OFFICE MARKET REPORT 2018

Lambert Smith Hampton

IRELAND

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Lambert Smith Hampton

WELCOME

STUART DRAFFIN
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Despite a very slow first quarter, 2017 was a record year for office take-up across Ireland, breaking the four million sq ft mark for the first time. While Dublin city centre activity was the key driver behind the record year, generally the other markets fared well with only Cork recording a significant decline compared with 2016. Activity in the first three months of 2018 suggests a healthy start to the year.

Given the levels of political uncertainty that Ireland has experienced since the EU referendum vote in June 2016, the level of resilience shown by the Irish office market is encouraging. The difficult first stage Brexit talks have concluded with assurances that the Irish border is a priority issue. Despite the uncertainty remaining around the transitional arrangements for the UK's exit from the EU it is clear that Ireland presents a unique opportunity for businesses. The healthy activity in the opening months of 2018 demonstrates the continued attractiveness of Ireland to occupiers.

While occupier activity was buoyant, by comparison investment activity was subdued. The large scale deleveraging activity that characterised 2013–2016 has mostly completed, with the market returning to a more normalised level of activity. Going forward the key challenge to Irish investment activity is not a lack of demand, but a supply shortage of larger assets.

In recent years, there has been considerable new office development and the repositioning of existing stock. While new build has started to decline during 2017, nonetheless development continues in earnest with almost 4m sq ft of new space under construction and significant projects also in the pipeline. The supply of new stock will not only attract occupiers, but will provide a source of good quality product across the key markets for investors.

With these opportunities in mind, a forensic understanding of the market remains critical. Being able to look at the past is valuable, but understanding the present and capitalising on the future is where we will see success.

If you would like any guidance or further information in respect of the Ireland office markets, please contact our team of experts – we'd be delighted to help.

Best wishes,

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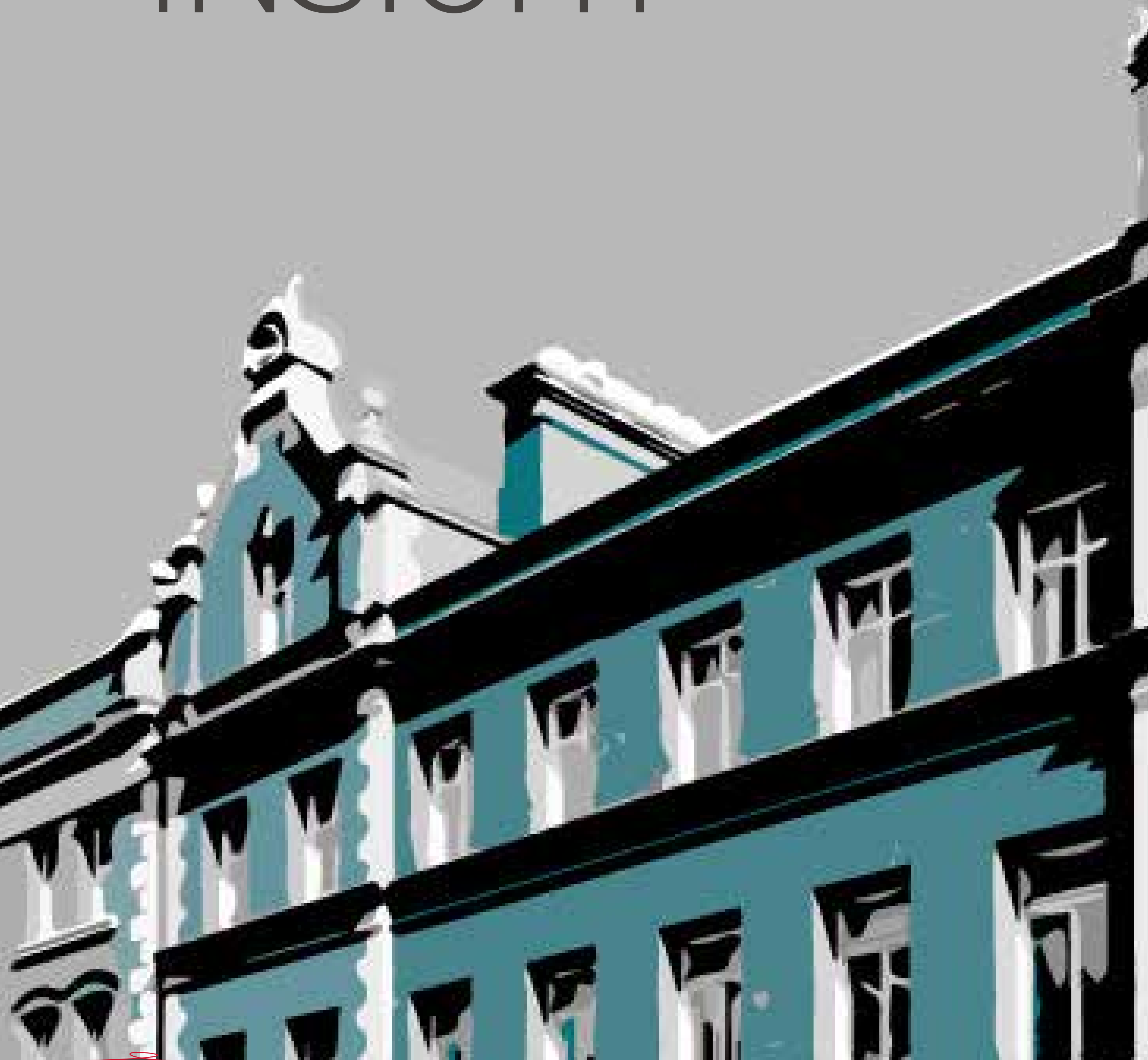
MARKET INSIGHT



OCCUPIER MARKET OVERVIEW

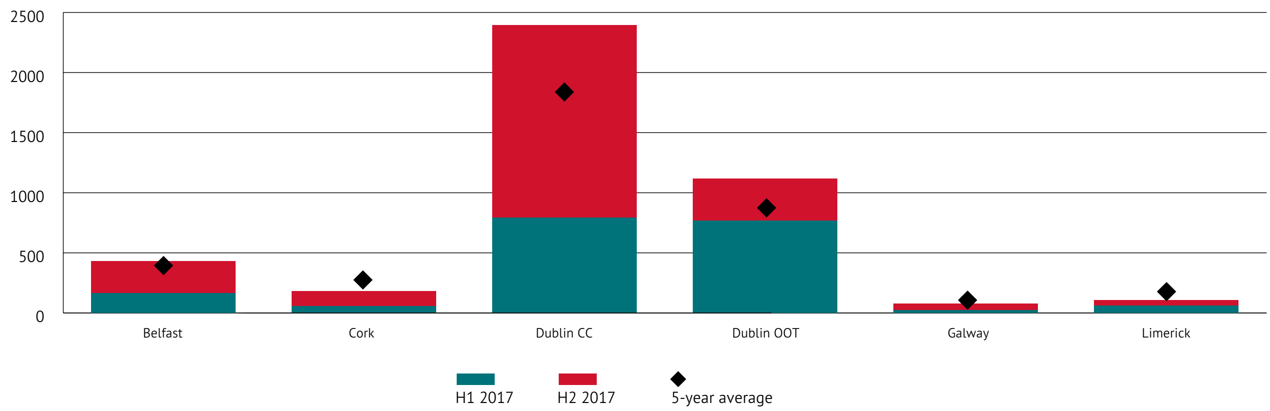
A RECORD YEAR

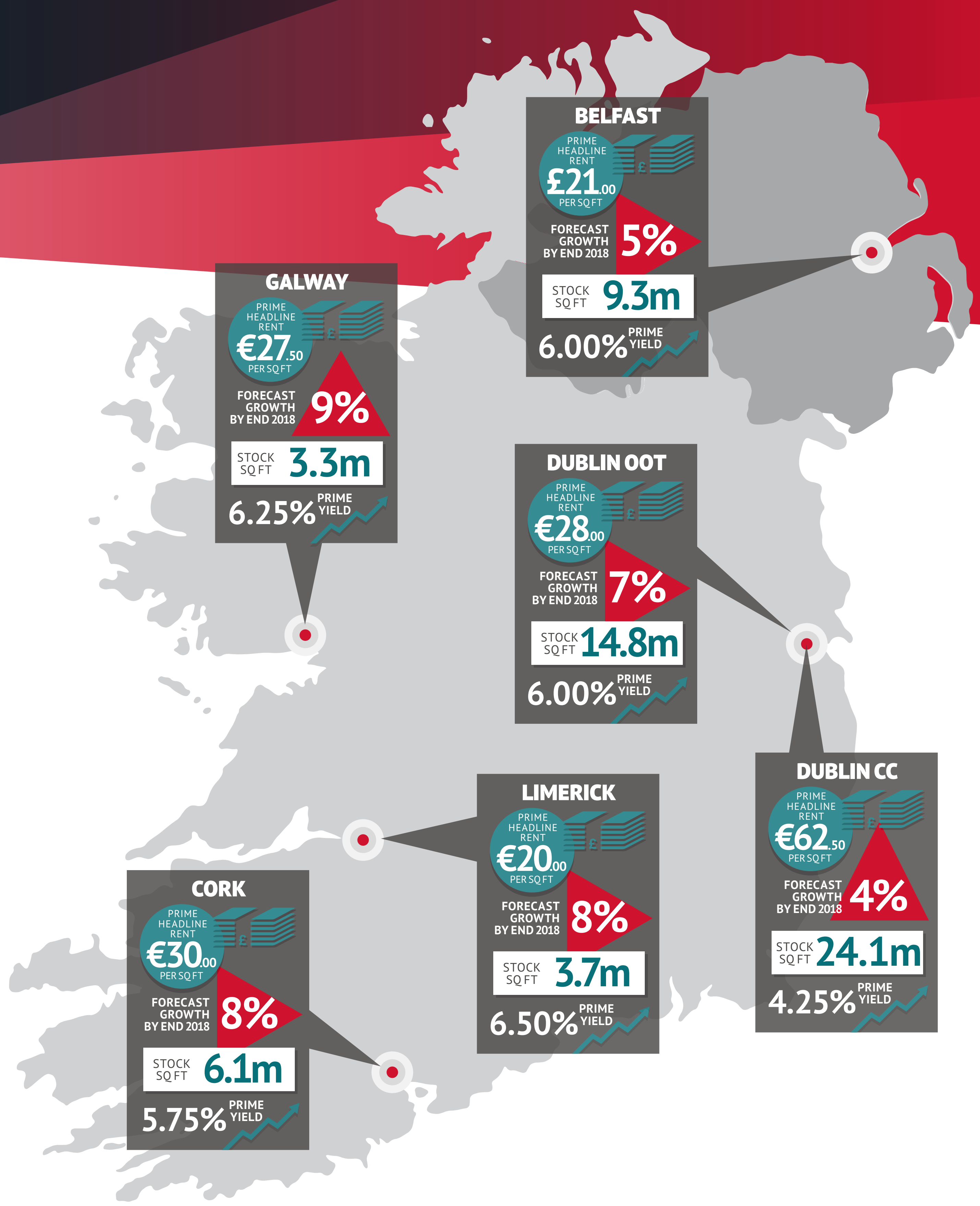
- After a very slow first quarter, 2017 was a record year for office take-up across Ireland, breaking the four million sq ft mark for the first time. Across all the markets combined take-up reached an annual total of 4.3m sq ft, 14% above 2016 and 19% above the five-year average.
- Dublin city centre was the primary driver behind the record year, where volume increased by one-third year-on-year and 1.1m sq ft of space transacted during Q4 2017 alone. Activity was spurred by a number of large deals, with five transactions accounting for a quarter of the city centre activity; the largest of which was LinkedIn's lease of 152,000 sq ft at Lad Lane.
- Of the other markets, Galway fared best with 2017 take-up increasing by almost a third on 2016's level. Out-of-town Dublin, Belfast and Limerick each had a steady year with 2017 volume just below 2016 levels. By contrast, activity in Cork decreased by 21% compared with the previous year and to below 200,000 sq ft for the first time since 2011.

DEVELOPMENT EASES IN 2018, BUT AVAILABILITY REMAINS HEALTHY

- Following two consecutive years where over 4.4m sq ft of new office stock was under construction, the total volume has eased by approximately a quarter at the beginning of 2018. Nonetheless, new build activity continues in earnest and with 3.9m sq ft of new office space currently under construction across the Irish markets, of which 59% is speculative.
- Dublin city centre is the principal focus of new development, currently making up 67% of the total activity across Ireland. While current activity in Dublin city centre is down 31% on 2017, significant schemes are due for delivery in the next two years including 203,700 sq ft at Cardiff Lane (currently dubbed The Sorting Office) and what will be Dublin's tallest office building when complete, the 170,000 sq ft Exo Building.
- By contrast, Belfast city centre development activity is on the rise in 2018, standing at 36% above end 2017. Speculative development is at its highest level in recent years, with two schemes currently under construction, and expectation that at least one more planned development will also proceed during this year.
- Overall, availability increased by 14% during 2017. In Dublin city centre and Belfast availability increased by 32% and 45% respectively. Supply in Dublin city centre is dominated by grade A stock, boosted by a wave of development and refurbishment of older buildings to grade A specification. Availability in Belfast has also recently benefitted from high quality refurbishment projects, although only 53% of total stock is grade A.

2017 take-up (000 sq ft)





Source: LSH Research

OCCUPIER MARKET OVERVIEW

STRONG RENTAL PERFORMANCE ACROSS THE REGION

- Rents have either been static or on the rise in key Irish markets between the end of 2016 and 2017. With strong levels of demand across the country, rental growth is predicted for all markets during 2018.
- In Dublin city centre, where the majority of 2018 development completions are concentrated and the highest rental levels exist, prime headline rents are forecast to grow by 4% to the end of 2018, the lowest rate among the key Irish markets. Tenant incentive packages, however, are expected to continue to harden in favour of landlords.

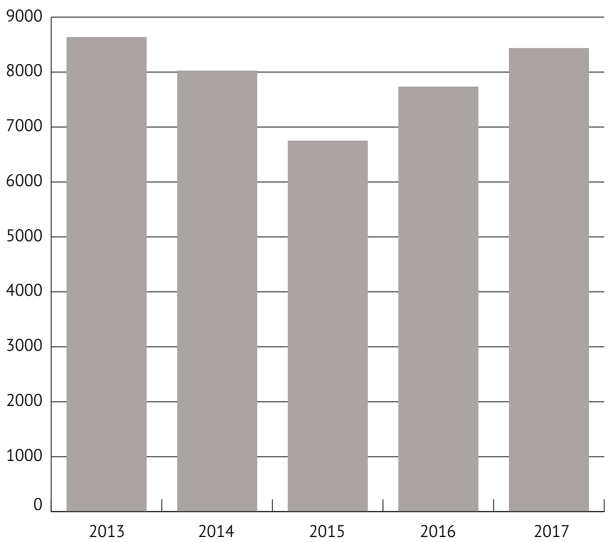
IRELAND OFFERS A BI-LOCATION SOLUTION POST-BREXIT

- The difficult first stage Brexit talks have concluded with assurances that the Irish border is a priority issue. While uncertainty remains around the transitional arrangements for the UK's exit from the EU it is clear that Ireland presents a unique opportunity for businesses.
- The island of Ireland will be the only location where the UK and the EU share a land border, and for businesses who wish to have a presence in both after the UK exit, Ireland offers a bi-location solution.
- The close proximity of Belfast and Dublin means they are both attractive for existing companies to grow and new entrants to locate. While office development in both capital cities has been at healthy levels over recent years, investment in the surrounding infrastructure needs to keep up with this growth to continue to attract occupiers.

CONFIDENCE AMONGST TECHNOLOGY AND SOCIAL MEDIA OCCUPIERS

- During the past 12 months, the attractiveness of the key Irish locations to technology and social media occupiers has been evident. The technology, media and telecoms sector topped the charts for take-up in both Dublin locations (city centre and out-of-town) and Belfast during 2017.
- Dublin has provided a magnet to world renowned companies. In addition to the aforementioned LinkedIn lease (152,000 sq ft), Facebook (170,000 sq ft), Google (51,096 sq ft), SAP (26,822 sq ft), Citrix (24,000 sq ft) and Ebay (22,604 sq ft) were all amongst 2017 occupiers.
- We have seen some companies opt to design and build their own premises, clear testament to their faith in the longer term prospects of Irish cities. In Belfast, Concentrix moved into their new 72,000 sq ft HQ in Q4 2017 and Allstate are due to move into their adjacent 140,000 sq ft HQ in Q1 2018. In Dublin, Microsoft have recently taken occupation of their new 365,000 sq ft HQ at One Microsoft Place, Leopardstown.

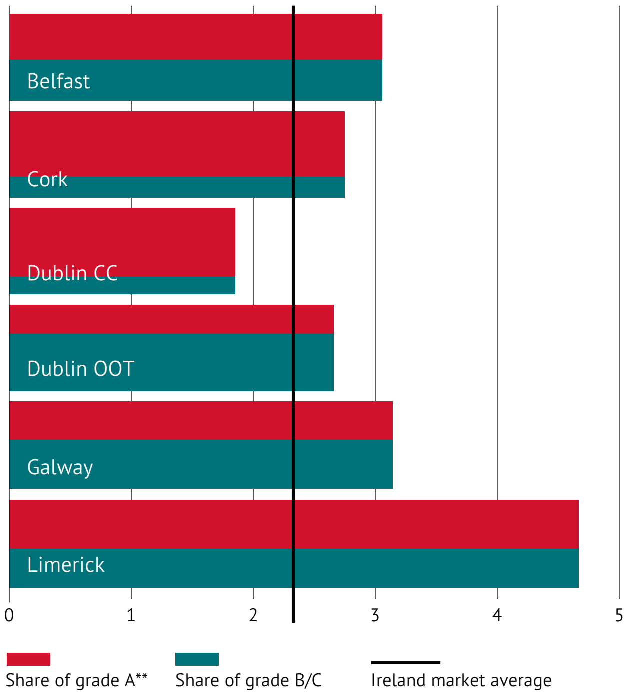
Ireland availability (000s sq ft)



NEW REGULATIONS COULD INFLUENCE THE MARKET

- The IFRS 16 Leases will come into effect on 1st January 2019. IFRS is a new leases standard that requires lessees to recognise nearly all leases on balance sheets. At its core the changes mean that lessees should recognise assets and liabilities arising from all leases, unless they are for a lease term of 12 months or less or low-value of up to €5,000, including those which had previously been treated as operating leases and accounted for in P&L account as an in-year expense.
- While the new standard will not shake the business fundamentals of a company, it will affect their overall financial standing. For tenants, disclosure of their entire lease term liabilities in balance sheets may lead to a lower credit rating. The decision to lease or buy a property may be affected and they may seek shorter or more flexible lease terms to manage the financial impact.
- Landlords may have to adapt to the new market. It is expected that tenants will either try to renegotiate current leases and that the average lease term may shorten. There is the potential that the new standard will create a significant change in current business practices in commercial office letting.

Availability as years of supply*



* Years of supply defined as current availability divided by 5-year average take-up

**Grade A includes speculative space completing in next 12 months

Source: LSH Research

INVESTMENT MARKET REVIEW

There was a welcome return to Irish office investment activity during the second half of 2017, following a subdued H1 2017. Despite political uncertainty, activity levels in early 2018 indicate confidence remains to invest in quality stock across the key markets.

DELEVERAGING COMES TO AN END

On face value, investment activity in Ireland in 2017 was significantly lower than 2016. Across all sectors volume was down 45%, with the office sector down 41% on the previous year. This activity, however, must be considered within the wider context.

The large scale deleveraging activity by NAMA and various banks that characterised 2013–2016 has mostly completed and, as a result, the market environment is returning to a more normalised level of activity. The differing buyer profiles of Belfast and Dublin are also expected to begin to converge with local investors growing in prominence in Dublin.

Going forward the key challenge to Irish investment activity is not a lack of demand, but a supply shortage of larger assets. Potential investors, particularly international buyers and European institutions who had been very active during the deleveraging years, are now struggling to find suitable Irish assets to deploy capital.

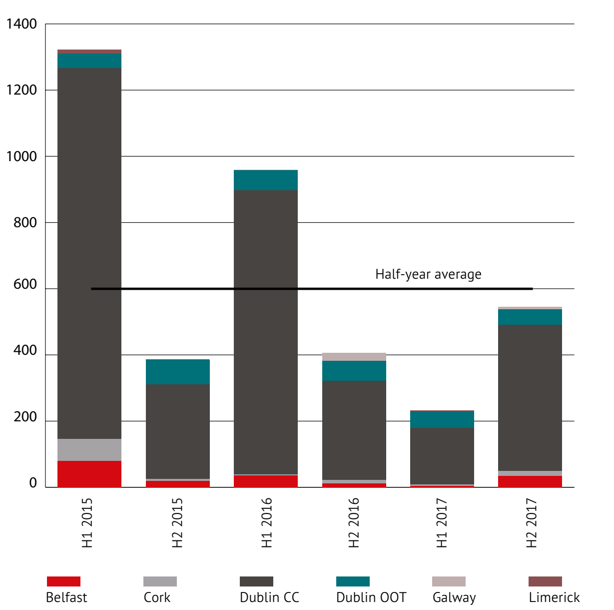
INVESTORS FOCUS ON DUBLIN

As the most populous city in Ireland, and the primary location for both the technology and media sector and professional services, it is not surprising that investors focus on Dublin. On average four of every five euro invested in Irish offices is spent in Dublin city centre, with no signs of this location changing as the undisputed focus of Irish investment activity.

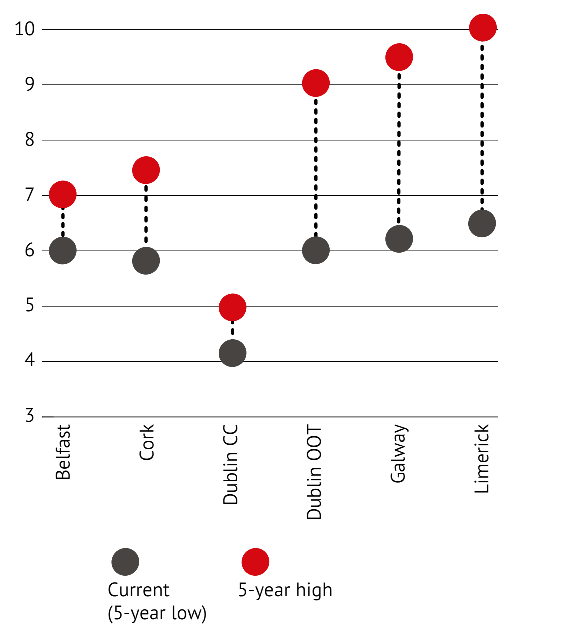
The city centre saw €612.7m of office assets transact during 2017, including the largest deal of the year – an undisclosed office building for €145.0m. Other sizable deals included 13–18 City Quay (€126.3m), 4 & 5 Harcourt Centre (€47.0m), 21 Charlemont (€45.0m) and 76 Lower Baggot Street (€35.9m).

Out-of-town, a further €95.9m of assets transacted during 2017 including Building 2 at South County Business Park (€20.5m), Block C at Dundrum Business Park (€8.8m) and Topaz House at Beech Hill Office Campus (€8.0m).

Ireland office investment volume (€m)



Ireland prime office yields (%)



Source: LSH Research

CONFIDENCE RETURNS TO BELFAST

With Brexit, the border and the impasse at Stormont political uncertainty weighs more heavily in Belfast than the other key Irish markets. In the 12 months that followed the EU referendum, office investment activity in Belfast was very subdued with owners putting greater emphasis on security of income causing a lack of supply.

That said, stability and confidence is returning to the Belfast investment market with the first stage of the Brexit negotiations complete, reassurances about the impact on the Irish border and the acclimatisation to the lack of Stormont Executive. During H2 2017 activity in Belfast picked up with Strand House on the Holywood Road (£5.3m) and the two Lesley Exchange buildings (£5.3m) transacting.

In Belfast there remains a considerable weight of demand. Coupled with the recent evidence of a healthy occupier market, forecasted rental growth, high quality refurbishment projects and speculative development, we expect that office investment volume will increase significantly in 2018.

NON-RESIDENTIAL STAMP DUTY

In October 2017 non-residential stamp duty was increased from 2% to 6% in the Republic of Ireland. While this rise returned stamp duty to pre-financial crisis levels, the announcement caused a reduction in property values and pension fund values. Given the transitional period for implementation of the new rate, the decision has yet to be fully felt by the commercial property market. While the rise will factor into investor decision making and has been heavily criticsied, the market continues to attract competitive interest amongst investors for good quality product.

By comparison, stamp duty rates in Northern Ireland increase as the property price increases with the stamp duty levy capped at 5%. The 5% rate is applicable on properties over £250,000 and therefore this rate would be applied to the vast majority of office investment assets.

The rise in the Republic of Ireland has brought the two countries broadly into line in terms of stamp duty. The discount previously offered in the Republic has been replaced by a small discount offering in Northern Ireland.

PRICING HOLDS FIRM

With the supply of assets reducing in Dublin and Belfast in 2017, yields for prime, well-let office assets hardened across both capital cities over the year. And furthermore, across all the key Irish locations prime yields currently sit at their lowest level for the past five years.

In both city centre and out-of-town Dublin, prime yields have hardened steadily since 2010. In Belfast, however, the prime yield picture has followed the UK regional market trend with a softening of yields during the 2016 referendum year followed by yields moving in again during 2017.

Despite this, there is a significant yield differential between the two capital city markets. Dublin city centre commands prime yields of 4.25% and by comparison Belfast offers relative value with prime yields of 6.00%.

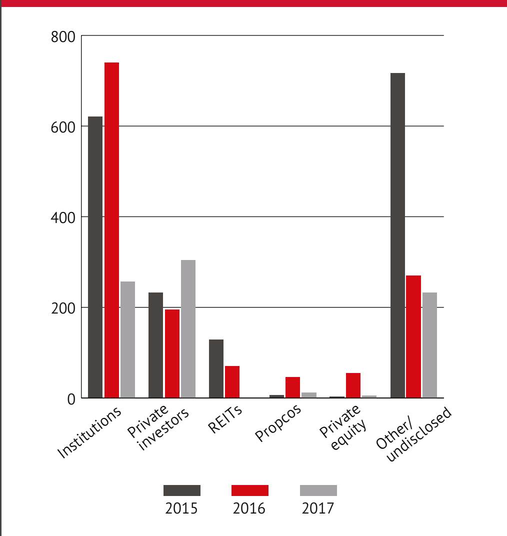
OUTLOOK

Investment activity in the Republic of Ireland office market is expected to return to the pre-deleveraging levels of circa €800m per annum. The impact of the recent stamp duty rise is yet to be fully felt and along with a shortage of larger assets, we expect that challenges remain in this market during 2018.

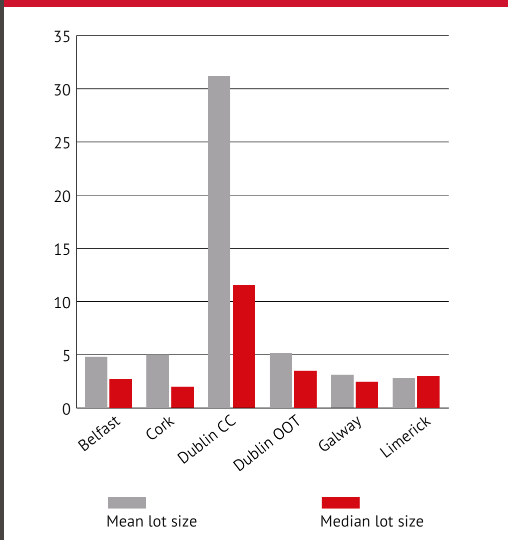
On the other hand, steady rental growth in Dublin and the expectation of an increase in good quality stock with the current wave of development over the next two years provides considerable opportunities for investors.

In Northern Ireland, and specifically Belfast, the perception of risk in the market is beginning to dissipate with acclimatisation to recent political events. With healthy occupier demand and speculative development beginning to ramp up, the environment is ripe for investors to purchase a quality asset at a value price or for the repositioning of secondary assets for the best return prospects.

Ireland office volume by buyer type (€m)



Average lot size by location (2015 to 2017, €m)



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TRACKING DEMAND

Relocation Triggers & Drivers

What has motivated businesses to acquire new office space in Ireland and what influences their choice of property? Our analysis of transactions above 5,000 sq ft over the past 12 months reveals a positive mood and high level of confidence amongst Irish occupiers.

TRIGGERS – WHAT IS PROMPTING RELOCATION?

On a very positive note, the majority of Irish occupiers base their office moves on expansion requirements, accounting for 69% of all relocations above 5,000 sq ft in the last 12 months. In Belfast expansion was the primary relocation trigger for over 50% of occupiers, whereas in both Dublin locations this figure rose to over 75%.

In 2017, there were five deals greater than 100,000 sq ft that were triggered by expansion plans. Notable transactions included Facebook at The Beckett, Dublin 3 (170,000 sq ft), AIB at Central Park, Dublin 18 (152,000 sq ft) and LinkedIn at Lad Lane, Dublin 2 (152,000 sq ft).

New entrants requiring office space was the trigger for 17% of relocations. Along with the considerable proportion of businesses expanding this demonstrates ongoing confidence amongst occupiers despite the uncertain political environment.

Amongst the new entrants were three deals for co-working space operators (over 130,000 sq ft combined), four deals for pharmaceutical, medical and health care companies (over 61,000 sq ft combined) and three deals with construction and engineering companies (over 35,000 sq ft combined).

DRIVERS – WHAT DETERMINES END CHOICE?

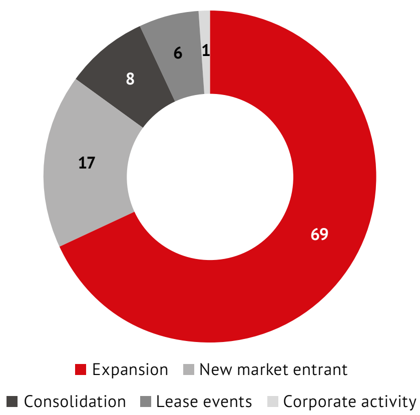
Over the 12 month period, the primary factor determining choice of new premises was location, accounting for 60% of transactions over 5,000 sq ft. This was evidenced by office moves to City Quays 2, the latest waterfront development in Belfast, including Tullet Prebon (34,692 sq ft), ITV (11,564) and Wireless Group (11,564).

In some instances occupiers chose to remain in situ and expand within their existing premises. This has been particularly prevalent amongst the technology, media and telecoms sector, with Ebay (22,604 sq ft at Aurora House), Citrix (24,000 sq ft at EastPoint) and Google (51,096 sq ft at Velasco) all acquiring additional space within their current premises during 2017.

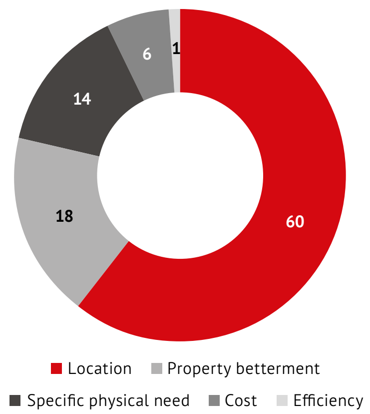
Property betterment and efficiency was cited as the key driver in end choice by 18% and 1% of occupiers respectively. While location may have been the primary driver in many occupiers choice, a significant proportion of activity in the past 12 months was for new build or high quality refurbished buildings suggesting that a property's physical attributes are also key in driving choice.

Notably, cost was low on occupiers list of primary drivers for office choice and further analysis shows that it was more likely a primary driver amongst the small number of occupiers who were consolidating their business. New entrants and expanding businesses prioritised location and a high quality workspace that attracts talent

Office move triggers (past 12 months)



Office choice drivers (past 12 months)



Source: LSH Research

HOME OF THE KNOWLEDGE NETWORK

1,400 EXPERTS, 32 LOCATIONS

Over the years we've built our regional network to give us an unrivalled understanding of our market. This combination of geographic coverage and specialist activity gives us a depth of knowledge that is second to none.

It's a powerful tool, one that allows us to advise our clients in how to outperform their objectives. And we're making it even more powerful by abandoning the traditional way of doing things in favour of innovative tools and emerging technology platforms.

This is what makes us the most knowledgeable consultants in the market.

Lambert Smith Hampton

CO-WORKING: A CHANGING ATTITUDE TO WORK

Over the course of the last eight years there has been an unprecedented rise in co-working space. The trend has moved from London to the regional cities where boutique operators are setting up.

The idea that someone works solely from one location is outdated and business can be conducted from any location with only a few devices. Here, two co-working co-founders tell us about their visions, their members and why the average office building doesn't cut it.

ORMEAU BATHS: BELFAST

The Ormeau Baths, 18 Ormeau Avenue, Belfast, BT2 8HS

The rise of more flexible working is a strong response to technology enablement, coupled with generational change, growth in the creative industries, an increase in micro businesses and more independent workers.

Ormeau Baths sits at the heart of Belfast, driven by co-founders who believe in the future of the city and Northern Ireland. Privately funded and based out of an historic former bathhouse, Ormeau Baths has brought a fresh approach and thinking to the city while also delivering a physical environment which creates a sense of belonging, connection and community. It is our experience that small businesses and independent workers seek to be connected, to be part of something bigger than themselves, retaining their independence but being surrounded by like-minded individuals.

There has been a wider realisation that offices do not need to be the way they were. You can now conduct business from multiple locations with only a few devices. If you have a laptop and mobile phone you can 'run local but act global'. However, the big issue for many such entrepreneurs is that doing business remotely leaves them without a sense of belonging and connection to others.

For all the reasons that co-working has become popular in terms of spatial zoning, agile working and optimisation of floor plates, larger businesses are now looking to deploy co-working thinking within their own businesses to harness the power of collaboration to drive productivity and growth. This is particularly prevalent within the financial sector which has traditionally taken long-term leases and been slow to respond to change. Barclays Bank has partnered with Ormeau Baths to create its entrepreneurial support programme, Eagle Lab, within the building.

Ormeau Baths delivers inspired working environments, from private offices to flexible touch down space, coupled with an event space for up to 120 (which is free to use for community events), and not forgetting the great Root & Branch coffee shop.

For more information, please contact:

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Ormeau Baths, Belfast

Huckletree at The Academy, Dublin

HUCKLETREE: DUBLIN

The Academy, 42 Pearse Street, Dublin 2

As a core Huckletree concept, we believe that collaboration is the key to growing your business, and it's hard not to be inspired when you're surrounded by a community of fellow innovators. Our members benefit by being able to come together to work on new ideas, support each other, share learnings from their own journeys – and often just for after work drinks!

Shared workspace is not just aimed at start-ups and entrepreneurs, although many don't want to go it alone. They want to be surrounded by others on a similar journey – and that's where shared workspace works – offering an inspiring space to host potential investors and partners, a community to collaborate with and all the social benefits, too.

For global brands, scale-ups and innovation teams, shared workspace provides opportunity to base that arm of their business in an innovation hub thriving with up-and-coming thought leaders and founders, whilst maintaining their established company culture.

We've over 1,000 members across London and now we are expanding that network to Dublin. Our number one goal is to curate the community so that everyone benefits, be that early stage start-ups like HouseMyDog or Kontainers, or large tech institutions like Silicon Valley Bank or KPMG Tech Growth.

Our Dublin members range from entrepreneurs going solo, start-ups rapidly scaling their team or larger scale-ups looking for a European base. They all have one thing in common, they're disrupting their chosen industry and making real change in the world around us.

When setting up a Huckletree location, we always look for iconic buildings. We never want to be in a faceless office block – the setting often helps shape the theme of the community within, as in our digital lifestyle location at the former BBC Media Centre. In Dublin, we were drawn to the Academy's history – being featured in Ulysses and Dubliners, its roots as a concert hall and cinema and its recent incarnation as Twitter's EMEA headquarters. We also look for buildings with a strong local ecosystem. Huckletree D2 is a stroll from Silicon Docks, right across the road from Trinity College and the Science Gallery.

For more information, please contact:

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OFFICES WIRED FOR FUTURE GROWTH

Connectivity is critical to the modern business. From running e-commerce platforms and delivering online services, communicating with clients and colleagues, to using cloud apps to manage operations, the internet underpins most core business functions.

However, many businesses only discover after signing a ten-year lease that their new office space has low connectivity capacity, offers little choice of internet service provider, and has no resiliency in case of accidents – and then it's too late.

In fact 85% of Irish offices experience connectivity problems, with one in ten employees experiencing connectivity issues at work every day and over a third of people indicating they cannot work at all when they experience an internet outage. Therefore, poor connectivity can have a significant impact on a company's productivity and, ultimately, its bottom line.

Before, businesses were left in the dark on whether potential office spaces could meet their tech needs. Greater transparency is needed to ensure that businesses can make informed decisions when making this critical decision.

One Wilton, Wilton Terrace, Dublin

Chichester House, Chichester Street, Belfast

BRINGING GREATER TRANSPARENCY TO THE OFFICE MARKET

To enable greater clarity into digital infrastructure in the commercial real estate industry, in July 2017 WiredScore launched its digital rating scheme for commercial property, Wired Certification, in Ireland.

Wired Certification is a trusted mark that helps landlords and developers optimise and demonstrate the calibre of their digital infrastructure, as well as enabling businesses to make better informed decisions on office space.

First developed in New York in 2013 by leaders in real estate, technology and telecommunications – including Google and Cisco, and with endorsement by Mayor Bloomberg – with the goal of improving the city's connectivity infrastructure, WiredScore now has over 400 million sq ft of office space, equating to over 1,400 buildings, committed to Wired Certification, with four million people working in Wired Certified buildings across the US, Canada, United Kingdom, France, Germany and Ireland.

WHY IS WIRED CERTIFICATION VALUABLE FOR BUSINESSES?

The criteria for Wired Certification has been designed to reflect the prime concerns of tenants regarding their internet provision, namely:

- How quickly they can get set up
- How resilient the internet is
- What price they will pay for the speed they will receive.

The Wired Certification criteria measures both the pure connectivity and infrastructure, to provide a rating – Platinum, Gold, Silver or Certified. Based on their technology needs, businesses then can choose an office space in a building with the right connectivity levels in accordance with the rating scheme.

EMPOWERED TO MAKE THE RIGHT CHOICE

Businesses now require and expect high quality IT infrastructure and internet as standard, so it is critical that leaders can make an informed decision on digital capacity when choosing office space.

Wired Certification is opening a dialogue around the digital infrastructure of buildings and has provided the tools for businesses leaders to determine if a building is the right fit for a company.

Some of the Irish buildings that have been certified or are undergoing certification to date are One Wilton, 1WML and Three Park Place in Dublin, and Chichester House and 9 Lanyon Place in Belfast.

For more information on Wired Certification, please contact:

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WIRED SCORE

REGIONAL OVERVIEW

BELFAST

Highlights

- Take-up in 2017 was strong, standing 2% below 2016 and 11% above the five-year average.
- Availability was boosted significantly by the delivery of high quality refurbishment projects in 2018.
- Just under 500,000 sq ft is under construction across four schemes, half of which is already committed.
- Rents will stabilise with a small increase forecast bringing prime headline rents to £22.00 per sq ft by year end.

Demand

At 430,290 sq ft, take-up in 2017 was strong, standing 2% below 2016 and 11% above the five-year average. 2017 was, however, a year of two halves with a subdued H1 followed by a strong finish in H2.

The largest transactions during 2017 were HMRC's pre-let of the 104,220 sq ft Erskine House, the completion of Concentrix's new 72,000 sq ft headquarters on the former Maysfield Leisure Centre site, and Tullet Prebon's lease of 34,692 sq ft across three floors at City Quays 2.

Occupier demand for high quality space continued in 2017 with grade A stock accounting for two-thirds of take-up. The completion of over 200,000 sq ft of quality refurbished space in 2017 was critical in satisfying this demand. Notable deals in refurbished properties included First Derivatives' lease of 25,038 sq ft at the Weaving Works and Spence and Partner's lease of 9,212 sq ft at the Linen Loft.

The technology, media and telecoms (TMT) sector has been a key driver of demand, responsible for 35% of take-up in 2017. In addition to the aforementioned Concentrix headquarters, other TMT deals included HCL at Millennium House (13,130 sq ft), Wireless Group at City Quays 2 (11,564 sq ft) and ITV at City Quays 2 (11,564 sq ft).

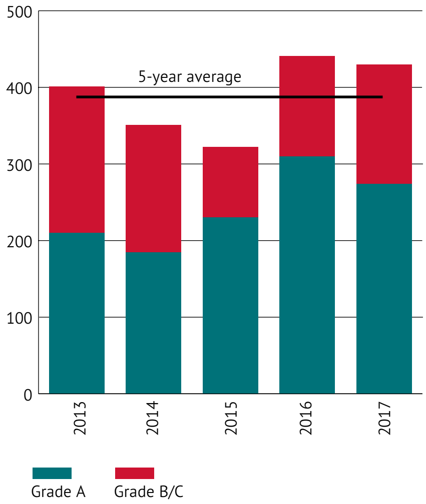
Current supply

Availability increased significantly at the end of 2017 to 913,000 sq ft, rising 45% year-on-year. Based on average take-up this equates to 3.1 years of supply. Typically grade A stock accounts for 30–40% of Belfast city centre supply, but currently 53% of available supply is grade A, with good choice available in terms of both size options and location.

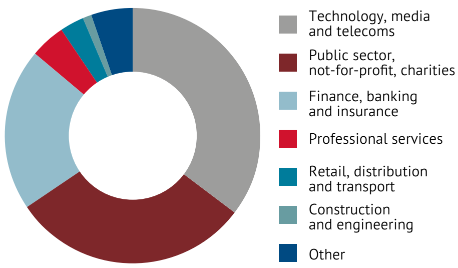
Grade A supply has been boosted through high quality refurbishment projects. Over 300,000 sq ft of supply will be added to the market during 2018, half of which is the 150,000 sq ft Nine Lanyon Place and will be ready for occupation in Q3 2018. Due for completion over the next 12 months are the repositioned River House, High Street (79,662 sq ft) and Chichester House, Chichester Street (55,000 sq ft).

The remainder of available stock comprises second-hand grade B and C properties. While a range of good quality grade B options are available, the largest is only 22,000 sq ft. Notable examples include Lesley Buildings (21,821 sq ft), 31 Bruce Street (19,143 sq ft) and Lesley Exchange 2 (18,582 sq ft).

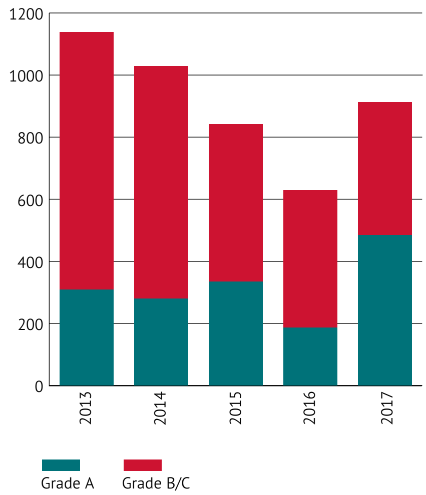
Belfast take-up (000 sq ft)



Belfast take-up by sector (past 12 months)



Belfast availability (000 sq ft)



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12 month take-up vs 5-year average **+11%**

Years of supply **3.1**

Grade A share of supply **53%**

Q4 2017 headline rent (per sq ft) **£21.00**

Prime yield **6.00%**

Development prospects

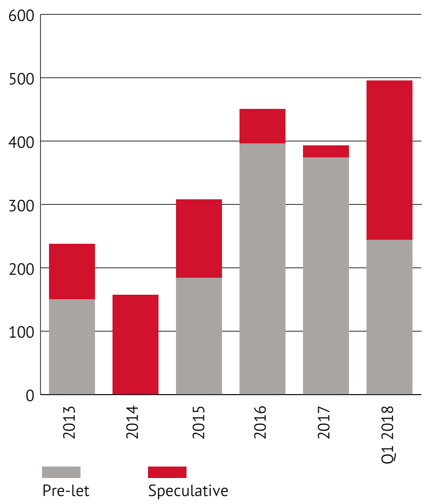
In recent years development in Belfast city centre has been relatively healthy, although speculative development has been limited with new build projects predominantly driven by pre-lets. In contrast, at the beginning of 2018 four schemes are currently under construction totalling 496,220 sq ft, half of which is speculative development.

The owner-occupied Allstate HQ development at the former Maysfield Leisure Centre site (140,000 sq ft) is due for completion in Q1 2018. Due for completion in late 2019, the Erskine House scheme (104,220 sq ft) is fully let to HMRC as one of their state-of-the-art regional hubs.

The speculative development schemes currently under construction are both scheduled to complete in Q1 2019. These include the 212,000 sq ft Merchant Square scheme at the former Oyster House and Royston House and the 40,000 sq ft new build at Weavers Court Business Park.

Planning consents also exist in key locations for significant office developments. In total, 730,000 sq ft of new build stock is scheduled to commence in 2018, namely at City Quays 3 (250,000 sq ft), One Bankmore Square, Dublin Road (250,000 sq ft), Olympic House, Titanic Quarter (150,000 sq ft) and 4–5 Donegall Square South (78,869 sq ft). There are increasing suggestions that some developers will proceed, although it is likely that pre-lets are required before construction can commence.

Belfast under construction (000 sq ft)



Market rental values and yields

At £21.00 per sq ft, Belfast city centre's prime headline rent has increased steadily since 2011 when it stood at £12.00 per sq ft. This level was achieved during 2017 by KPMG's lease at the Soloist Building for £21.00 per sq ft, Grant Thornton's lease at Danske Bank for £20.00 per sq ft and the transactions in the City Quays 2 building that included UTV, Wireless Group and Tullet Prebon at £20.00 per sq ft.

Prime office yields currently stand at 6.00%. Office investment was robust during 2017 with £33.2m of transactions recorded. Recent deals, both purchased by local private investors, include Lesley Exchange 1 for £3.0m (NIY 7.48%) and Chancery House for £1.7m (NIY 6.08%).

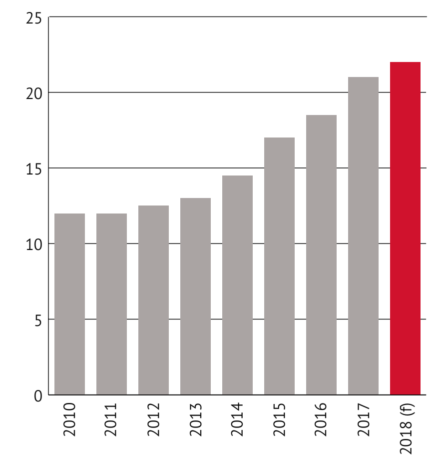
Outlook

Demand for good quality office space remains strong in Belfast, with take-up expected to exceed 400,000 sq ft for the third consecutive year. Activity in the first two months of 2018 suggest a strong opening quarter with a number of deals signed or in legals.

After robust rental growth in recent years, prime headline rents are forecast to stabilise during 2018 with only a small increase in rental levels anticipated. Headline rents will reach £22.00 per sq ft by year end. With a number of new office developments poised to begin and demand being consistent, we anticipate that prior commitment from potential tenants will be forthcoming to initiate some of these large new build schemes.

2018 ▲ £22.00 per sq ft

Belfast prime rental values forecast (£ sq ft)



Source: LSH Research

BELFAST

DUBLIN CITY CENTRE

DUBLIN OUT-OF-TOWN

DUBLIN CITY CENTRE

Highlights

- An outstanding year for Dublin city centre office activity with take-up of almost 2.4m sq ft.
- Availability increased by 32% during 2017 and supply continues to be dominated by grade A stock.
- Circa 2.7m sq ft of new office space is currently under construction and due for delivery in the next 24 months, although 43% is already committed.
- Prime headline rental levels have been increasing steadily since 2012 and are forecast to increase to €65.00 per sq ft by the end of 2018.

Demand

2017 was an outstanding year for the Dublin city centre market. Take-up was almost 2.4m sq ft, up 33% on 2016 and 30% above the five-year average. There were five 100,000+ sq ft transactions during 2017 and grade A stock accounted for 58% of take-up. Amongst the largest transactions during 2017 were LinkedIn's acquisition of 152,000 sq ft at Lad Lane, JP Morgan's lease of 128,220 sq ft at 200 Capital Dock and AIB's lease of 115,260 sq ft at 10 Molesworth Street.

The vast majority of activity was located in the central business district (CBD; defined as D1, D2 and D4) as supply is limited in the city centre outskirts, with 88% of volume and 87% of transactions occurring in the CBD. While almost two-thirds of take-up in the CBD was grade A space, in the city centre outskirts take-up of grade B space dominated at 83% of volume.

The occupier base continues to evolve and the attraction of Dublin city centre to the technology and media sector continues, with this sector responsible for 26% of take-up. The more traditional professional services sector take-up also stood at 26%. Together, these two sectors continue to have a marked influence on the market.

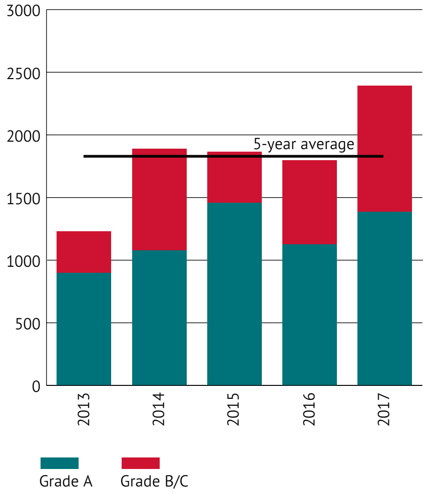
Current supply

Availability increased by 32% during 2017, standing at approximately 3.3m sq ft. Based on average take-up this equates to 1.8 years of supply, the lowest amongst the Irish markets. In keeping with recent trends, city centre supply continues to be dominated by grade A stock, currently standing at 79% of supply, boosted by a wave of development and refurbishment of older buildings to grade A specification. Grade B and C stock continues to diminish due to the increase in refurbishment, reducing by 71% over the last five years.

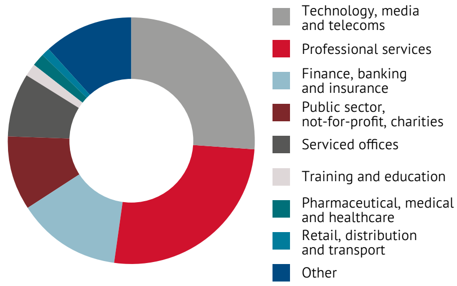
Availability is concentrated in the CBD, with only 4% of stock located in the city centre outskirts. Significant quantities of grade A space are available at the Seamark Building, Dublin 4 (182,500 sq ft), the Pioneer Building at Elm Park, Dublin 4 (173,672 sq ft) and at the recently redeveloped 1 GQ, Dublin 2 (130,000 sq ft).

For the more cost conscious occupiers good quality grade B options exist, but no floorplates over 50,000 sq ft are currently available. A number of good quality, affordable opportunities exist at Belfield Office Campus in Clonskeagh, Dublin 4, specifically Block 8 (29,547 sq ft) and Block 4 (16,519 sq ft).

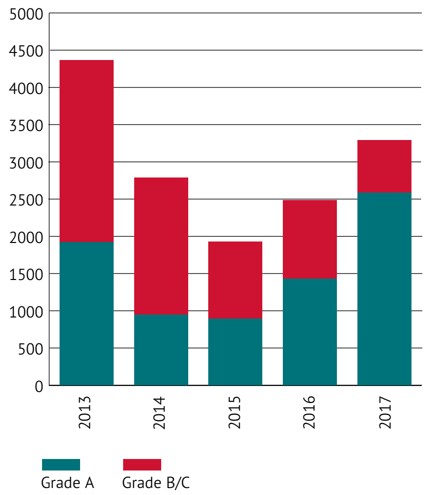
Dublin CC take-up (000 sq ft)



Dublin CC take-up by sector (past 12 mths)



Dublin CC availability (000 sq ft)



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12 month take-up vs 5-year average	Years of supply	Grade A share of supply	Q4 2017 headline rent (per sq ft)	Prime yield
+30%	1.8	79%	€62.50	4.25%

Development prospects

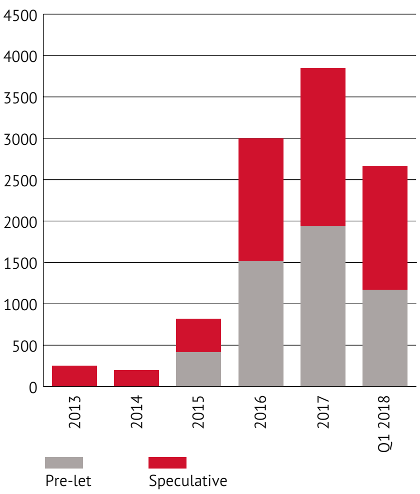
The healthy levels of development seen in recent years is set to continue during 2018, with 2.7m sq ft of new office space currently under construction and due for delivery in the next 24 months. Of this, circa 1.2m sq ft or 43% is currently pre-let. Notably, all current development is concentrated in Dublin's CBD with no schemes breaking ground in the city centre outskirts.

The Capital Dock scheme at Sir John Rogerson's Quay (343,500 sq ft) is due for completion in 2018, with the majority of space already pre-let to Indeed (216,000 sq ft) and JP Morgan (128,000 sq ft). Grant Thornton has pre-let the 118,000 sq ft 13–18 City Quay in its entirety, with completion scheduled for Q3 2018.

At Dublin docklands, Hibernia REIT is currently constructing 1 Sir John Rogerson's Quay (112,882 sq ft) and 2WML (59,000 sq ft). Meanwhile, in the more traditional office area, Clancourt Group is developing the 170,908 sq ft Three Park Place, due for completion in Q2 2018. To date, Deloitte has committed to 30,000 sq ft and it was recently reported that the IDA plan to take occupation in 2019.

Over the last few years the Dublin docklands area has been transformed with many large schemes but, with land limited in the docklands and other core areas, city centre construction is expected to slow in the coming years. Planning permission, however, does exist for approximately an additional 1m sq ft of space in the area.

Dublin CC under construction (000 sq ft)



Market rental values and yields

At €62.50 per sq ft, Dublin city centre's prime headline rent increased by 9% on 2016 and has continued to increase steadily since 2012 when it stood at €28.80 per sq ft. Tenant incentive packages continue to harden in favour of landlords. Prime grade A buildings can secure tenants on 20–25 year leases and break options at year 12 or 15 can be negotiated.

Ninety percent of investment in the Irish office market occurred in Dublin in 2017. With volume totalling €612.7m, the city centre office investment market demonstrated a healthy level of activity last year. Prime office yields hardened further during 2017 and currently stand at 4.25%. Notable deals included Irish Life's forward funding of 13–18 City Quay for €126.3m (NIY 4.57%) and Avestus Capital Partner's purchase of 4 and 5 Harcourt Centre for €47.0m (NIY 4.42%).

Outlook

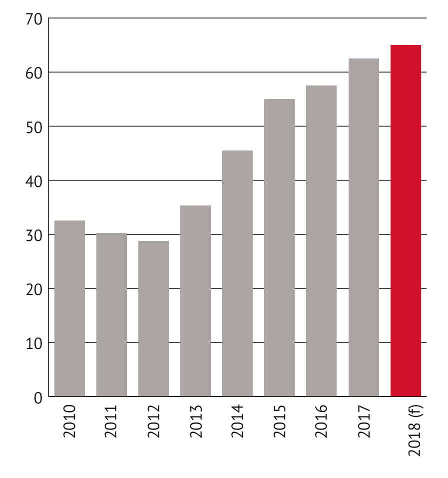
Since the beginning of 2018, there has been a healthy level of enquiries from potential occupiers. Coupled with the delivery of over 1.0m sq ft of new stock during 2018, we expect total take-up to surpass the five-year average.

2018 will be a test for the sub-3,000 sq ft end of the market. With the entrance of flexible co-working occupiers to the market and the lack of good quality plug and play sublease options, we expect smaller floorplate occupiers will be attracted to flexible work spaces rather than committing to traditional longer leases.

Prime headline rents are forecast to continue their upward trajectory, reaching €65.00 per sq ft by the end of 2018. While considerable delivery of new build stock is scheduled in the CBD, the shortage of further development land could lead to rents in this area increasing more quickly than the rest of the city centre in the next three to five years.

2018 ▲ €65.00 per sq ft

Dublin CC prime rental values forecast (€ sq ft)



Source: LSH Research

DUBLIN OUT-OF-TOWN

Highlights

- Take-up remained strong in 2017 standing at 1.1m sq ft, 29% above the five-year average and only 1% lower than 2016.
- Total availability has edged down since 2016, but decent choice remains in the market, equivalent to 2.6 years of supply.
- Circa 300,000 sq ft of speculative development is currently under construction, including the 100,000 sq ft Building I at Central Park scheduled to complete in Q4 2018.
- Prime headline rents are forecast to increase to €30.00 sq ft by the end of 2018.

Demand

Take-up in out-of-town in Dublin has remained strong in 2017 standing at 1.1m sq ft, only 1% lower than 2016 and 29% above the five-year average. Activity was particularly strong in the second quarter accounting for almost half of the year's total take-up. Grade A take-up totalled 55% of volume at 613,847 sq ft.

Facebook's expansion to a second Dublin premises was the largest transaction of the year, with their lease of 170,000 sq ft at The Beckett in the Dublin 3 East Wall area. The year's other major deals were all located in Dublin 18 and included AIB's lease of 152,000 sq ft at Central Park, Fleetmatics lease of 89,920 sq ft at The Atrium Building, Sandyford Business Park and Globoforce's lease of 36,664 sq ft at Park West.

The technology, media and telecoms (TMT) sector's growing presence out-of-town continued in 2017, with the sector responsible for 29% of take-up. While take-up was significantly boosted by the Facebook deal, this sector was also the most active occupier type, responsible for 26 of the 82 deals. Typically, however, demand amongst TMT companies was for smaller floorplates with SAP's lease of 26,882 sq ft at Three Waterside, Citrix's lease of 24,000 sq ft at EastPoint and Ebay's lease of 22,604 sq ft at Aurora House, Ballycoolin Business Park.

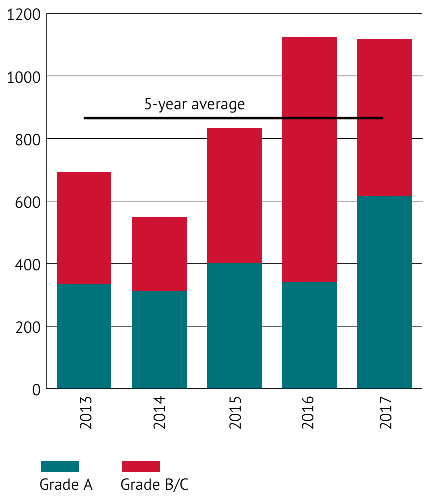
Current supply

Out-of-town availability decreased by 23% during 2017, currently standing at 2.3m sq ft. Based on average take-up this equates to 2.6 years of supply.

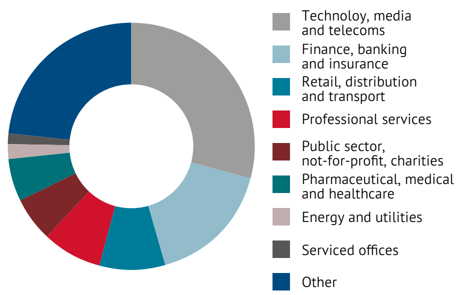
Much of the out-of-town stock is clustered in office and business parks adjacent to the orbital M50 motorway. Fifteen percent of total supply is located at Park West Business Park, Dublin 12, with 339,622 sq ft of space currently available in nineteen suites ranging from 3,126 sq ft to 96,220 sq ft. Grade A stock accounts for 33% of current availability and at Central Park, Dublin 18 there is 136,459 sq ft of grade A space available.

With demand increasing and development remaining subdued, there is an opportunity for landlords to reposition older stock with high quality refurbishment.

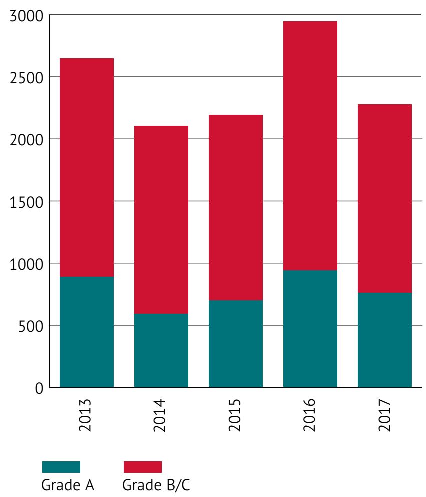
Dublin OOT take-up (000 sq ft)



Dublin OOT take-up by sector (past 12 months)



Dublin OOT availability (000 sq ft)



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12 month take-up vs 5-year average	Years of supply	Grade A share of supply	Q4 2017 headline rent (per sq ft)	Prime yield
+29%	2.6	33%	€28.00	6.00%

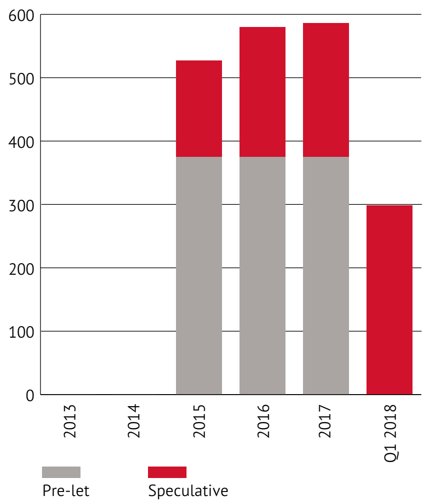
Development prospects

While development has picked up from the total absence between 2010 and 2015, out-of-town development remains challenging by comparison to the thriving city centre. Currently there is just under 300,000 sq ft of new build developments under construction, all located in Dublin 18.

Funded by Infinity Capital and located within the South County Business Park, the 140,000 sq ft One South County is under construction and expected to complete in 2019. Green REIT continue to develop the highly successful mixed use Central Park with the addition of the 100,000 sq ft Building I, due for completion in Q4 2018.

While there is limited development underway, planning permission and detailed building specifications are in place for additional development in a number of business parks. At Dublin Airport Central, the phase 1 masterplan includes 450,000 sq ft of new office space. With the first building now fully let, it is expected that the development of Two and Three Dublin Airport Central (208,000 sq ft) will follow. At South County Business Park, Infinity Capital plan to bring forward Two and Three South County (132,254 sq ft).

Dublin OOT under construction (000 sq ft)



Market rental values and yields

Since 2016, prime rents in the Dublin out-of-town market have remained stable at €28.00 per sq ft. This level was recently confirmed by AIB leasing of Block H at Central Park.

Prime office yields have steadily hardened year-on-year and currently stand at circa 6.00%. Investment activity has remained stable over recent years in this market, averaging around €110m per annum. Private investors were responsible for the largest recent investment deals, including the former Microsoft building at South County Business Park for €20.5m (NIY 9.19%) and Block C at Dundrum Office Park for €8.75m (NIY 7.41%).

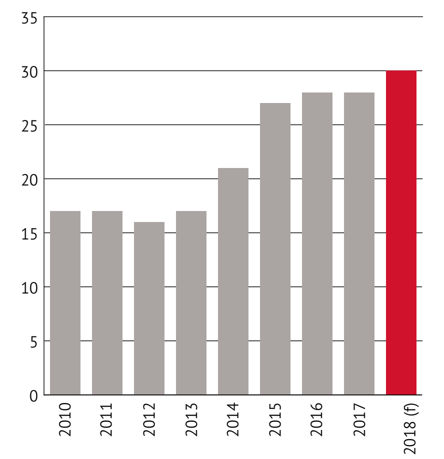
Outlook

Since the start of 2018, out-of-town enquiries have not been as robust as the city centre but we expect this to improve into Q2 and Q3. However, Q1 take-up will be significantly boosted by Microsoft's occupation of their new 365,000 sq ft HQ at One Microsoft Place, Leopardstown. Prime headline rents are forecast to remain at their current position during 2018, although we expect prime well-located smaller office accommodation to hit €30.00 per sq ft in certain areas.

Compared with the city centre, out-of-town Dublin offers potential occupiers significant cost savings and more flexible leasing arrangements. During 2018, occupiers may opt to follow the recent trend of large city centre occupiers, such as Google and AIB, with relocation and expansion into suburban Dublin areas.

2018 ▲ €30.00 per sq ft

Dublin OOT prime rental values forecast (€ sq ft)



Source: LSH Research

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