SCSI

Chartered property, land and construction surveyors

COMMERCIAL PROPERTY MARKET MONITOR

REVIEW AND OUTLOOK 2023

CONTENTS

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KEY FINDINGS

The National Investment and Occupier Sentiment Indices, which track overall activity levels in the commercial market, are at -15 and -10, respectively, down from a high of +43 and +54, respectively, as reported in 2016.

▼ **10%**

PRIME OFFICE CAPITAL

53% of Chartered Surveyors expect prime office capital values to decline by up to 10% in 2023, while 29% expect values to remain the same.

▲ **5%**

PRIME INDUSTRIAL RENTAL

71% of Chartered Surveyors forecast that prime industrial rental values will either remain the same or increase by 5% in 2023.

▼ **10%**

RETAIL CAPITAL

48% of Chartered Surveyors expect prime retail capital values to decline by up to 10% in 2023, with 31% expecting no change over the same period.

54%

= **UNCHANGED**

PRIME RETAIL RENTAL

54% of Chartered Surveyors anticipate that prime retail rental values will remain unchanged in 2023.

68%

▼ **DETERIORATION**

CREDIT CONDITIONS

68% of Chartered Surveyors reported further deterioration of credit conditions in Q4 2022, up from 22% recorded at the beginning of the year.

53%

▼ **EARLY DOWNTURN**

PROPERTY CYCLE

Over half (53%) of Chartered Surveyors reported that the property cycle was in an "early downturn" phase at the end of 2022, up from 15% a year previously.

OVERVIEW OF THE COMMERCIAL PROPERTY MARKET

Businesses faced challenging trading conditions in 2022, with an 8% rise in the Consumer Price Index reported and a dampening of demand following a slowdown of household spending and business investment. Confidence in the market remains tentative, with the outlook for domestic growth over the coming quarters expected to be more challenging than previously expected.

> *Commentary from the SCSI member survey suggests that foreign capital is cautious about further investment in the market due to the current economic uncertainty.*

The commercial property market in 2022 has had a challenging trading year for a variety of reasons, including geopolitical concerns and economic uncertainty arising from the Russian invasion of Ukraine. Increased interest rates and the impact of inflation on the economy have impacted on both occupier demand and investor sentiment. Some sectors, such as office and retail, are still adapting to the changes brought about by previous Covid restrictions. There are obvious changes around remote working and the purchasing of goods, which have filtered through to property demand. There is a clear dampening of demand for certain property types, such as office space and certain retail uses.

Retail has seen some positive developments in certain high streets in city centre locations; however, in general, smaller businesses may experience continued financial struggles in 2023, with sustained high energy costs and labour shortages. The Government's Covid financial supports are now largely no longer available, and this is also likely to negatively impact on businesses and their viability.

Anecdotally, some Chartered Surveyors are seeing an increase in enquiries from landlords who have seen their tenants struggling with rental payments. Respondents also note that many office workers are working remotely for two or three days per week, and this is impacting on businesses that rely on a five-day-week trade, especially those in city centres. The outlook for 2023 remains unclear. Investment volumes may remain somewhat subdued until the interest rate environment stabilises and inflation rates become less volatile.

Commentary from the SCSI member survey suggests that foreign capital is cautious about further investment in the market due to the current economic uncertainty. Surveyors note supply and demand imbalances with industrial property, and this will drive some additional rental growth in this area.

The sentiment among respondents remains mixed. There was a substantial increase in surveyors reporting that the commercial market is in an early downturn: 53% compared to just 15% 12 months previously.

Anecdotally, the commentary from the survey seems to suggest that the challenging environment may be a short-term issue. Much of this hinges on the outlook for energy costs, interest rates, geopolitical issues, and the conflict in Ukraine.

MARKET TRENDS

Occupier and investor sentiment across offices, retail and industrial

The National Occupier and Investor Sentiment Indices (**Figure 1**) both returned negative net balance scores for the second consecutive quarter, having previously retuned positive results following the Government's easing of Covid-19 restrictions in Q3 2021. The latest results of the Commercial Property Monitor highlight a continued overall weakening of occupier and investor sentiment for 2022. The National Occupier and Investment Sentiment Indices track tenant and investor demand across retail, industrial and office property. The Index has fallen from -4 to -10 for occupier demand, and from -13 to -15 for investment sentiment.

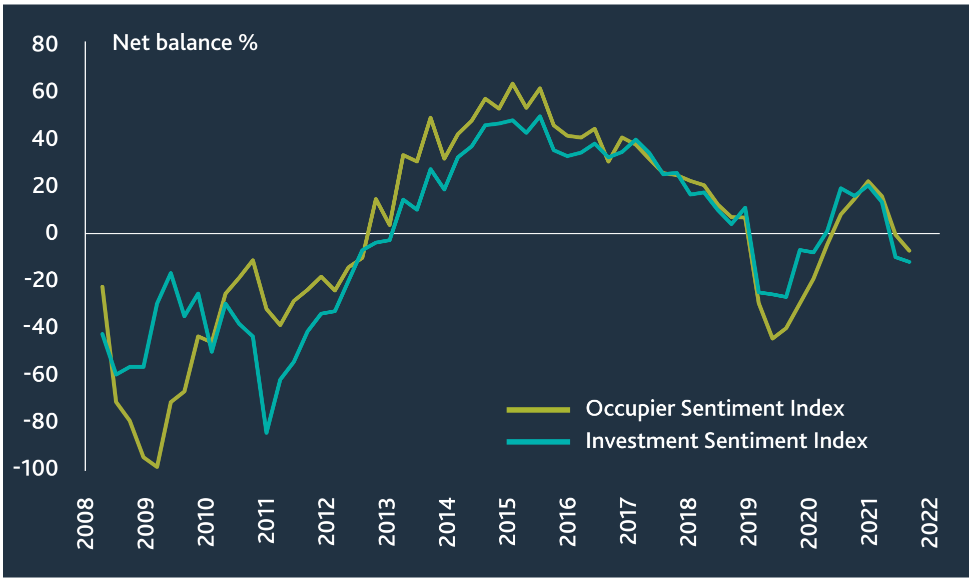

FIGURE 1: National Occupier and Investor Sentiment Indices – net balance.

Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

The National Occupier and Investment Sentiment Indices track tenant and investor demand across retail, industrial and office property.

MARKET TRENDS

The main market movement within offices, industrial and retail for 2022 was in the office sector, with a weakening occupier demand reported (**Figure 2**). The index dropped from -19 to -30 between Q3 and Q4 2022. Occupier demand for industrial property is still strong according to the survey results (Q4 2022 index at +31); however, there is a noticeable decline in the level of occupier demand in 2022, with the index recording a decline from +54 recorded in Q1 2022 to +31. The retail sector continues to underperform in difficult trading conditions, and this is not expected to improve significantly in 2023, albeit a slight rebound in the Occupier Index was recorded in Q4 2022. This negative sentiment has remained consistent since 2018 and has persisted for several reasons, namely Covid and the growing trends towards e-commerce activity and away from retail units. The interest rate environment has shifted in 2022 and this, among other factors, is impacting on overall sentiment among investors.

Yields are being pushed out due to higher finance costs and there is an expectation generally that the underlying demand and fundamentals of the commercial property market are strong to counter the current economic slowdown. The commercial market overall has seen a notable deterioration in the level of investment interest across offices, industrial and retail (**Figure 3**).

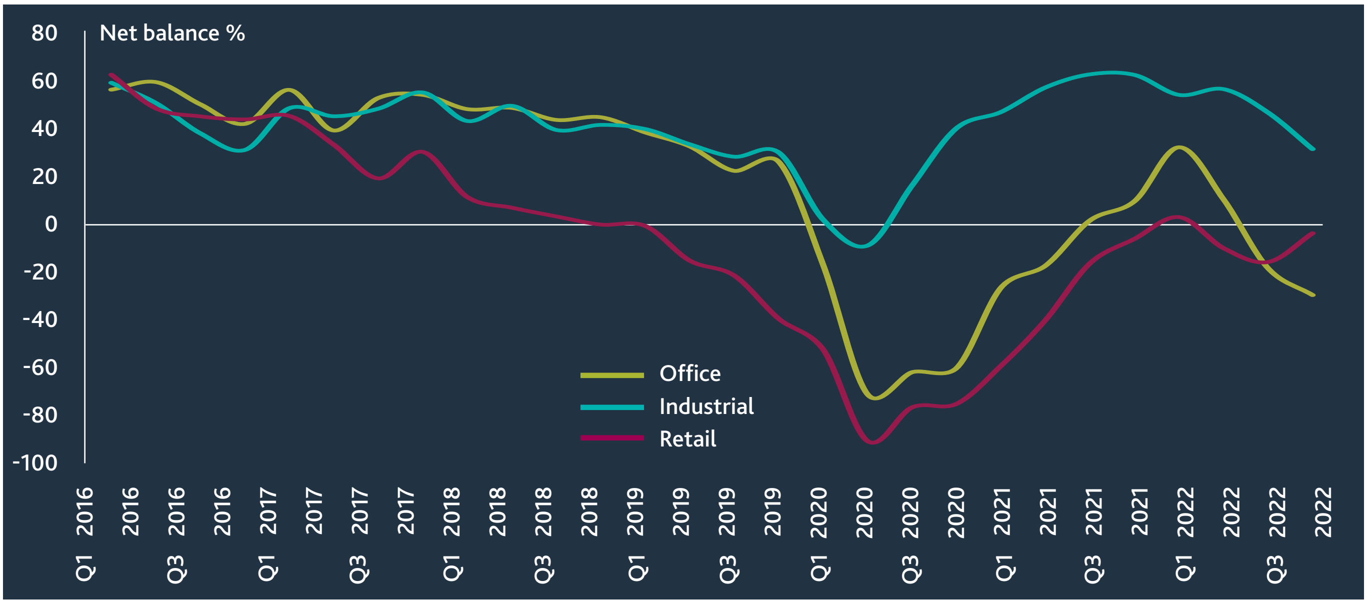

FIGURE 2: National Occupier Sentiment Index, Retail, Office, Industrial – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

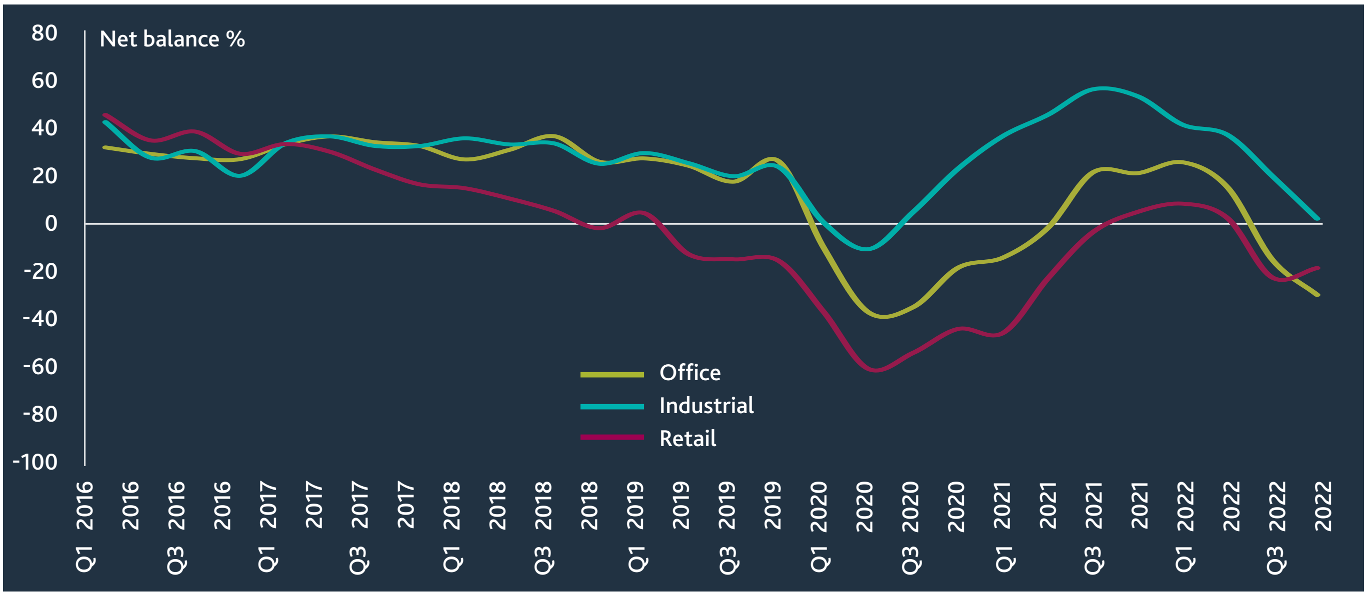

FIGURE 3: National Investment Sentiment Index, Retail, Office, Industrial – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

Industrial and logistics recorded the highest levels of investor and occupier sentiment of the three sectors within the study. While there has been a minor lift in the Investment Index relating to retail, anecdotally, Chartered Surveyors expect another difficult year for retail, with little expectation for the rebound to be extended over the coming 12 months. The National Occupier Demand, Availability and Inducements Index (**Figure 4**) highlights the overall office, industrial and retail levels of demand and availability of stock, and also tracks the level of inducements. There is a notable downward shift in demand; hence, there has been an increase in the level of inducements being reported to complete transactions.

Chartered Surveyors expect another difficult year for retail, with little expectation for the rebound to be extended over the coming 12 months.

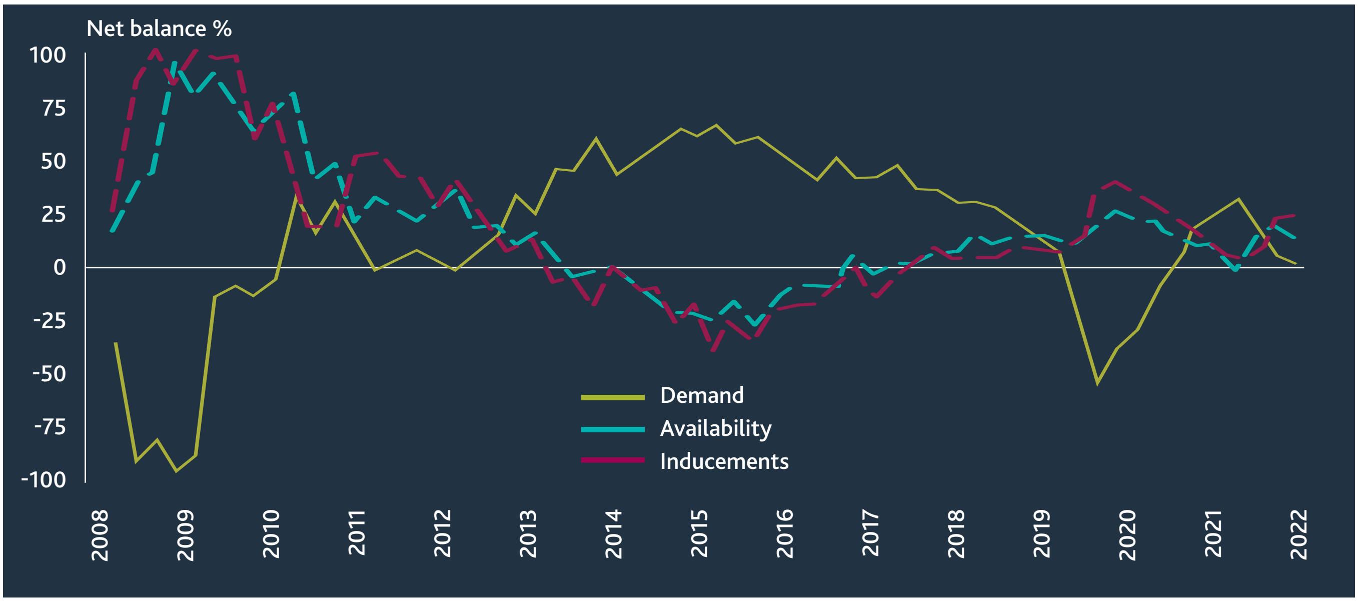

FIGURE 4: National Occupier Demand, Availability and Inducements Index – net balance.

Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

Figure 5 highlights the value of inducements provided to tenants across the three main commercial property sectors. Most Chartered Surveyors are reporting unchanged levels of inducements provided in all three sectors. Throughout 2022, there were lower levels of investment enquiries recorded, both national and foreign.

The industrial, office and retail sectors all recorded a negative net balance score (**Figure 6**) in Q4 2022, indicating a deterioration in activity in 2022 from an investment perspective.

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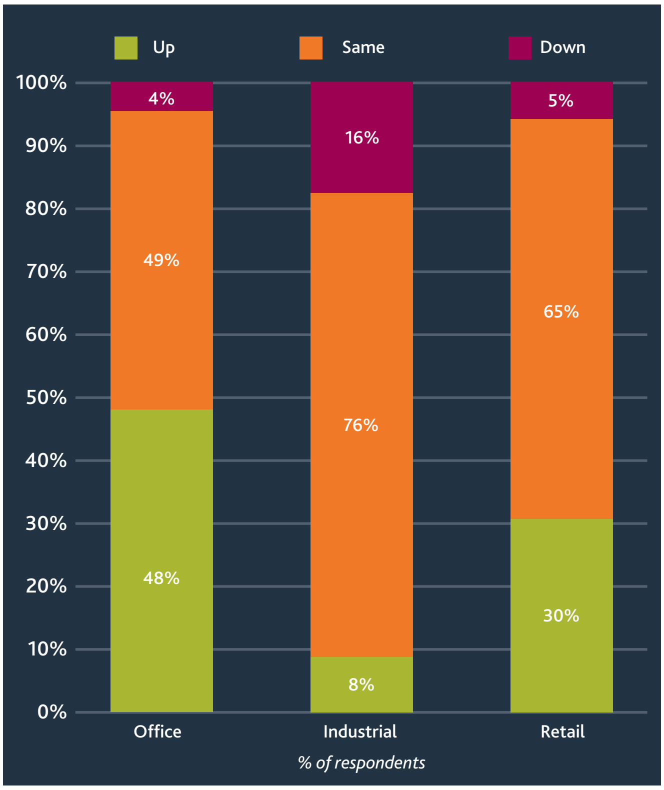
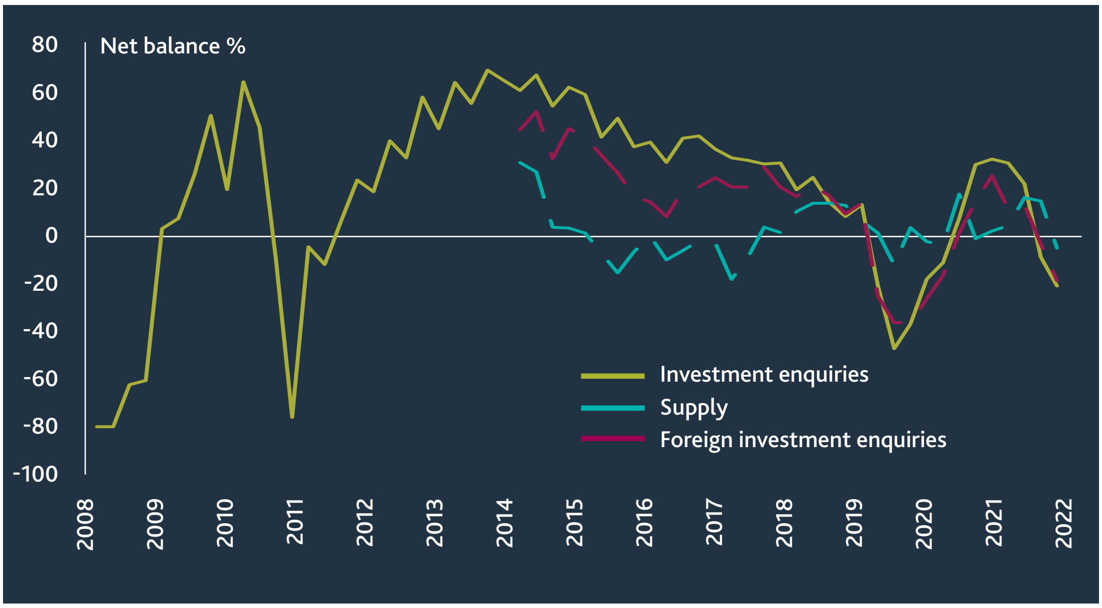


FIGURE 5: Value of inducements to new tenants during Q4 2022.
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

FIGURE 6: Investment enquiries, supply and foreign investment enquiries across the office, retail and industrial sectors.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.



CREDIT CONDITIONS

An increased proportion of Chartered Surveyors reported a “slight” or “significant” deterioration of credit conditions over the course of 2022, with 22% reporting this experience in Q1, increasing to 68% in Q4 (**Figure 7**).

This was to be expected given the changes to interest rates as announced on numerous occasions by the European Central Bank.

Those that believe credit conditions deteriorated significantly now represent 20% of surveyors, up from 0% at the beginning of the year.

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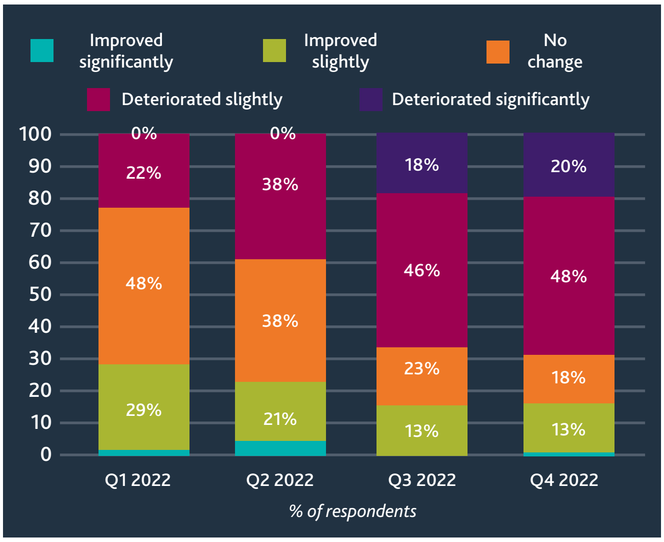

FIGURE 7: Views on credit conditions Q1-Q4 2022.
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

MARKET VALUATION LEVELS

Over the course of 12 months, there was a slight upward shift in the percentage of Chartered Surveyors with the view that commercial valuations are more "expensive" or "fair value", with a slight decline in the view that market valuations are "cheap" (**Figure 8**).

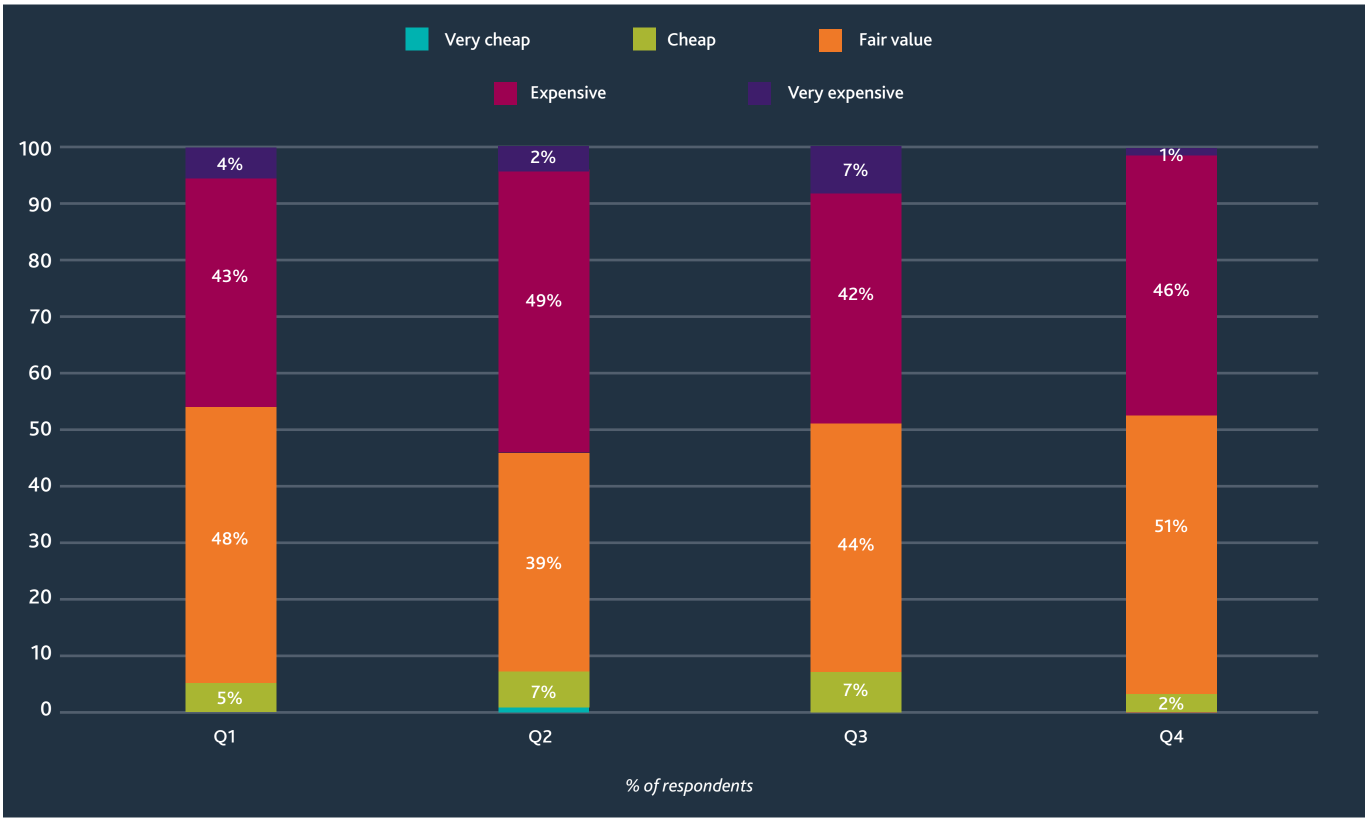

FIGURE 8: Views on current market valuation levels Q1-Q4 2022 (percentage).
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

PROPERTY CYCLE

Figure 9 illustrates Chartered Surveyors' perceptions of Ireland's current property cycle stage as of Q4 2022. At the beginning of the year, most Chartered Surveyors reported that the property cycle was undergoing a "mid-upturn", with an increasing number of surveyors declaring that it was in "early downturn" by Q2 2022. By Q3 and Q4 2022, the vast majority of Chartered Surveyors reported that the property cycle was in "early downturn" (53%), followed by 22% reporting that the cycle was in a "mid-downturn" phase.

By Q3 and Q4 2022, the vast majority of Chartered Surveyors reported that the property cycle was in "early downturn" (53%), followed by 22% reporting that the cycle was in a "mid-downturn" phase.

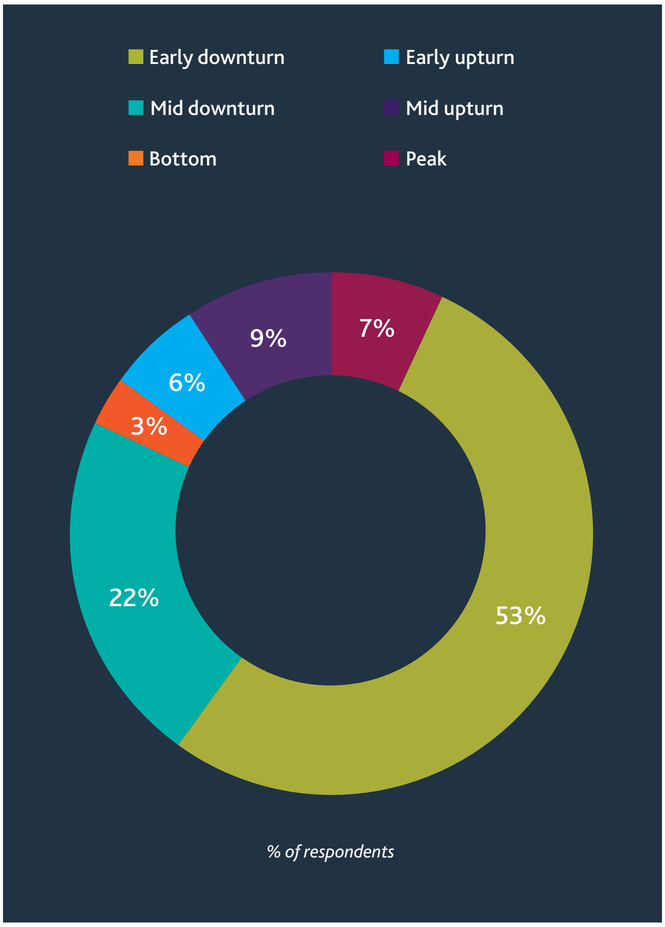

FIGURE 9: Overall average perception of the property cycle in 2022.
Source: SCSI/RICS.

THE OUTLOOK TO 2023

Both the rental and capital value expectations for offices, retail and industrial combined (+3 months) are forecast to bring the Index (**Figure 10**) into negative territory once again. In terms of specific property sectors, there continues to be a divergence in anticipated trends across retail, office and industrial, with prime industrial property returning the highest anticipated increase in terms of capital and rental values. A total of 29% of Chartered Surveyors (**Figure 11**) forecast that prime office capital values will remain unchanged over the next 12 months, with 53% expecting them to decline by as much as 10%.

A total of 30% of Chartered Surveyors forecast that prime office rental values will remain the same over the next 12 months, with 42% expecting a decline in rental values by as much as 10%. A total of 58%

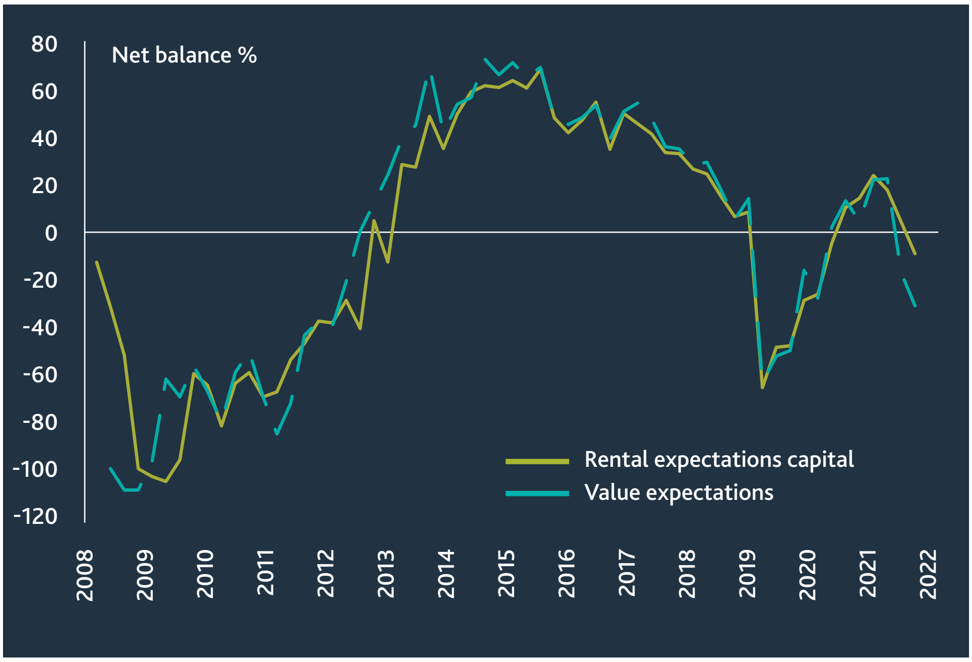

FIGURE 10: Anticipated percentage change in capital values and rental expectations (+3 months), office, industrial and retail – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

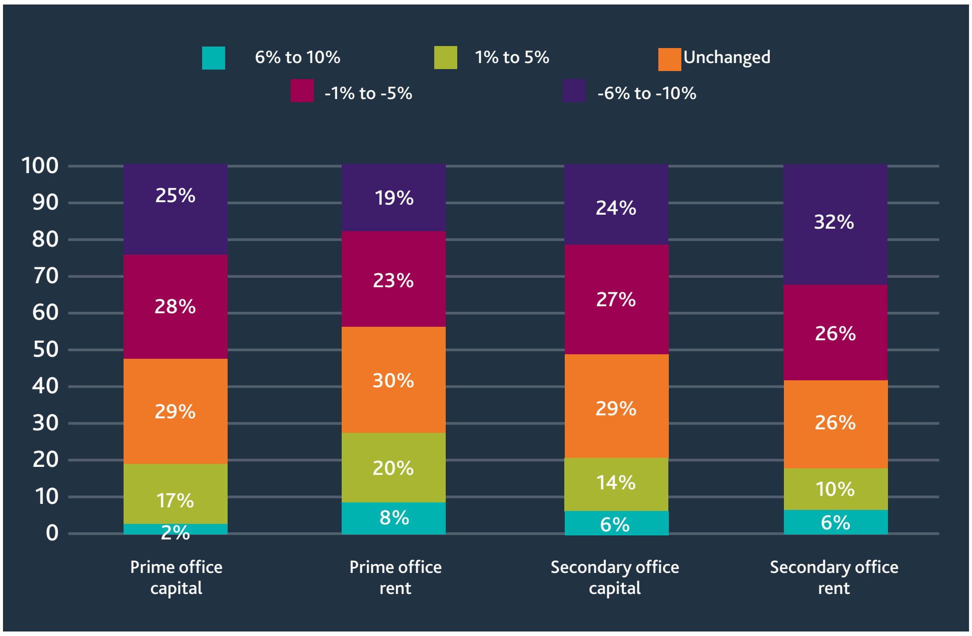

FIGURE 11: Anticipated percentage change in office rents and capital values in 2023.
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

Furthermore, 39% of surveyors forecast that prime industrial rental values will remain the same over the next 12 months, with 41% reporting that secondary industrial rental values will remain unchanged during the same time period.

of Chartered Surveyors predict that secondary office rent will decline by as much as 10% over the coming 12 months. In terms of the industrial sector, 29% of Chartered Surveyors anticipate that prime location capital values will increase between 1% and 5% over the next 12 months, in comparison to 33% of surveyors projecting that secondary location values are going to remain unchanged within the same time frame (**Figure 12**).

Furthermore, 39% of surveyors forecast that prime industrial rental values will remain the same over the next 12 months, with 41% reporting that secondary industrial rental values will remain unchanged during the same time period.

Approximately 48% of Chartered Surveyors anticipate that prime retail capital values will decline by as much as 10% over the next 12 months, with 52% of surveyors reporting that secondary retail capital values will also drop by as much as 10% during the same period (**Figure 13**). The majority of Chartered Surveyors expect "no change" to overall rental levels across prime and secondary units in 2023. Retail has undergone significant challenges in recent years and the impact of these on rents has been sizable.

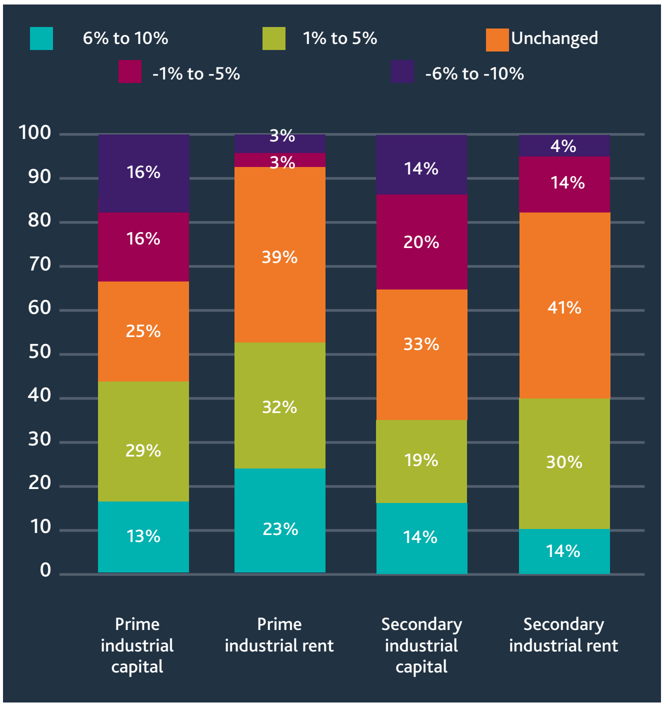

FIGURE 12: Anticipated percentage change in industrial rents and capital values in 2023.
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

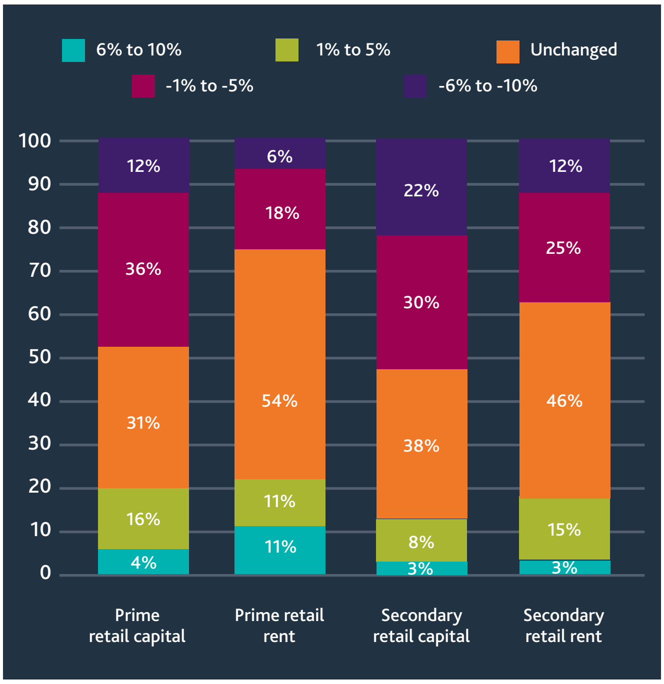

Figure 13: Anticipated percentage change in retail rents and capital values in 2023.
Source: SCSI/RICS. Figures may not add up to 100 due to rounding.

ABOUT THE SCSI AND THE SURVEY

The Commercial Property Monitor Review and Outlook Report 2023 is informed by three surveys completed during 2022 by Chartered Commercial and Valuation Surveyors.

The Commercial Property Monitor Review and Outlook provides net balance index charts illustrating surveyor sentiment on market trends.

Net balance is calculated by taking the total number of "increase" responses from "decrease" responses and displaying the result.

The index charts provided are weighted composite measures capturing overall market momentum, encompassing variables on supply, demand, and expectations.

A total of 325 responses informed this report.

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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