HWBC

OFFICE REVIEW AND OUTLOOK

2020 / 2021

OFFICE STATISTICS Q4 2020

Take Up 2020	1.61m sq ft	**New Completions FY 2020**	1.44m sq ft
Long Term Average (since 2003)	2.25m sq ft	**% Pre-committed on PC**	37.0%
Vacancy Rate	Entire Market: 9.5% Dublin 2 7.9% Dublin 4 11.3%	**Under Construction**	CBD: 5.10m sq ft Suburbs: 0.30m sq ft

Effects of Covid weigh on Dublin market

Like all sectors of the Irish economy the Office Market in Dublin had a difficult 2020 with rolling Covid lockdowns leading to an almost total disruption to office occupation. As the unpredictable pandemic crisis evolved, most occupiers deferred decisions on future space requirements. Covid-19 led to the weakest year in terms of tenant activity and take up since 2012.

- *Take up for the full year at 1.61m sq ft is 49% down on 2019.*
- *In contrast the year started with a new record Q1 take up of 940,000 sq ft suggesting at the time the potential for 2020 was likely to match 2019. The rest is history.*
- *Significant out of town lettings to Mastercard and Google occurred in Sandyford and expansions from mid-tech companies such as Slack and Dropbox in Dublin 2.*
- *Googles decision to pull out of negotiations to take the Sorting Office in the south docks made headlines but not a major surprise, as they have 220,000 sq ft nearing completion at Bolands Quay.*
- *Several advanced lettings did not proceed once the pandemic hit, and many deals in negotiations were either put on hold or dropped by the tenants.*
- *Activity was understandably muted in Q2 / Q3 but there was a noticeable pick up in Q4 as we move into 2021.*
- *After a long time at their historic GPO headquarters, An Post have decided to move to the Exo Building in the north docks which is nearing completion.*
- *Rabobank are taking 23,000 sq ft at 76 Sir John Rogerson Quay in the south docks, a positive sign from the finance sector.*
- *The big tech companies' commitment to physical space was proven with Amazon's further expansion in Dublin 4. They signed a new lease for the ex-Bank of Ireland building in Burlington Plaza, adding 75,000 sq ft.*

As expected, the office market will see some correction this year with availability and vacancy rates increasing. We are in a third more virulent wave of the virus which will impact market activity for the first half of 2021.

- *The overall vacancy rate increased to 9.5% by year end due to a combination of reduced demand, corporate disposals of 'grey space' and a drop in the level of pre-commitments for new space.*
- *There has been an increase in the volume of offices available to sub-lease (or assign) as some companies look to off load surplus space. 'Grey' or fitted space now accounts for around 25% of available space and competes with the Landlord market and is generally available on more flexible terms.*
- *The level of pre-lets for new stock completed in 2020 has dropped to 37% down from a high of 82% in 2018, an important lead indicator for depth of demand.*
- *We expect few new starts on site this year as the current pipeline of space is leased up.*
- *Of the CBD space due for completion over the next 24 months, a healthy 54% is reserved. This will increase with fewer new starts and increased occupier activity as businesses recover in the second half of 2021.*
- *Excluding reserved space there will be approx. 2.35m sq ft of new CBD space available over the next two years, equating to one year's take up in terms of the long-term average tenant demand.*

CBD Pipeline	Est. FY Completions (sq ft)	Pre-let / Reserved (sq ft)	New Space Available (sq ft)
2020	1.44m	525,000 / 37%	915,000
2021	2.75m	1.58m / 58%	1.17m
2022	2.36m	1.18m / 50%	1.18m

IMPACTS OF COVID-19

There is more clarity emerging on worker preferences and a hybrid model of partly working from home (WFH) and partly working in the office is the preferred model for the majority of employees.

- *The pandemic has accelerated the change to more flexible working and blended work practices, underlining the importance of the office to foster collaboration, business development and a social hub for staff and client interaction.*
- *In the short-term, some occupiers will look to trim their office portfolios and take advantage of upcoming lease events.*
- *Most will not materially reduce footprints but change how office space is used.*

Headline Office Rents (Dec 2020)	
CBD (Grade A)	€57.50 - €58.50 per sq ft
Suburban (Grade A)	€30.00 – €32.00 per sq ft
Car spaces; City	€4,000 pa per car space
Car spaces; Suburbs	€1,750 - €2,000 pa per car space

- *Foreign direct investment has been the driver for the Dublin market, but impacted by foreign travel restrictions. Despite the pandemic the IDA had a successful 2020 attracting foreign investment and new entrants.*
- *The main growth sectors include pharma, food and ICT and new emerging sectors such as life sciences, med-tech and bio/cleantech will continue to grow as the focus moves to sustainability.*
- *Tiktok (Bytedance) choice of Dublin for a new 500,000 sq ft European headquarters is welcome news.*

Top 10 Office Deals 2020	Size (sq ft)	Tenant
1. One South County, Leopardstown D18.	138,000	Mastercard
2. Fitzwilliam 28, Fitzwilliam Street D2.	135,000	Slack
3. Two South County, Leopardstown D18.	107,500	Mastercard
4. One Park Place, Upper Hatch Street D2.	103,000	Dropbox
5. Stemple Exchange, Blanchardstown D15.	85,000	Guidewire
6. Burlington Plaza, Burlington Road D4.	75,500	Amazon
7. Block I Central Park, Leopardstown D18.	72,000	Google
8. Two Dublin Landings, North Docks D1.	44,000	Microsoft
9. 1 Heuston South Quarter D8.	43,500	HSE
10. 1GQ, Georges Quay D2.	42,000	OPW

OUTLOOK

- *We expect to see the correction to the office market this year more likely to be short lived and shallow in character. The expectation is a more rapid economic recovery.*
- *The Dublin market will settle down with a higher probability of lower occupier demand for a year or more and we expect demand at the long-term average of around 2.25m sq ft as sustainable going forward.*
- *There will also be single let office campuses in the future and these will from time to time create a take up spike similar to the previous 3 years where the average was 3.53m sq ft.*
- *Pan European investors remain mostly focused on offices as their main 2021 target asset class for new acquisitions. Dublin is well placed in terms of quality stock to attract new entrants.*

The recent good news on the rollout of effective vaccines should allow occupiers look ahead and plan the future use of their office portfolios. We expect to see more activity in the second half of the year as requirements on hold are re-activated and Tenants take advantage of the more favourable market conditions to fulfil mandates.

The HIVE Sandyford, Carmanhall Road, Sandyford, D18.
New HQ Offices 73,000 sq ft

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

CONTACT OUR OFFICE AND BUSINESS SPACE TEAM

Paul Scannell
Director - Head of Offices

T +353 1 77 50 527
E pscannell@hwbc.ie

Emma Murphy
Divisional Director

T +353 1 77 50 519
E emurphy@hwbc.ie

Conor Kevany
Director

T +353 1 77 50 506
E ckevany@hwbc.ie