This will be retail's year

Confidence in the retail property sector is rushing back, writes **Sharon Walsh**

Madison Realty has paid €60 million for a stake in St Stephen's Green Shopping Centre in Dublin

The office market has been in strong recovery mode for the last three years, but it was only in 2015 that the retail sector showed a clear reversal in investor sentiment, and all the indications are that this will continue in 2016.

With 50 per cent of deals in Q4 2015 coming from the retail sector – including several big ticket purchases by international investors – it is palpable that confidence in this sector is rapidly returning.

At HWBC we note a lot of interest from international clients in retail investments.

For example, recently we advised US firm Madison International Realty on their €60 million purchase of a part share in St Stephen's Green Shopping Centre.

Other notable foreign buyers include Germany's Deka buying the Whitewater Shopping Centre in Newbridge for €181 million and Davidson Kempner's €177 million purchase of the five-strong portfolio of regional retail parks known as the National Portfolio.

The recovering economy, and particularly improvements in consumer sentiment, has played an important part in underpinning investor confidence. Retail sales to the end of November 2015 were up 9 per cent by volume and consumer sentiment hit a ten-year high this month.

> **We are now at a much better place, with retailers competing for space in the most prime locations**

This is the year when tax reductions announced in the budget will start to hit consumers' pockets and with GDP growth of 7 per cent forecast, there may be scope for further tax reductions this year.

However, it has not just been international investors who have been attracted by the strong growth in retail rental rates, which were in excess of 10 per cent last year and over 15 per cent in some prime areas.

Irish Life bought the Sovereign Portfolio which included retail assets on Grafton and Henry Street for €154 million as well as the Lifestyle Sports flagship store last September, and the consensus view is that these areas will see further rental growth in excess of 10 per cent this year.

Back in 2011/12, investors in retail assets could expect yields of between about 7 to 8 per cent, a clear indication of uncertainty as to whether prices had bottomed or whether growth would return.

The retail sector faced the twin uncertainties of the strength of the Irish economic recovery, but also the global challenge of online shopping and changing shopping patterns.

We're now looking at deals being priced for yields under 4 per cent which reflect the strong rental growth expectations, and therefore it is no surprise that the profile of typical investors has shifted away from opportunistic private equity funds seeking high returns, to more conservative long-term investors who now see Dublin as an established real estate market comparable to any other major European city.

This can only be positive for the sustainability of the recovery for Ireland as a whole and is similar to the changing profile of investors observed in the office sector earlier in the cycle.

If Hammerson's acquisition of Project Jewel for €1.85 billion was the marquee deal of 2015, then the recently announced plan to sell the Blanchardstown Centre by Green Property will likely be the biggest retail deal of 2016.

Under-bidders for Project Jewel who will have spent a lot of time and effort doing due diligence on the Irish market are expected to put some of that to work into reviewing whether to make a bid on this giant 1.2 million square foot complex that attracts an annual footfall of more than 16 million people.

A successful sale of Blanchardstown could well spur further shopping centre sales throughout 2016 although, as mentioned, it is the larger dominant centres that will likely attract early attention.

The recovery in capital values in retail assets will likely be more uniform than that of offices, especially outside Dublin.

For this reason, as well as the often complex nature of shopping centres, we do not envisage the kind of short-term profit making for those investors entering the retail market in 2016 that we have seen on occasion with the office investment market.

This should also be the year when significant retail development projects start again.

The Frascati Shopping Centre and Cherrywood in Dublin are two locations where activity is expected.

Liffey Valley in west Dublin is also undergoing a €26 million expansion programme that will add 113,000 square feet to the busy retail centre and is scheduled for completion this year, with Penney's coming in as the anchor tenant.

Acting as shopping centre asset manager across the country has given HWBC a good feel for the strength and depth of interest for new retail space from occupiers.

Whether it be the arrival of Starbucks in Dun Laoghaire's Bloomfield Centre, or the opening of a new Dealz store at Blackpool Retail Park in Cork, our experience has been of high levels of interest when new retail units are offered, even in some of the more peripheral locations.

Occupiers are also now more willing to contemplate longer lease terms and rental review clauses.

So after several bleak years when empty units, insolvency and stagnant or falling rents were the norm, we are now at a much better place in the cycle, with retailers competing for space in the most prime locations and a broad base of international investors competing hard with domestic funds to win deals which two years ago might have struggled to raise a single bid.

Sharon Walsh is the director of retail at HWBC