Dublin Office Market

Research, Q4 2022

Special Focus – Movements in "Grey" space are set to disrupt the market in 2023.

knightfrank.com/research

12.2%*

estimated provisional increase in GDP for 2022

*CSO

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€2.2bn

Invested in office assets including the Hibernia REIT transaction & Salesforce.

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5 KEY TAKEAWAYS

811,328 sq ft

office market take-up in Q4.

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32%

of demand in 2022 came from Financial Services, on a par with the TMT sector.

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2.64 million sq ft

was taken up throughout 2022 as a whole.

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DUBLIN OFFICE MARKET Q4 2022

The Irish economy continues to out-perform its trading partners as strong employment gains across a wide range of sectors support activity.

ECONOMY

Broad-based employment growth, which gathered considerable pace between 2020-2022, is supporting the economy as it adjusts to higher price points across all sectors and to increased funding costs.

The value of the economy increased by €120 billion in Q3. While the Information and Technology sector did see a reduction in percentage growth in Q3, the sector still added €19 billion to GDP between Q2 and Q3. The industry sector (excluding construction but including pharmaceuticals) continues to make the most significant contribution (just over €50 billion).

The unemployment rate ended the year at 4.3%, its lowest level in twenty years.

The scale of this output, particularly in a small open economy such as Ireland, has driven the employment growth experienced in recent years and the record tax revenues that have followed. These factors continue to have a positive multiplier effect and to cushion the impact of what were unexpected global challenges throughout 2022.

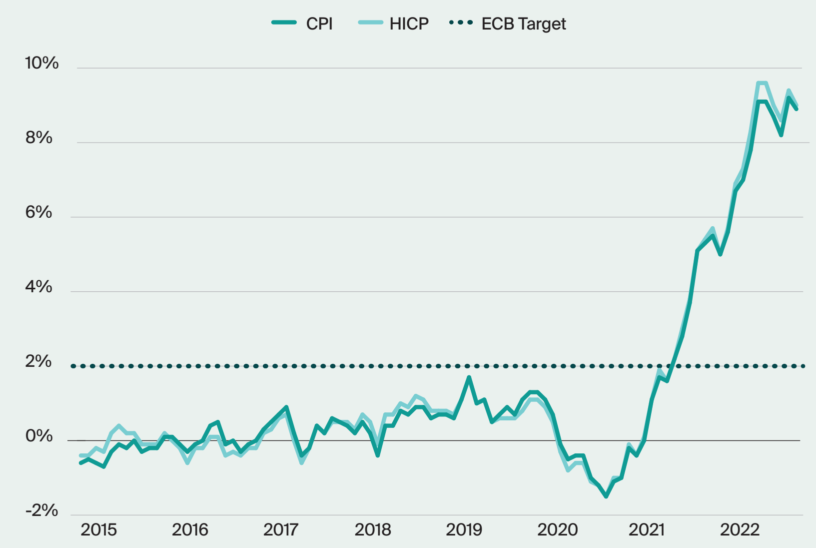
While the pace of interest rate increases and cost pressures are expected to ease in the first half of 2023, inflation will remain significantly above levels experienced over the last decade. As businesses adjust to this reality, the expectation is that Ireland will remain firmly in positive economic territory.

Overall economic growth of in excess of 12% is expected for 2022 making Ireland the strongest performing economy in the EU. While a slowdown is expected in 2023, the economy is set to remain firmly in expansionary mode.

Employment growth is set to remain the backbone supporting the overall strong position of the economy at the start of 2023. Despite the more difficult global backdrop last year, 2022 saw an increase of 9% in the number of people employed in the multi-national sector*, bringing the total to 301,475 – the highest on record. There were 242 investments won into Ireland in 2022, 103 of which were new companies not previously in Ireland.

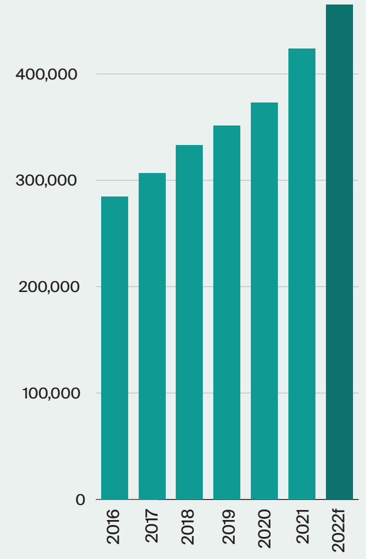
*IDA Ireland, Dec 2022

Ireland - CPI & HICP inflation rate



Source: CSO/Knight Frank Research

Value of Irish economic growth
€millions



Source: CSO/Knight Frank Research

Allowing for 8,407 job losses in the multi-national sector throughout the year, there was net job creation of 24,019*.

Capacity constraints, particularly in relation to housing supply, remain the biggest challenges facing the Irish economy in 2023. Inflation, while expected to ease as global energy price increases flatten, is set to remain above 5%. Economic growth is currently expected to increase by between 3-4% in 2023.

OCCUPIER TRENDS

2022 ended with strong occupier activity in Dublin's office market with take-up reaching a total of 2.64m sq ft, the upper end of the Knight Frank forecast range for the year.

One large deal at the end of the year – the decision by Citibank to take 300,000 sq ft of new space at Waterfront South Central in Dublin's North Docklands – made up just over 11% of total activity and further

The Financial Services sector made up 32% of total take-up in 2022.

reflects occupier preference for new space with the best sustainable credentials. The new headquarter space is due to complete in 2026.

The three largest deals that signed in 2022 (each in excess of 100,000 sq ft) – the Citibank deal mentioned above, A&L Goodbody's decision to take 155,000 sq ft of space at 25 North Wall Quay and SMBC Aviation Capital's decision to take 135,000 sq ft of space at Fitzwilliam 28 (which was space that had come back to the "grey" market in 2022) – were completed by companies in the Financial and Professional Services sectors.

Take-up

The TMT sector remained active throughout 2022 taking a total of 834,000 sq ft (32%). The largest tech deal was Service Now's decision to take 88,000 sq ft at 60 Dawson, followed by TikTok's decision to take 83,000 sq ft at The Tropical Fruit Warehouse, both of which are located in Dublin 2 and are newly developed buildings.

In addition to the 868,162 sq ft that was signed in Q3, 811,328 sq ft was taken-up in Q4 making activity in the second half of the year particularly strong.

While Dublin 1 and Dublin 2 combined represented 70% of total take-up in 2022, there was just over 1m sq ft signed in

Citibank's decision to take 300,000 sq ft at Waterfront South Central, in Dublin's North Docklands, was the largest deal of the quarter and of 2022.

Dublin 2 alone. 804,000 sq ft was taken-up in Dublin 1. Demand in these locations is being driven by occupier preference for new builds or completely refurbished space. Traditional core locations such as the streets adjacent to St. Stephen's Green are attracting a wide range of occupiers.

70% of total space signed in 2022 was located in Dublin 1 & 2 combined.

The effective re-building and refurbishment of Dublin's North Docklands has attracted high profile occupiers in 2022, who recognise the transport infrastructure and the availability of large new spaces with the best sustainable credentials, at slightly more competitive rental levels than those in core Dublin 2. The largest two deals in 2022 occurred in the North Docklands (Citibank and A&L Goodbody), totalling 455,000 sq ft combined.

Vacancy

The vacancy rate in the overall Dublin market moved up to 10.5% by year end.

Space added to availability via the grey market is the main factor putting upward pressure on the vacancy rate.

If Fibonacci Square and space at Wilton Park, the latter of which is due to complete in 2023 and has been flagged as available for sub-let, are added, the vacancy rate will move up closer to 12%.

Rents

Prime rents touched €70 per sq ft at the end of 2022 for new buildings in prime locations – for example core Dublin 2.

Given the increase in space that has become available via the "grey" market, particularly in the city centre, along with an increase in the amount of space that is due to complete in 2023 (some of which was delayed as a result of lockdowns and supply chain problems), prime rents in the city are expected to come under downward pressure and fall back to €65 per sq ft for some of this space. Any softening in rents is expected to be weighed against increased funding and construction costs, both of which are set to remain at higher starting points going forward. Upward pressure on rents is expected to emerge again by year end.

OUTLOOK

Despite the positive economic conditions, caution is expected to prevail in 2023, particularly in the first half of the year.

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.

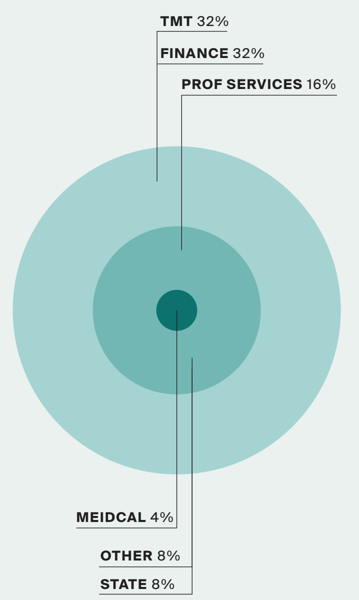
Demand is set to be driven by a number of large requirements in the Professional Services sector.

*IDA Ireland, Dec 2022

10.5%*

Vacancy rate

Take-up by sector
2022



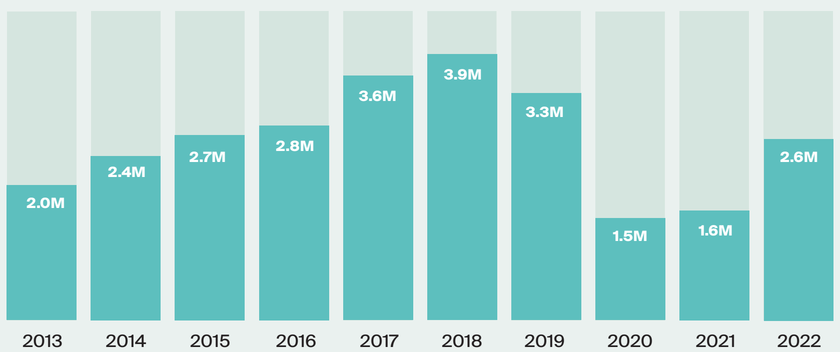
Source: Knight Frank Research
*excludes Fibonacci Square and space at Wilton Park, both of which are set to be added to vacancy in 2023.

TOP 5 OFFICE LEASING TRANSACTIONS Q4 2022

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
WATERFRONT SOUTH CENTRAL, DUBLIN 1	CITIBANK	FINANCE	300,000
FITZWILLIAM 28, DUBLIN 2	SMBC AVIATION CAPITAL	FINANCE	135,379
BLOCK 3, MIESIAN PLAZA, DUBLIN 2	BDO	PROFESSIONAL SERVICES	46,892
75 ST STEPHEN'S GREEN, DUBLIN 2	HORIZON	PHARMA	33,000
THE HEYSHAM, DUBLIN 1	ICONIC OFFICES	COWORKING	25,155

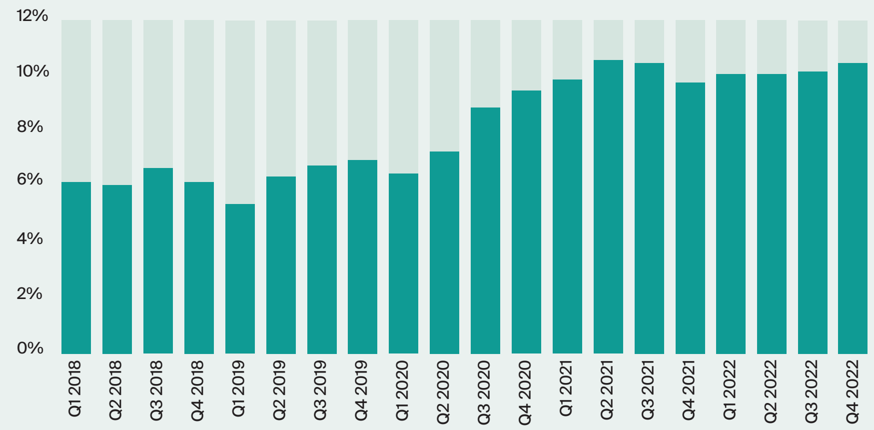
Source: Knight Frank Research

Office take-up
sq ft (millions)



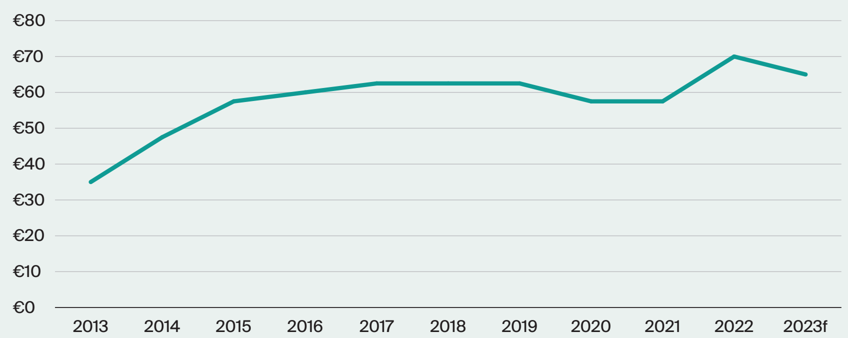
Source: Knight Frank Research

Dublin market vacancy rate

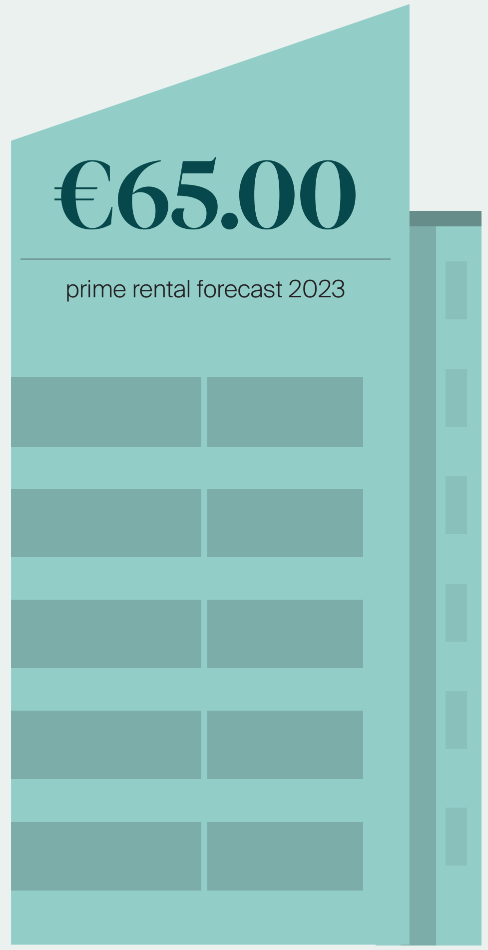


Source: Knight Frank Research

Prime rental growth (per sq ft)

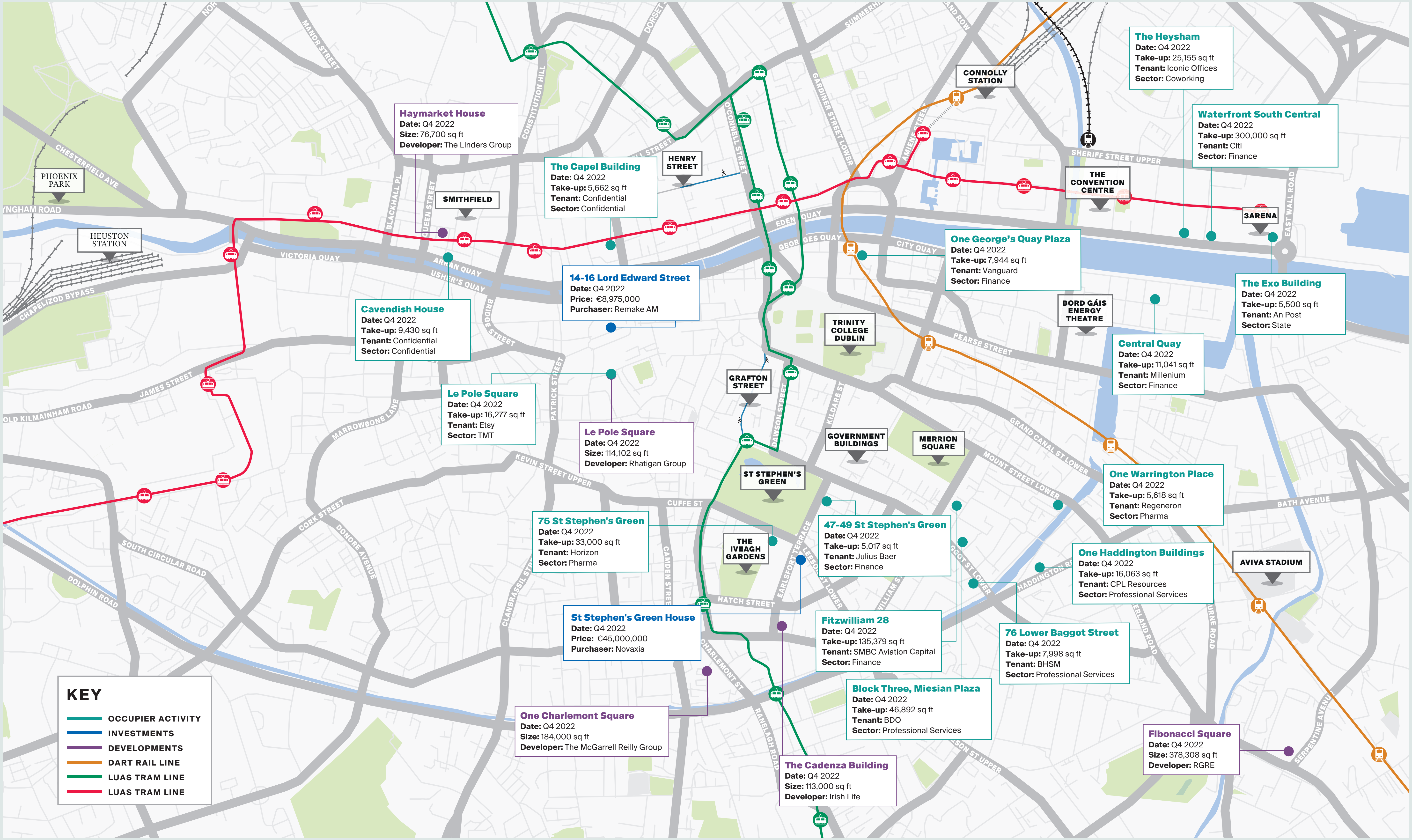


f=forecast
Source: Knight Frank Research



Source: Knight Frank Research

TOP OCCUPIER ACTIVITY, INVESTMENTS & DEVELOPMENTS IN Q4 2022



Source: Knight Frank Research

OFFICE DEVELOPMENT

2022 saw the delivery of a total of 2.4m sq ft to the Dublin office market, 81% of which was located in the city centre.

Almost 675,000 sq ft was completed in the city centre in the final quarter of the year, 73% of which is let. However, it should be noted that of this figure, the Cadenza Building in Dublin 2 is now available to sub-let, while Fibonacci Square in Dublin 4 will be available to sub-let in due course.

Just one scheme makes up the newly delivered and available space in the city centre – One Charlemont Square which offers 184,000 sq ft in Dublin 2.

There was just over 469,000 sq ft completed in the suburban and fringe sub-markets combined in 2022, 63% of which is let.

The largest building to complete in 2022 in the suburbs was Two South County Business Park where all 98,000 sq ft was pre-let by Mastercard.

OUTLOOK

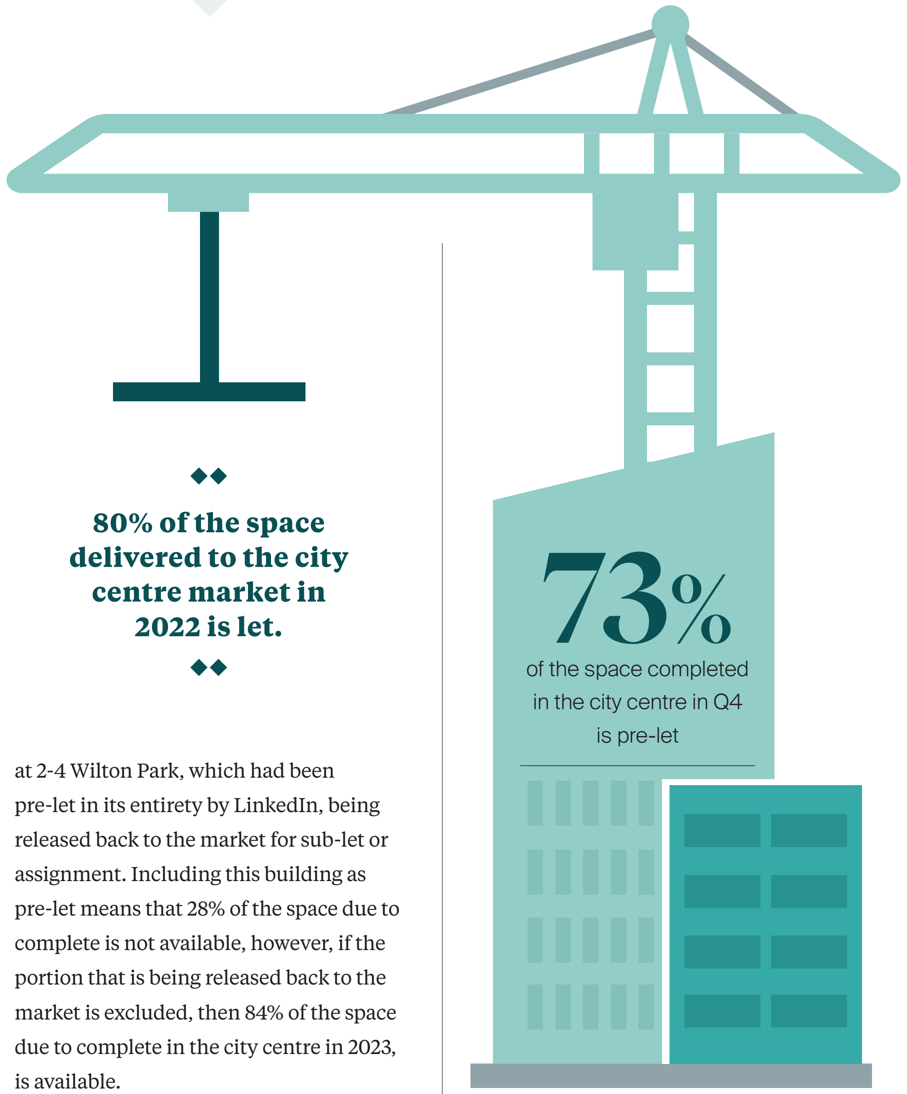
2023 is set to be more complicated with a number of large buildings, some of which were delayed due to Covid lockdowns and supply chain problems, due to be delivered at a time when a number of large city centre buildings are also available to sub-let.

A total of 2.5m sq ft is due to complete across the whole market, 2.2m sq ft of which will be located in the city centre. Within that, there are multiple moving parts, with for example half of the space

80% of the space delivered to the city centre market in 2022 is let.

at 2-4 Wilton Park, which had been pre-let in its entirety by LinkedIn, being released back to the market for sub-let or assignment. Including this building as pre-let means that 28% of the space due to complete is not available, however, if the portion that is being released back to the market is excluded, then 84% of the space due to complete in the city centre in 2023, is available.

There are a number of large buildings due to complete in 2023 which are not yet let – including 390,000 sq ft at Cooper's Cross in the North Docklands, 208,000 sq ft at Building One, College Square in Dublin 2 and 196,000 sq ft at 4 & 5 Park Place which is also located in Dublin 2. These new schemes, along with 2-4 Wilton Park and other schemes on or coming to the grey market, provide the largest range of options for occupiers looking for space in the city centre for the first time since 2019.



Source: Knight Frank Research

Occupiers active in the market, who have been seeking prime spaces for some time, will have more choice in the city centre market. Demand in 2023 is expected to become even more focused on the best space in Dublin 1, 2 and 4 which may exceed the 76% of take-up witnessed in 2022.

Block N, Central Park is the only building which is due to complete in the suburbs in 2023. The building is still available to let and will extend to 201,000 sq ft upon completion.

2023 is set to be an anomaly in the market as many factors, impacted by global disruptions, have come together to deliver a spike in supply. This will feed into the lower rental trajectory previously discussed.

The supply pipeline in the city centre tightens considerably in 2024 with just under 700,000 sq ft of space due to complete, 41% of which is pre-let.

BUILDINGS COMPLETED IN Q4 2022

BUILDING	SIZE, SQ FT
FIBONACCI SQUARE, DUBLIN 4	378,308
ONE CHARLEMONT SQUARE, DUBLIN 2	184,000
LE POLE SQUARE, DUBLIN 8	114,102
CADENZA, DUBLIN 2	113,000
HAYMARKET HOUSE, DUBLIN 7	76,700

Source: Knight Frank Research

SPECIAL FOCUS

MOVEMENTS IN GREY SPACE ARE SET TO DISRUPT THE MARKET IN 2023.

2022 will be remembered as a remarkable year for the office market. Getting off to a positive start in January, only to be presented with a range of challenges throughout the year as the Ukrainian crisis put into play a chain of unexpected challenges, culminating with announcements by the Tech (TMT) sector that cutbacks in staff and space were required.

After a decade of global expansion, tech share prices saw their market capitalisation tumble rapidly, as the war in Ukraine triggered perfect storm conditions of rapidly rising inflation and a spike in interest rates across the globe.

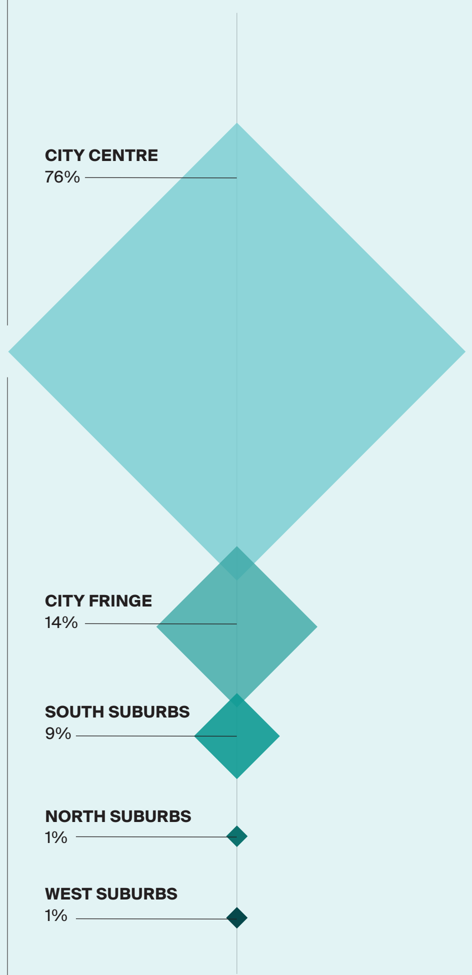
50% of the grey space that is on or coming to the market is comprised of just 5 buildings.

In summary, the immediate impact of this has been a shift in the amount and type of space available to occupiers in Dublin's office market. While the availability of space to sub-let (grey) has always been a feature of the market, it is poised to be a key influencing factor in 2023. In that context, it is important to note that of the 2.3m sq ft of space on or coming to the grey market as of January 2023, 50% of that is made up of five buildings, each of which has a head tenant in the Tech sector. Just over 1m sq ft is spread across four buildings in Dublin 2 & 4 combined.

The driver of these decisions has arguably been more about how this sector will plan to work going forward, and the costs involved, which involves setting clear, and in some cases new, corporate objectives and adding to shareholder value. The impact of Covid-19 and the clear emergence of hybrid working did however make the option of sub-leasing office space to the market, a potentially easy option for large tech companies to reduce overheads.

Outside of the Tech sector, Financial and Professional Services companies have also returned some space to the market, but in these sectors, the activity is more in line with normal market behaviour. Some companies sub-letting in these

Breakdown of the location of the space that is on or coming to the grey market



Source: Knight Frank Research

FIVE LARGEST BUILDINGS ON OR COMING TO THE GREY MARKET

BUILDING	LOCATION	HEAD TENANT	SQ FT
FIBONACCI SQUARE*	DUBLIN 4	FACEBOOK	378,308
TWO & THREE WILTON PARK*	DUBLIN 2	LINKEDIN	270,000
4 & 5 GRAND CANAL SQUARE*	DUBLIN 2	FACEBOOK	250,000
CADENZA	DUBLIN 2	INTERCOM	113,000
1 HSQ	DUBLIN 8	EIR	110,190

* expected to officially be offered to the grey market in 2023
Source: Knight Frank Research

Buildings in the city centre make up 76% of grey space on or coming to the market.

sectors, for example, SMBC Aviation Capital and Deloitte, are also actively seeking or have also recently taken larger spaces in the market than the spaces returned.

Overall however, the change in the volume of grey space will disrupt the market in 2023. It offers occupiers options that were unforeseen when planning nine to twelve months ago. The unknown now is whether, if share prices continue to stabilise and recover, will some of these global Tech companies decide to keep the space that they have already committed to or will it remain available.

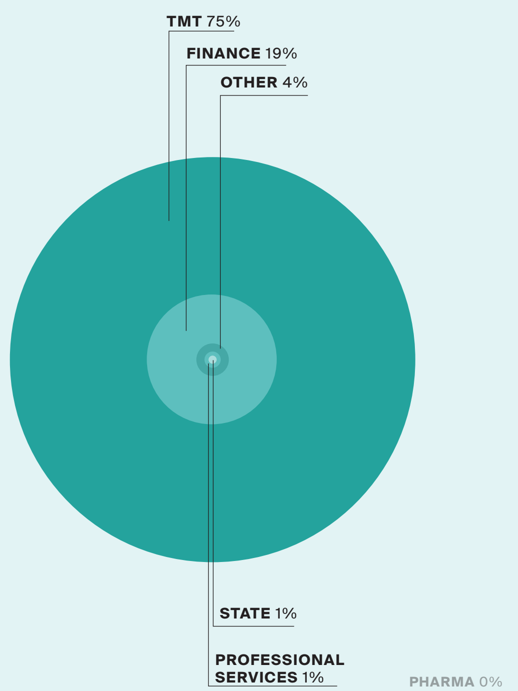
If the latter, then is it suitable for the large occupier requirements currently searching in the market, some of whom are not actually seeking to take occupancy for another twelve to twenty-four months.

The first half of 2023 is set to be one of excess supply for short to medium term take-up and this dynamic will put pressure on prime rents as previously discussed.

However, with ESG now top of corporate and funding agendas, the buildings with the highest, for example, LEED Platinum Ratings, either available via the standing grey stock or due to complete in 2023, will be in most demand.

Coupled with the fact that the Irish labour market and economy continue to perform beyond all eurozone counterparts, and global corporate objectives to have flagship headquarter offices, Dublin is well positioned to attract new US and global occupiers seeking access to EU markets.

Breakdown of space on or coming to the grey market by sector, all Dublin



Source: Knight Frank Research

INVESTMENT MARKET

A total of €5.8 billion* was invested in Irish commercial property in 2022, across the usual leading sectors such as Offices, PRS, Industrial, Hotels and Mixed-Use. An additional sector – Healthcare increased its share of spend to 10% for the year as a whole and to 28% in Q4.

International investor interest in office assets in the Irish market remained strong in 2022 despite a challenging backdrop. ESG credentials are set to drive demand in a more cautious market in 2023, particularly in the first half of the year.

The largest deal of the final quarter was a €300m transaction called Project Opus which saw KKR/John Laing purchase a mixed portfolio of assets in the healthcare sector including twenty operational assets with leases to the HSE, GP's and Pharmacies. It also included ten development sites with agreements to lease with the HSE which would technically not be included in investment spend unless on occasion when they form part of a wider portfolio transaction. AMP Capital were the vendor.

Investor spend on office assets made up 37% of the total for 2022 in what was a strong performance despite multiple challenges for the sector. The most notable deals included Brookfield Asset Management's acquisition of Hibernia REIT's portfolio as well as Blackstone's purchase of Salesforce's HQ at Spencer Dock.

Spend on PRS was the second highest accounting for 32%, while industrial comprised 8%.

Q4 activity, despite strong overall numbers, does reflect a level of caution that is expected to remain for at least the first half of 2023.

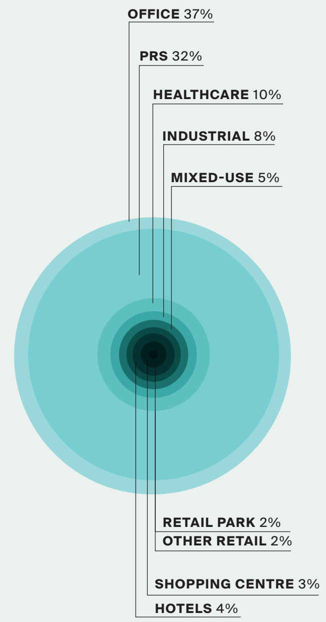
Higher inflation and a changed funding environment is putting pressure on yields.

ESG requirements are putting an additional level of scrutiny on all investment decisions. Combined, these factors have resulted in a 50-75 basis point outward movement in prime yields in the office and other sectors.

Ireland does however remain very well positioned to attract global capital flows in 2023 given its strong economic position relative to the EU and other global trading partners.

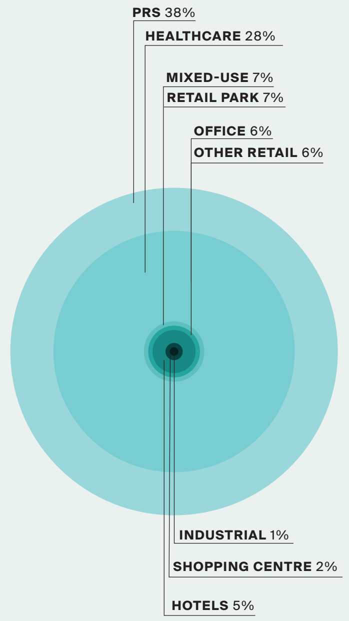
The wide range of sectors creating employment and continued projected employment growth across the economy will also underpin investor confidence as market dynamics evolve in 2023.

Investment spend by sector 2022



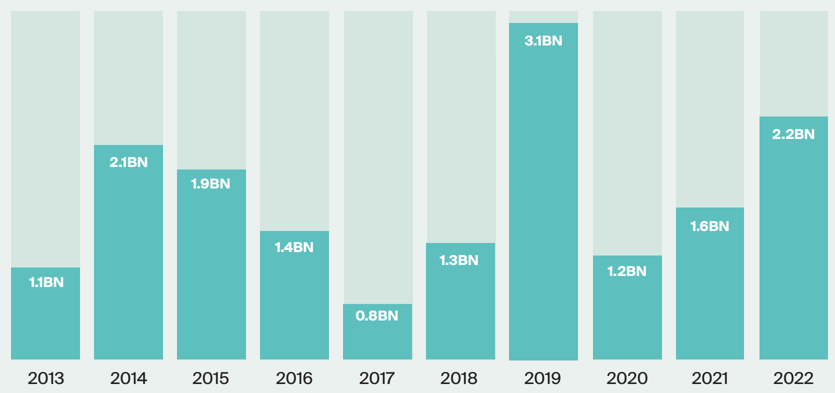
Source: Knight Frank Research

Investment spend by sector Q4 2022



Source: Knight Frank Research

Dublin office investment volumes (€ billions)



Source: Knight Frank Research

TOP FIVE OFFICE INVESTMENT TRANSACTIONS 2022

PROPERTY	VENDOR	PURCHASER	PRICE
HIBERNIA REIT PORTFOLIO	HIBERNIA REIT	BROOKFIELD ASSET MANAGEMENT	€1,089,000,000
SALESFORCE HQ, DUBLIN 1	RGRE	BLACKSTONE	€450,000,000
BLOCKS 1-3, THE FOUNDERS DISTRICT, DUBLIN 4	SPEAR STREET CAPITAL	LCN CAPITAL PARTNERS	€97,500,000
THE WATERMARQUE BUILDING, DUBLIN 4	BLACKSTONE	CORUM	€92,250,000
5 HARCOURT ROAD, DUBLIN 2	HENDERSON PARK	REINVEST	€65,000,000

Source: Knight Frank Research

Ireland Residential Investment Market Overview Q2 2022

Ireland Investment Market Overview Q2 2022

Dublin PRS Market Occupier study 2022

New Homes Construction Survey 2022

Active Capital 2022

Dublin Office Market Q2 2022

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