

Quarter 3, 2018

Q3

THE LISNEY BELFAST COMMERCIAL PROPERTY REPORT



The Difference

The Market in Numbers

Investment



£70⁺m

Investment volumes surpassed £70 million in Q3, 2018

Office



643k⁺ sq ft

Year to date office take up of 643,983 sq ft at the end of Q3 2018

Retail



10.2%

Prime retail vacancy in Belfast has risen from 9% in 2017 to 10.2% in 2018

Industrial



385k⁺ sq ft

Notable transactions during Q3 2018



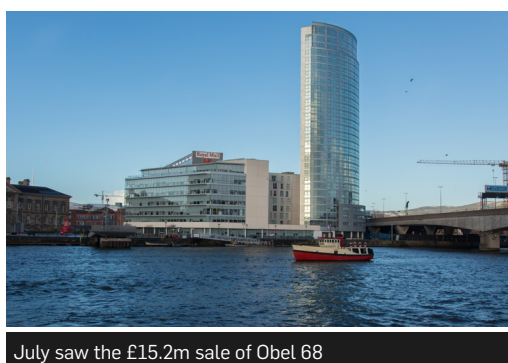
Overview



Activity

The continued positive narrative in our office occupational sector has helped fuel some high profile investment activity this quarter bringing the volume to £70m. While this is substantially below the volume in the same quarter last year, if you strip out the sale of Castlecourt we are on a par.

Lisney sold two of Belfast's prime office buildings over the summer. July saw the £15.2m sale of Obel 68 to Belfast Harbour and in September, in what was the biggest deal of the year so far, The Metro Building was sold to a private family trust for £21.8m. Both of these buildings saw competitive bidding and it was positive to see a depth of local, national and international interest through the process. The appetite to invest in offices in Belfast has largely been untested in recent years due to a lack of supply, but following both of these sales we were encouraged by the diversity in the investor base looking at Belfast.



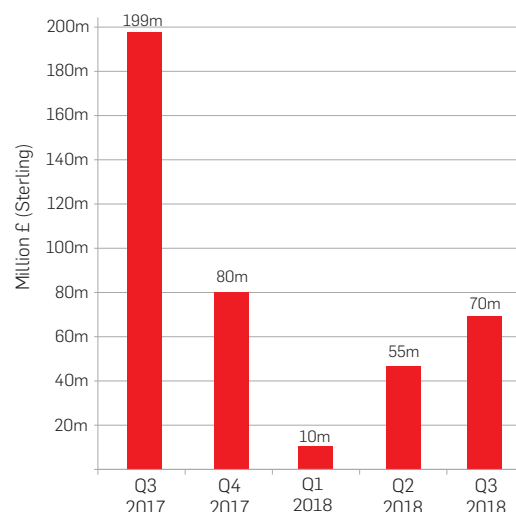
July saw the £15.2m sale of Obel 68

Given the terrible fire that destroyed The Bank Buildings, Primark was quick to act in acquiring Fountain House on Donegal Place which will be its home for the foreseeable future.

The quarter also saw the sales of both Castlebawn and Laharna Retail Parks, in a sector where the investment appetite has slowed in the face of CVA pressure which is encouraging. One of our most high profile retail parks, Crescent Link in Londonderry comes to the market next quarter, priced to compare favourably with equivalent assets in the UK.

We also expect to see some further high

Investment Volumes, Q3 2017 - Q3 2018



profile office, retail and industrial sales in Q4 which we are hoping will allow us to see annual volumes of c. £200m by the end of the year.

One possible impediment to this is the on-going uncertainty associated with Brexit. Whilst decision makers within the industry are certainly becoming more mindful of the pending March 2019 deadline investors still recognise that the



Lisney sold The Metro Building in September

fundamentals of the local market remain robust. That said, clarity regarding 'the deal' and in time, Stormont, is required to maintain the momentum of recent months. The property industry is undoubtedly cognisant of the unique circumstances of Northern Ireland, recognising this could present an opportunity for the region.

If economic aspirations can be married with the

Investment

political the province could be set to benefit from significant inward investment post March next year as businesses look to the potentially strategic importance of a presence in Northern Ireland.

Also of note is the continuing demand from local investors for bankable assets at a lower lot size.

Having sold a number over the summer period we are encouraged by the significant demand in this space. Finding "low maintenance" assets with 10 year + income, especially at a lower lot size remains a challenge. Pricing in the space, continues to reflect this.

Notable Deals, Q3 2018

Property	Details	Pricing
Metro Building, Donegall Square South, Belfast	Office	£21.8m
Obel 68, Donegall Quay, Belfast	Office	£15.2m
Fountain House, Donegall Place	High Street Retail	c. £13.5m
Castlebawn Retail Park, Newtownards	Retail Park	£7.75m
Laharna Retail Park, Larne	Retail Park	£3.45m
96 Duncrue Street, Belfast	Industrial	£2.5m

On The Market, Q3 2018

Property	Details	Pricing
Crescent Link Retail Park, L'derry	Retail Park	£40.5m
Antrim Business Park, Antrim	Industrial	£12.5
The Boat, Queens Square, Belfast	Office	£8.5m
Knockmore Industrial Estate, Lisburn	Industrial	£8.5m
Grove Shopping Centre, Downpatrick	Retail	£6m
Wellington Buildings, Wellington St, Belfast	Office	£4.5m

Office



Overview

Office market activity, whilst appearing to slow compared to Q1/Q2, has still shown a credible take up rate through Q3 totalling 105,337 sq. ft. transacting across 17 deals.

This brings 2018 YTD 'take up' volume to 643,983 sq. ft. This volume of deals still represents a more than 4 fold uplift when compared against the same time-frame in 2017.



Causeway Asset Management launched StepSpace at Centre House on Chichester Street in Q2, 2018



Activity

Similar to the activity witnessed through the first half of the year it is notable that 'take up' volumes continue to be characterised by a wide range of need from c.2,000 sq. ft through to c.30,000 sq. ft. The largest letting recorded was of floors 1 - 5 at the newly refurbished River House to Clockwise co-working space. Clockwise is a new entrant to the Belfast market.

The occupier market remains strong with continued demand for high quality office space from the tech and digital sectors which accounted for c.35% of total 'take up' in Q3. The challenge for commercial property owners, landlords and developers will be to ensure that the provision of office space evolves to meet changing occupier requirements.



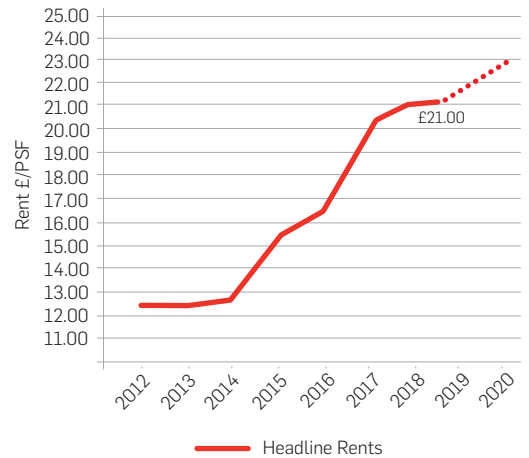
A CGI representation of what is to come on the top floors of Chichester House on Chichester Street.

There is a discernible shift from what would be perceived to be a standard corporate fit out. In saying that corporate appetite still exists so there needs to be a range of specifications offered to the market, reinforcing the need for detailed research before critical decisions are made.

Notably all of the recorded deals are occurring following the refurbishment of existing buildings. More specifically, from the Q3 take up figures, we assess that c.75% of the deals concluded were in refurbished stock.

Looking at the supply side we do not foresee any 'new' Grade A stock being delivered for occupation through the remainder of 2018. Supply will be bolstered in the foreseeable future and during 2019 however with the arrival of refurbished stock at Chichester House

Headline Rents, Q2 2018



(48,000 sq. ft.) and Merchant Square (c 200,000 sq ft).

This follows the recent completion of works at Moneda House (17,000 sq. ft.) and Artola House (19,000 sq. ft.). In terms of new stock a planning decision is expected for the proposed redevelopment of the former Belfast Telegraph building to be renamed 'The Sixth'. Upon completion this will provide much needed Grade A stock of c230,000 sq. ft.

Overall city centre stock levels are currently at a low level (c 475,000 sq. ft) and despite the above delivery we believe this trend will continue with steady demand levels. This imbalance has created upward pressure on rental levels with the best quality new build stock now achieving headline rents of £21 psf.



'The Sixth' at the former Belfast Telegraph building boasts a rooftop running track.

Office

Notable Office Transactions, Q3 2018

Landlord	Tenant	Size (Sq Ft.)	Location
Castleforge	Clockwise	30,319	1st – 5th Floors, River House
Private Client	First Source	28,863	23-29 Fountain Street
Glendinning McLeish & Co	ASM	8,471	4th Floor, Glendinning House, 6 Murray Street
Pageant Holdings	Techmahindra	6,000	Part 6th & 7th Floors, Capital House, 1-3 Upper Queen Street
Wirefox	FS Com	5,300	3rd Floor, Longbridge House, 16-24 Waring Street

Retail



Overview

The local retail headlines were dominated by the catastrophic fire that gutted the Bank Buildings, home to Primark's Belfast flagship store, and the ensuing chaos and disruption to neighbouring retailers and footfall in Belfast City Centre as a whole. The cordon around the site has taken in 14 retail businesses that cannot trade and are unlikely to be open for months.



Activity

Lisney's annual vacancy survey has found that prime vacancy in Belfast has increased slightly on 2017 edging up from 9% to 10.2%, however we expect some recovery off the back of a number of lettings in Q3 and programmed for Q4.

In Belfast, notable deals include Nespresso; Vans; Inglot and Mac in Victoria Square, Seasalt on Arthur Street and Insomnia in Castlecourt.



In Q3 Lush expanded to larger premises in Castle Lane



Several big names took residence in Victoria Square in Q3

Tommy Hilfiger and Lush have relocated into larger stores in Victoria Square and Castle Lane. Castlecourt has announced deals to DV8, Matalan and Bestseller. Guineys and JD Sports are to open on Castle Place. Throw into the mix Primark buying Fountain House, which will see New Look on the hunt for alternative accommodation, and the picture for Belfast is more positive than the headlines would have you believe.

Out of Belfast we have seen lettings to Kurt Geiger and Skechers as well as announcements of Jack Wills, Guess and Radley see some very positive letting momentum at the Boulevard in Banbridge. In Derry we have seen the openings of O'Neills new flagship on Waterloo Place and the 20,000 sq ft B&M at Crescent Link. M&S, O'Neills and Air-tastic are due to kick off the redeveloped Marlborough Retail Park, Craigavon and across the road at Rushmere Five Guys and Nando's are preparing to open their doors.

The retail warehousing sector continues to perform resiliently, with vacancy levels remaining on par with that of 2017, despite being the sector hit hardest by the recent spate of CVAs and administrations.

So despite the undeniable headlines in the retail sector, we remain optimistic that our high street,

shopping centres and retail parks will continue to hold up throughout Q4 and into 2019. There are plenty of active retailers which can fill the voids left by the casualties, however the supply and demand dynamics will undoubtedly have an effect on rents.



Primark was ravaged by fire in Q3 2018

Notable Lettings, Q3 2018

Trader	Type	Location	Town/City
Lush Cosmetics	High Street/Shopping Centre	Castle Lane	Belfast
Eurochange	High Street/Shopping Centre	Castlecourt	Belfast
Kurt Geiger	Out Of Town	The Boulevard	Banbridge
Skechers	Out Of Town	The Boulevard	Banbridge
Inglot	High Street/Shopping Centre	Victoria Square	Belfast
Nespresso	High Street/Shopping Centre	Victoria Square	Belfast
Insomnia	High Street/Shopping Centre	Castlecourt	Belfast
Vans	High Street/Shopping Centre	Victoria Square	Belfast
Seasalt	High Street/Shopping Centre	Arthur Street	Belfast
B&M	Out Of Town	Crescent Link Retail Park	Londonderry



Overview

Quarter 3 is traditionally a quiet period as the summer months generally see a slowdown in activity however a number of deals that would have begun in Q2, or even earlier in some instances, have been completed and this month has seen a raft of large lettings.

It is interesting to note that the majority are lettings whereas the recent trend has seen owner occupiers purchasing properties. While this is still the case we do believe it is more of a lack of a supply of assets available to purchase rather than a change in the market.



Amazon took space in Channel Commercial Park in Q3



Activity

There has been a number of positive announcements in the sector to include a £11m investment into R&D by manufacturing company Schrader, now part of the Sensata Group.

Capper Trading has also announced a £15m investment to include a potential 22,000 sq ft agri-development hub in Dungannon that could see 40 new jobs being created.

In one of the largest lettings of the year, so far, a local storage / distribution company has taken 112,000 sq ft at Summerisland Road, Portadown. The facility provides a high bay facility with 8 dock levellers and an excellent yard area.

Another large letting, comprising 70,321 sq ft at the harbour in Kilkeel, has been completed along with KME Steelworks which has also recently relocated to the former Coca Cola facility at The Green in Lambeg. The company had formerly been located at Knockmore Hill Industrial Park but grew out of their space and has now taken a total of 62,035 sq ft.

We continue to mention Channel Commercial Park in Titanic Quarter where there was again a further letting completed to Amazon comprising 42,199 sq ft. The location of the park and quality

of the accommodation appeals to a wide variety of tenants which has also recently seen Southern Irish based Eirtech Aviation Services move into the park.

Screwfix also continues to acquire stores with 2 more being identified in Enniskillen & Cookstown comprising of c. 5,000 and 6,000 sq ft respectively.

Other completed transactions included a portfolio sale in Newry & Camlough, with the majority being warehousing of 57,683 sq ft plus additional lands of c. 16.5 acres.

On the supply front a warehouse facility in Springtown Industrial Estate, Londonderry comprising c. 38,000 sq ft on 2.52 acres has come to the market on a For Sale basis. On the letting front a warehouse of 27,717 sq ft on Vicarage Road, Portadown was also offered to the market.

From an industrial investment perspective, a 580,038 sq ft business park on c. 30 acres plus an additional c. 44 acres of lands in Antrim, currently let to a number of occupiers with the anchor tenant being Sports Direct / Heaton's, came to the market asking for offers over £12.5million.

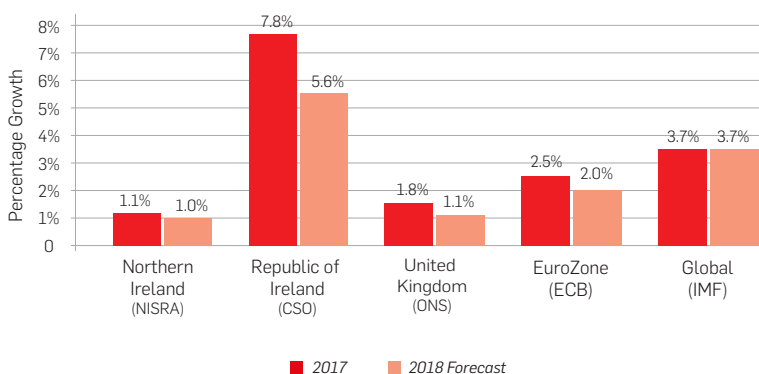
Notable Industrial Transactions, Q3 2018

Location	Size (Sq Ft)	Type
Summerisland Road, Portadown	112,000	Letting
3 The Harbour, Kilkeel	70,321	Letting
The Green, Lambeg	62,035	Letting
Newry / Camlough	57,683	Sale
Channel Commercial Park, Belfast	42,199	Letting
Moneymore Road, Magherafelt	41,117	Letting

Global View



2017 GROWTH VERSUS 2018 FORECAST



NISRA - Northern Ireland Statistics and Research Agency

CSO - Central Statistics Office

ONS - Office of National Statistics

IMF - International Monetary Fund

ECB - European Central Bank

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Outlook

Investment

- Office investment will dominate the market in 2018.

Office

- Quarterly demand returning to normal levels.

Retail

- The Primark fire and subsequent cordon will hit city centre trade over the Christmas period.

Industrial

- Levels of demand continue at normal levels despite Brexit uncertainty.

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