

CORK REPORT

Q3 2023



Q3 2023

Price adjustment and off-market transactions continued to be a part of the Irish investment market in Q3 2023 as steady investor demand continued for well priced prime assets. In the occupational markets, the availability of grey office space began to become more prominent while the industrial market remained constrained by low levels of supply.

▲ €33.95 m

Cork Investment

Turnover

▶ 2

Cork Investment

Deals

▲ €31.35 m

1 Westfield Ballincollig, Co. Cork

Largest Investment Deal

▼ 7,000 sqm

Cork Office

Take Up

▶ 12

Cork Office

Deals

▼ 13.8%

Cork Office

Vacancy Rate

▲ 16,000 sqm

Cork Industrial

Take Up

▲ 15

Cork Industrial

Deals

▲ 2.0%

Cork Industrial

Vacancy Rate

Arrows represent quarterly trends unless otherwise stated.

Investment

ECONOMIC BACKDROP

The global economic landscape continued to have a weighty impact on the Irish investment market in Q3 2023 with elevated inflation and even tighter monetary policies around the world affecting commercial real estate values and liquidity. While just after the end of Q3, Budget 2024 in early-October is worth noting. There were no direct changes to commercial real estate (such as stamp duty rates) but the review of the structure of funds (launched last year) continues and may impact how property is held in the future.

ACTIVITY

There were only two investment transactions in Cork in Q3 2023, which accounted for 7.6% of the market nationwide. The deals included an off-market sale of a community care facility at 1 Westfield in Ballincollig for €31.35m (NIY 5.3%) to Primary Health Properties PLC and 39 Patrick Street sold to a private Irish investor for €2.6m (NIY 7.0%).

Cork Investment Transactions Q3 2023

PROPERTY	SECTOR	PRICE
1 Westfield, Ballincollig, Co. Cork	Healthcare	€31,350,000
39 Patrick Street	Retail	€2,600,000

Source: Lisney

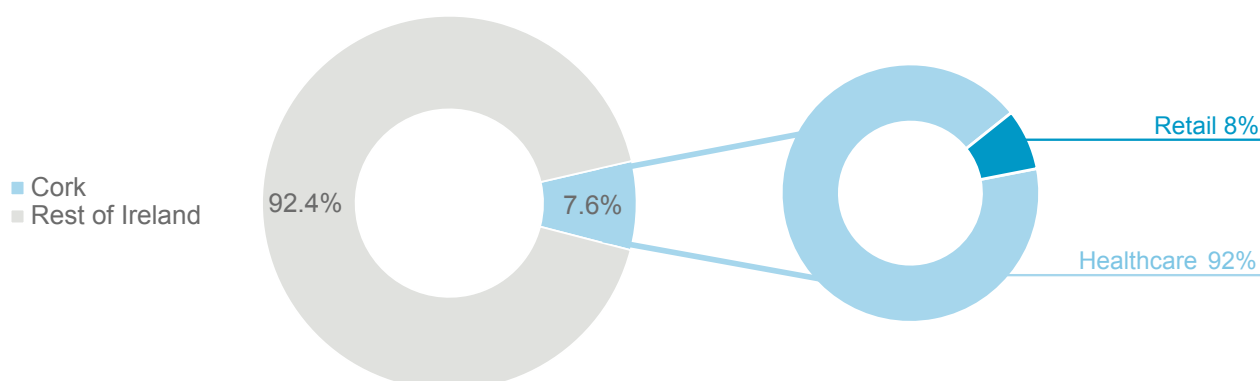
SUPPLY

At the end of September 2023, there was under €20m worth of on-market investment opportunities available in Cork. This included three units at Opera Lane in the city centre, an open-air retail destination forming part of a larger mixed-use residential and retail development. Units 16, 17a and 19 are on the market at a guide price of €5.5m. Given the continued amount of activity occurring off-market, this supply figure is likely higher.

YIELDS

The CRE market in Q3 2023 continued to be impacted by wider global economic, financial and geopolitical factors. With fewer transactions completing nationwide, yields generally softened or remained stable across all sectors of the market in the quarter. In Cork, we estimate that the prime office yield remained unchanged at 6.75% at the end of September for the third consecutive quarter, having been at 6.5% at the end of 2022. The prime retail yield in Cork also held steady at 7.5%.

Cork Investment Turnover by Sector (Q2 2023)

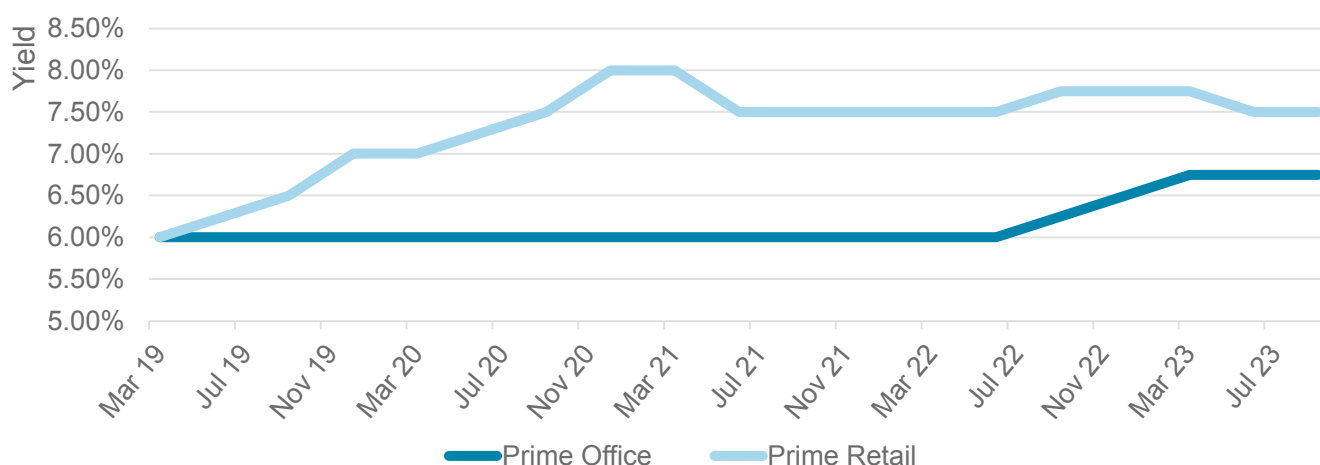


Source: Lisney



ABOVE:
85 South Mall,
Cork

Prime Cork Yields (Q1 2019 – Q3 2023)



Source: Lisney

INVESTMENT OUTLOOK

Borrowing costs are now at their highest level in 22 years in the EU. The main refinancing rate stands at 4.5%, up 400bps since July 2022 via ten consecutive increases. This will continue to impact demand, pricing and activity levels in the market in the months ahead.

EU directives are tightening to achieve a climate-neutral building stock by 2050. As a result, ESG factors and legal regulations are becoming increasingly important within the real estate market, impacting the entire property's life cycle from conception and planning to construction, use, financing and sale. Failure to meet sustainability criteria risks devaluation of assets. Compliance with the Sustainable Finance Disclosures Regulation (SFDR) and EU Taxonomy is now essential for financing assets and will continue to influence market demand.

Pricing in the final quarter of the year will be dictated by cash purchasers, but some larger deals will be based on sentiment and desirability of the asset.

Despite the economic factors impacting the market, there is investor demand and there is still a lot of capital seeking a home. It remains to be seen how much of this goes towards Irish CRE but we are optimistic for a recovery in demand.



7,000 sqm

Take-up in the Cork office market in Q3 2023 reached 7,000 sqm across 12 deals.



Office

ACTIVITY

Take-up in the Cork office market in Q3 2023 reached 7,000 sqm across 12 deals, down from 11,800 sqm in the previous quarter. This brought activity levels for the first nine months of 2023 to 21,100 sqm. The average deal size in Q3 was 580 sqm, down from 980 sqm in Q2, while the average deal size for 2023 to date was 700 sqm. In Q3 2023, only one deal was more than 1,000 sqm and accounted for 23% of the take-up. The remaining transactions ranged from 110 sqm to 940 sqm.

The city centre region was the busiest accounting for 48% of total activity with the largest deal located in this region. This was followed by the east suburbs at 34% and the remainder was divided between the south suburbs (10%) and north suburbs (5%).

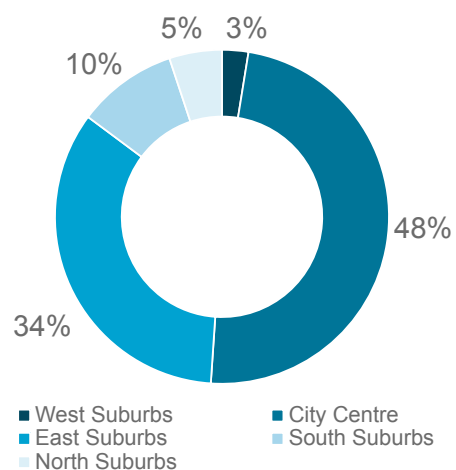
Lettings dominated the market yet again and accounted for 75% of the take-up with three transactions (out of 12) being sales. The largest transaction was a letting and comprised RDJ Solicitors taking the ground and first floors at 85 South Mall (1,600 sqm); a return to the city centre for the legal practice that had moved to City Gate in Mahon a decade ago. Other notable lettings included Cork Simon Community leasing 845 sqm at 4 Lapps Quay and Cadence Design Systems leasing part of the ground floor at Penrose Dock (820 sqm). The sales included Unit D1 at Donnybrook Commercial Centre, Douglas (680 sqm); the ground floor at Unit 1 in Eastgate Village Little Island (530 sqm); and the first floor at Unit 1 in Eastgate Village Little Island (550 sqm).

DEMAND

Overall, demand for office space remained subdued in Q3 as office occupiers seek to figure out their requirements while assessing the impact of hybrid working. There are a few active requirements for accommodation over 2,000 sqm, but the majority require space of between 1,000 sqm and 1,500 sqm in the city centre. In addition, there are some enquiries for smaller units of less than 500 sqm. There also has been an increase in enquiries from tenants in older buildings looking at more sustainable options. Tenants are seeking flexibility in lease agreements, with break options sought in years 3 and/or 5.

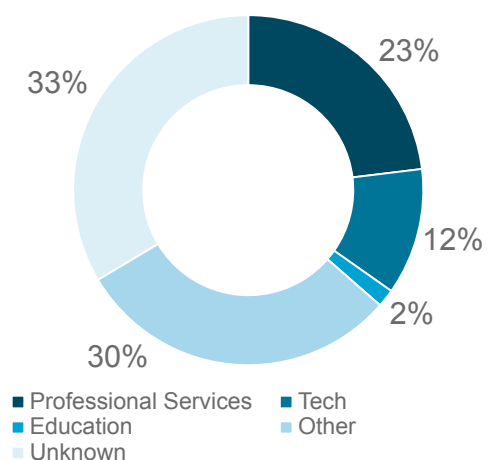
Sustainability and ESG are now key considerations for tenants seeking office accommodation and owners of older office buildings will need to consider strategies to improve the energy efficiency and building ratings of their properties.

Office Take-Up by Region (Q3 2023)



Source: Lisney

Office Take-Up by Sector (Q3 2023)



Source: Lisney



ABOVE:
Navigation Square 2,
Albert Quay, Cork

RENTAL VALUES

Prime city centre headline rents remained stable at €325 psm (€30 psf) in Q3 2023 having fallen at the beginning of 2023 for the first time since the end of 2020. In the suburbs, prime headline rates remained stable for the fourth consecutive quarter at €230 psm (€21 psf). Headline rents at South Mall (with the exception of No 85) fell to €237 psm (€22 psf) from €248 psm (€23 psf) in Q2 2023.

AVAILABILITY

At the end of September 2023, there was 86,800 sqm of available office accommodation in Cork, which was similar to the previous quarter. The largest stock of vacant space was in the city centre, where 46% of all supply was located. This was followed by the south suburbs (34%), the west suburbs (12%), the north suburbs (6%) and the east suburbs (2%).

The shift towards hybrid working models has led to an increase in grey space in office markets globally, particularly among tech occupiers, as job cuts and hiring freezes have slowed demand in this sector. While this has been impacting Dublin since 2020, the Cork office market has only started to see an increase in grey space in recent months. This is due to occupiers reducing their office footprint, particularly in suburban locations.

The overall Cork vacancy rate decreased slightly in Q3, to 13.8% from 13.9% three months previous. Focusing on the city centre region, the vacancy rate was 17.5%, down from 18.5% in Q2 2023. The suburbs overall vacancy rate was at 11.7%, up from 11.3% in the last quarter.

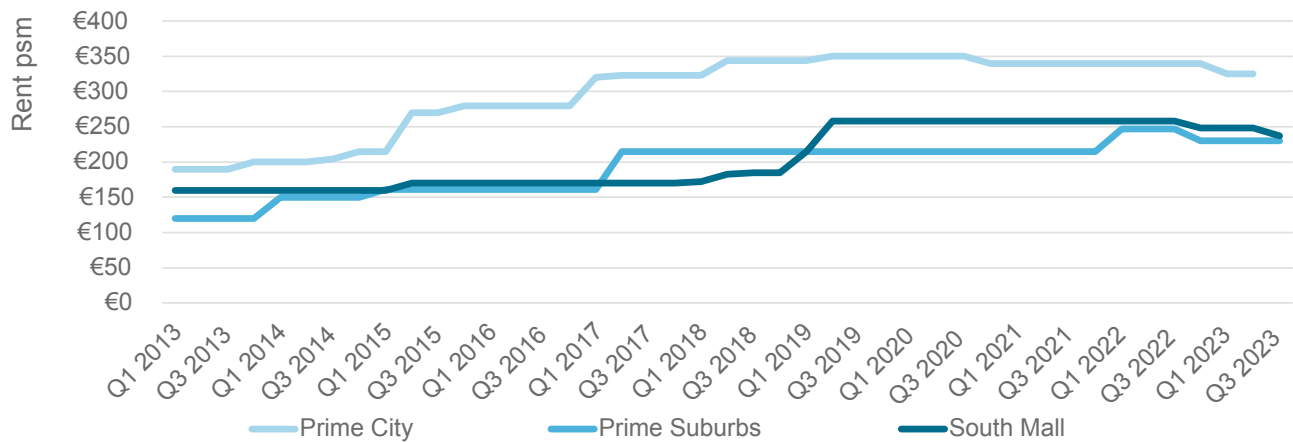
CONSTRUCTION

While there were no new schemes completed in Q3 2023, construction began on Apple's new office building at its campus in Hollyhill in the northern suburbs. When completed, the building will extend to approximately 21,600 sqm and will accommodate 1,300 staff. Works continued in Q3 on Building Two, Horgan's Quay (12,000 sqm office space) comprising part of the mixed-use development. It is due for completion in the coming months.

In addition, University College Cork (UCC) has secured funding from the European Investment Bank (EIB) for the development of the new Cork University Business School to be constructed on the former Brooks Haughton site on Copley Street. Once completed, the €106m development will provide an economic boost to the city centre by attracting over 4,500 students and staff into the city centre on a daily basis.

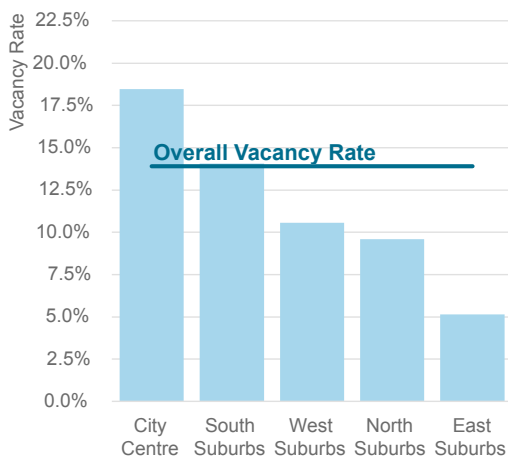
In terms of the construction pipeline, over 142,500 sqm of accommodation (16 schemes) had planning permission at the end of September 2023 but had not commenced. 57% of this is in the city centre and 43% in the suburbs. The largest scheme is JCD's 16 storey, 21,800 sqm office building on Albert Quay. Another notable planning permission is a 14,200 sqm office development fronting Penrose Quay neighbouring the completed Penrose Dock office development.

Prime Headline Office Rents (Q1 2013 – Q3 2023)



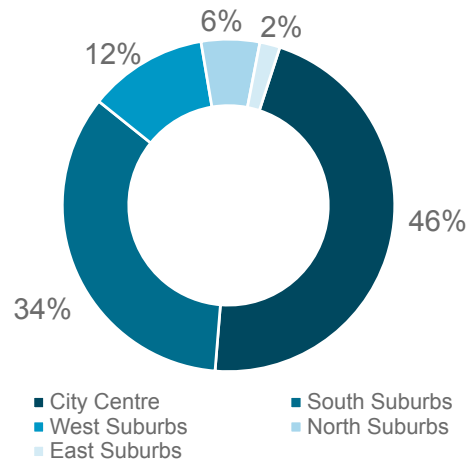
Source: Lisney

Office Vacancy Rate by Region (Q3 2023)



Source: Lisney

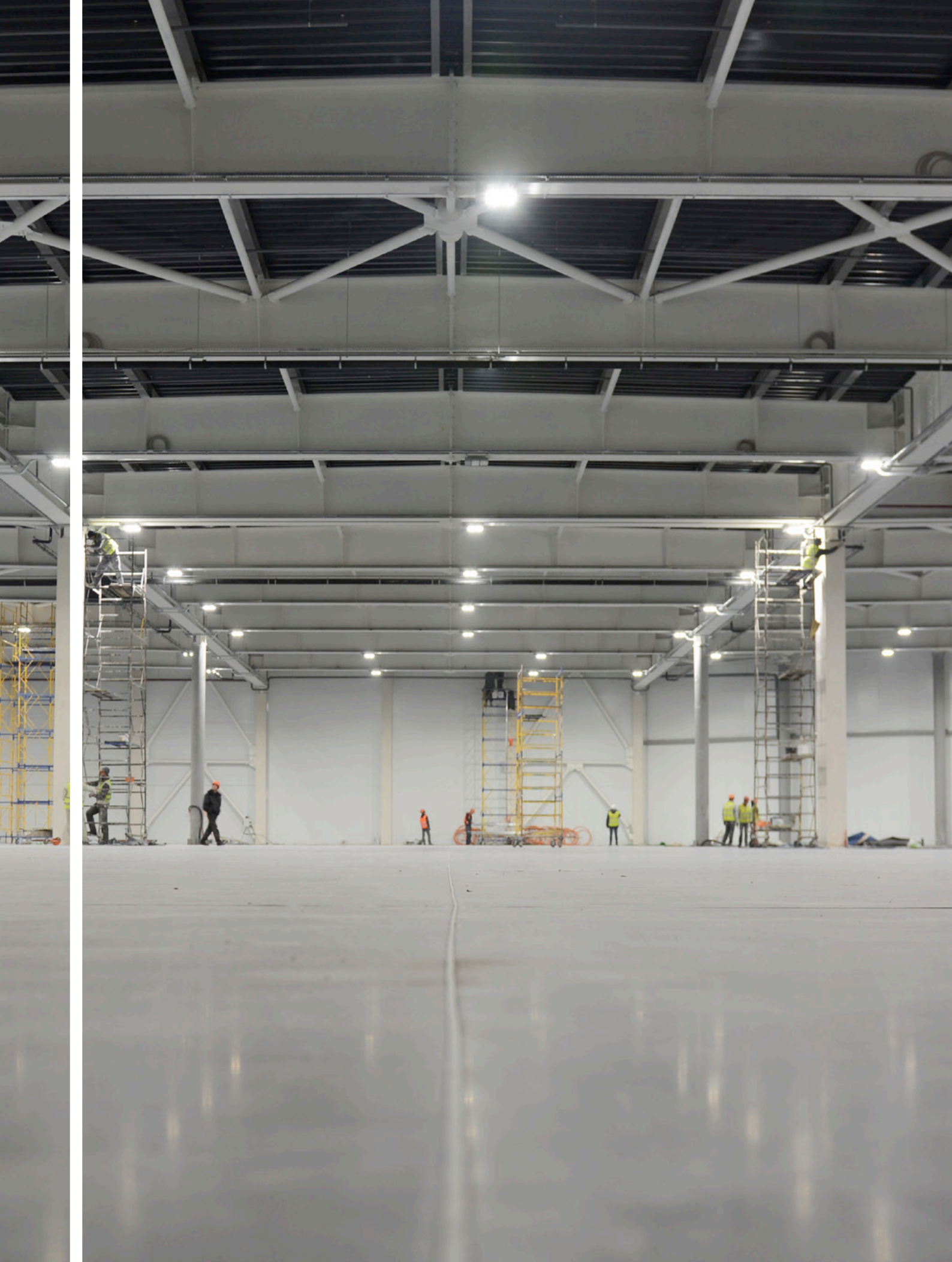
Office Availability by Region (Q3 2023)



OFFICE OUTLOOK

While supply has increased by 62% since early 2020, further increases are likely in the short term 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 86,800 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 and lease terms.

Apple has commenced works on their new building (approximately 21,000 sqm) which will reportedly accommodate up to 1,300 employees and will be completed by mid-2025. This is very positive and further demonstrates the tech company's commitment to Cork, having set up operations in the city in 1980 and now employing 6,000 people across the Hollyhill campus (north suburbs) and at Horgan's Quay (city centre).



“

Overall, transactions remained constrained by tight supply and an extremely low vacancy rate.

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Industrial

ACTIVITY

Take-up in the Cork industrial market in Q3 2023 reached 16,000 sqm across 15 deals, substantially up from 7,800 sqm in Q2 and slightly below 16,500 sqm in Q1. The average deal size was 1,100 sqm. The east suburbs region was the busiest accounting for 82% of all activity. This was followed by the south suburbs (14%) and the north suburbs (4%).

Lettings dominated the market accounting for 97% of all space transacted. The top three lettings, each in excess of 2,000 sqm, combined accounted for 76% of activity. There was only one sale in Q3 and it comprised Unit 3 of Block A in Waterfront Business Park (420 sqm).

The largest letting was the newly completed Unit 4 in Anchor Business Park, Courtstown, Little Island (6,250 sqm) let to Kuehne+Nagel. Additionally, Fastway Couriers took Unit 5/6 in Nova Business Park (3,800 sqm) and EZ Living took Unit 8 in Nova Business Park (2,050 sqm). Each of the remaining lettings were sub-700 sqm, ranging from 96 sqm to 660 sqm. In addition, two large transactions with a combined total of 17,250 sqm in Little Island were in legals at the end of Q3 and will likely conclude this calendar year.

DEMAND

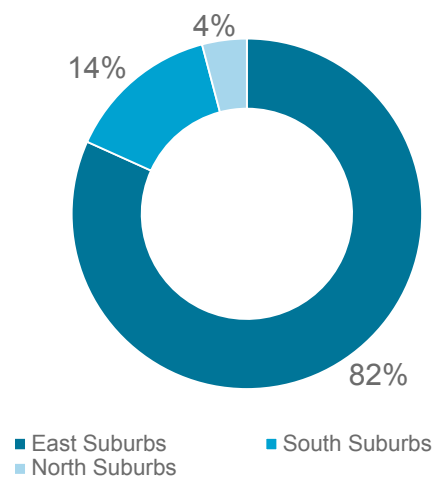
As with other areas around the country, demand for industrial premises in Cork remained strong in Q3 2023, in particular for well-located good quality larger-sized units ranging between 1,000 sqm and 2,000 sqm. There was also demand for units ranging between 500 sqm and 1,500 sqm, particularly on the south and west sides of the city. In addition, sites suitable for industrial development are in high demand, but there is limited availability.

Little Island's appeal as a location for warehousing and logistics operators has been enhanced with the opening of significant sections of the upgraded Dunkettle Interchange, which is due to be fully completed in Q1 2024.

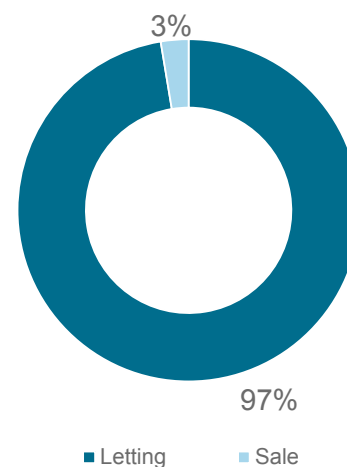
RENTAL VALUES

The prime rent for high bay accommodation remained stable at €113 (€10.50 psf) having increased at the beginning of 2023. However, it is likely that the quoting rents for new high bay units in the months ahead will be higher. The limited stock available and inflated construction costs continue to put rental values under upward pressure, particularly for new developments.

Industrial Take-Up by Region (Q3 2023)



Industrial Take-Up by Deal Type (Q3 2023)



Source: Lisney

AVAILABILITY

Despite ongoing construction activity, industrial supply in Cork remained extremely tight as newly built warehouses are generally let prior to completion, thus not contributing much to available stock.

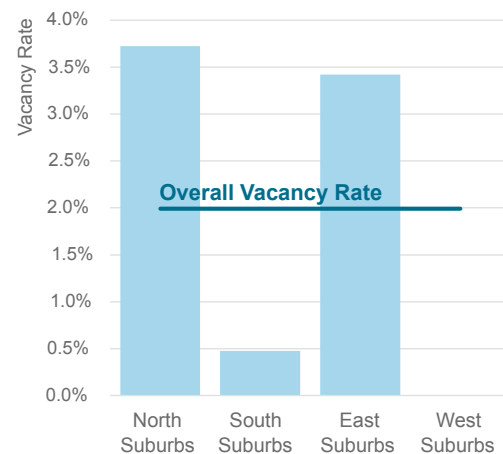
However, by the end of Q3 2023, there was 28,000 sqm of industrial space available in Cork. This was a minor increase on 27,400 sqm available three months prior. As a result, the overall vacancy rate across Cork remained unsustainably low and stable at 2.0%. In terms of regions, the north suburbs had the highest vacancy rate (3.7%). This was followed by the east suburbs at 3.4% while the south and west regions had effectively no availability.

CONSTRUCTION

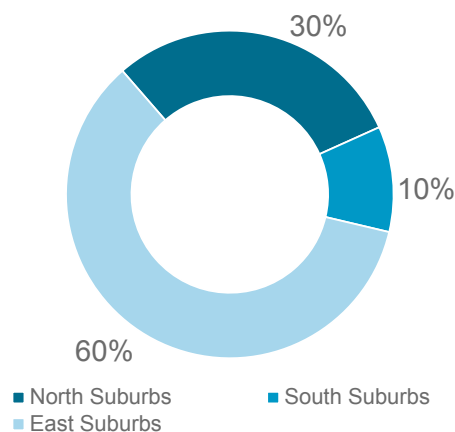
In Q3 2023, one new warehouse was completed in Cork - Unit 4 Anchor Business Park in Courtstown, Little Island (6,300 sqm), which was leased to Kuehne+Nagel. As of the end of September 2023, there was just under 36,700 sqm of industrial accommodation under construction. Little Island accounted for 92% of the space under development, with the remaining 8% in the south suburbs. One of the developments is a data centre extending to 7,800 sqm. Three units in Anchor Business Park with a combined area of 14,050 sqm commenced construction in Q3 2023. In Harbour Gate Business Park, Unit 1A and Unit 1B, each of 5,870 sqm in size, are also under construction.

Planning permission has been granted for three additional warehouse units in Watergrasshill Business Park, with sizes ranging from 2,000 sqm to 6,700 sqm. The construction of these buildings is likely to commence in the short-term. Overall, nearly 55,000 sqm of accommodation is in the pipeline having been granted planning permission but not commenced construction.

Industrial Vacancy Rate by Region (Q3 2023)

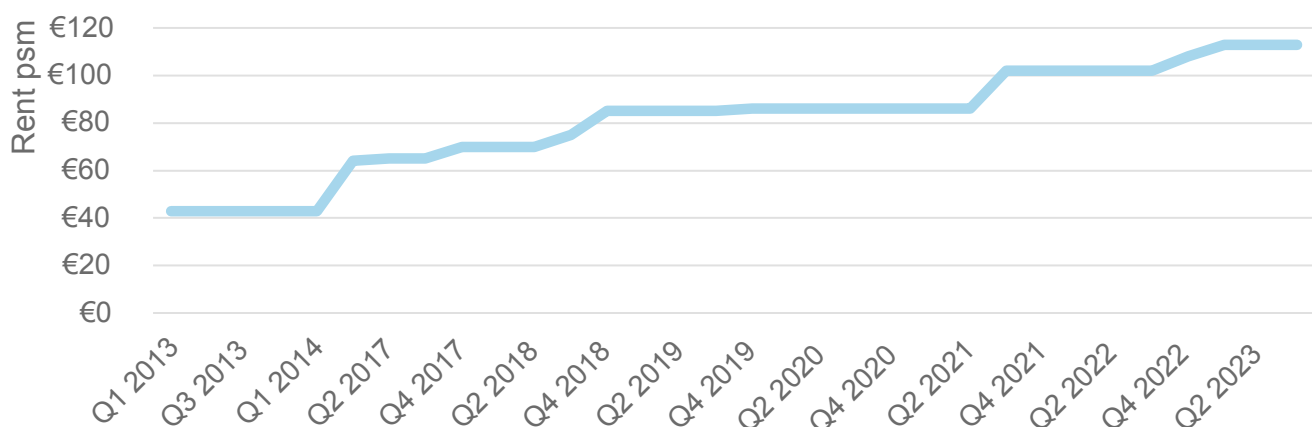


Industrial Availability by Region (Q3 2023)



Source: Lisney

Prime Headline Industrial Rents (Q1 2013 – Q3 2023)



Source: Lisney



ABOVE:
New Data Centre,
Little Island, Cork

INDUSTRIAL OUTLOOK

The industrial sector will continue to experience good levels of demand. 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 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. All of this will result in further rental growth.



Retail

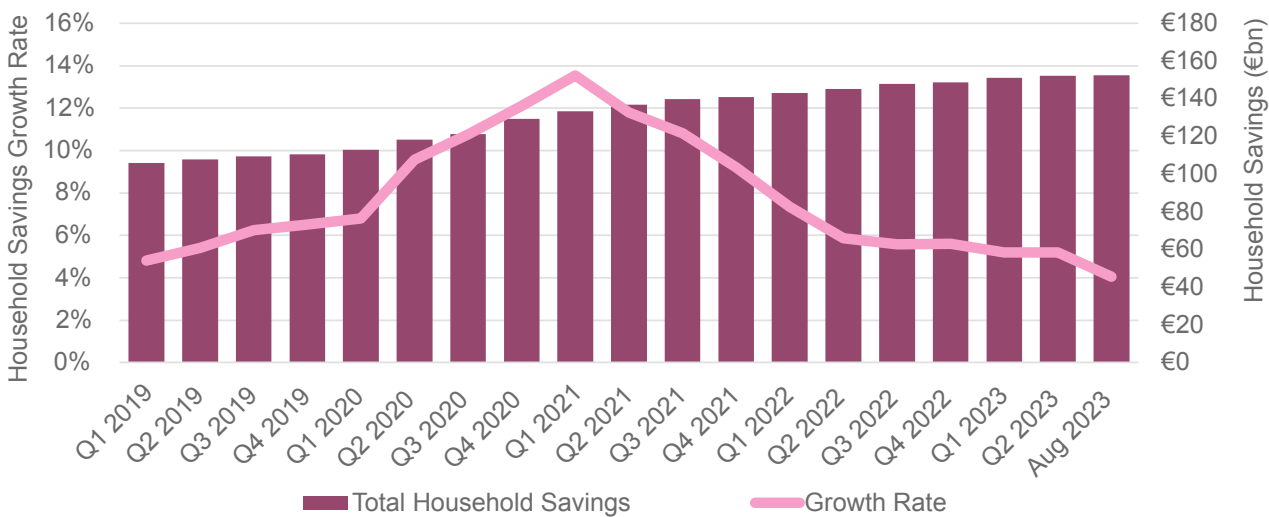
Amidst the backdrop of a challenging global landscape, the Irish retail sector displayed resilience in Q3 2023. Irish household savings continued to increase, despite rising living costs and economic uncertainties. While consumer sentiment dipped, it remained higher than a year ago. The approaching holiday season is likely influencing consumer behaviour.

SAVINGS

Household deposits in Ireland reached an all-time high of €152.5bn in August 2023. According to the Central Bank of Ireland, the August figure represented an increase of €503m in the month and €6bn over the previous 12 months. This included an additional €3.82bn saved by Irish households in 2023 to date, which may seem surprising at a time when the cost of living remains elevated and there are more economic headwinds. However, it may well indicate precautionary savings by some but also a reluctance to spend given the higher costs of goods and services.

This trend in significantly increased savings began during the pandemic with savings growing by 18.2% annually in February 2021, the highest growth rate since 2007. But in more recent times, as consumer activity recovered, this annual growth rate moderated to 5.5% in 2022 and 4.3% in the 12-months to August 2023. The Central Bank of Ireland forecasts that growth will remain positive over the remainder of this year, but moderate to around 4%. As with many economic indicators, consumers' life experiences across society can be different to what the data is showing. Budget 2024, just after the end of Q3 in early October did bring some additional benefits in terms of energy credits and some increased allowances.

Household Deposits – Annual Rate of Change (January 2019 – August 2023)



Source: Central Bank of Ireland, Lisney analysis

CONSUMER SENTIMENT

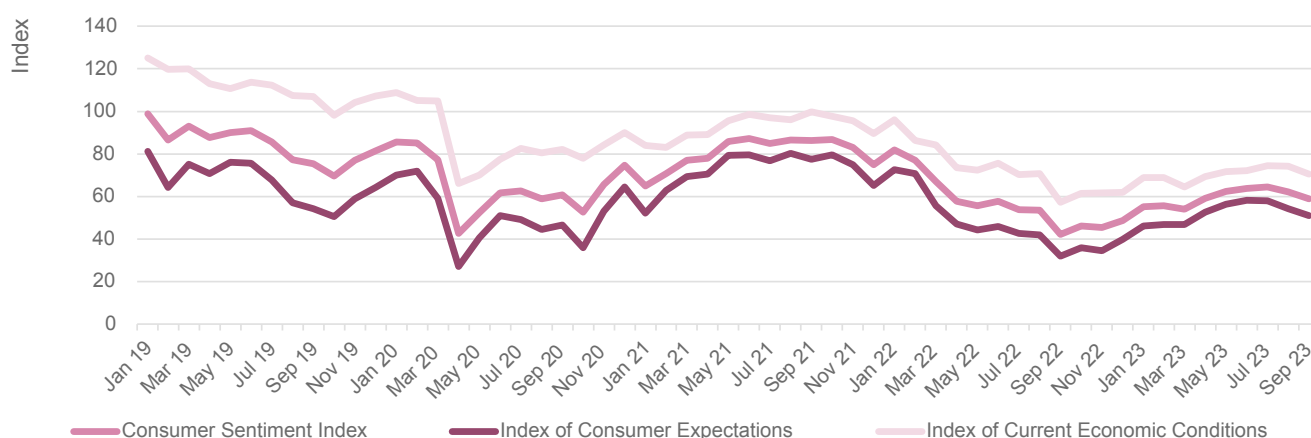
The Irish League of Credit Unions Consumer Sentiment Index fell to 58.8 in September from 62.2 in August and 64.5 in July (a reading over 50 represents growth). However, it remained significantly ahead of September 2022, when the index was at 42.1. This drop was the largest since the sharp decline in September 2022 and is likely due to increased spending on back-to-school, heating and the countdown to Christmas. Four of the five key sub-indices measured by the Credit Union Consumer Sentiment Index fell in the month, i.e. current conditions (70.4 down from 74.3), consumer expectations (51.0 down from 54.1), general economic outlook (23.1 down from 26.0) and major purchases (81.1 down from 87.4). The exception was the outlook for the jobs market which increased slightly to 60.1 from 59.5 in August 2023.

INFLATION

The Irish annual rate of inflation (measured by CPI) increased in Q3 2023, remaining over three times higher than the accepted target rate of 2%. It stood at 6.4% in September 2023, having been at 6.1% at the end of the previous quarter. However, it remained substantially below 9.2% at its height in October 2022. September was the 24th straight month where the figure was above 5%. Notably, percentage changes in 'services' significantly outweigh the increases in 'goods' (9.1% v 3.1%), primarily driven by utilities and transport services.

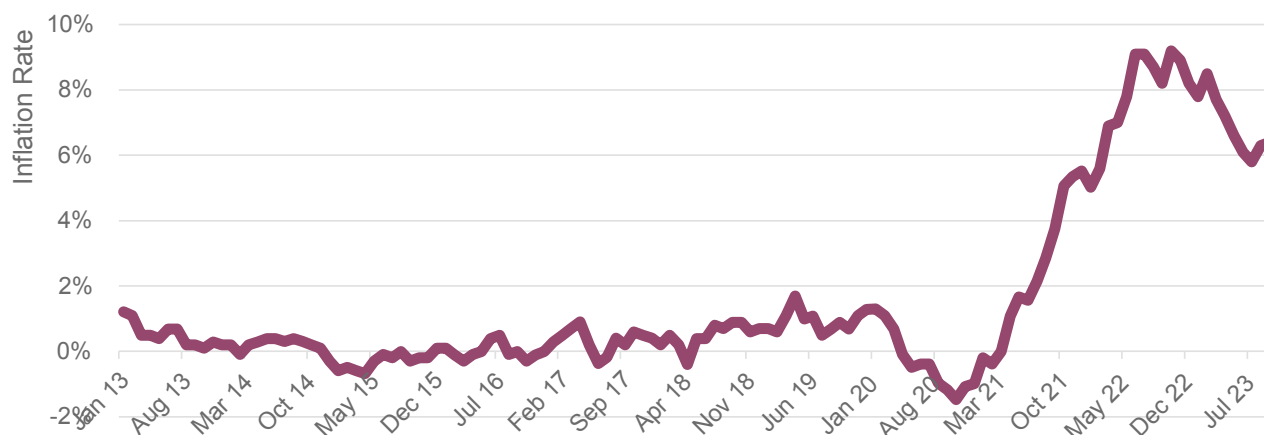
With Russia's invasion of Ukraine the catalyst for much of the increases, it is interesting to view the most significant price changes between February 2022 and September 2023. As to be expected, the most significant changes in the period are increases in 'housing, water, electricity, gas & other fuels' (+32.9%) and 'food and non-alcoholic beverages' (+16.3%). It should also be noted that prices overall were 17.9% higher in September 2023 compared to the onset of the pandemic in March 2020, and with 'housing, water, electricity, gas & other fuels' 49.4% higher.

Consumer Sentiment Index (January 2019 – September 2023)



Source: Irish League of Credit Unions, Lisney analysis

Annualised Rate of Irish Inflation (January 2013 – September 2023)



Source: CSO, Lisney analysis

RETAIL SALES

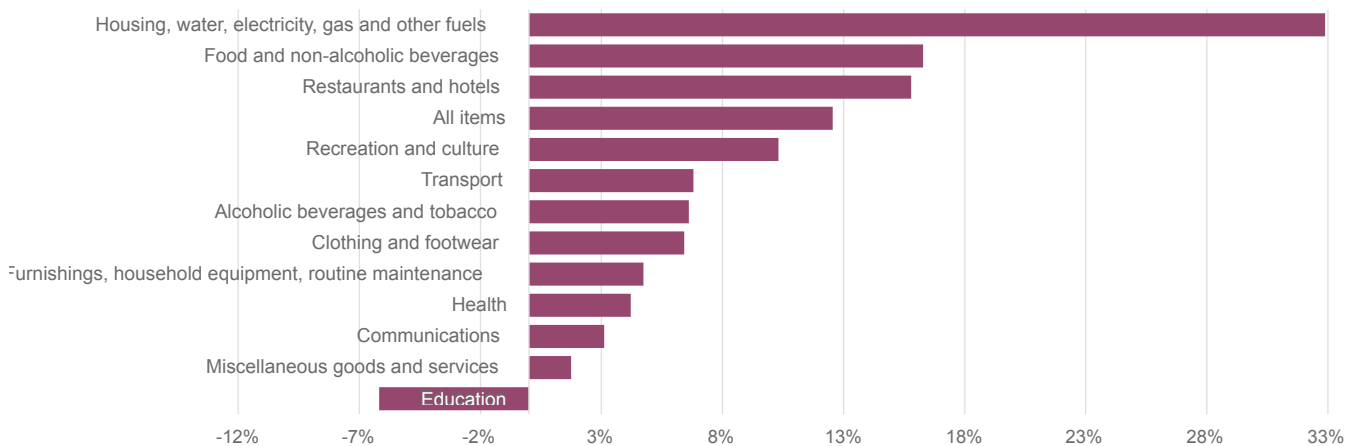
Based on CSO data, there continued to be a divergence in the scale of change in the volume and value of retail sales in the first eight months of 2023, albeit at a slower pace compared to last year. With inflation high, the value of core retail sales (excluding motor trades) rose by 8.0% in 2022 while the volume of core sales increased by just 0.5%. From January to August 2023, these figures were at 1.3% and 0.8% respectively and 3.8% and 1.0% on an annualised basis.

On a quarterly basis to the end of August, in terms of business sectors, 'pharmaceutical, medical and cosmetic articles' along with 'furniture and lighting' had a good three months with the volume of sales growing by 5.5% and 5.0%, and the value of sales in these sectors growing by 6.4% and 0.7%. In contrast, 'clothing and footwear,' 'hardware, paints, and glass,' 'furniture and lighting,' and 'books, newspapers, and stationery' experienced volume declines over the three months to August but showed some increases in value.

Interestingly, since the onset of COVID (3.5 years ago), the volume of retail goods sold (excluding motor trades) has increased by 10.1% while the value of those goods is 21.7% higher. The only sector where the volume of sales is lower now compared to pre-COVID is 'food' (-7.0%). 'Pharmaceutical, medical and cosmetic articles' has increased the most, at +112.5% in volume terms.

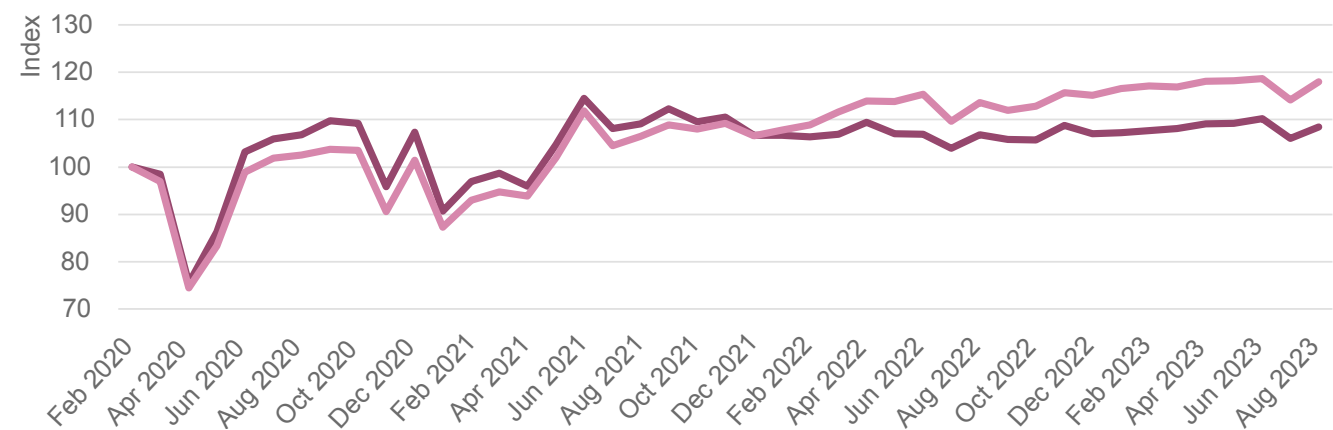
Data from the CSO for August 2023 shows that 4.4% of turnover from Irish registered companies was generated from online sales in the month. This compares to highs of over 15% in the month of May 2020 during COVID lockdowns. However, this only relates to Irish companies and consequently, the proportion of money spent online is significantly higher.

Annualised Rate of Irish Inflation – Pre-War in Ukraine to Present (February 2022 – September 2023)



Source: CSO, Lisney analysis

Volume and Value of Retail Sales (excluding motor trades) (February 2020 – August 2023)



Source: CSO, Lisney analysis



Household deposits in Ireland reached an all-time high of €152.5bn in August 2023.



SOCIAL COMMERCE

According to Statista, online purchases in Ireland accounted for 16.1% of all transactions in 2022, totalling US\$5.32bn, slightly down from 16.7% (US\$5.7bn) in 2021. Projections indicate that the revenue in the Irish eCommerce market will continue to grow by 8.8%, reaching US\$5.78bn in 2023, while maintaining a market share of 16.1%. Going forward, the market is expected to show an annual growth rate of 10.5%, resulting in a projected market volume of US\$8.63bn by 2027 in Ireland.

Social commerce has become an integral part of the broader e-commerce landscape globally. In Ireland, it has seen significant growth and adoption in recent years. With a tech-savvy population and a strong presence on social media platforms, Irish consumers are increasingly turning to social media channels like Facebook, Instagram, and TikTok not only for social interaction but also for shopping.

- According to Statista, in Ireland, spending on social media platforms represented 4.0% of total online spending in 2022, up from 2.4% in 2021. Projections indicate continued growth, reaching 5.3% in 2027.
- For comparison, in 2019 social commerce accounted for only 1.8% of total online spending in Ireland. Globally, social

commerce accounted for about 13% of global e-commerce in 2022 and is forecasted to grow to about 17% in 2027.

- The rise of social commerce is evident in consumer behaviour, with 30.9% of Irish consumers reporting purchases made through social media platforms in the past year. However, only 17% of businesses consider driving revenue through social media as a goal.

PROPERTY MARKET TRENDS

Patrick Street, Cork city's main retail thoroughfare, has undergone a revival over the course of 2023. In terms of new schemes, many will be watching for the future plans for the former Debenhams store. In addition, there is a planning decision pending on the redevelopment and expansion of Penneys. Flannels has opened its second store in Ireland at 113-115 Patrick Street, which was previously occupied by Eason. Carroll's Irish Gifts has opened its second store on Patrick Street, 48-49 previously occupied by Oasis, which is close to the English Market and likely to benefit from this with tourists. H&M Home has opened at Opera Lane, while Mango is currently fitting out a unit in the Savoy Centre.

RETAIL OUTLOOK

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.

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.

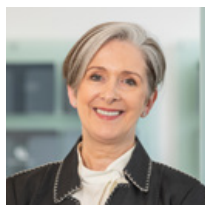
As with all parts of the economy, sustainability has moved up the agenda for retailers. In Ireland, the Climate Action Plan 2023 has a major focus on the circular economy, which will impact the retail trade and in turn the property market in the months and years ahead. Ireland has a current circularity 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.

¹ Social commerce refers to the use of social media platforms and networks to facilitate buying and selling products online. Platforms such as Instagram, Facebook, Pinterest, YouTube, TikTok, and Twitter have already introduced features that support social commerce, such as shoppable posts and live streaming.



Meet The Team

THE LISNEY CORK TEAM



Margaret Kelleher
Senior Director &
Chairperson



Edward Hanafin
Senior Director



David McCarthy
Director



Nicholas O'Connell
Divisional Director



Johnny McKenna
Chartered Surveyor



Jeremy O'Mahony
Surveyor



Szymon Sloviak
Surveyor

THE LISNEY RESEARCH TEAM



Aoife Brennan
Senior Director



Ausra Marcelyte
Senior Research Analyst

OUR OFFICES

CORK

1 South Mall,
Cork, T12 CCN3
t: +353 (0) 21 427 5079
e: cork@lisney.com

DUBLIN

St. Stephen's Green House,
Earlsfort Terrace, Dublin 2,
D02 PH42
t: +353 (0) 1 638 2700
e: dublin@lisney.com

BELFAST

Montgomery House,
29-33 Montgomery Street,
Belfast, BT1 4NX
t: +44 2890 501501
e: belfast@lisney.com

