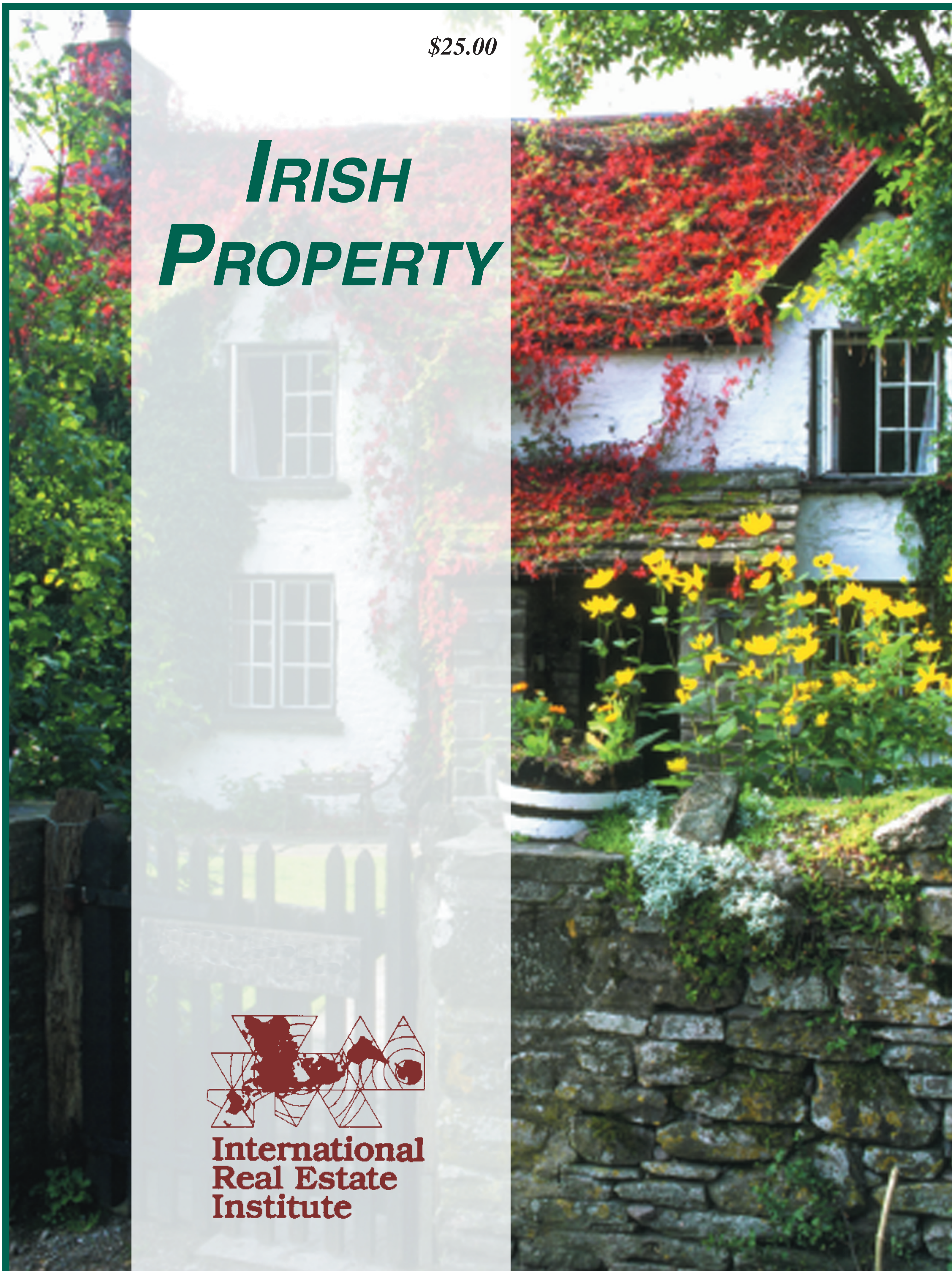
*$25.00*

# IRISH PROPERTY



International
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# Irish Property on the Emerald Isle

Dr. M.A. Hines

International investors are scrutinizing properties of the Republic of Ireland and of Northern Ireland, both on the "Emerald Isle", as they are attracted to the investment opportunities of growth areas of Europe. The author, Dr. M.A. Hines, the Clarence W. King Endowed Chairholder of Real Estate and Finance of the Washburn University School of Business, Topeka, Kansas has recently traveled to Ireland to review the international real estate potential of these two areas. The Republic is a country of 3.8 million people, that is a member of the European Union and the European Monetary System while Northern Ireland remains a province of the United Kingdom. As the Republic changes to total use of the euro, in year 2002, the currency risk for international investors diminishes as they seek multiple property investments within the European Union. As Tony Blair is re-elected prime minister of the United Kingdom, prospects are good for entrance to the EU membership for the U.K. in the coming years and U.K. currency conversion to the euro.

As a long-term member of the International Real Estate Institute, Dr. Hines has contributed numerous manuscripts for articles, books, and monographs for the worldwide membership since 1983. At the 1986 World Congress in Vienna, the IREI leadership gave Dr. Hines an award for service to the Institute.

Her book, INTERNATIONAL INCOME PROPERTY INVESTMENT, and her monograph, JAPANESE SHOPPING CENTERS: FINANCIAL AND INVESTMENT FEATURES, were published by the Institute in 1985. The monograph, AN OVERVIEW OF GLOBAL REAL ESTATE FINANCE, was originally published in 1989 and revised in 1995 and 1999. Recently the Institute has published several of her manuscripts in monograph form: BRAZILIAN REAL ESTATE in 1999 and MOROCCAN REAL ESTATE: NORTH AFRICAN PROPERTY, THE IMPACT OF E-PROPERTY ON INTERNATIONAL REAL ESTATE, and INVESTING IN JAPANESE REAL ESTATE: LINKS TO INTERNATIONAL TRADE, in 2000. In 2001 the Institute has published the monographs, ITALIAN REAL ESTATE FOR SALE and THE SECRETS TO SWISS REAL ESTATE SUCCESS.

Dr. Hines is the author of 47 books and monographs including four major real estate textbooks. Twenty books and monographs of the total deal with international real estate topics. In addition, about 75 of her 112 refereed and professional articles involve international real estate, international trade, and international business in general.

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# Irish Property on the Emerald Isle

Irish eyes smile on Irish property! Irish and foreign investors alike smile as they witness the investment yields from Irish properties ranging from traditional cottages to spectacular office buildings catering to high tech businesses to historic pubs to new 21st century-designed regional shopping centers. Irish property rents and sale prices have risen with the Irish economic boom since 1993. Since much of Irish business operates in the global marketplace, questions arise concerning the fate of the Irish economy and its property market as global economic downturns occur and as Ireland adopts the euro as a member of the European Union.

## The Attractions of Irish Property

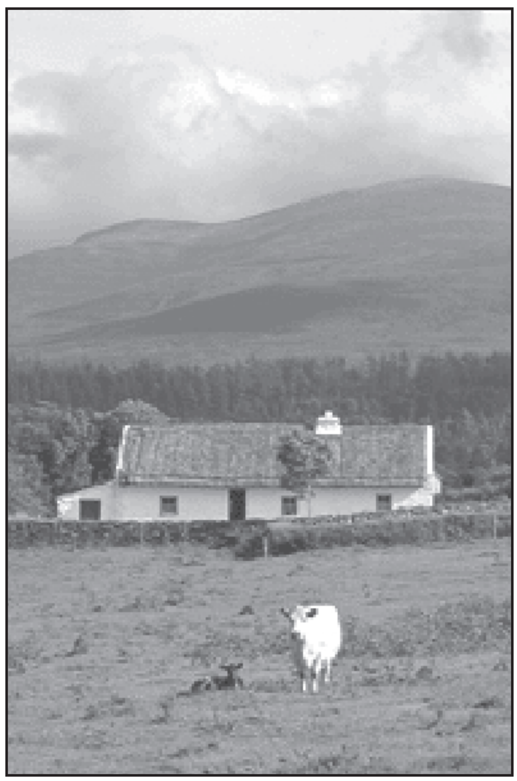
Some of the main attractions of Irish property are the architecture, the scenery, the golf courses, and the resorts. The economic renaissance has brought spectacular property price and rent increases that have produced unusually high overall investment yields. Other attractions of the Irish properties relate to the English language spoken by the real estate participants of the Republic of Ireland and the Northern Ireland province of the United Kingdom. Also, Irish property quotations tend to be in both the English and the metric systems using the U.S. dollar, the Irish punt, and the British pound sterling. There are investment properties for domestic and foreign investors of all types. Other main attractions are the membership of the Republic of Ireland in the European Union (often abbreviated "EU") and the position of Northern Ireland as a province of the United Kingdom, a country that is not a member of the European Union.

### *The Architecture and Scenery*

The island that is located west of England and Wales has long been a focus of invasions by the Vikings, the English Protestant lords, and other adventurous seafaring predators. To the delight of an increasing number of domestic and foreign tourists, the restored castles and other fortifications dot the landscape along the coastlines and on interior mountain and hill tops of both the Republic of Ireland and the Northern Ireland province of the United Kingdom that jointly occupy the island. The Palladium-style manor houses and the traditional cottages contrast with the new, international-design houses, apartment buildings, and commercial and industrial buildings that lie within green vistas of hills, mountains, and farm and grazing land. Many of the castles and manor houses with their formal gardens of yesteryear have been rebuilt from the previous ruins from rebellions including that of the Irish and Spanish against the English in 1601 and the War of Independence of 1919-1921. The quaint market towns of the Midlands, the Southeast, Southwest, and Northwest and wild scenery of the 710-foot-high, 5-mile-long Cliffs of Moher and the three peninsulas of Kerry on the central west coast contrast with the new industrial buildings located in various parts of the island that form the "Silicon Valley of Ireland." Both the Republic of Ireland and the Northern Ireland province of the United Kingdom have attracted the leading international high-technology companies, but the Republic of Ireland's economic boom is due in large part to the exporting of products from the computer and telecommunications manufacturers, the software developers, and the pharmaceutical companies.

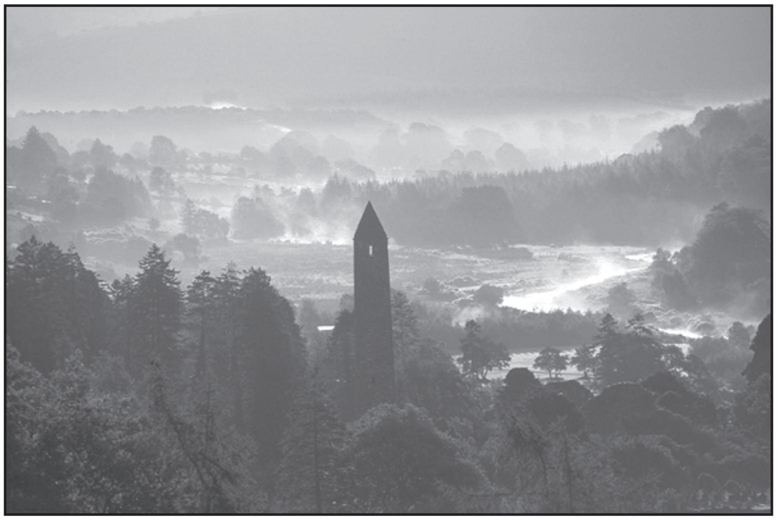
### *Golf Courses, Resorts, Hotels, and Bed and Breakfast Houses*

The Republic of Ireland has invested nearly U.S.$400 million in the last decade to become Europe's premier golf destination. As a result of this campaign, a golf course being built in the West of Ireland aspires to be the world's top golf course. Ireland with its 390 golf courses is building more courses to compete with such premier golf sites as Scotland which already has more than 390 golf courses. As an example of a new resort with a golf course, we note that the developers of Powerscourt resort in Enniskerry, County Wicklow incorporate in their U.S.$60 million resort a 250-bed five-star hotel, gardens, and a second 18-hole golf course. The Powerscourt House, situated 500 meters away from the new hotel complex, already has an 18-hole golf course with a clubhouse. Multinational and domestic company executives, Irish residents, and tourists are attracted to Ireland's many resorts and golf courses.



The tourist trade of the Republic grew rapidly in the latter 1990s. If the peace agreement continues to hold in Northern Ireland, the tourist trade can be expected to rise there, also. In 2001 the Republic expected a downturn in tourism due to the spread of foot-and-mouth disease in England, the Netherlands, and France in the spring. The Republic quickly controlled the outbreak of the disease in Ireland when a few farm animal cases were discovered in a northern area. To counteract possible adverse publicity from temporary national park closings which occurred close to St. Patrick's Day, the government encouraged the celebration of St. Patrick's Day two months later in May. Dublin staged a major celebration then that reached international media audiences that included prospective tourists to Ireland.

Due to the rapidly rising tourist sector, many hotel chains have established or expanded their positions in Ireland during the last half of the 1990s. To attract tourists to overnight lodgings in most parts of the Republic, numerous residential building owners have billed their premises as "bed and breakfast" hostelries. Older historic-style residences and newer, up-to-date dwellings have been converted to overnight accommodations with breakfasts served. The Fi-



followed in the steps of their forefathers by emigrating to places such as the Irish United States where higher-paying jobs were available for highly qualified persons. The potato famine of the 1800s impelled one of the greatest migrations from Ireland that the country - and perhaps the world - has ever known. The presence of noteworthy Irish people in the United States and other parts of the world is attributed in large part to the emigration periods of the 1800s and the latter part of the 20th century.

nance Act of 1995 in the Republic permitted 100% capital allowances to buyers of Irish holiday homes in certain resort areas, exclusive of the land value, up to a maximum of IR 25,0000 per year of which 50 percent could be received in the first year and 5 percent annually over the next 10 years. The resort-related accommodation had to be used solely for leasing to tourists between April and October each year and not occupied by any person for more than two consecutive months or more than six months in any year. The Seaside Resort Renewal tax provisions that may have affected the buying of hotels, guest houses, or holiday homes was scheduled for expiration on June 30, 1999.

### *The Economic Renaissance*

In the early 1990s the relative prices of Irish properties were low. Unemployment was relatively high. Construction costs were moderately high due to traditional rather than modem construction methods and the relatively low volume of new building construction, renovation, and redevelopment. Sale prices were relatively low in comparison to the United Kingdom, continental Europe, the United States, and Japan because the economy was lethargic and government budget deficits were large. The labor force was relatively young and relatively well educated. Due to the lack of employment opportunities with great promise for these well-educated Irish citizens, out-migration became the expected phenomenon for these readily employable young and middle-age people. They

After experiencing the greatest economic boom in the history of Ireland from 1993 to the present, the economic renaissance has led, in the new millennium, to low unemployment rates, high property values, high construction costs, low vacancy rates among modem, adequately equipped properties in good locations, a moratorium on large store and regional shopping center development in suburban areas, traffic congestion, and stretched-to-the-limit infrastructure of all kinds. The educational system has been restructured and expanded to meet the needs of multinational and domestic businesses that are located in Ireland or are prospects for Irish relocation.

A large stream of employable persons are continually graduated from business, science, engineering, computer/software engineering, and accounting/finance fields of study from public and private universities and technical schools in Ireland. Dublin has long been the educational center of the Republic of Ireland; Belfast continues to take the same role in the Northern Ireland province of the United Kingdom. Jobs have increasingly been created in the electronics, engineering, and international business and financial services areas. During the year 1996, the electronics and engineering companies created about 4,500 new jobs while the international and financial services companies created about 7,000 new jobs. As the new job creation by the international and financial services area continues to rise, the electronics and engineering area created about the same number of new jobs in year 2000 - roughly 10,000 jobs. This job creation pattern in Ireland is threatened by the ongoing global economic downturn. Most of the multinational and domestic electronics, engineering, international, and financial services companies export products and services to global customers. Many high-tech companies have reduced employment in a number of countries due to declining sales and earnings.

### *Native English Language Used in Property Negotiations and Reporting*

The global business language, the English language, is spoken, written, and read as the native language of Ireland. Admittedly a Gaelic dialect is spoken, written, and read in a few parts of Ireland as a carry-over from earlier days. The Gaelic dialect is preferred to some extent in the Western and Northwestern parts of the Republic of Ireland where the English never did settle permanently. The English settled permanently the other parts of the Republic and the Northern Ireland province of the United Kingdom. Because of this English language facility, the domestic and multinational companies find it easier to do business with the rest of the world where English is the global language of business. Irish products are shipped to all parts of the world by such leading multinational companies as Intel, Dell, and Microsoft who maintain significant operations in Irish commercial and industrial properties for exporting purposes.

### *English and Metric Systems Used for Space Measurement*

Ireland, along with the United Kingdom and the United States, continues to use the Imperial or English system of space measurement along with the metric system. The Republic and Northern Ireland were both scheduled for total adoption of the metric system by the present time, but have delayed the total adoption of the European system another ten years. Therefore, domestic and overseas investors find property quotations easy to read and understand since the English system is used primarily from long historic practice and the metric system, secondarily, due to the Republics recent membership in the European Union.

Problems remain with currency interpretation in property quotations. The United Kingdom, including Northern Ireland, continues to use pound sterling in commerce. The pound sterling sign is used in currency property quotations. The Republic of Ireland has employed the Irish pound sterling or "punt" in commerce for some time. Now, as a EU member, the country is moving rapidly toward total adoption of the euro for its commerce. Most of the time the Irish pound is differentiated from the British pound sterling by adding IR or IE immediately in front of the pound sign. Since many British property analysts study the progress of the Irish property market, one may find it difficult to recognize whether the pound sterling sign as used with Irish property sales, rents, and costs refer to the Irish "punt" or the British pound sterling, the home currency of the British analyst. A large majority of international property analysts are based in the U.K. and are accustomed to use of the British pound sterling.

### *Investment Properties for Investors of All Types*

Small- to large-size investors from Ireland and overseas find property investment opportunities in many locations of the island in both the Republic and in the Northern Ireland province. The rising wealth and incomes of Irish citizens from the increasingly affluent economy prompt investment in property that has a recent history of sharp price and earnings increase. As the property and construction sectors have expanded, domestic and foreign investors have found ample opportunities for the placement of available funds of varying magnitudes.

Large institutional and other large private investors have uncovered exceptional opportunities in the Republic of Ireland when sale prices and earnings started to rise as the economic boom took hold. Even venture capital funds from overseas have found appropriate short-term property investments in the Republic.

At present, large overseas investors are reevaluating their property investment portfolios in the Republic of Ireland and are assessing property investment opportunities in Northern Ireland. Due to the peace process whose agreements were negotiated in 1999 and 2000, peace has returned to Northern Ireland. With the political peace has come the promise of a return of economic prosperity based on the trends established in the south in the Republic of Ireland. Perhaps similar economic conditions - relatively high unemployment, growing incomes from business development of domestic and multinational companies, native English language facility, many young and middle-age trainable citizens, and an increasingly enlightened provincial government - may impel forward economic prosperity of dimensions similar to that in the South. The Northern Ireland property sector is expanding with the establishment of multinational high tech manufacturing, multinational call centers which are a part of the growing telecommunications industry, and the construction and modernization of commercial, industrial, and residential buildings.

***Attractive Comparative Property Yields***

While inflation and bond yields have remained relatively low in the Republic and in the Northern Ireland province, property yields in general have outrun stock, bond, and other investment yields. In both the northern and southern portions of the island, property yields generally reached a peak in 1999 when total returns from offices ranged from 35 to 40 percent, according to Insignia Richard Ellis Gunne. As United Kingdom property yields rose in 2000 to 15 to 20 percent from 10 to 15 percent in 1999, Republic of Ireland and Northern Ireland total property returns declined to the 20 to 30 percent range.

***Republic of Ireland Membership in the European Union***

Among the many effects resulting from EU association, European Union membership has impacted infrastructure development, currency management, and the development of international financial services.

**A. Infrastructure Development**

As a member of the European Union, the Republic of Ireland benefits from EU funding programs for member country infrastructure development. The Republic of Ireland has applied for and received EU funding for the development of their outmoded, inappropriate infrastructure to meet current requirements. Road systems have been substantially improved in some areas. A rapid-transit system has been built in Dublin to link the central business district with some more suburban areas of the city; the system requires major expansion to reach reasonable objectives of usefulness to the majority of Dublin residents and business people. Some interurban "high-speed" trains exist that link Dublin to many outlying regional metropolitan areas and market towns in the West, South, and North, but major rail system changes are needed for the extension of the existing period of prosperity. Water treatment plants and distribution systems and waste disposal systems generally need improvement. At the same time, a broadband telecommunications system has been installed to serve the existing major multinational high tech companies who are located mainly in the Dublin suburbs and central business district.

### B. Currency Management

The finances of the government of the Republic are subject to (1) the policies and administrative decrees and regulations of the European Central Bank, (2) the relationships associated with the European Currency Mechanism, and (3) the use of the euro as the country's currency in place of the previously well-established Irish punt or pound. The policies of the Bank of Ireland are now subject to override by the policies of the European Central Bank. The euro, the currency of the members of the European Union, is now the operational business and government currency of Ireland; on January 1, 2002, euro, paper money and coins will replace the Irish pound paper money and coins that are currently used for mainly retail transactions.

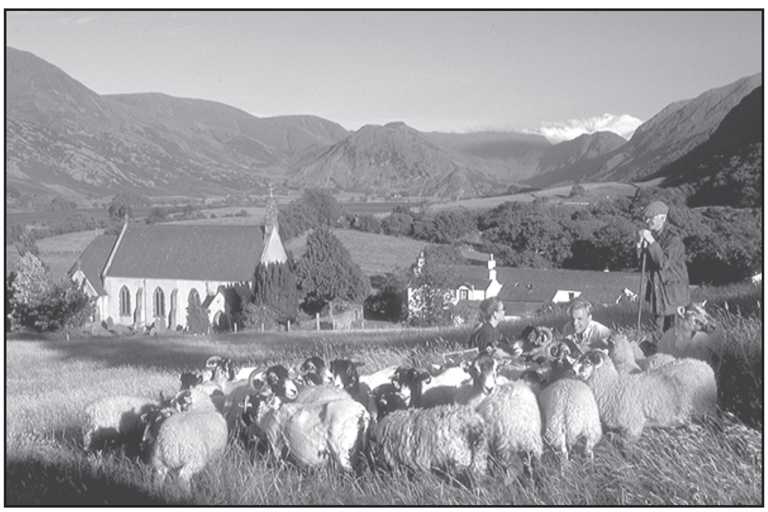
As a result of the EU membership, the exchange of currencies for business purposes, including property investment purposes, is more predictable than formerly Men Ireland maintained its only currency. The use of the euro prompts easy business finance among companies operating within European Union member countries. Foreign exchange risk is still encountered when Ireland-located companies do business with customers operating in countries outside of the EU. For example, the multinational high-tech company located in the Republic has less foreign-exchange risk when it derives Irish and other revenues and earnings in euro's and pays expenses, dividends, and interest in euro's when it does business with customers in other EU countries. Other EU financial transactions prompt less chance for foreign-exchange losses; non-EU transactions still present opportunities for foreign exchange losses.

The finances of the government of Northern Ireland are subject to provincial overview, policy administration, and regulation by the Bank of England. Northern Ireland continues to use the English pound sterling while to the south on the same island the Republic uses the euro as a member of the European Union. With the reelection of Tony Blair as U.K. prime minister in 2001, the United Kingdom is expected to become a member of the European Union in coming years. The current U.K. government tends to prefer EU membership as it leans toward the preferences of U.K. major businesses, but the electorate in general prefers to keep in use the pound sterling, which is a well-established currency used in international financial dealings and world trade.

Domestic and multinational companies may or may not see more foreign exchange exposure in the establishment of offices, warehouses, and industrial plant operations in Northern Ireland. If the company continually receives revenues, meets expenses, and pays out interest and dividends in pound sterling from business in other parts of the U.K., the foreign exposure by taking a property investment position in Northern Ireland may not seem prohibitively costly.

### C. Development of International Financial Services

The first phase of Dublin's International Financial Services Center has been a great success. The low vacancy rate and relatively high rents today from the offering of export-oriented financial services in newly developed space in a previous derelict area has prompted the government, with the encouragement of the Industrial Development Agency, to pass legislation for a second phase to be located in an adjacent docklands area that needs redevelopment to a higher land use.



Belfast has also enjoyed some success in their recent promotion of land and building construction and redevelopment for international financial services and call center use. International call centers in both sections of the shared island have met with success. The call centers benefit from tax incentives for property owners, the native English language facility of Irish employees, and the multilingual language facility of some Irish and some Continental workers who have been attracted to Irish work places

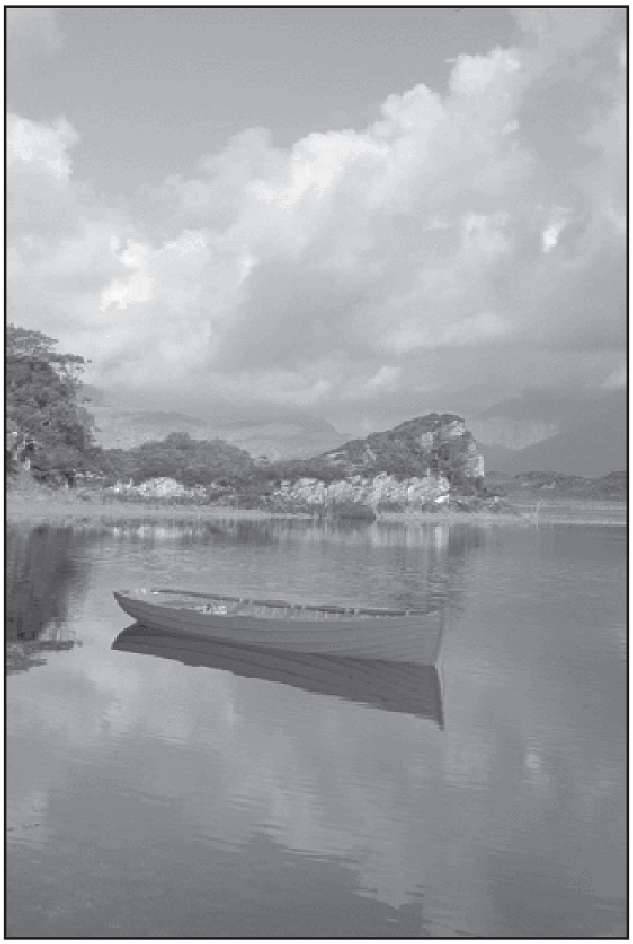
## Additional Economic and Demographic Forces That Impact Property Investment

Additional forces that have positive and perhaps negative effects on property investment need to be considered. For example, economic change is bringing both positive and negative reactions. Demographic factors, the government budget surplus, and tax regulations tend to favor continued economic expansion and property sector prosperity. Land use restrictions may continue to favor existing properties over proposed property development. Lending reforms currently have both positive and negative implications. Let us review each economic and demographic force briefly.

### *Effects of Economic Change*

The prospective investor needs to consider some economic forces that are in play as the new millennium proceeds. First, the global economic downturn has resulted in an economic downturn in the Republic of Ireland that has been the rising economic star of the European Union. The economic growth of the Republic - the GDP has been growing at a 10 to 12 percent annual rate - has represented the strongest economic growth of all the European Union member countries over the past six or seven years. For the year 2001, in the midst of a global economic decline Mere the high-technology sector has been particularly hard hit, the economic growth rate of the Republic of Ireland is forecasted to be half of what it has been in years 2000 and 1999 - probably five or six percent.

Thoughtful Irish property people tend to view the economic slowdown as welcome and beneficial to the overall economy and the property market. Supply needs time to catch up with demand. The scarcity of vacant property of modern design which is well located has caused a rapid rise in rents and property sale prices. In a country with a high percentage of homeownership - roughly 90 percent - the affordability of home ownership has been called into question. Incomes have risen with the high ratio of employed persons, but home



prices have moved up even faster. Residential rents have also moved up more rapidly than incomes. Since an increasing number of foreign workers have been attracted to the country to fill vacant positions each year recently, their numbers have been added to the numbers of domestic workers that have been seeking homes. An adequate supply of housing for moderate- and lower-income groups has been particularly in short supply. Housing supply has not kept up with demand for several reasons. If the economy grows at a slower pace, the supply of all kinds of property, including housing for rent and sale, may have a better chance of catching up with demand.

The layoffs at the various multinational and domestic high-technology and other companies may reduce the high demand for existing office, warehouse, manufacturing, and residential space to more manageable levels. When Intel stated that it would not complete its new office complex in the outskirts of Dublin for two years, that threatened the developers of new office space who were counting on fast take-up of speculative space by expanding companies.

Construction has felt the impact of the unusually rapid economic growth of the Republic of Ireland. Existing construction companies have been swamped with work for which they have increasingly charged higher prices. Construction workers have been scarce; foreign construction workers have been sought. The scarcity of construction materials and labor has slowed down job completion. In house construction, for example, more timber frame construction methods have been used in place of traditional construction methods to counteract the scarcity and costliness of traditional construction materials.

The economic prosperity of the Republic has been accompanied by a rate of inflation that somewhat surpasses Western European countries, the United Kingdom, the United States, and Japan. According to the OECD Economic Outlook, December 2000, inflation of the Republic of Ireland rose from 3.8 percent in 1999 to 4.8 percent in 2000. With the 2001 economic slowdown, perhaps the 2001 inflation will diminish with less pressure on existing properties, products, and other assets.

The Republic of Ireland has been running a trade surplus for several years as export volume has surpassed import volume. In 2000, chemical

exports comprised one third of the exports; computer equipment, a little more than 20 percent; machines and various equipment, a little more than 15 percent; food and live animals, about 7 percent; miscellaneous manufactured products, 13 percent, and other products, 7 percent. About 20 percent of the exports went to Great Britain including Northern Ireland; other EU states, 40 percent; the United States and Canada, over 20 percent; and other countries, over 20 percent.

Exports comprised over three-fourths of the Republic's GDP in 1999 while exports made up only 19 percent of the United Kingdom's GDP the same year. Exports of the United States were only 7.5 percent of the GDP, and exports of Japan were only 10 percent of Japan's GDP, according to The World Competitiveness Yearbook, IMD 2000. The top 15 exporting companies of the Republic in 1999 were, ranked from top to bottom in terms of Irish pounds, were Intel, Dell Products Europe, Jefferson Surfit Group Pic, CRH Pic, Microsoft, the Irish Dairy Board Co-Op, Glanbia Pic, Kerry Group Pic, Janssen Pharmaceutical, and Swords Laboratories, according to Dun & Bradstreet 2000. For example, Intel exported IR 3.2 billion and Swords Laboratories shipped from Ireland IR 690 million. Large increases in export volume were associated with organic chemicals, computer equipment, and telecommunications equipment.

### *Demographic Factors Associated with Economic Forecasts*

The population of the Republic of Ireland approximates 3.8 million, according to the Central Statistics Office as of April 2000. One third of the population resides in Dublin. The next largest populated area is the Southwest region whose largest population center is Cork followed by Limerick, Tralee, and Killarney in descending order by population size. The Southwest region houses 560 million people. The Border region with Northern Ireland houses 415 million people; the Southeast region, 403 million.

The climate partially explains why the population is primarily centered on the east coast. The east coast is warmer with less wind and rain year round. Another reason is that business and industry is focused on the east coast city and capital, Dublin, and its environs in the Republic and on the east coast city and provincial capital, Belfast, and its environs in the Northern Ireland province of the United Kingdom.

Let us look at the population distribution. One third of Dublin's population is from 25 to 44 in age, which is prime working age. Only thirty percent of Dublin's population is 45 years of age and older leaving a little more than one half of the city's population younger than 25 years old. The age distribution for the Republic of Ireland as a whole is a little different, but exceptional by European Union standards in various ways. Forty percent of the Republic's population is less than 25 years old; the prime 25 to 44 working age group makes up about 30 percent; and the 45 year-old and older group comprises one third. By 2010, it is estimated that the under-25 population of the Republic will approximate 36 percent. In Germany, Spain, and Japan, their populations under the age of 25 will be far lower in the 25 percent area while their elderly populations grow measurably, according to the United Nations. The availability of a future Irish workforce is essentially assured if emigration does not deplete this group.

Since 1996, immigration has exceeded emigration, on average, 10,000 per year. A peak of net migration of 23,000 persons was reached in 1998 when 44,000 migrated into the Republic and over 21,000 migrated out of the Republic. The net migration figures have been relatively stable with 18,500 net migration in 1999 and 20,000 net migration in 2000. Over 43 percent of the 2000 immigrants were returning Irish nationals that were attracted by the prosperity of their native country. In previous decades, when jobs were not available or inappropriate for the well-educated graduates and experienced employees, net emigration figures were understandably high.

As we note that agriculture has long been the major employment area of the Republic, me may note that the agricultural sector in mid-2001 employed only 131 million people that made up only 7.5 percent of the total work force, according to the Central Statistics Office's National Household Survey, November 2000. The financial and other business services sector employed 13 percent of the workers; wholesale and retail trade, 15 percent; education and health, about 14 percent; public administration and defence, 4.5 percent; and other production industries, about 19 percent. The construction sector has represented only 10 percent of the work force; it has been stretched thin in the economic boom period of 1994 through 2000.

The female participation rate in the employment sphere of the Republic in 1999, 54.3 percent, was relatively low in comparison with the United States, 70.7 percent, United Kingdom, 68.4 percent, the Netherlands, 64.4 percent, Portugal, 62.8 percent, and Germany, 62.3 percent. The Republic of Ireland's female participation rate is closer to that of Spain, 50 percent, and Japan, 60 percent.

***The Government Budget Surplus and Infrastructure Development***

The government and its Industrial Development Agency have realized the inadequacy of most of the infrastructure in light of the high rate of economic growth. A slower rate of economic growth would permit the government to proceed more effectively to spend approximately one percent of Ireland's Gross Annual Product on infrastructure over the next few years. The government has developed budget surpluses within the past six or seven years that these expenditures may readily be financed. With a slower growing economy, some anticipated crises may be averted. Targeted infrastructure areas are health care, motorways, commuter and freight railway systems, and waste management. Many deficiencies in the educational system, particularly in the scientific, engineering and technology areas, were attacked in the early 1990s. Today a large, educated work force of Irish citizens looks for suitable employment upon graduation each year. A slower rate of economic growth may absorb the numbers of new graduates of universities, colleges, and technical schools.

***Changes in Land Use Restrictions and Lending Reforms***

Three forces related to land use restrictions and lending reforms have major implications for property investment. First, a strong system of land planning permission continues to be in effect. This governmental system, that is common to most nations, assures consideration of the public interest in its many ramifications when a developer or individual property owner wishes to build a new structure or renovate or redevelop an existing property. The earnings and capital gains from existing properties may be enhanced as the planning authority slowly deliberates before rendering its approval or disapproval of proposed land developments. Any monopoly value of an existing property is enhanced while potentially competitive properties are kept off the drawing boards or out of construction drawings and work orders.

Second, the Irish government has recently passed legislation that prohibits future development of any retail space of 10,000 square meters or more. Speculative retail development has occurred which reflects the six or seven years of extraordinary economic growth. As rents and property values have reached exorbitant levels, the government has attempted to reduce such land speculation to burst the "speculative bubble" and diminish the immediate need for costly government infrastructure that would serve the speculative land development.

Such an ordinance obstructs the development of future shopping centers and hypermarts. On the other hand, the existing shopping centers may be assured of higher profitability and valuations due to the restricted number of shopping centers in the future. Some analysts of the Irish retail scene believe that the government may permit the expansion of existing shopping centers, but not the development of new centers. Therefore, shopping center owners and managers, such as those at successful Blanchardstown Centre in suburban west Dublin, are exploring redevelopment and expansion of existing center services and tenants. The retail warehouse movement across the Republic may be curtailed, too, as a repercussion of the new legislation.

Third, lenders have, as a group, generally declared a moratorium on the finance of speculative land development. The banks, building societies, insurance companies, and other property lenders have seen their delinquent loan volumes and loan losses rise since 1999 as the Irish economy has felt the impact of the global economic downturn. The tightening of the lending standards has led to less property finance within Ireland. Some developers and other investors have even sought financing for their projects in the United Kingdom and on the European continent. The actions of the lenders have been encouraged by the government in a "public-private partnership", one might say, that discourages speculative bubbles in property and unaffordable housing.

## Current Taxation and Impending Tax Changes That Impact Property

### *Investment*

Ernst and Young International provides information about the current tax laws and regulations of the Republic of Ireland and the United Kingdom of which Northern Ireland remains a part. We note the regulations regarding stamp duty/ transfer tax, the value-added tax, depreciation allowances, and the corporate income tax rates.

### *Stamp Duty/Transfer Tax*

Of the various taxes that affect real property investment, the stamp duty or transfer tax of the Republic may be the most onerous. The maximum rate for stamp duty in the Republic is 9 percent; the maximum rate for Northern Ireland as a province of the U.K. is 3.5 percent. Stamp duty or transfer tax comparisons can be made with Sweden (3 percent), Germany and Austria (3.5 percent), France (4.8 percent), Portugal (transfer tax on the purchaser of real estate for buildings 10 percent and for farm land 8 percent), the Netherlands and Spain (6 percent), Italy (10 percent when the purchaser is an individual), and Belgium (12.5 percent). The stamp duty or transfer tax of the Republic is lower than the similar tax in Portugal, Belgium, and Italy and much higher than the similar tax in Germany, Austria, France, the Netherlands, Spain, Sweden, and the United Kingdom.

### *Value-Added Tax*

The value-added tax in the Republic that affects some real estate-related transactions is 21 percent in terms of the standard rate; the non-standard value-added tax rates that affect certain transactions are 0, 4, and 12.5 percent. The value-added tax rates for the United Kingdom of which Northern Ireland is a province are 0, 5, and 17.5 percent, depending on the type of transaction.

### *Depreciation Allowances*

The Republic allows capital expenditures on plant and machinery to be written off at an annual straight-line rate of 15 percent for the first six years and 10 percent for the seventh year. Hotel properties are treated the same way as plant and equipment. Industrial buildings in general are permitted 4 percent per year. Commercial buildings in designated urban renewal areas and multistory parking buildings are written off at the rate of 2 percent. But commercial buildings in Dublin's Customs House Docks Area that include the buildings of the International Financial Services Center and refurbished buildings in the Temple Bar Area of Dublin may be written off at a 4 percent rate.

Depreciation allowances of Northern Ireland are subject to the depreciation or capital allowances of the United Kingdom. Here plant and equipment expenditures are permitted depreciation allowances of 25 percent a year on a declining-balance basis. As exceptions, small- and medium-size businesses could claim first-year capital allowances of 40 percent on most types of plant and equipment purchases up to July 1, 2000. After the fiscal year ending July 1, 2000, the depreciation rate reverted back to 25 percent. Now long-life assets do not qualify for first-year capital allowances. Industrial buildings in general may be depreciated using the straight-line method at an annual rate of 4 percent. In Enterprise Zones, that are special development areas, an initial allowance of 100 percent is available for most buildings. Only if commercial buildings are located in Enterprise Zones may they be qualified for capital allowances.

### *Corporate Income Tax Rates*

Northern Ireland is subject to the U.K. corporate income tax rates. Company profits are subject to rates of 30, 20, and 10 percent as of April 1, 2000. Capital gains are subject to the normal corporate tax rate but an allowance is available for inflation.

As of January 1, 2000, the standard corporate income tax rate of the Republic became 24 percent. Under the 2000 budget, a 12.5 percent rate was applied to trading income of small companies. A rate of 25 percent applies to certain income and to certain activities including Irish rental and investment income. Until December 31, 2010, an effective rate of 10 percent is applied to profits from the sale of goods manufactured in the Republic and from certain other activities. The 10 percent income tax rate also applies until December 31, 2005 to profits of approved service operations in the Shannon Airport Development Zone and to profits of approved international financial activities carried on in the International Financial Services Centre in Dublin. For some company profits related to the Shannon Airport Development Zone and the IFSC area, the 10 percent tax rate will be replaced by a 12.5 percent tax rate according to an Ireland-European Union agreement entered into on July 22, 1998. Projects established on or after July 23, 1998 are eligible for the 10 percent rate until December 31, 2002; after that date, they will be subject to the 12.5 percent rate. The regular capital gains rate is 20 percent, but a 40 percent rate applies to sales of nonresidential development land and certain other assets.

## Retail Property Business Conditions, Rents, and Investment Yields

Since the business conditions, rents, and investment yields of the Republic of Ireland and the Northern Ireland province of the U.S. are different, we first address in summary the conditions in the Republic and then in Northern Ireland.

### *The Republic of Ireland*

The economic boom since 1993 has precipitated growth in gross national income (often abbreviated "GNP"), GNP per capita, and disposable personal income. The GNP reached U.S.$71.4 billion in 1999; the same year, GNP per capita reached U.S.$19,100 after a substantial rise of 8.8 percent over the previous year. These aggregate numbers for the country have continued to rise. The relatively high disposable personal income is associated with an unemployment rate of 4 1/4 percent in 2000 and an expected rate of 3 3/4 percent in 2001. This full employment comes from work in various kinds of services primarily; agricultural employment represented less than 8 percent of the labor force; jobs associated with industry represented about 30 percent of the labor force.

The expenditure of the increasing personal disposable income is associated with the age distribution of the population of the Republic that was mentioned earlier. About forty percent of the 3.8 million total population is younger than 25 years of age. Historically this age group tends to spend more than it earns. The 25 to 44 age group, that comprises 30 percent of the population, is a prime employed group that spends on the household, the family, the home, entertainment, and other retail-oriented expenditure categories. The 45 year-old and older group tends to save more than the 25 to 44 group and spends less of its disposable income than the younger groups. Retail sales per capita for the Republic of Ireland were a little higher than that of the United Kingdom in 2000, roughly euros 4,500, according to a survey by IREG Research of 15 European countries.

The vibrant retail scene of Ireland centers on the shopping centers and main shopping streets of Dublin and Belfast and the central business districts of market towns of the other parts of Ireland. In Dublin, Grafton and Henry Streets are the focii of the center city retail trade. As part of the Grafton Street attraction, on the south end of this shopping promenade, Stephen's Green shopping center is a three-level glassed-in mail that contains approximately 260,000 total square feet. The first two floors are devoted to the sale of goods and services; the top floor is leased to government agencies that promise heavy daily prospective customer traffic. On Henry Street, multi-level shopping malls include the approximately 270,000 square-foot Ilac Center that opened in 1981, a center that is presently undergoing enlargement and refurbishment which includes more large retail units. Planning permission has recently been given project plans for the Millennium Mall that will link O'Connell Street and the Ilac Center on Dublin's Henry Street.


Ireland has other major shopping centers in the suburbs of Dublin and in Cork, that is located in the southwestern region of the Republic. These shopping centers, all built in the 1990s, have been thriving with the personal expenditure of the ever increasing personal incomes of the labor force, but may be further enhanced by the new legislative restrictions against the development of new retail properties of 10,000 square meters or more and by the continuing strong planning permission regime. The Square at Tallaght, built in 1990, contains approximately 500,000 square feet, which makes it the largest shopping center in Ireland. Blanchardstown Center, second largest center with approximately 450,000 total square feet, was opened in 1996. This successful center has been the catalyst for ongoing land development in the vicinity of the mall. Jervis Street Center in Dublin, that opened in 1996 also, contains about 350,000 square feet. Another major suburban center of approximately the same total square footage as Jervis Street Center is Liffey Valley, which opened in 1998. Two centers were opened in Cork in 1989 and 1990. Merchants Quay of Cork has about 350,000 square feet of retail space while Douglas Court of Cork is smaller at about 170,000 square feet. All of these relatively new centers reflect the spending power of the increasing labor force whose incomes have been rising steadily.

Retail rents have increased in general since 1994, according to the Property Outlook 2001 of Insignia Richard Ellis Gunne. For example, the Zone A rents of Dublin's Grafton Street retail space have doubled during this period to roughly IR 3,200 per square meter. The biggest increase in this space occurred from 2000 to early 2001. The term "Zone A" generally refers to the front portion of the rented space; the Zone A definition of the Republic of Ireland is the same as the Zone A definition used by the United Kingdom. In a comparison among the prime retail areas of the Dublin metropolitan area, Grafton Street and Henry Street retail rents are by far higher than the retail rents of Dublin's secondary city center, The Square at Tallaght shopping center, St. Stephen's Green shopping center, Blanchardstown mail, Jervis Court mail, and Liffey Valley mail. If we compare the retail rents among the major urban areas of the Republic of Ireland excluding Dublin, we note the following hierarchy of Zone A rents starting with the highest and ranging to the lowest: Galway (IR 2,100), Cork (IR 1,500), Waterford (IR 1,400), Limerick (IR 1,200), and Athlone (IR 750).

### *Northern Ireland*

Turning to Belfast of the Northern Ireland province of the United Kingdom, we may note that prime retail rents have risen significantly over the period of 1995 to 2000, but less than the prime retail rents of Dublin and the other urban areas of the Republic. In terms of pound sterling, the prime Belfast retail rents, on average, started the period with quotations of ST 1,600 per square meter in 1995 and ended the period of analysis with about ST 2,400 per square meter in 2000.

The Northern Ireland rent quotations are based on Zone A retail space. In Northern Ireland we find a different definition of Zone A from that of the Republic of Ireland and the United Kingdom in general. The first 4.57 meters from the street is called Zone A; then the space behind Zone A is separated into 7.62 meter zones for rent and valuation purposes.

The Belfast retail market is in a state of flux that goes beyond normal conditions. Retail rents of stores on Donegall Place set the pace with the highest rents - 200 per square foot. Second highest rents are found on Castle Lane that intersects Donegall Place and in Castlecourt Shopping Center, which is anchored by Debenham and is the largest development in the city center. The Castlecourt rents have recently risen from approximately 120 per square foot to 175 per square foot in Zone A with the leasing of the former Exhibit Store to Gap for Kids. The owner of C&A, Redevco, is redeveloping the former C&A premises into two units that are being leased to Next and W.H. Smith. The former Littlewoods Department Store premises are being subdivided into four units; Littlewoods is going to continue to trade in part of the site as Berkertex with Bon Marche, Lifestyle, and Iceland taking the other three parts of the building. The former property of First Trust Bank on Royal Avenue, which is an extension of Donegall Place, was redeveloped for premises for the new Tesco Metro supermarket. Also fronting on Royal Avenue are the Gap, Virgin, Jaeger, and Waterstones. Victoria Square Shopping Center is being developed as part of the revitalized retail location associated with the successful Langanside area. The general developer of this area is Multi Development Corporation, a Dutch developer, who includes retail, hotel, health club, restaurants and bars, and residential units in its development plan.

The 290,000 square-foot Forestside Shopping Center was open in 1998 in southeast Belfast. Marks & Spencer, Sainsburys supermarket, and Dunnes Stores (department store) - the three anchors of the center - are accompanied by 32 other retail tenants that include River Island, Oasis, Monsoon, and HMV. The initial Zone A rents were 120 per square foot; later rents ran 165 per square foot. Other shopping centers in greater Belfast are Connswater Center, Park Center, and Abbey Center. With the recovery of the economy since the advent of the peace process, more shopping centers and retail development might be built if it were not for the tight land planning restrictions.

### *Trends in Investment Yields*

Some evidence of the trend in retail property investment yields is available from the Lisney estate agent, chartered surveyor, and auctioneering firm that is affiliated with the Healey & Baker international real estate firm headquartered in London and from Insignia Richard Ellis Gunne estate agents, chartered surveyors, and auctioneers based in Dublin. Lisney reports retail property yields of the Republic at 5.25 percent in 1980 that rose to 6 percent by 1983, dropped to 5 percent in 1989, rose to 6.5 percent in 1992, and declined to the 3.75 to 4 percent range by 2000. In addition, the capital values of retail properties have risen greatly over this period.

The investment yield trend for retail properties in Belfast, Northern Ireland is similar but different from those of the Republic. After hovering at the 6 percent level in both 1995 and 1996, the yields started dropping until a yield level of 5 percent was reached in 2000. At present, therefore, retail investment yields are better in Northern Ireland in Belfast, in particular, than in the Republic in Dublin, in particular. By early 2001, Lisney was quoting prime Belfast yields at 5 percent, good provincial retail property, such as the Lisburn retail market, at 6 percent, and average provincial retail property, such as Portadown, at 7 percent. But capital values of retail properties have not risen as rapidly over recent years in Northern Ireland. Economic growth began, essentially, at the signing of the peace agreement.

## Office Leases, Rents, Total Occupancy Costs, and Investment Yields

### *The Office Market of the Republic of Ireland*

Proof that Dublin is the top business center of the Republic of Ireland shows in office rent quotations. New office space in Dublin commands rents of IR 40 to IR 50 per square foot per year; less desirable Dublin office space rents for IR 35 to IR 40 per square foot per annum. At the same time, average office rents of Cork in southwest Ireland are IR 13 to IR 18 per foot per year, and Galway and Limerick in western Ireland command average rents of IR 12 to IR 13 per square foot per annum, according to Republic of Ireland estate agents in 2000. According to DTZ International of London, prime office rents of Dublin doubled between 1994 and 1999. Economic uncertainties started to affect office rents somewhat in 2000 as office rents still tended to rise. According to Lisney Property Rental Indices, the office rent rise slowed down to a little over eight percent during the period July 2000 to January 2001, while the increase for the year from January 2000 to January 2001 was a little over 24 percent for modem office space. From 1998 through 2001, increases in Georgian building office rents were greater than increases in nonGeorgian modem office rents. For example, Georgian building office rents increased 50 percent for the year from January 2000 to January 2001.

Office building construction remained on a high level in 2001. Approximately 300,000 square feet of office space was being added to the 20,000,000 square foot total Dublin inventory of office space. Overbuilding was not considered a problem for a number of reasons including the slow pace of office building planning permission that holds back new office building construction and the high demand for central business Dublin space particularly in postal zones 2 and 4 on the south side of the Liffey River. Any vacancies of office space in the suburbs should soon be absorbed due to the continuing high growth of the economy and the lending restrictions on speculative property ventures. A number of office buildings have been built recently on a speculative basis and by individual companies for their own occupancy. As the economic downturn in information technology and other sectors started in 2000, a major information technology company delayed its Sandyford office complex for two years. That U.S. company can expand into other office buildings temporarily until the market turns upward. Layoffs among domestic and multinational companies started in the spring of 2001. As a result, some companies, particularly some high tech companies, do not need as much office space as earlier thought.

Total office occupancy costs of Dublin at U.S.$51 per square foot for 2000 compare favorably with London City (U.S.$103) and West End (U.S.$134), Paris (U.S.$65), and Tokyo (U.S.$155 to U.S.$134). Dublin office rents approximate those of Manchester, England (U.S.$51), Glasgow, Scotland (U.S.$51), and Frankfurt, Germany (U.S.$57), according to World Office Rents (C.B.Richard Ellis, 2000). CB Richard Ellis points out in their 2000 office rents report that lower total office occupancy costs than that of Dublin may be found in Brussels (U.S.$27), Lisbon (U.S.$29), Amsterdam (U.S.$34), Madrid (U.S.$36), and downtown Manhattan, New York (U. S.$43).

The office lease terms cover 10 years typically, according to CB Richard Ellis. Break options are negotiable. Rent reviews usually are scheduled every five years following the same patterns as British office leases. Rents are usually not indexed; open-market values at the end of five-year periods are reflected in upward-only rents. The tenant is usually responsible for all insurance, maintenance, and repair costs. The tenant normally does not pay a security deposit. Subleasing may be permitted with landlord permission.

Investment yields from Dublin office buildings may range from 4.5 to 5 percent, according to commercial property European yield information for the second quarter of 2000 in the latest issue of Global Real Estate News, published by the International Real Estate Institute from data compiled by several leading international real estate companies. According to DTZ International of London, prime Dublin office yields declined from 6.75 percent in 1993 to 4.5 percent in 2000. Dublin office building yields are generally higher than investment yields from retail properties but lower than yields from industrial properties of Dublin.


***The Office Market of North Ireland***

The Northern Ireland office property market has been showing strength, but that strength is based on political stability and investor confidence in large part. The increased leasing of office space in newly developed and existing buildings reflects the decline in the unemployment rate to 6 percent, the expansion of domestic companies, and the encouragement of inward investment by foreign investors. Investors from Dublin have been showing up in Belfast as property prices and rents in Dublin and elsewhere in the Republic have tended to turn down from their 1999 and 2000 peaks. A few investors from London have also appeared on the scene. The active leasing of newly developed office space in Belfast also reflects the scarcity of modern, high-quality space that is demanded by occupants and investors as the economy improves. The slow planning process delays the development of the desired high-quality space.

The Northern Ireland office leases tend to reflect those of other parts of the U.K. The leases tend to run 20 to 25 years with the traditional U.K. 5-year rent reviews. Office yields have been running from 5.75 percent to 6 percent.

Since call centers have become a significant business development of Northern Ireland, the Industrial Development Board has been supporting the development of such office space. Users of the call centers include the Prudential Insurance Co. of London, British Broadcasting Co., British Airways, Abbey National Bank, and Halifax Bank. The Halifax call center was the United Kingdom's largest call center as it was completed at Easter, 2001.

E-commerce and software development companies are also being attracted to Northern Ireland. For example, Fujitsu has invested recently in a new 80,000 square foot facility. This company already occupies three buildings in the province. Expansion of these two sectors in the province is anticipated.

## Marketing Property

The Auctioneers and House Agents Act of 1947 established government licensing in Ireland that applies to estate agents, chartered surveyors, and auctioneers. Auctioneers may have specific licensing requirements. But employment for the needed marketing work depends primarily on the employer after review of the education and experience background of the applicant. The managing directors of the various domestic and international firms of estate agents, chartered surveyors, and auctioneers that work in the Republic and in the Northern Ireland province are drawn to employees for higher level positions of responsibility that have met the membership qualifications of highly regarded real property trade associations. There are two professional associations that promulgate high standards and qualifications for their members: (1) Irish Auctioneers and Valuers Institute (often abbreviated "IAVI") is affiliated with FIABC1 (The International Real Estate Federation), EPAG (The European Property Agents Group, IVSC (The International Valuation Standards Committee), and TEGoVA (The European Group of Valuers Association). This professional trade association, that was established in 1922, also has a bilateral co-operation agreement with the National Association of Realtors. (2) The Institute of Professional Auctioneers and Valuers (that is often abbreviated "IPAV) was established in 1971 and is affiliated with the European Confederation of European Estate Agents

The Irish Auctioneers and Valuers Institute conducts a four-year part-time Honours Bachelors of Science Program in Property Studies; degrees are awarded to graduates. A one-year course in Residential and Land Agency is offered to employees who will be mainly involved in only residential sales and valuations. The Institute also maintains an exemplary continuing professional development program. The Institute of Professional Auctioneers and Valuers conveys the professional designation "Certified Auctioneer and Valuer" to qualified IPAV members.

The internet is a widely used marketing medium by many Irish auctioneer, valuer, chartered surveyor, and estate agent firms. Individual companies maintain home pages that give prospective clients a great deal of information about company services.

Real estate fees and commissions depend upon whether property leases or sales are involved. The tenant of the leased space usually pays a fee of 10 percent of the annual rent plus a value-added tax at 21 percent. The buyer usually pays an agent's fee of 2.5 percent of the sale price, according to Healey & Baker international real estate data.

## Valuation and Finance of Real Properties

Valuation of properties has become an important occupation in the period since 1994 since the economic growth has brought about rising rents and property values and new tenancy, ownership, and land development. Generally the same system of valuation and valuer requirements of the United Kingdom is used in the Republic and in Northern Ireland. One major difference is the definition of Zone A space for valuation purposes; the definition for the Republic differs from that of Northern Ireland. The basic currencies for these valuations are also different: The Republic uses the Irish punt (pound) until January 1, 2002 when the euro is adopted; Northern Ireland continues to use the British pound sterling. When international investors are associated with the valuation transaction, the valuation and its measurement details may appear in the U.S. dollar and in imperial measures as well as in the Irish punt and pound sterling and in the associated metric measures.

Property finance of Northern Ireland is directly impacted by the policies and regulations of the Central Bank of England where the property finance of the Republic of Ireland is directly impacted by the policies and regulations of the Central Bank of Ireland and indirectly impacted by the policies and regulations of the Central European Bank. The role of the Central European Bank will intensify as the total currency of the Republic is converted to euros in January, 2002. When desired financing is not available within the province of Northern Ireland, the prospective property owner or developer will then seek financing from London, the international capital and money market. When desired financing is not available within the Republic, financing is more than likely sought in London, due to historic practices and acquaintanceships, or on the continent because the euro is the currency of choice in most instances. U.S. multinational companies who do business on the Ireland may finance in the local currency or in any currency that meets multinational corporate needs that may be the U.S. dollar, the euro, or another currency.

### *Home Financing*

In the Republic of Ireland, home financing is based on five-year mortgage terms. The interest rate may be fixed or floating; floating rates predominate. During the period of the loan, the interest rate may be scheduled for be fixed for a period and variable for a period. The potential borrower may select a mortgage payment plan, for example, has a fixed rate of interest for the first two years followed by a floating rate of interest for the remaining three years of the five-year loan. The borrower may be asked to pay premiums for a life insurance policy that is payable to the lender in the case of the death of the borrower. The borrower may be asked to take out an annuity insurance policy to cover the loan principal repayment at its scheduled maturity; the borrower may be asked to pay only interest in periodic payments before the maturity date of the loan.

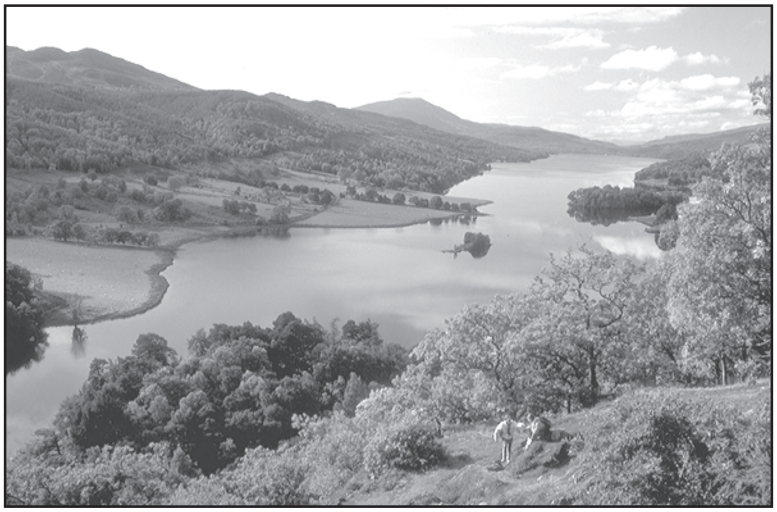
The chief sources of home mortgage finance are domestic and foreign banks, building societies, other thrift institutions, and mortgage companies. The mortgage companies may offer funding from domestic and foreign insurance companies and pension funds. The prospective customer has benefited from the aggressive marketing of home mortgage funding by a large number of financial institutions who operate in the Republic. In recent years, funds have been abundant, and the demand for home mortgages has been insatiable in the rising economy that represented rising personal incomes among residents that had long sought better housing in better locations. In such a prosperous period, home loan default rates have been very low.

Mortgage securitization has been employed in the Republic. But, in most years under most circumstances, the home mortgage volume has been relatively low and has permitted the major financial institutions to invest in the loans for the long term. Unlike the United States, the lenders have not made loans merely for the fee income but for long-term investment. The finance of both parts of the Irish isle has been dependent on major financial institutions that generally are local and U.K. banks and insurance companies. But commercial mortgage securitization involving Irish

banks has occurred. For example, the Anglo Irish Bank closed Monument Securitization No. 1 Plc that raised about U.S.$565 million dollars through a U.K. commercial mortgage backed securitization on September 22, 2000. Merrill Lynch International underwrote and lead managed the large issue based on U.K. investment property loans that was oversubscribed by U.K. and European investors.

### *Commercial Property Financing*

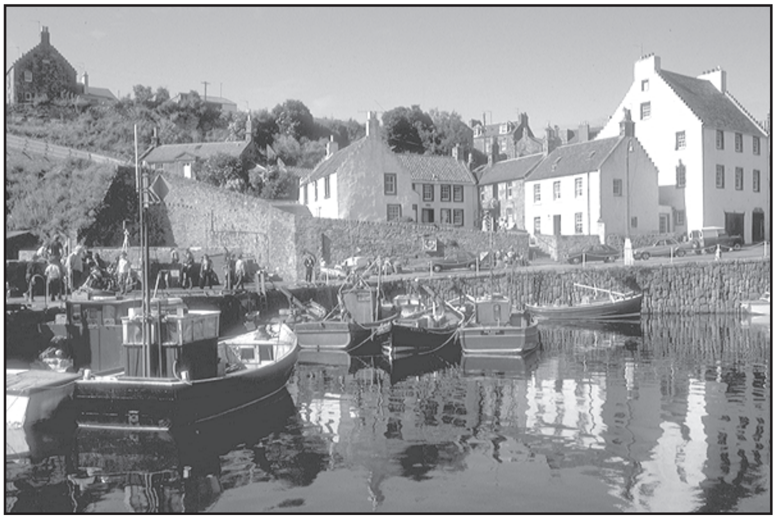
Office buildings, shopping centers, and other major commercial properties are financed by systems similar to those of the United Kingdom, Irish businessmen say. That statement may include retail and wholesale warehouses. Industrial proper-



ties such as manufacturing facilities are usually financed through stock, bonds, bank loans, and other debt issued by the industrial company occupant-owner. The total company financing, that is focused on the overall cost of capital and the target capital structure, includes the financing of the needed industrial premises and perhaps the industrial company's sole-occupied office buildings.

As more foreign retail tenants, industrial companies, and investors including those from the United States - are attracted to both the Republic and to Northern Ireland, leases and financing patterns tend to reflect the strong influence of U.S. leasing and financing systems. For example, five-year retail and office tenant rent reviews and relatively long storeroom and office leases are generally unfamiliar to U.S. tenants. In the U.K., the longer term ground and building leases underlie the longer term commercial mortgages from major institutional lenders.

# Summary and Conclusions



The Republic of Ireland property market continues to thrive even though a slowdown in price, profit, and rent growth reflects the global economic slowdown. The Republic has been the fastest growing economy of the European Union countries. The Republic's economic slowdown may permit property supply to catch up with property demand somewhat. The infrastructure may catch up to some extent with infrastructure needs of a growth economy. The property market of Northern Ireland, a province of the United Kingdom that is located on the same island as the Republic of Island, is enjoying a mild renaissance following the signing of the peace agreement. The infrastructure for property investment needs to be renovated and updated, but the Northern Ireland infrastructure is not stretched as thin as that of the Republic. As the peace agreement continues to hold, more economic prosperity promises healthier property market conditions.

The Republic of Ireland and the Northern Ireland provinces have several investment attractions. English is the principal language of both countries on the emerald isle. Local area languages such as the Gailic language of the Republic are little used. The imperial or English land measurement system continues to be used alongside the metric system. The Republic will continue to use the English system for another ten years. Due to foreign investment the land measurement quotations are couched in the local currency, the euro, and the U.S. dollar, which is an international currency along with the euro. The currency of Northern Ireland continues to the British pound sterling. The Republic continues to use the Irish punt for retail transactions until the total conversion to the euro in January, 2002. Many U.S.-based current and prospective investors including the major computer manufacturers, software developers, telecommunications, chemical, and pharmaceutical companies, prompt property quotations in the U.S. dollar. Irish property total yields have been higher than stock and bond yields in recent periods. Property investment risks have been normal while the property yields have exceeded competitive yields in the international marketplace.

The European Union membership of the Republic and the associated use of the euro in commerce promises less foreign exchange risk and chances for currency exchange loss for multinational companies who conduct business across the EU. The re-election of Tony Blair as U.K. prime minister in 2001 is associated with anticipation of the U.K. entrance into the EU in coming years; as a consequence, the use of pound sterling would be converted to use of the euro. Foreign exchange loss would be mitigated for those investing in the Northern Ireland province of the U.K. The EU membership of the Republic also brought infrastructure financing from EU sources. There is fear among Irish citizens that the EU's infrastructure financing attention will turn away from prosperous Ireland toward the existing and new EU members of Central Europe.

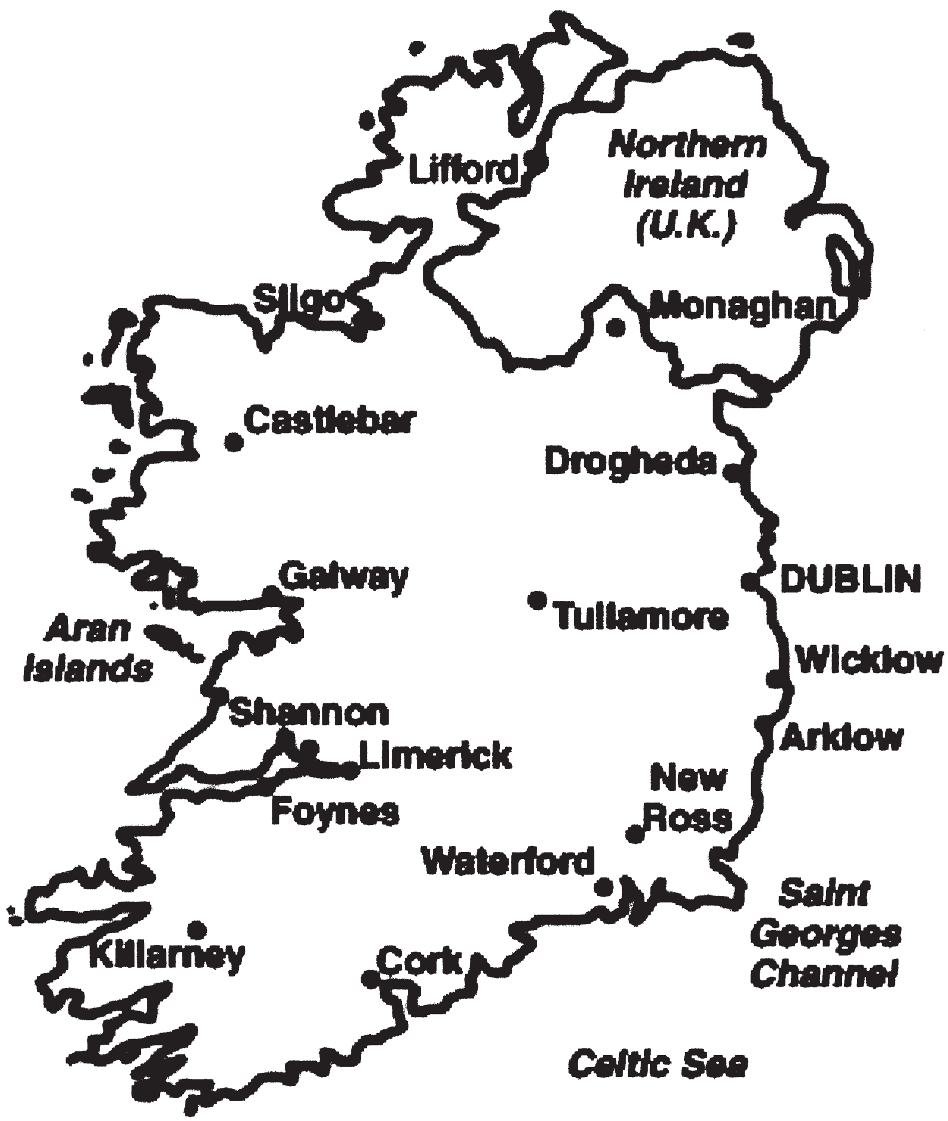
United Kingdom practices are felt by the Irish property market in numerous ways. The methods of valuation and financing of commercial property, for example, reflect the British way in both the Republic and in Northern Ireland. Zone A rent quotations of the U.K. are reflected in Zone A rent quotations of the Republic and Northern Ireland, even though Zone A may have a little different definition per country. Irish commercial property lease terms are similar to those of the U.K. Where Northern Ireland taxation is based on U.K. taxation, the Republic has adopted aggressive tax regulations to attract and hold export-oriented foreign businesses and to encourage domestic export-oriented businesses. The public/private partnership among the Republic's government, its Industrial Development Agency, and the private sector has worked to create the currently prosperous economy. Northern Ireland has a similar, but less powerful and forceful publicprivate partnership. Perhaps the U.K. government permits less entrepreneurial activity in this province due to the internal strife that has resulted in many deaths among all parties to the long-term political conflict. The land planning and permission systems of the emerald isle are slow and bureaucratic as they are in the U.K. in general. Existing property yields are enhanced through this system that holds back the development of up-to-date, technology-friendly commercial properties.

The stamp duty of the Republic is considered, by overall EU standards, to be relatively high. Income tax rates are relatively low, the EU administration has been pushing the Republic for a little higher income taxes to slow down the property bubble sector and inflation and to raise more funds for needed infrastructure development. The 10 percent income tax rate for export-oriented manufacturers and finance service providers has been an effective tool.

If the economy continues grow and businesses continue to create new jobs at good salaries for an educated and trained labor force, the Republic may continue to realize net immigration. Emigration to other countries, including the United States, where better-paying, more appropriate jobs are available, has continued even during the late 1990s and early 2000s. A large portion on the Republic's citizens are under the age of 25, which represents the future labor force. A large portion of the citizens are between the ages of 25 and 44 at present. This age group represents the current primary labor force. The elderly population is smaller in percentage and number than those of most European countries, the United States, and Japan in general.

The marketing of property reflects the education and training of property company employees. The internet is effectively used. The expertise of London-based international real estate firms is utilized in leading Republic estate management and auctioneer firms where alliances and joint ventures with the London firms exist. Even the international marketing of commercial property mortgage-backed securities by Republic banks to international and domestic investors shows the up-to-date nature of the property financing and marketing sectors.

# Ireland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Limerick
Arklow
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