Analysis

Some important lessons to take from 2020

Marie Hunt As we come to the end of a challenging year, it is a good time to look at what we learned and how we can improve in the future

The Irish commercial property market is notoriously cyclical, and while the pattern is generally broadly similar, it is fair to say that every cycle is different, with the trajectory generally influenced by different factors each time.

The downturn we experienced as a direct result of Covid-19, and the government's response to it, was largely created by an inability to trade, as opposed to a liquidity crisis or an oversupply situation.

Regardless of the causes, we can learn valuable lessons from every cycle. As we approach the end of what has been a very difficult year, it is timely to reflect on lessons learned in 2020 and consider how we might change as a result. Below are a few of my own observations.

Never be complacent

Always be prepared for the unexpected and learn to be resilient.

At the beginning of 2020, when we were focusing on the various economic, environmental, geopolitical, societal and technological risks that the year ahead might pose for our economy and the real estate sector, it's fair to say that none of us considered the possibility of a worldwide pandemic. The year 2020 has taught us that we must always be wary of the 'black swan' event that can derail even the best-laid plans.

Reflecting now on the volume of occupational and investment activity that occurred in the Irish market during the year, despite the unprecedented conditions we found ourselves in, it is remarkable.

Companies and individuals embraced technological solutions and found alternative ways to survive and do business. This resilience and adaptability is something we need to bring with us into 2021 and beyond.

Never generalise

The hospitality, leisure and retail sectors of the property market were particularly negatively affected by the pandemic. However, other sectors such as industrial and logistics and the multifamily sector performed well regardless.

Within the retail sector, sub-sectors such as supermarkets and neighbourhood shops, thrived on the back of the situation we found ourselves in, while fashion and footwear brands and food and beverage retailers were badly hit. This demonstrates the importance of considering each sector and sub-sector of the property market in isolation and not generalising when assessing property market conditions or outlooks.

Public and private sector collaboration is powerful

There has been much discussion over the last couple of months on the role of the public sector and the role of the private sector, with much commentary pitching one against the other and comparing and contrasting their performances. However, if Covid-19 has taught us anything, it is that we can achieve great things if the public and private sectors collaborate and complement each other's efforts as opposed to competing with each other. This has particular resonance for the residential sector as we move into 2021.

Don't ignore structural shifts – be open to adapt and change

Covid-19 exacerbated many structural trends that were already affecting the way that people live, work, shop and socialise. Covid-19 simply accelerated some of these trends such as a marked increase in online retailing and an acceleration in remote working, which will have longer-term consequences for the real estate sector.

With adversity comes opportunity

Many businesses and individuals were forced to rethink strategy when the world changed last March. There are many wonderful examples of businesses that pivoted their offering during 2020, purely because they were forced to, many of whom are now questioning why they didn't make these changes years ago.

This includes many retailers who had put off moving to an omni-channel offering and have been pleasantly surprised at how much trading they are now doing online.

Most of us are weary of Zoom and Teams after spending so much time on these online meeting platforms in 2020, but we are realising how inefficient we were previously in not fully utilising technologies that were right under our noses.

Sustainability and wellness are here to stay

ESG (environmental, social and corporate governance) issues and sustainability have grown in importance in the last decade and have actually moved up the agenda in 2020, in spite of, and in some cases, because of, the pandemic. The importance of sustainability and increased focus on wellness is firmly here to stay – those that ignore this will do so at their peril.

It is important to give back

The importance of place-making and the public realm has really come to the fore in the last 12 months. Developers and investors realise that providing a nice place to 'live, work, shop and socialise' is critically important to the attractiveness and long-term success of a scheme or location and see the merits in giving something back to these communities.

This year also forced many of us to stop, make time for and think of others. Many people went out of their way to help others during the last 12 months, giving generously of their time and resources to help those less fortunate than themselves as well as reconsidering their own priorities. Maybe this is one of the positive learnings we can take from 2020 and bring with us into 2021 and beyond.

Marie Hunt is executive director, CBRE Ireland

Reasons to be cheerful after a tumultuous 12 months

Chaos reigned in 2020 in the Dublin office market, but a return to relative normality beckons next year

Declan O'Reilly

Central Park in Leopardstown: people are hungry for normality to resume and, for many, that means a return to the office

To state the obvious, 2020 has been a difficult year for the Dublin office market.

The pandemic was a classic black swan event that nobody could have predicted. The economic and social uncertainty created by the pandemic resulted in occupiers unsurprisingly, reassessing their relocation and expansion plans. As such, take-up was negatively impacted, with just 1.3 million square feet likely to transact this year.

Notable deals included MasterCard's 23,226 square metres in South County Business Park and Slack's 12,540 square metres on Fitzwilliam Street, while lettings to Google, Microsoft, Zalando and Dropbox were also in the mix. However, there are many reasons for the market to be optimistic in 2021.

We have witnessed a noticeable lift in enquiries in Q4, prompted by the announcement of a number of vaccines that have acted as a tipping point for companies to plan for a return to the office and indeed their future office needs. However, it could be the end of Q2 before we start to see the impact of the good news stories.

Many companies have rowed back from the view that working from home (WFH) would comprise a significant part of their real estate strategy going forward. There is more discussion now about falling productivity and WFH fatigue, than the "death of the office". As such, many companies are moving back towards 'working from office' strategies in recognition of the benefits that it offers such as facilitating innovation through collaboration and learning, socialisation, attracting and retaining talent and transmitting corporate culture.

That said, there will be some flexibility to WFH, but we expect the office to remain the cornerstone of the modern workplace. We also expect to see some increase in suburban take-up as some of the larger entities opt for a "hub and spoke" model, to leave some of their staff in the edge of the city, in locations like Sandyford and Cherrywood.

In order to facilitate social distancing, it is likely that we will see increased space demands per head which will offset some of the reduced requirement to meet those working from home. Therefore, the amount of space taken is unlikely to change significantly, but the way we use it certainly will. People need a reason to invest their time in the commute to the office, so companies will invest heavily in making the journey worthwhile when they get there.

> **Tech companies will lead the rebound in occupier demand, having performed strongly during the pandemic**

Tech companies will lead the rebound in occupier demand, having performed strongly during the pandemic. The mega-cap tech companies of Google, Microsoft/LinkedIn, Amazon and Facebook have seen their market capitalisations rise from a combined \$3.6 trillion to \$5.2 trillion during the pandemic.

This will result in significant job creation, with Dublin well positioned to benefit, given that these companies already have a significant presence in the capital with a footprint totalling 2.6 million square feet (about 241,548 square metres). Based on space already committed, this footprint is projected to rise to 4.1 million square feet (some 380,903 square metres), by 2025 anyway.

However, the strong increase in their market capitalisations is likely to see this figure rise further in the near future, as they absorb even more space.

Of course, Dublin has a burgeoning tech cluster comprised not only of these mega-cap companies but also of large-cap, medium cap and unicorn companies which also have significant footprints in Dublin. They will grow strongly as well, now that there is a path out of the crisis.

TikTok – whose parent company Bytedance is the highest valued unicorn in the world – recently announced that it is seeking 46,450 square metres of space in Dublin to facilitate a major expansion of its operations here. We anticipate that it will begin satisfying this requirement next year which will represent a significant fillip for the market.

We also expect strong demand for space from the state and professional services sector. The US presidency of Joe Biden will give hope to a more stable international business environment and, while Brexit could well be problematic for the Irish economy generally, we expect to see more British firms seek out a European base in Ireland.

Having stood at 6.5 per cent in Q1, the vacancy rate is likely to finish the year at just under 10 per cent. It is important to remember that this is well below the vacancy rates that prevailed during the global financial crisis which were in excess of 20 per cent.

Covid-19 has ensured that speculative development is likely be subdued over the next 12 months with only projects that have an agreement for lease in place or that were under construction prior to the pandemic proceeding.

Of the almost 430,000 square metres under construction, half is already let. As demand takes off post-Covid-19 but supply remains constrained, this should cap any further significant rises in the vacancy rate and any further downward pressure on rental values next year.

On balance, 2020 is the year we will all want to forget, but 2021 will undoubtedly be a lot better. People are hungry for normality to resume and, for many, that means a welcome return to the office.

Declan O'Reilly is a director at Knight Frank Ireland

How the lockdown freeze created a tenant's market

In a steep correction, rents have fallen 14 per cent in central Dublin and suburbs since the outbreak of the coronavirus last March

Owen Reilly

Dublin's docklands: 78 per cent of Owen Reilly's apartment sellers this year were investors exiting the market

It would be fair to say that Covid-19 has impacted the Docklands market more than any other location, given the cluster of technology companies.

The start of 2020 was very encouraging, after a flat end to 2019. But the arrival of Covid-19 effectively froze the Irish property market.

While our business quickly pivoted to be conducted remotely and virtually, market activity was a fraction of its pre-Covid-19 level as a result of in-person showing restrictions.

In March and April, 50 per cent of our sales fell through, as many buyers were understandably nervous given the uncertainty. Our active listings fell by 90 per cent compared to Q1.

As lockdown eased in June, we immediately saw a huge increase in activity and pent-up demand with really motivated buyers who got to know their existing property and neighbourhood very well during lockdown, and what they offered and what they didn't offer. Many buyers who had pulled out of sales re-engaged with us.

Our average selling price during the summer was 3.48 per cent above asking, which reflects low supply, and we saw strong demand for all property types across Dublin.

In the rental market, there was a 50 per cent increase in the supply of rentals in central Dublin due to the collapse of the short-term rental market. This, combined with reduced demand because of lockdown, created a tenant's market for the first time in ten years.

In April, large technology companies like Facebook and Google told their employees they could work from home for the rest of the year. This directly caused 7 per cent of our managed tenancies to end prematurely, with most of these tenants returning to continental Europe to work from home there.

Rents have fallen 14 per cent in central Dublin and suburbs since March. This is a steep correction, but the market in Dublin held up better than other tech-centric cities like central London (-28 per cent), Manhattan (-40 per cent) and San Francisco (-32 per cent).

However, the rental market has now stabilised, and we are seeing a huge pick-up in demand from January as technology professionals have been asked to return to Ireland by their employers. Many are tenants who left us earlier in the year.

As we entered the traditionally busy autumn, market vendors were bullish, given the exceptional summer activity. Our transactions for this period were up 21 per cent on the previous quarter, as more sellers were encouraged to come to the market given the pent-up demand.

October was a very positive month for sales, with a flurry of activity during the period leading into Lockdown II. The most motivated buyers we have been dealing with have been first-time buyers, particularly in the €400,000-or-below price range.

November was a slower month, with restrictions continuing for the full duration, and there was a reduction in the number of properties coming to market. Owner-occupiers accounted for 65 per cent of buyers and we did see a pick-up in investor activity.

The latest trends

People are looking at properties in very different ways. They are looking for more space. In many cases, space is more important than location or at least as important.

Landlords continue to exit the market. Some 78 per cent of our apartment sellers this year are investors exiting the market. The obvious consequence of this is that the amount of available rental stock continues to deplete. I believe there will be another rental crisis within 12 months again in Dublin.

Technology executives are starting to buy instead of rent, as Dublin has now become their home. This will be a very positive development for the residential market, particularly the luxury end of the market.

A significant number of Irish people returning to Dublin are looking to buy. They are now competing with technology executives, particularly at the luxury end of the market (€1 million or higher).

One-bedroom apartments are particularly challenging to rent now, as people have no room to work from home.

Price trends

As always, varying property types, locations and price ranges are performing very differently. Our transactions show values on apartments and houses in the €300,000-€400,000 range are up approximately 2 per cent, as this is where the first-time buyer is most active.

Apartments in the €500,000-€700,000 bracket have been a challenging market, particularly in Dublin's docklands, and values are down approximately 4 per cent.

Houses with good gardens in the €600,000-€1.2 million range are selling very well, and values are up year on year 1-2 per cent, though some houses have sold well above asking price.

The outlook for 2021

I am now very hopeful about the prospects for next year. I do not believe the supply of homes coming to market will match demand. I expect the market to be very resilient, but I do think there will be equilibrium between sellers and buyers: prices will rise, but not by much.

Owen Reilly is managing director of Owen Reilly Property Consultants