OFFICE REPORT

Q2 2020

OFFICE SECTOR IN NUMBERS

ACTIVITY

6,900
SQM

LOWEST QUARTERLY
TAKE-UP
SINCE 1989

OCCUPIERS

50%

US OCCUPIERS
ACCOUNTED FOR
HALF OF ALL SPACE
BUT JUST 3 DEALS

VACANCY RATE

INCREASED TO
8.1%

OVERALL VACANCY
RATE INCREASED ONE
PERCENTAGE POINT –
8.1% AT THE
END OF Q2

NEW STOCK

33,100
SQM

FIVE NEW BUILDINGS /
EXTENSIONS
COMPLETED Q2 2020

OVERVIEW

Total office take-up in Q2 was just 6,900 sqm with the half year total reaching 95,600 sqm. Q2 was a particularly weak quarter given the COVID-19 related closure of the domestic and global economy. Supply increased in the three months due to speculative construction completing. The headline vacancy rate for Dublin overall was 8.1% at the end of June 2020.

ACTIVITY

Understandably, Q2 2020 was a particularly weak quarter in the Dublin office market due to the COVID-19 related closure of the domestic and global economy. Take-up in the three months was 6,900 sqm across just 12 transactions, the lowest quarterly level of activity in the Dublin market since 1989. In the first half of 2020, 95,600 sqm of space was transacted, 38% less than the same period of 2019. Given how small take-up was in Q2, analysis of the figures is somewhat meaningless. However, we have provided the details below for reference.

In Q2, close to two-thirds of activity related to overseas occupiers with the US accounting for half of all activity (however, in absolute terms, US companies only took 3,200 sqm). Based on proportions of market activity, this is a similar trend to the past 18 months where overseas occupier take-up has averaged 62% of the market but it is obviously significantly less in real terms in Q2.

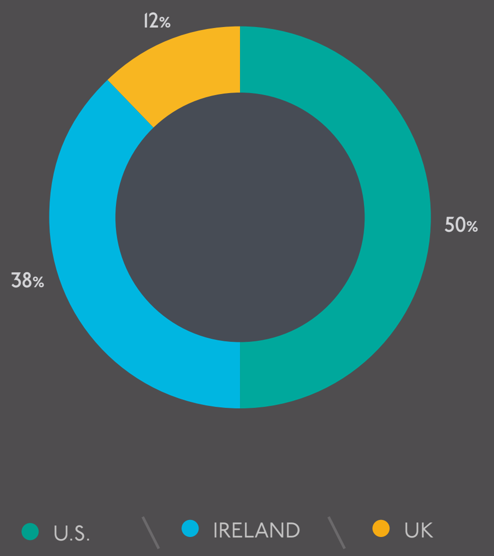
While demand from US tech companies was very strong prior to the pandemic, some have been severely impacted by the crisis. Some of the large players located in Ireland have had, or are in the process of, significant staff cuts. For example Airbnb announced plans to cut 35% of its Dublin workforce (190 jobs) and LinkedIn revealed plans to cut 6% of its global workforce, which if applied directly to Dublin would result in a loss of 120 jobs. It remains to be seen if we are entering a period of contraction for large tech companies. It is likely that those linked to recruitment and tourism, such as the examples above, along with other disruptor type technology may suffer to a greater extent than others. It is a trend to monitor in the coming months and will likely be linked to the evolution of the virus and how quickly a vaccine is approved, which is progressing favourably.

ACTIVITY (cont'd)

86% of activity in Q2 was in the city centre, all on the south side of the River Liffey. This comprised nine of the 12 deals completed, including the four largest. The remaining three transactions where in the suburbs, one in the north suburbs region and two in the west suburbs region. There were no deals concluded in the south suburbs in the quarter, something which has not happened in almost 20 years.

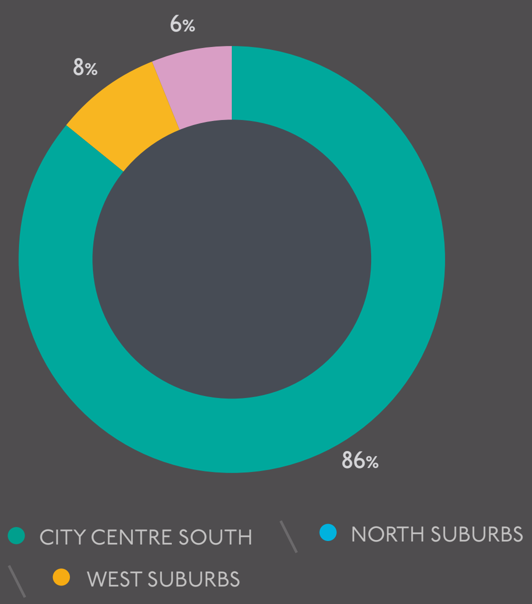
Contrary to recent quarters, tech companies only accounted for 11% of take-up with the healthcare / pharma sector the most active, at 43% of the market. Financial services were also reasonably active at 20% of the market (but this was just 1,380 sqm). As to be expected, both the State and serviced office providers were absent from the market in Q2.

TAKE-UP BY OCCUPIER ORIGIN
Q2 2020



Source: Lisney

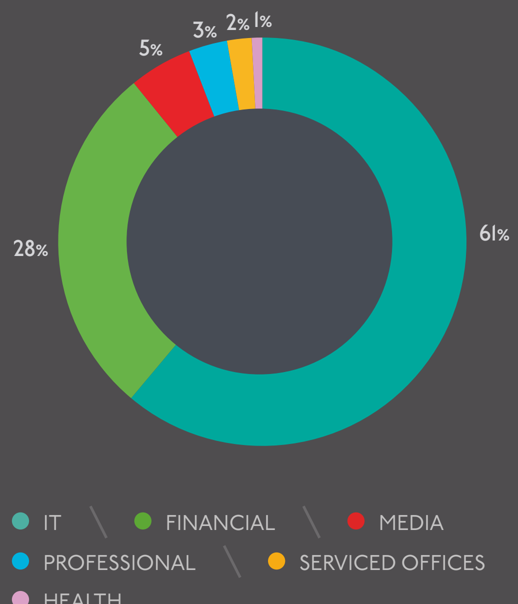
TAKE-UP BY REGION
Q2 2020



Source: Lisney

The biggest deal, by some distance, was at 2 Cumberland Place in the city centre where 3M (the healthcare division of the conglomerate) took over 2,220 sqm. This was followed by Amryt Pharma taking 760 sqm at 45 Mespil Road; Teckro (clinical trial technology provider) taking 580 sqm at 6C Cumberland Place; and Vanguard (investment company) taking 580 sqm at Georges Quay Plaza – all in the city centre. In the suburbs, the largest deal was in the north where Giant Media took 550 sqm at Phibsborough Tower.

TAKE-UP BY SECTOR
Q2 2020

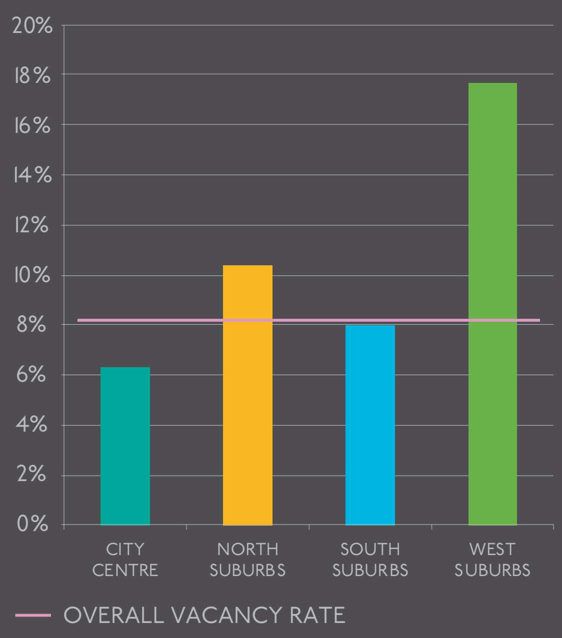


Source: Lisney

DEMAND

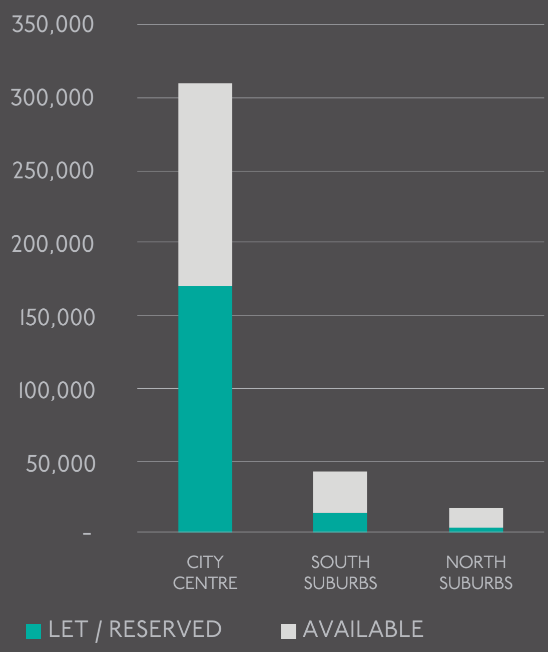
Demand was limited in Q2 and will remain so in the second half of 2020, particularly from overseas companies if their country of origin is not on the green list for travel. The majority of deals that will complete in the short-term will be to those whose business remain unaffected by the current situation. Although leases will still be signed, well advised tenants may seek a risk coupon in the form of a revised rent or increased rent free period for executing leases in the current environment. Extended rent free periods would also take into consideration the fact that construction may close down again and fit-outs would not be completed on time.

VACANCY RATE BY REGION
Q2 2020



Source: Lisney

CONSTRUCTION BY REGION
Q2 2020



Source: Lisney

NEW STOCK

33,100 sqm of new office stock was completed in Q2 bringing the total for the first half of 2020 to 62,900 sqm. In the city centre, 76 Sir John Rogerson's Quay (8,850 sqm) and Kildress House on Pembroke Row (2,050 sqm) were finished. However, the north suburbs had the largest amount of accommodation complete construction with Block B Dublin Airport Central (10,875 sqm) and the Ryanair building (10,685 sqm) finished in Q2.

At the end of June, there was almost 371,000 sqm of office space under construction in Dublin. The city centre accounted for 84% of this with the largest scheme under construction in Ballsbridge, the 54,200 sqm Fibonacci Square already taken by Facebook. Another particularly large scheme still under construction in Q2 was Salesforce Tower at Spencer Place (43,670 sqm), the company's new European HQ. These schemes, among others, are already committed to by occupiers. In fact, 51% of the space under construction across Dublin is either pre-let or reserved, leaving 49% or 183,000 sqm available.

The development pipeline will be affected in the short to medium-term by the lockdown and the closure of sites for at least seven weeks in Q2. Given the COVID-19 related health and safety measures, delays in schemes being completed could be up to six months.

45 MESPIL ROAD, D4

IN FOCUS

IS A SUBURBAN MARKET RESURGENCE ON THE HORIZON?

Traditionally, Dublin city centre activity was between 55% and 60% of the overall market with the suburbs making up the remainder (40% to 45%). However, in this property market cycle and most notably since 2014, the city centre region has been more dominant, with its average representation at 71%, but reaching 80% in 2018 and 2019.

As a result of COVID-19, we may now start to see a shift back to the suburbs and a resurgence in its popularity. In just a few short months, businesses have discovered several specifics from the pandemic. Firstly, staff do not have to work in the office; they can successfully work remotely. However, there is a cohort (both people and businesses) that benefit from a stable working environment and collaboration. As such, the requirement for office space remains, albeit potentially scaled back.

Communities may need to live with this virus, or indeed the next version of it, for longer than expected. Businesses are not comfortable with their staff accessing public transport and therefore, walking, cycling and driving will gain momentum. Suburban office locations tend to have better parking ratios and more importantly, are nearer to where staff live.

The need to have all staff in one office building or location is redundant and businesses will be more open to splitting their office accommodation geographically to suit employees. This would likely mean that larger occupiers will look to grow hubs in suburban locations where their staff will easily commute to work by walking, cycling or driving and not have to get involved with city traffic or in the short-term, public transport. Equally, they will seek to keep a city centre HQ for those that want to be in central locations and/or live in the city centre. For the businesses, rents and occupation cost are cheaper in the suburbs and splitting their workforce might now make more sense from a health and safety point of view. Already, there are several examples of companies reviewing such options.

1. Demand will remain limited over the second half of 2020, particularly while international travel is restricted. Some tenants may sign deals but they will like have special conditions attached linked to completing fit-outs.
2. Professional services, aircraft leasing and some financial (banking and insurance) sectors will be absent from the market for the next while.
3. The lack of transactional evidence in Q2 means the impact of COVID-19 on rents remains unknown. While top headline rates were unchanged in Q2, there is likely to be downward movement in the coming months. The quantum of this will depend on whether existing occupier requirements remain active and whether deals that have been agreed, but put on hold, progress.
4. Rent collection rates from office properties were strong in Q2 across the various Irish REITs. Generally, paying the rent on office space will be sustainable for most categories of occupiers. However, some professional practices may come under pressure towards the end of the year.
5. Grey space (sublets) has been absent from the market for several years but is beginning to come back into the market. It will push up supply and vacancy levels over the second half of 2020 and into 2021. If this grows significantly, it will act as a drag on market rents as those sub-letting tend to collect what rent they can and view it as a cost recovery mechanism.

MEET OUR TEAM

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