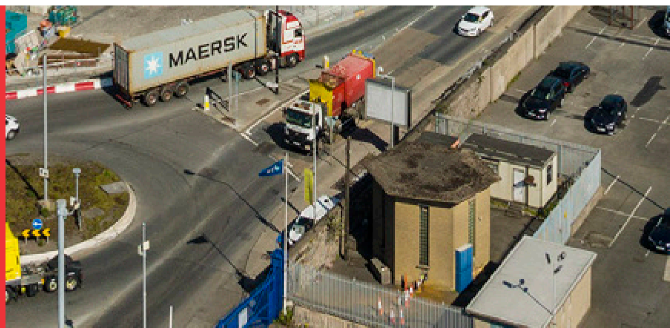
Lisney
COMMERCIAL REAL ESTATE

OFFICE REPORT

Q4 2023



Q4 2023

Activity levels in the Dublin office market remained relatively stable in Q4. There was a strong occupier focus on building location and on the sustainability credentials of the space. Notably, there was somewhat of a resurgence in tech sector activity, while grey space and newly completed buildings continued to contribute to a growing vacancy rate.

▲ 32,400 sqm

Take Up

▼ 39

Number of Transactions

▲ 830 sqm

Average Lot Size

▶ 70%
City Centre

Busiest Region

▲ 27%
Technology

Busiest Sector

▶ €700 psm
(€65 psf)

City Centre Prime Headline Rent

▼ 60,000 sqm
67% in the city centre

Reserved

▲ 16.6%

Dublin Headline Vacancy Rate

▼ 372,900 sqm

Under Construction

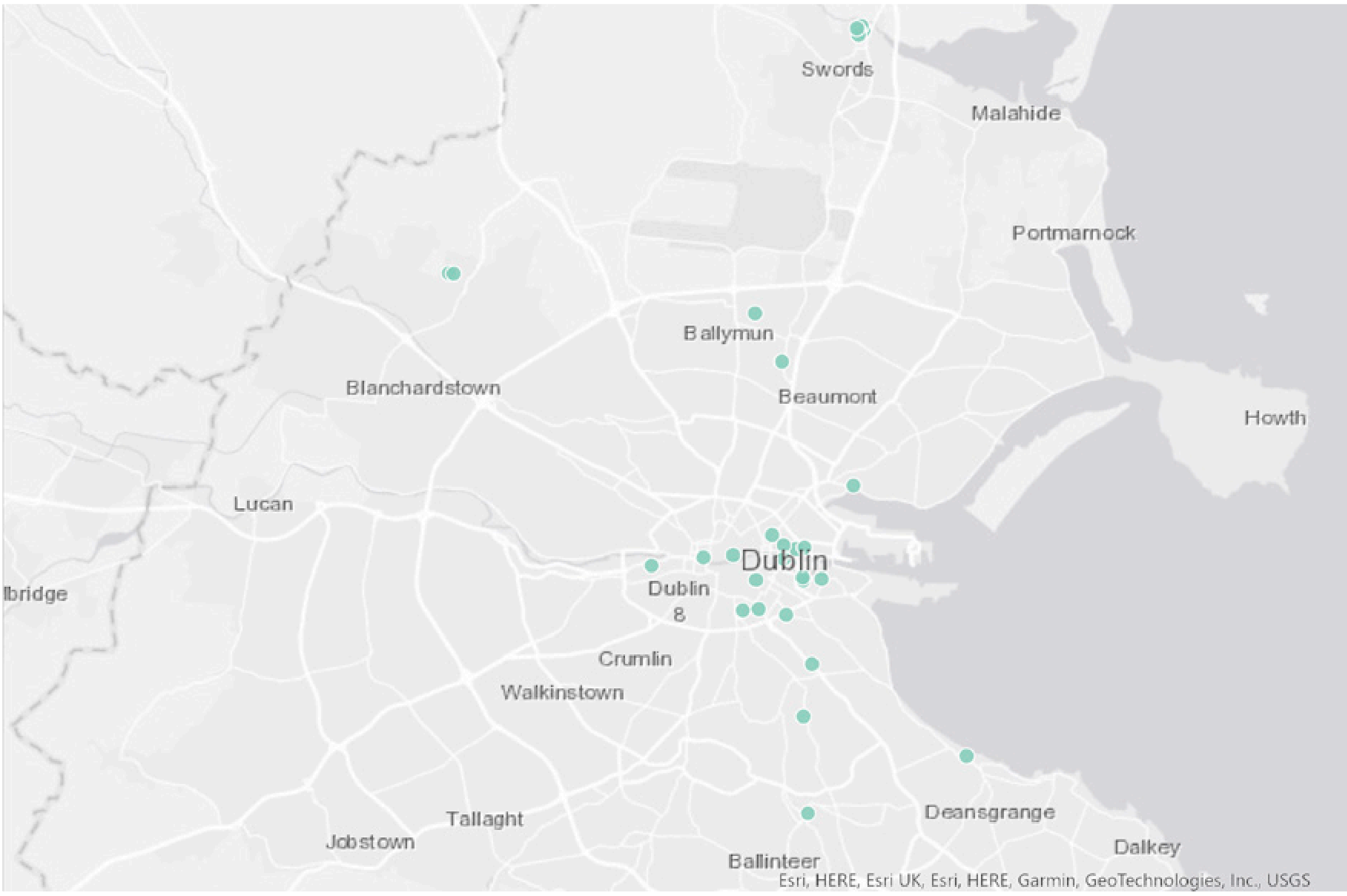
Arrows represent quarterly trends unless otherwise stated.

Top 10 Office Transactions (Q4 2023)

PROPERTY	SQM	REGION	OCCUPIER
124 St Stephens Green, Dublin 2	3,660	City South	Intercom
The Exo Building, Point Square, Dublin 1	3,320	City North	Yahoo
The Earl Building, Dublin 1	2,600	City North	HSE
One Charlemont Square, Dublin 2	2,350	City South	SEI Investments
Building 8 Cherrywood, Dublin 18	2,320	South Suburbs	Laya Healthcare
La Touche House, IFSC, Dublin 1	1,860	City North	CHI
40 Mespil Road, Dublin 4	1,500	City South	Omnicom
Two Dublin Airport Central, Co Dublin	960	North Suburbs	Green Core
Riverside 2, Dublin 2	950	City South	Interpath Advisory
1 George's Quay Plaza, George's Quay, Dublin 2	720	City South	Allied World Assurance

Source: Lisney

Office Take-Up Q4 2023



Source: Lisney

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

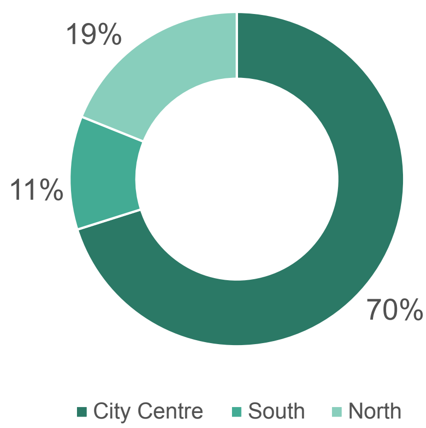
Activity

Office market take-up in Dublin reached 32,400 sqm in Q4 2023, bringing the total take-up for the year to 125,000 sqm. This is less than half the previous 10-year annual average of 240,000 sqm while the quarterly figure continued to fall below the 10-year average of 59,600 sqm.

While an analysis of such a small quarterly take-up figure is relatively meaningless, it is set out below for context.

- The city centre region remained the most active with 70% of all activity taking place there in Q4. On an annual basis, the city centre accounted for 66% of the total activity.
- With 39 deals completed in Q4, the top ten accounted for 63% of the overall take-up. Of these, only seven were each larger than 1,000 sqm with two more than 3,000 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 Q4 was 830 sqm, an increase from the 650 sqm achieved in Q3, 750 sqm in Q2 and 610 sqm in Q1. However, it remained substantially below the previous 5-year average of 1,240 sqm.
- The largest deal was in the south city centre and included the letting of 3,660 sqm at 124 St Stephens Green in Dublin 2. The second largest deal was also a letting, 3,320 sqm at The Exo, Dublin 1. Combined, these two lettings accounted for 22% of the total quarter's take-up.
- There were three vacant possession (VP) sales in Q4 2023, one of which was The Earl Building in Dublin 1 extending to 2,600 sqm. The remaining two sales were each for premisses less than 500 sqm. Combined, VP office sales accounted for 10% of the total take-up.
- Domestic occupiers took the most space (60% of the total) while those from North America took 27% of the total in Q4. The average lot size of Irish occupiers was 840 sqm, while North American companies took larger amounts of space, averaging 1,240 sqm per deal.
- Smaller size lettings, sub-1,000 sqm continued to dominate the office market in Q4 (32 out of 39 deals), accounting for 46% (14,750 sqm) of all activity by size. This compares to 46% (13,200 sqm) in Q3, 36% (13,700 sqm) in Q2 and 47% (12,300 sqm) in Q1.
- In Q4 2023, the professional services sector scaled down its activity, accounting for 12.5% of the total take-up, down from 48% in Q3. The tech sector, which had dominated the market between 2014 and 2020 but retrenched in recent years, rebounded to account for 27.1% of the total, up from 14% in Q3 and 9% in Q2.
- Only three deals (combined 6,600 sqm) were within new buildings that were never previously occupied and just two deals (3,100 sqm) were within a refurbished building. Most activity, 34 lettings (22,600 sqm), occurred within used accommodation that was previously occupied by another tenant. 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 (Q4 2023)



Source: Lisney

TERMS

Headline rents continued to hold firm for quality space in the quarter, particularly if the buildings had good ESG credentials and were in favourable locations. The prime city centre headline rental rate remained stable for the third consecutive quarter at €700 psm (€65 psf), 3.2% higher than pre-pandemic levels. However, 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 December 2023 than it was in March 2020.

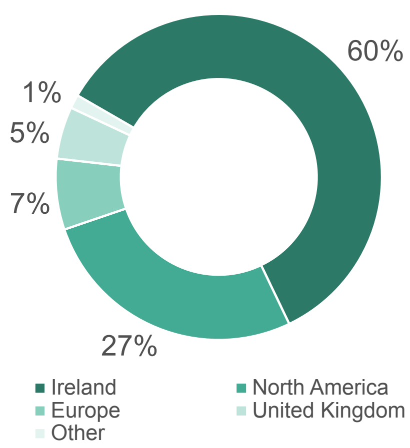
DEMAND

At the end of December 2023, there was close to 60,000 sqm of office accommodation reserved, of which 67% was in the city region. This includes TikTok's plan to take space at One Cumberland Place (6,600 sqm) in Dublin 2; AirNav Ireland taking 4,100 sqm at One George's Dock in IFSC, Dublin 1; and Mark Anthony Brands International taking 4,100 sqm at One Charlemont Square in Dublin 2.

EY, the global accountancy and consulting firm, currently has an active requirement for 15,000 to 20,000 sqm of space and has reportedly shortlisted three city centre locations. Another leading global professional services firm, Deloitte, has agreed terms in principle to pre-let space on Adelaide Road.

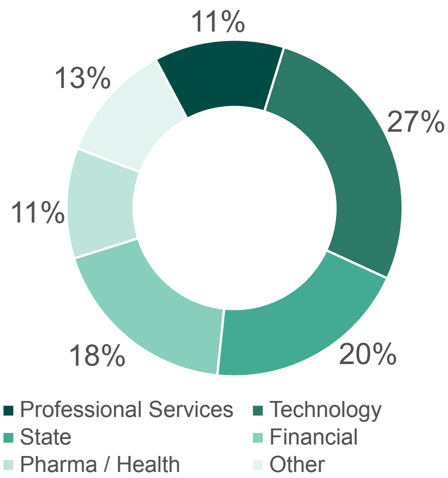
A growing number of larger occupiers are analysing their space requirements, moving beyond the quantity of space required. Employers continue to emphasise the importance of office locations that offer a wide range of amenities, good transport links, and a vibrant work-life atmosphere to help entice staff 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 (Q4 2023)



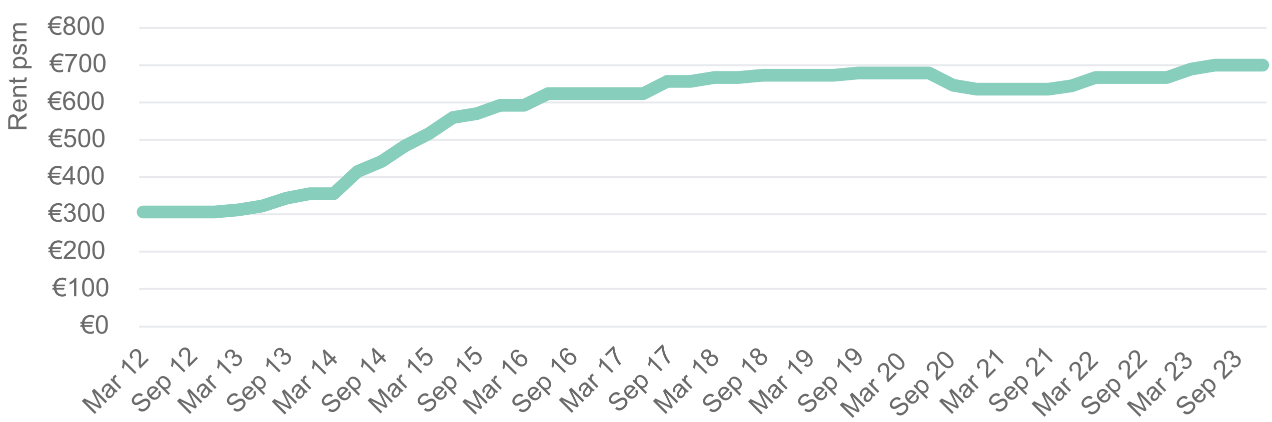
Source: Lisney

Take-Up by Occupier Sector (Q4 2023)



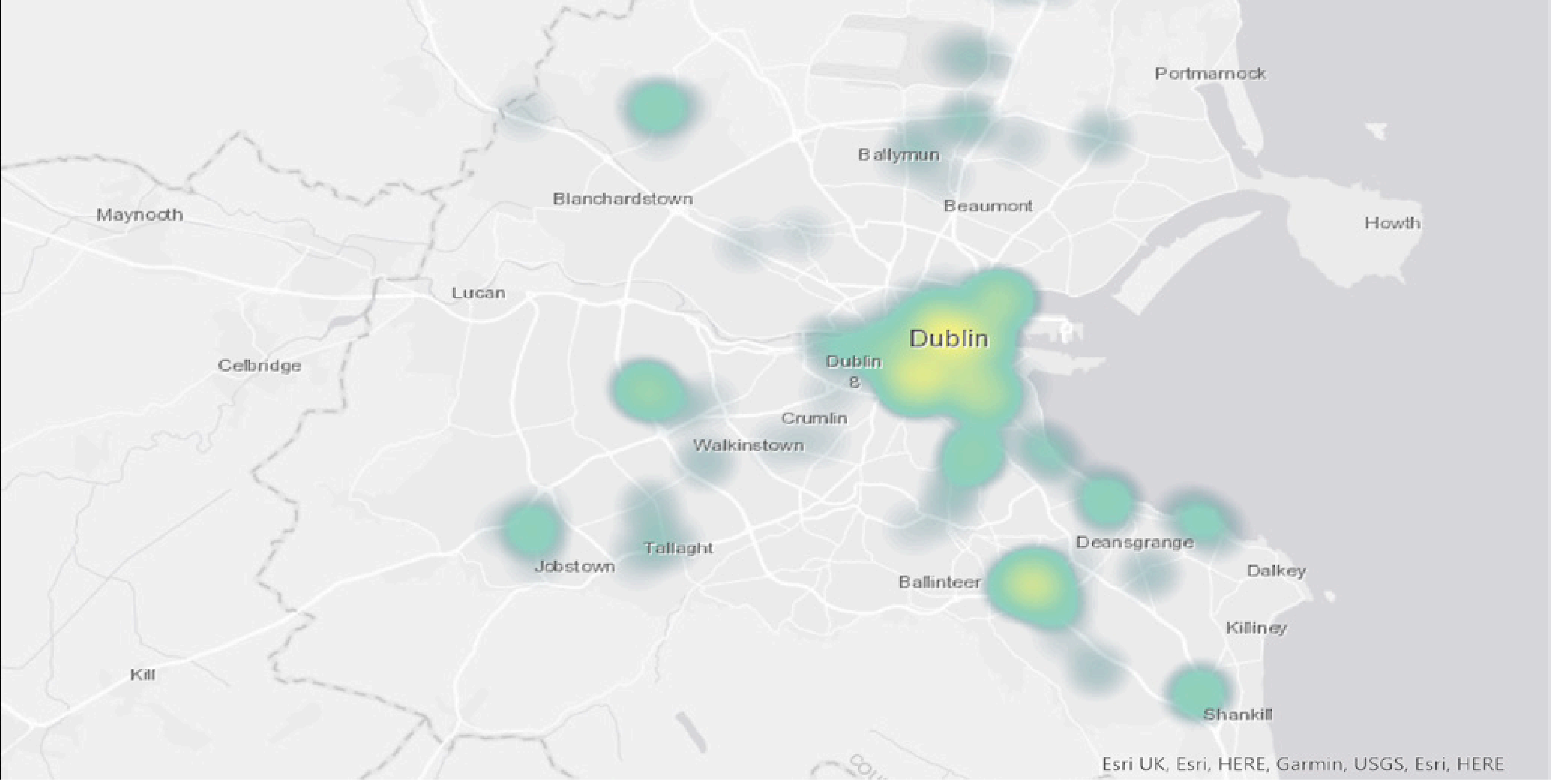
Source: Lisney

Prime City Centre Headline Office Rent (Q1 2012 – Q4 2023)



Source: Lisney

BELOW:
The Exo Building, Dublin 1



Supply

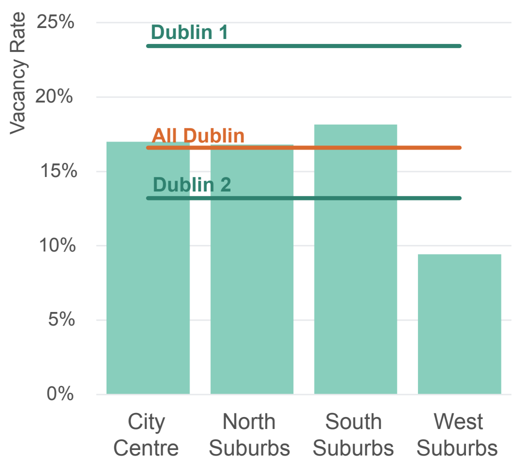
*Office Supply Q4 2023

At the end of Q4 2023, there was 725,000 sqm of modern, purpose-built office accommodation vacant across Dublin, an increase of 8% in the quarter (from 670,000 sqm in September) and 29% higher than at the end of 2022. The largest addition to supply in Q4 was the newly completed Building N in Central Park, Dublin 18 (19,300 sqm). The other substantial additions in 2023 include the following:

- Fibonacci Square in Dublin 4 (35,300 sqm) – sub-letting at Meta's HQ
- 4 & 5 Grand Canal Square (23,150 sqm) – previously occupied by Meta
- Shipping Office (16,450 sqm) – newly completed building
- Spencer Dock (7,500 sqm) – sub-letting of Salesforce's rear building
- Building G Central Park (11,600 sqm) – previously occupied

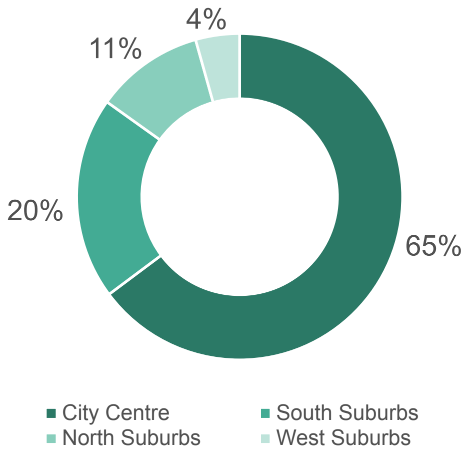
Dublin's overall headline vacancy rate was 15.5% at the end of September and largely unchanged from 15.7% three months previous. The rates across the regions varied with the city centre headline rate at 16.1% but with the true rate (when obsolete stock that is never likely to be occupied again is removed)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

In Q4 2023, a total of 42,400 sqm of office accommodation across five schemes was completed. Of this, 30,200 sqm remains available. Completed schemes comprise:

UNDER CONSTRUCTION	373,000 sqm
LARGEST NEW SCHEME	Camden Yard, Kevin Street, Dublin 2
AVERAGE NEW SCHEME SIZE	15,670 sqm City Centre 14,750 sqm Suburbs
DEAL AGREED / RESERVED PRE-COMPLETION	28%

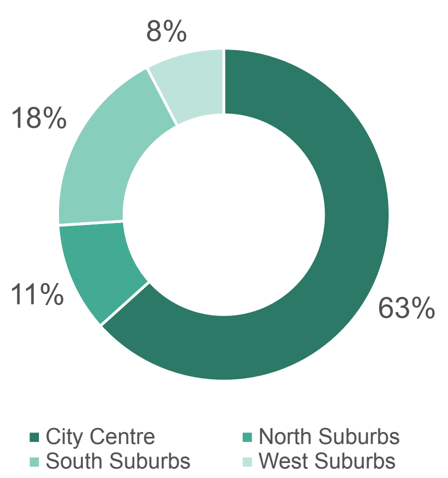
- Block N, Central Park, Dublin 18 (19,300 sqm)
- The Merrion Building, Dublin 2 (1,400 sqm)
- 60 Dawson Street, Dublin 2 (13,500 sqm)
- 9-12 Dawson Street (extension), Dublin 2 (1,250 sqm)
- Glencar House, Dublin 4 (7,000 sqm)

At the end of December 2023, there was approximately 372,900 sqm of office space under construction. 60% of this comprised five substantial schemes in the city centre:

- Camden Yard, Kevin Street, Dublin 2 (53,100 sqm)
- College Square, Tara Street in Dublin 2 (50,200 sqm)
- Waterfront, Dublin 1 (40,000 sqm)
- 2, 3 & 4 Wilton Park, Dublin 2 (35,300 sqm)
- Coopers Cross 1 & 2, Dublin 1 (9,400 sqm and 27,200 sqm)

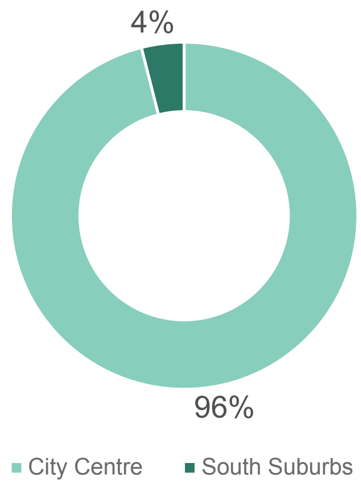
Building works will continue on accommodation already under construction, but as of end-December, there is no new space due in 2026 and beyond. There is however a pipeline of potential schemes and across Dublin there is several thousand square metres of space either with a planning grant or at pre-planning stage. Such a scenario brings with it future risks, particularly in three to five years' time when there will not be enough A rated / zero-emission buildings to meet the demand arising from occupiers' 2030 ESG commitments and EU directives. Developers, investors and funders need to keep this in mind and not over-correct.

Existing Office Stock by Region (December 2023)



Source: Lisney

Office Stock Under Construction (December 2023)



Source: Lisney

LEFT:
55 Charlemont Place,
Dublin 2

Sustainability is an ever-increasing consideration across all parts of the built environment, but none more so than the office sector.

Outlook

While some improvement in activity is likely in 2024, significant progress reverting to the pre-pandemic norm is unlikely. Activity levels will remain muted in 2024 as businesses continue to assess requirements and the wider global economic conditions.

While gone are the days of employees being in the office five days a week, many employers are now insisting on a certain level of office contact each week rather than fully remote work. As 2024 progresses, this will increase the occupancy levels of buildings and generate more certainty for businesses on space requirements, which will ultimately result in market activity.

Sustainability is an ever-increasing consideration across all parts of the built environment, but none more so than the office sector – both from a regulatory standpoint but also from a moral and wellbeing perspective. Various European and domestic policies will continue to influence how properties are funded and occupied. With offices, it generally makes most financial sense to fully refurbish / rebuild (if permitted due to embodied carbon) older Grade C buildings, and this cost will be reflected in their value. However, it will be a more difficult situation with Grade C buildings or lower and there is a realistic fear many will become stranded assets – too modern to justify the high cost of upgrading to A or high B ratings on the BER scale, but also not meeting the sustainability standards required. Certain landlords will carry out the works regardless and accept the cost. Going forward, which party takes responsibility for the M&E systems will become a hotly negotiated point for landlords and tenants, as will the level of service charge.

Linked to above – while large requirements are currently limited, over the medium to longer-term horizon, the flight to quality will intensify for high profile tenants with preferences for ESG-focused buildings with attractive work-life amenities.

Occupiers originating from the US have on average made up half of the Dublin office market in the last decade, with 2018 to 2020 particularly strong years. In 2022 and 2023 the proportion fell to about one-third. Demand from US businesses will be at reduced levels again for most of 2024. However, as interest rates in the US settle and parent companies are under less pressure to cut costs, it is likely that many will be back in expansion mode and investing in Irish operations. In the more medium-term, this will be positive for market activity.

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