Savills Research – Market Review and Outlook 2023

MARKET IN MINUTES
Savills Research

Northern Ireland Market

Outlook • Macro view • Market activity

Outlook for 2023

1

Retail occupational market to strengthen

The retail market enters the year with momentum after 2022 closed out with a robust performance despite the cost of living crisis placing downward pressure on consumer spending. The market experienced a boost after the reopening of Primark in Belfast, which expanded its footprint by 76% to 88,200 sq ft. We expect continued take-up by the retail and leisure sectors in the year ahead, with demand from new entrants to remain relatively strong as they look to expand their presence. Finally, occupational costs will reduce as recent rates revaluations bring down the amount payable for some high street shops and retail centres. Nevertheless, we expect a combination of headwinds to present challenges. These include continued elevated levels of both general and construction cost inflation, higher interest rates and a weaker GDP performance relative to previous years.

2

Tighter energy regulations risk landlord income loss

Landlords risk a loss of income on buildings which do not meet tighter energy efficiency rules in effect from 1 April 2023. Under the Minimum Energy Efficiency Standards (MEES), landlords will not be allowed to let buildings which have an Energy Performance Certificate (EPC) below E, although exemptions may apply. Affected landlords will have to upgrade their spaces to meet the regulations, facing a potential loss of income if they are forced to withdraw property from the market to avoid non-compliance and to undertake upgrade works. Landlords also face significant penalties of between £5,000 and £50,000 for non-compliant properties still being rented for up to three months after the April deadline, with the fine rising to between £10,000 and £150,000 thereafter. Nevertheless, landlords can be assured that upgrading their buildings will not only result in long-term energy cost savings, but enhance their Environmental, Social and Governance (ESG) credentials which will make their properties more attractive to occupiers. Indeed, we expect ESG to become an increasingly important consideration for occupiers within the office market as they look to reduce their carbon footprints.

3

Belfast primed for first Build-to-Rent scheme

Belfast City Council has approved full planning permission for four build-to-rent (BTR) schemes that would add 1,000 units to the residential sector. We expect at least one of these schemes to break ground by the end of H1, demonstrating that the city has the necessary fundamentals to support the commercial viability of BTR accommodation. BTR will deliver city centre homes, thereby promoting population density that will boost the local economy in the long-term.

With a strong student component to the population, the move will also help to facilitate graduate retention. Savills Research shows Belfast currently has the highest ratio of graduates retained to number of rental properties available in the UK. While this implies the city is an attractive location for graduates looking to begin their careers, it also shows there is plenty of potential for Belfast to absorb additional rental homes to house existing and future graduates.

21-29 Corporation Street & 18-24 Tomb Street, Belfast

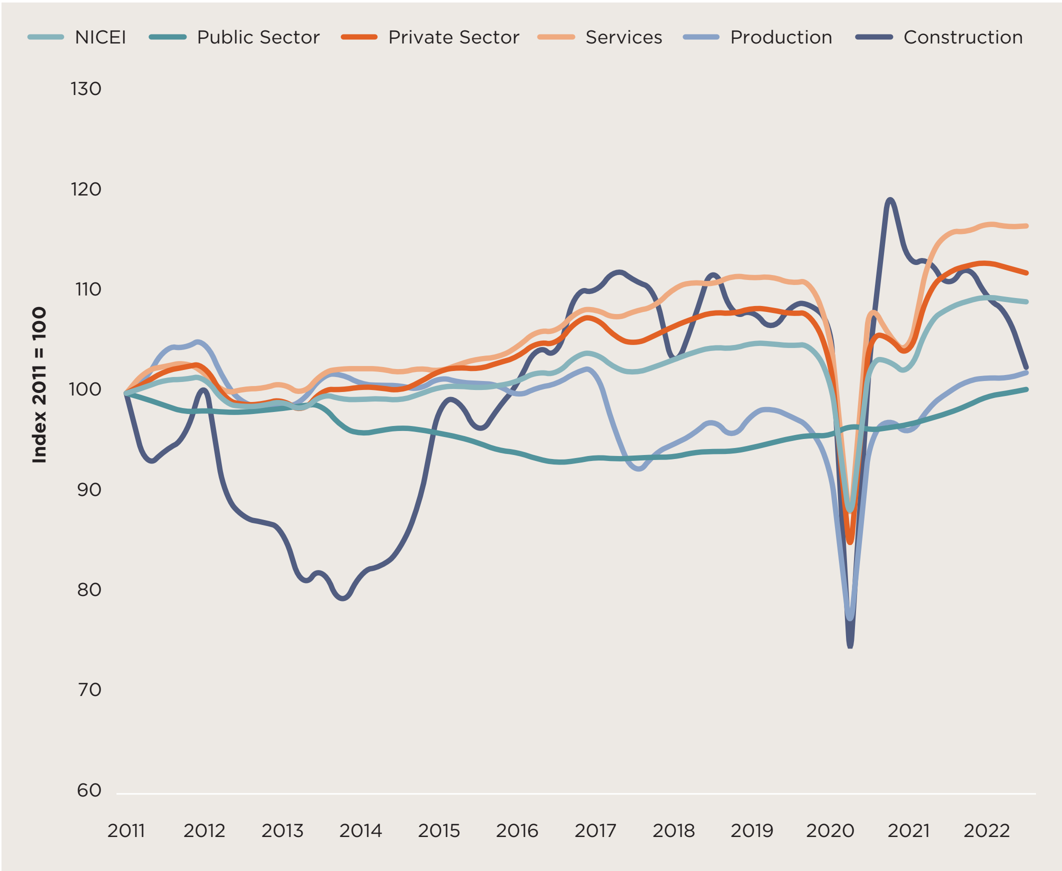
Macro view

Economic growth slowing as construction output weighs on performance.

The Northern Ireland economy is growing at an annual rate of 2.1%, according to the Office for National Statistics (ONS). Separate data from the Northern Ireland Statistics and Research Agency (NISRA) nevertheless shows construction output contracting by 6.9% y/y. This is significantly constraining overall performance, which is unsurprising given that construction cost inflation is running at 10.1% in the UK and 16.2% in ROI.

This partly reflects the rebound in demand for construction after Covid-19 restrictions were lifted, with material prices placed under additional pressure by a supply shortage caused by the subsequent war in Ukraine. Elsewhere in NISRA's NI Composite Economic Index, services growth has slowed to 0.4% y/y, although it remains strong relative to other sectors. Production output is also increasing at a healthy 2.0% per annum.

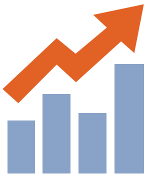
Figure 1: Trend in NI composite economic index by component, 2011-2022



Source: NISRA

Employment growth leads the UK

Despite the challenging economic conditions, figures from the ONS show that the number of people employed in Northern Ireland rose by 38,000, or 4.6%, over the past year. This was the fastest rate of employment growth across the regions, albeit the overall employment rate lagged at 71.3% compared to 75.6% for the UK as a whole. Although average monthly pay rose in nominal terms last year, inflation-adjusted earnings fell by 1.7%. This was not specific to Northern Ireland, though, with earnings squeezed right across the UK, ROI and the European Union (EU). This reduced spending power has led retail sales to decline by 5.1% y/y in Northern Ireland and 5.2% across the rest of the UK.



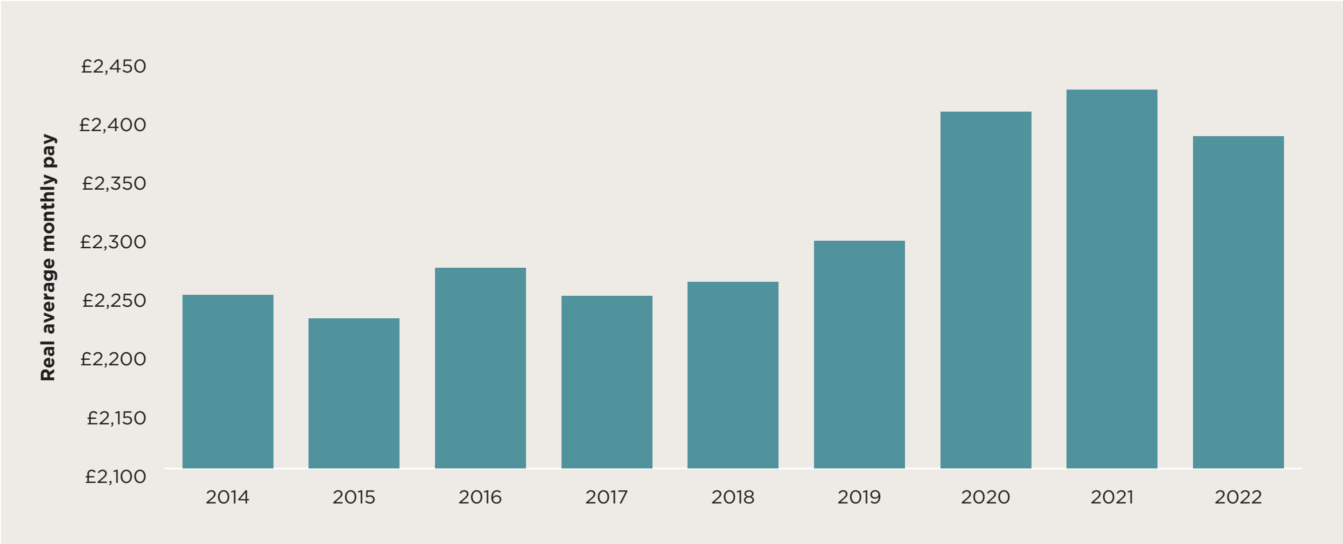
2.1%
Northern Ireland's economic growth rate

4.6%
employment growth over the past year

314,916
sq ft of office space taken in 2022

£350m
investment volumes achieved last year

Figure 2: Real average monthly pay



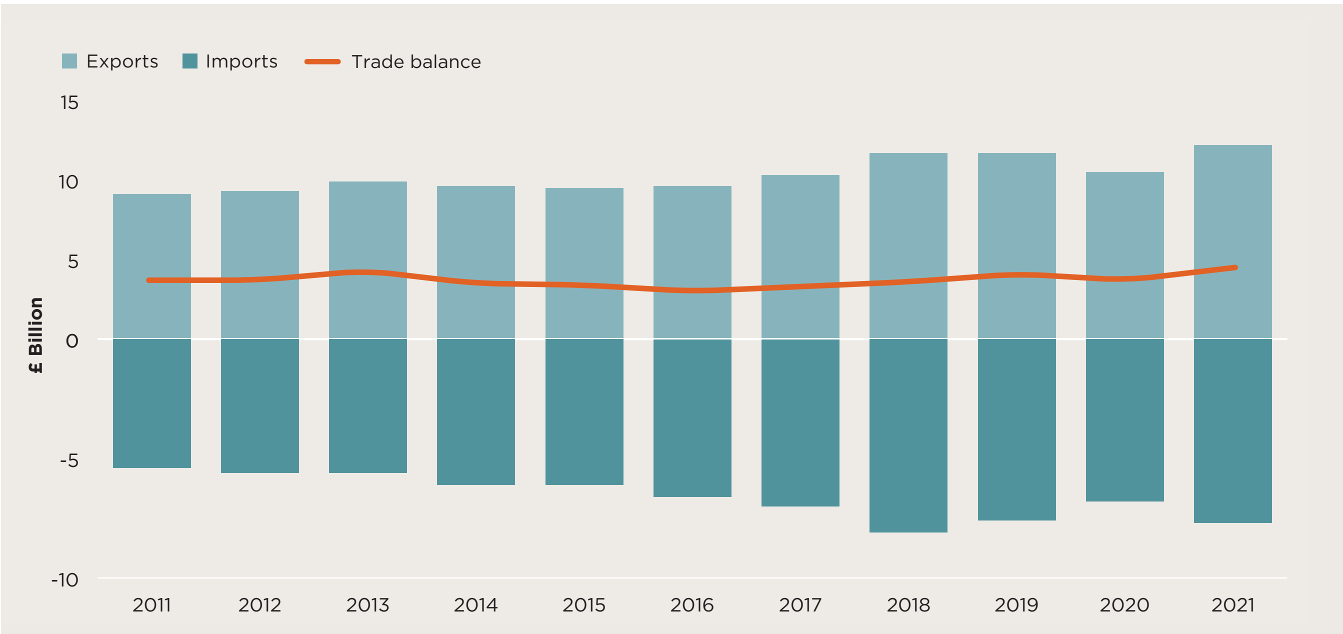
Source: ONS

> The number of people employed in Northern Ireland rose by 4.6% over the past year; the fastest rate of employment growth across the regions.

Services underpins strong trade balance

Northern Ireland's trade in goods has been performing well, with both imports and exports trending upwards over the past decade. Bilateral trade with the EU exceeds £10.2 billion, accounting for 65.5% of total activity in goods. Northern Ireland has retained tariff free trade with the bloc under the terms of the Protocol, while maintaining unfettered access to Great Britain's (GB) internal market, which should help to bolster goods trade. When services are factored in, NISRA figures show total export growth exceeding import growth to produce a trade balance of £4.5 billion. This underscores Northern Ireland's particular strength in the exporting of services, which supports demand for commercial offices and residential properties.

Figure 3: Trend in exports, imports and trade balance

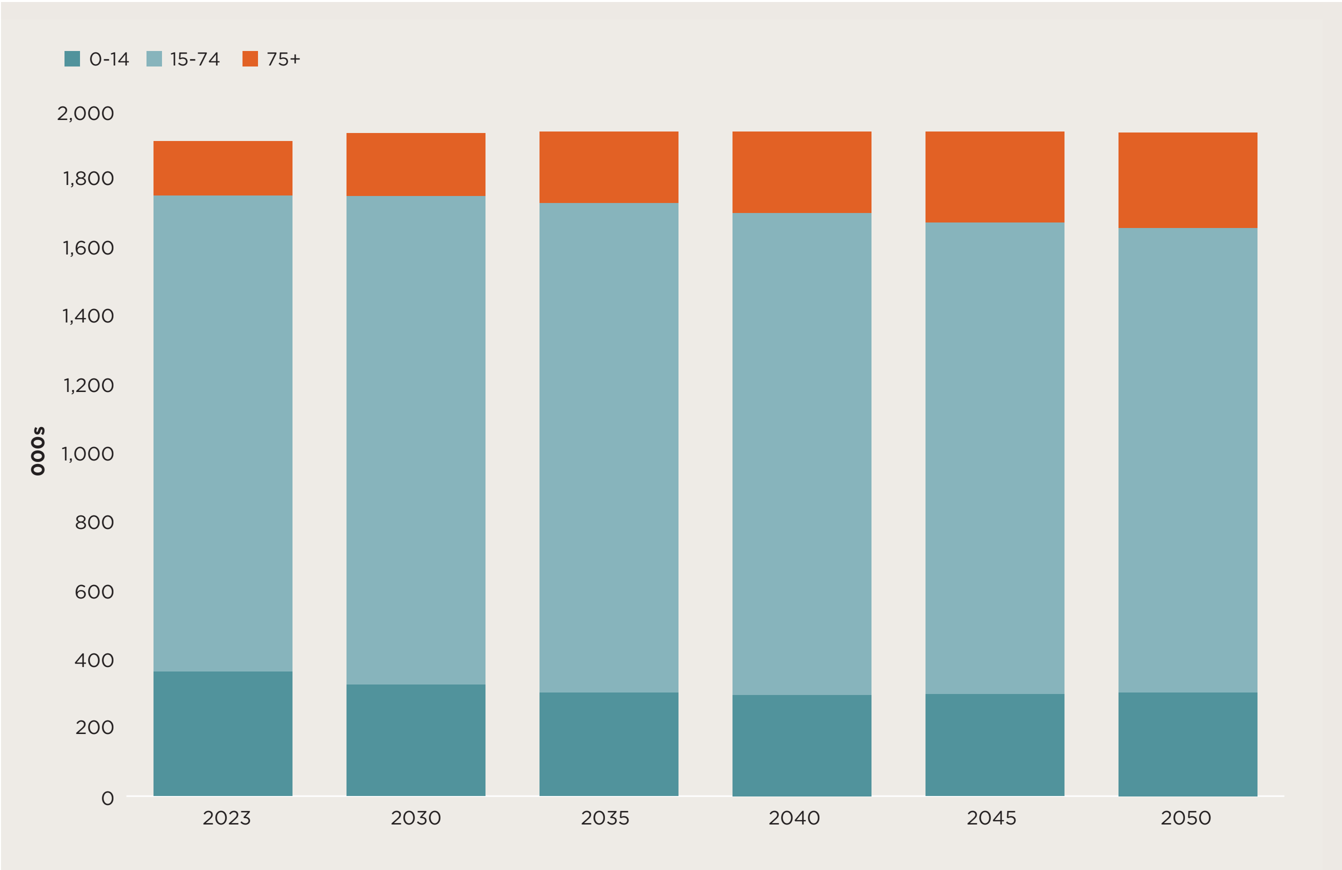


Source: NISRA

Population and outlook

The Northern Ireland population is projected to grow by 1.3% to 1.9 million persons by 2050, estimates from the ONS suggest. The composition of the population will change significantly too however, with the proportion accounted for by persons aged 15-74 reducing by 34,000 to 70% of the total, while the number aged 75 and over is due to increase by 119,000, or 14% of the population. The demographic shift is in line with that of England, Wales and Scotland, with countries across Europe experiencing an acceleration in their old age populations as the fertility rate declines and life expectancies remain strong. This could entail a change in the type of residential real estate that will be in demand in the future, with smaller family sizes and an older population likely requiring a higher number of one- and two-bedroom units. This population growth further suggests sustained consumer demand, which is supportive of office-based services and the industrial and logistics sector. Overall, the IMF is forecasting real UK GDP growth of less than 1% y/y/ this year and next, with the economy predicted to expand by 2.3% in 2025.

Figure 4: Projected population of Northern Ireland, 2023-2050



Source: ONS

> **The demographic shift is in-line with that of England, Wales and Scotland, with countries across Europe experiencing an acceleration in their old age populations as the fertility rate declines and life expectancies remain strong.**

There is little doubt rising interest rates and inflation will continue to present challenges in 2023. The effect of these is as yet unknown, although there is potential for the country to enter a recession. While this uncertainty leaves the commercial real estate sector somewhat in limbo, we remain optimistic that further growth is achievable in the year ahead.

Office market

Employers look to high quality offices to entice workers back.

The office market has experienced a rebound in occupier activity, with premium space that adheres to ESG standards in high demand. Occupiers will be competing for limited fresh supply, which will result in a shortage of the right product in the right location. We expect to see a tightening of incentives offered to new occupiers as well as growth in headline rents, potentially exceeding £25.00 psf in 2023, up from £24.00 psf in 2022.

We expect the ESG theme to dominate in 2023, with both occupiers and investors seeking compliant offices. Variance between compliant assets and the remainder will become more obvious across a wide range of property indicators such as demand, rents, yields and vacancies. Market participants need to be aware that some assets will be unable to change with the new paradigm and will be stranded. Due to this, and the impending shortage of grade A office space, developers and investors are looking for opportunities to upgrade older stock to meet market demand.

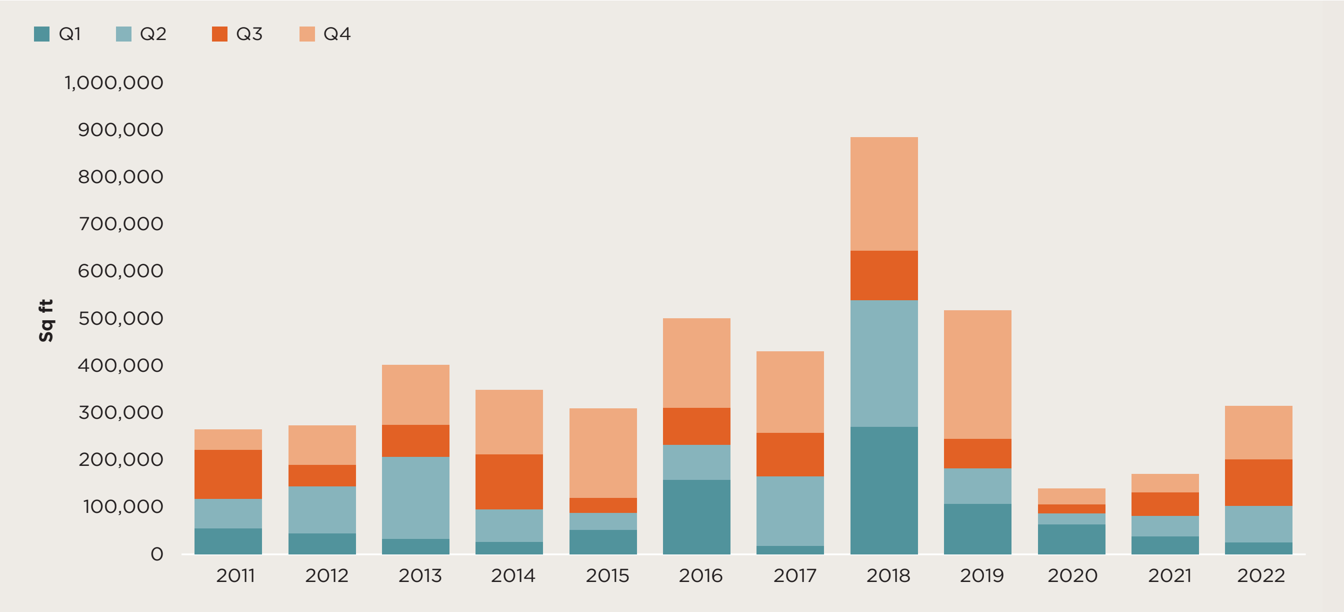
> **Occupier confidence has returned with prime headline rents set to rise and strong incentives to return to the office.**

City Quays 3, Belfast

There has been a stabilisation in the hybrid office model following the end of pandemic-related restrictions and the subsequent return to business as normal. In light of this, we anticipate that employers will acquire centrally located offices with high quality fitouts to entice employees back to the office. While the new norm of virtual meetings has proven successful, it has not entirely replaced the need for face-to-face contact. In line with this, we expect to see the final form of the hybrid model emerging this year to include well-lit, open-plan office accommodation with breakout space.

> **The average deal size rose for the first time since the pandemic, increasing from 5,002 sq ft in 2020 to 5,942 sq ft last year.**

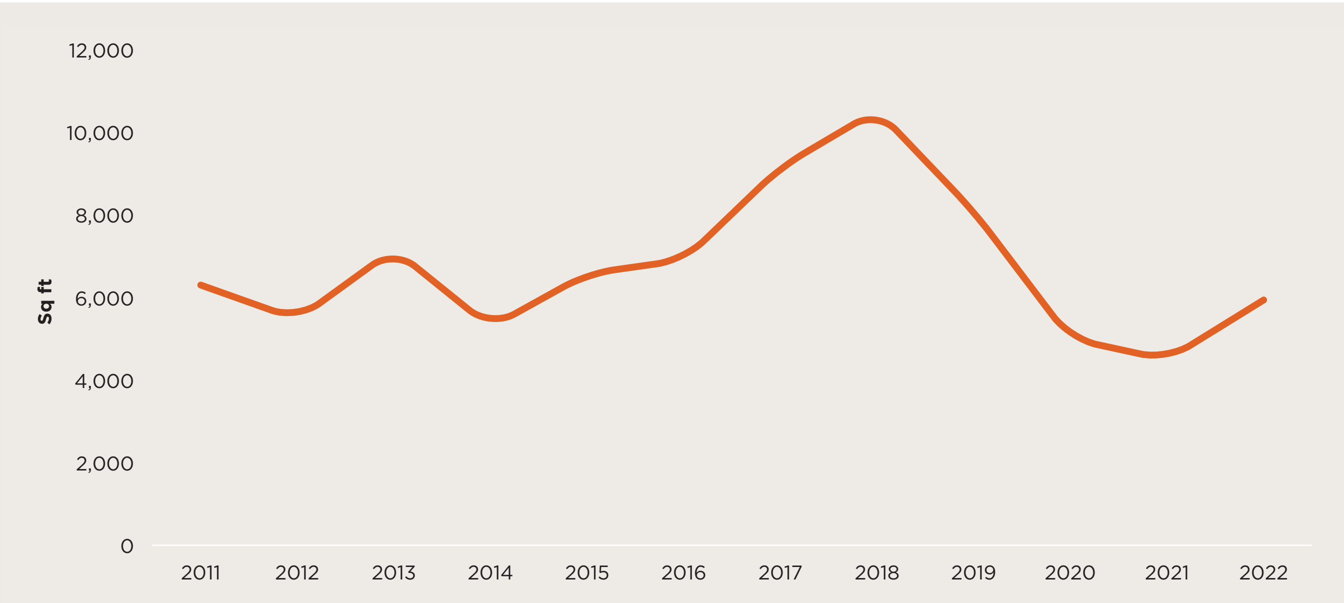
Figure 5: Historic office take-up



Source: Savills Research

Although office space take-up had already exceeded 2021 levels by Q3 2022, occupiers were evidently still cautious as full-year take-up remained below pre-pandemic figures, and down 22% on the five-year average. Overall, 314,916 sq ft of space was taken across 53 deals in 2022 compared to 170,804 sq ft across 38 deals in the previous year. The majority of activity was concentrated in Q4 when 19 transactions took place across 113,122 sq ft. This was preceded by five deals across 24,679 sq ft in Q1, 12 deals across 77,610 sq ft in Q2 and, 17 deals across 99,505 sq ft in Q3. In the year ahead, we expect occupiers to regain trust in the market and for the volume of deals to increase towards the end of 2023. The average deal size rose for the first time since the pandemic, increasing from 5,002 sq ft in 2020 to 5,942 sq ft last year. This was still almost half the size of the peak of 10,536 sq ft in 2018.

Figure 6: Average transaction size

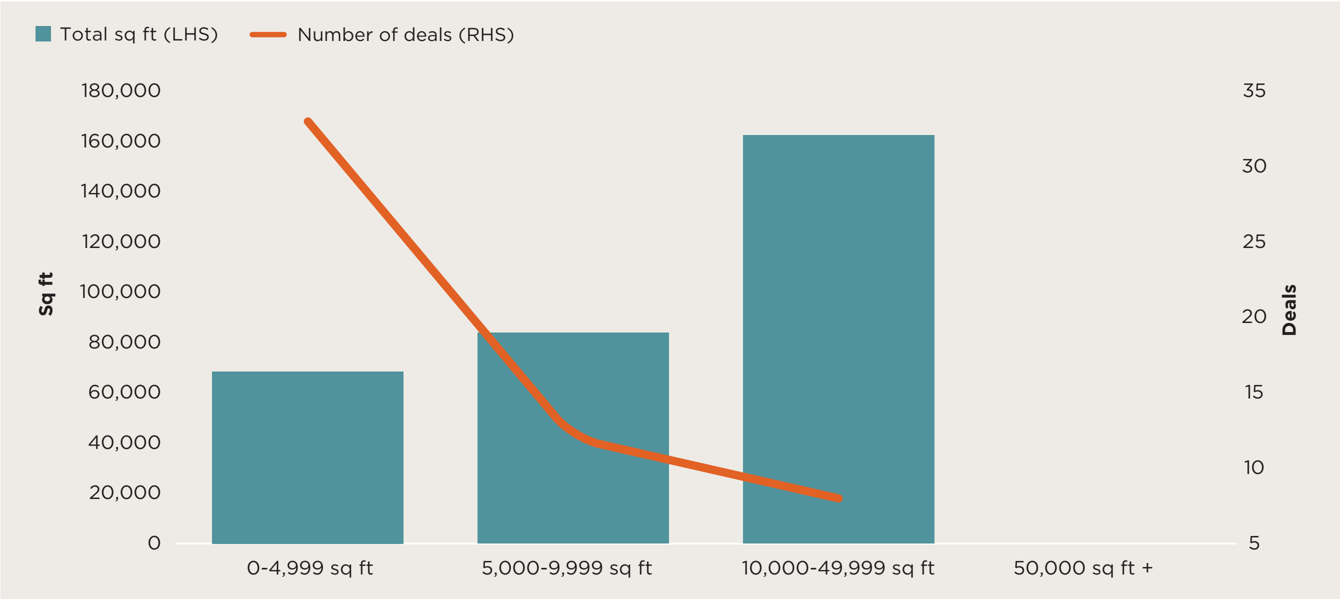


Source: Savills Research

The following chart depicts the relationship between the volume of space leased within each size category and the number of transactions associated with these lease volumes. Although the 0-4,999 sq ft accounted for the lowest volume of space taken, it recorded the highest number of deals for the year.

Some eight deals breached the 10,000-49,999 sq ft barrier in 2022, amounting to 162,552 sq ft. By way of pre-pandemic comparison, there were 11 deals within this range in 2019, totalling 260,996 sq ft. Nevertheless, confidence in this size category has been growing as suggested by the fact it made up only 20% of take-up in 2021 but accounted for 52% of take-up last year.

Figure 7: Volume of space taken and number of transactions by size category



Source: Savills Research

The Ewart, 44 Franklin Street, Belfast

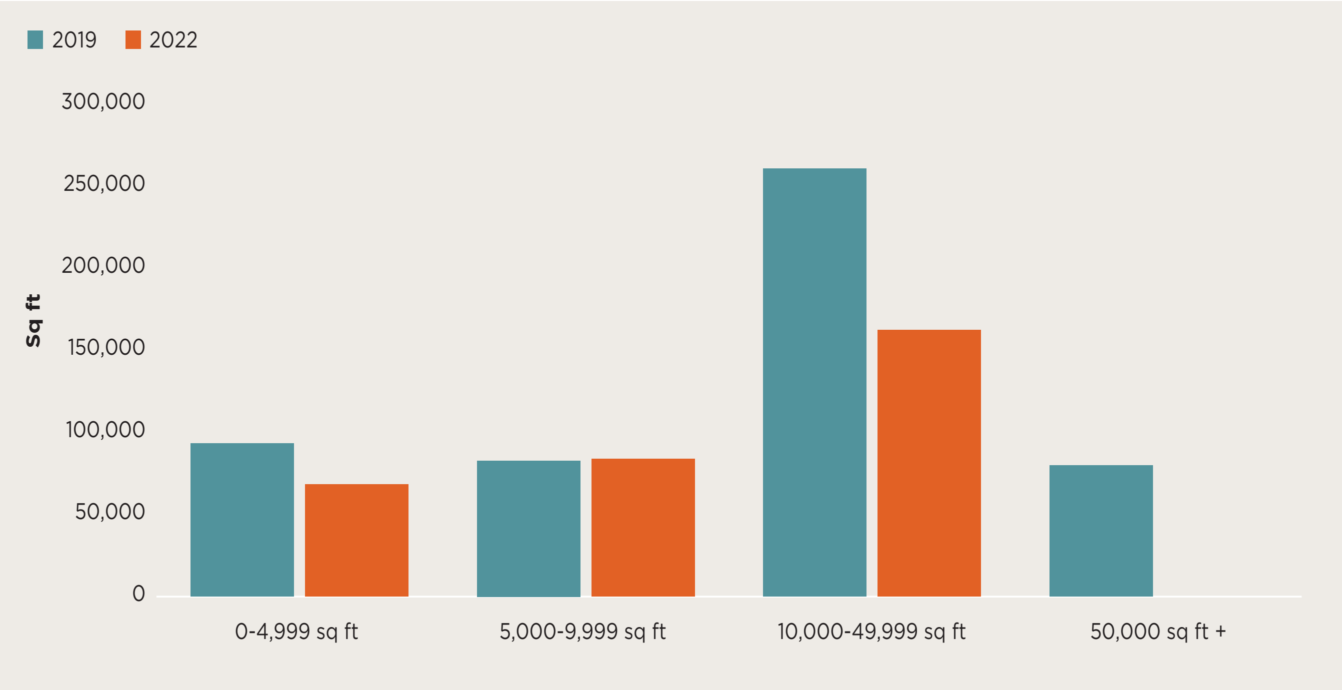
Bigger firms are still showing reluctance to commit to new accommodation, leading to an absence of large-scale activity in the market. Despite this, we expect to see take-up in larger size categories recovering in 2023 as the major players in the market pull the trigger on new strategies.

The largest deal of the year was the leasing of 40,084 sq ft of a new serviced office centre in Custom House to Bespoke Estate Agents in Q2. This was followed by the take-up of 27,570 sq ft at City Quays 3 by a confidential tech company in Q3. The third-biggest transaction of the year was the leasing of 22,968 sq ft in The Ewart Building to Tughans Solicitors in Q4.

40,084 sq ft

was the largest deal of the year in the form of a new serviced office to Bespoke Estate agents.

Figure 8: Take-up by size – 2019 vs 2022



Source: Savills Research

Looking at take-up by sector shows that professional services overtook tech in 2022, accounting for 25% of total space taken compared to 21%, respectively. Indeed, there was a strong performance within the professional services sector which took 79,318 sq ft across 17 deals, putting the sector's average transaction size at 4,666 sq ft. Despite this, professional services has been consolidating its footprint within the city centre as advisory firms seek smaller premises which meet their medium-term requirements. Meanwhile, the share of take-up attributable to the tech sector has declined from 35% in 2021. Notwithstanding this, the sector remains attracted to Belfast city centre and we expect this to continue in the future. Overall, tech accounted for nine deals at an average size of 7,276 sq ft last year.

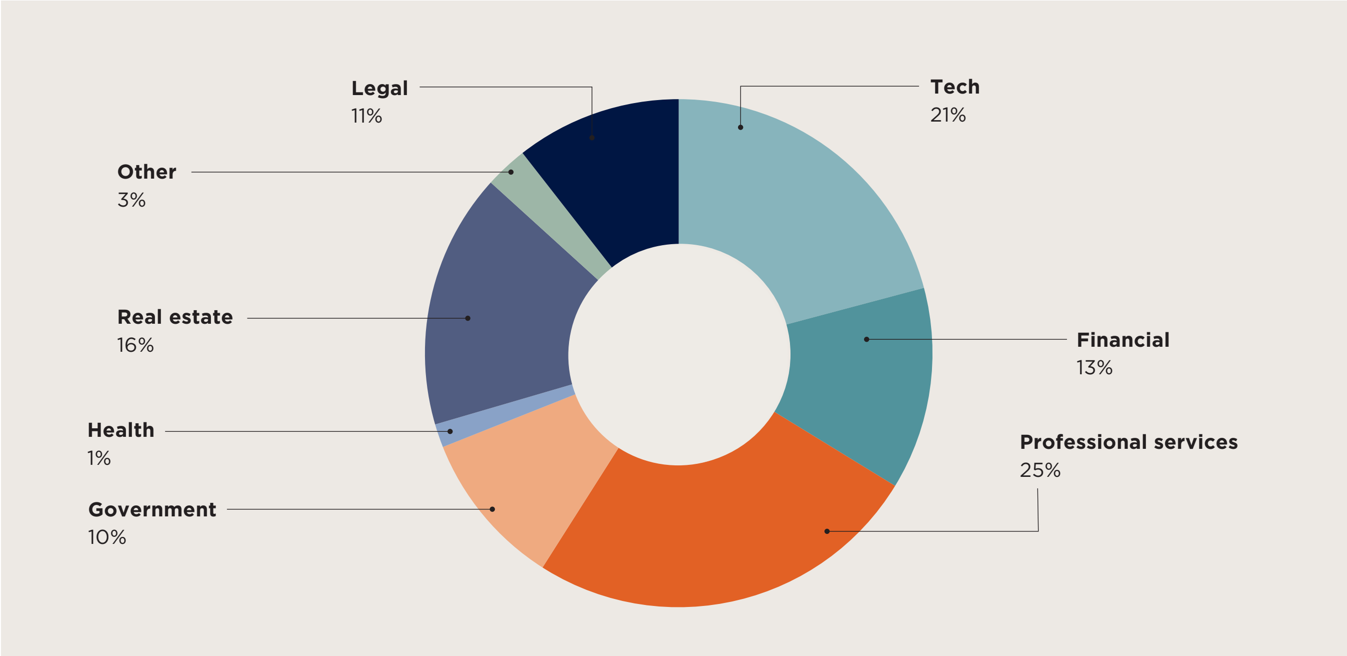
Table 1: Top 5 office deals, 2022

Quarter	Property	Sq ft	Tenant	Sector
Q2	Custom House, 20 Donegall Quay, Belfast, BT1 3AS	40,084	Bespoke	Real Estate
Q3	City Quays 3, Belfast BT1 3EE	27,570	Confidential	Tech
Q4	The Ewart, 44 Franklin Street, Belfast, BT2 7FE	22,968	Tughans	Legal
Q4	City Quays 3, Belfast BT1 3EE	19,996	Aflac	Professional Services
Q3	92 Ann Street, Belfast BT1 3HH	15,000	Dep of Justice t/a Legal Services Agency NI	Government

Source: Savills Research

> Professional services has been consolidating its footprint within the city centre as advisory firms seek smaller premises which meet their medium-term requirements.

Figure 9: Take-up by sector



Source: Savills Research

Supply

The Belfast city office sector is expected to grow by 650,000 sq ft following the delivery of Grade A space including The Ewart, Olympic House in Titanic Quarter, Belfast Harbour's City Quays 3 and The Paper Exchange. However, we expect these developments to be let from the top down, reducing the availability of Grade A office space. Given that there are no further new build developments scheduled for 2023, occupiers will soon face a shortage of available prime space.

Rents

Office rents took a steady upward climb amid a low vacancy rate within the city centre up until 2019. Since then, the limited supply of new build developments has applied upward pressure on rents for refurbished stock, which has allowed a healthy recycling of old stock. With no new developments in the pipeline, this stock will eventually be leased and further limit supply for occupiers. Separately, the main priority for top-rated occupiers is quality of accommodation, which means they are willing to pay reasonable levels of rent for their required space.

Demand

Demand remains strong with active requirements still to be fulfilled currently standing at over 250,000 sq ft. The market is supported by companies which are seeking quality, energy efficient offices to meet their ESG credentials – a trend which has accelerated since the onset of the pandemic. ESG is important for a number of reasons including attracting and retaining staff, as well as supporting companies' corporate objectives. Additionally, the pandemic raised the level of importance occupiers are placing on health and wellbeing, represented by something of a shift of focus from the mere functionality of space. As a result, occupiers are paying closer attention to proximity to amenities including cycle facilities, gyms and public transport.

Another trend within the office market concerns virtual conferencing and video calls. Employees are using online platforms to communicate with colleagues and clients on a daily basis, creating demand for meeting rooms and private spaces to take calls.

The Paper Exchange, Belfast

> **The limited supply of new build developments has applied upward pressure on rents for refurbished stock, which has allowed a healthy recycling of old stock.**

Outlook 2023

Covid-19 measures shrouded the market in uncertainty in 2020 and 2021, with the Belfast office market subsequently thriving unrestricted last year. This allowed for more optimism among occupiers as a sense of normality returned to the market. Trends which have begun to emerge over the past year include an increase in the number of people returning to the office, with the new working week incorporating a peak in office attendance between Tuesday and Thursday. Furthermore, a number of companies increased their headcounts during the pandemic, which has led to an oversubscription of existing desks. As a result, we expect occupiers to adjust their space requirements to accommodate their new staffing levels in the year ahead.

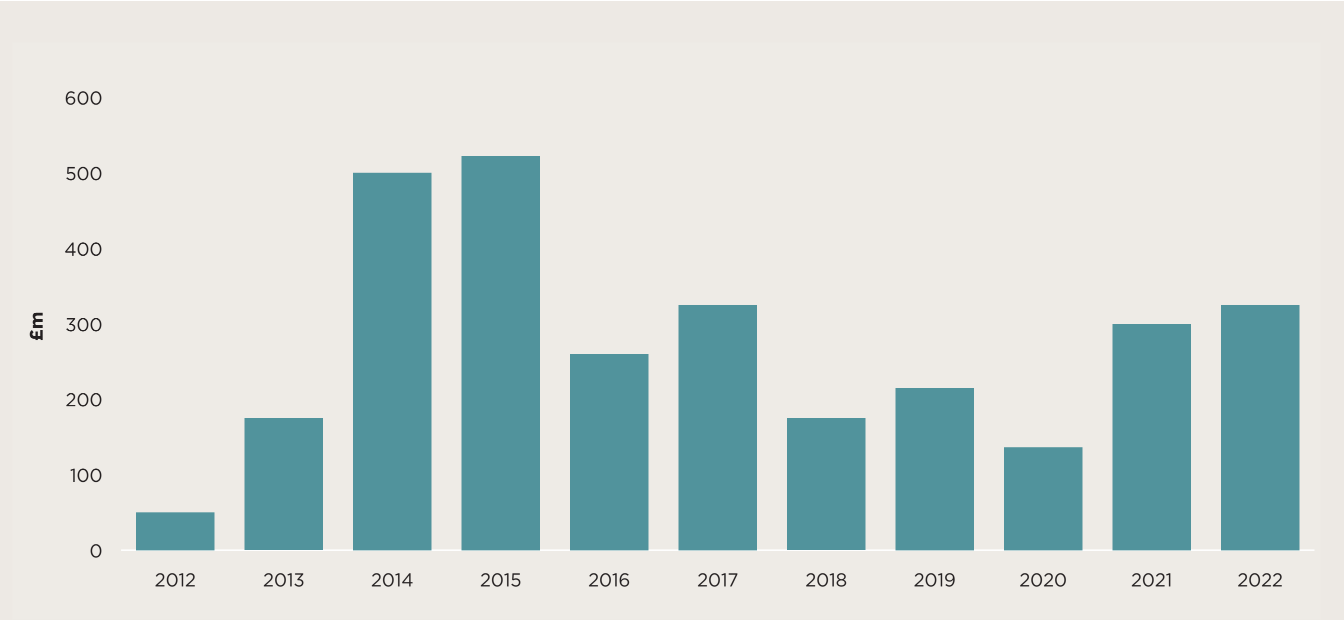
Another trend we anticipate will take hold this year is the alignment of occupiers' office requirements with 2030 carbon emissions targets. With the Government aiming to almost halve emissions by 2030, there will be a drive for office occupiers to upgrade their space in line with the deadline. This will raise pressure on secondary rents and, consequently, substantially increase prime rents. Take alongside the limited pipeline for the year ahead, and occupier demand for Grade A space, we expect the office market to continue its post-pandemic recovery in 2023.

Investment market

Northern Ireland a value play for investors.

A number of investors identified better yields on Northern Ireland real estate when compared to the GB or ROI markets in 2022. With soaring inflation squeezing real rates of return, investors now view the region as a value play. Another key attraction is Northern Ireland's unique position as a gateway between the EU and the UK, which has supported investor interest. As a result, 2022 represented the highest level of investment activity in Northern Ireland for the past five years. And, with the preparation of multiple sizeable assets in 2023, we expect this trend to continue.

Figure 10: Investment market turnover

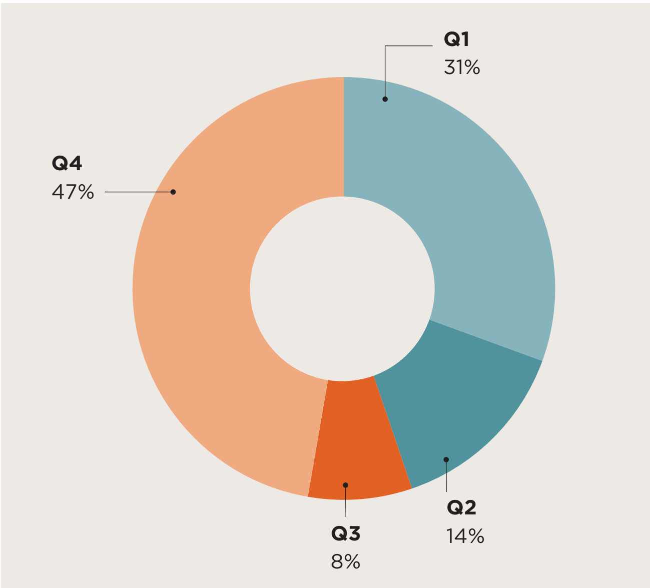


Source: Savills Research

Overall investment volumes reached £350 million last year, which was the highest level of annual turnover since 2017. There was a strong start to the year with transactional volumes of almost £100 million in Q1. Key transactions within the quarter included the off-market sale of Boucher Shopping Park in Belfast to Frasers Group for £40 million at a net initial yield (NIY) of 8.50%. There was also the £14 million sale of Cityside Retail and Leisure Park in Belfast to David Samuel Properties at a NIY of 11.83%.

Despite a strong start to 2022, the investment market retreated somewhat as economic concerns began to grow. The war in Ukraine plunged markets into uncertainty, with higher commodity and energy prices eroding business and consumer confidence. Transactional volumes fell from £99 million in Q1 to £46 million in Q2, albeit this was still an increase of 62% on the same quarter in the previous year. The office market formed the bulk of transactions in Q2, reflecting growing confidence among occupiers as "work from home" restrictions were lifted. Key deals within the quarter included the off-market sale of Weavers Court Business Park in Belfast for £20 million, the purchase of Montgomery House in Belfast by a Charitable Trust for almost £8 million at a NIY of 7.10% and, the sale of Killymeal House at The Gasworks for £6 million at a NIY of 6.55%.

Figure 11: Share of investment by quarter, 2022



Source: Savills Research

There was an adverse shift in prime real estate yields and a further weakening in market activity in Q3. Yields shifted out by between 50bps and 100bps amid higher levels of inflation, rising interest rates and the devaluation of sterling. On 23 September, then Prime Minister Liz Truss and Chancellor Kwasi Kwarteng launched their now infamous mini-Budget which shocked markets due to the promise of billions in unfunded tax cuts. The cost of government debt rocketed as a result, and borrowing rates moved out 300bps to 400bps. This had a significant knock-on effect on agreed deals.

Q3 investment activity continued to contract as a result, totalling just under £26 million. This was a 44% decrease on the previous quarter and a 70% decline on the same period in 2021. The sale of Premier Inn on Waring Street Belfast to a private local investor for £12 million at a NIY of 5.35% was the largest transaction, followed by the sale of Imperial House in Belfast for £7 million at a NIY of 5.81%. Despite the adverse shift in yields, assets with strong property fundamentals, including those with covenant strength and ESG credentials, appeared to be less impacted in terms of value than most secondary assets.

“There was an adverse shift in prime real estate yields and a further weakening in market activity in Q3.”

Bunzl, 35 Moy Road, Armagh

Investment activity strengthened considerably in Q4 to reach a total transactional volume of £153 million. This was almost six times the volumes transacted in the previous quarter and the highest quarterly total since Q3 2017. Key transactions within the period were the 20-year sale and leaseback of a healthcare portfolio for £61 million and the sale of Longwood Retail Park in Newtownabbey to Longwood Park Limited for almost £24 million at a NIY of 7.53%. Another notable transaction was The Comer Group’s purchase of Ards Shopping Centre in Newtownards for almost £16 million at a NIY of 12.00%.

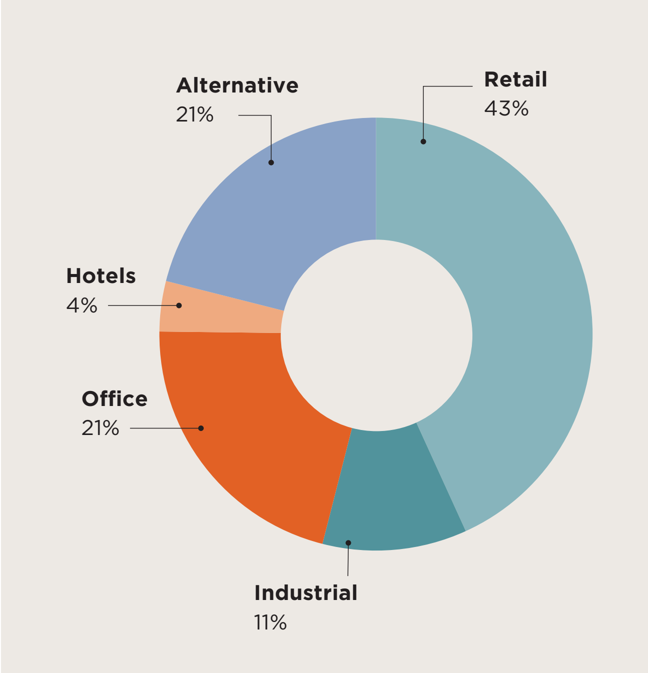
Although the tail-end of Q4 was marked by greater clarity on price adjustment, there was a continued delta between buyer expectations and vendor aspirations. This resulted in a high level of available stock which was openly marketed in 2022 remaining unsold or withdrawn. As we move through 2023, the release of new sales opportunities, coupled with existing unsold assets, will provide a growing buyer pool with a wide selection of opportunities to deploy capital.

“As we move through 2023, the release of new sales opportunities, coupled with existing unsold assets, will provide a growing buyer pool with a wide selection of opportunities to deploy capital.”

Turning to sales by sector, it is notable that retail investment is the mainstay of the Northern Ireland commercial property market. With the exception of last year, it consistently accounts for the largest proportion of annual market share. With investment of £140 million, retail made up 43% of total transaction volumes in 2022. Retail parks alone accounted for almost 75% of this share, demonstrating the sector’s resilience to challenging market conditions. Retail parks will continue to appeal to consumers due to their convenience, accessibility and highly visible roadside locations with large units and adjacent free parking. Given this, the fundamentals of the market remain solid and we expect investment in this segment to continue to grow.

In contrast to the performance of the retail sector, investment in the industrial segment declined in 2022. With a combined value of almost £35 million, the industrial sector was down 10% y/y. The good news is this was not so much a reflection of lack of demand but rather, a consequence of insufficient stock. The largest transaction in this segment was the £17 million sale of Mallusk Park in Newtownabbey to Randox at a NIY of 7.45%. This was followed by the £9 million sale of Bunzl Headquarters in Armagh to an international fund at a NIY of 5.57%.

Figure 12: : Investment volumes by sector, 2022



Source: Savills Research

Table 2: Top 5 Investment deals, 2022

Quarter	Property	Price	Vendor	Purchaser	Sector
Q1	Boucher Shopping Park, Boucher Crescent, Belfast, BT12 6HU	£40.0m	Corbo Properties	Frasers Group	Retail
Q4	Longwood Retail Park, Longwood Road, Newtownabbey, BT37 9UH	£23.5m	ABRDN	Longwood Park Limited	Retail
Q2	Weavers Court Business Park, Linfield Road, Belfast, BT12 5GH	£20.0m	Private	Private	Office
Q4	Mallusk Park, Mallusk Drive, Newtownabbey, BT36 4GN	£17.0m	Private	Randox	Industrial
Q4	35 Donegall Place, Belfast, BT1 5BB	£15.9m	Bywater	Wirefox	Office

Source: Savills Research

Outlook

It is clear that 2023 will present challenges for real estate investors. Against a backdrop of volatility, traditional lenders are likely to act with a degree of caution and the high cost of debt finance will make it more difficult for debt-backed purchasers to invest.

Whilst we expect the turbulence from H2 2022 to continue into the first half of 2023, we feel the market has already corrected in most sectors and now presents a significant buying opportunity for investors. Overseas buyers have already been active in this period and will continue to consider the value opportunities presenting themselves, with yields across the board much more advantageous than either GB or ROI.

The rollover of agreed deals and re-supply will likely result in a strong start to the year with almost £100 million of deals already agreed and expected to complete in the first quarter including the sale of Rushmere Shopping Centre and Retail Park in Craigavon.

ESG will be another major theme, having gained momentum last year, due to increasing regulations and growing corporate sustainability concerns. For investors, this will form a major part of their analysis and decision-making process throughout 2023 to identify risk and growth opportunities in the market.

Retail market

Belfast city centre

Despite general political and economic turmoil, the Northern Ireland retail market has so far remained remarkably resilient. Belfast experienced a particular highlight last year with the long-awaited reopening of the flagship Primark Store. Opened in November 2022, the new store comes four years after a blaze destroyed the original premises. At 88,000 sq ft, the space is 76% bigger than the previous store and includes a new Disney experience, a home department and a nail and beauty salon. Elsewhere, the new Ulster University campus in Belfast officially opened in September, gathering more than 15,000 additional staff and students who will increase footfall to the city centre.

Among the most notable transactions were the DV8 acquisition of the former DW Sports at Donegall Place and the partial re-let of the former BHS in Belfast's Castle Lane with H&M reportedly taking space on the ground floor. At the luxury end of the market, Gucci, Breitling and Montblanc all opened outlets in Queen's Arcade in the city centre.

DV8, 49 Donegall Place, Belfast

Retail Warehousing

The out-of-town retail and leisure market held up well over the past 12 months, with the vacancy rate remaining low as many parks are fully let. New lettings within this sector included Pure Gym's acquisition of 10,000 sq ft at Braidwater Retail Park in Ballymena, while Poundland continues to expand aggressively through the leasing of new space. The discount store signed for a number of units including a space at Showgrounds Retail Park in Omagh. Meanwhile, The Range opened a 50,000 sq ft store at Bridgewater Park in Banbridge in May, with M&S taking a new 30,000 sq ft store at the same location. The Food Warehouse opened a 16,000 sq ft unit at Westwood Retail Park in Belfast, marking its second acquisition in Northern Ireland. It also holds a store at Longwood Retail Park in Newtownabbey.

There is one major new retail park which is set for development in Enniskillen after planning consent was granted in March. The scheme, known as Lakelands Retail & Leisure Park, will be developed on the former Unipork site at Cornagrade Road. It will comprise five large retail warehouses, anchored by The Range, as well as a leisure element including a hotel, cinema and bowling alley.

In the food sector, Lidl continues to expand and seek more opportunities. It opened an enlarged store at the Shore Road in Belfast in July and a brand-new larger relocation store on the Castlereagh Road in Belfast in September. The supermarket chain Polonez, which specialises in Eastern European groceries, acquired a 4,000 sq ft store in Windsor Avenue in Lurgan in January and opened a similar store on the Pentagon Retail Park in Ballymena in March. In addition, Lynas opened its 11th store – a 7,500 sq ft outlet in Magowan West in Portadown in September.

Shopping Centres

Following an extremely challenging few years with the collapse of many established retail brands, the shopping centre market showed something of a resurgence last year. There was relatively little retailer distress in 2022 and, indeed, a significant amount of letting activity both in Belfast and regionally.

Both of the main shopping centres in Belfast city centre attracted a number of new occupiers. In Castlecourt, part of the former Debenhams has been let to Avenue Cinema, adding a new leisure element to the scheme. Schuh also opened a new store in the centre, along with Starbucks which has relocated to a brand-new ground floor unit at the entrance to the scheme. In Victoria Square, the activewear brand Sweaty Betty opened a store, along with Gilly Hicks and the new designer clothing shop Tessuti, which took a 12,900 sq ft unit.

Provincially, we have seen letting activity in many major towns and cities across the region. Examples include Rituals' acquisition of units at Foyleside in Derry and Tower Centre in Ballymena. Waterstones is taking a new store in Enniskillen following its recent openings in Foyleside in Derry/Londonderry, and Forestside in Belfast. Primark has also acquired a new outlet in Rushmere Shopping Centre, Craigavon, which opened in December, marking the retailer's ninth store in Northern Ireland.

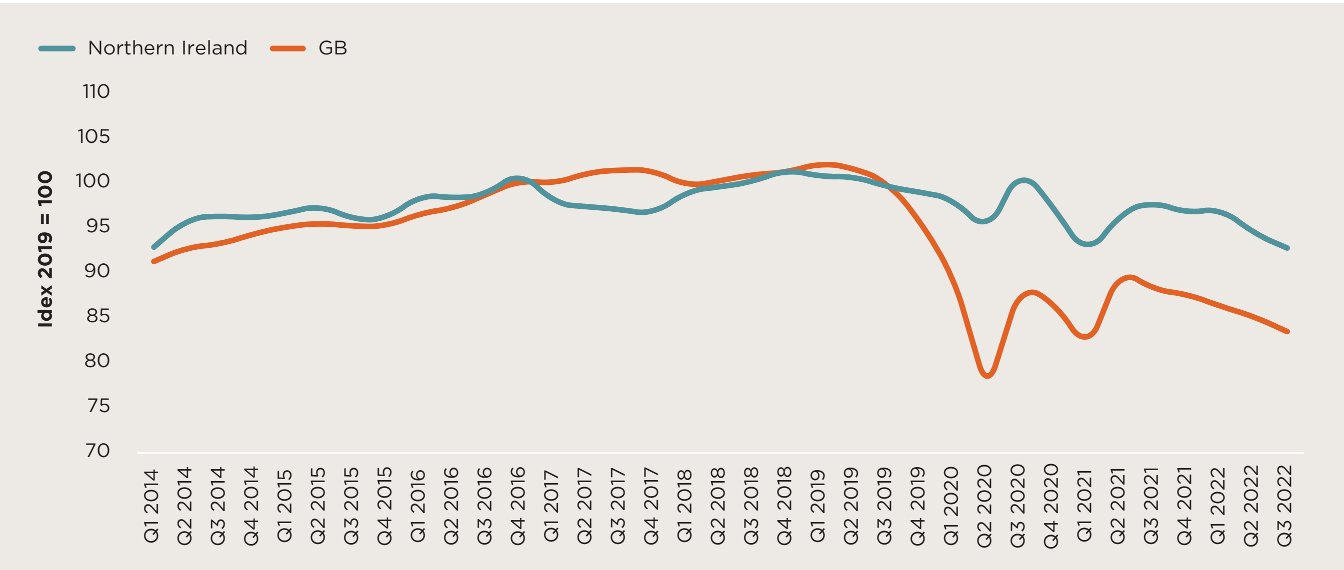
"There was relatively little retailer distress in 2022 and, indeed, a significant amount of letting activity both in Belfast and regionally."

Waterstones, Erneside Shopping Centre, Enniskillen

Food & Beverage

The Food & Beverage market also experienced increased activity in 2022. The likes of Greggs and Starbucks are all opening new outlets while Slims Chicken opened its first Northern Irish store at Boucher Crescent in Belfast. We understand Krispy Kreme is close to acquiring its first outlet as well. This will be in Belfast and another welcome addition to the sector. Jamaica Blue opened an outlet in Forestside Shopping Centre, which was also a first, and it is eager to open more outlets where appropriate. Tim Hortons, the Canadian coffee brand, opened a drive-thru restaurant at Larne Link Road in Ballymena in January, and opened a similar outlet at the Junction One Retail Park in Antrim in March.

Figure 13: Index of services – retail component



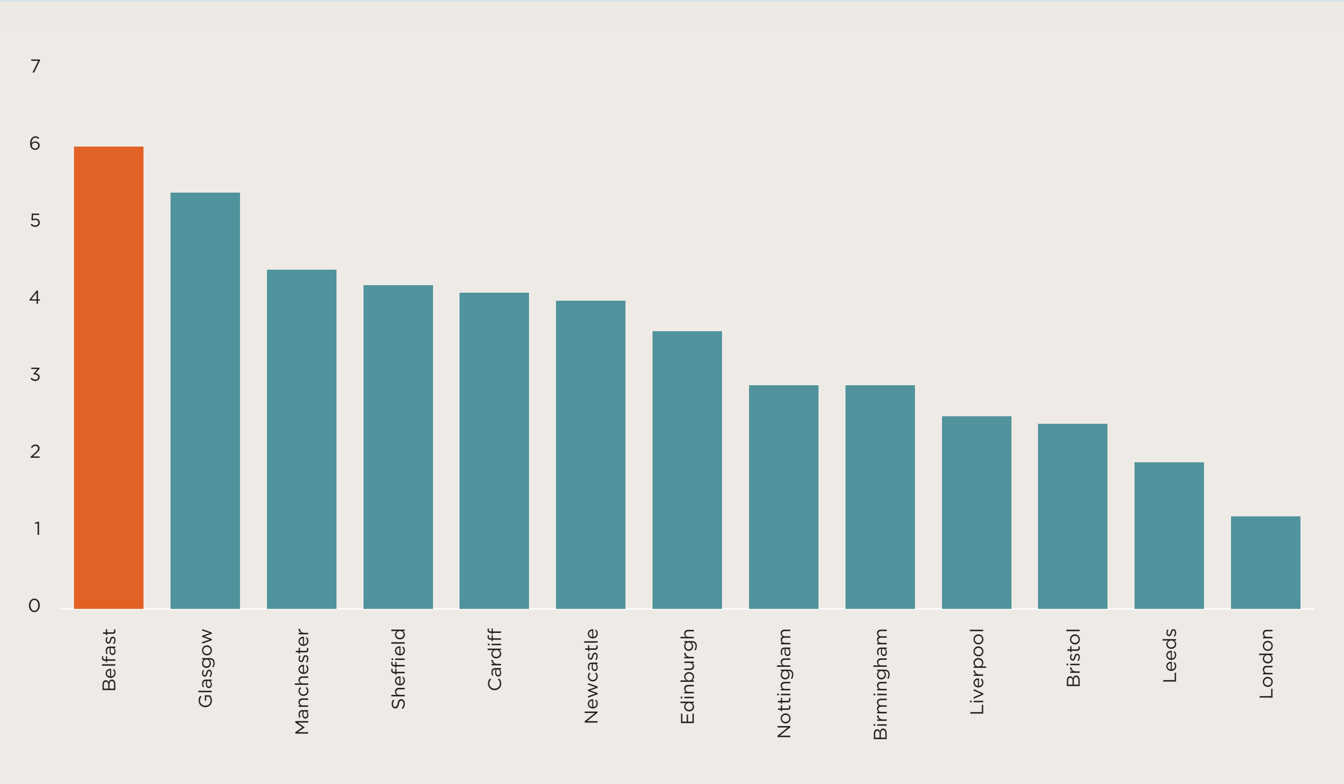
Source: NISRA

Build-to-Rent to enter Belfast Pipeline

Towns and cities up and down the country are experiencing pressure from the continued withdrawal of Buy-to-Let (BTL) Landlords. Savills Research suggests there were -76,000 net BTL mortgage redemptions in the year to August 2022. Taken alongside the recent surge in rental demand, the undersupply of rental accommodation has continued to push rents up. Rising mortgage rates may also force aspiring homebuyers into the rental sector or keep those in already in the sector for a longer period. Furthermore, approximately half of landlords have at least one mortgaged property and many may be forced to pass on higher mortgage repayments through higher rents, adding to the existing pressure on tenants. As such, Belfast City Council's approval of full planning permission for four BTR schemes is timely.

> **"Supply of new homes is failing to keep pace with soaring rental demand."**

Figure 14: Graduates retained per rental listing



Source: Savills Research using HESA, Rightmove and Ulster University data

We expect rising student numbers, which will translate into higher graduate numbers, to have the biggest impact on rental markets in the future. Savills Research shows Belfast tops the table ahead of cities like Glasgow and Manchester for the retention of graduates relative to the number of rental properties available to rent. This means these cities have an increasingly well educated, young workforce that is seeking close proximity to employment and greater choice in the rental market. As such, these cities have the capacity to absorb lots of new homes, including BTR, to house their existing and future graduates. With a strong student component to Belfast's population, BTR will also support graduate retention.

BTR Pipeline

With seven BTR schemes currently at various stages of the planning process, the growing demand for rental accommodation has the potential to be eased in the years ahead. These schemes represent the first BTR developments in Belfast, which offers robust fundamentals for this development type due to steady employment growth and strong graduate retention as discussed above. These schemes would add 2,300 units to the market, with two of the seven proposed developments accounting for 55% of these.

We expect at least one of the larger BTR developments to break ground within the next six months, demonstrating that Belfast has all the correct fundamentals to support a commercially viable BTR scheme. Moreover, the scale of the Loft Lines and Waterside proposed schemes provide excellent placemaking opportunities, and would boost the regeneration prospects that play a crucial role in improving the city's wider appeal.

Table 3: Belfast BTR proposals by planning status

Property	Status	Units
The Waterside, lands at former Sirocco Works site, Belfast	Outline	675
Loft Lines, Titanic Quarter, Belfast	Full Planning	627
21-29 Corporation Street & 18-24 Tomb Street, Belfast	Recommendation for Approval	298
Site bounded by Gilpin Street, Wellwood Street & Norwood Street, Belfast	Outline	277
El Divino Nightclub and car park and adjacent open space, Mays Meadow, Belfast	Full Planning	156
Land adjacent to Quay Gate House, 15 Scrabo Street, Belfast	Full Planning	151
81 -87 Academy Street, Belfast	Full Planning	105
177-183 Victoria Street, 66-72 May Street and 4-8 Gloucester Street Belfast	Decision Pending	77

Loft Lines, Titanic Quarter, Belfast

Residential Market

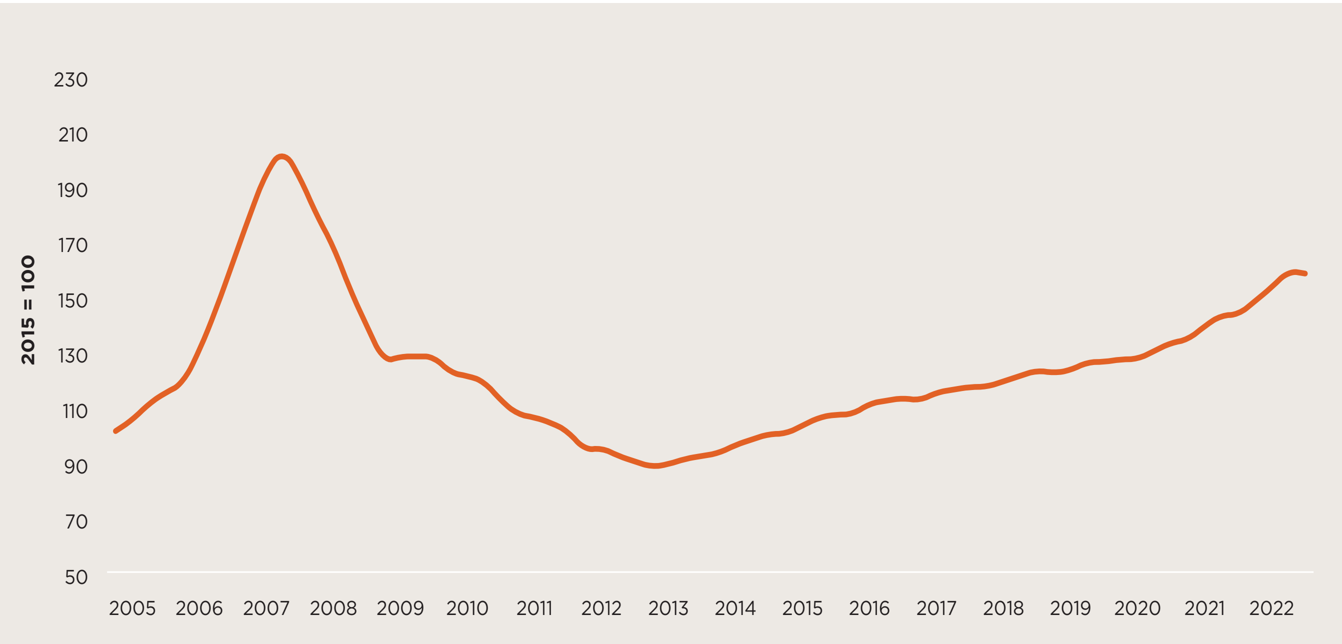
The residential market displayed consecutive quarterly price growth and market optimism throughout 2021. This trend continued into Q1 2022, with demand levels increasing alongside purchaser sentiment. The overall average price of residential property in Northern Ireland was £202,325 in Q1, representing a weighted annual level of growth of almost 10%, and quarterly growth of 2%. Lack of quality stock was a key factor driving transaction volumes, which further served to underpin market pricing structures across the period.

This strong buyer sentiment, combined with low stock levels, contributed to the overall average price of residential property rising to £205,628 in Q2, representing quarterly price growth of almost 4%, and a 6% weighted increase year-on-year. However, rising interest rates along with the higher cost of living and ever-increasing political and economic uncertainty, belatedly started to impact enquiry levels, with a reported 33% drop-off in new purchaser enquiries compared to Q1. This reduction in sales enquiries and instructions, combined with less competitive bidding, resulted in the market returning to more normal levels of activity, and served to stabilise house prices and house price growth into the second half of 2022.

As such, quarterly price growth came to a little over 1% in Q3. This softening in confidence also translated into a modest year-on-year average increase of 3%, putting average house prices at £206,952. This suggests the period of post-lockdown housing market buoyancy has ended, and that the behaviours of prospective purchasers and homeowners are likely to be more strongly influenced by financial considerations rather than housing preferences in the months ahead.

"Lack of quality stock was a key factor driving transaction volumes, which further served to underpin market pricing structures across the period."

Figure 15: NI House Price Index, 2015=100



Source: NI House Price Index

Noting that the Q4 Northern Ireland House Price Index eased from the previous period there is evidence to suggest a continued slowdown in housing market activity in the year ahead, especially given the current socio-economic climate and overall market sentiment. Nevertheless, the lack of supply which characterised the market in 2022 will limit the extent of a slowdown. The rate at which new builds are being released onto the market has reduced significantly due to the rise in raw materials prices over the past 12 months, and the ongoing uncertainty over future changes in materials pricing. Potential movers have also become reluctant to list their present homes, reducing supply levels further. Therefore, sustained demand, coupled with constrained supply, should keep house price growth in positive territory in 2023.

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