OFFICE REPORT

Q1 2020

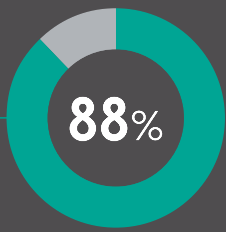
OFFICE SECTOR IN NUMBERS

ACTIVITY

89,000 SQM

QI TAKE-UP LEVELS REACHED ALMOST **89,000 SQM**

OCCUPIERS



U.S. OCCUPIERS ACCOUNTED FOR **88% OF TAKE-UP**

VACANCY RATE

7.1% DECREASE

OVERALL VACANCY RATE CONTINUES TO DECREASE – **7.1% AT THE END OF QI**

NEW STOCK

29,800 SQM

OF NEW STOCK **COMPLETED IN QI**

Mastercard let 13,500 sqm at One South County, South County Business Park, Dublin 18

OVERVIEW

Total office take-up in Q1 reached almost 89,000 sqm, a particularly strong opening quarter to the year. US occupiers dominated activity while supply levels decreased further.

ACTIVITY

Q1 2020 office take-up was 89,000 sqm. While this is a relatively strong level of activity, it was lower than the Q4 2019 figure (-18.3%). There were several large deals completed in the three months, which skewed take-up levels. The top four deals accounted for 53% of the total.

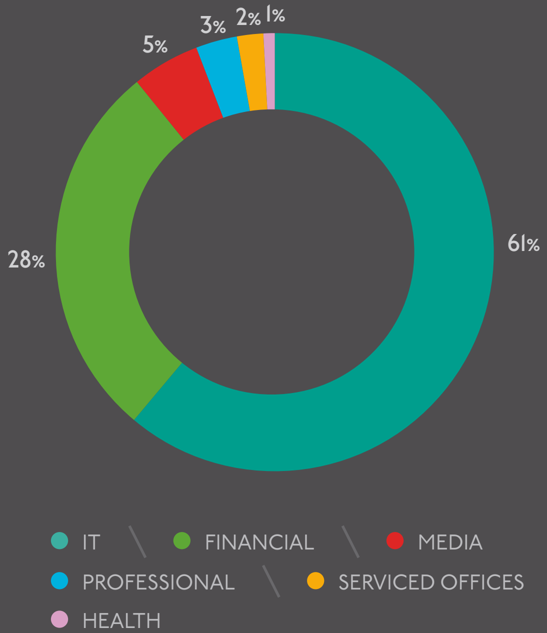
In terms of the most active business type in Q1, the tech sector dominated yet again, at 61% of activity across 14 deals. Google continued with its expansion in Q1, purchasing the 11,600 sqm Treasury Building (recently vacated by NAMA), a deal that had been reportedly in negotiations for about two years. Google also leased 7,000 sqm in Block I Central Park. The tech giant now accounts for 3.1% of all of Dublin's modern purpose-built office stock. Another sizeable letting in the tech sector was the mid-let of Fitzwilliam 28 (12,500 sqm), which is currently under construction to messaging platform Slack. Dropbox was also active, taking two floors in One Park Place (4,500 sqm) as was Salesforce, taking 3,450 sqm in 78 Sir John Rogerson's Quay.

The financial sector also accounted for a significant proportion of take-up, at 28%. The largest deal in the quarter was the letting of One South County in Leopardstown, Dublin 18 to Mastercard (13,500 sqm). The company also took, by way of a pre-let, 9,700 sqm in Two South County. As such, Mastercard acquired 23,200 sqm in Q1.

ACTIVITY (CONTINUED)

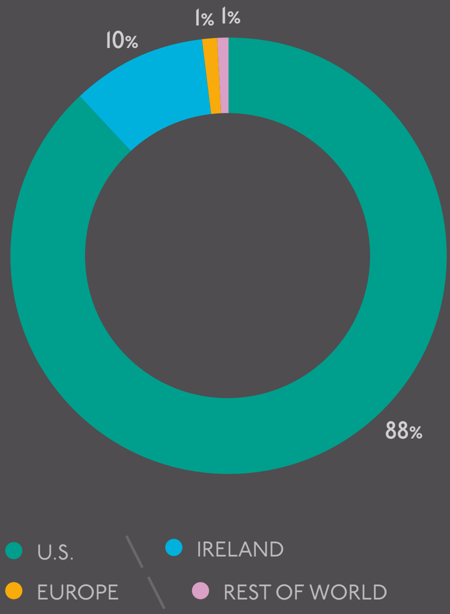
In terms of the other sectors, media-related businesses accounted for 5% of activity, while the professional services sector accounted for 3%. Serviced office providers have been very active in the past two years, however this sector only accounted for 2% of take-up in Q1. Of note is Knotel, which completed two relatively small transactions in the quarter, taking 810 sqm in the Bloodstone Building and 780 sqm in Ashford House. The serviced office sector is under immediate pressure due to COVID-19. Where possible, occupiers in serviced office space with contracts containing short notice periods are likely to give notice. While some of these occupiers will return to their previous or similar accommodation once the crisis abates, other may not. This is a trend to watch in the second half of 2020. It should also be noted that elements of the services office sector were already under financial pressure before the crisis and it remains to be seen how some operators will emerge.

TAKE-UP BY SECTOR
Q1 2020



Source: Lisney

TAKE-UP BY OCCUPIER ORIGIN
Q1 2020



Source: Lisney

Quarterly activity was spread 50% / 50% between the city centre and suburbs. This is an unusual trend with the city's representation traditionally higher. The strong suburban presence was mainly due to the Mastercard and Google deals in the south suburbs. Alone, the south suburbs accounted for 35% of overall market activity, normally it averages 16%.

Occupier origin over the three months was led by international companies. Those from overseas accounted for 90% of take-up with the remaining 10% domestic. Of note, yet again, was the strong participation in the market of US occupiers, accounting for 88% of all activity. While this demand from US companies remains positive, it is also brings with it a certain level of risk for the Dublin market, particularly given current global events, and this level of take-up is not sustainable.

DEMAND

While lock down continues, demand is likely to be limited. Any deals that will complete in the short-term will those whose business remains unaffected by the current situation. Although deals will still be signed, tenants will be insisting on inserting special Covid-19 clauses, which puts the commencement of the lease on hold until such time as the lock-down has ended. In contrast, many occupiers are likely to pull out of deals or at best put them on hold. Examples of occupiers pulling out of deals, or putting them on hold, include Wixs, Workday, Tenable and DWS.

SUPPLY

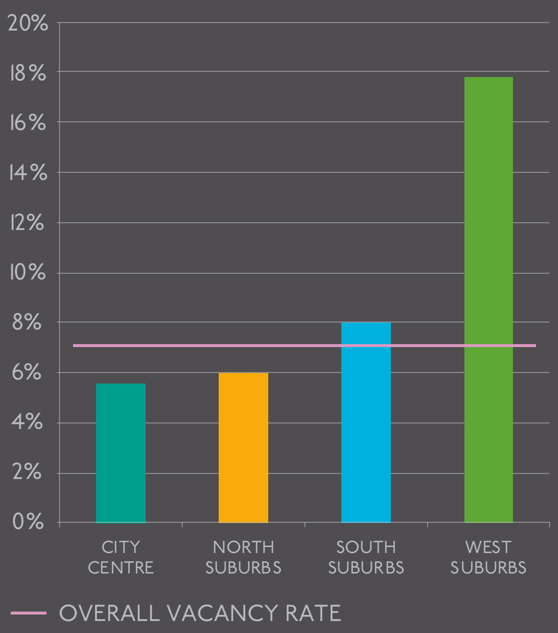
At the end of March, there was 284,000 sqm of modern office accommodation vacant across Dublin. This is a 9.9% decline when compared with the previous quarter and 12% lower on an annual basis.

In terms of the quality of what was vacant, 58% of supply was previously occupied, while 27% was new space, 8% sub-standard stock and 7% refurbished. Most of the stock under refurbishment was in the city centre rather than the suburbs, at 13% and 2% respectively.

The overall Dublin vacancy rate decreased further over the three months to stand at 7.1% at the end of March, which is the lowest level in 20 years. Furthermore, if substandard accommodation is excluded, the vacancy rate falls to 6.6%.

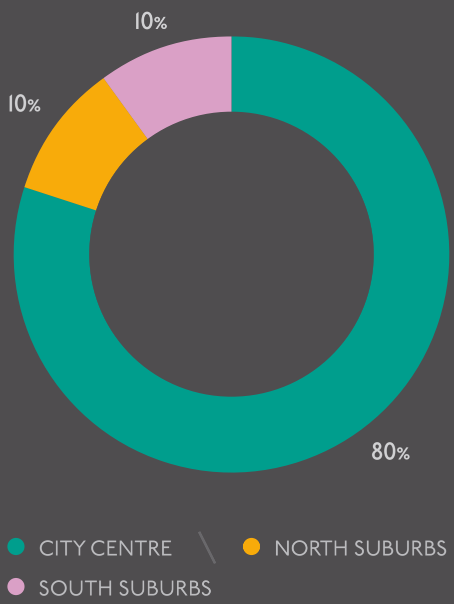
The city centre vacancy rate now stands at a very low 5.6%. The rates differ substantially between the suburban regions with a 6% vacancy rate in the north suburbs, 8% in the south suburbs and a much higher 17.8% rate in the west suburbs.

VACANCY RATE BY REGION
Q1 2020



Source: Lisney

CONSTRUCTION BY REGION
Q1 2020



Source: Lisney

NEW STOCK

About 29,800 sqm of new office stock was completed in Q1. Block 3 (11,050 sqm), Block 4 (8,800 sqm) and Block 5 (9,950 sqm) Dublin Landings, North Docks were all finished. All three blocks were sold in 2019. The latter two were purchased by the Central Bank of Ireland for occupation itself and Block 3 by IPUT and is available to let.

At the end of March, there was just over 400,000 sqm of office space under construction in Dublin. The city centre accounted for 80% of this with the largest scheme under construction in Ballsbridge, the 54,200 sqm Fibonacci Square. Another particularly large scheme still under construction was Salesforce Tower at Spencer Place (43,670 sqm), the company's new European HQ. As such, these schemes, among others, are already committed to by occupiers. Almost half (47%) of the space under construction is either pre-let or reserved, leaving 53% or 213,600 sqm available.

The development pipeline will be affected in the short to medium-term by the lockdown and the lack of availability of workers, along with supply chain issues for certain materials.

Guidewire let almost 8,000 sqm at
Stemple Exchange, Blanchardstown Corporate Park,
Blanchardstown, Dublin 15

OUTLOOK

1. Demand will be limited in Q2, particularly while lockdown continues. Some tenants may sign deals but they will likely have special conditions attached.

2. Professional services, aircraft leasing and some financial (banking and insurance) sectors will likely be absent from the market for the next while. Professional services companies will take time to recover from the effective shut-down of business and are likely to be absent from the market for the next 12 months.

3. The impact of COVID-19 on rental levels is yet unknown. Prior to the crisis, occupier demand was robust. While a number of deals have fallen through, several requirements and deals are on hold. The determining factor on whether rents will be impacted will be whether these requirements become active again and if there is sufficient alternative demand.

4. Where rent review dates line-up with the crisis, there is likely to be some form of discount to reflect the suggestion that a hypothetical tenant would sign a lease in the midst of a global pandemic. However, given that this crisis is still unfolding, there is as yet no evidence of the impact.

5. Finance for property will be harder to secure as there will be greater demands on international sources of funding, and property may be viewed as having an increased risk. As a result, it may be difficult to get finance for speculative development.

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