

A low-angle, upward-looking photograph of a modern glass skyscraper. The building's facade is composed of a grid of dark window frames, and the sky is a clear, bright blue with a few wispy clouds. The building's lines converge towards the top of the frame, creating a sense of height and scale.

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COMMERCIAL
MARKET REPORT
Knight Frank

HIGHLIGHTS

- European Investment - France & Germany Still Making Sense
- Retail - 2010 Review & Outlook for 2011
- Foreign Direct Investment - A Key Driver in the Offices Sector
- Knight Frank Management Ireland - Making Property Work

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COMMERCIAL MARKET REPORT

EUROPEAN INVESTMENT - FRANCE & GERMANY STILL MAKING SENSE

By Ciara Horgan
Senior Investment Surveyor



The European economic recovery has continued with European markets seeing gradual improvements in occupier activity, with office take up levels in 2010 increasing on the previous year. Prime rents have begun to show the first signs of recovery in a growing number of European office markets, including cities such as Paris.

European investment volumes for 2010 were well up on 2009, but remain considerably below the levels reached prior to the downturn. Investors remain risk averse and the core Western European markets of the UK, Germany and France are still the main focus of investment activity, accounting for more than two-thirds of 2010 activity. Improving signals from the occupational markets, an increased willingness to trade, particularly towards better quality secondary space and the unwinding of legacy debt issues, will support further growth for 2011.

Cross-border investors accounted for 40% of the total investment volumes for Q4 2010. Investment from German and Asian investors supported the rise in volumes. There will be further European investment from Asian investors in 2011. The office and retail sectors continued to account for the largest share of activity in Europe over Q4 2010.

France and Germany in particular are showing more value currently than the traditional UK market for Irish investors. Prime office yields in CBD Paris are trading around 4.75%, compared to similar office properties in London's West End at 4.00%. With the currency play, investment into a fellow eurozone country with improved economic growth seems to be the sensible approach for sophisticated Irish investors.

The relative appeal of property as an asset class has been boosted by persistently low government bond yields, which have created unusually wide gaps between the yields for prime European property and government bonds. For example, German 10-year government bond yields reached levels

as low as 2.10% during the second half of 2010, more than 300 basis points below prime yields in most of the big German office markets.

Knight Frank Ireland has considerable expertise in both these markets. So which one to choose?

German Investment Market Attributes



- Prospects for the German economy are positive with a rise in GDP of 2.00% and a further decline in unemployment for 2011 expected.

- Improvements in German retail sales have indicated that the economic recovery in the country has become increasingly broad based and not just driven by exports and the manufacturing industry.

- Prime office rents in Germany are generally stable and retail rents for prime pitches in cities such as Munich have generally held up well.

- €18.8 billion invested in 2010, a rise of 80% against 2009, and only just 5% short of 2008 investment levels.

- Almost 45% of the entire volume of transactions was effected in the Top 5 regions, Dusseldorf, Frankfurt, Hamburg, Munich and Berlin.

- Going forward through 2011, the market will continue to stabilise and transaction volumes are expected to top €20 billion. If investors adhere less to their focus on core properties and take a little more risk, then a higher volume of investment is conceivable.

- At present the average prime initial yield for first-class office properties is at 5.20% and first class city centre retail at 4.87%.

- Finance is readily available within the German banking sector.

French Investment Market Attributes



- 2010 marked the revival of the French letting market with transactional activity up 28% on 2009.

- The amount of office space available has shifted into a downward trend with vacancy falling just below 7%.

- As a consequence of scarcity of quality office space, prime rents in Central Paris are increasing.

- Rent free periods and other inducements granted on signing a lease have stopped rising, another indicator of market recovery.

- €7.7 billion invested in 2010, the French investment market is dominated by the office sector which is 66% of the market and retail which accounts for 26% of all investments.

- The most common investment requirement is for assets secured with long term income. However, there is a return to speculative developments but with pre-lets in place.

- Paris is still the preferred destination for investors with Greater Paris coming second. Yield compression has been confirmed almost everywhere across the Ile-de-France region and has stabilised in the main regional cities of Lyon, Toulouse, Bordeaux, Montpellier, Nice and Marseille.

- At the end of 2010 prime office yields for Lyon stood at 6.25%, 6.50% in Marseille and Bordeaux and 7.00% in Toulouse.

- Location is no longer the prime factor of importance in asset valuation. Instead, buildings are now being considered much more for their intrinsic qualities such as good covenants and lease structures.

- Finance is readily available within the French banking sector.

Knight Frank Ireland has transacted in both the French and German investment markets since 2002. In December 2010, we sold two well-let office buildings in Marseille and Lyon on behalf of Irish owners for a total value approaching €35 million. Our in depth knowledge of these European markets, coupled with both improved economic growth and value, make these markets our tip to clients going forward for 2011.

2010 RETAIL REVIEW & OUTLOOK FOR 2011

By Paul Shine
Retail Surveyor



2010 proved to be a difficult year for many retailers as consumer sentiment remained cautious throughout the year. Retailers have suffered as a result and the volume of sales decreased slightly year on year.

On a more positive note, 2010 was seen as the year of new retail entrants into the Irish market. Retailers such as Forever 21, Toys R Us, Republic, eMobile, Pandora and Skechers are all acquiring new stores and have taken advantage of the decreased rental levels and increased incentives on offer in Ireland at present. Pandora opened their first store in Dublin on the prime retailing street of Grafton Street. Forever 21

opened their first European store in the Jervis Shopping Centre with Republic opening in both Blanchardstown and Liffey Valley.

Other retailers increasing their presence in Ireland in 2010 included New Look, Holland & Barrett, Fat Face and Iceland. New Look opened their largest store in Europe, again at Jervis Shopping Centre in a next door unit to Forever 21. Fat Face and Iceland also opened new stores in the Henry Street vicinity which will help to increase their brand awareness in Dublin. M & S opened a new store in Douglas Shopping Centre alongside the largest Tesco in Munster.

2011 will no doubt see a number of retailers ramp up their store acquisition programmes in order to increase their presence throughout Ireland and to avail of the incentives on offer at present. Tesco for example, has recently signed to open in Temple Bar's Fleet Street in Dublin 2 in a deal reported to be approximately €200,000 per annum for 1,000 sq m. Donnybrook Fair, another convenience store operator, has agreed a deal in Stillorgan Shopping Centre, which is due to open in mid-2011. Finally, Disney are set to open their first store in Dublin in 2011 when they take over the former Laura Ashley store on Grafton Street.

With regard to future developments, it is envisaged that only two shopping centres will open this year. The Mill Shopping Centre in Balbriggan, which is to be anchored by Tesco, and the Point Shopping Centre, which will be anchored by Dunnes Stores.

It is expected that the pipeline for new retail schemes will remain limited for the foreseeable future as certain parts of the country are currently over shopped.

There are a number of trends emerging in the retail sector in Ireland at present, which include:

- Shorter and more flexible lease terms
- Increased turnover related deals primarily for fashion retailers
- Increased incentives including frequent break options

We would anticipate that 2011 will be very challenging for many retailers. However, we would see increased activity in the sector as the year goes on with even some new retail entrants coming into the market that will increase competitiveness in the sector.



FOREIGN DIRECT INVESTMENT - A KEY DRIVER IN THE OFFICES SECTOR

By Michael Conran
Commercial Surveyor



2010 is behind us now and I think most people in business found it a particularly challenging year. 2011 looks like a year that will be full of change; the general election should herald a new coalition that will be welcomed by the majority of the business community in Ireland and should bring some much needed stability.

While it is easy to focus entirely on the negative aspects of the economy, some positives remain. One particular positive for the office property market in the last 12 months has been the strong levels of take-up from International companies.

The IDA has done exceptional work in attracting new companies such as Facebook, EA Games and LinkedIn to Ireland, while also securing new investment from existing overseas companies such as Google, McAfee and Yahoo. Despite the ongoing negative international press, many companies have either entered the market or expanded their existing business here.

The upside to this is multi-layered and for landlords it represents an opportunity to secure high quality tenants in a time when many indigenous companies are not expanding nor are seeking to rationalise their existing office space. This represents a marked change from the boom years of 2005/2006 when the bulk of office take-up in Dublin came from local legal and financial professional practices that were expanding aggressively.

The office take up in Dublin for 2010 was approximately 1.2 million sq ft, which, while down considerably from the boom years, represents a healthy level of take-up. Particularly considering the micro and macro current economic climate. The majority of deals transacted during the year comprised of smaller lot sizes of 5,000 sq ft or less, such as the letting of No. 5 Herbert Street in Dublin city and No. 2a Richview Office Park in Clonskeagh, both of which were 3,000 sq ft lettings carried out by Knight Frank Ireland in 2010.

Where larger lettings took place it was invariably to IDA backed FDI companies, examples of which would be the assignment of Building 11, Eastgate Business Park, Little Island in Cork, where Knight Frank assigned McAfee's leasehold interest in the building to the pharmaceutical giant Eli Lilly and at Park Place on Hatch Street in Dublin city where Knight Frank acquired 20,000 sq ft on behalf of Bentley Systems.

International companies that are thinking of coming to Ireland and are already aware of our enviable corporate tax rate of 12.5% have been encouraged by the recent reductions in occupational costs for tenants and the flexibility in leases that are now available from Irish landlords. Lease structures in Ireland are now much closer to the norm in the USA and on the continent, where shorter leases and break options prevail.

FDI provides a major boost to the commercial 'offices' sector annually and will aid significantly in our recovery to growth. Its importance should not be underestimated at this time and as our lease structures move closer to international standards we should become even more attractive.

For further information please contact the Office Agency or Global Corporate Services departments at Knight Frank Ireland.

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MAKING PROPERTY WORK

By John Mockler
Managing Director, Knight Frank
Management Ireland



Property and Facilities Management are always vital services to property owners and occupiers, which come more into focus in challenging economic times.

Clearly the current climate is far removed from the frenetic building and property activity that we all experienced in recent years. This was characterised by the sheer level and pace of development that occurred where the pressure was to design, build and keep moving to the next project. This did not allow sufficient attention to end-user requirements or facilitate ease of ongoing maintenance and management.

Some of the challenges of management have included procuring competitive maintenance of closed architecture building systems and implementing unbalanced lease provisions between landlords and tenants.

While the stock of property has dramatically increased, we have also seen significant development in building specification and technology with corresponding enhancement of the property & facilities manager's range of expertise. This has been fostered by the growing recognition of defining and operating Best Practice in the market, and the provision and adoption of the Commercial Property Service Charge Code of Practice by the Irish Property & Facility Management Association (IPFMA) in conjunction with the Society of Chartered Surveyors, has been an important milestone for our industry.

This is all the more so in today's market where there is a distinct focus on property costs and transparency of services. As managers, we have the important responsibilities of administering clients' and tenants' monies in effectively operating the buildings they own or occupy, allowing them to concentrate on their own core business.

We are therefore very much involved in ensuring or improving the efficiency of buildings and their services, such as optimising capabilities of high-specification plant installed or improving maintenance systems. We are also proactive in the monitoring, management and control of energy use in property under our management, and aligning their use and occupational patterns with the operation of the building.

This can also be viewed in the wider context of the environment which, almost as a counter-balance, has emerged as a more primary concern in response to the rapid period of growth and economic activity that we have experienced in Ireland. It should be seen as a positive that we now have mandatory energy assessments of property (BERs) and carbon tax, recognising the environmental impact of businesses and the properties they occupy.

Notwithstanding the sharp decline in our property markets, the dearth of transactional activity, plummeting capital and rental values, we still see business opportunities, albeit different opportunities. These encompass advising and reducing property costs for corporate clients as well as restructuring management/fee arrangements and service specifications for owners and investors where, for example, there is reduced or part occupation of their property.

Knight Frank Management Ireland covers a full range of focused, value added property management services. We understand the context of the important management and advisory services which we provide, and adopt a 'heads-up' approach to providing client services and solutions. We view property as an asset, and our approach through sound and proactive management is to maintain and enhance asset value for our clients and make property work.

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IPFMA DIPLOMA AWARDED

Peter Moloney (right) of Knight Frank Management Ireland, who is chairman of the IPFMA (Irish Property & Facility Management Association), congratulates Paul Shine of Knight Frank Ireland at the recent IPFMA diploma awards ceremony in Dublin.

Paul, who works with us as a chartered surveyor in our Retail Department, was one of the 26 new property, asset and facility management practitioners who qualified this year by graduating from the one-year Property and Facility Management diploma course run annually by IPFMA.

He was presented with his diploma at the graduation ceremony by his Knight Frank colleague Peter Moloney.



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KNIGHT FRANK / LEMANS SOLICITORS

RETAIL RENTS BUSINESS BREAKFAST

By
Keiron Diamond
Director, Head of Retail

John Mockler
Managing Director, Knight Frank
Management Ireland



Knight Frank and Lemans Solicitors held a joint seminar for a selection of landlords and tenants.

Keiron Diamond, Director and Head of Retail Knight Frank, told the audience that over the last three years, he has been very actively involved in dialogue between landlords and tenants and has successfully renegotiated rents downwards for a wide selection of retailers. Mutual understanding of problems facing both parties is vital.

The role played by banks in facilitating renegotiated rents was emphasised by Mr. Diamond. He also outlined the growth of "Turnover Rents" and the variety of options

available, that would not suit all retailers or landlords but emphasised the importance of trust between the parties plus the positives and negatives associated with this option. The abolition of upwards only rent reviews on new leases has had an effect on the market, with regards the reality of a two tier leasehold interest market, and the importance of tenants seriously understanding the rent review process.

John Hogan, Partner at Leman's, said "the courts are now recognising the collapse on retail rents on Grafton Street. In two recent Circuit Court cases, Burger King and Celtic Jewellers secured rent reductions of 53% from the peak rents they were paying. In both cases the landlords were forced to court by the tenants, exercising their technical lease entitlements. Not every tenant will have the same rights."

Lemans believe the forfeiture of leases will be on in the increase in 2011. NAMA and the Receivers are moving in and will have little or no patience. The tenant brand name means little and with examinerships putting landlords at the back of the creditors queue, it is more important than ever for landlords to manage their tenant relationships and keep on top of their rent payments. A change of government will increase the pressure for pro-tenant legislation. The courts are clearly showing that they have no sympathy for Celtic tiger rent demands.

John Mockler, managing director of Knight Frank Management, stressed the importance of proactive property asset management in the redefined Landlord & Tenant relationship which now exists. Businesses are ever more mindful of their total property costs including rent, service charges, insurance and rates, and seeking ways of reducing their overall costs of occupation.

Landlords of shopping centres and other commercial buildings face the ongoing challenge of maintaining the proper operation of these properties, while they remain part or substantially empty. Cashflow from service charges is vital to enable payment to service providers - security, cleaning, maintenance etc. Landlords are more likely obliged to contribute to the service charges for vacant units from rental income.

Best practice in management and service charge administration for commercial property is guided by the IPFMA/SCS Service Charges Code of Practice which promotes transparency, and we look forward to today's leases referring to and incorporating clauses from this benchmark.

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