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INDUSTRIAL & LOGISTICS

Cork Industrial & Logistics Market | Investment Overview

VIEWPOINT

Occupier & Investor Demand for Industrial & Logistics Product is Buoyant | The Cork Market Presents an Exciting Embryonic Opportunity

CBRE RESEARCH
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Investment Case

Investor demand for industrial & logistics (I&L) product around Europe is insatiable at present. The Cork market is also now the focus of potential investors. With attractive demographic and economic fundamentals and an undersupplied market with little vacancy, investors and developers see opportunity

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Cork Overview

The Irish economic outlook is extremely positive. As Ireland's second city, the Cork market will play a significant role in driving growth over the next cycle. With a growing population, a highly educated workforce and talent pool, alongside an abundance of global employers in the technology and pharmaceutical space, the city and the broader South-West region has an exciting outlook.

- Ireland's GDP will rebound by +15.3% in 2021, and the medium term outlook is highly robust. Irish 'Modified Domestic Demand' will grow by +7.1% 2022 and +4.1% in 2023 according to forecasts by the Irish Central Bank
- The South-West region, including Cork City and County, generally accounts for between 25%-30% of annual Irish economic output. According to the Q2 2021 CSO Labour Force Survey, there were almost 752,000 people in employment in the "Southern" region (ethe series does not account for Pandemic Unemployment Payment recipients)

Irish Modified Domestic Demand 2022 Forecast

+7.1%

Cork I&L Vacancy Rate

1.9%

Cork % I&L Stock that is Grade A

22%

Cork Industrial & Logistics Market

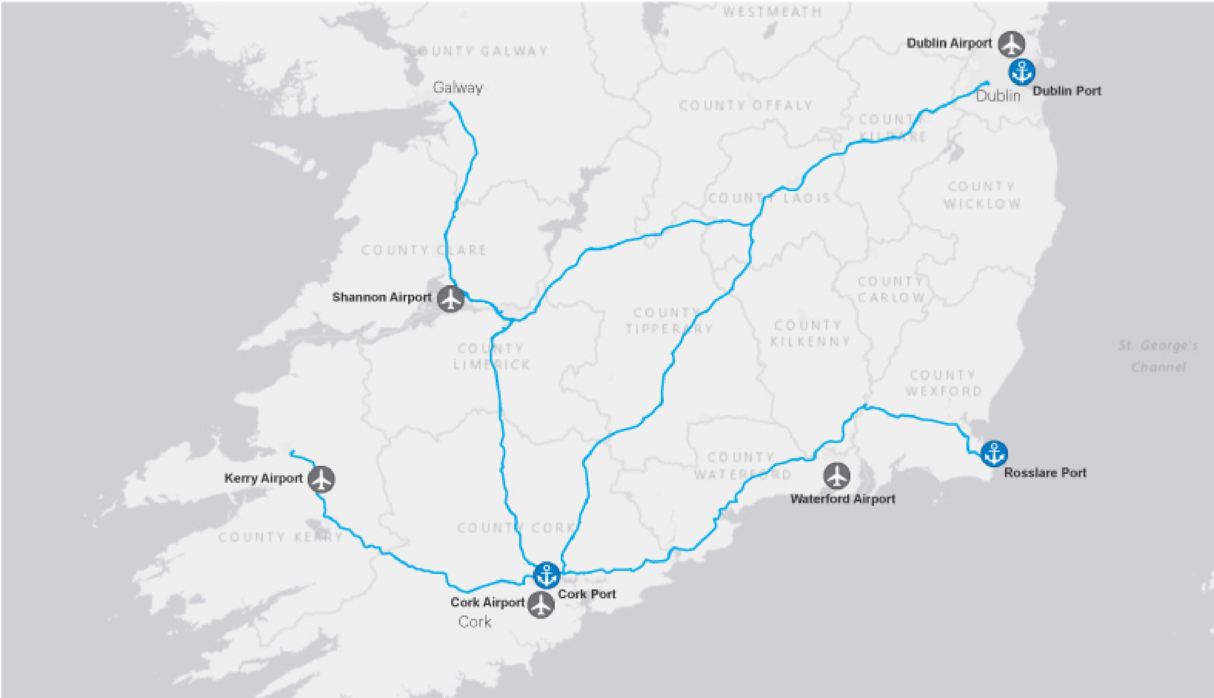
The Cork industrial and logistics market is undersupplied at present. CBRE estimate that the I&L vacancy rate is currently approximately 1.9%. The market is also starved of Grade A stock. Approximately 22% of all stock in the Cork market is classed as Grade A. With the continued shift to e-commerce, the impact of Brexit on supply chains, the economic expansion ongoing in Ireland and the improving connectivity of the South-West/Cork region, the demand from I&L occupiers is growing.

Ireland Investment

Investment volumes into Irish I&L product are on course for a record year in 2021. In the first three quarters of the year €422 million has been deployed into Irish I&L investment assets, with 98% of this capital deployed into assets in the Dublin/Kildare region. There is demand for I&L investment product in the South-West region, particularly well-positioned, modern assets in the Cork area.

Cork Economy, Connectivity & Infrastructure

Figure 1: Cork Connectivity Map: Airports, Ports & Motorways/Arterial Routes



Cork is well connected by road, rail, sea and air and boasts great transport links to continental Europe and international transport hubs. Also, a number of infrastructure and development proposals are in the pipeline that will grow the economy, the infrastructure and the connectivity of the city. All of which will further bolster the I&L investment case.

- **Port of Cork:** Ireland's deepest natural harbour and the world's second largest natural harbour is located in Cork. The Port of Cork handles almost 20% of all sea-borne trade in Ireland and is ideally positioned for European trading as well as direct deep sea shipping services. It is also currently the subject of a potential 13.5 hectares container expansion, amounting to an €86m investment.

- **Cork International Airport:** the region's busiest and Ireland's second largest after Dublin. There are nine airlines operating scheduled services and the airport provides air connectivity to over 50 international destinations, including 8+ daily flights to London.

Cork Development Proposals and Infrastructure Upgrades

- **Cork Docklands:** the docklands area is the subject of a proposed significant redevelopment. This includes contributions from a €353m urban regeneration fund that will bring large scale commercial and residential development to the area.

- **Kennedy Quay:** O'Callaghan Properties recently lodged a planning application for a €350m redevelopment of a 4.2-acre site at Kennedy Quay in Cork's South Docks, to include office, residential and healthcare facilities.

- **Dunkettle Interchange:** works are underway on a €215m upgrade to the Dunkettle Interchange in the east of Cork City, which currently caters for up to 100,000 vehicles on a daily basis. These Works are due to complete in March 2024 and will be transformative for the 400 industrial-based businesses in the Little Island area of Cork. The interchange links the M8/N8 Road from Dublin to Cork with the N25 Road from Waterford to Cork and with the N40 South Ring Road.

- **North Ring Road (Connecting N20 Limerick and M8 Dublin Road):** proposed new north city ring road linking the current Limerick (N20) and Cork (M8) roads. This will be complementary to the N/M20 (Cork to Limerick) motorway which is in the current Programme for Government.

- **Cork City Development Plan 2022-2028:** this went on display in July 2021 is clear in its ambition to position Cork as a strategic counterweight to Dublin and as a city of international scale.

Take-up, Supply & Rents

In Cork, industrial take-up has averaged 27,870 sq. m (300,000 sq. ft) per annum since 2018. This is approximately 1.4% of the total stock in the market. In the last year, this take-up has been driven by large pre-letting transactions to notable occupiers at Blarney Business Park including leases to blue-chip logistics firm DHL and global engineering group ILC Dover.

While occupational demand has grown in Cork over recent years, the supply of new stock has remained relatively static. In fact, there has been a significant shortage of new developer-led supply into the industrial market over the past 10 years with the total of new additions amounting to just 46,335 sq. m. (498,749 sq. ft) (including recently completed units at Blarney Business Park). There are three new schemes in the supply pipeline which will add some much-needed new stock to the market; at Harbour Point, Courtstown Commercial Park and the 20-acre former Corden Pharmaceuticals Site which is currently the subject of a 23,690 sq. m (255,000 sq. ft) planning application. All three sites are located in Little Island. These developments will be keenly sought after when delivered and indeed some initial pre-letting activity has already occurred. However despite these developments, the market will remain undersupplied.

Due to continued growth in demand, the lack of supply and escalating build-cost inflation, rents for new build industrial stock in Cork are expected to continue to move upwards as developers move to cover the effects of inflation. The scarcity of new supply will allow developers' this scope without much resistance as we are now seeing competitive bidding for good quality rental stock. CBRE are forecasting +3.3% growth across both Cork and also the Dublin market by year-end 2022. This implies prime Cork I&L rent levels reaching €105.70 per sq. m (€9.80 per sq. ft) and secondary rents increasing to €86.10 per sq. m (€8.30 per sq. ft) by the end of 2022.

Average Annual Cork I&L Take-Up (Sq. M)

28,870 Sq. M

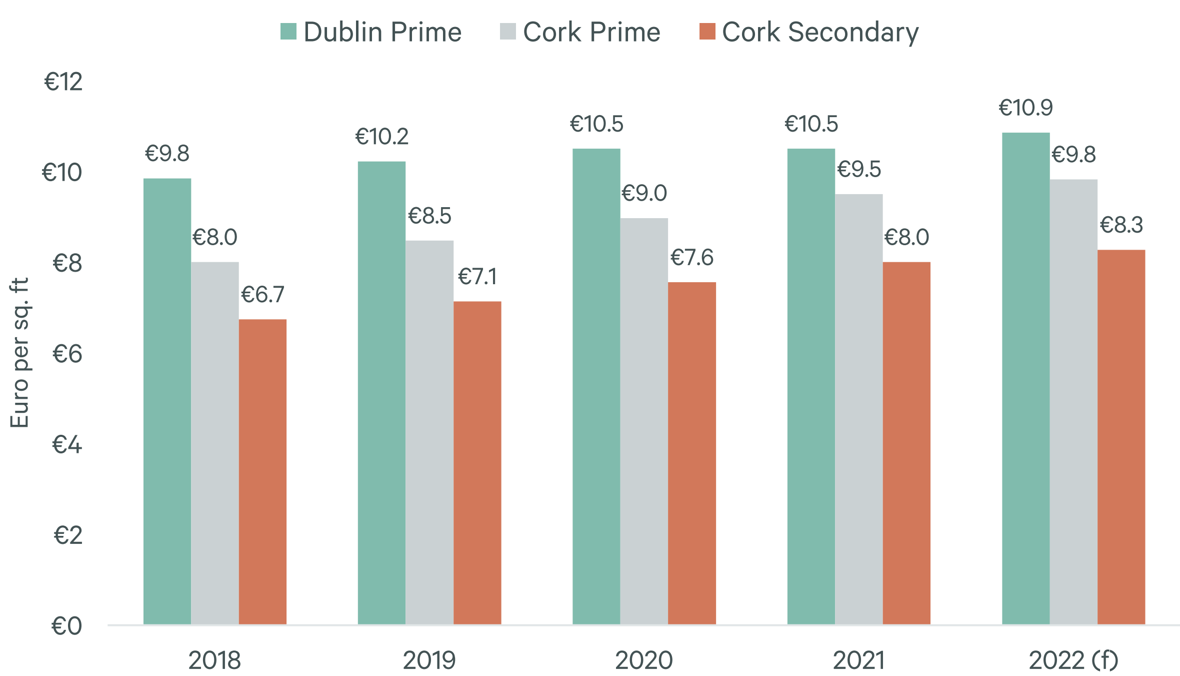
Prime Cork I&L Rents per Sq. M.

€102

2022 Forecast Cork I&L Rental Growth

+3.4%

Figure 2: Cork Industrial & Logistics Rents



Source: CBRE Research

Investment

A record amount of capital will be deployed into Irish I&L investment property in 2021, with the total figure for the full year reaching between €650mn-€700mn. Due to the insufficient amount of product coming to market, there has been a limited amount of I&L investment transactions in Cork over the last cycle. One notable sale came in 2020, when a 3k sq. m warehouse and office unit on Model Farm Road in the western Cork suburbs traded at a net initial yield of 5.0% (at a sale price of €7.2 million). However, given the investment transactions recorded in the office and residential market in Cork, we know that the large institutional investors will deploy capital in the region, where the scale and grade of product is appropriate. If larger scale I&L product comes to market, institutional investment will be attracted to participate and the pricing will likely be keen.

Dublin yields have tightened considerably in the last two years and we anticipate further compression in 2022, with pricing likely to tighten to 3.75%. This price strengthening has been evident in Dublin/Kildare transactions at larger lot sizes and compression has been driven by a weight of institutional capital entering competitive bidding processes. The spread on prime yields (across sectors) from Dublin to Cork is typically between 75 bps and 100 bps. For Prime I&L the spread is currently approx. 75 bps. This is indicative of the pricing that could be achieved if an I&L lot size of scale comes to market in Cork.

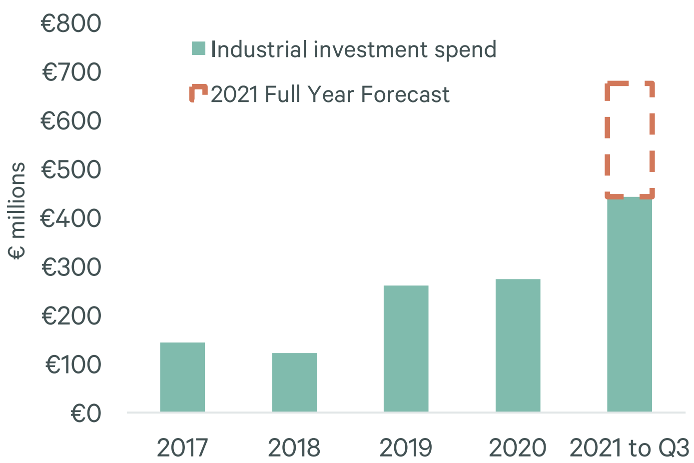
Total Ireland I&L Investment Volumes 2021 Full Year Forecast

>€650mn

Ireland Prime Industrial Yields (Dublin NIY)

4.0%

Figure 3: Ireland I&L Investment Volumes



Source: CBRE Research

Figure 4: Notable Cork Investment Sales (All Sectors)

Year	Property	Sector	Price Million	NIY	Purchaser
2018	Elysian Building, Cork City	Residential	€90.0	-	Kennedy Wilson
2021	One Navigation Square, Albert Quay	Office	€60.0	4.2%	Corum Asset Mgmt.
2019	Half Moon Street, Cork City	Mixed-Use	€36.3	6.9%	Kennedy Wilson

Source: CBRE Research

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