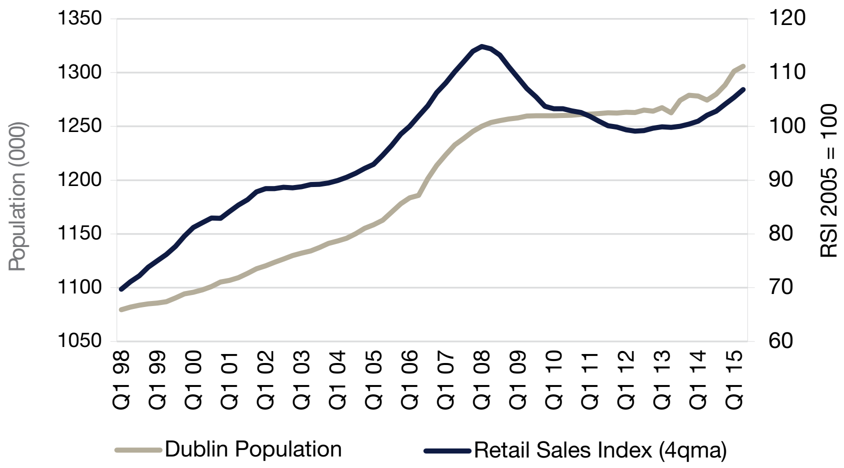
Ireland Retail Market in Minutes

October 2015

GRAPH 1

Population Growth and Retail Sales



Source: CSO

Economic Overview

Ireland's economy is now motoring very strongly with annual GDP growth of 6.7% in quarter two. Robust growth in Britain and America, continued weakness of the Euro, and improved cost competitiveness are all driving exports. Inevitably this is feeding through to jobs growth. Total employment has risen by 57,100 over the last 12 months – an increase of 3% year-on-year. Moreover full-time employment has grown even more rapidly, and it is encouraging to see construction - for so long a laggard in the recovery - now leading the way with jobs growth of over 18% in the year to June.

One positive side-effect of the economic recovery has been a pick-up in the rate of population growth. This is particularly the case in Dublin where, after falling in 2013, the population has rebounded by 3.4% over the last two years. Demand arising from this increase in numbers, along with the improving labour market, is now contributing to a more broadly-based and domestically driven pattern of growth.

As we move into the autumn all indications are that Ireland's robust economic expansion is continuing. Monthly live register data indicate that the economy is continuing to create plentiful job opportunities. This has fed through to a 6% increase in income tax receipts and a sharp fall in the exchequer deficit over the first eight months of the year. Reflecting this, and following very strong national accounts figures in September, economists are scrambling to upgrade their forecasts, and growth predictions of over 6% for this year are beginning to emerge. If realised this will keep Ireland firmly positioned at the top of the European growth table.

Retail Activity

Every dial on the retail economy dashboard is now pointing in a positive direction. Jobs growth and a sharp improvement in the public finances have driven the consumer sentiment index to 100.6 in September. This compares with a cyclical low of 39.6 in July 2008. The uplift in sentiment has been matched by increased activity at the tills. Footfall on Dublin's main shopping streets is up almost 2% this year, retail sales have risen by 10%, while VAT receipts, arguably the most direct measure of retail sector activity, are up 8.3% year-on-year.

Unsurprisingly, given strong population growth and the pick-up in household finances, the demand for restaurant space has rebounded. The first six months of the year have seen competition for space intensify as both indigenous restauranteurs and new entrants have sought to acquire premises. Demand is particularly strong in the mid-range family dining segment with international chains such as Prezzo, 5 Guys, Ask, Nando's and Zizzi all active in the market. Reflecting this, rents in the sector are moving up quickly and currently stand at around €750 per sq.m. in the city centre and €550-€650 in the main Dublin shopping centres, depending on unit size and location.

New Prime Retail Park Opportunity in Carrickmines.

TABLE 1

Consumer Economy Dashboard

Indicator	% Change Y/Y
Savings Ratio	-14.2
Live Register	-10.0
Real Final Domestic Demand	10.0
Real Retail Sales	9.9
Consumer Sentiment	8.5
Real VAT Receipts	8.3
Real GDP	6.7
Real Income Tax Receipts	6.0
Real GNP	5.3
Full Time Employment	3.3
Total Employment	3.0
Real Personal Consumption Expenditure	2.8
Henry Street Footfall	2.3
Grafton Street Footfall	2.1
Real Average Gross Earnings	1.9

Sources: CSO, KBC Bank Ireland/ESRI, Dublin Town and Dept. of Finance

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Restaurant Pays Key Money for Prime City Centre Location

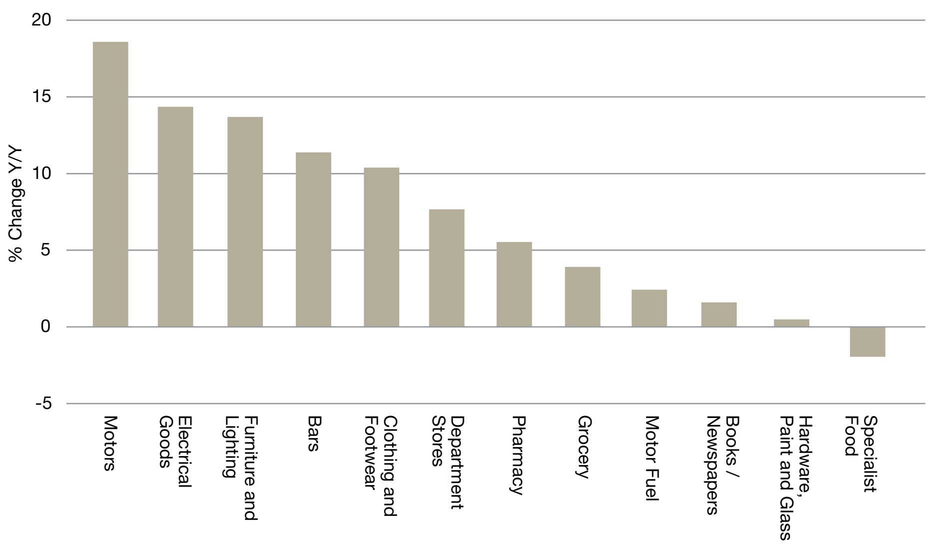
Expectations of rental growth have led to the resumption of retail development after a long hiatus. The new extension at Liffey Valley Shopping Centre, which includes a cinema and a large Penneys store, will also incorporate six restaurants. These are due to open early in 2016 and the majority are already pre-let. With investors focused on providing a destination shopping experience other schemes are also undertaking initiatives to meet the demand for restaurant space. For example, Phase Two of the Kildare Village scheme is scheduled to open in Q4 and will provide two restaurants as well as 34 new fashion outlets.

Graph 2 shows that, like restaurants, retailers of comparison goods have enjoyed strong sales growth over the last 12 months. Illustrating the rebound in consumer confidence, car sales are up nearly 19%. Meanwhile electrical goods stores have seen turnover rise by 14.4% year-on-year - a continuation of the trend that has been underway since mid-2011. Furniture store sales have enjoyed a similar good run. As an example of this, DFS has grown rapidly since coming to Ireland in 2012. It opened its third store in Carrickmines late last year and has since indicated that it sees capacity for a further 2-3 outlets in Ireland. Oak Furniture Land recently agreed a deal in Shane Retail Park in Belfast and is expected to continue its roll-out south of the border. Interestingly the growth in furniture sales appears to be following residential transactions and house prices which are both up significantly year-on-year.

Clothing and footwear sales have risen by just over 10% in the last 12 months and, reflecting this, the demand for space from fashion retailers remains strong. While major players such as the Inditex, Bestseller and H&M groups are all in expansionary mode, there is now limited availability on Dublin's main high streets and shopping malls to meet this demand. This scarcity will continue to drive rental growth in the best locations.

GRAPH 2

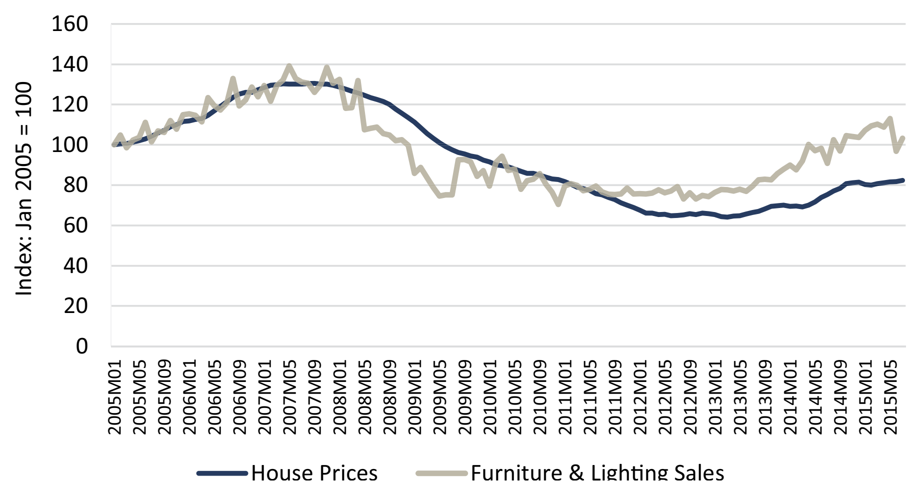
Retail Sales Growth By Store Type



Source: CSO

GRAPH 3

House Price and Furniture Sales Indices



Source: CSO

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43-44 Temple Bar, Dublin 2 – Sold by Savills Q2 2015

Retail Rents

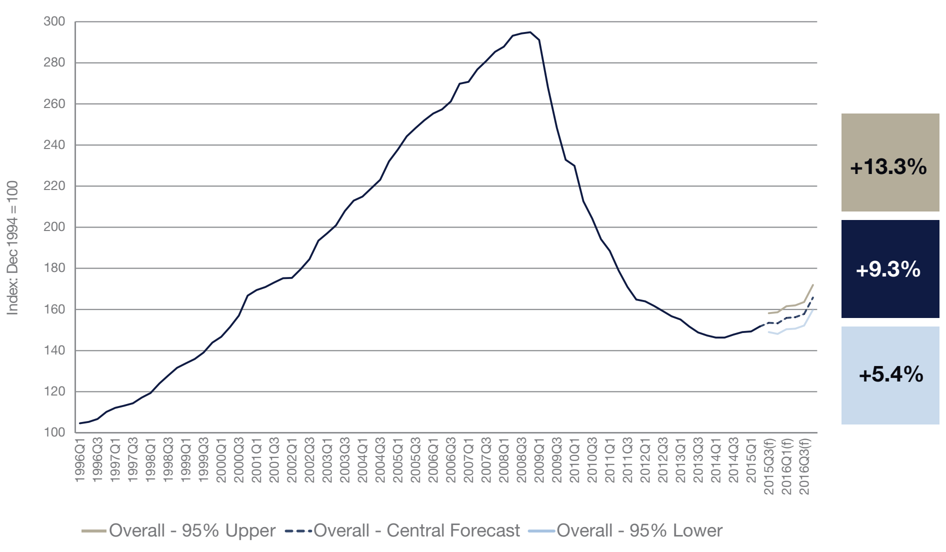
With the demand for retail services increasing in a strongly growing economy, and with retail development only beginning to re-emerge, rents are now rising. According to the latest IPD figures, nominal growth in ERVs across the entire basket of retail properties accelerated from 2% to 3.7% per annum between Q1 and Q2. However stronger rental growth is being experienced in prime locations. For example, growth in Grafton St. ERVs has accelerated from 7.5% to 11.6% per annum in the second quarter.

Economists at Savills Research and the ESRI have developed mathematical models which can be used to forecast retail rents. Our main model predicts that overall IPD rents index will rise by 9.3% between mid-2015 and end-2016. This suggests an acceleration in the current rate of rental growth. Econometric forecasts are subject to a margin of error which, for a given sample size, can be calculated. Graph 3 shows that, while the central case is for 9.3% rental growth, there is only a 2.5% chance that the retail rents index will rise by less than 5.4% by December 2016.

A separate model predicts that ERVs will rise by 16.5% in Grafton St. over the same period. This suggests a continuation of the fairly rapid growth that is currently evident in the IPD rents index for this location. Again, a 95% confidence interval can be placed around the central forecast. This indicates that there is only a 2.5% chance that the Grafton St. rental index will rise by less than 11.2% by December 2016.

GRAPH 4

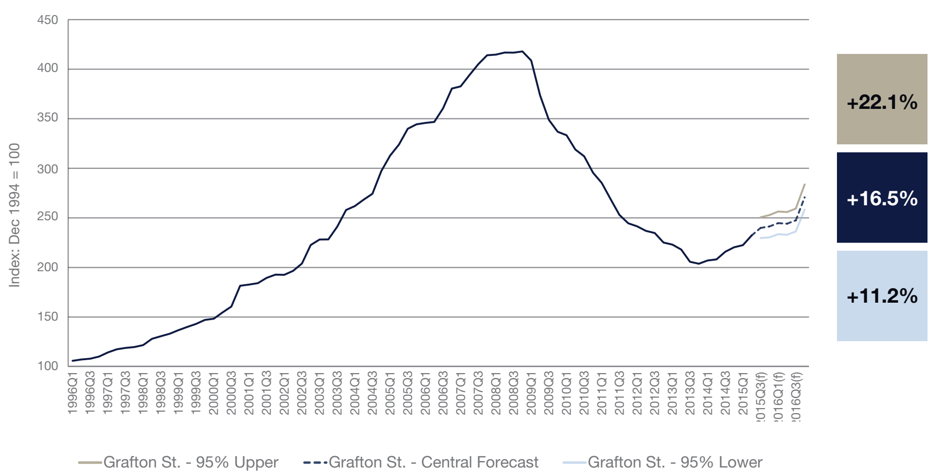
Overall Retail Rents Forecast Q3 2015 – Q4 2016



Source: Savills Research

GRAPH 5

Grafton St. Retail ERV Forecast Q3 2015 – Q4 2016



Source: Savills Research

Unit 19 Opera Lane, Cork – Let to Starbucks.

2015 OUTLOOK

Looking ahead, macro-economic conditions are likely to remain favourable for retailers. The economies of our main trading partners appear to be performing well. Meanwhile the weak Euro should continue to provide a competitive advantage as US and UK monetary authorities edge closer to raising interest rates. This will support further improvements in the domestic labour market and the public finances. Accordingly the Minister for Finance should have scope to deliver a stimulus of at least €1.5bn in October's budget. This should result in tax cuts of around €750m which will directly improve households' spending power and should lead to further improvements in consumer confidence.

Ireland Retail & Research Teams

Please contact us for further information

Larry Brennan
Head, Commercial Division
+353 (0)1 618 1302
larry.brennan@savills.ie

David Potter
Director, Asset Management
+353 (0)1 618 1309
david.potter@savills.ie

John McCartney
Director, Research
+353 (0)1 618 1427
john.mccartney@savills.ie

Darragh Cronin
Head, High Street & Shopping Centre Retail
+353 (0)1 618 1331
darragh.cronin@savills.ie

Stephen McCarthy
Head, General Retail Agency
+353 (0)1 618 1349
stephen.mccarthy@savills.ie

David Eaton
Associate, Asset Management
+353 (0)1 618 1412
david.eaton@savills.ie

Tegan White
Senior Surveyor, Retail
+353 (0)1 618 1492
tegan.white@savills.ie

Anna Gilmartin
Surveyor
+353 1 618 1460
anna.gilmartin@savills.ie

James Doyle
Surveyor
+353 1 618 1324
james.doyle@savills.ie

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