HWBC report finds oversupply not an issue as commercial sector is bolstered by strong fundamentals

By Paul ScannellSep 2, 2018
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The fact that construction levels are at boom time levels might ring the oversupply alarm bells if it wasn't the case that occupier demand in the Dublin office market is so strong.

Demand from the technology and finance sectors is driving take-up to levels that will possibly surpass the record level of 3.6 million square feet recorded in 2017. In our Dublin Office Market Review, published this weekend, we note that demand from Big Tech is growing quarter on quarter. Some exceptional deals are expected to complete by year end, with companies such as Facebook, Amazon and Salesforce all in expansion mode.

With a robust demand pipeline and well-targeted development locations, this construction cycle is very different from the previous speculative boom, underpinned as it was by reckless domestic bank lending rather than the long-term equity backed investment that is characterising this cycle.

The economy is the fastest growing in the EU. We had a reminder last week about just how strong employment growth has been, with the CSO confirming the number of people in work is now the highest in the history of the state, and almost 20,000 ahead of the previous peak in 2007.

The success of the IDA in attracting foreign direct investment, and the continued expansion of firms already here, is adding to demand from recent new arrivals to the market in the co-working sector. US firm WeWork accounted for a massive 15 per cent of the market take up this year, and rapid expansion of this new segment has certainly been a disruptor to the market, snapping up prime city centre buildings and putting further pressure on already tight supply levels.

While the office market is supplying enough space to meet demand, a major concern is the lack of affordable rental accommodation. It's interesting to see how some large occupiers have addressed this issue for their staff by looking to combine office and staff accommodation needs in the same location: JP Morgan and Google have purchased office buildings at Capital Dock and Boland's Quay respectively, with substantial apartment complexes on the same sites.

Grade A central business district (CBD) office rents remain steady at €65 per square foot by mid-year, with rent-free periods of up to 12 months available for long-term lease commitments. We expect these tenant incentives to shrink over the next 12 months as occupier demand continues to be strong. Grade A suburban rents are now around €30-€32 per square foot.

CGI of the Hive, Sandyford, Co Dublin

However, the ever-increasing competition for space in the city centre means many tenants are looking at suburban locations and the city fringe to fulfil large space requirements.

While there has been much speculation about the positive impact on the Dublin office market of Brexit-impacted finance companies relocating from London, a surge in Brexit-related demand has not been a major driver of the market.

So far, more than 20 companies have declared for Dublin as their post-Brexit base. However, we continue to face strong competition from other European cities. The challenges in our residential market, and concerns regarding infrastructure and connectivity, could be among the factors that make companies look to relocate elsewhere.

This notwithstanding, there is every reason to be positive about the Dublin office market, and the strong fundamentals that underpin it. We can expect the level of overseas investor interest in buying properties coming to market to continue. Alongside the already strong level of activity from continental European funds, Dublin is increasingly on the radar of investors from the Middle East and Asia.

This international interest, alongside the domestic property funds and Reits, provides an excellent platform for Dublin to maintain and improve its position as a European city of choice for property investment capital.

Paul Scannell is director and head of offices at HWBC. To read the full HWBC H1 2018 office review, visit hwbc.ie

H1 2018 OFFICE STATS

Take-up: 1.71m sq ft

Available space: 3.2m sq ft

Vacancy rate: 7.5%

New completions 2018: 742,000 sq ft

Under construction

CBD: 3.68m sq ft

suburbs: 0.65m sq ft

Estimated completions by year end: 2.42m sq ft

Pre-committed: 41%

Headline Office Rents

CBD (Grade A): €65 per sq ft

Suburban (Grade A): €30 per sq ft

Car spaces, per annum

City: €4,000

Suburbs: €1,750