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OFFICE

PROPERTY REPORT

Lisney

Q1

2019

Office market in numbers

TAKE-UP

129,300 sqm

Strongest Q1 on record

LARGEST DEAL

43,700 sqm

Salesforce took its first city centre accommodation at Spencer Place

VACANCY RATE

8.2%

Overall vacancy rate dropped from 8.9% to 8.2% in the three months

NEW STOCK

19,850 sqm

New stock completions continued

4 & 5 Dublin Landings, Dublin 1

OVERVIEW

Total office take-up in Q1 2019 in Dublin reached 129,300 sqm across 45 deals. This was the largest first quarter activity on record, but it did include several remarkably large transactions. The supply of stock continues to decline with the overall vacancy rate dropping to 8.2%. Just under 20,000 sqm of new stock completed construction in the opening months of the year.

ACTIVITY

The Dublin office market opened 2019 with an exceptional level of activity; an increase of 50.2% compared with Q1 2018. However, Q1 activity was considerably boosted by Salesforce's 43,700 sqm pre-let of Spencer Place on the north docks. If this deal is excluded from the quarterly total, activity would stand at 85,650 sqm. Given the size of this transaction, the city centre region continued to dominate activity, making up 78% of the market in Q1 (61% city centre north / 17% city centre south). However, the south suburbs was also busy, accounting for 18% of take-up. This was mainly due to Facebook leasing of over 16,200 sqm in Nova Atria South in Sandyford, the company's first suburban office in Dublin and follows on from it taking a long-term pre-lease of almost 81,000 sqm at AIB's former Bank Centre complex in Ballsbridge towards the end of 2018.

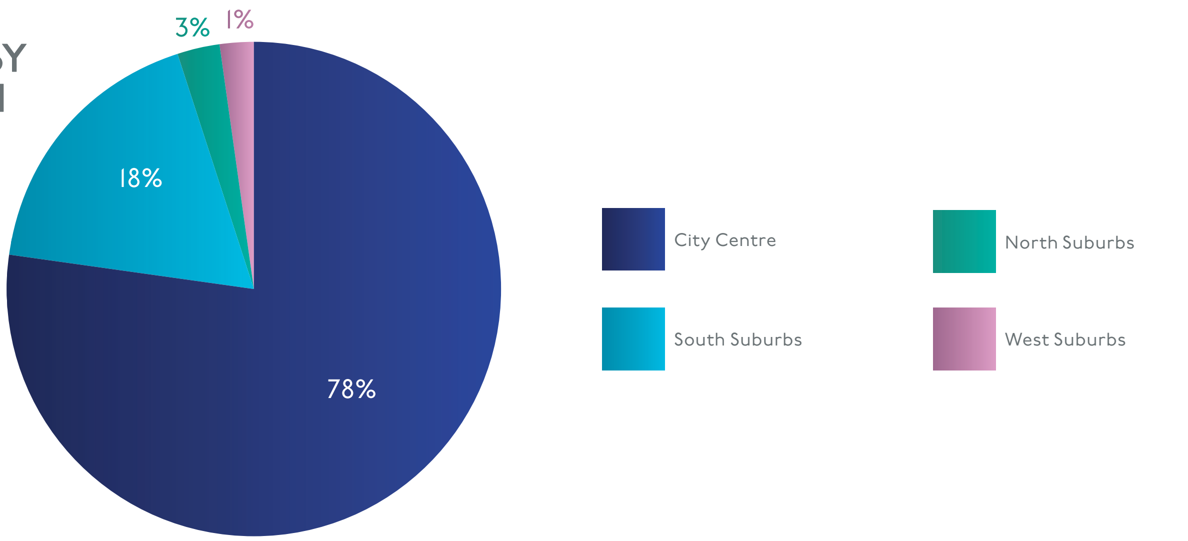
Given the size of both the Salesforce and Facebook lettings, in addition to DocuSign's 9,150 sqm acquisition at 5 Hanover Quay, it is no wonder therefore that the tech sector was the most active business type in Q1. As a sector, it accounted for 59% of the market (39% excluding Salesforce's deal at Spencer Place) across 18 deals. The average lot size from this sector was 4,260 sqm, almost double the market overall (2,875 sqm).

In terms of other sectors, the State was the other noteworthy occupier type in Q1 (see 'In Focus') at 31%.

Financial and professional services made up just 3% and 1% respectively, while the serviced offices section was also at 1%. The serviced office sector was 10% of the market in 2018 and while global operators who made up the bulk of this last year were quiet in Q1, Irish firm DoSpace CoWorking took 1,100 sqm at 9/10 Fenian Street. We expect further activity from this sector over 2019.

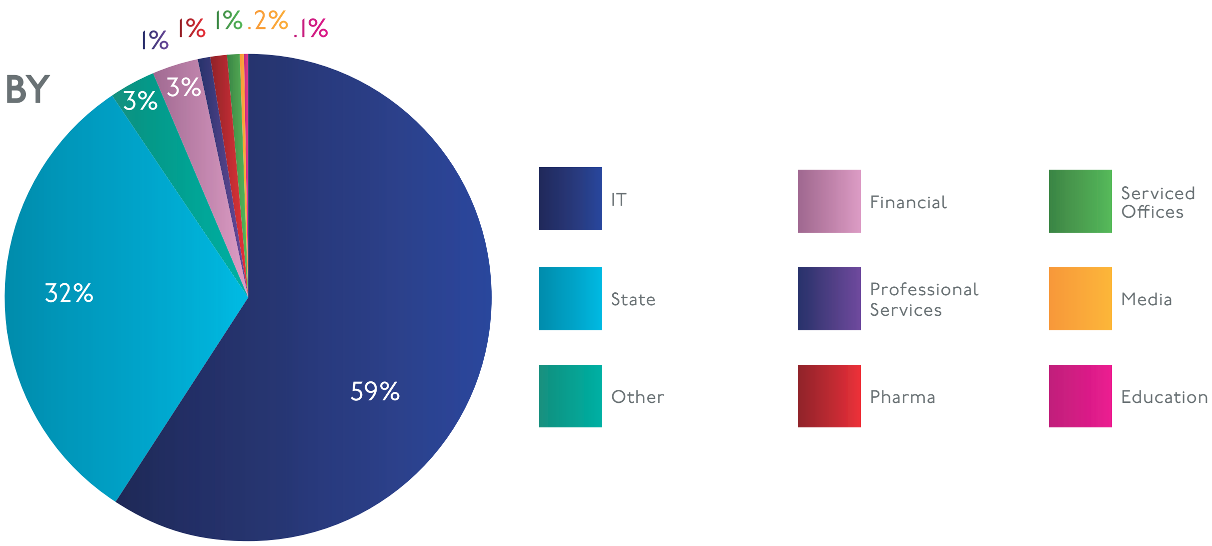
The globalised nature of the Dublin office market has continued into 2019 with 62% of accommodation taken by international occupiers in Q1. Of the 38% (49,600 sqm) taken by Irish occupiers, the State accounted for most of it (82%). Other domestic players took just 9,500 sqm combined and this was across 20 transactions where the average lot size was just 475 sqm.

TAKE-UP BY LOCATION Q1 2019



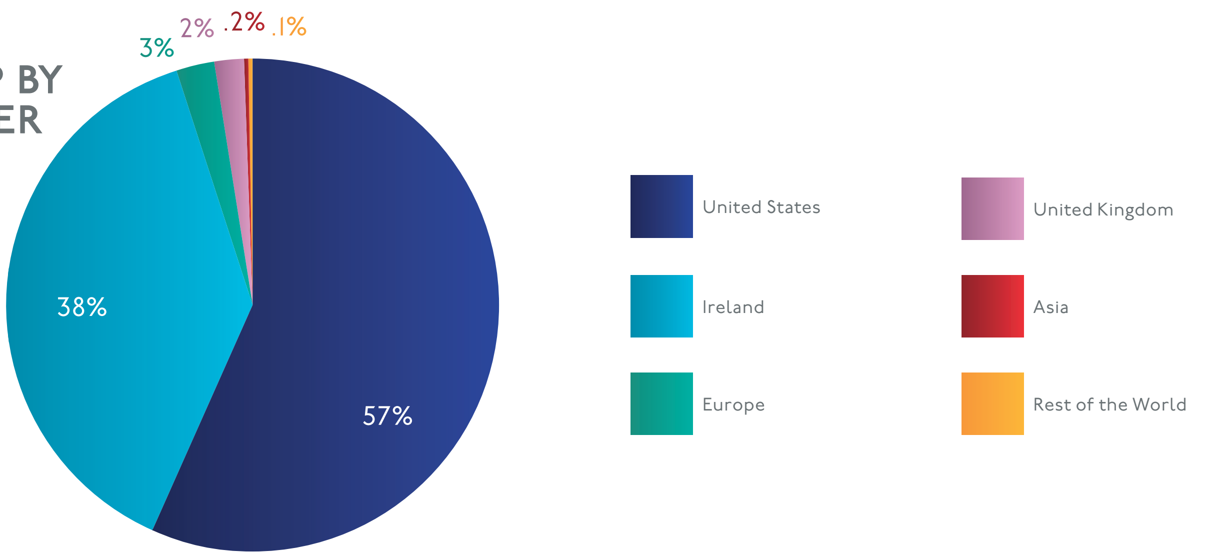
Source: Lisney

TAKE-UP BY SECTOR Q1 2019



Source: Lisney

TAKE-UP BY OCCUPIER ORIGIN Q1 2019



Source: Lisney

140 Pembroke Road, Ballsbridge, Dublin 4

RENTAL LEVELS

In the city centre, the prime headline rent was €673 psm (€62.50 psf) at the end of March 2019. 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 was unchanged in the opening quarter and increased by 1.8% in the 12 months to March. Annually for the suburban regions, the south grew by 5.9%, the west by 4.5% and the north by 4.0%.

SUPPLY

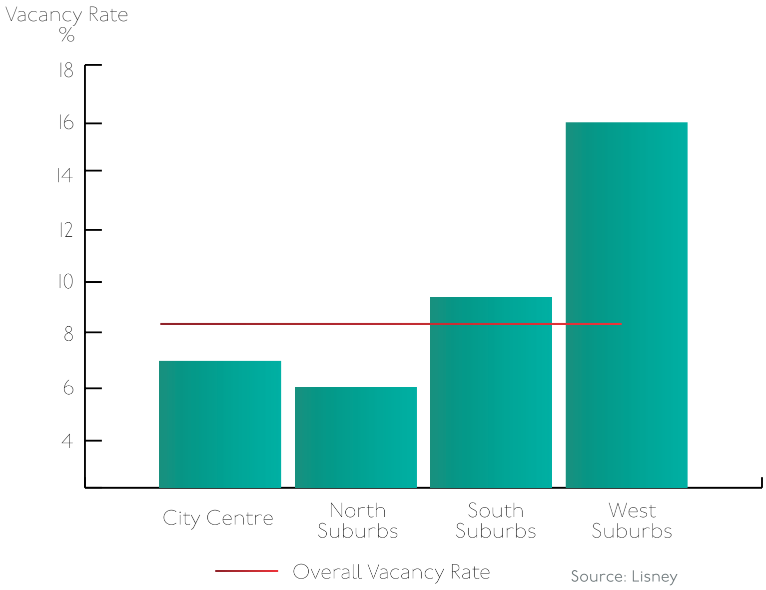
At the end of March, there was just over 322,600 sqm of modern office accommodation vacant across Dublin as the supply of stock continued to decline. It reduced by 8.4% over the three months and by 12.2% on an annual basis.

The overall Dublin vacancy rate stood at 8.2% at the end of March, however if substandard accommodation is excluded, the true vacancy rate falls to 7.3%. Given the volume 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 7.5% headline and 6.1% true.

In terms of the quality of what was vacant, 47% of supply was previously occupied, while 32% was new space, 11% sub-standard and 10% refurbished stock. The proportion of sub-standard space was higher in the city centre compared to the suburbs, at 15% and 6% respectively. The proportion of stock under refurbishment was also higher in the city centre than in suburbs, at 17% and 2% respectively.

Across Dublin, there were just 12 existing schemes with more than 5,000 sqm of accommodation available at the end of QI and just two schemes with more than 10,000 sqm available. The largest existing property on the market was the Seamark Building, Elm Park, Dublin 4 (16,150 sqm).

VACANCY RATE BY REGION
QI 2019



Source: Lisney

NEW STOCK

Almost 20,000 sqm of new stock completed in Q1 2019 across two schemes. The largest of these was the 10,500 sqm Capital Dock building at Sir John Rogerson's Quay. The other was in the south suburbs, Block I in Central Park (9,350 sqm). In this development cycle, just over 530,000 sqm has been completed and represents about 13.5% of Dublin's office building stock.

There are some notable schemes due for delivery later this year. In the city centre, 10 Pembroke Place (2,200 sqm) and the additional floors at Bishop's Square (2,500 sqm) are due in the coming months, while Bolands Quay (19,500 sqm), 76 Sir John Rogerson's Quay (6,800 sqm) and Two Clarendon (2,800 sqm) are expected to be completed in the latter half of the year. While development activity is mostly concentrated in the city centre, there are some sizable developments due for completion in the suburbs in 2020. Examples include One South County in Sandyford (12,850 sqm) and Dublin Airport Central in North County Dublin (19,250 sqm).

In total approximately 54,000 sqm of stock is due for completion this year (including the already completed 20,000 sqm in Q1). Of the 34,000 sqm still due, three-quarters of this accommodation is already pre-let, reserved or sold. A further 215,000 sqm of space is under construction and due in 2020 and 2021.

OUTLOOK

- 2019 will be another strong year in terms of activity, albeit unlikely as strong as 2018.
- Demand from international tech companies will continue and this will lead to new construction, mainly of larger buildings.
- The prime headline rental rate will increase further over 2019, however this will only be achieved on a few buildings.
- There will be several sub-leases offered to the market due to companies moving.

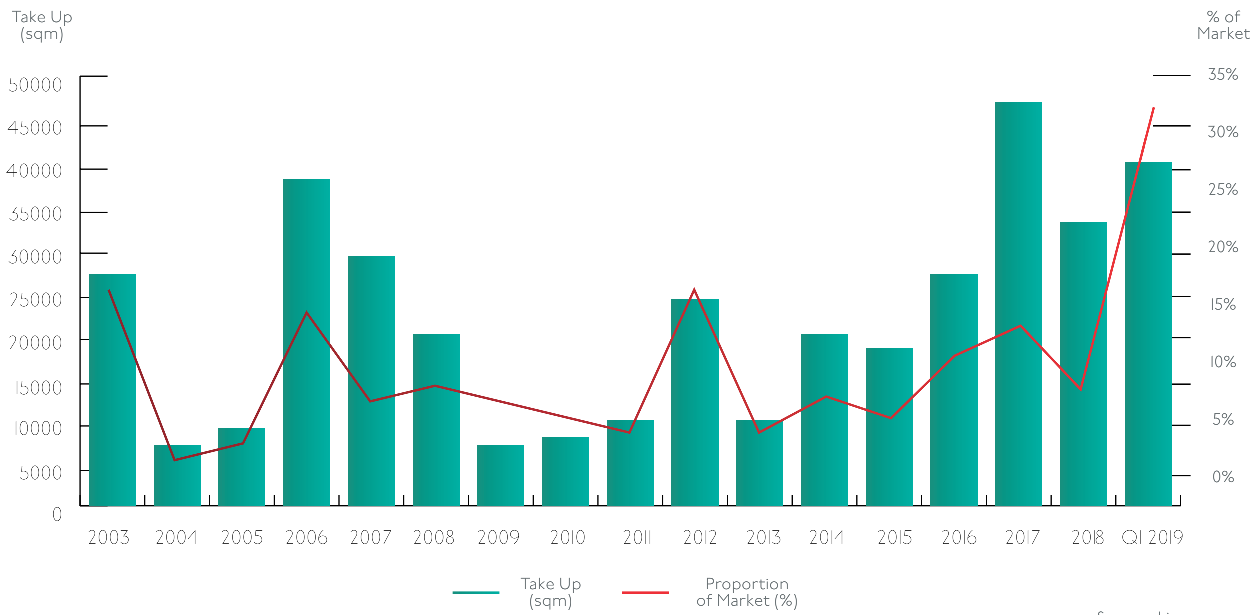
In View

Resurgence in State Activity

For the past five years there has been a resurgence in State activity in the Dublin office market with annual take-up ranging between 18,000 sqm and almost 47,000 sqm (12% to 19% of total activity). This compares to the longer-term trend (15 years) where the average is 10% with 2009 and 2010 low points at about 7,000 sqm.

The State and State bodies were extremely active yet again in Q1 2019 and accounted for 31% of activity. The largest deal was a sale, where the Central Bank acquired Blocks 4 & 5 Dublin Landings, North Wall Quay, which totalled almost 19,000 sqm. In other State-related activity, the OPW took about 21,500 sqm across three properties. These comprised the Irish Distillers Building in Smithfield (16,720 sqm), which is due for completion in 2021 and reportedly will house two large Government organisations; the recently completed refurbished fourth, fifth and sixth floors of Bishop's Square in Dublin 2 (4,360 sqm); and Paramount Place in Balbriggan (435 sqm). Additionally, the HSE took 360 sqm in the Telford block at HSQ.

STATE ACTIVITY (2003 – Q1 2019)



Source: Lisney

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