RESEARCH

# DUBLIN

## OFFICE MARKET OVERVIEW

**Q1 2018**

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

## SUMMARY

1. A range of economic indicators make for a bright economic outlook
2. 747,835 sq ft transacted in Q1, making it the strongest first quarter recorded this cycle
3. Prime Grade A rents remain stable at €62.50 psf
4. 346,000 sq ft of new office space was delivered as a number of landmark buildings reached practical completion
5. Asian buyers accounted for the largest source of capital for the first time, comprising 46% of the market

# Q1 OVERVIEW

Supported by a favourable economic backdrop, the record level of occupier demand witnessed in 2017 showed no sign of abating in Q1 as the market continues to expand at a fast clip.

## Economy

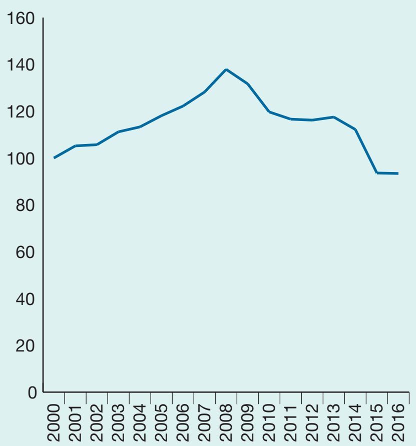
The Department of Finance's recently published Stability Programme Update 2018 is forecasting real GDP growth of 5.6% this year, which would represent a very strong level of growth albeit lower than the 7.8% recorded in 2017. While GDP is the international benchmark for comparing economies across the world, it is useful to examine some alternative measures of economic activity due to the distorting effect foreign multinationals have in the Irish case. One such measure is GNP – which removes the profits of foreign multinationals and adds in Irish multinationals foreign profits – is also projected to grow by 5.6% this year, also slightly down from the 6.6% recorded last year. Another measure is underlying domestic demand, which captures the trends in the domestic economy. This is forecast to rise by 3.9% in 2018, up significantly from the 2.6% recorded in 2017.

Underlying domestic demand is closely related to trends in the labour market, with the Department forecasting growth of 2.7% in employment in 2018, close to the 2.9% recorded last year. This growth rate would represent the addition of 60,000 new jobs in Ireland by the end of the year

## KNIGHT FRANK VIEW ON RISK

The trend towards full employment will inevitably lead to concerns that wage inflation pressures will emerge to hurt Ireland's competitive position and its attractiveness as an office location. However, recent data from the

FIGURE 1
**Nominal unit labour costs**

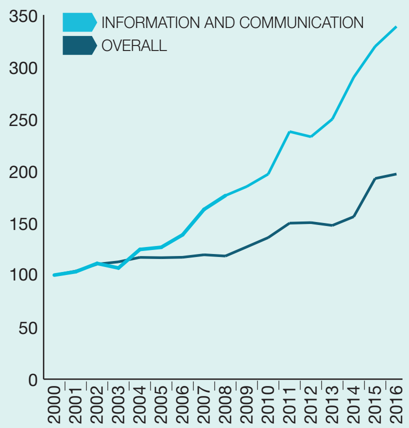



**Source:** Central Statistics Office

CSO allays those concerns by showing that nominal unit labour costs – which measure employee compensation relative to productivity – have been falling consistently over the last number of years. While employee compensation growth turned positive between 2011 and 2016, this has been more than offset by labour productivity gains over the period. Overall, nominal unit labour costs have fallen by 32% between 2008 and 2016.

This contrasts with the situation between 2000 and 2008 which saw costs rise by 38% as compensation outstripped productivity growth and severely eroded Ireland's competitive position. Furthermore, examining productivity gains on a sectoral basis shows that the Technology, Media and Telecommunications (TMT) industry (as proxied by the CSO's category of Information and Communication) witnessed labour productivity growth 2.5X that of the average since 2000, leaving nominal unit labour costs 41%

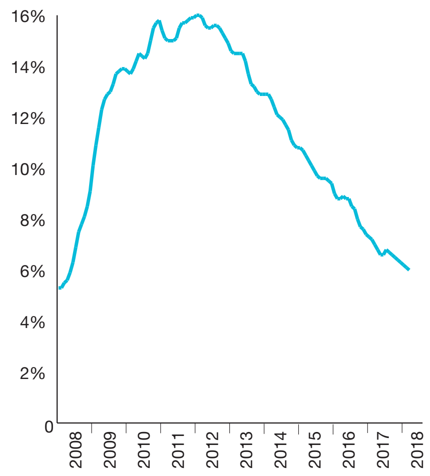
FIGURE 2
**Labour productivity**




**Source:** Central Statistics Office

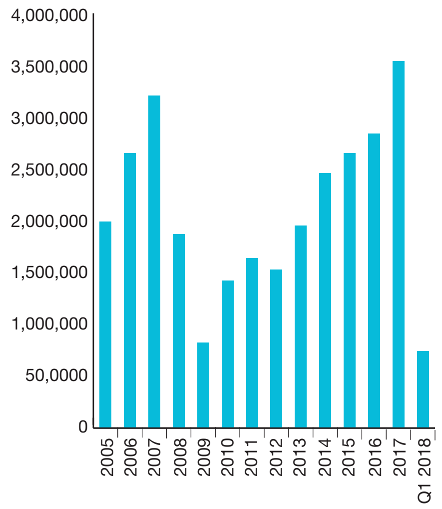
lower than they were that year. With the TMT sector typically accounting for 40-50% of Dublin office take-up, the data suggests that this important sector is performing particularly well from a labour market perspective.

FIGURE 3
**Standardised unemployment rate**




**Source:** Central Statistics Office

FIGURE 4
**Office take-up** sq ft




**Source:** Knight Frank Research

**747,835 SQ FT**
of space transacted in Q1

and bring total employment to 2.254 million – surpassing the previous peak of 2.252 million achieved in 2007.

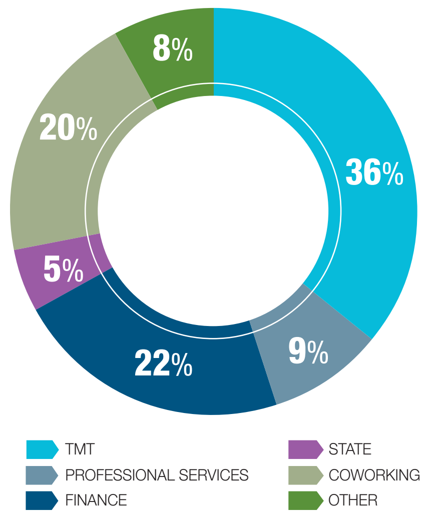
Taking a longer term view of employment growth also paints an encouraging picture. A recent paper produced by the ESRI predicted that there will be 2.673 million people employed in the State by 2040 – an increase of 33% in comparison to 2016. Dublin is expected to experience employment growth in the order of 28%, with those at work rising to 795,000. In summary, the range of alternative measures available point to a strong economic outlook.

## Occupier market

The Dublin office market witnessed its strongest opening quarter this cycle as 747,835 sq ft of office space transacted in Q1 – an increase of 58% on the same period last year. In total, 65 deals transacted with an average deal size of 11,505 sq ft. Delving further into deal size, we see that deals under 5,000 sq ft accounted for 54% of deals transacted but just 11% of space let, while deals in excess of 50,000 sq ft accounted for 3% of deals transacted but 20% of space let.

Demand was mainly driven by the TMT and Finance sectors which accounted for the largest proportion of activity with 36% and 22% respectively. However, the most noteworthy feature of the market was the continued emergence of the Coworking sector which accounted for 20% of space let. Following on from the 105,697 sq ft let in Q4, WeWork took a further 99,500 sq ft in Q1, this time establishing a presence on the north docklands at No. 2 Dublin Landings. The other significant Coworking deal was Hibernia REIT's letting of 77 Sir John Rogerson's Quay to International Workplace Group (formerly Regus), a building which Hibernia acquired on a vacant possession basis in Q1.

FIGURE 5
**Take-up by sector**



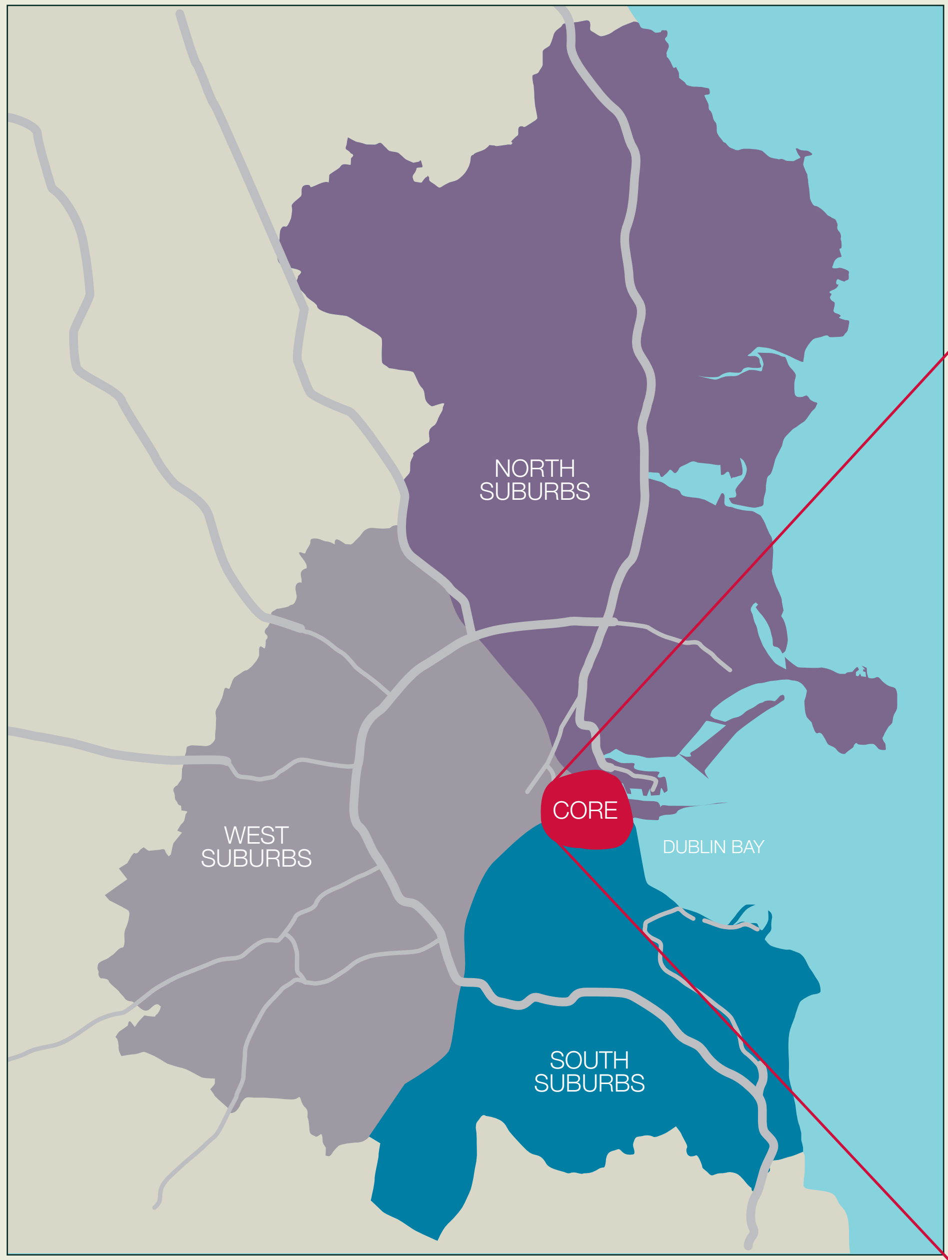

**Source:** Knight Frank Research

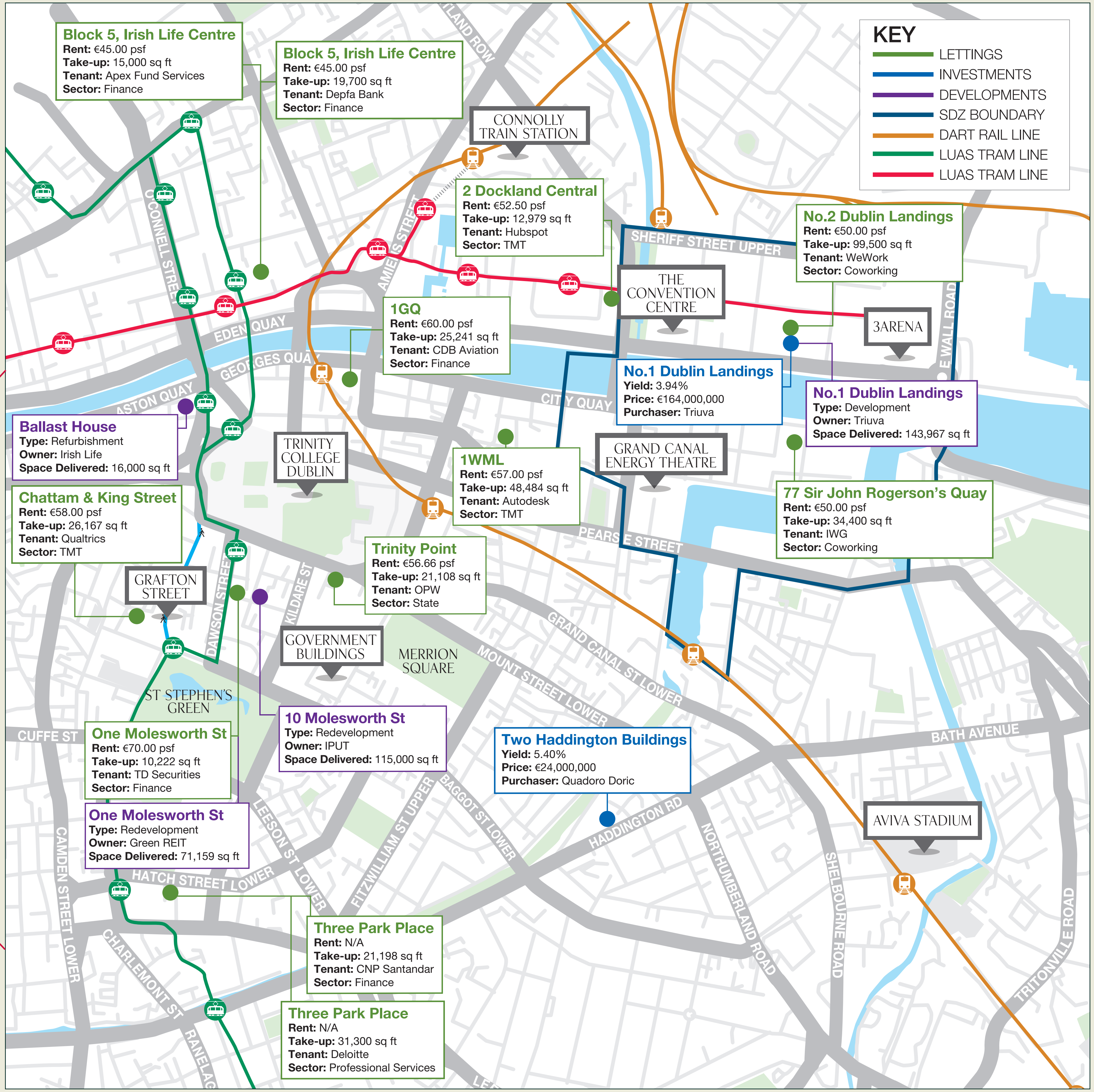
**Deal size analysis**

| Total size | Number of deals | Share by number of deals | Sq ft | Share by deal size |
|---|---|---|---|---|
| Up to 5,000 sq ft | 35 | 54% | 84,336 | 11% |
| 5,000 - 9,999 sq ft | 8 | 12% | 52,557 | 7% |
| 10,000 - 19,999 sq ft | 10 | 15% | 146,170 | 20% |
| 20,000 - 49,999 sq ft | 10 | 15% | 312,347 | 42% |
| 50,000 sq ft plus | 2 | 3% | 152,425 | 20% |
| **Total** | **65** | **100%** | **747,835** | **100%** |

**Source:** Knight Frank Research
Due to rounding, percentages may not add up to 100%

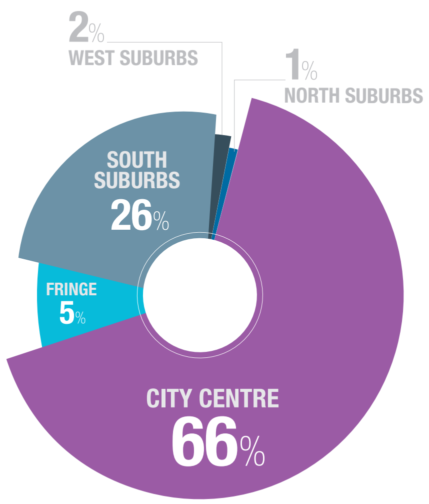
# DUBLIN CENTRAL CITY CORE




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

FIGURE 6
**Take-up by location**




**Source:** Knight Frank Research

FIGURE 7
**Dublin prime office rents**
€ per sq ft per annum


**Source:** Knight Frank Research

**Top 5 office leasing transactions**

| Property | Tenant | Sector | Size (sq ft) |
|---|---|---|---|
| No.2 Dublin Landings, Dublin 1 | WeWork | Coworking | 99,500 |
| The Chase, Sandyford, Dublin 18 | Google | TMT | 52,925 |
| The Blackthorn Building, Sandyford, Dublin 18 | Google | TMT | 48,522 |
| 1WML, Dublin 2 | AutoDesk | TMT | 48,484 |
| 77, Sir John Rogerson's Quay, Dublin 2 | IWG | Coworking | 34,400 |

**Source:** Knight Frank Research

Hibernia also let space in their 1WML scheme, with Autodesk taking 48,484 sq ft meaning that 96% of the scheme is now let. Also in the City Centre, Deloitte have taken 31,300 sq ft at Clancourt's Three Park Place while CNP Santandar have taken 21,198 sq ft at the same scheme. Overall, the City Centre accounted for 66% of the market, followed by the South Suburbs with 26% and the Fringe with 5%. Google were the key driver of the activity in the South Suburbs, taking 52,925 sq ft at The Chase and 48,522 sq ft at The Blackthorn Building – both of which are located in Sandyford. Accenture were also active in the South Suburbs taking 31,019 sq ft at Building 11, Cherrywood Office Park.

Prime Grade A rents remained stable at €62.50 psf.

## Development market

346,000 sq ft was delivered in Q1 as a number of buildings reached practical completion. The largest of these was Ballymore Oxley's No.1 Dublin Landings which comprises 143,967 sq ft of office space and represents the first of five office buildings that will be completed as part of the Dublin Landings scheme. Meanwhile, following the delivery of 40 Molesworth Street in 2017 and 32 Molesworth Street in 2016, the revitalisation of Molesworth Street finally came to fruition in Q1 with the completion of Green REIT's One Molesworth Street and IPUT's 10 Molesworth Street which consist of 71,159 sq ft and 115,000 sq ft of office space respectively.


10 Molesworth Street

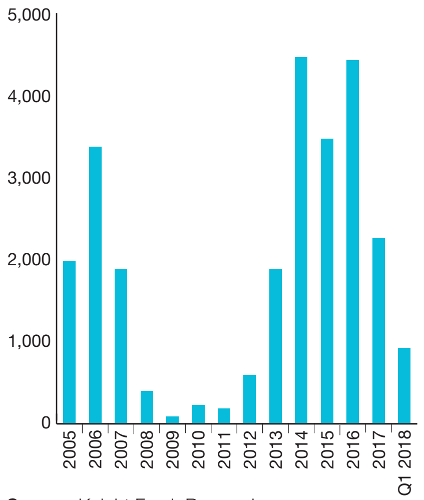
Turning to new commencements, contractors have started on site at the ESB headquarters on Fitzwilliam Street. The ESB will take 145,312 sq ft at Fitzwilliam 27 while a further 134,548 sq ft at Fitzwilliam 28 will be available to let on the open market. Activity has also begun on the former Tedcastles Site at 91-94 North Wall Quay where TIO are constructing an eight storey office building which will extend to 201,059 sq ft.

## Investments

€932.9 million worth of investment transactions changed hands during Q1, more than double the amount that was recorded during the same period last year. Volumes were supported by a number of large lot-sized transactions with four deals in excess of €50.0 million completing compared to just one during the same period last year. Office investment sales accounted for the largest proportion of activity, commanding 55% of the market or €502.6 million. Activity remained focused on Dublin with the capital attracting 88% or €440.2 million of the total office investment spend.

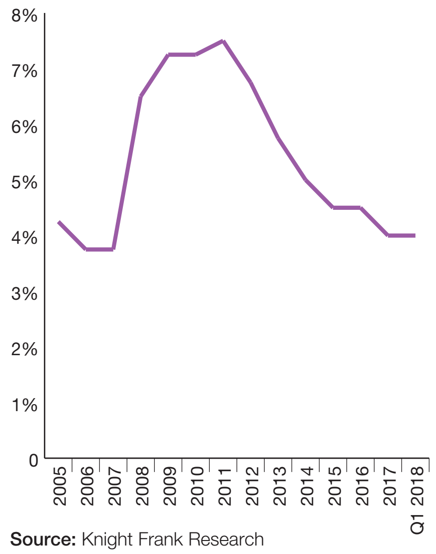
The largest transaction of the quarter saw Northwood Investors sell 1 and 2 Hueston South Quarter to Hong Kong investors CK Properties – a company controlled by CK Hutchison Holdings – for €176.0 million. The two inter-connected office blocks are let to Eir until 2033 and extend to a total of 218,143 sq ft. Asian investors were also active in Sandyford, with Singapore investment company Blacktree acquiring Whelan House and Accenture House for €22.3 million. These two acquisitions saw Asian buyers account for the largest source of capital for the first time with 46% market share followed by Europe with 44% and Irish investors with 10% of the market. Asian capital also played a significant role on the disposal side, with Singapore's Oxley Holdings and their joint venture partner Ballymore selling the newly completed No.1 Dublin Landings to Triuva for €164.0 million. The building had been fully let to the NTMA with 15 years term certain and the income representing a 3.94% net initial yield to the German institutional investor. Deals involving newly completed and let office schemes are expected to play an important role in supporting investment volumes as 2018 progresses.

FIGURE 8
**Irish commercial investment volumes** € million



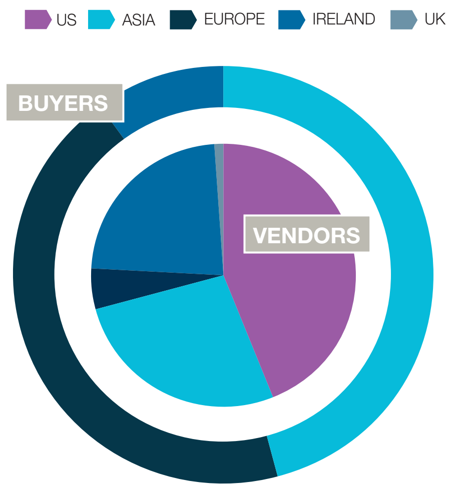

**Source:** Knight Frank Research

FIGURE 9
**Dublin prime office yields**




**Source:** Knight Frank Research

FIGURE 10
**Buyer and vendor source**




**Source:** Knight Frank Research

**Top 5 office investment transactions**

| Property | Seller | Buyer | Approx price |
|---|---|---|---|
| 1 and 2 Heuston South Quarter, Dublin 8 | Northwood Investors | CK Properties | €175.0 |
| No. 1 Dublin Landings, Dublin 1 | Ballymore/ Oxley | Triuva | €164.0 |
| Two Haddington Buildings, Dublin 4 | Alykes Ltd | Quadoro Doric | €24.0 |
| Whelan House and Accenture House, South County Business Park, Dublin 18 | Philips | Blacktree | €22.3 |
| Newenham House, Northern Cross, Dublin 17 | Collen Construction | Private Irish | €17.2 |

**Source:** Knight Frank Research

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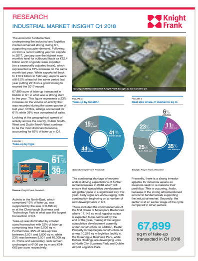

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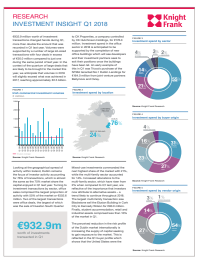

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