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OFFICE

PROPERTY REPORT

Q3

2019

Lisney

Office market in numbers

TAKE-UP

37,150 sqm

Activity characterised by smaller sized deals

LARGEST DEAL

6,300 sqm

US tech company Elavon lease block FI in Cherrywood Business Park

VACANCY RATE

8.3%

Overall vacancy rate stands at 8.3%

NEW STOCK

70,200 sqm

70,200 sqm of new stock due to complete by the end of 2019

WeWork, 5 Harcourt Road, Dublin 2

> "This was a higher level than Q2 but lower than recent quarters take-up"

OVERVIEW

Total office take-up in Q3 reached just over 37,000 sqm. This was a higher level than Q2 but lower than recent quarters. In addition, several units are reserved, while overall demand remains strong. Supply levels decreased in the quarter with the vacancy rate dropping to 8.3%.

ACTIVITY

Activity in Q3 2019 was 42.8% higher than Q2, however at a lower level than in Q3 2018 (-27.9%). That said, at the end of September there was a significant amount of space reserved; over 145,000 sqm. Although the volume of activity was up, the number of deals completed was down; 38. This compares to 41 in Q2.

Activity was characterised by smaller sized deals in the three months, a similar trend to Q2. The average deal size in the quarter was 950 sqm. Notably, 36% of deals were for space of less than 500 sqm and a further 45% were less than 1,000 sqm. 82% of all transactions in the quarter were less than 1,000 sqm.

The city centre was the busiest region in Q3, making up almost half of all activity, practically all of which was on the south side of the River Liffey. The south suburbs were the next busiest region at 41% of the market, followed by the north suburbs at 11% and the west suburbs at 2%.

In terms of the most active business type in Q3, the tech sector accounted for 34% of market take-up across 11 deals. The largest deal in the quarter was the lease of the new block F1 in Cherrywood Business Park, 6,300 sqm, to US tech company Elavon. Airbnb has taken the 3rd floor in The Reflector building, 1,450 sqm. In addition, online learning platform Udemy, leased 1,200 sqm on the first floor in 2 WindMill Lane. Notably, all these transactions are in new buildings.

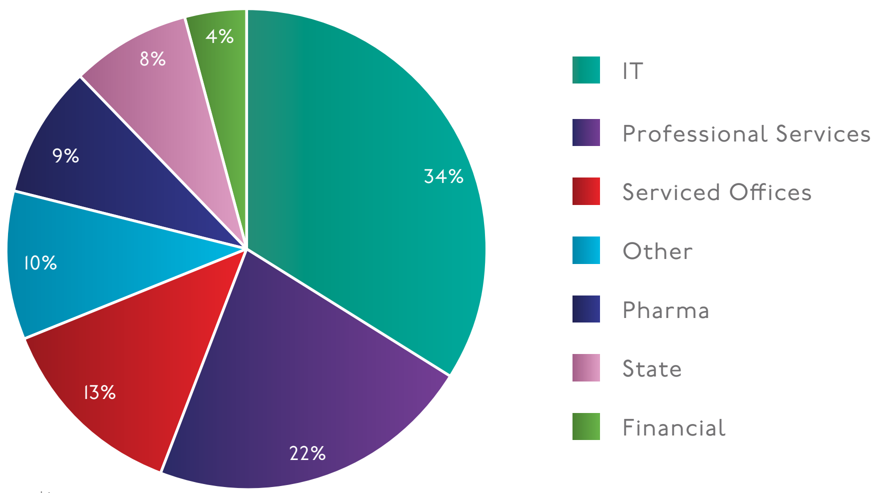
The professional services sector accounted for 22% of activity across seven deals. The largest of these was the acquisition of The Hampstead Building in The Park, Carrickmines (5,400 sqm) by health insurance provider VHI.

Serviced office providers remained active. WeWork expanded further across three separate deals. The largest was the letting of 2,150 sqm in Block 1, The Oval. The company took a further 1,700 sqm on the fourth floor of Georges Quay House and 800 sqm in Block A, Georges Quay Plaza. Another serviced office provider active was Clearspace, taking a small amount of accommodation at 6 Exchange Place. As such, serviced office space accounted for 5% of total take-up in the first nine months of 2019. This is lower than the comparable period in 2018.

The State or State-related bodies were active again in the three months. Dublin City Council took 800 sqm at 14-18 City Gate, while the HSE also took 800 sqm at Heuston South Quarter. Notably, in the year-to-date, this cohort has taken up over 46,000 sqm of office space; which is already 43% higher than the recorded activity figure for 2018.

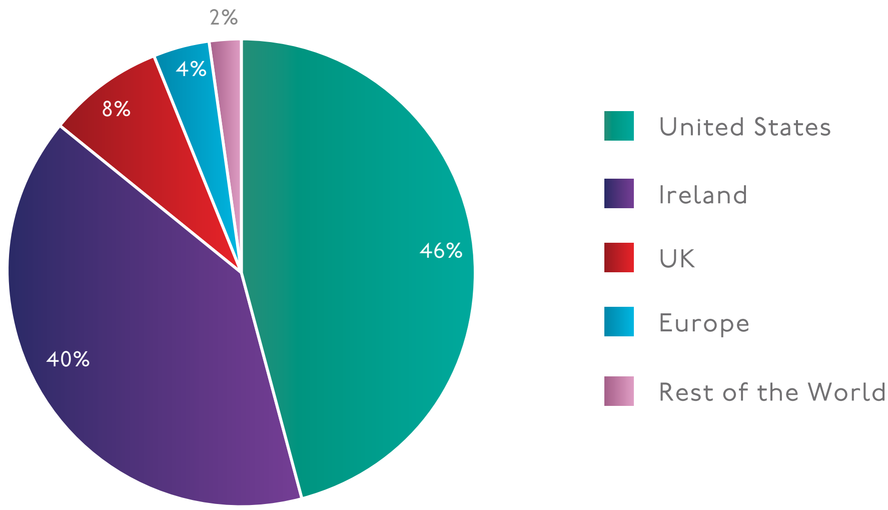
Occupier origin over the three months was led by international companies. International occupiers accounted for 60% of activity. Of the 60% (22,500 sqm) taken, the US accounted for 46% of this, while the UK accounted for 8%.

TAKE-UP BY SECTOR Q3 2019



Source: Lisney

TAKE-UP BY OCCUPIER ORIGIN Q3 2019



Source: Lisney

One South County, Sandyford, Dublin

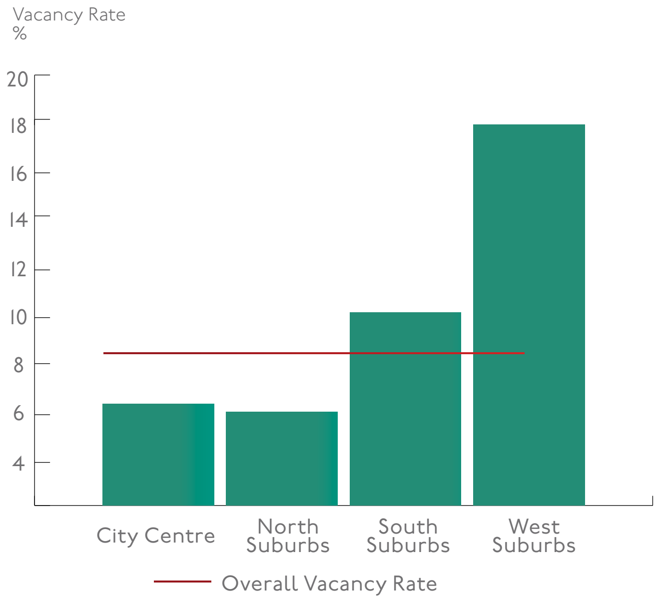
SUPPLY

At the end of September, there was 328,200 sqm of modern office accommodation vacant across Dublin. This is a 7.7% decline when compared with Q2 and a 15.6% reduction when compared with Q3 2018.

In terms of the quality of what was vacant, 49% of supply was previously occupied, while 34% was new space, 10% refurbished and 7% sub-standard stock. The proportion of stock under refurbishment was higher in the city centre than in suburbs, at 17% and 3% respectively.

As such, the overall Dublin vacancy rate stood at 8.3% at the end of September, however if substandard accommodation is excluded, the vacancy rate falls to 7.8%.

VACANCY RATE BY REGION
Q3 2019



Source: Lisney

> 70k sqm of new stock is due for completion in Q4

NEW STOCK

The only office stock completed in Q3 was the 2,800 sqm extension to Bishop's Square on Kevin Street. New stock coming on stream has been slower in recent months, however there are some notable schemes due for delivery later this year.

In total approximately 24,600 sqm has already been completed this year, while 70,200 sqm of additional stock is due for completion in Q4. That said, 48% of this accommodation is already pre-let, reserved or sold. A further 328,000 sqm of space is under construction and due to complete in 2020 and 2021.

IN FOCUS: WEWORK - PAUSE FOR THOUGHT

Over the past few weeks WeWork has barely been out of the international headlines. The story has all the makings of a good Netflix drama - a high-flying CEO, a $47bn valuation, a failed IPO, tenuous links to Gwyneth Paltrow, board room bust-ups, mounting losses and some rather bizarre behaviour from the lead actors.

Beyond the drama, there is a serious business with operations across 29 countries in over 500 locations and over 527,000 tenants. However, from media reports, it is a business whose future is uncertain. Access to credit is almost lost, expansion on hold and there are plans to lay off 12,000 staff globally.

In Dublin, WeWork has been particularly active. Already it has nine centres open comprising a combined 43,300 sqm with lease commitments signed to take a further space across five separate deals, adding an additional combined 38,000 sqm. Deals include space at the Clerys Quarter and in the New Ireland Assurance building on Dawson Street. However, WeWork recently pulled out of a deal to take space at Central Quay and media reports suggest other deals are unravelling.. As it stands, WeWork lease about 30% of all serviced office space in Dublin or about 1.1% of all city centre space. Unsurprisingly, some landlords are wondering what happens next and there is a concern about the viability of the WeWork business and what happens if it fails.

Firstly, for WeWork occupiers, they will be protected in so far as their existing licences will give them protection. If WeWork was to fail, the landlord would inherit WeWork's role and be obliged to provide the services. However, given the nature of shared working-space licence agreements, this protection is likely to be short-lived with the service provider normally reserving the right to terminate the licence within a 6-month period. With large companies that occupy an entire WeWork location, the consequences are less severe, and it will be easier to do direct deals with the landlords of buildings and for them to remain in place. But for smaller members, perhaps fledging companies, occupying co-working or hot desk space, the impacts could be different.

For landlords leasing existing buildings to WeWork, the position is the same; they will inherit WeWork's tenants (and their rental payments). Well-advised landlords will have negotiated step-in rights which should enable them take over the WeWork position at an earlier stage (particularly if there is some form of examinership). It is likely most landlords will opt to put the tenants on more regular long-term leases and avoid providing shared co-working services. There are some landlords who have agreed to lease properties to WeWork which are not yet completed – it is possible both landlord and tenant will agree to walk away from the agreement and these spaces may come back to the market.

If WeWork survives, there is a further concern for landlords and that relates to the valuation implications. It is likely that property occupied by WeWork will become unsaleable in the short to medium term. For those looking to dispose of such properties, discounts will apply. Perhaps that is where the opportunity lies as demand for office space remains strong and the quality of tenants seeking office space is generally is good.

Finally, it is worth noting the emergence of the new type of serviced office space in recent years, which is based on co-working, collaborative and flexible spaces within high-quality surroundings has been a disruptive business model in the property industry. While WeWork is currently experiencing difficulties, such providers are here to stay.

OUTLOOK

- Given the volume of accommodation reserved by prominent occupiers, 2019 will be another strong year for the city centre and south suburbs in terms of activity,
- Demand from international tech companies will continue with some deals already agreed. This will give confidence to developers and lead to some further new construction, mainly of larger buildings.
- State backed occupiers will remain active and are likely to take further space in the short-term.

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