

RESEARCH



DUBLIN

OFFICE MARKET OUTLOOK
Q4 2015

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

GDP forecasts for 2015 have been revised upwards to 6.0% annually, remaining strong despite weaker global growth

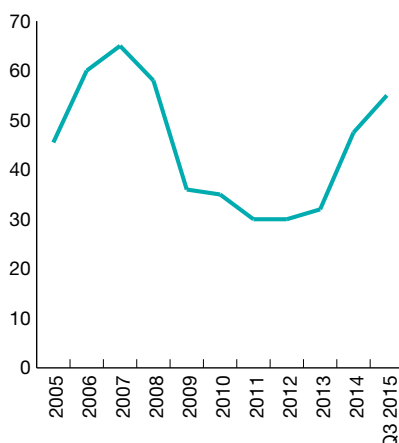
Dublin's office market continues to experience significant growth as the country's economy strengthens

Though office take-up increased year-on-year, the full-year total is unlikely to exceed that of 2014

Development activity is on the rise, with new completions expected to come to the market from mid-2016

Commercial investment in Ireland is forecast to reach €3 billion, boosted by growing domestic demand

FIGURE 1
Prime office rents
€ per sq ft per annum



Source: Knight Frank Research

OCCUPIER MARKET

Dublin's office market continues to outperform most of Europe, with rents rising at an accelerated speed and vacancy rates falling rapidly.

During the first nine months of 2015, office take-up in Dublin reached 1.73 million sq ft (c. 160,000 sq m). This is up 26% on the same period last year, with the rise in activity driven by an increase in the number of leasing transactions – 185 deals were concluded, compared to 155 in the same period of 2014. Although the average deal size fell 16% year-on-year to 9,350 sq ft, the increase in transaction numbers was more than enough to offset this.

As with previous years, the TMT sector dominated leasing activity, with a 43% share of take-up, followed by growing activity involving the financial services sector, which accounted for 20% of total take-up. The top five deals in Q1-Q3 2015 have been from these sectors, signifying their dominance in the market. The Bank of Ireland's pre-leasing of 129,500 sq ft at 27-33 Upper Baggot Street, which is currently undergoing an extensive redevelopment, was the largest deal so far this year, followed by Twitter's leasing of 85,000 sq ft in Cumberland House.

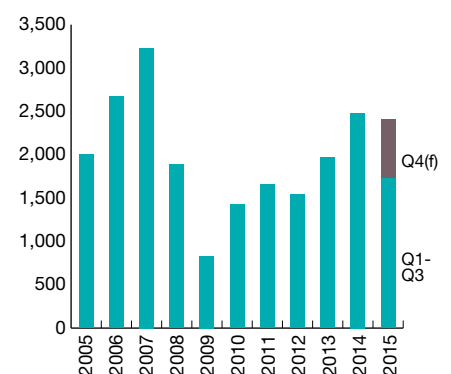
Dublin 2 – the most sought-after postcode – now has a very low level of available space, which was reflected in its share of take-up in Q1-Q3 falling to just 19%. This lack of supply will certainly affect occupier activity in the final quarter, and may prevent full-year take-up levels surpassing that of 2014.

Following three years of no office completions, development activity in Dublin

looks to be improving, with a number of important proposals gaining planning permission or starting construction. Though these schemes are not expected to complete until at least mid-2016, many tenants are interested in pre-leasing space as the availability throughout the city continues to diminish. The overall vacancy rate stood at 10.5% in Q3, declining rapidly by 475 bps in twelve months.

This caused prime office rents to increase at an accelerated speed, and they now stand at €55 per sq ft per annum. Increasing by 22% year-on-year, rents are expected to continue rising, albeit now at a slower pace, as the demand for office space in Dublin remains positive.

FIGURE 2
Office take-up
sq ft (000s)



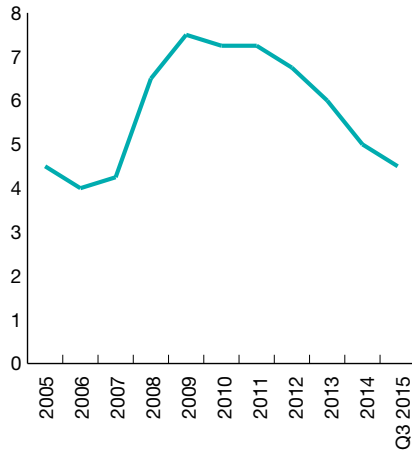
Source: Knight Frank Research

Key office leasing transactions in 2015

Quarter	Property	Tenant	Size (sq ft)
Q2	27-33 Upper Baggot Street, Dublin 4	Bank of Ireland	129,500
Q3	Cumberland House, Dublin 2	Twitter	85,000
Q2	Marlborough House, Dublin 1	HCL Information System	82,374
Q2	LXV, St Stephens Green, Dublin 2	AerCap	63,000
Q2	The Quartz, Elm Park, Dublin 4	Willis	45,000

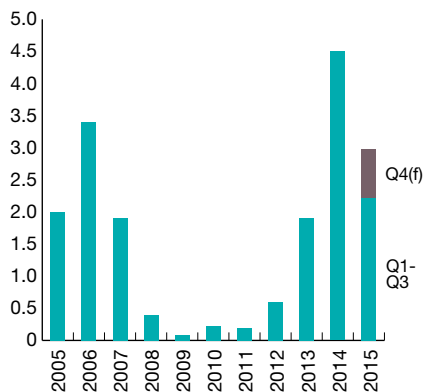
Source: Knight Frank Research

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Ireland commercial property
investment volumes
€ billion



Source: Knight Frank Research

INVESTMENT MARKET

Commercial property investment in Ireland totalled €2.2 billion during the first nine months of 2015, with volumes highest during the first quarter, before declining in Q2 and further in Q3. Office properties were in high demand, with volumes in the sector totalling just over €1.35 billion, of which €1.27 billion were concluded in Dublin.

Although volumes in Dublin's office sector are healthy, they have come down on last year, predominantly because of a lack of large-scale single-asset transactions, as well as portfolio deals. However, with the occupier market strengthening at a significant pace, investor interest in Dublin remains robust.

The acquisition of Project Molly by Starwood Capital for €350 million

demonstrates the continued interest of US investors, as does Hines' purchase of the Bishop's Square building for €92 million, both in Q1. German interest for assets in Dublin was also positive, with Union Investment's purchase of Facebook's European HQ for €233 million in Q1 and Beaux Lane House trading to Real IS investment fund for €60.5 million.

Following the strong investment performance in Ireland so far this year, all sectors have shown positive recovery, although the retail and industrial markets have lagged the office sector. After hardening by 25 bps at the beginning of the year, prime office yields in Dublin have remained stable at 4.5% since the end of Q1.

Key office investment transactions in 2015

Quarter	Property	Seller	Buyer	Approximate price (€million)
Q1	Project Molly, Dublin	Lone Star	Starwood Capital	350
Q1	Facebook European HQ, Dublin 4	NAMA	Union Investment	233
Q3	Block R Spencer Dock, Dublin 1	NAMA	Central Bank of Ireland	104
Q1	Bishop's Square, Dublin 2	King Street	Hines	92
Q3	Nassau House, Dublin 2	Aviva Investors	Meyer Bergman	90

Source: Knight Frank Research

KNIGHT FRANK VIEW

Full-year office take-up for 2015 is likely to reach c. 2.4 million sq ft, just falling short of 2014's total, primarily because office availability is at low levels. However, following many years of no construction activity, the pipeline for 2016 looks promising, with at least 500,000 sq ft due to enter the market during the second half of 2016. Dublin is likely to see increased take-up figures in the coming quarters as a result, with much of the space expected to be pre-leased before completion.

The recovery of Ireland's economy has played an important role in the uplift of the country's real estate markets – GDP growth figures for 2015 have been revised upward to 6.0% in 2015, following an increase in domestic demand. Reflecting this positive market sentiment, commercial property investment in Ireland is forecast to reach €3 billion by the end of the year, boosted by many pending office and retail deals that are expected to close by the year-end.



Iveagh Court in Dublin 2, part of Project Molly



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