RESEARCH

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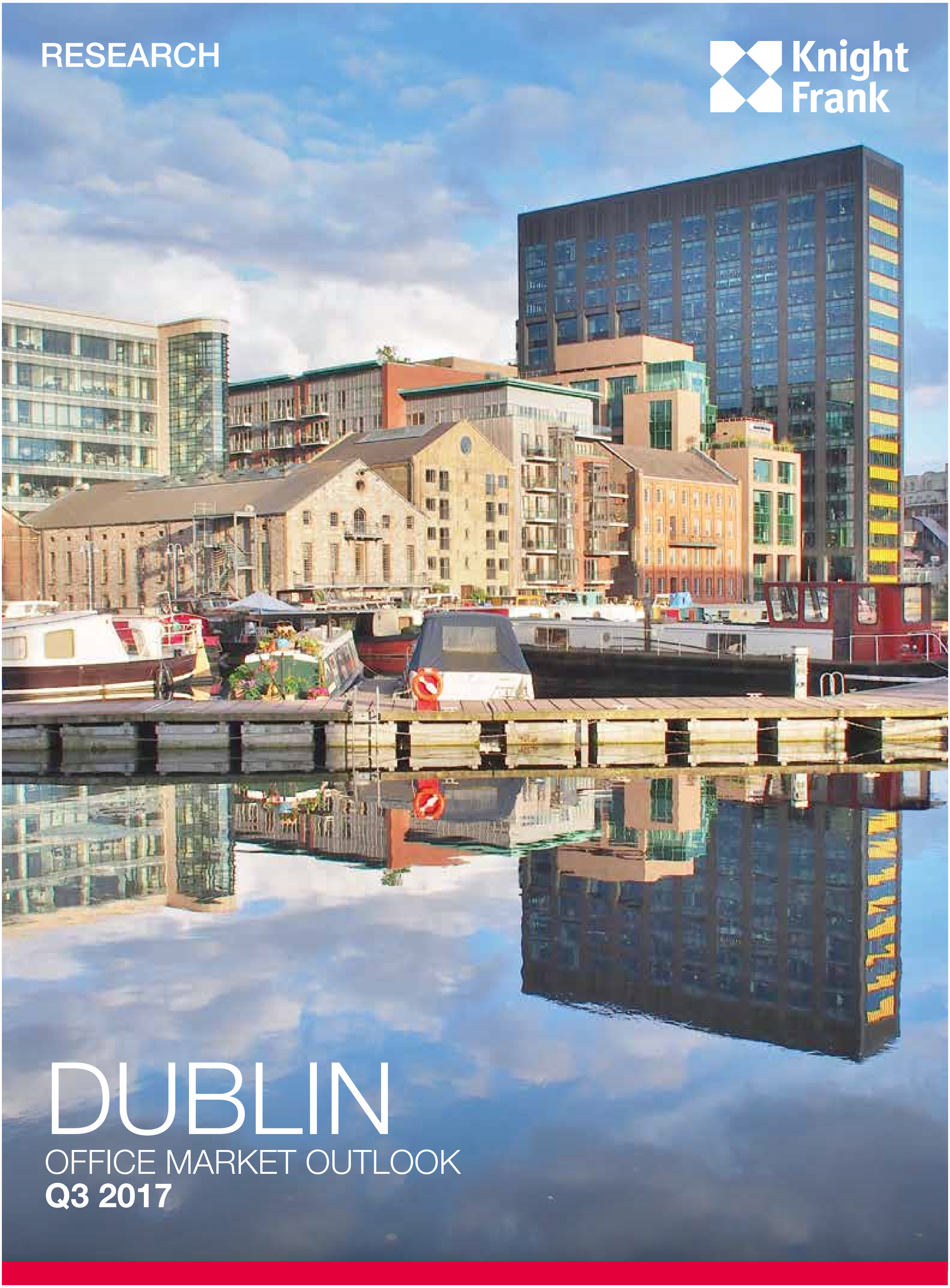


DUBLIN

OFFICE MARKET OUTLOOK

Q3 2017

INVESTMENT TRENDS | MARKET OUTLOOK | OCCUPIER TRENDS

KEY FINDINGS

Dublin's economy is forecast to grow at 2.7% per annum over the next four years.

Office take-up achieved a new record at over 1.5 million sq ft in H1 2017, driven by the TMT sector.

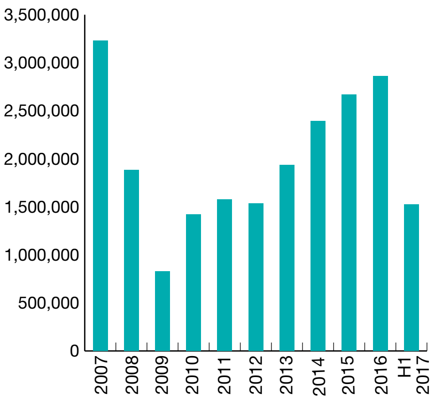
Ongoing increases to the development pipeline will support high levels of take-up.

Prime rents have remained unchanged at €60 per sq ft per annum.

Ireland's commercial investment sales slowed in H1, however full-year volumes are expected to be in-line with the 10-year average of €1.8 billion.

Investor appetite remains high but transactional activity is being suppressed by a shortage of available stock for sale.

FIGURE 1
Office take-up
sq ft



Source: Knight Frank Research

OCCUPIER MARKET

Dublin witnessed its highest ever volume of office take-up at over 1.5 million sq ft in the first half of the year, supported by sizeable new deliveries.

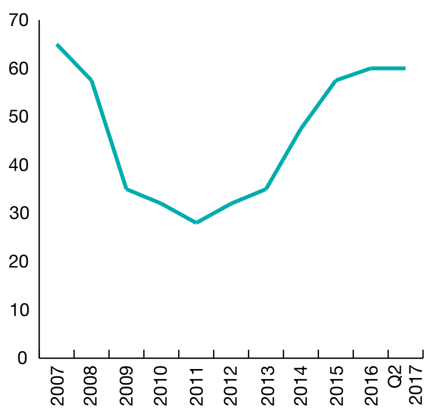
Despite the uncertainty of Brexit-related impacts, Dublin's economy has continued to grow at a solid pace. Over the next four years, Dublin is forecast to have the fourth fastest growing economy in Europe. Strong labour market conditions have led to unemployment rates of around 6% – the lowest in nearly a decade.

The Information and Communications sector is forecast to contribute nearly 20% to Dublin's economy in 2017. The significance of this sector is evident in Dublin's occupational market, as Technology, Media and Telecommunications (TMT) occupiers were once again the most active in H1 2017, accounting for a 45% share of the total office take-up. Occupier activity reached a new high in Dublin and was supported by sizeable deliveries (Figure 1). A number of buildings reached practical completion in the first half of the year, including the Central Bank's new headquarters in Docklands and LinkedIn's new headquarters on Lad Lane. Prime rents have remained stable at €60 per sq ft (Figure 2), while the vacancy rate declined to 7.9% having risen to 8.3% between Q4 2016 and Q1 2017.

Dublin's office market has had an influx of serviced operators. Not that long ago, start-ups were hampered for office space in Dublin but a cluster of co-working hubs, such as the Tara Building, have recently opened their doors. The Dublin BIC and London co-working provider Huckletree are also currently establishing new hubs in Dublin. Further growth in this market segment will accelerate on the back of the rise in tech sector employment, a supportive start-up environment, the increased use of co-working space by corporate occupiers and declining vacancy rates for small offices.

With Brexit negotiations looming in the background, London based financial firms are beginning to actively implement their contingency plans. JP Morgan was one of the first companies to confirm its plans to expand its operations and staff in Dublin. Barclays and Bank of America have also agreed on Dublin as part of their relocation strategy. In addition, some roles from Morgan Stanley and Citigroup are expected to move to Dublin.

FIGURE 2
Prime office rents
€ per sq ft per annum



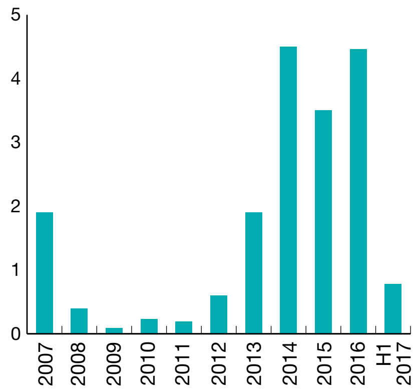
Source: Knight Frank Research

Key office leasing transactions in 2017

Quarter	Property	Tenant	Sector	Size (sq ft)
Q2	The Beckett Building, East Wall, Dublin 3	Facebook	TMT	170,000
Q2	Block H, Central Park, Dublin 18	AIB	Finance	152,000
Q1	Block 1, Miesian Plaza, Dublin 2	OPW	State	143,000
Q2	200 Capital Dock, Sir John Rogerson's Quay, Dublin 2	JP Morgan	Finance	128,220
Q2	55 Charlemont, Dublin 2	Zendesk	TMT	57,865
Q1	124-127 St Stephens Green, Dublin 2	Indeed.com	TMT	51,523

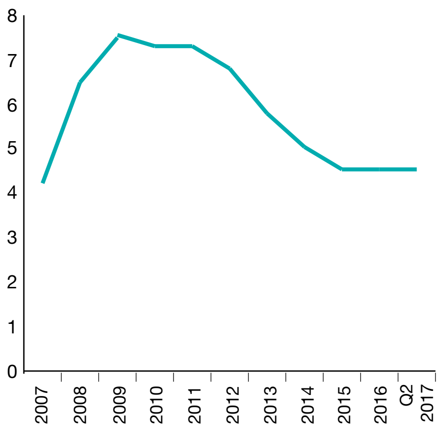
Source: Knight Frank Research

FIGURE 3
Ireland commercial property investment volumes
€ billion



Source: Knight Frank Research

FIGURE 4
Prime office yields
%



Source: Knight Frank Research


Block H Central Park let by Knight Frank to AIB.

INVESTMENT MARKET

Although investor confidence in Dublin was initially dented by the UK's decision to leave the European Union, the Irish investment market had one of its strongest years on record in 2016. Over €4.4 billion was invested into its commercial real estate, inflated by two significant retail deals. Investment activity has since slowed, with total spend in H1 2017 reaching €776 million (Figure 3). The office sector held the largest share of transactional volume, comprising 46% of total investment sales. Activity remained concentrated in Dublin with the capital attracting 76% of activity. Prime office yields remained stable at 4.5% (Figure 4).

While investor appetite remains high, Dublin's commercial property market is facing a shortage of prime assets available for acquisition. Investors have accordingly been moving up the risk curve to suburban locations. This was evident across a range of transactions in the suburban postcode of Dublin 18 and included The Park Office Portfolio in Carrickmines and the former Microsoft office at Building 2 in the South County Business Park. In response to the shortage of core assets, investors have also turned their attention to forward-funding opportunities, demonstrated by Irish Life's forward-funding of City Quay for €128 million.

Irish investors have continued to be the most active accounting for 68% of the office investment transactions. Despite their small share, foreign buyers from Europe and the US also secured some of the largest lot-sized transactions, including One Grand Parade by German investor Quadoro Doric for €26 million.

Key property investment transactions in 2017

Quarter	Property	Seller	Buyer	Approximate price (€ million)
Q1	13-18 City Quay, Dublin 2	TIO	Irish Life	126.3
Q2	The Park Office Portfolio, Dublin 18	Park Developments	Syndicated Fund Assembled by Cantor Fitzgerald	38.6
Q2	One Grand Parade, Dublin 6	Credit Suisse	Quadoro Doric	26.0
Q1	The Fumbally, Dublin 8	Markland	M7 Real Estate	21.5
Q2	Building 2, South County Business Park, Leopardstown, Dublin 18	Green Property	Private Irish	20.5

Source: Knight Frank Research

KNIGHT FRANK VIEW

Dublin's occupational market is on course to reach an outstanding year in terms of leasing volumes. The trend toward the establishment of co-working hubs is likely to increase, particularly as the tech sector undergoes phenomenal growth and the market remains conducive to start-ups. Financial institutions will also be increasingly reviewing their office location strategies as part of Brexit contingency planning. The full impacts on Dublin's office market however are unlikely to be realised until next year.

The Irish economy will continue to gather momentum leading to strong labour market conditions. Based on employment growth alone, Dublin is expected to require an additional 1.5 million sq ft of office space by year-end. Though a substantial quantum of office space is planned for delivery in the second half of the year, the pipeline will need to sustain at levels which meet pent-up demand and compensate for obsolete office stock withdrawals.

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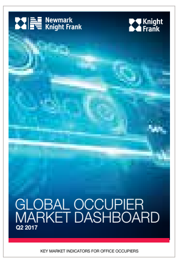
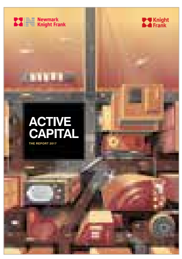


Global Occupier Market Dashboard - Q2 2017

Central London Quarterly - Q2 2017



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