Expanding horizons: spotlight on the real estate markets of Scotland and Ireland with CBRE and JLL

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During our recent event on expanding horizons, our guest speakers **Max Reilly** (Capital Markets Director at JLL) and **Douglas Smith** (Consultant at CBRE) delved into the dynamic landscapes of the Scottish and Irish real estate markets, whilst exploring the resilient Scottish economy and turning our attention to the Irish market, known for its small size but significant impact on the global stage. Ireland, a small open economy, has managed to establish itself as a formidable player, attracting most of the world's top 20 technology, pharmaceutical and financial firms through strong foreign direct investment (FDI).

The Scottish economy has proven its strength and resilience, surpassing expectations

Despite the challenges posed by the pandemic, the Scottish government data reveals that quarterly real GDP growth was 0.4% in Q1 2023 (four times higher than the UK equivalent). This robust performance is attributed to sectors such as construction, agriculture, forestry and fishing, and services, which accounts for a significant portion of the economy. These positive indicators suggest that Scotland is well positioned for continued growth and investment opportunities. Scottish cities are actively focused on revitalising their economies post-pandemic. They are embracing placemaking strategies to create more diverse and resilient property uses. This approach seeks to transform city centres into attractive destinations that not only cater for work and shopping, but also offer opportunities for living, visiting, learning and leisure. Glasgow, for example, is exploring ambitious plans for low-carbon, mixed-use developments, including the redevelopment of its shopping centres. Such initiatives are aimed at revitalising city centres and bringing them back to pre-pandemic levels of activity.

A magnet for high-quality overseas investors

Scotland has a track record of attracting high-quality investors, particularly from overseas, when it develops significant Grade A investment projects. Recent successes include the completion of the new office project in Glasgow at 177 Bothwell St, which saw a substantial investment sale to a Spanish investor. Edinburgh has also witnessed significant investment with the £350 million Haymarket mixed-use development. These examples demonstrate Scotland's potential to draw both foreign and domestic capital by creating attractive investment opportunities. While local capital for real estate projects in Scotland may be limited, looking beyond local borders for funding can bring benefits. Engaging with non-domestic capital opens up access to a greater volume and range of investment possibilities. This, in turn, can lead to the emergence of more diverse projects and increase overall investment activity. However, to attract non-domestic capital, it is essential to demonstrate the strength and competitiveness of projects compared to other opportunities. This challenge encourages the real estate sector to strive for projects of scale that are genuinely investable, ensuring that quality remains a priority. It is crucial for all tiers of government and their agencies in Scotland to ensure the process of securing permissions for capital investment projects is not more difficult than in other parts of the UK. By creating an investment-ready environment, Scotland can attract more investors and expedite project development. Streamlining regulations and processes will encourage businesses to invest and contribute to the growth of the real estate sector. The future of offices in Scotland is experiencing unique dynamics. Even before the pandemic, there was a shortage of new office space, with current vacancy rates for new Grade A space being less than 1% in major markets. This scarcity means that any changes in demand patterns will not be imposed on an existing oversupply of new Grade A space. However, sub-Grade A buildings may face higher vacancy levels, presenting challenges for their owners and financiers. This situation may lead to exploring alternative uses such as residential or mixed-use redevelopment.

Scotland's business initiatives and climate change commitment

The Scottish government is taking steps to strengthen its relationship with the business community through initiatives like the New Deal for Business Group. This collaborative effort aims to involve businesses in the early stages of policy development, improve the implementation of regulations, enhance the non-domestic rates system, highlight business contributions to a wellbeing economy and encourage data and evidence sharing across sectors. By fostering better collaboration between the government and the business sector, including real estate, Scotland can achieve its policy objectives more effectively. Scotland's commitment to addressing climate change, particularly highlighted by Glasgow hosting COP26, presents significant investment opportunities. With ambitious targets of becoming a zero-carbon country by 2045 and generating 50% of energy consumption from renewable sources by 2030, various sectors like onshore wind, offshore wind, marine, tidal, hydrogen and battery storage.

Douglas Smith, CBRE Scotland

Ireland is a small open economy that punches beyond its weight

Ireland, despite its small size, has managed to establish itself as a formidable player on the global stage. The country serves as a strong recipient of FDI and is home to a majority of the world's top 20 technology, pharmaceutical and financial companies. This indicates Ireland's ability to attract and retain major players in these industries, contributing to its economic success. In terms of economic growth, Ireland is projected to experience a GDP growth rate of 5.5% for 2023, which is expected to taper to 5% in 2024. However, it is worth noting that the presence of FDI companies can distort the GDP figure and, therefore, Gross National Income (GNI) is often considered a more accurate metric for assessing the base economy. GNI excludes the profits of foreign-owned companies, providing a better understanding of domestic economic activity. Furthermore, Ireland has earned the distinction of being the second-most competitive economy in the world. This recognition highlights the country's favourable business environment, competitiveness and attractiveness to investors. Such a ranking underscores Ireland's ability to compete on a global scale, despite its relatively small size. Another significant achievement for Ireland is its low unemployment rate, which has recently fallen below 4%. This historic low signifies that the country has effectively reached a state of full employment, demonstrating a robust labour market and overall economic stability.

Dublin's dominant real estate market – 80% of Ireland's annual investment turnover

The real estate market in Ireland, particularly in Dublin, holds a dominant position, accounting for approximately 80% of annual investment turnover. On average, investment turnover ranges from €3 billion to €4 billion, with the previous year witnessing an exceptional excess of €6 billion, partially attributed to a Real Estate Investment Trust (REIT) sale. The market is considered international, with participation from major global players, particularly from the US, the UK and Europe. However, there is relatively less involvement from Asian capital. Overseas investors typically contribute around 80% of the turnover, while a local market remains active as well. Although the occupier markets in general are robust, there has been some softening observed in the office sector. The current vacancy rate stands at approximately

12%, but it should be noted that a significant portion of this vacancy is derived from grey (sub-let) space. Ireland's significant presence in the tech sector has raised concerns regarding global layoffs. However, a rough estimate by JLL suggests that only 1.3% of the Irish tech workforce has been affected, which is considerably lower than the global layoff announcements. This indicates a relatively stable tech sector within Ireland. Environmental, social and governance (ESG) factors have become influential in the market, aligning with global trends. The expectation is that there will be a flight to quality, with Dublin positioned relatively well due to having more than 20% of office stock built after 2015, meeting ESG compliance standards.

What is interesting?

In terms of what is considered interesting in the market, a period of "price discovery" typically presents opportunities to achieve value. Many investors are currently waiting for transaction evidence and, once that evidence starts to emerge, they are expected to re-engage in investing. Presently, this pack of competing investors is notably absent from the market. Interest rates are a significant concern globally, as flagged increases can complicate decision-making processes in investment. The uncertainty surrounding future interest rate changes can add complexity and potentially impact investment strategies. A preference is expressed for new ESG-compliant offices with some vacancy, as there is an expectation that a significant portion of the market will seek fully-occupied properties. This preference aligns with the growing emphasis on sustainable and responsible real estate practices. High street retail is identified as an intriguing sector within the market, likely due to the potential for investment.

Max Reilly, JLL Ireland