Office Market Review and Outlook 2010

2009 was a difficult year of re-adjustment for the Dublin Office Market with a significant drop in rental and capital values and increased supply across all sectors. Weak tenant demand particularly in the first 6 months meant few deals completed and rental terms fell rapidly as tenants took advantage of the softer market conditions. By the end of 2009 the vacancy rate increased to 22.54% from 16.4% the previous year fuelled by over 100,000 sq.m of new office completions into a market that was already over supplied. There are still a number of speculative schemes under construction and due for completion in 2010 but from next year on, the supply of new space will virtually cease and the vacancy rate is expected to peak this year at around 25%.

There was a marked improvement in letting activity in the second half of the year with more transactions bringing the total take-up to 71,895 sq.m, 58% down on the previous 12 months. Prime headline rents fell consistently during the year with tougher competition for tenants and overall rents are down 40% from market highs. In certain city locations new space is available at headline rents of around €300 per sq.m with additional incentives available, which may represent an over correction as this level of return is not sustainable for prime space.

There has been a certain build up of occupier demand over the last 18 months as tenants waited for the bottom of the market before committing to space. There is a view emerging that we may be at or very close to the optimum time for tenants to acquire space in terms of value on offer and availability of high quality offices. This realisation should see a number of occupiers get active and commit to deals during 2010 to lock in value over the medium term. There were a number of domestic firms who moved in 2009 including Greencore, Irish Aviation Authority and 3 Ireland all of whom secured Grade A space on excellent terms.

Over the last 10 years the average take-up was around 170,000 sq.m per annum and it is likely the market will return closer to this level over the next 2 to 3 years as growth returns to the economy. However even assuming increased levels of take-up, there is currently over five years supply available before the vacancy rate returns to sub 7%, the optimum balance between supply and demand. In recent years the market was dominated by a small number of large domestic transactions which pushed take-up to record levels, however the average size of the top 10 deals in 2009 was just 2,000 sq.m down from 5,600 sq.m in 2008 and 9,700 sq.m in 2007. For the market as a whole, the average deal size fell to 485 sq.m in 2009 from over 1,000 sq.m with occupiers clearly adopting a more cautious approach before committing to space.

MARKET STATISTICS	Dec 2009	Year on Year
Take Up	71,895 sq.m	- 58%
Vacancy Rate	22.54%	+ 6.14%
Available Space	732,989 sq.m	+ 42%
Total Stock	3,251,686 sq.m	+ 3%
Completions 2009	110,106 sq.m	- 44%
Under Construction (Dec 2009)	97,550 sq.m	- 45%

Classon House, Dundrum Business Park, D 14.
High spec units for sale/to let 130 – 1,000 sq.m.

TOP 10 OFFICE DEALS 2009		Size Sq.m	Tenant
01	The Chase, Sandyford, D18	3,716	Service Source
02	Irish Times Building, D'Olier Street, D2	3,716	Irish Aviation Authority
03	South Leinster Street, D2	2,853	Trinity College
04	Merrion Hall, Strand Road, D4	2,117	OSG Outsource Group
05	Hanover Reach, South Docks, D2	1,885	Facebook
06	Texaco House, Pembroke Road, D4	1,584	Audi Ireland
07	One Kilmainham Square, D8	1,309	Amazon
08	Blanchardstown Corporate Park, D15	1,300	Q Logic
09	Northwood, Santry, D9	1,108	Greencore
10	3100 Lake Drive Citywest, D24	1,045	Sage

Available Space by Location	Sq.m	% of Vacant Space
IFSC	16,300	2.22%
Dublin 1/3/7/8	181,589	24.77%
Dublin 2	126,184	17.21%
Dublin 4	116,080	15.84%
South Suburbs	126,737	17.29%
West Suburbs	106,486	14.53%
North Suburbs	59,613	8.14%
Total	**732,989**	**100%**

The high vacancy rate and lower rental values is not all bad news for the market as Dublin is now viewed more favourably in terms of business competitiveness. Dublin is no longer one of the more expensive European business locations which has helped the IDA attract a number of high profile overseas occupiers to the market. Some of the well known multinationals to take space during the year include Service Source, Bentley Software, Amazon and Facebook with ongoing requirements from Dun & Bradstreet and possible new entrants such as LinkedIn to be satisfied this year.

There are still some significant speculative schemes under construction such as Central Park in Leopardstown and Grand Canal Square, South Docks but by mid 2011 there will be virtually no new supply coming onto the market. The cut off in new supply will eventually impact on the amount of Grade A space available in the city particularly for the larger occupiers. In the most popular location of Dublin 2/4 there are currently ten sites which can provide 5,000 sq.m or more of new space, so any significant pick up in demand could see the choice for large occupiers quite limited. Assuming the current supply of new city space is let over the next 2-3 years, any significant entrants to the market beyond this may have to look at pre-let options due to a lack of speculative development which could impact on efforts to attract foreign direct investment.

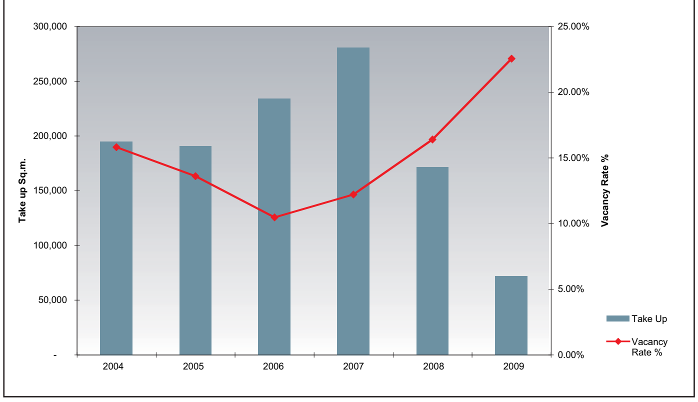
The year ahead should see increased levels of tenant activity as firms who have postponed taking offices decide to move this year to maximise savings for the best available space. As demand increases with a pick up in the economy, rental levels should begin to stabilise this year with the possibility of moderate increases in prime headline rents from current lows towards the end of the year. The vacancy rate is expected to peak this year and we are unlikely to see it reduce until 2011 as take up returns to more average levels. The market for older second hand space is unlikely to see any improvement in the short term due to tenants preference for modern space and the volume of older buildings on the market. Much of the older stock dates from the 1970's and is due for redevelopment, however funding and market conditions are unlikely to make this economically feasible for a number of years.

Merrion Hall, Strand Road, Dublin 4.
From 750 to 2,100 sq.m with ample parking.
Second floor let to OSG Outsource Group.

Headline Office Rents December 2009		
Prime City Centre		€300 - €375 per sq.metre
Secondary City Centre		€200 - €270 per sq.metre
Suburban		€130 - €215 per sq.metre
Car Spaces:	City	€2,500 - €3,000 pa per space
	Suburbs	€500 - €1,500 pa per space

Pinnacle One and Pinnacle Two
East Point, Dublin 3
New HQ buildings 3,500 – 13,500 sq.m

Dublin Offices Take up & Vacancy Rate 2004 - 2009



For further information contact

Paul Scannell
HWBC, 80 Harcourt Street, Dublin 2, Ireland
Tel: +353 1 77 50 500 Fax: +353 1 77 50 577
www.hwbc.ie
pscannell@hwbc.ie