Office Market Annual Review and Outlook 2016

2015 was another strong year for the Dublin office sector with take up reaching 249,000 sq.m, over 13% higher than the previous year and the market vacancy rate dropping below 10% for the first time since 2006. Prime headline rents were up by 22% and established at €592 per sq.m (€55 psf) by year end. The shortage of CBD space made it another tough year for tenants facing longer lease terms and reduced incentives, with landlords generally calling the shots in negotiations.

Despite the shortage of suitable space there was no let-up in tenant demand which was again dominated by the TMT and Financial Services sectors with over 60% of take up between them. Demand for office space has been driven by the recovering economy and also the strong pipeline of foreign direct investment through the IDA, which had a record year with 12,000 net new jobs created mainly in Dublin. Not only are new FDI entrants seeking office space in Dublin, but there were significant expansions from companies already established here from Workday, Twitter, Indeed and Stripe. There is no let-up in tenant demand going forward with over 200,000 sq.m of active requirements, from companies such as Facebook, Google and AirBnB all seeking additional accommodation in the Docklands.

Block B Galway Financial Services Centre
New Galway office acquired for Deloitte

MARKET STATISTICS		DECEMBER 2015
Take Up	=	249,370 sq.m
Available Space (entire market)	=	324,000 sq.m
Overall Vacancy Rate	=	9.00%
CBD Vacancy Rate	=	4.5%
Completions 2015	=	6,500 sq.m
Under Construction: New	=	226,000 sq.m
Refurb	=	63,000 sq.m
Pre-Committed	=	110,000 sq.m
No. of Recorded Transactions	=	226
Average Deal Size	=	1,100 sq.m

One of the major problems the industry faces is the lack of Grade A space to cater for the larger requirements, particularly in Dublin 2 and 4. After five years of no activity, the development cycle kicked off again in 2015 however the majority of new space will not be completed until after 2017. There will be limited new completions this year, with a major 20,000 sq.m refurbishment nearing completion at Baggot Street and a new building of 3,000 sq.m under construction at Charlemont Place. Other buildings well advanced at St Stephen's Green and Earlsfort Terrace have been pre-let to Aercap and Arthur Cox.

Much of the development activity will not reach completion until 2018 and there has been much debate over whether the market could become oversupplied again. There is currently 182,000 sq.m of new development underway in Dublin 1, 2 & 4, however almost 50% of this is already pre-committed. There is no doubt there has been a significant rise in office planning applications over the last 12 months, however the supply of new space should be more controlled in this cycle for a number of reasons;

- Irish banks are not generally funding speculative office developments on commercially viable terms.

TOP 10 OFFICE DEALS 2015		Size Sq.m	Tenant
01	Baggot Plaza, Upper Baggot Street, Dublin 4.	12,000	Bank of Ireland
02	Kings Building, Dublin 7.	8,825	Workday
03	Marlborough House, Marlborough Street, Dublin 1.	7,650	HCL
04	Cumberland House, Fenian Street, Dublin 2.	7,400	Twitter
05	124 St Stephens Green, Dublin 2.	6,775	Indeed.com
06	One Dublin Airport, Co. Dublin.	6,450	ESBI
07	7 Hanover Quay, South Docks, Dublin 2.	6,200	Accenture
08	LXV St Stephens Green,Dublin 2.	6,000	Aercap
09	The One Building, Grattan Street, Dublin 2.	4,200	Stripe
10	Stonemasons Way, Rathfarnham, Dublin 18.	4,125	CRH

- There are a limited number of players in a position to pre-fund offices such as REITs, Funds and high net worth individuals, who may be less inclined to oversupply the market. The last construction cycle was dominated by indigenous builders funded by the banks, which will not be a feature going forward.
- Industry constraints due to construction firm failures during the recession. In addition there is a skills shortage from the severe contraction in the construction sector which will take time to correct.
- State controlled sites inevitably lead to delays in new construction.

New development underway is mainly concentrated in the prime CBD locations of traditional Dublin 2, the Docklands and Ballsbridge. On Molesworth Street Green REIT are onsite for two new buildings totalling 9,500 sq.m and IPUT are replacing the old passport office with a new 10,000 sq.m headquarters. There was a significant boost for the market in 2015 when the German fund Union Investment agreed to pre-fund a new 16,000 sq.m building on Burlington Road which will be finished in Q1 2017. One of the features of this new wave of development is the quality of finishes and specification that developers are providing in addition to the highest LEED/BREEAM standards for sustainability. However developers providing higher specifications are targeting higher returns with ERV's for new stock ranging from €600 - €700 psm.

The suburban market is somewhat behind the CBD in terms of the development cycle, however new speculative development has started in Central Park where Green REIT are building 14,000 sq.m and the DAA are refurbishing an 8,000 sq.m building at Dublin Airport, which has been pre-let to ESBI. The Sandyford, Central Park and South County axis remain the most popular suburban location for tenants and headline rents increased to €270 psm on the gross during 2015. There is still reasonable supply in Dublin 18 but this is expected to tighten this year, as tenants look to the suburbs to satisfy large requirements and reduce costs.

With strong levels of tenant demand and rising rents, 2016 will be another year of growth for the office sector in Dublin. Prime rents will be established at €645 psm at some point during the year and headline levels as high as €700 psm may be achieved before year end. This would put the market back at pre-crash levels which proved to be unsustainable for the industry ten years ago.

New supply coming on stream from 2017 should help stabilise the market for occupiers which will ultimately benefit all stakeholders. Having a decisive 2016 Election result will be welcomed by the markets and benefit the economy, however the uncertainty over Brexit will be a cause for concern until the UK referendum later in the year, due to our high reliance on foreign direct investment.

HEADLINE OFFICE RENTS		DECEMBER 2015
CBD (Grade A)		€592 per sq.metre
Suburban (Grade A)		€270 per sq.metre
Car Spaces:	City	€3,500 pa per space
	Suburbs	€1,500 pa per space

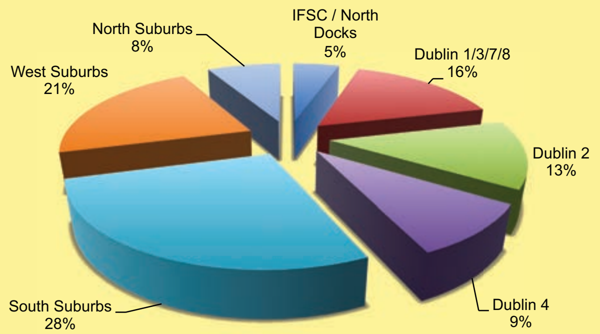
One Central Park, Dublin 18

Entire second floor 2,400 sq.m acquired for WRI

Pelham House, South County, Dublin 18

HQ building of 2,470 sq.m To Let on behalf of Friends First.

AVAILABLE SPACE BY LOCATION



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