Economic & Commercial Property Highlights

TWM

1 = Most Recent Indicator | 2 = Status | 3 = Key message for Property Sector

CONSUMER

INDICATOR		
Consumer Expenditure	1	Q3 2018
	2	Consumer expenditure Q3 2018 was up 2.9% in volume terms on the same quarter in 2017 and up 3% in the first nine months of 2018 relative to the same period in 2017. It has risen in 18 of the past 22 quarters and has grown by 15.5% in real terms in the past 5 years.
	3	Consumer expenditure accounts for close to 60% of domestic demand and this is reflected in the growth in retail sales. However it is not having the expected impact on demand for retail property. This may be partly due to the rise in online shopping, reduced margins, the dampening impact of the overall performance of UK retailers and possible cross-border leakage due to the favourable €:£ exchange rate.
Retail Sales (ex. cars & bars)	1	November 2018
	2	Retail sales, excluding motor trades and bars grew at a rate of 2% volume and 0.4% value in the twelve months to November 2018. The annual growth in the three month period (September – November 2018) was 4.6 % volume and 3.5% value, indicating a slowing down in the most recent months. The monthly change in November was 0.5% volume and -0.3% value. Whilst still reasonably significant, the gap between volume and value growth has narrowed in the past few months suggesting that the era of discounting shows tentative signs of ending. However in the household goods sector, discounting has continued with an annual volume increase to November of 17% in Households Equipment compared to a value increase of just 7.5%.
	3	The dominance of the Household Equipment sector in the overall growth (with annual volume growth of Electrical Goods and Furniture & Lighting of 24% and 12.9% respectively) indicates the importance of the housing sector as a driver of retail demand. The expected increase in new house supply in the coming years will provide ongoing support to this sector. This would be expected to lead to demand for retail space in large outlets. Regional growth prospects may in the short term be linked to location of new housing supply and in longer term by population and economic growth on the back of the National Planning Framework: Project 2040.
VAT Receipts	1	Year 2018
	2	Up 7% y/y, and 1% above expectations. Consistent with falling unemployment and a little higher than the value growth in retail sales.
	3	While continuing rise in VAT returns is further evidence of buoyancy in the consumer economy, this is not translating into widespread increases in demand for retail space. While VAT returns may be expected to increase in the hospitality sector in 2019 on foot of the increased rate, there are fears that activity in the sector may be negatively affected.
Consumer Price Index	1	November 2018
	2	Prices are up 0.6% y/y, but November saw the third monthly price fall in a row. The annual price rise however is uneven across sectors and product types. Six sectors have seen prices rises y/y, the largest being Housing, Water, Electricity, Gas and Other Fuels at 5.1%. Prices have fallen y/y in the other six sectors with the largest fall of 4.1% in Household Equipment and Furnishings.
	3	The fall in prices of household equipment is continuing and offering support to demand for these goods. When combined with the rise in activity in the residential sector, this would be expected to provide support for retail warehouse-type premises. The weakness of sterling may have suppressed price increases in some sectors.
Consumer Sentiment Index-National	1	December 2018
	2	Index is down 6.5% in year but up very marginally (0.1%) on the month. The monthly rise in November and the flat-lining in December reverses three consecutive monthly falls. The index remains 12.6% lower than the peak for 2018 in January. While the Current Conditions index is down 3% on the year it is up for the second month in a row, although it has been quite volatile over the past year. By contrast, the Expectations index has fallen this month, reversing the gain made last month. It has now fallen in 4 of the past 5 months and is down 9.7% on the year. The Personal Financial Situation 12 months ahead, the Personal Financial Situation over the last 12 months, and the Major Purchases sub-indices are all up on the month although the latter only marginally. The first two of these are well above their long-term averages However, the two other forward looking sub-indices, Outlook for Employment and General Economic Outlook remain subdued and fell further in December.
	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. The authors of the report suggest that consumers' expectations are being impacted by the uncertainty about the final shape of Brexit. This somewhat pessimistic outlook may militate against demand in the retail sector and impact on the performance of retail property. However the monthly rise in the Major Purchases sub-index, if sustained, may offer support to demand for large ticket items.
Consumer Sentiment Index-Dublin Q3 2018 and international rankings	1	Q3 2018
	2	Overall index is down 12.6 points (7.9%) y/y. Outside Dublin the index is down only marginally. Consumer Assessment of Current Conditions fell by 7.7% y/y in Dublin but rose by 4.3% outside the capital. This suggests an uneven pattern of consumer confidence across the country and somewhat at odds with the common perception that the Dublin economy is out-performing other parts of the country. Other positive indicators for Dublin, include employment growth, retail sales, tourist spend, hotel rates and Dublin port traffic. The Dublin Economic Monitor (Dublin City Council) presents international comparative rankings for Dublin across 13 different indices. The city lost ground in 6 of these, improved in 2 and held its position in the remaining 5. Importantly it scores very highly on a number of key indicators.
	3	Dublin's position as second best city/region (ranked number 2) on the Global Cities and Regions of the future index (fDi Intelligence) augurs well for continued international investor interest in the city. This index is based on a range of socio-economic indicators. In addition Dublin has retained its ranking of third on the EMEA Tech Cities measure (CBRE), which is based on the scale and extent of the technology sector concentration and growth characteristics, which should also keep Dublin in the mind of international investors. This may prove positive for the office market in the context of Brexit/ further FDI. Housing supply and rental costs remain key constraints however.
Unemployment	1	December 2018
	2	Unemployment rate at 5.3% is down 0.9 percentage points since the same month last year but has remained the same as November 2018. This may suggest that the decline in unemployment is starting to taper off but it is too early to be definitive on this. There are 20,000 less people unemployed than one year ago and 46,500 less than two years ago.
	3	While the fall in unemployment, which has continued almost unabated since the peak of 16% in early 2012, may now be tapering off, the very low unemployment rate 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 2019. On the negative side, a tight labour market will lead to increasing wage demands which may undermine competitiveness in the economy.

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INDICATOR		
Employment (000)	1	Q3 2018
	2	Up over 66,700 y/y (3%) and growth of over 115,000 (5.3%) in number in employment in two years. 10 of the 14 sectors experienced employment growth year-on-year. The largest growth occurred in the Construction sector (13.9% or almost 18,000). There was a somewhat mixed performance in office-based sectors, with Finance, Insurance & Real Estate and Professional, Scientific and Technical Services both losing employment while Administration and Support Services and Information and Communication added significant jobs. The net increase across these four sectors was 10,300.
	3	Growth in construction employment provides further evidence of pick up in this sector. Growing concerns in relation to skill shortages in the sector that may hinder further growth and have an impact across the economy. The net increase in jobs in office-based employment will help sustain activity in the office sector. The changing nature of office occupation, particularly in the tech sector, is continuing to drive demand in the flexible office space sector.
Earnings	1	Q3 2018
	2	Average hourly earnings were up 2.1% in Q3 2018 compared to the third quarter in 2017. Earnings increased in all 13 sectors in the year with the Transportation & Storage, Entertainment and Construction sectors showing the largest increase of 5.8%, 4.8% and 4% respectively.
	3	This rate of earnings increase continues to significantly outstrip the consumer inflation rate and if sustained could impact on competitiveness. The increase in earnings in the Construction sector has accelerated and if the rate of increase is sustained, it could impact on the cost of provision of residential and commercial property. The rate of growth in earnings in the Transportation & Storage sector may reflect the growing importance of the logistics sector in the industrial and retail industries.
House Price Index	1	October 2018
	2	Up 8.4 % y/y nationally => now almost 84% above the bottom of the market and less than 18% below peak While the upward trend is continuing the annual rate of growth has slowed down in recent months from 10% in July and 8.5% in September 2018. Up 6.3 % y/y Dublin. Prices up almost 97% from the bottom of the market, and are now just over 20% off peak. Outside Dublin price recovery has been somewhat slower with prices up just short of 78% from the bottom of the market but rate of growth is now above Dublin at 10.6% in the past twelve months.
	3	Decelerating growth in prices may indicate that supply demand imbalance is slowly easing. However supply demand equilibrium is still some way off and residential price are likely to continue to grow in the short term although at a slower rate. Performance in different price brackets and locations may diverge to a greater or lesser extent, depending on new supply pipeline. This will continue to 'push' potential buyers into the rented sector and provide opportunities for investors although this may be dominated by large international funds.
Residential Rent Index	1	Q3 2018
	2	Private sector rents rose by 7.5% in the year to Q3 2018 down slightly from 7.8% in the year to Q2 2018. Rents have risen in each of the past 22 quarters. Nationally, rents are now 14% above the level of Q3 2007 (the start of the Index) and 48% above the bottom of the market. On a locational basis, rents in Dublin are 28% above the starting value of Q3 2007, with rents in the Greater-Dublin Area (excluding Dublin) are up 13% in the same period. Elsewhere in the country, rents are now 8% above the index starting level.
	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, while rental costs and availability may be a disincentive to foreign workers (and companies) to come to Ireland. The establishment of The Land Development Agency is designed to alleviate the supply problem, but may take a number of years to have an impact. Rent caps have moderated rental growth but are not capping overall growth at 4% due the supply of new and refurbished units.
House Starts	1	Jan – Oct 2018
	2	House starts are up over 24% countrywide in the first ten months of the year relative to the same period in 2017, to a level of more than 18,500. Total up 24.4% 2018 y/y Dublin up 6.2% 2018 y/y Mid-East* up 35.5% 2018 y/y GDA up 17.3% 2018 y/y * including County Louth
	3	Despite the increase in starts, the total number is still below the number required to bring supply and demand into equilibrium. This will continue to exert price pressure although price growth will be moderated by Central Bank mortgage limits and affordability.
Dwelling Completions (New CSO series)	1	Q3 2018
	2	Significant growth on annual basis in first nine months of year, up almost 28% relative to the same period in 2017. However the absolute numbers remain below the required amount at just under 12,600. Total up 28% y/y Urban up 33% y/y Rural up 11% y/y The largest growth in completions is in housing schemes with a growth of 46% while completions of single houses (10%) showed much more modest growth. The number of apartment completions was up just over 1%.
	3	Growth in completions is positive but coming from low base and will take some time to have a significant impact on market. Continued changes in apartment development standards may assist in improved viability but piecemeal approach is severely delaying delivery of units. Most apartment schemes likely to be delivered to the private rental sector (PRS) rather than the owner occupied market.
Construction Output	1	Q3 2018
	2	There was just under 12% volume growth y/y and almost 20% value growth up to the end of the first nine months of 2018, indicating a buoyant sector with increasing prices for construction The volume of residential construction was up less than 8% in volume terms in the first nine months of the year relative to the same period in 2017, with value up almost 12%. This sector has been volatile on a quarterly basis and showed a small decline in volume in Q3.
	3	Indications of price growth in the sector, estimated at 7% in the year to September 2018. Too rapid an increase in price could militate against continued activity increases.
Mortgage Drawdowns and Approvals	1	Mortgage Drawdowns Q3 2018/ Approvals November 2018
	2	The number of purchase mortgage approvals (excluding top-ups and mortgage switching) fell slightly (down 0.6%) in the first eleven months of 2018 period compared to the same period in 2017 at just under 34,400 mortgages. The value of these mortgage increased by 3% in the same period, indicating an increased average approved mortgage loan of about 3.5% Mortgage purchase drawdowns show a much greater growth than approvals in the first nine months of the year relative to the same period in 2017, with volumes up 8.8% and values up 14.4%, indicating a growth in average loan size of about 5.1%
	3	Continued increase in average mortgage size is consistent with rising house prices. Increased repayment commitments may impact on spending elsewhere in the economy. It is too early to be definitive about the reason for or impact of slowdown in approval volumes and values but if sustained and translated into drawdowns may continue to slow down rate of house price increase. Anecdotal evidence suggests that price competitiveness is impacted in the second half of the year once the lending institutions have reached their exemption limits for higher LTV lending. It will be interesting to see if this influence is evident in Q1 of 2019.

CONSTRUCTION

Information correct as at January 2019

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BUSINESS

INDICATOR		
Total Tax Receipts	1	Year 2018
	2	Continued growth in tax take reflects buoyancy in economy. Total tax revenue for the year up 8.3% y/y, somewhat above target (2.6%). Corporation tax up 26.6% y/y and 21.1% above target, Income tax up 6.2% y/y and 0.9% below target. Excise duties down 8.6% y/y and 6.9% below target. Stamp Duty up 20.7% y/y but 13% below target. Generally encouraging results and consistent with other positive indicators with Excise Duties the only main tax head down on last year. All other tax heads showing growth and most at a somewhat higher level than expected. Direct taxes reflect strength of labour market and corporate sector. Despite favourable tax returns, Irish Fiscal Advisory Council (IFAC) has advised caution in relation to (mildly) expansionary fiscal policy.
	3	Strong corporate sector may be reflected in continued demand for commercial space. Growth in consumer taxes (Income tax and VAT) reflect strength of consumer economy and demand for retail goods. However this may not translate into demand for retail space as online shopping increases in importance Risks of Corporate Tax reliance highlighted by financial commentators.
Business Sentiment	1	Q3 2018
	2	Business sentiment fell by 13% in the 3rd Quarter compared to the previous quarter. The reading is now at its lowest point in almost 6 years. The authors of the survey report attribute the fall to uncertainty surrounding Brexit which now appears to be the biggest risk seen by business. The survey also points to a softening in prospects for employment growth.
	3	Uncertainty linked to Brexit is ongoing. If this translates, in the short to medium term (until the final 'shape' of Brexit is known) into action by companies, it may give rise to slower employment growth which could impact on the demand for office space. Distribution space is likely to continue to be in strong demand.
Monthly Service Index	1	November 2018
	2	Value of Service activity down 0.7% on the month but up 10% on year. The sectors showing the largest y/y increase were Information and Communication (28.1%), Administrative and Support Service Activities (21.3%), Transportation and Storage (17.6%). Accommodation (10.5%) and Wholesale Trade (6.1%). Professional, Scientific and Technical Activities showed an 18.7% decrease in the year to end November 2018.
	3	The fall in the Index for Professional, Scientific and Technical Activities is consistent with the fall in hourly earnings in this sector. This is the 8th monthly fall this year and if continued, could have implications for the office sector. The growth in the Transportation and Storage sector is consistent with earnings growth and further indicates the strength of this sector, partly based on the growth of online shopping. While the Accommodation sector has seen significant growth, the recent increase in VAT rates is likely to be a critical factor in determining the medium term performance of this sector and the consequent demand for space in the wider hospitality sector.
Services PMI	1	December 2018
	2	The index fell in December (from 57.1 to 56.3). It is the lowest reading since November 2017 but remains significantly above the key threshold of 50 indicating continuing expansion although at a slower pace than before.
	3	The reading confirms other indicators of a growing services sector although at a slower pace than before. The impact of this on demand for office space in particular, is unclear.
Construction PMI	1	November 2018
	2	The reading increased to 55.5 in November from the three and a half year low of 52.9 recorded in October. The fastest growth was in housing output, consistent with other indicators shown on this sheet. Commercial construction also increased at a significant rate (from 53.9 to 57.5) Employment increased again this month and has now done so in every month for over 5 years.
	3	Indicators of construction activity are generally positive particularly in relation to the housing sector. The buoyancy in the sector may be tempered in the coming months if the skills shortages issue manifests itself
Manufacturing PMI	1	November 2018
	2	The Index recorded a reading of 54.5 in December, down from 55.4 in November. New orders growth fell to an eight month low while output growth slowed to a nine-month low. However, employment continued to increase as it has in every month for over two years.
	3	Despite the slight index reduction and orders decline the overall strength of the sector will continue to support demand for manufacturing and related space.
ISEQ Index	1	Q3 2018 (and most recent)
	2	Price Index was down 7.3% in first nine months of year with total return index down 5.8%. Both indices fell since end-September and ended the year with losses of 22.1% and 20.8% respectively.
	3	The decline and volatility in the equity market may enhance the relative attractiveness of property to investors. The sharp decline in the share price of the listed residential developers is an indication of increased caution towards projected house price inflation or rising construction costs.
MSCI Private Real Assets Index	1	Q4 2018
	2	Total return across the commercial sector for 2018 was 9.1% with the industrial sector delivering the highest return at 12.4% followed by the office sector at 9.3% and the retail sector at 6.7%. Capital growth overall was 4.1% with rental value growth contributing 2% and the yield compression 2.1%.
	3	The commercial property market has outperformed the equity and bond markets over the 1,3 and 5 year periods. The weakness of the retail sector is somewhat inconsistent with consumer indicators but is a reflection of modern consumer behaviours in certain sectors of the retail market. There is a growing recognition of the structural changes taking place in the retail property market based on changing consumer shopping habits (RICS Valuation Notification December 2019).

Summary

- Most of the consumer economy indicators continue to look favourable but some slowdown in the rate of growth - however this is not translating into performance of sectors of the retail property market.
- Exception is in household goods sector – large ticket items where growth in demand is particularly strong
- Era of price discounting may be coming to an end in some sectors as gap between volume and value growth narrows
- Fiscal Advisory Council has recently advised caution in relation to (mildly) expansionary fiscal policy and reliance on Corporation Tax receipts
- Unemployment rate has levelled out but is now close to full employment =>danger of wage pressure across the economy - if realised, could damage competitiveness and slow down economic growth
- Employment now above pre-recession levels - this is sustaining strong demand in the office sector but recent slowdown noted in some sectors
- The Land Development Agency established to assist in delivery of new housing - May be some time before this has any noticeable impact on supply
- House prices continuing to grow although pace of growth is moderating
- Affordability may now be emerging as an issue particularly as the Central Bank of Ireland retain lending constraints
- Business sentiment remains positive across the main sectors – but Brexit fears starting to re-emerge as uncertainty continues
- Key PMI readings all remain in expansionary range
- Property out-performed equity in first nine months of year
- Equity market performed poorly in first nine months and fell further in the last quarter of the year

Property Investment Transactions

2018 saw 269 transactions completed resulting in a Commercial Property Investment Market turnover of over €3.6bn. The average deal size for the year was approximately €13.5m. The story of the year was the rise in popularity of the residential multi-family sector ending the year with 29% of total turnover. Q4 was the most active quarter accounting for over €1.1bn of volume and was also the most active in number of deals completed at 87.

Some deals completed by TWM in 2018 include:

- New Century House, IFSC, Dublin 1- acquired by Credit Suisse from Hibernia for approximately €63.5m. The 80,000 sq.ft building was let to Bank of Ireland at a rent of €€2.9m per annum with a rent review due immediately after purchase which should result in an estimated income return of over 5%.
- Gateway Office Buildings, East Wall Road, Dublin 3 – Two office buildings extending to 95,000 sq,ft and let to Whirlpool, ESB and Colt Technology Services. Acquired for Yew Grove REIT for €29m producing an initial return of 6.5% with scope to increase on letting vacant space.
- South Dublin Residential blocks comprising 54 units acquired on behalf of an international private investor for over €18m.
- Carlow Retail Park acquired on behalf of Friends First for €16.75m which produces and initial yield of 7.8%. Tenants of the 100,000 sq.ft park include Woodies, Harry Corry, Carpetright, Homestore and More and Pet Mania.
- 4 Henry Street, Dublin 1 sold on behalf of an overseas private investor to an institutional investor for approximately €8.65m which was a net initial yield of just over 3.8%.
- Generali House, Navan, Co. Meath sold on behalf of an international investor to an Irish private investor for a price of over €6.1m. The property was let to Generali Worldwide at a rent of €505,714 per annum with fixed uplifts. The Net Initial Yield was 7.6%.

Events and issues to watch

Ireland

=> Establishment of The Land Development Agency
- Release of state lands for housing, bring down cost of provision of housing and boost supply
- Acquisition of private lands to create larger lot sizes
- Similar approach to that used by Dublin Docklands Development Authority
- Regional dimension – consistent with Project 2040: National Planning Framework

=> New density/building heights guidelines may enhance feasibility of development

=> Budget 2019 provides some limited personal tax relief

=> Brexit => Serious impasse as UK Government loses vote on negotiated deal.

=> Still no definitive agreement on Northern Ireland border issue

=> Growing sense of political instability in UK

=> Irish General Election unlikely in 2019 as two largest parties commit to a continuation of the confidence and supply agreement.

International

=> ECB interest rate policy => December 2018 Council meeting - no change in interest rates and expected to remain at current levels until end summer 2019 at earliest. While the net purchases under the Asset Purchase Programme have ended, the ECB will continue to ensure that there is adequate liquidity in the market.

=> Growth of far-right and 'nationalist' parties across Europe

=> Riots in France

=> US mid-term elections

=> Republicans have lost control of House of Representatives. Current stand-off in relation to border wall and partial shutdown of Government agencies may be a straw in the wind. Tense relationship between President and Congress may hinder ability to implement changes to economic policy, especially trade policy

=> Could impact on ability of current Administration to deliver wider policy agenda

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, and Local Government
Rent Index- Residential Tenancies Board
Consumer Sentiment – KBC Bank and ESRI
Business Sentiment – KBC Bank/Chartered Accountants Ireland
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 Private Real Estate Index – MSCI/SCSI
Dublin City Council

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