Knight Frank

Dublin Office Market Overview

Research, Q2 2022

Special Focus – Tiering of Dublin's available office space is inevitable as occupier and investor preference for the best space with sustainable credentials is now the leading driver of demand.

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5 KEY TAKEAWAYS

2.5m

people are now employed in Ireland, the highest on record. Employment, along with exports, consumption and tax revenue are among some of the indicators that show that Ireland is well positioned to weather the current global challenges.

PAGE 4

491,000 sq ft

was taken-up in the second quarter, bringing the total take-up for the first half of the year to 962,000 sq ft. There is continued evidence of pent-up demand in the market with 1.4m sq ft of space reserved.

PAGE 4

2.2m-2.5m sq ft

We are revising up our expectation of total take-up for 2022 from 2m sq ft to 2.2m sq ft with potential on the upside to 2.5m.

page 5

Almost 50%

of the 1.0m sq ft of space that is due to complete in the City Centre in the second half of the year is already pre-let.

PAGE 8

€276m

worth of office assets were sold in the second quarter. We are forecasting that between €1.5bn and €1.75bn worth of office investments will transact by year-end.

PAGE 10

DUBLIN OFFICE MARKET OVERVIEW Q2 2022

Caution is set to prevail as the economy adjusts to the pace of global challenges, but Ireland remains well positioned to leverage from the success of key global growth sectors and productivity gains over the last decade.

ECONOMY

Continued disruption from the war in Ukraine is having an accentuated impact across the globe. Forecasts made in January, ahead of the crisis, are largely redundant at a global level, yet useful starting points as to how various economies may weather what now looks set to be a prolonged period of economic turbulence. The World Bank has reduced its global growth forecast for 2022 from 4.1% in January to 2.9%. 2023 and 2024 are expected to see more or less flat growth, with an average of 3% forecast, due to higher commodity prices and interest rates. While all economies are feeling the squeeze, their performances will be impacted to varying extents by underlying factors, in particular the key drivers of economic activity and the labour market.

Employment and labour market data, along with tax revenue, remain in a strong position which reflects the strength of activity in the high value adding sectors that have come to the fore in the Irish economy over the last two years.

The consumer is expected to continue to make a positive contribution, albeit more subdued than in 2021, as concerns about inflation impact real incomes and spending patterns. Higher interest rates, with steeper than expected increases on the way, will also add to consumer and investor caution.

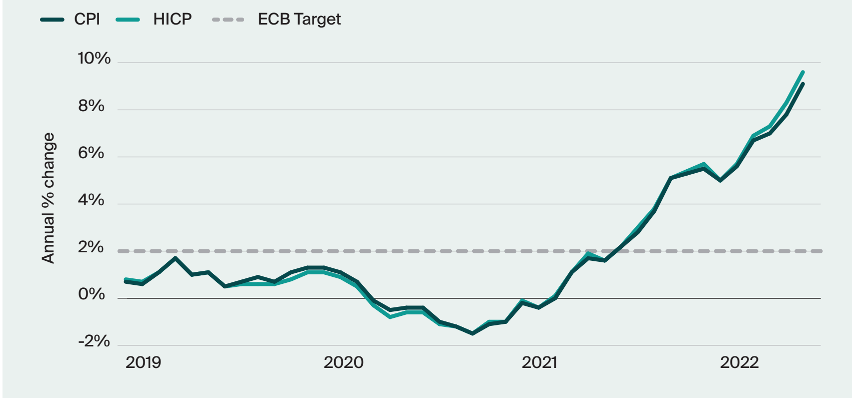
Export demand is set to continue to be the main engine of growth for the rest of 2022 and into 2023. The value of exports from the pharmaceuticals/medical devices sector increased by 44% in the first four months of 2022 compared to the same period in 2021.

Economic growth forecasts

	2022*	2023*
US	2.5%	2.4%
UK	1%	1%
EURO AREA	2.5%	1.9%
CHINA	4.3%	5.2%
JAPAN	1.7%	1.3%
IRELAND	6.6%	4.8%
IRELAND MODIFIED DOMESTIC DEMAND	4.3%	3.7%
GLOBAL	2.9%	3%

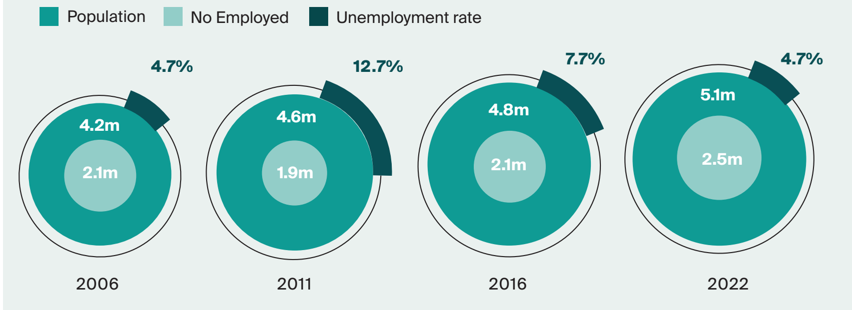
*World Bank, IMF, EU Commission, Irish Central Bank, Department of Finance, ESRI

Ireland CPI & HICP Inflation



Source: CSO/Knight Frank Research

Population, employment & unemployment



Source: CSO/Knight Frank Research

Census 2022 data shows that the population has exceeded 5m, an 8% increase since the 2016 Census which puts the population at a 170-year high.

The number of people in employment has reached over 2.5m, the highest on record and despite the global disruption, employment creation remains evident across a wide range of sectors.

These are a number of supporting factors that continue to position Ireland as well as possible for the on-going global challenges.

While the impact of higher inflation and higher interest rates, along with financial market concerns such as the fall in stock markets and tighter lending conditions, will bring additional caution in the second half of the year, there are enough positive factors in place to allow Ireland to leverage the productivity gains and enhanced position earned by global investors over the last decade.

OCCUPIER TRENDS

Q2 was another strong quarter for office demand against a challenging backdrop of continued shocks to the global economy and the reality of a domestic economy still in expansion mode. 491,000 sq ft was taken-up, bringing the total office take-up to 962,000 sq ft for the first half of the year.

There is continued evidence of pent-up demand in the market with 1.4m sq ft of space reserved, which is higher than the 1.2m sq ft that was reserved at the end of Q1.

51% of the space reserved at the end of Q2 is located in Dublin 2 and includes 135,000 sq ft at Fitzwilliam 28, 48,000 sq ft at 20 Kildare Street and 33,000 sq ft at 75 St. Stephen's Green.

Another 13% of the space reserved is in Dublin 1, the largest being No. 3 Dublin Landings, Parnell House and The Heysham. Occupier preference for the best available space with sustainable credentials in core locations, close to the main transport links, continues to be a key driver of demand post Covid-19 and is expected to remain so as companies further adjust and affirm their hybrid and new ways of working.

Take-up

The top five deals made up 48% of total take-up with demand coming from a wide range of sectors this quarter. That said, the largest two deals were done by companies in the TMT sector (Service Now who took 88,000 sq ft at 60 Dawson St in Dublin 2, and Workday who took 54,000 sq ft at Dockline in Dublin 1).

Service Now's decision to take 88,000 sq ft at 60 Dawson St in Dublin 2 was the largest deal of the quarter. The pre-let of this space reflects the demand from occupiers for the best new space coming to the market.

Overall TMT dominated again with 45% of take-up, but the financial services sector was very active taking 28% of space. Waystone's decision to take 52,000 sq ft at 35 Shelbourne Road in Dublin 4 was the largest deal in that sector.

Activity in Dublin 4 was much stronger this quarter representing 23% of total take-up, compared to less than 1% in Q1. Overall, the City Centre represented 80% of Q2 take-up and 81% of take-up for the year to date.

Only 15% of Q2 take-up transacted in the Suburbs, the largest being Western Union's decision to take almost 12,000 sq ft at the Richview Office Park in Dublin 14.

Vacancy

The overall market vacancy rate has remained stable at 10.1% at the end of Q2. This headline rate however is not reflective of what is happening in a post Covid market as demand for the best sustainable space leads the way. Further analysis is detailed in the Special Focus on page 9.

Rents

Spiralling inflation in the global economy, which is rapidly filtering into the domestic economy, is having an impact on rents. Upward pressure on rents was already evident from an increase in demand at a time when the new supply pipeline has been adversely impacted by supply chain issues as well as efforts to catch up on delivery deadlines after construction lockdowns and labour shortages.

Added pressures from the pace at which prices are increasing and a more challenging and expensive funding environment is set to put more pressure on the supply pipeline. Against the backdrop of an economy, even with lower growth expectations, that is still expanding, demand for office space is set to see prime rents move to €67.50 per sq ft, and indeed to €70.00 per sq ft for the best city space, by year end.

OUTLOOK

The outlook for the office market remains, as always, closely aligned to the performance of the economy and the key sectors driving economic growth. In Ireland's case those sectors have seen a solid expansion in employment numbers over the last number of years. While subjected to shocks which could slow down some global decision making over the next six to twelve months, the need to adapt to new ways of working and provide space that is best in class in order to attract and retain talent has never been more important.

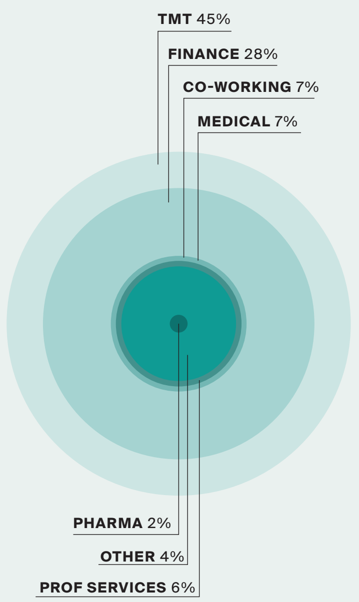
We are revising up our expectation of total take-up for 2022 from 2m sq ft to 2.2m sq ft with potential on the upside to 2.5m.

10.1%

Vacancy rate

Take-up by sector

Q2 2022



Source: Knight Frank Research

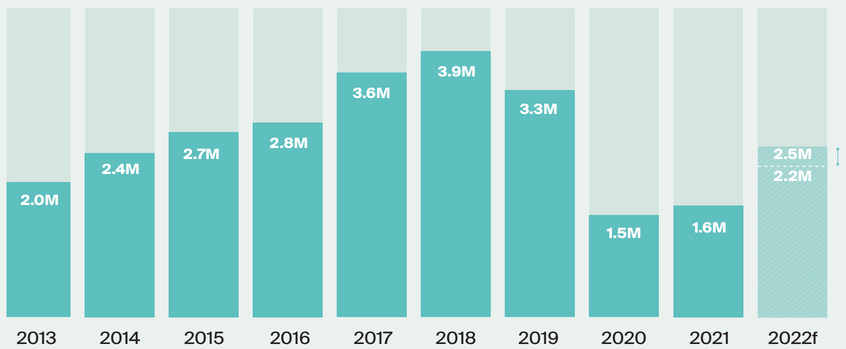
TOP 5 OFFICE LEASING TRANSACTIONS Q2 2022

PROPERTY	TENANT	SIZE (SQ FT)
60 DAWSON STREET, DUBLIN 2	SERVICE NOW	88,042
DOCKLINE, DUBLIN 1	WORKDAY	53,917
35 SHELBOURNE ROAD, DUBLIN 4	WAYSTONE	52,011
THE BOTTLEWORKS, DUBLIN 4	GLANDORE	25,763
BLOCK W, EASTPOINT BUSINESS PARK, DUBLIN 3	PENINSULA IRELAND	16,500

Source: Knight Frank Research

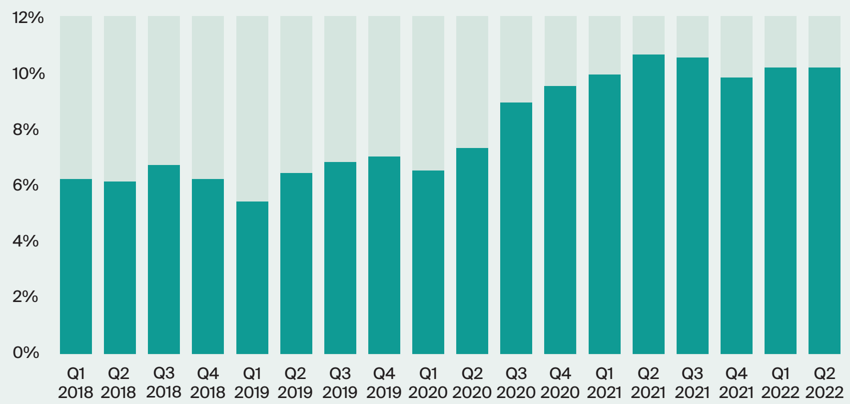
Office take-up

sq ft (millions)



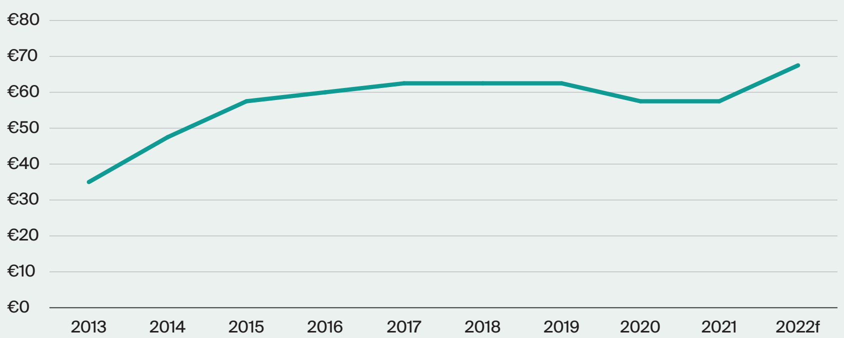
Source: Knight Frank Research

Dublin market vacancy rate

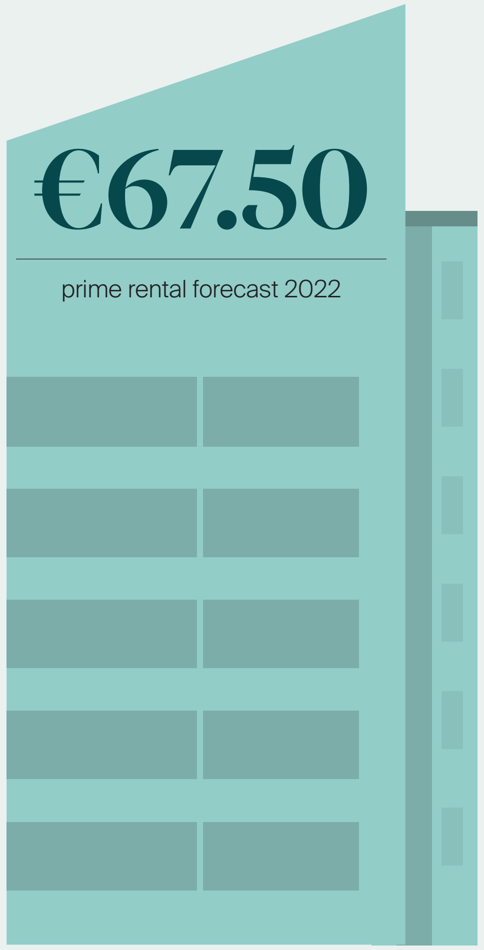


Source: Knight Frank Research

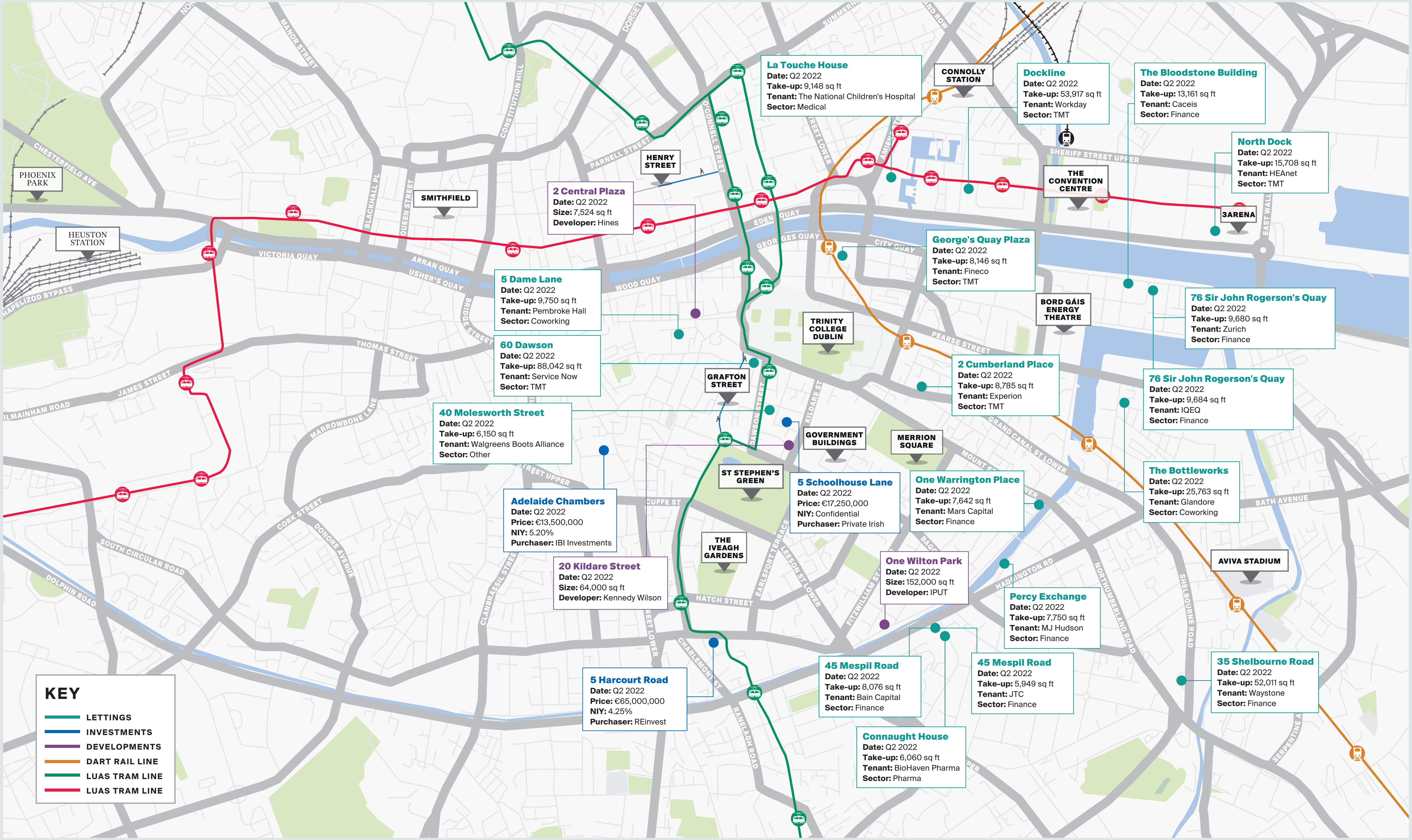
Prime rental growth (per sq ft)



Source: Knight Frank Research



TOP LETTING, INVESTMENTS & DEVELOPMENTS IN Q2 2022



OFFICE DEVELOPMENT

Three buildings completed in Dublin's City Centre market in Q2. Two of those buildings, (One Wilton Park and Two Central Plaza, both in Dublin 2), equating to 71% of the space completed, are fully pre-let. 48,000 sq ft of space at 20 Kildare Street, the other building to complete in Q2, is reserved. There were no office buildings completed in the Suburbs in Q2.

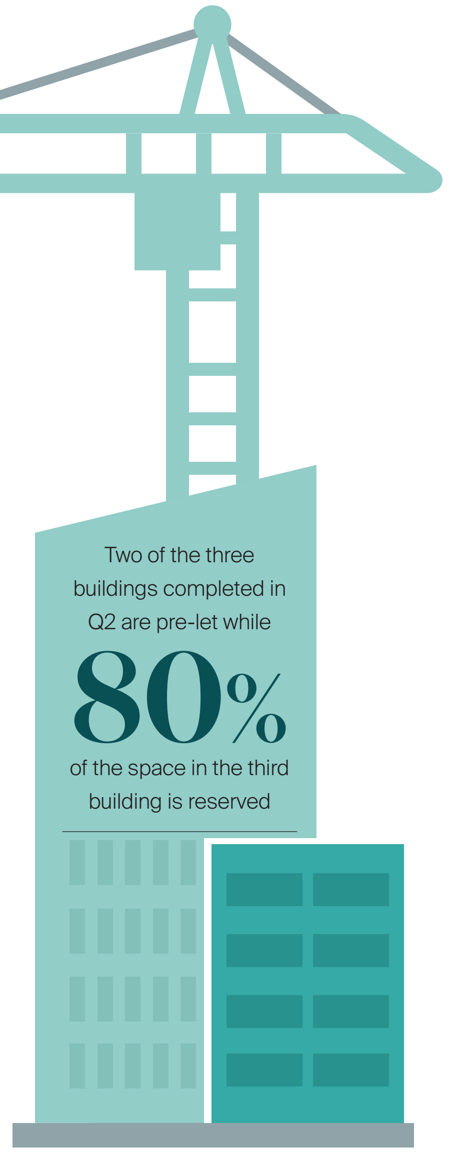
OUTLOOK

Of the 2.7m sq ft of office space that was scheduled to complete in Dublin at the start of 2022, 1.2m sq ft had completed by mid-year. With the exception of Boland's Quay in Dublin 4 and Two South County in Dublin 18, the other seven buildings completed to date in 2022 are located in Dublin 1 and Dublin 2.

There is just one building of scale (100,000 sq ft plus), available in the City Centre (One Charlemont Square in Dublin 2 which is due to complete in Q3 2022). There are only two buildings between 50,000 sq ft and 100,000 sq ft due to complete in the City Centre which are available to let (* see table below).

In Dublin 7 & 8, there are two other buildings which are due to complete in the second half of the year and will provide a total of 197,000 sq ft of new space (Le Pole Square and Haymarket House). 50% of the total space across these two buildings has been reserved.

There is 1.4m sq ft due to complete in the overall market in the second half of 2022, 48% of which is pre-let. Looking at the City Centre, 1m sq ft is due to complete of which almost 50% is pre-let.



There is no space due to complete in the Suburbs for the rest of 2022.

Looking ahead to 2023, there is an estimated 2.6m sq ft scheduled to complete throughout the year. 2.3m sq ft is located in the City Centre and of that 30% is already pre-let across four buildings. Three of the pre-lets are located in Dublin 2 to include a large portion of the space at 60 Dawson St, Chatham House, and 2-4 Wilton Park. The fourth building is the redevelopment of 25 North Wall Quay in Dublin 1.

Delays to the pipeline are evident every quarter as some buildings due to complete are repeatedly delayed at the final stages due to well discussed supply-chain issues and labour shortages. These challenges are set to remain a feature of the market into 2023 and will continue to limit the supply of new, sustainably certified buildings for occupiers seeking to re-locate over the coming years.

Buildings completed in Q2 2022

BUILDING	SIZE, SQ FT
ONE WILTON PARK, DUBLIN 2	152,000
20 KILDARE STREET, DUBLIN 2	64,000
2 CENTRAL PLAZA, DUBLIN 2	7,524

*** Buildings (50,000 sq ft+) due to complete in H2 2022 which are available**

BUILDING	SIZE, SQ FT
ONE CHARLEMONT SQUARE, DUBLIN 2	184,000
CLERYS QUARTER, DUBLIN 1	92,500
HUME HOSPITAL, DUBLIN 2	50,000

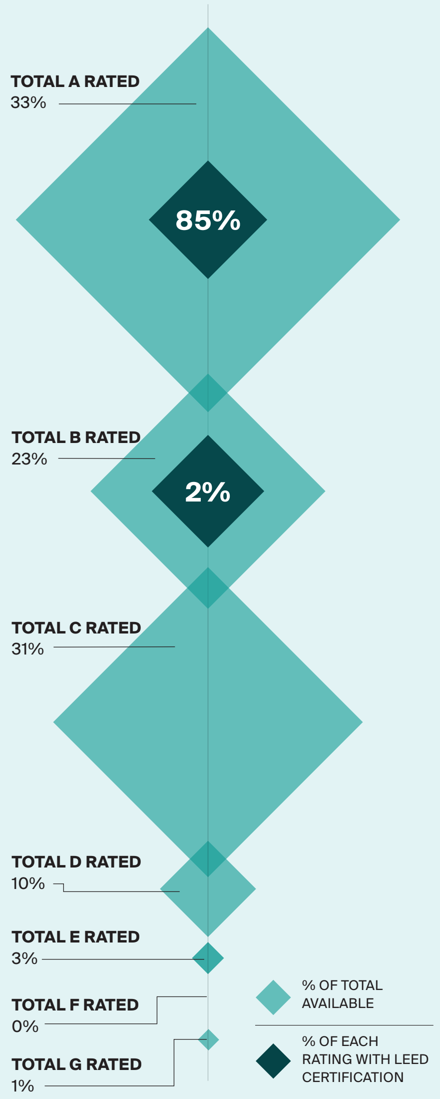
Source: Knight Frank Research

SPECIAL FOCUS

TIERING OF DUBLIN'S AVAILABLE OFFICE SPACE IS INEVITABLE AS OCCUPIER AND INVESTOR PREFERENCE FOR THE BEST SPACE WITH SUSTAINABLE CREDENTIALS IS NOW THE LEADING DRIVER OF DEMAND.

At first glance, Dublin's office market vacancy rate of 10.1% at the end of Q2 seems high at a time when demand has picked up considerably with, for example, almost 1m sq ft signed in the first half of the year.

Available office stock in the Dublin market by BER* energy rating



Source: Knight Frank Research/SEAI*

One of the most pronounced consequences of the pandemic has been the growing occupier preference for the best available space in the market. Demand for new, sustainably certified space, particularly in core city locations, is leading activity and resulting in what we consider will be a three-to-four-tiered market going forward.

Dublin city's office stock was well advanced in the process of being refurbished and re-built over the last decade, with new space around St Stephen's Green and the South Docklands achieving the highest rents. Current occupier trends to have the best space and flagship office environments which reflect brand values, are set to take these trends to the next level of renovation within the market, with space that pre 2020 was considered fit for purpose and suitable to rent, arguably no longer an option.

There are currently only three buildings which are standing and have in excess of 50,000 sq ft of space available which also have LEED Platinum certification. These buildings can be considered the top tier, or Tier 1, buildings available in the market. In the North Suburbs there are two buildings that are currently available that are A energy rated with LEED Gold certification, while in the South Suburbs there are four.

Tier 2 is space with a B energy rating – which equates to 23% of the space currently completed and available across the whole market. 42% of that built space is located in Dublin 1, 2 & 4 combined but only two buildings within this tier have LEED Gold certification. (1 WML in Dublin 2 and 10 Pembroke Place in Dublin 4 which offer just under 16,000 sq ft between them). Drilling further into the detail, only 26% of B energy

4.5%

OF STANDING AND AVAILABLE SPACE IN THE CITY CENTRE IS BER A RATED WITH PLATINUM CERTIFICATION

rated buildings have a B1 energy rating. 32% of B energy rated space is located in the suburban market.

Of the total space currently available in the Dublin office market, 44% has a C energy rating or lower, putting this space in Tier 3 to 4, with 31% being D energy rated and below, (Tier 4). This category of space is unlikely to achieve long leases and be attractive to tenants on a short-term basis without considerably discounted rents.

If space available on the market with a BER energy rating of C and below is excluded, the vacancy rate is 5.2%. None of this space has any sustainable certification, making it less and less attractive to investors and occupiers alike, unless they are in a position to refurbish it.

In effect the market can be split into categories which will determine more clearly investor interest, funding availability, rental levels and covenant quality. While there has always been a divide between prime and secondary, the focus on the detail and the components of what makes each building an attractive and viable option is set to become laser sharp.

INVESTMENT MARKET

Q2 saw a very strong turnover of investment assets in the Irish market with €1.2bn transacting. In addition, there was an exceptional transaction (€1.1bn) accounted for by the sale of Hibernia REIT and all its assets to Brookfield, a Canadian investment fund. While Hibernia REIT's portfolio is heavily weighted in office assets, technically, as this was a share purchase transaction, the assets are not considered to have transacted as normal sales in the market. The sale does nevertheless underpin global investor confidence in the Irish commercial property sector. The deal will be included in the total turnover data, giving an overall figure of €2.3 billion for Q2.

Aside from the Hibernia REIT transaction, there was a total of €276m invested in office assets. With the exception of €34m which was spent on two office assets in Co. Clare, the remainder was invested in Dublin.

The largest of those office transactions was the purchase by LCN Capital Partners of Blocks 1-3, The Founders District, Dublin 4, for €97.5m while REinvest spent €65m on 5 Harcourt Road, Dublin 2.

72% of Q2 office investment spend was on assets in Dublin 2 & 4 combined

There is approximately €700m worth of office assets on the market in Dublin. An estimated 10% of those assets are sale agreed as we enter the second half of the year.

There are two sizable assets on the market in Dublin 4; Connaught House which is guiding €125m via a receiver and The Watermarque Building for which Blackstone is guiding €105m.

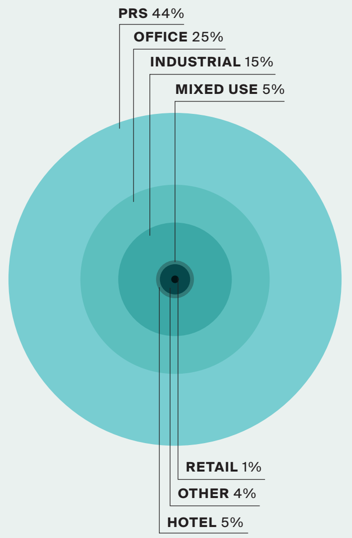
Overall, total office investment in Q2 was a relatively low percentage of total investment (20%), reflecting a number of factors, in particular the strength of demand for residential and industrial assets and also arguably a lack of prime office opportunities that meet the level of sustainable credentials that are being now sought after by global investors.

Looking at the global picture, after two years of the pandemic, there has been a weight of pent-up capital active in the market since the start of 2022.

Risks have increased considerably however and we expect pricing to come under pressure in the second half of the year, largely due to borrowing costs. This will be particularly evident for older buildings, with the risk that some deals may not complete.

An even more intensified focus on ESG is expected, with asset quality, location and tenant covenant considerations acting as key drivers of demand, rather than a focus on particular sectors.

Breakdown of Dublin investment spend by sector, Q2 2022



Source: Knight Frank Research

71%

of the capital invested in the Dublin office market in Q2 came from the US and Europe

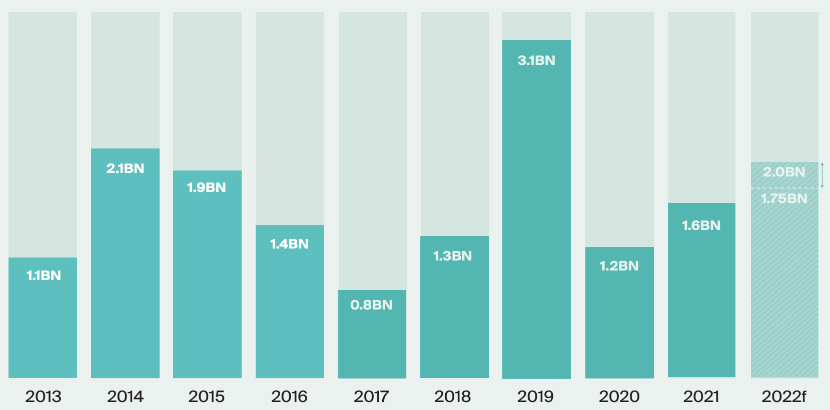
Note: Excludes the sale of Hibernia REIT

TOP 5 OFFICE INVESTMENT TRANSACTIONS Q2 2022

PROPERTY	VENDOR	PURCHASER	PRICE € MILLION
BLOCKS 1-3, THE FOUNDER'S DISTRICT, DUBLIN 4	SPEAR STREET CAPITAL	LCN CAPITAL PARTNERS	€97,500,000
5 HARCOURT ROAD, DUBLIN 2	HENDERSON PARK	REINVEST	€65,000,000
5 SCHOOLHOUSE LANE, DUBLIN 2	KENNEDY WILSON	PRIVATE IRISH	€17,250,000
ADELAIDE CHAMBERS, DUBLIN 8	CHARTERED LAND INVESTMENT	IBI INVESTMENTS LTD	€13,500,000
TEMPLE HOUSE, CO. DUBLIN	SSGA	PRIVATE IRISH	€9,750,000

Source: Knight Frank Research. Note: Excludes the sale of Hibernia REIT

Dublin office investment volumes (€ billions)



Source: Knight Frank Research. Note: Forecasts for 2022 include the sale of Hibernia REIT

Ireland Residential Investment Market Overview Q1 2022

Ireland Investment Market Overview Q1 2022

Dublin Industrial & Logistics Market Overview Q1 2022

New Homes Construction Survey 2022

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