Economic & Commercial Property Highlights

TWM

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

CONSUMER

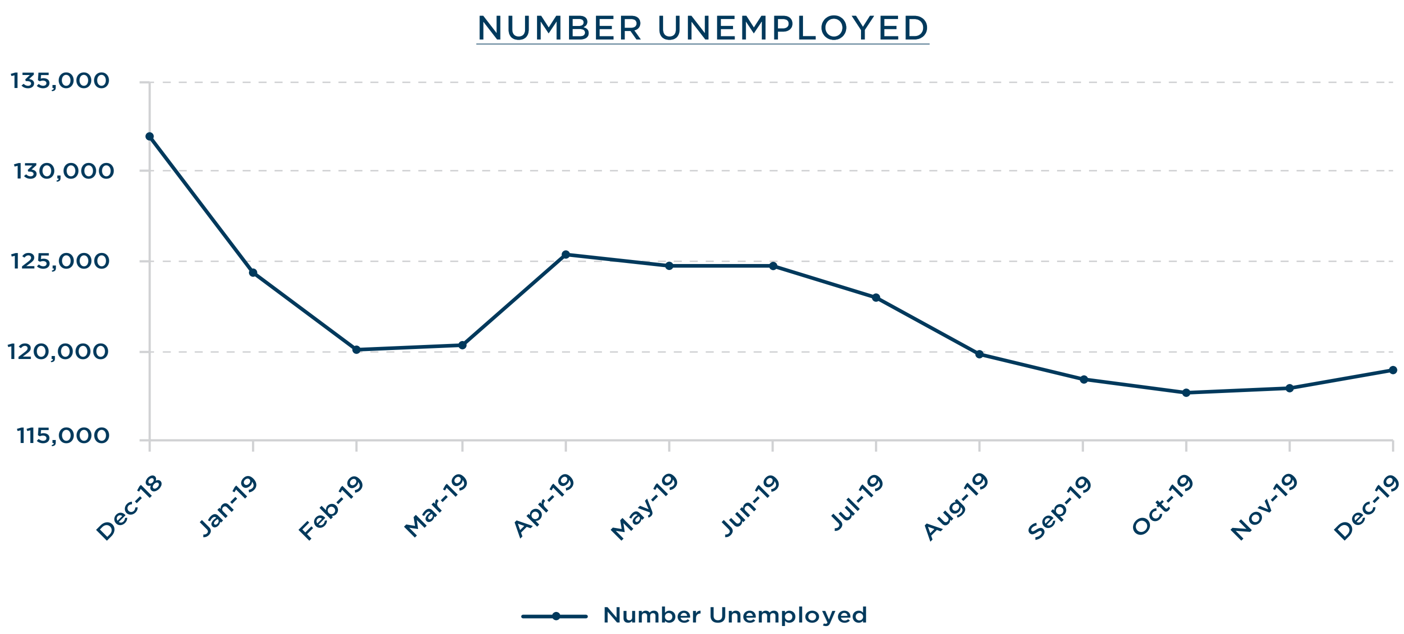
INDICATOR		
Consumer Expenditure	1	Q3 2019
	2	Consumer expenditure in the first 9 months of 2019 was up 3.4% in volume terms on the same period in 2018 and up almost 23% in real terms in the past 6 years.
	3	Consumer expenditure accounts for 60% of domestic demand and this is reflected in the growth 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.
Retail Sales (ex. cars & bars)	1	Dec 2019
	2	Retail sales, excluding motor trades and bars grew at a rate of 5.4% volume and by 3.2% value in the twelve months to December 2019. The gap between volume and value growth has widened again and is now 2.2% points annually. This indicates continued discounting. Sales of *Household Equipment* grew by 18.1% in volume terms year-on-year and by 10.2% in value terms indicating heavy discounting in the sector.
	3	The *Household Equipment* sector continues to contribute strongly to the overall growth, led by the annual volume growth to December 2019 of 23% in *Electrical Goods*, 10.9% in *Furniture and Lighting* and 7.9% in *Hardware, Glass & Paint* respectively. New house supply is expected to increase in the coming years. This will provide ongoing support to the *Household Equipment* sector and is expected to lead to demand for retail space in large retail outlets. However, the recent volatility of sales in these product areas may give rise to some caution on behalf of retailers in relation to expansion of space requirements.
VAT Receipts	1	2019
	2	Up 6.2% y/y in 2019, but were marginally below expectation (0.1%). Growth is consistent with increasing employment levels and with the value growth in consumer expenditure.
	3	The continuing rise in VAT returns confirms the buoyancy in the consumer economy, underpins earlier comments on increased demand for and investor interest in retail property.
Consumer Price Index	1	Dec 2019
	2	Prices are up 1.3% y/y. The monthly change in prices has been somewhat volatile over the past year, with falls in 4 months including the last 2 months, no change in one month and increases in the other 7 months. The annual price change however is uneven across sectors and product types. *Communications, Household Equipment, Clothing & Footwear, Food* and *Non-Alcoholic Beverages* have fallen in price y/y by 8.8%, 2.5%, 1.3% and 0.9% respectively. The latter three are key sectors of retail demand and indicate the continuing competitive nature of these sectors. The largest price rises y/y were in *Drink & Tobacco* (3%), *Education* (4.1%), *Housing, Water, Electricity, Gas and Other Fuels* (+3.3%) and *Restaurants & Hotels* (+2.6%). 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	Dec 2019
	2	The KBC Consumer Sentiment Index is down almost 16% y/y in December 2019. The index was up 4.3 index points (5.6%) in the month, the second month in a row that the Index has increased following 4 consecutive months' decline All of the forward-looking components of the Index are down significantly in the year. The general *Consumer Expectations* is down over 20% y/y while the *Outlook for Employment* is down 22%. The *General Economic Outlook* is down by one-third with the expectation for *Major Purchases* down almost 11%. Each of these, however, have improved in each of the past two months.
	3	The fall in the Index in the past year may reflect a lack of confidence in the strength and sustainability of the economic recovery and also continuing nervousness due to the ongoing Brexit uncertainty. The more recent recovery, although modest, may indicate that as the 'shape' of Brexit is clarified, confidence may improve.
Unemployment	1	Dec 2019
	2	The unemployment rate at 4.8% in December 2019 is down 0.7 percentage points since the same month the previous year. There are now over 12,900 less people unemployed than one year ago and almost 28,000 less than two years ago. The stabilisation in the decline and the levelling-out of the unemployment rate indicates that the economy is approaching full employment.
	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 2020. On the negative side, a tight labour market will lead to increasing wage demands which may undermine competitiveness in the economy and limited growth capacity. This is becoming apparent in the labour market.

Economic & Commercial Property Highlights

TWM

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

INDICATOR		
Earnings	1	Q3 2019
	2	Average hourly earnings were up 3.4% in Q3 2019 compared to the third quarter in 2018. Hourly earnings increased in each of the identified sectors in the year to Q3 2019. The office-based sectors of Administrative & Support Services, Financial, Insurance & Real Estate, Information & Communication and Professional, Scientific and Technical Activities saw increases of 5.8%, 2.2%, 5.9% and 2.6% respectively. Hourly earnings in construction continued to increase (+3.3% y/y) but at a slower pace than before
	3	This rate of earnings increase has accelerated in many sectors, indicating the tightness of the labour market. Wage inflation is significantly above consumer price inflation and, if sustained, could impact on competitiveness. The continued but decelerating growth in earnings in the *Construction* sector is consistent with the employment growth pattern shown above. The slowdown in earnings growth in *Construction* is welcome as it will help to contain the cost of provision of residential and commercial property. The rate of growth in earnings in the *Transportation & Storage* sector has slowed following a period of strong growth due to the growing importance of the logistics sector in the industrial and retail industries. The prospects for this sector remain uncertain in the light of Brexit.



Economic & Commercial Property Highlights

TWM

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

CONSTRUCTION

INDICATOR		
House Price Index	1	Nov 2019
	2	Up 1.4% y/y nationally => now almost 86% above the bottom of market and less than 17% below peak While the upward trend is continuing the annual rate of growth has slowed down significantly in recent months. The annual rate of price increase has decelerated in 17 of the past 19 months. Prices are down 0.7% y/y in Dublin. The fall is due to price reductions for both houses (0.5%) and apartments (1.2%). House prices in the Mid-East were broadly stable with an increase in prices y/y of just 0.4%. Overall prices in Dublin are up 95% from the bottom of the market, and are now just over 21% off peak. Outside Dublin price recovery has been somewhat slower with prices up just short of 84% from the bottom of the market but rate of growth is now significantly higher than Dublin at 3.6% 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 or price falls in some cases. There is also a growing sense that the Central Bank lending guidelines, recently renewed, have taken 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 while residential prices are stabilising, they are unlikely to fall significantly in the short term. This may continue to 'push' potential buyers into the rented sector and provide opportunities for investors in the private rented sector.
Residential Rent Index	1	Q3 2019
	2	Private sector rents rose by 8.2% in the year to Q3 2019 up from 7.8% in the year to Q3 2018. On a quarterly basis, rents were up 3.3% and have now risen in 17 of the past 19 quarters, with only one quarter showing a marginal decline and one showing no change. Nationally, rents are now 29% above the level of Q3 2007 (the start of the Index) and 67% above the bottom of the market. On a locational basis, rents in Dublin increased by 6.3% in the year to Q3 2019, while rents in the Mid-East region rose by 8.9% in the same period. Elsewhere in the country, rents increased by 9.3% in the year.
	3	With the election looming politicians are promising all manner of things. Populist quick fire ideas and sound bites are always a consequence of electioneering. The Law of Unintended Consequences is the situation where actions always have effects that are unanticipated or unintended. In dealing with a complex housing problem there is never just one answer and any rent policy should bear in mind the overall impact on the housing market. The continuing increase in rents is likely to increase the supply in the private rented sector and offer opportunities for investors. However such increases can impact on competitiveness in the economy.
House Starts	1	Jan –Sept 2019
	2	House starts increased by over 22% countrywide in the first nine of 2019 compared to the same period in 2018 to a total of over 19,850. Total up 22.4% y/y Dublin up 18.4% y/y Mid-East up 20% y/y GDA up 19.1% y/y
	3	While there are clear signs that housing starts are growing these are not yet at the pace required to bring a speedy resolution of the supply-demand imbalance and it may be some time before it has an impact on this. Moderated price growth means that the cost side requires urgent attention to continue delivery of new housing to the owner occupier market.
Dwelling Completions	1	Q3 2019
	2	Dwelling completions increased by 18% nationwide in the first nine months of 2019 compared to the same period in 2018 to a total of over 14,760. Total up 18.0% y/y Urban up 19.9% y/y Rural up 11.5% y/y The largest growth in completions is in apartments with a growth of almost 52% while completions of single houses (10.7%) and schemes (14.3%) showed much slower growth.
	3	If this level of completions continued in the final three months 2019, it would lead to approximately 19,700 for the year, still below the level required to bring supply and demand into balance. A dampening of investor or end user demand through government actions may negatively impact on supply. The continuing development of sub sectors such as student accommodation, emergence of senior living, and indeed co-living units while still in its infancy, may have an impact on the supply-demand imbalance as they become a growing feature of the investment market.
Construction Output	1	Q3 2019
	2	There was a 3.1% volume growth y/y in construction output (excluding civil engineering) and 4.6% value growth in Q3 2019 relative to the same period in 2018. The volume of residential construction was up by 24.3% in value terms and 22.5% in volume terms in Q3 2019 relative to Q3 2018. On a quarterly basis value is up 8.7% and volume is up 8.2% suggesting that output prices are stabilising.
	3	The relatively small gap between value and volume growth indicates that prices are only growing slowly. This suggests, particularly in the residential sector, that margins may be tightening.

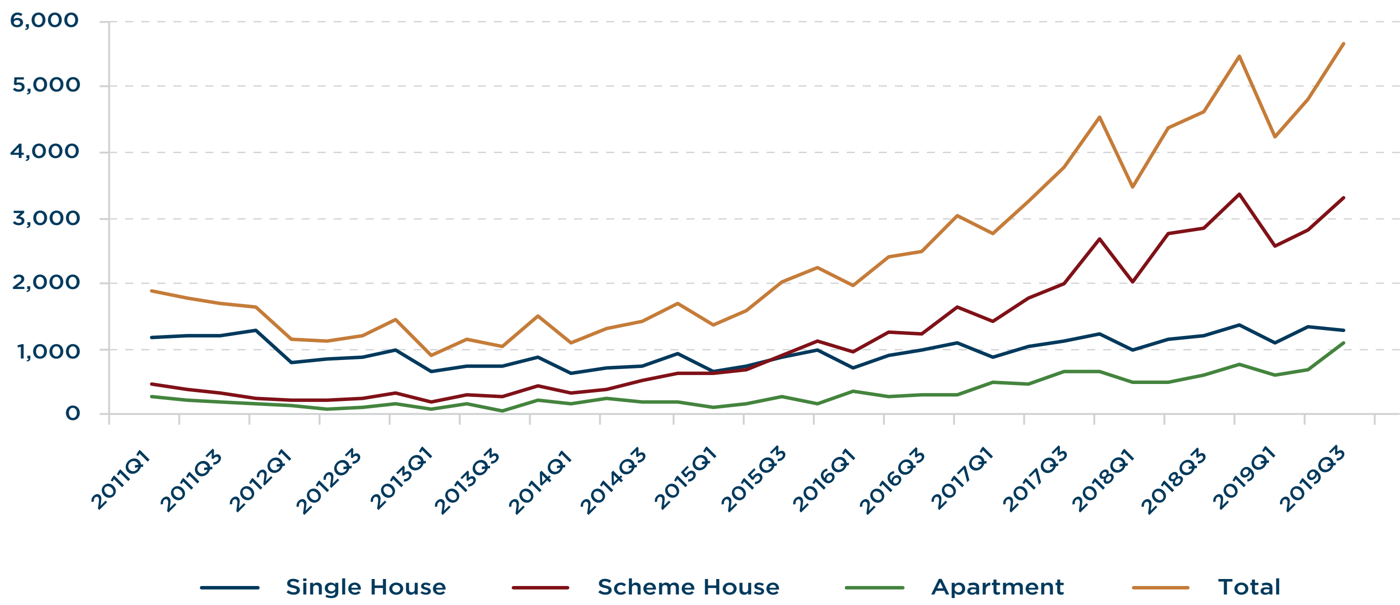
Economic & Commercial Property Highlights

TWM

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

INDICATOR		
Mortgage Drawdowns / Approvals	1	Q3 2019/Dec 2019
	2	Mortgage purchase *drawdowns*, (excluding top-ups and re-mortgage/switching) are up 10.4% in volume and 7.3% in value, in the first nine months of 2019 period compared to the same period in 2018, indicating a growth in average loan size of about 2.9%. The number of purchase mortgage *approvals* (excluding top-ups and re-mortgage/switching) grew by 8.5% to over 39,750 mortgages in 2019 compared to 2018, while the value of these mortgages increased by 11.3% in the same period, indicating an increased average approved mortgage loan of 2.7%.
	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 2.7% is lower than the increase in average hourly earnings (3.4%) 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 should help support 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. Some purchasers may delay decisions on buying pending the election result and the election promises being made.

NEW DWELLING COMPLETIONS



Economic & Commercial Property Highlights

TWM

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

BUSINESS

INDICATOR		
Total Tax Receipts	1	2019
	2	Continued growth in tax take reflects buoyancy in economy. Total tax revenue for the year was up 6.8% y/y, and 2.4% above target. Corporation tax is almost 14.9% above the expected level and well up on 2018 (4.8%). Income tax is up 8% y/y and marginally (0.1%) above target. Excise duties are up 9.6% y/y, in line with target. Stamp Duty is up 4.2% y/y but 9.6% below target. Receipts for all the main categories of tax are up y/y and overall tax receipts are ahead of target (2.4%), although this is primarily driven by corporation tax. Income tax growth reflects strength of labour market.
	3	The strength of the corporate sector, with corporation tax running significantly ahead of expectations, is important in generating demand for commercial space. Growth in Income tax and VAT reflects the strength of the personal/consumer economy and the demand for retail goods. Corporation Tax growth while welcome is exposed to international tax changes which are likely to take place in the coming years.
Monthly Service Value Index	1	Nov 2019
	2	The value of service sector activity was up 1% on the year. *Information and Communication* (8.2%) showed significant year–on-year increases, while *Transportation and Storage* (1.7%) and *Professional, Scientific and Technical Activities* (0.9%) also increased. Declines were experienced in, *Administrative and Support Service Activities* (-30.5%), *Wholesale and Retail Trade* (-2.4%) and *Accommodation and Food Service Activities* (-2.2%).
	3	The fall in the office-based sector of *Administrative and Support Service Activities* and the marginal growth in *Professional, Scientific and Technical Activities,* is somewhat inconsistent with the earnings data shown above, although they do not relate to the exact same period. It does however, indicate the somewhat volatile nature of the overall office-based services sectors. This is evidenced in the attached graphic on page 6.
Services PMI	1	Dec 2019
	2	The index rose for the second month in succession in December to 55.9, following 5 months of decline and has recovered from the seven year low recorded in October 2019. It is now well above the key threshold level of 50 indicating continuing expansion and indicates that the overall services sector is expected to perform well in the coming months.
	3	The uncertainty surrounding Brexit is easing somewhat following the UK General Election, however, while the next step in the Brexit process is clearer, uncertainty remains around the final EU-UK trade deal that will emerge from the Brexit process. The likely impact of the positive PMI reading on demand for office space is unclear, given the erratic nature of the Monthly Service Index shown above and the ongoing Brexit related uncertainty. On the ground however the demand for office space continues.
Construction PMI	1	Dec 2019
	2	The Index recovered to 52 in December 2019 having been in the contractionary range with a reading of 49.2 in November 2019. While the current reading is in the expansionary range it is 4.3 index points (7.6%) below the reading of 56.3 in December 2018.
	3	The recovery in the Index indicated by the reading above 50 suggests that sentiment has improved, possibly on the back of a somewhat clearer, though not risk-free Brexit outturn. This reverses the deterioration in the outlook for the sector over the past few months despite the rise in raw materials costs, rising wage costs and skills shortages. It is unclear how the balance of factors will play out in relation to the impact on the level of new development in the property sector.
Manufacturing PMI	1	Dec 2019
	2	The Index remained below the key threshold level of 50 in December (49.5) and is now 4.9 index points (9.2%) below the level of December 2018.
	3	The impact on demand for manufacturing, logistics and related space may remain uncertain until there is further clarity around the final EU-UK trade deal that emerges from the Brexit process.
Dublin economy & international rankings 2019	1	Nov 2019
	2	The Dublin PMI fell for the third consecutive quarter in Q3 2019 to 53, down 4.3 index points (7.5%) since Q3 2018. However it remains comfortably above the key threshold of 50 indicating continued expansion, but at the lowest rate of expansion in over 6 years. Other positive indicators for Dublin include: - Unemployment rate at 4.4% is at its lowest level since the start of 2005 and a full 9 percentage points below the peak level at the depth of the recession in 2012; - Retail spending up 4.7% y/y in Q3; - Tourist spend up 8.3% y/y in Q3; - Passenger numbers through Dublin airport up 2.6% y/y in Q2; - Import and export tonnage moving through Dublin Port both fell marginally y/y in Q2; - E-commerce is estimated to have grown by 5.1% y/y in Q2 2019, with the largest growth in *Household Goods* (9.2%) The *Dublin Economic Monitor* (Dublin City Council) presents international comparative rankings for Dublin across 14 different indices/measures. The city maintained its number one position in 2019 on three important indicators, *EY Financial Services Brexit Tracker* (Relocation plans), *WorldFirst European Buy-to-Let League* (2018) and *International Monetary Fund Global Financial Stability Report.* Against the positive rankings above, Dublin lost ground on a number of indicators, including the *Mercer Cost of Living Index, European Regional Economic Growth Index, Global Talent Competitiveness Index,* and the *QS World University Rankings*
	3	A number of key metrics and variables point towards a thriving economy in the capital city. Dublin's performance on a number of key international comparative indicators should continue to attract the interest of international investors in the city, although it has lost ground on a number of important business-related rankings. The drop to 35th on the *Global Talent Competitiveness Index* indicates that attracting the highest calibre of professionals to work in the city is a challenge particularly in the context of the ongoing promotion of FDI.

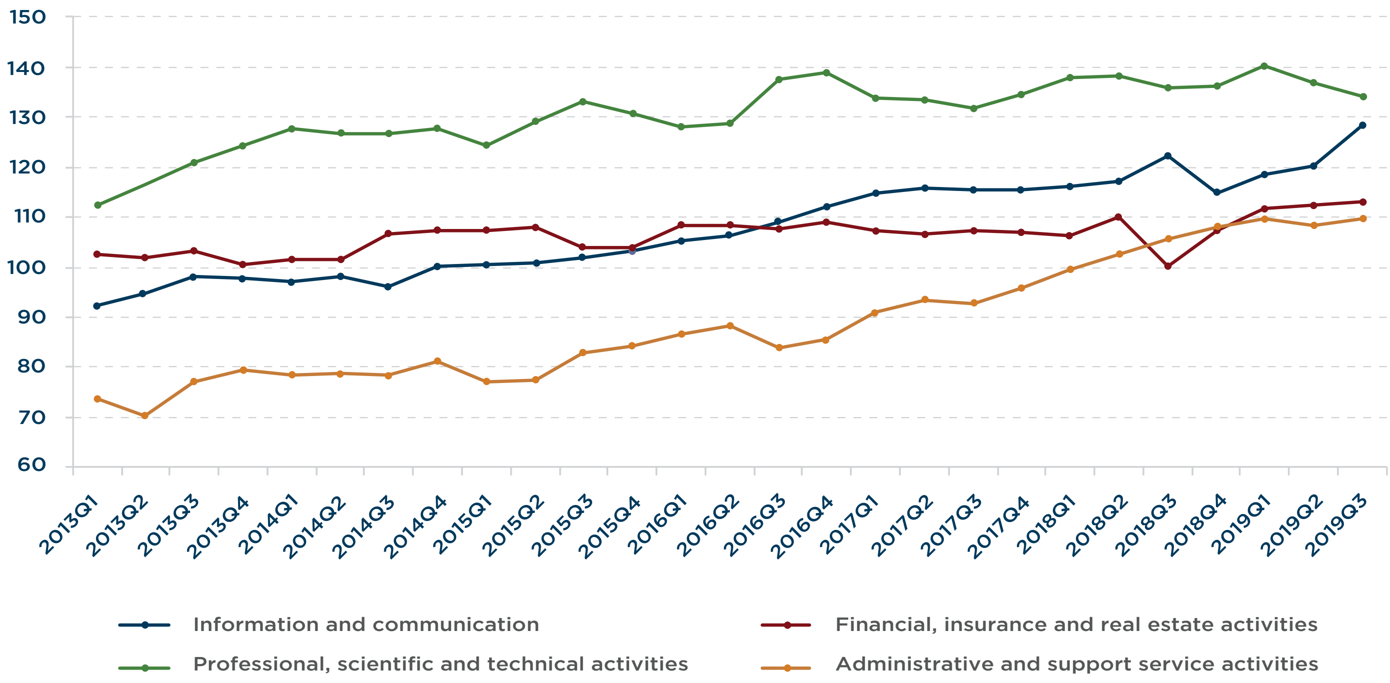
Economic & Commercial Property Highlights

TWM

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

INDICATOR		
ISEQ All Share Index (Euronext Dublin)	1	End 2019
	2	The ISEQ Price Index has increased by over 31% over the course of 2019 with the bulk of this growth taking place in the final four months of the year.
	3	While the equity market has performed very strongly this year, it is more volatile than the property market and may be less attractive to risk averse investors.
MSCI Private Real Assets Index	1	Year End 2019
	2	The total return for All Property was 5.3%, down from 9.9 % in 2018 . On a sectoral basis the industrial sector was the best performer producing a total return of 7.8%, compared to 6.4% for offices and 1.7% for retail. Overall capital growth for the year was 0.7% driven mainly by rental value growth. In Q4 Capital Values turned negative as the effect of the increase in stamp duty took its toll on values.
	3	Income return remains the main driver of growth of property returns being 4.5% of the overall 5.3% return.

EMPLOYMENT IN OFFICE-BASED SERVICES SECTORS (000)



Summary (Current Situation)

- The consumer economy indicators remain broadly positive but may be starting to plateau
- Large household items remain a key sector in retail
- Unemployment rate has levelled out at below 5% => tightness of labour market now being felt through wage pressure in many sectors
- Employment still growing but rate of growth is slowing
- Employment growth is strong in the office-related sectors but growth is now more erratic
- Cost pressures for both labour and materials may have led to slowdown in rate of growth in the construction sector
- House and apartments prices now falling in Dublin.
- Housing supply is increasing but still at a rate below that required to bring supply and demand into equilibrium
- The Law of Unintended Consequences should be considered in promises being made during electioneering.
- Brexit issue now resolved but nature of trade deal remains unclear – not likely to be clarified for many months
- Brexit uncertainty which may have been impacting negatively on both consumer and business confidence may now ease somewhat, particularly in the early part of 2020 but may change as trade negotiations progress.
- Manufacturing PMI is now in the contractionary range with the Services PMI holding comfortably above the expansionary threshold
- The Construction PMI has returned to the expansionary range
- Equity market has performed very strongly in 2019, particularly in the final quarter but property remains the strongest asset class over 3,5 and 10 years.
- The result of the election and the formation of a new Government, may impact on certain sectors and investor focus.

Economic & Commercial Property Highlights

TWM

Summary (2019 Performance)

Positives:

CONSUMER	CONSTRUCTION AND HOUSING	BUSINESS
- Unemployment down - Employment up - Retail Sales up - Consumer Sentiment down in year but may have turned corner	- House starts and completions rising - House prices stabilising - Mortgage Approvals and Drawdowns up - Construction PMI back in expansionary range	- Tax Revenue up - Services PMI in expansionary range - Brexit uncertainty may ease

Negatives:

- Employment in office employment volatile - Brexit trade negotiations may be difficult and prolonged	- Earnings growth significantly in excess of consumer inflation - Manufacturing PMI in contractionary range

The Private Rented Sector – A key investment opportunity

TWM considers that the Private Rented Sector offers significant investment opportunities, particularly for overseas investors. This is based on the following economic drivers:

=> The economy continues to grow at a fast pace => 5% in 2019 and forecast 4.3% in 2020 and 3.9% in 2021 (Central Bank of Ireland)

=> The Irish population continues to grow – up 64,500 in the year to April 2019 and a similar increase in the previous year

=> Approximately half of the population growth is due to net migration – many of these people require new accommodation

=> Employment continues to grow – see graph below

=> Earnings are growing at a rate well above the rate of consumer inflation

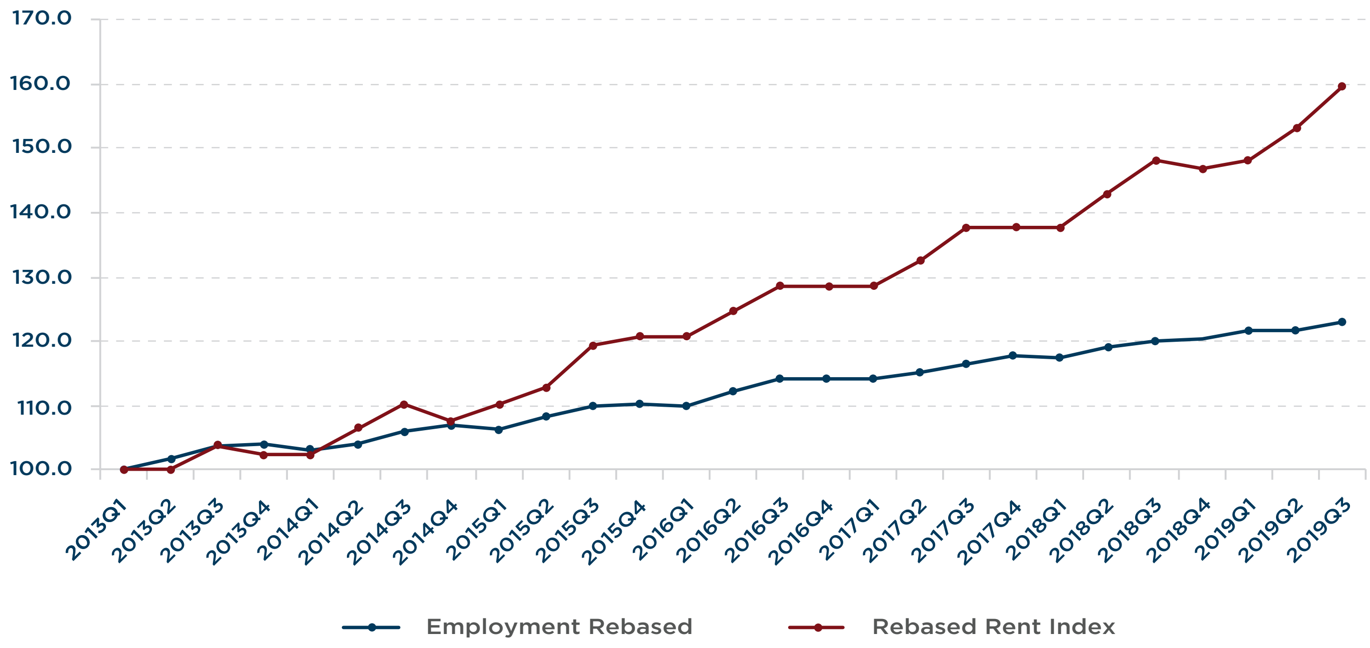
=> TWM Research shows that there is a 99% correlation between Employment and Rental levels – see graph below

=> TWM Research shows that there is a 86% correlation between Earnings and Rental levels

=> Housing completions and starts, while increasing, are still at a level that will leave a shortfall against demand – pushing potential buyers into the rental market

Any government rental and taxation policies should be considered in the context of overall housing policy objectives

RENT INDEX AND EMPLOYMENT INDEX



Property Investment Transactions

2019 witnessed a record turnover in the investment market at €7.347Bn up from €3.672Bn in 2018. It was a year of two halves however with almost 75% of transaction occurring in the second half of the year. The year was characterised by (i) some very large transactions including the sale of Green REIT and the sale of the Starwood office portfolio and (ii) the significant impact on the figures of PRS, now accounting for over 40% of the market.
See graph below.
Apart from the Green and Starwood transactions, some other notable deals included:

Property	Sector	Reported Price (€)	Purchaser
XVI Portfolio	PRS	285,000,000	IRES
Heuston South Quarter, Dublin 8	Mixed Use	220,000,000	Henderson Park & Chartered Land
Project Vert	PRS	216,100,000	Confidential
FIVE Hanover Quay, Dublin 2	Office	197,000,000	Union Investment
Dublin Landings PRS	PRS	175,500,000	Greystar
St, Stephens Green SC	Retail	175,500,000	Davy

Events and Issues to watch

Ireland:

=> Brexit now a reality,

=> Despite this, uncertainty may continue until nature of trade deal is clearer => may impact on business and investment planning.

=> Key property-related measures in Budget 2020 were:

=> Increase in commercial stamp duty rate by 1.5%;
=> Extension of Help-to-Buy scheme for two years - while welcome this is probably not tackling the source of the imbalance in the residential market;
=> Increased financial allocation to the Land Development Agency and Serviced Site Fund and Local Infrastructure Housing Activation Fund.
=> Extension to the Living City Initiative out to the end of 2022.

=> Irish General Election

=> Prior to an election result it is thought that the outcome will not lead to any fundamental changes in Irish economic policy although it may shift more to the left.
=> One exception to the above might be a renewed emphasis on housing policy and taxation.

International:

=> ECB interest rate policy => January 2020 ECB Council meeting

=> No change to thrust of policy.
=> Commitment to maintain rates at current or lower levels until inflation approaches 2%.

=> US and global political developments

=> Process of impeachment of President Trump underway and passed through House of Representatives but unlikely to be successful in Republican-controlled Senate.
=> Danger of political and economic instability in Middle-East remains.

=> US trade policy

=> Prolonged exit of UK from EU has pushed EU-US trade negotiations down the agenda.
=> Trade tensions between US and China have eased somewhat, but uncertainty persists.

TWM
twmproperty.ie

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
Mortgage Drawdowns and Approvals - Banking and Payments Federation of Ireland
PMI Services and PMI Manufacturing - AIB and IHS Markit
PMI Construction - Ulster Bank
ISEQ Index - Euronext
MCSI Private Real Estate Index - MSCI/SCSI
Dublin City Council