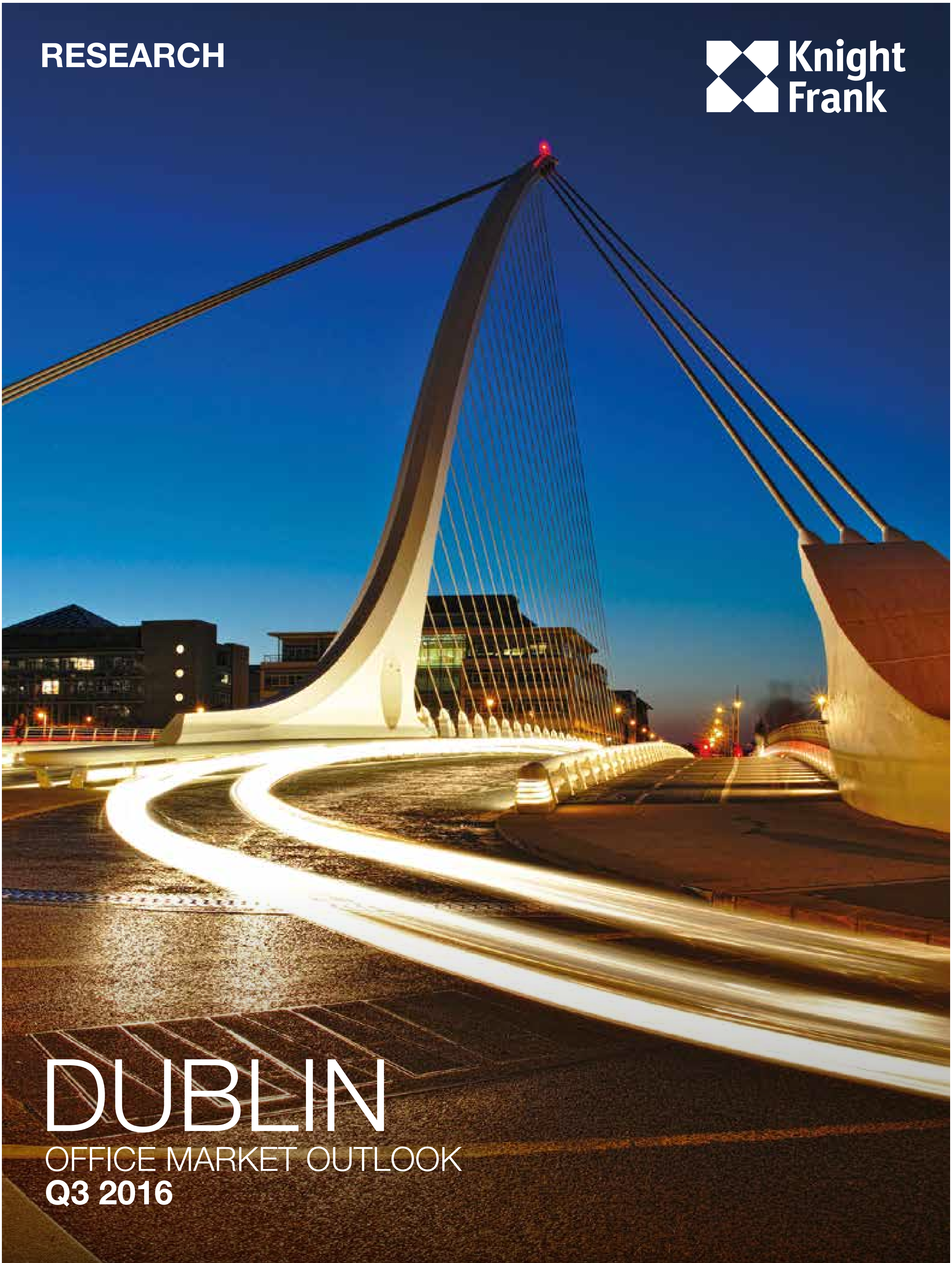
RESEARCH



DUBLIN

OFFICE MARKET OUTLOOK

Q3 2016

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

The digital economy in Ireland has expanded by approximately 40% since 2012. It represents 6% (€12.3 billion) of Ireland's GDP and is expected to expand to about €21.4 billion or 7.9% by 2020.

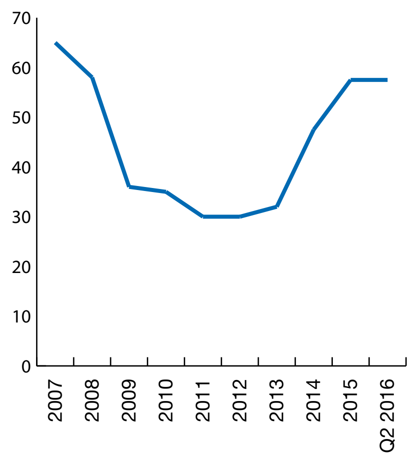
Dublin has been the driver of economic growth in Ireland – an additional 64,600 new jobs were created over the past three years; one-fifth in digital industries.

In view of strong economic and employment indicators, the occupier market has been dynamic, with TMT dominating, accounting for 43% of take-up.

Supply shortages have resulted in significant rental increases; however these have now moderated due to a sizeable development pipeline.

There is continued appetite for real estate with demand coming from a broad spectrum of investor types, with US institutions key investors.

FIGURE 1
Prime office rents
€ per sq ft per annum



Source: Knight Frank Research

OCCUPIER MARKET

Approximately 27,000 jobs were created in Dublin over the last year, with around half of these in office-based employment.

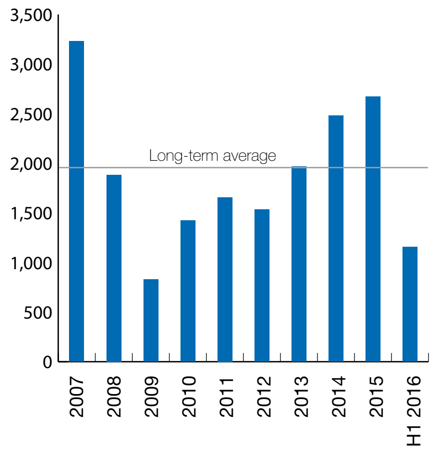
Dublin's digital sector has grown considerably in recent times. Digital employment has risen by 9.3% over the last 12 months (4,000 jobs), generating increased demand for office space. This trend has been reflected in office take-up volumes, which reached 2.7 million sq ft over the past year. The TMT sector has dominated occupier activity, accounting for around 43% of lettings.

Some of the biggest global technology firms have moved to Dublin, reaffirming the city's reputation as the location for young innovative companies. At present, 300 multinational firms have their regional headquarters in the country. The technology industry directly employs an estimated 60,000 people; the majority based in Dublin. The digital sector is burgeoning, with Amazon, HubSpot, Search Optics and Datalex just a few of the companies that have recently announced plans to expand.

Following a period of muted activity, office construction is booming. There is over 3.0 million sq ft of new office development under construction, with one-third of space already pre-committed. Despite significant activity, supply shortages are likely to persist for some time due to the lag between construction and completion. While rents have maintained stability this quarter, at €57.50 per square foot, rents are anticipated to rise to reach their 2007 peak of €65 per square foot by early 2018.

Occupiers will continue to be hampered in choice as availability of space is at a historical low (8.2%). Long leases are due to expire in many obsolete buildings and their withdrawal from the market for redevelopment will result in further market pressures.

FIGURE 2
Office take-up
sq ft (000s)



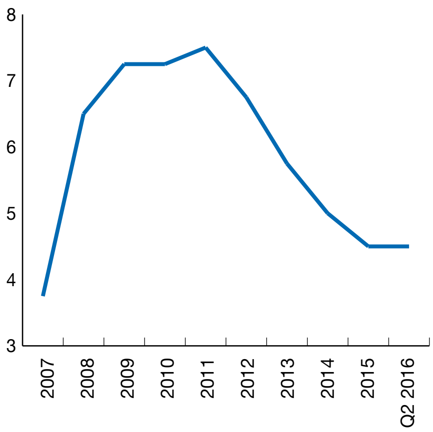
Source: Knight Frank Research

Key office leasing transactions in 2016

Quarter	Property	Tenant	Sector	Size (sq ft)
Q1	Two Gateway, Dublin 3	ESB	State	77,780
Q1	George's Quay, Dublin 2	Fidelity International	Finance	68,000
Q1	Block J& K, Eastpoint, Dublin 3	Arvato	TMT	63,000
Q1	Colvill House, Dublin 1	Irish Water	State	55,000
Q1	Three Gateway, Block C, Dublin 3	ESB	State	42,390
Q2	Block C, Spencer Dock, Dublin 1	United Health Group	Medical	43,625
Q2	One Gateway, Dublin 3	Whirlpool	TMT	24,381

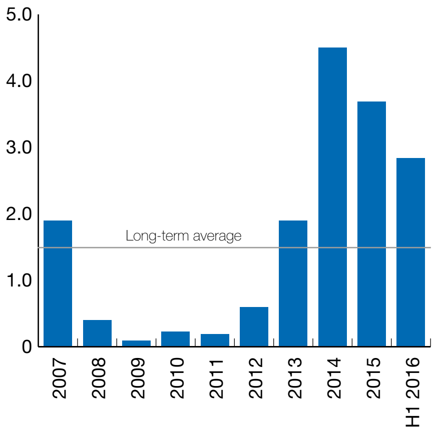
Source: Knight Frank Research

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Ireland commercial property investment volumes
€ billion



Source: Knight Frank Research


One Spencer Dock, purchased by International Fund

INVESTMENT MARKET

The Irish investment market enjoyed another positive start to the year, with a total investment volume of €2.84 billion transacting in H1 2016. Several key themes played out – increases in the level of re-investing by international funds, capital shifting to cities outside of Dublin, and a continuation in demand for portfolios. Although Brexit has caused a significant undercurrent of caution, the signals point to sustained appetite for real estate, with sentiment remaining positive.

While offices continue to command the highest share of investment activity, one of the largest deals on record to complete in Q2 involved Blackstone's purchase of the Blanchardstown Centre for a reported €950 million. The deal is expected to close pending regulatory approval and is a sign of positive economic sentiment.

Dublin is appealing to a broader market and has attracted plenty of capital. Irish real estate is still attractive for investors. Current office yields of 4.5% outperform other asset classes such as Irish bonds and equities. While returns have moderated over the course of 2016, rental growth has primarily been driving performance.

Conditions look set for a continuation of cross-border investment into Ireland; however, the profile of international capital is expected to continue to evolve. While US investors are expected to dominate, Dublin is likely to see increased capital flow from European investors.

Key office investment transactions in 2016

Quarter	Property	Seller	Buyer	Approximate price (€million)
Q2	One Spencer Dock, Dublin 1	EY	International Fund	240
Q1	The Oval, Dublin 4	Confidential	Patrizia	145
Q2	Project Kells, Dublin 2	Aviva	Meyer Bergman/ BCP	93
Q2	LXV, Aercap House, St Stephen's Green, Dublin 2	Private Irish	CNP Assurance	85
Q2	Block B, Allianz Building, Dublin 4	Starwood	Irish Life	57
Q2	Office Part of the Liffey Collection	NAMA	Avestus & Ares	54

Source: Knight Frank Research

KNIGHT FRANK VIEW

Due to its strong economic and cultural ties to the UK, Ireland may be impacted by Brexit, but benefit from the fallout too.

Financial firms that are located in the UK can operate in the EU via a mechanism called "passporting". The UK will have to renegotiate these terms and these may not be as favourable as those currently in place. Money-transfer and payments start-ups would be hardest hit by the end of EU passporting, but as the real impacts on the fintech industry are still uncertain, there is a wait to see whether Dublin, the only other fully English-speaking capital city in the EU, can be the next European city in line. Overall however, the fundamentals underpinning the Irish investment market are set to remain strong, with the economic backdrop positive, occupier markets buoyant and financial conditions continuing to improve.

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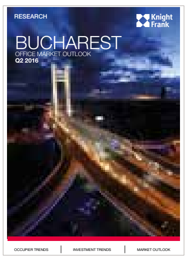

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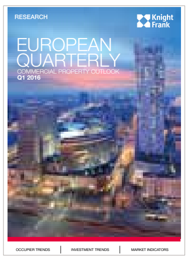

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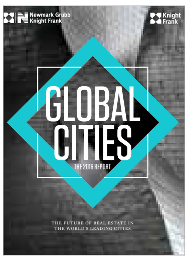

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