

Dublin Office Market



Outlook for 2023

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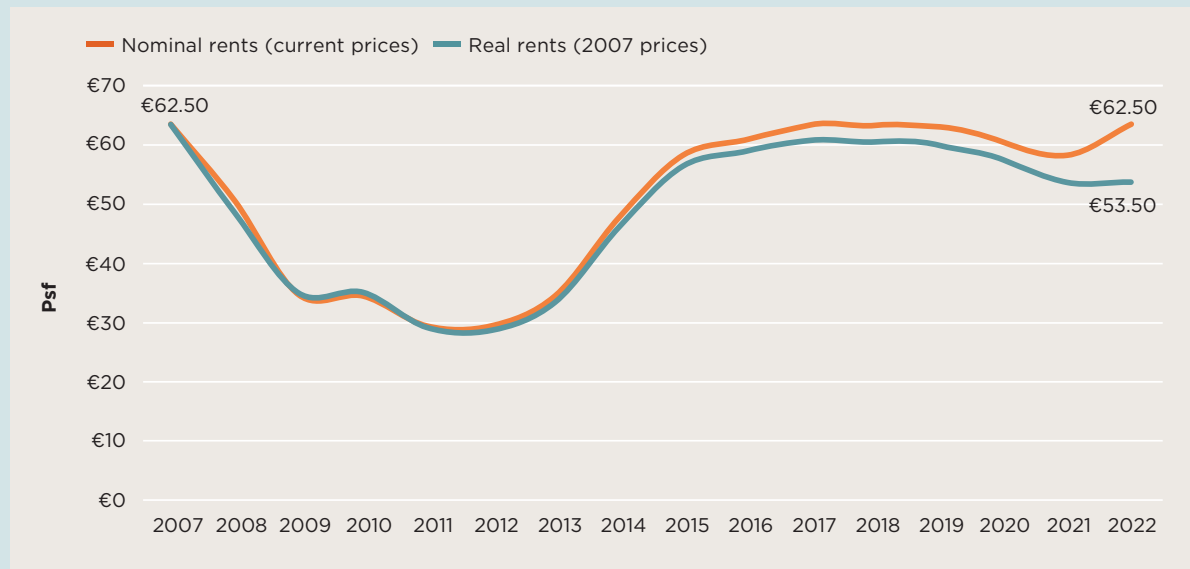
Real rents have experienced a cut of 14%



Although prime headline rents in the city centre have reached €62.50, the same as at the peak of the last cycle in 2007, inflation-adjusted real rents are in fact 14% lower. This means that rents today are the equivalent of €53.50 in 2007 terms. By contrast, construction costs have increased by 45% over the same period. Replacement costs are a factor in

maintaining upward pressure on rents over the long term given the cost of delivering new grade A stock. In the debate about rents, it is important for agents and landlords to be cognisant of this difference and note the cut in real terms – which is what matters – that has emerged due to the high inflation rate in the past 12 months.

Figure 1: Nominal rents vs real rents

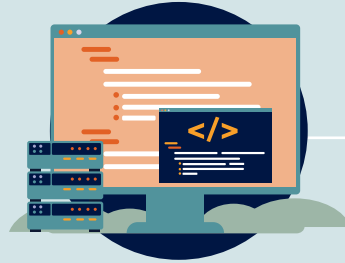


Source: Savills Research

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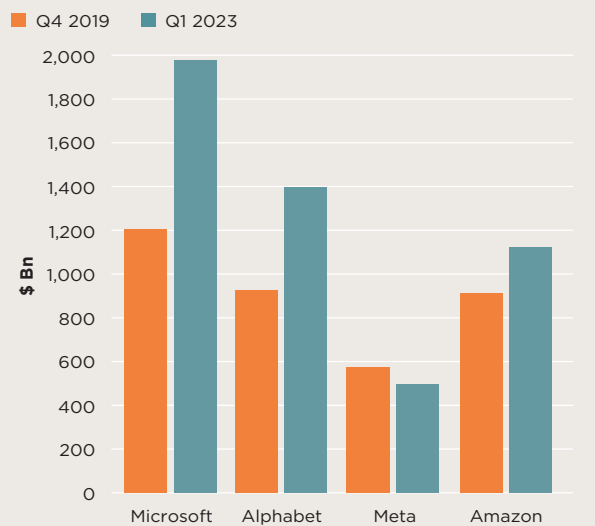
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Tech firms remain in a strong position



The tech sector has been at the centre of negative sentiment of late and, while sectoral take-up and capital expenditure projects will likely be quieter than in previous years, tech companies still remain the largest companies in the world and are best placed to have the strongest recovery. Microsoft, Alphabet and Amazon are ranked 2nd, 3rd and 4th respectively in the S&P 500. Many firms boosted hiring during the pandemic to assist their expansion plans before challenges in the form of record-high inflation and interest rate hikes altered the global outlook. Share prices fell throughout 2022, igniting a slew of job cut announcements and the release of grey space to the market. Dublin is a tech hub of global importance owing to the number and scale of global tech occupiers here, including MAMA (Microsoft, Alphabet, Meta, and Amazon). This hasn't changed. These companies have extremely strong balance sheets with large cash balances to weather sustained equity market volatility. Indeed, share prices have begun recovering, with all MAMA shares up significantly this year such that their values are now an average of 30% higher than their pre-pandemic levels.

Figure 2: Mega tech market cap Q4 2019 vs Q1 2023



Source: SEC filings

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Increased focus on reducing embodied carbon



As buildings are required to become more operationally efficient and produce less carbon, embodied carbon accounts for a greater share of their lifecycle carbon production. While the choice of low-carbon construction materials can make a difference, the largest reserve of embodied carbon is the structure itself. The retention and

reuse of a building can limit additional carbon production. Yet while emerging evidence points to this as best practice, there remain cases where obvious scale or a more efficient building is preferable. In such cases, the building should be removed and replaced. (Further analysis of embodied carbon is contained later in the report).

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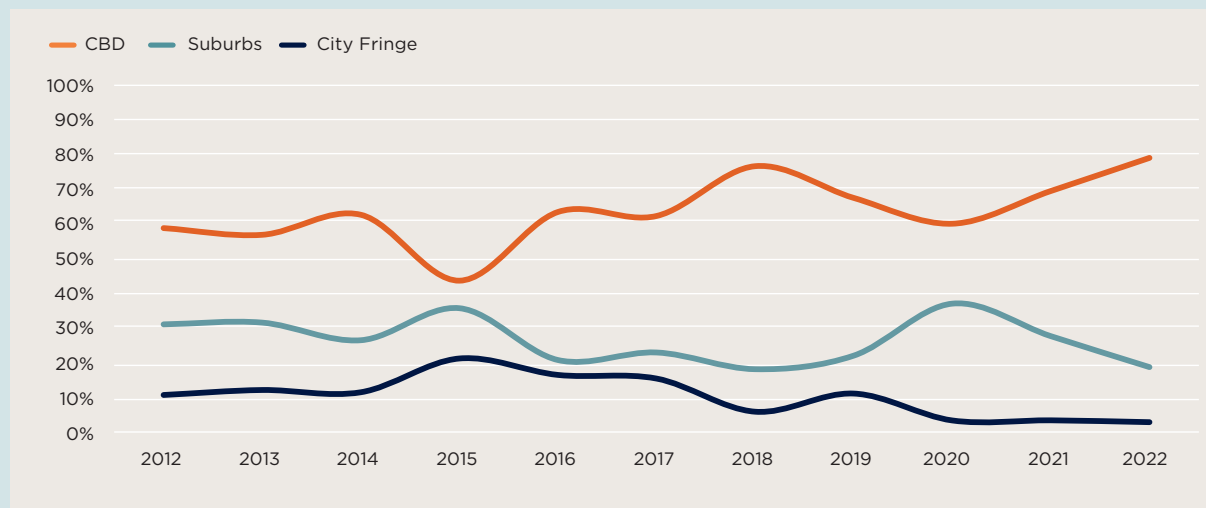
Downward rental pressure in suburban locations



The release of high-quality grey space in the city centre has given rise to more opportunities for CBD occupation on various terms and a wider variety of floor plates. The inclusion of in-situ fit-outs further facilitates this trend by avoiding the high costs associated with fitting out a space at a time when businesses are trying to reduce capital expenditure. There is a more downside outlook

for suburban rents, which sit at €29 per sq ft currently. Take-up in the suburbs reached 37% of total take-up in 2020 and has fallen to 18% in 2022, showing the decreased demand. Additionally, replacement costs won't act as an inflationary pressure in the short to medium term due to less construction activity.

Figure 3: Share of take-up by location



Source: Savills Research

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Return of State leasing activity with approaching net zero targets



Following a period of relative inactivity by State occupiers, we expect this to change in 2023 as they seek to green their portfolio via relocation and retrofit activity. That is because the public sector is expected to lead the way in meeting targets of 50% emissions

reduction by 2030 and full net zero by 2050. This means any new buildings owned and occupied must meet Net Zero Energy Building (NZEB) standards, and larger public bodies are required to complete a building stock retrofit plan by the end of 2023.



844,000
sq ft of take-up
achieved in Q4



Mega tech
expanded headcounts
by 50% since Q4 2019
despite recent job cuts



80%
of space delivered
was in the CBD



Real rents
are 14% lower than
in 2007



29%
of take-up attributed to
financial services firms

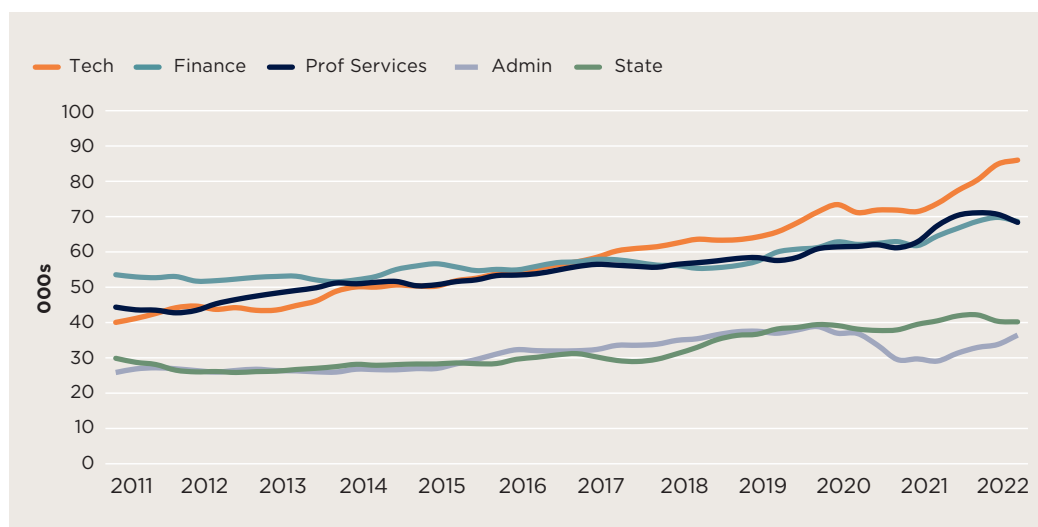
Macro view

Tech company headcounts still far ahead of pre-pandemic levels despite recent job cuts

The jobs market experienced an exceptionally strong performance following the initial sharp drop driven by Covid-19. Ireland's labour market achieved near full employment in 2022, with almost 2.6m people at work. Some 197,000 additional people were employed

since Q4 2019, including 46,900 in Dublin. Jobs which are normally office-based proved the most resilient during the pandemic, with a notable recovery in tech, professional services, and financial roles. These sectors combined added 21,600 roles in Dublin.

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



Source: CSO

The expansion of the tech sector in Dublin over the last decade has been one of the office market's greatest trends. During the pandemic, firms boosted hiring to support expansion plans and take advantage of favourable funding opportunities. However, the unforeseen rapid rise in interest rates has negatively impacted the outlook for the sector. Share price declines throughout 2022 prompted tech firms to review their costs and obligations, resulting in decisions to scale back headcounts. The initial reduction in tech jobs was visible in Q3 2022, with further declines yet to be seen due to the lag in employment data.

While the tech sector has been at the centre of negative job market sentiment, the global net impact is more positive. We excluded Amazon from this analysis due to their high numbers of warehouse workers. Mega tech firms combined increased headcounts by 61%

between Q4 2019 and Q3 2022. When cuts are accounted for, the net impact is an increase of around 50% since the end of 2019.

Inflationary and cost pressures remain strong as we enter 2023, although these are expected to ease towards the latter half of the year. Although more cyclical in nature, tech will wrestle with these challenges alongside many other sectors. It is important to remember that these tech firms still rank as the largest companies in the world in the S&P 500. As inflation eases - and interest rates along with it - this will significantly support a rebound in tech sector valuations. Indeed, in year-to-date terms, all four MAMA companies have seen their share price increase significantly, being up by an average of 29%. Of considerable note, Meta's has increased by 50% since the start of the year.

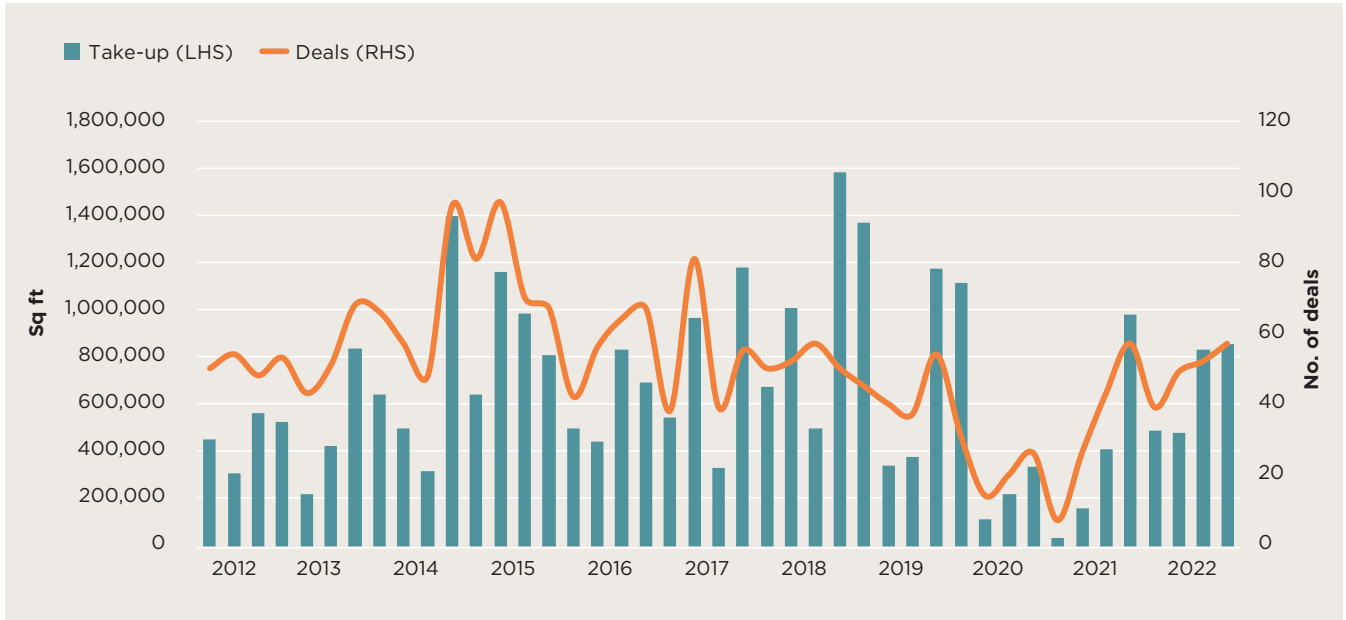
Table 1: Mega tech net jobs movement

	Number of job cuts announced	Change since Q4 2019 net of job cuts announced	
Meta	11,000	31,372	70%
Microsoft	10,000	67,000	47%
Alphabet	12,000	55,900	47%
Total	33,000	154,272	50%

Source: SEC filings

Market activity

Figure 5: Take-up

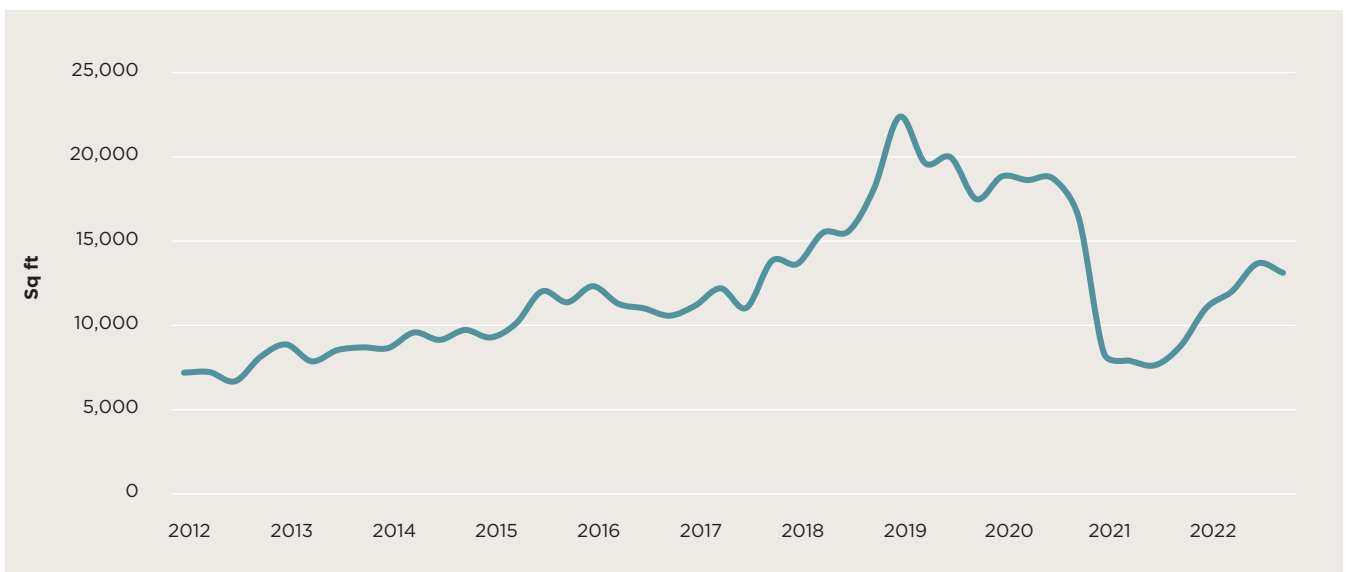


Source: Savills Research

Take-up totalled 844,000 sq ft in Q4, which brought end-of-year volumes to 2.6m sq ft. This represents a 70% increase on full-year volumes in 2021 and is in-line with the five-year average of 2.6m, reflecting the post-pandemic recovery in the market. Furthermore, the number of deals totalled 197, exceeding the five-year average

of 164. The average deal size of 13,000 sq ft marks a substantial recovery from mid-pandemic where it was as low as 3,000 sq ft. Meanwhile, net absorption was positive at 657,000 sq ft in the CBD and 700,000 sq ft across all of Dublin, representing an increase in the amount of space occupied.

Figure 6: Average deal size (4QMA)



Source: Savills Research

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Top deals

Take-up was steady through the year with an increase towards the latter half. The most substantial deal was Citi's acquisition of Waterfront South Central. The deal represents an expansion and upgrade from the current European HQ at 1 North Wall Quay and will see the bank move further east along the docklands upon completion. Another pre-let by A&L Goodbody for 155,000 sq ft at 25 North Wall Quay was the second-largest deal. This site is being redeveloped by IPUT and, like Waterfront South Central, will be an exceptionally high-rated ESG-compliant building.

The third-largest deal was aviation firm SMBC's leasing of the entire of Fitzwilliam 28, with the firm represented by Savills. Although completed in 2021, the building remained unoccupied following Salesforce's takeover of Slack. While quieter than in previous years, tech still featured in the top five. Service Now

completed another pre-let at 60 Dawson, which is due to finish construction this year. Meanwhile, TikTok signed for the entire 83,000 sq ft at the Tropical Fruit Warehouse following a previous commitment to 216,000 sq ft at the nearby Sorting Office on Cardiff Lane at the end of 2021.

155,000 sq ft
pre-let by A&L Goodbody at 25 North Wall Quay was the year's second-largest deal.

Table 2: Top deals

Quarter	Property	Sq ft	Tenant	Sector
Q4	Waterfront South Central, Dublin 1	300,000	Citi	Financial Services
Q3	25 North Wall Quay, Dublin 1	155,000	A&L Goodbody	Professional Services
Q4	Fitzwilliam 28, Dublin 2	135,000	SMBC	Other
Q2	60 Dawson, Dublin 2	88,000	Service Now	Tech
Q3	Tropical Fruit Warehouse, Dublin 2	83,000	TikTok	Tech

Source: Savills Research

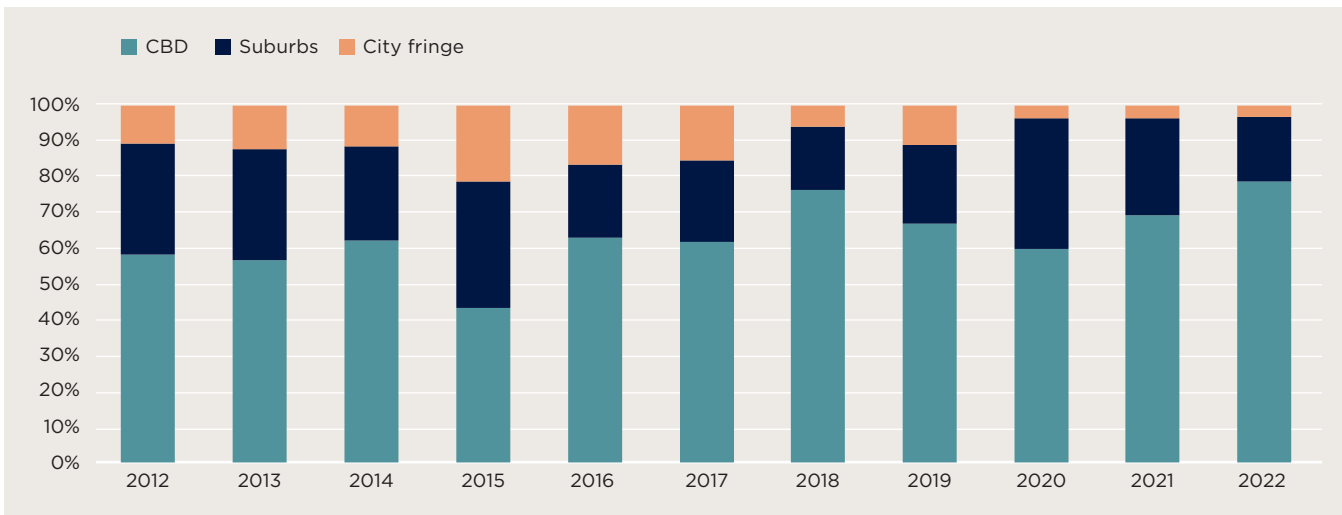


Location analysis

Letting activity has become increasingly concentrated on the city centre. Indeed, all of the top ten deals took place in Dublin 1 and Dublin 2 which boosted the CBD's share of take-up from 69% to 79% over the past year – and significantly above the ten-year average of 62%. The remaining space was split between suburban assets at 18% and city fringe at just 3%. Weighting towards the CBD has grown

consistently since the middle of the pandemic and demonstrates occupier preferences for centrally located offices. The number of deals was spread more broadly across the locations (58% CBD, 36% suburban and 6% city fringe), with the CBD's share of total deals reflective of its larger average deal size compared to suburban or city fringe areas.

Figure 7: Take-up by location



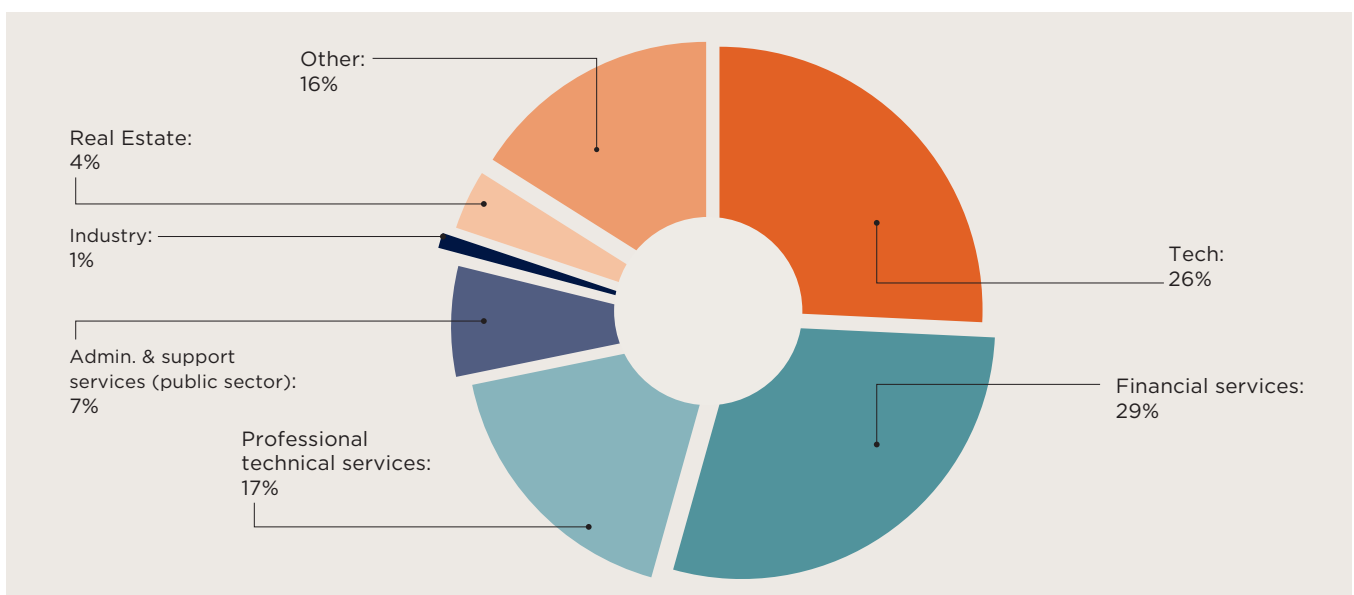
Source: Savills Research

Sectoral analysis

A single financial services deal helped knock tech off the top spot for the largest share of take-up in 2022. Citi's 300,000 sq ft deal led financial services to account for 29% of take-up – well above the five-year average of 10%. Tech was the runner up with 26% of space taken, while professional services accounted for 17%. The recent decline in tech's share of letting activity partly

reflects a challenging comparison against previous mega deals completed as part of expansion plans, as well as an increase in activity from traditional professional services occupiers. Overall, tech deals are taking place at a smaller scale than in previous years, averaging 16,000 sq ft compared to 51,000 sq ft in 2019, albeit the sector remains active.

Figure 8: Take-up by sector



Source: Savills Research



Tropical Fruit Warehouse, Dublin 2

Supply and rents

Significant delivery of space has been achieved after 2.8m sq ft was completed across 21 properties in 2022. There was a clear bias towards the CBD where 80% of space was delivered, with the remainder split between the city fringe at 16% and the suburbs at just 3%. The average delivery size was significant at 130,000 sq ft due

to ten properties measuring over 100,000 sq ft. The largest delivery of the year was Spencer Place, or the Salesforce HQ, which was pre-let to Salesforce in 2019. This was followed by the 366,000 sq ft front blocks of Fibonacci Square, pre-let to Meta, and 218,000 sq ft at Google's Bolands Quay development.

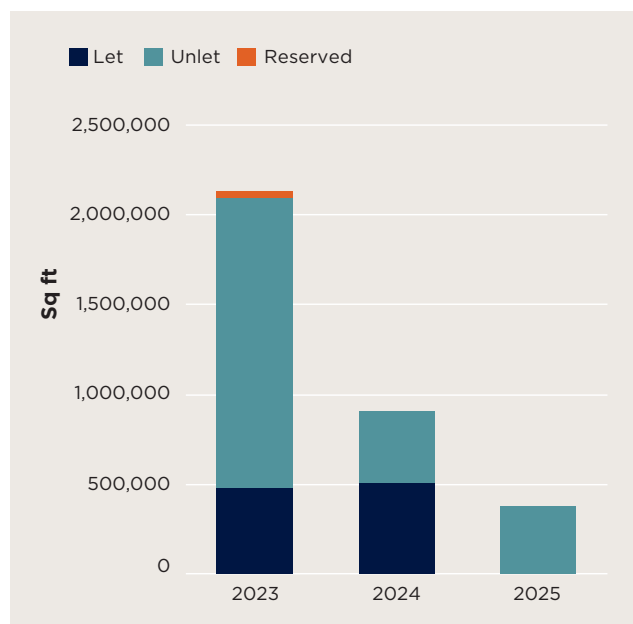
Table 3: Top five completions

Quarter	Property	Sq ft	Submarket	Type
Q1	Spencer Place, Dublin 1	430,000	CBD	New Build
Q4	Fibonacci Square, Dublin 4	366,000	CBD	New Build
Q2	Bolands Quay, Dublin 4	218,000	CBD	New Build
Q4	Charlemont Square Block 1, Dublin 2	183,000	CBD	New Build
Q3	The Distillers Building, Dublin 7	179,000	City Fringe	New Build

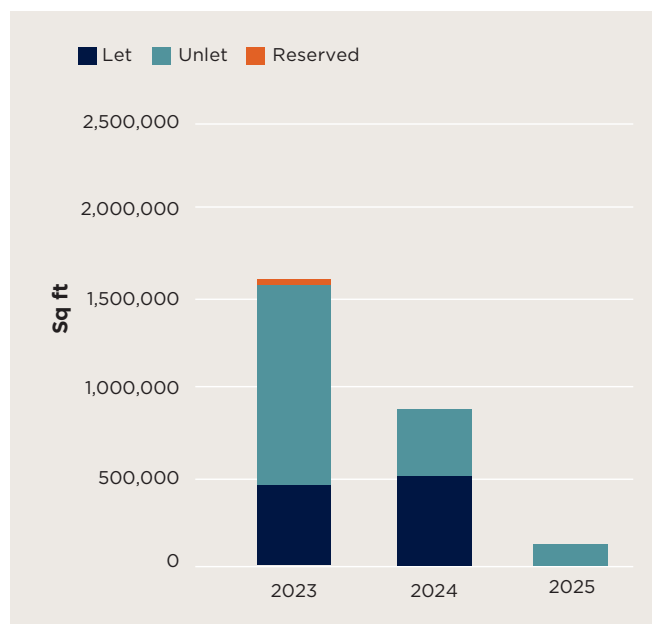
Source: Savills Research

Significant deliveries expected this year include the remaining blocks at LinkedIn's Wilton Park campus including two blocks which are available to sublet, The Shipping Office and Boston Sidings. Looking ahead, there is 2.1m sq ft on-site and expected to complete in 2023 at a pre-let rate of

23% and another 1% reserved. A further 890,000 sq ft is set for delivery in 2024, of which 56% is already let and none reserved. Additionally, KPMG's Harcourt Square has since started construction, which will be delivered in 2026, bringing total on-site volumes to 3.7m sq ft.

Figure 9: Dublin on-site pipeline


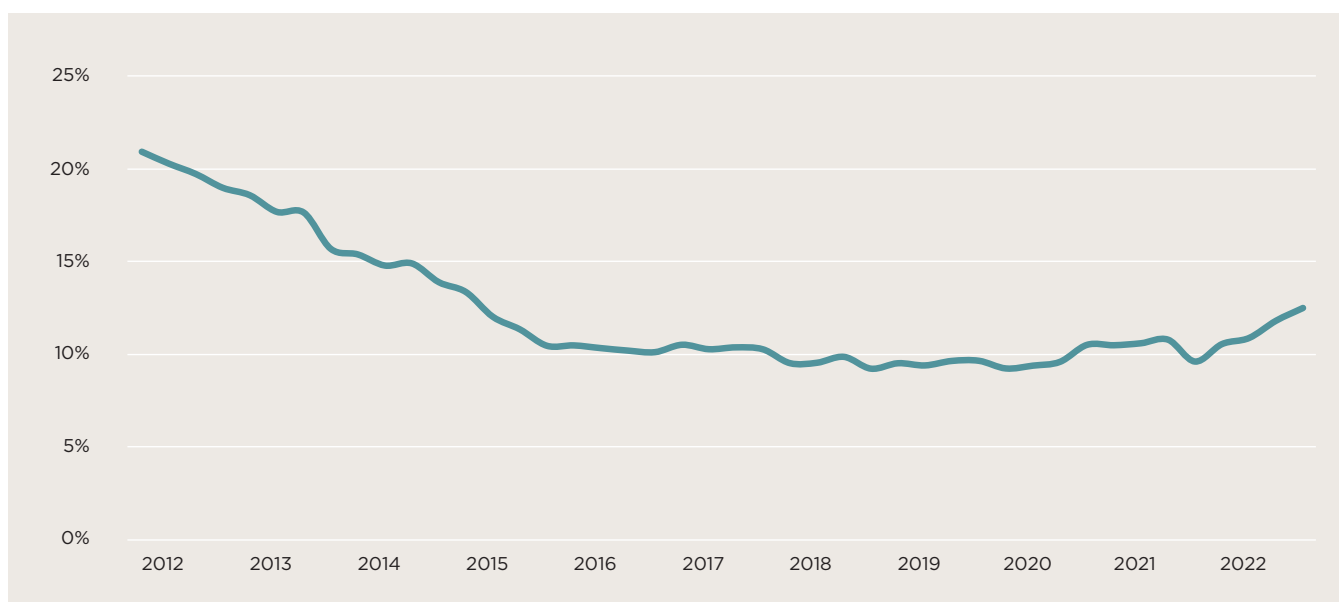
Source: Savills Research

Figure 10: CBD on-site pipeline


Source: Savills Research

Shadow space has been influential on the market and was most evident in the latter half of the year. While 375,000 sq ft of direct space was added to the market in Q4, another 545,000 sq ft of shadow

space became available. We previously completed an in-depth analysis in our Q3 report. The combination of vacant new construction and sublease space pushed vacancy to 12.5% and 11.8% in the CBD.

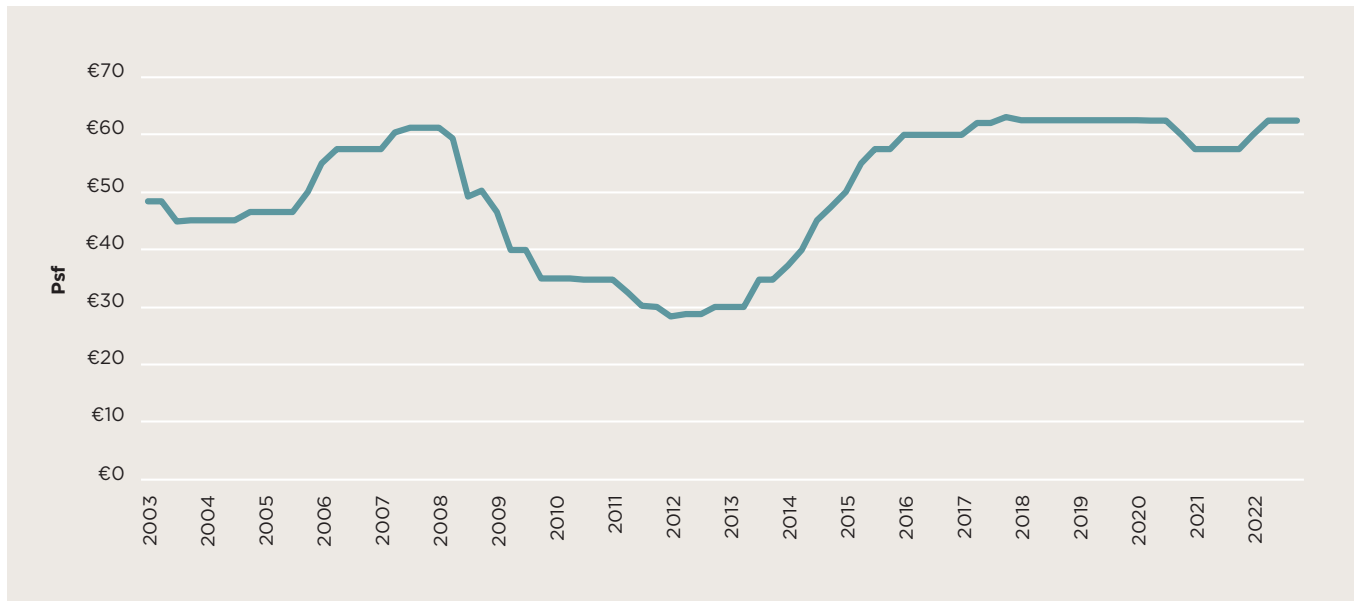
Figure 11: Vacancy rate


Source: Savills Research

Rental inflation has been driven by competition for stock with strong energy accreditations in prime locations. As of end Q4, rents remained at €62.50 in the CBD and €29.00 in the suburbs. Given occupier preference for the CBD, it is likely that suburban rents will continue to come under downward pressure in 2023 amid slackening demand for these assets. The release of smaller sublease

floorplates in the CBD has created a market for occupiers looking for high-quality city centre space, without the cost of a fit-out because much of this space often retains the tenant fit-out. Given current economic volatility, occupiers are more likely to commit to smaller spaces on shorter leases, and expand as necessary rather than take larger spaces while uncertain about the future.

Figure 12: Prime CBD office rents

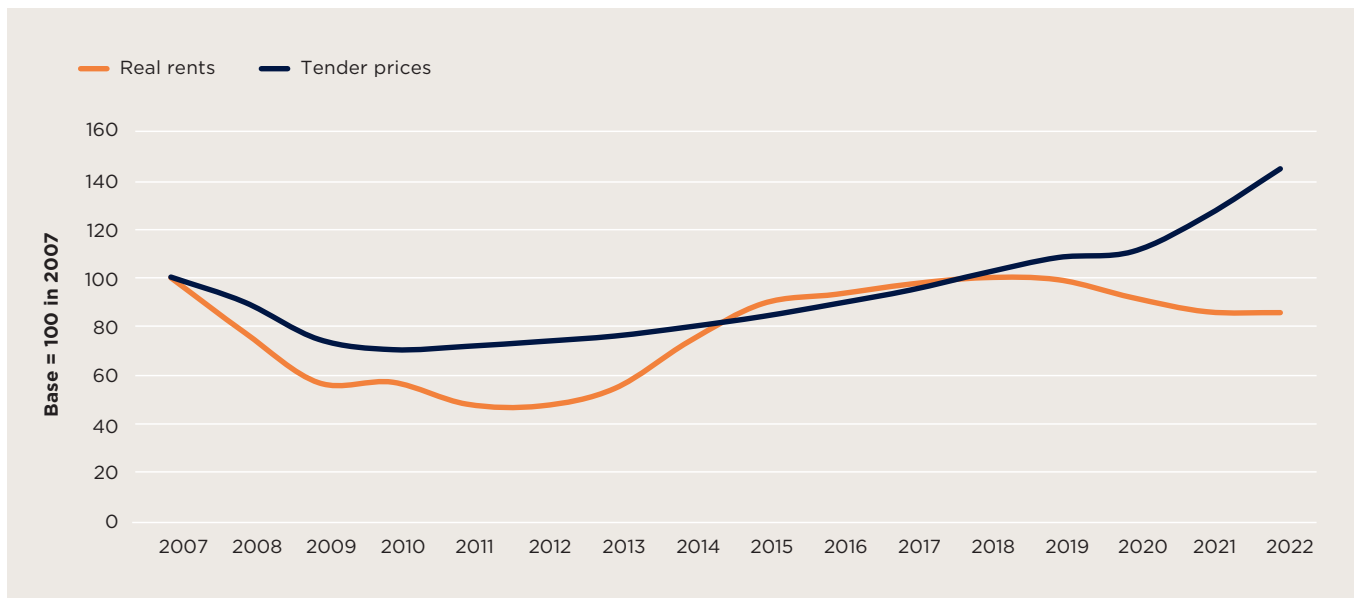


Source: Savills Research

Although headline rents of €62.50 are in line with the levels achieved in 2007, they are 14% lower in real terms, the equivalent of €53.50 in 2007 prices. The cost of construction, as demonstrated by the SCSi tender price index, has accelerated at a much faster pace in recent years and is now 45% higher than in 2007. It is important to note that this increase in costs is a contributor to

the amount of space going on site, thus impacting volumes of office space in the pipeline. Additionally, given the impacts of macroeconomic factors, the difference in nominal and real rents has arisen in the past 12 months. The cut in real rents should be acknowledged in relation to the discussion on rental movements over the next year.

Figure 13: Real rents vs tender prices



Source: Savills Research, SCSi

“ The cut in real rents should be acknowledged in relation to the discussion on rental movements over the next year. ”

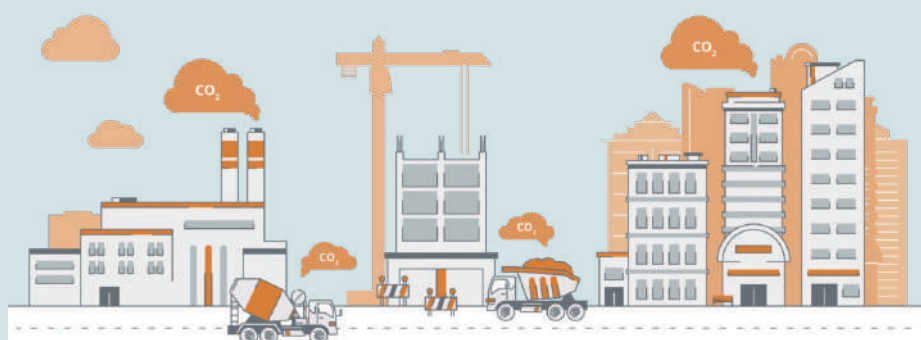
The growing importance of embodied carbon

Embodied carbon is becoming increasingly crucial as offices' operational efficiency has improved. It includes the carbon emissions created during the making and transporting of building materials, as well as the construction of the physical structure and subsequent removal and disposal at the end of the building's lifecycle.

Embodied carbon is especially relevant given the construction industry's contribution to carbon emissions

and the approaching deadlines for emissions cuts and net zero targets by 2030 and 2050, respectively. Operational efficiency has been addressed by a number of measures and ESG accreditations, including European Union rules which require all new buildings constructed post-2020 to be in line with NZEB regulations. The more improvements made to operational efficiency, the larger share that embodied carbon accounts for across a building's lifecycle carbon emissions.

Figure 14: Types of carbon in buildings



Embodied Carbon

The emissions from manufacturing, transportation, and installation of building materials.

Operational Carbon

The emissions from a building's energy consumption.

Source: Carbon Cure

One method of reducing embodied carbon is to choose low-carbon materials. Steel, concrete and aluminium contribute 23% to global CO2 emissions, according to Architecture 2030. By switching to materials that have been designed to lower carbon emissions, the overall embodied carbon levels are reduced. The most significant method for addressing embodied carbon is to preserve existing buildings; the retention and reuse of a structure greatly avoids the additional emissions associated with demolition and redevelopment. Investors and funds are recognising that the avoidance of additional carbon trumps the restrictions of retaining the original structure in a redevelopment and adding a modest extension can be done to increase floor space. This is becoming

widely recognised as best practice, with examples in Dublin including 15 George's Quay and 25 North Wall Quay.

Dublin City Council's current development plan 2022 – 2028 requires robust justification for demolition and reconstruction works. The plan states that the re-use of existing buildings should always be considered as a first option ahead of demolition and new building. While this is certainly a preferred option, consideration for a site must take account of best and most efficient use. In some cases, it will make sense to replace the building to significantly increase scale and/or enhance efficiency, rather than reusing and extending a building which is clearly unfit for continued use.



25 North Wall Quay, Dublin 1

*Image courtesy of IPUT Real Estate Dublin

Outlook

The market is entering 2023 during an uncertain macroeconomic period with challenging times expected during the first half of the year. There is optimism that inflation will continue to slow, particularly in the second half of the year. Forecasters believe inflation has peaked and elevated cost pressures are expected to ease, especially in relation to energy.

The office market dynamics shifted in terms of vacancy with increased sublease space, particularly from tech firms. While these newer additions to the shadow market of ESG-rated stock with longer leases may compete with vacant landlord stock, there are constraints such as tripartite negotiations.

In the debate about rents, it is important for agents and landlords to note the cut in real terms that has emerged in the past 12 months. The notable 14% decline in real rents compared to the significant increases in costs, combined with continued take-up preference for the city centre, will maintain rental levels for prime CBD stock. Meanwhile, the outlook is tilted to the downside for suburban assets as replacement costs are less likely to act as an inflationary pressure in the short to medium term due to the lower levels of construction activity.

Tech firms boosted hiring during the pandemic amid a surge in demand for online services, but record-high inflation after lockdown restrictions were lifted altered the outlook for the sector. Central banks raised interest rates to address spiralling prices, eroding tech stock values in the process. The good news is tech is more cyclical in nature than other sectors and Dublin is distinctive in its position as the home of many global tech occupiers, and all four MAMA companies. Despite the headwinds, MAMA firms remain the largest companies globally and are best placed to see the strongest revival. Indeed, market capitalisation across all MAMA firms is over 30% higher on average compared to pre-pandemic.

In the meantime, deadlines for the State's ESG agenda and carbon emissions reductions are growing ever closer. The public sector is expected to lead the way on carbon emissions targets, promoting market activity through substantial retrofits or upgrading of buildings to NZEB standards. ESG will continue to be a primary focus for tenants and landlords alike, with embodied carbon being brought to investors' attention in an attempt to reduce overall carbon emissions.

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