

Office block boom times back again

Construction levels similar to Celtic Tiger peak

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The level of construction in the commercial real estate sector is now on a par with the peak of the boom in 2007, but there is little evidence of overcapacity, according to a new report.

The surge in demand for office space is being driven by big technology companies such as Google and Facebook while the expected Brexit dividend has been relatively muted because of the limited stock of residential property and infrastructure constraints, HWBC says in its latest Dublin office market review, which is published today.

The review shows that there is more than 4 million sq ft of office space under construction, which is similar in scale to the level of development during the years that preceded the 2008 property crash. The rental cost of grade A office space in the city centre is now €65 per sq ft and €30 per sq ft in suburban locations, which are also similar to Celtic Tiger peak levels.

However, HWBC, a property consultancy firm, said there was important differences with a decade ago. Now the demand pipeline was justifying the level of construction activity, while there was a lack of reckless domestic bank lending to poorly located schemes.

"The fact that construction levels are at boom-time levels might ring the over-supply alarm bells if the continuing occupier demand in the Dublin office market wasn't so strong. Over 70 per cent of the space due for completion this year is already pre-committed to tenants," Tony Waters, the managing

director of HWBC, said. "With a robust demand pipeline and well targeted development locations. This construction cycle is very different from the previous speculative boom."

He added that the market had been underpinned by the continuing demand from big technology firms such as Facebook, Amazon and Salesforce all of which are in expansion mode.

One negative highlighted in the review was that potential investors had major concerns about the lack of affordable rental accommodation for the thousands of workers being hired for new jobs.

Some large companies have looked to combine office and staff needs in the same location: JP Morgan and Google have purchased office buildings at Capital Dock and Boland's Quay respectively, with substantial apartment complexes on the same site.

The strong office demand is supported by the pace of growth in the Irish economy and the labour market approaching full employment.

In relation to Brexit, HWBC's report said that, while there had been wins from US and UK banking, insurance and legal companies, the surge in demand had not been the major driver of the market. "So far over 20 companies have declared for Dublin as their post Brexit base, however we continue to face strong competition from other European cities, and the challenges in our residential market could be one of the factors that make companies look to relocate elsewhere," Paul Scannell, an HWBC director, said.