Dublin Office Review 2016 and Outlook 2017

2016 was another strong year for the Dublin Office Market with all market metrics showing positive gains over the year. Despite the unexpected geo political events with Brexit and the Trump election in the US, demand for offices has strengthened across all market sectors and particularly in the financial, technology and life science sectors. FY take up was 240,500 sq.m similar to 2015 and we expect the figures to be equally strong for the year ahead.

The full implications of the Brexit vote are still playing out, however the effects are starting to be felt on the ground with a strong pipeline of potential movers looking seriously at Dublin, with interest principally from the banking and insurance sectors. Big names like Citi, Credit Suisse, HSBC, JP Morgan are all looking at alternative cities to London, and Dublin is firmly on the shortlist. The IDA is of the view companies will start to make concrete decisions from Q2 this year and already both HSBC and Lloyds have announced their Brexit plans to take offices in Paris and Frankfurt respectively. Barclays have indicated Dublin is their preferred Brexit location and they already have a base here with offices in Upper Hatch Street.

As the UK looks increasing likely to move towards a 'Hard Brexit' the potential loss of financial services 'passporting rights' for London based firms will increase the volume of potential relocations to Dublin and elsewhere. This is expected to increase the pressure on prime CBD supply over the course of 2017 with headline rents likely to be established at €700 psm before year end. With strong levels of occupier demand, a number of new schemes have started on site in 2016 and there is now 401,000 sq.m of space under construction in the city with 35% of this space already pre-committed. There were significant pre-lets last year including Amazon (16,000 sq.m) in Burlington Road, Grant Thornton (12,000 sq.m) in City Quay and the NTMA (7,700 sq.m) in the North Docks, with buildings due for completion over the next 12-15 months.

The Sharp Building, Hogan Place D2.
New HQ under construction – 4,200 sq.m

MARKET STATISTICS		DECEMBER 2016
Take Up	=	240,500 sq.m
Available Space (entire market)	=	279,000 sq.m
Vacancy Rate	=	7.75%
Completions 2016	=	76,000 sq.m
Under Construction	=	401,000 sq.m
Pre-Committed	=	35%
No. of Recorded Transactions	=	201
Average Deal Size	=	1,200 sq.m

Virtually all new schemes to date are securing pre-lets before completion and we see this trend continuing over the next 12 months. There was approx. 76,000 sq.m of space completed in 2016 with 90% of this reserved on or before practical completion. This level of take up has encouraged a number of developers to begin on site to cater for the larger end of the market and expected new arrivals from Brexit. Developments such as Dublin Landings and Capital Docks are well located and placed to attract the bigger requirements with over 80,000 sq m of new office space between them. In addition Bolands Quay on Barrow Street will provide over 20,000 sq.m in 2 blocks. All these schemes will be completed by the end of 2018

TOP 10 OFFICE DEALS 2016		Size Sq.m	Tenant
01	Vertium, Burlington Road, D4.	15,900	Amazon
02	13-18 City Quay, D2.	9,650	Grant Thornton
03	No.1 The Landings, North Docks, D1.	7,700	NTMA
04	Prime 2 Gateway, East Wall Road, D3.	7,225	ESB
05	Blocks B&C Miesian Plaza, Baggot Street, D2.	7,000	Shire Pharma
06	Georges Quay House, South Docks, D2.	6,500	Fidelity
07	Enterprise House, Blackrock, Co. Dublin	6,300	Zurich
08	Block N East Point, D3.	4,550	Google
09	Waterloo Exchange, Waterloo Road, D4.	4,100	Jazz Pharma
10	1 Cumberland Place, D2.	3,000	Docusign

and the continuing level of pre-lets achieved in the market will determine how many new schemes break ground in 2017 to provide space from 2019/20 onwards. We estimate there will 216,000 sq.m of new completions in 2017 and around 55% of this new space is already either reserved or contracted. We estimate around 185,000 sq.m is due for completion in 2018/19, and around 10% of this space is reserved to date.

There is potential for up to 5 million sq.ft to be delivered in Dublin over the next few years with schemes at various stages of the planning process. However much of this space will not be delivered without significant pre-lets in place, so at current levels of construction we see no risk of over supply as happened in previous cycles. It is a huge step for any developer to move from planning stage to actually start building speculatively, so the level of starts this year and next will be carefully tracked by market analysts for danger signs of oversupply. The difficulty in securing funding is also a self-policing feature of this cycle, which was certainly not the case prior to 2008. In fact there are already signs the market for new supply may be tapering off with a noticeable reduction in new planning applications over the second half of 2016.

Lease terms are continuing to harden for tenants across all sectors, but particularly for prime CBD space. This is having a knock on effect for city fringe locations such as Dublin 1,7 & 8 and East Point seeing strong interest from occupiers. The pace of increase in city rents over the last five years is also benefitting suburban locations such as Sandyford and Leopardstown where rents are typically half the city rate. The south side location of Sandyford is still the most popular with tenants given its multi transport infrastructure including the LUAS and access to the M50 motorway. The completion of the cross LUAS extension in 2017 will make the south suburbs more accessible and likely see further speculative development in South County or Central Park. Interest in city fringe and suburban locations are likely to increase as CBD tenants with rent reviews or lease renewals due this year face a doubling or more in their rental costs, from the soft deals agreed from 2012.

The office market in Dublin is firing on all cylinders with rental growth, tenant demand and a strong domestic economy driving speculative development to bring supply in line with demand over the next 12 months. However all market participants will be wary of political developments in the year ahead which could affect demand for space and the level of foreign direct investment, which is the lifeblood of the market here. In the UK article 50 is likely to be triggered in March and the policies of the new US administration could have direct implications for the Irish economy. In addition to the Trump effect, there are elections in both France and Germany which could cause further issues for the stability of the EU bloc. At home the minority Government have many important issues to tackle, not least of which is the residential market, where lack of new supply and rental accommodation at affordable rates could have negative consequences for winning Brexit business and foreign direct investment.

HEADLINE OFFICE RENTS		DECEMBER 2016
Grade A CBD		€646 per sq.metre
Suburban Grade A		€300 per sq.metre
Car Spaces:	City	€4,000 pa per space
	Suburbs	€1,500 pa per space

Ballymoss House, Sandyford
Acquired for U&I Plc. Offices to let 4,650 sq.m

Haddington Court, Haddington Road, D4.
High level refurb – 2,650 sq.m

Claremont Road, Sandymount, D4.
Grade A headquarters – 2,000 sq.m

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