CBRE NI
PART OF THE AFFILIATE NETWORK

Number of Highlights in Difficult Quarter for Northern Ireland Commercial Markets

VIEWPOINT

Quarterly Research Report

CBRE NI RESEARCH
JULY 2023

Summary

Brian Lavery
Managing Director
CBRE NI

The last quarter we heralded the agreement on the Windsor Framework with the hope that it would unlock investment in Northern Ireland generally and specifically the commercial real estate market. Unfortunately, nothing moves at a fast rate in Northern Ireland, and we still await national and local Government impetus to facilitate development and interest from potential occupiers and investors.

The lack of occupier decision making has adversely affected the Office market where a total of only 150,000 sq. ft. of lettings in the first six months means we are well below our usual take-up figures. Potential office tenants are still slow to make decisions on relocations and start-ups. Although a beneficiary of this uncertainty has been the serviced office sector which is running at near full occupancy.

It is worrying that there is potentially a tsunami of second tier office space to come to the market in the final half of the year much of which will require extensive expenditure to meet modern and future ESG standards. We also await Government action on their own estates, with most city centre Public Sector offices remaining very sparsely occupied.

Lack of new development in the Industrial and Logistics market is also rather stagnant but where new development has occurred, units are being immediately occupied. Further help from national and local Governments to developers of Logistics and Industrial space would be most welcome and we would again call for some type of Enterprise Zone status in order to kick start buildings for this sector.

In the Retail sector we have continued to see almost full occupancy in Retail Parks with continuing demand from food and beverage operators. Shopping centres, which have been the hardest hit over the last number of years are starting now to be repositioned, but again require extensive investment to bring back to modern standards to attract occupants and shoppers alike.

At CBRE NI we have been fortunate to be involved in some of the highlights of the commercial sector during Q2. The completion of the forward funding deal for Loft Lines, Belfast's first Build to Rent scheme at Titanic Quarter by Legal and General is the most positive development in the residential market that we have seen for some time. We have previously seen how the initial success in the purpose-built student market led to extensive further growth in this sector and we would hope that the Build-to-Rent sector follows suit.

Another highlight for CBRE NI has been our involvement in the Room2 apart-hotel on Queen Street, a development by Oakland Holdings to be occupied by the Lamington Group who have successful apart-hotels in other major cities. This will give choice to tourists and short-term business occupiers in Belfast City Centre. Occupier and room rates in Northern Ireland remain at an encouraging level, although supply figures are being distorted by refugee and asylum seeker occupancy in a number of hotels.

In terms of the Investment market, the marketing of Foyleside Shopping Centre and Forestside Shopping Centre was well received and as we go to press are in an advanced marketing stage so we would anticipate both should transact in Q3.

There is always a lull in the market in July, but we are aware of a number of investments prepared for sale, which should see the market resume activity in August and September.

The continuing rise in interest rates and a dogged inflation rate that refuses to fall means that commercial activity is struggling and is unlikely to improve into Q3.

Offices

Belfast city centre recorded take-up at 82,623 sq ft in Q2 2023. This is an increase of 15,199 sq ft compared to Q1 2023. The takeup figures remain below the 5-year rolling average but it is interesting to note that the number of transactions increased from Q1 to Q2 with a range of deals from 950 sq ft up to 27,600 sq ft. ESG remains one of the key factors for occupiers when considering an office move along with on-site building amenities.

David Wright
Director, Office Agency
CBRE NI

Grade A supply continues to decrease, and we expect this pattern to continue given that there are no new office schemes due to commence on-site other than some relatively small refurbishment projects. Given the disparity between current market rental levels and what is now required to make a scheme viable we expect there to be future supply issues which will place upward pressure on rents.

As we have stated in previous reports the market continues to face several structural challenges around development viability caused by cost of materials and labour, vacant rates (currently 50% of the full liability payable on completion of a scheme), section 76 payments and corporate occupiers requiring sustainable buildings. It has been disappointing to note that the Secretary of State for Northern Ireland is discussing increasing the vacant rates liability which would act as a further barrier to encouraging speculative development.

Q2 2023, Office Take-up (sq ft)

82,623

% Increase on Q2 2022

22.5%

Prime Headline Office Rents (sq ft)

£24.00

Industrial & Logistics

Since our Q1 report there has been limited take-up in the market. As we have been highlighting over the past 24 months supply is hugely constrained with very little available accommodation and increasing demand from occupiers.

There continues to be an increasing number of new enquiries for large new build warehouses but given a very limited supply of suitable development land fulfilling these requirements in the short to medium term will be challenging. Indeed the availability of suitable development sites will be critical for the market over the next 10 to 20 years.

On a positive note a new build 41,000 sq ft unit let to Ferraris Piston Service at Doagh Road Business Park in Newtownabbey was completed in April, with the park providing sites for a further three units ranging from between 25,000 to 150,000 sq ft. These sites have been recently brought to the market and have already attracted considerable interest.

Cookstown based CDE Global launched a proposal of application notice (PAN) at Global Point Business Park in Newtownabbey in February for a new facility set over c.23 acres which was decided in March 2023 and should pave the way for a full planning application to be submitted in the near future.

Lisa McAteer
Senior Director, Industrial Agency
CBRE NI

Good Quality Unit Rent (sq ft)

£6.50

New Build Unit Rent (sq ft)

£9.00

Doagh Road Business Park, Newtownabbey

Retail

As we reach the mid-year point retailers continue to navigate through various headwinds. According to the Office for National Statistics (ONS) inflation remained at 8.7% for June despite expectations that it would fall. This has led to the recent announcement by the Bank of England to increase interest rates to 5% which will likely dampen consumers disposable income.

Stephen Smith
Associate Director, Retail Agency
CBRE NI

As mentioned in our Q1 Marketview Report, there has been increased letting activity in Belfast City Centre, most notably on Donegall Place. It has been confirmed that Accessorise and Clarks Shoes are both relocating to 12 and 14 Donegall Place. The reopening of Primark has contributed massively to this upturn in occupier demand for space in this location.

There continues to be strong demand from occupiers seeking space at Castlecourt and Victoria Square with new lettings to be announced soon.

The resilience of the retail warehouse sector continues to be underlined. Whilst consumer spending is likely to be reigned in, it is not expected to impact all occupiers equally, with many Retail Parks well positioned to overcome the economic headwinds. Recent letting activity on Boucher Road includes Jollyes leasing space at Lesley Centre while EZ Living has at Lesley Retail Park. In our opinion, discount retailers are currently the key drivers of demand for Retail Parks and this a trend we expect to continue.

Although not without its challenges, the food and beverage pod and drive-thru market remains particularly active. Demand from established operators such as McDonalds, Starbucks, Greggs and Caffe Nero remains strong. New entrant Mary Browns Chicken, a Canadian fast food restaurant, is actively seeking opportunities and is currently lease agreed at several locations. We also understand Pret A Manger have terms agreed for a unit in Belfast city centre which would be its first store in Northern Ireland.

Prime Zone A Rents Belfast (sq ft)

£90.00

Prime Retail Warehouse Yield

8.50%

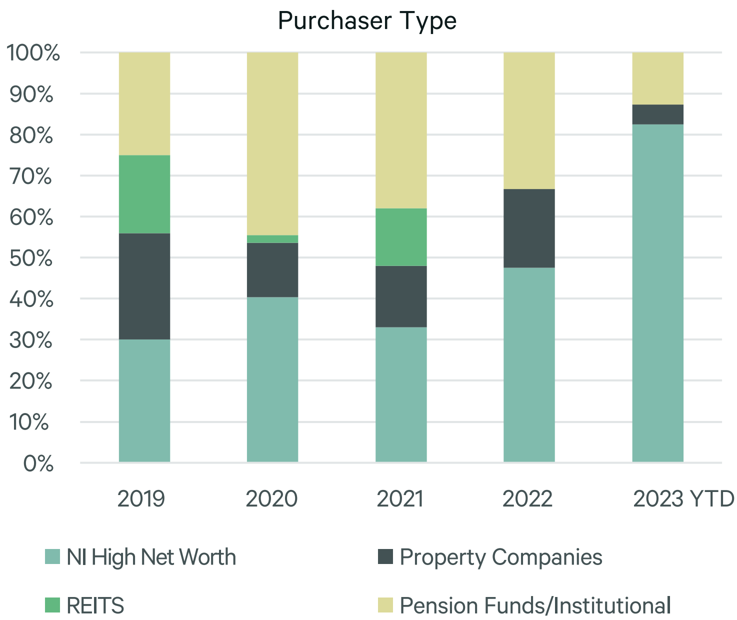
Investment

As predicted the second quarter of the year has been active in terms of investments being brought to the market with just over £80 million launched. Investment spend has been lower when compared to Q1 with over £27 million transacted bringing the half yearly total to over £155 million.

There has been a number of significant investment brought to the market during the quarter totalling over £80 million. These include Forestside Shopping Centre in Belfast, quoting £37 million; Foyleside Shopping Centre in Belfast, quoting £34.25 million.

Investment deals that have completed over the second quarter include the sale of Bedford House in Belfast for an undisclosed price and Tesco's distribution unit in Belfast for £1.425 million. By the end of the second quarter, the largest investment sectors so far this year has been retail and office representing 49% and 19% of the total investment spend respectively.

In terms of demand, the largest investors in Northern Ireland over the quarter have been domestic in origin accounting for all of the total spend and 82% of the total investment spend year-to-date. Indeed, the below graph broadly illustrates that domestic investors have been increasing their dominance in the market over the last 5 years while Institutional investors have been decreasing.



Gavin Elliott
Senior Director, Capital Markets
CBRE NI

Q2 2023 Investment Spend

£27m

Sales Launched during Q2

+£80m

Prime Investment Yields

Retail: 8.00%
Office: 6.50%
Industrial: 6.00%
Retail Warehouse: 8.50%

Alternatives (Build to Rent)

The commitment to Forward Fund Loft Lines at Titanic Quarter by Legal & General has provided a massive boost to the City Centre Living sector in Belfast. The scheme will be the first Build-to-Rent (BTR) scheme to be delivered in Belfast and will comprise on completion mixed tenure residential-led development of 627 BTR residential and 81 Social and Affordable Homes delivered by Clanmill Housing Group. Development Partners Lacuna Developments and Watkin Jones will be responsible for delivery of the scheme.

Robert Ditty
Executive Director
CBRE NI

CBRE NI working with the London CBRE Residential Capital Markets Team advised Legal & General. We anticipate Loft Lines will be the first of several developer led residential projects proposed for Belfast City Centre.

As a new concept for Belfast, we have summarised below some of the benefits of Build to Rent for the City:

- Accelerate the delivery of new homes to help address housing crisis and help meet Belfast's target for delivering 31,600 homes in the City Centre by 2035
- Create communities and a desirable place to live, work & socialise for people of all ages and backgrounds
- Improve the quality of rental accommodation in Belfast offering professionally managed & serviced accommodation by one operator and not multiple landlords, with a dedicated onsite team 24/7 ensuring the highest quality of standards for occupiers
- Creating a new city centre urban community, providing a diverse range of unit sizes suitable for individuals, families, young people, professionals, older people, whether upsizing or downsizing
- Tenants in the private rental sector typically have short term leases. Build to Rent offers longer tenancies of three + years and security of tenure for occupiers
- Long term ownership of the asset by one operator (not developers) who will be invested in curating sustainable communities and maintaining high quality standards

Alternatives (Build to Rent)

Cont'd

- BTR provides a place where renting gives access to a new, efficient and sustainable ways of living without being tied to a mortgage. The rent residents pay typically includes wi-fi, amenities, gym and other extras providing cost certainty

- BTR offers value for money with residents benefitting from communal lounges and workspace to meet and green outdoor spaces, gyms, laundry and concierge services

- Promotes more sustainability and greener ways of living and use of sustainable transport removing the necessity for cars and placing more emphasis on cycling and walking to promote health & wellbeing

Robert Ditty
Executive Director
CBRE NI

Loft Lines, Titanic Quarter

Hotels

Alex Speers
Associate Director
CBRE Hotels

The Northern Ireland Hotel sector experienced a strong first half of 2023 with occupancy returning to 2019 levels while Average Daily Rate (ADR) continued to achieve record levels. The Northern Ireland Statistics and Research Agency (NISRA) recently published their 2022 Alternative Data Sources, confirming continued positive recovery for the tourism sector in Northern Ireland with an all-time high number of visitors from the Republic of Ireland last year.

The Ross Park Hotel in Ballymena is on the market with a guide price of £4m. The three star, 39-bedroom hotel is set on approximately 8 acres and has a strong food and beverage offering as well as being a popular wedding venue.

The Ebrington Hotel & Spa in Derry developed by local man Cecil Doherty opened on 7th July, the first new hotel to open this year in Northern Ireland. The £15.5m development is housed within five buildings including the Clock Tower in Ebrington Square and provides 93 bedrooms, bar, restaurant, conference and banqueting facilities and luxury spa.

The second new hotel of 2023 is expected to open in the coming weeks. The Room2 aparthotel on Queen Street in Belfast includes 175 bedrooms and will be operated by the Lamington Group under their hometels brand. Given the brand’s focus, some of the latest sustainability strategies will feature throughout the hotel.

In May, The Flint on Howard Street in Belfast city centre started works on its extension to include a new Italian restaurant on the ground floor and enabling works for an extension to include 63 bedrooms and rooftop bar and restaurant. It is reported the total costs will be in the region of £9.5m and will take 18 months to complete.

Andras House purchased the Magherabuoy House Hotel in April for an undisclosed sum. The hotel has since closed, and it has been reported that going forward it will be used to accommodate refugee asylum seekers.

Room2, Belfast

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