Intelligent Investment

2023 Market Outlook

REPORT

IRELAND
REAL ESTATE

CBRE RESEARCH

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Introduction

Myles Clarke, Managing Director, CBRE Ireland

Introduction

Welcome to the 34th edition of CBRE Ireland's Outlook report where we reflect on the issues that faced the Irish real estate market in 2022 and how we think trends will play out in 2023.

As the Irish economy exited Covid-19 restrictions in the first quarter of 2022, we saw a resurgence in transactions across the board as pent-up activity was unleashed. However, at the half-year point, activity began to plateau in many sectors as the reality of more challenging financial conditions started to bite. At the same time, some of the larger global technology occupiers began to reign in their expansion ambitions and this raised question marks about the trajectory of company valuations. The market is now adjusting to higher funding rates, and this transition period can be challenging to navigate, albeit we have continued to see deals transact, which is a healthy sign of the market's resilience.

While we have seen yields on the core Irish real estate sectors expand for the first time in many years, the increases have been relatively muted, as investors continue to target Ireland as an attractive place to deploy capital. This also reflects the fact that while Irish real estate enjoyed strong performance in recent years, yields did not plunge to the lower levels experienced in other European countries – hence, the correction has been proportionately milder. Indeed, Ireland as a sovereign outperformed its European peers in 2022, as the credit credentials of the nation improved on the back of robust tax revenues. Ratings agencies like Moody's and Fitch have rewarded Irish fiscal performance and the related debt/income trajectory with country rating upgrades. This is, of course, something that investors take note of – especially during a challenging period for global sovereign balance sheets.

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

KEY DEALS IN 2022

It was encouraging to witness such robust activity in the Irish real estate market in 2022, even though challenges remain. In retail, new occupiers such as Hawksmoor have taken the opportunity to enter the market where the longer-term prospects remain promising. Similarly, the hotel sector has performed well, with a post-Covid surge in activity leading to strong demand for assets. In industrial & logistics, we acted for Maersk on the pre-letting of two newly delivered units at Quantum Logistics Park. While in alternative real estate sectors such as OPRE, appetite has been strong, and we were delighted to advise on a strategic equity placement in the Irish self-storage business 'U Store It' by Heitman LLC.

SUSTAINABILITY STRATEGY IMPLEMENTATION

The theme of sustainability moved from high-level questioning to strategic implementation in 2022 and is increasingly an embedded part of the real estate process. Commitments to zero carbon activities by 2030 mean that that deadline is fast approaching. We are bringing joined up and actionable advice on how our clients can reach the relevant targets, combining our building consultants, valuations, and property management teams to bring holistic solutions for your portfolio plans.

PLACEMAKING & COMMUNITY ENGAGEMENT

We continued to broaden our stakeholder engagement activities in line with our corporate ethos and particularly where it overlaps with our clients' priorities. CBRE Ireland and the Urban Land Institute hosted the 4th annual Excellence in Placemaking Awards in December. Placemaking is increasingly featuring as a core deliverable, encompassing the holistic wellness of the built environment. We were delighted to award the overall national prize in placemaking in 2022 to Kennedy Wilson for their work at Clancy Quay, Dublin 8.

We also continued to work closely with our community partner, the Robert Emmet Community Development Programme, helping to support the communities of the Liberties in Dublin 8. One notable initiative CBRE graduates commit to is the daily rotation of an after-school homework club. We have also championed the importance of the artist community in informing creative thought for the built environment, through our affiliation with 'Business to Arts'. We hosted a reception at the Royal Hibernian Academy during the prestigious Annual Exhibition of leading Irish artists to showcase new Irish art and to indicate how the commercial community can commission artistic work.

OUTLOOK & THANK YOU

While we will likely face some headwinds in 2023, the underlying long-term constructive outlook for the Irish economy continues to attract occupiers and investors from around the globe. Our growing population, its youthful profile and our continued success in attracting overseas foreign direct investment are all factors which reinforce the need for an ever-expanding built environment.

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 Ireland, thank you to all of our clients for trusting us to help you navigate the challenges and opportunities of 2022. We look forward to partnering with you again in the year ahead.

Myles

Clancy Quay, Dublin 8: Overall Winner of the CBRE/ULI Excellence in Placemaking Awards 2022

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Market Outlook 2023

Colin Richardson, Director & Head of Research, CBRE Ireland

Market Outlook 2023

The year that passed was one of change in the real estate environment globally. Geopolitical events, inflationary pressures and interest rate movements impacted investment and to a lesser extent leasing volumes, while also challenging the activities of developers and real estate operators.

Occupiers in offices, retail and logistics continued to adjust to structural shifts accelerated by the pandemic or influenced by sustainability factors. However, the Irish economy and real estate market has proved remarkably resilient, with some key sectors performing exceptionally well.

The opening half of 2023 will continue to be influenced by these factors and this will present some challenges and some opportunities. We will likely see some weakness come through in Irish economic and real estate data points; however, the initial market 'shock' associated with the aforementioned factors has now passed, and we could see real estate investment activity levels rebound stronger and faster than many anticipate, while the occupational markets and operational real estate will continue to prove resilient.

Sustainability will continue to grow as a factor influencing investor, occupier and developer decision-making, while real estate that does not match environmental goals will become increasingly marginalised in the year ahead.

Read on to find out more.

CAPITAL MARKETS

Global real estate investment markets felt the brunt of the headwinds in 2022 as yields expanded and indeed Q4 Irish investment activity was notably softer. However, the changing market dynamics present an ideal entry point for many prospective investors, and this could stimulate the return of trading momentum more swiftly than many anticipate. We expect more active investment strategies and increased asset management to come to the fore in the coming year.

'Beds' (including Multifamily and PBSA), Logistics and Grocery-led retail assets will be some of the most sought-after sectors in 2023. Healthcare investment and Life Sciences opportunities remain limited in an Irish context, but offer massive upside potential over the long-term from both an income and capital growth perspective.

The cost of capital is the most challenging issue for capital markets at present, and refinancing processes will come into focus in 2023.

OCCUPATIONAL MARKETS

Office workplace dynamics are undergoing structural change and will continue to adapt in 2023. Demand for 'New, Clean & Green' offices will continue to diverge from the rest of the office market.

The demand for industrial & logistics property in Ireland is booming. Approximately 240,000 sq. m. of new logistics stock is under construction in Dublin at present. Much of this stock is already pre-let or reserved and the remainder will be competitively sought after by occupiers in the year ahead.

The retail sector has turned a corner. Leasing volumes picked up in 2022 and a strong pipeline of occupiers is lined up to open in 2023. Indeed we see supermarkets as one of the strongest performing product categories this year.

OPERATIONAL REAL ESTATE

The hotel sector in Dublin remains structurally undersupplied and this, alongside increased demand for emergency accommodation, has prompted exceptional operational performance for hoteliers in 2022. Increased energy prices and labour shortages will be a challenge in 2023 but hotel transaction volumes and pricing will continue to prove resilient. The ability to quickly pass on the effects of inflation to customers make hotel opportunities particularly attractive in this environment.

Healthcare investment (10%) made up a more material proportion of overall Irish investment than ever before and institutional investors will continue to chase this defensive asset class, with rents typically CPI linked, in 2023.

SUSTAINABILITY & REPURPOSING

Failure to act on sustainability will have immediate and tangible impacts in 2023. Rent and value divergence and high energy prices will incentivise urgent action from both investors and occupiers. Improving data will provide greater insight into how sustainability is affecting value, allowing better informed decisions on the issue.

Repurposing of commercial stock has become a greater feature of markets in the UK and US. Ireland is massively undersupplied across all housing tenures, and where viable, investors and developers may look to repurpose commercial stock to residential. The threat of obsolescence due to sustainability factors or structural changes that are underway in certain sectors of the market could also act as a catalyst.

The Dawson Hotel, 35-36 Dawson St., Dublin 2; Currently on Sale Through CBRE Hotels

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Economic Outlook 2023

Ireland’s resilient economy will present opportunities for real estate in 2023.

Economic Outlook 2023

Despite material macro-economic headwinds, the coming year will continue to see Irish economic growth outperform other European economies. The domestic market will not be immune from the effects of slowing global growth and the impact of inflation, which will likely see unemployment rise and consumer spending fall. However, as the year progresses, we expect inflation and interest rates to stabilise and a brighter macro-outlook to emerge.

KEY ECONOMIC DATA 2023

Modified domestic demand growth of +2.3%* is expected in Ireland for 2023, implying the economy will prove resilient and should avoid a recession.

Irish nominal employment is at record levels at present, and while unemployment will rise in 2023, the extent of the increase, to 5.1%*, will be small-scale.

Eurozone CPI appears to have peaked, and while increased consumer prices will become more embedded in the economy, the pace of inflation will taper-off.

The World Bank projects that energy prices will fall by 11% in 2023, agricultural prices by 5%, and metal prices by 15%, compared to their 2022 averages, albeit it usually takes some time for these price movements to be passed on to consumers.

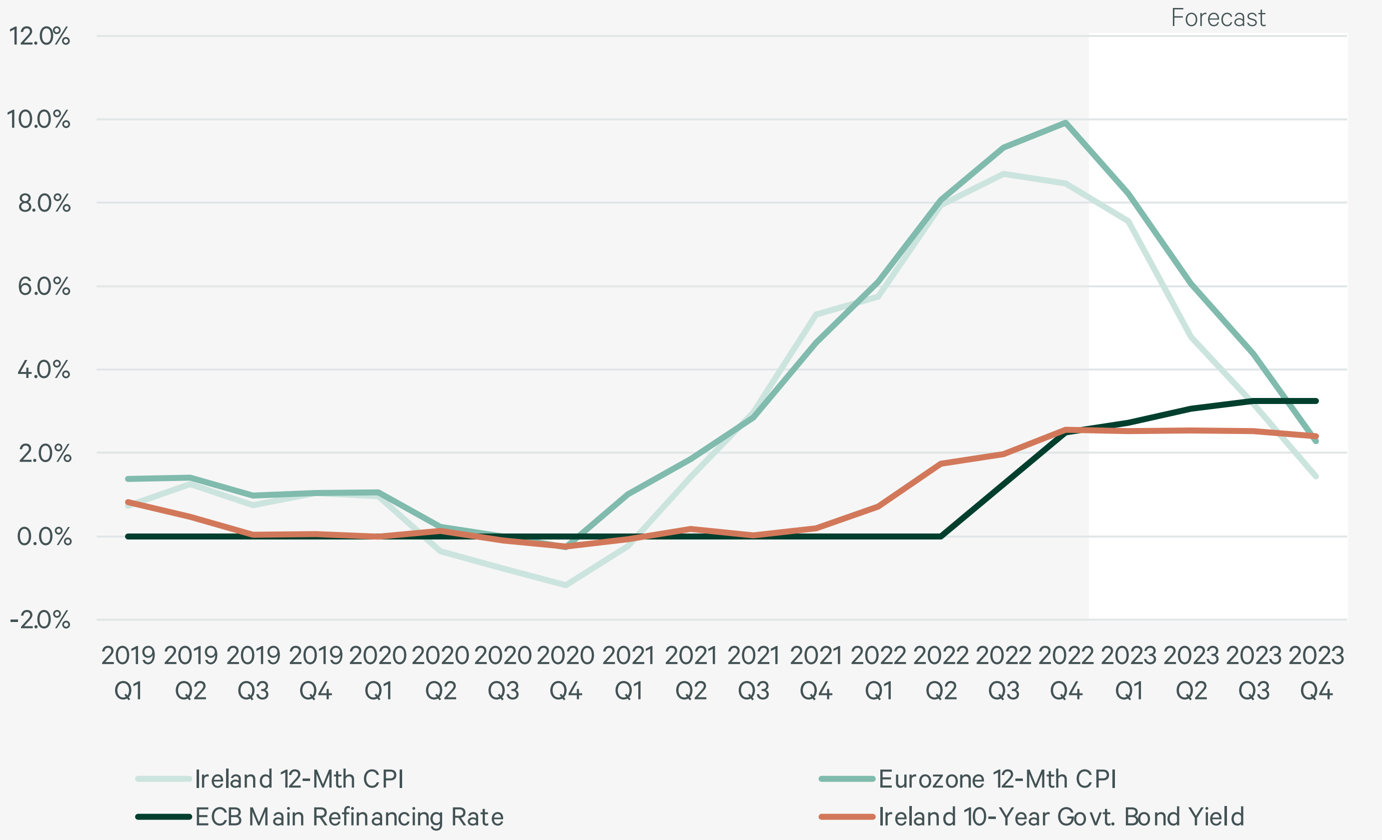
The European Central Bank main refinancing rate should peak at 3.25% and hold through 2023, but as we enter 2024, the direction of rate movements should change.

Irish 10-year govt. bond yields closed 2022 at a multi-year high of 3.1%, but have already begun to retract, and we expect the 10-year yield to settle materially lower.

The Irish population grew to 5.1 million in 2022 and positive net migration trends will continue in 2023, while the outlook and pipeline for foreign direct investment in H1 2023 remains 'positive', according to the Industrial Development Agency.

*Central Bank of Ireland Forecasts

Figure 1: Ireland & Eurozone CPI vs. ECB Interest Rates & Irish Government Bond Yields



Source: CBRE Research

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Investment

Current market dynamics could present an ideal entry point for many investors. Asset pricing will stabilise as the year progresses and this will help to stimulate the return of trading momentum.

Investment

The Irish investment market recorded a healthy €6.0bn of transactions in 2022. This was a 9% rise in volumes year-on-year and the second strongest year on record. However, the story of the sector goes much deeper than that. The global investment market started to jitter in Q2 of 2022 as the effect of inflation and interest rate increases filtered through markets and prompted yield expansion across European real estate assets.

This was not reflected in the Irish real estate market until after the turn of the half-year point, and while some significant transactions concluded in Q3, the dynamics of yields, pricing, financing and active acquirers shifted considerably. The sector ended the year in a state of flux, with Q4 transaction volumes somewhat softer.

Two large-scale office investment transactions helped to drive overall volumes in 2022. When the sale of the Hibernia REIT portfolio and the Salesforce office HQ at Spencer Place are removed, total volumes fall to €4.4bn. The 10-year annual average for investment in the Irish market is €4.3bn per annum. Residential (33%) and offices (26%), were again the two most invested sectors in 2022, while healthcare (10%) accounted for more spend than ever before.

LOOKING AHEAD

Current expectations are for the ECB main refinancing rate to peak in 2023, to stabilise, and to perhaps see a more dovish approach from policymakers as we enter 2024. Investment activity will be slower through the early part of 2023, however when there is more defined stability in relation to interest rates and the cost of capital, we will see a return to more normal trading conditions, and asset price stabilisation. Not all investors will wait on the side-lines however, as the current market dynamics may present an ideal buying opportunity for many.

Different investment strategies will come to the fore in the Irish market in 2023. These will include a greater focus on value-add and asset management approaches, with income playing a bigger role in driving returns. The Irish market will continue to provide investment opportunity, albeit of a different profile. Real estate yields and asset pricing will continue to recalibrate through the first half of the year. The spread from prime yields to the Irish 10-year government bond yield has already tightened, but we do not expect Irish bond yields to expand further than current levels. This will provide some protection for real estate yields.

The Eight Building, Dublin 8: Sold By CBRE in Q3 2022

Expectations for 2023

OPPORTUNITY AS THE MARKET ADJUSTS

Irish investment assets are still viewed incredibly favourably in a European context, underpinned by an attractive economic outlook.

The elevated base rate and the uncertainty around financing costs will impact investment volumes and pricing through the early part of 2023.

However, the ongoing contraction in pricing will present buying opportunities for those with a long-term outlook and capital to deploy.

We do not expect all investors to 'stand pat' and indeed given the extent of capital already raised, the strong fundamentals of the Irish market, and the quality of product that is coming for sale, we could see some trading momentum return to the market later in H1.

A stabilisation in interest rates as the year progresses should offer more visibility on financing costs, which will be favourable to real estate investment.

WHERE NEXT FOR YIELDS?

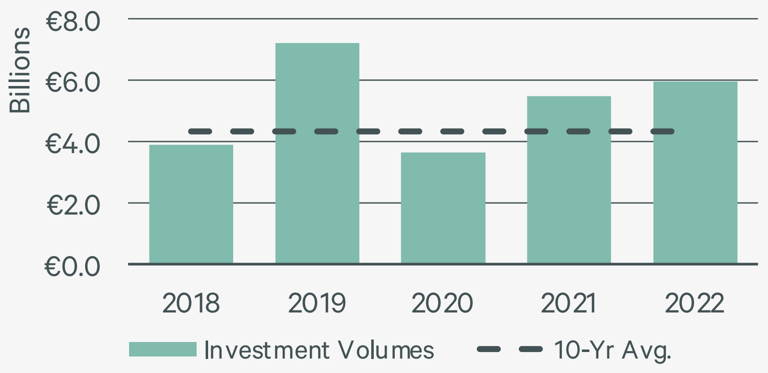
Yields on Irish real estate assets, across sectors, will continue to come under pressure in 2023.

However, mirroring the trend we have seen to-date, yield expansion on Irish assets should be softer than the pricing impact experienced on assets in other major European cities.

This is due in part to the higher yield that Irish assets trade at historically, and the relative spread to the risk-free rate (government bonds).

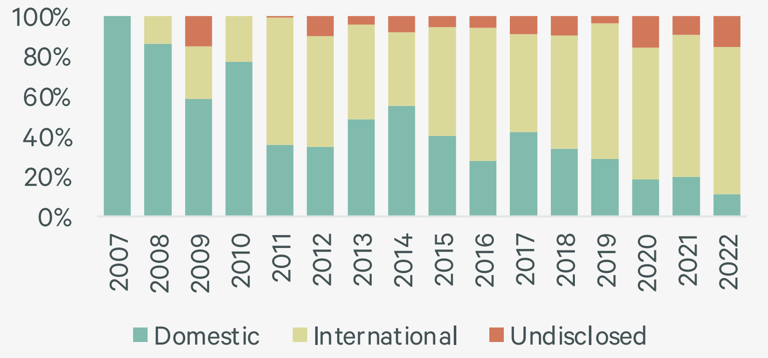
We will continue to see a divergence in yield movements across sectors with some proving more resilient than others while the spread from prime to secondary assets in many sectors will grow.

Figure 2: Ireland Investment Volumes (All Sectors)



Source: CBRE Research

Figure 3: Origin of Investment into Irish CRE



Source: CBRE Research

INVESTMENT VOLUMES & STRATEGIES

We expect full-year volumes in 2023 to be lower than in 2022 and to trend closer to the 10-year annual average.

The primary investment strategy in Irish real estate in recent years has centred around long-term, secure and stable income for pension or mutual funds. However, as pricing has started to re-adjust, we expect more value-add and core-plus strategies to come into focus.

These strategies will include 'brown-to-green' refurbs, which are particularly relevant for Dublin offices. There will also be some opportunistic acquisitions, albeit the profile of the Dublin commercial market is more international and institutional than in previous cycles, which will limit these opportunities.

GROWTH SECTORS IN 2023

Healthcare assets will be in-demand again in 2023 as their defensive nature and inflation-linked rents will prove attractive.

This will also be the case for supermarkets and grocery-led retail, although the pool of assets in Ireland is relatively small.

Logistics investment opportunities will continue to be sought after this year. Strong momentum in the occupational market and the practical completion of new modern stock in 2023 should translate into opportunities for investors.

Office investment product will continue to be keenly sought after, albeit investors will be more strategic in selecting opportunities. We expect the residential sector to continue to attract capital in 2023, although the forward-structured nature of many transactions will negatively impact the level of capital deployed.

The Watermarque Building, Dublin 4: Sold by CBRE on Behalf of Blackstone in Q3 2022

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Multifamily

Dublin continues to suffer from an acute undersupply of rental properties. 2023 will see added pressure on viability and in-turn residential commencements. Demand for rental accommodation will remain robust.

Multifamily

Occupancy and rental growth trends in the multifamily market accelerated through 2022, as more tenants returned to cities in the aftermath of the pandemic. The number of units available to rent in Dublin fell to historic lows, and in response, rental levels for new multifamily stock continued to trend higher. The market did benefit from increased new dwelling completions in Q2 and Q3. Much of this new stock consisted of Dublin apartments, which were delivered with the support of institutional capital. However, the total level of new supply delivered in Ireland again failed to meet the required rate. The cumulative undersupply of residential stock across all tenures persists and is unlikely to be rectified in the near or medium-term.

A total of €2.0bn was invested in the residential sector in Ireland in 2022 with 70+% of this capital focused on multifamily housing stock in the Dublin region, with the remaining balance focused on PBSA and social housing investment. As challenges emerged in investment and financing markets as the year progressed, a number of multifamily sale processes stalled or were ultimately withdrawn. However, encouragingly, despite a slowdown in transactional activity in the broader market, several forward-structured transactions completed in both Q3 and Q4, reflecting the appetite for institutional investors to deploy into Dublin's massively undersupplied market, despite headwinds.

LOOKING AHEAD

Viability of new apartment development is a key concern as we enter 2023. Residential commencements started to slow in the latter part of 2022 as construction and financing costs increased and exit pricing declined. These factors will impact new dwelling completion numbers over the medium-term, with smaller developers likely to find it difficult to deliver new stock. It is likely that new supply in 2023 should reach similar levels to 2022, as projects that are currently under construction carry over from 2022. However, beyond this, there are significant question marks over the viability of apartment development in Dublin in a higher interest rate environment.

Newtown Gardens, Co. Dublin: Acquired by Union Investment (Advised by CBRE) in Q3 2022

Expectations for 2023

INVESTMENT VOLUMES & DEAL STRUCTURE

We expect residential investment volumes to fall year-on-year in 2023. There will likely be a higher proportion of standing product transactions, as opposed to forward fund and forward-commitment deals. Yield expansion/pricing declines combined with elevated input costs will put pressure on structuring these trades.

RENTAL DEMAND WILL BE RESILIENT IN 2023

The supply-demand imbalance in the Dublin rental market will persist in 2023. The outlook for occupancy levels at multifamily schemes and the continued demand for rental accommodation will remain robust. Irish net migration patterns and population growth also continue to point to increased housing demand.

The employment market remains in a healthy position as we enter 2023 and has a relatively positive outlook, particularly compared to other European cities.

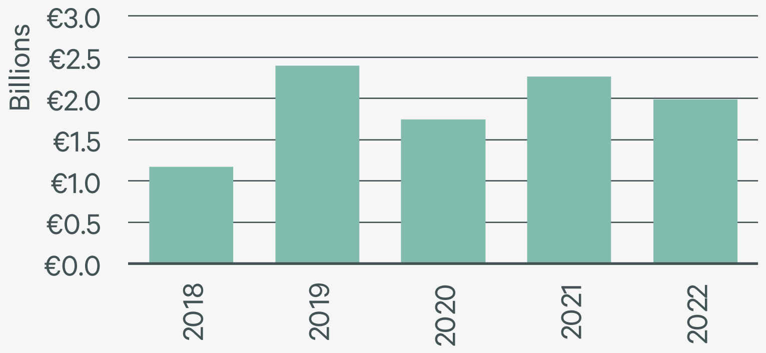
We expect to see further upward pressure on average rent prices in 2023, possibly by up to 4%.

YIELDS & PRICING

Guideline yields on both prime forward-commitment and standing stock transactions converged at 4.00% in Q4 of last year, and a further modest outward shift is likely in 2023. The increased cost of capital is the primary driver of these price declines, rather than any micro-specific factors within the sector.

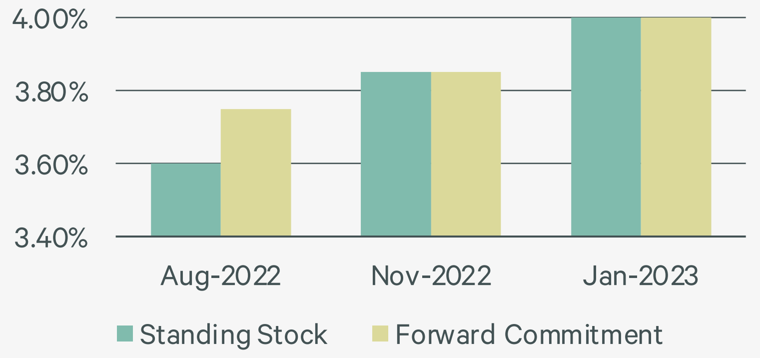
We expect yield expansion in the multifamily sector to be marginally softer than what we anticipate in other sectors of the Irish market.

Figure 4: Ireland Residential Investment Volumes



Source: CBRE Research

Figure 5: Prime Dublin Multifamily Yields



Source: CBRE Research

INVESTOR PROFILE

Dublin remains high on the list of European locations for residential investors. Indeed, many of these investors raised money in early 2022 with the intention of deploying into Ireland, but ultimately failed to do so, with many investment committees on pause. We expect that this capital will circle the market for opportunities in 2023. Again, we expect to see institutional investors from both North America and mainland Europe continue to grow their presence in Ireland, where appropriate opportunities arise.

GOVERNMENT POLICY REMAINS IN FOCUS

Much of the government focus is now on supporting internal agencies to achieve targets as laid out under the 'Housing For All' programme. Indeed the State and Approved Housing Bodies continued to be a significant acquirer of newly delivered private stock in 2022, and we expect this trend to continue in 2023.

One significant policy concern is the change to planning standards in relation to minimum unit sizes for build-to-rent (BTR) developments. This policy previously allowed for smaller unit sizes in BTR developments than those required in standard apartment development. However this looks set to be abolished in favour of comparatively more expensive build-to-sell standards. This change will come into effect from the start of 2023 and this will likely add more pressure to apartment viability in Ireland, which already faces challenges.

We expect the current rental cap regulations to remain in place through 2023 and for the medium-term. We do not expect to see any changes or further measures introduced in relation to annual rent reviews.

128 Apartments at Hampton Wood, Dublin 11:
Sold by CBRE in Q3 2022

06

Offices

Hybrid working, and the associated impact, remains one of the most pertinent questions in global real estate markets as we enter 2023. Workplace dynamics in Ireland will continue to adjust, and new trends will solidify in the year ahead.

Offices

The start of 2022 heralded the full removal of lockdown restrictions and the opportunity for staff to fully return to offices. However, the 'return to the office' proved far from straight-forward. As the year progressed, more defined trends began to emerge in relation to Dublin hybrid working arrangements. Despite a push in many large companies for more regular in-office attendance from September onwards, it became clear that the 'fluid workplace' is here to stay. Some occupiers have now recalibrated their current office space to reflect a hybrid model, while others have started the process of sub-leasing under-utilised space.

Sentiment around the Dublin office leasing market was positive as 2022 began, with pent-up demand acting as a catalyst for a number of new requirements. However, as the year progressed, the slowdown in the technology sector became more defined and some relocation and expansion decisions were put on hold.

Dublin office leasing activity totalled 233,800 sq. m. in the year, marginally below the long-term average but ahead of both 2020 and 2021. Prime rent levels in Dublin rebounded to €700 per sq. m. (€65 per sq. ft.). Notably, the bifurcation between the demand for prime offices as opposed to secondary and suburban offices became more pronounced. We also saw the emergence of another category of office in the Irish market - 'Grade A+', dictated by the standard of the building's sustainability credentials. Dublin remains relatively undersupplied of this 'New, Clean & Green' category of stock.

LOOKING AHEAD

Looking into 2023, there are several fluid sub-plots that will play out around the Dublin office market: two factors are particularly important, how occupiers continue to adjust to flexible working arrangements and the potential for a slowdown in the labour market.

Notably, the Dublin office market will reach a new size milestone, of over 50 million sq. ft., which over the long-term can support an increased level of take-up. However we do expect more 'grey-space' to come to market during the year as technology companies downsize and occupiers solidify their hybrid working arrangements. Perhaps most significantly, we expect to see continued growth in the importance of sustainability credentials for occupiers and landlords alike, which we believe will ultimately continue to drive a larger bifurcation in rents and values across different categories of Dublin office stock.


Image Courtesy of IPUT Real Estate

Tropical Fruit Warehouse, Dublin 2: Let to 'TikTok' in Q3 2022

Expectations for 2023

THE IMPACT OF HYBRID WORKING

The impact of hybrid working on workplace dynamics and demand for office space will continue to play out in 2023. Occupiers will continue to recalibrate their portfolios and solidify their approach to flexible working. It is clear that there is no “one size fits all” solution for employers, but we do expect to see a broader rollout of a technology-driven, analytics-led approach to managing workplace attendance.

DUBLIN EMPLOYMENT MARKET

The Dublin employment market will likely feel some effect from a broader economic slowdown, but this should be relatively modest. While recent announcements regarding technology sector layoffs have garnered significant media attention, the level of redundancies is likely to remain relatively small in the context of the overall technology employment market in Ireland.

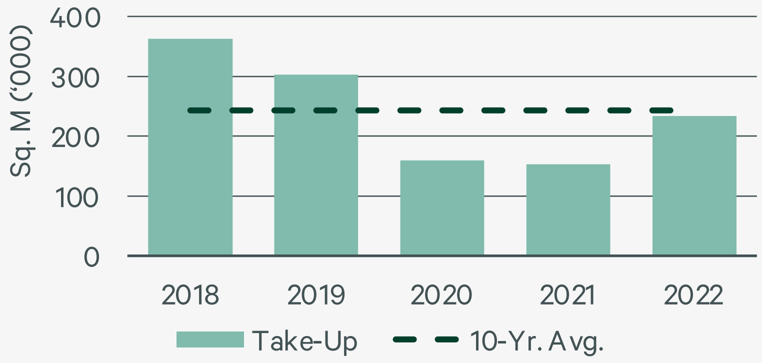
TAKE-UP, NET ABSORPTION & RENT LEVELS

Take-up in the Dublin market will likely trend towards the 10-year annual average of 240,000 sq. m. in 2023. This will be driven by professional sector and public sector occupiers, some of whom already have outstanding office demand requirements.

Net absorption trends in Dublin will change. Given ‘big-tech’ office expansions are likely to slow, we expect the net absorption level to fall to approximately 20% of annual take-up.

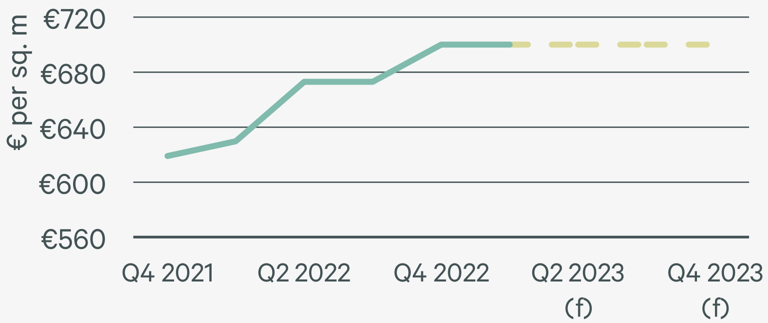
We expect prime rents for the best product in Dublin to hold firm in 2023, at approx. €700 per sq. m. (€65 per sq. ft.), with increased vacancy potentially weighing on rents in other sections of the market.

Figure 6: Annual Dublin Office Take-Up



Source: CBRE Research

Figure 7: Prime Dublin Office Rents & Forecasts



Source: CBRE Research

DUBLIN OFFICE MARKET WILL REACH 50 MILLION SQ. FT.

Approximately 216,000 sq. m. (2.32 million sq. ft.) of under-construction office stock is expected to reach practical completion in 2023 and this will grow the total size of the Dublin office market to over 50 million sq. ft. This is a key milestone, and it is an important point to note in the context of the accretive impact on take-up that this can provide over the long-term.

GREY SPACE & VACANCY

Total space available for sub-lease in the Dublin market stood at approx. 160,000 sq. m. at the end of 2022 with some further growth possible. Vacancy in the Dublin market now stands at 11%, with a modest expansion also expected this year. Notably, we expect the historic correlation between the Dublin unemployment rate and the Dublin office vacancy rate to de-couple over the coming years, as office vacancy becomes more aligned with company-specific working arrangements.

‘NEW, CLEAN & GREEN’

The importance of sustainability credentials for occupiers, investors and landlords cannot be overstated. LEED Gold or BREEAM Excellent and BER A3 are now considered the minimal acceptable accreditations across the board. This is having a notable impact on the office market and we have seen the emergence of a ‘Grade A+’ category of office, that ticks all of these boxes. It is also influencing rent levels, with the best stock attracting higher rents, while the spread to other categories of stock is now growing. CBRE research on offices in a selection of European cities (excluding Dublin) shows ‘Green Premiums’ in rents averaging 21% over 5-year periods.

Le Pole Square, Ship St. Little, Dublin 8:
Partially Let to Etsy in Q4 2022. Remaining
Space Available to Lease Through CBRE.

07

Industrial & Logistics

Record levels of take-up in Dublin in 2022 as structural shifts continued to play-out. Leasing and investment volumes in other European markets have started to feel the impact of slowing growth but Dublin continues to outperform.

Industrial & Logistics

The Dublin Industrial & Logistics (I&L) market enjoyed a year of records and firsts in 2022. Take-up in Q1 reached a record amount for an opening quarter and the market subsequently enjoyed its strongest ever quarter in Q3. Overall take-up volumes reached 392,000 sq. m. for the full year, marginally below the market's strongest ever year in 2015. A new record price per sq. ft. for a vacant possession sale was achieved during the year and we saw the pre-letting of Ireland's first net-zero carbon logistics building, constructed using glue-laminated timber-frames at Quantum Logistics Park in Dublin 11, which is due to reach practical completion in 2023. Deal activity was characterised by large, pre-let transactions in growing logistics parks, with global 3PL's, retailers and shipping companies among those active tenants competing for new, modern, sustainable stock.

The Dublin I&L market remains undersupplied and indeed the vacancy rate at the top 35 business parks was just 1.3% at the end of 2022. This has led to competitive tension for prime stock and when combined with construction cost inflation, this has driven rent levels higher over the last 12 months. Prime rents in Dublin for the best in class logistics buildings are now €123.75 per sq. m. (€11.50 per sq. ft.) and lease lengths of 10-years term certain are typical for prime stock.

In the investment market, volumes totalled €500 million in 2022, down significantly compared to 2021, but still well ahead of historical norms, while prime and secondary yields softened in-line with other sectors of the market. Notably, at the end of Q3, the I&L sector was on course to provide the highest total return in the Irish market for the seventh straight year, as measured by MSCI. The total return for the sector over the 9-months to the end of Q3 2022 was +10.5%.

LOOKING AHEAD

As we enter 2023, we expect another busy year of take-up activity. However some of the questions surrounding the Dublin market include the following: the impact of an economic slowdown, a potential slowdown in e-commerce spend globally, the lack of supply coming to market in South Dublin and in the smaller size brackets across Dublin, and the delta between stock with strong sustainability credentials and the rest of the market. On the investment side, yield uncertainty will be another cause for concern in the coming months, however the Irish market is holding up better than other European markets to date.

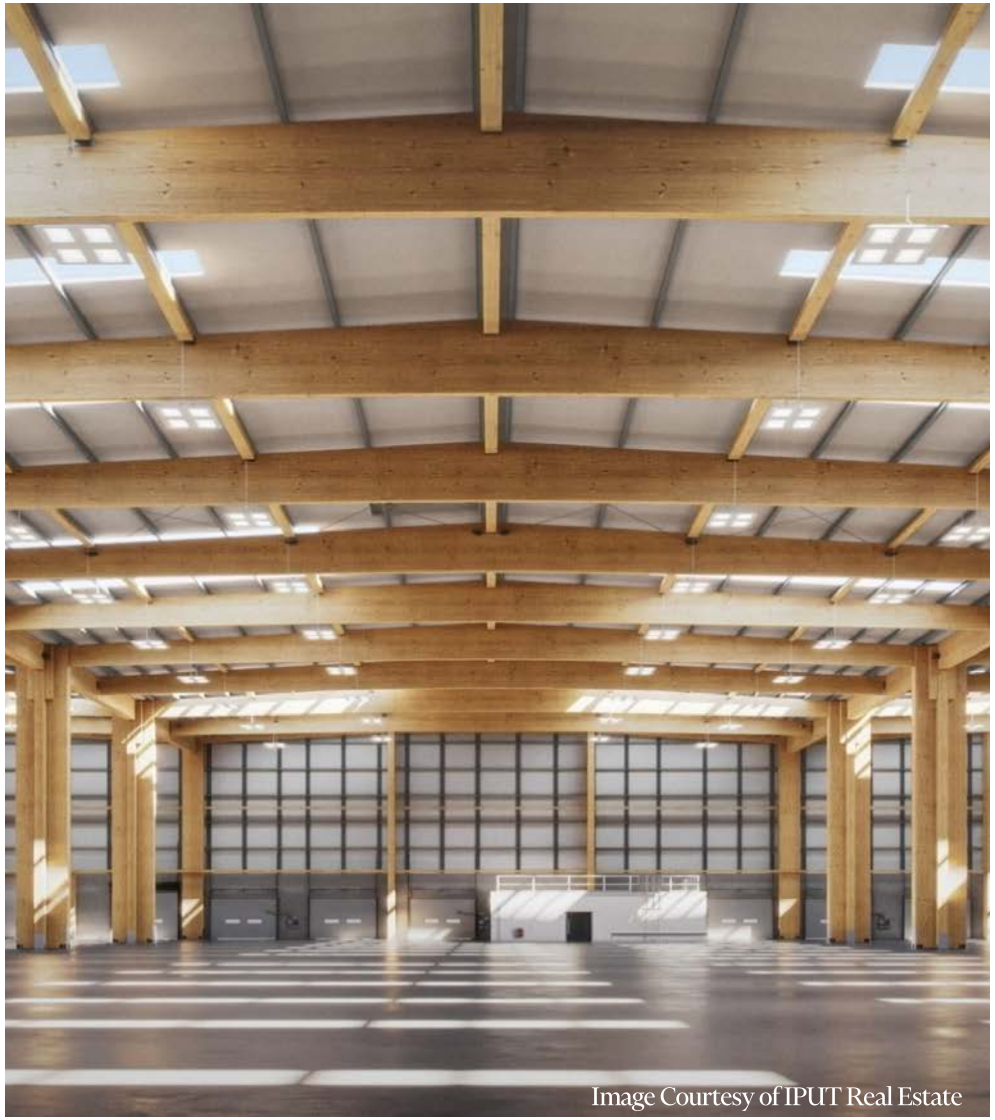


Image Courtesy of IPUT Real Estate

Unit 4, Quantum Logistics Park, Dublin 11: Pre-Let To Maersk (Advised by CBRE) in Q3 2022

Expectations for 2023

INFLATION, TRADE VOLUMES AND E-COMMERCE

Despite inflationary pressures on disposable incomes, trade volumes in Ireland are expected to remain robust through 2023 and 2024. The value (or profile) of goods exports and imports may change to reflect a softer economic environment; however, ultimately the volume of throughput will remain robust. This will support logistics and warehousing requirements. Interestingly, despite a slowdown in some other markets, e-commerce spend remains on an upward trajectory in Ireland, according to Central Bank of Ireland spending data.

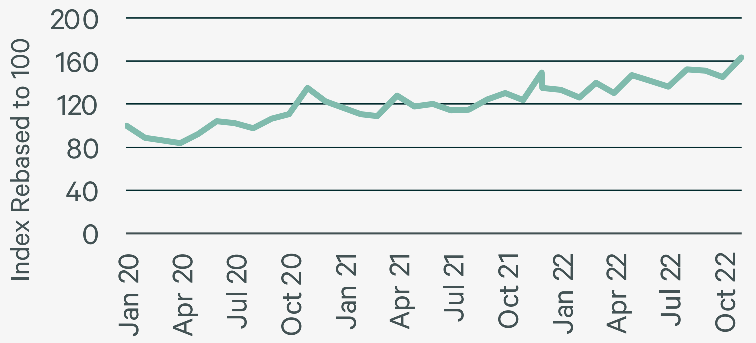
TAKE-UP & DEMAND

While 2023 will be another busy year of deal activity, we expect Dublin take-up to fall marginally from 2022 levels. The low level of available stock in the market implies that take-up will be slightly constrained. Total demand requirements for Dublin stock reached record highs in 2022 and remain elevated as we enter the new year. Given the low availability of options in Dublin, this could lead to more deal activity in regions outside of the Capital, including more take-up and development in locations such as Kildare.

SUPPLY & SUSTAINABILITY

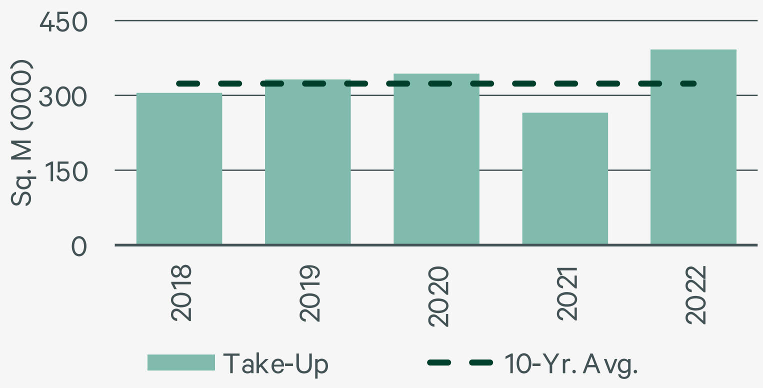
Approximately 240,000 sq. m. of new supply is under construction and due for delivery in Dublin in 2023 and 2024. This stock will be competitively sought after by occupiers. Sustainability is a bigger factor than ever, with developers now ensuring a minimum of LEED Gold or BREEAM 'Excellent' credentials, and a delta of 10-15% on rents for these buildings is emerging. Glue-laminated timber frame developments will be another area of focus for developers this year and will continue to grow in prevalence.

Figure 8: Ireland Credit & Debit Card Spend on E-Commerce



Source: Central Bank of Ireland

Figure 9: Annual Dublin I&L Take-Up



Source: CBRE Research

FURTHER RENTAL GROWTH ANTICIPATED

We are forecasting continued upward pressure on rents in 2023. We expect prime rents to grow to €134.55 per sq. m. (€12.50 per sq. ft.) over the next 12 months. These guideline rents reflect 'big-box' logistics i.e., units greater than 4,643 sq. m. (50,000 sq. ft.), with clear internal heights in excess of 12 metres and with the requisite sustainability credentials.

Rents for secondary stock in Dublin now stand at approx. €96.88 per sq. m. (€9.00 per sq. ft.), and we also expect modest upward pressure on these levels in 2023. Notably, rent levels for multi-let urban logistics units (sub 1,858 sq. m) can achieve rents above even that of prime stock, given the much higher cost of construction.

INVESTMENT & YIELDS

We expect I&L investment opportunities to continue to be highly sought after in 2023. The quality of new stock being delivered to the market and the strength of the tenant profile and lease terms will fit the criteria for institutional investors. However, unlocking product in a market where developers are well-capitalised will prove a challenge.

The 10-year annual average for industrial investment spend in Ireland is approx. €270 million. We expect 2023 investment volumes to trend above this level.

Prime yields softened by 50 bps to 4.5% in 2022 and we expect some further modest yield expansion in 2023. We are forecasting prime yields of 4.75%-4.80% by year-end.

Unit 628, Northwest Logistics Park, Dublin 15:
Jointly Let By CBRE in Q4 2022

08

Retail

Dublin attracted some top-calibre new entrants to the retail market in 2022, with more new occupiers in-line for 2023. Inflation will be a challenge for consumers in the coming months, but Irish household savings remain elevated, while retailers are well positioned as we enter the new year.

Retail

Prime high streets and shopping centres enjoyed strong growth in sales and footfall in 2022, as the market benefited from a deluge of pent-up consumer demand. The full re-opening of retail across Europe and the freedom for parties to travel helped to spark renewed interest in retail leasing opportunities and we saw a number of exciting new brands enter the Dublin market.

Some notable retailers who signed deals in 2022 include luxury brands such as IWC, Cartier, Tag Heuer and Mont Blanc. In the fashion and footwear sector, Flannels and Sports Direct expanded their Irish footprint, while Skechers, Ecco, Dr. Martens and Russell & Bromley all took space on Grafton Street.

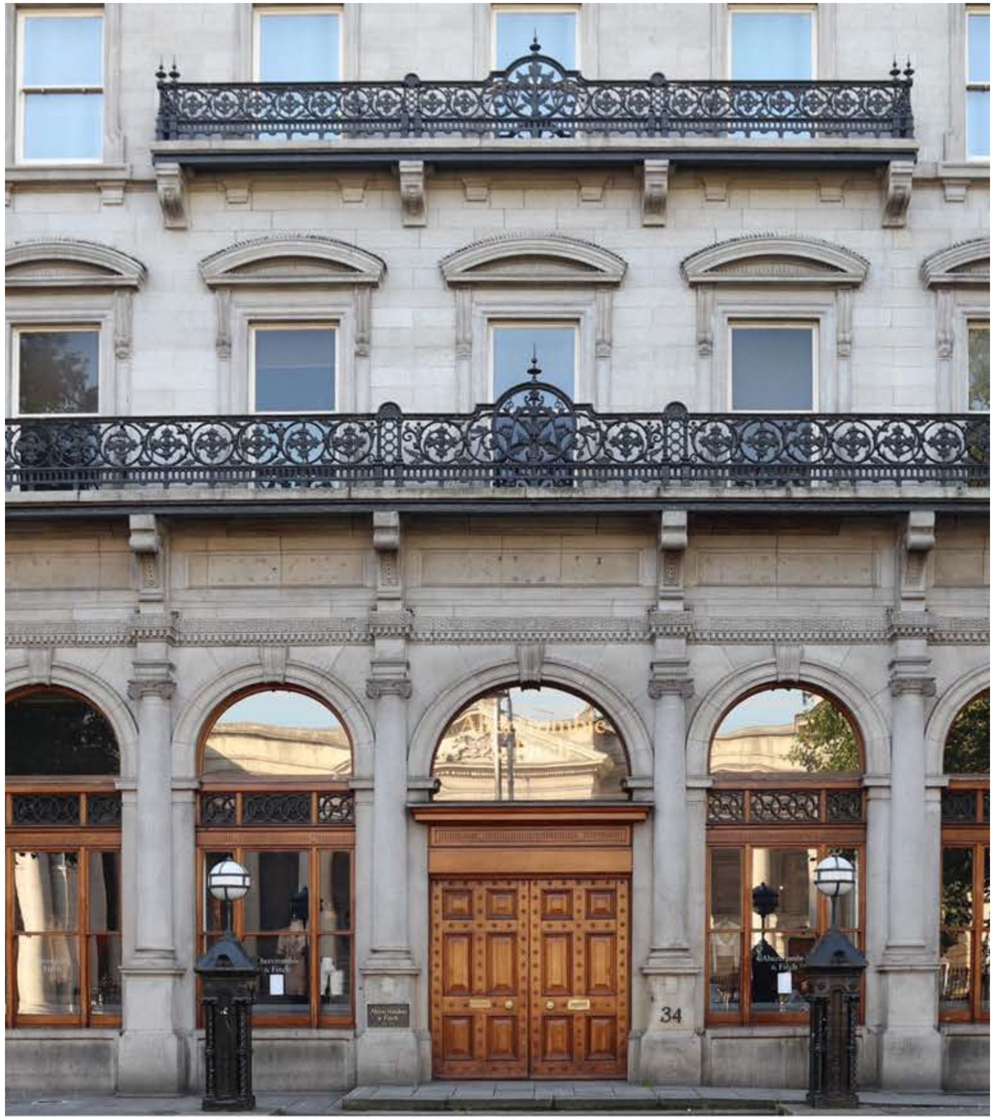
Zara expanded their Irish presence at Blanchardstown Centre, while a deal was also agreed for a new 'Nike Unite' concept store that will open in the centre in 2023. Penneys will also open a large flagship store in Dundrum Town Centre in the next 12 months.

Notably, upmarket restaurant chain Hawksmoor signed a long-term lease at 34 College Green in the city centre, while a number of domestic and international supermarket chains continued to expand aggressively, in what is an increasingly competitive marketplace.

As 2022 progressed, the rise in consumer price inflation and the 'cost of living crisis' impacted consumer sentiment, albeit Irish retail spending proved relatively resilient. However, the impact of rising energy costs was keenly felt on many domestic food & beverage operators and the increased cost of fitting-out retail space also came more into focus for prospective occupiers.

LOOKING AHEAD

As a result of the pandemic, Dublin's prominent retailers are now leaner operations, with the strongest performers well-positioned heading into 2023. Ireland's household savings ratio remains above pre-pandemic levels, according to the Central Statistics Office, and this will act as a positive catalyst for spending heading into the new year. Experiential retail and omnichannel strategies continue to underpin retail business models of the future, while retail investment pricing could indeed be more resilient than other sectors of the commercial property market in the year ahead.



34 College Green, Dublin 2: Let by CBRE to Hawksmoor on Behalf of Clarendon Prop. in 2022

Expectations for 2023

LEANER AND POSITIONED FOR GROWTH

The Covid-19 pandemic saw a shake-out of underperforming retailers in Dublin. The strongest, best-performing and most well-capitalised businesses are now leaner operations. These retailers are well-placed heading into 2023 and will be able to capture consumer spending in the resilient Dublin market.

While consumer spending in 2023 could be challenged by the impact of rising consumer prices, we expect Irish sales densities to remain stronger than those of competing markets, due in-part to Ireland's high household savings ratio, which remains above pre-pandemic levels.

OMNICHANNEL, EXPERIENTIAL & RETAIL THERAPY

Retail business models will continue to adjust to an increasingly digital world. 'Nike Unite', Zara and Flannels have led the way in Dublin in modernising their store fit-out and capabilities, and we expect to see further implementation of omnichannel strategies in the coming year, with faster and more robust 'click & collect' services and the increased use of 'concept stores' to showcase warehoused products.

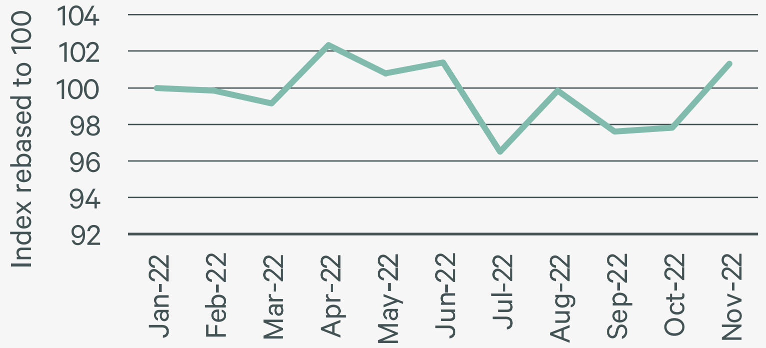
Quality food & beverage offerings and the pronounced growth of cosmetic beauty treatment facilities will also continue to underpin footfall across both high streets and shopping centres.

SUSTAINABILITY IMPLICATIONS OF RETURNS

We expect the sustainability credentials of the e-commerce distribution model, particularly in relation to item returns, to come further under the spotlight. Whether this emanates from retailers themselves, or from governmental bodies remains a watching brief.

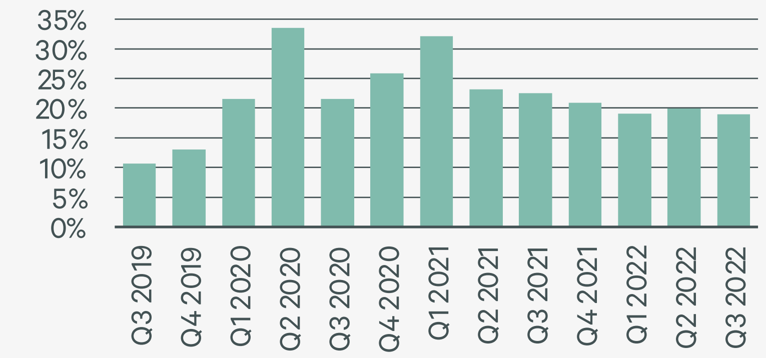
Sustainability will be a greater factor for shoppers than ever before, particularly for Gen Z consumers, who will increasingly align with brands that share their own values.

Figure 10: Ireland Retail Sales (Volumes) (Ex. Motor Trades)



Source: CSO

Figure 11: Ireland Household Savings Ratio



Source: CSO

RENTS & LEASE TERMS

Retail rent prices in Dublin have now largely re-based and there is a more consistent tone across both high streets and shopping centres. Rent levels will be broadly stable in 2023, with perhaps some small growth in prime shopping centres and high street locations where vacancy is trending lower.

Increased fit-out costs will likely impact on landlord incentive packages in the coming year. Tenants may seek longer rent-free periods or capital to support store fit-outs.

Lease lengths will remain consistent with what has been seen to-date. 10-year commitments with a break after 5 years will continue to be the most common terms.

VACANCY & LEASING MOMENTUM

Vacancy on Grafton Street declined as 2022 progressed, with the current vacancy rate standing at approximately 6.5% (on a unit basis). We expect the street to approach full occupancy in 2023. On Henry Street, following Frasers' entry to the former Debenhams unit on the street, we expect to see more interest from occupiers in this part of the city centre. Dundrum Town Centre and Blanchardstown Shopping Centre both experienced strong leasing momentum in 2022, and we also expect this to carry into 2023.

RETAIL INVESTMENT & YIELDS

We anticipate a number of prime retail trades in the Irish investment market in 2023, including both high street and shopping centre assets, while supermarket opportunities are increasingly sought after. Given the recalibration of retail asset pricing over recent years, we expect softer yield expansion in this sector versus what may be anticipated in other commercial property sectors.

13-14 Grafton Street, Dublin 2: Let By CBRE to Skechers in 2022

09

Sustainability

Now, more than ever, sustainable practices are exerting increasing influence on the real estate decisions of investors and occupiers alike, significantly affecting pricing dynamics and shaping the future of the built environment.

Sustainability

In the context of dramatically increasing energy prices and ongoing climate change, sustainability concerns have never been as salient an issue as in 2023. Investors and occupiers alike are continuing to showcase their demand for the most sustainable stock through hefty premiums, causing significant divergence in pricing between primary and secondary assets which shows no sign of abating. This will continue to influence real estate decisions into the future.

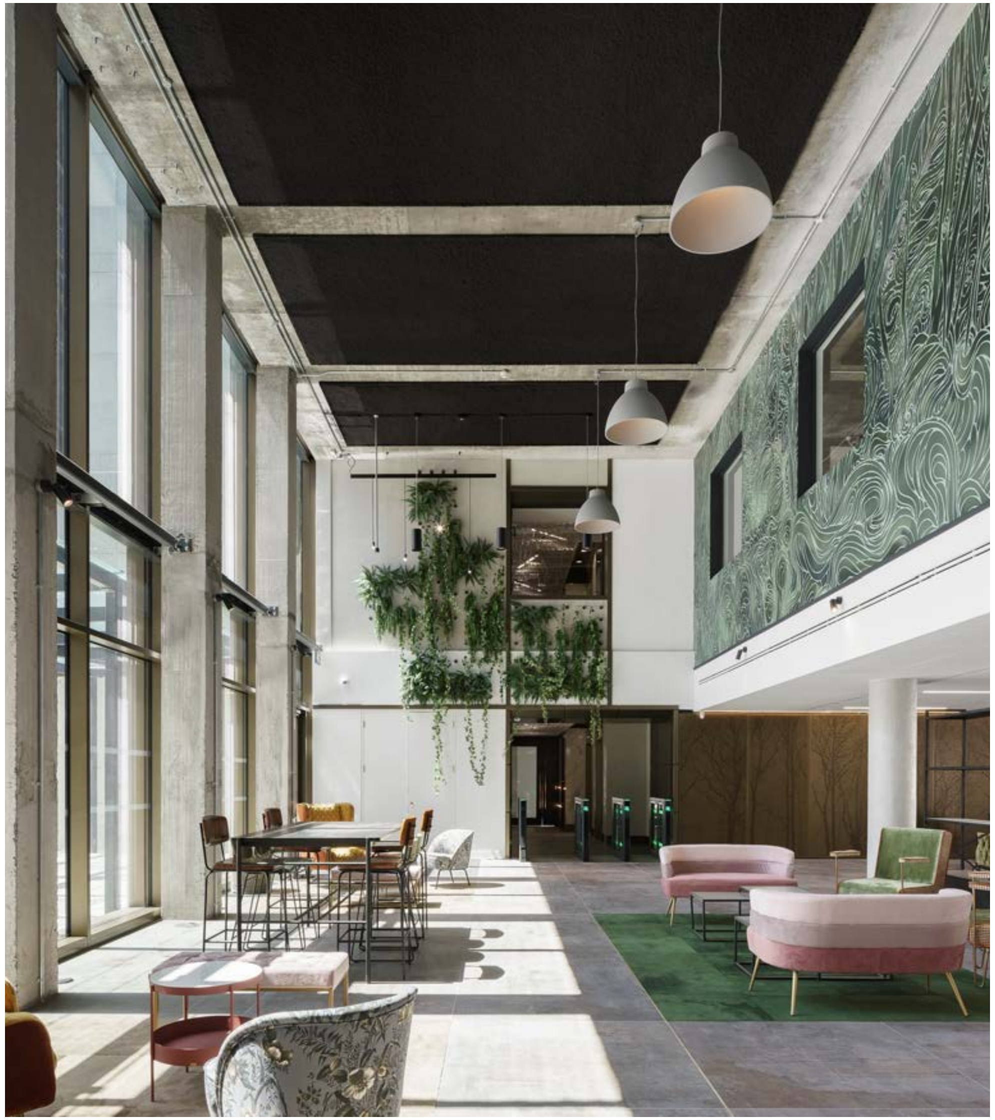
LOOKING AHEAD

Sustainability and ESG concerns more generally will continue to exert significant pressure on investment committees and corporate decision-making in 2023. These pressures are compounded by an increasing need for investors to incorporate or pre-empt future sustainability policy into asset allocation decisions.

Companies and policymakers will contend with a number of new or impending directives in 2023 including:

- The implications of 2030 net-zero (or carbon reduction) targets,
- The European Union's Sustainable Finance Disclosure Regulation (SFDR),
- Corporate Sustainability Reporting Directive (CSRD).

While green premiums are difficult to disaggregate and precisely measure, the existence of such premiums is clearly apparent in some sectors and the demand for stock with the highest sustainability ratings is clearly more robust. Contrary to narratives regarding the "stranding" of secondary assets, CBRE believes that 2023 will bring significant opportunities for "brown-to-green" refurbishment, particularly in offices, as falling secondary prices significantly increase the viability and potential returns of such projects.



Dockline Building, IFSC, Dublin 1: CBRE Acted as Project Manager on a Retrofit in 2022

Sectoral Trends and Expectations for 2023

OFFICES

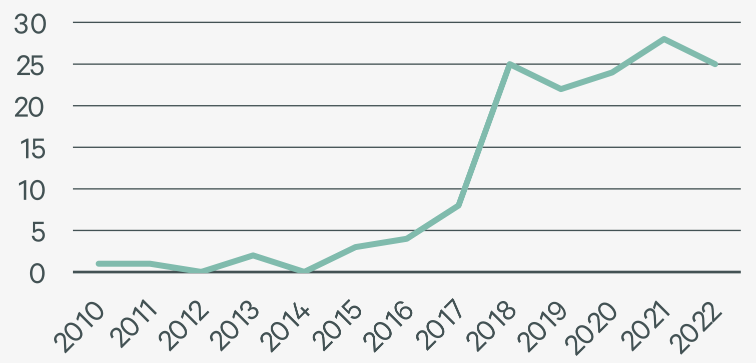
While the vast majority of new offices and the pipeline for delivery in 2023-2024 boast high energy efficiency and sustainability ratings, these offices remain a small minority of Ireland's overall office stock. As such, the sector is increasingly split into three categories between 'Grade A+' (with the highest BER, LEED or BREEAM credentials), traditional Grade A, and secondary stock. Diverging prices between these segments may create significant opportunities for investors seeking to retro-fit and upgrade older stock in the year ahead.

On the occupier side, lease terms beyond 2030 are increasingly under the microscope due to environmental targets – with occupiers showing an increasing reluctance to commit to leases over longer time horizons.

RESIDENTIAL

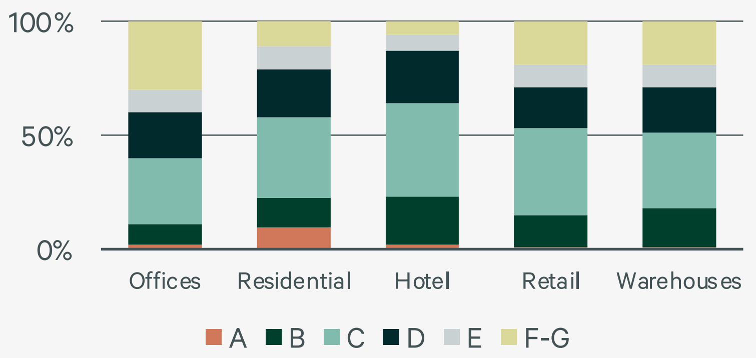
The Irish residential market's progress towards highly energy efficient design and higher density schemes has been nothing short of remarkable over recent years, and yet has received very little media or commentator attention to date. Ireland has gone from only 1% of residential dwellings built between 2005-2009 having BER "A" ratings, to 99% of dwellings built between 2020-2022 having the same – representing staggering differences in environmental footprint.

Figure 12: Irish LEED Certifications Granted by Year



Source: US Green Building Council

Figure 13: BER Ratings by Building Type



Source: Central Statistics Office

While the density of new residential schemes is increasing over time, significant progress remains to be made in residential building heights. While Ireland's skyline continues to slowly creep upwards, local planning authorities remain stubbornly resistant to potentially highly impactful loosening of height restrictions as we move into 2023, a resistance which continues to push residential development into lower density suburbs and commuter towns.

INDUSTRIAL & LOGISTICS

The industrial & logistics sector has been an area of significant innovation in terms of sustainability. Among such innovations have been the use of glue-laminated timber frames in construction. In 2023 we will see the delivery of Unit 4 at IPUT's Quantum Logistics Park in Dublin 11, which will be Ireland's first net zero carbon logistics building. In the year ahead we will also see more developments incorporating the increasing use of rainwater harvesting technologies, and widespread installation of LED lighting.

To date, these changes have been largely demand-led by investors and occupiers as opposed to regulation-led as in many other EMEA countries. Some large institutional investors in Ireland demand a LEED rating of at least Silver for any potential industrial & logistics asset, while the country's largest developers in this sector now have minimum targeted ratings of LEED 'Gold' and BREEAM 'Outstanding' respectively. These dynamics ensure the pipeline of new schemes will virtually all meet the highest sustainability standards for the foreseeable future, reducing the environmental footprint of a high-impact sector.

10

Hotels

Trading performance across Irish hotels has been exceptional in 2022 as occupational demand continues to exceed supply. The outlook for 2023 remains positive despite inflationary pressures on operational expenses.

Hotels

The year 2022 showcased the Irish hotel market's strong recovery and continued resilience to global macroeconomic headwinds. Intense occupier demand was driven by both the return of tourism and business travel following the pandemic and increased demand for emergency accommodation.

The Irish hotel market remains characterised by an acute supply and demand imbalance, as occupiers and investors alike chase scarce existing stock. A robust year for transactional activity reflected these strong fundamentals, with total transaction volumes of just over €400 million across 22 hotel deals completed in the year. Notable transactions included the sale of the 340-bedroom Staycity aparthotel in Dublin 7 to Song Capital for a reported €100m, and the sale of the Samuel Hotel at Spencer Place, as part of Blackstone's acquisition of the new Salesforce Dublin office HQ. Such deals are representative of the renewed focus of institutional capital on the sector, a trend which seems likely to continue into 2023.

The demand for emergency accommodation has seen approximately 25% of total Irish hotel beds contracted for emergency use by government agencies over the last 12 months. This has decreased the available beds in the market and has acted as a catalyst for significant improvements in hotel performance metrics year-on-year. All major cities have seen significant increases in occupancy, revenue per available room (RevPAR) and average room rates (ARR). A number of new occupiers and brands have been attracted to the Irish market in this environment, while several existing operators have expanded their footprint.

LOOKING AHEAD

Forthcoming new entrants to the Irish market include the Hoxton, a major UK lifestyle brand, to Dublin and a new Residence Inn (by Marriott) in Cork, while Staycity continue to expand across locations in Dublin's city centre.

We expect 2023 to be another robust year for occupiers and transactional activity; however, there are some concerns that cloud the outlook. We predict some modest yield softening as the sector continues to digest the increased cost of debt financing. Occupiers continue to contend with rising input cost inflation and labour shortages, while the potentially negative effects on tourist numbers of recessions in the UK and Europe remain a salient threat as we move into 2023.

Dunboyne Castle, Co. Meath: Sold by CBRE in Q4 2022

Expectations for 2023

We expect occupier demand to continue to far outstrip supply in 2023. While demand from tourism and business travel may be softened by impending recessions in the UK and further afield, the demand for emergency accommodation shows no sign of abating in the immediate future.

YIELDS & PRICING

Irish hotels have seen more modest outward yield shifts to date, when compared to European peers and versus other Irish commercial real estate sectors. Guideline prime-leased hotel yields are currently at 4.25%, however we expect yields to move out further in 2023 as central banks continue to increase interest rates.

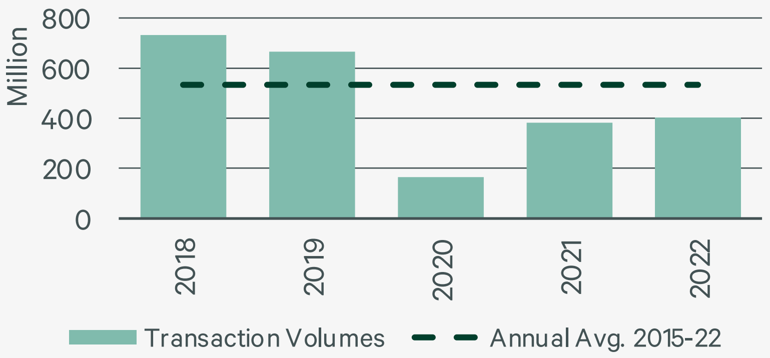
SUPPLY

Hotel supply remains highly constrained. Much of the new supply in Dublin in recent years has been largely focused on the budget and aparthotel segments. Following the delivery of almost 2,200 new beds to the Dublin market in 2022, we expect to see a slowdown of new hotel construction completions in 2023 and 2024 with just over 1,000 new rooms in 2023 and 650 in 2024.

MARKET PARTICIPANTS

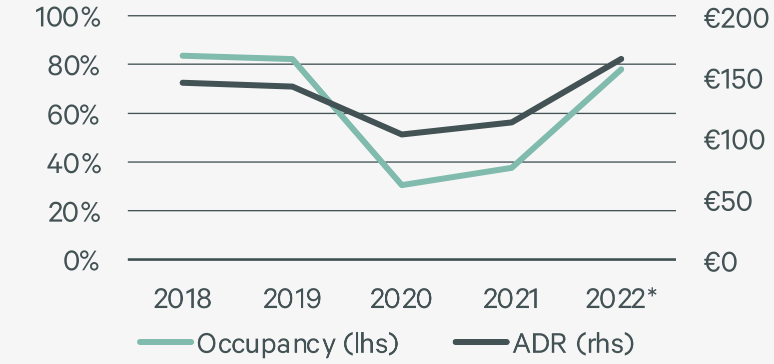
The last 12 months saw the renewed focus of institutional capital on the hotels sector, as investors seek reasonably priced, inflation-protected cash flows in markets with strong underlying fundamentals. We expect transactional activity in 2023 to be driven by institutional funds, as well as a large underlying reserve of domestic investors trading actively at smaller lot sizes.

Figure 14: Irish Hotel Transaction Volumes



Source: CBRE Research

Figure 15: Dublin Hotel Trading Performance



Source: STR; *2022 Data to November

DEBT MARKET

The market for hotel-related debt saw significant activity in 2022, with over €100 million worth of debt deals taking place, including deals for the Hoxton, Hampton by Hilton and the Holiday Inn at Dublin Airport. The cost and availability of debt will continue to be a challenge – creating difficulties for funding and re-financing.

OUTLOOK

Rising input costs, particularly in the form of energy prices and wage inflation, remain a significant concern for occupiers as we move into 2023. 4- and 5-star hotels have little room to manoeuvre in the short-term to adapt their offerings to these changes, while budget hotels may prove to have more flexibility.

On the demand side, recessions internationally risk dampening visitor numbers, while on the supply-side, in addition to very limited construction activity in the sector, there are concerns that many of the hotels brought into the emergency accommodation system are unlikely to return to use in the ordinary hotels market, further reducing supply.

Despite these concerns, 2023 will see more new faces among occupiers and investors who continue to be attracted by Ireland's strong underlying fundamentals. Ongoing pedestrianisation plans in Dublin are making the city a more attractive destination for tourists, while several major events hosted in Dublin (such as the Heineken Cup final) will bolster demand in 2023.

Staycity Aparthotel, Dublin 7: Acquired by Song Capital (Advised by CBRE) in Q3 2022

11

Healthcare

Despite continued operational challenges, the sector enjoyed a record level of investment activity in 2022. The defensive characteristics of healthcare assets will continue to pique investor interest in 2023.

Healthcare

From an operational standpoint, healthcare facilities endured a difficult year in 2022. Static revenues, alongside rapidly increasing energy and staff costs, put significant pressure on small nursing homes in particular and we saw 16 nursing homes close nationwide during the year. In spite of these dynamics, the sector experienced a record year of investment volumes, as institutional capital continued to target the Irish market.

Most of the investment activity in the healthcare sector in Ireland continued to emanate from a combination of specialist European operators and real estate investors seeking to grow their foothold in the market.

Following the entrance into Ireland by Belgian REITs Aedifica and Cofinimmo in 2021, a third Belgian REIT, Care Property Invest, entered the market in 2022. Along with established players such as Euryale AM, these parties shaped most of the market activity in 2022, acquiring stock subject to lease while a number of going concern deals were also recorded.

Irish investor Cardinal Capital, who invested into the Mowlam Healthcare operating company, also remained active in 2022 and have a strong stated ambition to grow beyond what they have acquired to date.

Australian infrastructure investor AMP Capital disposed of the 'Valley Healthcare' portfolio in Q4 2022 as part of a larger sale of infrastructure assets, which included the Convention Centre in Dublin. The healthcare element of the transaction comprised 20 properties and 10 development opportunities (with lease agreements in place) across the country. The sale was the largest healthcare transaction of the year and one of the largest deals in the Irish investment market in 2022.

LOOKING AHEAD

Despite operational difficulties, we are expecting another active year in the healthcare sector in 2023. However, the supply of new stock and new opportunities will remain limited. Activity will likely remain dominated by European investors, with capital continuing to originate from France, Belgium, Germany and the Netherlands. With this in mind, we expect to see some well-established operators grow their platforms in the year ahead. Indeed, we may see renewed activity from Orpea Groupe following its financial restructuring. Orpea remain the biggest owner-operator in Ireland, and they will continue at pace with their developments in Portmarnock, Kilkenny and Portlaoise in 2023.

Elm Green Nursing Home, Dublin 15: Sold By CBRE in Q1 2022

Expectations for 2023

OPERATIONAL CHALLENGES

The operational challenges experienced by nursing homes in 2022 will likely remain a persistent feature in 2023. Nursing homes will be particularly vulnerable to three related phenomena: high and unpredictable energy costs, staff costs and availability, and in cases where there is a lease in place, rent increases due to rising CPI inflation.

Nursing homes by their nature are large users of heating energy, and this will likely prove to be a significant expense in 2023.

Ireland's healthcare sector remains critically understaffed. We expect that qualified staff will continue to be more expensive to hire and retain, and that care assistants and nurses will remain in short supply in 2023.

All of these related issues have had a significant impact on operators to date, as inflation erodes profit margin and threatens the viability of some operating companies as going concerns.

YIELDS & PRICING

High quality standing stock remains in short supply as we enter 2023. Investment activity dominated the transactional market in 2022 and yields as strong as 4.5% were recorded for good quality, leasehold investments with top-tier covenant tenants. These yields are likely to come under pressure, in-line with other sectors of the market, in 2023.

DEVELOPMENT & SUPPLY

Transactional activity for development sites in 2022 was somewhat muted, with deals largely dominated by forward fund and/or forward purchase agreements. Rapidly rising construction costs threatened the viability of many planned schemes. Construction cost inflation has meant that the cost per bed for building a new home rose to approx. €200,000 in 2022, making many planned schemes unviable. Subject to building costs stabilising, we could see construction activity pick up in 2023.

A SELLERS MARKET

New buyers and occupiers emerged in 2022 with various County Councils particularly active and this trend will continue into 2023. There remains little demand for nursing homes with less than 40 beds and again this is likely to remain the same for 2023. Opportunities to acquire good quality homes with over 60 beds are likely to be limited, and this will put any potential vendors considering an exit in a strong position going forward.

PRIMARY CARE SECTOR

Opportunities to acquire, forward fund or forward purchase in the primary care sector have been limited and it is likely that only a handful of opportunities will present themselves in 2023, now that the Valley Healthcare portfolio has transacted.

Yields of approximately 5% and stronger are likely to prove resilient despite price softening in the broader real estate market. Limited supply and high demand will underpin this investment case alongside the opportunity to acquire long-term government-backed income for brand new state-of-the-art assets, many of which have strong sustainability credentials.

The market may see new entrants in 2023, as global institutional funds seek income-based returns and exposure to defensive sectors. However the established investors will maintain a competitive advantage, given their deeper understanding of this particular model, and as such, they will prove difficult to displace.

Cairnhill Nursing Home, Bray, Co. Wicklow: Acquired by Care Property Invest (Advised by CBRE) in 2022

12

Development Land

Land acquisitions will be key to developer and investor strategies in 2023. We expect developer focus to increasingly turn to the build-to-sell residential market in the Greater Dublin Area in the coming year.

Development Land

Land transaction volumes in Ireland rose 50% year-on-year in 2022, to just over €980 million. Considering some of the challenges facing real estate markets in the last year, this strong level of activity was particularly encouraging and indeed we believe the land market significantly outperformed over the last 12 months, given the prevailing sentiment.

While the residential sector accounted for the majority of transactions, the overall spend was driven by three large commercial sales, two in the office sector and one large industrial plot. One of the largest deals of the year was that of Waterfront South Central in the north Dublin Docklands. This riverside site will deliver one of Dublin's most ambitious commercial schemes, across four office blocks, ranging in height from five to nine storeys.

Construction cost inflation was a major concern for market participants throughout the year, with the SCSI Tender Price Index increasing by 14% over the 12 months to the end of June 2022. Nonetheless, some signs of construction price stabilisation emerged towards the end of the year, which should bode well for developers' ability to plan ahead over the coming months.

Housing completions in Ireland accelerated in 2022 and are on course for the highest annual rate in over a decade, with a total of 27,000 units forecast to be delivered in the full year. While this is a positive milestone, 2022 completion volumes could represent a peak for the market, given added pressures on viability heading into 2023.

LOOKING AHEAD

In a similar vein to the investment market, the land market's trajectory over the next year will be determined by a different profile of active buyers, those developers who are equity-rich and most able to acquire assets with a longer-term, build-and-hold strategy. Land prices, in some instances, will recalibrate, as will exit strategies and we expect to continue to see strong demand for sites, with much of the sale and acquisition activity occurring off-market.

In the residential development market, positives will come in the form of increased activity from the Land Development Agency (LDA), the Irish Strategic Investment Fund (ISIF), and the House Building Finance Agency (HBFI), all of whom will help to encourage and support development in the residential market. We expect to see increased activity in build-to-sell residential development in the Greater Dublin Area (GDA) in the year ahead, and indeed we have already seen developers turn their attention to this form of tenure.

Waterfront South Central, Dublin 1: Sold (Jointly) by CBRE in Q4 2022

Expectations for 2023

LAND VALUES

We expect land prices to increasingly 'price-in' the effects of higher financing costs in 2023. This will prove particularly pertinent for Build-to-Rent (BTR) apartment development, where viability in particular locations is an increasing concern.

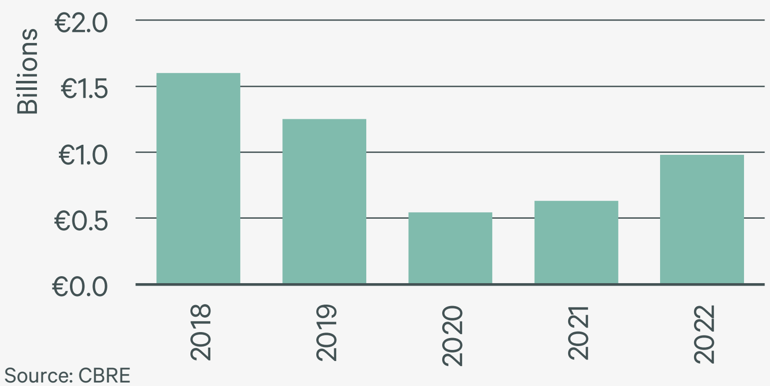
Residential property prices in the owner-occupier market in Ireland have started to stabilise. However, given the supply/demand imbalance in this tenure, and the less onerous building requirements and planning process, we see it as being significantly de-risked from a development perspective, even with the economic challenges facing prospective purchasers in 2023. Land prices for residentially zoned land in the build-to-sell sector will likely prove more resilient than other segments of the market in the year ahead.

VIABILITY

The decision of the Irish government to abolish BTR building standards for apartments in favour of comparatively more expensive build-to-sell standards will increase the cost-per-unit of apartments for both developers and occupiers. This will stymie BTR development and indeed developer focus has already shifted to the build-to-sell market where profit margins are now more achievable.

The increased activity of the LDA, ISIF and HBFI in the market all bode well for viability. These organisations are providing vital funding for development which is helping to bridge the viability gap for residential construction, and it is likely their contribution will remain significant as we move into 2023.

Figure 16: Land Transaction Volumes 2018-2022



Source: CBRE

DEMAND

Demand for land with planning permission for Build-to-Sell residential developments will grow in 2023. Sites in the GDA are the focus for developers, while a healthy, liquid market for sites with planning permission for student accommodation will also remain active due to acute shortages of such stock.

The government's Shared Equity and Cost-Rental schemes respectively are also spurring on increased demand, particularly in suburbs and commuter towns of the GDA where viability is less of a concern. There is also a large emphasis from policymakers, developers and investors alike on the social and affordable housing segments of the market.

PLANNING POLICY

Planning policy remains a concern for most developers and investors in the residential sector. While some significant progress has been made in recent years, particularly with the reform of the judicial review process, the slow pace of reform to date has created a stalemate in unlocking development.

Land service requirements and issues with connecting to Irish Water infrastructure, particularly in regional locations, are also negatively impacting supply.

Some clarity will be delivered with the adoption of the Fingal and Dublin County Development Plans in 2023.

The Residential Zoned Land Tax (RZLT) will come more into focus this year. The final map of lands that will become liable for the tax is due to be issued on December 1st with the first valuation date to come in February 2024. A tax rate of 3% of the market value of the land will be charged on land zoned for residential use and with access to the requisite services.

The full implications of the RZLT are yet to be defined. However, in some instances land owners are not aware that their land will now be liable to this tax, and therefore that they will need to make submissions to challenge the zoning. We will undoubtably see some owners unable or unwilling to pay this tax and indeed this may lead to improved transactional liquidity.

3.68 Acre Site at Mabestown, Malahide, Co. Dublin:
Sold by CBRE in Q1 2022

13

Cork

Cork City and County continues to enjoy significant inward investment, spurring on an increasingly dynamic commercial market with an exciting pipeline of new development.

Cork

Cork City & County attracted significant inward investment in 2022. A number of new IDA-related, investment and job creation announcements were delivered during the year by a range of multinational corporations including: Apple, GE Healthcare, AbbVie, Dell, Stryker and Merck. The provisional results of the Irish Population Census 2022 showed that the total population of Cork City and County has grown by 7.1% since 2016, now standing at over 581,000. This positive economic and demographic backdrop helped Ireland's second city to enjoy an uptick in commercial property activity across both occupational and investment markets in 2022.

The Cork office market experienced a significant increase in leasing activity over the course of the year, primarily in the form of floor-by-floor lettings at some of the recently delivered developments in the city. Total office take-up in 2022 reached 25,270 sq. m., a 110% increase versus 2021. The largest city centre deal of the year was signed by NASDAQ-listed, software business, NetApp, who took 2,649 sq. m. at Navigation Square Two (NSQ2) to accommodate a new international HQ. Flexible office provider Iconic Offices also took space at NSQ2, agreeing a deal for 1,320 sq. m. in Q2. Penrose Dock achieved full occupancy with notable new lettings including: Bourne Electronics, NETGEAR and CH Robinson, with Cadence and Qualcomm also acquiring additional space in the scheme. Another new city centre office scheme, The Counting House, reached practical completion during the year. In a similar vein to the Dublin market, a number of sub-leases of Grade A (grey space) offerings have also come to the market in the city, amounting to approximately 18,580 sq. m. in total.

The Cork industrial & logistics (I&L) occupational sector enjoyed an extremely buoyant 2022 with a number of notable new deals completing. These included the letting of 5,670 sq. m. to Nisbets at Blarney Business Park in Q1. Nisbets joined notable tenants such as global third-party logistics providers DHL and FedEx at the growing logistics park. The vacancy rate in the Cork I&L market is now approximately 2%.

In investment, almost €150 million of trades completed in 2022, constituting an uplift of almost 50% year-on-year. These trades occurred across a range of sectors including PBSA, industrial and logistics, retail and healthcare. The largest deal of the year was Melbourn Point, where UK PBSA owner-operator, Harrison Street, acquired 342 student beds next to Munster Technological University in Bishopstown.

Penrose Dock, Victorian Quarter, Cork City: Reached 100% Occupancy in 2022

Expectations for 2023

INVESTMENT

Similar to the Dublin market, yields across sectors in Cork expanded through 2022. We are likely to see more modest yield expansion on assets in 2023. The continued leasing of newly delivered, sustainable office stock will offer more investible opportunities, albeit vendor expectations will need to adjust to a new pricing environment.

Industrial and logistics assets in Cork are now keenly sought after, and any new opportunities will be considered by investors. These include sale and lease-back structured sales, which may come more into focus given that a significant degree of Cork I&L stock is owner-occupied.

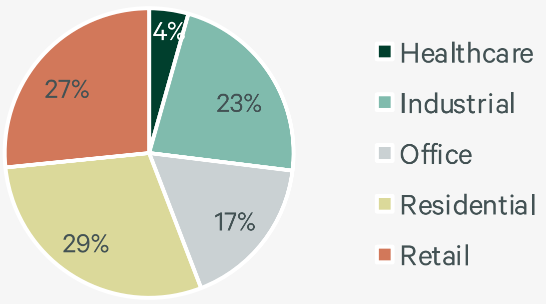
Cork private-rental sector residential assets have performed exceptionally over recent years. However, private development of apartments in the city is currently stymied by viability issues. Appropriate standing product would be strongly considered by investors, many of whom enter the Irish market via Dublin, but also assess Cork options.

RENT & LEASE TERMS

Prime office rents in Cork are now at €350 per sq. m. (€32.50 per sq. ft). We expect that rents will trend higher to €377 per sq. m (€35.00 per sq. ft) for newly constructed stock with any increase largely due to inflated input costs rather than demand-side factors.

Given the vacancy level in the industrial & logistics market and the demand for stock, we are likely to see guideline rents reach €118.40 per sq. m. (€ 11.00 per sq. ft.) in the coming year.

Figure 17: Cork Investment Volumes 2022 – By Sector



Source: CBRE

Figure 18: Cork Rent & Yields – Year End 2022

Sector	Rent per Sq. M.	Yield
Prime Office	€350.00	5.75%
Prime Industrial & Logistics	€107.60	5.75%
Prime High Street Retail	€1,685.00	7.50%

Source: CBRE

PRACTICAL COMPLETIONS

There is currently an exciting pipeline of development across the Cork commercial market and we will see a number of notable completions in the next 12 months.

We expect No. 2 Horgan's Quay to complete construction in 2023. This will add another dynamic LEED Gold scheme to the Cork office market across more than 15,000 sq. m. Construction is continuing on 'The Prism' at Parnell Place, a 15-storey, approx. 6,000 sq. m. commercial office development in the city centre.

These will add further Grade A, modern, sustainable office developments to the city and are a sign of confidence for continued employment creation in the local economy.

There has also been some response to the lack of industrial & logistics stock in the county, with two large-scale developments underway in Little Island; a refurbishment and re-letting of 12,000 sq. m. by Kennedy Wilson with works due to complete in March, while another 23,250 sq. m. promoted by JCD Group is in the planning stages.

COMMENCEMENTS

The Land Development Agency's request in October 2022 for large-scale apartment developments to be delivered under a forward fund model is expected to finally see the delivery of much needed, affordable city centre apartments following a 14-year hiatus.

Blocks C and D at the O'Callaghan Properties' Navigation Square development which extends to approximately 12,150 sq. m. are likely to commence in 2023.

These new developments will continue to change the shape and skyline of the city and bring further investment and growth to the city centre in particular.

Navigation Square 2 (NSQ2), Albert Quay, Cork City:
NetApp Signed the Largest Cork City Centre Office
Lease of the Year at NSQ2 in Q2 2022

Contacts

Myles Clarke
Managing Director
CBRE Ireland
myles.clarke@cbre.com

Colin Richardson
Director
Research & Consultancy
colin.richardson@cbre.com

Willie Norse
Executive Director
Client Advisory & Strategy
willie.norse@cbre.com

Shane Cahir
Senior Director
Capital Markets
shane.cahir@cbre.com

Paddy Conlon
Executive Director
Advisory & Transactions
paddy.conlon@cbre.com

Alan Moran
Executive Director
Offices
alan.moran@cbre.com

William Dowling
Executive Director
Offices
william.dowling@cbre.com

Edward Smyth
Senior Director
Property Management
edward.smyth@cbre.com

Aidan Reynolds
Senior Director
Valuations
aidan.reynolds@cbre.com

Andy Tallon
Executive Director
Corporate Finance
andy.tallon@cbre.com

Kyle Rothwell
Executive Director
Capital Markets
kyle.rothwell@cbre.com

Dessie Kilkenny
Executive Director
Capital Markets
dessie.kilkenny@cbre.com

Bernadine Hogan
Executive Director
Retail
bernadine.hogan@cbre.com

Brian Edwards
Managing Director
Cork Office
brian.edwards@cbre.com

Peter Garrigan
Senior Director
Development Land
peter.garrigan@cbre.com

Paul Collins
Executive Director
Hotels & Licensed
paul.collins@cbrehotels.com

Cormac Megannety
Senior Director
Healthcare
cormac.megannety@cbre.com

Rachael McGinley
Director
Sustainability
rachael.mcginley@cbre.com

Garrett McClean
Executive Director
Industrial & Logistics
garrett.mcclean@cbre.com

Martin O'Donnell
Director
Business Rates
martin.odonnell@cbre.com

David McConnell
Executive Director
Building Consultancy
david.mcconnell@cbre.com

Enda MacMahon
Senior Director
Professional Services
enda.macmahon@cbre.com

Daniel Shannon
Senior Director
Advisory & Transactions
Daniel.shannon@cbre.com

Ann Marie O'Byrne
Senior Director
Hotel Valuations
ann.marie.o'byrne@cbrehotels.com

Sean Moran
Research Analyst
Research & Consultancy
sean.moran@cbre.com

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