

# Economic & Commercial Property Highlights

LEGEND	INDICATOR
1 = Most Recent Indicator	Consumer Expenditure
2 = Status	1 Year 2016
3 = Impact for Property Sector	2 + 3.0% y/y but rate of growth slowed in later part of year
	3 Supporting strong retail demand
	Retail Sales (ex. cars & bars)
	1 March 2017
	2 Volume + 6% y/y + 0.5% m/m => Volume continuing to rise faster than Value indicating price discounting
	3 15.5% y/y growth in Electrical Goods & 11.8% y/y growth in Furniture and Lighting => strong demand for consumer durables supports retail warehousing sector
	VAT receipts
	1 April 2017
	2 Jan – April + 14.5% y/y, 5.7% above target
	3 Growth somewhat better than expected. Suggests improving spending climate. Consistent with positive retail sales
	Consumer Price Index
	1 April 2017
	2 +0.9% y/y => while still low – 6th successive month of rising annual inflation and 3rd successive month of rising prices
	3 Price discounting => continued competitive pressure in household goods sector – sterling weakness may be a contributory factor also
	Consumer Sentiment Index
	1 April 2017
	2 -0.7% y/y, largely unchanged m/m. Surprisingly Dublin sentiment lagging ex-Dublin. (Q1) 3-month moving average index down 0.4 % m/m
	3 Consumers appear more bullish about making large household purchases, a change from last month. Indicator can be somewhat volatile on short-term basis
	Unemployment (%)
	1 April 2017
	2 6.2%. Down 2.2 percentage points y/y
	3 Sustain retail demand. As unemployment falls, wage pressure may intensify
	Employment (000)
	1 Q4 2016
	2 Up 65,000 y/y +3.3%. All 14 sectors experienced employment growth. Largest growth in Construction (+9.2%) and Professional, scientific and technical activities (+5.7%)
	3 Recovery is well spread. Support demand across the board
	House Price Index
	1 March 2017
	2 + 9.6% y/y nationally => over 50% above bottom of market but more than 30% below peak. + 8.2 % y/y Dublin. Prices still more than 30% off peak
	3 No indication of slowing market. Demand continues to greatly outstrip supply
	House Starts
	1 February 2017
	2 Over 13,200 starts in 2016. Up 51% y/y. Jan-Feb 2017 down 3% y/y. Dublin + 39% 2016 y/y. GDA + 46% 2016 y/y
	3 Supply still running well behind demand => continued upward pressure on price
	House Completions
	1 February 2017
	2 Almost 15,000 completions in 2016. Up 18% on 2015 Scheme houses: Dublin + 50% 2016 y/y GDA +46% 2016 y/y Apartments: Dublin + 57% 2016 y/y GDA +49% 2016 y/y
	3 Supply still running well behind demand => continued upward pressure on price
	Construction Output
	1 Q4 2016
	2 Volume Q4 + 16.8% y/y. Volume Year 2016 + 17.6% y/y. Residential construction. Q4 2016 +34.4% y/y, Full year 2016 + 33.9% y/y
	3 Total output last 3 quarters above level of Q4 2009
	Mortgage Drawdowns
	1 Drawdowns Q1 2017
	2 Volume up 27.4% y/y Value up 39.5% y/y. Average mortgage size up 9.5% y/y. Growth rates reflect weak performance in Q1 16
	3 Continued upward pressure on house prices. Increasing mortgage size and repayment commitments may impact on spending elsewhere
	Bank lending to household sector
	1 March 2017
	2 Value of Outstanding Debt => down 0.8% y/y. Value of loans for house purchase similar fall. Consumer credit up 7.7% y/y
	3 Support consumer spending
	Total Tax Receipts
	1 April 2017
	2 Jan- April + 0.5% y/y 2.4% below target. Corporation tax down 22.7 y/y and 27.6 below target, Income tax up 1.2% y/y but 3.1% below target. Excise duties running 6.3% below target (-16.5% y/y)
	3 Mixed results – suggests growing economy but below forecast. May have implications for public spending
	Business Sentiment
	1 Spring 2017
	2 110.6 +5.8 points q/q but – 20.5 points from peak (Q4 2015). Brexit 'awareness' is varied
	3 Some evidence of caution in hiring. May impact on demand for office space
	Services PMI
	1 April 2017
	2 61.1 => up 2 points on month. Reverses fall of previous two months. Now at highest level since June 2016
	3 Still well in positive zone, strong growth in last quarter of year. Support for office sector
	Construction PMI
	1 April 2017
	2 60.8 => up 2.9 points on month. Strongest reading since October 2016
	3 Outlook perceived to be very favourable
	Manufacturing PMI
	1 April 2017
	2 55 => + 1.4 points on month. Q1 average of 51.9 well above Q4 16
	3 Support for industrial sector
	ISEQ Index
	1 End April 2017
	2 6,861 => up 11.4% y/y Significant growth in April Return Index up 12.9% y/y Significant growth in April
	3 Reached 12-month high towards end of April 2017
	MSCI/SCSI Index
	1 Q1 2017
	2 +2% q/q, +11.2% y/y but slowing. Driven mainly by income return. Industrial best performing sector
	3 Property out-performed equity on annual basis to end Q1. This may change in Q2



# Summary

- Indicators somewhat mixed but on balance positive
- Unemployment continuing to fall and now almost at level last seen in late 2008
- Rise in employment accelerating
- Retail sales continue to show real increase but value lagging behind volume growth
- Price discounting cannot continue indefinitely
- Household goods sector remaining buoyant
- Consumer confidence volatile
- Business sentiment cautiously positive
- PMI's remaining positive
- Growth in house prices shows no sign of slowing down

## Global watch

### BREXIT

#### The process has commenced

- UK Government has initiated exit process through formal invoking of Article 50
- EU attitude towards Brexit hardening somewhat
  - » No trade deal until residents' rights are confirmed
- US administration may become UK ally post-Brexit
  - » This might pave the way for some form of USA-UK trade relationship
- Uncertain political climate in Europe
  - » UK and German elections
  - » Outcomes of these may galvanise both sides in Brexit negotiations
  - » New French president – Pro Europe. Removes one element of uncertainty

#### Impact on Ireland

- Focus of Irish Government has been on Northern Ireland and common travel area
- EU has acknowledged 'special' position of Ireland in Brexit negotiations
- Some survey evidence that level of Brexit-related enquiries from UK-based companies to Irish property agents are increasing
- Government has published 5 pronged strategy for its approach to Brexit negotiations
- 40% of companies already taking Brexit related action (KBC Bank/ Chartered Accountants Ireland)
- Most Irish senior executives believe that a hard Brexit is inevitable (Merc Partners)
- JP Morgan announcement of acquisition of 130,000sq.ft at Capital Dock is good news for Dublin

### US PRESIDENCY

- Economic policy
  - » less insular than feared
  - » Attitude to China softening
  - » Hasn't taken USA out of NAFTA
- However plan to cut corporate tax rate to 15%
  - » Announced but requires Congress approval
  - » If implemented may have impact on flow of FDI into Ireland
- Political pressure starting to mount on President Trump
  - » May impact on future economic policy

#### Recent investment transactions

##### Slow start to the year with Q1 turnover at approx. €425M

- 13-18 City Quay, Dublin 2 – Forward Funding of office block let to Grant Thornton. Acquired by Irish Life for approx. €126m representing a net initial yield of 4.57%
- Montrose Student Residence – 205 bed student block acquired by Hines for €37.675m representing a gross initial yield of 7.37% based on a gross income of €2.91m pa
- Aerodrome Business Park, Co. Dublin – Irish Life acquired an industrial investment let to Culina SHS (Ireland) for approx. €28m being a net initial yield of 6.18%
- Parkway Retail Park, Limerick – Sold by Green Reit to Sigma Retail Partners for approx. €23m which will provide a net initial yield of 7.58%
- P2 East Point Business Park, Dublin 3 – Office let to Virgin Media sold by Ardstone to Avestus Capital Partners / Ares Management for €12.05m providing a net initial yield of 5.14%

#### Events and issues to watch

##### Short/Medium Term - Change of Taoiseach in June

- Implications for political stability
- Short term loss of political influence in EU
- New 'Brexit team'

##### ECB interest rate policy

- April meeting of ECB kept rates as they are and indicated that monetary policy will remain very accommodating into the foreseeable future
- Rates are not expected to rise until well into 2018

##### Transport infrastructure

- Cross-city Luas line expected to be operational later this year
  - » May provide boost to city centre retailing and tourist spend
- Metro North may be fast-tracked
  - » But slowdown in tax receipts may militate against this

##### Longer Term - Growing and Ageing population

- Population growth 2011 – 2016 higher than expected
- Births fell somewhat in 2011-16
- Population is ageing
  - » 65+ age group grew by 19% 2011-16
- Will present both challenges and opportunities

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#### SOURCES:

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

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