Lisney

CORK MARKET REPORT

QI 2022

CORK INVESTMENT IN NUMBERS

QI TURNOVER

€760 MILLION

IN QI
NATIONWIDE

QI TURNOVER

€24.4 MILLION

IN QI
IN CORK

STOCK

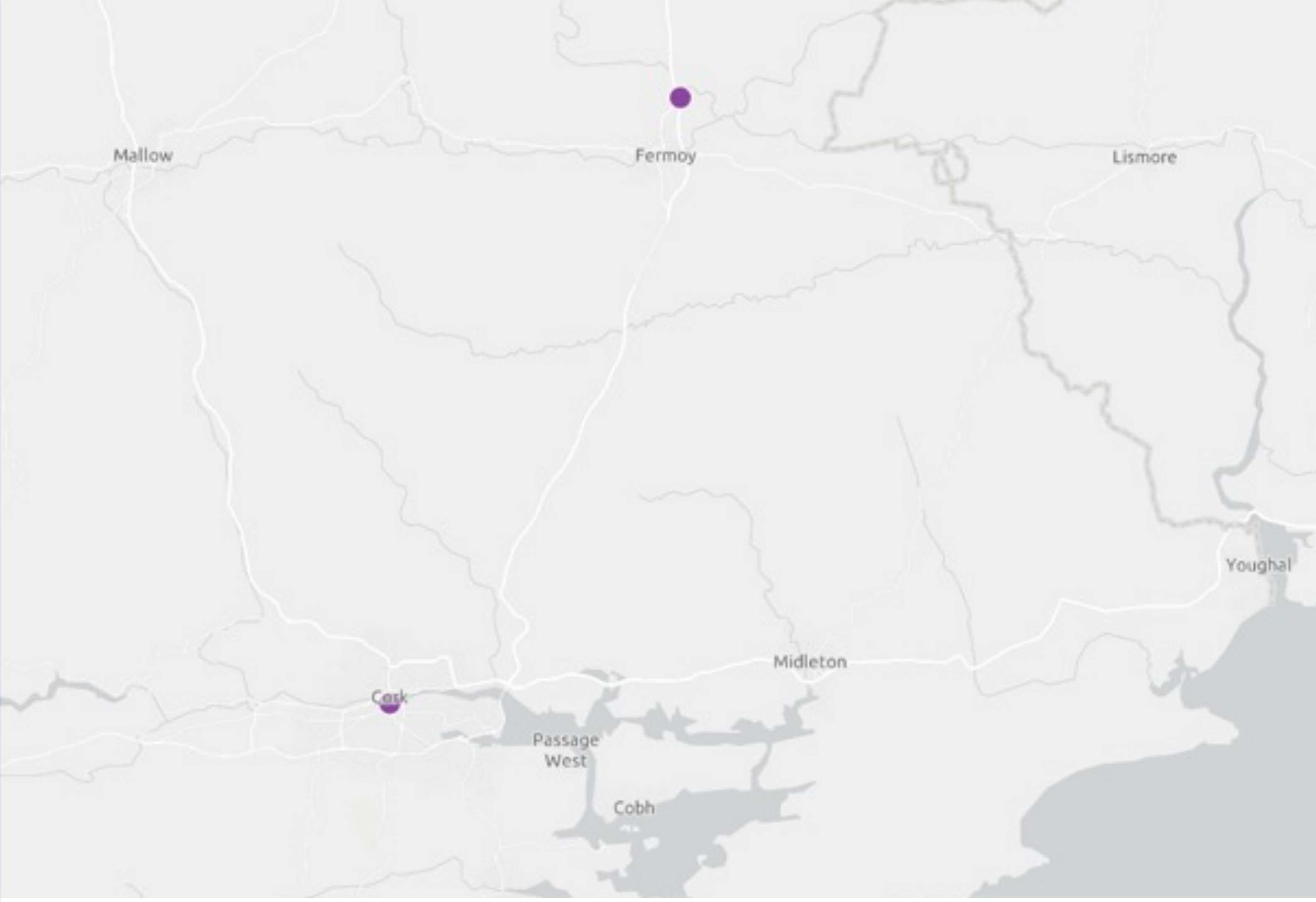
€1.1 BILLION

INVESTMENT STOCK ON THE MARKET **NATIONWIDE**

CORK STOCK

€57.4 MILLION

OF REMAINING STOCK IN CORK



OVERVIEW

Following a strong 2021, the Irish investment property market performed well in Q1 2022 with turnover reaching €760m across 31 transactions. Nationwide, the PRS sector dominated the market, accounting for nearly a third (31%) of total turnover. This was followed by the industrial sector at 23%, student accommodation at 19%, mixed-use at 14%, offices at 10% and the retail at 3%.

€24.35m (3.2%) of Q1 2022 turnover related to Cork assets with two deals completed. This was up from €11.88m completed Q4 2021. The sector's turnover split comprised 55% office use and 45% retail. Despite the strong performance of the PRS and industrial sectors nationally, there were no investment sales in these sectors in Cork.

The larger sale comprises an office building at 32 South Mall, which was sold for €13.5m (NIY 5.8%). The building is let to Bank of Ireland with an unexpired term of approximately 10.3 years. The other sale comprised Fermoy Motorway Service Area at Junction 14, which was sold for €10.85m and a NIY of 6.4%.

SUPPLY

At the end of March 2022, there was just under €60m worth of on-market investment opportunities available in Cork. However, given the generally large amount of activity occurring off-market (almost 60% nationally in Q1), this supply figure may be higher in reality.

YIELDS

Prime office yields remained stable in Q1 2022 at 6.0% and have not changed since the onset of the pandemic. With the limited number of retail investment sales in recent times, it remains difficult to assess yield levels in this sector, however, we estimate that the prime retail yields remained stable for the third consecutive quarter at 7.5%. Industrial yields vary considerably, but again there are very few transactions to provide a prevailing tone.

CORK OFFICES IN NUMBERS

AVAILABILITY

613,250
SQM
AVAILABLE OFFICE ACCOMMODATION
AT END OF QI

TAKE-UP

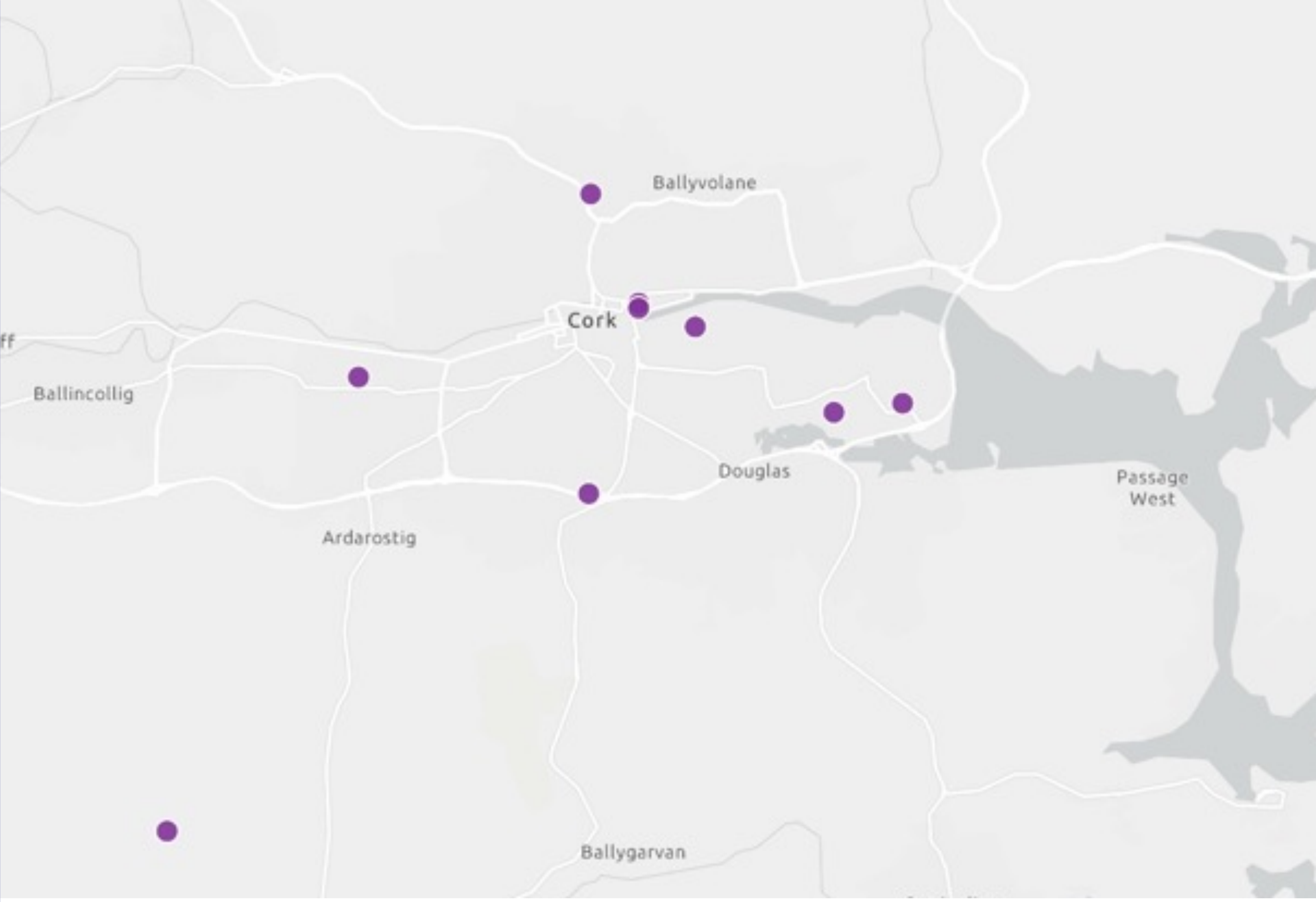
6,950
SQM
TOTAL TAKE UP

CONSTRUCTION

155,100
SQM
IN THE PIPELINE
WITH PLANNING PERMISSION GRANTED

REGION

UNDER CONSTRUCTION ACCOMODATION IN
CITY CENTRE



ACTIVITY & RENTS

Activity in the Cork office market totalled 6,940 sqm across nine deals in Q1. This was down from 8,780 sqm (also across nine deals) in Q4 2021. As such, the average deal size reduced to 770 sqm from 1,100 sqm. All deals were lettings and only two (out of nine) relate to space larger than 1,000 sqm.

Most activity occurred in the south suburbs, accounting for 36% of the overall Cork market activity. This was closely followed by the west suburbs at 33%. The city centre area accounted for a further 23% with the remainder in the north suburbs. Stryker, a medical devices company, took the former Apple accommodation (2,300 sqm) in Cork Business & Technology Park, strengthening its presence in Cork. Also of note, there was a 1,080 sqm letting in City Gate Park, Mahon. The remainder of transactions were smaller in size, ranging from 210 sqm to 740 sqm.

DEMAND

Occupier demand was strong and enquiries continued in the opening months of the year. This was particularly the case for the city centre and within suburban business park locations. It is reported that NSI, a US tech company, is seeking to hire at least 30 employees in the next two years as it establishes an office in Cork. Remitly Global, a fintech company based at Penrose Dock, plans to add 120 jobs to its Cork operation. Additionally, JP Morgan Chase has confirmed its plans to buy Clonakilty-based Global Shares in a deal estimated to be worth €665m.

RENTS

Prime city centre headline rents remained stable in Q1 2022, at €340 psm (€31.50 psf) for the sixth consecutive quarter. Similarly, prime headline suburban rates remained at €215 psm (€20 psf) and have not moved since mid-2017. On South Mall, when the fourth generation office building No. 85 is excluded, the headline rate was €258 psm (€24 psf), as it has been since mid-2019.

AVAILABILITY

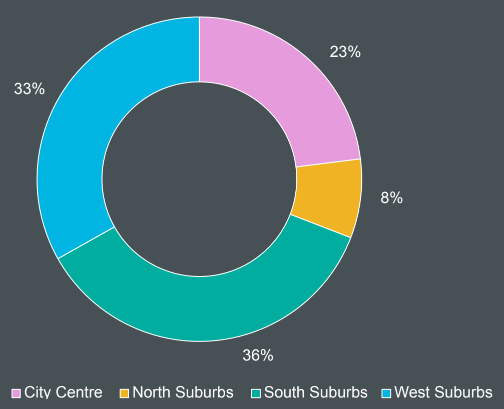
At the end of March 2022, there was over 90,000 sqm of available accommodation in Cork. The largest stock of vacant space was in the city centre, where 45% of all supply was located. This was followed by the south suburbs (32%), the west suburbs (15%), the north suburbs (6%) and the east suburbs (3%). The overall Cork vacancy rate increased marginally in the quarter, from 14.6% to 14.7%; however, it is up from 9.6% in March 2020. Encouragingly for the city centre, the vacancy rate decreased to 17.8%. The rate in the suburbs overall was 12.9%.

CONSTRUCTION

At the end of Q1 2022, there were seven schemes under construction totalling 31,900 sqm. 63% of this space (four developments) was in the city centre area with the remainder in the west and south suburbs. Works are ongoing on the Prism Building, a new 15 storey office building (6,000 sqm) at the junction of Clontarf Street and Lower Oliver Plunkett Street. Other city centre developments include Block 2 in Horgan's Quay (11,910 sqm); the former Moore's Hotel on Morrison's Quay (1,860 sqm); and the change of use from retail to office at Lavitts Quay (360 sqm). In the west suburbs, construction of Boston Scientific's 3,220 sqm building on Model Farm Road is ongoing. In the south suburbs, at City Gate Plaza in Mahon, the 4,000 sqm new office building for Logitech is well advanced.

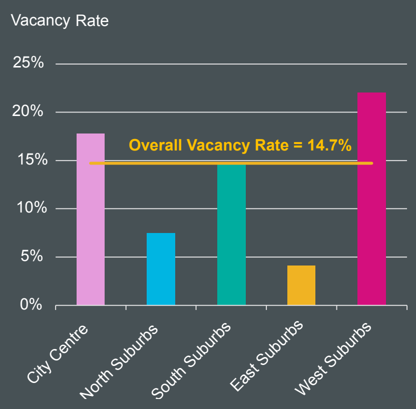
In terms of the pipeline, almost 160,000 sqm of accommodation (18 schemes) had been granted planning permission but not commenced at the end of March 2022. 42% of this is in the city centre and 58% in the suburbs. JCD has been granted planning permission for a 16 storey, 23,100 sqm office building on Albert Quay. Planning permission has also been granted for a mixed-use scheme at the former Queen's Old Castle building on Grande Parade, where the office element will extend to 9,700 sqm.

TAKE-UP BY REGION
QI 2022



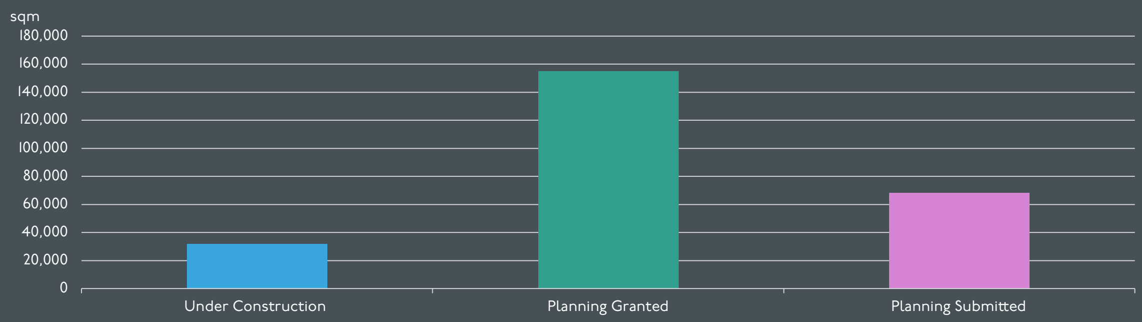
Source: Lisney

CORK OFFICE VACANCY RATE BY REGION
QI 2022



Source: Lisney

CONSTRUCTION PIPELINE
QI 2022



Source: Lisney

OUTLOOK

- Occupier demand, particularly from the FDI sector, is likely to improve in the months ahead as international travel intensifies and office-based workers return to their place of work. As such, we expect enquiries and activity levels to grow.
- Prime headline 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 will likely be on offer from landlords.
- Supply may increase further in the short-term. While there are new schemes under construction, most are some way off completion. Consequently, any additions to supply will come from unwanted space being returned to the market by tenants as grey space (sub-lets).

CORK INDUSTRIAL IN NUMBERS

ACTIVITY

23,900
SQM

OF SPACE
WAS TAKEN UP
DURING Q1

RENTS

€102
PSM

€9.50 PSF
RENTS WERE STEADY
FOR LAST 3 QUARTERS

VACANCY RATE

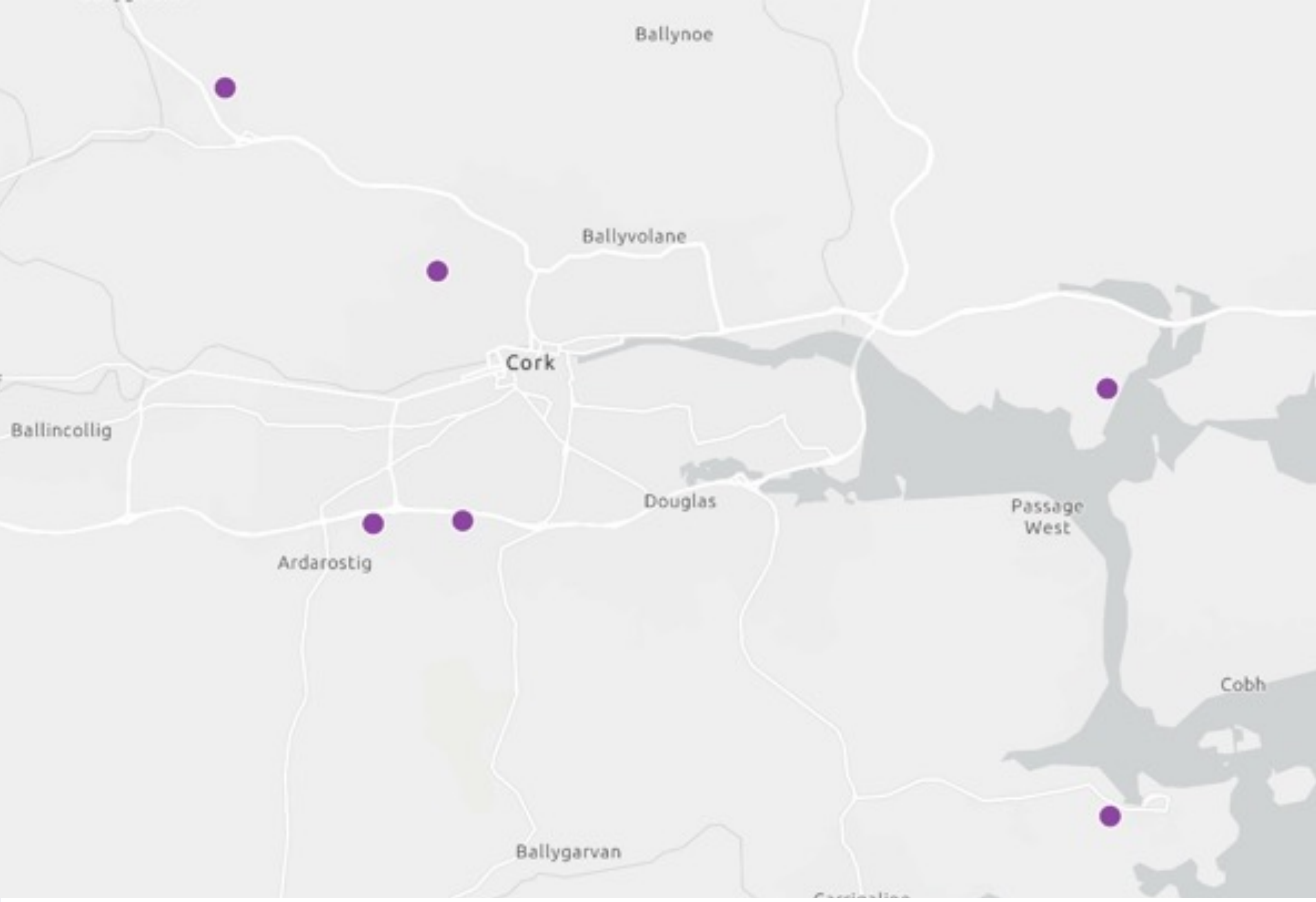
1.7%

THE INDUSTRIAL
VACANCY RATE
FELL FURTHER
TO 1.7%

SUPPLY

22,400
SQM

40% YEARLY
DECLINE IN SUPPLY



ACTIVITY

Industrial take-up reached a significant 23,900 sqm in Q1 2022, spread across just six deals. This was up from 6,600 sqm of activity in Q4 2021. Overall, transactions remained limited due to tight supply and an extremely low vacancy rate. One of the six deals in Q1 was a sale and accounted for two-thirds of activity. The remaining five deals were lettings with an average lot size of 1,630 sqm.

The south suburbs was in greatest demand with 75.5% of activity in the region. The largest transaction was in this region and comprised Regatta's purchase of a 15,760 sqm premises (on a site of 16.5 acres) in Ringaskiddy, opposite the Port of Cork, for a reported €16m, which will be used as its warehouse and distribution centre.

The north suburbs comprised 24.1% of activity with two lettings completed, while the east suburbs (0.4%) had just one small letting. The largest letting (second largest transaction overall) was to Nisbets, an international catering equipment supplier, for a newly constructed 5,600 sqm building in Blarney Business Park. The second largest letting took place in in Doughcloyne Industrial Estate in Wilton, where 1,476 sqm was let to PD Signs. The remaining three lettings in the quarter were for units extending to 820 sqm, 155 sqm and 93 sqm.

DEMAND

As with other areas around the country, occupier demand for industrial, warehouse and logistics premises in Cork remained strong in the opening months of the year. This was particularly the case on the southern and western sides of the city. Demand for larger size accommodation continued, however there was also demand for units ranging between 500 sqm and 1,500 sqm. Retailers, logistics providers and some high tech manufacturing users are the most active in the market.

The typical marketing and letting/sale period for available units has reduced and there is generally immediate active interest with most of the new developments pre-let in advance of completion. For example, there is strong interest in the four new high bay warehouse units at Harbour Gate Business Park, Little Island with the first unit due to be completed in Q2 2022. These units range in size from 1,600 sqm up to 11,740 sqm and two are already reserved with another under active negotiation.

RENTAL VALUES

While top rental rates have been generally stable for the past two years, given the level of demand and shortages in supply, prime headline rents for high bay accommodation increased to €102 psm (€9.50 psf) in Q3 2021 and has maintained this level ever since across all regions. However, the limited stock available on the market may result in a further upward pressure on rental values in the short term. In addition, significant inflation in the cost of steel and metal cladding is driving up the cost of new construction and this is putting upward pressure on rents for new developments to ensure viability. Since the end of 2012, rates have more than doubled in line with growing demand and falling supply.

AVAILABILITY

The overall vacancy rate across the Cork industrial market remained unsustainably low in Q1 2022, standing at 1.7%, down from 2.4% in Q4 2021. This has been the case for over two years, with the headline vacancy rate having been above 10% in the first half of 2019. In terms of regions, the north suburbs had the highest rate, at 7.4% (however the quantum of building stock is low, comprising just 15% of all industrial stock in Cork).

In terms of supply, there was 22,430 sqm of accommodation available at the end of Q1 2022 with 68% of this in the north suburbs, 28% in the east suburbs and the remaining 4% in the south suburbs.

CONSTRUCTION

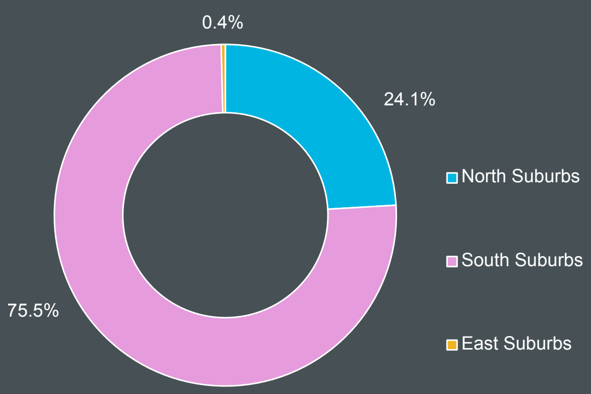
There were no new buildings completed in Q1 2022. However, at the end of the quarter, there were five schemes under construction, totalling 39,900 sqm, one of which is an extension to an existing building. Two schemes are in the east suburbs and three are in the north suburbs. Only two of the five developments are larger than 10,000 sqm. These include new logistics accommodation at Harbour Gate Business Park (18,900 sqm) in Little Island.

The pipeline of development is reasonably healthy with 44,500 sqm of accommodation having been granted planning permission and a further 81,100 sqm seeking permission. Just under half (46%) of all industrial pipeline is in the south suburbs.

OUTLOOK

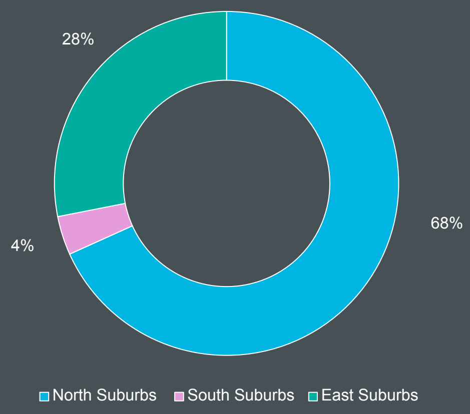
- The low vacancy rate and supply constraints within Cork and its environs will remain, albeit with some fluctuations around the current level in the short-term.
- The reduced typical marketing and sale/letting period for available warehouse units and the immediate active interest when opportunities are brought to the market will continue.
- Given the historic low vacancy rate, combined with steady occupier demand, rental and capital values are likely to increase further in 2022.
- There remains significant investor interest in the industrial sector with strong demand and active bidding on any opportunities that are offered for sale. This will result in downward pressure on yields and increased purchaser demand for any new buildings completed.

TAKE-UP BY REGION
QI 2022

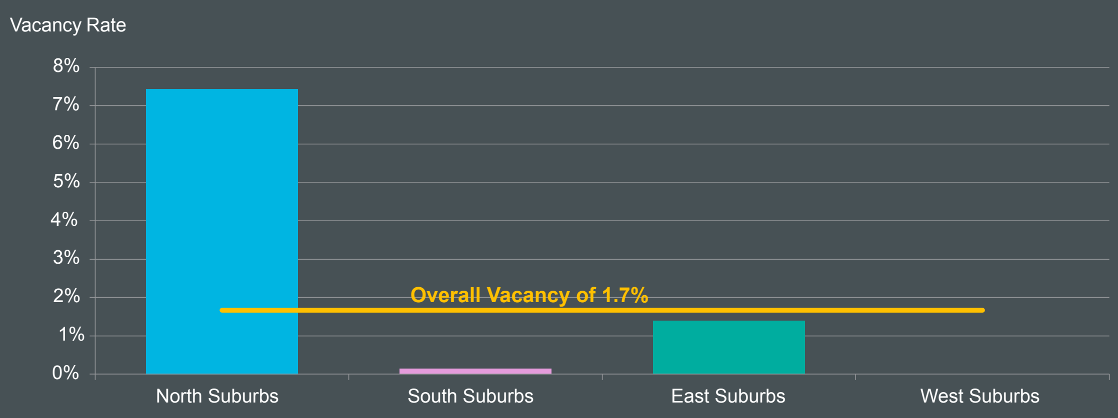


Source: Lisney

AVAILABILITY BY REGION
QI 2022

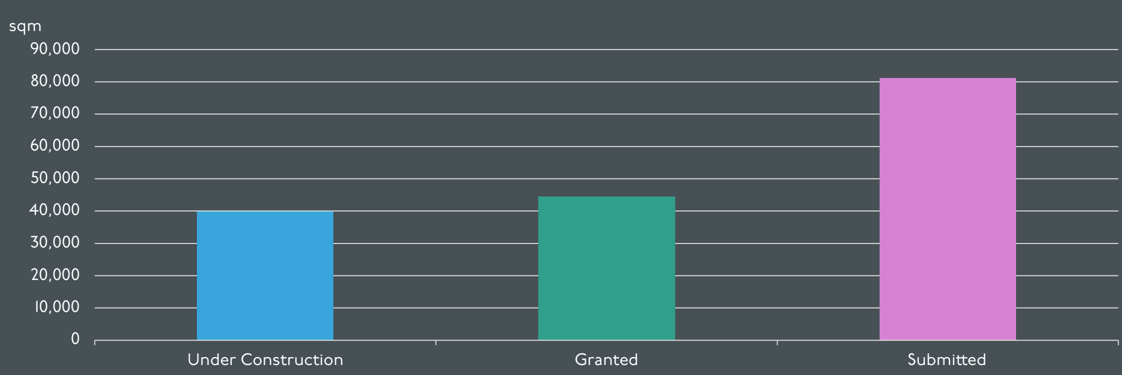


VACANCY RATE BY REGION
QI 2022



Source: Lisney

CONSTRUCTION PIPELINE
MARCH 2022



Source: Lisney

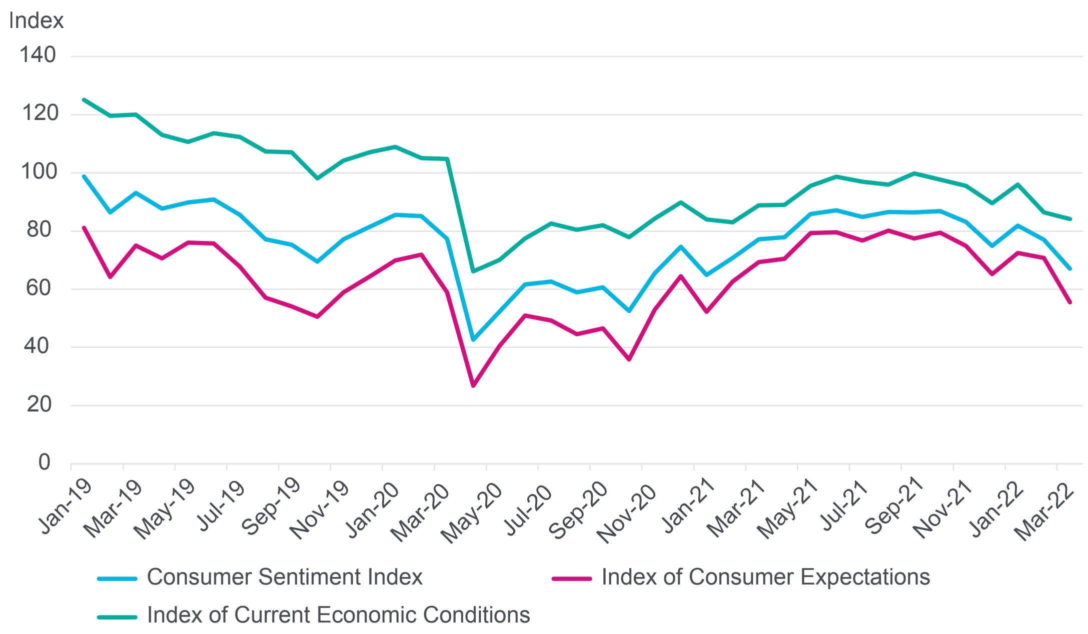
CORK RETAIL

CONSUMER SENTIMENT

Consumer sentiment began the year in a positive position as there were signs of COVID-19 easing following the Christmas period with all non-essential retail and leisure premises reopening. However, cost of living concerns were present, driven by pent-up demand from the previous two years combined with supply shortages.

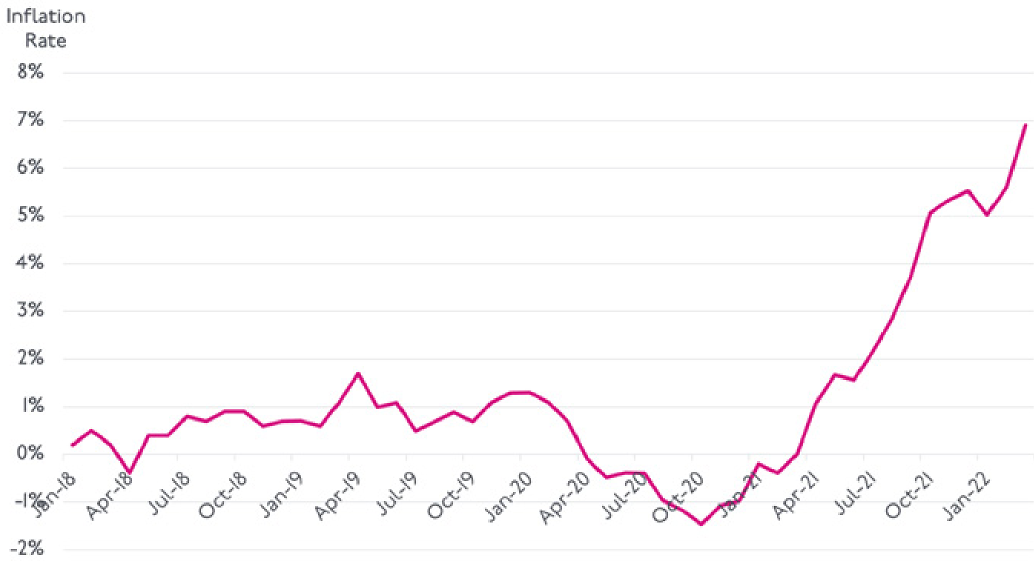
As the quarter progresses, inflation concerns developed further with sentiment weakening in February, particularly around economic conditions. March saw the largest monthly decline in consumer sentiment in two years (since the onset of the pandemic) with consumer expectations having the largest impact as rising prices intensified and the Russian Government invaded Ukraine. The fall-out from the war in Ukraine and the consequences of the global sanctions on Russia on energy prices continues to impact the world economy and in turn on prevailing consumer sentiment.

KBC CONSUMER SENTIMENT INDEX



Source: KBC Bank Ireland, HPSC

ANNUALISED RATE OF IRISH INFLATION
JANUARY 2018 – MARCH 2022



Source: CSO

INFLATION

Inflation at the end of March 2022, measured by the Consumer Price Index (CPI), was running at a significant 6.9% per annum. This was the largest annual change in the price of goods and services since April 2001.

To set this in context, Central Banks globally, including the ECB, generally seek to keep inflation within an economy at or below 2% per annum, and since the mid-1980s, Irish CPI has averaged 2.1%. Just prior to the onset of the pandemic, Irish CPI was just under 1%. With the economy effectively closing in March 2020, the country entered a period of deflation for about a year before growth in prices returned in mid-2021 – as restrictions and restriction-related unemployment eased, consumer sentiment and demand improved, and global supply chain constraints took hold. Energy prices have also been influencing Irish inflation since early 2021, however the events in Ukraine in recent weeks has exacerbated this.

RETAIL SALES

Month-to-month movements in the CSO's retail sales indices have been erratic over the past two years because of the various COVID-related openings and closings of non-essential retail. Consequently, it is more appropriate to review changes in the volume and value of retail sales over a two-year period. Compared to February 2020 (pre-COVID), the volume of retail sales was 3.1% higher in February 2022, while the value of retail sales was 4.3% higher. When 'motor trades' are excluded, the volume of sales are 7.9% higher and the value 9.5% higher.

Different categories of retail sales continue to perform differently. The sale of 'textiles, clothing and footwear' has increased by the greatest level over the period, both in terms of volume (+49%) and value (+42%). As to be expected, retail sales within the 'bars' category remains well below pre-pandemic levels, down by 30% in volume and 25% in value. The sale of 'automotive fuel' is interesting to note and as to be expected, the volume of sales is down due to fewer journeys (-6%) but the value of sales has increased by +10%, signifying the growth in fuel prices over the period. The sale of 'hardware, paints and glass' experienced strong growth in the mid phases of the pandemic as consumers sought to occupy themselves in periods of lockdowns. From the high in September 2020, the volume of sales in this category has fallen back by almost 17%.

CHANGE IN VALUE OF RETAIL SALES BY SECTOR
FEBRUARY 2020 – FEBRUARY 2022

Source: CSO

CHANGE IN VALUE OF RETAIL SALES BY SECTOR
FEBRUARY 2020 – FEBRUARY 2022

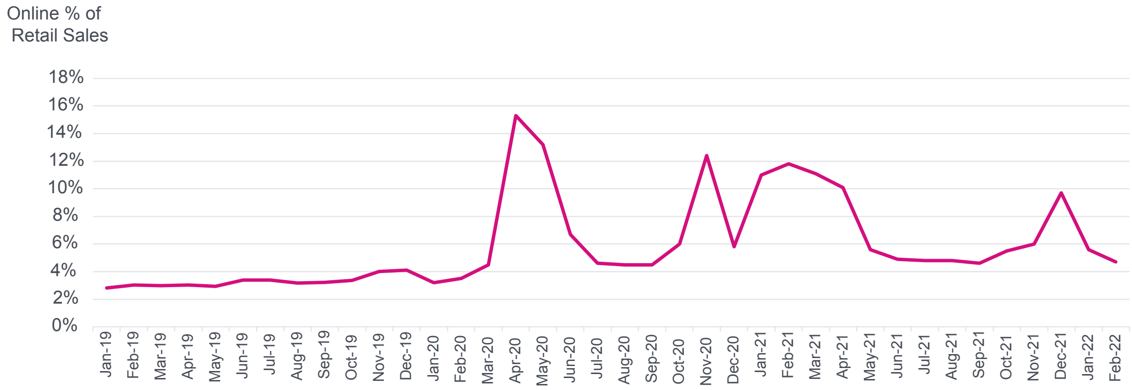
Source: CSO

ONLINE SALES

Prior to COVID-19, online retail sales within Irish registered companies averaged 3.3% of all retail sales with the remainder related to traditional in-store shopping. However, there was obviously greater levels of online spend with overseas registered companies such as Amazon. During periods of the pandemic when non-essential retail was closed, the proportion of sales online grew but with those to Irish registered stores peaking at 15.3% in April 2020. While figures have dropped considerably, the prevailing average is now higher than pre-pandemic, at approximately 5%. This represents more consumers shopping online, but also a greater number of indigenous retailers developing their online presence.

PayPal's recent report, Retail Trends and Spends Study, found that Irish consumers online spending was 41% higher in 2021 compared to 2020 with the average spend in the 12 months at €503. The UK topped the list of non-Irish shopping destinations with 74% of those taking part in the study buying from sites based there. Europe accounted for 48% and China at 28%.

CHANGE IN VALUE OF RETAIL SALES BY SECTOR
FEBRUARY 2020 – FEBRUARY 2022



Source: CSO

MEET OUR TEAM

THE CORK COMMERCIAL TEAM

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Chairperson &
Senior Director

EDWARD HANAFIN
Senior Director

DAVID MCCARTHY
Divisional Director

NICHOLAS O'CONNELL
Divisional Director

AMANDA ISHERWOOD
Chartered Surveyor

JOHNNY MCKENNA
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