HWBC

# OFFICE REVIEW AND OUTLOOK

H1 2022

## OFFICE STATISTICS H1 2022

| | | | |
|---|---|---|---|
| **Take Up H1** | 945,500 sq ft | **New Completions H1 2022** | 1.34m sq ft |
| **Vacancy Rate*** (*Office vacancy stats include all post-1960s office buildings) | Entire Market 10.60%<br>Dublin 2 8.40%<br>Dublin 4 12.70% | **% Pre-committed on PC** | 75% |
| | | **Under Construction** | 4.25m sq ft |

# Office market performing well despite wider global events

The Dublin office market recorded strong first half numbers despite global uncertainty and geo-political tensions including war in Ukraine, rising energy costs and the start of a new cycle of interest rate hikes to tackle inflation. The market recorded 945,500 sq ft of transactions to the end of June with a further 1m sq ft reserved and in various stages of deal completion. With this level of demand we expect FY take up to reach around 1.8m sq ft which would be a strong outcome despite the global headwinds.

- *The office market continues to recover to post pandemic levels with year-on-year transactions 4.5 times higher than the same period last year. This follows a strong Q4 in 2021 where the lifting of restrictions saw an immediate rebound in tenant demand.*
- *Foreign direct investment and the technology sector continues to drive demand with 4 of the top 5 lettings so far in 2022. Significant deals include Service Now pre-leasing 88,000 sq ft at the under construction 60 Dawson Street and Fiserv taking the entire of Kennedy Wilson's 10 Hanover in the South docks.*
- *Ireland appears to be bucking the trend in terms of new foreign inward investment with the IDA reporting FDI at the strongest ever level for the half year and up 9% on 2021.*
- *With an open economy and reliance on FDI there are external risks to the office sector, and the bear correction in US tech stocks this year has already been felt in Dublin as companies reassess their property and staff requirements.*
- *While some big tech companies are reviewing their space requirements, Tik Tok have agreed to lease the entire of IPUT's Tropical Fruit building (85,000 sq ft) and along with the 200,000 sq ft Sorting Office represents a significant long term investment by the Chinese company in the Dublin market.*
- *Other sectors of the market are stepping in to fill any potential drop off in demand from the technology sector. There are numerous large mandates currently active in the market from financial and professional service firms. Global names such as Citi, EY and Deloitte are all actively reviewing office locations with over 600,000 sq ft of requirements between them.*
- *Prime office rental levels have increased over the first 6 months of 2022 with demand for new and sustainable space pushing headline rents, particularly for prime D2 locations such as Dawson Street, St Stephens Green and the South docks.*
- *New quality buildings in the North docks continued to attract top occupiers with An Post completing contracts for their new HQ at the Exo Building and Interactive Brokers and HEAnet taking space at the newly completed 1&2 North Dock development.*
- *The North docks has continued its development and expansion with construction well under way at Coopers Cross a new mixed use office and residential campus totalling over 1m sq ft. Credit Suisse have also completed the 80,000 sq ft refurbishment of New Century House at Mayor Street (now rebranded as 'Dockline') which quickly leased to high profile companies such as Workday and Sandvik.*

| Headline Office Rents (H1 2022) | |
|---|---|
| CBD (Grade A) | €57.50 - €62.50 per sq ft (NIA) |
| Suburban (Grade A) | €30.00 – €34.00 per sq ft (GIA) |
| Car spaces: City | €4,000 pa per car space |
| Car spaces: Suburbs | €1,750 - €2,000 pa per car space |

▲ The HIVE, Sandyford, Dublin 18.
HQ Offices for Cubic Telecom and NTR plc.

## SUPPLY PIPELINE

- *Completions of new office space ramped up in the first 6 months of the year with 1.34m sq ft reaching completion compared to just 475,000 sq ft in the same period last year. The level of pre-commitments for new stock under construction remains high with just 30% of the new space available to lease on completion.*
- *Significant schemes such as Spencer Dock (425,000 sq ft), One Wilton (152,000 sq ft) and Two South County (102,000 sq ft) all achieved practical completion this year but were pre-leased well in advance to Salesforce, LinkedIn and Mastercard respectively.*
- *We anticipate a further 0.8m sq ft of new stock will be finished by year end and approx. 70% of this is currently reserved.*
- *Despite the level of new office completions, the supply of space coming to the market is limited due to the high levels of pre-commitments by occupiers. This is particularly evident for larger requirements where the choice is quite restricted in the prime CBD locations of Dublin 2 and 4.*
- *With strong pipeline demand from occupiers the vacancy rate has increased slightly to 10.6% as occupiers get to grips with the new reality of the 'hybrid work' model for the majority of tenants. The competition between traditional and grey space options is likely to sustain into next year as certain occupiers look to 'right size' office requirements in response to employee hybrid work preferences.*
- *There is an ever-widening gap between older, less energy efficient buildings versus new space in terms of tenant preferences as companies opt for the most sustainable buildings to reduce costs, carbon emissions and align with ESG targets.*

| Top 5 Office Deals - H1 2022 | Size (sq ft) | Tenant |
|---|---|---|
| 1. 60 Dawson Street, D2. | 88,000 | Service Now |
| 2. Exo Building, North Docks, D1. | 78,500 | An Post |
| 3. 10 Hanover, South Docks, D2. | 68,250 | Fiserv |
| 4. Dockline, Mayor Street, D1. | 52,000 | Workday |
| 5. 35 Shelbourne, D4. | 52,000 | Waystone |

## SUBURBS

- *There was continued demand for space in the suburbs with Sandyford proving to be the most popular in terms of tenant activity. At The HIVE in Sandyford Cubic Telecom took 30,000 sq ft for expansion and relocation from their offices at Corrig Court. In addition NTR plc who are one of the leading investors in renewable energy projects in Ireland chose The HIVE for their new headquarters taking 10,000 sq ft on the first floor.*
- *Also in Dublin 18 the HSE took 33,000 sq ft at the Iveagh Building Carrickmines Park for expansion of its community healthcare services as part of the Governments Slainte Care policy.*
- *The largest letting in the north suburbs was at Two Dublin Airport where Regus took 20,000 sq ft to expand its serviced office facilities for companies seeking access to the Airport and associated amenities. This was followed by a letting of 16,500 sq ft to Peninsula in Block W East Point, which continues to attract tenants given its proximity to the North docks and CBD.*
- *Rents in the most popular areas of Sandyford and Leopardstown continued to edge higher as the supply of new space is quite restricted with little new development under way since the pandemic. With a potential supply gap looming, Henderson Park went on site for a significant new office development at Central Park for completion from 2023.*

## OUTLOOK

With strong pipeline demand and healthy levels of reserved space, the second half of 2022 is expected to see similar levels of activity in terms of transactions and increased headline rents for the best new city space. Due to on-going global tensions and pull back in the US tech sector, we expect to see other sectors such as pharma, life sciences, professional and financial services become more dominant in terms of activity and market share.

With increasing evidence of climate change tenants will continue to opt for the most sustainable office space to reduce energy consumption and carbon footprint. Older buildings with poor energy ratings will continue to fall out of favour with occupiers and landlords will either seek to sell to reduce exposure or redevelop, which may present new opportunities in the market.

The next cycle of new office development will continue to target net zero emissions to reduce the impacts of the built environment on levels of both operational and embedded carbon and reduce the carbon footprint of the construction sector. The focus is shifting toward an industry wide effort in terms of reducing reliance on fossil fuels in favour of all electric renewable power supply and more efficient design of buildings at construction phase.

▲ One Haddington Buildings, Haddington Road, D4.
Grade A HQ building to let 42,000 sq ft

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