OFFICE REVIEW & OUTLOOK

H1 2023

HWBC

OFFICE STATISTICS H1 2023

Take Up H1 2023	678,000 sq ft
Vacancy Rate	14.40%
New Completions Hi 2023	390,000 sq ft
% Pre-committed on completion	28%
Under Construction	CBD: 3.73m sq ft Suburbs: 206.000 sq ft

Dublin market continues in correction mode

Office take up for the first 6 months at 678,000 sq ft is below the long-term half yearly average. The technology sector remains active on new take-up but not at previous scale. The average deal size has fallen to 7,500 sq ft with 91 deals recorded in the first six months. While the market has not stalled, the lower activity means occupiers' remain cautious for the present on space requirements. The wider market has suffered adverse events over the last 3 years and larger organisations continue to size their space needs for post Covid work practices. More companies will seek the return of employees to the office for minimum 3 days a week and in response more building owners will pursue multi-let strategies.

- *Continuing the trend away from older office stock, all the top leasing transactions in the first 6 months were for new sustainable 'green' space as companies look to upgrade the quality of their working environments for staff, motivating return to office (RTO) and reducing the impact of the built environment on the climate crisis. Most lettings this year were of buildings with a minimum BER B rating or better and older stock is becoming increasingly more difficult to shift. The 'flight to quality' is expected to grow as more occupiers enforce sustainability strategies.*
- *With fewer large letting transactions and growth in availability of grey space, occupiers have a wider choice and the vacancy rate at 14.40% will tick upwards for the second half of the year.*
- *This allows for new speculative developments reaching practical completion this year, with our estimate at 2m sq ft for the full year. At mid-year about 39% of this space was reserved. Some new developments are mixed use to include residential and retail and would have committed to construction prior to the slowdown in the technology sector and economic uncertainty post Covid.*
- *In the broader market rising vacancy levels and economic conditions will inevitably effect letting terms as owners compete for tenants. This is not a factor to date for Grade A+ space in core city locations where occupiers pay a premium for quality space.*
- *Some occupiers with an upcoming lease event will take advantage to relocate and lock in terms for the next five years. We have noticed an increase in enquiries from tenants in older generation space running 'stay v go' analysis to relocate at least 6 to 12 months out from a lease expiry or break option. Larger occupiers will plan at least 2 to 3 years in advance and commit to buildings not yet under construction.*

OFFICE SUPPLY / NEW CONSTRUCTION

- *There is approximately 3.9m sq ft under various stages of construction in Dublin and around 2m sq ft of this is expected to be completed this year. Some of the larger schemes include Coopers Cross in the north docks (381,000 sq ft), 4&5 Park Place in Harcourt Road (198,000 sq ft) and Shipping Office (177,000 sq ft) in the south docks. The pace of new construction slows down dramatically in 2024 with 1m sq ft of projected completions.*
- *The volume of available grey space has steadily increased since early 2021 and is effectively a secondary market in addition to the more traditional landlord and developer space. This sub-lease space accounts for 28% of all available space and rises to around 44% in the popular Dublin 2 location. We expect the availability of new 'grey space' released to the market to slow down.*
- *Some of the larger transactions this year are sub-lease space including KKR at Cadenza (40,000 sq ft) on Earlsfort Terrace. Interestingly, strong competition is reported for top quality grey space options in core CBD with small to medium sized occupiers securing more flexible lease terms and capex savings where there is a CAT B fit-out in place. Not all grey space has been fitted out by the tenant seeking to sub-let/ assign.*

Headline Office Rents (H1 2023)	
CBD (Grade A)	€57.50 - €65.00 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, NTR plc and Grafton Group plc (26,300 sq ft available to let)

SUBURBS

- *Demand for office space in the suburbs is holding up well on a relative basis and one of the largest transactions this year took place in Sandyford with Jacobs taking 30,000 sq ft at the Termini building.*
- *The Sandyford micro-location has also seen positive complementary development in the residential sector with the completion of 560 apartments at The Hudson, Sandyford Central and available for letting. Further activity includes the recent re-activation of planning for change of use to residential for the adjacent Sentinel Building by the Comers and the purchase of the large adjoining apartment site from IRES.*
- *The wider southeast suburbs have also attracted tenants this quarter with Outsurance taking 18,000 sq ft in Cherrywood and Western Union 11,000 sq ft in Dundrum. Another popular location has been the northwest in Blanchardstown with Synopsys taking 27,000 sq ft at Stemple Exchange. Access to the M50, quality sustainable space and value the main pull factors in these sub-markets.*

Top 5 Office Deals - H1 2023	Size (sq ft)	Tenant	Sector
1. Haymarket House, Smithfield, D7.	79,600	NTA	Government
2. Cadenza, Earlsfort Terrace, D2.	39,200	KKR	Finance
3. Termini, Sandyford, D7.	30,500	Jacobs	Professional Services
4. Harcourt Square, Harcourt Street, D2.	27,100	KPMG	Professional Services
5. 2 Stemple Exchange, Blanchardstown, D7.	22,900	Synopsys	Technology

▲ One Haddington Buildings, Haddington Road, D4.
Grade A HQ building to let 23,500 sq ft
16,000 sq ft let to CPL

OUTLOOK

The shift in how organisations use their office space results in reduced requirements relative to staff numbers with hybrid working. This shift forms part of the cocktail leading to lower transaction activity relative to the pre Covid market and this trend will likely continue into the first half of next year. Despite a healthy level of reserved space of over 500,000 sq ft, take-up for the full year will struggle to reach 1.5m sq ft. The 2022 take up was higher at 2.32m sq ft and the 10 year average was 2.57m.

The shift to quality and energy efficient 'green' space has ensured prime rents have remained stable to date. There may be some pressure on headline rents and lease terms as new Grade A+ space enters the market for the limited number of larger active requirements.

The rental and value gap to older generation space will continue to widen making older buildings more difficult to let. Going forward these will be let on shorter lease terms as more flexible space. Buildings not suitable for upgrade to modern office needs will either be repurposed to alternative uses such as hotels, residential or student and in some cases demolished.

With around 3m sq ft of new offices expected to be completed by the end of 2024, supply will increase and the vacancy rate rise. With few new construction starts expected from 2024 a lot of this space will be absorbed by current and new enquiries over the next 2 years as tenant demand is expected to recover from current levels.

We Work's financial difficulties have been well publicized. They currently lease four large office blocks and some floors in other buildings with over 400,000 sq ft in Dublin's CBD. While they may emerge from this current crisis, there is a possibility some of this space may return to the market as grey space or for reletting next year.

On a positive note we think the market is well advanced through this correction which began in Q1 2022. Our expectation is market sentiment will turn in the first half of 2024 as capital values bottom out and the tap on new supply slows to a trickle. There was no new construction of office space for four years from 2011 to 2014 and this led to a build-up of demand and kickstarted recovery. We expect there to be a similar supply gap emerging with few new speculative developments starts in 2024 / 2025 leading to a potential shortage of the highest quality best in class space which occupiers are increasingly focused on at the premium end of the market.

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