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Property Breakfast Briefing

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Welcome

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New Ireland : New Market



Introduction

The Sherry FitzGerald business in brief:

- To give a context of what is actually happening

How do we seize the upside of a downside?

- By having a 10 point plan for a functional property market supporting a competitive economy

Our business in brief

- **Dublin second hand residential**
- 2010 – 800 houses closed
- Average price €470,000 – 50% of our properties bought by first time buyers
- Instruction to closing: time reduced from 220 days 2 years ago, to 150 days
- 50 houses over €1 million
- 13 houses over €2 million
- Sherry FitzGerald 20% market share
- Would suggest 4,000 second hand properties sold in Dublin in 2010
- 250 houses over €1 million
- 65 houses over €2 million

Our business in brief

- **DTZ Sherry FitzGerald**
- 2010 profitable year
- Domestic Investment market - quiet
- Irish owned International investment market – active
- Changing retail mix in shopping centres and retail parks
- Very busy with tenant representation in the office and retail markets
- Acted for Facebook
- Retained by LinkedIn
- Moved Yahoo!
- Secured Marks & Spencer for the re-developed Douglas shopping centre in Cork (22,500 sq. ft) Opened in November 2010
- Landmark Tesco 110,000 sq. ft. opened in Monread Road, Naas
- First Skechers Store opened in Ireland – Henry Street, Dublin
- Successful national disposal of the First Active branch network

Our business in brief

- Employed 203 people 31st December 2009
- Employed 202 people 31st December 2010
- 43 people left us during the year
- 42 people joined us during the year
- CV's welcome !!
- Turnover up 6% on 2009

Seizing the Upside of a Downside – 10 point plan

- 1. Clear national policy that ensures the property market always remains compatible with a competitive economy**
 - Not exactly to be enshrined in our constitution
 - The policy to be owned by consecutive Governments à la our Inward Investment Policy

Seizing the Upside of a Downside – 10 point plan

2. A new Government – A new way of understanding and managing the property market.

- Government should appoint its own independent property advisor.
- Ministers in a new Government are likely to be acutely conscious of their collective responsibility
- Open to change. The Cabinet and Cabinet Sub-Committee need to change the way they do business
- The fundamental question – the role of the Cabinet. National responsibility. Matters for decision. Matters for debate in terms of shaping policy.

Seizing the Upside of a Downside – 10 point plan

3. A new protocol for property / property industry to restore civic and political confidence

- The challenge is what do you need to do to achieve this
- Support competition in politics and engage with all Parties
- Property Ombudsman – not just estate agency regulation, and block management regulation
- Educate the public – You are the market!
- RTE research showed 20% of consumers would hide defects in their own houses if selling !!
- NAMA backed residential development selling in phases – growing demand due to value; Do prices rise with next selling phase?
- Conflicts of interest for estate agents, politicians, etc – face them up front

Seizing the Upside of a Downside – 10 point plan

4. The role of tax in the market

- Good news - Residential stamp duty
- Commercial stamp duty still high
- Tax reliefs (if there are any) should be firmly tied to the resolution of market failure – be appropriately targeted and tightly managed
- Development land tax should be strategic rather than populist

Seizing the Upside of a Downside – 10 point plan

5. Information on the commercial and residential property markets needs to be widely available, used, understood. More research not less research

- Sherry FitzGerald Dublin House Index 2004 16.6%
- Sherry FitzGerald Dublin House Index 2005 23.3%
- 486 houses achieved in excess of €1 million at auction in Dublin in 2005 -v- 185 in 2003

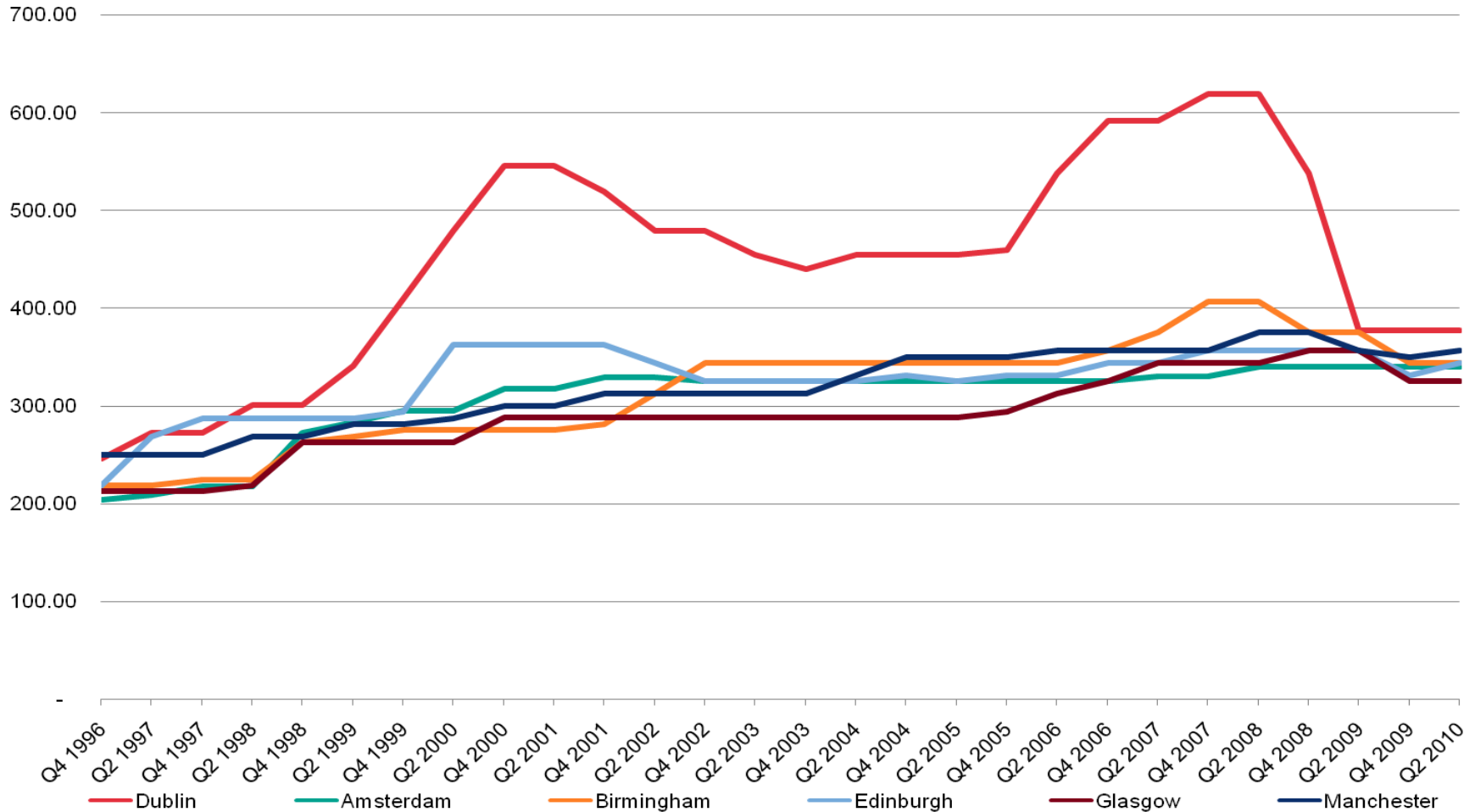
“Any rise in interest rates however small, may begin to impact the comfort zone in which consumers operate and as such will temper a purchaser’s desire to go the extra mile or €1,000 for property” *Jan 06*

- MyHome.ie 7,800 properties available January 2005
- MyHome.ie 6,800 properties available January 2006 i.e. **-12%**
- MyHome.ie 8,700 properties available October 2005
- MyHome.ie 14,500 properties available October 2006 i.e. **+67%**

Rents for office space in Dublin and selected other cities, 1996-2010

Rents for Office Space in Dublin and Selected Other Cities 1996-2010

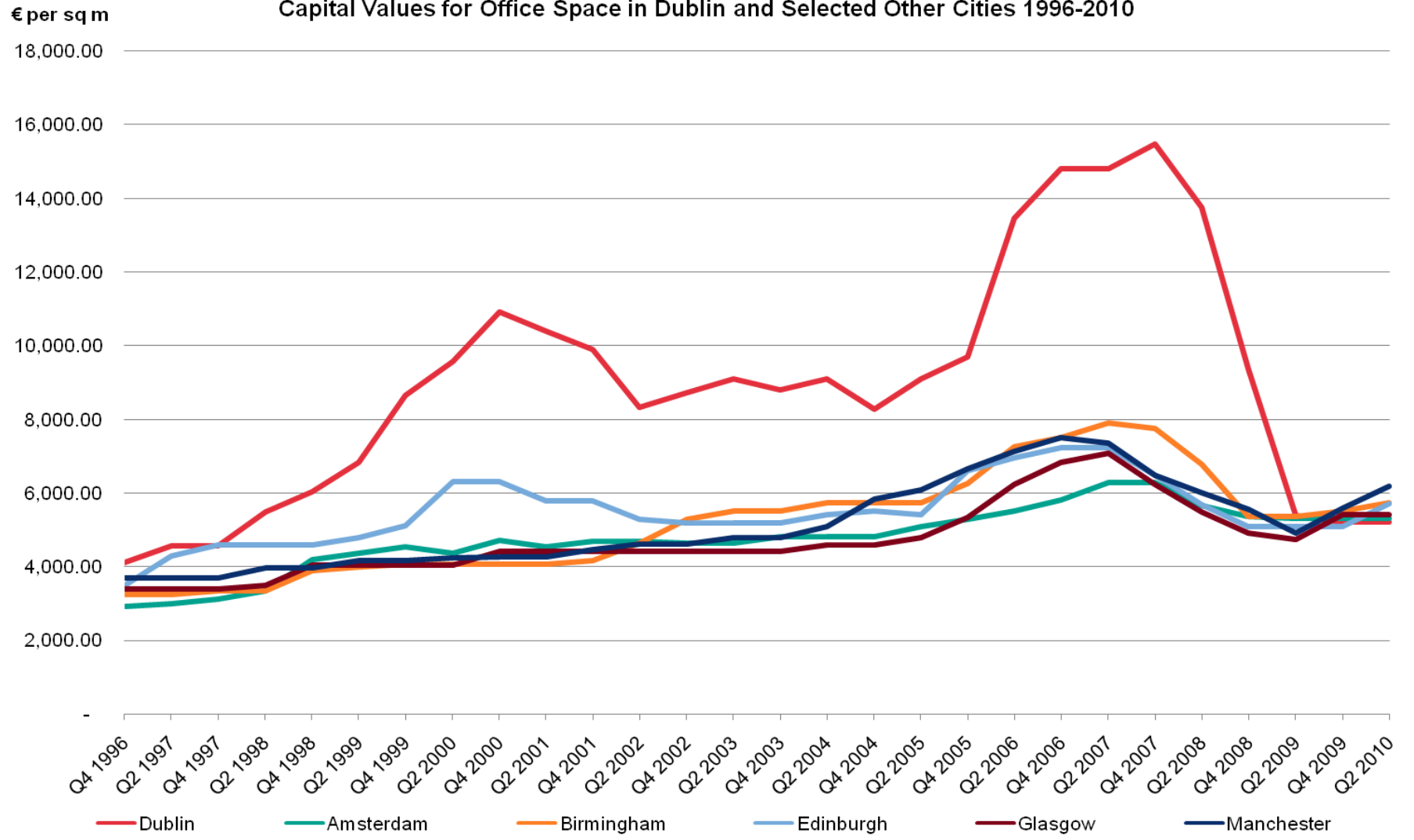
€ per sq m per year



Source: DTZ Research

Capital values for office space in Dublin and selected other cities, 1996-2010

Capital Values for Office Space in Dublin and Selected Other Cities 1996-2010



Source: DTZ Research

Seizing the Upside of a Downside – 10 point plan

6. NAMA – How does it create momentum?

- Clear implementation plan
- The political system needs to be challenged to support speedy decisions when required
- It is not just about measuring financial results, its about ensuring that there is effective co-ordination with Government departments, developers, investors, and advisers
- Feedback from stakeholders needs to be channelled and used constructively
- Remember the IDA was a not an overnight success

Seizing the Upside of a Downside – 10 point plan

7. New capital / equity required

- Its not just about getting functioning banks.
- New risk takers are required
- International media may not believe Ireland – but international investors still do

Seizing the Upside of a Downside – 10 point plan

8. Planning process – more strategic and co-ordinated

- Demand led rather than supply led
- Number of Local Authorities with planning powers to be reduced
- Stronger central guidance
- Proposed developments supported by viability assessments

Seizing the Upside of a Downside – 10 point plan

9. **Development needs to be more professional, based on research**
 - What are the best sources of advice for such research?
 - Understanding of market cycles
 - Understanding of consumer sentiment
 - Understanding of consumer trends i.e. space with clay, rather than technology
 - Strategic development supporting economic development e.g. Citywest 1980's
 - Docklands – we need to champion / prioritise

Seizing the Upside of a Downside – 10 point plan

10. Rent flexibility and funding

- Landlord and tenants reach their own agreements
- What is best international practice?
- Populist legislation serves nobody

New Ireland : New Market



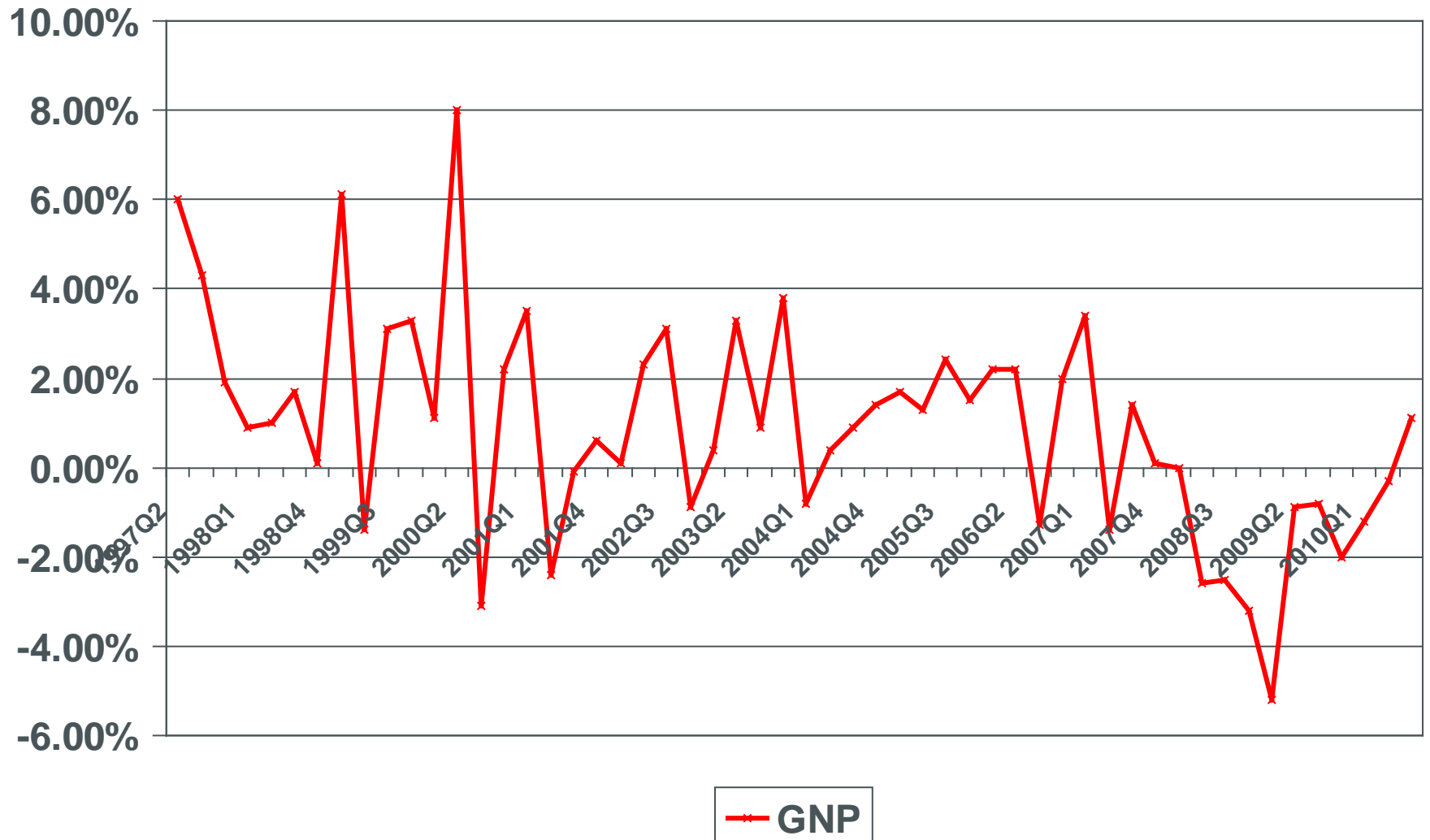
Overview

1. Economic Environment and Outlook
2. Residential Market Review
3. Commercial Market Review
4. Commercial Forecasts to 2015
5. Fair Value Index TM – UK Market
6. Concluding Comments

The Economy



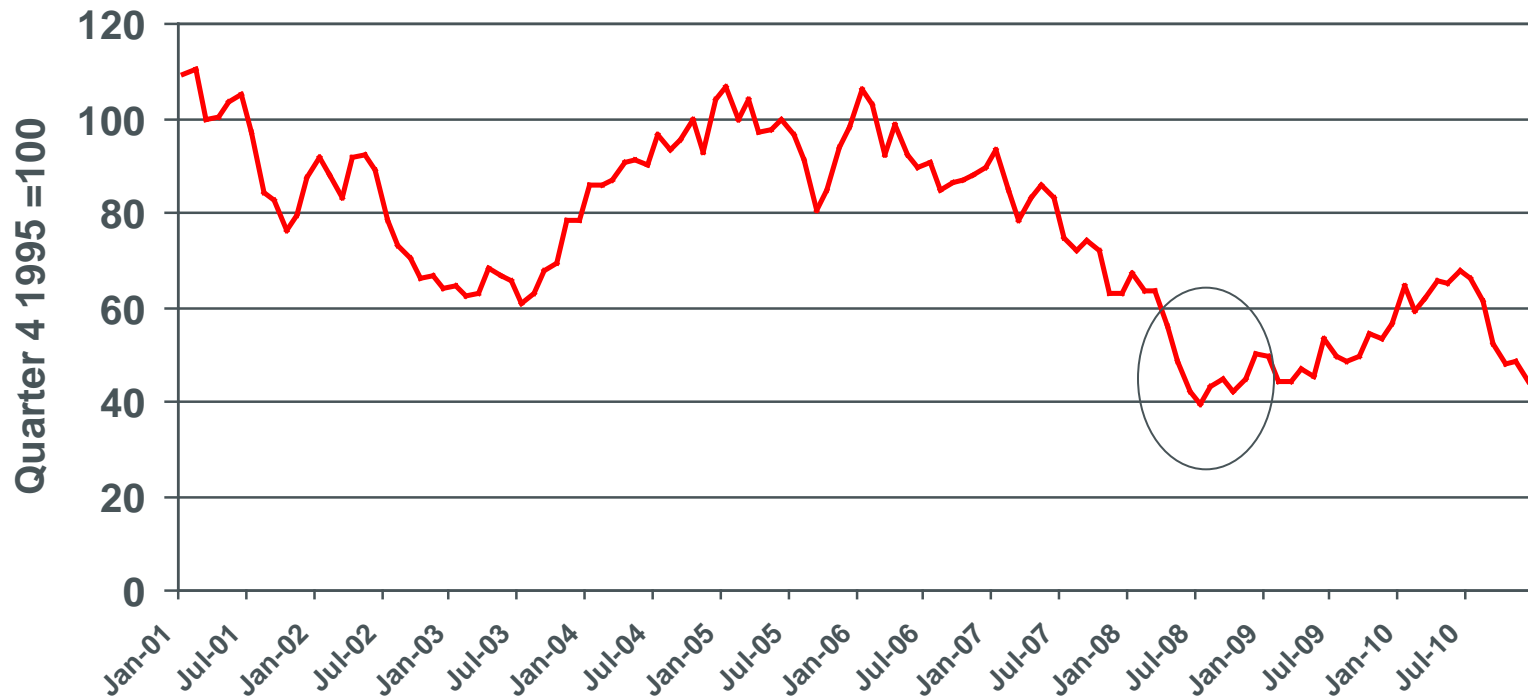
GNP



Where are we now?

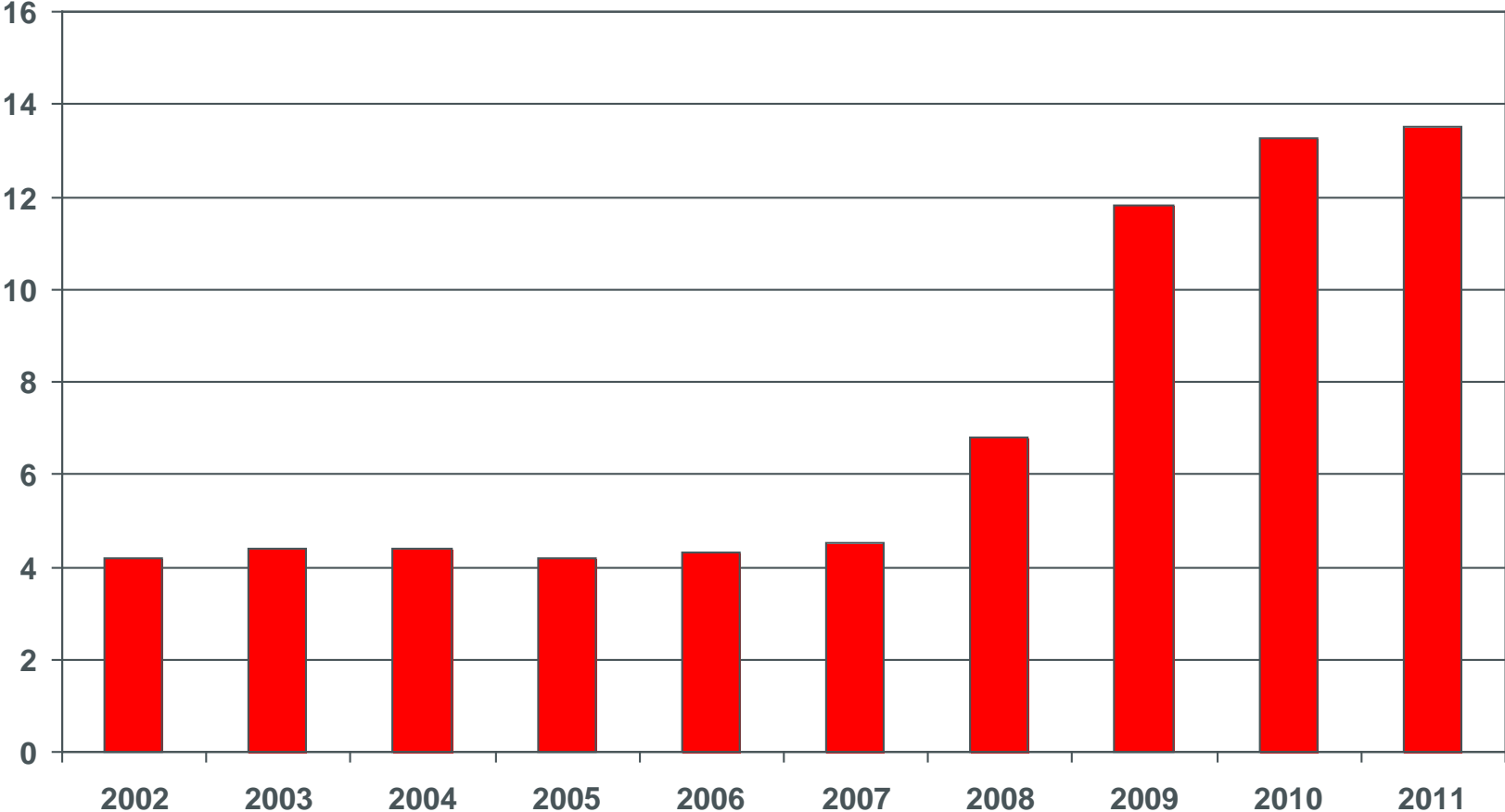
Source: ESRI/KBC

Consumer Sentiment Index



Dec CSI declined to 44.4 from 48.4 (Nov). All time low - 39.6 July 08.

Unemployment

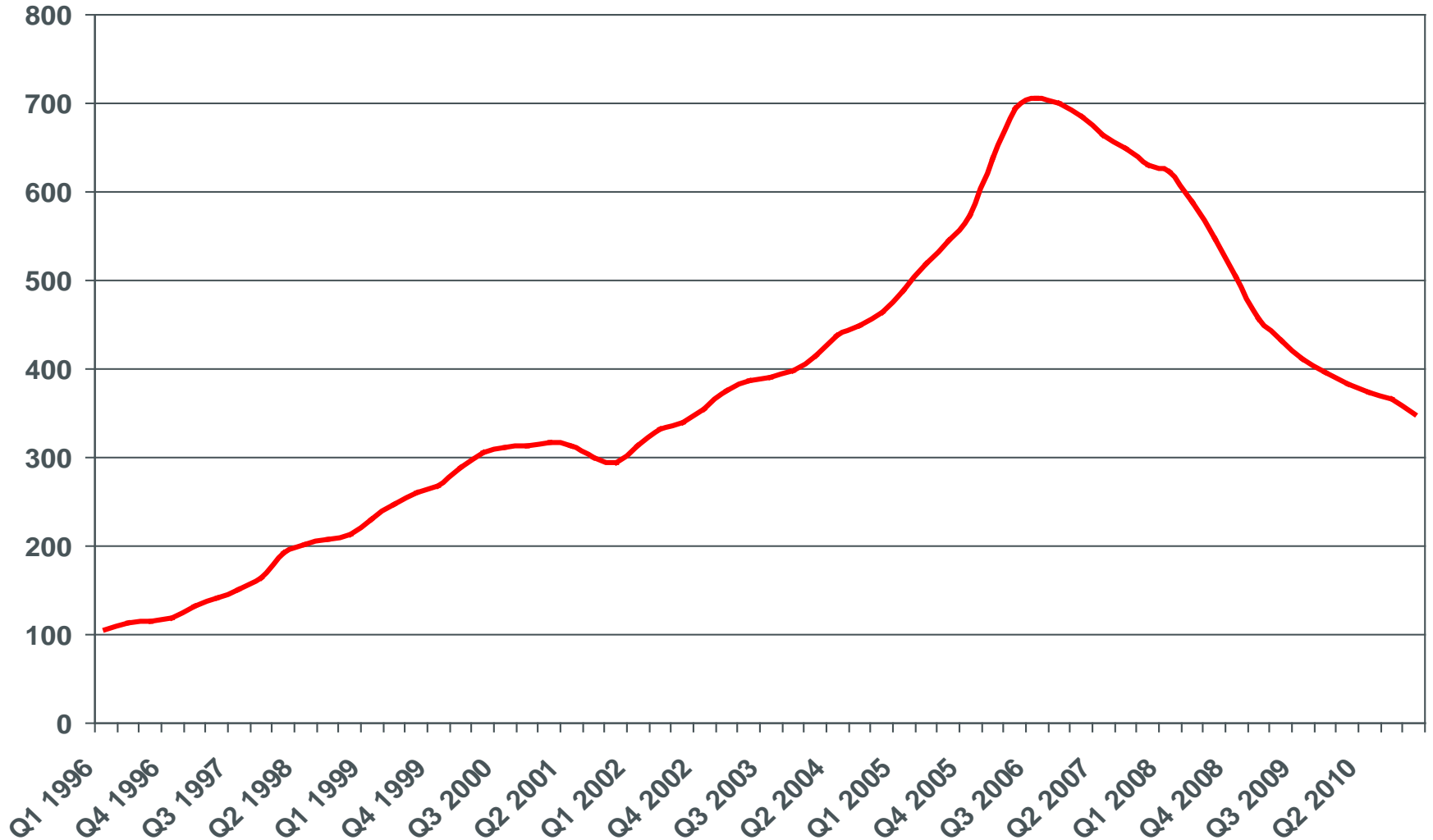


Residential Property Market



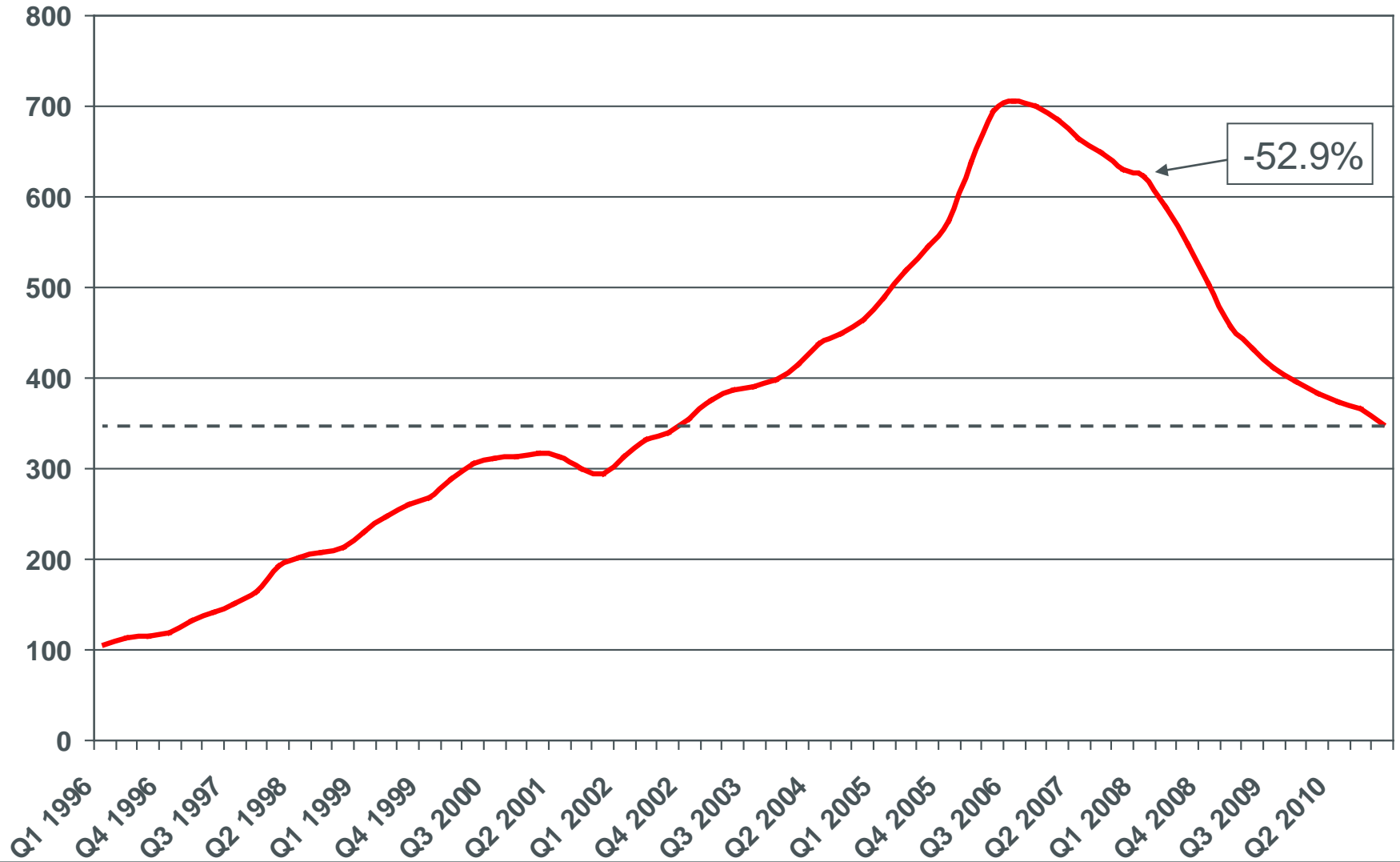
Dublin Second-hand Market

Sherry FitzGerald Barometer of House Prices



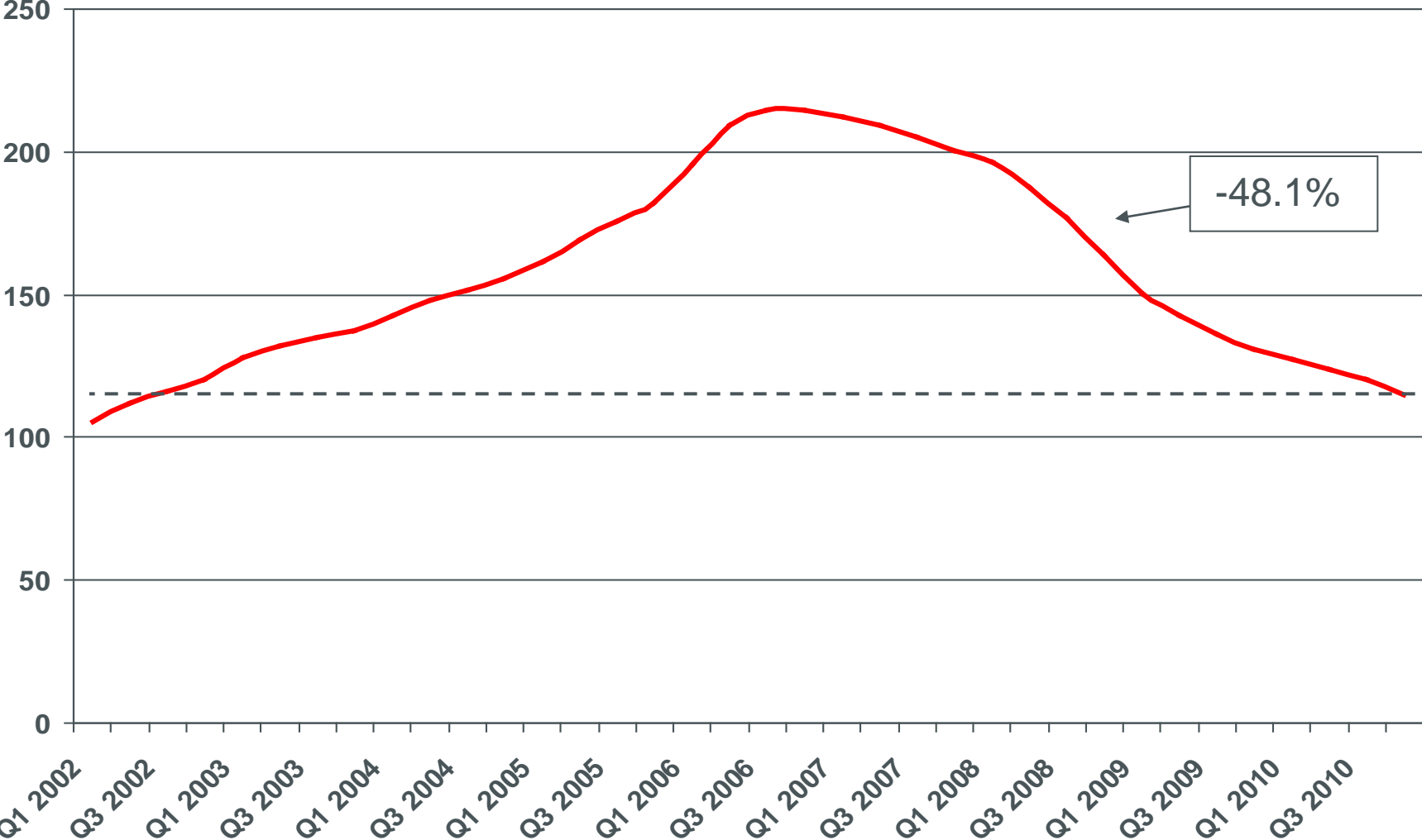
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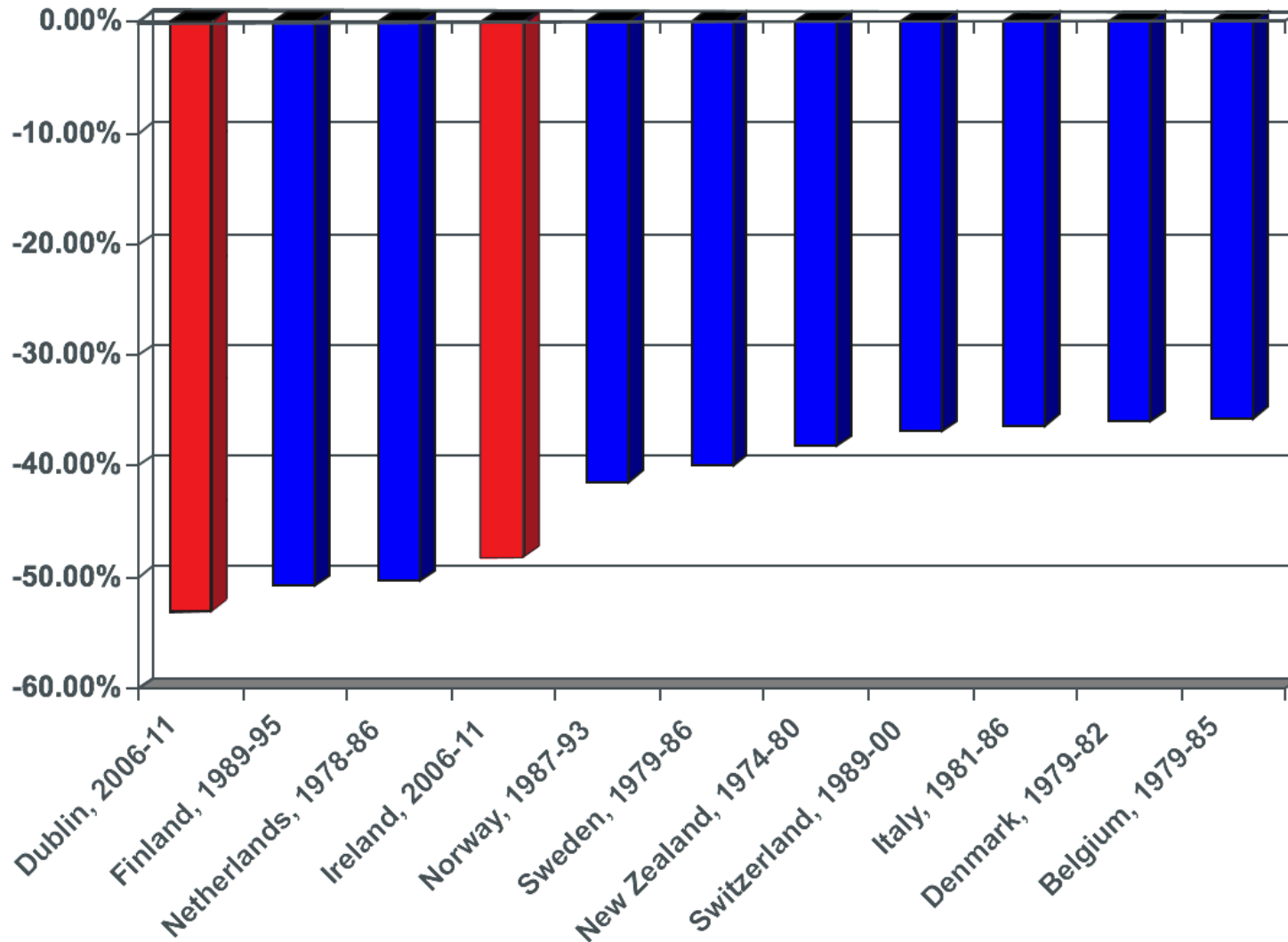


Ireland Second-hand Market

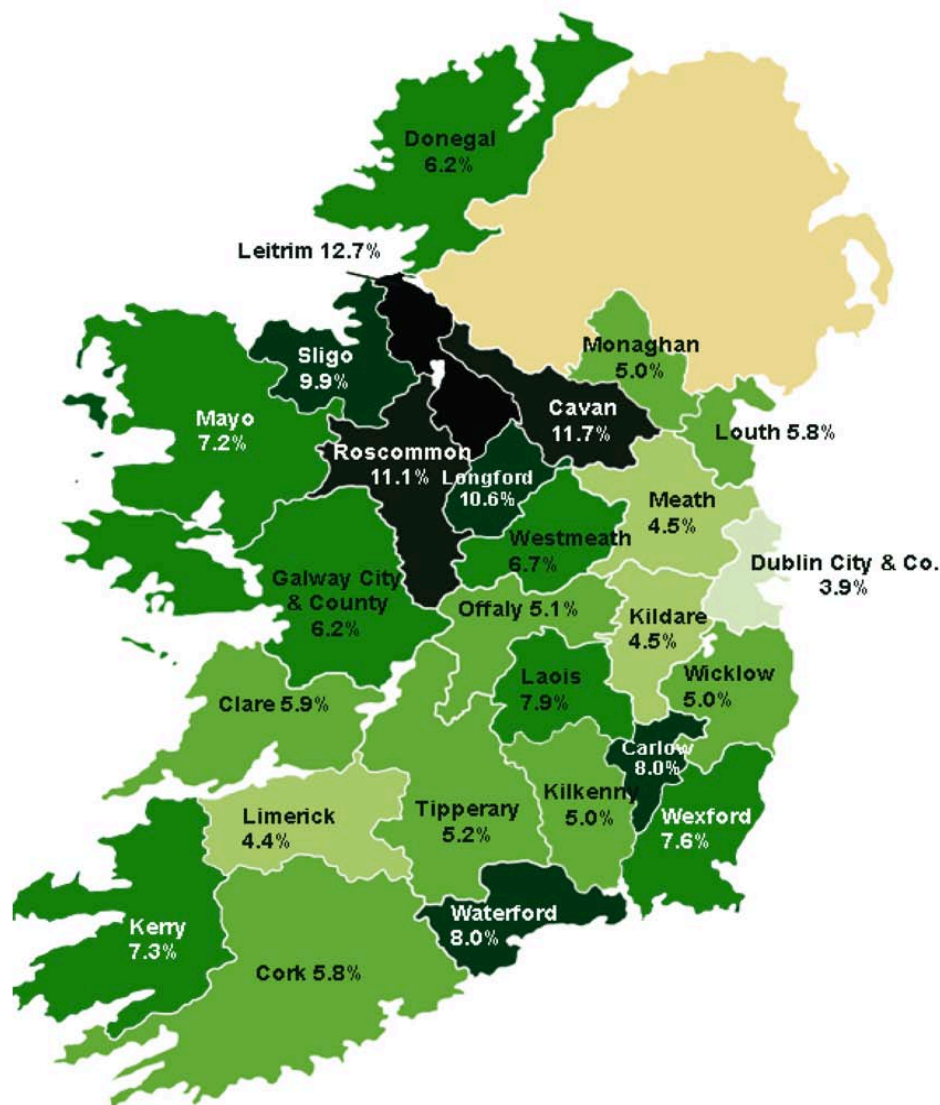
Sherry FitzGerald Barometer of House Prices



International Comparisons of Housing Recessions



New & Second Hand Supply as a % of Total Private Housing Stock



County	% Total Vacant Stock to private dwellings	Rank
Dublin City and County	3.9%	1
Limerick City and County	4.4%	2
Meath	4.5%	3
Kildare	4.5%	4
Kilkenny	5.0%	5
Wicklow	5.0%	6
Monaghan	5.0%	7
Offaly	5.1%	8
Tipperary	5.2%	9
Cork City and County	5.8%	10
Louth	5.8%	11
Clare	5.9%	12
Donegal	6.2%	13
Galway City and County	6.2%	14
Westmeath	6.7%	15
Mayo	7.2%	16
Kerry	7.3%	17
Wexford	7.6%	18
Laois	7.9%	19
Carlow	8.0%	20
Waterford City & County	8.0%	21
Sligo	9.9%	22
Longford	10.6%	23
Roscommon	11.1%	24
Cavan	11.7%	25
Leitrim	12.7%	26
State	5.7%	

What does all this mean for residential property?

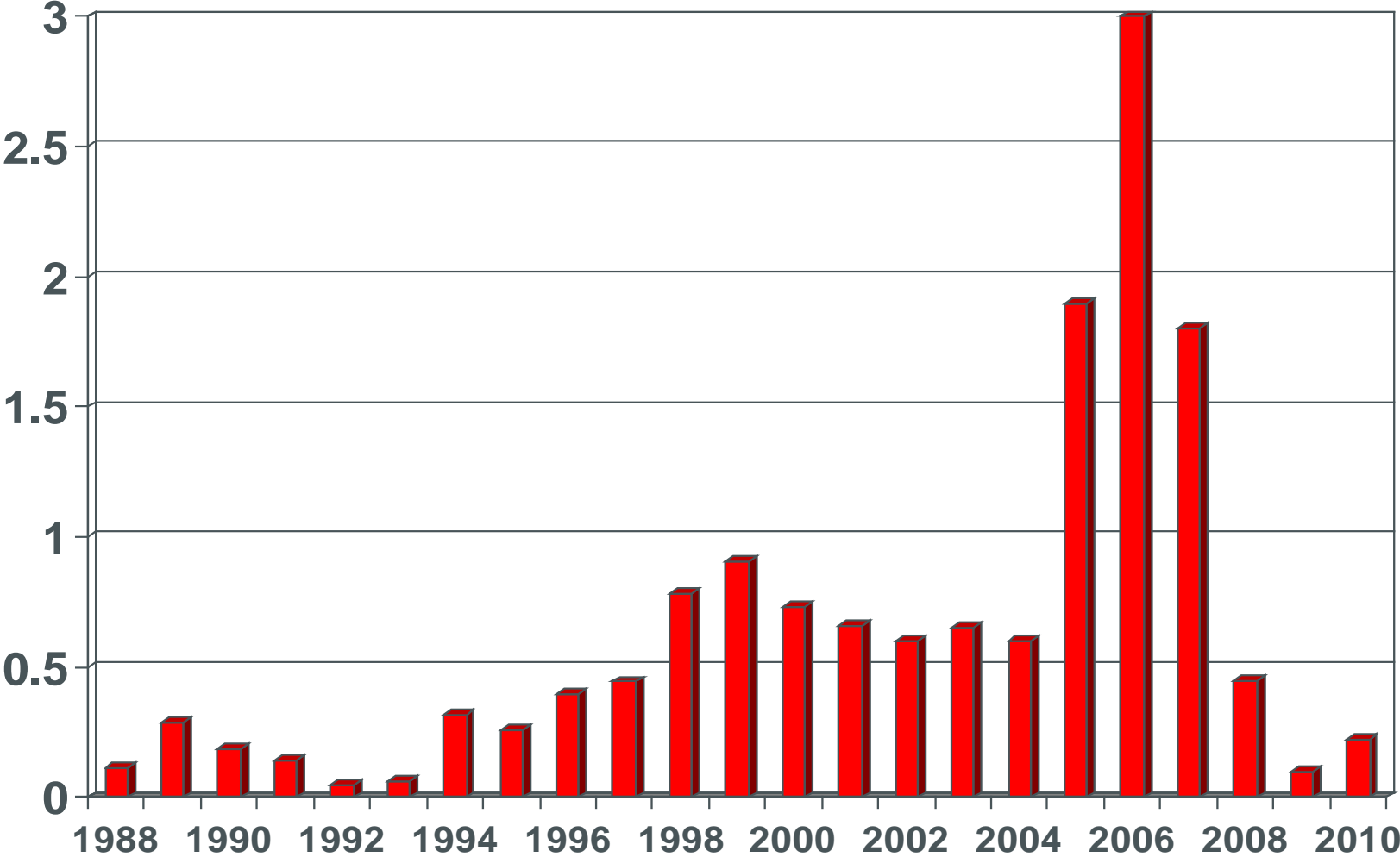
- **Established Market** - Property Prices will fall during year ahead,
- Peak to trough in order of -60%,
- Stability emerging in 2011
- **New Homes**: Challenges remain,
- Housing demand first to recover,
- Apartments in poorly serviced locations worst hit
- **First to recover**: Family homes in Dublin then other regional centres

Commercial Investment Market

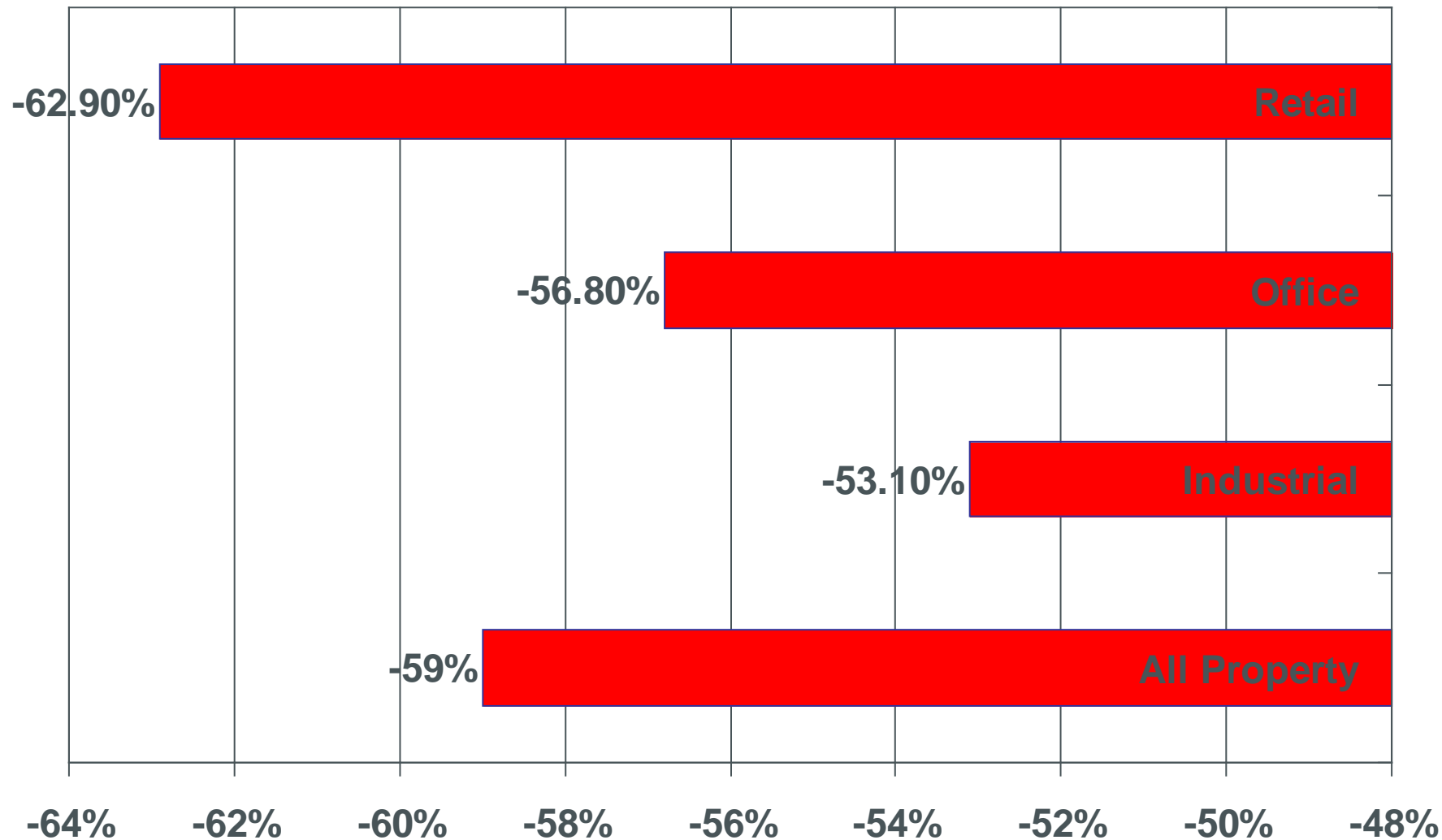


Irish Investment Market - Volume

€billion



IPD Capital Values, Q4 2007 to Q3 2010



Commercial Occupier Markets



Dublin Office Market Q4 2010

	2010	Central Business District - 2010
Market Stock	3.32 million sq m	1.76 million sq m
Take Up	108,000 sq m	51,725 sq m
Availability	761,100 sq m	288,600 sq m
Vacancy Rate	23.1%	16.3%
Under Construction	29,800 sq m	29,800 sq m
Pre-let	0%	0%

Forecasting Methodology

- European wide Econometric Model
- Input Factors – All local market property indicators
- Oxford Economics Forecasts on European Economies
- Quarterly results
- Constantly refining model

UK Market – Fair Value



UK Market Performance

- Latest economic data shows UK economy maintaining the momentum gained
- Growth expected to accelerate to 2% in 2011, and 2.5% by 2013
- Consumer Spending is forecast to be < 1% in 2010 and 2011 and < 2% in 2012
- Government issued its austerity spending review in October and intends to reduce public spending by £81bn by 2014/15
- Strong CPI supporting Sterling

DTZ Fair Value Index

- The DTZ Fair Value Index is intended to provide investors with insight into the relative attractiveness of current pricing in global commercial property markets.
- Fair Value Index TM scores reflect the proportion of HOT and COLD market with higher scores implying more HOT markets
- Markets estimated to be
 - more than 5% under-priced are classified as **HOT**
 - more than 5% over-priced are classified **COLD**
 - Between this range are classified as **WARM**

UK Fair Value Index: Major Market Classifications

	Market	Category	Under / Over Valuation
Office Markets	London City	HOT	-10%
	London West End	HOT	-6%
	Birmingham	WARM	+1%
Retail Markets	Manchester	HOT	-8%
	London West End	WARM	+2%
Industrial Markets	Manchester	HOT	-6%
	London Heathrow	WARM	0%
	Glasgow	WARM	+4%

Conclusions

- **Economy:** Very significant challenges ahead but Ireland has already faced its darkest day
- **Consumer:** Ongoing uncertainty
- **Residential and Commercial Market :** Demand supply balance
- **First to recover:** Family homes in Dublin and Prime Dublin Offices
- **London:** London Offices, Manchester Retail and Industrial

New Ireland : New Market



Real Estate Update

***Tim O’Rahilly
Tax Partner, PwC
Real Estate***



Real estate update

Agenda

- National recovery plan 2011 - 2014
- Budget 2011
- Finance Bill 2011

National recovery plan 2011 - 2014

- Tax based property reliefs – cost €400m per annum
- Proposed phased abolition of legacy reliefs over lifetime of plan
- Site value tax
 - to be introduced in 2012

- Big picture document – detail to follow in Budget and Finance Bill

Budget 2011

- **Changes to stamp duty on residential property**
- **Restriction on property based tax incentives**

Budget 2011

Stamp duty changes

- Residential property
 - 1% on property of up to €1m
 - 2% applying to amounts over €1m
 - Relief eliminated

Examples:

☐ A new house, 1st time buyer, Cost: €567,500

↑ Stamp duty increase: €5,000

☐ A second hand house, Cost: €567,500

↓ Stamp duty decrease: €25,300

Budget 2011

Property based tax incentives

- Section 23 and capital allowances ring-fenced to profit from specific investment
- Restriction on carry forward claims
- Abolition of all property-based reliefs from 2014
- But

Budget 2011

Capital allowances

- Typically these investments do not make profit rent
- Investment purpose generally to reduce other rental profit
- So effectively abolished from 1 January 2011 -
 - Allowances claimed but not utilised
 - Allowances to be claimed
- Impact of the High Earners' Restriction 2007 to 2010
- Additional tax payments October/November 2011 and beyond
- Tax indemnity – who pays?

Budget 2011

Capital allowances - Cash flow impact

Individual acquired €1m worth of hotel capital allowances in 2007 for €250k

Year	07	08	09	10	11	12	13
Allowances	150k	150k	150k	150k	150k	150k	100k
Expected Cash Flow	75	75	75	75	75	75	50
Actual Cash Flow	75	75	75	75	0	0	0

Budget 2011

Section 23

- If geared - typically no/low profit rent
- Investment purpose - generally to reduce other rental profit
- So again, effectively abolished from 1 January 2011
 - Allowances claimed but not utilised
 - Allowances to be claimed
- Impact of the High Earners' Restriction 2007 to 2010
- Additional tax payment October/November 2011 and beyond

Budget 2011

Section 23 - Impact of restrictions

Unclaimed Section 23 losses of €110,000 carried forward to 2011

Year	Unit 1	Unit 2	Section 23
Rent	€20,000	€24,000	€9,600
Expenses	€5,000	€7,000	€5,000
Section 23	--	--	€110,000
	_____	_____	_____
Taxable profit	€15,000	€17,000	Nil

Budget 2011

Impact of changes

- Investors
 - increased taxation
 - negative cash flow
 - capacity to fund debt repayments reduced
- Promoters
 - cost of tax indemnity?
 - viability of projects, businesses etc.
 - impact on employment
- Finance Bill amendments ???

Finance Bill 2011

- Site value tax
- Relaxation of tax based property restrictions included in Budget
- International investment

Finance Bill 2011

Site value tax – The new property tax

- Local Government funding “Fixed Local Service Contribution”
- All sites including private residences
- €100 in 2012
- Final site value tax in 2013
- “Average” of €200 by 2014
- Waivers?
- Zoned land is covered – feasibility
- Will this see the light of day in its full format?

Finance Bill 2011

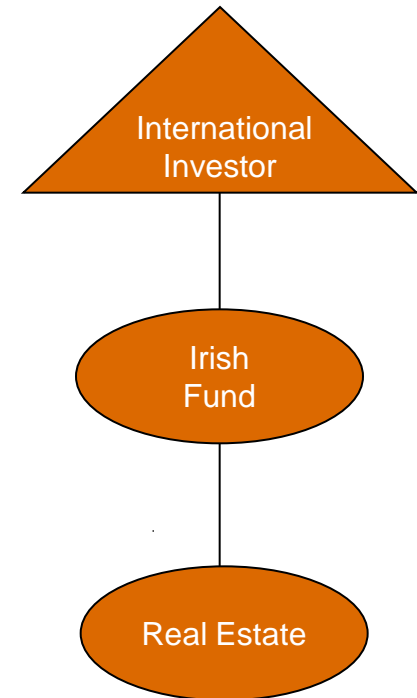
Tax based property incentives

- Possible amendments -
 - reliefs available for certain sectors only?
 - capacity to shelter some proportion of general rental income?
 - ability to use some proportion of reliefs against general rental income?
 - amendments to High Earners' Restrictions?

Finance Bill 2011

International real estate funds

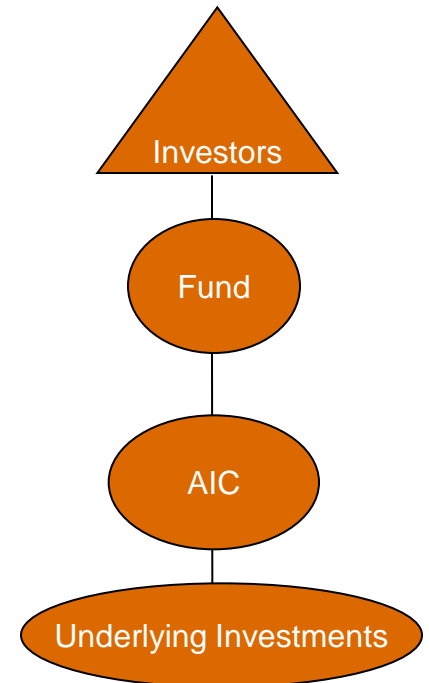
- Significant funds industry in Ireland
- Qualifying Investment fund (QIF) preferred structure for foreign RE investment in Ireland
- Limited number of international real estate funds based in Ireland
- Tax exempt vehicle – limited access to tax treaty network



Finance Bill 2011

Alternative investment company (“AIC”)

- Funds industry initiative (not real estate specific)
- “Alternative investment company” regime proposed for Finance Act 2011
- Corporate wholly-owned subsidiary of a regulated fund which could be used to facilitate all types of alternative investments (e.g. private equity, infrastructure, commodities etc) as well as real estate
- Subject to corporate tax – facilitates treaty access – with tax credits for underlying tax paid
- Exempt from capital gains tax



Real estate update

Summary

- Budget 2011 – generally negative for real estate investment – except Stamp Duty amendment
- Finance Bill 2011 – changes expected
- Need to review ownership structures
- Re-structure debt where possible
- Prepare for tax cash flow needs for 2011 and beyond

Questions?

Real estate update

Upcoming Real Estate Events

- **Launch of the European 2011 Emerging Trends in Real Estate**

Thank you

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