



Property Snapshot

IRELAND ECONOMY & PROPERTY MARKET

COLLIERS JACKSON – STOPS QUARTERLY VIEW Q4 2009



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Economy

- The Irish economy may be turning a corner as several indicators are suggesting some stability. The numbers though do not make good reading.
- The Irish economy continues to contract with Q2 GDP down 7.4% y/y. The economy has contracted by almost 14% since the peak in Q4 07. This was led by a contraction in business investment of some 40% since the financial crisis began, although Q2 09 figures show a modest 4.6% increase from a very low level suggesting some stability.
- Consumer prices remain under considerable pressure with deflation running at -6.5% y/y in Sep 09 (EU HICP -3.0%). This was led by the cost of housing, utilities and fuels which fell by 28.5% distorted in part by the large inflation of Sep 08; clothing and footwear also fell by 13.8%.
- Unemployment may be finding some stability as the rate of increase in the Live Register has moderated somewhat though remains very high at a seasonally adjusted 429,400 in Sep 09, compared to 166,000 in Sep 07. The unemployment rate was stable at 12.6% unchanged from Aug 09.
- NAMA is expected to pass parliament with €77bn earmarked for purchase of distressed property loans to clear the system and to stabilize and restore finance to businesses in general.

Property Market

Investment

- There has been limited transactional activity in the Irish investment market so far in 2009 making it difficult to gauge where yields stand. A number of AIB Sale & Leasebacks were brought to the market all of which are reported to have sold close to quoting prices proving that there is a demand for well secured investments.
- Evidence is gradually beginning to emerge indicating that yields are beginning to stabilise. Increasing interest from overseas investors looking to acquire prime investments with secure income and strong covenants. An example of this is the sale of Tommy Hilfiger, Grafton Street to Deka Bank for a reported 6.5%.
- Prime Yields - office 7.5%, industrial 8.5%, retail (S.C) 8%, retail (high street) 6.5%.
- The UK market – strong demand from cash purchasers for prime opportunities which are not available. Private investors continue to acquire limited high street stock causing yields to harden. Demand for good office buildings with long leases and strong covenants remains strong.

CJS View: Interest from overseas institutions, in particular German open ended funds, seeking high quality CBD assets at distressed value levels which we have not yet witnessed. The industry is still awaiting formal implementation of NAMA

Offices

- **City Centre:** Rental levels have come under continued pressure during the summer months of 2009. Prime rents in Dublin 2 and 4 are between €400 and €430 psm which is down from a high of €650 in 2007. Secondary rents range from €200 to €280 psm. The vacancy level in the city centre currently stands at 17% however a lot of this vacant space is made up of older buildings which had been earmarked for redevelopment. Significant transactions completed during the last three months include 3,540 sq m to the Aviation Authority at the old Irish Times building and 1,840 sq m to Three at South King Street. Whilst it is still a tenants market with very attractive incentives available, a lack of speculative development should eventually lead to more absorption of Grade A stock in the medium to long term.
- **Suburbs:** There has been 9,750 sq m of office lettings signed in the suburbs during the last three months with approximately 50% of take-up in the south suburbs and the remaining 50% in the north and west suburbs. Prime rents range from €180 to €215 psm per annum. The west suburbs are experiencing the highest vacancy levels at 33% with occupiers looking for access to better amenities and transport links.

CJS View: Take-up for the year is expected to finish at approximately 85,000 sq m. The overall vacancy level is 21% and this is set to increase during 2010 if the 215,000 sq m of scheduled space is completed on time. City centre rents have reached a low point and we hope to see the gap between supply and demand begin to decrease as speculative developments have been put on hold.



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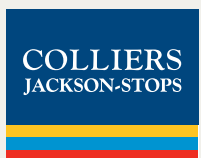
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Industrial

- 2009 has been a year to forget and we don't expect things to change much before the end of the year. The NAMA legislation has now been published so there is a consensus that some form of market might return if and when the banks are recapitalised. The NAMA issue is likely to dominate the political landscape until the end of the year at least.
- The take up level in 2009 now stands at approximately 70,000 sq m. When you consider the overall level of take up in 2007 was approximately 200,000 sq m it gives you a good indication of how dramatically the market has fallen in the past two years.
- The market this year has been dominated by short term rental agreements. Prime rents are now in the region of €100 psm and incentives such as rent free periods are still prevalent. Some owner-occupiers intent on selling have dropped their asking prices significantly but are still struggling to find purchasers. The lack of transactions has made it almost impossible to accurately gauge capital value levels for both development land and existing units.

CJS View: Market will remain frozen until NAMA comes into effect.

Retail

- Retail sales remain under pressure and decreased by 5.2% (excluding Motor Trades) in August 2009, when compared to August 2008 (CSO). Vacancy rates in Dublin are running at 20%, although much of this space is "peripheral" or "off pitch". Grafton Streets rents have tumbled and are reportedly down 22.5% in a year.
- While the above statistics do not make good reading, deals are happening and there are retailers looking to expand. Holland & Barrett has opened in Wexford, River Island is relocating in Cork, Lifestyle Sports is to open in Arklow & Cork, while Cost Plus Sofas has agreed terms in Waterford & Carlow.
- Retail deals must be at comfortable levels and structured sensibly to attract retailers. In many cases retailers are demanding (and getting) significant capital contributions towards the cost of their fit-out; anything from 6 months to 3 years rental equivalent. Turnover rents are becoming more prevalent and leases length has shortened; typically 10 - 15 year leases with breaks at 5 or 10. Demand is toward larger stores of 3,000 sq.ft. or more.

CJS View: Landlords and property owners who are willing to structure their leases in a retailer friendly way will secure strong traders which will keep their centre competitive.

Residential Sales

- The final quarter has seen activity move from a very low base to a level where sales are being achieved albeit in the low to medium priced properties. Sales are being achieved where value presents itself mainly in properties priced between €400,000 - €1,000,000 with the occasional sale above these levels.
- There would appear to be a healthy number of buyers with cash to spend who are holding back until they feel the time is right. However these buyers are also becoming frustrated by the lack of available property coming to the market.
- The market has been further hampered by uncertainty regarding muted stamp duty changes, the lack of available finance and low levels of consumer confidence.

Residential Lettings

- The flow of residential lettings has remained constant if a little slow, with the rent reductions experienced in the 2nd and 3rd quarters leveling out, with tenants now happy to stay on at what they consider to be value for money rental levels. It will need only a slight lift in the levels of confidence in our economic situation for these rents to remain stable and indeed rise in the near future.

The Country House Market

- During the past quarter vendors have reduced their asking prices as the majority of them now accept that prices have fallen even further during the same period.
- As a result there is excellent value to be had at the moment, that is if you are a cash buyer or have ready access to credit.

CJS View: Lack of supply of quality property for sale will eventually spur the buyers into action once they feel an inkling of stability re entering the market. The key to regaining levels of confidence is to re establish a reliable chain of sales at each level of the market, which can only be done if the banks resume a prudent lending strategy.

Advisory Services

- On behalf of both landlords and tenants, CJS have been providing advice regarding the granting of temporary rental reductions where necessary.
- CJS have been acting in conjunction with landlords and tenants in reducing other overheads including service charge and rates liabilities.
- The ongoing revaluation of Fingal County Council is providing significant cost saving possibilities for some tenants with CJS endeavouring to minimize the rating liability of commercial property occupiers.
- Protracted rent review negotiations are reducing with numerous landlords opting not to serve rent review notices as no uplifts are expected at review.

CJS View: While nil increases are expected in most current rent review negotiations, CJS recommend good estate management practices be maintained. Outstanding rent reviews can lead to complications for both landlords and tenants as they impair future sales and jeopardise break options for non compliance with lease terms.