SAVILLS NORTHERN IRELAND

SUMMARY

Savills NI Market Report

■ 2013 marked something of a Renaissance with confidence returning to all sectors of the market.

■ Investment sales were £175m - more than the combined total of transactions since the start of the downturn. Well capitalised buyers and pension funds emerged en masse in 2013 to take advantage of the perceived yield gap between Northern Irish property and assets in GB.

■ Retail conditions gradually recovering with improvement in the labour market and some pickup in consumer sentiment. However trading conditions to remain challenging in secondary and regional towns.

■ Total take up of warehouse / business space was in excess of 1.7m sq ft throughout NI. The last 6 months have witnessed a greater appetite for financial institutions to lend into this sector.

■ If as predicted interest rates remain on hold until Q3 2015, this should continue to have a positive effect on house prices and land value throughout 2014.

■ The Belfast office market is performing in line with trends experienced in regional cities, although we are significantly behind in terms of rental growth, with prime rental levels remaining constant at £12.75 per sq ft.

■ The inability to service current demand poses a real threat to economic growth as the potential to attract foreign direct investment is debilitated by the lack of available stock.

Investment

Summary

■ 2013 marked a new beginning in the Northern Irish market with confidence increasing & a wide variety of new purchasers entering the market.

■ Well capitalised buyers and pension funds emerged en masse in 2013, with demand outstripping scarce supply.

■ 2013 transactional volumes at £175m which is more than the combined total of transactions since the start of the downturn.

Market Turnover

2013 marked the beginning of a new cycle in the Northern Irish market. NI is mirroring the general UK macroeconomic performance which has now returned three consecutive quarters of economic growth. Both business and consumer confidence is increasing and we have witnessed a wide variety of new purchasers entering the market to capitalise on the perceived yield gap between Northern Irish property and assets in GB.

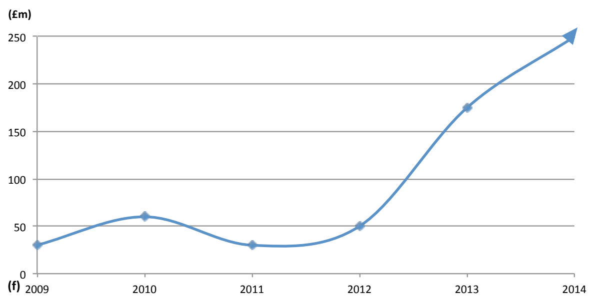
Since the last quarter of 2012 we have witnessed a build-up of demand for Northern Irish assets from UK pension funds and large property companies.

The level of stock that came to the market increased significantly in 2013 leading to a transactional level in the region of £175m which is more than the combined total of transactions since the start of the downturn.

The level of investment activity throughout 2013 is encouraging for a number of reasons. Not only has the market started transacting but the diversity of transactions across all sectors and the level and depth of bidding is crucially important as we look towards a period of bank led sales.

GRAPH 1

Investment Market Turnover



Source: Savills Research

Key Transactions and Market Outlook

If we consider Scottish Widows purchase of the Tesco Extra Foodstore in Newry, this asset was placed on the market at £27.3m reflecting a net initial yield of 5.50%. After competitive bidding it sold for in excess of £30m reflecting a net initial yield of sub 5% illustrating strong demand for blue chip investments in the province.

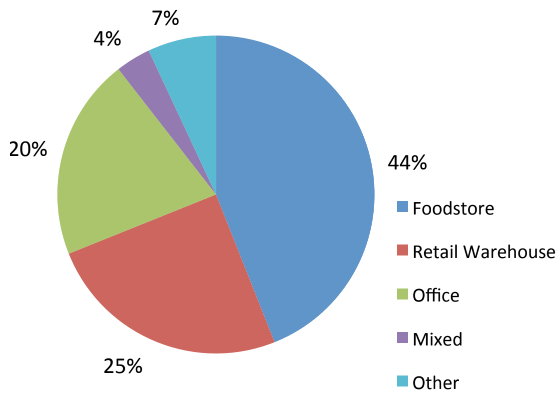
This level of demand wasn't constrained to solely blue chip investments. Throughout 2013 we witnessed multiple bidders for assets across all sectors. Law Society House, a prime office building attracted bids from ten parties, with a further eleven parties bidding for three retail assets in Craigavon. On Dublin Road, Belfast six parties came forward for an office investment driving the price significantly in excess of the £1.1m asking terms.

We are aware that a number of banking institutions were seeking to offer finance on various asset sales throughout 2013. This is significant in terms of the strength and activity of financial institutions and is a key indicator pointing to confidence within the market.

Following these deals we have witnessed an increase in investor demand from UK, overseas and private Northern and Southern Irish investors. We are currently aware of over £100m of stock scheduled to come to the market in the first half of 2014 and we predict the transactional activity will increase throughout 2014 with volumes exceeding £200m.

GRAPH 2

NI Investment Market Turnover 2013 by Sector



Source: Savills Research

Conclusion

■ With economic conditions improving, the demand for Northern Irish real estate is set to increase. Deleverage started in 2013 and is set to continue through 2014 and beyond and with an increasingly broad base of investors seeking opportunities in NI, we expect the investment market to perform well over the coming quarters.

■ We are aware of over £100m of stock scheduled to come to the market in the first half of 2014 and we predict that transactional activity will increase throughout 2014 with volumes exceeding £200m.

Key Transactions

Property	Sector	Price Achieved	Income Yield	Date	Comments	Purchaser
Premier Inn Four Corners, 2-6 Waring Street, Belfast, BT1 2DX	Hotel	£9,100,000	6.28%	Nov-13	In excess of 24 years unexpired to Premier Inns Hotels Ltd with 5 yearly rent reviews indexed to CPI with a cap and collar of between 0% & 4%.	CBRE Global Investors
Arthur House, 41 Arthur Street, Belfast, BT1 4GB	Office/Retail	£5,800,000	9.40%	Nov-13	Belfast City Centre retail and office building. Retail on ground and first floors with serviced offices occupying the upper 5 storeys.	Stargime
James House, 2-4 Cromac Avenue, Gasworks, Belfast, BT7 2JA	Office	£10,050,000	12.97%	Nov-13	Let to The Department of Finance and Personnel on a 15 year lease from 1st November 2004. IRI lease.	UK Pension Fund
Tesco Superstore, Downshire Road, Newry, BT34 1EE	Foodstore	£30,300,000	4.95%	Oct-13	25 year lease to Tesco Stores Ltd from 1st May 2013. Tenant break at year 20. RPI uplifts compounded 5 yearly collared and capped between 1% & 3%	Scottish Widows Investment Partnership
Tesco Superstore, Highfield Road, Craigavon, BT64 1AG	Foodstore	£23,350,000	5.64%	Oct-13	25 year lease to Tesco Stores Ltd from 1st November 2010. Tenant breaks at years 15 & 20. Unfettered 5 yearly RPI uplifts.	UK Property Company
B&Q, Marlborough Retail Park, Craigavon, BT64 1AG	Retail Warehouse	£11,900,000	7.94%	Oct-13	Open A1 Retail Warehouse let to B&Q Plc on a 25 year lease from 2nd November 2001.	Cordea Savills
Law Society House, 100 Victoria Street, Belfast, BT1 3GN	Office	£4,250,000	10.96%	Oct-13	Long leasehold multi let building with top two floors owner occupied. 67.91% of income secured to government tenants.	Private Investor
Halfords, Marlborough Retail Park, Craigavon, BT64 1AG	Retail Warehouse	£923,000	9.19%	Oct-13	Open A1 Consent. 20 year lease to Halfords from 1st November 2002. Tenant breaks at years 11 & 16.	Private Investor
Eastpoint Entertainment Village, Old Dundonald Road, Dundonald, BT16 1XT	Retail & Leisure Park	£2,250,000	14.72%	Oct-13	Multi let Retail & Leisure Park.	Private Investor
74-76 Dublin Road, Belfast, BT2 7HP	Office	£1,300,000	10.41%	Oct-13	Partially let to the European Commision on a 15 year lease from 2009. Tenant rolling breaks. First, Second & Third Floors vacant.	Private Investor
Springhill Retail Park, Co.Down	Retail Warehouse	£10,450,000	9.30%	Sep-13	Open A1 Retail Park let to Next, New Look, Heatons, Starbucks, Pounstretcher and B&M Bargains	Pradera/Brockton Capital
Invest NI HQ, Bedford Street, Belfast	Office	£17,000,000	n/a	Aug-13	130,000 sq ft office building. It is understood that NI government acquired shares in holding company.	NI Government
Orritor Road Retail Park, Cookstown	Retail Warehouse	£10,200,000	9.00%	Aug-13	Open consent Retail Park. Tenants include M&S, New Look, Next and B&M Bargains	British Aerospace Pension Fund
Clandeboye Retail Park, Bangor	Retail Warehouse	£7,130,000	15.00%	May-13	112,000 sq ft bulky goods retail park. Tenants include Curry's, PC World, Carpetright, Harveys and Halfords.	Threedneedle
Sainsbury's, Braidwater Retail Park, Ballymena	Retail	£17,900,000	5.16%	Jan-13	60,777 sq ft foodstore let to Sainsbury's for 25 years with fixed RPI uplifts capped and collared between 1% & 4%.	NILGOSC c/o LIM
The Warehouse, 7 James Street South, Belfast, BT2 8DN	Office	£810,000	9.58%	Jan-13	Long leasehold multi let building.	Private Investor

Retail

Summary

■ NI saw a reasonable level of activity in the retail sector in 2013. Strong demand came from the retail convenience and catering sectors with Tesco Express, Frankie and Bennys and Caffe Nero opening further stores in 2013.

■ In Belfast, there were a number of good quality lettings with Warehouse, Prezzo and Kiehls all opening in Victoria Square. Donegall Place welcomed back Clintons and Barratts, reflecting a Zone A of between £110-120 psf, which is down from c.£270 Zone A at the peak of the market.

■ Licences continued to account for a significant proportion of the take-up in 2013 with the more prime locations able to command longer-term leases. In line with this, vacancy rates appeared to have stabilised and, as agents, our view is that rents for the most part have bottomed out.

■ In 2013 the number of retail administrations fell from the previous year. 2012 was the year in which administrations peaked in NI and the UK.

Retail Convenience

In 2013 the largest supermarket chains announced that they were reducing their large store format acquisition throughout. Tesco opened their c.95,000 sq ft Tesco Extra concept in Newry which could more than likely be the last one of its kind for the foreseeable future.

In addition Tesco rolled out a number of their c.3,500 sq ft Tesco Express formats in NI, particularly in Belfast securing Ormeau Road, University Road and Royal Avenue. Hendersons who have various store formats such as Spar, Eurospar and Vivo, also put plans in place in 2013 to acquire more sites ranging from c.3,000 sq ft – c.9,000 sq ft.

Retail Catering

The catering operators appeared "hungry" for more sites in NI in 2013. Frankie and Bennys with a standard unit size of c.4,000 sq ft opened a number of sites with their 5th restaurant opening in Crescent Link, Londonderry in Q1 2014. Nandos which has requirements for c.3,000 sq ft units, was also seeking sites in NI. Costa Coffee rolled out its new retail park pods in locations such as Damolly Retail Park, Newry and Balmoral Plaza, Belfast, whilst Caffe Nero increased its market share acquiring units in Belfast City Centre, Lisburn Road and Newtownards.

Turning to the local operators, the Belfast restaurant market has seen a surge in openings in 2013. These included the arrival of Ox on Oxford Street, Robinson and Cleaver, Flame and Howard Street in close proximity to the City Hall. In the Cathedral Quarter, the Made in Belfast owner has opened Le Coop, and chef Niall McKenna of James Street South has opened Hadskis. In the music scene, a live music venue The Harp Bar has taken over the former Nick's Warehouse, and nearby, the Dirty Onion bar has opened offering a casual dining experience in the form of Yardbird. Beannchor have further invested in the area with the opening of The National and Patisserie Mimi close to their highly successful Merchant Hotel. The majority of this uptake was in the secondary pitches of the city centre where terms were more favourable than in prime pitches.

GRAPH 3

NI Retail SWOT Analysis

Source: Savills Research

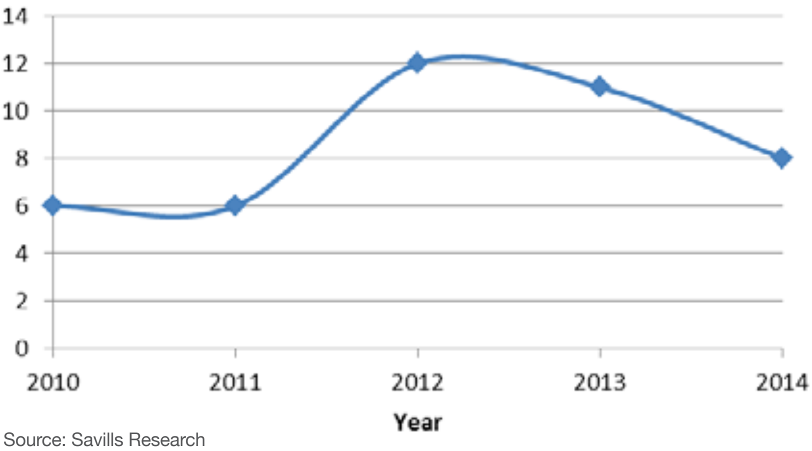
Such acquisitions highlighted a certain resilience in the retail catering market in 2013 and in some respect illustrated a return in consumer confidence in the market.

Retailers in Administration

Administrations have had a severe impact on NI's retail setting over the past number of years. Inline with the overall UK pattern the number of administrations

GRAPH 4

Companies in administration



Source: Savills Research

GRAPH 5

NI Retailer Performance

Source: Savills Reserach

in NI appears to have peaked in 2012. Whilst it is difficult to predict who exactly and how many will need financial restructuring in 2014, it is anticipated that the numbers will be down further on 2013 administrations.

Leases v Licenses

Latest research illustrates that whilst vacancy rates in NI still remain the highest in the UK, there has been no noted increase in the percentage of empty retail units between 2012 and 2013. Part of this stabilisation in vacancy rates can be attributed to the number of licences and short-term tenancies being agreed over the last 12 months.

Whilst many secondary and tertiary schemes continue to use licences to create the impression of higher occupancy rates, on the back of stronger trading performances, prime schemes such as Rushmere, Craigavon and Foyleside, Londonderry had the opportunity to convert licences to leases and command longer-term lettings in recent deals.

Belfast

Like every other major city, Belfast has not escaped the effects of the recession, but has still managed to attract a number of high quality brands. In 2013, Victoria Square welcomed brands such as Warehouse, Replay, Pretty Green, Prezzo and Kiehls whilst Donegall Place looks to be at almost full capacity having welcomed back Clintons and Barratts, reflecting a Zone A of between £110-£120 psf down from c. £270 psf Zone A at the peak of the market.

Other positive indications are that Primark has submitted a planning application for a redevelopment of Commonwealth House which will result in a gross area of 147,000 sq ft, retailing just over 100,000 sq ft. Close by, both Zara and Boots' signalled their intent to stay on Donegall Place by entering in lease renewal negotiations.

Provincial Towns

Given the challenging trading conditions over the last few years, landlords and their agents have had to take a sympathic and realistic approach to both retaining their tenants and attracting new entrants. As a result, in the majority of provincial towns, retail rents have fallen. Lettings have been to a mix of UK multiples and local retailers. Next, Office Shoes, Apple Premium Resellers, H&M and B&M Bargains are all active, whilst local multiples O'Briens and Hendersons are also taking space.

Looking forward, Matalan and their Sporting Pro format are making positive noises about acquiring in 2014, and Screwfix are due to make their NI debut in 2014, with the opening of 4 stores in Belfast, Bangor, Ballymena and Newtownabbey.

There has been little in terms of development in NI, however 2014 should see further development at The Quays, Newry, with a c.100,000 sq ft retail and leisure extension

Conclusion

- Whilst 2014 will remain challenging, we should see slow and steady signs of recovery in the retail sector.
- This will be driven by a number of new entrants to the market and existing retailers taking advantage of asset management opportunities at realistic levels.
- The long awaited rating revaluation will be announced in the latter half of 2014 and we anticipate there will be winners and losers.
- Fewer administrations in 2014 should help the retail recovery along.

Industrial

Summary

■ Total take up was in excess of 1.7m sq ft in 2013. This comprised 127 transactions made up of 52 sales and 75 lettings. Sales accounted for 865,268 sq ft with lettings totalling 867,837 sq ft.

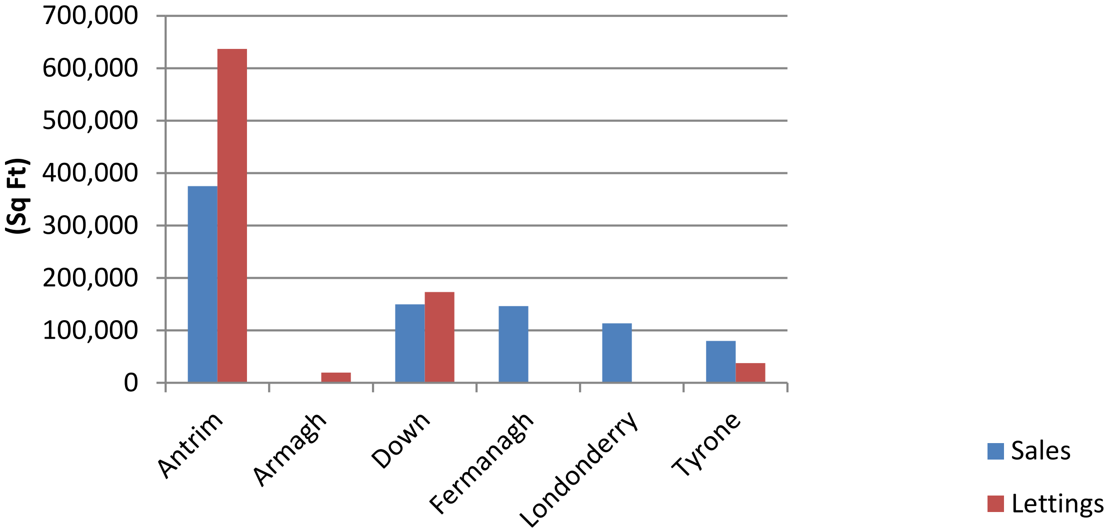
■ Vast majority of sales were to cash buyers. Whilst prices are perceived to be at an all-time low, value for money is driving demand.

■ Within the last 6 months of 2013, financial institutions have shown a greater appetite to fund acquisitions within this sector.

■ We predict take up to exceed 2m sq ft throughout 2014 as confidence returns to the market.

GRAPH 6

Take Up Per County



Source: Savills Research

Market Turnover

Total take up of business / industrial space was in excess of 1,700,000 sq ft throughout NI in 2013. Sales accounted for 49.92% (865,268 sq ft) of all transactions with the largest single sale comprising 102,998 sq ft of warehouse / distribution space in Lisnaskea, Co. Fermanagh. The vast majority of sales were to cash buyers and, with prices perceived to be at an all-time low, value for money is driving the demand, especially when comparing the eventual price to the construction cost.

It is estimated that fewer than 15% of all transactions were bank funded. However over the last six months many of the financial institutions have started to become more active in this sector. Nonetheless we perceive funding for speculative purchasers still to remain challenging throughout 2014.

Leasing accounted for 50.07% (867,837 sq ft) of all transactions with 3 lettings accounting for 34% of the uptake, with the average headline rent for these three transactions being £3.05 per sq ft. Our research established a notable lack of modern, good quality warehouse buildings with eaves in excess of 6m throughout NI and given the current rental levels and capital values being achieved it is unlikely that there will be any speculative space built. The continued increase in rates payable is forcing occupiers to seek high eaves levels to enable them to maximise use of their space through well designed racking and shelving.

We are aware of a number of requirements of 50,000 sq ft plus for modern warehouse facilities with eaves in excess of 9 metres. However as there is no available stock, and with current rental levels not exceeding £3.50 - £4.00 for space of this size the solutions are for a client led design and build which will result in a term of no less than 10 years with rental levels reflecting “cost rent” rather than “market rent”.

“Fundamentals of the Industrial sector are beginning to improve as vacancy rates fall and sales and lettings increase. At current prices and with bank lending starting to become more available we are of the opinion that sales will dominate the market activity in 2014"
Neal Morrison Director,
Savills Belfast

Market Trends

Almost 44% of total transactions took place in Co. Antrim. Throughout 2013 there were 28 sales transactions in this location with one of the largest transactions being the sale of 41,901 sq ft of space at Nutts Corner to a private individual. Lettings uptake was recorded at 647,998 sq ft over 50 transactions with 3 lettings (to Wright Bus, Universal Pictures and Cefetra) accounting for 46% of the uptake. There were 22 transactions between the 0 – 5,000 sq ft range at an average headline rent of £3.98 sq ft at an average deal size of 2,908 of sq ft.

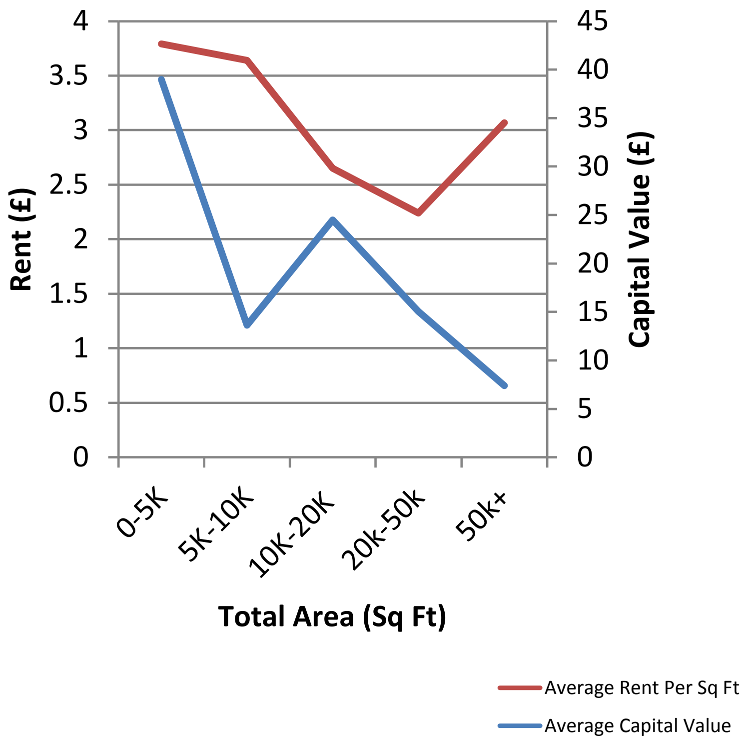
Co. Down accounted for nearly 19% of all transactions with 150,165 sq ft of sales and 173,399 sq ft in lettings across 27 transactions. The largest sale being the acquisition of 41,802 sq ft at Saintfield Road, Belfast by Down Borough Council, with Bombardier renegotiating their lease terms of 46,000 sq ft of space at their existing premises in Crawfordsburn Road.

Co. Londonderry accounted for eleven transactions. The largest of these was the acquisition by a private party of part of the former Montupet premises in Campsie. In Co. Fermanagh only 2 transactions were recorded totalling 146,386 sq ft. Our research established 8 transactions for Co. Armagh and Co. Tyrone with a total uptake of 137,456 sq ft of space accounting for less than 8% of the total market. Highlights were the sale of the former Tyrone Crystal Premises at Coalisland Road in Dungannon which comprised c. 79,000 of warehousing and office and the letting of 20,500 sq ft to Nightline at Grotin Road Omagh.

Drumadd Barracks in Armagh and Massereene Barracks in Antrim have been excluded from our sample as we do not believe they represent traditional industrial / business space transactions. It is our understanding that the purchaser of Drumadd Barracks was a private developer who intends to redevelop the lands by way of a mixed use scheme. Massereene Barracks was acquired by Randox Laboratories who are yet to outline their proposed use. These two sales alone account for 600,000 sq ft of total space.

GRAPH 7

Average Rent/ Capital Value PSF



Source: Savills Research

Conclusion

■ With prices now significantly below construction cost, there is superb value for money in the industrial property market.

■ Whilst manufacturing units are exempt from rates, current rates liabilities for industrial properties, as with other commercial properties, remains similar to or in some instances higher than the rent achievable in the market place. This is turn is having a negative effect on pricing and restricts the number of speculative purchasers / development.

■ Vacancy rates are likely to decline further, albeit moderately over 2014 and we would anticipate a modest growth in rents and capital values in prime locations.

■ We expect the take up for 2014 to exceed 2 million sq ft, as confidence in the market returns.

■ Furthermore we expect capital values to increase for good quality properties, especially in the greater Belfast are as, most importantly, Financial Institutions start to re-enter this sector making debt finance readily available.

Development

Summary

■ Stability in the residential sector has contributed to a renewed confidence in the residential land sales market with a number of high profile transactions throughout 2013.

■ 2013 saw the banks continuing their de-leveraging programmes. However provisioning meant the disposal of the more desirable assets failed to materialise.

■ There remains limited appetite from financial institutions to fund speculative development opportunities with the majority of acquisitions being cash funded.

■ An increase in demand and lack of quality stock in prime locations has resulted in an upward pressure on values.

■ Increases in capital and rental returns are required to make commercial development economically viable.

■ Financial institutions / private landowners will continue to explore joint venture agreements, trying to maximise returns.

■ Land value increases will be reliant on a continued stability in the market and appreciating values for completed stock.

Development Transactions

The stability in the residential sector has contributed to a renewed confidence in the market and has seen a number of key infill development transactions in 2013. In comparison to our research undertaken at the start of 2012 which showed development land transactions were at a "virtual standstill", 2013 has seen a resurgence of activity in the sector. There remains limited appetite from financial institutions to fund speculative development, resulting in the majority of purchases being cash funded or financed subject to much lower LTV rates than witnessed pre 2008. The banks have continued to progress with their de-leveraging requirements and have remained adverse to increasing their exposure across all property sectors, in particular speculative development opportunities. The majority of development land transacted in 2013 was through public auction disposals. Transactions were predominantly cash funded and as such had a theoretical value cap of less than £200,000.

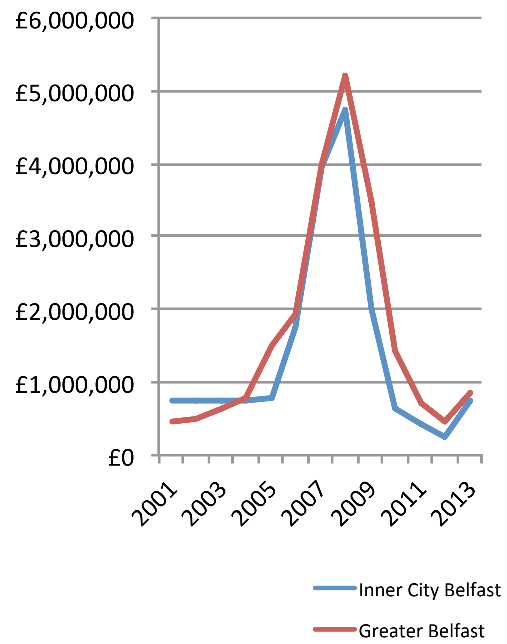
Auctions have remained a popular disposal mechanism for distressed assets in 2013 and has a maintained a high success rate. However as developer sentiment has become more attuned to stabilising market conditions, there has been increased appetite for good quality infill development stock located in prime residential locations with the focus predominantly in greater Belfast and strong provincial towns. As a result there has been a reversion back to Private Treaty disposals with a view of achieving best value through high profile advertising campaigns.

The increase in demand has resulted in upward pressure on values with the majority of sites transacting significantly in excess of their quoting levels. The most significant increase in activity has been in more affluent areas with East and South Belfast in particular experiencing high volumes of demand for limited available stock.

The common factor with the majority of the transactions has been that they have been purchased with the benefit of existing planning permissions, however the schemes tend to be high density and not viable in the current market. The majority of purchasers are amending the existing permissions to lower density schemes to meet market demand. Developer sentiment has been somewhat diverse with cash wealthy parties looking to acquire opportunities at what they perceive to be the bottom of the market, with a view of building an extensive land bank with future development potential. Others are looking to acquire sites at competitive levels with the intention to commence development and target existing market requirements.

GRAPH 8

10 Year NI Average Land Values



Source: Savills Research

GRAPH 9

Key Land Transactions

Property	Location	Size	Sale Price	Sale Price Per Acre
109 Circular Road	East Belfast	1.14 Acres	£890,000	£780,000
57 Barnetts Road	East Belfast	0.6 Acres	£425,000	£690,000
8 Kincora Avenue	East Belfast	0.4 Acres	£300,000	£750,000
20 Eastleigh Drive	East Belfast	0.4 Acres	£252,000	£630,000
66-70 Balmoral Avenue	South Belfast	2.06 Acres	£1,375,000	£667,500
16 Old Manse Road	Whiteabbey	0.78 Acres	£300,000	£385,000

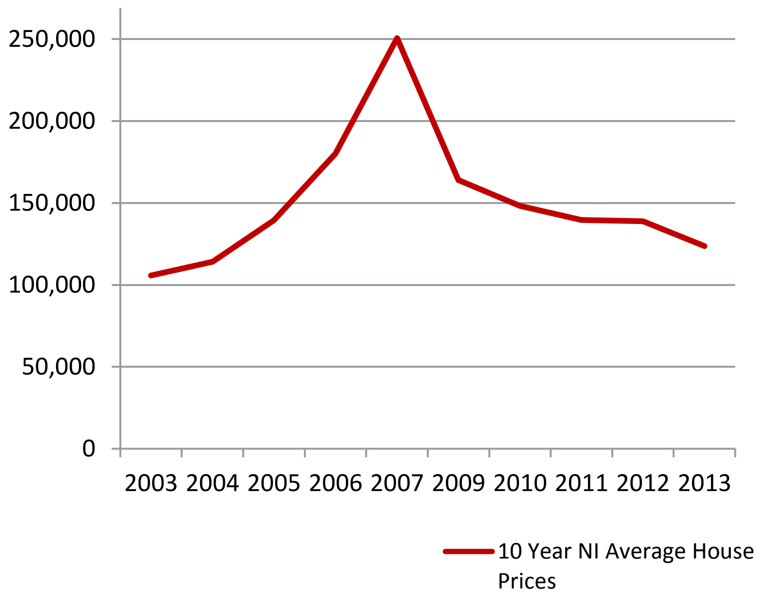
Source: Savills research

Housing

With the banks beginning to return to the market to finance the first time buyer sector with attractive LTV ratios in conjunction with the Co-ownership and Help to Buy scheme, the residential market is showing positive signs of activity. The NI Residential Property Price Index indicates that house prices have risen for consecutive quarters in Q2 and Q3 and there has been a 12% increase in the volume of transactions year on year. Values are however still reported to be 9% down compared to the start of 2005 and in excess of 50% down on values witnessed in 2007. Current average house prices in NI as of Q3 2013 are £130,000 with like for like figures for 2005 reported to be £140,000.

GRAPH 10

10 Year NI Average House Prices



Source: Savills Research

Commercial

As identified in our 2012 research the costs of construction relative to achievable capital values and rental returns make prime commercial development economically unviable. As such there has been limited market activity in 2013.

Until a more functional commercial market is established and there is a return of finance to the sector it will continue to stagnate resulting in a lack of available stock and an inability to service active requirements.

Recovery in the commercial market is likely to lag the residential sector with rental levels unlikely to experience the required growth for development to be considered. The exception being the commencement of the proposed office development at the Titanic Quarter, where the immediate short term viability is not as critical as it might be for private led development.

Outlook

The market in 2014 is likely to depend on a number of factors. With the banks reluctant to become exposed to speculative development it is apparent that transactions will remain largely cash funded, with a minority of developers taking full advantage of existing facilities which will fund transactions of larger lot sizes.

Land value increases will be reliant on a continued stability in the market and will be driven by appreciating values for completed stock and less stringent lending conditions, facilitating increased liquidity in the housing sector.

Conclusion

- The Bank of England had pledged that it would only consider raising interest rates once unemployment fell below 7%. Unemployment has fallen more quickly than expected to 7.4% in October, meaning the threshold being reached sooner than expected.

- As a result, the Bank is likely to modify its forward guidance policy, lowering the unemployment threshold to 6.5% - most likely at the February inflation report. Given the general state of the economy and the recent strength of the pound it is anticipated that rates could be on hold until Q3 2015.

- This should continue to have a positive effect on house prices and in turn land values for 2014 with prices growing between 3%-5%.

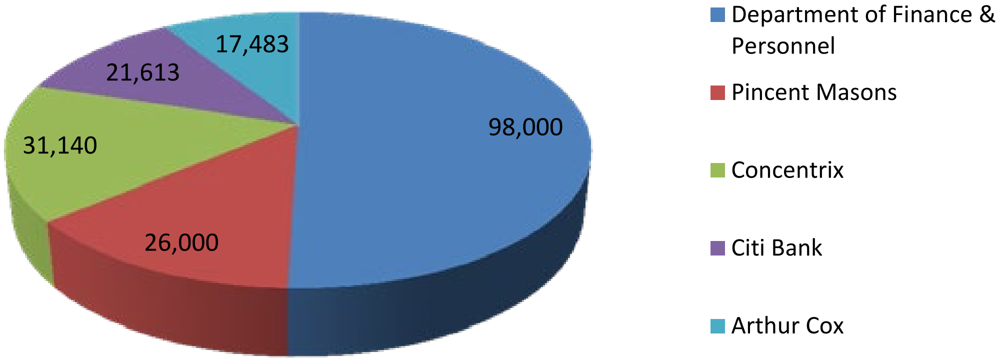
Office

Summary

- A measured start to Q1 was counteracted in the remainder of the year with some notable transactions.
- Consistent with historical trends, the principal office occupiers in 2013 were public sector lead.
- There is a significant shortage of available Grade A stock, resulting in the inability to service current demand.
- The occupational market has experienced a significant re-balance in lease structure and tenant lead incentives.
- The Belfast market is performing in line with trends experienced in regional cities, although we are significantly behind in terms of rental growth, with prime rental levels remaining constant at £12.75 per sq ft.
- A lack of available development stock in the pipeline will further exacerbate the inability to service the likely demand for Grade A office requirements
- The inability to service current demand poses a real threat to economic growth as the potential to attract foreign direct investment.

GRAPH 11

Key Acquisitions (sq ft)



Source: Savills Research

Office Transactions

A measured start to 2013 saw only 32,000 sq ft of take up in the first quarter of the year, comprising 6 transactions. This was counteracted in Q2 with the market experiencing some notable deals including the letting of Lanyon Plaza to the Department of Finance and Personnel totalling 98,000 sq ft and Pinsent Masons acquisition of c.20,000 sq ft at The Soloist, two landmark developments controlled by NAMA. These transactions represented the largest office deals to complete in 2013, on the back of significant inward investment in the previous year, whereby Savills acquired c.17,000 sq ft for the Chicago Mercantile Exchange, further highlighting the desire from Invest NI to incentivise multi-national corporations to position themselves in NI. Allen & Overy acquired c.34,000 sq ft in the Obel in 2010, (another INI funded corporation) and have further strengthened their focus in NI by exercising their pre-emption agreement to acquire an additional c.9,500 sq ft within the development in 2013.

Take up in 2013 remained consistent with historical trends with the principal office occupiers being public sector led and with a significant shortage of available Grade A stock in Belfast, the city has an inability to service current demand from the private sector. This factor is further exacerbated by sluggish rental growth due to the historical reliance on public sector tenants on longer term institutional leases which reflect lower rental levels. With limited rental growth, in conjunction with rising construction costs, office development will not be economically viable for the foreseeable future. Our view is that rents will have to rise to levels in excess of £15 per sq ft before new construction will be considered viable. Furthermore the occupational market has experienced a significant re-balancing in lease structures since the economic decline. The market focus has become tenant led with shorter more flexible lease terms incorporating significant rent free periods and landlord capital contributions, therefore significantly devaluing the achievable headline rents.

There have been recent proposals for the development of new office space announced in the second half of the year with the most notable being the 190,000 sq ft proposal at the Titanic Quarter involving a £20m development scheduled for completion in 2015. The proposal would represent the largest development of its kind since 2007. Furthermore Belfast Harbour Commissioners have recently been granted planning permission for a 70,000 sq ft development at City Quay.

With increasing demand from the IT and business sectors the importance of super-fast broadband is becoming apparent and the Belfast Harbour area is one of the few locations in the country with the capacity to provide the service and the aforementioned developments will provide a welcome volume of good quality stock to support future inward investment. This has been achieved through the Project Kelvin scheme whereby Hibernia Networks has brought a fibre optic cable ashore at Portrush, NI. The cable will connect to Hibernia Networks' terrestrial fibre optic ring currently being deployed to 13 towns and cities.

Project Kelvin will contribute to a much needed capacity to the country to further support both local and global companies. The network is attractive to global companies, such as leading financial houses, exchange markets, service providers and media companies, who require fast, low latency bandwidth that avoids traditionally congested routes.

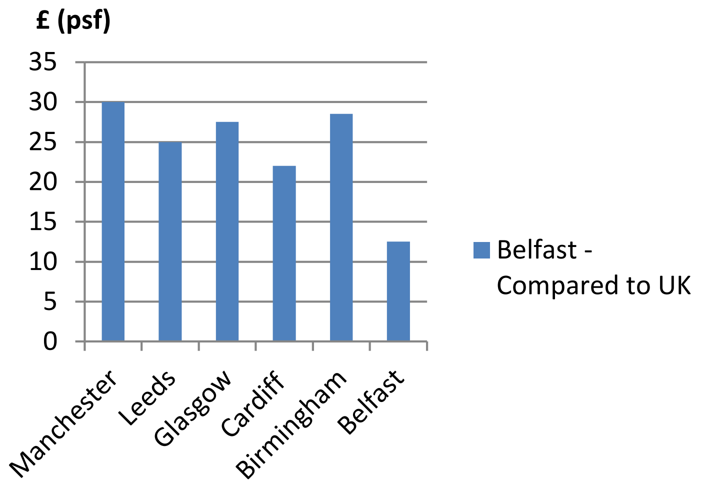
Similar market conditions are apparent when compared to other main cities throughout the UK. Savills research in September 2013 identified a lack of Grade A development stock being delivered in Manchester and indicated a diminishing availability of large Grade B floor plates predicting an upward pressure on rental levels being achieved, as continued positive occupier demand is expected. However in comparison, Grade A rents are more than double those in Belfast with the highest deal recorded at £30 per sq ft in comparison to headline rents in Belfast at £14.75 per sq ft. In keeping with the trend, Leeds is also experiencing high levels of occupier demand with c. 525,000 sq ft of take up in the first three quarters of 2013 with figures expected to exceed 650,000 sq ft by the end of the year Leeds currently has the lowest vacancy rates outside of London at 5.4% with prime headline office rents at £25 per sq ft. Glasgow has also experienced a fall in Grade A availability with tenant sentiment focused on prime space, however our research has identified that confidence appears to be returning to the occupational market and prime headline rents are at £27.50 per sq ft with incentive offerings starting to decrease.

The Belfast market is performing in line with trends experienced in regional cities, however as a result of the reliance on the public sector we are considerably behind in terms of rental growth. With the exception of a slight peak in values at the end of 2007, prime rental levels have remained a constant at c.£12.75 per sq ft with secondary stock ranging from £6-£10 per sq ft depending on quality and location. With pressure on the limited supply of stock expected to continue into 2014, there is the potential for upward pressure on both headline and net effective rental levels as competition increases for the limited available space. A further factor that is becoming increasingly central to requirements is the ability to deliver large open plan floor plates of c.10,000 sq ft resulting in difficult market conditions for the older second hand stock.

Cumulative take up in the City totalled circa 400,000 sq ft for 2013 with the key acquisitions highlighted below in Graph 11.

GRAPH 12

Office Analysis Belfast - Compared to UK



Source: Savills Research

Outlook

With a lack of development stock in the pipeline it is likely that Belfast will be unable to service the likely demand for Grade A office requirements in the foreseeable future as there is a reliability on significant rental growth from current levels to make commercial development economically viable. A lack of available stock would theoretically result in an upward pressure on rents however there is a reliance on the tenant base to become more private sector led as the public sector are currently controlling the rental tone in the city.

The inability to service current demand poses a real threat to economic growth as the potential to attract foreign direct investment is debilitated by the lack of available stock. With completion of proposed development not expected in the short term the likelihood is that firms will source alternative space in other UK cities or in Dublin / Greater Dublin, which will detract from the marketability of Belfast as a city open for business.

Conclusion

- Activity in the sector is going to be largely reliant on the ability to service occupier demand through stakeholders taking a longer term view
- The provision of the required space is likely to be met through public sector vehicles such as the Belfast Harbour Commissioner's Proposal at the Titanic Quarter. The public sector currently controls the tone in the city.
- We are not aware of any new office developments due to be completed in 2014 to meet the existing demand for grade A space
- To avoid potential FDI clients relocating to other cities, we believe that combining the views of the priority stakeholders would be beneficial in ensuring the production of viable development proposals

Property Management

Summary

■ 2013 saw a strong recovery in the market with the highest transactions level since 2008. However, the assets transacted tended to be single lets with few title or service charge complications. Several other multi tenanted investments have not sold despite significant interest. There are several key reasons why these investments have failed to sell such as legacy title, stakeholder, fabric and service charge issues. This points to a need for robust Asset Management procedures to prep assets for sale to mitigate potential delays and price chips.

What will 2014 hold for managing agents?

There will be changes within the NI property management world in 2014 and through 2015 as key influencers Nama and Ulster Bank progress their deleveraging strategies.

How will this affect NI managing agents?. As the deleveraging gathers pace many locally owned assets will be acquired by GB, European and Global investment houses. Who will manage these assets for the new owners? Within NI the picture will change as transactions occur and a game of pass the parcel with assets will develop.

Property and Asset management: What are the lessons we can learn from 2013?

Legacy Issues

It is critically important that prior to property assets coming to the market that legacy issues are dealt with. The consequences of not dealing with these adequately are:

- Price chips during the due diligence process.
- Delayed or aborted sales.

Leading to:

- Lower than anticipated receipts.
- Assets becoming stale or blighted and consequently more difficult to sell.
- Continued loan repayment obligations for the vendor.

Avoiding delay and chips: Property Health Check

One of the most simple and effective ways to avoid the legacy issues becoming a significant factor in the sale process is performing a property health check prior to going to market. Seeing the asset with a fresh pair of eyes and taking account of the purchasers perspective will focus minds on identifying and resolving potential issues, such as:

- Inconsistency and unfairness in service charge apportionment within an asset
- Unpaid service charge voids
- Unreconciled or incorrectly reconciled service charges
- Inappropriate use of service charge funds
- Invalidated building and M & E warranties
- Mechanical failure / lack of appropriate maintenance
- Significant fabric failure
- Tenant disputes
- Planning / building control / health and safety irregularities
- Asbestos

Identify and resolve these issues?

Use a good managing agent with robust procedures, a breadth and depth of experience and a proven track record in dealing with complicated property issues.

There is no substitute for hard work and agents need to do the hard miles including:

> "The harder I work the luckier I get"
> Thomas Jefferson

- Regular and frequent site visits
- Service charge audits
- Lease audits
- Tenant liaison and communication
- Report writing
- Consultation with other professionals
- Trouble shooting

Maximize your assets value before sale?

Traditional avenues to increase income streams and capital values have been eroded in recent times due factors such as business failure, over capacity, online purchases, falling rents and rates liabilities. To preserve and enhance value it has never been more important to manage assets well. Use a managing agent with a proven track record to get the best of your property assets.

Creating New Value

For example, government allowances for the creation of energy from roof tops are generous making double digit returns over 25 years available. This not only has the benefit of generating rental and capital value for owners it also boosts green credentials and reduced Carbon Reduction Commitments (CRC's) for owners and tenants alike. Some buyers have sustainable mandates. Offering them greener assets is another way to attract them to the market

Research

> "To be fore warned is to be fore armed "

Good research helps inform decision making, means improved returns. For instance with many retailers now opting for turnover only leases with good research owners can compare anticipated turnover for a new store with comparable turnover in towns and regions with similar demographics.

Assessing tenant performance and taking early action to avoid vacancies and rental voids is critical. Using research tools like Red Flag to assist this process by providing a live and continually updated system monitoring tenant and potential tenant activity at Company House and the Court Service. The system can therefore provide early warning of tenants who may be experiencing difficulties. This in turn allows savvy landlords to put in place a mitigating strategy ahead of others.

Conclusion

■ The deleveraging strategies of various institutions will provide the headlines in 2014 and beyond. However if the transactions are to complete to the vendors satisfaction then behind the headlines managing agents must work hard to ensure the nuts and bolts of property management are carried out to the highest standard. This will mitigate against some of the legacy issues we have seen in the recent past which have resulted in prolonged sale periods and price chips.

CONCLUSION

Savills NI Market Report

■ Despite challenging economic conditions in the opening months of 2013, the resurgence in the property market continued to gather momentum throughout the year with a notable increase in transactions across all sectors.

■ With economic conditions and the public finances now improving, there is a strong demand for NI based investments. Significant further deleveraging is set to take place with an increased supply of stock coming to the market which we do not expect to have a negative impact on pricing.

■ We are currently aware of over £100m of stock scheduled to come to the market in the first half of 2014 and we predict the transactional activity will increase throughout 2014 with volumes exceeding £200m.

■ The outlook for the retail sector in 2014 is to remain challenging. However we expect rents to continue to stabilise and in more prime locations we should see evidence of rental growth.

■ In the industrial sector we anticipate an uptake of in excess of 2 million sq ft to transact in 2014 with growth in capital values. The most significant uplifts being in high specification buildings.

■ We anticipate house prices and land values will rise by 3- 5% throughout 2014, if as predicted interest rates remain unchanged.

■ To avoid potential FDI clients relocating to other cities, we consider combing the views of priority stakeholders would be beneficial in ensuring the production of viable office development proposals to meet the build-up of demand.

■ The lack of transactions in the large multi tenanted assets points to a need for robust asset management procedures to combat delays and price chip.

Savills Research

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