Knight Frank

Dublin Office Market Overview

Research, Q3 2021

Special Focus: Dublin 2 leads the way as the office market rebounds

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5 KEY TAKEAWAYS

15.6%

Forecast GDP growth in 2021

The re-opening of the Irish and global economies has boosted domestic economic growth and fuelled an already strong export sector.

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€133m

Invested in Dublin office assets in Q3, taking total office investment to €772m for the first nine months of the year.

81% of investor spend was on five buildings.

PAGE 10

436,000 sq ft

Office market take-up, a significant bounce as the economy opens up. 35% of Q3 take-up was in Dublin 2.

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60%-75%

of the total space that will be let in the market in 2021, is expected to be located in Dublin 2. Occupier preference for large new space in Dublin's core is leading the recovery.

PAGE 9

62%

of space completed in Q3 is pre-let.

The impact of delays post covid lockdowns along with the challenge of supply constraints and cost pressures, has impacted the pipeline quite considerably in 2021.

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DUBLIN OFFICE MARKET OVERVIEW Q3 2021

The Irish economy is rebounding even faster than expected. Domestic activity is anticipated to be at pre-pandemic levels by the end of 2021. Coupled with the multi-national sector, the value of the economy will reach the highest level on record in 2021.

ECONOMY

All expectations about the pace of the recovery in the Irish economy have been exceeded, with GDP growth now expected to be over 15% for the year as a whole. Domestic activity has taken off and is expected to be at pre-pandemic levels by the end of 2021. Coupled with the ongoing strength of the multi-national sector, the value of the economy is set to reach the highest level on record in 2021.

The multi-national sector, largely unaffected by Covid-19, is experiencing a stronger than expected increase in overall demand and export demand in particular.

Employment growth across the high value adding sectors is now stronger than pre-pandemic levels.

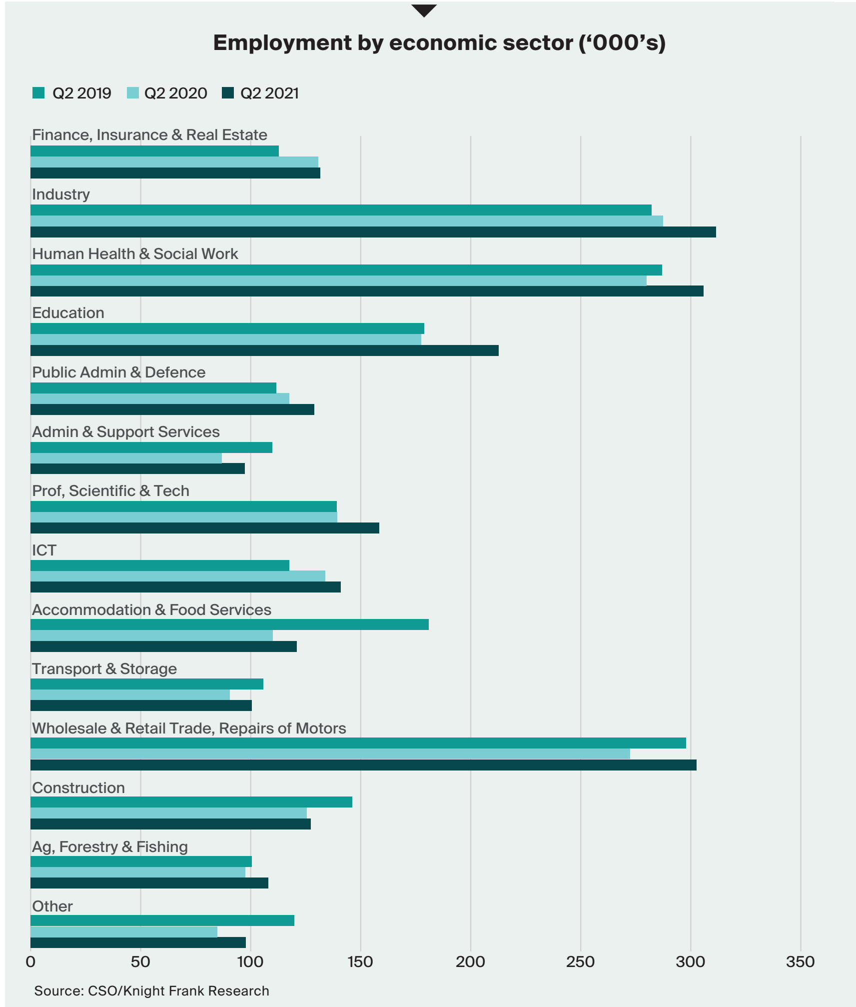
The pace of the recovery in the EU, US, UK and Ireland's other trading partners has and will continue to add further momentum to export demand. Irish export growth is set to reach double digits in 2021 and will remain a driving force into 2022 and 2023.

The domestic side of the economy has recovered at pace and is expected to increase by 5.1% in 2021 and by over 7% in 2022. Household spending is the leading component of the recovery in domestic demand, with personal consumption expected to grow by 6.2% this year and by over 8% in 2022.

With these levels of growth will come an increase in employment, with the Central Bank indicating that it expects 160,000 jobs to be created by 2023. While employment growth has been slower to recover in the sectors which have been worst affected by Covid-19, such as hospitality and retail, it has been stronger than pre-pandemic levels in the high value adding sectors of ICT and industry

Overall GDP growth of 15.6% in sight for 2021, with the domestic side of the economy expected to grow by over 5%.

(including pharma), which remain the two highest value adding sectors of the



overall economy. Job creation in the professional services sector has also already gathered pace in 2021.

As a result, the unemployment rate has fallen relatively rapidly with the seasonally adjusted monthly rate at 6.4% in September. The expectation is that unemployment will fall further in 2022 and 2023, potentially dropping below an annual rate of 6% in 2023.

Inflationary pressures remain inevitable given the pace of the recovery and the supply constraints that are currently apparent in both the domestic and global markets. How much of this will become permanent remains difficult to determine at this point, but it is reasonable to forecast given current price pressures, that consumer price inflation will remain above the targeted 2% in 2022, possibly exceeding 4%, depending on how energy price pressures evolve over the next six to nine months.

Both labour shortages (leading to higher wages) and price increases on materials are having an impact on the construction sector and on overall commercial building costs, which are expected to feed into upward pressure on rental levels in the office market in 2022 and 2023.

Prospects for the office market are very favourable as the economy opens up.

The construction sector saw a strong rebound in activity in Q2 (22.9%) compared to Q1, when the sector was in lockdown and activity is expected to continue to gather pace as developers aim to catch-up on delivery deadlines, which have been impacted by six months across most schemes.

A return to the office is gradually underway and while the October 22nd date for a complete removal of the requirement to work from home, has been extended to Spring 2022, most companies are starting to implement hybrid working models. Combined with job creation across many sectors which are office based, including ICT, professional services and the public sector, companies will be better able to assess their future office space requirements and seek expanded and new space that fits the higher specifications of the future office model.

OCCUPIER TRENDS

The success of Ireland's vaccination rollout programme, and the current extension of it, along with the gradual easing of restrictions is providing companies with a pathway back to the office and cause to consider their future occupational strategies which has translated into a marked improvement in activity in Q3.

Take-up

436,000 sq ft of space transacted in Q3 - more than double the 196,000 sq ft that was let during the first half of 2021. While this brings take-up for the nine months of the year to 633,000 sq ft, it remains below the market's long term average (10-year) for this point of the year which stands at 1.6 million sq ft. Encouragingly however, a further 525,000 sq ft was reserved in Q3, bringing the overall volume of space reserved in the market to 1.1 million sq ft in 2021.

Take-up in the South Suburbs rivalled that of the City Centre with both areas accounting for 44% of activity each. The South Suburbs was home to two of the largest transactions which saw BNP Paribas take 44,000 sq ft at Termini in the Sandyford Business District, while Accenture took 37,000 sq ft at Building 10, Cherrywood Business Park. TMT comprised 31% of activity, while there was also strong demand from Professional Services and Finance which accounted for 21% and 19% respectively.

Vacancy

The vacancy rate fell from 10.6% in Q2 to 10.5% in Q3 – the first contraction since the onset of the pandemic. With 84,000 sq ft reserved at One Park Place and a further 52,000 sq ft reserved at 124-127 St Stephen's Green, there is strong evidence that there is significant occupier demand for the better quality grey space on the market which should put further downward pressure on the vacancy rate in the coming quarters.

Rents

Prime rents remained stable at €57.50 psf in Q3 and our view is that there is a firm floor on prime rents at this level. There was evidence of a flight to quality on the part of occupiers as demonstrated by the fact that four of the top five transactions in Q3 involved buildings that were delivered during the last three years. As the market recovery intensifies, and given the de-risked pipeline over the next two years, we expect strong competition for centrally located buildings with the best flexibility, amenities, connectivity, technology, and sustainability features which should put upward pressure on prime rents. Buildings that do not satisfy these requirements will suffer from an increasingly smaller target audience, with the spreads between prime and secondary offices expected to widen further.

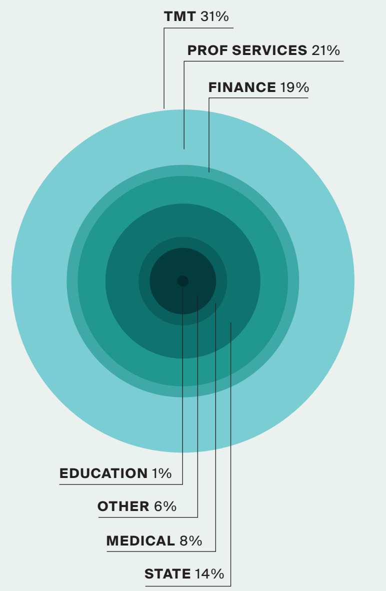
OUTLOOK

As the phased return to the office continues and companies assess their business requirements and occupational strategies, we expect office take-up to trend stronger again in Q4. A significant quantum of the 1.1 million sq ft that is reserved should transact with annual take-up likely to stand at 1.5 million sq ft by year-end. A tighter development pipeline, along with increased costs and enhanced sustainability requirements, will put upward pressure on rents as the market recovers further in 2022 and 2023.

10.5%

Vacancy rate

Take-up by sector
Q3 2021



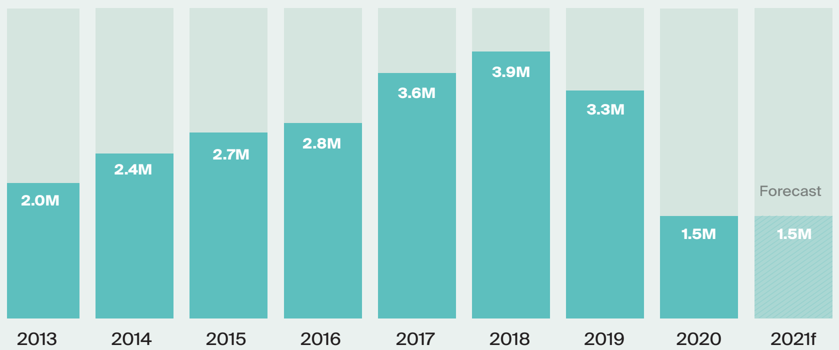
Source: Knight Frank Research

TOP 5 OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
TERMINI, DUBLIN 18	BNP PARIBAS	FINANCE	43,767
BUILDING 10, CHERRYWOOD BUSINESS PARK, DUBLIN 18	ACCENTURE	PROFESSIONAL SERVICES	36,525
40 MOLESWORTH STREET, DUBLIN 2	DLA PIPER	PROFESSIONAL SERVICES	29,773
140 PEMBROKE ROAD, DUBLIN 4	BORD BIA	STATE	27,588
6 PEMBROKE ROW, DUBLIN 2	OPW	STATE	27,557

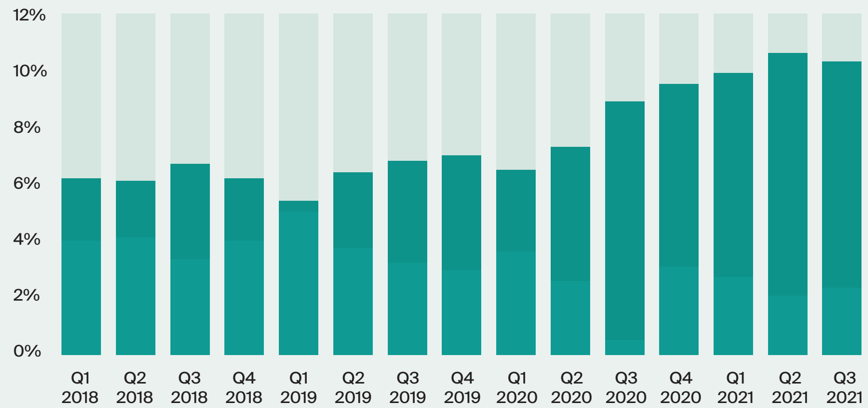
Source: Knight Frank Research

Office take-up
sq ft (millions)



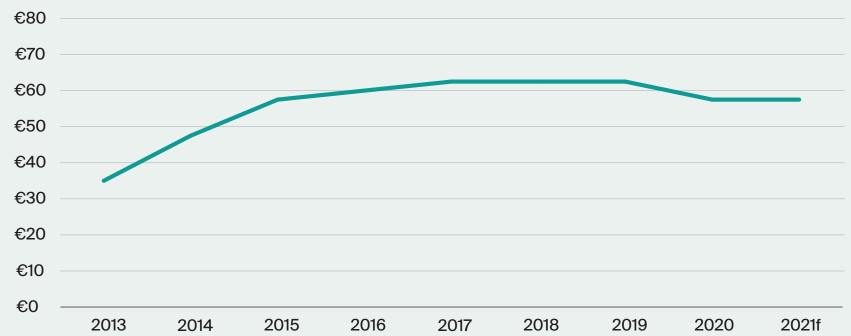
Source: Knight Frank Research

Dublin market vacancy rate

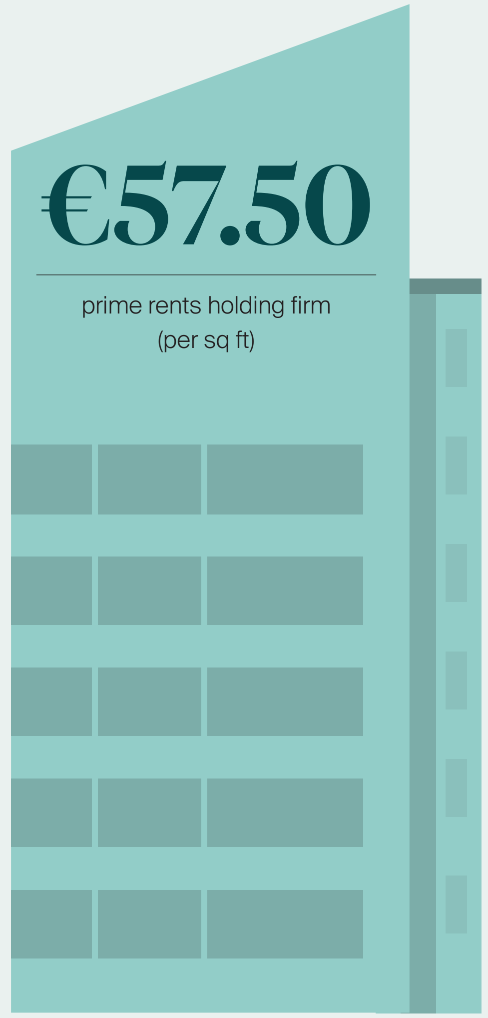


Source: Knight Frank Research

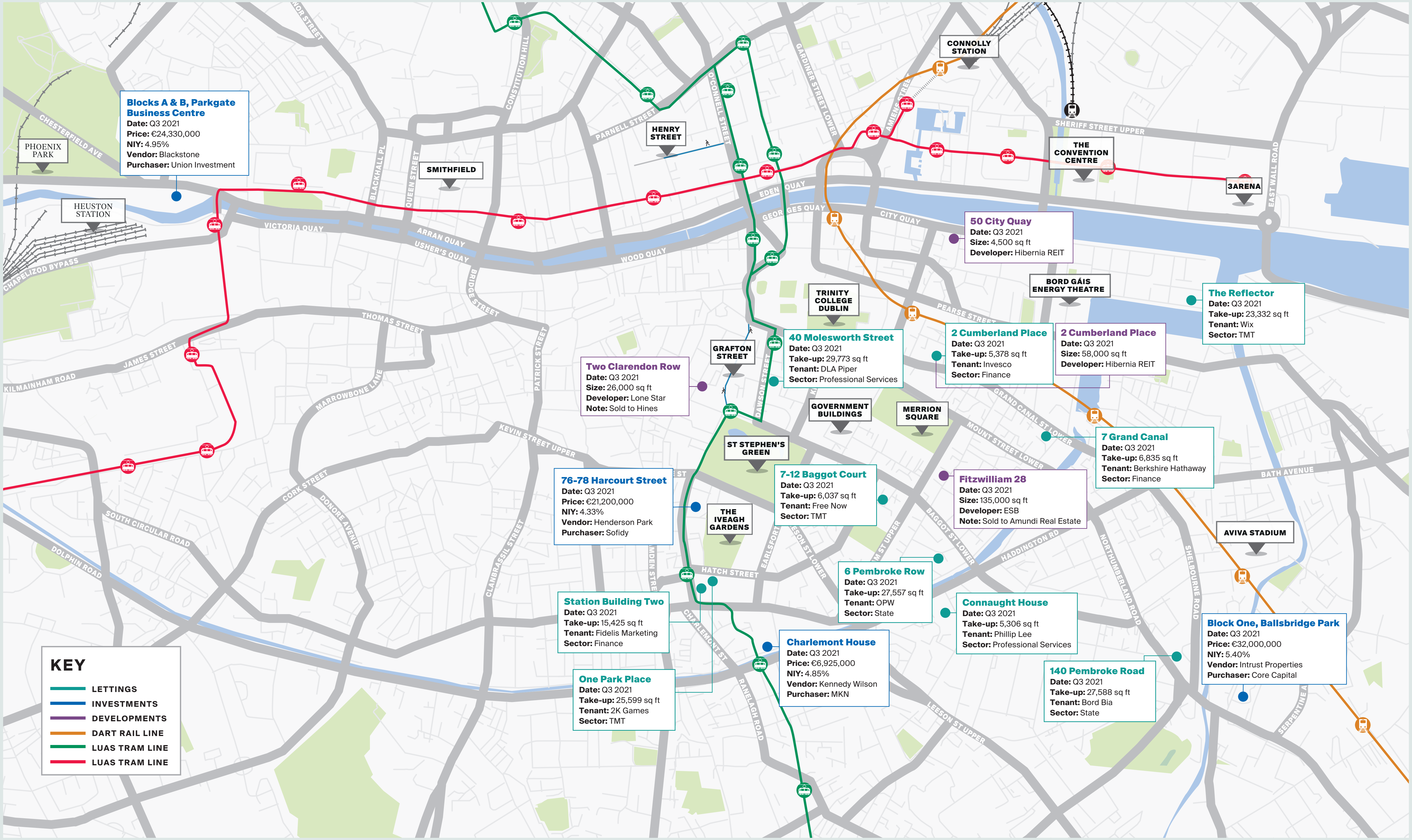
Prime rental growth (per sq ft)



Source: Knight Frank Research



TOP LETTINGS, INVESTMENTS & DEVELOPMENTS IN Q3 2021



OFFICE DEVELOPMENT

Delays to the delivery pipeline directly due to lockdowns and indirectly due to challenges involved in making up lost time, have impacted the amount of space that has been able to be delivered in 2021. Of the 1.8m sq ft that is due to complete, 1m sq ft is still due to be delivered in Q4.

67% of the 1.8m sq ft is pre-let. Pre-Covid-19 there was over 2m sq ft due to complete in the Dublin office market in 2021.

Five buildings completed in Q3, amounting to just over 300,000 sq ft, 62% of which is pre-let.

Buildings completed in Q3 include Fitzwilliam 28, Block B, Stemple Exchange, 2 Cumberland Place, Two Clarendon Row and 50 City Quay. Spencer Place and The Exo Building are among the most notable buildings due to complete in Q4, as are Fitzwilliam 27 and One Wilton Park.

OUTLOOK

Q4 is set to be a busy one for the construction sector as developers seek to meet new deadlines. 73% of the space due to complete in Q4 2021 is pre-let.

There is 1.9m sq ft in the pipeline for delivery in 2022, with Dublin 4 set to benefit from almost 630,000 sq ft of this new space. The two largest schemes - Boland's Quay and Fibonacci Square, both of which are pre-let, make up 93% of that new space.

There are only two schemes larger than 100,000 sq ft and which are not pre-let, due to complete in 2022 – 1 Charlemont Square, Dublin 2 and Le Pole Square, Dublin 8.

73%
of the space completed in Q3 is in Dublin 2

62%
of the space completed in Q3 is pre-let

BUILDINGS COMPLETED IN Q3 2021

BUILDING	SIZE, SQ FT
FITZWILLIAM 28, DUBLIN 2	135,000
BLOCK B, STEMPLE EXCHANGE, DUBLIN 15	82,570
2 CUMBERLAND PLACE, DUBLIN 2	58,000
TWO CLARENDON ROW, DUBLIN 2	26,000
50 CITY QUAY, DUBLIN 2	4,500

Source: Knight Frank Research

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

SPECIAL FOCUS

DUBLIN 2 LEADS THE WAY AS THE OFFICE MARKET REBOUNDS

As the Dublin office market rebounds, Dublin 2, the traditional core of the office market is set to benefit from a minimum of 60% of total expected take-up in 2021 and up to 75% depending on whether or not all the space currently reserved closes in Q4.

Dublin 2 has on average, since 2010, accounted for just over a third (35%) of the space that has transacted in the Dublin market each year. The ten largest deals in Dublin 2 since 2010 have totalled close to 2m sq ft. This total will reach over 2.2m sq ft if two large deals which have been agreed, close by the end of the year. Between them, KPMG's agreement to take Harcourt Square for its new headquarters and Tik Tok's agreement to occupy The Sorting Office equate to 500,000 sq ft.

Dublin 2 has been the least impacted by Covid-19 in terms of a fall-off in letting activity, which reflects a similar trend to previous shocks to the market.

The area is dominated largely by Professional and Financial services companies, some of which have headquarter office buildings largely clustered on or close to Molesworth St, St. Stephen's Green, Harcourt and Hatch Streets (including AIB, EY, Deloitte, Arthur Cox and Maples). The largest office letting deal agreed in 2021 is the letting of Harcourt Square to KPMG for its new headquarters.

Dublin 2 is expected to account for the majority of total market take-up in 2021

73% of the space completed in the office market in Q3 is in Dublin 2, with the delivery of 135,000 sq ft at Fitzwilliam 28, which is pre-let to Slack, the largest building to complete in the market this quarter. A further 145,000 sq ft at Fitzwilliam 27 is due to complete by year-end.

The importance of this core city centre area is reflected in the fact that 40% of Dublin's total office market development pipeline between now and the end of 2025 is located in Dublin 2.

Looking at the same time frame, a significant amount of what is currently under construction in the area is already pre-let. Furthermore, 29% of the space which has not commenced yet is also pre-let, considerably above the trend in the wider market.

Overall 31% of the total space in the pipeline in Dublin 2 is pre-let.

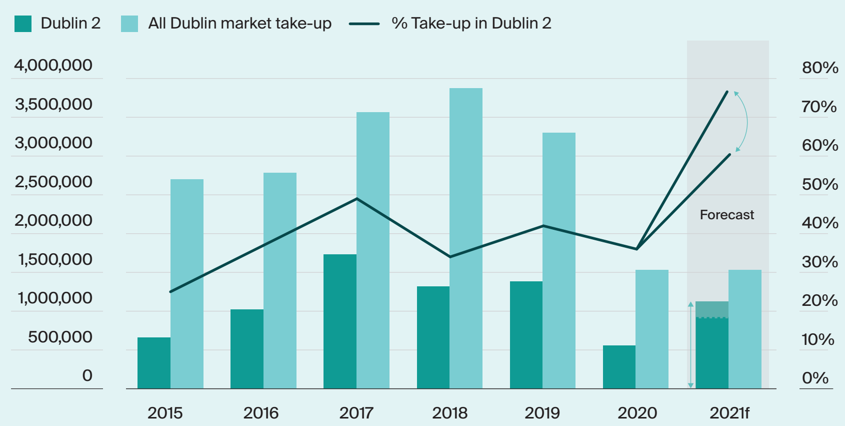
The expectation is that occupier preference for space in Dublin 2 will remain strong and continue to lead the recovery.

Largest office letting deals completed and agreed in Dublin 2

YEAR	PROPERTY	OCCUPIER	SECTOR	SCALE OF SPACE TAKEN
2019	2-4 Wilton Park	LinkedIn	TMT	400,000 plus
2021*	Harcourt Square*	KPMG	Professional Services	300,000 plus
2021*	The Sorting Office*	TikTok	TMT	200,000-250,000
2017	100 & 300 Capital Dock	Indeed.com	TMT	200,000-250,000
2019	Block 2, Charlemont Square	Amazon	TMT	150,000-200,000
2017	One Wilton Park	LinkedIn	TMT	150,000-200,000
2017	Block 1, Miesian Plaza	OPW	State	100,000-150,000
2020	Fitzwilliam 28	Slack	TMT	100,000-150,000
2014	10 Earlsfort Terrace	Arthur Cox	Professional Services	100,000-150,000
2017	200 Capital Dock	JP Morgan	Finance	100,000-150,000
2014	5 Grand Canal Square	Facebook	TMT	100,000-150,000
2017	EMEA HQ	LinkedIn	TMT	100,000-150,000

* deals agreed

Dublin 2 take-up



Source: Knight Frank Research

INVESTMENT MARKET

€133.4 million worth of office investments transacted in Dublin in Q3, bringing the total for the first nine months of the year to €771.6 million - more or less in line with the €835.1 million that was sold during the same period in 2020.

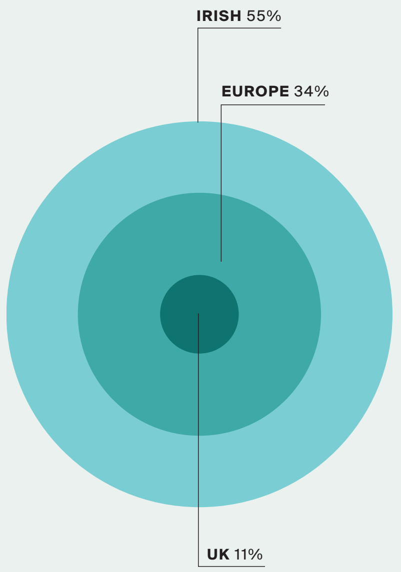
Domestic investors accounted for 55% of the investment spend in Q3 with the largest transaction being the acquisition of Block One, Ballsbridge Park by Core Capital for €32 million, representing a net initial yield of 5.40%. International investors comprised the remaining 45% with European buyers particularly active. Union Investment acquired Units A & B, Parkgate Business Centre for €24.3 million which achieved a yield of 4.95%, while Sofidy acquired its first office asset in the Dublin market by purchasing 76-78 Harcourt Street for €21.2 million representing a yield of 4.33%. Both assets are underwritten with leases to the State with Transport Infrastructure Ireland occupying the former and the OPW the latter.

Supported by the current low interest rate environment, a significant weight of capital is chasing opportunities in Dublin with new, sustainably certified assets with strong covenants in the best locations high on the agenda. While prime yields remained stable at 4.00% in Q3, the sale of an asset with the aforementioned features is likely to command a yield below this level. The gradual easing of restrictions throughout the summer has given further confidence to sellers in relation to the depth and transactional capacity of investors and has resulted in a multitude of large lot-sized assets being brought to the market or readied for sale which if transacted could provide market evidence of yield compression.

These include Facebook's new European headquarters in Ballsbridge, which was launched to the market in September, and PWC's headquarters in the North Docklands which are guiding €395 million and €265 million respectively. Other assets worth noting include Flutter Entertainment's headquarters at Blocks 1-3 Founders District and Airbnb's headquarters at 8 Hanover Quay which are being sold for €105.0 million and €41.5 million each, at yields of 4.40% and 3.73% respectively.

While not all of these will transact by year-end, office investment volumes are expected to finish the year strongly, exceeding the €1.2 billion that transacted in 2020 and potentially reaching €1.5 billion by year-end.

Profile of Investors by location



Source: Knight Frank Research

55%

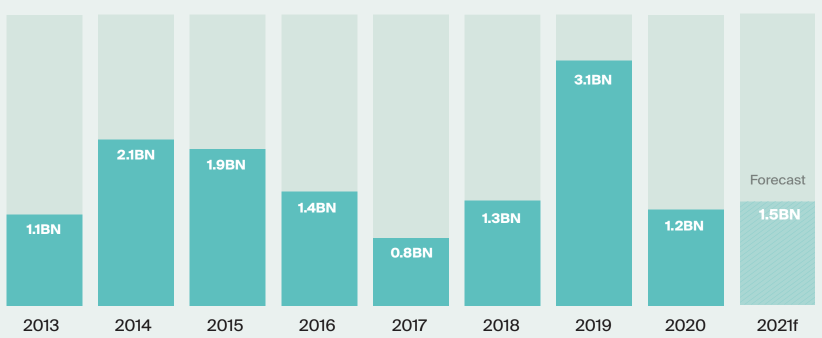
invested by domestic buyers

TOP 5 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	VENDOR	BUYER	PRICE € MILLION	YIELDS
BLOCK ONE, BALLSBRIDGE PARK, DUBLIN 4	INTRUST PROPERTIES	CORE CAPITAL	€32,000,000	5.40%
BLOCKS A & B, PARKGATE BUSINESS CENTRE, DUBLIN 8	BLACKSTONE	UNION INVESTMENT	€24,330,000	4.95%
76-78 HARCOURT STREET, DUBLIN 2	HENDERSON PARK	SOFIDY	€21,200,000	4.33%
P2 EASTPOINT, DUBLIN 3	AVESTUS CAPITAL PARTNERS & ARES	PRIVATE IRISH	€15,000,000	7.56%
UNITS 5 & 9, RICHVIEW OFFICE PARK	IPUT	EAGLE STREET PARTNERS	€15,000,000	9.52%

Source: Knight Frank Research

Dublin office investment volumes (€ billions)



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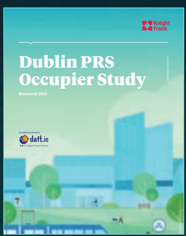

Dublin PRS Occupier Study 2021

Dublin Office Market Overview Q2 2021

Dublin Investment Market Overview Q2 2021

New Homes Construction Survey 2021

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