Quarter 4, 2018

Q4

DUBLIN OFFICE

The Market in Numbers

Take-Up

138.7k sqm

Strong level of activity with almost 140,000 sqm transacting

Largest Deal

80.8k sqm

The 14 acre former Bank Centre campus in Ballsbridge was leased in the quarter - largest office letting in history

New Stock

65,300 sqm

Over 65,000 sqm of new stock completed in Q4

Vacancy Rate

8.9%

Overall vacancy rate dropped to 8.9% in Q4

Lisney

The Difference

Overview

Dublin's office market expanded in 2018, the second record year in a row. Transaction activity was exceptionally strong in Q4 with a take-up level of 139,000 sqm. The supply of stock continues to decline, with the overall vacancy rate dropping to 8.9%. Over 65,000 sqm of new stock completed in the final quarter of the year, amounting to 183,550 sqm in the year overall.

Activity

For the fifth consecutive year, activity in the Dublin office market in 2018 was ahead of the long-term average. Q4 take-up was the largest take-up level on record at just under 139,000 sqm, which brings the total for the year to 358,100 sqm.

However, Q4 activity was significant skewed by the largest deal of the year (and on record). Facebook further expanded its investment in Dublin by acquiring a long-term lease of almost 81,000 sqm (following refurbishment and extension), for a new campus development in the former Bank Centre, Ballsbridge. If this deal is excluded from the quarterly total, activity would stand at 57,850 sqm, which is a similar level to that witnessed in Q3. In another notable deal, US tech giant Hubspot has agreed to take 10,500 sqm of space in the Sobo district in the Dublin Docklands for its new European headquarters.

The IT sector remained the most active business type acquiring space, accounting for 76% of the market in Q4 (27% excluding Bank Centre) – the annual figure was 51%. The financial sector was the next best performing sector in the quarter accounting for 11% of activity. The largest deal in this sector was the acquisition of 5,200 sqm by AIB in Heuston South Quarter.

Serviced office providers were active again in Q4 and have taken 35,000 sqm of space in the full year. This is 10% of all market take-up in 2018. WeWork acquired a further 8,300 sqm in Charlemont Exchange in the three months which means it acquired 29,000 sqm of office space over 2018. Consequently, WeWork now account for almost half of the serviced office stock in Dublin.

The city region remained the location of preference for occupiers, accounting for 91% in Q4 and 80% in the year. Suburban activity was lower than in recent times so the actual quantum of space taken is still quite strong. In terms of the amount of accommodation taken up, the suburbs accounted for 9% of all activity in the three month period and just 20% in the entire year.

Occupiers continue to take new or recently refurbished Grade A accommodation. For example, in 2014, 44% of all transactions (by size) were for such space. This figure has increased with new or recently refurbished accommodation accounting for 66% of the market in 2018. A further 30% is accounted for by previously occupied space and the remaining 5% to pre-lets. This demonstrates that there is no appetite from occupiers for sub-standard, older space.

Terms

As was expected, office rents have somewhat stabilised over the year. However, the Dublin office market continues to be a two-speed market. This is concerning because the huge expansion that some sectors are currently undergoing is not sustainable indefinitely and the market needs those with more modest demands to underpin activity. There has been a reduction in the number of occupiers taking between 300 sqm and 500 sqm in 2018. SMEs are struggling to meet high rents when they are expanding or moving, but also when their leases' rent reviews become due.

In the city centre, the prime headline rent is €673 psm (€62.50 psf). This is 4% greater than the previous cycle high in 2007 when it was €646 psm (€60 psf). In the city centre overall (a mixture of prime and secondary buildings) the Lisney rental index shows growth of 0.6% in the final quarter and 2.3% in the 12 months. Annually for the suburban regions, the north has grown by 7.3%, the south by 4.8% and the west by 4.5%.

Plaza 211, Blanchardstown Corporate Park, Dublin 15

Supply

At the end of December, there was just over 352,000 sqm of modern office accommodation vacant across Dublin. As has been the case over the passing quarters, the supply of stock continued to decline, reducing by 9.4% over the three months.

In terms of the quality of what was vacant, 45% of supply was previously occupied, while 32% was new space, 10% sub-standard and 13% refurbished stock. The proportion of sub-standard space was higher in the city centre compared to the suburbs, at 14% and 7% respectively.

Across Dublin, there were just 12 schemes with more than 5,000 sqm of accommodation available at the end of Q4 and just three schemes with more than 10,000 sqm available. The largest existing property on the market was Nova Atria South in Sandyford (16,200 sqm).

The overall Dublin vacancy rate stood at 8.9% at the end of Q4, however if substandard accommodation is excluded, the true vacancy rate falls to 8.0%. Given the amount of older stock in the CBD, the difference between the headline vacancy rate and the true rate in Dublin 2 / Dublin 4 was even greater, at 7.7% headline and 6.4% true.

New Building Stock

Construction activity resumed in 2014 and since then 374,000 sqm of new accommodation has been completed (across 48 different schemes). 183,500 sqm (22 schemes) of this was finished in 2018, adding just over 5% to the building stock.

The final quarter of 2018 was particularly busy with over 65,000 sqm of new stock completed across eight schemes. The largest of these was the completion of 31,500 sqm in Capital Dock, Sir John Rogerson's Quay. All of the schemes were located in the city centre apart from Plaza 211 Blanchardstown Corporate Park in the north suburbs (3,350 sqm).

2019 will be a relatively quiet year with regards to new stock with just 85,700 sqm due to be completed within nine schemes – in the city, Bolands Quay (19,500 sqm), 1-6 Sir John Rogerson's Quay (10,500 sqm), 76 Sir John Rogerson's Quay (6,800 sqm), Two Clarendon (2,800 sqm), Bishops Square extension (2,500 sqm), 10 Pembroke Place (2,200 sqm), and in the suburbs Blocks 2 & 3 Dublin Airport Central (19,200 sqm), Block 1 South County Business Park (12,840 sqm) and Block I Central Park (9,300 sqm) . However, about half of this accommodation is already signed or reserved.

Outlook

- 2019 will be a notable year in terms of new supply, but for the wrong reasons. Of the buildings that will complete, much of this is already allocated, which could lead to a pinch point in the market.
- Demand from the tech sector and serviced office providers will continue in 2019 but activity may need to come through pre-lets given the lack of existing stock on offer.
- We do not expect significant rental increases in 2019 as well-advised potential occupiers will acknowledge the stronger 2020 pipeline.

Bolands Quay, Grand Canal Dock, Dublin 4

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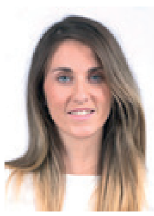

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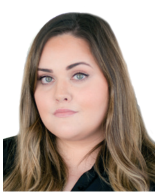

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