



**An Roinn Caiteachais
Phoiblí agus Athchóirithe**
Department of Public
Expenditure and Reform

Spending Review 2018

Analysis of OPW Spending on State Rents

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This paper has been prepared by staff in the Department of Public Expenditure & Reform. The views presented in this paper do not represent the official views of the Department of Public Expenditure and Reform, the Minister for Public Expenditure and Reform or the Office of Public Works.

Summary

State rents is the largest item of expenditure by the Office of Public Works, representing 24% (€96m) of spend in 2017. While expenditure decreased from €149m in 2009 to €87m in 2015 following the reduction in public sector numbers, a programme of targeted lease surrenders, and the re-negotiation of leases during the crisis, it has subsequently increased each year.

In terms of office accommodation, the OPW has a total of 347 leases at an annual cost of €87m, covering almost 349,000 sqm. 40% of office accommodation is leased.

Current pressures include increases in market rents, the lifting of the moratorium on public sector recruitment, lack of supply in office accommodation, Brexit, energy efficiency commitments, and client behaviour.

There are gaps in terms of the accessibility of data on the State property portfolio. Scheduled for completion by December 2019, the OPW's new Integrated Workplace Management System will match property-related data held in other Government systems. This will provide more information on the total cost of ownership of each building.

Next steps

- The draft Office Accommodation Guidelines and Standards, incorporating defining office space norms and clearly setting out the responsibilities and requirements of client organisations in the process, should be completed by the OPW.
- Consideration should be given to methods for increasing structured communication between the OPW and client organisations, including changes in numbers and movement of staff between buildings.
- Further study should be undertaken to establish the most efficient model for holding occupants responsible for usage / cost, as well as holding client organisations responsible for informing the OPW of their medium- to long-term accommodation requirements.

Further consideration

There are a number of areas where further research and analysis is recommended to inform policy development in the area, including:

- an assessment of the balance between capital and current expenditure (long term value for money of construction/acquisition/retrofitting/refurbishment versus leased options),
- analysis of the effectiveness of the current model in meeting accommodation requirements, and,
- assessing if value for money is being obtained, a further study of expenditure on rents should be undertaken by OPW comparing the State's rents costs to those of the private market for a specific small area.

1. Introduction and Context

1.1 Introduction

The Office of Public Works (OPW) addresses the accommodation needs of Government and State clients through the State property portfolio, which comprises both owned and leased properties.

The OPW manages approximately 2,000 individual buildings spread throughout the country. The portfolio is categorised into three main areas: office and other accommodation (warehouses, etc.); Garda accommodation; and heritage sites. 551 buildings are used to provide office accommodation, comprising an office accommodation portfolio of approximately 880,000 square metres. The office accommodation is provided by 295 leased buildings and 256 owned buildings. Estate Portfolio Management activity, including property maintenance, minor and major construction, lease management and space management, is provided by approximately 340 administrative and technical staff, deployed over a number of centralised and local offices. 40% of the office space is leased.

The stated purpose of expenditure on the Estate Portfolio Management function is to maximise the efficient use and value of the State property portfolio and to provide management, maintenance, design and sourcing services for the portfolio and design excellence, construction, advisory, and support services to Government and State clients.

State rents is the largest item of expenditure by the Office of Public Works, representing 24% (€96m) of its spend in 2017. Rent expenditure decreased from a high of €149m in 2009 to €87m in 2015 following the reduction in public sector numbers, a programme of targeted lease surrenders, and re-negotiation of leases during the economic downturn but has recently increased (2017: €96m). Current pressures (including increases in market rents, the lifting of the moratorium on public sector recruitment, lack of supply in office accommodation, and the possibility of competition due to FDI companies re-locating to Dublin following the UK's vote to leave the European Union) means that the upward trajectory of rent expenditure will not abate in the short- to medium-term.

This paper aims to establish a baseline of information regarding State rents, which can then be the basis to assess the efficiency, effectiveness, and impact of the State's expenditure in the future. The objectives of the paper are as follows:

- to collate and present a comprehensive list of data resources on State rents
- to assess historical trends
- to examine outturns in the context of key indicators
- to assess the impact of external factors
- to examine existing protocols and strategies

It should be noted that there are shortfalls in terms of how readily available the data on the State property portfolio is, which is dealt with in more detail in Section 5. Issues in reporting are compounded by the lack of timely and reliable information on accommodation needs provided to the OPW by client organisations. The following information, at a minimum, is considered necessary to undertake further study listed above and to inform any future recommendation in the area: departmental numbers and location; building type; occupational density; average rent per annum and cost per sqm by location; communication and response times to accommodation requests; and energy efficiency by building.

1.2 Structure of Paper

The paper is structured as follows:

- Section 2 gives an overview of the State property portfolio managed by the OPW, including recent reforms;
- Section 3 presents analysis of the efficiency and sustainability of the current property portfolio;
- Section 4 sets out other policy considerations, including Brexit and climate change;
- Section 5 presents findings and makes certain recommendations; and
- Section 6 sets out future areas for consideration.

1.3 Methodology

This paper is a high-level overview of the State's expenditure on rents, with indications of where further study could be undertaken.

This paper is informed by a desk based review and consultation with the Office of Public Works. It primarily draws on DPER databank information on spending and staff numbers, OPW statistics on leases, and publicly available policy documents on policy initiatives relating to the EM function.

VAT charged on leases is a cost to the OPW Vote. Therefore, the VAT inclusive amounts should be considered as the cost to the Exchequer and the VAT exclusive amount should be considered when comparing cost per sqm with market benchmarks.

2. Overview

2.1 Background

The OPW is a service provider to Government Departments, other State bodies, and the public.

Its expenditure is divided between two programmes:

- Programme A - Flood Risk Management (€75m in 2017), and
- Programme B - Estate Portfolio Management (€319m in 2017).

By using one central property organisation, the State has considerable presence and bargaining power in the market. As of June 2018, the OPW provides leased accommodation to over 100 Government departments/offices and a variety of agencies under their remit.

Box 1 Dealing with accommodation requests

When the OPW receives a request for new accommodation from a client, the basic process is for the OPW's Property Management Services to review the business case in consultation with the client. Property Management Services refines and confirms the exact brief of requirements, with a particular emphasis on funding, location, occupational densities, and any specialist requirements. On finalisation of the brief, the client's currently occupied space is assessed to establish if there is any capacity to meet the new requirement through consolidation or reconfiguration. If there is no space capacity in the client's portfolio, then the wider property portfolio (both owned and leased) is assessed to establish if the requirement can be met. Taking a new lease is the final option explored.

2.2 Rationale

The OPW's Statement of Strategy 2017-2020 sets out the vision for Estate Portfolio Management as to "maximise the efficient use and value of the State property portfolio" and "deliver the management, maintenance, design and sourcing services for the State Property Portfolio and to provide design excellence, construction, advisory and support services of the highest standard for the Government and State clients".

The objectives¹ of the Estate Portfolio Management programme are to:

- Proactively manage the property estate in the care of the Commissioners of Public Works;
- Manage the office accommodation portfolio through appropriate strategic acquisitions, disposals and leases in line with a long-term portfolio strategy;
- Maintain the estate, and further the roll-out of estate-wide planned and preventative maintenance;
- Implement building programmes to provide quality, designed and built accommodation and facilities for Government and State clients;

¹ Further actions and outcomes arising from the objectives are outlined in Appendix 1.

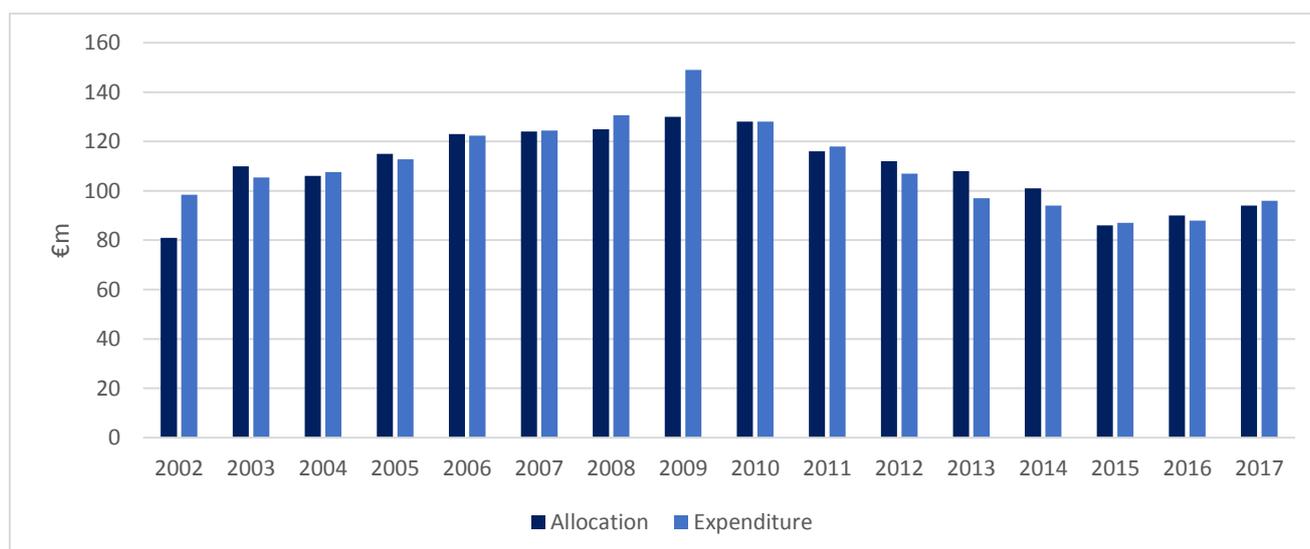
- Encourage practices that maximise energy efficiency in public buildings;
- Support the preparation and implementation of the Action Plan for Energy Efficiency in the Public Sector, and play a leading role in Ireland's compliance with the public sector targets within the EU Energy Performance of Buildings Directive, including by ensuring buildings within the portfolio managed by the OPW comply with all relevant revised building regulations and efficiency targets as appropriate; and
- Support the role of State Architect/Principal Architect and implement the Government Policy on Architecture.

The purpose of expenditure on State rents, which is the focus of this study, is to provide office accommodation for State and Government.

2.3 Overview of expenditure

Estate Portfolio Management is a varied programme which includes rents (€96m),² property maintenance and supplies (€60m), new works, alternations and additions (€53m), heritage services (€41m), unitary payments (€24m), service charges and utilities (€10m), purchase of sites and buildings (€1m), the President's household staff (€0.8m), and grants for refurbishment works and services (€0.25m). State rents are paid from subhead B8 (previously subhead F3) in Estate Portfolio Management. This includes rent (€89.8m), VAT (€5.8m), insurance (€0.5m), fees (€0.2m), and rates (€0.4m). With an allocation of €92m in 2018, State rents account for just under 30% of Estate Portfolio Management spending this year.³

Figure 1: Expenditure on B8 State rents, Estimate v Outturn, 2002-2017



² Unless otherwise stated, figures quoted are end-2017 outturn.

³ Services charges were previously included but moved subhead in 2015.

Expenditure on State rents has fluctuated considerably over the last decade, reaching a highpoint of €130m in allocation and €149m in actual expenditure in 2009⁴. At €87m, 2015 saw the lowest spend on State rents in recent years, though expenditure has increased in each subsequent year; spending began to increase in 2016 (by 1% to €88m) and increased by a further 9% in 2017 (to €96m).

The reduction in State rent expenditure arises due to the success of the OPW's Office Accommodation Rationalisation Programme. Initiated in response to the economic downturn and the National Recovery Plan, the programme focused on surrendering leasehold properties, particularly high-cost, long-term leases in Dublin city which were reaching expiry. Taking 2008 as the baseline, the OPW had 468 leases on 390 office buildings, with an annual value of €114m and corresponding floor space of 379,772sqm. In the period 2008 to 2017, 369 leases were surrendered, representing an annual reduction of €49m and 207,593 sq metres in leases held by the OPW.⁵ Between 2008 and 2016, there were also rent reductions on 104 leases (that were still live as at June 2017). The annual value of these rent reductions is €6.8m. Within the owned portfolio, the OPW undertook condition and occupancy surveys and identified and re-allocated vacant space. At present, there is 1% vacancy in the State property portfolio, indicating that there is no longer any scope for further rationalisation of leased or owned property.⁶

The expenditure on and profile of the OPW's property portfolio should be understood within the framework of the Public Service Decentralisation Programme. In December 2003 the then Minister for Finance announced the decentralisation of 10,300 public and civil servants from Dublin to locations across the country. The programme was cancelled in 2011 in the light of the budgetary and staffing outlook. Approximately a third of the target had decentralised by that time. While the decentralised offices account for less than 10% of serving civil service staff, taken together with the pre-existing regional and district offices of Departments, the proportion of civil servants stationed outside Dublin was raised to just over 50%.⁷

⁴ A decision was made to align the issuing of rental payments with the lease gale dates and with obligations under the leases.

⁵ Between 2008 and 2017 there were associated break penalties of €1,891,157.

⁶ A certain level of vacancy is required to provide flexibility and prompt response to urgent accommodation requests.

⁷ For further information, please see Department of Public Expenditure and Reform (2011), *Review of Certain Decentralisation Programme Projects* and Comptroller and Auditor General (2010), *Accounts of the Public Services 2009 Vote Management Report of the Comptroller and Auditor General Volume 2*.

Table 1: OPW leases surrendered, 2008-2017⁸

	Leases surrendered (Dublin)	Floor area reduced by - SqM (Dublin)	Annual rent saving (Dublin)
2008	43 (16)	15,682 (13,514)	€4,895,893 (€4,275,982)
2009	38 (14)	13,359 (8,029)	€3,736,300 (€2,672,951)
2010	50 (12)	34,670 (20,452)	€9,712,534 (€7,464,021)
2011	34 (10)	8,043 (4,784)	€3,966,499 (€3,221,864)
2012	50 (15)	19,094 (11,445)	€6,069,479 (€4,412,948)
2013	44 (12)	18,537 (12,736)	€5,587,545 (€4,794,254)
2014	32 (9)	8,461 (5,245)	€1,808,810 (€1,382,982)
2015	34 (19)	19,278 (13,993)	€4,891,883 (€3,870,360)
2016	32 (14)	59,897 (43,180)	€4,466,819 (€3,628,678)
2017	12 (7)	10,571 (9,907)	€4,003,290 (€3,843,750)
Total	369 (128)	207,593 (143,284)	€49,139,052 (€39,567,790)

⁸ Please note that totals in tables may vary due to rounding.

2.3 Ongoing reform

The OPW has achieved efficiencies through undertaking reforms of the Estate Portfolio Management function, including State rents.

The Government's Public Service Reform Plan (2011) sets out proposals relating to how effective property asset management can drive public sector-wide efficiency and ensure that optimal value for money is achieved in the management of the State's property portfolio.

In 2012 the Government confirmed the OPW's role as the sole authority to set and enforce norms for allocating space and standards for office fit-outs for its clients nationwide. A Steering Group on Property Asset Management was established in 2012, chaired by the OPW, to identify the key reform actions required to drive the property management reform programme. Membership of the Steering Group is drawn from property-holding Government departments (which also represent Agencies under their remit), the HSE, and the Local Authority sector. The Group completed its work at the end of 2016.

In 2013, the Property Asset Management Delivery Plan (PAMDP) was published arising from the recommendations of section 6.1 of the Government reform plan. The objective of the PAMDP is to set out a series of actions aimed at improving the planning and management of the public service property portfolio through improved co-ordination, processes, standards and accountability.

Box 2 New Intreo service

In 2012 the Government tasked the OPW and the Department of Social Protection with targets for the delivery of the new Intreo service. The OPW modified and fitted out 74 Intreo centres.⁹ In keeping with the Property Asset Management Delivery Plan (PAMDP), the OPW maximised the use of existing State-owned and leased property and worked closely with other State property holders to identify property opportunities and surplus space across the wider State property pool. Arising from this holistic assessment, a number of new leases were agreed with the Local Authorities and the HSE, meaning that, while these leases represented an additional cost to the OPW, they were effectively a saving to the State and an efficient use of the States resources. By the programme's close in 2016, the total annualised rent on the 13 new leases and additional space at two existing locations amounted to €2.57m. However, when offset by the surrender programme of surplus smaller offices, the net rental impact of Intreo was an increase of €0.28m per annum. Further efficiencies continue to be sought.

⁹ There was a requirement for 60 Intreo Centres across the country but, as the Intreo service has a substantial public interface, several rural locations did not have readily available properties that could meet these needs from a single location. Consequently, in a number of towns Intreo is being delivered across two locations.

In 2014¹⁰, a capacity and capability review of the Estate Portfolio Management function was undertaken as one of the recommendations of the PAMDP. The review highlighted the shortfalls in the underlying accuracy, granularity and consistency of property data, particularly relating to the owned estate, particularly in terms of the owned estate. The recommendations included a new service delivery model to enhance end-to-end service, an organisation model driven by process rather than professional groupings, and forming a business transformation team to re-design processes, restructure the organisation, integrate the technology project and manage the associated resource changes.

In 2015 and 2016 the Steering Group on Property Asset Management contributed to two circulars¹¹ to provide guidance on the transfer and sharing of State property and for property acquisition and disposal of surplus property.

Box 3 Office Accommodation Guidelines and Standards

The OPW produced a draft Office Accommodation Guidelines and Standards document in 2016. The document aims to assist OPW staff and client Departments in understanding all of the issues which need to be considered when developing an Office Accommodation Brief. The document incorporates an Office Accommodation Briefing Questionnaire which will assist in capturing all the relevant information. The questionnaire is focused on determining the Client's functional and operational requirements rather than focusing on existing accommodation provisions. It is also aimed at defining what accommodation is needed in order to meet evolving organisational trends and business / operational needs into the future. The document is currently being finalised.

Box 4 Integrated Workforce Management System

In December 2017 the OPW signed a contract for the implementation of TRIRGA, a market-leading Integrated Workplace Management System. A key benefit for the State will be the ability to match property-related data held in other Government systems, providing more information on the total cost of ownership of each building and the numbers of Civil Service staff occupying those buildings, both of which are KPIs in relation to buildings managed by the OPW. The accuracy of the data will rely on the robustness of the information inputted into the system and how regularly it is updated. The system implementation is scheduled to be completed by December 2019.

¹⁰ Concerto (2014), *Capacity and Capability review of the Estate Portfolio Management function*.

¹¹ Circular 11/15: Protocols for the Transfer and Sharing of State Property Assets and Circular 17/2016: Policy for Property Acquisition and for Disposal of Surplus Property.

3. Leases

The leased portion of the State property portfolio includes both office and non-office accommodation.

This section provides an overview of State property portfolio in terms of office and warehouse/storage and analyses leased office accommodation. Detail on the portfolio has been provided by the OPW. Table 2 sets out the information regarding the breakdown of the owned and leased portfolios. Figures 2-6 examine office leases in terms of cost per sqm, by commencement date, type of building and county. It should be noted that leases where the cost is nominal or nil per sqm have been excluded from the analysis below.

Expenditure on rents is influenced by a number of factors. At a high level drivers of lease costs include amongst the following:

- Date of lease (the cost of the lease will be determined by when it is negotiated and rents will generally reflect prevailing market conditions which will impact on costs);
- Type and purpose of building (for instance the intended use for the building and how modern it is will all have an impact on costs);
- Location/region of building (Supply and demand will vary by location and region driving competition for available space which will have an impact on costs); and
- Type of lease.

3.1 Description of leases

40% of office floor area is leased, rising to 45% of Dublin office accommodation. Overall, 20% of office buildings are 3rd Generation modern buildings (18% of owned and 21% of leased).¹²

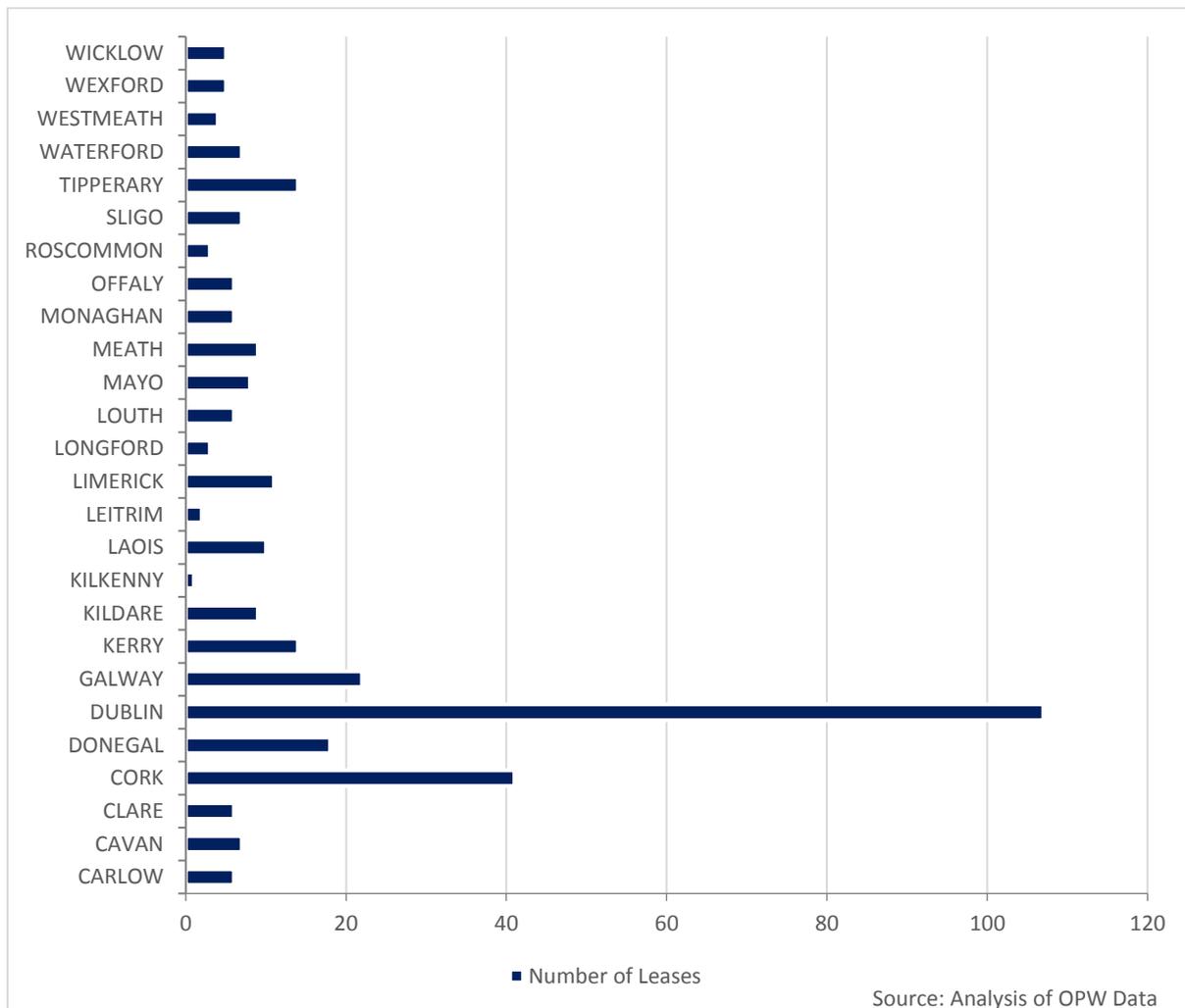
Table 2: OPW Owned and Leased Property Portfolio, 2017

	Owned	Leased	Total
<i>Offices</i>			
Number of buildings	256	295 with 347 leases	551
(Dublin)	(115)	(96 with 111 leases)	(211)
Floor area (SqM)	523,822	348,845	872,666
(Dublin)	(250,069)	(203,618)	(453,687)
3rd Generation	46	63	109
	(8)	(37)	(45)
<i>Non-office - Warehouse/Storage only</i>			
Number of buildings	23	34 with 44 leases	57
(Dublin)	(13)	(11 with 11 leases)	(24)
Floor area (SqM)	22,915	61,782	84,698
(Dublin)	(15,453)	(44,071)	(59,524)

The breakdown of leases by county can be seen in Figure 2, below. 51% of leases are in Leinster, 28% in Munster, 12% in Connacht, and 9% in Ulster. Dublin has the highest (32%) proportion of leases, followed by Cork (12%) and Galway (7%).

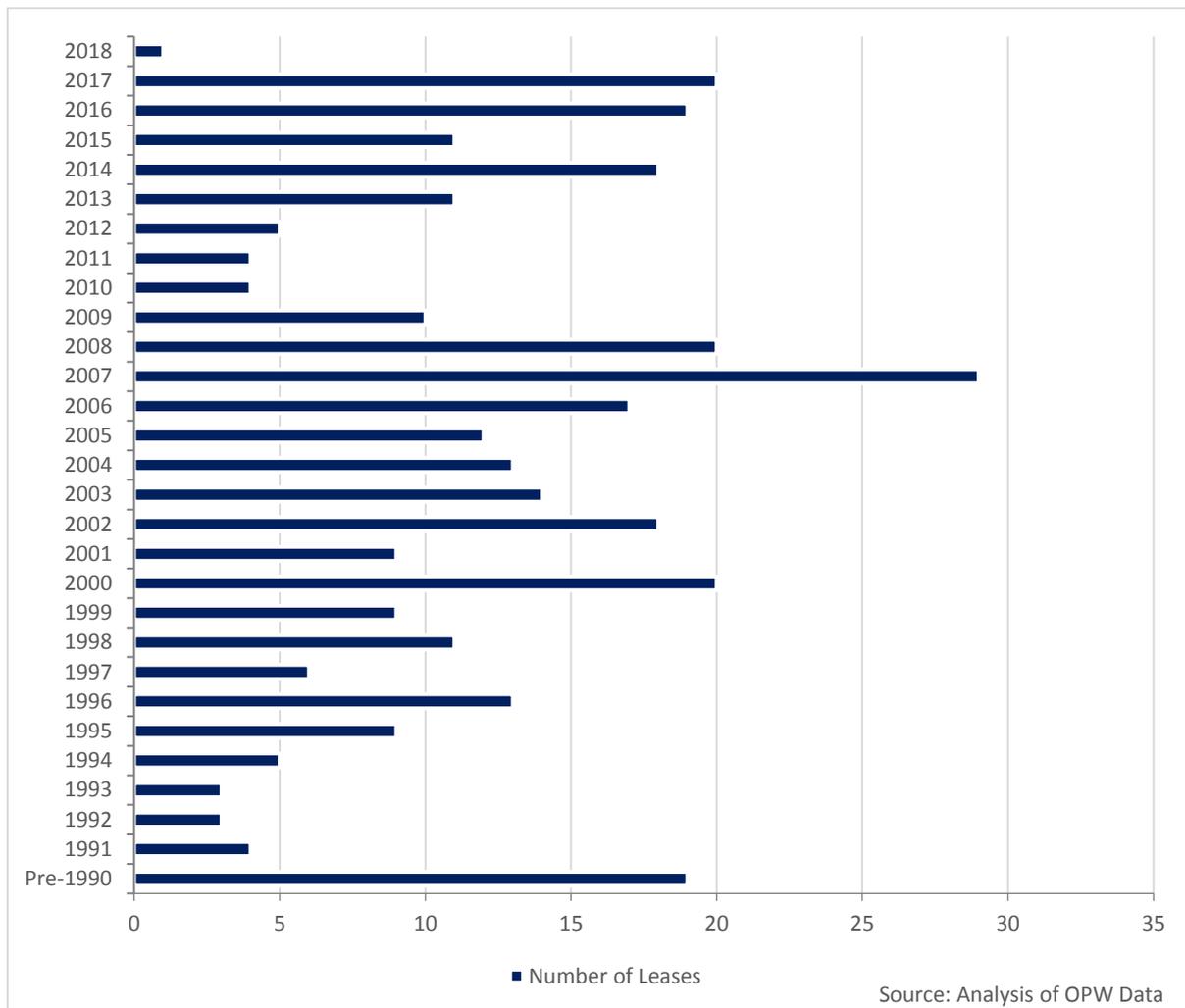
¹² A modern third generation building includes raised floors, suspended ceilings, complies with Disability Access Certificate (DAC), and, while energy efficiency will vary, in general these buildings achieve a moderate energy efficiency rating of C+.

Figure 2: Number of leases by county



Overall 6% of leases were entered into prior to 1991. The terms and conditions of the leases entered into in the 1970s and 1980s reflect the market conditions prevailing at the time they were negotiated. Most of these leases have upward only rent review as they involve legacy leases entered into prior to 28 February 2010 (when changes in legislation came into force prohibiting upward only rent reviews) and would have gone through a number of cyclical rent reviews in the intervening years while the property market was at its height. The bulk (48%) of the leases were entered into between 2000 and 2009. One in four leases were entered into since 2011.

Figure 3: Number of leases by year signed, including lease renewals



"Non-office" leases include a wide variety of leases which the OPW has undertaken for different bodies, including a court house, customs posts, depot drainage, drive test centres, Garda stations, Marine Emergency Services, a portacabin, storage and warehouses, workshops and others.¹³ Of the non-office leases, 57 of these buildings are used for warehousing/storage. 60% of warehouse/stores are leased, with 46% of Dublin warehouse/stores being leased.

¹³ Please note that the OPW also includes payments for ground rents and standalone carparking from B8 State Rents but these are excluded from the current study.

3.2 Analysis of Office Leases

The OPW has a total of 347 leases for office accommodation at an annual cost of €87m and covering 348,845 sqm.

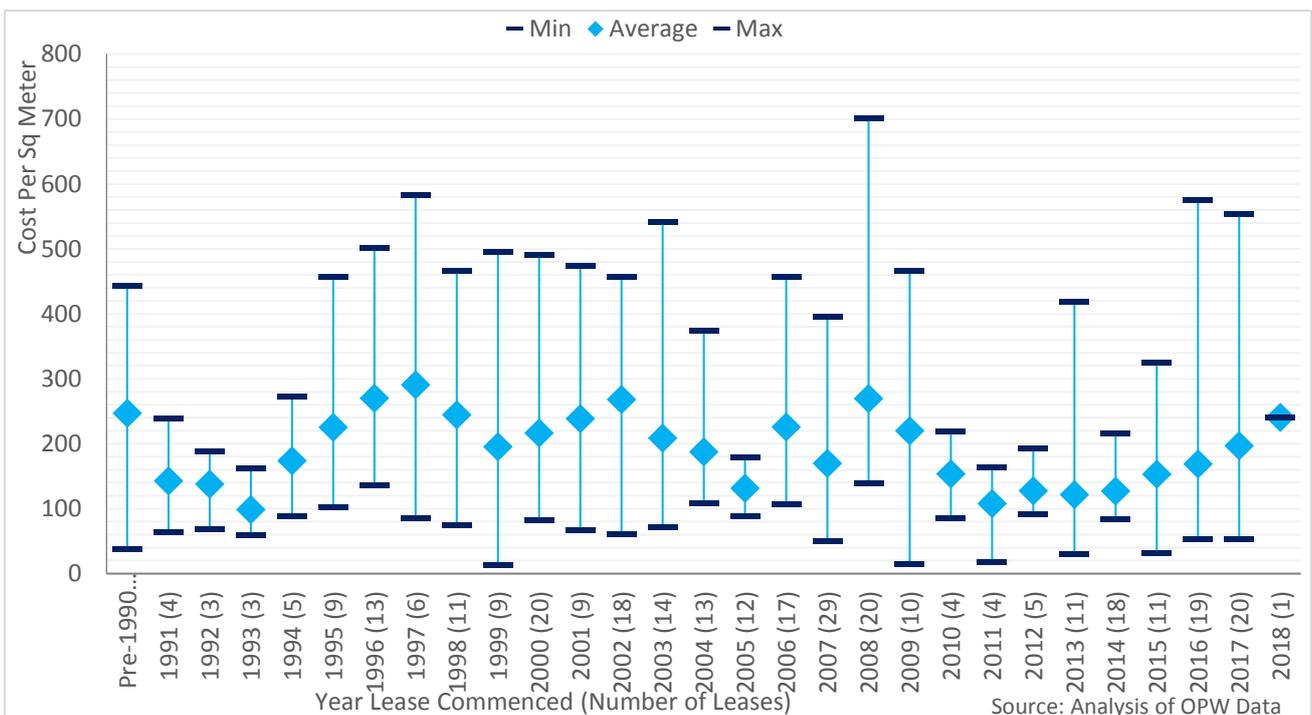
It should be noted the following overview does not account for the variety of uses, locations or qualities of office accommodation within the portfolio. For example, there are very different space norms required for an Intreo office and a Government department, as well between historic and modern, third generation buildings. These differences have an impact on costs. As such, average cost per sqm is used here only as an indication of general trends.

The following graphs have been produced based on data submitted by the OPW and using clarifications stated by the OPW. For the purposes of the analysis, leased units with a nett lett of nil per sqm, any leases with annual lease of less than €100 and leases with a cost per sqm of less than €10 are excluded. This led to the exclusion of 10 leases. The average cost per sqm of office leases is €200.

3.2.1. Time

The average cost per sqm increased throughout the 1990s, from €143 per sqm in 1991 to a high of €268 per sqm in 2002. Subsequently, average cost per sqm fluctuated for a number of years before reaching a new high of €270 per sqm in 2008. The average cost per sqm dropped by 55% to an average of €122 per sqm in 2013. Since then, costs have increased, with the average cost of €197 per sqm for leases commencing in 2017.

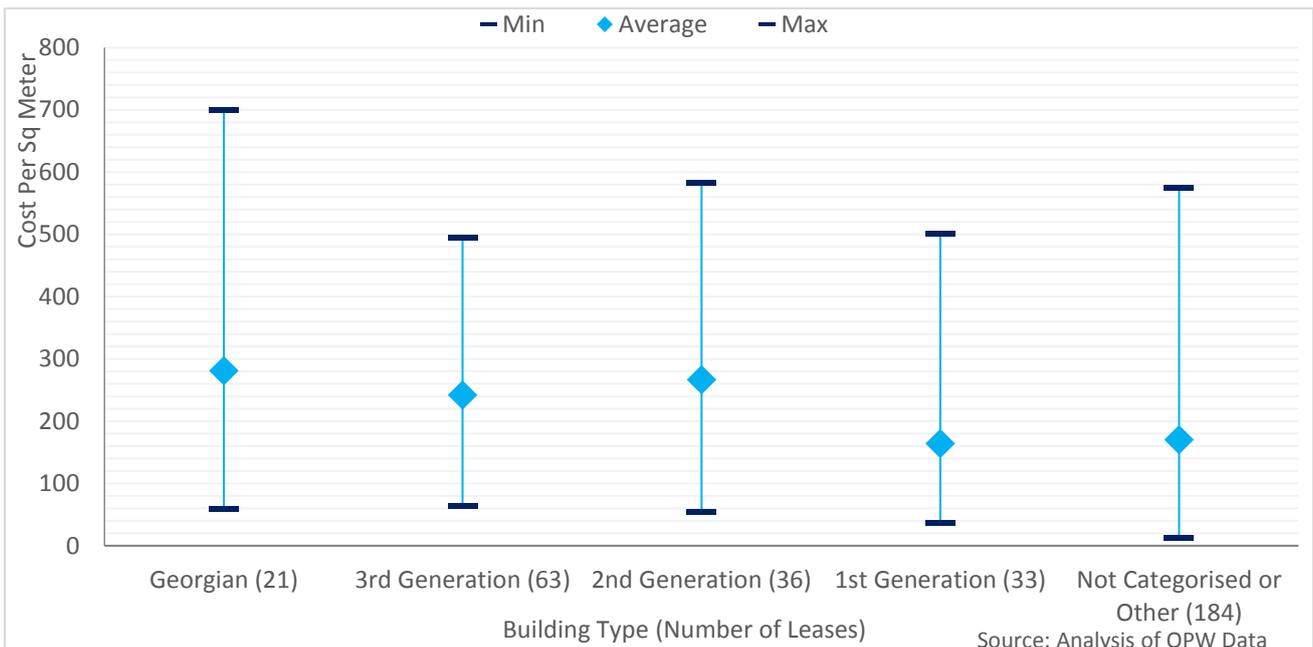
Figure 4: Distribution of cost per sqm by year lease signed



3.2.2. Type

The OPW's office accommodation portfolio can be divided between Georgian period buildings, and first generation, second generation, and third generation buildings. Energy efficiency and capacity vary between the different types of buildings. As can be seen in Figure 6, the average cost per sqm varies by the type of building. However, over half of leased office accommodation is currently uncategorised by building type, which affects the robustness of any analysis of the impact of building type on rental costs.

Figure 5: Distribution of cost per sqm by building type



3.2.3. Region

At €298, Dublin also has the highest average cost per sqm.

As stated above, cost is a function of a number of different elements, including building type, date of entering agreement, location, etc. For example, 27% of leases in Dublin were entered into after 2012. With a rent per annum of over €24m, they represent 36% of Dublin rent per annum and 32% of leased Dublin office floor space. Leases entered into in Dublin in this period have an average cost per sqm of €247.

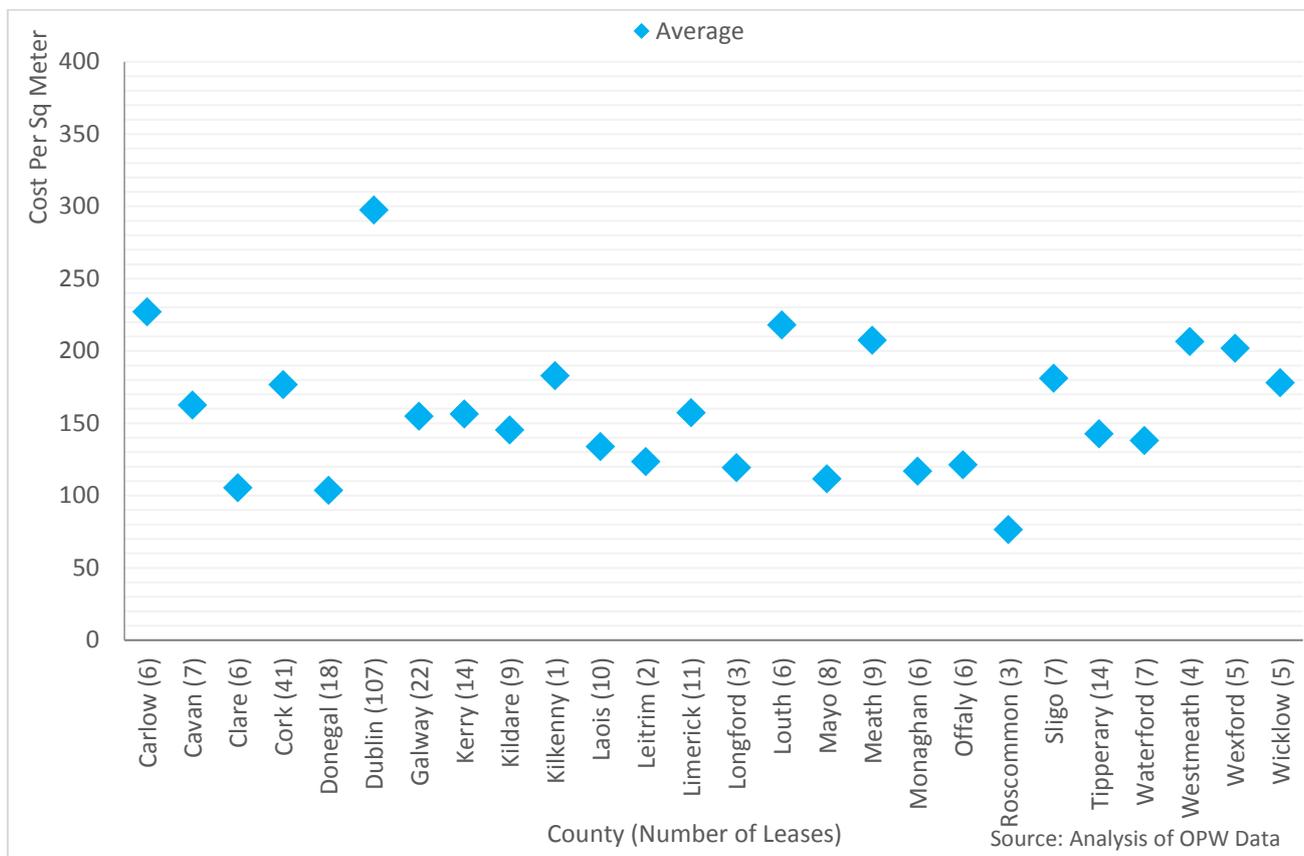
Dublin is followed by Carlow (€227), Louth (€218), Meath (€207), and Westmeath (€206) as the counties with the highest average costs per sqm. 50% of the leases in Carlow were entered into in the period 2006-2009 and rent per annum on all but one lease is €100,000 or below. Similarly, 67% of the leases in Louth were entered into in the period 2000-2007.

Almost half of office leases have rents of less than €50,000 per annum. In the main, these leases refer to small offices outside Dublin e.g. the Department of Employment Affairs and Social Protection (some of which were

taken over from the HSE as part of the Intreo programme), regional education offices, and driving test centres. In addition, some of these leases reflect peppercorn rents where the landlord is another state organisation. There are also some instances where the OPW takes more than one lease in the same building to maintain flexibility regarding expiry/surrender.

As is detailed in Section 5, a micro-level analysis of leases in specific areas of Dublin in comparison to market prices should be undertaken as part of further study into the State rents to assess whether value per square meter obtained for the State when the lease was entered into reflecting the characteristics of the office accommodation.

Figure 6: Average cost per sqm by county



3.3 Non-Office Leases

As mentioned above, there are 57 buildings used for storage and warehousing, 60% of buildings and 73% of floor area leased. The use and management of these properties varies greatly. Dublin represents €3.2m (75%) of expenditure and 44,071 sqm (71%).

Within warehousing / storage there is variety in terms of the materials being stored and the related requirements.

Table 7: Value of leases on warehouses/storage

<i>County</i>	<i>Net Lett per qm</i>	<i>Rent PA (ex VAT)</i>	<i>Average cost per sqm</i>
Carlow	2,045	€50,000	€24
Cavan	158	€16,784	€106
Cork	2,667	€212,974	€68
Donegal	471	€17,550	€39
Dublin	44,071	€3,158,312	€83
Kerry	536	€18,325	€34
Laois	2,678	€206,052	€80
Limerick	1,424	€102,440	€72
Louth	1,584	€130,000	€82
Offaly	2,917	€120,612	€41
Sligo	232	€17,000	€73
Waterford	1,268	€77,505	€65
Westmeath	1,732	€67,288	€41
Total	61,782	€4,194,842	€63

In addition to the above expenditure on warehouse/store leases, the OPW pays approximately €1.5m per annum in respect of managed storage for various Departments.

4. Emerging pressures and other policy considerations

4.1 Supply Pressures

Although now becoming more moderate, there have been sustained increases in market rents in recent years. For example, Grade A office space in Dublin's Central Business District (CBD) was €430 per sqm in June 2014. It rose by 13% by December 2014, a further 22% in the year to December 2015, and by 9% to €646 per sqm in December 2016¹⁴. As of Q1 2018, prime rents in Dublin city centre are now €700 per sqm and €307 per sqm, €210 per sqm, and €188 per sqm in the south, north and west suburbs respectively.¹⁵

Increased competition for space is a factor in the increased cost of leases. At the end of Q1 2018 the overall vacancy rate in Dublin was 6%. The vacancy rate in the city centre was 4.8% (5.4% in Q4 2017). Dublin 2/4 had a vacancy rate of 5.25% (5.64% in Q4 2017) and 2.8% for Grade A. The vacancy rate in the suburbs was 7.9%.¹⁶

There was 14,000 sqm of new office space built in 2015, rising to 62,310 sqm in 2016 and a further 70,116 sqm in Q1 2017. New office space has been focused on Dublin's Central Business District (CBD): two thirds of development has been in Dublin 2 and 12% in Dublin 4. However, while 146,335 sqm has been made available across 30 schemes since 2015 in gross terms, 22 of those schemes involved the replacement of older buildings with new. The net addition to the total stock is 56,143 sqm¹⁷. Furthermore, recent development should be seen in the context of a near-total halt in construction during the economic downturn.

Competition for available space can be seen in the rise of pre-letting, which was not previously a feature of the Dublin office market: 30% of lease take-up in Dublin in Q1 2018 was accounted for by pre-lets and 51% of new office stock completed or due for completion in 2018 in the city centre has been pre-let.¹⁸

4.2 Demand Pressures

The need to meet service gaps that arose during the economic downturn drove the lifting of the moratorium on recruitment and the movement from the Employment Control Framework (ECF) to delegated staffing arrangements for almost all Government departments, leading in turn to increased demand for office space. From a low point in 2012, employment has increased by 8% to 39,000 in Q1 2018.

Over the same period, the number of civil servants employed in Dublin increased by 4% to 15,000.¹⁹ The question as to where in Dublin office accommodation should be provided requires a balance between a

¹⁴ HWBC (various years), *Dublin Office Review and Outlook*.

¹⁵ CBRE (2018), *Dublin Office MarketView, Q1 2018*.

¹⁶ IBID

¹⁷ Savills (2017), *Market in Minutes Dublin Offices Q1 2017*.

¹⁸ CBRE (2018), *Dublin Office MarketView, Q1 2018*.

¹⁹ Excluding civil servant industrials and prison staff.

number of competing forces:

- The need for proximity to the Houses of the Oireachtas for efficient functioning of Government;
- The need to locate services convenient for the public;
- The preference to consolidate staffing of a department into as few locations as possible;
- The lower costs of property in suburban locations;
- The availability of public transport; and
- Industrial relations issues.

In terms of core departmental functions, it seems likely that proximity to the Houses of the Oireachtas will remain as a strong and dominant influence on future decisions on the location of Departmental headquarters and policy functions. However, this is not an issue for more direct service functions.

4.3 Brexit

The UK's exit from the European Union is likely to impact on expenditure on State rents in terms both of decreasing availability of office accommodation and increased recruitment of staff within the civil service.

Commentators have highlighted the potential for financial institutions and investment banks to move from London to other locations, including Dublin. In December 2016 the IDA launched a new international advertising and media campaign promoting Ireland as an investment location following the UK's vote to leave the EU.

As highlighted above, office rents, particularly in Dublin, have continued to rise since 2015. However, due to the ongoing lack of clarity around the UK exit strategy it is not possible to say how much of the upward trend is due to increased demand arising out of Brexit.

4.4 Climate change

The State will be liable for significant fines if targets on energy consumption and increases in the use of renewal energy sources are not met.

In 2009 the Government set a national target to improve energy efficiency by 20% by 2020 and a public sector target of 33%. The Programme for a Partnership Government commits to using the public sector as an exemplar of Smart Energy Management and to achieving the 33% energy efficiency target for the public sector.

The OPW, and in particular the Estate Portfolio Management programme, plays an important role in the direct provision of modern, energy efficient accommodation. Relevant objectives in the OPW's Statement of Strategy 2017-2020 include:

- Encouraging practices that maximise energy efficiency in public buildings;

- Supporting the preparation and implementation of the Action Plan for Energy Efficiency in the Public Sector; and
- Playing a leading role in Ireland's compliance with public sector targets for the EU Energy Performance of Buildings Directive, which includes ensuring buildings within the OPW portfolio comply with all relevant revised building regulations and efficiency targets.

The OPW's *Optimising Power @ Work* behavioural change programme has achieved average annual energy savings of 21% in 270 large department buildings and is now being expanded into the wider public sector.²⁰

The European Energy Performance of Buildings Directive (Recast) requires all new buildings to be Nearly Zero - Energy Buildings (NZEB) by 31st December 2020 and all buildings acquired by public bodies by 31st December 2018.

Under s.8(1) of S.I. No. 426/2014 - European Union (Energy Efficiency) Regulations 2014 *"A public body shall not, from 1 January 2015, purchase or lease a building, or a portion of a building, for its own use, unless that building has a BER equal to or better than A3"*. There are exemptions in respect of buildings not intended for human occupancy, a renewal or extending a lease, leasing or sub-letting from another public body, protected structures, no available compliant building in terms of location, size, specification or price, or where there is an intention to bring the building to an A3 rating within 3 years or prior to occupation.

4.4 Client behaviour

The centralised role of the OPW in the procurement and management of State property means there is little incentive on client organisations to economise in their use of space. As the OPW manages the accommodation costs this centralised approach appears in some instances to have resulted in the consideration of cost not being paramount to client organisations requesting additional accommodation.

It should be recognised that rent is only one piece of the efficiency analysis; a building that has a relatively high rent may be very efficiently utilised (and the opposite is also true).

4.5 Pressure on storage and warehouses

There are also pressures on storage facilities, the majority of which are leased rather than owned. The warehouses store a variety of important archive materials which would be difficult and expensive to relocate, given the required environmental conditions. Further investigation is recommended.

²⁰ DCCAEE, *Public Sector Energy Efficiency Strategy* (January 2017).

4.6 Other administrative and legislative burdens

As well as the above, there are pressures from public sector-specific requirements which the OPW must fulfil and which do not arise to the same extent in the private sector. These include meeting climate change directives (see section 4.4), due diligence in regard to contracts, and adherence to procurement rules.

5. Key Findings

- The OPW has a total of 347 leases for office accommodation at an annual cost of €87m, covering 349,000 sqm, and at an average cost per sqm of €200. Average cost per sqm follows the expected dynamics based on region, time lease was commenced, and building type.
- The OPW has been successful in reducing costs through its programme of lease rationalisation through surrenders and the downward negotiation of rents. The delivery of the new Intreo service at a new rental impact of €0.28m is an example of this.
- There are gaps in terms of the data which is available, and easily accessible, on the State property portfolio. The following information, at a minimum, is considered necessary to undertake further study listed above and to inform any future recommendation in the area: Departmental numbers and location; building type; occupational density; average rent per annum and cost per sqm by location; communication and response times to accommodation requests; and energy efficiency by building. It is the responsibility of client organisations to assist the OPW in the collection of all relevant data. It is hoped that the introduction of an Integrated Workplace Management System, which the OPW is currently procuring, will allow for further analysis in the future.

6. Future areas for consideration

The next steps are as follows:

- The draft Office Accommodation Guidelines and Standards, incorporating defining office space norms and clearly setting out the responsibilities and requirements of client organisations in the process, should be published.
- Consideration should be given to methods for increasing productive communication between the OPW and client organisations.
- Further study should be undertaken to establish the most efficient model for holding occupants responsible for usage / cost, as well as holding client organisations responsible for informing the OPW of their medium- to long-term staffing requirements.

There are a number of areas where further research and analysis is recommended to inform policy development in the area, including:

- an assessment of the balance between capital and current expenditure (long term value for money of construction/acquisition/retrofitting/refurbishment versus leased options),
- analysis of the effectiveness of the current model in meeting accommodation requirements, and,
- to assess if value for money is being obtained, a further study of expenditure on rents should be undertaken by OPW comparing the State's rents costs to those of the private market for a specific small area.

Quality Assurance Process

In addition to the Spending Review Working Group, the authors also engaged with the Office of Public Works.

Appendix 1 Estate Portfolio Management

Vision: To maximise the efficient use and value of the State property portfolio

To deliver the management, maintenance, design and sourcing services for the State Property Portfolio and to provide design excellence, construction, advisory and support services of the highest standard for the Government and State clients.

Objectives	Actions	Outcomes
Proactively manage the property estate in the care of the Commissioners of Public Works	<p>Develop the skills and capacity to more proactively manage the estate.</p> <p>Ensure that the title of the State's property portfolio is protected.</p> <p>Ensure that all occupants of state properties are in compliance with their legal tenancy agreements.</p> <p>Leverage the benefits of the Property Asset Management Delivery Plan.</p> <p>Explore and develop models to enhance the legal servicing of the estate management function.</p>	<p>Estate is managed more effectively and efficiently.</p> <p>Remaining properties appropriate for registration are registered within a prioritised programme.</p> <p>Material risk management is enhanced across the portfolio.</p> <p>Utilisation of State Property assets are maximised.</p> <p>Estate management efficiency is enhanced through the provision of more flexible and efficient legal services.</p>
Manage the office accommodation portfolio through appropriate acquisitions, disposals and leases in line with a long-term portfolio strategy	<p>Further rationalise owned or leased property where necessary and possible, and increase the proportion of 3rd or 4th generation office space in use across the portfolio.</p> <p>Optimise shared space and services where possible and cost-effective to do so, and optimise efficiency in space utilisation across the portfolio and develop policies to support this.</p> <p>Identify new sources of funding strategic property development and</p>	<p>Property estate of a high quality is strategically aligned to requirements and meets the standards and requirements of clients/customers.</p> <p>Estate utilisation is more consistent and efficient.</p> <p>New sources of funding and new investment options identified and tested in pursuance of strategic estate goals.</p> <p>Compliance with policies and standards in all new buildings.</p>

	<p>acquisition through external partnerships and value propositions.</p> <p>Further develop policies and standards on civil service accommodation that deliver a modern working environment and that promote efficiency.</p>	
<p>Maintain the estate, and further the roll-out of estate-wide planned and preventative maintenance.</p>	<p>Further develop and implement a planned and preventative maintenance programme across the portfolio.</p>	<p>Maintenance standards and outcomes improve across the portfolio, as does maintenance cost-effectiveness.</p>
<p>Implement building programmes to provide quality, designed and built accommodation and facilities for Government and State clients.</p>	<p>Develop high quality designed buildings, that meet necessary performance standards, are consistent with Government priorities, are delivered effectively to a high standard of quality and to the satisfaction of the client.</p> <p>Continue to be a shard service provider professional and technical advisory and construction project management services across the full spectrum of the project cycle.</p>	<p>Buildings are delivered in accordance with client needs, to agreed standards, with agreed timeframes and budgets, and in line with strategic programme objectives.</p> <p>Best practice, quality, timing and value for money is ensured and facilitated in all phases from building conception to completion.</p>
<p>Encourage practices that maximise energy efficiency in public buildings.</p>	<p>Progress the energy awareness campaign in line with the Government's carbon reduction commitments.</p>	<p>Enhanced energy efficiency within the property portfolio.</p>
<p>☑ Supporting the preparation and implementation of the</p>	<p>Complete technical testing and design work regarding building energy efficiency determination.</p>	<p>Enhanced awareness and preparedness of all public authorities regarding their</p>

<p>Action Plan for Energy Efficiency in the Public Sector, and playing a leading role in Ireland's compliance with the public sector targets within the EU Energy Performance of Buildings Directive, including by ensuring buildings within the portfolio managed by the OPW comply with all relevant revised building regulations and efficiency targets as appropriate</p>	<p>Undertake work within buildings managed by the OPW to comply with all relevant revised building regulations and efficiency targets as appropriate.</p> <p>Upgrade systems and software for testing, monitoring and designing energy efficiency into new and existing buildings.</p> <p>Develop skills and competencies of staff to fulfil the Office's responsibilities for supporting Ireland's compliance with EU energy efficiency targets and obligations within public buildings.</p>	<p>obligations regarding energy efficiency within buildings.</p> <p>Ensure maximum compliance with the EU Energy Performance of Buildings Directive.</p> <p>OPW fully equipped and capable of fulfilling its role regarding energy efficiency within public buildings.</p>
<p>Support the role of State Architect/Principal Architect and implement the Government Policy on Architecture.</p>	<p>Deliver the actions outlined as the responsibility of OPW and the State Architect/Principal Architect including provision of technical advice to Government and agencies, promotion of quality in the built environment, promotion of sustainability and promotion of public awareness, education and research.</p>	<p>Act as point of reference in the dissemination of knowledge and expertise, lead by example and publish research and guidance documents.</p>

Quality assurance process

To ensure accuracy and methodological rigour, the author engaged in the following quality assurance process.

✓ Internal/Departmental

✓ Line management

✓ Spending Review Steering group

Other divisions/sections

Peer review (IGEES network, seminars, conferences etc.)

✓ External

✓ Other Government Department

Steering group