

BREXIT LIMBO

HEALTHY OPENING QUARTER

At £42.5m, investment volume in Q1 2019 was healthy for an opening quarter. The quarterly total was 2.5 times that of the same period in 2018 but 47% below the five-year quarterly average.

While volume has been consistent over the last four quarters, there were only five transactions recorded during Q1 2019, the lowest level since Q1 2014.

Q1's largest deal was a local government department's £16.0m purchase of James House at the Gasworks (NIY undisclosed).

BREXIT CASTS A SHADOW

Since Q2 2016, just prior to the EU referendum, there has been a steady decline in investment activity in Northern Ireland. The quarterly average of the ten quarters pre-referendum was £101m, compared with £63m in the ten quarters post-referendum.

The lengthy Brexit uncertainty, coupled with the absence of the local Executive, has fed into investor caution, a flight to quality and a delay in both buyers/sellers decisions. The 'wait-and-see' attitude has created a lack of supply to the market, however, good quality assets when brought to the market are in demand.

OFFICE DRIVES TRANSACTIONS

The Q1 transactions represented a mix of asset classes. Offices, however, drove volume with the sale of James House and Donegall House (predominantly office).

While there were a flurry of large retail transactions in late 2018, retail was notably absent from Q1 2019.

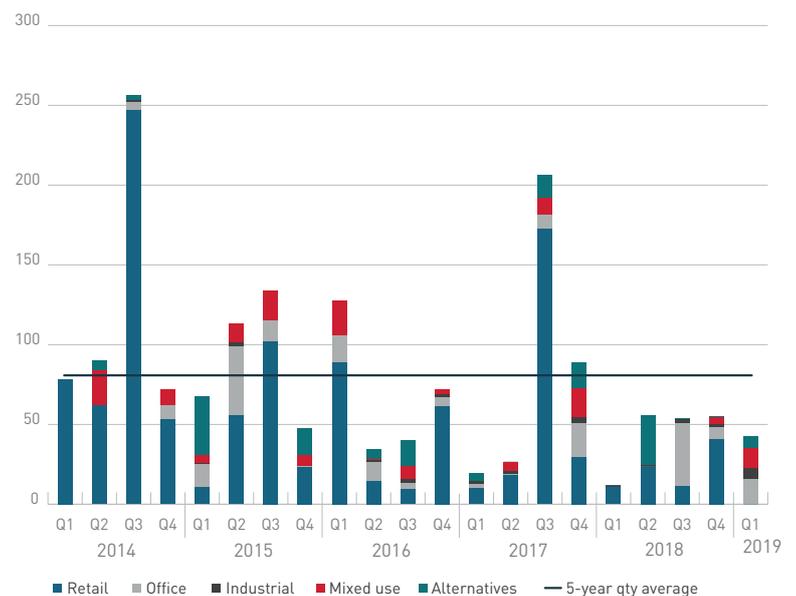
As is typical, Northern Irish investors were responsible for the majority of activity in Q1 2019. In a departure from the norm, however, it was not private Northern Irish individual and families who were the key investors. In addition to the local government purchase of James House, local company Henderson Group purchased a portfolio of petrol filling stations to add to their convenience store retailing portfolio (NIY 6.82%).

VOLUME BY INVESTOR TYPE Q1 2019 (%)



Private NI investor	30%
Propcos	15%
Other/undisclosed	55%

QUARTERLY INVESTMENT VOLUME BY SECTOR (£M)



Source: LSH Research

TOP FIVE DEALS Q1 2019

	Sector	Price Achieved (£M)	NIY	Purchaser	Vendor
James House, Gasworks	Office	16.0	-	Government	Columbia Threadneedle
Donegall House, Belfast	Mixed use	9.6	5.63%	Private NI investor	Danske Bank Pension Fund
Portfolio Petrol Stations	Alternative	7.6	6.82%	Henderson Group	Receivers
Moy Road, Armagh	Industrial	6.3	7.28%	Propco	Silverwood Group
Queen Street, Belfast	Mixed use	3.0	5.88%	Private NI investor	Private NI investor

Source: LSH Research

Q1 2019 PRIME YIELDS

SECTOR	Prime yields			YIELD SENTIMENT
	Q1 2019	3 MONTH MOVEMENT (BPS)	12 MONTH MOVEMENT (BPS)	
Prime shops	5.75%			
Prime shopping centres	6.25%			
Office	6.00%			
Industrial	6.00%			

Source: LSH Research

OUTLOOK

The Northern Irish investment market continues to be impeded by the local and national political situation. It is generally accepted that the six-month extension to the EU/UK withdrawal date and preventing the UK crashing out of the EU in a 'no-deal' scenario was the best outcome at the end of March for the UK and Northern Ireland. However, there is no doubt that the continuation of this period of uncertainty will continue to frustrate the investment market.

Lack of supply to the Northern Ireland market continues to be a concern, particularly in the medium to large lot size. That

said, it is expected that Q2 will see a pickup in volume and a degree of depth will return to the market, although the average lot size remains low. Currently, there are 21 deals either completed or agreed in Q2, totalling approximately £75m

Properties with solid fundamentals will remain attractive to investors. A recent report by MSCI reported that Belfast was amongst the top performing UK office investment markets in 2018, coupled with the strong office occupier market, we expect that in 2019 office investment will become the predominant asset class in Northern Ireland over taking retail.

CONTACTS

DONALL MCCANN

Head of UK Regional Capital Markets
+44 (0)28 9026 9220
dmccann@lsh.ie

MARTIN MCCLOY

Director – Capital Markets
+44 (0)28 9026 9236
mmccloy@lsh.ie

LAURENCE HIGGINS

Director - Property Finance
+44 (0)28 9026 9262
lhiggins@lsh.ie

CLAIRE COLE

Senior Research Analyst – Ireland
+44 (0)28 9026 9235
ccole@lsh.ie

**Lambert
Smith
Hampton**