DUBLIN

OFFICE MARKET

Q4 2020

CUSHMAN & WAKEFIELD

INTRODUCTION

2020 resulted in a sudden, unexpected and artificial slowdown placed on the Dublin office market, with the impact of COVID-19 felt across all bar the first quarter. Take up reached 167,700 sq m in the year as a whole, a decline of 30% on 2019 levels.

Although activity and sentiment rose in the final months of the year, the follow through to signed deals remained slow. Just 28,450 sq m signed in the final quarter as further lockdowns and work from home policies continued to place little pressure on even expanding firms to immediately commit to space.

Ronan Corbett, Head of Offices, Cushman & Wakefield Ireland *"2021 has begun with occupiers now seeing a path out of the pandemic via the vaccination programme. They are looking beyond the current restrictive lockdowns to Q3 and Q4 of this year, where it is realistic to assume employees can return to the office. As a consequence, requirements that had been put on hold will now begin to come out of hibernation and therefore stimulate the first signs of recovery as the opening half of the year progresses."*

Office Market	Dublin	CBD
Market Stock	3.91 million sq m	2.08 million sq m
Take Up Q4 2020	63,300 sq m	53,750 sq m
Take Up 2020	167,700 sq m	129,300 sq m
Availability	457,685 sq m (Net = 356,150 sq m)	177,900 sq m (Net = 142,150 sq m)
Vacancy Rate	11.7% (Net VR 9.1%)	8.6% (Net VR 6.8%)
Under Construction	394,785 sq m	334,550 sq m
Pre-Let / Reserved	54% / 2%	56% / 3%

Source: Cushman & Wakefield Research

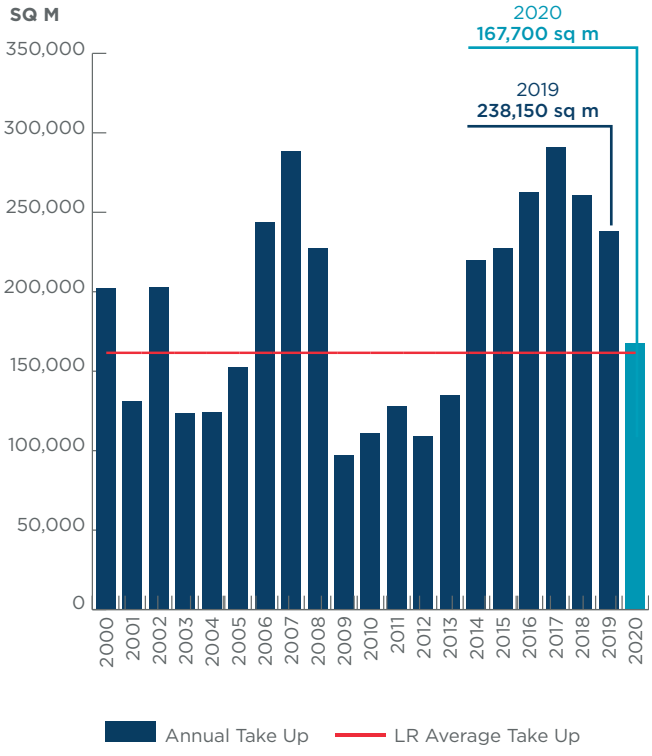
28,450 sq m

SIGNED IN THE FINAL QUARTER AS FURTHER LOCKDOWNS AND WORK FROM HOME POLICIES CONTINUED

167,700 sq m

A DECLINE OF 30% ON 2019 LEVELS.

Take Up Activity, 2004 - 2020



Source: Cushman & Wakefield Research

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TAKE UP ACTIVITY

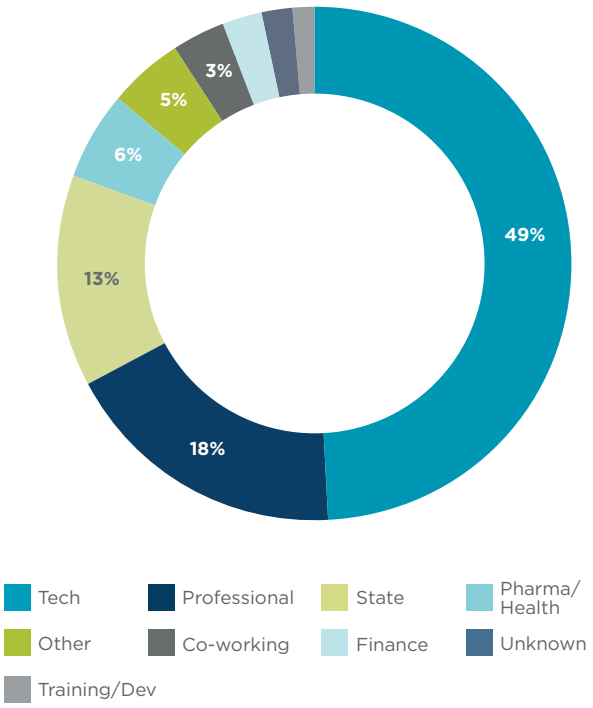
Despite the reduced level of take up activity, location and sector trends remain visible in the market. The Central Business District (CBD) accounted for 77% of take up, with a total of 129,300 sq m occupied in 2020. This proportion is higher than normal, with the average prior to this year sitting at just 50%.

The rise in this breakdown is partially skewed by the completion of fitouts at a number of larger units within the CBD. However, it is also reflective of more recent requirement trends suggesting the pandemic has not reduced focus on the CBD for office demand.

A closer look at take up activity reveals, unexpectedly, the tech sector continues to dominate. Tech occupiers accounted for close to 50% of all space occupied in 2020. This is followed by professional services and state occupiers.

Co-working occupiers accounted for just 3% of space taken up in 2020, with close to 5,500 sq m in the twelve-month period. Co-working recorded a surge in activity in 2017 before peaking in 2018 at over 31,000 sq m. 2019 did record a decline from this level, while 2020's volume represents the lowest since 2016. At the beginning of the pandemic, co-working was put in the spotlight regarding its business model and its ability to survive. However, as the year progressed these concerns have waned with the sector recording strong activity levels in Dublin as they benefit from firms in expansion mode and work from home fatigue.

Dublin Office Take Up by Sector, 2020



Source: Cushman & Wakefield Research

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AVAILABILITY AND CONSTRUCTION ACTIVITY

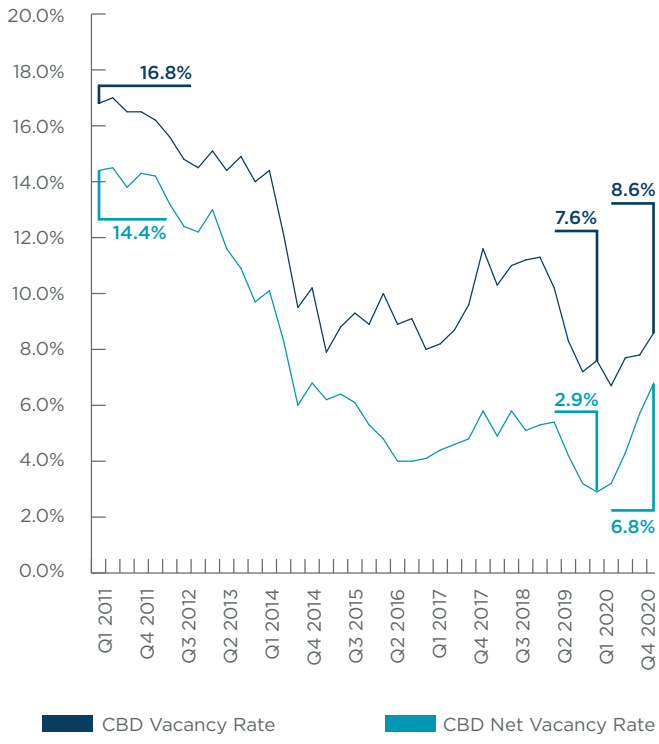
Moving away from leasing activity, availability increased to 457,685 sq m at the end of December. This reflects an annual increase of 36% and translates to an overall vacancy rate of 11.7% or 8.6% in the CBD. Development activity and to a lesser extent market churn, are the driving force of this rise.

Construction completions reached 178,850 sq m in 2020, of which a quarter were extensive refurbishments. The volume of second-hand space released back to the market remained low for the majority of the year. A rise was noted in the final quarter and although quarterly fluctuations are common, the direction of this measure will need to be watched closely over the coming quarters. This rise in second-hand space was led by sublease/assignments coming on stream. A total of 101,350 sq m of grey space was available at the end of December.

A breakdown of current availability reveals the annual rise was evident across all bar one sub section of the Dublin market, the Fringe area. The largest rise was in the Suburbs, where a total of 205,700 sq m was available at the end of the December. A slowdown in leasing activity in the year coincided with over 85,450 sq m completing construction across the North, South and West suburbs throughout the twelve-month period.

Within the CBD, availability increased 15% on an annual basis at the end of 2020 to 177,900 sq m. The

Dublin Office CBD Vacancy & Net Vacancy Rate (%), 2011 - 2020

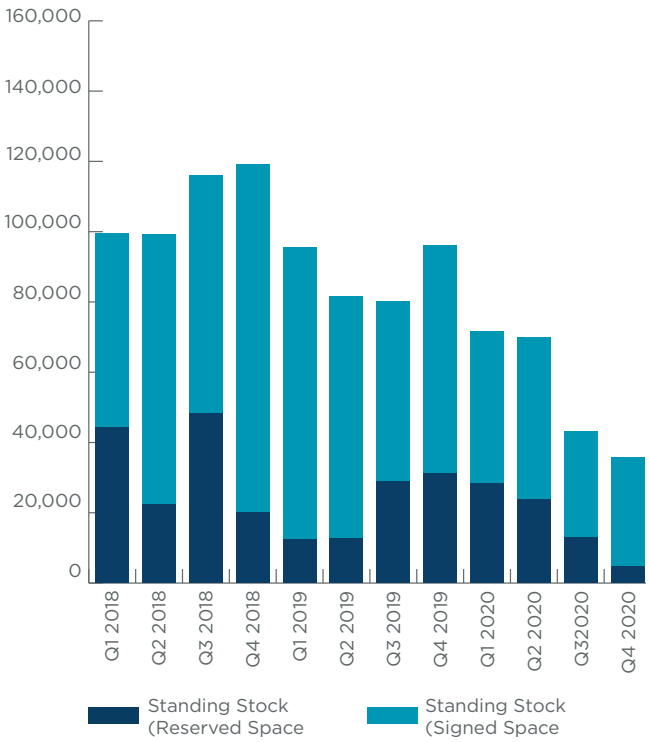


Source: Cushman & Wakefield Research

highest increase was recorded in the South Docks where 64,750 sq m is available. This is followed by the IFSC/ North Docks and Traditional Core.

The volume of signed space in the CBD rose marginally in the final quarter, however there was a further decline in the volume reserved. A total of 35,750 sq m of immediately available space was signed or reserved at the end of the quarter. This brings the net vacancy rate to 6.8% up from a low point of 2.9% at the end of 2019.

Dublin Office CBD Availability, Signed & Reserved Space (Sq M), 2018 - 2020



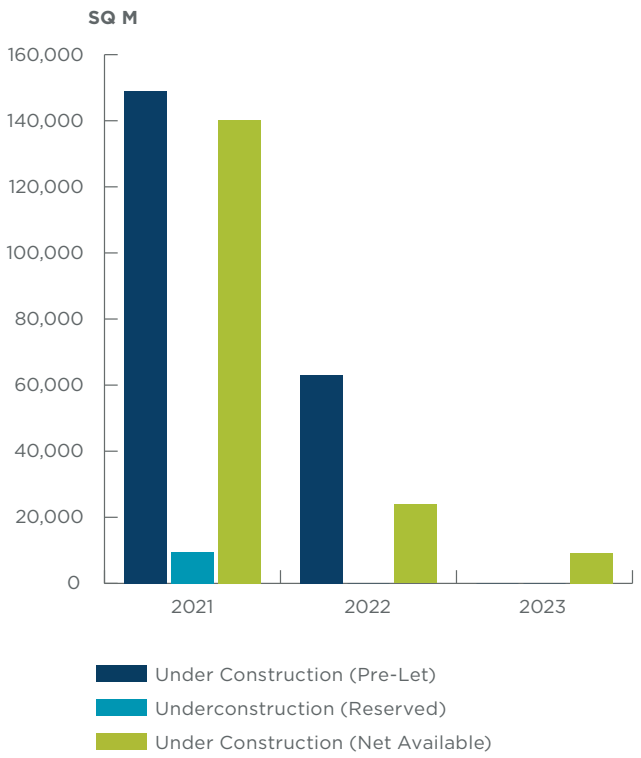
Source: Cushman & Wakefield Research

At the end of December, a total of 394,800 sq m of space was under construction in the Dublin Office market, of which close to 85% of it is located in the CBD. A healthy proportion of this space is pre-let, 54%, with a further 2% reserved.

The majority of this space is due for completion in 2021, just over 298,700 sq m. However, at the time of writing construction sites remain closed due to public health restrictions. There remains uncertainty as to when sites will re-open and this may impact delivery timelines with some of this space potentially pushing into 2022.

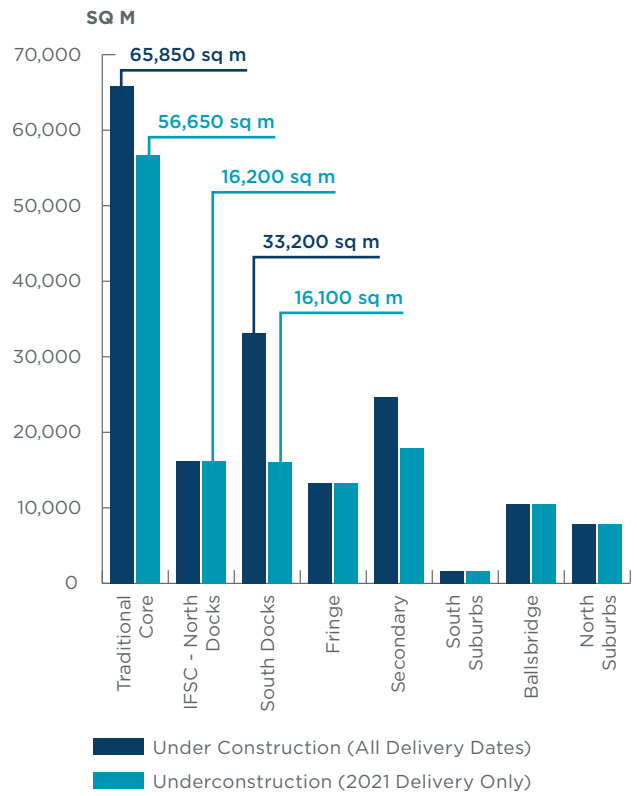
Despite the high volume of pre-let activity prior to the pandemic, there remains space under construction which is not pre-let. The completion of this space will lead to a temporary rise in availability levels.

Dublin Development Activity, Estimated Delivery Timeline, Q4 2020



Source: Cushman & Wakefield Research

Net Available Space Under Construction by Sub-Market, Q4 2020



Source: Cushman & Wakefield Research

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RENTAL LEVELS & 2021 OUTLOOK

As outlined at the outset of this report, 2020 can be summarised as a temporary and artificial pause placed on the Dublin office market. Overall, much of the features evident in the Dublin office market in 2020 look set to continue in 2021. Take up and leasing activity are estimated to be at similar levels, as slow decision making will remain to some degree in the opening half of the year.

However, that being said 2021 has started on a more active note than anticipated. The rollout of vaccination programmes has enabled occupiers to begin to plan for a return to offices in the latter half of the year. With the possible return to offices, the artificial freeze placed on the market from the pandemic is beginning to thaw. A tenant demand tracker compiled by Cushman & Wakefield reports an increase in new requirements being issued since the beginning of the new year, while also noting a fall in the number of requirements on hold.

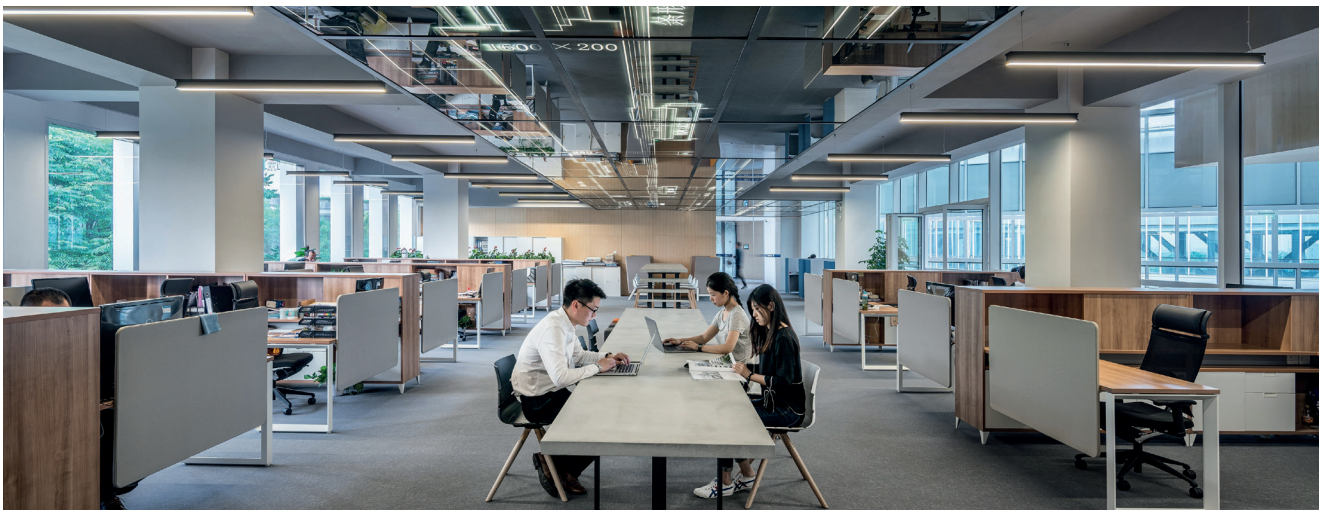
This demand tracker provides a clear indication of the outlook for who will drive demand and where. Following pre-covid trends, tech, professional services and finance occupiers are anticipated to continue to lead the market, with Healthcare, Medical and & Life Sciences also featuring.

Interestingly, the CBD continues to be the location of choice for requirements, while market agents are experiencing a flight to quality from occupiers. This may be a direct effect of Covid-19, as the pandemic placed questions on the purpose of the office. Market insight suggests the flight to quality indicates employers' desires to make the workplace a destination. The future office needs to be a "showroom" for all the company stands for, be a space to showcase the company culture and values, a learning space for younger members of the team and a space for collaborative work and casual "catch-ups" to occur.

However, new requirements will not be translated into deals for some time, with a lag period expected.

"Looking forward vacancy rates are anticipated to rise further, reaching a peak in 2021 and remaining elevated in 2022. As of the beginning of 2021, there was close to 394,800 sq m of space under construction in the Dublin office market. Although a large proportion of this is pre-let, 54%, the bulk of the remaining space is due to hit the market in 2021 & 2022. With leasing activity expected to continue at the same pace for certainly the first half of this year, a lag in the absorption of some of this new space is expected to further increase availability."

KATE ENGLISH, CHIEF ECONOMIST, HEAD OF IRELAND RESEARCH AND INSIGHTS, CUSHMAN & WAKEFIELD



Lastly, from a rental perspective, prime rents are forecasted to decline in 2021 to €626 per sq m, following a marginal decline in 2020 of 2.5% to €656 per sq m. At present, prime rents are expected to remain at €626 per sq m in 2022, before rising upwards in 2023 in line with the overall recovery projection.

It is worth noting that for the majority of 2020 prime headline rents remained relatively stable. During this time period, there was anecdotal evidence in the possible movement of lease terms and incentives such as rent-free periods for occupiers. Notable clear evidence of this was lacking due to limited activity, however this factor is growing and may become a clearer feature in H1 2021.

Economic Indicators	2020* Change	2021 Outlook
GDP	▼	▲
Modified Domestic Demand	▼	▲
Employment	▼	▲
Office Based Employment	▼	▲
Inflation	▼	▲

*Based on forecasted figures

Occupier Market Indicators	2020 Change	2021 Outlook
Take up	▼	—
Availability	▲	▲
Completions	▲	▲
Construction Volumes	▼	▼
Prime Rents	▼	▼

CONTACT DETAILS

AUTHORS

Kate English

Chief Economist, Head of Ireland Research & Insights.

+353 1 639 9206
kate.english@cushwake.com

Ronan Corbett

Head of Offices, Director Ireland

+353 1 639 9641
ronan.corbett@cushwake.com

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