OFFICE REPORT

Q3 2022

TOP 5 DEALS

TIK TOK
Tropical Fruit Warehouse, 30/32 Sir John Rogersons Quay, Dublin 2
7,730 sqm

A&L GOODBODY
No3 Dublin Landings, Dublin I
5,820 sqm

GOODBODY
I2 Dawson Street, Dublin 2
5,570 sqm

NCI
Block R, East Wing, Spencer Dock, Dublin I
5,390 sqm

OPW
Clyde House, Ballycoolin, Dublin I5
4,090 sqm

TAKE UP

67,240 SQM

CITY 73% | SUBURBS 27%

ACTIVITY

53 TRANSACTIONS

1,270 SQM
AVERAGE DEAL SIZE

OCCUPIER PROFILE

44% PROFESSIONAL SERVICES

17% TECHNOLOGY

RESERVED

150,000 SQM

CITY 88% | SUBURBS 12%

PRIME HEADLINE RENT

€667 PSQM
CITY

€318 PSQM
SUBURBS

DUBLIN HEAD-LINE VACANCY RATE

12.4%

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OVERVIEW

Despite rising interest rates and the adjustments in the global economy, the Dublin office market was less impacted than other sectors in Q3 2022. Some of this may be because deals were agreed earlier in the year but only concluded in Q3. Just over 68,000 sqm of space was transacted, bringing the total take-up for the first nine months of 2022 to 164,000 sqm. This compares very favourably to the same period of 2021 when the nine-month figure was just 57,700 sqm.

It was also very positive that there was 150,000 sqm of accommodation reserved at the end of September, highlighting the level of prevailing demand. Much of this demand is fuelled by companies competing to offer an exceptionally high-quality working environment to staff. In spite of this, we do expect activity in Q4 to fall and forecast a year-end total take-up of about 220,000 sqm. Prime headline rents remained stable in Q3 but was still 1.6% less than March 2020 levels.

A notable feature of Q3 was the surge in grey space that is now available for subletting. This has resulted from businesses adjusting to the hybrid working model and finding their requirement for space reduced. Hiring freezes in several industries, particularly technology, is also a factor. The overall Dublin headline vacancy rate stood at 12.4% at the end of September with the city centre region slightly less, at 11.5%. In terms of new stock, 53,400 sqm of space completed construction in Q3, just one-third of which remains available.

ACTIVITY

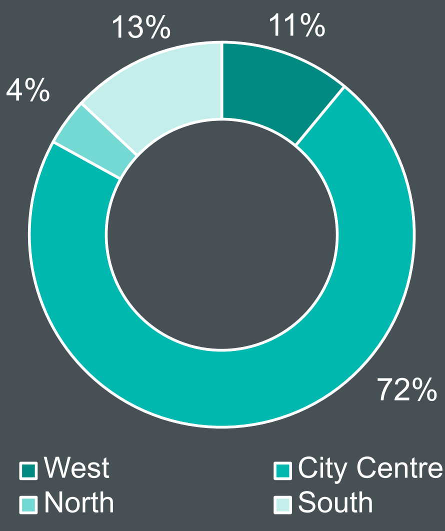
Dublin take-up in Q3 2022 reached 68,200 sqm across 54 deals. Even though it was 53% larger than in the previous quarter (44,600 sqm), it was still below the quarterly average between 2017 and 2019 (86,000 sqm).

- As usual, the city centre region was the most active, with 72% of all space transacted taking place there. It was followed by the south suburbs region at 13% and the west suburbs at 11%. Only 4% of all activity occurred in the north suburbs.

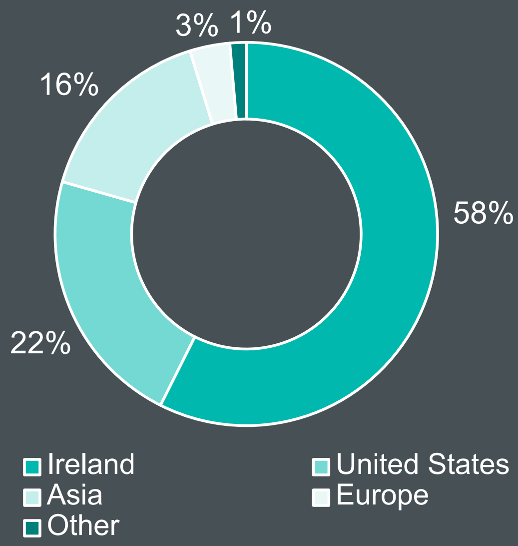
1 Sir John Rogersons Quay, Dublin 2

- The top ten transactions, all of which were larger than 2,000 sqm, accounted for 63% of the overall take-up in Q3 2022. Of these, the top four transactions were each more than 5,000 sqm.
- The two largest transactions were in the city centre. TikTok (the Chinese social media company) took 7,730 sqm at Tropical Fruit Warehouse in Dublin 2, and legal firm A&L Goodbody leased 5,820 sqm at No.3 Dublin Landings in Dublin 1 on a temporary basis until the redevelopment works of its former HQ at 25-28 North Wall Quay are complete.
- In contrast to previous quarters, domestic occupiers took the most space (58% of the total) in Q3 2022, while occupiers from the US took 22%. Interestingly, deals involving domestic occupiers averaged 1,350 sqm, compared to 1,070 sqm for those involving occupiers from the US, a trend that is normally reversed where those from overseas take larger amounts of space. If the trend of a larger proportion of Irish business taking space persists, it may signal a decreased reliance on North American occupiers in the market.
- The professional services and tech sectors were the most active in Q3, accounting for 44% and 17% of take-up respectively.
- The State was involved in two notable deals. The OPW took 4,090 sqm at Clyde House in Ballycoolin, Dublin 15 for An Garda Síochána, and the HSE leased 3,050 sqm at The Iveagh Building in Carrickmines, Dublin 18.
- Serviced office providers remained active in Q3 2022. Irish serviced office provider Iconic Offices took 1,200 sqm at the newly built Scotch House building on Burgh Quay in Dublin 2.
- The average transaction size in Q3 was 1,270 sqm, which is substantially larger than the average of 860 sqm for the previous quarter and 1,160 sqm for Q1. It did, however, continue to fall short of the 1,600 sqm average over the four years prior to the pandemic.

TAKE-UP BY REGION
Q3 2022



TAKE-UP BY OCCUPIER ORIGIN
Q3 2022



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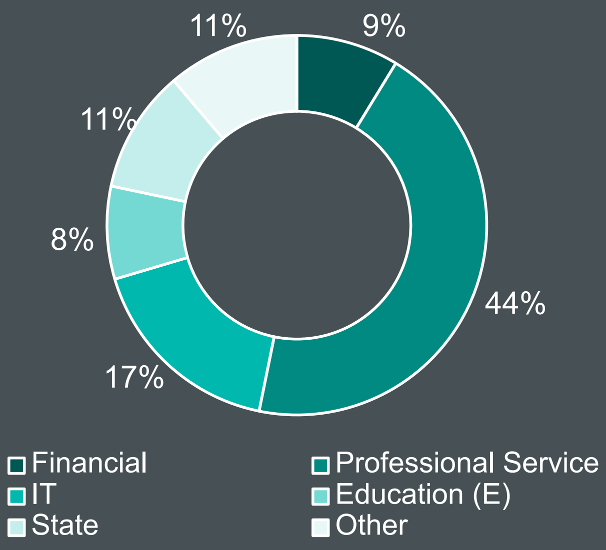
TAKE-UP BY OCCUPIER SECTOR
Q3 2022



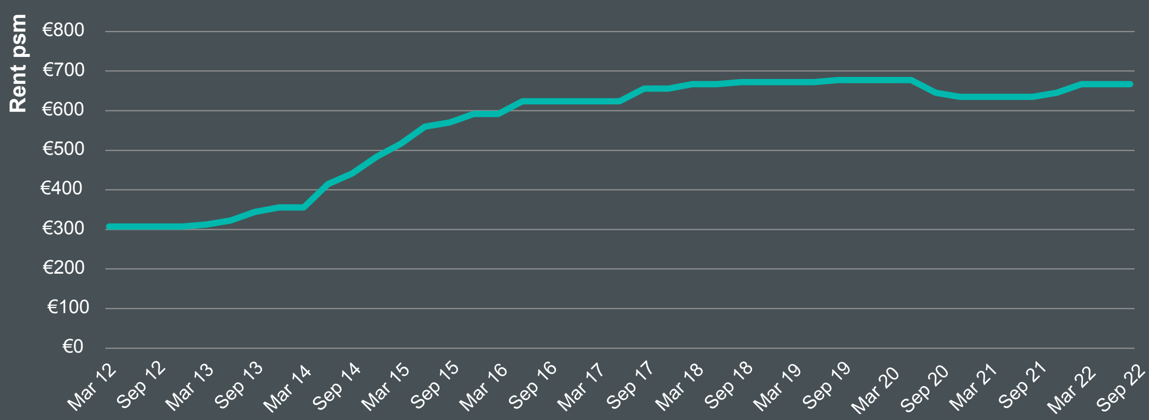
Source: Lisney

TERMS

Prime headline rents remained stable in Q2 at €667 psm / €62 psf. However, this remains 1.6% below pre-pandemic levels. For the overall office market across Dublin (prime and secondary buildings in all regions), Lisney's office composite rental index was also 1.6% lower in June 2022 when compared to March 2020.

Demand has increased significantly for fully fitted space due to significantly higher fit-out costs in the past year. Such space is achieving premium rents, and in some situations, has resulted in the gap between prime and secondary rents reducing. This has also encouraged tenants to take serviced accommodation, which is currently at high capacity. Going forward ESG criteria and the requirement for energy efficient buildings will feed into rental inflation. In addition, the rents required to justify new builds will increase to counter-balance construction cost inflation of the new developments.

PRIME HEADLINE OFFICE RENT
(Q1 2012 – Q3 2022)



Source: Lisney

TOP 10 OFFICE TRANSACTIONS (Q3 2022)

BUILDING	SQM	REGION	OCCUPIER
Tropical Fruit Warehouse, 30/32 Sir John Rogerson's Quay, Dublin 2	7,730	City Centre	TikTok
No. 3 Dublin Landings, Dublin 1	5,820	City Centre	A&L Goodbody
12 Dawson, Dublin 2	5,570	City Centre	Goodbody
Block R, East Wing, Spencer Dock, Dublin 1	5,390	City Centre	NCI
Clyde House, Ballycoolin, Dublin 15	4,090	West Suburbs	OPW (An Garda Síochána)
20 Kildare Street, Dublin 2	3,150	City Centre	Davidison Kempner / Dentons
15 Georges Quay, Dublin 2	3,040	City Centre	AON
24-26 City Quay, Dublin 2	3,080	City Centre	Watson Healthcare
The Iveagh Building, Carrickmines, Dublin 18	3,050	South Suburbs	HSE
25 North Wall Quay, Dublin 1 (Extension)	2,320	City Centre	A&L Goodbody

Source: Lisney

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Tropical Fruit Warehouse, 30-32 Sir John Rogerson's Quay, Dublin 2
(Image courtesy of IPUT Real Estate)

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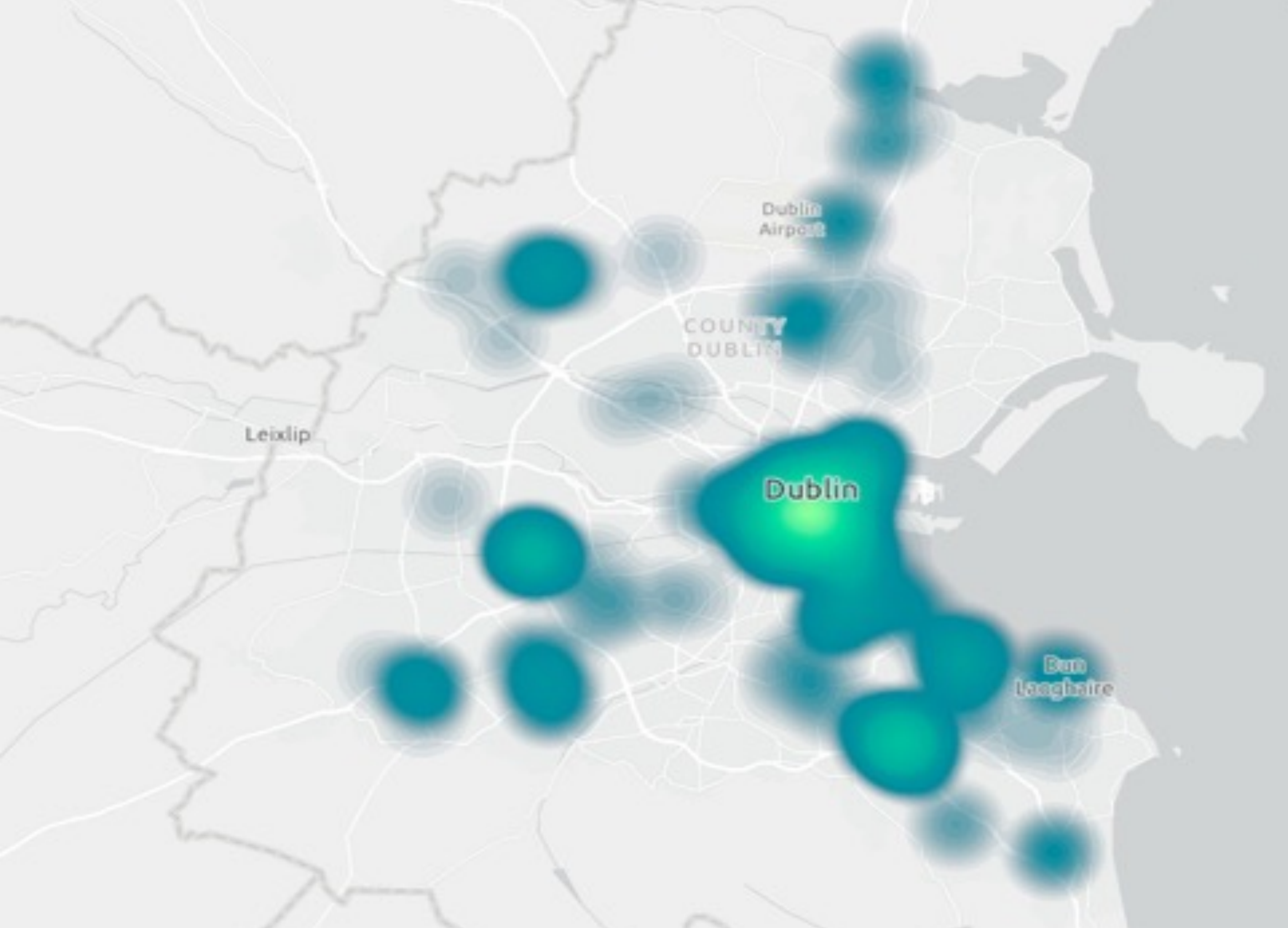
DEMAND

The city centre remained the most sought-after region so far this year. Even though it had been expected that demand for suburban offices would grow significantly after COVID, this has not materialised to date. While activity in suburbs increased in Q3 2022, it accounted for just 28% of activity, up from 20% in Q2 and only 17% in Q1. Two of the top ten deals were in the suburbs and only one of them made it to the top five deals – the OPW taking 4,090 sqm at Clyde House in Blanchardstown on behalf of An Garda Síochána.

Businesses continue to focus on staff retention and recruitment, albeit at reduced levels, particularly in the tech sector with many multinational occupiers having announced hiring freezes or reductions in staff numbers. This has resulted in them prioritising staff welfare and analysing labour pools when making real estate decisions. In efforts to concentrate on staff needs, businesses continue to monitor their remote working policies with many permanently continuing with a hybrid work model. Location remains an important factor for many with most staff wanting central areas that offer a certain lifestyle as many have returned to the offices for a few days a week. Equally, when recruiting from overseas (as most large companies do), these employees want to be in central, well-connected areas, near shops, restaurants, leisure, and social activities.

Most larger occupiers remain drawn to new, cutting-edge, and sustainably certified accommodation. While some of this relates to corporate promises around ESG, as mentioned above, it is also being fuelled by companies competing to attract and retain staff by providing them with a high-quality working environment. This is especially the case for larger occupiers taking longer-term leases (10 years or more).

There is a significant number of occupiers (usually smaller in scale) that have a strong preference to avoid capital expenditure and are seeking fully fitted, flexible, short-term accommodation. Some are being catered for through sub-lettings that contain the previous occupiers' furniture and fit out, while others are choosing serviced offices.



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Source: Lisney

A total of 150,000 sqm of office accommodation was reserved at the end of September 2022 with almost 90% of this in the city centre region, providing further evidence of the continued demand for central locations. All top ten reserved deals were in the city centre. Examples of occupiers in the market include Citi Bank (committed to leasing 27,900 sqm at the Waterfront South Central in Dublin 1) and SMBC (a large Asian aircraft leasing company, committed to taking 12,600 sqm at 28 Fitzwilliam in Dublin 2).

SUPPLY

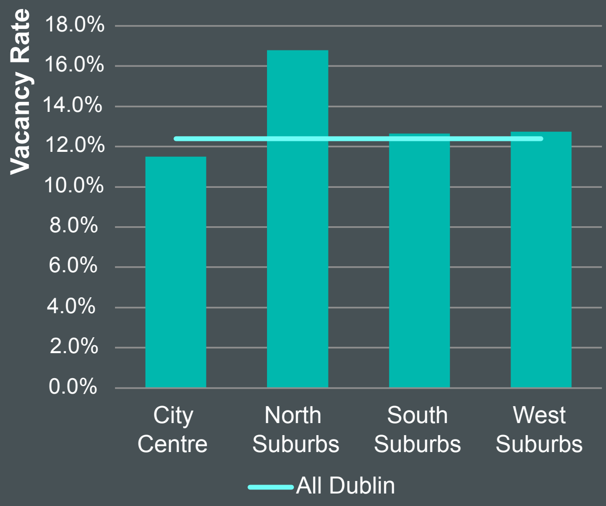
At the end of Q3 2022, there was just over 520,000 sqm of modern office accommodation vacant across Dublin, an increase 8.1% in the quarter. About half of this increase relates to newly completed and available to let buildings, including the substantial (17,000 sqm) One Charlemont Square.

At the end of September, Dublin's overall headline vacancy rate was 12.4%, up from 11.2% three months previous. The rates across the regions varied:

- The city centre – 11.5% headline and 10.8% true rate when sub-standard stock is removed.
- The south suburbs – 12.7% headline and 11.9% true rate when sub-standard stock is removed.
- The north suburbs – 16.8% headline and 15.6% true rate when sub-standard stock is removed.
- The west suburbs – 12.7% both headline and true rate.

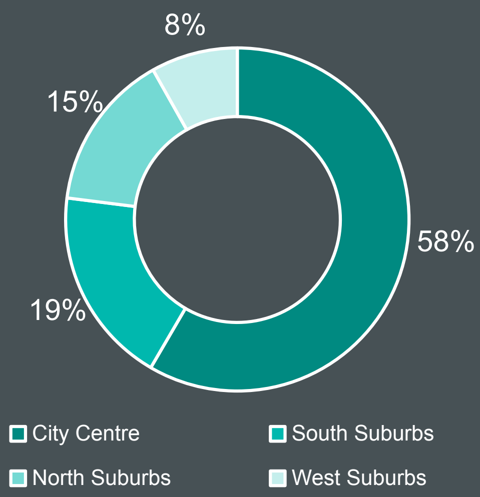
Further variations could be seen in the city centre; in Dublin 2, the headline vacancy rate was 8.7% with a true rate of 8.0% while in Dublin 1 the rates were 15.7% and 14.8%.

VACANCY RATE BY REGION
(Q3 2021)



Source: Lisney

SUPPLY BY REGION
(Q3 2022)



Source: Lisney

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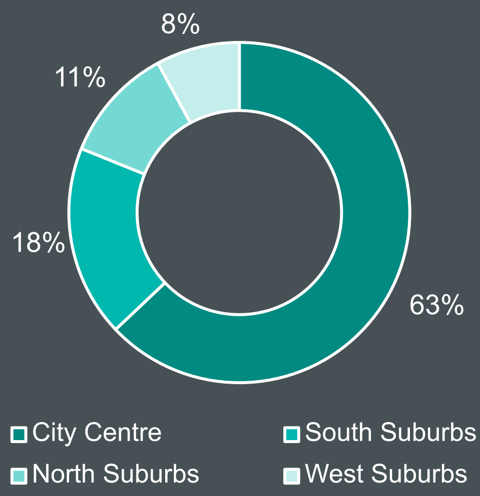
NEW STOCK

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 53,400 sqm of new office space completed in Q3 2022, bringing the year-to-date total to 167,900 sqm. We anticipate a further 28,600 sqm of stock will be completed in Q4 2022.

At the end of September 2022, there was approximately 340,300 sqm of office space under construction. This was about 50,000 sqm (or 13%) less than three months prior. The city centre accounted for 89% of Q3's construction activity, which included three substantial schemes of over 35,000 sqm each: College Square, Fibonacci Square, and Wilton Park. The average size of buildings under construction in the city centre was 13,800 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.

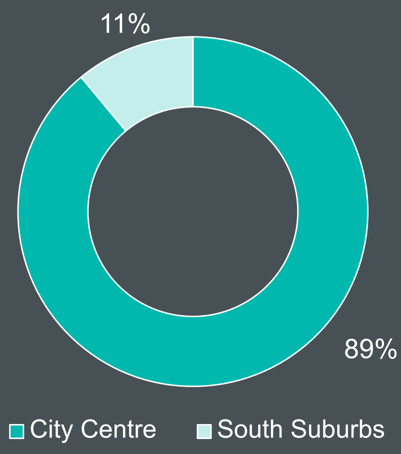
40% of all accommodation under construction and 43% of accommodation under construction in the city centre was either pre-let or reserved, much of which was commenced speculatively with deals agreed when contractors were on-site.

OFFICE STOCK BY REGION (Q3 2021)



Source: Lisney

OFFICE STOCK UNDER CONSTRUCTION (END-SEPTEMBER 2022)



Source: Lisney

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OUTLOOK

1. Office market activity in Q4 2022 is likely to reduce by one-fifth, reflecting reported hiring freezes and/or reductions from some tech companies (such as Meta, Apple, Google). Therefore, we estimate total year-end take-up will be around 220,000 sqm.

2. During Q3, a significant amount of grey space was placed on the market for sub-leasing. This suggests that businesses started to make difficult decisions about their space requirements, particularly around their headcount and desk-to-staff ratio. As a result, there is a disproportionate surge of grey space in the market. This trend will continue through the first half of 2023, however, by the end of the year, we anticipate that demand will catch up with supply, bringing the market into balance.

3. Hybrid working will mean flexibility is set to remain crucial for many occupiers in the next 12 to 18 months. Some taking leases will focus on break options, rent frees, and fully fitted space. Those reluctant to commit to a traditional long-term lease will be attracted to serviced offices.

4. In the short-term, supply will outpace demand and lease terms will shift in favour of occupiers. Tenants in the market are already achieving longer rent-free periods and/or greater lease flexibility.

5. While rents are generally stable at present, they will ultimately adjust downwards. The degree and pace of this will depend on how much grey space is returned to the market and what sub-rental levels are achieved. However, new accommodation that meets ESG requirements and the EU Taxonomy regulations will likely experience continued upward pressure, especially in Dublin 2.

MEET OUR TEAM

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