
PAPERS FROM PRACTICE

Dublin's Fourth Office Development Boom

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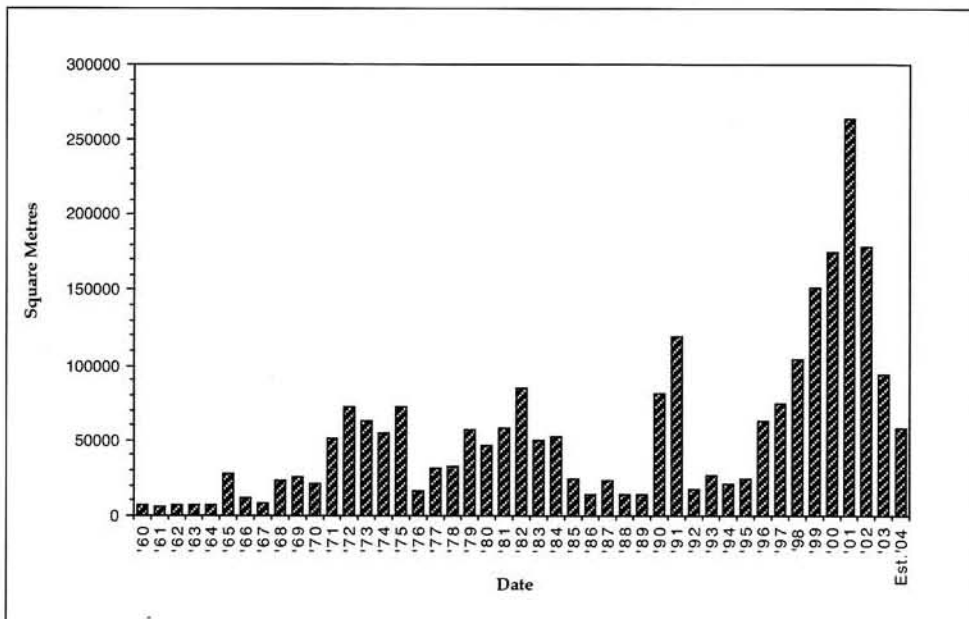
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The past seven years have comprised a period of considerable activity in the office development sector in Dublin. Between January 1999 and December 2003, over 856,000 sq. m. of office space was completed, creating a 50 per cent increase in the size of the modern (post-1960) office stock. Figure 1 shows that this fourth development boom was of a far greater intensity than previous booms.

This article reviews the associated trends in the scale of development, take-up and vacancy over the past decade. The data are drawn from the Hamilton Osborne King/Trinity College Dublin database and annual office reviews compiled annually since 1989. An examination of the two earlier development booms is provided by MacLaran, MacLaran and Malone (1987), with a review of the third development boom being included in MacLaran (1993) and Drudy and MacLaran (1994).

Figure 1. Space Completed Annually, 1960-2004 (estimated)



The initial stimulus to development activity occurred during 1994. The impetus was a sharp rise in the quantity of space being taken up by users, rising from 57,684 sq. m. in 1993 to 89,240 sq. m. during 1994, amounting to a 55 per cent increase. This was to herald an unbroken period of rising demand over the next few years, take-up growing by a further 16 per cent in both 1995 and 1996, rising by another 21 per cent in 1997 and by an additional 54 per cent during 1998 to reach 227,514 sq. m. Over 80 per cent of that space was located in newly completed buildings and most (88 per cent) was of third-generation quality. Some 102,000 sq. m. was taken up in the city's incentive areas, including over 14,000 sq. m. at the East Point Business Park in Dublin 3 and 69,656 sq. m. at the International Financial Services Centre (IFSC) at the Custom House Docks, much of which had yet to be constructed by year's end.

This point in the cycle was dominated by fifteen large transactions, each totalling over 2,000 sq. m., nine of which concerned space in the IFSC. The largest transaction was that of Citibank, which took up 18,580 sq. m. in the second phase of the IFSC development. Other large signatories at the IFSC included A & L Goodbody, which took up 9,290 sq. m., the Bank of Ireland and FBD, which both took up over 6,500 sq. m. in Mayor House and Guild House respectively, and AIG which took up 5,574 sq. m. Commerzbank also signed for 4,087 sq. m. in Guild House, while Logica, Statoil and KPMG were further signatories relating to buildings located in the earlier part of the scheme. Three large transactions concerned space located in the city's Enterprise Zones. ESAT and Ocean took space in excess of 5,500 sq. m. at Grand Canal Quay and at the Grand Canal Plaza, while Telecom Eireann took 4,953 sq. m. at the East Point Business Park. Outside the city's Incentive Areas, major deals involved Compaq, which took up 14,865 sq. m. at Belfield Office Park in Dublin 4, where another 5,110 sq. m. was taken up by Ericsson.

Figure 2. Take-Up of Newly Completed and Older Modern Office Space, 1993–2003

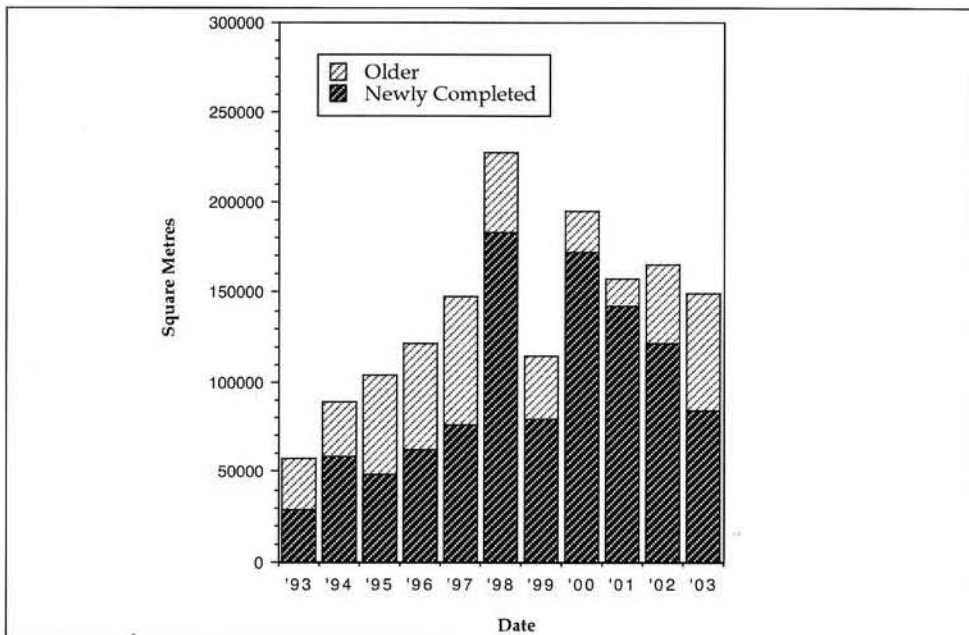


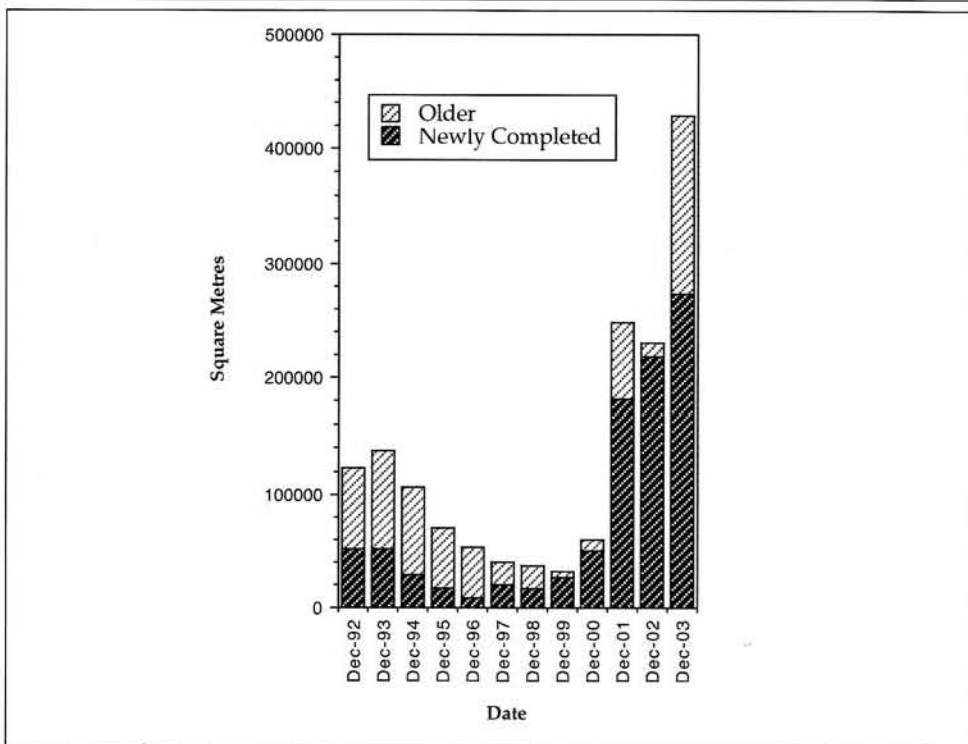
Figure 2 shows that 1998 marked the peak level of take-up of office space, following which the scale of demand underwent a general decline in which annual take-up fluctuated between significant reductions and lesser degrees of recovery. Thus, take-up dropped by nearly 50 per cent in 1999, recovered well during the following year, dropped again (by nearly 20 per cent) in 2001, recovered slightly during 2002 and reduced by some 10 per cent to 149,907 sq. m. in 2003.

It is apparent from Figure 2 that the scale of take-up of older modern office space remained more stable during the period than the demand for newly completed space. The varying component of new buildings in the overall level of take-up results in considerable measure from the timing of deals involving large amounts of newly completed space, notably in the city's incentive areas and the newly emerging suburban office nodes.

The rising levels of take-up occurring from 1994 onwards were reflected in declining rates of office vacancy in the city. December 1993 had marked the peak level of vacancy during the slump in development activity following the brief boom in office completions during 1990 and 1991 which had been partially stimulated by the tax incentive regimes created for the city's Designated Areas (MacLaran, 1993).

With rising demand and little development activity taking place, the citywide vacancy rate declined from its 11.0 per cent peak at the end of 1993 to 8.6 per cent by the end of 1994 and, with very limited quantities of new space reaching completion, to 5.5 per cent twelve months later. By December 1996, vacancy had fallen to just 4.0 per cent.

Figure 3. Office Vacancy Levels, Dec. 1992 – Dec. 2003



Yet, despite the rising pace of development activity and increasing quantities of space now reaching completion, the scale of demand was of such a magnitude that vacancy rates continued to fall over the next three years. Figure 3 shows that at the end of 1999 the quantity of space lying vacant amounted to little over 31,000 sq. m., at which time the vacancy rate stood at just 1.9 per cent of the office stock (1,656,866 sq. m.).

The demand for well-located space drove down the scale of vacancy in well-established office locations to below 1 per cent, reflected in the highly constrained availability of older modern offices in the city, amounting to just 4,405 sq. m. citywide. Space shortages became particularly severe during the late 1990s in the office core of Dublin 2 and Dublin 4 and were reflected in the virtual absence of vacant well-located developments there. Available space in Dublin 2 and Dublin 4 totalled just 6,077 sq. m. in December 1999, of which 2,590 sq. m. had been previously occupied.

The reduced amount of available space resulted in a growth in rental values after 1995. These accelerated from a 6 per cent increase during 1997 to over 25 per cent in 1998. By late 2000, prime 'third generation' newly completed office space in central Dublin commanded rents of around €505 per sq. m., some 55 per cent higher than their level in 1998.

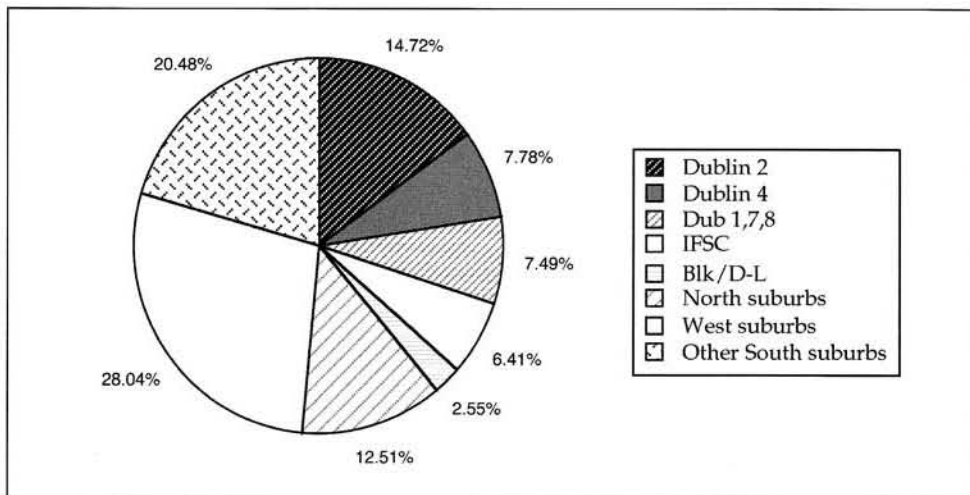
The response of the development sector to the sustained reduction in vacant space and rise in rentals was swift. The amount of space reaching completion during 1995 registered a 20 per cent increase over the previous year. However, it rose in the following year by over 150 per cent (see Figure 1). Over the next five years, the rise in the quantity of space reaching completion was unchecked, increasing by over 18 per cent in 1997, by nearly 40 per cent during 1998 and by 46 per cent in 1999. It rose by a further 15 per cent in 2000 and by an astounding 51 per cent in 2001 when a total of 263,870 sq. m. was built. By the end of 2001, the citywide stock of modern office space had risen to over 2 million sq. m..

Although demand had remained remarkably buoyant after 1998, the scale of construction activity far outpaced the level of user demand. Thus, vacancy rates began to increase after 1999. Citywide vacancy slowly rose from less than 2 per cent of the stock early in 2000 to 3.26 per cent by year's end. Thereafter, vacancy increased very rapidly as significant quantities of the new office space which was reaching completion failed to find occupiers, while increasing numbers of older modern office developments were placed on the market as their previous occupiers took up space in newly completed developments. During 2001, the quantity of space lying vacant expanded fourfold, from 59,700 sq. m. to over 248,000 sq. m., the vacancy rate rising from 3.26 per cent to 11.8 per cent. Vacancy increased by a further 34 per cent in 2002 and by almost another 30 per cent in 2003, reaching 429,112 sq. m. by year's end, at which time 18.2 per cent of the modern office stock of 2,362,070 sq. m. lay vacant. A majority (64 per cent) of that space lay in new buildings.

High levels of vacancy became particularly problematic in certain suburban locations. These had become an important focus for office development during the fourth boom and together accounted for 36.6 per cent of the total stock by the end of 2003 (MacLaran & O'Connell, 2001). At the end of 1989, while Dublin 2 and Dublin 4 had accounted for 75 per cent of the modern office stock, the outer suburbs accommodated just 9 per cent of the total. This pattern of development activity was to change dramatically during the following decade.

As the 1990s proceeded, developers looked increasingly towards suburban locations. In this process, developers were responding to a significant tightening of planning controls in the city centre in addition to a growing scale of competition for the diminishing number of available development sites from alternative functions such as hotels and apartment developments (MacLaran & Killen, 2002). In contrast, development at the periphery provided ease of site assembly and was encouraged by planning regimes which reflected the desire of suburban local authorities for additional income from the commercial rates (property-based taxes) which such office developments would convey. Moreover, the simultaneous emergence of a new type of demand for office space, generally derived from an international client with few locational constraints but demanding large amounts of space which could not be developed in central Dublin, provided an impetus for development at suburban sites. More generally, at a time when staff recruitment and retention issues were becoming increasingly important to companies during a period of full employment in the economy, access by its overwhelmingly suburban workforce became a growing consideration in locational choice (Bertz, 2002a, 2002b).

Figure 4. Location of Office Space Completed, 1999–2003



Between 1990 and 2000, less than 20 per cent of the space reaching completion was located in Dublin 2, with a further 8 per cent in Dublin 4. During 2001, the peak year for office completions, only 28 per cent was located in the central area, comprising the office core in Dublin 2 and its inner-fringe located in Dublin 1, 4, 7 and 8. However, despite their comprising 72 per cent of the space completed during the year, take-up in the outer suburbs comprised just 51 per cent the total. Thus, vacancy rates rose rapidly and, by the end of 2001, the outer suburbs accounted for 76 per cent of the space then lying vacant while accommodating 35 per cent of the modern office stock.

At the end of 2003, vacancy rates varied considerably geographically. Table 1 shows that they were at their lowest in the International Financial Services Centre (IFSC) and in Dublin 2, being somewhat higher at other central locations (Dublin 1, 7, 8 and Dublin 4).

While the overall vacancy rate for the outer suburbs stood at 29.3 per cent, there was considerable geographical variation with the well-established office node at Blackrock – Dun Laoghaire being typified by a vacancy rate of 19.3 per cent while that of the outer western suburbs exceeded 38 per cent. Within these broad geographical categories there also existed significant differences between office parks, ranging from a virtual absence of available space in one location to one sizeable development where some 45 per cent of the stock lay vacant.

Table 1. Vacant Office Space, 31 December 2003

	Vacant 31.12.03 (sq. m)	Vacancy Rate (per cent)
DUBLIN TOTAL	429,112	18.2
Dublin 2	89,058	10.7
Dublin 4	39,178	14.6
Dublin 1, 7 & 8	34,856	14.1
Int. Financial Services Centre	11,991	8.1
Blackrock & Dun Laoghaire	17,776	19.3
North Suburbs	50,572	31.4
West Suburbs	97,682	38.5
Other South Suburbs	88,000	24.5

Although initial rental levels commonly prove remarkably resilient to downward pressure at times of downturn in demand, the current scale of vacancy city wide has engendered the reappearance of incentives such as fit-out allowances and rent-free periods, sometimes for as long as two years. However, although rents in the prime office areas have reduced somewhat from their peak of €520 per sq. m. to €480 per sq. m. at present, in some suburban schemes quoted initial rents have dropped dramatically from €205 per sq. m. in 2001 to around €110 per sq. m. in early 2004.

This high level of vacancy which typifies a significant proportion of suburban office nodes has inevitably resulted in a swift reduction in the scale of speculative development there. Thus, of the 58,000 sq. m. of office space projected to reach completion in Dublin during 2004, little over 1,000 sq. m. will be located in the outer suburbs and it is likely that only schemes which are either pre-sold or pre-let will be activated in the immediate future.

Note

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