Lisney

Lisney
Sotheby's
INTERNATIONAL REALTY

# OUTLOOK

2023

# 5 OFFICES

## Demand and activity will be weaker in the first half of the year but will strengthen as 2023 progresses.

### SUPPLY

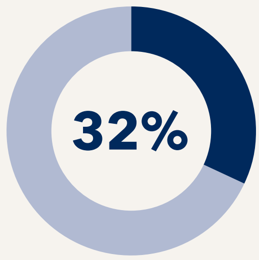
**TECH AND THE RISE OF GREY SPACE**

The two main talking points in the Dublin office market last year were the adjustments in the global tech industry and continued remote / hybrid working. Both trends resulted in the rise of grey space, where there is now 180,000 sqm available and more is due in the coming months. Currently, this is 32% of all supply and accounts for 4.2 percentage points of the 13.2% vacancy rate across Dublin (or 5.1 percentage points of the 13% city centre vacancy rate).

On the surface, this appears to be bad news for the market's short to medium-term outlook. However, when considered with other market dynamics, it is not as grave as it might first appear and will facilitate previously deferred moves. Grey space provides fully fitted accommodation, which is very welcome in today's market given that the cost of fit-out has almost doubled in the last two years. It also provides more flexible deals for occupiers who are still trying to ascertain their space requirements in the context of wider global economic conditions and hybrid working. International big tech has dominated both the office property market (between one-third and a half of activity) and indeed the competition for talent in recent years. We now expect to see some of the smaller scale companies, many of whom are indigenous, take advantage of recent trends; hiring staff and taking additional office space. Also positively, the IDA reports continued strong job growth by FDIs last year (almost 32,500 positions created) and further growth is projected in the first half of this year. It should also be pointed out that many of the large tech companies had very ambitious staffing targets over the last three to four years and may never have been able to fill all the office space they hold.

**180,000 SQM**

GREY SPACE AVAILABLE, WHICH IS CLOSE TO




OF ALL SUPPLY

### 3 SECTORS TO WATCH IN 2023:

1. HIGHLY PROFITABLE PROFESSIONAL SERVICES FIRMS
2. SMALLER SCALE INDIGENOUS TECH
3. THE IRISH STATE

1 Sir John Rogerson's Quay, Dublin Docklands, Dublin 2

## DEMAND

**REQUIREMENTS LINKED TO ESG**

Entering 2023, there are active requirements in the market and about 130,000 sqm of space is reserved. It is likely that demand and activity will be weaker in the first half of the year and strengthen over the second half. While activity will come from across the sectors, three to watch in 2023 will be the highly profitable professional services firms (such as those in the legal and accountancy profession), as well as smaller scale indigenous tech and the Irish State. Demand generally will vary between short-term needs where flexibility is critical (including demand for serviced office space), but BER and other sustainability measures are less important, and those with longer-term demand, particularly larger companies, where property solutions must be ESG compliant.

Linked to this varying type of demand are varying lease terms. In 2023, the change in headline rents (up or down) may be connected to a sector's ability to pay and the types of buildings they choose.

For older buildings, incentive packages offered by landlords will be greater, which is likely to be followed in time by softer headline rents. The increase in the vacancy rate generally across the market due to additional grey space will also be a factor. For newer buildings conforming to ESG criteria, terms and rents may hold firm given the relative limited supply.

Buildings with BERs of B3 or lower (generally considered Grade B and Grade C, of which there is over 1.5m sqm of accommodation in Dublin), will be watched closely. Investors are already focused on how to improve these buildings when considering acquiring them. For many large-scale occupiers, they will have ESG promises to keep and will only consider newer and more efficient buildings. This is also true for the Irish State where it has promised to vacate <B3 accommodation by 2030. However, some exceptions may arise if the grey space on offer is at competitive rates, which will be difficult to ignore.

Nova Atria, Sandyford Business Park, Dublin 18

## CONSTRUCTION

**NEW & REFURBISHED BUILDINGS**

Works will continue on office buildings under construction (280,000 sqm currently), however there will be little or no new starts in the near term. The higher cost of both finance and building materials are the main reasons but changing market dynamics is also a factor. Unfortunately, this creates future risks in the market, particularly in three to five years' time when there will not be enough A rated buildings to meet the demand arising from occupiers' 2030 ESG commitments. Developers, investors and funders need to keep this in mind and not over-correct.

Grade B accommodation will be watched this year and next. It will offer opportunities to braver investors and developers that can add value. Some will consider large-scale refurbishments, where prevailing office standards can be met within the existing shell. However others will consider alternative uses. Instances are already evident in Dublin where a building in Park West is being converted into a hotel and in both Tallaght and East Wall Road where conversion to refugee accommodation has occurred. Such conversion has been part of other markets for many years. In the UK for example, it is possible to convert vacant and underused offices into residential use without seeking planning permission since 2013. Lessons were learned from the initial phases of this scheme including required standards on size and light, but also around quality and location.

WORKS WILL CONTINUE ON OFFICE BUILDINGS UNDER CONSTRUCTION (280,000 SQM)

**HOWEVER THERE WILL BE LITTLE OR NO NEW STARTS IN THE NEAR TERM.**

THIS CREATES FUTURE RISKS IN THE MARKET

**PARTICULARLY IN 3 TO 5 YEARS' TIME**

Lisney

Lisney Sotheby's INTERNATIONAL REALTY

# OUTLOOK 2023