Office returns rise 28%

Returns were up 28 per cent last year in Dublin's office market, according to fresh research from BNP Paribas Real Estate in association with MSCI.

The Dublin 4 office market produced stellar returns of 37 per cent last year while Dublin 2 and the south docks area achieved 28 and 27 per cent respectively. Investment pricing was the strongest in the South Docks with this sub-market recording an average equivalent yield of 5.1 per cent, well below the Dublin average of 5.7 per cent.

Heidi of research at BNP Paribas Real Estate Joan Henry says rental growth has been significant with Dublin 4 experiencing the strongest increase of 25 per cent last year, followed by north docks and IFSC and the north suburbs, both of which saw rental growth of 22 per cent.

"The pace of growth has been driven by a continuous diminishing supply over the last three- to five-year period, particularly along the north docks and IFSC and in the north suburbs," she said. There was double-digit rental growth in all Dublin office locations last year, with increases of 17 and 18 per cent respectively in Dublin 2 and the south docks.

BNP Paribas Real Estate forecasts that prime rents will increase this year and next but the pace of increase will moderate. "Increased supply via new builds and renovations is the key factor influencing rental market dynamics in 2016 and we expect prime Dublin office rents to increase by 5 per cent this year and 3 per cent in 2017," said Ms Henry.

"Prime rents started the year at €592 per sq m. There will be some exceptions for space in super-prime Dublin 2 locations, benefiting from flexible lease terms and quality fit-outs, which could see some rents achieve close to €700 per sq m."

Vice president at MSCI Colin Lauder says Dublin was the top-performing global city for real estate investment return in 2014, and early data for last year suggests the capital will again dominate the rankings with an impressive total return of 28 per cent.

"Crucially, the drivers of the robust Dublin performance have shifted towards the occupier market, as a buoyant economy encourages businesses to be more confident about the future.

"In particular, the significant expansion in the services sector has pushed demand for office space to levels not seen since 2007. Investor demand, as measured by yield impact, remains strong, but contributed less to total returns in 2015 as yield pricing stabilised closer to long-term norms."