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OUTLOOK 2024

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CORK

The Cork investment market did slightly better than the nationwide average, with market turnover ahead of three of the last 10 years.

INVESTMENT

GLOBAL INTEREST RATES HAVING THE WIDEST IMPACT ON THE PROPERTY MARKET

Entering 2024, interest rates in the EU and US remain at 22-year highs and while the likelihood of further increases is now more limited, the prevailing elevated rates will mean a subdued investment property for most of this year. The Irish, and indeed global, market in 2023 suffered from falling values, limited activity and negative sentiment with prime yields softening by between 50 and 125 bps. This led to buyer inertia, which was compounded by the mismatched pricing expectations of vendors and purchasers. Nationwide, market turnover was at about one-third of the annual average of the past five years, and it was at the lowest level in 10 years. For Cork, the market did slightly better with turnover at half the previous five-year annual average, and ahead of three of the last 10 years.

While 2024 will be another challenging year, there is evidence of more appropriate pricing emerging. If vendors are realistic on price, then there will be buyers. Smaller-scale private investors will be active, taking advantage of more favourable yield profiles. In terms of larger, more conservative longer-term investors, many have signalled that they intend on being back in the market in the latter half of the year, barring no more major external shocks. However it may take several months for them to move from looking at opportunities to agreeing deals, and any noteworthy uptick in market turnover may only emerge in 2025.

The impact of various domestic and European sustainability policies will continue to impact how buildings are funded and occupied. For some sectors (especially offices), there is a fear that a certain grade of building will become a stranded asset – too modern to justify the high cost of upgrading significantly, but also not meeting the sustainability standards required in the years ahead. This will mean further yield softening, particularly for non-prime properties.

DEVELOPMENT LAND

NEW PLANNING & DEVELOPMENT BILL STILL NOT ENACTED

The land market has been challenged for several years now; greatly impacted by uncertainty in planning policy (the new Planning & Development Bill was due to be finalised last year but with the latest draft published in November it will be at least Q2 before enacted) and the endless delays in getting a finalised planning permission. It has also been affected by construction cost inflation (labour and materials - albeit now more stable and potentially falling in 2024) and elevated finance costs (if available at all).

In Cork, only one significant ready-to-go residential site sold last year. In spite of this, the outlook for this year is more positive in terms of land sale activity and sentiment will improve as the year progresses. The Land Development Agency and Approved Housing Bodies will be active, and along with private developers, their demand will be focused on sites benefiting from planning permission. As development viability improves with stabilised / falling costs, we are hopeful some of the larger sites purchased in Cork City in recent years will begin to be built out. Some of these, such as at the former Goulding's site in the docklands, will benefit from the Government's new Secure Tenancy Affordable Rental (STAR) investment scheme.

South Docks, Docklands, Cork

OFFICES

GREY SPACE BEGINNING TO EMERGE IN CORK

The Cork office market, as with office markets around the world, will continue to contend with post-pandemic occupier trends this year; namely WFH / hybrid working and adjustments in the tech industry. In other markets, this has led to significant increases in grey space (sub-lets), including in Dublin where there is now over 200,000 sqm available, equivalent to one years' take-up. The Cork market has been relatively immune to this growing global trend with only about 5,700 sqm of grey accommodation available – three months average take-up. However, 2024 is likely to be the year where this intensifies, albeit not to the same levels as other markets. This will push the vacancy rate higher in Cork, following a period of minor decline in the latter half of 2023 (to about 13.8%). On a positive note, grey space generally comes fully fitted, which will be welcomed by tenants struggling to justify the elevated cost of fitting out shell and core accommodation, as well and providing occupiers flexibility to make longer-term occupational decisions.

THERE IS
5,700SQM
OF GREY ACCOMMODATION AVAILABLE IN THE CORK MARKET –
3 MONTHS
AVERAGE TAKE-UP

Westfield Office Quarter, Ballincollig, Cork

Activity levels will remain muted this year as businesses continue to assess requirements and the wider global economic conditions. The city centre will dominate take-up in the short-term as employers seek to provide wider amenities to their staff. Some suburban locations will do better than others. Headline rents remained relatively stable last year (albeit depending on location, between 4% and 9% down compared to early 2022) and are likely to hold steady in most regions this year. Greater incentive packages may however be on offer to tenants, which will be dependent on how the vacancy rate evolves.

There is over 140,000 sqm of office space with planning permission but not yet commenced across Cork. Unless pre-lets are secured, it is very unlikely any of this will progress speculatively in the short-term. However, any developments already underway, including Apple's scheme at Hollyhill, will continue.

OFFICE RENTS REMAINED RELATIVELY STABLE, ALBEIT BETWEEN

4% & 9% DOWN

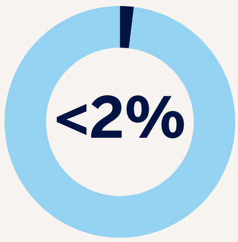
COMPARED TO EARLY 2022

INDUSTRIAL

VACANCY RATE REMAINS BELOW 2%

The industrial sector will continue to experience good levels of demand in 2024, which follows on from another very strong year of activity last year. While this is positive, occupiers will experience severe difficulties sourcing space, which could hold back full year activity levels. The vacancy rate remains sub-2% and options are limited. However the nature of demand will change, moving from strong levels of pharma-related logistics occupiers (where requirements are now fulfilled and rental rates are of less significance) to more traditional domestic occupiers seeking buildings up to 1,500 sqm. There is very little suitable supply for these and unfortunately, given prevailing rental and capital values, along with the cost of construction (including finance), such premises are not viable to build. Rents are likely to continue to increase, which will be required to justify new developments. Speculative building will remain limited given the elevated costs and softer investment yields. This will mean certain occupiers with active demand may need to agree terms on a design-and-build basis.

THE VACANCY RATE FOR CORK'S INDUSTRIAL SECTOR REMAINS AT



RETAIL

PRIME VACANCY RATE REDUCING

Despite the wider global environment and potential headwinds, there remain positive indicators in the Irish retail sector. In terms of the consumer, household savings continue to grow and are at historic highs (€153.1bn – up from €148.6bn 12 months ago and €110.5bn at the end of 2019); there is full employment with the numbers employed also at historic highs (2.66m people); the volume of retail sales is steady when compared to the last two years; and inflation (CPI) has eased by over four percentage points in the last year (to 5.1%). Consumer sentiment in December 2023 was significantly higher than 12 months previous, but it was notable that while some pressures on households were easing (such as reducing energy costs and hopes that interest rates have peaked), others remained (including worries about a softening jobs market and a slowing economy).

These positive consumer trends have supported good levels of retailer occupancy on prime high streets and in key shopping centres and retail parks. Retail parks have been performing very well in terms of footfall and trading levels and have attracted significant investor interest in recent times. The vacancy rate on Patrick Street was 20% at the end of 2023 and 10% on Oliver Plunkett Street – a reduction from 21% and 12% respectively in December 2022. By 1st May 2024, any retailers that warehoused Revenue tax liabilities from pandemic times will have to repay this debt in full. While it remains to be seen how this will play out, it may lead to some retailer distress and in turn either renegotiated deals with landlords and/or tenant defaults resulting in store vacancy.

MacCurtain Street, Victorian Quarter, Cork

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