

Northern Ireland Report

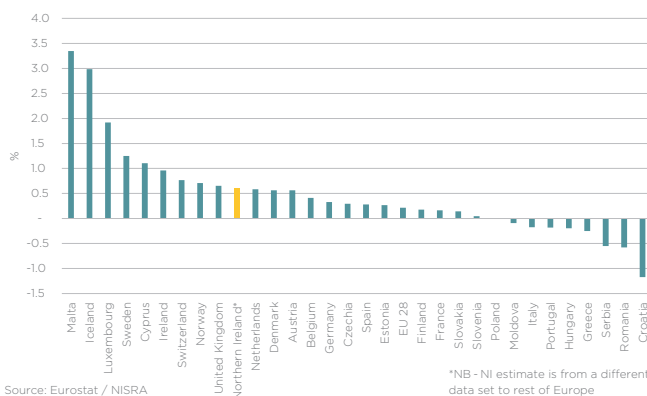
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Economic Overview

Northern Ireland's growth continued in 2019 with rising employment, leading to higher earnings. The risk of a no-deal Brexit faded in late Q4 and, looking forward to 2020, the return of the Stormont Assembly should reduce political risk and, all-else equal, stimulate public sector employment. However the obvious unresolved question is how Covid-19 will impact and this remains as unclear in NI as anywhere else. At the time of writing the best estimate is that it will impact severely on economic activity in Q2 with a gradual, but not necessarily linear, recovery thereafter.

Latest estimates show the population of Northern Ireland is expanding at a rate of 0.6% per annum (10,800 people). Although slower than in the Republic of Ireland and marginally slower than in the UK overall, this represents a relatively strong expansion in an overall EU context.

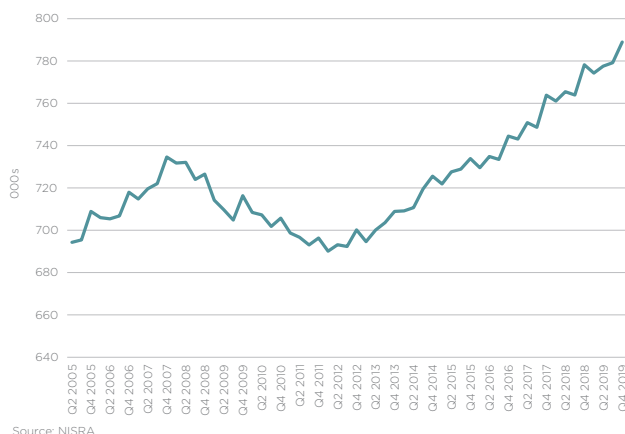
Figure 1: European Population Growth 2018 – Annual Growth



Source: Eurostat / NISRA

Employment continues to grow with almost 11,000 (+1.4% Y/Y) additional jobs created in 2019. The series reached a new high in 2019 at 788,960. More than 98,800 net new jobs have now been created since the low watermark in Q1 2012 and there are over 54,000 more jobs than at the last peak in 2008 (see Figure 2). The private sector, which grew by 1.2% Y/Y, has expanded faster than the public sector in recent years; however, 2019 saw a reversal of this with public sector employment increasing by 1.8% Y/Y.

Figure 2: Total Employment



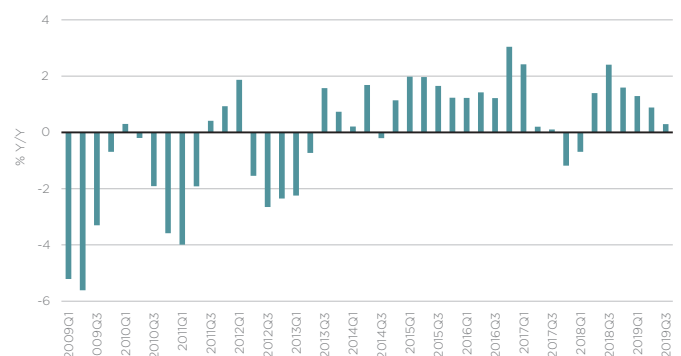
Source: NISRA

Notably, of the roughly 3,700 net new jobs in the public sector, over 3,400 were in NHS trusts or educational establishments. As such the office-based element was quite limited. This may reflect the political impasse over power-sharing in 2019 which could have temporarily dragged on the creation of public administration roles in the province.

Continued jobs growth has exerted downward pressure on NI's unemployment rate, which reached 2.4% as of December 2019 – well below both the UK's 3.9% and the Republic of Ireland's 4.8% rates. As we would expect, earnings are responding to this low unemployment, with average nominal weekly wages rising by 3.3% Y/Y in April 2019. However, considering that NI's inactivity rate is one of the highest in the UK, a hidden pool of potential workers remains available. If activated, this could facilitate further non-inflationary output growth.

Despite positive labour market developments in 2019, growth in the Northern Ireland Composite Economic Index moderated over the course of the year, with growth easing to 0.3% Y/Y in Q3 2019. The private sector, which had driven earlier gains, contracted slightly falling by -0.1% Y/Y in Q3 2019. Public sector activity, which had been growing relatively slowly in 2018, recovered strongly, rising by 1.4% Y/Y in Q3 2019.

Figure 3: Northern Ireland Composite Economic Index – Annual Growth



Source: NISRA

Northern Ireland's economy has historically been held back by political instability and, more recently, by Brexit. Therefore greater clarity on Brexit, and the restoration of power-sharing in the Stormont Assembly in early 2020, should be major positives for the Northern Irish economy and its property markets once the negative effects of Covid-19 dissipate.

Office-based jobs in Northern Ireland saw limited growth in 2019, a side effect of the political deadlock. Perhaps as a consequence, there was no office take-up from government agencies during the year. However this should change in 2020 as devolved power is restored.



Victoria Square Shopping Centre at Night

Brexit and Northern Ireland

The UK economy was sluggish coming into 2020 with flat GDP growth in Q4 2019. Analysts had attributed this to Brexit uncertainty, with Manufacturing being seen as a particularly vulnerable sector that could suffer from the sudden introduction of tariffs and / or quotas. However the passing of the Withdrawal Agreement in early January makes this less probable. Uncertainty remains, as the Government must still negotiate a trade deal with the EU and has ruled out an extension to the transition period. However our central case is that an orderly exit with a trade deal is the more likely outcome.

In our view, retaining a close economic partnership with the EU represents the most favourable outcome for Northern Ireland. The reasons for this are discussed below.

1. **Retaining Cross-border Activity:** In our previous report, we noted the importance of the Irish border as the only land border between the UK and the EU. Excluding the UK, more than half of all NI exports (60%) in 2018 went to the EU. The Republic of Ireland (ROI) accounts for almost two-thirds of these volumes. Manufacturing is NI's principal export to the ROI in value terms, with wholesale and retail a close second. Combined these sectors account for 28% of NI jobs. Given the importance of EU trading relationships to employment in NI, the commitment in the withdrawal agreement to maintaining regulatory alignment on industrial and agricultural goods is promising.
2. **Foreign Direct Investment (FDI):** FDI can play an important role in boosting output and employment and attracting talent. A report by the Department for the Economy found that Brexit has had a negative impact on investment into NI and that an estimated additional 1,036 new jobs could have been created over two years after the referendum in June 2016. The report finds that this is mainly due to reduced FDI activity in services and by EU investors. This will impact negatively on the occupational demand for business space.
3. **EU funding:** MEPs have indicated support for the European Commission's intention to continue to provide special cross-border community funding, aimed at promoting peace in NI, after 2020. However, this only accounts for 13% of the total EU funding to NI. With the UK's withdrawal from the EU, much of this financial assistance for economic and social development will cease. Arguably this could be offset by the UK treasury but, as with many parts of Brexit, it remains to be seen what will happen in practice.
4. **Political Stability:** The 1998 Good Friday Agreement (GFA) brought greater stability to Northern Ireland by removing the need for military checkpoints north and south of the border and establishing a local power-sharing arrangement. Given that the GFA is an internationally recognised treaty it seems unlikely that the UK or EU is willing to compromise its integrity. However, the very existence of border controls on the island of Ireland could divide local communities and even threaten the peace process. Such an outcome would undoubtedly weigh on business and consumer sentiment.

Retail Market

RETAIL ECONOMY

Traditionally, rising employment and earnings alongside positive population growth would translate into more spending at the tills. This does not appear to have been the case in 2019 with a fall of 0.5% Y/Y in Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles; Accommodation and Food Services. The Danske Bank Consumer Confidence Index fell for a third consecutive quarter in Q4 2019, with 25% of people surveyed expecting to spend less on luxury items.

The Ulster Bank Northern Ireland Purchasing Managers Index also fell over the course of 2019. Sector data pointed to widespread declines in December with the steepest contraction in retail scoring 30.7 where a baseline of 50.0 would indicate no change. Despite many sectors having an optimistic 12-month outlook at the end of the year, retail managers remained pessimistic. There are perhaps several factors behind this. On one hand, changing consumer behaviour and the influence of multi-channel is having a sustained impact on traditional retail, and this is reflected in a continued decline in footfall in both Shopping Centres and on the High Street. It remains to be seen whether Covid-19 restrictions are a catalyst that will further accelerate the shift to online retailing. In addition, Brexit and the suspension of power-sharing may also have dragged on sentiment and spending.

With the ongoing Coronavirus pandemic, and the associated short to medium term job losses, we would not expect to see immediate improvements in these indicators. This is despite greater political clarity. Restrictions on freedom of movement and increased unemployment stemming from the shutdown will reduce both consumer and business sentiment.

The year was dominated by the news of retailer failures with store portfolios being significantly reduced through administrations, company voluntary arrangements and liquidations across the sector reportedly leading to approximately 9,000 store closures throughout the UK. Retailer casualties over the last twelve months include House of Fraser, Debenhams, Mothercare, Jessops, Mamas & Papas, LK Bennet, Forever 21, Bon Marche, Thomas Cook, Karen Millen, Jack Wills, Gerry Weber, Monsoon Accessorize, Clinton Cards and Patisserie Valerie to name a few.

BELFAST CITY CENTRE

Despite the sustained impact the Primark fire has had on the city centre's performance, there were still positive points. Donegall Place received a much-needed boost from the reopening of the newly refurbished Zara store and Boots' renewal of its lease. Primark has opened a new store in Fountain House while the Bank Buildings undergo rebuild, this will potentially attract footfall that would otherwise have gone elsewhere since the fire. Meanwhile, JD Sports commenced construction of its new 33,000 sq ft (3,065 sq m) flagship store in Calvert House on Castle Place, due to open later this year.

Anthropologie opened its first store in Ireland, occupying the ground floor of the newly developed Erskine House on Arthur Street and are already reporting positive sales figures, exceeding expectations. Other new arrivals were Vans and Jaeger in Victoria Square and O'Neills Sports, Shakeaway, and Mitsuri in Castlecourt. Most notably, Frazers acquired House of Fraser in Victoria Square and opened a 30,000 sq ft (2,800 sq m) Flannels in the location, their largest store to date.



Anthropologie's new store in Erskine House



Anthropologie Interior



Anthropologie Interior



Anthropologie Interior

SHOPPING CENTRES

Despite the overall downward trend in footfall, Northern Ireland's prime shopping centres continue to trade strongly with most reporting positive sales figures. The health of these centres has been credited to the maintenance of high retailer occupancy levels and minimal voids. Rushmere and Forestside centres remain fully let. Abbeycentre completed and opened its new Primark anchor store housed in the former BHS, while Poundland/Pepco expanded by relocating into the previous Primark unit taking around 13,000 sq ft (1,210 sq m).

Consolidation of space in various centres has presented opportunities for new occupiers to take up and re-develop space. Subject to planning permission the former M&S in Buttercrane, Newry will accommodate both Lidl and Sports Direct. In Portadown, Lidl is set to take space in the former Dunnes Stores unit in High Street Mall. Both excellent examples of this trend, with the centres hoping to open the new anchor stores in 2020.

Tower Centre in Ballymena opened a 34,000 sq ft (3,160 sq m) Sports Direct superstore with USC and Game Belong brands forming part of its retail experience in-store. In the Quays, Next expanded its store to about 26,000 sq ft (2,415 sq m) and a Joules pop-up store also opened in the centre.



Table 1: Top 5 2019 Shopping Centre Lettings Across Northern Ireland

Centre	Tenant	Sector	Size (Sq ft)
Abbeycentre	Primark	Fashion & Footwear	42,000
Victoria Sq	Flannels	Fashion & Footwear	40,000
Tower Centre	Sports Direct	Outdoor Sports & Fashion	34,000
Belfast City Core	Primark	Fashion & Footwear	30,000
The Quays	Next	Fashion & Footwear	26,500

OUT-OF-TOWN

Following the demise of several out of town retailers in 2018 e.g. Toys R Us and Maplin, 2019 has generally been more positive for the sector. The Food Warehouse, Hobbycraft and Sofology all opened new stores. Sofology has opened in the revamped DFS on Boucher Road diversifying the DFS brand offering which includes Sofa Workshop and Dwell.

In Longwood Retail Park, Newtownabbey, Hobbycraft, Food Warehouse and House Proud have opened new stores of between approximately 10,000 -15,000 sq ft (930 – 1,400 sqm) at headline rents in the region of £16.00 psf. (£172.25 psm). Home Bargains have reportedly acquired the freehold interest in the Homebase store in the park. Other occupier acquisitions include M&S, B&M and Lidl.

While there has been downward pressure on rents in more secondary schemes, rents for prime schemes in strong locations have held up reasonably well over the last 12 months with any voids generally being filled.

We anticipate several new entrants will enter the Out-of-Town retail market in 2020. Indeed, the Danish home retailer Jysk is planning to open several stores in NI, having opened a number of locations in the Republic of Ireland in the last few years.

FOOD & BEVERAGE

The 'big brands' dominated new transactions in the F&B market throughout 2019 with coffee chains specifically seeing multiple transactions. With the City Centre coffee market seen to be reaching saturation point and a surge in consumer demand for 'grab and go' Roadside/Out-of-Town sites are now in high demand. Starbucks opened two new drive-thru sites in Marlborough Retail Park, Craigavon and The Junction, Antrim and are in the process of fitting out a third in Bloomfield, Bangor. Tim Horton's opened its second NI drive-thru

in Northern Ireland in Glengormley and Greggs opened its first in Showgrounds Retail Park, Omagh.

Several of Costa's existing NI stores are undergoing refurbishment to align with their latest format with the first refurb this year completed in Riverside Retail Park, Coleraine which involved an extension of its store. Artisan coffee operator Bob and Bert's has been expanded rapidly opening five new outlets during 2019 to include Omagh, Portstewart, Portrush, Ballymena and Magherafelt.

Shakeaway's opening of its first NI outlet in Castlecourt was the only notable in-town transaction by a national brand during the last 12 months except for Greggs which opened a new store on Botanic Avenue and launched several concessions provincially partnered by Henderson's Spar.

Expansion by the national restaurant chains continued, albeit at a much slower pace than previous years. McDonald's opened its first two-storey drive-thru restaurant at Knocknagoney which is its 30th store in Northern Ireland and follows the successful opening of its new restaurant in Antrim. Nando's is due to open its new Antrim restaurant at the Junction and KFC is opening a new drive-thru in Banbridge.

On a local/regional level, there were new openings in Belfast City Centre by Tony Macaroni in Victoria Square, its 2nd in N.I after opening in Bangor in 2018 and Six By Nico in Belfast's Cathedral Quarter.

Office Market

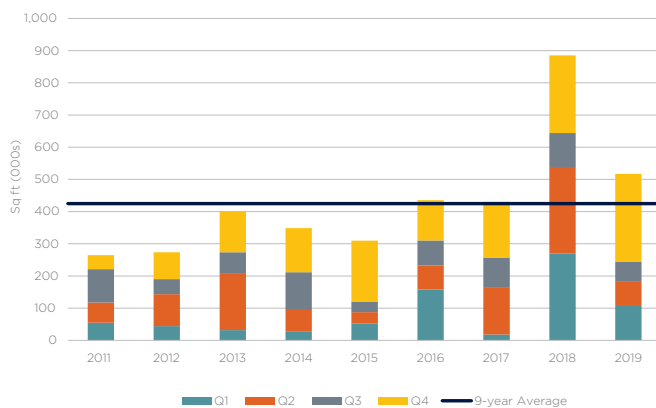
MARKET OVERVIEW

While the total number of jobs in Northern Ireland has risen by 1.4% Y/Y in 2019, office-based employment – a key indicator of office demand – edged up only slightly, increasing by 0.1% Y/Y. The ICT sector remained a major contributor with the tech headcount rising by 5.8% Y/Y, although this is somewhat slower than the 8.9% Y/Y recorded in Q3 2019. Professional scientific and technical activities firms expanded at the same rate over the year. However financial and insurance firms saw negative employment growth, falling by 7.4% in 2019. This decline may stem from uncertainty around Brexit and concerns about regulatory alignment on services.

MARKET ACTIVITY

The first half of 2019 was slow in comparison to other strong years such as 2016 and 2018, with only 181,970 sq ft (16,905 sq m) of space in lettings. A record-breaking Q4 saw 272,403 sq ft (25,307 sq m) of lettings, bringing take-up in the year up to 517,380 sq ft (48,060 sq m) in total, about 21.8% above the long-run average. While take-up has fallen year-on-year this is not too surprising given the record-breaking 885,000 sq ft (82,200 sqm) of space taken up in 2018 – more than twice the 9-year average.

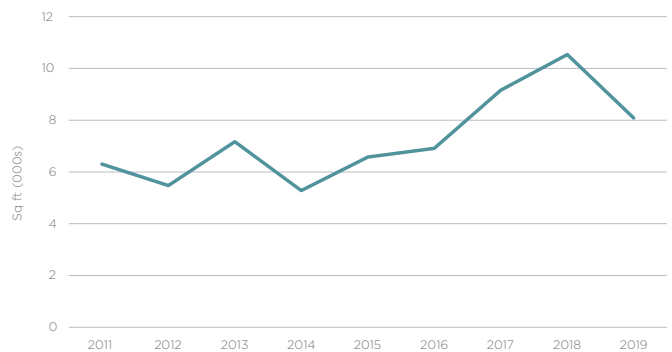
Figure 4: Belfast Office Take-Up



Source: Savills Research

Traditionally transactions greater than 100,000 sq ft (9,290 sq m) are rare in the Belfast office market; indeed, there were only two such deals between 2011 and 2017. There were three deals greater than 100,000 sq ft in 2018; which accounted for 50% of take-up and propelled the average deal size to a cycle high of just over 10,500 sq ft (975 sq m). With no deals greater than 100,000 sq ft in 2019, Deloitte's 80,000 sq ft (7,430 sq m) pre-let of the Ewart building was the largest transaction of the year. However, due to several mid-sized deals, the average transaction size for 2019 remained just over 8,000 sq ft (745 sq m). Smaller floor plates made up the majority of the deals with over 50% of the lettings being sub 5,000 sq ft. Despite this, the average deal size has been trending higher (Figure 5), even in the absence of very large deals.

Figure 5: Average Office Letting Size by Year - Belfast



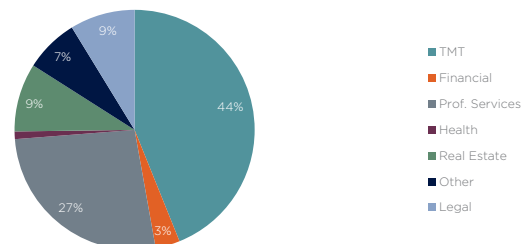
Source: Savills Research

There were 64 individual transactions in the year, with the dominant sectors in terms of total space transacted being Technology, Media and Telecoms (44%) and Professional Services (27%); a feature of the market which has now become relatively consistent and reflects Belfast's continued attractiveness as a centre for tech growth, particularly cybersecurity, and professional services, especially in a support function of global business services.

There was a notable absence of lettings by the public sector in 2019's figures, reflecting sluggish office-based jobs growth which, in turn, reflects the suspension of a devolved executive. But it may also reflect a lull in activity in advance of a 150,000 sq ft (13,935 sq m) office which emerged in Q4 2019. This represents a consolidation of several offices as several leaseholds move towards expiry. Despite its nature as a consolidation, this should create a net increase in office space consumption.

In a similar vein, and after a flurry of activity in 2018 (over 66,000 sq ft taken), the serviced office market was more settled, with only two transactions from new entrants Urban HQ (31,969 sq ft) and VenYou (6,895 sq ft) taking new space. This being said, reports of high occupancy in many schemes, would appear to reflect a pause in the market after an expansionary phase in its life cycle.

Figure 6: Take-Up by Sector (2019)



Source: Savills Research

DEVELOPMENT

Pre-let transactions continue to drive office development in Belfast with speculative development largely confined to the City Quays in recent years. Development in 2019 was limited to Bedford Square (80,000 sq ft), which was pre-let to Deloitte. Refurbished stock made up nearly 42% of transactions, a trend which brought new life to high profile older stock in the city. The 47,000 sq ft (4,370 sq m) letting of Chichester House to Rapid 7 was amongst the most high-profile transactions of this type.

RENTS

Office rents in Belfast continue to rise; the paucity of new build development in the city is placing upward pressure on rent levels in refurbished stock. The best refurbished opportunities have set the tone in the city with a marginal step forward in 2019 to £23.50 per sq ft. The arrival of new build developments in the coming period will establish a new tone for the very best accommodation with prime rents expected to rise to somewhere in the order of £25.00 per sq ft.

Table 2: Take-Up by Sector (2019)

Location	Occupier	Size (sq ft)	Quarter
The Ewart Building, Bedford Street	Deloitte	80,000	Q4
Ground, 1st - 7th floors, Chichester House, 19 Chichester Street	Rapid7	47,651	Q4
Merchant Square, Wellington Place	PWC	46,000	Q2
Laser 2 Building, Weavers Court, Linfield Road	Proofpoint	34,000	Q4
Eagle Star House, 5-7 Upper Queen Street	Urban HQ	31,969	Q1



Residential Market

DEMAND

The bulk of residential demand derives from population growth (+0.6 Y/Y in 2018) which remains above the EU 28 average of 0.2%. However, the composition of Northern Ireland's population growth has become much more dependent on net migration due to falling births and an increasing number of deaths as the population ages. Inward migration grew in 2019 and accounted for 38% of population growth. With restrictions on travel due to Covid-19, this growth will likely slow in the short-run.

SUPPLY

Growth in residential dwelling completions moderated in 2019, there were 7,437 units completed in the year, a decrease of 2.7% Y/Y. This is also the case for new dwelling starts which fell from 8,624 units to 7,276 units, a decrease of 15.6% Y/Y. Though this slowdown has been attributed to Brexit it implies that supply is likely to remain low for the foreseeable future with Coronavirus impacting on construction sector output.

Figure 7: New Dwelling Starts - 4 Quarter Sum





TRANSACTIONS

Despite a growing population, residential transactions totalled to 23,919 in 2019¹, with sales volumes down 4.3% compared to a year earlier. Semi-detached (-5.1% Y/Y) and detached properties (-4.7% Y/Y) remain the most common purchase, however, both categories recorded modest annual declines in volume terms. Apartments saw the sharpest decline in transactions (-8.2% Y/Y) while terraced house transactions only fell by 1.8% Y/Y. This could reflect the fact that growth in the number of mortgage loans to First Time-Buyers (FTBs) – the cohort more commonly associated with this segment of the market – grew faster than home mover loans over the year to September 2019.

PRICES

House price growth began to moderate in 2019, with standardised residential prices rising by 2.5% Y/Y in Q4 2019 compared to 5.5% Y/Y over the same period in 2018. Indeed, with annual earnings growing faster than house prices, affordability should be naturally improving, although Covid-19 could cause a setback as aggregate earnings will be disrupted. The standardised average price of a property in NI is now £140,190 with prices approximately 44% above their cycle low in Q1 2013. Looking at local government districts, house prices saw growth across the board with the strongest growth in Causeway Coast and Glens (4.5% Y/Y), Fermanagh and Omagh (4.4% Y/Y) and Newry, Mourne and Down (4.3% Y/Y). Considering the muted price growth despite a decrease in completions and rising earnings it would appear that the market is moving into equilibrium.

PRS

In our report last year, we noted that house price inflation was outstripping wage growth, pushing up loan-to-income ratios in the process. This did not appear to have been a barrier to owner-occupation at a national level, however, with the proportion of households in NI who own their own home rising from 65% in 2015/16 to 69% in 2017/18. Indeed, with wages now growing faster than HPI it is unsurprising to see this proportion edging up to 70% in 2018/2019. Renters' share of household tenure has fallen over the same period with private renters now accounting for only 13% of households in NI, down from 17% in 2015/16. However, there is potential for this to temporarily change with Covid-19 which could set back many people's plans to buy their own homes in 2020.

According to the Ulster University / Housing Executive, average rents rose by 0.9% Y/Y in H1 2019. The more recent Home Let NI Rental Index reveals average achieved rents increased by 5.4% in the year to December. Modest rental growth suggests that NI's PRS market is close to equilibrium, however, digging beneath the headlines reveals pockets of the market where demand is noticeably outstripping supply. Average asking rents in the Belfast City Council Area (BCCA) increased by 3.7% Y/Y in H1 2019, compared with an average decrease of 0.9% outside the BCCA. This indicates a need for additional units in-and-around the capital. However, a challenge in Belfast is that in many areas, rents are still below where they need to be to make developments financially viable.

Figure 8: NI House Price Index Annual % Change



Source: NISRA

¹Transaction statistics are provisional and will likely increase due to late sales returns and new dwellings sold in the quarter being added to the valuation list after the release



Investment Market

MONETARY POLICY

In Europe, the ECB reduced its deposit rate and resumed quantitative easing in September 2019. In response to the Covid-19 pandemic, it lifted self-imposed restrictions on the quantity of sovereign bonds it will buy with the €750bn it previously earmarked. The Bank of England cut rates to 0.1% in March and announced a £200bn bond-buying program. Both the BoE and ECB have reduced capital buffer requirements for commercial banks to further stimulate lending in the economy. Meanwhile, the Fed has made two rate cuts and launched a \$700bn bond-buying program. This monetary environment naturally drives capital into real assets. Obviously, the near-term outlook will be dictated by Coronavirus developments. However, considering the strong office, residential and investment performance in Q4 2019 there is a case to be made that Northern Ireland is a good candidate for this capital.

MARKET ACTIVITY

Despite political and macroeconomic challenges £215m of income-producing commercial real estate assets transacted in Northern Ireland in 2019 - a 23% increase on 2018. Notably, the year finished very strongly with 43% of turnover being booked in Q4.

Despite ongoing challenges, retail was the most active sector accounting for a combined 43% (£92.7m) of total CRE volumes, a consistent trend since 2010. Retail parks alone accounted for 38% of 2019 total turnover with four transactions totalling to just over £82m. The sale of Sprucefield Retail Park for £40m (NIY 9.35%) in Q4 significantly boosted 2019 investment volume, however, this was not the only significant deal with Crescent Link Retail Park for £30m (NIY 11.68%), Clondeboyne Retail Park for £9.35m (NIY 12.50%) and Revolution de Cuba for £3.25m (NIY 6.21%) all transacting during the year.

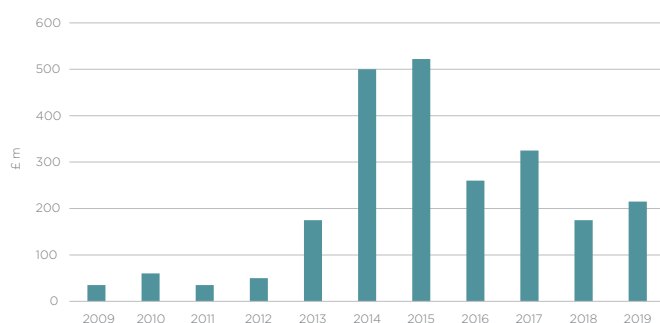
The second most active sector was Offices which was not far behind Retail, accounting for 42% (£89.9m) of spending, driven by the sale of Gateway Offices at Titanic Quarter in Q2 for £34.35m (NIY 5.43%).

Despite the heightened uncertainty, some investors may have viewed commercial property in Northern Ireland as a secure asset class providing a steady stream of income. Other buyers may have been searching for value in the market intending to capitalise in the event of a future deal between the UK and the EU. Final details of the UK-EU trade deal remain to be seen, while Northern Ireland will have regulatory alignment on agricultural and industrial goods, it will not necessarily have alignment on services which could damage the office and investment markets.

Table 3: Top 5 Investment Deals 2019

Asset	Sector	Price £m
Sprucefield Retail Park	Retail	40.0
Gateway Offices	Office	34.4
Crescent Link Retail Park	Retail	30.0
James House	Office	16.0
Victoria House	Office	12.5

Figure 9: Investment Market Turnover



Source: Savills Research

Summary

Though retail continues to face several difficulties, there were also positive points. Shopping centres performed well in 2019 and saw low void rates. Despite a challenging 2018 with the loss of several occupiers, retail warehouse parks managed to fill most vacancies. As a result, rents in prime locations have held up reasonably well. The F&B market was quite active in 2019 with coffee, in particular, seeing multiple transactions. With the City Centre coffee markets seen to be reaching saturation point and a surge in consumer demand for 'grab and go' Roadside/Out of Town sites were in high demand.

The final quarter of 2019 saw the highest ever take-up in a single quarter. With continued jobs growth and a large 150,000 sq ft requirement in the market, the office market was in a healthy place coming into 2020. The lack of speculative office development in 2019 continued to push occupiers with larger requirements into refurbished space or, in the case of Deloitte, entering into pre-lets to break ground. While it is understood that finance is in place for

a selected number of centrally located developments, a delivery lag means that a shortage of available prime Grade A space looks set to remain a feature of the market in 2020.

Despite moderating growth in supply and rising incomes house price inflation eased somewhat during the year. Considering this it is our view that the residential market is becoming more balanced. Tenure has continued to shift away from PRS to owner-occupation with earnings growing faster than house prices but, looking forward, this trend could be affected by Covid-19. There is evidence of growth in rents, with Belfast seeing stronger growth than other parts of the country.

Despite increased uncertainty in 2019, buyers continued to view Northern Ireland as a favourable investment. The return of the Stormont Assembly is positive, as it will reduce political uncertainty, which makes Northern Ireland a more attractive investment prospect. In terms of sectors, Retail accounted for the highest value of assets traded with Offices close behind.

Outlook

All previous macro-economic forecasts have been rendered redundant by Covid-19 and, at the time of writing, the short-term future is very unclear. The best indication of the duration of the crisis comes from the Far East where the life cycle of the pandemic is some months ahead. In China, the number of new cases has been largely eradicated² and the economy is now supposedly back to 75-80% capacity utilisation 11 weeks after the first outbreaks in Wuhan.³ Given important differences between China and EU countries in terms of climate, living conditions, economic structure, demographics, social compliance and the policy response, it is not clear that Northern Ireland will follow exactly this path. Nonetheless, in the absence of any other evidence, most Western commentators are taking the view that Covid-19 will create a two-quarter recession. That is, there will be a sharp contraction in Q2 and Q3 2020, followed by a relatively strong recovery. Notably, however, it is unlikely that the recovery will immediately restore the economy to its pre-crisis level for four reasons; firstly, the possibility of re-infection means that isolation measures and travel restrictions will only be relaxed gradually and may have to be re-tightened at some point. Secondly, some of the job losses will be in sectors that were struggling before the crisis and will prove difficult to regain. Thirdly, productivity-enhancing capital investment will be postponed due to the fiscal cost of providing business and income supports during the crisis. Finally, the fiscal stimulus that has already been committed will be funded through a deficit, and this will increase the UK's debt burden over the longer run.

Brexit has been somewhat overshadowed by Coronavirus in the media but will continue to have a profound effect

on the future of Northern Ireland long after the virus has passed. We have noted that the impact of Brexit will be determined by several factors in the final trade and exit agreements. The continuation of freedom of movement of people and goods across the Irish border is of paramount importance; both economically in terms of Northern Ireland's deeply integrated trading links with the South and politically in terms of the Good Friday Agreement. Another area that could have long-lasting effects will be the replacement of EU funding, with Northern Ireland set to lose funding that may not necessarily be made up by the UK.

The return of devolved government is a promising sign for the Northern Irish political and economic climate. While the Republic of Ireland has been a conduit for flows of foreign capital, political instability has impacted negatively on Northern Ireland's potential for attracting foreign direct investment. The resumption of power-sharing indicates that political stakeholders remain committed to maintaining a stable political environment. This leads to greater certainty which is positive for potential investors.

Overall 2019 was a positive year for the Commercial Real Estate market in Northern Ireland, investment volumes were strong in the face of uncertainty, office take-up was above the long-run average and residential property prices continued to grow. The economy had been experiencing a period of growth coming into this crisis. This in combination with an increasingly favourable monetary policy environment developing due to the pandemic should provide a solid foundation for a robust recovery in transactions and the economy as a whole after the current emergency has passed.

Savills team

Please contact us for further information

Ben Turtle

Director, Head of Office & Investment
Savills Belfast
+44 28 9026 8006
ben.turtle@savills.ie

Paul Wilson

Director,
Retail Agency
Savills Belfast
+44 28 9026 7828
paul.wilson@savills.ie

Neal Morrison

Director, Commercial Agency
Savills Belfast
+44 28 9026 7824
neal.morrison@savills.ie

Brian Gaffney

Divisional Director,
Property Management
Savills Belfast
+44 28 9026 7821
brian.gaffney@savills.ie

Jason Thompson

Divisional Director,
Professional Services
Savills Research
+44 28 9026 7827
jason.thompson@savills.ie

John. McCartney

Director
Savills Research
+353 1 618 1427
john.mccartney@savills.ie

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²New cases are mainly imported from those returning from outside China. Mandatory testing and self-isolation have been implemented for incoming passengers from designated high-risk countries. These restrictions are being very strictly imposed.

³The recovery is substantiated by a range of indicators e.g. coal usage, intensity of light in industrial parks (observed by satellite), passenger traffic. See attached [link](#) (24th March)