Three in a row: another hike in prime office rents in 2016

BY TONY WATERS ON MARCH 6, 2016 HUB PAGES: DAA, GREEN REIT, REVIEW, TWITTER

Aerial view of Cumberland House, Dublin 2, which was rented out to Twitter last year

Rents could rise up to 18 per cent amid strong tenant demand and limited supply

HWBC has upgraded its forecast for 2016 prime office rents and we predict they could rise as much as 18 per cent to €65 per square foot (or €700 psm) by the end of the year. That's on the basis of our latest office market review, which reported on another year of strong growth in 2015; rents for Grade A office space in Dublin were up 22 per cent to €55 per square foot.

This marks the third year of rapid growth, taking rents up a total of 84 per cent since 2012, almost doubling since post-crash lows. The continuing rise is driven by strong tenant demand in a recovering economy against a backdrop of limited supply.

Take-up of new space in 2015 was 249,000 square metres; an increase of 13 per cent on 2014, with technology companies Workday, Twitter and Indeed.com are among the top five big office deals struck this year.

All fundamentals remain in place to drive growth, with continued strong demand from FDI investors and domestic occupiers. There is also an insufficient number of offices under construction, particularly with 50 per cent of space already pre-let.

It wasn't talked about much during the general election, but ensuring there is adequate high-quality office space for Irish companies to expand and for more foreign investors to set up operations here is a key infrastructural challenge. There is also the secondary issue of ensuring there is high-quality and affordable residential accommodation that the young and internationally mobile, tech-savvy employee will want to live in.

New supply coming on stream from 2017 should help stabilise the market for occupiers, and a steadier market is probably in the long-term interest of all stakeholders. Current uncertainties for the Irish economy include the impact of the general election result and Brexit risk.

Oversupply in the market is unlikely given the profoundly changed nature of the Irish property market post-crash. The key reasons for this include the fact that it remains extremely difficult to get funding from Irish banks

Additionally, dominant players in the new market – Reits, funds and high-net-worth individuals – are likely to show more discipline in managing supply than indigenous bank-funded builders and developers who led the previous market cycle. And many sites and land banks remain under state or Nama control, where the pace of development and procurement is likely to be much slower.

We also noted in the review the high level of specification and quality of finishes being used in the current wave of development, and the increased focus on environmental standards and energy efficiency. Developers investing in these sorts of higher specification buildings are typically anticipating higher returns with estimated rental values of over €60 per square foot. (€644 psm).

The development cycle in the suburban market is slightly behind Dublin centre, although speculative development has started, with Green Reit building 14,000 sq metres in Central Park in Leopardstown, and DAA refurbishing an 8,000 square metre building at Dublin Airport. Grade A suburban rent levels have yet to experience the strong growth of city centre, running at €25 psf (€270 psm), and flat on previous year.

The rising market is also being seen in the rental value of car parking spaces, with a city space now yielding an estimated €3,500 per annum, up 17 per cent in the past 12 months.

Car parking spaces in the suburbs are estimated to be offering an annual rental rate in excess of €1,500 per space.

Vacancy rates have also plunged – they stood at 9 per cent at the end of December 2015 compared to the peak rate of 22.8 per cent in 2010, and 12.75 per cent at the end of December 2014. The average deal size for new leases the year was 1,100 square metres, with 226 transactions taking place in 2015.

Tony Waters is MD at HWBC

By Tony Waters

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