



Chartered property,
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surveyors

COMMERCIAL PROPERTY MARKET MONITOR

REVIEW AND OUTLOOK 2022

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THE COMMERCIAL PROPERTY MARKET IN CONTEXT



The onset of Covid-19 in 2020 had a significant impact across society including the commercial property market. The impact of lockdown periods, the move to online retail and increased remote working, compounded by general uncertainty, led to adjustments in rental values and capital valuations across several sectors. This has led to challenging times for the property market, particularly asset types such as retail, offices, hospitality, and leisure. Conversely, other sectors, particularly industrial and logistics, have performed relatively well over the course of 2020 and 2021 as demand and activity largely continued.

Covid-19 created a high degree of uncertainty within property investment and occupier demand. In the SCSi's 'Annual Commercial Property Review & Outlook 2020' report, members highlighted that retail outlets in the main thoroughfares in Dublin, as well as smaller rural towns, continued to grapple with the challenges posed by e-commerce, while the industrial sector thrived with logistics and tech firms seeking out high-spec new units to grow and expand their operations.

The findings of this year's report highlight an overall upturn in sentiment across the sector at year end when compared to the beginning of the year and indeed in 2020, when there was significant uncertainty regarding the impact of the pandemic. It is positive to see continued activity and a rebound in some sectors particularly towards year end, while others continue to adapt following 18 months of difficult market conditions. The

construction sector, including non-residential construction, was further impacted by lockdown-related measures through 2020 and into the early stages of 2021.

Looking forward to new activity in the sector, while some uncertainty remains for sectors such as retail and office as firms continue to adjust towards increased remote working, non-residential investment is forecast to increase by 8% in 2022 and by 6% in 2023 and 2024¹ and is further supported by a substantial increase in Government spending, as outlined in the National Development Plan.²

Construction tender prices in the commercial property market saw a sharp rise in H1 2021 by 7%³ due to pent-up demand following Covid-related restrictions, supply chain constraints, and exceptional increases in materials and labour shortages. Supply chain constraints and international competition for materials underpinned an expectation for a continuation of these higher prices in the latter stages of 2021.

High construction costs can also have another less visible impact where otherwise viable projects do not proceed due to increased costs and narrower margins. There remains some uncertainty as to the outlook for construction costs over the coming year, but it is anticipated that addressing international supply chain bottlenecks, coupled with a return to more normalised costs for key materials should result in more moderate tender price readings.

1 Source: Central Bank of Ireland Quarterly Bulletin No.1 - 2022.

2 Source: Central Bank of Ireland Quarterly Bulletin No.1 - 2022.

3 Source: SCSi Tender Price Index October 2021.

OCCUPIER AND INVESTOR SENTIMENT

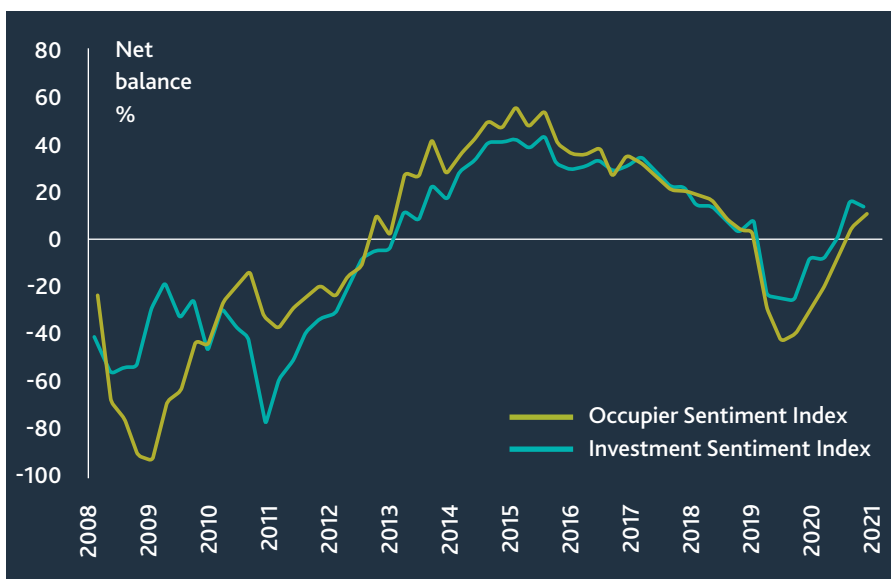


Table 1: Occupier Sentiment Index scores (net balance) Q1-Q4 2021.

Q1 2021	-21
Q2 2021	-8
Q3 2021	4
Q4 2021	10

Table 2: Investor Sentiment Index scores (net balance) Q1-Q4 2021.

Q1 2021	-11
Q2 2021	-2
Q3 2021	14
Q4 2021	11

Chart 1: National Occupier and Investor Sentiment Index – net balance.⁴

The SCSI/RICS National Occupier Sentiment Index and Investor Sentiment Index (office, retail and industrial sectors) (**Chart 1**) both returned a positive net balance score for the second consecutive quarter, having previously returned negative results since the onset of the pandemic.⁵ The Index is based on results from surveys of Chartered Surveyors active in the commercial property market and is based on a cumulation of all commercial property investment and occupier demand and is therefore not specific to any one commercial property sector.

The SCSI/RICS National Occupier Demand, Availability and Inducements Index records a number of sentiment returns from Chartered Surveyors on their views of supply and demand in their local market.

The Occupier Sentiment Index (**Table 1**) returned a figure of +10 in Q4 2021 (up from +4 in Q3 2021 and -8 in Q2 2021). The Investor Sentiment Index (**Table 2**) returned a figure of +11 in Q4 2021 (up from -11 in Q1 2021).

Occupier sentiment

Results over the course of 2021 show a gradual uplift in occupier sentiment rising from -21 in Q1 2021 to +10 in Q4 2021. The beginning of the year, while still returning a negative reading, had already diminished a large degree of negativity which had been witnessed in 2020, where in Q2 2020 the index dropped to -45, the lowest reading recorded on the index since 2010.

The SCSI/RICS National Occupier Demand, Availability and Inducements Index (**Chart 2**) records a number of sentiment returns from Chartered Surveyors on their views of supply and demand in their local market. The Index recorded trends since 2008. Notably occupier demand has improved significantly in 2021 when compared to the lows reached in 2020, not previously seen since 2009.

⁴ Net balance = proportion of respondents reporting a rise in a variable (e.g., occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

⁵ Respondents to the SCSI Commercial Property Monitor Survey are primarily based in urban locations. Trends in the commercial property market can be witnessed differently across different sectors and regions.

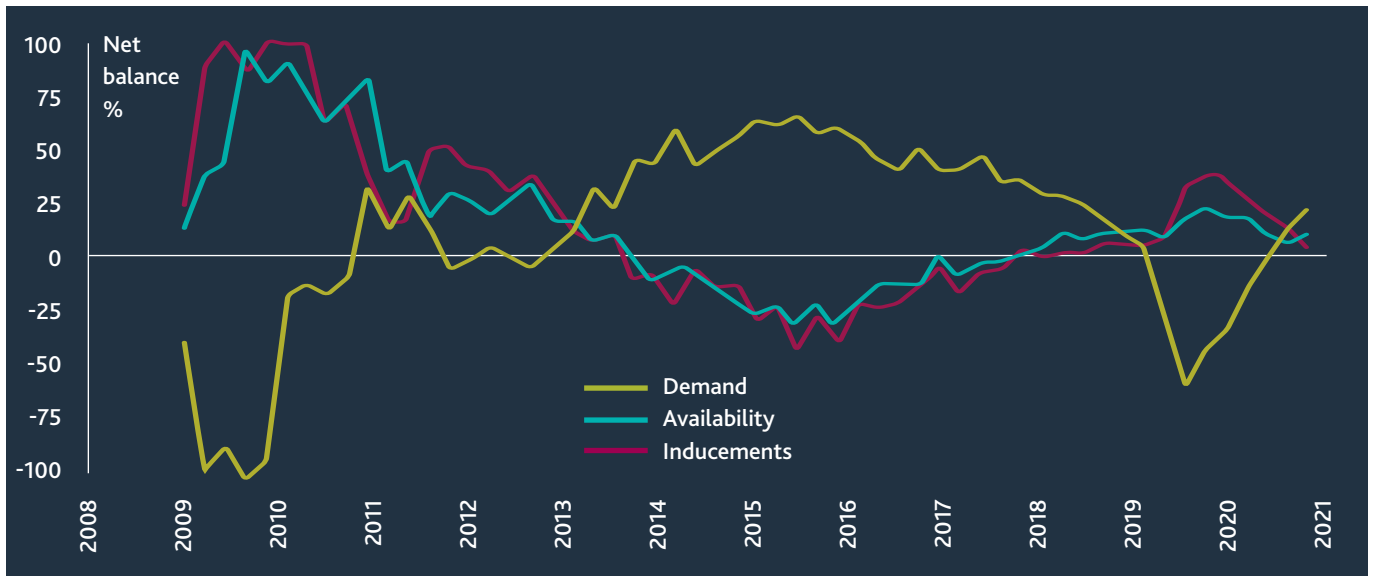


Chart 2: National Occupier Demand, Availability and Inducements Index - net balance across the office, retail and industrial sectors.

Occupier demand

The sectoral breakdown of occupier demand continues to show a divergence in trends across the office, retail and industrial sectors, as shown in **Chart 3**. In Q4 2021, 68% of Chartered Surveyors reported that occupier demand had increased in the industrial sector when compared to the previous quarter.

In the office sector, 33% reported an increase, while 24% reported a decrease in demand. For the retail sector, 25% reported an increase in sentiment, whereas 32% reported a decrease in demand when compared to the previous quarter.

While sentiment remains modest for the retail and office sectors, there is a marked improvement against sentiment reported in the early stages of the year. General commentary from Chartered Surveyors from our survey suggested that increased confidence based on economic performance, coupled with a relaxation in Covid restrictions in the lead-up to Christmas, and a sense that some pre-Covid normality was returning to sectors such as the retail sector, underpin the uplift in sentiment overall.

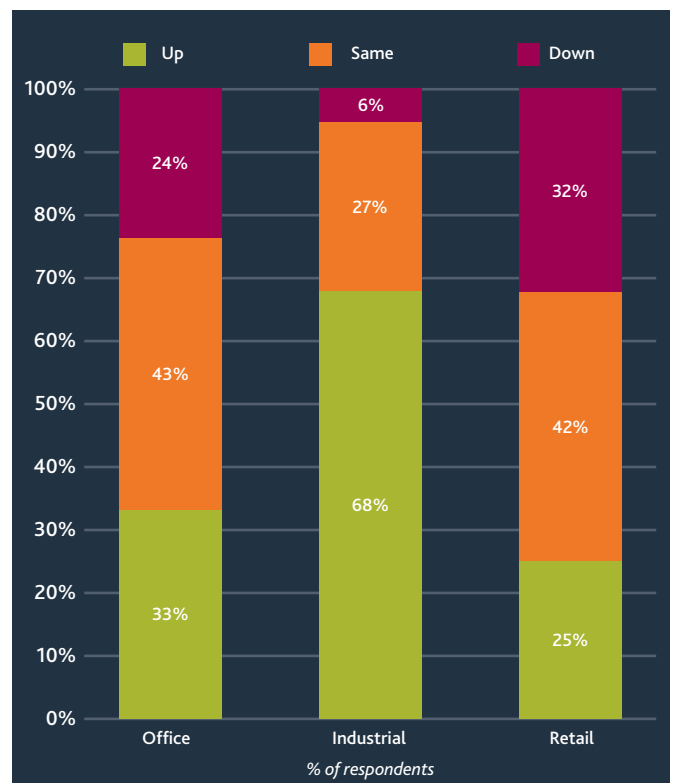


Chart 3: Changes to national occupier demand in Q4 2021 compared to Q3 2021 - by sector.

MARKET TRENDS

Commercial property supply

The majority of Chartered Surveyors surveyed in Q4, noted that the level of availability was at similar levels in Q4 when compared to Q3 (**Chart 4**). While 33% and 38% of Chartered Surveyors, respectively, noted an increase in the supply of office and retail properties in Q4, interestingly only 10% noted an increase in the availability of industrial stock, while conversely 37% noted that supply was down when compared to the previous quarter. Anecdotally, Chartered Surveyors noted that while supply has tightened in sectors such as the office sector, this has not necessarily been mirrored with high demand, as firms still grapple with the correct balance of in-person and remote working.

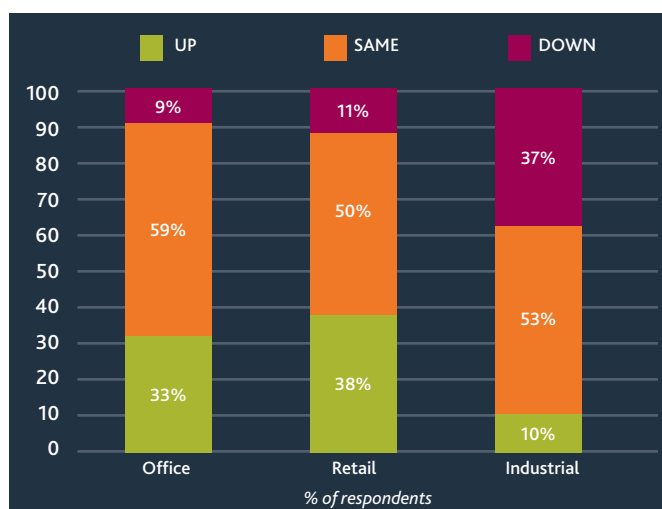


Chart 4: National supply for occupation in Q4 2021 compared to Q3 2021 – by sector.

Inducements

Regarding inducements (**Chart 2**), both the office sector and retail sector recorded positive readings indicating the overall net balance of Chartered Surveyors suggesting that the typical value of incentive packages has increased in their region was higher than those suggesting the value decreased.

This likely reflects market response to the period of lockdown, particularly in the early stages of the year where retail outlets were by and large closed over a number of months, and many firms continued to work remotely with little or no office footfall.

Contrarily, the industrial sector recorded its fifth consecutive negative reading of inducements (**Chart 2**), suggesting that the use of incentive packages has lessened over the last 18 months as demand remains and available space is limited when compared to other sectors.

Investor sentiment

Similar to occupier sentiment, investor sentiment also saw a net balance increase over the course of the year moving from -11 in Q1 up to +11 by Q4 2021. As illustrated in **Chart 5**, there was an uplift throughout 2021 for both national and foreign investment enquiries.

Regarding the level of new development starts, results illustrate that there has been less activity in the office and retail sectors when compared to industrial.

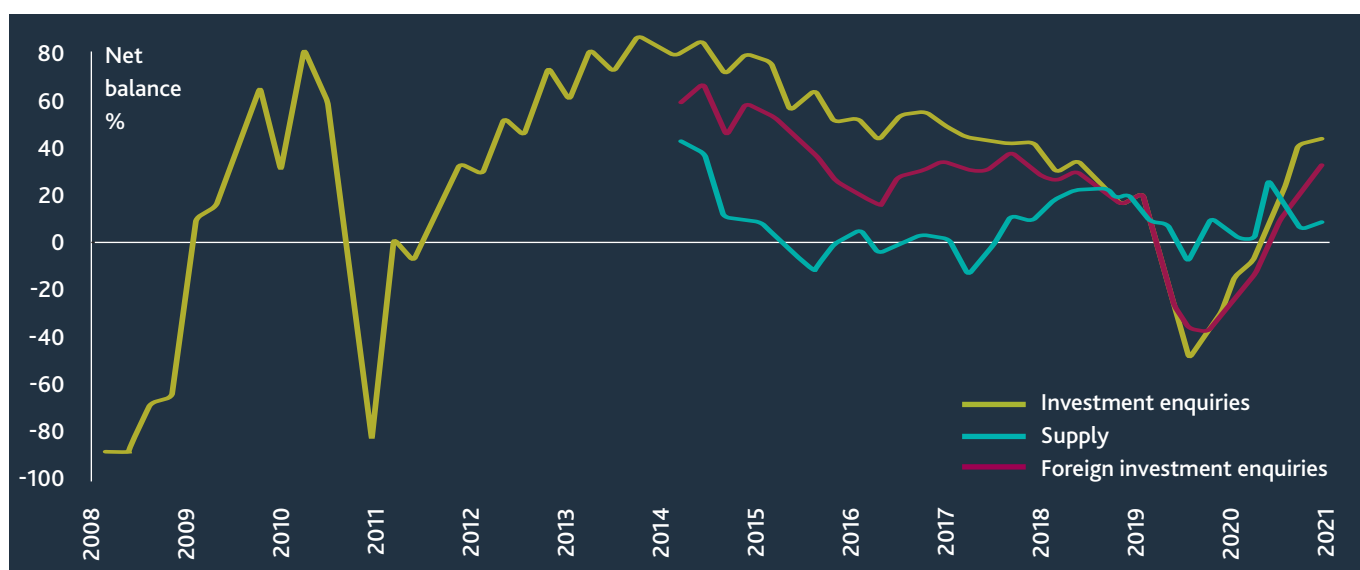


Chart 5: Investment enquiries, supply and foreign investment enquiries. Net balance across the office, retail and industrial sectors.

Investment enquiries

The disparity between sector performance remains similar to what is seen on the occupier side, with the industrial sector returning more favourable results in terms of net balance level of investment enquiries – national and foreign (Chart 6 and Chart 7).

However, it is positive to see an uplift in sentiment across all sectors over the course of the year.

While the level of industrial enquiries nationally was reported to slightly decrease in Q4 2021, the level of enquiries from foreign investors rose in this sector.

Some chartered surveyors have noted that while supply has tightened in sectors such as the office sector, this has not necessarily been mirrored with high demand, as firms still grapple with the correct balance of in-person and remote working.

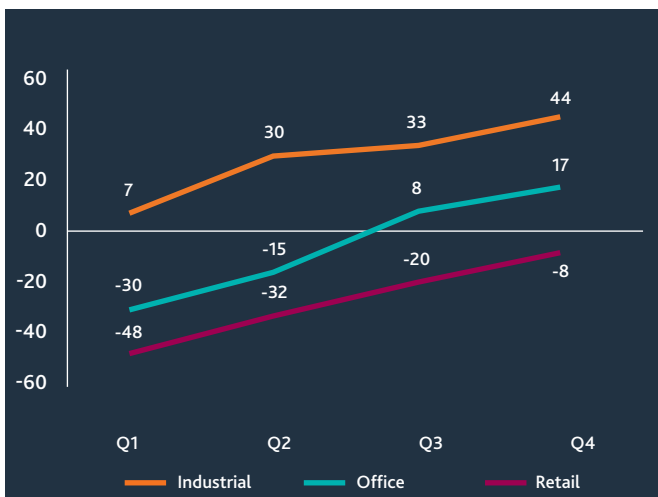


Chart 6: Level of foreign investment enquiries by sector (net balance score).

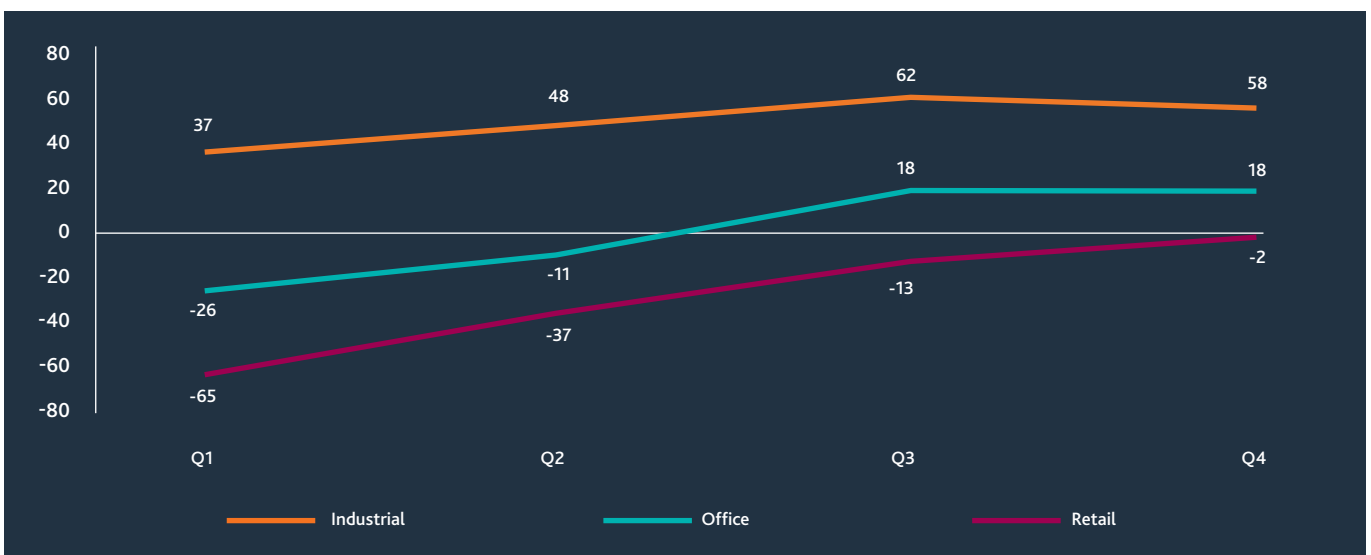


Chart 7: Level of national investment enquiries (net balance score).

MARKET TRENDS

Supply

While there was a net balance increase in surveyors suggesting an increase in the availability of supply in the retail sector, more surveyors than not reported a decrease in supply in the office and industrial sector in Q4 2021 when compared to the previous quarter. Throughout 2021, the net balance percentage for industrial stock has consistently shown that more surveyors continue to report a decrease in stock than those reporting an increase. Conversely more surveyors have reported seeing an increase in retail supply from Q3 to Q4, while the office sector has seen more surveyors reporting decreasing supply in both Q3 and Q4 2021 (Chart 8).

Throughout 2021, the net balance percentage for industrial stock has consistently shown that more surveyors continue to report a decrease in stock than those reporting an increase.

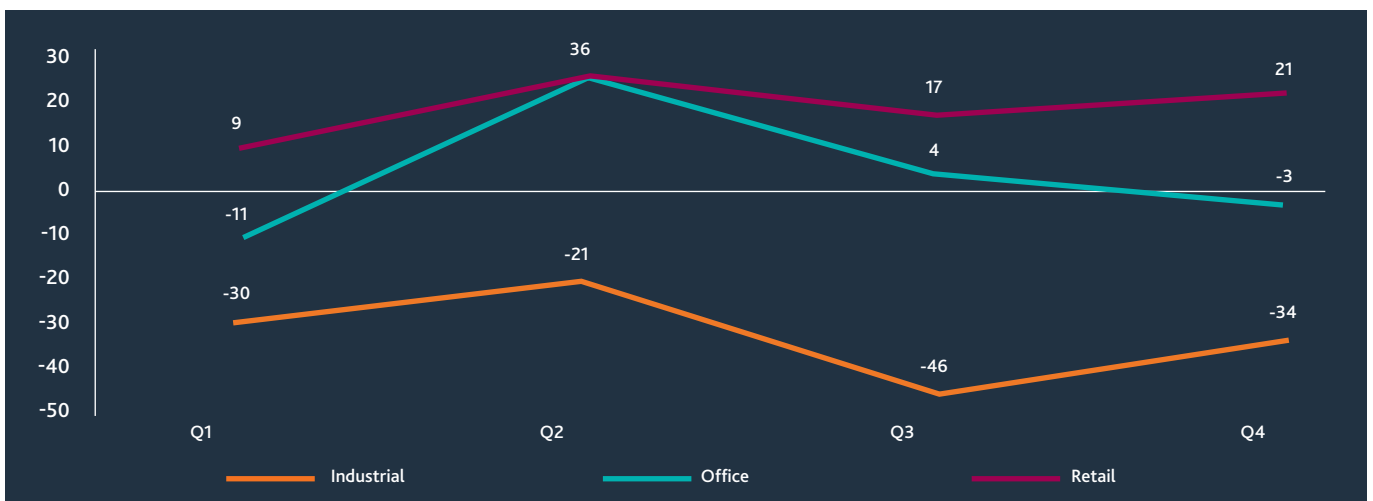


Chart 8: Availability of supply across all sectors (net balance chart).

CREDIT CONDITIONS

Approximately 50% of Chartered Surveyors have consistently suggested that there has been no change to market credit conditions over the course of 2021. For others, there has been a notable shift throughout the course of the year in moving away from reporting a deterioration in the first half of the year to suggesting an overall improvement in conditions in the latter stages of the year (Chart 9).

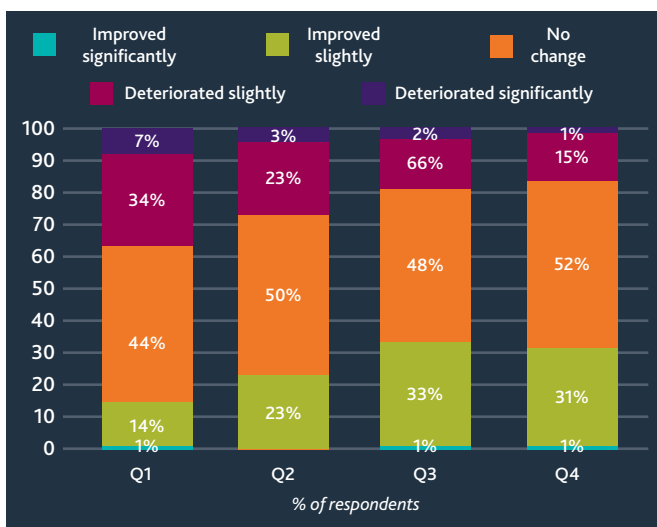


Chart 9: Views on credit conditions Q1-Q4 2021 (% of respondents).

MARKET VALUATION LEVELS

The majority of Chartered Surveyors throughout the course of 2021 have been split in their suggestions that current market valuation levels are either 'fair value' or 'expensive' (Chart 10). In every quarter a majority of Chartered Surveyors suggested that market valuation levels were fair value.

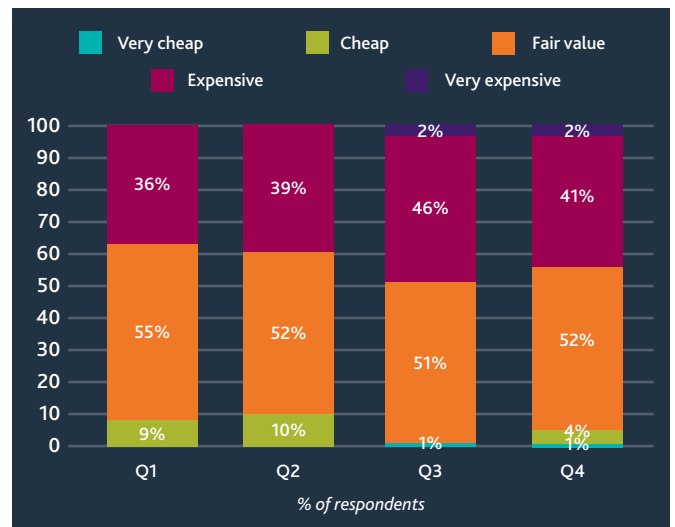


Chart 10: Views on current market valuation levels Q1-Q4 2021.

Approximately 50% of Chartered Surveyors surveyed have consistently suggested that there has been no change to market credit conditions over the course of 2021.

PROPERTY CYCLE

At the beginning of the year, the majority of Chartered Surveyors surveyed considered Ireland to be in the downturn stages of the property cycle. This sentiment is framed within a period when the country had just entered another significant lockdown phase and activity was largely stifled across many sectors.

However, from Q2 onwards sentiment picked up with more Chartered Surveyors than not believing that Ireland was now in an upturn phase of the property cycle.

By the end of the year, 72% of Chartered Surveyors stated the property cycle was either in an early upturn, mid upturn or peak stage. **Chart 11** illustrates Chartered Surveyors perception of Ireland's current stage within the property cycle as of Q4 2021.

From Q2 onwards sentiment picked up with more Chartered Surveyors than not believing that Ireland was now in an upturn phase of the property cycle.

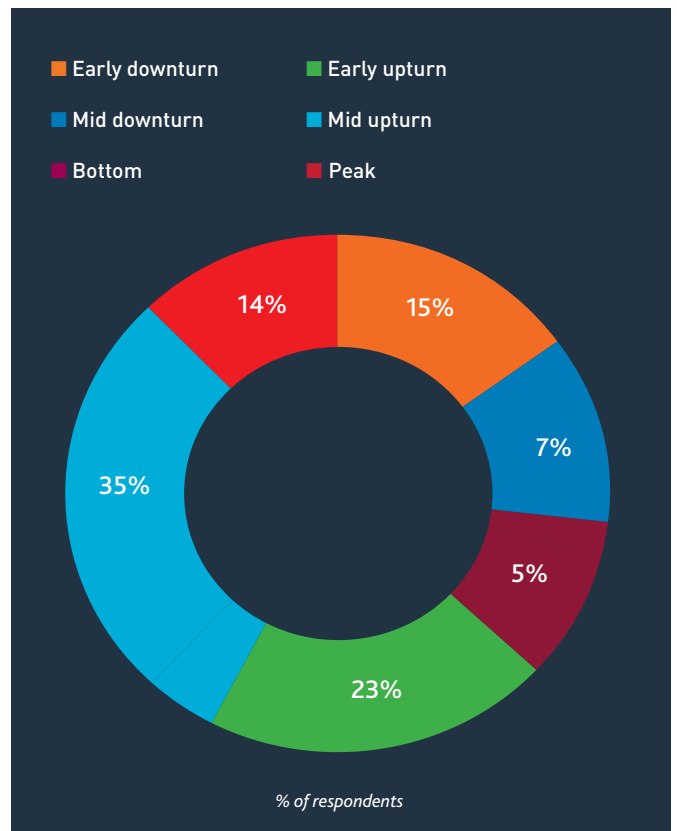


Chart 11: Average perception of the property cycle in 2021 – as of Q4 2021.

LOOKING AHEAD

Looking at the near term, both the rental and capital value expectations indexes returned an overall positive net balance reading for expectations at the end of Q1 2022 (Chart 12). Sectorally, there continues to be a divergence in anticipated trends across the retail,

office and industrial sectors, with the industrial sector returning the highest anticipated increase (Tables 3 and 4). As of January 2022, Chartered Surveyors have reported a busy start to the year, which is a positive market indication for 2022.

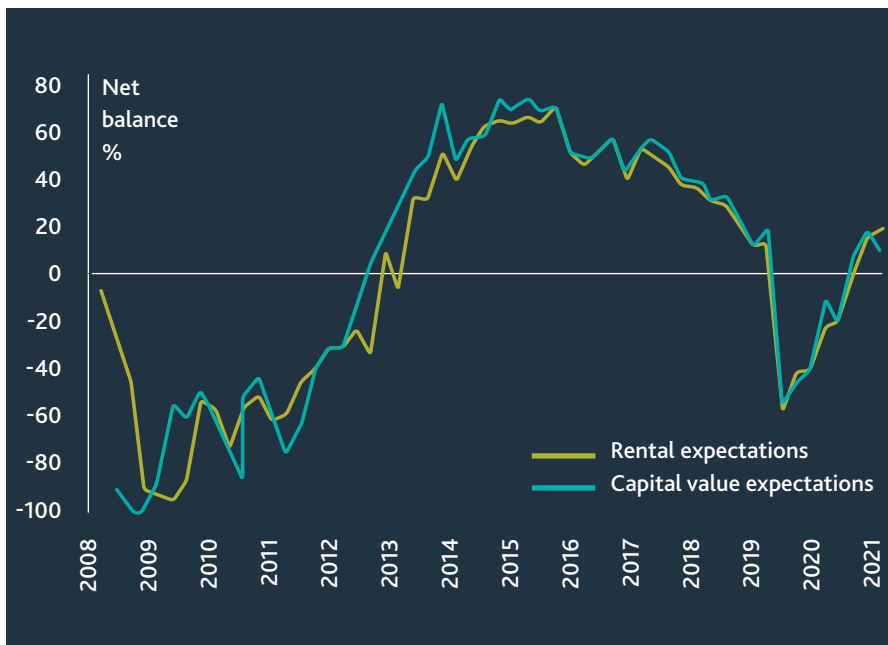


Chart 12: Three months national rental and capital value expectations – projections for end of Q1 2022.

Table 3: Anticipated annual percentage change in capital values by sector as of Q4 2021.

Prime office	2%
Prime industrial	5%
Prime retail	No change
Secondary office	No change
Secondary industrial	3%
Secondary retail	-3%

Table 4: Anticipated annual percentage change in rental values by sector as of Q4 2021.

Prime office	1%
Prime industrial	6%
Prime retail	-1%
Secondary office	-1%
Secondary industrial	3%
Secondary retail	-4%

AN OUTLOOK TO 2022

Capital values

Chart 13 illustrates Chartered Surveyors' average expectations of changes to capital values across the office, retail and industrial sectors in 12 months' time. The chart illustrates Chartered Surveyors' feedback when surveyed in Q3 and Q4 2021.

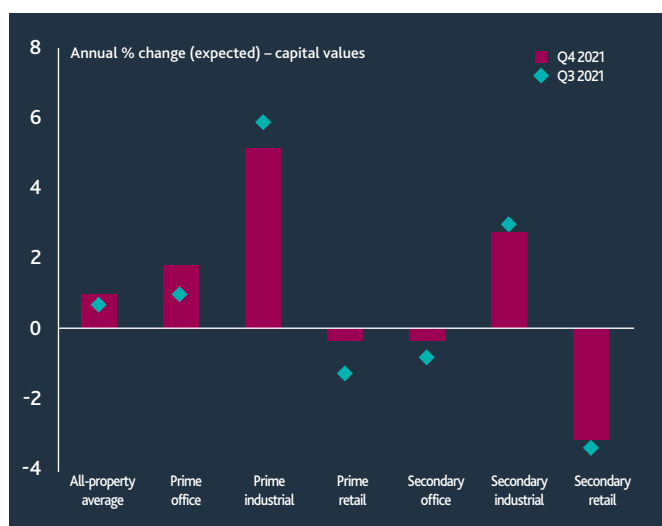


Chart 13: Capital values – expected annual percentage change.

Rental values

Chart 14 illustrates expected annual percentage change to rental values across the industrial, office and retail sectors over the course of the next 12 months. The chart illustrates Chartered Surveyors' anticipation when surveyed in Q3 and Q4 2021.

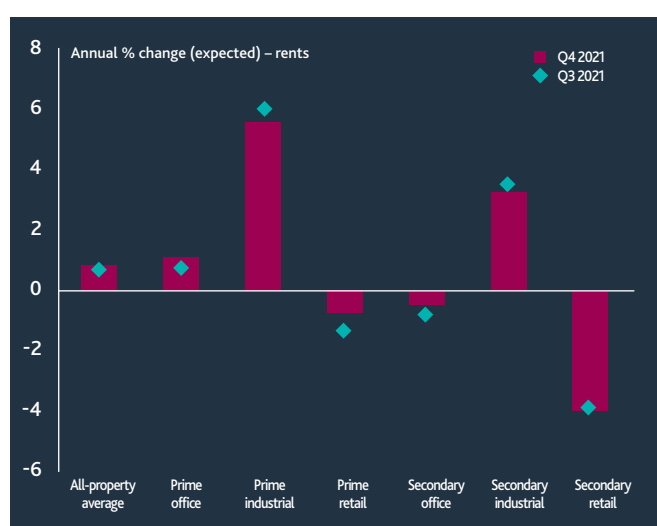


Chart 14: Rental values – expected annual percentage change.





Industrial

For prime and secondary industrial locations, Chartered Surveyors anticipate an increase in capital values by 5% and 3%, respectively, over the coming 12 months. This continues on a strong growth projection trend for prime industrial locations, as Chartered Surveyors have consistently projected capital value growth for the sector since Q2 2020 and prior to this (with the exception being Q1 2020, when the initial onset of Covid-19 caused much uncertainty across the entire commercial property market and beyond).

Chartered Surveyors have noted concerns around delays to new supply in some areas as a point of concern due to increased construction costs or a tabling of projects, which become unviable due to narrower margins. Planning process delays can have a huge impact on cost. Another supply side issue for the industrial market is that existing older industrial buildings are in some cases no longer up to standard as required in the marketplace and may be deemed too costly to retrofit.



Office

The outlook for the office sector improved over the course of 2021. Capital value expectations foresee an increase of 2% for prime office locations, with no change in values expected for secondary office locations. Rental value expectations for the next 12 months are similar, with an increase of 1% expected for the prime office locations and a decrease of -1% anticipated for secondary office locations.

Generally, Chartered Surveyors note a positive outlook for the office sector, as the onset of eased Covid restrictions leads to a gradual return to the office. Some uncertainty remains as to the approach firms, particularly larger firms, will take going forward in terms of fully remote, in-person, or a hybrid approach to the working environment.

Looking forward, Chartered Surveyors anticipate that office valuations are going to be increasingly influenced by how the buildings perform (e.g., energy use, repairs) and standards such as LEED or BREEAM awarded at completion will have to be maintained. This is expected to be mirrored from the occupier side, with Chartered Surveyors expecting purchasers and occupiers to seek high-quality office space, which offers energy efficiencies and ventilation.



Retail

While still producing a negative figure in terms of projected capital and rental values in 12 months' time, projections for the retail market improved considerably over the course of 2021. Prime retail capital values are anticipated to remain similar to current levels at the end of 2022. Secondary retail locations are expected to decrease by -3%. In regard to anticipated rental values, prime retail values are expected to decrease by -1% and secondary retail by -4%.

One Connacht-based Chartered Surveyor underpins the overall improved (while still not at pre-Covid levels) outlook for retail as coming down to a previous underestimation of the value that consumers place on the overall experience of physical shopping and the social aspects. Chartered Surveyors anticipate that new types of retail or leisure offerings will begin to emerge to offer a broader 'on the market' experience. Chartered Surveyors maintain that demand for retail space will continue, particularly in areas with good footfall and passing trade. In some locations, owners are considering the conversion of vacant commercial units into residential. Particularly in rural and regional locations, this can provide opportunity to revitalise town centres.

ACKNOWLEDGEMENTS

ABOUT THE SURVEY

The SCSi Commercial Property Monitor Review and Outlook report is informed primarily by four quarterly surveys to SCSi members conducted throughout 2021. Over 380 responses were gathered and analysed from these surveys.

The index charts illustrate results from surveys which have been undertaken on a quarterly basis since 2008, the results of which are presented in the quarterly RICS Commercial Property Monitor reports. The SCSi Commercial

Property Monitor Review and Outlook provides net balance index charts illustrating average agent sentiment on market trends. Net balance is calculated by taking the total number of 'uplift' responses from 'downshift' responses and displaying the result. The index charts provided are weighted composite measures capturing overall market momentum, encompassing variables on supply, demand, and expectations – for further information see the RICS Commercial Property Sentiment Index.

SOCIETY OF CHARTERED SURVEYORS IRELAND

The Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practising in Ireland. One of our key objectives is to provide impartial, independent and authoritative advice on key issues for consumers, business and policy makers, as well as advancing and maintaining standards for Chartered Surveyors working in the property,

construction and land sectors. All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards, are regulated and overseen through the partnership of the Society of Chartered Surveyors Ireland and the Royal Institution of Chartered Surveyors, in the public interest.

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