

SUPPLY STAGNATION

VOLUME REVERSAL

At £30.1m investment volume in Northern Ireland stood 77% below Q1 and 54% below the five-year quarterly average. While investment volume was subdued, activity was on trend with ten transactions recorded in Q2.

The weak Q2 performance is in stark contrast to the first quarter of 2023 which was the busiest quarter since the COVID-19 pandemic began. Overall, volume in the first half of 2023 of £161.6m stood 20% above the H1 five-year average, underpinned by the strong first quarter.

A BIG DEAL

The office market has been disproportionately affected by the longer-term impact of COVID-19 and recent trends in office investment have reflected this. In a change of fortune, office investment accounted for the largest share of Q2 volume and stood 34% above the five-year quarterly average for the sector.

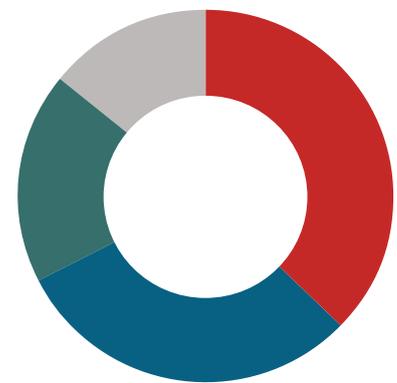
The largest Q2 transaction, and the largest office deal since Merchant Square in March 2021, was the purchase of Bedford House by a local private investor for an undisclosed price from a local propco.

BEST OF THE REST

The remainder of the Q2 deals were all within the sub-£5m category. The highlights include the purchase of a Tesco distribution unit on Boucher Crescent, Belfast by a local private investor for £1.4m and Wrights Sofaland on Upper Newtownards Road, Belfast by a local private investor for an undisclosed price.

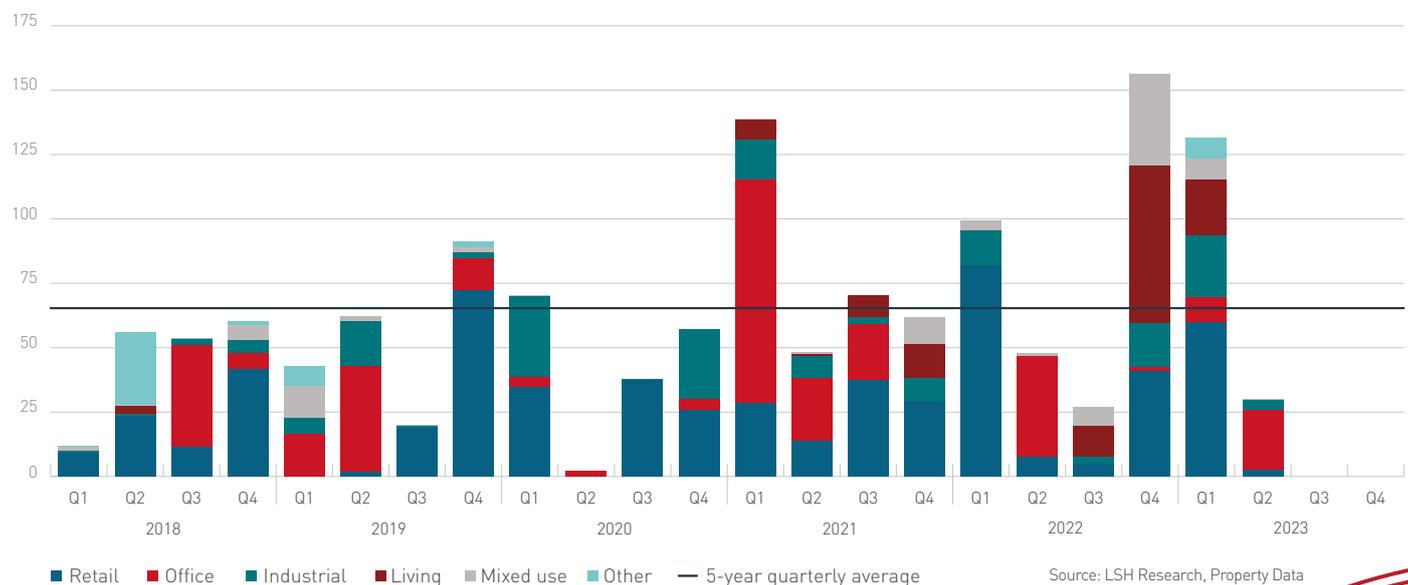
Local private investors accounted for the largest proportion of volume and were the most active in Q2. Year to date a combination of local private investors and local propcos have accounted for over two-thirds of investment volume, however, overseas investors from the USA and Middle East have completed three deals (18% of volume).

VOLUME BY INVESTOR TYPE YTD



Private NI Investors	38%
Propcos	30%
Overseas	18%
Other	14%

QUARTERLY INVESTMENT VOLUME BY SECTOR (£M)



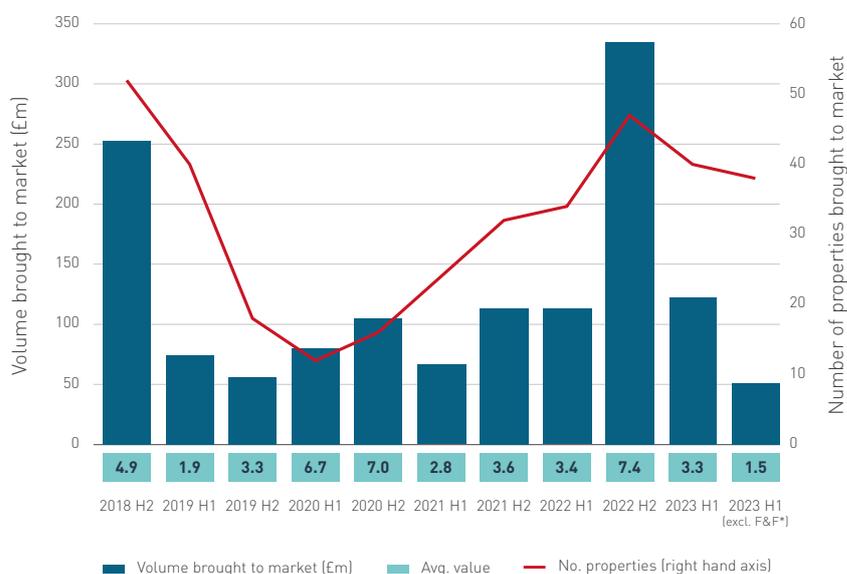
SUPPLY ISSUES BITE

Compared with the rest of the UK, the current economic headwinds have taken longer to impact investment volumes in Northern Ireland. This was predominantly due to the resupply of quality assets that occurred in Q3 2022 which buoyed activity and volumes during the end of 2022 and beginning of 2023.

The significant slowdown in the supply chain, however, is now evident. On the surface, the volume of assets brought to market in the first half of 2023 looks relatively healthy with 40 properties offered to market, at a total of £122.4m and an average property value of £3.3m. However, two properties account for more than half of the H1 2023 volume offered (Forestside and Foyleside Shopping Centres).

Exclusion of the two shopping centres from the analysis reveals that the average value of assets brought to the market has fallen to £1.5m in H1 2023. In the short-term the smaller lot size will be attractive to the local private market, which continues to be active, until higher value stock emerges to appeal to a wider range of investors.

VOLUME AND PROPERTIES OFFERED TO MARKET



*Forestside and Foyleside Shopping Centres

Source: LSH Research

KEY DEALS Q2 2023

	Date	Property	Price (£M)	NIY	Purchaser	Vendor
Bedford House, Bedford Street, Belfast	May-23	Office	-	-	Private NI Investor	Local Propco
108 Dargan Crescent, Belfast	Apr-23	Office	1.7	7.19%	Sagr Capital Management	Portbannis
34-44 Boucher Crescent, Belfast	May-23	Industrial	1.4	5.89%	Private NI Investor	Private NI Investor

Source: LSH Research, Property Data

OUTLOOK

Post the end of COVID-19 restrictions in Northern Ireland the investment market showed momentum with a strong finish to 2022 and start to 2023. However, as our analysis shows this was primarily due to the resupply of assets in Q3 2022. The market in Q2 2023 has been characterised by caution amongst both investors and potential vendors in response to the successive interest rate rises, high inflation, and the cost of energy and services.

On a more positive note, investment volumes will bounce back in Q3 with over £110m of assets completed or expected to complete, including both Forestside and Foyleside Shopping Centres and the Hilton Hotel, Belfast. The interest shown in the two aforementioned shopping centres

suggests that there remains keen investor appetite for good quality assets including retail. Further, Legal and General have demonstrated confidence in the region with their forward funding of Loft Lines, Northern Ireland's first built-to-rent scheme.

Supply is key. It is possible that distressed assets will begin to come to the market providing opportunity for investors, particularly those not reliant on finance. The recent cooling of inflation and the assumption that interest rates will rise less sharply than predicted may also motivate potential investors who require finance. It is clear that there is still great value in the market, but to harness ongoing interest and activity we require new stock to emerge.

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