



# Northern Ireland Commercial Property Investment Review 2019

PREPARED BY MSCI IN CONJUNCTION WITH ULSTER UNIVERSITY

# Performance in 2019

\_\_\_\_ Northern Ireland





Northern Ireland property returns have historically been closely correlated to that of the broader United Kingdom. In 2019, Northern Ireland commercial property followed the broader UK market, delivering a total return of -0.6% which was down from 1.7% in 2018.

The MSCI UK Annual Property Index delivered a total return of 0.6% for the year ended December 2019- the lowest since the -21.7% contraction in the midst of the Global Financial Crisis in 2008.

Among the UK's other national markets, Scotland produced a total return of -0.4%, Wales -5.5% and England (excluding London) -0.9%. The London commercial property market outperformed the rest of England with a total return of 2.8% in 2019.

Northern Ireland's income return increased by 70bps to end 2019 at 7.7%, making it attractively priced relative to the rest of the UK and other European markets

The income return of 7.7% for Northern Ireland exceeded that recorded for other UK nations in 2019, outperforming Scotland (5.6%), Wales (5.9%) and England excluding London (5.1%). London's income return remains characteristically low at 3.6%.

Northern Ireland's superior income return was in 2019 offset by a capital growth of -7.8% amid a market rental value growth of -1.0% and a negative yield impact of -6.0% as equivalent yields moved out 10bps to 7.7%.

Northern Ireland's underperformance relative to the greater United Kingdom can largely be attributed to the sample's bias towards the underperforming retail sector. For 2019, retail made up 72% of the Northern Ireland sample by capital value.

Belfast again counted among the top office locations in the UK, eclipsing many key peer cities such as Manchester, Cardiff and Liverpool with a total return of 9.8% in 2019. At an All Property level, Belfast's total return was 1.4%.

Belfast's office return was underpinned by an income return of 7.5%. Capital growth added 2.2% on the back of a stronger equivalent yield and positive market rental growth which drove outperformance over the IPD Pan-European office benchmark of 9.1%.

Belfast's comparatively high overall income return of 7.1% continues to make the city a competitive property investment destination in a pan-European context.

Investor sentiment towards Northern Ireland real estate remains relatively stable in a longer-term context. While the market's equivalent yield softened 10bps to 7.7% it remains just 10bps off its ten-year annualised level. At the end of 2019, Northern Ireland property remains discounted compared to the broader UK where an equivalent yield of 5.5% was recorded.

Since the 2006 peak- the Northern Ireland market has delivered a compound annual total return of 2.6%, driven by a stable, inflation-beating 12-year annualised income return of 7.5%.

On a three-year annualised basis to 2019, the Northern Ireland commercial property market produced a total return of 3.0%, comprising an income return of 7.5% and capital growth of -4.2%.

**Figure 1**

Northern Ireland performance summary 2019

Measurement Period: Annual; Standing Investments



\* Cross product: capital gain / loss in reinvested income

\*\* Residual: impact of delays in income stream, mainly effect of over-renting

Source: MSCI

# Investment trends

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## The UK Market

The MSCI UK Annual Property Index delivered a total return of 0.6% for the year ended December 2019- the lowest since the -21.7% contraction amid the Global Financial Crisis in 2008.

The 2019 return of 0.6% marks a second consecutive year of slowing returns after the 9.6% and 5.1% recorded for 2017 and 2018 respectively.

While income return remained stable to end the year at 4.5%, capital growth was the main driver of the decline as yield impact and market rental growth both turned negative. For the year ended December 2019, a capital growth of -3.8% was recorded – down from the 0.6% recorded for 2018.

Market rental values declined by 1% in 2019 which halted an almost decade-long run of increasing market rents. Meanwhile, a 10bp softening equivalent yield had an impact of -3.1% on capital growth.

While all property sectors saw returns slow in 2019 compared to 2018, performance varied significantly between them. The industrial sector, again the top performer at 6.8%, saw returns come off the most with a 9.6% decline from 2018's level of 16.4%.

The residential and office sectors followed, both recorded a total return of 4.4% for 2019. Retail property was hardest hit during the year with a total return of -8.0%, the sector's lowest return since 2008 as asset values saw a double-digit decline.

Retail equivalent yields continued to weaken through 2019, ending the year 40bps higher at 6.0%, the highest since 2013. Meanwhile, the yield on office and industrial property were hovering at historic lows at the end of 2019 which pre-dates the impact of the Covid-19 pandemic spreading beyond mainland China.

## The Northern Ireland Market

Northern Ireland property returns have historically been closely correlated to that of the broader United Kingdom and the trend continued in the last year. In 2019,

Northern Ireland commercial property followed the broader UK market down, delivering a total return of -0.6%, from 1.7% in 2018.

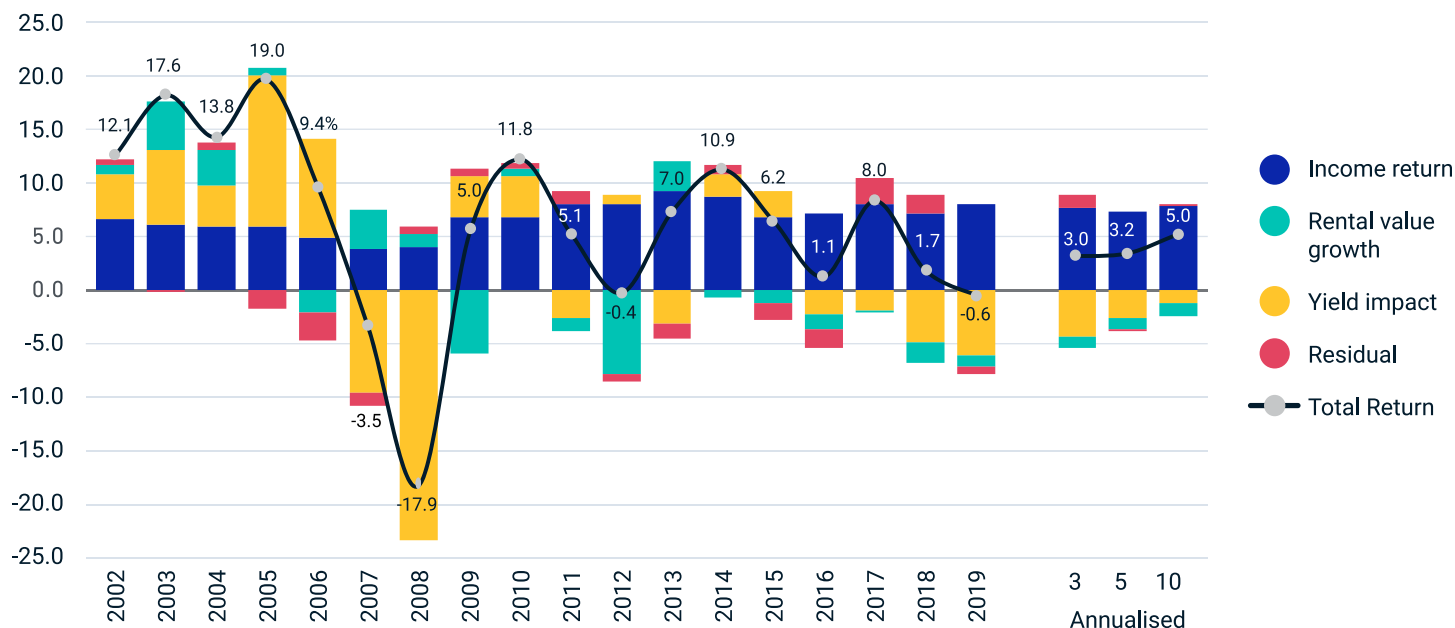
Northern Ireland's income return increased by 70bps to end 2019 at 7.7%, making its pricing relatively attractive in the context of the UK and European markets. As a point of comparison consider that the income return of the UK and Europe was 4.5% and 4.0% respectively in 2019

Figure 2 illustrates the drivers of total returns for the Northern Ireland market for the period 2008-2019, as well as annualised return series over 3, 5 & 10 years.

In 2019, Northern Ireland's superior income return was offset by a capital growth of -7.8%. Capital growth is decomposed into rental value growth and

**Figure 2**

Northern Ireland; drivers of total return. Yearly, 2002-2019 and annualised for 3, 5 & 10 years to December 2019



Source: MSCI

yield movements, with a residual element indicating valuer's risk perceptions relating to future cash flow.

The slowdown in capital growth came amid a market rental value growth of -1.0% and a negative yield impact of -6.0% as equivalent yields moved out 10bps to 7.7%.

On a three-year annualised basis to the end of 2019, the Northern Ireland commercial property market produced a total return of 3.0%, comprising an income return of 7.5% and capital growth of -4.2%.

Investor sentiment remains relatively stable in a longer-term context. While the market's equivalent yield softened 10bps to 7.7% in 2019 it remains just 10bps off the ten-year annualised level. At the end of 2019, Northern Ireland property remains discounted compared

to the broader UK where an equivalent yield of 5.5% was recorded.

Of the major sectors, office property was again the top performing sector at 9.8%, albeit down from 12.3% in 2018. While office rental growth slowed to 1.9% in 2019 from 6.7% in 2018, the impact was offset by a positive equivalent yield impact.

Like the broader UK market, retail property in Northern Ireland continued to underperform in 2019, with a total return of -3.4% driven by a negative capital growth. A capital growth of -10.7% was recorded for the 12-month period and was the result of a 1.9% decline in market rental values and a yield impact of -9.1% as the sector's equivalent yield softened 20bps to 8.1%.

Among the other sectors, industrial and 'other' property delivered total returns of 5.8% and 5.4% respectively.

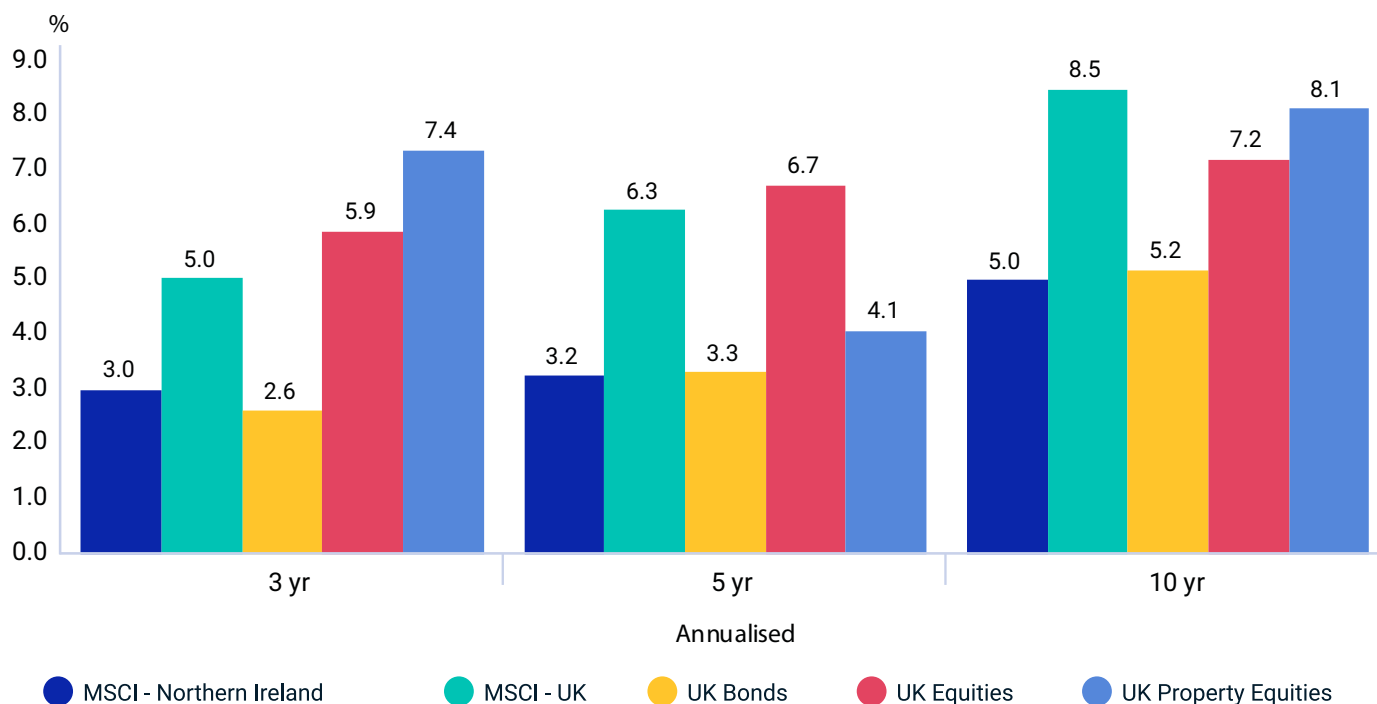
Figure 3 illustrates Northern Ireland's total return trend since 2010, as well as annualised returns for the 3, 5 and 10-year periods ended December 2019.

Northern Ireland's softer 2019 total return of -0.6% means a dip below three, five and ten-year annualised levels and an underperformance relative to UK bonds (4.4%) and general equities (16.5%). Listed property benefitted from a strengthening bond yield as the MSCI UK IMI Core Real Estate Index delivered a total return of 35.5% in 2019.

From a longer-term perspective, capital values in Northern Ireland in 2019 remain 43% below the 2006 peak. Over the same period, annualised total return remained positive at 2.6%, driven by a stable, inflation-beating annualised income return of 7.5%.

**Figure 3**

Total return trend, period ending December 2019. Yearly 2007-2019 and 3, 5 & 10 year annualised



Source: MSCI

# Drivers of performance

Northern Ireland market rental values declined for the sixth consecutive year in 2019, falling by 1.0% to leave them 16.7% off their 2008 peak as it has converged with the UK and Ireland.

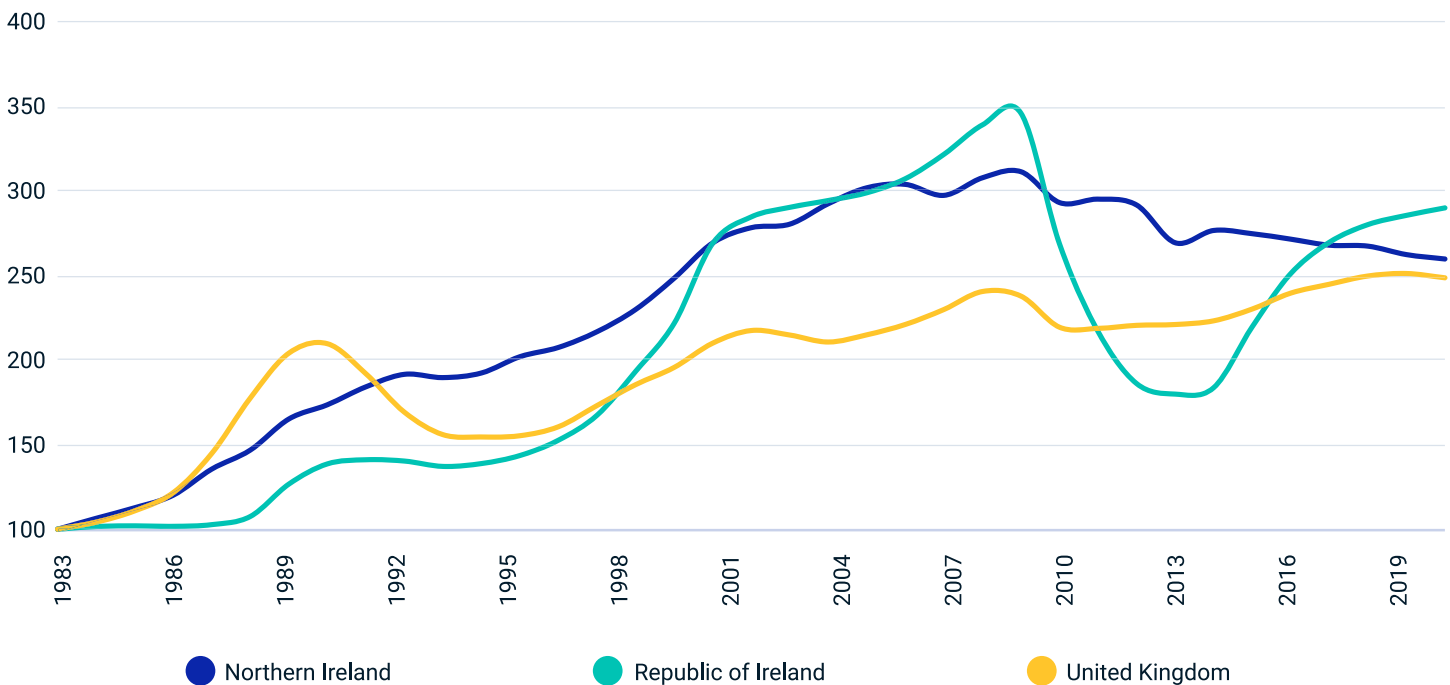
On an index basis since the 1980's, Northern Ireland market rentals are now between the broader UK market, which

has seen a 4.6% increase compared to 2008 levels, and the Republic of Ireland, which was still 16.2% below its peak at the end of 2019.

Figure 4 shows indexed long-term rental value trends for Northern Ireland, Republic of Ireland and United Kingdom.

**Figure 4**

Nominal market rental value index. 1983=100; 1984-2019



Source: MSCI

# Belfast market in context

Belfast recorded a total return of 1.4%, outperforming the broader Northern Ireland figure of -0.6% for 2019. The city's total return comprised a capital growth of -5.2% and a comparatively high income return of 7.1% which continues to make Belfast a competitive property investment destination in a pan-European context.

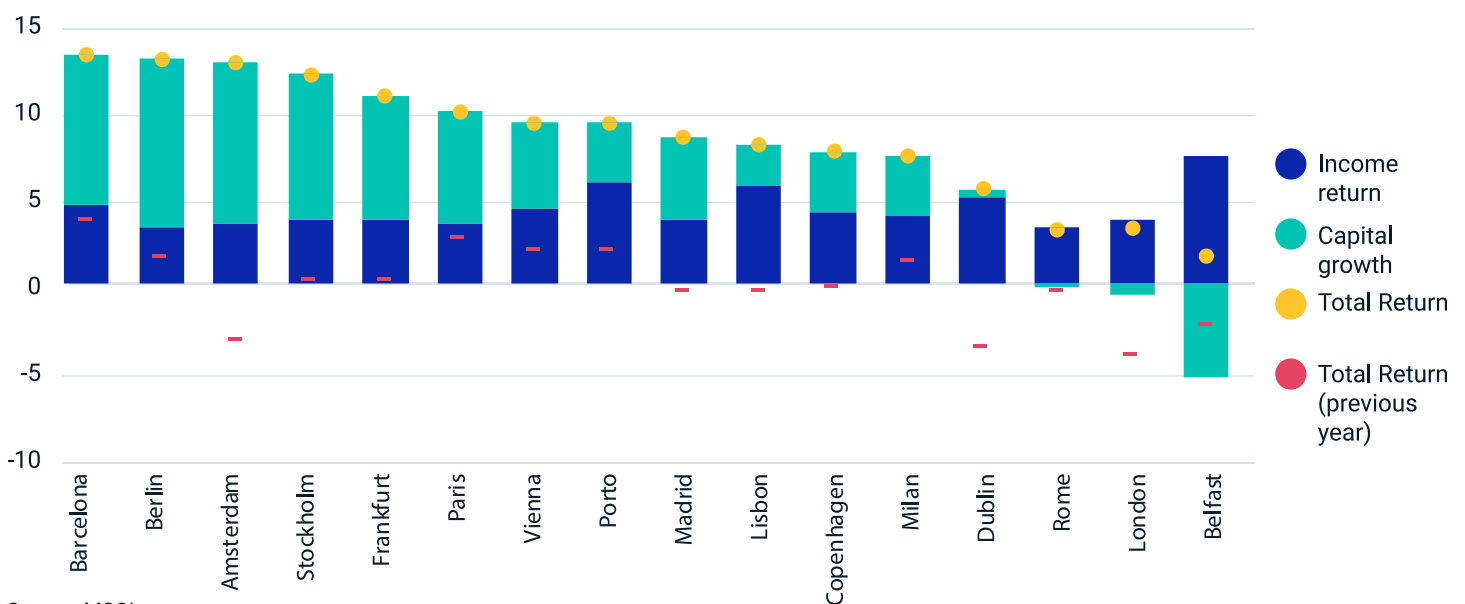
While Belfast's 2019 total return of 1.4% was below the Pan-European local currency average of 6.8%, the city's 5-year and 10-year annualised total returns remain comparable to many larger city markets across Europe.

The leading European city markets in 2019 – including Barcelona, Berlin & Amsterdam – outperformed due to their impressive levels of capital value growth which were mostly driven by superior rental growth. Overall Pan-European capital growth of 2.5% was down from 3.2% in 2018.

**Figure 5**

Belfast total return versus key European cities

Local currency return; Annual Return for year ended Dec-19



Source: MSCI



Figure 5 compares Belfast's commercial property total return to key cities across mainland Europe, as well as several locations in the UK and Ireland.

In addition to comparing Belfast to 15 broader European markets, this analysis also compares Belfast's sector-level performance to the 20 largest UK Local Authority Districts measured by capital value. Figure 6 shows ranked total return performance for both the retail and office sectors.

Like previous years, Belfast's retail and office sectors produced varying levels of return in 2019.

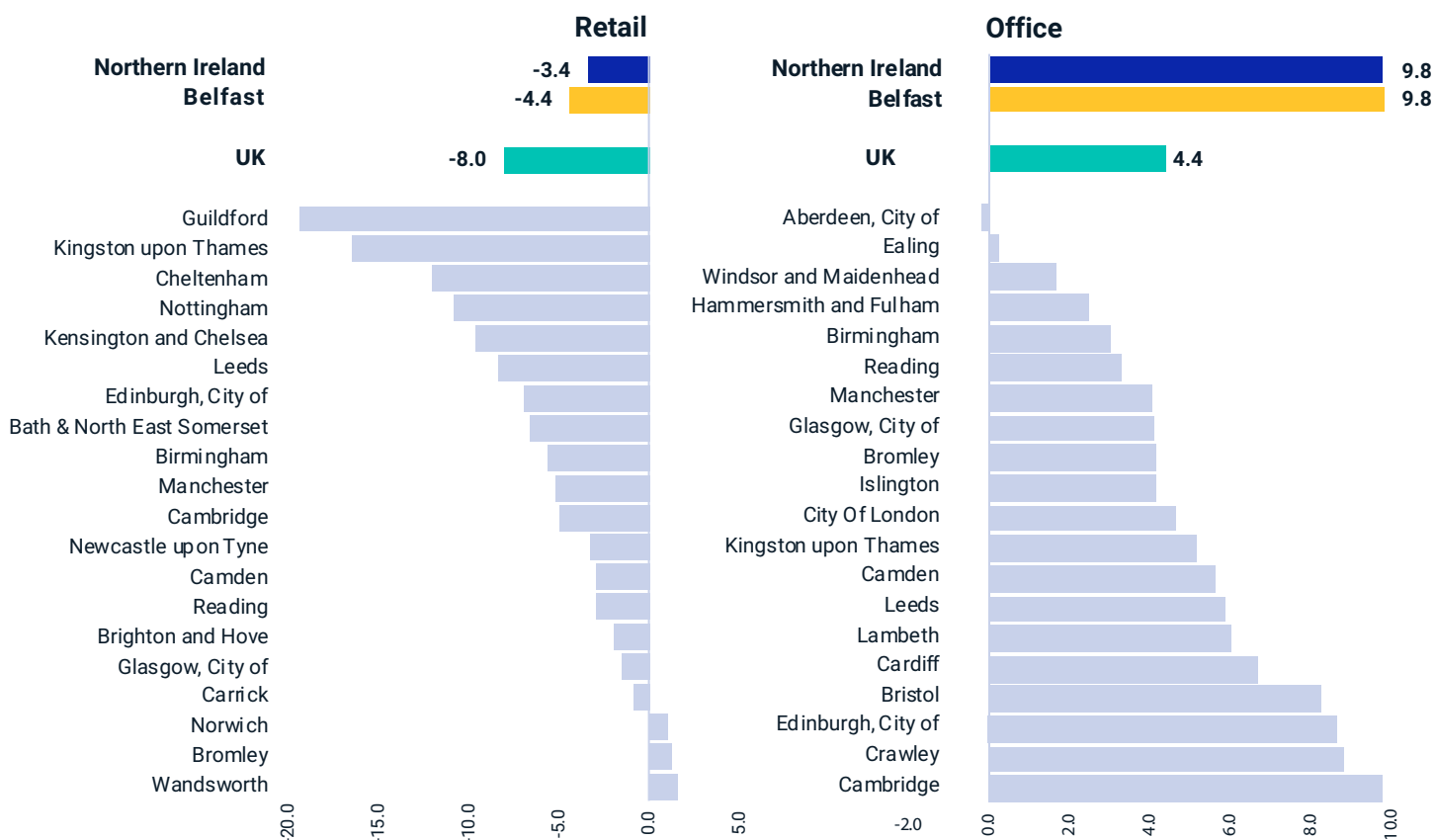
Belfast was again among the best performing office locations in the analysis, eclipsing many key peer cities such as Manchester, Cardiff and Liverpool on a total return basis. Belfast's 2019 office sector return of 9.8% was underpinned by an income return of 7.5%, the highest among the city-level markets in the analysis. In 2019, capital growth added

2.2% on the back of a stronger equivalent yield and positive market rental growth.

By contrast, the Belfast retail sector recorded a total return of -4.4% for 2019 which was down from -1.6% in 2018. The city's 2019 retail total return comprised a 7.5% income return and a -11.1% capital growth. Only 3 of the Local Authority Districts forming part of the analysis yielded a positive total return in 2019, highlighting the broad-based weakness of the UK retail market at present.

**Figure 6**

Total Return for UK Local Authority Districts  
Top 20 LADs by Capital Value; Year ended Dec-19



Source: MSCI

# MSCI Real Estate sample overview

The MSCI Real Estate commercial property sample for Northern Ireland comprised 57 properties with a total capital value of £509.3 million as at the end of December 2019. Of these, 50 were classified as Standing Investments.

The average capital value of assets in this sample was £10.3 million. Of the underlying sectors, retail assets had a higher average capital value at £12.1 million, followed by offices at £12.0 million and industrial at £5.4 million.

By capital value, 68% of the Northern Ireland sample were retail sector assets followed by the office (14%) and industrial (6%) sectors. The balance of the sample comprised hotels and properties classified as 'Other' which can include land, hospitals and healthcare amongst others.

Table 1 and Figure 6 show the sample breakdown, by number and capital value, for each commercial property sector in 2019. Table 2 and Figure 7 show the sector breakdown of Belfast assets in the analysis.

**Table 1**

Total sample size - Northern Ireland 2019

	No. of properties	Value £m	% of Total Value
<b>All property</b>	57	589.2	100.0
<b>Retail</b>	33	398.2	67.6
<b>Office</b>	7	83.5	14.2
<b>Industrial</b>	7	37.7	6.4
<b>Other</b>	10	69.8	11.9

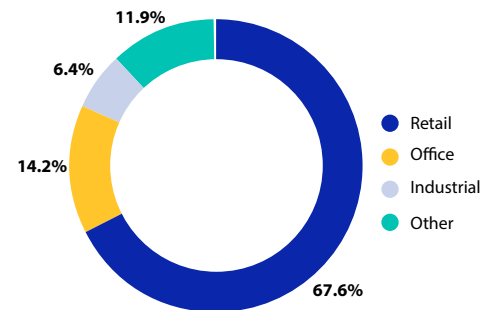
**Table 2**

Total sample size - Belfast 2019

	No. of properties	Value £m	% of Total Value
<b>All Property</b>	28	336.2	100.0
<b>Retail</b>	17	211.2	62.8
<b>Office</b>	5	82.0	24.5
<b>Industrial</b>	4	13.4	5.5
<b>Other</b>	2	36.1	7.2

**Figure 7**

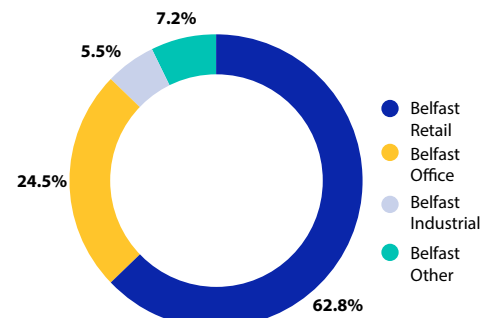
MSCI Northern Ireland sample 2019, % of capital value by sector



Source: MSCI

**Figure 8**

MSCI Belfast sample 2019, % of capital value by sector



Source: MSCI

# Appendix

## Top Five Investment Transactions 2019

Property	Sector	Price (£M)	NIY	Quarter	Purchaser	Vendor
Sprucefield Retail Park, Lisburn	Retail	40.0	8.71%	Q4	New River Retail	Intu Properties
Gateway Office, Belfast	Office	c.34.0	5.48%	Q2	Citibank	Titanic Quarter
Crescent Link Retail Park	Retail	30.0	11.50%	Q4	David Samuel Properties	Lotus Group
James House, Gasworks	Office	16.0	-	Q1	Government	Columbia Threadneedle
Antrim Business Park, Antrim	Industrial	c.12.5	14.50%	Q2	Private NI investor	Private NI investor

## Top Five Belfast Office Lettings 2019

Property	Occupier	Sector	sq ft	Quarter
The Ewart, Bedford Street	Deloitte	Professional services	80 000	Q4
Chichester House, Chichester Street	Rapid7	Technology, media & telecoms	47 651	Q4
Merchant Square, Wellington Place	PwC	Professional services	46 000	Q2
Laser 2, Weavers Court	Proofpoint	Technology, media & telecoms	34 000	Q4
Eagle Star House, Upper Queen Street	UrbanHQ	Serviced offices	31 969	Q1

## Top Five Industrial Deals 2019

Property	Purchaser/Tenant	sq ft	Property grade	Quarter	Deal type
Lisdoart Mill, Ballygawley	Grenier Packaging	113 550	A	Q2	Let
Keans Hill Way, Campsie	Terex	107 500	B	Q1	Sale
2 Kilbride Road, Doagh	Iron Mountain	73 733	B	Q3	Let
Greenbank Industrial Estate, Newry	Private purchaser	60 000	B	Q3	Sale
7 Balloo Crescent, Bangor	Private purchaser	56 258	B	Q1	Sale

## Top Five Retail Lettings 2019

Location	Occupier	sq ft	Quarter
Boucher Road, Belfast	The Range	60 000	Q1
Abbeycentre, Newtownabbey	Primark	40 000	Q2
Tower Centre, Ballymena	Sports Direct	36 000	Q1
Longwood Retail Park, Newtownabbey	Home Bargains	35 000	Q2
Calvert House, Belfast	JD Sports	34 000	Q4

Source: Lambert Smith Hampton

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