Lisney

CORK MARKET REPORT

Q4 2022

CORK MARKET IN NUMBERS

CORK INVESTMENT MARKET TURNOVER

€8.77m
ACROSS
4 DEALS

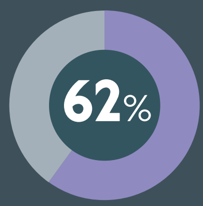
LARGEST INVESTMENT TRANSACTION

€3.27m
BUILDING 4700
CORK AIRPORT BUSINESS PARK

OFFICE MARKET ACTIVITY

7,700 SQM
ACROSS
11 DEALS

OFFICE MARKET ACTIVITY



WEST SUBURBS

INDUSTRIAL MARKET ACTIVITY

3,250 SQM
ACROSS
2 DEALS

VACANCY RATE

14.2% OFFICE
1.8% INDUSTRIAL

CORK INVESTMENT

ACTIVITY

CORK INVESTMENT TRANSACTIONS Q4 2022

PROPERTY	SECTOR	PRICE
Building 4700, Cork Airport Business Park, Cork	Office	€3,270,000
43/44 Patrick Street, Cork	Retail	€2,600,000
67/69 South Mall, Cork	Office	€2,000,000
14 Winthrop Street, Cork	Retail	€900,000

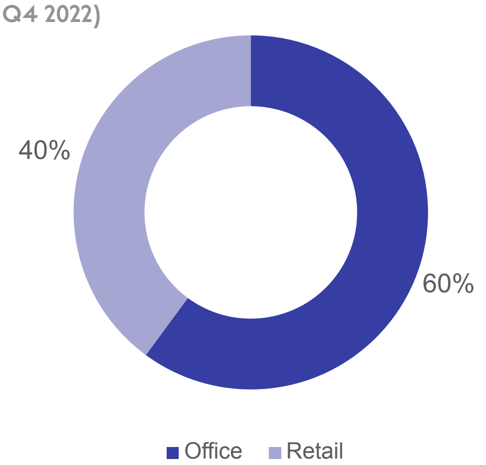
Source: Lisney

At the end of 2022, the market was still in the process of discovery with more limited activity occurring or likely to occur in the coming months. In most instances, there remained a disconnect between vendors price expectations and what purchasers (and their credit committees) were willing to pay. Some investors, mainly smaller-scale cash buyers, were willing to buy assets given the reduced competition, but the opportunity had to be a good fit, meeting all of their requirements and available at a discounted price. In most instances, however, investors adopted a wait-and-see approach and continue to want to witness greater levels of certainty in global interest rate stability before they re-engage fully with the market. The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties also came into greater focus. Investors became more interested in BERs and they often sought reports on how ratings could be improved for buildings of B3 or below.

In spite of the evolving environment, turnover in the Irish investment market in Q4 2022 was good, reaching €761.2m. Even so, it remained below the €1.14bn quarterly average for the past five years. Q4 figures bring the year's turnover to €4.54bn (compared to €5.51bn in 2021). If the €1.09bn sale of Hibernia REIT to Brookfield Asset Management in Q2 is considered, then turnover for 2022 was almost €5.63bn, and just ahead of the previous year. However, this transaction was completed by way of a company sale rather than the acquisition of individual property assets, hence why it is generally excluded, but is nonetheless significant.

In Cork, market turnover in Q4 was €8.77m spread across four transactions. This brought the total market turnover in Cork for 2022 to €144.6m. The largest transaction in the three months was the sale of Building 4700 in Cork Airport Business Park for €3.27m (NIY 6.1%). The other sales included 43/44 Patrick Street (€2.6m / NIY 7.5%), 67/69 South Mall (€2m) and 14 Winthrop Street (€900m / NIY 7.1%).

CORK INVESTMENT TURNOVER BY SECTOR (Q4 2022)



Source: Lisney

SUPPLY

At the end of December 2022, there was just under €18m worth of on-market investment opportunities available in Cork. This includes a portfolio of 39 apartments at Jacobs Island, on the market at a guide price of €11.1m. However, given the generally large amount of activity occurring off-market, this supply figure may be higher in reality.

YIELDS

Prevailing global economic conditions (Russian invasion of Ukraine, resultant energy crisis, rapid inflation and rising interest rates) continued to have an impact on the CRE market throughout Q4. With price chipping and fewer transactions completing nationwide, yields softened. In Cork, we estimate that prime office and retail yields stand at 6.75% and 7.75% respectively.

OUTLOOK

- As with the rest of the country, the Cork investment market will remain quiet for at least the first six months of this year. Most investors have adopted a wait-and-see approach, delaying decisions until there is greater certainty on interest rate stabilisation (particularly in the EU and US) and a better understanding of where prices will settle.
- The impact of the European Green Deal and the resultant EU Taxonomy Regulations on purchasing or funding properties will come into even greater focus in 2023. Investors' interest in BERs will grow further and they will be seeking reports on how ratings could be improved for buildings of B3 or below. However, there are concerns on construction and refurbishment costs in the short to medium term, which will push yields higher in older buildings, particularly offices. Some opportunities that were acquired on a value-add basis in the last four to five years may experience forced sales given the increased costs of works and funding.
- Last November the Central Bank of Ireland published its Macroprudential Policy Framework for Irish Property Funds, which introduces a 60% debt-to-total assets leverage limit. This will have a five-year implementation period (until November 2027) with funds expected to make a gradual move towards lower leverage levels over that period. Any new funds must now have below 60% leverage to be authorised by the Central Bank. There is an exception for funds that have at least 80% of their assets in social housing (long-term leases). This policy is softer than what was initially envisaged – in 2021 it was suggested that the leverage limit would be 50% with a three-year lead in time. This reduction is welcome and will give property funds more time to comply with the restrictions, particularly now that the market is weaker and falling valuations are already having an impact on loan agreements and debt thresholds. It will also reduce the reliance of the CRE market on Irish bank funding and there is likely to be more funding interest from overseas investors. In the longer-term it will provide a more balanced investor base for the CRE market and make it less susceptible to shocks; higher levels of leverage increase the risk that in a downturn funds may breach loan-to-value covenants. In terms of who this will affect, a 2020 deep dive survey by the Central Bank found that 67% of property funds were single investor funds and within multi-investor funds, 59% of them had leverage below 50%. Consequently, it will not impact all Irish property funds.
- Prime yields have softened by between 35 bps and 100 bps (depending on sector, location and specification) and are likely to drift further in Q1 2023. Pricing in the next six months will be dictated by cash purchasers, and for some larger deals based on sentiment.
- Despite the economic factors impacting the market, there is investor demand and there is still a lot of private equity money seeking a home, having already been raised. It remains to be seen how much of this goes towards Irish CRE but we are optimistic for a recovery in demand and activity in the second half of 2023 and once this comes, we believe it will happen quickly.

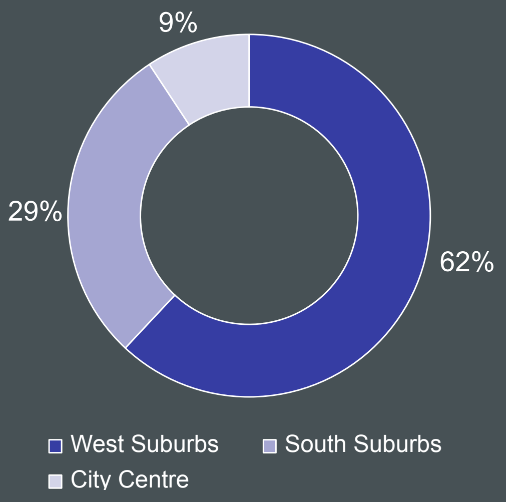
CORK OFFICES

ACTIVITY

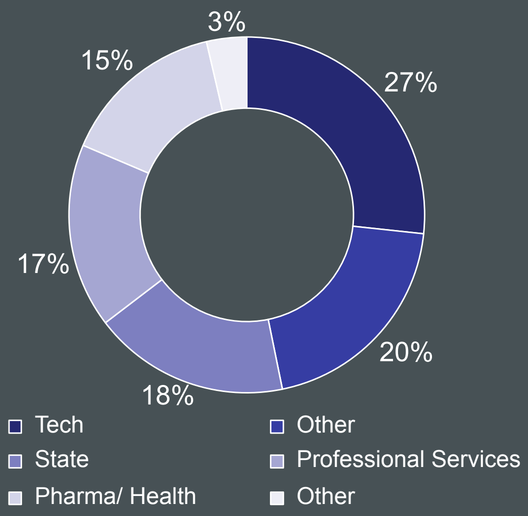
Activity in the Cork office market reached 7,700 sqm across 11 deals in Q4 2022, bringing the total take-up for 2022 to 28,100 sqm. The top four deals were each in excess of 1,000 sqm and combined accounted for 73% of the total take-up. Lettings dominated the market in Q4 and accounted for 78% of the take-up. Two out of 11 transactions were sales and only one made it into the top four transactions. The average deal size in Q4 was 700 sqm, down from 1,000 sqm in Q3. The west suburbs region was the busiest (62% of the take-up) with the top three deals occurring in this area. This was followed by 29% in the south suburbs and 9% in the city centre.

The largest deal in Q4 comprised Rubik (a cloud data management and data security company) taking 1,670 sqm in the Former Supernova building in Ballincollig. Other notable lettings included the HSE taking 1,370 sqm at the Cork Business and Technology Park, Model Farm Road and 1,150 sqm BioPharma letting at Block C, City Gate in Mahon. The two sales included Building 2 University Technology Centre (1,420 sqm) on Curraheen Road in Bishopstown and Unit 2 (280 sqm) in Bridge House on Skehard Road in Ballintemple.

TAKE-UP BY REGION (Q4 2022)



TAKE-UP BY SECTOR (Q4 2022)



Source: Lisney

DEMAND

Working from home continues to be one of the main talking points in the market and a hybrid model seems to be the preferred option for many. With many tech companies announcing hiring freezes and job cuts, the demand from this sector has slowed down. As a result, the availability of grey space (or sub-lettings) is coming mainly from tech occupiers and has been increasing in recent months. Although this has been slower to impact the Cork market. It is about 12 months behind Dublin where almost 32% of all supply is now categorised as grey. However, this trend is now beginning to become more noticeable in Cork with several occupiers considering subletting surplus accommodation.

RENTS

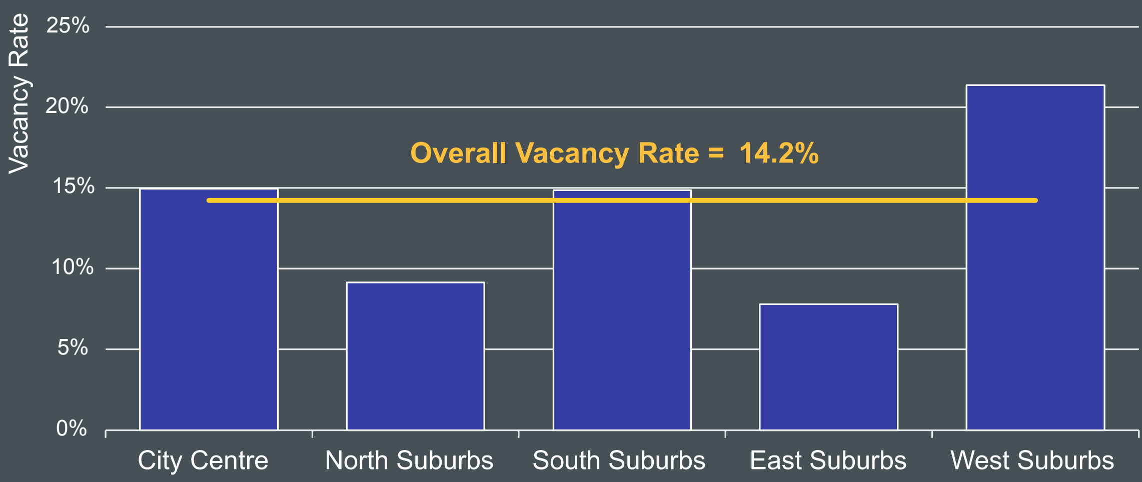
Prime city centre headline rents remained stable in Q4 2022, at €340 psm (€31.50 psf) for the ninth consecutive quarter. Despite some large recent transactions in the suburbs, prime headline rates fell for the second consecutive quarter to €183 psm (€18 psf), having been at €215 psm (€20 psf). On South Mall, when No. 85 is excluded, the headline rent fell to €248 psm (€23 psf) for the first time since mid-2019 (previously €258 psm (€24 psf)).

AVAILABILITY

At the end of December 2022, there was 89,000 sqm of available office accommodation in Cork. The largest stock of vacant space was in the city centre, where 39% of all supply was located. This was followed by the south suburbs (33%), the west suburbs (16%), the north suburbs (7%) and the east suburbs (6%). Most new supply to the market in Q4 was in the city centre and comprised small amounts of individual space, much of which was on South Mall.

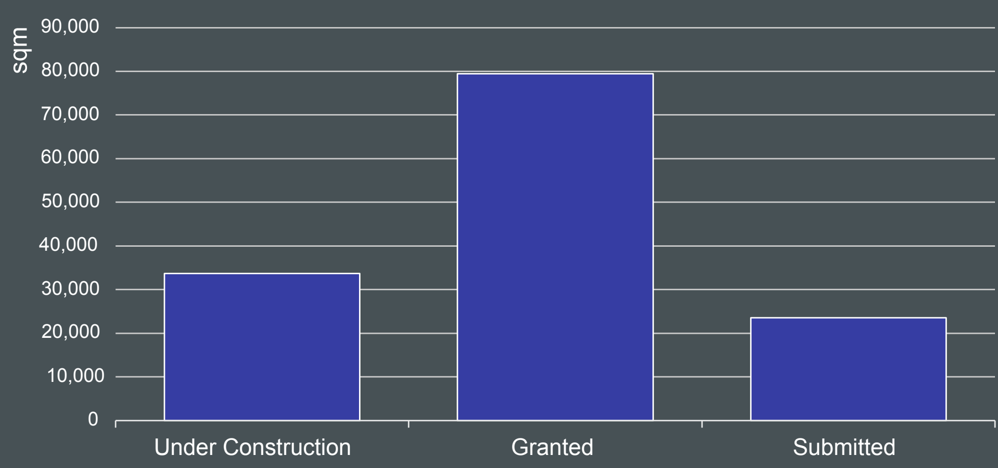
The overall Cork vacancy rate decreased marginally in the quarter, from 14.3% to 14.2%; however, it is up from 9.6% in March 2020. Looking at the city centre region in isolation, the vacancy rate was 14.9%, having been almost 18% earlier this year, while the suburbs overall was at 13.8%.

CORK OFFICE VACANCY RATE BY REGION Q4 2022



Source: Lisney

CONSTRUCTION PIPELINE Q4 2022



Source: Lisney

NAVIGATION SQUARE I, CORK

CONSTRUCTION

While there were no new developments completed in Q4 2022, a total of 13,200 sqm of office accommodation was completed in Cork in 2022. There were three schemes under construction at the end of December all of which were in the city centre. 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 were also 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 in the coming months. The former Moore's Hotel on Morrison's Quay (1,860 sqm) continued to be developed although a planning application has been submitted to change the use of part of the permitted offices to additional hotel bedrooms, which is to be incorporated into the adjoining Premier Inn currently under construction. No new developments commenced in Q4 2022.

In terms of the pipeline, over 158,000 sqm of accommodation (16 schemes) had been granted planning permission but not commenced at the end of December 2022. 48% of this is in the city centre and 52% in the suburbs. The largest scheme is JCD's 16 storey, 21,800 sqm office building on Albert Quay. This is closely followed by Apple's permission for a new office building of approximately 21,600 sqm at its campus in Hollyhill in the north suburbs, which will accommodate 1,300 staff. Other notable planning permissions include the 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, University College Cork (UCC) has applied for planning permission for the development of a business school on the former Brooks Haughton site on South Terrace/ Copley Street in Cork city centre. The proposed development will extend to approximately 15,675 sqm.

UNIT 2 HARBOUR GATE BUSINESS PARK,
LITTLE ISLAND, CORK

OUTLOOK

- Apple has been granted conditional planning permission to extend its Cork campus. The proposed new space (approximately 21,000 sqm) will reportedly accommodate up to 1,300 employees and will be completed by mid-2025. This further shows the tech company's commitment to Cork, having set up operations in the city in 1980 and now employ 6,000 people across the Hollyhill campus (north suburbs) and Horgan's Quay (city centre).

- While supply has increased by 65% since early 2020, further increases are likely in the short term, particularly in the city centre, due to the completion of new buildings and accommodation being returned to the market as sub-lets / grey space. In terms of newly completed buildings, in the coming months the substantial office block at 2 Horgan's Quay will add about 12,000 sqm to the existing 89,000 sqm of current supply across Cork. While grey space could be considered a negative for the market, it is normally fully-fitted, which will provide cheaper solutions for businesses requiring flexible, short-term accommodation. Overall, the vacancy level will move higher and may impact headline rents. Even if rents remain unchanged, there will be greater incentive packages on offer from landlords.

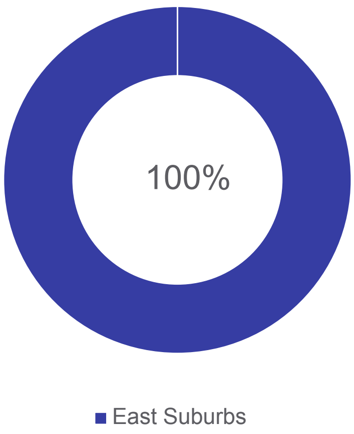
CORK INDUSTRIAL

ACTIVITY

Each of the quarters in 2022 were very different in Cork's industrial market. The year started exceptionally strong with almost 24,000 sqm transacted (including Nisbets acquisition of the 5,600 sqm newly constructed Unit 9003 Blarney Business Park), but then just one 800 sqm transaction occurred in Q2. The market rebounded to more typical quarterly take-up levels in Q3 with 8,120 sqm completed. However, in Q4 2022 only two transactions occurred extending to 3,250 sqm. The two transactions included one letting and one small sale, both of which were in the east suburbs. The biggest hindrance to greater levels of activity is the lack of supply.

The letting comprised 3,160 sqm at Unit 2 Harbour Gate Business Park in Little Island. This was let to CEVA Logistics, a global logistics and supply chain company. The sale comprised 607 Harbour Point Business Point in Little Island extending to 90 sqm.

TAKE-UP BY REGION (Q4 2022)



Source: Lisney

DEMAND

As with other areas around the country, occupier demand for industrial, warehouse and logistics premises in Cork remained good in Q4 2022. Demand for larger size accommodation continued, however, there was also demand for units ranging between 500 sqm and 1,500 sqm, particularly on the southern and western sides of the city. Indigenous companies with warehouse requirements and logistics providers are currently the most active in the market.

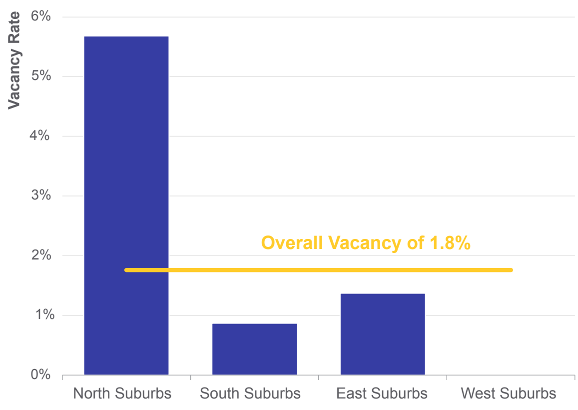
RENTAL VALUES

While top rental rates have been stable at €102 psm (€9.50 psf) since mid-2021, given the level of demand and shortages in supply, high bay accommodation increased to €108 (€10.00 psf) in Q4 2022. The limited stock available, together with the increasing inflation in construction costs put rental and capital values under upward pressure, particularly for new developments to ensure viability with quoted rents of €113 psm (€10.50psf).

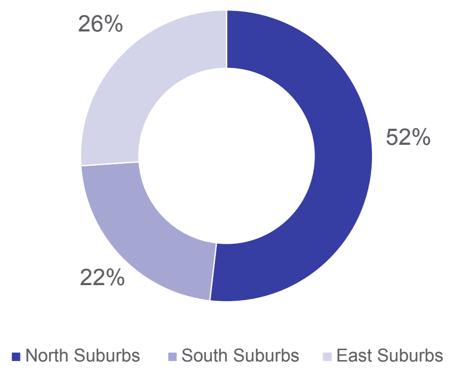
AVAILABILITY

In terms of supply, there was 24,200 sqm of accommodation available at the end of Q4 2022 a 19% decrease from the previous quarter. The overall vacancy rate across the Cork industrial market remained unsustainably low at 1.8%. This has been the case for over three 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 5.7%. There was effectively no availability in the south and west regions.

VACANCY RATE BY REGION (Q4 2022)



AVAILABILITY BY REGION (Q4 2022)

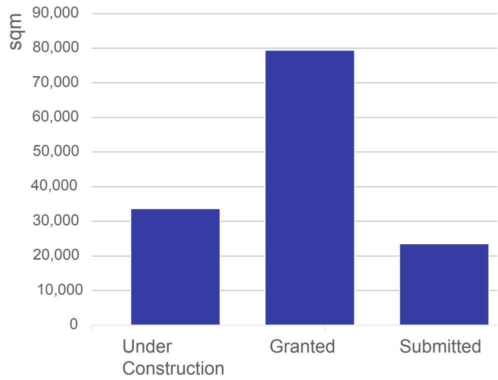


Source: Lisney

CONSTRUCTION

In Q4 2022, three new industrial buildings were completed. Two blocks in Blarney Business Park were finished – Block 8004 extends to 6,000 sqm and Block 8005 extend to 4,900 sqm. In Little Island, Unit 2 Harbour Gate Business Park (3,160 sqm) was completed and leased to CEVA Logistics.

CORK INDUSTRIAL CONSTRUCTION PIPELINE (DECEMBER 2022)



Source: Lisney

There were a further six schemes under construction at the end of December, totalling just under 34,000 sqm. Five schemes were in Little Island and accounted for 81% of space under construction, including units 1A, 1B and 3 (13,340 sqm) Harbour Gate Business Park. Units 1A/1B are due to be completed in summer 2023 and currently, both are available to let. The first purpose-built data centre is also under construction in Wallingstown, Little Island on the former Mitsui Denman site. This is one of three proposed data centre buildings that were granted planning several years ago. The datacentre sector / occupier-type has been inactive in the Cork market to date and will be interesting to watch how it evolves. Unit 2 Watergrasshill Business Park (6,286 sqm) is close to completion and a letting has been agreed. Additionally, there is planning permission granted for three further detached warehouse units in Watergrasshill Business Park ranging in size from 2,000 sqm to 6,700 sqm are likely to commence in the short-term. Overall, there is nearly 80,000 sqm of accommodation in the pipeline, which has been granted planning permission but has not commenced construction.

OUTLOOK

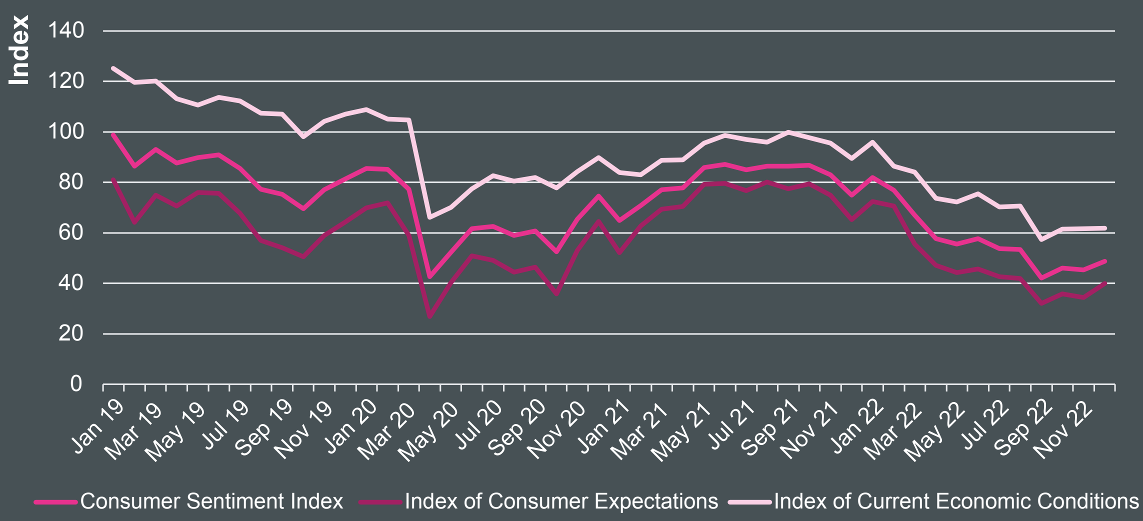
- The industrial sector will continue to experience good levels of demand in 2023. While this is positive, occupiers will experience severe difficulties sourcing space, which could hold back full-year activity levels.
- The low vacancy rate and supply constraints within Cork and its environs will remain, albeit with some fluctuations around the current level in the short-term.
- Speculative building will be limited going forward due to the rising 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. All of this will result in further rental growth in the months ahead, having already increased by 11% this year.

CORK RETAIL

CONSUMER SENTIMENT

The Irish League of Credit Unions Consumer Sentiment Index improved to 48.7 in December from 45.3 in November 2022, the highest level since August 2022. The modest rise in consumer confidence, however, implies that although caution still prevails, sentiment and expenditure have not been completely disrupted by a challenging 2022. This was predominantly driven by low unemployment figures, slowing consumer and property price inflation and buoyant tax revenues as well as strong economic growth.

CONSUMER SENTIMENT INDEX (JANUARY 2019 – DECEMBER 2022)



Source: Credit Union

INFLATION

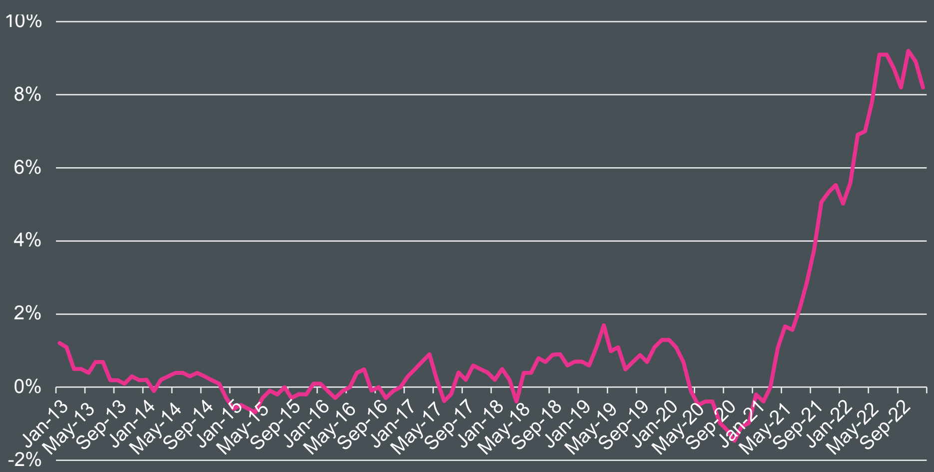
The annual inflation rate (measured by Consumer Price Index) stood at 8.2% in December 2022, down from 8.9% in November. December was the fifteenth straight month where the annual increase in the CPI was at least 5.0%. On an annual basis, 'housing, water, electricity, gas & other fuels' (+25.9%) and 'food & non-alcoholic beverages' (+11.7%) saw the largest increases in the year to December while 'education' (-7.1%) and 'miscellaneous goods & services' (-0.4%) were the only divisions to show a decrease over the same time period. Growth in energy costs continued with electricity up by 62.7%, gas by 86.5%, liquid fuels (home heating oil) by 39.9% and solid fuels up by 46.9% in the year. The annual change in 'food & non-alcoholic beverages' reflects a rise in prices across a range of products such as fresh whole milk (+33.3%), sugar (+30.0%), eggs (+23.5%), butter (+23.1%) and bread (+16.3%) 21.

Consumer prices fell by 0.2% in the month between November 2022 and December 2022 with the largest decreases in 'transport' (-2.6%) and 'alcoholic beverages & tobacco' (-0.7%). The largest increases in the month were 'furnishings, household equipment & routine household maintenance' (+1.3%) and 'food & non-alcoholic beverages' (+1.0%).

Russia's invasion of Ukraine has had significant impacts on the Irish economy. Commodity prices across the board have sharply increased particularly in raw materials. Oil and gas prices have surged since the invasion on 24 February exceeding $139 per barrel for the first time since 2008 in March. The war in Ukraine has also affected consumer prices across the sectors. The most significant price changes between February 2022 and December 2022 were increases in 'housing, water, electricity, gas & other fuels' (+23.8%), 'food and non-alcoholic beverages' (+10.8%) and 'restaurants and hotels' (7.7%).

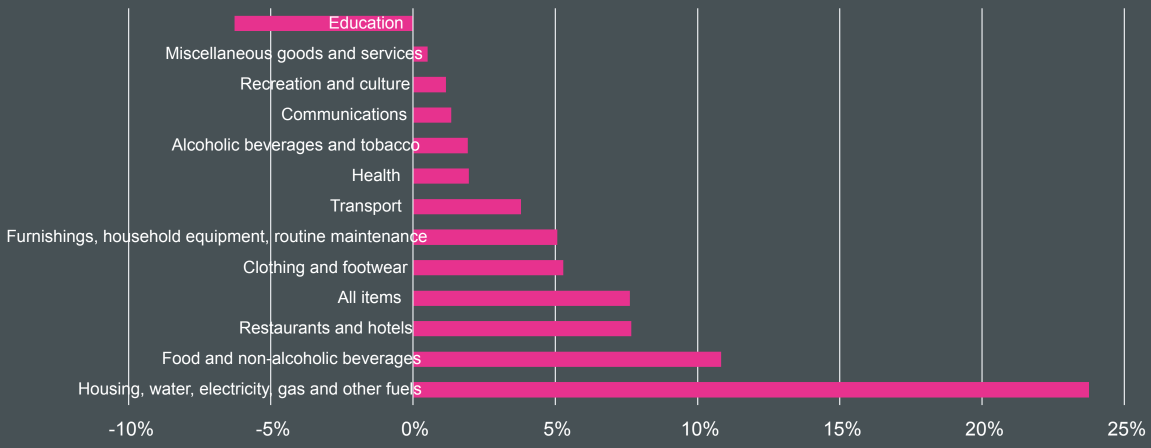
In Q4 2022, the Savings and Investment Index survey carried out by Bank of Ireland showed that overall, inflation remained the highest concern amongst Irish households as 26% fear for their finances (down from 29% in the previous quarter). This was followed by the war in Ukraine (20%, up from 17% in Q3), a global recession (16%, up from 14% in Q3), the cost of housing (12%, same as in Q3) and climate change (12%, down from 16% in Q3). Increasing interest rates (5%) and Covid-19 (4%) were the lowest concerns among households. Both, however, increased from the 3% in the previous quarter.

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



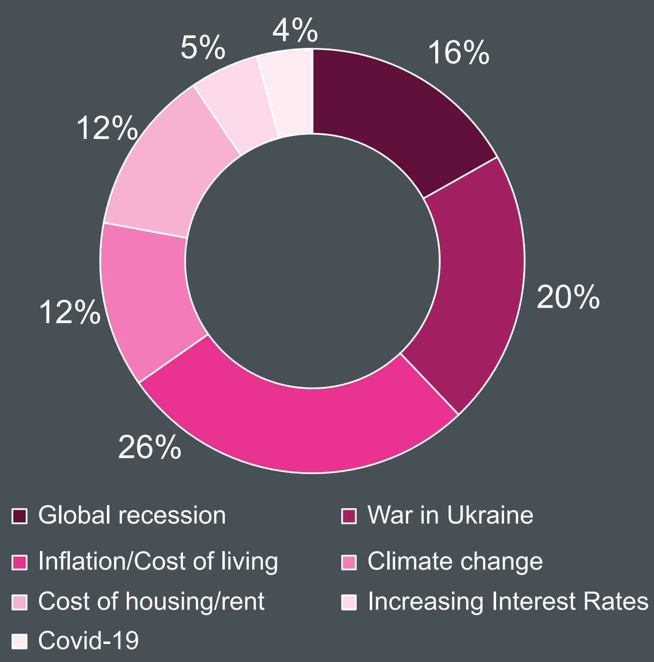
Source: CSO, Lisney analysis

ANNUALISED RATE OF IRISH INFLATION – PRE & POST WAR IN UKRAINE (FEBRUARY 2022 – DECEMBER 2022)



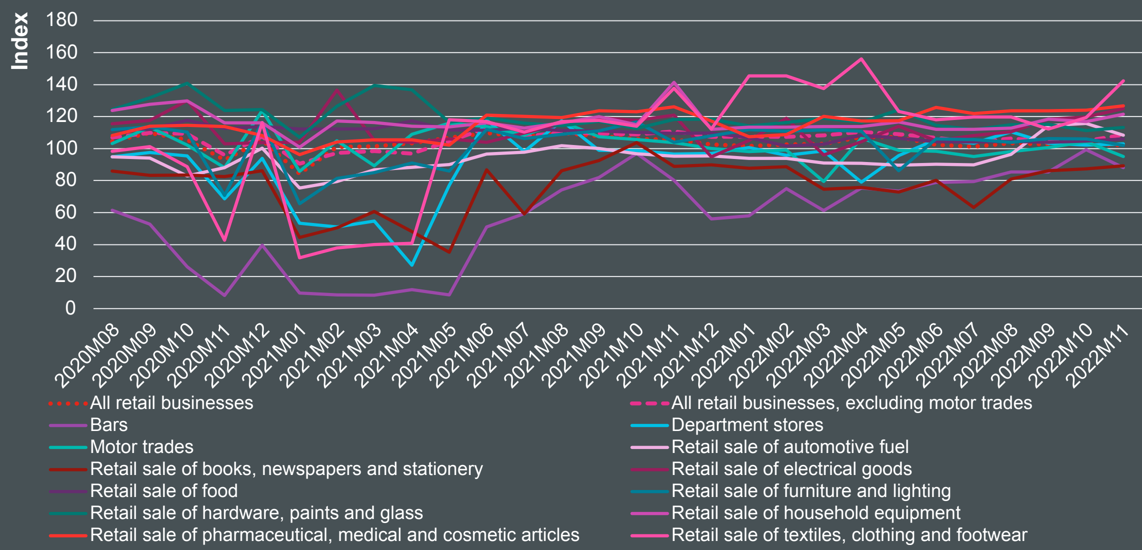
Source: CSO, Lisney analysis

CONSUMERS' CONCERNS (Q4 2022)

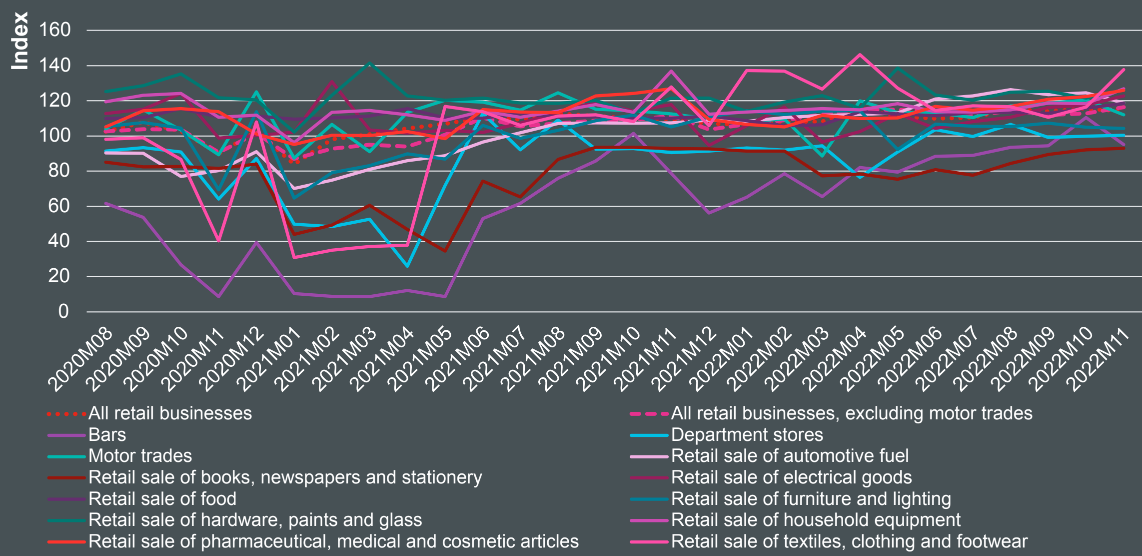


Source: Bank of Ireland

CHANGE IN VOLUME OF RETAIL SALES BY SECTOR (FEBRUARY 2020 – DECEMBER 2022)



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



Source: CSO, Lisney analysis

RETAIL SALES

The volume of retail sales decreased in November by 1.4% and by 4.2% on an annual basis according to the latest figures from the CSO. The largest annual volume increases were seen in 'bars' (+13.6%), 'department stores' (+6.5%), and 'electrical goods' (+5.1%). The largest annual decreases were in 'other retail sales' (-25.8%), 'motor trades' (-11.0%), 'food, beverages & tobacco (specialised stores)' (-6.3%), and 'furniture & lighting' (-4.3%).

ChOnline retail sales within Irish registered companies (excluding motor trades) stood at 6.3% in November (preliminary results), up from 4.6% in the month prior. While this level is well below levels reached at the height of the pandemic, it is still above pre-pandemic times even with the current economic situation. In reality, the move to online shopping by Irish consumers is significantly larger given that much online spend is with non-Irish registered companies. By way of comparison, approximately 30.2% of sales in the UK were online in November.

RENEGOTIATED TERMS & SUPPLY

The retail sector, including those in the food and beverage industry, has been severely impacted by global events in recent years. Just as the sector was beginning to make a post-COVID recovery in early 2022, rising inflation and the resultant increase in interest rates and weaker consumer sentiment began to take hold. In spite of this, property deals have and are occurring on key retailing pitches with the vacancy rate on Patrick Street is at 21% and 12% on Oliver Plunkett Street (based on the number of units). While recent deals have been on adjusted terms to those sought in 2019, opportunities are on offer to those retailers who are in a position to capitalise on them.

In the property market, the changing trends in footfall and spending are affecting rental affordability for many operators. Landlords who offered abatements during the pandemic want to revert to pre-pandemic levels while some tenants do not foresee the same level of turnover being achieved going forward. Negotiations between the parties will happen in 2023, which will be location and business specific. Where deals cannot be reached or business models no longer make sense after three difficult trading years, stores will close and the vacancy rate will rise.

The CVA process in the UK has not gone away. While the number of retailers going into voluntary arrangements declined over COVID, some high-profile brands entered CVA last year including Poundstretcher, AMT (Coffee specialist), Joules, Misguided e-commence fashion and TM Lewin. With changing businesses models as noted above, further retailers are earmarked to enter CVA this year. While this relates to UK multiples, it will impact their operations in Ireland.

OMNI CHANNEL FOOD OFFERING

Similar to fashion and household retailing, there is now an omni channel expectation from operators in the food business. This includes click-and-collect, online delivery or eating on the premises are all now demanded by the consumer. Experiential dining will grow further this year, but with prices rising, there will be a greater expectation from consumers that they are getting service and value for their money. Those less impacted by rising costs and with a greater ability to spend, will have higher expectations. Those with more constrained spending will still seek good quality food at a reasonable price point, while those operators in the middle may suffer.

SUSTAINABILITY

As with all parts of the economy in 2022, sustainability moved up the agenda for retailers. Larger operators in the market are keeping a close eye on their social and environmental responsibility whilst also considering their operational ability. Supply chain resilience, circular economy and eco light packaging are terminology being increasingly used. This will continue to move up the agenda for both big and small retailers over the year as consumers, particularly younger consumers, focus on brands that align with their values.

OUTLOOK

- There will be a cautious start to 2023. 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, rising energy costs, labour shortages and supply chain issues.
- Retail property transactions 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.
- Government COVID supports finished in 2022 and the anticipated wave of store closures did not come to fruition. While many retailers and restaurants are trading well with improved footfall, rising operational costs are now a factor. The TBESS may mask some struggles over the winter months. However, in the more medium term, those businesses that were struggling before COVID-19 are likely to continue struggling when all government assistance has ended, particularly those impacted by the change in VAT rate.

MEET OUR TEAM

THE CORK COMMERCIAL TEAM

MARGARET KELLEHER
Chairperson &
Senior Director

EDWARD HANAFIN
Senior Director

DAVID MCCARTHY
Director

NICHOLAS O'CONNELL
Divisional Director

JOHNNY MCKENNA
Chartered Surveyor

JEREMY O'MAHONY
Graduate Surveyor

SZYMON SLOVIAK
Graduate Surveyor

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Research Intern

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