RESEARCH

DUBLIN

OFFICE MARKET OVERVIEW **Q1 2019**
WITH SPECIAL FOCUS: SANDYFORD

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

SUMMARY

1. 57,000 new jobs expected to be created in Ireland in 2019 according to the ESRI
2. 1.4 million sq ft of office space was let in Q1, 85% ahead of the same quarter last year
3. 48% of the office development pipeline in 2019 is already let, with 45% of expected 2020 delivery also taken
4. €278.1 million worth of office investment transactions changed hands in Dublin during Q1
5. With a vacancy rate of just 3.1%, Sandyford is seeing heightened development activity

Q1 OVERVIEW

2019 gets off to a strong start as 1.4 million sq ft of office space transacted in Q1, setting a new bar for occupier activity in an opening quarter of a year.

Economy

In their Spring Quarterly Economic Commentary, the ESRI have revised Ireland's real GDP forecast for 2019 to 3.8% from the 4.2% contained within the Winter edition. The downgrade is a result of greater uncertainty in the international environment arising from a deteriorating outlook for Ireland's key trading partners. In February, the Bank of England cut their growth forecast for the UK to 1.2% – down from 1.7% in November – while in March the Federal Reserve cut the US growth outlook to 2.1% from 2.3% in December. Also during March, the European Central Bank reported that the euro area economy is likely to expand by just 1.1% this year, down from the 1.7% forecast in December.

While the relative strength of the Irish economy vis-à-vis its main trading partners is clear, the big caveat to this baseline scenario is that it assumes the avoidance of a no-deal Brexit. Modelling undertaken by the ESRI has estimated that a disorderly no-deal Brexit would reduce growth to 1.2% this year, although the subsequent announcement of a six-month extension to the Brexit deadline has largely kicked this risk down the road for now. The ESRI baseline scenario is forecasting that 57,000 new jobs will be added to the economy this year which will continue to underwrite strong occupier demand for office space.

Occupier market

1.4 million sq ft of office space transacted in Q1, setting a new bar for office occupier activity in an opening quarter of a year. To put this in context, it was 85% ahead of the take-up achieved in Q1 2018, which itself had set a new record for Q1 activity. The market was dominated by the TMT and State sectors, which accounted for 57% and 32% of the market respectively with the remaining sectors accounting for just 11% between them. Reflecting the greater potential for new development, the majority of activity was located north of the River Liffey which had a 63% market share.

The largest deal was the pre-letting of 430,000 sq ft at Spencer Place to Salesforce, which was the biggest single letting in the history of the State. With Salesforce currently occupying approximately 150,000 sq ft between Sandyford Business Park and Central Park, the new development will represent a trebling of the company's footprint in Dublin.

The second largest deal was the sale of No.4 & No.5 Dublin Landings to the Irish Central Bank which together extend to 201,000 sq ft, with completion due for later this year. Located directly to the rear of the Central Bank's Headquarters – which extend to 193,700 sq ft – on North Wall Quay, the acquisition facilitates the consolidation of the Central Bank's footprint in one location. As part of this process, the Bank has signalled its intention to sell Block R on Mayor Street Upper which it purchased in 2015 for €104.0 million. With the NTMA having previously leased No.1 Dublin Landings, the area will represent the heart of the State's financial sector in Ireland.

The third largest deal was also completed by the State, with the OPW pre-letting 182,000 sq ft at The Distillers Building in Smithfield, with completion due in 2021. There was strong competition among occupiers for this letting, illustrating the strength of Smithfield as an office location. This augers well for the pre-letting of Haymarket House, an office development to be built across from The Distiller's Building.

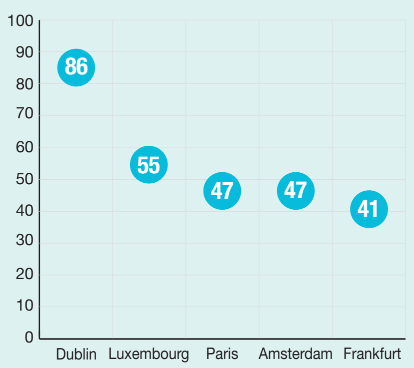
TMT made-up the remainder of the top five deals, with Facebook taking 174,000 sq ft at Nova Atria South, while Docusign have taken 99,000 sq ft at 5 Hanover Quay. The OPW also took the available space at the extension to Bishops Square, where they have leased 47,000 sq ft. Other deals of note included Zurich's taking of 18,500 sq ft at Trident House in Blackrock, which has recently been refurbished by Friends First. Elsewhere, in a reputedly Brexit-motivated letting, Kroll Bond Rating Agency have taken 3,300 sq ft at 6-8 College Green. The financial services company signalled its intention back in 2017 to choose Dublin for its first office outside of the United States in what was hailed as a Brexit win at the time by the IDA. Prime office rents remain stable at €62.50 psf.

Development market

524,000 sq ft of office space was completed in the opening quarter as a number of buildings reached practical completion. The largest of these was Blackstone's Nova Atria South, followed by Hibernia REIT's 1SJRQ and IPUT's 5 & 6 Earlsfort Terrace. Of the 2.2 million sq ft forecast to be delivered this year, 48% is already let, with 45% of 2020 delivery also taken. Focusing on the city centre, 52% of new stock due in 2019 is already let with 55% of expected 2020 delivery taken too.

KNIGHT FRANK VIEW ON RISK

FIGURE 1
Number of Brexit-related announcements by city



Source: Knight Frank Research

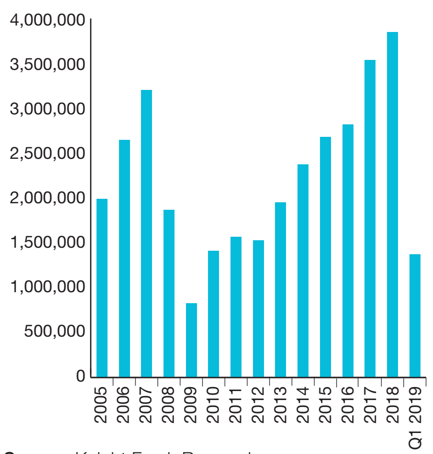
While the Brexit deadline of March 29th came and passed with the United Kingdom still members of the European Union, the risk that Brexit represents to the Irish economy continues to cast a long shadow. However, the Dublin office market is comparatively well hedged against the downside risks that Brexit presents.

Our recent Brexit Under Pressure #2 report – conducted in conjunction with our European colleagues (see back of this report) – shows that Dublin stands to benefit the most from Brexit relocations. Dublin has received 86 announcements, 56% ahead of its nearest competitor Luxembourg.

While our research illustrates that the Dublin office market has more to gain than any other European centre from Brexit, it should be noted that Brexit-related office take-up has been quite low so far.

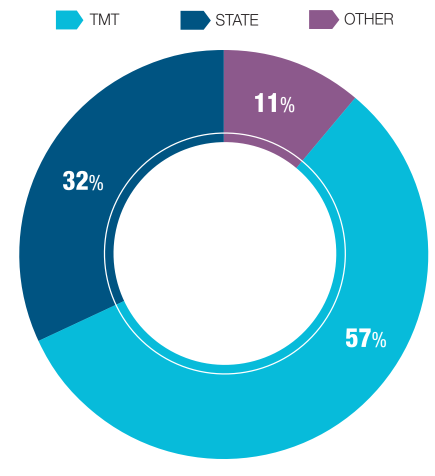
We estimate that 135,000 sq ft of take-up in Dublin since the referendum can be directly attributed to Brexit, although this excludes the ten companies that have taken space in coworking locations. The harder the outcome of Brexit, the more likely we are to see announcements translate into a significant number of jobs on the ground in Dublin.

FIGURE 2
Office take-up
sq ft



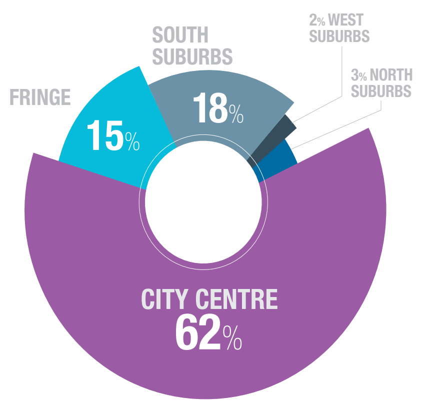
Source: Knight Frank Research

FIGURE 3
Take-up by sector



Source: Knight Frank Research

FIGURE 4
Take-up by location



Source: Knight Frank Research

FIGURE 5
Dublin prime office rents
€ per sq ft per annum

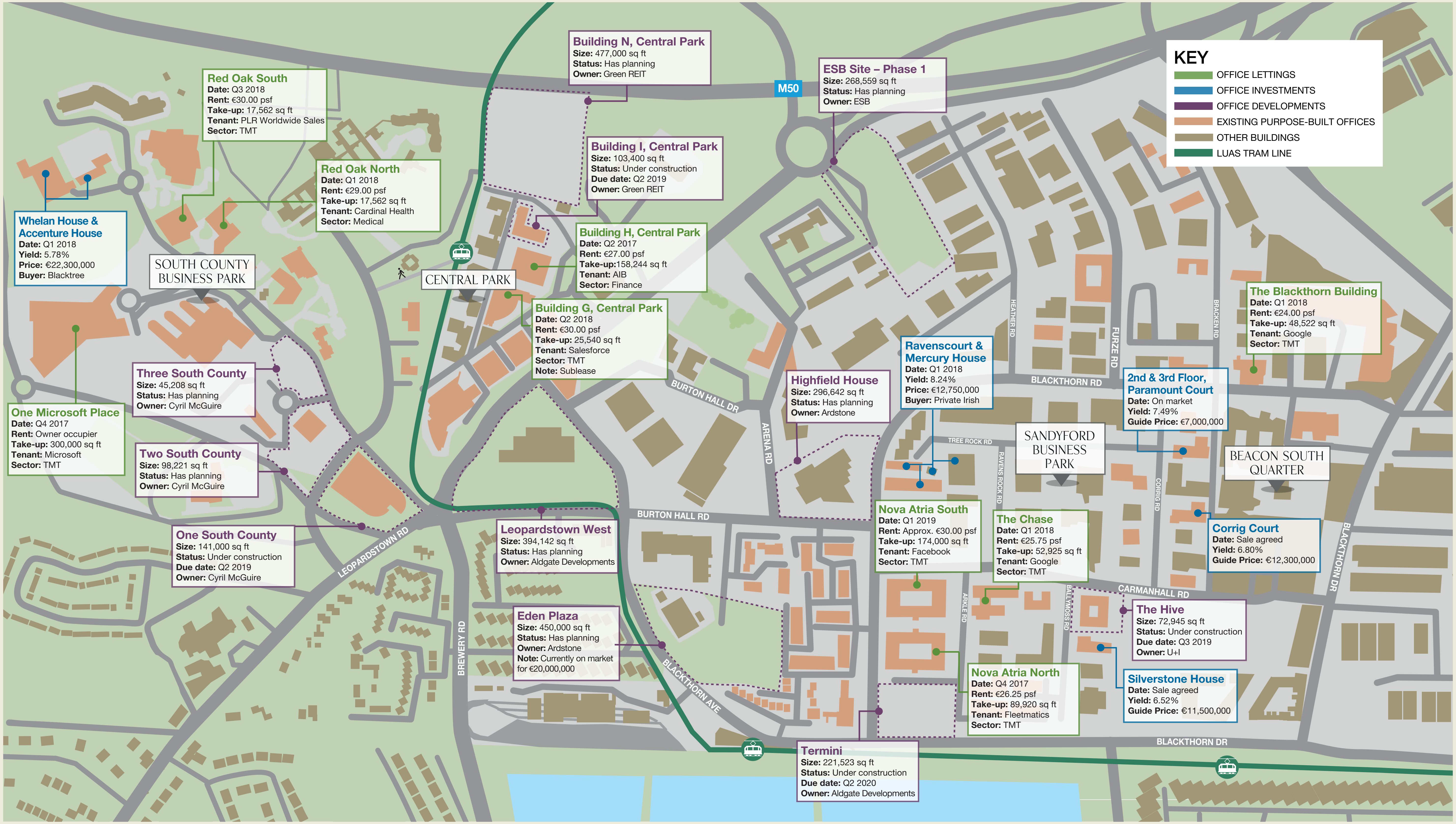
Source: Knight Frank Research

Top 5 office leasing transactions

Property	Tenant	Sector	Size (sq ft)
Spencer Place, Dublin 1	Salesforce	TMT	430,000
No.4 & No.5 Dublin Landings, Dublin 1	Central Bank of Ireland	State	201,000
The Distillers Building, Dublin 7	OPW	State	182,000
Nova Atria South, Dublin 18	Facebook	TMT	174,000
5 Hanover Quay, Dublin 2	DocuSign	TMT	99,000

Source: Knight Frank Research

SANDYFORD



Note: All figures noted above are approximate estimates only and may be subject to change.

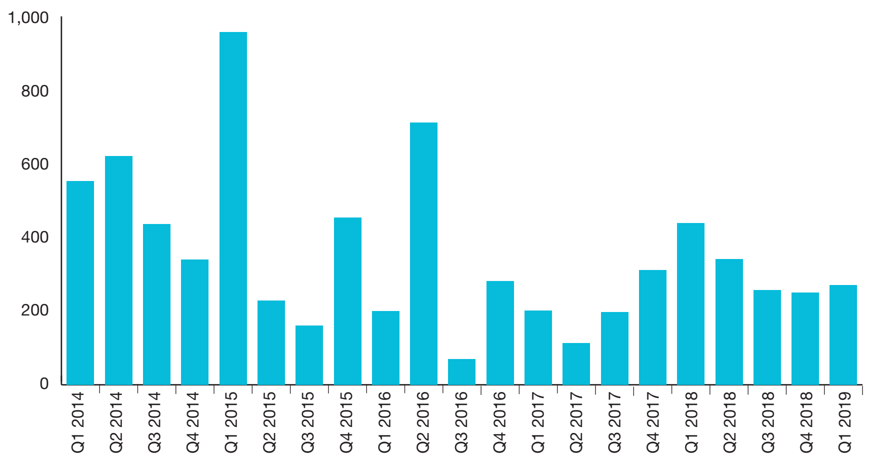
Investment

€278.1 million worth of office investment transactions changed hands in Dublin during Q1, placing it approximately in the median of quarterly investment volumes witnessed over the last five years. There was a shortage of large deals during the quarter with just one over €100.0 million transacting, although we expect this to change with a number of sales likely to take place during the year including The Reflector, Bishops Square and 5 Hanover Quay.

An interesting trend observed in Q1 was the growing importance of the coworking sector to the investment market with three of the top five deals involving coworking firms. While the occupational market has been grappling with the rise of coworking for a while now, buildings leased to coworking firms are now feeding through to the investment market for sale. While there has been much debate among investors regarding the strength of the coworking covenant, the reality is that their share of the occupational market is now too large to ignore.

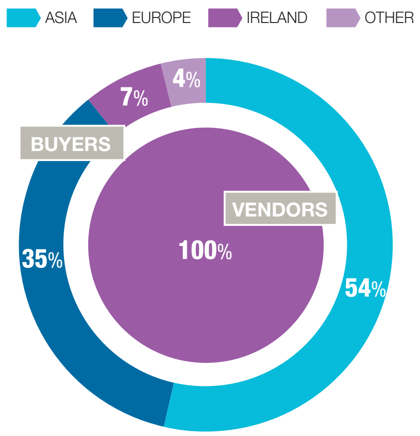
The sole deal to change hands in excess of €100.0 million was the sale of the WeWork occupied Charlemont Exchange by Marlet to South Korea based Vestas Management for €150.0 million, representing a net yield of 4.5%. The property is one of six buildings currently let by the coworking firm since they entered the Dublin market in Q4 2017. The sale of Charlemont Exchange also demonstrates the continued strong appetite by Asian investors – and particularly South Korean investors – for office assets in Dublin, with the deal boosting their share of the market to 54%. European buyers accounted for 35% of the market and acquired the other two coworking transactions, namely the IWG tenanted 77 Sir John Rogerson's Quay for €35.5 million and the Iconic Offices tenanted South Point for €12.7 million. French investors were also behind the second largest deal of the quarter as BNP Paribas REIM purchased The One Building for €49.5 million. The property is currently the European headquarters for Irish founded tech unicorn Stripe. Prime office yields are unchanged at 4.0%.

FIGURE 6
Dublin office investment volumes € million



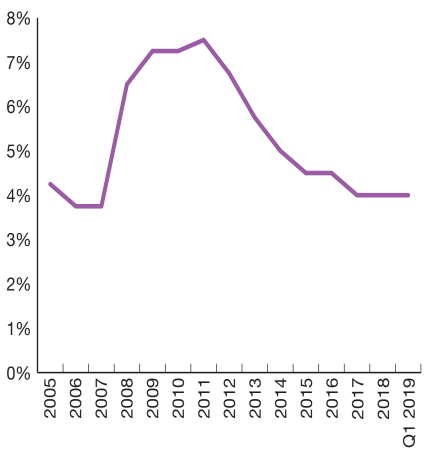
Source: Knight Frank Research

FIGURE 7
Buyer and vendor source



Source: Knight Frank Research

FIGURE 8
Dublin prime office yields



Source: Knight Frank Research

Top 5 office investment transactions

Property	Seller	Buyer	Approx. price
Charlemont Exchange, Dublin 2	Marlet	Vestas Management	€150.0m
The One Building, Dublin 2	Jones Investments	BNP Paribas REIM	€49.5m
77 Sir John Rogerson's Quay, Dublin 2	Hibernia REIT	Confidential	€35.5m
South Point, Dublin 2	Lugus Capital	Corum	€12.7m
Newenham Court, Northern Cross, Dublin 17	Private Irish	Private Canadian	€10.4m

Source: Knight Frank Research

SPECIAL FOCUS: SANDYFORD

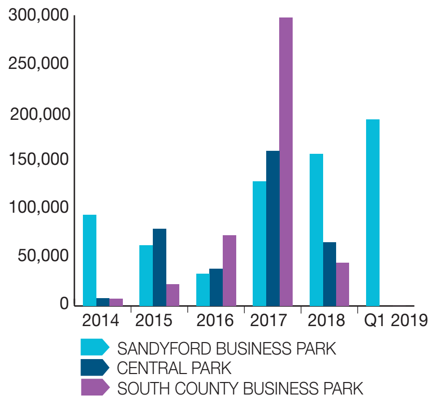
INTRODUCTION

There is 3.62 million sq ft of purpose-built office space in Sandyford, accounting for 8.4% of Dublin's office market stock. Half of the Sandyford office market is located in Sandyford Business Park with the remaining half almost evenly split between South County Business Park and Central Park.

The three office locations contain three distinct personalities: Central Park has benefited from being under single ownership control which has facilitated integrated placemaking, South County has a campus feel while Sandyford Business Park retains a mix of uses, with office use particularly concentrated on its northern edge in proximity to the two LUAS stops. Sandyford's appeal as an office location is due to being situated in a relatively affluent area of South Dublin while simultaneously being suitable for high density office development and enjoying good transport links to the city centre.


Termini

FIGURE 9
Sandyford office take-up sq ft



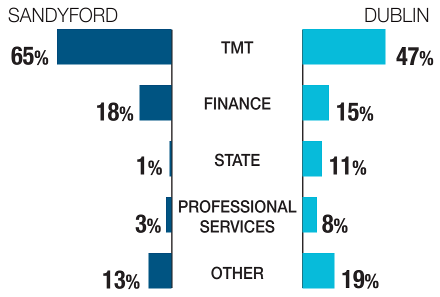
Source: Knight Frank Research

LETTING AND INVESTMENT ACTIVITY

Sandyford has witnessed strong take-up in recent years, peaking at just under 600,000 sq ft in 2017, of which half was accounted for by the opening of Microsoft's new Dublin HQ. Even after stripping this deal out, it represented a doubling of take-up activity compared to the average of 150,000 sq ft witnessed during the preceding five years and marked an inflection point for the Sandyford office market.

Last year, activity remained strong at 270,000 sq ft which included Google's taking of 101,400 sq ft across two buildings – The Chase and The Blackthorn Building – while Facebook took 174,000 sq ft at Nova Atria South in Q1 this year. Although TMT has been the driver of occupational activity across the Dublin market, it is even more so in Sandyford where it has accounted for 65% of take-up over the last five years as illustrated in Figure 10. The Finance sector has also been an important source of activity accounting for 18% of deals over the period while the State has been largely absent from Sandyford, accounting for just 1% of the market.

FIGURE 10
Take-up by sector since 2014



Source: Knight Frank Research

The strong levels of take-up in Sandyford has seen the vacancy rate decline to just 3.1% at the end of Q1, with the grade-A vacancy rate even lower at 2.4%. Breaking the vacancy down by sub-market, we see that South County Business Park and Central Park have extremely tight vacancy rates of 0.4% and 1.9% respectively, with Sandyford Business Park slightly higher at 5.2%. The tight vacancy has seen rents double from the mid-teens to now stand at €30.00 psf.

Sandyford market at end Q1 2019 sq ft

	Standing stock	Vacancy	Grade-A vacancy	Under construction	Potential with planning
Sandyford Business Park	1,750,000	5.2%	4.3%	73,000 – The Hive, due Q3 2019 221,500 – Termini, due Q2 2020	1,410,000
Central Park	870,000	1.9%	1.9%	103,400 – Building I, due Q2 2019	480,000
South County Business Park	1,000,000	0.4%	0.0%	141,000 – One South County, due Q2 2019	140,000
Overall	**3,620,000**	**3.1%**	**2.4%**	**538,900**	**2,030,000**

Building I, Central Park

Investment volumes in Sandyford have been relatively low in recent years, with volumes being less than €50.0 million in each of the last three years. This is reflective of the lack of investable stock of scale, with many of the larger opportunities having already traded earlier in the cycle. Silverstone House and Corrig Court are currently believed to be sale agreed, while the second and third floors of Paramount Court are on the market for €7.0 million.

DEVELOPMENT ACTIVITY

Along with One Microsoft Place, the only other new development to be delivered this cycle has been the 158,000 sq ft Building H in Central Park, which was let to AIB in Q2 2017 for a rent of €27.00 psf. Two new builds are due for delivery in early Q2 2019, namely One South County and Building I, Central Park – both of which are quoting rents of excess €30.00 psf. The extensive refurbishment at The Hive is due for completion in Q3 of this year while Aldgate Developments are currently constructing 221,500 sq ft at Termini, with delivery due for Q2 of 2020. In total, this activity will add 538,900 sq ft – or 15% – to the office stock of Sandyford. Looking ahead, there is a further two million sq ft of office space with planning in place. The appetite for developing these schemes out will be determined by the speed at which those currently under construction are taken-up.

OUTLOOK

As one can see from the accompanying map, it is interesting to note that much of the potential delivery is gravitating to the centre of the map around Central Park and the Leopardstown West development. Ardstone's schemes of Eden Plaza (currently for sale for €20.0 million) and Highfield House are located at the eastern edge of Sandyford Business Park, while Cyril McGuire's schemes in South County are at its Western edges with Central Park and Aldgate's Leopardstown West development sitting at the centre of this activity. Over the long-term, the building-out of these schemes will increase the ease of access between the three office locations which will help tie together Sandyford as an integrated office location of scale. Also of note, Sandyford's long-term strategic importance in facilitating Dublin's future growth was underlined recently when it was identified as the southern terminus for the Emerging Preferred Route for the Dublin Metrolink.

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