SOCIETY OF CHARTERED SURVEYORS IRELAND

Annual Commercial Property Review & Outlook 2020

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Contents

Foreword

Deep analysis

We are delighted to publish our Annual Commercial Property Review & Outlook 2020. This report is informed by the professional opinion of over 400 Chartered Surveyors across Ireland, bringing together their expert insights and local knowledge to present a comprehensive overview of the issues which are currently affecting the commercial property market.

The aim of the report is to complement official past performance data and studies published by real estate firms and to highlight the factors which shaped the commercial market in 2019 and which will drive the market in 2020.

Last year, the two issues which dominated the commercial property sector were Brexit and the increase in stamp duty on commercial property. It's clear from our report that there are micro-markets emerging, an urban-based market engaging businesses affected by Brexit, and a regional market, driven by domestic demand.

While many agents expect to see an increase in activity in 2020, this will be dependent on the domestic economic recovery continuing and the appetite of developers towards the delivery of new developments. Dublin has seen a significant amount of new construction activity taking place as major office and hotel accommodation reaches completion. However, our members say in some cases new supply has not kept pace with demand, especially in the office sector.

In addition, they say there is little new development activity taking place in rural areas, as the overhang of property commenced during the Celtic Tiger era reaches financial viability and is completed. This has long been a concern for the Society, and we would like to see much more being done by the Government to encourage small- and medium-sized businesses to locate in provincial towns, as outlined in Project Ireland 2040.

While Brexit was one of the key factors which shaped the market for the first three quarters of 2019, the increase in stamp duty announced in Budget 2020 in October was the one which dominated Q4. It was universally accepted that the increase would have a negative impact on the performance of the market, with the increase leading to a reduction in offer pricing, which may curtail growth in capital values.

The two main concerns expressed by agents was that the rate of stamp duty here was now one of the highest in the EU and secondly, that this was an unexpected additional increase following increases in 2018. As one agent pointed out, the overall impact tax changes have on our international reputation may deter investors from Ireland, which reduces the demand pool, and in turn has a negative impact on pricing/values.

Looking at the specific sectors, office rent expectations look set to

remain stable, with agents predicting low single digit growth across the country. However, the star performer in 2019 was the industrial sector, which is now thriving with logistic and tech firms seeking out high-spec new units to grow and expand their operations.

Performance in industrial property is most intense on the outer ring of the capital but demand is also high in Galway, Athlone, Waterford and Cork.

The retail sector has not performed as well as the office and industrial, with members reporting that retail outlets in the main thoroughfares in Dublin, as well as smaller rural towns, are continuing to grapple with the challenges posed by online and the transition to a more 'experiential' shopping model.

In 2020, the interplay of the strength of the domestic economy, the delivery of a new UK-EU trading relationship after Brexit, and the ability to absorb the recent increase in stamp duty will influence the levels of demand for commercial property. Issues such as the financial viability of new developments and the availability of appropriately sized and located offices and retail space will influence patterns of uptake.

The coronavirus – covid19 – has already led to the deaths of over a thousand people. Sadly, at this point it's not possible to accurately predict the societal and economic repercussions of the virus but it is clear it will have an impact on the world economy this year. When one considers the open nature of the Irish economy, it is obvious that the virus is a significant risk to economic activity.

The Society, for its part, will continue its advocacy activity to ensure that the expert views and specialist knowledge of our members are represented in policy decisions affecting the commercial property market into the future. Government formation remains uncertain as political parties continue negotiations and make attempts to agree policy positions. How long this process will take is anyone's guess. Hopefully this process can be brought to a close shortly so that policymakers can get on with the important decisions that need to be taken.

I would like to take this opportunity to thank our member agents and surveyors for sharing their expertise and volunteering their time to inform this important piece of research.

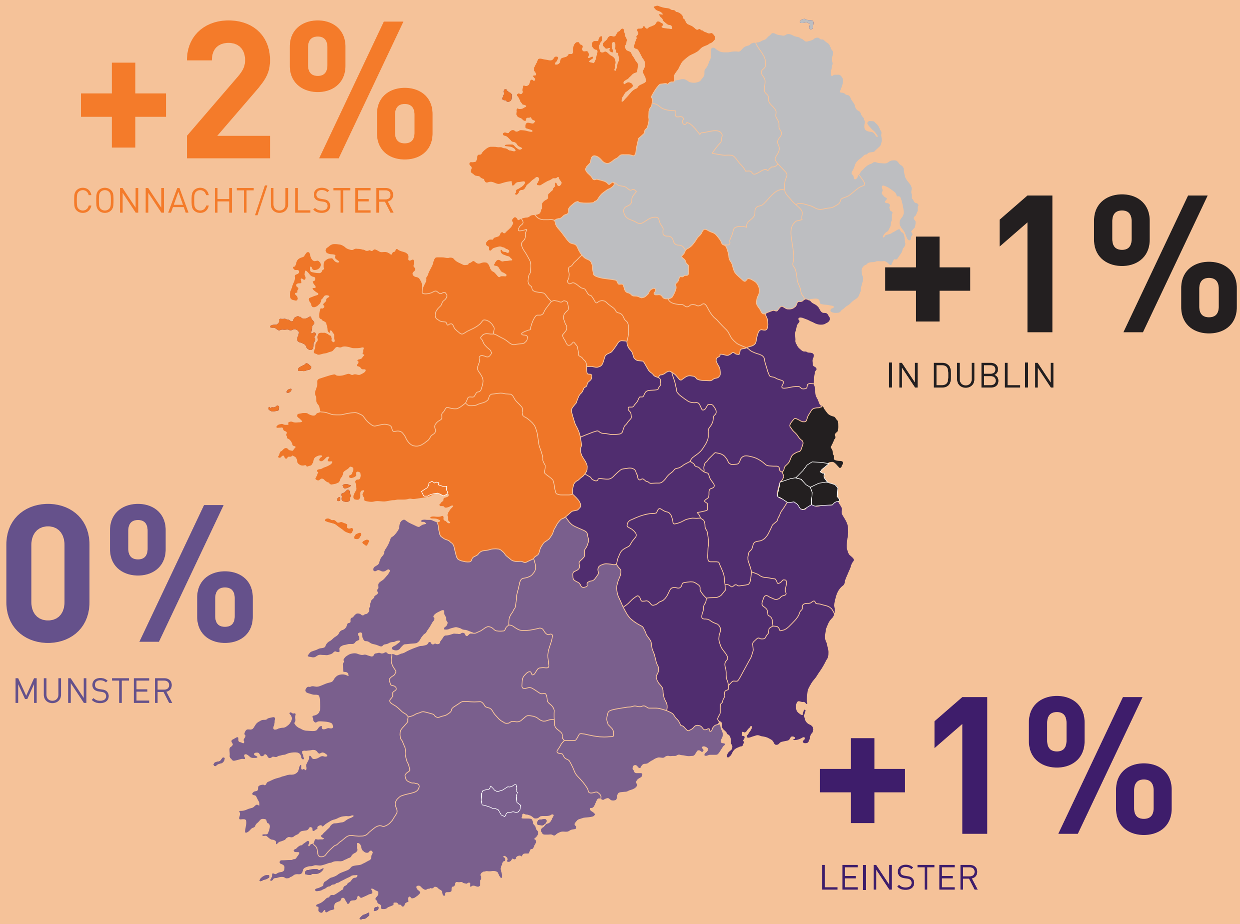
Johanna Gill MSCSI MRICS
President

Key highlights

Offices

Office	€psm	2018	2019	Change 2018-19
Prime rent	Dublin	608	675	+11%
Prime rent	Munster	223	250	+12%

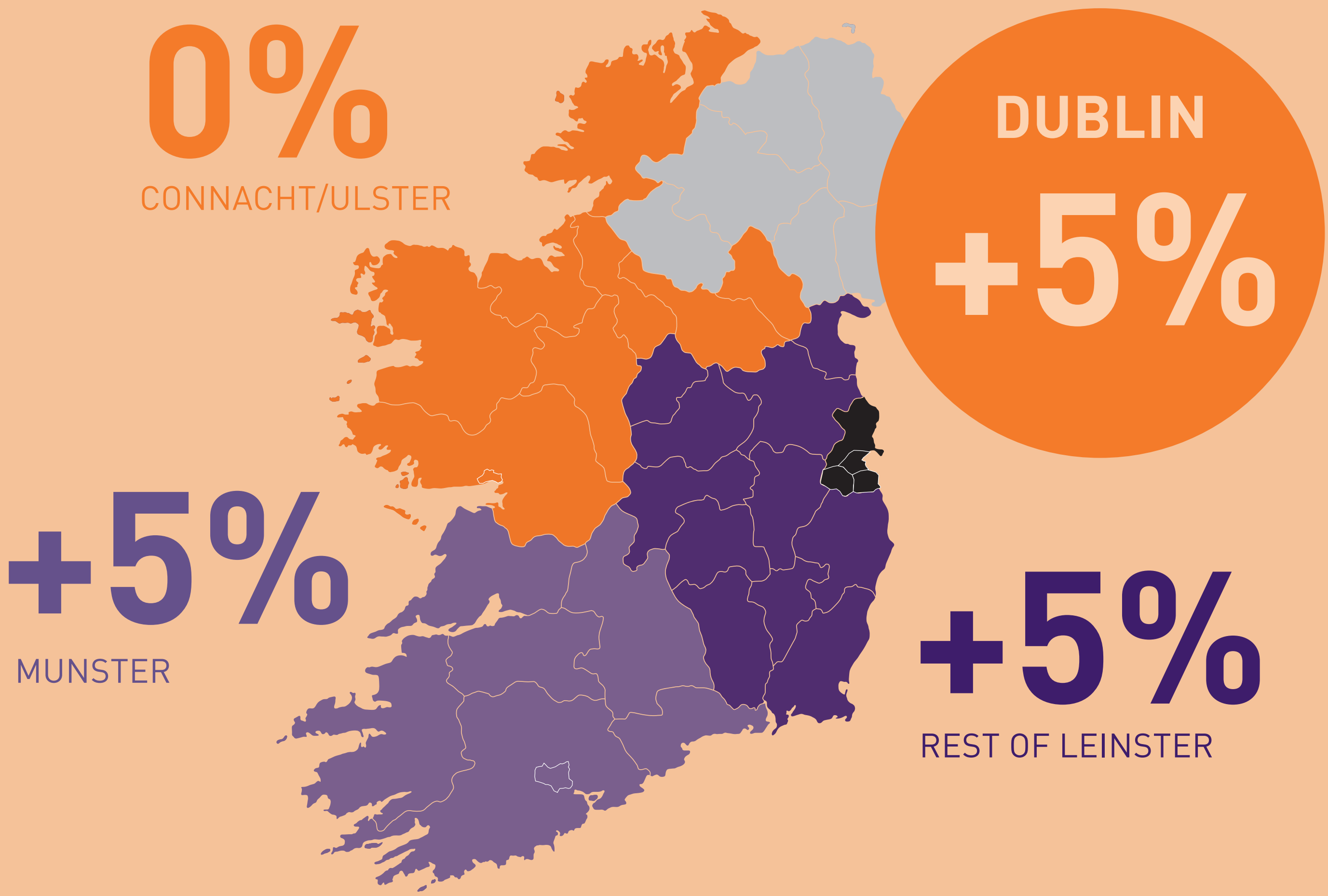
Rental growth expectations for 2020

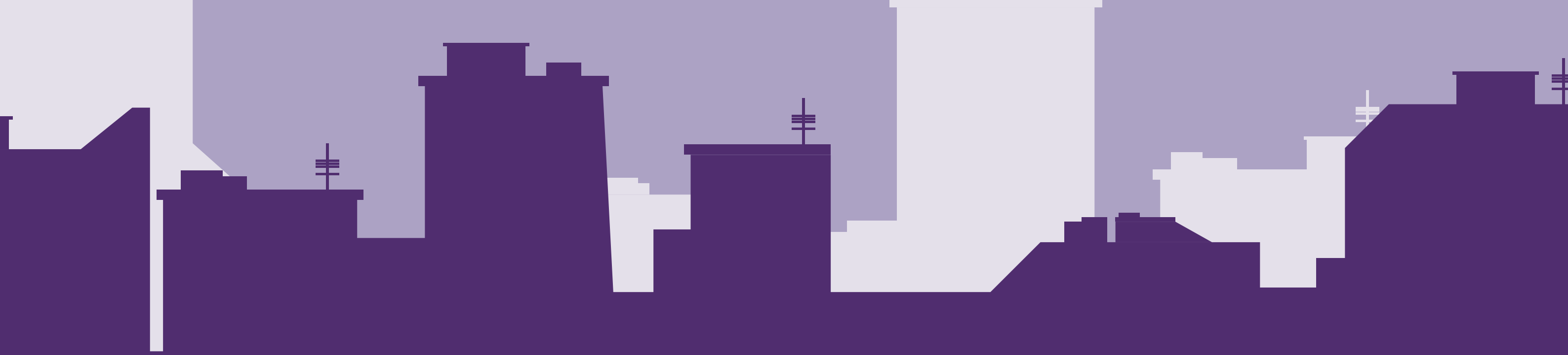


Industrial

Industrial (€psm)	2018	2019	Change 2018-19
Prime rent Dublin	89	114.5	+28.65%
Outside Dublin	61	61.6	+0.9%

Rental growth expectations for 2020





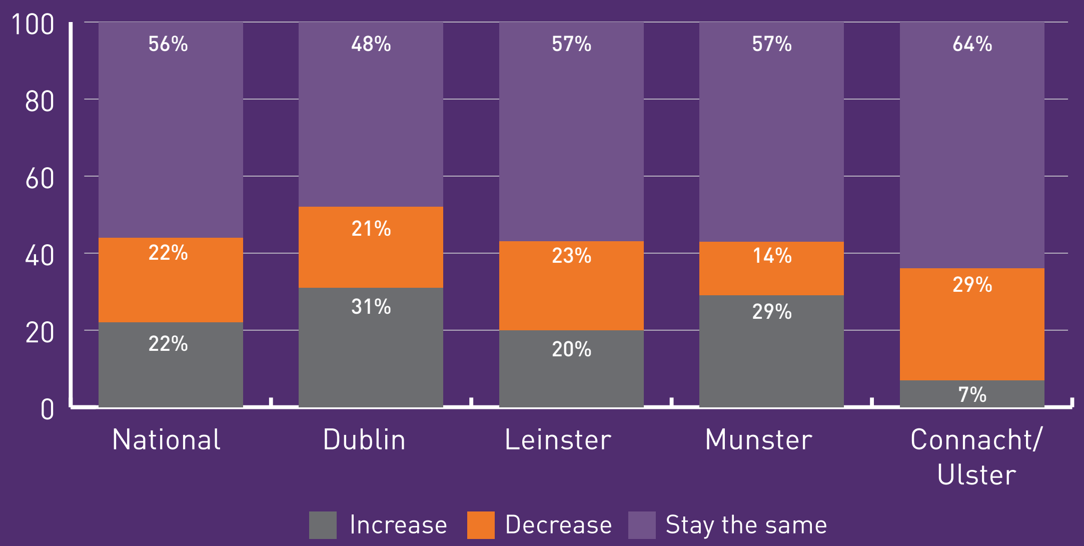
Zone A retail

Retail	2018	2019	Change 2018-19
Prime rent Dublin (Grafton Street)	6,038	6,485	+7.4%

Top two key issues in the retail market in 2019.

Development land

Supply of development land in 2019 (%).



Expected change in development land values in 2020 (%).

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Residential development land	1.3	0	0	0	5
Mixed use (office and retail)	2.5	5	0	0	5
Industrial development land	2.3	4	0	0	5

The national context

The Irish commercial property market is driven by a combination of domestic and international economic issues, and consumer and business confidence.

As this report shows, different property types are impacted by different combinations of these issues. This report seeks to explain the issues which shaped the commercial property market in 2019, and to highlight issues which SCSI Chartered Surveyors believe will shape the market in 2020. This report is based on a survey of 400 agents and valuers across Ireland, with specialist professional interest in different classes of commercial property. Detailed interviews were undertaken with surveyors to explore these issues in more detail. The purpose of this report is to complement official past performance data and studies published by real estate firms and to highlight the factors which will influence the performance of the market next year. During 2019, two issues dominated the commercial property sector – Brexit and increased stamp duty on commercial property.

Brexit

Ireland has benefitted hugely from foreign direct investment, not just as a source of revenue and employment, but also as a driver of investment into the commercial property sector. The issue of Brexit has had an impact on international investment into Ireland, as well as domestic investment in recent years. Following the Brexit referendum, it was held by many that there would be a Brexit dividend for Ireland, among the established technology, pharmaceutical, and data centre clusters in Dublin, Cork, Galway and elsewhere in Ireland, as international firms which wanted to maintain a presence in an English-speaking EU member state would inevitably choose to invest in Ireland.

"When the referendum happened, we expected a flight of investment from London to the Dublin market, and in some cases, international firms have increased their presence here. And this has led to some activity in the office market, and a boost to retail and residential property in the area."

Regional commercial property markets continue to be dominated by activity among smaller, indigenous tenants.

"Sometimes, there's been a direct link between a large UK-based tenant deciding to hold off all development and its impact on Ireland. In other cases, for smaller tenants who are at the end of the supply chain, the impact of Brexit is harder to spot. For those companies, domestic issues have a more direct effect on them."

Thus, we get a picture of two regional commercial property markets – one, urban based market engaging businesses affected by Brexit, and a regional market, driven by domestic demand.

"We are definitely seeing micro-markets across Ireland. Depending on what type of businesses operate in their area, some larger rural towns are busy, while others are still suffering. It's hard to get an overall picture of every town in Ireland, so I'd say there are 'sub-markets' rather than a national market."

2019 saw the climax of the Brexit issue, as the UK negotiated terms with the EU. Activity is expected to increase in 2020, although this will be dependent on the domestic economic recovery continuing, and the appetite of developers towards the delivery of new developments.

In Dublin city, there has been a significant amount of new construction activity, as major office and hotel accommodation reaches completion. However, agents noted in interviews that in some cases this new supply has not kept pace with demand, especially in the office sector. In addition, following a pattern seen in the residential development sector, there is little new development activity taking place in rural areas, as the overhang of property commenced during the Celtic Tiger reaches financial viability and is

completed.

"Very little new commercial property development has taken place in provincial towns and there is still an overhang of vacancy in most areas."

For businesses which will want to expand their Irish operations in 2020, there is likely to be very limited office space available in Dublin.

Stamp duty

The 2020 Budget announced in October 2019 saw the rate of stamp duty on the transfer of non-residential property increase from 6% to 7.5%. The rate of stamp duty charged on the premium component of a lease of non-residential property increased from 6% to 7.5%.

In his Budget speech the Minister for Finance, Paschal Donohue TD, said: *"The commercial property market continues to perform strongly, and I expect that this increase can be borne by the sector without any significant impact. There are long-standing relief measures which should mitigate the increase in certain circumstances. Normal transitional arrangements will apply for transactions in process".*

The agents surveyed for this report saw the increased stamp duty change as one of the key factors which shaped the commercial property market in the last quarter of 2019. The previous three quarters had been largely influenced by the issue of Brexit, which continued to dominate activity in the residential sector.

There were two main concerns expressed by agents. First, that the rate of stamp duty was now one of the highest in the European Union, and second, that this was an unexpected additional increase following earlier increases in stamp duty in previous budgets.

On this latter point, one agent noted: "constant tax changes are not good for international investors as they like stability. This will have a negative effect mainly because it undermines buyer confidence – will there be another increase out of the blue which will decrease the value of property?"

It was universally accepted that this increase in stamp duty would have a negative impact on the performance of the commercial property market. Inevitably, the stamp duty will be factored into the price of property, and the net price of the property will be lower as a result of this increased taxation.

"It has a negative impact on sentiment. However, this is somewhat offset by prevailing economic factors."

"The increase will be absorbed into pricing decisions and therefore will reduce offer pricing. Overall, this may curtail the growth in capital values."

However, it is still the (relative) strength of the Irish domestic economy and the feelings of consumers about their own financial position which will have a large role in the future fortunes of the property market.

An agent working in the retail sector stated: *"Foot-fall is down, but spend is up. People seem to have less time to shop, but they're spending more. They're shopping around more, pricing things online, but from a retail perspective, the economy is growing".*

In 2020, the interplay of the strength of the domestic economy, the delivery of a new UK-EU trading relationship after Brexit and the ability to absorb the recent increase in stamp duty will influence the levels of demand for commercial property. Issues such as the financial viability of new developments, and the availability of appropriately sized and located office and retail space will influence patterns of uptake.

The office market

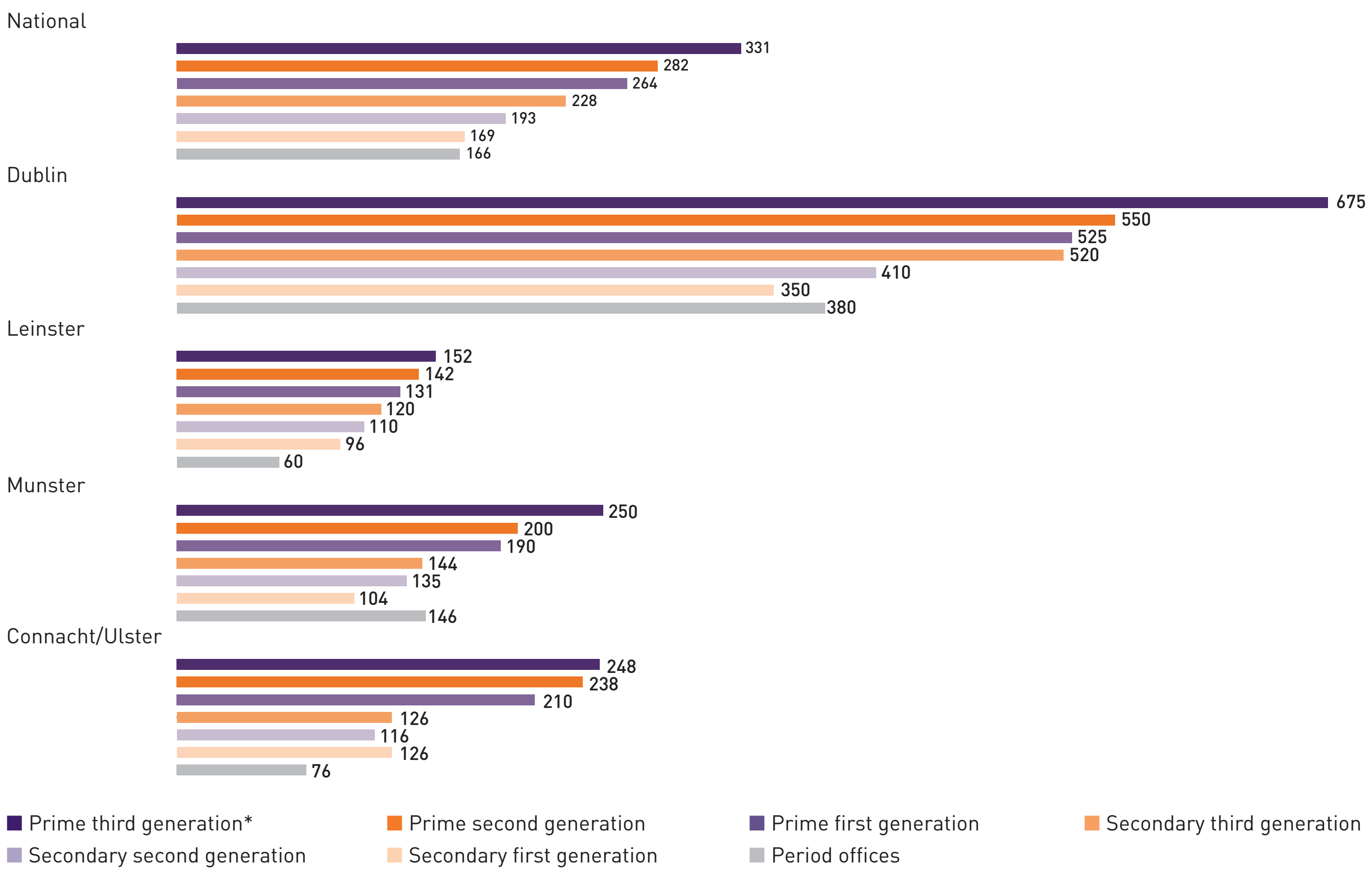
The office market in 2020 is expected to see some cooling off in rent inflation.

This reflects a broader, national picture of increased supply, steady if unspectacular take-up.

New office developments which had reached financial viability several years ago were completed in 2019 and made available to tenants. Agents surveyed for this report noted that while new office developments and significant refurbishments were more visible in 2019 than in previous years, construction is the last stage in the delivery of new supply, which began when the economy recovered a number of years ago. It is expected that further developments will be made available in 2020 and over the medium-term as new schemes are completed.

However, in the interim issues like Brexit have meant that in some

Rents in 2019 (€ per square metre).



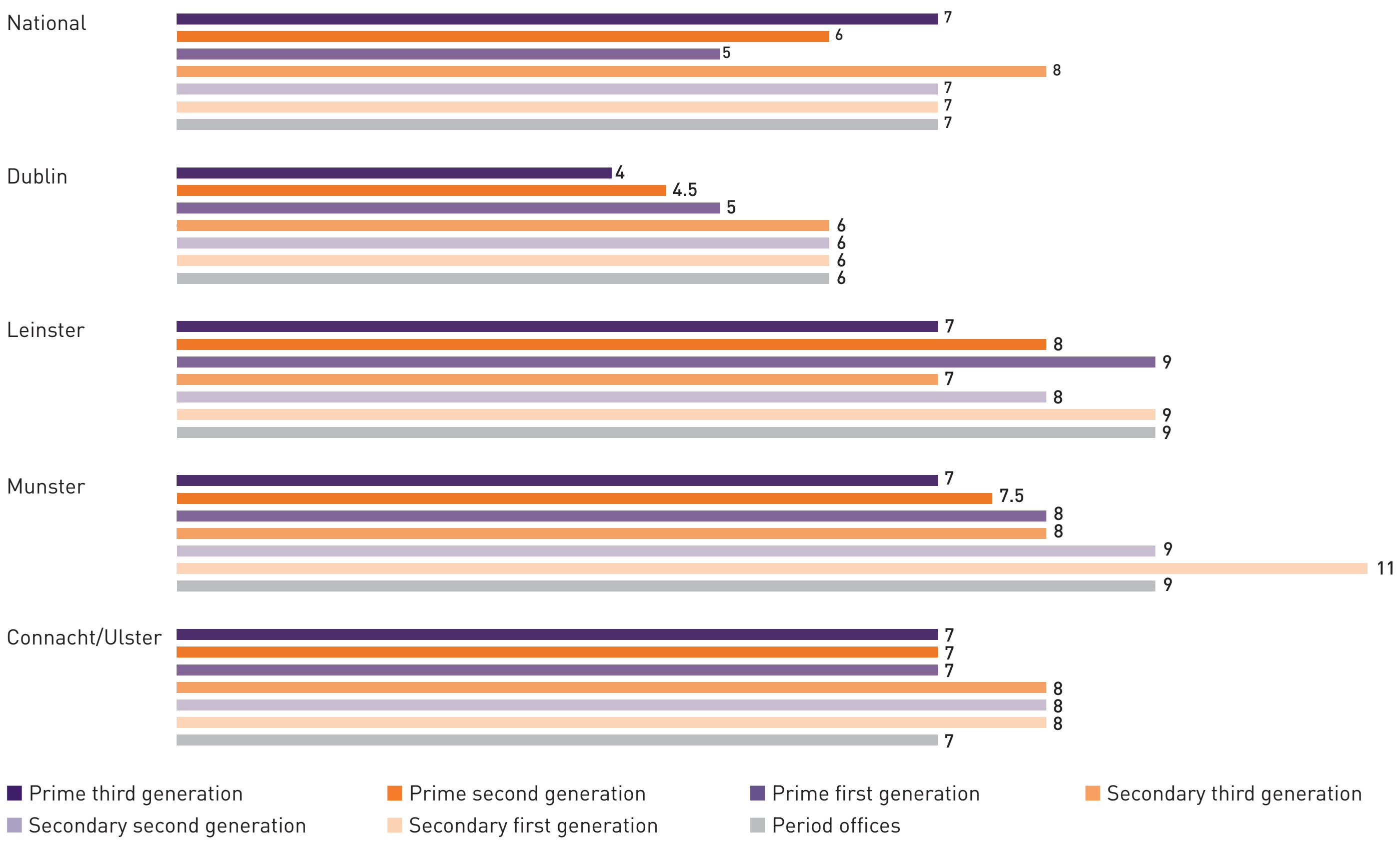
**Prime refers to location rather than quality. Third generation refers to most modern stock buildings.*

cases, landlords and developers have not received expected returns (particularly outside of Dublin) compared to previous expectations. It was noted that, from the perspective of tenants, 2019 provided greater options for leasing offices, but some delayed decisions to do so because of uncertainty about the future economy.

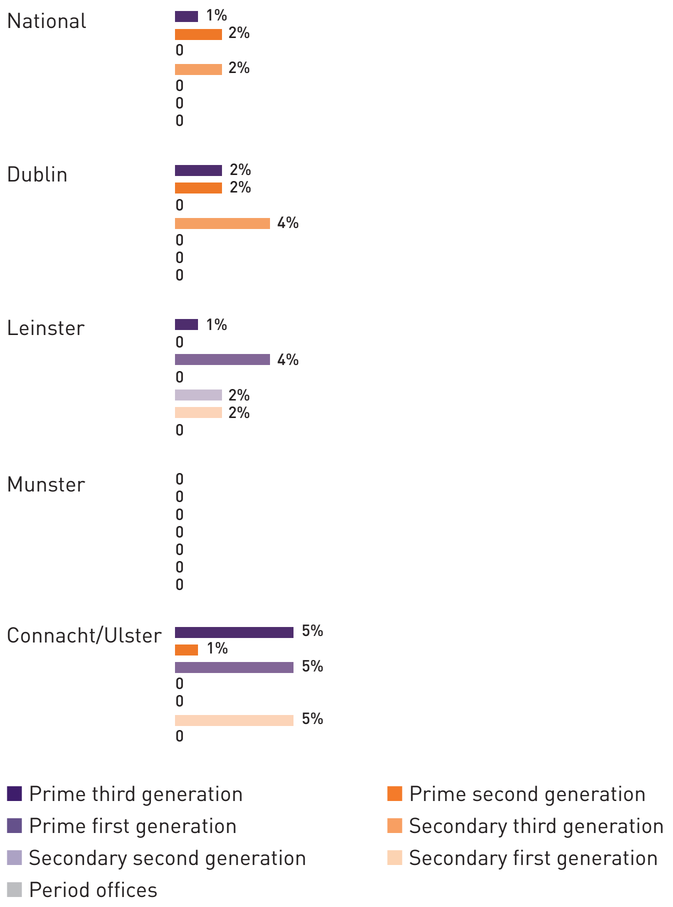
While it is possible, indeed sensible, for small businesses not to consider moving premises in the middle of such economic uncertainty, it is not possible for developers to hold back from leasing premises which have been completed. As a result, it is expected that supply will continue to increase, but landlords may not be able to achieve the rents they had previously expected.

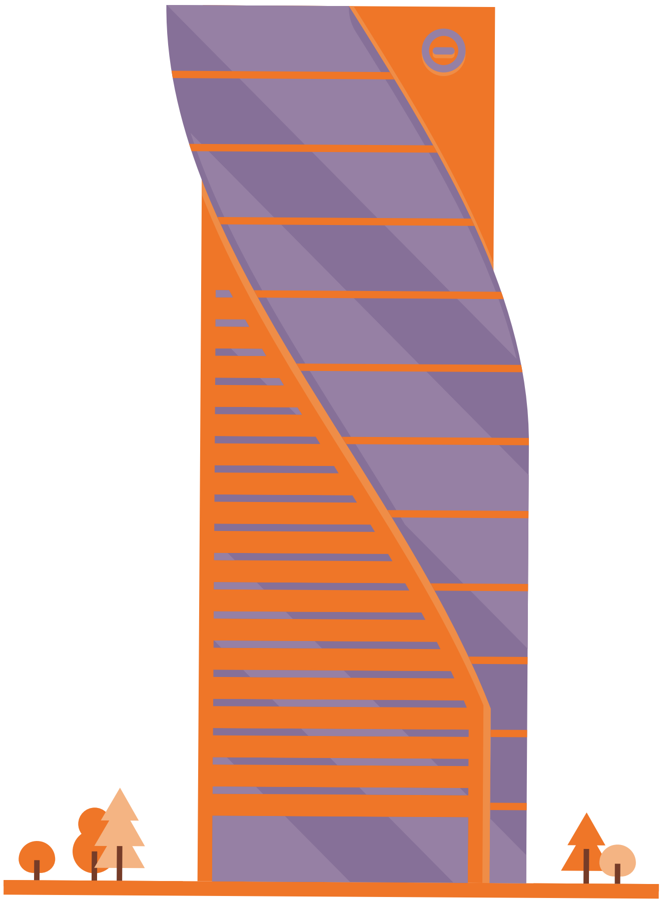
"It is easier to predict supply than demand. We know which projects will

Yield in 2019 (net equivalent yield) (%).



Expected percentage change in rents in 2020.





move into construction and we can anticipate when they'll be completed and what floorplates they will have. But we can't estimate demand as easily – Brexit-exposed businesses have a very different demand than tenants which are protected from Brexit. So, the demand is harder to tell. We have to wait and see."

A similar point was raised with respect to the proposed relaxation of the height of buildings in Dublin, where it was claimed that a number of scheduled developments (or major refurbishment of existing developments) were re-designed to take advantage of new high limits, thereby delaying the delivery of this new space.

For those companies which are largely protected from Brexit, the increased supply of city-centre office accommodation provides them with an opportunity to future-proof their accommodation needs; likewise, a focus on the development of brownfield sites means that tenants can avail of the opportunity to move into new developments which match their requirements: *"There will be a considerable amount of 'grey space' coming to market as the tech companies take more than they initially require".*

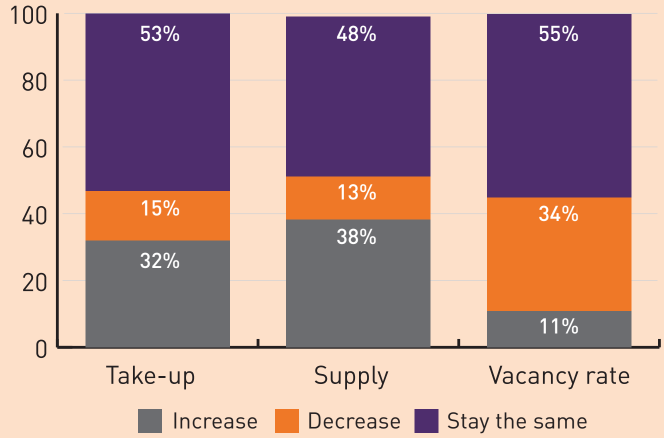
This reflects an ongoing trend with respect to tech companies, and other tenants with specific demands for particular accommodation taking space ahead of need, and holding it until it is required, such is the shortage of choice of office locations.

"Tenants, especially in the tech world, have very specific requirements in terms of ICT facilities, layout and connections to other offices around the world. They are really only looking for new accommodation, rather than refurbished older buildings."

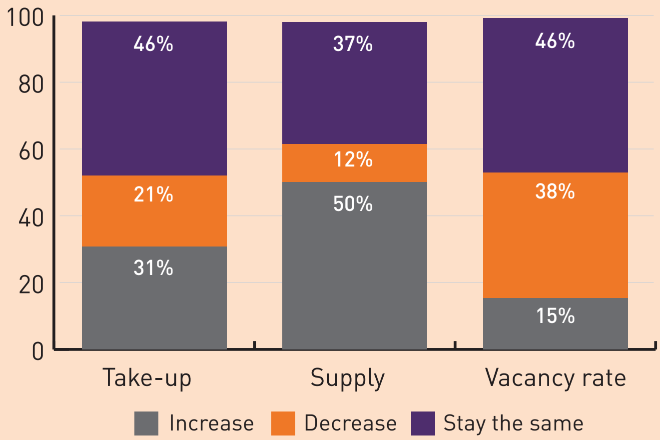
For this reason, 2019 has seen the development of a large number of co-working spaces in serviced offices, which can provide tenants with the technological capacity they require, but on short-term leases. This has been especially attractive to start-up businesses with seed capital but who are yet unable to commit to a longer-term lease. It was also noted that this trend towards serviced offices has resulted in few transactions on the open market, as serviced offices are rented to individual tenants on a new tenancy within an existing building.

Forecast for take-up, supply and vacancy rates in 2020 (% of surveyors).

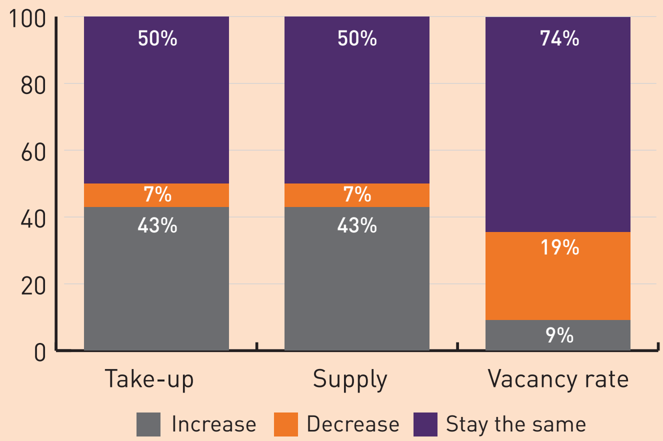
National



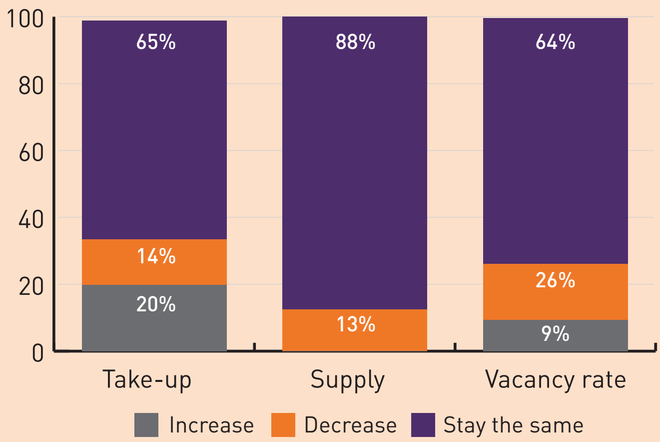
Dublin



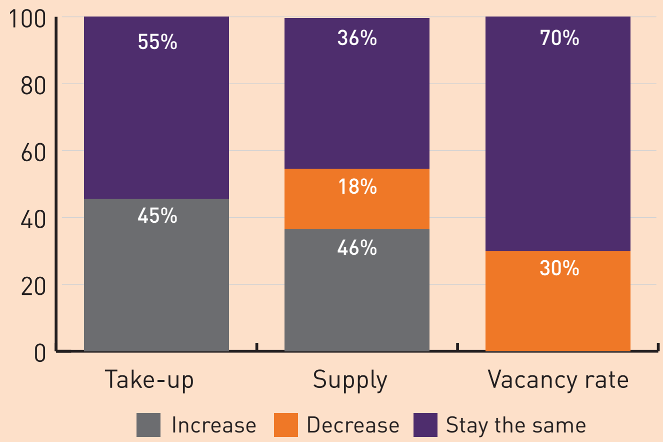
Munster



Leinster



Connacht/Ulster



**Numbers may not all add up to 100 due to rounding.*

"A serviced office might just be one transaction, but within it are lots of potential new tenants for other office space. They're incubation units, and hopefully when those companies grow, they will rent their own space. The challenge for the market is to make sure there are offices which have the spec they've been used to in the hot-desking environment."

One of the main drivers of the office market in Ireland in 2019 was the growth of existing businesses seeking larger or newer accommodation to take advantage of available space. Member comment: *"Tenants moving around, with few new tenants coming into Ireland"*.

Outside of Dublin, perennial issues such as poor infrastructure and weak broadband were seen as limiting factors on the supply of new office accommodation or interest from tenants. It was noted by a number of agents that clustering remains a key factor for tenants in determining where to locate. While Galway and Cork have made significant improvements in developing an economic and business ecosystem, poor connectivity between those cities has undermined the development of a coherent economic powerhouse to balance that of Dublin. It was noted that in a period of low unemployment, businesses need to offer their workers a good quality of life, and this makes the larger cities more attractive than campus-style developments in more rural areas where access to shops, leisure pursuits and cultural amenities might not be as available. It was further noted that, in order to make economic sense, campus developments, or third-generation industrial estates, need to be very large. With such uncertainty in the economy, there were simply too few tenants to fill these large office developments. Until such time as large-scale investment into Ireland comes back, domestic companies will want to continue to be located in existing business districts, unless there are attractive inducements to locate elsewhere.

"My belief is that the Kildare/west Wicklow/Carlow areas may benefit from Brexit being finalised via a growth in occupancy by multinational firms in the Millennium Park at Naas".

Outlook for 2020

It was generally held by surveyors that the office market in 2020 will see single digit increases of approximately 1% or 2% over 2019 rents. Some respondents believed that the anticipated Brexit dividend for Ireland would either not materialise or had already taken place since the referendum a number of years ago. As noted earlier, it was felt that much of the transactional activity which had taken place in 2019 was by existing tenants moving office, rather than new tenants moving into Ireland.

Those UK-based companies with a presence in Ireland, and who wanted to move (part of) their workforce to Ireland to maintain a connection with the EU had already done so, quietly over a number of years. Very few agents interviewed for this report believed that there was a cohort of multinational organisations in the UK, waiting to move into Ireland on the day when the UK leaves the EU. Companies who were going to do this have already made the decision and implemented it. It was expected that the performance of the office market in 2020 will be dependent on supplying the correct-sized office accommodation to meet the demands of smaller, indigenous companies who, having worked in incubation centres or shared offices now want to rent an office of their own. During interviews with agents, some commented that that it is very difficult to persuade mid-range businesses to relocate into provincial towns from city centres where public transport and infrastructure remains poor.

Agents believed that while the development of large campuses may suit the largest businesses, which want to consolidate their presence into one building – for example a bank, or a technology company – there is a finite number of companies which need these large developments.

Member comment: *"It is very difficult to find 400 to 600 square metre floor plates where a company can take an entire floor. It is not efficient to do otherwise".*

It is also notable that half of all agents expect an increase in supply in 2020 for Dublin compared to 38% nationwide. Based on forecasts and planning permissions granted, a number of agents expect to see a continued focus on the development of brownfield sites, infill sites and the large-scale refurbishment of existing offices within the existing city.

"Changes to height restrictions means it is now viable to do a massive refurbishment of an office block and almost double the accommodation without expanding the size of the site it sits on. The infrastructure is there, so it's just a case of making sure it has the flexibility with tenants' needs."

It was also noted that there is increased awareness among tenants of the energy performance of buildings.

"Increased awareness of building energy ratings and building quality as defined by LEED or BREEAM have a large role to play in promoting the major redevelopment of existing buildings to improve their energy performance."

Industrial property

Across all the regions, the same type of feedback arose in our survey, a lack of modern industrial stock to cater for existing demand.

This is driving up rents for high-quality industrial property throughout Ireland. When asked to list the top three issues affecting the industrial market in 2019, agents were unanimous that the issue was one of supply.

Outlook for 2020

The mismatch between supply and demand is likely to have an impact on rents, which are anticipated to increase between 5% and 10% in all regions except Connacht/Ulster, where rents are expected to plateau in 2020.

When asked to explain why rents are not likely to move in that region, agents noted that the area is subject to significant cross-border logistics, and that industrial accommodation on either side of the Border can be availed of by tenants. Therefore, fluctuation in exchange rates can have a more significant effect on the industrial market in this region than simple supply and demand.

Rents per square metre (€).

	National	Dublin	Leinster	Munster	Connacht
Prime industrial under 500m^2	77.8	115	62	60	74
Prime industrial over 500m^2	72	114	59	45	70
Secondary industrial under 500m^2	59.5	85	48	50	55
Secondary industrial over 500m^2	52	80	43	35	50

"It's wrong to think of industrial units this year like the old industrial estates where access to motorways from greenfield sites was the only thing tenants were looking for. The spec demand for industrial units is incredibly high, and changing all the time. We are seeing the growth of data centres, which have very high-spec demands."

Top three issues affecting the industrial market.

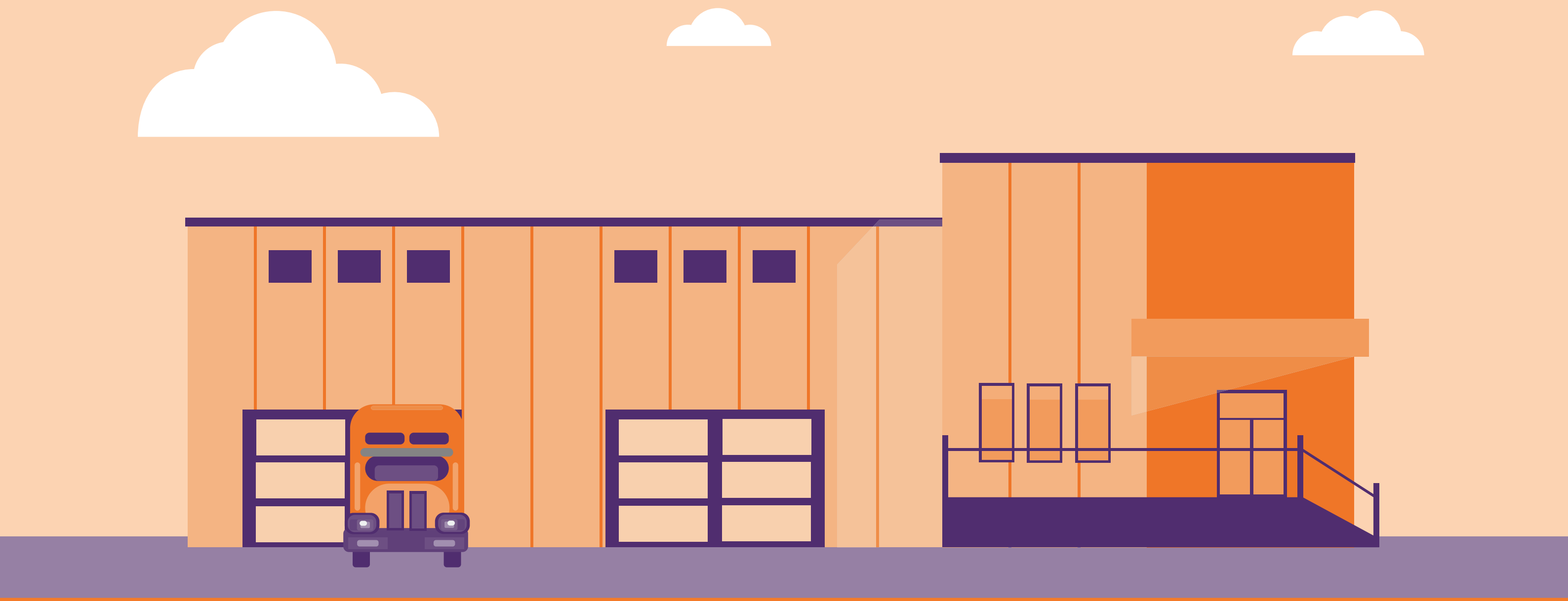
National
1. Lack of spec build stock
2. Shortage of modern stock
3. Undersupply

Dublin
1. Undersupply
2. Shortage of modern stock
3. Lack of spec build stock

Leinster
1. Shortage of modern stock
2. Unsuitably sized stock
3. Lack of spec build stock

Munster
1. Shortage of modern stock
2. Unsuitably located stock
3. Lack of spec build stock

Connacht/ Ulster
1. Lack of spec build stock
2. Undersupply
3. Shortage of modern stock



Yield in 2019 (net equivalent yield) (%).

	National	Dublin	Leinster	Munster	Connacht/Ulster
Prime industrial under 500m^2	8.3	6	10	9	7.5
Prime industrial over 500m^2	8.4	5	10	9	8.5
Secondary industrial under 500m^2	9.6	8	10	10	10.5
Secondary industrial over 500m^2	9.8	7	11	10	11

Forecast change in rents in 2020 (%).

	National	Dublin	Leinster	Munster	Connacht/Ulster
Prime industrial under 500m^2	5	5	5	10	0
Prime industrial over 500m^2	5	5	5	10	0
Secondary industrial under 500m^2	2.5	5	5	0	0
Secondary industrial over 500m^2	2.5	5	5	0	0

Relationship between supply and demand of industrial property (% of surveyors).

National		Prime industrial under 500m²	Prime industrial over 500m²	Secondary industrial under 500m²	Secondary industrial over 500m²
	Less than demand	49	56	25	35
	Equal to demand	41	28	38	43
	Greater than demand	10	16	38	23

Dublin		Prime industrial under 500m²	Prime industrial over 500m²	Secondary industrial under 500m²	Secondary industrial over 500m²
	Less than demand	45	65	24	38
	Equal to demand	45	20	33	47
	Greater than demand	10	15	43	14

Leinster		Prime industrial under 500m²	Prime industrial over 500m²	Secondary industrial under 500m²	Secondary industrial over 500m²
	Less than demand	53	47	33	40
	Equal to demand	40	43	47	47
	Greater than demand	7	11	20	13

Munster		Prime industrial under 500m²	Prime industrial over 500m²	Secondary industrial under 500m²	Secondary industrial over 500m²
	Less than demand	0	100	0	0
	Equal to demand	100	0	0	0
	Greater than demand	0	0	100	100

Connacht/Ulster		Prime industrial under 500m²	Prime industrial over 500m²	Secondary industrial under 500m²	Secondary industrial over 500m²
	Less than demand	67	33	0	0
	Equal to demand	0	33	33	33
	Greater than demand	33	33	67	67

**Numbers in tables may not all add up to 100 due to rounding.*

Retail

The retail sector was one of the first victims of the recession, as disposable incomes fell.

This coincided with the expansion of online shopping, as customers moved away from shopping at 'brick and mortar' stores. Ireland has a relatively young stock of modern shopping centres, with significant refurbishments having taken place in regional shopping centres to attract new tenants and reflect consumer demand.

"Online retail isn't new, and most retailers know that. I think in some cases, the shops have just become physical websites – people browse the shops and buy online. But with the currency fluctuations in 2019 between Euro and Sterling, it has had a big impact on promoting online shopping."

"There is still a trend of people bypassing smaller towns to do a bigger shop in the cities. There needs to be a mix of shops to be attractive and several smaller towns are going to struggle to have a busy high street and a busy shopping centre out of town. You can't maintain activity in both."

As a result of the growing economy and recovered consumer sentiment, there has been a continued reduction in the demand for retail space from tenants.

As noted elsewhere in this report, logistics and industrial estates have developed to reflect online shopping and delivery, and many retailers seek only to have flagship stores to entice customers who may then make their actual purchase on the shop's online store.

"Growth of centralised retail outlets in major towns near to our area is sucking the lifeblood from the commercial centres."

"Online and real-world shops need to co-exist, and I think we are going to see some online stores actually develop pop-up shops to showcase what they're selling on their website. This is new and it's worth looking out for."

Zone A rents per square metre per annum (where applicable).

	National	Dublin
Dublin City South prime retail (e.g., Grafton St area)	n/a	6,485
Dublin City North prime retail (e.g., Henry St area)	n/a	4,550
Major town centre style malls	1,936	4,400
City centre developments	2,096	3,093
Other centres (e.g., Nutgrove Shopping Centre, Dublin)	881	1,985
City centre streets (secondary)	837	1,247
Neighbourhood shopping centres, local shopping malls	418	639
Retail warehouses (bulky goods)	180	209
"Open use" retail warehousing	293	314


SHOP
OPEN
RENT
HOTEL
OFFICES

"We can see the effect of regional town centres deteriorating – we are beginning to see early signs of changes of building uses and more emphasis on leisure and experience for customers."

A perennial issue for retailers on the Border is currency fluctuations. One agent, specialising in retail in the Border region noted that shoppers from the west of Ireland will often shop in Northern Ireland to avail of bargains, but shoppers from Northern Ireland are attracted by shops in Dublin which do not have branches in Northern Ireland. Thus, depending on exchange rates, Dublin benefits from Northern Irish consumer spend, and Northern Ireland benefits from shoppers from the Republic, but the western and rural areas of the Republic are bypassed. This has particularly been an issue in 2019 when there was such wide currency fluctuations and the ease of cross-border shopping.

"On the ground, retailers are reporting steady turnover; however, they are noting a drop in footfall – we are attributing this largely due to the reduction of unemployment – customers have less time to dwell and more money to spend."

The same agent noted, however, that there have been significant and positive efforts to improve the branding of the west of Ireland, and that the Wild Atlantic Way has drawn tourists into smaller towns, which were unable to sustain retail activity without tourism. It is expected that, notwithstanding Brexit, issues of exchange rate, patterns of travel between Northern Ireland and the Republic to shop, and tourism will continue to have an impact on retail outside of Dublin.

In regional cities, there continues to be activity in the refurbishment and modernisation of shopping centres to ensure there are stores with the size and amenities needed by tenants.

"The shopping streets of regional towns are finding it very hard because there's no flexibility in the size of the shops, and people are still happy to shop out of town. So it's a vicious circle."

"I think we're going to see more development out of town. It's hard to change the floorplate of town shops so they're going to struggle to get larger tenants. But, with short leases and low-rents, we'll see a lot of smaller tenants do quite well in 2020."

"For the larger, multinational tenant looking for a large space, there's going to be plenty of supply available. I think the smaller retailer might struggle to find space which suits them. So, the supply-demand balance isn't just urban versus rural or town centre versus shopping centre, but actually between large and small spaces."

Net equivalent yield (%) at end 2019 (where applicable).

	National	Dublin	Leinster	Munster	Connacht/Ulster
Prime Dublin City south	n/a	3.7	n/a	n/a	n/a
Prime Dublin City north	n/a	4.5	n/a	n/a	n/a
Prime retail outside Dublin	6	n/a	7	8	6
Major town centre malls	6.5	6	7.5	9	9
City centre developments	5	5	7.5	7.5	6
Other centres	7	7	8	9	8
Secondary city centre streets	6	6	7.5	10	9
Neighbourhood shopping centres	8	8.5	7.5	9.5	8
Retail warehouses (bulky goods)	8	7	8	9	9
"Open use" retail warehousing	8	7	7.5	7.5	8

Top two key issues in the retail market in 2019.

National
1. Online retail
2. Low tenant demand

Dublin
1. Online retail
2. Low tenant demand

Leinster
1. Low tenant demand
2. Online retail

Munster
1. Online retail
2. Low tenant demand

Connacht/ Ulster
1. Lack of consumer demand
2. Online retail

Forecast relationship between the supply of and the demand for retail property (%).

National	Less than demand	Equal to demand	More than demand
Prime Dublin City south	14	49	38
Prime Dublin City north	8	53	38
Prime retail outside Dublin	10	40	50
Major town centre malls	0	47	52
City centre developments	11	63	24
Other centres	5	47	47
Secondary city centre streets	11	33	56
Neighbourhood shopping centres	5	55	40
Retail warehouses (bulky goods)	19	47	33

Dublin	Less than demand	Equal to demand	More than demand
Prime Dublin City south	15	54	31
Prime Dublin City north	8	54	39
Prime retail outside Dublin	15	31	54
Major town centre malls	0	54	46
City centre developments	15	62	23
Other centres	8	39	54
Secondary city centre streets	15	31	54
Neighbourhood shopping centres	7	57	36
Retail warehouses (bulky goods)	14	50	36

**Numbers in tables may not all add up to 100 due to rounding.*

Residential investment

As noted in our Annual Residential Property Review & Outlook 2020, the private rented sector (including build-to-rent and shared housing models) continues to perform very strongly, with an ever-larger cohort of tenants and the increased supply of purpose-built property to rent.

During 2019, there has been a continued exodus of smaller private landlords from the rented sector and the growth of institutional investment landlords. This movement towards the development of large-scale portfolios is likely to continue as demand for high-quality rental properties in urban areas expands.

Gross yield (%) in the private rented sector at the end of 2019.

	National	Dublin	Leinster	Munster	Connacht /Ulster
	7	5	8	7	8

Gross yield (% of surveyors) in the private rented sector since the end of 2018.

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Decreased	38	55	36	36	25
Stayed the same	35	26	50	14	50
Increased	27	19	14	50	25

**Numbers may not all add up to 100 due to rounding.*

Expectation of gross yield (% of surveyors) in the private rented sector by the end of 2020.

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Decreased	25	44	14	29	13
Stayed the same	58	44	64	36	88
Increased	17	12	21	36	0

**Numbers in tables may not all add up to 100 due to rounding.*

"Mortgage rules, the cost of buying homes and a general shortage of accommodation means people are renting longer, and REITs and others are now firmly in the build-to-rent space."

Development land

The availability of development land did not change in 2019, and there has been a general tightening of available space as new developments move into construction stages and reach completion.

It is only in Dublin, where prices are higher, that there have been some indicators of increased supply, but across Ireland generally, supply levels remained unchanged in 2019.

"The focus has been to complete developments which were scaled back during the recession, but we are now seeing more 'second phase' developments happening now that it is viable to start construction."

Supply of development land in 2019 (% of surveyors).

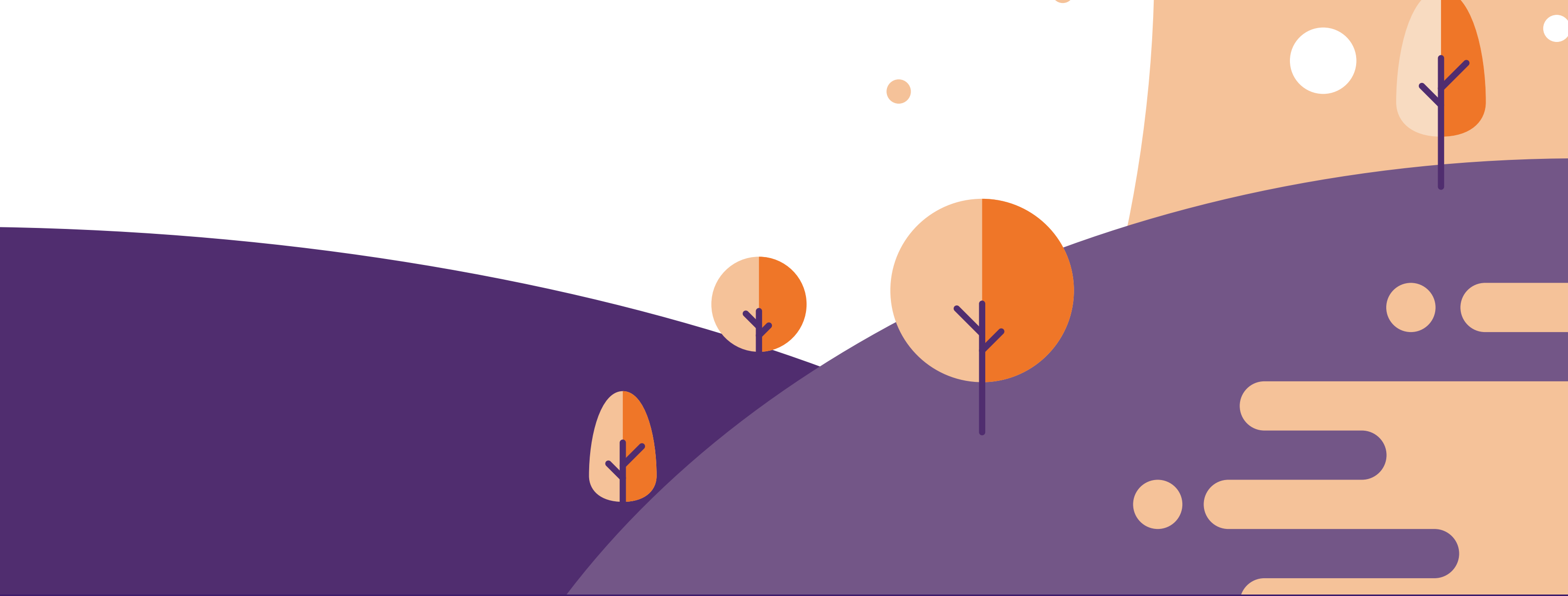
	National	Dublin	Leinster	Munster	Connacht/ Ulster
Decreased	22	21	23	14	29
Stayed the same	56	47	56	57	64
Increased	22	31	20	29	7

**Numbers may not all add up to 100 due to rounding.*

Percentage change in development land values in 2019.

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Residential development land	1.8	2	5	0	0
Mixed use (office and retail)	3.3	7	0	0	6
Industrial development land	4.3	5	0	5	7

"It is hard to put supply and demand together because you might have very strong demand for development land for housing in some key areas, but no availability, and in other cases, there might be space for development but it's not in the right area, or there's limited servicing. So in 2020, we will see areas where there's a lot of land for development at a good price, but no demand, and shortages elsewhere. It's why we need to look at planning and servicing."



Expectation of supply and demand in 2020 (% of surveyors).

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Less than demand	30	33	25	28	36
Equal to demand	2	29	40	14	29
More than demand	41	37	35	57	36

**Numbers may not all add up to 100 due to rounding.*

Expected change in development land values in 2020 (%).

	National	Dublin	Leinster	Munster	Connacht/ Ulster
Residential development land	1.3	0	0	0	5
Mixed use (office and retail)	2.5	5	0	0	5
Industrial development land	2.3	4	0	0	5

Licensed premises

The licensed premises sector performed relatively weakly in 2019.

Agents noted that the performance of the sector continues to be shaped by changing legislation and the tightening of rules regarding drink-driving across all parts of Ireland.

The growing population in urban areas and the decline of rural towns and villages has meant that the traditional market for rural pubs has slowed significantly.

This did not start in 2019 and aside from pubs in larger towns the trade in licensed premises has been decimated for somewhere between the last five and seven years. It is unlikely that there will be any significant turnaround in 2020, although it was noted that capital prices are holding up in circumstances where landlords are renewing their focus on serving food or attracting tourists to compensate for falling levels of drinking.

In many cases, the performance of any individual licensed premises was dictated by the impact of food within the pub: *"Rural trade continues to decline due to changing consumer patterns and tightening of drink-drive laws.*

Food is a very important revenue stream now for survival in most pubs".

It is therefore perhaps surprising that capital values have increased across Ireland in 2019. According to respondents, this is because the large declines in values took place during the recession, with many pubs closing. Those surviving and which have refocused their efforts into supplying the needs of patrons saw an increase in capital values in 2019. One agent working in the west of Ireland noted that tourism income has been very important for continued capital values of pubs in that area.

"The Wild Atlantic Way has been a genius piece of marketing and

Percentage change in capital values in 2019.

	National
Prime pubs in principal towns	5
Secondary pubs in principal towns	10
Prime rural roadhouses	5
Prime village pubs	5
Prime rural pubs	5
Hotels	10
Restaurants	5

Change in the number of sales in 2019 compared to 2018 (%).

	National
Decreased	13
Stayed the same	78.3
Increased	8.7

"We might see the refurbishment of some bars to become boutique hotels in order to increase their attractiveness to tourists who want decent food and accommodation, but it is very unlikely we will see any new development while existing pubs struggle to be financially viable."

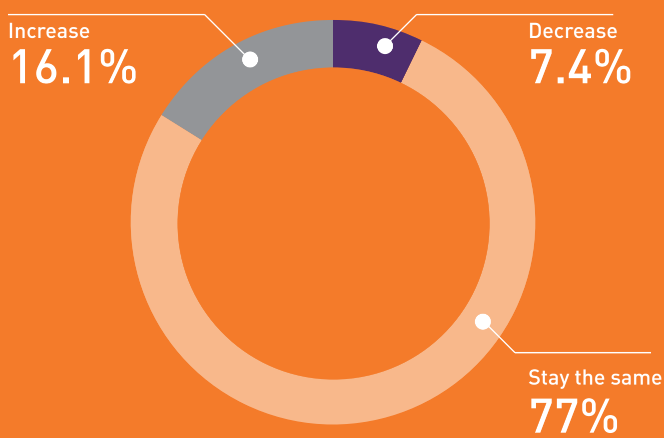
really helped the food and drink sector in the west. People from the east of Ireland are having holidays on the west coast, which they haven't done for years, as well as foreign tourists who want to see Ireland but are under time pressure. The passing trade has helped some rural pubs get a totally new lease of life and new tourist money which didn't usually leave Dublin."

Again, the expected increase in capital values in 2020 might seem counter-intuitive to this narrative, but agents who expressed a view believed that the largest increases might be seen among good quality pubs in areas with a high tourist footfall.

Expected change in capital values in 2020 (%).

	National
Prime pubs in principal towns	0
Secondary pubs in principal towns	0
Prime rural roadhouses	0
Prime village pubs	5
Prime rural pubs	5
Hotels	5
Restaurants	0

Expected change in the volume of supply in 2020.



Edward McAuley
Head of Practice & Policy

Society of Chartered
Surveyors Ireland
38 Merrion Square
Dublin, D02 EV61
Ireland
T +353 (0) 1 644 5500
W www.scsi.ie

SOCIETY OF CHARTERED SURVEYORS IRELAND

SCSI
Society of Chartered
Surveyors Ireland
38 Merrion Square
Grand Canal Dock
Dublin 2, Ireland

T +353 (0) 1 661 1794
E info@scsi.ie
W www.scsi.ie