



# Property Snapshot

IRELAND ECONOMY &amp; PROPERTY MARKET

COLLIERS JACKSON - STOPS QUARTERLY VIEW Q2 2009

**COLLIERS  
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## Economy

Irish GDP fell sharply in Q4 2008 by 5.2%, taking the annual decline to 7.5% against Q4 2007. This was driven predominantly by an 18.7% fall in fixed investment, but also by consumption declining by 4.5% over the quarter. The IMF's latest forecast suggested that GDP will fall by 8.0% in 2009 and a further 3.0% in 2010.

Consumer Price Inflation fell to 1.2% by year-end 2008 and whilst some deflation is expected during 2009, the IMF expects prices to be growing again by the end of the year, forecasting CPI of 0.3% by the end of 2009. Unemployment has already risen significantly in 2009, with seasonally adjusted figures recording an 11% standardised rate in March.

The current economic ills caused Standard and Poor's (the credit rating agency) to downgrade Irish Government debt at the end of March from AAA to AA+, with a warning that a further drop could follow. This action will increase the Government's cost of financing its budget deficit as it will be forced to pay a higher interest rate on its bonds to reflect the increased risk. In response, the emergency budget of April 7th announced a €100m cut in Government expenditures and a raft of future tax increases.

## Property Market

### Investment Overview

- Frozen credit markets and battered consumer and investor confidence continue to keep the Irish investment market subdued.
- Investment Property Databank (IPD) reports 2008 Irish investment market results as worst for any property market in recent times. Yields have continued to move outwards dramatically while rents in all sectors are under continued downward pressure.
- A small number of investment sales remain in the market, unable to generate interest. In the UK, the depth and maturity of the market is helping it generate some transactions predominately in prime sectors such as London's West End. Quality assets are still attracting interest from private investors and overseas parties albeit at somewhat reduced prices.
- A dearth of credit has also drastically reduced transactional levels in the UK market. A recent survey of banks operating in the UK found that just 12 institutions are lending on property transactions of in excess of £25m.

**CJ-S View:** The Irish investment market will remain muted until the domestic banks start lending into the sector. However this is unlikely to happen in the short term as many of banks have not addressed the fall in values of the properties already on their loan books. Smaller transactions of sub €5m will form the mainstay of the market for now.

### Offices

- City Centre: Prime rents have come down to €540 per sq m but there is little demand. There are very few large requirements in city centre Dublin 2 & 4. Some smaller lettings are being negotiated with increasing tenant incentives. Georgian rents are in decline with a lot of visible vacant space. Docklands rents are under pressure with more space due for completion in 2009.
- Suburbs: Rental levels in the suburbs north, south and west are under increasing pressure as new and old space becomes available through completions and staff reductions. Attractive incentives are available for tenants with leases being renegotiated in many cases. Sandyford vacancy levels are set to increase with substantial new completions.

**CJS view:** The overall vacancy level has increased to 16% with opportunities for tenants on the move. Encouragingly future development has been put on hold which will help absorption levels. A trend towards shorter term leases is emerging. Lack of liquidity is still a major factor.



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## Retail

- Retail spend has contracted and sales are down over 20% in January 2009 compared to January 2008, (CSO March '09). With the value of Sterling once again falling close to parity with the Euro, there is an enormous exodus of spend in convenience and now also in comparison spend to Northern Ireland. The border towns of Letterkenny, Sligo, Monaghan, Dundalk and Drogheda have been particularly affected.
- Not all news is bad. Value retailers are continuing to trade well as hard-pressed shoppers seek out bargains. Store groups such as TK Maxx, New Look and Penney's are each reporting substantially increased sales.

**CJS View:** The opportunity for the retailers is to strike good deals now, which will see them through these difficult times and from modest starting points, provide them with fair profits in the future. The deals will include realistic rents, extensive rent frees or capital incentives – or both – and more frequently the landlord sharing the risk with the tenant, by way of providing partially or fully fitted out shops, on turnover rents.

## Residential

- We expect the residential rental sector to remain buoyant for the foreseeable future. Until the fog of uncertainty that surrounds financing and future price drops lifts, potential purchasers will continue to rent instead of buy. Properties situated close to schools and within easy reach of the city centre remain the most popular.
- With a recent decrease in interest rates in place and a further decrease on the cards, affordability at new market rates is tempting fresh buyers out into the market place.
- Viewing numbers are increasing, however decision making is still being delayed by up to 70% of potential purchasers due to a perceived uncertainty in relation to price levels and the lack of bank support.
- Any of the properties that are coming to the market in this quarter are being launched at realistic prices; as a result they are attracting bids, which should mature into sales over the coming weeks. This should lead to an increase in the turnover rate of further properties as the money starts to move around the market place.

## Advisory Services

- Demand for valuation reports for loan security work is at an all time low whereby the majority of valuations are for internal accounts purposes or for the revaluation of investment portfolios.
- A number of well known retailers have gone into Administration in recent weeks which has fuelled the decline in retail occupier confidence. Retail tenants are reporting a decline in sales in the region of 30% in the first quarter of 2009. In the face of poor performance, tenants are now actively seeking rental reductions from their landlords nationwide.
- In light of the fact that tenants are finding it increasingly difficult to pay their existing rent, those with outstanding/forthcoming rent reviews are reluctant to enter into the rent review process and are demanding nil increases.

## Rates

Fingal County Council is currently being re-valued under a new rating system, the outcome of which will have a significant impact on the overall outgoings of business within the local authority.

For a summary of the process involved and for our recommendations, please contact our Advisory Services Department on 00 353 1 633 700.

**CJ-S View:** The continuous decline of market transactions in 2009 has resulted in a scarcity of information on both capital and rental values in all sectors making professional advice more important than ever.