Savills Research – Q3 2023

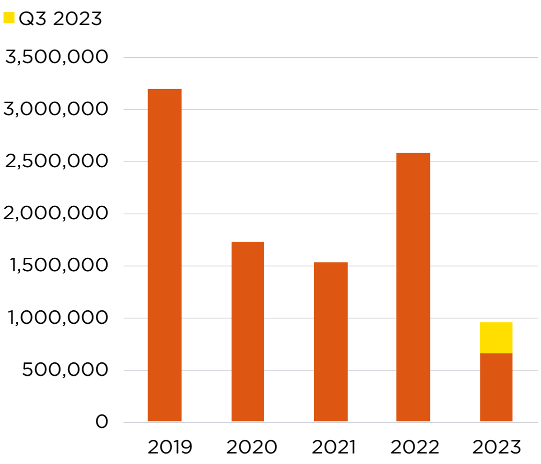
Dublin Office Market

Key Statistics, sq ft*

	Q2 2023	Q3 2023	▲ q/q
Stock	46.09m	46.25m	+158,500
Take-up	389,417	288,225	-101,192
Vacancy rate	14.9%	15.7%	+80 bps
Grey space as a % of vacancy	33.1%	27.3%	-580 bps
Completions	189,200	158,500	-30,700

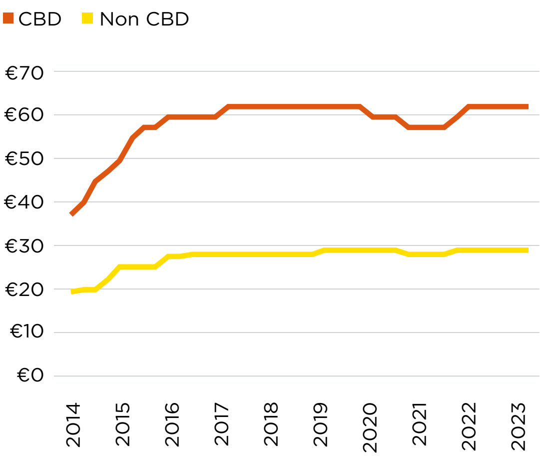
Source: Savills Research

Figure 1: Take-up, sq ft



Source: Savills Research

Figure 2: Headline rents, psf



Source: Savills Research

***Note:** All sq ft quoted in estimated net terms

Mid-size deals at centre of transactional activity in Q3

All top five deals were in the 20,000-30,000 sq ft category, with the two largest signings taking place in the suburbs.

The Dublin office market recorded 288,200 sq ft of take-up across 39 deals in Q3, bringing year-to-date take-up to 954,200 sq ft. At a combined 115,300 sq ft, the top five deals accounted for 40% of the total.

The largest transaction was the 29,900 sq ft sale of 3007 Lake Drive, Citywest, to building contractors Sisk/Capwell, who will become owner-occupiers. The second-biggest deal also took place in the suburbs with the letting of 22,100 sq ft at Unit 9, Swords Business Campus, to a confidential occupier in the financial services sector. The third-largest deal involved the subleasing of 21,800 sq ft at 55 Charlemont Place by Zendesk to Carne Group, while tech company Procore's letting of 21,200 sq ft at 1 Grand Canal Square represented the fourth-largest signing. Rounding off the top five was the broadcasting regulator Coimisiún na Meán's taking of 20,300 sq ft at 1 Shelbourne Buildings.

Savills' analysis focuses on purpose-built offices, meaning period buildings are excluded from our data. Nevertheless, mention should be made of the sale of 8 St Stephen's Green - a 24,100 sq ft Georgian building - to Abbey Capital.

ANALYSIS

Transactions below 5,000 sq ft made up 54% of all deals by number, whereas deals between 5,000-10,000 sq ft had a market share of 21%. Those between 10,000-20,000 sq ft accounted for a further 13%, while those between 20,000-50,000 sq ft made up the remaining 13%. When analysing market share on a sq ft basis, deals below 5,000 sq ft accounted for 19% of space taken, while those between 5,000-10,000 sq ft made up 18%. Additionally, deals between 10,000-20,000 sq ft accounted for 23% of space taken, while those between 20,000-50,000 sq ft comprised 40%.

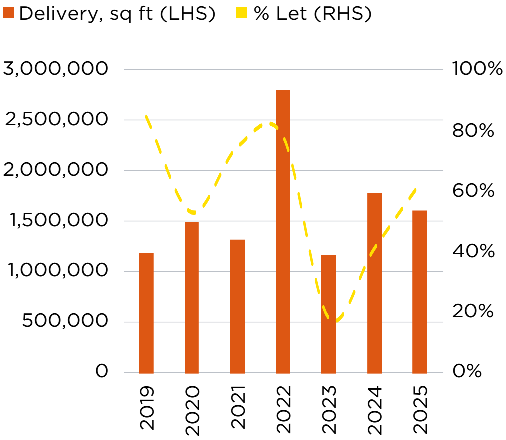
It is further notable that 69% of deals took place in the CBD. This exceeded the five-year average of 55% and was well above the 39% witnessed in the preceding quarter. The respective shares for the suburbs and city fringe were 23% and 8%.

Table 1: Top five deals

Property	Sq ft	Occupier	Sector
Unit 3007, Lake Drive, D24	29,900	Sisk/Capwell	Real Estate
Unit 9, Swords Business Campus, North Dublin	22,100	Confidential	Financial Services
55 Charlemont Place, D2	21,800	Carne Group	Financial Services
1 Grand Canal Square, D2	21,200	Procore	Tech
1 Shelbourne Buildings, D4	20,300	Coimisiún na Meán	Public Sector

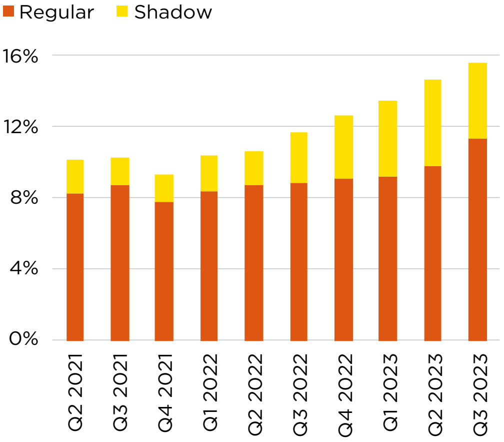
Source: Savills Research

Figure 3: Development pipeline, sq ft



Source: Savills Research

Figure 4: Vacancy rate by type



Source: Savills Research

DEVELOPMENT PIPELINE

The largest completion in Q3 was 60 Dawson Street, which added 146,500 sq ft to Dublin's office stock. While 80% of the building has been pre-let, the remaining space is reserved. Elsewhere, the Merrion Building brought another 12,000 sq ft of office space to the city.

Some 695,500 sq ft is due to be delivered in Q4. This includes Four and Five Park Place, which will deliver 197,000 sq ft to the market, as well as the Freight Building at 100,000 sq ft. 9-12 Dawson Street will deliver a further 70,200 sq ft during the quarter, while 87,000 sq ft is due to complete at Glencar House. The suburbs will see the delivery of 168,000 sq ft at building N1, Central Park.

Full-year delivery is expected to total 1.2 million sq ft before picking up in 2024 and 2025. However, there is the possibility of some already commenced schemes failing to reach practical completion, which could see delivery fall from current projections. A recent lack of commencements also means development will decline sharply in 2026.

VACANCY

An additional 400,000 sq ft of direct landlord space was brought to the market in Q3, which led to an increase in the vacancy rate to 15.7%. The rate is likely to come under further upward pressure in the period ahead. Meanwhile, WeWork is seeking to hand back or renegotiate leases, which may lead to the closure of some locations if negotiations are unsuccessful and neither a replacement operator nor landlord step-in occurs.

Table 1: Top five developments due in Q4

Property	Sq ft	Submarket
Four and Five Park Place, D2	197,000	CBD
Building N1, Central Park, D18	168,000	Suburbs
The Freight Building, D1	100,000	CBD
Glencar House, D4	87,000	CBD
9-12 Dawson Street, D2	70,200	CBD

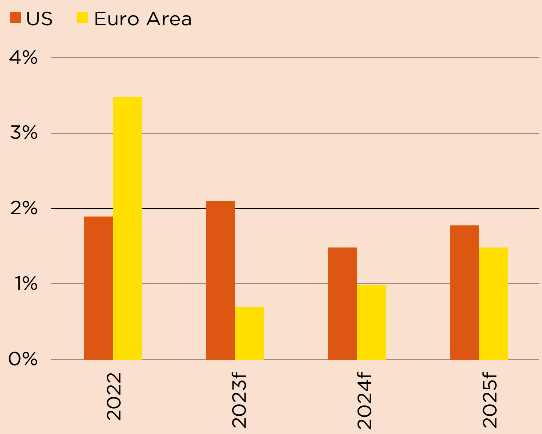
Source: Savills Research

Macro View

Central bank interest rates may have reached their peak

The global economy has proven resilient over the past year despite successive interest rate increases on both sides of the Atlantic. The US and Euro Area economies have grown, with the former defying expectations amid strong labour market performance and sustained consumption. Nevertheless, a slowdown is beginning to emerge as the higher rate environment works to constrain spending and investment, just as it was designed to. Commensurate with this, inflation has slowed considerably, suggesting interest rates may have reached their peak. Although central banks have committed to a "higher for longer" interest rate outlook, there may nevertheless be some rate reversals by mid-2024. Labour market activity is forecast to slow as a result of the tighter financing conditions, with the ECB predicting employment growth of 0.2% in 2024 and 2025, compared to 1.2% in 2023.

Figure 5: GDP growth forecast by area



Source: ECB, US Federal Reserve, US Bureau of Economic Analysis

More discerning occupier requirements benefiting best-in-class office buildings

Market increasingly being bifurcated between have and have nots, maintaining rents at the high end, yet causing rental deflation at the bottom end.

Office occupier considerations primarily centre on building quality, location, facilities and local amenities. While occupiers have always weighed these factors in their decision-making process, since the pandemic, we have seen a hardening of occupier requirements when choosing their offices. This less compromising approach is resulting in higher standards of accommodation being demanded and a resultant smaller opportunity set of suitable accommodation to choose from. In short, buildings are increasingly being bifurcated between have and have nots. As a result, we are seeing improved and diverging rental performance for the very best in class office buildings vis-a-vis the rest compared to what we would have seen in the past.

Take environmental considerations for example. Previously, higher levels of energy efficiency were important, but not necessarily a priority. These days, ESG is a vital consideration for occupiers obliged to meet regulatory requirements as the transition to net zero accelerates. Location is another leading priority. To attract staff back to the office post-pandemic, occupiers have increasingly focused on securing CBD accommodation given the associated amenities to avail of. Less reliance on the car compared to suburban locations is also a factor in this respect from an ESG perspective.

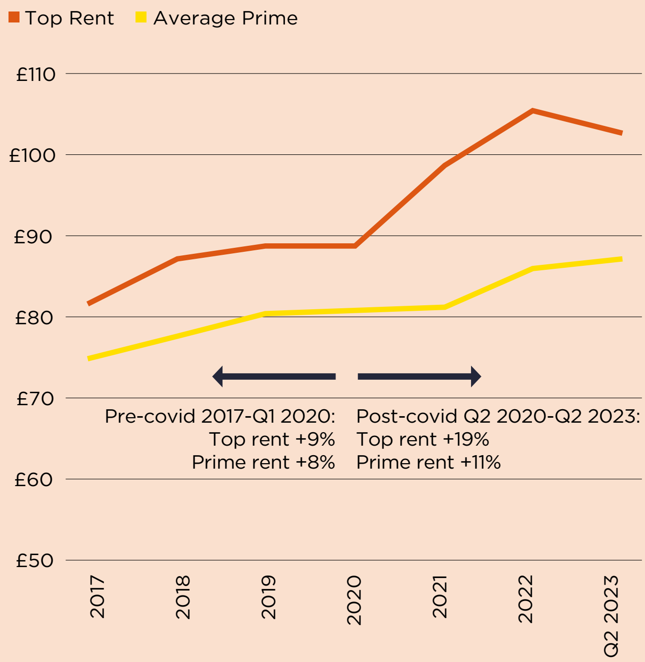
Increasingly being added to this mix is wellbeing, which forms part of the Social aspect of ESG. Wellbeing used to be about conventional diet and exercise regimes but, in recent years, has come to encapsulate mental health, diversity, inclusion, and work-life balance. Employers are increasingly cognisant of their benefit offerings, materialising in state-of-the-art on-site facilities like fitness studios, auditoriums, libraries and outdoor terraces. Employers are thus investing in new ways to bring workers back to the office – and amenitisation is at the very heart of this strategy. Occupiers also want to designate more space towards collaboration to foster innovation and team-building – aspects which cannot be addressed remotely. Responding to young staff's greater social awareness, companies are becoming more mindful of the social impact of their activities and participation in local community development. Buildings can form part of this, offering community spaces back to the city. Indeed, Dublin City Council is increasingly seeking the inclusion of such space in building design to deliver community gain.

Yet the looming challenge for active occupiers is that the supply of stock that meets their exacting requirements is low, generating stiff competition for this type of space. That competition is, in turn, driving a wedge between the rents achievable on these offices versus the rest of the stock. In Dublin, we have seen rents being achieved in the high €60s psf even as the prime benchmark rent remains stable at €62.50 psf, illustrating this trend.

While the trend is in its infancy in Dublin, we can look to London and New York for sight of the rental differential emerging between top rents achieved for best-in-class offices compared to that achieved for the average prime stock.

In the City of London, for example, the average prime rent grew by 8% between 2017 and Q1 2020, with growth in the top rent of 9% also close to this rate. Over the period Q2 2020-Q2 2023, however, average prime rents grew by 11% whereas the top rent increased by 19%. This demonstrates a significant divergence between the two rates since the onset of the pandemic.

Figure 6: City of London rent differential - top rent versus average prime, psf



Source: Savills Research

A real-world example of this rent differential can be found by comparing new 2023 built stock at 40 Leadenhall with the older Lacon House, which was refurbished in 2016. Both are in prime locations and within close proximity to tube transport. Nevertheless, the rent for Leadenhall is up to a third higher than that for Lacon House. The reason for this gap can be explained not only by the newness of 40 Leadenhall, but the far higher quality and amenitisation of the block. Pitched as a 900,000 sq ft neighbourhood, it includes a 200-seat auditorium, 17 outdoor green spaces and terraces and a private fitness studio.

Upon its completion before the end of the year, it is set to achieve net zero carbon and is targeting BREEAM Excellence and an A-rated Energy Performance Certificate (EPC).

Meanwhile, Lacon House is a contemporary property with a large communal garden roof terrace. It also features breakout spaces and a business lounge, but not at the same scale or luxury as 40 Leadenhall. Although it is surrounded by restaurants and art galleries along one of London's most popular thoroughfares, these are external to the office itself – a product of location rather than design. In terms of sustainability, it is BREEAM Very Good and holds a C-rated EPC. As such, it does not have the same credentials.

40 Leadenhall Street, London, EC3M
Size: 900,000 sq ft
Year Built: 2023
EPC: Targeting A
BREEAM: Targeting Excellent
Pre-let Rent: £80.00+ psf

Lacon House, 84 Theobalds Road, WC1X 8RW
Size: 215,000 sq ft
Year refurbished: 2016
EPC: C
BREEAM: Very Good
Asking Rent: £59.50-£75.00 psf

Turning to New York, where midtown Manhattan has become the main hub of office development activity, two neighbouring buildings can be compared. The first is One Vanderbilt, Grand Central, the 1.7 million sq ft skyscraper which completed in 2020. Equipped with a transit hall connected to Grand Central Station, it offers a 14,000 sq ft pedestrian plaza on Vanderbilt Avenue and is topped with a 28,000 sq ft observation deck.

In terms of sustainability, One Vanderbilt is built to a Gold LEED standard and boasts Platinum certification on the WELL Building Standard. This reflects its performance across a range of metrics including light, fitness and comfort. With floor-to-ceiling windows overlooking the Manhattan skyline, the top floors command the highest rents at up to $312 psf.

Across the street is the iconic MetLife Building at 200 Park Avenue, Grand Central. This 3.2 million sq ft building set the precedent for today's New York skyline at the time of its completion in 1963. The building underwent a significant renovation in 2009, but still lags its neighbour on a number of counts including its Silver LEED rating and lack of WELL certification.

Whereas One Vanderbilt's lowest quoted rent was $135 psf, 200 Park Avenue's rents start at just $83 psf while the top-end estimate is $135 psf for the highest floors, although these have not been available for a number of years. Thus, we can see there is a significant premium to be achieved on the best-in-class office stock.

One Vanderbilt, Grand Central, New York
Size: 1,657,000 sq ft
Year Built: 2020
LEED: Gold
WELL: Platinum
Asking Rent: $135.00-$312.00 psf

200 Park Avenue, Grand Central, New York
Size: 3,235,500 sq ft
Year refurbished: 2009
LEED: Silver
WELL: None
Asking Rent: $83.00-$135.00 psf

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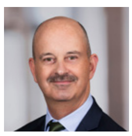

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