

Northern Ireland Investment Market



Investment market

The rollover of agreed deals from the tail-end of 2022 together with a re-supply resulted in a strong start to the year with total investment volumes of £157.0m in H1 2023. This was 8% higher than the total of £145.0m recorded in H1 2022. The majority of these transactions (83%) took place in Q1, amounting to £129.6m. Key transactions within Q1 included the sale of Rushmere Shopping Centre and Retail Park, Craigavon, to Killahoey Limited for £46.5m (NIY 14.7%), as well as Target Healthcare REIT's £22.0m sale of a portfolio of four care homes to an undisclosed purchaser.

It was a period of two halves however, with the investment market significantly retracting in the second quarter with a total investment volume of £27.4m. The wider macroeconomic context began to bite as higher interest rates significantly raised the cost of debt. Between February 2022 and June 2023, the Bank of England raised the base rate 12 times, taking it from 0.5% to 5.0% over the period. The largest deal in Q2 was Ulster Estate Limited's sale of Bedford House to a private local investor for £20.1m, representing a NIY of 7.3%.



Sectoral analysis

Turning to sales by sector, retail proved to be the mainstay of the Northern Ireland commercial property market with an investment volume of £67.3m, representing a 43% market share. While the sale of Rushmere Shopping Centre and Retail Park was the largest transaction within the sector, other notable transactions included the sale of Marks and Spencer, Donegall Place, to a private local investor for £5.1m (NIY 9.0%), the sale of the restaurant parade at Boucher Square for £3.9m (NIY 10.7%), and the sale of Fountain Centre, Belfast, for £7.5m. By contrast, industrial remained the worst performing sector, albeit this continues to be a result of insufficient stock as opposed to a lack of demand. The industrial sector accounted for 17% of deal volumes at £26.8m. This was underpinned by a significant off-market transaction of an industrial investment in County Down, which was the third largest industrial deal on record.

Table 1: Top five deals in H1

Property	Price	Vendor	Purchaser	Sector
Rushmere Shopping Centre and Retail Park, Co. Armagh	£46.5m	Central Craigavon Limited (In Administration)	Killahoey Limited	Retail
Portfolio of care homes, country-wide	£22.0m	Target Healthcare REIT	Undisclosed	Alternative
Bedford House, Co. Antrim	£20.1m	Ulster Estates Limited	Private Local Investor	Office
Industrial investment, Co. Down	Confidential	Confidential	Undisclosed	Industrial
Balmoral Plaza, Co. Antrim	Confidential	Institutional Investor	Private Local Investor	Alternative

Purchasers profile

Private local investors were the most active buyer type in H1 2023. This reflects the fact that Northern Ireland's commercial real estate investment landscape has changed dramatically since the UK's referendum on EU membership in 2016. Prior to this, institutional investors accounted for a significant volume of transactions in any given year. After Brexit, UK institutional investment ground to a halt as investors took to the sidelines amid the ensuing political turmoil. While investors remain unconvinced that this turmoil is over, the resultant void has

been filled by property companies, high net worth individuals and private equity investors.

For a few years now, these investors have identified better yields on NI real estate when compared to the GB or ROI markets. With soaring inflation squeezing real rates of return, investors have viewed the region as a value play. Most investors active in the NI market take a contrary view on Brexit, viewing NI as uniquely positioned as a gateway between the EU and the UK.

Outlook

Persistently high inflation has caused the Bank of England's Monetary Policy Committee to raise interest rates by 450 basis points since February 2022. At 5.0%, the base rate is now at its highest level for over 15 years, as the Bank tries to cool spending and increase savings to narrow the gap between demand and supply and, consequently, constrain prices. Many investors expect rates to reach 6% by the end of the year given the stubbornly high level of core inflation, although the peak may even rise to closer to 6.5%.

Given this, the commercial property market is operating within the context of stubbornly high inflation, a rapid rise in the cost of debt and overall economic uncertainty. Taken alongside the ongoing long-term structural shifts in demand accelerated by the pandemic, corporate demand has been weakened.

In line with this, we expect full-year 2023 transactional volumes to be below trend, with the current high cost of finance and price inflation continuing to play on the minds of many buyers and sellers. Despite several sectors now appearing good value, sentiment is still biased towards further outward yield movements meaning there is less incentive to sell. Many potential vendors are deciding whether to hold at current pricing levels, which is creating a mismatch between buyer and seller expectations. Nevertheless, we expect transactional activity to increase in the second half of the year, with a number of high-profile investments agreed and in legals including Forestside Shopping Centre, Belfast and Foyleside Shopping Centre, Derry/Londonderry.

Key theme - ESG

ESG continues to be a major theme across property investment due to increasing regulations and growing corporate sustainability concerns. As a result, we expect a continued flight to quality across all assets. Real estate that does not match the environmental goals of investors and occupiers will be

increasingly marginalised. Investing in green buildings now will save on the future cost of selling an asset at a discounted price, or engaging in expensive retrofitting work on older stock in an attempt to maintain competitiveness in the market.





Savills team

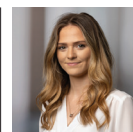
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