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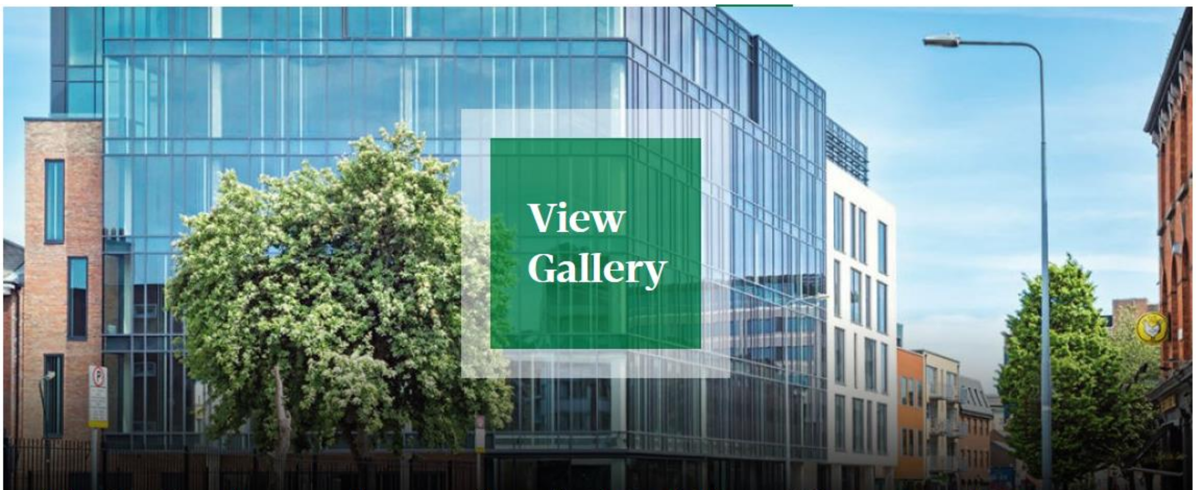

Tech deals mask caution in Dublin office market

The Sharp Building, Hogan Place, Dublin 2

By Paul Scannell | Feb 3, 2019

Space in the under 2,800 square metre office range was slower to fill last year, writes Paul Scannell

There's no denying that 2018 was another strong year for the Dublin office market, with take-up rising 8 per cent to almost 358,000 square metres, surpassing last year's record of 334,450 square metres.

However, the headline data masks an interesting divergence in market trends, with the tech office megadeals that were the prime driver of this increase, masking less certain demand for the smaller lot sizes.

Space in the under 2,800 square metre range was slower to fill last year, reflecting a more cautious outlook from businesses in other sectors such as finance, professional services and life sciences.

This caution is potentially related to the uncertainty over what type of Brexit we may yet have, and the extent of its impact on the Irish economy, with the Department of Finance warning last week that a no-deal Brexit could result in a substantial slow down in GDP growth.

Technology and co-working dominated the top ten deals in 2018.

Facebook's letting of the former AIB Bank Centre building in Ballsbridge, was the biggest deal of the year, with Google at Boland's Quay and LinkedIn at One Wilton Place taking second and third position.

Already in 2019, at HWBC we are seeing several active requirements from the tech sector seeking space over 9,300 square metres, mainly in the city centre.

The recent expansion announcements by Salesforce and Facebook are a reminder of the vast scale of the FDI tech investors' operations in Dublin, and feed into growing concerns about the affordability and availability of residential accommodation for these workers. This underpins the flood of capital into PRS and build-to-rent investment opportunities, where we are likely to see a lot of activity in 2019.

The co-working sector also continues to be a significant source of demand for space, accounting for 12 per cent of total market take-up for the year, with WeWork responsible for four of the top ten deals.

The co-working model is popular with companies seeking short-term 'swing space' or start-ups (often technology-led) in early growth phase. Iconic Offices' new venture in the old IAWS premises on Thomas Street, is one of the latest co-working launches and is a vote of confidence in the newly developing city quarter in Dublin 8.

Whether the co-working trend will continue at quite the same pace is one interesting consideration for 2019.

Our sense is that the sector's rapid expansion may ease as funders and investors reassess risk and growth rates after the correction in global markets at the end of 2018.

Prime CBD headline rents remained stable in 2018 at €60 to €65 per square foot (about €646 to €700 per square metre), and we do not expect to see significant change in 2019. This is a further sign that the market is maturing in this cycle. It is a positive development, providing more clarity to occupiers, developers and investors on the costs and returns available.

Lease terms are typically for 20 or 25 years on new or refurbished Grade A space, with tenant break options generally available at the end of year 12 or 15.

Tenant incentives in the form of rent-free are still widely available and, typically, three months for each five years of term certain on the lease.

Rents in the suburbs are still in their recovery phase, and we see further growth in locations such as Sandyford and Central Park, with headline rents likely to reach around €35 per square foot (about €377 per square metre), in this cycle, slightly ahead of the last peak in 2008.

Rental growth and demand is again being driven by US companies taking additional space in the suburbs as an alternative location for staff.

Supply of new space is tight in Sandyford, with only three buildings of significant scale available this year. Both Block I in Central Park (9,290 square metres) and One South County (12,540 square metres) are nearing completion and likely to be single or multi-let. The Hive in Sandyford (6,780 square metres) being developed by U+I Group and Colony Capital, will be completed in August.

Once these buildings are let, there won't be any significant new space available in Sandyford until 2021.

This will benefit other D18 locations such as Cherrywood, where new construction is under way and significant investment by Hines and Spear Street is attracting new tenants to the mixed-use campus.

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

Top ten Dublin office deals of 2018

Location Sq m Sq ft Tenant

Bank Centre, Ballsbridge 76,459 823,000 Facebook

Bolands Quay, Barrow St 20,438 220,000 Google

One Wilton Plaza 14,214 153,000 LinkedIn

Charlemont Exchange 11,427 123,000 WeWork

1-6 Sir John Rogerson's Quay 10,498 113,000 Hubspot

Three Park Place 10,405 112,000 IDA

2 Dublin Landings 8,872 95,500 WeWork

One Central Plaza 7,432 80,000 WeWork

5 Harcourt Road 5,528 59,500 WeWork

2 HSQ, Infirmary Road 5,203 56,000 AIB