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Knight Frank

Dublin Office Market Overview

Research, Q3 2019

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Summary

1. Ireland is to be the fastest growing economy in Europe for a sixth consecutive year in 2019

2. The last six months of take-up were the weakest since 2012, but the previous six-month period was the strongest on record ever

3. 1.9 million sq ft is due to be delivered in 2019 which is approximately in-line with the preceding two years when 2.0 million sq ft was completed

4. €412.9 million worth of office investment transactions took place in Q3, the majority of which was accounted for by the sales of Five Hanover Quay and Nova Atria

Q3 OVERVIEW

Weakest consecutive quarters of growth since 2012 set against a mixed economic backdrop

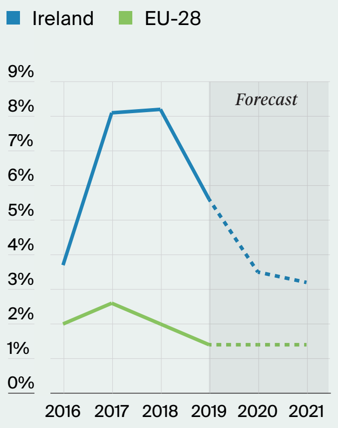
ECONOMY

In their Autumn economic forecast, the European Commission have revised Ireland's real GDP forecast for 2019 to 5.6%, up from the 3.8% contained within the Spring edition. If this proves true, Ireland will be the fastest growing economy in the EU for a sixth consecutive year. Prospects for continued outperformance remain strong with real GDP forecast to be 3.5% and 3.2% for 2020 and 2021 respectively, compared to 1.4% for both of these years for the EU as a whole.

According to the CSO's Labour Force Survey, Ireland's unemployment rate continues to fall, standing at 5.2% at the end of Q3 – down from 6.0% a year earlier. The unemployment rate in Dublin is lower again at 4.5%, down from 5.3% a year earlier with 21,600 new employees added over the period. With an estimated half of these being white collar workers, this means that new office workers took up 1.4 million sq ft of space over the last twelve months based on an occupation ratio of 130 sq ft per worker.

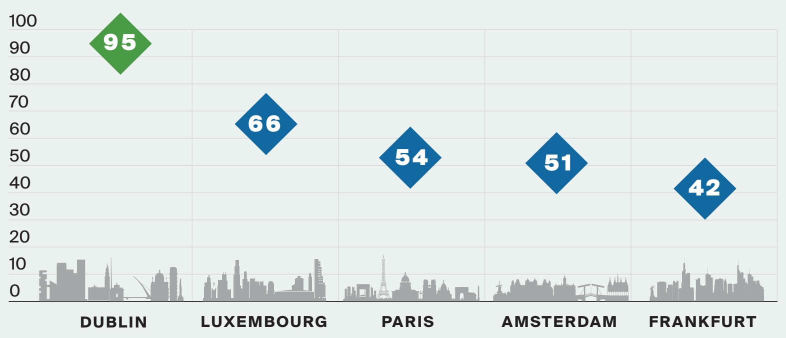
However, the external environment has weakened considerably with the expected rate of global economic growth for 2019 cut to 2.9% in the Autumn forecast compared to the 3.6% contained within the Spring forecast – a pace of deceleration that historically has presaged a recession. While the risk of a no-deal Brexit did not crystallise in Q3, this has only been postponed meaning that significant risks remain. Potentially mitigating this is the fact that Dublin remains at the forefront of the race for Brexit-related office announcements.

Fig 1. Real GDP growth



Source: European Commission

Fig 2. Number of Brexit-related announcements by city



Source: Knight Frank Research

DUBLIN OFFICE MARKET OVERVIEW Q3 2019

OCCUPIER MARKET

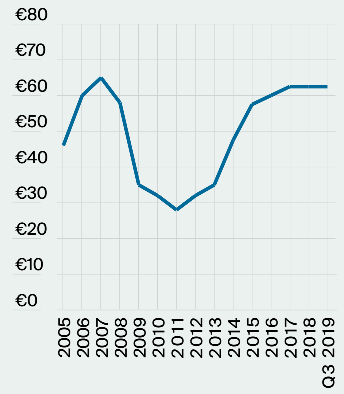
With the 360,000 sq ft that transacted in Q3 being just marginally ahead of the 355,000 sq ft that was achieved in Q2, the Dublin office market has posted the weakest successive quarters of take-up since Q2 and Q3 2012 when 296,000 sq ft and 359,000 sq ft was let respectively. While it is not a coincidence that this has coincided with a period of greater economic uncertainty, it would also be unwise to place too much emphasis on such a short time period and is countered by the fact that the preceding two quarters (Q1 2019 and Q4 2018) were the strongest ever on record. Looking ahead to the end of the year, with in excess of one million sq ft currently reserved, full-year take-up for 2019 is on track to surpass the three million sq ft mark which would make it at least the fourth strongest year on record.

The South Suburbs comprised the majority of occupier activity in Q3 with 45% of take-up as well as three of the top five transactions. The largest of these was the pre-letting of Building F1, Cherrywood Business Park – which will extend to 67,727 sq ft – to Elavon. Spear Street Capital will deliver Building F1 along with Building F2 – which will total 80,363 sq ft – in tandem in late 2020 while Building F3 – which will be 84,345 sq ft – will be completed in 2021. Elsewhere in the South Suburbs, Vhi purchased the Hampstead Building in Carrickmines which totals 58,147 sq ft, while Eurofins took an assignment of 17,727 sq ft from Marketo at Red Oak North in Sandyford.

The City Centre accounted for the next highest share of take-up with 30% of the market. WeWork continued to build its footprint in Dublin taking 23,000 sq ft at The Oval in Ballsbridge and 8,413 sq ft at George's Quay Plaza bringing the total amount of space leased by the coworking operator to 500,000 sq ft. Looking ahead, we anticipate that WeWork's share of new letting activity in Dublin will taper in light of recent market developments. Elsewhere, having already occupied 39,675 sq ft in Q4 2018, Airbnb took an additional 15,870 sq ft at the Reflector on Hanover Quay in the South Docklands. The company is relocating its staff from the nearby Watermarque building on Ringsend Road and is consolidating its presence on Hanover Quay where it also occupies space at 8 Hanover Quay.

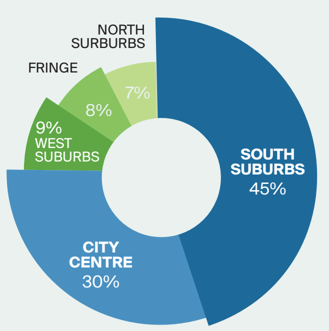
The West Suburbs had a 9% market share followed by the Fringe and the North Suburbs with 8% and 7% respectively. Prime rents remain stable at €62.50 psf. The vacancy rate stood at 6.8%, up from 6.4% in Q2.

Fig 5. Prime office rents
€ per sq ft per annum



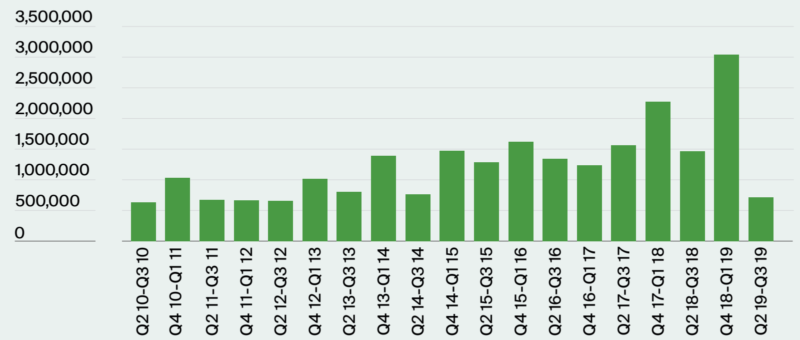
Source: Knight Frank Research

Fig 3. Take-up by location



Source: Knight Frank Research

Fig 4. Successive quarters of office take-up
Sq ft



Source: Knight Frank Research

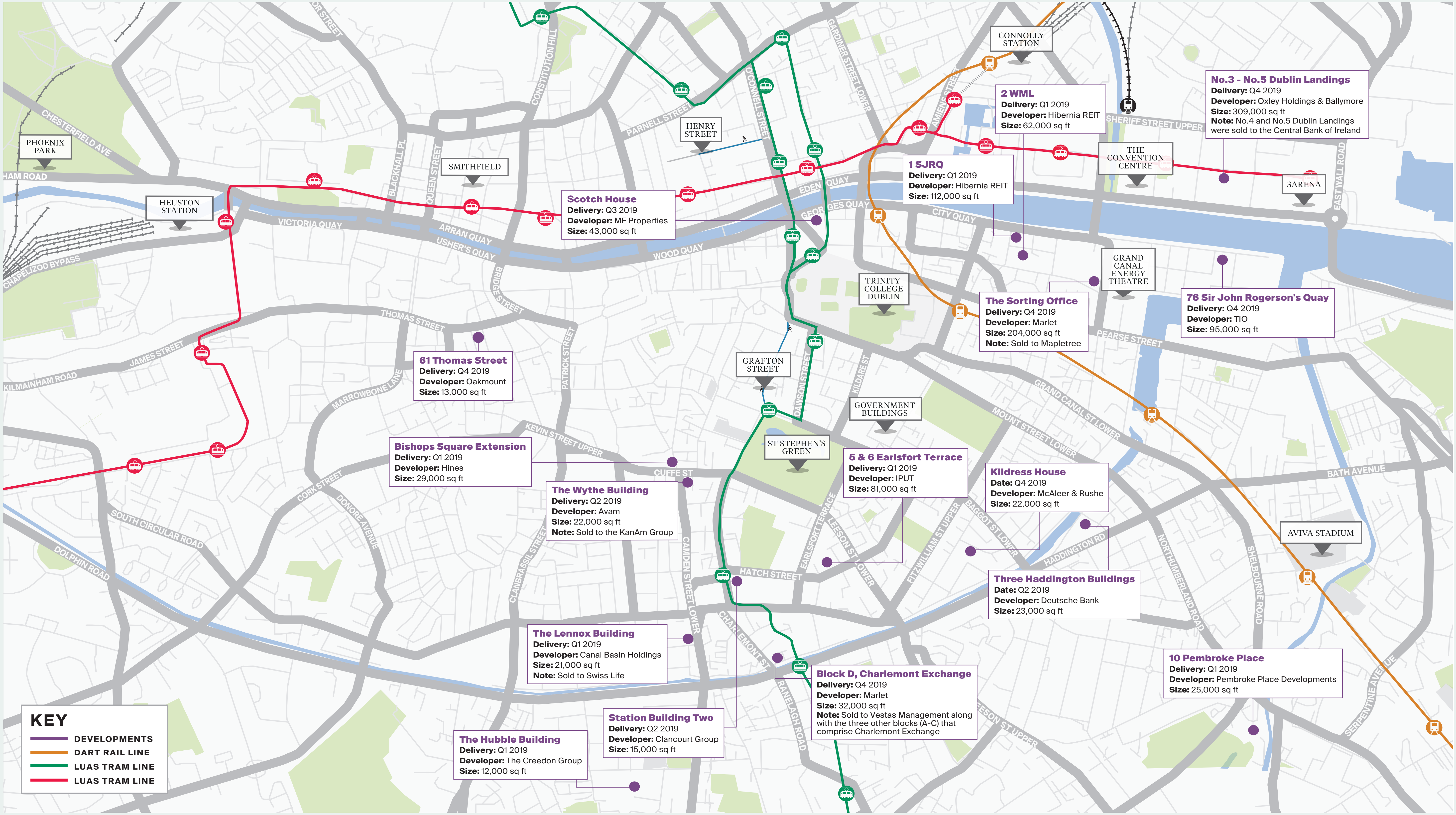
TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SIZE (SQ FT)
Building F1, Cherrywood Business Park, Dublin 18	Elavon	67,727
The Hampstead Building, Dublin 18	Vhi	58,147
The Oval, Dublin 4	WeWork	23,000
Red Oak North, South County Business Park, Dublin 18	Eurofins	17,727
The Reflector, Dublin 2	Airbnb	15,870

Source: Knight Frank Research

DUBLIN OFFICE MARKET OVERVIEW Q3 2019

OFFICE DEVELOPMENT PIPELINE 2019



DEVELOPMENT MARKET

In terms of development activity in Q3, just two buildings were delivered, namely The Hive – which was developed by U+I and extends to 73,000 sq ft – and Scotch House – which was completed by MF Properties and totals 43,000 sq ft. Meanwhile, construction commenced on Kennedy Wilson's 20 Kildare Street which – upon completion in Q3 2021 – will consist of five floors of restored period office space totalling 10,860 sq ft as well as seven floors of modern office space to the rear extending to 51,625 sq ft.

Looking at the full year picture, our forecast for 1.9 million sq ft is approximately in line with the 2.0 million sq ft that was delivered in the preceding two years. In the City Centre, 1.1 million sq ft is expected to be completed which is lower than the 1.5 million sq ft and the 1.7 million sq ft that was supplied in 2017 and 2018 respectively.

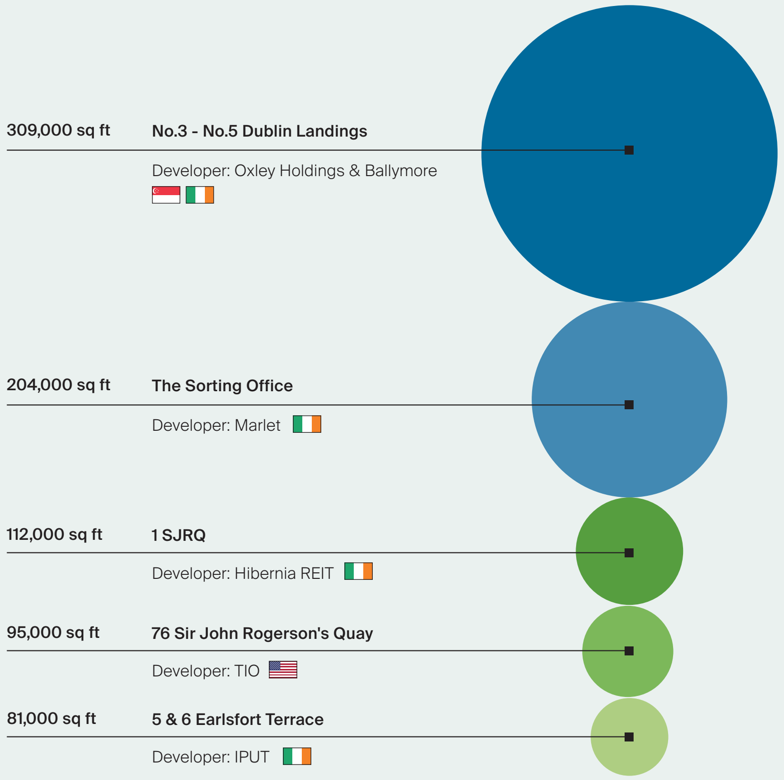
Within the City Centre – in the North Docklands – the completion of No.3 - No.5 Dublin Landings represents the largest volume of space that will be delivered in 2019, comprising 309,000 sq ft. With No.1 and No.2 having been completed in 2018, the delivery of No.3 - No.5 marks the conclusion of the office element of Dublin Landings which totals 553,000 sq ft and is being developed by Oxley Holdings and Ballymore.

In the South Docklands, Marlet's Sorting Office will extend to 204,000 sq ft and is located nearby two new waterfront developments, namely Hibernia REIT's 1 SJRQ – which forms part of their Windmill Quarter development – and TIO's 76 Sir John Rogerson's Quay which comprise 112,000 sq ft and 95,000 sq ft respectively. In St Stephen's Green, the delivery of 81,000 sq ft at 5 and 6 Earlsfort Terrace by IPUT completes the top five largest developments in the City Centre in 2019.

As of Q3, 43% of the space due to be delivered in Dublin in 2019 is already let, with the corresponding figure for the City Centre standing marginally lower at 42%. Given the amount of space reserved at the end of Q3, we would anticipate that these figures will rise to 54% and 51% respectively.

20 Kildare Street

Fig 6. Largest city centre office developments of 2019



Source: Knight Frank Research

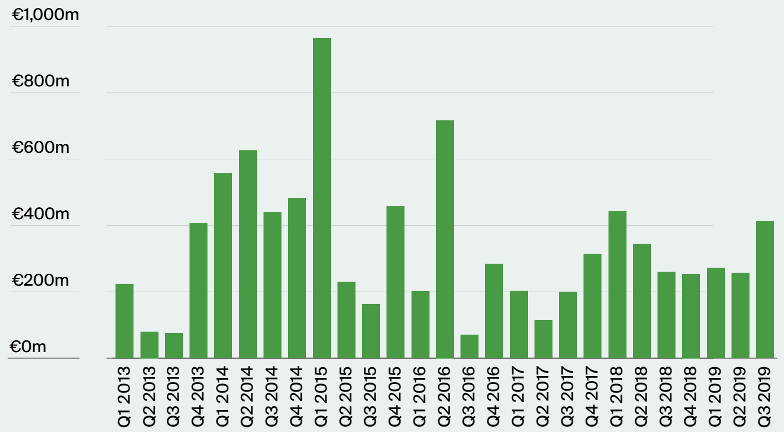
INVESTMENT

The €412.9 million worth of office investment transactions that changed hands in Dublin in Q3 was dominated by the sale of two large assets which accounted for 88% of spend. The largest of these was Union Investment's purchase of Five Hanover Quay from TIO for €197.0 million at a net initial yield of 4.1%. It was also the third largest office asset sale in Dublin this cycle, behind only One Spencer Dock for €240.0 million by AGC Equity Partners in 2016 and 4-5 Grand Canal Square for €233.0 million which was also purchased by Union Investment in 2015.

It is worth noting that this was the only transaction to occur in the City Centre. In the South Suburbs – in what was the second largest transaction – Singaporean investors Mapletree acquired Nova Atria from Blackstone for €165.0 million with the deal representing a net initial yield of 5.7%. The price paid represents a significant premium on the €100.0 million that Blackstone paid for the scheme – which was previously called the Atrium Buildings – in 2014. The deal provides further evidence that there is a growing willingness on the part of Asian capital to engage with assets outside of the City Centre.

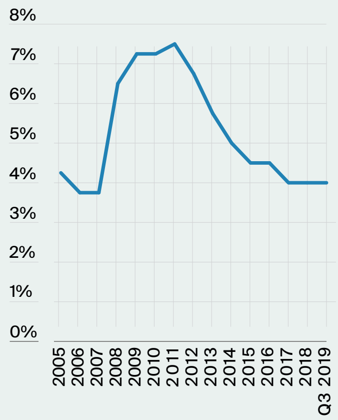
Looking ahead for the remainder of the year, there are over €500 million worth of Dublin office investments currently on the market of which 70% are sale agreed including notable assets such as The Reflector and Bishop's Square. This, in conjunction with the reported sale of the Green REIT portfolio to Henderson Park – which includes Dublin offices assets valued at €1.2 billion – will significantly boost end of year volumes and exceed the previous peak of 2014 when €2.1 billion transacted. Prime yields remained stable at 4.0%.

Fig 7. Dublin office investment volumes



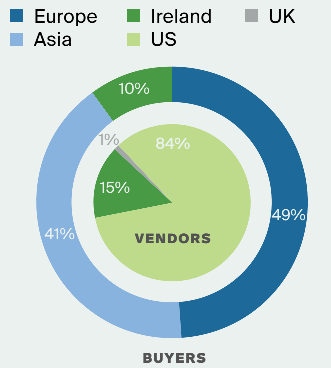
Source: Knight Frank Research

Fig 9. Dublin prime office yields



Source Knight Frank Research

Fig 8. Buyer and vendor source



Source: Knight Frank Research

TOP 5 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	SELLER	BUYER	APPROX. PRICE
Five Hanover Quay, Dublin 2	TIO	Union Investment	€197.0m
Nova Atria, Dublin 18	Blackstone	Mapletree	€165.0m
Block 2, Blackrock Business Park, Co. Dublin & 52 Broomhill Road, Dublin 24	Colony Capital	Private Irish	€16.2m
Silverstone House, Dublin 18	McGarrell Reilly	State Street	€11.5m
2 - 4 Claremont Road, Dublin 4	Private Irish	Sisk Group	€10.5m

Source: Knight Frank Research

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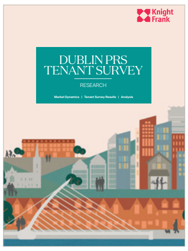

Dublin PRS Tenant Survey

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