Returns in Dublin office market up 28% in 2015

Capital values 38 per cent off 2007 peak, a steady recovery after a 70 per cent fall

New research from BNP Paribas Real Estate and MSCI confirms that the Dublin office market had a stellar year in 2015. Total returns were up 28 per cent but Dublin 4 recorded a standout return of 37 per cent last year. This was by far the strongest performance in any of the Dublin sub-markets studied.

"Much of the outperformance for Dublin 4 offices was due to the high levels of capital growth that occurred during 2015, with average capital values rising by 31.8 per cent," says Joan Henry, head of research at BNP Paribas Real Estate. "Capital values have now grown at an average of 37% Total returns on office space in Dublin 4 - the strongest location in a general market which averaged 28 per cent.

26.9 per cent over the last three years in Dublin 4, making it one of the fastest recovering markets in Dublin. Capital values are now 38 per cent off their 2007 peak, having fallen by 70 per cent from peak to trough.

Other strong performers included Dublin 2 and the South Docks which returned 28 and 27 per cent respectively over 2015. The poorest performing areas were the south suburbs and Blackrock and Dún Laoghaire - but these still recorded returns up 20.9 and 17.3 per cent respectively.

Capital values for offices in the South Docks grew by 21.1 per cent over the course of 2015 - this is on top of growth of 28.5 per cent in 2014. The majority of the capital growth was driven by rental value growth, as market rents climbed by 17.8 per cent. "This represents a remarkable average three-year rise in the South Docks of 20.7 per cent when annualised," says Ms Henry.

Investment

The research found that investment pricing was the strongest in the South Docks which recorded an average equivalent yield of 5.1 per cent, below the Dublin average of 5.7 per cent.

Office rents rose on average across the city by 18 per cent in 2015, according to the report, with the north suburbs, IFSC and north docks areas showing strong rental growth of 22 per cent. Apart from the D4 postcode, rental growth on the southside of the city lagged that north of the Liffey.

Yields across the capital continued to harden over 2015 but there was significant variation in location: the spread was from 8.3 per cent in the north suburbs to 5.1 per cent in the south docks.

The report says €3.7 billion worth of Irish commercial property was transacted in 2015 with €2.7 billion invested in Dublin and €1.7 billion invested in Dublin offices, the single most sought-after asset category in Ireland.