savills

SAVILLS NORTHERN IRELAND

Erneside Shopping Centre, Enniskillen. Sold by Savills in February 2015

Summary

■ Northern Ireland's economic story remained broadly positive in 2015. Despite a stronger pound for much of the year, the value of goods exports continued to rise, while domestically, the consumer economy is benefitting from lower energy prices. The announcement of a lower corporation tax rate – to come into effect in 2018 – is a major development and will make Northern Ireland a more attractive destination for international investment.

■ For the second consecutive year, 2015 saw more than £500m worth of property deals transacted in Northern Ireland. A key driver of this was the return of rental growth in both the prime retail and office markets.

■ Retail accounted for over half of total investment, with the NI commercial rates revaluation sparking new interest, particularly in prime locations. Once again, fashion and footwear was responsible for a number of high profile lettings, while new and existing operators within the food and beverage sector continue to be active.

■ Although total office take-up of 310,000 sq ft was lower than that recorded in the previous two years – due to a chronic shortage of Grade A space – four transactions in excess of 10,000 sq ft demonstrate the strong demand for large prime offices. Indeed, Savills is currently aware of at least eight occupiers with prime office requirements in excess of 15,000 sq ft.

■ The industrial sector recorded a similar year to that of offices, with total take-up declining by 38%. However, this again can be explained by a lack of available stock on offer and masks the underlying demand for space. Co. Antrim dominated the landscape, accounting for 67% of all transactions in 2015. The absence of strong rental levels halted large scale speculative development with building costs outweighing potential values.

■ Northern Ireland recorded the fastest house price growth of any UK region in 2014 and this trend continued in 2015 with average prices up 8% year-on-year. The supply of new dwellings remains well below the estimated requirement and this is driving up prices. Despite this, average prices remain around 40% off their peak.

■ The high cost of construction relative to achievable capital and rental values means many schemes are still not economically viable. However, developers do look to be positioning themselves for future construction with both the demand for and acquisition of larger development sites emerging over the course of the year.

Economic Overview

Economic conditions continue in a positive direction with the latest Northern Ireland Composite Economic Index (NICEI), which combines private sector output and public sector employment metrics, advancing by 1.3% – the eighth consecutive quarter of positive annual growth. Although the pace of growth eased, activity is still 3.5% above its low point in Q4 2012. A stronger pound during 2015 certainly held back exports, including tourism. However, it is worth highlighting that, despite this headwind, the value of goods exports still rose by 4% year-on-year in Q3. This compares favourably with a 9.1% decline for the UK as a whole.

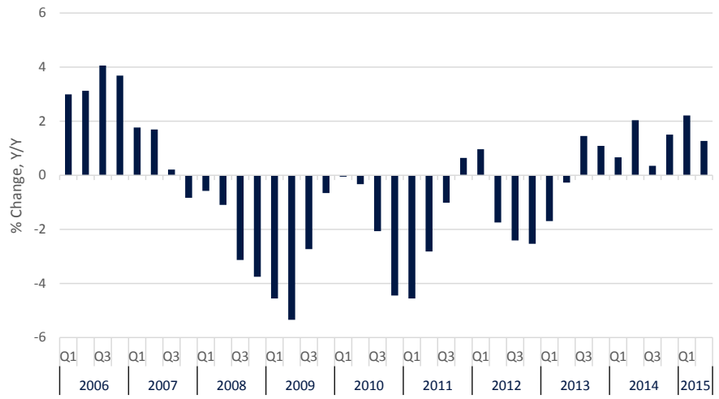
The NI labour market has also remained resilient. Employment growth did moderate over the course of 2015, averaging 0.7% to November, compared with 2.2% for the respective period in 2014. Nonetheless, since employment levels hit their cyclical low at the beginning of 2013, the local economy has added over 35,000 jobs and wiped more than 200 basis points off the unemployment rate. This, coupled with low inflation due to falling energy prices, is undoubtedly leaving more cash in people's pockets and has resulted in consumer confidence reaching a new high.

In March, the Northern Ireland Assembly was given the power to set its own rate of corporation tax. A rate of 12.5% was decided upon, in line with the Republic of Ireland and considerably lower than the UK – and current NI – rate of 20%. Although the UK has committed to reducing its own rate to 18% by 2020, this leaves Northern Ireland in a very competitive position. In turn, this should attract inward investment and potentially incentivise companies already operating in other parts of the UK to relocate to the province, thereby creating strong employment opportunities. Furthermore, while the change does not take effect until March 2018, we may see some firms set up sooner than this as they try and capture a 'first mover advantage' in relation to both location and workforce. Overall, this development looks set to be a game-changer for the local economy, boosting output and increasing the appetite for business space across all sectors.

While some risks do remain – including a potential slowdown in global growth, as well as implications from a possible Brexit scenario – the general consensus remains somewhat upbeat and it is expected that the economy will grow at a healthy clip of close to 2% in 2016. A recovering Euro Area, coupled with a recent bout of sterling weakness should boost exports, while domestically, lower energy prices will continue to support the consumer economy.

CHART 1

Northern Ireland Composite Economic Index



Source: NISRA

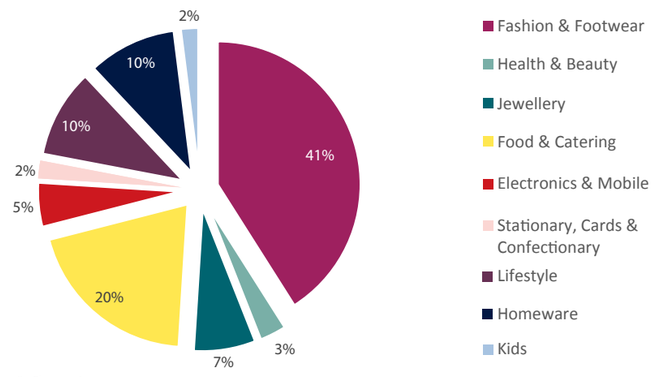
Retail Market

2015 has been a transitional year for many retailers, which has reflected positively on Northern Ireland's high street. Continued employment and wage growth, along with lower energy costs, have helped consumer confidence improve to a record high and have translated into positive retailer performances.

Furthermore, the Northern Ireland commercial rates revaluation, which came into effect in April 2015, has refuelled interest in retail property investments. This reduced the rates payable on many prime retail pitches, albeit to the detriment of other locations including out-of-town retail parks which have experienced an increase in rates payable. While retailer entrants' focus has primarily been on Belfast, Savills foresees a controlled roll-out by a number of brands in dominant retail centres throughout the province. While there have been noted improvements in secondary and tertiary towns, these locations are still suffering from a supply vs. demand imbalance. However, this should begin to recover in 2016 with local independents obtaining access to finance.

CHART 2

Prime Retail Take-Up – 2015



Source: Savills Research

Sectoral Performance

Fashion and Footwear

This sector has seen prolific activity over the past 12 months with a number of high-profile lettings and relocations. Within Belfast City Centre, some of these key retailers include Mango, Skechers, DW Sports, Yours Clothing, Jack & Jones, Gap, Schuh Kids and Boux Avenue. This has had a positive impact on the City Centre, supported by encouraging trade which has spurred on demand. Limited supply, coupled with this increase in demand, has put upward pressure on rents which have grown by some 25% on prime pitches.

Oak Furnitureland, Shane Retail Park, Belfast. Ireland's 1st Oak Furnitureland opened in Shane Retail Park in 2015, secured by Savills.

Victoria Square has continued to reinforce its position as Belfast's dominant shopping centre with its strong aspirational fashion mix and recorded its best ever annual performance in 2015. Top performers here include House of Fraser, JD Sports, Topshop/Topman and River Island.

Castlecourt has seen a dramatic turnaround in its fortunes with the likes of Yours Clothing, Bad Rhino, Jack & Jones, Schuh Kids and Bonmarché opting to position their flagship stores in this part of the city. All have reported very positively on trade to date.

Another acquistive retailer is Sports Direct. The brand finally made its long awaited move to secure representation in Belfast City Centre by completing a multi-million pound property investment in Donegall Arcade. Game, TK Maxx and HMV currently occupy space within the Arcade, and it is our understanding that Sports Direct plans to redevelop the former Currys site to flagship its sports apparel. Zara, Gap and DW Sports have also invested substantially by opening new stores on Donegall Place, with the latter launching its first pure retail store in Belfast. The last remaining void on this pitch, the former Barrett's unit, has attracted a significant amount of interest and is reportedly agreed to a major European fashion retailer. Finally, Primark is set to progress with its planned superstore development of Bank Buildings, which has the potential to almost double its current store size. Savills anticipates work will commence in 2016.

Castlecourt Shopping Centre, Belfast. Attracted many new retailers on the back of the 2015 rating re-valuation. Savills is joint letting agent.

Outside Belfast City Centre, fashion retail activity has been limited to a handful of national multiple and independent retailers. This activity has been focused on dominant retail centres such as AbbeyCentre, Buttercrane, Erneside and Rushmere. Active brands include:

- Next
- Vogue
- Bestseller (Jack & Jones, Name It, Vero Moda and Only)
- Yours Clothing
- Skechers
- Clockwork
- JD Sports
- Peacocks
- Primark
- H & M

Food and Beverage

In 2015, the food and catering sector managed to sustain its strong momentum from the previous year with high levels of demand from new and existing operators. A major coup for Belfast was the opening of Ireland's first branch of the American fast food chain, Five Guys, while multi-national food chains Zizzi, Patisserie Valerie, Carluccios, Prezzo and Ed's Easy Diner are all acquisitive.

Northern Ireland's coffee culture has clearly reacted positively to the multi-national coffee house expansion, with Starbucks, Caffè Nero and Costa Coffee all adding to their NI portfolios in 2015. The latter will soon trade from three outlets on Boucher Road upon completion of its latest pod in Shane Retail Park. Indeed, the development of purpose built pods and restaurant parades has become more common as developers try to capitalise on the increased demand. One such example is Boucher Square, Belfast, which now houses Frankie & Bennys, Ed's Easy Diner, Nandos and Costa Coffee, with Prezzo exchanged subject to planning. Abbey Retail Park in Newtownabbey currently has planning for a new restaurant quarter. Encouragingly, local brand Ground Espresso Bars has also been active, opening several concessions within Next as well as stand alone stores in Cookstown, Magherafelt, Belfast City Centre and Bangor.

Rushmere Shopping Centre & Retail Park - Fully Let in 2015. Savills is the sole letting agent

Out-of-Town

The out-of-town retail sector has also capitalised on improving consumer sentiment with greater volumes of larger ticket items such as furnishings being transacted and it is encouraging to see major investment in the local market by retailers including:

- Harvey Norman - new multi homeware offer in the former Fultons, Boucher Road
- Wrights Sofaland - Holywood Exchange
- Next Home - Erneside Shopping Centre with Bloomfield and AbbeyCentre to open in 2016
- Dreams/Hometime - new store in Longwood Retail Park, Newtownabbey
- Creations - new purpose built flagship on Boucher Crescent
- Starplan – new bedroom and kitchen showroom, Boucher Road
- Mothercare/ELC - new flagship at Sprucefield
- Oak Furnitureland - first store in Ireland at Shane Retail Park

While it is disappointing to see B&Q announce the closure of five stores in the province, we believe this presents a good opportunity for new entrants to the local market.

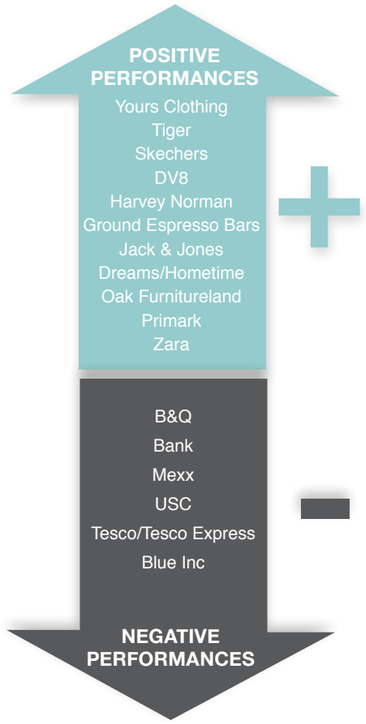
Value

This sector has seen the biggest slowdown in acquisitions in 2015 due to the fact that most value retailers have satisfied their key target markets and now have representation in many of Northern Ireland's towns and high streets. Home Bargains has continued to invest, securing further leasehold and freehold acquisitions throughout the province with a greater focus on out-of-town retail warehouse format stores. Clearly, this sector has had a direct impact on the food superstore sector, which has lost its greatest share of the food market to German value grocer Lidl.

SWOT Analysis

Source: Savills Reserach

Retailer Performance



Source: Savills Reserach

Summary and Outlook

- Northern Ireland's retail scene, particularly in Belfast, is looking its healthiest in 5 years.
- The commercial rating revaluation has rebalanced the rates payable across the province meaning there have been winners (Belfast City Centre) and losers (out-of-town retail).
- A new pool of retailers has entered the Northern Ireland market with its primary focus being on Belfast. However, Savills predicts a controlled roll-out by a number of brands to dominant retail centres throughout the province.
- Given the recent high level of demand and take up in Belfast City Centre, there is now a lack of supply of larger retail floor plates. Savills believes retail development/redevelopment will be required in 2016 to facilitate some of these larger format retailers.
- Easier access to finance in 2016 should benefit the secondary and tertiary locations as local and independent retailers acquire space.
- Rents are on an upward trajectory in most prime locations with many shopping centres now focused on re-establishing new rental tones. Secondary locations for the most part have bottomed out.

Office Market

Take-Up Activity

Savills Research estimates that approximately 310,000 sq ft of office space in Belfast City Centre was let in 2015; somewhat less than in the previous two years. Take-up in Q1 was 51,814 sq ft, 35,673 sq ft in Q2 and 31,622 sq ft in Q3. The year closed out strongly with take-up of 190,000 sq ft recorded in Q4. This space was let to a range of occupiers, notably within the technology/IT, professional services, financial services and Government sectors. Only four transactions were in excess of 10,000 sq ft reflecting the shortage of large units available. These comprised of:

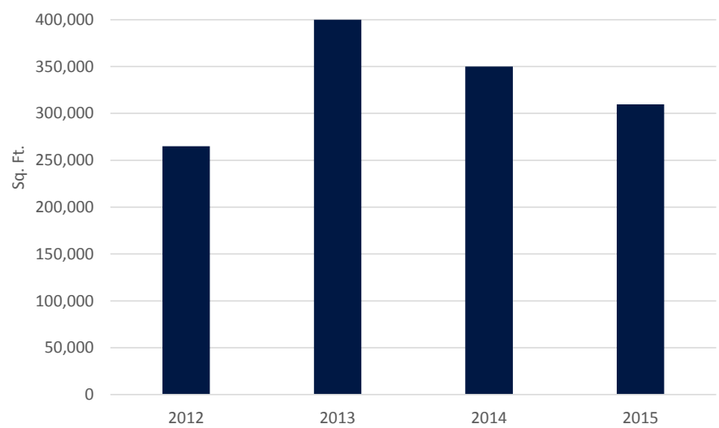
- Belfast City Council taking 100,000 sq ft at Adelaide Street.
- One City Quays, with Merchant Warehouse securing 22,800 sq ft.
- PwC adding a further 21,200 sq ft to their existing accommodation in Waterfront Plaza.
- Tech company Rapid 7 UK Ltd, who agreed 11,307 sq ft at Arnott House.

Government and Public Sector take-up was noticeably higher in 2015, but this was skewed by the single letting of 100,000 sq ft at Adelaide Street, which accounted for 87% of the total space taken by the sector.

The soaking up of current prime office space within Belfast City Centre over the course of the year has continued to compound the chronic shortage of Grade A space. This has resulted in an inability to service present levels of occupational demand, particularly for large floor plates. New quality office stock is in short supply and Savills is aware of live requirements of between 218,000 sq ft and 321,000 sq ft of Grade A space. The polarisation between prime and secondary stock has led to vacancy rates for the best space within the CBD falling to low single digits.

CHART 3

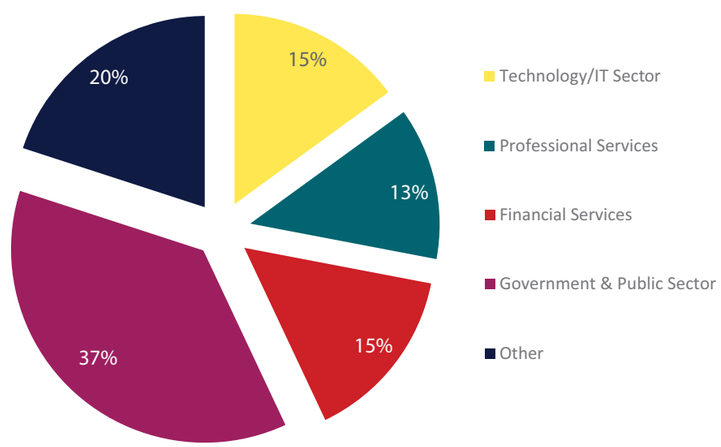
Office Take-Up



Source: Savills Research

CHART 4

Office Take-Up by Tenant Type – 2015



Source: Savills Research

Average Letting Size

The average letting size in the Belfast office market over the last four years has been just shy of 6,000 sq ft. Similar to the Dublin market, this reflects the relatively low level of large lettings to a single tenant. While the last four years have seen fewer than 20% of lettings being in excess of 10,000 sq ft, this did change in 2015. The four transactions in excess of 10,000 sq ft – mentioned previously – accounted for approximately 50% of the total lettings for the year and demonstrates the latent demand for large Grade A office space. Savills is currently aware of at least eight occupiers with prime office requirements in excess of 15,000 sq ft. Coupled with continued rental growth, this should assist developers in achieving viability and to secure the pre-lets required by funders for speculative schemes that are already in the pipeline.

TABLE1

Average Office Letting Size By Year

Year	Sq Ft
2012	5,472
2013	7,169
2014	5,280
2015	6,069

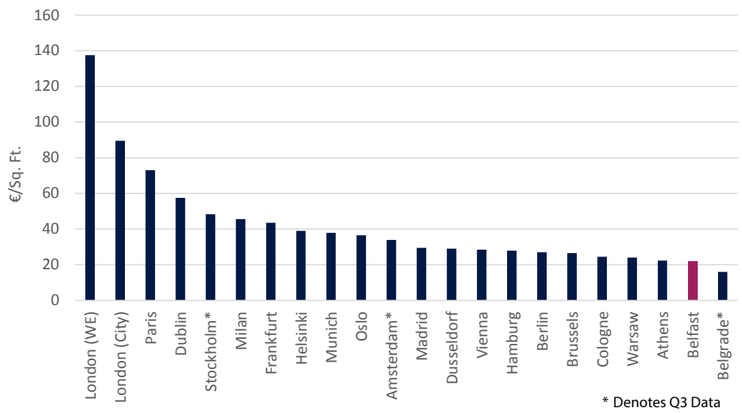
Source: Savills Research

Office Availability

It is estimated that the total current available office accommodation in Belfast is in the region of 488,000 sq ft. Of this, approximately 150,000 sq ft is Grade A space, while the remaining 338,000 sq ft represents Grade B accommodation. Availability has reduced year-on-year since 2012, resulting in a current shortage of Grade A office space. This is compounded by the lack of new developments coming to market. While there is strong demand for large open-plan floor plates in excess of 15,000 sq ft, most of the existing Grade A stock is arranged as small floor plates less than 5,000 sq ft and fragmented across multiple buildings throughout the City Centre, making it difficult to service large space requirements. Savills estimates that prime rents need to reach £18/sq ft in order to render speculative development viable.

CHART 5

Comparative Prime CBD Office Rents - Q4 2015



Source: Savills Research

Office Rents

The Belfast market continues to perform in line with trends experienced in the stronger regional cities throughout the UK. However, it still falls well behind in terms of rental levels with prime rents now sitting between £17 and £18/sq ft in the CBD. Belfast's prime office rents are also comparatively low by international standards with only one city in the accompanying chart having lower prime rents. The pent-up demand for large, centrally located CBD office space should mean that well-located new developments are able to command rental premiums.

Summary

Rental Forecast

As the imbalance between the short supply and strong demand for prime office space within the CBD deepens, Savills expects rental levels to grow over the next twelve months. Our expectation is for headline rents to approach £20/sq ft in 2016 for new build development schemes. The shortage of Grade A space will continue to drive more landlord friendly lease terms, resulting in a narrowing of the gap between headline and net effective rents. The proposed corporation tax reductions should lead to a step change in corporate demand and may see Belfast rents begin to catch up with other regional UK cities.

Development Pipeline

Belfast is currently witnessing some exciting redevelopment activity, with a notable focus around regeneration of the North Eastern quarter of the City Centre. The first phase of the £250M City Quays development is now complete and the 68,847 sq ft office building is fully let. The next phase, CQ2, comprises a 94,527 sq ft office building and is due to commence early this year. Savills Research estimates there is approximately 777,100 sq ft of major office development/refurbishment schemes in the pipeline. Speculative development is likely to increase over the next couple of years as rental levels surpass the viability trigger point of £18/sq ft. This should assist in obtaining development funding provided the necessary agreements to lease are in place. Invest NI has also pledged funding to support major schemes in Belfast. In the short term, it is unlikely there will be any speculative office development outside the CBD or regionally, although there may be opportunities in certain locations to gain value by redeveloping secondary assets through change of use to residential, hotel or student accommodation.

TABLE 2

Prime Office Development Pipeline (Current development and refurbishment projects)

Property	Address	Developer	Sq Ft
East Bridge Street	East Bridge Street	Kilmona	230,000
Centre House	Chichester Street	Kilmona	130,000
Clarendon House	Adelaide Street	McAleer & Rushe	126,000
City Quays 2	Belfast Harbour	Lagan Construction	94,500
Londonderry House	Chichester Street	Kilmona	85,000
Queens Square	Victoria Street	Stargime	80,000
35-47 Donegall Place	Donegall Place	Lumina Capital	31,600
		Total	777,100

Source: Savills Research

Forecast Yield Performance

Prime office yields for properties in the heart of the CBD are estimated to be in the range of 6.25 - 6.75% for well let assets to blue chip covenants and good unexpired lease terms. Secondary office yields are in the range of 8 - 10%. In terms of office investment transactions, it is worth highlighting that 29 Clarendon Road, Clarendon Dock, Belfast sold for £6.64M at the end of 2015, which reflects an NIY of 7.2%. This is a purpose built, Grade A, HQ office building on the periphery of the CBD extending to 46,764 sq ft and fully let to CCEA (Government) with around 6.5 years unexpired at a passing rent of £586k per annum. There continues to be strong demand from international private equity funds, pension funds and Propcos all chasing a limited supply of prime office investments. Savills expects the combination of a shortage of prime office investment stock coming to market, coupled with headline rents pushing towards £18/sq ft, will ensure competitive tension and result in the hardening of prime yields over the next 12 months. The general sentiment is that there is a favourable yield gap in NI compared with the rest of the UK and RoI, fuelling strong demand, particularly for lot sizes below £15M.

Forecast Capital Performance

Belfast will continue to benefit from having the lowest office occupational costs and labour turnover in the UK. Importantly, increased competitiveness brought about by the devolution of corporation tax powers should fuel Foreign Direct Investment. Invest NI has also pledged financial support for prime new office development in excess of 50,000 sq ft, which should help address the commercial viability of new build development as headline rents rise. Continued competition from international funds, along with private equity funds and Propcos will be a key driver of rental growth which, in turn, will drive capital growth in the medium term.

Industrial

Market Overview

Approximately 1.6 million sq ft of industrial space was transacted in 2015, a 38% decline on 2014. Of this, 46% represented lettings, followed by sales at 33% and licence agreements at 21%. While the fall in overall take-up for the year looks somewhat disappointing, much of the weakness can be explained by the scarcity of available stock. Indeed, confidence among occupiers and clients is high and demand for space remains strong. Therefore, addressing this supply vs. demand imbalance is key for future growth.

Market Trends

Focus on County Antrim

As the economic hub of Northern Ireland, Co. Antrim accounted for 67% of all transactions in 2015. The sale of Shore Commercial Park and Derriaghy Business Park accounted for 21% of total take-up for the year. Other notable transactions included the licence of units at Central Park, Mallusk amounting to 75,638 sq ft, while the sale of 64 Mallusk Road and Sloefield Business Park, Carrickfergus – the latter of which by Savills – were also significant. Overall, there were 30 lettings totalling 439,676 sq ft across the county. Seventeen of these deals were for units less than 8,000 sq ft with an average headline rent at £3.82/sq ft.

Activity in Other Areas

Co. Londonderry had the second highest take-up in 2015, totalling 196,908 sq ft. The largest letting was 99 Dowland Road, while the largest sale was in Pennyburn Industrial Estate, comprising a warehouse extending to 6,299 sq ft with a capital value of £31.75 per sq ft.

In Co. Down, there were 20 transactions totalling 140,775 sq ft – 73% of which were sales. The largest of these was in Loughbrook Industrial Estate, Newry, extending to 10,000 sq ft.

Finally, take-up in Co. Armagh accounted for 8% of all deals totalling 124,340 sq ft. 80% of this was accounted for by licences, followed by sales at 11% and lettings at 9%.

CHART 6

Industrial Take-Up – 2015

Source: Savills Research

Outlook

Despite limited supply, rental growth has not driven values to a level that would justify large scale speculative development. However, over time, this should lead to upward pressure on rents which will eventually result in new development.

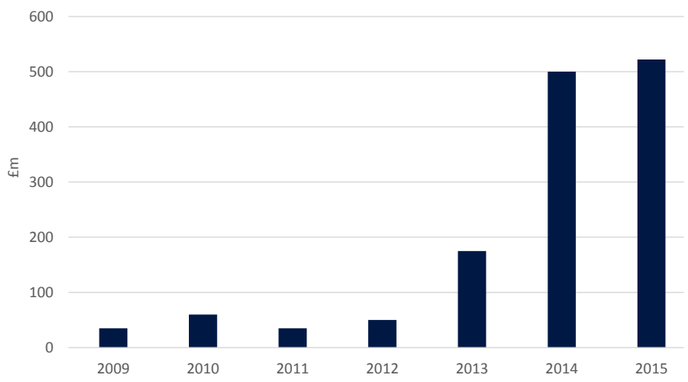
Summary

- Looking forward, and taking into consideration increased accessibility to funding and bank/financial institution deleveraging, Savills predicts further transactional activity in 2016.
- With supply contracting and demand increasing, we expect rents to rise to a level appropriate for speculative development. Furthermore, with occupier confidence rising and economic growth advancing at a steady pace, we expect vacancy rates to decline.

Investment

CHART 7

Investment Market Turnover

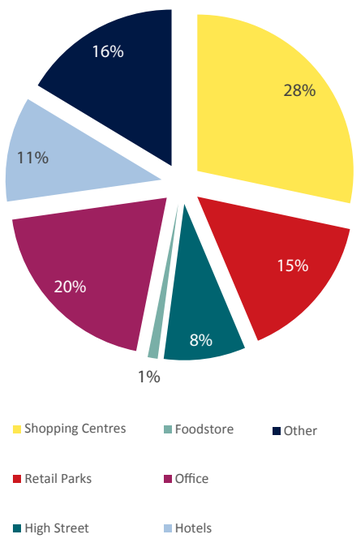


Source: Savills Research

For the second consecutive year, in excess of £500m worth of commercial property investment deals were transacted in Northern Ireland in 2015. Retail was again at the forefront, accounting for £272m (52%) of all transactions, followed by offices which totalled £100m (20%). A key driver of this activity was the return of rental growth which lifted both the prime retail and office markets off their post-recession re-based levels.

CHART 8

Investment by Sector – 2015



Source: Savills Research

Bloomfield Shopping Centre, Bangor. Sold by Savills in December 2015

TABLE 3

Summary of Key Investment Deals

Property	Location	Sq Ft	Price, £m
Bloomfield Shopping Centre and Retail Park	Bangor	418,000	54.5
Fairhill Shopping Centre	Ballymena	295,000	45.8
Erneside Shopping Centre	Enniskillen	157,834	34.25
The Showgrounds Retail Park	Omagh	89,982	26.7
Lisnagelvin Retail Park	Londonderry	62,102	16.7
Donegall Arcade	Belfast	75,000	16.0

Source: Savills Research

Forecast Yield Performance

The defining factor for the Northern Irish capital market place in 2015 was the return of rental growth for the prime retail and office markets. Significant capital value growth in 2016 will be restricted to those markets with a demonstrable rental growth story.

TABLE 4

Equivalent Yields for Prime Assets

Asset	Equivalent Yield (%)
High Street Retail	6.00
Retail Warehousing (Open A1)	6.25
Offices (Grade A)	6.25
Retail Warehousing (Bulky Goods)	7.00
Shopping Centres	7.25
Industrial	8.50

Source: Savills Research

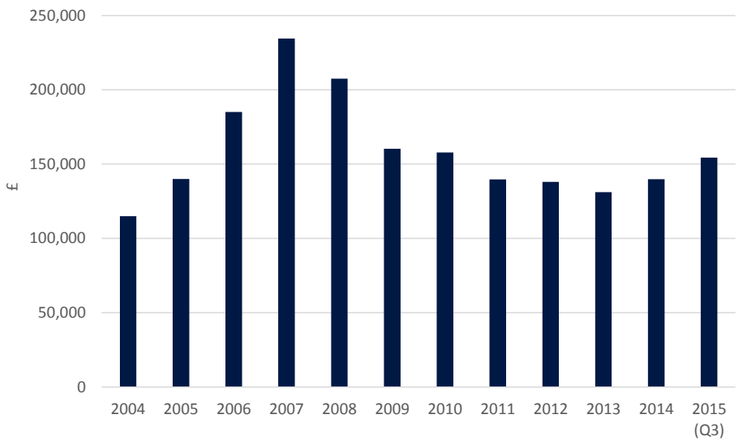
Housing

Market Overview

The Northern Ireland housing market is continuing to exhibit signs of a solid recovery. NI had the strongest house price inflation of any UK region in 2014 and, underpinned by steady economic growth and an improving labour market, this trend continued in 2015 with average prices up 8% year-on-year. Consensus forecasts are predicting increased activity and confidence which should lead to further capital growth over the medium term.

CHART 9

Average NI House Price by Year



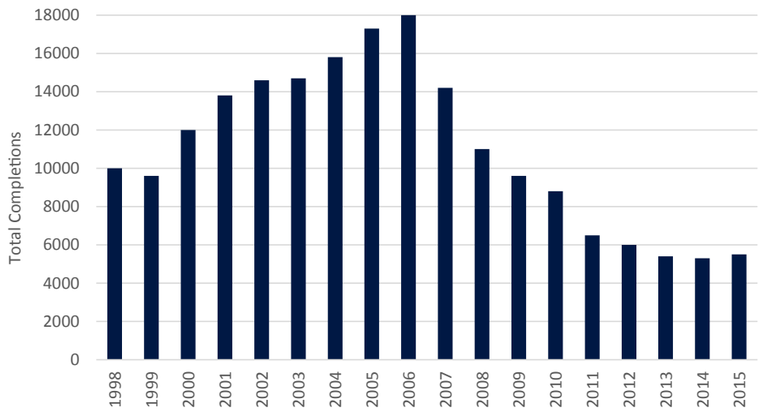
Source: Ulster University House Price Index

Supply

A key determinant of future capital growth in the residential market is the supply of new housing. Currently, this level is not only below the 25 year average, but also significantly below projected requirements. The Housing Executive's *NI Housing Market Review and Perspectives 2014-2017* forecasts a requirement of 190,000 new dwellings between 2008 and 2025 – approximately 11,200 per annum. In 2015, fewer than half of this number were completed.

CHART 10

Annual NI Housing Completions



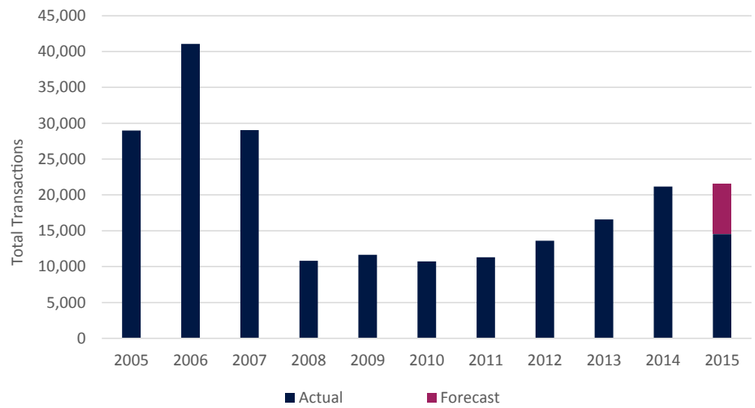
Source: Northern Ireland Housing Statistics 2014-2015 - DSD

Transactions

The sharp downturn in the construction of new dwellings post 2006/7 was reflected in the housing market by a parallel reduction in the number of sales. From a peak of more than 41,000 in 2006, residential transactions fell sharply to approximately 11,000 in 2008 and remained around this level until 2012. Since then, there has been a notable increase in the number of annual sales, with more than 21,000 recorded in 2014. And while this is still considerably fewer than the pre-boom average of around 30,000, it is nevertheless a clear indication that the housing market is undergoing a steady recovery. We believe 2015 posted similar results with close to 15,000 sales transacted in the first 9 months.

CHART 11

Annual NI Property Transactions



Source: Dept. Finance & Personnel NI

Price Trends

The most recent data show annual house price growth in NI of greater than 7%. Despite the fact that prices remain around 40% below their peak, the general consensus is for a steadier rate of growth in the medium-term. Current consensus forecasts are that average annual house price growth will be in the region of 6% per annum over the next three years. However, we would caution that there is likely to be a continuation of strong upward pressure on prices due to supply constraints and a construction activity lag.

CHART 12

Annual Growth in NI Residential Property Price Index

Source: Dept. Finance & Personnel NI

Development Land

Culmore Road, Londonderry. 36 acres sold by Savills in July 2015

Market Overview

This time last year, Savills predicted that, as residential property values continue to rise due to strong demand and short supply, the incentive for developers to commence house building on a larger scale will begin to emerge. This has indeed increased the demand for larger sites and a number of these were acquired during the year, including Rosepark in East Belfast, Rathgael Road in Bangor and Culmore Road, Londonderry. Indeed, we are also aware of a number of other large sites due to contract in 2016.

Developer Activity

In terms of residential planning, granted applications have fallen from their peak of close to 25,000 in 2005-06, to approximately 6,400 in 2014-15. The majority of planning decisions granted last year related to urban extensions and alterations (27%) and rural new single dwellings (25%). One notable area of growth in 2015 was the rise in private owner/speculative developments. The number of starts in this area increased by 19% from the previous year compared to a social housing development decline of 18%. On the completions side, private development rose by 6% year-on-year, while social housing contracted by 7% over the same period.

Commercial Market

The defining factor for the commercial market last year was the cost of construction in comparison to achievable capital and rental values. This led to a stagnant development market, with many schemes still not economically viable. Furthermore, commercial development growth did not emerge due to the unwillingness of banks and financial institutions to lend when it came to more speculative plans. Therefore, major development only took place where the land was already intrinsically held such as City Quays 1 and City Quays 2, the latter of which is set for early 2017 completion. Planning permission was also granted for two student housing schemes which will comprise of approximately 1,100 beds.

Outlook

Development land sites are experiencing competitive bidding due to limited supply and increased demand, leading to higher capital values. However, with a number of financial institutions and equity funds who entered the market purchasing distressed assets nearing their expected 5 year exit strategy cycle, we expect to see several key assets return to market.

Savills is also aware of several banks that are becoming more willing to fund both residential and commercial development. However, significant developer contribution is still required for residential, while for commercial schemes, pre-letting is still essential. Despite these barriers to development, we do expect lending constraints to ease further, which should reduce the pressure on stock over the medium term.

Overall Summary and Outlook

- The Northern Ireland economy is expected to grow at a solid pace of close to 2% in 2016. This will be supported by increased demand from Europe, where it is expected consumption will pick up, as well as continued domestic growth in response to lower energy prices working like a tax cut to the household. Over the medium term, the introduction of a lower rate of corporation tax to align with the Republic's 12.5% should spur further FDI and drive occupational demand.
- Given the lack of supply of larger retail floor plates in prime locations, Savills believes development/redevelopment will be required this year. A further easing in lending restrictions should also support development in secondary and tertiary locations, which have now seen rents bottom out.
- There continues to be strong demand from international private equity funds, pension funds and Propcos all chasing a limited supply of prime office investments. With a shortage of Grade A space, and strong demand for large open plan floor plates, we do expect speculative development to increase over the next couple of years as rental levels surpass the viability trigger point of £18/sq ft.
- With the supply of industrial property dwindling and demand continuing to rise, rents are expected to increase to a level where speculative development becomes viable.
- Average annual house price growth is forecast to be in the region of 6% per annum over the next 3 years. We are continuing to see a lack of supply in the face of solid demand stemming from steady economic growth and a greater willingness from banks to lend. With interest rates set to remain unchanged for longer than previously expected, the low cost of borrowing will also support demand and fuel price growth. In turn, this will continue to drive up the price of development sites for sale.

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