Investment Market Review and Outlook

Ireland, February 2013

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Introduction

Introduction

As the Irish economy enters what is expected to be it's third consecutive year of growth, there is a greater sense of renewed confidence than in 2012, which was in itself a turning point. The flexible nature of the Irish economy has allowed for a considerable adjustment in competitiveness which in turn has allowed Ireland to remain a key location for international investment, from US multi-nationals in particular. Exports have and will continue to lead economic activity - with the value of exports exceeding €92 billion in 2012, the highest level in a decade.

Private equity investors were best positioned to purchase the prime commercial property assets that came to the market in early 2012. Lack of prime stock had been a key factor in the 24 months prior and the momentum created by key transactions that closed quickly in the first half of 2012 led to a considerable increase in prime stock on offer and transacting by year end and this will continue in 2013.

Institutional investors will be more active as 2013 progresses with an appetite for larger lot sizes in particular. Office assets will continue to attract the most interest from a wide range of investor types and across all lot sizes. US investors are expected to continue to be very active in the Irish market as are private Irish investors. European and other international investors are expected to increase their interest in larger lot sizes.

A continued increase in economic activity, which is expected to widen gradually into the consumer component of domestic demand, coupled with positive recognition from financial markets that Ireland is very well positioned for continued recovery, will provide a solid base for investors to make decisions in 2013. These factors will also provide a clearer platform for banks and receivers to offer more prime properties for sale. Turnover of €576m in 2012 is expected to be exceeded this year, reaching €1 billion. Prices achieved in 2013 will be stronger than those in 2012 and we expect evidence of this to emerge by mid-year as current stock on the market is expected to be quickly absorbed. Prime office assets, such as those located in Dublin's docklands and Dublin 2 & 4 locations will remain in high demand which will lead the supply of assets expected to come to the market. A greater supply of retail transactions is expected in 2013, led by prime high street assets where occupancy rates remain high.

Investors looking at Ireland can now see evidence that the domestic risks are greatly reduced compared to this time last year. The government has made considerable progress in relation to the public finances which has been highlighted by the recent agreement with the ECB for the longer term re-financing of debt incurred from the re-capitalisation of the banking sector. EU/IMF deficit reduction targets are on-track and financial market reaction to developments in Ireland over the last twelve months and in recent weeks in particular have been very positive, with 10 year bond yields below 3.7%.

Transactions in 2012 offer a good indication as to where prime yields are and the depth of investor demand is expected to become more evident as 2013 progresses. Overall, the Irish commercial property market is positioned to have a very strong year in 2013, with increased competition from well-researched investors who recognise value.

Key Points

- 2012 was beginning of new cycle for investment market
- Total investment market turnover in 2012 reached €576m
- €560m (97%) was transacted in the Dublin market
- 5 office transactions made up 48% of the value of turnover
- 75% of turnover by value was in the office sector
- 31% of turnover by value was for lot sizes > €50m
- 40% of spend was by US investors
- 30% was by private Irish investors
- Demand to continue and widen from base seen in 2012
- Irish institutions to return to the market
- Supply of prime assets to increase
- Multi-family sales set to remain a feature of the Irish investment market
- Prime office yields to harden as floor becomes evident for prices
- Loan sales to becoming an increasing feature of the market
- REITs, allowed for in the Budget 2013, to improve liquidity
- Dublin office occupier market conditions are positive – supported by no completions and consistent demand for Grade A and good Grade B space
- Prime retail yields to be tested by larger lot sizes
- Retail occupancy rates remain strong for prime locations
- Dublin's prime shopping streets – Grafton Street and Henry Street remain effectively fully occupied – with a small number of units trading but available
- Turnover expected to reach €1 billion in 2013

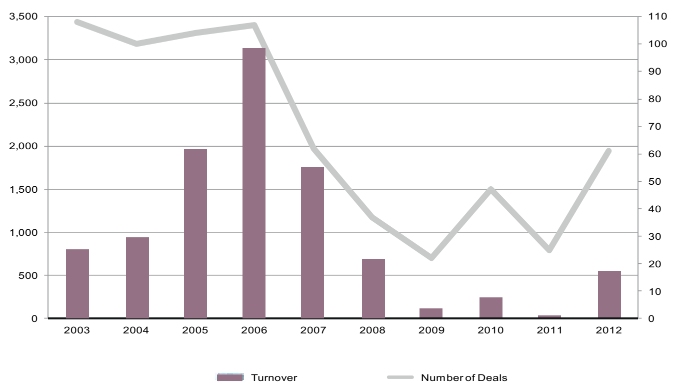
Irish Investment Market - Review of 2012

Investment Market

2012 marked the beginning of a new cycle in the Irish investment market. 2011 was the low point as measured by the value and volume of turnover. Market participants entered 2012 with renewed confidence following the government's structural package for the commercial property sector in Budget 2012, which eliminated the possibility of legislation in relation to commercial rent reviews and which also boosted the sector with reduced stamp duty levels and capital gains tax relief for investors who acquire property in 2012 and 2013 and hold the assets for seven years.

These measures coupled with a return to growth in the economy and international recognition of the implementation of austerity measures added to international investor confidence and combined with an increase in the supply of prime assets put on the market, created an active market after a period of stagnation. As 2012 progressed, the level of turnover increased ending the year at just over €576m for the country as a whole. A further €240m of deals are agreed and are expected to be completed by the end of the first quarter.

Investment Market Turnover

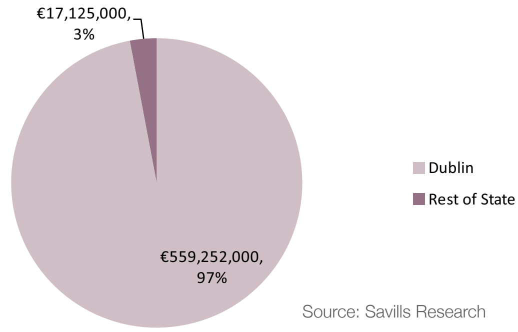


Source: Savills Research

Locational Demand

Analysing turnover by location to track investor appetite, of the €576 million transacted in 2012, 97% of this was accounted for in the Dublin investment market. Analysis based on the volume of transactions shows that of the 61 deals nationwide 82% occurred in Dublin. It is therefore quite clear that both supply and investor demand is focused on the capital. This is a trend that can be seen throughout Europe as investors look to core markets within different countries.

Investment Market Turnover (% value & value in millions) 2012 - by location



Source: Savills Research

Sectoral Demand

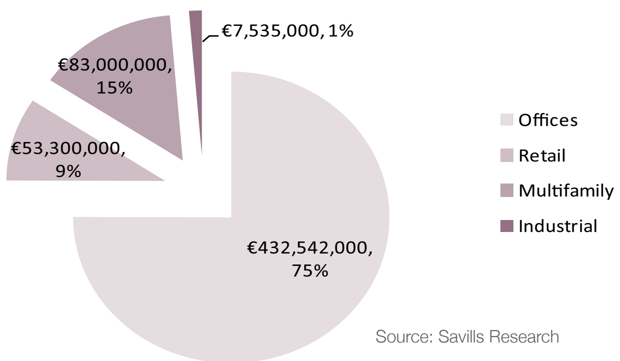
Office investment was the sector of choice for investors in 2012. This sector was solely dominated by the Dublin market.

The sale of office assets contributed 75% to the investment market turnover. Five office transactions made up 48% of the total annual turnover. Three of those five sales were in Dublin 2, one in Dublin 4 and the fifth was in a very high quality suburban office development.

The retail sector made up a disproportionately low amount of overall turnover in 2012, €53m or only 9% of turnover. Three retail transactions made up under €20m of total turnover - the sale of an Aldi unit in Sandyford and a unit on each of Dublin's prime shopping streets - Henry Street and Grafton Street.

Turnover in this sector was hampered by subdued, though improving, retail spending but most importantly a lack of supply of large scale quality retail assets. The industrial sector remains very weak contributing less than 1% to annual turnover in 2012.

Investment Market Turnover (% value and value in millions) 2012, Dublin by sector



Source: Savills Research

Irish Investment Market - Review of 2012

Investor Demand

Investors who had been researching the Irish market in 2010 and 2011 became active in 2012 when prime opportunities came to the market.

Of the €576 million of assets for sale in 2012 over a €10 million lot size, €440 million worth of deals closed, and a further €126 million were in legals by the end of 2012 hence we can conclude that the demand was competitive to drive price to levels acceptable to vendors.

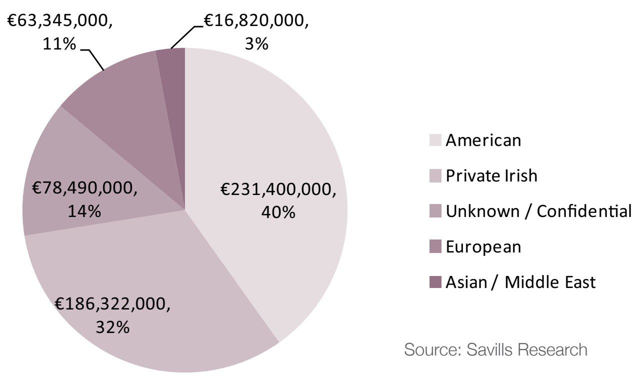
Most of the competitive demand was evidenced in the prime sectors of the office and multi-family market, and in lot sizes of €20 million plus. Demand is as strong at the €100 million lot size level with the quality of the asset being the determining factor rather than the value of the transaction.

Demand was driven mainly by the private equity sector for lot sizes over €10 million and by the domestic private sector under €10 million.

Though there was some increased evidence of activity among the domestic and international core investors towards the end of 2012, the private equity investor dominated. However we see the balance shifting slightly in 2013.

The private equity investor, though driven by IRR performance, was interestingly prepared to purchase assets with cash and backfill with debt post acquisition. This positively influenced timescales to complete transaction and reduced execution risk.

Investors by country of origin, % share and value of share in millions, 2012



Source: Savills Research

Lot Size

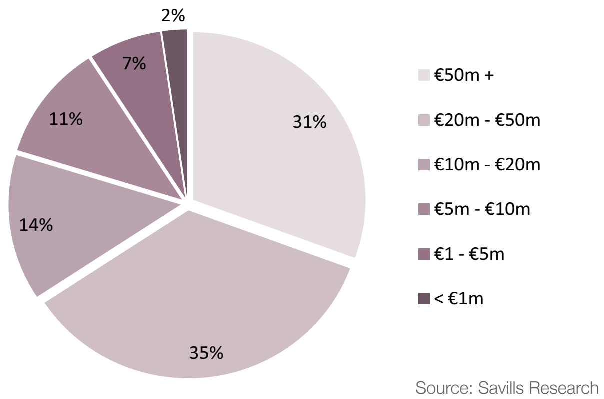
Larger lot sizes, which came to the market in the second half of the year, attracted the interest of private equity investors. There were two transactions in the €50 million plus lot size category, making up 31% of turnover. One was purchased by a US investor, the other by private Irish investors. Both properties sold in the second half of the year.

There were seven transactions completed in the €20-€50m lot size category, three by US investors, two by private Irish investors, one by a German investor and one was a sale & leaseback. These seven transactions made up 35% of the value of turnover.

The remaining 41 transactions were for lot sizes of less than €20m, fourteen were above €5m, but less than €20m, while 27 were for lot sizes of less than €5m.

American investors bought five of the top ten properties transacted, with one in particular, Kennedy Wilson purchasing three of the highest value transactions (office building let to State Street Bank and two multi-family investments). Most of the transactions below €5m were by private Irish investors and completed on a confidential basis. Transactions between lot sizes of €5m and up to €20m were completed by a wider base of investors, including American, Israeli, European and private Irish.

Breakdown of investment market turnover by lot size, (% value), 2012



Source: Savills Research

Irish Investment Market - Review of 2012

Supply

The level of stock that came to the market increased significantly throughout 2012. Transactional evidence in Q1 and Q2 gave some price transparency to vendors, and support that there was a market for them to sell into. Larger lot sizes were put on the market as the year progressed and confidence returned.

The supply of new stock to the market has been driven by the domestic and non-domestic banks either through consensually agreed borrower disposals or through receivership sales. In 2012 the non-Irish Banks were the most active, led by Lloyds and RBS. Institutional investors disposed of €117.5 million of stock equivalent to 20% of total turnover.

A new feature in terms of market supply has been multi-family investment blocks. The sale of this type of asset had not been a feature of the Irish investment market before 2012.

Two muliti-family blocks sold for strong prices in 2012 – the Alliance building in Dublin 4, for €40 million and Sandyford Lodge for €27 million. Both properties were purchased by Kennedy Wilson.

The supply side in 2012 was dominated by primarily quality stock as the secondary market continued to weaken.

Yields, Capital Returns & Rental Values

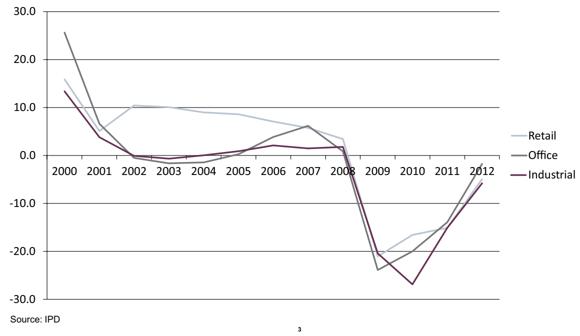
2012 provided some evidence that prime office yields are stabilising and we expect to see some tightening of yields as deals are completed in 2013. This, we expect, will put a floor on prices for these assets throughout 2013.

Two office deals which closed in the second quarter of 2012 (the sale of One Warrington Place and of Riverside II), achieved income yields close to 7.4% and 8.6% respectively. The sale of 78 St John Rogerson's Quay, a prime office block, which is occupied by State Street Bank, achieved a yield of 7.1% in the fourth quarter.

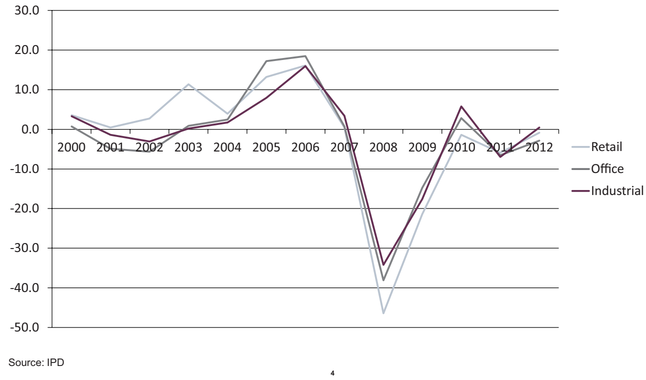
The IPD is the leading authority on property market performance in Ireland. IPD Q3 2012 data show that Irish property is expected to make a positive return of +4.8% after four consecutive years of total annual negative returns.

Total Returns on Irish Commercial Property by sector (Compounded quarterly, %)

Rental Value Growth (%) by sector, 1997-2012



Yield Shift (%) by sector, 1995-2012



Notable Investment Transactions

Property	Sector	Price Achieved	Income Yield	Selling Agent	Vendor	Purchaser
78 Sir John Rogersons Quay, Dublin 2	Office	€105,000,000+	7.12%	Savills	Grant Thornton	Kennedy Wilson
AIB Bank Centre, Ballsbridge, Dublin 4	Office	€70,500,000	9.60%	JLL	Aviva	Davy Target Investments Plc
The Alliance, Barrow Street, Dublin 4	Multi-family	€40,000,000	6.25%	Savills	Grant Thornton	Kennedy Wilson
Riverside 2, Sir John Rogersons Quay, Dublin 2	Office	€35,500,000	8.62%	Knight Frank	Riverside II Syndicate	AM Alpha
United Drug, Citywest, Dublin 24	Office	€29,900,000	N/A	Lisney	Private Irish	United Drug
One Warrington Place, Dublin 2	Office	€27,400,000	7.42%	Lisney / HTMOR	D2 Private	Northwood Investors
Sandford Lodge, Ranelagh, Dublin 6	Multi-family	€27,000,000	5.80%	Savills	KPMG	Kennedy Wilson
St Martins House, Waterloo Road, Dublin 4	Mixed Use - Office	€22,500,000	13.64%	Savills	Friends First	Davy Target Investments Plc
Blocks C1-C5 Spencer Dock North Wall Quay Dublin 1	Office	€20,000,000	8.38%	Lisney	CIE	Davy Target Investments Plc

Notable Investment Transactions

78 Sir John Rogerson's Quay

Location:	Sir John Rogerson's Quay, Dublin 2
Sector:	Office
Sale Date:	Q4 / 2012
Sale Price:	Sold for excess €105 million
Initial Yield:	7.12% (inc. site)
Term Certain:	c. 7 years
Size:	16,226 sq.m, 140 car spaces & 1.24 ha. site
Vendor / Agent:	Grant Thornton / Savills
Purchaser / Advisor:	Kennedy Wilson / Unadvised

Eight storey Grade A office building constructed over two levels of basement car parking. Entire is let to State Street International (Ireland) Limited on a 25 year lease from 7th Aug 2009 with break options in years 10 & 20. Upward only rent reviews, and CPI rental increase, currently producing a rent of €7,818,715 per annum.

AIB Bank Centre

Location:	Ballsbridge, Dublin 4
Sector:	Office
Sale Date:	Q3 / 2012
Sale Price:	€70.5 million
Initial Yield:	9.6%
Term Certain:	c. 14 years
Size:	15,117 sq. m. & 175 car spaces
Vendor / Agent:	Aviva / JLL
Purchaser / Advisor:	Davy Target Investment Fund Plc. / Unadvised

Four interlinking five storey office blocks currently let to Wallkav Limited guaranteed by Allied Irish Bank Plc. on a 20 year FRI lease from 25 May 2006 producing a rent of €7,076,040 per annum.

The Alliance

Location:	The Gasworks, Dublin 4
Sector:	Multifamily
Sale Date:	Q2 / 2012
Sale Price:	€40 million
Initial Yield:	6.25%
Term Certain:	Annual residential tenancies
Size:	210 apartments & 230 car spaces
Vendor / Agent:	Grant Thornton / Savills
Purchaser / Advisor:	Kennedy Wilson / Unadvised

Nine storey residential block comprising 210 apartments. Virtually 100% occupied on short term residential tenancy agreements, typically for a fixed 12 month period producing a gross rent of €3,257,850 per annum.

Notable Investment Transactions

Riverside II

Location:	Sir John Rogerson's Quay, Dublin 2
Sector:	Office
Sale Date:	Q2 / 2012
Sale Price:	€35.5 million
Initial Yield:	8.62%
Term Certain:	c. 7 years (WAULT)
Size:	6,784 sq m sq.m, 70 car spaces
Vendor / Agent:	Syndicate / Knight Frank
Purchaser / Advisor:	AM Alpha / Savills

Seven storey over basement Grade A office property completed in 2006. Currently let to BNY Mellon and Beauchamps Solicitors on 21 & 20 year leases from January & March 2006 respectively.

One Warrington Place

Location:	Dublin 2
Sector:	Office
Sale Date:	Q2 / 2012
Sale Price:	€27 million
Initial Yield:	7.42%
Term Certain:	c. 8 years
Size:	5,212.1 sq.m & 31 car spaces
Vendor / Agent:	D2 Private / HTMOR & Lisney
Purchaser / Advisor:	Northwood Investors / Unadvised

Six storey over basement Grade A office building let to Bord Gais on a 20 year lease from 1st June 2010. Break option at the end of year 10 producing a rent of € 2,123,856 per annum.
Note: NAMA Staple finance availed of.

Sandford Lodge

Location:	Ranelagh, Dublin 6
Sector:	Multi-family
Sale Date:	Q4 / 2012
Sale Price:	€27 million
Initial Yield:	5.8%
Term Certain:	Annual residential tenancies
Size:	119 residential units, 372 sq.m period office & 130 basement spaces
Vendor / Agent:	KPMG / Savills
Purchaser / Advisor:	Kennedy Wilson / DTZ

Prime residential scheme comprising 119 units including 115 luxury apartments, 4 semi-detached coach houses, a gate lodge and a two storey period office building let to National Adult Literacy Agency on a 9 year 11 month FRI lease from 3rd Sept 2007. Currently producing an overall rent of €2.1million per annum.

Notable Investment Transactions

St Martins House

Location: Waterloo Road, Dublin 4
Sector: Office
Sale Date: Q4 / 2012
Sale Price: €22.5 million
Initial Yield: 13.64%
Term Certain: c. 7 years (WAULT)
Size: 75,674 sq.m, 156 car spaces
Vendor / Agent: Friends First / Savills
Purchaser / Advisor: Davy Target Investment Fund Plc. / Unadvised

Five storey office building over ground floor retail including a large 2 tier car park with development potential. The property is fully let with tenants including Commissioners of Public Works Ireland and National Roads Authority currently producing a rent of €3,205,401 per annum.

Blocks C1-C5 Spencer Dock

Location: North Wall Quay, Dublin 1
Sector: Q4 / 2012
Sale Price: €20 million
Initial Yield: 8.38%
Term Certain: c. 16 years
Size: 31,331 sq.m, 143 car spaces
Vendor / Agent: CIE / Lisney
Purchaser / Advisor: Davy Target Investment Fund Plc. / Unadvised

Minority interest (17.5%) of modern high specification 8 storey over lower ground floor level office buildings let to PWC, ABN AMRO and Ecclesiastical Insurance Office Plc. currently producing a rent of €1,750,000 per annum based off a 17.5% freehold interest.

Loan Sales

Loan sales became an active component of the market in 2012. €651m was spent on the three large loan purchases, which had an original combined book value of €1.489 billion. The largest loan sale was completed at a discount of 90% - the sale by Lloyds of a portfolio of assets, with an original loan value of €2.2 billion. A continuing requirement to deleverage will see more loan sales in 2013.

Top Loan Portfolio Sales in 2012

Name	Vendor	Purchaser	No. of Assets	Loan Price	Price Paid	Haircut
Project Pittlane	Lloyds	Apollo / Centrebridge & Carval	550 properties	€2.2 billion	€220million	90%
Project Kildare	AIB	Lonestar	400 properties	€650 million	€260 million	60%
GE Loan Sale	GE Money	Pepper Home Loans Ltd	3,500 homes	€479million	€330million	31%
Project Prince	Lloyds	Kennedy Wilson	90 properties	€360million	€61million	83%

Occupier Markets

Offices

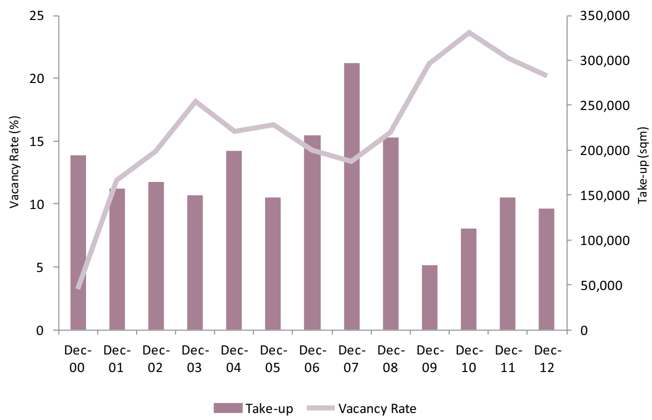
The office occupier market adjusted rapidly to the global economic slowdown. 2009 was the low point of the cycle in terms of annual take-up. The market has recovered considerably with quarterly take-up levels in the final quarter of 2012 the highest since 2008.

Rental levels have adjusted 60% since the peak of the market in 2007, when they reached €650 per sq m/per annum. There were deals signed in 2012 at rental levels close to €295 per sq m/per annum, but there was also space let at closer to €310 per sqm/per annum indicating that the bottom of the rental cycle has been reached. Gradual upward pressure on prime rents will continue in 2013.

Occupier preference for space in prime central Dublin locations has always been a feature of the market, but it has become more significant since 2009/2010 as rental levels adjusted. This trend will continue in 2013 and 2014 and will add some momentum to the upward pressure expected on prime rents.

44% of the total space taken-up in the Dublin office market in 2012 was located in Dublin 2 and 4 combined. Another 25% was located in Dublin 1,3,7 & 8 while 3% was located in the IFSC, the latter reflecting the low amount of space available at the IFSC rather than a lack of demand in this central location. The dominance of demand for space in prime locations will continue to be a key trend in 2013 but options, particularly for larger premises, are becoming limited.

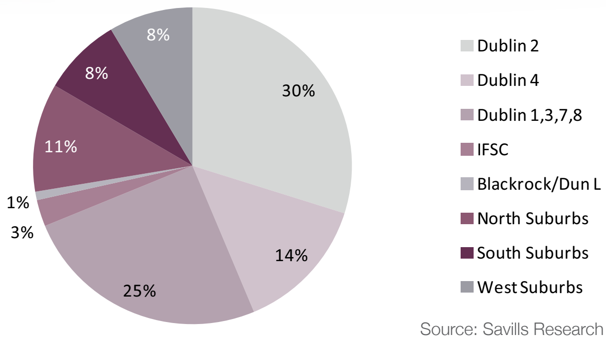
Dublin office market – Take-up and vacancy 2000-2012



Source: Savills Research

Downward pressure on vacancy rates is, and will continue to be, another key trend in activity in the Dublin office market. Vacancy peaked in 2010 at just over approx. 23.6% - with the sharp increase between 2008 and 2010 largely attributable to the rapid slowdown in letting activity for that period. 2010-2012 has seen a considerable recovery in take-up levels, with annual take-up in 2012 at almost 50% of that achieved at the peak of the market in 2007.

Dublin Office Market Breakdown of take up by location, 2012



Source: Savills Research

A steady demand for space, coupled with a continuing dry pipeline of new office space will continue to reduce the overall vacancy rate. The quality of vacant stock is expected to continue to decline at a faster rate than the vacancy rate itself as older and less well located space is vacated. The overall Dublin office vacancy rate ended 2012 at 20.2%, considerably lower than the 23.6% recorded at the end of 2010.

Vacancy rates in the prime locations are much lower – this is particularly pronounced for Grade A space. Dublin 2 and the IFSC have Grade A vacancy rates of less than 5% while Dublin 4 and the Dublin 1,3, 7 & 8 locations are less than 10%. Tenants in many larger size categories are already finding the options open to them for Grade A space, disappointing. This trend is expected to continue throughout 2013.

The impact of no new completions, steady demand and falling vacancy rates is that upward pressure on rents, which has already emerged, will gather some pace as the year progresses. The market will be very selective however with the real positive impact of rental growth evident in buildings that are more clearly prime. Rental levels for Grade A buildings could reach €375 per sq m during the year.

The outlook for 2013 is for demand to remain strong for prime Grade A space and for well-located space of Grade B standard but we expect it to be a frustrating year for tenants who will find their options limited. Well located and well fitted Grade C space is also becoming more attractive to tenants where cost remains a key factor.

Deals in the pipeline indicate that demand for space in Q1 2013 will remain on par with that of the final quarter of 2012. Take-up for 2013 is expected to range between 135,000-150,000 sq m.

Outlook 2013 Offices

- Demand to remain strong for Grade A office space and well located Grade B
- No new completions, steady demand and falling vacancy rates will put some upward pressure on prime rents
- Overall vacancy rate will continue to decline
- Vacancy rates in prime locations will fall at a faster pace, Grade A in particular
- Grade A vacancy rate in Dublin 2 and below 5%
- Office market to continue to lead investor interest

Retail

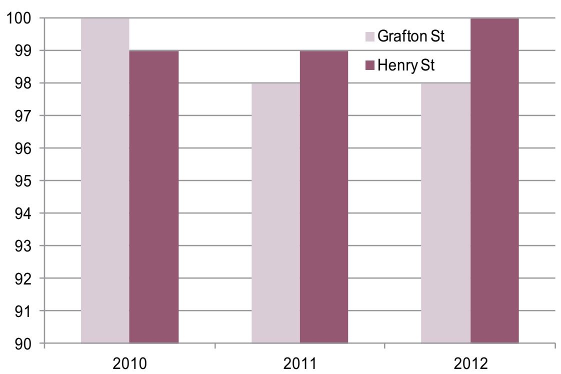
The prospects for strong retailers to outperform retails sales indices or for prime schemes and locations to deliver real sales growth in 2013 are supported by continued improvement in the economy and the expected boost to consumer confidence as a result of recent positive developments re government re-financing.

While 2012 was a challenging year for retailers, as can be seen in the retail sales indicies, it did mark a very noted slowdown in the decline of sales and saw like for like annual sales growth in three of the last six months of the year. Christmas 2012 was also positive for many retailers, with growth in like for like annual sales.

The outlook for retail sales remains challenging for 2013 as pressure on disposable incomes is set to make shoppers continue to focus on value. The first signs of recovery will be seen in the prime city high street and the full offer Regional Shopping Centres which are all displaying more positive trading indicators.

The impact of this volatile retail sales environment has been the continued slowdown in new international retailers entering the Irish market. Activity was led in 2012 by domestic retailers expanding in the value brand category. While this is expected to continue in 2013 there will be some notable exceptions, particularly in the prime markets, as key international retailers seek to avail of the re-adjusted rental values and some key opportunities being freed up through corporate failures.

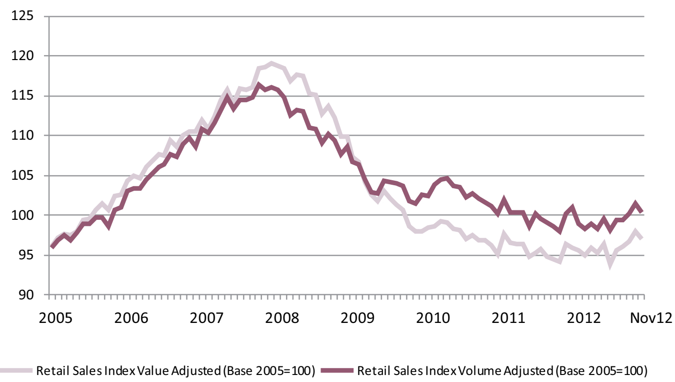
Prime Dublin Streets Occupancy Rates (%), Grafton St & Henry St



The Irish economy is focused on the countries eastern counties and the Dublin metropolitan area along with the key urban centres of Cork, Limerick and Galway. We believe that retail sales in these markets are outperforming the national averages and are beginning to see signs of stabilisation and recovery. Furthermore there is opportunity for prime locations within these markets to see real tenant interest and hence some rental recovery.

Retail Sales Index Value and Volume

Source: Savills Research



Source: CSO

The retail sector in Ireland remains heavily over rented. On-going tenant failures and restructurings, following on from retailers such as HMV, La Senza and Atlantic Homecare, will crystallise these rental reductions in many locations and schemes.

Retail occupancy levels remain high in Ireland despite the difficult trading environment and the increase in on-going tenant failures. This is reflected in virtual full occupancy on Dublin's main trading streets of Grafton Street and Henry Street along with the capital's main shopping malls.

This visual full occupancy does mask the fact that a significant percentage of stores are occupied but available through sublease or by landlord agreement. This underlying availability is the most significant issue in tempering rental growth prospects.

While this trend will continue, we foresee some localised competitive tenant bidding, particularly in the "super-prime" locations, and for larger size category stores, particularly those over 500 sq.m.

The outlook for prime space, both high street and shopping centre, remains relatively positive. The outlook for secondary space remains much more challenging and is location and tenant specific.

Outlook 2013 Retail

> Retail sales are showing an improvement compared to this time last year
> Prime locations will continue to dominate – Dublin's Grafton Street and Henry Street to remain effectively fully occupied
> Prime shopping centres are also set to remain fully occupied
> The number of units trading but available will increase also – although from a low base
> Occupier demand will remain driven by domestic and value brands in 2013 as was the case in 2012 although we do predict some high profile international activity particularly in core Dublin city and prime mall markets

Occupier Markets

Multi-Family

Until recently the private rented investment sector has been driven by individual buy to let investors. As a consequence, ownership has been highly fragmented with very few residential blocks and / or portfolios made available.

The multi-family investment market is a relatively new phenomenon in an Irish context with 2012 seeing the release of the first large block sales. On mainland Europe and in the United States where multi-family investment is a mature asset class, funds have developed large single blocks which generate management efficiencies and provide a wide range of high quality accommodation and facilities for tenants. This has become a transparent market in which buildings are regularly developed and traded, with income return the deciding factor.

There is now a unique opportunity for investors to build residential platforms with income producing, unbroken blocks of a scale that has never traded in the Irish market. Economic conditions since the downturn have resulted in the availability of blocks of schemes that cannot be absorbed through individual sales in a low volume market within acceptable time frames. Consequently banks/receivers are electing to sell in bulk to the growing number of domestic and international funds targeting the sector.

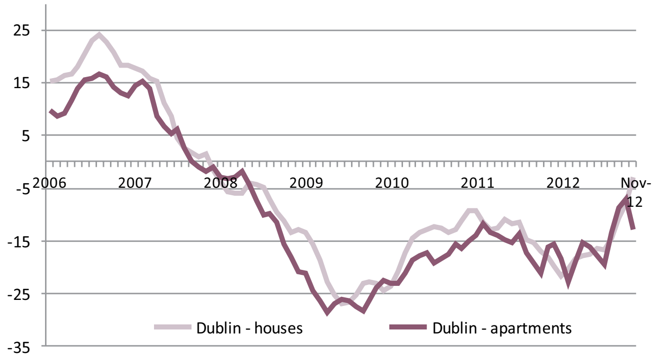
It is a market sector driven by strong growth expectations on the capital and rental side. Market values for residential stock, while still falling, are declining at a much slower pace than a year ago and if looked at in detail on a monthly basis, there have been some increases in prices – in particular for Dublin housing stock. Apartment prices remain considerably more volatile, but the correction in prices for this category of stock has been very sharp. Dublin apartment prices have fallen by 62% from the peak of the market and the pace of decline has dipped below 10% in two months (September and October 2012), while taking an unexpected drop of 13% on an annual basis in November.

Nevertheless, the absolute drop in apartment prices over the 2006-2012 period implies a very strong correction in prices which is being recognised by investors. In the current market, even allowing for continued further declines in apartment prices (at a slower pace), the capital values remain very attractive in terms of achieving medium to longer term returns in a market where rental levels, particularly for prime residential lettings have stabilised and are increasing in some cases.

With a population that is at its highest level in 150 years (2011 Census) combined with completion levels for new residential stock at a historical low and sales activity across all areas of the housing market also at historically low levels, the multi-family sector offers potentially high returns, driven largely in the short-term by rental growth, to be followed by capital growth from a low base.

An interesting factor in this sector is that growth on the rental side was driven by demand at the same time as potential further weakness on the capital side. However, for prime locations the capital side is now bottoming out.

Dublin House & Apartment Prices
Annual % change



Source: CSO

Savills disposed of the first high profile multifamily investment opportunity, the Alliance, Barrow Street in Q1 2012. Acquired by Kennedy Wilson, the 210 unit scheme achieved a price of €40m equating to a gross yield of 7.5% and a net yield of 6.25%. This has become the benchmark for transactions to follow.

Investor demand is diverse, from major international multi-family specialist to domestic high net worth investors. As a sector it offers interesting defensive qualities, the rental market will remain strong until the mortgage market and domestic demand for apartments improves, which then provides a break up opportunity for investors when the latter recovers. However as the market continues to mature we see a number of these blocks trading to institutional investors, and multifamily investments becoming a permanent feature of the investment landscape.

Well managed, well located schemes are achieving annual equivalent occupancy rates of 92% to 97%. At the latter this is in effect considered to be full occupancy. These occupancy levels are strong even in an international context and driven by demand which augers well for further rental growth.

Holding the sector back at the moment is a lack of tradable stock. Only 391 units in three schemes over €5m lot size traded in 2012. However the outlook for 2013 is positive and we can envisage 1,000 to 2,000 units being traded. Ideal lot sizes are €10m to €60m.

As the end user demand continues to shift from homeownership towards private rented accommodation, there is a strong business case for exploring the multi-family model of housing development for the long term, a model that is commonplace in much of the rest of the developed world.

Outlook 2013 Multi-family

> Demand to remain strong, driven primarily by international interest
> Increase in supply of stock likely
> Prime stock and value add opportunity to be investors main Focus
> Demand for secondary locations to remain weak

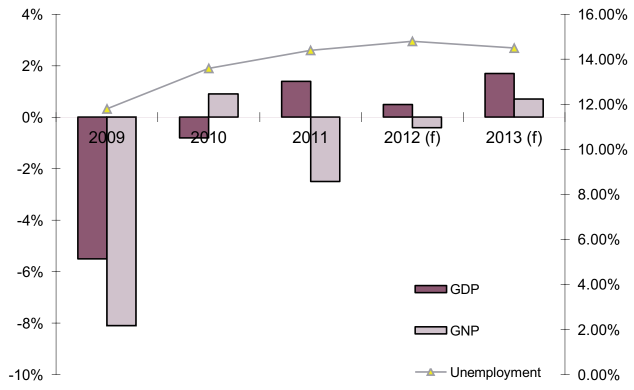
Economic Outlook 2013

2012 has been the second consecutive year of positive economic growth, putting Ireland ahead of most its euro-zone counterparts. As expected in a small open economy, the return to growth has been and will continue to be driven by the export sector. The adjustment in the cost base since 2008 and the subsequent increase in competiveness are underpinning the performance of the export sector.

The reduction in the cost base since 2008 and the subsequent increase in competiveness are underpinning the performance of the export sector. Tentative signs that domestic demand is starting to make a positive contribution emerged in quarter three of last year and expectations are that despite the constraints of the government's austerity measures, economic growth will become more broadly based between 2013 and 2015.

Looking at the components of domestic demand, consumer spending has been under pressure since 2008/2009, with real consumption declining by an estimated 1.3% in 2012. However the pace of decline in consumption has eased. While confidence is expected to improve in 2013, there is still expected to be a modest decline in real consumer spending (-0.4%) with some upside potential (+0.2%)* in 2014, driven by an expected improvement in labour market conditions and some modest upside in wages in particular.

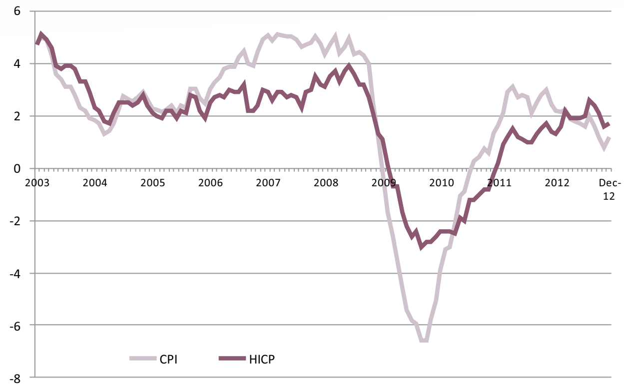
Irish Economic Growth and Trend in Unemployment



Source: Central Bank, Dept of Finance, CSO

Investment in the economy showed cumulative decline of 56% between 2007-2011 but 2012 is expected to have shown the first increase in investment in fixed capital since before 2007. The contribution from the

Inflation – Consumer Price Inflation (CPI) & Harmonised Index of Consumer Prices (HICP)



Source: CSO

building and construction sector remains negative with the improvement coming from investment in machinery and equipment (which increased by 10% up to end Q3 2013). Overall the severe correction in the investment in the domestic economy is over and is expected to level off in 2013 and improve gradually from 2014.

Consumption by government declined by over 4% last year, which is to be expected given the tough budget targets that the government is on track to meet. Government spending is not expected to make a positive contribution to growth in 2013-2015.

The export sector remains key to recovery and data for 2012 show that the value of exports was the highest in a decade at €92 billion. Export demand from the US was the strongest, making 20% of the total. UK and Belgium each accounted for 15% while exports to Germany made up 8%.

* Central Bank Quarterly Bulletin, January 2013

GDP growth – actual outturn is expected to be close to 1% in 2012 - is then expected to increase to 1.5% this year and to above 2% in 2014 and 2015. While these forecasts have been revised down, compared to where expectations were a year ago, they remain strong given euro-zone performance. Unemployment remains high, at close to 14%, but it is expected to ease in 2013-2015 period.

Key factors supporting the recovery are the 12.5% corporation tax rate, which adds to the attractiveness of Ireland as a base for US multi-nationals, the government's commitment to addressing the public finances and an educated, flexible workforce along with the increase in competitiveness.

Foreign Direct Investment (FDI) is a key driver of Ireland's economic recovery and supports the export sectors. The IDA (Ireland's Industrial Development Authority) has been successful in maintaining Ireland's position as a key location for multi-nationals. In 2012, just over 12,700 jobs were created via FDI, 145 individual investments were made, 40% of which were by companies who were not located in Ireland before 2012.

Economic Outlook - 2013

Consumer price inflation (CPI) averaged 1.7% in 2012, compared to 2.6% in 2011. There was some upward pressure on prices at the beginning of 2012, driven by higher energy prices and a 2% VAT increase. Inflationary pressure for the remainder of 2012 was largely from external energy prices. The impact of higher mortgage interest rates was less in 2012, having had a considerable impact on CPI in 2011. HICP removes the impact of mortgage interest and as such this measure edged higher than CPI in the second half of 2012, largely as a result of global energy prices.

Overall the inflationary environment remains relatively benign, with external factors putting the most pressure on prices. The expectation is that inflation will range between 1-1.5% for both measures in 2013, which should allow for some increase in incomes throughout 2013 and into 2014.

Consumer sentiment improved considerably throughout 2012. There was a sense that the worst was over. However, in December sentiment and expectations about the future, dropped considerably. This can largely be attributed to the fact that Budget 2013 was announced in early December and there were considerable measures which will have a negative impact on disposable incomes and therefore sentiment going forward.

These measures include the introduction of a property tax on all home owners, PRSI changes which will increase taxation on rental and other sources of income and confirmation that other indirect taxation measures, such as water charges, will be introduced in the short term. The sharp change in sentiment is expected to improve in the early months of 2013 as consumers adjust, but it could take some time for the levels to improve to those felt in mid 2012.

The General Government Deficit (GGD) is expected to have been -13.4% of GDP in 2012 and lower when the impact of banking related payments are excluded (-9.1% of GDP). Current government forecasts are that Ireland will reach its target of reducing the deficit to less than 8% of GDP in 2013.

Progress on the public finances has been recognised in financial markets with the government returning to the Treasury Bill market in July 2012 where 80% of the bills were purchased by international investors. €4.2 billion of long term bonds were also sold in July 2012, at a rate just below 6%. Demand was dominated by overseas investors. Irish bond rates ended the year at just below 5% for 9 year bonds and below 1% for 2 year bonds.

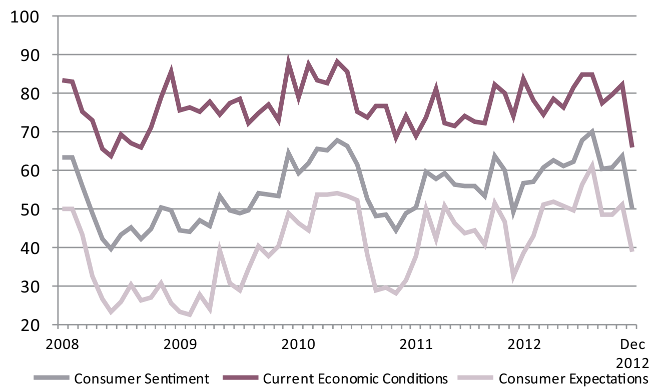
In summary a continued recovery in the Irish economy remains dependent on the external environment. Challenges remain with forecasted growth rates at risk from any unexpected weakness in the performance of US, UK and other international trading partners.

On the domestic front, the risks of unexpected shocks are less than in the last 24 months with key challenges set to maintain and enhance the competitiveness gains of recent years and to ensure continued success in attracting FDI. To date the Irish economy has proved flexible in terms of its ability to adjust to rapidly changing external factors and this does bode well for continued progress in 2013.

Outlook 2013

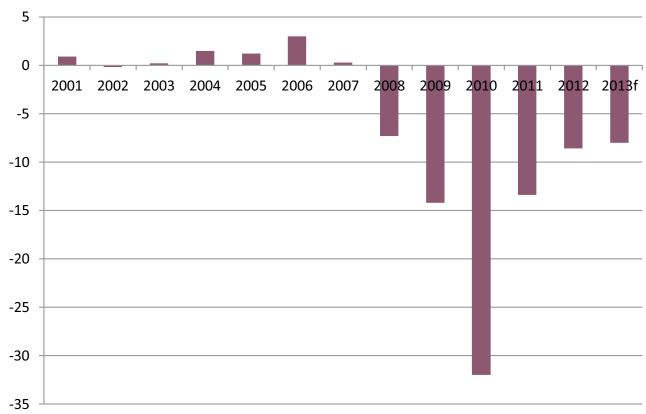
- > Economy to see third year of positive GDP growth in 2013
- > Driven by export demand - €92 billion exported in 2012
- > Domestic demand to start to make a contribution to growth
- > Low inflationary environment, giving some room for improved incomes
- > Government to remain on track in reducing the deficit in line with EU/IMF Programme
- > Continued financial market confidence, 10 year bond yields below 5%

Consumer Sentiment & Expectations



Source: KBC/ESRI indices

General Government Balance as % of GDP



Source: Department of Finance, December 2012

Investment Market Outlook

We start 2013 with approximately €240 million of investment property sale agreed and in legals compared to approximately €50 million this time last year. With a further €200 million of stock currently available for sale we forecast the momentum witnessed in Q3 and Q4 last year will continue into this year culminating in market turnover reaching and possibly exceeding €1 billion.

The strong prices achieved on prime assets disposed of in 2012 has put a floor on values and as a result is giving comfort to vendors that there is both a market to sell into as well as a benchmark upon which to value. This comfort and re appraising of current exposures will lead to a greater supply of stock over the coming years as banks and institutions carefully manage their deleveraging process. With this increase in supply, the yield gap between prime and secondary will continue to widen as yields harden for prime office and retail while secondary assets and those in provincial locations will continue to soften.

We believe there will be active interest in the sub €5 million market as private investors seek to take advantage of the capital gains tax exemption that applies to property acquired by the end of 2013 and that are held for a minimum of seven years.

While legislation allowing for the establishment of REITs will be introduced in the 2013 Finance Act we do not envisage it having a significant impact on the commercial and residential investment market in 2013. Going forward we do believe individual REIT's of €300-€500 million could be established, thus increasing investor participation at consumer level.

Demand

Demand is expected to gather pace this year as the level of interest in prime office and retail assets will continue unabated. The prices achieved on assets disposed of in 2012 coupled with the calibre of purchasers and known under bidders is enticing fresh capital into the market which will only serve to create further competitive tension and with it capital appreciation.

Demand will remain strong for larger lot sizes, with long secure income in the office, retail and residential sectors. Given the constraints in supply of €50 million plus long income office investments we will see an increasing focus on short income office investments both grade A or those offering refurbishment / redevelopment opportunities three to four years out as investors seek to capitalise on the anticipated recovery in the office rental market.

Retail demand will be very much covenant driven given the level of "over rentedness" that exists in this sector and the increased occurrences of examinerships and administrations witnessed of late with named brands and multiples aggressively seeking to rebase their rental obligations. While private equity investors dominated the market in 2012 we believe 2013 will see some shift in balance as more institutional / core buyers will re-emerge for prime assets.

US purchasers and private Irish investors dominated investor demand in 2012, the latter being most active in the smaller lot sizes. Irish institutions which have not been active on the acquisition front for a number of years are expected to be active this year across all lot sizes. Lot sizes between €20-€50million are expected to attract the most interest.

Demand Category	Category of Investment Spend
Private/Opportunity Equity	€20m - €100m plus
Core Institutional	Up to €50m
Domestic High Net Worth	Re-emerging up to €40m
Private Investors (local & international)	€1-15m
Domestic Private Irish	Up to €5m

Source: Savills Research

Supply

We expect the prime driver of supply to continue to be led by the banking sector. Whilst Institutional vendors accounted for €117.5 million of sales last year as they sought to rebalance their portfolios we see them being neutral this year as they focus more on acquisitions.

A continuing requirement by banks to deleverage will see more loan portfolio and asset sales this year. 2012 was dominated by prime quality stock, a trend we forecast will continue this year. 2013 will also see an increase in secondary assets coming to market as banks accelerate their deleveraging process coupled with a break up of loan books that have been acquired to date thus putting pressure on values.

Supply is likely to be focused on where demand is greatest namely Dublin offices and prime multifamily investments. While retail activity was limited last year we forecast a greater supply of high street retail investments this year with a number of shopping centres and retail warehouse parks also likely to come to the market.

Outlook 2013

- > Turnover expected to reach €1 billion
- > Demand to continue and to widen from base seen in 2012
- > Irish institutions to return to the market
- > Demand for larger lot sizes expected to remain strong and increase
- > Supply of prime assets to increase
- > Multi-family sales set to remain a feature of the Irish investment market
- > Prime yields to compress with secondary continuing to drift
- > Loan sales to become an increasing feature of the market

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Domhnaill is a Director of Savills Ireland and has over 16 year's experience in the commercial property industry in Ireland and the UK with a background in institutional valuations, consulting, agency and in recent years major investment sales and acquisitions. He has both a national and international focus and works closely with our cross border investment teams. Domhnaill's expertise in the commercial property market has seen him involved in some of the largest investment transactions in Ireland and the UK for many years including 78 Sir John Rogersons Quay in Dublin Docklands, Finsbury Dials in London City and Peacocks SC in Woking.

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Fergus is a Director of Savills Ireland and a 20 year veteran of the commercial property industry specialising in Irish and international investment advice and transactions. He provides strategic investment advice to private clients and syndicates, property companies, institutional investors, banks and receivers. Through his experience in sales and acquisitions he has developed a working knowledge of legal, technical and taxation issues involved in investment property transactions. Fergus has been involved in some of the largest investment transactions in Ireland for many years including Riverside 2 in Dublin Docklands, The Alliance in Dublin, The Park at Carrickmines and Opera Avenue in Cork.

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