Lisney

OFFICE REPORT

Q4 2022

TOP 5 DEALS

CITI BANK
Waterfront, South Centra, Dublin 1
27,870 sqm

SMBC
Fitzwilliam 28, Dublin 2
12,580 sqm

BDO
Block 3, Miesian Plaza, Dublin 2
4,360 sqm

HORIZON
75 St. Stephens Green, Dublin 2
3,070 sqm

HSE
52 Broom, Broomhill Road, Tallaght, Dublin 24
2,140 sqm

TAKE UP

76,200 SQM

CITY 81% | SUBURBS 19%

ACTIVITY

50 TRANSACTIONS

1,530 SQM AVERAGE DEAL SIZE

OCCUPIER PROFILE

40% FINANCIAL SERVICES

31% PROFESSIONAL SERVICES

RESERVED

99,800 SQM

CITY 80% | SUBURBS 20%

PRIME HEADLINE RENT

€667 PSQM CITY

€318 PSQM SUBURBS

DUBLIN HEADLINE VACANCY RATE

13.1%

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OVERVIEW

Despite the adjustments in the global economy and tech industry, as well as continued remote / hybrid working, the Dublin office market fared well in Q4 2022. Some of this may be because deals were agreed earlier in the year but only concluded in Q4 but in addition, there were some very substantial transactions, including the Citi Bank deal at the Waterfront. Over 76,000 sqm of space transacted, bringing the total take-up for 2022 to 233,000 sqm and compares to just 151,400 sqm in 2021.

A notable feature of 2022 was the increase in grey space that is now available for subletting. The overall Dublin headline vacancy rate stood at 13.1% at the end of December with the city centre region similar at 13.0%. In terms of new stock, 63,500 sqm of space completed construction in Q4. Prime headline rents remained stable in Q4 but were still 1.6% less than March 2020 levels.

ACTIVITY

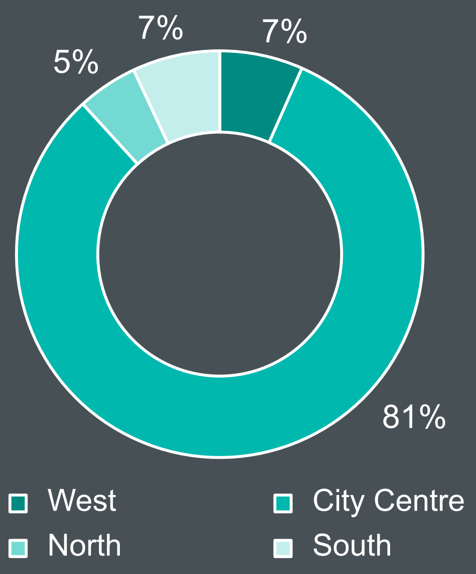
Dublin take-up in Q4 2022 reached 76,230 sqm across 50 deals bringing the total take-up for the year to 233,000 sqm. It was the largest quarterly take-up in 2022 accounting for a third of the annual total, however, it remained below the quarterly average between 2017 and 2019 (86,000 sqm).

- As usual, the city centre region was the most active, with 81% of all space transacted taking place there. It was followed by the south and west suburbs regions at 7% each and the north suburbs at 5%.
- The top ten transactions, all of which were larger than 1,000 sqm, accounted for 76% of the overall take-up in Q4 2022. Of these, the two largest were each more than 10,000 sqm and made up 55% of activity.
- The two largest deals were in the city centre. International investment bank Citi Bank pre-purchased almost 27,900 sqm at Waterfront, South Central in Dublin 1 which on completion will serve as its new European HQ; and a global aircraft leasing company, SMBC, took 12,560 sqm at Fitzwilliam 28 in Dublin 2.

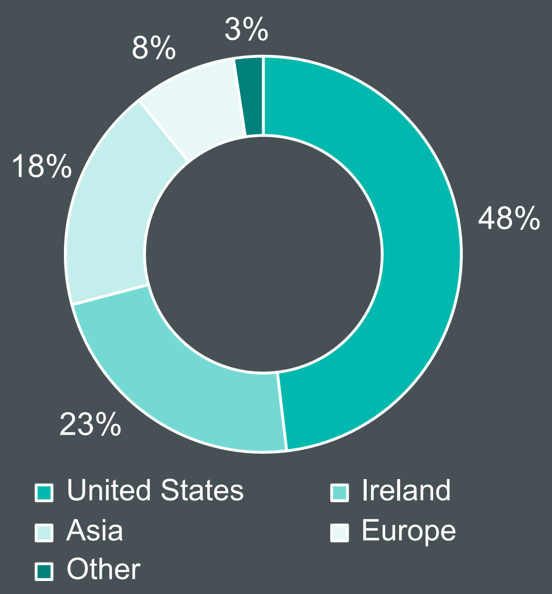
Veritas expanded their headquarters at 2 Stemple Exchange, Dublin 15

- Occupiers from the US took the most space (48% of the total) in Q4 2022. Domestic occupiers took 23% and occupiers from Asia leased 18% of the total take-up (across three deals). Lettings involving occupiers from the US averaged 3,670 sqm in lot size while those from domestic occupiers averaged just 640 sqm.
- The financial and professional services sectors were the most active in Q4, accounting for 40% and 31% of take-up respectively. In recent times, the tech sector was one of the most active, however in Q4 it only accounted for 10%, which likely reflects the staffing adjustments the sector is currently experiencing.
- The State was involved in three deals. The HSE took 2,140 sqm at 52 Broom, Broomhill Road in Tallaght, Dublin 24, another state body leased 880 sqm at Cavendish House in Smithfield, Dublin 7 and An Post took an additional 510 sqm at the EXO Building in Dublin 1.
- Serviced office providers remained active in Q4 2022 with three deals taking place. Iconic took 2,070 sqm at The Heysham in Dublin 1, Irish serviced office provider Iristani took 470 sqm at the Block 10-1 in Blanchardstown Corporate Park, Dublin 15 and GRAY took 360 sqm at 23 Shelbourne Road in Ballsbridge.
- The average transaction size in Q4 was 1,530 sqm, which is larger than the average of 1,270 sqm for the previous quarter and 860 sqm in Q2. It did however continue to fall short of the 1,600 sqm average over the four years preceding the pandemic.

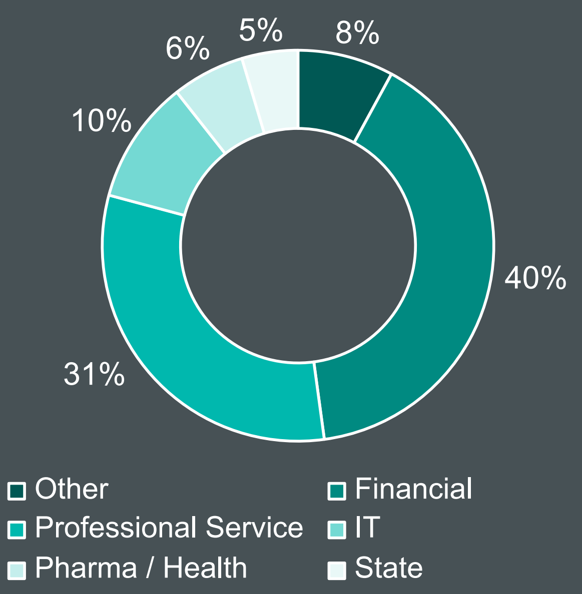
TAKE-UP BY REGION
Q4 2022



TAKE-UP BY OCCUPIER ORIGIN
Q4 2022



TAKE-UP BY OCCUPIER SECTOR
Q4 2022



Source: Lisney

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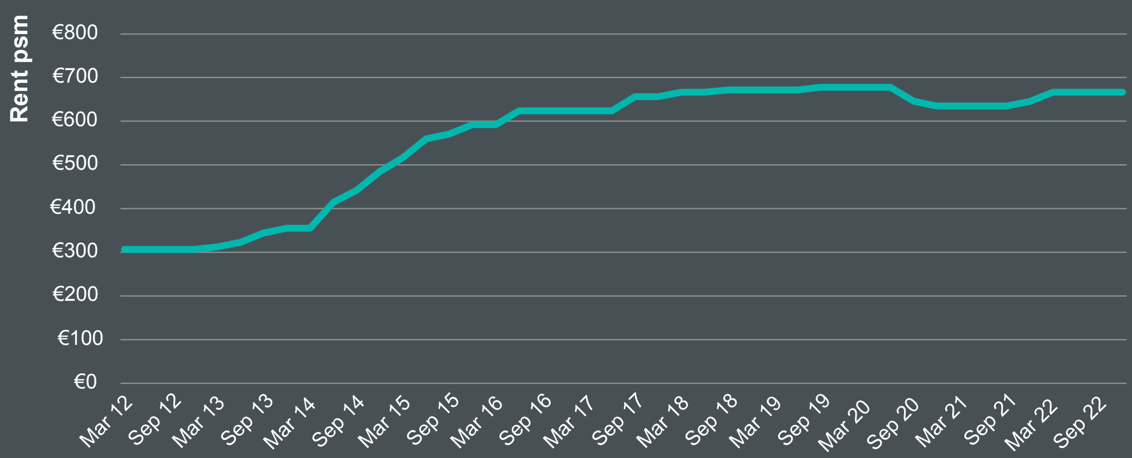
TERMS

Prime headline rents were stable at €667 psm / €62 psf in Q4; however, this remains 1.6% below pre-pandemic levels. Lisney's office rental index for the overall Dublin office market (prime and secondary buildings in all regions) was 4.5% lower in December 2022 than it was in March 2020.

PRIME HEADLINE OFFICE RENT
(Q1 2012 – Q4 2022)



Source: Lisney

TOP 10 OFFICE TRANSACTIONS (Q4 2022)

BUILDING	SQM	REGION	OCCUPIER
Waterfront, South Central, Dublin 1	27,870	City Centre	Citi Bank
Fitzwilliam 28, Dublin 2	12,580	City Centre	SMBC
Block 3 Miesian Plaza, Dublin 2	4,360	City Centre	BDO
75 St Stephens Green, Dublin 2	3,070	City Centre	Horizon
52 Broom, Broomhill Road, Tallaght, Dublin 24	2,140	West Suburbs	HSE
The Heysham, North Wall Quay, Dublin 1	2,070	City Centre	Iconic
Le Pole Square, Dublin 8	1,510	City Centre	Etsy
Termini, 3 Arkle Road, Dublin 18	1,390	South Suburbs	Integrity 360
2 Stemple Exchange, Blanchardstown Corporate Park, Dublin 15	1,350	North Suburbs	Veritas
Cherrywood Business Campus, Dublin 18	1,320	West Suburbs	Retail in MOTION

Source: Lisney

Avant Money signed a new lease at Nova Atria, Sandyford, Dublin 18

OFFICE

DEMAND

Almost 100,000 sqm of office accommodation was reserved at the end of December 2022. 80% of this in the city centre, providing further evidence of the continued demand for central locations. It is likely that demand and activity levels will be weaker in the first half of 2023 and strengthen as the year progresses. 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.

SUPPLY

At the end of December 2022, there was just over 560,000 sqm of modern, purpose-built office accommodation vacant across Dublin, an increase of 7.5% in the quarter. Much of this increase related to newly completed buildings, including 17,000 sqm at One Charlemont Square and 35,300 sqm available to sublet from Meta at Fibonacci Square in Ballsbridge.

At the end of December, Dublin's overall headline vacancy rate was 13.1%, up from 12.4% three months previous. The rates across the regions varied with the city centre at a headline rate of 13% and a slightly less true rate of 12.3%.

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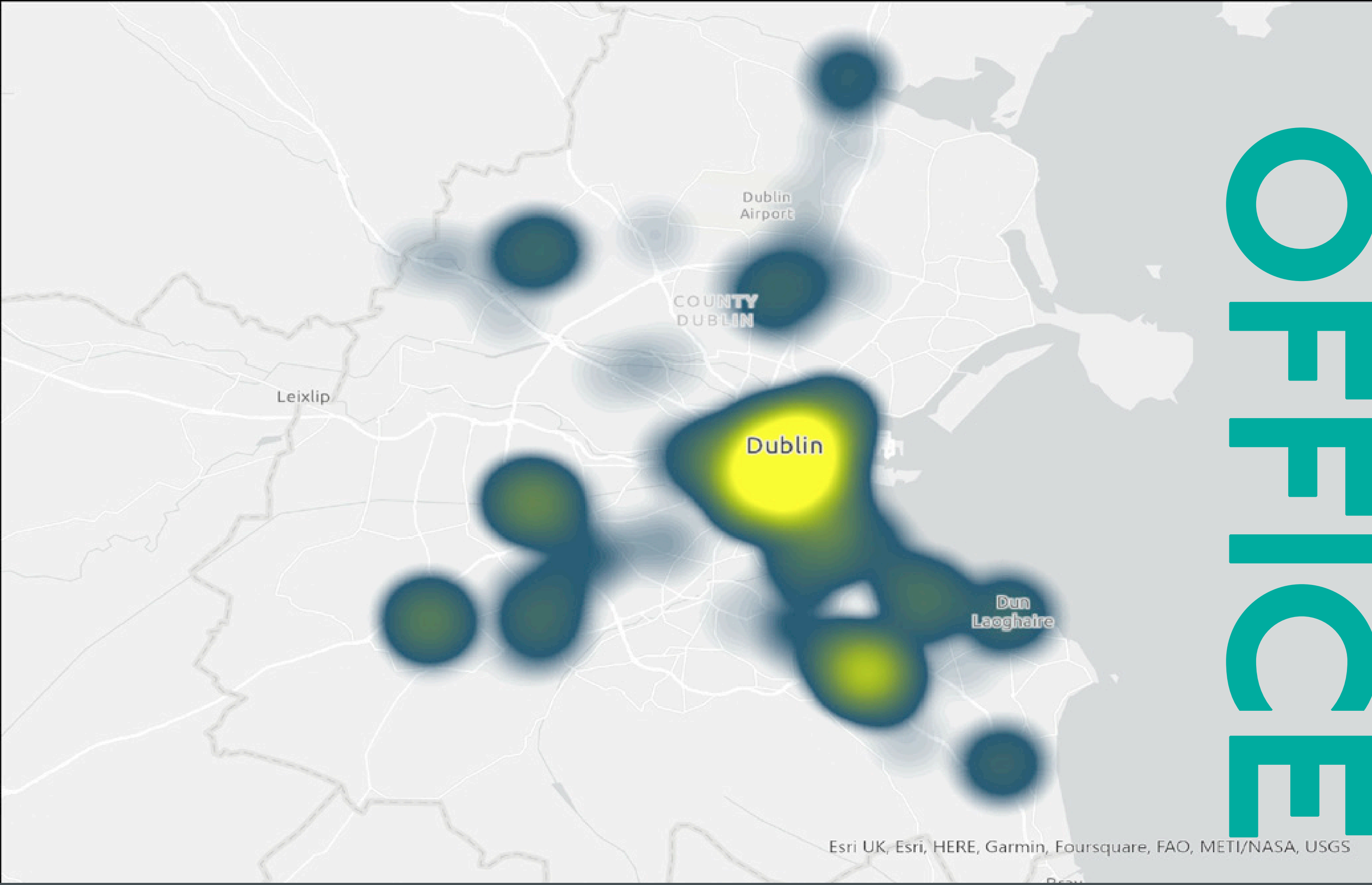
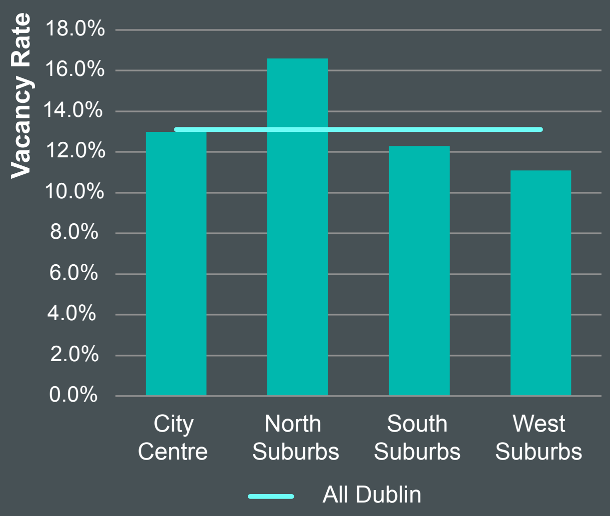


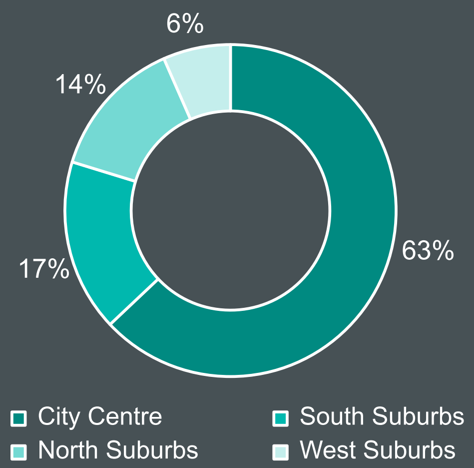
Source: Lisney

VACANCY RATE BY REGION
(Q4 2022)



Source: Lisney

SUPPLY BY REGION
(Q4 2022)



Source: Lisney

IN FOCUS

IN FOCUS - THE RISE OF GREY SPACE

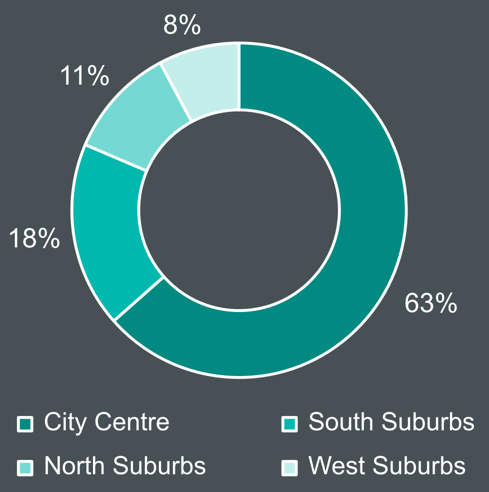
The two main talking points in the Dublin office market last year were the adjustments in the global tech industry and continued remote / hybrid working. Both trends resulted in the rise of grey space, where there is now 180,000 sqm available and more is due in the coming months. Currently, this is close to 32% of all available accommodation and accounts for 4.2 percentage points of the 13.1% 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 may of the large tech companies had very ambitious staffing targets

Inflation pressures on labour and material costs are having an impact on the viability of schemes, both those that are already under construction and those that are in the pipeline. In spite of this, there was 63,550 sqm of new office space completed in Q4 2022, bringing the year total to 231,500 sqm. The largest completion was 35,300 sqm at Fibonacci Square in Ballsbridge.

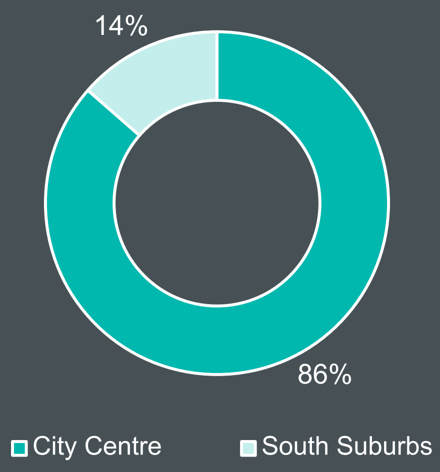
At the end of December 2022, there was approximately 277,000 sqm of office space under construction. The city centre accounted for 86% of this and included three substantial schemes: College Square on Tara Street, Wilton Park in Dublin 2 and Coopers Cross 2 on Mayor Street in Dublin 1. The average size of schemes under construction in the city centre was 13,500 sqm. By way of comparison, the average size of a new building in the city centre between 2005 and 2007 was just 4,600 sqm, illustrating the significant growth in average scheme sizes.

OFFICE STOCK BY REGION (Q4 2022)



Source: Lisney

OFFICE STOCK UNDER CONSTRUCTION (END-DECEMBER 2022)



Source: Lisney

OUTLOOK

1 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.

2 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. Many large-scale occupiers will have ESG promises to keep and will only consider newer and more efficient buildings.

3 Works will continue on office buildings under construction, 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.

MEET OUR TEAM

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