Office development and financial incentives

The office development sector in Dublin has undergone five distinct cycles since 1960. During the early to middle years of the 1980s, office development was in a period of relative quiescence, Figure 6.1 showing that the scale of completions, which had reached a historic peak of 85,100 sq m in 1982, declined thereafter until 1986 when just 14,425 sq m were developed. The timing of the Urban Renewal Act (1986) and Finance Act (1987), responsible for the introduction of fiscal incentives for property-related development in certain designated areas in Dublin, was fortuitous (MacLaran, 1993; see also Chapter 2). They occurred just as the office-development sector was about to enter a boom following six years of depressed economic conditions. The dearth of completions had resulted in the vacancy rate within the modern (post-1960) stock of office space falling to just 5 per cent. Accelerating economic growth in 1988 created increasing demand for offices and rentals started to increase for the few available buildings and, within a year, the vacancy rate had fallen to just 3.6 per cent. Rents, which had been static at Ir£107 (€135) per sq m, surpassed Ir£160 (€203) per sq m for prime newly completed space, providing a sharp impetus to office-development activity. Development in the late 1980s was further fuelled by an influx of property-investment funds, amounting to Ir£115M (€146M) in 1989 alone, as investment managers sought to participate in the rising returns available. As prospective investors competed for the limited supply of newly completed properties, initial yields strengthened from 6.5 per cent to below 6 per cent during the year. Developers reacted swiftly to the changed circumstances in the accommodation and property-investment markets, construction starting at over half the sites where planning permissions had not expired.

It was noted in Chapter 2 that the national government had required Dublin Corporation to release for private-sector development much of the land which it had assembled for purposes such as social housing. In central Dublin, private-sector site assembly was problematic as land was
often subject to 999-year leases, granted in the late seventeenth or eighteenth centuries. Obtaining clear legal title could therefore prove highly time-consuming. Immediate access to development sites from a proactive local authority working through the inner-city development team (ICDT) facilitated a swift response from developers.

The resultant increase in the amount of office space reaching completion was considerable. The first few developments within the designated areas were completed in 1988 and 1989, comprising barely 5 per cent of new development. Thereafter, completion rates leapt from an annual norm of less than 25,000 sq m to over 80,000 sq m in 1990, a further 120,000 sq m being completed during 1991. Within just two years, the stock of modern office space had expanded by 20 per cent. The impact of the tax incentives was evident from the significant quantity of new development in areas where there had been little private-sector development of any type during the twentieth century. Over 30 per cent of this development, amounting to 60,000 sq m, was located in the areas designated for such incentives. Much of this space, especially outside the International Financial Services Centre (IFSC) (see Chapter 2), was speculative, undertaken neither by owner occupiers nor with the benefit of pre-letting or pre-sale arrangements.

However, by the early 1990s, the uplift in demand had largely been met. Completions began to outstrip user demand and the city-wide vacancy rate reached 11 per cent by late 1991, when 120,770 sq m lay empty, some 60 per cent of which had been recently completed. Developers quickly withdrew from further speculative developments and, by 1992 output had dropped to just 17,000 sq m. Moreover, apart from the special case of the