COMMERCIAL REAL ESTATE

CORK REPORT

Q2 2024

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The Irish investment property market improved in Q2 2024 with one very notable deal pushing Cork's representation in the market to over 11% of the nationwide total. 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.

▲ €56.125 m
Cork Investment
Turnover

▲ 2
Cork Investment
Deals

▲ €50 m
Mahon Point Retail Park
Largest Investment Deal

▼ 5,000 sqm
Cork Office
Take Up

▼ 11
Cork Office
Deals

▼ 12.6%
Cork Office
Vacancy Rate

▲ 3,900 sqm
Cork Industrial
Take Up

▼ 6
Cork Industrial
Deals

▼ 2.7%
Cork Industrial
Vacancy Rate

Arrows represent quarterly trends unless otherwise stated.

Investment

ECONOMIC BACKDROP

Mid way through 2024, the global economy continues to face challenges; namely from geopolitical tensions and the persistent cost-of-living crisis. The conflict in the Middle East and the ongoing war in Ukraine risk generating additional adverse shocks to the global recovery. In spite of this, the global economy has been resilient, but interest rates have not adjusted downward as quickly as anticipated with many rates around the world remaining at two decade highs. Reductions in rates in the US are not likely until the latter half of 2024 as the FED continues to contend with elevated inflation while the ECB cut rates in June 2024 by 25 basis points to 4.25% but it has not committed to any further rate cuts this year.

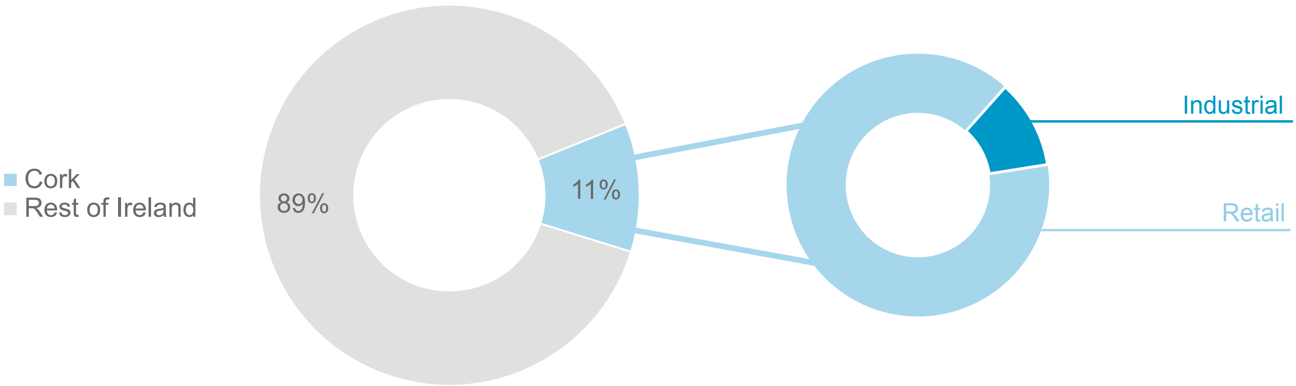
In the Irish CRE investment market, there was a sense of improved investor sentiment as Q2 was closing out.

Asking prices were beginning to become more aligned with potential purchaser expectations, and while yields remained largely stable, the price softening is likely to peak in the short-term with buyer indecision coming closer to an end.

Cork Investment Transactions Q2 2024

PROPERTY	SECTOR	PRICE
Mahon Point Retail Park, Cork	Retail	€50,000,000
Model Farm Road Estate, Cork	Industrial	€6,125,000

Source: Lisney



BELOW:
Block A Cork Business & Technology Park

ACTIVITY

Nationwide, Irish investment market turnover reached €514.3m across 29 transactions in Q2 2024. This followed a slow Q1 when only €162m was invested. Two of the Q2 deals were in Cork and accounted for 11% of the overall market. These comprised the substantial off-market sale of Mahon Point Retail Park for €50m (NIY 7.23%) to Corum Asset Management, as well as a logistics facility on Model Farm Road, which sold to MNK Europe for €6.125m (NIY 6.95%). In H1 2024, €58.775m has been invested in the Cork market, 8.7% of the nationwide turnover.

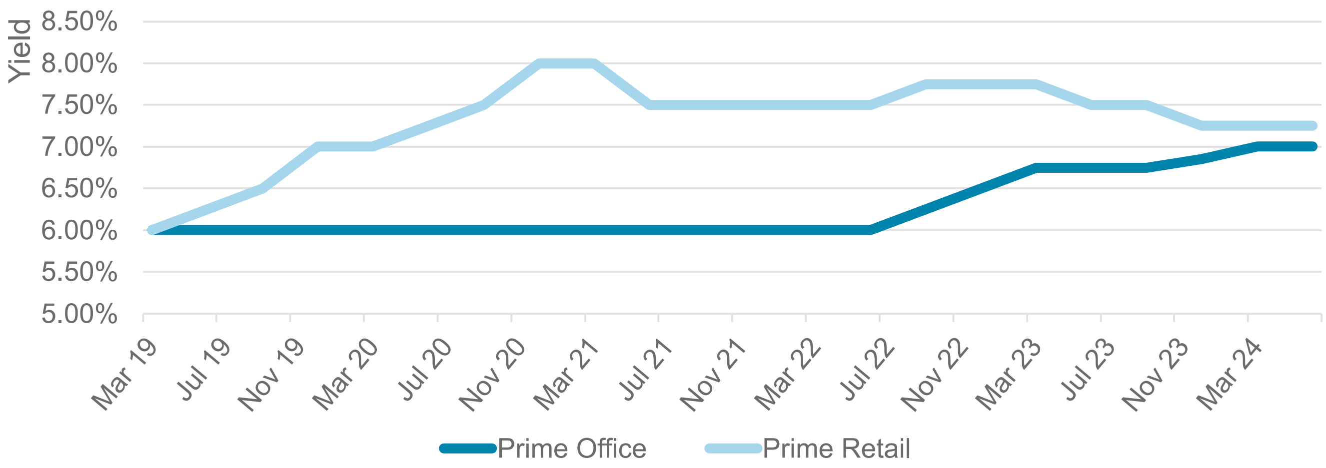
SUPPLY

At the end of June 2024, a limited number of on-market investment opportunities were available in Cork. However, the supply is likely higher given the continued activity occurring off-market.

PRICING

Prime and secondary yields were largely unchanged in Q2, reflecting both the wider global economic, financial and geopolitical factors as well as the improvements in market sentiment. In Cork, we estimate that the prime office and retail yields remained stable at 7% and 7.25% respectively.

Prime Cork Yields (Q1 2019 – Q2 2024)



Source: Lisney

INVESTMENT OUTLOOK

There is evidence of more appropriate pricing emerging and if vendors are realistic on price, then there will be buyers. Consequently, investment market activity levels are expected to improve further in H2 2024. Nationwide, several larger deals were already in progress entering July and more supply is due in the coming months. Off-market transactions will remain prevalent. The full-year 2024 turnover level will depend on what off-market deals get completed in addition to what assets come to the market in the Autumn – and importantly, how interest rates move in the coming months. However, it is likely to reach at least €1.6bn for the overall market.

Smaller-scale private investors will be active, taking advantage of more favourable yield profiles.

Pricing and valuations, particularly in offices, will be important in the short-term. The significant cost of improving the sustainability credential of buildings will need to be factored-in to bridge the gap in buyer and seller expectations.

> **5,000 SQM**
>
> Take-up in the Cork office market in Q2 2024 reached 5,000 sqm across 11 deals.

Office

ACTIVITY

Take-up in the Cork office market in Q2 2024 reached 5,000 sqm across 11 deatls, down from 6,650 sqm across 17 deals in the previous quarter. There was only one deal in excess of 1,000 sqm, accounting for 29% of the take-up. The average deal size was 455 sqm, up from 390 sqm in Q1. However, excluding the largest transaction, the average deal size falls to 355 sqm.

The city centre region remained the busiest accounting for 45% of total activity with the largest deal located in this region. This was followed by the south suburbs region at 25%, north suburbs at 22% and east suburbs at 8%.

Lettings dominated the market in Q2 accounting for 94% of the take-up with only one (out of 11) transaction being a sale – Unit 2A, Atrium in Blackpool Business & Retail Park (280 sqm). The largest transaction of the quarter was the letting of 1,440 sqm at One Albert Quay to Proofpoint, an American enterprise cybersecurity company. Alliance Medical Diagnostics leased 950 sqm at Block B, City Gate Park in Mahon, Cork. Other notable lettings included Spaces taking 580 sqm in Horgans Quay and Tusla taking Unit 2 (300 sqm), Nessan House on Bessboro Road in Blackrock. The remaining transactions were each sub 300 sqm.

DEMAND

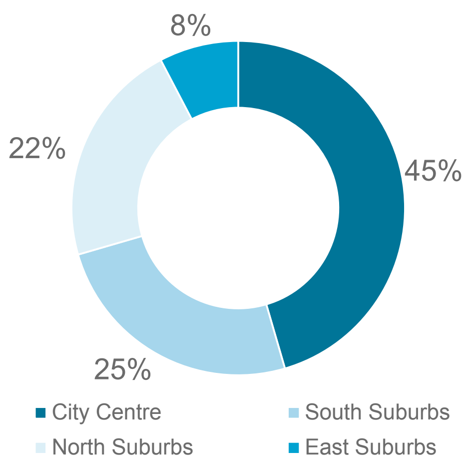
Overall, demand for office space remained limited in Q2 with limited requirements, particularly for suburban office space. Most demand comes from indigenous professional service firms and State bodies. There are some active requirements for accommodation of between 1,000 sqm and 1,500 sqm in the city centre. There are also some indigenous enquiries for smaller units of less than 500 sqm.

Sustainability and ESG remains a consideration 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

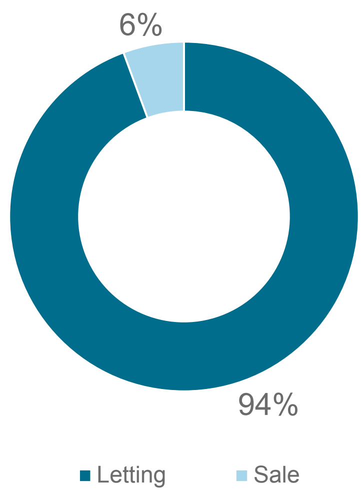
Prime city centre headline rents remained stable at €325 psm (€30 psf) in Q2 2024 having fallen at the beginning of 2023 for the first time since the end of 2020. Prime headline rates in the suburbs also remained stable at €230 psm (€21 psf) as did the rents at South Mall, which remained at €225 psm (€21 psf).

Office Take-Up by Region (Q2 2024)



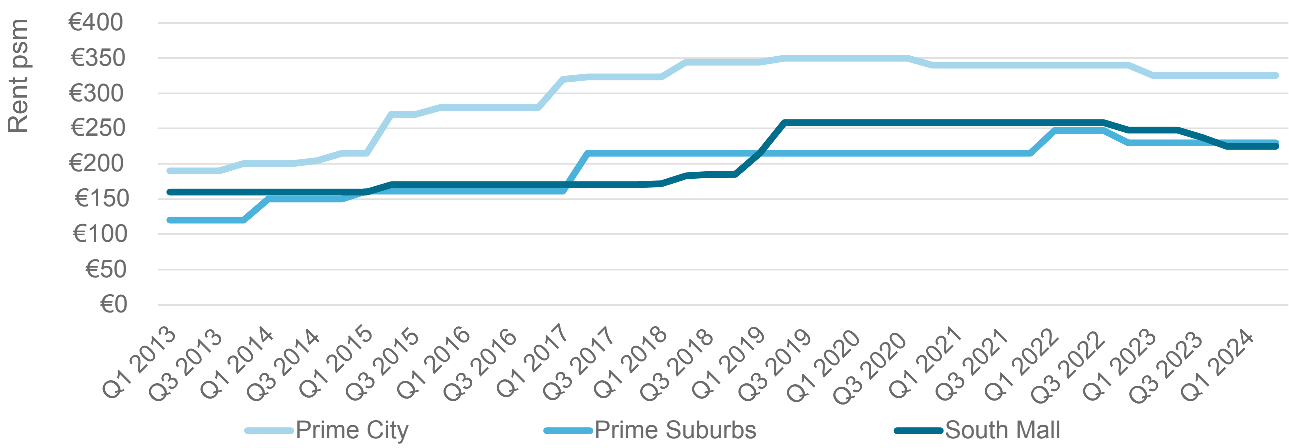
Source: Lisney

Office Take-Up by Deal Type (Q2 2024)



Source: Lisney

Prime Headline Office Rents (Q1 2013 – Q2 2024)



Source: Lisney

AVAILABILITY

At the end of June 2024, there was 79,600 sqm of available office accommodation in Cork, down from 85,600 sqm in Q1. Half of all vacant stock was in the city centre (50%). This was followed by the south suburbs (40%), the north and west suburbs (4% each), and the east suburbs (2%).

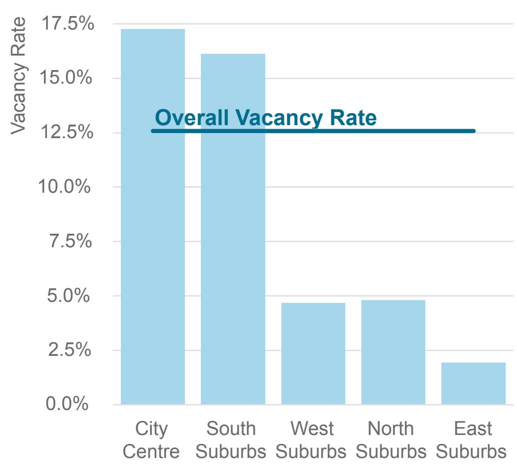
The overall Cork vacancy rate decreased in Q2 to 12.6% from 13.5% three months previous. Focusing on the city centre region, the vacancy rate was 17.3%, down from 18.3% in Q1 2024. The suburbs overall vacancy rate was at 9.9%, down from 10.8% in the last quarter.

CONSTRUCTION

While there were no new schemes completed in Q2 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. Additionally, Building Two on Horgan's Quay was brought to a shell standard.

In terms of the construction pipeline, approximately 131,500 sqm of accommodation (15 schemes) had planning permission at the end of June 2024 but had not commenced. 38% of this is in the city centre and 62% 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.

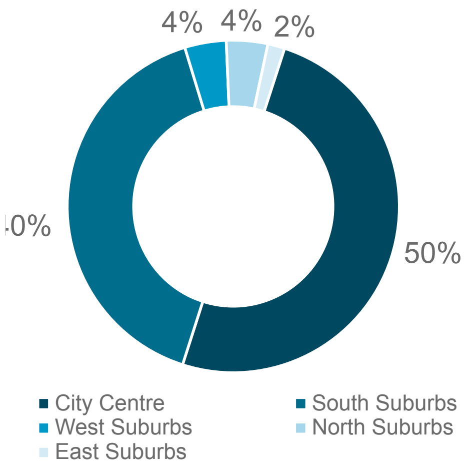
Office Vacancy Rate by Region (Q2 2024)



Source: Lisney

ABOVE:
26-27 South Mall, Cork

Office Availability by Region (Q2 2024)



OFFICE OUTLOOK

Grey space is available in Cork, albeit not to the same extent as in Dublin. There is sub-let / grey 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 the second half of 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 the second half of 2024. Favourable incentive packages will be on offer to tenants, but in the mid-term 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 to mid-term.

> The average deal size in Q2 was 650 sqm, up from 280 sqm three months prior.

Industrial

ACTIVITY

Take-up in the Cork industrial market in Q2 2024 reached just 3,900 sqm across six deals, albeit up from 2,000 sqm in Q1. The average deal size in Q2 was 650 sqm, up from 280 sqm three months prior. The east suburbs region was the busiest accounting for 78% of all activity. This was followed by the north and south suburbs at 12% and 10% respectively. There was no activity in the west suburbs.

In Q2, two out of six transactions were sales and the remaining four were lettings. The top two transactions, each in excess of 1,000 sqm, combined accounted for 63% of activity. The largest letting comprised Gealtec Utilities leasing Unit 7 in Waterfront Business Park (1,300 sqm). This was followed by Jones Engineering taking Unit E/F in Block 3 in Waterfront Business Park, Little Island (1,140 sqm). The remaining lettings ranged from 270 sqm to 450 sqm.

DEMAND

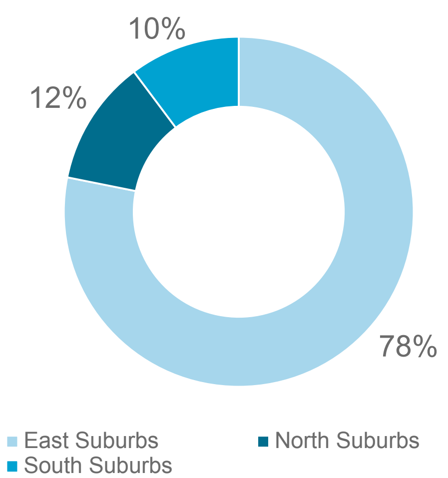
Despite the low levels of activity, occupier demand for industrial premises in Cork remained good in Q2 2024. Current requirements are mainly for units ranging in size from 500 sqm to 1,000 sqm close to the main road networks particularly on the south and west sides of the city. In addition, development 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.

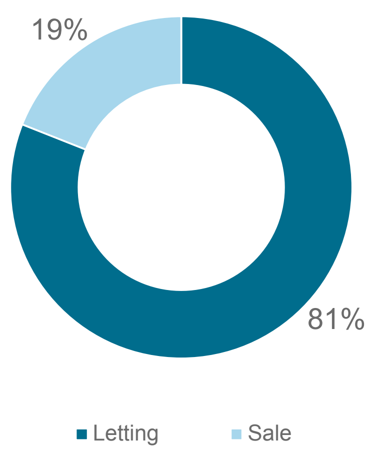
RENTAL VALUES

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, and remained stable in Q2. 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 (Q2 2024)



Industrial Take-Up by Deal Type (Q2 2024)



Source: Lisney

AVAILABILITY

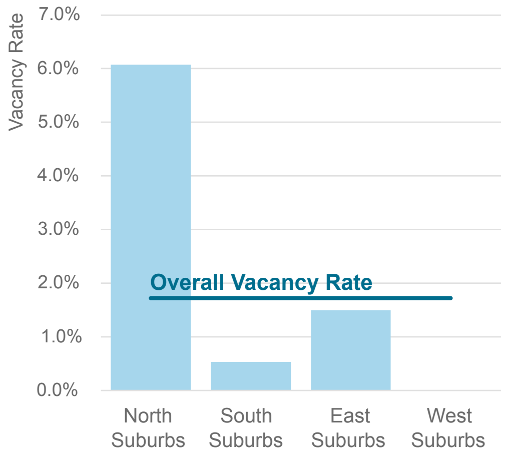
Despite ongoing construction activity, industrial supply in Cork remains tight as newly built warehouses are generally let prior to completion. At the end of June 2024, there was 24,500 sqm of industrial space available across Cork. This was down from 30,000 sqm available three months prior. As a result, the overall vacancy rate across Cork decreased to 1.7%, from 2.1% in Q1 2024 and remained unsustainably low. In terms of regions, the north suburbs had the highest vacancy rate (6.1%). This was followed by the east suburbs at 1.5% while the south and west regions had effectively no availability.

CONSTRUCTION

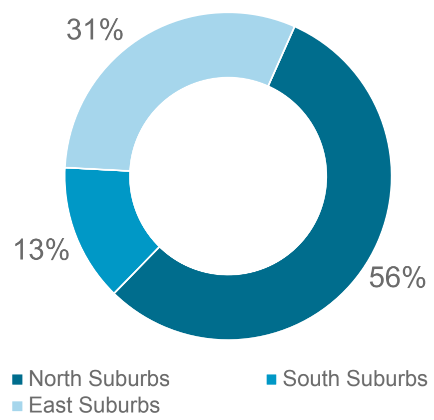
under construction, up from 27,000 sqm three months prior. Little Island accounted for 89% of the space under development, with the remainder across the south suburbs (6%) and the north suburbs (5%). Construction of five units in Evergreen Business Park, Little Island commenced in Q2. On completion, all units combined will provide 22,000 sqm of industrial accommodation.

Construction on a 7,800 sqm data centre continued as did the works on three units in Anchor Business Park with a combined area of 14,050 sqm. In Westgate Business Park Unit 7 (1,500 sqm) and Block 9005 in Blarney Business Park (2,520 sqm) were also under construction. Additionally, nearly 55,000 sqm of accommodation was in the pipeline having been granted planning permission but not commenced construction.

Industrial Vacancy Rate by Region (Q2 2024)

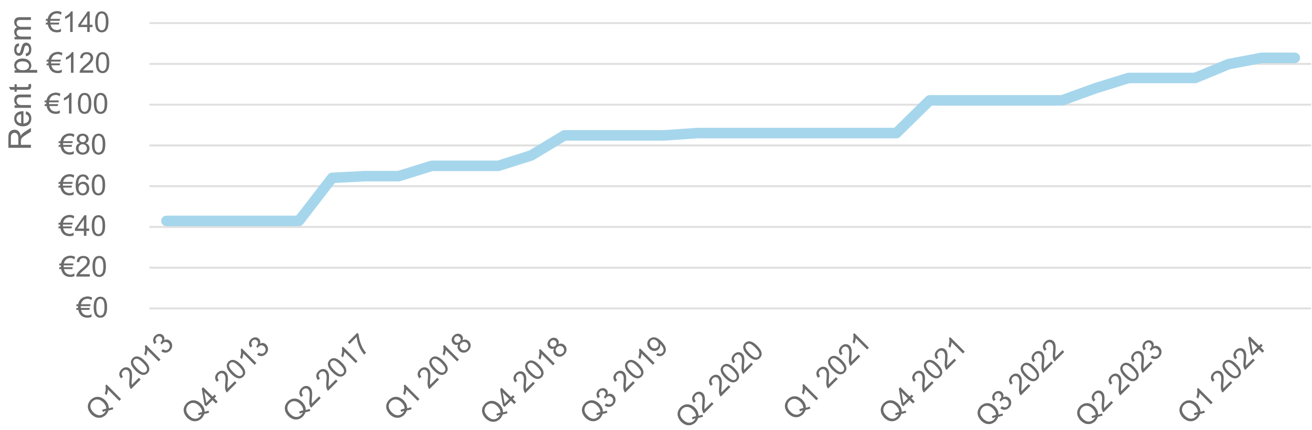


Industrial Availability by Region (Q2 2024)



Source: Lisney

Prime Headline Industrial Rent (Q1 2013 – Q2 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 but fulfilling these requirements will be hindered by the low vacancy rate and supply constraints within Cork and its environs will remain.

Supply will remain very limited in the short-term, albeit with some slight fluctuations around the current level.

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.

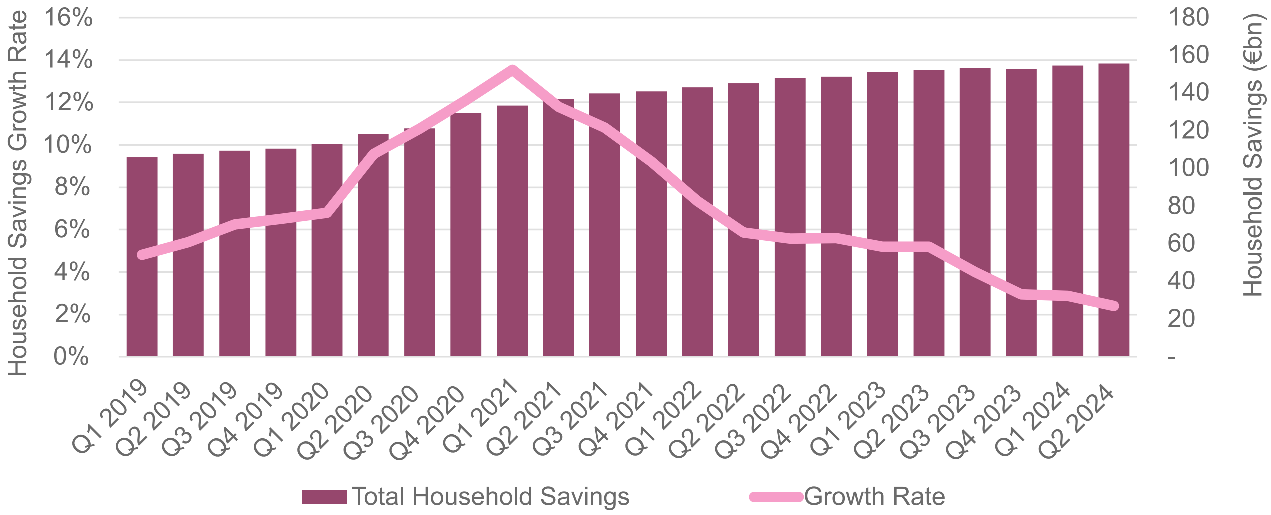
ABOVE:
Unit 12 Southside Industrial Estate, Cork

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.

Nearly all traditional brick-and-mortar retailers now embrace e-commerce and omni-channel strategies.

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



Source: Central Bank of Ireland, Lisney analysis

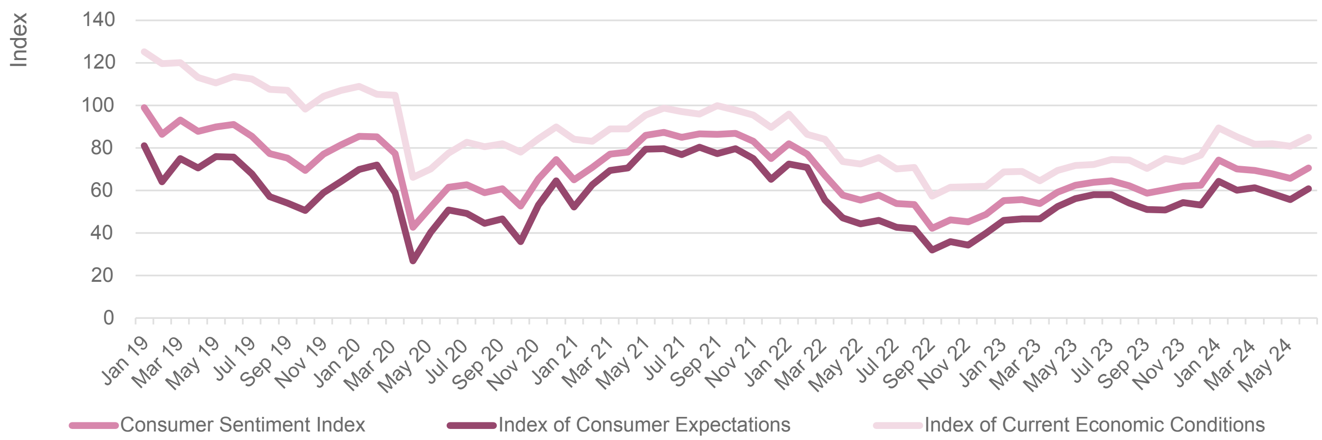
SAVINGS

Household deposits in Ireland stood at €155.62bn in May 2024 at an all-time high. According to the Central Bank of Ireland, the May figure represented an increase of €1.093bn in the month and an increase of €4.489bn over the previous 12 months. On one hand, this may well indicate precautionary savings by some and also a reluctance to spend given the higher costs of goods and services, but on the other hand, there is a cohort of the population in strong, well-paid employment.

CONSUMER SENTIMENT

The Credit Union Consumer Sentiment Index increased to a reading of 70.5 in June 2024 from 65.7 in May and 67.8 in April as falling energy costs, 25 bps lower ECB rate and several encouraging economic releases prompted a more favourable assessment of the outlook for household finances and the broader Irish economy. The June reading marks the first monthly increase since January following four consecutive monthly declines between February and May. However, the current level of the sentiment index remains some distance below the long-term average of 84.5. Four out of five key sub-indices measured by the Credit Union Consumer Sentiment Index increased in the month – current conditions (84.9 up from 80.7), consumer expectations (60.9 up from 55.7), general economic outlook (31.1 up from 27.6), and major purchases (93.4 up from 91.0) - while only one decreased – outlook for unemployment (61.4 down from 61.5).

Consumer Sentiment Index (January 2019 – June 2024)



Source: Irish League of Credit Unions, Lisney analysis

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

Source: CSO, Lisney analysis

INFLATION

The Irish annual rate of inflation (measured by CPI) decreased in Q2 2024; however, it remained slightly higher than the target rate of 2%, standing at 2.2% in June 2024. This is down from 2.6% in May 2024 and 4.6% at the end of 2023. June was the eighth consecutive month where the inflation rate was lower than 5%. Notably, percentage changes in 'services' outweighed the increases in 'goods' (3.2% v 0.8%). Services, excluding mortgage interest repayments, increased by 2.4% on an annual basis.

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 June 2024. As to be expected, the most notable changes in the period are increases in 'housing, water, electricity, gas & other fuels' (+28.8%), 'restaurants and hotels' (19.9%) and 'food and non-alcoholic beverages' (+18.2%). Despite this, it appears that prices associated with energy are beginning to moderate and this should be reflected in the index in the months ahead – price growth in this category only grew by 0.08% in the year to June.

RETAIL SALES

Based on CSO data, there continued to be a slight divergence in the scale of change in the volume and value of retail sales. With inflation high, the value of core retail sales decreased by 2.0% between April and May 2024 while the volume of core sales fell by 0.6% in the same period. On an annualised basis, the value and volume increased by 1.5% and decreased by 1.0% respectively.

In terms of business sectors, those that showed the greatest annual volume growth in June 2024 were Electrical Goods (+12.9%), Hardware, Paints & Glass (+2.1%), and Fuel (+0.3%). The largest annual volume declines in June 2024 were in Clothing, Footwear & Textiles (-6.0%), Department Stores (-3.6%), Non-Specialised Stores (incl. Supermarkets) (-3.5%), and Furniture & Lighting (-2.4%).

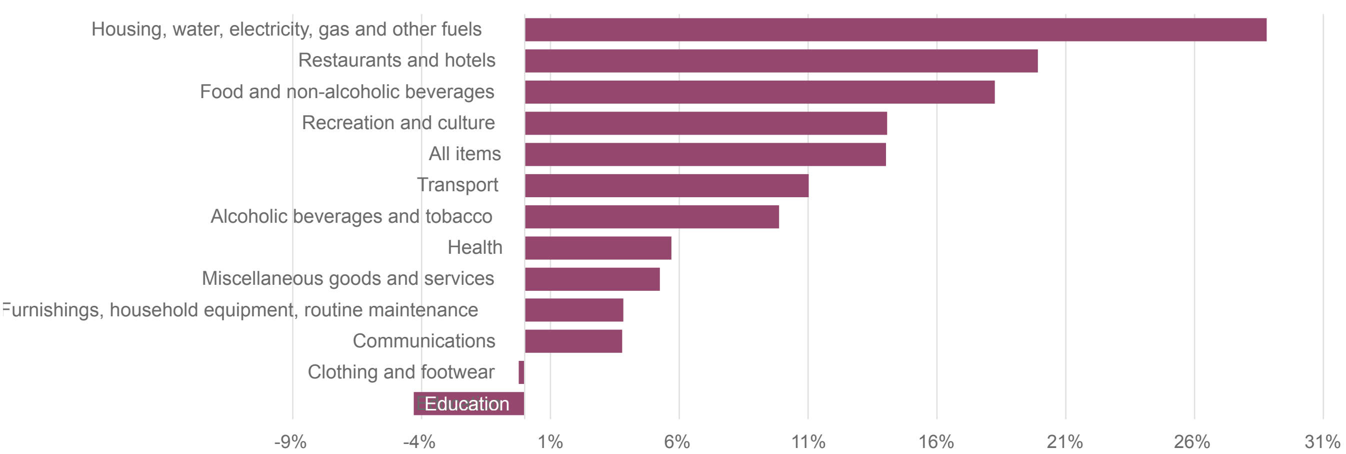
Data from the CSO for May 2024 shows that 4.9% of turnover from Irish registered companies was generated from online sales in the month. This compares to 5.6% in April 2024, 5.2% in May 2023 and highs of over 15% in the month of May 2020 during COVID lockdowns. However, this only relates to Irish companies 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 12.9% of all transactions in 2023, totalling US$4.78bn with expectations that 2024 will reach US$5.41bn, an annual growth of 10.05%. The market share is also anticipated to grow to 14.0% in 2024. By 2029, online purchases are expected to exceed US$8.76bn.

In 2023, the top five online stores in the Irish eCommerce market were amazon.co.uk, tesco.ie, next.ie, currys.ie, and apple.com. Leading the market was amazon.co.uk, which had revenues of US$338.6m in 2023 in Ireland. This was followed by tesco.ie with sales of US$252.9m and then next.ie with sales of US$192.9m. Together, the top three online stores accounted for a market share of 25.7% of the top 100 stores in the Irish eCommerce market.

Hobby & Leisure was the largest market and accounted for 24.6% of the Irish eCommerce revenue. It was followed by Electronics with 21.7%, Fashion with 18.6%, Furniture & Homeware with 11.5%, Care Products with 9.1%, DIY with 8.8%, and Grocery with the remaining 5.8%.

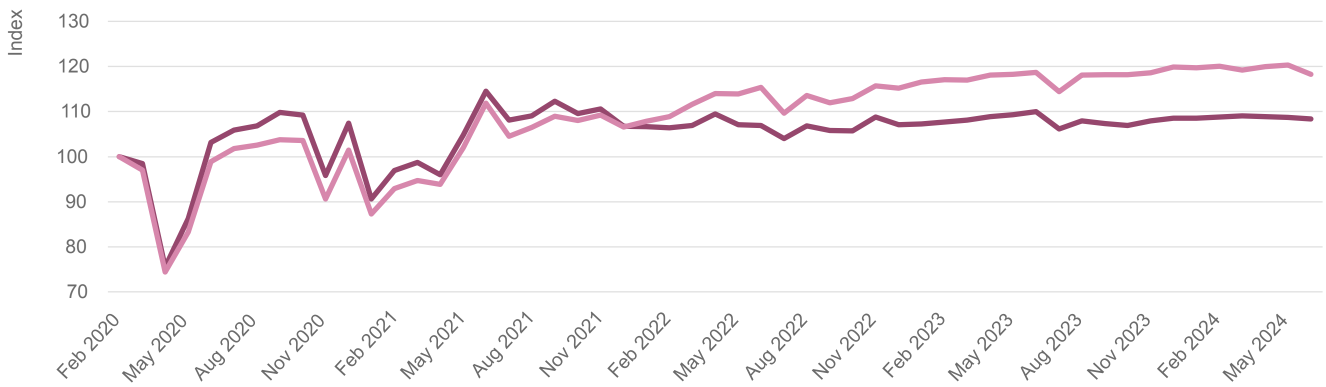
Annualised Rate of Irish Inflation – Pre-War in Ukraine to Present (February 2022 – June 2024)



Source: CSO, Lisney analysis

> Online purchases in Ireland accounted for 12.9% of all transactions in 2023, totalling US$4.78bn with expectations that 2024 will reach US$5.41bn.

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



Source: CSO, Lisney analysis

RETAIL OUTLOOK

Leasing activity across Ireland will remain good in H2 2024 as active requirements prevail in spite of ongoing market uncertainty. The closure of Argos and Iceland's operations in 2023 brought some supply to retail parks nationally with many of these units now taken.

Rents in retail parks are expected to show moderate growth in 2024, given the lack of available supply. Dublin high street rents will be largely stable through 2024, with perhaps some modest upside for specific units.

Retailers, restaurateurs, 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.

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

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