

Economic & Commercial Property Highlights



1 = Most Recent Indicator

2 = Status

3 = Impact for Property Sector

CONSUMER

CONSTRUCTION

BUSINESS

INDICATOR		
Consumer Expenditure	1	Q3 2017
	2	First three quarters 2017 => +2.1% y/y. Consumer expenditure has risen q/q in 17 of last 18 quarters and 20 of last 22 quarters.
	3	Re-emergence of growth pattern in Q3 following decline in Q2 is welcome news, especially for retail sector.
Retail Sales (ex. cars & bars)	1	December 2017
	2	Annual growth in volume of 7.7% and value of 4.5%. Household goods sector showed very strong volume growth in year (17.2%) but value growth somewhat lower. Sales volume in this sector fell somewhat in December. Stronger volume than value growth indicates continued price discounting.
	3	Growth prospects and implications for retail space in large outlets may become more linked to new house construction in medium term Positive national sales data is masking regional disparities in performance of retail sector. Growing evidence that online sales are becoming increasingly important in many sectors.
VAT receipts	1	End year 2017
	2	Strong growth in year (up 7.1%), but slightly below (0.5%) expectations. Consistent with falling unemployment and continued rise in retail sales.
	3	Confirms strong performance of retail sector.
Consumer Price Index	1	December 2017
	2	Prices up 0.4% y/y, but this is mixed across different product types. Clothing & Footwear prices are down 3.9% y/y with Household Goods prices down 3.7%. Housing related prices, including Energy are up 3.6% y/y with Hotel and Restaurant prices up 2.5%.
	3	Fall in prices in some sectors may be influenced by the strength of the € which is leading to lower import prices, and in particular is benefiting certain retailers with supply chains linked to the UK economy. Consistent with price discounting in retail sales.
Consumer Sentiment Index – National	1	December 2017
	2	Index is up 7 points year on year, (7.3%) but the bulk of the increase took place in the first 9 months of the year and has been slipping since. The component of the Sentiment Index measuring major spending plans have grown in line with the overall Index over the past year.
	3	While the Index has shown encouraging growth over the year, a continuation of the recent slippage may have implications for the retail sector.
Consumer Sentiment Index – Dublin	1	Q3 2017
	2	Index is up over 15 points (11.2%) y/y but slipped back by almost 6 points in Q4. Dublin Index is now lagging Rest of Ireland Index by 7 points.
	3	The improvement in consumer sentiment in Dublin over the course of 2017 is consistent with other indicators and will support continued high levels of demand in the capital. It is too early to say if the fall in the final quarter is a reversal of the growth in optimism or just a temporary blip in the trend.
Unemployment (%)	1	December 2017
	2	Unemployment rate at 6.2% is down 1.3 percentage points in a year and is now more than one-third lower than two years ago. 27,000 less people unemployed than one year ago and almost 68,000 less than two years ago.
	3	Continued fall in unemployment should provide a boost to consumer confidence as people feel more secure in their existing employment and also regard the prospect of finding better positions enhanced. This will help to sustain retail demand in 2018.
Employment (000) (Labour Force Survey)	1	Q3 2017
	2	Up over 48,000 y/y = +2.2% and growth of over 126,000 in number in employment in two years. 10 of the 14 sectors experienced employment growth year-on-year. Largest growth in Administrative Services (9.8% or 8,300) and the Education (8.9% or 13,200) sectors.
	3	Most sectors benefitting from growth in economy. Demand impact widely felt across the economy. However, impact somewhat uneven on a regional basis. Positive for the office market.
House Price Index	1	November 2017
	2	Up 11.6 % y/y nationally => almost 72% above bottom of market and just 23% below peak. Upward trend is continuing with rate of growth accelerating from 9.2% in 2016 to 11.6% in 2017 nationally. Up 11.3 % y/y Dublin. Prices up 88% from bottom of market, and now less than 25% off peak. Outside Dublin, price recovery has been somewhat slower but rate of growth now at a par with Dublin.
	3	No indication of slowing market. Demand continues to greatly outstrip supply. Residential price increases may continue to support demand for rented accommodation providing opportunities for investors. However, growing purchase prices, rental costs and availability may impact on attraction of foreign firms and workers in medium term
House Starts	1	Year 2017
	2	Significant growth on annual basis, especially in Mid-East counties. Total up 33% y/y. Dublin up 29% y/y. Mid-East up 42% y/y. GDA up 33% y/y.
	3	Number of starts rising but continued gap between supply and demand putting pressure on price.
House Completions (ESB connections)	1	Year 2017
	2	Significant growth on annual basis, especially in Mid-East counties. Total up 29% y/y. Dublin up 44% y/y. Mid-East up 47% y/y. GDA up 45% y/y
	3	Supply in Mid-East responding to supply-demand imbalance in Dublin. Growth in counties surrounding Dublin as purchasers look outside the capital.
Construction Output	1	Q3 2017
	2	Very strong annual growth but very volatile on quarterly basis. Total construction. • Volume up 18.4% y/y. • Value up 17.1% y/y. Residential construction: • Up 41.2% y/y.
	3	Residential sector experiencing very strong growth but not keeping pace with growth in demand as prices continue to rise.
Mortgage Drawdowns/ Approvals	1	Drawdowns Q4 17 / Approvals December 17
	2	Continuing growth but volatile on monthly basis in number of mortgages, value of mortgage credit extended and average size of mortgages. Drawdowns Year 2017: Volume up 18% y/y Value up 28.8% y/y. Average mortgage size up 9.2% y/y. Approvals Year 17: Volume up 23% y/y, Value up 34% y/y.
	3	Continued upward pressure on house prices. Increasing mortgage size and repayment commitments may impact on spending elsewhere. Increasing mortgage size supports data on rising prices.
Total Tax Receipts	1	End year 2017
	2	Continued growth in tax take reflects buoyancy in economy. Year 2017 up 6% y/y, 0.2% above target. Corporation tax up 11.6% y/y and 6.3% above target, Income tax up 4.4% y/y but 1.2% below target. Excise duties up 3.7% y/y but 1% below target. Mixed results => Main tax heads showing growth but at slower level than expected. Direct taxes reflect strength of labour market and corporate sector.
	3	Strong corporate sector may be reflected in demand for commercial space. Growth in consumer taxes (PAYE and VAT) reinforce strength of consumer economy and demand for retail space.
Business Sentiment	1	Winter 2017
	2	Business sentiment at highest level in two years. While Brexit is the issue of most concern, it is only cited by 17% of firms. Wage costs and availability of skilled staff an issue for some companies. Dublin performing better than elsewhere.
	3	Uncertainty linked to Brexit is ongoing. Uncertainty may have led some occupiers and investors to adopt a 'wait and see' approach however relocation momentum is increasing with evidence on the ground of more UK firms committing to space and UK investors diversifying funds into Dublin.
Services PMI	1	December 2017
	2	Finished the year very strongly at 60.4 => an eight month high. Still well in positive zone.
	3	Consistent with strong performance of office sector and consistent with Business Sentiment indicator.
Construction PMI	1	December 2017
	2	Strongest reading since June 2017. Outlook still favourable but significantly down on recent peak of May 2017. At a reading of 58, well above key threshold of 50.
	3	Continued confidence in construction sector.
Manufacturing PMI	1	December 2017
	2	Highest reading since index was established.
	3	Strong support for industrial sector and as a consequence demand for industrial space.
ISEQ Index	1	End year 2017
	2	Growth of 8% in price index in year, reflecting strength of corporate sector. Total return of 9.5%.
	3	Equity market offering attractive returns. Competitive challenge to property sector in attracting investors.
IPD	1	Q4 2017
	2	Total return across the three sectors of the commercial market was 8.1% for 2017. Offices achieved the highest return at 9.3%, followed by industrial at 7.9% with retail returning 5.3%. Income growth was the key driver in both retail and industrial with limited capital growth while the office sector total return was on the back of strong income and capital growth.
	3	Lower growth performance in 2017 significantly impacted by stamp duty increases. This reduced growth in capital values by 3.8%.

Summary

- Consumer economy indicators generally painting positive picture
- Unemployment rate continuing to fall indicating very strong labour market.
- More than 2 million people in employment => close to level of end 2008. Dublin region and particularly the office market benefitting
- Price discounting continuing in some retail sectors
- Strong € may be benefitting consumers in some sectors
- But consumer confidence, while positive, remains volatile and caution may be the order of the day in the medium term
- Business sentiment remains positive, particular in manufacturing
- Key PMI readings all in expansionary range
- Despite some increase in supply, house prices continue to rise

Global watch BREXIT

Negotiations finally make a breakthrough	<ul style="list-style-type: none">• Phase 1 Brexit deal reached but much of the detail still to be negotiated• EU has stood squarely behind Ireland on Northern Ireland border issue• While solution to above is not clear, agreement reached offers good deal of comfort• Prospects of soft 'Brexit' have improved but• Phase 2 talks likely to be difficult, prolonged and potentially destabilising• Sterling value may bear brunt of uncertainty and lack of progress in negotiations
Impact on Ireland	<ul style="list-style-type: none">• Border with Northern Ireland remains a key but difficult issue to resolve• Irish Government have made its views clear and is well supported by other EU members but some damage to wider Irish: UK relations• Potential for corporate relocation benefits still strong. IDA Ireland confident in this regard particularly in relation to financial services, technology and pharmaceuticals sectors• Frankfurt, Amsterdam, Paris and Dublin appear to be the leading potential beneficiaries

US PRESIDENCY

Economic policy playing second fiddle to political issues	<ul style="list-style-type: none">• Economic policy => Recent breakthrough => major tax changes• No major impact of presidency on US FDI into Ireland to date• But recent tax change may have impact in medium term
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Property Investment Transactions	<ul style="list-style-type: none">• Overall turnover for the year was €2.3bn over 266 deals (asset deals over €1m). The total turnover was down approx. 47% from €4.36bn in 2016 however the number of deals was down just over 9% (293 in 2016). Turnover in 2016 excl. the top 5 deals by volume was approx. €1.58bn. Turnover in 2015 was €3.12bn but excl. the top 5 deals was approx. €1bn (222 deals). Therefore, whilst the total volume was down in 2017 the market was as active as the previous two years in terms of number of deals. The average deal size decreased from approx. €14m in 2015 and €14.88m in 2016 to €8.65m in 2017 reflecting the reduction in portfolios and shopping centres being brought to the market by the likes of NAMA etc.• The office sector was the most active representing over 38% of transactions by volume with retail at 29% and Industrial/warehousing at 6%. Hotels and Residential represented approx. 5% each. Other sectors included student housing, mixed uses etc• The major event during the year was the increase in stamp duty from 2% to 6%.
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Sample deals in Q4 2017

- The Square Town Centre, Tallaght, Dublin 24- Shopping Centre anchored by Tesco, Dunnes Stores and Debenhams with WAULT of 6.9 years. 88.78% of Ordinary Share Capital of Three Square Management Limited and the Freehold Interest of the car park. Sold by NAMA to Oaktree for a price reported to be in the region of €233m.
- 76 Lower Baggot Street, Dublin 2- High profile 5 storey over basement modern office building extending to 41,716 sq.ft. Sold by Bord Na Mona to Credit Suisse at a price of approx. €36m providing a net initial yield of 5.4%. Multi let property with a WAULT of 6.03 years. 100% occupied to Storyful, DMS Governance, FitBit & Sanne Group. With an overall income of just over €2m p.a.
- North Bank, IFSC, Dublin 1- 124 apartments and commercial unit in modern multi-family block acquired by Kennedy Wilson from a Receiver for approx. €45m providing an initial yield on gross income of 5.6%
- The Gibson Hotel, Dublin 1 - landmark 4 star hotel has 252 en-suite bedrooms including 20 suites, and is let to a subsidiary of Dalata Hotel Group plc for a term remaining of 17.8 years. Lease structure incorporates base rent subject to upward only CPI linked reviews and variable turnover top-up. - Expected 2017 rent is €4.65m. Acquired by Dekra from Receivers for a reported €87m / 4.9% net initial yield.

Events and issues to watch	<p>Short/Medium Term</p> <p>IRELAND:</p> <p>Possible Irish election in 2018</p> <ul style="list-style-type: none">• Government may be reluctant to seek fresh mandate during Brexit negotiations but• Opinion polls give Government some incentive to call snap election• Experience elsewhere may give caution <p>Infrastructure</p> <ul style="list-style-type: none">• Provision of adequate supply of housing is key both for domestic population but also to remove a possible disincentive to future FDI• Dublin cross-city Luas line now open => likely to invigorate city centre retail and other sectors. May lead to increased footfall in city centre• But some early anecdotal evidence of traffic difficulties in city centre <p>National Planning Framework</p> <ul style="list-style-type: none">• Expected to be published shortly• May have implications for distribution of economic activity outside Dublin• Growing opposition to draft Plan from rural politicians <p>INTERNATIONAL:</p> <p>ECB interest rate policy</p> <ul style="list-style-type: none">• ECB kept rates still on hold and indications are that monetary policy will remain accommodating as long as necessary but QE Programme likely to be scaled back over the course of 2018. <p>Euro: Sterling exchange rate</p> <ul style="list-style-type: none">• Prospects for sterling bound up with Brexit process. May be somewhat volatile as negotiations swing one way and the other.• May cause some problems for Irish exporters if sterling weakens although importers will reap some benefit and consumers will benefit in certain sectors <p>Global geo-political tensions</p> <ul style="list-style-type: none">• Political instability in Germany may impact on strength of EU in Brexit negotiations• Catalonia independence issue => EU Commission anxious to maintain distance from this and continue to regard it as internal Spanish matter but may distract some EU attention away from Brexit in short term• While Ireland may be geographically remote from possible conflicts, global instability would nonetheless impact on Irish economy, including investor uncertainty and possible flight of capital to safe haven economies or assets.
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SOURCES:

CSO except
VAT and total tax receipts – Department of Finance
House starts and completions – Department of Housing, Planning, Community and Local Government
Bank lending to households – Central Bank of Ireland
Consumer Sentiment – KBC Bank and ESRI

Mortgage Drawdowns – Banking and Payments Federation of Ireland
PMI Services and PMI Industry – Investec, Markit Economics
PMI Construction – Ulster Bank
ISEQ Index – Irish Stock Exchange
MSCI/SCSI Index – MSCI/SCSI
Business Sentiment - KBC Bank / Chartered Accounts Ireland