

The Uncertainty Continues....

The commercial property market in Northern Ireland is showing some resilience in spite of continuing uncertainty surrounding both Brexit, and the political vacuum caused by over two years suspension of the local Stormont Assembly government.

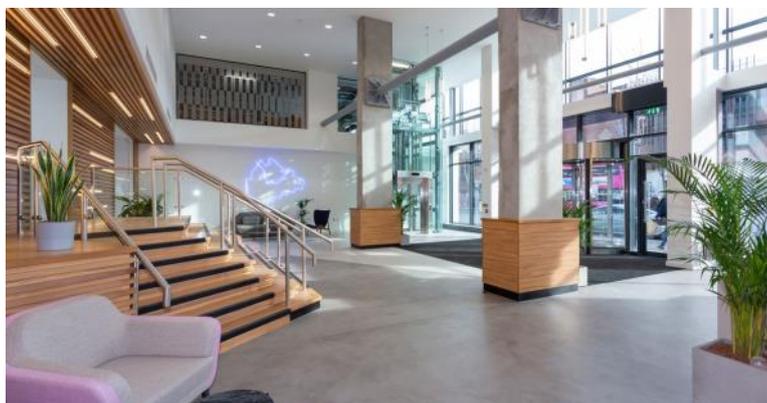
As we go to press the Brexit debate reaches crisis point, and there is no doubt that the absence of an exit deal is seriously frustrating foreign direct investment into Northern Ireland and domestic business decision making.

There is much to look forward to if common sense prevails, and Northern Ireland can secure an advantageous position post-Brexit to seize the opportunities which should arise.

In general terms the market is challenging, and we are seeing an increased reluctance from purchasers and tenants to take the plunge; however there are some bright spots, and the last few months have seen increased activity particularly with bigger ticket investment offerings, and in the Belfast office sector.

Invest Northern Ireland, the Government sponsored Agency charged with attracting inward investment to the Province, and with promoting local employers, continues to post successes.

According to a recent Financial Times fDi Intelligence report, Northern Ireland is the number one international investment location for USA cyber security development projects. It is now home to an impressive cluster of international companies, world renowned university research and innovative start-ups delivering global cyber security solutions.



Impressive Foyer at River House, High Street, Belfast

Landlords and developers have risen to the challenge of providing incubation space for these young tech companies, and there has been an increase in the availability of Serviced Offices and Managed Space. The newest entrant in this sector is Clockwise at River House, which has taken the first five floors of the building, offering over 30,000 sq ft of flexible serviced space from a single desk up to 100+ seats, in a hugely impressive modern building.

2019 promises to be a memorable year in Northern Ireland for many reasons, not least on the sporting and tourism fronts. The Open Championship, to be hosted by the Royal Portrush Golf Club, will attract record visitor numbers to the North West in July. Belfast city centre added some 1,000 hotel beds to the existing stock last year, and more are on the starting blocks. Belfast Harbour will hope to add to the tally of 117 cruise ships which docked during 2018 bringing over 180,000 visitors to the city. And McConnells turn 165....!

Capital Markets & Development

A combination of Brexit concerns and political uncertainties have conspired to make the local investment market difficult, and the general consensus is that until we see clarity on both fronts normal service will remain suspended.

However all is not complete doom and gloom.... demand was good for two bigger ticket office investments, both of which completed in Q3 2018:

Metro Building in the Central Business District at the back of City Hall sold for £21.8m which represented a net initial yield of 5.53% (around 6.2% equivalent yield); and Obel 68 on Donegall Quay, leased in its entirety to the international law firm Allen & Overy, was acquired by Belfast Harbour Commissioners for £15.2m / 6.64% initial yield.

This confidence in the Prime Office Sector is largely due to robust occupier demand and a sustained period of impressive rental growth over the last few years.

There are also buyers out there, in all parts of Northern Ireland, in the mid and lower price ranges for pragmatically priced product, with good covenant tenants, and preferably decent lease length.

An 85,000 sq ft modern industrial facility outside Armagh City leased to the multinational catering supply company Bunzl, is under offer at £6.3m / 7.3% initial yield. And another industrial investment at Duncrue Road, Belfast, leased to Devenish Nutrition sold in Q4 2018 £2.44m / 6.59% initial yield.



*Retail Investment at Riverside Regional Centre
Coleraine - Under Offer*

In Coleraine a parade of restaurant units at Riverside Regional Centre is under offer at around the asking price of £1.25m which would show a 7.8% initial yield.

On the development front there is a good appetite for opportunities, particularly in Belfast city centre, which could deliver new-build or refurbishment projects in the office and residential sectors.



Washington House, Belfast

Included amongst the properties which have come to the market or sold recently are the former Belfast City Transport Social Club Building & car park on May Street / Gloucester Street - a site of around 7,000 sq ft - which sold Q4 2018 in excess of £1m; and a period building with exciting refurbishment or redevelopment potential at Queen Street, which is under offer for sale at the £3m asking price. Washington House on Belfast's High Street has just come to the market with a guide price of £1.5m.

Whilst the Student Accommodation market appears to have peaked, City Centre Living is on the up as Belfast becomes recognised as a modern cosmopolitan city, and this is undoubtedly a sector worth watching.

Offices

Of all property sectors, it is still the office market which provides the most excitement in Belfast.

Having spent years in the doldrums, with the market in large part dominated and controlled by the Public Sector, Belfast prime office rents have seen spectacular growth of 100% over the last five years. Grade A office rents at the end of 2013 were at £11.50 per sq ft - the latest lettings of the best space are headlining at £23.00 per sq ft.

With some 885,000 sq ft of Belfast city centre office space transacted in 2018 - more than double each of the previous two years - this was a record year for take-up. But it must be said that half of this total (440,000 sq ft) was comprised in three deals at 9 Lanyon Place (149,000 sq ft taken by Government); Merchant Square (155,000 sq ft pre-let to PwC); and at East Bridge Street (138,000 sq ft new-build occupied by All State).

Almost 50% of all city centre office lettings completed last year was for space under 3,000 sq ft and the majority of this was made up of Grade B accommodation. There is still a reasonable supply of this type of space with rents ranging from £10.00 to £15.00 per sq ft.

2019 has kicked off with another major deal being announced - Deloitte, which has been in the market for a headquarters building for some years, has finally settled on a pre-let of 100,000 sq ft at McAleer & Rushe's Bedford Square development, which should be completed in 2021.

The supply of good office accommodation continues to contract - the amount of true Grade A space immediately available now is probably not much more than 100,000 sq ft and there is precious little new-build or refurbished product in the pipeline.

Economic and political uncertainties have conspired to suppress office demand to some extent. Enquiries have not stopped but, for many companies, the decision making process has certainly slowed, and this has taken a bit of the shine off the market.

But there are still deals happening, and at record rental levels. River House, on High Street, is one of the few major office developments ready for occupation now, and is already over 50% let with Clockwise taking the first 5 floors, and TLT solicitors signed up for 12,000 sq ft on the top two floors, and two further floors agreed. Fit-out at Artola House on Victoria Street has completed and the scheme, rebuilt behind its retained red brick façade, provides up to 20,000 sq ft of probably the best space currently available in the city, available as a whole or floor by floor.



Artola House Provides Spectacular Grade A Office Space

Amongst the few schemes currently under construction is the Laser 2 Building at Weavers Court Business Park in Belfast, which is a new-build Grade A office development due to finish in Q2 2019. Laser 2 will provide up to 34,000 sq ft of high quality space in 9,000 sq ft floorplates over ground and three upper floors.

Looking forwards, rentals are now at levels which make refurbishment and perhaps new build projects financially viable, and hopefully developers will have the courage to go on-site speculatively once the current uncertainties dissipate.

Retail

The devastating fire in August 2018 at Primark's city centre Bank Buildings could not have come at a worse time for Belfast retail. Already suffering from the inexorable rise in on-line shopping, the prime retail core had only just dragged itself back to some sort of normality post-recession, when the fire effectively severed the main retail artery at the Donegall Place / Royal Avenue junction.

Salvage work at Bank Buildings is thankfully now underway and the cordon has reduced, however it will still be some time before the immediate area is once again properly open for business.



Seasalt Cornwall, Arthur Street, Belfast

The expression “location, location, location” has never been more relevant in the context of the retail market, and there are few areas which are immune from the high street downturn.

One location which is bucking the trend is Belfast's Arthur Street which, along with Castle Lane, Arthur Square and William St South (the link through to Victoria Square), seems to go from strength to strength.

Aspirational retailers here have been joined by Seasalt Cornwall which opened just before Christmas, and the Erskine House development on the corner of Arthur Street and Chichester Street, which will welcome

some 1,500 HMRC office staff later this year, will further strengthen the location with a further three new retail units.

Primark has managed to open its new extension, accessed from Castle Street, which has helped to improve city centre footfall, and looking forward there has to be some encouragement in the fact that the Ulster University expansion, where building work was put on hold following contractor issues, is now back on track. When this is eventually completed, perhaps during 2020, the northern side of the city centre will be re-balanced.

Castlebrooke Investment's ambitious plans for a the massive £500m / 12 acre inner city regeneration scheme, between Royal Avenue and Donegall Street, are coming to fruition with the appointment of Farrans as the lead contractor on Phase 1, which will include 180,000 sq ft of office, retail and residential space.

Formerly known as Royal Exchange, the scheme has been rechristened “Tribeca” after a trendy New York neighbourhood - the Lower Manhattan “TriBeCa” is an abbreviation of Triangle Below the Canal - Belfast's version means Triangle Beside the Cathedral. However many in Belfast including the Lord Mayor, have criticised the choice of name, suggesting it is not representative of the heritage of the city or its people. Some might say that this sort of row could only happen in Belfast, and the most important thing is to get the long awaited and much needed regeneration of this neglected part of the city centre underway as soon as possible!

Industrial

Often regarded as the poor relation of the Office and Retail sectors, the industrial market has been remarkably busy of late. There is healthy demand for good space in the right location, in particular from owner occupier manufacturing businesses.

Recent large space transactions have included the sale of Caterpillar’s 300,000 sq ft factory at Doagh Road, Newtownabbey to local company CDE Global, the world’s leading wet processing plant manufacturer.

In Kilkeel, aircraft seat manufacturer Rockwell Collins leased a 70,000 sq ft warehouse at The Harbour to rationalise their logistics operation; and a 26,000 sq ft former printing works at Alexander Road, East Belfast, is under offer for sale to another local company.

Industrial rentals and capital values are beginning to harden as supply of good accommodation dwindles. There is little good supply available in the traditionally popular locations of Belfast’s North Foreshore or Mallusk, where demand is holding up well.

We have seen good interest in Schlumberger’s 165,000 sq ft / 15 acre facility at Monkstown, Newtownabbey which was brought to the market towards the end of 2018 from both potential buyers and tenants .

As with other sectors however, the decision making process for potential occupiers has been slowed by concerns over Brexit etc.

Rising industrial rents may well encourage the start of some speculative building, and who knows what opportunities Brexit might bring to the industrial market if even soft borders interrupt supply chains and necessitate more storage space.



Schlumberger’s 165,000 sq ft Monkstown Facility For Sale

Belfast – Prime Rentals & Yields		
Sector	Rental – Headline / Underlying*	Prime Investment Yields **
Prime Grade A Offices	£23.00 / £20.70 psf	6.25%
Prime Retail	£130 psf Zone A	5.75%
Prime Industrial	£5.00 psf	8%

* Underlying Rental after allowance for incentives such as rent free etc.

** Forecasting yields in a thin market is challenging - there is a considerable weight of money, both private and institutional, and at all price levels, looking for a home, and competition for good, sensibly priced investment product coming to the market will be strong

Northern Ireland MARKET BRIEFING January 2019

McConnell Chartered Surveyors is Northern Ireland's oldest major property consultant, tracing its origins back to 1854 when Ephraim Brown & Son opened in Belfast's Donegall Street. Sir R J McConnell set up his business in 1874, and over the years the firm has grown through mergers and acquisitions, most recently bringing together Brown McConnell Clark McKee and McConnell Martin to form McConnell Chartered Surveyors in 2010, and acquiring Knight & Co in 2011. McConnells is now amongst the largest Chartered Surveying practices in the Province.

The directors have a long and successful track record of expertise in commercial agency, property management, rent collection, investment, valuation, landlord & tenant and professional advisory work, and are supported by a dedicated team of property surveyors and administrative staff, with a staff count of over 35.

McConnells is the JLL Alliance Partner in Northern Ireland, working on major portfolio instructions and providing expert local property advice to global corporate clients, and through our membership of PAI we have access to a network of local property specialists in all parts of the British Isles.

To find out more about how we can help you or your business please contact any of our Directors:



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