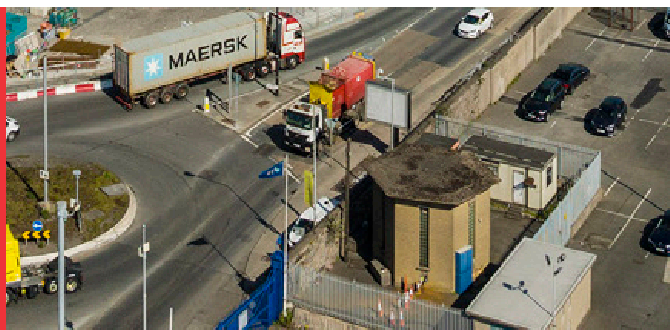
Lisney
COMMERCIAL REAL ESTATE

OFFICE REPORT

Q3 2023



Q3 2023

Levels of activity in the Dublin office were relatively stable in Q3 when compared to recent quarters. There was a notable increase in smaller-size lettings, which somewhat reflected the growing trend for fully fitted accommodation and a strong focus on location preferences. Grey space and newly completed buildings continued to contribute to a growing vacancy rate in Q3.

28,600 sqm

Take Up

44

Number of Transactions

650 sqm

Average Lot Size

70%
City Centre

Busiest Region

48%
Professional Services

Busiest Sector

€700 psm
(€65 psf)

City Centre Prime Headline Rent

60,000 sqm
64% in the city centre

Reserved Space

15.5%

Dublin Headline Vacancy Rate

288,200 sqm

Under Construction

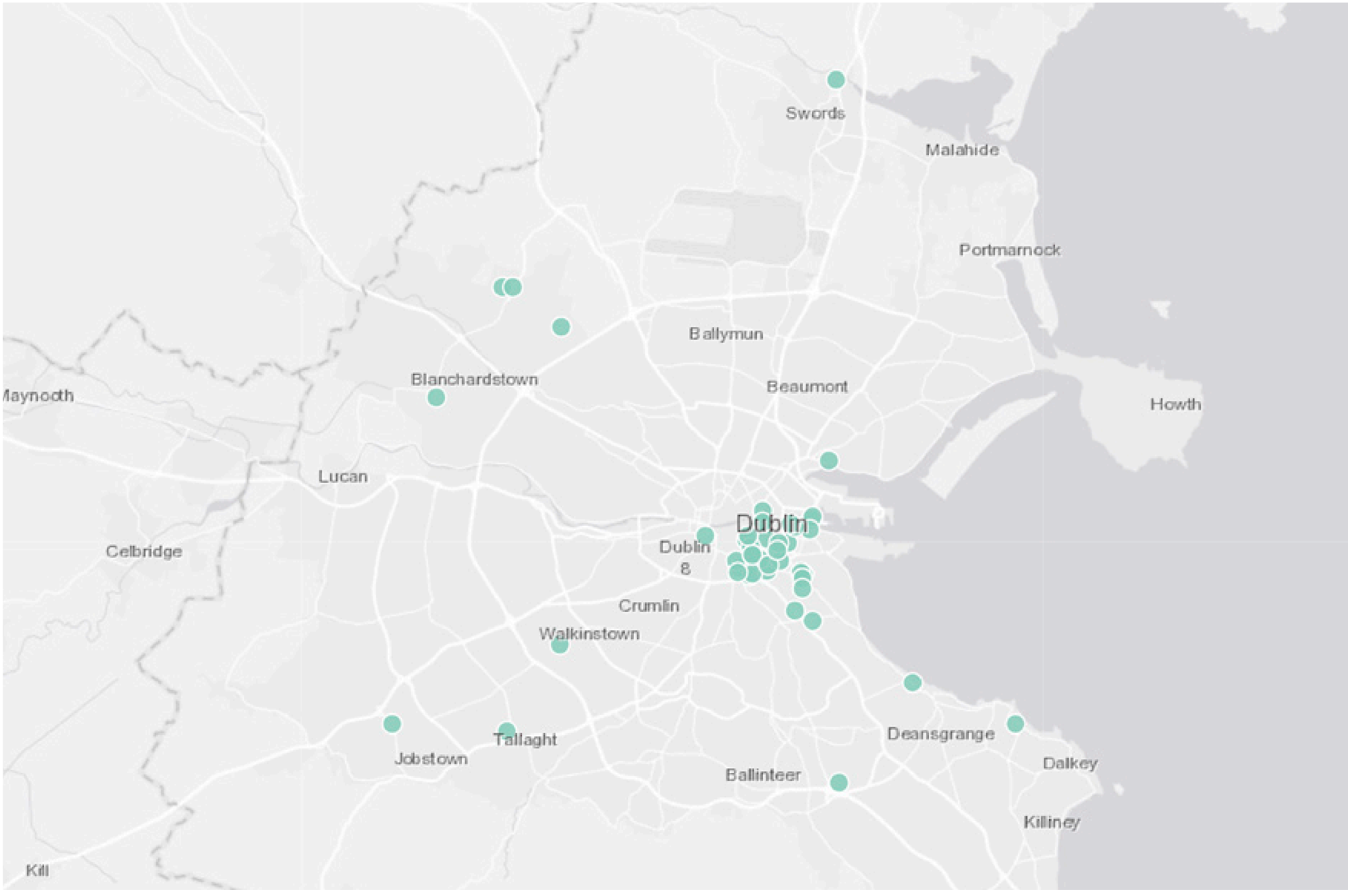
Arrows represent quarterly trends unless otherwise stated.

Top 10 Office Transactions (Q3 2023)

PROPERTY	SQM	REGION	OCCUPIER
3007 Lake Drive, Dublin 24	3,270	West Suburbs	Sisk/Capwell
Unit 9, Swords Business Campus, Co Dublin	2,100	North Suburbs	Confidential
55 Charlemont Place, Dublin 2	2,000	City South	Carne Group
1 Grand Canal Square, Dublin 2	1,970	City South	Procore
One Shelbourne Buildings, Dublin 4	1,900	City South	Commission na Mean/BAI
40 Mespil Road, Dublin 4	1,500	City South	Azets
Donnybrook House, Dublin 4	1,400	City South	IWG
One Molesworth, Dublin 2	1,220	City South	Simmon & Simmons
1 Cumberland, Dublin 2	970	City South	Bentley Systems
One Park Place, Dublin 2	940	City South	K&L Gates

Source: Lisney

Office Take-Up Q3 2023



Source: Lisney

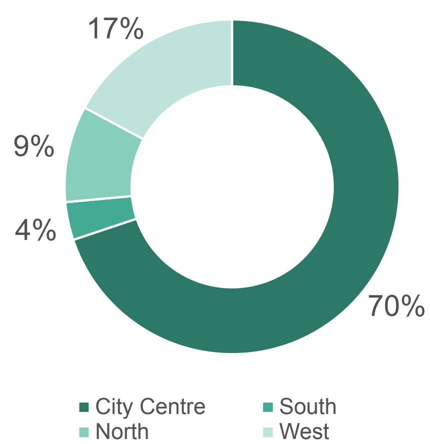
RIGHT:
1 Shelbourne Buildings,
Ballsbridge, Dublin 4
(Image courtesy of
IPUT Real Estate Dublin)

Activity

Office market take-up in Dublin reached 28,600 sqm in Q3, bringing the total take-up for the first nine months of the year to 92,300 sqm. Notably, the quarterly take-up continued to fall below the long-term average (12 years) of 56,600 sqm. In Q3:

- The city centre region continued to be the most active with 70% of all activity taking place there. This was up from 60% in Q2 and 65% in Q1.
- With 44 deals completed, the top ten accounted for 60% of the overall take-up. Of these, only eight were each larger than 1,000 sqm with only three in excess of 2,000 sqm. In the years just prior to the pandemic it was very unusual for transactions smaller than 1,000 sqm to make it into the top ten.
- The average transaction size in Q3 was 650 sqm, a decrease from the 750 sqm achieved in Q2. However, it remained substantially below the previous 5-year average of 1,430 sqm.
- The largest deal was in the suburbs and included the owner-occupier sale of 3007 Lake Drive to Sisk/Capwell. There were a further four vacant possession sales in Q3, each of which was for premisses less than 1,000 sqm. Combined, VP office sales accounted for 16% of the total take up.
- Domestic occupiers took the most space (50% of the total) while occupiers from North America took 24% of the total. Irish occupiers, on average, leased accommodation of 760 sqm. Interestingly, North American occupiers had an even smaller average lot size of 640 sqm, while typically these occupiers lease substantially larger spaces.
- Smaller size lettings, sub-1,000 sqm continued to dominate the office market in Q3 (36 out of 44 deals), accounting for 46% (13,200 sqm) of all activity. This compares to 36% (13,700 sqm) in Q2 and 47% (12,300 sqm) in Q1.
- In Q3, the professional services sector was the most active, accounting for 48% of total take-up. Interestingly, the tech sector, which had dominated the market since 2014, accounted for only 14% of the total (up from 9% in Q2) and highlights the changing demand requirements in this sector.
- Seven deals (combined 3,800 sqm) were within new buildings that were never previously occupied and just one deal (400 sqm) was within a refurbished building. Most activity, 31 lettings (19,700 sqm), occurred within used accommodation that was previously occupied by another tenant. All five sales were also of used accommodation (4,700 sqm). Part of this activity may be due to the space being fully fitted, allowing tenants to avoid or reduce the capital expenditure of initial setup costs when moving into new premises.

Take-Up by Region (Q3 2023)



Source: Lisney

TERMS

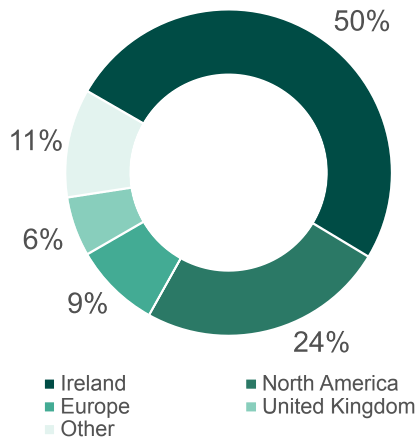
Headline rents continued to hold up for quality space, particularly if the buildings had good ESG credentials and in favourable locations. In Q3 2023, the prime city centre headline rental rate remained stable for the second consecutive quarter at €700 psm (€65 psf), 3.2% higher than pre-pandemic levels. However, there are signs that commercial terms (rent free periods and break options) and rents on secondary space are softening. Indeed, Lisney's office rent index for the Dublin region (prime and secondary buildings in all areas) was 3.3% lower in September 2023 than it was in March 2020.

DEMAND

At the end of September 2023, there was 60,000 sqm of office accommodation reserved, of which 64% was in the city region. This includes TikTok's plan to take short-term space of 4,600 sqm at One Cumberland Place in Dublin 2, Yahoo is set to take 4,200 sqm at The Exo Building in Dublin 1 and a third occupier securing 3,800 sqm at 124/127 St Stephens Green, Dublin 2. Additionally, EY, the global accountancy and consulting firm, currently has an active requirement for approximately 25,000 sqm of space and has reportedly shortlisted three city centre locations. Deloitte has agreed terms in principle with Irish Life subject to planning permission for just under 15,000 sqm on Adelaide Road.

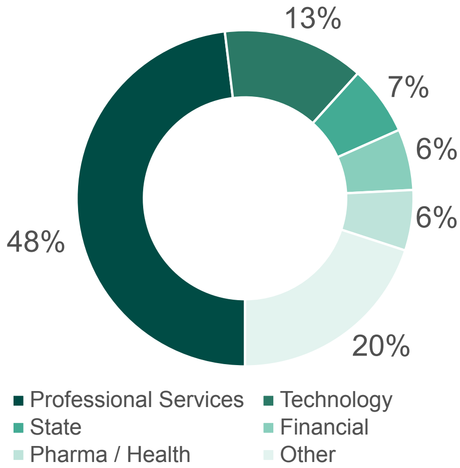
A growing number of larger occupiers are analysing their space requirements, moving beyond the quantity of space required. Employers continue to emphasise the importance of office locations that offer a wide range of amenities, good transport links, and a vibrant work-life atmosphere to help entice staff back into the office. ESG continues to become more important in decision-making, encouraging landlords to ensure their buildings meet these credentials when seeking new tenants. Furthermore, occupiers 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 good quality fit-out, including furniture.

Take-Up by Occupier Origin (Q3 2023)



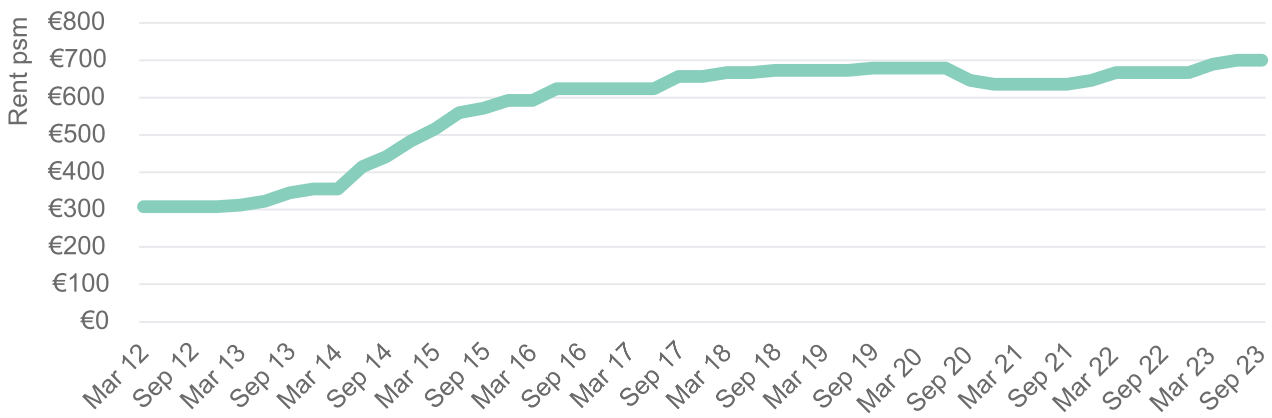
Source: Lisney

Take-Up by Occupier Sector (Q3 2023)



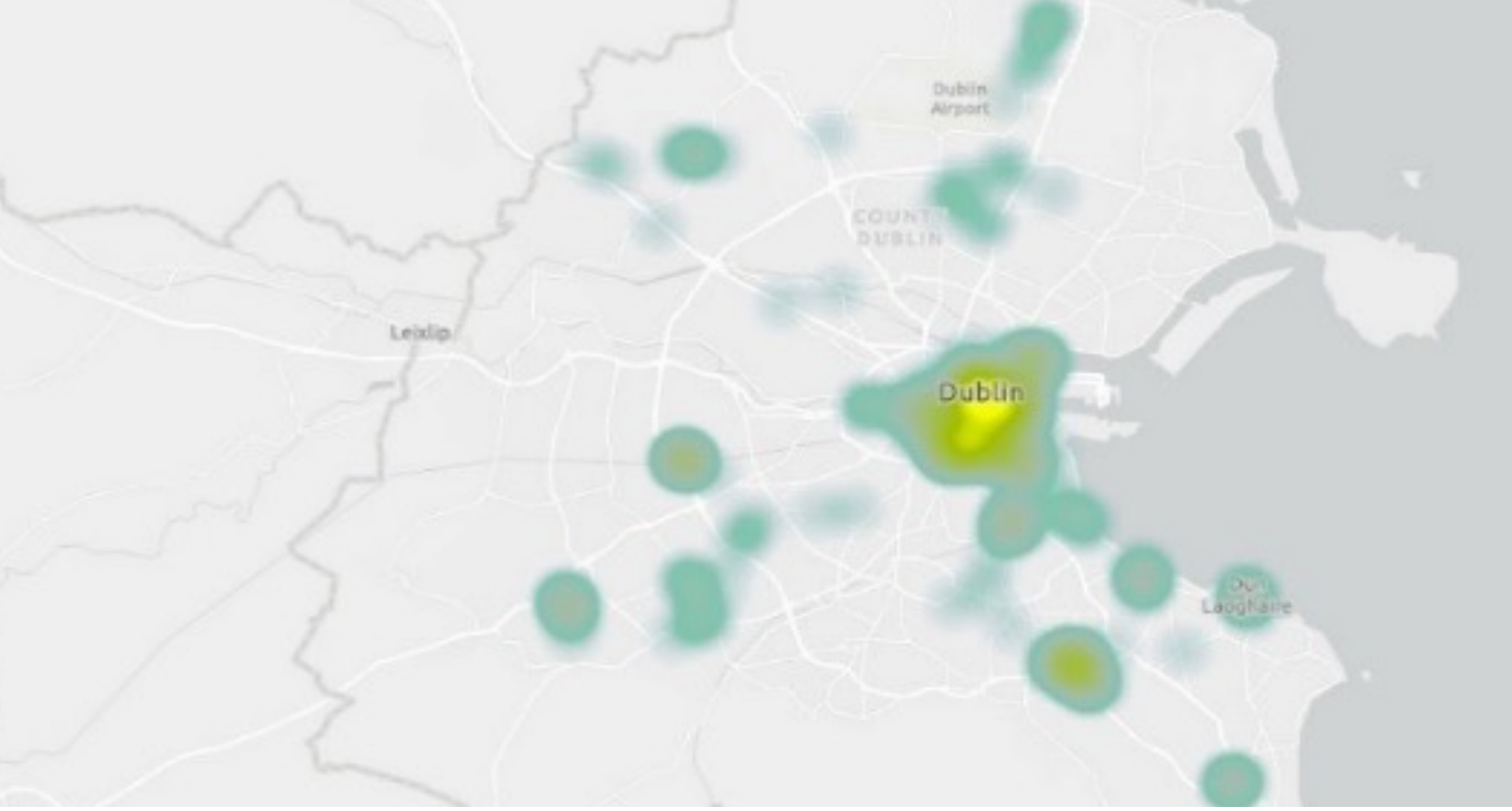
Source: Lisney

Prime City Centre Headline Office Rent (Q1 2012 – Q3 2023)



Source: Lisney

BELOW:
The Exo Building, Dublin 1



Supply

ABOVE:
Office Supply Q3 2023

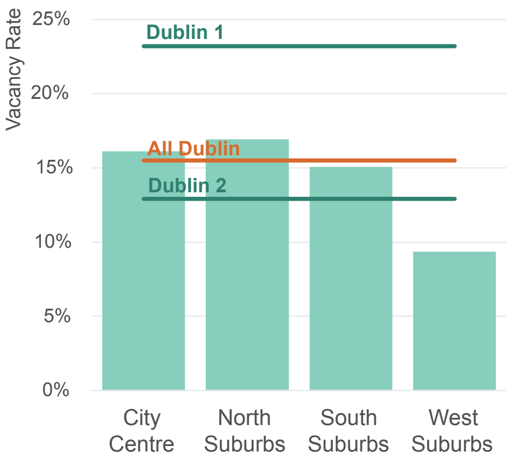
At the end of Q3 2023, there was 670,300 sqm of modern, purpose-built office accommodation vacant across Dublin, an increase of 3.1% in the quarter (from 650,000 sqm in June) and 26% higher than at the end of 2022.

While there were no substantial additions to supply in Q3, the largest additions in 2023 comprised:

- Meta's former HQ at 4 & 5 Grand Canal Square (23,150 sqm)
- The newly completed Shipping Office (16,450 sqm)
- Saleforce's sub-letting of the rear building in Spencer Dock (7,500 sqm)
- previously occupied space in Building G Central Park (11,600 sqm)

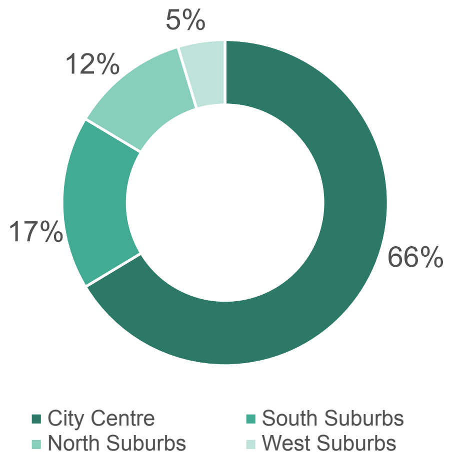
Dublin's overall headline vacancy rate was 15.5% at the end of September and largely unchanged from 15.7% three months previous. The rates across the regions varied with the city centre headline rate at 16.1% but with the true rate (when obsolete stock that is never likely to be occupied again is removed) at 15.5%. The headline vacancy rate in Dublin 2 was 12.9% while in Dublin 1, it was 23.2%.

Headline Vacancy Rate by Region (Sept 2023)



Source: Lisney

Supply by Region (Sept 2023)



Source: Lisney


zendesk

New Stock

No office accommodation completed construction in Q3 2023.

In the first nine months of the year, a total of 35,300 sqm across four schemes reached PC:

- One Le Pole Square in Dublin 8 (10,200 sqm)
- Shipping Office in Dublin 2 (16,500 sqm)
- Clerys Quarter in Dublin 1 (6,000 sqm)
- The Earl Building in Dublin 1 (2,600 sqm)

Each of these four buildings remain available.

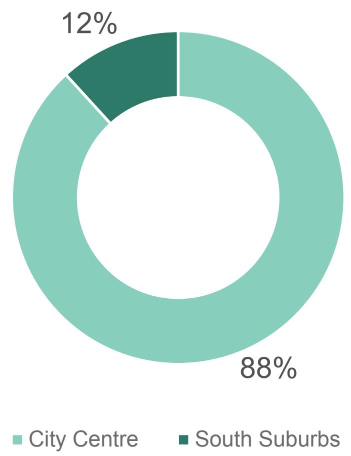
At the end of September 2023, there was approximately 288,200 sqm of office space under construction. 56% of this comprised four substantial schemes in the city centre:

- College Square on Tara Street in Dublin 2 (50,200 sqm)
- Waterfront in Dublin 1 (40,000 sqm)
- 2, 3 & 4 Wilton Park in Dublin 2 (35,300 sqm)
- Coopers Cross 1 & 2 in Dublin 1 (9,400 sqm and 27,200 sqm)

As previously discussed, office schemes are getting larger. In Q3 2023, the average size of a scheme under construction in the city centre was 13,400 sqm. Between 2005 and 2007, the average size of a new scheme in the city centre was just 4,600 sqm, 65% smaller.

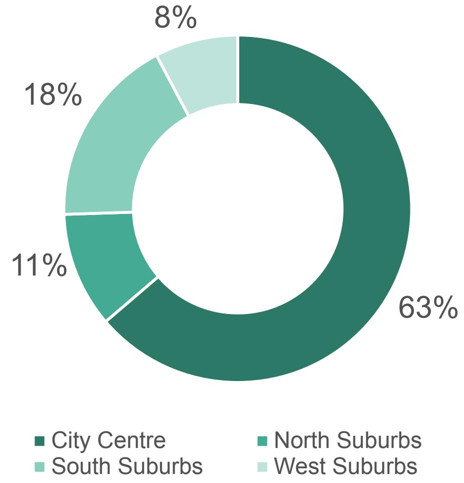
Given the market dynamics of occupier demand, fewer schemes under construction are pre- / mid-let. Just 29% of the stock currently being built is already spoken for. This, along with elevated construction and finance costs, will impact the viability of new schemes for at least 18 months with any new commencements reliant on an agreement for lease before works begin. As such, speculative construction will generally be absent from the market. With 44% of accommodation under construction due to reach PC by the end of 2023 and the remainder in 2024, no new schemes are due to come to the market in 2025 or beyond. In spite of this, there is a pipeline of potential schemes. Across Dublin there is several thousand square metres of space either with a planning grant or at pre-planning stage. To ensure construction can quickly pick up when needed, it will be necessary for developers and funders to have these schemes ready-to-go, and at a minimum have planning permission in place.

Office Stock Under Construction (Sept 2023)



Source: Lisney

Existing Office Stock by Region (Sept 2023)



Source: Lisney

LEFT:
55 Charlemont Place,
Dublin 2

ABOVE:
Molesworth Street,
Dublin 1

In Focus

Supply Trends in Dublin

The Dublin office vacancy rate has risen from 6.9% in Q1 2020 to 15.5% in Q3 2023. This was largely driven by trends also experienced in office markets globally – changing work practices (WFH and hybrid), adjustments across industries especially in tech (a sector that has been driving positive net absorption in recent years), and the impact of economic and geopolitical concerns on businesses.

This has led to a notable increase in grey space available for subletting and an increasing trend of newly completed accommodation not being taken prior to completion (pre or mid-lets). In mid-2020, there was 27,000 sqm of grey space available for subletting, which increased to 92,000 sqm by the end of the year. This growth trend has continued and by September 2023, grey space availability stood at 204,700 sqm. Although there was a slight decrease from the previous quarter (due to Meta surrendering space rather than sub-letting), on an annual basis, this represents a significant increase. To put 204,700 sqm in perspective:

- It is equivalent to one years' average market take-up in the last 15 years.
- It accounts for almost 31% of market supply (all space currently available).
- It makes up 4.7 percentage points of the vacancy rate.

Notable tech occupiers bringing high quality accommodation to the market on a sub-let basis in the last six to nine months include Meta and Salesforce. Meta offered accommodation at the newly completed Fiobanacci Square, Dublin 4 (35,300 sqm) to the market towards the end of last year, while Salesforce offered a 7,500 sqm building to the rear of its new HQ at Spencer Dock to the market in Q2 2023.

While grey space is adding to supply levels, so too are newly completed buildings. In the years just prior to the pandemic, most new schemes were pre or mid-let prior to reaching PC but in the last three years, this trend has declined and many speculatively developed buildings remain available. For example, four substantial schemes were completed in 2023 to date with a combined floor area of just over 35,000 sqm, and all four buildings remain empty, adding over one percentage point to the city centre vacancy rate and 80 bps to the overall Dublin vacancy rate figure.

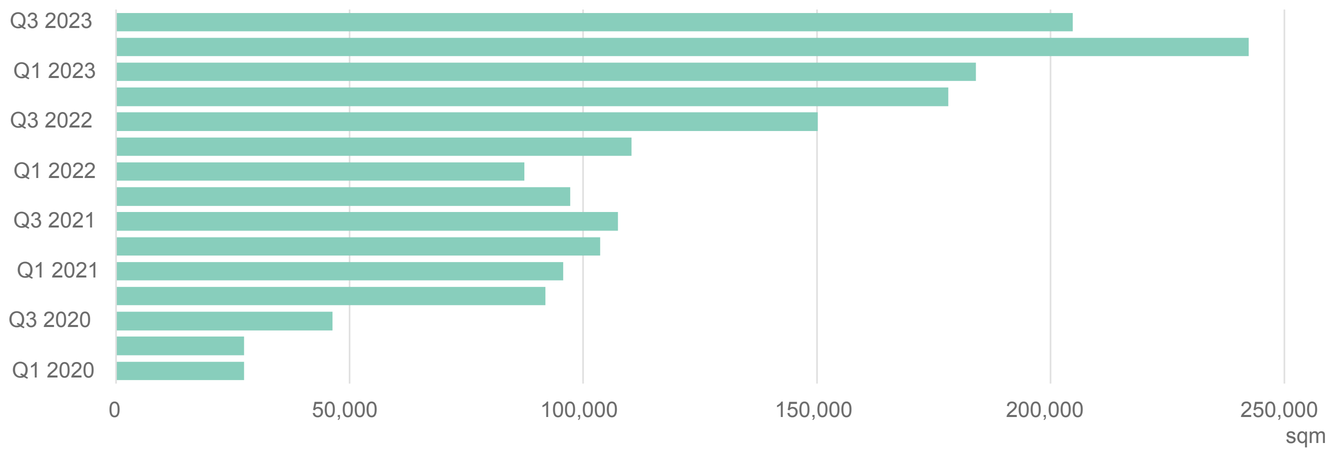
"

204,700 SQM

By the end of September 2023, 204,700 sqm of grey space was available.

"

Grey Space (Q1 2020 – Q3 2023)



Source: Lisney

Availability & Vacancy Rate (2008 - September 2023)

Source: Lisney

120,000 sqm

Activity levels in 2023 will be lower than long-term averages with full year take-up likely to be around 120,000 sqm.

Outlook

The availability of grey space is likely to continue shaping market dynamics in the coming quarters, including lease terms and rents achieved.

Activity levels in 2023 will be lower than long-term averages with full year take-up likely to be around 120,000 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.

While large requirements are currently limited, over the medium to longer-term horizon, the flight to quality will intensify for high profile tenants. New buildings completed in recent years as well as those currently under construction adhere to ESG policies and EU Taxonomy regulations. As the office market continues to evolve, occupiers' preferences for ESG-focused buildings with attractive work-life amenities will play a fundamental role in shaping the future of Dublin's office market and in the medium term, these buildings will be in demand.

Construction of office buildings currently ongoing will continue until completion is reached either this year or next. However, new office schemes starting construction will be very limited with elevated construction costs and a greater risk profile as the main reasons. This raises the possibility of an insufficient supply of A-rated buildings in three to five years to meet the demand arising from occupiers' 2030 ESG commitments.

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