Lisney
COMMERCIAL REAL ESTATE

OFFICE REPORT

Q1 2023

Q1 2023

Despite the low activity levels, occupier trends continue to evolve – in particular, demand for fully fitted accommodation, firm focus on location, and a strengthening interest in ESG and sustainable space – which will progress further over 2023. However, tenant indecision remains and in the context of the current economic backdrop and struggles with a lack of office presence, making long-term property commitments is slow.

▼ 26,300 sqm
Take Up

▼ 41
Transactions

▼ 610 sqm
Average Lot Size

▼ 65%
City Centre
Busiest Region

▲ 39%
Technology Sector
Busiest Sector

▲ €689 psm
City Centre Prime Headline Rent

▲ 110,000 sqm
Reserved

▼ 78%
Reserved in the City Centre

▲ 13.8%
Dublin Headline Vacancy Rate

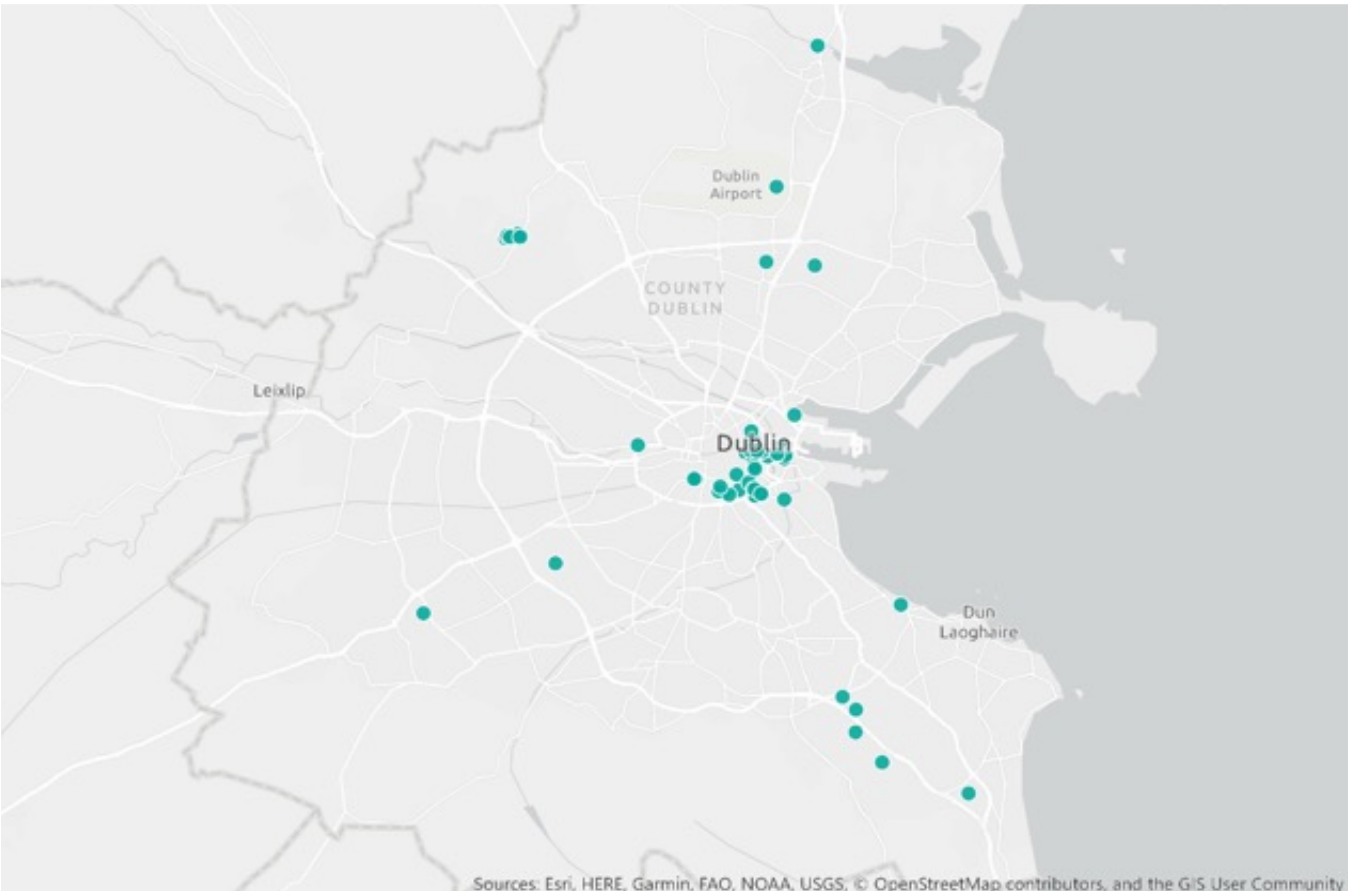
Arrow direction indicates trend since previous quarter

Top 10 Office Transactions (Q1 2023)

PROPERTY	SQM	REGION	OCCUPIER
One & Two Dockland Central, Dublin 1	4,070	City Centre	DataDog
60 Dawson Street, Dublin 2	2,580	City Centre	Pinterest
Block A, Westland Park, Willow Road, Dublin 12	2,370	West Suburbs	Virtual Access
Three Park Place, Dublin 18	1,970	City Centre	Scotia Bank
Building 3, Cherrywood, Dublin 18	1,690	South Suburbs	OUTsurance
The Reflector, Dublin 2	1,290	City Centre	Pluralsight
Two Dublin Airport Central, Dublin 9	960	North Suburbs	HorseWare
One Park Place, Dublin 2	680	City Centre	Confidential
1 WML, Dublin 2	680	City Centre	Ocorian
10-3 Blanchardstown Corporate Park, Dublin 15	590	North Suburbs	Agriland

Source: Lisney

Office Take-Up Q1 2023



Source: Lisney

Two Dublin Airport Central, Dublin 9

Activity

Office market take-up in Dublin reached 26,300 sqm across 43 deals in Q1, the smallest quarter in almost two years. This was substantially smaller than the 76,200 sqm of take-up in Q4 2022 and the long-term quarterly average of 57,700 sqm. Given how small take-up was in the opening months of the year, analysis of the figures is somewhat meaningless, however, we have provided the details below for reference.

- As usual, the city centre region was the most active, with 65% of all space transacted taking place there. It was followed by the south suburbs region at 15%, and the north and west suburbs regions at 10% each.
- The top ten transactions accounted for 64% of the overall take-up in Q1 2023. Of these, the three largest were each more than 2,000 sqm and made up one-third of activity.
- The largest deal was in the city centre; DataDog, a monitoring and security platform for cloud applications, took 4,100 sqm at One and Two Dockland Central in Dublin 1.
- Occupiers from North America took the most space (53% of the total) in Q1 2023 while domestic occupiers took 31% of the total. Lettings involving occupiers from North America averaged 990 sqm in lot size while those from Irish companies averaged less than half this amount, at 420 sqm.
- The average transaction size in Q1 2023 was just 610 sqm, which is substantially smaller than the 1,520 sqm achieved in the previous quarter (Q4 2022) and the previous 5-year average of 1,430 sqm.
- Occupiers from the technology and financial sectors were the most active in Q1, accounting for 39% and 21% of take-up respectively.
- The State was involved in two small deals; the HSE took 340 sqm at Block 8 in Richview Office Park, Dublin 14 and 330 sqm at Unit 2 in Swords Business Campus, Dublin 9.
- Just four deals (combined 4,520 sqm) were within new buildings that were never previously occupied and just three deals (combined 2,830 sqm) within refurbished buildings. The majority of activity, 36 lettings (18,970 sqm), occurred within used accommodation that was previously occupied by another tenant. Part of this demand may be due to the space being fully fitted and hence tenants avoiding or reducing the capital expenditure of initial set up costs when moving.

TERMS

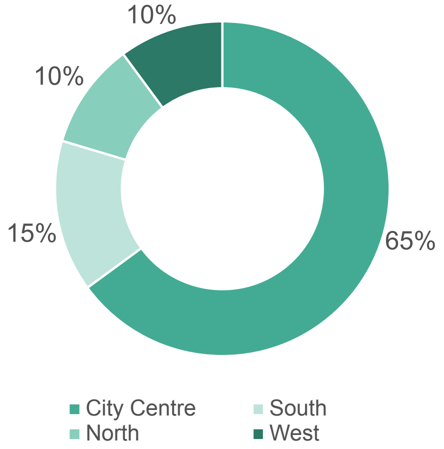
It is evident that rents are holding up for quality space in good locations and in Q1 2023, the prime city centre headline rental rate increased from €667 to €689 psm (€62 to €64 psf) to stand 1.6% higher than pre-pandemic levels. However, there are some signs that commercial terms (rent free periods 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 regions) was 2.9% lower in March 2023 than it was in March 2020.

DEMAND

Almost 110,000 sqm of office accommodation was reserved at the end of March 2023, a 10% increase in the amount of Dublin stock spoken for since the end of last year. Of the space reserved, 78% was in the city region, including Workday's confirmed acquisition of over 51,500 sqm within a new HQ at Grangegorman, which will create 1,000 jobs in the next two years.

There are many larger occupiers in the city analysing their space requirements. This is not solely focused on the quantity of space required but rather the need to source high quality accommodation to help entice staff back into the office. In central locations and in many of the well-established suburbs, occupiers are looking to be close to transportation hubs and amenities, as well as within new A-rated buildings. Occupiers also 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 (Q1 2023)



Source: Lisney

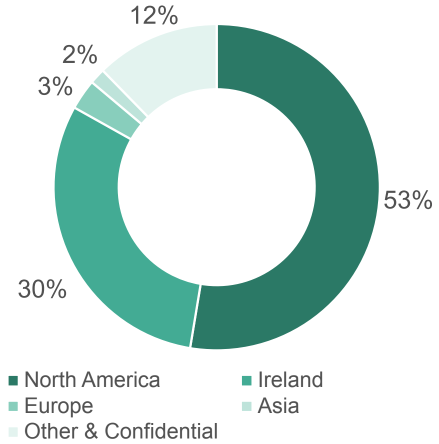
“

4,100 SQM

The largest deal was in the city centre; DataDog, a monitoring and security platform for cloud applications, took 4,100 sqm at One and Two Dockland Central in Dublin 1.

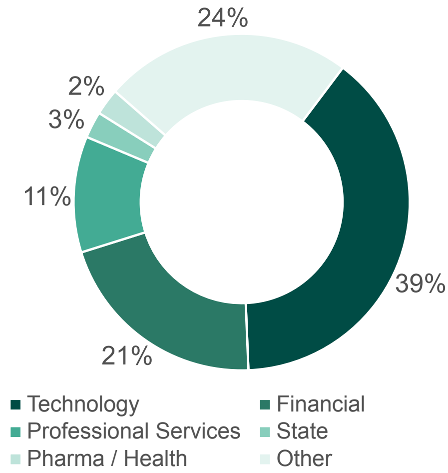
”

Take-Up by Occupier Origin (Q1 2023)



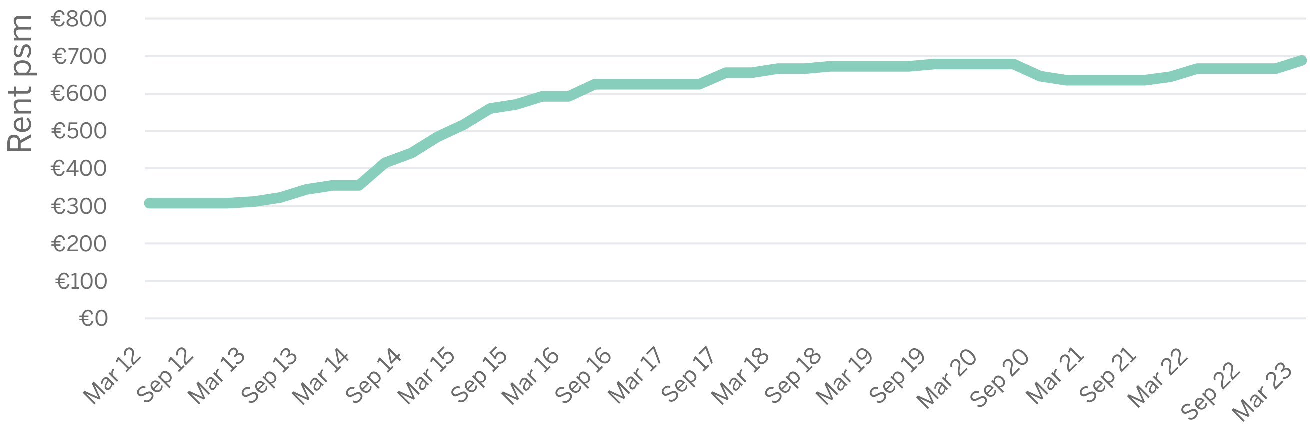
Source: Lisney

Take-Up by Occupier Sector (Q1 2023)



Source: Lisney

Prime City Centre Headline Office Rent (Q1 2012 - Q1 2023)



Source: Lisney

One Dockland Central,
Dublin 1

Supply

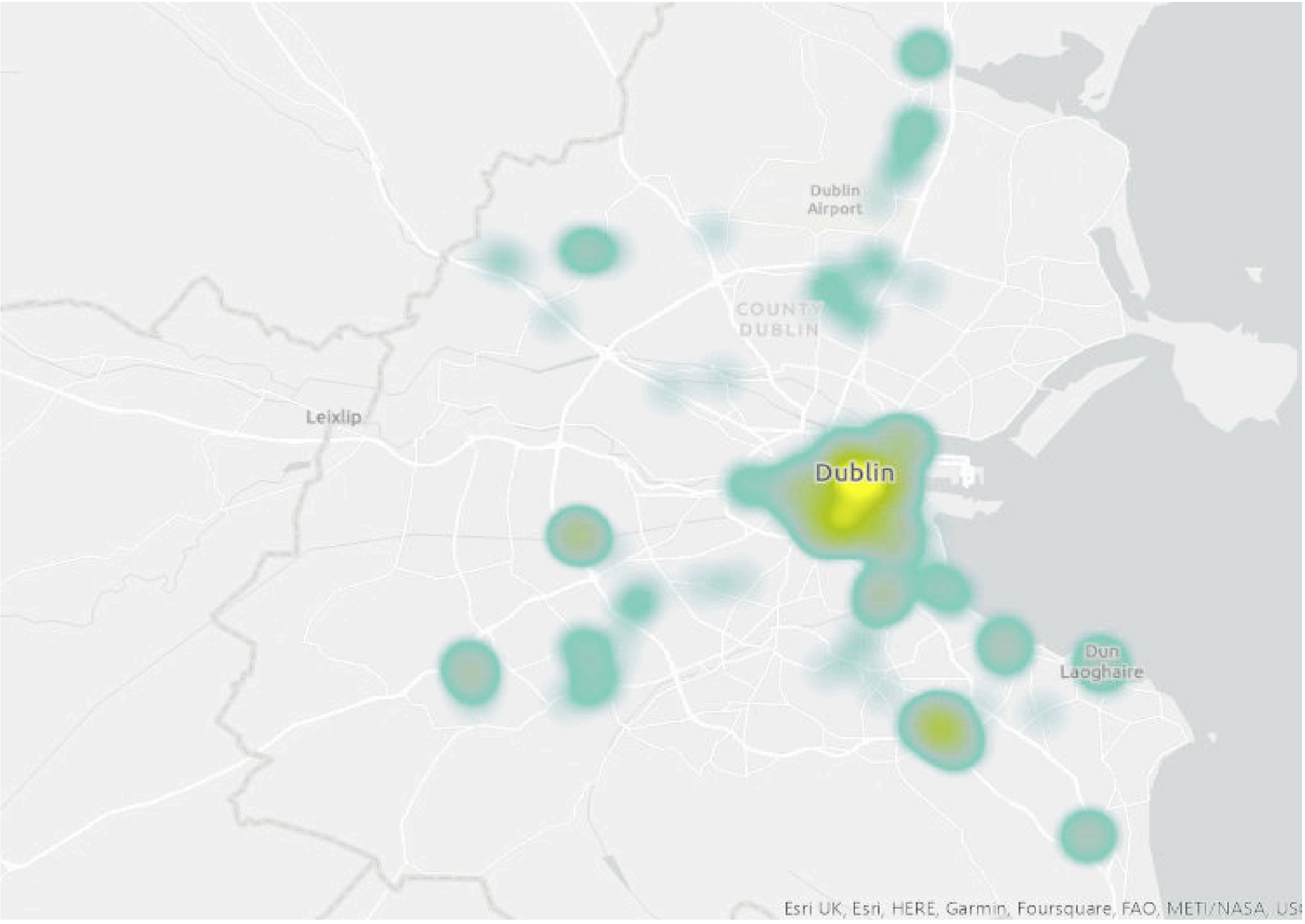
At the end of Q1 2023, there was just over 590,000 sqm of modern, purpose-built office accommodation vacant across Dublin, an increase of 5.4% in the quarter. Much of this increase is related to newly completed buildings, including 17,100 sqm at One Charlemont Square, 16,900 sqm at the Seamark Building in Elm Park and 35,300 sqm available to sublet from Meta at Fibonacci Square in Ballsbridge.

Dublin's overall headline vacancy rate was 13.8% at the end of March, up from 13.1% three months previous. The rates across the regions varied with the city centre headline rate at 14% but with the true rate (when obsolete stock that is never likely to be occupied again is removed) at 13.3%. The headline vacancy rate in Dublin 2 was 10.6% while in Dublin 1 it was 15.7%.

With the continued adjustments in the global tech industry and continued remote and hybrid working, grey space continued to be a feature of the market in the opening months of 2023. 184,000 sqm of accommodation was available to sub-let across Dublin at the end of March, but encouraging, the rate of increase has slowed considerably with grey supply only growing by 2% in Q1. At 184,000 sqm, grey space accounts for 4.3 percentage points of the 13.8% headline vacancy rate.

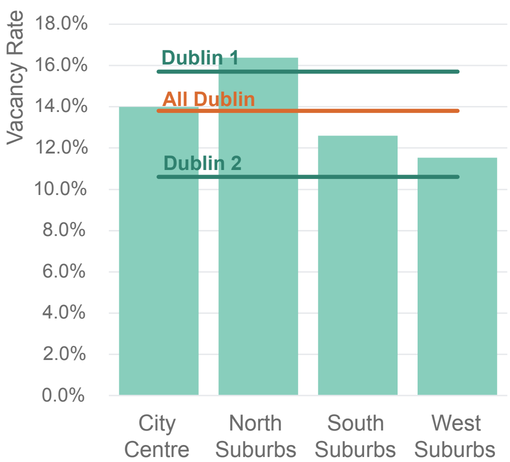
While 184,000 sqm of sub-lets, accounting for 4.3% of Dublin's office building stock, appears to be bad news for the market's short to medium-term outlook, it does bring with it some positives. Given the fact it generally comes fully fitted and furnished and is usually available on more flexible terms, it provides a cheaper alternative to some occupiers and facilitates previously deferred moves. International big tech has dominated both the office property market (between one-third and a half of activity) and indeed the competition for talent in recent years. We now expect to see some of the smaller-scale companies, many of whom are indigenous, take advantage of recent trends which will result in them hiring staff and taking additional office space. Encouragingly, the newly appointed head of the IDA (Michael Lohan), recently said that there will continue to be adjustments in the tech sector, but that this might not necessarily mean further job losses but could come in the form of a slower onboarding of staff or slower decision making.

Office Supply Q1 2023



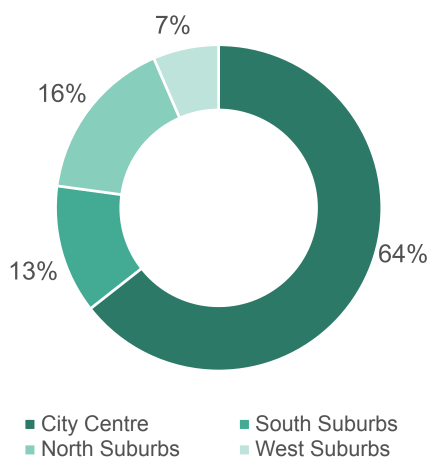
Source: Lisney

Headline Vacancy Rate by Region (March 2023)



Source: Lisney

Supply by Region (March 2023)



Source: Lisney

Two Dublin Airport Central, Dublin 9

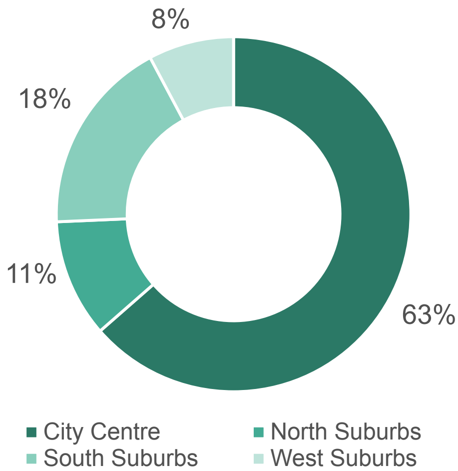
New Stock

According to the CSO, building material inflation averaged 14.7% in the year to February 2023 but with wide variations across materials. For example, some steel products were running at over 70% but with timber falling by up to 20%. These inflationary pressures have had an impact on the viability of new schemes, both those that are already under construction and those that are in the pipeline. In spite of this, there was one office scheme completed in Q1 2023 - One Le Pole Square, Great Ship Street in Dublin 8 (10,300 sqm).

At the end of March 2023, there was approximately 273,000 sqm of office space under construction. In terms of this space:

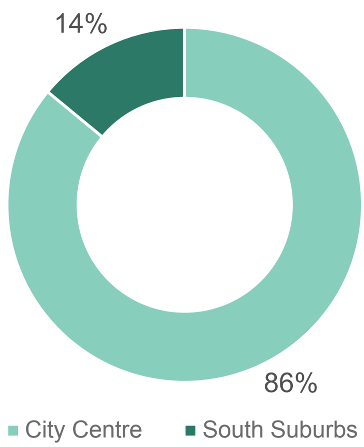
- The city centre accounted for 86% of the total and included three substantial schemes:
  - College Square on Tara Street in Dublin 2
  - Wilton Park in Dublin 2
  - Coopers Cross 2 on Mayor Street in Dublin 1
- The average size of a scheme under construction in the city centre was 12,400 sqm – between 2005 and 2007, the average size of a new building in the city centre was 4,600 sqm, illustrating the significant growth in scheme sizes.
- Just 27% of the stock under construction has already been taken by way of pre or mid-lets.
- 55% of accommodation is due to reach PC this year with the remainder due in 2024 and 2025.

Existing Stock by Region (March 2023)



Source: Lisney

Office-Stock Under Construction (March 2023)



Source: Lisney

In Focus
Climate Action Plan 2023

The Irish Government has approved the updated Climate Action Plan for 2023 (CAP 23). This now takes account of the carbon budgets (emissions in tonnes of CO_2 equivalent that can be emitted in a five-year period) and sectoral emissions ceilings (the maximum amount of greenhouse gas emissions (GHG) permitted in different sectors of the economy) approved in April 2022.

Office buildings fall into various sectors of the economy (as identified in CAP 23) across their lifecycle – from construction to ongoing operation. Of particular relevance is the 'Built Environment' where commercial and public buildings had GHG emissions in 2021 of 1.5 MtCO2, having increased 8.4% in the previous eight years. CAP 23 has put in place very ambitious reduction targets where a sectoral ceiling of 7 MtCO2 (2021 to 2025) and 5 MtCO2 (2026 to 2030) are required across commercial and public buildings. This will involve a significant reduction in fossil fuels and decarbonising properties (saving 375KtCO2 by 2025), while also promoting smart building technology to increase energy efficiency and monitoring. By 2030, ZEB (zero emission building) standard will be required for all new commercial and public properties with emission savings of a further 735 KtCO2 required.

These measures will continue to have a growing impact on the office sector. In the short to medium-term, office properties with BERs of B3 or lower (generally considered Grade B and Grade C, of which there is over 1.5m sqm of office accommodation in Dublin), will be watched closely. Investors are already focused on how to improve these buildings when considering acquiring them, and many larger-scale occupiers (and the State) will need to keep ESG promises and will only be able to occupy more efficient buildings.

140,000 sqm

The flight to quality will intensify and activity levels are expected to improve over the latter part of the year with year-end take-up likely to reach 140,000 sqm.

Outlook

The flight to quality will intensify and activity levels are expected to improve over the latter part of the year with year-end take-up likely to reach 140,000 sqm.

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.

There will be a continued divergence in lease terms. High quality new buildings will do well where rents will hold firm (or perhaps grow further) while older and more secondary space will experience softer deals with greater rent-free periods and break options, along with lower rents.

Construction on office buildings currently under construction will continue until completion. However, new office schemes starting construction will be limited. Higher costs are the main reason but changing market dynamics is also a factor. This increases the risks of an insufficient supply of A-rated buildings in three to five years to meet the demand arising from occupiers' 2030 ESG commitments.

While the vacancy rate will inch higher, less grey space will be released to the market moving forward.

Meet The Team

THE LISNEY OFFICE TEAM

Paul Hipwell

Senior Director

James Nugent

Senior Director

Deborah Mahon

Divisional Director

Conor Lennon

Divisional Director

Alannah Kennedy

Surveyor

THE LISNEY RESEARCH TEAM

Aoife Brennan

Senior Director

Ausra Marcelyte

Senior Research Analyst

OUR OFFICES

DUBLIN

St. Stephen's Green House,
Earlsfort Terrace, Dublin 2,
D02 PH42

t: +353 (0) 1 638 2700

e: dublin@lisney.com

CORK

1 South Mall,
Cork, T12 CCN3

t: +353 (0) 21 427 5079

e: cork@lisney.com

BELFAST

Montgomery House,
29-33 Montgomery Street,
Belfast, BT1 4NX

t: +44 2890 501501

e: belfast@lisney.com

Lisney
Commercial Real Estate

St. Stephen's Green House,
Earlsfort Terrace, Dublin 2,
D02 PH42

t: +353 (0) 1 638 2732
e: dublin@lisney.com

PSRA: 001848