

Dublin Office Market



Outlook for 2022

1

Pent-up demand to drive recovery in take-up

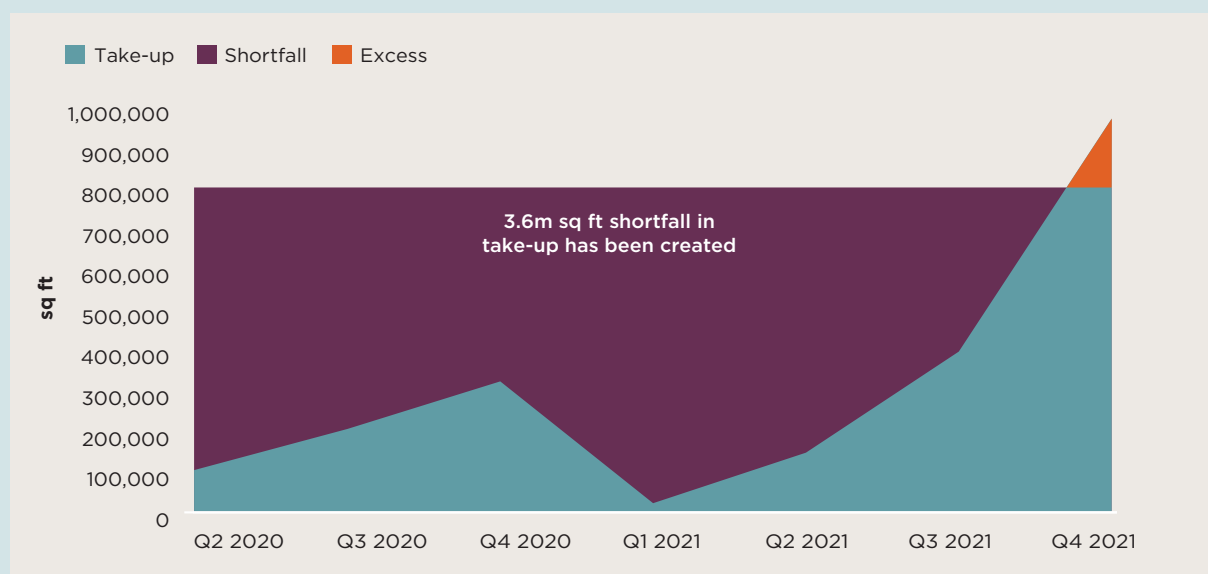


An average of 310,000 sq ft of take-up has taken place each quarter since the pandemic began in Q1 2020, compared to a quarterly average of 820,000 sq ft witnessed over the preceding five years. In effect, there was a shortfall in take-up of just over half a million sq ft per quarter or 3.6 million sq ft over the period. This has created pent-up demand that should unwind in 2022. Furthermore, the first quarter of 2020 was the highest opening quarter on record, suggesting that take-up was on an upward trajectory had it not been for the pandemic. It is also noticeable that the avalanche

of grey space that was expected to flood the market did not materialise during this period. This in itself is a decisive vote of confidence for the office market and has forced occupiers, in some instances, to make long-term commitments due to a shortage of quality grey space.

With office occupier employment having grown during the pandemic but strategic office decisions effectively stalled, key decisions on real estate portfolios now need to be made. We therefore believe that there is a significant amount of pent-up demand that will be released in 2022.

Figure 1: Estimated pandemic take-up shortfall



Source: Savills Research

2

Rents to exceed their pre-pandemic level



With occupier activity rebounding, demand is especially focused on prime CBD offices that meet ESG requirements. While 2.1m sq ft of new stock is expected to be delivered in the CBD in 2022, 55% of this stock is already let. As a result, occupiers will be competing for a limited amount of new stock, leading to a shortage of the right product in the right location. This will lead to a tightening of incentives being offered as well as growth in headline rents. Our expectations are for prime headline rents to exceed pre-pandemic levels of €62.50 in 2022.

3

Strong incentives to move back to the office



Post-pandemic clarity following the phasing out of restrictions will stabilise the hybrid office model. We expect employers to use high-quality fit-outs and centrally located space to encourage workers to return to the workplace. Face-to-face contact has proven crucial to many tasks, particularly for those that require collaboration with colleagues. Well-lit, open-plan offices with break-out spaces may particularly appeal to both employers and employees. Uncertainty remains regarding the final shape of the proposed hybrid model, but best practice will inevitably emerge over the course of 2022 as occupational theory meets practice.

“Post-pandemic clarity following the phasing out of restrictions will stabilise the hybrid office model.”

4

ESG the dominant paradigm



The Environmental Social and Governance (ESG) theme will likely dominate in 2022, with both occupiers and investors seeking ESG compliant offices. But despite accounting for 71% of Q4 take-up, just 17% of Dublin's stock meets a gold or platinum LEED accreditation. Inevitably, there will be a divergence between the compliant assets and the rest that will increasingly become evident across a multitude of property

indicators, e.g. demand, rents, yields, vacancy etc. Market participants should be aware that some assets will become stranded and unable to adapt to the new paradigm. This factor, combined with the looming shortage of grade A office space on the immediate horizon, prudent developers and investors are focusing on opportunities to upgrade older stock to satisfy the pent-up demand in the market.



19%

annual growth in office-based employment



1.5m sq ft

of take-up transacted in 2021



Tech sector

resilience is providing optimism to the market



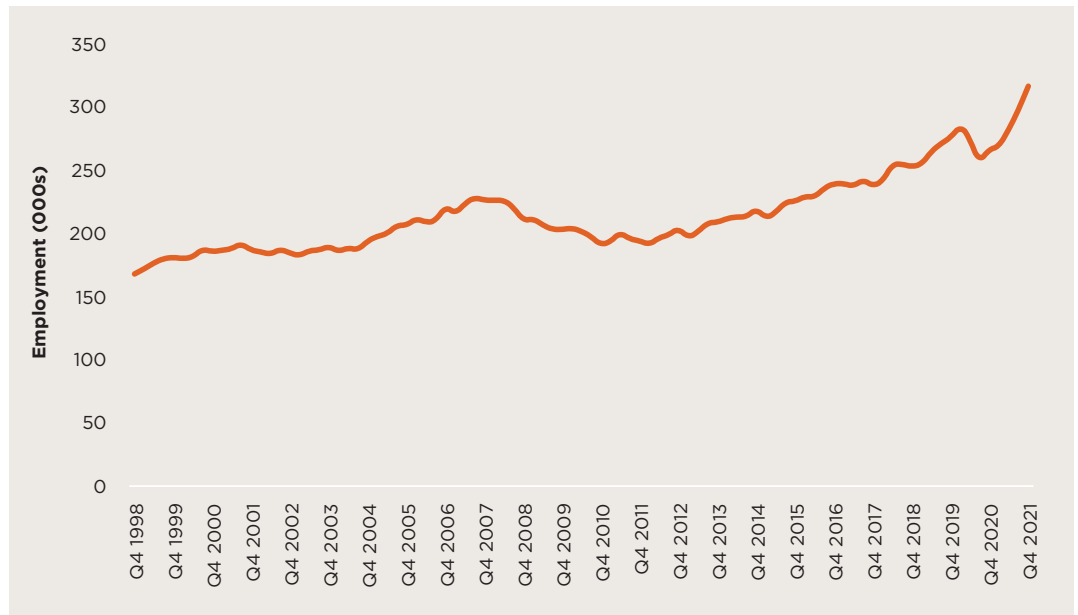
Rents

to exceed €62.50 psf in 2022

Macro view

Strong office-based employment growth will support occupier demand.

Figure 2: Dublin office-based employment



Source: CSO

📈 Office-based employment has risen 7% q/q, and 19% y/y, as the sector recovers from pandemic's initial employment shock. 📈

Office-based employment in Dublin in Q4 grew by the largest amount since the series began in 1998. Employment rose 7% q/q and 19% y/y, as the market recovered from the initial shock to employment in 2020. Furthermore, office-based employment now accounts for 41% of Dublin's total employment, a new high. Demonstrating how the capital has changed, at the turn of the millennium just 33% of the population worked in an office. There is no doubt about where this growth has come from, with tech based office employment growing by 19% in Q4 alone. Tech sector roles now account for 28% of Dublin's office-based workforce. In comparison, professional services and finance firms account for 24% and 22%, respectively.

Strong employment growth is forecast to continue in the coming years, which will continue to drive demand for office space. The Central Bank of Ireland is forecasting national employment growth of 6.9% between 2022 to 2024, generating 167,000 new jobs across the country. As of Q4 2021, 31% of all employment is in Dublin, which suggests on a pro-

rata basis that Dublin could see employment grow by 52,000 employees over the period, and the office sector could see an additional 21,000 roles.

The resilience and resurgence in growth of office-based employment provides strong optimism for the market. This trend suggests a broad base for the office sector's requirements to grow. Since Q4 2019, an additional 40,600 office roles have been added in Dublin. Using a rough density of 100 sq ft per worker, this suggests a need for over 4m sq ft of net additional office space to accommodate for this growth. Needless to say, while market activity was subdued in the pandemic, this expanding workforce adds further evidence to the existence of pent-up demand, highlighted in the outlook section.

41%

of Dublin's total employment is now office-based.

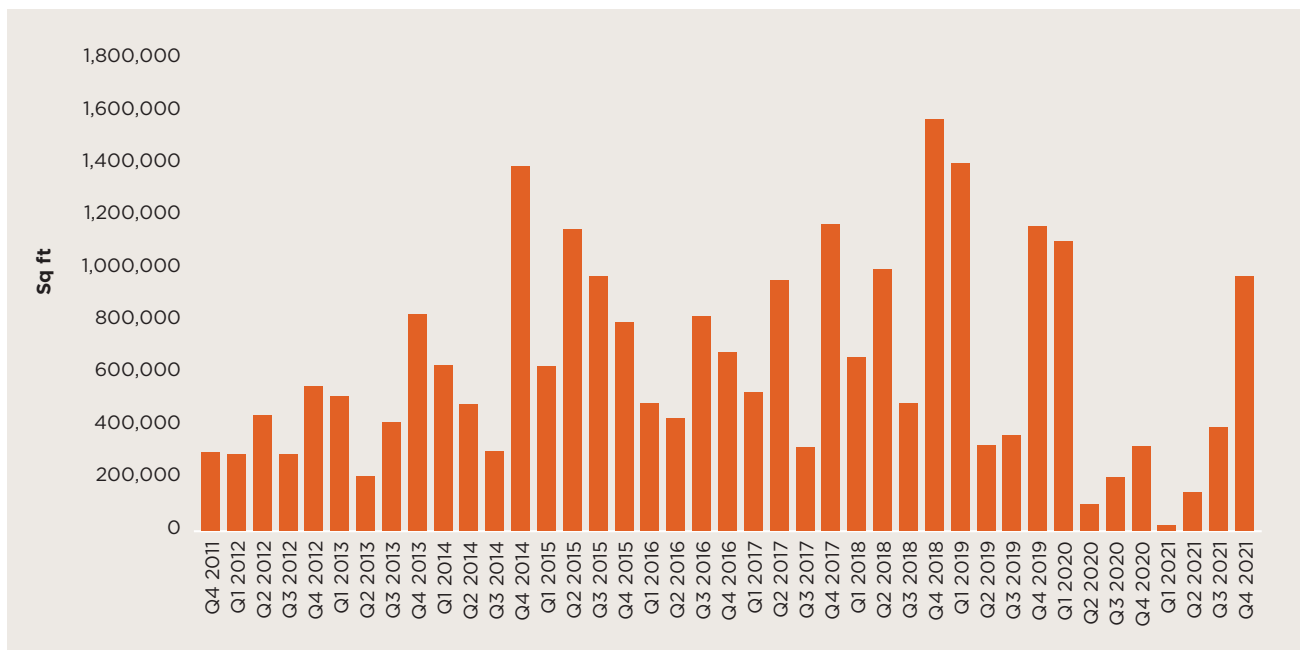


Market activity

Take-up totalled 970,000 sq ft in Q4, making it the highest quarterly take-up since the pandemic began. Despite the uptick in Q4, which brought the full-year total to 1.5m sq ft, total annual take-up was below both the ten-year average of 2.6m sq ft and 2020's total of 1.7m sq ft. 2021 was a year of two halves, with Q3 and Q4 contributing 89% of total year volumes, as lockdowns

at the start of the year effectively stalled the market. However, the combination of more robust levels of take-up in Q4, the full return to the office, and positive forecasts for employment growth are all providing tailwinds for the year ahead and contributing to an overall positive sentiment in the office market.

Figure 3: Take-up



Source: Savills Research

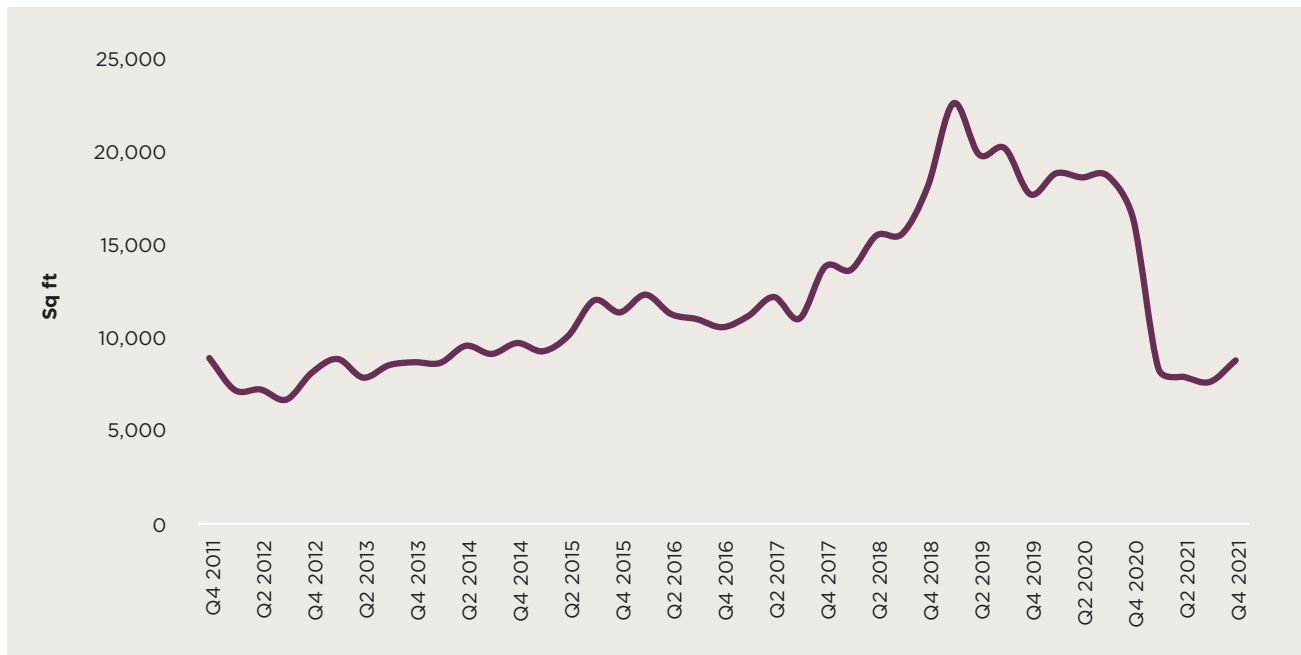
👁️ We are now seeing active requirements increase as larger occupiers re-enter the market with approximately 830,000 sq ft reserved at the end of Q4. 🗨️

Deal size analysis

During the pandemic, large active requirements declined as uncertainty surrounded the office market and the return to the workplace was delayed. The average transaction size dropped from 19,000 sq ft in both 2019 and 2020, to 12,000 sq ft in 2021, due to an absence of large deals. Throughout 2021 there were just two deals larger than 50,000 sq ft. While the nine large deals that signed in 2020 were in-line with the ten-year average, eight of these transacted in Q1 2020. We are now seeing active requirements increase as larger occupiers re-enter the market and move through the deal pipeline, reserving

stock. Approximately 830,000 sq ft was reserved at the end of Q4, including 84,000 sq ft in the Exo Building to An Post and 73,000 sq ft reserved by Workday, both of which are in the North Docks. Meanwhile at 60 Dawson Street, ServiceNow has agreed approximately 90,000 sq ft. Furthermore, there are a number of significant active office requirements upwards of 100,000 sq ft, including Stripe, EY, TikTok and Permanent TSB. Crucially, even as take-up increased in the fourth quarter, new deals replenished most of the reserved stock, highlighting the resilience of the office market and the improving sentiment in the sector.

Figure 4: Average deal size



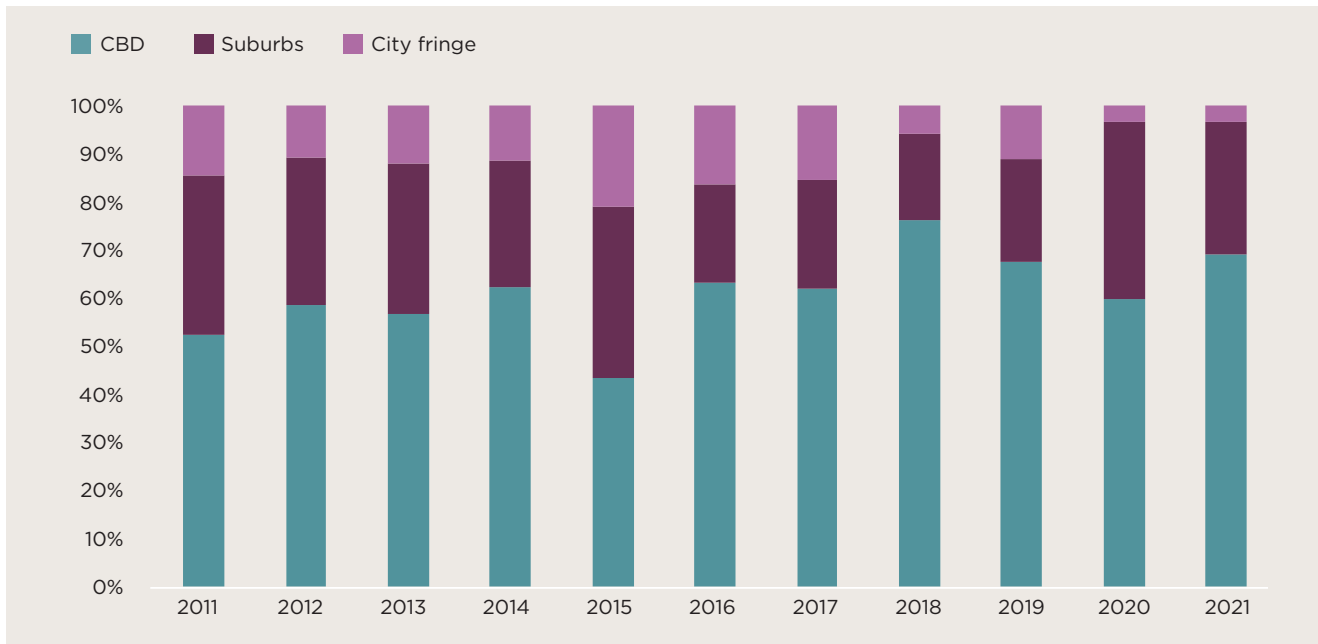
Source: Savills Research

Location analysis

The CBD remains the location of choice for occupiers, contrary to the previous speculation about the emergence of a hub-and-spoke model at the onset of the pandemic. Perhaps Dublin is too small geographically to merit such a dispersed location strategy, especially as staff typically favour the CBD, which is the most accessible location for a dispersed workforce in a city that lacks orbital public transport. The two largest lettings of the year were in the CBD, driving the location to a 69% share of total take-up. This is significantly larger than the ten-year average of 60% and is set to grow, with Dublin 1, 2 and 4 comprising 74% of reserved stock. Employers looking to attract employees back to the office are expected to look for well-placed CBD locations, which offer a greater variety of amenities and travel options. CBD activity

remains centred around Dublin 2, which accounted for 83% of CBD take-up and 57% of overall take-up. Meanwhile, Dublin 18 continues to be the suburban location of choice, with two of the top five deals occurring here, accounting for half of all suburban take-up.

69%
of total take-up was in the CBD. This is significantly larger than the ten-year average of 60%.

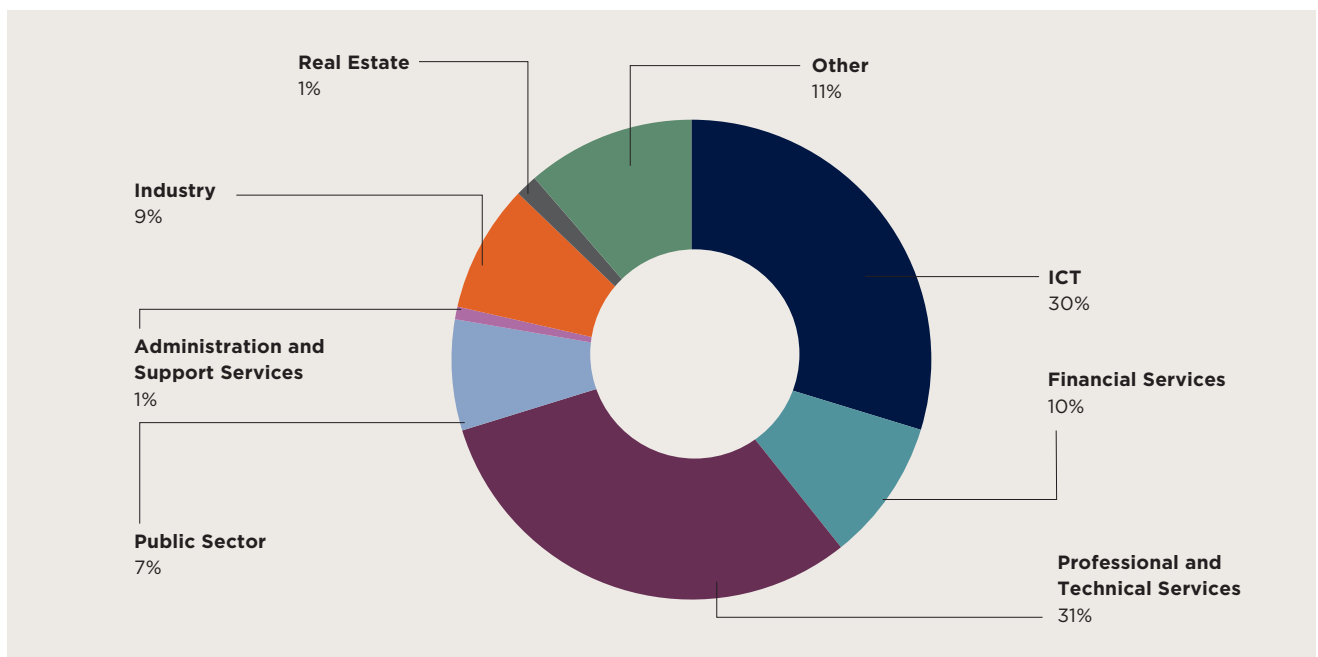
Figure 5: Take-up by submarket

Source: Savills Research

Sector analysis

2021 saw a change in the highest share of space taken by a sector. Professional services firms were particularly active, accounting for 31% of take-up, well above their typical 11% share, due to a substantial letting completed by KPMG. However, we must be mindful of extrapolating trends within a period of considerably reduced take-up. Indeed, some professional services firms would also consider aspects of their service lines to be tech. The ICT sector saw its share of take-up fall to 30%, lower than its 42% ten-year average and significantly

behind its 2020 level, when it registered a 70% share in the market. Tech take-up stalled in 2021 as occupiers sought more certainty before making long-term occupational decisions. The ease with which their workforce could work remotely reduced the urgency of these decisions. We are now seeing tech requirements grow at the start of 2022, as TikTok's large-deal in Q4 highlights the continued importance of well-located office space for the tech sector. Financial services accounted for 10% of the market share, just shy of its ten-year average of 14%.

Figure 6: Take-up by sector 2021

Source: Savills Research

Top deals

The two largest deals of the year accounted for approximately one-third of take-up. The largest deal of the year was KPMG's pre-letting of 288,500 sq ft at Hibernia REIT's Harcourt Square for €59.65 psf, illustrating top-tier corporates' demand for prime city-centre locations. In the terms of global tech, social media firm TikTok dramatically expanded their Irish market presence in the year's final quarter, having previously relied on flex space providers. Their letting of 216,000 sq ft at the Sorting Office in Dublin 2 represents the most recent example of Dublin being the city of choice for global tech firm's European HQs.

The remaining three top deals took place in Q3, marking a recovery in activity after a very quiet first half of the year. The third-largest deal of the year involved BNP's banking functions moving from their CBD location in Ballsbridge to a new 37,000 sq ft office in Termini, Sandyford. This diverges from the prevailing trend towards the CBD. Accenture also expanded their suburban footprint taking 31,000 sq ft in Building 10, Cherrywood Business Park, having previously taken space in Building 11 in 2018. In the fifth largest transaction of the year, global legal firm DLA Piper leased six floors totalling 29,700 sq ft on Molesworth Street, allowing adequate space for expanding their operations in Ireland.

Table 1: Top five deals

Quarter	Property	Sq ft	Tenant	Sector
Q4	Harcourt Square, Harcourt Street, Dublin 2	288,500	KPMG	Professional and Technical Services
Q4	The Sorting Office, Cardiff Lane, Dublin 2	216,200	TikTok	ICT
Q3	Termini, 3 Arkle Road, Dublin 18	37,200	BNP Paribas	Financial Services
Q3	Building 10, Cherrywood Business Park, Dublin 18	31,000	Accenture	Professional and Technical Services
Q3	40 Molesworth Street, Dublin 2	29,700	DLA Piper	Professional and Technical Services



Supply

Similarly to take-up, the completion of new stock was weighted towards the latter half of 2021, with lockdowns stalling construction in Q1 and Q2. Despite this, 1.1m sq ft was delivered across 21 properties during the year. The largest was Two Charlemont Square, the second phase of the Charlemont Street Regeneration Project, which was pre-let to Amazon in 2019, totalling 167,000 sq ft. ESB's headquarters at Fitzwilliam 27 and the adjoining Fitzwilliam 28 completed in the year's final quarter,

amounting to 280,000 sq ft. 66% of delivery in 2021 was pre-let, with this figure rising to 74% in the CBD. Developments were focused on the CBD which accounted for 70% of completions in 2021, compared to 19% and 11% in the city fringe and suburban areas, respectively. This trend is expected to continue over the medium-term. The CBD accounts for 77% of delivery in 2022, whilst the city fringe accounts for 20% with the remaining 3% in suburban locations.

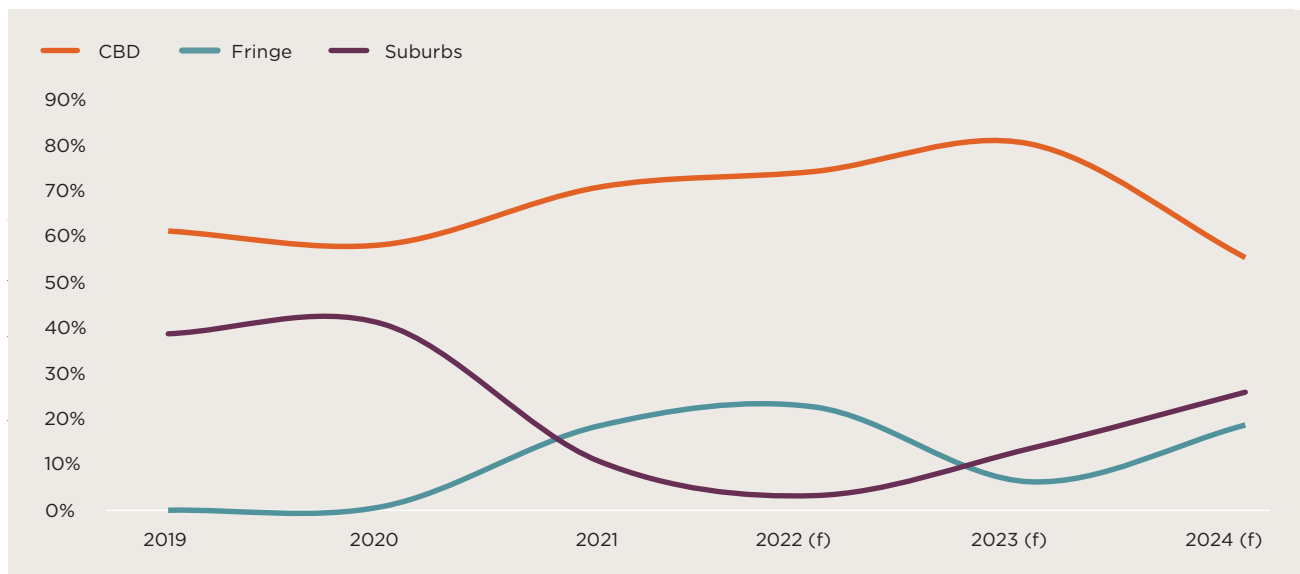
Table 2: Top five completions

Quarter	Property	Sq ft	Submarket	Type
Q2	Two Charlemont Square, Dublin 2	167,000	CBD	New build
Q4	Fitzwilliam 27, Dublin 2	145,300	CBD	New build
Q4	Fitzwilliam 28, Dublin 2	134,600	CBD	New build
Q2	Power Tower, Belfield Office Park, Dublin 4	133,200	City fringe	Refurb & extension
Q2	35 Shelbourne Road, Dublin 4	87,500	CBD	New build

After construction delays throughout the year, several projects had their completion dates pushed back to the first quarter of 2022. Expected delivery in Q1 2022 increased to 1.3m sq ft as a result. Tech will dominate the start of 2022 with significant completions expected: Google's Boland's Quay development, part of LinkedIn's Wilton Park campus developed by IPU'T and Ronan Group's Spencer Place development pre-let to Salesforce in 2019. Later in the year, the middle blocks in Meta's Ballsbridge campus are due, as is Mastercard's addition to their European Technology Hub in the form of Two South County in Leopardstown. These developments, in particular, reinforce the

considerable footprint global tech firms are accumulating in the capital. In terms of uncommitted space due, One Charlemont Square will bring 183,000 sq ft to the market in Q1 2022, while Trinity Place and Le Pole Square are expected to bring a combined 295,000 sq ft to the market in the final quarter. Looking further ahead to 2023, we're forecasting delivery of 1.9m sq ft, of which 27% is currently committed, with 80% of this space once again expected to be in the CBD. There is, however, more space coming in the suburban and city fringe markets in 2024.

Figure 7: Annual share of delivery by submarket



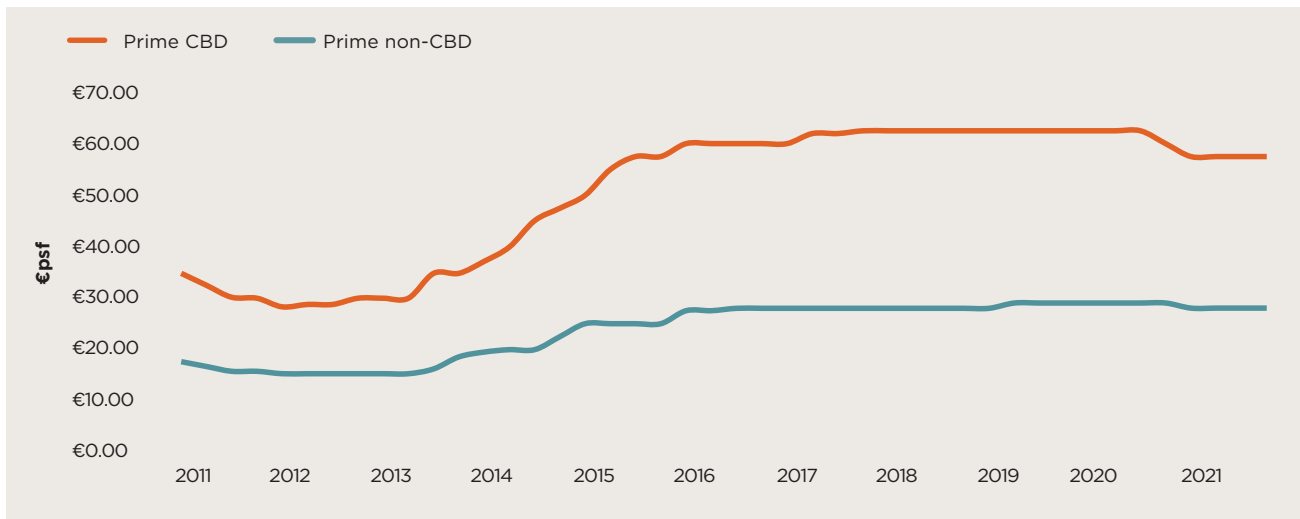
Source: Savills Research

Rents

Headline rents initially fell at the onset of the pandemic as the shockwave of the virus travelled through the market, and work from home mandates were issued. However, rents have remained steady for prime CBD assets at €57.50 throughout 2021 as landlords continue to favour adjusting incentives in order to maintain headline rents at a higher level. As mentioned in our outlook, we believe the robust demand for CBD office

space will allow rents to exceed pre-pandemic levels of €62.50 psf in 2022. We expect terms for new stock to range between 10-12 years after coming under downward pressure during the pandemic. Rents in the suburbs are currently at €28 psf and are unlikely to see the same upwards pressures as city centre offerings in 2022.

Figure 8: Benchmark rents



Source: Savills Research



Dublin's resilient tech sector

The tech sector has weathered the pandemic period extraordinarily well. As highlighted in the macro view, employment in the technology sector has grown significantly in Q4 and showed no notable decline during the pandemic as many other sectors did. In the capital markets the four mega-tech behemoths continued to grow, with each of the four firms achieving market cap growth of between 9% and 93% between February 2020 and 2022. These four firms have

taken 4.1m sq ft of space in Dublin since 2011, accounting for 15% of all take-up over this period. This highlights how strategically important these four firms are to Dublin's office market. Furthermore, they all have pre-let new space currently under construction and due to come to the market in 2022, further highlighting their commitment and importance to the city.

Table 3: Market capitalisation of MAMA stocks (USD billion)

				
Feb-2020	\$1,230	\$920	\$549	\$938
Feb-2022	\$2,230 (+81%) ▲	\$1,780 (+93%) ▲	\$601 (+9%) ▲	\$1,570 (+67%) ▲

Source: Yahoo Finance

This performance has quashed many concerns that the heavy exposure to the tech sector should be seen as a concentration risk. The strength and resilience of this sector during the pandemic has improved how Dublin's underlying tenant base is viewed externally. Furthermore, the presence of these large and growing firms creates economies of agglomeration in the city as many tech firms use Dublin as a hub to expand their European operations. TikTok's 216,000 sq ft lease in the Sorting Office in Q4 clearly shows this effect. This agglomeration effect is increasingly important after agreements last year on world tax mean Ireland's tax advantage will soon be eroded. While we don't think this change will have any effect on the sector's demand for space in Ireland, increased FDI inflows have dispelled theories that Ireland's demand was tax driven. The first-mover advantage and agglomeration benefits have taken over as a driving influence. Dublin has emerged as a tech hub of global importance, as highlighted by the Financial Times FDI "Tech Cities of the Future", placing Dublin third behind only London and Paris.

Dublin remains an attractive location for tech occupiers, underpinning optimism for the office market going forward. In light of the sector's performance during the pandemic, expectations of future growth should improve how Dublin's

overall market is perceived internationally, providing spill over effects to other sectors servicing the tech market. Government policy has also been influenced by this concentration of tech based employment, leading to greater investment in technology focused university programs and the construction of innovation hubs. This, and the influx of skilled migrant workers, has shaped Dublin's labour force, making it more attractive for prospective entrants and start-ups. This vibrant tech eco-system has nurtured innovation, leading to Irish tech start-ups receiving a record €1.3 billion in 2021 in venture capital funding, according to The Irish Venture Capital Association, creating a reinforcing loop of investment. This improves growth prospects and supports the underlying tenant base in the Irish office market.

3rd

Dublin placed third behind London and Paris for "Tech Cities of the Future" by the Financial Times.



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