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SAVILLS NORTHERN IRELAND

Lisnagelvin Shopping Centre, Londonderry. Sold by Savills in Q4 2016.

Summary

- Following a Brexit related slowing in momentum, Northern Ireland's economy picked up pace in the final quarter of 2016. Weak Sterling drove exports and retail trade to their best levels in fourteen years and employment firmed. However, uncertainty stemming from the upcoming EU exit negotiations, the new Trump administration and the collapse of the Northern Ireland Assembly are all likely to weigh on economic growth in 2017.

- Commercial real estate investment halved in 2016 with turnover levels reaching £260m versus the £520m achieved in 2015. Uncertainty stemming from both Brexit and the US presidential election weighed on activity.

- Retail continued to perform well accounting for 54% of activity although overall investment was lower than 2015. Cross-border shopping buoyed sales and underpinned take-up helping to drive rent increases. While prime Belfast provided much of the focus, activity in terms of lettings, refurbishments and extensions ("rightsizing") was also robust in secondary city locations, shopping centres and Out-of-Town locations. The "rightsizing" trend is expected to continue in 2017.

- Office take-up reached just over 435,000 sq. ft., a post-recession record, driven by an unusually high number of large deals. The resultant low vacancy rate (2.7% for Grade A) has seen rents rise to £21.50 per sq. ft. per annum. This has encouraged new development and there is currently 618,000 sq. ft. under construction or refurbishment in Belfast.

- The amount of industrial space transacted rose by 19%. However, transaction numbers fell, as fewer small deals were concluded. Activity was also weighted to the first half of the year although this was more a function of a lack of quality supply rather than Brexit uncertainty. Supply will continue to be the main constraint in 2017.

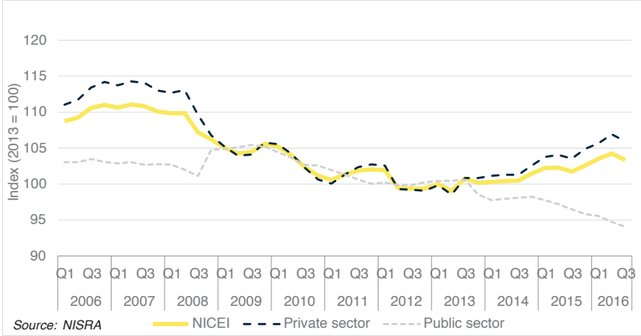
- House prices remained solid in 2016, rising by 5.4% yoy in Q3. Rents also continued to increase. With new housing supply continuing to undershoot demand, the market will remain underpinned in 2017. Policy moves to address the shortfall will take time to materialise, particularly as there is currently no government in place. While the Brexit effect has been more muted than expected, buyer sentiment is likely to be fragile in 2017.

Economic Overview

The latest Northern Ireland Composite Economic Index (NICEI) suggests that the economy lost some momentum after the Brexit vote with the headline rate contracting by 0.9% qoq in Q3. While all sub-components of the Index contracted on a quarterly basis the weakness was driven by a cooling in the private sector (-0.9% qoq), its first such contraction in a year. This in turn stemmed from the Services (-0.5% qoq) and Construction (-1.8% qoq) sectors. Overall, annual growth in the Index slowed from 1.9% in Q2 to 1.6% in Q3. This loss of momentum is also reflected in the most recent employment data for the province which saw job growth slow from 2.6% to 1.9% yoy between Q2 and Q3.

CHART 1

Northern Ireland Composite Economic Index



However, the Ulster Bank Northern Ireland PMI indicates that the loss in momentum may have been short lived. It rose to 58.7 in December, its highest level in almost two-and-a-half years with higher export orders driving a marked increase in new business. Indeed, Q4 2016 export orders reached their highest level since the survey began fourteen years ago. Retail also posted its strongest ever quarterly performance. Both exports and retail are benefitting from the weakness in Sterling with the latter seeing a pick-up in demand from the RoI. The PMI also indicated that employment conditions also improved, particularly in the retail sector.

The Northern Irish economy has started 2017 with significant momentum. However, with "hard" Brexit and a protracted exit negotiation looming, uncertainty will weigh on growth. The collapse of the Northern Ireland Assembly adds a level of political uncertainty domestically. In addition, the PMI indicates that the competitive rate of Sterling is starting to drive inflation which will erode some of the competitive advantage that Northern Irish retailers are currently enjoying.

Retail Market

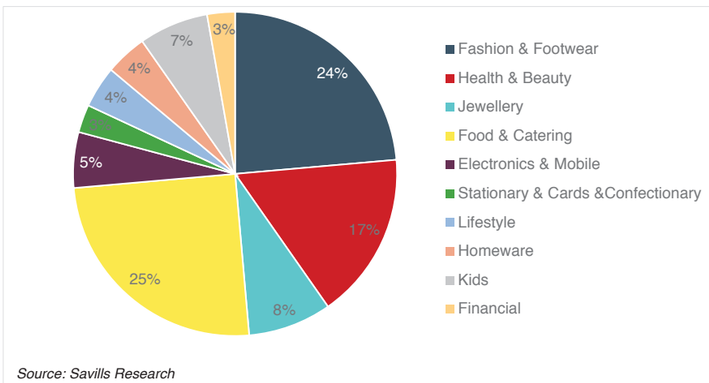
Despite the uncertainties, Northern Ireland's retail market continued to gather momentum in 2016 with positive retailer performances and robust letting activity. Uncertainty and cooling consumer confidence were offset by Sterling weakness. The latter stemmed spend leakage and encouraged shopping visits and spend from RoI. This was particularly true for the border towns of Newry, Strabane, Enniskillen and Londonderry where a significant increase in footfall helped to boost turnover by as much as 30% on a like-for-like basis.

While Belfast City Centre continues to be the main focus for new retailer entrants, established brands, including, Specsavers, Skechers, Superdry and Swarovski are expanding into the stronger provincial retail schemes. As a result, we expect to see vacancy rates fall further in these locations

On the downside there has been some retail closures, notably BHS and B&Q which closed four stores each in the province. However, this presents new opportunities to the market and replacement retailers and speculative investors are already acquiring the space.

CHART 2

Prime Retail Take-Up – 2015



Belfast City Centre

Belfast experienced strong take up in 2016 with many new names taking space. Activity was not solely focused on prime pitches and centres. Secondary locations such as Ann Street, High Street and Royal Avenue also attracted retailers. This uplift in demand has greatly reduced vacancy levels, placing upward pressure on rents which resulted in Zone A rents trending in excess of £150 per sq. ft. per annum for prime city centre pitches.

Whilst much focus has been on the new entrants, 'rightsizing' by existing retailers has also created significant transactional activity. This included adding store portfolios and in certain cases opening flagship stores. Rightsizing retailers in 2016 included:

- Toys R Us - Castle Court
- Lifestyle Sports – Victoria Square
- Pandora – Cornmarket
- Pizza Express – St. Anne's Square
- Caffè Nero - Soloist
- Specsavers - Victoria Square
- Ecco – Victoria Square
- Shuropody – Ann Street
- Sports Direct – Donegall Arcade

TABLE 1

NEW RETAILER ENTRANTS TO BELFAST CITY CENTRE IN 2016
The Entertainer
Greggs
Newbridge Silverware
Stradivarius
Moss Bros
Kiko Milano
Sostrene Grene
Zizzi
Kua'Aina
Patisserie Valerie

Stradivarius, Donegal Place, Belfast.

Primark has commenced works to redevelop and extend its flagship store on Castle Place which will see 48,000 sq. ft. of floor space added by 2018.

Victoria Square continues to attract a strong fashion spend from its tenant line-up and new additions, including Lifestyle Sports, Ecco Shoes and Specsavers, have helped to strengthen its tenant mix. House of Fraser has invested substantially, introducing new brands and concessionaires to its refurbished store.

Castle Court also continues to improve with The Entertainer, Toys R Us and Uberfone adding a new dimension to the tenant mix in what remains Northern Ireland's busiest centre.

The North East quarter of the City Centre is preparing for an influx of students due to the University of Ulster's new campus at Donegall Street/Royal Avenue. Retailer interest is focused on the Royal Avenue and Cathedral Quarter areas, which will benefit from this regeneration.

Tight supply in Belfast should encourage developers to upgrade and provide new retail space. In this vein, attention will soon turn to the planned mixed use scheme by Castlebrook Developments at the Royal Exchange. This scheme is subject to a revised planning application lodged last July and will comprise a department store, retail, residential, offices and leisure uses.

Shopping Centres

The supportive economic backdrop has also benefitted shopping centres and underpinned both new lettings and investment in the sector.

Forestside in South Belfast is now fully let following new lettings to Argento, Holland & Barrett and Uberfone. Dunnes Stores completed a significant refurbishment and modernisation of its store in the centre which saw the conversion of its first floor to retail from storage, enabling the provision of a greatly expanded fashion and homeware offering.

Abbey Centre has just completed a significant extension which included a new 43,000 sq. ft. dual format Next and an extended 32,000 sq. ft. Dunnes Stores. The centre has also successfully completed new lettings to Nando's, Caffè Nero and The Works.

Bloomfield Shopping Centre, now in new ownership, experienced substantial investment, with lettings to Next, Superdrug and Specsavers. Further works are planned for 2017 to reconfigure space to meet modern size requirements.

Ards Shopping Centre secured a number of new lettings in 2016 with the introduction of JD Sports, TK Maxx, B&M Bargains and Starbucks.

Superdry opened its first store outside Belfast City Centre at The Quays in Newry where construction of the next phase comprising a 100,000 sq. ft. extension of new retail and restaurant floor space has commenced. Next will upsize from its current pitch in the centre to anchor the extension. Foyleside Shopping Centre in Londonderry completed new lettings to Swarovski, Card Factory and Uberfone in 2016 and in Rushmere Shopping Centre, River Island has upsized and refitted its current unit to 9,000 sq. ft.. Elsewhere, Bow Street Mall in Lisburn completed new lettings to Peacocks and DV8. Erneside Shopping Centre saw completed lettings to JD Sports and upsized Holland & Barrett and is currently fully let.

EZ Living, Shane Retail Park, Belfast.

Out-of-Town

The Out-of-Town retail sector has seen similar positive trends to those in the Shopping Centres. The strength of the furniture sector, underpinned by the steadily improving residential market, is demonstrated by EZ Living's commitment to open its first Northern Ireland store in Shane Retail Park on Belfast's Boucher Road. Dreams also opened its sixth store in Clandeboye Retail Park, Bangor and refitted stores in both Belfast and Newtownabbey. Go Outdoors opened a 40,000 sq. ft. outlet in Valley Retail Park, Newtownabbey, its first in Northern Ireland. Also in the area Smyth's Toys opened a 20,000 sq. ft. store, its sixth in Northern Ireland.

Disappointingly B&Q closed four stores in Belfast, Londonderry, Craigavon and Ballymena. However, this offers opportunity as demonstrated by new entrant The Range. It has taken assignment of B&Q's lease in Ballymena totalling 60,000 sq. ft. and signed a lease for a 45,000 sq. ft. split of B&Q Londonderry.

In the grocery sector, the 'Big 3' Tesco, Asda and Sainsbury's remain static with no new store developments in 2016. Meanwhile value grocer Lidl continues to invest in its stores with a number of redevelopments and extensions completed in 2016. Lidl is now seeking larger format stores of 25,000 sq. ft.. At the other end of the spectrum, M&S has announced its intention to acquire more M&S Food Hall stores in Northern Ireland, which remains one of its strongest trading regions.

The 'discounters', in particular B&M Bargains, Home Bargains and the newly arrived The Range, continue to compete for floor space with a greater emphasis on large floor plates. The most significant deal in this space was the aforementioned acquisition by The Range of the former B&Q warehouse in Ballymena.

The Out-of-Town market is experiencing one of its lowest vacancy levels in the last 5 years with improving lease terms and even headline rental growth in some locations. Shane Retail Park on Boucher Road is now reporting headline rents of £20 per sq. ft..

Food and Beverage

There was lots of activity in the Food and Beverage sector with both local and national multiples expanding across the province in 2016. Existing brands Prezzo, Pizza Express, and Nando's have all been acquisitive as have new entrants Zizzi and Patisserie Valerie, with the latter planning further expansion. Local chain Boojum also opened a new outlet on Great Victoria Street and is planning a further roll out which includes RoI. Greggs continues to be the most active in the market securing seven units in Northern Ireland over the last twelve months and announcing plans to open another ten to twelve stores in 2017.

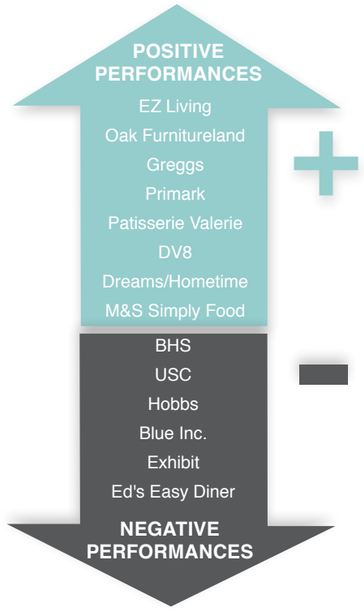
TABLE 2

Restaurant Group	Location
Greggs	City Centre
	Provincial Towns
Boojum	Great Victoria Street
Nando's	Boucher Road
	Newtownabbey
Patisserie Valerie	Castle Lane
	Donegal Square West
Pizza Express	Ballyhackamore
	St Anne's Square
Prezzo	Boucher Square
Zizzi	Victoria Square

Coffee culture continues to fuel expansion of mainstream brands with Costa Coffee acquiring six outlets, Caffè Nero two sites and Starbucks four. On a local level, Ground Espresso Bars opened four new outlets in 2016 and has plans for further store openings in 2017.

In contrast, the Restaurant Group took the decision this year to close five of its seven Northern Ireland restaurants in Belfast, Ballymena, Bangor, Coleraine and Londonderry as part of a UK group disposal. We understand the portfolio is under offer to a new restaurant entrant which underlines the opportunity posed by the food and beverage market.

Retailer Performance



Summary and Outlook

- Northern Irish retail experienced another strong year in 2016 buoyed by RoI shoppers taking advantage of Brexit related Sterling weakness.
- Primary focus remains on Belfast but it is filtering to secondary locations driven by new entrants and existing tenants resizing.
- Refurbishments and extensions of exiting shopping centre stock, which was a feature in 2016, is expected to continue in 2017.
- The trend for larger store floor plates is supporting Out-of-Town locations.
- Tight supply is expected to support rental growth as retailers continue to compete for prime space on high streets and within the popular schemes.
- Notwithstanding the boost from a competitive Sterling, which will ultimately be inflated away, Brexit creates uncertainty for the sector.

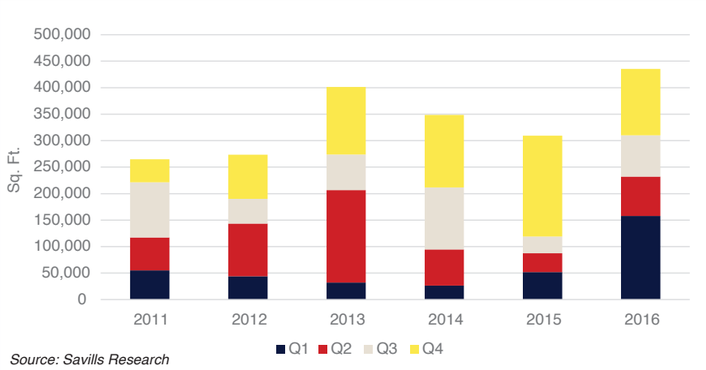
Office Market

Take-Up

2016 saw just over 435,000 sq. ft. of take-up across 63 transactions in Belfast, a post-recession record. This represents a 40% uplift on 2015 and is 36% higher than the previous 5 year average. Positive momentum from the final quarter of 2015 saw take-up in Q1 of 157,944 sq. ft., with Q2 and Q3 returning to more normal levels of 75,000 sq. ft. each, before take-up accelerated again to 125,133 sq. ft. in the final quarter. The number of large deals was also higher than average with fourteen deals between 10,000-50,000 sq. ft. compared to the 5 year average of just six. Thus far Brexit does not appear to have adversely impacted the market.

CHART 3

Take-Up Per Annum

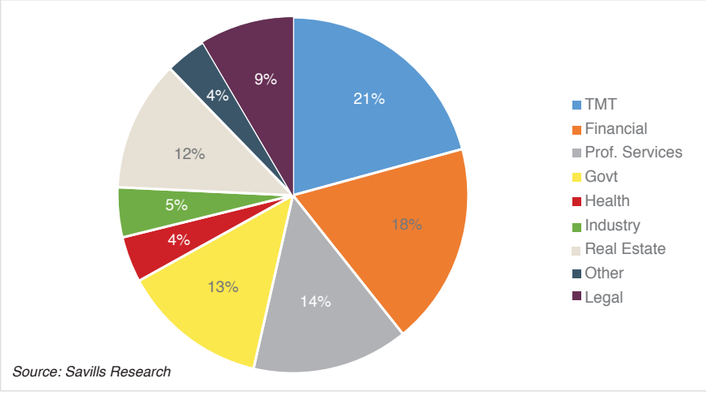


Source: Savills Research

The Tech, Media and Telecom (TMT) sector was the most active accounting for 14 of the 63 deals and 90,604 sq. ft. or one fifth of total take-up (average deal size 6,472 sq. ft.). 24% of the TMT take-up was by new entrants highlighting Belfast's growing international reputation as a location for the sector. Financial services was the second biggest by sector by take-up but this was boosted by KPMG's relocation to The Soloist. Government and Real Estate accounted for 13% and 12% of take-up respectively. Regus was the most active tenant in the market accounting for 9% (40,000 sq. ft.) of the total take-up across three new locations.

CHART 4

Take-Up Per Sector



Source: Savills Research

TABLE 3

Top 5 Transactions

Tenant	Location	Size (sq.ft.)	Quarter
KPMG	The Soloist, 1 Lanyon Place	39,374	Q4
Axiom	Lincoln Buildings, Victoria Street	26,100	Q4
Liberty IT	Adelaide Exchange, Adelaide Street	26,000	Q1
DSD	Cleaver House, Donegall Square North	22,727	Q1
Tourism NI	Linum Chambers, Bedford Street	17,649	Q3

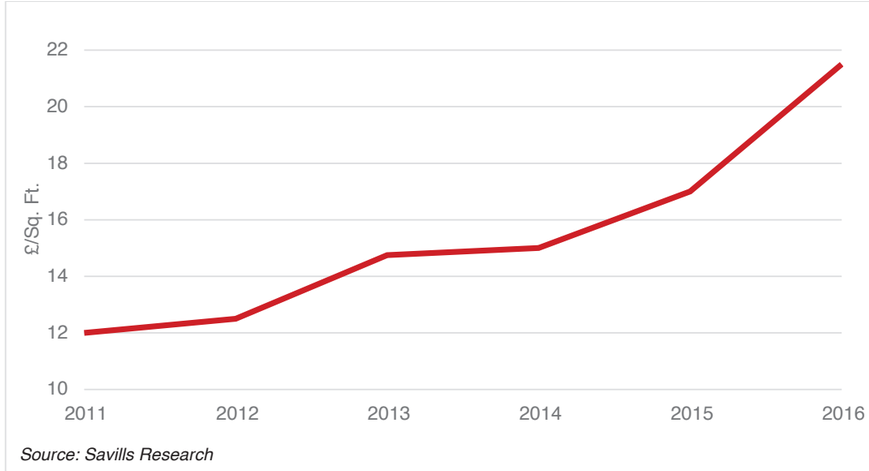
Rents and Lease Terms

Preference continues to be for Grade A space which accounted for 61% of the total take-up. This has led to continued upward pressure on prime rents which increased by over 25% in 2016 from £17 per sq. ft. to £21.50 per sq. ft. in 2016. Despite this Belfast remains the most affordable rental location of all regional cities in the UK and Ireland. In addition, while rapid growth in rental levels will cause occupier concern, rent generally accounts for less than 10% of business costs and the effect on affordability is marginal compared to the labour cost saving in Northern Ireland.

Lease terms for prime buildings are a minimum 10 years with refurbished and Grade B options still offering 5 year terms. Typically rent frees are between 3-6 months for a 5 year term depending on the condition on handover.

CHART 5

Prime Headline Rents - Belfast



Source: Savills Research

New Supply

As a result of strong take-up and the continued lack of new supply, available space continues to deplete. The overall vacancy rate at the end of the year was 7.4%. However, the more revealing and relevant figure is the vacancy rate for Grade A stock which is at 2.7%. The tight office market and rising rents have attracted development and there is currently 618,000 sq. ft. across 9 developments under construction or refurbishment in Belfast. Almost two thirds (396,000 sq. ft.) is already reserved. Looking ahead there are a further 20 developments that received planning approval that are not on site and an additional 18 are in the planning or pre planning stages.

Reflecting Belfast City Council's policy and focus on regenerating the city centre, the majority of the proposed development (73%) is concentrated in this location and designated development zones in the Titanic Quarter and the City Quays.

FIGURE 1
Supply Map

One Bankmore Square, Belfast – 250,000 sq. ft. of offices over 12 storeys with Ground Floor retail.

Summary and Outlook

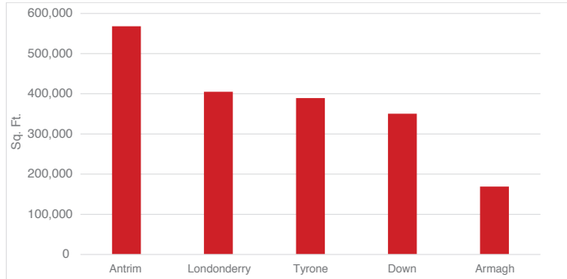
- 2017 will eclipse 2016 take up due to a few significant pre-lets that are expected to sign. However, there will be fewer transactions due to the lack of quality supply in the more active size categories.
- Financial and Government sectors will dominate take up in 2017 with a few large deals due to impending lease events. However, TMT is also expected to remain very active with larger numbers of small deals.
- Short term flexible space and serviced offices will perform strongly meeting a market demand.
- As a result of limited existing Grade A stock, good quality refurbished buildings will achieve prime rents of between £20-22 per sq. ft., however occupiers will pay a premium for Grade A pre-lets that can meet their requirements
- However, larger occupiers will derive more value from the new buildings due to greater focus on efficiency per sq. ft. as opposed to rent per sq. ft.
- Speculative development will commence in the city centre and the quantum of refurbishments will pick up pace.
- Despite the dramatic spike in rents over the course of 2016, tight supply will be the greatest challenge to the market in 2017.

Industrial

New Supply

Approximately 1.9 million sq. ft. of industrial space was transacted in 2016, a 19% increase on 2015. However, the number of transactions was down to 69 deals from 107 in 2015. This reflects fewer small deals with only 28 transactions sub 10,000 sq. ft. compared with 66 in 2015. Sales accounted for 31 of the transactions and 70% of the total take up (1.3 million sq. ft.) while leasing only accounted for 1 of the top 10 transactions. Activity was weighted to the first half of the year which saw 66% of take up. The slowdown in H2 was driven by a lack of quality supply rather that any negative sentiment surrounding Brexit.

CHART 6
Industrial Transactions by Geography - 2016



Source: Savills Research

Geographical Trends

While Antrim remained the most active in terms of volumes, accounting for 41 transactions, it did not feature in the top 10 transactions by size. This illustrates the tight supply conditions that exist in what is the economic hub of Northern Ireland. Banbridge, Co. Down was the strongest performing regional town with 5 transactions in excess of 50,000 sq. ft. The location benefitted from both the quality of supply on offer and its accessibility to the M1. The year's largest transaction was the sale of Shackleton Barracks (400,000 sq. ft.) in Londonderry which is subject to the purchaser further developing the site to create some much needed supply.

Summary and Outlook

- While the availability of quality stock in desirable areas continued to deplete in 2016 neither transactions nor rents reached the levels required to stimulate speculative developments.
- There are a number of Design & Build requirements that should sign in 2017 which will see the replacement of existing defunct facilities and be a positive for the market.
- However, there will still be a disconnect between the requirements of medium sized occupiers and the existing supply.
- Pent up occupier demand is expected to result in tenants paying an economic rent and established developers are actively seeking opportunities to purchase land to deliver industrial products.

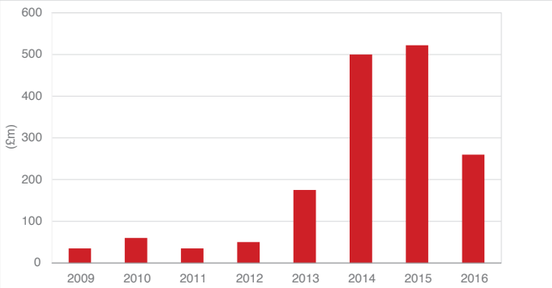
Investment

Market Overview

2016 commercial real estate investment levels reached £260m in Northern Ireland. This represented a 50% decrease from the £520m recorded in 2015. Much of this reduction was due to general uncertainty attributable to both the Brexit referendum and the U.S. presidential election.

CHART 7

Investment Market Turnover



Source: Savills Research

Despite the shock of Brexit, the market paused rather than stopped, allowing time to reconsider pricing, as opposed to investors reneging on transactions. Despite the uncertainty, property still remains a fundamentally secure asset class, providing strong income returns and an opportunity for capital preservation in the longer term.

Retail was again to the fore accounting for 54% of total CRE volumes. Four shopping centres traded for a combined figure in excess of £25m, whilst seven retail parks transacted across the province for a sum close to £90m and nineteen office investments completed for a combined figure of £75m.

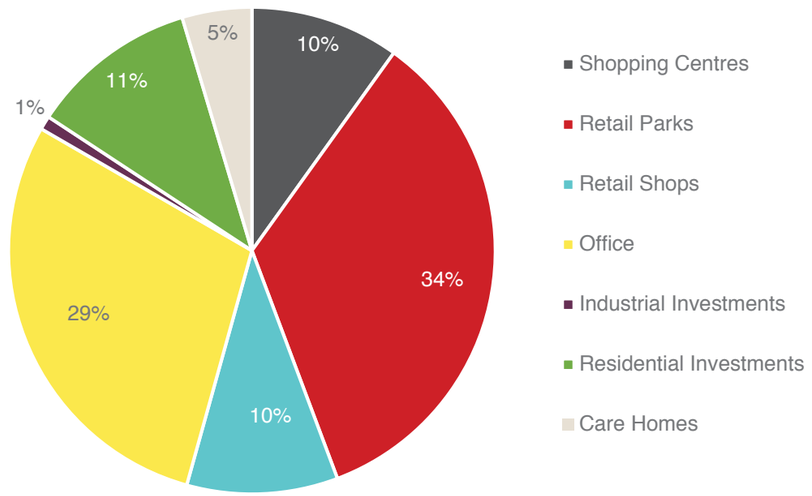
TABLE 4

Investment Market Turnover

Property	Sector	Location	Price £m
Damolly Retail Park	Retail Park	Newry	In excess of £30m
John Bell House	Student accommodation	Belfast	26.0
Junction One	Retail	Banbridge	21.8
Lisnagelvin Shopping Centre	Retail	Derry	14.7
Marlborough Retail Park	Retail	Craigavon	14.3
Currys/PC World, Sprucefield	Retail	Lisburn	13.9
Capital House	Retail & Office	Belfast	11.0
The Outlet	Retail	Banbridge	In excess of £11m
Lesley Buildings	Office	Belfast	8.0
Ulster Bank EOS Portfolio	Office	Belfast/ Lisburn	9.9

CHART 8

Investment by Sector 2016 (%)



Source: Savills Research

B&Q, Marlborough Retail Park, Craigavon. Sold by Savills Q2 2016.

Currys/Pc World, Sprucefield, Lisburn. Acquired by Savills in Q4 2016.

Investment potential

The Northern Ireland CRE market continues to offer investors attractive returns when compared to similar assets in Great Britain. The table below compares Northern Ireland's prime yields (Belfast or Greater Belfast) with other regional UK locations. This illustrates the comparative discount available for investors willing to transact in Northern Ireland and highlights the opportunities for investment that the region offers.

TABLE 5

Equivalent Yields for Prime Assets Table – UK Comparison

PRIME ASSETS	Belfast Equivalent Yield	Liverpool Equivalent Yield	Manchester Equivalent Yield	Leeds Equivalent Yield
High Street Retail	**5.50%**	4.75%	4.50%	4.75%
Retail Warehousing (Open A1)	**6.25%**	5.50%	5.25%	5.25%
Offices (Grade 'A')	**6.25%**	6.00%	5.25%	5.50%
Retail Warehousing (Bulky Goods)	**6.75%**	6.25%	6.00%	6.00%
Shopping Centre	**6.50%**	4.50%	4.50%	4.50%
Industrial	**8.50%**	5.50%	5.00%	5.25%
Student Accommodation	**6.25%**	6.00%	6.00%	6.00%

Summary and Outlook

- Global politics will create uncertainty in 2017 with European elections, the triggering of Article 50 and the President Trump administration all weighing.
- Political uncertainty within the Northern Ireland Executive may hinder the reduction of Corporation tax to the reviewed 12.5% level.
- However, despite both economic and political uncertainty, investor appetite remains positive for Northern Ireland. This is evidenced by Savills acquisition of an asset for a major UK pension fund in December 2016, at a figure close to £14m.

Housing

Market Overview

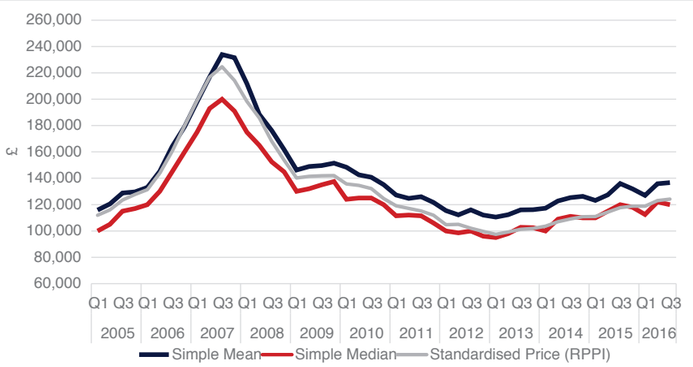
Following a peak to trough decline of 57% house prices in Northern Ireland started to recover in early 2013 and have risen by 27% since then. Despite the shock of Brexit, house price growth remained solid in Q3 2016, growing by 5.4% yoy according to the Northern Ireland Residential Property Price Index. This makes it the twelfth consecutive quarter of house prices. There was a small decrease in activity in Q3 2016 with the number of transactions recorded in the quarter falling to 5,200 from 5,820 a year ago. While it is difficult to forecast the impact of the outcome of the Brexit negotiations, its influence on the housing market is muted thus far and is likely outweighed by tight supply conditions. However, buyer sentiment is likely to be fragile across all sectors of the market during the period of upcoming exit negotiations.

Although the market has generally been healthy both price growth and transactions levels have been volatile, particularly in the first six months of the year. This reflects stamp duty changes, local assembly elections and, of course, the uncertainty surrounding the EU Referendum. The number of verified transactions fluctuated from 5,951 in Q1 to 4,586 in Q2 and then recovered to 5,200 by Q3, which included the traditionally quiet summer months in terms of house sales in Northern Ireland.

Semi-detached houses remain the most common buy (see Chart 10). However, the strongest growth in demand has been for terraced houses and apartments with the former also out-performing the market in terms of price growth. This suggests that there is strong demand from first time buyers who are usually more active in these affordable segments.

CHART 9

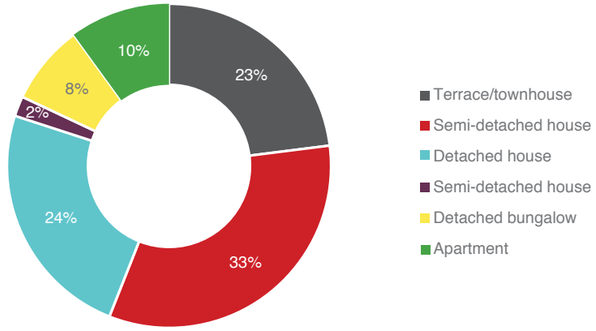
Northern Ireland House Price Index– All Residential Properties



Source: NI Statistics & Research Agency and Land & Property Services

CHART 10

Market Share by Type of Property



Source: The University of Ulster NI Quarterly House Price Index

TABLE 6

Price performance by type of property

Property Type	Percentage Change on Previous Quarter	Percentage Change over 12 months	Standardised Price (Quarter 3 2016)
Terrace	0.0%	7.1%	£85,802
Apartment	-2.8%	4.0%	£96,761
Semi-Detached	1.1%	4.3%	£120,971
Detached	2.3%	5.4%	£187,483
All	0.8%	5.4%	£124,093

Source: NI Statistics and Research Agency and Land and Property Services.

Private Rental Sector

Private rents grew solidly in 2016 supported by the overall tight supply conditions in the market and affordability issues. Data from the Ulster University/Housing Executive points to growth of 2.2% in the first half of the year with all types of properties seeing annual growth. The more up to date HomeLet Rental Index indicated a 6.4% increase for the year as a whole.

TABLE 7

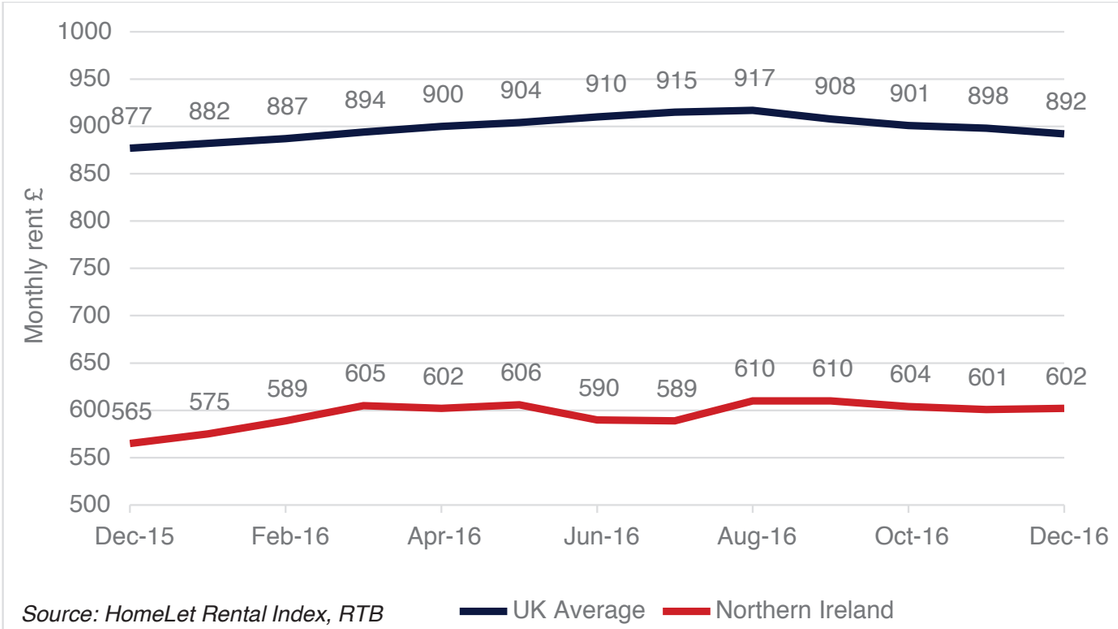
Average rent by property type

Property Type	H1 2015	H2 2015	H1 2016	Half Yearly Change (%)	Annual Change (%)
Apartment	£547	£562	£550	-2.1%	0.5%
Terrace/Townhouse	£527	£552	£536	-2.9%	1.7%
Semi-Detached	£556	£559	£569	1.8%	2.3%
Detached	£679	£656	£715	9.0%	5.3%
All	£553	£568	£565	-0.5%	2.2%

Source: NI Statistics and Research Agency and Land and Property Services.

CHART 11

UK vs Northern Ireland rent indices



Source: HomeLet Rental Index, RTB

Supply

The supply of new housing in Northern Ireland has traditionally been a challenge. Despite some recovery in construction output since 2013 this remains the case. In 2015/16 there were 5,622 completions (+2% yoy), approximately half of the 11,200 per annum requirement estimated by the Department for Regional Development. The Social Housing Development Programme (SHDP) also missed its target, delivering 1,209 units (-27% yoy) versus its aim of 1,500-2,000 per annum. The pipeline in terms of planning also looks light with a total of 7,192 planning applications in 2015/16 down 2% on an annual basis. Indeed, the Construction Employers Federation highlighted the current lack of investor confidence in the market as a challenge to expanding output in its latest annual report.

The failure to meet the housing requirements over the past few years and the resulting shortage was the focus of the Housing Supply Forum at the beginning of 2016 who published recommendations on how to stimulate house building. In the meantime, the supply lag will support prices and rents in the short to medium term

Summary and Outlook

- While the impact of Brexit has initially had less of an impact on residential property than envisaged, uncertainty associated with the exit negotiations will weigh on sentiment.
- Negative equity continues to be a barrier to mobility with over 60,000 homes in this situation in 2015.
- Rising prices mean there is a lack of affordable housing throughout the region and the rental market is increasingly playing a part in meeting this need. Rising levels of activity and annual rental growth are expected in 2017.

Site at Former Down Royal, 60 Ballinderry Road, Lisburn. Sold by Savills Q3 2016.

Overall Summary and Outlook

- Survey data at the end of 2016 indicate that the Northern Ireland economy has rebounded from its Brexit related cooling in Q3 to finish the year strongly. That momentum is expected to carry through to the beginning of 2017 buoyed by continued Sterling weakness. However, global and domestic political uncertainty will weigh as the year progresses and the boost from Sterling will diminish.
- The strong currency driven retail performance will continue to support activity and rents in the sector. The “rightsizing” trend seen in 2016 is also expected to continue. But rising Brexit uncertainties may dampen consumer confidence as exit negotiations progress.
- Despite the uncertainty there is a strong pipeline of pre-lets in the office sector and Savills expects prime rents to peak in the mid £20s per sq ft for pre-lets. This in turn will help drive further development and refurbishments.
- Supply continues to be the biggest issue for industrial property and while demand is strong rents have not yet risen to levels consistent with speculative development.
- Solid demand coupled with insufficient new housing provision will continue to support prices and rents in the residential sector which in turn will increase the price of development land. However, the uncertainty caused by the Brexit negotiations may dent buyer sentiment

Tesco Extra, Craigavon - Foodstore Investment Opportunity – Currently marketed by Savills.

Savills Research

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