

RESEARCH



# DUBLIN

OFFICE MARKET REVIEW AND OUTLOOK  
2019

**WITH SPECIAL FOCUS:**  
THE TECH SECTOR IN DUBLIN



OCCUPIER TRENDS

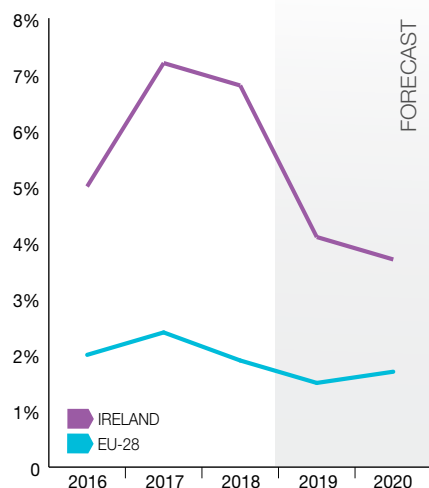
INVESTMENT TRENDS

MARKET OUTLOOK

## SUMMARY

1. Ireland was the fastest growing economy in Europe for a fifth consecutive year in 2018, expanding by an estimated 6.8%
2. Take-up reached 3.9 million sq ft in 2018 – the highest level ever
3. Prime Grade-A rents remained unchanged in 2018 at €62.50 psf
4. Prime yields remained stable at 4.00% throughout 2018
5. 2.0 million sq ft of office space was completed in 2018 with 2.2 million sq ft projected for 2019

FIGURE 1  
Ireland vs EU-28 GDP growth rates



Source: EU Commission

## REVIEW AND OUTLOOK 2019

Facebook's 870,000 sq ft mega deal at Ballsbridge drives annual take-up to the highest level ever achieved.

### Economy

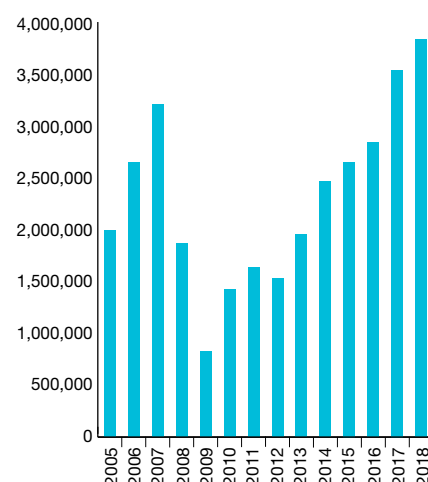
According to the European Commission's Winter Economic Forecast, the Irish economy is estimated to have expanded by 6.8% in 2018 making it the fastest growing economy in Europe for a fifth consecutive year. This robust performance saw the unemployment rate continue its downward trajectory, falling to 5.7% at the end of 2018, down from 6.2% the year previous. Looking ahead, economic activity is anticipated to advance at a relatively solid pace in 2019, with the European Commission projecting that the economy will grow by 4.1% this year.

While this growth outlook is heavily contingent upon a soft Brexit, Ireland is currently forecast to be the second fastest growing economy in Europe along with Slovakia – with Malta occupying the top spot. Additionally – in what will be positive news for the office market – the Central Bank is also suggesting that the labour market recovery is far from complete, forecasting that 50,000 jobs will be created this year.

### Occupier market

Occupier activity expanded for a sixth consecutive year in 2018 establishing a new record for the highest level of letting activity ever recorded in the Dublin office market as 3.9 million sq ft transacted. This represents an 8% increase in comparison

FIGURE 2  
Office take-up sq ft



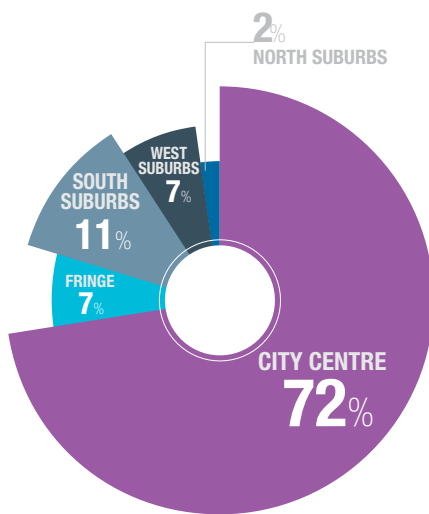
Source: Knight Frank Research

## KNIGHT FRANK VIEW ON RISK

Of all the risks that face the office market, the potential for overbuilding will always be the most analysed. Looking back at demand in 2018, the Central Statistics Office's Labour Force Survey showed that 50,500 jobs were created in Ireland last year, of which 25,900 (or 51%) were located in Dublin. Given that office based employment accounts for half of new jobs, an estimated 12,950 new workers took up office space in Dublin in 2018. Using an

occupancy ratio of 130 sq ft per worker and an obsolescence rate of 1% for existing stock, this equated to demand for 2.1 million sq ft of new office space. Therefore, the 2.0 million sq ft of new office stock delivered in 2018 was approximately in-line with estimated demand. Looking ahead, with similar job creation of 50,000 expected this year, the 2.2 million sq ft due for delivery in 2019 also looks to be approximately in-line with demand.

FIGURE 3  
Take-up by location



Source: Knight Frank Research

to the 3.6 million sq ft that was let in 2017. Prime rents remained stable throughout the year at €62.50 psf while the vacancy rate contracted to 6.2%, down from 6.8% a year previously.

An extraordinary 72% of take-up was concentrated in the City Centre, much higher than the 5-year average of 56%. While Dublin 2 accounted for the majority of take-up with a 34% market share, the City Centre's increased share was driven by the improved performance of Dublin 4 which comprised 30% of occupier activity – a fivefold increase in comparison to 2017. This was largely due to Facebook's decision to create a new 870,000 sq ft campus at Ballsbridge.

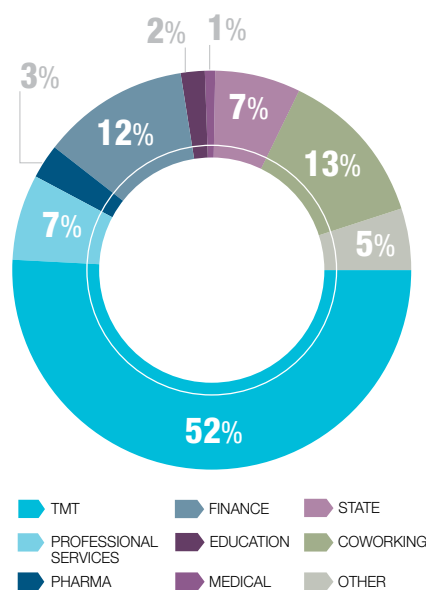
Elsewhere in Dublin 4, Google acquired Bolands Quay which will incorporate 220,732 sq ft of office space upon completion later this year with the development providing a strategic expansion of the company's existing footprint at Barrow Street. Outside of the City Centre, Google also made its first foray into the Sandymount office market with deals at the Chase and the Blackthorn Building of 52,925 sq ft and 48,522 sq ft respectively. The South Suburbs had an 11% market share while the Fringe and the West Suburbs both comprised 7%.

While TMT was the standout performer accounting for 52% of the market, 2018 saw rapid growth in Coworking, which

was the second largest sector with 13%. This was driven by the expansion of WeWork who took 343,000 sq ft across Charlemont Exchange, No. 2 Dublin Landings, Central Plaza and 5 Harcourt Road.

The Finance sector accounted for the next highest market share with 12%, followed by the State and Professional Services, both of which had 7%. Looking ahead to 2019, occupier demand is forecast to remain strong, however the volume of take-up is likely to moderate in comparison to 2018. Furthermore, there may be renewed upward pressure on prime rents, particularly in the City Centre given that 60% of the pipeline that will be delivered there is already let.

FIGURE 4  
Take-up by sector



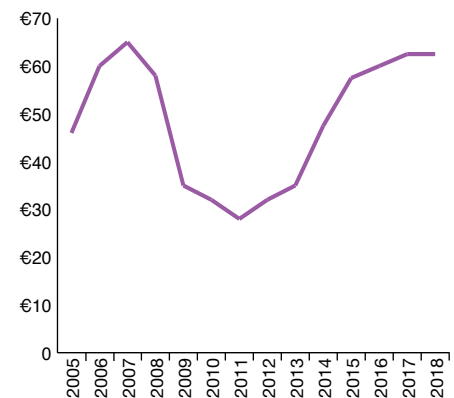
Source: Knight Frank Research

### Top 5 office take-up deals of 2018

Property	Tenant	Sector	Size (sq ft)
Facebook Campus, Ballsbridge, Dublin 4	Facebook	TMT	870,000
Bolands Quay, Dublin 4	Google	TMT	220,732
Blocks A-D, Charlemont Exchange, Dublin 2	WeWork	Coworking	120,618
1 Sir John Rogerson's Quay, Dublin 2	Hubspot	TMT	113,034
Three Park Place, Dublin 2	IDA	State	112,000

Source: Knight Frank Research

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



Source: Knight Frank Research

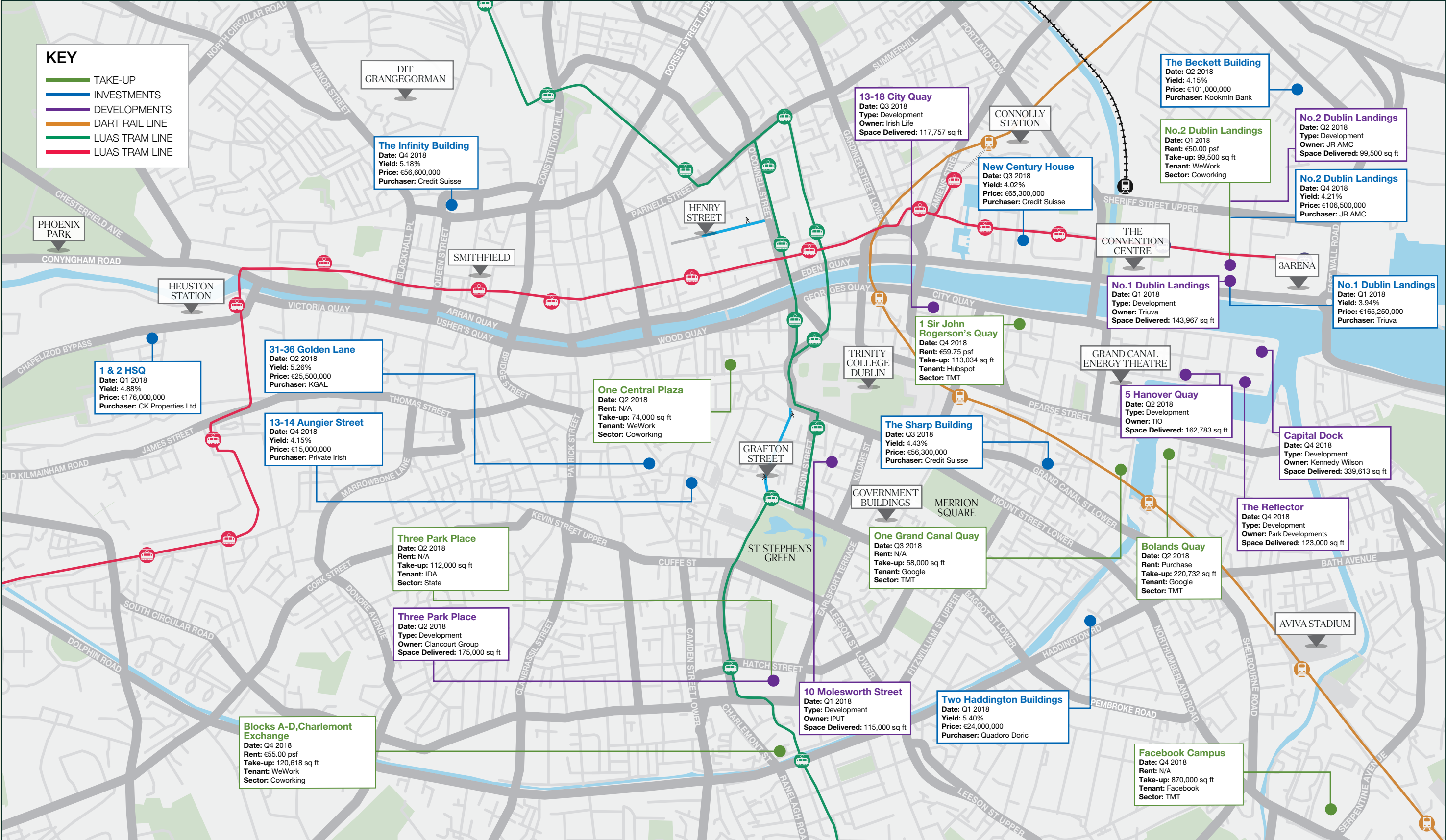
## Development market

2.0 million sq ft of new and refurbished office space was completed in 2018, representing the largest quantum to be delivered this cycle. Notable completions included Kennedy Wilson's Capital Docks, Starwood/Chartered Land's Seamark Building and the Clancourt Group's Three Park Place which comprised of 340,000 sq ft, 182,500 sq ft and 175,000 sq ft respectively. In 2019 we predict output to rise by 10% to 2.2 million sq ft.

However, in the City Centre, supply is expected to be more constrained with only 1.4 million sq ft due to be delivered compared to the 1.7 million sq ft that was completed in 2018. The reduction in the City Centre will be more than offset by the greater focus on suburban development where 800,000 sq ft is expected to be delivered. Notable developments include Two and Three Dublin Airport Central (207,000 sq ft), Nova Atria South (175,000 sq ft) and One South County (141,000 sq ft).



# TOP TAKE-UP, INVESTMENTS AND DEVELOPMENTS IN 2018



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

## Investment

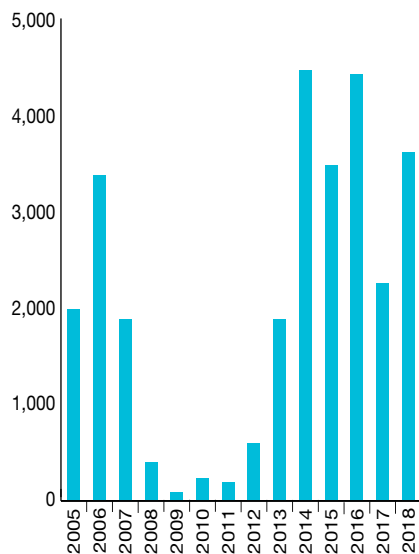
€3.6 billion worth of investment transactions changed hands in 2018, 60% ahead of the 2017 spend of €2.3 billion. Office investment sales accounted for the largest proportion of investor activity with 40% of the market or €1.5 billion, of which 89% or €1.3 billion was concentrated in Dublin.

The emergence of institutional capital from Asia was a key feature of the market in 2018. Asians accounted for 37% of the total spend and were responsible for three of the top five acquisitions. This included the largest office transaction of the year, namely the sale of 1 and 2 HSQ to Hong Kong based CK Properties Ltd for €176.0 million.

The other deals were executed by Korean money, namely the purchase of No.2 Dublin Landings for €106.5 million by JR AMC and the acquisition of the Beckett Building for €101.0 million by Kookmin Bank. European buyers were the most active source of capital however, accounting for 38% of the market spend. The largest purchase by a European buyer was the sale of No.1 Dublin landings to Triuva for €165.3 million.

Buyers from Ireland and the United States accounted for the rest of the market with a 13% and 12% share

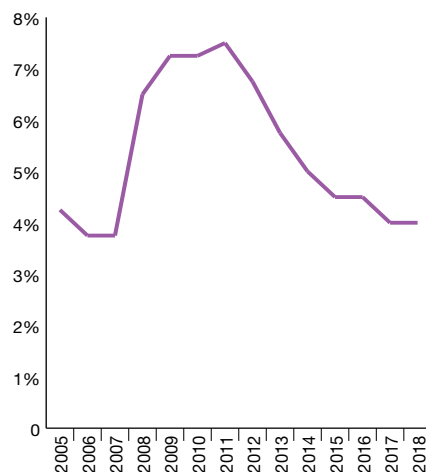
FIGURE 6  
Irish commercial investment volumes € million



Source: Knight Frank Research

respectively. Significant transactions included Spear Street Capital's purchase of the Belfield Office Campus for €90.0 million and the purchase of One and Two Gateway for €29.0 million by Yew Grove REIT. These deals were also emblematic of the increasing investor appetite to deploy capital in non-core markets where there is greater potential for value-add plays. Looking ahead to 2019, office investment volumes are likely to remain buoyant as the pipeline of newly completed and let office stock comes to the market for sale.

FIGURE 7  
Dublin prime office yields

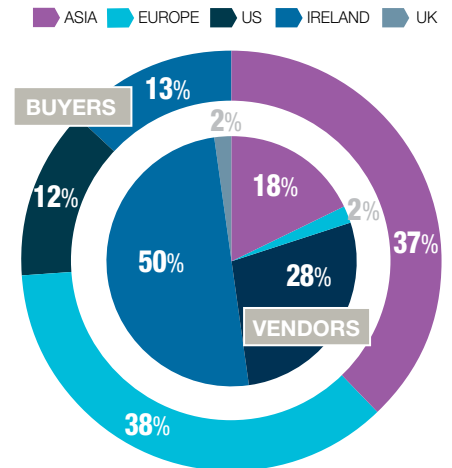


Source: Knight Frank Research

## 3 OF THE TOP 5 DEALS

were acquired by Asian buyers

FIGURE 8  
Buyer and vendor source



Source: Knight Frank Research

## Top 5 office investment transactions of 2018

Property	Seller	Buyer	Approx. price
1 and 2 HSQ, Dublin 8	Northwood Investors	CK Properties Ltd	€176.0m
No.1 Dublin Landings, Dublin 1	Ballymore/Oxley	Triuva	€165.3m
Off-market asset swap of properties in Dublin 1 and Dublin 2	Confidential	Confidential	€160.0m
No.2 Dublin Landings, Dublin 1	Ballymore/Oxley	JR AMC	€106.5m
The Beckett Building, Dublin 3	The Comer Group	Kookmin Bank	€101.0m

Source: Knight Frank Research

# SPECIAL FOCUS: THE TECH SECTOR IN DUBLIN

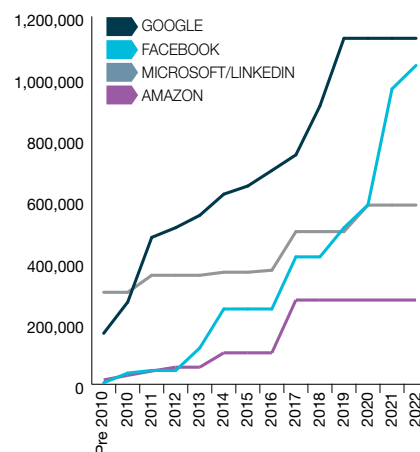
Last year in our Review and Outlook for 2018, we examined the importance of the tech sector to Dublin's office market, with a particular focus on Mega-Cap Tech companies. With their influence only growing further over the past year, we have decided to revisit our analysis, while also expanding it to include the next tier of tech firms active in Dublin. We focus our analysis on central Dublin, where the majority of these firms are located.

## MEGA-CAP TECH

As illustrated in Figure 9, 2018 was the strongest year yet for the Mega-Cap Tech firms in Dublin (valuation greater than \$200Bn, includes Google, Facebook, Microsoft/LinkedIn and Amazon with Apple the only absentee) with 1.3 million sq ft of office space taken-up, representing a 56% increase on the record setting 2017. Facebook's creation of a new 870,000 sq ft campus in Ballsbridge (staggered occupation, full project completion due in 2022) was the main driver of this and supported by Google's taking of 380,170 sq ft across four transactions in 2018. The most high-profile of these was the forward purchase of the 220,732 sq ft Bolands Quay on Barrow Street (completion due in 2019) which underlined the long-term strategic importance of Dublin to the company.

Taking these pre-commitments into account, Figure 10 outlines how the footprint of these large tech occupiers is set to grow from the 2.1 million sq ft occupied

FIGURE 10  
**Growth of Mega-Cap Tech footprint in Dublin sq ft**



Source: Knight Frank Research

at the end of 2018 to 3.0 million sq ft by 2022. It includes LinkedIn's new 152,000 sq ft office at One Wilton Park which is being constructed by IPUT with delivery due for 2020. With Amazon reportedly looking at expanding their presence in

Dublin, we are likely to see this projected footprint grow further.

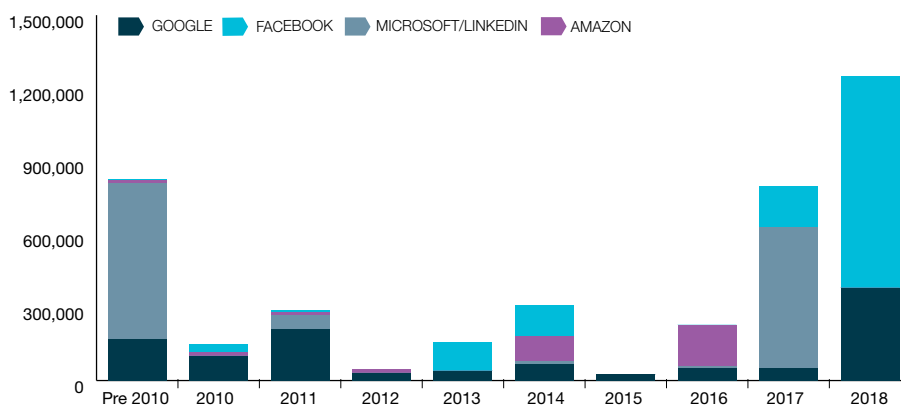
## MID/LARGE-CAP TECH

These are tech firms that are publicly listed with a market capitalisation of between \$2Bn and \$200Bn. Typically, they are leaders in their business segment and at a relatively mature stage of development but still experiencing strong growth. Salesforce is one such firm. Although publicly listed since 2004, its growth has accelerated in recent years and rose to prominence in Dublin in 2018 with the letting of 430,000 sq ft at Spencer Place (agreed in 2018, signed early 2019).

Hubspot is another firm undergoing fast growth in Dublin, most recently taking 113,000 sq ft at Hibernia REIT's 1 Sir John Rogerson's Quay in 2018. This represents their latest expansion in Dublin since their IPO in 2014, adding to their existing holding of 73,000 sq ft at One and Two Dockland Central. Next door at 1WML, new entrant Autodesk took 48,484 sq ft in 2018 while LogMeIn took 40,000 sq ft at The Reflector at Grand Canal Dock. Workday in Smithfield remain one of the largest occupiers in Dublin, having taken 170,000 sq ft in 2015.

Meanwhile, Dropbox and DocuSign – both of which went public in 2018 – have bases at One Park Place (83,345 sq ft) and Cumberland Place (31,926 sq ft) respectively. Start-ups that were previously earmarked to go public but were bought by larger companies include Indeed (acquired by Japanese company Recruit in 2012), Jet.com (bought by Walmart in 2016) and most recently Qualtrics (bought by SAP in November 2018 in advance of an expected IPO). These companies have let 211,393 sq ft at Capital Dock, 30,000

FIGURE 9  
**Mega-Cap Tech take-up sq ft**



Source: Knight Frank Research



sq ft at 40 Molesworth Street and 53,507 sq ft at 1 Clarendon Row/Chatham and King respectively.

## TECH UNICORNS

'Tech Unicorns' are start-up companies that have a valuation of \$1 billion or more. Typically, these companies are rapidly expanding and expected to go public in the coming years. Irish founded Intercom is one such company and who took 15,145 sq ft at Stephen Court last year, adding to the 50,000 sq ft they took in the same building in 2016. Another Irish company, Stripe, are the largest Fintech Unicorn in the world and have occupied

45,000 sq ft at the One Building on Grand Canal Street since 2015. Newcomers Coinbase entered the Dublin market in 2018, with the crypto currency exchange taking 19,000 sq ft at the Exchange in the IFSC. The largest Tech Unicorn in Dublin is Airbnb and they took 40,000 sq ft in 2018 at The Reflector in Grand Canal Dock, located next to their EMEA HQ which is of a similar size. On a more modest scale, other companies that have taken space in 2018 include Asana, who took 5,200 sq ft at the newly completed Three Park Place. They join fellow Unicorn Slack who took 29,222 sq ft at One Park Place in 2016.

## Large/Mid-Cap & Unicorn tech firms in central Dublin

Arranged by market capitalisation

Size	Company	Primary business line	Market cap/ est. value (Bn)*	Approx. space occupied in Dublin
Large-Cap	Salesforce	CRM	€91.5	150,000 sq ft, committed to 430,000 sq ft by 2021
Large-Cap	Workday	Enterprise resource planning	€30.7	170,000 sq ft
Large-Cap	Autodesk	3D design software	€24.6	48,000 sq ft
Large-Cap	Twitter	Social media	€19.1	85,000 sq ft
Mid-Cap	Dropbox	Cloud storage	€7.3	83,000 sq ft
Mid-Cap	Docusign	Cybersecurity	€5.8	32,000 sq ft
Mid-Cap	Zalando	E-commerce	€5.7	19,000 sq ft
Mid-Cap	Zendesk	Customer service	€5.5	58,000 sq ft
Mid-Cap	Hubspot	Inbound marketing	€4.3	186,000 sq ft
Mid-Cap	LogMeIn	Remote access work	€3.6	40,000 sq ft
Former Unicorn	Indeed	Jobs portal	n/a	211,000 sq ft
Former Unicorn	Qualtrics	Surveying	n/a	27,000 sq ft, committed to 54,000 sq ft by 2020
Former Unicorn	Jet.com	E-commerce	n/a	30,000 sq ft
Unicorn	Airbnb	Rental accommodation	€25.5	78,000 sq ft
Unicorn	Stripe	Fintech	€17.7	45,000 sq ft
Unicorn	Coinbase	Fintech	€7.0	19,000 sq ft
Unicorn	Slack	Work messenger	€6.2	29,000 sq ft
Unicorn	Asana	Project management	€1.3	5,000 sq ft
Unicorn	Intercom	Customer messaging	€1.1	65,000 sq ft

\*Source: Publicly listed values from YCharts as at 31/12/2018. Unicorn valuations from CB Insights, January 2019

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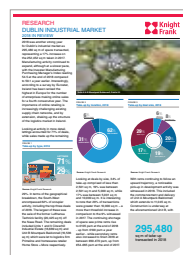
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