Lisney
COMMERCIAL REAL ESTATE

OFFICE REPORT

Q2 2023

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Despite the low activity levels, occupier trends continue to evolve – particularly demand for fully fitted accommodation, firm focus on location, and a strengthening interest in ESG and sustainable space – which will progress further over 2023. With reduced active demand due to remote and hybrid working arrangements, grey space and newly completed buildings continued to contribute to a growing vacancy rate in Q2.

▲ 37,500 sqm

Take Up

▲ 50

Q2 Transactions

▲ 750 sqm

Average Lot Size

▼ 60%

City Centre

Busiest Region

▲ 33%

Professional Services

Busiest Sector

▲ €700 psm

(€65 psf)

City Centre Prime Headline Rent

▼ 61,000 sqm

61% in the city centre

Reserved

▲ 15.7%

Dublin Headline Vacancy Rate

▲ 287,500 sqm

Under Construction

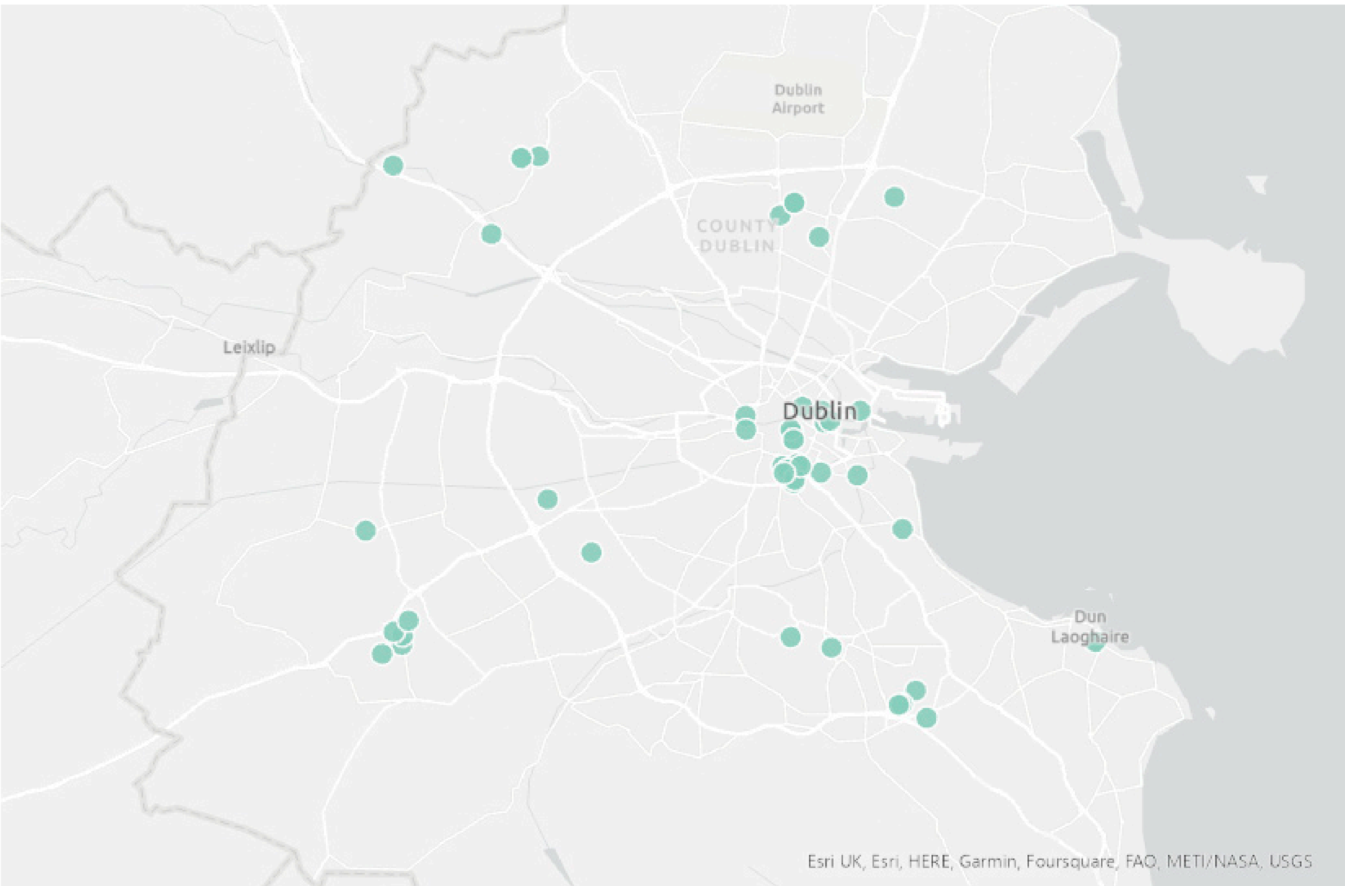
Arrows represent quarterly trends unless otherwise stated.

Top 10 Office Transactions (Q2 2023)

PROPERTY	SQM	REGION	OCCUPIER
Haymarket House, Smithfield, Dublin 7	7,400	City North	National Transport Authority
Cadenza, Earlsfort Terrace, Dublin 2	3,750	City South	KKR
Termini, 3 Arkle Road, Sandyford, Dublin 18	2,830	South Suburbs	Jacobs Engineering
Harcourt Square, Dublin 2	2,520	City South	KPMG
Two Stemple Exchange, Blanchardstown Corporate Park, Dublin 15	2,130	North Suburbs	Synopsys
1 WML, Dublin 2	1,340	City South	SCOR
The Loft, Dundrum, Dublin 14	1,050	South Suburbs	Western Union
3090-3094 Lake Drive, Citywest, Dublin 24	1,050	West Suburbs	Adobe Systems Software
Block 5 Irish Life Centre, Dublin 1	1,040	City North	Apex Fund Services
Unit G8 Calmount Park, Ballymount, Dublin 12	840	West Suburbs	Modern Plant

Source: Lisney

Office Take-Up Q2 2023



Source: Lisney

RIGHT:
2 Stemple Exchange, Blanchardstown Corporate Park, Dublin 15 - Synopsis signed a new lease for 2,130 sqm.

Activity

Office market take-up in Dublin reached 37,500, an increase of 43% from Q1, but remained below the long-term quarterly average of 57,300 sqm. This brought the take-up for the first half of the year to 64,000 sqm.

- The city centre region was the most active with 60% of all activity taking place there. Although still dominant, it was down from 65% in Q1 and has shown a gradual declining trend in 2023 compared to previous years (79% in 2022, 66% in 2021, and 72% in 2020).
- With 50 deals completed, the top ten accounted for 64% of the overall take-up. Of these, five were each in excess of 2,000 sqm with only one in excess of 5,000 sqm. Combined the top five deals made up nearly half (49%) of total activity.
- The largest deal was in the city centre; NTA (National Transport Authority) took 7,400 sqm at Haymarket House in Smithfield, Dublin 7. The State was not involved in any other deals in Q2.
- Domestic occupiers took the most space (45% of the total) while occupiers from North America took 33% of the total. Interestingly, lettings involving Irish companies averaged 630 sqm in lot size while those from North America had a significantly higher average lot size of 1,360 sqm.
- Smaller size lettings, sub-1,000 sqm continued to dominate the office market in Q2 (41 out of 50 deals), accounting for 36% (13,700 sqm) of all activity. This compares to 47% (12,300 sqm) in Q1.
- The average transaction size in Q2 was 750 sqm, a slight increase from the 610 sqm achieved in Q1. However, it remained substantially below the previous 5-year average of 1,430 sqm.
- In Q2, the professional services and financial sectors were the most active, accounting for 33% and 23% of total take-up respectively. Interestingly, the technology sector, which had dominated the market since 2014, accounted for only 9% of the total take-up in Q2 2023 and highlights the changing demand requirements in this sector.
- Ten deals (combined 21,750 sqm) were within new buildings that were never previously occupied and just one deal (420 sqm) was within a refurbished building. Most activity, 39 lettings (15,320 sqm), occurred within used accommodation that was previously occupied by another tenant. Part of this activity may be due to the space being fully fitted, allowing tenants to avoid or reduce the capital expenditure of initial setup costs when moving into new premises.

TERMS

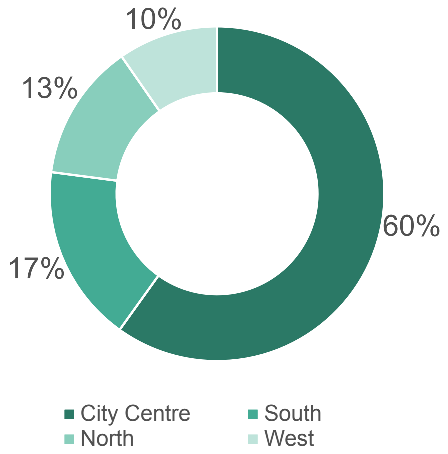
Headline rents are holding-up for quality space, particularly if the buildings have good ESG credentials and in favourable locations. In Q2 2023, the prime city centre headline rental rate increased for the second consecutive quarter to stand at €700 psm (€65 psf), 3.2% higher than pre-pandemic levels. However, there are some signs that commercial terms (rent free periods and break options) and rents on secondary space are softening. Indeed, the Lisney office rent index for the Dublin region (prime and secondary buildings in all areas) was 2.9% lower in June 2023 than it was in March 2020.

DEMAND

At the end of June 2023, there was just over 61,000 sqm of office accommodation reserved, of which 61% was in the city region. This includes TikTok's plan to take short-term space of 4,600 sqm at One Cumberland Place in Dublin 2 and three other occupiers taking a combined 4,300 sqm at The Exo Building in Dublin 1.

A growing number of larger occupiers are analysing their space requirements, moving beyond the mere quantity of space required. Employers are now equally emphasising the importance of office locations that offer a wide range of amenities, good transport links, and a vibrant work-life atmosphere to help in enticing staff back into the office. ESG is also becoming more important in decision-making, encouraging landlords to ensure their buildings meet these credentials when seeking new tenants. Occupiers continue to try and avoid significant capital expenditure when possible. This is particularly the case for SMEs where A-ratings are of less importance but where they require space that has a full fit-out, including furniture.

Take-Up by Region (Q2 2023)



Source: Lisney

“

7,400 SQM

The largest deal was in the city centre; NTA (National Transport Authority) took 7,400 sqm at Haymarket House in Smithfield, Dublin 7. The State was not involved in any other deals in Q2.

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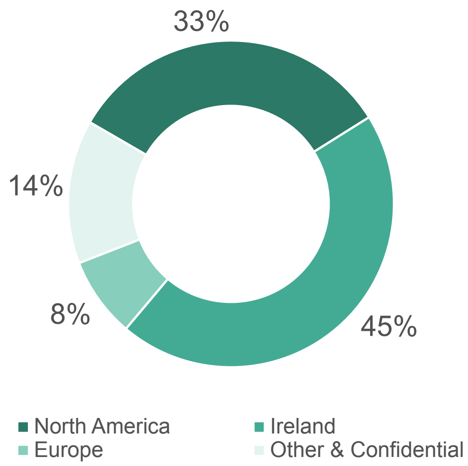
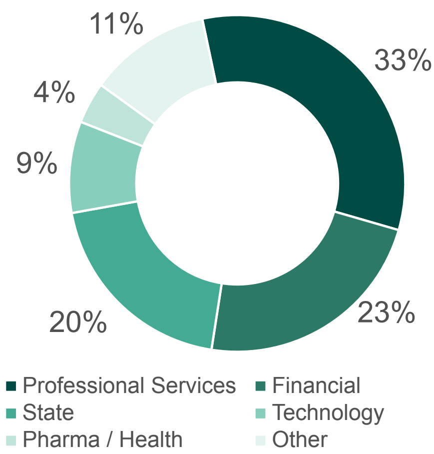
Take-Up by Occupier Origin (Q2 2023)



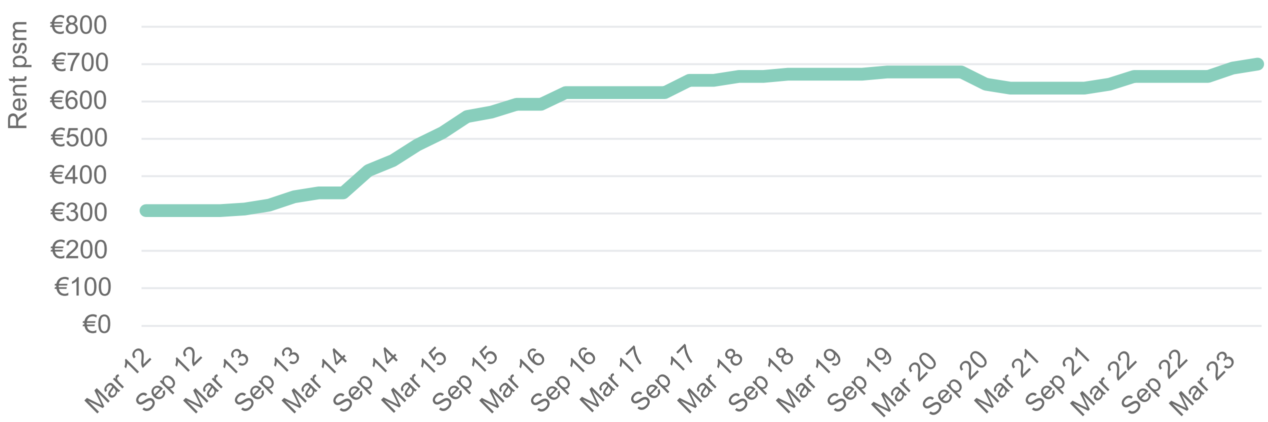
Source: Lisney

Take-Up by Occupier Sector (Q2 2023)

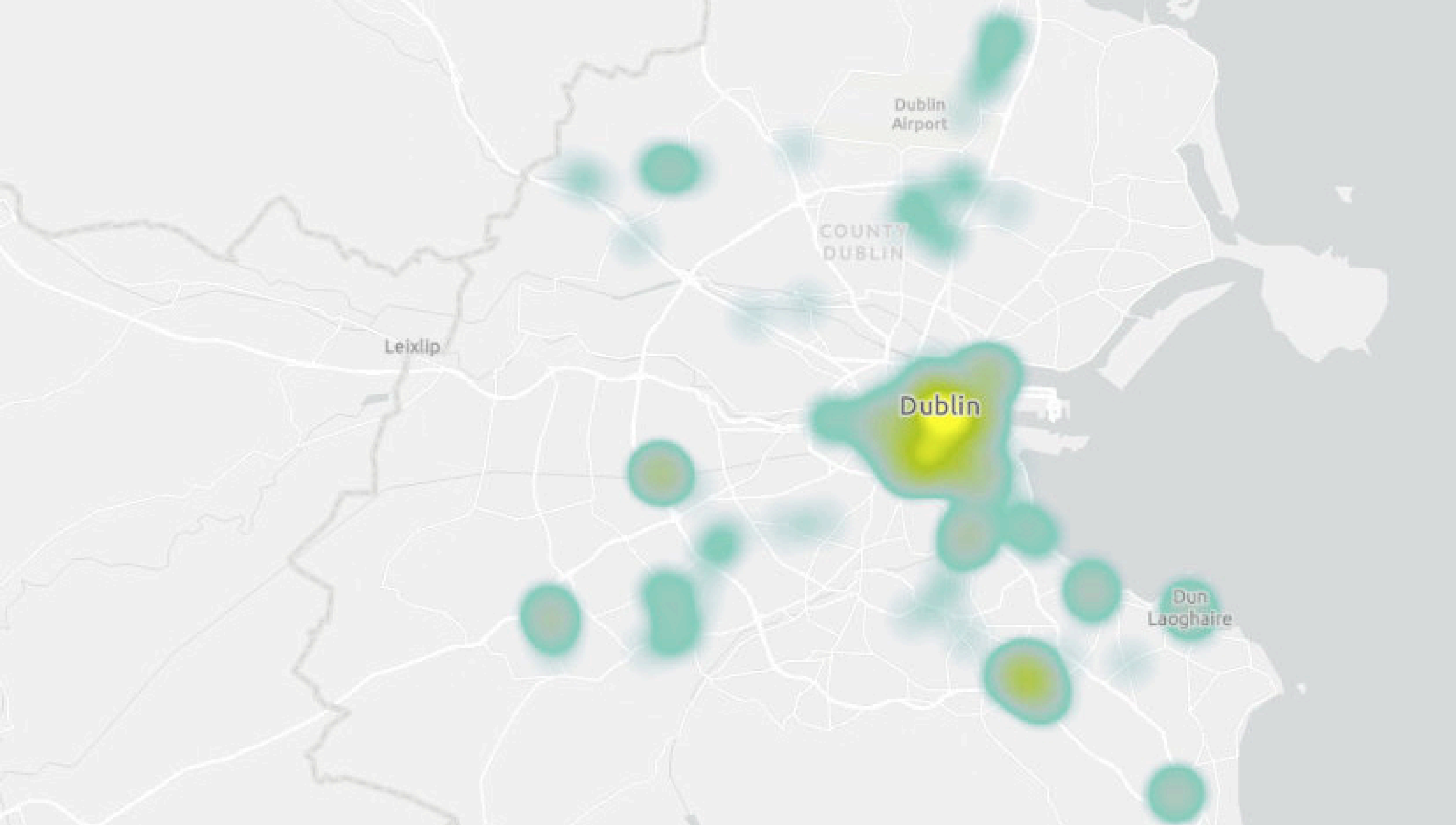


Source: Lisney

Prime City Centre Headline Office Rent (Q1 2012 – Q2 2023)



Source: Lisney



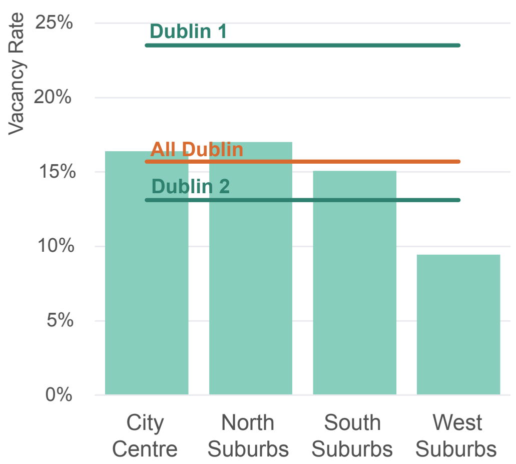
ABOVE:
Office Supply Q2 2023

Supply

At the end of Q2 2023, there was 650,000 sqm of modern, purpose-built office accommodation vacant across Dublin, an increase of 10% in the quarter (from 592,500 sqm in March).

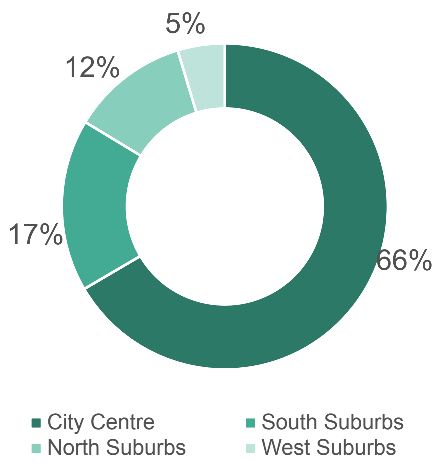
Large additions to supply in Q2 included Meta's sub-letting of its existing HQ at 4 & 5 Grand Canal Square (23,150 sqm), the newly completed Shipping Office (16,450 sqm), Saleforce's sub-letting of the rear building in Spencer Dock (7,500 sqm), and previously occupied space in Building G Central Park (11,600 sqm). Dublin's overall headline vacancy rate was 15.7% at the end of June, up from 13.8% three months previous. The rates across the regions varied with the city centre headline rate at 17% but with the true rate (when obsolete stock that is never likely to be occupied again is removed) at 15.8%. The headline vacancy rate in Dublin 2 was 13.1% while in Dublin 1, it was 23.5%.

Headline Vacancy Rate by Region (June 2023)



Source: Lisney

Supply by Region (June 2023)

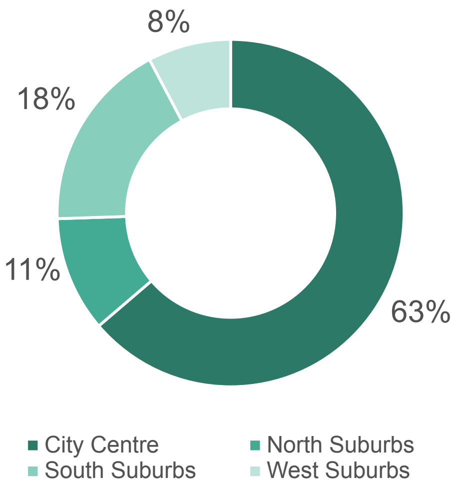


Source: Lisney

New Stock

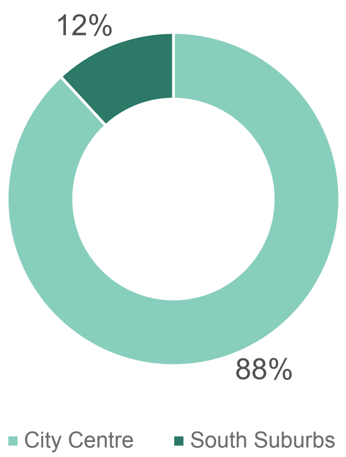
In Q2, there was 25,100 sqm of office accommodation completed across three new schemes; The Shipping Office in Dublin 2 (16,500 sqm), Clerys Quarter in Dublin 1 (6,000 sqm) and The Earl Building in Dublin 1 (2,600 sqm). Notably, each of these three buildings remain available and have added 80 bps to the city centre vacancy rate figure and 50 bps to the overall Dublin vacancy rate figure.

Existing Office Stock by Region (June 2023)



Source: Lisney

Office Stock Under Construction (June 2023)



Source: Lisney

At the end of June 2023, there was approximately 287,500 sqm of office space under construction. 58% of this comprised four substantial schemes in the city centre – College Square on Tara Street in Dublin 2 (55,200 sqm); Waterfront in Dublin 1 (40,000 sqm); 2, 3 & 4 Wilton Park in Dublin 2 (35,300 sqm); and Coopers Cross 1 & 2 in Dublin 1 (9,400 sqm and 27,200 sqm). As previously discussed, office schemes are getting larger. In Q2 2023, the average size of a scheme under construction in the city centre was 13,300 sqm. Between 2005 and 2007, the average size of a new scheme in the city centre was just 4,600 sqm, 65% smaller.

Given the market dynamics of occupier demand, fewer schemes under construction are pre / mid let. Just 29% of the stock currently being built is already spoken for. This, along with elevated construction and finance costs, will impact the viability of new schemes for at least 18 months with any new commencements reliant on an agreement for lease before works begin. As such, speculative construction will generally be absent from the market. With 55% of accommodation under construction due to reach PC in the latter part of 2023 and the remainder in 2024, no new schemes are due to come to the market in 2025 or beyond. In spite of this, there is a pipeline of potential schemes. Across Dublin there is several thousand sqm of space either with a planning grant or at pre-planning stage. To ensure construction can quickly pick up when needed, it will be necessary for developers and funders to have these schemes ready-to-go, and at a minimum have planning permission in place.

ABOVE:
60 Dawson Street, Dublin 2
Pinterest signed a new lease for 2,580 sqm in Q1 2023.

ABOVE:
Termini, 3 Arkle Road, Sandyford, Dublin 18 - Jacobs Engineering signed a new lease for 2,830 sqm.

In Focus

Supply Trends in Dublin

The vacancy rate in the Dublin office market has been on an upward trajectory since the onset of COVID in Q1 2020; moving from a headline rate of 6.9% to 15.7%. This almost nine percentage point growth in the vacancy rate has been driven by trends experienced in office markets globally – changing work practices (WFH and hybrid), adjustments across industries especially in tech (a sector that has been driving positive net absorption in recent years), and the impact of economic and geopolitical concerns on businesses.

The result has been a rise in grey space coming to the market (i.e. accommodation available on a sub-let basis) and newly completed accommodation not being taken prior to completion (as pre or mid lets).

At the beginning of 2020, there was little or no grey space on offer to the market by tenants wishing to sub-let all or part of their accommodation. However, by mid-2020 this was at 27,000 sqm, rising to 92,000 sqm by the end of the year. Over 2021 it remained reasonably stable, fluctuating by about 5,000 sqm up or down each quarter. Growth resumed in 2022, when it reached 178,000 sqm by the end of the year, a trend that has continued into H1 2023 with grey space standing at 242,000 sqm at the end of June.

To put 242,000 sqm in context, it is:

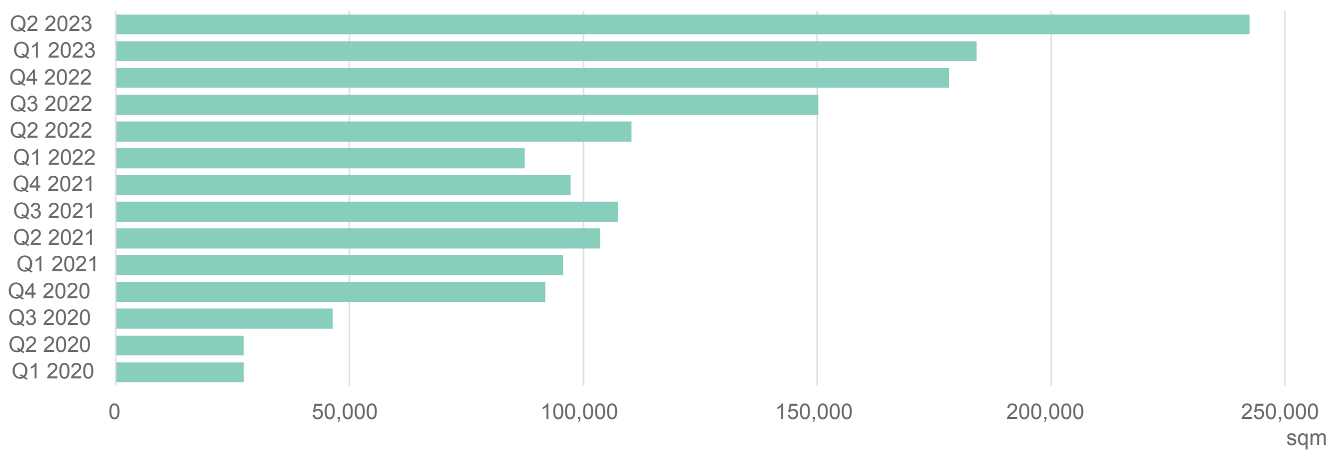
- equivalent to one years' average market take-up in the last decade
- accounts for almost 36% of market supply (all space currently available)
- makes up 5.6 percentage points of the vacancy rate

Notable tech occupiers bringing high quality accommodation to the market on a sub-let basis in the last six to nine months include Meta and Salesforce. Meta offered the newly completed Fiobanacci Square, Dublin 4 (35,300 sqm) to the market towards the end of last year and as mentioned above brought an additional 23,100 sqm at 4 & 5 Grand Canal Square, Dublin 2 to the market in Q2 2023. Also, in Q2 2023, Salesforce offered a 7,500 sqm building to the rear of its new HQ at Spencer Dock to the market. Google has yet to announce any sub-let offerings, however, there are indications that this is in the pipeline.

While grey space is adding to supply levels, so too are newly completed buildings. In the years just prior to the pandemic, most new schemes were pre or mid-let prior to reaching PC but in the last three years, this trend has declined and many speculatively developed buildings remain available.

For example, four substantial schemes were completed in the first half of 2023 with a combined floor area of just over 35,000 sqm, and all four buildings remain empty, adding over one percentage point to city centre vacancy rate and 70 bps to the overall Dublin vacancy rate figure. Similarly, 231,500 sqm of new accommodation was completed in 2022 and about 80,000 sqm, a little over one-third, remains available.

Grey Space (Q1 2020 – Q2 2023)



Source: Lisney

Availability and Vacancy Rate

Source: Lisney

140,000 sqm

Activity levels in 2023 will be lower than long-term averages with full year take-up likely to be around 140,000 sqm

Outlook

The availability of grey space is likely to continue shaping market dynamics in the coming quarters, including lease terms and rents achieved. The headline vacancy rate may reach 17% for all of Dublin by the end of the year.

Activity levels in 2023 will be lower than long-term averages with full year take-up likely to be around 140,000 sqm with a little under half of this already achieved.

Tenant indecision will continue, and deals will be slower to conclude. Most businesses will remain resistant to large sums of capital expenditure for expensive fit-out costs while examining working practices. That said, demand will remain good in the mid-market (500 to 1,000 sqm) for fully fitted, flexible space.

While large requirements are currently limited, over the medium to longer-term horizon, the flight to quality will intensify for high profile tenants. New buildings completed in recent years as well as those currently under construction adhere to ESG policies and EU Taxonomy regulations. As the office market continues to evolve, occupiers' preferences for ESG-focused buildings with attractive work-life amenities will play a fundamental role in shaping the future dynamics of Dublin's office market and in the medium term, these buildings will be in demand.

Construction of office buildings currently ongoing will continue until completion is reached either this year or next. However, new office schemes starting construction will be very limited with elevated construction costs and a greater risk profile the main reasons. This raises the possibility of an insufficient supply of A-rated buildings in three to five years to meet the demand arising from occupiers' 2030 ESG commitments.

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