Quarter 4, 2017

Q4

DUBLIN OFFICE

Lisney

The Difference

The Market in Numbers

Take-Up

137,550sqm

Strongest quarterly level of take-up on record

Occupiers

46%

Domestic occupiers very active in 2017

New Construction

282,950sqm

Currently under construction

Vacancy Rate

8.1%

Overall Dublin rate excluding sub-standard accommodation

Overview

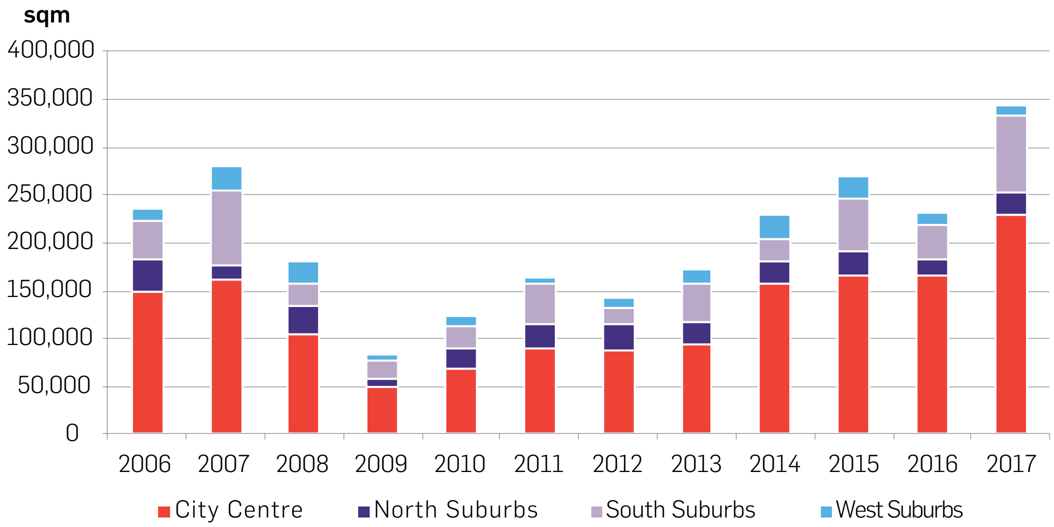
Activity in the Dublin office market in Q4 was significantly up on Q3 figures with over 137,550 sqm transacting, which translated into 64 deals. The majority of deals were acquired by domestic occupiers while the IT sector took the most space. The city centre was the most active region, accounting for 60% of the volume of space transacted. Supply levels decreased further with the vacancy rate dropping to 9.2%.

Activity

City centre activity remained strong in the quarter (60% of take-up). In terms of notable deals in the region, AIB took approximately 10,700 sqm at 10 Molesworth Street; Avolon agreed a 25-year lease on 7,000 sqm in Building 1, Number One Ballsbridge; and the National Treasury Management Agency (NTMA) leased 5,950 sqm at No.1 Dublin Landings on North Wall Quay.

The south suburbs region accounted for 34% of activity in Q4. This was largely accounted for by the IT company, Fleetmatics, leasing 8,350 sqm in The Atrium Buildings in Sandyford. The north (4%) and west (1%) suburban regions accounted for the remaining space taken up.

Take-Up by Region, 2006 – 2017

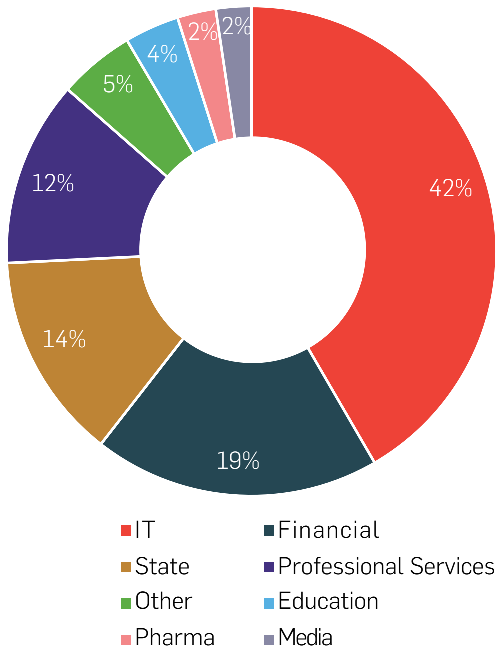


Source: Lisney

Companies in the IT sector occupied the majority of space taken up (54%) in the final quarter of the year, translating into seven deals. This was followed by the professional services sector with 17% of activity and the finance sector with 16%.

For 2017 as a whole, activity was also dominated by the IT sector (42%). The Financial sector was the next busiest (19%) followed by the State (14%). The city centre was the location of preference with 67% of activity occurring here. The south suburban region accounted for 23% of take-up, while the north and west suburbs accounted for 10% combined.

Take-Up by Sector, 2017



Source: Lisney

Overseas occupiers dominated the market, accounting for 54% of all take-up in the year. Of this figure, 85% relates to the US, 8% to the UK, while the remaining 7% covers Europe, Asia and the rest of the world. Domestic occupiers continue to be very active, accounting for 46% of accommodation transacted in the year.

Notably, based on deal size, 57% of deals in the year were larger than 5,000 sqm. This highlights the current appetite for larger floor plates; in particular from the state and the financial and IT sectors (Microsoft 34,550 sqm, AIB 14,100 sqm and the OPW 13,300 sqm).

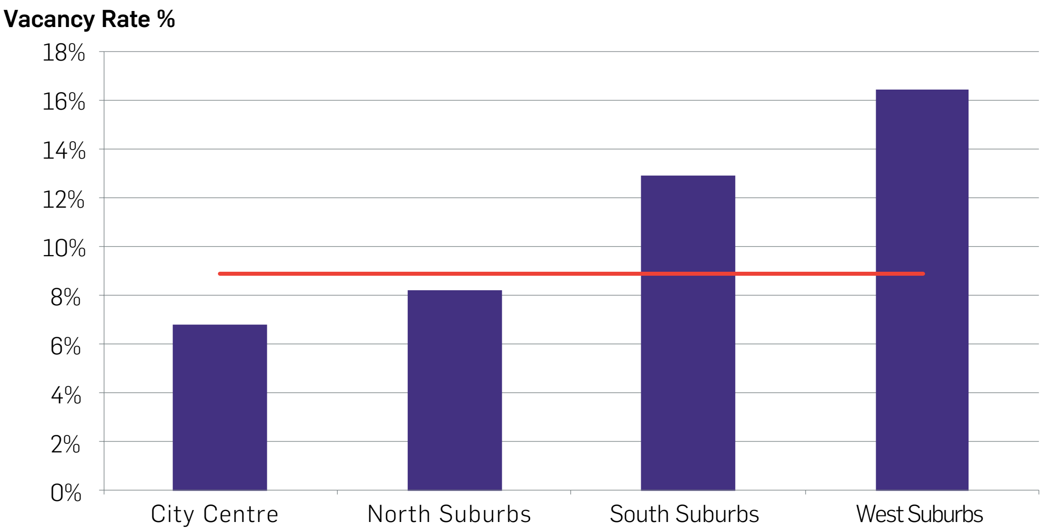
Supply

Supply increased by 3.6% in Q4. In terms of the classification of overall Dublin supply, at the end of December, 16% comprised new accommodation (an increasing figure), while 10% was sub-standard space and 22% was space under refurbishment. The remaining accommodation was second-hand (52%).

At the end of December, the overall Dublin vacancy rate dropped to 8.9% from 9.2% three months previous. Notably, if sub-standard accommodation is stripped out, the overall vacancy rate falls further, to 8.1%.

The city centre region accounted for almost half of the available space (47%) at the end of Q4 2017, while the remainder was spread across the south (27%), west (17%) and north suburbs (10%).

Vacancy by Region, Q4 2017



Source: Lisney

Construction

Approximately 73,750 sqm of new accommodation completed construction in Q4, bringing the total for the 12 months of 2017 to 165,700 sqm. Some of the buildings completed include Microsoft's HQ in South County Business Park, Leopardstown (37,150 sqm); Block H, Central Park (14,700 sqm) and the Exchange Building in the IFSC (10,150 sqm).

Almost 283,000 sqm of office accommodation was under construction in the Dublin region at the end of December. However, about 25,950 sqm (9%) of this is pre-let, mid-let or being developed by owner-occupiers with a further 98,500 sqm reserved and due to be let in the coming months; leaving approximately 158,550 sqm for potential occupiers.

Outlook

- The overall Dublin vacancy rate will fall further due to the fact that second hand space is coming to the market slower than expected.
- The city centre will remain the most sought after region and supply will continue to diminish.
- Landlord's views have hardened and rental growth will continue on its upward trend.

In Focus

International occupiers, particularly those in the IT sector are dominating the Dublin market. These are not just new entrants but also established companies that have made a commitment to Ireland and continue to expand. It is interesting to review the evolution of these occupiers in the Irish market. Most tech companies start small and if successful, expand rapidly in terms of office accommodation. High profile examples in Dublin include Facebook and Google. Tracking these two company's evolution shows some very interesting results.

Facebook is only in the Irish market since 2009 and in that year took two leases in Hanover Reach with a combined area of 2,000 sqm. By the end of 2012, and having been involved in four more lettings, it occupied almost 6,000 sqm in the building. The following year it relocated to 4 Grand Canal Square, taking a new 11,300 sqm building. The next year it then expanded further and took 11,750 sqm in the neighbouring 5 Grand Canal Square. This meant it had a total of 23,000 sqm. In 2017, it expanded again and took 15,800 sqm at East Wall. This means that over the eight years it went from less than 2,000 sqm to almost 39,000 sqm. This represents 1.7% of the city centre office stock.

Google's story is similar but even more dramatic. It took its first lease in Dublin in 2003, just 460 sqm. It quickly expanded and in 2004 took 5,860 sqm on Barrow Street. The next year it took the adjacent 9,580 sqm building. This meant 15,500 sqm across two buildings. It did not expand again until 2010, and between then and 2016 it was involved in nine deals (a mix of leases and purchases). In 2017, it was active once again, taking the newly constructed Velasco building along the canal. All of this brings its total occupancy to over 66,000 sqm. At the end of December, it was finalising a deal on 8,360 sqm in Sandyford, plus it was reported in the media that it is looking at other city centre buildings with a reported combined area of 37,000 sqm. If these reports prove correct, then Google will occupy 2.9% of all modern office stock across Dublin or 4% of the city centre stock (including East Point).

It is interesting that companies such as these, that are conducting business from Ireland but not necessarily in Ireland, are underpinning the market and setting the rental tone. This can mean that indigenous businesses can struggle to meet similar levels.

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