RESEARCH

DUBLIN

OFFICE MARKET REVIEW AND OUTLOOK

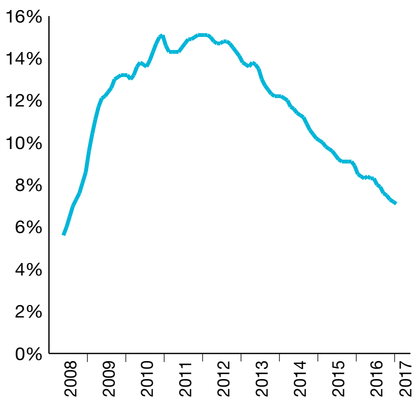
2017

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

SUMMARY

1. Economic growth of 3.4% forecast for 2017
2. 2016 take-up was 2.86 million sq ft, making it the second highest ever level of take-up
3. Prime rents at the end of 2016 stood at €60.00 per sq ft
4. Investment volumes beat market expectations with €4.46bn worth of deals transacting, just marginally below the record breaking year of 2014
5. Smithfield is seeing heightened occupier demand, with very limited prevailing vacancy

FIGURE 1
Standardised unemployment rate



Source: Central Statistics Office

REVIEW AND OUTLOOK 2017

The Dublin office market performed strongly in 2016 with the second highest ever level of take-up and investment volumes transacting. Prospects remain bright for 2017.

Economy

Ireland is on course to become the fastest growing economy in the euro area for a third successive year with the EU estimating that the economy grew by 4.3% in 2016. While it is unlikely that Ireland will retain this position in 2017, the EU are forecasting that Ireland will grow by 3.4% in 2017 which will comfortably surpass the growth rate for the Eurozone as a whole.

Most of Ireland's growth can be attributed to domestic factors, particularly employment, personal consumption and investment. Data from the Quarterly National Household Survey shows that employment increased by 65,100 (3.3%) in 2016 to bring total employment to 2.048 million, the highest level of employment recorded since 2008. As a consequence, unemployment declined to 6.9% as of December 2016, down from 8.9% the year previously. It is important to note that actual employment growth has consistently out-performed expectations

KNIGHT FRANK VIEW ON RISK

With 2016 seeing the crystallisation of the dual downside international political scenarios of a Trump and Brexit victory, 2017 will be determined by how those risks play out in practice. In the United States, Trump's three pronged approach of tax cuts, infrastructure spending and deregulation is boosting investor confidence while The Bank of England now forecasts economic expansion of 2% in 2017, which is in sharp contrast to the 0.8% forecast in the wake of the Brexit vote and close to the 2.3% forecast in advance of the vote last May. Most encouraging from a Dublin office point of view is the growing likelihood that Dublin will see significant relocations of financial firms from London with Morgan Stanley, JP Morgan, Bank of China, BNY, Lloyds, Barclays and Credit Suisse all rumoured to be eyeing Dublin as a post-Brexit base. According to our calculations, which are based on Brussels based think-tank Bruegal calculations and other data sources, Dublin stands to benefit from an additional 1.7 million sq ft worth of office demand arising from the need of financial firms to retain their EU passporting rights. Given that 10-year average take-up is approximately 2 million sq ft per annum, this quantum of demand, arising from financial services alone, represents a major positive demand shock.

Required floorspace to accommodate the relocation of UK financial services jobs

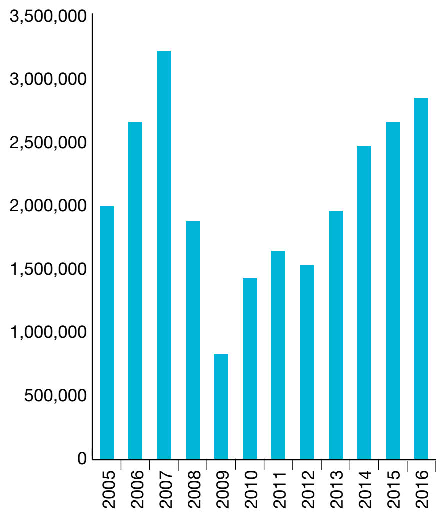
	Employment	Source
UK Employment in Financial Services	1,050,000	European Parliament
Wholesale Banking (25% of employment)	262,500	British Banking Authority
Will Lose a third of this activity to EU27 because of Brexit	87,499	Bruegel
Ireland to gain up to 15% of this employment leakage	13,125	Bruegel
New floorspace @ 130 sq ft per employee	1,706,250 sq ft	Knight Frank

over the last number of years which will ensure high demand for office buildings delivered in 2017 and beyond.

Occupier market

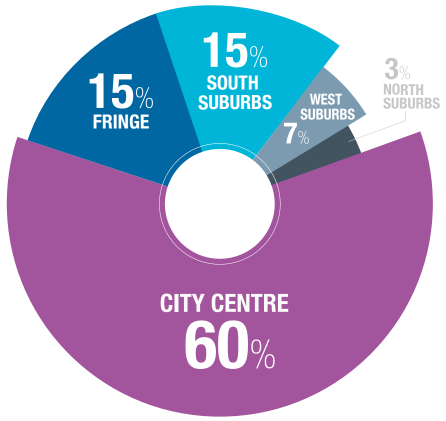
Occupier demand for office space remained buoyant in 2016, with 2.86 million sq ft let across 262 deals in 2016 compared to 2.67 million sq ft let over 255 deals in 2015, making it the second highest ever level of take-up and the fifth consecutive year that take-up has expanded.

FIGURE 2
Office take-up
sq ft



Source: Knight Frank Research

FIGURE 3
Take-up by location



Source: Knight Frank Research

Dublin 2 accounted for the largest share in 2016 with 35% of the market, up from 24% in 2015, with take-up exceeding 1 million sq ft compared to an average annual take-up of 614,000 sq ft during the preceding five years. The increase in market share for Dublin 2 drove the city centre share to 60%, up from 50% the previous year. The top three deals were city centre pre-lets, the largest of which was Amazon's taking of 172,136 sq ft at the soon to be completed Vertium Building. It is believed that Amazon is paying a blended rent of approximately €50.00 psf.

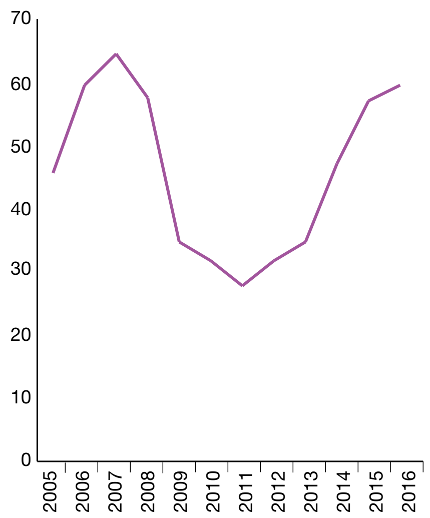
Grant Thornton have pre-let 118,000 sq ft at City Quay in Dublin 2 for a reported rent of €52.50 psf under a 25-year lease with completion due for 2018. Thirdly, the NTMA will be the first tenant in Ballymore/Oxley's new development in the North Wall Quay where they will occupy 83,000 sq ft in No.1 Dublin Landings.

Current prime rents are in the order of €60.00 psf, an increase of 4.3% over the course of the year, down from 21% the previous year. The vacancy rate declined to 7.7% at year-end 2016, while the prevailing grade A vacancy rate in the city centre declined to 3.5%. The TMT sector accounted for 32% of deals in 2016 and was followed by the Finance sector which accounted for 16% of deals. Professional Services and the State had the next highest market share, with both accounting for 15% of the market.

Development Land

The first new office space in five years was delivered to the market in 2016.

FIGURE 4
Dublin prime office rents
€ per sq ft per annum



Source: Knight Frank Research

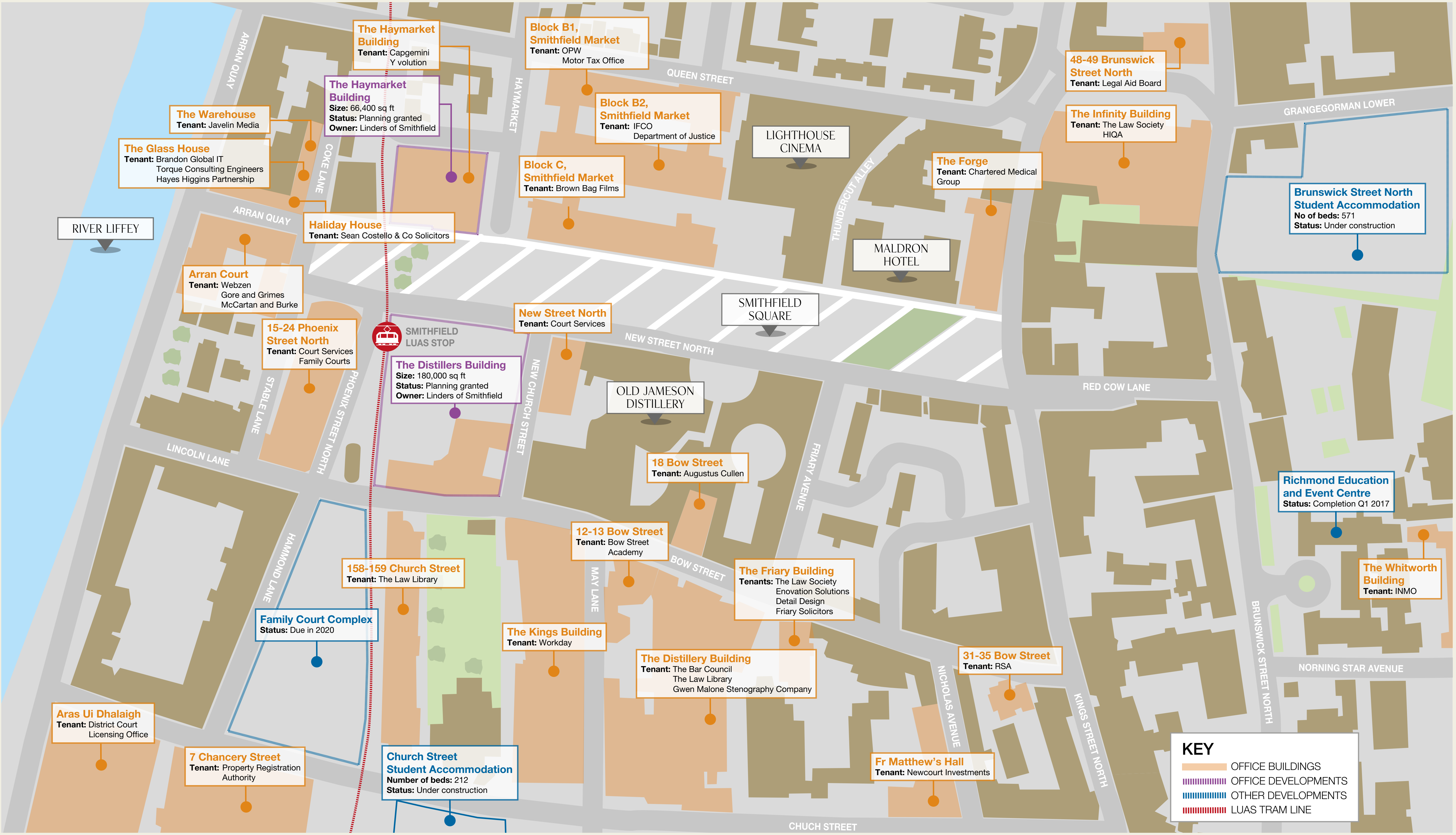
Most of the development activity was confined to prime locations in the city centre, examples of which include LXV on St Stephen's Green, The Warehouse on Hanover Quay and the new Arthur Cox office at the corner of Hatch Street and Earlsfort Terrrace. The pace of delivery will accelerate substantially this year with 2.8 million sq ft forecast to come on-stream in 2017, of which 40% is already let. Some of the major schemes that will come to the market include the Ronan Real Estate Group's Vertium, Irish Life's 1GQ, Clancourt's Three Park Place, IPUT's 10 Molesworth Street, Green REIT's One Molesworth Street and Hibernia REIT's 1 Windmill Lane.

Top 5 office leasing transactions of 2016

Property	Tenant	Sector	Size (sq ft)
Vertium, Burlington Road, Dublin 4	Amazon	TMT	172,136
13-18 City Quay, Dublin 2	Grant Thornton	Professional Services	118,000
No.1 Dublin Landings, Dublin 1	NTMA	State	83,000
Prime (No. 2) Gateway, East Wall, Dublin 3	ESB	State	77,780
Block 2 & 3, Miesian Plaza, Dublin 2	Shire Pharma	Pharma	76,000

Source: Knight Frank Research

SMITHFIELD



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

€4.46bn

worth of investments transacted in 2016

Investment

Investment volumes beat market expectations in 2016 with €4.460 billion worth of deals transacting, just marginally below the record breaking year of 2014 when €4.495 billion changed hands.

While there has been a greater spread of investor interest beyond Dublin, investor focus remained concentrated on the capital which accounted for 86% of total spend.

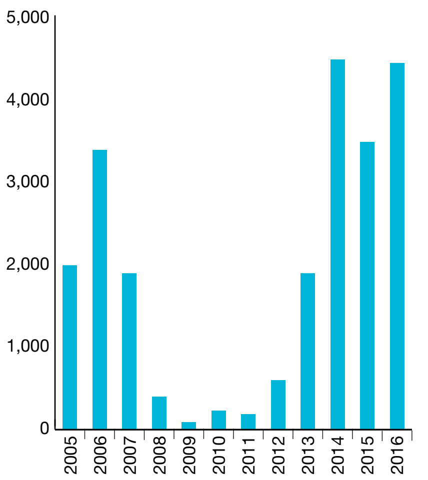
2016 saw mainland European buyers enter the market on a significant scale accounting for 37% of spend by buyers identified, compared to 28% for the United States. The influx of European investors was predominately led by pension funds, which is a reflection of the de-risking of the Irish property market which has taken place over recent years. Irish buyers accounted for 26% of the market although this includes a 5% share from the Irish REITS whose capital is mainly foreign sourced.

The largest office transaction in Q4 was the purchase of Wilton Park House by IPUT from State Street for €60 million. The acquisition of Wilton Park House consolidates IPUT's presence in the area as it also owns the nearby Fitzwilton House. IPUT received planning permission to redevelop Fitzwilton House earlier this year with the intention of creating 187,000 sq ft of office space. Velasco, a yet to be completed office block currently being constructed on the site of Kestrel House, was the second largest transaction of Q4. The 51,000 sq ft office block was purchased by Irish Life for €58 million for a yield of 4.65%. The IFSC also saw two significant trades. Ardstone booked an envious margin on the sale of Harbourmaster 2 to German firm Real IS for €53 million having purchased the asset two years earlier for €37.85 million, representing a 40% uplift in value. Another European fund, Catella, were also active in the IFSC having purchased the JP Morgan tenanted 1 George's Dock for €40 million from private Irish investors.

The office investment market in 2016 will be defined by the sale of One Spencer Dock by EY to AGC Equity Partners for €240 million, which represented the largest ever office sale in the Dublin market. Large lot sized transactions are always the litmus test of a market's liquidity, with the deal demonstrating the depth and breadth of the capital base that Dublin is now able to draw from.

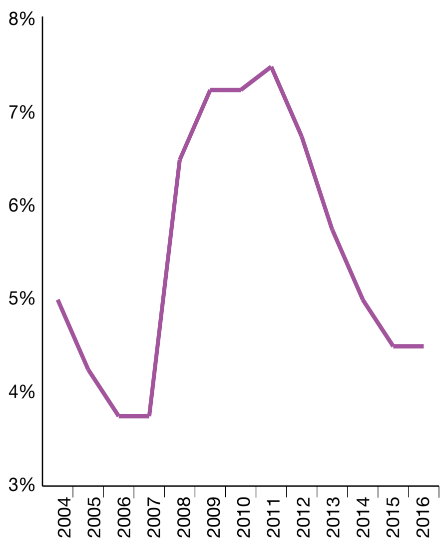
While the globalisation of real estate capital markets has been a growing trend for some time now, Dublin has benefited more than most from this increase in cross-border flows due to its high-growth prospects in a low yield world. Furthermore, the host of international companies based here makes Dublin an easy market to understand while the strength of the tenant covenants on offer makes it a very comfortable place for foreign investors to allocate funds to.

FIGURE 5
Irish commercial investment volumes
€ million



Source: Knight Frank Research

FIGURE 6
Dublin prime office yields



Source: Knight Frank Research

Top 5 office investment transactions

Property	Seller	Buyer	Price (million)
One Spencer Dock, Dublin 1	EY	AGC Equity Partners	€240
The Oval	Private Irish	Patrizia	€140
Project Kells, Dublin 2	Aviva	Meyer Bergman/BCP	€93
LXV/Aercap House, Dublin 2	Private Irish	CNP Assurance	€85
Wilton Park House, Dublin 2	State Street	IPUT	€60

Source: Knight Frank Research

AREA FOCUS: SMITHFIELD

BACKGROUND

Smithfield has a rich tangible history, making it an area of increasing appeal to occupiers, especially those from the tech industry. The origins of Smithfield can be traced to when the area emerged as an agricultural trading post located at the outskirts of medieval Dublin City, where cattle was primarily traded. The establishment in the late 1700's of what would later become The Old Jameson Distillery gave the area a then high-value land use in addition to later bestowing the square with an immediately recognisable landmark with the construction of the 185 feet tall Chimney Viewing Tower in 1895. The evolution of the square to its modern state can be traced to 2005 with the completion of a 1 million sq ft mixed-use scheme, which included a substantial cultural use element, making it one of the largest ever property projects the city has witnessed.

When granting permission for this development, planners stipulated an increase in the provision of the ground retail space in order to augment the overall vitality of the area. However, following the property crash, much of this space remained unlet resulting in a large quantum of vacant retail space fronting the square, detracting from Smithfield's appeal. It is only recently that Smithfield has come into its own with all of these retail units now reserved. In addition, Smithfield – together with nearby Stoneybatter – has developed a reputation within Dublin for its diverse café and restaurant offering which caters to an international residential population with over half of Smithfield residents born outside of Ireland, the second highest ratio of any electoral division in Dublin. This international cohort harbours little ambition for suburban living with Smithfield's central location allowing easy access to the rest of the city via the LUAS and the two on-site Dublin Bike stations.

Finally, the presence of two hotels in addition to the The Lighthouse Cinema and the soon to be reopened Old Jameson Distillery Irish whiskey tourist attraction, is seeing the area realise the planners' original vision for a vibrant self-contained community. Office occupiers place high-value on this lifestyle offering as it gives them a competitive edge in attracting and retaining staff.

FUTURE DEVELOPMENT

Looking to the future, the construction of a new Family Court along Hammond Lane will see the last large site in Smithfield being developed with completion due for 2020. The new DIT campus at Grangegorman will see 23,000 students added to the area, with two major student housing schemes being developed in the immediate Smithfield vicinity along Brunswick Street North and Church Street. The activity at Grangegorman is part of a wave of development that is taking place in Dublin's north inner city which will benefit Smithfield as an office location.

Along with the continued growth of the north docklands as the city's new office district and the retail revitalisation of O'Connell Street, the planned redevelopment of the nearby Victorian Fruit Market will truly connect Smithfield with the city centre when complete. Plans for the Fruit Market will see it transformed from a wholesale focused market to a consumer retail market which will draw footfall from the city centre to Smithfield. In addition, there are numerous sites surrounding the market which make it one of the last remaining areas in the city centre suitable for large scale revitalisation with potential for significant development.

Haymarket

OFFICE OCCUPIER PROFILE

There is currently approximately 1 million sq ft of standing office stock in Smithfield, with the occupier market dominated by the legal, state and tech sectors. The legal sector's presence has grown from Smithfield's geographical positioning between the legal institutions of The Four Courts and The Kings Inn to the east and The Central Criminal Court and Blackhall Place to the west. Prominent law office use within Smithfield includes The Bar Council, The Law Library and The Law Society. The resultant high presence of barristers in Smithfield also feeds a demand for own private own door units not seen elsewhere in the city. Much of the state occupations are also legal in nature with The Department of Justice and Equality and the Court Services both having a substantial footprint in Smithfield. Other state occupiers include the Motor Tax Office, HIQA, The Road Safety Authority, Dublin City Council and the Irish Film Classification Office.

The area's burgeoning reputation as a tech hub was cemented when Workday took 179,000 sq ft in 2015, with their presence aiding the creative ecosystem that had already been developing there. Brownbag Films – who have been in Smithfield for over eight years – signalled their continued commitment to the area by opening a 30,000 sq ft animation studio in 2016.

Office rents in Smithfield currently range from €25 psf to €35 psf. With the last remaining quantum of modern space in Smithfield currently under negotiation at Block B2, Smithfield Market, rents are set to grow further from this level and are likely to reach €40 psf by year-end. With rising rents and effectively zero vacancy, new office development will begin to come online to serve tenant demand. Linders of Smithfield have secured planning permission for two substantial office buildings located on either side of the square at the LUAS end; Haymarket will likely be redeveloped first and will deliver 66,400 sq ft followed by the redevelopment of the Distillery Building, which will deliver 180,000 sq ft.

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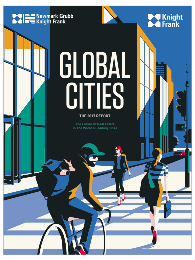

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