

NORTHERN IRELAND

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INVESTMENT

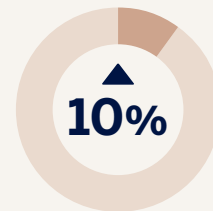
LOCAL INVESTORS DOMINATING DEMAND

Entering 2024, interest rates in the UK are just coming off a 15-year high, while rates in the EU and US remain at 22-year highs. The likelihood of further increases is now more limited and downward adjustments are anticipated in the second half of the year, however the prevailing elevated rates, along with the sustained lack of finance on offer for property purchases, will mean those with cash will be most active in the property market and set pricing. This is similar to last year when demand was dominated by locally-based investors, mainly high net worth individuals with UK and international funds absent from the market.

Despite the wider economic and geopolitical issues both locally and globally in 2023, investment activity performed well with turnover estimated to have been between £310m and £320m, a similar level to that achieved in 2022 and around 10% ahead of the 10-year annual average. The retail sector was by far the most active, as has traditionally been the case in NI, but as also was the case in other global markets last year. Yields and rents have been adjusting for longer in this sector and the vendor / purchaser gap in pricing expectations is not as wide as in other sectors. Retail assets will attract significant interest again this year, particularly supermarket-anchored shopping centres and retail parks that are trading well. On-market supply should improve as 2024 progresses. This will be driven by banks and other funders putting pressure on those who need to refinance but cannot afford to do so given the raised cost of finance and the likely changes in LTV ratios.

INVESTMENT
ACTIVITY
PERFORMED WELL,
WITH TURNOVER
ESTIMATED
TO HAVE BEEN
BETWEEN

**£310m -
£320m**



AHEAD OF THE
10-YEAR ANNUAL
AVERAGE

OFFICES

NEW BENCHMARK IN OFFICE SPECIFICATION

Like last year, activity levels in the Belfast office market are expected to remain relatively subdued in 2024. This is not unique to Belfast; office occupiers globally continue to assess their future space requirements in a post-pandemic world. Staff trends around WFH / hybrid working will remain a feature and is likely to result in more occupiers seeking to off-load excess accommodation as grey space (sub-lets).

While no new office accommodation is under construction or due to commence in the near-term, four new Grade A buildings were completed in the last 12 to 15 months. Each of these is to BREAAAM Excellent standard, setting a quality benchmark in the city. They comprise The Ewart (210,000 sq ft), Olympic House (146,000 sq ft),

Paper Exchange (155,000 sq ft), and City Quays 3 (250,000 sq ft). However, with slower market conditions, a significant amount of space remains available in these buildings, which has added to the vacancy rate.

In the medium-term, and again as with office markets globally, a key challenge will be the significant number of secondary buildings that require large capital expenditure to meet sustainability / ESG standards. There is a fear that some of these could become stranded assets as it will be unviable to carry out the works required to justify the uplift in rental and capital values. Consequently, many will be earmarked for alternative uses including residential, hotels and student accommodation, but conversion viability may also be an issue.



4 NEW

GRADE A OFFICE BUILDINGS WERE COMPLETED IN THE LAST 12 TO 15 MONTHS IN BELFAST

INDUSTRIAL

DESIGN-AND-BUILD PROJECTS ADVANCE

The lack of supply will remain the biggest issue in NI's industrial market this year. It will hold back stronger levels of activity. Despite the shortfall in accommodation, new schemes in general remain unviable to construct, mainly due to elevated building and finance costs. However some limited speculative construction may still occur, and additional design-and-build projects will advance with occupiers required to pay an economic rent / purchase price to justify development. There are some notable examples to the northwest of Belfast city in Nutts Corner where this has already occurred – Sysco Ireland has taken a 200,000 sq ft distribution facility that is under construction, while a planning application has been lodged on behalf of Jans Group for a 240,000 sq ft unit.

There will be continued upward pressure on rental and capital values in 2024. In tandem with plateauing (or falling) construction and finance cost over the course of the year, speculative construction may become viable towards the end of the year and into 2025 in areas where demand is strongest. In the meantime, occupiers with immediate requirements will need to seek design-and-build solutions at rates ahead of the market.

RETAIL

STRONG DEMAND IN RETAIL PARKS

The retail sector in NI continues to be impacted by the after-effects of the pandemic (greater move to e-commerce), the various conflicts around the world and wider macro-economic issues globally (inflation, interest rates, higher cost of living). Both retailer and consumer sentiment continue to be affected, which has a knock-on impact on demand for stores. Greatest demand for property solutions is coming from discount retailers and homeware brands, which are seeking units in retail parks that are trading well. Encouragingly, there are several high-profile brands either seeking space in NI or have recently secured stores. Examples include Pret A Manger (UK F&B), Miniso (Chinese homeware) and Mary Brown's Chicken (Canadian F&B). Over 2024, demand will

persist for prime retail pitches, as bricks and mortar stores play an important role in supporting brands' omni channel offering. However, secondary and tertiary pitches will continue to face challenges in terms of escalating vacancy rates and falling rental levels.

DEVELOPMENT LAND

NEW AFFORDABLE PROVISION IN DEVELOPMENT PLAN

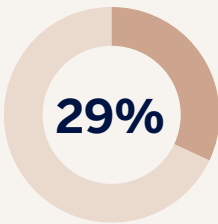
Despite the continued economic headwinds, particularly relating to interest rate and build cost inflation, demand for well-located land with development potential across NI remains strong. Planning and infrastructure related constraints continue to curtail the amount of consented development land being brought to the market, which has to a certain extent underpinned land pricing when sites do transact.

Belfast City Council adopted its new Local Development Plan in May 2023. One of the key new policies relating to residential development is 'Policy HOU5 (Affordable Housing)', which provides that any new scheme of five or more units must contain a minimum provision of affordable housing equivalent to 20% of the overall total.

BUILD TO RENT

ALMOST 1,200 BTR UNITS DUE IN BELFAST CITY CENTRE

It is very positive news that construction of the first institutionally-backed BTR scheme in NI started in Q3 2023. It is in the Titanic Quarter and will be a 627-unit scheme to be known as the Loft Lines. It is being forward funded by Legal & General with Watkin Jones, Grahams and Lacuna the delivery partners. In addition, Belfast Harbour's City Quays 4 BTR scheme of 260 units has been recommended for approval with construction likely to start in the first half of 2024, while McAleer & Rushe's 300-unit BTR scheme on Corporation Street is due for approval shortly. These will be welcome modern rental stock in Belfast city centre.



29%
**OF STUDENTS
(20,200)**
ARE NOW
FROM OUTSIDE
NORTHERN
IRELAND.

**INTERNATIONAL
STUDENTS HAVE
THE GREATEST
DEMAND FOR
PBSA AND THIS
GROWTH BODES
WELL FOR THE
CONTINUED
GROWTH IN THE
SECTOR**

PURPOSE-BUILT STUDENT ACCOMMODATION

INTERNATIONAL STUDENT NUMBERS GROW

In the 2021 / 2022 academic year, there were 69,500 students enrolled in Higher Education Institutions across NI, almost 46,000 of which were studying on a full-time basis. The numbers have grown by a substantial 24% in the last decade as more undergraduate and postgraduate places opened-up, and more overseas students were attracted to the region. It is notable that 29% of students (20,200) are now from outside NI, including a large proportion (14,600) from non-UK / non-EU countries. International students have the greatest demand for PBSA and this growth in numbers bodes well for the continued growth in the sector across NI. In Belfast city centre, the opening of the new Ulster University campus at the Cathedral Quarter in early 2023 is also positive for the future demand for bed spaces in the city as the campus is home to 36,000 students.

With a current stock of 9,000 bed space across NI (7,800 in Belfast) and 5,600 further beds either under construction or in the planning system in Belfast, the pipeline is healthy (bed spaces will be available for just over one-fifth of all students) and likely to grow further. Queen's University Belfast recently announced a requirement for an additional 3,000 bed spaces in the next five years. Given the counter-cyclical characteristics of PBSA as an investment class, there will be investor demand for this sector in the years ahead. Indeed, the sale of Vita's 269 bed scheme on Bruce Street last year is a notable example, achieving a NIY of approximately 5.85%.



Lisney

Sotheby's
INTERNATIONAL REALTY

OUTLOOK 2024