PROPERTY WATCH

savills Hamilton Osborne King

Commercial Market Report by Sector Dec 2007

Research Unit
Joan Henry
(Head of Research)
joan.henry@savills.ie
DL: 01-6181487

Mary-Kate McGarry
(Economist)
marykate.mcgarry@savills.ie
DL: 01-6181483

Investments
Fergus O'Farrell
(Director)
fergus.ofarrell@savills.ie
DL: 01-6181311

Retail
Aidan O'Hogan
(Chairman)
aidan.ohogan@savills.ie
DL: 01-6181305

Industrial
Gavin Butler
(Associate)
gavin.butler@savills.ie
DL: 01-6181340

Offices
Roland O'Connell
(Director)
roland.oconnell@savills.ie
DL: 01-6181315

Paul McNeive
(Director)
paul.mcneive@savills.ie
DL: 01-6181341

Development Land
Stephen Cassidy
(Director)
stephen.cassidy@savills.ie
DL: 01-6181385

Cathal Kelly
cathal.kelly@savills.ie
DL: 01-6181320

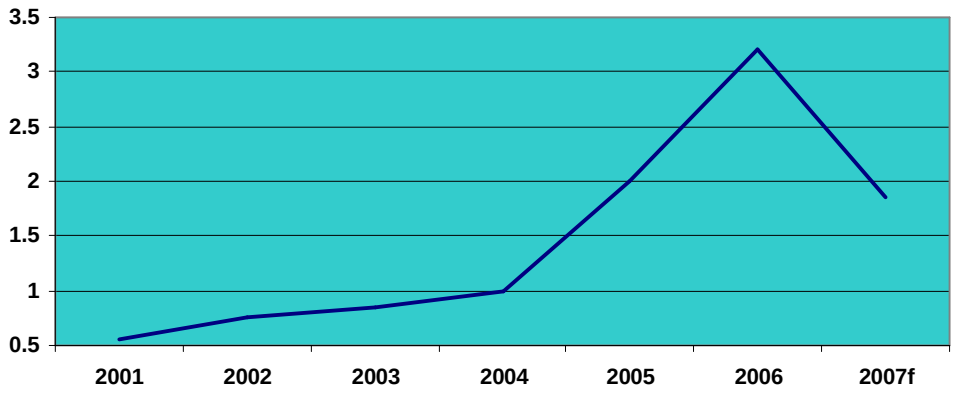
Investment Division

Deal of the month…

- **With Savills Hamilton Osborne King acting on their behalf, Park Developments** have just secured the sale of Phase II, The Park Carrickmines for a price in the region of €100m to Warren Private Clients & AIB Private Banking. Due for completion in March 2008, the anticipated rent roll is expected to be in the region of €4,300,000, representing a net initial yield of c.4.00%.

Market turnover is likely to be significantly down on last year's record levels. Our research indicates that turnover for 2007 is more likely to reach approximately €1.85 billion, down from a peak of € 3.25 billion in 2006. However, this is broadly in line with the volume of turnover in 2005 so overall turnover levels remain relatively strong. The volume of individual transactions is down significantly and the top five deals contributed approximately 45% of anticipated turnover.

Irish Investment Market Turnover (€billions)



Source: Savills Hamilton Osborne King

There has been a more cautious tone in the marketplace since the beginning of the summer period. Deals continue to be done, however there has been a downturn in market sentiment and the pace of activity has slowed. Supply is likely to remain constricted over the coming months and 2008 is expected to begin relatively slowly. Looking forward we expect a period of more modest growth, but stability in the financial sector will have a significant bearing on this.

Investment 'Top Tips'

- Tighter lending continues to affect demand.
- We expect a continuing trend towards off market deals over the coming months.
- A return to stability in the financial markets in the New Year would have a positive impact on the investment market.

Industrial 'Top Tips'

- **Demand for medium sized units (1,000 - 2,000 sq.m) remains strong in all areas of Dublin due to lack of supply.**
- **Capital values continue to rise across Dublin as rental levels remain stable**
- **Large supply of new enterprise schemes (below 500 sq.m) has resulted in a stabilisation of values, particularly in North Dublin.**

Industrial Division

Deal of the month…

- Savills Hamilton Osborne King completed **the assignment of a 9,283 sq.m. facility at Parkwest Business Park, Dublin 12 on behalf of John Player & sons.** The property has been assigned to Nissan Ireland Ltd and the lease is for a term of 25 years from 2003 at a passing rent of €865,000 p/a.

2007 has been a very strong year for the industrial sector, **with prime industrial land values rising by up to 25% and building values rising by 10% - 15%.**

Savills HOK Industrial has been involved in many of the larger deals and have handled the majority of new schemes on the market in 2007.

Some of the highlights this year include sales of over €40 million for Park Developments at Northwest and Northern Cross Business Parks in Ballycoolin and Finglas respectively. On behalf of Rohan Holdings, we secured sales of excess €23 million in 2007 at NorthCity Business Park also in Finglas. We had considerable success with the sale of starter/enterprise units at Northwest, NorthCity and Airside Enterprise Centres totalling over €30 million.

We also handled **the two largest industrial lettings in Dublin this year** – The letting of a 12,000 sq.m. high bay facility in Northwest Business Park for €1.35 million per annum and the assignment of a 10,000 sq.m. facility in Parkwest as mentioned above.

	Mid 06	Jan-07	Mid 07	Q3 07
Prime Yields	5.25%	5%	5%	5%
Prime Rents (per sq. m.)	€125	€125	€125	€125
Prime Capital Values (per sq. m.)	€2,800	€3,000	€3,230	€3,230

Source: Savills Hamilton Osborne King

Retail Division

Deals of the Month…

- Savills Hamilton Osborne King completed the **letting of 28,000 sq. ft. in the Cosgrave-built Ivy Exchange on Parnell Street to Tesco**. This development, along with the Arnotts redevelopment will form a pivotal element of the regeneration of this part of inner city Dublin.

Shopping Centres/Street space

At a time of turmoil for many other property sectors, the retail property market has remained firmer than most, in spite of an ever increasing supply of new space. 2007 saw the delivery of as much retail space as virtually any year in the past 20 years. Much of the stability and continued tenant activity stems from the enduring growth in retail sales with the Retail Sales Index showing 6.6% growth year on year in October and 5% year on year in volume terms.

Demand for space from retailers has remained strong during the year. Dunnes, Marks and Spencer, Tesco and Penneys are still strongly pursuing expansionary

Retail 'Top Tips'

- **There will be a renewed emphasis on Town Centre developments such as Arnotts Northern Quarter Scheme and Harry Crosbie's Point Depot Scheme.**
- **We expect retailers to become more choosey & selective in 2008 – with "locational" criteria even more important.**
- **Overall strong level of activity is expected in 2008 – we will see new international tenants for the first time.**

plans and opening new stores.

The international large sized multiples, such as Zara, River Island, H+M have been extremely active and still have an unsatisfied appetite, which bodes well for developers and landlords for next year.

It will be very interesting at the end of the year to observe the impact of the IKEA opening in Belfast - a first for the Island of Ireland and something that will set the tone for their Dublin store, for which planning permission has now been granted and is stated to open early in 2009.

Rents continue to surprise with both Henry Street and Grafton Street and indeed Patrick Street, Cork all showing new record levels and the strength of premiums being reported for some transactions is a clear reflection of the value of the "opportunity cost " foregone.

Prime Shopping Centre- Highest achievable rents	2007 Zone A rate (per sq. m.)
Liffey Valley S.C.	€4,268
Jervis S.C.	€4,500
Dundrum Town Centre	€4,500
Pavilions S.C.	€3,000
Blanchardstown S.C.	€4,000
Mahon Point, Cork	€5,200

Source: Savills Hamilton Osborne King

Prime Shopping Streets	Zone A Rate (per sq. m.)
Grafton Street	€10,000
Henry Street	€7,500
Cruises Street, Limerick	€2,200
Patrick Street, Cork	€2,000

New retail space developed in 2007 has been let reasonably well albeit that increasing demands for retailers for "contributions to fit out costs" have become commonplace for the mid size retailers operators.

Emerging trends to watch for, include a renewed emphasis on Town Centre developments, for example, Arnotts Northern Quarter Scheme in Henry St., Harry Crosbie's Point Depot Scheme, Victoria Squares impending arrival in downtown Belfast, the O'Callaghan Properties Opera Avenue scheme on Patrick Street Cork, the proposed schemes at Galway Railway Station and the Opera scheme on Patrick Street, Limerick. These are all proving popular and interesting to anchor tenants and large space user tenants alike, and if there is any slowing in consumer spending our experience and expectation would suggest that retailers will readily plump for the downtown safety net.

With the credit squeeze already limiting the availability of development finance, and the general expectation that yields are going to move outwards, it now looks likely that the days of dramatic floor space enlargement, especially out of town are coming to a close. We expect retailers to become more choosey and selective next year, at which time the "locational " criteria will become even more important.

One thing is certain, notwithstanding a general slowing in the other property markets - there will continue to be quite a strong level of activity in this retail market next year and we will see some new international tenants for the first time.

PROPERTY WATCH

savills Hamilton Osborne King

Retail Warehousing 'Top Tips'

- **Gauge anchor/ancillary demand pre build**
- **Use advisors with a proven track record**

Offices 'Top Tips'

- **Continuing uncertainty in financial markets has not had any negative effect on tenant demand to date.**
- **Purchasers are increasingly fussy, but good product continues to sell.**
- **Even though we have not yet closed out 2007, developers, tenants and their advisors are already focused on 2008.**

Retail Warehousing

Deals of the Month…

- **Heaton's** taking a flagship store of 1,858 sq m in Phase 2, The Park, Carrickmines, Dublin 18.
- **Harvey Norman** taking a second Cork store at Eastgate Retail Park of approx 4,180 sq. m.

During the past year we have had competitive interest from anchors such as Homebase and Harvey Norman, who have both agreed to take stores. Going forward, there is renewed competition emerging in the DIY market with two new entrants determined to carve out a market share from B+Q, Woodies and Atlantic.

In spite of the doomsayers predicting casualties in the retail warehousing market, this has not been the case, especially given that developers have found a whole new market with indigenous retailers interested in trading in this format but only prepared to do that, where they acquire virtual ownership rather than tenure on rack rented leases.

Demand for retail warehousing is good and announcements are expected with respect to new entrants in the coming months, which will challenge the traditional market players of Woodies, Atlantic Homecare, Homebase, B&Q, 4Home Superstores, Brooks etc.

In these last weeks of the year, **deals are being agreed now for 2008 openings** in our major schemes- Phase 2, Carrickmines (Spring 2008 approx 11,600 sq. m.), Waterford Retail Park (Spring 2008 approx 9,290 sq. m.) and Drinagh Retail Park, Wexford (Summer 2008 approx 5,100 sq. m.) and Portlaoise Retail Park (Spring 2008 approx 11,600 sq. m.).

Office Division

Deal of the month…

- **State Street/IFS lease 3,200 sq.m. at The Park, Carrickmines**

The recent uncertainty in the financial markets and the slowing growth in the economy have not, as of yet, had any negative effect on tenant demand. Indeed, a number of very large deals are just being finalised and it is expected that Bank of Ireland, KPMG and Arthur Cox will all commit to new premises during 2008. These names have been in the market for quite a while and the concern had been was there any body else following behind. Recent indications are that there are number of large tenants (although maybe not as large as those just mentioned) who will be initiating searches within the market place during 2008. So early indications are that 2008 will also be a very active year.

Prime rents are harder to pin down in that while rents in the region of €640 per sq.m. have been achieved, this has generally been for smaller units or where the other standard terms deviated, for instance a very early break option or an unusually large rent free. Rents in the region of €540 to €595 per sq.m. would appear to be more typical of prime rents for the best located buildings in Dublin 2 on conventional lease terms.

Generally, the prime city centre market is not experiencing any degree of over supply and with modest levels of speculative development; this is likely to continue to be the case. The suburban market has shown a significant improvement in performance during 2007 but a close eye will have to be kept on speculative developments to ensure that development does not outstrip demand.

Rental growth has been tame in the suburban areas with the exception of the very best buildings in the very best locations, for instance, Dundrum. So all in all we expect a bright outlook for 2008, on the assumption that there are no further significant deteriorations in international economic conditions.

Development Land

- **Opportunities remain to acquire sites at reduced prices.**
- **There are continued opportunities in London and the South East Region as a whole.**

Development Land Division

Deals of the Month…

- Sale agreed on 2.5-hectare site on Blackthorn Avenue, Sandyford, zoned mixed-use and located beside LUAS. AMV €90 million. (Savills HOK and CBRE)
- South Quays, Arklow site sold for €31 million. 5.2-hectares zoned WDZ (Waterfront Development Zone).

The slowdown in the Development Land Sector continued this month with land values falling by somewhere in the region of 20% on last year. Having said that, 2007 has still seen some significant land sales, with land values per acre only being outshone by the record-breaking prices paid by developers in 2006. The main issues causing this market slowdown and the reduction in sale prices being achieved are as follows:

- Increased interest rates.
- Unavailability of funds brought about by the recent "credit crunch".
- Reduction in loan to value ratios available meaning that far more equity from purchasers is required in property deals.
- Fewer developers seeking opportunities given sluggish new home sales.

These issues have resulted in the majority of Irish property developers adopting a wait and see approach, while at the same time looking further a field to locations such as London for value in a better established markets.

2007 was also the year of “Tender Fatigue” where developers became tired of properties being sold by way of Tender. In 2008 most sales will be by Private Treaty and joint venture arrangements between landowners and developers.

The outlook for 2008 is hard to predict, as many of the main factors affecting the market, such as interest rate increases and credit market turmoil are out of the control of the Irish economy.

The asking prices of new apartment schemes may fall back further in 2008, to a level that will stimulate steady sales, with purchasers looking to buy in established neighbourhoods with access to bus, rail or LUAS. There will be opportunities for developers to purchase good quality infill sites in established area’s, where demand for new homes, particularly houses will be the focus for the next two-three years.