

Northern Ireland MARKET BRIEFING Spring 2020



New Decade, New Optimism....?

At long last the uncertainty caused by the log-jams of Brexit and Local Political stalemate seem to be easing, and for the first time in years we are able to say there might be some light at the end of the tunnel.

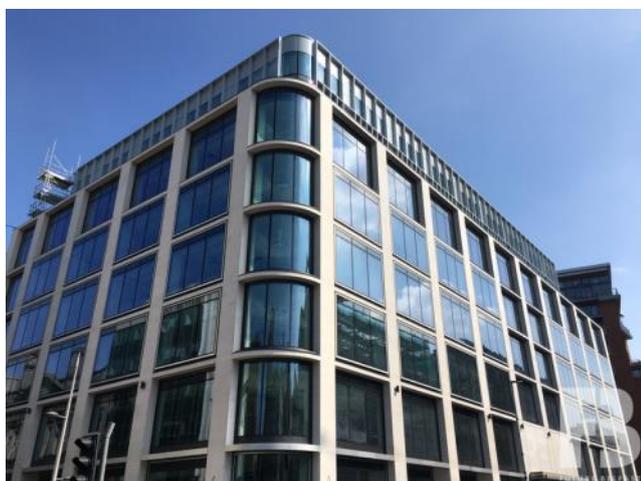
Of course it could still be a train coming the other way - whilst we now have certainty that Brexit will happen, we have the renewed uncertainty of what it will actually mean for Northern Ireland; and Coronavirus fears could stall any property market recovery.

There is a sense of relief that our Local MLAs have returned to work after their 3 year paid sabbaticals - we can but hope that peace and harmony will prevail for a while.

The news that the Republic is moving towards a more left facing populist government, with Sinn Fein romping ahead in the polls, might actually be good for investment in Northern Ireland, as investors "Down South" are frightened by the prospect of residential rent freezes and rising business taxes.

But enough of the macro political crystal ball gazing - the fact is that Northern Ireland plc is alive and well - inward investment continues to flow, quality jobs are being created particularly in the tech industries, pipeline office development is increasing, and rents in the prime office & industrial sectors are either stable or growing.

2019 finished on a high note, with an upsurge in commercial property investment activity and a flurry of occupational office deals crossing the line. Industrial property enquiry levels increased, particularly from owner occupiers, and only the retail market remained relatively subdued.



Erskine House - Acquired for HMRC by McConnells / JLL

Belfast city centre has received something of a fillip with a considerable number of new jobs locating right in the heart of the city - HMRC started moving into 100,000 sq ft at Erskine House on Chichester Street in January, and will have some 1,650 full time equivalent staff in situ shortly. Merchant Square, which has been pre-let to PwC, will see their 2,000 existing staff relocate this summer, and the 200,000 sq ft building has capacity for 3,000 desks eventually.

Belfast City Council has an ambitious 20 year plan to deliver 31,600 new homes with a particular focus on city centre living, in addition to encouraging much

needed new office development to cope with the increasing levels of inward investment which Invest NI and others are successfully attracting. There is however a major concern that huge infrastructure investment is required to facilitate the sort of development vision which the Council has, particularly in water and sewers - as the saying goes, "No Drains, No Cranes", and it is interesting to note that there were no city centre residential development starts in 2019.



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Capital Markets & Development

Judging by the sentiment at various recent business gatherings, it looks like the start of the new decade has brought a renewed confidence that NI will attract increased interest from further afield, and we have already seen new major North American and Far Eastern investors looking at the province, asking questions, and in one instance buying.

The investment market generally remains tight, with considerable pent-up demand which is not yet matched with any great increase in supply.

The hope is that liquidity will return to the market with Brexit underway and a more stable political atmosphere both here in Northern Ireland and in GB.

In the run up to, and the immediate aftermath of, the December General Election we saw traction on a number of bigger ticket retail park investments including Crescent Link Retail Park in Derry/Londonderry (acquired by Manchester based David Samuel Properties for £30m); Sprucefield Park, Lisburn (bought by NewRiver for £40m); and Abbey Retail Park, Newtownabbey, which Hammerson has just sold along with another Retail Park in Wales, to Canadian investors, Slate Asset Management.

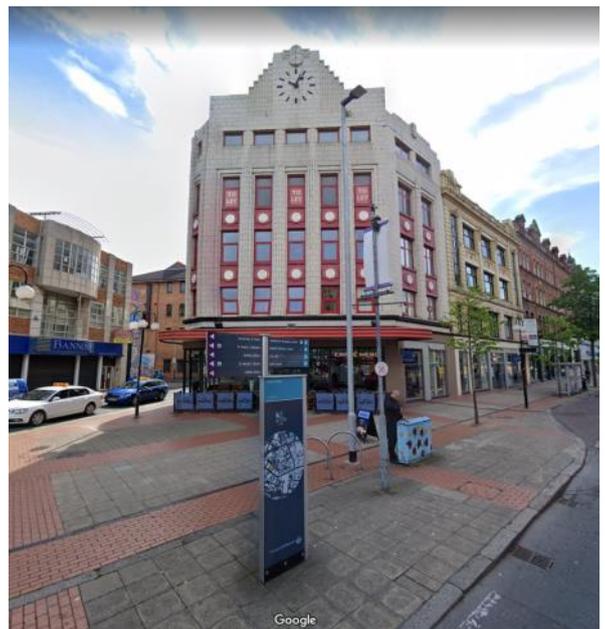
But otherwise, there has been little investment activity of any great note.

There is undoubted pent up investment demand and, with low interest rates expected to prevail for some considerable time, we would expect good competition for properties in all sectors as long as pricing remains realistic.

Demand from owner occupiers remains strong, with several Belfast city centre office requirements remaining unsatisfied, and a couple of fairly chunky industrial searches are underway. Sinclair House on Royal Avenue, an iconic art deco former department store converted to offices, was sold in November for partial owner occupation / investment, and the former Schlumberger 165,000 sq ft factory at Monkstown is agreed for sale, again for owner occupation.

On the development front there may not be as many cranes on the Belfast skyline as we have seen in the last couple of

years, but the plethora of student housing starts has been replaced by new office developments - not before time as the office market is chronically undersupplied. McAleer & Rushe's Bedford Square has attracted Deloitte as anchor tenant in 80,000 sq ft which has acted as a catalyst to the development which is now underway. Merchant Square on Wellington Place, which has been pre-let in its entirety to PwC, is close to completion; the former KPMG building on College Sq East (The Kelvin, 37,000 sq ft) is undergoing refurbishment; and Wirefox has just gone on site at Chichester Street with the Paper Exchange, which will deliver 200,000 sq ft by December 2021. On the edge of the city centre Belfast Harbour has broken ground with their 250,000 sq ft City Quays 3 development, again with a 2021 completion target.



Sinclair House Royal Avenue Belfast - Sold by McConnells

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Offices

The star performer again in 2019, the office market continues to perform well albeit with a pause anticipated whilst development and refurbishment projects catch up with demand.

Headline rents for newly developed or well refurbished Grade A space in Belfast are now comfortably in excess of £20 per sq ft, and even with incentives stripped out the underlying tone is still close to the £20 psf mark.

Demand remains strong - we are seeing inward investing technology companies growing and migrating out of serviced space, and a good number of indigenous occupiers upgrading or expanding.

Office uptake during the first nine months of 2019 was relatively slow, undoubtedly because of Brexit and political concerns - just 14 city centre deals were reported in Quarter 1; 13 in Q2; and only 11 in Q3. But Q4 more than made up for that with 26 deals comprising 270,000 sq ft completing. This brought the full year total uptake to 517,000 sq ft - still not a patch on 2018's 885,000 sq ft but well ahead of the previous two years' at 430,000 sq ft each.



City Quays 2 - 11,500 sq ft 1st Floor Acquired for Aflac by McConnell's

Supply of Grade A stock has almost run dry again, and it is currently quite a challenge to satisfy any sizeable requirement.

River House on High Street, where 80,000 sq ft over 13 floors was stripped back to a shell and completely refurbished, is now fully let to a mix of US Tech Cos., Lawyers, and the very successful Clockwise Serviced Offices.

Artola House, a new-build behind retained facades on Victoria Street, has attracted Sedgwick International and Jacobs, and as we write has only one upper floor remaining.

The increasing number of office developments breaking ground is encouraging, however with an 18 month lead-in period these will not satisfy immediate demand, and with a couple of very substantial live requirements just now, including SIB's 167,000 sq ft., it is likely that one or two of the bigger new developments could be snapped up quickly. Further down the supply pipeline are Tribeca and Belfast Waterfront which both have planning green lights, and Waterfront Plaza which the landlord is proposing to refurbish and possibly extend when PwC vacates.

Notable office deals in Q4 2019 included the speculatively developed 34,000 sq ft Laser 2 Building at Weavers Court which was leased in its entirety to Proofpoint; Deloitte's signing a pre-let of 80,000 sq ft at Bedford Square; and Rapid 7 taking all of the 47,650 sq ft refurbished space at Chichester House on Chichester Street.

Belfast Harbour's City Quays 2 is now fully let, with the semiconductor company, ARM Holdings, taking the penultimate floor, and US Insurance Company Aflac signing for the remaining 11,500 sq ft.

Retail

Sadly the list of retailer casualties continues to grow as the inexorable march of the internet economy shows no sign of waning.

Retail Gazette reported at the end of the year that across the UK a total of 8000 stores and 85,000 jobs had been lost in 2019, with retail experts predicting this will continue at the same pace during the next 12 months. Recent administrations or closures involving Northern Ireland outlets include Thomas Cook (the retail arm was rescued by Hays Travel); Mothercare; Bonmarche; Hawkins Bazaar and Jessops.

In Belfast city centre location is everything, as just a few yards off-pitch makes a huge difference. The aftermath of the 2018 Primark fire is still felt and retailing in Royal Avenue remains challenging.

At least one positive ray of hope on the horizon is the acceleration of building works at The Ulster University campus, which now appears to be on track for a completion in 2021 - this will provide a massive boost to the Northside area when some 15,000 students and staff take up residence.

The huge Cathedral Quarter regeneration scheme, Tribeca, has now received a green light from the Planners, although there doesn't appear to be much actual work happening on the ground just yet.

The more resilient Belfast city centre pitches do continue to prosper - Arthur Street through to Victoria Square is strong; Thornton's Chocolate has just opened a new flagship store and Google has established one of its Digital Garage tech training centres on William Street South.

Donegall Square, Chichester Street and Wellington Place - never considered absolute "Prime Retail" - are all strengthening on the back of an injection of office workers locating in new developments such as Erskine House (HMRC), and Merchant Square (PwC).

Convenience Retail, and the coffee society in particular, are on the ascendancy - within the last few months Musgrave Retail Partners' Centra brand has opened shiny new outlets at River House on High Street, and in Imperial Buildings on Donegall Square East, majoring on the lunchtime take-away trade as well as the conventional convenience offer.

Hospitality in general is on the up - new coffee shops continue to spring up throughout Belfast, and the restaurant scene is thriving.



Centra, High Street Belfast - Let by McConnell's

Northern Ireland's tourism industry - so important to the local retail economy - had a stellar year in 2019. The number of cruise visitors to Belfast increased again with 151 ships bringing almost 300,000 visitors to the city; the Open Championship put us back on the golfing map; and the relatively new phenomenon of Screen Tourism, driven by the global success of the likes of Game of Thrones, added to the increasing visitor numbers.

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Industrial

Years of limited development has taken its toll on the industrial sector, and we are now experiencing considerable shortages of good modern space across Northern Ireland.



Schlumberger, Monkstown Industrial Estate - Sale Agreed by McConnells

The problem, just as it was with offices up until a year or two ago, is that industrial development is simply not economically viable at rents of £5.00 per sq ft. So we are left in a position where supply is limited to very second hand space, and the popular locations, such as Lisburn and around the M1/A1 corridor south of Belfast, have very little supply of any good accommodation available.

Demand is relatively strong, with a number of owner occupiers chasing some of the larger

logistics requirements; and a steady stream of smaller operations looking for 2,000—10,000 sq ft.

Capital values for pre-used factory space fluctuate wildly depending on location, size and condition, and pragmatic pricing is essential to generate and hold interest in some of the bigger kit. The former Schlumberger factory at Monkstown - 165,000 sq ft in total - is now sale agreed very close to guide price, following a flurry of last minute bidding in the New Year, which might be attributed to Brexit worries easing and some confidence returning to the market.

Belfast – Prime Rentals & Yields - ➡ = Trending		
Sector	Rental – Headline	Prime Investment Yields *
Prime Grade A Offices	£23.00 ↑	6.25% ↓
Prime Retail	£130 psf Zone A ➡	5.75% ➡
Prime Industrial	£5.00 psf ↑	7.75% ➡

** 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*

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2019 was a memorable year in Northern Ireland for many reasons, not least on the sporting and tourism fronts. The Open Championship, hosted by the Royal Portrush Golf Club, was a huge success. Belfast city centre added some 1,300 new hotel beds. 151 cruise ships visited Belfast. And McConnells turned 165....!

At "166 years young" this year, McConnell Chartered Surveyors is Northern Ireland's oldest major property consultancy, tracing its origins back to 1854 when Ephraim Brown & Son opened on Belfast's Donegall Street.

Sir R J McConnell set up his own business on Royal Avenue 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.

We are active across all sectors of the market throughout Northern Ireland - we brokered more office deals than any other agent in 2018 and 2019 - acting in over 60% of the Q4 Belfast city centre office deals last year alone - and we are currently working on some of the largest industrial sale and tenant rep instructions.

Our management portfolio ranges from 50,000 ground rent collections, through city centre and out of town retail; industrial estates; and major office buildings. We work for both landlords and tenants in rent reviews and lease renewals, and carry out valuations for all purposes.

McConnells is the Managing Agent for the Crown Estate Marine portfolio in Northern Ireland, and we advise many of the Landed Estates throughout the Province.

We are the JLL Alliance Partner in Northern Ireland, working on major portfolio instructions and providing expert local property advice to global corporate clients.

Through our membership of PAI we have access to a network of local property specialists in all parts of the British Isles providing Investment, Agency, Landlord & Tenant, and Valuation advice.

To find out more about how we could help you or your business, or to discuss your property requirements, please contact any of our Directors:

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