CORK MARKET REPORT

Q2 2022

CORK MARKET IN NUMBERS

CORK INVESTMENT MARKET TURNOVER

€60.25m

ACROSS

3 DEALS

LARGEST INVESTMENT TRANSACTION

€30m

CONFIDENTIAL OFF-MARKET SALE OF AN INDUSTRIAL ASSET

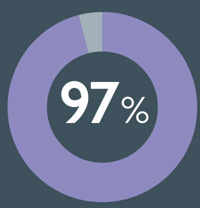
OFFICE MARKET ACTIVITY

7,100 SQM

ACROSS

8 DEALS

OFFICE MARKET ACTIVITY



INDUSTRIAL MARKET ACTIVITY

800 SQM

UNITS 5, 15 & 18 KINSALE ROAD BUSINESS PARK, CORK

LET TO SCREWFIX

VACANCY RATE

14.4% OFFICE

2.2% INDUSTRIAL

CORK INVESTMENT

ACTIVITY

CORK INVESTMENT TURNOVER BY SECTOR (Q2 2022)

PROPERTY	SECTOR	PRICE
P&C	Industrial	€30,000,000
P&C	Retail	€24,250,000
Lee Clinic, Lee Road	Medical	€6,000,000

Source: Lisney

The Irish investment market remained strong in Q2 2022 with turnover reaching €1.24bn and bringing the total spend for the first half of the year to €2bn. The big news story of the quarter was the sale of Hibernia REIT to Brookfield Asset Management for €1.09bn. The transaction was completed by way of a company sale rather than the acquisition of individual property assets. As such, it is not included in the Q2 2022 investment market turnover figures, but it should be noted alongside given its significance in the property market. Nationwide, the PRS dominated the market, accounting for over a third (35%) of total turnover. This was followed by the office sector at 22%, the industrial sector at 17%, the retail sector at 12%, mixed-use at 3% and all other asset types at 10%.

€60.25m (4.9%) of Q2 2022 turnover related to Cork assets with three deals completed. This was up from €24.35m completed in Q1 2022. The sector's turnover split comprised 50% industrial, 40% retail and 10% medical use. Despite the strong performance of the PRS sector nationally, there were no investment sales in this sector in Cork. The largest sale comprised a confidential off-market sale of industrial property sold for €30m. The second largest sale was also a confidential off-market sale and comprised a retail property sold for €24.25m. The remaining transaction was of Lee Clinic on Lee Road for €6m (NIY 6.0%).

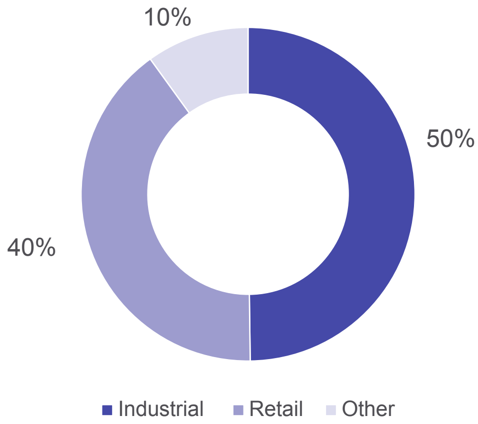
SUPPLY

At the end of June 2022, there was just over €45m worth of on-market investment opportunities available in Cork. However, given the generally large amount of activity occurring off-market (almost 70% nationally in Q2), this supply figure may be higher in reality.

YIELDS

Prime office yields in Cork remained stable in Q2 2022 at 6% and have not changed since the onset of the pandemic. With the limited number of on-market 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 fifth consecutive quarter at 7.5%. Industrial yields vary considerably, but again there are very few transactions to provide a prevailing tone.

CORK INVESTMENT TURNOVER BY SECTOR (Q2 2022)



Source: Lisney

COUNTING HOUSE,
SOUTH MAIN STREET, CORK

OUTLOOK

- Rapid inflation in the price of goods and services globally, in addition to the knock-on impact on interest rates, is a concern for the market and may result in yield movements towards the end of the year. However, prevailing robust investor demand will remain in the months ahead, which will result in continued strong levels of activity.
- With record levels of investor requirements for industrial properties, suitable supply will remain the main issue in the sector and will hold back greater levels of activity in 2022.
- In the office sector, hybrid working has not deterred investors and there will continue to be strong demand for prime buildings, particularly from international parties. The focus on energy efficiency, potential CapEx requirements and whether or not buildings are capable of being improved, will intensify further. Views on ESG are likely to be extreme depending on the investor type, and sustainability credentials in general will lead to a wider gap in pricing between new and dated properties.
- At the lower end of the market, cash purchasers will shore up values, particularly for good quality investments. These will mainly comprise private domestic investors.
- Investors interest in alternative opportunities such as healthcare and student accommodation has grown rapidly in recent years and will progress further. Perhaps as a result of the pandemic or just in search of better returns, there is interest in properties backed by tenants operating in the life sciences industry.

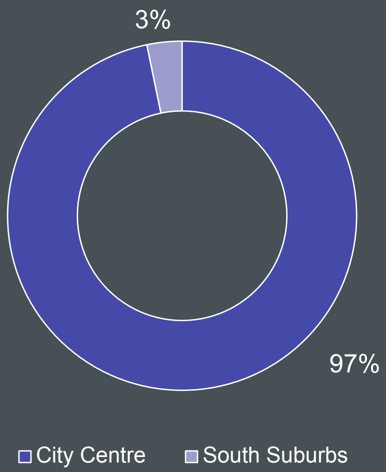
CORK OFFICES

ACTIVITY

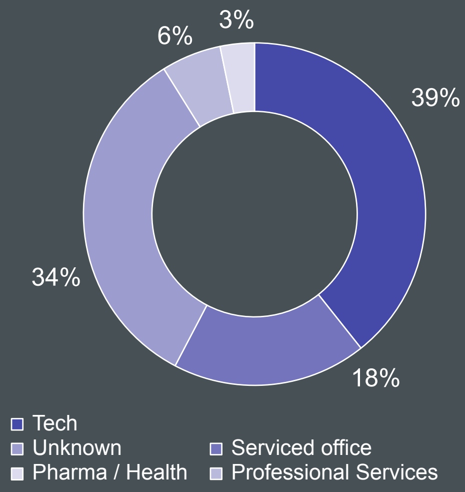
Activity in the Cork office market totalled 7,100 sqm across eight deals in Q2 2022, a similar level to the previous quarter (6,900 sqm) and brought the total take up for the first six months of the year to 14,000 sqm. The average deal size in Q2 increased to 880 sqm from 770 sqm in Q1. All deals were lettings and three (out of eight) related to space larger than 1,000 sqm.

Almost all activity occurred in the city centre region, accounting for 97% of all activity with the remainder (3%) in the south suburbs. NetApp, a data management solutions company, took 2,600 sqm at Navigation Square Two and will create up to 300 jobs by June 2023. Iconic, a serviced office provider, took 1,300 sqm also at Navigation Square Two. At Penrose Dock, there was a 1,700 sqm letting. The remainder of transactions were smaller in size, ranging from 130 sqm to 670 sqm. BayWa r.e, a renewable energy company, took the last remaining floor at 1 South Mall. The only letting outside the city centre region comprised Unit 1 (230 sqm) at Nore House, Bessboro Road in Mahon let to Praxis Care.

TAKE-UP BY REGION (Q2 2022)



TAKE-UP BY SECTOR (Q2 2022)



Source: Lisney

DEMAND

Occupier demand remained good with improved enquiry levels in Q2 2022. There were a number of significant expansion announcements, particularly from the FDI sector. It is reported that Expleo, a French multinational tech consulting and engineering firm, is to create 200 jobs across its existing Cork office with planned hubs in Galway and Limerick. Alpha Automation & Controls is to create 30 jobs at its new offices in Fota Business Park. Remitly Global, a fintech company based at Penrose Dock, plans to add 120 jobs to its Cork operation. Additionally, Johnson Controls has opened the OpenBlue Innovation Centre at its global HQ at One Albert Quay with the creation of 18 jobs.

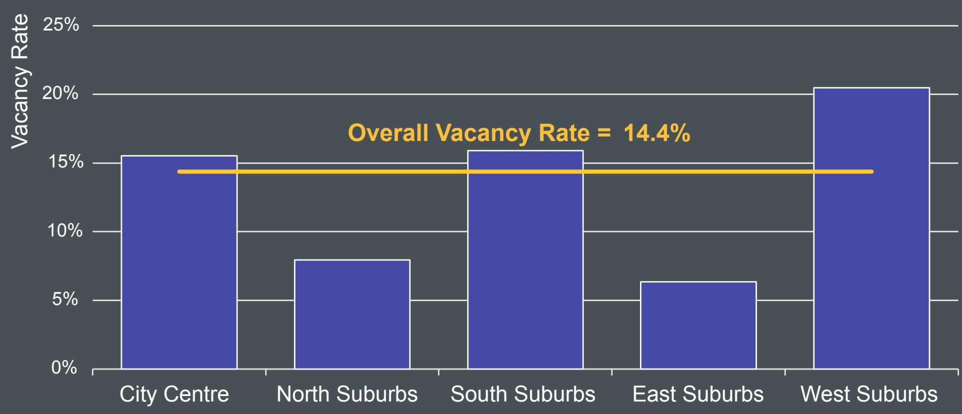
RENTS

Prime city centre headline rents remained stable in Q2 2022, at €340 psm (€31.50 psf) for the seventh 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

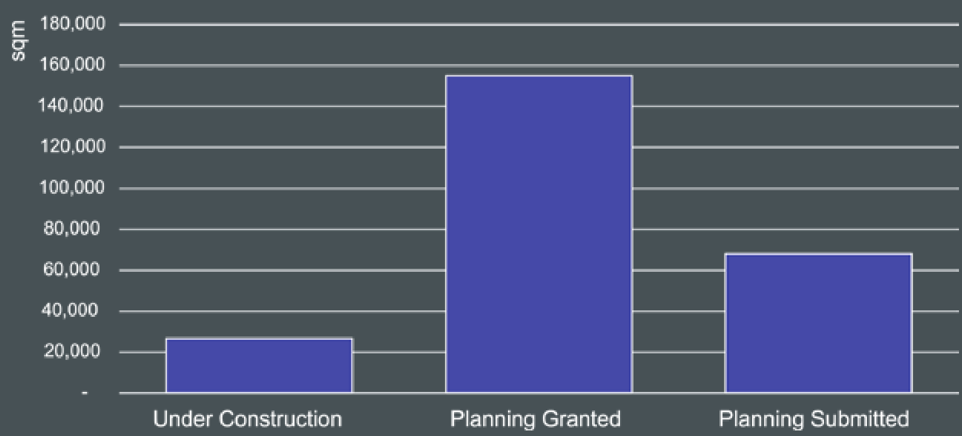
At the end of June 2022, there was just under 90,000 sqm of available accommodation in Cork. The largest stock of vacant space was in the city centre, where 40% of all supply was located. This was followed by the south suburbs (35%), the west suburbs (15%), the north suburbs (6%) and the east suburbs (5%). The overall Cork vacancy rate decreased marginally in the quarter, from 14.7% to 14.4%; however, it is up from 9.6% in March 2020. Looking at the city centre region in isolation, the vacancy rate decreased to 15.5% from 17.8% the previous quarter. The rate in the suburbs overall was 13.7%, up from 12.9% in Q1.

CORK OFFICE VACANCY RATE BY REGION
Q2 2022



Source: Lisney

CONSTRUCTION PIPELINE
Q2 2022



Source: Lisney

2 HORGAN'S QUAY, MONTENOTTE, CORK

CONSTRUCTION

There was 6,100 sqm of office accommodation completed in Cork in Q2 2022. The completed developments comprise 4,600 sqm at the Former Supernova building in Ballincollig, 1,100 sqm at Unit E Thompson House on McCurtain Street and 400 sqm at Building 2500, Cork Airport Business Park.

At the end of Q2 2022, there were six schemes under construction totalling 30,000 sqm. 73% of this space (four developments) was in the city centre area with the remainder in the west and south suburbs. Works continued on the Prism Building, a new 15 storey office building (5,600 sqm) at the junction of Clontarf Street and Lower Oliver Plunkett Street. Works are well advanced on the construction of Building Two, Horgan's Quay (a 12,000 sqm office building) comprising part of the mixed-use Horgan's Quay development. It is due for completion by the end of 2022. Other city centre developments include 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 Boston Scientific's 3,220 sqm building on Model Farm Road continued construction. In the south suburbs, at City Gate Plaza in Mahon, JCD began building 4,000 sqm on the former MACOM site, which will be known as Plaza 2.

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 June 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 Grand Parade, where the office element will extend to 9,700 sqm. In addition, Apple has lodged a planning application to construct a new office building on its Cork campus, which will accommodate up to 1,300 employees.

OUTLOOK

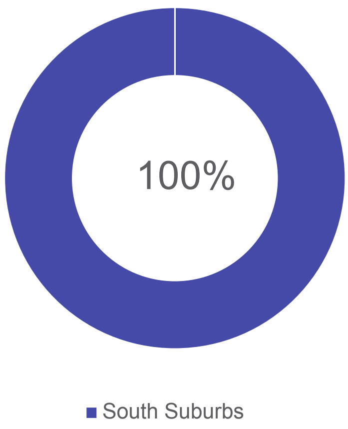
- Occupier demand, particularly from the FDI sector, is likely to improve further in the months ahead as international travel intensifies and office-based workers return to their place of work. As such, we expect enquiries and activity levels to continue growing.
- Prime headline rents are likely to 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

ACTIVITY

Following very strong activity in the opening months of the year, activity in the Cork industrial market was subdued in Q2 2022 with only one letting of 800 sqm completed. Much of this is likely due to lack of available stock. This brought the total activity over the first six months of the year to 24,700 sqm. The letting comprised Units 5, 15 & 18 in Kinsale Road Business Park, which were leased to Screwfix.

TAKE-UP BY REGION (Q2 2022)



Source: Lisney

DEMAND

As with other areas around the country, occupier demand for industrial, warehouse and logistics premises in Cork remained good in Q2 2022. 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. There also is active investor interest in the industrial sector from private investors and funds and this is likely to continue given the strong underlying fundamentals and positive outlook. 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.

RENTAL VALUES

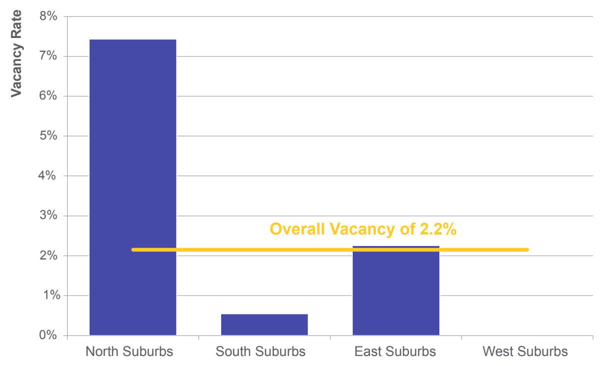
While top rental rates have been generally stable for the past two years, given the level of demand and shortages in supply, prime headline rents for high bay accommodation increased to €102 psm (€9.50 psf) in Q3 2021 and has maintained this level ever since across all regions. However, the limited stock available, together with the increasing inflation in construction costs puts rental and capital values under upward pressure, particularly for new developments to ensure viability. As a result, a further increase in rental values may occur in the short to medium term.

AVAILABILITY

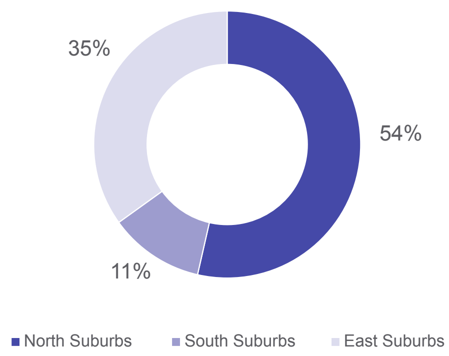
The overall vacancy rate across the Cork industrial market remained unsustainably low in Q2 2022, although slightly up from the previous quarter (+1.7%) and stood at 2.2%. This has been the case for over two years, with the headline vacancy rate having been above 10% in the first half of 2019. In terms of regions, the north suburbs had the highest rate, at 7.4% (however the quantum of building stock is low, comprising just 16% of all industrial stock in Cork).

In terms of supply, there was 29,000 sqm of accommodation available at the end of Q2 2022 with 54% of this in the north suburbs, 35% in the east suburbs and the remaining 12% in the south suburbs.

VACANCY RATE BY REGION (Q2 2022)



AVAILABILITY BY REGION (Q2 2022)

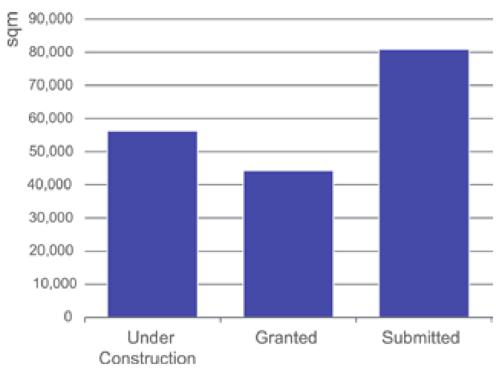


Source: Lisney

CONSTRUCTION

In Q2 2022, construction was completed on a new 3,800 sqm building in Blarney Business Park. There were a further six schemes under construction at the end of the quarter, totalling 56,400 sqm. Two schemes are in the east suburbs, one in the south suburbs and three in the north suburbs. Three of the six developments are larger than 10,000 sqm. Construction works are ongling at Watergrasshill Business Park just off the M8, which will comprise four detached high bay warehouse buildings (18,130 sqm of accommodation in total). The first unit of 6,300 sqm is due to be completed by the end of this year. Construction works also continued on new logistics accommodation at Harbour Gate Business Park (18,900 sqm) and Block 8003 & 8004 (10,600 sqm) in Blarney Business Park. Furthermore, three of the five warehouse units at the Harbour Gate Business Park, Little Island are close to being completed and the first tenant ProSys Group is due to take occupation shortly (1,625 sqm). In addition, Vantage Trade Centre, a redevelopment comprising four light industrial/ trade counter units, is also under construction. Once completed it will extend to 2,130 sqm.

TAKE-UP BY REGION (Q2 2022)



Source: Lisney

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 and increasing construction cost inflation, 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.

CORK RETAIL

RETAIL SECTOR

The retail sector is a vital element of the Irish economy, employing more than 300,000 people nationwide. It generates sales of over €30bn annually, accounting for around 12% of Ireland's GDP and delivering €7bn in tax revenue to the State. As one of the most effected sectors of the economy by the pandemic, the Irish retail landscape has changed significantly over the past two years. Consumer shopping habits have shifted and are currently being impacted further by price inflation and impending interest rate rises in the euro area. Retailers continue to contend with staffing shortages and rising operational costs, and while some supply chain issues have improved, others will intensify in the months ahead due to the war in Ukraine.

ECONOMY & SAVINGS

Despite the headwinds, continued economic growth in the euro area is anticipated in the second half of the year, albeit at a much slower pace than previously expected, and with differences across countries. Ireland continues to lead the way in terms of growth, even when the multinational sector is excluded and focus is on the domestic economy.

While not evenly dispersed across all parts of society, Irish households currently have record savings on deposit – about €32bn more than pre-COVID. In the years before COVID, households were saving about €350m per month, but in the last two and a half years have saved nearly three times the amount, averaging €1bn per month. Initially some of this appeared to be feeding into housing. However in more recent months, the 'experience economy' has benefited as consumers enjoyed the first restriction-free summer since 2019 and engaged more with F&B, travel and leisure activities. In spite of this, consumers have been cautious and there has not been a spending boom post-COVID as evidenced from retail sales figures, which were flat in the 12 months to the end of May 2022. Going forward, some savings may be used as a buffer against rising costs and reducing disposable incomes.

CONSUMER SENTIMENT, SPENDING & PRICES

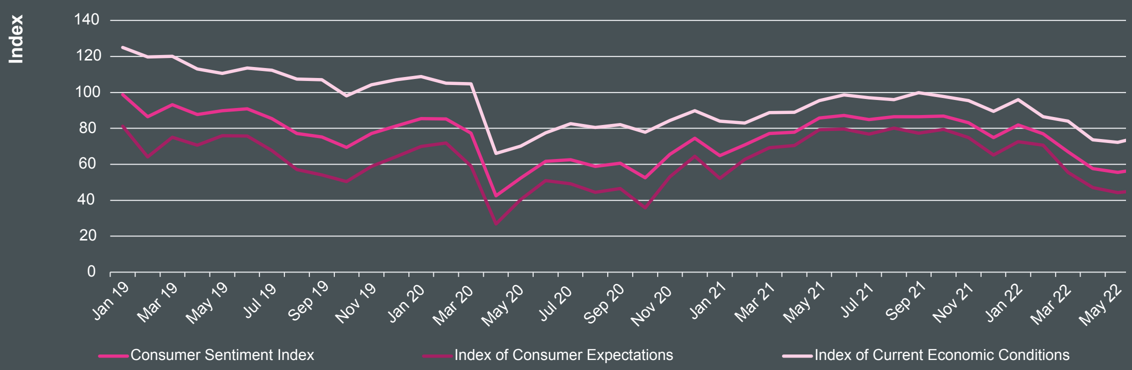
Consumer sentiment, as measured by the KBC index, continued to weaken into Q2, a trend that began in in February when the Russian invasion of Ukraine began. However, there was some recovery in confidence in June, albeit consumers remained uncertain and anxious about the economy and their personal financial circumstances given the cost-of-living increases. They are, however, likely to be waiting on Budget 2023 to see if the government put measures in place to assist with this. The survey carried out by KBC in June found that consumers are shopping around more for essentials, often switching to 'own brand' products. When it comes non-essential spending, many are cutting back with one-third of consumers starting to be making hard adjustments to their spending and in turn standard of living.

The volume of retail sales increased slightly in the opening months of the year and while there was strong growth at the start of Q2 (mainly due to increases in the motor trades and bars categories), retail sales remained steady in May. In the 12-months to the end of May, the volume of sales was generally flat, growing by just 0.3%. Notwithstanding this, overall sales are still ahead of pre-COVID, by 7.2%, but with wide variations across sectors.

Online retail sales within Irish registered companies (excluding motor trades) averaged 6.5% of all retail sales in recent months. While this level is well below levels reached at the height of the pandemic, it is double pre-pandemic times. In reality, the move to online by Irish consumers is significantly larger given that much online spend is with non-Irish registered companies. By way of comparison, approximately 30% of sales in the UK are online.

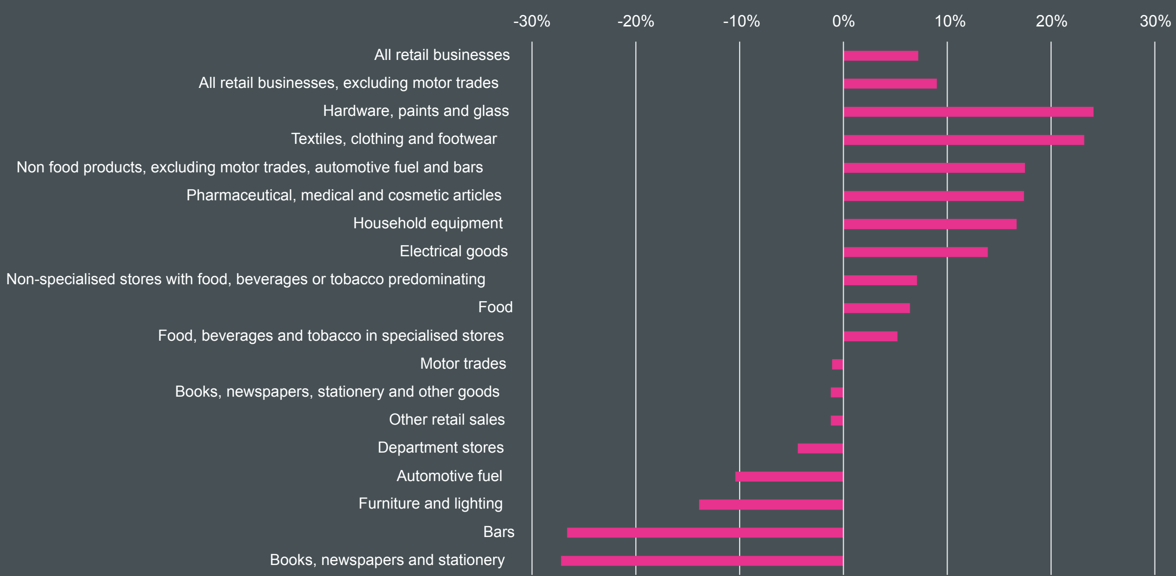
Inflation, as measured by CPI, was running at 9.1% at the end of Q2, its highest level in 38 years, and slightly higher than the euro area at 8.6%. While growth in the Irish index continues to be driven by utilities and transport (growing over 20% in the year – compared to energy growing by 42% in the euro area overall), other sectors are also becoming more prominent, perhaps driven by rising business operational costs. Examples include food and alcohol (growing between 7% and 8%), as well as restaurants and hotels (+7%).

KBC CONSUMER SENTIMENT INDEX (JANUARY 2019 – JUNE 2022)



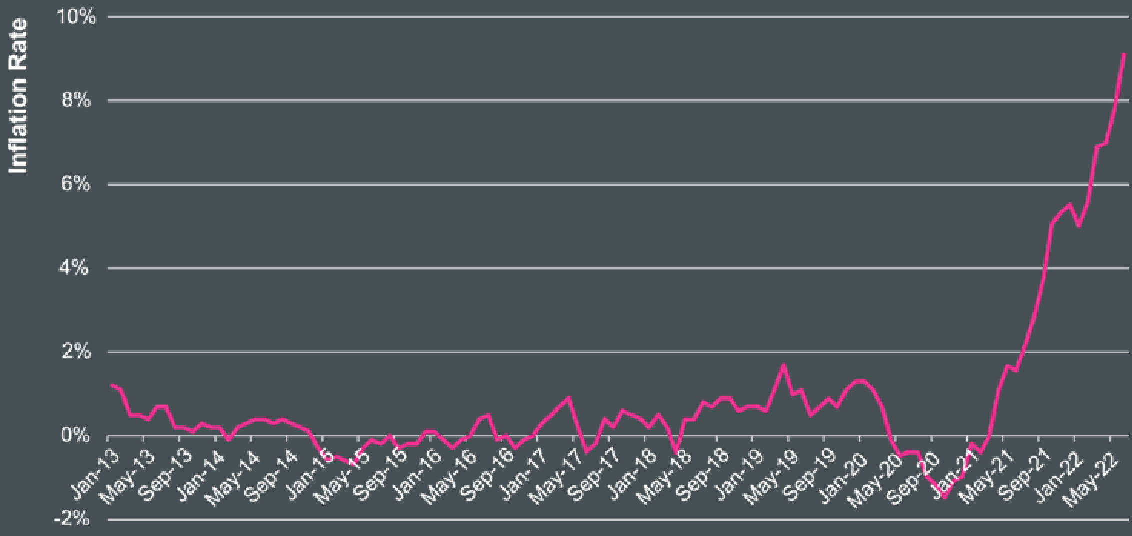
Source: KBC Bank Ireland

CHANGE IN VOLUME OF RETAIL SALES – PRE & POST COVID (FEBRUARY 2020 – MAY 2022)



Source: CSO, Lisney analysis

ANNUALISED RATE OF IRISH INFLATION
(JANUARY 2013 – JUNE 2022)



Source: CSO

GROCERY SECTOR

While retailers generally have experienced improved sales activity in recent months, supermarkets have fallen back – the CSO's data shows that non-specialised food stores which includes supermarkets, declined by 4.3% in the past year. It is likely that this is because coffee shops, restaurants and pubs have reopened fully, but also because consumers are more mindful of rising food prices. In May, food price inflation hit 6.7% with many basic items growing even more. For example, bread rose by 11.4% in the year, milk by 15.9% and butter by 14.7%. As a result, many consumers are moving away from the premium brands, choosing cheaper own brand goods instead.

Based on Kantar data, Dunnes Stores remains the largest grocery retailer in Ireland with a 22.3% market share. Interestingly, despite the cautious approach adopted by consumers, discount food retailers Lidl and Aldi have not improved their market share. It may be the case that Dunnes Stores '€10 off for every €50 spent' is impacting this. SuperValu and Tesco remain tied with Tesco pushing its club card offerings in order generate new customers and retain or reward those who have been loyal.

The growth in online grocery shopping has continued post-COVID. Before February 2020, about 1.8% of turnover generated within 'non-specialised stores with food, beverages or tobacco predominating' (supermarkets comprise a large part of the CSO category) was carried out online. This rose to about 2.5% during the first year of the pandemic but has grown more ever since, standing at 3.2% in May 2022. This ties into consumers visiting supermarkets less often, which could impact other retailers in shopping centres going forward, particularly where they are reliant on the anchor supermarket to generate regular footfall in the centre.

MEET OUR TEAM

THE CORK COMMERCIAL TEAM

MARGARET KELLEHER
Chairperson &
Senior Director

EDWARD HANAFIN
Senior Director

DAVID MCCARTHY
Divisional Director

NICHOLAS O'CONNELL
Divisional Director

AMANDA ISHERWOOD
Chartered Surveyor

JOHNNY MCKENNA
Chartered Surveyor

TOM MCCARTHY
Divisional Director

STEPHEN BURKE
Property Manager

JENNIFER GAFFNEY
Property Manager

THE LISNEY RESEARCH TEAM

AOIFE BRENNAN
Senior Director,
Hed of Research

AUSRA MARCELYTE
Senior Research Analyst

KRYSTAL CHIKWE
Research Intern

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

CORK COMMERCIAL REPORT
Q2 2022

Lisney