Savills Research – Review and Outlook 2024

Northern Ireland Market

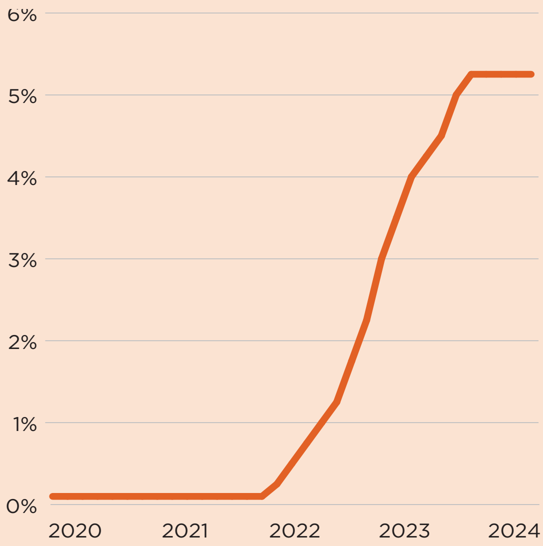
Outlook for 2024

1

Investment deals to pick up as refinancing events emerge

The 2024 investment market will be partially marked by the property owners who are set to see a large quantum of debt mature in the context of the higher interest rate environment. They are facing higher debt costs and lower equity values, leaving them in a challenging position as upcoming refinancing events start to take hold. We expect this will lead to a number of distressed assets coming to the market over the next few quarters. Motivated sellers have less pricing power than discretionary sellers, which will support price discovery in the market and expediate any further value corrections. This in turn has the potential to raise transaction volumes, leading to acquisition opportunities for investors in the year ahead.

Figure 1: Movement in the Bank of England's base rate



Source: Bank of England

Uncertain interest rate outlook amid geopolitical tensions

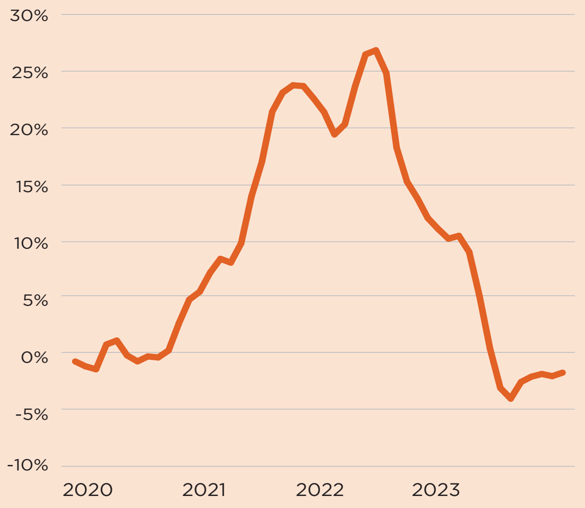
High levels of inflation have led the Bank of England to raise interest rates 14 times since December 2021. At that time, the base rate was just 0.25% but this has since been raised by 500 basis points to 5.25% as of August 2023. The Monetary Policy Committee has subsequently kept rates on hold, reflecting the sharp slowdown in consumer price inflation which fell from a peak of 11.1% y/y in October 2022 to 4.2% y/y by January this year. Although inflation remains above target, attention is turning to when the first interest rate cut will be made. Given the UK's weak economic performance in 2023, pressure is mounting on a rate cut. Nevertheless, the ongoing geopolitical fragmentation in the Middle East, combined with new post-Brexit border controls, have the potential to put upward pressure on prices. Notwithstanding, expectations are for the Bank to begin reducing rates from mid-year. In the meantime, we anticipate that equity rich investors who are able to secure discounts on core stock before the competition returns, will be rewarded.

3

Assets with poor environmental credentials to be marginalised

ESG will continue to dominate investor and occupier considerations in 2024. 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. However, despite the benefits, one of the main barriers to upgrading standing stock to meet regulations is the high cost of construction, albeit material prices have been declining in recent months. In times of economic downturn, ESG retrofits may be delayed or scaled back and those assets that do not match the environmental goals of investors and occupiers will be increasingly marginalised. Landlords will thus have to invest substantial capital into their existing stock to meet these ESG requirements if they wish to remain relevant.

Figure 2: Trend in material price index



Source: Dept. for Business and Trade

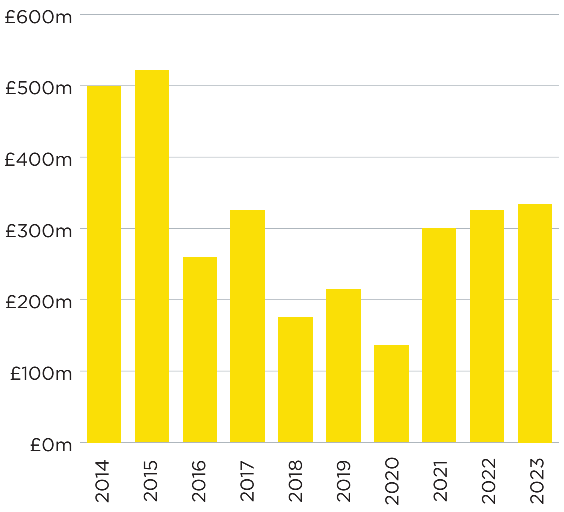
4

Belfast prime offices to reach £30 psf

With the Belfast Department office development pipeline to be considerably limited in the period ahead, we expect to see the rental gap between prime and secondary space continue to widen – especially as best-in-class availabilities become more competitive to secure. The pandemic-related trend for greater flexibility on leases will continue in the year ahead, as well as the flight to prime as occupiers seek to attract staff back into the office.

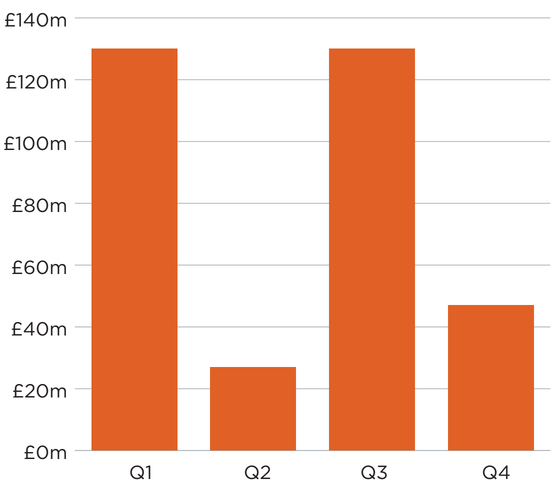
Furthermore, we expect take-up to increase in 2024 as deals which were pushed out last year are completed and market requirements continue to be fulfilled. As such, we predict that headline rents for new Grade A stock will rise from £25.00-£27.00 psf currently to £30.00 psf within the next 24 months.

Figure 3: Investment turnover



Source: Savills Research

Figure 4: Investment turnover, quarterly



Source: Savills Research

Investment

Turnover hits six-year high

2023 will be remembered for stubbornly high levels of inflation, interest rates at a 15-year high and elevated investor caution. Nonetheless, investment volumes in Northern Ireland exceeded £334.0 million in 2023, which was the highest annual turnover since 2017 and well above the five-year average of £262.0 million. This is an encouraging result despite the significant market headwinds experienced throughout the course of last year. We remain optimistic for the year ahead and expect property investors to benefit from more opportunities than they did last year, albeit the political landscape and interest rate story will shape the course of activity.

QUARTERLY VOLUMES EXPERIENCE SIGNIFICANT SWINGS

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 £129.6 million in Q1 2023. This was 30% higher than the total of £100.0 million recorded in Q1 2022. Key transactions within Q1 included Savills' sale of Rushmere Shopping Centre and Retail Park, Craigavon, to Killahoey Limited for £46.5 million at a NIY of 14.7%, as well as Target Healthcare REIT's £22.0 million sale of a portfolio of four care homes to an undisclosed purchaser. The market retracted in Q2 with a total investment volume of £27.4 million. The wider macroeconomic context began to bite as higher interest rates significantly raised the cost of debt. Between February 2022 and August 2023, the Bank of England raised the base rate from 0.5% to 5.25%. The largest deal in Q2 was Ulster Estate Limited's sale of Bedford House, acquired by Savills for a private local investor for £20.1 million, representing a NIY of 7.3%.

There was a bounce back in activity in Q3 with a total investment spend of £130.2 million, which was more than 80% above the five-year quarterly average. The largest deal in Q3 was Savills' sale of Forestside Shopping Centre to a private local investor for £42.0 million, reflecting a NIY of 7.91%, closely followed by the sale of Abbey Retail Park to US based Realty Income for £40.6 million reflecting a NIY of 7.46%. Investment activity in Q4 then contracted to £47.0 million, which was down 73% on the same period last year. Looking ahead, there are a number of large profile deals on the market in 2024 to include Savills' sale of Bloomfield Shopping Centre and Retail Park, due to complete in Q1, which will ensure a strong start to the year.

Table 1: Top five investment deals

Property	Quarter	Price	Vendor	Purchaser	Sector
Rushmere Shopping Centre and Retail Park, Craigavon*	Q1	£46.5m	Central Craigavon Ltd	Killahoey Limited	Retail
Forestside Shopping Centre, Belfast, BT8 6FX*	Q3	£42.0m	Kildare Management Ltd	Private local investor	Retail
Abbey Retail Park, Newtownabbey	Q3	£40.6m	Slate Asset Management	Realty Income	Retail
Foyleside Shopping Centre*	Q3	£27.0m	Kildare Management Ltd	Private local investor	Retail
Bedford House, Belfast*	Q2	£20.1m	Ulster Estates Ltd	Private local investor	Office

*Savills involved

Source: Savills Research

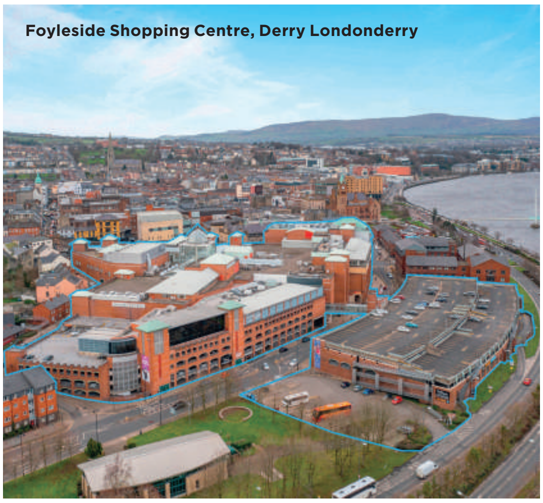
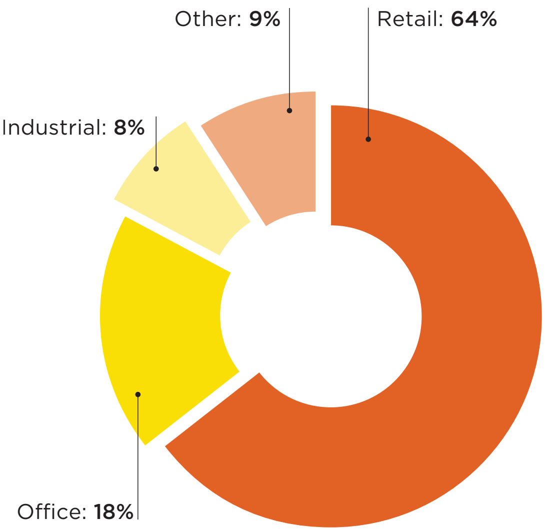


Figure 5: Investment by sector



Source: Savills Research

RETAIL THE MOST POPULAR SECTOR IN 2023

Retail has proven to be the mainstay of the NI commercial property market with a total investment volume of £214.2 million in 2023, representing a 64% market share. While Savills' sale of Rushmere Shopping Centre and Retail Park was the largest transaction within the sector, other notable transactions included Savills' sales of both Foyleside Shopping Centre, Derry / Londonderry, to a local property company for £27.0 million at a NIY of 14.49%, and Riverside Retail Park, Coleraine, to Magmel Properties for £10.3 million at a NIY of 6.91%. Opportunistic investors will continue to be attracted to parts of the retail market by the high yields on offer, but moving forward in 2024, we anticipate some prime yield hardening in the sector. Offices accounted for 18% of turnover last year, with a total investment volume of £60.5 million. Office values continued to decrease over the year, although demand remains for prime offices with strong ESG credentials – albeit there is a lack of supply of these assets. Investors are grappling with the rise in the cost of capex, particularly when trying to meet sustainability expectations and standards. This is generating additional cost at a time of market disruption and having a further negative impact on office investment values.

Industrial will always be a small share of the total, albeit this trend has been compounded by the insufficient level of stock as opposed to a lack of demand. The industrial sector accounted for only 8% of deal volumes at £28.3 million. This was underpinned by a significant off-market transaction involving a sale and leaseback in County Down at a NIY of 7.10%, which was the third largest industrial deal on record.

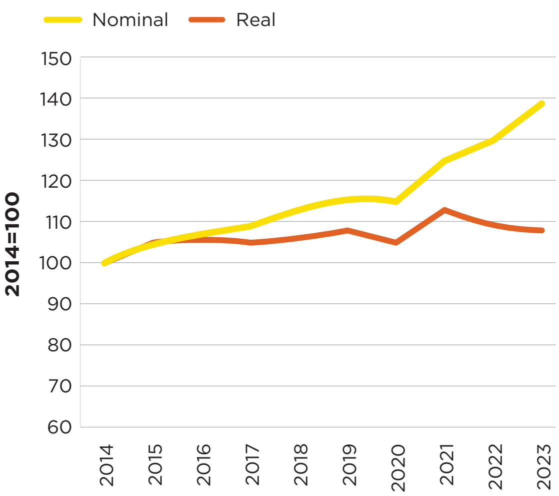
PRIVATE INVESTORS FILL VOID LEFT BY INSTITUTIONS

Private local investors were the most active buyer type in 2023. This reflects the fact that NI'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 institutional 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 the region as uniquely positioned as a gateway between the EU and the UK. While the Investment Summit held last September showcased many of the success stories in the province, it also highlighted how NI's unique position in the global market is not being leveraged by institutional investors due to political instability. The restoration of Stormont earlier this year should, nevertheless, help to alleviate some of that concern.

Rituals, Victoria Square, Belfast

Figure 6: Earnings growth



Source: NISRA

Retail

Sector welcomes new entrants and expansions

Consumers have been challenged by high levels of inflation over the past two years and ensuing cost-of-living crisis. While nominal earnings grew by 7.4% last year, inflation-adjusted real earnings declined by 0.3%. Despite this, the NI retail market has remained strong, with Belfast city centre experiencing a flurry of retail-led developments. These included The Keep, Castle Lane, which will handover later this year. As part of this, pre-lets have completed to Deichmann Shoes – its first store in NI – and H&M, which is opening a new flagship store in the city centre. Elsewhere, River Island consolidated its two existing Belfast stores and merged the former Clarks Shoes and Disney Store on Donegall Place to form its new concept store. Another notable transaction was the relocation of Accessorize from Victoria Square. Within Queen's Arcade, Tudor opened its first dedicated boutique in the region, partnering with Lunn's Jewellers and complementing the openings of luxury brands Gucci, Breitling and Montblanc last year.

MUCH MOVEMENT ACROSS SHOPPING CENTRES

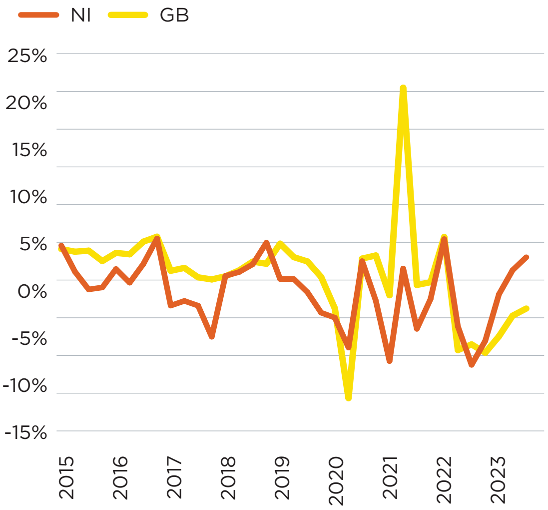
CastleCourt and Victoria Square welcomed a number of new occupiers and expansions last year. At CastleCourt, New Look moved into the former Debenham's box, taking 8,000 sq ft, while Miniso opened its debut NI store. Poundland opened a new flagship store in the city centre after expanding into an 18,000 sq ft unit. Muffin Break acquired its first city centre unit as well, adding to the city's food and beverage offering. At Victoria Square, The White Company and Slims Chicken moved in. Rituals also upsized to a 3,500 sq ft unit – one of its largest stores in the UK.

There was sustained occupier activity in the provincial shopping centres, with Rushmere seeing the opening of Waterstones and Primark. Waterstones also agreed a deal in Bloomfield Shopping Centre, Bangor, which will open this year. Superdrug is planning to double the size of its unit within Rushmere mall. Miniso acquired units in Tower Centre, Ballymena, and Rushmere, following its opening in CastleCourt, and plans to expand further this year.

Among the largest retail deals completed in either the UK or Ireland in 2023 was the letting of 110,000 sq ft at the newly developed Dobbies Garden Centre at The Junction Retail and Leisure Park in Antrim. Elsewhere, Primark exchanged a deal on 26,100 sq ft at Fairhill Shopping Centre as part of its £7.0 million redevelopment; this is due to open in 2025. River Island relocated within Fairhill and opened its new store in November.

Dobbies Garden Centre, The Junction Retail and Leisure Park, Co Antrim

Figure 7: Retail sales index



Source: NISRA

Table 2: Top five retail deals

Property	Quarter	Sq ft	Tenant	Sector
The Junction, Co Antrim	Q4	110,000	Dobbies	Fashion Outlet Centre
Boucher Shopping Park, Belfast	Q4	60,000	Frasers	Retail Park
Railway Retail Park, Strabane	Q4	38,000	Lidl	Retail Park
Balmoral Plaza, Belfast	Q1	30,000	B+M	Retail Park
CastleCourt, Belfast	Q2	18,000	Poundland	Shopping Centre

Source: Savills Research

FOOD AND BEVERAGE

The food and beverage market continued to be very competitive in 2023 with new entrants taking floor space in Belfast. Pret A Manger acquired its first store in the region, moving into the former Patisserie Valerie premises on Donegall Square West, while Caffé Nero took the patisserie's former Castle Lane store. Tortilla entered the Belfast market with its first outlet on Arthur Square and has plans to open further outlets across the city. It is also understood that Mary Brown's and Popeyes have agreed deals on several sites for 2024 openings – their first forays into the market.

After opening its first successful outlet in Forestside, Jamaica Blue opened the doors to its two-storey Belfast Cornmarket property, with plans to expand the brand further in 2024. Bob & Berts has also acquired a new outlet on Ann Street and will soon open in Pavilion Retail Park in Strabane. It otherwise remains active throughout the UK.

Finally, the Odyssey Complex witnessed the arrival of three high profile restaurant brands in 2023, namely Zizzi's, Nando's and Five Guys. Additional brands are to be announced later in the year.

OUT-OF-TOWN RETAILERS GROW THEIR PRESENCE

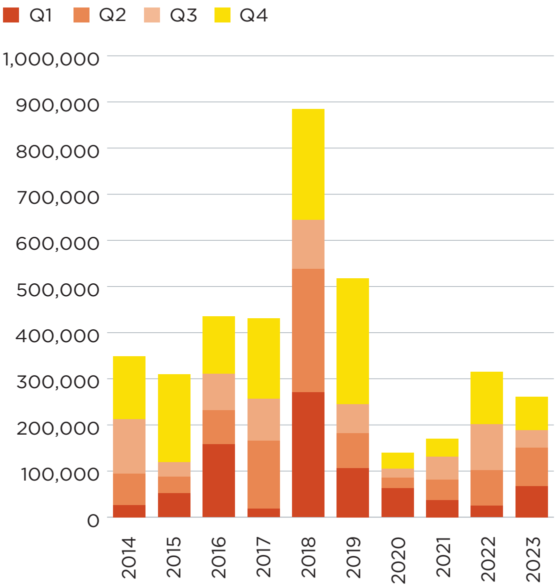
The out-of-town retail and leisure market performed well last year, albeit there was limited activity across some parks due to a lack of available or suitable sized space. Notable transactions included Harry Corry's acquisition of a second store in Derry / Londonderry, where it opened 7,500 sq ft of space at Crescent Link Retail Park. EZ Living opened an outlet store at Lesley Retail Park, Boucher Road, which was in addition to its full price store at Bridgewater Retail Park, Banbridge and Riverside Retail Park, Coleraine. The furniture retailer has also exchanged a deal on the former DW Sports warehouse at Braidwater Retail Park, Ballymena, which will open in summer 2024.

Boucher Road experienced a number of other new openings last year. These included the opening of Jollyes Pets' 14th store after it acquired the former Lynas Food Outlet. B&M opened a larger store on the Boucher Road as well and continues to seek other opportunities, along with discount operators Poundland and Home Bargains. On Boucher Crescent, Polonez acquired a new store extending to 6,000 sq ft. This was in addition to the Polish grocer's opening of a 4,000 sq ft store in Dungannon. Meanwhile, Lidl opened a flagship store in Strabane in the latter part of last year and has a healthy pipeline for 2024.

Pure Gym is seeking new units across NI having last year opened a 12,000 sq ft outlet at the Braidwater Retail Park, Ballymena. Space is also being sought by food chains like Greggs, Costa and Starbucks. Rents for purpose-built schemes along these roadside locations breached the £40.00 psf threshold last year. This reflects the relative strength of the NI retail market where sales are growing by 3.5% y/y, compared with -1.9% y/y in GB, figures from the NI Statistics and Research Agency show (NISRA).

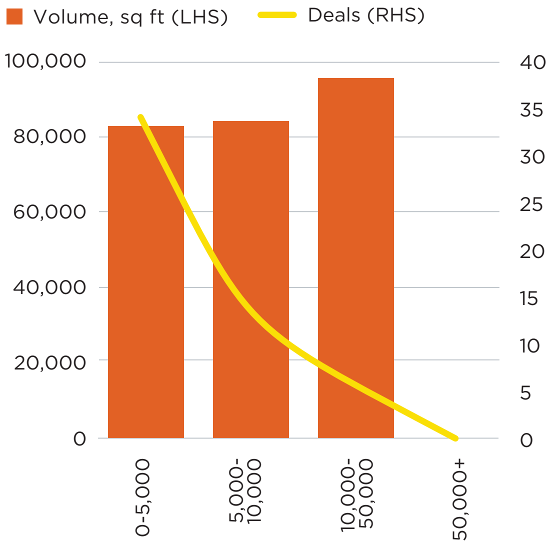
Forestside Shopping Centre, Belfast

Figure 8: Office take-up, sq ft



Source: Savills Research

Figure 9: Take-up by size category



Source: Savills Research

Belfast offices

Deals keep pace despite lower volumes

The Belfast office market experienced an increase in enquiries and viewing activity in 2023, albeit take-up remained subdued at 261,500 sq ft. This was 31% below the ten-year average annual figure of 381,000 sq ft, and down 17% on the preceding year. Although we have seen a steady stream of requirements coming through the market with occupiers ready to commit to new space, their activity can involve downsizing into higher quality offices. This has led to a situation where the number of transactions has held steady at 53, while the volume of space demanded has declined.

A breakout of the data by quarter shows take-up in Q1 and Q2 was 67,400 sq ft and 82,600 sq ft, respectively. While Q1 recorded 11 transactions, Q2 saw a further 15. In Q3, 38,100 sq ft was taken across 12 deals, with activity picking up again in Q4 when 73,300 sq ft was leased across 15 transactions. The largest deal of the year was the leasing of 27,600 sq ft by a confidential tech company within City Quays 3. This was followed by the letting of 16,700 sq ft at The Ewart Building to the financial services firm, Just Group. The third biggest was Cathedral Eye Clinic's signing for 14,800 sq ft at 84-94 Great Patrick Street.

LIMITED SUPPLY TO RAISE PRESSURE ON RENTS

Last year saw the delivery of 650,000 sq ft across Belfast following the completions of The Ewart, Olympic House in the Titanic Quarter, Belfast Harbour's City Quays 3 and The Paper Exchange. As predicted, these developments have begun to let from the top down and, with no new developments planned for the city centre, we are soon going to see significant upward pressure on rents. Although there is about 1.7 million sq ft of vacant office space across Belfast, much of this is dated and in need of substantial investment if it is going to attract and command the asking rents.

Demand for prime Grade A office space has grown as predicted in 2023, with top down lettings across new completions limiting the already stretched level of supply. Occupiers want the right asset in the right location but the lack of development for the foreseeable future means these opportunities remain scarce. While a limited number of refurbishments are due to complete early this year, they include the Pearl Assurance Building and Printworks. Overall, the limited level of supply has widened the rental gap between old and new stock.

The tone of office rents has remained positive, with new build space commanding rents in the range of £25.00-£27.00 psf. Rental packages are commonly six months' rent free for a five-year lease and 12-18 months for a 10-year lease.

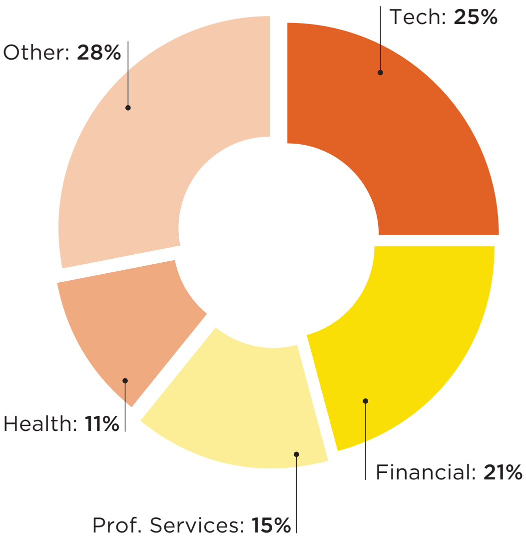
Table 3: Top five office deals

Property	Quarter	Sq ft	Tenant
City Quays 3, Belfast	Q2	27,600	Private
The Ewart, Belfast	Q2	16,700	Just Group
84-91 Great Patrick St, Belfast	Q1	14,800	Cathedral Eye Clinic
City Quays 3, Belfast	Q4	12,900	B-Secur
The Paper Exchange, Belfast	Q4	12,400	Private

Source: Savills Research

The Paper Exchange (interior), Belfast

Figure 10: Office take-up by sector



Source: Savills Research

SMALL DEAL SIZES GROWING IN POPULARITY

Delving into more of the detail on the size of deals completed shows that the highest number of transactions was for small parcels of space of up to 5,000 sq ft, at 34 deals amounting to a total of 82,500 sq ft during the year. There were 13 deals totalling 83,800 sq ft for floorspace of between 5,000-10,000 sq ft. Finally, six deals were completed across offices sized between 10,000-50,000 and amounting to 95,200 sq ft. Four of these deals took place in the first half of the year, with the other two occurring in the second half.

The popularity of the 10,000-50,000 size category fell from 2022, when eight transactions occurred across 162,500 sq ft. Meanwhile, the fact that the small size category has grown over the past year adds to evidence that occupiers are adjusting their space requirements.

TECH REMAINS THE KEY PLAYER

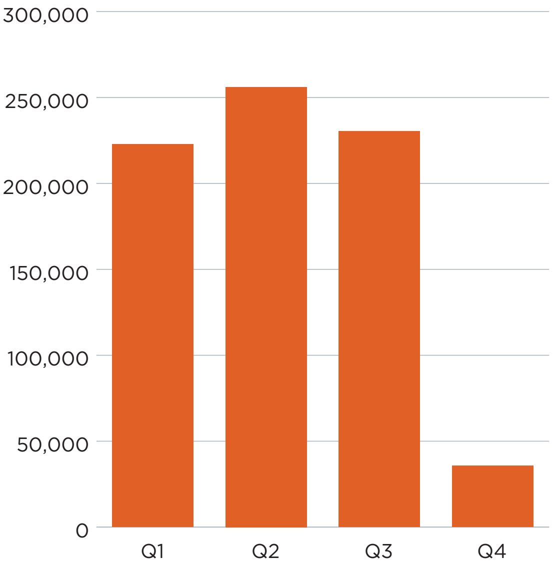
On a sectoral basis, tech accounted for the largest share of space taken at 25%, or 64,700 sq ft. Tech's volume of take-up was largely unchanged from 2022, although the average transaction size fell from 7,300 sq ft to 5,400 sq ft. The second highest share of take-up was attributable to financial services at 21%, or 56,200 sq ft. This was followed by professional services at 15%, or 40,200 sq ft. The average deal size for professional services also declined from 4,700 sq ft in 2022 to 3,100 sq ft last year. Health, legal and real estate accounted for shares of 11%, 8% and 5%, respectively, while the public sector made up 2%.

OCCUPIERS INVESTING MORE IN FIT-OUTS

Occupiers continue to focus on quality, sustainable space that encourages staff to have a more physical presence in the office. Many companies now also realise the importance of providing high quality and unique spaces that can compete with the comforts of working from home. This trend will only become more prevalent as occupiers increasingly recognise and improve their understanding of specification, energy performance and decarbonisation. As a result, we are seeing an increase in the amount of capital being spent on fit-outs which have the potential to attract and retain talent.

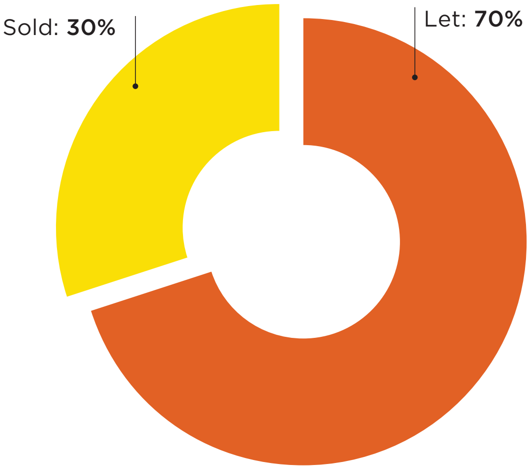
35 Donegall Place, Belfast

Figure 11: Industrial take-up by quarter, sq ft



Source: Savills Research

Figure 12: Take-up by type



Source: Savills Research

Block F, Knockmore Industrial Estate, Lisburn

Industrial

More development sites need to be approved

The Northern Ireland industrial and logistics sector has been significantly restricted by the lack of supply of new stock, as well as the limited availability of existing stock, to the market. On top of this, much of the stock which is currently available is not fit-for-purpose or is in need of refurbishment or replacement. At the same time, design and build projects have been growing in popularity due to the limited level of high-quality existing space. Development sites which can support the size requirement for current occupiers are few and far between, indicating that councils need to provide further support to achieve the level of supply needed within this sector.

That said, take-up within the sector totalled 744,900 sq ft in 2023, of which 70% – or 523,000 sq ft – was leased and the remaining 30% was sold. A breakdown of the figures further shows that take-up was fairly consistent throughout the first three quarters of the year at 222,800 sq ft, 256,100 sq ft and 230,300 sq ft in Q1, Q2 and Q3, respectively. However, the amount of space taken in Q4 was much lower at only 35,700 sq ft.

The three biggest deals of the year by amount of space taken were: the letting of 204,200 sq ft at Nutts Corner Business Park, Crumlin, to the food distributor, Sysco; the sale of 134,500 sq ft at Ballyoran Lane, Belfast, to a private occupier and, the letting of 76,100 at The Logistics Building, Ballymena, to UDS Freight.

MARKET CONDITIONS DISCOURAGING DEVELOPMENT

Rents have remained steady over the past year, standing at £6.50 psf for good quality industrial stock, with prime new builds achieving between £9.00-£10.00 psf. These relatively low rent levels, combined with high build costs, are discouraging developers from the market – placing further constraints on the supply pipeline. There is nevertheless demand for space, particularly in terms of well-located good quality stock. In particular, we are witnessing demand for space which is in close proximity to Belfast and along the corridor between Belfast and Dublin. A number of occupiers, especially those in the food distribution and manufacturing sectors, have also been attracted to NI because of the unique access it offers to both the UK and EU single markets, facilitating smoother trade.

As with the other commercial property sectors, ESG is a major consideration for occupiers. Tenants now understand that although they pay a premium for new build stock, there are potentially long-term savings to be had due to the quality and energy efficiency of these buildings. The higher quality of the space can also be a factor in attracting new staff and retaining existing employees.

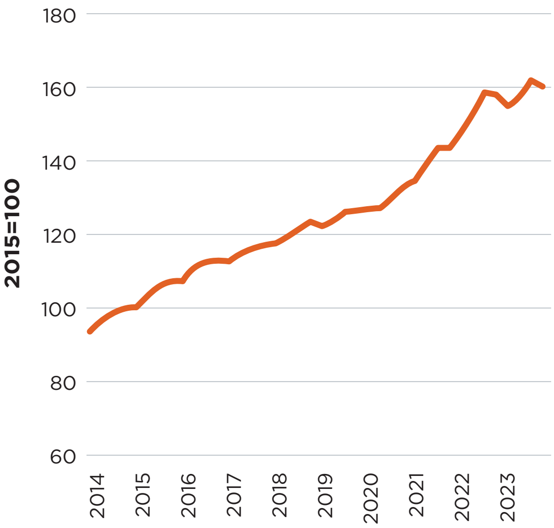
Table 4: Top five industrial and logistics deals

Property	Quarter	Sq ft	Tenant	Type
Nutts Corner Business Park	Q1	204,400	Sysco	3PL
Ballyoran Lane, Dundonald	Q2	134,500	Private	n/a
The Logistics Building, Ballymena	Q2	76,100	UDS Freight	3PL
64 Old Moy Road, Dungannon	Q3	56,900	Private	n/a
Block F, Knockmore Industrial Estate, Lisburn	Q3	32,600	Private	n/a

Source: Savills Research

Walworth Road, Ballykelly, Co Derry / Londonderry

Figure 13: Northern Ireland house price index



Source: NISRA

Residential

New homes prices are growing strongly

NI house price inflation slowed from 10.1% y/y in Q4 2022 to 1.4% y/y in Q4 2023, figures from NISRA show, increasing from £175,100 to £177,600 over the same period. Breaking the data out by type shows that house price inflation for new builds is much stronger at 6.9% y/y, however, compared to 0.3% y/y for existing dwellings. The respective average sales prices are £219,100 and £168,100. Despite this, the rate of price growth across new homes has slowed from 10.6% y/y a year ago, while existing dwellings have come down much more sharply from 10.0% in Q4 2022.

The slowdown in house price growth is reflective of the slowdown in demand, with the number of homes sold in 2023 down 16.5% on the preceding year, albeit this figure is subject to downward revision. At 20.5%, the majority of sales occurred in Belfast, with the second most active location being Armagh City, Banbridge and Craigavon. With just 4.2% of sales, the least active location was Fermanagh and Omagh. Overall, the weakened demand comes in the context of strong general inflation and the high interest rate environment, which have heaped pressure on household finances.

On the supply side, NISRA data show there were 6,841 new dwelling completions in 2022, which was down 7.9% on the previous year. The latest data include completions for Q1 2023, which came to 1,225 – down 25.8% on the opening quarter of the preceding year. Housing output has been declining for seven consecutive quarters, likely reflecting elevated interest rates which are raising the cost of borrowing for would-be developers.

BUYER CONFIDENCE TO IMPROVE AS RATES STAY ON HOLD

The NI housing market remained resilient throughout 2023 despite the challenging market conditions. Assuming the Bank of England keeps the base rate on hold, we would expect mortgage rates to hold in response, and for buyer confidence to improve. The continued limited supply of new housing will raise competition in the market and support prices. Nevertheless, there remains the possibility of further base rate increases if inflation fails to slow further. On the flipside, rates could come down sooner than anticipated given weak economic growth over the past two quarters. While this would ease the cost of borrowing, the risk is that a significant recession would result in job losses, albeit there are few signs that such a severe scenario is on the cards.

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