

1

*Occupier Trends*

2

*Investment Trends*

3

*Market Outlook*

# Dublin Office Market Overview

Research, Q4 2020

knightfrank.com/research





# Q 4 O V E R V I E W

## Summary

1. Ireland's economy showed remarkable strength in 2020 with GDP growth projected to be between 3.5%-4.0%. The recovery is expected to gain momentum throughout 2021 with the vaccine rollout now underway
2. 1.5 million sq ft of office space transacted in 2020 – 55% below the level that was let in 2019 – as businesses reassessed their relocation and expansion plans due to Covid-19
3. The vacancy rate rose to 9.5%, up from 6.9% a year earlier, while prime headline rents finished the year at €57.50 psf – down from €62.50 psf last year
4. 1.4 million sq ft of office space was completed in 2020. 2.5 million sq ft is projected to be delivered in 2021 of which 62% is pre-committed
5. €1.2 billion worth of office assets were sold in 2020 in what was a healthy performance despite the fact that many investors were unable to inspect opportunities due to Covid-19 travel restrictions

*The office market was severely disrupted by Covid-19 in 2020, but 2021 promises to be a stronger year with the vaccine rollout now underway*

## ECONOMY

Resilience, set against a strong starting point, is expected to result in a 3.5%-4.0% increase in GDP in 2020. Although the Covid-19 pandemic caused a significant contraction in domestic industries such as retail and hospitality, growth was driven by the internationally traded pharmaceutical and ICT sectors which recorded impressive growth in employment and output. The IDA's Annual Report for 2020 showed that the fastest growth in employment among IDA supported companies occurred in the pharmaceutical and food sector where employment increased by 5.9%. Employment in the ICT sector also rose strongly by 5.6%. Elsewhere, exports of medicinal and pharmaceutical products and ICT services recorded annual growth of 17.8% and 9.9% respectively in Q3 2020 according to the latest data from the CSO.

The ingredients for an even stronger economic performance in 2021 are already in place. The vaccine rollout has begun and as this accelerates we should see a gradual loosening of restrictions and greater economic activity. Additionally, the UK and the EU concluded a trade deal last December which effectively removed the biggest threat to Ireland's Covid-19 recovery plans. With these factors in mind, growth in the order of 5.0% is currently expected in 2021.

## OCCUPIER MARKET

Take-up reached 1.5 million sq ft in 2020 – 55% below the level that transacted in 2019. Although 823,000 sq ft was let in the opening quarter – including 249,200 sq ft to Mastercard at One and Two South County and 134,700 sq ft to Slack at Fitzwilliam 28 – Covid-19 resulted in businesses quickly reassessing their relocation and expansion plans. As such,

activity was negatively impacted for the remainder of the year with just 665,000 sq ft transacting. However, there were still some notable deals during that time including Amazon's letting of 75,700 sq ft at 2 Burlington Plaza and Microsoft's taking of 43,900 sq ft at No. 3 Dublin Landings. In total, TMT comprised 66% of take-up followed by the State and Finance with 10% and 8% respectively. The vacancy rate rose to 9.5%, up from 6.9% a year earlier – driven by the delivery of unlet space to the market and companies looking to sub-let surplus accommodation. This exerted downward pressure on prime headline rents which finished the year at €57.50 psf – down from €62.50 psf last year.

Looking ahead, we expect the office to remain the cornerstone of the modern workplace in recognition of the benefits that it offers such as facilitating innovation through collaboration and learning, attracting and retaining talent and transmitting corporate culture. The vaccine rollout has already prompted companies to consider their return to the office and their future office needs, however we are unlikely to see a significant recovery in

activity until the second half of 2021. This will be led by TMT occupiers. Having performed strongly during the pandemic – for example Google, Microsoft, Amazon and Facebook have witnessed their market capitalisations rise from a combined \$3.6 trillion to \$5.3 trillion – these companies will be poised to expand their workforces and office requirements once the pandemic subsides with Dublin well positioned to benefit given how critical the city is to the strategic business activities of these companies. Finally, Covid-19 has ensured that speculative development is likely to be subdued with only projects that have a lease agreement or that were under construction prior to the pandemic proceeding. This tightening of supply, along with a return to more normalised demand levels, should limit further increases in the vacancy rate. Pressure on rents will be location specific and dependent on tenant requirements.

## DEVELOPMENT MARKET

1.4 million sq ft was completed in 2020 including notable schemes such as Termini (221,500 sq ft), The Sorting Office (203,700 sq ft) and North Dock (201,100 sq ft). Delivery in 2021 is expected to increase to 2.5 million sq ft, however 62% is already pre-committed. Notable completions will include Spencer Place (430,000 sq ft), Boland's Quay (210,000 sq ft) and Block 2, Charlemont Square (170,000 sq ft).

## INVESTMENT MARKET

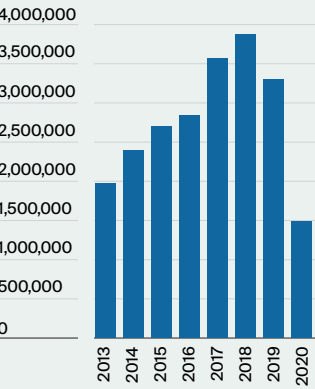
€1.2 billion worth of office assets transacted in 2020 in what was a robust performance considering the disruption caused by the Covid-19 pandemic, with many international investors unable to inspect opportunities due to travel restrictions. Although €3.1 billion was invested in 2019, this was an exceptional year owing to the sale of the Green REIT portfolio.

European Buyers were particularly active accounting for 78% of the investment spend. The largest deal of 2020 was the purchase of Bishop's Square by GLL Real Estate Partners from Hines for €183.0 million which is occupied predominantly by the OPW. Elsewhere, Amundi Real Estate made its first acquisition in the Irish market by purchasing Fitzwilliam 28 for €177.5 million. The building is currently being developed by the ESB who agreed to lease the property in its entirety to Slack. This was followed by the acquisition of the Bank of Ireland headquarters at Baggot Plaza by Deka Immobilien from Kennedy Wilson for €141.0 million – the latter having acquired the property as part of

Project Opera in 2013 prior to embarking on a substantial redevelopment of the building. It was anticipated at the beginning of last year that prime office yields in Dublin would move closer to German and French rates in 2020, with the potential for a 25-50 basis point shift. However, Covid-19 prevented this from happening with prime yields holding at 4.00%, while values for secondary properties fell as investors took account of the increased letting risks.

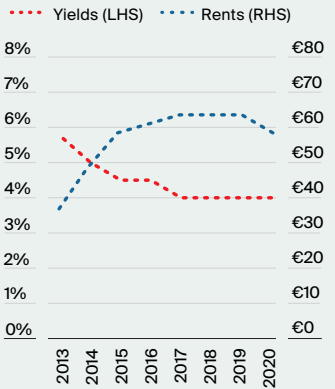
Last December, the ECB increased the size of its pandemic emergency purchase programme from €1.35 trillion to €1.85 trillion and announced that it would continue to conduct asset purchases until at least March 2022. This will preserve the current ultra-low interest rate environment which will support capital flows into commercial real estate and in particular office assets in 2021. Pent up demand is expected to result in an increase in transaction volumes from Q2 onwards with city centre assets with strong covenants on long leases expected to benefit.

Fig 1. Office take-up  
Sq ft



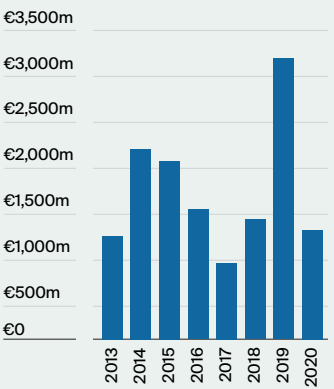
Source: Knight Frank Research

Fig 2. Dublin prime office yields and rents



Source: Knight Frank Research

Fig 3. Dublin office investment volumes



Source: Knight Frank Research

## TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
ONE & TWO SOUTH COUNTY, DUBLIN 18	MASTERCARD	TMT	249,164
FITZWILLIAM 28, DUBLIN 2	SLACK	TMT	134,656
ONE STEMPEL EXCHANGE, DUBLIN 15	GUIDEWIRE	TMT	85,000
2 BURLINGTON PLAZA, DUBLIN 4	AMAZON	TMT	75,731
BLOCK 1, CENTRAL PARK, DUBLIN 18	GOOGLE	TMT	75,294

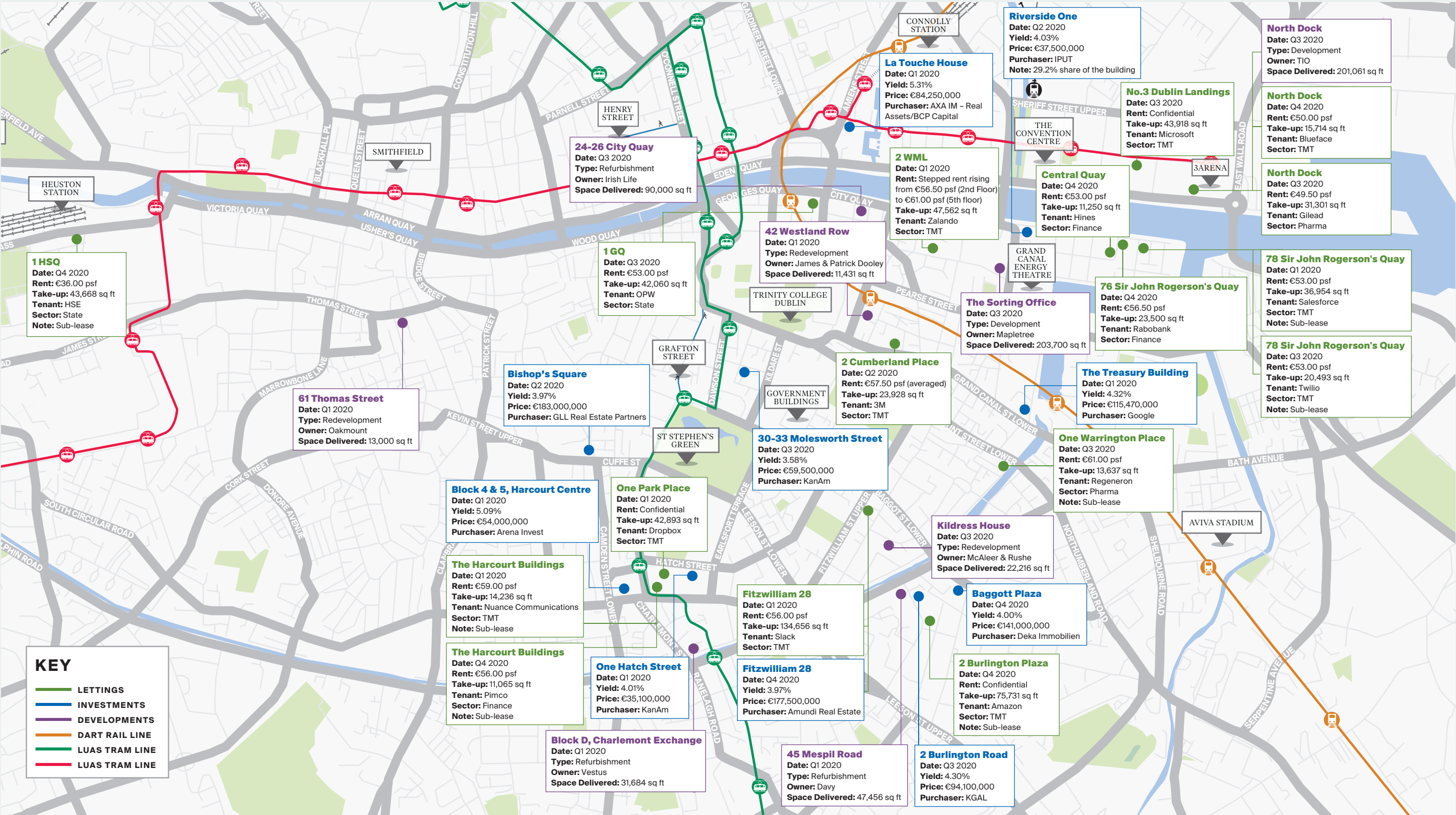
Source: Knight Frank Research

## TOP 5 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	VENDOR	BUYER	PRICE
BISHOP'S SQUARE, DUBLIN 2	HINES	GLL REAL ESTATE PARTNERS	€183.0m
FITZWILLIAM 28, DUBLIN 2	ESB	AMUNDI REAL ESTATE	€177.5m
BAGGOT PLAZA, DUBLIN 4	KENNEDY WILSON	DEKA IMMOBILIEN	€141.0m
THE TREASURY BUILDING, DUBLIN 2	JAYFIELD LTD & PERCY NOMINEES	GOOGLE	€115.5m
2 BURLINGTON ROAD, DUBLIN 4	HENDERSON PARK	KGAL	€94.1m

Source: Knight Frank Research

LETTINGS, INVESTMENTS & DEVELOPMENTS IN 2020





Dublin PRS Occupier Study 2020



Prime Global Forecast 2021



The Wealth Report 2020



The London Investor Bulletin Winter 2020

## Please get in touch with us

### Research

Joan Henry, Chief Economist &  
Head of Research  
[joan.henry@ie.knightfrank.com](mailto:joan.henry@ie.knightfrank.com)

Robert O'Connor, Research Analyst  
[robert.oconnor@ie.knightfrank.com](mailto:robert.oconnor@ie.knightfrank.com)

### Capital Markets

Adrian Trueick, Director  
[adrian.trueick@ie.knightfrank.com](mailto:adrian.trueick@ie.knightfrank.com)

Peter Flanagan, Director  
[peter.flanagan@ie.knightfrank.com](mailto:peter.flanagan@ie.knightfrank.com)

Ross Fogarty, Director  
[ross.fogarty@ie.knightfrank.com](mailto:ross.fogarty@ie.knightfrank.com)

### Offices

Declan O'Reilly, Director  
[declan.oreilly@ie.knightfrank.com](mailto:declan.oreilly@ie.knightfrank.com)

Paul Hanly, Director  
[paul.hanly@ie.knightfrank.com](mailto:paul.hanly@ie.knightfrank.com)

Jim O'Reilly, Director  
[jim.oreilly@ie.knightfrank.com](mailto:jim.oreilly@ie.knightfrank.com)

Gavin Maguire, Associate Director  
[gavin.maguire@ie.knightfrank.com](mailto:gavin.maguire@ie.knightfrank.com)

Mark Headon, Associate Director  
[mark.headon@ie.knightfrank.com](mailto:mark.headon@ie.knightfrank.com)

**Knight Frank Research  
Reports are available at  
[knightfrank.com/research](https://knightfrank.com/research)**



© 2020 HT Meagher O'Reilly trading as Knight Frank

Important Notice: This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by HT Meagher O'Reilly trading as Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of HT Meagher O'Reilly trading as Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of HT Meagher O'Reilly trading as Knight Frank to the form and content within which it appears. HT Meagher O'Reilly trading as Knight Frank, Registered in Ireland No. 385044, PSR Reg. No. 001266. HT Meagher O'Reilly New Homes Limited trading as Knight Frank, Registered in Ireland No. 428289, PSR Reg. No. 001880. Registered Office – 20–21 Upper Pembroke Street, Dublin 2.