Economic & Commercial Property Highlights

TWM

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

CONSUMER

INDICATOR		
Consumer Expenditure	1	Q4 2018 and year 2018
	2	Consumer expenditure in the 4th quarter of 2018 was up 2.6% in volume terms on the same quarter in 2017 and up almost 3% for the whole year 2018 relative to the year 2017. It has risen in 16 of the past 20 quarters and has grown by 15% 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. There are tentative signs of a pick-up in demand for retail properties with vacancy levels falling and many well-located Shopping Centres fully let. Having said this, secondary retailing remains challenging.
Retail Sales (ex. cars & bars)	1	April 2019
	2	Retail sales, excluding motor trades and bars grew at a rate of 6.7% volume and 5.2% value in the twelve months to April 2019. The monthly change in April was 1.1% volume and 1.8% value. The annual growth in the three-month period February – April 2019 was 7.4 % volume and 5.5% value, indicating a slowdown in growth in the most recent months. While it is too early to determine if the pattern of volume versus value increase has changed, it is noteworthy that the monthly value change was higher in April than the monthly volume change. The gap between volume and value growth has narrowed and is now less than 2% annually. In the household goods sector, discounting has continued with an annual volume increase in the three-month period February – April 2019 of 18.4% in *Households Equipment* compared to a value increase of just 10.6%.
	3	The dominance of *Household Equipment* sector in the overall growth (with annual volume growth in the three-month period February – April 2019 of almost 23% and over 16% in *Electrical Goods* and *Furniture & Lighting* respectively) indicates the importance of the housing sector as a driver of retail demand, as discussed in our research note published in October 2018. 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.
VAT Receipts	1	Jan – May 2019
	2	Up 5.7% y/y, but 1.5% below expectations. Growth is consistent with increasing employment levels and broadly in line with the value growth in retail sales.
	3	The continuing rise in VAT returns is further evidence of buoyancy in the consumer economy, which is now showing signs of translating into increased demand for and investor interest in retail property.
Consumer Price Index	1	April 2019
	2	Prices are up 1.7% y/y, and up 0.4% m/m in April. This is the 3rd month in a row that prices have increased. The annual price rise however is uneven across sectors and product types. *Household Equipment, Communications* and *Clothing & Footwear* have fallen in price y/y by 3.6%, 3.3% and 1.1% respectively. These are key sectors of retail demand and indicate the continuing competitive nature of these sectors. The largest price rises y/y were in *Housing, Water, Electricity, Gas and Other Fuels* (+4.7%), *Restaurants & Hotels* (+3.7%), *Transport* (3.7%) and *Drink & Tobacco* (2.4%). The growth in *Restaurants & Hotels* prices may partly reflect the increase in the VAT rate on hospitality.
	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.
Consumer Sentiment Index-National	1	May 2019
	2	Index is down almost 16% y/y in May. The index has been volatile in recent months and remains about 18% lower than the recent peak of January 2018. The small recovery in the Index value in May was primarily due to an improvement in sentiment in relation to the *Outlook for Employment* and general *Consumer Expectations*. The outlook for making *Major Purchases* is broadly unchanged in the month, having fallen significantly (-8.6% m/m) in April, to its lowest level in four and a half years. The *Personal Financial Situation 12 months* ahead, is up very marginally in the month.
	3	The Index has been volatile in the past year, and may reflect a lack of confidence in the strength and sustainability of the economic recovery. The authors of the report suggest that the minor improvement this month may reflect a 'sense of relief' on the part of consumers that a hard Brexit has at least been delayed. More generally the volatility in the Index in recent months may suggest that Irish consumers are unclear about the direction of Irish economic circumstances. This subdued outlook may militate against demand in the retail sector and slow down any pick-up in the performance of retail property. Moreover, the dampened sentiment in relation to *Major Purchases*, if sustained, may hinder demand for large ticket items.
Savings and Investment Sentiment	1	April 2019
	2	The Bank of Ireland/ESRI Savings Index held steady at 103 in April following the fall in March from its all-time high of 107 in February. On the other hand, and despite positive returns on the equity market, Investment Sentiment fell to 97 in April from 101 in March.
	3	Combined with other indicators, this suggests that the overall mood remains subdued as consumers continue to exercise caution in investment and spending plans given the ongoing uncertainty linked to Brexit.
Unemployment	1	May 2019
	2	The unemployment rate fell by a further 0.2 percentage points to 4.4% in May 2019, down 1.5 percentage points since the same month last year. There are now over 33,000 less people unemployed than one year ago and 47,000 less than two years ago.
	3	The fall in unemployment, which has continued almost unabated since the peak of 16% in early 2012 leading to a very low unemployment rate and absolute number should 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.
Employment (000)	1	Q1 2019
	2	Up over 80,000 y/y (3.7%). The growth in employment relative to the fall in unemployment reflects the increase in the size of the labour force, partly due to net immigration. 12 of the 14 sectors experienced employment growth year-on-year. The largest growth occurred in the *Transportation and Storage*, (11.4% or 10,800) and the *Administration & Support Services* (10.6% or almost 10,500) sectors. The total increase in the sectors mainly associated with office employment, *Administration & Support Services* (+10,500), *Finance, Insurance & Real Estate* (+5,500), *Professional, Scientific & Technical* (+5,100) and *Information & Communication* (+2,200) was over 23,000.
	3	The net increase in jobs in office-based employment will help sustain activity in the office sector. It is noteworthy that the growth is well spread across a number of sectors. Construction employment has fallen in each of the past two quarters but is still 3.5% up y/y. The tightening labour market may lead to increased labour costs and overall costs of delivery of construction projects. This could put further pressure on the viability of construction projects both in the commercial and residential sectors.

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INDICATOR		
Earnings	1	Q1 2019
	2	Average hourly earnings were up 2.3% in Q1 2019 compared to the first quarter in 2018. Hourly earnings increased in 10 of the 13 sectors in the year with the largest increase in *Transportation & Storage*, at 7.8%. The Office-based sectors of *Administrative* and *Support Services* and *Information and Communication* saw increases of 4.7% and 3.9% respectively. The *Professional, Scientific and Technical Activities* sector saw the largest annual hourly earnings decrease of 1.9%.
	3	This rate of earnings increase continues to outstrip the consumer inflation rate and if sustained could impact on competitiveness. 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	March 2019
	2	Up 3.9% y/y nationally => now almost 82% above the bottom of market and less than 19% below peak. While the upward trend is continuing, the annual rate of growth has slowed down in recent months from 12.5% in February 2018. March was the 11th month in a row that the annual rate of price increase has decelerated. Prices are up just 1.2 % y/y in Dublin and just 1.6% for Mid-East houses. Prices in Dublin for both houses and apartments have fallen over the past three months, by 1.1% and 1.7% respectively. Overall prices in Dublin are up close to 93% from the bottom of the market, and are now just over 22% off peak. Outside Dublin price recovery has been somewhat slower with prices up just short of 79% from the bottom of the market but rate of growth is now significantly higher than Dublin at 6.8% in the past twelve months.
	3	Decelerating growth in prices may indicate that supply demand imbalance is slowly easing. Various locations are showing moderating price growth. There is also a growing sense that the Central Bank lending guidelines are starting to take the sting out of demand in that potential purchasers are unable to access the same level of borrowing and that is dampening demand. There may be an apparent anomaly in that, as shown elsewhere is this report, average mortgage size is increasing. This may reflect different price points/ranges in the market with 'bigger' mortgages increasing in size and 'smaller' mortgages held back by the lending restrictions. 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. This may continue to 'push' potential buyers into the rented sector and support PRS investment.
Residential Rent Index	1	Q4 2018
	2	Private sector rents rose by 6.9% in the year to Q4 2018 down from 8.6% in the year to Q3 2018. On a quarterly basis, rents were down 0.3%, just the second quarterly fall in the past 5 years.Nationally, rents are now 15% above the level of Q3 2007 (the start of the Index) and 53% above the bottom of the market. On a locational basis, rents in Dublin are 30% above the starting value of Q3 2007, with rents in the Greater-Dublin Area (excluding Dublin) up 15% in the same period. Elsewhere in the country, rents are 5% 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. There is now a two-tier market emerging between properties covered by the rent caps and those that are new to the market. The ban on short stay uses (without planning permission) should increase supply of rental accommodation. Restrictions on AirBnB short term lets should add stock back to the rental market and may therefore help to moderate rental growth.

CONSTRUCTION

House Starts	1	Year 2018 and Jan –Mar 2019
	2	House starts increased by almost 28% countrywide in 2018 compared to 2017, to a total of close to 22,500. Total up 27.9% y/y Dublin up 10.3% y/y Mid-East* up 37.5% y/y GDA up 20.5% y/y *now including County Louth While it is too early to draw a definite conclusion, the number of starts in Dublin in the first three months of 2019 is up almost 50% on the same period in 2018.
	3	There are now some tentative signs that housing starts are growing towards the levels required to bring equilibrium to the house market. If realised, this will further slowdown the rate of growth of house prices.
Dwelling Completions	1	Year 2018 and Q1 2019
	2	Significant growth on annual basis in 2018, up over 25% relative to 2017. However, the absolute number at just over 18,000 is still below the required amount. The increase in housing starts shown above may accelerate the rate of completions. Total up 25% y/y Urban up 30% y/y Rural up 12% y/y The largest growth in completions is in housing schemes with a growth of 39% while completions of single houses (10%) showed much more modest growth. The number of apartment completions was up by 6.5%. Completions in the first quarter of 2019 at 4,275 are up over 23% on Q1 2018.
	3	Completions levels are rising and if sustained will stabilise the rate of price increase. The emergence of co-living units, while still in its infancy, may have an impact on the supply-demand imbalance if it becomes a growing feature of the market. However, it is likely that these units will initially not be included in the 'completions' data as they are more akin to student accommodation.
Mortgage Drawdowns / Approvals	1	Q1 2019 / April 2019
	2	Mortgage purchase *drawdowns*, (excluding top-ups and mortgage switching) are up 4.2% in volume and 6% in value, in the first three months of 2019 period compared to the same period in 2018, indicating a growth in average loan size of about 1.7%. The number of purchase mortgage approvals (excluding top-ups and mortgage switching) grew by 8.1% at just over 11,750 mortgages in the first four months of 2019 relative to the same period in 2018, while the value of these mortgages increased by 9.2% in the same period, indicating an increased average approved mortgage loan of about 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. However, it is noteworthy that the increase in average mortgage size at 1% is lower than the increase in average hourly earnings (2.3%) shown above. Given that there is a correlation (with a one-quarter lag) of over 90% between mortgage approvals and subsequent drawdowns, the higher rate of growth in approvals suggests that drawdowns are likely to increase in the coming months. This could put upward pressure on house prices. It is recognised that the residential market is somewhat uneven throughout the year as banks tend to 'use-up' their allowable exceptions (lending up to 90%) in the early months of the year. This has given rise to a more dynamic market in the first half of the year followed by slower market activity in the second half.

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BUSINESS

INDICATOR		
Total Tax Receipts	1	Jan - May 2019
	2	Continued growth in tax take reflects buoyancy in the economy. Total tax revenue for the first five months of the year up 5.7% y/y, but 1.1% below target. Corporation tax is more than 11% below the expected level and well down on the first five months of 2018 (-13.2%). Income tax up 7.8% y/y but marginally (0.6%) below target. Excise duties up 18% y/y and 6.2% above target. Stamp Duty down 2.9% y/y and 12.8% below target Receipts for all the main categories of tax, except Corporation tax, are up y/y but some are running behind expectation for the first five months of the year. Income taxes reflect strength of labour market.
	3	It is too early to interpret the more subdued performance of corporation taxes (down y/y and also running below target) relative to last year. The strength of the corporate sector is important in generating demand for commercial space. The June tax returns will be instructive in this regard Growth in consumer taxes (Income tax and VAT) reflects the strength of the consumer economy and demand for retail goods. The fact that retail property vacancy levels are falling may be a positive sign that the strength of the consumer economy is filtering through to this sector.
Brexit Sentiment Survey	1	February 2019
	2	The key findings from the recent Chartered Accountants Ireland Brexit Sentiment survey indicate that 44% of companies had little or no plans for a no deal Brexit. Sixty percent felt that Brexit would have a negative impact on their business with just 12% expecting a positive business impact from Brexit. The biggest concerns are supply chain disruption and customs administration rather than customs duties.
	3	The focus of business concerns on supply chain disruption suggests that the agri-food, retail and logistics sectors are likely to be worst effected by a no-deal Brexit.
Services PMI	1	May 2019
	2	The index increased by 4.2% in May (from 54.7 to 57). This is the highest rate of growth in 6 months and is well above the key threshold of 50 indicating continuing expansion.
	3	The reading is consistent with other indicators of a growing services sector. The impact of this on demand for office space in particular, is unclear, given the erratic nature of the Monthly Service Index.
Construction PMI	1	April 2019
	2	The reading of 56.6 in April was up 1.2% from 55.9 in March. Employment growth continued, consistent with other indicators shown on this sheet, but the rate of growth slowed. Sentiment about the future improved as fears about Brexit eased somewhat. Raw material costs are reported to be rising.
	3	Indicators of construction activity are generally positive particularly in relation to the housing sector, although there is evidence of a slowdown in growth. The buoyancy in the sector may be tempered in the coming months if the reported rise in raw materials costs combined with the rising wage costs and skills shortages are sustained.
Manufacturing PMI	1	May 2019
	2	The Index fell further in May to 50.4, just above the key threshold of 50. This follows the reading of 52.5 in April, down 2.6% from 53.9 in March. This is the lowest level since just after the UK Brexit referendum in the summer of 2016.
	3	The publishers of the Index attribute the fall to the unwinding of stocks built up in preparation of Brexit. New orders and output were down and employment growth slowed to its lowest in nearly three years. The impact on demand for manufacturing, logistics and related space may remain uncertain until there is further clarity around the Brexit process.
Dublin economy and international rankings 2018	1	February 2019
	2	The Dublin PMI improved in Q4 2018 to 57.8 from 57.3 in Q3. This was in sharp contrast to the rest of the country where the index dropped by 3.2 index points. While employment growth slowed in Q4, it has now grown in each of the past 25 quarters. Other positive indicators for Dublin, include retail spending (up 5.8% in Q4), tourist spend (up almost 16% y/y in Q4). Hotel daily rates were up 6.3% y/y in Q4 although average occupancy was down very marginally. Tonnage moving through Dublin Port grew y/y but export freight fell somewhat in Q4 E-commerce is estimated to have grown by 3.6% y/y in Q4 2018. The *Dublin Economic Monitor* (Dublin City Council) presents international comparative rankings for Dublin across 14 different indices. The city maintained its number one position on two important indicators, *fdi Global Cities of the Future and WorldFirst European Buy-to-Let League* in 2018. Dublin lost ground in 6 indices, including the *Mercer Cost of Living Index* and the *Economic Intelligence Unit Worldwide Cost of Living Index*, but improved in 3, including the *PWC/ULI Emerging Trends in Real Estate Europe* and the *Economic Intelligence Unit Global Liveability Index.*
	3	Dublin's performance on a number of key international comparative indices, should continue to attract the interest of international investors in the city. However, the poorer performance on the Expat City Ranking and the IMD World Talent Ranking indicates that attracting the best calibre of professionals to work in the city may prove challenging and militate against the ongoing attraction of FDI.
Euronext Index (ISEQ)	1	Q1 2019
	2	The ISEQ Index was transferred to Euronext in March 2019. The price Index was up 12% in the first three months of 2019 and the total return index up 12.9%.
	3	The rise in the equity market may enhance the relative attractiveness of equity relative to property for investors. Until the proposed sale of Green REIT is complete, there may be some uncertainty in the market for REITs. However ultimately, investor interest in REITs is unlikely to be undermined by the sale. There appears to be good interest both in the portfolio as a whole and individual assets from overseas and domestic investors which should underline the attractiveness of the Irish property market as an investment destination.
MSCI Private Real Assets Index	1	Q1 2019
	2	Overall property returns were 1.3% in Q1, almost exclusively driven by income return at 1.2% with capital values up just 0.1%. On a sectoral basis, Industrial property was the best performer at 2.4% total return compared to 1.3% for Offices and just 0.7% for Retail property (with Shopping Centres showing a 1% loss).
	3	The under-performance of property relative to the equity market in Q1 is a reversal of the pattern in 2018. Income growth is the principal driver of property returns as capital values level off.

Summary

- Most of the consumer economy indicators continue to look favourable but some slowdown in the rate of growth. There are tentative signs of an uplift in interest in some sub sectors of retail property with vacancy now at low levels in better locations
- The household goods sector (large ticket items) continues to display strong growth in demand
- Unemployment rate has continued to fall => continuing threat of wage pressure across the economy
- Above, if realised, could damage competitiveness and slow down economic growth
- Employment now well above pre-recession levels This is sustaining strong demand in the office sector.
- However, the extent of further growth in office employment is uncertain as the pattern of growth in some office-related sectors is somewhat erratic
- Cost pressures for both labour and materials may be emerging in the Construction sector
- Early signs that house prices may be falling in Dublin with pace of growth moderating elsewhere
- Some tentative signs that housing supply is increasing which should stabilise the market
- Brexit issue unlikely to be clarified until the Autumn and not until new Prime Minister is installed.
- Prospect of 'hard' Brexit has increased
- Level of planning and preparation for no-deal Brexit among Irish firms in relatively low
- PMIs across the Service and Construction sectors remain in expansionary range but Manufacturing PMI just above growth threshold level
- Equity market strong performance in first quarter of year, outperforming property
- Proposed sale of Green REIT unlikely to damage investor interest in REITs generally

Property Investment Transactions

The property investment market was sluggish in the first quarter of 2019 with little new stock emerging for sale. Turnover was approx. €600m with 31 transactions (over €1m) completed. This was well down on the €937m recorded for Q1 2018. The average turnover per quarter for 2018 was approx. €916m. Having said this there has been a dramatic increase in activity so far in Q2 with significant increase in stock and investor interest. During April there was €1.8bn of investments available for sale.

Some examples of recent sales include:

- Charlemont Exchange, Dublin 2 – 4 blocks refurbished and extended by Marlet comprising approx.123,000 sq.ft and 108 car spaces. Let to We Work was sold to Vestas Management, a South Korean based fund, for €150m. On the basis of a reported rent of €55psf the deal would show an initial return of approx. 4.4%.
- 7-9 Henry Street, Dublin 2 – A new prime retail building extending to 35.,521 sq.ft let to Next for 15 years at a rent of €1.75m rising to €1.85 m in year 4. Sold to European based asset manager DWS, owned by Deutsche Bank, for approx.€44.47m which produces a net initial yield of 3.64%.
- The Pavillions Shopping Centre, Swords, Co. Dublin - Irish Life acquired a 25% stake in the shopping centre from IPUT for a reported figure of €71m which will show a net initial return of 4.9%.
- The One Building, Grand Canal Street, Dublin 2 - a refurbished property extending to 45,000sq.ft and let to Stripe at a rent of approx.€50psf was acquired by BNP Paribas Real Estate Management for €49.5m. This would show a net initial return of 4.5%.

Events and issues to watch

Ireland

=> Brexit impasse, National Broadband Plan and National Children's Hospital dominating other possible policy initiatives.

=> Brexit => Exit date delayed as EU approves 6 month extention to UK membership.

=> No emerging consensus yet in UK Parliament => Unlikely to be resolved until installation of new Prime Minister in late Summer/early Autumn.

=> Still no definitive agreement on Northern Ireland border issue.

=> Continuing sense of political instability in UK.

=> European Parliament elections in UK have strengthened the hand of pro-Brexiteers.

=> Two largest Irish parties await resolution of Brexit issue and have committed to a continuation of the confidence and supply agreement.

=> However while an Irish General Election is on balance, unlikely until Autumn 2019 at earliest, the need to hold 4 by-elections may change the political dynamic.

=> Cost implications of National Broadband Plan and National Children's Hospital likely to restrain public spending elsewhere in economy.

International

=> ECB interest rate policy => June 2019 Council meeting - no change in interest rates and commitment to maintain rates at current levels until mid-2020 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' anti-EU groupings in European Parliament did not materialise to the extent expected.

=> US political developments

=> Tensions remain over Mueller Report but may stop short of impeachment of President as Democratic Party divided on strategy.

=> Moving into next Presidential election cycle – likely to dominate US politics for next 18 months.

=> Despite Republicans losing control of House of Representatives, tensions between President and Congress more likely to be focused on Mueller Report than economic issues.

=> US trade policy

=> Trade tensions between US and China hardening as China responds to US imposition of increased tariffs.

=> Issue may get worse before it gets better.

=> US/EU trade relationship may not be clarified until Brexit issue is resolved.

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
Brexit Sentiment Survey - KBC Bank/Chartered Accountants Ireland
Savings and Investment Index - Bank of Ireland/ESRI
Mortgage Drawdowns and Approvals - Banking and Payments Federation of Ireland
PMI Services and PMI Industry - AIB and IHS Markit
PMI Construction - Ulster Bank
ISEQ Index - Euronext
MCSI Private Real Estate Index - MSCI/SCSI
Dublin City Council

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