DUBLIN

OFFICE MARKET

Q2 2020

CUSHMAN & WAKEFIELD

OVERVIEW

COVID-19 essentially paused the Dublin office market. Therefore, not unexpectedly, activity in the market slowed considerably in the second quarter of 2020. Just 14,650 sq m was occupied in the three-month period, compared to the long run quarterly average of 46,185 sq m.

At the mid-point juncture of the year, take up sits at 59,950 sq m, a level unseen since 2013, the last of the downturn years before recovery took hold in 2014.

With take up activity on hold for much of the quarter, availability increased, rising by 10% in the three months to 363,550 sq m. This equates to a vacancy rate of 9.5% overall, or 7.6% in the Central Business District (CBD). Importantly, the release of second-hand stock back to the market remained in line with the quarterly average, indicating the market is yet to see any increase of note in market churn arising from COVID-19.

Positively, a high volume of space remained pre-committed at the end of June. A total of 123,950 sq m of standing stock and a further 295,700 sq m of space under construction was either signed or reserved at the end of the quarter. This signals a healthy level of take up pipeline for the Dublin office market. It also brings the important net vacancy rate down to 6.3%, or in the CBD, 4.2%.

59,950 sq m

TAKE UP AT THE MID-POINT OF THE YEAR SITS AT 59,950 SQ M.

363,550 sq m

AVAILABILITY INCREASED TO 363,550 SQ M AT THE END OF JUNE 2020.

Construction activity continues to be a key feature of the market. Following full closures on all sites at the start of April, construction recommenced from May 18th. A total of 22,700 sq completed in the quarter, bringing the year to date completions to 39,550 sq m. A further 544,450 sq m was under construction at the end of June, of which 174,575 sq m remains on course to complete in 2020. However, social distancing policies or reinforced lockdowns may impact the delivery of this space in full. Importantly, 44% of space due to complete this year is pre-let, with a further 16% reserved.

"It will be no surprise that transaction volumes during Q2 were down significantly on previous years. COVID-19 effectively paused the Dublin office market. However, as lockdown measures have begun to lift, we are starting to see a recovery in activity. The remainder of 2020 will be tough, but there are reasons to be optimistic for 2021. Our Cushman & Wakefield live Demand Tracker is showing over 270,000 sq m of unsatisfied active demand in the market as of early July. This is a remarkable figure and shows the confidence occupiers, and in particular international occupiers, continue to have in Dublin as a location of choice."

RONAN CORBETT, HEAD OF OFFICES AT CUSHMAN & WAKEFIELD IRELAND

DUBLIN OFFICE MARKET

TAKE UP

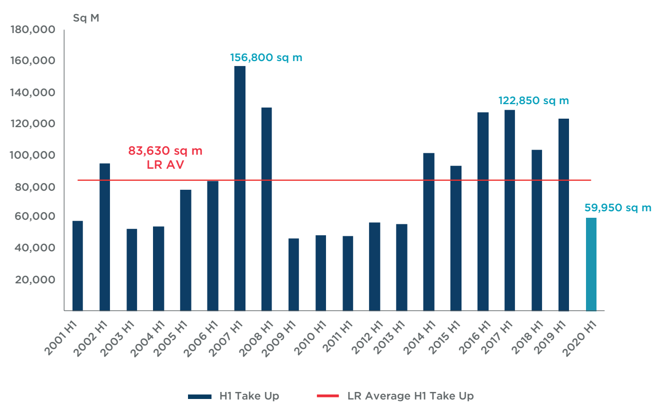
Not surprisingly, the Dublin office market recorded a notable decline in take up in the second quarter of 2020. With Ireland in the midst of a lockdown due to the ongoing COVID-19 pandemic for most of the quarter, it prevented fitouts, inspections and viewings occurring, which directly impacted take up.

A total of 14,650 sq m was occupied in the three-month period, bringing year to date take up to 59,950 sq m.

Despite the limited amount of take up, trends continue to be evident in the market. In terms of sector, tech continues to drive market demand. Tech occupiers accounted for 36% of take up in the first half of the year, while in the CBD they account for 47%. Occupiers of note during the first half of the year include Hubspot, occupying 6,850 sq m of space at 1 Sir John Rogerson's Quay, Dublin 2 and Airbnb, with 5,450 sq m at The Reflector, Hanover Quay, Dublin 2.

The tech sector has been a growing part of the Dublin office market over the past number of years. Employment in the sector has grown by over 27% since 2015. Recently, Dublin was listed as one of the top tech cities of the future, in the fDi/TNW inaugural Tech Cities of the Future 2020/21 report. The report looks to "cities with the most promising prospects for start-ups, tech and innovation investment".

Dublin Office Take Up, H1 Activity, 2001 - 2020

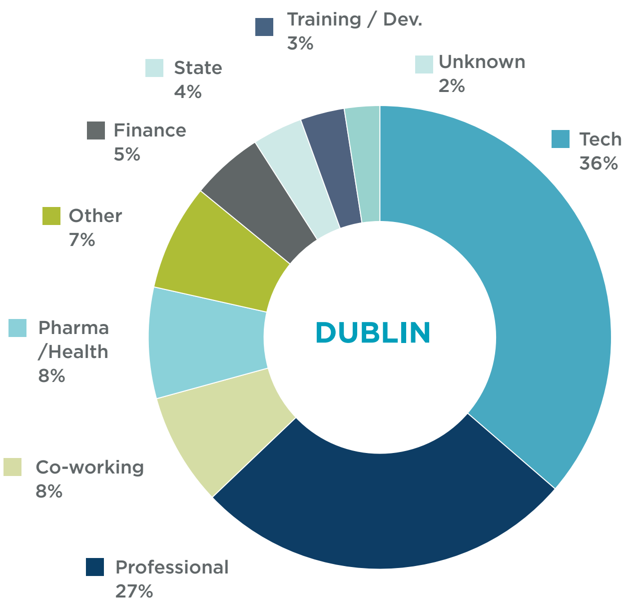


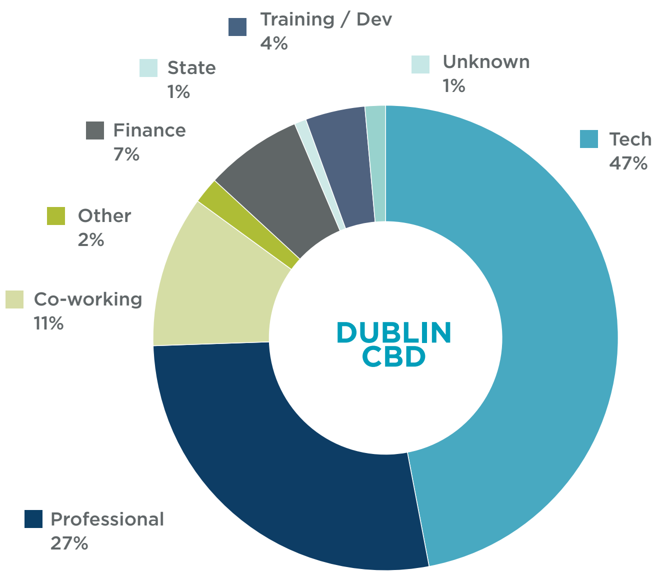
Source: Cushman & Wakefield Research

36%

Tech occupiers accounted for 36% of take up in the first half of the year.

Dublin Office Take Up by Sector, H1 2020





Source: Cushman & Wakefield Research

Outside of tech, professional services accounted for over 27% of take up in the Dublin office market. Professional services have witnessed rising demand over the past year and a breakdown of current active unsatisfied demand requirements within the market would suggest this trend will continue.

27%

Professional services account for over 27% of take up in the Dublin office market.

DUBLIN OFFICE MARKET
AVAILABILITY

With take up halted in the second quarter, attention switches to availability. Net take up entered negative territory in quarter two, meaning more space was added to the market than was taken up in the quarter. This saw availability rise by 10% in the three-month period to 363,550 sq m, although it still remains 10% below levels witnessed at the same time period in 2019.

New space added to availability comes in two forms: the completion of new stock or the release of second-hand stock to the market. 22,700 sq m completed construction while approximately 33,200 sq m of second-hand space was brought to the market to let. Importantly, the release of second-hand space remained broadly in line with the quarterly average, indicating the market is yet to see any rise of note in market churn arising from COVID-19. This may change as the year progresses and casualties of the pandemic become more apparent.

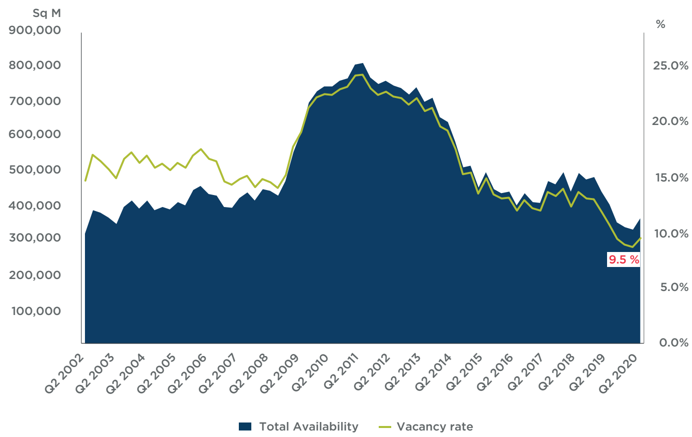
In terms of location, the majority of space available is in the CBD, 43%. The suburbs accounts for a further 39%, with the lion's share of this in the south suburbs. Within the CBD, the South Docks which is the largest of the five sub-markets absorbs the largest share 12%. This is closely followed by the IFSC North Docks.

It is important to note that a significant volume of space was signed and reserved as of the end of June. In the CBD, 46,100 sq m of space was signed with a further 23,750 sq m reserved. Combined, this brings the net vacancy rate in the CBD to 4.2%, up from 3.2% in Q1 2020, but unchanged from the same period in 2019.

The change over the quarter reflects a decrease in the volume of space reserved. Changes to reserved space from one quarter to the next is normal, however, the decrease may reflect some occupiers adopting a 'wait and see' approach to their requirements as they asses the possible economic fallout from COVID-19 and also how working from home may alter their current and future space requirements .

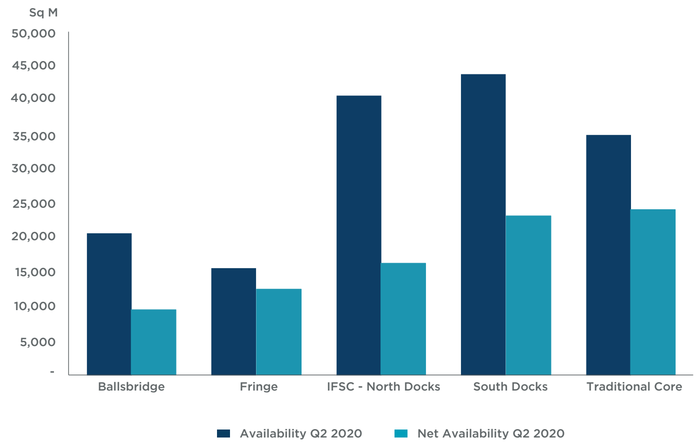
Across the sub-markets, the net vacancy rate varies, from a low of 2.9% in the Traditional Core and a high of 5.4% in the IFSC North Docks.

Dublin Office Availability (Sq m) & Vacancy Rate (%), Q2 2002 – Q2 2020



Source: Cushman & Wakefield Research

Dublin CBD Availability by Sub-Market, Q2 2020



Source: Cushman & Wakefield Research

43%

The majority of available space, 43%, is located in the CBD.

DUBLIN OFFICE MARKET
DEVELOPMENT ACTIVITY

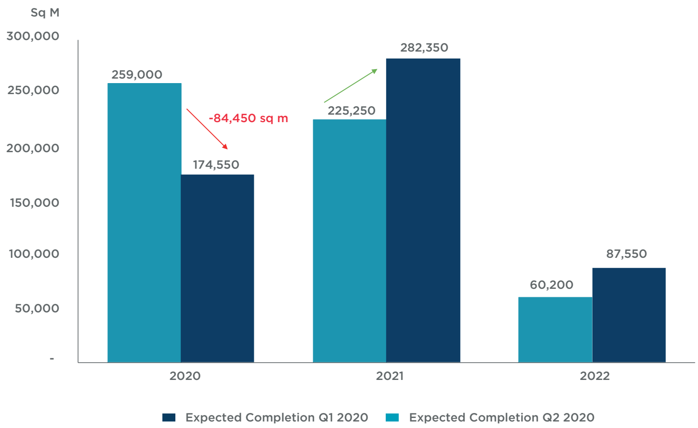
At the end of June 2020, a total of 544,450 sq m of space was under construction in the Dublin office market. The closure of all sites between April and May saw no new starts commence during the three-month period, while just 22,700 sq m completed construction.

The closure of sites inevitability altered the timeline for delivery for some schemes. A substantial amount of space that was due to complete in 2020, is now not expected until 2021. At present, a total of 174,550 sq m is due to complete in the second half of 2020, however at this juncture there remains great uncertainty. Isolated site closures due to COVID-19 cases detected, such as those witnessed in other sectors in July, widespread closures in the case of “second wave” or indeed more normal delays in construction are some of the factors hindering the certainty that can be placed on this projection.

Positively, a large proportion of the space under construction is pre-committed. The second quarter saw 3M Ireland pre-let 2,200 sq m of space at Cumberland House, Cumberland Street, Dublin 2. This brings the total volume pre-let to 295,700 sq m, or 54% of space under construction.

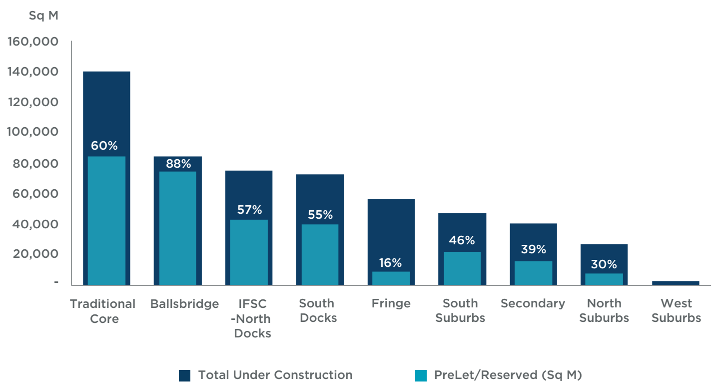
In terms of location, the Traditional Core accounts for the largest proportion of the space under development, with 139,800 sq m on site. This is followed by Ballsbridge and the IFSC/North Docks. In total the CBD accounts for just shy of 80% of development activity.

Dublin Development Pipeline, Expected Delivery Timeline, Q1 2020 Vs Q2 2020.



Source: Cushman & Wakefield Research

Dublin Development Activity by Location, Q2 2020



Source: Cushman & Wakefield Research

DUBLIN OFFICE MARKET

PRIME RENTS & MARKET OUTLOOK

Prime rents in the CBD remained unchanged in the second quarter of 2020, at €673 per sq m. Although leasing activity was limited, deals which did close showed no evidence of movement on headline rents. There may be some evidence of adjustment to lease terms or incentives, such as the rent-free periods.

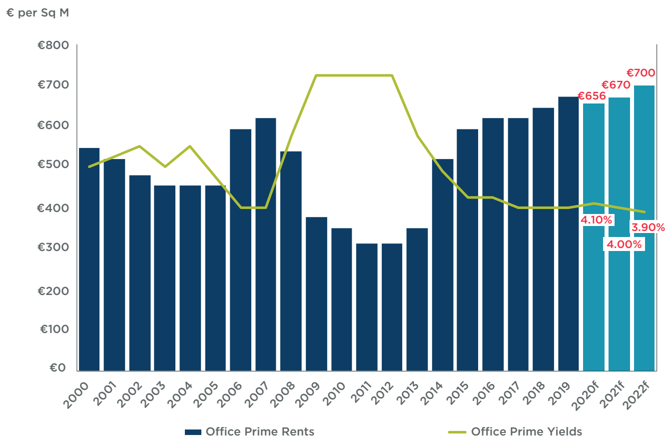
At present, modelling the outlook for future rents remains challenging. However, given the pause which COVID-19 has placed on the market, along with negative economic indicators forecast for 2020, the outlook for the remainder of the year sees moderate temporary downward pressure on prime rents.

In line with the current projections for a bounce back in employment and economic growth in 2021 and 2022, a return to upward rental pressure is projected in those years also.

Overall, the outlook for the Dublin office market is positive, however dotted with temporary uncertainty. The market entered this pandemic in a strong position, with vacancy rates at a critically low level. Since then, vacancy rates have increased marginally, however remain low.

Market demand also continues to remain strong. Over 270,000 sq m of unsatisfied active demand was recorded in the market as of early July, while a total of 350,650 sq m was pre-committed through standing stock and space under construction. This upholds the take up pipeline and provides some certainty to take up.

Prime Rents & Yields Outlook, Q2 2020



Source: Cushman & Wakefield Research

However, occupiers adopting a wait and see approach to new requirements may bring a period of inertia for the coming quarters. Already we have seen the volume of space which is reserved fall, on the back of this inertia and it may further prevent, temporarily, the volume of pre-committed space from rising significantly.

Similarly, this market pause may see further incremental rises to availability and the vacancy rate over the coming quarters as space under construction reaches completion stage.

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