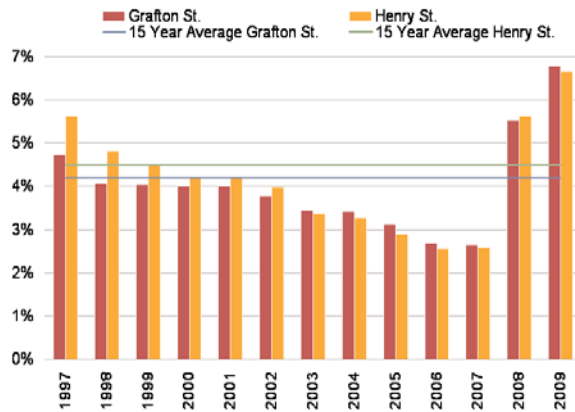


# Ireland Investment market in minutes

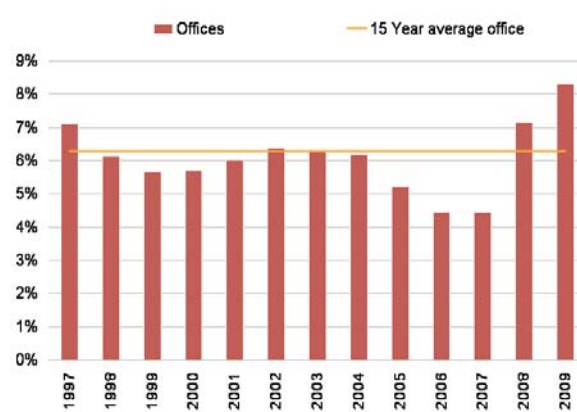
Q1 2010

## Grafton St. and Henry St. equivalent yields



Source: IPD / Savills Research

## Office equivalent yields



Source: IPD / Savills Research

**“Investor sentiment is showing signs of improving, the supply of prime assets is now limited while turnover in 2010 is expected to be significantly higher than 2009”.**

Joan Henry (Head of Research)

- Turnover for the first quarter is estimated to be approximately €50 million however this figure could potentially increase to over €500 million by the end of the second quarter due to level of deals under negotiation.
- Investor sentiment has improved and this has led to an increase in demand but primarily confined to secure, prime, well configured assets. Turnover is being restricted by a lack of suitable opportunities.
- Supply is at lowest level since 2005 and there are very few secure, prime assets currently available.
- Supply of prime assets is expected to remain limited for remainder of this year.

- Prime yields are showing signs of stabilizing although declining rental levels will continue to impact on capital values.
- IPD data show that the prime equivalent yields currently being applied in all sectors are running at a significant discount to the 15 year averages.

### Prime initial yields

	April 2006	April 2010	15 year average *
Retail	2.50%	6.00% - 6.25%	3.50% Grafton St. 3.80% Henry St.
Offices	4.25%	7.00% - 7.25%	5.20% Dublin 2 5.50% Dublin 4
Industrial	5.25%	8.50% - 9.00%	6.60% All industrial

Source: IPD / Savills Research \*based on IPD initial yields

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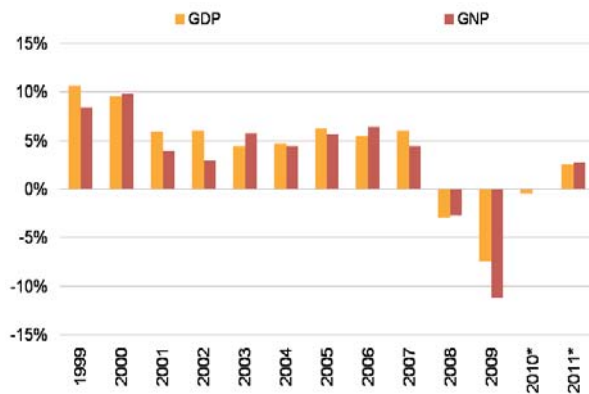


# Economy and investment turnover

## Fragile economic recovery underway

The Irish economy is showing tentative signs of emerging from a more severe recession than any commentators had forecast. The rate of unemployment has doubled and many businesses and investors are dealing with a complete turnaround in lending terms and conditions than those in place less than two years ago. The economy is considered to have emerged from recession. Depending on the level of pick-up in US, UK and other key trading partner's economic recoveries, positive annual growth, albeit modest is expected in 2011.

### GDP and GNP



Source: CSO / ESRI \*Forecast

## Investment market

### Turnover

During the first quarter of 2010 turnover levels are estimated to have reached €50m. This figure was expected to be higher, but a number of transactions, which are under negotiation, have taken longer to contract than anticipated. Despite the apparent lack of transactions, we expect that market turnover by the end of Q2 could exceed €500m made up of approximately 25 individual transactions. This would compare favourably with the levels achieved in the first six months of 2008 (€441m and 25 transactions) and would be significantly better than the same period in 2009 (€85 m and 12 transactions).

Since the beginning of 2008, the Irish investment property market has been characterised by a significant lack of transactional activity. While turnover for 2008 was €786m, very close to the total turnover achieved in 2004 (€796m), there were only 37 deals in 2008 compared to 100 in 2004.

While the chart above indicates that the level of transactions is beginning to increase, it should be pointed out that the majority of the transactions in Q1 2010 was made up of a tranche of bank sale and leasebacks and we do not expect this level of supply of readily saleable assets to be available going forward.

Recent transactions include the sale of 71 Grafton

Street for approximately €8 Million reflecting a net initial yield of approximately 6.30%. The property was occupied by Boodles and had over 20 years remaining on the lease.

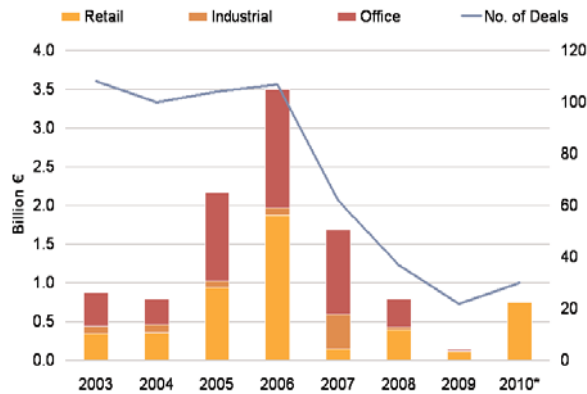
Strong demand was also evident for a further tranche of bank sale and leasebacks involving approximately 20 properties with a value in the region of €40 Million.

The properties are located throughout Ireland and in a variety of lot sizes. The overall yield is in excess of approximately 7% and all of the properties would be secured on 15-year leases with upward only rent reviews.

Savills Research data show that market turnover in 2009 dropped to close to €140m, down significantly from the over €3 billion achieved in 2006. In 2008 as indicated, the rapid decline in economic conditions along with the almost overnight tightening of access to credit resulted in a drop in turnover to 2004 levels.

Despite the lack of supply we expect market activity to be stronger this year and forecast total turnover to reach between €750m - €850m.

### Investment turnover by sector



Source: Savills Research \* Forecast

### Supply

It has become apparent that the available stock of good quality investments in the Irish market is going to remain very scarce in the short term. The main property funds are expected to continue to hold the majority of their core assets and the expectation is that NAMA will not offload many significant higher quality assets in the short term. The net result will be that it is going to remain difficult for investors to source quality investment properties producing secure income.

We estimate that the current supply of investment stock on the market which is not currently under offer is in the order of €250 million, which is the lowest level of supply since 2005. Furthermore, much of this has been on the market for over 18 months and virtually all of this stock is made up of non prime assets for which there is currently little demand.

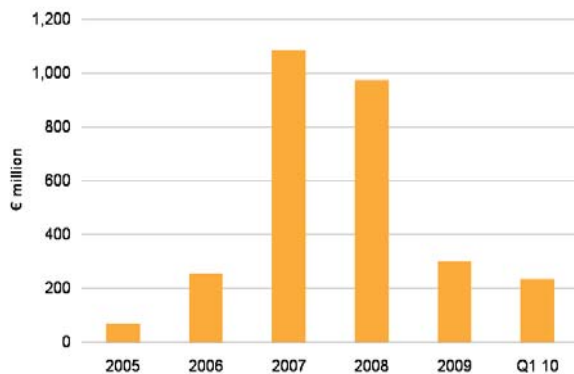
Virtually no new properties have been publicly marketed over the last six months and the majority of

# Yields and outlook

deals that are taking place are arising from off market discussions. Although transactions are taking longer to conclude in the current climate.

Legislation has recently been introduced to prohibit upwards only rent reviews in new leases and it remains to be seen what impact this will have on values and investor sentiment. However, in reaction to market conditions conventional lease lengths and structures were already changing and will result in fewer buildings let on traditional long term FRI leases. This will further restrict supply of secure product in the short term placing a premium on assets, which can offer that level of security.

## Investment supply



Source: Savills Research

## Demand

Domestic private investors who dominated the Irish investment market in recent years have been constrained by a lack of liquidity in the banking system and as a result there are very few investors currently with the ability to invest in lot sizes over €5 million.

Investor sentiment has improved and deals in smaller lot sizes (under €5 million) continue to take place. However, activity has been largely confined to secure product with long leases, primarily bank sale and leasebacks, which dominated market turnover figures over the last 12 months with approximately 30 transactions taking place at yields ranging from 6.00% - 7.25%.

Generally there is very limited demand for properties let on shorter-term leases. However, in recent months we have seen a slight increase in demand from investors looking for 'higher risk' opportunities due to the attractive returns on offer. This demand is typically focused on opportunities where the underlying building quality or location is very strong.

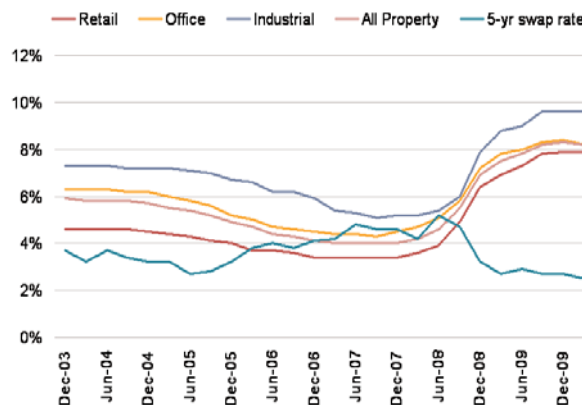
Due to the high returns on offer, there continues to be significant interest from international investors interested in investing in Ireland. These parties are typically looking for prime, well-configured assets with secure tenancies and have the ability to transact in relatively large lots size. Unfortunately, very few transactions have actually taken place, reflecting the

limited supply of suitable product available.

## Yields

The chart below shows the comparative equivalent yields trends over the last 5 years between the various commercial markets compared with the 5 year swap rate. A positive and attractive yield gap now exists as the cost of funds have followed a downward trend while yields have increased significantly over a similar period.

### Dublin equivalent yields



Source: IPD / Savills Research

## Outlook

Risk aversion and difficulty obtaining finance on reasonable terms are factors that are expected to weigh on activity in the property market and on tenant demand in particular this year. NAMA (National Asset Management Agency) is in place with the objective of dealing with the bad loans on the balance sheets of the major Irish banks. NAMA, while a costly option, has the backing of the EU Commission, the ECB and the IMF, who have stated that it is the least costly option given the depth of the banking crisis. The expectation is that as NAMA proceeds throughout the year, along with the re-capitalization plans of the banks, credit should become more available to businesses and investors.

Despite the limited number of transactions taking place, there are some signs that prime yields are beginning to stabilise. The sustainability of current rental levels is the biggest challenge facing investors at the moment. The economic downturn continues to impact on demand from occupiers in all sectors. Vacancy rates, particularly in secondary locations are likely to continue to rise, putting further pressure on rental levels and capital values.

# Ireland Investment market in minutes

## European office yields

City	Prime CBD yields - Q4 2009	9 year average	Spread
Berlin	5.40%	5.22%	0.18%
Frankfurt	5.40%	5.13%	0.27%
Munich	4.80%	4.75%	0.05%
Dublin	7.00%	5.01%	1.99%
Paris	5.30%	5.22%	0.08%
London WE	5.00%	4.83%	0.17%
London City	6.00%	5.36%	0.64%
Brussels	6.75%	6.12%	0.63%

Source: Savills Research

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