Annual Commercial Property Review & Outlook 2015

SOCIETY OF CHARTERED SURVEYORS IRELAND

RICS the mark of property professionalism worldwide

FutureAnalytics Planning + Research + Economics

2015

CONTACT DETAILS

Conor O'Donovan
Director of Policy & Communications
Society of Chartered Surveyors Ireland
38 Merron Square
Dublin 2

T: +353 (0)1 644 5500
E: codonovan@scsi.ie
www.scsi.ie

Stephen M. Purcell
Director
Future Analytics Consulting
23 Fitzwilliam Square (South)
Dublin 2

T: +353 (0)1 639 4836
E: stephen.purcell@futureanalytics.ie
www.futureanalytics.ie

CONTENTS

Foreword

The Commercial Property Review & Outlook 2015 as published by the Society of Chartered Surveyors Ireland (SCSI) both reflects on what was an exceptional year for activity in the commercial property market but also from our vantage point in the first quarter of 2015, identifies the challenges and opportunities that Ireland faces in the months and years ahead.

EAMONN MAGUIRE – CHAIR OF THE SCSI COMMERCIAL AGENCY PROFESSIONAL GROUP

The Irish economy was one of the fastest growing economies globally in 2014, with GDP growth of approximately 5% in 2014, representing the highest GDP growth in the Eurozone. Investment growth of 11% and net exports growth of 16.4% over the first three quarters of last year proved the main economic drivers.

In 2014, the performance of the commercial sector exceeded all market expectations, with end of year commercial markets investment in excess of €4.5bn, a substantial growth on the €1.9bn recorded twelve months previously.

Foreign direct investment (FDI) continued to perform strongly last year with the IDA recording 197 investment projects realised, of which some 88 projects were entirely new to the country. Dublin and Cork combined attracted over 60% of all IDA client investments in 2014, however increased regional dispersion occurred and significantly 48% of total FDI investments were made outside of Dublin, compared to 41% in 2013. The largest percentage increase of investments were made in areas outside of the five main Irish cities, signifying great potential for future employment growth in those regions over the coming years.

With an improving economy, there was widespread investor interest and demand across all sectors of the commercial investment property market in 2014. The cessation of the incentive for capital gains tax (CGT) relief on investment property, signalled for the 31 December 2014, contributed to an upsurge in investor activity during the year but more particularly in Q3 and Q4.

Investor interest and activity emanated from many corners, both domestic and international, and included private investors, private equity funds, REITs and institutions, as a record figure of €4.5bn was invested into the Irish property market. While office investments proved the strongest performing commercial sector, retail investments intensified, particularly towards the second half of the year, contributing to a record total investment return for the Irish property market of 40.1%, according to IPD/SCSI data.

The success of the property market is further emphasised by the fact that it outperformed both Irish bonds and equities, which in isolation performed very strongly, with returns of 23.1% and 16.9% respectively.

SCSI members reported that the Dublin Region office rent for prime 'grade A' offices in 2014 was €452 per sqm, representing an increase of up to 29% on 2013 prices. Average prime '3rd Generation' offices fetched €389 per sqm, conveying a 13.7% increase. Dublin-based SCSI members expect a 12% increase in rents by year end on prime "grade A" office space, though with an acute shortage of space in this market segment, that figure could well be exceeded and industry experts anticipate prime "grade A" office rents to hit €592 per sqm by year end if the positive economic growth trends continue. A further increase in 2016 to €645 per sqm is not unrealistic if the economy continues to grow.

While these increases signify positive growth in the Dublin market, members reported wide-spread concern over the lack of new supply in the region, particularly in prime 'grade A' spaces, whilst concerns over the acute shortage of housing to support the expanding work force was also of concern. Having experienced a negligible level of construction since the financial crisis, the year ahead will see the commencement in construction of new and much awaited commercial building projects, in areas such as the Dublin Docklands SDZ. We need however to keep focused on fast tracking commercial property projects that will support sustainable job creation and boost our economy.

In terms of retail, capital values in Dublin's Grafton Street alone grew by approximately 28% in 2014. Dublin Region based SCSI members reported an average rental price increase of 11.5% in prime retail units in 2014, as rental prices reached €4,491 per sq.m., recording a net yield of 5.6%. Retail rents also increased in the major town centre style malls, where members reported an increase of 17%, as rental values increased to €2,462 per sq.m. There were positive trends in the Connaught/Ulster Region with increases of 5% as prime city rental values fetched €1,580 per sqm. While Dublin attracted the majority of investor attention in 2014, industry commentators anticipate that retail investors will expand both into the secondary streets and the second tier retail shopping centres in 2015.

Nationally, the industrial market experienced a marked improvement in 2014 compared to recent years. As reported by members, much of the activity within this sector occurred in the Dublin region, while activity beyond Dublin was reported to be negligible in many areas.
Members also report that the most significant change in land value in 2014 was recorded in the Dublin Region, with a 31.9% increase in residential development land values, followed by an increase of 27% in office development land. Nationally, SCSI members anticipate residential development land values to increase by 16%, with the highest residential land values increase of 17.5% anticipated in the Dublin Region.

The Government announced a number of key legislative reforms that will impact the commercial property market in 2015, including the Planning and Development (No.1) Bill 2014, which is intended to increase development activity and enact some of the measures contained in the Government's Construction 2020 Strategy. This includes measures introducing a vacant site levy, reducing Part V requirements for developers to 10%, and the provision of a 'Use it or Lose it' clause with planning permissions. These measures under the new bill may permit some retrospective reductions in the development contributions payable to planning authorities, with the anticipated effect of increasing construction activity.

The Society is committed to supporting the development of a more sustainable and responsive property market and to this end, several of its working groups are actively engaging with Government departments and State Agencies.

Eamonn Maguire – Chair of the SCSI Commercial Agency Professional Group

Key Summary Findings 2014

SOCIETY OF CHARTERED SURVEYORS IRELAND

A selection of the key findings and insights into the Irish commercial property sector in 2014 from SCSI members survey (Dec. 2014)

Investment

40.1%

record level of total return achieved for the Irish property market year-on-year.

€4.5bn

€4.5bn - Record level of investment in the Irish property market in 2014, increase of c.€2.6bn (2013)

197

IDA recorded 197 FDI investments in 2014, representing a 7 percentage point increase in FDI client investments outside of Dublin in 2014

Office

“Rental growth was the key driver of total office returns in 2014”

€452 per sqm

5.3% net yield

Prime ‘Grade A’ office space in the Dublin region achieved an average price of €452 per sqm in 2014

Dublin Region prime ‘grade A’ office yields were 5.3% on average

+55%

+55% in rental values for peripheral 3rd generation in Connaught/Ulster

+42.4%

+42.4% in rental values for prime 3rd generation in Connaught/Ulster

+19.4%

Munster Region saw growth of 19.4% in prime 3rd generation offices with average rental value of €172 per sqm

-10%

In the Leinster Region, peripheral 3rd generation rental values fell by 10% to €96 per sqm

6.9% net yield in 2014

Office net yield for Leinster Region was 6.9% in 2014

Retail

€4,491

+11.5%

Rents in prime retail areas of Dublin Region fetched an average of €4,491 per sqm (+11.5%)

5.6%

5.6% retail net yields for prime city rents in Dublin (-0.8%)

-10%

Leinster Region shopping centre rents fell to an average of 10% to €248 per sqm

+31.4%

Town high street rents increased by 31.4% to and average of €284 per sqm in Connaught/Ulster Region

+34.7%

National retail property total returns of 34.7% in 2014

€1,580

Connaught/Ulster Region prime city rents achieved €1,580 per sqm (+5%)

€2,462 p sqm

Shopping centre rents increased by 17% in the Dublin Region

+27%

Town highstreet rents increased by 27% to €305 per sqm in the Munster Region in 2014

Industrial

-1%

Fall in industrial yields to 10% (-1%) in Connaught/Ulster Region for prime units over 500 sqm.

=

Industrial rents remain relatively unchanged in Leinster (€36 per sqm) and Connaught/Ulster (€46 per sqm) for prime rents under 500 sqm.

Munster region Industrial net yields return to 2012 levels as yields fall to 11.17% (-0.3%) for prime units (over 500 sqm.)

11%

prime industrial rents under 500 sq.m.

+34.4%

+42.3%

prime industrial rents over 500 sq.m.

Dublin region prime industrial rents under 500 sq.m. at €82 per sqm (+34.4%) and €74 per sqm (+42.3%) prime industrial rents over 500 sqm.

7.8%

Industrial yields 7.8% in Dublin Region for prime units over 500 sqm.

Development Land

+27%

Office development land values increased by 27% in the Dublin Region

+16%

Retail development land values increased by 16% in the Leinster Region

+32%

Residential development land values increased by 32% in the Dublin Region

+24%

Residential development land values increased by 24% in both the Munster Region and the Leinster Region

+4%

Residential development land values increased by 4% in the Connaught/Ulster Region

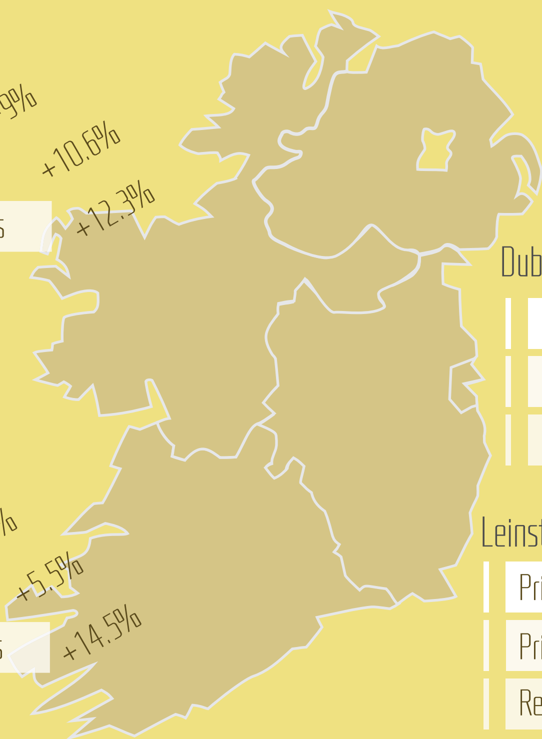
Key Summary Outlook 2015

SCSI members expectations for 2015

Legend

- % Change in Office Sector Rents
- % Change in Retail Sector Rents
- % Change in Residential Development Land Values

SOCIETY OF CHARTERED SURVEYORS IRELAND



Connaught/Ulster

Prime 'Grade A' Office Rents	+9%
Prime Retail Rents	+10.6%
Residential Development Land Values	+12.3%

Dublin

Prime 'Grade A' Office Rents	+12%
Prime Retail Rents	+9.8%
Residential Development Land Values	+17.5%

Munster

Prime 'Grade A' Office Rents	+5%
Prime Retail Rents	+5.5%
Residential Development Land Values	+14.5%

Leinster

Prime 'Grade A' Office Rents	+5%
Prime Retail Rents	+5.6%
Residential Development Land Values	+16.6%

Introduction

Based on an extensive survey of over four hundred SCSI chartered surveyors nationally, this report provides a unique analysis of the commercial property market trends on a regional basis, with key findings on price and value trends, rental demand, investor requirements, commercial property demand and supply requirements. With additional commentary and observations from SCSI industry experts nationally and external property, investment and economic market specialists, our SCSI annual review conducted in partnership with Future Analytics Consulting, presents readers with an in-depth and comprehensive professional analysis of the 2014 Irish commercial property market.

€4.5bn

Record level of investment in the Irish commercial property market

The level of growth experienced in the commercial sector in 2014 exceeded all market expectations, with a record level of investment of €4.5bn in the Irish property market representing an increase of nearly €2.6bn on the 2013 property investment turnover figures. Although investor interest and spending was predominately concentrated on the Dublin market, there were positive signs of investment extending into the regions, with the IDA reporting a 7% increase in FDI expenditure outside of Dublin in 2014, compared to 2013 levels, with the net increase of 7,131 jobs.

Ray Hanley, SCSI Valuations Professional Group Chair said "De-leveraging by financial institutions and NAMA has been a significant factor to market growth and increase in activity, which has led to record level of turnover in the market". Dublin city centre indisputably retained the primary focus market for commercial investors, significantly central Dublin office sector which recorded year-end total returns of 45.3% in 2014.

48%

41%

48% of IDA client investments were made outside of Dublin in 2014, this compares to 41% in 2013.

45.3%

Year-end total returns for central Dublin offices in 2014

1. IDA Press Release (6 January, 2015)

The Dublin commercial market dominated property investment interests, with the office sector outperforming all other commercial sectors. Industry experts anticipate continuing high demand throughout 2015 in the central Dublin areas, as foreign investors continue to pursue prime central office locations. SCSI members reported that prime 'grade A' office space in the Dublin region achieved an average price of €452 per sqm in 2014, representing an increase of up to 29% on 2013 levels. The Docklands and Central Business Districts of Dublin (principally IFSC, Dublin 1, Dublin 2, Dublin 4) remain the areas in most demand. However, with continuing demand and negligible supply of new office builds in the city centre in 2015, a shortage of space within the city centre will likely lead to increased rents and expansion into suburban locations. Industry experts forecast central Dublin prime office rental prices increasing from the 2014 level of €452 per sqm up to €592 per sqm by year end depending on continued economic growth. Such rental prices represent a two-fold increase since 2012, and are set to surpass the rental prices last seen at the height of the economic boom. There is concern amongst industry commentators that the undersupply of prime 'grade A' commercial office space within the capital will discourage prospective foreign direct investment, which will have widespread impacts on the national economy.

While 2013 saw growth remain within the confines of Dublin, this trend changed in 2014 as economic growth within the commercial property market dispersed more into the regions, signifying a positive change nationally. The Irish retail sector also recorded marked improvements, with the retail investment sector seeing continuing growth from Q2 onwards. Much of this was down to the improved consumer confidence, employment growth and improved economic outlook nationally, which in addition to the perceived rental value potential, attracted new investors to the sector. This resulted in a general stabilisation of the sector in urban centres of most regions and significant improvements in key retail locations of Dublin and Cork in particular. The approval of two key strategic development zone (SDZ) planning schemes in 2014 heralded significant development news, notably the approval of the Dublin Docklands SDZ in May, which marks one of the most anticipated development schemes since the development of the IFSC in 1987 and will provide highly sought after new prime office space in the city centre. The Cherrywood SDZ was earlier approved by An Bord Pleanála in April 2014; comprising an area of 360ha. This scheme will provide a mix of residential, commercial, industrial and retail space, providing a significant peripheral commercial centre 16km south east of the capital's centre.

Prime retail areas of Dublin City Centre and key retail centres experienced the most substantial rise in investment activity, resulting in increasing retail rental values and a reduction in vacancy rates within these prime retail areas. SCSI members reported an average rental price of €4,491 per sqm for prime retail units in the Dublin Region, signifying a year-on-year increase of 11.5%. Significantly, there was an increase in activity and rental prices in other regions also, particularly in Connaught/Ulster which saw a percentage increase change in rental prices as prime city rents increased to €1,580 per sqm (+5%) and town high street rents increased to €284 per sqm (+31.4%). There was an 8% increase in shopping centre rents in the Connaught/Ulster Region, with rents rising to €409 per sqm Munster also experienced rental increases with town high street rents rising by 27% to €305 per sqm While prime city rents in the Leinster Region remained unchanged, town high street rents in the region experienced an increase of 15.2% as prices rose to an average of €227 per sqm

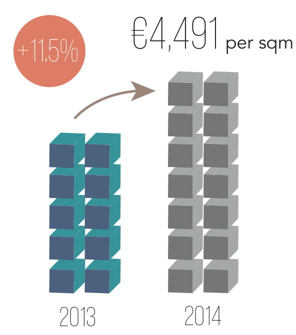
"Retail market demand remained focused on prime locations throughout 2014"

- Aoife Brennan, Lisney Divisional Director Research

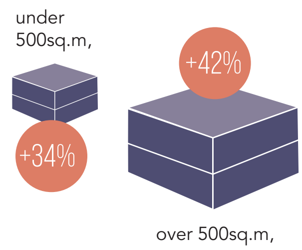
Colm Lauder, Senior Associate at MSCI, stated that the retail market in Ireland, even in the prime retail areas, continued to significantly lag the office market in terms of headline performance, despite the increasing rental prices and anticipates that the market has a long way to go yet before rents start to achieve levels in line with the previous cycle. Despite positive employment growth, improved consumer sentiment, and an increase in spending and household disposable incomes; the retail market sector remains very regionally distorted as many provincial towns reported a weak performance trend and stagnant rental values.

The industrial sector also experienced positive growth, much of which focused on the Dublin market, with increased rents and lower yields reported in the Dublin region. Prime industrial rents under 500sq.m. increased to €82 per sqm (+34.4%) in the Dublin Region, with net yields of 7.9% recorded. Industrial rents remained relatively unchanged in Leinster and Connaught/Ulster regions, with prime rents (under 500sq.m.) at €36 and €46 respectively while Muster Region reported a marginal fall in rents across all unit types. Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman reports "With the emergence of a rapidly growing economy, increased domestic demand coupled with improvements in international trade, the resultant outflow and inflow of goods and materials is underpinning demand particularly in the logistics sector. "

Prime Retail Units in the Dublin Region



Prime Industrial Rents in the Dublin Region



Industrial yields for prime Dublin units

7.8% (>500 sq.m. units)

7.9% (<500sq.m. units)

Rental price in 2014.

€82 per sqm (>500 sq.m.

€74 per sqm (<500sq.m. units)

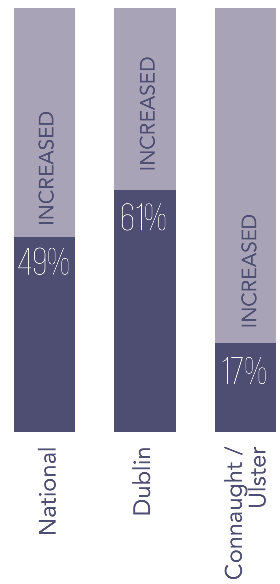
With a high level of activity in the commercial property market and negligible supply of new builds, attention turned to the supply and price of development land. The SCSI survey determined substantial increases in development land values. In the Dublin Region, residential development land values increased by 32% while office development land increased by 27%, signifying the high demand for additional residential and office space in the region. Elsewhere, retail development land values increased by 16% in the Leinster Region, while Munster experienced 24% rise in residential development land values. Development funding from private equity providers proved strong however, commentators anticipate greater funding from financial institutions in 2015.

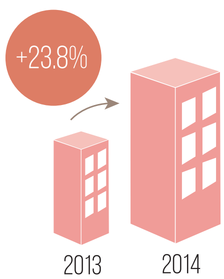
The hospitality sector, comprising hotels, pubs and restaurants saw general improvements nationally compared to 2013 growth rates, although SCSI members reported that the pub sector continued to remain challenged in 2014, despite some upturn in the market, principally in the Dublin and Leinster regions. The continued high rate of distressed sales in 2014 remains a concern for many in the sector. Commenting on the performance of the hotel sector in 2014, Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman observed "There was strong market transactional activity in this sector with approximately €400 million of hotel sales being reported over the last 12 months. Portfolio sales were a dominant element of this activity and we expect this to continue in 2015."

Industry commentators anticipate continued increases in the development land market, particularly for residential development land in and around the regional cities, as the residential sector continues to recover and demand for housing surpasses new supply.

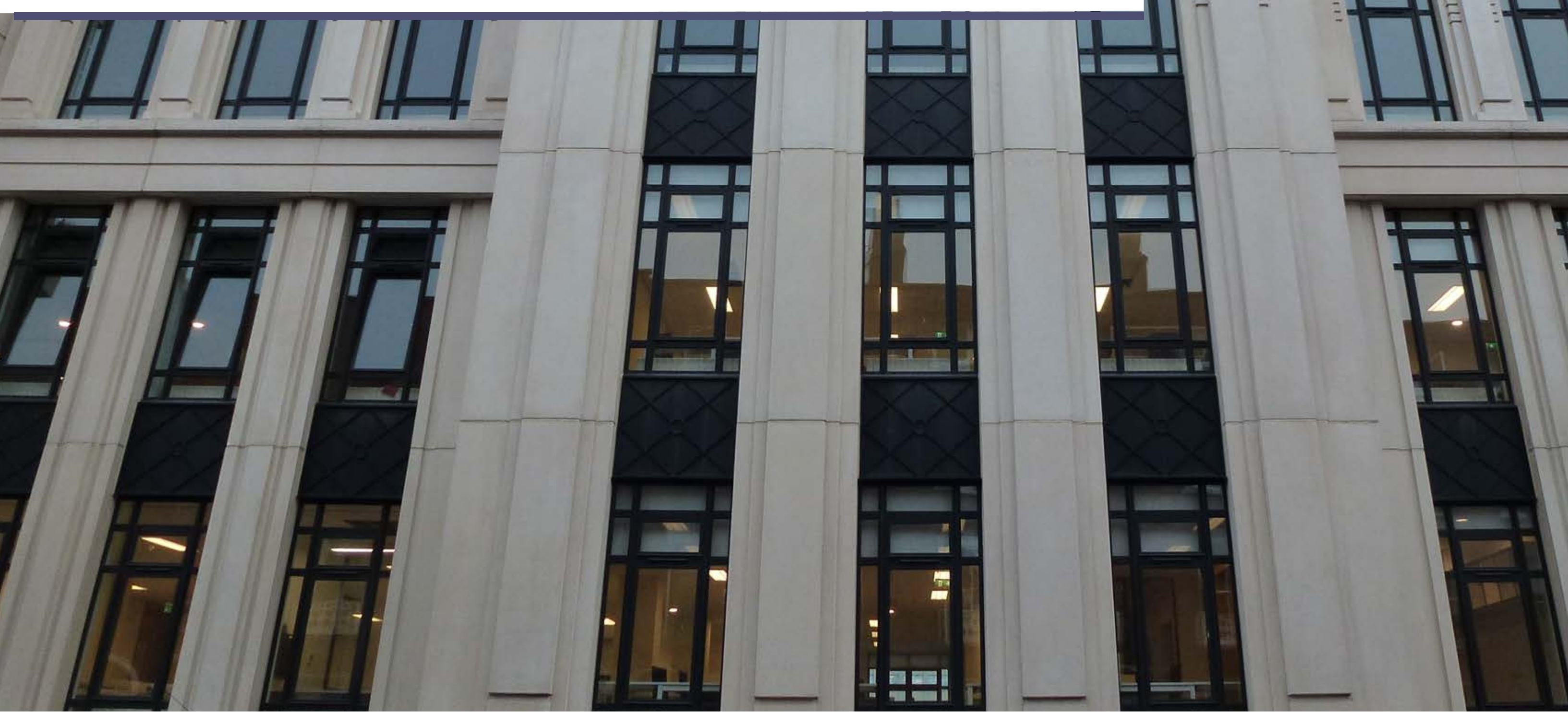
Looking ahead, market activity looks set to continue in a very positive direction for 2015 as investor interest in the Irish market continues and greater financial liquidity returns to the market. Year-to-date, there has not been enough stock offered to the market to test the market climate however anecdotal evidence suggests strong interest remains in the commercial market. Consequently, rental growth values will continue to be a key driver of the market and as yields continue their downward trend in the Dublin Region, an increasing number of investors will be considering regional investments which offer more attractive returns and this is likely to become more evident in 2015.

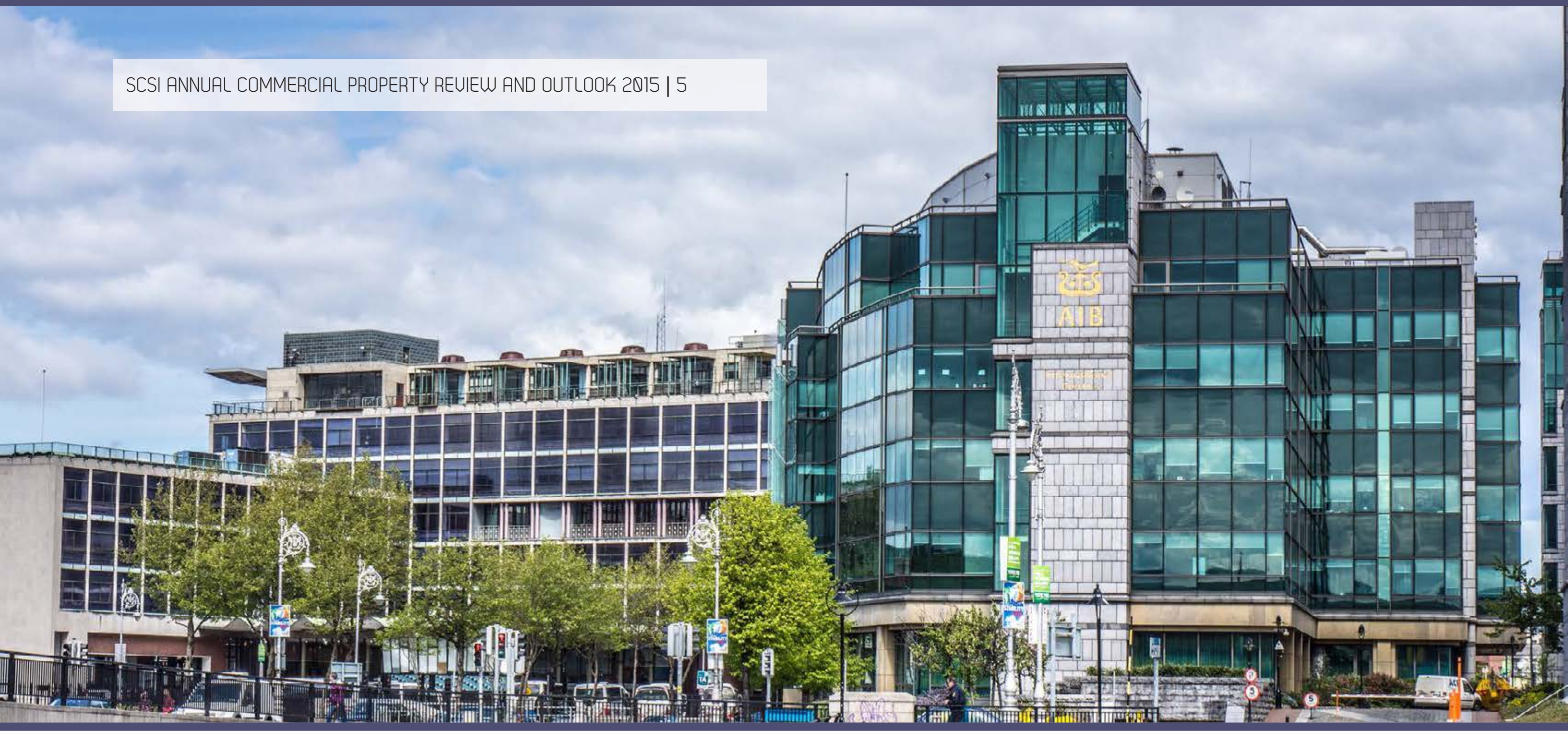
Supply of development land in 2014.





Hotels in the Leinster region experience the most substantial change in value

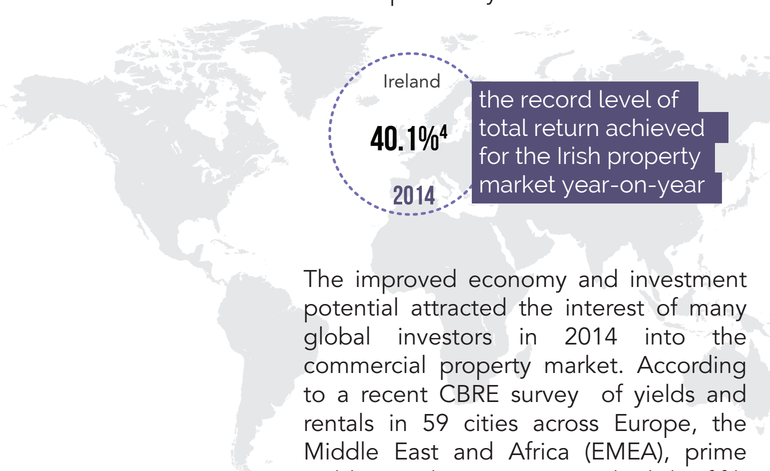




Economic Context & Market Overview

The Irish economy was one of the fastest growing economies globally in 2014, as the Central Bank estimated GDP growth of approximately 5.1% (+4.9% on 2013) and GNP of 3.9% (+0.6% on 2013) in 2014[2], representing the highest GDP growth in the Eurozone. Investment growth of 11% and net exports growth of 16.4% over the first three quarters of the year proved the main economic drivers. The marked improvement in both performance and confidence in the Irish economy has led the Central Bank to forecast a strong, albeit more modest GDP growth of 3.7% and GNP growth of 3.3% in 2015.

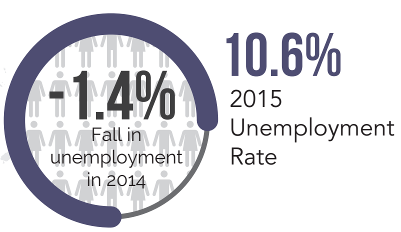
In 2014, the performance of the commercial sector exceeded all market expectations, with end of year commercial market investments in excess of €4.5bn, a substantial growth on the approximately €1.9bn recorded twelve months previously.



The improved economy and investment potential attracted the interest of many global investors in 2014 into the commercial property market. According to a recent CBRE survey of yields and rentals in 59 cities across Europe, the Middle East and Africa (EMEA), prime Dublin retail prices were ranked the fifth most expensive to buy, while Dublin offices were ranked the 17th most expensive.

Employment Levels

Unmployment levels fell by 1.4% in 2014 to a year-end rate of 10.6% according to CSO figures, the lowest rate since February 2009. The increases in employment levels reflected positively on the national economy throughout 2014 and are expected to continue in 2015 as employment rates increase further, encouraging continued improved consumer sentiment and public spending. The Central Banks forecasts employment growth of just under 2% for 2015.



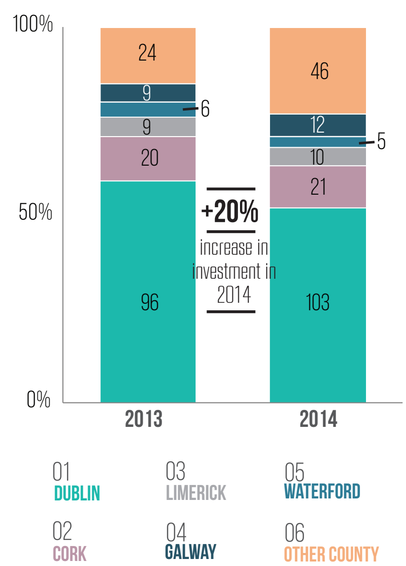
2 Central Bank, Central Bank of Ireland Quarterly Bulletin Q1 2015, 3rd Feb. 2015
3 IPD/SCSI Property Index Data
4 CBRE EMEA Prime Rents and Yields Survey 2014

Foreign Direct Investment (FDI)

Demand continued to perform strongly in 2014 and the IDA recorded 197 investments in 2014, of which 88 were new name investments. Dublin and Cork combined attracted over 60% of all IDA client investments in 2014, however, increased regional dispersion occurred and, significantly, 48% of total FDI investments were made outside of Dublin, compared to 41% in 2013. The largest percentage increase of investments was made in areas outside of the five main Irish cities, signifying potential future employment growth in those regions over the coming years.

Dublin and Cork combined attracted over 60% of all IDA client investments in 2014

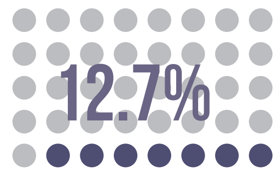
The number of IDA client companies that invested in Ireland in 2014 by city



Source: IDA Ireland

Commercial Vacancy Rates

DKM GeoDirectory[5] reported that national commercial vacancy rates were 12.7% (Q3 2014), an increase of 0.4% on Q3 2013 levels. Prime retail centres in Dublin City saw the most significant improvement in the retail sector, with high profile shopping streets of Grafton Street recording full occupancy by year-end and Henry Street recording near full occupancy, both accompanied by increased rental prices.

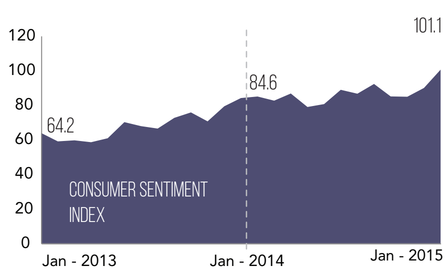


National commercial vacancy rate[6]

Consumer Sentiment

Consumer sentiment improved overall in 2014 according to the KBC Ireland/ESRI[7] Consumer Sentiment Index, with December sentiment index finishing the year at 90.5 points, indicating improved consumer confidence in the economy during 2014. The boosted economic conditions and improved consumer sentiment recorded in 2014 has resulted in increased consumer spending and a marked growth in the retail sector. Reports by KBC Ireland/ESRI indicate that the Index of Current Economic Conditions increased from 95.7 in November to 100.4 in December indicating improved consumer confidence based on consumers current financial circumstances compared to a year ago. In addition, consumer expectations increased from 78.4 in November to 83.8 in December signifying improved consumer confidence in their personal financial circumstances, in addition to their economic outlook for the country as a whole and employment expectations. These factors signal positive trends for 2015.

As a result of anticipated improved national employment rates, the Central Bank has projected a growth in consumer spending of 1.6% in 2015 (Central Bank 'Quarterly Bulletin 04 / October 2014').



5 DKM GeoDirectory (2014) GeoView Q3 2014 Commercial Vacancy Rates Report Q3 2014 report
6 DKM GeoDirectory (2014) GeoView Q3 2014 Commercial Vacancy Rates Report Q3 2014 report
7 ESRI (2014) Consumer Sentiment Index, December 2014

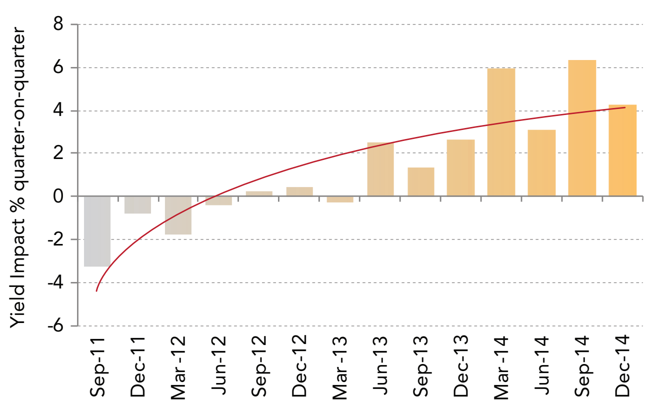
Investment Sector

Record level of investment in the Irish property market of €4.5bn

National
19.9%
2014
Industrial Sector national year-end returns in 2014

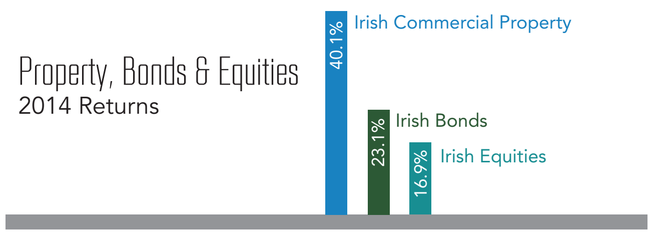
The market reaction following Ireland's exit of the bailout in December 2013 proved very positive with strong investor confidence in the market as reflected in the record investment levels and decline in Irish bond yields in 2014. The ESRI[8] report that the Irish Government 10-year bond yield fell to 1.56% in November 2014, representing a significant historic low from the record high of 14.22% recorded in July 2011. There was widespread investor interest and demand across all sectors of the commercial property investment market in 2014, as the developing economy attracted many investors to the Irish property market, amid improving economic sentiment.

The SCSI/RICS Investor Sentiment Index[9] returned strong growth in 2014, with investor demand strong across all sectors, compared to the previous years. The upturn in investor sentiment is, amongst other factors, due to a combined recovery in the global economy, in addition to the strong domestic economy performance, and favourable interest rates established by the European Central Bank, which collectively are encouraging both domestic and international investors to invest in the Irish property market.



IPD Ireland Investor Sentiment Index

The total investment return for the Irish property market in 2014 was 40.1%, according MSCI data, signifying a record level of investment returns. This achievement is further highlighted by the fact that it outperformed both Irish bonds and equities, which in isolation performed very positively, with returns of 23.1% and 16.9%[10] respectively, as reported by Colm Lauder, Senior Associate at MSCI. Investor interest and activity emanated from domestic and international markets, and included private investors, private equity funds, REITs and institutions, as a record figure was invested into the Irish property market as measured by the SCSI/IPD Ireland Quarterly Property Index.



While office investments proved the strongest performing commercial sector, retail investments intensified, particularly towards the second half of the year, all of which contributed to the record level of total return achieved for the Irish property market at 40.1% year-on-year.

The cessation of the capital gains tax (CGT) relief incentive on 31 December 2014 led to an upsurge in investor activity across all property sectors during the year, particularly in Q3 and Q4.

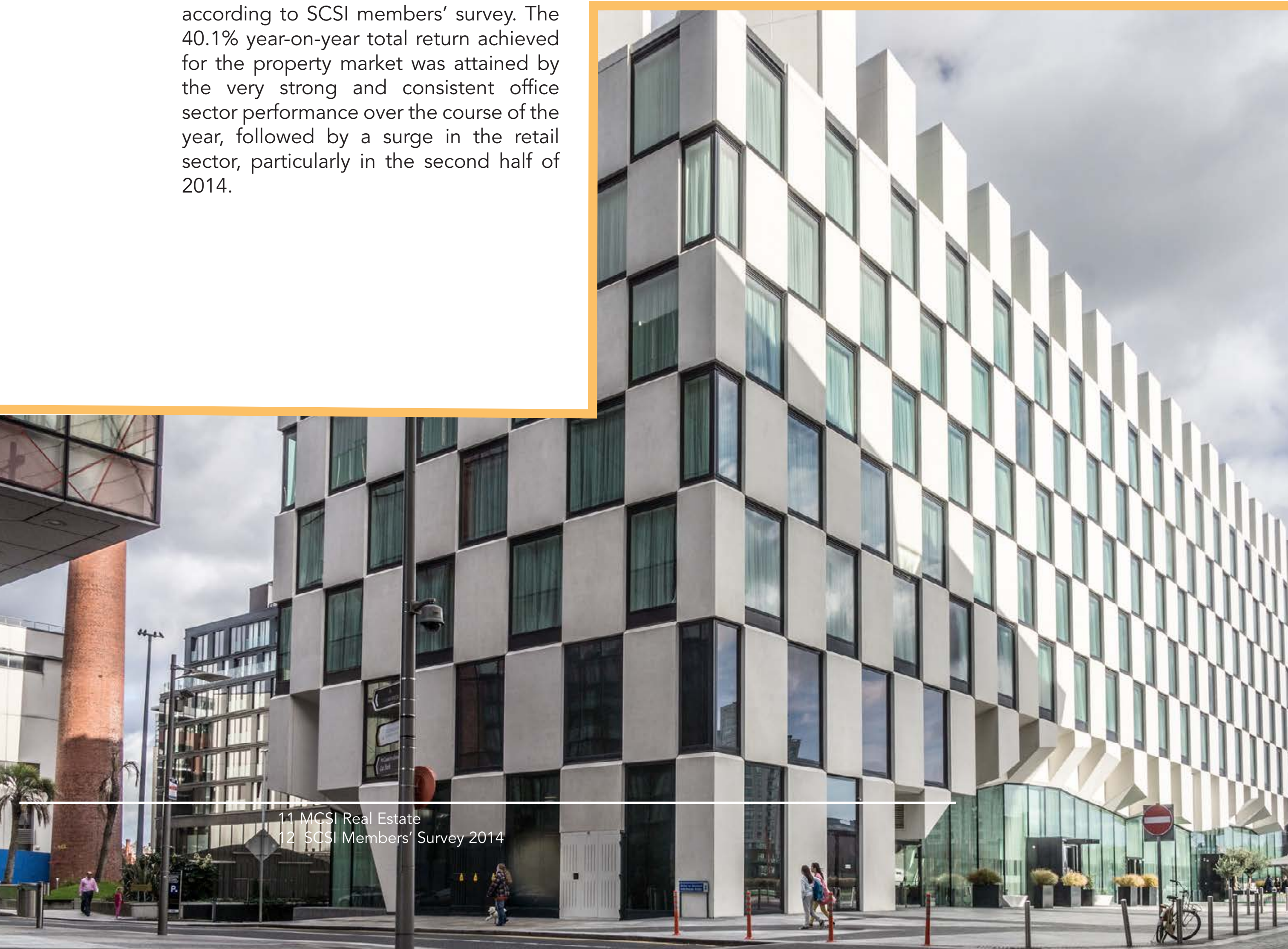
8 ESRI, Quarterly Economic Commentary, Winter 2014, The Economic &Social Research Institute
9 Royal Institution of Chartered Surveyors (RICS), RICS Ireland Commercial property Monitor Q4 2014
10 MSCI, Highest Recorded Total Returns for Irish Property Market. 2015. Web. 15 Jan. 2015

Sectoral Demand

Office investment

The office sector proved the most successfully performing commercial property sector in 2014, recording a remarkable return of 45.3% in 2014, representing an increase of 27% on 2013 levels[11]. Ray Hanley, SCSI Valuations Professional Group Chair said "The buyer pool widened considerably in 2014 with a much greater number of investors entering the Irish market...and REITs played a key role in the market activity". The concentration of office investment in 2014 remained principally in the south Docklands area of Dublin, which notably was the first area in the country to turn the economic corner in 2012 and has remained the primary focus for investors ever since, as observed by Colm Lauder, Senior Associate at MSCI. Vacancy rates for prime 'grade A' office space in the high demand areas of Dublin City are at a historic low, resulting in prime rental increases of up to 29% in 2014[12].

Prime yields in the Dublin Region fell across all commercial sectors in 2014, according to SCSI members' survey. The 40.1% year-on-year total return achieved for the property market was attained by the very strong and consistent office sector performance over the course of the year, followed by a surge in the retail sector, particularly in the second half of 2014.



11 MCSI Real Estate
12 SCSI Members' Survey 2014

Retail investment

Retail investment proved an attractive proposition in 2014 as investors identified good value market returns. The retail sector also surpassed market expectations in 2014, recording total investment returns of 34.7% according to IPD Ireland data. The primary retail thoroughfares of Dublin City Centre, namely Grafton Street and Henry Street and key suburban retail centres were the focus areas for most investors. In Dublin, the SCSI survey determined that the average rental price for prime retail units increased by 11.5% in 2014, with rental prices at €4,491 per sqm.

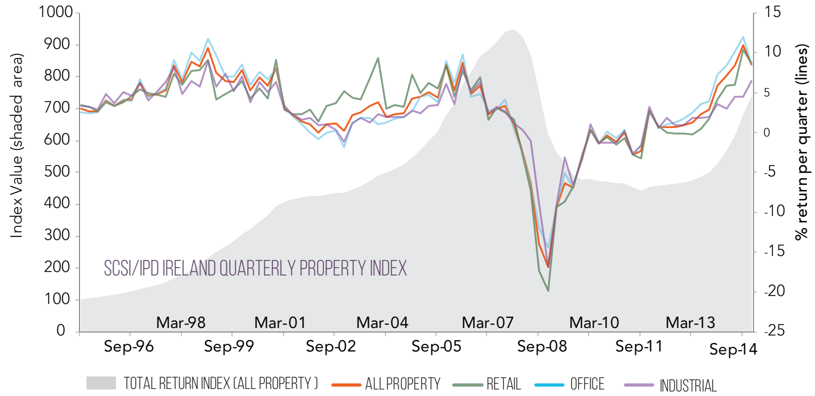
Industrial Investment

Investor sentiment in the industrial sector surged towards the end of the year, as the industrial sector saw a marked upturn in yield impact in Q4, in contrast to office and retail sectors which both observed a decline in Q4. Much of the activity occurred in the Dublin Region, as prime rents (premises under 500sqm) reached an average of €82 per sqm.

DUBLIN PRIME NET YIELDS

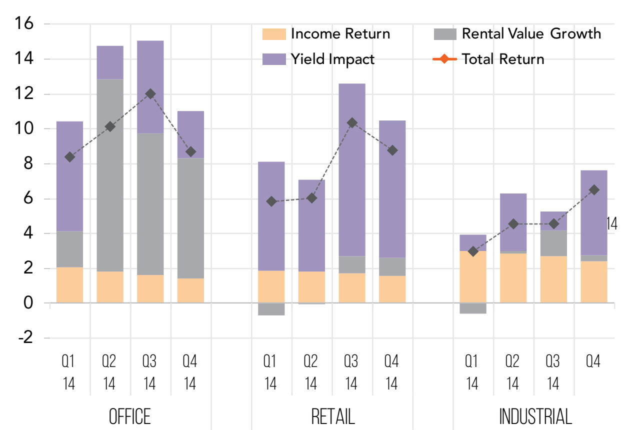
	DUBLIN	
	2014	Average 2011-2013
Offices	5.3%	n/a
Retail	5.6%	6.6%
Industrial (<500m2)	7.9%	9.9%
Industrial (>500m2)	7.8%	10.4%

Source: SCSI Survey of Members, Dec 2014.



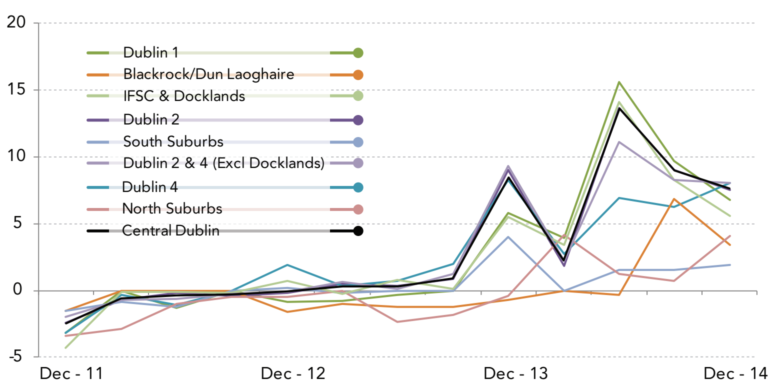
Source: IPD Ireland, Results for the Quarter up to end December 2014.

2014 QUARTERLY SECTOR BREAKDOWN



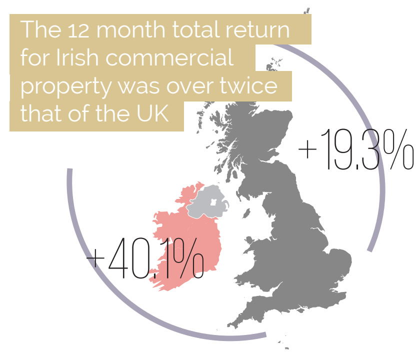
Source: IPD Ireland, Results for the Quarter up to end December 2014.

DUBLIN CITY CENTRE QUARTERLY OFFICE HISTORIC PERFORMANCE



Source: IPD Ireland, Results for the Quarter up to end December 2014.

MSCI property index data, total returns from the Irish commercial property investment grew by 40.1% in 2014, with reported total returns for the office marketrns of 45.3% and retail returns of 34.7%



Finance

Finance availability remains an ongoing concern amongst industry observers and SCSI members alike as demand continues to surpass supply in many areas, with few new builds on the horizon until late 2016 or early 2017. While positive signs of a return to traditional financial lending emerged in 2014, many contractors and real estate developers reported continued difficulty in obtaining credit lending for commercial property developments. Industry experts report a largely cautious return to the commercial property market by financial institutions, lending up to approximately 60% finance; requiring developers to raise the outstanding sum. Consequently, many traditional developers have had to seek alternative methods of raising finance which include collaborating with private equity fund investment firms to co-finance developments.

As capital values look set to continue to rise in 2015, fuelled by further rental growth and yield compression, industry observers anticipate ongoing interest from private equity fund investors in entering or expanding in the Irish commercial property market.

As many areas report a shortage in prime office, residential and industrial supply, speculative development remains economically unfeasible as a result of lack of development finance lending, high construction costs and current rental values, particularly in the industrial sector. The lack of financial liquidity for speculative development is an issue raised by many members from all regions in the SCSI survey to address the current shortage of suitable commercial buildings.

Commercial Property Investments: Private Equity Investors

Private equity fund investment firms have had a significantly influential role on the growth of the Irish real estate market over the last year across all sectors, with notable acquisitions during 2014 including the Marker Hotel by Swiss backed Brehon Capital, Lakeland Retail Park by US firm, Kennedy Wilson and the prime 'grade A' office 'Platinum Portfolio' by US investors, Blackstone. While there was a welcomed expansion from private equity fund investors into the regional market, industry commentators say that

Dublin remains the key area of focus for most private equity investors, owing to the increasing demand driven rental growth and favourable yields. Following some high profile acquisitions and development restoration projects for student residences, commentators anticipate greater investment in the higher risk non-traditional property investment sectors such as student accommodation and healthcare facilities.

Commercial Property Investments: REIT

Real Estate Investment Trusts (REITs) accounted for a reported 30.9% of commercial property investments in 2014 according to CBRE, with the Dublin market firmly the prime focus of activity for investors.

Due to the vacancy constraints in prime city centre locations, industry commentators anticipated that investors will move into the prime suburban areas more so in 2015. US real estate fund, Kennedy Wilson Europe has invested substantially in Irish commercial office, apartment and development sites since entering the Irish market, with investments of approximately €1bn in the Irish market to date. Although investor expansion into suburban locations is in its infancy relative to the city investment market, industry commentators anticipate that it is likely to advance, as the shortage of prime city centre spaces escalates. Kennedy Wilson Europe observed the increasing 'urbanisation' trend with both commercial tenants and their staff, having strong preference to work and live in the city centre. Location is outweighing other considerations such as the age of a building. The strong preference for central city locations is noticeably impacting both office and apartment rents in the city centre.

Source: IDA Ireland

Similarly, a key determination by investors contemplating suburban based property investments is accessibility to quality public transport, retail and leisure facilities, as demonstrated by actions such as the acquisition of Central Park, Dublin by Green REIT/PIMCO for €311.5m, and the ardent investor interest in the south County Dublin Cherrywood SDZ lands.

Since its establishment in December 2013, Hibernia REIT has focused primarily on the Dublin City centre office market with over 80% of its portfolio in the Dublin CBD office sector, with in excess of €475m invested to date.

As regards investing in the retail sector, much of the investment remained within the Dublin Region and comprised acquisitions including Westend Retail Park and Clarehall Shopping Centre. Property investors are starting to advance further beyond the Dublin confines, a trend that is expected to increase over the coming year, provided that investors can acquire commanding retail outlets, such as the Marshes Shopping Centre, Dundalk and Parkway Retail Park, Limerick. However Kennedy Wilson Europe has stated that while it continues to actively invest in the Irish market, as a pan European investor it is comparing the Irish market with other European countries such as UK, Spain and Italy. Peter Collins, Managing Director of Kennedy Wilson Europe welcomed the approval of the SDZ planning schemes which will provide much needed commercial and residential supply, while the fast track planning on these prime sites will appeal to FDI.

NAMA

Across its entire portfolio in Ireland, NAMA has, to date, advanced over €1bn for construction projects. Significantly, it has indicated that it may advance up to a further €3bn over the remainder of its life in funding for key residential and commercial development. A substantial focus in this regard is the Dublin Docklands where, through its loans, NAMA has an exposure to 75% of the undeveloped area of the Dublin Docklands North Lotts and Grand Canal Dock Strategic Development Zone (SDZ). Through its exposure in the Docklands SDZ area, NAMA expects to fund, or otherwise facilitate the delivery of over 325,160sq.m. (gross area) which will include Grade A commercial office space, in response to the continuing and increasing demand from both FDI and the indigenous enterprise sector, in addition to approximately 1,800 residential units. NAMA will provide funding for the planning application to Dublin City Council for the development of the landmark Boland's Mill site in Dublin's south Docklands. The application submitted by the site's receivers includes proposed office, residential, cultural and retail development, amounting to approximately 37,161sq.m.

Investment Market Outlook 2015

The aforementioned proposed developments in Dublin's Docklands area will bring much needed and welcomed development to the Docklands, an area that now has the benefit of increased planning certainty in the form of an approved SDZ Planning Scheme, in addition to potential future project funding.

While 2014 experienced record levels of property investment, commentators anticipate continued strong domestic and international commercial property investment in 2015, with continued deleveraging by financial institutions and NAMA throughout 2015. In the lower end commercial investment sector, industry commentators anticipate the level of cash transactions to decline in 2015 as increased institutional lending is provided.

NAMA's involvement in the Docklands is further demonstrated following the announced in December 2014 that Oxley Holdings Limited is its preferred bidder for a key site located at 72-80 North Wall Quay. The ca. 59,922sq.m. development (gross area) will include Grade A office space, and over 200 apartments. The planning application is likely to be submitted in early 2015 and, subject to this, it is envisaged that construction will commence in late 2015/early 2016.

The office sector will continue to draw investment, particularly from foreign investment, and the shortage of central office space is likely to drive rent prices further, and encourage investors into the suburban and peripheral locations of Dublin, however infrastructure will be a key factor with transport links playing a central role. Greater refurbishment of older Dublin central offices is also anticipated. The retail sector is also expected to continue growing, with investors expanding into key regional locations, particularly shopping centres and retail parks, and consequently industry experts anticipate high investor interest in these retail centres in 2015.

While the office and retail sectors performed strongly through much of the year, the industrial sector experienced a marked rise in investment in Q4 of 2014 as investors took advantage of the strengthening economy and attractive rental growth. Commentators anticipate continued investment interest in the industrial sector throughout 2015. Industry commentators anticipate a greater supply of development land to the market in 2015, with significant investor interest particularly for office and residential development. With regard the cessation of the CGT relief incentive, Peter Collins, Managing Director at Kennedy Wilson Europe believes that the end of the CGT relief will not materially impact investors at the higher end of the market in 2015.

Investment Market Regional Outlook

Dublin is forecast to experience continued office rental value growth in 2015, with many industry commentators anticipating the next significant wave of investor development will be focused on the North Wall Quays areas, influenced significantly by the relocation of the Central Bank to the area. The SDZ of the Docklands North Lotts is also observed by industry specialists to act as a catalyst for further FDI in the Dublin 1 area. While investors will extend beyond the boundary of Dublin, industry experts anticipate most investment outside of Dublin will be in the €5m to €10m investment figure. Commentators anticipate greater investment in the regional cities in 2015, in particular greater investment in Cork. However, Aoife Brennan, Divisional Director at Lisney reports that suitable office sector space in Cork remains a concern, with SCSI members reporting low availability of quality stock in Cork City Centre.

Many commentators forecast an increasing level of investment interest in the retail sector in 2015, with many prominent retail centres set to be put on the market, including Dundrum Town Centre which is anticipated to attract significant international interest.

SCSI Chair for the South East Region, Michael Boyd, anticipates further investment in the hotel sector in 2015, notably in Kilkenny where occupancy rates in the city's hotels is very high and additional beds are required, owing to the under provision of hotels in the city. Michael expects investors to the region to originate from the domestic market.

While there is substantial concern over the shortage of prime city centre development locations amongst Dublin SCSI members and industry commentators alike, potential new development sites are identified and include the redevelopment of brownfield sites, and the greater redevelopment of secondary and tertiary buildings for investment purposes.

Some industry commentators stated that aspects of the planning system poses a limitation to prospective overseas investors as acquiring planning permission is viewed as a very lengthy process.

"There are concerns that potential overspending by investors in 2014 as a result of the desire to avail of the CGT exemption, led to an artificial swell in prices and demand may drop slightly in 2015 as a result"

- Simon Stokes, SCSI Chair

Office Sector

Increased rental prices and falling vacancy rates, with negligible new office builds anticipated for 2015 has many industry commentators concerned about Ireland's continued capacity to attract FDI

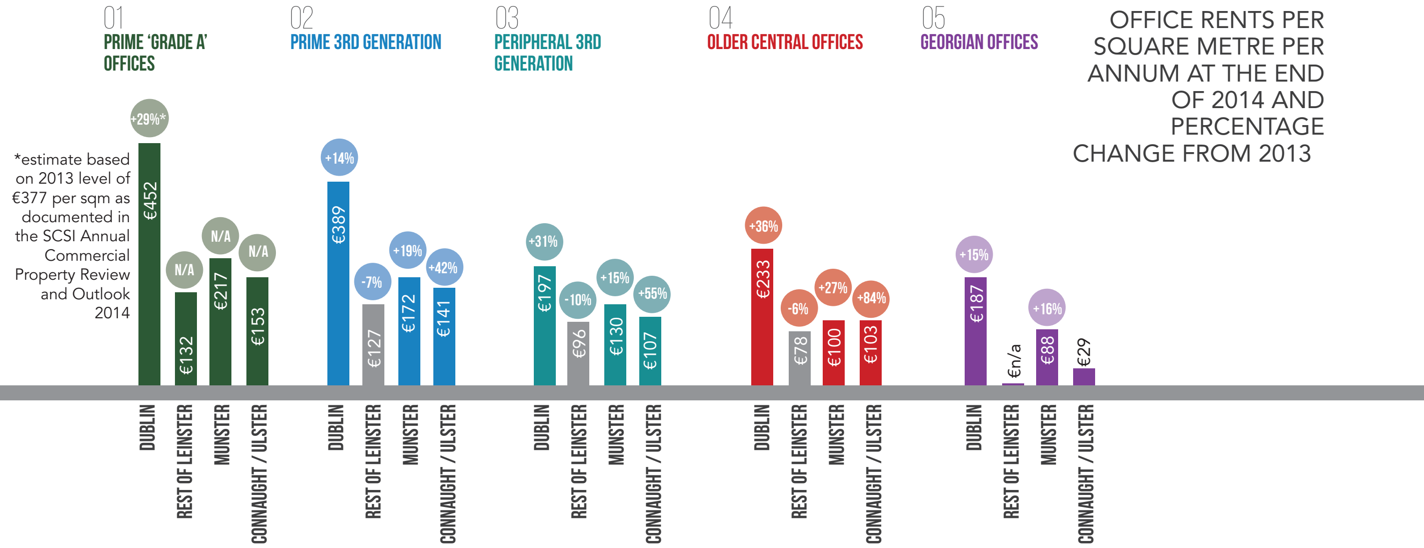
> "The growth in total returns in the 2014 office sector was strongly driven by rental value growth, a development that has not been seen since the late 1990s and marks a much healthier fundamental footing than the speculative driven demand of 2004 to 2006"
>
> - Colm Lauder, Senior Associate at MSCI Real Estate

The office sector emerged as the outstanding performer within the 2014 commercial property market. Nationally the office sector recorded an annual total investment return of 45.3% in 2014, according to the SCSI/IPD Ireland Quarterly Property Index. Nationally, SCSI members reported an increase in rental values in all regions except Leinster (excl. Dublin), where rental values decreased slightly on 2013 values while remaining considerably above 2012 rental values.

The Dublin Region yielded rental values that unsurprisingly far exceeded that of the rest of the country, with vacancy levels reportedly falling to historic low levels within prime Dublin City Centre locations. Dublin City Centre indisputably retained the primary focus market for commercial retail investors, with continued high level of demand for central Dublin offices. The Docklands and Central Business Districts of Dublin (e.g. IFSC, Haddington Road, Hatch Street) remained the city centre areas in most demand. Peter Collins, Managing Director of Kennedy Wilson Europe commented on the shortage of large central spaces in Dublin, particularly units occupying 9,290sqm (100,000 sqft) floor plates. He added that office spaces ranging from 465sqm to 929sqm are presently the most sought after floor space size.

The Connaught/Ulster Region experienced substantial rental value increases during the year, albeit rental values were starting from a very low base, while net yields fell across all office types. Munster Region members also reported impressive growth in rental values with a fall in net yields.

OFFICE RENTS PER SQUARE METRE PER ANNUM AT THE END OF 2014 AND PERCENTAGE CHANGE FROM 2013



Office Sector Rents

SCSI members reported that the average office rents for Prime 'grade A' offices in the Dublin Region in 2014 was €452 per sqm representing a 24.3% increase on 2013 prices. Average prime '3rd Generation' offices fetched €389 per sqm, representing a 13.7% increase. While these increases signify positive growth in the Dublin market, members reported widespread concern over the lack of new supply in the region, particularly in prime 'grade A' spaces, whilst similarly the lack of housing for employees of office units was also raised, with one Dublin member stating that this "may reduce Dublin's overall investment appeal to FDI and lead them to consider other economies". The largest annual rental percentage price increases in Dublin were in peripheral 3rd generation spaces and older central office spaces, which experienced rental increases of 31% (€197 per sqm) and 36% (€233 per sqm) respectively.

The Munster Region also experienced substantial rental growth as SCSI members reported increases as prime 'grade A' units fetched an average of €217 per sqm. Rental values for prime 3rd generation spaces increased by 19.4% to an average of €172 per sqm, though this is an average for the region and prime rental in the region's cities will be higher. While 2014 trends proved positive, Munster based SCSI members voiced concern over the lack of grade A and 3rd generation units in the high demand areas of the region, and the surplus of older units.

"The oversupply of older stock in the city centre remains challenging as potential tenants are seeking and are prepared to pay for third generation offices which makes it difficult to see how the older stock in the City Centre will be absorbed". - **Munster based SCSI member**

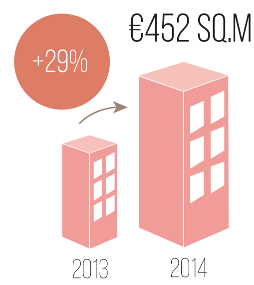
However, beyond the city environs, members observed stark disparities, with more suburban and regional members recording a severe over supply of units, with a low rate of demand, particularly for older buildings, as one Munster based member reported there is "continued difficulty in sourcing funds to enable fit-out of shell & core offices".

Connaught/Ulster based SCSI members reported a marked increase in office rental prices with prime grade A units fetching an average of €153 per sqm in 2014. There were increases of 42.4% recorded for prime 3rd generation offices which fetched an average of €141 per sqm, while peripheral 3rd generation spaces fetched €107 per sqm (+55.0%). Older central offices saw the most substantial percentage change in rent as values increased to €103 per sqm, representing an 83.8% rise on 2013 values. However, members in the Connaught/Ulster Region reported concern over the undersupply of large floor plates in excess of 1,850sq.m. in suburban areas that would attract FDI tenants, while another member stated that the "lack of office space in the centre of Galway, particularly for tenants looking for spaces over ca.200 sq.m", was an issue which may deter investors from market in Galway.

Leinster based SCSI members reported a fall in rental value across all unit types where historic data is available. While prime grade A units fetched €132sq.m. in 2014, rental values for prime 3rd generation units fetched €127sq.m., a decrease of 6.6%. Peripheral 3rd generation units experienced a greater decrease of 10% as prices fell to €96 per sqm, while older central offices experienced a decline of 6% as rental values fetched €78sq.m.

Amongst the main concerns of Leinster based SCSI members was the oversupply of older office space, which fails to meet the needs of modern prospective tenants.

A substantial number of Leinster based SCSI members highlighted the fact that the current rents in the region do not justify speculative construction of new office units.



Prime Dublin City 'grade A' offices in 2014 was €452 per sqm, representing a 24.3% increase on 2013

"The office sector saw a more modest increase, however with little employment growth in the region, the smaller urban centres saw little to no increase in activity in this sector."

- Gerard O'Toole, SCSI Western Region Representative

OFFICE RENTS PER SQUARE METRE PER ANNUM AT YEAR END

	DUBLIN				REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime 'Grade A' Offices	n/a	€452	n/a	n/a	n/a	€132	n/a	n/a	n/a	€217	n/a	n/a	n/a	€153	n/a	n/a
Prime 3rd Generation	+14%	€389	€342	€310	-7%	€127	€136	€89	+19%	€172	€144	€120	+42%	€141	€99	€80
Peripheral 3rd Generation	+31%	€197	€150	€132	-10%	€96	€107	€76	+15%	€130	€113	€100	+55%	€107	€69	€58
Older Central Offices	+36%	€233	€171	€149	-6%	€78	€83	€59	+27%	€100	€79	€75	+84%	€103	€56	€51
Georgian Offices	+15%	€187	€163	€150	n/a	n/a	n/a	n/a	+16%	€88	€76	€71	n/a	€29	n/a	n/a

Source: SCSI Survey of Members, Dec 2014.

Office Sector Yields

Office sector yield fell across many regions, with the exception of the Leinster Region (excl. Dublin) which saw yields rise across all office types, as prime 3rd generation units increased to 9.2% (+0.6%) and older central offices increased to 11.6% (+0.6%). Prime grade A offices recorded a net yield of 6.9%. SCSI Southeast Region Chair, Michael Boyd stated that there was a strong supply of office space in the south east region with very low demand, resulting in a stagnant market.

The Dublin Region experienced declining yields in all office type categories. The reduction in yields in 2014 reflected the improved wider economic conditions. In the Dublin Region, prime 'grade A' office yields were 5.3% on average, while prime 3rd generation yields fell by 1% to 5.7%. Connaught/Ulster Region members reported falls in yields across all office space sectors, with the most significant fall recorded in the category of Older Central Offices, which decreased by 1% to a level of 9.5%.

SCSI members in the Munster Region reported a fall in yields across all office space types with the most significant fall of 1.2% reported in Georgian offices, with a net yield rate of 10.0%. SCSI Southern Chair, Michael McKenna stated that there was an increase in demand for small scale office space, in city centre locations.

OFFICE NET YIELDS

	DUBLIN				REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime 'Grade A' Offices	**n/a**	**5.3%**	n/a	n/a	**n/a**	**6.9%**	n/a	n/a	**n/a**	**8.0%**	n/a	n/a	**n/a**	**7.8%**	n/a	n/a
Prime 3rd Generation	**-1%**	**5.7%**	6.7%	7.4%	**+0.6%**	**9.2%**	8.6%	9.0%	**-0.7%**	**8.7%**	9.4%	9.5%	**-0.8%**	**8.2%**	9%	9.6%
Peripheral 3rd Generation	**-1.3%**	**7.2%**	8.5%	8.9%	**+0.5%**	**10.5%**	10%	10.3%	**-0.7%**	**9.4%**	10.1%	10.1%	**-0.8%**	**9.5%**	10.3%	10%
Older Central Offices	**-1.3%**	**7.3%**	8.6%	9.1%	**+0.6%**	**11.6%**	11%	11.1%	**-0.6%**	**10.2%**	10.8%	10.8%	**-1%**	**9.5%**	10.5%	10.5%
Georgian Offices	**-1.4%**	**7.7%**	9.1%	9.5%	**n/a**	**n/a**	n/a	n/a	**-1.2%**	**10.0%**	11.2%	10.5%	**n/a**	**9.8%**	n/a	n/a

Source: SCSI Survey of Members, Dec 2014.

Office Sector Outlook 2015

With negligible supply of new office builds in Dublin city centre in 2015, a deficiency in office space within the city centre will lead to increased rent prices in the sector over the coming year, with industry experts forecasting that rents will increase to €538 per sqm to €592 per sqm by year end in prime locations.

SCSI members anticipate continued positive market sector growth in 2015.

Dublin Region based SCSI members anticpates an average increase of 12% in rents over the coming 12 months in the prime 'grade A' office type.

The supply shortage of prime large scale office space in Dublin city centre has many SCSI members anticipating demand driven rental increases, in addition to potential concerns over economic competitiveness.

As vacancy rates and availability within the city centre decrease, many members anticipate greater demand for office space in the suburban/peripheral areas of the region, however the availability of quality public transport and intermodal transportation links are considered key to the success of peripheral commercial developments.

Dublin Region based SCSI members anticipate a double digit rental increase in Prime Grade A 3rd generation and peripheral 3rd generation office types over the coming 12 months. Strong growth of 9% is anticipated in peripheral '3rd generation' office space.

Members in the Connaught/Ulster Region also anticipate increases in rental changes, with a 9.7% increase in the prime 'grade A' office sector. Greater growth is expected in the prime '3rd generation' and older central offices sector in this region, at 12% respectively.

Leinster and Munster members also anticipate growth in peripheral 3rd generation office types, albeit at the more modest rate to Dublin and Connaught/Ulster, with an average growth of 3.3% and 3.9% respectively.

EXPECTATIONS — OFFICE PROPERTY RENTS

	DUBLIN	REST OF LEINSTER	MUNSTER	CONNAUGHT / ULSTER
	2015	2015	2015	2015
Prime 'Grade A' Offices	12.0%	5.3%	4.5%	9.0%
Prime 3rd Generation	11.1%	4.4%	4.9%	11.7%
Peripheral 3rd Generation	9.7%	3.3%	3.9%	9.2%
Older Central Offices	8.6%	2.9%	2.3%	11.6%
Georgian Offices	8.9%	n/a	1.8%	n/a

Source: SCSI Survey of Members, Dec 2014.

In Munster, concerns over the coming 12 months varied based on their location, with many members reporting the poor availability of supply as a key concern, while SCSI members based outside of the main Munster cities reported low demand as a key concern. These contrasting concerns highlight the evident regional location variations within the market. One Munster based SCSI member reported "Lack of modern 3rd generation office accommodation in prime areas, particularly Cork city centre", while another more regional based member reported that the area was "Currently suffering from over-supply and under-demand".

In Munster, the undersupply of high quality modern office spaces (Grade A and 3rd Generation space) were also observed, particularly in city centre locations. Accessibility and transport were also key factors of concern highlighted by members in respect of enticing new tenants to peripheral locations, with many stating poor public transport and lack of parking an issue.

Members are also concerned at the aging of existing spaces and difficulty faced by developers for fit out costs. While speculative development remains unfeasible at current rates, members also reported insufficient availability of funding for the construction of new office developments.

Confidence is increasing amongst SMEs and it is anticipated that this will result in greater regional market activity in 2015.

"Delay in the development of new offices in the city centre is a key concern entering 2015"

- Dublin SCSI member

"The continuing reduction in supply in Dublin City Centre will increase interest in the more peripheral city areas"

- Dublin SCSI member

"Lack of office space in the centre of Galway, particularly for large companies looking for spaces over ca.200 sq.m."

- Connaught/Ulster SCSI Member

"Lack of supply and lack of large floor plates within population centres, however the market regionally is still weak"

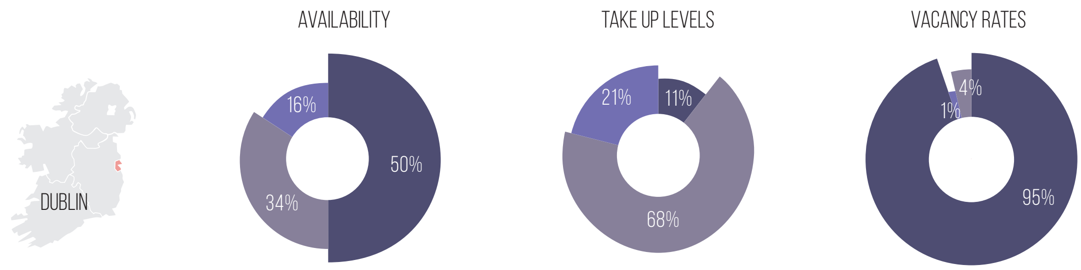
- Connaught/Ulster SCSI Member

"Ireland as a choice destination for FDI is clear for all to see but we must not become complacent, escalating city centre rents coupled with an increasingly dwindling supply of space will need to be addressed if we are to remain competitive. Currently there are just two new office schemes due for completion in Dublin City Centre in 2015, with others planned for 2016/17. Though rental levels combined with the scarcity of supply supports the viability of new construction, development is still being hampered by the acute absence of bank funding for large scale projects. This aspect needs to be at the forefront of government strategy. "

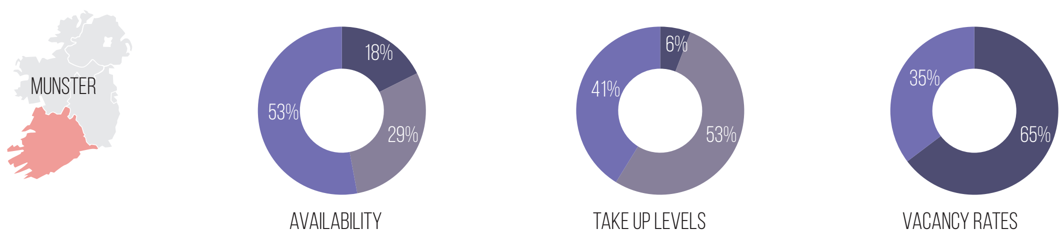
- Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman

Office Sector Expectations

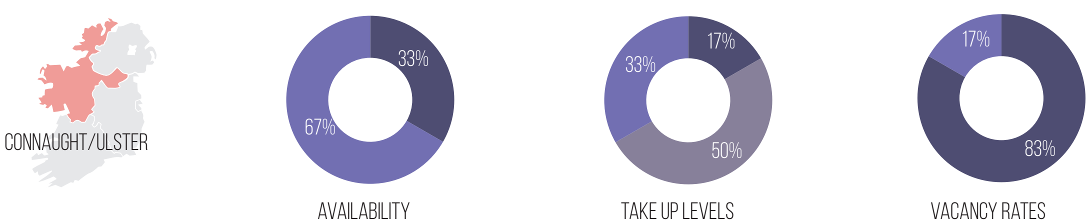
In the SCSI survey, members were asked if they expected a greater or a reduced level of office sector (i) availability, (ii) take-up and (iii) vacancy rates in 2015, or whether they anticipate levels to remain the same as in 2014.



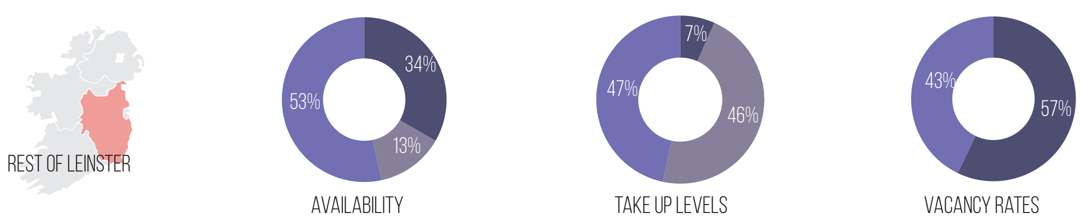
Dublin Region
Dublin based members remain somewhat divided on whether there will be an increase in availability of office spaces, with 50% of respondents expecting a decrease, reflective of the supply shortage currently facing the region. 68% of respondents anticipate a rise in take-up levels in 2015 demonstrating a continued positive outlook for the sector in 2015 in terms of continued growth. Reflective of the anticipated increase in take-up levels in 2015, 95% of respondents anticipate a fall in vacancy rates in the region, which shows continued positive outlook amongst members for the year ahead.



Munster Region
In Munster, 53% of respondents anticipate that office availability will remain unchanged in 2015, while 29% anticipate an increase in office availability. Reflecting a positive outlook for 2015, 53% of respondents expect take-up levels to increase and a majority of 65% anticipate a fall in vacancy rates, again reflective of a positive outlook amongst members.



Connaught/Ulster Region
In the Connaught/Ulster Region, 67% of members anticipate that the level of office space availability will remain unchanged in 2015. 50% of respondents forecast a rise in take-up levels in the region,resulting in the majority of members (83%) forecasting vacancy levels to fall in the region. Overall, members in the region possess a positive outlook for the office property sector in 2015.

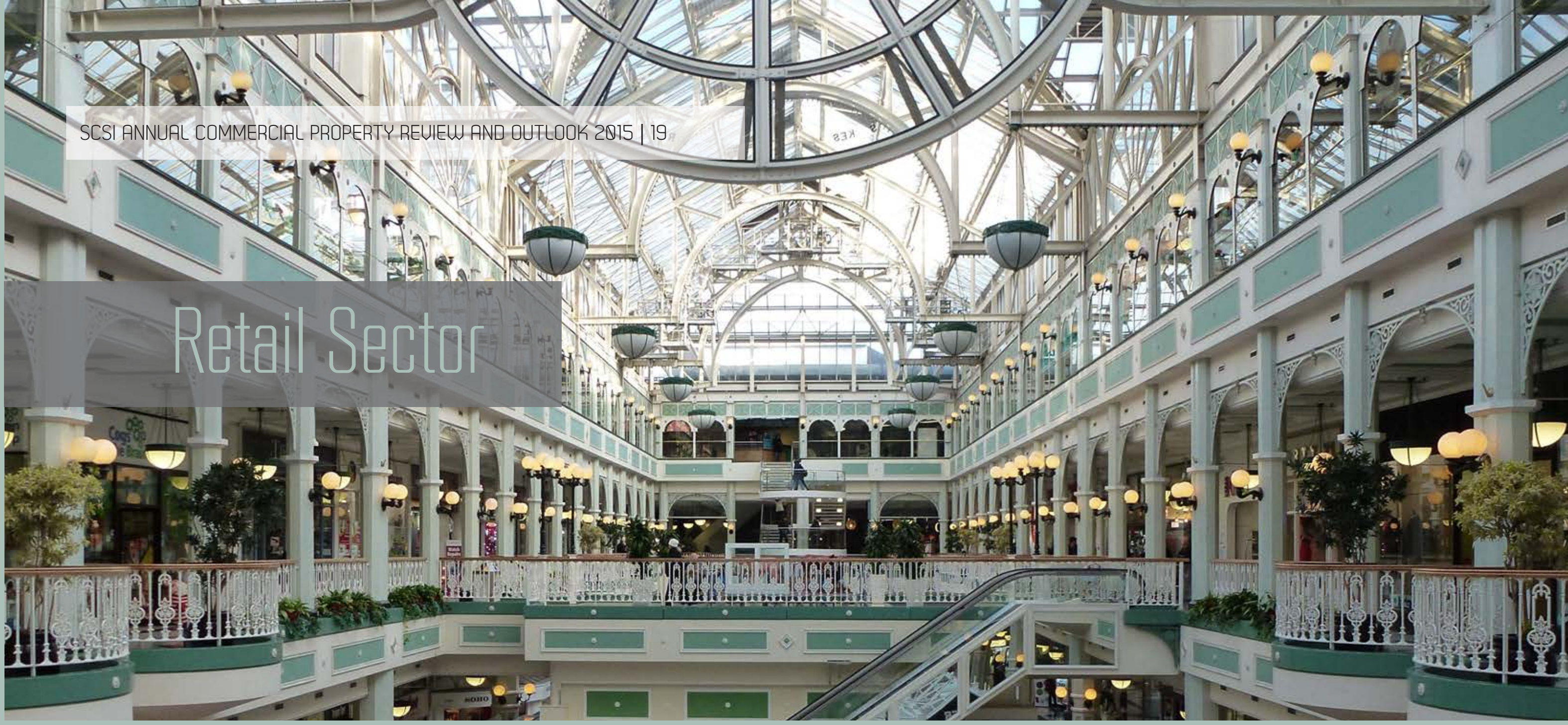


Rest of Leinster Region
In contrast to Dublin Region members, a majority 53% of respondents expect that office availability will remain unchanged to 2014, with 34% anticipating a decrease. Respondents remain divided on whether there will be a change in take-up levels, with 46% forecasting an increase and 47% anticipating no change. However respondents were positive as 57% anticipate a decrease in vacancy rates, signifying a positive outlook for 2015.

"Very few quality office tenants in the provincial market but no modern larger units for those that are. However, building these is high risk without tenants. In addition, provincial rents do not justify current building costs"

- Leinster SCSI Member

Retail Sector



There was a visible improvement in the recovery of the Irish retail market in 2014, as the retail sector achieved annual total investment returns of 34.7% in 2014, substantially above the 3 year average of 12.9% .

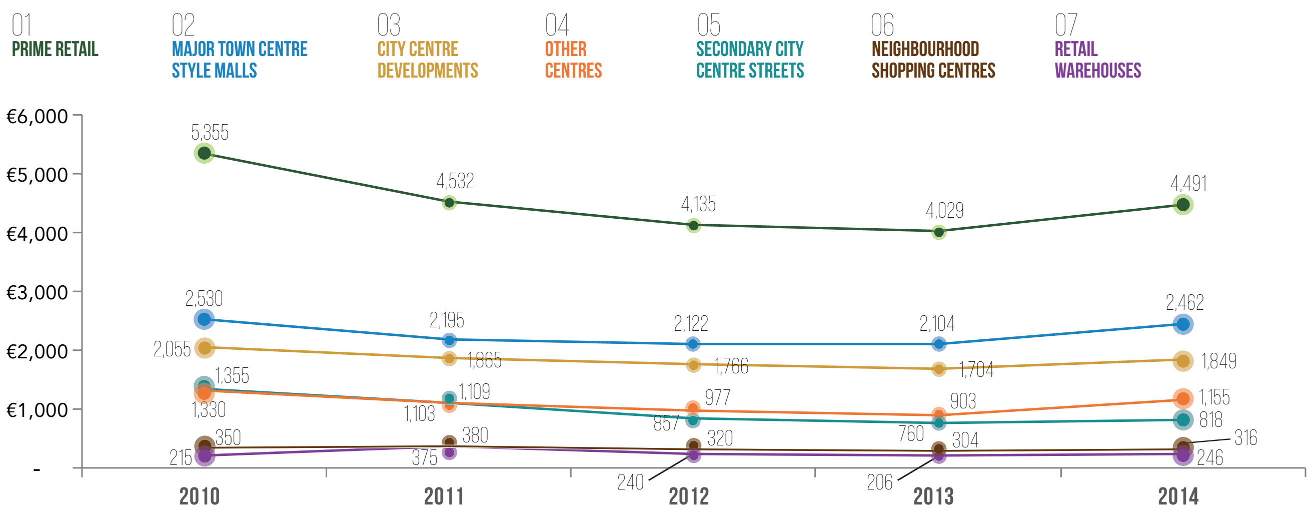
> "Scarcity of supply in Dublin's prime shopping centres has triggered strong rental growth. International retailers continue to compete for choice locations with High Street occupancy making a marked improvement this year coupled with increasing activity being reported in our provincial cities, though in the case of the latter with the exception of Galway, vacancy levels are still of concern."
>
> - Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman

Data from KBC/ESRI showed a significant improvement in consumer sentiment in 2014, while retail spend also increased as consumer confidence returned, owing to the improved economic performance and outlook. The primary retail thoroughfares of Dublin City Centre, Grafton Street and Henry Street, in addition to key suburban retail centres particularly those along the M50 attracted the most investor interest nationally, resulting in a rise in rental values and a welcomed fall in vacancy rates.

Commercial vacancy rates nationally were approximately 12.7% at year end, however vacancy rates in prime areas of the capital fell, as the prime retail thoroughfare Grafton Street ended the year on full occupancy, while Henry Street followed closely, closing off the year with near full occupancy. Capital values in Grafton Street alone grew by approximately 28% in 2014.

Retail Sector Rents and Yields

Dublin Region based SCSI members reported an average rental price increase of 11.5% in prime retail units in 2014, as rental prices reached an average of €4,491 per sqm, recording a net yield of 5.6%. Retail rents also increased in the major town centre style malls, where members reported an increase of 17%, as rental values increased to an average of €2,462 per sqm There were similar positive trends in Connaught/Ulster Region with increases of 5% as prime city rental values fetched an average of €1,580 per sqm Industry experts reported that the considered good value within the Irish retail market in 2014 made retail investment an attractive proposition to many investors, with most investor activity occurring in Q3 and Q4.



Dublin

DUBLIN RETAIL — AVERAGE RENTS AND YIELDS

	RENTS				YIELDS			
Rents per square metre per annum at year end	Change 2013 - 2014	2014 (end)	2013 (end)	2012 (end)	Change 2013 - 2014	2014	2013	2012
Prime Retail	+11%	€4,491	€4,029	€4,135	-0.8%	5.6%	6.4%	6.8%
Major Town Centre Style Malls	+17%	€2,462	€2,104	€2,122	-1.1%	6.8%	7.9%	8.1%
City Centre Developments	+9%	€1,849	€1,704	€1,766	-1.1%	6.8%	7.9%	8.3%
Other Centres	+28%	€1,155	€903	€977	-0.9%	8.1%	9%	9.3%
Secondary City Centre Streets	+8%	€818	€760	€857	-0.9%	8.3%	9.2%	9.4%
Neighbourhood Shopping Centres	+4%	€316	€304	€320	-1.1%	8.7%	9.8%	9.9%
Retail Warehouses	+19%	€246	€206	€240	-1.6%	8.3%	9.9%	10.2%

Source: SCSI Survey of Members, Dec 2014.

SCSI members reported that retail yields in the Dublin Region fell by an average of 0.8% in the prime retail sector and are now at 5.6%, while yields are 6.8% in both major town centre style malls, and city centre developments representing a 1.1% decrease. Retail categories classed as 'Other centres' and 'secondary city centre streets' also recorded net yield decreases in 2014 and were 8.1% and 8.3% at year end, respectively.

"Tenants continued to seek short-term leases with few leaseholders making long-term commitments." **- SCSI Chair, Simon Stokes**

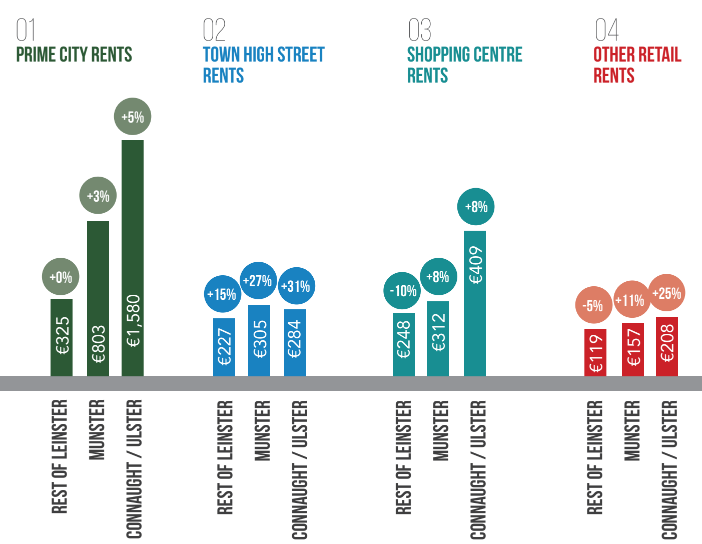
Lisney Divisional Director Research, Aoife Brennan acknowledged the variation of regional trends but welcomed the fact that there were fewer receiverships in 2014 than previously, while remaining aware that the retail sector remains a very uncertain market.

Despite the reported positive employment growth, improved consumer sentiment, and increase in retail spend; retail investment trends varied considerably, as investor demand remained focused on prime locations. Many provincial towns reported continued high vacancy rates and low rental demand in 2014.

Prime city rents were unchanged in the Leinster Region as values remained at €325 per sqm, and average net yields increased from 6.9% in 2013 to 8.0% in 2014. 'Town main street' rental values were the best performing of the Leinster retail categories, as values rose by 15.2% to €227 per sqm, however shopping centres and 'other retail' rents fell by an average of 10.1% and 4.8% respectively. Leinster based SCSI members recorded retail yield increases across all retail unit categories in 2014, the largest of which was recorded for shopping centre rental yields which increased to 8.4%. SCSI South East Chair, Michael Boyd said there were considerable differences regionally, with Waterford City continuing to suffer significantly from out-of town retail centres. "In Carlow town, the traditional retail streets are also distressed with high vacancy rates throughout. Commercial rates in Carlow are also very high, and in many instances the rates are as high as the rent making trading in the town continually difficult to sustain. In contrast, Kilkenny City performed very strongly in 2014, possessing very low vacancy rates, the sector influenced significantly by the continuing strong tourism industry in the city.", added Michael Boyd.

"It is unlikely that secondary retail locations save for neighbourhood centres will recover to the levels previously experienced. An element of vacancy will remain in these locations. In order to sustain town centres both economically and socially, consideration should be given to incentivising owners to converting these secondary retail locations to residential use. Often, what they were originally utilised for."

- SCSI Leinster Region Member



RETAIL RENTS PER SQUARE METRE PER ANNUM FOR 2014 AND PERCENTAGE CHANGE FROM 2013

"There was a general improvement in the commercial property market in 2014, with the retail sector being the best performing sector in the region. Demand was strong for high profile retail areas."

- Gerard O'Toole, SCSI Western Region Representative

Cork retail market returned 12.7% year-on-year

Edward Carey, SCSI North East Representative stated "Last year saw a stabilisation in the number of retail closures in the region. Commercial sales volumes were low last year, with the majority of activity within the rental market. There were a number of small scale retail start-ups leading to a slight decrease in vacancy rates with new retail units concentrated in the prime retail locations only. New retail units were largely concentrated in the larger urban areas for example, Mullingar."

SCSI members in Munster and Connaught/Ulster recorded a fall in yields across all retail unit categories in 2014, with the most significant yield adjustments occurring in the Connaught/Ulster region. This trend mirrored the sentiments of Gerard O'Toole, who reported that the retail sector was the best performing commercial sector in the region in 2014, as demand for high profile retail held up. Prime city retail yields fell to 6.7% in 2014, as rental prices increased by 5% on 2013 prices, to an average of €1,580 per sqm Similarly town main street and shopping centre rents increased to €284 per sqm and €409 per sqm respectively; with shopping centre rents recording an increase of 8% on twelve months previously. Michael McKenna, SCSI South Region Chair reiterated the regional divide in retail performance, with the suburban and small town centres possessing high vacancy rates in 2014, stating however "Cork City Centre saw a big improvement in 2014, with a take-up in retail units particularly noticeable in Q3". Colm Lauder echoed the Q3 turnaround experienced in the Cork retail sector, stating

"Patrick Street bounced back somewhat towards the third quarter of 2014, and this helped total returns into double digits for the first time since 2007 as the Cork retail market returned 12.7% year-on-year with capital values growing by 1.8%". **- Colm Lauder, Senior Associate, MSCI**

However, Michael McKenna reported that suburban areas had seen little change in 2014 although the opening of a number of new grocery stores Aldi and Tesco.

RETAIL RENTS PER SQUARE METRE PER ANNUM AT YEAR END

	REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime City Rents	**0%**	**€325**	€325	€303	**+3%**	**€803**	€779	€907	**+5%**	**€1,580**	€1507	€1,820
Town High Street Rents	**+15%**	**€227**	€197	€200	**+27%**	**€305**	€240	€246	**+31%**	**€284**	€216	€212
Shopping Centre Rents	**-10%**	**€248**	€276	€267	**+8%**	**€312**	€289	€366	**+8%**	**€409**	€379	€300
Other Retail Rents	**-5%**	**€119**	€125	€116	**+11%**	**€157**	€141	€151	**+25%**	**€210**	€168	€151

Source: SCSI Survey of Members, Dec 2014.

RETAIL YIELDS

	REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime City Rents	**+1.1%**	**8.0%**	6.9%	6.3%	**-0.3%**	**7.7%**	8%	7.9%	**-1.5%**	**6.7%**	8.2%	9.0%
Town High Street Rents	**+0.4%**	**9.3%**	8.9%	8.6%	**-0.2%**	**8.8%**	9%	8.8%	**-1.5%**	**7.9%**	9.4%	9.0%
Shopping Centre Rents	**+1.6%**	**8.4%**	6.8%	5.6%	**-0.8%**	**9.1%**	9.9%	9.9%	**-1.3%**	**8.4%**	9.7%	9.8%
Other Retail Rents	**+0.8%**	**10.8%**	10%	9.4%	**-0.1%**	**11.4%**	11.5%	10.7%	**-0.7%**	**8.1%**	8.8%	8.8%

Source: SCSI Survey of Members, Dec 2014.

Retail Sector Outlook 2015

While Dublin attracted the majority of investor attention in 2014, industry commentators anticipate that retail investors will expand into the secondary streets and wider retail shopping centres in 2015. Dublin Region based SCSI members anticipate that prime retail is likely to experience the largest percentage change in rents over the course of 2015, with members forecasting an average 9.8% increase rental value. Lisney Divisional Director Research, Aoife Brennan states that while she anticipates the primary retail market to continue to grow, she believes that the retail sector remains a very uncertain market, and expects the secondary retail market to remain challenging in 2015. This sentiment is reflected by Dublin based SCSI members, who stated in the survey that they anticipate neighbourhood shopping centres to experience the most modest percentage change of all retail types in the region during 2015, with an increase of 3.9% rental change.

Rents for prime retail in the rest of Leinster are expected to increase by an average of 5.6% over the coming 12 months. In Munster, Michael McKenna expects the retail sector to build on the momentum that started in Q3 2014, and anticipates further retail take-ups, particularly in Cork city centre. This optimism is emulated across the region as Munster members forecast that the rental increase for prime retail in the Munster Region will rise by an average of 5.5%.

With retail rental values at less than half of what they were during the peak, Gerard O'Toole anticipates further stability in general across the retail sector in the west, with the stronger provincial town centres continuing to strengthen, however he forecasts modest retail rental growth in 2015. Despite this, Connaught/Ulster Region based SCSI members anticipate a substantial rise of 10.6% in the prime retail sector, while town high street rents are expected to rise by 5.3%.

RETAIL RENT EXPECTATIONS 2015 (% CHANGE)

	REST OF LEINSTER	MUNSTER	CONNAUGHT / ULSTER
	2015	2015	2015
Prime Retail	5.6%	5.5%	10.6%
Town High Street Rents	4.1%	4.2%	5.3%
Shopping Centre Rents	4.1%	3.8%	7.1%
Other Retail Rents	1.8%	2.2%	4.0%

Source: SCSI Survey of Members, Dec 2014.

RETAIL RENT EXPECTATIONS 2015 - DUBLIN (% CHANGE)

	DUBLIN
	2015
Prime Retail	9.8%
Major Town Centre Style Malls	4.7%
City Centre Developments	3.9%
Other Centres	4.7%
Secondary City Centre Streets	4.5%
Neighbourhood Shopping Centres	7.3%
Retail Warehouses	8.0%

2015 looks set to see the launch of a number of high profile retail shopping centre portfolios and observers anticipate considerable interest in these portfolios.

- SCSI Dublin Region Member

Industrial Sector

The national industrial sector experienced somewhat of a recovery in 2014, though much of the market activity was principally in the Dublin Region, as SCSI members in the Dublin Region reported more positive trends in this sector compared to their regional colleagues. Dublin Region based members reported an upturn in activity levels particularly in the second half of the year, stimulated by the improved economy.

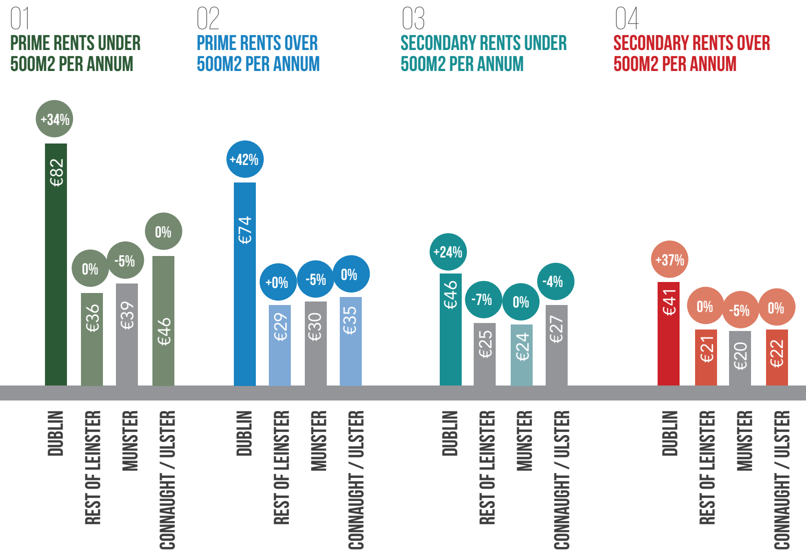
"It is generally agreed that the first six months of 2014 was disappointing in the levels of overall market activity. However there was a marked improvement in the third and fourth quarters underpinned by increased occupier and investor activity."

- Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman

Our SCSI members' survey highlighted the large stock of outdated and unsuitable industrial unit types in many areas and the undersupply of prime modern stock within cities. There was also negligible new builds reported and no speculative development having occurred, as current rent levels fail to incentivise new construction. Regionally, activity in the market varied substantially. A high level of oversupply and low demand was reported by members across most regions.

Industrial Sector Rents

Nationally, the industrial market experienced a marked improvement in 2014 compared to recent years, however much of the activity within the industrial sector occurred within the Dublin Region, as reported by members while activity outside of the Dublin Region was reported to be negligible in many areas. Dublin Region based members reported take-up levels notably increasing in the second half of the year. Aoife Brennan, Lisney Divisional Director Research reported "Sales rather than lettings dominated the Dublin industrial market in 2014, accounting for about 80% of all activity. There are a few reasons for this. Firstly, occupiers can purchase properties for the equivalent of just a few years rent as prices remain below the replacement cost. If they use a loan to buy the property, the cost of servicing that loan annually is generally much less than what the rent would be." Lisney reported that approximately 353,000sq.m. of industrial space was sold or leased in 2014.

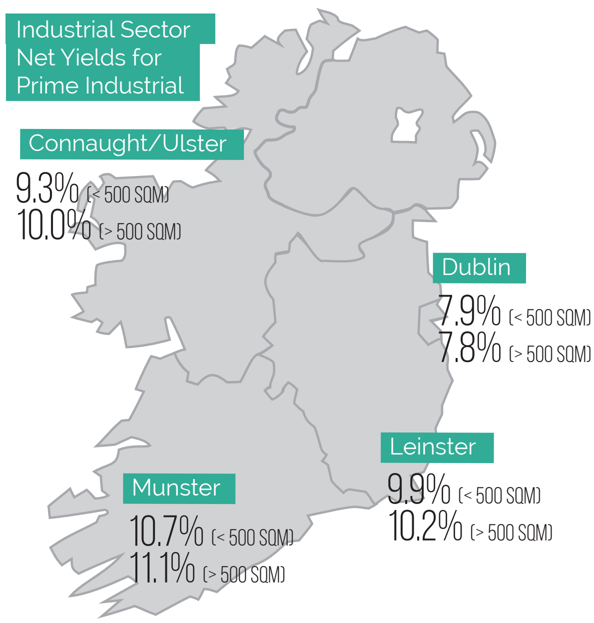


INDUSTRIAL RENTS PER SQUARE METRE PER ANNUM AT THE END OF 2014 AND PERCENTAGE CHANGE FROM 2013

The average rent for prime industrial unit under 500sq.m. was €64 per sqm nationally, however industrial rents in the Dublin Region significantly influenced this national figure. In 2014, industrial rents increased by between 13.5% to 42.3% across the Dublin Region, as prime rents (under 500sq.m.) rose by 34.4% as values reached €82 per sqm. Prime rents of units above 500sq.m. experienced a greater percentage increase in rental price, with the average unit attaining €74 per sqm, representing a growth of 42.3% in 12 months.

Regionally, there were substantial rental price variations. Leinster based members reported a 7.4% decrease in secondary rents under 500sq.m., while all other unit rents in Leinster remained unchanged from 2013 prices. SCSI North Eastern Region Chair, Edward Carey stated "There was little activity within the industrial sector; a notable sale during the year was An Post acquiring a substantial 929sq.m. property. There were very few other sales within the region." In southeast Leinster, SCSI Chair, Michael Boyd reported a small increase in demand in the industry sector in 2014, with the main of activity in the small scale industrial units. This small increase in activity marked a substantial improvement on the previous two years where activity in this sector was negligible. A noteworthy development in the region was the leasing of a number of units to Irish Water in 2014, which contributed to a rise in the industry sector activity rates.

All industrial unit types in the Munster Region recorded a fall in rental price in 2014, with an average decrease of 5.8%, echoing Michael McKenna's sentiment that demand was inactive throughout the region. SCSI members in the Connaught/Ulster Region reported a stagnant market for prime rental units; and secondary rents fell by up to 8.3%. SCSI Western Chair, Gerard O'Toole reported that there was some activity in market in the west, however interest concentrated in the main provincial centres only and was primarily in the 200sq.m. to 500sq.m size units.



Source: SCSI Survey of Members, Dec 2014.

INDUSTRIAL RENTS PER SQAURE METRE PER ANNUM AT YEAR END

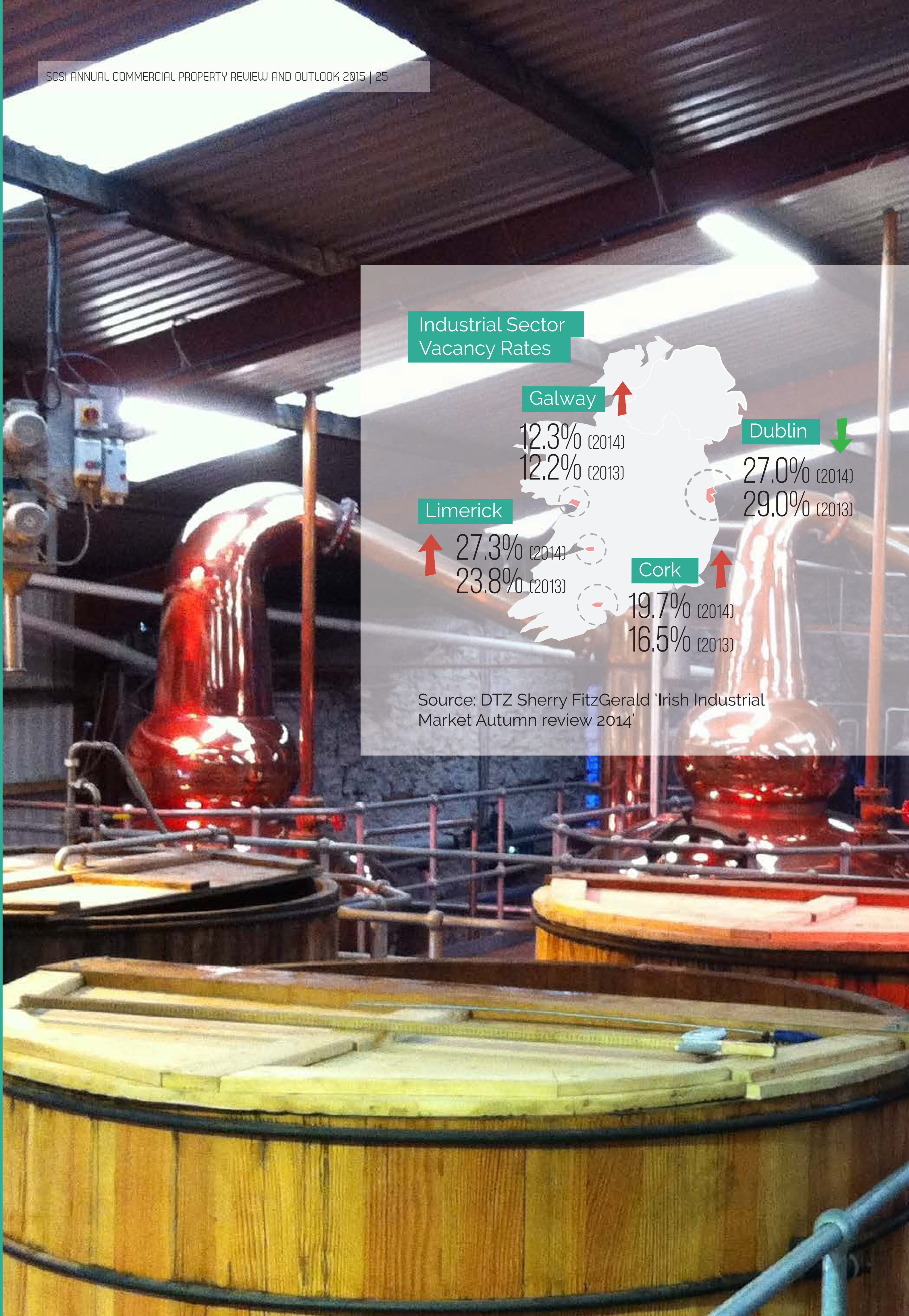
	DUBLIN				REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime Rents under $500m^2$	+34%	€82	€61	€61	0%	€36	€36	€32	-5%	€39	€41	€42	0%	€46	€46	€44
Prime Rents over $500m^2$	+42%	€74	€52	€56	0%	€29	€29	€25	-6%	€30	€32	€32	0%	€35	€35	€35
Secondary Rents under $500m^2$	+24%	€46	€37	€42	-7%	€25	€27	€23	0%	€24	€26	€26	-4%	€27	€28	€29
Secondary Rents over $500m^2$	+37%	€41	€30	€34	0%	€21	€21	€19	-5%	€20	€21	€20	0%	€22	€24	€24

Source: SCSI Survey of Members, Dec 2014.

INDUSTRIAL YIELDS

	DUBLIN				REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
Yields in Percentage (%)	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime Net Yields under $500m^2$	-1.1	7.9	9.0	9.4	-0.4	9.9	10.3	11.1	+0.1	10.7	10.6	10.7	-0.2	9.3	9.5	10.0
Prime Net Yields over $500m^2$	-1.2	7.8	9.0	9.6	-0.7	10.2	10.9	11.1	-0.3	11.1	11.4	11.1	-1	10.0	11.0	11.0
Secondary Net Yields under $500m^2$	-1	9.7	10.7	10.8	-0.6	11.3	11.9	12.4	-0.1	12.6	12.7	12.3	-0.5	10.5	11.0	11.0
Secondary Net Yields over $500m^2$	-1	10.0	11.0	11.4	-0.4	11.8	12.2	12.6	-0.1	12.7	12.8	12.3	-0.7	11.3	12.0	12.0

Source: SCSI Survey of Members, Dec 2014.



Source: DTZ Sherry FitzGerald 'Irish Industrial Market Autumn review 2014'

"Very few quality office tenants in the provincial market but no modern larger units for those that are. However, building these is high risk without tenants. In addition, provincial rents do not justify current building costs"

- Leinster SCSI member

7.85%

Average yield for Dublin Region industrial yields

58% of Dublin Region respondents anticipate that demand will surpass supply of prime units (over 500sqm).

Industrial Sector Yields

Nationally, yields for prime industrial units in 2014 were 9%, however it was in the Dublin Region that most activity within the sector occurred, as the improved economy reflected positively on the market and increased investment demand within the sector. Yields fell across all industrial unit types in Dublin, in response to the improved economic circumstances. Industrial net yields for prime Dublin units fell to 7.9% (-1.1%) for premises under 500sq.m. and 7.8% (-1.2%) for premises above 500sq.m. Nationally, all regions recorded net yields decreases, with the exception of prime yields (under 500sq.m.) in Munster.

"There is a lot of industrial availability in the Dublin Region at present. As a result, investors can presently purchase industrial units for less than their construction costs, signalling that the market is still substantially under-valued." **- SCSI Chair, Simon Stokes**

Industrial Sector Outlook 2015

"It is no surprise that 2014 saw a return in the market for zoned industrial land, a trend that will continue in 2015 as the gap between capital values and feasible development values shortens." - **Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman**

The SCSI members' survey highlighted the high level of supply that exists within the industrial sector and the low demand for these properties. A large proportion of SCSI members across all regions stated that they anticipate the supply of prime industrial units under 500sq.m. will be greater than demand in 12 months time. Dublin based members were most divided on this point, with 42% of respondents' anticipating an oversupply, and 37% anticipating an undersupply in this unit type. "Lack of development in recent years leading to a limited availability of good quality buildings" was reported by a Dublin based member as a key issue within the industrial market.

The majority of respondents in Leinster and Munster Regions anticipate an oversupply over the coming 12 months, signifying that they anticipate modest growth in industrial market in their regions over coming 12 months. Members in these regions reported concerns over ageing and outdated premises that may inhibit market growth further.

There was a high proportion of cash funded transactions recorded within sales however industry commentators expect this level to fall in 2015 as higher levels of financial lending returns to the market. Vacancy rates in Dublin were reported to be in the region of 29% in 2014, with Galway reported to have the lowest vacancy rate of all four principal cities nationally with a level of approximately 12% .

Aoife Brennan anticipates sales to slow slightly in 2015, as a result of the cessation of the CGT relief incentive at the end of 2014.

"Also, there are likely to be constraints in certain parts of the industrial market in 2015, particularly relating to larger buildings. As a result, design-and-build of bigger buildings will re-enter the market. However, any such deals will need to be done at higher economical levels rather than at prevailing market values." **- Aoife Brennan, Lisney Divisional Director Research**

Λ SUPPLY GREATER THAN DEMAND   > SUPPLY APPROXIMATELY EQUAL TO DEMAND   V SUPPLY LESS THAN DEMAND

	DUBLIN			REST OF LEINSTER			MUNSTER			CONNAUGHT / ULSTER		
	Λ	>	V	Λ	>	V	Λ	>	V	Λ	>	V
Prime Industrial under 500m	**42%**	21%	37%	**69%**	15%	15%	**80%**	10%	10%	**50%**	0%	**50%**
Prime Industrial over 500m	29%	13%	**58%**	**62%**	15%	23%	**60%**	0%	40%	**50%**	0%	**50%**
Secondary Industrial under 500m	**76%**	21%	3%	**79%**	7%	14%	**80%**	20%	0%	**50%**	0%	**50%**
Secondary Industrial over 500m	**76%**	21%	3%	**79%**	7%	14%	**70%**	10%	20%	**50%**	0%	**50%**

Source: SCSI Survey of Members, Dec 2014.

Development Land Sector

> "It has been calculated that the value of land sales within the Irish market for the first 3 quarters of 2014 is higher than the value of land sales completed in the five years between 2009 and 2013. This demonstrates the significant increase in land sales that have occurred over the last 12-18 months."
>
> - Dublin SCSI member

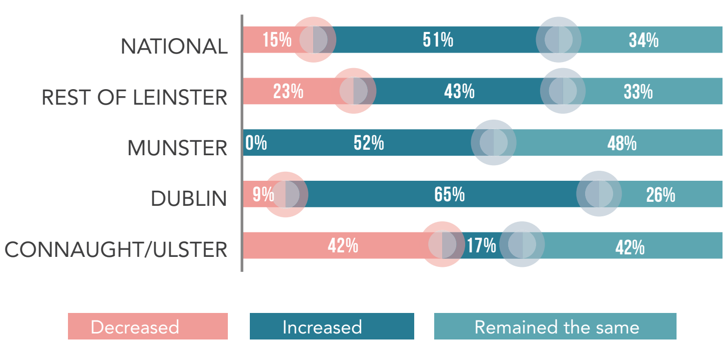
The majority of SCSI respondents reported an increase in the supply of development land on the commercial market in 2014, which is a direct result of the improved economy nationally and increasing land values.

There were a number of factors that directly impacted the provision of development land market in 2014, including the approval of the Docklands SDZ and the Cherrywood SDZ which will allow fast track planning on these prime sites, providing much needed commercial and residential supply. There were some notable announcements in 2014, including the acquisition by Hibernia REIT of a 0.75 acre freehold site at 1-6 Sir John Rogerson's Quay, Dublin 2 for €17.75m in an off-market transaction. The existing planning permission at this site includes 9,476sq.m. net lettable of offices and ca. 465sq.m. of retail space. The site adjoins another of Hibernia's acquired properties, including the Observatory Building, which together with Hibernia's Windmill Lane site and Hanover Building has ensured Hibernia ownership of a full riverside quadrant in the South Docks area, which fronts onto the river and adjoins Hibernia's recently acquired Observatory Building.

Regionally, SCSI members reported variations in development land supply, with 61% of Dublin Region based respondents citing an increase in supply. A number of Dublin based SCSI members stated that an increased number of sites became available in 2014 as a result of an improved confidence and the greater availability of finance, while others stated that more distressed sites appeared to be released onto the market in 2014 and there was a greater demand for such property than in previous years.

In contrast to the Dublin Region survey result, only 17% of Connaught/Ulster based respondents considered that there had been an increase in supply of development land in 2014. A Connaught/Ulster based SCSI member stated "Coming from a base of practically no supply, some sites have transacted in Galway over the past 12 months", while another Connaught/Ulster based respondent stated "planning has lapsed on over 800 potential units".

HAS THE SUPPLY OF DEVELOPMENT LAND ON THE MARKET INCREASED, DECREASED OR REMAINED THE SAME IN 2014



Nationally, the greatest value increase in development land was recorded in residential development land, which rose by 24.9%. Office development land values increased in all regions, with the exception of the Connaught/Ulster Region which reported a marginal decrease.

The most significant land value percentage change regionally was recorded in the Dublin Region, as members reported an increase of 31.9% in residential development land values, followed by an increase of 27% in office development land.

"It is no surprise that 2014 saw a return in the market for zoned industrial land, a trend that will continue in 2015 as the gap between capital values and feasible development values shortens." - **Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman**

Members in Connaught/Ulster recorded marginal change in land values in office, retail and industrial development land values, while there was a 4.1% increase in residential development land values. SCSI representative for the Western Region, Gerard O'Toole stated that there is generally a good stock of available development lands in the region, with demand unsurprisingly highest in Galway. The Western Region saw hedge funds starting to enter the market in provincial centres in 2014.

Leinster based members recorded the highest regional increases in both retail and industrial development land values with year on year increases of 16.2% and 11.5%.

Munster based members recorded value increases across all development land categories, with the most significant increases experienced in residential (+24.9% growth) and office development land (+10.3% growth).

"Zoned land is not being sold because of price falls and buyers are not prepared to build at present on any large scale as the cost of building does not equate in any way with sale prices."

- Leinster based SCSI member

CHANGE IN DEVELOPMENT LAND VALUES

	DUBLIN		REST OF LEINSTER		MUNSTER		CONNAUGHT / ULSTER	
Development Land Type	2015 (expected)	2014	2015 (expected)	2014	2015 (expected)	2014	2015 (expected)	2014
Residential Development Land	**17.5%**	31.9%	**16.6%**	24.2%	**14.5%**	24.2%	**12.3%**	4.1%
Office Development Land	**15.3%**	27.0%	**7.0%**	9.6%	**8.2%**	10.3%	**3.3%**	-1.5%
Retail Development Land	**9.8%**	12.4%	**7.8%**	16.2%	**4.7%**	5.9%	**2.2%**	-1.5%
Industrial Development Land	**6.8%**	7.4%	**8.8%**	11.5%	**3.1%**	4.3%	**5.5%**	-0.5%

Source: SCSI Survey of Members, Dec 2014.

Development Land Outlook for 2015

Nationally, SCSI members anticipate residential development lands to increase by 16%, with the highest residential land values increase of 17.5% anticipated in the Dublin Region. This figure is less than the 32% change in land values reported in 2014, but signifies that Dublin based members anticipate a continued strong performance in the Dublin office market. In Leinster, members anticipate residential land values to increase by 16.6%, while Munster and Connaught/Ulster members forecast value growth of 14.5% and 12.3% respectively. The Connaught/Ulster forecast represents a substantial increase in value on the 2014 value growth figure of 4%.

Office development land values were the second highest overall as SCSI members anticipate a 10% increase in values nationally in 2015. Regionally the figures varied as Dublin based members anticipate a 15.3% value increase in their region, a smaller growth than that reported in 2014. Connaught/Ulster members project a 3.3% increase in value which illustrates an anticipated turnaround in the market compared to 2014, which saw office land values declined in value. Members in Munster and Connaught/Ulster anticipated that values will increase in their regions at similar levels to 2014.

SCSI members anticipate that the greatest percentage value increase in the industrial development land sector is set to occur in the Leinster Region with an above national average increase of 8.8%. Michael Boyd SCSI South East Chair, expects activity in the development land sector to increase in 2015, especially in the Kilkenny area where demand is notably increasing, and consequently expects additional supply to follow. While there was negligible growth reported in land values in Connaught/Ulster Region in 2014, members anticipate a 7% rise signifying a positive growth in the industrial sector in 2015.

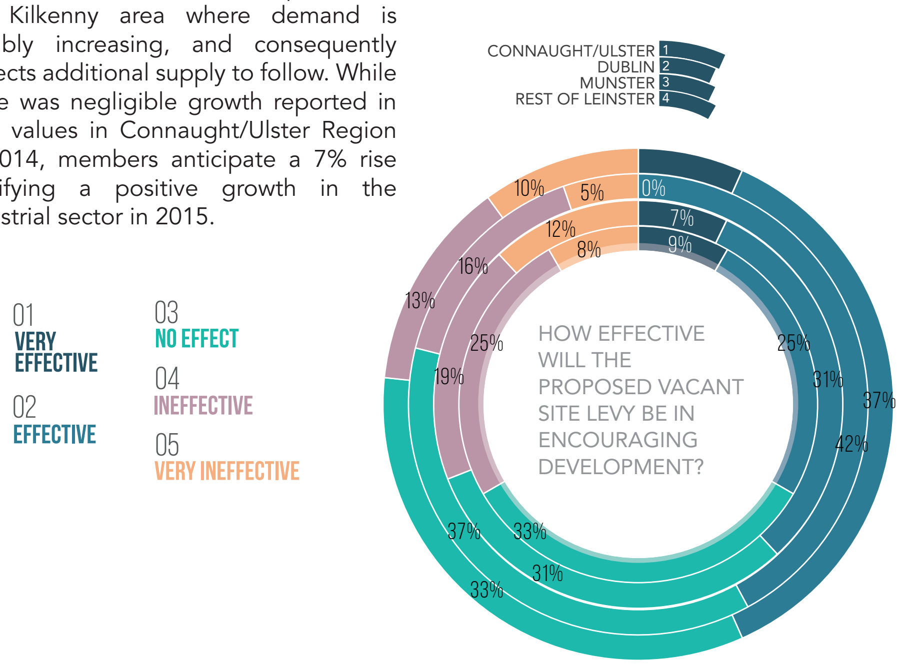
While the retail sector experienced a turnaround in 2014, members regionally anticipate more modest value growth in retail development land values with Dublin and Leinster regions forecasting growth in values of 9.8% and 7.8% respectively.

SCSI Chair, Simon Stokes stated "It was disappointing that Budget 2015 failed to incentivise the construction sector, particularly with regard to the construction of new property builds. I would welcome a reduction on VAT applied to construction in order to incentivise the industry somewhat. The Central Bank rules on mortgage lending will affect first time buyers' purchasing capacity and, therefore, they will also affect developers considering new schemes"

Vacant Site Levy

The Planning (No. 1) Bill 2014 incorporates the introduction of a vacant land levy, which legislators anticipate will encourage the development of lands nationally, allowing local authorities the power to impose an annual levy of 3% of the market value of the land if its owner does not take steps to develop the site.

As part of the SCSI nationwide survey, SCSI members were asked if they expect the new vacant site levy to encourage development of vacant lands or otherwise. Nationally 40% of all SCSI respondents believe that the vacant site levy will be effective in its intended objective, while 60% of respondents believe the forthcoming legislation will be ineffective.



"Some industry commentators stated that aspects of the planning system poses a limitation to prospective overseas investors as acquiring planning permission is viewed as a very lengthy process."

- Simon Stokes, SCSI Chair

In the Dublin Region, anecdotal evidence from the first 2 months of 2015 suggests a slower start to the year compared to Q4 2014, as less new stock has yet to come to the market. However, SCSI Chair Simon Stokes reports that there has been considerable investor interest in what development land is available and waits to see if developers are reluctant to proceed with construction until they see how the market reacts to the new Central Bank conditions.

Gerard O'Toole, SCSI Connaught/Ulster Chair Representative reports that in the better regional centres there has been some speculative purchasing of development land which will offer medium to long term development potential, however frequently these are distressed sales, which offered exceptional value, and in many instances values are 10% of their peak values. Edward Carey, SCSI Representative for the North Eastern Region reports a high level of interest in residential property at the lower end of the price scale from investors, with interest strong throughout the regional towns, and notably in some smaller towns.

Licensed Premises and Hotels Sector: Pubs, Hotels & Restaurants

The licensed premises and hospitality sector has seen marked changes over recent years, having weathered several difficult years since the economic crash, and was consequently one of the most significantly impacted sectors of the economic recession.

"The licensed premises sectors continues to be challenged, however there were fewer pub closures in 2014 than in previous years."

- Edward Carey, SCSI North Eastern Region Chair

"Tourism growth in towns has positively impacted trade."

- Leinster SCSI member

Licensed Premises Sector

As widely reported, the pub sector has struggled nationally over the past number of years, with factors including changing consumer practices, economic factors, a reduction in disposable income levels, legislative changes and a decline in tourism numbers attributed to the decline in the sector. These factors have resulted in the closure and sale of many licensed premises nationally. However, with continued economic and employment growth, a 9% increase in overseas tourists in 2014, improved consumer sentiment and spending, the positive growth has started to reflect favourably on the hospitality sector.

Regionally, the licensed premises sector saw significant variations, with location proving a key factor. Dublin and Leinster regions experienced the most significant improvements in values.

In Dublin, members reported an increase in capital values across all categories of pubs, with the category 'prime pubs located in principal towns' recording the most significant capital value gains over the last 12 months, with a percentage value increase of 9.3%. Members cited various reasons for the upturn in the Dublin Region market in 2014, including increasing consumer confidence and a growth in international investment. SCSI Chair, Simon Stokes said there was a noticeable resurgence of interest in the Dublin pub sector, with sales increasing in 2014 by 130% when compared with 2013. However, this growth comes from a low base and Regional pub sales remain challenging.

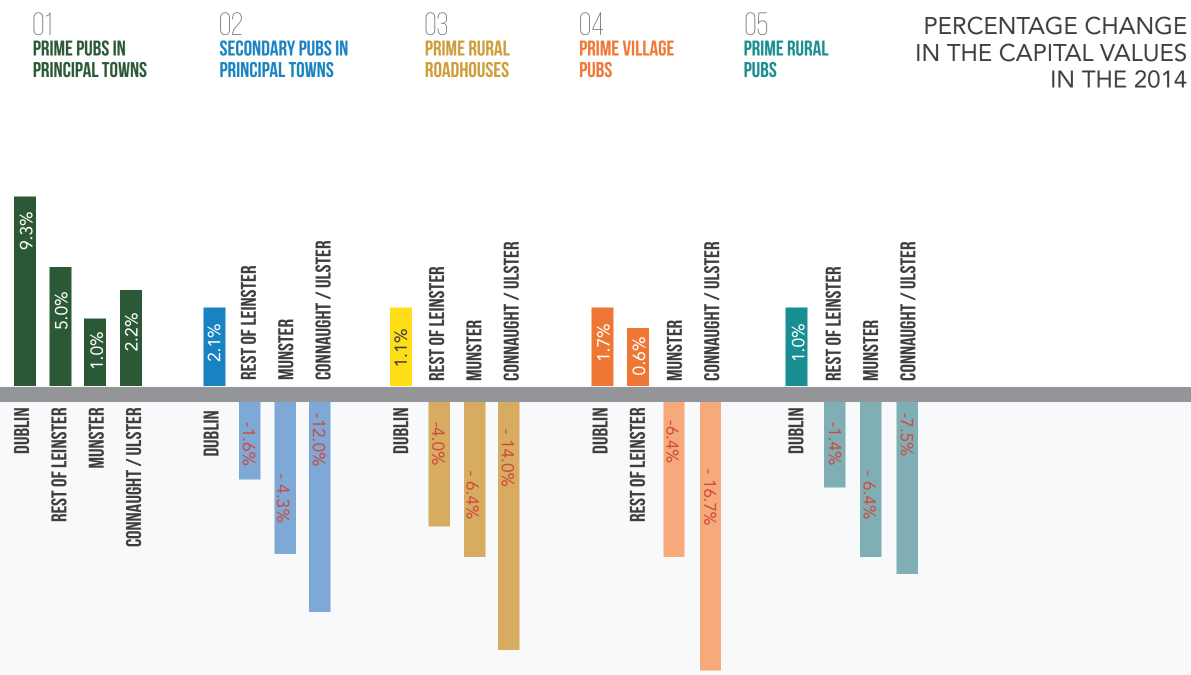
SCSI members in the Leinster Region recorded the most substantial improvement in capital value in all categories, with the category 'prime pubs located in principal towns' recording a 5% capital value increase. This signifies an overall change of 18.3% on 2013 levels.

SCSI members in the Leinster Region recorded both marginal increases and marginal decreases in 2014, with location playing a key role in percentage value changes. Improved employment levels, tourism and a growth in consumer sentiment were cited by members as reasons for the improved performance, however one Leinster SCSI member stated that a "huge availability of receiver owned premises are flooding the market", and stating that many pub sales are completed off-market to avoid impression that trade in the specific premises is poor.

Connaught/Ulster Region based SCSI members reported a very low level of pub sales in 2014, with many of those on the market reported as non-consensual sales. The Connaught/Ulster Region recorded the most significant decline in capital values of all regions, with negligible improvement reported compared to 2013 levels. Although the regional prime pubs in principal towns recorded 2.2% capital value growth (signifying a 10.5% increase on 2013), all other pub categories in more suburban and rural areas recorded continued negative capital value changes.

Many survey respondents cited restrictive spending capacity, the stronger rural influence of the region combined with limited public transport and limited job growth in the region outside of the main urban centre as the main influencing factors to the continuing under performance of the region's pub trade. Many of the pub sales reported by SCSI members, were stressed sales.

"The licensed premises sector has been decimated...and values will continue to remain under pressure" adding "remaining licence holders recognise the challenges of the sector and have had to adapt their business models to cater for where the demand is, with food becoming an increasingly important component of the licensed sector, with few license holders unable to trade solely on wet sales. The sector has been particularly difficult in rural locations which are not within close proximity to population centres." **- SCSI representative for the Western Region, Gerard O'Toole**



LICENSED PREMISES % CHANGE IN CAPITAL VALUES AT YEAR END

	DUBLIN				REST OF LEINSTER				MUNSTER				CONNAUGHT / ULSTER			
	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012	CHANGE 13/14	2014	2013	2012
Prime Pubs in Principal Towns	+15.9	+9.3	-6.6	-10.2	+18.3	+5.0	-13.3	-19.6	+11.5	+1.0	-10.5	-18.3	+10.5	+2.2	-8.3	-16.7
Secondary Pubs in Principal Towns	+12.4	+2.1	-10.3	-12.1	+13.4	-1.6	-15.0	-24.0	+17.9	-4.3	-13.6	-20.0	-2	-12.0	-10.0	-21.7
Prime Rural Roadhouses	+8.6	+1.1	-7.5	-15.0	+11	-4.0	-15.0	-28.6	+20.3	-6.4	-13.9	-18.3	+1	-14.0	-15.0	-20.0
Prime Village Pubs	+7	+1.7	-5.3	-10.4	+16.9	+0.6	-16.3	-25.0	+20.1	-6.4	-13.7	-21.0	-0.7	-16.7	-16.0	-29.0
Prime Rural Pubs	+8.2	+1.0	-7.2	-15.8	+17.7	-1.4	-16.3	-25.0	+21.4	-6.4	-15.0	-20.0	+1.3	-7.5	-8.8	-23.0
Hotels	+7.3	+12.8	+5.5	+0.5	+23.8	+1.3	-22.5	-25.2	+15.2	+3.3	-11.9	-20.0	+7.5	-5.0	-12.5	-36.3
Restaurants	+3.2	+4.6	+1.4	-0.5	+24.1	+2.5	-21.6	-23.0	+15.5	-2.5	-13.0	-20.0	+3.6	-4.0	-7.6	-28.3

Source: SCSI Survey of Members, Dec 2014.

SCSI members in Munster recorded negative capital value changes however the change in values were an improvement on 2013, with premises in principal towns showing the most improvement with a 1% increase in capital values, having experienced value reduction of 10.3% in 2013.

Munster SCSI members cited factors such as improved consumer confidence, an upturn in tourism and changing customer demand patterns as influencing factors, however one Munster based SCSI member cited "lack of public spending power and low levels of discretionary spend" as rationale for the continuing decline in many pub trades.

Hotels & Restaurants Sector

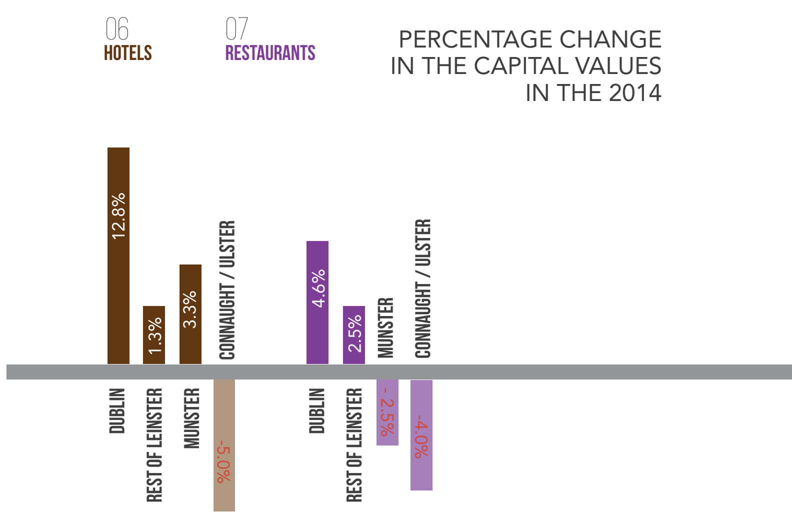
There was a notable improvement in the hotels and restaurants sector in 2014, with both sectors recording positive trends in 2014, compared to twelve months previously.

"The recovery of international economies, particularly those of the US and the UK combined with the weakness of the euro and initiatives such as the Gathering and the Wild Atlantic Way have contributed significantly to growth in the tourism sector and driving the demand for hotel accommodation in Ireland." **-Eamonn Maguire, SCSI Commercial Agency Professional Group Chairman**

The hotel sector in the Dublin Region demonstrated the most significant growth in capital values of 12.8% while the restaurant sector recorded a 4.6% value increase. These figures represent a year-on-year increase of 7.3% and 3.2% improvement on 2013 levels. In January 2014, Kennedy Wilson Europe acquired debt secured on the prime located Shelbourne Hotel, Dublin 2 reported to have been in the region of €111m. Peter Collins, Managing Director of Kennedy Wilson Europe reported "Hotels in the city are doing well with high occupancy in city centre hotels, but there is a shortage in higher-end hotels. The hotel sector has been positively impacted by the pick-up in tourism, while the direct flights into Ireland have made a big impact, particularly Aer Lingus direct flights to and from the US".

The hotel sector in both Munster and Leinster regions recorded low single digit capital value growth of 3.3% and 1.3% growth respectively. However these figures represent significant improvements on 2013 in which value reduction was recorded.

SCSI North Eastern Region Representative, Edward Carey stated "The hotels sector varied throughout the region with family run premises finding it harder to complete against the larger investor financed hotels. A notable 2014 sale was that of the Moyvalley Hotel in Co. Kildare."



The Connaught/Ulster Region recorded a value reduction in both the hotel and restaurant sectors of -5% and -4% respectively. However both changes are an improvement on the 2013 value changes.

"there were five to ten notable hotel sales in the region in 2014, with properties being bought by groups with very good management structures, purchasing assets at a fraction of the build cost...such properties represent excellent long term value. Future values will be underpinned by the operating performance".
- Gerard O'Toole SCSI Western Region Representative

Licensed Premises & Hotels Sector: Outlook 2015

The outlook for 2015 varies regionally with the Dublin and Leinster regions set to continue to experience growth. The restaurant sector is anticipated to perform well as the economy improves and consumer confidence and spending increases. The arrival of larger international pub investors to the Irish market, such as JD Weatherspoons is expected to increase in 2015. The hotel sector is anticipated to continue performing positively, with a positive take up in the tourism industry in Dublin City. Gerard O'Toole expects the pub sector in the western region to continue to struggle with continued poor demand, low access to finance, resulting in below cost sale transactions for licensed premises. However he anticipates the sector to commence stabilising towards the end of 2015 into 2016 as the Irish economy continues to grow and with it, employment and discretionary consumer spending.

Edward Carey anticipates hotels in the northeast region to continue on a somewhat divided nature, as family run hotels find it increasingly difficult to compete with NAMA held hotel properties. The anticipated increase in tourism nationally is also expected to reflect positively on related values in the pub, restaurant and hotels sectors.

"The profile of investors regionally is very different to those in Dublin"

- SCSI Western Region

"Larger investors will remain within the large provincial towns"

- SCSI Western Region

About this research

This report has been informed and guided by the views, perceptions and opinions of Chartered Surveyors (members of the Society of Chartered Surveyors Ireland) and a number of leading experts in the property industry.

An online survey was conducted amongst relevant members to determine average sales prices, expectations of price changes and supply/demand issues. 412 responses to the survey were received across the four SCSI regions.

Future Analytics Consulting (FAC) conducted in-depth interviews with SCSI Chairs to ascertain their views on the opportunities and challenges in the property market. In addition, FAC conducted in-depth interviews with leading industry experts to establish their views on the opportunities and challenges in the property market.

FAC is a leading planning, research and economic consultancy based in Dublin. FAC advocate an evidence-based approach to projects, and specialise in data analysis.

For more information contact:

Conor O'Donovan
Director of Policy & Communications
Society of Chartered Surveyors Ireland
T: +353 (0)1 644 5500
E: codonovan@scsi.ie
www.scsi.ie

Stephen M. Purcell
Director
Future Analytics Consulting
T: +353 (0)1 639 4836
E: stephen.purcell@futureanalytics.ie
www.futureanalytics.ie

Dating back to 1895, the Society of Chartered Surveyors Ireland (SCSI) is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in partnership with the Royal Institute of Chartered Surveyors (RICS), the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the SCSI and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the world's leading qualification when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of property professionalism.

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from education through to qualification and the continuing maintenance of the highest professional standards are regulated and overseen through the partnership of the SCSI and RICS, in the public interest.

This valuable partnership with RICS enables access to a worldwide network of research, experience and advice.

SOCIETY OF CHARTERED SURVEYORS IRELAND

RICS the mark of property professionalism worldwide

Future Analytics Consulting (FAC) is a dynamic SME specialising in strategic spatial planning, research and economic development.

FAC advocates an 'evidence based' ethos, where enhanced decision-making is facilitated through the identification, collection, collation, analysis and visualisation of a broad range of spatial and socio-economic data.

As such, the Company provides credible and robust evidence-based planning and development solutions to inform the formulation of planning policy, strategy, operational plans and development proposals.

With a keen interest in innovation and creativity, FAC also prides itself on a strong awareness of emerging best practice in relation to data analysis and research methodologies, balanced with a comprehensive understanding of their relationship with social and economic development activities.

FutureAnalytics
Planning + Research + Economics

NOTE This report was prepared by Future Analytics Consulting on behalf of the Society of Chartered Surveyors Ireland. Whilst every effort has been made to ensure the accuracy of the information contained in this publication, Future Analytics Consulting and the Society of Chartered Surveyors Ireland do not accept liability of any kind in respect of, or arising out of, the information, or any error therein, or the reliance any person may place therein.

ANNUAL COMMERCIAL PROPERTY REVIEW & OUTLOOK

THE 2015 REPORT