

# Ireland's Property Market Review and Outlook

September 6, 2012

[www.dtz.ie](http://www.dtz.ie)

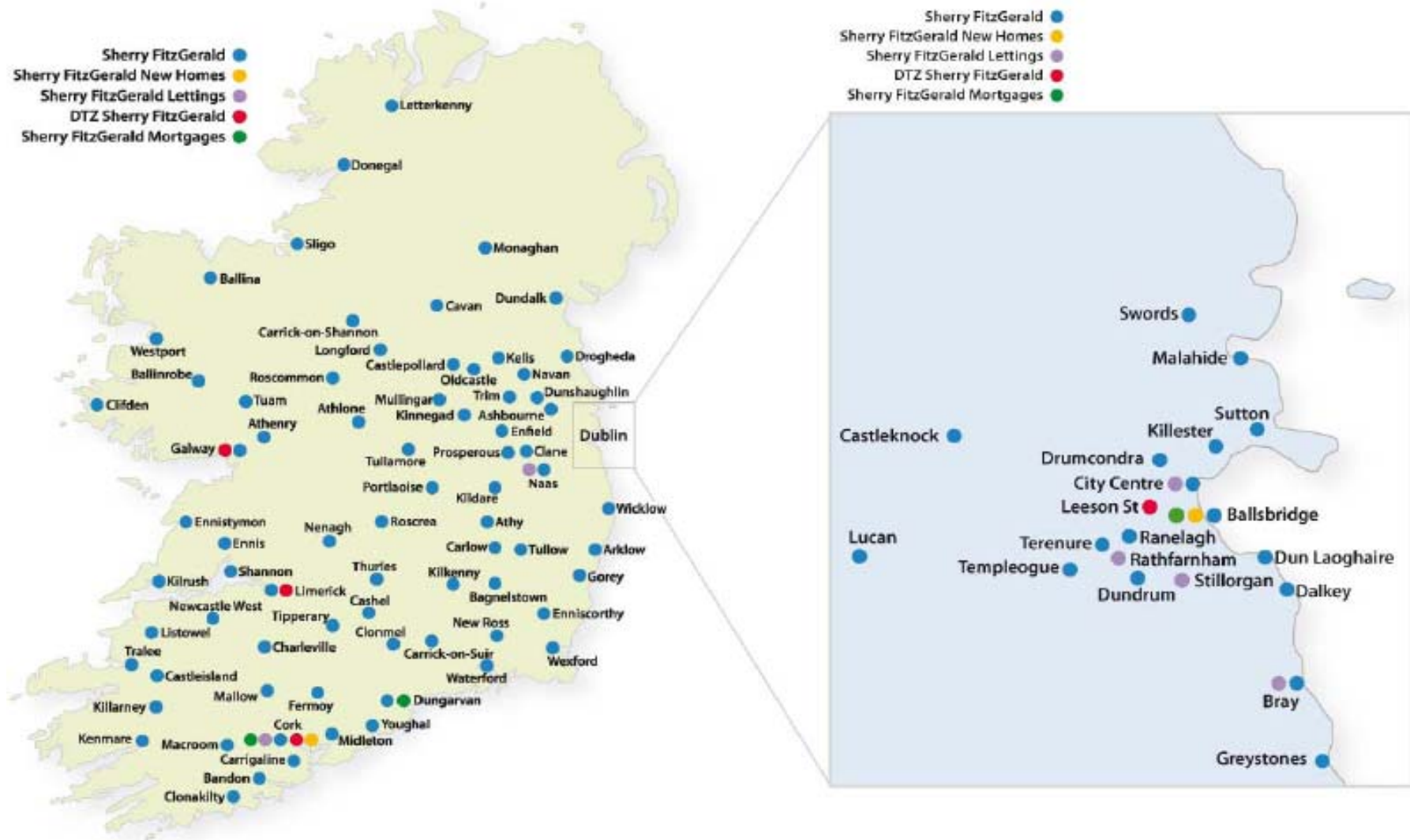


## Overview

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- Sherry FitzGerald Group
- Residential Market, A Demand and Supply Analysis
- Economic Overview
- Commercial Market, Occupier trends
- Conclusion and Outlook

# National Offices

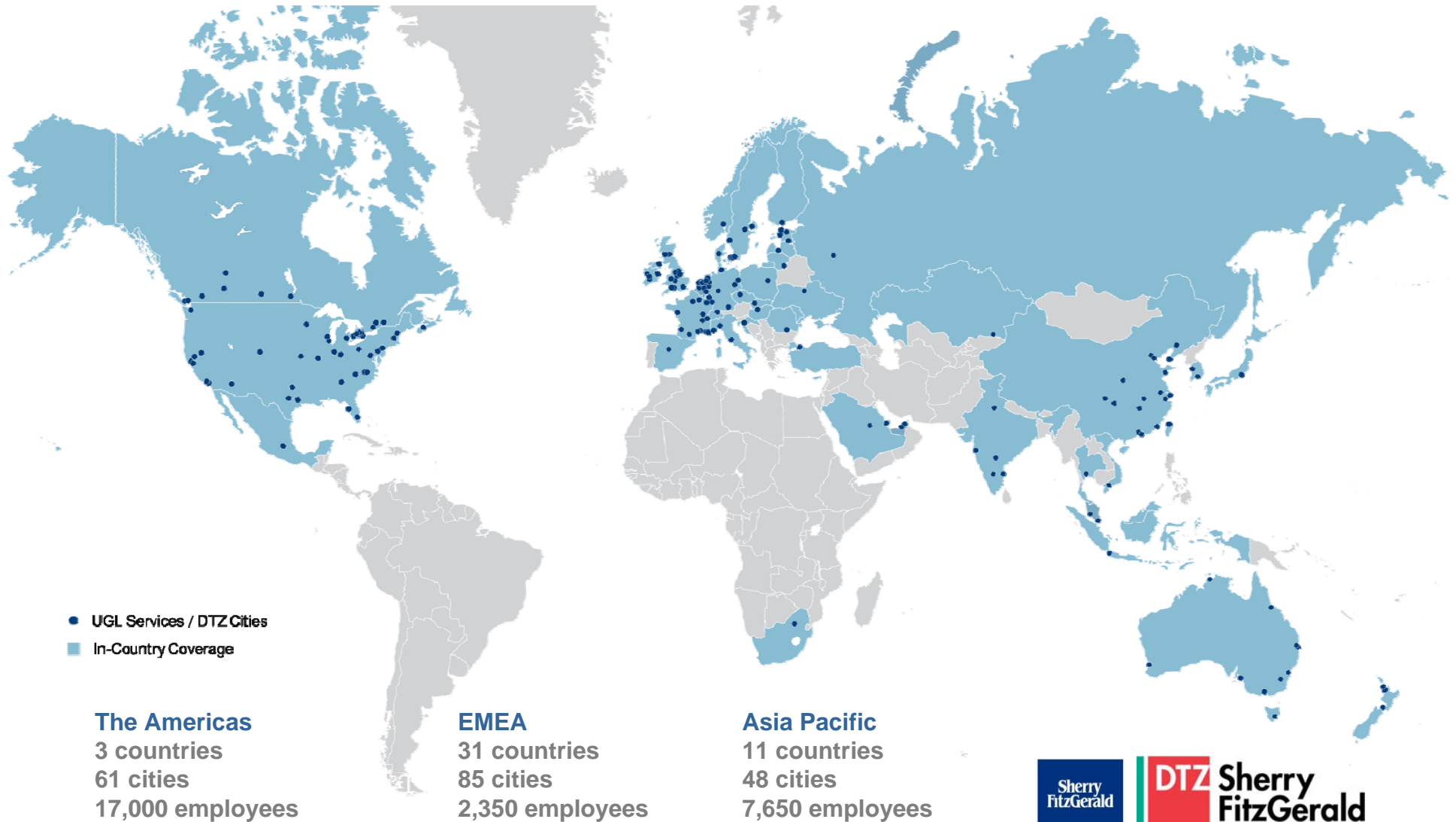


## DTZ Locations - Ireland

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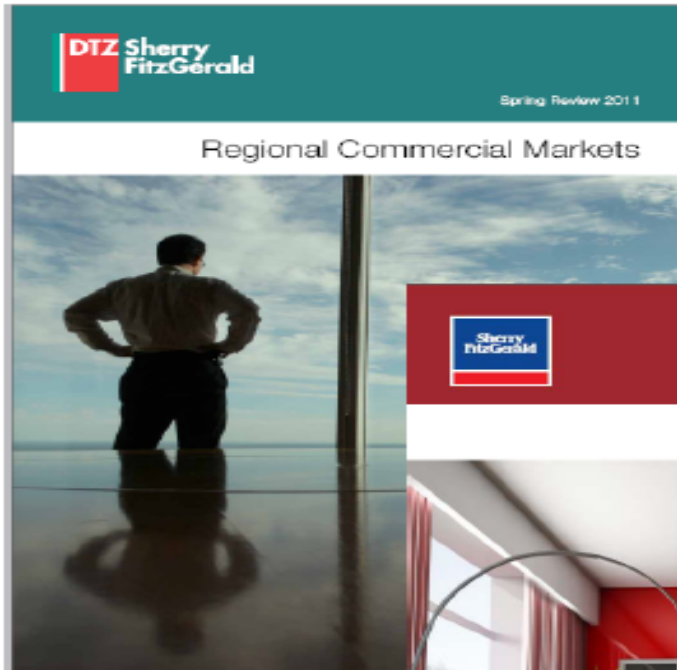


# UGL Services / DTZ Global Coverage



# Sherry FitzGerald Research

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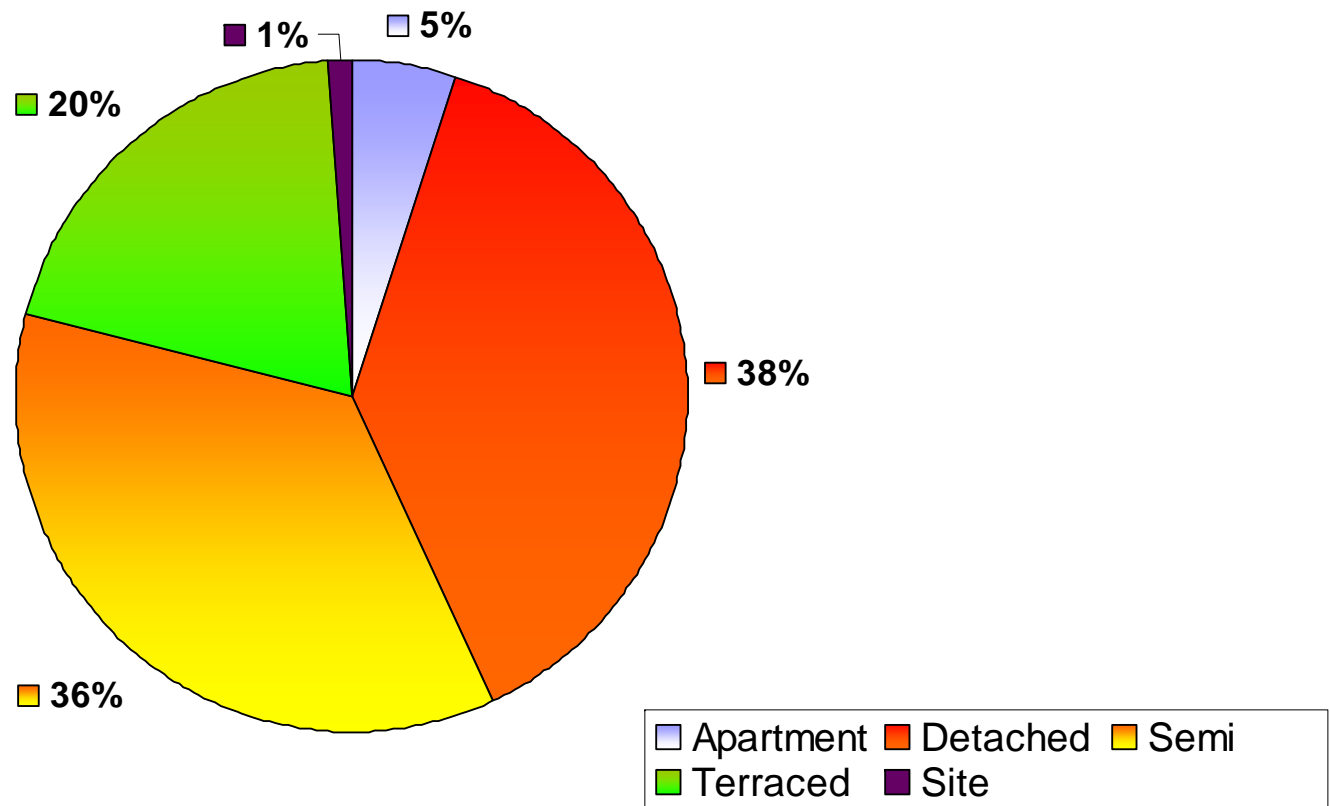
# Cork Residential Market

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# House Types Sold Since Sept 2011

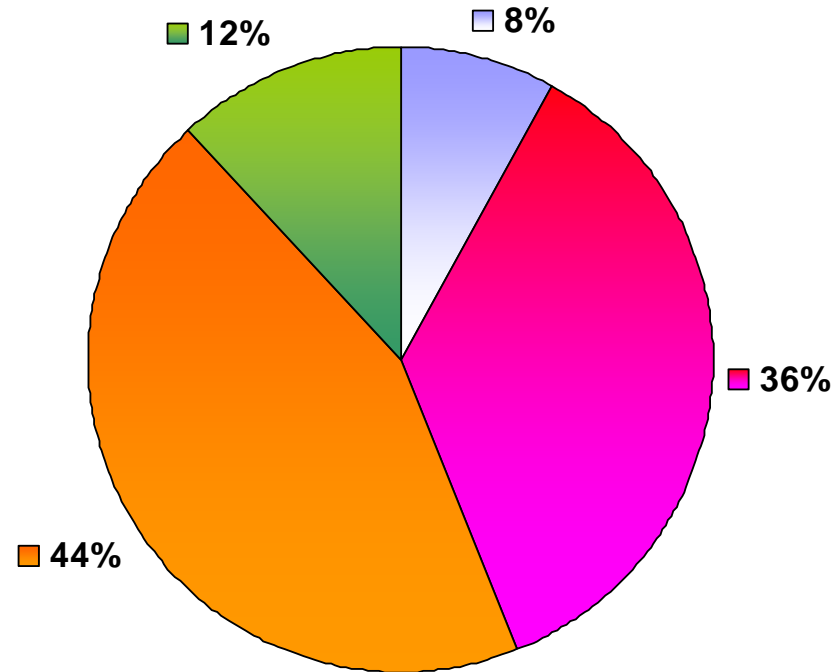
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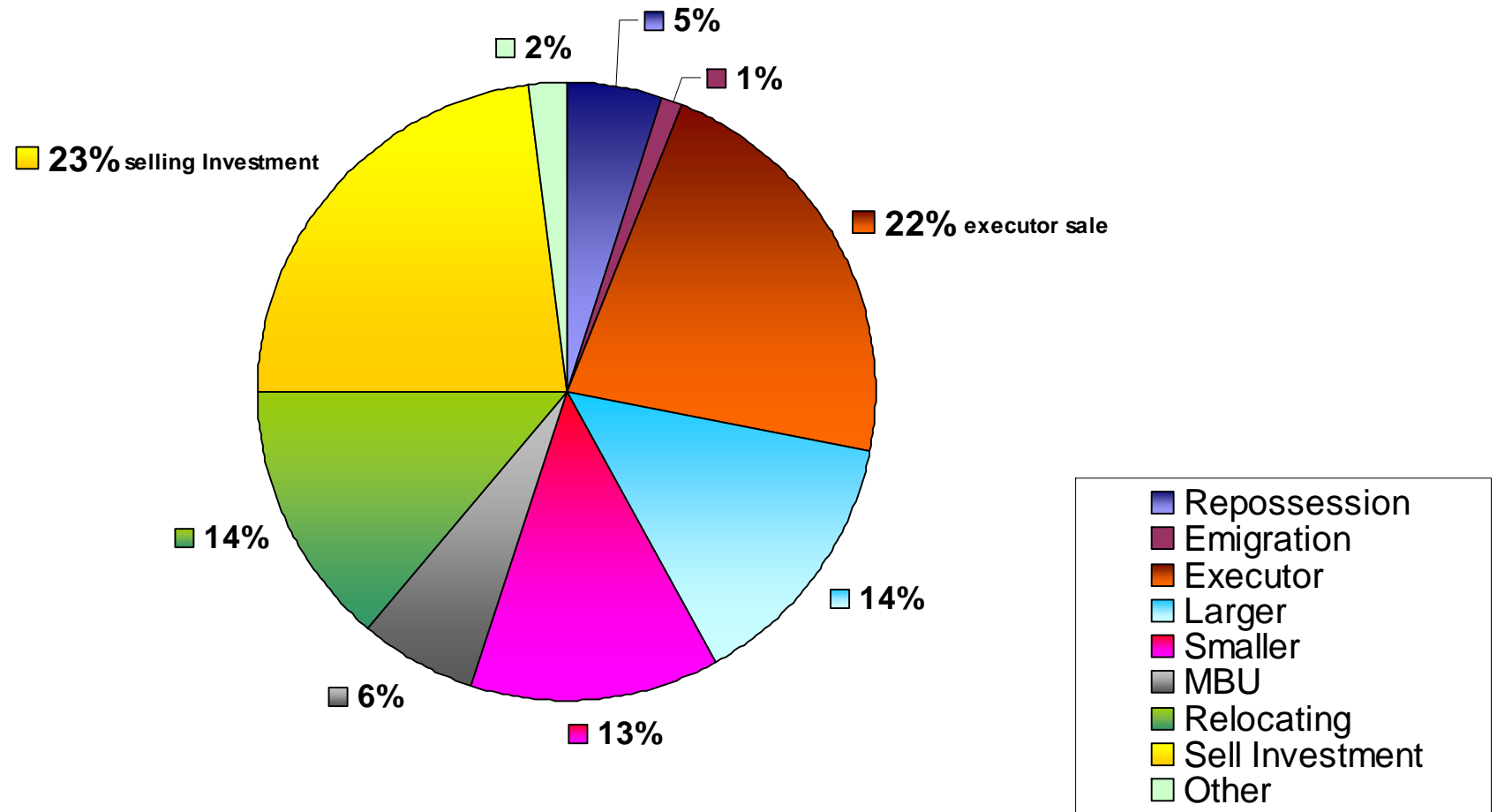


# No. Beds Sold Since Sept 2011

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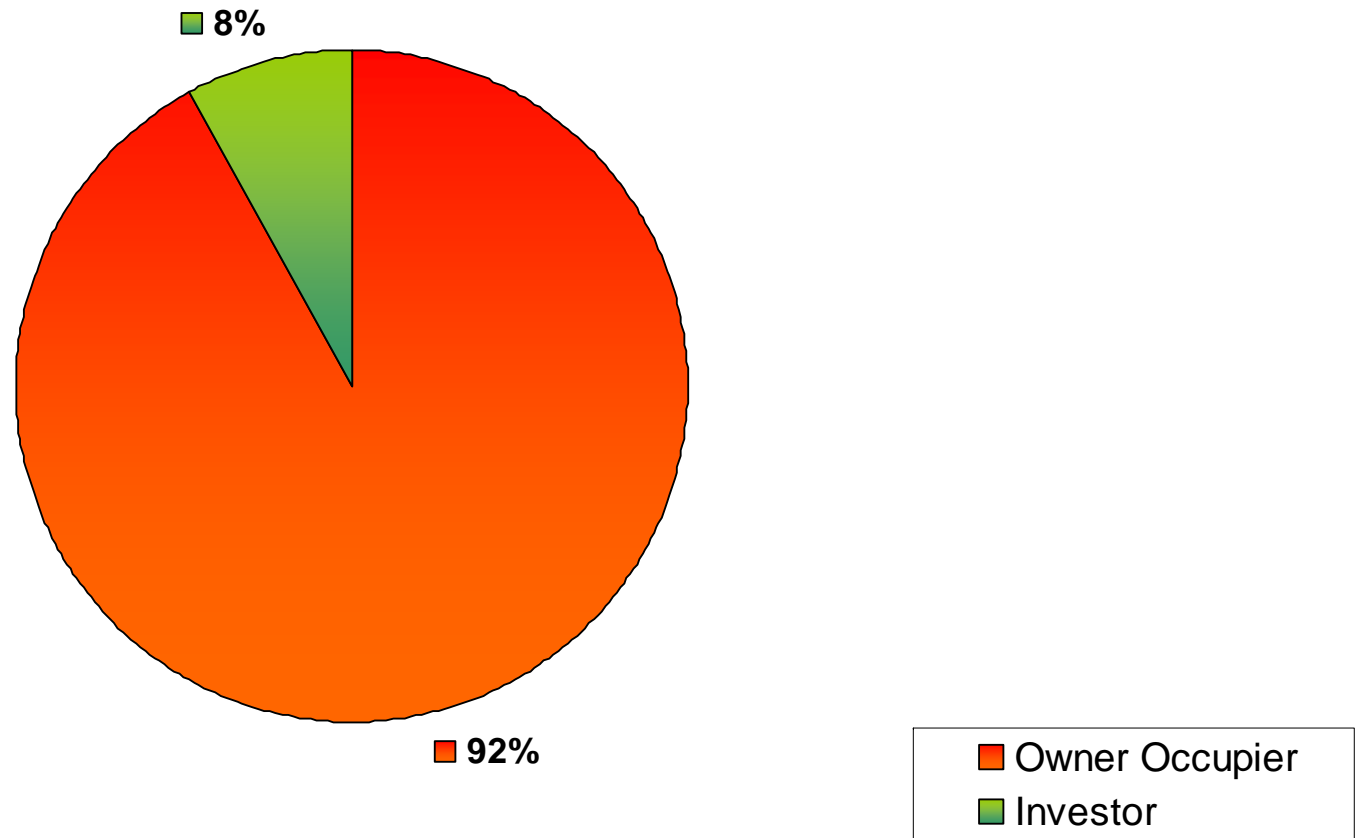


# Vendor Reason For Selling



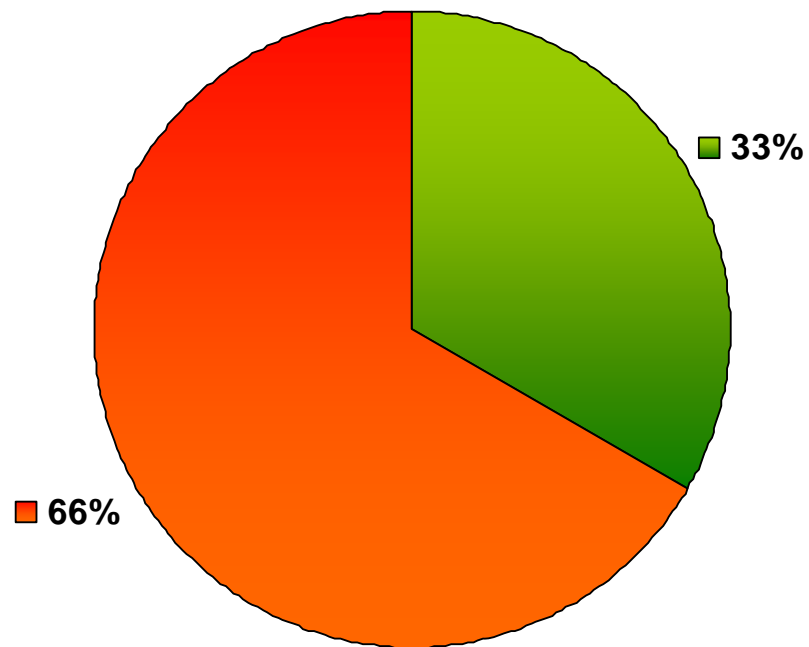
# Buyer Classification

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## Buyer Classification 2

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■ First Time Buyer  
■ Other

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## The Economy





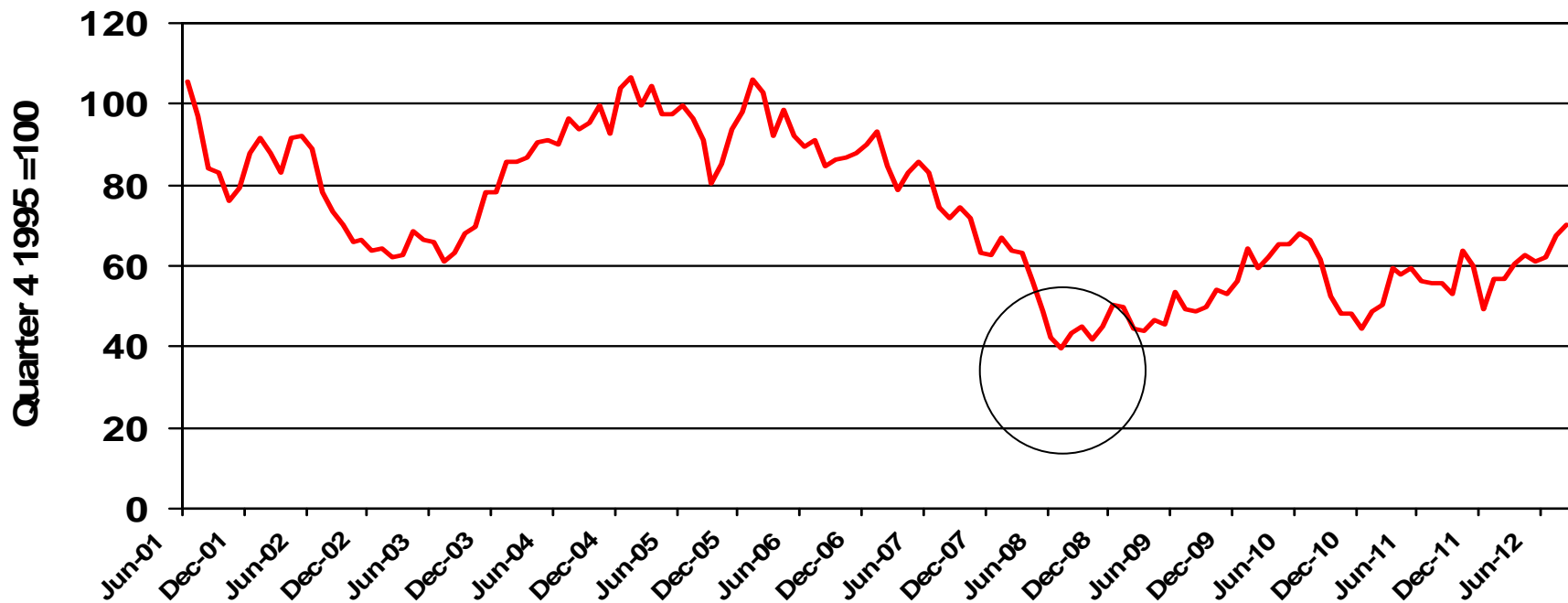
## Economy, an overview

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- GNP; -2.5% in 2011, -0.2% in 2012, 1.4 in 2013
- GDP; 1.4% in 2011, 0.7% in 2012, 2.2% in 2013
- Export growth of 5.1% in 2011, 3.3% in 2012, 4.3% in 2013
- Consumption -2.7% in 2011, -1.7% in 2012, 0.0% in 2013
- Unemployment: 14.4% in 2011, 14.9% in 2012, 14.7% in 2013

## Irish Consumer Confidence

### Consumer Sentiment Index

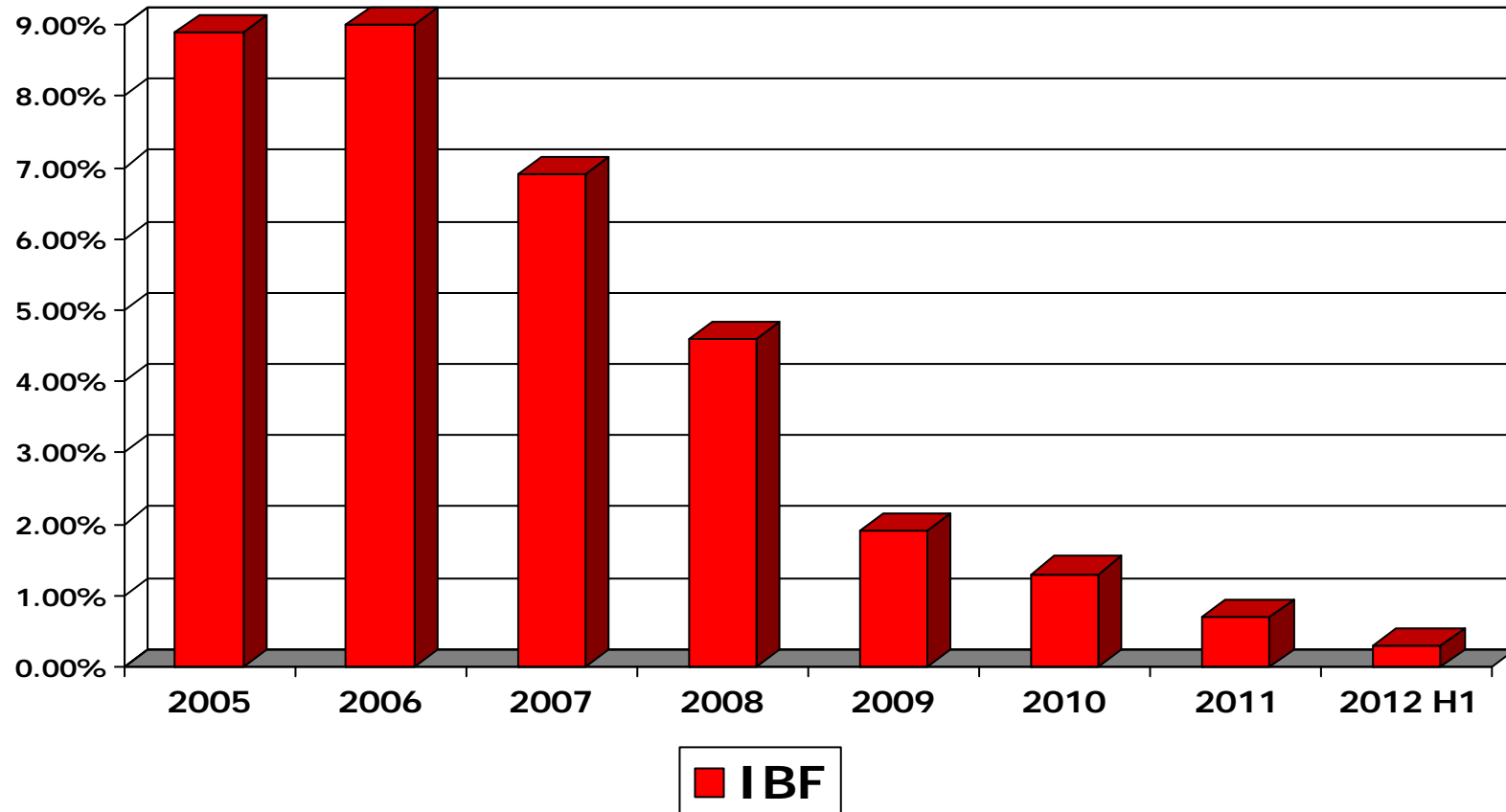


The overall KBC Bank Ireland/ESRI Consumer Sentiment Index jumped to 70.0 in August from 67.7 in July. This follows a mostly positive trajectory since December. This is the strongest reading since October 2007; nearly five years.

Source: ESRI/KBC

## Mortgage Draw-downs as % of Private Housing\*

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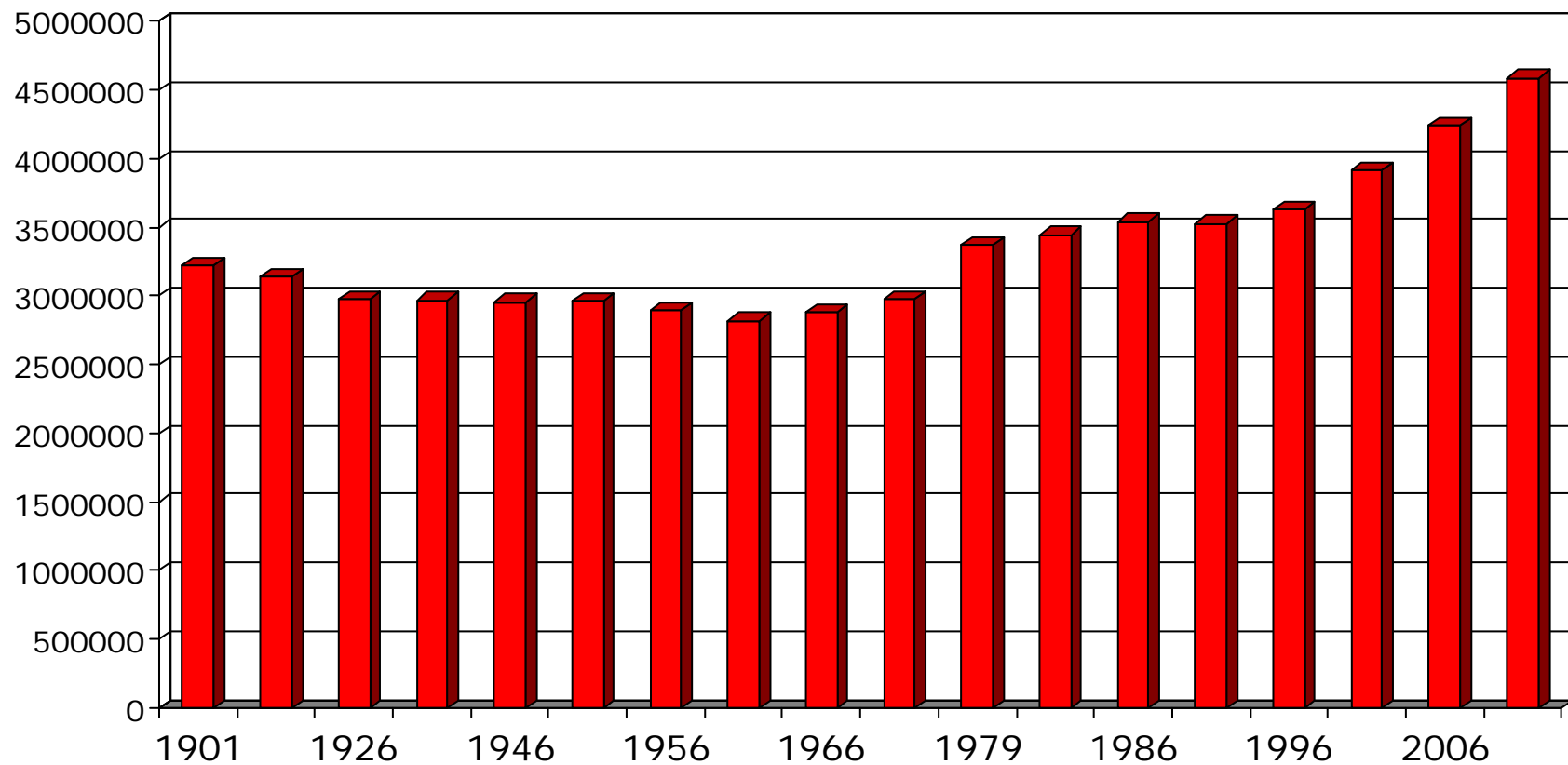
\*Data excludes top-up mortgages

## Residential Property Market



## Demand: Ireland's Population

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Population: 4.58 million in 2011, 8.2% growth on 2006



## Demographic Profile

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• 0-14 Years:	979,590	<b>21%</b>
• 15-24 Years:	580,250	13%
• 25-49 Years:	1,755,325	38%
• 50-64 Years:	737,694	16%
• 65 Years plus:	<u>535,393</u>	<b><u>12%</u></b>
• Total	4,588,252	100%

## Demographic Profile - Dependency Levels

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	Ireland	Germany
• 0-14 Years:	21%	13%
•		
•		
•		
• 65 Years plus:	12%	21%

## How we live today 2011:

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<b>Permanent Private Households</b>	<b>1,649,408</b>
<b>Own with Mortgage or Loan</b>	<b>583,148</b>
<b>Own Outright</b>	<b>566,776</b>
<b>Renting from Private Land Lord</b>	<b>305,377</b>
<b>Renting from Local Authority</b>	<b>129,033</b>
<b>Voluntary/Co-op</b>	<b>14,942</b>
<b>Live rent free</b>	<b>25,436</b>
<b>Not Stated</b>	<b>24,696</b>

## How we live in 2011 compared to 2006:

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<b>Permanent Private Households</b>	<b>1,649,408</b>	<b>(1,462,296)</b>
<b>Own with Mortgage or Loan</b>	<b>583,148</b>	<b>(593,513)</b>
<b>Own Outright</b>	<b>566,776</b>	<b>(498,432)</b>
<b>Renting from Private Land Lord</b>	<b>305,377</b>	<b>(145,317)</b>
<b>Renting from Local Authority</b>	<b>129,033</b>	<b>(105,509)</b>
<b>Voluntary/Co-op</b>	<b>14,942</b>	<b>(50,480)</b>
<b>Live rent free</b>	<b>25,436</b>	<b>(21,701)</b>
<b>Not Stated</b>	<b>24,696</b>	<b>(47,344)</b>

## Current Demand - An analysis of Purchasers

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An analysis of Completed Sales in H1 2012

- Owner Occupation 81%
  - Investment 11%
  - Additional Residence 6%
  - Development/other 2%
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- First Time Buyers 29%

An analysis of Sales Agreed in Dublin in H1 2012

- 40% of purchasers bought with 100% CASH



## Future Demand, Demographic Projections

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Year	Population
2011	4.58 million
2016	4.78 million
2021	4.96 million
2026	5.10 million

Source: Sherry FitzGerald Research

## Future Demand, Demographic Projections

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Year	Housing Demand
2012-16	26,000
2016-21	34,000
2021-26	31,000
Average PA	<b>30,200</b>

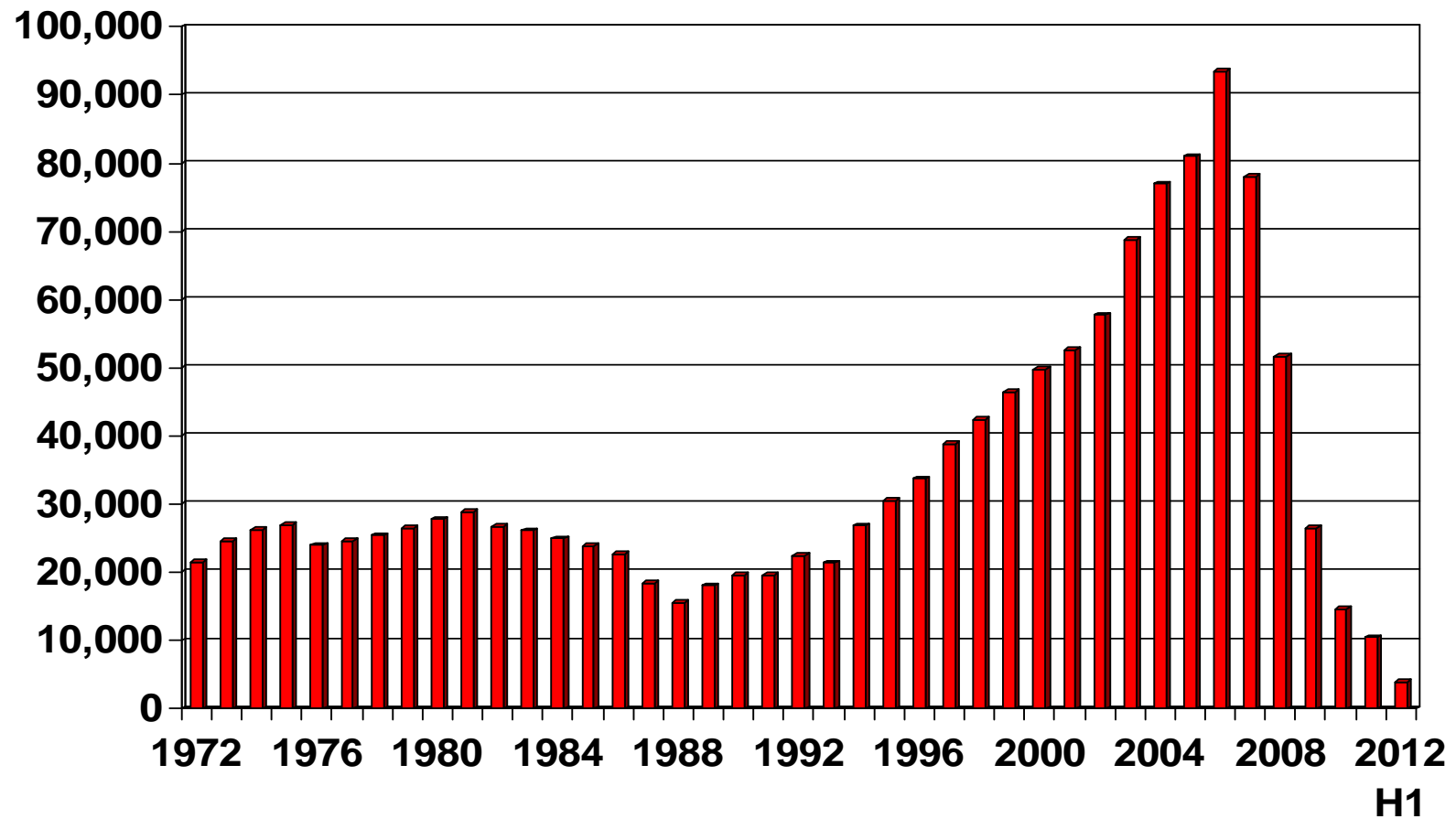
Source: Sherry FitzGerald Research

# Supply Analysis

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## Housing Completions 1970-2012

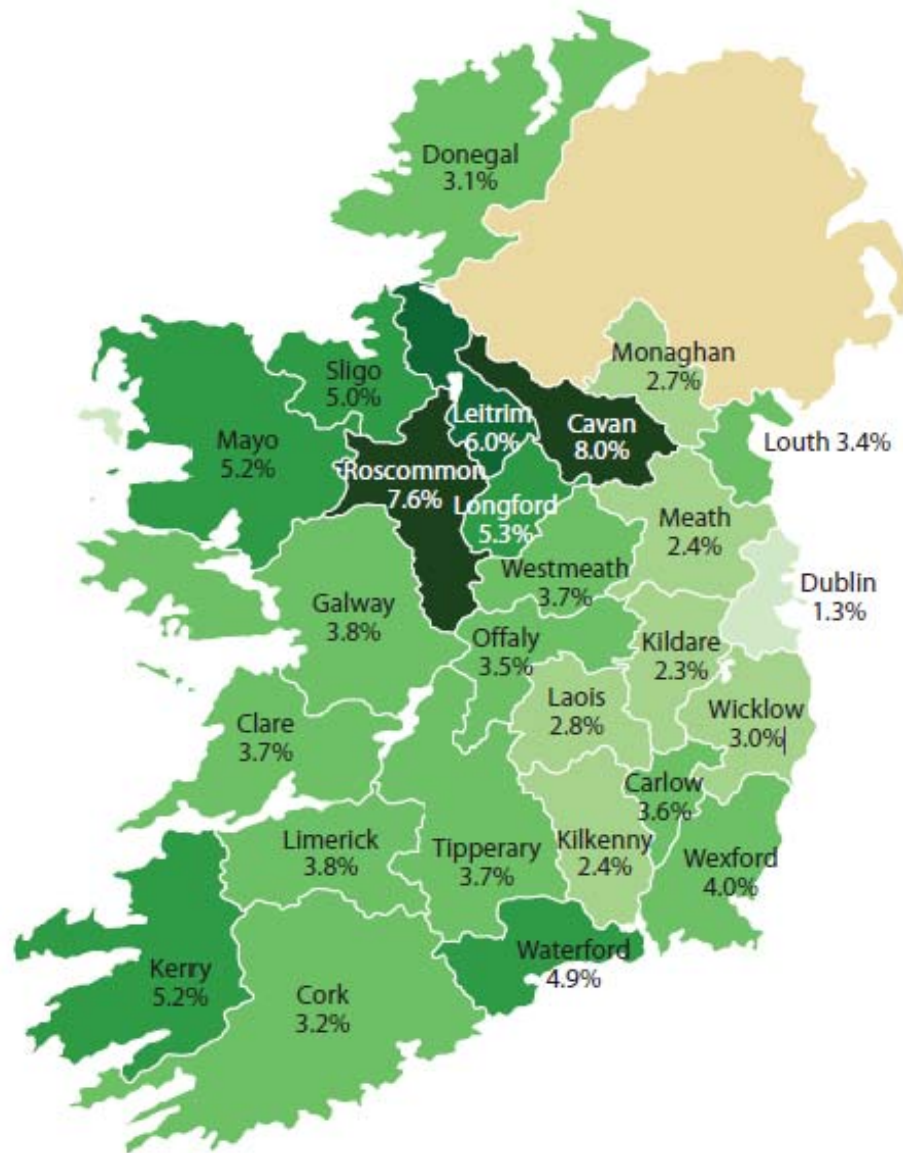


LT average: 34,441 units



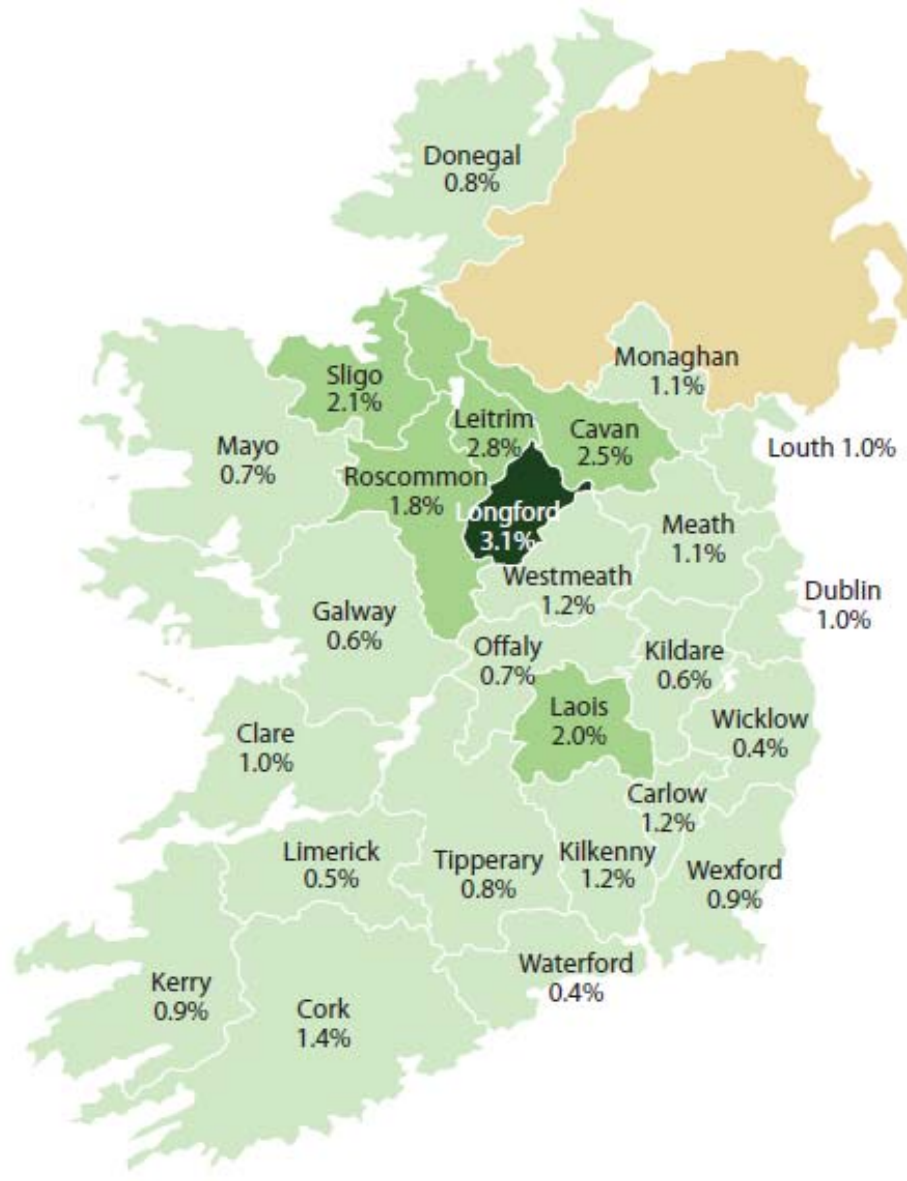
Sherry  
FitzGerald

## Second Hand Supply as a % of Total Private Housing Stock



County	% Second Hand Stock to Private Dwellings
Cavan	8.0%
Roscommon	7.6%
Leitrim	6.0%
Longford	5.3%
Mayo	5.2%
Kerry	5.2%
Sligo	5.0%
Waterford	4.9%
Wexford	4.0%
Limerick	3.8%
Galway	3.8%
Westmeath	3.7%
Clare	3.7%
Tipperary	3.7%
Carlow	3.6%
Offaly	3.5%
Louth	3.4%
Cork	3.2%
Donegal	3.1%
Wicklow	3.0%
Laois	2.8%
Monaghan	2.7%
Kilkenny	2.4%
Meath	2.4%
Kildare	2.3%
Dublin	1.3%
State	2.0%

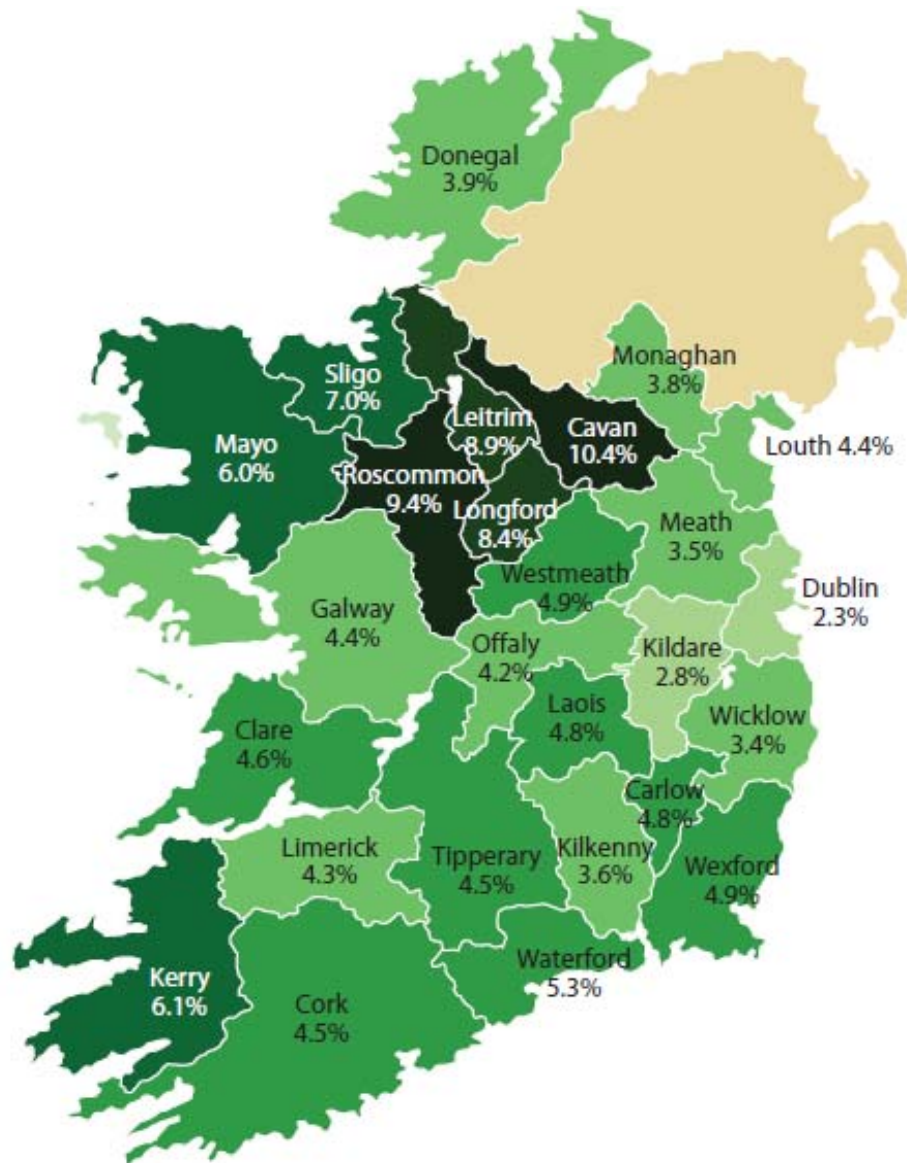
## New Supply as a % of Total Private Housing Stock



County	% New Stock to Private Dwellings
Longford	3.1%
Leitrim	2.8%
Cavan	2.5%
Sligo	2.1%
Laois	2.0%
Roscommon	1.8%
Cork	1.4%
Carlow	1.2%
Westmeath	1.2%
Kilkenny	1.2%
Monaghan	1.1%
Meath	1.1%
Dublin	1.0%
Louth	1.0%
Clare	1.0%
Kerry	0.9%
Wexford	0.9%
Tipperary	0.8%
Donegal	0.8%
Mayo	0.7%
Offaly	0.7%
Galway	0.6%
Kildare	0.6%
Limerick	0.5%
Wicklow	0.4%
Waterford	0.4%
State	1.0%



## Total Supply as a % of Private Housing Stock

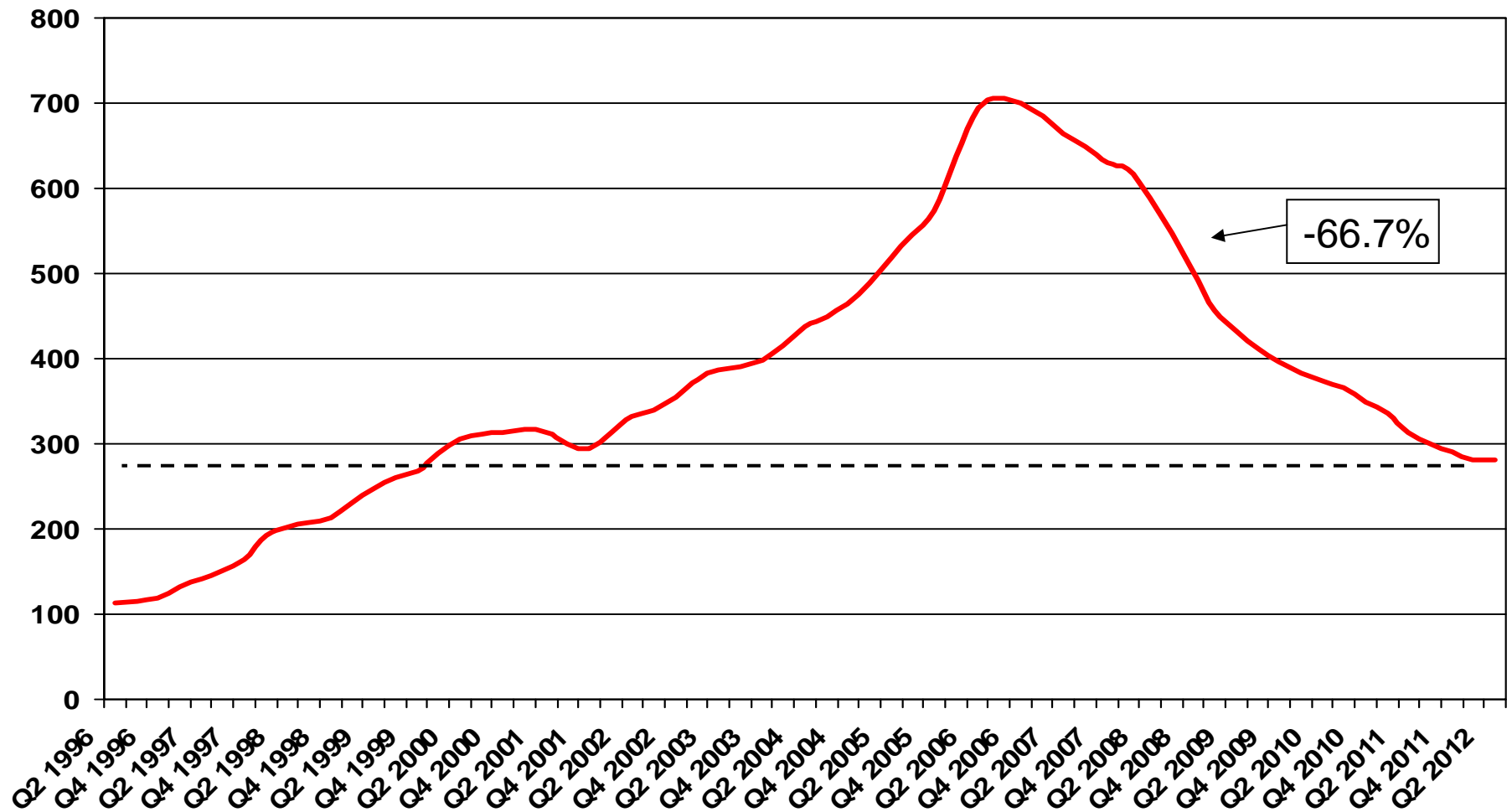


County	% of Total Market Stock to Private Dwellings
Cavan	10.4%
Roscommon	9.4%
Leitrim	8.9%
Longford	8.4%
Sligo	7.0%
Kerry	6.1%
Mayo	6.0%
Waterford	5.3%
Westmeath	4.9%
Wexford	4.9%
Carlow	4.8%
Laois	4.8%
Clare	4.6%
Cork	4.5%
Tipperary	4.5%
Louth	4.4%
Galway	4.4%
Limerick	4.3%
Offaly	4.2%
Donegal	3.9%
Monaghan	3.8%
Kilkenny	3.6%
Meath	3.5%
Wicklow	3.4%
Kildare	2.8%
Dublin	2.3%
<b>State</b>	<b>4.2%</b>



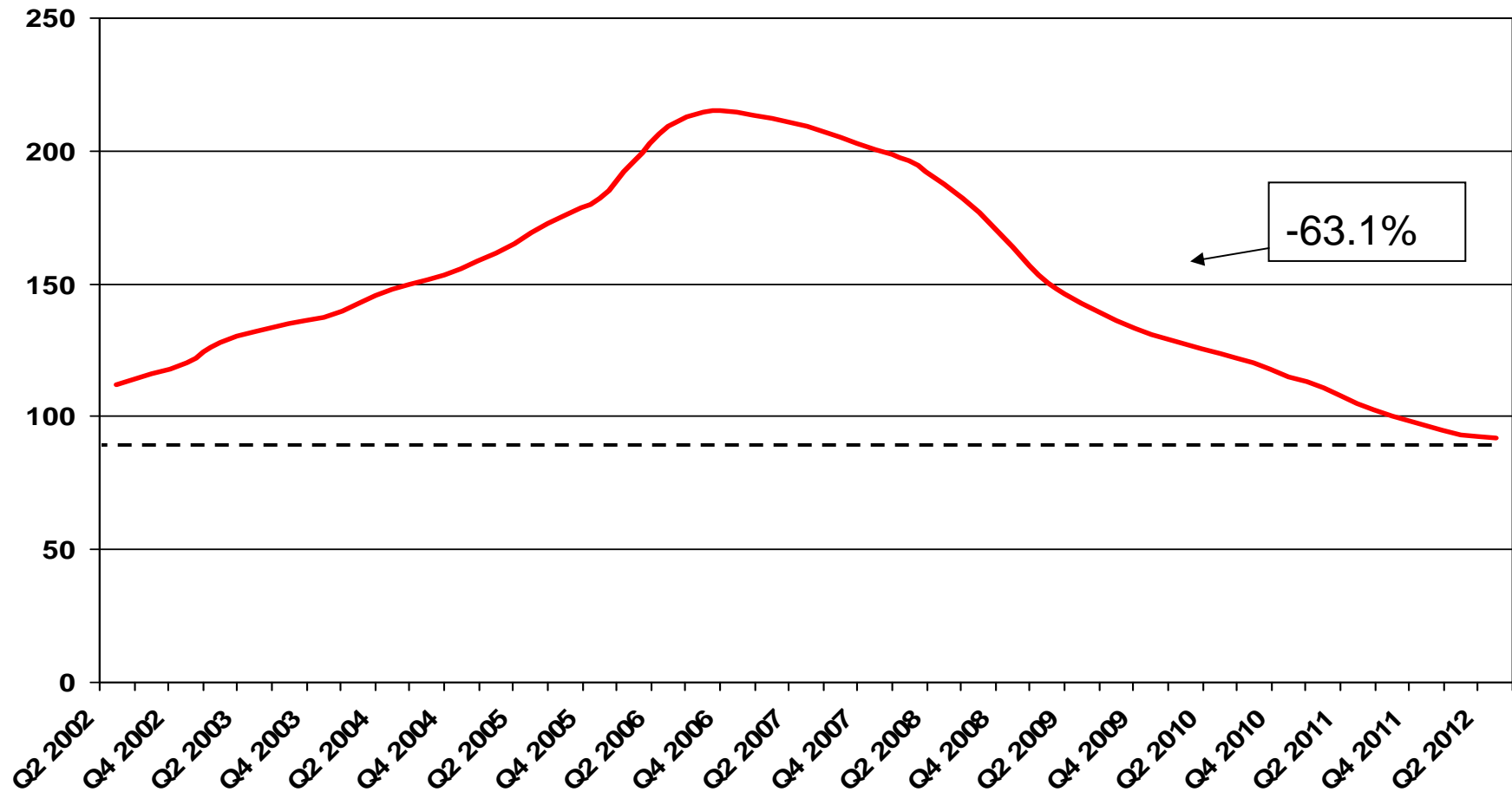
# Dublin Second-hand Market

## Sherry FitzGerald Barometer of House Prices

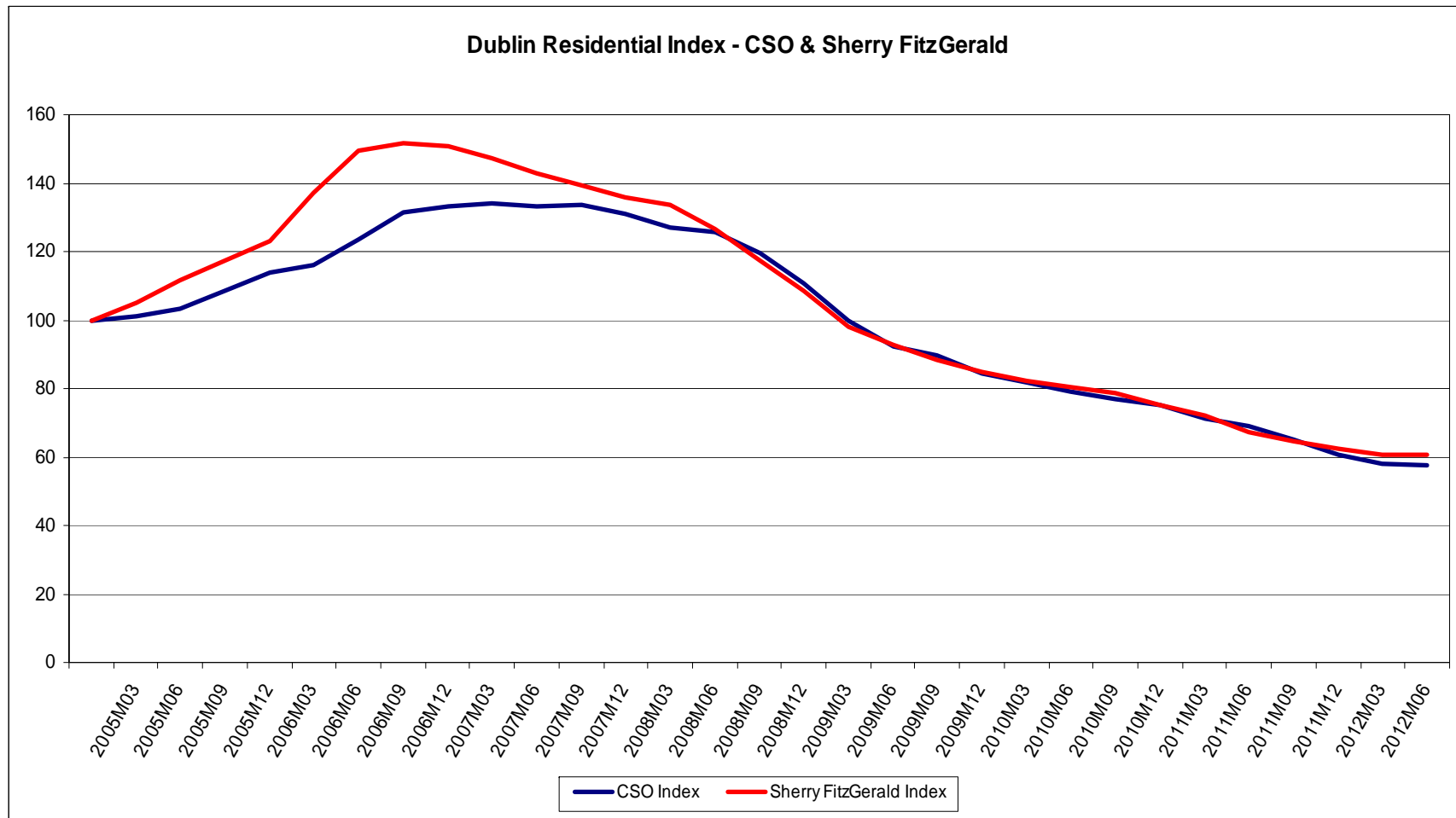


# Ireland Second-hand Market

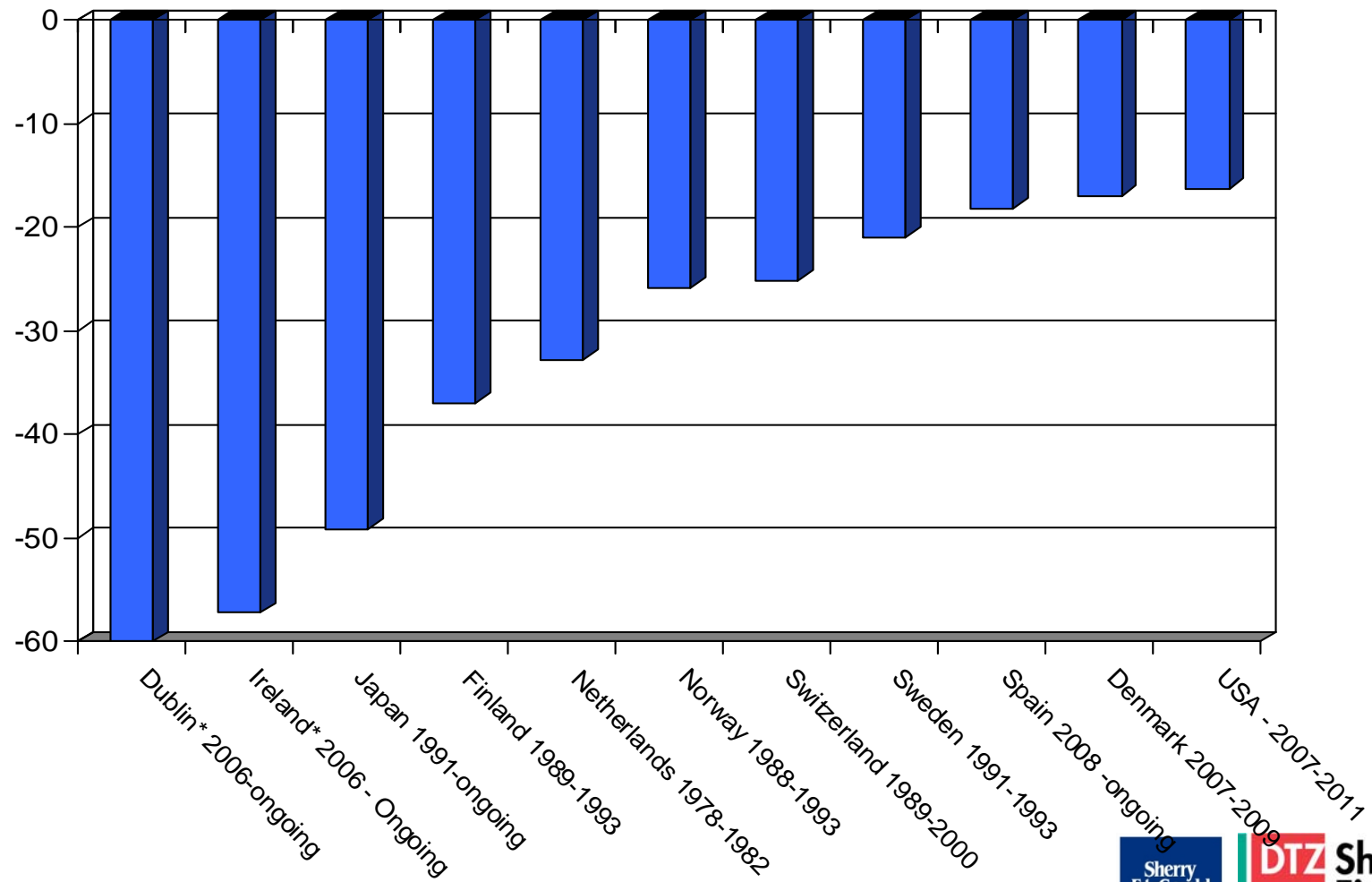
Sherry FitzGerald Barometer of House Prices



## CSO v Sherry FitzGerald – Dublin Index



## International Comparisons of Housing Recessions



## What does all this mean for residential property?

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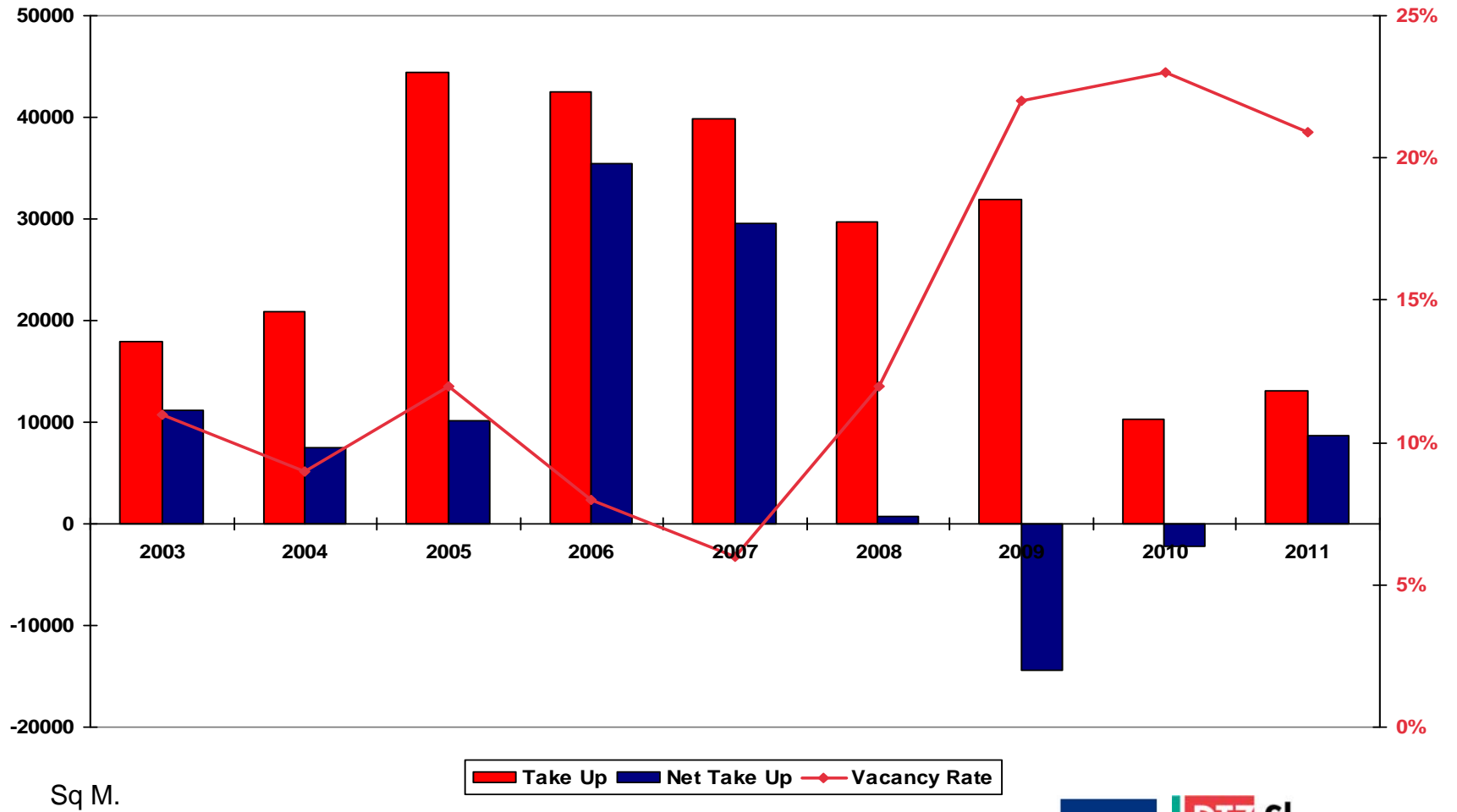
- **Established Market** - Property Prices will fall during year ahead
- **Dublin** market appears to be **stabilising in 2012**
- Peak to trough in order of: 67%
- **Latent Demand**: Doubling in quantity of households in rented accommodation
- 2012-2021: Requirement for 30,000 PA
- **First to recover**: Family homes

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# Commercial Markets

Occupier Trends

## Cork Office Market 2003 - 2011



## Regional Commercial Office Markets, Q2 2012

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	<b>Galway</b>	<b>Cork</b>	<b>Limerick</b>
<b>Market Stock</b>	293,000 sq m	510,650 sq m	305,300 sq m
<b>Take Up – YtD</b>	3,400 sq m	4,700 sq m	5,350sq m
<b>Availability</b>	38,400 sq m	128,550 sq m	74,700 sq m
<b>Vacancy Rate</b>	13.1%	22.6%	22.3%
<b>Under Construction</b>	0 sq m Redev: 6,050 sq m	26,700 sq m	0 sq m
<b>Pre-let</b>	0%	17%	0%



## Definition of Grades

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<b><u>Grade A1</u></b> Built post 2005 Raised Floors Suspended Ceilings Air Conditioning	<b><u>Grade A2</u></b> Built between 1995 – 2005 Raised Floors Suspended Ceilings Air Conditioning	<b><u>Grade A3</u></b> Built pre 1995 Raised Floors Suspended Ceilings Air Conditioning
<b><u>Grade B1</u></b> Refurbished Has one or two of the following: -Raised Floors -Air Conditioning -Suspended Ceiling	<b><u>Grade B2</u></b> Un-Refurbished Has one or two of the following: -Raised Floors -Air Conditioning -Suspended Ceiling	

## Total Office Availability in Cork by Grade

Grade	No. of Building >500 Sq. M	Sq M	%
A1	26	42,486	61%
A2	14	14,861	21%
A3	0	-	0%
B1	3	3,316	5%
B2	9	8,878	13%
Total	52	69,541	100.0

Source – DTZ Sherry FitzGerald Research

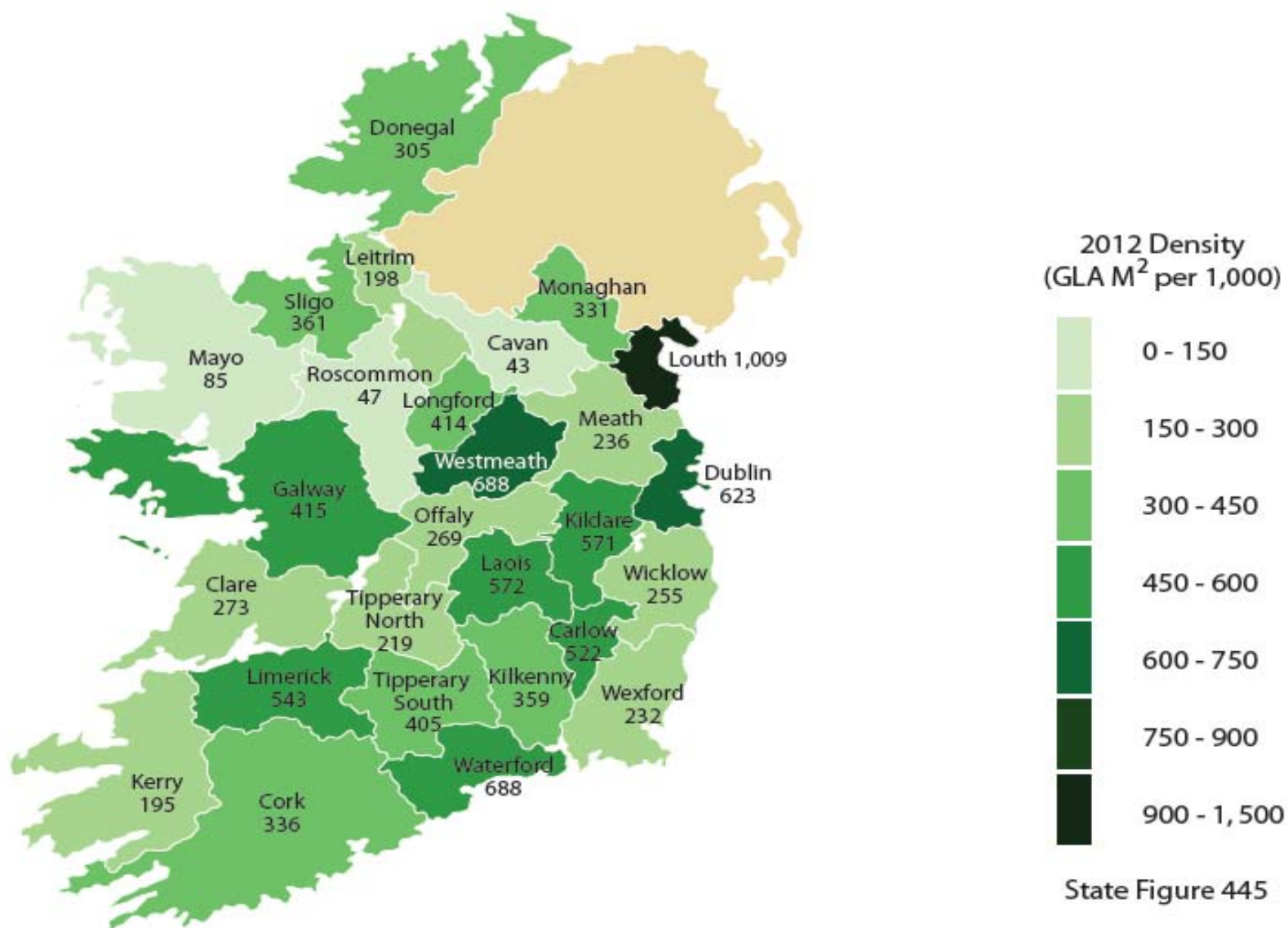
## Retail Market Overview

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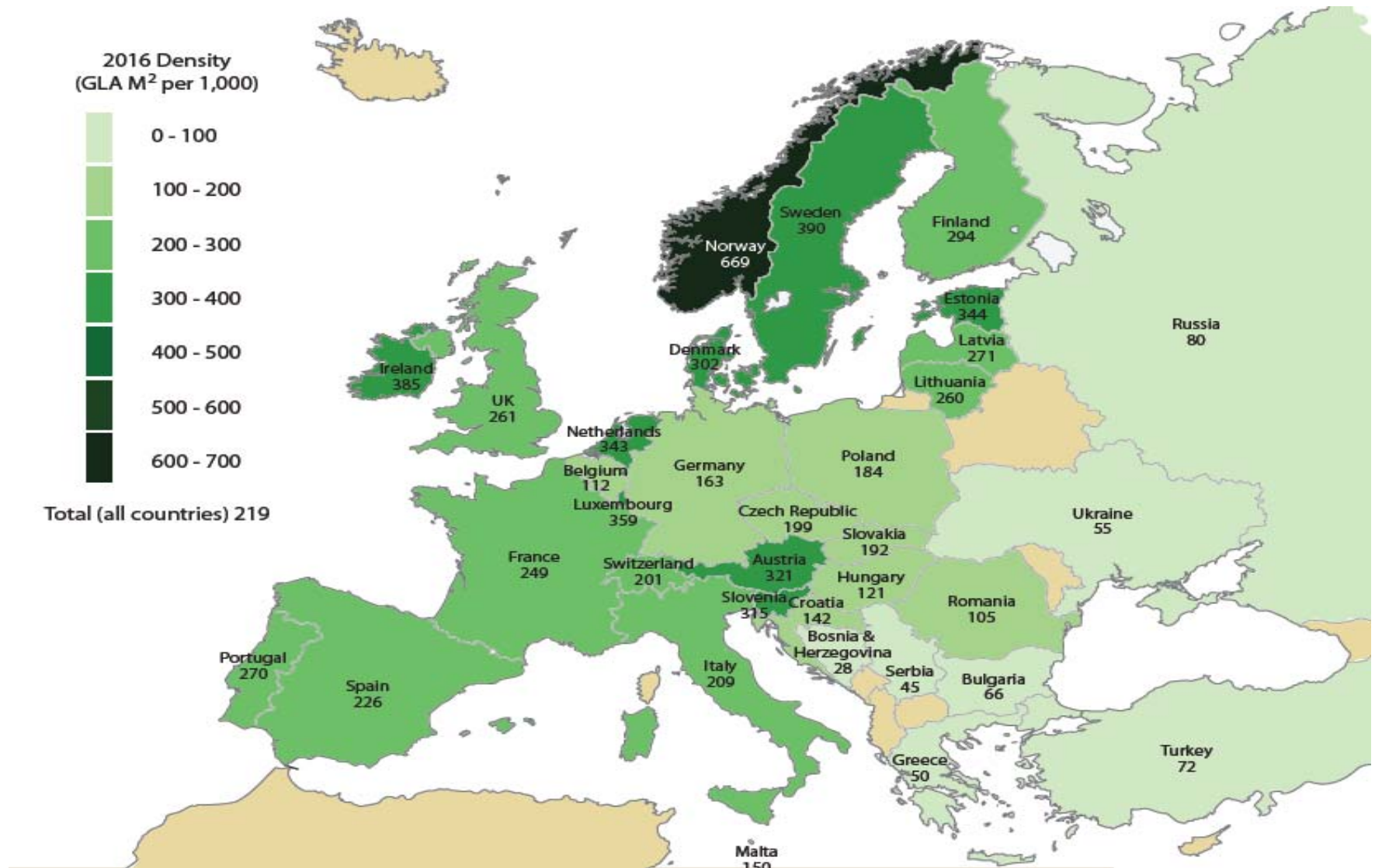
- On-going demand for Prime Retail opportunities
- Value and convenience sector trading best
- Retail warehouse oversupply in certain locations nationally
- Turnover rents now the norm for new lettings in Shopping Centres
- Good international demand – tenants' market
- Secondary and tertiary locations under pressure
- Some poorly designed and located developments nationally



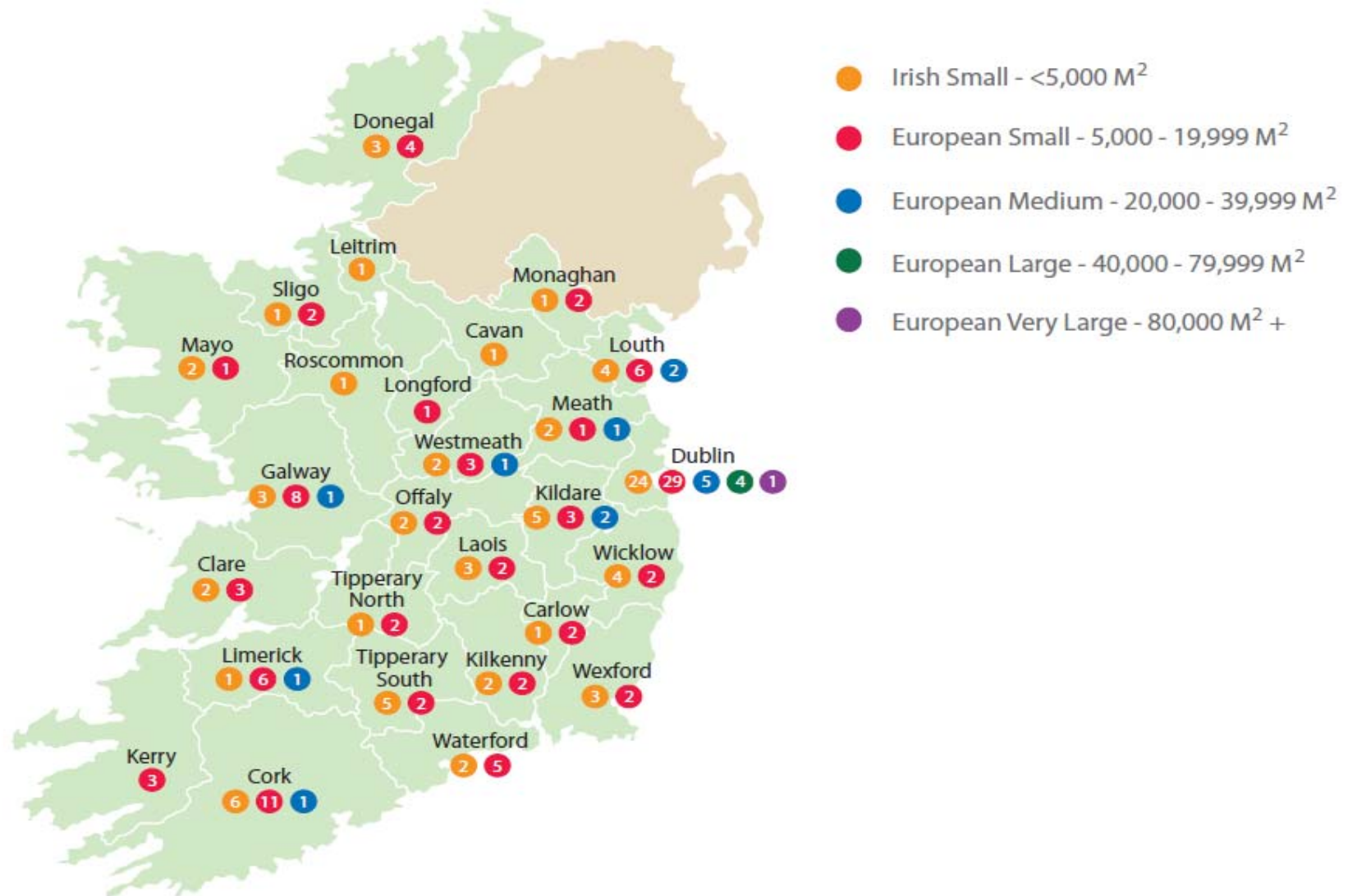
## Ireland – Irish Definition - GLA Density by County - 2012



## European Definition - GLA Density by Country - 2011



# Distribution of Shopping Centres in Ireland



## Overall Conclusions

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- Stable local economic environment in Cork
- Cork Commercial – uncertainty prevails
- Retail – Demand for good quality location and product
- Residential – Family homes first to recover
- Apartment Market remains a challenge
- Confidence still lacking for investment and development
- N.A.M.A. a dominating factor in Commercial /Development Land Markets.
- Availability of finance generally remains a challenge.



# Cork Commercial Market

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## Market Culture – Commercial Property

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- Low levels of activity
- Values falling
- Dublin ~V~ Cork
- Prime Property
- Use / Economic Value ~V~ Property Value



## Value Positives

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- Quality Location
- Viable identified occupier
- Sustainable Income
- Modern building
- Good title

## Value Negatives

Secondary / Tertiary Location

Vacant – occupancy uncertainty

Older building

Due diligence issues

Sector specific (Leisure and Licence )

## Important Market Indicators

- Enquiry Levels
- Momentum of Transactions
- Sales ~V~ Leasing (90% Leasing)
- Cost of Void (3 years – 1 year)
- Vacancy Rates (20% - 8%)

## Sentiment – Key Variables

Market Confidence

Trend of Market

Volume of Transactions

Direct Evidence of Transactions

Availability of Finance

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# Investment Property

value secured rental  
income



# Investment Criteria

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- Prime Location
- Modern Building
- Quality Tenant Covenant
- Secured income for 8+ years



# Valuation Issues

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- Market Rental (ERV)
- Over Rental
- Tenant Business / Structure
- Term to Lease Break
- Capital Value of vacant unit
- Replacement cost



## Cork (Prime Yields)

August 2012

Sector		Yield	YP Net of Costs
Office	Prime City Centre	8.5%	11.26
	Prime Suburban	9.0% - 9.5%	10.34
Retail	Prime (Patrick St)	7.5%	12.76
Shopping Centre	Prime	8.5%	11.25
Industrial	Prime	10.0%	9.57

### ***Assumptions:***

- \* Market Rent
- 8 years rental cover
- Market cautious to over rent - progressive

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# Warehouse Market





## Standard Unit (Prime)

- 3,000 / 5,000 sq ft
- Rental - €4.00 - €4.50
- Capital Value - €45.00
- Economic Cost €75.00 sq ft

## Large Unit (Prime)

- 25,000 / 50,000 sq ft
- Rental - €3.00 - €3.50
- Capital Value - €25 - €30.00
- Economic Cost - €65.00 / €75.00 sq ft



# Suburban Offices



## Standard Unit (Prime)

- 3,000 - 8,000 sq ft
- Rental - €10.00 - €12.00 per sq ft
- Value - €120.00
- Economic Cost - €220.00



## Large Unit (Prime)

- 25,000 - 80,000 sq ft
- Rental - €10.00 per sq ft
- Value - €120.00
- Economic Cost - €220.00

# City Centre Offices



## Standard Unit (Prime)

- 2,500 sq ft
- Rental - €15.00 - €18.00 per sq ft
- Value - €170.00 (€200.00) per sq ft
- Interesting Deloitte investment at €250.00 per sq ft (strength of covenant and over rented).



## Large Unit (Prime)

- 25,000 – 50,000 sq ft
- Rental - €15 - €18.00 per sq ft
- Value – €170.00 - €200 per sq ft



# Shop Property



# Convenience Retail (Food Shopping)

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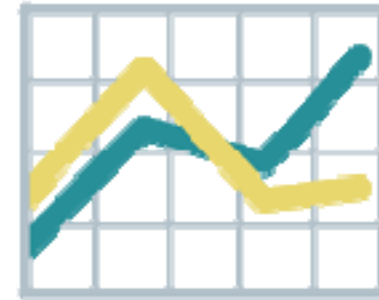
- Local convenience – 2,000 sq ft and chimney pot location – car driven
- Anchor/Supermarket – highly competitive
- Small Shop
- City Centre Convenience.



# Retail Trends

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- Falling per capita expenditure
- Short term leases – flexibility
- Turnover rentals
- Actual Trading pays Rental
- Upward – Downward Rent Reviews





# Anchor Strength

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- Tesco/ Dunnes / Super Valu
- Aldi / Lidl
- Boots/ Dealz
- Penney's



# Retail Risks

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- Secondary Location
- New Anchor trading in locality
- Small Shop
- Alternative Use Limit
- Poor Access - Deliveries



# Range of Values

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Location	Rental	Capital Value
City Centre – Patrick Street	€100 - €150	€1,600
City Centre – Oliver Plunkett Street	€50	€600
Shopping Centre – Wilton	€50	€550
Suburban Town – Ballincollig	€20 - €25	€275

# Development Land - Assets



# Development Value

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- Greater than existing use value ?
- Demand / Market driven for end use product – in 2 years
- Confidence Trend – Critical
- Transfer of some development lands back to Agriculture
- Policy change - flooding
- Economic Value ~V~ Market Value



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Use	Development Cost – incl. land + profit + build cost	Value as of % of Cost
Warehouse	€100.00	45%
Offices – City Centre	€220.00 (no Car Parking)	85%
Offices – Suburban	€220.00	63%
Retail – City Centre	€250.00	1.76%
Retail – Suburban	€200.00	2.5%

*Housing - €175,000 – critical threshold value*

# Development Impacts

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## Development – with some viability potential

- City Centre Retail and Office
- Suburban Retail

## Development Land - Uncertainty

- Warehouse – 100% increase in rentals
- Suburban Offices – 70% increase in rentals
- Secondary locations



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