2017 Dublin Office Supply Update

Dublin Will Have Enough Offices to Meet Brexit Demand

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INTRODUCTION

In the aftermath of last June's unexpected Brexit referendum result, there has been continued speculation that Dublin could benefit from Brexit-related office relocations in due course. The speculation has escalated following Theresa May's Brexit commentary in January 2017, which seemed to suggest that passporting may not be an option for UK-based financial services companies post Brexit.

The fact that some of these financial services companies and others in the insurance and technology sectors may consider setting up operations in Ireland makes sense considering our proximity to the UK, the fact that Ireland is the only Eurozone country with English as its first language and the fact that prime rental costs in Dublin and indeed other Irish cities are considerably lower than in London.

A number of other cities across Europe are competing directly with Dublin for this relocation activity. From a property perspective, despite reports to the contrary, Dublin has more than enough office stock in the pipeline to cater for any additional demand that Brexit relocations may deliver. The bigger issue for the Irish Government to tackle at this juncture, and which to be fair is already being addressed, is to ensure that there is sufficient housing and adequate infrastructure to facilitate this additional demand, if and when it materialises.

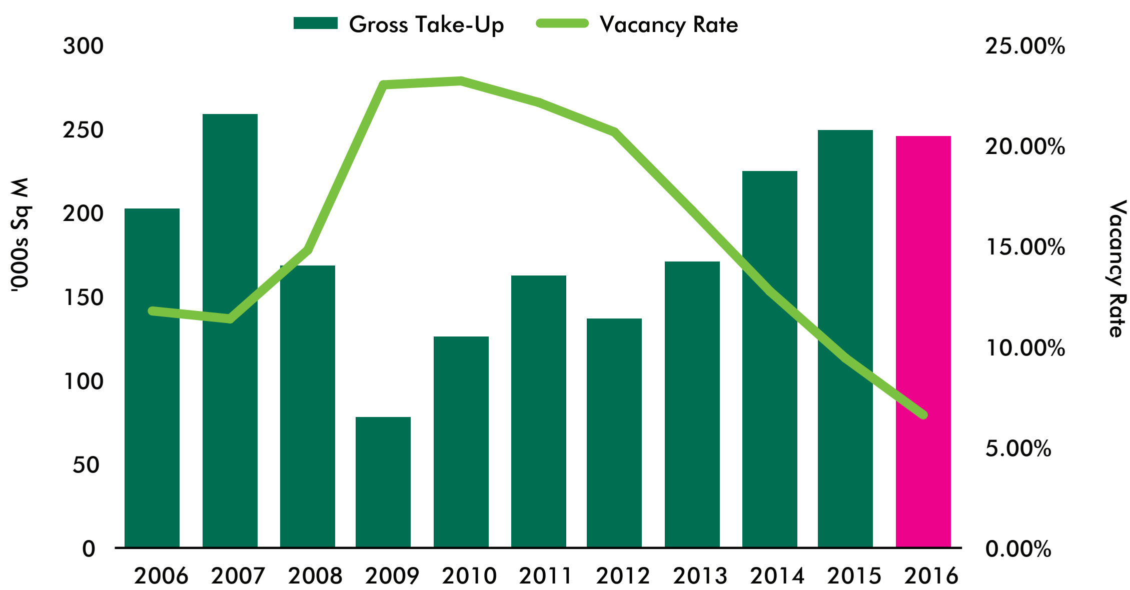
THE DUBLIN OFFICE MARKET

The Dublin office market extends to more than 3.7 million square metres (40 million sq. ft.) of which more than 60% is located in the city centre specifically. More than 70% of the office leasing activity that occurs in Dublin each year occurs in the city centre region.

Annual average take-up in the Dublin office market over the last ten years was approximately 182,000m² (2 million sq. ft.) per annum

Throughout the downturn in the Irish economy over recent years, Ireland's 12.5% corporate tax rate continued to draw foreign direct investment to the Irish market, producing strong annual take-up volumes in the office sector that would seem to belie the weakness in the economy.

Figure 1: Dublin Office Take-up & Vacancy Rate 2006 – 2016



Source: CBRE Research, Q4 2016

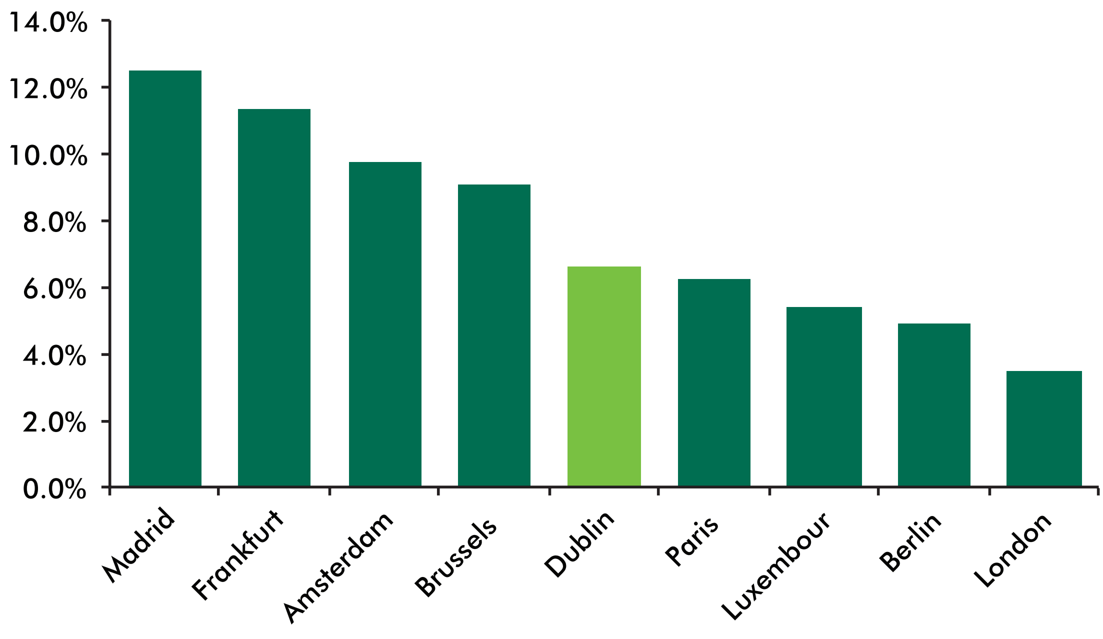
Over the last few years, office take-up in Dublin has remained consistently strong with a combination of indigenous and overseas occupiers leasing accommodation in the city. This momentum continued in 2016 with annual average volumes of take-up achieved in the first nine months of the year alone, buoyed by several large leasing transactions. Total take-up for 2016 reached more than 246,000m² – almost the exact same result as 2015.

With the exception of 2009, there has been little evidence of the Irish economic downturn in these consistently strong take-up figures and yet no new offices were developed in the Dublin market between 2011 and 2015. It was only in 2016 that new office stock started to come on stream again. However, only 76,000 square metres of office stock were delivered in the 12 month period.

Approximately half of all transactions in the Dublin market each year are to Irish companies with US and UK occupiers also accounting for a large proportion of leasing activity in the capital. In 2016, one third of take-up in Dublin comprised US companies with a further 11% of take-up comprising UK companies. There is an expectation that even if US appetite declines in 2017, this will be compensated by an increase in appetite from UK occupiers.

The overall rate of vacancy in the Dublin office market at the end of Q4 2016 was in the region of 6.6% which compares well with other competing cities across the Eurozone.

Figure 2: Office Vacancy Rates Q4 2016



Source: CBRE Research, Q4 2016

In total, as of the end of Q4 2016, when buildings that are reserved are excluded, there was approximately 250,000m^2 (1.37 times Dublin's annual average take-up in the last 10 year period) of office accommodation available to let in the Irish capital, contradicting the view that there is no office stock available to let in Dublin at present. There is no doubt that this view that there is no availability of office stock in Dublin has been heavily skewed by focus on the Dublin 2/4 district specifically where the vacancy rate of Grade Accommodation was approximately 2.35% or approximately 36,500m^2 at the end of Q4 2016. In addition to the volume of availability in the Dublin market at present, there is considerable development now underway, albeit on a very controlled basis.

Over the last two years, we have witnessed a return of cranes to the Dublin landscape and the beginning of the next development cycle in the capital following more than five years during which no new schemes were delivered despite strong volumes of take-up being achieved. In addition to the vacant stock in the market presently, there is actually more than 360,000m^2 (3.87 million sq. ft.) currently under construction in the city centre in 27 individual schemes of which 20% is currently reserved. Major new schemes are under construction in Docklands, Molesworth Street and in the new National Concert Hall Quarter in the city centre while new schemes are also under

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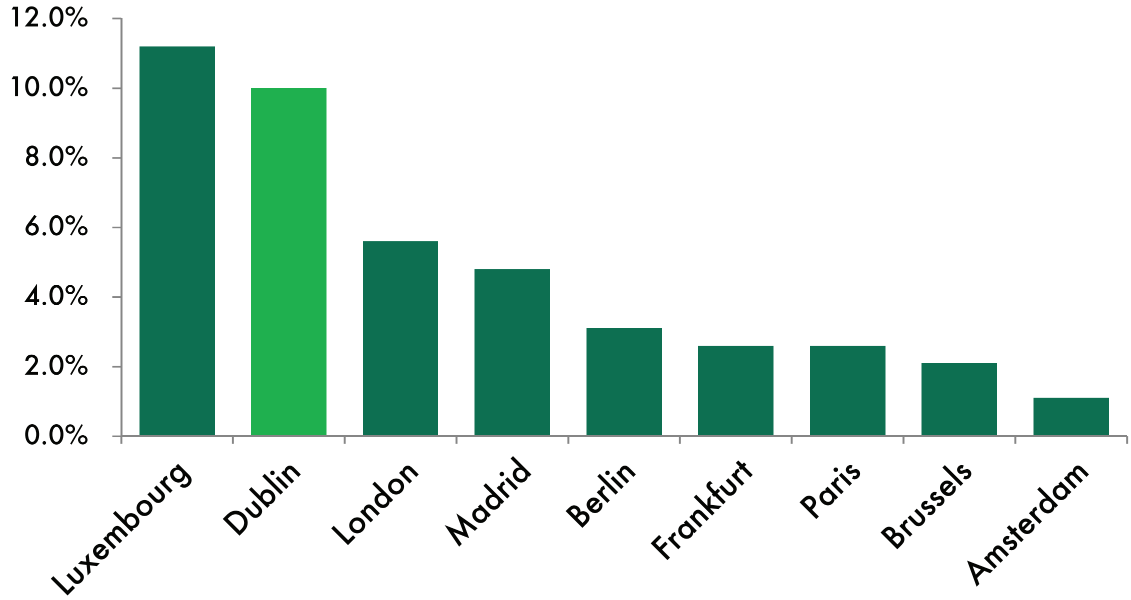
construction in suburban locations including Sandyford in the south suburbs and at Dublin Airport in the north suburbs.

The 360,000m^2 (3.87 million sq. ft.) of new office accommodation that is currently under construction in Dublin's city centre equates to just more than 2 years of average take-up and will add approximately 10% to the stock of office accommodation in Dublin in due course. This compares favourably with other cities that Dublin would typically compete with from an office occupier viewpoint.

Of the more than 360,000m^2 (3.87 million sq. ft.) of office accommodation currently under construction in Dublin city centre, 60% is due for completion in 2017 with a

Figure 3: Two Year Development Pipeline as % of Total Office Stock



Source: CBRE Research, Q4 2016

further 39% due for completion in 2018. 31% of the stock that is under construction and due for completion in 2017 has already been pre-let. This proportion will increase over the coming months as other large transactions sign.

Meanwhile, a further 543,000 square metres (5.84 million sq. ft.) in 48 individual schemes has a grant of planning permission and could also be commenced if required while a further 48,323m^2 (520,171 sq. ft.) of stock has been applied for in the city centre. **The visibility on potential delivery should give comfort to potential occupiers that Dublin is more than capable of providing sufficient high quality office accommodation if required.** There is therefore considerable scope to cater for any additional requirements for office accommodation that may materialise as a result of Brexit. This is not to suggest that Dublin is the only Irish city that will potentially benefit from Brexit-related activity over the next few years.

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