

Dublin Office Market





**Bankruptcies
down 12.6%**
on long-run average



Tech firms
are on a hiring spree,
buoyed by the rapid growth
in their market valuations



396,000 sq ft
of take-up in Q3

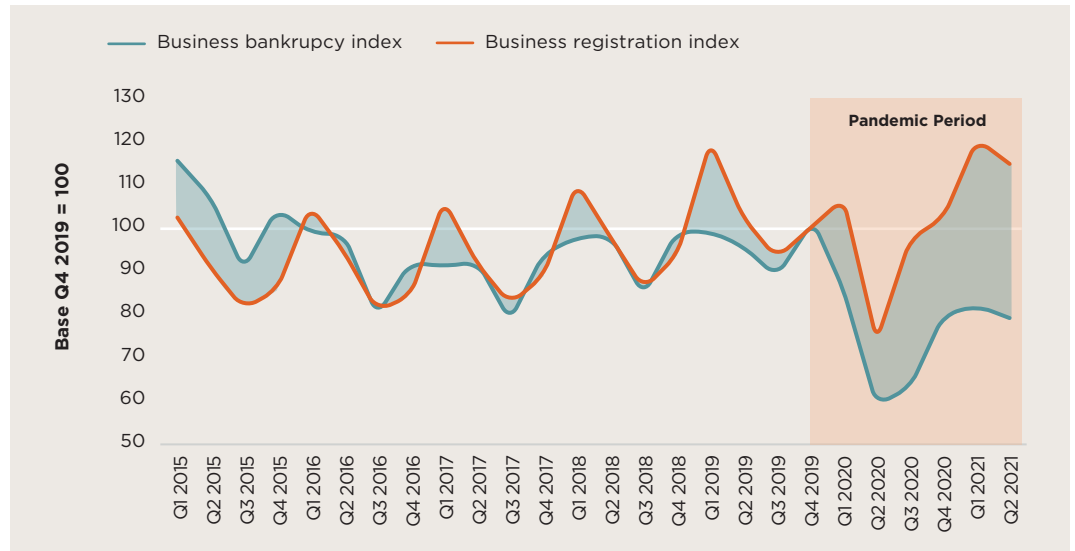


31%
of take-up was by
professional services firms

Macro view

While the rising risk from zombie firms creates uncertainty in the post-pandemic business environment, growth in tech-based employment should provide a boost to Dublin's office market.

Figure 1: Euro area business bankruptcy and registration index



Source: Eurostat, Savills Research

🔗 **The unprecedented fiscal and monetary policy support in the wake of the Covid-19 pandemic has brought to the fore concerns that cheap credit could fuel the financing of zombie firms.** 🔗

We investigate how zombie companies and tech employment during the pandemic period might impact Dublin's employment base in 2022 and beyond.

Zombie companies

Ireland's robust economic performance during the pandemic period wouldn't have been possible without the unprecedented and coordinated intervention by governments and central banks. While this policy support in the wake of the pandemic has kept many otherwise healthy firms afloat, there are concerns that cheap credit could also be financing zombie firms. These are firms that aren't generating enough revenue to cover debts. In their attempts to survive, they may crowd out lending to productive firms, quashing the potential for future growth in the economy. Allowing unproductive companies to fail is a crucial part of the process of creative destruction; the death of new firms makes way for healthy newcomers and this allows an economy to remain innovative.

There have been suggestions that these indebted firms have grown more prevalent since the financial crisis due to the availability of cheap credit. However, the pandemic has likely exacerbated the situation. Figure 1 shows the level of business registrations and

bankruptcies since 2015. The flow of bankruptcies and registrations of new businesses was relatively balanced up until Q4 2019, although there already were some signs of divergence as registrations trended upwards and bankruptcies trended downwards over the preceding five years. When the full effects of the pandemic hit this divergence accelerated and bankruptcies fell to record lows and continue to remain below the historic average. In contrast, business registrations quickly rebounded and are now at period highs – the opposite of what conventional wisdom would dictate. The safety net of government supports, designed to mitigate the worst financial effects of the pandemic, has led to a clear divergence in the two indices, widening their spread.

When the pandemic draws to a close, governments are expected to phase out pandemic era supports, while the ECB faces pressure to respond to accelerating inflation with possible interest rate hikes. Rising interest rates would increase the cost of servicing debts. Without government supports and increased debt servicing costs, zombie firms will struggle to survive. This could have a knock-on impact to the wider business-sector impacting confidence and trading conditions.

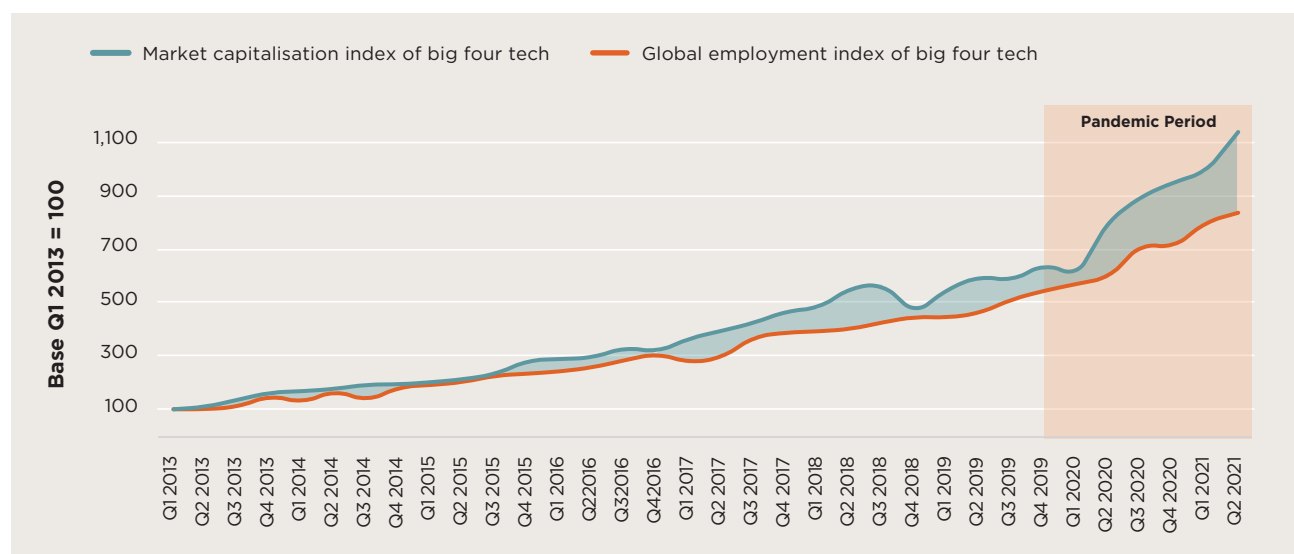
The full presence of these zombie companies will remain obscured until government supports are phased out and credit conditions tighten. Some sectors are more likely than others to see this turmoil. The pandemic has undeniably impacted sectors differently, with firms in the transport, tourism and retail being hit the hardest.

This turbulence may have negative ramifications for office demand, particularly from small and medium-sized enterprises. However, the Irish office market is well placed to handle any turmoil in the medium-term. As highlighted in the market activity section of the report below, there is

significant pent-up demand in the office market with strong growth in active requirements. Crucially, Dublin's tech-focused occupier market is thriving and has had little need for state supports. The pandemic has accelerated the pre-existing trend of digital and online adoption benefiting international tech firms, whose valuations have soared since the start of the pandemic and which account for the bulk of demand in the office market.

There also appears to be little evidence of Irish start-ups being crowded out of financing opportunities by more sluggish firms.

Figure 2: Relationship between valuations and employment in the big four tech (Alphabet, Amazon, Microsoft/LinkedIn, Meta)



Source: SEC, Yahoo Finance, Savills Research

Recent strong tech market capitalisation growth suggests office employment will follow.

The link between market capitalisation and employment

The tech sector's soaring market capitalisation raises the question, how will this impact employment in Dublin's office sector?

Figure 2 shows the long-term relationship between the valuation of the big four tech companies active in Dublin (Alphabet, Amazon, Microsoft/LinkedIn and Meta) combined with their global employment. Historically, it shows a clear relationship between expanding market capitalisations and corresponding increases in headcount. This is of course what one would expect, given that bigger companies need more people to run them. This relationship is likely to be even stronger in tech firms than in other sectors, as large tech firms historically pay very little or no dividends, preferring to reinvest in operations and fund new initiatives.

As a hub of global importance for these companies, Dublin has seen sustained employment growth by these tech companies over the past decade, who have been a key source of office demand in Dublin over the period. Importantly, they have performed incredibly strongly since the onset of the pandemic and have seen their value double over the period on the back of strong revenue growth.

Facebook's revenue grew by 35% year-on-year to \$29 billion in Q3. Apple's revenue increased 29% in the same period, Amazon's was up by 15%, Microsoft by 22% while Alphabet increased by 41%. Each of these firms was already dominant in their respective fields, and they have continued to consolidate their positions during the pandemic.

In addition to increased current revenue, their present value of future growth opportunities increased as a result of digital trends accelerated by the pandemic. In order to crystallise these future opportunities, these companies need to hire workers to execute on this vision. The graph above shows that while the market capitalisations of the big four tech companies have more than doubled since the pandemic, employment increased by 47% over the same period. While the latter represents strong growth, it is well behind the growth in value.

Tech occupiers
account for on average 50% of take-up in the city

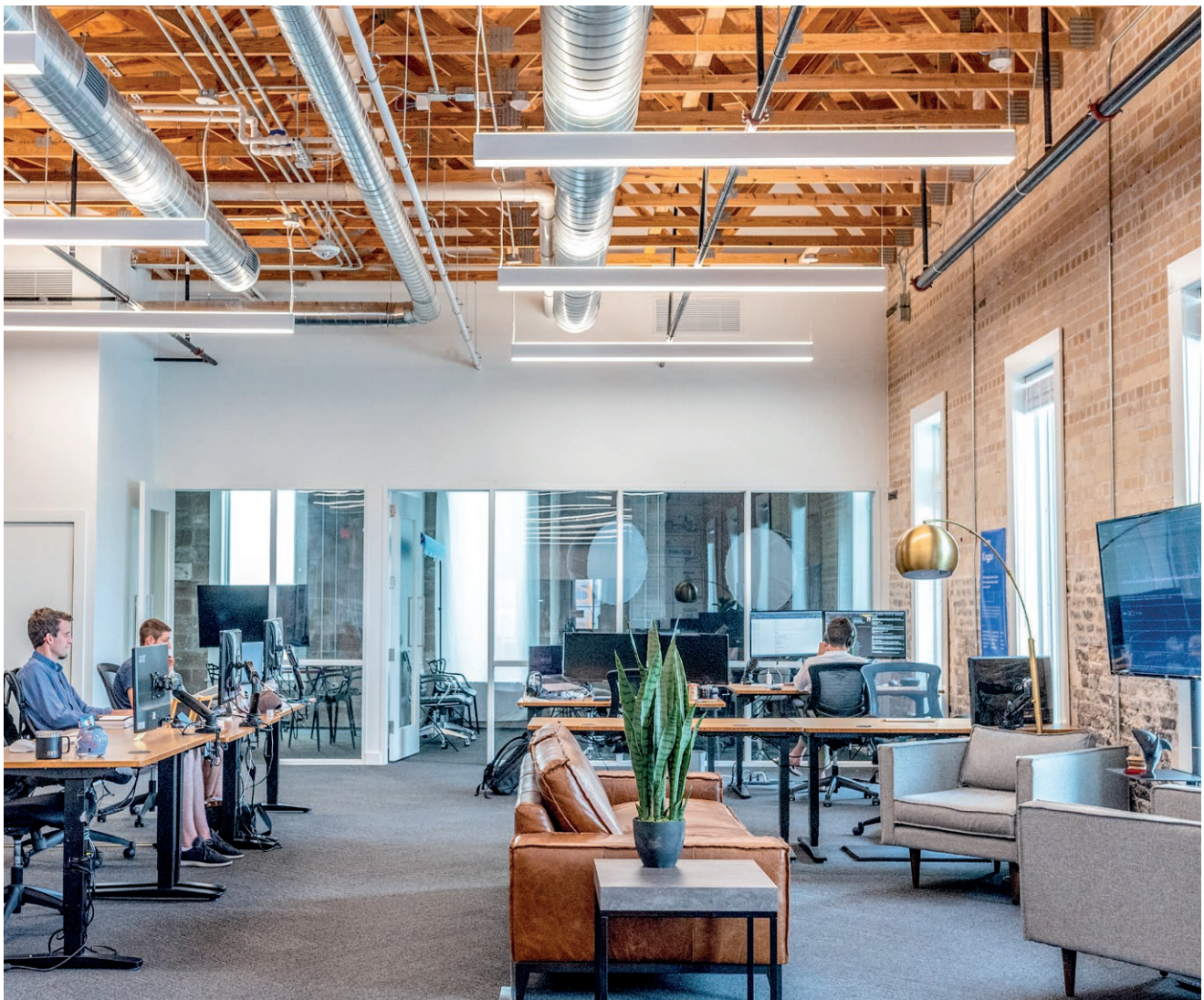
Hiring people can be a slow process relative to the rapid increase in stock market expectations, which is why we have seen the gap open up between valuations and employment. This lag will close over time as hiring is completed and one can expect Dublin to be a key hub in this regard, providing a tailwind to the office market in the coming years.

55,000

additional workers globally in corporate and tech roles planned by Amazon's new CEO

In recent months, we have seen many tech firms outline new employment initiatives on the back of strong market sentiment. Andy Jassy, Amazon's new CEO, has put forward plans to hire an additional 55,000 workers globally in corporate and tech roles. This hiring spree is needed to keep up with the incredible demand in their growing cloud and e-commerce businesses, but also to help launch their new internet satellite business, Project Kuiper. Simultaneously Meta recently announced the creation of 10,000 jobs in the European Union over the next five years, as the company seeks to build its next generation metaverse. Strategic decisions are not possible without jobs markets like Dublin, which have the skills to implement it.

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Market activity

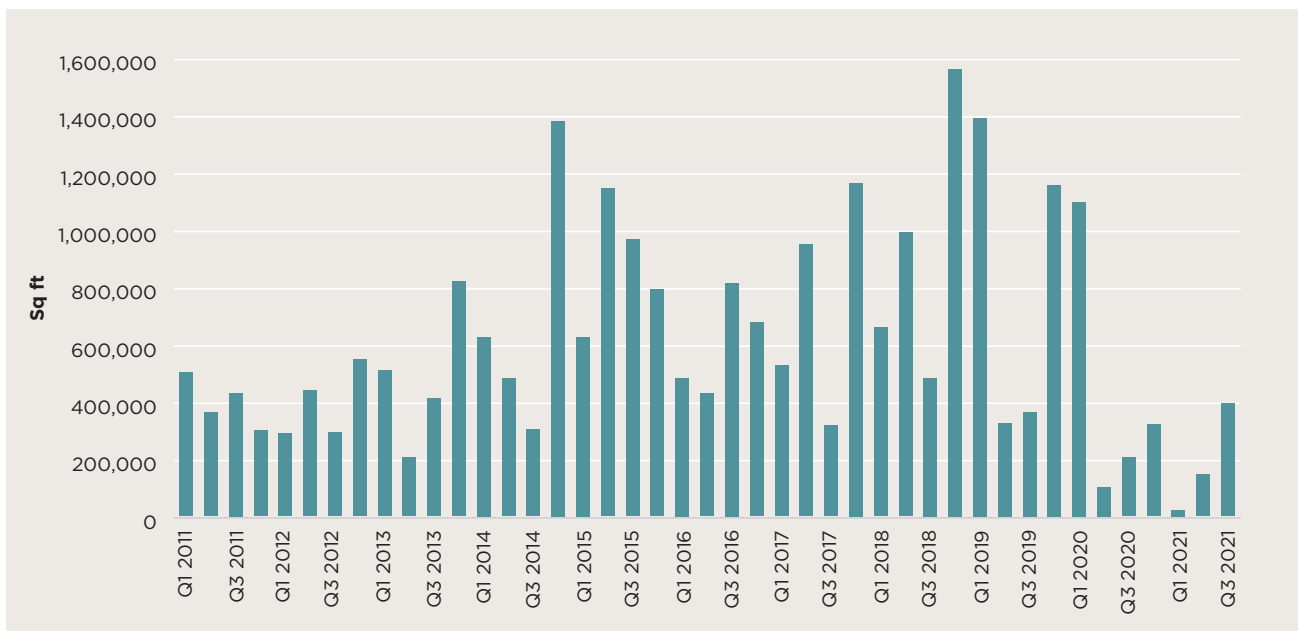
After a weak H1, the transactional evidence in Q3 has been very encouraging for the office market. Weekly viewing tallies throughout have been higher than at any stage in 2019, representing a clear pent-up of demand across the market. Most notably, however, this quarter saw the emergence of three new requirements above 100,000 sq ft, illustrating that the demand for office space among larger occupiers remains strong.

Take-up reached 396,000 sq ft in Q3 with a total of 43 deals transacting bringing year-to-date take-up to 566,000 sq ft. While this is well below the long-term average of 668,000 sq ft per quarter, it represents a marked improvement on the 23,000 and 147,000 sq ft taken in Q1 and Q2 respectively. Notably,

there was 1.1 million sq ft of stock reserved in Q3, 22% more than the 900,000 sq ft reserved at the end of Q2. The growth of stock reserved while keeping pace with take-up is indicative of a healthy office market.

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Figure 3: Take-up



Source: Savills Research

In terms of take-up by sector, professional services firms made-up the largest share of take-up at 31% and accounted for three of the top five deals. Tech firms remained relatively inactive with a low share of take-up accounting for 23%, down on a five-year average of 50%. However, there are several large deals close to completion and new enquiries emerging that could significantly improve tech's standing. Indeed, one large deal set to sign imminently would completely change this quarter's narrative, demonstrating the impact that large tech companies have on the market. Financial services accounted for 16% of space taken, representing an increase of 10% on Q2.

Notably, tech firms signed more space in the CBD than in the suburbs, highlighting the continued preference this sector has for the location. In the financial services sector this quarter, the move by BNP Paribas to Dublin 18 was more than all five of the deals completed by the same sector in the CBD combined. However, we expect the CBD to continue to be the main focus of take-up in the future, as large corporates continue to concentrate their attention on existing prime locations, with all the amenities that the city centre offers.

👉 Notably, tech firms signed more space in the CBD than in the suburbs, highlighting the continued preference this sector has for city centre properties. 👉

Take-up in the CBD and the suburbs was almost equal, with take-up at 50% and 49%, respectively. The suburban rate is relatively high for the sub-market, with the 22% of reserved stock more typical for the market. The city fringe accounted for just 1% of take-up across two deals.

Once again, Dublin 2 accounted for the majority of city centre take-up with 148,000 sq ft signed, compared to the 48,000 sq ft signed in Dublin 4, while there was no take-up in Dublin 1. In the

suburbs, Dublin 18 rebounded significantly with 146,000 sq ft signed accounting for 37% of take-up after falling to just 4% last quarter.

37%
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Top deals

The BNP Paribas leasing of 37,000 sq ft at Termini, located in the Sandyford Business District, was the largest transaction of the year so far. The quoted rent for the transaction was €35 per sq ft for a long-term lease. This move from the CBD to the suburbs appears to be part of the bank's flexible working model. The second-largest transaction of the quarter was professional services giant Accenture's 31,000 sq ft transaction in Building 10, Cherrywood Business Park, further complementing its headquarters in Grand Canal Square. With this letting, Accenture now occupies 70,000 sq ft of space across two buildings in Cherrywood with a capacity for 700 workers.

Global legal firm, DLA Piper's expansion into 40 Molesworth Street was the third-largest transaction of the quarter and the

largest in the CBD. The transaction for 30,000 sq ft over six floors allows the firm to expand their operations in Ireland over the coming years.

The state agency responsible for supporting and promoting Irish food at home and abroad, Bord Bia, acquired 27,500 sq ft of space in Ballsbridge, Dublin 4. Its new lease of 140 Pembroke Road was required as the redevelopment of its current location in Clanwilliam Court meant that Bord Bia was unable to renew its current lease. The new office will act as a destination office, with greater event space to highlight local and global consumer trends when the property is occupied in December.

Table 1: Top deals

Property	Sq ft	Tenant	Sector
Termini, 3 Arkle Road, Sandyford, Dublin 18	37,200	BNP Paribas	Financial Services
Building 10, Cherrywood Business Park, Co. Dublin	31,000	Accenture	Professional Services
40 Molesworth Street, Dublin 2	29,700	DLA Piper	Professional Services
140 Pembroke Road, Ballsbridge, Dublin 4	27,500	Bord Bia	Public Sector
Block G, One Central Park, Sandyford, Dublin 18	22,100	MarketStar	Professional Services

Supply

Q3 saw seven completions take place in the quarter, giving a total of 242,000 sq ft. The largest of these was The Eight Building which is situated in Dublin 8's Newmarket Square. The grade A office has 81,000 sq ft of space of which 24,000 sq ft is currently committed. After construction disruption at the beginning of the year, we are forecasting a total of 1.95 million sq ft of space to complete in 2021, 80% of which is currently let. Much of this is expected to complete in Q4 with 16 properties totalling 1.2 million sq ft. This includes the delivery of three significant office developments for a total of 900,000 sq ft, all of which are fully committed. These are the new ESB Headquarters at Lower Fitzwilliam Street, Dublin 2, Bolands Quay, Dublin 4 and Spencer Place, Dublin 1.

We are forecasting delivery of new stock to increase to 2.3 million sq ft next year, with 58% of this space currently taken.

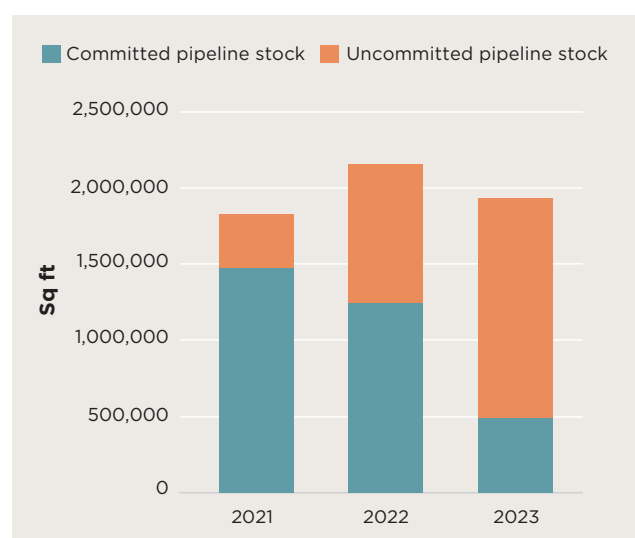
In 2023 we currently expect to 2.1 million sq ft to complete of which 25% is already committed.

Rents

By and large, headline rents have held firm as the flight to quality among occupiers becomes more evident. Occupiers are increasingly focused on leasing stock that meets their ESG requirements.

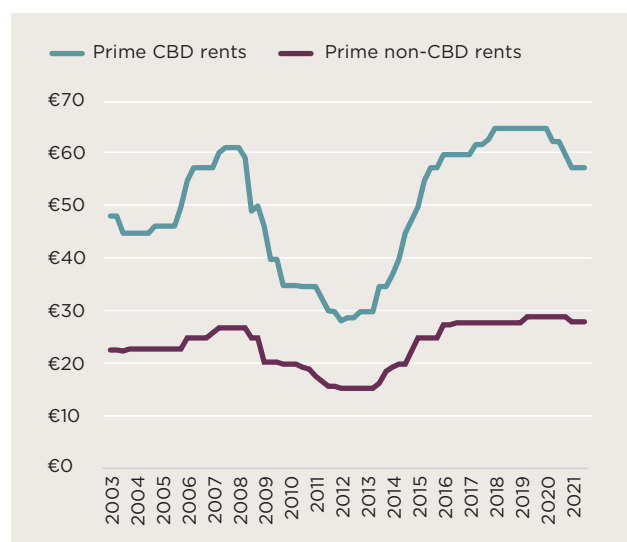
With take-up remaining at relatively low levels in the year-to-date, there's limited transactional evidence to use in the analysis of prime rents. Landlords continue to push to maintain headline rents in favour of adjusting incentives. Indeed, although there were more transactions in Q3, prime rents have remained steady at €57.50 psf in the CBD and €28.00 psf in the suburbs. In the secondary market, rents also sit steady at €47.50 psf in the CBD and €15.00 psf in the suburbs.

Figure 4: Construction pipeline



Source: Savills Research

Figure 5: Benchmark rents



Source: Savills Research



Savills team

Please contact us for further information



Andrew Cunningham
Director, Head of Offices
+353 (0) 1 618 1720
andrew.cunningham@savills.ie



Roland O'Connell
Director, Office Agency
+353 (0) 1 618 1315
roland.oconnell@savills.ie



Shane Duffy
Director, Office Agency
+353 (0) 1 618 1351
shane.duffy@savills.ie



Michael Healy
Director, Office Agency
+353 (0) 1 618 1367
michael.healy@savills.ie



John Ring
Director, Research
+353 (0) 1 618 1431
john.ring@savills.ie



Alex Norwood
Senior Research Analyst
+353 (0) 1 618 1466
alex.norwood@savills.ie