

Northern Ireland Market

savills



Outlook for 2022

1



Investment volumes to increase

Last year, £300m transacted in the market, more than double 2020's investment volumes but 43% lower than the previous peak of 2015. We expect investment to continue to grow in 2022. There is an attractive yield discrepancy between Northern Ireland and other UK and Irish markets. This may present a value play for investors as heightened levels of inflation squeeze real rates of return. Furthermore, with Northern Ireland benefiting from being a gateway market between the EU and the UK, this will continue to attract investors who seek to take advantage of this unique position.

2



Growth potential across multiple sectors

There is potential for investment volumes to grow in multiple sectors in 2022, as tailwinds provide optimism. Offices, which accounted for 45% of transactions in 2021, could benefit from greater post-pandemic clarity and the return to full capacity. Retail investment has improved across the UK, especially within the retail parks sector, comprising 27% of investment last year. This sector has seen greater optimism as operators performed well during the pandemic and rent collection remained stable. While 2021 was a quieter year for industrial investment, the sector is benefiting from the tailwinds of e-commerce growth and rising consumer and occupier demand, which continues to attract investor interest across Europe.

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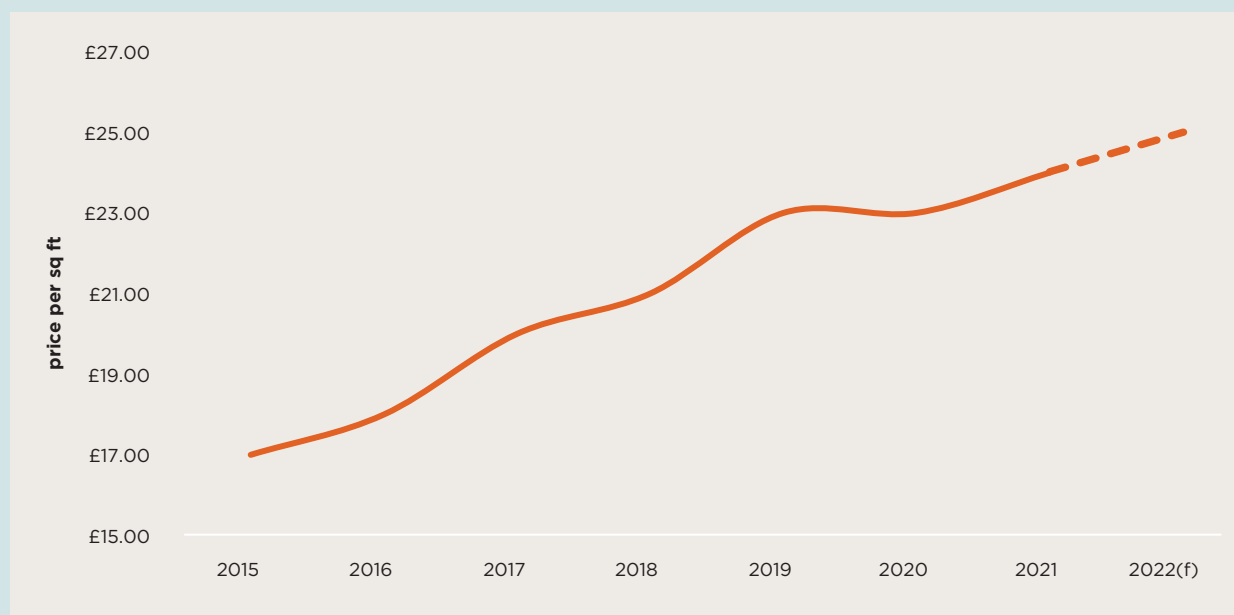
Rental growth driven by competition for prime stock



The office sector is forecast to see rental growth in 2022 as occupiers use high-quality fit-outs and centrally located bases to entice workers back to the office. Prime space in the CBD remains best placed to provide these pull-factors and limited stock will push occupiers into competition for these assets. Rents remained resilient throughout 2020 and 2021. Indeed,

even before accounting for the expected increase in competition this year, prime rents of £24.00 psf are higher than they were pre-pandemic, at £23.00 psf in 2019. With occupiers competing for limited stock, we believe there is room for prime rents to continue their growth to £25.00 psf by year-end.

Figure 1: Projected growth in prime rents



Source: Savills Research



5.3%

GDP growth forecast
in 2022



£300m

of investment assets
transacted in 2021



171,000

sq ft of office take-up
in 2021



7.9%

annual growth in
house prices in 2021

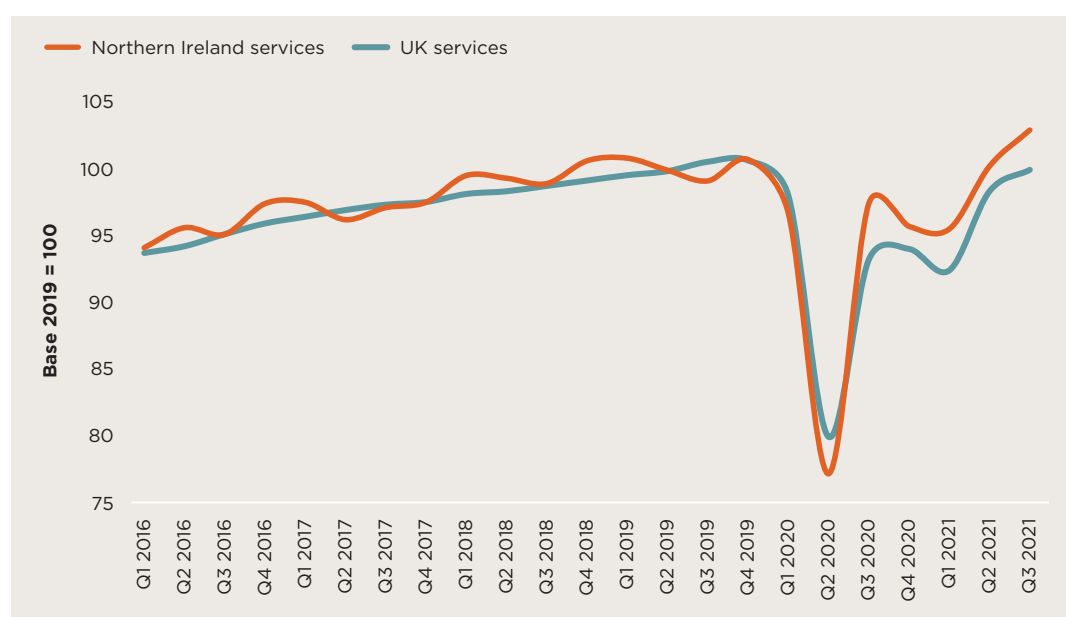
Macro view

Return to economic growth post-pandemic

Northern Ireland's economy has largely recovered from the shock of the pandemic. The economy grew by 6.0% in 2021 and is forecast to grow by a further 5.3% in 2022, according to Ernst and Young. Furthermore, overall GDP is just 0.3% below pre-pandemic levels of Q4 2019, outperforming the UK's economy which contracted by 2.1% over the

same time period. In the service industry, a strong bellwether of consumer sentiment, Northern Ireland's output is now 2.2% higher than it was pre-pandemic. There is optimism in the market that this growth in services will feed through to greater activity in the commercial real estate market.

Figure 2: Services index



Source: ONS

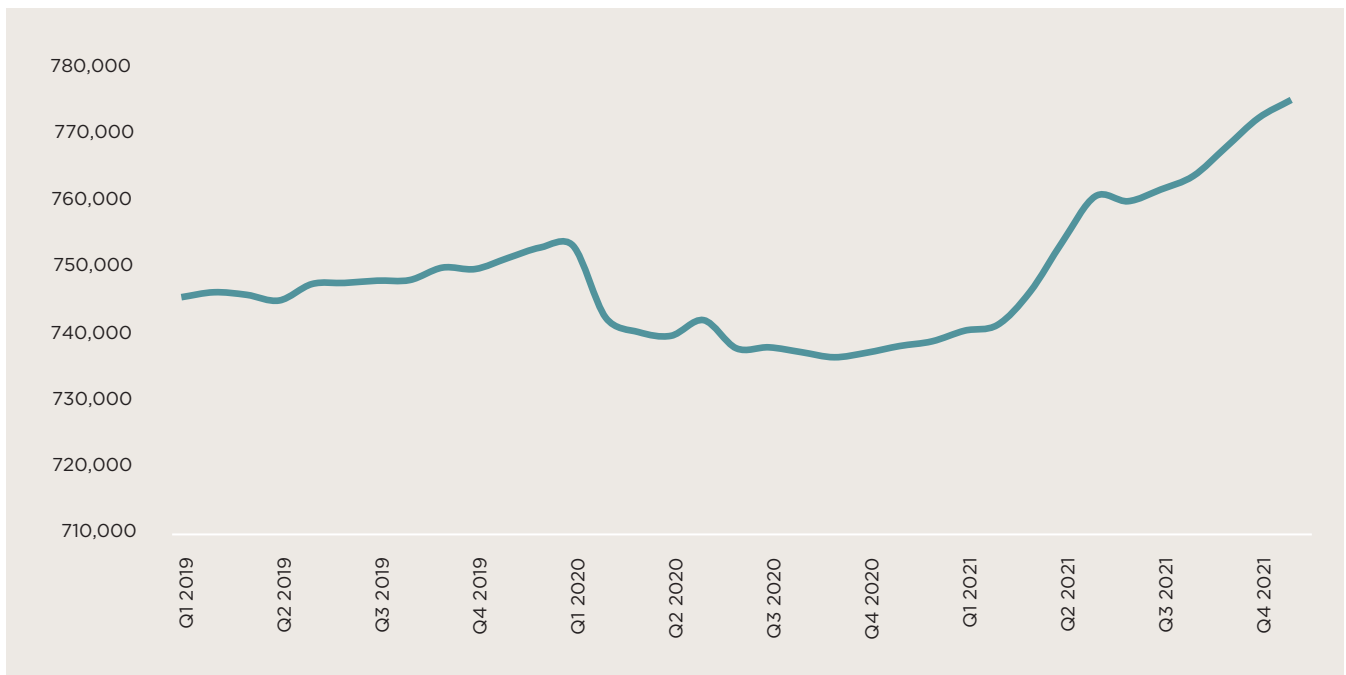
“ Northern Ireland's economy grew by 6.0% in 2021 and is forecast to grow by a further 5.3% in 2022. ”

Employment and earnings growth are providing positive tailwinds

Employment rebounded in 2021, with the number of payrolled employees in December increasing by 5% y/y. Northern Ireland's relatively high share of public sector employment cushioned the impact of the shock, with 2020's peak-to-trough decline in employment the smallest in the UK. Median incomes were more sensitive to the economic turmoil, with the peak-to-trough fall of 8% witnessed in 2020 the highest drop of any UK region. However, median earnings growth began to recover in 2021 and rose by 7% compared to a UK average of 6%. The return to growth in payrolled employees and their median wages provide strong tailwinds to the economy. Employment and incomes are both positively linked with the Commercial Real Estate Market (CRE) and should fuel additional demand for office and retail space in particular.

Trade more resilient than other UK regions

Northern Ireland will benefit from its unique position under the protocol, which gives the region access to both EU and UK markets. This has been particularly apparent in the value of imports, which fell by 7% in the year to Q3 2021, compared to the equivalent period prior to the pandemic in 2019. This was the second best performance of any region in the UK, which saw imports decline by an average of 8%. Exports were more adversely affected and declined by 16% compared to their pre-pandemic levels for the year to Q3 2021, compared to a UK average of -11%. While significant, this was better than Scotland and Wales which saw declines of 25% and 20%, respectively.

Figure 3: Total employment

Source: NISRA

Inflation expected to accelerate in 2022

Despite these positive macroeconomic factors, there are still headwinds for both investors and occupiers in 2022. The Central Bank of England increased interest rates twice in 2021 to combat growing levels of inflation. Inflation in the UK gained momentum during the year, growing by 5% y/y in December 2021, and is forecast to rise to 7% y/y by the first half of 2022, before falling back to the Central Bank's target levels of 2% per annum by 2024. This increase has been

fuelled by higher energy and commodity prices as well as supply-chain issues. These pressures have continued to grow in early 2022, driven by geopolitical instability in Europe and further lockdown restrictions in China. This is creating issues for the CRE sector as operating and financing costs have increased rapidly. However, CRE may see increased attention in this higher inflationary environment as many sectors remain an effective hedge against rising inflation.



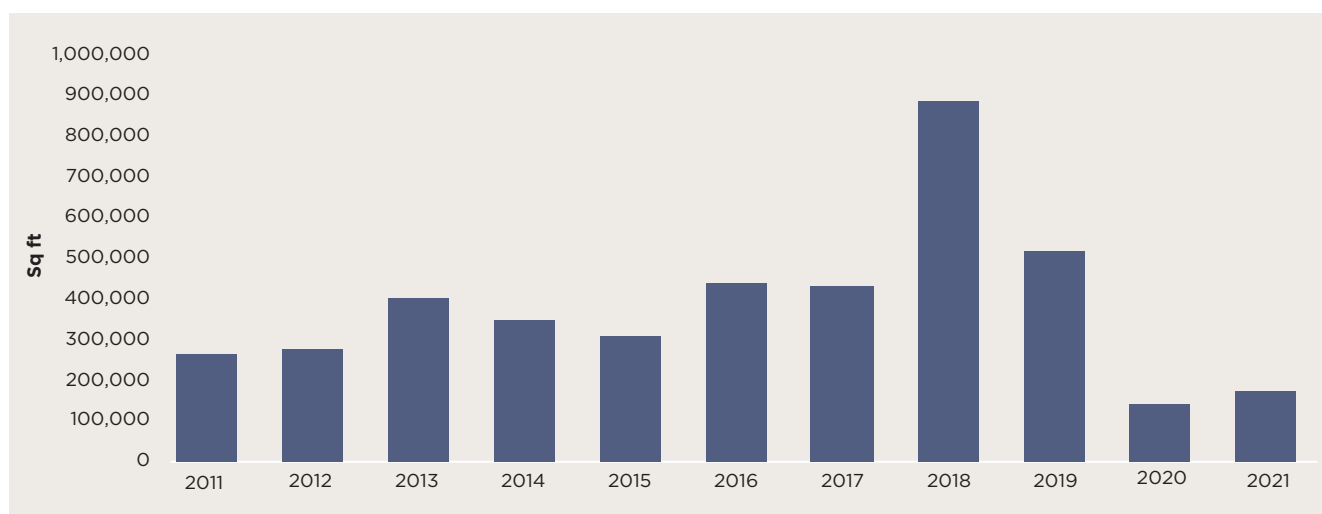
Office market

Cautious optimism as activity increases

With the economy in lockdown for the first four months of 2021 and work-from-home guidance in place for most of the year, it is unsurprising that 2021 take-up looked more or less similar to 2020. Sentiment improved in late Q3 and early Q4, but the emergence of the Omicron variant erased previous gains towards the end of the year. Lack of clarity on the severity and transmissibility of the variant

dampened activity in the occupier market. Sentiment has swiftly recovered in 2022 on the back of a successful vaccine booster campaign and data which showed that Omicron was considerably less severe than the Delta variant it has largely replaced. With Omicron putting less strain on ICU capacity than the previous Delta driven wave, the government did not need to impose further lockdown measures.

Figure 4: Office take-up

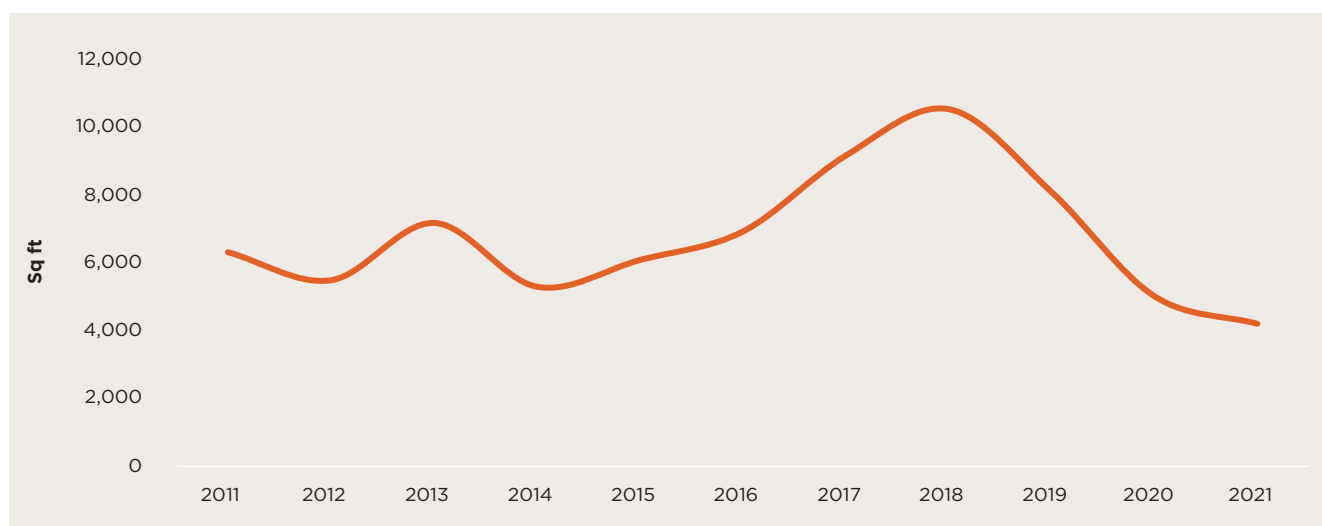


Source: Savills Research

With the pandemic continuing unabated for much of 2021, occupiers continued to delay decisions regarding their occupational strategies. Office lettings totalled 171,000 sq ft - the second lowest volume in the last decade after 2020. While take-up rose by 22% compared to 2020, when just 140,000 sq ft signed, it remained two-

thirds lower than its pre-pandemic five-year average of 515,000 sq ft. There were 38 transactions in 2021, with the average deal size falling for a second year in a row to 4,500 sq ft. This is a decline of 10% since 2020 and a fall of 46% compared to the pre-pandemic five-year average of 8,300 sq ft.

Figure 5: Average deal size



Source: Savills Research

The leasing of 11,700 sq ft in East Tower, Lanyon Plaza to e-commerce software company Bazaarvoice in Q1 was the largest deal in 2021. Bazaarvoice relocated from their previous Castle Street office to accommodate their expanding workforce, which surpassed 100 employees last year. In Q4, telecoms specialist Radius Connect leased 11,000 sq ft in the Water's Edge building on Clarendon Dock, representing the second-largest deal of the year. The office is an expansion of their footprint and is to act as a hub for their Derry-Londonderry and Galway offices. Financial services firm Daily Pay's

lease of McAuley House, totalling 10,500 sq ft, was the third-largest deal of the year.

11,700 sq ft
lease in East Tower, Lanyon Plaza was the largest deal in 2021.

Table 1: Top office deals

Quarter	Property	Sq ft	Tenant	Sector
Q1	East Tower, Lanyon Plaza, BT1	11,700	Bazaarvoice	Tech
Q2	Water's Edge, Clarendon Dock, BT1	11,000	Radius Connect	Tech
Q4	McAuley House, Castle Street, BT1	10,500	Daily Pay	Financial services
Q3	Adelaide Exchange, Adelaide Street, BT2	9,500	Team HGS	Professional services
Q4	35 DP, 35-47 Donegall Place, BT1	9,000	Workrise	Professional services





Tech occupiers retained the highest share of take-up at 35% in 2021, even as their overall share declined from 48% in 2020. The tech sector's out-performance reflects Belfast's attractiveness to these firms. Even in 2021's depleted figures, tech take-up accounted for 59,000 sq ft across ten transactions.

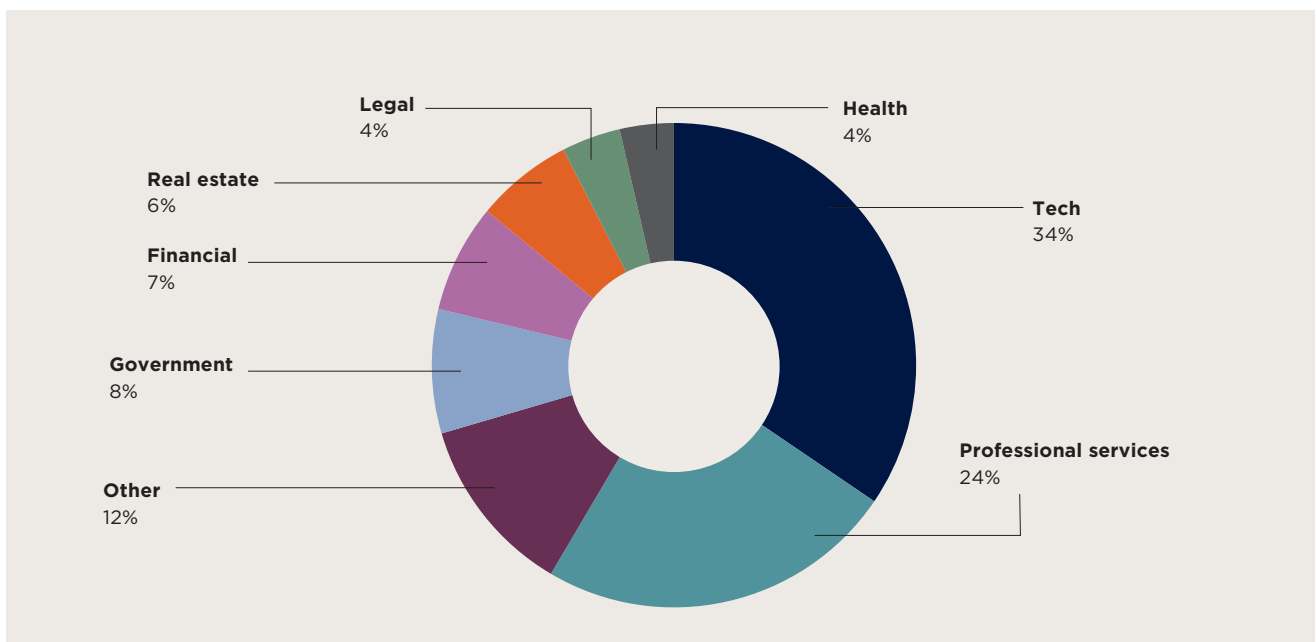
The second-largest sector of 2021 was professional services, accounting for 41,000 sq ft of take-up across 10 deals. Leasing activity from this sector jumped from just 2% of take-up in 2020 to 24% in 2021. The mean transaction size in 2021, at 4,100 sq ft, was lower than the sector's five-year average of 10,650 sq ft. One reason for this trend is a result of advisory firms consolidating their footprint in the city centre in smaller premises that better meet their medium-term requirements. Smaller firms face a more forgiving occupational challenge because they have greater flexibility. The relatively high complexity of larger deals explains some of the reluctance of multinational firms to commit to space, which has

weighed down the average deal size. Anecdotally, we have seen an increase in requirements of between 5,000 and 6,000 sq ft, as businesses with lease events in 2022 look to optimise their footprint. We believe this may be a short-to-medium term trend as occupiers settle into a post-pandemic equilibrium.

One notable trend within professional service firms was an uptick in activity in the recruitment industry, accounting for half of the 18,000 sq ft that transacted in the sector. This trend corresponds with the end of the furlough scheme in September 2021, which triggered a flurry of hiring and movement of labour.

“ The tech sector's out-performance reflects Belfast's attractiveness to these firms. ”

Figure 6: Take-up by sector



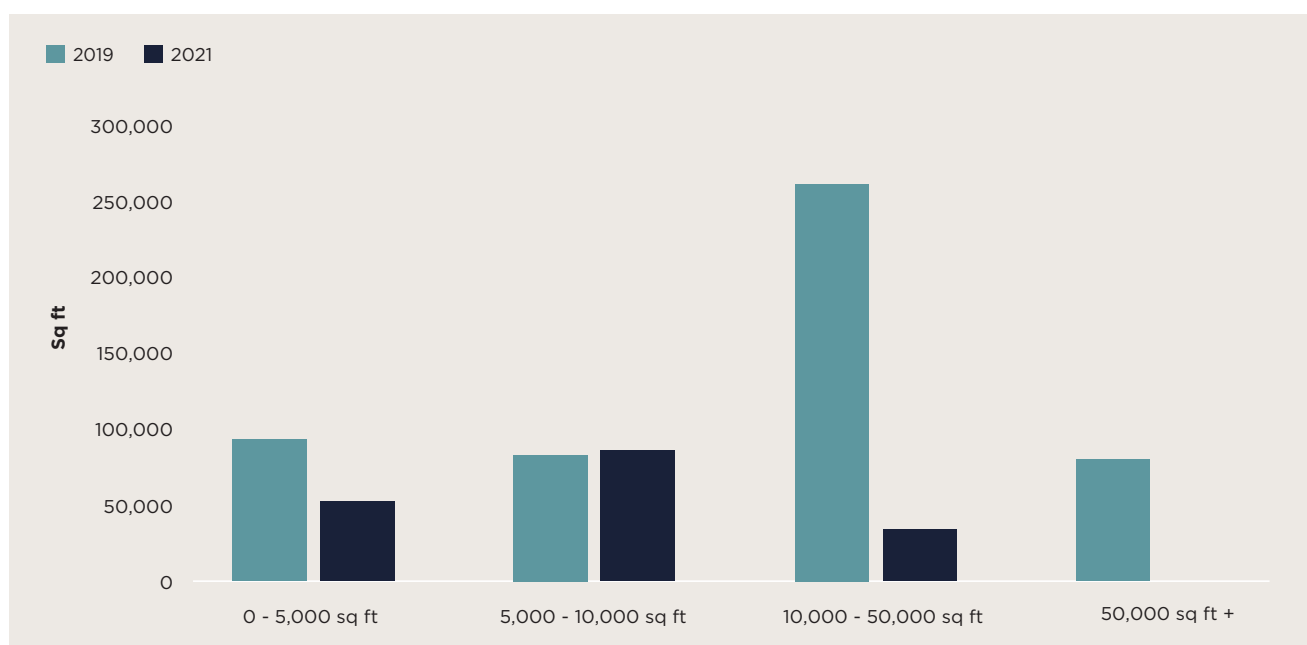
Source: Savills Research

“The difficulty larger firms face adapting to changes in requirements has driven the absence of large-scale activity in the market.”

The bulk of take-up (102,500 sq ft) came from firms active in the 5,000 - 10,000 sq ft category, which was actually just ahead of 2019 levels. A further 11 deals in the sub-5,000 sq ft range accounted for 52,000 sq ft of take-up. The crucial difference is the fall-off in take-up over 10,000 sq ft. In 2021 there were just three deals that breached the 10,000 sq ft barrier, totaling 33,000 sq ft. By way of contrast, there were 12 deals over 10,000 sq ft in 2019, totalling

341,000 sq ft. While the three deals in 2021 contributed to 20% of take-up, the 12 deals in 2019 accounted for two-thirds of take-up. Larger firms appear to have been more reluctant to commit to new accommodation during the pandemic, leading to an absence of large-scale activity in the market. As the dust settles, we expect to see take-up recover as the major players in the market pull the trigger on new strategies.

Figure 7: Take-up by size – 2019 vs. 2021



Source: Savills Research

Supply

At present there are four grade-A, new build office developments either under construction or close to completion. While pre-let transactions have traditionally been the catalyst for development

within the Belfast market, the current pipeline includes a majority of space which isn't pre-let. This high level of speculative office space is a reflection of the confidence in the sector.

Table 2: Office pipeline under construction

Projected completion	Property	Sq ft	Pre-committed
Q1 2022	The Ewart, Bedford Square, BT2	213,000	59%
Q1 2022	City Quays 3, Belfast Harbour, BT1	167,000	23%
Q4 2022	The Paper Exchange, Chichester Street, BT1	149,000	0%
Q3 2022	Olympic House, Titanic Quarter, BT3	146,000	0%

The expected new delivery for 2022 is 675,000 sq ft, the majority of which is expected to be delivered in the first half of the year. Three refurbishment projects were delivered last year, namely

The Kelvin, The Vantage and 35DP, which together brought an additional supply to the market of 131,000 sq ft. The rate at which this space is absorbed in 2022 remains to be seen.

Table 3: Refurbished offices completed 2021

Completion	Property	Sq ft
Q1 2021	The Kelvin, College Square East, BT1	37,000
Q4 2021	35DP, 35-47 Donegall Place, BT1	29,000
Q4 2021	The Vantage, Great Victoria Street, BT12	65,000

Meanwhile, the potential for ‘grey space’ provides additional competition of supply to new and refurbished offices. This space comes to the market as companies seek to mitigate their real estate liabilities by sub-leasing space. This space can offer a more accommodating entry point into the grade A office market

for some occupiers and is particularly attractive if flexibility in footprint and lease length is a factor. For others, this type of accommodation will not fit with their needs for corporate autonomy, branding and perception.

🗨️ The expected new delivery for 2022 is 675,000 sq ft, the majority of which is expected to be delivered in the first half of the year. 🗨️

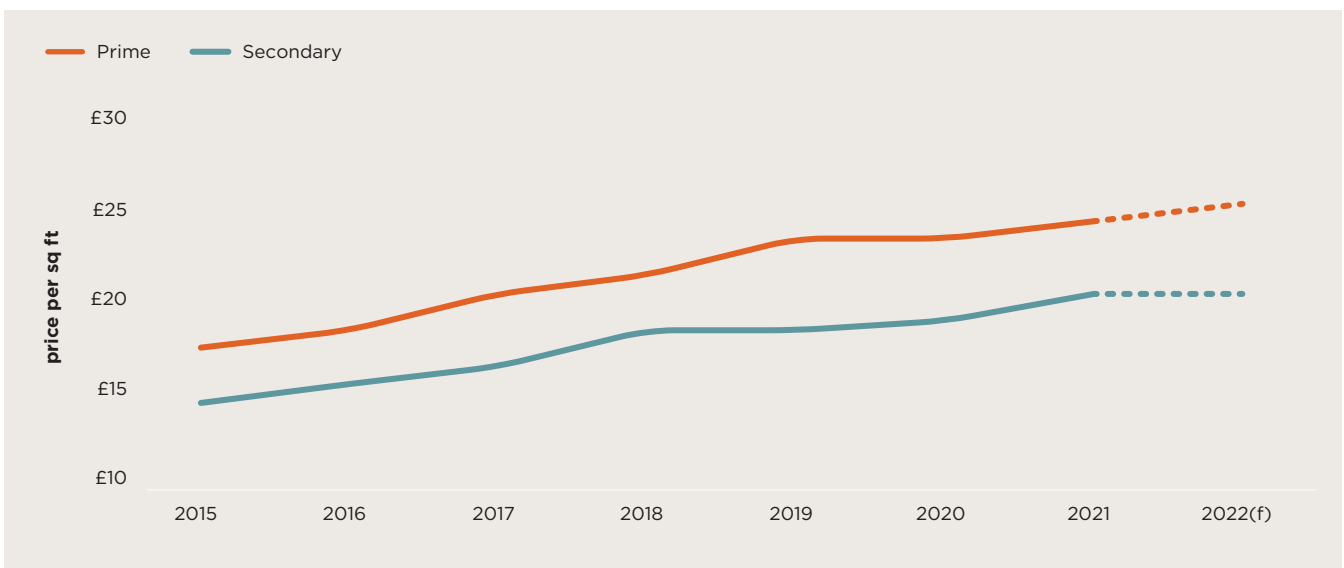


Rents

Even as the pandemic has slowed take-up, a lack of modern development has placed upward pressure on prime rents, which rose from £23.00 psf in 2019 to £24.00 psf in 2021. Demand for modern space has led to the recycling of older stock, with average rents for refurbished accommodation ranging from £18.00 psf to £20.00 psf, with some of the most extensive refurbishment projects exceeding this level. These 'virtual' new builds have achieved levels of £23.00 psf.

Quality of accommodation is still a key concern for occupiers, despite the headwinds faced by the sector. The negotiations and lettings conducted in 2021 on the previously cited new-build and refurbishment projects are a strong representation of this. We expect this demand for modern stock to fuel rental growth in 2022, with several prime schemes expected to achieve in excess of £24.00 psf.

Figure 8: Prime and secondary rents



Source: Savills Research



The Boat, Belfast

Demand

The first lockdown of 2020 saw several high-profile global tech companies making premature announcements about the strengths of remote working. Yet employers and employees alike began to feel the full impact of remote working on productivity, morale and staff training as lockdowns extended and the pandemic outlasted expectations. Furthermore, accommodation and family set-ups may make working-from-home more feasible for some than others.

Issues around remote working notwithstanding, demand remains difficult to quantify, especially with work-from-home guidance still in place. We estimate that there could be up to 500,000 sq ft of active requirements, but demand will remain fluid until firms settle on occupational strategies.

Nevertheless, we expect the office market to gain momentum in 2022, as the eventual phasing out of restrictions stabilises the

hybrid office model. The adoption of hybrid working strategies, which combine remote and office work, is the most widely predicted outcome from the pandemic. While some argue that the implementation of hybrid work could lead to downsizing, it should be noted that this could lead to capacity issues, with most workers reportedly preferring to work in the office on the mid-weekdays. One solution for larger occupiers might be to take traditional leases supplemented by short-term leases for serviced office space, thus keeping a degree of flexibility on their occupational costs base.

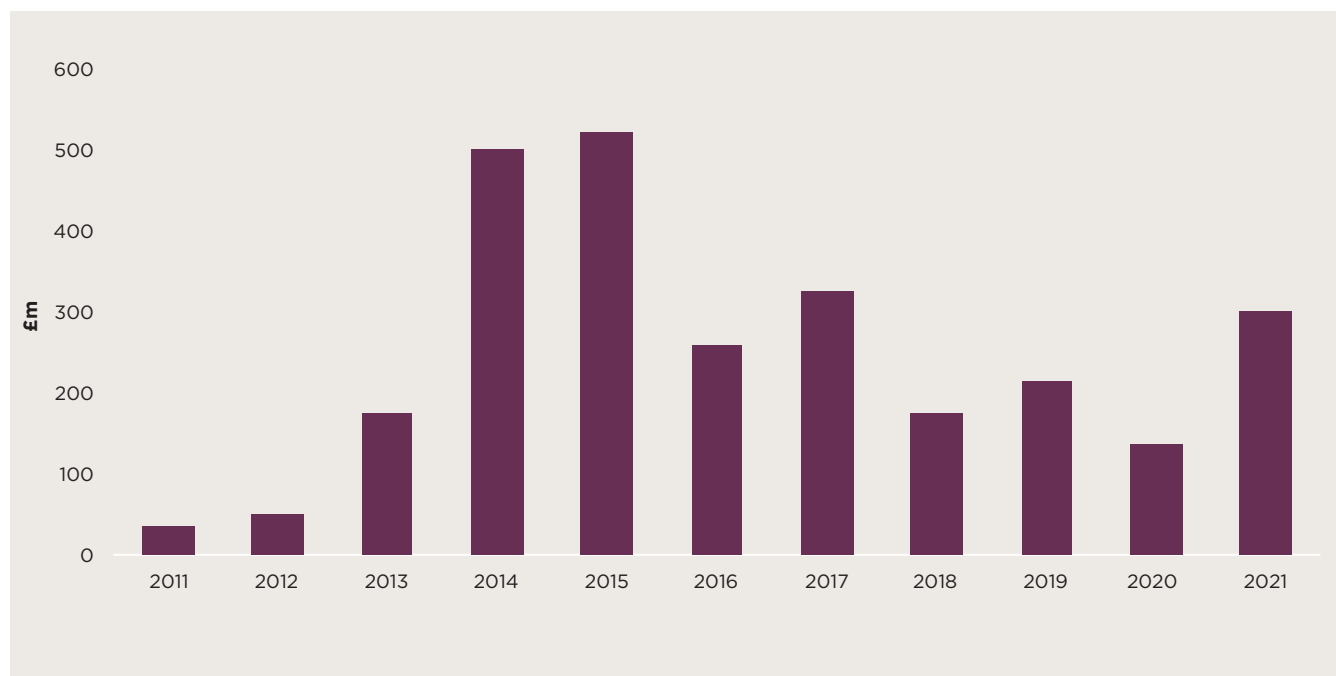
The success of the vaccine programs has given society the tools to 'manage' Covid-19. Despite this, the Northern Ireland Executive has been more cautious than the Irish and English governments in ending work-from-home guidance.

“ We estimate that there could be up to 500,000 sq ft of active requirements, but demand will remain fluid until firms settle on occupational strategies. ”



Investment market

Figure 10: Investment turnover



Source: Savills Research

📈 Investment volumes rebounded strongly in 2021 as transactions reached £300m. 📈

Despite the ongoing issues stemming from the pandemic and protocol uncertainty, investment volumes rebounded strongly in 2021 with transaction volumes of £300m achieved. This represented an increase of 121% on 2020 and was the highest annual turnover since 2017.

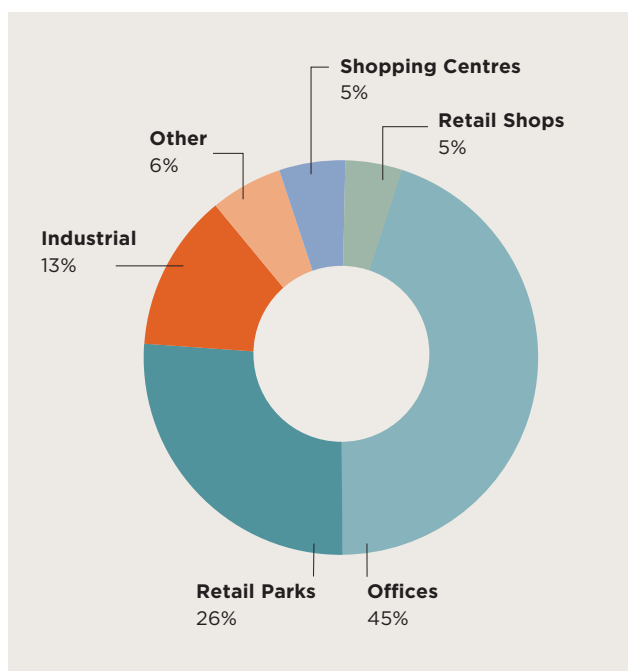
Retail has been at the forefront of investment activity in Northern Ireland since 2010, but 2021 broke this trend, with a strong year for office investment. Total investment volumes in the sector reached £135m, representing 45% market share. Investment in this sector is a vote of confidence by investors in the continued role of the office in working life. Oakland Holdings' sale of the PwC headquarters at Merchant Square to a private Middle Eastern investor was the largest deal of the year. The asset sold for £87m, reflecting a NIY of 5.23% - one of the tightest office yields ever achieved in the market. Even at such a tight yield, this is still a premium of over 100bps on prime London and Dublin office yields and demonstrates the potential value of prime office assets in Belfast. Notably, this deal accounted for more than two-thirds of total office sector investment. Barring a similar deal in 2022, we would not expect offices to maintain such a high share.

The occupational retail market has been among the most adversely affected sectors by pandemic. Despite this, demand for

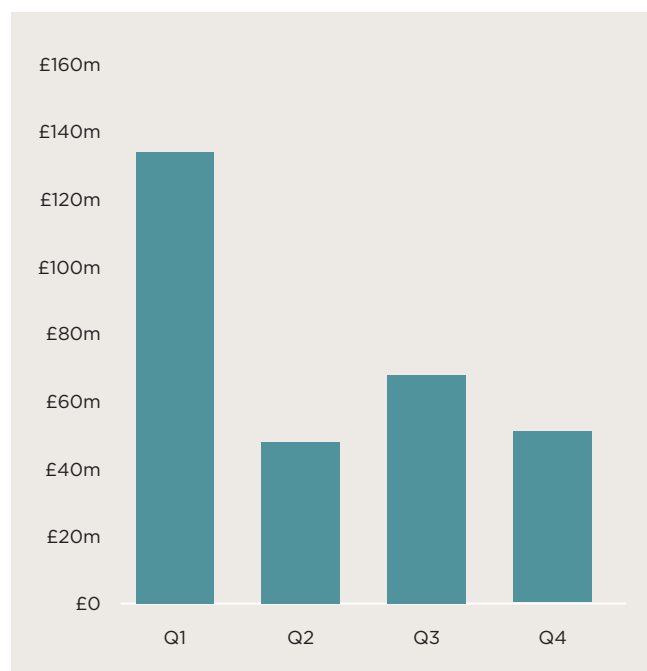
retail assets has proven resilient, with turnover amounting to £111m and 36% market share in 2021. This is 67% higher than investment in 2020 and 20% higher than 2019. Retail parks alone accounted for 26% of turnover with five transaction sharing a combined value of £79m. The sale of Balloo Retail Park to Supermarket Income REIT for £24.8m in Q1 was the largest transaction in the retail sector, with other notable transactions including the sale of Shane Retail Park in Q3 for £23m and Showgrounds Retail Park in Q4 for £16m.

In contrast, investment in the industrial sector declined in 2021 with a combined value of £39m, representing a decrease of 35% from 2020 volumes. The sale of Kilroot Business Park in Q1 in Antrim for £9.4m (NIY 16.68%) was the largest transaction in the sector, closely followed by Knockmore Industrial Estate for £8.3m in Q2 (NIY 8.89%).

£135m
was invested in the office sector, representing
45% of total transaction volumes.

Figure 11: Investment turnover by sector

Source: Savills Research

Figure 12: Investment turnover by quarter

Source: Savills Research

Northern Ireland's investment market started 2021 strongly with £140m worth of assets transacting in Q1. This was an increase of 82% compared to Q1 2020 and just £2m shy of the total transactional volume for the whole of 2020. PwC's HQ building at 20 Wellington Place, Merchant Square was the largest transaction in Q1 and indeed the whole of 2021.

Investment activity dipped in Q2 to £28m, down 80% on Q1 figures. However, this was primarily due to a lack of quality assets coming to the market, with investment activity recovering to £88m in Q3. However, investment transaction levels fell once again in Q4 to £51m, 14% below Q4 2020's £59m. While investment levels slipped in Q4, a large volume of assets were agreed in principal in the quarter and will support volumes in 2022.

Table 4: Top investment deals

Quarter	Property	Sector	Approx price	Vendor	Purchaser
Q1	20 Wellington Place, Merchant Square, Belfast, BT1	Office	£87.0m	Oakland Holdings	Private Middle Eastern Investor
Q1	Balloo Retail Park, Bangor, BT19	Retail	£24.8m	John Morgan Estates Ltd	Supermarket Income REIT plc
Q3	Shane Retail Park, Belfast, BT9	Retail	£23.0m	Marathon Asset Management	David Samuel Properties
Q3	Goodwood House, Belfast, BT1	Office	£20.0m	Private	Private
Q3	Clarence West Building, Belfast, BT2	Office	£16.0m	Private	Private

Outlook

Throughout 2021, Northern Ireland witnessed a significant increase in investor activity across all sectors. This increased appetite has been primarily stimulated by accommodative monetary policy and a strengthening economy as restrictions eased, not to mention the

growth potential and value for money that Northern Ireland offers. The acquisition of a prime office asset by international capital is hugely positive and demonstrates that Belfast can be attractive to a wider international investor pool.

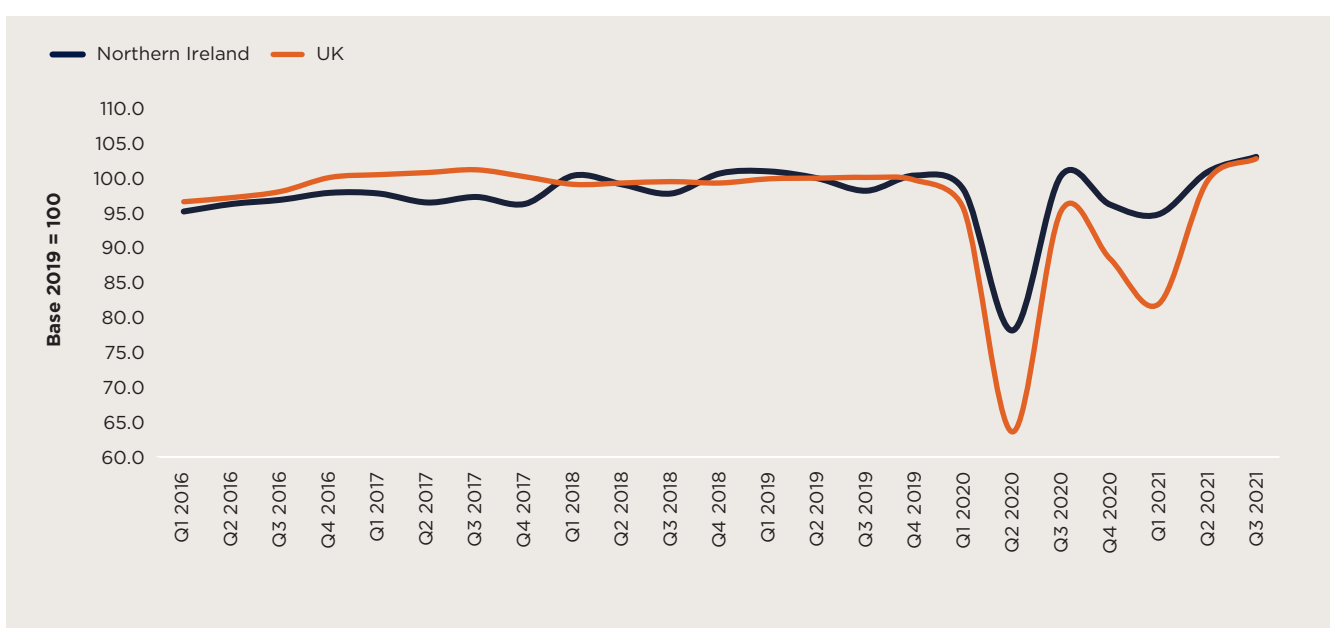
Retail market

Belfast City Centre

Starting 2021 in a full lockdown was challenging for Belfast's retailers, leaving many with a surplus of Autumn/Winter season stock following the forced closure on Christmas Eve. Non-essential retail was closed until the 29th of April, leaving limited opportunity to clear winter stock, creating cash flow and stock control issues upon the reopening in the mid-spring season. Government support schemes kept most retailers afloat, allowing them to benefit

from the pent-up consumer demand that quickly unwound post-lockdown. Indeed, the retail component of the Northern Ireland Quarterly Index of Services reached a series high in Q3 2021 of 2.7% annual expansion. This resurgence in activity is a solid rebuttal of the predictions that the pandemic would accelerate the demise of high street retail.

Figure 13: Index of Services – Retail Component



Source: ONS

The Republic of Ireland's relatively conservative approach to reducing restrictions was a boost to Northern Ireland's retail and hospitality sectors. Anecdotally, Northern Ireland's swifter reopening, with non-essential retail returning in April and indoor dining resuming in May, led to an influx of southern shopper visits and 'staycation' trips which boosted the local economy.

Furthermore, the 'Help the High Street' voucher scheme that launched in October provided £100 per person to spend locally. This timely boost to consumer spending had a positive effect for both retail and hospitality sectors and fuelled a strong final quarter to the year with many multi-national retailers reporting Northern Ireland as their top-performing region.

Table 5: Top retail deals

Quarter	Property	Retailer	Sq ft
Q1	Units 3 & 4, Shane Retail Park, Boucher Road, BT9	EZ Living	42,500
Q4	Castle Place, Belfast City Centre, BT1	JD Sports	33,000
Q4	Crescent Link Retail Park, Derry, BT47	The Range	20,000
Q4	20 Donegall Place, Belfast, BT1	Lifestyle Sports	17,400
Q2	Unit 2, Shane Retail Park, Boucher Road, BT9	Dreams/Sofa Time	15,300



Some retailers were less fortunate. The lockdowns were the nail in the coffin for the Arcadia Group and Debenhams and which had a significant impact on Belfast's retail landscape with both shopping centres – Castlecourt and Victoria Square – losing them as their anchor tenants.

As restrictions loosened, several retailers opened new stores. JD Sports finally opened its 33,000 sq ft flagship store in Castle Place.

Lifestyle Sports opened its new flagship in the city, replacing Gap. Tesco relocated its business to an express format on Donegall Place. DV8 is opening a new flagship store in the former DW Sports, as are Ernest Jones and Sky in 2022. Victoria Square secured Craghoppers first store in Northern Ireland on top of pop-up lettings to Crew Clothing, Think Fit and Gym+Coffee.

Retail Warehousing

The strong occupational story in the retail warehouse market continued in 2021. There were a number of reasons for this strong performance: firstly, click-and-collect has synergies with retail warehousing, enabling customers to use easily accessible stores with extensive free car parking to pick-up orders whilst potentially making further purchases once in store.

These additional purchases from click-and-collect shoppers are particularly effective for many of the goods sold out of town e.g. DIY, Furniture, Homewares, Food & Grocery, which all tend to attract 'in-store shoppers' as consumers typically wish to physically see these items, particularly for higher price point items like furniture.

Furthermore, the retail warehouse sector wasn't severely affected by administrations and insolvencies in the last 12 months. Indeed, no major brands with a significant out of town presence encountered CVA, administration or liquidation in 2021.

Finally, the combination of ongoing work-from-home guidance and pent-up demand from 2021's government-imposed restrictions have led to a surge in home improvements and purchases of 'white' goods. This, coupled with the ongoing strength of the housing market, has seen many traditional retail-warehouse occupiers continue to perform strongly over the last 12 months. In terms of market activity in Northern Ireland, there were a number of new lettings from a variety of retail warehouse occupiers.



At Shane Retail Park in Belfast, Dreams/Sofa Time acquired the 7,500 sq ft former Argos unit and upsized their existing store, giving them a new unit of approximately 15,000 sq ft, whilst they also opened a new flagship store in Marlborough Retail Park in Craigavon. In Newtownabbey, Jollyes acquired a unit of just under 7,000 sq ft at the Starplan Retail Park whilst Screwfix acquired the former Halfords store in the Spires Retail Park in Armagh.

Shopping Centres

2021 was a challenging year for shopping centres in Northern Ireland, with several well-established household brands such as Debenhams, Arcadia, Oasis, Warehouse and Thornton's leaving town centres and shopping malls. These closures were not unforeseen given the structural change in retail, but the pandemic accelerated the pace at which casualties occurred. The closure of Debenhams and Arcadia were particularly impactful with both brands either anchoring or occupying major space in many of Northern Ireland's shopping centres.

In contrast to the closure of non-essential retailers in the first half of the year, the second half of the year ended on a much more positive note. In Belfast City Centre, the former Debenhams in Castlecourt remains vacant, but the space is planned to be re-purposed as an 80,000 sq ft leisure venue opening in late 2022, which will include a multi-screen cinema and leisure uses. In a similar vein, the Debenhams in Foyle side, Derry/Londonderry has been re-occupied by Sports Direct, Game Belong and an 80,000 sq ft Frasers, which includes a new beauty hall. Some existing brands expanded their footprint during the year with Vogue and Yankee Candle opening new stores in Forestside.

Provincially, a number of the large voids left by Arcadia have been re-occupied this year. Waterstones acquired the Topshop unit in Foyle side while DV8 relocated to the former Topshop in Abbeycentre which facilitated an expansion of River Island. Lidl opened a new 24,000 sq ft store in Buttercrane Newry in the remainder of the former M&S floor space sitting alongside the new Sports Direct which opened last year.

Food & Beverage

While the overall hospitality sector experienced its most challenging year on record in the face of Covid-19 restrictions, drive-thru and fast-food occupiers saw a surge in demand during the year. Competition for drive-thru units and roadside pods intensified in response to this shift in consumer demand.

Tim Hortons opened drive-thru sites on Belfast's Boucher Road, in Bloomfield SC, Bangor, and in Riverside Retail Park, Coleraine during 2021. Additionally, the Canadian chain plans to open stores in Ballymena, Antrim, Portadown, and Lurgan this year.

Expansion plans of several coffee chains have fuelled competition: Starbucks completed five deals in 2021, of which three were drive-thru's and have announced aggressive expansion plans for 2022 with requirements for both freehold and leasehold units. Costa Coffee have opened a new pod in Drumkeen Retail Park and extended and refurbished three stores out of their 21-store portfolio. Greggs, who have grown their drive-thru store network across the UK and now plan to expand this format, are actively considering Northern Ireland.

In terms of fast-food occupiers, KFC, Burger King and McDonald's continue to grow their representation with McDonald's signing a deal in Larne which is currently under construction. Nando's returned to their previously shelved expansion plans and committed to open an eighth store in Riverside Retail Park, Coleraine.

“ Competition for drive-thru units and roadside pods intensified in response to a shift in consumer demand. ”



Tim Hortons, Boucher Rd, Belfast

Residential market

Residential supply regains momentum

New dwelling completion data indicates that 7,701 units were completed in Q3 2021 y/y. This is an increase of 24% compared to the same period in 2020 when closures of building sites and other restrictions saw completions decline by 18% y/y. The number of new dwelling starts also grew last year, increasing by 25% y/y in Q3 2021. Starts were less affected by the pandemic and only fell by 16% y/y in 2020. Affordable housing and build-to-rent are expected to make-up a greater share of housing delivery over the next five years.

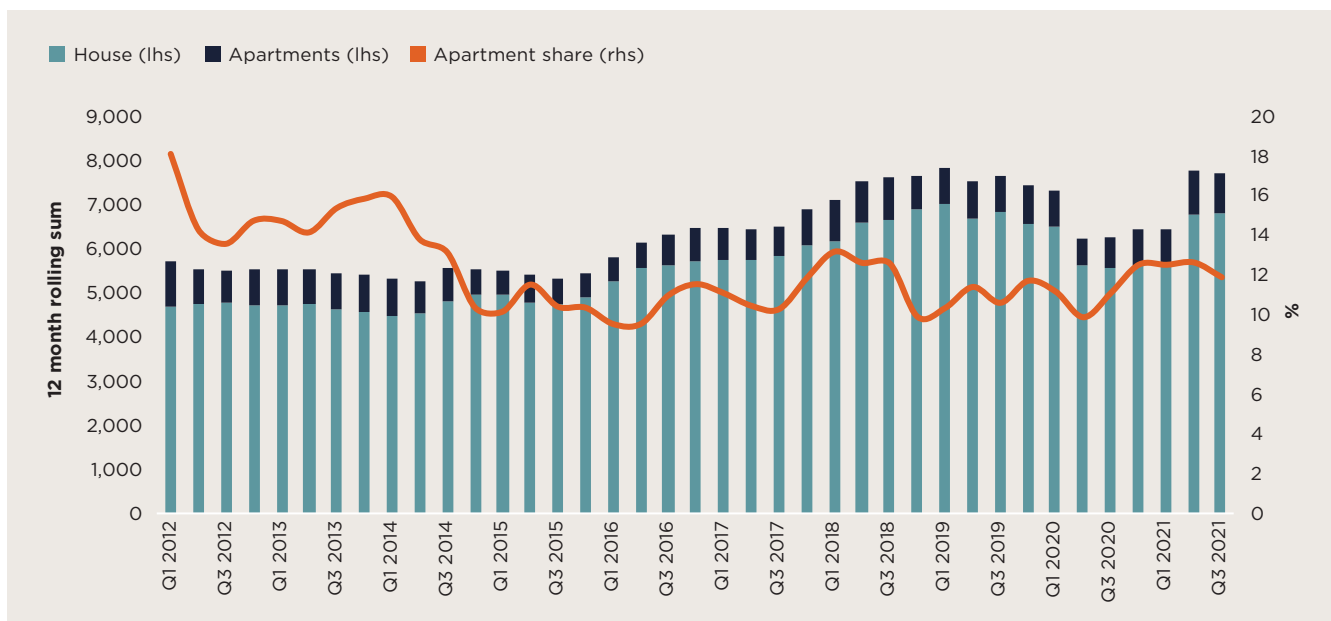
Notably, construction starts are growing faster than completions, which points to completions growth in the medium term after several years of relatively flat growth. Apartments have accounted for a stable share of completions in the last two years, increasing slightly from 11% in Q3 2019 to 12% in Q3 2021. Indeed, this growth will likely accelerate in 2022, with 968 apartments commencing Q3 2021 y/y, almost double the commencements seen a year earlier.

Although enquiries by new buyers continue to rise, new listings have not kept up with demand which is preventing this from translating into increased sales volumes. A total of 4,770 new properties were available to purchase in Q4 2021, a decline of 20% since Q4 2020. When existing homes for sale are factored in, the decline is sharper, decreasing by 44% y/y, suggesting new listing are not keeping pace with demand.

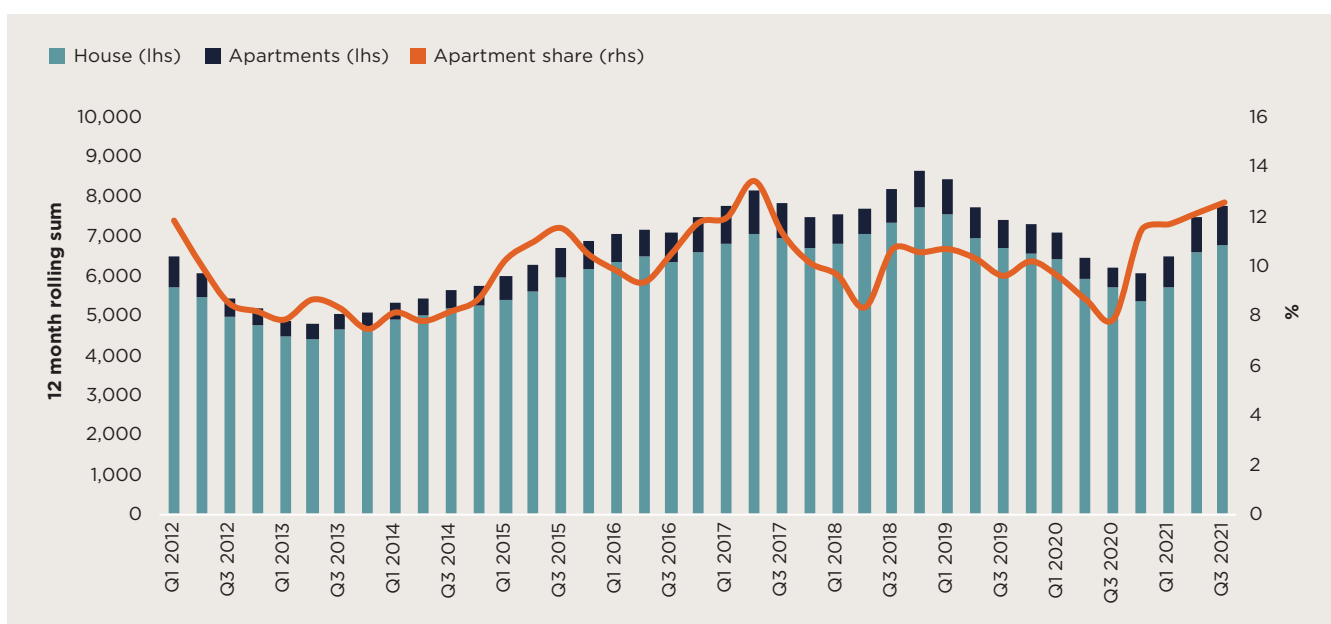
Residential demand was spurred by the introduction of flexible and remote working, and the stamp duty holiday, which took place between July 2020 and September 2021. The further evolution of working patterns and greater certainty post-pandemic is expected to underpin demand in suburban and rural locations in 2022. In the long-run, demand stems from population growth, which is expected to grow by 2% to 1.93m people by mid-2030, according to NISRA.

👉 25% increase in new dwelling starts over the four-quarters to Q3 2021. 👉



Figure 14: New dwelling completions

Source: Department of Finance

Figure 15: New dwelling starts

Source: Department of Finance

Strong recovery in the residential market

Transaction volumes recovered strongly in 2021, prompting the busiest year in Northern Ireland's residential housing market since 2006. Transaction volumes totaled 29,800 units for the year, up 40% on 2020 and 46% on the ten-year average. We expect these heightened levels of demand to persist into 2022. However, with prevailing inflationary pressures, including recent interest rate hikes, this trend is not expected to last in the medium to long-term. Mortgage approvals have returned to pre-pandemic levels, while

the supply of homes coming onto the market for sale has also declined, which in turn is negatively impacting residential transaction volumes.

29,800 units
transacted in 2021



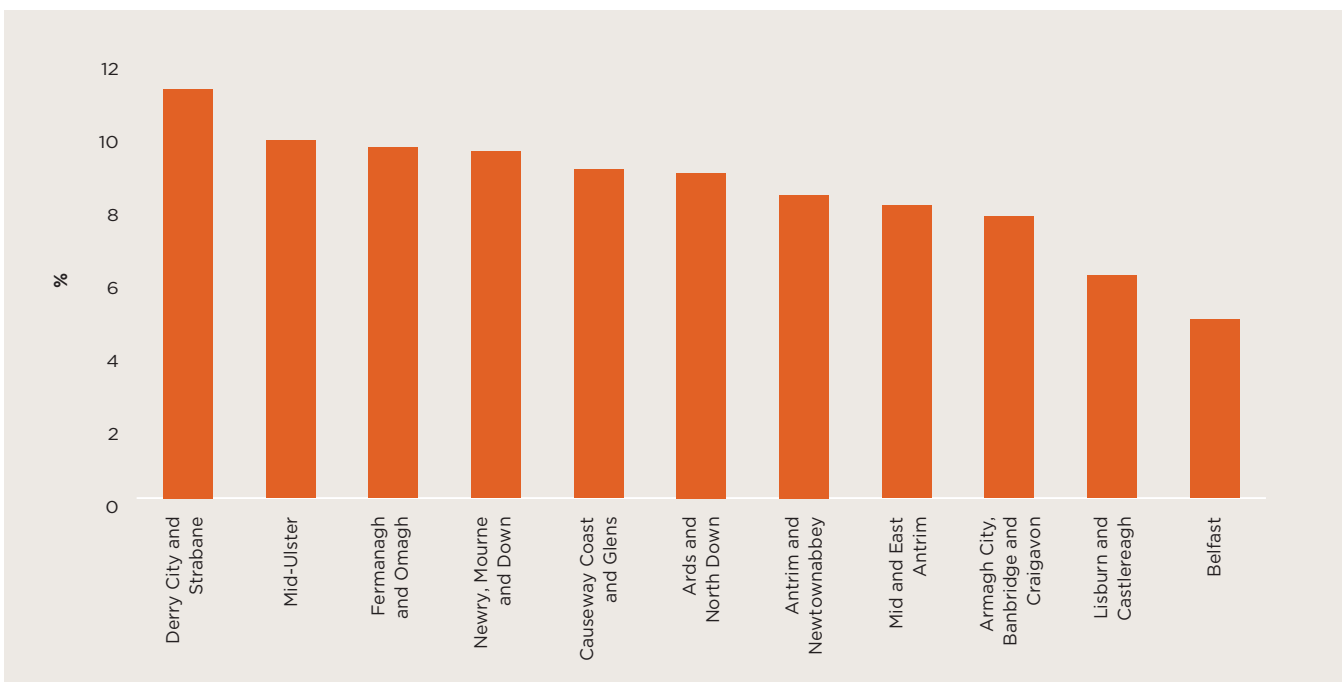
House price growth accelerates in 2021

Northern Ireland continued to post strong house price inflation, recording annual price growth of 8% y/y in Q4 2021. Notably, this is below the UK average of 10% in the same period. The average price of a house also remains well below the UK average of £274,000, at £159,000. The lowest prices are in the Armagh City, Banbridge and Craigavon council area (£139,000) and highest are in the Lisburn and Castlereagh council areas (£185,000). The pandemic has contributed to a ‘race for space’ as occupiers’ preferences for gardens and study rooms prevailed, pushing up prices in units with these amenities. This trend looks set to last as demand continues to outstrip supply.

From a regional perspective, the geographic variation in average house prices across the Local Government District (LGD) areas

remains spatially uneven and representative of local market forces. All LGDs displayed strong growth in 2021. Derry City was the fastest growing LGD at 11% y/y, which translates to an average increase of £14,400. Mid-Ulster was the second fastest district up 10% or £13,700. The slowest growing district was Belfast, although it still registered growth of 5% y/y or £6,900. However, Belfast’s house price growth is starting to soften. It was the only district to register a fall in house price q/q, with average house prices falling from historic highs of £150,300 in Q3 2021 to £148,000 in Q4 2021.

Figure 16: House price inflation by Local Government District



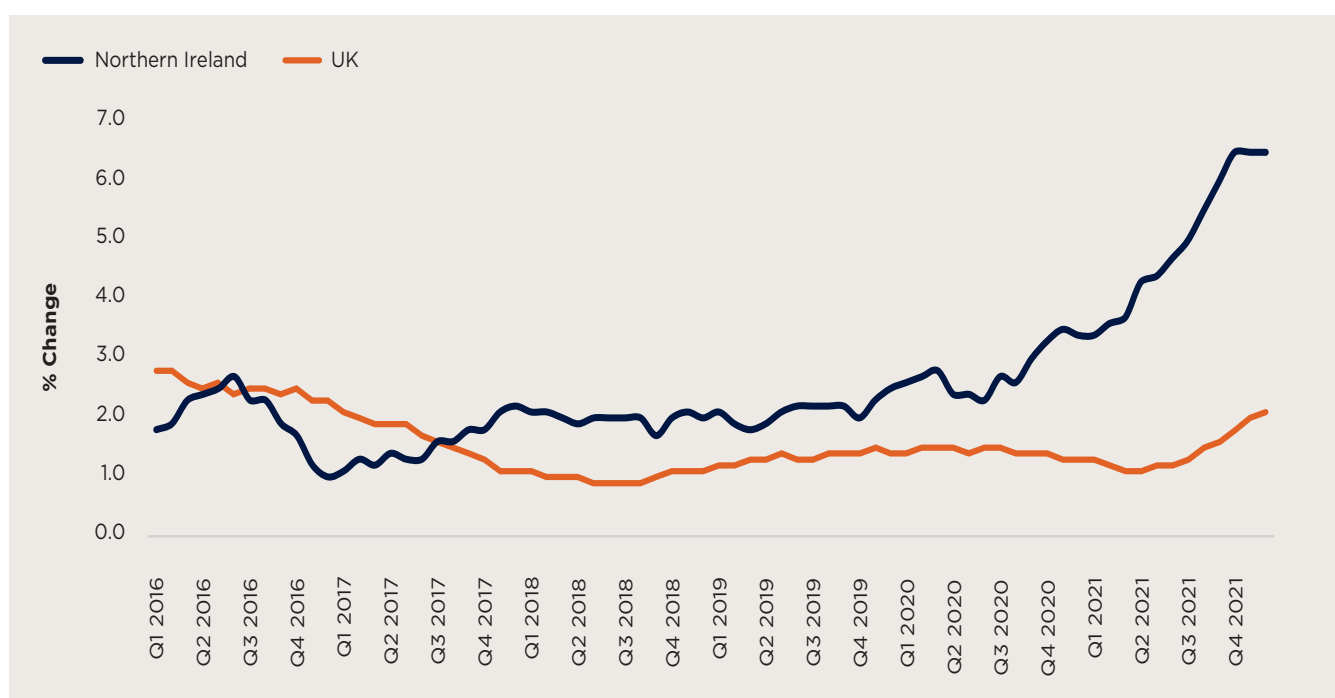
Source: NISRA

Private rented sector

The pandemic's impact on construction exacerbated a pre-existing shortage of rental stock. According to PropertyPal, there was a 50% decrease in the availability of rental stock between December 2021 and December 2019. One factor in this has been an increasing number of landlords capitalising on house price growth and exiting the market. According to Property Pal, around 6% of rental properties listed between 2018 – 2020 have moved to sale listings. Data from UK Finance shows that in the year to October, there were approximately 58,000 mortgaged buy-to-let redemptions in the UK.

This is an increase from 28,000 a year ago, which suggests a growing number of mortgaged landlords are selling up and exiting the market. The District Councils Network recently warned that 76% of local councils have seen a rise in landlords selling or converting to Airbnb lets, intensifying pressure on council housing services. This reduced supply of rental properties is fueling rental growth. Rents in Northern Ireland have risen faster than all other countries in the UK, consistently remaining above 3% y/y since November 2020 and accelerating to 5% y/y in Q3 2021.

Figure 17: Annual rental growth – Northern Ireland vs UK



Source: ONS

The rise of Build-to-Rent

Build-to-Rent (BTR) refers to purpose-built rental accommodation with the associated amenities for long-term rental use. The units are typically professionally owned and managed by an institutional landlord. This model is gaining popularity in the UK and the Republic of Ireland, as institutional capital looks to address the supply-demand imbalance in the residential market and gain exposure to the stable income on offer in the sector.

Belfast offers robust fundamentals for BTR development. Steady employment growth will support demand for rental properties going forward. In addition to the strong recovery in employment highlighted in our macro view, further jobs growth is expected going forward, with the recent 'Belfast Region City Deal' expected to generate 20,000 jobs. The objective of the £1bn co-investment

package is to encourage innovation, tourism, and urban regeneration over the ten-year programme. Additionally, Belfast continues to entice multinational organisations, particularly fintech and cybersecurity, attracted by its strong talent pool generated by two universities and one college.

Currently, there are seven schemes at various stages of the planning process in the BTR pipeline in Belfast that will provide over 2,300 units if and when delivered. Two of the seven proposed schemes account for 56% of the total proposed units. The scale of Loft Lines and The Waterside developments provide excellent placemaking opportunities, boosting the regeneration prospects that will play a fundamental role in improving the city's wider appeal.

Table 6: Belfast BTR pipeline

Property	Status	Units
The Waterside, BT1	Outline-planning	675
Loft Lines, Titanic Quarter, BT3	Outline-planning	627
Corporation Street, BT1	Pre-planning	298
Wellwood Street, BT12	Granted	277
The Grattan, Great Victoria Street, BT2	Re-submission	210
The Residence, Quay Gate, BT3	Granted	151
81-87 Academy Street, Cathedral Quarter, BT1	Granted	105

The largest planned development is 675 units in The Waterside which forms part of an award-winning mixed-use master plan, including office space and a hotel designed by Henning Larson for Osborne+Co, the owners, and developers. The master plan received full planning permission in June 2019, with office space set to be delivered in the first phase. This regeneration of the former Sirocco Works Site is an innovative project, which aims to improve links between east Belfast and the city centre. Meanwhile,

planning has been submitted for 627 units in the Loft Lines scheme in the Titanic Quarter, jointly developed by Lacuna Developments and Watkins Jones Group. The scheme has one of the city's biggest landlords, Belfast Harbour, named as project partner alongside Titanic Quarter Ltd. The project received planning permission in September 2021 and includes 151 units allocated for social housing, with the remaining units available for the private rental market.



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