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Cautious optimism in commercial property

Sean O'Neill

In our second report of a series on 'Economic and Commercial Property Highlights' this year, TWM examined a range of economic indicators and global events that have an impact on the property market here at home.

The report, which was produced in association with economic consultant Stephen Walsh, provides some details on recent commercial property investment transactions. The indicators, while somewhat mixed, support underlying demand in all sectors of the property market.

For example, in relation to consumer demand, indicators including consumer expenditure, retail sales, Vat receipts and Consumer Price Index, (CPI), show strong support for the retail sector. However, there appears to remain a focus on value retailing with volume rising faster than value. The weakness of sterling could be a contributing factor to these figures. Interestingly, consumer sentiment in the first quarter was stronger outside Dublin.

Housing

In relation to housing, the increase in house starts, house completions (although concern as to the veracity of this data) and mortgage drawdowns illustrate the supply and demand for housing and would support demand in the household goods and retail warehousing sectors. The rising house price index illustrates the much-reported supply/demand imbalance which will continue to support price growth.

Commercial

Various sentiment indicators in terms of business, services, construction and manufacturing remain positive and illustrate continued support for the office and industrial sectors with the outlook for construction remaining positive.

According to the MSCI/SCSI index, commercial property was up 2 per cent for the first quarter of the year mainly driven by income return with industrial the best performing sector. Property continued to outperform equities over the quarter, however, in April, equities reached a 12-month high towards the end of the month so the pecking order may change in the second quarter.

Brexit

As regards Brexit, the process has started. The EU attitude towards Brexit has hardened somewhat. The French election has removed an element of uncertainty from the EU side and the outcomes of the British and German elections may galvanise both sides in negotiations. In Ireland, according to Merc partners, most senior executives believe that a hard Brexit is inevitable. This is likely to be a negative for the country overall, but positive for the property market in the greater Dublin area. Brexit enquiries have been increasing and the JP Morgan announcement of its acquisition of 12,000 square metres of offices at Capital Dock is good news.

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United States

In the US, economic policy appears less insular than feared, however, the plan to cut the corporate tax rate to 15 per cent, if implemented, may have an impact on FDI flow into Ireland. The political pressure starting to mount on President Donald Trump may have an impact on future economic policy.

Outlook

Looking to the future, issues to watch include the implications for political stability as a result of the change of taoiseach and the new Brexit team and how this affects Ireland's political influence in the EU in the short term. ECB interest rate policy remains very accommodating with rates not expected to rise until well into 2018. The cross city Luas line will be operational later this year and this may provide a boost to city centre retailing.

Overall, the indicators are positive with the commercial property market cautiously optimistic.

Sean O'Neill is a director at TWM, a boutique commercial property advisory company with offices in Dublin and Galway.