Lisney

OFFICE REPORT

Q4 2020

OFFICE SECTOR IN NUMBERS

ACTIVITY

27,500
SQM

SIGNIFICANTLY LARGER THAN THE PREVIOUS TWO QUARTERS

SUPPLY

441,500
SQM

16% INCREASE IN Q4

RENTS

-1.7%

PRIME HEADLINE RATE FELL IN THE QUARTER

UNDER CONSTRUCTION

428,000
SQM

90% IN THE CITY CENTRE

OVERVIEW

The office market had been earmarked to have another good year in 2020 and with strong demand, it started well with almost 90,000 sqm of accommodation transacted in Q1. This included some very large deals in the tech and financial sectors. However, the effects of COVID-19 took their toll, and with only 55,000 sqm of transactions completed in the remaining nine months of the year, the market was in somewhat of a hibernation. While deals were done, many had been agreed earlier in the year and most occupiers put their requirements on hold, adopting a wait-and-see approach.

ACTIVITY

Following two very weak quarters, activity levels improved in Q4 with take-up across Dublin reaching 27,500 sqm. While this is a significant increase on the 6,900 sqm completed in Q2 and 19,900 sqm in Q4, it is still a relatively modest quarterly activity figure. Given how small take-up was in Q4, analysis of the figures is somewhat meaningless. However, we have provided the details below for reference.

REGION

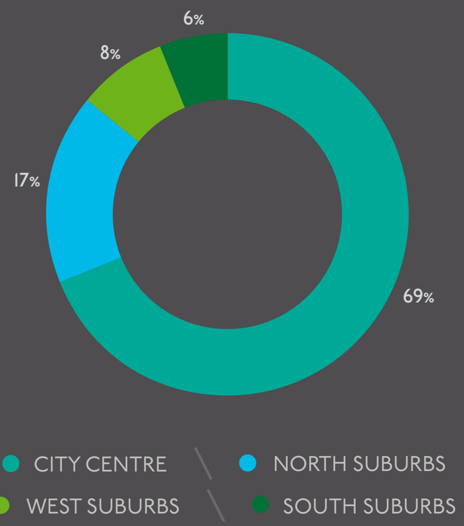
In Q4, 69% of activity was in the city centre with four of the top five largest transactions occurring there. The largest deal comprised Amazon taking 6,400 sqm at 2 Burlington Plaza, followed by the HSE taking 4,060 sqm at 1 Heuston South Quarter. Other deals in the city centre included 76 Sir John Rogerson's Quay (Rabobank – 2,200 sqm), North Dock 2 (BlueFace – 1,460 sqm) and Central Quay (Hines – 1,050 sqm).

In the suburbs, 17% of activity was in the north with the west and south at 8% and 6% respectively. The largest deal in the suburbs was a vacant possession sale of 2,800 sqm in Airside Business Park.

ORIGIN

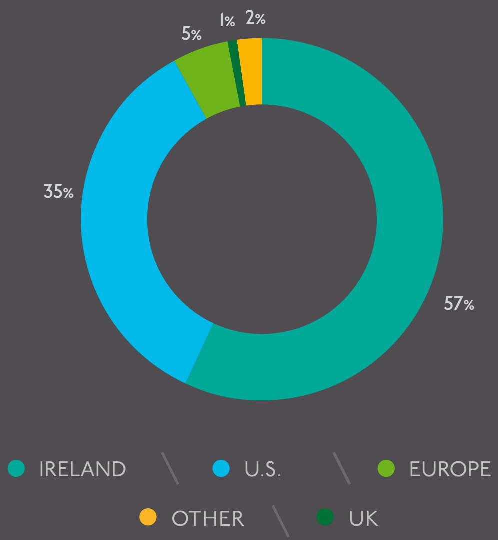
In Q4, 57% of activity related to domestic companies with the remaining 43% related to international occupiers. Those from the United States dominated international activity at 35% of the overall market with a further 5% from Europe and 1% from the UK. In 2020 overall, companies from the US were involved in 71% of all activity, driven by the very strong levels in Q1.

TAKE-UP BY REGION
Q4 2020



Source: Lisney

TAKE-UP BY OCCUPIER ORIGIN
Q4 2020

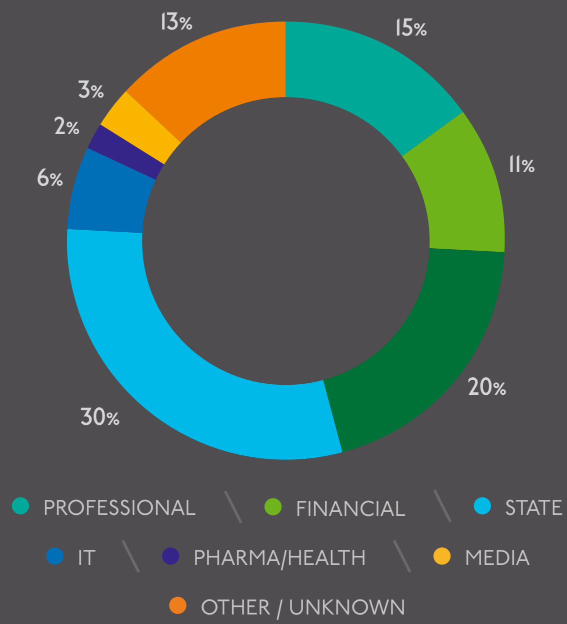


Source: Lisney

SECTOR

The tech sector continued to dominate take-up in Q4, having been the most active sector in Q1 and Q3. In Q4, it accounted for 30% of activity and annually it was at 49% of the market. The State's involvement in the market remained strong in the final months of the year, accounting for 20% of take-up. This was followed by professional services at 15% and financial at 11%. As to be expected, for the third consecutive quarter there was no activity by serviced office providers with just 1,750 sqm of take-up in this sector since the start of 2020.

TAKE-UP BY SECTOR
Q4 2020



Source: Lisney

DEMAND

Understandably, most businesses are adopting a wait-and-see approach until they have a better understanding of the impact of COVID-19 on their long-term space requirements. It will be difficult for decision makers to opt to proceed with deals in the short-term as any space taken may not be occupied in any meaningful way for up to nine months. In spite of this, there are requirements in the market, which will result in deals in the coming months.

TERMS

The significantly reduced levels of transactional evidence in the last nine months means it is difficult to assess the full impact of COVID-19 on rents. This dearth of activity, combined with less favourable market sentiment means that headline rates across most regions and quality of stock fell in the second half of 2020. Q3 2020 was the first time since mid-2011 that prime office rents in Dublin fell with Lisney's overall Dublin office rental value index down by 3.1% in the second half of 2020 and by 1.3% in the final three months. The prime city centre headline rate was €635 psm / €59 psf at the end of December 2020.

SUPPLY

At the end of December 2020, there was just over 440,000 sqm of modern office accommodation vacant across Dublin, an increase of 16% in the quarter and 40% annually. 92,000 sqm or 21% of the stock on the market at the end of Q4 was grey space (sub-lets) that had been returned to the market by occupiers with too much accommodation. All of this accommodation came to the market since the onset of the pandemic. Also adding to supply was the Termini building on Arkle Road in Sandyford (20,850 sqm), which finished speculative construction during the quarter. It is now the biggest individual building available in Dublin.

The majority of available property was in the city (55% of the total) with 18% in the south suburbs, 14% in the west suburbs and 13% in the north suburbs. Over half (56%) was previously occupied space (a quarter of which is grey space) with just 30% new buildings, never before occupied. While previously at higher levels, sub-standard accommodation was just 3% of the total of what was available at year-end (half of which is grey space).

The overall Dublin headline vacancy rate was 10.8% at the end of December (9.5% city region and 12.9% in the suburbs). If sub-standard space is removed, the true vacancy rate was 10.4% (9.0% in the city). Notably, the true vacancy rates in Dublin 1, Dublin 2 and Dublin 4 were 11.6%, 7.8% and 9.6% respectively.

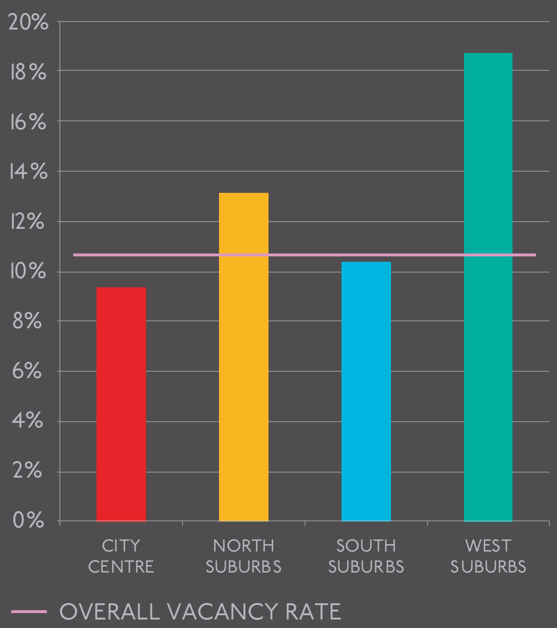
NEW STOCK

39,600 sqm of new office stock was completed in Q4 bringing the total for the year to 136,000 sqm. While only two buildings were completed, both were large in size; in the city centre, 91-94 North Wall Quay (18,800 sqm) and in the south suburbs, Termini in Sandyford (20,850 sqm).

At the end of December, there was almost 428,000 sqm of office space under construction in Dublin. The city centre accounted for 91% 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 heading into the new year was Salesforce Tower at Spencer Place (43,670 sqm), the company's new European HQ. College Square (formerly Apollo House) on Tara Street commenced construction during Q4 and will extend to 50,200 sqm when completed in late 2022.

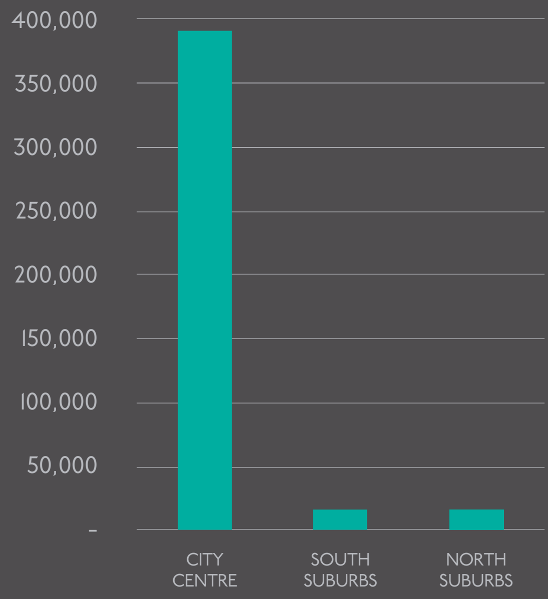
The development pipeline will continue be affected in the short to medium-term by the lockdown and the closure of sites. Given the COVID-19 related health and safety measures, delays in schemes being completed could be up to nine months.

HEADLINE VACANCY RATE BY REGION
Q4 2020



Source: Lisney

UNDER CONSTRUCTION BY REGION
Q4 2020



Source: Lisney

IN-FOCUS: THE OFFICE

One of the biggest talking points in the sector is the future of 'the office'. Most workers demonstrated an ability to successfully work remotely in 2020, self-taught in video conferencing and adopting new work practices. There are numerous surveys globally with conflicting findings; a shift away from the office, a desire to return, or somewhere in between. The debate is still in its early stages but is complex and effects workers across nearly all professional sectors and industries. In the longer-term it seems that the office will evolve in different ways depending on the policies adopted by individual businesses. Some will require suburban accommodation to be closer to where people live and connect with their changed lifestyles, others will seek to bring all staff back to central locations, while some may allow working from home permanently.

Flexibility was already creeping into the working week prior to the pandemic, but it has now been accelerated. Whatever the path chosen by businesses, it seems likely that some staff in certain sectors will work remotely one to two days a week. On the surface, this might imply that 20% to 30% less space will be required by businesses as hotdesking on days in the office becomes the norm. However, there is a possible counter to this reduction. People have become accustomed to greater personal space in the last nine months and in open plan offices, desk space sizes and distances from colleagues may grow due to personal preferences. It may be the case that it is less the 'work from home revolution' and more the 'office space evolution' and how space is used rather than how much space is used.

Consideration also needs to be given to given to the social aspects of the workplace and developing / maintaining a business culture. Prior to the pandemic, workers were already part of a team and had an established relationship with their colleagues. As new team members join, that bond within a team is best achieved through face-to-face collaboration. Personality and age profile is also a factor. Remote working may suit those more progressed in their careers and/or with families, while younger staff may see the workplace differently. For them it might be more about learning from colleagues, developing friendships and being involved in activities. These cultural and community aspects of an office cannot be under-estimated and will become more important as the office changes. Indeed, even before COVID-19, developers of both city centre and suburban offices were seeking to build-in an 'experience' element, similar to what retailers have been focused on in the last decade. This will need to be to the fore in new office schemes in the future where the office becomes a cultural hub where teams can meet and collaborate.

1. There will be continued office demand in 2021 and at the end of the year there was already some notable 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. It will be towards the end of 2021 and into 2022 before activity reverts to healthier levels. Life in business should be getting back to more normality by then as the vaccine is rolled out, particularly in the city centre. Companies will be in a better position to make long-term occupational decisions.

3. In the meantime, there will be downward pressure on rents but at this stage, we are only expecting limited movement, perhaps a swing of between 5% and 10%, principally because the market will be able to take the slack in demand. 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 10.4% at the end of December (equivalent to about 1.5 to 2 years' supply). Additionally, only one-quarter of new office accommodation completing construction during 2020 do not have deals agreed with a tenant so it will not significantly add to the vacancy rate.

4. As construction activity cannot be turned on and off easily, schemes under construction will continue but there will be a limited number of new starts.

5. Over 90 companies, mainly in the financial services sector, have expanded in Ireland due to Brexit. However, this has not had a major impact on the property market and will only have a limited positive effect in 2021 as the Brexit solution for such companies is typically to open an additional office in Dublin rather than move the entire London office to Dublin.

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