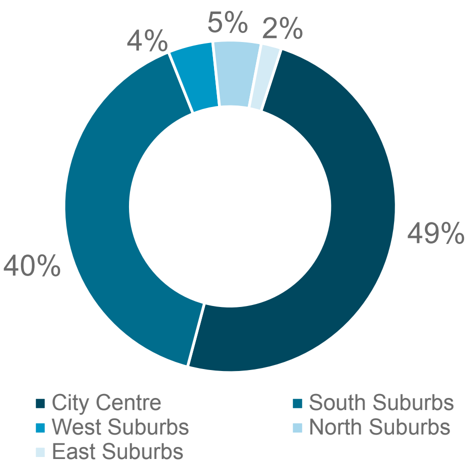
Office Vacancy Rate by Region (Q1 2024)



Source: Lisney

ABOVE:
26-27 South Mall, Cork

Office Availability by Region (Q1 2024)



OFFICE OUTLOOK

Grey space is available in Cork, albeit not to the same levels as Dublin and other markets. There is grey space office accommodation available in City Gate, Mahon. 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.

> Occupier demand for industrial premises in Cork remained strong in Q1 2024.

Industrial

ACTIVITY

Take-up in the Cork industrial market in Q1 2024 reached 2,000 sqm across seven deals, down from 19,500 sqm in Q4 2023. The average deal size in Q1 was 280 sqm, down from 1,770 sqm three months prior and 1,170 sqm in 2023. The east suburbs region was the busiest accounting for 54% of all activity. This was followed by the south suburbs at 46%. There was no activity in the north and west suburbs.

All transactions were lettings in Q1. The top two transactions, each in excess of 500 sqm, combined accounted for 57% of activity. The largest letting comprised Munster Hardwood Flooring taking Unit 12 in Southside Industrial Estate (560 sqm). This was followed by a pharmaceutical company taking Units 4/5 in Wallingstown Business Park, Little Island (550 sqm). The remaining lettings ranged from 88 sqm to 340 sqm.

In addition, terms have been agreed on a new high bay warehouse unit in Anchor Business Park, Little Island (11,150 sqm). Crane Worldwide took occupation of the new high bay Unit 1 in Harbour Gate Business Park, Little Island (11,820 sqm) which was let in Q4 2023. Harbour Gate is now fully occupied.

DEMAND

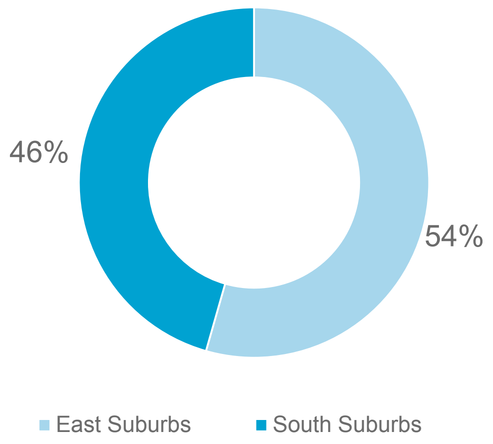
Occupier demand for industrial premises in Cork remained strong in Q1 2024. Current demand is mainly for units ranging in size from 500 sqm to 1,000 sqm close to the main road networks particularly on the south and west sides of the city. In addition, development land and sites suitable for industrial development are in high demand, but there is very limited availability. In Little Island a 1.8 acre industrial development site with planning permission achieved a sale price of just over €500,000 per acre.

Little Island's appeal as a location for industrial, warehousing and logistics operators was enhanced with the completion of the upgraded Dunkettle Interchange, which now allows free flow traffic in all directions. A number of industrial lettings were agreed in Little Island in Q1 which will translate to take up in Q2.

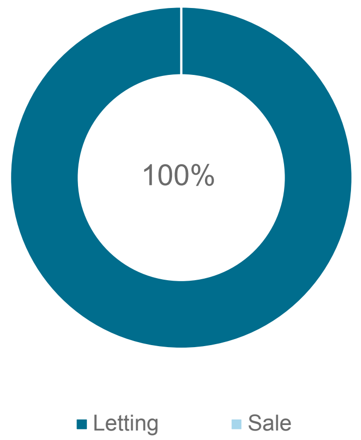
RENTAL VALUES

The prime rent for high bay accommodation increased in Q1 2024 to €123 psm (€11.4 psf) from €120 psm (€11 psf) three months prior. 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. A new high bay warehouse is currently under construction in Blarney Business Park and it is available to let at a quoted rent of region €148psm (€13.75psf).

Industrial Take-Up by Region (Q1 2024)



Industrial Take-Up by Deal Type (Q1 2024)



Source: Lisney

AVAILABILITY

Despite ongoing construction activity, industrial supply in Cork remains tight as newly built warehouses are generally let prior to completion.

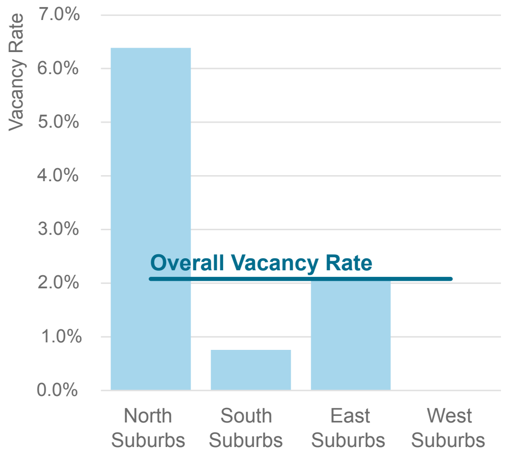
By the end of Q1 2024, there was 30,000 sqm of industrial space available in Cork. This was an increase from 20,000 sqm available three months prior. As a result, the overall vacancy rate across Cork increased to 2.1%, from 1.4% in Q4 2023, although it remained unsustainably low. The increase in supply is mainly due to the availability of 8,100 sqm for subletting in Blarney Business Park in Q1 2024. In terms of regions, the north suburbs had the highest vacancy rate (6.4%). This was followed by the east suburbs at 2.1% while the south and west regions had effectively no availability.

CONSTRUCTION

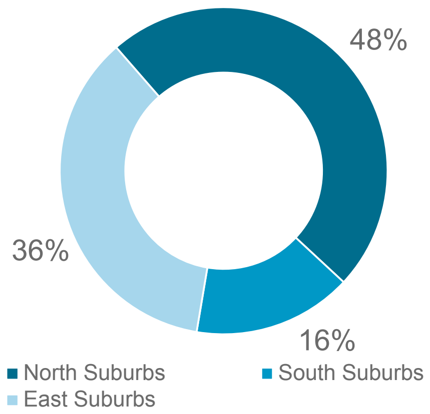
As of the end of March 2024, there was just under 27,000 sqm of industrial accommodation under construction, up from 25,000 sqm three months prior. Little Island accounted for 80% of the space under development, with the remainder across the south suburbs (11%) and the north suburbs (9%). One of the 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 Q1 2024. In Westgate Business Park, Unit 6 (1,600 sqm) and Unit 7 (1,500 sqm) are also under construction. Block 9005 in Blarney Business Park (2,520 sqm) commenced construction in Q1 2024.

Additionally, nearly 78,000 sqm of accommodation is in the pipeline having been granted planning permission but not commenced construction. The largest planning permission has been granted to Progressive Commercial Construction Ltd for a new industrial development of five detached high bay warehouses in Little Island comprising a total of 23,530 sqm.

Industrial Vacancy Rate by Region (Q1 2024)

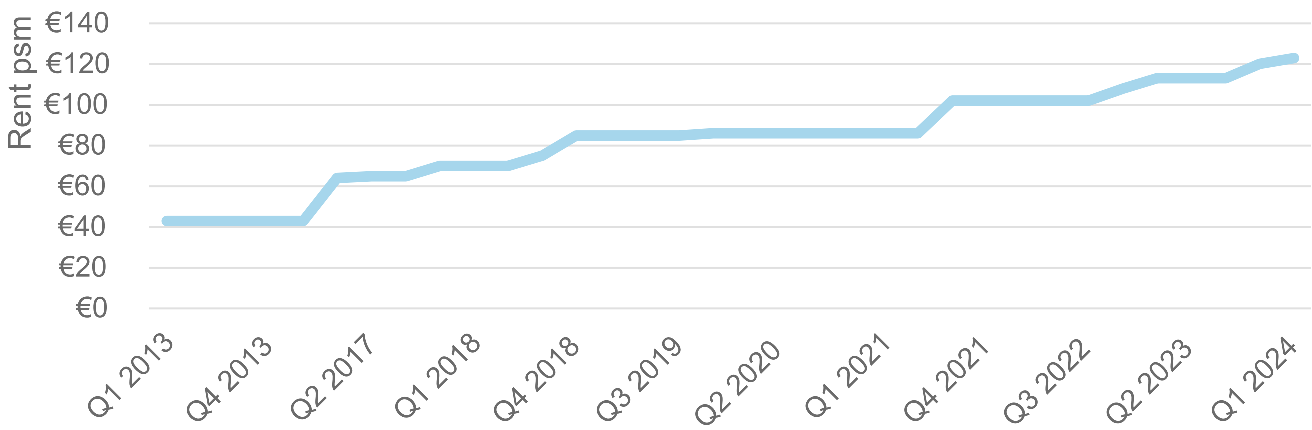


Industrial Availability by Region (Q1 2024)



Source: Lisney

Prime Headline Industrial Rent (Q1 2013 – Q1 2024)



Source: Lisney

ABOVE:
Site 4 Harbour Point Business Park, Little Island, Cork

INDUSTRIAL OUTLOOK

The industrial sector will continue to experience steady levels of demand.

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.

ABOVE:
Unit 12 Southside Industrial Estate, Cork

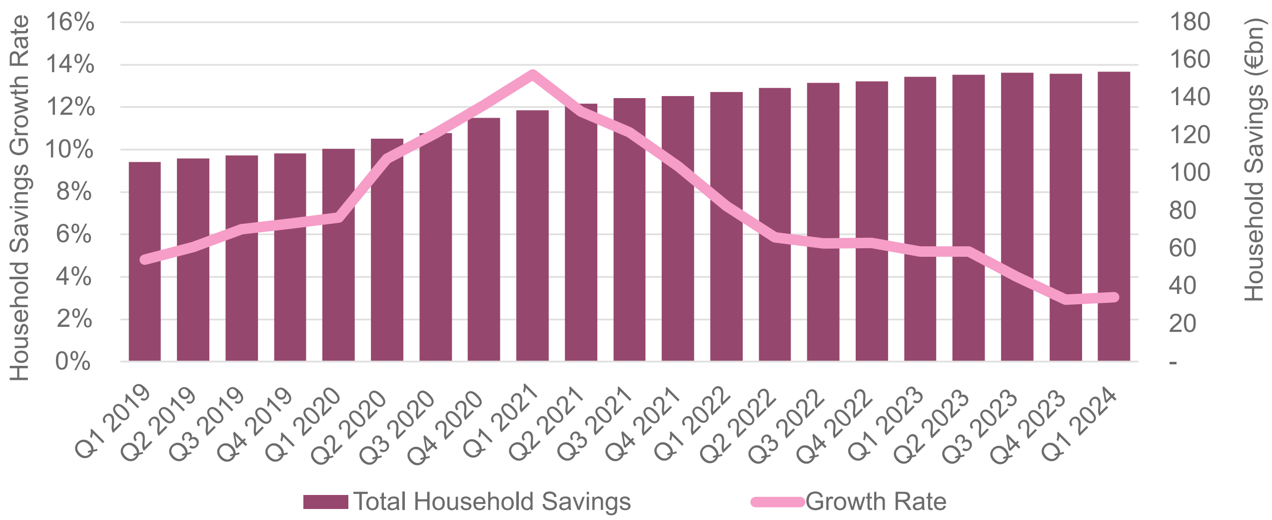
Retail

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.

Household Deposits – Annual Rate of Change (January 2019 – February 2024)



Source: Central Bank of Ireland, Lisney analysis

SAVINGS

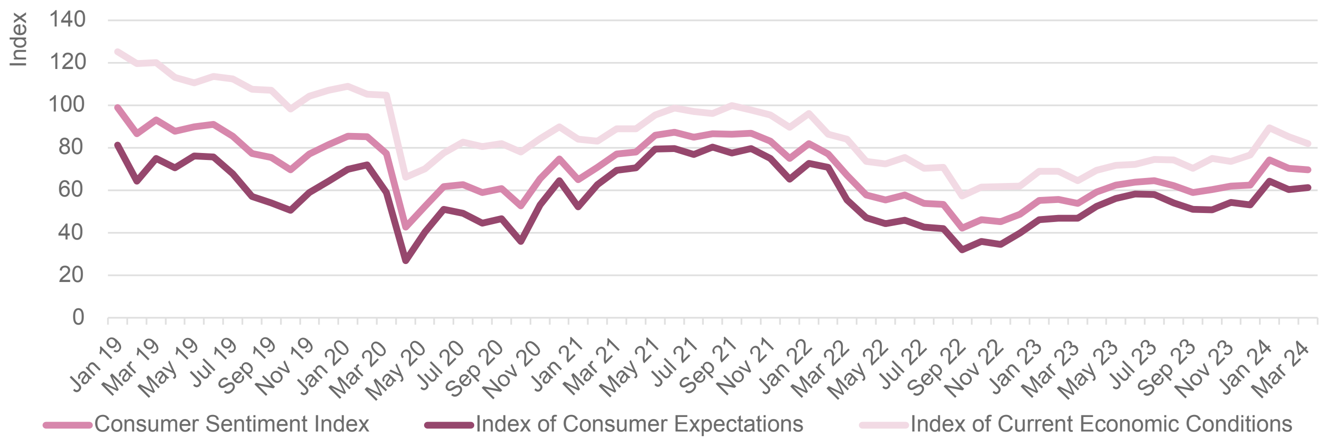
Household deposits in Ireland stood at €153.64bn in February 2024 at all time high. According to the Central Bank of Ireland, the February figure represented an increase of €1.126bn in the month and an increase of €4.97bn over the previous 12 months. This may seem surprising at a time when the cost of 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. As consumer activity recovered, this annual growth rate moderated to 5.4% in 2022, and 2.9% in 2023. As with many economic indicators, consumers' life experiences across society can be different to what the data is showing. Figures for the following months will be watched carefully to establish if trends are changing.

CONSUMER SENTIMENT

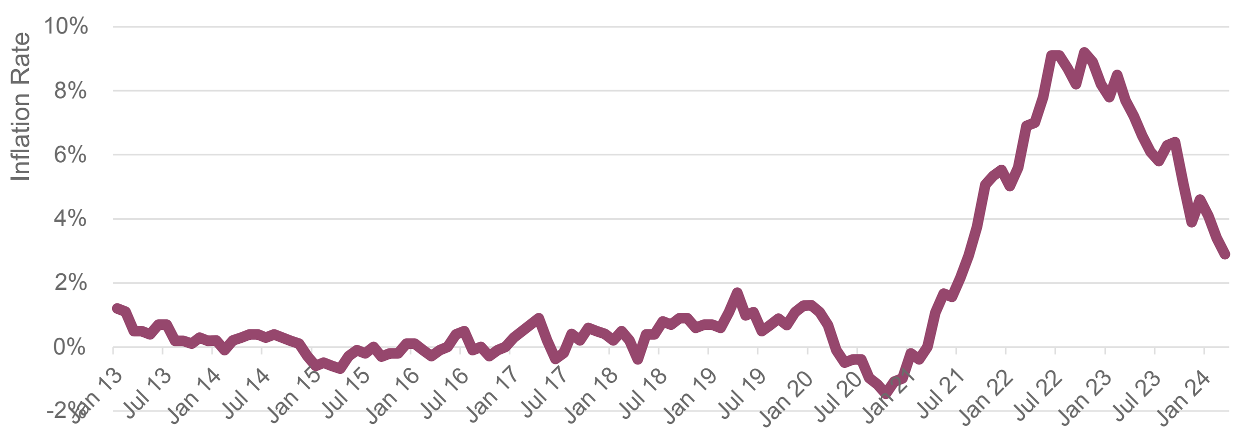
The Irish League of Credit Unions Consumer Sentiment Index decreased marginally to 69.5 in March 2024 from 70.2 in February 2024 as continuing increases in living costs, disappointing economic news and likely delays in the timing of rate cuts translated into a still challenging environment for many households. Three out of five key sub-indices measured by the Credit Union Consumer Sentiment Index decreased in the month i.e. current conditions (81.8 down from 85.2), major purchases (89.0 down from 91.0), and general economic outlook (30.6 down from 31.1). the other two increased – consumer expectations (61.2 down from 60.2) and outlook for unemployment (64.7 down from 61.0). .

Consumer Sentiment Index (January 2019 – March 2024)



Source: Irish League of Credit Unions, Lisney analysis

Annualised Rate of Irish Inflation (January 2013 – March 2024)



Source: CSO, Lisney analysis

INFLATION

The Irish annual rate of inflation (measured by CPI) decreased in Q1 2024; however, it remained higher than the target rate of 2%. It stood at 2.9% in March 2024, down from 3.4% in February 2024 and having been at 4.6% at the end of 2023. March was the fifth time since September 2021 that the annual growth in the CPI has been below 5% while also being the fifth consecutive month where the inflation rate was lower than 5%.

Notably, percentage changes in 'services' significantly outweigh the increases in 'goods' (4.5% v 0.5%). Services, excluding mortgage interest repayments, increased by 3.1% in the year since March 2023.

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 March 2024. As to be expected, the most notable changes in the period are increases in 'housing, water, electricity, gas & other fuels' (+28.2%) and 'food and non-alcoholic beverages' (+17.5%). Despite this, it appears that prices associated with energy are beginning to decline and this should be reflected in the index in the months ahead.

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. With inflation high, the value of core retail sales (excluding motor trades) rose by 4.2% in 2023 while the volume of core sales increased by 1.4%. From January to February 2024, these figures were at 0.3% and 0.2% respectively and 0.4% and 0.0% on an annualised basis.

In terms of business sectors, 'sale of textiles, clothing and footwear' saw the volume of sales growing by 30.5% and the value of sales growing by 11.1% in 2024 to the end of February. In contrast, 'department stores' and 'motor trades' experienced both value and volume declines over the same period.

Data from the CSO for February 2024 shows that 4.9% 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.

Data from Statista (an independent specialist in surveys and data gathering) show that online purchases in Ireland accounted for 11.8% of all transactions in 2023, totalling US$4.27bn with expectations that 2024 will reach US$4.81bn, a 12.8% growth. The market share is also anticipated to grow to 12.9% in 2024. By 2029, online purchases are expected to exceed US$7.7bn.

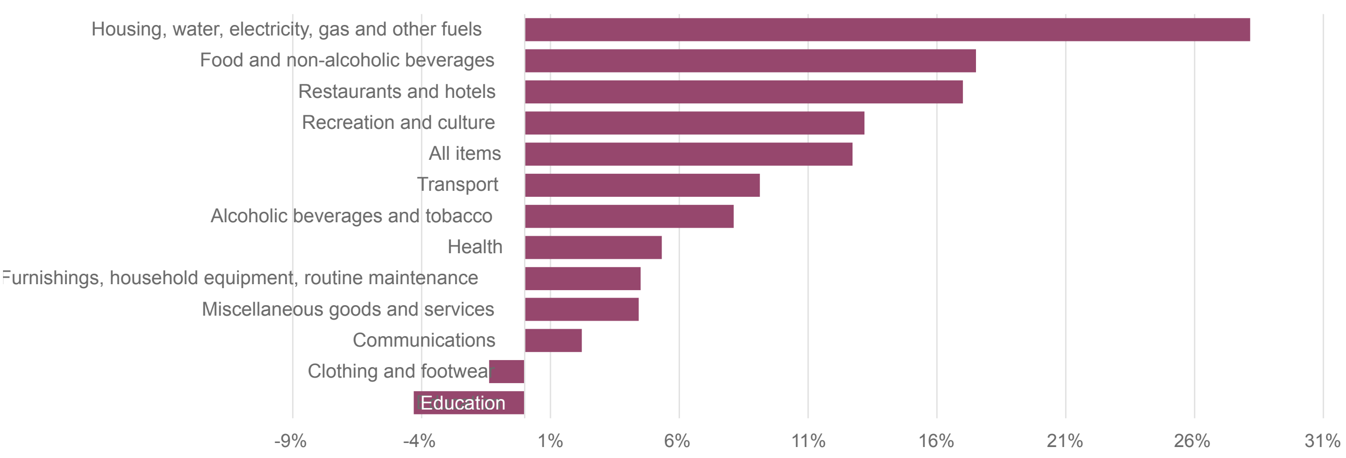
In 2023, the top five online stores in the Irish eCommerce market were amazon.co.uk with a revenue of €338.6m, tesco.ie with a revenue of €252.9m, currys.ie (revenue of €186.2m), apple.com (revenue of €151.6m), and shein.com (revenue of €108m). Combined, the top three online stores account for a market share of 25.7% of the top 100 stores in the Irish eCommerce market.

PROPERTY MARKET TRENDS

Here's Health opened a health food shop and café in the former Russells book shop on the corner of Oliver Plunkett Street and Marlboro Street. They acquired the property in 2019 and they will continue to trade at 51 Patrick Street and in their suburban locations at Wilton Shopping Centre and Douglas Court.

Work is ongoing 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. It is reported that a hotel and other accommodation facilities will form part of the overall development. The redevelopment of the former Debenhams block and the planned major redevelopment of Penneys will enhance the retail offering on Patrick Street, Cork city's main retail thoroughfare.

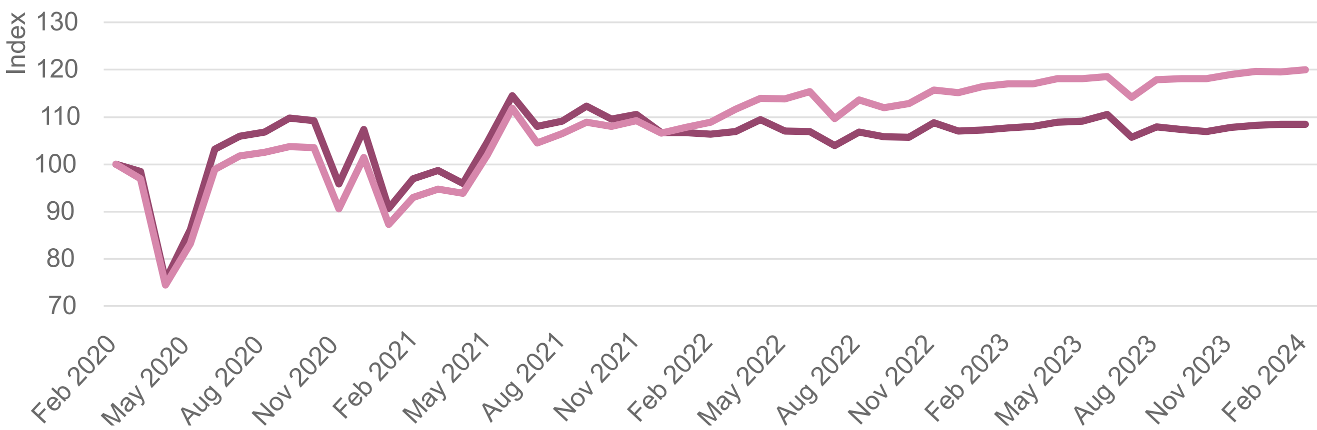
Annualised Rate of Irish Inflation – Pre-War in Ukraine to Present (February 2022 – March 2024)



Source: CSO, Lisney analysis

> By 01 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.

Volume and Value of Retail Sales (excluding motor trades) (February 2020 – February 2024)



Source: CSO, Lisney analysis

RETAIL OUTLOOK

By 01 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.

BELOW:
Thompson House, McCurtain Street, Victorian Quarter, Cork

Meet The Team

THE LISNEY CORK TEAM

Margaret Kelleher

Senior Director & Chairperson

Edward Hanafin

Senior Director

David McCarthy

Director

Nicholas O'Connell

Divisional Director

Johnny McKenna

Chartered Surveyor

Jeremy O'Mahony

Surveyor

Szymon Slowiak

Surveyor

THE LISNEY RESEARCH TEAM

Aoife Brennan

Senior Director

Ausra Marcelyte

Senior Research Analyst

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

Lisney
Commercial Real Estate

PSRA: 001848

lisney.com

@LisneyIreland