NORTHERN IRELAND

09

NORTHERN LIGHTS INVESTMENT

Cautious optimism was replaced by uncertainty in 2016 as Brexit unsettled the market.

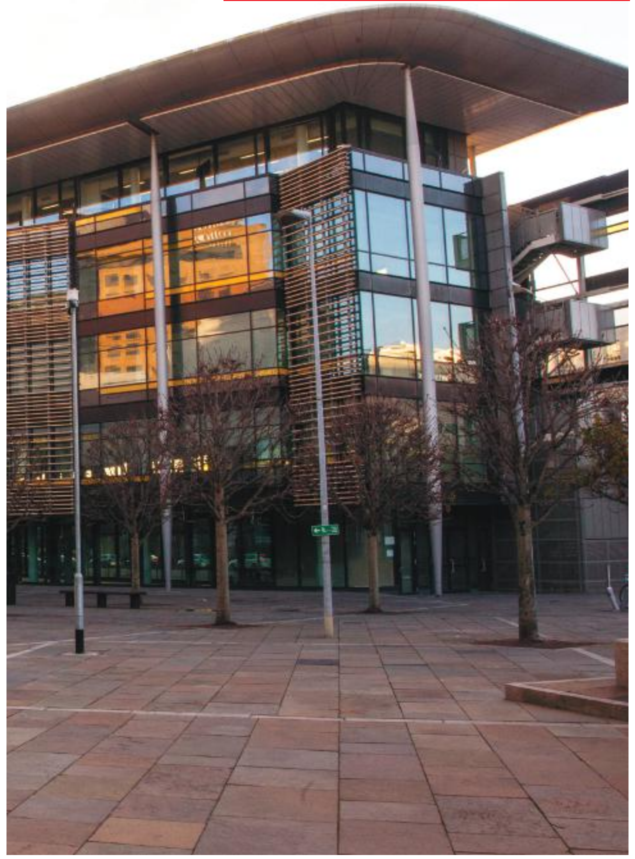
2016 REVIEW

- The property market sentiment in Northern Ireland at the start of 2016 was best described as cautiously optimistic. However, as the year progressed, that was replaced with uncertainty. A number of factors have affected confidence levels. The most notable was Brexit and the lead up to polling day on the 23rd June. This caused investors and business owners to stall decision making until the future political and economic landscape could be better determined.

- Investment volumes for 2016 very much mirrored confidence levels, with larger transactions and lot sizes dominating in the first half of the year. Transaction volumes decreased substantially from the end of June. In spite of this, the sector was opportunity-let and where assets were priced correctly to reflect the ongoing risk, they did transact.

- The largest investment transaction of the year was recorded in Q1. Ellandi & Tristan Capital purchased Bloomfield Shopping Centre in Bangor for £54m (net initial yield (NIY) of 7.66%). Other notable deals included The Outlet & Junction One purchased by the Lotus Group and Tristan Capital for £32m / 9% NIY; Damolly Retail Park was bought by the MJM Group for £30.72m / 7.4% NIY; Melcorpo acquired Capital House on Wellington Place for £11m / 8.1% NIY; and Oxford House & Gloucester House, Chichester Street were bought by Wirefox for £7.75m / 9.5% NIY).

CAPITAL HOUSE, WELLINGTON PLACE



> There is confidence in the long-term sustainability of the market

OUTLOOK FOR 2017

Confidence is emerging in the long term sustainability of the Northern Ireland investment market.

The investment market in 2017 will experience similar challenges to that of 2016. The uncertainty that Brexit has brought to the capital markets will take time to play out and, combined with this, there are concerns that inflation will rise in 2017 in the wake of a falling pound. We expect the air of hesitation in the market to continue with no clear guidance on when Article 50 will be triggered. An extended exit timeline will certainly increase investor uncertainty. However, as the UK's future within Europe becomes clearer, we may see activity accelerate in an attempt to catch up.

In 2017, investors will continue to proceed with caution and investment market turnover will be subdued. However, as with all periods of uncertainty, opportunities will emerge. The devalued pound has created a renewed interest in the UK market from non-UK investors. There is a perception that there is value in the Northern Ireland market; particularly in the office and retail sectors. We expect this to materialise into deals in 2017.

In the retail sector, a number of prime shopping centres are due to come to market in early 2017. Significant interest is expected with investors from the UK hoping to take advantage of the Northern Ireland yield gap.

Additionally, the fact that a number of institutional investors have started to show interest in the province demonstrates that there is confidence in the long-term sustainability of the market. This will play an important role in shaping the market in 2017.

Pricing will be fundamental and assets that are priced correctly will continue to transact. It is likely that the opportunistic purchasers of the last few years will begin to look for viable exit strategies.

BLOOMFIELD SHOPPING CENTRE, BANGOR

INDUSTRIAL NORTH

The impact of Brexit was felt locally in the form of restricted industrial take-up.

2016 REVIEW

- Brexit had a major impact on the industrial market in Northern Ireland in 2016 with many businesses delaying decisions pre-June on the assumption that there would be a calmer climate after the vote. Positively, a number of manufacturers have experienced increased export volumes due to a weaker pound.
- The largest industrial transaction of 2016 was the sale of the former Shackleton Barracks site in Ballykelly to MJM Group for £1m. The group intend to use the Shackleton site for a new business fitting out private planes, which it said will create an initial 100 jobs.
- The supply of industrial accommodation in established provincial locations is limited and occupiers with specific requirements are having difficulty finding the right product. Consequently, these occupiers are reviewing alternative locations overseas.
- Headline industrial rents for existing stock in good locations are in the order of £43 psm (£4 psf) with capital values reaching £484 psm (£45 psf).

SHACKLETON BARRACKS

OUTLOOK FOR 2017

The lack of available properties, particularly larger buildings, will remain a concern.

It is doubtful that any new development will commence until rents reach viable levels. This needs to be approximately £54 psm (£5 psf).

Indigenous companies seeking to purchase their own building are paying a premium for suitable space.

Demand for space less than 2,000 sqm remains strong, however design-and-build projects for owner-occupiers will become increasingly central in meeting the requirements of larger occupiers with specific requirements such as overhead cranes, cold stores, food production and high eaves.

OFFICE OPPORTUNITY

A healthy office market was fuelled by demand and a lack of supply.

2016 REVIEW

- A lack of supply, combined with pent-up demand, set the tone for the office market in 2016. The available stock levels were unable to accommodate many of the larger requirements but in spite of this, take-up levels generally were encouraging reaching approximately 41,800 sqm.
- Notable deals in the year included lettings to Macon (700 sqm) and BRS Golf (950 sqm) in the newly completed, and now fully let, CQ1. Meanwhile, Pearson Management Services acquired a sizeable portion of Millennium House on Great Victoria Street (1,450 sqm).
- Also, at the end of December, KPMG acquired approximately 3,600 sqm in the Soloist building. This letting is reportedly agreed at a new headline rent of £230 psm (£21.50 psf). This move will see the last remaining available substantial Grade A accommodation in Belfast city centre taken up.

Headline rents in City Quays 2 are at £230 psm (£20 psf) and as mentioned previously, headlines of £230 psm (£21.50 psf) are being achieved in the city centre.

- A number of schemes received planning permission in 2016 and while this was encouraging they are unlikely to be delivered before 2018. Therefore, the supply constraints will remain in the short-term. City Quay 2 at Belfast Harbour will be completed in 2017 and will deliver 8,350 sqm of office accommodation. However, much of this space has been agreed or is under negotiation.
- Positively, the Belfast Harbour Commission is expected to submit a planning application in early 2017 for the development of a third phase of this City Quay project. This proposal will reportedly provide 13,950 sqm of Grade A office accommodation and completion will be in mid-2019.

OUTLOOK FOR 2017

The number of cranes in the skyline entering into 2017 paints a positive picture, when compared with 12 months ago and will assist in alleviating the serious supply shortages.

Similar projects include the Weaving Works on Adelaide Street, a former linen warehouse that has the potential to deliver 2,300 sqm of space and Londonderry House, a mixed-use development that could provide 5,100 sqm of office space on Chichester Street.

In terms of demand, the outlook is good; however the level of activity will depend on whether developers can meet ever increasing requirements.

While the future is less certain than 12 months ago due to Brexit, the fundamentals of the Northern Ireland property market remain solid.

The lack of new supply will create opportunities for refurbishment projects. An example includes the proposed redevelopment of Oyster House on Wellington Place (currently going through the planning system) where there is the potential to provide 15,000 sqm of accommodation.

SHOP NORTH

The retail market showed improvement in 2016 with an encouraging number of new developments.

2016 REVIEW

- The retail market continued to improve in 2016. Consumer confidence in Northern Ireland is measured by Danske Bank and for Q3 2016, the index recorded a marginal decline; following the EU Referendum. Although a decline was recorded, the contraction is not worrying. Very little has actually changed for consumers in Northern Ireland as Brexit has not yet happened. The main impact for households at the moment relates to exchange rates and interest rates.

- There was a rise in cross border shoppers taking advantage of the euro / pound exchange rate, which was good for retailers in the second half of the year. Simultaneously, footfall in key areas increased dramatically, which resulted in improved tenant demand and a high level of new deals being agreed. New entrants to the Belfast market include Stradivarius, Søstrene Green, Kiko Milano, The Entertainer, Moss Bros and Zizzi. Prime Zone A rents ended 2016 at £1,400 psm (£130 psf).

- Vacancy rates were at an already low level at the start of the year but continue to decline as retailers took new space. This retailer demand was driven by lower occupancy costs as a result of the commercial rates revaluation in 2014. The overall prime vacancy rate in Belfast fell to 10.5% by the end of 2016.

- Outside of Belfast, there was increased retailer activity in schemes such as the Abbeycentre, Bloomfield Shopping Centre and Ards Shopping Centre. Combined, these centres had lettings to retailers such as Next, JD Sports, Superdrug, New Look, B&M, Jack Jones, Bon Marche and TK Maxx. As a result we have seen prime vacancy rates, across the province as a whole, drop from 14.6% in 2015 to 13.8% in 2016.

- Encouragingly, a number of retail developments started in 2016. In Newry, the next phase of The Quays commenced and is due to be completed in July 2017. Tenants will include Next and Pure Gym. The redevelopment of Laganside Retail Park in Lisburn is also nearing completion. TK Maxx and Pure Gym have committed to stores here. In addition, Lotus Group has just announced a planned investment of £30m to revitalise Junction One Retail Park in Antrim. The development of these schemes, combined with major investments in refurbishing schemes like the Richmond Centre and Cityside, highlight the level of demand and investor confidence in the retail market.

OUTLOOK FOR 2017

We expect continued improvements in sentiment and demand in 2017.

Good quality, available retail space in Belfast will be at a premium. We expect to see more premium retail brands entering the market.

Prime Zone A rents will increase during the year, possibly hitting £1,610 psm (£130 psf).

Activity will spread to regional towns as high streets start to fill up; particularly the border towns.

There will be further retail development, which will be driven by specific retailer requirements.