

Savills Research – Q2 2022

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MARKET
IN
MINUTES
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Dublin Office Market

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Macro view • Market activity • Supply


50%

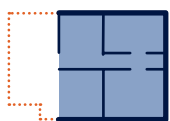
growth in Dublin's white-collar employment over the last ten years


469,000

sq ft of take-up reached in Q2, bringing H1 volumes to 946,000 sq ft


80%

of take-up in the last three quarters was in the CBD


73%

of the pipeline due next year in the CBD is already taken


Prime rents

are increasingly decoupling from the wider vacancy rate

Macro view

Shortage of ESG compliant offices in the CBD driving prime headline rental inflation.

Table 1: Annual additional jobs in Dublin

2013	2014	2015	2016	2017	2018	2019	2020	2021
18,900	28,000	22,300	24,100	20,900	26,800	23,900	-39,000	83,300

Source: Savills Research

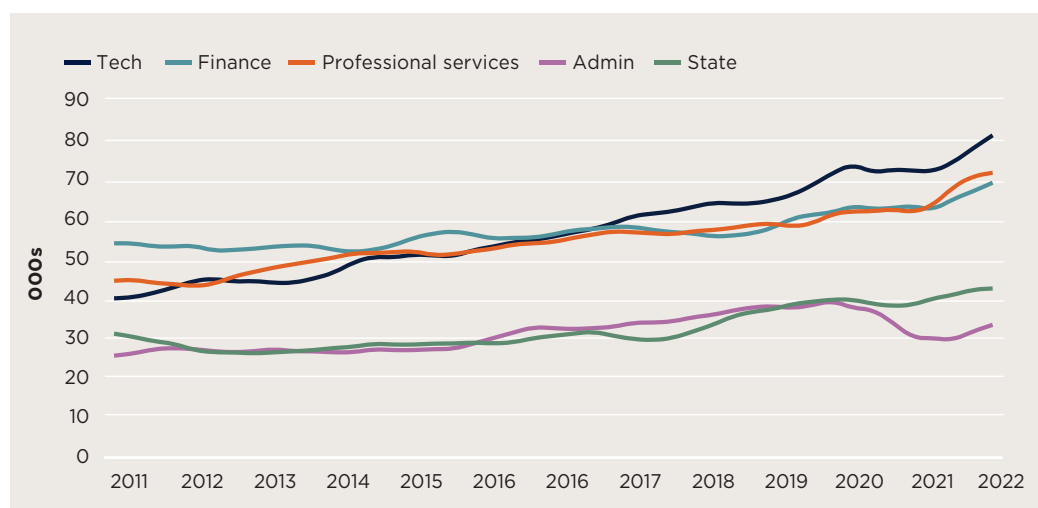
The Irish labour market is performing very strongly, with employment hitting an all-time high of 2.5 million in Q1 and the unemployment rate falling to 4.7%. There were 762,800 people employed in Dublin at the end of Q1, accounting for 30% of national employment. Annually Dublin generated an average of 23,500 new jobs per year pre-Covid (2013-2019). Following the onset of the pandemic in 2020, employment initially declined by 39,200 workers (supported by pandemic-related government payments), but the economy has roared back since then, adding 83,300 new jobs. Therefore, there has been a net increase of 44,100 jobs in Dublin since the pandemic began. It is worth noting that job growth during the pandemic is likely to be significantly higher, as employment statistics are calculated

based on where the workers live rather than where the company is. With many remote workers moving out of Dublin during the pandemic, Dublin's share of employment is likely to increase as the economy pivots to focus back on the office.

White-collar employment grew by 50% from 197,000 in Q2 2012 to 300,000 in Q1 2022, equating to an average of 10,000 new jobs per annum. Dublin's tech sector has been the primary driver of office job growth, with sectoral employment rising from 44,000 to 81,000 over the same period – an expansion of 84%. Professional services (+64%), the State (+62%) and finance (+33%) jobs have also grown strongly. However, the lag of the employment series does not account for recent shifts in occupier sentiment as discussed in the outlook.

Following the onset of the pandemic in 2020, employment initially declined by 39,200 workers but the economy has roared back since then, adding 83,800 new jobs.

Figure 1: Dublin office-based employment (4QMA)



Source: CSO

The Central Bank of Ireland has forecast national employment growth of 3.7% in 2022 and 2.2% in 2023, even after factoring in worsening global economic conditions, which are expected to slow growth.

The resilience and resurgence in the growth of office-based employment provide strong optimism for the market. Since Q4 2019, an additional 44,600 private sector office roles have been added in Dublin.

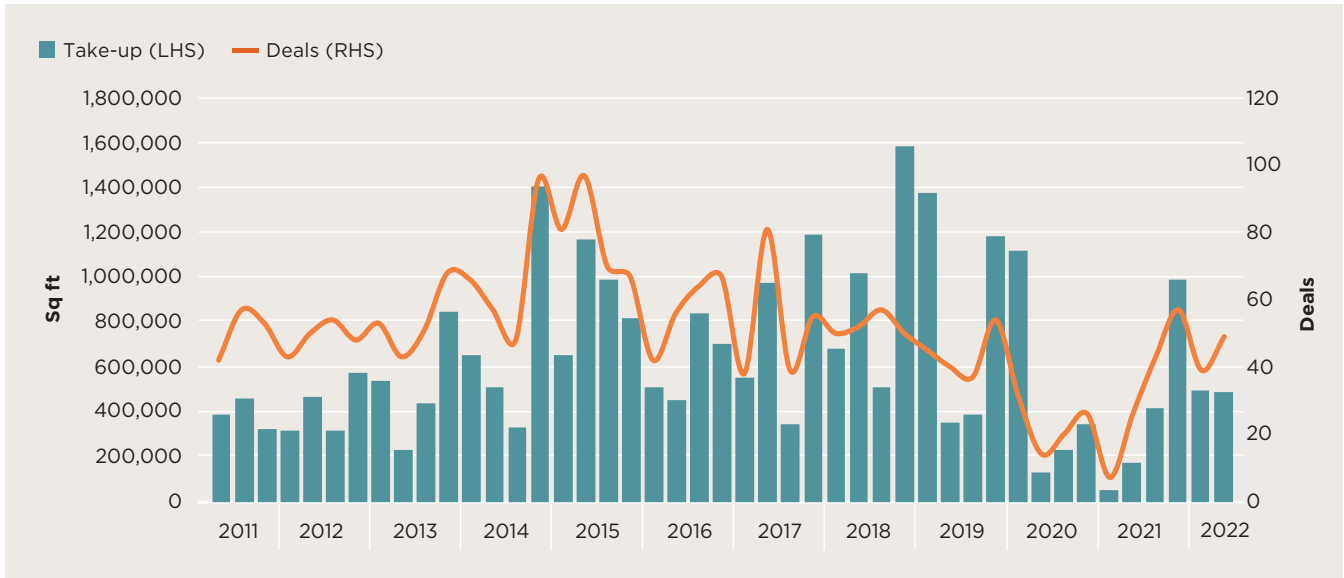
Using a rough density of 100 sq ft per worker suggests a need for over 4.5m sq ft of net additional office space to accommodate this growth. Needless to say, while the market activity was subdued in the pandemic, this expanding workforce adds further evidence to the existence of pent-up demand, highlighted in the outlook section. This trend suggests a broad base for the office sector's requirements to grow.

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Market activity

Figure 2: Take-up



Source: Savills Research

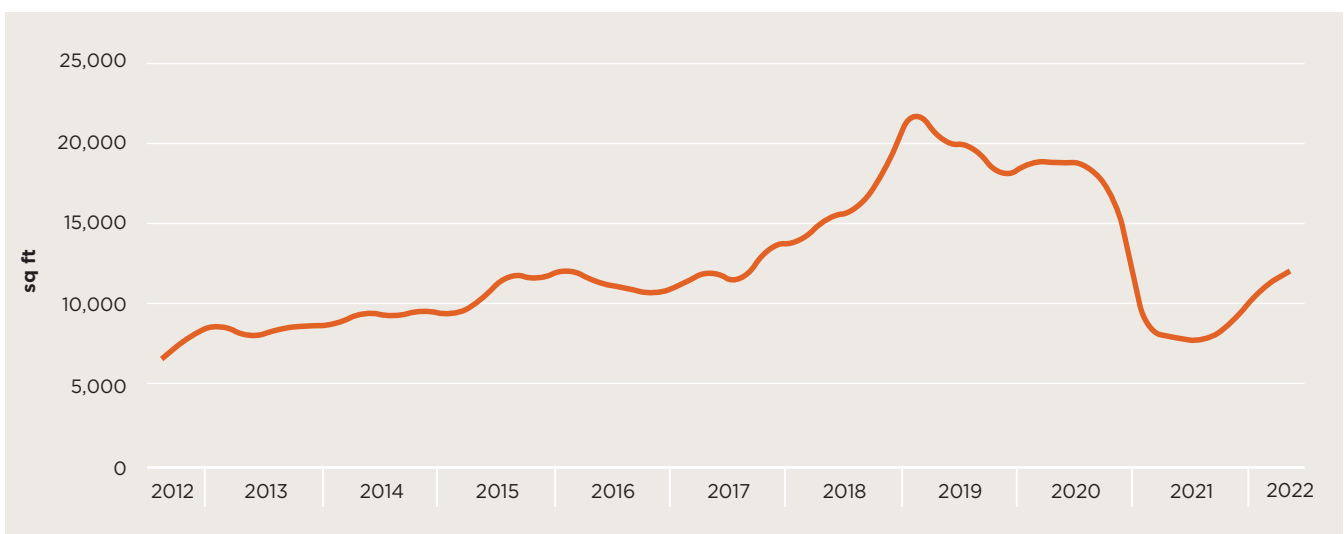
Take-up reached 469,000 sq ft in Q2 - in line with Q1 when 476,000 sq ft traded - bringing take-up for the first half of the year to 946,000 sq ft. While this was substantially stronger than the 170,000 sq ft of space that transacted during the first half of 2021, it was 37% less than the five-year average of 1.5 million sq ft witnessed pre-pandemic. The number of deals was quite healthy at 49, the highest Q2 level since 2018 and indicative that deal flow is recovering following the removal of restrictions at the start of the year. In a further show of strength, over 1m sq ft of space is reserved and due to sign by year-end.

The average deal size was 9,580 sq ft in Q2, with deals less than 5,000 sq ft accounting for 53% of total deals, but just 16% of space taken. By contrast, deals in excess of 50,000 sq ft accounted

for 6% of deals but just 41% of the space taken. There was a notable shortage of deals completed in the 20,000 to 50,000 sq ft size segment, accounting for just 2% of deals and 5% of total sq ft taken. As illustrated in Figure 2, the average deal size is increasing again from last year's lows in line with long-term averages but below the heightened levels of 2018 to 2020, when several mega-deals drove average deal sizes close to 20,000 sq ft.

**The average deal size in Q2 was
9,580 sq ft.**

Figure 3: Average deal size (4QMA)



Source: Savills Research

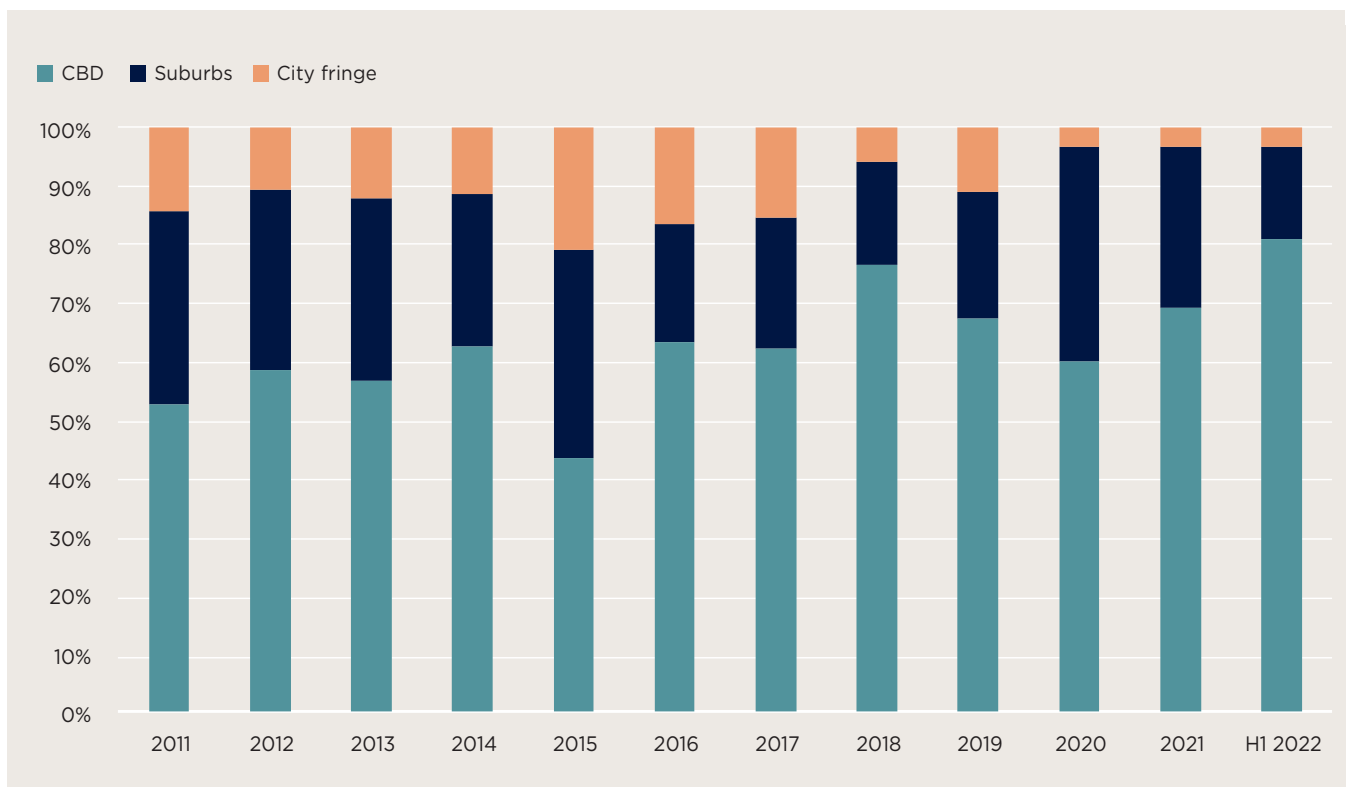
Post Covid, market requirements have effectively divided themselves into two distinct categories; The ESG market and the flex market. For many companies, their respective ESG agenda has focused largely on their real estate strategy and a need to ensure they are occupying the most energy efficient office building available within the market. For others, who remain in a growth phase or are uncertain of their occupancy footprint post Covid, they are prepared to pay premium rents for quality office space with Cat B fitout. This has been the theme of the past 12 months to the detriment of older office space, some of which is less than 20 years old but considered by the market to be ostensibly obsolete.

Since the recovery in the office market in Q3 2021, on-the-ground experience of demand has witnessed a strong preference for city centre located ESG stock. This preference was again evident

in this quarter's take-up statistics: with 80% of take-up concentrated in the CBD for a third consecutive quarter. To put this in context, there were only four other previous occasions over the last ten years that quarterly take-up exceeded the 80% threshold, one of which was post-pandemic in Q3 2020. The strength of the CBD is also evident in the quantum of space taken. In total, 765,000 sq ft transacted in H1, just 9% below the long-term average in the five years before the pandemic. The high levels of relative and absolute levels of CBD take-up show that softness in the office market is confined to non-CBD locations. Employers are emphasising space that makes it attractive for employees to return to the office, with centrally located office space a key ingredient in that mix. The hub-and-spoke working model popularly discussed at the onset of the pandemic appears to have dropped as occupiers pivot back to the centrally located offices.

🍷 Employers are emphasising space that makes it attractive for employees to return to the office, with centrally located office space a key ingredient in that mix. 🍷

Figure 4: Take-up by location



Source: Savills Research

Top deals

The appetite for quality CBD space was also evident in the top four deals, which were all located in the city centre and comprised of newly delivered stock. The largest deal of the quarter was Service Now's pre-letting of 88,000 sq ft at 60 Dawson Street on a 12-year lease. The headline rent achieved is believed to be very strong and represents a successful outcome for MARK Capital Management and their local partner BCP Asset Management. The strong rental level is likely to be replicated in other nearby office buildings, with a number of deals agreed at a similar level. It remains to be seen whether these rental levels are sustainable and can be replicated in other parts of the city or whether they reflect a scarcity factor due to the building's modern features and locational strengths.

The second largest deal was Workday's leasing of 54,000 sq ft at Dockline in the IFSC. It comes as Workday also announced intentions to develop a 550,000 sq ft campus close to their current EMEA HQ in Grangegorman in Dublin 7. While those plans will have some way before completion, the Dockline deal will allow

Workday to expand its workforce by 1,000 people over the next two years representing a 60% increase in their current Irish workforce.

Elsewhere, financial services company Waystone leased 52,000 sq ft at 35 Shelbourne Road, Ballsbridge, on a 20-year term for a rent reported to be in excess of €60 psf with significant rent free contribution. The fourth largest deal was also notable, with flex space provider Glandore leasing 25,000 sq ft at the newly completed Bottleworks in Dublin 4. Indeed, flex providers have become more active in 2022, with Glandore taking space in Q2, Regus taking space in Q1 and Pembroke Hall taking space in both Q1 and Q2 this year.

The largest deal of the quarter was Service Now's pre-letting at 60 Dawson Street of 88,000 sq ft

Table 1: Top deals

Property	Sq ft	Tenant	Sector
60 Dawson, Dublin 2	88,000	Service Now	ICT
Dockline, Dublin 1	54,000	Workday	ICT
35 Shelbourne Road, Dublin 4	52,000	Waystone	Financial Services
Bottleworks, Dublin 4	26,000	Glandore	Real Estate
Block W Eastpoint, Dublin 3	17,000	Peninsula Business Services	ICT

Source: Savills Research

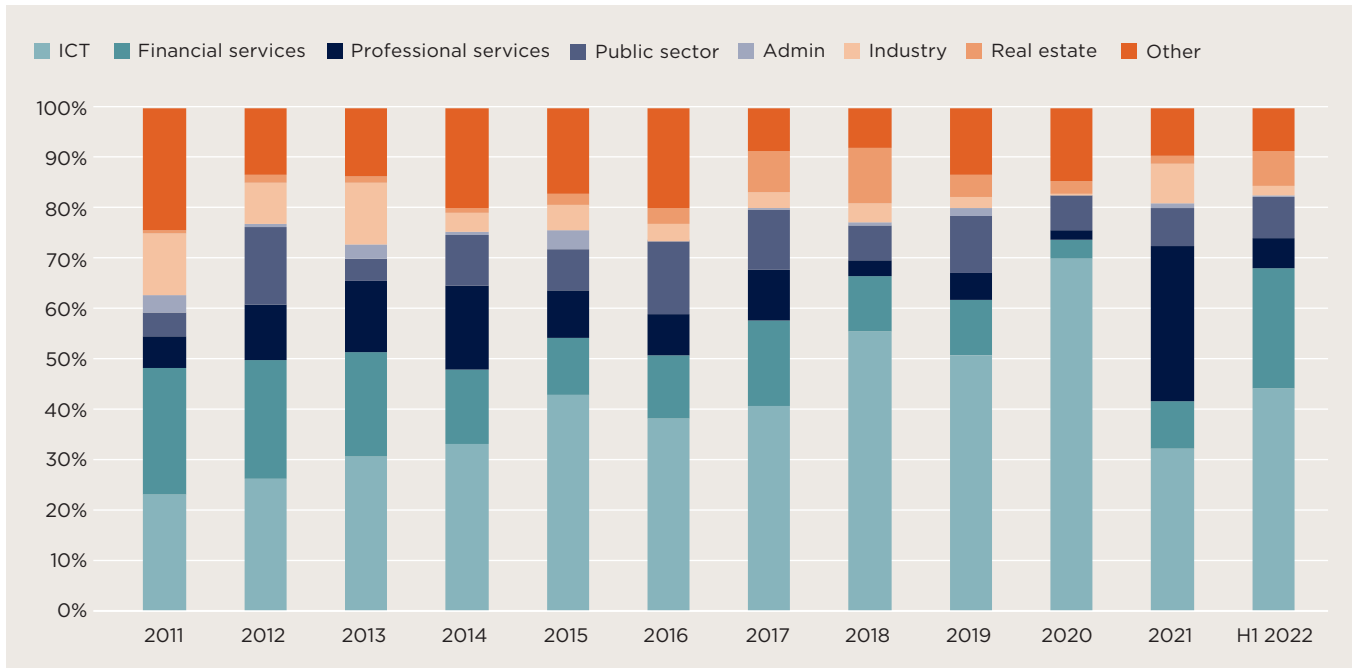


Sector analysis

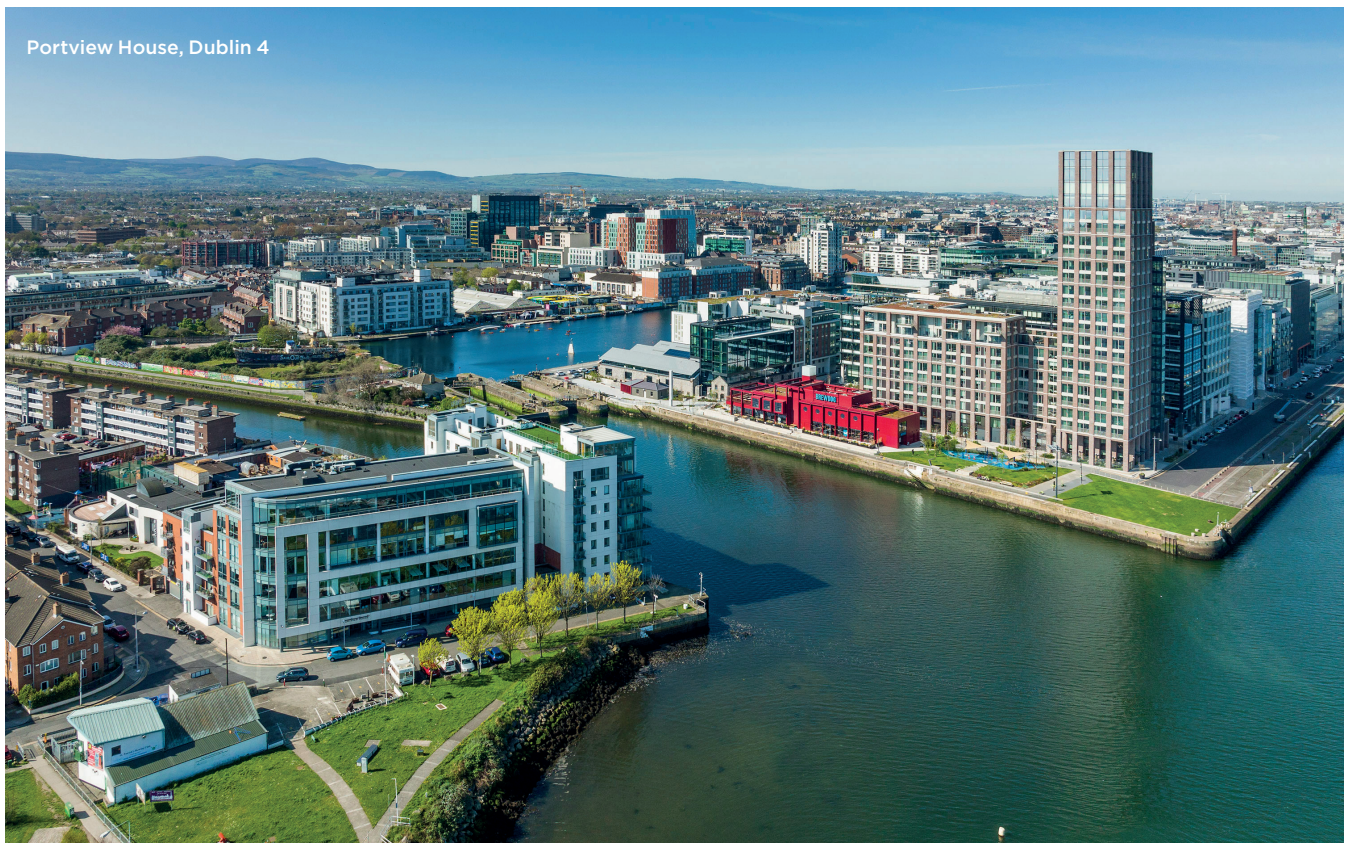
Breaking down take-up by sector, the tech sector accounted for the largest market share at 40%, followed by financial services at 31% and professional services at 10%. Real estate accounted for 8% while 'other' accounted for the balance. Continued elevated take-up among tech firms despite recent stock market turmoil is promising. Many

tech firms based in Dublin have seen substantial declines in their capital values since the start of the year. However, Q2 earnings calls for several mega-cap tech companies in July showed that negative market sentiment appears to be overblown, with a recent recovery in the S&P 500 led by the major tech stocks.

Figure 5: Take-up by sector



Source: Savills Research



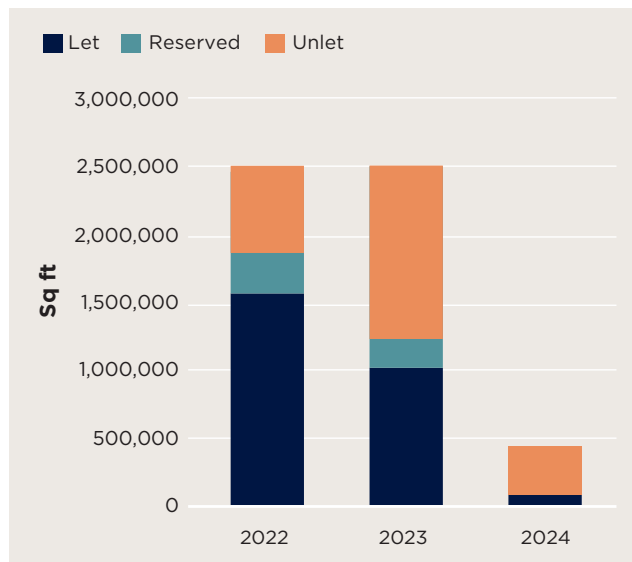
Supply and rents

Rebounding occupier demand in conjunction with a constrained construction pipeline is putting upward pressure on prime rents. There is currently 2.5 m sq ft of new space due to be delivered in total across 2022, of which 63% is already leased with a further 12% reserved. 2.5 m sq ft of stock under construction is also due for delivery in 2023, of which 40% is let and an additional 9% reserved. Just 435,000 sq ft is on-site and due for delivery in 2024, of which 17% is already let (nothing reserved).

Turning to the CBD, an even healthier picture emerges. Like the overall market, 73% of the 1.9 m sq ft due this year is either let (62%) or reserved (12%). 2023 is also promising with 58% of the 2.1m sq ft under construction already accounted for; 48% of which is let and a further 10% reserved. The vast majority of space on-site and due in 2024 is located in the CBD, which means the percentage of space already let is similar to the overall market at 18%.

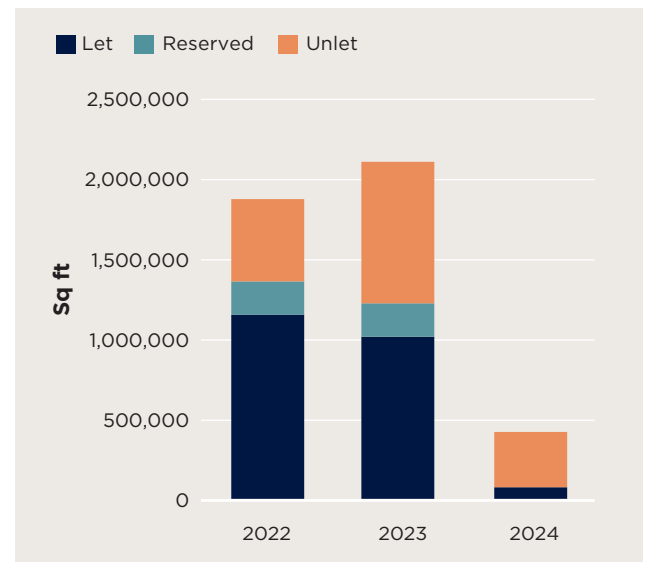
Competition for prime space has reignited rental inflation. Prime headline quoting rents increased from €60.00 psf in Q1 to €62.50 psf in Q2, with several deals believed to be agreed for prime CBD stock at levels in the high €60's psf, indicating that there will be further rental appreciation ahead in the coming quarters. We expect rents to have reached €67.50 psf by year-end, and there is some select evidence already at this level. An increase to €67.50 would represent an increase of 17.4% from €57.50 psf at the start of the year. While the pace of rental inflation may surprise many, it demonstrates two primary factors. Firstly, it shows there is a shortage of prime CBD stock with the ESG credentials demanded by occupiers. Ultimately, the rental share of total business cost is relatively small for large corporates in comparison to the prioritised goal of meeting their ESG targets. Secondly, having high-quality offices in desirable locations is a valuable arsenal for firms in their efforts to entice workers back to the office post-pandemic and indeed for further recruitment.

Figure 6: Dublin on-site pipeline



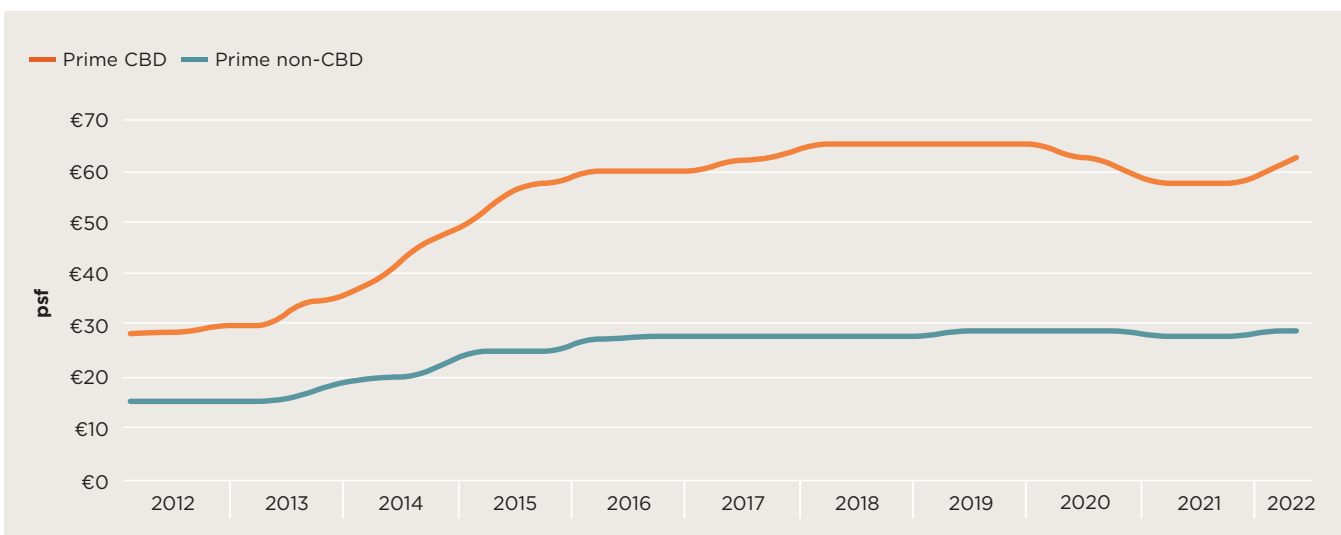
Source: Savills Research

Figure 7: CBD on-site pipeline



Source: Savills Research

Figure 8: Prime headline rents



Source: Savills Research

Outlook

Economic uncertainty has not been as high as it currently stands for some time. Market risk is heightened, and it feels like we're at a tipping point in the economy – it's in the balance and things could go either way. It is a particularly volatile time for global political tensions, supply chain challenges, discount rate pricing and cost inflation. Taken together, they are impacting occupier sentiment and to some extent, access to financing, with a number of big tech companies reportedly stalling hiring plans. The emergence of an increasing amount of sublet space on the market is a sign of these headwinds beginning to bite across the occupier sector. Additionally, space will become available as occupiers settle with their occupancy footprints requirements post Covid and look to shed surplus office space.

Notwithstanding, several crucial factors are acting as tailwinds to the market. Despite the economic uncertainty, the Irish economy is still forecast to grow strongly this year and next (9.1% and 4.3% GDP expansion, respectively according to the Central Bank of Ireland). Employment has surpassed the 2.5 m mark for the first time as the economy approaches full employment. While global corporates have become more cautious, their balance sheets remain extremely strong in the main. While the rising cost of debt makes real estate-related

capital expenditure more expensive, high cash reserves mitigate the impact on the sector. On the supply side, the shortage of suitable office space will be the primary factor driving the market – the lack of suitable ESG stock in the CBD means corporates have little choice but to pay a premium for the space that they require. There is not a complete decoupling of rents from the vacancy rate but prime headline rents are going to diverge in a much more significant way than in the past. The CBD will be the main driver of growth, consistent with the preference rates we see from active occupiers. As a result, growth will not be uniform as many models allow for in the past, with older stock underperforming, especially suburban stock.

Relocations rather than expansions will also be a much bigger driver of take-up going forward as occupiers will have a higher incentive to move to ESG compliant stock rather than renew in older buildings. Given that renewals are not captured in the office take-up stats in Ireland, more movement will boost take-up even if expansion activity – which was typically 60-70% pre-pandemic – will be less. All else being equal, this will have a positive effect on gross take-up even if net take-up is falling.

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