Knight Frank

Dublin Office Market Overview

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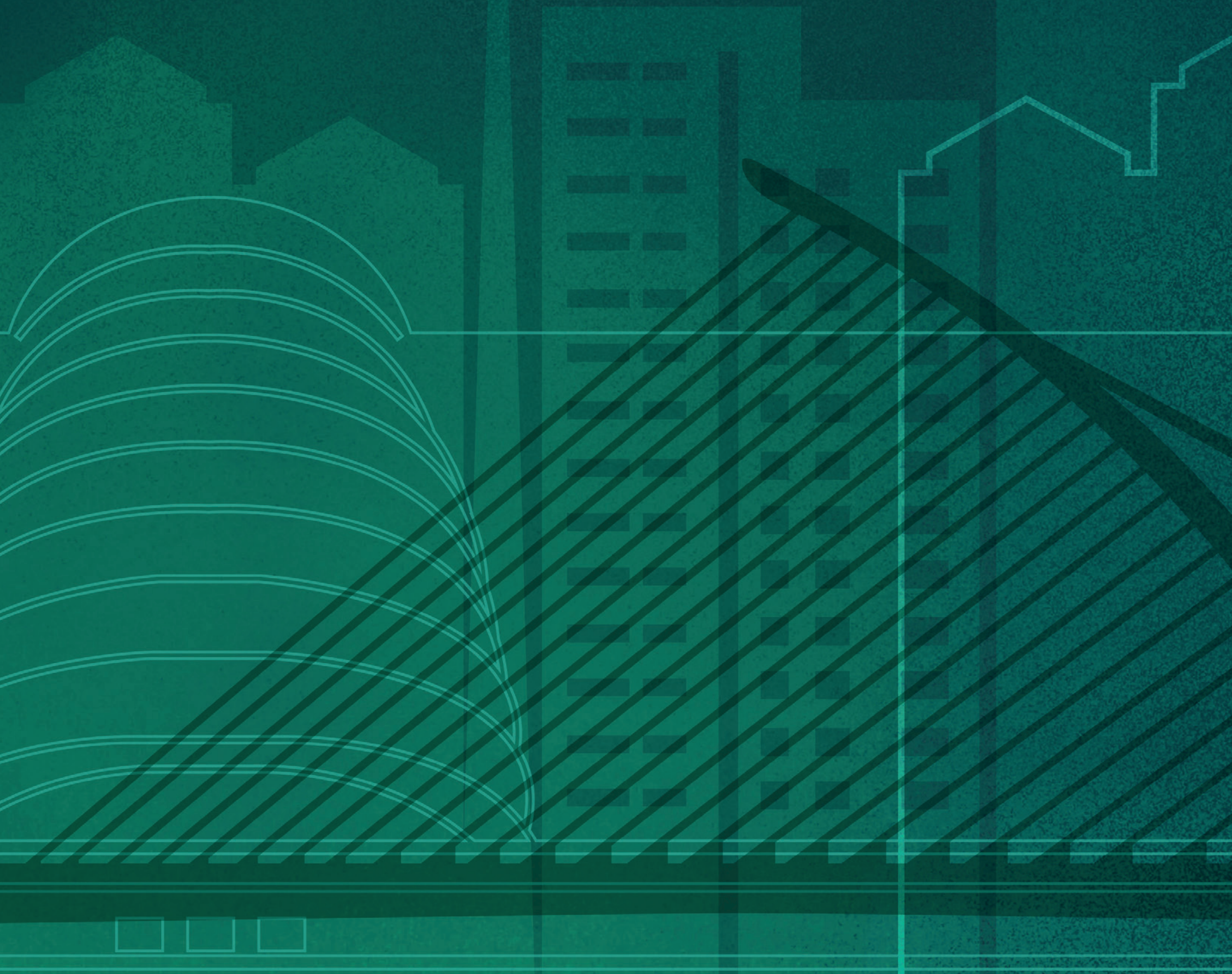
Research, Q2 2021

Special Focus: Professional Services Sector in the Dublin Office Market



5 KEY TAKEAWAYS

8-11%

Range of expected GDP growth in 2021

Ireland, along with other EU and global economies, is expected to experience a considerable increase in growth as lockdowns ease and pent-up demand is activated across all sectors.

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€247m

Invested in Dublin office assets in Q2, taking total office investment to €638m at mid-year.

94% of investor spend was on five buildings.

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169,000 sq ft

Office market take-up, while a marked increase on the low seen in Q1, does not reflect underlying demand due to the level of lockdown in Q2. Amost 1 million sq ft of space is reserved at the end of Q2.

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44%

Of the total space occupied by twenty-one professional services firms in the Dublin market is occupied by five Global accounting/advisory firms. The professional services sector is expected to be increasingly active in the market.

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69%

Of space due to complete in 2021 is pre-let.

Catching up on the delays post construction lockdowns, coupled with new challenges such as shortages of labour and materials, will act as a drag on completions into 2022.

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DUBLIN OFFICE MARKET OVERVIEW Q2 2021

2021 is set to be a year of remarkable recovery for Ireland and other economies as pent up demand across all sectors is activated. This will boost office market activity, particularly as companies determine their new office requirements.

ECONOMY

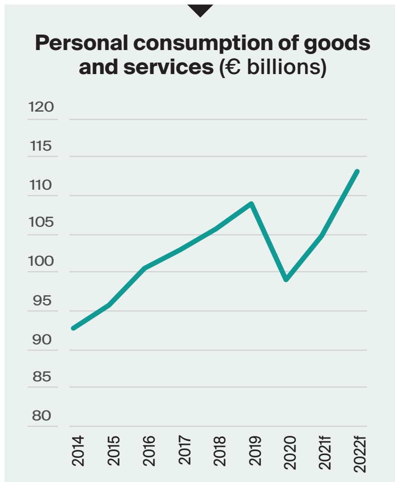
In what have been extraordinary times since March 2020, the Irish economy has excelled in certain high value adding sectors, which secured its position as the only EU economy to grow in 2020 with GDP increasing by 3.4%. This looks set to be exceeded in 2021 with GDP expected to increase by a minimum of 8% and up to 11%.

The performance of the economy has helped underpin Ireland's position on global bond markets and is supporting Ireland's AA rating (Standard & Poors).

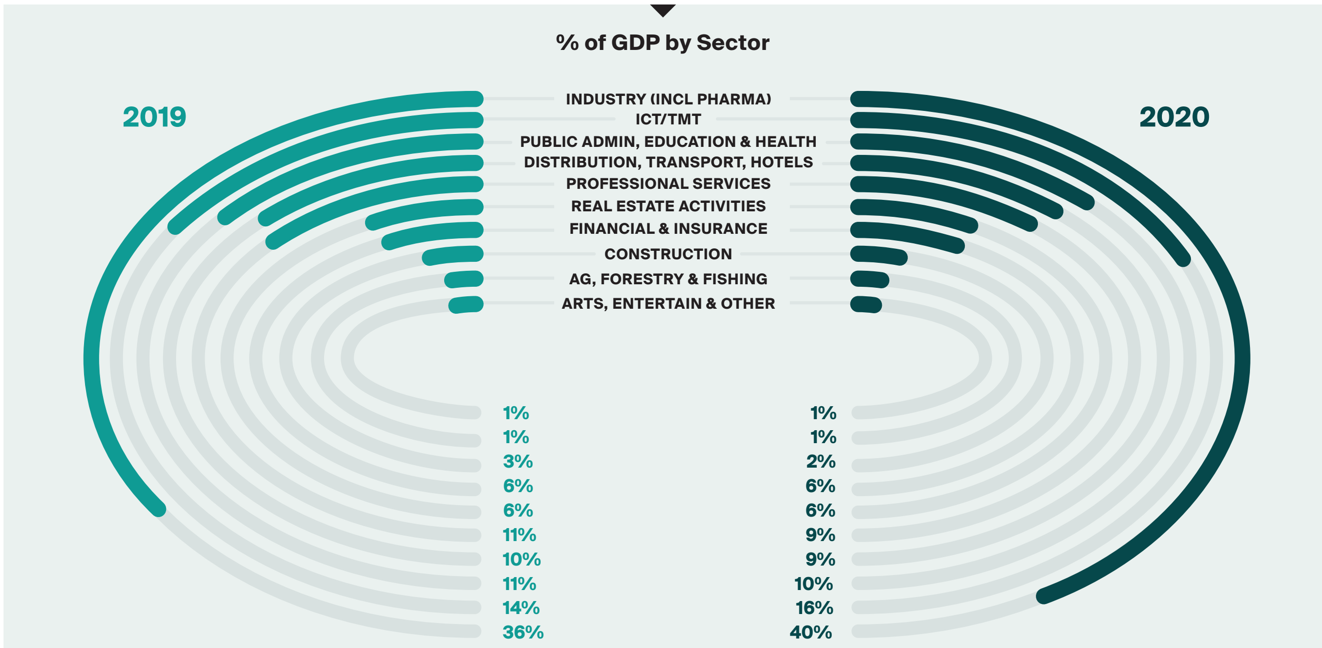
Industry (including Pharma) and the ICT/TMT sectors combined contributed 55% to GDP in Q1 2021, up 4% compared to Q1 2020.

The domestic economy, led by personal consumption is already showing an upsurge in activity and overall consumer spending is expected to increase by a minimum of 4% and potentially by over 7%.

That said, the domestic economy was effectively in lockdown for Q1 and data for modified domestic demand reflect this, showing a drop of 5% compared to Q1 2020. The dichotomy of the structure of Irish economic growth is highlighted by the provisional estimates that GDP grew by 11.8% over the same yearly period, reflecting the level of growth in the export sector, particularly in pharmaceutical and medical products.



Source: Knight Frank Research
Central Bank of Ireland/ESRI



Source: Knight Frank Research/CSO

Consumer spending, fell by 11.2% over the same period, but is expected to bounce, particularly in the second half of the year. Overall, consumer spending is expected to be back at pre-Covid 19 levels by 2022.

All leading indicators point to significantly increased activity which will feed into GDP data as the year progresses.

Wider EU and global growth will also boost the domestic economy, with the euro area and EU expected to grow by 4.8% following a fall of 6% and 6.5% respectively in 2020.

Inflationary pressures are inevitable given the expected pace of domestic growth and global price pressures. How much of the price pressures, due to for example capacity constraints, will be transient, remains to be seen over the coming quarters as all economies adjust

Ireland could see double digit GDP growth in 2021 as the domestic sector takes off and the export sector continues to excel.

to the opening up of societies and economic activity.

For the office market, the profile of Irish economic growth and the dominance of high value adding multi-national companies underpins demand in the occupier market as these companies remain well established. Most are in expansion mode and leading the development of new space in the market, a trend that was embedded before 2020. (see Knight Frank Q1 Investment Market Research Report – Special Focus on the Tech Sector in the Dublin Market). Other sectors, such as Professional Services are active in the market and are expected to take a more leading role.

A key challenge for the office market is to assist landlords and occupiers alike in assessing and determining their office model for the future and what type of space they will need as a consequence. This will take time and expert knowledge of the schemes coming to the market and how to align brands to the best space to suit their workforce and adding value to their businesses going forward.

OCCUPIER TRENDS

Considering the continued level of lockdown that persisted into Q2, the office market experienced an increase in activity levels and enquiries. A sense of optimism is emerging as the vaccine programme gains momentum and there is increasing narrative from government that an official return to the office for all sectors could be possible in Q3.

Take-up

Take up of just over 169,000 sq ft in Q2, was made up of 31 deals. The largest was the relocation of Philip Lee Solicitors to Connaught House in Dublin 4, where they took 18,840 sq ft of space. The largest letting in Dublin 2 was at 24/26 City Quay, where European Refreshments took 14,722 sq ft.

TMT and Finance companies made up 33% of take-up, with activity in Professional Services relatively strong representing 24% of take-up.

The level of space reserved, while always a leading indicator of overall activity for any given year, is particularly useful in these unprecedented market conditions. Close to 1 million sq ft of space was reserved at the end of Q2. Just over 514,000 sq ft of that was reserved in Q2, of which 359,000 sq ft was reserved in Dublin 2. The largest space reserved in Q2 was The Sorting Office (216,000 sq ft).

Vacancy

The vacancy rate has edged up to 10.6%. Further pressure on vacancy will be dependent on the pace of completions in the second half of the year and on decisions some occupiers make regarding space that they are considering putting on the grey market.

Rents

Prime rents held firm at €57.50 per sq ft in Q2. Demand for new sustainably certified space is expected to increase as companies make strategic decisions about their current and future workplaces. This will put a floor on prime rents, with rents expected to increase for the very best new space, particularly in Dublin 2 and 4.

OUTLOOK

After a considerable period of pro-longed decision making, the pace of activity is expected to gain momentum. The lead time from agreeing a deal to closing is also expected to tighten.

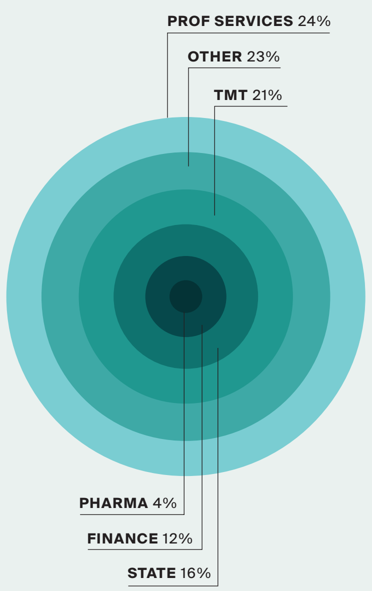
Optimism regarding the multiplier effect of a greater than previously expected increase in overall economic activity, will feed into office demand as the year progresses and particularly into 2022.

We hold our view from Q1 that take-up in 2021 will be in a range from 1 million – 1.5 million sq ft. Depending on whether or not some large deals, which have been agreed, sign by year end, take-up could be at the upper end of that range.

10.6%

Vacancy rate

Take-up by sector
Q2 2021



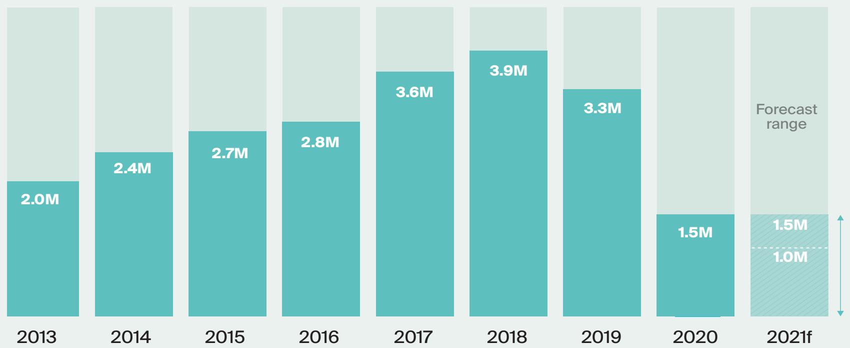
Source: Knight Frank Research

TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
CONNAUGHT HOUSE, DUBLIN 4	PHILIP LEE SOLICITORS	PROFESSIONAL SERVICES	18,840
BOOTERSTOWN HALL, COUNTY DUBLIN	OPW	STATE	16,000
24/26 CITY QUAY, DUBLIN 2	EUROPEAN REFRESHMENTS	OTHER	14,722
ONE KILMAINHAM SQUARE, DUBLIN 8	HSE	STATE	11,522
THE NEXUS BUILDING, DUBLIN 15	GMC UTILITIES GROUP	PROFESSIONAL SERVICES	11,033

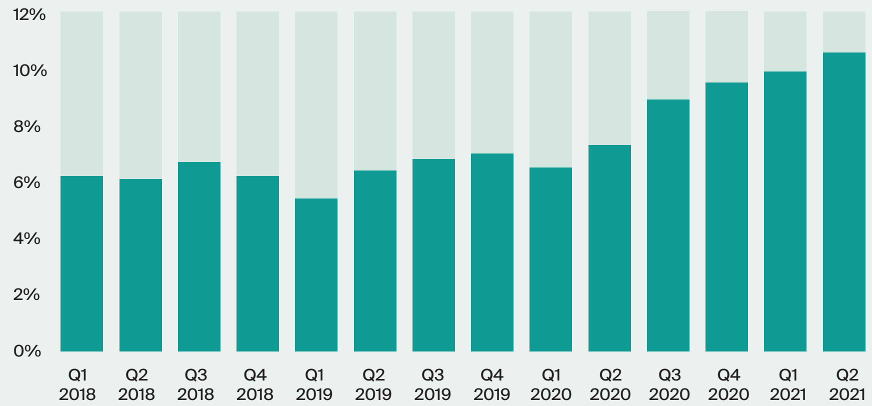
Source: Knight Frank Research

Office take-up
sq ft (millions)



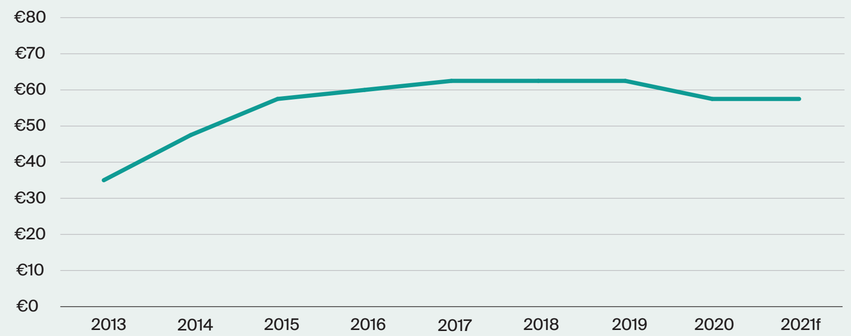
Source: Knight Frank Research

Dublin market vacancy rate

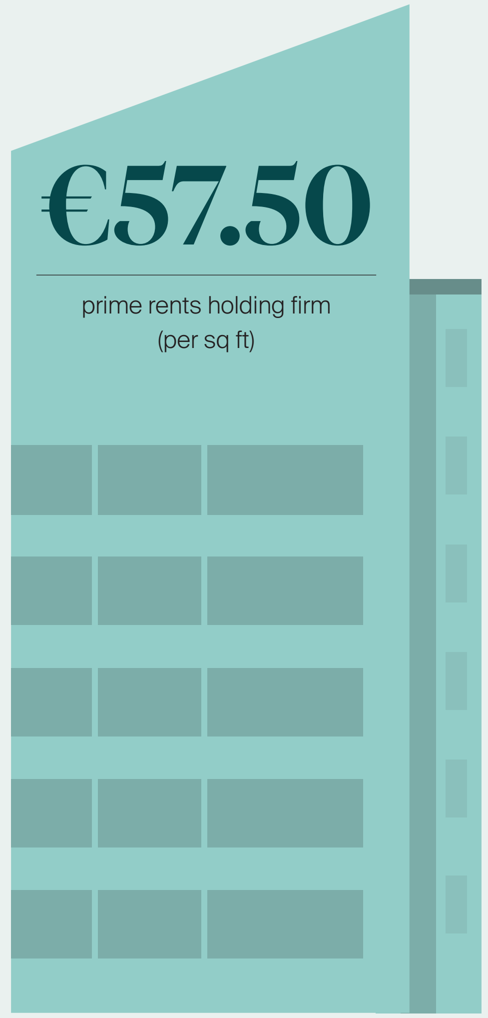


Source: Knight Frank Research

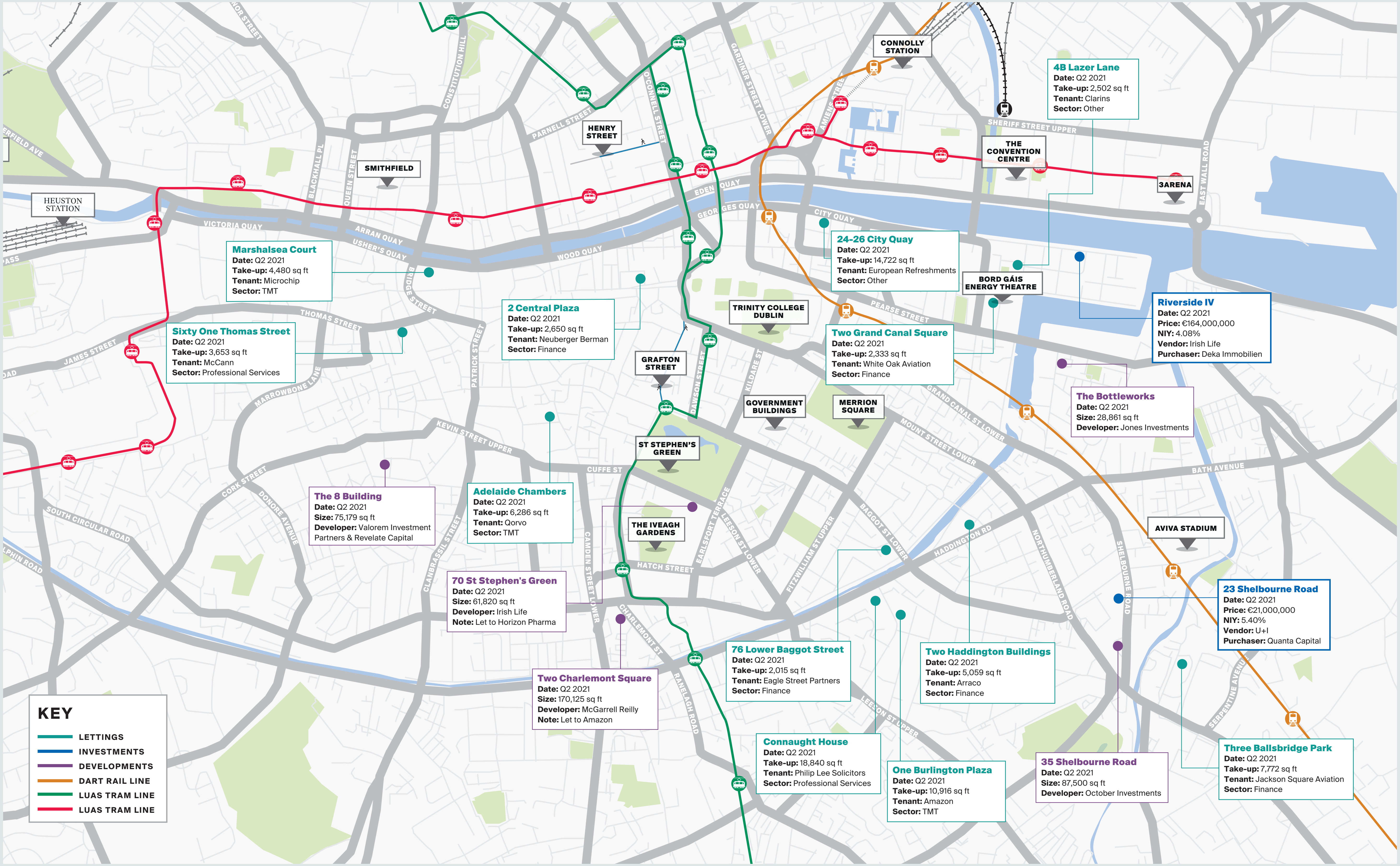
Prime rental growth



Source: Knight Frank Research



TOP LETTINGS, INVESTMENTS & DEVELOPMENTS IN Q2 2021

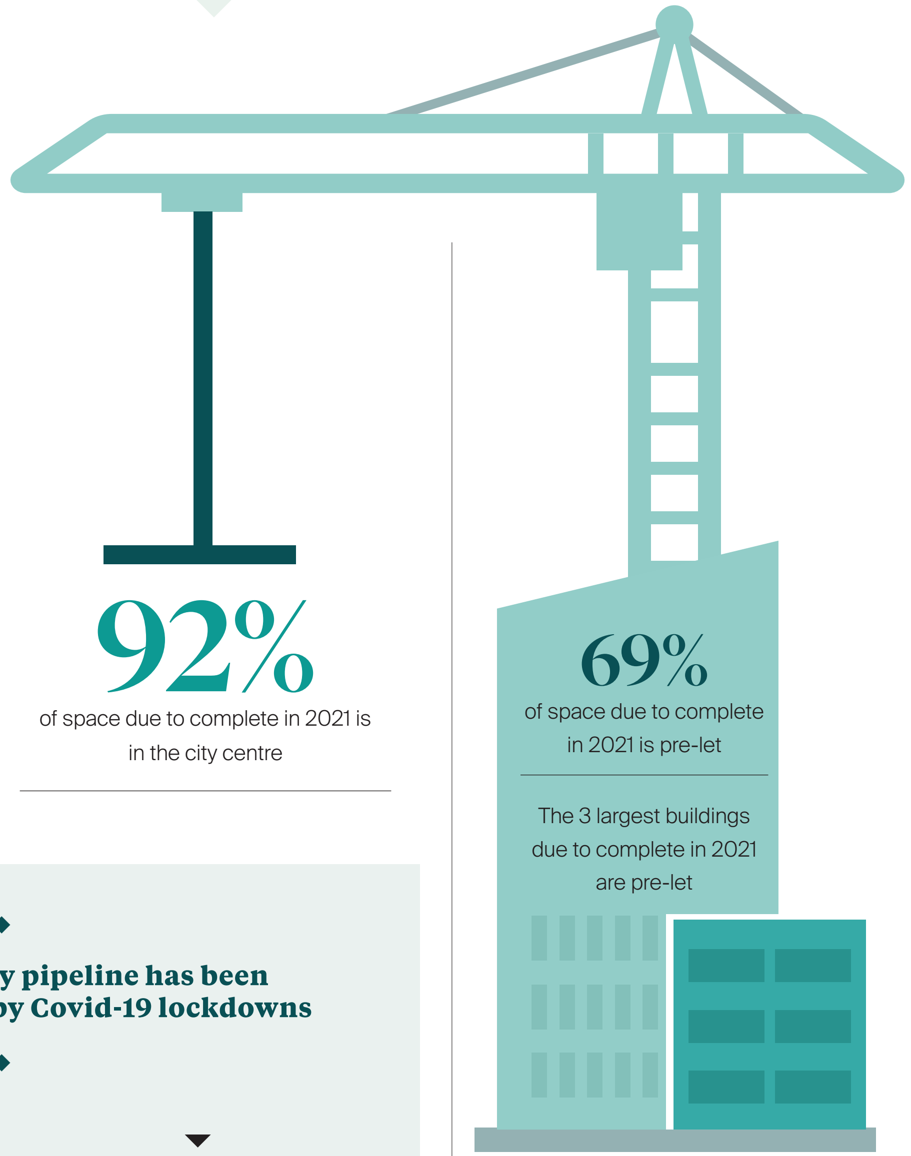


OFFICE DEVELOPMENT

While disruption to the office development pipeline has been considerable over the three Covid-19 lockdowns, these are now over and work is gathering pace to try to narrow the gap created in the delivery timelines.

Delays and a shortage of both materials and labour are creating new challenges and will act as a drag in the short-term. That said there is just under 2 million sq ft due to complete in 2021 and the ten largest buildings make up 82% of that space.

Buildings completed in Q2 include Block 2, Charlemont Square, Dublin 2, 35 Shelbourne Road, Dublin 4, The 8 Building, Dublin 8 and 70 St. Stephen's Green, Dublin 2.



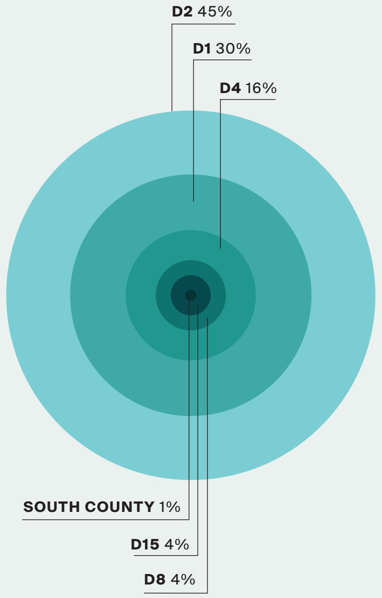
92%
of space due to complete in 2021 is in the city centre

69%
of space due to complete in 2021 is pre-let

The 3 largest buildings due to complete in 2021 are pre-let

Dublin's office supply pipeline has been significantly impacted by Covid-19 lockdowns

% of expected completions in 2021 by location



Source: Knight Frank Research

TOP 10 NEW BUILDINGS DUE TO COMPLETE IN DUBLIN IN 2021

BUILDING	POST CODE	SIZE, SQ FT
SPENCER PLACE	D1	430,000
BOLAND'S QUAY	D4	210,036
CHARLEMONT SQUARE – BLOCK 2	D2	170,125
THE EXO BUILDING	D1	169,000
ONE WILTON PARK	D2	152,000
FITZWILLIAM 27	D2	145,313
FITZWILLIAM 28	D2	135,000
35 SHELBOURNE ROAD	D4	87,500
BLOCK B, STEMPLE EXCHANGE, BLANCHARDSTOWN CORPORATE PARK	D15	82,570
THE 8 BUILDING	D8	75,179

Source: Knight Frank Research

OUTLOOK

Demand is set to remain strong for newly completed buildings as new occupiers and those on the move show a clear preference for the best quality space. Sustainability, more spacious floorplans with on-site amenities and green spaces are all set to become even more essential requirements for occupiers, which may put pressure on the sector to deliver planned space, some which may need to be re-designed.

At the same time, this offers the market an opportunity to take new office product to the next level in terms of internal design and layout. For new buildings not under construction yet, there is an opportunity to think again to ensure that the completed outcome will offer existing and new occupiers the best office options to suit the evolving working environment.

SPECIAL FOCUS

PROFILE OF PROFESSIONAL SERVICES COMPANIES IN THE DUBLIN OFFICE MARKET

The Professional Services sector is one of the oldest and most established in all city office markets.

Dublin's office market is no exception. Many global firms have a strong presence in the city.

The profile of twenty-one companies in the legal and accounting/advisory areas of the professional services sector, occupy just over 1.7m sq ft and are largely clustered in Dublin's central business districts.

The Big Five accounting /advisory (KPMG, PWC, Deloitte, Grant Thornton and EY)* firms occupy 44% of that.

Many of the larger firms across both areas, are located along either side of Dublin's North and South Docklands, effectively forming one of two clusters in the city.

PWC was one of the first to take a large headquarter space at Spencer Dock in 2007. The main movers in recent years have been Grant Thornton who re-located from 24-26 City Quay to a new head office at 13-18 City Quay in 2018.

Legal firms McCann Fitzgerald, Matheson, Beauchamps, Dillon Eustace, William Fry and Mason Hayes and Curran are clustered along or adjacent to the south docks, while A&L Goodbody are on the north dock. Accountants Crowe are at the edge of this first cluster.

The second city cluster is located close to St. Stephen's Green, where KPMG are at the final stages of agreeing what will be a new flag ship office space.

EY and Deloitte are largely located on Harcourt St. and Hatch St., close to Arthur Cox, Maples Group and Eversheds Sutherland. Legal firms Dentons and DLA Piper are located on the other side of St. Stephen's Green as are accountants BDO. Mazars and Byrne Wallace are close to the core of the second cluster at Harcourt and Hatch streets.

The importance of flag ship office space for this sector is expected to come to the fore as offices re-open and economic growth gathers pace and their business services see increased demand.

● 0-50,000 sq ft ■ 50,000-100,000 sq ft ◆ 100,000-200,000 sq ft ▲ 200,000 sq ft +

COMPANY	BUILDING	RANGE OF SPACE OCCUPIED
KPMG	Stokes Place	◆ (KPMG total: ▲)
	One Harbourmaster Place	■
	Two Harbourmaster Place	●
	Two Park Place	●
PWC	One Spencer Dock	▲
EY	Three Blocks at The Harcourt Centre	■
	The Station Building	●
DELOITTE	29 Earlsfort Terrace	■
	Whitaker Court	●
	Hardwicke House	●
	One Hatch Street	●
	Three Park Place	●
GRANT THORNTON	13-18 City Quay	■
A&L GOODBODY	25-28 North Wall Quay	◆
	The Exchange	●
MCCANN FITZGERALD	Riverside I	◆
ARTHUR COX	10 Earlsfort Terrace	◆
MATHESON	Riverside IV	◆
WILLIAM FRY	Two Grand Canal Square	■
MASON HAYES CURRAN	South Bank House & The Warehouse	■
BYRNE WALLACE	88 Harcourt Street	■
MAPLES GROUP	75 St Stephen's Green	●
	4 Earlsfort Terrace	●
DILLON EUSTACE	33 Sir John Rogerson's Quay	●
EVERSHEDS SUTHERLAND	One Earlsfort Centre	●
	The Harcourt Centre	●
BEAUCHAMPS	Riverside II	●
DLA PIPER	Stephen's Court	●
DENTONS	Joshua Dawson House	●
MAZARS	The Harcourt Centre	●
BDO	Beaux Lane House	●
CROWE	Marine House	●

*listed in order of office space occupied -not listed in order of size of financial or employee size

INVESTMENT MARKET

Investor spend in the Irish market reached €1.45 billion in Q2, a very strong level given the extended lockdown that lasted into Q2. Office investment totalled €310m, €247m of which was on buildings in the Dublin market, bringing the total to €638m for the first half of the year.

The largest deal in Q2 was the sale by Irish Life of Riverside IV, 70 Sir John Rogerson's Quay, Dublin 2 to Deka Immobilen for €164m. Combined with the sale to AM Alpha of 76 Sir John Rogerson's Quay for €95m in Q1, and also two other buildings included in Project Tolka, a total of €370m has been invested on that Quay to date in 2021, reflecting the underlying confidence of international investors in Dublin's city office market.

The purchase by Quanta Capital of 23 Shelbourne Road in Dublin 4 was the second largest deal in Q2, while Corum's purchase of P3 Eastpoint Business Park from IPUT for €19.3m was the third largest.

On Dublin's North Dock, a number of opportunities were brought to the market including One and Block R Spencer Dock which are guiding €270m and €110m respectively. Both are expected to transact this year which will add considerably to the end of year spend.

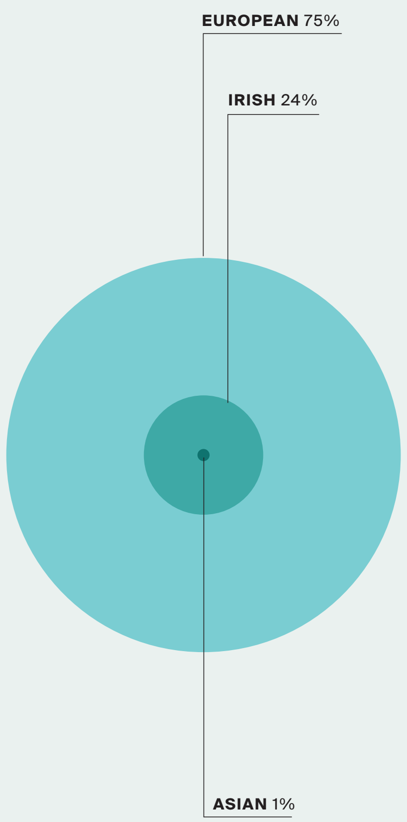
Overall office investment spend is expected to exceed €1 billion for 2021 and could total closer to €1.5 billion depending on whether assets on and coming to the market are agreed and closed by year end.

Prime yields remain stable at 4% at mid-year and we hold the view that there is potential for yield tightening in the second half of the year and into 2022 due to the weight of capital competing for prime and in particular new office investments.

77%

invested by international buyers

Profile of Investors by location



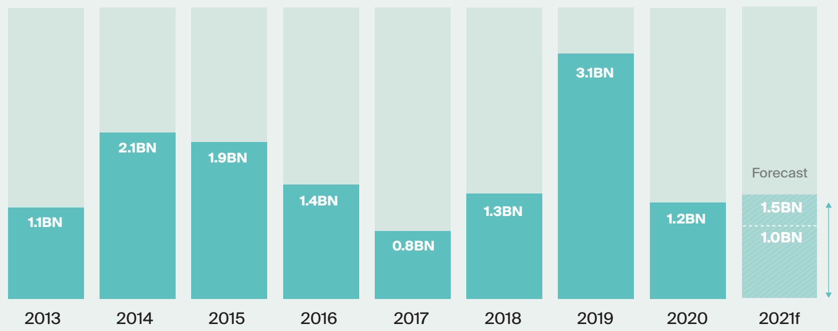
Source: Knight Frank Research

TOP 5 OFFICE INVESTMENT TRANSACTIONS

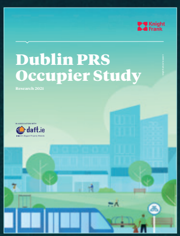
PROPERTY	VENDOR	BUYER	PRICE € MILLION
RIVERSIDE IV, 70 SIR JOHN ROGERSONS QUAY, DUBLIN 2	IRISH LIFE	DEKA	€164,000,000
23 SHELBOURNE ROAD, DUBLIN 4	U+I	QUANTA CAPITAL	€21,000,000
BLOCK P3 EASTPOINT, DUBLIN 3	IPUT	CORUM	€19,320,000
BLOCK B, LIFFEY VALLEY OFFICE CAMPUS, DUBLIN 22	MARATHON ASSET MANAGEMENT	SSGA	€18,000,000
3022-3026-3030 LAKE DRIVE, CITYWEST BUSINESS CAMPUS, DUBLIN 24	STATE STREET	YEW GROVE REIT	€11,000,000

Source: Knight Frank Research

Dublin office investment volumes (€ billions)



Source: Knight Frank Research



Dublin PRS Occupier Study 2021

Dublin Office Market Overview Q1 2021

Dublin Investment Market Overview Q1 2021

New Homes Construction Survey 2021

Please get in touch with us

Research

Joan Henry, Chief Economist & Head of Research
joan.henry@ie.knightfrank.com

Robert O'Connor, Senior Research Analyst
robert.oconnor@ie.knightfrank.com

Capital Markets

Adrian Trueick, Director
adrian.trueick@ie.knightfrank.com

Peter Flanagan, Director
peter.flanagan@ie.knightfrank.com

Ross Fogarty, Director
ross.fogarty@ie.knightfrank.com

Offices

Declan O'Reilly, Director
declan.oreilly@ie.knightfrank.com

Paul Hanly, Director
paul.hanly@ie.knightfrank.com

Jim O'Reilly, Director
jim.oreilly@ie.knightfrank.com

Daniel Shannon, Director
daniel.shannon@ie.knightfrank.com

Gavin Maguire, Associate Director
gavin.maguire@ie.knightfrank.com

Mark Headon, Associate Director
mark.headon@ie.knightfrank.com

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