Lisney

OFFICE REPORT

Q1 2022

TOTAL TAKE UP

43,850 SQM

TOP 3 DEALS

7,330 SQM	THE EXO BUILDING, DUBLIN 1
6,340 SQM	10 HANOVER QUAY, D2
3,200 SQM	124/127 ST STEPHENS GREEN, D2

AVERAGE DEAL SIZE

1,160 SQM

TOP PERFORMING SECTORS

51%	IT
20%	PROFESSIONAL SERVICES
17%	STATE

TOTAL RESERVED

113,600 SQM

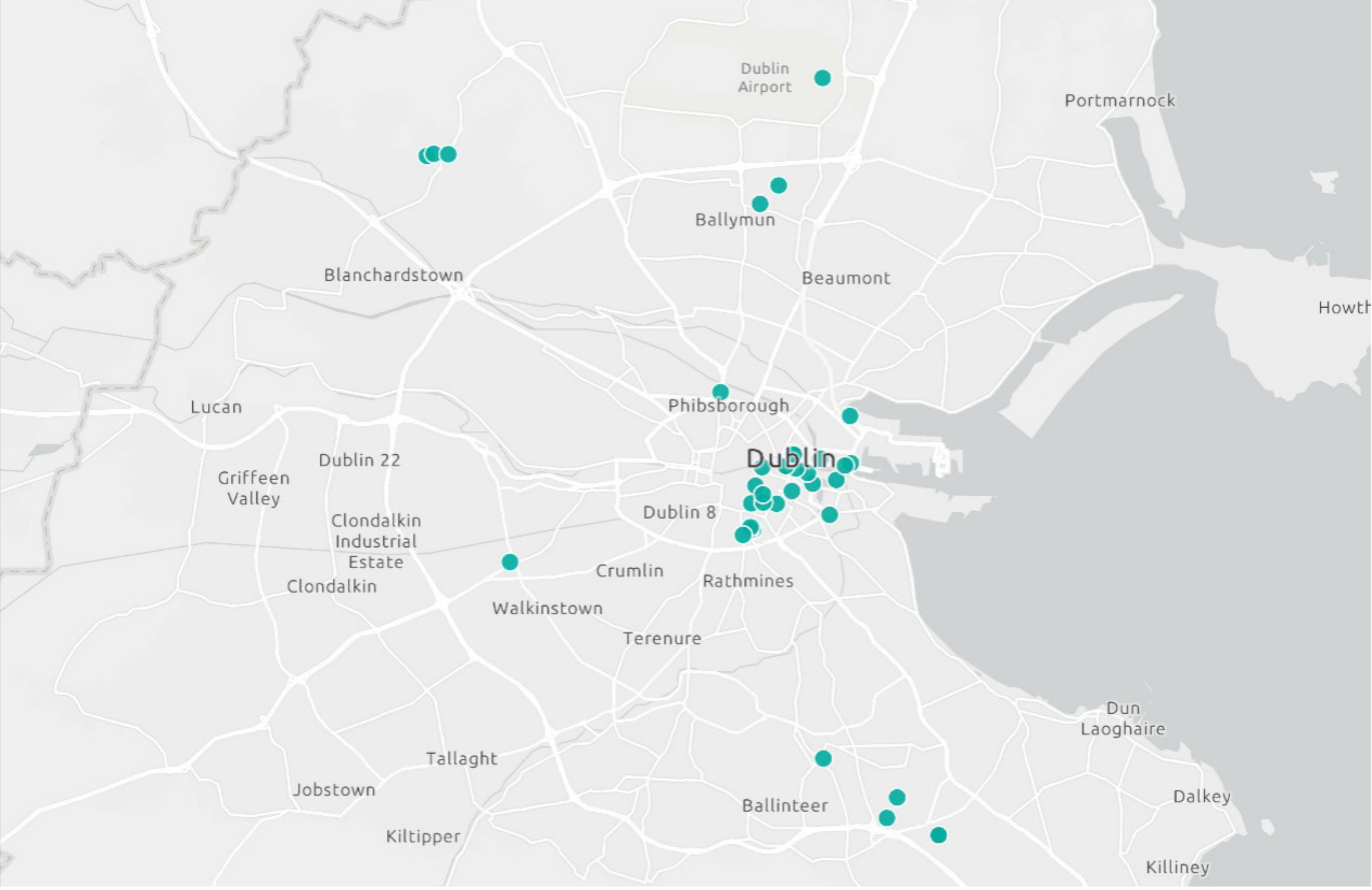
TRUE VACANCY

10.1%

OVERVIEW

Following on from low levels of activity during the pandemic, the office market improved further in the opening months of 2022. 43,850 sqm of office space was transacted, including two large deals that made up 31% of the total. In addition, there was 113,600 sqm of accommodation reserved at the end of March, highlighted the level of demand present. While the delivery of the new schemes has been delayed due to COVID-19 related site closures, construction activity progressed with 24,900 sqm completed. The vacancy rate declined for the third consecutive quarter, to stand at 10.1%. Prime headline rents grew by 3.3% in Q1, albeit still 1.6% below March 2020 levels.

SORTING OFFICE, DUBLIN 2

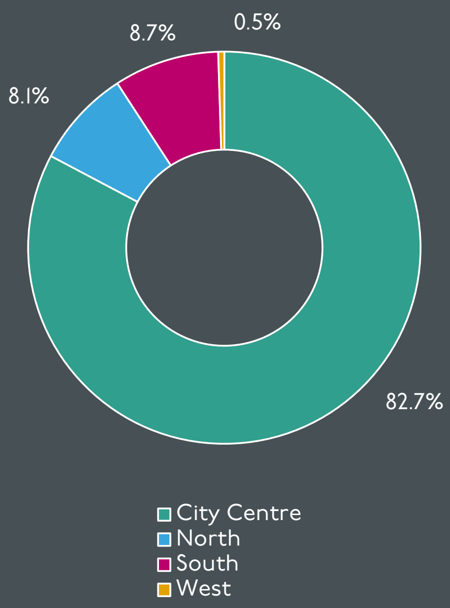


ACTIVITY

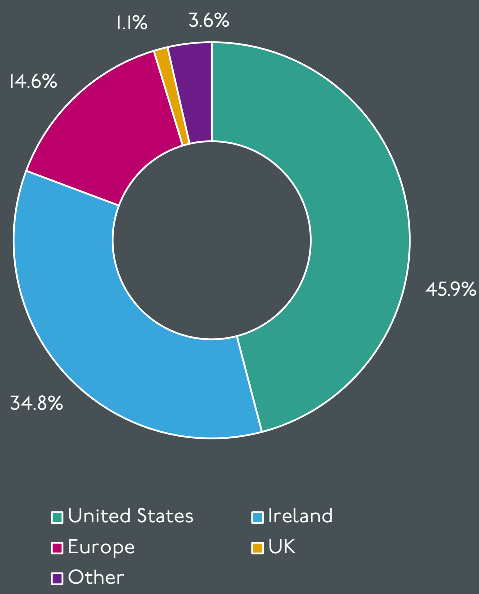
Following a strong Q4 2021, take-up across Dublin in Q1 2022 reached 43,850 sqm. While this was substantially higher than the 1,870 sqm transacted 12 months previous, it was approximately half of the average level of quarterly activity (86,000 sqm per quarter between 2017 and 2019). 83% of this was in the city centre with tech firms the most active. Market sentiment was positive with the amount of stock reserved at the end of the quarter standing at 113,600 sqm.

- As is usual, the city centre was the busiest region, accounting for 83% of space transacted. It was followed by the south suburbs region at 9%, while the north and west suburbs accounted for 8% and 0.5% respectively.
- The two largest transactions were in the city centre. An Post completed its deal on 7,330 sqm at The EXO Building in Dublin 1, while Fiserv (a US fintech) took 6,340 sqm at 10 Hanover Quay in Dublin 2.
- Occupiers from the United States took the majority of the space, 46% of the total, with domestic occupiers taking a little over one-third.
- The tech and professional services sectors were the most active, accounting for 51% and 20% respectively.
- The State was involved in two deals, which combined totalled 7,420 sqm and included the largest letting of the quarter – An Post taking the Exo Building.
- Serviced office providers re-emerged in the market and were involved in two deals totalling a combined 2,640 sqm.
- The average transaction size in Q1 was 1,160 sqm. While this was less than the 1,600 sqm average in the four years before the pandemic, it is a notable lot size given the market context.

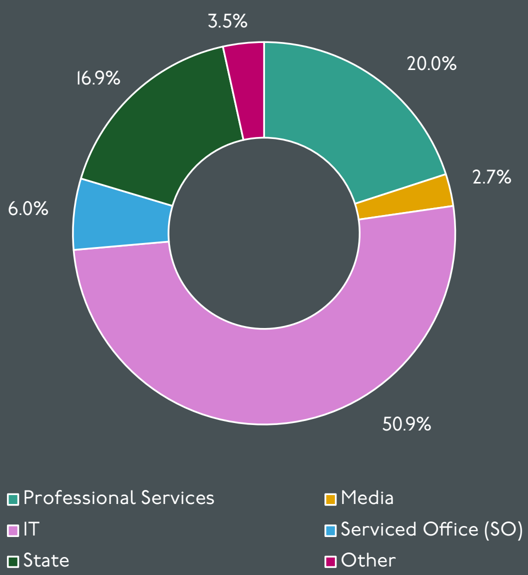
TAKE-UP BY REGION
Q1 2022



TAKE-UP BY OCCUPIER ORIGIN
Q1 2022



TAKE-UP BY REGION
Q1 2022



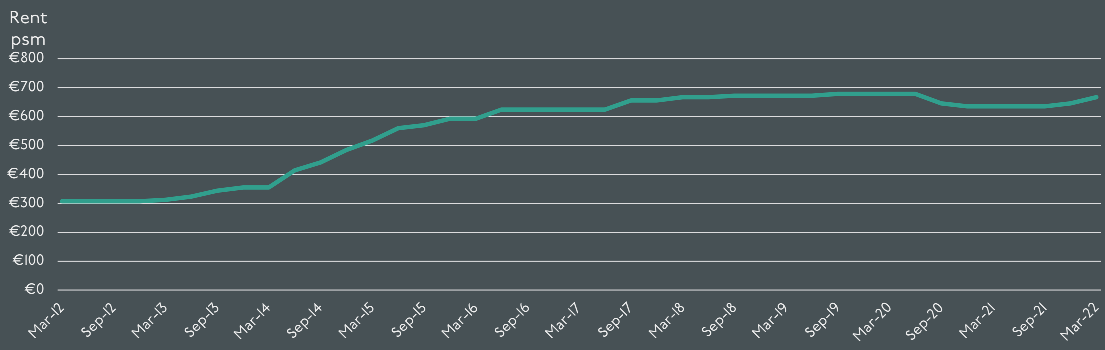
Source: Lisney

TERMS

We estimate that prime headline rents in Q1 2022 increased to €667 psm / €62 psf from €645 psm / €60 psf in Q4 2021. However, this remains below pre-pandemic levels (-1.6%). For the overall office market across Dublin (prime and secondary buildings in all regions), Lisney's commercial rental indices was 1.5% lower in March 2022 when compared to March 2020.

Many factors will impact rental values in the medium-term. ESG criteria and the requirement for energy efficient buildings, along with a lack of supply of new properties will feed into rental inflation. In addition, the rents required to justify new builds will increase to counter-balance construction cost inflation.

PRIME HEADLINE OFFICE RENT
(Q1 2012 – Q1 2022)

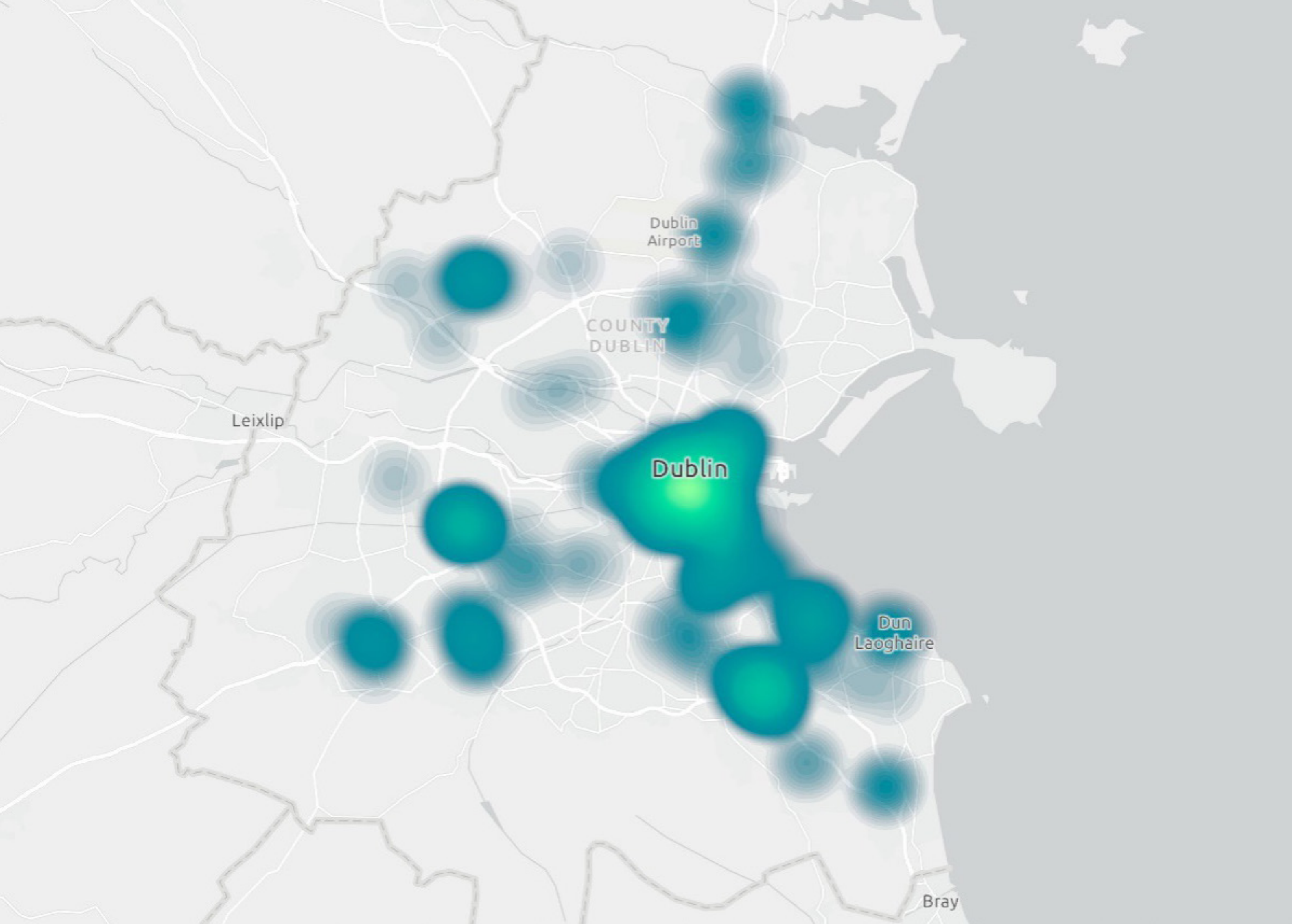


Source: Lisney

TOP 10 OFFICE TRANSACTIONS (Q1 2022)

BUILDING	SQM	REGION	OCCUPIER
The Exo Building, Dublin 1	7,330	City Centre	An Post
10 Hanover Quay, Dublin 2	6,350	City Centre	Fiserv / First Data
124/127 St Stephens Green, Dublin 2	3,200	City Centre	Toast
One Park Place, Hatch Street, Dublin 2	2,715	City Centre	LinkedIn
One Park Place, Hatch Street, Dublin 2	2,660	City Centre	LinkedIn
The Hive Sandyford, Carmanhall Road, Sandyford, Dublin 18	2,650	South Suburbs	Cubic Telecom
One Park Place, Hatch Street, Dublin 2	2,330	City Centre	Wayflyer
Two Dublin Airport Central, Co. Dublin	1,860	North Suburbs	Regus
North Dock One, North Wall Quay, Dublin 1	1,670	City Centre	Interactive Brokers
Dockline, IFSC, Dublin 1	1,220	City Centre	Sandvik

Source: Lisney



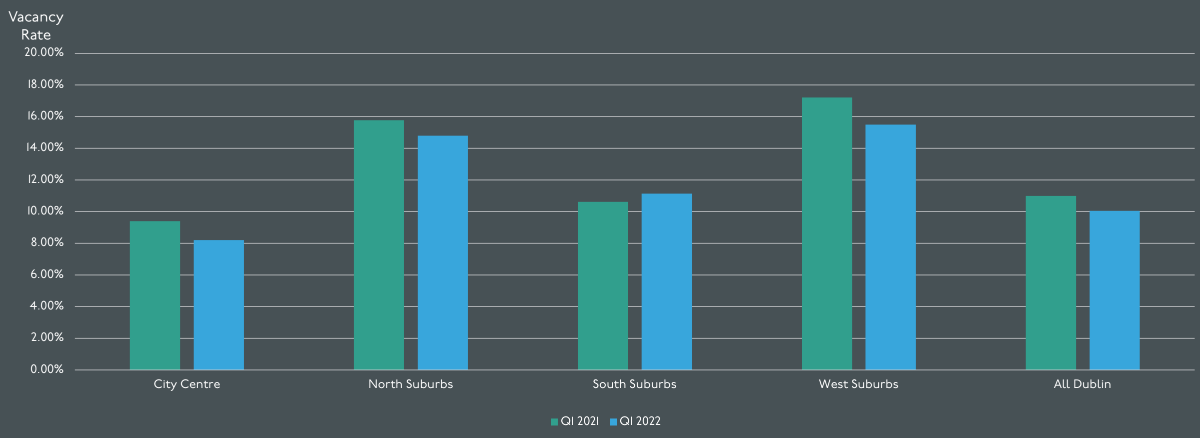
SUPPLY

There was 448,000 sqm of modern office accommodation vacant across Dublin at the end of Q1 2022, unchanged in the quarter. 53% of this space was in the city centre region, with the remainder spread across the suburbs. Over half of the vacant space was previously occupied (56%), with a further 6% refurbished stock and 6% sub-standard. 32% of supply comprised new never occupied accommodation. Grey space (i.e. sub-lets, accommodation returned to the market by occupiers that now find themselves with too much space) totalled 87,500 sqm, a decrease of 10% on the 97,200 sqm available at the end of December 2021, and a decrease of 38% when compared to Q3 2021 when grey space was at its pandemic high.

Dublin's overall headline vacancy rate fell in Q1 for the third consecutive quarter, to stand at 10.1% at the end of March, down from 10.8% three months previous and 11.3% six months previous. Across the regions, the lowest vacancy rate was in the city centre (9.1% headline / 8.2% true rate with sub-standard stock removed), followed by the south suburbs (11.4% headline / 11.1% true). The north suburbs headline rate was 14.8% and west suburbs headline rate was 15.5%.

There were further variations within the city centre itself. In Dublin 2, the headline vacancy rate fell to 6.2% from 7.1% in Q4 2021 with the true rates at 5.2% and 6.4% respectively. In Dublin 1, the headline and true vacancy rates stood at 14.4% (up from 13.9% in Q4 2021) and 12.8% (up from 12.3% in Q4 2021) respectively. The increase predominantly relates to the new buildings completed and now available at Dublin Landings and North Dock.

PRIME HEADLINE OFFICE RENT
(QI 2012 – QI 2022)



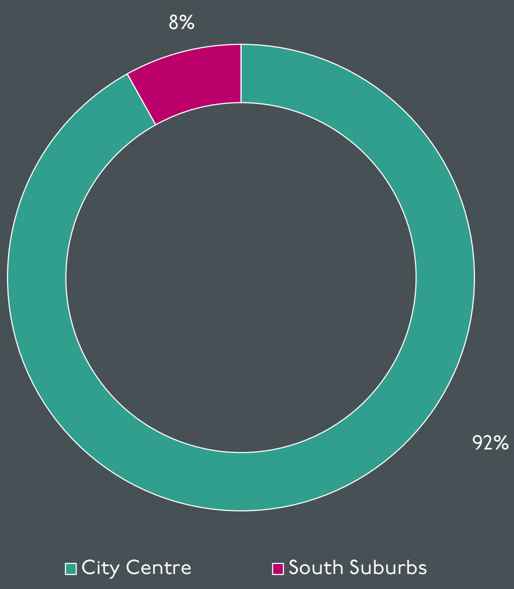
Source: Lisney

NEW STOCK

While construction sites are open and active following COVID-related closures, capacity constraints are evident with many contractors focused on PRS and housing development. Additionally, inflation pressures on material and labour costs are impacting the viability of schemes – both those already under construction and those in the pipeline. In spite of this, 24,900 sqm of new office space was completed in Dublin in the first three months of 2022 (93% of which has already been taken) and we anticipate a further 135,000 sqm of stock will be completed over the remainder of the year, including schemes that were delayed due to the pandemic.

At the end of March 2022, there was 463,400 sqm of office space under construction. This was 33,000 sqm (or 7.7%) higher than three months previous. 92% was in the city centre and included four substantial schemes of over 35,000 sqm each. However, the overall average size of a building under construction in the city centre was 14,700 sqm, which is almost double that of the average building completed last year. Almost half of all accommodation under construction was either pre-let or reserved, much of which had been commenced speculatively with deals agreed when contractors were on-site.

OFFICE STOCK UNDER CONSTRUCTION
END-MARCH 2022



Source: Lisney

IN FOCUS

IN-FOCUS – THE CITY CENTRE STILL DOMINATES DEMAND

The city centre remained the most sought-after region in the opening months of 2022. While it had been expected that demand for suburban offices would grow significantly after COVID, this has not materialised. Just 17% of activity in Q1 was in the suburbs and included only two of the top ten deals. For employers, staff attraction and retention are some of their biggest concerns at present – 2022 as the year of the 'Great Resignation', and it is influencing their occupational decisions. Most staff want central areas that offer a certain lifestyle and they have little interest in returning to offices in sleepy locations. If they are to return to the office instead of WFH, then the office needs to be attractive and well-connected to transport routes. Equally, when recruiting from overseas (as most large tech companies do), these employees want to be in central areas, near shops, restaurants, leisure and social activities.

A total of 113,600 sqm of office accommodation was reserved at the end of March 2022 with approximately 70% of this in the city centre region, providing further evidence of the continued demand for central locations. The top eight reserved deals were in the city centre and include big occupier names. Examples include FreeNow, which has reserved 8,200 sqm at 60 Dawson Street, Dublin 2 and Workday, which has committed to take 5,850 sqm at Dockline in the IFSC. The most notable occupier with accommodation reserved is TikTok. The Chinese social networking service has agreed to take the entire 16,450 sqm in The Shipping Office development as well as 7,730 sqm in the nearby Tropical Fruit Warehouse on Sir John Rogerson's Quay. This trend by large international companies to take buildings close to one another continues to intensify. Occupiers such as Google, Salesforce and Facebook have already moved to campus-like accommodation in Dublin where they can accommodate all or most of their employees in proximity to one another.

For many with space requirements, location and talent attraction is not the only important factors. Lease flexibility is also relevant and has resulted in the re-emergence of requirements from serviced office providers. As they expand into new premises, they are interested in both modern and Georgian buildings, offering a variety of office environments and providing businesses with short-term options while they consider their longer-term plans and navigate flexible working practices.

OUTLOOK

1. Activity levels will continue to improve in the coming quarters. With most office-based staff now partly back in the office, and with the impacts of the pandemic on the economy lessening, businesses are starting to be in a better position to make occupational decisions. This is evidenced by the amount of stock reserved. It will progress further in the months ahead, albeit with concerns about the war in Ukraine, rising inflation (including wage costs) and likely interest rate increases also feeding into decisions.
2. Big tech companies will continue to power market demand, focusing on new accommodation in central areas that aligns with their ESG commitments.
3. For many smaller occupiers with space requirements, flexibility will remain crucial over the remainder of the year. Some will focus on break options and rent frees, while others will require fully fitted space.
4. With many building contractors focused on PRS and residential schemes, and with rising costs impacting viability, supply issues in the office sector may emerge in the next 24 to 36 months. The significant occupier and investor requirement for newer, more sustainable buildings will also be a factor and will result in sustained rental growth.
5. Developers will seek to turn their focus on providing net zero buildings to cater for occupiers that have pledged to become net zero by 2030. The Dublin market has yet to see a true net zero building constructed, however we understand there are several projects in the pipeline.

MEET OUR TEAM

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