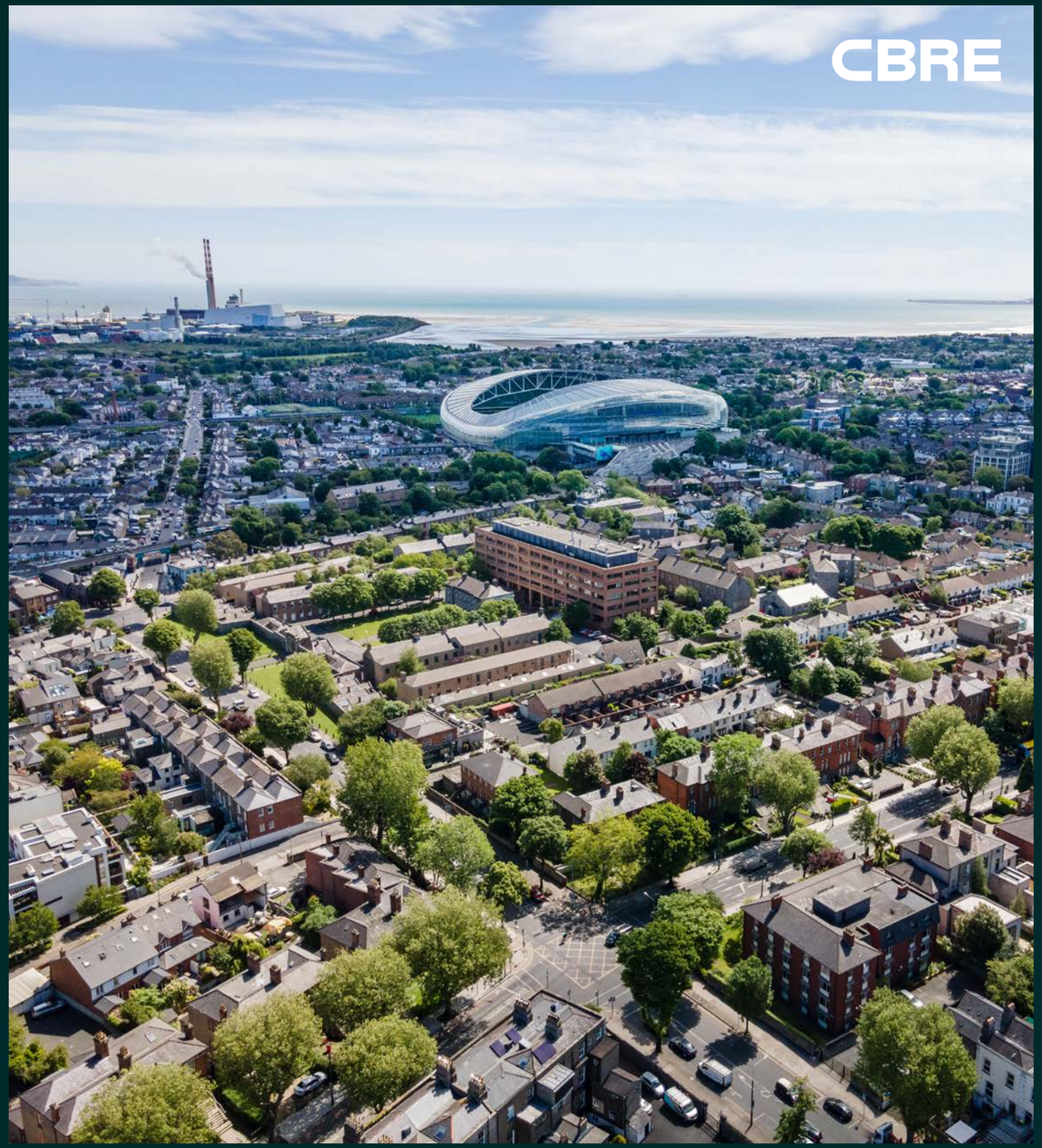
Identifying Opportunity

Market Outlook 2022

REPORT

Ireland
Real Estate

CBRE RESEARCH
JANUARY 2022



#CBREOutlook2022

Contents

01

Introduction

"The weight of global capital targeting investment opportunities in Ireland is expanding"

Introduction

Myles Clarke
Managing Director, CBRE Ireland

Welcome to the 33rd edition of CBRE Ireland's Outlook report, detailing our perspective on likely trends in each sector of the commercial real estate market in 2022 and the opportunities that we foresee emerging for our clients in the year ahead.

Despite the continued disruption Covid-19 caused to business and our daily lives last year, real estate has demonstrated remarkable resilience as an asset class and professional services sector. We experienced a dramatic rebound in activity levels in 2021 driven by the robust economic performance of the Irish economy and continued search for yield by the international investment community.

The resurgence of inflation has grabbed headlines around the world but financial markets are yet to be convinced that this phenomena is more than a transitory influence, primarily caused by supply bottlenecks. Government bond yields remain low while equity markets continue to rally providing a supportive background for institutional demand to allocate in favour of commercial real estate.

The weight of global capital targeting Ireland is expanding and we at CBRE have been particularly focused on marshalling funds to growth sectors such as healthcare and the recovering retail and hospitality sectors. We expect financial conditions will support ever lower yields as the assets concerned still offer returns superior to the geographic centres from where the capital originates. Furthermore, this will encourage the deployment of capital into new sectors such as life sciences and renewables where CBRE is experiencing unprecedented levels of interest in other jurisdictions – watch this space!

CBRE Ireland HQ, Connaught House, One Burlington Road, Dublin 4

Job Creation

Any questions regarding Ireland's attractiveness as an FDI destination given the countries decision to move to a 15% corporate tax rate in 2021 have been swiftly answered by another record year for the IDA in attracting new jobs to the State in 2021. Our office occupier business benefitted with a rebound in new tenant enquiries and lettings in the second half of the year, most notably the letting of the new EMEA headquarters for TikTok in the Sorting Office building in Dublin Docklands. This momentum from new occupiers looks set to continue in 2022.

Infrastructural Challenges

Ireland remains a very attractive place for the new growth sectors of tech, biotech and fintech to establish their EMEA headquarters.

A potential limit to this will be the State's ability to grow the infrastructure necessary to accommodate our growing population and the associated economic opportunities. In particular, the ongoing crisis in housing might deter significant employers from locating in Ireland if the Government's 'Housing for All' strategy fails to deliver.

With this in mind, we are conscious of some of the unhelpful commentary that brands any and all international investment into the housing sector as 'vulture' or 'cuckoo'. This serves only to alienate the low-cost sources of capital supply the State needs to fund the new stock of housing we need to mitigate the high prices and rents citizens currently face. We look forward to a more constructive debate in 2022 on how to tackle this most serious of issues for the country.

Sustainability & Placemaking

The theme of sustainability continues to grow in importance at CBRE and with our investor, developer and occupier clients. Our sustainability team, headed by Rachael McGinley, is engaged in exciting instructions to advise clients on how to attain the standards that are expected now by international capital and also the corporate priorities of occupiers.

Riverside Walk & Skate Park, Kilkenny

Having an appreciation of how commercial activities effect the local communities in which they operate is increasingly under scrutiny as a part of clients' broader ESG strategies. For that reason, we were delighted to once again support the annual ULI Ireland 'Excellence in Placemaking' awards in 2021. This competition celebrates and champions the endeavours of developers, local authorities and communities around Ireland that create great public realm. Congratulations to The Riverside Walk and Skate Park in Kilkenny, who were worthy winners of the overall competition in 2021.

Identifying Opportunity

The landscape for commercial real estate is dramatically different from the last decade, yet long-term financial trends and the growth trajectory of the Irish economy remains intact. We at CBRE look forward to working with you in 2022 to identify opportunities that are emerging as a result of this constructive outlook.

Nothing would be possible without the diligent and thoughtful work of our fantastic people at CBRE Ireland – I thank each of them for their commitment to excellence in every dimension during another challenging year.

On behalf of everyone at CBRE, thank you for trusting us to help you navigate the challenges and opportunities of 2021. We look forward to partnering with you again in the year ahead.

02

Review of 2021

"For the real estate sector to have performed as well as it did in 2021 is remarkable"

Review of 2021

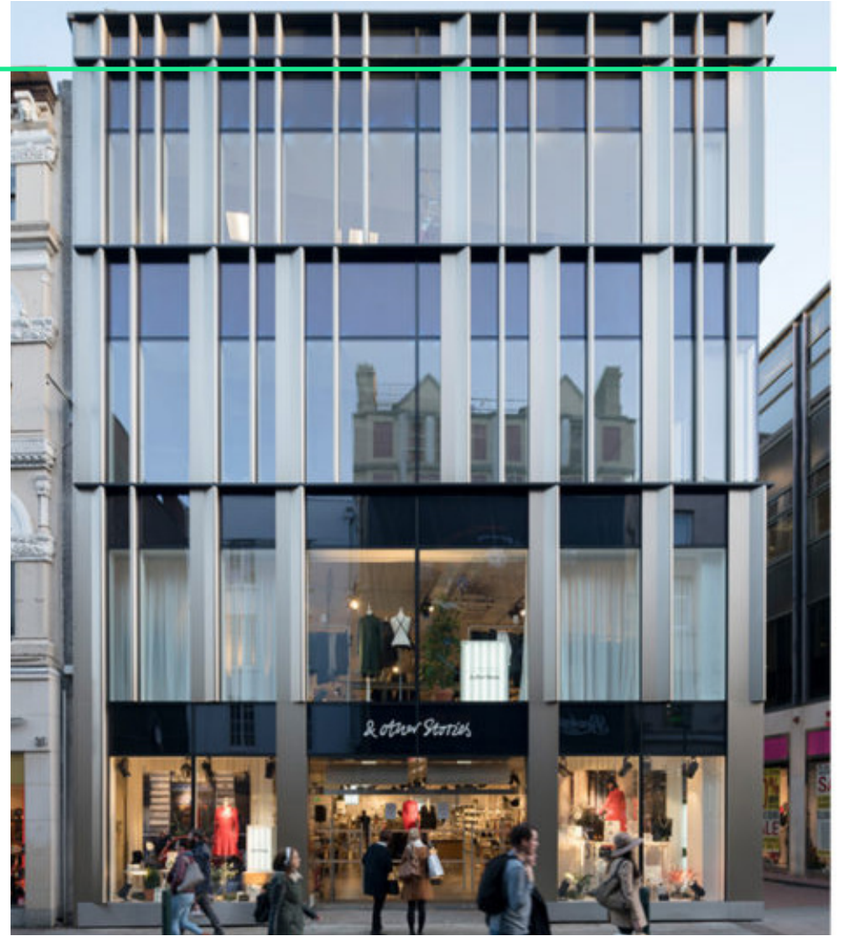
The Irish commercial property market performed better than anyone expected at the beginning of 2021 when there was genuine concern about the potential implications for the market of altered shopping, living, working and socialising habits. For the real estate sector to perform as well as it did in 2021, considering the challenging backdrop of one of the harshest lockdowns in Europe, is remarkable.

Looking at annual transaction volumes, it is clear that the inability of investors and occupiers to travel to inspect opportunities had a particularly negative impact on activity in Ireland during the first half of the year. We began to notice leasing velocity picking up pace in all occupier sectors and in the development land market as well as greater momentum in the investment market once lockdown eased.

Indeed, activity and transaction volumes in all sectors were considerably better in the second half of 2021 than in the first six months of the year. Transaction volumes in Q3 were more than double the first two quarters combined in many sectors, such was the resurgence in occupier and investor activity witnessed. A strong Q4 followed, frustrated only by the length of time it took to conclude transactions, meaning that some deals didn't sign by year-end and instead will provide a strong boost to Q1 2022 figures.

A number of new entrants deployed capital in the Irish real estate market for the first time in 2021, encouraged by the market's liquidity as well as supportive economic and demographic fundamentals. 2021 also saw a recovery in liquidity for well-priced retail assets.

It was particularly encouraging to see momentum improving and values stabilising in the retail, hotel and hospitality sectors of the economy, which were so negatively impacted during lockdown. Rents and yields in all sectors began to stabilise during the second half of the year with Q3 marking a clear turning point in this particular cycle. Very significant variances between sectors continued to prevail however with the industrial and logistics sector being the clear out-performer last year.



Retail investment on Grafton Street, Dublin 2, acquired by CBRE during 2021

Offices

Despite dire predictions about the 'future of the office', job creation and office-based employment continued at pace throughout 2021. By year-end, office requirements had reverted to pre-pandemic peaks with many occupiers confident to proceed with location and expansion decisions.

It is telling that prime office yields remained unchanged right throughout the pandemic, copperfastening both occupier and investors convictions about the office sector over the longer term. Another remarkable development during 2021 was the sight of prime office and prime industrial yields converging for the first time as the weight of capital targeting the industrial and logistics sector increased significantly.

The Year of the Shed

The industrial & logistics sector proved to be the star performer throughout 2021, having been boosted by Brexit and pandemic-related demand. Indeed, investment spend on industrial & logistics properties set a new record in the Irish market during 2021, mirroring trends witnessed elsewhere in Europe.

2021 also saw a record volume of investment in Ireland's healthcare sector with investors looking at a myriad of different types of transactions and resorting to development in order to secure nursing home stock in some cases. We also saw renewed interest in hotel investment properties and purpose-built student accommodation - a trend that is likely to gather pace in 2022.

Demand for Beds

2021 saw institutional investors focussing considerable attention on opportunities in the residential sector in Europe, encouraged by the extent to which this sector demonstrated its resilience throughout the pandemic. There were several new entrants to the Irish multifamily market throughout 2021, attracted by a combination of economic and demographic factors as well as the severe shortage of affordable housing of all types and tenures. In the absence of standing stock, many of these investors opted to pursue forward-commitment and forward-fund transactions in an effort to access stock and deliver much-needed new accommodation.

One of the biggest issues currently facing the Irish Government is the severe imbalance between supply and demand in the housing sector and in this vein it is critically important that we continue to facilitate investment and delivery. Without international capital and collaboration between the public and private sectors, the ability to deliver on the Government's ambitious 'Housing for All' objectives will be compromised.

ESG

The extent to which sustainability and EU taxonomy moved up the agenda of occupiers, investors, developers and lenders during 2021 was particularly remarkable. Sustainability is clearly gaining momentum and will necessitate investment by the property industry, not least in terms of the skillsets of the next generation of surveyors and property professionals.

Research produced by CBRE last year, for the first time, identified the green premium that certified buildings generate over secondary equivalents and the difference in performance between new and old buildings. We can expect this issue to gather momentum in the year ahead.

The Year Ahead

2022 will inevitably bring its own challenges but having demonstrated remarkable resilience and perseverance throughout the last two years, Ireland's commercial property market will no doubt approach the year ahead with renewed enthusiasm.

The proportion of capital allocated to real estate has grown exponentially and this will increase further over the course of the next 12 months as inflationary pressures escalate.

With construction severely constrained since the onset of the pandemic, 2022 will hopefully see a number of new schemes commencing on site as the market gears up for the next cycle.

03

Market Outlook 2022

"Several investors reorienting their portfolios and reducing exposure to certain types of real estate"

Market Outlook 2022

Will 2022 herald a return to 'normal' (i.e. 2019) or a new paradigm for the Irish real estate market? The theme of this year's Outlook report is 'Identifying Opportunity' on the basis that while the Irish economy and its real estate sector have faced significant challenges over the last two years in dealing with Covid-19, the pandemic has also unearthed significant opportunity. As we dust ourselves off and prepare for another year ahead, having learned valuable lessons during the last two-year period, further opportunity will undoubtedly present itself.

While Ireland's economy continues to perform exceptionally well, one of the biggest concerns at this juncture centres on inflationary pressures albeit we believe that this is transitory. Supply-side constraints, labour shortages and high energy prices should dissipate in the second half of the year, bringing inflation back down towards 2%.

At this juncture, CBRE expect that the European Central Bank (ECB) will keep short-term policy rates on hold until at least 2023. Long-term interest rates will drift up from historically low levels. Strengthening rental growth should however be sufficient to offset any slight rise in the cost of capital. Prime property will therefore remain a compelling asset class for investors in the year ahead.

Investment activity was exceptionally strong in 2021 and we expect this momentum to continue in 2022 as investors focus on the cities and sectors that offer the best liquidity.

The polarisation between different sectors that characterised the Irish property investment market last year is certain to remain a feature in 2022 but we can also expect to see growing divergence within sectors, particularly in terms of a widening spread between prime and secondary buildings.

The logistics, office, healthcare, and residential sectors are expected to be prominent again in 2022. We will also see renewed focus on well-priced retail and hotel investment opportunities that come to the market.

Investment Activity

The core focus for investors will be on identifying opportunity and growing portfolio income. We will see several investors reorienting their portfolios and reducing exposure to certain types of real estate in favour of other sectors or building types, with much of this strategic change influenced by concerns about ESG. Agility has always been important in terms of real estate strategy - it is now essential.

Alternative Sectors

Investors and developers are clearly now more confident in making strategic decisions and are willing to move up the risk curve into the value and opportunity space. In addition to moving up the risk curve, some will also move up the complexity curve in terms of the nature of deals and the sectors they are specifically targeting. Life sciences will again be in the spotlight.

While the investible universe in alternative sectors in Ireland is still small, life sciences will continue to evolve as a number of defined clusters close to research universities, teaching hospitals and specialist operators emerge.

We also expect to see investors exploring the potential of alternative sectors including film studios, energy infrastructure, self-storage, senior living, and data centres.

ESG

The events of the past two years have sharply raised the profile of the ESG agenda. Indeed, ESG is now the lens through which occupation, development, investment, and funding decisions are made and we expect that 2022 will mark a step change in ESG becoming an integral factor across the full range of real estate decisions. ESG is evolving from a balance sheet issue to a critical component of development, investment and funding decision-making.

As sustainability gathers even more momentum, particularly now that EU Taxonomy legislation (a classification scheme that determines the environmental sustainability of the construction of new buildings, renovation of older buildings and the acquisition and ownership of buildings) has come into force since January 1st, entities will look to differentiate themselves in how they develop, operate, and manage real estate.

Competitiveness

Now that Ireland has signed up to the OECD tax deal which will see the minimum rate of corporate tax increasing from 12.5% to 15% for some companies from 2023 onwards, competition for investment and talent will escalate. Ireland will therefore have to be more agile and focus more on competitiveness in areas outside of corporate taxation that has been so instrumental in attracting Foreign Direct Investment (FDI) in recent decades. Addressing high levels of personal taxation and the availability and affordability of housing will now be critical for Government. A focus on speeding up the national broadband programme and the rollout of renewable energy will also be essential in this respect.

The Year Ahead

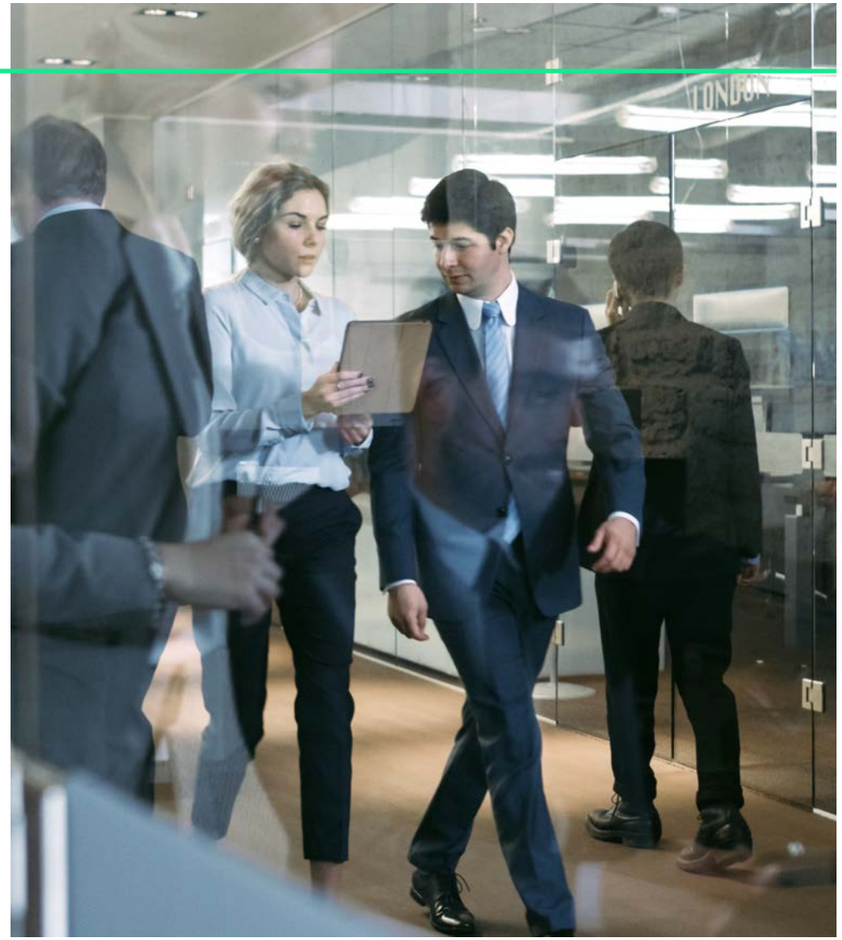
The prospects for Ireland's real estate market in 2022 are promising. The main market metrics, such as investment turnover, sales activity and leasing volumes are already well into recovery phase and are set to increase further over the course of the next 12 months. While supply bottlenecks, price increases, inflationary pressures and the still-uncertain course of the pandemic are key risks in the short to medium term, strong occupier and investment demand and stable short-term interest rates will support confidence and unlock opportunity in the year ahead. The issues of viability and affordability will however remain a central theme throughout 2022.

04

Funding Outlook 2022

“The more immediate focus for most lenders in the year ahead will be around ESG as opposed to imminent interest rate rises”

Funding Outlook 2022



On the back of the resilient and better than expected performance of the Irish commercial real estate market in 2021, there was good momentum in the lending sector. A range of funding providers are looking for opportunities to grow their presence and increase market share in Ireland.

The pillar banks, once the dominant players in the Irish property sector, now face strong competition from investment banks, insurance companies, international balance sheet lenders, debt funds and alternative lenders. Even though last year saw announcements about the departure of both Ulster Bank and KBC from the Irish landscape, we also saw the emergence of several new entrants to the market, including a number of debt funds. There was a particular focus on lending into the residential sector considering the extent to which the Irish housing market remains undersupplied and the huge opportunity this poses for a range of stakeholders. This will continue to be a key focus in 2022.

Sustainability

With the office market showing signs of recovery, appetite to fund this sector remains strong both in terms of funding the development of new schemes and the greening of existing security through the retrofit and refurbishment of secondary buildings to bring them up to acceptable ESG standards. This trend is going to escalate in all sectors over the coming years as the importance of sustainability continues to increase.

With EU taxonomy regulation now impacting on both the ability to source funding and the cost of capital, borrowers, particularly those that are long-term holders of real estate, are keenly aware of the importance of sustainability and their duties in this respect. Lenders too are becoming increasingly aware of the impact sustainability will have on the value of the security backing their debt investments.

Industrial & Retail

Needless to say, considering the trajectory of the industrial and logistics sector and the severe shortage of accommodation prevailing in this sector, lenders will be keen to fund this sector again in 2022.

Although there are now clear signs of stabilisation emerging in the retail property market, with a notable improvement in liquidity for well-priced assets, we expect that most lenders will remain reluctant to lend against schemes that are overweight in retail for some time yet. Lenders will remain selective about the specific type of retail they will be comfortable lending against with neighbourhood schemes, grocery-anchored schemes, and retail parks likely to be favoured.

Regulation & Policy Change

Recent Central Bank of Ireland proposals to cap leverage levels to 50% for all Irish-regulated property investment funds is generating considerable debate and will impact on the strategic direction of these investment vehicles over the coming years. We expect to see strong consultation on this particular proposal over the coming weeks. This latest intervention comes immediately on the back of several Government policy interventions in the market in 2021 and a very difficult planning backdrop.

A combination of these factors has created uncertainty around viability in many instances, delayed delivery and complicated due diligence from a funding perspective.

Proposals contained with the draft Dublin City development plan and the draft Dun Laoghaire Rathdown development plan will pose further challenges if implemented.

Residential & Operational Real Estate

In spite of all these challenges, the underlying strength of the residential market and the supporting economic and demographic drivers gives lenders comfort around levels of demand for the end product. This will continue to be the case in 2022 with demand for both debt and equity remaining strong. We also anticipate increased appetite amongst lenders to fund the development and acquisition of purpose-built student accommodation opportunities.

Following on from a broad recovery in the hotel and leisure sector in 2021, we also expect to see more liquidity for hospitality assets over the course of the next 12 months. Although alternative sectors of the Irish market such as healthcare, senior living, data centres and life sciences are less mature than elsewhere in Europe, there is growing investor appetite to diversify into these sectors which will foster increased opportunity.

Competitive Landscape

The lack of activity from local balance sheet lenders will continue to attract alternative lenders in 2022, improving competition for those seeking to acquire or reposition assets and fund new development. The Irish pillar banks will remain active but real money debt funds will be their primary competition as sponsors seek competitive refinancing options. We will see some new lenders quoting on deals this year and we will also continue to see certain pension funds and insurance companies looking to raise capital to deploy as debt. Much of the focus will be on the Dublin market but lenders are getting more comfortable with provincial locations, particularly in cases where there are strong reliable sponsors and platforms to provide comfort.

The Year Ahead

Inflation has understandably become a concern over the last 12 months on the basis that this will likely feed into interest rate hikes in the Eurozone from 2023 onwards. This will clearly have a bearing on the lending market as banks and alternative lenders adopt a more conservative approach in their underwriting. 2022 could provide the last window in this particular cycle to lock-in refinancing at more attractive rates.

The international appetite to lend into Ireland remains strong and the competitive tension new lenders create means that borrowers now have multiple options when considering what type of lender and leverage best suits their needs. We are not expecting any major change to lending terms or loan-to-value rates compared to the year just gone. Rising interest rates from 2023 will in time lead to a higher cost of debt. Despite this, the more immediate focus for most lenders in the year ahead will be around ESG as opposed to imminent interest rate rises.

05

Offices

“Although many corporates remain unsure of their longer-term office requirements, occupiers are beginning to explore growth and expansion opportunities again”

Offices

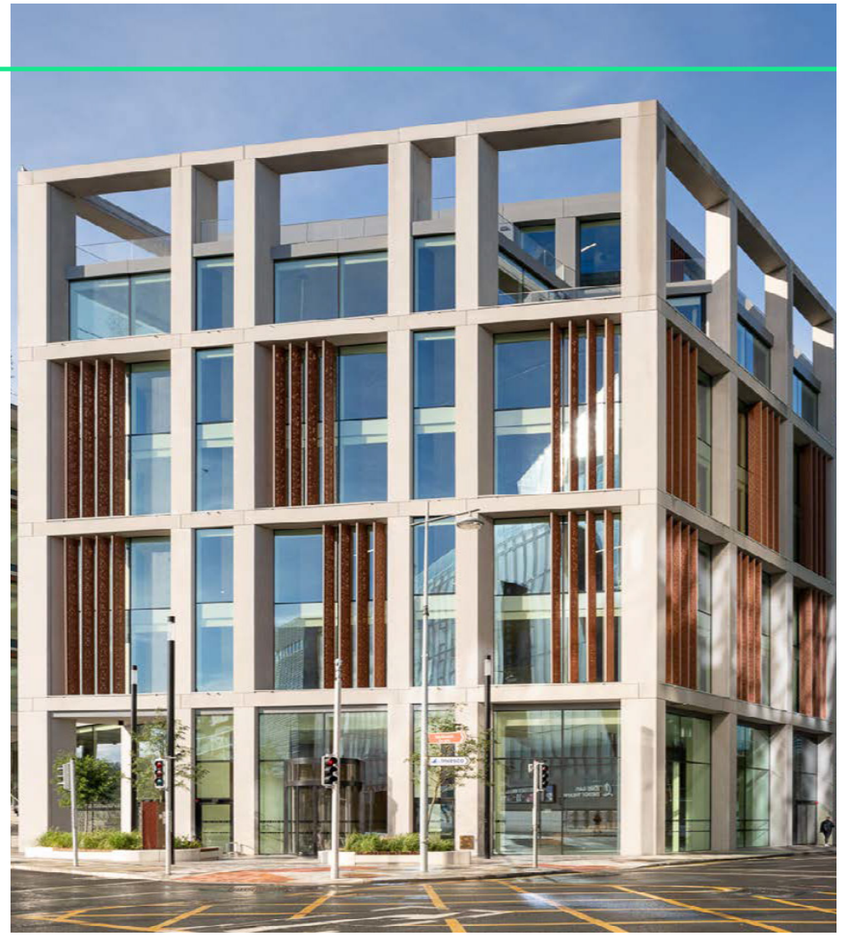
2021 was a year of two distinct halves for the Dublin office market with a notable pickup in demand and leasing activity experienced following the easing of lockdown restrictions in the Summer. Many of Ireland's largest employers continued to perform well in spite of, and in some cases as a result of, the pandemic, with job creation continuing to feed into demand for office accommodation in the capital and other provincial cities. However, the stop/start nature of Government guidance on 'working from home' had a definite impact on the urgency of office requirements and the length of time taken to complete transactions. Therefore, despite demand rebounding in the second half of 2021, annual leasing volumes remained well below the long-term average, with take-up having reached more than 153,000 m² during the year.

While we anticipate a further improvement in take-up in 2022, boosted to some degree by the carryover of some transactions from last year, it is likely to be 2023 before leasing velocity returns to pre-pandemic levels.

The market will, for the foreseeable future at least, primarily comprise small-to-medium takes of space as opposed to large lettings, which will necessitate landlords facilitating multi-let strategies. We expect good momentum in the 1,858m² to 5,576m² (20,000 - 60,000 sq. ft.) size category in particular. While the technology sector will be dominant, we also anticipate demand from professional services firms and the business and financial services sectors.

Some occupiers will be more strategic in their use of flexible accommodation as they test new ways of working. Alongside rising demand, the occupier base in the flex market will therefore become more diverse as sectors such as law and finance increase their use of flex accommodation. We expect to see more innovative brands and differentiated offerings emerging in the flex market.

As the market evolves to a more agile hybrid model and office occupiers increasingly focus on consolidation and driving efficiencies, some companies with surplus accommodation may look at adopting a flex model to manage and monetise accommodation when it is not required.



The Sorting Office, Dublin 2 - The letting of more than 19,797m² to TikTok on behalf of Mapletree

Flight to Quality

2022 will see greater divergence in performance and pricing between prime and secondary office buildings. The 'flight to quality' trend, will increasingly see occupiers and investors favouring new and more sustainable buildings.

Buildings (whether single let or multi-let) that demonstrate the highest standards of sustainability, wellness and placemaking and provide the best communal facilities and amenities in campus style environments will ultimately fare best. We will also see increased focus on the public realm.

Sustainability

ESG will undoubtedly continue to gain momentum over the course of 2022, particularly as there is now growing evidence of a green premium for the most sustainable buildings.

As EU taxonomy gathers pace and developers seek to future-proof offices, in addition to focussing on attaining accreditations such as NZEB, LEED and BREEAM, we will see greater emphasis on the ongoing management and operation of buildings.

Increased focus on carbon reduction will also lead to more refurbishment and redevelopment of older office buildings as opposed to replacing them with new buildings.

Values

We expect to see some upward pressure on prime rental values over the course of 2022 from a current rate of approximately €619 per square metre (€57.50 per sq. ft.). We also expect to see break clauses moving out from 5 years to 10 years over the course of 2022.

Supply

The closure of construction sites in 2020 and 2021 impacted negatively on delivery dates of several office buildings and schemes. Of the approximately 240,000m^2 of offices under construction and due for delivery in Dublin in 2022, 56% has already been pre-let. We are not expecting to see many new office schemes entering the planning process in 2022. However, considering the length of time it takes to deliver new stock, it is important that schemes with planning move to commence construction to ensure consistency of supply over the coming years.

The Tropical Fruit Warehouse, Dublin 2 - 7,454m^2 office building due for delivery in 2022 - *CGI courtesy of IPUT Real Estate Dublin*

The Year Ahead

The year ahead will see clearer evidence emerging regarding corporates shift towards hybrid working policies, much of which has been experimental so far.

Although many corporates remain unsure of their longer-term office requirements, occupiers are beginning to explore growth and expansion opportunities again which bodes well for the year ahead. Continued growth in office-based employment will support an increase in leasing levels and moderate rental growth in 2022.

Much of the grey space that made up the bulk of the increase in availability over the last 18 months has now been leased. Occupiers with an appetite to expand or upgrade offices should therefore expect reduced choice of quality accommodation as availability edges lower in 2022.

There is therefore potential for some pre-lettings to be agreed over the course of the next 12 months. With a severe shortage of modern office stock prevailing in the regions also, developers in a position to proceed with the development of speculative schemes will be rewarded as demand for provincial locations increases.

It remains to be seen to what extent Ireland's move to a minimum corporate tax rate of 15% will have an impact on foreign direct investment volumes in due course. To date, the announcement does not appear to have had any discernible negative impact on job creation or demand for office accommodation.

However, against this backdrop, other elements of Ireland's overall competitiveness including personal taxation and delivery of infrastructure such as broadband and housing will now come into sharper focus.

Coopers Cross, Dublin 1 - 36,604m² office scheme due for delivery in 2023

06

Retail

“Consumers now expect a diverse tenant mix and a compelling customer experience”

Retail

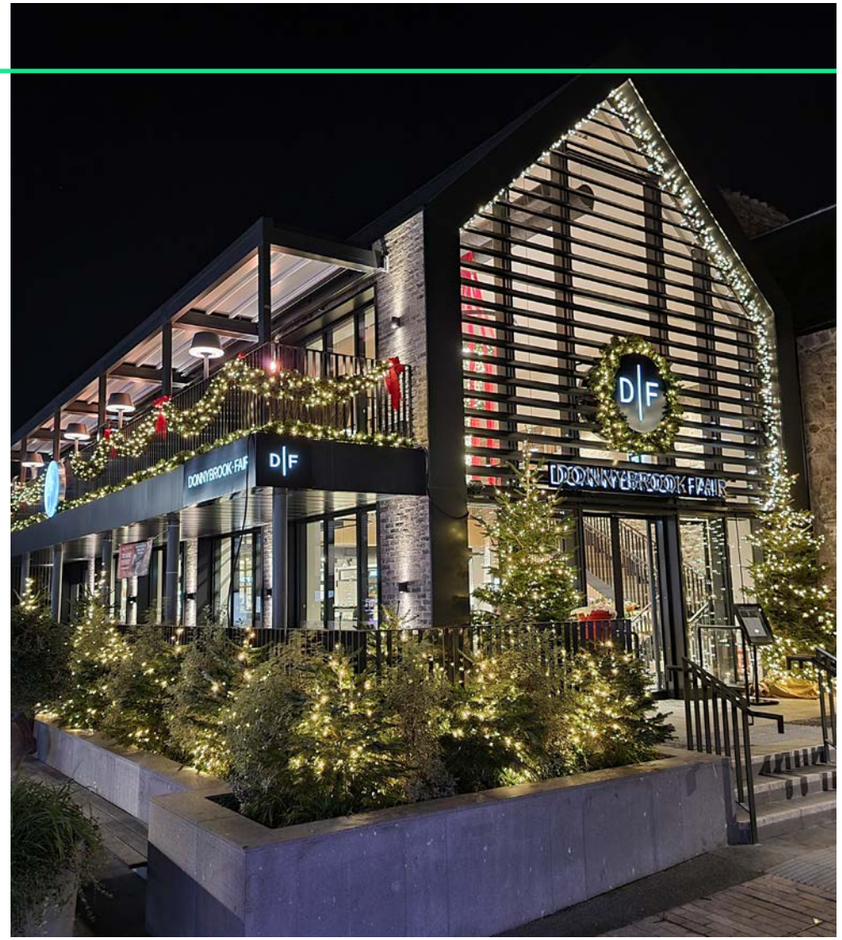
The performance of the Irish retail market has been inextricably aligned to the duration and severity of lockdowns imposed during the last two-year period. Considering the extent to which parts of the retail sector were negatively impacted during the various phases of lockdown, the rebound in consumer confidence, footfall and retail sales experienced since restrictions were relaxed last Summer has been remarkable.

Encouragingly, this positivity, coupled with the ability of potential occupiers to travel to inspect opportunities, translated into a high volume of retailer enquiries and a good recovery in transactional activity in the retail property market throughout the latter half of 2021 and in the run up to Christmas. Consequently, a number of new entrants are due to open their first Irish stores this year. There is particularly strong appetite for prime stores on Grafton Street and in out-of-town shopping centres such as Dundrum Town Centre. Meanwhile, demand for provincial retail opportunities remains limited to key shopping centres and streets in major cities for now.

Recent activity has been slow to convert into completed deals for a combination of reasons but predominantly due to the level of due diligence required to conclude negotiations in the current climate as well as delays in obtaining fire certificates and/or necessary planning consents. This has resulted in some retail leasing activity carrying over into 2022.

Retailers are attracted by the sales densities achievable in Ireland in comparison to other jurisdictions. They are also attracted by the ability to negotiate more favourable terms than were available pre-pandemic albeit the level of rental decline experienced in the Irish retail market since the onset of Covid-19 has been considerably more muted than experienced in the UK.

With virtually no new schemes having been developed in the last decade, the Irish market has been insulated to some degree. Indeed, many prime retail units that closed during the last 24 months have since gone under offer or been relet to other retailers as opposed to the situation in the UK where many vacant units have been, or are in the process of being, repurposed for alternative uses.



Donnybrook Fair store at Dundrum Town Centre, which opened in 2021

Omnichannel

Ecommerce penetration increased sharply during lockdown. Though it has since moderated somewhat, it remains above pre-pandemic levels and will continue to rise further in 2022. The success of store-based retail will increasingly rely on a strong omnichannel strategy and closer integration between online and offline experiences for consumers.

Changing Lease Structures

There is now a greater appreciation of the need for collaboration between retail landlords and tenants. The vast majority of new lease commitments in the Irish market are demonstrating more flexibility around lease term. Depending on use type and location, lease commitments can range from 10 to 15 year terms, with break options at year 5 or year 10. As the retail sector continues to evolve, this is likely to remain the case.

Many landlords are embracing this trend of shorter leases, seeing it as an opportunity to take a more active role in asset management and stimulate churn in order to retain the appeal of schemes to consumers who now expect a diverse tenant mix and a compelling customer experience.

In schemes and locations where there is competitive tension for particular units, a partial recovery in rents is expected in 2022 although rental growth is likely to prove elusive in the fashion, footwear and leisure sectors for some time yet.

Sectoral Differences

There remain significant variances in performance between sectors and sub-sectors of the retail market with demand for convenience, leisure, grocery, and homewares remaining strong. Demand for retail parks and neighbourhood retail remains buoyant while the high street continues to be impacted negatively by lower volumes of office workers and tourists. It will be later in 2022 before this situation alleviates.

The food and beverage sector continues to evolve and we expect to see more diversification in 2022 as operators trial new concepts and new entrants seek to establish a presence.

Lululemon opened their first standalone flagship store on Grafton St. in 2021 - The first arm's length long term letting signed on Grafton Street since Q1 2020

Retail Investment

In addition to demand from potential occupiers, investment interest in stabilised retail assets has also increased over the last 12 months and we expect to see increased focus on retail investment opportunities during 2022.

To date, investment has been led by retail parks and retail warehouses. Pricing for these assets is likely to continue to outperform shopping centres and high street units for the foreseeable future.

Rental and capital value expectations will ultimately dictate appetite for this asset class in 2022.

The Year Ahead

From a property perspective, we are confident of a busy year ahead for this sector. Supply chain disruption will continue to create inflationary pressures for both retailers and consumers in 2022. The cost of store fit-outs will remain a concern while the scarcity of labour will also prove challenging for some retailers in the year ahead.

However, the biggest concern for retailers in the short to medium term is the threat of further lockdowns or restrictions being imposed. Hopefully, as the year progresses, this threat will alleviate, and this resilient sector can start to truly recover from what has been an unprecedented number of years.

Bray Central - the first new retail development to open in Ireland since 2010 - approx. 25,000m² mixed-use scheme is being developed by Oakmount and is due for completion in 2022

07

Industrial & Logistics

“The volume of capital targeting industrial and logistics continues to increase, and this is expected to lead to further yield compression over the next 12 months”

Industrial & Logistics

2021 was a record year for the industrial and logistics sector of the property market. Macroeconomic recovery and strategies to tackle global supply chain disruptions added heat to an already booming logistics market with the pandemic and Brexit adding further to this momentum in Ireland's case. An increasing number of occupiers, including logistics providers and retailers, have altered their traditional supply chains, and are now holding more inventory in-country, which in turn has stimulated demand.

Occupier take-up in Dublin reached more than 265,000 square metres last year, hampered only by a shortage of supply of modern premises while investment spend on industrial and logistics assets was the highest ever recorded at more than €982 million.

Ireland also experienced record levels of data centre activity during 2021 albeit to date we haven't witnessed data centres being acquired for investment purposes as is the case elsewhere in Europe. In most countries, the discussion on data centres focusses on how these facilities should be powered and where they should ideally be located.

In this respect, recent guidance from the Irish Government suggests that data centres should have an alternative backup source of power to negate any potential risk to the national grid. Over the coming years, we anticipate changes to traditional location patterns with more data centres likely to be concentrated outside of Dublin in the surrounding counties and in Cork.

Prime rental values in the Dublin market are currently €113 per square metre. Rising build costs and site value inflation will put further upward pressure on industrial rents in 2022 with rents likely to surpass €118 per square metre before the year end. Rising rental costs will prove particularly challenging for some cohorts of end user such as 3PL companies.

Lease Terms

The sheer weight of investor capital targetting this particular sector over the last 12 months saw prime yields reach an all-time record of 4% - on par with prime offices - which is remarkable considering that prime yields were close to double digits a decade ago.

A combination of rental growth and yield compression has led the industrial and logistics sector to be a clear outperformer, achieving a total return of more than 20% in the year to the end of Q3 2021 and with further capital value growth on the horizon in 2022. The vast majority of leases being signed in this sector of the market are now 10-year commitments with investors willing to pay premiums for new build facilities offering longer term certain periods of 15 years or more.

Unit 2 Quantum Distribution Park, extending to 8,503m² pre-let by CBRE to Harvey Norman on new 20 year lease. - *CGI courtesy of IPUT Real Estate Dublin*

New Stock

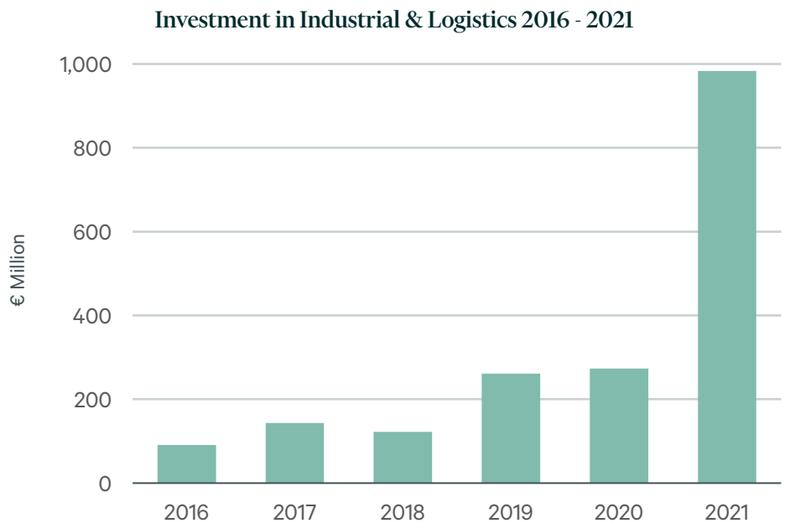
High demand and record low vacancy rates will encourage developers to deliver new supply in 2022 with developers willing to take on more risk and kickstart speculative schemes. We expect to see a notable increase in speculative development of industrial and logistics accommodation this year with development already underway, or due to commence, in several locations. Against this backdrop, we expect to see further upward pressure on land prices in 2022 with a particular scarcity of zoned land in South Dublin.

In addition to the development of large 'build-to-suit' facilities and the speculative development of additional phases to existing schemes, we expect that some specialist developers will begin to focus on the delivery of smaller own-door units and pursuing a multi-let strategy to cater for specific demand at this particular end of the market.

Sustainability

Sustainability is starting to become a key priority for logistics occupiers, developers, and investors with many making pledges on sustainability, efficiency, and renewable energy use. Several industrial occupiers are now considering the climate change implications of logistics transportation and in turn altering distribution patterns, routes, and suppliers. The new wave of speculative development is clearly embracing ESG standards, not just to achieve necessary NZEB accreditation but to satisfy end users and help secure green financing.

Renewable energy is now a key consideration for many tenants in this sector with most new developments incorporating an element of renewable power sources and some older buildings being retrofitted for solar panels. Many occupiers are now integrating electrical vehicles into their fleets meaning that landlords in turn need to incorporate electric charging points within schemes. Ironically, the development of electric cars and associated infrastructure will in due course be an important driver of demand for industrial and logistics buildings.



Source: CBRE Research

The Year Ahead

Supported by healthy occupier demand from a range of Ecommerce players, physical retailers and 3PL's, the prospects for the year ahead look promising. 2022 will see Ireland's first pureplay online retailer opening a third new standalone facility in Dublin, which has the potential to encourage other Ecommerce occupiers to follow suit. We also expect to see demand for last mile delivery facilities gaining momentum in the year ahead. The logistics sector will remain a preferred choice for investors in 2022. Competition to secure land and the best buildings will continue to be aggressive. The volume of capital targetting industrial and logistics continues to increase, and this is expected to lead to further yield compression over the next 12 months.

While we are bullish about another busy year ahead, scarcity of supply will continue to remain a consistent theme throughout 2022 in Dublin, Cork and in provincial locations such as Galway, Limerick, and Waterford where the supply of modern accommodation is expected to remain particularly constrained.

Unit E, Mountpark, Baldonnell - 60,688m² Build-to-Suit facility let by CBRE to an Ecommerce company

08

Investment

“The industrial sector was clearly the star performer of the Irish commercial property market last year ”

Investment

The Irish investment market performed better than expected in 2021 both from a return and a liquidity perspective. Considering the length and severity of lockdowns experienced in Ireland relative to peers and the inability of investors to travel to inspect opportunities for a large part of the year, it is remarkable that investment spend reached €5.5 billion.

The composition of spend was somewhat different in 2021, however. Residential accounted for more than 40% of total investment spend in the year while record volumes of capital were deployed into the industrial and logistics sector. Indeed, the industrial sector was clearly the star performer of the Irish commercial property market last year, mirroring trends experienced in many other European jurisdictions. Core offices made up a sizeable proportion of investment activity during the year while we also saw the first signs of a resumption in liquidity for well-priced retail assets and some hotel investment opportunities changing hands.

Investment volumes this year are likely to be broadly similar again, with Q1 helped to some degree by a carryover of transactions that hadn't signed by December 31st. There is plenty of European capital targeting opportunities and several new entrants considering investing in the Irish market, attracted by liquidity levels, underlying occupational fundamentals and strong economic and demographic drivers.

We don't expect to see a major change in the types of buyers who will be active in the Irish market this year albeit sectoral allocations may change, particularly if the Central Bank's proposed changes on leverage limits for certain categories of funds are imposed. Continued intervention in the residential sector of the market could also see some investors switching to alternative sectors over the course of the next 12 months.

We expect to see continued appetite for industrial and logistics investment opportunities in 2022 albeit this will again be compromised by a scarcity of stock. Meanwhile, we are likely to see retail accounting for a much larger proportion of investment sales activity this year.

1 & 2 Docklands Central, Dublin Docklands which CBRE sold during 2021 for €152.5 million

Sustainability

One of the key themes of 2021 was the extent to which ESG gained momentum. As occupiers, investors, and funders increasingly focussed attention on the most sustainable buildings, we noticed a widening gap between pricing for prime and secondary assets.

With ESG growing in importance, investment strategies will start to evolve around diversification across various sources of risk rather than across different asset classes from this point forward.

Markets with a proactive approach and a focus on sustainability and climate risk mitigation will be frontrunners in terms of attractiveness as investment destinations, which suggests that assets that are most resilient could benefit from a pricing premium.

In 2022, ESG will increasingly be seen as a fundamental part of due diligence and risk management as opposed to an add-on to normal business operations.

Older buildings will struggle to meet the 'energy use' classification under EU Taxonomy criteria. This will create an opportunity for value-add investors that have the ability to acquire secondary assets that need to be retrofitted and repositioned.

New Stock

Pricing in all sectors of the Irish commercial property market stabilised during the second half of 2021.

Against a backdrop of high inflation and the threat of rising interest rates from 2023 onwards, we are unlikely to see significant yield movement over the course of the next 12 months other than in the industrial and hotel sectors where some further compression may be witnessed.

Core office yields could also tighten a little particularly for prime product demonstrating superior ESG credentials.

Nutgrove Retail Park, Dublin 14 which CBRE sold in 2021 for more than €66 million

The Year Ahead

We are confident that 2022 will be another very strong year for the Irish investment market.

While investors undoubtedly have concerns about high inflation, we don't believe that interest rates in Europe will increase during 2022.

Investors will still be attracted to the income attributes of real estate particularly where cashflow is consistent and there is a relatively low level of risk associated. We are therefore expecting continued liquidity over the course of the next 12 months.

Limited opportunity and record pricing in favoured sectors will encourage some investors to consider alternative property sectors such as life sciences, data centres, self-storage, film studios, later living and possibly energy infrastructure.

Although alternative sectors generally offer higher returns and more attractive yields, liquidity is limited with few opportunities to deploy into these new and emerging sectors as yet. For that reason, despite increased appetite to diversify, investors will again, for the most part, concentrate on residential opportunities, core office, industrial and logistics and well-priced retail over the next 12 months.

Northwest Logistics Park, Ballycoolin, Dublin 15 – 4 industrial buildings sold by CBRE during 2021 for €47.9 million

09

Multifamily

“Population growth alone supports demand for multifamily development in the Irish market”

Multifamily

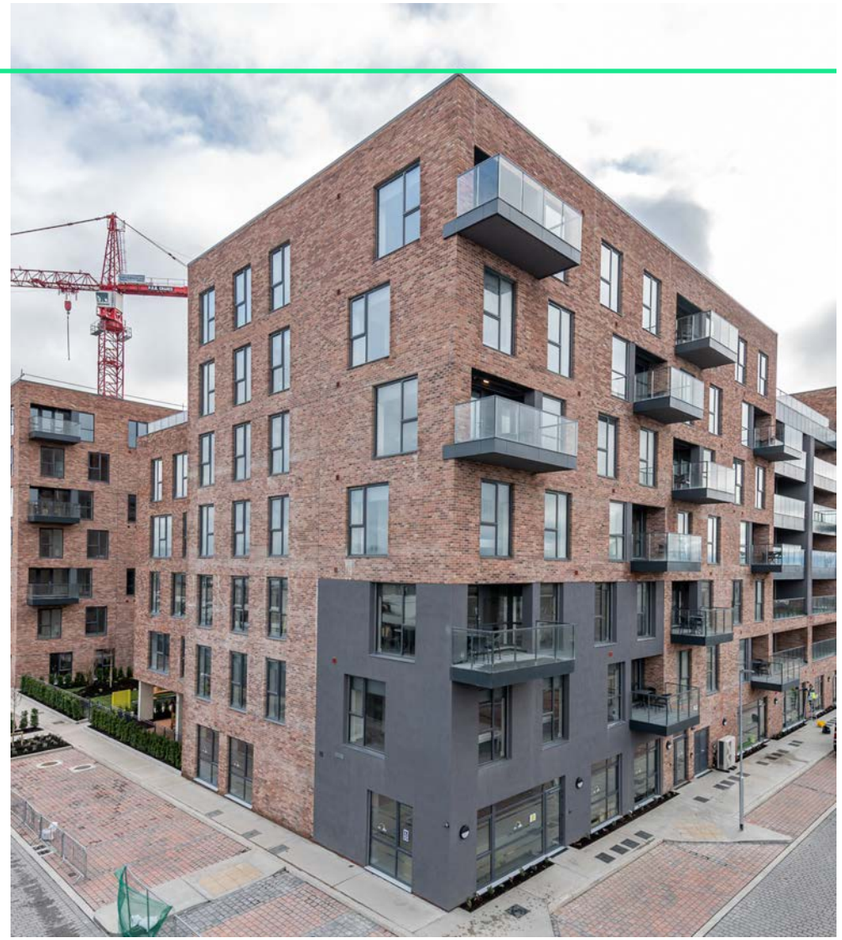
The Irish multifamily sector displayed remarkable resilience against the Covid-19 crisis and performed exceptionally well again in 2021 despite regulatory headwinds and several policy changes announced during the year. Strong tenant demand supported both stable occupancy and high rent collection rates throughout the pandemic, boosting investor confidence in this niche sector.

Although an increasing proportion of Ireland's population now favour renting as a form of tenure, which will hopefully be clearly demonstrated in this year's Census of Population, availability remains severely constrained. Despite the fact that the Government aspire to address the current imbalance by delivering their 10 year 'Housing for All' plan, the undersupply situation is unlikely to alleviate in the near term.

As a result, the residential sectors' overall share of total investment spend in Ireland continues to rise. This was helped to some degree in 2021 by the fact that forward-commit and forward fund transactions - which have made up the vast bulk of activity in the residential investment sector in Ireland in recent years - were easier to negotiate in a climate where investors were unable to travel to inspect completed commercial buildings as a result of lockdown measures.

Most of the investment into the Irish residential sector last year emanated from overseas funds with German and US investors particularly active during the year. Irish funds were also active and in addition, there were a number of new entrants to the Irish multifamily sector during 2021. There is still relative value at current yield levels, meaning that we expect to see further deployment into Ireland's multifamily sector throughout 2022.

Investors are encouraged by the fact that even before accounting for obsolescence and reductions in average household sizes, population growth alone supports demand for multifamily development in the Irish market. Investor sentiment for purpose-built student accommodation opportunities has also been strengthening over the last six months, constrained only by a scarcity of investment and development opportunities.



Santry Place – Part of The Mayne Collection sold by CBRE in 2021 for more than €180 million

Regulation

Both established parties and several new entrants are keen to invest in the multifamily sector, attracted by opportunities to develop and provide much-needed housing. It is therefore critical that further Government intervention in this sector is now curtailed to avoid this abundance of capital opting to move into alternative investment sectors or jurisdictions. Investors in the residential sector are used to regulation in every market in which they operate and understand the need for Government to monitor investment activity but are frustrated by the sheer number of interventions that have been made in the Irish market over the last number of years.

End User Experience

Providers of purpose-built multifamily accommodation are increasingly focused on the provision of a high-quality amenity offering, targeted at meeting the specific needs of their clients. We expect to see increased use of professional management platforms within Irish multifamily schemes, both to enhance the end user experience and increase operational efficiencies.

Sustainability

Just as in other sectors, sustainability is growing in importance in the multifamily sector and is starting to shape investor decision-making. Incorporating ESG elements into new schemes is now essential and can be particularly helpful from an operational perspective, leading to lower operational costs and higher tenant demand in some cases.

Yields

The weight of capital targetting residential investment opportunities and competitive bidding will continue to put downward pressure on yields in many markets this year albeit yields in Ireland are unlikely to change much in 2022 considering the fact that rents in Rent Pressure Zones are now limited to 2% growth per annum. Therefore, we are not anticipating significant tightening in pricing from current levels

Secondary Cities

We expect to see stronger investor interest in secondary cities over the course of the next 12 months. While rents in regional cities are certainly more affordable, viability will remain compromised outside of the core Dublin market. However, we expect to see some multifamily trades in core provincial cities in 2022.

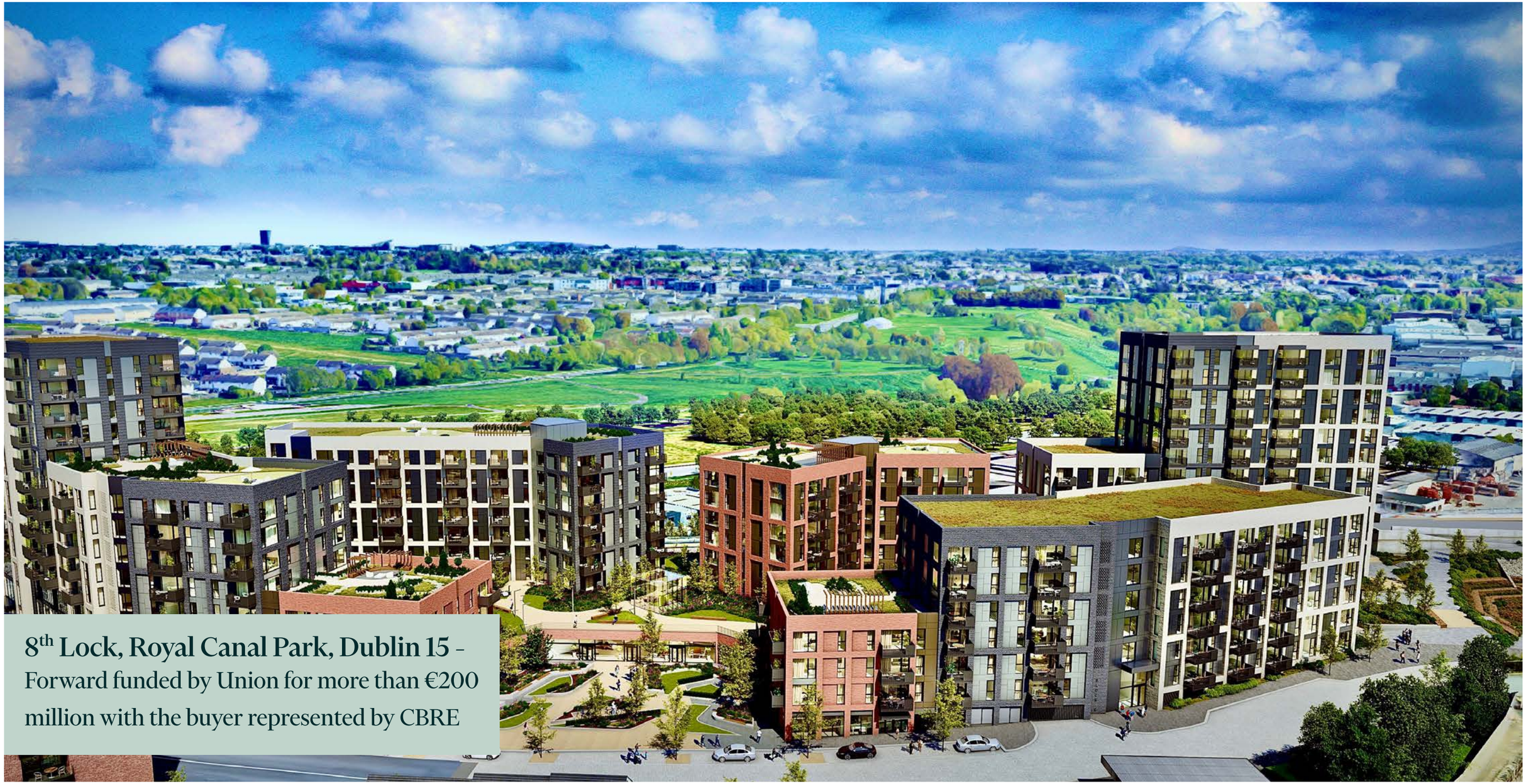
Deal Types

A scarcity of standing stock or stabilised product will continue to push investors towards forward-commit structures in 2022 albeit most investors are unlikely to commit to transactions until they are close to practical completion. Forward funding will be even more challenging to navigate against a backdrop of rising build cost inflation. Lot sizes ranging from €30 million to €150 million are likely to prove most attractive to investors in 2022.

The Year Ahead

Regulation will unfortunately continue to be a restraining factor in 2022, especially with the potential for rental growth now constrained in the Irish market. High tenant demand and the favourable outlook for the sector will however outweigh these considerations, particularly for longer term institutional capital which is primarily concerned with longevity and certainty of income.

Proposed restrictions on the level of leverage within Irish-domiciled regulated funds, as proposed by the Central Bank of Ireland, has the potential to impact negatively on the pool of capital targetting multifamily opportunities in the Irish market. This is disappointing considering the extent to which this capital can assist with the Government's ambitious aspiration to develop 34,000 housing units of various types and tenures every year for the next decade. It is also regrettable that a decision has been made to phase out long-term social leasing as this mechanism has a clear role in supporting delivery of social housing. Some of the items proposed in the new draft development plans for Dublin City Council and Dun Laoghaire Rathdown County Council will also pose challenges from a development and viability perspective.



8th Lock, Royal Canal Park, Dublin 15 - Forward funded by Union for more than €200 million with the buyer represented by CBRE

10

Development Land

“The planning system was the biggest source of frustration during the last 12 months, with the judicial review regime rightly coming in for particular criticism”

Development Land

The development land market performed better than expected in 2021 although like some other sectors of the property market, transactional activity was heavily skewed towards the second half of the year. Once buyers were in a position to travel to undertake inspections, there was a corresponding increase in the volume of sites and development opportunities offered for sale. This resulted in a healthy volume of development transactions being concluded in the second half of the year although several sales hadn't completed by year-end and carried over into 2022. In total, more than €657 million of land sales completed during 2021, with the vast majority of sales conducted off-market.

Most of the sites sold last year comprised relatively small residential sites with few large tracts of land or commercial sites brought to the market during the year. Exceptions include the City Arts site in Dublin 2 & the Castleforbes site in East Wall in Dublin 1, which was the largest land sale concluded during the year.

2021 saw considerable regulatory change and various policy announcements, which in their own right stalled activity as developers needed time to assess the potential implications. Without doubt, the planning system was the biggest source of frustration during the last 12 months, with the judicial review regime rightly coming in for particular criticism and thankfully now being reviewed.

Some of the items proposed in the new draft development plans for Dublin City Council and Dun Laoghaire Rathdown County Council will pose challenges from a development and viability perspective while buyers acquiring sites via Irish domiciled and regulated funds need to be mindful of Central Bank proposals to cap leverage limits in due course.

3.39 acre 'Village Centre' zoned site in Dunboyne, Co. Meath sold by CBRE during 2021

Viability Concerns

While there are many schemes at various stages of the planning process, including a combination of build-to-sell and build-to-rent schemes, there is little correlation between the number of units in planning and the volume due for delivery in 2022, 2023 and beyond.

Development viability remains compromised in many instances. There is a general acceptance of the decision to increase Part V 'social and affordable' provision from 10% to 20% in due course, but developers need certainty on other policy matters and planning in order to accurately predict delivery volumes, timeframes, and indicative costs of production. Proposals by Dublin City Council to limit the volume of rental units within apartment developments to 60% will compromise viability and ultimately impact negatively on supply if implemented in the forthcoming development plan.

We may see some developers focussing on sites in more suburban and provincial locations in 2022 as viability concerns in Dublin continue to frustrate. In this regard, The Land Development Agency (LDA) has potential to be a credible exit route for some developers, enabling them to proceed with certain developments and deliver much needed product.

Land Values

The scarcity of sites being released for sale (either on or off-market) will see pricing, for the most part, being maintained over the course of 2022. We are however likely to see strong price appreciation in the industrial land market this year. Unlike previous years, pricing for regional and provincial sites could rise at a faster pace than site values in the Greater Dublin Area in 2022, due to increased demand for housing product & better viability in these locations.

New Supply

While supply is likely to remain tight, there is good visibility on a number of opportunities that are due to be offered for sale during 2022. In addition to a carryover of transactions that didn't sign by year end 2021, there are quite a few sites and development opportunities due to be offered to the market from Q1 onwards, including some campaigns which were put on hold during the pandemic.

Vendors see an opportunity to capitalise on strong levels of demand for sites and we expect to see competitive tension for well-located sites, particularly those that have the benefit of an existing planning permission and access to supporting infrastructure. Projects that offer developers an opportunity to retrofit older stock and bring buildings up to the highest ESG credentials will also be highly sought after.

1.47 acre site at Cookstown., Tallaght, Dublin 24 with planning for 196 unit multifamily scheme, sold by CBRE during 2021

Vendors

Vendors are likely to mainly comprise private vendors and investment companies, including those attempting to reduce leverage levels in light of anticipated Central Bank leverage limits being imposed in ICAV's and other regulated structures.

We may see a nominal increase in receiverships, but no major distress is anticipated, with a range of options available to source alternative funding or joint venture partners to complete projects.

Summary

In summary, we expect a notable increase in transactional activity in the development land market in 2022 as developers identify opportunity.

Despite viability concerns in some instances, appetite for prime sites, particularly consented sites that are 'shovel ready', will remain particularly strong with competitive tension for any well-located sites and development opportunities that are offered for sale.

Sites in Dublin's commuter belt will be in particular demand considering the ongoing supply demand imbalance in the Greater Dublin Area.

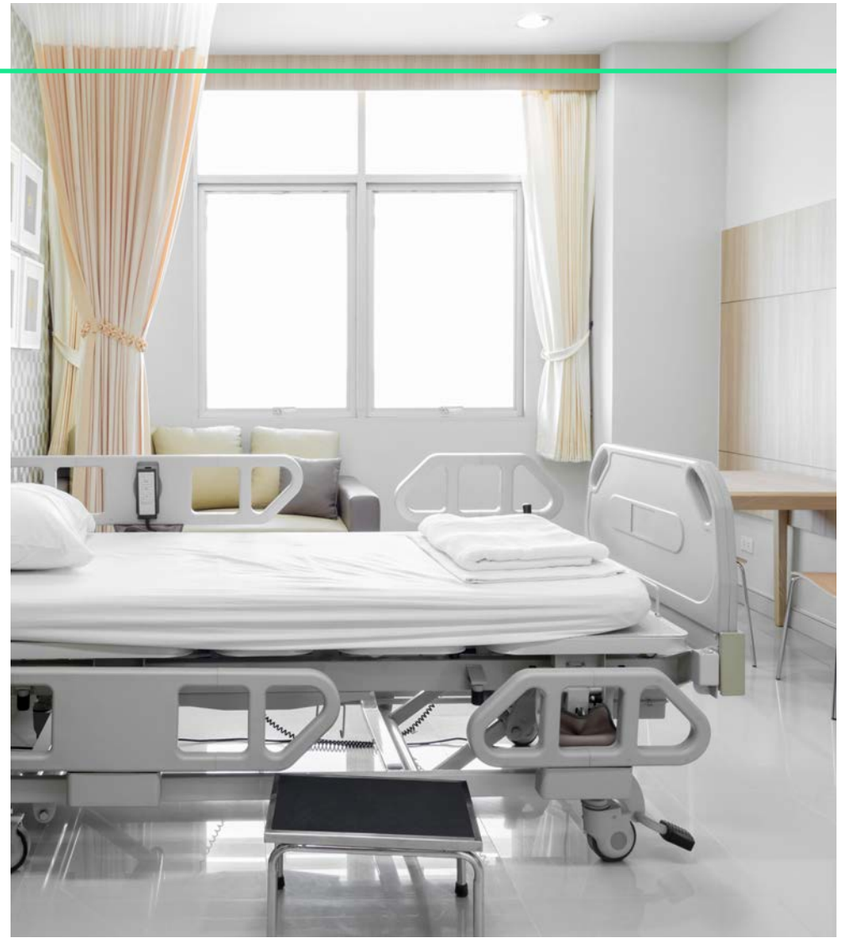
Paper Mills site, Clonskeagh, Dublin 14 - 3.4 acres - acquired by CBRE during 2021

11

Healthcare

“2022 will see considerably more development taking place in the healthcare sector than was the case previously”

Healthcare



2021 was one of the most active years on record for Ireland's healthcare sector with investment more than double the volume transacted in the previous year at more than €600 million. New and continued overseas capital flow was a key feature in 2021 and will be again in 2022 with the Irish market standing out as a core investment geography and growth market.

Established pan-European real estate investors continued to consolidate their market positions in 2021. Several significant transactions completed including individual property sales and portfolio trades. Transaction volumes were hampered only by a shortage of standing stock, to the extent that some buyers shifted their focus to development opportunities in an effort to secure product.

Most of the investment activity in the healthcare sector in Ireland emanates from a combination of specialist European (i) operators and (ii) real estate investors seeking to grow their foothold in the market. Such operators have included Orpea, DomusVi and Vivalto, while real estate investors featuring in the investment space have included Aedifica and Cofinimmo as well as Euryale who continue to grow their portfolio. Investment in operations was also witnessed, by Irish investor Cardinal Capital.

The main theme of 2021 was the sale of groups and individual assets as going concerns, which then flipped into a 'Op Co/Prop Co' with the buyer ultimately becoming a 'tenant'. This variety in transaction type is likely to continue to be the case again in 2022 as operators and investors all look to grow their portfolios in Ireland by whatever route possible.

We are expecting another very active year in the healthcare sector in 2022. However, supply is going to remain tight and without significant M&A activity, it is hard to see how overall investment levels could exceed the record volume of trades in the year just gone. Buyers will again be mainly European with capital originating from France, Belgium, Germany and the Netherlands. We will also see continued indirect investment from Asia.

A Word of Caution

In addition to specialist investors continuing to consolidate their positions in the Irish market, we will continue to see new entrants exploring opportunities to deploy. We also expect to see an increase in institutional capital looking to divest into this sector, focussing on the acquisition of nursing homes that are already, or will be newly, leased to operators; or primary care centres and private hospitals that offer the potential to generate sustainable long-term income streams.

As the number and type of investors looking for exposure to this sector increases, it is important to remember that the healthcare sector is highly specialised and the Irish market is considerably more nuanced than others. Investors considering investing in healthcare therefore need to proceed carefully, undertake proper due diligence, and get specialist advice, particularly in relation to the negotiation of pricing and leasing structures.

Annual CPI uplifts have been a feature of many recent lease deals, and with CPI currently trending at 5.3%, investors are set to see healthy increases on next review. Tenants, meanwhile, are at the mercy of the Fair Deal rates, with increases unlikely to follow the latest CPI pattern.

Pricing

The weight of capital targeting nursing home opportunities boosted pricing across the board in 2021 with a notable increase in the multiple of annual earnings paid for the best properties; and a sharpening in yields for investment deals. We expect to see further capital appreciation in this sector in 2022

New Supply

Notwithstanding the scarcity of product to match current levels of demand, one thing that is for certain is that we will see more demand for sites and more cranes on the horizon from 2022 onwards with considerably more development taking place in the healthcare sector than was the case previously. Buyers are keen to acquire sites and develop new nursing home stock on the basis that Ireland needs upwards of 2,000 new nursing home beds per annum to meet underlying, and growing, demand.

We also expect to see increased appetite for opportunities to develop senior living concepts although this is also an area where specialist advice is essential considering the particular nuances of the Irish market. Those planning new nursing home facilities are advised to engage with established operators before finalising scheme designs to ensure that their vision is operationally fit-for-purpose, particularly in a post-pandemic climate.

One of the assets in the Trinity Portfolio which was sold by CBRE during 2021

A Sellers Market

Considering the levels of pent-up demand, 2022 will be a sellers' market. With few assets available to purchase, individual nursing homes (particularly those that are fully future-proofed) that come to the market will be highly sought after. Activity will be primarily concentrated in areas of high population catchment with particular demand for standing stock and buildings that are under construction.

A small number of primary care centres were developed last year with several others under construction and due for delivery in 2022. In the event that these are brought to market, investor appetite will be strong.

New Standards

The deadline by which all nursing homes in the country are supposed to be fully compliant with 2016 National standards has now passed. Therefore, many older establishments, including many of the 125 public nursing homes around the country, are simply no longer compliant with legislation being that these standards came into force on January 1st. Many smaller and non-purpose-built nursing home properties throughout the country may now have no option but to close as the cost of compliance with the standards will be prohibitive, coupled with the loss of earnings from a potentially reduced bed count.

Covid-19 will unfortunately continue to compromise the operation of nursing homes again in 2022. Nursing home owners and operators also face a myriad of other challenges including retention and attraction of staff with particular shortages of care assistant staff at present. Notwithstanding these challenges, it is clear that investor appetite for healthcare properties will continue unabated over the course of the next 12 months.

12

Hotels

“In addition to the sale of individual properties, we expect to see some hotel portfolio activity this year”

Hotels

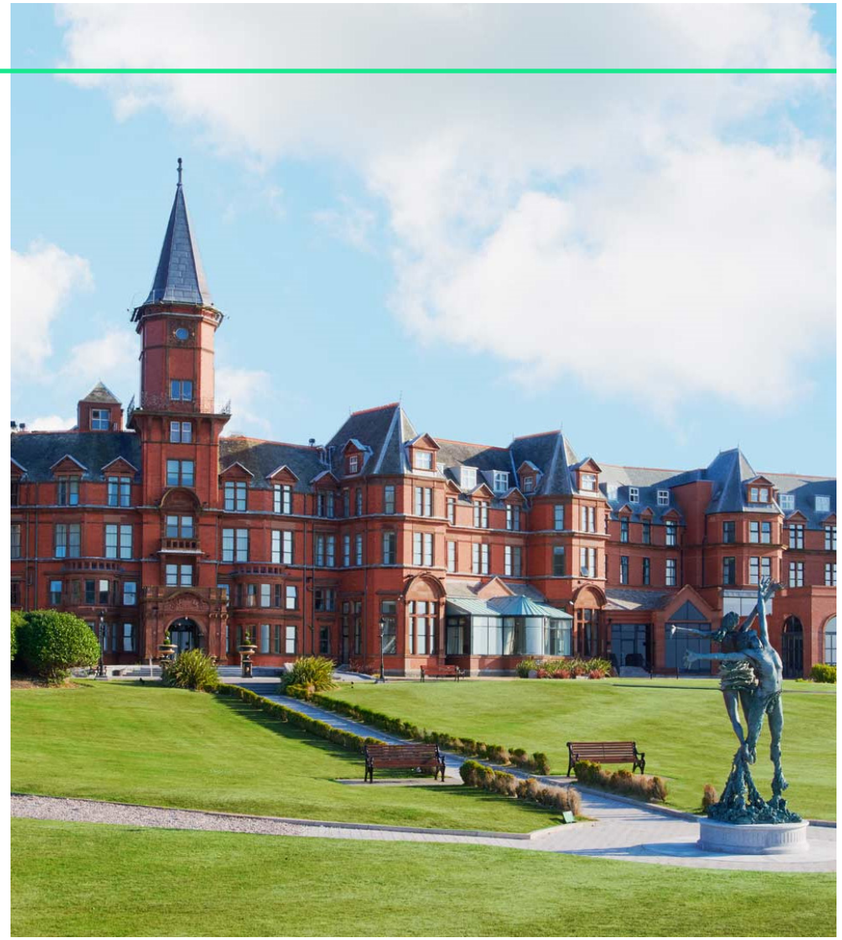
Considering how severely the pandemic affected the hotel and hospitality sector over the last two-year period, the extent to which transactional activity recovered during 2021 was particularly welcomed. In total, a higher-than-expected volume of approximately €383 million was transacted last year with 18 hotel sales concluded.

While down on longer-term average volumes, this welcome recovery in transactional activity clearly demonstrates the extent to which the sector can bounce back once restrictions are lifted and travel and tourism starts to recover. International appetite increased once travel restrictions eased and we saw several new entrants emerging over the course of the year. A number of new hotel brands for Dublin, including Motel One and Hampton by Hilton are due to open hotels this year.

Hotels in tourist locations that benefitted from domestic staycation business clearly performed better than the Dublin market during 2021. While it is likely that restrictions of some description will remain with us for some time yet and the beginning of the year will be challenging, 2022 is shaping up to be a better year for the sector as trends continue to normalise. International investors remain very bullish about the strong fundamentals of the Irish market and continue to look to deploy capital, chasing both standing stock and development opportunities, which is encouraging.

We anticipate a further increase in the level of transactional activity in the hotel sector in 2022 buoyed by recovery in trading performance and the emergence of some new investors targeting this particular sector. In addition to the sale of individual properties, we expect to see some hotel portfolio activity this year. At this early stage in the year, we already have visibility on over €500 million of hotel trades that are expected to transact in 2022.

Just as in other sectors, the importance of ESG has gained considerable momentum and we expect this to come to even greater prominence in 2022 with sustainability now forming an important part of the due diligence process in hotel transactions and funding decisions. ESG will remain a key area of focus for hotel operators, owners and investors.



Slieve Donard Resort & Spa in Northern Ireland sold by CBRE during 2021

Hotel Values

Increased positivity around longer-term prospects led to an improvement in hotel values over the course of the last year albeit this recovery was not uniform. For the most part, hotel values in the Irish market increased during 2021, albeit some hotels still remain 5% to 10% below pre-pandemic values.

New Supply

There are some concerns about the number of hotel rooms that have come on stream and that are in the pipeline albeit it must be emphasised that this is coming from a very low base in a market that has been undersupplied for several years now. Not all of the stock in planning will get developed in any event.

According to our research, 1,128 hotel rooms opened in the Dublin market in 2021. Of the 3,389 rooms currently under construction in the capital, approximately 2,616 are due to be completed in 2022. Hotels that are due to open this year include The Travelodge Dublin City Centre, The Rezz, Tara Towers, The Leinster, Motel One, The Samuel and two new Staycity hotels. With the vast majority of the new bedroom stock concentrated in the city centre, this increase in stock is likely to have a bigger impact on hotels in the suburbs than those in the city centre.

Sellers

We are unlikely to see many distressed sales in 2022. Most decisions to sell will be influenced by lifestyle reasons or owners deciding to retire. The removal of Government supports in due course may force some owners to reassess their options while proposed Central Bank rules on limiting leverage levels within certain Irish domiciled funds may also trigger some sales activity.

Buyers

A more diverse group of buyers including opportunistic investors, private equity, passive investors partnering with hotel operators, high-net-worth individuals and family offices are all now targeting hotel investment opportunities in the Irish market. International hotel groups looking for brand representation and institutional investors will remain predominantly focussed on opportunities in the Dublin market. We may however see some investor groups considering hotels in regional cities such as Cork and Galway over the course of the next 12 months. However, existing hotel owners and operators and expanding Irish groups will continue to be the predominant buyers of regional opportunities.

The vast majority of hotel transactions in the Irish market are traditional sales but we are increasingly seeing more complex structures emerging such as forward funding, forward commitments, lease purchase, ground lease transactions and sale and leasebacks.

Forward funding investment sale of The Premier Inn Castleforbes Hotel, Dublin Docklands, brokered by CBRE during 2021

Concerns

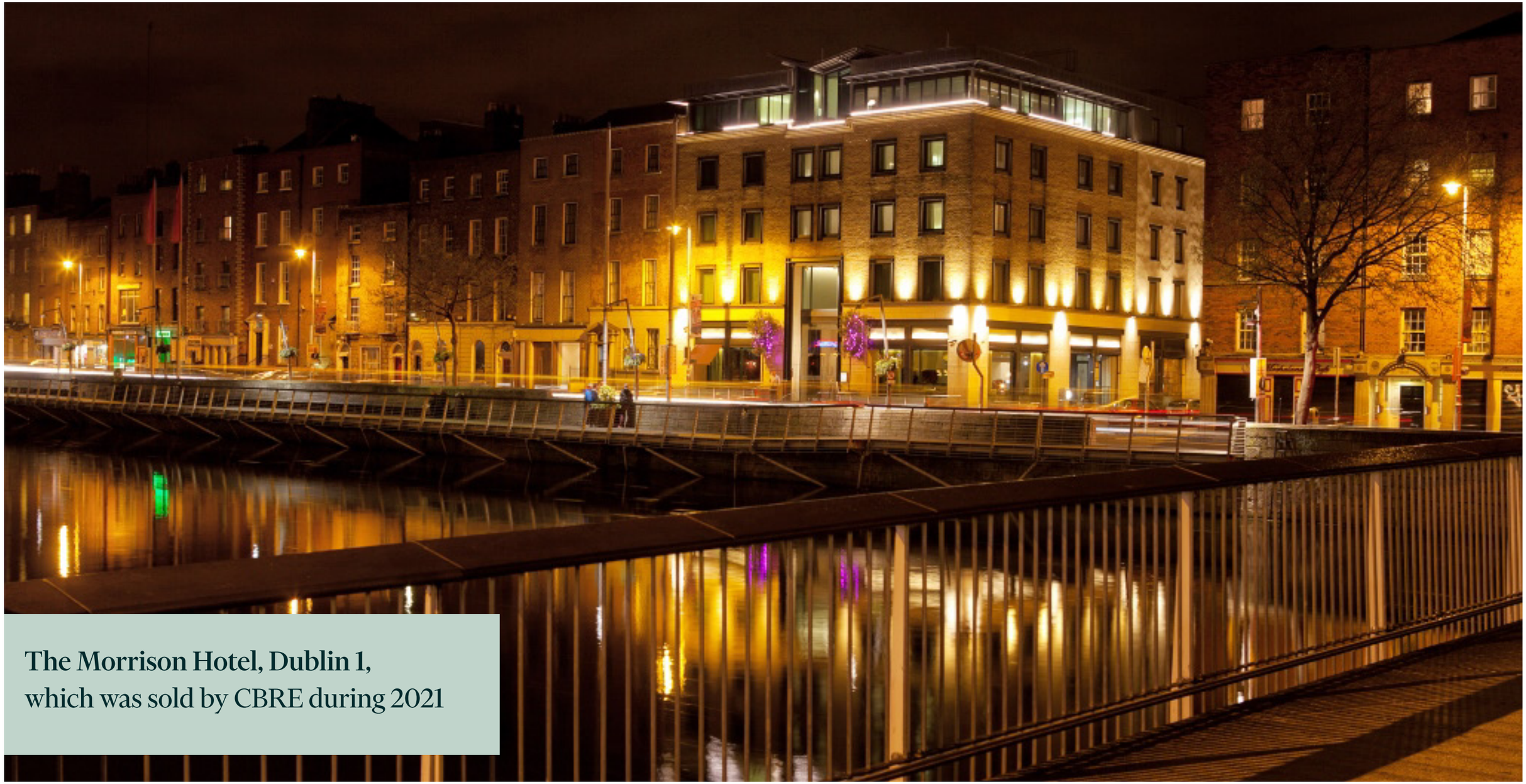
From an operational perspective, flexibility of booking, short lead-in times and uncertainty will continue to be a challenge for hotels until such time as all restrictions are lifted. Staffing challenges and rising wage costs will also continue to frustrate while the restoration of the VAT rate to 13.5% from the current 9% from August 2022 is another concern.

However, the biggest concern from an operational perspective is clearly the risk of further restrictions being implemented.

Back to the Future

There remains some uncertainty about how hotels will perform in 2022 albeit there is every reason to assume that a gradual return to 2019 trading levels over the next few years is on the horizon. A significant rebound in international travel is expected in 2022, led by short-haul travel with mid and long-haul travel recovering more slowly. 2022 will see a return to leisure-related business albeit it is likely to be 2024 before corporate business reverts to pre-pandemic norms.

The adoption of virtual working and a stronger focus on ESG means that business travel is likely to take longer to recover and patterns of business travel will change with travellers likely to travel less often but extend the length of their stays going forward. We believe that the Dublin market will see a dramatic increase in demand for hotel bedrooms once office workers return in larger numbers and tourism starts to return to more normalised levels. The reorganisation of the many events that have had to be postponed over the last two years will give a welcome boost to activity in 2022 while five consecutive Garth Brooks concerts in Croke Park next September and other large outdoor events this year will be of particular benefit to the capital.



The Morrison Hotel, Dublin 1, which was sold by CBRE during 2021

13

Cork

"There is a strong desire to facilitate new development in the city whilst also preserving Cork's historic core, boosting the cities attractiveness to employers, and creating a credible counterweight to Dublin"

Cork

While transactional activity in the Cork property market remained subdued in 2021 in comparison with previous years, there was a discernible increase in momentum in the second half of last year. This bodes well for a welcome recovery in both occupier and investor activity in 2022.

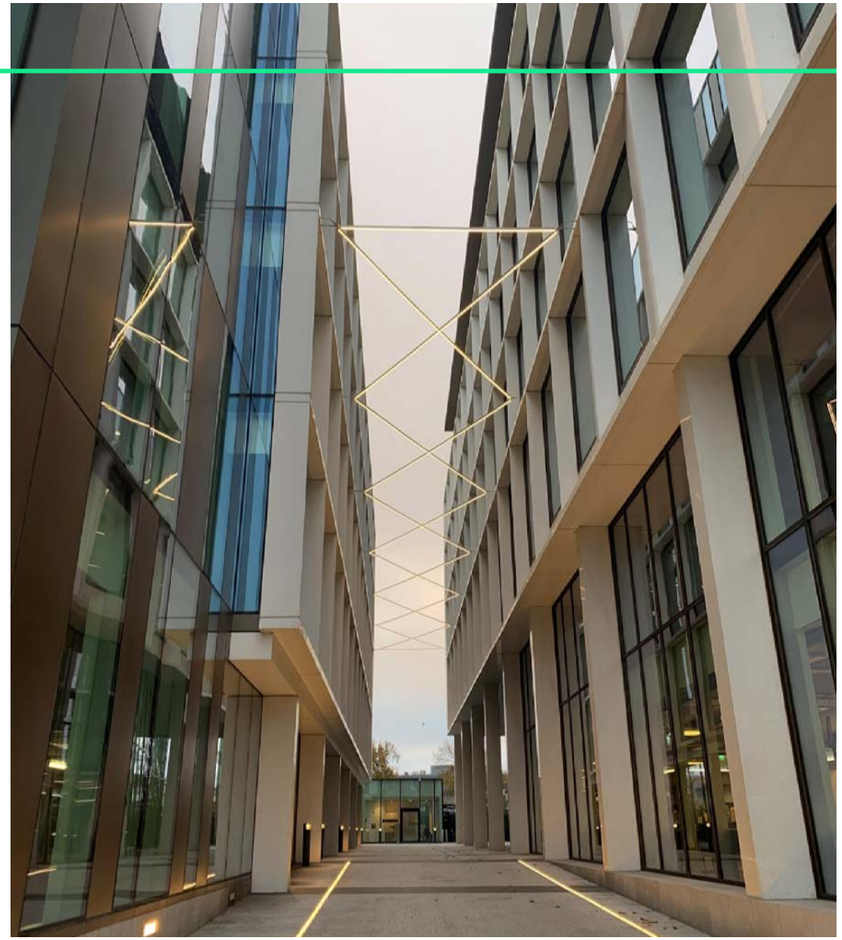
The focus over the last 12 months has firmly been on planning and development activity with applications for several exciting schemes, not least O'Callaghan Properties ambitious plan to revitalise the south docklands, announced during the year. This landmark scheme will include a hospital, offices and residential as well as the restoration and refurbishment of the derelict Odlum's Mills, creating a new focal point and new public realm for the city.

In the knowledge that the Strategic Housing Development (SHD) process is due to expire, there was a notable increase in planning applications lodged in 2021. A number of significant applications were granted planning during the year including the grant by An Bord Pleánala for what will ultimately be Ireland's tallest building (34 storeys) at Custom House Quay.

It is clear that there is a strong desire to facilitate new development in the city whilst also preserving Cork's historic core, boosting the cities attractiveness to employers, and creating a credible counterweight to the dominant Dublin market. Not unlike the capital city, the imbalance between supply and demand in the housing market in Cork remains a key issue, which in turn has seen evidence of strong demand for those residential sites which have recently been offered to the market.

Unlocking infrastructural challenges and delivering on the Government's 'Housing for All' ambitions now needs to be a core focus. Work is currently underway on more than 70 sites to deliver approximately 1,000 housing units of which about 50% are social housing units.

Between Cork City Council and the Land Development Agency, we should see delivery of thousands of new homes over the coming years, all of which are necessary. Considering that the National Planning Framework 2040 expects Cork to the fastest growing region in the country over the next 20 years, this requires considerable investment in infrastructure and in particular both public and private housing.



Navigation Square development, Cork City

Investment

With the exception of the trophy investment sale of 2021 - the sale of the 1 Navigation Square office building for €60 million - investment volumes in Cork last year were low. However, we expect to see renewed activity this year, particularly now that investors are in a position to travel to inspect buildings.

The spate of new high-quality development that has come on stream and at various stages of development in the city will create new investible opportunities and prove attractive to investors seeking prime stock that meets the highest sustainability standards and quality of design.

While investors are likely to primarily target office investment opportunities, we expect to see good demand for any well-priced retail properties that are offered for sale. We also expect to see good investor demand for any multifamily, hotel or student accommodation assets that are brought to the market in Cork over the course of the next 12 months. Needless to say, any industrial and logistics assets that are offered for sale will attract considerable interest.

Data Centres

We expect that 2022 will also see continued appetite for data centre sites and properties. With the Government concerned about constraints on the national grid and suggesting that new data centres be concentrated in locations that are less constrained, this could see increased focus on sites in the Cork region.

Offices

Take-up in the office market in Cork was lower than expected in 2021 and undoubtedly negatively impacted by occupier hesitancy and the stop/start nature of Government guidance on 'working from home', which had a definite impact on the urgency of office requirements and the length of time taken to complete transactions. The announcement of some new deals in Q1 will hopefully be the impetus for other occupiers to follow suit and make location and expansion decisions.

While there is good visibility on active requirements for Cork, the speed at which this demand will translate into completed deals is largely dependent on the trajectory of Covid and when Government guidance suggests that it is safe for occupiers to return to offices. Prime office rents in Cork remain stable at approximately €350 per square metre while prime office yields in the city are currently stable at 5.50%.

The Counting House office development which is now available for occupation in Cork City

Industrial & Logistics

Demand for industrial and logistics property in Cork is constrained only by a severe shortage of modern accommodation. There were several high-profile lettings and pre-lettings concluded in 2021 and we expect to see this trend being emulated in 2022 with any new buildings likely to be pre-let before practical completion. There is particular demand for units extending to between 4,645m^2 and 9,290m^2.

Against a backdrop of a vacancy rate of approximately 1.7%, prime industrial rents are expected to rise further over the course of the next 12 months with prime rents on course to reach €105.70 per m^2 or €9.80 per sq. ft. by year-end. We expect to see some further speculative development of new industrial accommodation in the Cork region from 2022 onwards. Prime industrial yields in Cork are now 50 bps keener than office yields in the city and are likely to trend keener over the next 12 months as the weight of capital targetting opportunities in this sector increases further.

Retail

Retail vacancy in Cork, not unlike many other cities and towns throughout the country, remains high and while retail rents are generally showing signs of stabilisation in the Dublin market, we could see further downward pressure in the Cork market before stabilisation occurs. Due to pedestrianisation and its wide range of retail, lifestyle and food and beverages uses, Oliver Plunkett Street is now the favoured retail destination and proving popular with occupiers.

South Docks development, which is due to be delivered at Kennedy Quay, Cork

Contacts

#CBREOutlook2022

Myles Clarke
Managing Director
CBRE Ireland
+353 1 618 5516
myles.clarke@cbre.com

Marie Hunt
Executive Director
Research & Consultancy
+353 1 618 5543
marie.hunt@cbre.com

Colin Richardson
Associate Director,
Research & Consultancy
+353 1 618 5727
colin.richardson@cbre.com

Willie Norse
Executive Director,
Head of Client Advisory & Strategy
+353 1 618 5529
willie.norse@cbre.com

Shane Cahir
Senior Director,
Residential Capital Markets
+353 1 618 5724
shane.cahir@cbre.com

Paddy Conlon
Executive Director, Office
Agency & Tenant Advisory
+353 1 618 5520
paddy.conlon@cbre.com

Alan Moran
Executive Director,
Head of Investor Leasing
+353 1 618 5563
alan.moran@cbre.com

William Dowling
Executive Director,
Offices
+353 1 618 5590
william.dowling@cbre.com

Edward Smyth
Senior Director,
Property Management
+353 1 618 5795
edward.smyth@cbre.com

Peter Lundy
Senior Director,
Valuations
+353 1 618 5587
peter.lundy@cbre.com

Andy Tallon
Executive Director,
Corporate Finance
+ 44 7985 813842
andy.tallon@cbre.com

Kyle Rothwell
Executive Director,
Capital Markets
+353 1 618 5502
kyle.rothwell@cbre.com

Dessie Kilkenny
Executive Director,
Capital Markets
+353 1 618 5500
dessie.kilkenny@cbre.com

Bernadine Hogan
Senior Director,
Head of Retail Agency
+353 1 618 5744
bernadine.hogan@cbre.com

David McConnell
Executive Director,
Building Consultancy
+353 1 618 5773
david.mcconnell@cbre.com

Cormac Megannety
Senior Director,
Healthcare
+353 1 618 5589
cormac.megannety@cbre.com

Brian Edwards
Managing Director,
Cork Office
+353 21 491 7255
brian.s.edwards@cbre.com

Peter Garrigan
Senior Director,
Development Land & Consultancy
+353 1 618 5796
peter.garrigan@cbre.com

Paul Collins
Executive Director,
CBRE Hotels
+353 1 618 5592
paul.collins@cbrehotels.com

Dave Murray
Director,
Hotels
+353 1 618 5583
dave.murray@cbrehotels.com

John Hughes
Director,
Hotels
+353 1 618 5538
john.hughes@cbrehotels.com

Garrett McClean
Executive Director,
Industrial. Logistics & Data Centre Solutions
+353 1 618 5557
garrettmcclean@cbre.com

Enda MacMahon
Senior Director,
Professional Services
+353 1 618 5519
enda.macmahon@cbre.com

Rachael McGinley
Director,
Head of Sustainability
+ 353 1 618 5524
rachael.mcginley@cbre.com

Martin O'Donnell
Director, Business Rates
& Compulsory Purchase
+353 1 618 5584
martin.odonnell@cbre.com

twitter.com/CBRE_Ireland

linkedin.com/company/CBRE-Ireland

CBRE