



THE OFFICE MARKET

For the first quarter since Q3 2008, we have not downgraded prime headline quoting rents in the Dublin office market. Having experienced a prime headline quoting rents in Dublin city centre are now stabilising at approximately €376 per square metre while prime headline quoting rents in the suburbs are now stabilising at approximately €215 per square metre. Considering the competitive terms and conditions on offer, office leasing activity is continuing on a steady basis despite the economic backdrop. Notable lettings concluded in recent weeks include the letting of 4,438m² at The Chase building in Sandyford to Dun and Bradstreet (D&B); the letting of approximately 1,100m² to Ergo at Block T, Eastpoint and the letting to Gala Networks dramatic 44% decline from peak, of approximately 1,000m² at the Chancery Building in Dublin 8. The National Asset Management Agency (NAMA) have also reportedly agreed to lease a further 1,858m² at The Treasury Building in Dublin 4. With the vacancy rate in Dublin remaining high at approximately 23%, continued inward investment and significant indigenous requirements will be required to absorb the current overhang of office accommodation. In this regard, it is encouraging that a number of large requirements from occupiers including Bord Gais, ESB, AIB and NIB have yet to be fulfilled. Although take-up is performing below trend, the lettings that are being negotiated are gradually reducing the supply of good quality, well-located accommodation. A decline in vacancy will be particularly slow to materialise in this cycle due to the high proportion of older properties and floors of otherwise occupied buildings that are currently being marketed to let. Proactive landlords continue to approach tenants regarding restructuring their existing leases. This trend, which is being dubbed 'blend and extend', includes negotiating the removal of break options or extending the length of the existing lease in return for rental reductions. It remains to be seen what impact, if any, NAMA will have on the office sector in the medium term. One potential outcome is that some freehold office buildings may come available on more competitive terms over the coming months.

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Prime Headline Office Rents

City Centre	€376 per m ²
South Suburbs	€215 per m ²
North Suburbs	€183 per m ²
West Suburbs	€161 per m ²

THE RETAIL MARKET

The Irish retail market continues to bear the brunt of the current economic downturn. This was evidenced by the most recent data from the Central Statistics Office (CSO), which showed that the volume of retail sales in Ireland declined by 14% in 2009 while the value of retail sales declined 18% in the period. Against this backdrop, bad news continues to materialise. In recent weeks, Brown Thomas have announced reduced profits, Debenhams have announced more than 170 job losses in the Irish market, Musgrave's have announced more than 55 job losses in the Republic and employees in Clery's department store in Dublin have gone on a four day week. A number of retailers are continuing to go out of business including in recent weeks 3G, Adams, Jeanscene, Ladybird, D2 Jeans and West Jewellers. The Bestseller Group are to close 14 outlets. Arnott's are to close their Jervis 'Arnott's Project' store but there are a number of retailers lining up to take this space once

Prime Retail Zone A Rents

Grafton Street	€6,500 per m ²
Henry Street	€6,000 per m ²
Liffey Valley	€3,500 per m ²
Dundrum	€3,500 per m ²
Blanchardstown	€3,200 per m ²
St. Stephen's Green	€2,000 per m ²
The Square	€1,750 per m ²
Secondary City Centre	€1,100 per m ²
Prime Retail Warehouses	€242 per m ²



vacated, proving that demand remains strong for prime retail premises if they are priced correctly. The recently announced closure of 44 Halifax bank branches around the country will see these units coming to the market later this year. It will be interesting to see how the market reacts to this although we anticipate that there will be genuine interest in some of the locations from a variety of retailers. A number of retailers including Tom Taylor and Decathlon are continuing to look for opportunities in the Irish market. Aldi and Lidl remain aggressive on the expansion trail; Four Star Pizza have announced plans to open 6 new franchise stores in 2010; mobile network operator 3 Ireland plan to open new stores and up to 3,000 Penney's workers are to get a 3.5% pay rise in 2010. In addition, 100 jobs will be created by the redevelopment of the Curry's & PC World electrical stores in Ireland, as the two retailers are brought under one roof in various locations around the country over the next two years. Since the beginning of the year, the VAT rate in the Republic has reduced slightly to 21% while the UK VAT rate has increased from 15% to 17.5%, which coupled with the recent weakening of the Euro against Sterling, will probably stem some of the leakage to Northern Ireland, particularly in the grocery sector. Many retailers are being proactive in the current climate and looking at restructuring their lease commitments. In many cases, tenants are negotiating rental reductions. It is difficult to determine rental values although we believe that prime headline quoting rents are down approximately 30% from peak.

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THE INDUSTRIAL MARKET

Although there has been a marked improvement in enquiry levels since Christmas, this has come from a very low base and conditions in the industrial sector of the Irish market remain challenging. While there is some momentum in terms of letting activity, the market continues to perform below trend and is likely to do so until economic conditions improve and job creation re-emerges. A large number of industrial facilities that were purchased for redevelopment purposes are now being offered to let on a short-term basis. There are also a number of large facilities being marketed as a result of company closures in the last 12 months, most notably the Waterford Crystal facility in Waterford, which is currently being offered for sale. The ever-increasing volume of vacant stock continues to impact negatively on rents in the industrial sector. Prime quoting rents in the Dublin market are now in the order of €86 per square metre and have yet to stabilise. Most occupiers are currently focussing their attention on lease restructuring with a view to rationalising their facilities and cutting costs. The result is that there is very little net absorption of industrial accommodation despite the volume of transactional activity. Notable transactions completed in recent weeks include the letting of approximately 12,635m² at Unit 103 North West Business Park in Ballycoolin, Dublin 15; the letting of 4,121m² at Unit A, Furry Park, Santry, Dublin 9; the letting of approximately 3,252m² at Unit AF1, Clonshaugh Industrial Estate in Coolock, Dublin 17 and the letting of 2,322m² at Greenhills Industrial Estate in Tallaght to NCT operator Applus.

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THE IRISH INVESTMENT MARKET

The recovery which is starting to emerge in some European property markets and most notably in the UK has not yet materialised in the Irish investment market. However, there has been a marked improvement in sentiment and investor interest in the Irish market since the beginning of 2010. While returns are still negative, (the most recent IPD data showed a deterioration of 2.9% in total returns in Q4 2009) performance prospects have improved significantly in recent months and we expect to see values bottoming out at approximately 60% from peak. Prime yields are now stable in all sectors with prime retail, office and industrial

Prime Yields	
Retail (High Street)	6.50%
Retail (Shopping Centre)	8.50%
Office	7.50%
Retail Warehouse	8.50%
Industrial	9.00%



yields potentially trending a little stronger over the coming months, despite the fact that rental pressures remain in the occupier markets. There is still uncertainty regarding secondary yields however, with investor demand purely focussed on prime investment properties in core locations. The recent sale of the Boodles retail investment on Grafton Street for slightly less than the guide price of €8 million (reflecting a yield of less than 6.5%) by a private UK buyer is indicative of the growing trend of international investor interest in a market that has heretofore been dominated by local purchasers. In fact, none of the larger investment transactions that are currently being negotiated are being pursued by domestic investors and few are likely to be funded by domestic banks. Liffey Valley Shopping Centre in West Dublin is currently under offer to UK buyers, namely Area Property Partners and F&C Reit Asset Managers and will be a significant transaction for a market where transaction turnover declined to a mere €92 million last year. We expect to see an improvement in transaction volumes over the coming months. Much attention will be focussed on the Irish investment properties which transfer to NAMA over the coming months but it is unlikely that any of these properties will be sold on the open market in the short term.

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THE UK INVESTMENT MARKET

Interest in the UK investment property market has continued to improve in recent months, with retail funds, (who have witnessed major inflows in the last two quarters) and overseas investors leading the charge for prime office and retail properties, particularly in Central London. Values in the UK stabilised in August 2009 and have appreciated in most sectors since then, driven to a large extent by the weight of equity chasing a limited volume of prime investment product and buoyed by the weakness of sterling.

Prime Yields	
Office (West End)	4.75% Stronger
Retail (High Street)	4.85% Stronger
Retail (Warehousing)	5.50% Stronger
Office (Provincial)	5.75% Stronger
Office (City)	6.0% Stronger
Shopping Centre	6.25% Stronger
Industrial	6.50% Stable

The recovery in the investment market has been supported by the fact that conditions at the prime end of the occupier markets in the UK are now also showing some signs of improvement with encouraging rental growth forecasts for Central London now starting to emerge from various research groups. Key lending terms and the availability of finance for prime real estate have also improved somewhat in recent months. Investors are focussing their attention on prime properties with secure income flows and while average yields in the UK have hardened across the board in the last six months, the greatest yield corrections have been for prime assets. There has been a notable improvement in the volume of stock being offered for sale in the UK since the beginning of 2010 with a number of opportunistic sellers taking advantage of the strength of demand for investment opportunities. A number of those selling properties in the UK are trading assets they purchased only 12 or 18 months ago. Indeed, an investor recently sold an office building in Leeds that they purchased in May 2009 for £37.6 million to a pension fund for £51.3 million. An Irish investor recently sold Victoria House in Bloomsbury Square in London to a Lebanese investor, M1 Real Estate for approximately £175 million – the largest investment sale in the West End in two years. An Irish institution also sold an office investment in Sheffield for approximately £12.95 million in recent weeks while another Irish investor recently sold an office building at 11 Upper Brook Street in Mayfair to a Middle Eastern sovereign wealth fund for approximately £6 million. The UK investment market has certainly been one of the first markets internationally to witness a correction and return prospects now look very encouraging. However, it remains to be seen if this momentum can be maintained against a backdrop of an economy that remains weak and with a general election looming later this year.

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THE DEVELOPMENT LAND MARKET

With attention still firmly focussed on transferring land and development loans over to the NAMA vehicle, transactions in the development land market remain few and far between. The transfer of the Top 10 developer loans to NAMA has now been pushed back from the end of February to the end of March 2010. There was only one land transaction recorded in recent weeks, the sale on behalf of a receiver of a 9.6 acre site in Sallins, Co. Kildare, which had full planning permission for 116 residential units. A 1.46 acre site on Conyngham Road in Dublin 8 has recently been brought to the market on the instruction of a receiver guiding €4.5 million, which will be a good test of the Dublin market. The IDA is selling a 5.1 acre site in Gorey Town, while the high-profile Waterford Crystal site in Waterford is also being marketed at present. Dun Laoghaire Rathdown County Council Development Plan is due to be adopted shortly while Dublin City Council's new Development Plan for the period 2011-2017 has now gone on display. Under this plan, it is proposed that no new lands will be rezoned for housing in the city until after 2017. A number of local authorities around the country are now considering de-zoning land. Waterford County Council has put their new Development Plan on display and has dramatically reduced their projected demand for development land. Meanwhile, both Kerry County Council and Clare County Council have proposed de-zoning parcels of land in their jurisdictions. There is much discussion about the level of vacant unsold housing units around the country. While it is difficult to quantify the supply of vacant unsold housing units due to a lack of accurate data on this sector, we believe that the 300,000 figure which has been discussed in recent weeks overstates the quantum of vacancy and that the true figure is closer to the Department of Environment estimate of approximately 120,000 units. Another issue that is causing concern in the development sector at the moment is the Government proposal to increase the rate of capital gains tax to 80% for disposals of land that have been rezoned for alternative uses, which is due to be enacted in the forthcoming Finance Act. This will have huge value implications for the development land sector and will compromise brownfield development. We strongly advocate that the increased tax rate be limited to zonings of previously unzoned land as this will prove a more workable solution. With so much uncertainty prevailing in this sector, there has been a notable increase in demand for strategic advice on land and development projects.

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THE HOTELS & LICENSED MARKET

Conditions in the hotels and licensed property market are still very challenging, as funding for hotel and pub purchases remains extremely difficult to secure. Although negotiations are edging towards completion on a number of properties, there were no significant transactions formally concluded in the first two months of 2010. The early months of this year have seen a continuation of poor trading levels across the industry, resulting in some closures including the well-known Montrose Hotel in Dublin for an initial three month period. Hard-pressed hoteliers are struggling to maintain margins, especially as labour costs within the industry continue to account for a huge proportion of outgoings. Hoteliers are still bound by outdated JLC agreements which mean they have to pay rates well in excess of the official minimum wage agreement. Discussions are currently underway to resolve this important issue. With St. Patrick's Day fast approaching, Tourism Ireland and Failte Ireland are redirecting their efforts in an attempt to increase the number of overseas tourists to Ireland in 2010, following a dramatic 900,000 decline in visitor numbers to the country last year. On an encouraging note, Galway City has emerged on a shortlist of 3 to host the European stage of the Volvo Ocean race, once again in 2012. With everyone waiting for NAMA to get up and running, there have been very few hotels brought to market in recent months. However, that is about to change with the launch of marketing campaigns for the Ostan na Rosann in Donegal and the Kenmare Manor hotel in Kerry. Outside of Ireland, the London hotel market continues to buck the trend and remains very strong with a number of significant sales concluded in recent months. CB Richard Ellis Hotels



recently won the mandate to bring the prestigious 5-star Grosvenor House Hotel in London, which is operated by Marriott, to the market. This is a real 'trophy' asset which has already attracted huge international interest, with some reports suggesting it could command in the region of €600 million to £700 million. Elsewhere, Jury's Inns are in talks to add two new Inns in London and have plans for a 150 bed extension to its property in Islington. In the pub sector, funding remains difficult to secure and there is very little sale activity as a result. There might be some good news for the Dublin pub market shortly with CBRE agreeing a deal on The Globe/RiRa premises in Dublin city centre, although the majority of activity in this sector has recently been focussed on letting licensed premises.

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THE BELFAST MARKET

The occupational property market in Northern Ireland remains fragile with limited transactional evidence recorded in the first two months of the year. With occupier demand remaining weak, rents have come under further pressure in recent months, having already experienced falls throughout 2009. Prime office rents in Belfast are now in the order of £134.50 per square metre or £12.50 per square foot. A number of new office requirements have materialised in recent weeks although most are small requirements ranging from 500m² to 1,000m² in size. A number of industrial requirements for accommodation ranging between 1,000m² and 2,000m² have also started to emerge, which is encouraging although most of the activity in this sector comprises lettings as opposed to sales at present. A

number of retailers continue to look for expansion opportunities in the Northern Ireland market. In recent weeks the British fashion retailer Republic has announced plans to open a new 929 m² store in the Castlecourt Shopping Centre in Belfast, while discount retailers Poundland and Poundstretcher continue to search for opportunities in the region. The big unknowns at this juncture include what is likely to happen in the forthcoming general election and what the possible knock-on effect of cost-cutting in the public sector will be. Pressure groups have again raised the question in recent weeks about reducing the rate of corporation tax in the region. This would clearly give a massive boost to the Northern Ireland economy and in turn the property market in the region, particularly considering the competitive rents and labour costs relative to the Republic. Prime yields in the Northern Ireland market remain stable although transactional activity remains limited to very small lot sizes in provincial towns in the region. Much attention will be focussed on NAMA over the coming months, with the due diligence process now firmly underway for the loans on Northern Ireland properties that are ultimately due to move over to the entity. **For further information contact:** Brian Lavery in our Belfast Office at brian.lavery@cbre.com

Prime Rents

Zone A Retail	£1,750 per m ²
Prime Office	£ 134.50 per m ²
Secondary Office	£ 113 per m ²
Prime Retail	£ 807 per m ²
Prime Industrial	£ 43 per m ²

Prime Yields

Prime Retail	5.25%
Prime Office	6.00%
Secondary Office	6.75%
Prime Industrial	7.00%
Secondary Retail	7.50%