QUOTATION OF RISK

KNIGHT FRANK VIEW ON RISK

While the Brexit deadline of March 29th came and passed with the United Kingdom still members of the European Union, the risk that Brexit represents to the Irish economy continues to cast a long shadow. However, the Dublin office market is comparatively well hedged against the downside risks that Brexit presents.

Our recent Brexit Under Pressure #2 report – conducted in conjunction with our European colleagues (see back of this report) – shows that Dublin stands to benefit the most from Brexit relocations. Dublin has received 86 announcements, 56% ahead of its nearest competitor Luxembourg.

While our research illustrates that the Dublin office market has more to gain than any other European centre from Brexit, it should be noted that Brexit-related office take-up has been quite low so far.

We estimate that 135,000 sq ft of take-up in Dublin since the referendum can be directly attributed to Brexit, although this excludes the ten companies that have taken space in coworking locations. The harder the outcome of Brexit, the more likely we are to see announcements translate into a significant number of jobs on the ground in Dublin.
SANDYFORD

Red Oak South
- Date: Q3 2018
- Status: Has planning
- Owner: Cyril McGuire
- Note: Currently on market for €20,000,000

Red Oak North
- Date: Q1 2018
- Status: Has planning
- Owner: Cyril McGuire

Three South County
- Date: Q1 2018
- Status: Has planning
- Owner: Cyril McGuire

Two South County
- Date: Q2 2019
- Status: Has planning
- Owner: Cyril McGuire

Leopardstown West
- Size: 304,142 sq ft
- Status: Has planning
- Owner: Aldgate Developments

Eden Plaza
- Size: 450,000 sq ft
- Status: Has planning
- Owner: Ardstone

Whelan House & Accenture House
- Date: Q1 2018
- Price: €23,200,000
- Buyer: Blacktree

One South County
- Size: 141,300 sq ft
- Status: Under construction
- Owner: Cyril McGuire

One Microsoft Place
- Date: Q4 2017
- Rent: Owner occupier
- Take-up: 300,000 sq ft
- Tenant: Microsoft
- Sector: TMT

Building N, Central Park
- Size: 477,000 sq ft
- Status: Has planning
- Owner: Green REIT

Building I, Central Park
- Size: 103,400 sq ft
- Status: Under construction
- Date: Q3 2019
- Owner: Green REIT

Building J, Central Park
- Size: 103,400 sq ft
- Status: Has planning
- Owner: ESB

Building H, Central Park
- Size: 103,400 sq ft
- Status: Under construction
- Date: Q2 2017
- Rent: €35.00 psf
- Take-up: 48,522 sq ft
- Tenant: Google
- Sector: TMT

Building G, Central Park
- Date: Q2 2018
- Rent: €30.00 psf
- Take-up: 25,610 sq ft
- Tenant: Salesforce
- Sector: TMT

Nova Atria South
- Date: Q3 2019
- Rent: Approx. €25.00 psf
- Take-up: 174,000 sq ft
- Tenant: Facebook
- Sector: TMT

The Blackthorn Building
- Date: Q1 2018
- Rent: €24.00 psf
- Take-up: 48,522 sq ft
- Tenant: Google
- Sector: TMT

Nova Atria North
- Date: Q1 2017
- Rent: €35.75 psf
- Take-up: 52,925 sq ft
- Tenant: Fleetmatics
- Sector: TMT

Eden Plaza
- Size: 450,000 sq ft
- Status: Has planning
- Owner: Ardstone

Termini
- Size: 221,523 sq ft
- Status: Under construction
- Date: Q2 2020
- Owner: Aldgate Developments

Silverstone House
- Date: Sale agreed
- Yield: 6.80%
- Guide Price: €11,500,000
- Buyer: Private Intl.

Corrig Court
- Date: Sale agreed
- Yield: 6.52%
- Guide Price: €12,300,000
- Buyer: Blacktree

Ravenscourt & Mercury House
- Date: Q1 2018
- Yield: 8.24%
- Price: €12,750,000
- Buyer: Private Intl.

Note: All figures noted above are approximate estimates only and may be subject to change.
Investment

€278.1 million worth of office investment transactions changed hands in Dublin during Q1, placing it approximately in the median of quarterly investment volumes witnessed over the last five years. There was a shortage of large deals during the quarter with just one over €100.0 million transacting, although we expect this to change with a number of sales likely to take place during the year including The Reflector, Bishops Square and 5 Hanover Quay.

An interesting trend observed in Q1 was a number of sales likely to take place during Q1, placing it approximately over 150.0 million. French investors were also behind the second largest deal of the quarter as BNP Paribas REIM purchased The One Building for €49.5 million. The property is currently the European headquarters for Irish founded tech unicorn Stripe. Prime office yields have benefited from being under single ownership control which has facilitated integrated placemaking, South County has a campus feel while Sandyford Business Park retains a mix of uses, with office use particularly concentrated on its northern edge in proximity to the two LUAS stops. Sandyford’s appeal as an office location is due to being situated in a relatively affluent area of South Dublin while simultaneously being suitable for high density office development and enjoying good transport links to the city centre.

In 2017, the sale of Charlemont Exchange also demonstrates the continued strong appetite by Asian investors – and particularly South Korean investors – for office assets in Dublin, with the deal boosting their share of the market to 54%. European buyers accounted for 35% of the market and acquired the other two coworking transactions, namely the IWG tenanted 77 Sir John Rogerson’s Quay for €35.5 million and the iconic Offices tenanted South Point for €21.7 million.

There was a shortage of large volumes witnessed over the last five years. There was a shortage of large deals during the quarter with just one over €100.0 million transacting, although we expect this to change with a number of sales likely to take place during the year including The Reflector, Bishops Square and 5 Hanover Quay.

An interesting trend observed in Q1 was a number of sales likely to take place during Q1, placing it approximately over 150.0 million. French investors were also behind the second largest deal of the quarter as BNP Paribas REIM purchased The One Building for €49.5 million. The property is currently the European headquarters for Irish founded tech unicorn Stripe. Prime office yields have benefited from being under single ownership control which has facilitated integrated placemaking, South County has a campus feel while Sandyford Business Park retains a mix of uses, with office use particularly concentrated on its northern edge in proximity to the two LUAS stops. Sandyford’s appeal as an office location is due to being situated in a relatively affluent area of South Dublin while simultaneously being suitable for high density office development and enjoying good transport links to the city centre.

Sandyford has witnessed strong take-up in recent years, peaking at just under 600,000 sq ft in 2017, of which half was accounted for by the opening of Microsoft’s new Dublin HQ. Even after stripping this deal out, it represented a doubling of take-up activity compared to the average of 150,000 sq ft witnessed during the preceding five years and marked an inflection point for the Sandyford office market.

Last year, activity remained strong at 270,000 sq ft which included Google’s taking of 101,400 sq ft across two buildings – The Chase and The Blackthorn Building – while Facebook took 174,000 sq ft at Nova Aria South in Q1 this year. Although TMT has been the driver of occupational activity across the Dublin market, it is even more so in Sandyford where it has accounted for 65% of take-up over the last five years as illustrated in Figure 10. The Finance sector has also been an important source of activity accounting for 18% of deals over the period while the State has been largely absent from Sandyford, accounting for just 1% of the market.

The strong levels of take-up in Sandyford has seen the vacancy rate decline to just 3.1% at the end of Q1, with the grade-A vacancy rate even lower at 2.4%. Breaking the vacancy down by sub-market, we see that South County Business Park and Central Park have extremely tight vacancy rates of 0.4% and 1.9% respectively, with Sandyford Business Park slightly higher at 5.2%. The tight vacancy has seen rents double from the mid-teens to now stand at €30.00 psf.

SPECIAL FOCUS: SANDYFORD

INTRODUCTION

There is 3.62 million sq ft of purpose-built office space in Sandyford, accounting for 8.4% of Dublin’s office market stock.

Half of the Sandyford office market is located in Sandyford Business Park with the remaining half almost evenly split between South County Business Park and Central Park.

The three office locations contain three distinct personalities: Central Park has benefited from being under single ownership control which has facilitated integrated placemaking, South County has a campus feel while Sandyford Business Park retains a mix of uses, with office use particularly concentrated on its northern edge in proximity to the two LUAS stops. Sandyford’s appeal as an office location is due to being situated in a relatively affluent area of South Dublin while simultaneously being suitable for high density office development and enjoying good transport links to the city centre.

LETTING AND INVESTMENT ACTIVITY

Sandyford has witnessed strong take-up in recent years, peaking at just under 600,000 sq ft in 2017, of which half was accounted for by the opening of Microsoft’s new Dublin HQ. Even after stripping this deal out, it represented a doubling of take-up activity compared to the average of 150,000 sq ft witnessed during the preceding five years and marked an inflection point for the Sandyford office market.

Last year, activity remained strong at 270,000 sq ft which included Google’s taking of 101,400 sq ft across two buildings – The Chase and The Blackthorn Building – while Facebook took 174,000 sq ft at Nova Aria South in Q1 this year. Although TMT has been the driver of occupational activity across the Dublin market, it is even more so in Sandyford where it has accounted for 65% of take-up over the last five years as illustrated in Figure 10. The Finance sector has also been an important source of activity accounting for 18% of deals over the period while the State has been largely absent from Sandyford, accounting for just 1% of the market.

The strong levels of take-up in Sandyford has seen the vacancy rate decline to just 3.1% at the end of Q1, with the grade-A vacancy rate even lower at 2.4%. Breaking the vacancy down by sub-market, we see that South County Business Park and Central Park have extremely tight vacancy rates of 0.4% and 1.9% respectively, with Sandyford Business Park slightly higher at 5.2%. The tight vacancy has seen rents double from the mid-teens to now stand at €30.00 psf.

Sandyford market at end Q1 2019

<table>
<thead>
<tr>
<th>Property</th>
<th>Standing stock</th>
<th>Vacancy</th>
<th>Grade-A vacancy</th>
<th>Under construction</th>
<th>Potential with planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sandyford Business Park</td>
<td>1,750,000</td>
<td>5.2%</td>
<td>4.3%</td>
<td>73,000 – The Hive, due Q3 2019</td>
<td>1,410,000</td>
</tr>
<tr>
<td>Central Park</td>
<td>870,000</td>
<td>1.9%</td>
<td>1.9%</td>
<td>103,400 – Building 1, due Q2 2019</td>
<td>480,000</td>
</tr>
<tr>
<td>South County Business Park</td>
<td>1,000,000</td>
<td>0.4%</td>
<td>0.4%</td>
<td>141,000 – One South County, due Q2 2019</td>
<td>140,000</td>
</tr>
<tr>
<td>Overall</td>
<td>3,620,000</td>
<td>3.1%</td>
<td>2.4%</td>
<td>538,900</td>
<td>2,030,000</td>
</tr>
</tbody>
</table>
Investment volumes in Sandyford have been relatively low in recent years, with volumes being less than €50.0 million in each of the last three years. This is reflective of the lack of investable stock of scale, with many of the larger opportunities having already traded earlier in the cycle. Silverstone House and Corrig Court are currently believed to be sale agreed, while the second and third floors of Paramount Court are on the market for €7.0 million.

DEVELOPMENT ACTIVITY

Along with One Microsoft Place, the only other new development to be delivered this cycle has been the 158,000 sq ft Building H in Central Park, which was let to AIB in Q2 2017 for a rent of €27.00 psf. Two new builds are due for delivery in early Q2 2019, namely One South County and Building I, Central Park – both of which are quoting rents of excess €30.00 psf. The extensive refurbishment at The Hive is due for completion in Q3 of this year while Cyril McGuire’s schemes in South County are at its Western edges with Central Park and Aldgate’s Leopardstown West development sitting at the centre of this activity. Over the long-term, the building-out of these schemes will increase the ease of access between the three office locations which will help tie together Sandyford as an integrated office location of scale. Also of note, Sandyford’s long-term strategic importance in facilitating Dublin’s future growth was underlined recently when it was identified as the southern terminus for the Emerging Preferred Route for the Dublin Metrolink.

OUTLOOK

As one can see from the accompanying map, it is interesting to note that much of the potential delivery is gravitating to the centre of the map around Central Park and the Leopardstown West development. Ardstone’s schemes of Eden Plaza (currently for sale for €20.0 million) and Highfield House are located at the eastern edge of Sandyford Business Park, while Cyril McGuire’s schemes in South County are at its Western edges with Central Park and Aldgate’s Leopardstown West development sitting at the centre of this activity. Over the long-term, the building-out of these schemes will increase the ease of access between the three office locations which will help tie together Sandyford as an integrated office location of scale. Also of note, Sandyford’s long-term strategic importance in facilitating Dublin’s future growth was underlined recently when it was identified as the southern terminus for the Emerging Preferred Route for the Dublin Metrolink.