

1 = Most Recent Indicator 2 = Status 3 = Impact for Property Sector

CONSUMER

INDICATOR	
Consumer Expenditure	1 Q4 2017
	2 Full year 2017 => +2.1% y/y. Consumer expenditure has risen q/q in 18 of last 19 quarters and 21 of last 23 quarters. Consumer expenditure accounts for just over half of domestic demand.
	3 Re-emergence of growth pattern in 2nd half of year, suggests that the fall in Q2 may have been an anomaly in the trend. However strong consumer expenditure is not having expected impact on demand for retail property.
Retail Sales (ex. cars & bars)	1 Past 3 months: February - April 2018
	2 Annual growth in volume of 4.1% and value of 1.7% in past three months but down by 0.6% in volume and 1.2% in value on previous period, indicating slowdown in growth in both volume and value. Household equipment showed strong y/y volume growth in the three months (8.6%) but value growth only 1.6% y/y, confirming strong price competition in sector. Volume growth has however slowed somewhat.
	3 Dominance of Household Equipment sector in growth indicates importance of the housing sector as a driver of retail demand. Expected increase in new house supply in coming years will provide ongoing support to this sector. This should impact positively on the DIY and Homeware markets. Regional growth prospects may in the short term be linked to location of new housing supply and in longer term by success of the National Planning Framework: Project 2040.
VAT receipts	1 January - May 2018
	2 Up 1.3% y/y, but below (1.5%) expectations. Consistent with falling unemployment and broadly in line with limited value growth in retail sales.
	3 While continuing rise in VAT returns, although slowing, is further evidence of buoyancy in consumer economy, this does not appear to be translating into demand for retail space.
Consumer Price Index	1 May 2018
	2 Prices up 0.4% y/y, but this is mixed across different product types. Household equipment is down 4% in price over the past twelve months while Household utilities and fuels are up 5.5% in price over the same period.
	3 Fall in prices of household equipment is contributing to strong demand and combined with the rising activity in the residential sector should provide support for retail warehouse-type premises.
Consumer Sentiment Index – National	1 April 2018
	2 Index is up 2% in year but down almost 3.8% on month. The Outlook for Employment element of the Index has grown by 4.3% in the year but is down since March which had shown a significant rise. The Index of Consumers' Expectations is up on the year but the Major Purchases index has fallen.
	3 The Index has been somewhat volatile in recent times, and may reflect a lack of confidence in the strength and sustainability of the economic recovery.
Consumer Sentiment Index – Dublin	1 Q1 2018
	2 Index is up over 14 points (9.8%) y/y with consumer expectations up over 11%. Index growth is consistent with a number of other positive indicators for Dublin, including employment growth, tourist spend, hotel rates. The city has also broadly held its ranking in a number of international comparative measures.
	3 Dublin is ranked 7th in the PwC/ULI Emerging Trends in Real Estate Europe which focuses on real estate investment and development. This will continue to highlight Dublin's attractiveness as a real estate investment opportunity for international investors.
Unemployment (%)	1 May 2018
	2 Unemployment rate at 5.8% is down 0.8 percentage points since the same time last year and is now more than one-third lower than two years ago. Almost 16,000 less people unemployed than one year ago and over 67,000 less than two years ago.
	3 Unemployment rate is edging towards full employment. On the positive side, this will support 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 demand across the economy in 2018. On the negative side, a tight labour market will lead to increasing wage demands which may undermine competitiveness in economy.
Employment (000)	1 Q4 2017
	2 Up almost 67,000 y/y = +3.1% and growth of over 146,000 in number in employment in two years. 12 of the 14 sectors experienced employment growth year-on-year. Largest growth in Administrative Services (1.6% or 9,800) and the Construction (9.9% or 12,000) sectors.
	3 Most sectors benefitting from growth in economy. Office sector in particular is benefitting from growth in various services sectors. Growth in construction employment further evidence of pick up in this sector. Emerging fears that skill shortages in the sector may hinder further growth and have impact across the economy.
Residential Property Price Index	1 March 18
	2 Up 12.7 % y/y nationally => now 75% above bottom of market and less than 22% below peak. Upward trend is continuing with rate of growth accelerating from 9.2% in 2016, 11.6% in 2017 and now 12.7% in the 12 months to March 2018. Up 12.1 % y/y Dublin => Prices up almost 91% from bottom of market, and are now just 23% off peak. Outside Dublin price recovery has been somewhat slower with prices up 67% from the bottom of the market but rate of growth is now above Dublin at 13.4% in past twelve months.
	3 Price growth is accelerating as demand continues to greatly outstrip supply. Residential price increases will continue to support demand for rented accommodation providing opportunities for investors although this may be dominated by large funds.
Residential Rent Index	1 Q4 2017
	2 Private sector rents rose by 6.4% in the year to Q4 2017 down from 8% in the year to Q3. Rents have risen in 18 of the past 19 quarters. Rents in Dublin are now 19% above the level of Q3 2007 while the counties surrounding Dublin are up 8% in the same period.
	3 The rate of growth in house prices and rents is a recognised threat to future economic growth with higher wage demands impacting on competitiveness and rental costs and availability a disincentive to foreign workers (and companies) to come to Ireland.

CONSTRUCTION

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CONSTRUCTION

House Starts	1	Jan – Feb 2018
	2	First two months of year show encouraging increase in house starts nationally and in Greater Dublin Area. Total up 45% y/y. Dublin up 21% y/y: Mid-East up 56% y/y: GDA up 36% y/y.
	3	Number of starts rising but continued gap between supply and demand putting pressure on price.
House Completions (ESB connections)	1	Jan - Feb 2018
	2	Significant growth on annual basis in first two months of year., especially in counties surrounding Dublin. Total up 26% y/y. Dublin up 29% y/y: Mid-East up 40% y/y: GDA up 33% y/y.
	3	Cost of supply in may be pushing development outside but close to Dublin.
Construction Output	1	Q4 2017
	2	Over 16% volume growth y/y and almost 22% value growth, indicating increasing prices for construction. Total construction: <ul style="list-style-type: none"> • Volume up 16.3% y/y, • Value up 21.9% y/y. A key driver of the growth was a 27% increase in the volume of residential construction.
	3	While the required expansion in construction activity is underway, there remains a significant backlog to be addressed.
Mortgage Drawdowns/ Approvals (Purchase mortgages only)	1	Drawdowns Q1 2018 / Approvals April 2018
	2	Approvals: Continuing growth but volatile on monthly basis in number of mortgages, value of mortgage credit extended and average size of mortgages. Drawdowns: Volume up 13.5% y/y Value up 22.4% y/y, Average mortgage size up 7.8% y/y. Approvals: Volume up 5.6% y/y, Value up 11.4%, Average size up 5.5%.
	3	Growth in drawdowns will continue to exert upward pressure on house prices. Increasing mortgage size and repayment commitments may impact on spending elsewhere. Too early to be definitive about the reason for or impact of recent falls in approval volumes and values but if sustained may slow down rate of house price increase.
Total Tax Receipts	1	January – May 2018
	2	Continued growth in tax take reflects buoyancy in economy. 1st five months of year up 5.0% y/y and 0.4% above target. Corporation tax up 24.9% y/y 13.5% above target, Income tax up 6.1% y/y but 0.2% below target. Excise duties down 7.8% y/y and 3.2% below target. Mixed results => Main tax heads showing growth in some but 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 (Income tax and VAT) reinforce strength of consumer economy and should provide support for demand across the economy. However this is not fully evident in the retail sector at present.
Business Sentiment	1	Spring 2018
	2	Business sentiment fell by 3.6% in Spring 2018 compared to the previous quarter which suggests a slowing of growth rather than a fall in activity. Brexit is not the sole concern of companies at present with labour issues, such as staff shortages and GDPR commanding the attention of businesses at present.
	3	Uncertainty linked to Brexit is ongoing but the labour availability issue is more immediate and has led one in six firms to alter their expansion plans. This is consistent with the falling unemployment rate and a tightening available labour pool and may have implications for property requirements.
Services PMI	1	May 2018
	2	Up 1.5% in the month, following rise in April. The reading of 59.3 is well in positive zone.
	3	Consistent with strong performance of office sector.
Construction PMI	1	April 2018
	2	The reading increased by 5.6% in April following two months of decline.
	3	Indicators of construction activity are somewhat mixed, possibly suggesting a degree of uncertainty among firms in the sector. Labour shortages may be an issues in the coming months.
Manufacturing PMI	1	May 2018
	2	Reading of 55.4 is up 2.4% on the 12-month low of 54.1 recorded in March and marginally up on April. Down on historical high of December 2017 but still well above key threshold of 50.
	3	If trend is sustained, it will provide support for industrial sector and demand for industrial space.
ISEQ Index	1	Q1 2018
	2	Price Index was down 6.3% in first quarter of year with total return index down 5.7%. However both have recovered almost all of those losses since end March.
	3	Volatility in equity market may turn some investors' attention to property.
IPD	1	Q1 2018
	2	Total return across the three sectors of the commercial market was 2.4% in Q1 2018 driven equally by capital growth and income return. Offices achieved the highest return at 3.0%, followed by industrial at 2.7% with retail returning 2.0%.
	3	Property out-performed equity in first quarter but equity has made a comeback to date in Q2.

BUSINESS

Summary

- Consumer economy indicators generally painting positive picture
- However this is not translating into demand for retail property
- Price discounting continuing in some retail sectors leading to slow growth in sales revenues
- Non-prime retail under-performing
- UK retail chains consolidating even in prime areas
- Unemployment rate moving towards full employment => positive and negative implications
- Threat to competitiveness could emerge if wage demands accelerate
- Well over 2 million people in employment => comparable to level of end 2008
- This is sustaining strong demand in the office sector
- Strong € may be benefitting consumers in some sectors
- Consumer confidence, while volatile, may be strengthening, particularly on back of strong labour market conditions
- Despite some limited increase in supply, acceleration in growth of house prices
- Combined with rising rents and lack of availability this may be sowing the seeds of a threat to continued growth
- Business sentiment remains positive, particular in services
- Key PMI readings all remain in expansionary range
- Property out-performed equity in Q1 but equity has made a comeback

Irish Economy

HEALTH CHECK: Ten years after the crash

The box below looks at the economy 10 years on from the crash and examines how the performance of the key economic variables compare with the position 10 years ago. While there is no single date on which different economic variables peaked and started to decline, we have decided to look at a single date, specifically the end of 2007 and compare it with the end of 2017 where possible.

The analysis looks at the value at end 2007, the value at end 2017 and the value at the post-crash trough for each variable.

Indicator	End 2017	End 2007	2017 versus 2007	Recovery since bottom	Scale of threat to economy performance
Consumer Economy					
Consumer Expenditure (€billion real)	24,625 (Q4 17)	23,594	+ 4.4%	+ 14.6% (Q1 2013)	Consumer expenditure is now above 2007 level and well above trough value. No significant threat to economy. Continued support for economic activity across the economy
Retail Sales Volume Index (exc. cars and bars)	130.2	118.2	+ 10.2%	+ 27.4% (July 2011)	Price discounting has driven up retail sales volume. Now 10% above 2007 level But value still 10% below 2007 leading to a lag in retail performance No immediate threat to economy
VAT (€billion)	13,303 (Year 2017)	14,497	-8.2%	+ 36.6% (Year 2011)	VAT levels now just 8% behind 2007 value – consistent with retail sales value. Further evidence of strength and importance of consumer economy No threat to economy
Unemployment (%) (inverse measure of performance)	6.3% (Dec-17)	5.0% (Dec-07)	+ 26%	- 60% (Jan 2012)	Labour market tightening. Danger of wage inflation. May be a factor in construction costs Key variable to be monitored.
Employment (000)	2,231.0 (Q4-17)	2,232.9 (Q4-07)	Level	+ 20% (Q1 2012)	Labour market indicators are both a consequence of growing economy but also driving force for future growth. Important indicator to watch for signs of over-heating but no immediate threat.
Business Economy					
Corporation tax (€billion)	6,391 (Year 2017)	8,201 (Year 2007)	-22%	+ 81.6% (Year 2011)	Still some way off 2007 performance. Suggests profit levels have not been restored or loss of firms. Somewhat volatile indicator in recent years. FDI firms make significant contribution. No immediate threat but susceptible in longer term to EU policy
Property and Construction					
Residential Property Price Index - National	100.9 (Dec-17)	129.2 (Dec-07)	-21.9%	+70.5% (March 2013)	Significant recovery in house prices but still below peak. Despite this, there is a real danger that accommodation costs will increasingly impact of wage demands, FDI and consumer inflation. A flashing amber light and an indicator to be carefully monitored
Residential Property Price Index - Dublin	102.2 (Dec-17)	130.5 (Dec-07)	-21.7%	+ 86.8% (April 2012)	As above, but slightly more pronounced in Dublin. No sign of abating. Growing potential threat
House Completions	19,271 (Year 2017)	78,027 (Year 2007)	-75.3%	+132% (Year 2013)	House completions have been slow to recover. Well below Government targets and accepted requirement of at least 25,000 units p.a. House price inflation will continue until supply response is adequate. Contributing to potential severity of threat in residential market

Global Watch

Summary of Economy Health Check

- Economy has recovered strongly across many sectors
- But two potential threats emerging
- Wage pressure will mount as labour market tightens => will erode competitiveness of economy
- House price inflation accelerating. Values heading towards pre-crash peak => significant to FDI and attraction of foreign workers

Property Investment Transactions

- Dublin Landings, Dublin 1 - 9 Storey Grade A office building extending to 143,158 sq. ft Fully let to the NTMA for 25 years from November 2017 with a break in year 15. Sold by Ballymore/Oxley to Triuva for approx. €164m providing a net initial yield of 3.94%
- Heuston South Quarter, Dublin 8 – 8 storey modern office building extending to 226,040 sq. ft. Fully let to Eir for 25 years from July 2008 with no breaks. Sold by Northwood Investment Corporation reportedly to CK Hutchinson Holdings for approx. €176m providing a net initial yield of 5.7%.
- Chatham & King, Dublin 2 - Prime mixed use investment with development potential. The centre will ultimately incorporate 49,158 sq. ft of retail space and 56,936sq. ft of office accommodation. Sold by Lonestar to Hines for approx. €155m.
- Cuir na Coiribe, Headford Road, Galway – Student accommodation scheme comprising 389 bed spaces. Fully occupied. Sold by Duff & Phelps to Exeter property for €35m providing a net initial yield of 5.8%.
- The Beckett Building, East Wall Road, Dublin 3 - Grade A office building let to Facebook under a 15 year lease at a rent of €4.53m per annum. Sold to Kookman Bank for approximately €101m which provides a net initial yield of 4.14%.

Events and issues to watch

IRELAND:

- Growing awareness of emerging skill shortages in a number of key sectors e.g. IT, construction, hospitality

Project 2040 launched

- Attempt to relieve congestion in Dublin and support growth of other cities.
- Supported by 10 year National Investment Plan
- Population growth forecast of 1 million by 2040 and significant ageing of the population => challenges and opportunities

Employment increase of 660,000 forecast by 2040

Continuing pressure in housing sector => policy measures may take time to have impact

Brexit => Little tangible evidence of progress on key question of Northern Ireland border

INTERNATIONAL:

- ECB interest rate policy => no change to date but ...
- Italian political crisis initially had sharp negative impact on bond and equity markets and on the value of the euro
- Threat of Italian exit from € could destabilise Eurozone economy
- US/China trade 'war' => some fears that it could lead to a recession in the US
- US withdrawal from Iranian nuclear agreement => this could emerge as a serious international issue



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Economic analysis provided by Stephen Walsh, Economic Consultant, stephen.walsh73@upcmail.ie

SOURCES:

CSO except

VAT and total tax receipts – Department of Finance

House starts and completions – Department of Housing, Planning, Community and Local Government

Consumer Sentiment – KBC Bank, ESRI and DKM

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

MCSI/SCSI Index – MCSI/SCSI

Business Sentiment - KBC Bank / Chartered Accounts Ireland