

# Dublin Office Market

savills

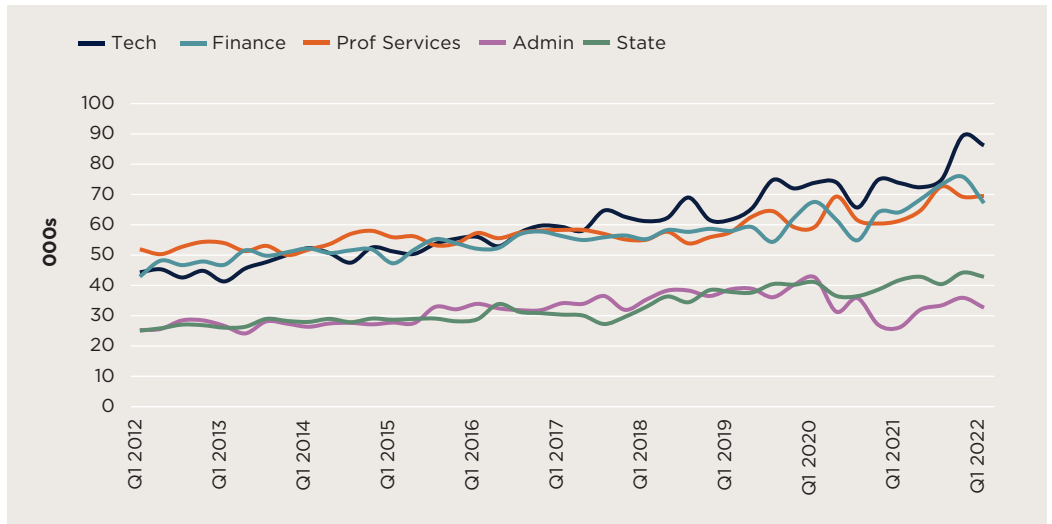




## Macro view

**Strong office-based employment growth will support occupier demand over the next year.**

**Figure 1: Office-based employment by sector**



Source: CSO

Normally office-based employment in Dublin has risen 12% y/y, as the sector recovers from pandemic's initial employment shock.

### Dublin office-based employment

Normally office-based employment had a remarkable run during the pandemic, increasing by 14% nationally and 9% in Dublin since Q4 2019. It currently comprises 39% of Dublin's employment, edging down from a series high of 41% in Q4 2021. Despite slipping by 5% q/q in Q1, normally office-based employment in Dublin has grown by 12% y/y. 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. Normally office-based employment in Dublin grew by 30% in the five years before the pandemic, significantly faster than all other employment nationally which grew by just 16%, and we would expect to see growth in the sector continue, in line with the rest of the labour force.



Benson, Dublin 2



**12%**

annual growth in normally office-based employment



**478,000**

sq ft of take-up in Q1



**81%**

of take-up was in the CBD



**€60.00 psf**

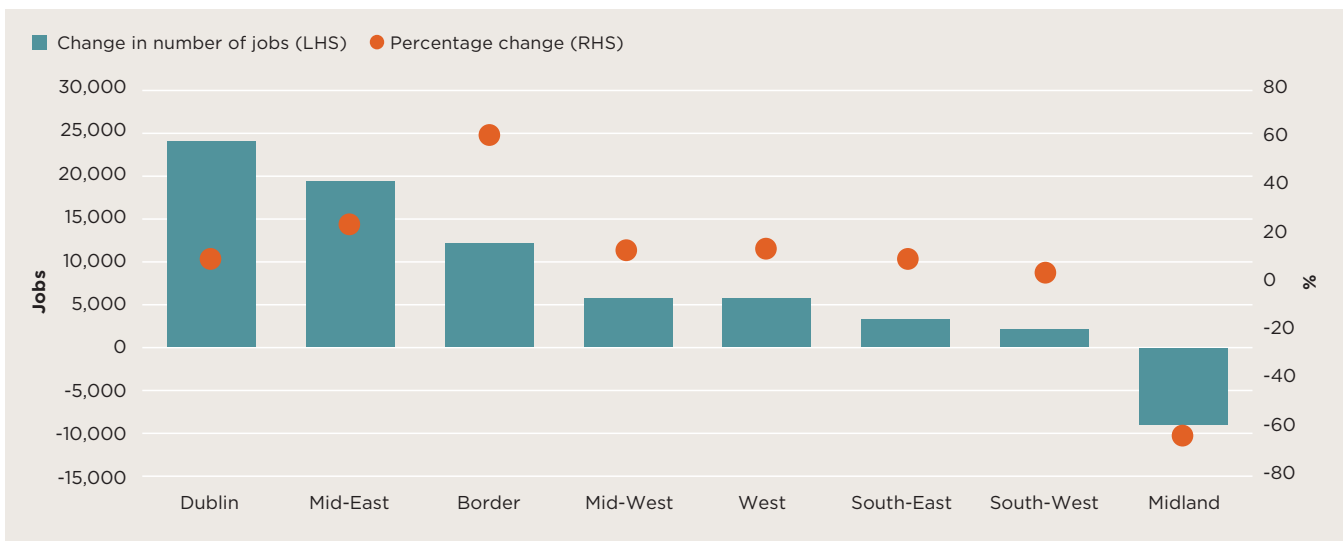
prime headline rents

## Mid-East office-based employment

But even as Dublin grew throughout the pandemic, a new trend has emerged: the number of normally office-based workers living in the Mid-East region has increased substantially. Notably, the Labour Force Survey uses a sample of households as opposed to workplaces, therefore an individual who works in Dublin and commutes from Kildare would be counted towards employment in the Mid-East rather than Dublin. At the onset of the pandemic, Dublin office-based employment fell by 11% between Q1 2020 and Q3 2020, whereas the Mid-East region

experienced positive employment growth. Over the last four quarters, the region has grown swiftly, increasing by 16% y/y. Indeed, normally office-based employment increased by 20,000 jobs in the Mid-East between Q4 2019 and Q1 2022, second only to Dublin which saw employment in these sectors increase by 24,000 jobs. The region's growth rate in normally-office based employment grew by 24% over the period, the second-highest growth rate after the Border region which grew by 61% y/y albeit from a relatively low base.

**Figure 2:** Office-based employment growth by region, Q4 2019 – Q1 2022

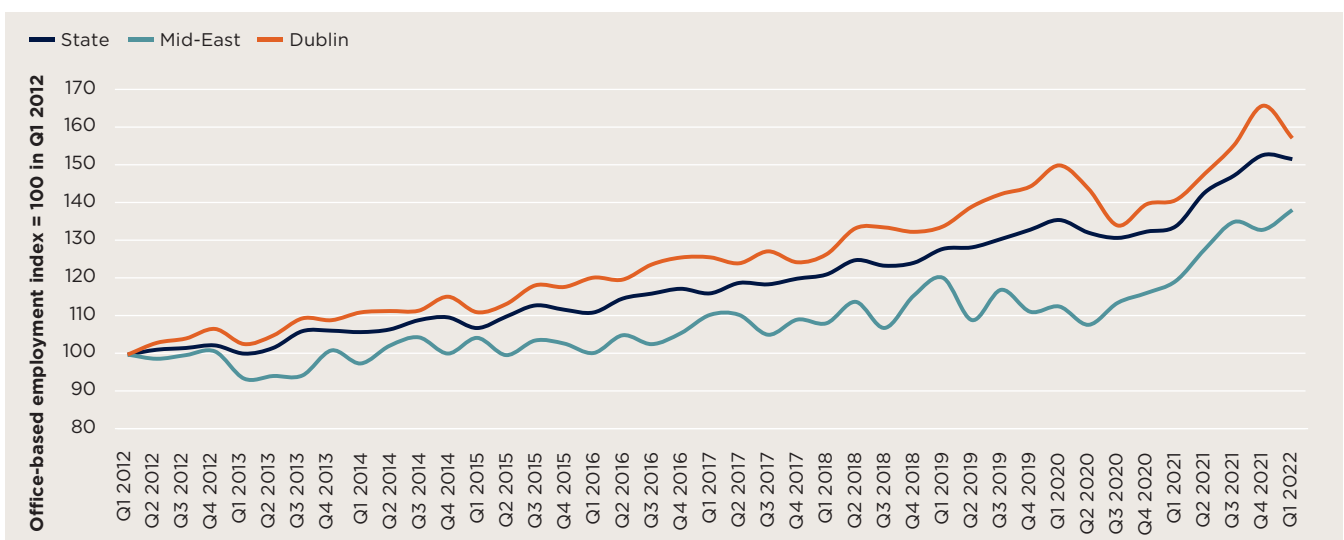


Source: CSO

When we index total office-based employment against a base year of 2012, there has been a slow but steady divergence between Dublin and the Mid-East. Dublin historically accounted for the lion's share of office-based employment growth, with the gap in the series reaching its widest point in Q1 2020 at 37.2 points. The gap has now tightened by almost 50% and now stands at just 19.0 points. During the pandemic it was widely reported that remote working was allowing workers to move out of Dublin to more rural locations. While remote work is now more prevalent than before

the pandemic, the hybrid work model that appears to be taking hold in the global economy will require many of these workers to return to the office for at least part of the week. It remains to be seen to what extent housing choices have shifted and if workers are willing to accept longer commutes for more space, or if these jobs relocate to be closer to the office. While we traditionally look solely at Dublin as a measure of office-based growth, the Mid-East may play a greater role in contributing to demand for office space as offices reopen and workers return to the office.

**Figure 3:** Index of office-based employment



Source: CSO

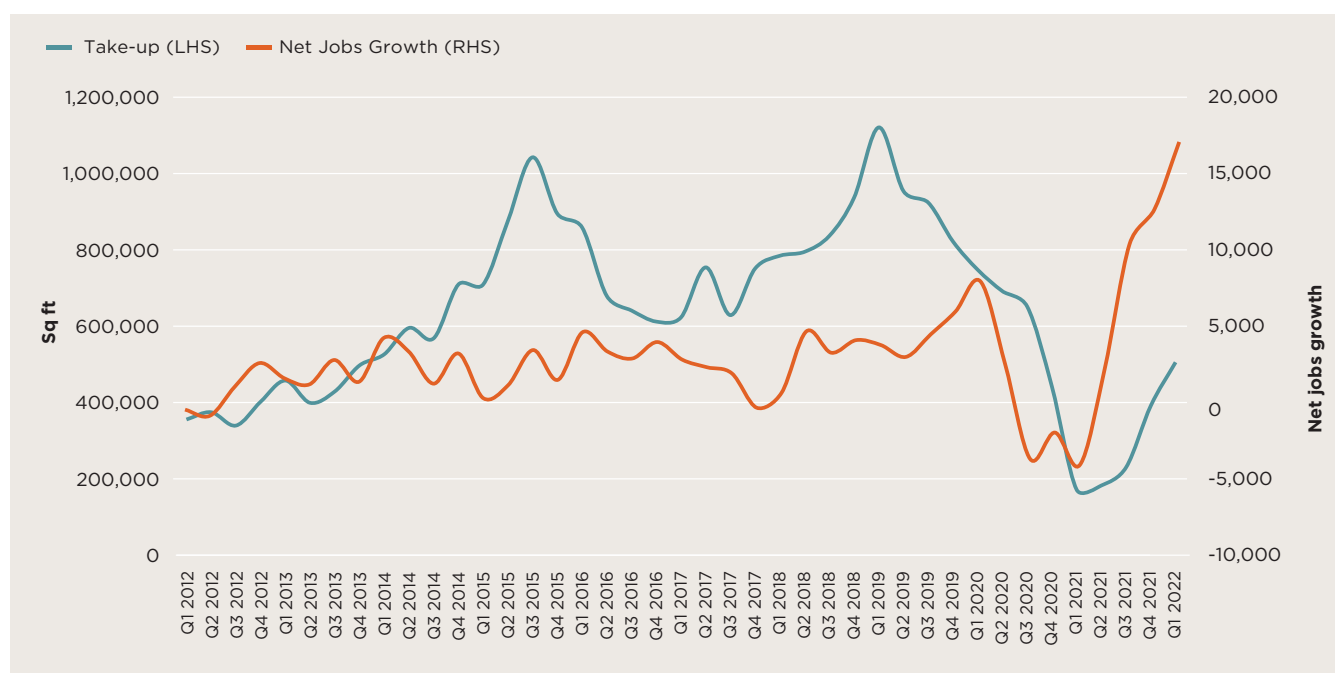
## Relationship between office take-up and jobs growth

Strong employment growth occurred during a period in which most offices remained shut or operating at a fraction of their typical usage density. As offices reopen and firms settle on new occupational strategies, we expect this employment growth to translate into the absorption of office space as firms seek to accommodate their new employees. We have analysed the relationship between gross take-up and net jobs growth in Figure 4 below.

Comparing average employment growth over the preceding four quarters against a four-quarter average of take-up shows a clear correlation between the two indicators. Since Q1 2021, firms have taken significantly less space in proportion to their growing workforces relative to the pre-pandemic period. Indeed, while average employment growth rose significantly since Q1 2021, average take-up has remained subdued. Based on this analysis, there is significant pent-up demand in the market.

“As offices reopen and firms settle on new occupational strategies, we expect this employment growth to translate into the absorption of office space as firms seek to accommodate their new employees.”

**Figure 4:** Net jobs growth vs. take-up (4QMA)



Source: CSO, Savills Research

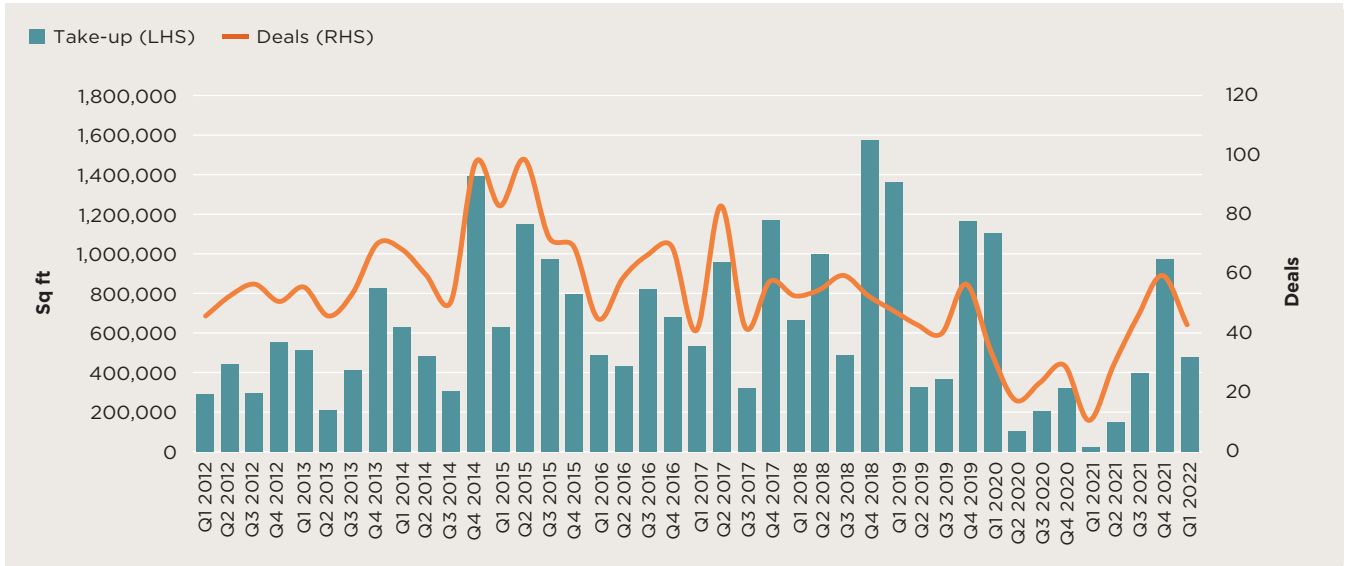
## Perceptions of risk to the tech occupier base vs. actual company strength

Increases in interest rates have put pressure on the equity markets and in particular tech firms, leading to falling valuations. Although Dublin is sensitive to this slowdown, the big tech firms that make up a considerable part of Dublin's tech occupier base are still in strong positions despite recent market turmoil. Revenues in Alphabet, Meta, Amazon and Microsoft rose by between 23% and 7% in Q1. With the exception of Meta, they have all recorded

increases in their Net Asset Positions of 10-30% over the past year. All of this to say, while the stock market has heavily discounted the future cashflows of tech stocks, their current period underlying performance is still very strong. The major tech firms that drive the Dublin market remain in good health with valuation factors – driven primarily by interest rate rises – rather than changes to operational performance behind these movements.

# Market activity

**Figure 5:** Quarterly take-up



Source: Savills Research

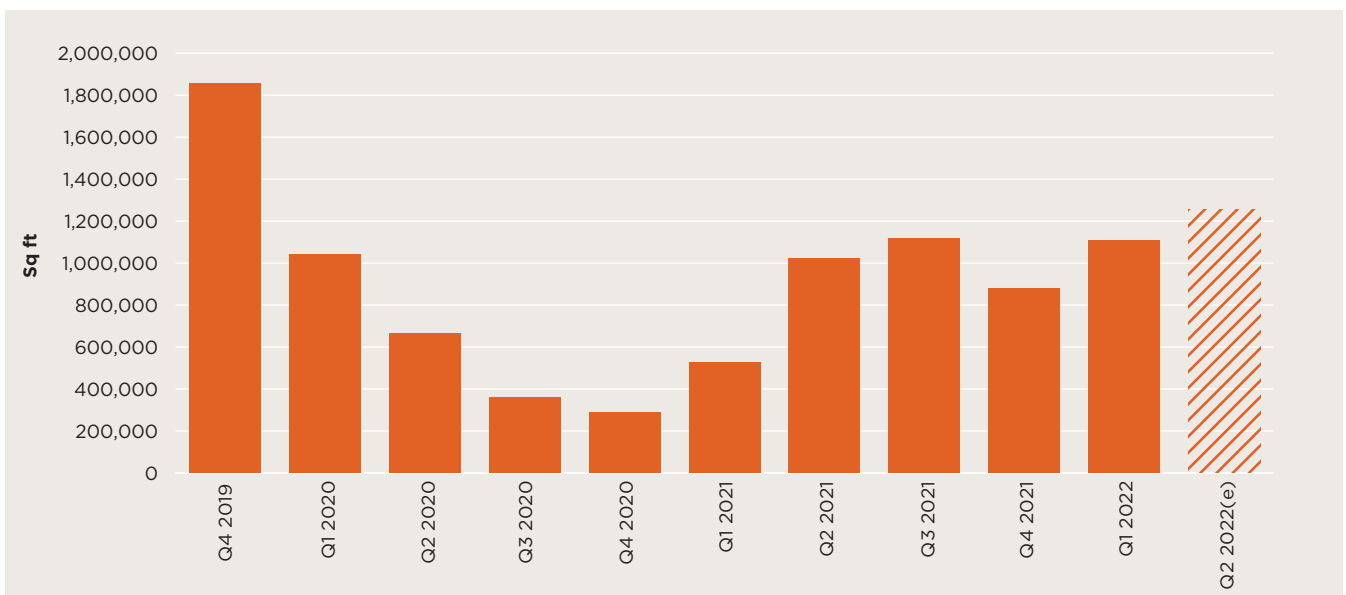
With the office market continuing to recover in Q1 2022, take-up totalled 478,000 sq ft, the second-highest quarterly figure since the pandemic began. Take-up this quarter represents a substantial recovery relative to Q1 2021, when the country was in the depths of the third lockdown and just 22,000 sq ft transacted across seven deals. Notably, even though take-up is closing the gap with pre-pandemic levels, it was still 24% lower than the ten-year first-quarter average and 57% lower than Q1 2020. As previously highlighted in Figure 4, strong employment growth over the course of the last two years should provide support for take-up in 2022. Crucially even as take-up has recovered, the quantum of reserved stock has grown, increasing from 830,000 sq ft at the end of 2021 to 1.1

million sq ft. Reserved stock keeping pace with take-up implies that the recovery that we have seen since late 2021 should remain relatively steady. The number of active requirements in the market, another bellwether for demand, also remained steady at 4 million sq ft.

**The quantum of reserved stock has not only kept pace with take-up but increased from 830,000 sq ft at the end of 2021 to**

**1.1 million sq ft in Q1.**

**Figure 6:** Reserved stock



Source: Savills Research



## Top deals

An Post's leasing of 78,900 sq ft in the Exo in the North Docklands was the largest deal of the quarter, with the postal service provider expanding their footprint in the city with further plans to refurbish existing space in the GPO. FISERV, an American fintech, leased 68,300 sq ft in 10 Hanover Quay in the second-largest deal of the quarter. FISERV is a new entrant to the Dublin market and plans to use the office as a strategic hub for collaboration and innovation,

highlighting how occupiers are increasingly valuing office space for its capacity to bring talent together. The third-largest deal of the quarter was Toast's lease of 34,500 sq ft in 124-127 St. Stephen Green, with the US fintech firm taking space to accommodate a growing workforce after it expanded during the pandemic on the back of a successful funding round in February 2020.

**Table 1:** Top deals

Property	Sq ft	Tenant	Sector
The Exo, Dublin 1	78,900	An Post	Public Sector
10 Hanover Quay, Dublin 2	68,300	FISERV	ICT
124-127 St. Stephens Green, Dublin 2	34,500	Toast	ICT
Park Place, Hatch Street, Dublin 2	29,200	LinkedIn	ICT
Park Place Hatch Street, Dublin 2	28,700	LinkedIn	ICT

Source: Savills Research



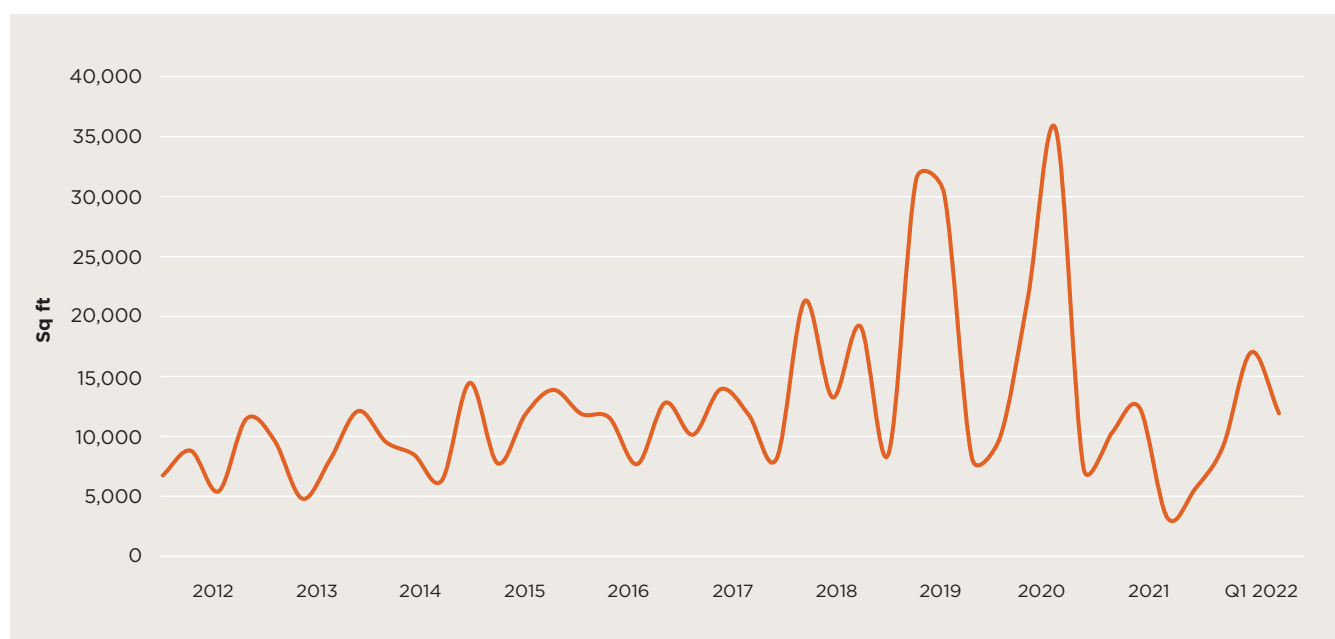
Benson, Dublin 2

## Deal size analysis

With offices closed for the majority of 2020 and 2021, the volume of active requirements declined as companies delayed decisions on their long-term occupational strategies, leading to a fall in the average deal size over the last two years. Two mega-deals in the final quarter of 2021 fuelled an uptick in the quarterly average deal size to 17,000 sq ft, more than double the average of 7,600 sq ft witnessed over the preceding four quarters and 8.8% higher than the five-year quarterly

average deal size before the pandemic of 15,700 sq ft. With Q1 seeing no deals of the scale seen in Q4 2021, the average deal size fell to 11,950 sq ft, 24% lower than the aforementioned pre-pandemic average. Examining the deals that were greater than 50,000 sq ft, the average deal size in this category was just 73,600 sq ft, compared to a five-year quarterly average of 134,500 sq ft for deals over 50,000 sq ft.

**Figure 7:** Quarterly average deal size



Source: Savills Research

## Location analysis

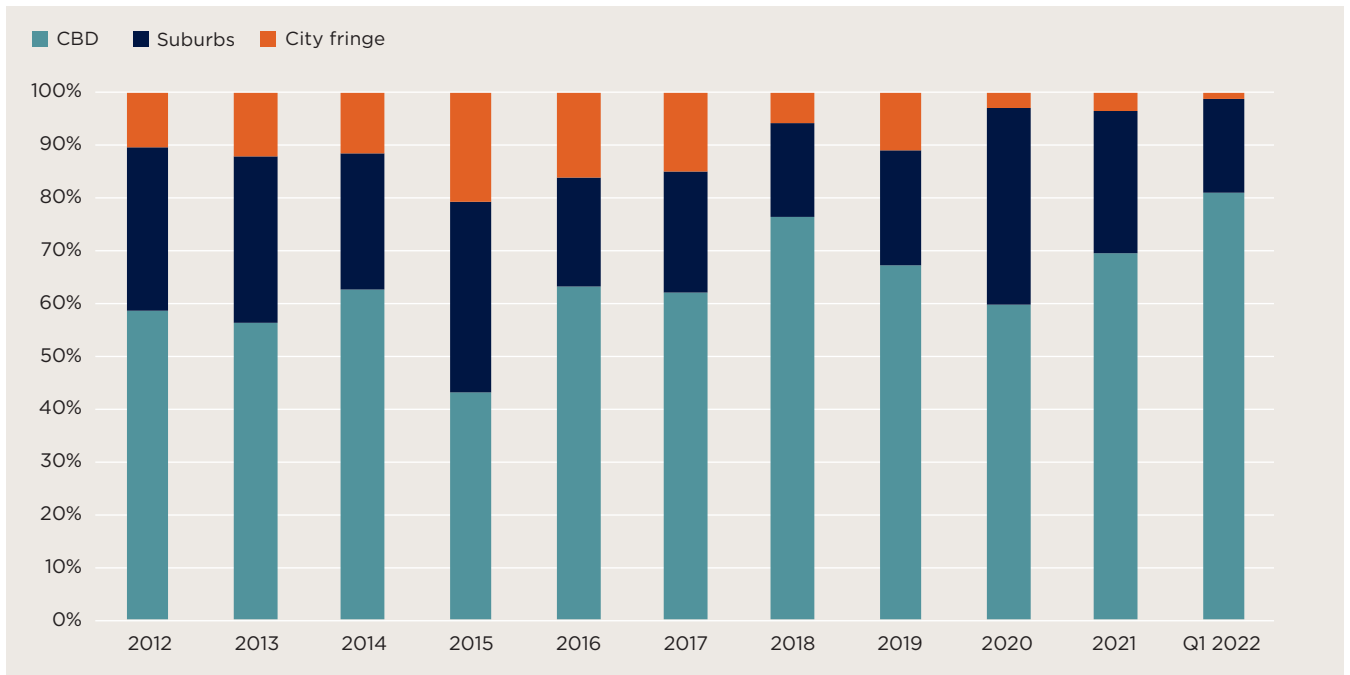
The CBD's primacy as the location of choice continued in Q1 2022, accounting for 81% of take-up for the second quarter in a row. The preference for the CBD is particularly evident amongst occupiers taking larger units, with the top five deals in the quarter taking place here. As we have noted in previous reports, Dublin's size likely reduces the attractiveness of hub-and-spoke models allowing occupiers to locate in easily accessed, centrally located offices. Furthermore, Dublin's radial transport system – which focuses on the movement of people to and from the periphery of the city to its centre – incentivises this occupational strategy. Tech firms were the

most active in the CBD, accounting for 48% of take-up followed by Financial Services and Public Sector firms, which accounted for 21% and 20%, respectively. There were only two significant deals in the suburbs this quarter: Cubic Telecom, a software company, took 28,500 sq ft in the Hive in Sandymount, while flex-space provider Regus leased 20,000 sq ft in Two, Dublin Airport Central. Only two other flex-space providers, The One Agency and Pembroke Hall, have taken space since the onset of the pandemic. An expansion by Regus – who are a significantly bigger player in the market – may be an early indication of a renaissance in flex-space.

👉 **Tech firms were the most active in the CBD accounting for 48% of take-up, followed by Financial Services and Public Sector firms, who accounted for 21% and 20%, respectively.** 👉



**Figure 8:** Take-up by submarket



Source: Savills Research

**81%** of take-up was in the CBD for the second quarter in a row.





## Sector analysis

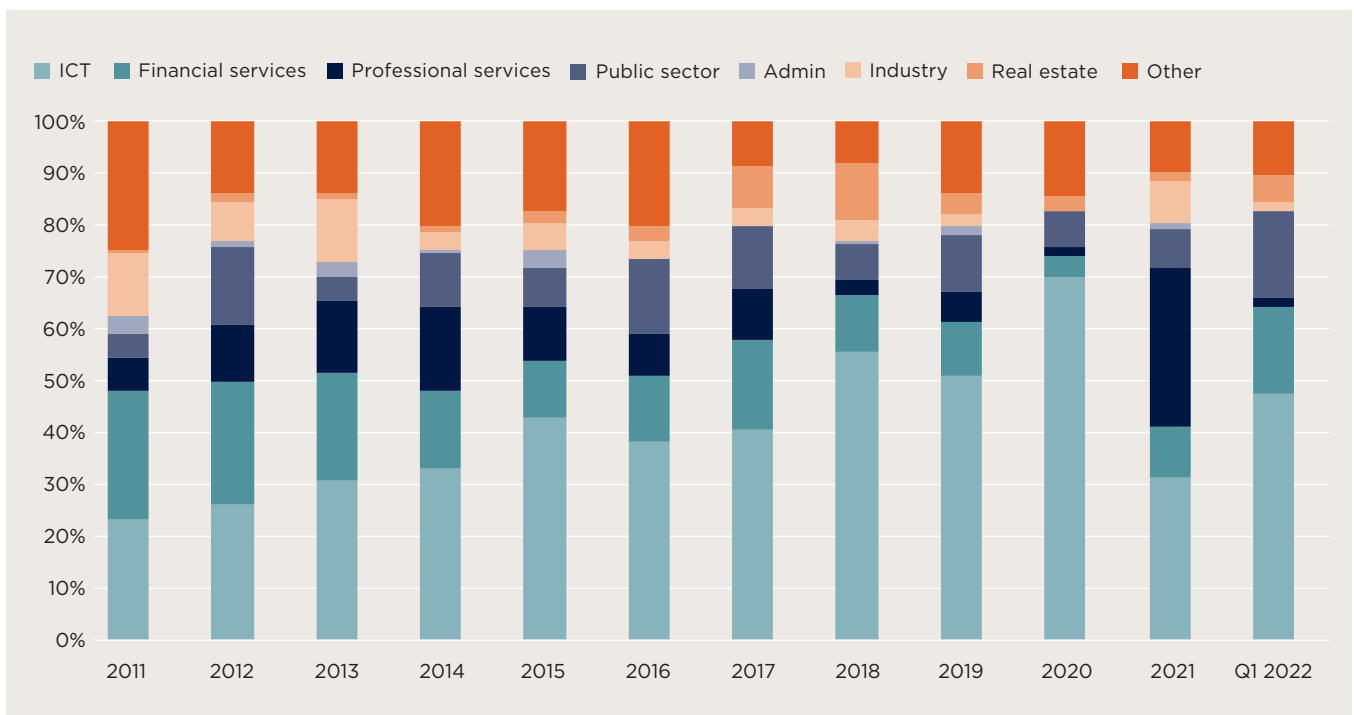
After 2021 saw the ICT sector account for its lowest share of take-up since 2014, ICT made-up 47% of take-up in Q1, ten percentage points ahead of the sector's five-year quarterly average share. Indeed, excluding An Post's deal, ICT firms made up five out of six of the largest deals this quarter, with FISERV, Toast, LinkedIn and Cubic Telecom taking space. The Public Sector and Financial services both comprised an additional 17% of take-up, with An Post's lease in the Exo building accounting for all of the public sector's take-up. Tech firms are starting to become more active again, and the ICT sector's

share of take-up is likely to grow in 2022, with several large deals set to sign this year as tech firms look to expand their presence in Dublin.

# 47%

of take-up was in ICT, making up five out of six of the largest deals this quarter.

Figure 9: Take-up by sector



Source: Savills Research

## Supply

Despite Covid-related health restrictions closing construction sites in early 2021, year-end completions totalled 1.1 million sq ft. Just one scheme reached practical completion in Q1, namely 430,000 sq ft at Spencer Place. The property was pre-let in its entirety by Salesforce for use as their EMEA HQ in 2019. Notably, because Salesforce

acquired Slack in 2020, 28 Fitzwilliam has been brought back to the market. The whole building was let by Slack in Q1 2020, whose workforce will now move into Spencer Place. 28 Fitzwilliam which is now reserved, was the only grade A office over 100,000 sq ft available on the market at the end of Q1 and current rental levels.

28 Fitzwilliam is currently the only grade A office available on the market larger than

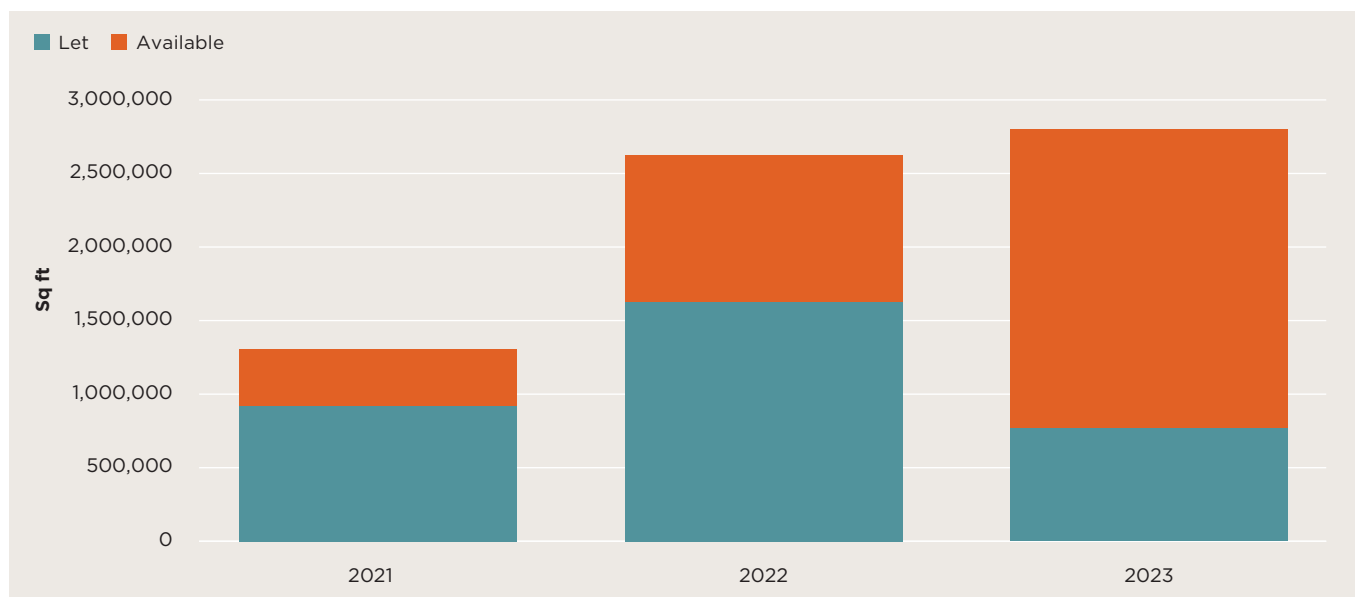
# 100,000 sq ft.



2.6 million sq ft of space is due to be added to stock over the course of 2022, with Q2 expected to account over half of completions in the year. Pipeline supply is relatively constrained this year: 62% of the stock that will be delivered is already let. Construction remains focused on the CBD, which accounts for 75% of the volume of space

due to finish construction in Dublin this year. The city fringe is forecast to account for 21% of completions, its highest share in the last decade. There will be limited new supply in the suburbs, with less than 100,000 sq ft due to finish. This slowdown will mean less competition for units completed in the last few years that struggled to find tenants during the pandemic.

**Figure 10:** New Delivery



Source: Savills Research



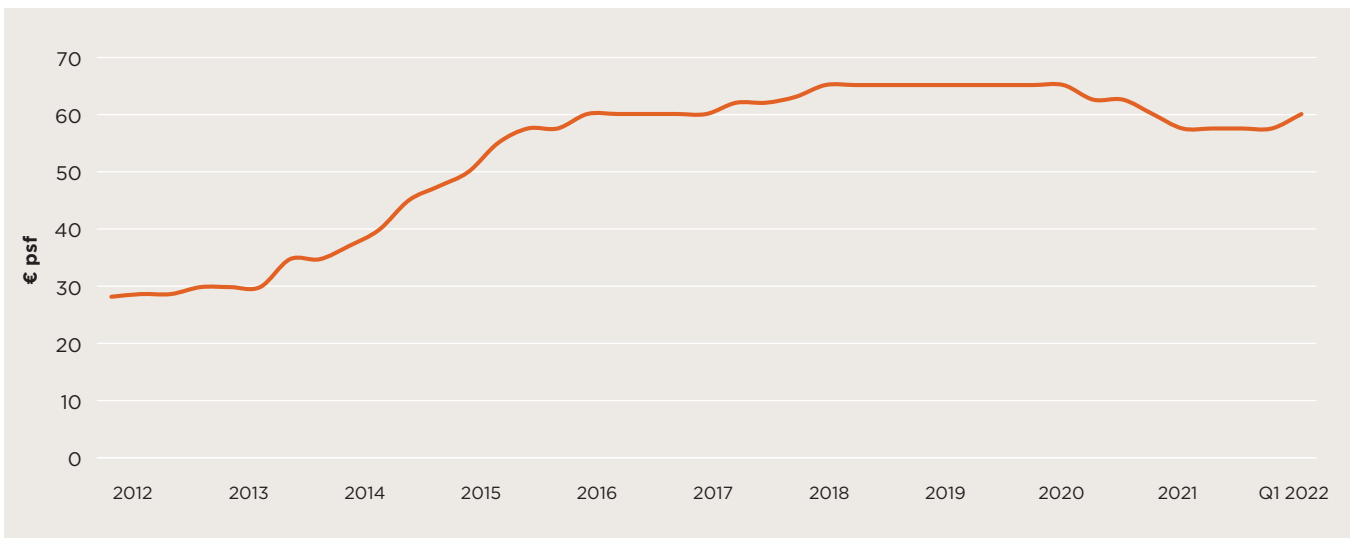
One key trend this year will be the completion of schemes leased by big-tech firms before completion, which will support net absorption. In addition to the completion of Spencer Place in Q1, Google's Boland's Quay development, part of LinkedIn's Wilton Park campus developed by IPUT and Mastercard's expansion of their European Technology Hub in the form of Two South County in Leopardstown are also being added to stock. The middle blocks in Meta's Ballsbridge campus is also due to finish construction.

The pipeline looks set to continue its upwards trajectory, with 2.8m sq ft and 3.2m sq ft due in 2023 and 2024, respectively. While only 27% of stock coming to the market in 2023 is currently leased, we would expect to see this figure grow as the year progresses.

## Rents

Headline rents initially fell at the onset of the pandemic as uncertainty rose sharply and the new work from home paradigm emerged. Despite this, rents for prime CBD assets stabilised at €57.50 throughout 2021, with landlords adjusting incentives to maintain headline rents at a higher level. Rents are now trending upwards, with the prime benchmark rent increasing to €60.00 psf in Q1. Incentives for new stock came under downwards pressure in tandem with headline rents at the pandemic's start. These have since stabilised, and we expect lease terms for newly built offices to range between 10-12 years.

**Figure 11:** Prime CBD rents



Source: Savills Research





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