

Dublin Office Market

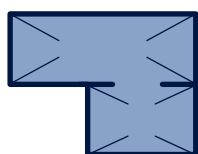
savills





Employment

to continue
to expand



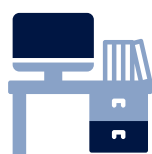
823,000

sq ft of take-up
achieved in Q3



>80%

CBD share of take-up for
four consecutive quarters



33%

of take-up attributed to
professional services firms



24%

of vacancy is available by
sublease or assignment

Macro view

The pandemic presented a unique challenge for the office market. However, white-collar hiring continued at strength, particularly for tech firms who took on a net additional 18,200 persons between Q4 2019 and Q2 2022. This contributed

largely to the 8.4% growth in Dublin's normally office-based employment over the period, with all sectors growing bar administrative roles. Excluding the latter, employment grew by 16.7% over the period.

Table 1: Dublin office-based employment

Sector	Change since Q4 2019	
Tech	18,200	25.1%
Finance, Insurance, Real Estate	9,900	16.6%
Professional Services	4,500	7.2%
Admin and Support Services	-4,800	-11.9%
Public Admin	-4,600	-11.4%
Total	23,200	8.4%
Total excluding Admin	32,600	16.7%

Source: CSO

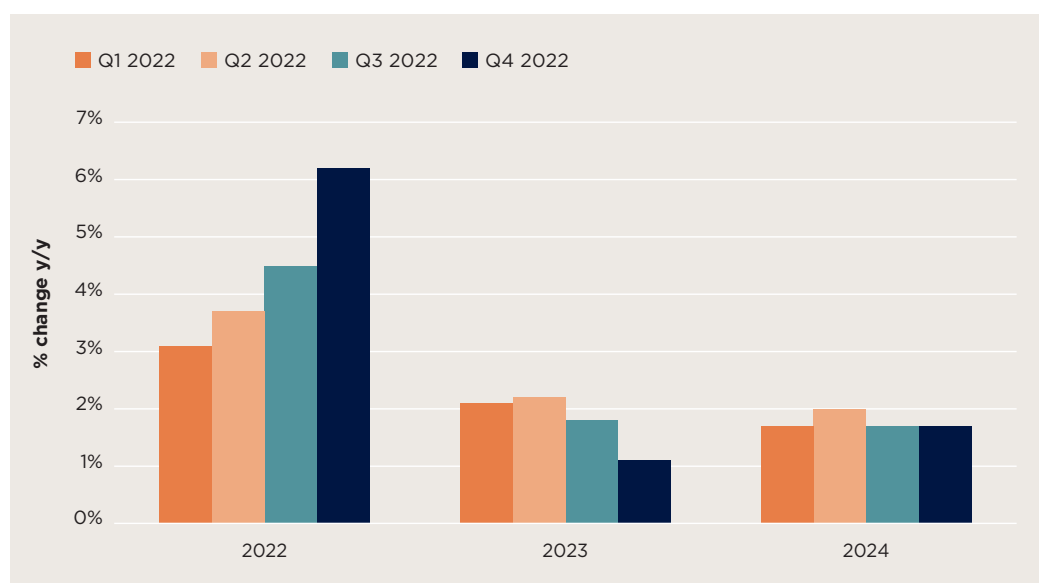
The lag in employment data from the CSO doesn't account for more recent changes in sentiment as seen in global corporate hiring pauses and team restructurings. This negativity is mostly stemming from tech firms, who now say they overhired during the pandemic.

Despite the dampened sentiment, employment growth is still projected to be in positive territory in Ireland up to 2024. In its Q4 outlook, the Central Bank of Ireland significantly upwardly revised

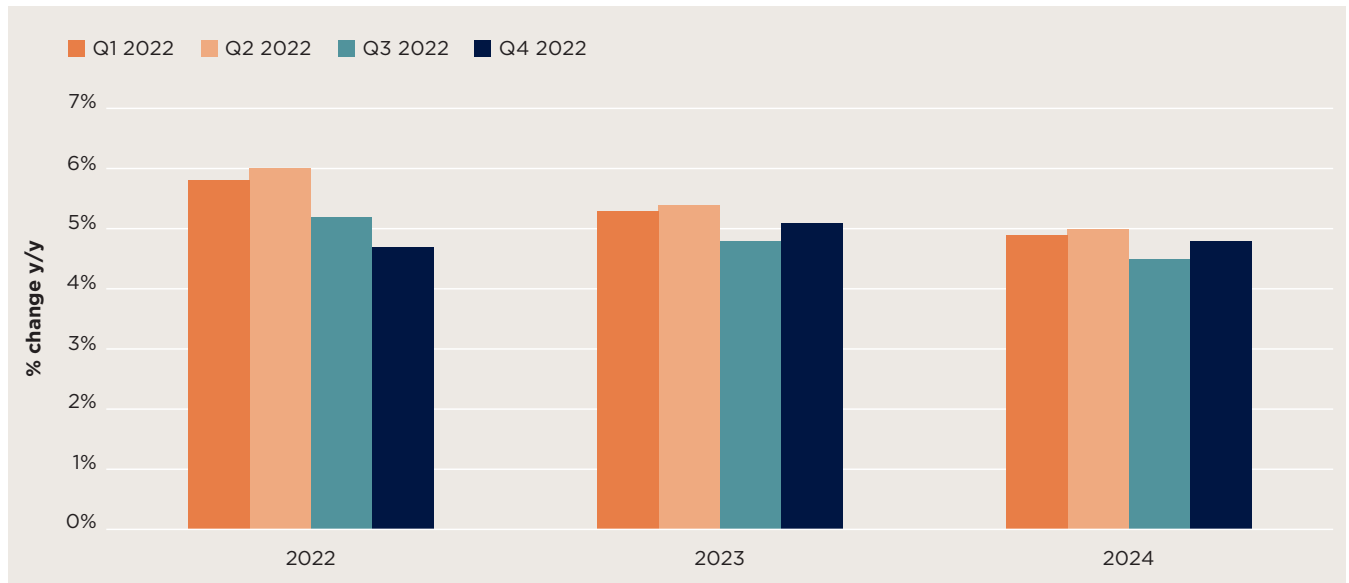
employment growth for 2022 to 6.2%, up from 4.5% in Q3. Meanwhile, the revision for 2023 was downward from 1.8% to 1.1% while the outlook for 2024 was unchanged at 1.7%.

Unemployment is now forecast to be 4.7% for 2022, representing a level at, or close to, full-employment. Next year, it is expected to slightly tick-up to 5.1%, before falling again to 4.8% 2024. These forecasts remain below the five-year average unemployment rate of 5.9%.

Figure 1: CBol employment growth forecasts



Source: CBol

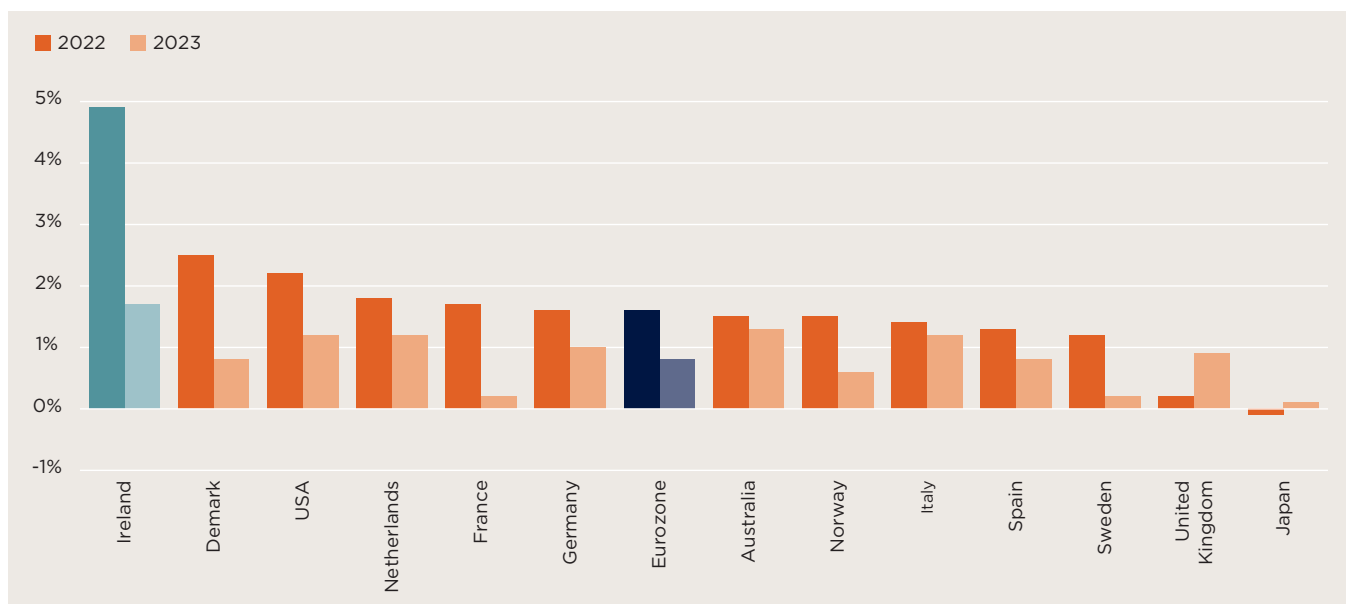
Figure 2: Unemployment rate forecasts

Source: CBoI

👉 Despite the dampened sentiment, employment growth is still projected to be in positive territory in Ireland up to 2024. 👉

Global growth and inflation have been impacted by the war in Ukraine, negatively affecting business and consumption. The employment market has been tight across many countries following an economic bounce back after the pandemic. This recovery has been uneven across different countries with employment rates in some areas remaining below the level seen prior to the pandemic. The OECD's outlook for Ireland, released in September, is more in line with the Q3 CBoI

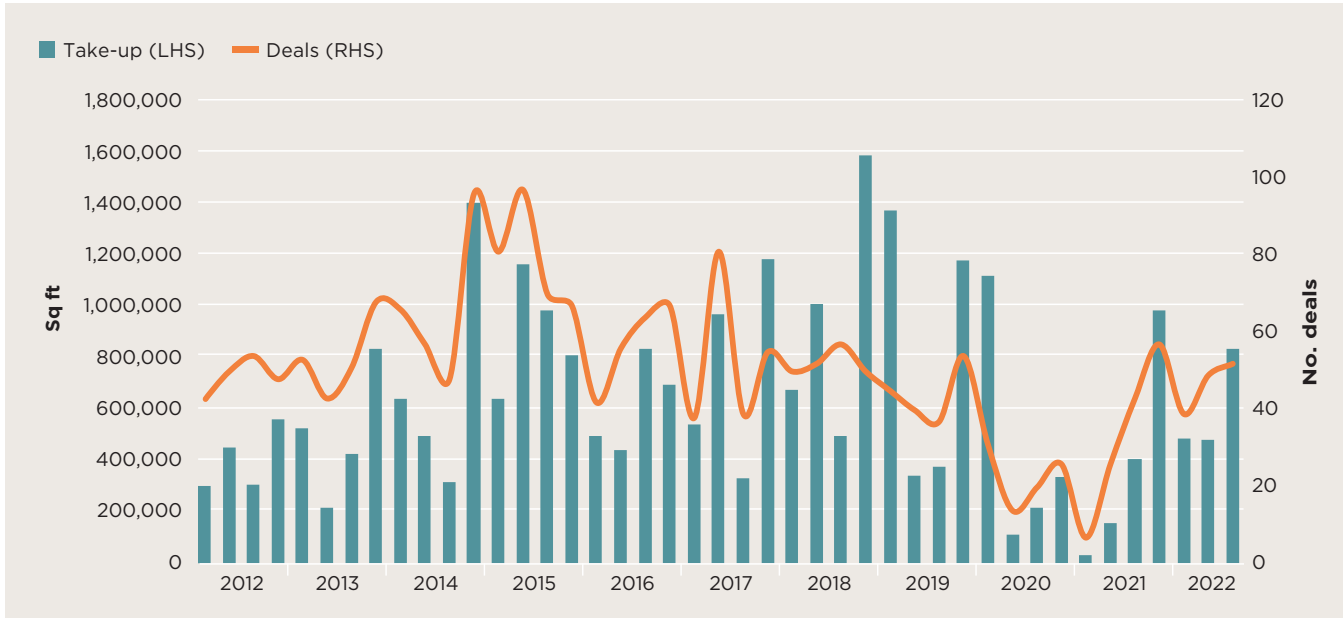
forecast, with 4.9% employment growth forecast for 2022 and 1.7% for 2023. Comparing this to other OECD nations, while growth will slow, Ireland is still projected to have one of the higher rates of growth in 2023 and the highest of the euro area. This reflects the similarly positive GDP forecasts where Ireland is also expected to have the strongest performance of the euro area, and provides encouraging signs amid the challenging economic situation.

Figure 3: OECD employment growth forecasts

Source: OECD

Market activity

Figure 4: Take-up

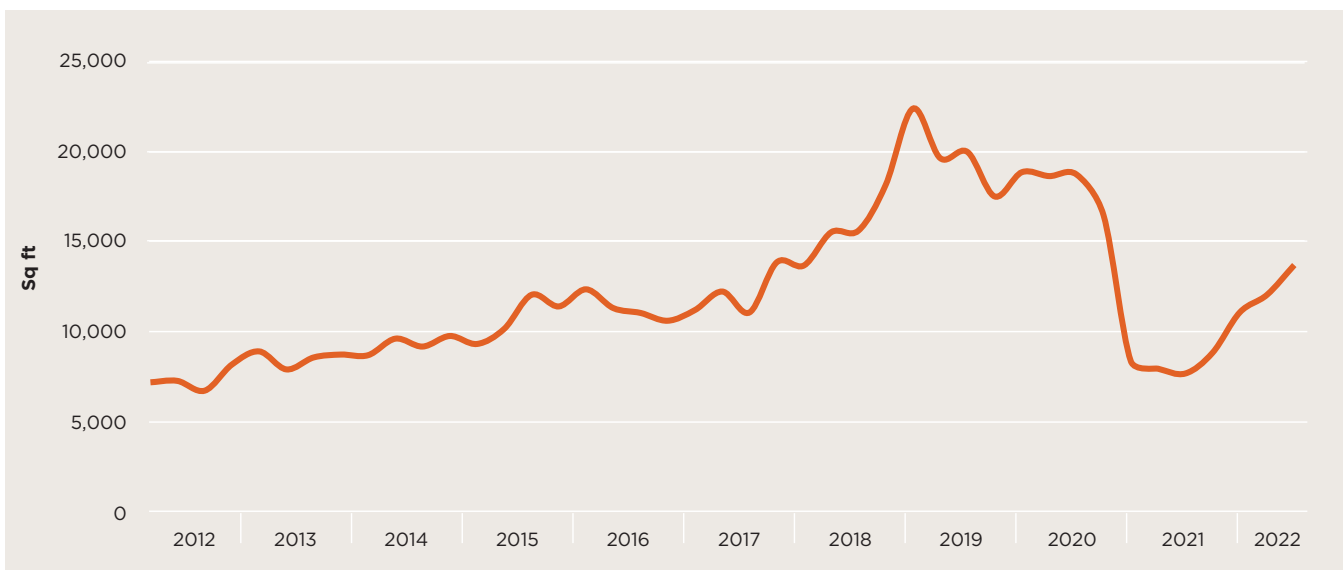


Source: Savills Research

Despite the economic uncertainty and energy cost inflation, the office market continued to post a strong recovery in the third quarter with 823,000 sq ft signing while a further 1.6m sq ft was reserved at quarter-end. This brings year-to-date take-up to 1.8m sq ft, surpassing full-year take-up in 2021 and 2020 respectively. The highest number of deals since Q4 2019 were signed, 52, which

brought the year-to-date total to 140 while the average deal size has risen since the sharp drop from the onset of the pandemic and now sits above 13,000 sq ft. Although this certainly paints a healthy picture, an easing in activity is expected into next year as weaker economic sentiment is expected to take its toll on take-up volumes.

Figure 5: Average deal size (4QMA)



Source: Savills Research

👁️ The average deal size has risen since the sharp drop from the onset of the pandemic and now sits above 13,000 sq ft. 👁️

Top deals

The largest letting of the quarter was A&L Goodbody's pre-letting of 155,000 sq ft at 25 North Wall Quay, which is being redeveloped by IPUT and will increase the floor space by 36%. The new asset is expected to achieve net zero carbon and thus be Ireland's lowest carbon office development. The firm also took 63,000 sq ft in 3 Dublin Landings for decanting their operations during the redevelopment of North Wall Quay, in what was the third-largest deal of the quarter.

Albeit quieter than previous quarters, tech take-up was led by TikTok who signed for the entire 83,000 sq ft at the Tropical Fruit Warehouse in what was the quarter's second-largest deal. The firm previously committed to 216,000 sq ft at the nearby Sorting Office on Cardiff Lane at the end of last year. Savills acted on all of these top three deals.

In the fourth-largest deal, Goodbody Stockbrokers agreed to take 60,000 sq ft at 12 Dawson. The deal represents a relocation for the

firm from their current offices at 2 Ballsbridge Park, Dublin 4. The significant redevelopment process - including the addition of two new floors - is reaching conclusion with the property expected to complete in Q4. Meanwhile, in the fifth-largest deal, the National College of Ireland expanded its campus to include the west wing of Block R, Spencer Dock which is near to its current campus on Mayor Street in the IFSC.

83,000 sq ft

Tech take-up was led by TikTok who signed for the entire Tropical Fruit Warehouse in the quarter's second-largest deal.

Table 2: Top deals

Property	Sq ft	Tenant	Sector
25 North Wall Quay, Dublin 1	155,000	A&L Goodbody	Professional Services
Tropical Fruit Warehouse, Dublin 2	83,000	TikTok	ICT
3 Dublin Landings, Dublin 1	63,000	A&L Goodbody	Professional Services
12 Dawson, Dublin 2	60,000	Goodbody Stockbrokers	Financial Services
Block R Spencer Dock, Dublin 1	58,000	NCI	Other

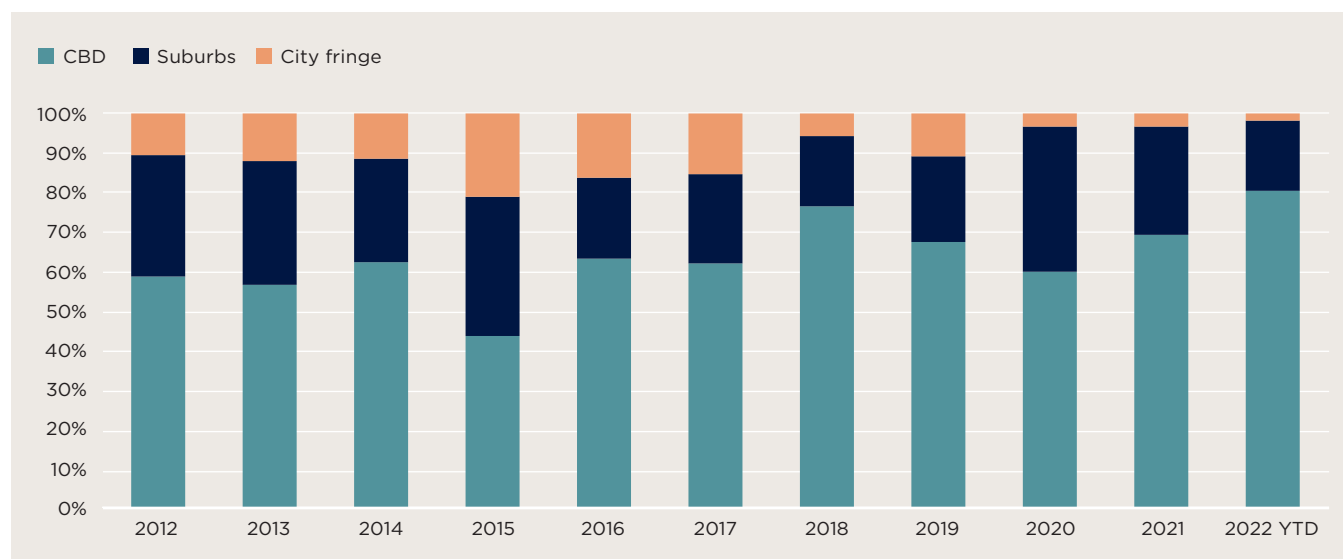
Source: Savills Research

Location analysis

City centre stock has seen a significant uptick in the share of letting activity, accounting for at least 80% market share for the last four consecutive quarters. Indeed, all the top five deals in Q3 took place in Dublin 1 and Dublin 2, with the remaining 20% signed in suburban assets with no space taken-up in the fringe market this quarter. While

the number of deals taking place was closer in proportion, 60% CBD and 40% suburbs, the former's average deal size of 21,000 sq ft was much larger than the latter's of 8,000 sq ft. This weighting towards the CBD, which has grown consistently since 2020, is reflective of occupier preference for centrally located offices at the expense of the suburbs.

Figure 6: Take-up by location



Source: Savills Research

North Wall Quay, Dublin 1



*image courtesy of IPUT Real Estate Dublin

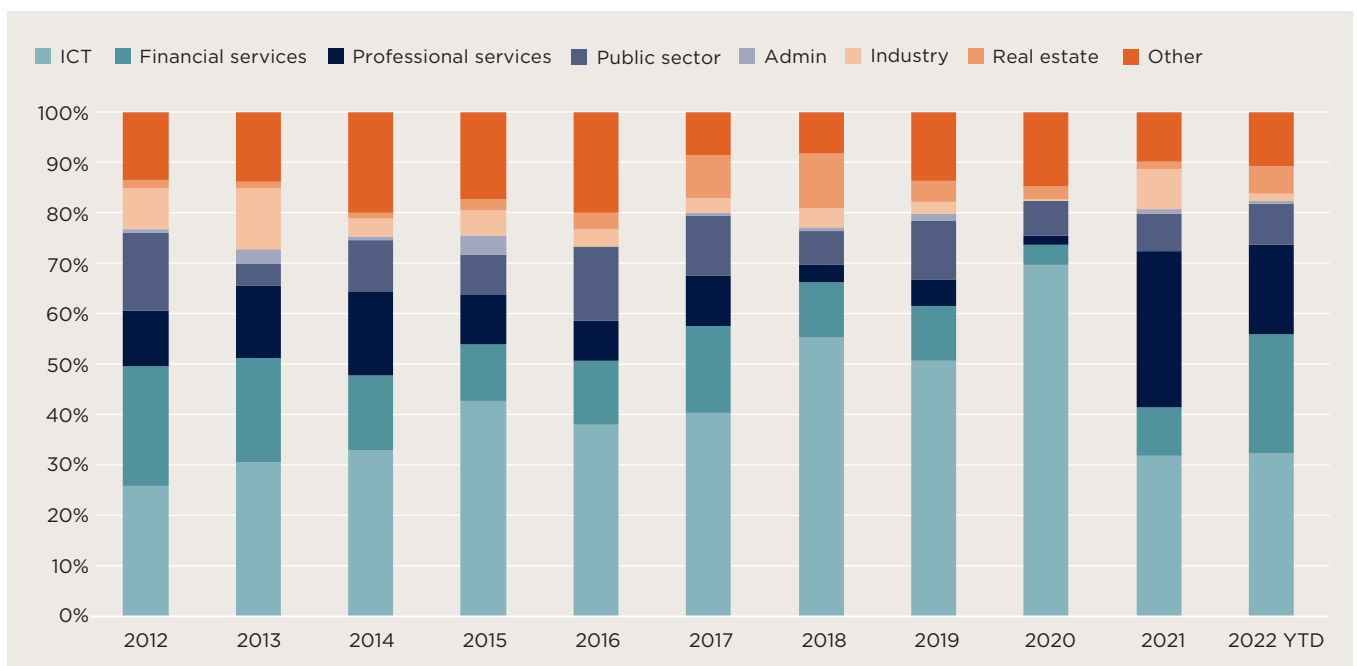
Sectoral analysis

Professional services accounted for the highest proportion of take-up in the third quarter at 33%, following the significant signings from A&L Goodbody in two of the top five deals. This was followed by financial services at 22% and then tech at 20%. Most recent tech earnings calls were lower than expected, prompting markets to react strongly with share price declines across all of the mega-cap

tech companies. The fall in sales was related to a dip in demand following weakened sentiment from consumers.

Take-up from tech firms remains the largest share in year-to-date terms, accounting for 33% market share while financial services are second with 23%. Professional services aren't far behind with an 18% share, following the strong presence this quarter.

Figure 7: Take-up by sector



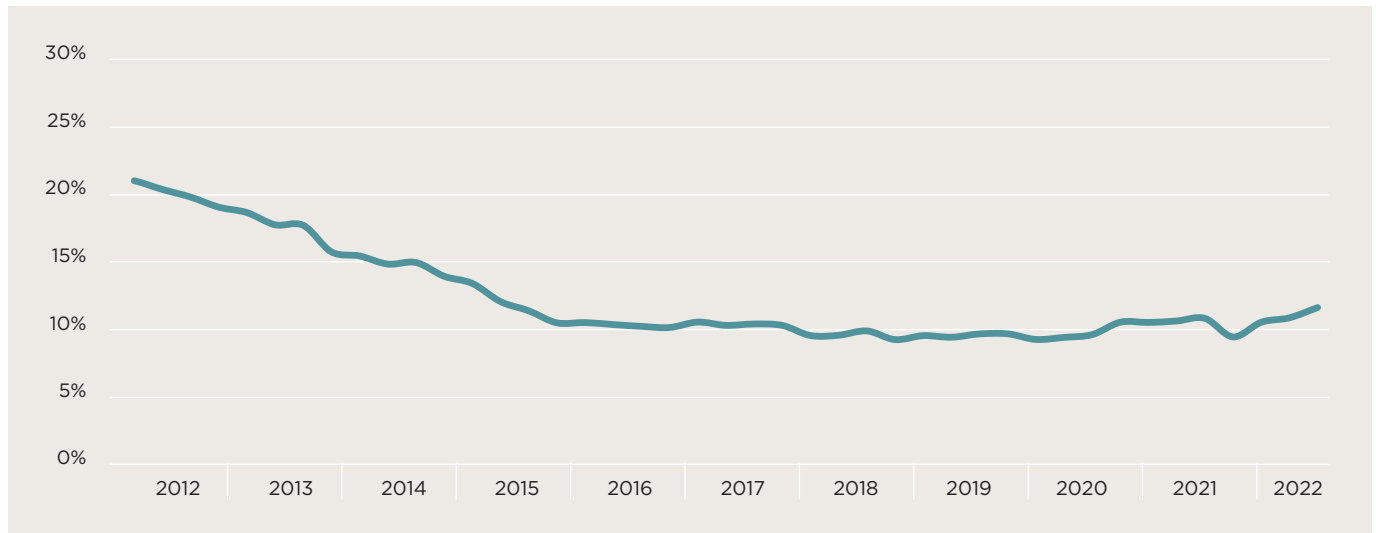
Source: Savills Research

Supply and rents

There is 1.1m sq ft of office space under construction that is due to be delivered by the end of the year. Of this, 42% is available to let, while an equal amount is already let with a further 16% reserved. Notable properties that are scheduled for completion by year-end include Block 1 Charlemont Square, LePole Square, and the middle blocks of Meta's campus in Ballsbridge. Three buildings were completed this quarter, one in the CBD being Tropical Fruit Warehouse which

was taken by TikTok and the remaining two were in the city fringe. The larger of these was the Distillers Building, a 180,000 sq ft building in Smithfield which was pre-let by the OPW in 2019, while 50,000 sq ft was delivered to the market in the Founders District, Belfield Office Park. This new space, combined with an increase of sublease space brought to market, led to an increase in overall vacancy this quarter to 11.6% and 9.8% in the CBD.

Figure 8: Vacancy rate

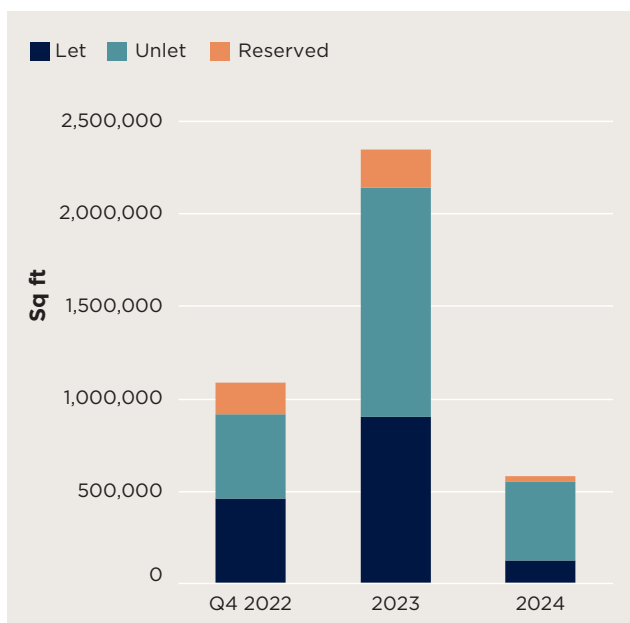


Source: Savills Research

Looking ahead, there is 2.3m sq ft on-site and expected to complete in 2023 with a pre-let rate of 38% and 9% reserved. Meanwhile, 580,000 sq ft is under construction and slated for delivery in 2024, of which 21% is already let and 4% reserved. As with take-up, occupier preference for the CBD is evident in the

pre-commitment rates; 45% of space due in 2023 is pre-let while 10% is reserved. For 2024 delivery, the pre-commitment level is at 22%, similar to the all Dublin level due to all the projects on site being located in the CBD bar one relatively smaller development in the city fringe.

Figure 9: Dublin on-site pipeline



Source: Savills Research

Figure 10: CBD on-site pipeline

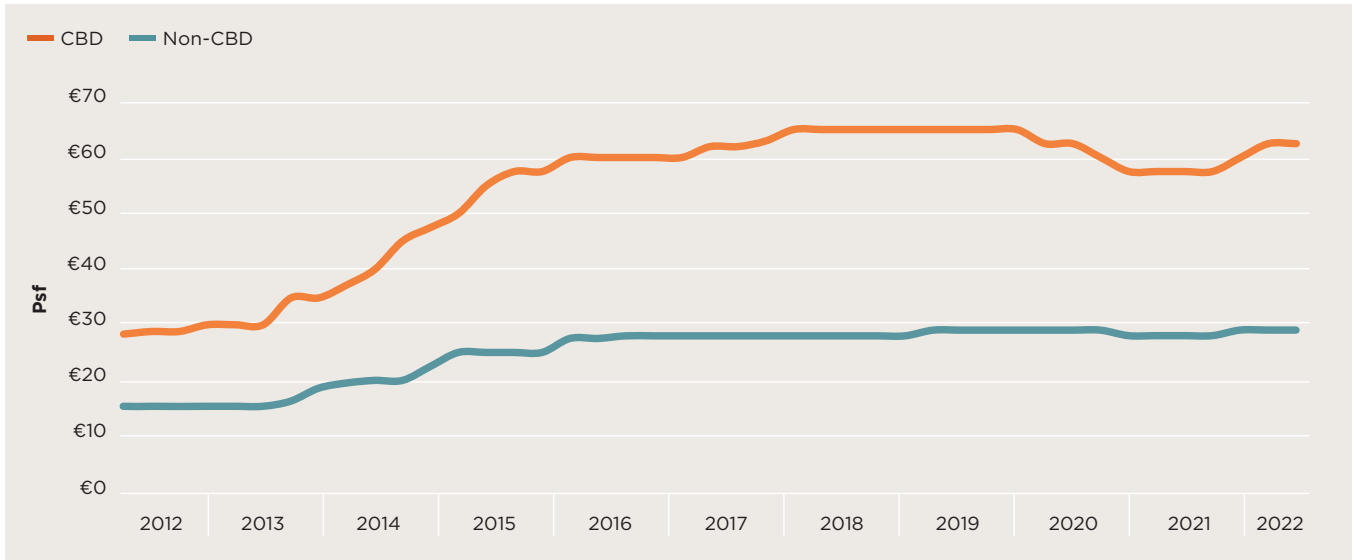


Source: Savills Research

As at the end of Q3, rents remained steady at €62.50 psf in the CBD and €29.00 - €30.00 psf in the suburbs. The inclination to these prime assets is even more acute with the energy crisis which

is exacerbating the relative cost between low and high-energy-consuming buildings. Indeed, the spread between old and new city centre stock has moved from €10 psf to €15 psf in the past year.

Figure 11: Prime headline rents



Source: Savills Research

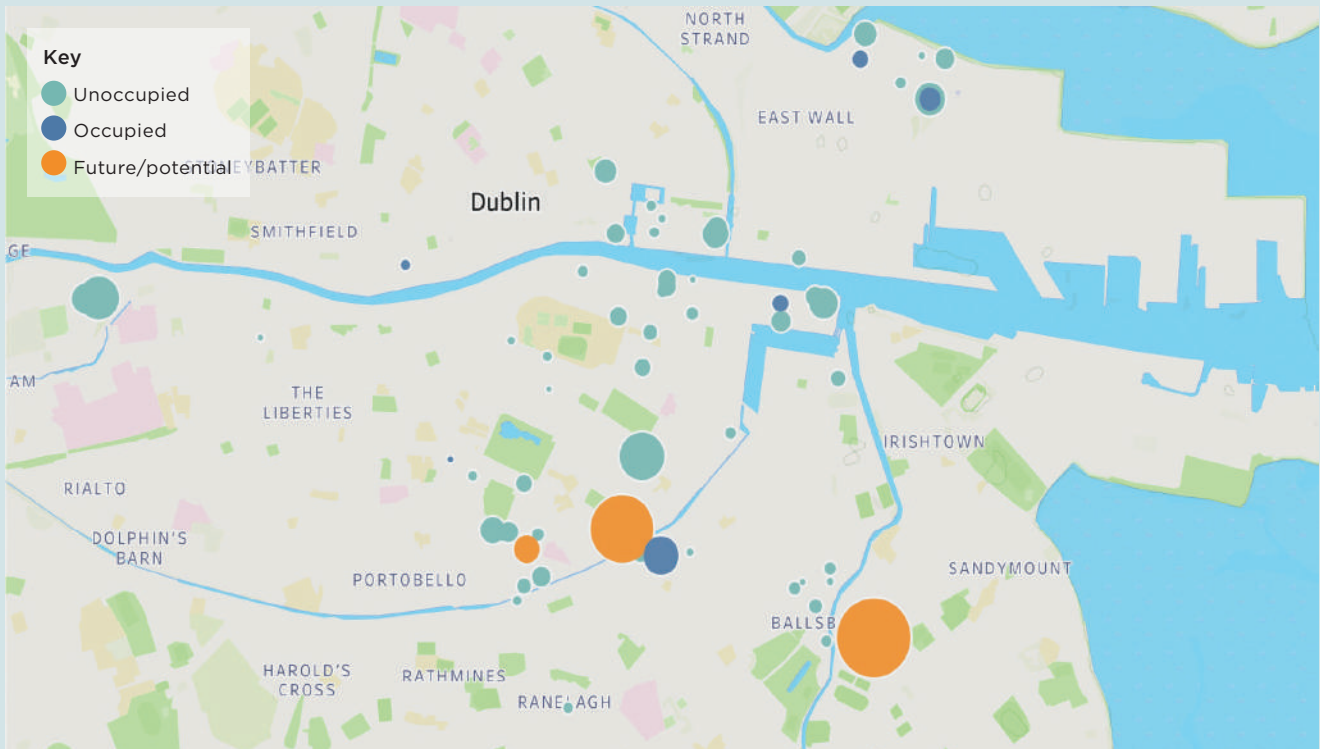


Shadow Market Analysis

The shadow (or grey space) market has seen an increase in the quantum of space coming to the market in recent months. This activity is being driven by a re-examination of company working policies following the pandemic and

economic headwinds, particularly in the tech sector. In this section, we look at the current dynamics at play in the shadow market and then assess the outlook for this segment of the market.

Shadow space by type as at end Q3



Vacant shadow space

At the end of Q3, there was 1.3m sq ft of shadow space vacant and ready for immediate occupation, representing a 75% increase on Q3 2021. It now accounts for 24% of all vacancy, compared to 15% in Q3 last year. These spaces have become available with longer lease terms than previous years and are also of better-quality, with 31% of vacant shadow space being grade A assets. Albeit, this newer space less frequently comes with the benefit of an existing fit-out.

Looking at the top ten vacant shadow stock in Table 3, we can see that the majority of space (seven out of ten) has been brought to the market since the pandemic. It is also noteworthy, however, that all of the top five vacant spaces have company-specific reasons for shedding space rather than being an indication of an overall market trend towards hybrid working or weaker economic conditions.

The largest vacant shadow space is at the newly built Fitzwilliam 28, where 135,000 sq ft is available from Slack. Slack originally signed for this space at the start of the pandemic in Q1 2020, but the subsequent acquisition of the firm by Salesforce meant it would be subsumed into Salesforce's new European headquarters on the north docklands. Eir has been shedding space at both 1 and 2 Heuston South Quarter since well before the pandemic, while Deutsche Bank's shedding of space at Eastpoint was part of a global cost-cutting exercise which led them to exit their operations in Ireland. Mastercard's space in Central Park was spurred by the relocation of operations to their new ESG accredited European Technology Hub at One and Two South County.

1.3m sq ft

of vacant shadow space is available or 24% of total office market vacancy

The causes for the remainder of the top ten spaces available is more closely driven by the introduction of hybrid work policies. Airbnb have adopted a work-from-anywhere policy, which has led to them subleasing 32,000 sq ft at The Reflector while retaining their converted warehouse space on Hanover Quay. Elsewhere, HubSpot have introduced a flexible working policy which has led to them seeking to shed One and Two Dockland Central, while keeping the newer space in 1-6 Sir

John Rogerson's Quay. With the rise in energy costs and a commitment by corporates to meet their ESG targets, we can expect to see firms shedding older space in favour of retaining newer space. Indeed, it is significant from an ESG perspective that, although the availability of all the vacant space has increased, the average age of properties is still 19 years old, with 17 buildings constructed post-2010 available for a combined total of 352,000 sq ft.

Table 3: Top vacant shadow space

Property	Sq ft	Age	Sublessor	Sector	Brought since Q1 2020?
Fitzwilliam 28, Dublin 2	135,000	2020's	Slack	Tech	Yes
1 Heuston South Quarter, Dublin 8	110,000	2000's	Eir	Telecoms	No
Block E Central Park, Dublin 18	71,000	2000's	Mastercard	Tech	Yes
Block P9 (Pinnacle II) Eastpoint, Dublin 3	61,000	2000's	Deutsche Bank	Finance	Yes
2 Heuston South Quarter, Dublin 8	57,000	2000's	Eir	Telecoms	No
One Dockland Central, Dublin 1	46,000	1990's	Hubspot	Tech	Yes
Block I Eastpoint, Dublin 3	35,000	1990's	Oracle	Tech	No
The Reflector, Dublin 2	32,000	2010's	Airbnb	Tech	Yes
Block A Joyce's Court, Dublin 1	30,000	2000's	Smartbox	Tech	Yes
Two Dockland Central, Dublin 1	28,000	2000's	Hubspot	Tech	Yes

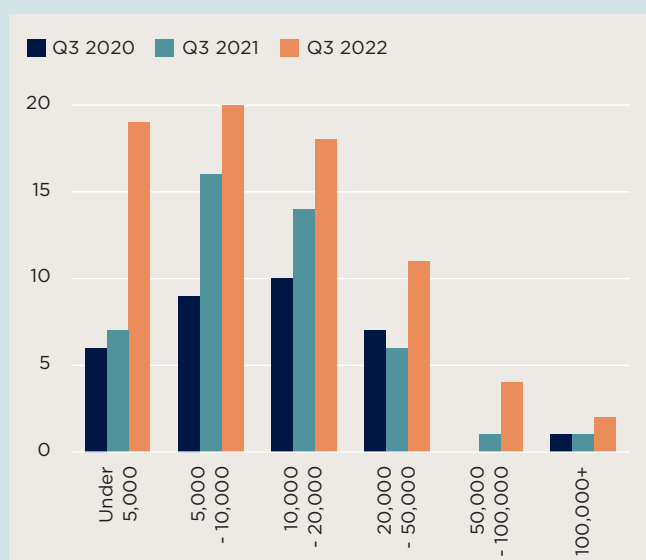
Source: Savills Research

Availability by size

The availability of shadow space has increased across all size categories and now provides a wider offering of space to the market, with two properties over 100,000 sq ft following the addition of Fitzwilliam 28. A significant rise in space under 5,000 sq ft is available and also in the space category between 20,000 - 100,000 sq ft. Most of the assets brought on for sublease or assignment this year were in these categories, showing the largest increases since this time last year.

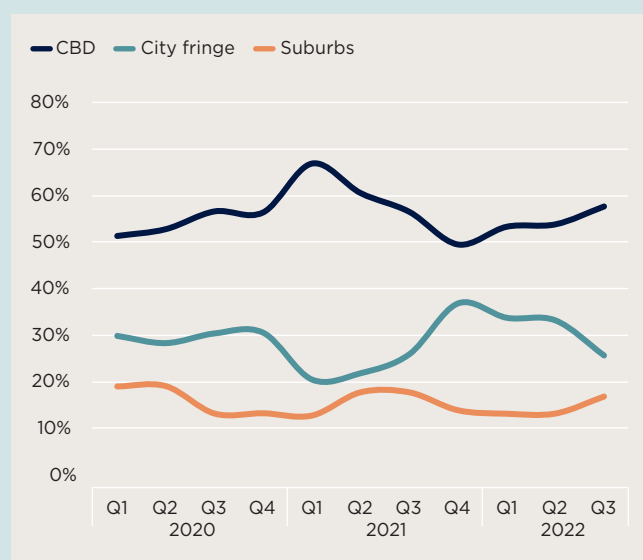
Focusing on location, the CBD witnessed an uptick in the share of space available during the height of the pandemic in Q1 2021, however, this declined significantly as occupiers focused on letting space in the city centre locations. The low point in Q4 2021 correlates with the large number of lettings that took place that quarter, with many of these in the CBD. Interestingly, the share of city fringe shadow space has declined, though this is due to the addition of more CBD and suburban space rather than a decline in the quantum of city fringe space.

Figure 12: Vacant shadow space by size



Source: Savills Research

Figure 13: Vacant shadow space by location



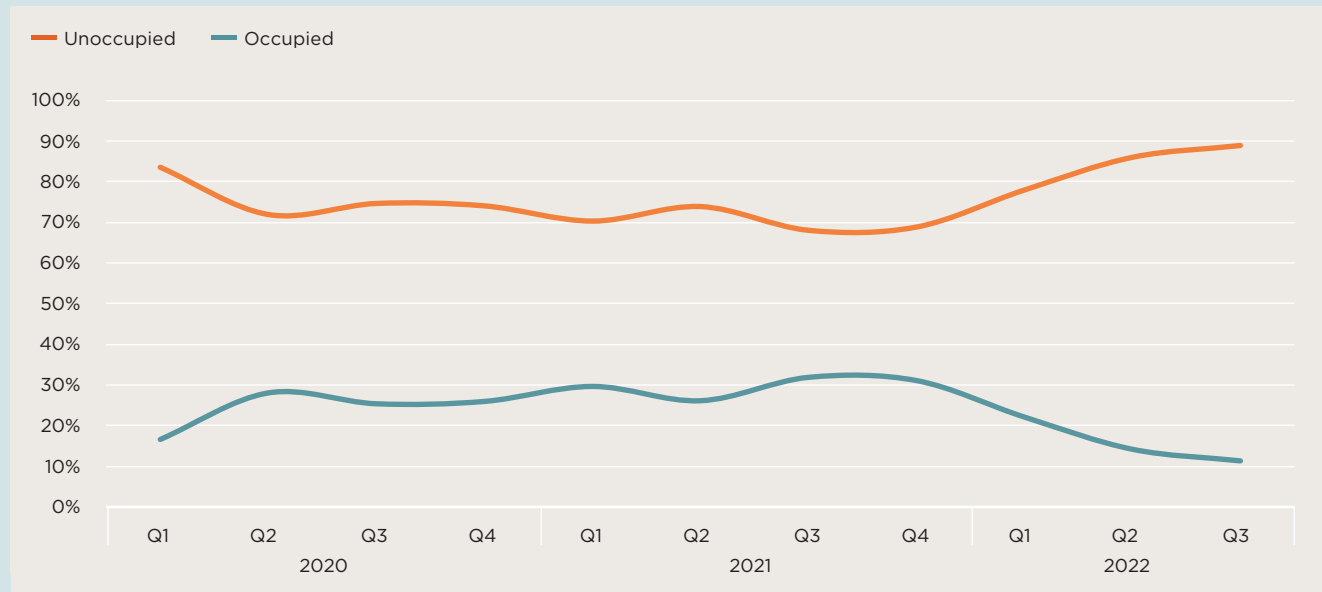
Source: Savills Research

Occupied shadow space

Analysis of occupied shadow space – space that is available to sublease or assign but is still occupied by the sublessor – has decreased significantly to now stand at just 160,000 sq ft across just six available properties. The formalisation of official work-from-home policies – as opposed to mandated work-

from-home implemented during the pandemic – has clarified the intentions of many corporates and led to the reclassification of space from presumed occupied to now unoccupied. This equates to 11% of total shadow space (combined occupied and unoccupied) compared to 32% in Q3 2021.

Figure 14: Shadow space by type

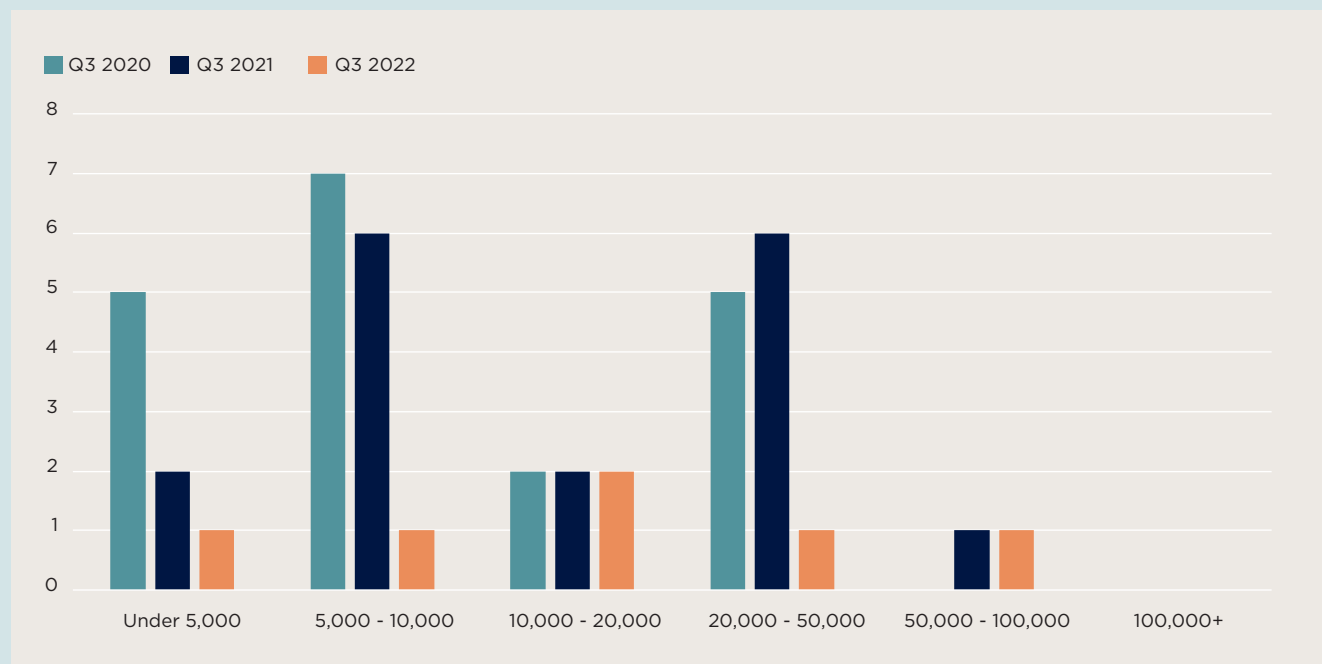


Source: Savills Research

Availability has declined across size types as illustrated in Figure 15, while the average age is high at 16 years old. As

with unoccupied space, the focus is on the CBD with 69% of the space located there including the largest occupied space.

Figure 15: Occupied shadow space by size



Source: Savills Research

🗨️ Alongside the recent announcements from a handful of tech firms, there has been an indicated release of new space currently under construction that will be added to the shadow market upon completion. 🗨️

Future/potential shadow space

In order to properly assess the shadow market dynamics, we must also factor in upcoming shadow space from the construction pipeline. Alongside the recent announcements from a handful of tech firms, there has been an indicated release of new space currently under construction that will be added to the shadow market upon completion. As at the end of Q3, there was 680,000 sq ft of potential shadow space due to complete across the remainder of 2022 and into 2023. This overhang of space is reflective of firms having signed-up for more space than immediately required in order to facilitate future growth but have now decided this space is not needed.

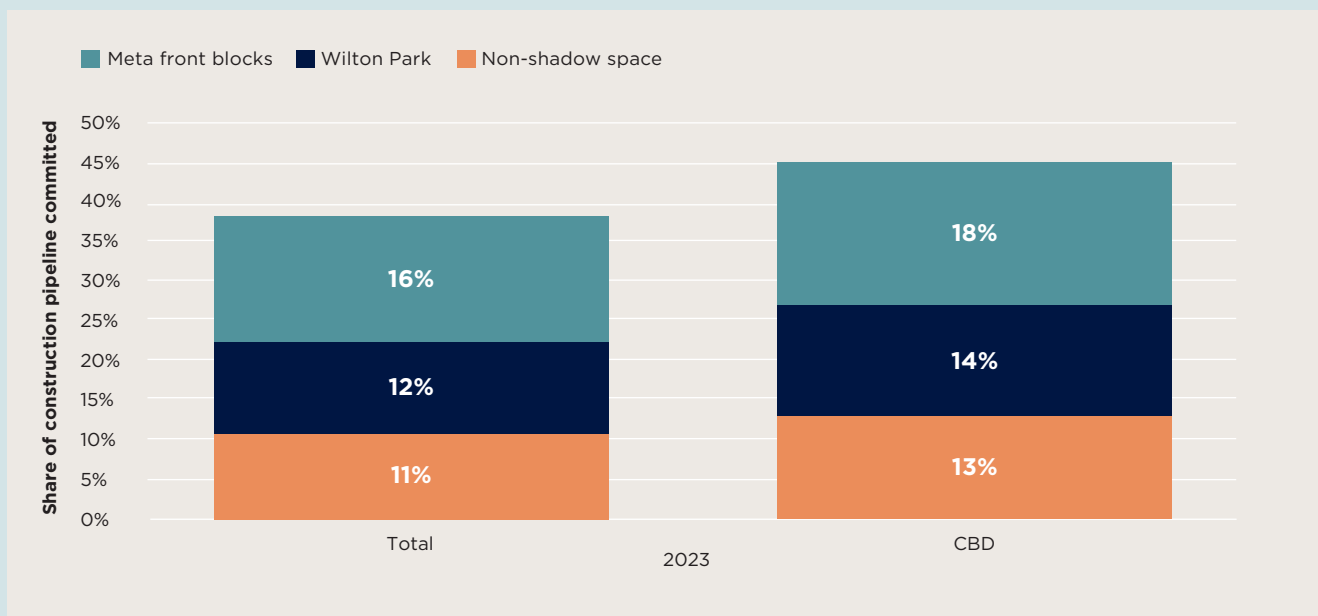
The first property, which has since completed in November, is Cadenza which was pre-let to Intercom in 2019. Upon completion, the firm will be relocating its operations to there from Stephen Court on St. Stephen's Green. Despite pre-letting the entire building to provide room for growth, the firm is now releasing the ground to second floors to the shadow market, totalling

680,000 sq ft
of potential shadow space is due to complete
across the remainder of 2022 and into 2023.

43,000 sq ft. Meanwhile, it was reported that LinkedIn would not be occupying two of the buildings at the Wilton Park development. Two and Three Wilton are due in 2023 and will provide 270,000 sq ft combined. The remaining potential space is in Meta's new Ballsbridge HQ. The front blocks are due in 2023 and the slated fit-out of them has been paused, though Meta may ultimately decide against releasing them to the shadow market.

As the space in Cadenza is three floors of the entire building the impact on vacancy is 0.1%, moving it from 11.6% to 11.7%. Given the scale of the other buildings due in 2023, assuming no lettings take place, the release of these to the market would push the vacancy rate up to 12.9% and from 9.8% to 12.3% in the CBD. This would also mean that shadow space would account for 37% of total vacancy and 82% of CBD vacancy, a significant portion. Given that these properties were in the pipeline at the end of Q3, these spaces contribute to the pre-commitment rate. In 2022, the share of space to be released to the shadow market from the construction pipeline is relatively low, however, in 2023 this increases significantly. 28% of pre-committed space in 2023 relates to potential shadow space: 12% is attributed to LinkedIn's buildings at Wilton Park and 16% to the front blocks of Meta's new HQ.

Figure 16: Future/potential shadow space contribution to pre-commitment rates in 2023



Source: Savills Research

Conclusion

The re-examination of company work-from-home policies has been a driver in the increase in shadow space. However, the larger spaces coming to the shadow market are not necessarily a result of changing work trends but also related to over-hiring/over ambitious expansions followed by a cyclical movement in the global economy, especially in the tech sector.

While the newer additions to the shadow market of ESG rated stock with longer leases may compete with landlord vacant stock, there are constraints on such tripartite negotiations. These include relative tenant financial strength/covenant tests, further alienation constraints and other existing and previously negotiated lease terms and obligations to be adhered to by an assignee/sub-tenant seeking to step into the shoes of the prior main tenant. Whereas the main benefit of shadow space in the past was an ability to re-use an existing

fit-out, if it suited the incoming occupier, much of the newer space doesn't include a fit-out even if its base build enjoys better ESG credentials. With fit-out costs ranging from €150 – €200 per sq ft, space without existing fitout is an expensive option for a sublessor, especially those with no renewal rights. Assigning or sub-letting space that is yet to reach practical completion adds further layers of complexity around construction, timing and completion risks. Nonetheless, it does add to available space regardless of such added complexity that can form barriers to the grey or shadow space competing with new direct landlord delivered space.

Inflation is expected to settle across 2023 as new global energy supply lines emerge. As the outlook becomes more certain, corporate sentiment will level-out (as it has done over increasingly short time periods in recent downturns).



The Reflector, Dublin 2

Outlook

The tech sector has been a big driver of the Dublin office market in recent times and will likely be less active next year with an increase of space being added back to the market. However, this is unlikely to be a permanent shift.

In the interim, financial and professional services will continue to play an important role in the market, having also recorded strong growth through the pandemic. As the 2030 deadline on carbon emissions goals grows closer, state bodies are likely to return to the market following a period of inactivity to upgrade their space

to meet these targets. We expect rents for out-of-town stock to continue to come under some pressure while rents for ESG stock in prime locations will continue to hold-up.

The strong growth of office-based employment through the pandemic means that some occupiers are now faced with insufficient space for all employees and cannot facilitate everyone in the office on peak mid-week days. Combined with increasing occupancy shown in turnstile data, this could prompt new requirements forming.



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