PROPERTY WATCH

Commercial Market Report by Sector February 2008

Office 'Top Tips'

- **Tenant demand remains buoyant.**
- **Increasing activity in city fringe/edge locations.**
- **Rents are stabilizing.**
- **Strong development pipeline.**

Office Division

Deals of the month…

- **State Street/IFS lease 15,500 sq.m. on Sir John Rogerson's Quay**

While December/January can be a quiet time in the office market due to the interruption of the festive season, this year there is quite a bit to report. Firstly, take up of modern office space in Dublin during 2007 hit a new record level of 297,240 sq.m. Indeed this is such a high level that it is likely to remain the record year for some time to come. Almost 75% of the take-up was new space and indeed a large proportion of the take up was pre-lettings.

By year end over 161,000 sq.m. of new office space had been completed which was marginally down on the previous year but still a very high level of activity. It is likely that the level of completions during 2008 will be slightly higher again, so the level of construction activity will remain high.

By the end of 2007, the proportion of modern office space lying vacant amounted to 13.4%, which was a decrease on the previous years' figure of 14.3%. Almost 55% of the vacant space is in suburban locations, where the vacancy rate is significantly higher than in city centre locations.

2008 has started with a number of major occupiers actively in the market and a large number of medium sized occupiers out looking. It remains to be seen whether the general economic uncertainty will reduce activity in the office market but the level of viewings generally is very encouraging.

Industrial 'Top Tips'

- **Tighter credit terms means there are delays in getting deals done.**
- **New Enterprise schemes have seen values stabilize.**
- **Demand for medium-size units remains strong in all areas of Dublin due to lack of supply.**

Industrial Division

Deals of the month…

- Savills Hamilton Osborne King has completed the acquisition of an approx. **5,000 sq.m high-profile headquarters for Honda Distributors Ireland at M50 Business Park**, Ballymount, Dublin 12. The facility will enable Honda Ireland to improve on their existing high quality of service provided to Motor Cycle, Marine and Lawn & Garden Dealers across Ireland.

2007 was a phenomenal year for the Industrial Sector, outperforming many of its commercial counterparts. In 2007 land values increased by up to 25%, while building values grew by between 10-15%. For the **year ahead** we anticipate more modest growth of between 5-10% for prime land and building values and take-up exceeding 200,000 sq.m.

Take-up for 2007 totalled approximately 237,000 sq.m. with over 70% of this activity taking place in the second half of the year, the vacancy rate fell to 13%, down from 15% in July 2007. Our research shows that the fall in the overall vacancy rate has reflected the take-up of a number of larger facilities throughout the Dublin area, including 103 Northwest Business Park and the former John Player & Sons facility at Parkwest. For the year-ahead we would expect take-up in the region of 230,000 sq.m.

Development Land Division
Deals of the Month…

- **Esmonde Motors, Stillorgan, Co. Dublin- Spain Courtney Doyle** 0.607 Hectares (1.5 Acres), Zoned for District Centre Uses. AMV - €36 million and reported to have sold for €36 million.
- **Richmond House,** on 0.36 of an acre was reported bought by John McCabe, for €9million.
- **Savills Hamilton Osborne King sold the DHL Facility in Swords** Business Park for in excess of €13m - (4,529 sq.m.) on approx. 2.8 hectares.

2008 has started as expected with many potential vendors holding off to see what the year ahead has in store. Having said that there is still off-market activity with some hard negotiations taking place to get deals across the line.

Development Land 'Top Tips'

- **Opportunities still remain to acquire sites at reduced prices.**
- **Cash is King!**

As predicted, the vast majority of sites coming to the market are being sold by way of Private Treaty, which in turn will lead to many sites being sold quietly, as mentioned above. Cash rich developers are closely monitoring the market with a view to picking up any bargains that emerge.

The market is still very much feeling the effects of the "credit crunch". The banking problems brought about by the global sub prime crisis and the turmoil on the global stock exchanges have further dented confidence. Efforts by the Federal Reserve to quell tension in the form of aggressive interest rate cuts have yet to filter down to the Irish market but it is hoped that this action will cushion the US economy.

However, it is not all doom and gloom, the market has also seen that demand for new homes is still very much there, provided that the units are priced correctly. This was evident with a strong level of sales on new homes schemes that had reduced their sale prices, most notably at Holywell in Santry, Dublin 9.

Once the realisation that end values will have to be re-evaluated has translated back into site values, the residential development land market should start to fire once again. Developers are holding off to see a stabilisation in New Homes prices and once this occurs it will lead to increased activity in the market and opportunities for developers to purchase good quality infill sites in established area's, where demand for new houses and/or well designed family sized apartments should continue to be strong.

The commercial development land market continues to be active and this is likely to continue in 2008 with many developers still looking for well-located commercially zoned sites throughout the Country. The demand for such commercially zoned sites is evidenced by the very strong price paid for the Esmonde Motors site in Stillorgan, which is January's deal of the month.

UK Development Division

Deals of the Month…

- Savills HOK's UK Development Division acquired a site at **Blackfriars in central London** on behalf of McAleer & Rush. The site is suitable for a mixed-use commercial scheme of over 200,000 sq.ft. The site was bought for c. **€30 million** from Catalyst Capital.

The current market conditions in Ireland have created an impetus within the ranks of the larger Irish development companies to direct additional resources and cash reserves into the arguably more buoyant UK market. Current sentiment from a residential development viewpoint would be that the current inability to dispose of new homes represents an exposure, which may be countered through diversification throughout Europe and particularly in the UK.

Many larger developers are now looking towards current investment stock, which in many cases benefits from medium term development potential. There are a number of factors driving this strategy:

1) Investment **yields** have moved out by up to 1% on prime investment stock.

2) It is anticipated that **interest rates** will fall further in the UK in the latter half of 2008, possibly to 4.5%. (The Bank of England on Thursday announced a quarter-point rate cut, the second in nine weeks).

3) The current **strength of the Euro** against sterling has reduced entry costs to the UK market.

4) The ability of such investment properties to provide income in the medium term reduces the interest liability while planning permission/strategic asset management is undertaken.

In summary the weakening of the investment and development markets has prompted renewed interest in the UK market from many Irish developers who now see value for money returning.

New Homes 'Top Tips'

- **Price reductions are significant on homes for first time buyers, across most Dublin locations.**
- **Prices are considered to be close to the bottom.**
- **Prices are expected to stabilise close to current levels for the rest of year.**

New Homes

There has been a significant increase in activity in the new homes market since the beginning of the year. The increased activity has been driven by major players, such as Park Developments, Albany Homes and Capel Developments reducing the asking prices on units in new developments by up to 20%. This has stimulated demand – particularly from first time buyers, who our research indicates, have made up the majority of sales since January 1st. The increased activity on the back of price reductions, reflects the fact that pent up demand exists from last year. Price reductions have been applied across a wide range of Dublin locations and demand has increased across the board.

Given the level of demand we have seen since the beginning of the year, triggered by price reductions, we take the view that the prices of units in new developments are near the bottom. That said, we do not expect any upward price pressure for the rest of the year. We expect buyers to benefit from further increases in affordability as the year goes on, with increasing pressure on the European Central expected to result in interest rate cuts by mid-year, with the base rate to end the year 0.5% lower than at present.

PROPERTY WATCH

Savills Hamilton Osborne King

Retail Warehousing 'Top Tips'

- **Provincial market is getting tougher!**
- **Mixed anchor centres are gaining an edge on those with only grocery offerings.**
- **Landlords should "do deals" now.**

Retail Division

Retail Warehousing
Deals of the Month…

- **Homebase** is taking an anchor unit of approximately 5,109 sq m in the **Tyrrelstown Retail Park**. This will be their 13th store in Ireland. Phase 1 of the scheme will be approximately 22,000 sq m with an end value in the region of €100m. Savills HOK advised the developers Twinlite.

As predicted in the Savills HOK Summer 2007 outlook document the oldest retail park in Ireland, The Royal Liver Retail Park on the Nass Road dating from the early 1990's is the subject of a recent planning application for redevelopment. The application is for a mixed use scheme of approx 100,000 sq m. Indigenous retailers are getting more rent sensitive and are looking for freehold opportunities as well as asset managing their estate. In the first quarter of 2008 we will see retail parks opening in Portlaoise in the midlands in a scheme of approx 11,612 sq m developed by Lismard Properties. "Waterford Retail Park" in the Six Crossroads area of Waterford is also due a Spring opening and an announcement will be made shortly as to the final line up here.

B&Q scheme in Waterford at Butlerstown is also due a quarter one opening date and this scheme will total approx 13,935 sq m. The second phase of the Carrickmines retail park is also scheduled for a March opening with Harvey Norman anchoring this scheme in their largest format store in the Republic to date. 2007 saw the majority of existing schemes in Ireland reach approx 90% - 100% occupancy. Examples of this would be the Gullivers Retail Park, Santry anchored by Homebase, Hanover Retail Park/M1 Retail Park, Carlow and Drogheda respectively and both anchored by Woodies as well as the Arcadia Scheme, Athlone anchored by B&Q. There is an undersupply of good quality retail warehousing in Dublin at present. For this reason we expect the main retail warehousing activity in the capital this year concentrating on the 22,000 sq m Homebase anchored retail park at Tyrrelstown ahead of the 2009 opening date.

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