2014 OUTLOOK

- Further jobs growth, together with an ongoing shift towards service activities, will continue to underpin demand for Dublin office space.
- Increasing demand will not be matched by new supply. There are unlikely to be any significant new office completions in Dublin until late 2015 at the earliest.
- Growing demand and fixed supply will see vacancy rates fall further. The rate of decline will gather pace as take-up increasingly derives from new entrants and expansions rather than churn.
- In the longer run, withdrawal of older space for redevelopment will also lead to a more rapid decline in vacancy levels.
- By end-2014 the availability of Grade A space in some of the most desirable business locations will effectively be nil.
- With vacancy rates pushing further beneath their natural level, which is estimated at 12-15% for the Dublin market, office rents will continue to be driven upwards.
- Prime rents are set to rise by in excess of 20% in 2014, and are likely to continue growing strongly again in 2015.

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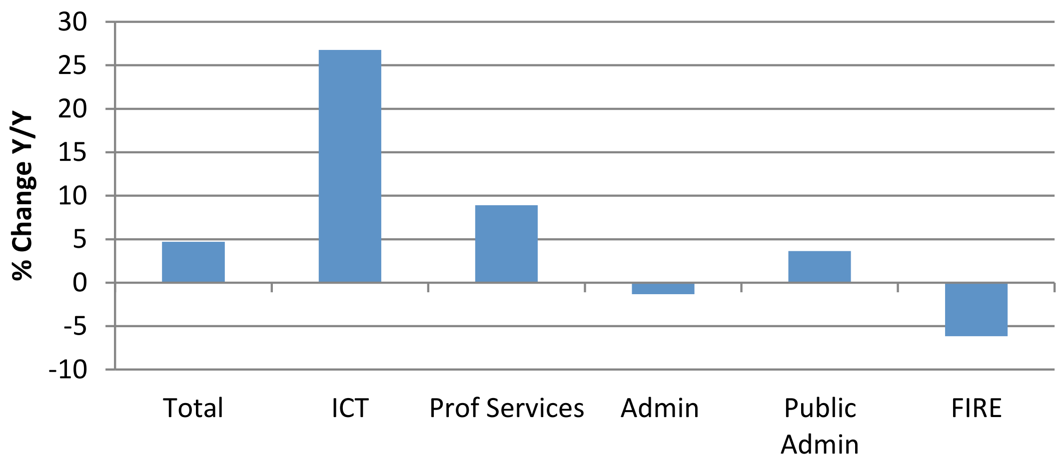
Dublin Office Market in Minutes

Q1 2014

GRAPH 1

**Employment Growth in Dublin by Sector
Q1 2014**



Source: CSO

SUMMARY

Dublin Office Market

- Jobs growth driving demand for office space
- 32% lettings increase Q1 2014 vs Q1 2013
- Take-up dominated by ICT, professional services and financial services
- Take-up increasingly feeding through to net absorption
- Vacancy rate down to 14.5% across Dublin
- Very limited availability of Grade A space in prime locations, particularly larger buildings
- Prime rents to rise by over 20% this year.

Introduction

Ireland is now well established on the path to recovery. The economy has grown in six of the last seven quarters and GNP expanded by 4.6% in the second half of 2013. However, the most dramatic evidence of Ireland's changed fortunes can be found in the labour market. Total employment increased by 3.3% in 2013 – the strongest jobs growth in the EU by some margin. Furthermore, although hiring activity is traditionally slower in Q1 the live register fell for the 29th successive month in April.

Approximately half of the jobs created in the last two years have been located in Dublin. And, of these, half have been in office-based sectors. In particular, employment in Information and Communications Technology (ICT) has risen by 26.8% over the last 12 months, while professional services employment has increased by almost 9%. These trends are reflected in the pattern of office take-up with ICT and professional services firms accounting for almost 55% of Dublin lettings in Q1 2014.

Letting Activity

Take-up in the first three months of 2014 was just over 57,000 sq m. This represents a 32% increase on last year and is twice the Q1 average over the previous five years.

Approximately 71% of this space (41,000 sq m) was taken in Central Dublin, with lettings in the prime Dublin 2 and 4 postcodes accounting for 55% of quarterly take-up. However, notwithstanding this concentration of lettings in the city centre, the demand for good quality suburban space is on the increase as declining availability is making it more difficult for occupiers to find Grade A accommodation in the best city centre locations. Just over 16,000 sq m of suburban space was let in Q1, with the majority of this spread evenly between the South West and South East Suburbs.

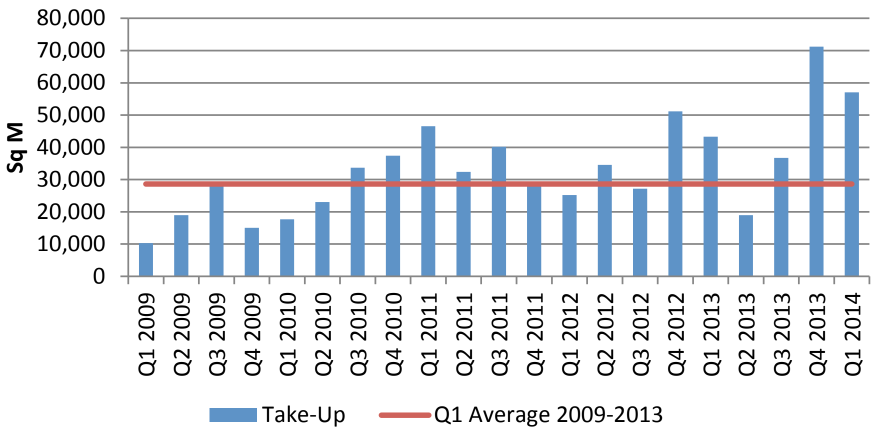
Net Absorption

Gross letting activity held up well during Ireland's economic crisis, but much of this was driven by 'churn' as occupiers availed of lease events to secure better buildings at lower rents. While this remains part of the market dynamic, letting activity is increasingly being driven by new entrants and business expansions. As a result, the ratio of net absorption to gross letting activity has increased. To put this in numbers, gross lettings of 184,000 sq m over the last 12 months have translated into net absorption of 128,000 sq m – a conversion rate of almost 70%.

The emergence of suburban demand is more evident in net absorption than gross letting. As shown in Graph 3, the percentage decline in vacant space over the last 12 months has been stronger in suburban markets than Central Dublin. That said, the vacancy rate has considerably further to fall in these locations.

GRAPH 2

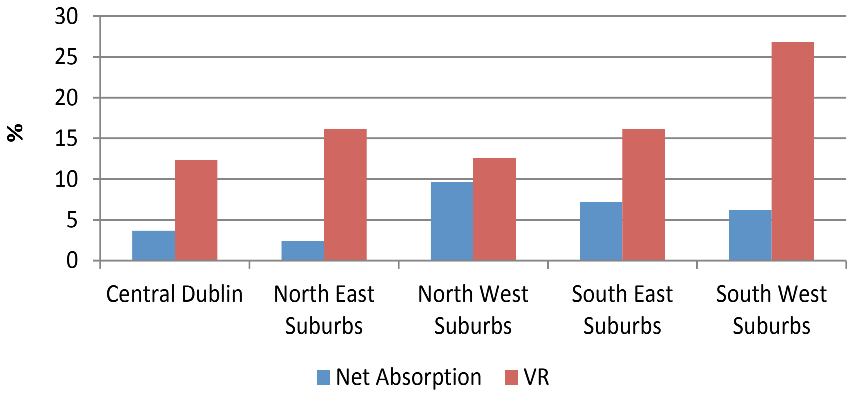
Dublin Office Take- Up



Source: Savills Research

GRAPH 3

Net Absorption and Vacancy Rate by Location



Source: Savills Research

Vacancy

The overall vacancy rate across Dublin has been declining rapidly in recent quarters and now stands at 14.5%. As shown above, this average conceals significant variation by building quality and location. To further illustrate this point, the vacancy rate for Grade A space in Dublin's traditional CBD is now just 4%, whereas that for Grade C space in the South West Suburbs remains at over 32%.

As new entrants and existing occupiers have gravitated towards the best buildings, the quality of available stock has steadily deteriorated. This is illustrated in Graph 5 which shows that Grade A space has fallen from 22% to 17% of vacant stock over the last year. Conversely, Grade C has risen from 43% to 49% of total availability in the market.

Development

There has been no significant office building in Dublin since 2010 and, at present, there are only two new office projects under construction - the former Canada House on St. Stephens Green and the Former Veterinary College in Ballsbridge. Neither of these is expected to be completed before Q3 2015 at the earliest. One reason for the shortage of pipeline supply is that banks are currently unwilling to finance speculative office development. However, due to the fragmented structure of Dublin's occupier market (average lettings are around 750 sq m), pre-lets have traditionally been uncommon and we expect this to continue. Realistically, therefore, an urgent loosening of credit for speculative development is needed if we are to avoid an impending shortage of well specified office space in Dublin's prime commercial districts. Not only could such a scarcity act as a barrier to incoming foreign investment, it could lead to a rental spike which in our view would benefit neither tenants nor landlords.

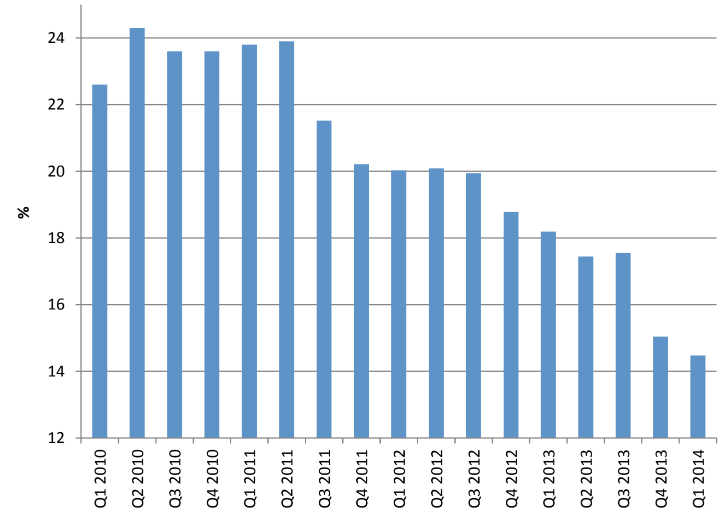
On a more positive note however, the Docklands SDZ has now been approved by An Bord Pleanala, and this will hopefully expedite a number of developments which have been waiting in the wings in this key location.

Rents

The combination of strong occupier demand and tight supply is a recipe for rental growth, and prime office rents have already increased by 14% in the year to date. We believe that headline rents for prime city centre space now stand at €430 per sq m/year, while rents for secondary space are approximately €250 per sq m/year. Rents for Grade A suburban space range between €160-190 per sq m/year depending upon exact location, and the gap between these and equivalent city centre rents is widening.

GRAPH 4

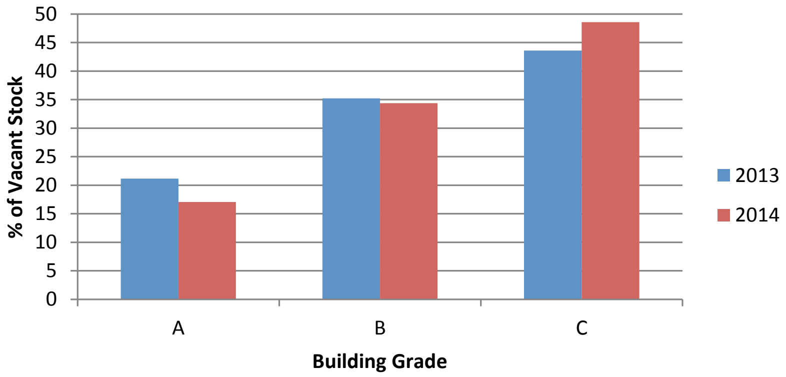
Vacancy Rate Dublin Offices



Source: Savills Research

GRAPH 5

Availability by Grade



Source: Savills Research

"The King's Building, Smithfield; One of the last Grade A offices of over 10,000 sq m available in Dublin"