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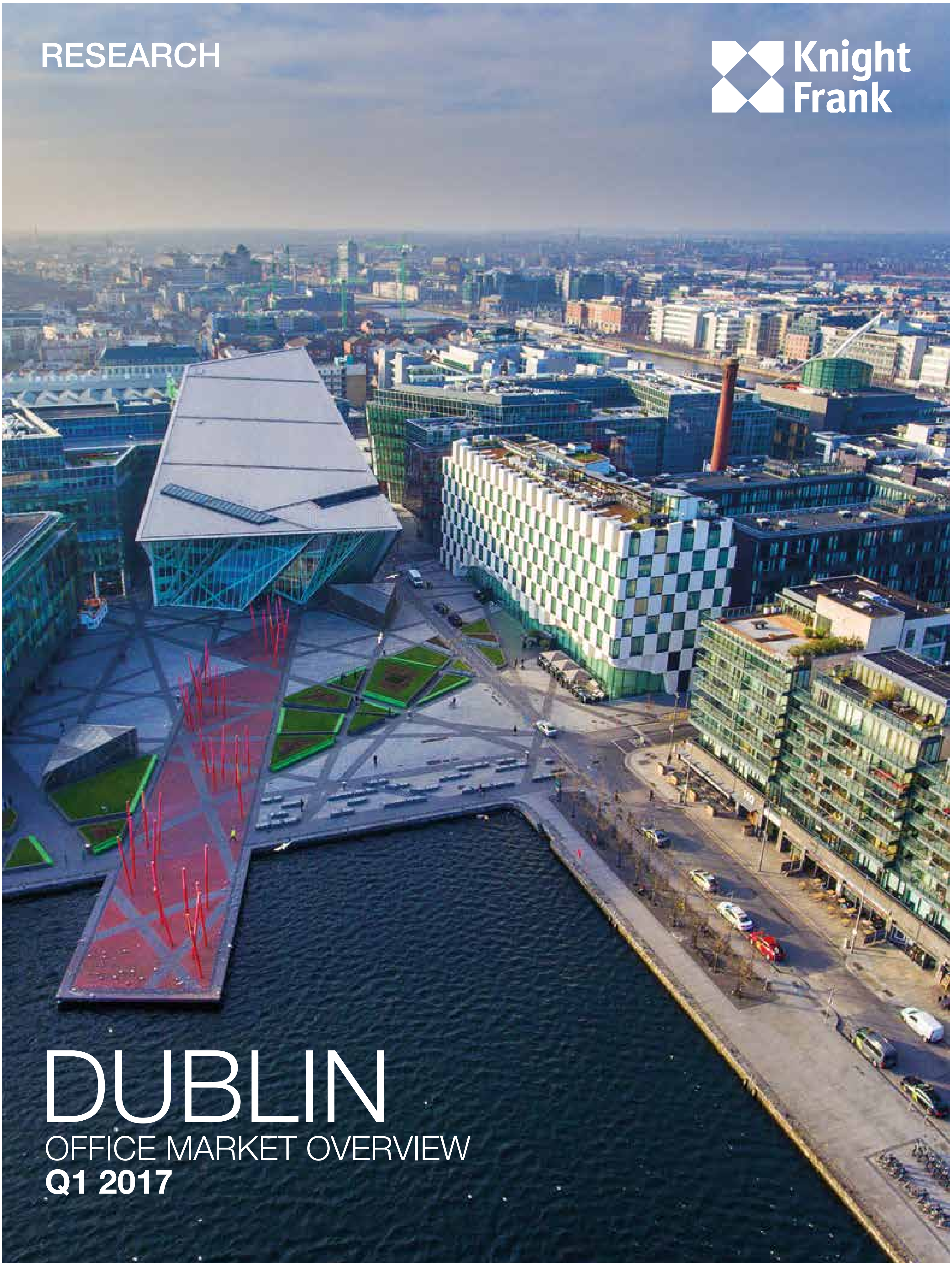


DUBLIN

OFFICE MARKET OVERVIEW
Q1 2017

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

SUMMARY

1. Brexit process gathers pace, as do relocations from London to Dublin
2. 473,406 sq ft was let in Q1, approximately in-line with the 5-year average of 496,477 sq ft
3. Prime Grade A rents unchanged at €60.00 psf
4. Approximately 600,000 sq ft of office space was completed in Q1 as a number of sizeable buildings reached practical completion
5. €469 million worth of investment transactions changed hands during Q1, with the office market accounting for 46% of the market

Q1 OVERVIEW

2017 sees a robust start to the year, with leasing and investment volumes in-line with long-term trends.

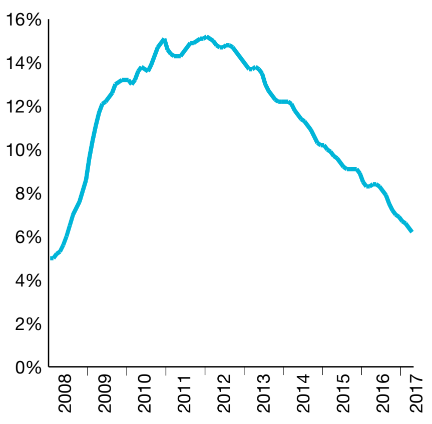
Economy

The process of the UK's exit from the EU formally began in Q1 with the triggering of Article 50, which has set it on a path of exiting the EU by 29th March 2019. With the Brexit process now in full swing, large London based financial firms have started to actively implement their Brexit contingency plans which they have been formulating for over a year now. Early indications are that Dublin will pick-up a decent share of this movement, with Dublin's existing back and middle office infrastructure providing a natural risk management tie-in with front office relocations. This is an important point, as the ECB has stated that they will not approve licenses for 'shell companies' and that any licence applications must demonstrate 'adequate local risk management, local staff and operational independence'. This puts Dublin in a strong position to attract companies who have an existing presence here from which they can scale-up.

An early example of this is JP Morgan, who have confirmed that they have purchased a 130,000 sq ft block at the yet-to-be completed Kennedy Wilson Capital Dock development. The new premises will house 1,000 staff, double the number it currently employs in Dublin, allowing the bank to add to its operations here as it prepares for Brexit. This decision, by such a high-profile financial institution, to choose Dublin ahead of other major European centres will enhance Dublin's early branding as a post-Brexit hub and will boost its chances in attracting others in the jostle for Brexit relocations.

Despite the uncertainty regarding the deal that the UK will receive and its implications for Ireland, the wider economy continues to perform strongly as fears of an immediate negative economic shock dissipate. This resilience has been particularly visible in Q1 export data which shows that exports to the UK increased by 4.5% in 2017 compared to the same period in 2016, while trends in retail sales (volumes up 6.1% y-o-y ex motors) and the unemployment rate (down 1.4% y-o-y) continue to move in the right direction. Given these developments, the European Commission has revised upwards their 2017 GDP Spring forecast for Ireland to 4.0% from the 3.4% contained within their Winter forecast.

FIGURE 1
Standardised unemployment rate



Source: Central Statistics Office

KNIGHT FRANK VIEW ON RISK

The unexpected rise in political populism in the form of Brexit and the election of Donald Trump saw two underestimated risks come to pass in 2016. Against this backdrop, investors paid heightened attention to the elections in the Netherlands and France in the early months of 2017, nervous that the populist wave could take hold in Europe, providing a further set-back for the European project. However, the victories of centrist candidates, in particular pro-European candidate Emmanuel Macron in the French Presidential elections, has prompted sighs of relief in the corridors of Brussels – for now at least. With German elections due for Autumn and speculation mounting of a snap Italian election being called for around the same period, a number of rather large road bumps lie ahead in what could prove to be a defining year for Europe.

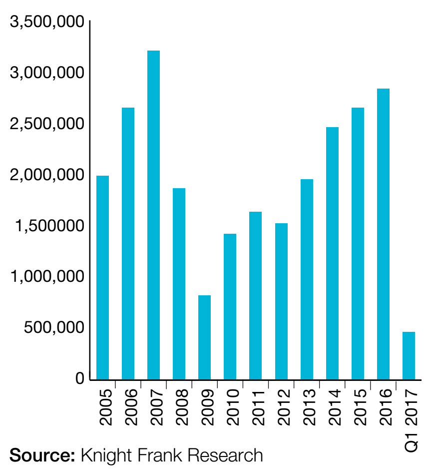
Occupier Market

473,406 sq ft was let across 41 deals in Q1, approximately in-line with the 5-year average of 496,477 sq ft, signalling a robust start to the year as the occupier market continues to perform well. Prime grade A rents remained stable at €60.00 psf while the vacancy rate rose to 8.3% – up from 7.7% in Q4 2016 – as newly completed stock became available for leasing.

Letting activity in Q1 was heavily focused on the city centre, accounting for 69% of all transactions. Take-up in the city centre was driven by Dublin 2 which accounted for 58% of letting activity, including two of the largest deals of the quarter. The largest deal saw the OPW let 143,000 sq ft of space at Block 1, Miesian Plaza followed by Indeed.com who let 51,523 sq ft at 124-127 St Stephen's Green. Other significant lettings in Dublin 2 included California based software designer Informatica's pre-letting of 35,000 sq ft at Hibernia REIT's soon to be completed 1 Windmill Lane.

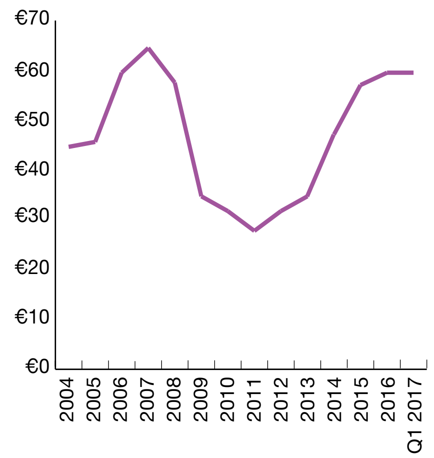
The State sector in Q1 was particularly active accounting for two of the top three transactions. In addition to the aforementioned letting at Miesian Plaza, the State sector also accounted for the third largest deal which saw the OPW let 37,173 sq ft at the Infinity Building in Smithfield in Dublin 7, a letting which had been stalled at 'deal agreed' stage for some time. Overall, the State sector more than doubled its market share to 40% in Q1, up from 16% in the previous quarter. Notwithstanding, the TMT sector continued to lead letting activity, coming just ahead of the State with 41% of the market in Q1.

FIGURE 2
Office take-up sq ft



Source: Knight Frank Research

FIGURE 3
Dublin prime office rents
€ per sq ft per annum



Source: Knight Frank Research

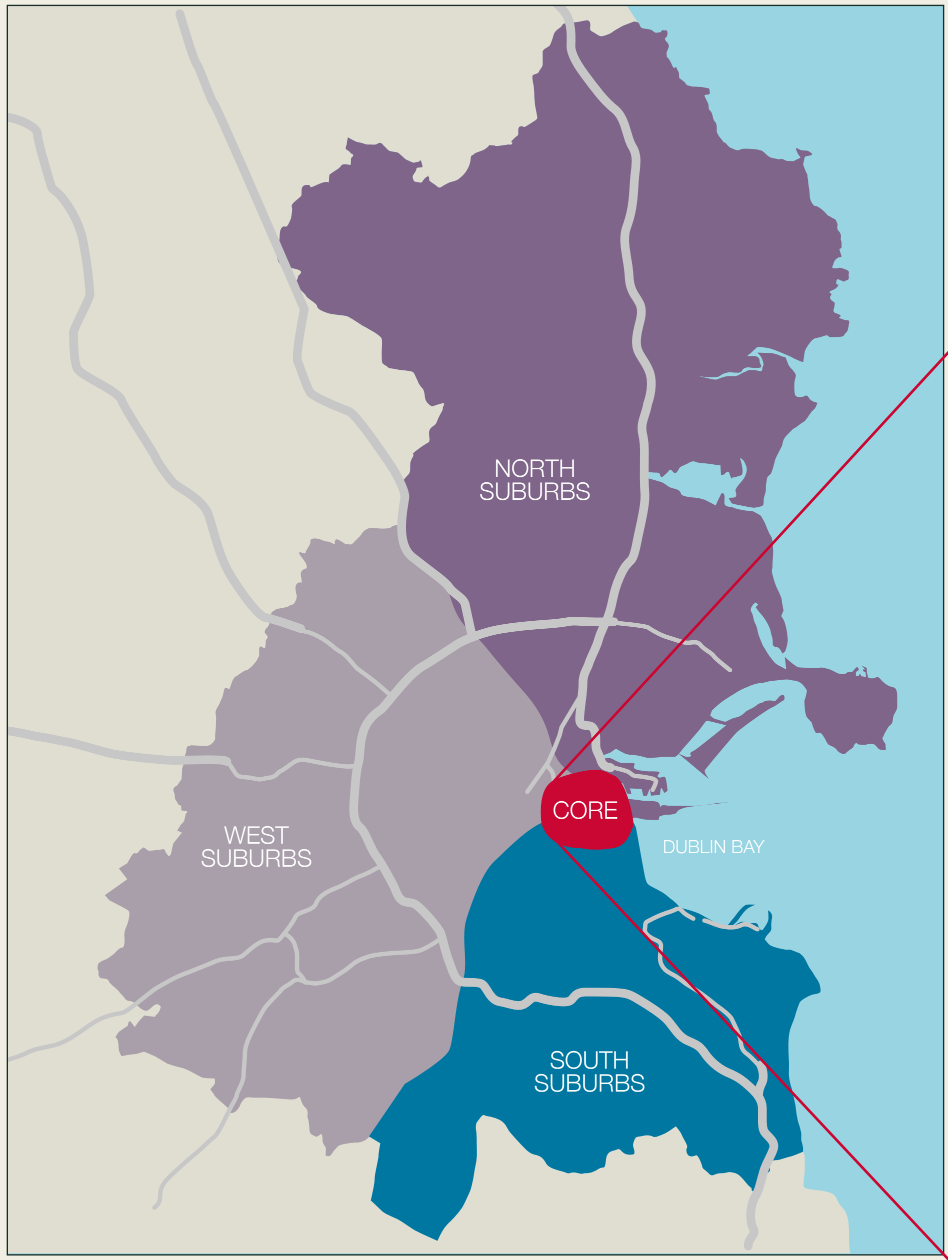
1 Windmill Lane

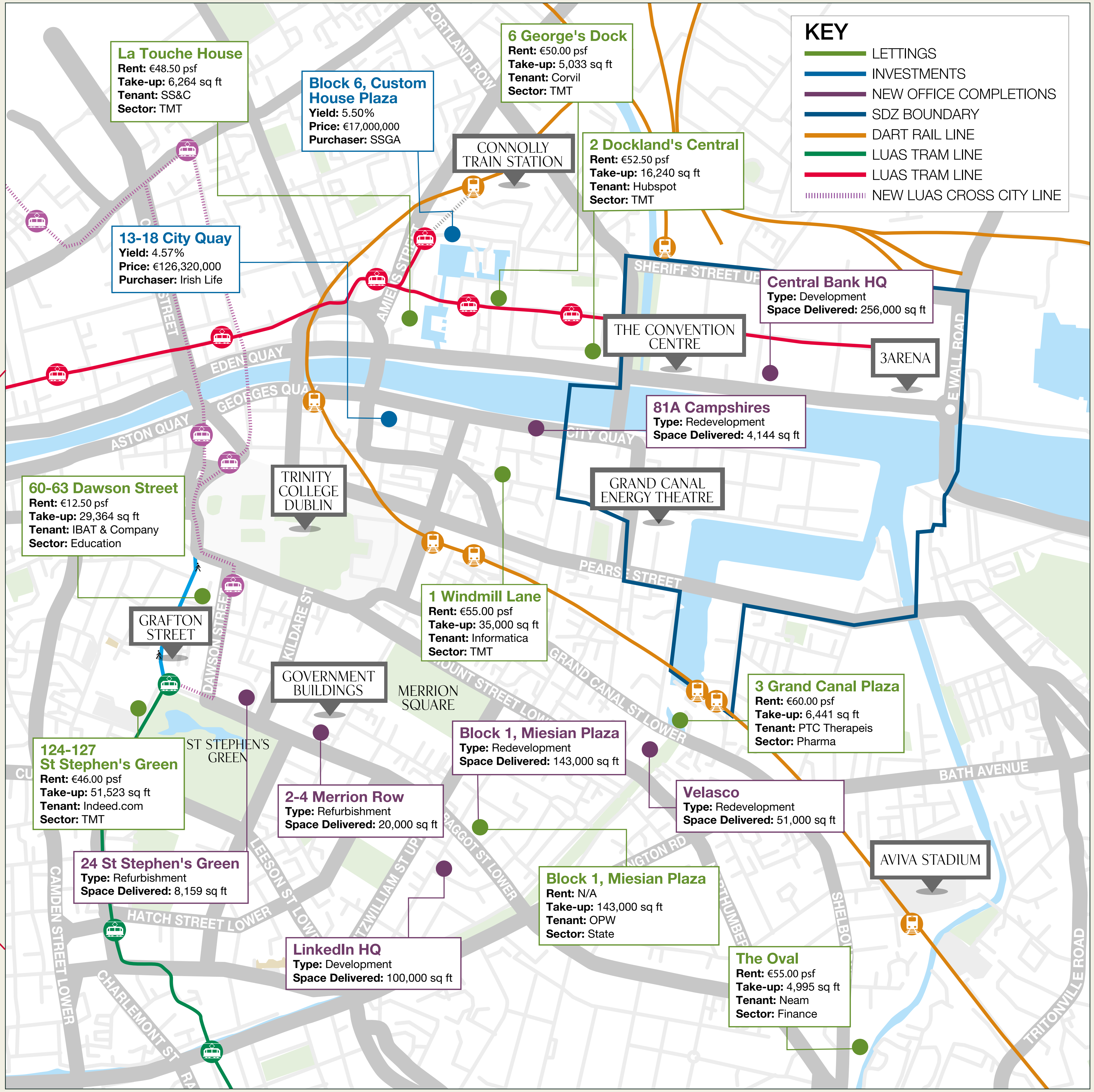
Top 5 office leasing transactions

Property	Tenant	Sector	Size (sq ft)
Block 1, Miesian Plaza, Dublin 2	OPW	State	143,000
124-127 St Stephen's Green, Dublin 2	Indeed.com	TMT	51,523
Infinity Building, Smithfield, Dublin 7	OPW	State	37,173
Block 19, Park West Business Park, Dublin 12	Global Force	TMT	36,664
1 Windmill Lane, Dublin 2	Informatica	TMT	35,000

Source: Knight Frank Research

DUBLIN CENTRAL CITY CORE





Note: All areas and delivery times noted above are approximate estimates only and subject to change

Approx.

600,000 SQ FT

of office space was completed in Q1

2-4 Merrion Row

Development market

Approximately 600,000 sq ft of office space was completed in Q1 as a number of sizeable buildings reached practical completion. Chief amongst these included the Central Bank's new headquarters in the Docklands, Linkedin's new headquarters on Lad Lane, Velasco on Clanwilliam Street and Block 1, Miesian Plaza on Lower Baggot Street. A number of new developments were also granted planning permission. In particular, the DAA received planning approval for its Dublin Airport Central Development – which will see the construction of four large office blocks totalling approximately 452,000 sq ft – while planning permission was granted to develop an additional 180,000 sq ft at Waterside at Citywest. In the city centre, contractors have now been appointed to the Boland's Quay Development which will see the construction of two landmark office buildings comprising of approximately 275,000 sq ft of office space.

Investment

€469 million worth of investment transactions changed hands during Q1, representing a decline of 36% in comparison to the heightened quarter of activity last year. Despite this, the figure represents a healthy start to the year given that Q1 is traditionally the quietest quarter of the year, and puts the investment market in 2017 on course to comfortably surpass its 10-year average investment volume of €1.8 billion. The office market held the largest share of investment transactions in Q1, comprising 46% or €214 million of investment sales. Office investment activity remained concentrated in Dublin with the capital attracting 95% of this activity or €203 million. Prime office yields remained stable during Q1 and stand at 4.50%.

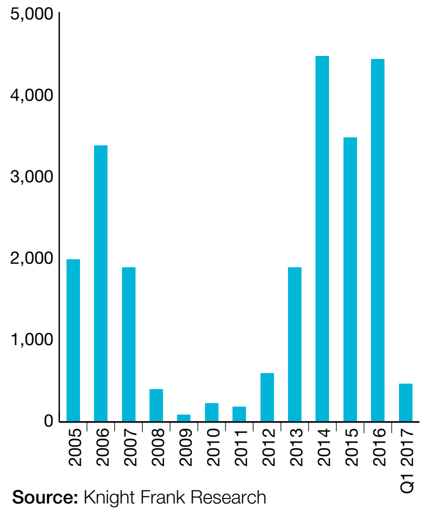
Top 5 office investment transactions

Property	Seller	Buyer	Approx price
13-18 City Quay, Dublin 2	TIO	Irish Life	€126.3 million
The Fumbally, Dublin 8	Markland	M7 Real Estate	€21.5 million
6 Custom House Plaza, Dublin 1	Confidential	Confidential	€17.0 million
Block P2, Eastpoint Business Park, Dublin 3	Ardstone	Ares	€12.0 million
Topaz House, Block 6, Beech Hill Office Campus, Dublin 6	Private Irish	Private Irish	€8.0 million

Source: Knight Frank Research

FIGURE 4

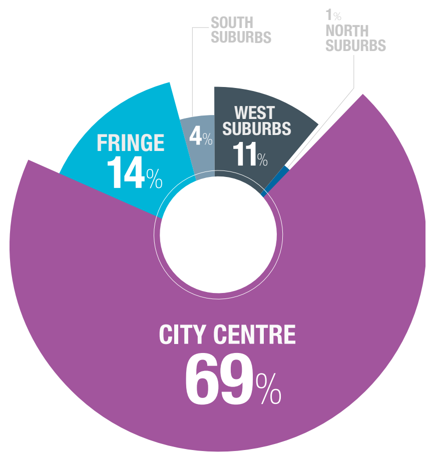
Irish commercial investment volumes € million



Source: Knight Frank Research

FIGURE 5

Take-up by location



Source: Knight Frank Research

While appetite from investors for office assets remained robust, there is a shortage of prime product coming to the market to trade. In light of this shortage of supply, investor attention is turning to forwarding-funding opportunities as illustrated by Irish Life's €126 million forward-funding of 13-18 City Quay, which represented the largest investment transaction of the quarter. An agreement to lease the entire development is in place with Grant Thornton, who are to pay €52.50 psf for a 25-year term with practical completion due in 2018, representing a yield of 4.57% to Irish life.

Driven by this transaction, Irish investors accounted for 74% of all office investment transactions in Q1. The second largest office transaction was more than €100 million less than the Irish Life deal, namely the purchase of the Fumbally office complex by pan-European investor M7 Real Estate for €21.5 million. The sale, which is comprised of almost 84,000 sq ft of office space, represented a net initial yield of 7.94%.

FIGURE 6

Dublin prime office yields

Source: Knight Frank Research

Block P2, Eastpoint Business Park

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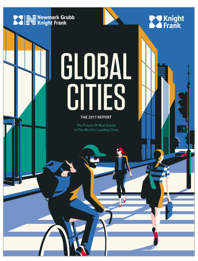

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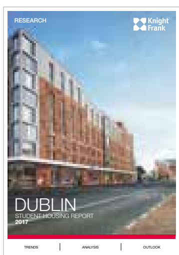

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