

# Northern Ireland Investment Snapshot

2017

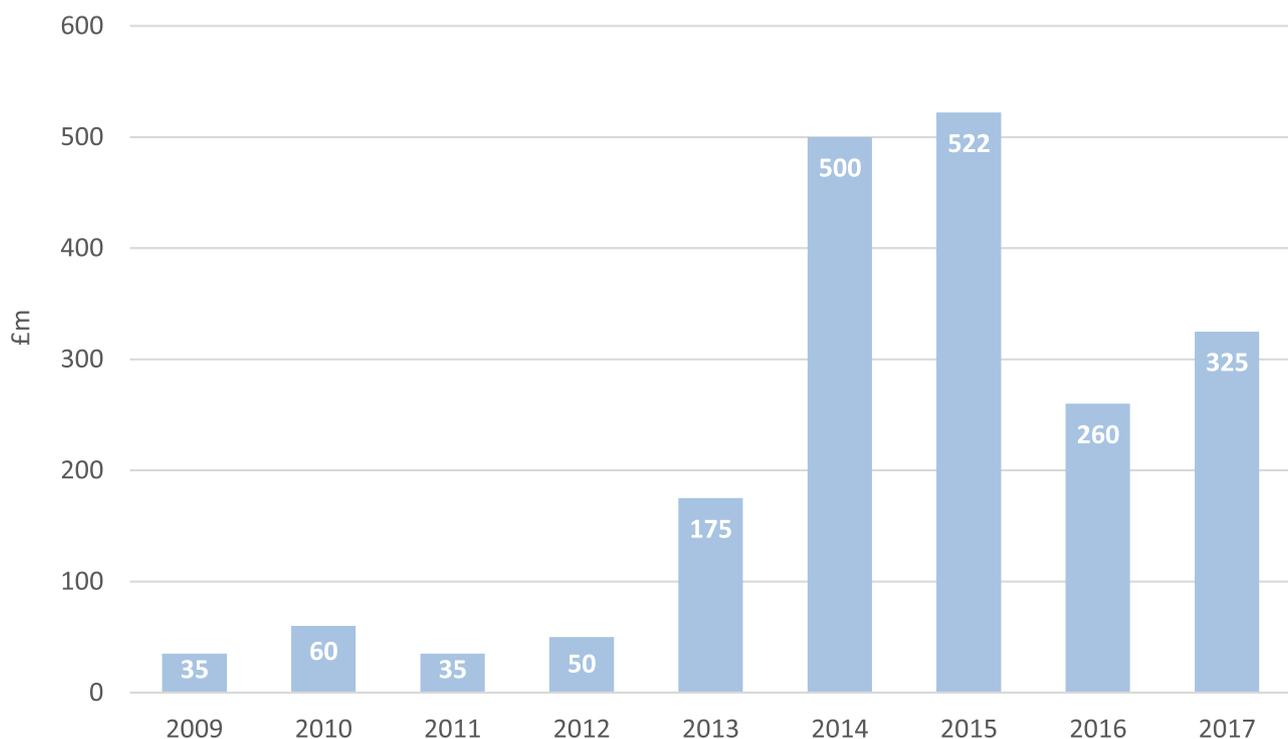
## Economic Background

The global economy continues to perform strongly with the IMF pencilling in GDP growth of 3.6% in 2017 and 3.7% in 2018. Inevitably this is having an influence on monetary policy. The US Federal Reserve raised interest rates for the fifth time at its December meeting. Meanwhile the ECB recently announced the halving of its monthly bond-buying programme and the Bank of England raised rates for the first time in 10 years in October. Nonetheless monetary policy remains very accommodative by historical standards and, at a global level, low interest rates are continuing to drive a weight of money into equities and property.

## The Northern Ireland Economy

According to recent research from EY the Northern Ireland economy has expanded by approximately 1.4% in 2017. Economic activity has been held back both by the suspension of devolved government and by Brexit. The immediate impact of Brexit has been a weaker Pound which is creating a competitiveness challenge for the trading economy. At the same time weak Sterling has led to imported inflation which is undermining the benefit of a 1.5% per annum increase in nominal earnings.

FIGURE 1  
Property Investment Turnover 2009-2017



Source: Savills Research

## Northern Ireland Investment Market 2017

Despite the economic challenges, however, Figure 1 shows that total property investment in NI was approximately £325m in 2017 – a 25% increase on 2016. One large transaction – the £123m purchase of Castlecourt Shopping Centre in Belfast by Wirefox last July – accounted for almost 40% of the annual total. Indeed retail assets, broadly defined, accounted for 27 transactions completed or agreed during the year, and almost three quarters of the total investment spend. This reflects the fact that, despite some obvious economic headwinds, the Northern Ireland consumer economy remains resilient. Partly this is due to the robust labour market. Unemployment currently stands at 3.9% - considerably lower than the Republic of Ireland’s 6.1% and somewhat lower than the 4.3% unemployment rate in the UK as a whole. But it is also due to the impact of weaker Sterling in attracting shoppers from south of the border. Since the Brexit vote in June 2016 the Euro has appreciated by 12.3% against the Pound. And, according to new research by EY, this has led to an 8.6% increase in cross border shopping which is valued at an estimated £371m in 2017.

As shown in Figure 2 offices were the second biggest sector of investment with 14 deals involving £50.3m of sales completed or agreed during the year. One transaction, the £15.25m sale of Cleaver House on Donegall Square, accounted for over 30% of total office sales with the remaining £35m spread across smaller deals. Although office sales represented 15% of total spend for the year, turnover was somewhat down on the £75m that traded in 2016. This reflects two factors; a lack of large scale development activity in the cycle to date, and a degree

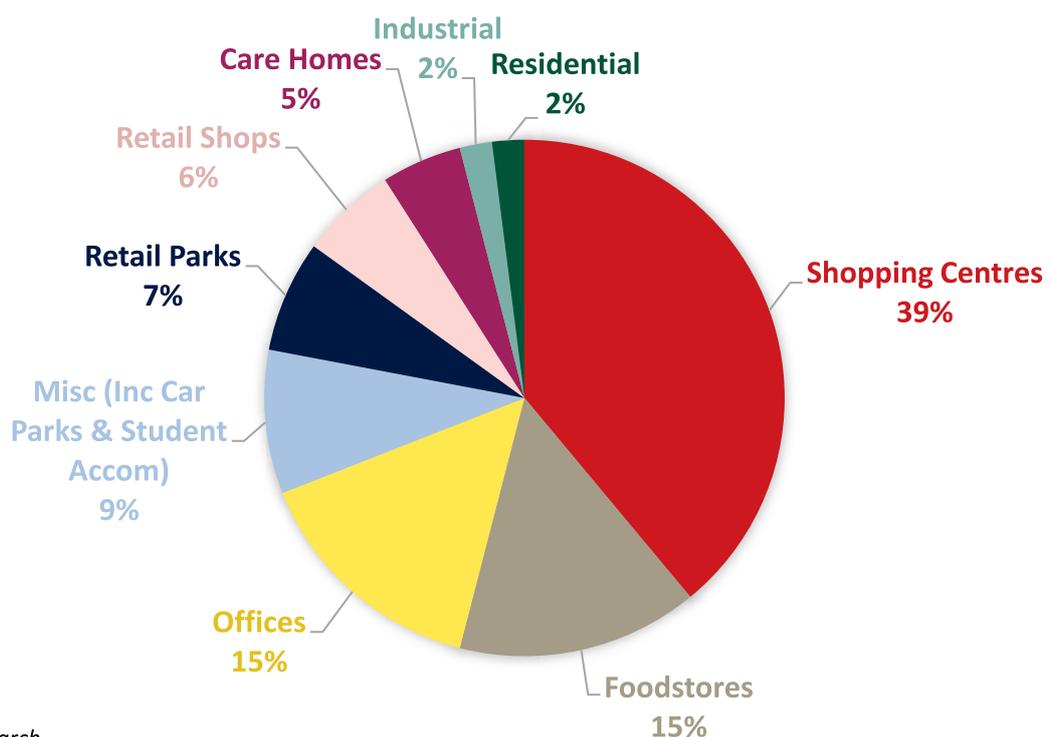
of illiquidity because many assets have recently traded and because investors are tending to hold onto less risky office investments given the economic uncertainties that exist.

Much of the office development we have seen to date has involved smaller refurbishments that have not been traded as investments. However with strong lettings and rental growth over the last two years it is anticipated that the supply of new developments will start in earnest next year, with select pre-lets giving confidence for further speculative development. As the refurbished offices reach full occupation and new Grade A stock is delivered to the market we expect the investment volumes to increase substantially.



Savills NI disposed of the 93,788 sq ft Tesco Extra foodstore in Newry Co. Down for in excess of £27m

FIGURE 2  
**Investment Turnover by Sector**



Source: Savills Research

## OUTLOOK 2018

Although the era of ultra-low interest rates is slowly coming to an end monetary policy will remain accommodative for the foreseeable future. At a global level this will continue to drive capital into real estate assets. Table 2 shows that the NI investment market remains competitively priced relative to other regional cities in the UK. However NI's ability to capitalise on this and attract further investment will depend on resolving the political impasse that has resulted in the Stormont assembly being suspended

for much of 2017 and, of course, Brexit. The fact that Brexit negotiations have now advanced to phase two discussions on wider ranging trade arrangements is a positive development. While there is a long way to go in the negotiations the UKs pledge to preserve the frictionless border between NI and the Republic also arguably nudges the overall outcome towards a softer Brexit which would be economically beneficial to all the home nations.

TABLE 1  
**Top Investment Transactions 2017**

| Asset   | Sold Price £ | Sector          |
|---|--------------|-----------------|
| Castlecourt Shopping Centre, Belfast*           | 123,000,000  | Shopping Centre |
| Tesco, Newry*                                   | 27,250,000   | Foodstore       |
| Tesco Craigavon*                                | 21,440,000   | Foodstore       |
| Cleaver House, Belfast                          | 15,250,000   | Office          |
| Priory Group                                    | 14,875,000   | Care Home       |
| Dublin Road Student Accommodation               | 14,800,000   | Student Housing |
| Valley Retail Park, Newtownabbey                | 11,250,000   | Retail Park     |
| Confidential                                    | 11,000,000   | Not Disclosed   |
| Great Northern Retail Park, Omagh               | 9,175,000    | Retail Park     |
| DW/Sports/Lesley Tower, Donegall Place, Belfast | 8,600,000    | Office          |
| Hillview House, Newtownabbey*                   | 6,000,000    | Office          |
| Lesley Exchange, Belfast                        | 5,300,000    | Office          |

\* Savills involved

TABLE 2  
**Net Initial Yields – Prime Assets**

|                    | Belfast | Liverpool | Leeds | Glasgow | Manchester |
|--------------------|---------|-----------|-------|---------|------------|
| High Street Retail | 5.75%   | 4.75%     | 4.75% | 4.25%   | 4.00%      |
| Offices (Grade A)  | 6.25%   | 7.25%     | 5.25% | 5.50%   | 4.75%      |
| Industrial         | 8.50%   | 5.00%     | 4.75% | 5.50%   | 4.50%      |



Savills NI acted on behalf of Wirefox in the acquisition of CastleCourt Shopping Centre in July 2017

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