

Quarter 4, 2017

Q4

& 2018 OUTLOOK

**THE
LISNEY
BELFAST
COMMERCIAL
PROPERTY
REPORT**



The Difference

The Market in Numbers

Investment



£305^m

£305 million of investment transactions during 2017

Office



173k^{sq ft}

Take up throughout Belfast City Centre in Q4 2017

Retail



9.0% Prime Retail Vacancy

Belfast prime retail vacancy down 1.8% to 9.0%

Industrial



266k^{sq ft}

Largest industrial transaction during Quarter 4, 2017



Overview

Against a challenging economic backdrop the Northern Ireland commercial property market has remained robust, with investment volumes surpassing the 2016 figure of £213m to reach £305m as 2017 comes to a close. A notable positive in the context of both national and local political challenges serving to highlight the strong fundamentals that exist locally.

Our economy has continued to grow, by 1.4% this year according to a recent report from EY up from 1.1% the previous year according to the Office for National Statistics, helped by our export economy benefiting from the weakening of sterling but undoubtedly hampered by the collapse of our local devolved government.



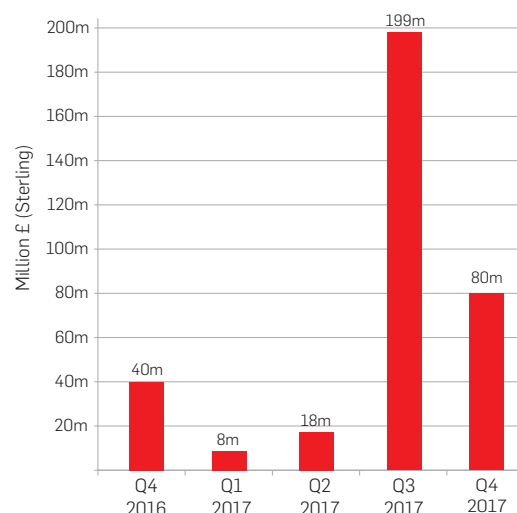
CastleCourt Shopping Centre transacted at £123m



Activity

The largest transaction of the year was the sale of CastleCourt to local Asset Manager Wirefox, and it is positive that off shore equity has chosen to invest in NI against the backdrop of a challenging retail investment market in GB. Combined with the sale of Tesco Foodstores in Newry and Craigavon, retail was the strongest sector of the year accounting for almost 70% of the volumes, a common trend in Northern Ireland. We also saw several office transactions including the sale of Cleaver House in Belfast to an Irish investor, no doubt recognising the comparative value offered in the sector as rents continue to strengthen.

Investment Volumes, Q4 2016 - Q4 2017



Notable Transactions Throughout 2017

Property	Sector	Value
CastleCourt Shopping Centre	Shopping Centre	123,000,000
Tesco Newry	Foodstore	27,250,000
Tesco Craigavon	Foodstore	21,440,000
Cleaver House	Office	15,250,000
Priory Group	Carehome Portfolio	14,875,000
Valley Retail Park	Retail	11,250,000
Great Northern Retail Park	Retail	9,175,000
Lesley Tower Donegall Place	Retail and Office	8,600,000
Hillview House	Office	6,000,000
Lesley Exchange	Office	3,000,000

Investment



2018 Outlook

Setting to one side wider macro events we see the value and opportunity the region currently offers – while other markets surpass their 2007 peaks our capital values are still some way off pre-recession levels. Our core markets remain robust, retail has enjoyed sustained post-recession growth as our empty shops continue to fill up, with the re-emergence of competitive tension in prime pitches. We expect to see a resurgence in office investment numbers in 2018 as both vendor and buyer look at the opportunities presented by the unprecedented rental growth in the past 24 months. As other sectors enjoy similarly positive themes – we see more cranes in the Belfast Skyline than we have

done in the past 10 years, 1500 hotel beds coming, the new Ulster University Campus, the Translink Transport Hub, we could go on....

And all of this in spite of a lack of devolved government. Just think about what could be achieved if devolution is restored, the long awaited 12.5% corporation tax rate implemented and our City Deal progressed. Combine this with the added stimulus of the Northern Ireland Investment Fund as well as the significant infrastructure projects advancing following the £1bn in extra funding coming from Westminster and the picture looks somewhat rosier than the headlines would have you believe.

Office



Overview

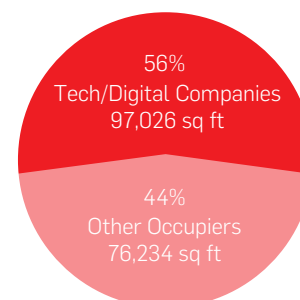
Following a sluggish start to 2017, the local office market witnessed a positive conclusion to the year with c. 173,261 sq. ft. transacting across 14 deals, with tech and digital occupiers once again being the dominant force. This was a strong showing when compared to take up of c. 91,557 sq. ft. in Q3, 43,218 sq. ft. in Q2 and 18,034 sq. ft. in Q1.

Similar to Q3, this transactional activity shows an encouraging spread of transactions ranging from sub 1,000 sq. ft. to 72,000 sq. ft. with both indigenous and new market entrants acquiring space.

In a somewhat coincidental finding, we have attributed 56% of Q4 take up to the tech and digital sectors, which equates to the same proportion of sector activity in Q3 2017. The quantum of tech/digital activity is consistent with our Q3 predictions. In these buoyant sectors where companies

are constantly challenged to source and retain quality employees, the attractiveness/suitability of premises is now of even greater importance. As a result, and as the tech and digital sectors continue to gain momentum, market supply must continually evolve to meet changing occupier requirements.

Q4 Take Up Analysis



Total Q4 Office Take Up
173,261 sq ft

Notable Office Transactions, Q4 2017

Landlord	Tenant	Size (sq. ft.)	Location
Concentrix	Concentrix	72,000	49 East Bridge Street
Belfast Harbour Commissioners	TP ICAP	34,692	4th – 6th Floors, City Quays 2, Clarendon Dock
Private Landlord	Extern	11,998	1st & 4th Floors, Norwich Union House, 1-7 Fountain Street
Belfast Harbour Commissioners	Wireless Group	11,564	7th Floor, City Quays 2, Clarendon Dock
Private Landlord	BDNA	5,597	2nd Floor, Flax House, 83-91 Adelaide Street

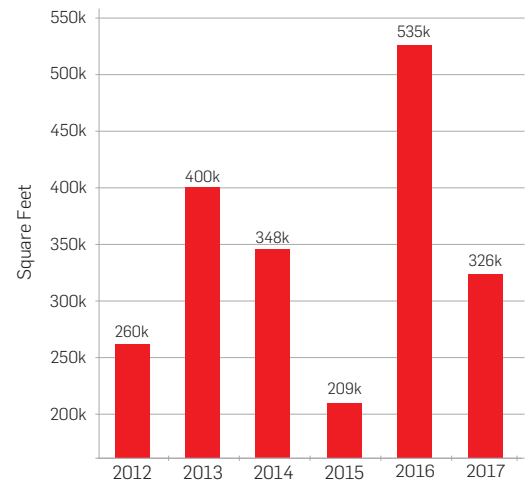


Activity

It is worth noting that the largest Q4 transaction involved Concentrix who were required to develop their own building driven by a lack of suitable availability in the market. This approach has also been adopted by Allstate who are constructing a purpose-built HQ adjacent to Concentrix at Maysfield which will be fit for occupation in 2018. This again emphasises the need for the development pipeline to deliver office stock capable of accommodating market demand and in particular large floor plates in excess of 15,000 sq. ft.

Despite the negativity surrounding 'Brexit' and the current political impasse at Stormont the robust performance of the office sector in 2017 can only be seen as a positive given the continued level of FDI take up and requirements, the number of new schemes in the development pipeline, the ongoing attractiveness of Belfast/NI as a business location and the continued rental growth in the sector.

Annual Office Take Up 2012 -2017



**Please note that we have not included the pre-let of Erskine House to HMRC (104,220 sq. ft.) as 'take up' as the scheme is still under construction and not capable of occupation, as per our standard definition of 'take up'.*



Nine Lanyon Place follows Chichester House as the second development in Belfast's to carry a WiredScore certification



One to watch • Collaborative Working Space

As the working office environment continues to evolve we would foresee an increased roll out of collaborative working spaces throughout the City. In a localised context, we have already seen the opening of the Ormeau Baths Tech Hub in Q2 17, however, as the introduction/attraction of collaborative space gathers momentum we would anticipate some of the more established operators such as WeWork and Rocket Space seeking space in the City. WeWork, in particular,

have been acquisitive of late and has opened UK hubs in London and Manchester with a Dublin site due to open in Spring 2018.

There is a tangible sense that the traditional office environment is changing and that before long demand for flexible, co-working and collaborative spaces won't be restricted to 'quirky' digital and tech occupiers.

Office



2018 Outlook

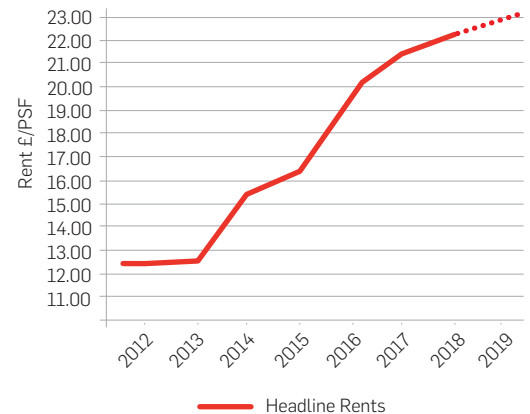
The second half of 2017 reflected a more functional office market due to the quantum of office take up, the spread in scale of transactions and also the mix of indigenous occupiers along with new market entrants seeking and taking space.

A substantial proportion (c.56%) of Q3 & Q4 letting activity was attributable to digital/tech occupiers. Looking forward, and as Belfast's reputation as a hotbed of digital activity continues to grow, we expect 'more of the same' in 2018.

As the tech theme continues, we have begun to see local developers embrace the changes in our occupier market with Causeway Asset Management launching their 'future fit' concept in its redevelopment of 'Chichester House' (46,000 sq. ft.) and refurbishment of Nine Lanyon Place which will provide 70,000 sq. ft. of accommodation in 2018 across c. 25,000 sq. ft., floor plates, the largest expected to be available in the City next year.

In an NI first, both of these buildings will benefit from the 'Wired Score' certification that assesses

Headline Rents, 2012-2018



the digital connectivity of buildings. These buildings will go some way in alleviating the supply pipeline which it is hoped will continue to deliver new product throughout 2018.

In what is a very recent development, we have begun to see several ROI based companies making tentative enquiries for office space in NI which we assume is stemming from the potential implications of 'Brexit'. This can only be a positive for the sector.

Retail



Overview

As with the previous quarters the story of retail in Q4 continued to be generally positive, despite the political uncertainty, cost inflation, interest rate rises and the continued growth of online retailing.

In Belfast's prime retail pitch vacant retail units are now becoming increasingly difficult to spot, as the area continues to improve. Lisney's Annual Retail Study has shown that the trend of reduced year on year vacancy continues apace, with only 9% of prime units remaining unoccupied at the end of 2017. To add context, 10.5% of Belfast's prime retail units stood empty in the final quarter of 2016, and almost 20% at the same point in 2014.

Beyond Belfast, towns/cities with a cross border catchment remain at the forefront, registering a drop in prime vacancy of 2.0%. On a province wide basis prime vacancy reduced overall by 1%.



Tim Hortons completed their debut acquisition in Q4

As the number of vacant units continues to decline, rental growth should now be clearly evident. However, with quality pitches reaching close to full occupancy opportunities for new transactions ahead of existing market values are limited, thus slowing progression.



Activity

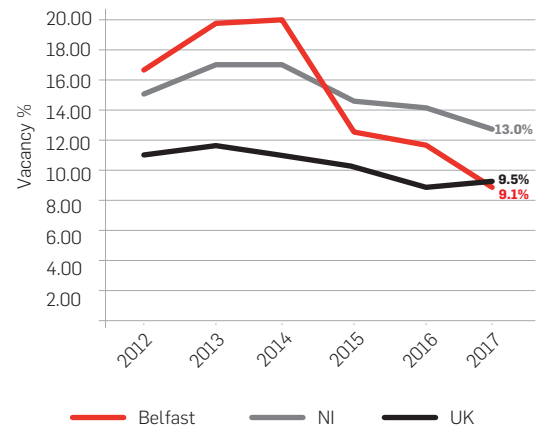
In Belfast, Oliver Bonas and Cuba Clothing opened new stores on Arthur Street, which as a result is fully occupied. Beyond the city centre, The Range was able to squeeze another new store opening into 2017, lifting the shutter of its third NI store at Connswater on 29th December.

Outside of Belfast, Superdry added a third store to its NI offering in Ballymena's Fairhill Shopping Centre, after stores in Victoria Square and The Quays, and Perfume Shop unveiled a new unit in Bloomfield Shopping Centre, Bangor.

After a successful opening in Foyle side, stationery retailer Smiggle was busy in Q4 securing two new stores in The Quays Newry and Castle Lane Belfast. Trespass were also particularly active, opening a new flagship store on Ann Street, Belfast, as well as a new outlet in Meadowlane, Magherafelt.

Moving further beyond the town and shopping centres, activity in NI retail parks tailed off in Q4 after a busy start to the year. Toys R Us entered into CVA in December and announced that it will be closing three stores in Lisburn, Derry and Newtownabbey, however given the level of demand from out of town retailers, we expect these voids to be filled quickly.

Prime Retail Vacancy, 2012-2017



Food & Beverage operators finished 2017 in strong fashion, maintaining an appetite for new opportunities. Coffee operators continued to spearhead the sector with Tim Hortons completing its debut acquisition on Belfast's Wellington Place/Fountain Street and Costa opening their new store on Castle Place. Elsewhere, restaurant chains Camile Thai and Eddie Rockets opened in Ballyhackamore and Lisburn Leisureplex respectively.

Notable Transactions, Q4 2017

Trader	Type	Location	Town/City
Little Wing	High Street/Shopping Centre	Conway Square	Newtownards
Camile Thai	High Street/Shopping Centre	Ballyhackamore	Belfast
Superdry	High Street/Shopping Centre	Fairhill Shopping Centre	Ballymena
Perfume Shop	High Street/Shopping Centre	Bloomfield Shopping Centre	Bangor
Eddie Rockets	Out Of Town	Lisburn Leisureplex	Lisburn
Trespass	High Street/Shopping Centre	Ann Street	Belfast
House of Sport	High Street/Shopping Centre	Rushmere Shopping Centre	Craigavon
The Body Shop	High Street/Shopping Centre	The Quays	Newry
Lidl	Out Of Town	Pinehurst Retail Park	Lurgan
Better Gym	High Street/Shopping Centre	Castle Lane	Belfast



2018 Outlook

Looking forward to 2018 we are confident that occupier demand for Northern Ireland will increase throughout the next 12 months, with particular focus on the prime and regionally dominant locations.

Out of town demand will remain high with retailers like The Range, Lidl, M&S, TK Maxx and B&M and the coffee shop/fast food sectors with Tim Horton, Greggs and Caffè Nero all continuing their expansion plans for Northern Ireland.

Recent investment in key Northern Ireland schemes will see results with the letting strategies

of the likes of Castlecourt, The Junction, The Boulevard and Odyssey hitting their stride we expect to see a number of new lettings announced.

Technology will also continue to rapidly change the retailing environment and the new possibilities that omnichannel retailing brings are endless. Already home assistants Alexa, Siri and Cortana are changing the way we shop and the predictions in the last few years of shops transitioning to 'experience centres' are becoming evident in malls and high streets across the province.



In focus • Omnichannel retail

Retailers are no longer rolling out stores in the same way and certainly not to anything like the same extent.

Omnichannel retailing is rapidly evolving and retailers who have embraced the change are using it to allow for a seamless shopping experience, whether the consumer is in store or online.

Omnichannel gives the retailer an advantage over their competitors. They do not mind how you shop as long as you are buying their brand. While shopping in store, consumers increasingly have a smart phone to hand and are encouraged by retailers to go online when in store. Data is being gathered with every click. Stores no longer need to carry every colour, shape and size in stock, as consumers can order or purchase online and revisit to collect the item.

Increasingly consumers are choosing to have their purchases delivered to their door or are using other means of delivery such as Parcel Motel and it will not be too long before drone delivery becomes a reality.

With stock no longer required in store, vast empty spaces have been created. These empty spaces must be filled and so begins the world of 'retail experience', the beginning of the future of retail.

The 'bricks and mortar' and online store are no longer competing with each other. The most successful brands have embraced both formats. Brands which were once only online have now opened physical stores; Amazon, Sparto, Vistaprint, Boll & Branch, Bonobos. While the formula for each is evolving and changing, one thing that remains certain is that they are all moving away from the traditional store.



51% of Argos sales have multichannel involvement

The bricks and mortar shop allows the consumer to experience the brand with an emphasis on engagement and face to face personal interaction. Online retailers are opening physical stores as they realise that a consumer often wants to touch and feel the product before they are willing to trust it and be comfortable to go online.



Overview

The final update for 2017 shows that the sector performed strongly with the highest take up being in Quarter 4. While there was one large purchase that accounted for a significant amount of space (the Coca Cola purchase mentioned below) it is an encouraging sign.

Quarter 4 was an interesting quarter for manufacturing with some winners and losers including Bombardier, which has had a tough year given its ongoing dispute with Boeing and on the flip side companies like Norbrook who recently reported that revenues have increased by 14% coupled with investment in its laboratory and manufacturing facilities.



Activity

The largest deal this quarter, and we believe the entire year, was the sale of the former Coca Cola factory at 1 The Green, Tullnacross, Lambeg which Lisney acquired on behalf of a client.

This comprised 266,470 sq ft of buildings on a total site area of 17.57 acres and was purchased by a local Lisburn based company, Unicorn Group.

In a notable lease transaction, Premier Cables has taken a lease on Westbank Road comprising 19,016 sq ft in total on a large shared site of 2 acres and 207 Airport Road West comprising warehousing and an adjoining office block totalling 22,432 sq ft was let to a local company.

Mallusk has always been a popular location and properties do not come up that often, however we reported last quarter of a building on Michelin Road being sold and again this quarter a further



207 Airport Road West

building at 8 Trench Road, Mallusk has been sold. The self-contained warehouse comprised 25,928 sq ft on a site of 1.63 acres and was sold for just over the asking price of £1million, which equates to c. £39 per sq ft.

In terms of supply, a notable building that came onto the market in Q4 on a 'to let/for sale' basis was on McKinney Road in Mallusk and comprised a cold store, warehouse and office accommodation totalling c. 67,000 sq ft. Based on the recent sales activity we would expect good interest to be shown in this building.

Another building which came to the market on a for sale basis, and is now agreed, included the Chain Reaction warehouse in Doagh, Ballyclare comprising 73,773 sq ft on 5.1 acres.

Notable Industrial Transactions, Q4 2017

Location	Size (Sq Ft)	Type
1 The Green, Tullynacross, Lambeg	266,470	Sale
8 Trench Road, Mallusk	25,928	Sale
207 Airport Road West, Belfast	22,432	Lease
12 Westbank Road, Belfast	20,897	lease
Total	335,727	



2018 Outlook

Looking forward to 2018 with the border discussions and trade arrangements still ongoing, there are reasons to be hopeful for improvement in the sector.

Owner occupiers continue to be active but the supply of properties available to purchase is extremely limited. This does result in occupiers considering design and build options but generally these have not been undertaken, although we expect that 2018 will see further movement here.

The lack of industrial properties available to buy has led to increased demand in letting activity and we anticipate a number of firms expanding and taking leases, even on a short-term basis, while they continue to look to purchase.

With this increase in delivery-orientated purchasing comes a potential boon for the industrial sector. Advanced distribution centres are now commonplace in many industrial parks across the UK. What were once termed warehouses are now referred to as 'fulfilment centres' and these vast hive-like operations run around the clock with Orwellian levels of automation.

In UK 46% of industrial take up in 2017 was retail related. While we are somewhat behind the UK this is a trend and the future so naturally we expect demand will increase and exceed 2017 levels.

2018 Outlook - Synopsis



Investment

- Volumes to remain similar to 2017 at c. £300m
- Sentiment is improving and ahead of 12 months ago. There will be a greater volume of transactions
- Investment funds are looking for value in the regions
- Bank Interest rate environment looks more stable
- Industrial/Warehousing is an area of opportunity

Office

- Demand has continued despite political uncertainties
- Newsupplywillbedominatedbyrefurbishment
- Focus on new Technology will become ever more important
- Growth in Shared Space market

Retail

- Omnichannel is the way forward
- Continued growth in On line complimented by physical stores
- Innovative retailers will thrive
- Upward pressure on costs may see prices rise

Industrial

- Retail related occupiers starting to dominate this market
- Continued growth in requirements due to export market
- Activity levels to improve - One to watch out for in 2018

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