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Market Outlook

Dublin Office Market Overview

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Research, Q3 2020



Photo courtesy of IPUT Real Estate Dublin

Summary

1. The Irish economy is now forecast to perform much better in 2020 than was expected during the early days of the pandemic
2. 230,000 sq ft of office space was let in Q3, bringing take-up for the first nine months of 2020 to 1.1 million sq ft
3. The vacancy rate rose to 8.9% in Q3, while prime rents declined by 8% to €57.50 psf
4. 728,000 sq ft of new office stock reached practical completion in Q3
5. €213.7 million worth of office investments changed hands in Q3, bringing volumes for the first nine months of 2020 to €835.1 million

Q3 OVERVIEW

Expansions from tech and pharma companies support take-up in Q3, while demand for investments from European buyers remains strong

ECONOMY

According to the latest forecast by the EU Commission, the contraction in the Irish economy in 2020 is likely to be smaller than previously anticipated with GDP now projected to decline by 2.3% compared to the 7.9% forecast in the earlier stages of the pandemic in Spring. This 5.6% improvement in the expected performance of the economy represents a significant relative out-performance compared to the outlook for other developed economies as illustrated in Fig.1.

Multinational exports are the main reason why the contraction will not be as large as once thought. Data from the CSO shows that Ireland is witnessing robust growth in the export of medicinal and pharmaceutical goods, the value of which was 24% higher during the period from January to August 2020 compared to the same period last year. Driving this is the fact that Ireland is one of the top five global exporters of Covid-19 related goods according to the OECD. Although more timely data is not available on service exports, evidence from the Quarterly

National Accounts shows that there has also been a strong increase in the value of computer services – up 4% in Q2 2020 compared to the same period last year – which is another sector in which Ireland has a substantial footprint of global multinational companies. The fact that these companies continue to perform well during the pandemic will also benefit Dublin's office market by ensuring that the employment base is still there to repopulate offices once the economy reopens.

OCCUPIER MARKET

230,000 sq ft of office space transacted in Q3, bringing take-up for the first nine months of 2020 to 1.1 million sq ft. While the latter represents a fall of 46% on the same period last year, we believe take-up will recover quite rapidly once a timeline regarding the rolling-out of a vaccine becomes clearer. Competition for the best buildings will see occupiers move early once a pathway back to the office emerges.

Notwithstanding, a number of high-profile TMT and Pharma companies expanded their presence in Q3. The largest transaction saw Microsoft take 43,900 sq ft at 3 Dublin Landings, providing the

company with a city centre location to complement its suburban headquarters in South County Business Park. Meanwhile, Gilead opened its first office in Dublin taking 31,300 sq ft at North Dock, while Regeneron expanded their operations by sub-letting 13,600 sq ft at One Warrington Place. The OPW's taking of 42,1000 sq ft at 1GQ gave the State a 19% market share.

The vacancy rate rose to 8.9% – up from 7.3% in Q2 – driven mainly by the delivery of new unlet space (560,000 sq ft) to the market, although companies seeking to off-load surplus accommodation was also a contributing factor. Overall, the shadow market stood at 1.3 million sq ft of which 900,000 sq ft was ready for occupation as at the end of Q3. The increase in the vacancy rate put downward pressure on rents with prime headline rents – which had remained stable at €62.50 psf since Q4 2017 – being revised downwards by 8% to €57.50 psf.

DEVELOPMENT MARKET

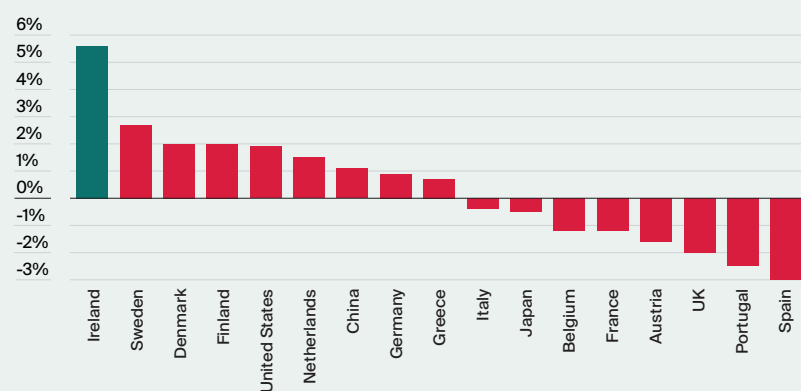
728,000 sq ft of space was delivered to the market in Q3 of which 23% was already let. Notable projects that reached practical completion included Ryanair's Airside Green (120,000 sq ft), TIO's North Docks (201,100 sq ft) and The Sorting Office (203,700 sq ft), which was sold by Marlet to Mapletree last year.

INVESTMENT MARKET

€213.7 million worth of Dublin office investments changed hands in Q3, bringing volumes for the first nine months of the year to €835.1 million – a fall of just 11% compared to the same period last year. This is a remarkable outcome given that travel restrictions remain in place which are disrupting the ability of international investors to inspect opportunities. European funds accounted for 85% of

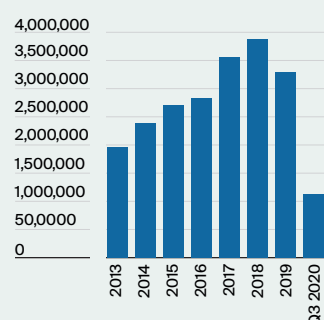
investment activity, with German core capital particularly active. KGAL purchased 2 Burlington Road for €94.1 million while KanAm acquired 30-33 Molesworth Street for €59.5 million, with Henderson Park the vendor in both cases. Henderson Park brought a further portfolio of prime office assets to the market for sale in Q3, namely The Bloom Portfolio comprising of George's Quay Plaza, George's Quay House and George's Court. With a lot size of €400 million, it will provide a good barometer of the liquidity of the market and could provide the right entry point for a large-scale investor looking to gain a foothold in the Dublin market. The strong pipeline of large-lot sized assets coming to the market, combined with the resilience in demand from international investors, suggests that the final quarter of 2020 will record robust levels of turnover. Prime office yields remain stable at 4.00%.

Fig 1. Revision in 2020 Real GDP Forecast
Autumn versus Spring



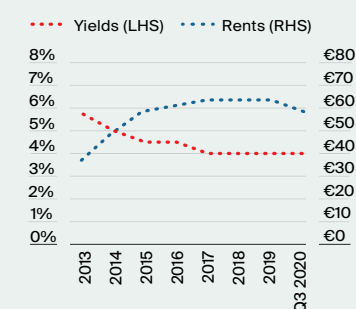
Source: EU Commission

Fig 2. Office take-up
Sq ft



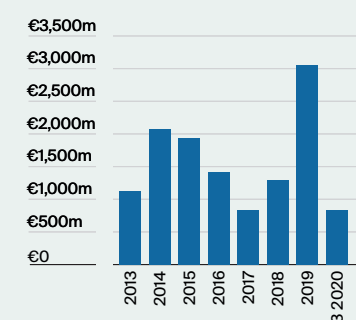
Source: Knight Frank Research

Fig 3. Dublin prime office yields and rents



Source: Knight Frank Research

Fig 4. Dublin office investment volumes



Source: Knight Frank Research

TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
3 DUBLIN LANDINGS, DUBLIN 1	MICROSOFT	TMT	43,918
1GQ, DUBLIN 2	OPW	STATE	42,060
NORTH DOCK, DUBLIN 1	GILEAD	PHARMA	31,301
78 SIR JOHN ROGERSON'S QUAY, DUBLIN 2	TWILIO	TMT	20,493
ONE WARRINGTON PLACE, DUBLIN 2	REGENERON	PHARMA	13,637

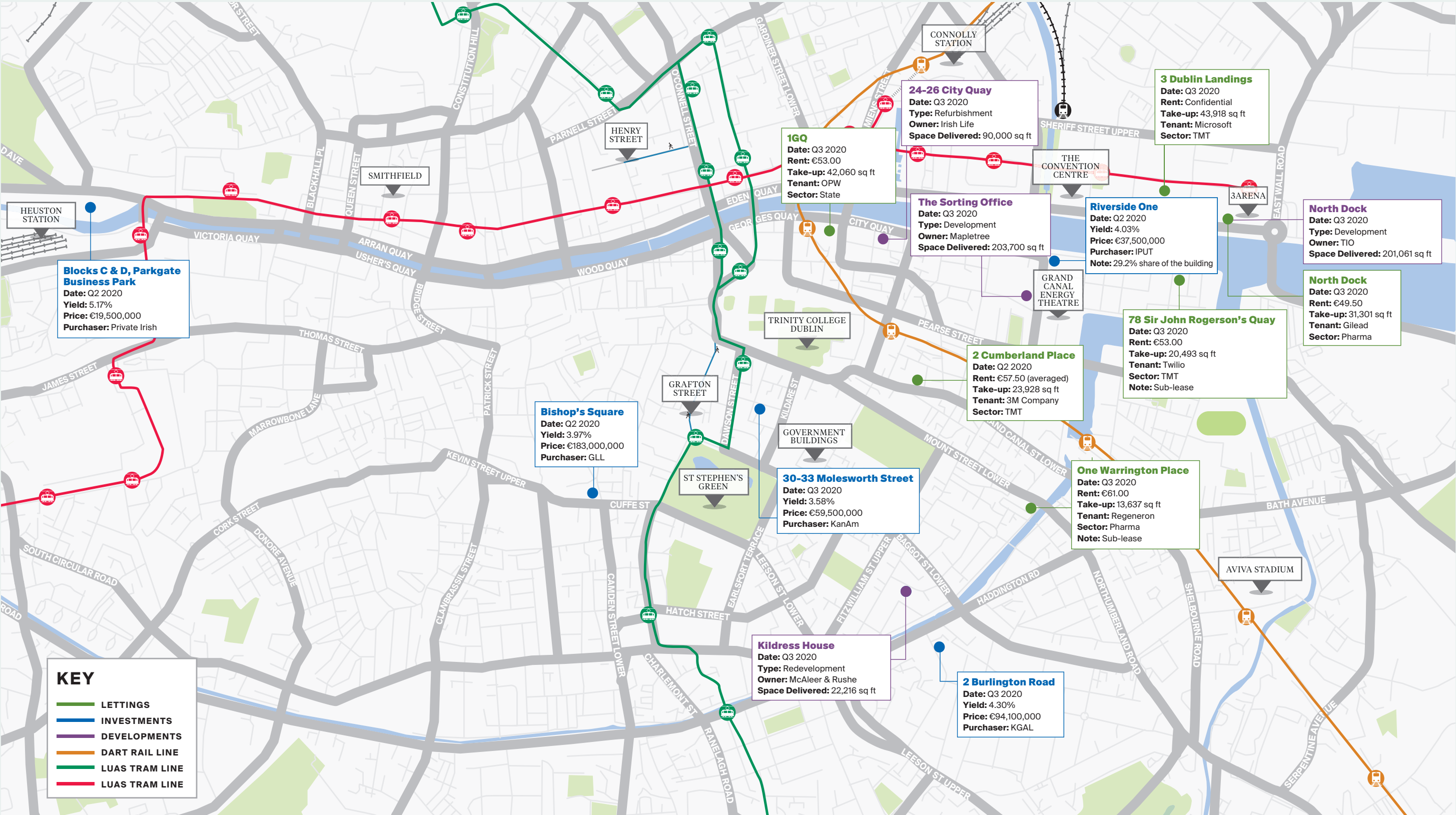
Source: Knight Frank Research

TOP 5 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	VENDOR	BUYER	PRICE
2 BURLINGTON ROAD, DUBLIN 4	HENDERSON PARK	KGAL	€94.1m
30-33 MOLESWORTH STREET, DUBLIN 2	HENDERSON PARK	KANAM	€59.5m
BUILDING 12, CHERRYWOOD BUSINESS PARK, DUBLIN 18	SPEAR STREET CAPITAL	CORUM	€27.7m
UNITS 1,3,4,5 & 6C, SANDYFORD BUSINESS CENTRE, DUBLIN 18	STATE STREET	M7	€15.1m
39-43 MERRION SQUARE, DUBLIN 2	ESB	PRIVATE IRISH	€15.0m

Source: Knight Frank Research

LETTINGS, INVESTMENTS & DEVELOPMENTS SINCE COVID (Q2 & Q3)





Dublin PRS Occupier Study 2020



Brexit Under Pressure #3 - March 2020



The Wealth Report 2020



London Offices Spotlight Q3 2020

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