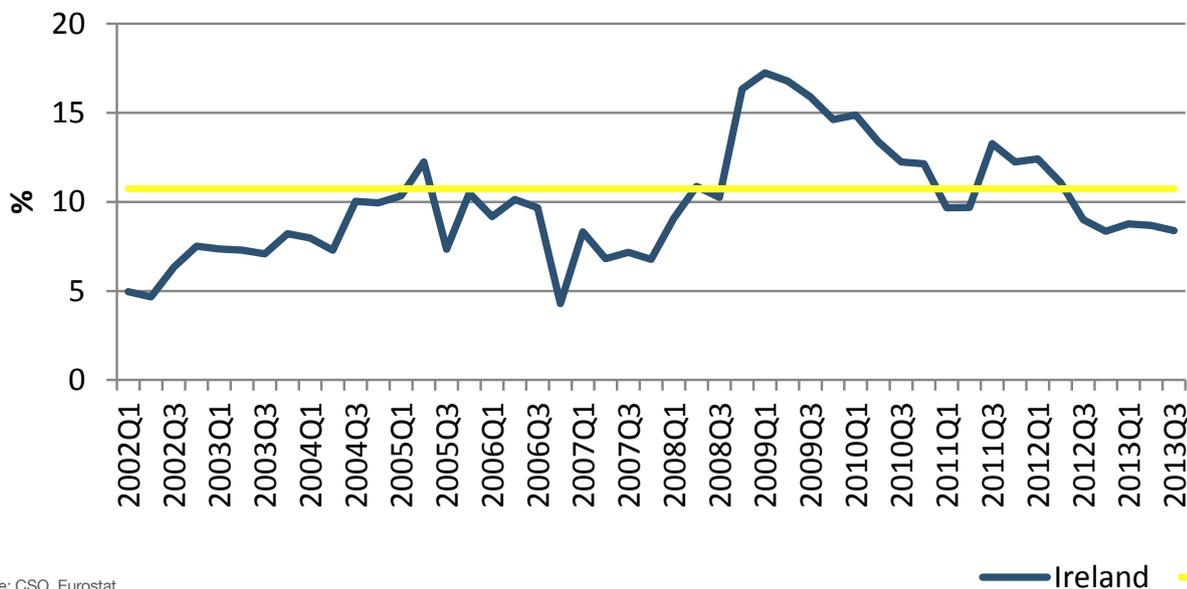


# Market in Minutes Ireland Retail

Q4 2013

GRAPH 1  
Household Saving Ratio



Source: CSO, Eurostat

## SUMMARY

### Ireland's Retail Market

- Retail conditions improving as economy picks up
- However, conditions will continue to vary by location and store type
- Activity remains focused on better performing shopping centres and prime high street locations
- Electronics, clothing & footwear and food & beverage retailers currently most active
- Tone of rents in prime shopping centres and high streets is improving and we expect this to continue
- Two tier market to continue between legacy and new leases

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“All of the key economic indicators are now pointing to an improvement in retail conditions. Disposable incomes have stabilised, sentiment is gradually improving and the savings ratio has once again dropped below the EU average. This indicates that consumers are finally beginning to regain their confidence”

John McCartney, Director of Research, Savills Ireland.

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## → Retail Economy

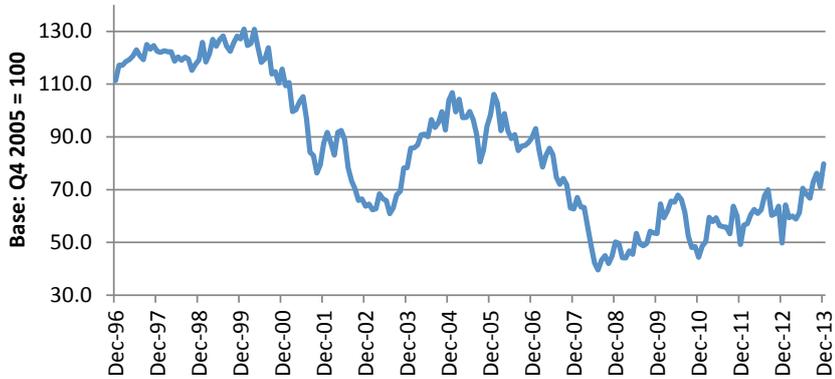
Although conditions remain challenging, there is a growing sense that the retail market is now beginning to improve. This is being driven by a strong recovery in the labour market. Employment has risen by over 3% in the last year – a remarkable growth rate by international standards – and the private sector is creating almost 5,000 new jobs per month in net terms. This has contributed to a 0.9% increase in real household disposable incomes in the year to September 2013 - the largest year-on-year increase since Q1 2008. In turn, these positives have filtered through to a sharp improvement in consumer sentiment and a continued decline in the savings ratio as households finally feel ready to begin loosening the purse strings again.

Although the macro economy and retail environment are slowly improving, this has so far only manifested itself in a modest pick up in retail sales (+1.6% year-on-year in real terms). However, some store types have performed better than others. At one extreme, electrical goods stores have outperformed the market. This has been driven by a consumer shift to portable electronics devices. A middle group of retail stores held up well during the recession and continues to trade robustly. This group includes stores selling staple items (groceries, pharmacy products, clothing and footwear) which are relatively immune to economic conditions. A third group has seen much weaker trading during Ireland's economic crisis. This includes book and newspaper stores where sales have been hit by electronic substitutes. It also includes retailers selling items related to housing (DIY goods, furniture and lighting etc.). Interestingly, however, sales among the latter group of retailers have recently begun to recover strongly. Close monitoring over the coming months should reveal whether this trend is related to the housing market recovery.

## Market Activity

Trends in the retail sales sub-indices are largely replicated in letting activity on the ground. For instance, in the consumer electronics sector we have

GRAPH 2  
**Consumer Sentiment Index, December 2013**



GRAPH 3  
**Retail Sales and Core Retail Sales, November 2013**



seen the entry of a second Apple reseller, and further new entrants are expected in 2014. Fashion and footwear continue to be strong performers and there will be ongoing demand for space from these operators in prime and good secondary locations.

As outlined above, demand and take-up are primarily focused on the better performing shopping centres and prime high streets. Significant transactions on Dublin's prime high streets during 2013 include;

### 104 Grafton Street

Wallace sublet their premises to Cath Kidston, a UK home furnishing retailer.

### 65-66 Grafton Street

Savills let the former HMV unit to the Inditex Group, which opened Massimo Dutti at the end of January.

### 6-8 Wicklow Street

In a deal brokered by Savills, Swedish retailer Cos agreed to lease the Tower Records unit on Wicklow Street. In turn the music retailer will relocate to a premises on Dawson Street later this year.





### 27 College Green

In another Savills transaction, H&M agreed a deal on the former NIB branch on College Green.

### 45/47 Henry Street

Mango agreed to rent this Irish Life-owned building which previously accommodated Dealz on a short term lease.

Dublin shopping centres also recorded increased transactional activity during 2013. Superdry acquired units in both Dundrum and Blanchardstown Town Centres; iConnect (Apple Reseller) and Berska opened in Liffey Valley; Michael Kors opened in Dundrum Town Centre, TK Maxx has agreed terms in the ILAC Centre and Carrig Donn opened in the Jervis Centre.

With vacancy rates decreasing on the key high streets and in shopping centre locations in Dublin, new and existing retailers are finding it difficult to secure stores. However, vacancy rates in provincial towns remain high, with many areas showing no change in their vacancy rates since the downturn. This dichotomy in the market between the major cities and smaller provincial towns is becoming increasingly apparent.

## Rents

Rents on Dublin's prime retail streets have adjusted downwards by between 50-60% since the peak of the market, but are now beginning to show signs of stabilisation. Prime Zone A rents are at approximately €4,000 per square metre on Grafton Street and at approximately €3,500 per square metre on Henry Street.

## Development

With no significant additions to supply since 2008, some selective retail development could occur in 2014. This will predominantly be in the form of extensions to existing schemes. NAMA recently lodged an application to extend the Square Town Centre in Tallaght, and it also plans to extend the Northside Shopping Centre in Coolock. Expansion is also planned for Liffey Valley Shopping Centre and the owners have lodged an application for a two

storey extension comprising 3,444 sq. m. of space. This extension will focus on providing the centre with additional entertainment and restaurant space.

## Retail Trends

- **New Entrants** - Many vacated units on prime high streets and in shopping centres are being re-let to occupiers which are new to Ireland. This trend has been evident on Grafton Street with several newcomers including Vans, Cath Kidston and Levi's.
- **Changes to the Retail Experience** - Following the success of Dundrum Town Centre, many retail centres are seeing the advantage of offering an entertainment experience as well as a retail experience to attract and retain customers. We expect to see an increase in the number of restaurants and coffee shops opening in centres, with Liffey Valley's planned extension being a prime example.

- **Examinership** - Despite the fact that some retailers are reporting year-on-year improvements in trade, many continue to find conditions challenging. Awear being a prime example. Retail landlords are therefore concerned about the forthcoming fast-track legislation which will permit small businesses to pursue an examinership process through the Circuit Court.
- **Online Retail** - Online shopping is having a growing impact on the retail landscape, and retailers are having to adapt their business models to reflect changing consumer behaviour. In 2013 industry representative group Retail Ireland conducted a survey of its members which found that 84% of respondents had an online retail presence, while 62% indicated that they use social media channels to advertise.
- **Rent Reductions** - A number of retailers are seeking to have their rent reduced on foot of the Bewleys case. A decision on the appeal of this case is listed for hearing in the Supreme Court in March.

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"We are now seeing increased demand from food and drink retailers for prime city centre space, with requirements currently outstripping the available stock. We expect this to continue in 2014 as a number of UK pub chains further expand in Ireland."

Bernadine Hogan,  
Divisional Director, Retail, Savills Ireland.

- **Two Tier Market** - A two tier market has emerged since 2009/2010. On one hand there are retailers who are exposed to legacy rents and upwards only rent review clauses. In contrast, new entrants to the market are able to benefit from lower rents and more flexible lease terms. This has proved positive in relation to retail demand from U.S. and European branded retailers e.g. Abercrombie and Fitch, Michael Kors and Superdry.



National Irish Bank, College Green  
Sold and Let by Savills

## 2014 OUTLOOK

- The outlook for prime high streets and shopping centres is positive. Secondary and regional markets remain subdued however. The secondary market will be dominated by the value sector and a limited number of profile retailers who will benefit from heavily incentivised deals. Regionally, outside of the main Irish cities, demand is weak and the immediate outlook remains challenging.
- Retail parks remain challenged in many areas. However, prime city retail parks and good secondary parks will continue to see some demand, albeit from a limited range of quality retailers.
- The ESRI is forecasting a 1.5% increase in personal consumption expenditure this year. Meanwhile, it is expected that consumers will continue to benefit from low inflation as result of intense competition in the retail sector.
- Rents in prime locations are expected to stabilise and grow in certain locations due to increasing demand and limited stock. However, this trend will not be apparent in secondary locations where rents will continue to soften and further tenant incentives will be offered to entice retailers to take up space.
- The influx of new entrants to the market will continue this year as international retailers focus their attention on Ireland. However, their interest lies predominantly on prime high streets and shopping centres where vacancy rates are low.
- With the renewed confidence in the Irish property market, we expect retail asset sales to increase in 2014 as NAMA and other institutions place their assets on the market.

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