

Dublin Office Market



Q1 2023

Spotlight on Flexible Office Trends

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5 Key Takeaways

12.2%

Increase in GDP in 2022, 5% forecast for 2023
PAGE 3

281,913 sq ft

Office market take-up in Q1 2023
PAGE 4

57%

Of demand in Q1 2023 came from the TMT sector, 21% from Financial Services
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86%

Of space due to complete in 2023 is located in the city centre
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€90.3

Million was invested in office assets in Q1 2023
PAGE 10

Dublin Office Market Q1 2023

At a time of strong economic and occupier activity in the domestic economy, global banking concerns add a layer of caution to decision making in 2023, but the Irish market is well positioned to be ready when activity regains momentum.

ECONOMY

Global economic trends have been hugely supportive of Ireland's on-going economic success over the last number of decades and as another global adjustment evolves in the financial markets, now is a good time to take stock of where Ireland's key strengths are and where the challenges lie ahead.

The labour market is the most important variable supporting economic activity and demand for office space. The level of employment creation in recent years, and how companies

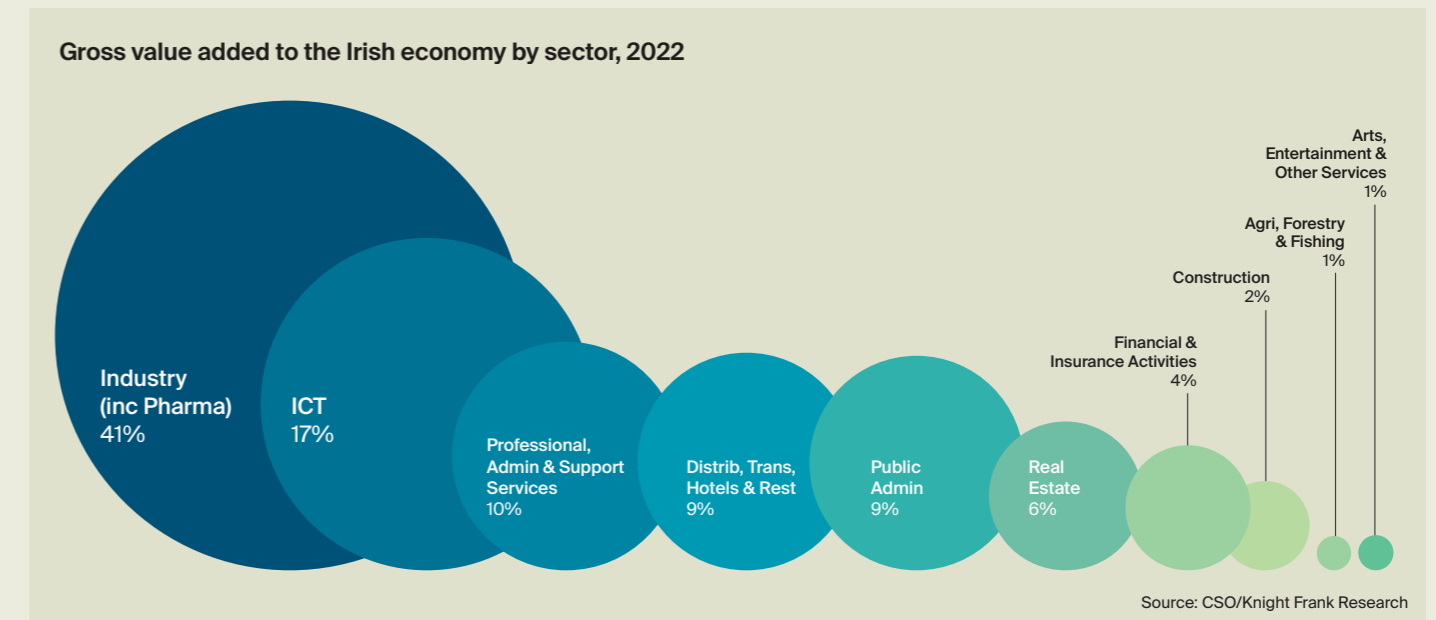
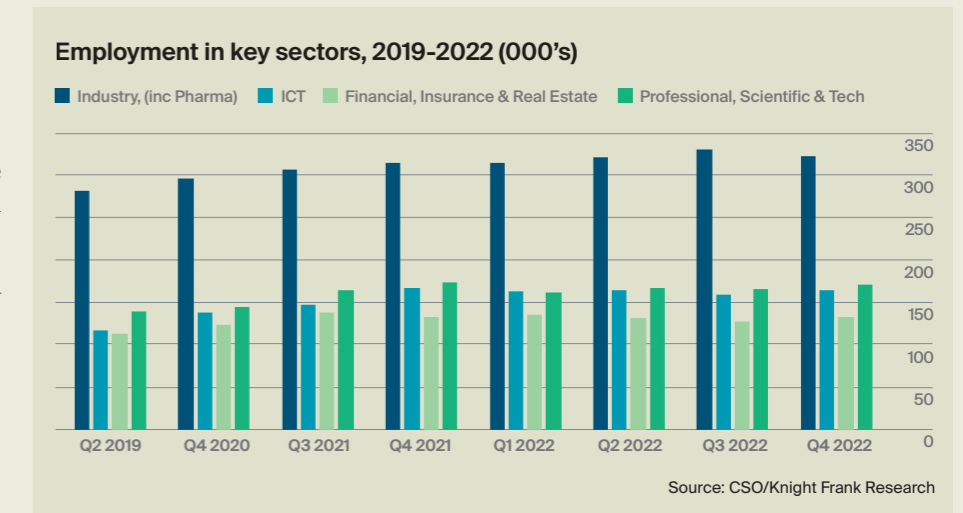
continue to adjust to hybrid working, are key drivers of market activity.

At 2.67 million, Ireland has a record number of people in employment and almost 285,000 more than at the end of 2019. Four high value adding sectors

accounted for 50% of job creation between mid-2019 and the end of 2022.

2022 was a year of re-adjustment after a period of rapid employment growth, with three of those four sectors ending the year showing a total loss of 4,900

“The Irish economy will continue to expand, despite a more challenging global backdrop, with GDP forecast to increase by 5% in 2023.”



“The strength of the labour market is reflected in the Gross Value Added to the economy. Two sectors, Industry (inc Pharma) and TMT contributed a total of 58% to the value of the economy in 2022.”

jobs, the majority of which were in the TMT and Professional, Scientific and Technical Activities sectors. Industry (inc Pharma) created 8,900 jobs in 2022, more than outweighing the losses in the other sectors combined.

The presence of the largest TMT, Pharma, Med Tech, Financial and Professional Services companies in Ireland is underpinned by membership of the EU and the Euro and combined are firm sources of strength as 2023 unfolds.

The US Chamber of Commerce highlights the preference of US multi-nationals for economies such as Ireland’s which are growing, offer a highly educated talent pool and also have government policies which are regarded as pro-trade and investment. In Q1 2023, there were 950 US companies in Ireland, the highest number to date, employing 376,000 people, directly and indirectly.

Likewise, the International Federation of Banks in Ireland (IFBI) announced that 65% of their members plan to increase employment in Ireland in 2023, following a 16% increase in employment since 2019.

The key challenge for Ireland is to maintain its position at the top of the European leaderboard in a more difficult environment than expected. Maintaining competitiveness, continuing to offer highly skilled workers, encouraging innovation along with Research & Development will ensure that when market uncertainty

eases, as it will, Ireland is ready to gain from the next wave of investment that will follow.

While multiple global disruptions will impact the pace of activity in both the occupier and investment markets in 2023, continued investment in the best office buildings that meet sustainable credentials remains essential to the medium to longer term outlook.

TAKE-UP

Q1 2023 saw 281,913 sq ft of office space taken in the Dublin market.

There were forty-two deals closed, with the top five making up 48% of total take-up.

A key feature of activity in Q1 2023 has been smaller deal sizes, with thirty-five deals of less than 10,000 sq ft each transacting. This reflects the caution that is currently prevailing among occupiers looking for larger spaces, as they assess their requirements and budgets against a wider range of criteria, particularly financial.

Despite all the news regarding the TMT sector adjusting the size of its global workforce, given stock market turmoil in 2022, the sector made up the largest proportion of take-up.

Overall, the TMT sector is expected to continue to remain an active occupier category in the Dublin office market, driven by smaller and newer tech companies such as Datadog who took the largest space in Q1 2023, letting 43,776 sq ft in One and Two Dockland Central.

The larger names will remain cautious in 2023 until deals are agreed on the space they are sub-letting in their portfolios and/or until their performance on the stock markets, post workforce and other strategic adjustments, improves over the coming quarters. This will

“The TMT sector made up 57% of take-up in Q1 2023, while Financial Services comprised 21%.”

allow for decisions regarding capital expenditure on office fitouts, new workforce numbers and ways of working to resume.

VACANCY

The vacancy rate in the overall Dublin market increased from 10.5% to 13.1% in Q1 2023. Space added to availability via the grey market was once again the main factor putting upward pressure on the vacancy rate.

RENTS

Global events in Q1 2023, particularly in relation to the banking sector, have impacted sentiment.

This comes at a time when the market is experiencing an increase in space due to both new completions and space available to sub-let in prime city centre locations.

Combined, these factors will result in some downward pressure on rents. Ending the last quarter at €70 psf for the best space in the city, rents are expected

to fall to the mid-€60’s by mid-2023. After that, enhanced incentives and rent-free terms are expected to keep a floor on rents as developer/landlord costs to meet the required sustainable credentials balance the rental equation.

OUTLOOK

The market at this point of 2023 is filled with contradictions. Strong economic growth, employment and demand are set against an increase in the supply pipeline, which will contract again in the short to medium term amid a more difficult funding environment.

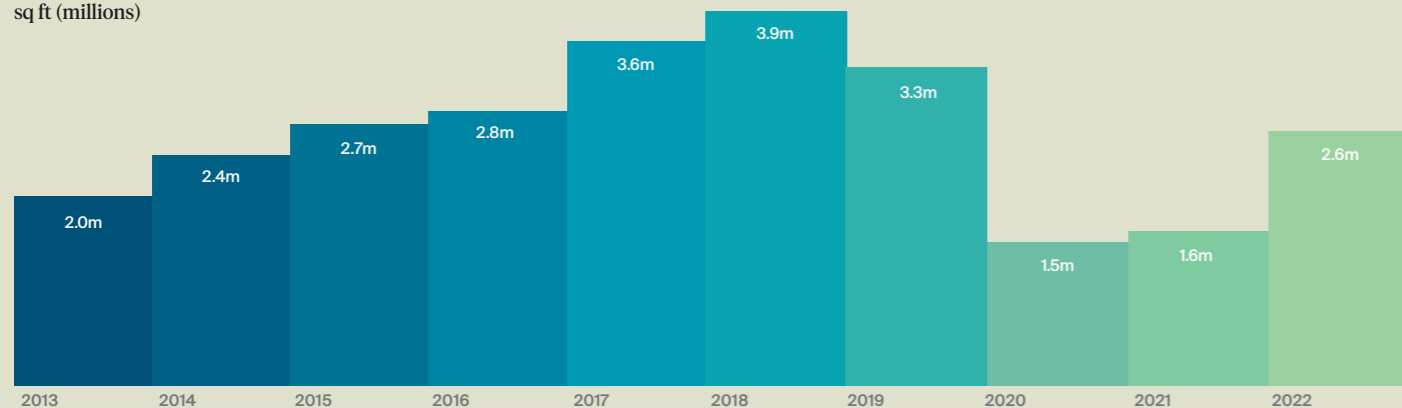
Occupiers are expected to remain increasingly discerning about their space requirements, continuing to take their lead from two key drivers – sustainable credentials (particularly energy related) and employee requirements. Larger transactions in 2023 will be driven by a number of requirements in the Professional Services sector.

Top 5 office leasing transactions, Q1 2023

Property	Tenant	Sector	Size (Sq ft)
One & Two Dockland Central, Dublin 1	DataDog	TMT	43,776
60 Dawson, Dublin 2	Pinterest	TMT	27,739
Block A, Westland Park, Dublin 12	Virtual Access	TMT	25,478
Three Park Place, Dublin 2	Scotia Bank	Finance	21,198
Building 3, Cherrywood Business Campus, Dublin 18	OUTsurance	Finance	18,201

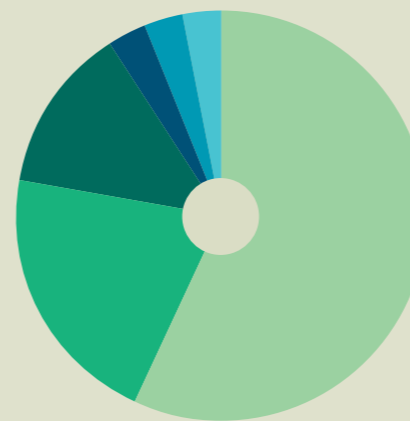
Source: Knight Frank Research

Office take-up
sq ft (millions)



Source: Knight Frank Research

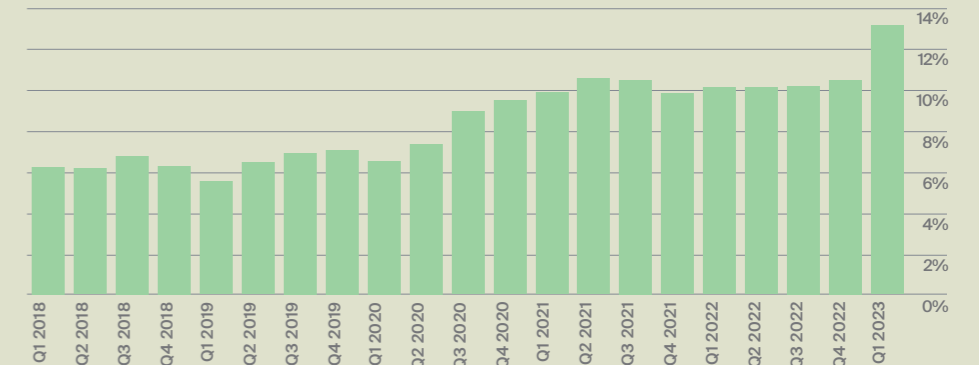
Take-up by sector, Q1 2023



TMT	57%
Finance	21%
Other	13%
Prof Services	3%
Medical/Pharma	3%
State	3%

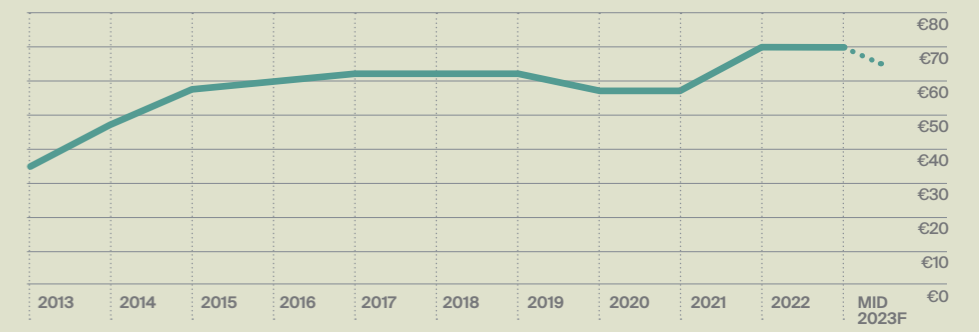
Source: Knight Frank Research

Dublin market vacancy rate



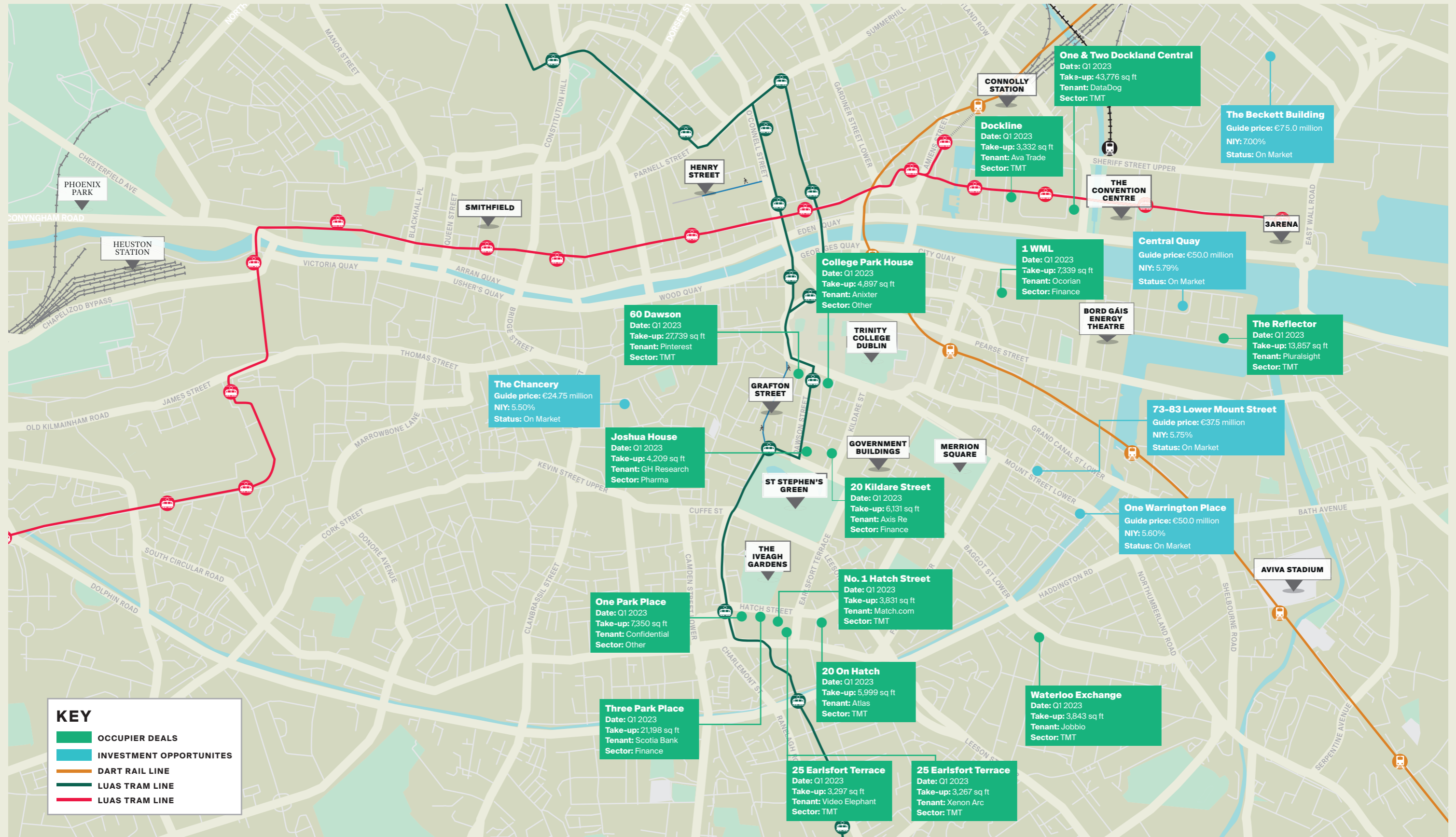
Source: Knight Frank Research

Prime rental series (per sq ft)



Source: Knight Frank Research

Notable Deals & Opportunities in Q1 2023



Source: Knight Frank Research

OFFICE DEVELOPMENT

Dublin's office market pipeline is expected to deliver a total of 2.2m sq ft throughout 2023. Some of the buildings due to complete have been delayed to varying degrees over the last two to three years.

Of that 2.2m sq ft, only one scheme will be completed in the suburbs (Block N, Central Park in Sandyford).

There has been no new space completed in Q1 2023.

Delays each quarter over the last number of years have been driven by a range of factors from catching up post lockdowns, supply chain problems along with the pressure of the increasing cost of materials and labour. Most of these factors have now been built into project

timelines for developments which are already under construction, with clearer completion dates now in place.

Q2 2023 is expected to see the delivery of 900,500 sq ft, across eight buildings, all of which are located in the city centre.

20% of that space is pre-let, equating to three deals for new space on Dawson Street – 116,000 sq ft at 60 Dawson (which is comprised of deals to Service Now and Pinterest), and 60,000 sq ft at 12 Dawson (which was let to Goodbodys/AIB).

OUTLOOK

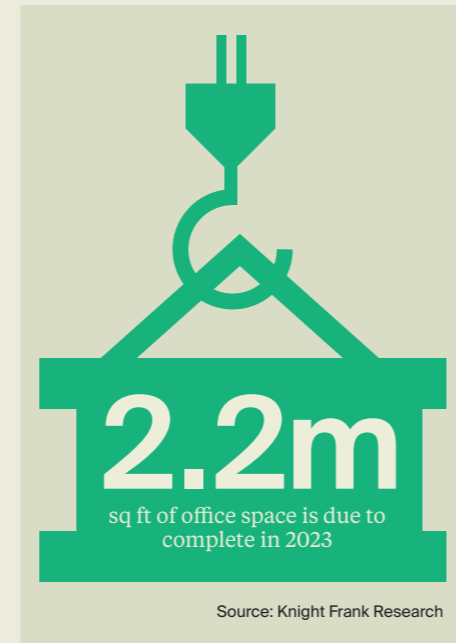
Of the total expected to be delivered in 2023, almost 1.3m sq ft is scheduled to complete in the second half of the year. The largest development that is due to complete in the second half of the year is 2-4 Wilton Park (434,000 sq ft). While the building is let in its entirety to LinkedIn, they are currently sub-letting 63% of this space.

2023 is set to be an anomaly given the spike in the amount of space available to sub-let, particularly since the middle of 2022. This increase has been driven almost entirely by TMT companies adjusting cost overheads, including minimising potential capital

expenditure budgets, in response to stock market fluctuations.

Occupiers ready to act this year will have a greater selection of new space to choose from in the city centre than has been the case for some time.

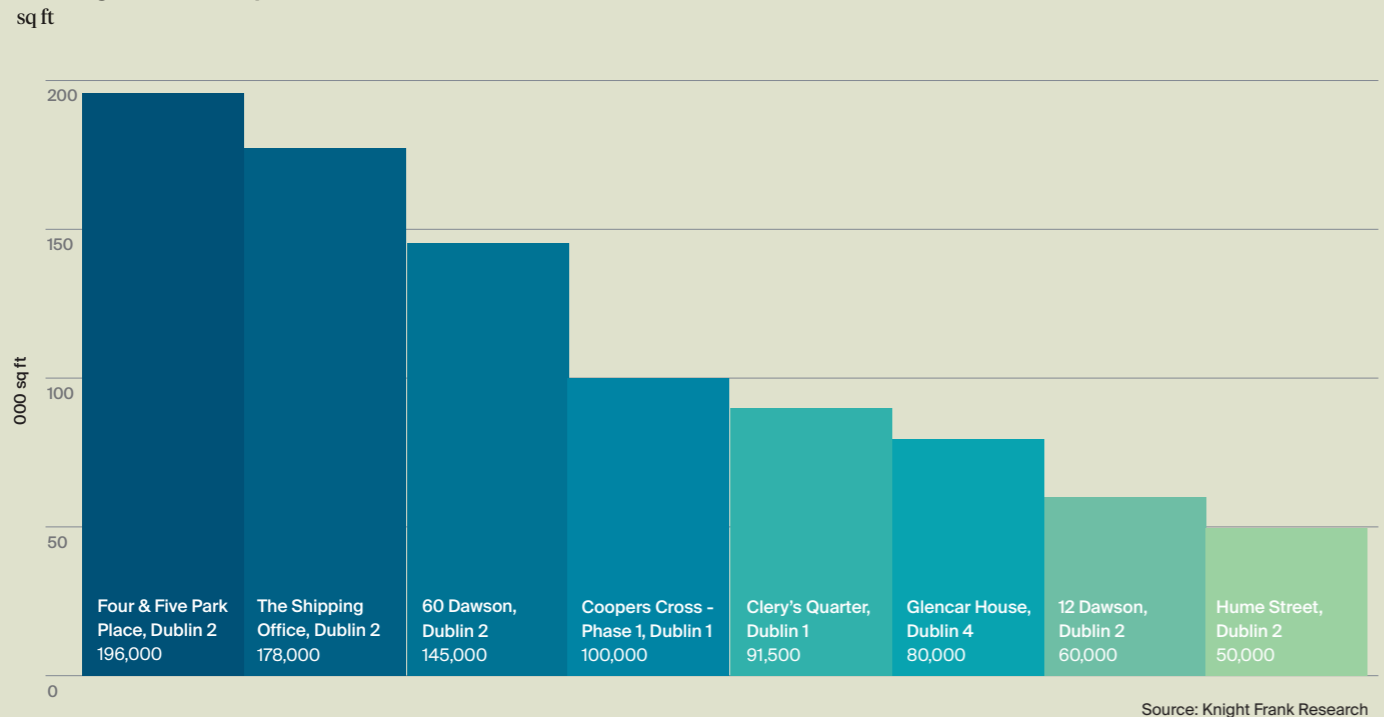
Beyond 2023, the delivery pipeline contracts. Some projects have been put on hold while others are facing more complex funding processes.



86%

of the office space due to complete in 2023 is located in Dublin's city centre.

Buildings due to complete in Q2 2023

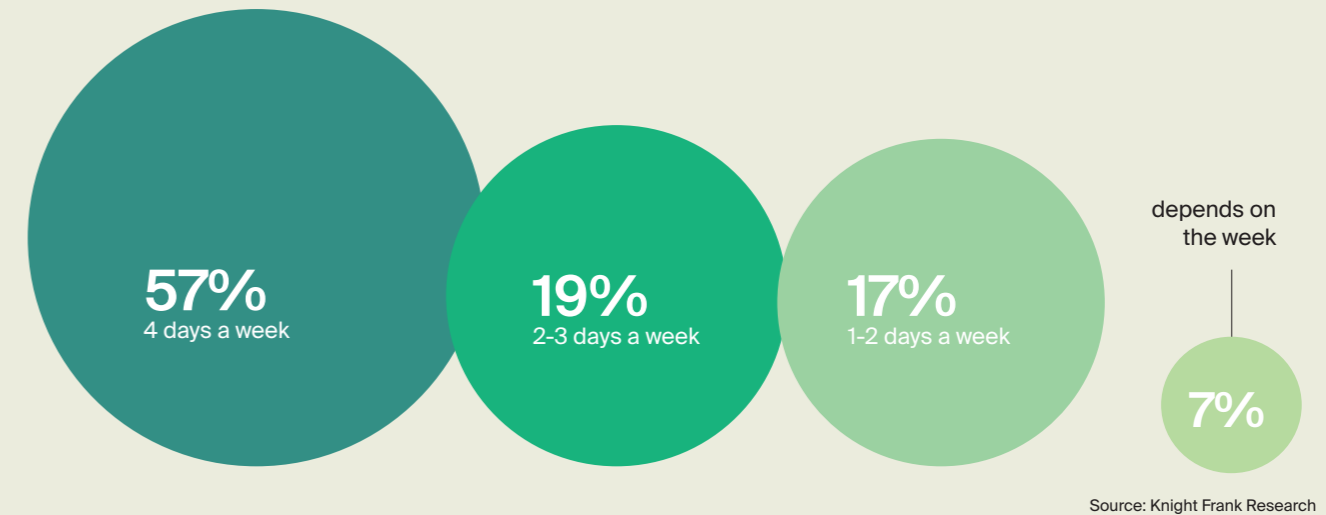


Spotlight on Flexible Office Trends

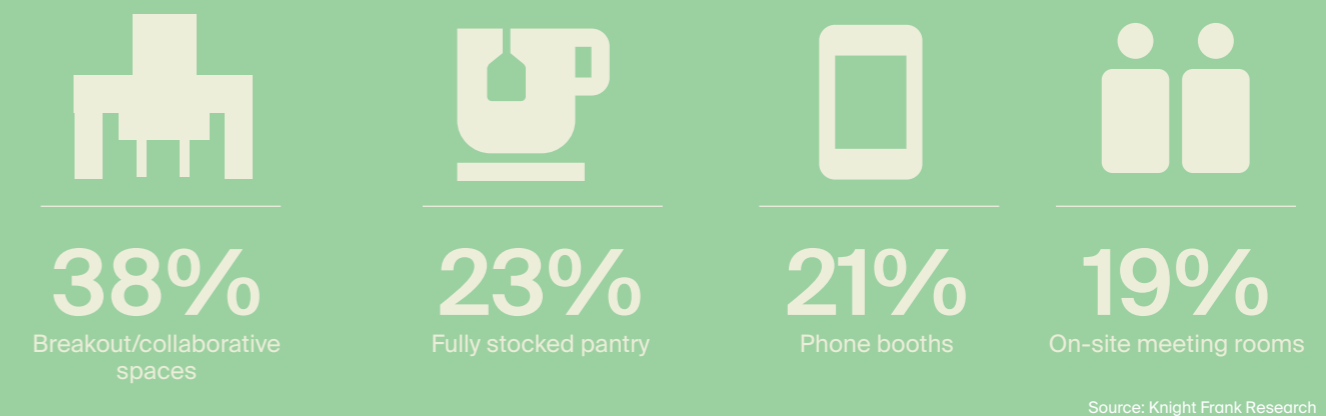
As occupiers adjust to hybrid and new ways of working, in an economy operating at full employment, Knight Frank Ireland assesses what the key trends are.

- 1** MORE FLEXIBILITY FOR OCCUPIERS & EMPLOYEES
- 2** LESS CAPITAL EXPENDITURE
- 3** MORE OPTIONS TO OFFER AMENITIES & ATTRACT TALENT

How often are people coming into the office?



Which amenities are most important to you when touring flexible offices?



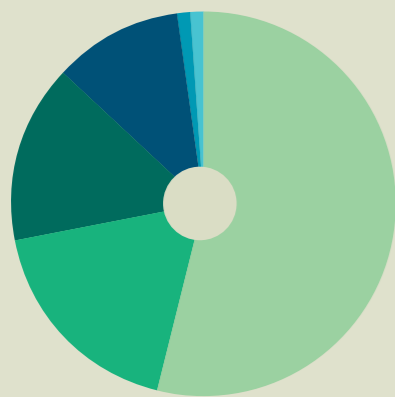
INVESTMENT MARKET

Investment activity in Q1 2023 was relatively subdued across all market sectors, compounded by increased caution as a result of the failure of a number of banks globally. That said, a total of just under €621m transacted with three large deals making up almost 50% of total spend. Two large PRS deals comprised just over 30% of total spend (Pontegadea's purchase of Opus, 6 Hanover Quay for €101m and M&G's purchase of Eglinton Place, Dublin 4 for €99.5m).

Office spend totalled just over €90m, with only one deal of scale completing – the purchase of Waterside, Citywest by Fine Grain for €65.5m. The purchase of Blocks 3-5, Blackrock Business Park by Remake for €13m was the second largest deal to complete in Q1 2023. Remake were advised on the acquisition by Knight Frank. All other office transactions were under €5m.

“A lack of prime office assets on the market is also hampering activity. Prime yields continue to come under pressure, with further outward movement expected as the year progresses.”

Total investment spend by sector, Q1 2023



PRS	54%
Industrial	18%
Office	15%
Retail	11%
Mixed-Use	1%
Healthcare	1%

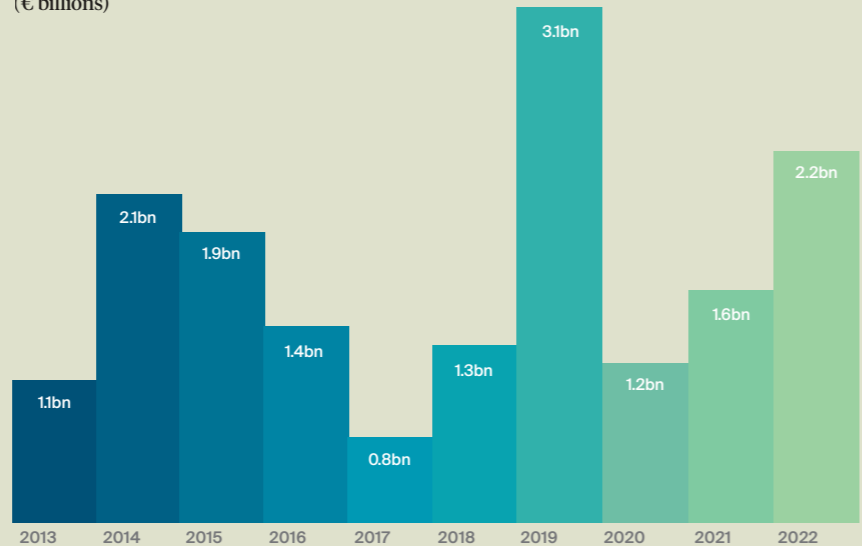
Source: Knight Frank Research

Top Dublin office investment transactions, Q1 2023

Property	Vendor	Buyer	Price
Waterside, Citywest, Dublin 24	I PUT & Davy	Fine Grain	€65,500,000
Blocks 3-5, Blackrock Business Park, Co. Dublin	Kennedy Wilson	Remake	€13,000,000

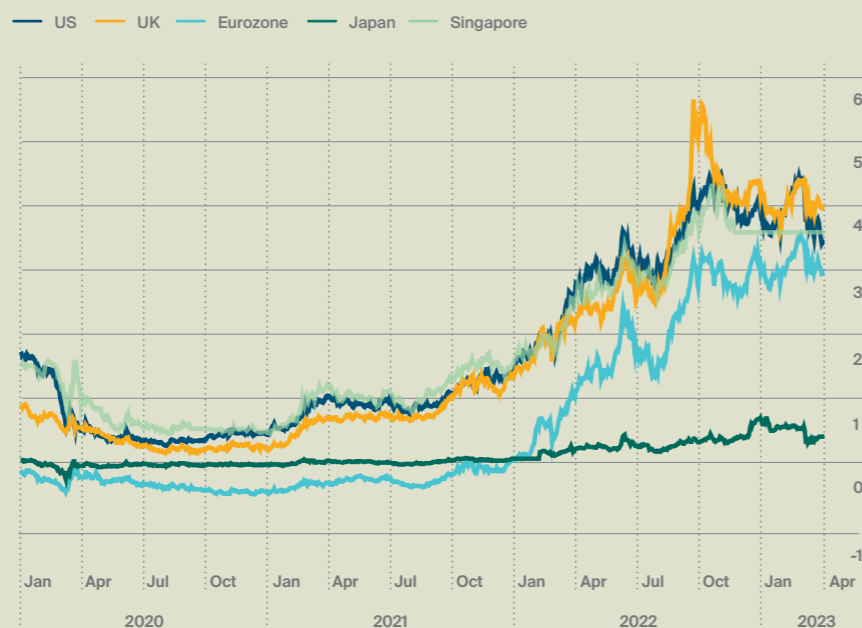
Source: Knight Frank Research

Dublin office investment volumes (€ billions)



Source: Knight Frank Research

Interest rate swaps
5 year swap rates, %



Source: Macrobond/Knight Frank Research

Leading indicators

Sentiment in financial markets as a result of both continued higher interest rates and concerns about potential systemic stress as a result of a number of bank failures has impacted the global real estate sector since February 2023.

Equity markets

Price return index, Jan 2020 = 100, US\$



Index	4 Apr 23	Percentage change since			
Original value and base	1 day	1 week	1 month	Jan '20	
DAX 30	6,922	2.3	2.5	4.1	4.6
FTSE 250	23,400	2.0	1.4	-2.2	-19.3
Hang Seng	2,600	0.5	2.5	-0.1	-28.1
IBEX 35	10,033	2.1	2.7	1.6	-6.4
DAX 30	29,465	1.7	2.2	1.3	11.9
FTSE 250	4,109	2.0	4.1	3.2	27.2
Hang Seng	498	2.0	2.4	1.4	6.6
FTSE 250	15	1.4	1.3	3.9	-4.0

Source: Macrobond/Knight Frank

Equity sectors

Price return index, Jan 2020 = 100, US\$



Index	4 Apr 23	Percentage change since			
Original value and base	1 day	1 week	1 month	Jan '20	
All shares	3,016	1.8	3.2	2.5	14.2
Banks	98	0.6	2.0	-9.4	-12.1
Consumer goods	316	3.1	4.4	3.6	13.0
Hotels & Leisure	396	2.6	3.8	3.6	6.2
Household durables	131	0.0	0.0	4.0	10.7
Industrials	302	1.5	3.0	1.5	14.1
Real Estate	905	2.5	5.2	-2.7	-20.1
Tech	243	2.0	3.5	1.9	2.8

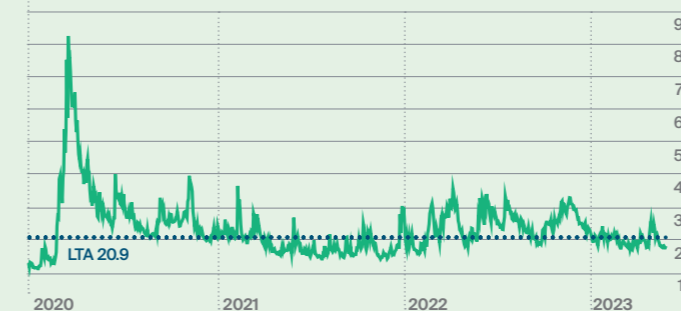
Source: Macrobond/Knight Frank

Volatility index

Near term stock price volatility indicator

— CBOE Volatility Index (VIX) ●●● Long-term average

The CBOE VIX ("investor fear gauge") is an indicator of near term S&P 500 stock price volatility based on underlying options



	4 Apr 23	1 day	1 week	1 month	Jan '20
CBOE VIX	18.7	18.7	20.6	18.5	13.8
Euro Stoxx 50 VIX	19.4	19.4	23.1	18.1	14.0
Nikkei VIX	17.1	16.7	19.0	16.2	14.8
KOSPI VIX	15.9	15.6	17.6	17.7	14.7

Source: Macrobond/Knight Frank

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New Ecb composite indicator of systemic stress ●●● Long-term average

The CISS is an indicator of instability across the whole financial system (hence "systemic stress")



	4 Apr 23	1 week	1 month	Jan '20
Systemic Stress composite	0.239	0.356	0.257	0.023
Equity markets stress sub index	0.075	0.136	0.077	0.009
Bond markets stress sub index	0.072	0.101	0.085	0.02
FX markets stress sub index	0.020	0.044	0.054	0.004

Source: Macrobond/Knight Frank



New Homes Construction Survey 2023



The Wealth Report 2023



Ireland Investment Market Overview Q4 2022



Dublin Logistics & Industrial Market Review 2022



Ireland Residential Investment Market Overview Q4 2022



Active Capital 2022

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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