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Dublin Office Market Overview

Research, Q4 2019

knightfrank.com/research

Summary

1. Ireland was the fastest growing economy in Europe for a sixth consecutive year in 2019
2. Take-up reached 3.3 million sq ft in 2019 – the third highest level ever
3. Prime Grade-A rents remained unchanged in 2019 at €62.50 psf
4. 1.5 million sq ft of office space was completed in 2019 with 2.9 million sq ft projected for 2020
5. €3.0 billion worth of office assets were sold in Dublin in 2019, setting a new record for investor activity

OVERVIEW

Although down on 2018, 2019 saw take-up in the Dublin office market reach its third highest level ever

ECONOMY

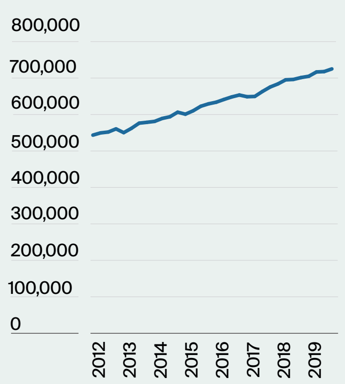
Despite significant headwinds – including heightened Brexit uncertainty – economic growth expanded by 5.5% in 2019 according to the CSO, making Ireland the fastest growing economy in Europe for a sixth consecutive year. Employment in Ireland grew by 3.5% in 2019 as 79,900 new jobs were created according to the CSO – the highest level this cycle, but well below the highest on record of 107,200 jobs which were created way back in 1997. Employment grew across 13 of the 14 economic sectors – 'Wholesale and Retail trade' being the only exception – with growth highest in the 'Information and Communication' sector which expanded by 10.7% reflecting the strength of the tech sector. Jobs growth in Dublin stood at 23,700 giving it a share of 30%, the lowest this cycle and below the five-year average of 41%. This may reflect capacity constraints in the office and housing markets in the capital. Looking ahead to 2020, the outlook remains strong with the Central Bank of Ireland forecasting GDP growth of 4.8% which will underwrite further job creation, with 42,000 new roles expected. We have seen estimates consistently out-perform forecasts over the last number of years and it remains to be seen whether this trend will continue.

In terms of investor activity, subdued inflation across the EU has pushed the ECB towards a more accommodative monetary policy, pledging to hold interest rates at their present levels and reactivating their asset purchase programme at €20 billion a month. While a number of risks remain to both the domestic and global economy, this accommodative monetary policy will act as a support for Dublin office investment.

Knight Frank view on risk

The 2020 General Election saw Sinn Féin emerge as a serious challenger to the traditional duopoly of Fine Gael and Fianna Fáil. Having won 37 seats in the general election – meaning that it will be the second largest party in the 33rd Dail – Sinn Féin's ascent represents a threat to the business friendly status quo. Sinn Féin's manifesto contains a number of commitments that could make Ireland a less attractive place to do business – potentially undermining office occupier demand – such as increasing employee income tax and employers' PRSI on salaries in excess of €100,000 as well as tapering out tax credits for those earning between €100,000-€140,000. The party also wish to increase the stamp duty on commercial property to 12.5% which would hurt investment activity. While Sinn Féin are unlikely to be in power this time around, the onus is on the big two parties to seize the opportunity to address issues such as housing or risk Sinn Féin gaining a potentially dominant position in the next election.

Fig 1. Dublin employment



Source: CSO

DUBLIN OFFICE MARKET OVERVIEW Q4 2019

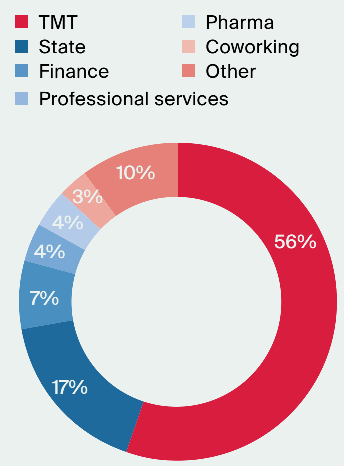
OCCUPIER MARKET

Occupier activity remained strong in 2019 with 3.3 million sq ft transacting – the third highest year on record. Deals in excess of 100,000 sq ft – of which seven transacted in 2019 – were behind the high level of take-up, accounting for 52% of the total space let. This drove the average deal size to 17,558 sq ft in 2019, representing a continued move away from the 10,000-11,000 sq ft average deal size which had previously been the norm for the market.

The growth in this deal-size category is due to the mega deals being signed by tech firms in Dublin, a trend which continued in 2019 with TMT accounting for 56% of take-up. The largest deal of the year was LinkedIn's pre-letting of 434,000 sq ft at Wilton Park. Upon completion, LinkedIn will occupy a total of 712,000 sq ft in what will become a City Centre campus for the company. The second largest deal was Salesforce's pre-letting of 430,000 sq ft at RGRE's Spencer Place which will see the company treble its existing footprint from the 150,000 sq ft it currently occupies in Sandyford. These largest deals represent two of the three largest deals that have ever transacted in the Dublin office market, only behind Facebook's taking of 870,000 sq ft at Bankcentre in Ballsbridge in Q4 2018.

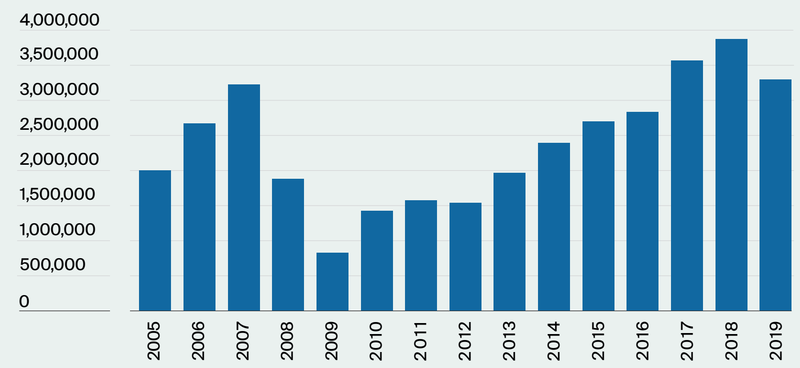
Other important tech deals included Facebook's letting of 174,000 sq ft at Nova Atria South in Sandyford, Amazon's taking of 170,000 sq ft at Block 2 Charlemont Square, which is currently under construction, Intercom's pre-letting of 113,000 sq ft at Cadenza, Earlsfort Terrace and DocuSign's taking of 99,000 sq ft at 5 Hanover Quay.

Fig 2. Take-up by sector



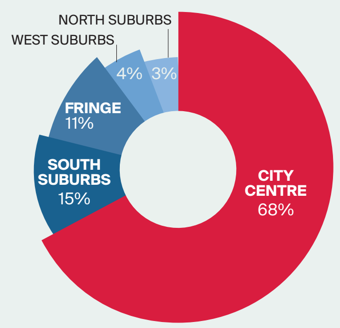
Source: Knight Frank Research

Fig 3. Office take-up
Sq ft



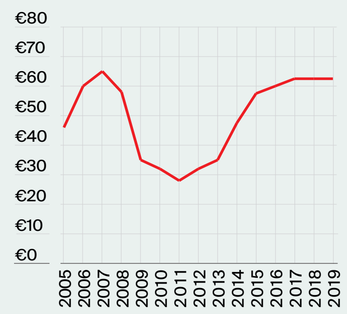
Source: Knight Frank Research

Fig 4. Take-up by location



Source: Knight Frank Research

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



Source: Knight Frank Research

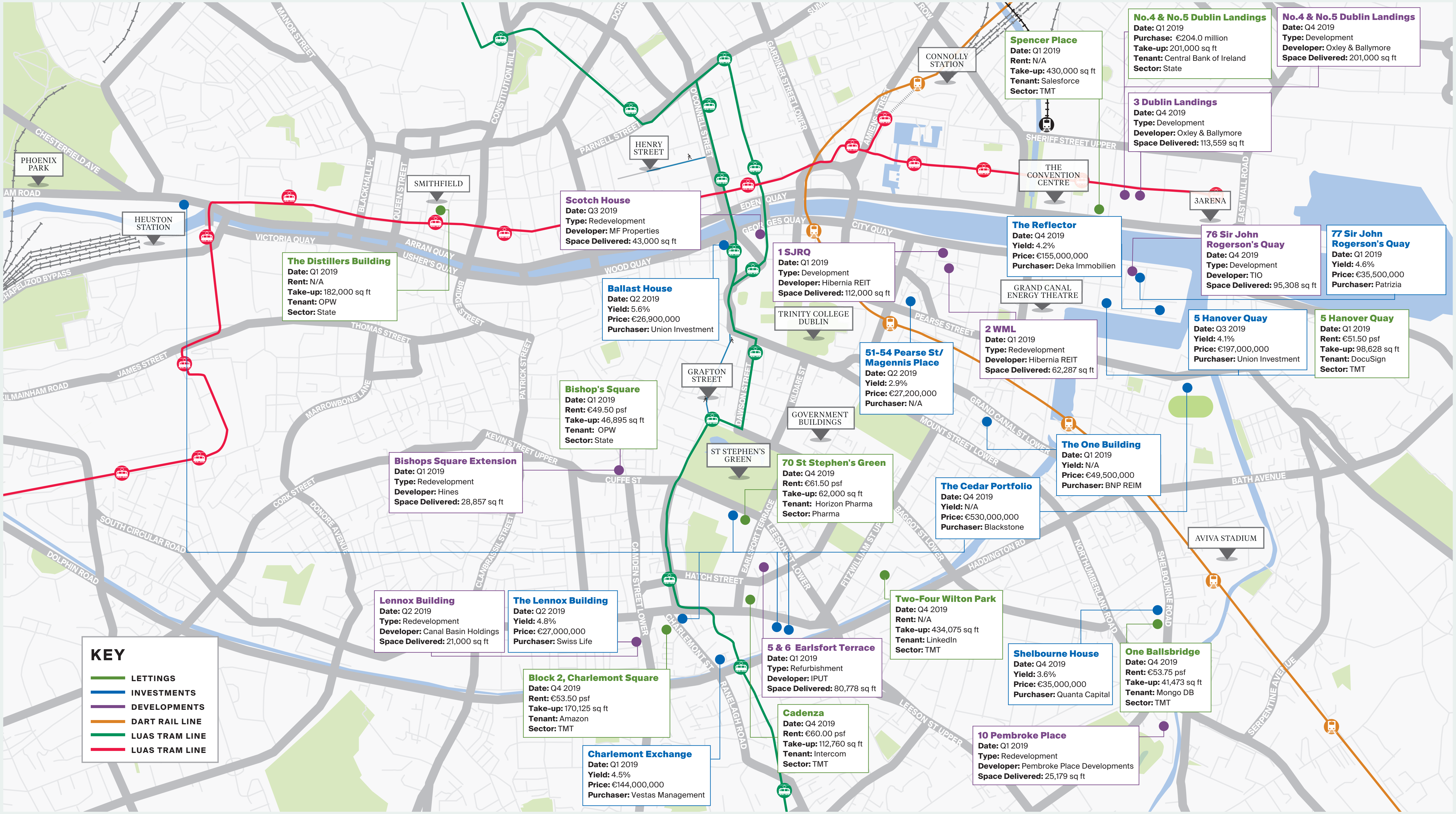
TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
Two-Four Wilton Park, Dublin 2	LinkedIn	TMT	434,075
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

Source: Knight Frank Research

DUBLIN OFFICE MARKET OVERVIEW Q4 2019

TOP LETTINGS, INVESTMENTS AND DEVELOPMENTS IN 2019



The State also performed strongly comprising 17% of activity, largely due to the Central Bank's taking of 201,000 sq ft at No.4 & No.5 Dublin Landings – positioned behind its existing headquarters which it completed in 2017 – and the OPW's pre-letting of 182,000 sq ft at the Distillers Building. The majority of activity occurred in the City Centre which accounted for 68% of the market followed by the South Suburbs and the City Fringe with 15% and 11% respectively. The vacancy rate in Dublin stood at 7.0% at the end of 2019, falling to 5.3% in the City Centre and as low as 1.2% in the prime core. Prime rents finished the year at €62.50, a level they have maintained since 2017.

DEVELOPMENT MARKET

1.5 million sq ft of office space was delivered in 2019 – the lowest level since 2016 when 1.3 million sq ft was completed. 851,000 sq ft was supplied in the City Centre where notable completions included No. 3-5 Dublin Landings (314,559 sq ft) which represented the conclusion of the office element of Oxley and Ballymore's Dublin Landings scheme, while Hibernia REIT delivered 1SJRQ (112,000 sq ft) and 2WML (62,287 sq ft) which completed their Windmill Quarter development.

Delivery in 2020 is expected to increase by 88% to 2.9 million sq ft, up from the 1.5 million sq ft completed in 2019

In the Suburbs, Sandyford witnessed heightened levels of activity with 488,000 sq ft being delivered including Blackstone's refurbishment of Nova Atria South (174,000 sq ft) and Cyril McGuire's development of One South County (141,000 sq ft).

Looking ahead, delivery in 2020 is expected to increase to 2.9 million sq ft of which 39% is already let, while in the City Centre, 2.1 million sq ft will come online of which 51% is pre-committed. Major schemes due for delivery include RGRE's Spencer Place (430,000 sq ft), Aldgate's Termini (221,523 sq ft) and Google's Boland's Quay (210,036 sq ft).

INVESTMENT

2019 established a new record for investment in Dublin's office market with €3.0 billion transacting – well ahead of the previous peak of €2.1 billion which was achieved in 2014 and double the five-year average of €1.5 billion. As illustrated in Fig 6, €2.1 billion – or more than two-thirds of the full year volume – transacted in Q4 alone making it the highest quarter on record by some distance.

The most significant transaction of 2019 was the sale of the Green REIT portfolio – the value of which was rooted in Dublin offices, with George's Quay and Central Park being the largest assets in the portfolio – to Henderson Park for €1.5 billion. As a result of this purchase, UK buyers accounted for an unprecedented 43% of the market, ahead of European and United States purchasers who had respective market shares of 19% and 18%. Henderson Park have already started the disposal of some of the prime core assets within the portfolio with the sale of the Capital Collection – namely One Molesworth Street, 2 Burlington Road, 5 Harcourt Road, 30 to 33 Molesworth Street and Fitzwilliam Hall – with a guide price of €400.0 million for the entire. With these buildings representing some of the finest office assets in Dublin, the pricing achieved in this sale is likely to set the tone for the rest of the year.

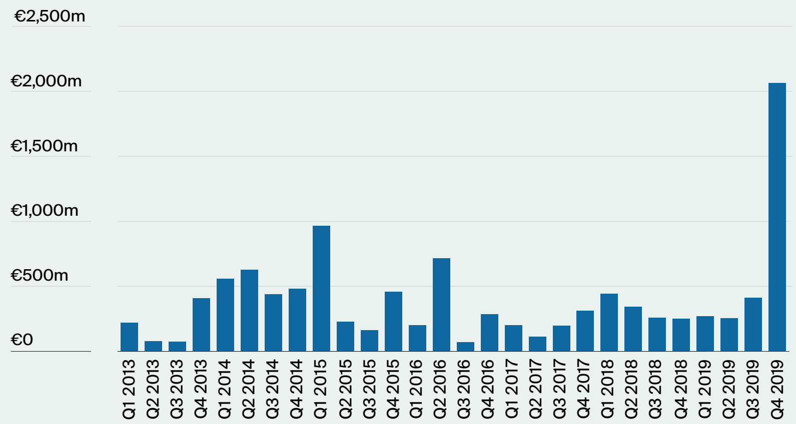
ISJRQ

DUBLIN OFFICE MARKET OVERVIEW Q4 2019

The second largest deal was Blackstone's acquisition of Starwood's Cedar Portfolio for €530.0 million which was comprised of six Dublin City Centre office assets, namely The Watermarque Building, 29-31 Adelaide Road, Marsh House, Iveagh Court, 75 St Stephen's Green and Parkgate Street 1 and 2. Elsewhere, Blackstone have disposed of Nova Atria in Sandyford to Singapore investors Mapletree for €165.0 million, representing a significant premium on the €100.0 million that Blackstone paid for the asset in 2014. The remaining transactions that made up the top five deals were Union Investment's purchase of 5 Hanover Quay from TIO for €197.0 million and Deka Immobilien's acquisition of The Reflector from Park Developments for €155.0 million.

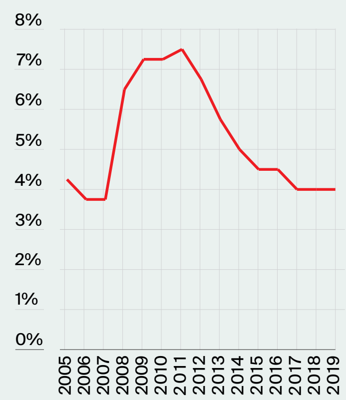
Prime office yields finished 2019 at 4.0%, a level they have been at since 2017. Given that Irish government ten-year yields bonds tightened from 0.89% to 0.14% over the course of 2019 (CSO), while office yields remained stable, the risk premia of Dublin office investments widened by three-quarters of a per cent in 2019. With real estate markets operating at a lag to bond markets, many had expected this to translate into more aggressive pricing in 2020, but the crystallisation of risks such as the uncertain election results means that we are unlikely to see this scenario come to fruition in 2020.

Fig 6. Dublin office investment volumes



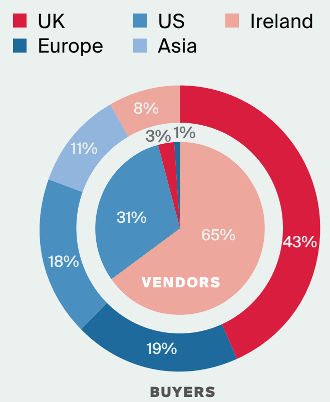
Source: Knight Frank Research

Fig 7. Dublin prime office yields



Source: Knight Frank Research

Fig 8. Buyer and vendor source



Source: Knight Frank Research

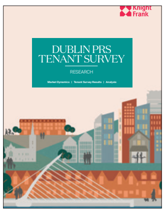
TOP 5 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	SELLER	BUYER	APPROX. PRICE
Green REIT Portfolio	Green REIT	Henderson Park	€1.5bn
Cedar Portfolio	Starwood	Blackstone	€530.0m
5 Hanover Quay, Dublin 2	TIO	Union Investment	€197.0m
Nova Atria, Dublin 18	Blackstone	Mapletree	€165.0m
The Reflector, Dublin 2	Park Developments	Deka Immobilien	€155.0m

Source: Knight Frank Research

The Wealth Report - 2020

London Offices Spotlight - Q4 2019



Dublin PRS Tenant Survey - Report

Active Capital 2019

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