SCSI

Chartered property, land and construction surveyors

COMMERCIAL PROPERTY MARKET MONITOR

REVIEW AND OUTLOOK 2024

CONTENTS

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KEY FINDINGS

The National Occupier and Investment Sentiment Indices track overall activity levels in the commercial market. For Q4 2023, the indices are at -4 for occupier demand, down from -1 in Q4 2022, and at -23 for investment enquiries, up from -28 in Q4 2022.

10%

PRIME OFFICE CAPITAL

Half of Chartered Surveyors expect prime office capital values to decline by up to 10% in 2024, while one-fifth expect values to remain the same.

5%

PRIME INDUSTRIAL RENTAL

73% of Chartered Surveyors forecast that prime industrial rental values will either remain the same or increase by 5% in 2024

UNCHANGED

RETAIL CAPITAL

43% of Chartered Surveyors anticipate that prime retail capital values will remain unchanged in 2024 while 34% believe values to decline by up to 10%.

49%

RENT

UNCHANGED

PRIME RETAIL RENTAL

49% of Chartered Surveyors expect that prime retail rents will remain unchanged in 2024.

66%

DETERIORATION

CREDIT CONDITIONS

66% of Chartered Surveyors reported further deterioration of general credit conditions in Q4 2023.

61%

EARLY OR MID-DOWNTURN

PROPERTY CYCLE

Over half (61%) of Chartered Surveyors reported that the property cycle was in either an early or mid-downturn phase at the end of 2023.

OVERVIEW OF THE COMMERCIAL PROPERTY MARKET

The economy continued to decline in 2023 because of multiple external factors, such as the residual impact of Covid-19, the conflict in Ukraine, and now the expanded global unrest caused by events in Israel and Gaza. Foreign direct investment (FDI) export-led growth and a continuation of the State's budget surpluses from corporate tax have helped to shield consumers and businesses from some of these external economic shocks. However, as this large tax return comes from a small number of foreign-owned multinationals, the extent of our future reliance on this tax income is unknown.

That said, in terms of the economic outlook, a 3.5% increase in GDP is predicted for 2024,[1] with unemployment rates projected to remain static at a historically low 4.2%. The European Commission reports[2] that private consumption of goods in Ireland is expected to grow moderately over the coming quarters, as tighter financial conditions weigh on household spending. However, a strong labour market and rising real wages are projected to support consumption through 2024 and 2025.

The commercial property market is influenced by a range of factors, including economic performance, inward investment levels, employment levels, cost of finance, and much more. The level of Ireland's competitiveness is another factor that impacts on commercial capital values and yield levels. Ireland's competitiveness is framed by persistent inflation challenges (the Consumer Price Index (CPI) stands at 4.6%), the cost of living challenges brought about by increased energy costs, the impact of Brexit on trade and business, and the fallout from Covid-19 on the market.

The Society of Chartered Surveyors Ireland (SCSI) Commercial Market Review and Outlook Report 2023 (published in February 2023) reported that 29% of Chartered Surveyors forecasted that prime office capital values will remain unchanged, with 53% expecting them to decline by as much as 10%. A total of 30% of Chartered Surveyors forecasted that prime office rental values will remain the same, with 42% expecting a decline in rental values by as much as 10%.

The State's commercial vacancy rate stood at 14.1% in June 2023,[3] an increase of 0.2% when compared to the same period in 2022. Despite the marginal increase, this marks the highest vacancy rate recorded since 2013. The rise of remote working and flexible workspaces has redefined the demand for office spaces, with questions now being asked around how best to repurpose vacant stock for other uses.

2023 was the year when the new text of the Energy Efficiency Directive was approved by the European Parliament, although it has yet to be agreed by the Council of Ministers. When approved, EU member states will have two years to transpose the new rules into national law. With the continued added emphasis on sustainability, this has reshaped the priorities of both investors and tenants. Despite the general reduction in demand for office space, 2023 saw investment opportunities continue for sustainable buildings, which continue to attract relatively good levels of demand.

The industrial and logistics sector is reported to have had brisk activity levels across the country, with strong levels of demand persisting for well-located units, especially within close proximity to the east coast motorways and main cities.

The retail sector is predicted to experience a new spurt of retailers re-entering the market after post-Covid reductions in some rents. However, the availability of prime retail stock continues to be a challenge, and it is unlikely that any new shopping centres will be built across the country. Therefore, the availability of prime high street and shopping centre units will need to come from existing stock.

Overall, the sentiment regarding further investment in sectors such as retail, which was severely impacted by Covid restrictions, is improving, with higher expectations in the industry that tourism numbers will be up, and the hospitality sector will enjoy a brisk trade into 2024.

INTRODUCTION

The SCSI Commercial Market Monitor tracks Chartered Surveyor sentiment operating across agency and valuations on a quarterly basis. It also forms part of the Royal Institution of Chartered Surveyors (RICS) Global Commercial Property Market Monitor, which tracks similar sentiment regarding investment and occupier trends in some of the main developed countries across the globe.

1. ESRI Quarterly Economic Commentary Autumn 2023.
2. European Commission Economic Forecast for Ireland, November 15, 2023.
3. GeoDirectory Commercial Buildings Report Q3 2023.

MARKET TRENDS

The National Occupier and Investment Sentiment Indices (**Figure 1**) track overall activity levels in the commercial market across the retail, industrial and office sectors. In line with the trend of the previous four quarters, the Indices continued to yield negative net balance scores. The net balance percentage for occupier demand is at -4 in Q4 2023, and -23 for investment enquiries. The latest results of the Index show early signs of improvement regarding overall future investment appetite.

With regard to occupier demand in 2023, industrial was reported as the

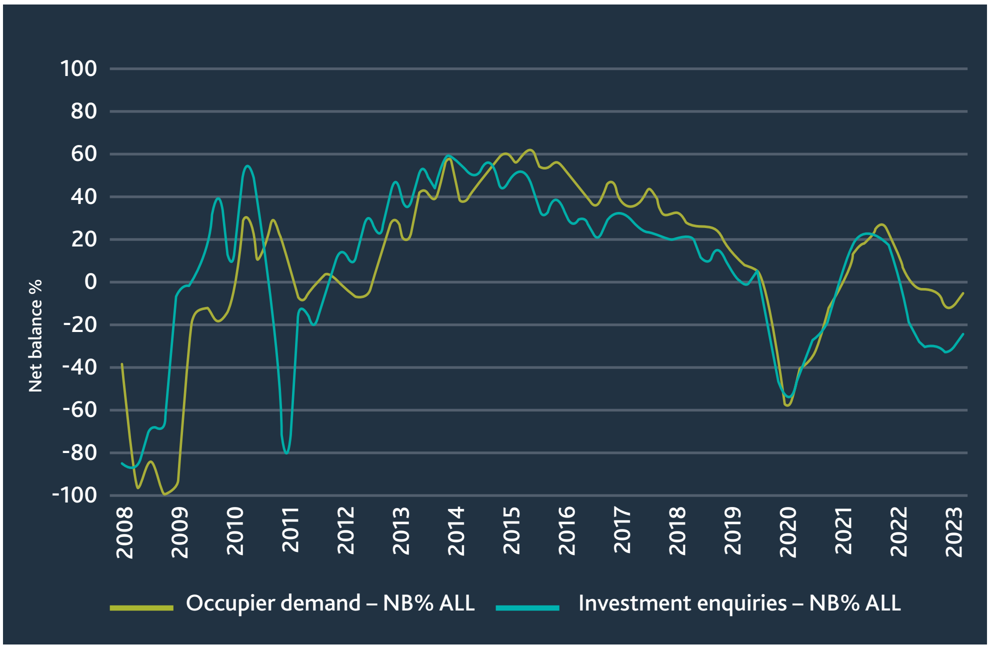

FIGURE 1: National Occupier and Investor Sentiment Indices – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

The National Occupier and Investment Sentiment Indices track overall activity levels in the commercial market across the retail, industrial and office sectors.

most active sector, with the sentiment for retail improving gradually since the pandemic (**Figure 2**). The industrial sector net balance percentage has fallen from +31 in Q4 2022 to +19 for the same quarter in 2023. Despite this, the industrial sector continues in positive territory, signifying a sustained demand. The retail sector has risen from -4 in Q4 2022 to +1 in Q4 2023. This figure is a break from the continued negative sentiment displayed in the sector since 2018. It can also be inferred that since the Covid-19 pandemic, some rents were reduced and now many retailers are looking to re-enter the market.

The office sector continued its negative net balance trajectory for occupier demand and rests at -32 for Q4 2023. This decline can be attributed to hybrid working policies and the growing demand for sustainable buildings. Further, there are various micro-markets in the office sector, as prime grade A properties continue to attract moderate demand while second-generation stock will be more difficult to transact, especially considering the upcoming economic, social and governance (ESG) regulations.

The level of investment across the retail, office and industrial sectors (**Figure 3**) echoes the sentiments expressed by occupiers across these sectors. The industrial sector has remained stable, from -6 in Q4 2022

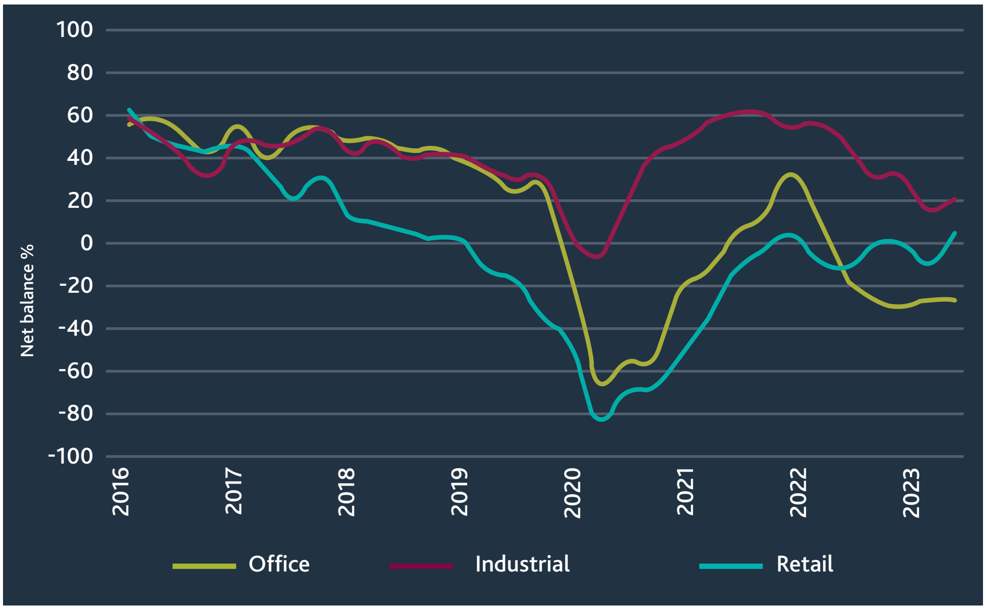

FIGURE 2: National Occupier Sentiment Index – Retail, Office, Industrial – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%).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

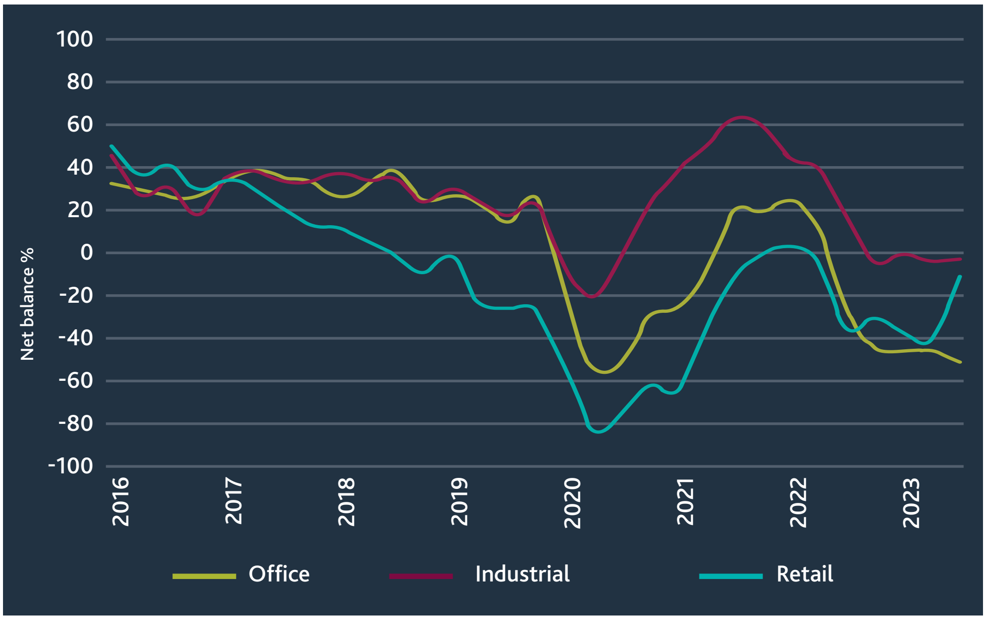

FIGURE 3: National Investment Sentiment Index – Retail, Office, Industrial – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%).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

to -4 in Q4 2023. The office sector continued its downward trajectory since 2022 and is now at -52, which is the same level it was at during peak pandemic times in 2020. Retail recorded significant improvement in investor sentiment, and has advanced from -32 in Q4 2022 to -13 in Q4 2023. The retail sector has pivoted, with consumers seeking more of a 'retail experience' as a way to battle against online shopping trends. This increased investment demand can be also attributed to specific retail sub-sectors such as supermarkets and retail parks.

The National Occupier Demand, Availability and Inducements Index (**Figure 4**) highlights overall office, industrial and retail levels of demand

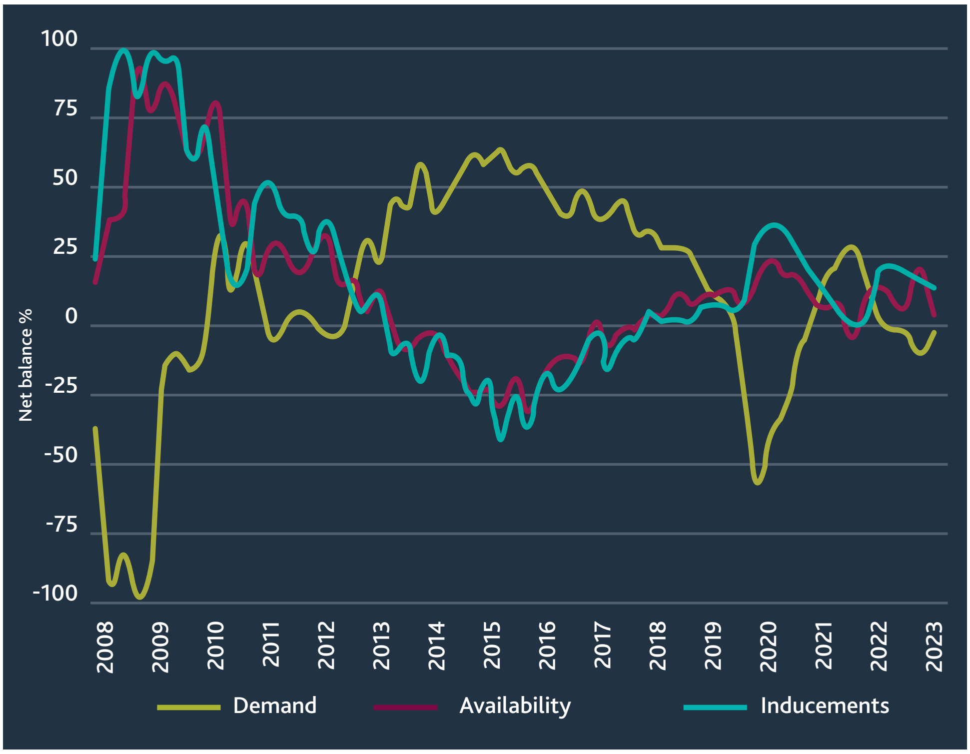

FIGURE 4: National Occupier Demand, Availability and Inducements Index – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance would be 25%). Net balance data can range from -100 to +100.

The National Occupier Demand, Availability and Inducements Index highlights the overall office, industrial and retail levels of demand and availability of stock, and tracks the level of inducements.

and availability of stock, and tracks the level of inducements. The overall demand has continued to be in negative territory since Q4 2022 and is at -4 in Q4 2023. Inducements during the same period have fallen from +22 to +13, and availability too has fallen from +10 to +4.

Figure 5 highlights the value of inducements provided to tenants across the three main commercial property sectors. Across industrial and retail, most Chartered Surveyors are reporting the same levels of inducements: 87% and 71%, respectively. However, the office sector has seen an increase in the level of inducements provided to complete transactions, with 50% of Chartered Surveyors reporting this increase.

The industrial, office and retail sectors all continue to record a negative net balance score (**Figure 6**) for foreign investment inquiries, as they slid from -25 to -40 between Q4 2022 and Q4 2023. In contrast, domestic investment enquiries show an upward trend and have improved by 5% since Q4 2022. However, overall supply continues to be a challenge across all sectors and has deteriorated to -13 in Q4 2023.

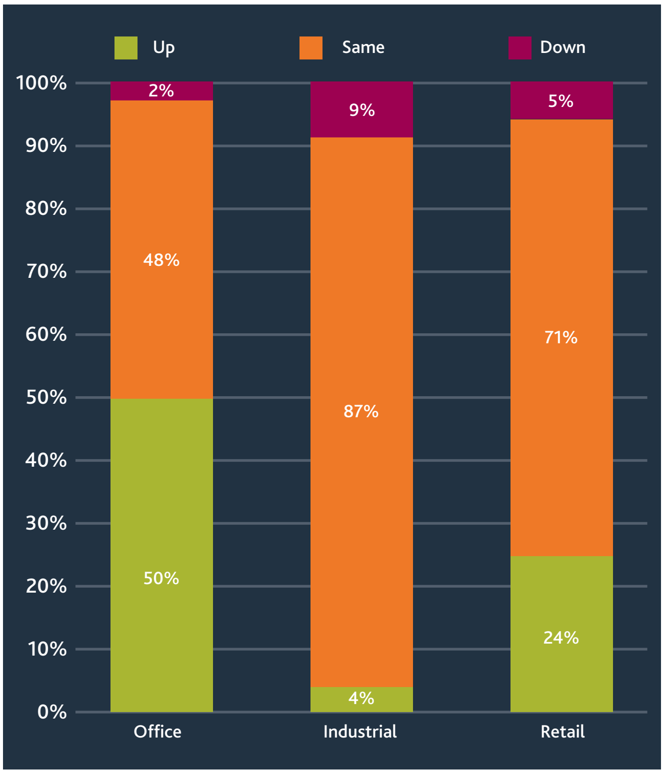

FIGURE 5: Value of inducements to new tenants during Q4 2023.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

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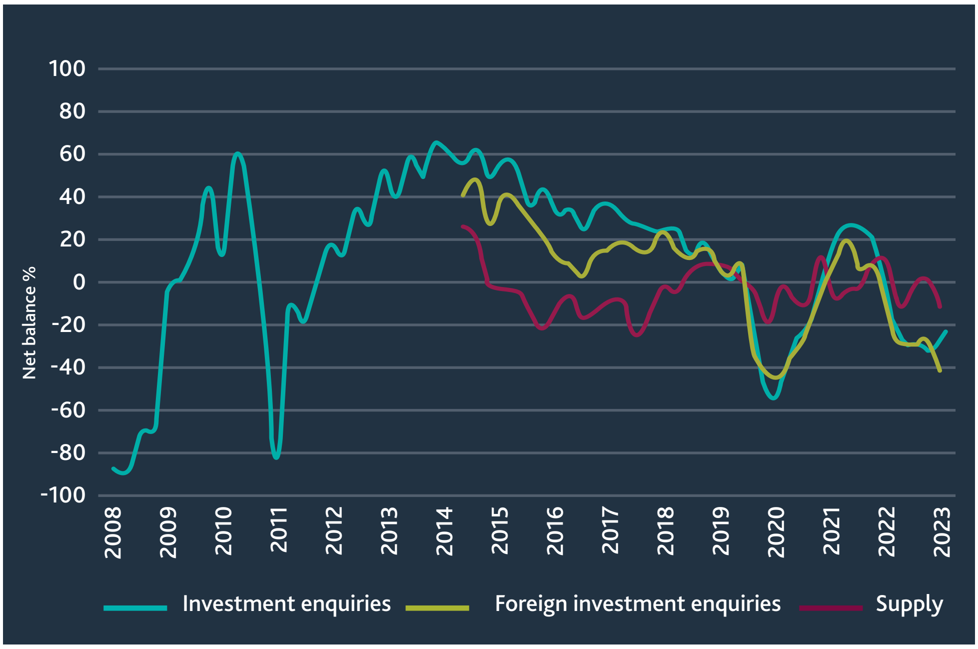

FIGURE 6: Investment enquiries, supply and foreign investment enquiries across office, retail and industrial.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance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

CREDIT CONDITIONS

A wide majority of Chartered Surveyors reported a "significant" or "slight" deterioration in credit conditions during the year, with 66% reporting it in Q4 2023 (**Figure 7**).

This can be attributed to multiple changes in interest rates by the European Central Bank and growing preference among Irish banks to lend for buildings with better ESG compliance. Those who believe credit conditions have improved significantly are now at 0%, down from 2% at the beginning of 2023.

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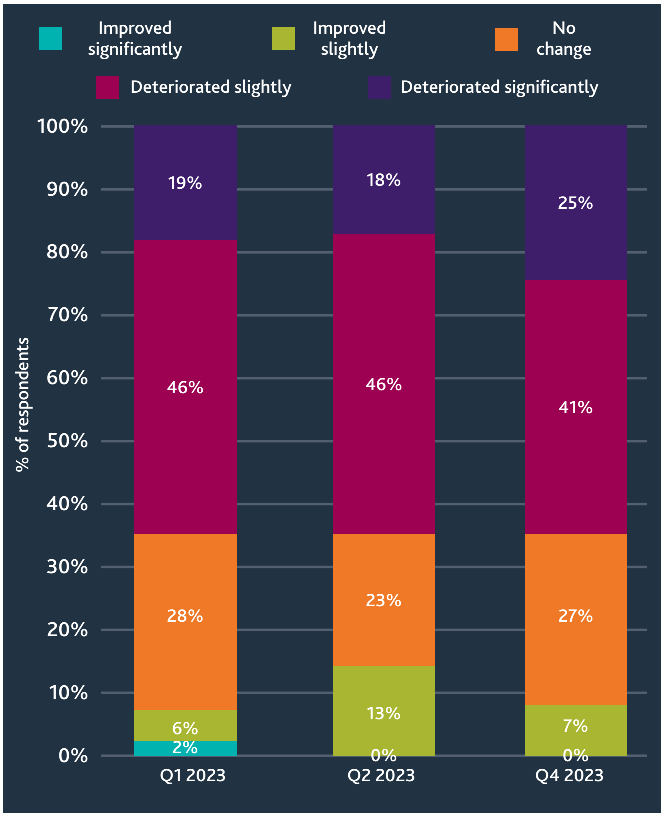
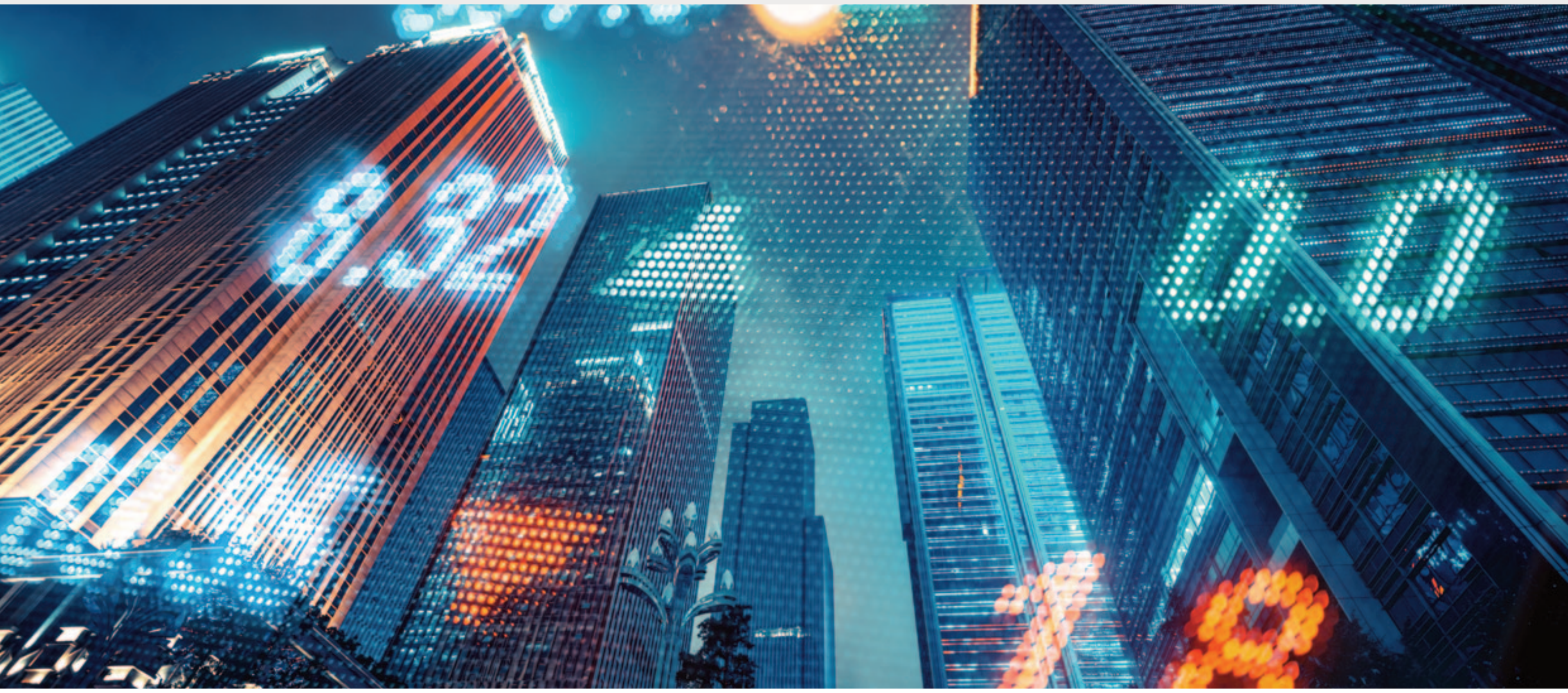


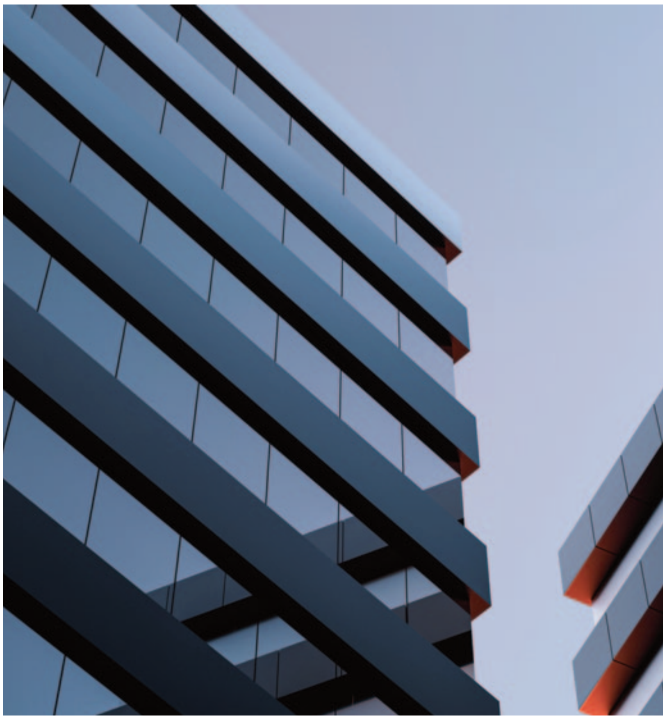
FIGURE 7: Views on credit conditions Q1-Q4 2023.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

MARKET VALUATION LEVELS



MARKET VALUATION LEVELS

In 2023 there was a significant upward shift in the percentage of Chartered Surveyors with the view that commercial valuations are more "expensive" or "fair value", with a significant decline in the view that market valuations are "cheap" (**Figure 8**).



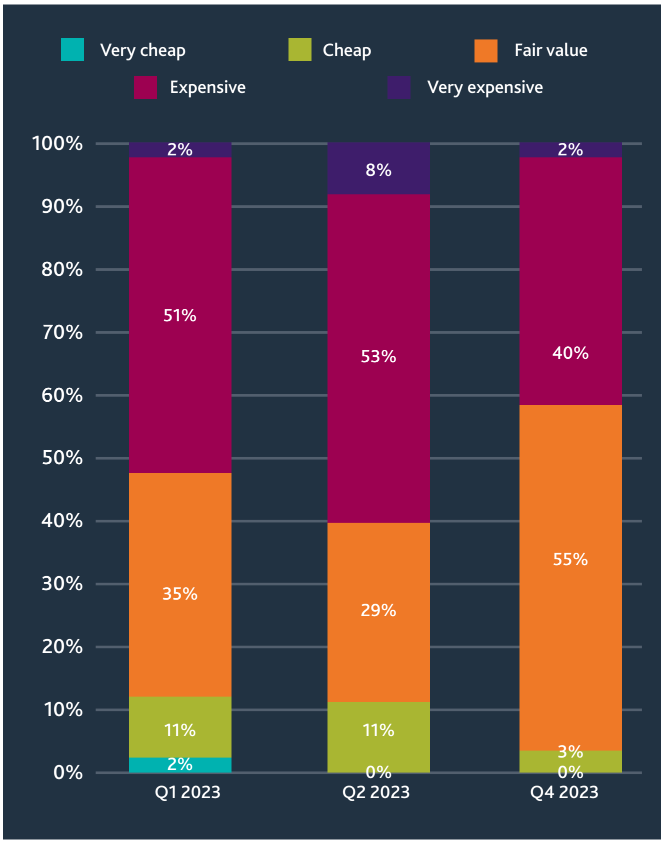


FIGURE 8: Views on current market valuation levels Q1-Q4 2022.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

PROPERTY CYCLE

The perception of Ireland's Chartered Surveyors about the property cycle as of Q4 2023 is illustrated in **Figure 9**. By Q4 2023, 32% of Chartered Surveyors reported an early downturn, while 29% voted for a mid-downturn in the property cycle. Some 18% reported that the cycle has reached its bottom point.

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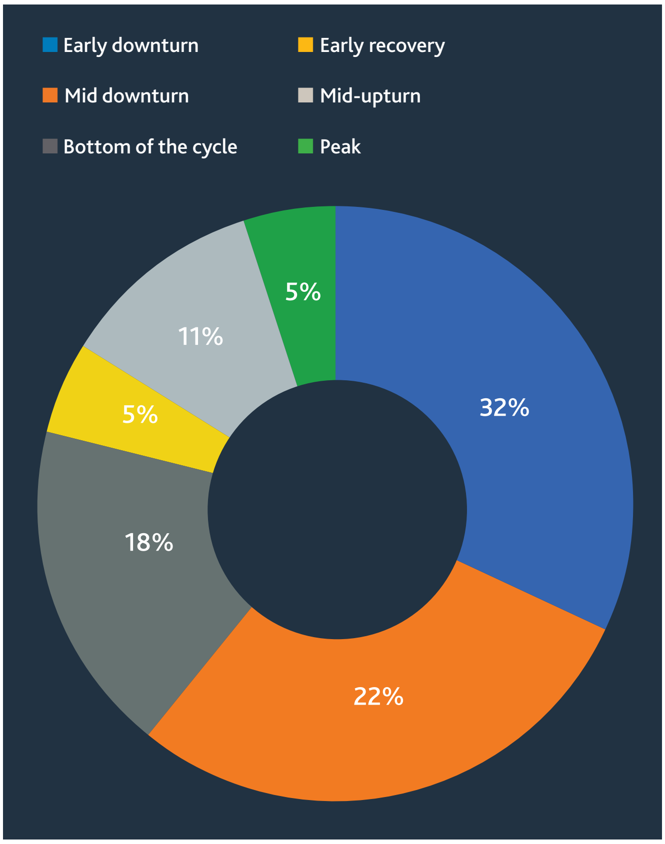

FIGURE 9: Overall average perception of the property cycle in 2023.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

THE OUTLOOK TO 2024

The forecast for both retail and capital value expectations for office, industry and retail combined (+3 months) continues to be in the negative territory, with rental expectations at a net balance percentage of -7 and capital value expectations at -27 (**Figure 10**).

In terms of specific property sectors, there is a divergence in anticipated trends across retail, office, and industrial properties. Among all the sectors, prime industrial property is expected to have the highest increase in capital and rental values. For instance, 31% of Chartered Surveyors believe that prime office capital will reduce by between 0% and 5% in 2024 (**Figure 11**), while the same percentage believe that rents for prime offices will remain unchanged in 2024.

For secondary offices, 52% believe that capital will go down by between 0% and 10%, and 43% believe rent will go down by the same margin.

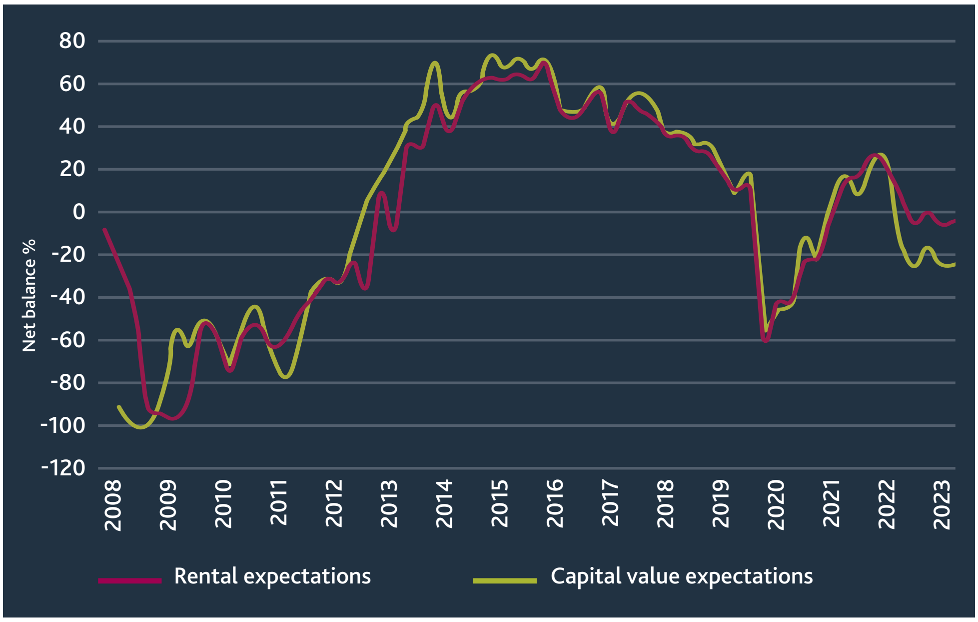

FIGURE 10: Anticipated percentage change in capital values and rental expectations (+3 months) – office, industrial and retail – net balance.
Source: SCSI/RICS research. Note: net balance = proportion of respondents reporting a rise in a variable minus those reporting a fall (if 30% reported a rise and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

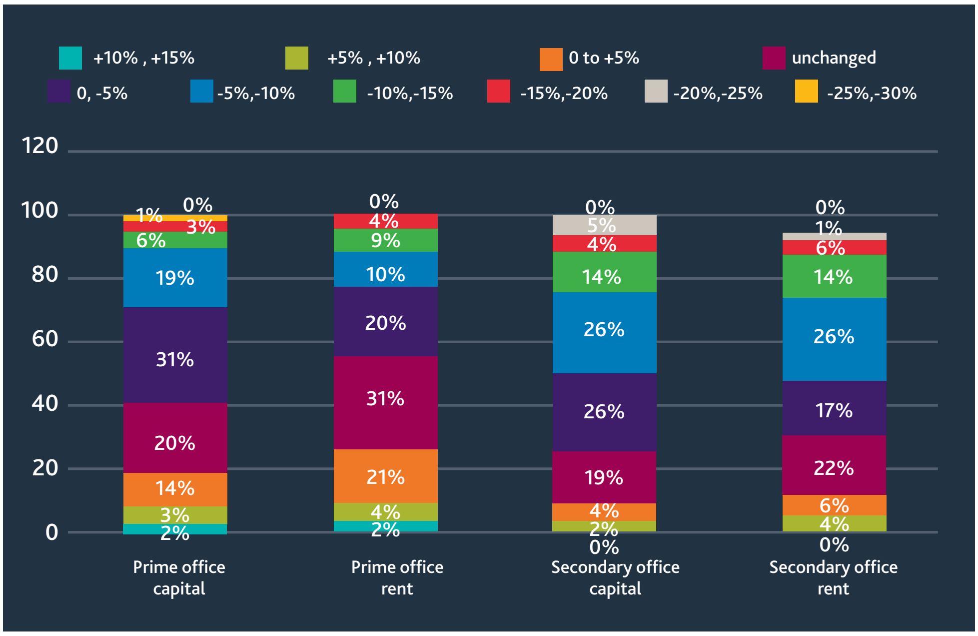

FIGURE 11: Anticipated percentage change in office capital and rent values in 2024.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

In terms of the industrial sector (**Figure 12**), 42% believe that prime industrial capital will remain unchanged, and 29% believe it will increase by 0-5%. Some 42% of Chartered Surveyors also believe that prime industrial rent will increase by 0-5%. In comparison, secondary industrial capital and rent are expected to remain unchanged by 44% and 42% of Chartered Surveyors, respectively.

For the retail sector (**Figure 13**), prime rental capital is expected to remain the same by 43% of Chartered Surveyors, followed by 23% who believe capital will go down by 0-5%. For prime rental retails, 49% predict "no change". Furthermore, 25% predict a 0-5% decline in secondary retail capital, and 24% expect the same decline in secondary retail rent. The increased minimum wage and the increase in VAT has further exacerbated the issue of viability for businesses still struggling with the after-effects of Covid-19.

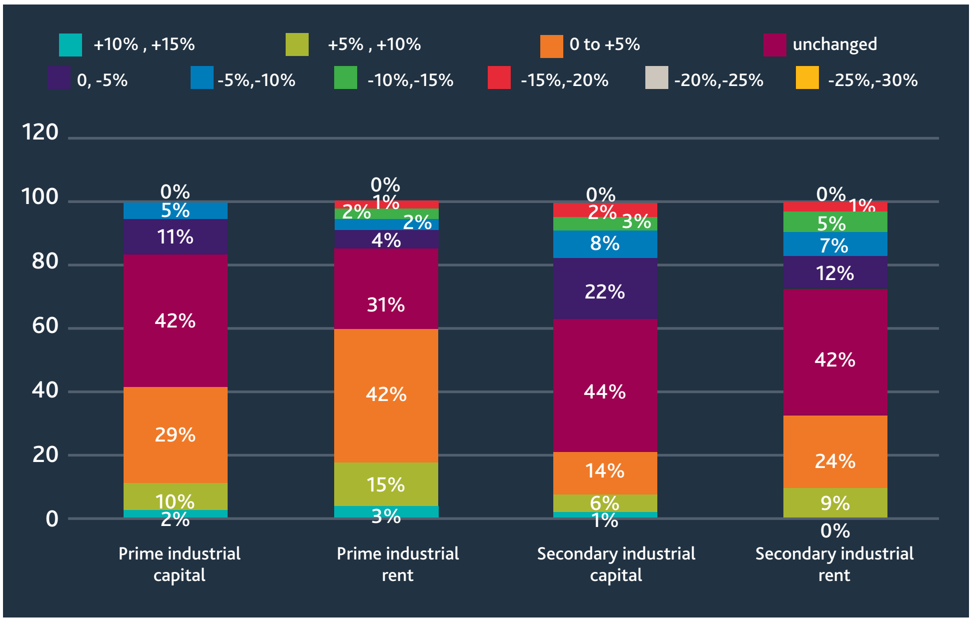

FIGURE 12: Anticipated percentage change in industrial rents and capital values in 2024.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

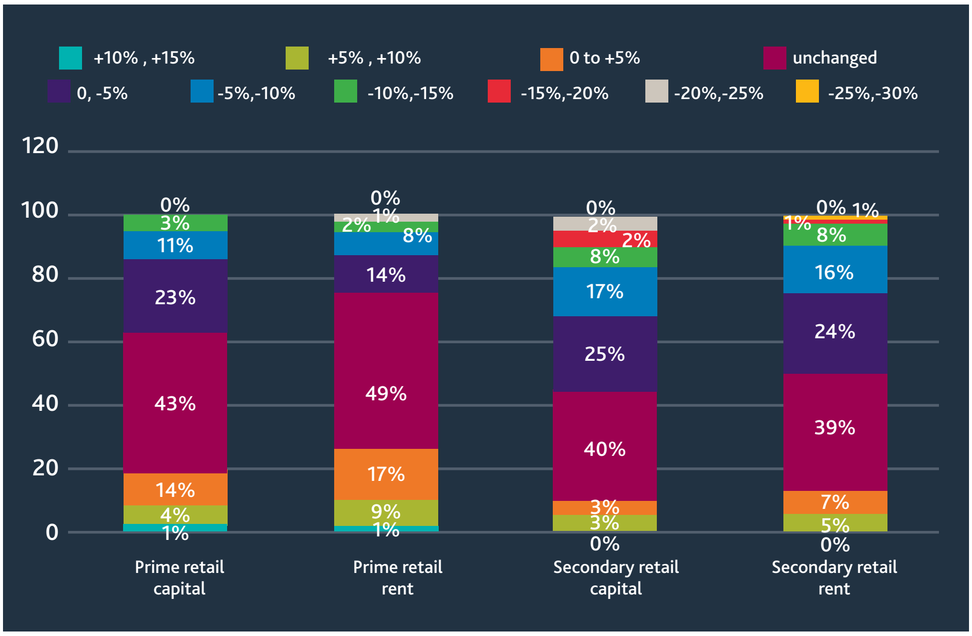

FIGURE 13: Anticipated percentage change in retail rents and capital values in 2024.
Source: SCSI/RICS research. Figures may not add up to 100 due to rounding.

42% of Chartered Surveyors believe that prime industrial rent will increase by 0-5%.

ABOUT THE SCSI AND THE SURVEY

The Commercial Property Market Monitor Review and Outlook Report 2024 is informed by three surveys completed during 2023 by Chartered Commercial and Valuation Surveyors.

The Commercial Property Market 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 unweighted composite measures capturing overall market momentum, encompassing variables on supply, demand, and expectations.
A total of 326 responses informed the 2023 data within this report.

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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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