Office market activity continues to be supported by strong economic activity and robust employment growth. Ireland remains the fastest growing economy in Europe. All components of domestic demand are contributing to growth with solid consumer demand reflected in consumer sentiment and retail sales data. This is expected to remain the case for the rest of 2016 and into 2017. Strong economic growth continues to boost employment particularly in the higher value adding sectors and this is expected to continue with the unemployment rate forecast to fall further below its current level of 7.8% by year-end.

Take-up in the Dublin office market was 42,500sqm in Q2, slightly ahead of Q1. Almost 70% of that was in the CBD locations. The south suburbs are the locations next most sought after by occupiers, reflecting the larger floor space available and relatively lower rental levels. The north suburbs continue to suffer from a shortage of supply and take-up.

**Demand**

**Supply**

The active supply pipeline, particularly in Dublin’s central business districts, is the biggest factor driving the market in 2016. There is just over 200,000sqm of space under construction, of which almost 90% is located in prime Dublin 1, 2 and 4 locations. Almost half of the new space under construction is pre-let. There are a number of large schemes which have planning, such as the ESB Head Quarters on Fitzwilliam Street and the Garda headquarters, on Harcourt St, both in Dublin 2. A large scheme in the planning process in Dublin 4 is expected to get the green light in Q3.

When current refurbishments and works under-construction are completed, the size of the office market will have increased by almost 10%. This offer both new entrants and occupiers looking to relocate much needed choice of Grade A space, which currently has historically low vacancy rates.

**Dublin Office Market Take-up, by location Q2 2016**

![Chart showing take-up by location](source)

**New supply – pipeline overview, sqm**

![Chart showing supply pipeline](source)

**Vacancy rate, %**

![Chart showing vacancy rate](source)
RENTS
Prime rental growth is set to continue, at a strong but more sustainable forecast pace of 5% for 2016 as a whole and will remain positive, at a forecast 3-5% in 2017.

Rental growth of 22% for 2015 was very significant and reflects the tightness of supply combined with the stronger than expected pace of economic recovery and employment growth.

The active supply pipeline is the biggest factor that has changed in the last twelve months and will continue to provide an anchor for more considerable rental growth. Prime rents ended Q2 at €619 per sqm per annum and are expected to stay close to this level for the remainder of 2016.

There is some evidence of particular space being let at closer to €640 - €645 sqm, but deals being done at these levels are for specific space, relatively small in size and unique/boutique in nature and with flexible leases. There are not enough transactions signed at these levels to consider this rental level an accurate reflection of the level at which transactions are being done across the market for prime space.

The traditional core of the city close to St Stephen’s Green is considered to have an edge in particular in terms of increased attractiveness for professional and financial services companies in particular. New builds and renovations on nearby streets, such as Hatch Street, Molesworth and Dawson Streets are expected to enhance further the appeal of core Dublin 2, with these locations seen as a test of the market in terms of upside potential.

VACANCY
Strong demand for office space, coupled with no new completions for a number of years, resulted in a rapid fall in the overall vacancy rate from over 20% in 2011 to close to 9% at the end of Q2. This rapid fall in vacancy is allowing for the absorption of completions which are currently under construction and due for delivery throughout 2016.

The pace of fall in the vacancy rate is expected to ease and settle at c 8.5-9% mainly driven by an increase in supply. That said, the vacancy rates in the CBD will remain tight over the next 12-18 months, given the current starting point of very low levels of vacancy in these locations (c. 5% and less than 2% for Grade A) and the demand pipeline.

SUMMARY

<table>
<thead>
<tr>
<th>Prime Rents</th>
<th>Under construction</th>
<th>Take-up Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>€619 sqm per annum</td>
<td>280,000 sqm</td>
<td>42,500 sqm</td>
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</table>

Source: BNP Paribas Real Estate Research

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BNP Paribas Real Estate

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