

DUBLIN OFFICE MARKET

Q1 2020



OVERVIEW

Occupier demand continued at pace in the Dublin office market in the opening quarter of 2020. Approximately 45,150 sq m of space was taken up, while a further 85,050 sq m was signed in the three-month period alone.

This activity continues to be driven by key sectors such as tech, professional services, finance and co-working occupiers. These four sectors accounted for 87% of total take up in the opening quarter, or 94% of take up in the CBD.

Development activity continues to be a focal point in the market. A total of 577,700 sq m was under construction at the end of March 2020, however a high proportion, 54% was signed or reserved. Despite the high volume of space under construction completions in the quarter totaled just 16,850 sq m.

Supply levels remained relatively unchanged in the opening quarter of 2020, with 324,150 sq m available at the end of March. This equates to a vacancy rate of 8.5%. As the volume of space signed or reserved remains elevated, the net availability rate sits at 4.6%, or just 3.1% in the CBD.

However, despite the strong start to the year, as quarter one drew to a close, the office market entered uncharted territory, as the local and global economies

45,150 sq m

A TOTAL OF 45,150 SQ M WAS TAKEN UP IN THE DUBLIN OFFICE MARKET IN Q1 2020.



4.6%

THE DUBLIN NET VACANCY RATE FELL TO JUST 4.6% AT THE END OF THE OPENING QUARTER.



were faced with the unfolding impacts of COVID-19. Due to its timing, market statistics will not show any notable impact for some time. Since the end of the quarter, deals have continued, others have been placed on temporary hold, while lastly some have fallen through.

At this juncture with so many unknowns as to the timing and nature of the loosening of lockdown procedures, it is difficult to estimate with a high degree of certainty what impact COVID-19 will have on the overall volumes of leasing and construction activity. However, taking into consideration what is known at the time of writing, take up in 2020 will be down, the market looks set to lose one quarter's take up.





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TRANSACTION ACTIVITY

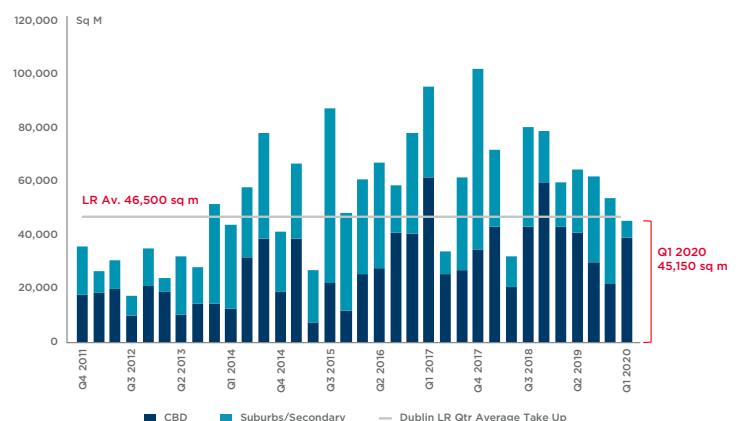
The opening quarter of 2020 witnessed strong levels of leasing activity continue in the Dublin office market. A total of 45,150 sq m was taken up in the quarter, just below the long run quarterly average. However, a further 85,050 sq m was signed in the three-month period alone, emphasizing the high volume of activity and demand.

Take up was largely concentrated in the CBD in the opening quarter, accounting for 86% of space occupied in the three months. Within the CBD, the South Docks led take up activity with 23,650 sq m, followed by the Traditional Core and Ballsbridge areas.

This breakdown displays an exceptionally high proportion of take up for the CBD to absorb. The breakdown also reflects the suburb's lowest quarterly take up since 2018.

However, this statistic is not an accurate reflection of occupier demand for the suburbs. The suburban market has attracted a growing level of occupier and indeed investor attention over recent years. Despite lower take up levels in the opening quarter, there were some significant transactions signed in the quarter which reinforces the demand levels present in this area. For example, Mastercard signed a total of 22,700 sq m at both One and Two, South County Business Park, Leopardstown, Dublin 18.

Dublin Office Quarterly Take Up by Location, Q4 2011 - Q1 2020



Source: Cushman & Wakefield Research

86%

The CBD accounted for 86% of space occupied in the first quarter of 2020.

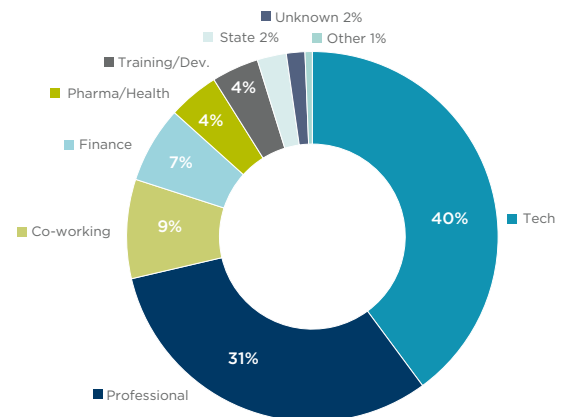
An interesting feature of take up in the opening quarter is the proportion of sub-lets/assignments. Of the 45,150 sq m occupied, some 22% is through a sub-let/assignment. It is important to note it is just one quarter, and therefore does not suggest this high proportion will remain for the year in full, however it does suggest a rise on 2019 levels. In 2019, sub-lets/assignments accounted for almost 4% of take up, or 8,650 sq m of space. Interestingly, on the supply side, sub-lets/assignments accounted for 10% of standing stock available at the end of March, up from just 3% at the same period last year, indicating the practice is a growing feature of the market.

In terms of sector, activity continues to be led by tech, professional services, co-working and finance occupiers. Tech occupiers account for the largest proportion of take up, 40%, with this figure rising to 46% in the CBD.

Since the end of March, take up has effectively paused. Although work continues on leasing activity, social-distancing policies sees fitouts cease and therefore deals reaching actual take up status halted temporarily. The severity of the decline in take up will be dependent on the lifting of these restrictions, and the pace at which the economy and labour market re-bounds.

At this juncture there is a strong possibility that take up will fall in 2020. However, with a total of 149,700 sq m of standing stock pre-let/reserved and a further 312,050 sq m of space under construction pre-committed the take up pipeline remains strong.

Dublin Office Take Up by Sector, Q1 2020



Source: Cushman & Wakefield Research

40%

Tech occupiers account for the largest proportion of take up, 40%.





DUBLIN OFFICE MARKET

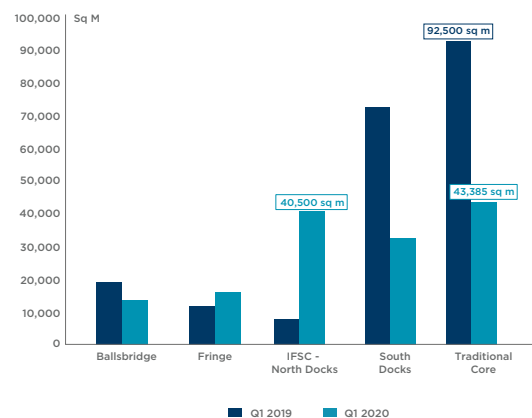
AVAILABILITY

Availability remained exceptionally low in the opening quarter of 2020. A total of 324,150 sq m was available at the end of March, representing an annual decline of 24%. The current availability levels equate to a vacancy rate of 8.5%, the lowest rate in almost 20 years.

Within the CBD, availability levels are even tighter. At the end of March 2020, there was 145,950 sq m available across the five sub-markets of the CBD. The Traditional Core and IFSC/North Docks account for the largest proportion of this, 30% and 28% respectively.

Interestingly, despite a decline across the CBD over the past twelve months, not every sub-market has behaved the same. The IFSC-North Docks is the standout sub-market in this case, with a notable rise in availability. Availability within this area has risen to 40,500 sq m in Q1 2020 from just 7,850 sq m in Q1 2019. This is largely reflective of new completions within this area, namely blocks at Dublin Landings, North Wall Quay, Dublin 1. However, it is also worth noting, net availability sits lower at 21,050 sq m.

Availability by CBD Sub-Market, Q1 2019 Vs. Q1 2020



Source: Cushman & Wakefield Research

Signalling the underlying demand within the market, a significant level of space is signed or reserved. Approximately 46% of standing stock was signed or reserved at the end of the quarter, meaning the net vacancy rate sits at 4.6% in Dublin overall and just 3.1% in the CBD.

CBD Sub-Market Net Vacancy Rates, Q1 2020

	Ballsbridge	Fringe	IFSC – North Docks	South Docks	Traditional Core	Total
NET VR	4.2%	4.3%	7.7%	0.5%	2.5%	3.1 %

Source: Cushman & Wakefield Research

Availability levels and vacancy rates are a critical feature for the Dublin office market heading into these uncertain times. They place the market on a very different footing than it was when heading into the financial crisis in 2008. For example, in Q1 2008 the vacancy rate for the Dublin office market was 14.8%.

At the time of writing, the market is not anticipated to see a notable rise in the availability and vacancy rates in the immediate future. As market churn remains low, availability has been reliant on new completions to increase availability. Completions will remain on hold until the construction sector can re-open. This differs to 2008 and 2009 when the market saw close to 378,000 sq m of overhang space complete in 24 months, further increasing an already high vacancy level. In the more medium-term, the impacts on the labour market from this shock will become more evident and this will be closely monitored.



14.8%

In Q1 2008, the vacancy rate for the Dublin office market was 14.8%.

“The Covid-19 situation has thrown the Dublin Office market into uncertain times. However, unlike the impact of the financial crisis of 2008 – 2011, the market is entering this period on a much stronger footing. Prior to Covid-19, the market was experiencing a record low net vacancy rate coupled with robust occupier demand. Dublin is now also a much more diverse place in terms of its occupier mix. However, one sector we do see coming under pressure in the near term is serviced offices / co-working, who have been a big part of recent take-up figures. We anticipate this sector will take a little time to readjust and recalibrate post crisis, but time will tell.”

RONAN CORBETT, HEAD OF OFFICES, CUSHMAN & WAKEFIELD IRELAND.

DUBLIN OFFICE MARKET

FUTURE SUPPLY

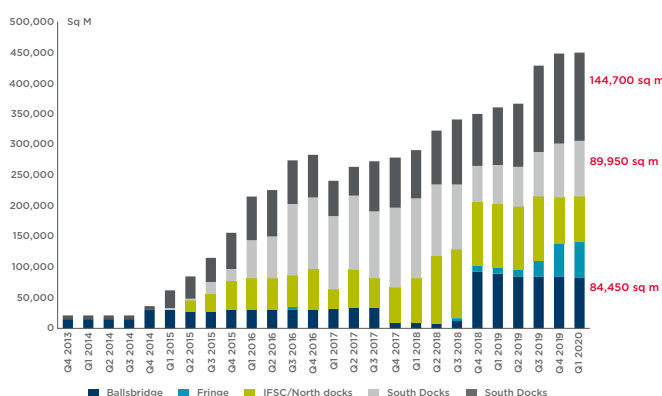
In response to the low levels of availability, construction levels remain high in the Dublin office market. A total of 577,700 sq m was under construction at the end of March, of which 12% are refurbishments.

Illustrating the strength of demand and the measured approach to development, a total of 54% of space is pre-committed, either signed or reserved.

The lion's share of this development continues to be focused in the CBD, where approximately 450,400 sq m is under construction. The proportion of this that is pre-committed is higher, at 60%. Again, it is worth noting that this differs to back in 2008. Although construction volumes were lower, the CBD accounted for approximately 40%, compared to today's 78%.

Within the CBD, the Traditional Core area accounts for the largest proportion, followed by the South Docks and Ballsbridge.

Dublin Construction Activity by CBD Sub-Market, Q1 2020



Source: Cushman & Wakefield Research

Outside the CBD, a total of 127,300 sq m was under construction between the suburbs and other city centre locations. Outside the CBD, the south suburbs absorb the largest share of activity. Development is underway at for example Cherrywood, Sandyford and Leopardstown summing to 46,900 sq m in total.

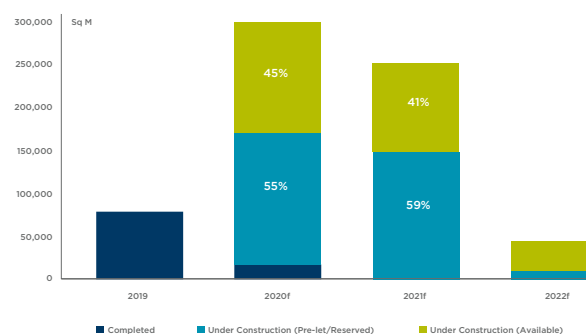
Also, worth noting is the rise in construction in the emerging CBD. A total of 40,350 sq m is under development, up from 34,650 sq m in Q1 2019 and 19,200 sq m at the start of 2018. All of this space is located in Dublin 7 and Dublin 8. The largest examples include The Distillers Building, Smithfield, Dublin 8 measuring 15,100 sq m and One Le Pole Square, Ship Street Great, Dublin 8 measuring 10,200 sq m.

Moving to completions, despite the high volume of space under construction at present, completions did not reach expected levels in 2019 and they continued to be muted in the opening three months of 2020. In total, 16,850 sq m was completed by the end of March. The closure of sites did inevitably delay some schemes from reaching practical completion at the end of March.

A large volume of space was due to be completed in the first half of 2020, however these timelines are most likely to be pushed to the second half of the year. At the time of writing, all office construction sites remain closed until May 18th. Therefore, the market is not expected to see a large volume of completions in quarter two.

An estimated 282,050 sq m was due to be completed in 2020 of which 55% is pre-committed. At this juncture, it is difficult to project with great certainty how much of this space will complete this year. In the government's recently published "Roadmap for Reopening Society and Business", construction workers are expected to return to work from May 18th, on a phased basis. Completions will be dependent on a number of factors, for example the pace at which sites can resume capacity while adhering to guidelines. Once there is more clarity on these elements, the 2020 pipeline picture will become clearer.

Dublin Office Development Pipeline, 2019 – 2022F*



Source: Cushman & Wakefield Research

*Dublin Office Projected Completions Pre COVID-19



DUBLIN OFFICE MARKET

RENTS AND MARKET OUTLOOK

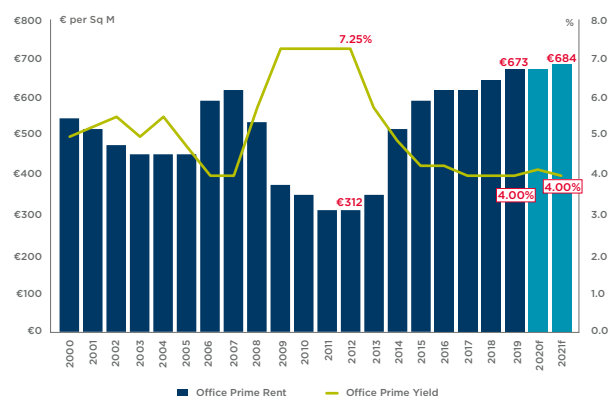
Prime rents in the CBD and suburbs remained unchanged in the opening quarter of 2020. Prime CBD rents stood at €673 per sq m at the end of Q1 2020, unchanged from the end of 2019, however up 4.2% annually. While in the suburbs, prime rents sit at €323 per sq m.

Further rental inflation was forecast for 2020, however the onset of COVID-19 and the pause which this has placed on the market see's rents now forecast to remain at their current level for 2020. However, in line with the economic bounce back, rental inflation is expected to return in 2021.

Overall, when attempting to look forward, activity in the Dublin office market over the coming quarters will be strongly influenced COVID-19, the longevity of the public health policy and the subsequent economic fallout. The outbreak of COVID-19 and the accompanying lockdown have prompted a set of circumstances that could not have been foreseen even a few short weeks ago.

With property viewings and construction activity all impacted by the spread of Covid-19, it is inevitable a temporary hold on take up activity will take place for at least the coming quarter. This may see the market essentially lose a quarter of take up in the year as a whole.

Dublin Prime CBD Rents Forecasts, Q1 2020



Source: Cushman & Wakefield Research

Despite the many unknowns, there are some knowns. The volume of pre-commits in the market remains high. Contrastingly, vacancy levels in the market remain at particularly low levels heading into this crisis compared to 2008. Construction activity, although high is measured, with 54% pre-committed at the end of March 2020. The release of second-hand stock to the market also remains low. These factors combined suggest, availability and vacancy rates should remain resilient over the coming quarters.

CONTACT DETAILS

AUTHORS

Kate English

Senior Economist,
Researcher

+353 (0) 1 237 6383
research@cushwake.ie

Ronan Corbett

Head of Offices,
Director

+353 (0) 1 639 9641
ronan.corbett@cushwake.com

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