IRISH COMMERCIAL PROPERTY PRIME RENTS & YIELDS MONITOR

OUTLOOK 2019

OVERVIEW

The following report outlines prime rent and yield movements in the core Irish commercial property sectors of offices, industrial and retail.

Based on prime property, this analysis provides current and forward-looking estimated movements in rental and yield variables. Five-year forecasts for each property sector in Dublin are produced using a rigorous econometric model and qualitative analysis, based on local market expertise. Also reflecting local market dynamics, a similar analysis is carried out for the regional locations of Cork, Limerick and Galway.

2018 was another year of growth for Irish commercial property featuring strong occupier and investment activity, driving rental growth and further yield compression across the core sectors. In Dublin, prime office rents are ahead of previous peak levels, while Dublin industrial yields are standing below their previous peak.

Forecasts for economic growth continue to indicate sustainable expansion in Ireland over the short-term, however the rate of Irish economic output will be heavily dependent on what exit deal, if any, the UK agrees with the EU this year. This instills a cloud of caution towards external geopolitical risks, given that any potential negative impacts are not factored into economic forecasts, but yet are to be considered.

Prime property yields in the core sectors are forecast to hold stable in 2019 and for some part of 2020. However, the turning point in monetary policy with probable interest rate movements across Europe later this year, and a forecasted rise in government bond yields, places pressure on property yields to move out from 2020 onwards. Nevertheless, investor appetite for Irish property is anticipated to remain strong, as both domestic and overseas investors increasingly search for stable, long-term income returns.

OFFICE

€673

2019 RENT FORECAST FOR DUBLIN PRIME OFFICE SPACE (PER SQ M).

INDUSTRIAL

€108

2019 RENT FORECAST FOR DUBLIN PRIME INDUSTRIAL UNITS (PER SQ M).

RETAIL

€7,000

2019 RENT FORECAST FOR GRAFTON STREET RETAIL UNITS (PER SQ M).

Offices

	Prime Rent (€ per sq m)			Prime Yield (%)		
	Q4 2018		Q4 2019F	Q4 2018		Q4 2019F
Dublin CBD	€646	↗	€673	4.00%	→	4.00%
Dublin Suburbs	€323	→	€323	5.50%	→	5.50%
Cork	€350	↗	€355	5.50%	→	5.50%
Limerick	€215	→	€215	6.25%	↘	6.00%
Galway	€296	↗	€323	6.00%	→	6.00%

Retail

	Prime High Street Rent (€ per sq m)			Prime Yield (%)		
	Q4 2018		Q4 2019F	Q4 2018		Q4 2019F
Dublin (Grafton St)	€6,750	↗	€7,000	3.25%	→	3.25%
Dublin (Henry St)	€4,683	↗	€4,750	3.75%	→	3.75%
Cork	€2,350	↗	€2,450	5.50%	→	5.50%
Limerick	€1,000	↗	€1,050	6.25%	→	6.25%
Galway	€2,400	↗	€2,600	5.50%	→	5.50%

Industrial

	Prime Rent (€ per sq m)			Prime Yield (%)		
	Q4 2018		Q4 2019F	Q4 2018		Q4 2019F
Dublin	€100	↗	€108	5.00%	→	5.00%
Cork	€85	↗	€90	6.50%	→	6.50%
Limerick	€59	→	€59	8.00%	→	8.00%
Galway	€80	↗	€85	7.75 %	→	7.75%

Source: Cushman & Wakefield Research

OFFICE - PRIME RENTS

DUBLIN

Strong occupier demand resulted in 260,050 sq m of office space taken up in the capital in 2018, the fifth consecutive year of above-average take up volumes, alongside a record high level of net take up in the Central Business District (CBD).

This robust demand for space resulted in prime CBD rents reaching a record high of Đ646 per sq m in early 2018, over double that of the lowest point in 2012. A positive upward trend of new supply during the year caused the rate of inflation to stall, with headline rents remaining at this level for year end.

A Đ50 per sq m discount continues to apply to the IFSC – North Docks area, compared to core CBD. Increasing by 5.3% during the year, prime rents in the north docklands stood at Đ595 per sq m at the end of December.

2019 is shaping up to be another strong year for take up, with considerably high volumes of space already pre-committed or signed across the city. This level of demand is forecast to place upward pressure on rents of 4% for 2019, to Đ673 per sq m. However, the scale of development activity in the market should ease pressure for the short-term, with the model forecasting rents to remain at Đ673 for 2020-21. Thereafter, completions and construction starts are expected to slow, and consequently the market is likely to experience a further increase in 2022, to Đ700 per sq m.

In the suburbs, 2018 saw little change in rental levels, standing at approximately Đ323 per sq m. However, as development activity ramps up in the suburbs, better-quality offerings to tenants in attractive suburban locations should result in positive rental growth over the next year, of 8.4%, to Đ350 per sq m.

Providing some European context to the Dublin CBD market, office rents across core European cities continued to grow in 2018, by 2.6%, according to the latest DNA of Real Estate Europe Q4 2018 by Cushman & Wakefield. No deflation was recorded in any of the markets tracked. In the final quarter, 15 out of the 47 monitored markets had some level of rental growth, led by Glasgow (+6.7%), Barcelona (+3.9%) and Brussels (+3.3%). In the twelve-month period, rents in Paris CBD and Luxembourg CBD remained stable, at Đ810 and Đ600 per sq m respectively, while Frankfurt saw its prime rent rise by 1.2% annually, to Đ510 per sq m. The outlook for these cities is for further inflationary pressure.

2.6%

Prime office rents across core European cities increased by 2.6% during 2018.

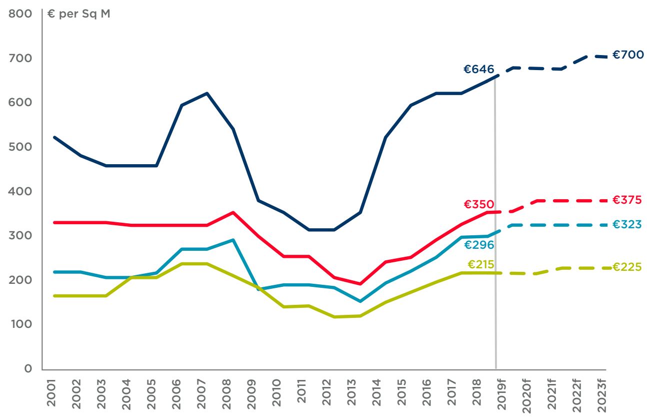
REGIONAL

Outside of the capital, prime office rents remain highest in Cork, and are now back to peak levels. Strong demand for space and a shortage of supply resulted in headline rental growth of 7.7% during 2018, to €350 per sq m.

The Cork office leasing market recorded an exceptionally strong 2018, with take up in the year amounting to just shy of 45,000 sq m, compared to 14,700 sq m in 2017. Upward rental movement is forecast to continue out to 2020, where rents will stabilise thereafter, helped by the positive delivery of much needed stock to the market.

Cork is slightly ahead of Galway, where headline rents remained stable at Ð296 per sq m in 2018. Upward pressure of 9% is forecasted for 2019, to Ð323 per sq m. In Limerick, prime rents also remained stable in 2018 at Ð215 per sq m and are expected to remain at this level for the short-medium term. However, new, high specification, city centre buildings are achieving up to Ð325 per sq m in both Limerick and Galway. Neither of these regions are performing to their market potential at present, with Galway in particular hampered by the lack of large, Grade A product to meet tenant requirements.

Irish Office Prime Headline Rents, 2001 – 2023f (€ per Sq M)



Source: Cushman & Wakefield Research

€350

Prime office rents in Cork grew by 7.7% in 2018, to Ð350 per sq m.

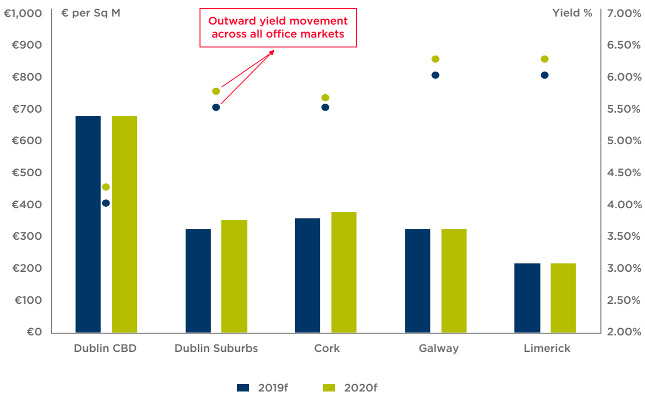
OFFICE - PRIME YIELDS

DUBLIN

The intensity of investment in the office sector in 2018, of €1.4bn, the largest share of investment spend, reflects the overall strength of occupier demand.

Dublin, not surprisingly, absorbed 88% of the spend, where volumes were highest in the secondary and suburban markets. The strength of this demand resulted in prime yields for core product remaining at 4.00% at year end, unchanged from the previous twelve-month period. Forecasts for 2019 for Dublin office yields are for another year of stability.

Irish Prime Office Rent (€ per Sq M) & Yield (%) Projections, 2019 & 2020



Source: Cushman & Wakefield Research

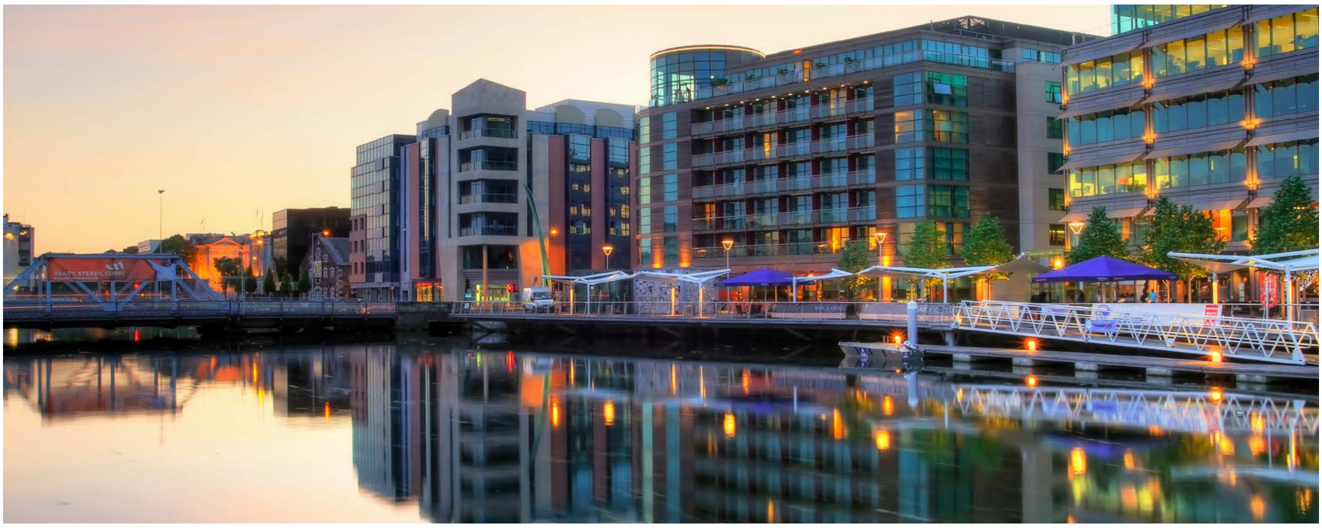
REGIONAL

A key trend which emerged in 2018 in the Irish investment market is the rise of investment volumes in the regional centres.

Cork was the main driver of this regional surge, absorbing almost 50% of the capital inflow outside of Dublin. Competitive bidding in the Cork office investment market has led to an inward movement in yields, compressing by 25 basis points (bps) in 2018 to 5.50%. However, large deals in the city centre have completed achieving an initial yield below this, including the sale of the Webworks, Eglinton Street, purchased for in excess of Đ16m. The current prime range in Cork therefore extends to 5.25 - 5.75%.

Prime office yields in both Galway and Limerick also compressed by 25 bps in 2018, standing at 6.00% and 6.25% respectively at year end.

Prime office yields across all locations have experienced significant compression over the past number of years. Yields are forecast to hold stable for 2019 and this is also the case across Europe. Anecdote provides the basis of this projection in stability, with QE coming to an end, caution due to economic and geopolitical risks, and limited availability of product, all of which may act as a brake for growth in investment volumes this year. From 2020, expected market conditions, taking the Irish 10-year government bond movements and the prospect of interest rate changes into consideration, yields across all office markets are projected to move out by approximately 10-25 bps. This is illustrated in the accompanying graph.



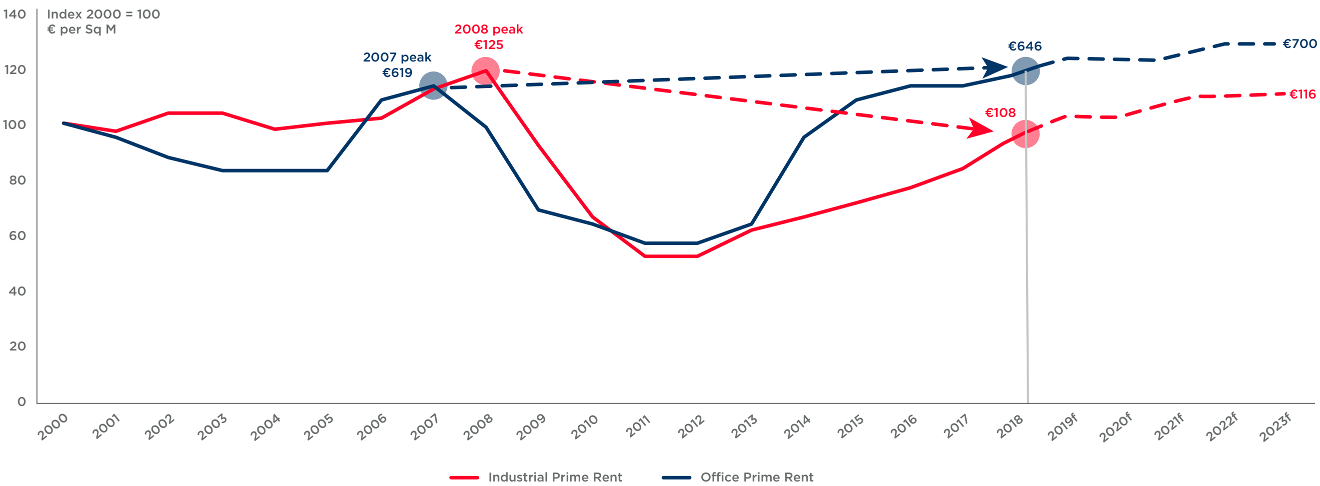
INDUSTRIAL - PRIME RENTS

DUBLIN

Rental growth continues at pace in the Dublin industrial market. 2018 saw double digit growth recorded for the first time since rental performance in the industrial market returned to growth in 2013. Increasing by 13.6% in the year, prime rents now stand at €100 per sq m, up from €88 per sq m in 2017.

Further construction cost inflation combined with demand push inflation should see industrial rents move to Đ108 per sq m for 2019, the strongest of the three core commercial sectors. The lack of good quality, large and modern product available in the Dublin market validates this outlook. However, while Dublin office rents have now exceeded their previous peak in 2007, the accompanying graph, illustrating office and industrial yields indexed to 100, portrays room expecting further growth in the industrial market. Industrial rents remain 20% below their 2008 peak of Đ125 per sq m. Likewise, with the 3-5-year econometric forecast expecting industrial rents to reach Đ116 per sq m by 2023, this still leaves the market 7% behind its previous record.

Dublin Industrial Vs Office Prime Rental Index, 2000 – 2023f



Source: Cushman & Wakefield Research

This rental story in industrial, and more specifically logistics, has shown no signs of fading across both Europe and Ireland. Logistics rents in Europe rose by 2.3% in 2018. Almost half of the 46 markets tracked registered growth over the course of the year, with Dublin standing in the top three for growth alongside Manchester and Budapest.

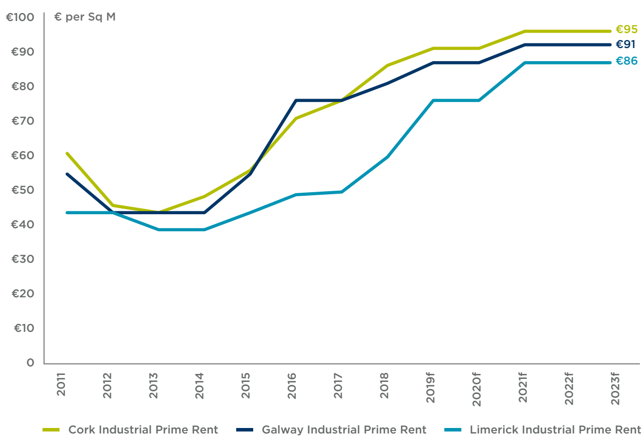
REGIONAL

Regionally, rental growth is also evident. In Cork and Galway, industrial rents stood at similar level at year end, at €85 and €80 per sq m respectively, with rents in both markets up from €75 per sq m in the same period last year.

Driven by limited supply, average annual rental inflation of 2-3% is anticipated in both markets for the next five years, to approx. Ð91-95 per sq m.

Lastly, while industrial rents remain significantly below Cork and Galway, Limerick did record 20% growth in 2018, to Ð59 per sq m. It also has a more optimistic average annual growth forecast of 8.4% for the medium term, albeit from a much lower base. As such, rents could potentially reach Ð86 per sq m by 2023. Moreover, large, advanced manufacturing units are achieving rents in the order of Ð100 per sq m in the Shannon Area of Limerick, and Ð86 per sq m on the east side of Galway city.

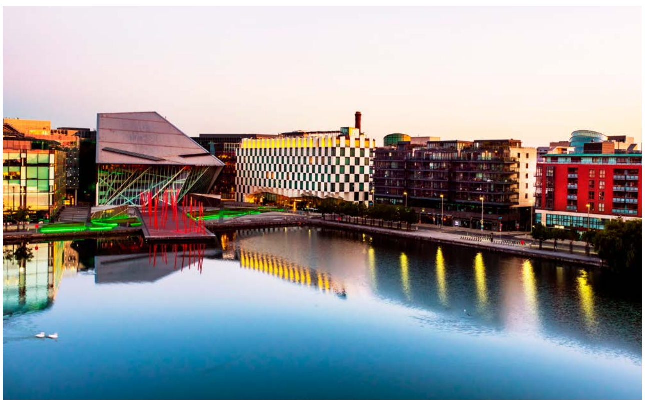
Regional Industrial Prime Headline Rents, 2011 – 2023f (€ per sq m)

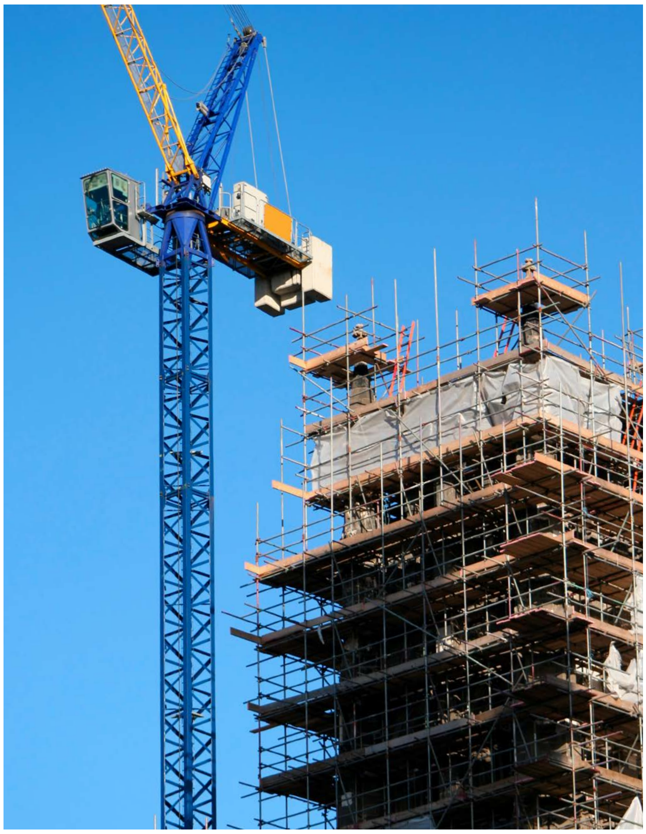


Source: Cushman & Wakefield Research

2.3%

Logistics rents across Europe rose, on average, by 2.3% in 2018.





INDUSTRIAL - PRIME YIELDS

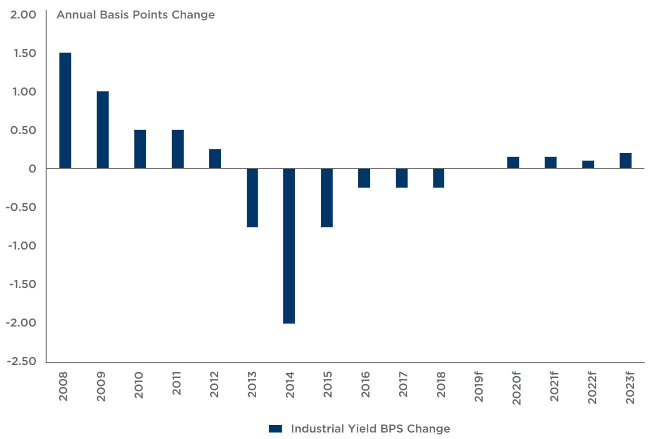
DUBLIN

Heightened investor interest in the Dublin industrial market caused a further tightening of prime yields in 2018.

Prime yields in Dublin moved inward to 5.00%, a historic low, representing an annual decrease of 25 bps. The growing interest in the logistics market in Dublin, combined with a lack of product has resulted in six consecutive years of yield compression. However, in line with the other core Dublin markets, prime yields are not expected to fall any lower and instead remain at this level for 2019, with a forecasted outward movement each year to 2023.

Across Europe, industrial, and in particular logistics, has been noted as high in investors' preferences, causing yields in the sector in 2018 to surpass the previous historic low for Europe.

Dublin Industrial Annual % Change in Prime Yield, 2008 - 2023f



Source: Cushman & Wakefield Research

REGIONAL

Investors are also looking regionally to satisfy their industrial requirements, with a particular focus on Cork.

A combination of strong demand and a lack of industrial supply in Cork, led to prime industrial yields compressing to 6.50% in 2018 and like Dublin, are also anticipated to hold steady at this level for 2019, moving outwards then to 6.75% for 2020+.

Prime yields in Galway fell 25 bps during the year to 7.75%, but are projected to remain stable at this level, with a 50 bps lower differential for advanced manufacturing units. In Limerick, strong rental value growth saw the prime industrial yield tighten from 9% to 8% in 2018. Alongside the other two regional cities, yields are projected to hold steady at this level for 2019+, with 7% being achieved for advanced manufacturing units in Limerick.

RETAIL - PRIME RENTS

DUBLIN

2018 was relatively challenging for many retailers, with key factors including the rise of e-commerce, and the ongoing uncertainty in the Brexit negotiations creating ambiguity in the marketplace.

These factors caused a slowdown in the rate of prime high street rental inflation seen in previous years.

Zone A prime rents on Grafton Street remained stable during the year, standing at Ð6,750 per sq m at the end of December, with rents on Henry Street also unchanged at Ð4,683 per sq m. However, moderate rental inflation is expected for 2019 on both streets, to Ð7,000 and Ð4,750 per sq m respectively. A very modest annual average inflation rate of 1-2% is then projected for the five-year period to 2023. That said, forecasts suggest a continuous divergence in the rental gap between both streets, with rents on Grafton Street forecast to be over 53% ahead of Henry Street by 2023, compared to 44% higher today.

Zone A Prime Rents on Grafton Street & Henry Street, 2007 – 2023f (€ per Sq M)

Source: Cushman & Wakefield Research

Retail	Dublin Shopping Centre Rents Zone A, € per Sq M		
	Q4 2018		Q4 2019f
Dundrum Town Centre	€4,650	↗	€4,750
Blanchardstown Centre	€3,400	→	€3,400
Liffey Valley Shopping Centre	€3,100	→	€3,100
Pavilions Shopping Centre, Swords	€2,315	↗	€2,370
The Square Tallaght	€1,600	→	€1,600

Source: Cushman & Wakefield Research

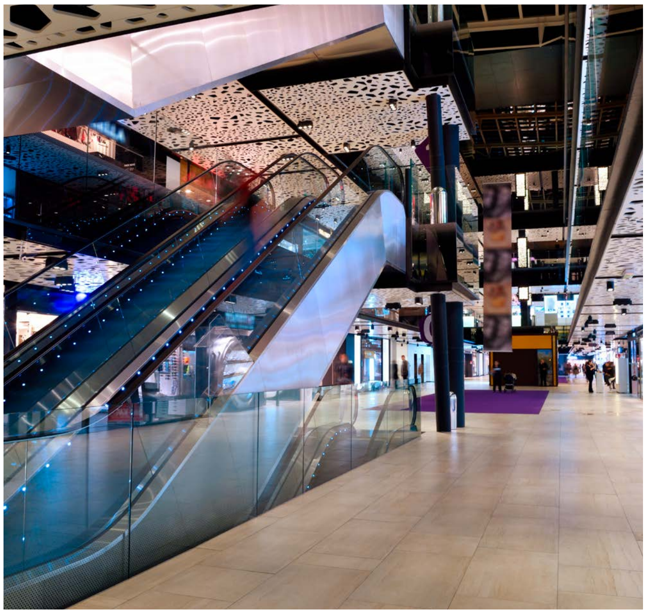
The slowdown in prime rental inflation is evident across the European high street retail market also. The average annual rental growth in Europe in 2018 was 0.1%, according to the DNA of Real Estate Europe Q4 2018. Rents were stable in over 80% of markets tracked in Q4, with growth limited to only a handful of markets.

REGIONAL

The high street prime rental story is similar in the regional centres; Galway's Shop Street saw rents remain steady at €2,400 per sq m, however a 4.4% increase was recorded on Patrick's Street in Cork, to €2,350 per sq m.

Rents in the Crescent Shopping Centre, arguably the prime shopping destination in Limerick, rose by 9.1% in 2018, to Đ1,200 per sq m, and exceeds that of high streets O'Connell Street/Cruises Street, which remained stable at Đ1,000 per sq m during the year. Further annualised growth in the order of 2-3% is forecast for Limerick retail over the next five years.

For all markets, there is scope for further rental growth, albeit marginal, given improving consumer confidence and demand as the economy approaches full employment.



0.1%

Rental growth on European high streets slowed to just 0.1% on average in 2018.

RETAIL - PRIME YIELDS

DUBLIN

Investor appetite remains strong for all prime Dublin retail assets, with institutional investors being a key player in bids for this asset type.

Given the limited availability on Grafton Street, the prime retail yield has been falling for six consecutive years, sharpening once again in 2018 to 3.25%. However, the outlook for 2019 is for yields to plateau, remaining at this level, rising thereafter incrementally each year out to 2023 to 3.70-3.90%. A similar forecast is expected for Henry Street, but with a 10-50 bps differential. Yields on Henry Street currently stand at 3.75%.

REGIONAL

Regionally, investor demand is price sensitive and asset dependent.

Prime retail yields sharpened to 5.50% on both Cork and Galway's high streets during 2018, while they stand at 6.25% in Limerick. Yields in the Crescent Shopping Centre in Limerick remained stable at 6.50% in 2018. A modest softening of about 25 bps is forecast for all three, alongside yields in Dublin retail and other core property sectors.

3.75%

Prime yields for retail units on Henry Street stood at 3.75% at year end 2018.

CONTACT DETAILS

AUTHORS

Marian Finnegan

Chief Economist,
Director Research

+353 (0) 1 237 6341
marian.finnegan@cushwake.ie

Deirdre O'Reilly

Senior Economist,
Researcher

+353 (0) 1 237 6365
deirdre.oreilly@cushwake.ie