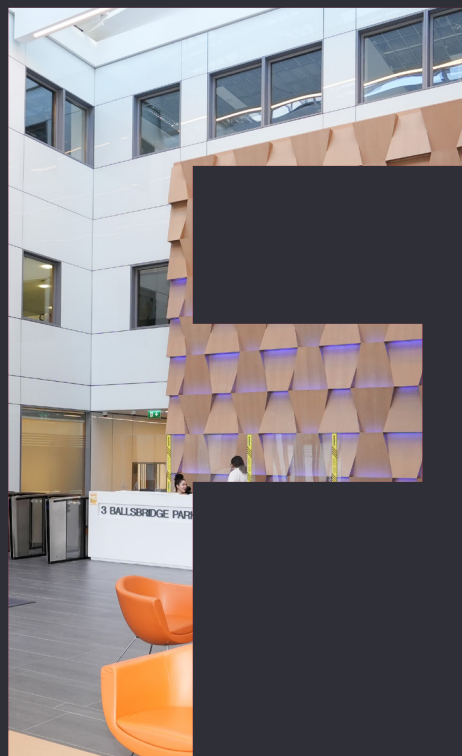


February 2023

Edition no. 2



Bannon **Office Pulse**





Expert Insight

By Lucy Connolly



As tech sector expansion slows down, is this the end of the super deal?

In recent years the Dublin office market has experienced unprecedented growth and has become accustomed to the super deal (transactions in excess of 100,000 sq.ft.). These deals, driven by demand in the market from numerous sectors for prime Grade A space cumulated in over 10,000,000 sq.ft. of office accommodation being delivered to the Dublin office market since 2016. The majority of this accommodation benefitted from pre-lets in advance of completion with transactions ranging from 104,000 sq.ft. letting to Mastercard at Two South County in 2020 to the largest deal on record at Fibonacci Square to Meta at 870,000 sq.ft. in 2018.

The assumption by many is that the majority of these super deals are as a result of tech sector expansion into the Irish market, therefore, given recent speculation by the press as to the demise of the tech sector occupier, is this the end of the super deal?

On analysis there have been 29 deals in excess of 100,000 sq.ft. since 2016, averaging at 5.6 transactions per annum. Whilst the tech sector has been strongly represented with 55% of these transactions the remaining 45% is attributable to professional and financial services sectors and state agencies. Indeed, if we look to 2022 there were 2 deals recorded in excess of 100,000 sq.ft. both of which were transactions to professional and financial services firms, accounting for 16% of all transactions in 2022.

In order to fully appreciate the impact of the super deal on the market it is also important to have regard to the average deal size and bracket activity as detailed in the tables below. The average deal size reached its peak in 2018/2019, this was largely as a result of both Meta and LinkedIn acquiring multiple adjoining buildings to create campus like headquarters within the city. If we look at the preceding and proceeding years, they are largely in sync.

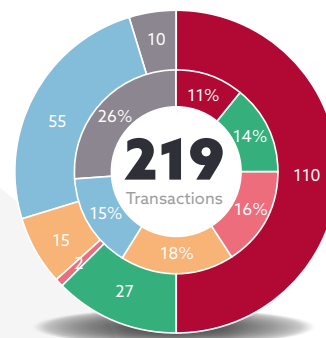
Whilst there is no question that tech sector activity has decreased momentarily in the Dublin market, we are seeing increased demand from professional and financial services sectors. We do expect to see this demand

maintained particularly having regard to the requirement by many of these firms to occupy highly sustainable buildings that marry with their ESG obligations. This will be a key component going forward and will impact the 'stay or go' decision making for these businesses. We are already seeing examples of this in the market with companies such as A&L Goodbody and Citigroup opting for new and refurbished HQ developments in the North Docks.

There is no doubt that an average weekly reduction in headcounts within offices will have a knock on effect on the average deal size. However, the impact of remote and hybrid working were always going to result in a downward trajectory and not just as a result of tech sector activity.

The impact of the tech sector on large transactions remains to be seen but with a notable percentage of occupied Dublin office stock requiring modernisation we do expect to see a continued demand from other sectors for grade A accommodation as lease events occur. The super deal might become more rare but for highly sustainable stock expect them to keep coming.

No. of Deals by Size Band and Percentage of Total Take-Up (2022)



- ➔ Under 5,000 Sq.ft.
- ➔ 5,000 - 9,999 Sq.ft.
- ➔ 10,000 - 19,999 Sq.ft.
- ➔ 20,000 - 49,999 Sq.ft.
- ➔ 50,000 - 99,999 Sq.ft.
- ➔ 100,000+

Average Deal Size

Year	2016	2017	2018	2019	2020	2021	2022
Avg. Size (Sq.ft.)	10,138	12,313	15,364	16,155	15,502	10,266	11,990



Expert Insight

By Cillian O'Reilly, Sustainability Manager



The data behind a two-tier occupational Dublin office letting market

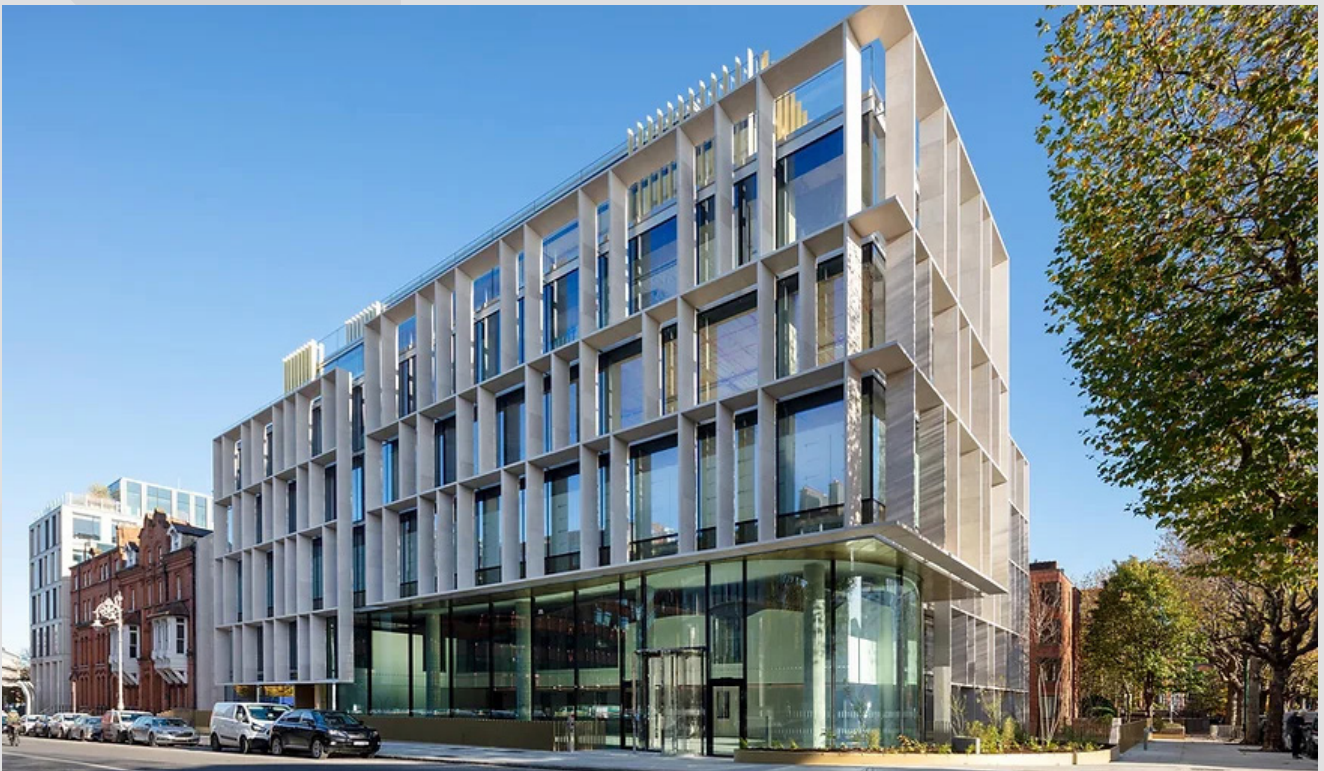
With ESG and Environmental Sustainability continuing to be the headline theme in the 2023 office letting market, Bannon dives into the data of the Dublin market.

Of the c. 4.32 million sq.m. in the Dublin office market a mere 24% is compliant with current sustainability regulations. The remaining 3.27 million sq.m. will soon become stranded and undesirable for those with strict environmental policies without deep retrofit or redevelopment. If a building does not meet ESG requirements and the cost of improving it to satisfy them exceeds the required market return, the building in question can be considered a stranded asset.

"A building shall be designed and constructed so as to ensure that the energy performance of the building is such as to limit the amount of energy required for the operation of the building and the amount of carbon dioxide (CO₂) emissions associated with this energy use insofar as is reasonably practicable." (S.I. No. 538/2017 - Building Regulations (Part L Amendment) Regulations 2017).

The amendment to Part L of the Building Regulations 2017 is seen as the turning point for the construction of environmentally sustainable buildings and the effective start of NZEB (nearly zero energy buildings). In 2021, the European Sustainable Finance Disclosure Regulations were introduced to improve transparency in the market for sustainable investment products. Both pieces of legislation are a major catalyst for the development, redevelopment and refurbishment of office space across Dublin and have created a two-tier occupational market.

The owners of modern, compliant space and developers who are currently onsite are at a distinct advantage in the letting market. Those investors with the risk appetite to take on the role of attacking the 3.27 million sq.m of non-compliant and potentially stranded office space will avail of top-tier occupiers on completion and will be reflected with top-tier returns.



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