Lisney

OFFICE REPORT

Q1 2021

OFFICE SECTOR IN NUMBERS

ACTIVITY

1,870
SQM

LOWEST QUARTERLY ACTIVITY **SINCE 1963**

SUPPLY

455,800
SQM

INCREASE OF 3.2% IN THE QUARTER

RENTS

-6.3%

PRIME HEADLINE RATE WAS STABLE THIS QUARTER BUT **FELL BY 6.3% IN THE SECOND HALF OF 2020**

COMPLETIONS

24,400
SQM

45% AT THE AIRPORT IN THE NORTH SUBURBS

35 SHELBOURNE ROAD,
BALLSBRIDGE, DUBLIN

IN FOCUS

OVERVIEW

As to be expected given the continuing impacts of the pandemic, the office market remained in hibernation in the opening months of 2021. Just 1,870 sqm of accommodation was taken up across Dublin, the smallest quarterly activity level since 1963. However, space was reserved in the quarter and this will add to take-up in the coming months. Three office schemes completed construction, two of which added to supply. The overall amount of available accommodation increased by 3.2% or 14,250 sqm in the quarter, resulting in a vacancy rate of 11.1% for Dublin overall.

ACTIVITY

Despite some improvements in occupier take-up towards the end of last year, the third national lockdown in the opening months of the year resulted in an almost shutting down of completed transactions. Just 1,870 sqm of space across eight small deals concluded in Q1. 70% of this was in the city centre with small professional services firms the most active. Given how small this figure is, any form of analysis is meaningless. However, reviewing data for the 12 months to the end of March can give some indication of the Dublin office market's performance over the pandemic period to date.

In the 12 months to the end of March 2021:

- Dublin office market take-up reached 56,200 sqm. The long-term average (15 years) for a 12 month period is 222,500 sqm.
- The tech sector accounted for 29% of activity, followed by professional services firms at 17%, the State at 17% and the pharma / life sciences at 13%. Serviced office providers were completely absent from the market in the period.
- Despite the lack of economic activity in the city centre, take-up of accommodation in central areas accounted for just over three-quarters of activity with the north suburbs at 11%, the south suburbs at 7% and the west suburbs at 6%.
- Indigenous occupiers were most active in the market, taking 48% of the space transacted. However, companies from the US were not far behind and accounted for 43% of the accommodation taken.

TERMS

The significantly reduced levels of transactional evidence in the last 12 months means it is difficult to assess the full impact of COVID-19 on rents. We estimate that prime headline rents fell by 6.3% in the second half of 2020 (-4.7% in Q3 and -1.7% in Q4), the first decline since mid-2011. However, given the dearth of activity in Q1, we do not estimate any changes in the three months with the prime city centre headline rate remaining at €635 psm / €59 psf.

SUPPLY

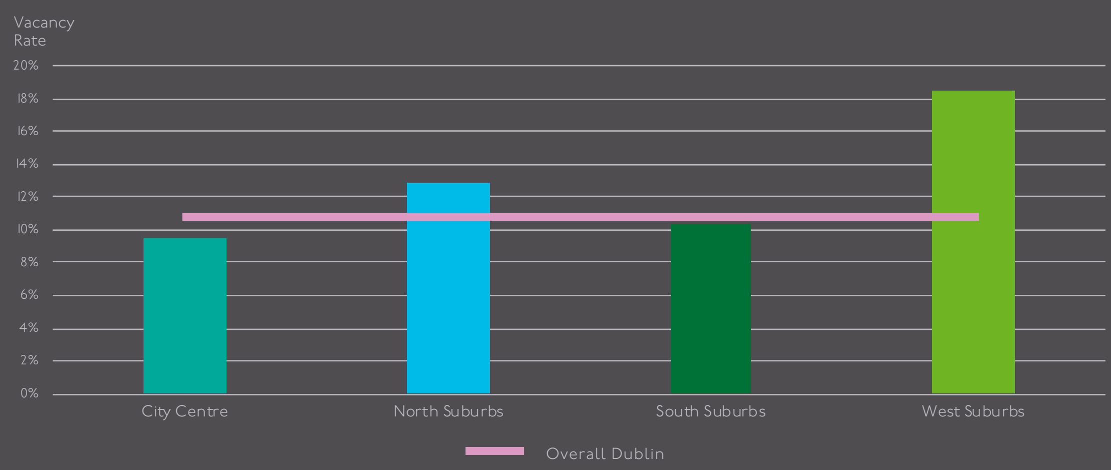
At the end of March 2021, there was 455,800 sqm of modern office accommodation vacant across Dublin, an increase of 3.2% in the quarter. One-third of this is new accommodation that has not been occupied in the past and includes some buildings recently completed such as the Termini building in Sandyford (20,850 sqm completed in Q4 2020) and The Sorting Office (19,000 sqm completed in Q3 2020), where negotiations are ongoing.

A further 53% is previously occupied accommodation, of which one-fifth is grey space (sub-lets). This 'grey' accommodation that has been returned to the market by occupiers that now find themselves with too much space totals 90,000 sqm and all of it has come to the market in the past 12 months. There is a suspicion however that some companies are only testing the water and will reoccupy the space in time, a trend observed in some US markets.

The majority of available property at the end of March was in the city (53% of the total) with 17% in the south suburbs, 16% in the north suburbs and 14% in the west suburbs. In terms of grey space, it was spread throughout the regions but with the city centre accounting for almost 70% of the total.

The overall Dublin headline vacancy rate was 11.1% at the end of December (9.6% city region and 13.6% in the suburbs). If sub-standard space is removed, the true vacancy rate was 10.7% (9.1% in the city). Notably, the true vacancy rate in Dublin 1, Dublin 2 and Dublin 4 were 11.7%, 8.3% and 11.7% respectively.

TAKE-UP BY REGION
Q1 2021



Source: Lisney

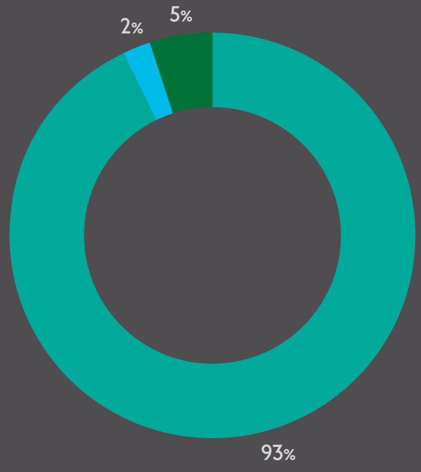
NEW STOCK

24,400 sqm of new office stock was completed in Q1 bringing the total for the past 12 months to 133,000 sqm. Three buildings were completed; two in the city centre, 70 St Stephen's Green (5,400 sqm) and 35 Shelbourne Road (8,130 sqm), and one in the north suburbs at the Airport, Block 2 Dublin Airport Central (10,900 sqm).

At the end of March, there was just over 403,000 sqm of office space under construction in Dublin. The city centre accounted for 93% of this with three very substantial schemes included; Fibonacci Square (54,200 sqm) in Ballsbridge already taken by Facebook, College Square (previously Apollo House) on Tara Street (50,200 sqm) and the new European HQ of Salesforce at Spencer Place (43,700 sqm).

The development pipeline will continue be affected in the short to medium-term by the lockdown and the prolonged closure of sites. Given the COVID-19 related health and safety measures, delays in schemes being completed could be 12 months or more.

TAKE-UP BY OCCUPIER ORIGIN
Q1 2021



Source: Lisney

OFFICES

IN-FOCUS: GREEN SHOOTS IN DEMAND

We have visibility on companies mobilising and progressing their real estate strategy. Many are requesting information and running analysis on potential transactions with the intention of starting to view premises once the lockdown is lifted. Many companies simply cannot defer property decisions any longer, business must continue. Indeed many tech companies experienced an increase in turnover during the pandemic, particularly those from North America, which could ultimately lead to further expansion.

Other companies, simply cannot wait and have already reserved space. We estimate that there is just over 50,000 sqm of accommodation reserved heading into Q2; about one third of which was agreed in Q1 2021. Some of the larger deals include An Post taking The Exo building (9,800 sqm) at the Point Village, Just Eat taking nearly 2,000 sqm at 35 Shelbourne Road and in Sandyford a number of occupiers have agreed to rent space including BNP Paribas Bank (5,630 sqm) and ResMed (1,900 sqm), both at Termini. Additionally, Amazon is reputedly close to finalising a deal to expand in its current building on Burlington Road and TikTok is busy shortlisting building options including The Sorting Office on Cardiff Lane.

We expect a large occupier emphasis on wellbeing in the months and years ahead. Companies will be focused on quality work environments to create a suitable atmosphere to keep and attract staff. This will polarise the market somewhat, and older less efficient and substandard office accommodation without considerable investment is at risk of becoming stranded assets.

EXO BUILDING,
DUBLIN DOCKLANDS, DUBLIN

OUTLOOK

OUTLOOK

1. There will be continued office demand over the course of 2021 with space already reserved and further requirements in the market. Big tech companies will continue to power market demand, not least TikTok's plans to grow its offices to 46,500 sqm over the next few years.

2. The progress of deals has been difficult due to the current lockdown restrictions and will continue to be challenging in Q2 with travel restrictions. However, market sentiment will continue to improve, and with 50,000 sqm of space reserved along with a strong pipeline of other requirements, activity levels will become healthier towards the end of 2021 and into 2022. Life in business should be getting back to more normality by then, particularly in the city centre.

3. In the meantime, there may be some further downward pressure on rents. But at this stage, we are only expecting limited movement, perhaps a swing of up to 10% from early 2020 levels. This is principally because the market will be able to take the slack in demand. It is more likely that other terms will be more favourable for tenants. Unlike in the past, the Dublin office market is not in an over-supply situation. While grey space (sub-lets) will continue to add to supply, the true vacancy rate in Dublin overall was 10.7% at the end of March (equivalent to about 1.5 to 2 years' supply). However, sub-standard accommodation is likely to experience a greater reduction in rental levels as tenants prioritise quality environments for staff.

4. As construction activity cannot be turned on and off easily, schemes under construction will continue (albeit significantly delayed) but there will be a limited number of new starts once sites reopen.

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