RESEARCH

DUBLIN
OFFICE MARKET OUTLOOK
Q4 2014

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

There has been a remarkable turnaround in sentiment within the Dublin office market over the last 18 months

Prime headline office rents have risen by approximately 40% since the start of 2013, and now stand at €45 per sq ft (€484 per sq m) per annum

Although the overall vacancy rate remains high at 15.25%, there is an acute shortage of prime office space in the sought-after Dublin 2/4 districts

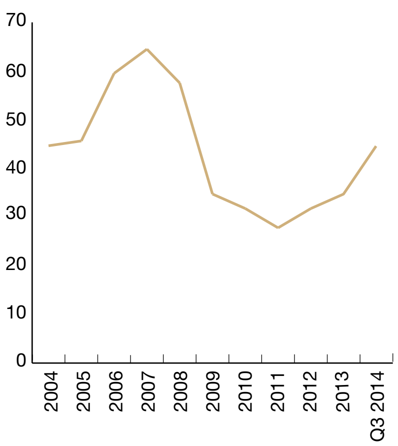
Technology companies are currently a major source of occupier demand, underlining Dublin's status as a global hub for the tech industry

The investment market is extremely buoyant, with €2.9 billion of Irish commercial property transacted during Q1-Q3 2014, comfortably surpassing the annual volume for 2013

FIGURE 1

Dublin prime office rents

€ per sq ft per annum



Source: Knight Frank Research

OCCUPIER MARKET

The Dublin office market has staged a strong recovery over the last 18 months, which has been reflected by sharply rising rents and falling vacancies.

Office take-up reached 1.4 million sq ft (c.130,000 sq m) in the first three quarters of 2014, a 17% increase compared with the same period of 2013. Tech companies were a major driver of activity, as key deals involved Yahoo (74,164 sq ft), Amazon (69,995 sq ft) and Dropbox (54,000 sq ft).

With firms such as Facebook, Twitter, Google and LinkedIn also expanding their presence in Dublin in recent times, the city continues to demonstrate its ability to attract tech occupiers, drawn by a youthful, talented workforce and a favourable tax regime. Demand from occupiers in this sector has to date largely focused on offices in the city centre and the area known as "Silicon Docks".

The strength of recent occupier demand, combined with very limited development activity, has pushed down Dublin's office vacancy rate to 15.25%, having peaked at over 23% in 2010. Although the overall vacancy rate appears high compared with other European capital cities, it belies the fact that there is a very limited availability of prime offices with large floor plates able to satisfy current active requirements in Dublin 2/4. There is a significant volume of functionally obsolete stock, particularly in the city centre, that requires considerable refurbishment.

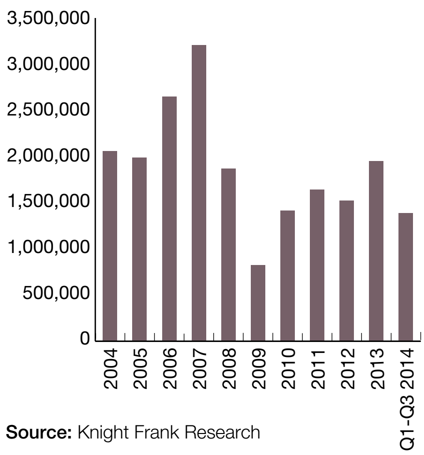
The diminishing availability of prime central space has encouraged the resumption of a modest amount of speculative development, which has been entirely absent from the market in recent years. The first major new projects to commence are the redevelopment of the former Canada House site on St Stephen's Green, the office element of Number One Ballsbridge on the former site of the Veterinary College and Miesian Plaza on Baggot Street.

Prime office rents have increased by approximately 40% since the start of 2013, and now stand at €45 per sq ft (€484 per sq m) per annum. Further rental growth is anticipated by the year-end, and there is still considerable room for rents to rise before they approach their pre-crisis peak of €65 per sq ft (€700 per sq m) per annum.

FIGURE 2

Office take-up

sq ft



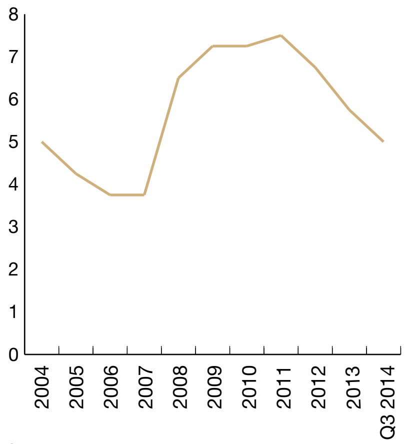
Source: Knight Frank Research

Key recent office leasing transactions

Quarter	Property	Tenant	Sector	Size
Q1 2014	Point Village, East Wall Road, Dublin 3	Yahoo	TMT	74,164 sq ft
Q1 2014	Burlington Plaza, Dublin 4	Amazon	TMT	69,995 sq ft
Q1 2014	One Park Place, Dublin 2	Dropbox	TMT	54,000 sq ft
Q1 2014	3040 Citywest, Dublin 24	UPS	Logistics	47,312 sq ft
Q2 2014	The Observatory, Dublin 2	Riot Games	TMT	45,531 sq ft

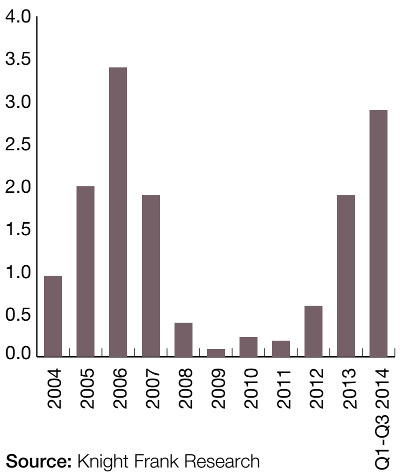
Source: Knight Frank Research

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Ireland commercial property investment volumes
€ billion



Source: Knight Frank Research

2 Grand Canal Square, Dublin 2. Purchased by Irish Life Investment Management for approximately €120 million.

INVESTMENT MARKET

A total of €2.9 billion was invested in commercial property in Ireland during the first three quarters of 2014, already well in excess of the €1.9 billion transacted in the whole of 2013. This represents a remarkable resurgence from the sluggish market of the 2008-2012 period.

The initial revival of activity in 2013 was in large part driven by US investors pursuing value-added and opportunistic strategies, such as Kennedy Wilson and Lone Star. These investors have remained active in 2014, but they have also been joined in the market by a growing variety of international and Irish buyers.

Domestic REITs have been particularly active in 2014, following the introduction of the Irish REIT regime in 2013. Hibernia REIT and Green REIT, for example, have both made a series of major acquisitions. There has also been a noticeable pick-up in interest from European funds, especially from Germany, with Union, GLL and Patrizia actively looking for large-scale commercial opportunities.

Prime office yields have hardened to 5.00%, having stood at 5.75% at the start of the year. Transactional evidence suggests that yields remain under downward pressure, with sub-5.00% yields achievable by the very best buildings in Dublin.

Key recent office investment transactions

Quarter	Property	Seller	Buyer	Approximate price
Q1 2014	The Platinum Portfolio, Dublin	NAMA	Blackstone & Google	€165 million
Q3 2014	2 Grand Canal Square, Dublin 2	NAMA/ Chartered Land	Irish Life Investment Management	€120 million
Q3 2014	Guild House & Commerzbank House, IFSC, Dublin 1	Warren Private	Hibernia REIT	€91 million
Q1 2014	New Century House, Dublin 1	CMP Investment Partners	Hibernia REIT	€47 million
Q2 2014	29-31 Adelaide Road, Dublin 2	IBRC	Lone Star	€45 million

Source: Knight Frank Research

KNIGHT FRANK VIEW

The Dublin office market has gathered strong momentum over the last 18 months, which shows no immediate signs of slowing. Office space demand should continue to be supported by the improving Irish economic outlook. The growth of the tech sector will stimulate leasing activity, as a number of prominent tech occupiers are known to have large requirements for additional office space, having outgrown their existing premises. In addition, the professional and corporate sectors are generating increased demand, while public sector occupiers, for the first time in many years, are moving to replace obsolete buildings with new stock. As the availability of prime central office space further declines, speculative development activity can be expected to pick up, and occupiers may increasingly need to explore design-and-build options.

Investment activity is expected to remain strong over the rest of 2014. As the year-end approaches, transactional activity may even accelerate as private domestic investors seek to complete acquisitions before the current waiver on Capital Gains Tax expires. It is possible that the market may see a pause for breath in early 2015, but the underlying strong institutional appetite, which accounts for the lion's share of the market, will sustain investment activity. However, the buyer profile is likely to shift, as rising prices limit the prospects for the more opportunistic buyers.

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EUROPEAN RESEARCH

Darren Yates, Partner
Head of Global Capital Markets Research
+44 20 7629 8171
darren.yates@knightfrank.com

Matthew Colbourne, Associate
International Research
+44 20 7629 8171
matthew.colbourne@knightfrank.com

Sam Berry, Analyst
International Research
+44 20 7629 8171
sam.berry@knightfrank.com

DUBLIN

Declan O'Reilly, Director
+353 1 634 2466
declan.oreilly@ie.knightfrank.com

Paul Hanly, Director
+353 1 634 2466
paul.hanly@ie.knightfrank.com

Jim O'Reilly, Director
+353 1 634 2466
jim.oreilly@ie.knightfrank.com

Daniel Shannon, Associate Director
+353 1 634 2466
daniel.shannon@ie.knightfrank.com

John Ring, Investment Analyst
+353 1 634 2466
john.ring@ie.knightfrank.com

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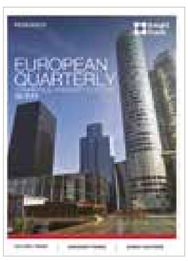

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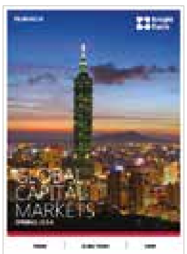

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