Overview

In recent months, sentiment in the Dublin office market was more cautious but still positive. Occupiers were possibly a little more thoughtful because of Brexit, the US elections and the US economy. Additionally, some occupiers were trying to beat the squeeze (see Lisney Q1 2016 Office Update) and wait for improved supply and better choice. While the depth of enquiries did reduce, demand was still healthy and there was close to 93,000 sqm of accommodation reserved and in the legal phase at the end of June. The majority of this should complete before the end of the year but it is doubtful the extraordinarily strong levels of activity reached last year will be exceeded. 2016 take-up is more likely to fall broadly in line with the 10 year average figure of around 180,000 sqm.

Market Terms

The balance of the market remained in the landlord’s favour and they continued to seek 20 to 25 year leases with 10 – 12 years commitment. Rent free periods (in the city centre) were generally below six months and one year in the suburbs. Rents pushed further forward, with Lisney’s rental indices for Dublin overall showing growth of 17.7% over the 12 months to the end of June. The city centre rate was 18.7%, where the index has now risen by 110.6% since early 2013. However, the rate of increase is slowing as the recent pace of growth was not sustainable and because increases are now coming from much higher bases.

The pre-let and mid-let market for bigger schemes of more than 4,000 sqm was limited. Some landlords were offering competitive rental packages to secure a tenant before completion and even more so before construction begins. Pre-lets reduce the risk and cost of finance for developers; a benefit developers seem willing to share with a tenant to secure a deal. Amazon’s deal at Vertium on Burlington Road and Grant Thornton’s deal at City Quay are two examples.
Activity

Activity levels in Q2 remained similar to the previous quarter, with 43,600 sqm of accommodation taken up. The city centre was the most active region yet again and accounted for 62% of transactions (by size). The most notable deal was United Health Group’s take-up of 4,200 sqm in Block C3 & C4 (Kilmore House), Spencer Dock. Other large lettings in the city centre included Whirlpool (2,330 sqm) in One Gateway, Fenergo (1,900 sqm) in Castleforbes House and EBS (1,740 sqm) also in One Gateway. This adds to the 10,600 sqm taken by the ESB last quarter in Two Gateway and Three Gateway.

In the suburbs, the south region was the most active with 8% of transactions occurring there. In Cherrywood, APC an Irish pharmaceutical company, took 2,800 sqm while Zoetis an animal health company took 1,560 sqm. Also in this region, Salesforce acquired 2,400 sqm at One Central Park, Leopardstown.

Occupiers from the IT and Pharma / Health sectors were busy taking space in Q2. They represented 30% and 24% of the market respectively, with the top five largest deals in these areas.

Interestingly, due to a strong representation in Q1, the State and the financial sector dominated take-up for the first half of 2016, representing 31% and 30% of H1 activity.

Supply

At approximately 390,000 sqm, the volume of available office accommodation; was relatively stable in Q2, increasing by just 1.2%. This was mainly due to second-hand space coming back to the market. Despite the quarterly increase, supply did fall by 17% over the year to the end of June.

In a reversal of the trend from 2015, domestic occupiers were more dominant in the first half of 2016, accounting for 58% of accommodation transacted. Of the 42% of occupiers from overseas, three-quarters were from the US. While Brexit brings with it a great deal of uncertainty and many possible negative consequences for Ireland, one of the areas that might benefit is Ireland’s attractiveness to FDI companies and could lead to greater demand for office space. Whether this transpires is still very much up in the air, but a mass influx of companies is not anticipated and any increase in demand is likely to be on a gradual basis. Furthermore, any additional increase in demand from FDI brings with it ramifications for the property market; in terms of having an adequate supply of office and residential accommodation available.

Outlook

- 2016 take-up is likely to be around 180,000 sqm.
- Vacancy rates in all regions will continue to decline. By the end of 2016, the overall Dublin headline rate will fall below 10% for the first time since 2008.
IN FOCUS

Supply Chain

Approximately 270,000 sqm of office accommodation is currently under construction in the Dublin region; all of which is due to be completed before the end of 2019. Almost 92,000 sqm (one third) of this is pre-let, mid-let or being developed by owner-occupiers with a further 23,000 sqm reserved and due to be let in the coming months. There is a further 170,000 sqm of accommodation due to be completed by the end of 2019. 70,000 sqm of this will commence in 2016 with the remainder still to get through the planning system and assuming there are no significant delays, should be completed by December 2019. Post 2019 and as things currently stand, there is about 400,000 sqm of accommodation in the pipeline at pre-planning stage. However, it is difficult to predict what will happen so far out and external shocks can change the development landscape significantly and quickly.

DEVELOPMENT PIPELINE

Under Construction
270,000 sqm
- 92,000 sqm pre-let / owner-occupiers
- 23,000 sqm reserved
- 155,000 sqm available

Completion by End-2019
170,000 sqm
- 70,000 sqm 2016 commencement
- 100,000 sqm at pre-planning

Completion Post 2019
400,000 sqm
- all at pre-planning stage

* Please note, all future development sizes are approximate figures.

Source: Lisney