PROPERTY WATCH

Commercial Market Report by Sector May 2008

Investment 'Top Tips'

- **The tone in the marketplace is expected to remain cautious, as commercial lending conditions remain tight.**
- **Increasing numbers of investors who have been active in Europe are now targeting the UK.**

Industrial 'Top Tips'

- **Shift towards renting over purchasing as tighter credit terms impinge on ability to borrow**
- **Slowdown in take-up levels of small starter/enterprise unit developments.**

Investment Division

Deal of the Month…

- Savills HOK advised on the **largest office pre-funding investment** of the year of the **Brunel Building** at Heuston South Quarter, for €60 million producing a net yield of approximately 5.35%.
- Completed sale of **Phase 2 at the Park, Carrickmines** to Warren Private Clients and AIB Private Banking for approximately **€100 million**.

After several record years of investment turnover, 2008 has got off to a relatively slower start. There has been little transactional activity and therefore of actual evidence of any yield shift. However, it is widely acknowledged that there has been downward pressure on capital values. Availability of debt continues to be restricted and investors are now paying higher margins and are required to put more equity into each transaction. This has had an effect on demand. However, we have a number of clients with active investment requirements but they are adopting a more cautious approach and waiting for the right opportunities to arise over the coming months.

Although transactions remain limited, our team has recently completed several high profile deals. We recently advised a private client on the largest office investment pre-funding of the year by acquiring the landmark Brunel Building at Heuston South Quarter near Heuston Station. This € 60 million acquisition will produce a net yield of approximately 5.35% and the developer will provide a five year rental underwrite from completion in March 2009.

Savills HOK have also just completed the sale on behalf of Park Developments Group of Phase 2, The Park Retail Park in Carrickmines for approximately € 100 Million to Warren Private Clients and AIB Private Banking.

Transactional activity is expected to remain limited in the short term, however we will continue to see an increase in properties being offered for sale 'off market' over the coming months and Investors with cash are in strong position to do deals at competitive prices.

Industrial Division

Deal of the Month…

- The letting of a detached industrial property of approx. **1,544 sq.m on McKee Avenue,** Finglas, Dublin 11. The property, which was constructed c. 1970's was let to **Ashtown Packaging Ltd** on a 4 year 9 month lease at a rent of **€150,000 p/a.**

The industrial market has continued to show strong levels of activity in April. There has been a noticeable increase in the number of rental enquiries as tighter credit terms impinge on purchasers' ability to borrow. Examples of this include the letting by Savills Hamilton Osborne King of over 6,085 sq.m., at Parkwest and the letting of approx. 9,290 sq.m to Coca-Cola in Northwest Dublin.

Occupiers that are seeking space over 1,000 sq.m. are being forced to engage a developer on a design and build basis. This process can take up to twelve months for a completed building to be ready. Therefore, there are very strong levels of demand for modern "ready to go" second hand units throughout the greater Dublin area.

Offices Division

The top end of the market saw continued activity during the month with both AIB Capital Markets and Bank of Ireland entering into exclusive negotiations in relation to large pre lettings on the North Quays. Citco are continuing in their search for approximately 10,000 sq.m. and Deloitte and Touche have announced the start of their search for up to 20,000 sq.m. The KPMG search is progressing and it is expected that they will chose a preferred location by the early summer.

The medium and small sector of the market has seen a fall off in the number of new enquiries but there is still a healthy level of activity in this sector with a number of lettings under negotiation. There is none the less an increased level of concern regarding the number of new enquiries in the sector.

The relatively low level of speculative development has helped the market to retain a level of balance and while competition for tenants will increase, the expectation is that vacancy rates will remain within acceptable levels.

New Homes Division

The level of activity in the New Homes sector has remained constant, with the first time buyer entry-level house sales remaining strong.

The second phase of Heathfield in Cappagh by Manorpark Homebuilders achieved 44 sales, where purchasers queued overnight to secure a house. 115 sales have been achieved in just 6 weeks. This is a true indication that there is a market at the right price. Cancellation rates in most developments are higher than usual. Our research indicates that the main reason for cancellations is the purchaser's inability to obtain finance. This is going to become more relevant over the next few months, with banks tightening up on lending criteria.

This year has seen purchasers gaining more of a foothold in the negotiation process with most developers becoming more reasonable in terms of price expectations. This is definitely a market to be taken advantage of.

Development Land Division

Deal of the Month…

- Savills Hamilton Osborne King sold **Trefleur, Westminster Road, Foxrock**, Dublin 18 **in excess of the AMV of €7 million**.
- Savills Hamilton Osborne King sold a site of approx. 0.28 hectares (0.7 acres), zoned residential for in **excess of €3 million in Rathfarnham**, Dublin 14

Reflecting the general negative sentiment arising from the difficulties in the financial markets the level of transactions and general activity in the Development Land sector continues to be quite low. The number of sites on the market remains very limited, as is evidenced by the weekly commercial property supplements, which have slimmed down considerably over the last few months. This is due to many potential vendors holding off until later in the year or indeed next year in the hope of seeing an upturn in the market.

On the positive side the recent excellent levels of new homes sales, albeit at reduced prices, has brought back some confidence in certain areas and in certain market sectors. There remain, however, a significant number of completed and vacant units on the market and until these have been taken up it is difficult to see any increased activity in the residential development land sector.

Development Land 'Top Tips'

- **Cash is King due to further reductions in bank lending.**
- **Keep an eye on forced sales as the year progresses.**

There is relatively steady flow of land sales occurring off market although sales are taking longer to agree and indeed complete due to the difficulty in obtaining development finance. Most of the deals that are occurring are for smaller infill sites (up to €10 million) and there is no doubt that prices have reduced for almost all land transactions. The degree of reduction in value depends on the location and type of site and the risk involved but very few sites have decreased in value by less than 20%.

There are a number of cash rich developers and investors who are closely watching the market with a view to purchasing at attractive levels but many feel that there will be further decreases and are holding fire at this stage. There is no doubt, however, that as the year progresses a number of these cash rich individuals will indeed strike and we predict a number of significant deals towards the end of the year.

The trend for “more density equals more value” which had driven the market in recent years is being closely analysed and there will be a tendency to seek planning for housing as opposed to apartments in many sub urban locations.

This will undoubtedly affect the land values. Notwithstanding the credit crunch there remains excellent demand for commercial development land and many developers are very keen to purchase in the relatively stable city centre market where risk is reduced. As always the supply in this area is extremely limited.

Even where a developer is keen to purchase the credit crunch remains the most significant factor affecting the availability of finance in the current market and until the international uncertainty around this issue is addressed the market for development land will remain subdued.

Retail Division
Shopping Centre Development

Deals of the Month…

- **Harvey Norman** – opened their largest store in the Republic of Ireland occupying 4,925 sq m, in **The Park Carrickmines**. This is their 12th store to open in the Republic of Ireland.
- Along with Harvey Norman, **TK Maxx** (1,880 sq m), **Mothercare, Heatons and Howard’s Storage World** are to open within the next few weeks in The Park Carrickmines. Carphone Warehouse is about to occupy 83 sq m of retail.
- **Next** is expected to open in June 2008 joining Dunnes Stores and B&Q in Phase 1 of **Galway Gateway**.

Despite the global economic slowdown and the tightening of the availability of credit, new retail developments have opened in 2008 and there are more to come. In early March, Victoria Square in Belfast opened with over 100,000 people through the centre on the first day of trading with retailers reporting very healthy trading. House of Fraser is anchoring the scheme with one of their largest stores in the UK.

Following on from the announcement last month that Dunnes Stores had signed for the anchor unit at The Point, construction continues at pace on the 20,000 sq. m. scheme with opening expected in Spring 2010. Also in the pipeline is the 150,000 sq. m. re-development of Arnotts with their new store of circa 30,000 sq. m., expected to open in 2012.

It was announced just recently that Chartered Land lodged an application to Dublin City Council for the re-development of the 5.5-acre former Carlton Cinema site on Upper O’Connell Street. The application is for 100 retail units, 100 apartments and 17 restaurants in a new “Park in the sky”. The scheme will have a number of ‘green’ features including;

Retail ‘Top Tips’

- **Good tenant mix and design will become crucial to gain the competitive edge**
- **Despite tightening credit conditions, a number of new developments in the pipeline**

rainwater harvesting, increased use of natural ventilation and recycling at source in a new "Park in the sky". The scheme will have a number of 'green' features including; rainwater harvesting, increased use of natural ventilation and recycling at source.

These developments will ensure that the north side of the city becomes a rejuvenated destination for both retailers and shoppers alike.

Outside of Dublin, the Opera Centre development in Limerick should help to reverse the current situation, whereby Zone A rents in the city centre are lower than those achieved in shopping centres in the suburbs, mainly due to a lack of suitable units in the city centre. There has been a good level of interest in the scheme following the successful launch at BCSC in November 2007, with all the leading retailers looking to come back into the city centre in a major way.

Pizzaro's Bray Town Centre development is well advanced in the planning system and we are receiving excellent interest from a number of anchor store operators. The scheme will include circa 58,000 sq. m. of retail space along with 5,700 sq. m. of office space, a 103-bed hotel, 950 residential units plus leisure and restaurant uses. Part of Bray Town Centre's attraction is its location in one of the largest and fastest growing towns in Ireland as well as its proximity to the recently upgraded M11, M50 and Dart line on the North Wicklow border.

Adamstown Central is being marketed (due to open in 2010) and will include a mixed use scheme comprising of 30,000 sq m of retail and leisure space alongside residential units, library and medical centre.

The key aspects in ensuring the success of these developments are good design, tenant-mix as well as, a sustainable location close to road, rail and LUAS transport links.

Prime Shopping Centres-Highest Achievable Rents	2008 Zone A Rate (per sq. m.)
Liffey Valley S.C.	€4,500
Jervis S.C.	€4,500
Dundrum Town Centre	€4,500
Pavillions S.C.	€3,000
Blanchardstown S.C.	€4,200
Mahon Point, Cork	€2,000

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

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