1 Occupier Trends

2 Investment Trends

3 Market Outlook

Dublin Office Market

Research, Q3 2022

Special Focus – Dynamics currently shaping the Global Occupier Mindset

knightfrank.com/research

5 KEY TAKEAWAYS

1.1%*

Employment growth expected in 2023 and 1.7% in 2024.

* Central Bank of Ireland

PAGE 3

868,000 sq ft

Office market take-up, the strongest quarter year to date.

PAGE 4

€500m spend on the Salesforce HQ, Spencer Dock

while in the mixed-use category, is largely an office focused investment.

PAGE 10

Prime rents to touch €70 per sq ft

for the best new space in Dublin 2, the city's traditional core prime market.

PAGE 5

Over 1.0 m sq ft

was reserved at the end of Q3 2022.

PAGE 5

DUBLIN OFFICE MARKET Q3 2022

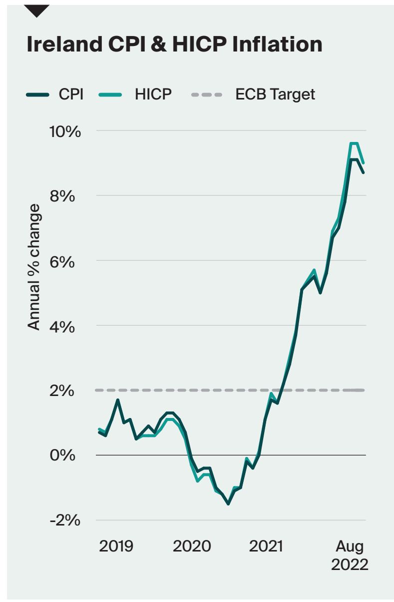
The strength of the labour market continues to support all areas of the economy, generating higher than ever income tax revenues and underpinning demand for the best space in Dublin's office market.

ECONOMY

As the global economy adjusts to multiple shocks, in particular energy shortages, inflationary pressures and higher than expected interest rates, the Irish economy continues to outperform its EU counterparts.

Decades of investment continue to provide a solid foundation to the sectors that are producing high value adding products and services, many of which have experienced a significant increase in demand because of the combined impact of both human and economic crises.

There are almost 260,000 more people in employment at the mid-point in 2022 compared to the middle of 2019.

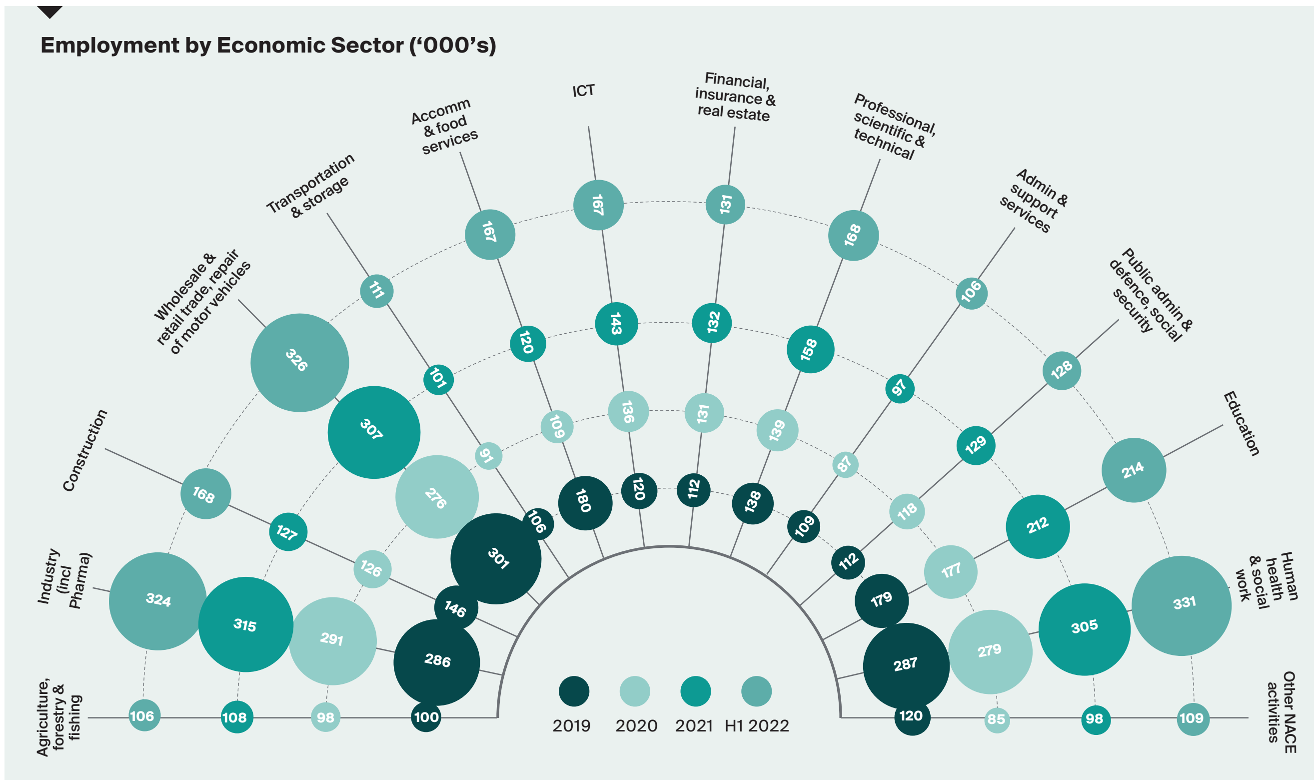


Source: Knight Frank Research/CSO

The Financial, Insurance and Real Estate Services sectors have created 19,000 jobs while Industry (Including Pharma) now employs 38,000 more people than in 2019.

The multiplier effect of this level of job creation has been very significant and one important consequence has been the increase in all categories of tax revenue. Record corporate tax returns as well as income tax have afforded the government additional resources to support weaker parts of the economy and provide some buffer against rising energy costs.

Expectations are that employment growth will continue, with the Central



Source: Knight Frank Research/CSO

Bank of Ireland forecasting employment growth of 1.1% in 2023 and 1.7% in 2024, even though the measure of domestic economic growth (Modified Domestic Demand) is expected to slow as real disposable incomes fall and consumers become more cautious.

Shocks, however, do bring uncertainty and there is a re-adjustment happening across all sectors of the economy and in property markets.

Evolving events in 2022 are accentuating the already evident adjustment in occupier preference for sustainably certified space. The recent increase in funding costs, along with the need to find alternative energy sources, is putting sustainable finance requirements at the top of the agenda. The impact of this on office development trends is expected to become more evident over the coming quarters and will have a positive impact on Dublin's office landscape, particularly against the backdrop of sustained employment gains.

OCCUPIER TRENDS

Activity in Dublin's office occupier market has gathered pace as companies get back to the office in a more meaningful way and implement more flexible working models. Against a backdrop of significant increases in staff numbers over the last two years, particularly in Professional Services, Financial Services and the TMT sector, demand for space is at similar levels to before the pandemic, but with occupier requirements ever more specific.

Demand for new space in city centre locations leads the way as large occupiers increasingly recognise the need for the best space, with sustainable credentials and close to transport connections, in order to attract and retain talent.

Office occupier activity was strong in Q3, with 868,000 sq ft of space signed, making it the strongest quarter of the year so far.

Total take-up now stands at 1.8m sq ft for the year so far. We are revising upwards our forecast for total take-up to between 2.5m - 2.7m sq ft for the year as a whole.

A&L Goodbody's decision to take 155,000 sq ft at 25 North Wall Quay, in Dublin 1, was the largest deal of the quarter, while Goodbody Stockbroker's decision to take 60,000 sq ft at 12 Dawson was the largest deal in Dublin 2.

Take-up

The top ten deals made up 70% of total take-up with demand coming from Finance, Professional Services, the State and the TMT sector.

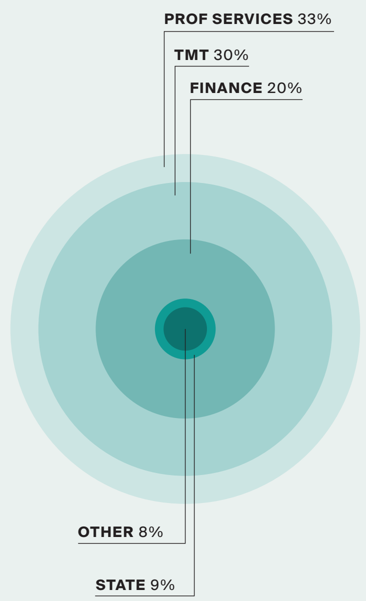
While preference for city centre space remains a key trend in the market overall, there were three suburban deals in the top ten in Q3. There were two deals in

10.2%

Vacancy rate

Take-up by sector

Q3 2022



Source: Knight Frank Research

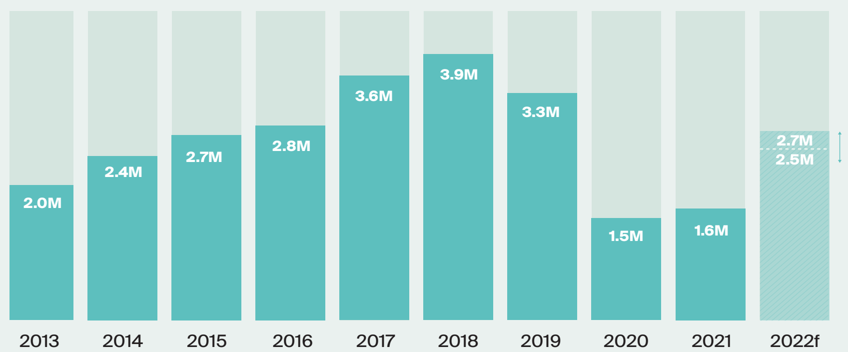
TOP 5 OFFICE LEASING TRANSACTIONS Q3 2022

PROPERTY	TENANT	SIZE (SQ FT)
25 NORTH WALL QUAY, DUBLIN 1	A&L GOODBODY	155,000
THE TROPICAL FRUIT WAREHOUSE, DUBLIN 2	TIK TOK	83,183
BUILDING 1, BALLYCOOLIN BUSINESS PARK, DUBLIN 15	K2 DATA CENTRE	78,556
3 DUBLIN LANDINGS, DUBLIN 1	A&L GOODBODY	62,674
12 DAWSON, DUBLIN 2	GOODBODY / AIB	60,000

Source: Knight Frank Research

Office take-up

sq ft (millions)



Source: Knight Frank Research

the Termini Building in Sandyford, where Dalata and RBK took just under 25,000 sq ft between them.

Dublin 2 represented 38% of total Q3 take-up. Demand for space in the core of Dublin 2, the traditional core of St. Stephen's Green and the adjacent Kildare, Dawson and Molesworth Streets, made up 15% of total take-up in Q3. Demand for space in the South Docks equated to another 18%.

New space on prime streets in Dublin 2, Dawson and Kildare Streets in particular, is in considerable demand by Professional and Financial Services, with Goodbody Stockbrokers taking 60,000 sq ft at 12 Dawson Street and Dentons, Davidson Kempner and Aircastle taking a total of 49,000 sq ft at 20 Kildare Street.

68% of take-up during the year to date has been in Dublin 1 & 2 combined.

Vacancy

While the overall market vacancy rate has edged up slightly in Q3, almost 66% of take-up can be accounted for by new buildings.

An increase in space that falls into the grey market also impacts some of the benefit that the strong Q3 take-up has on the numbers.

For example, the largest building complete and available in the grey market (Fitzwilliam 28, in Dublin 2), is in fact reserved.

What the analysis of the vacancy continues to re-affirm is that occupier preference for the best newly completed space or best recently completed space, which has been offered for sub-let in recent quarters, continues to lead occupier demand, with sustainable credentials top of the agenda.

Rents

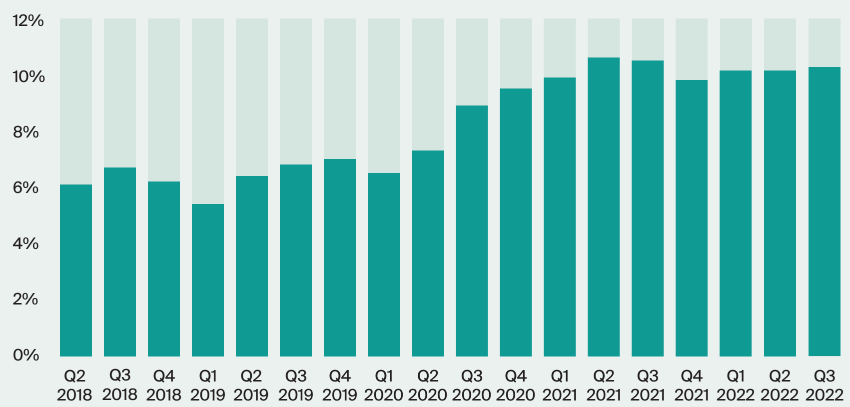
Prime rents have edged up throughout 2022 driven by a combination of increased demand and inflationary pressures. Having held firm at €57.50 per sq ft in 2021, €67.50 - €70 per sq ft is achievable by year end and into 2023, for the best space in prime city centre locations, such as Dublin 2.

Across the wider city and suburban market there is a wider range being negotiated depending on a number of factors, with the energy rating and sustainable credentials of each building becoming more of a factor in attracting tenants and achieving rental upside. We expect this trend to continue.

OUTLOOK

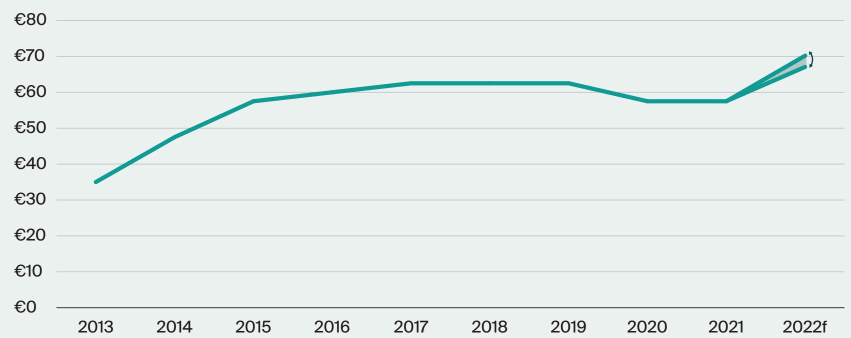
Occupiers are expected to become increasingly discerning about their space requirements, taking their lead from two key drivers – sustainable credentials (particularly energy related) and employee requirements (in a market where staff retention is set to remain a top concern).

Dublin market vacancy rate



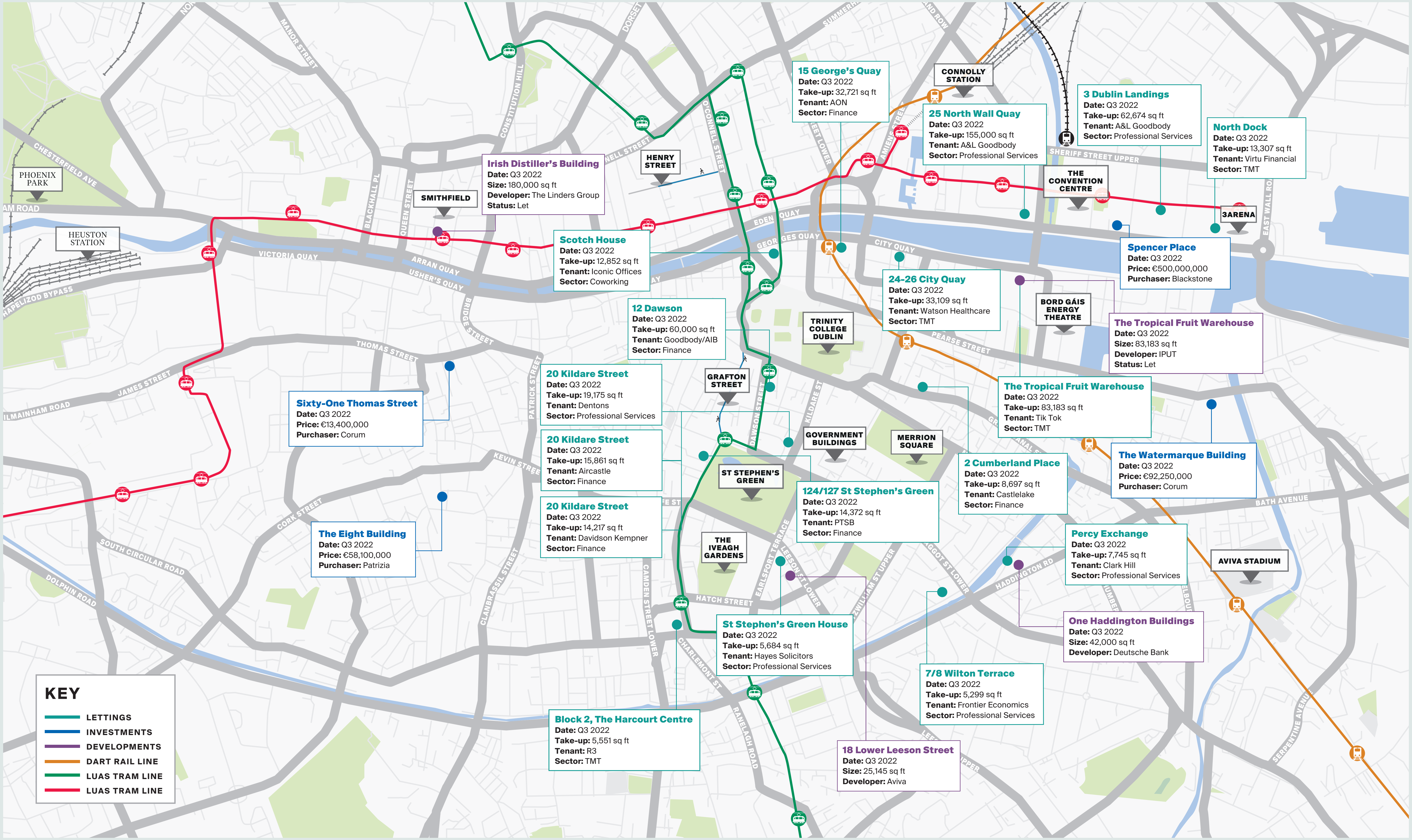
Source: Knight Frank Research

Prime rental growth (per sq ft)



Source: Knight Frank Research

TOP LETTING, INVESTMENTS & DEVELOPMENTS IN Q3 2022



Source: Knight Frank Research

OFFICE DEVELOPMENT

Five buildings completed in the Dublin office market in Q3. 78% of the total space delivered was pre-let, the largest of which was the Irish Distiller's Building in Dublin 7 which extends to 180,000 sq ft and was pre-let to the OPW. The Tropical Fruit Warehouse, which totals 83,000 sq ft and has been let to TikTok, was the second largest building to complete in Q3.

The other three buildings which were delivered are available, and total just under 74,000 sq ft.

There was no office building completed in the suburbs in Q3, as was also the case in Q2.

There is a total of 955,000 sq ft due to complete in the final quarter of the year, consisting of seven buildings. Le Pole Square in Dublin 8 will deliver 114,000 sq ft, while 77,000 sq ft is due to complete at Haymarket House in Dublin 7. (50% of the total space across these two buildings has been reserved).

Aside from One Charlemont Square, there is only one building in Dublin 2 which can offer 50,000 sq ft or above (the redevelopment of Hume Hospital) and one in Dublin 1 (Clery's Building which extends to 91,500 sq ft). Both are due to complete in Q4 and currently have space available.

The largest office scheme due to complete in Q4 is the Fibonacci Square development of 380,000 sq ft in Dublin 4, which is pre-let to Facebook, while One Charlemont Square in Dublin 2 is also due to complete and is available (184,000 sq ft).

If the amount of space due to be delivered in Q4 does complete, then just over 2.5 million sq ft of new space will have been delivered to the Dublin office market in 2022, 71% of which is pre-let.

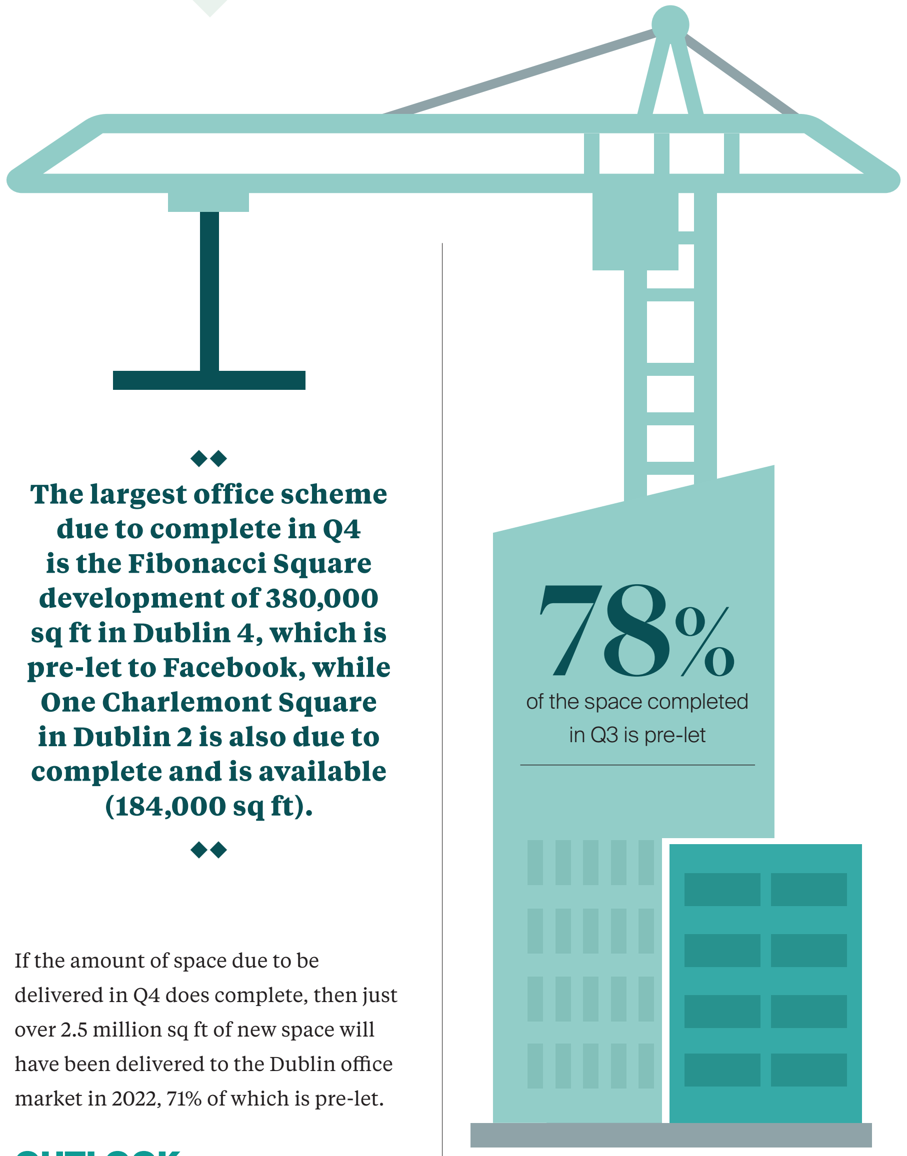
OUTLOOK

Looking ahead to 2023, delays to the construction pipeline due to well discussed supply chain and labour shortages are continuing to impact the expected delivery of space. While an estimated 2.6m sq ft was scheduled to complete throughout 2023, this has now fallen closer to 2.4m sq ft.

LARGEST BUILDINGS COMPLETED IN Q3 2022

BUILDING	SIZE, SQ FT
IRISH DISTILLER'S BUILDING, DUBLIN 7	180,000
TROPICAL FRUIT WAREHOUSE, DUBLIN 2	83,000
ONE HADDINGTON BUILDINGS, DUBLIN 4	42,000
18 LOWER LEESON STREET, DUBLIN 2	25,145
27-29 PEMBROKE STREET LOWER, DUBLIN 2	6,500

Source: Knight Frank Research



Source: Knight Frank Research

Delays to the pipeline, which are set to remain key challenges for the sector into 2023 and 2024, against a backdrop of an economy continuing to create jobs, will reduce the number of new offerings for large occupiers looking to either expand, locate or re-locate in the Dublin market over the next twenty-four months.

SPECIAL FOCUS

FIVE DYNAMICS CURRENTLY SHAPING THE GLOBAL OCCUPIER MINDSET

OCCUPIERS REMAIN DEEPLY IMMERSED IN THE GREAT GLOBAL WORKPLACE EXPERIMENT

Unlike previous shocks, occupiers have not knee-jerked to the most recent crises and made drastic changes to their occupied portfolios. Instead, there has been a careful period of evaluation as we moved from enforced lock-down to a period of steady re-occupancy. This evaluative process is still on-going with global offices typically no more than 40% occupied, compared to pre-Covid levels of c. 65-70%. Corporate real estate leaders are actively looking to separate true signals (how their people are tending to work, why the office is being utilised, when and for how long) from the uncertainly generated within the wider market about what should or could happen. This means that future demand from occupiers will be more refined and defined, founded on experience rather than theory, true need rather than perceived need.

CHANGING MACRO-ECONOMIC CONDITIONS WILL HAVE A GREATER INFLUENCE ON THE BASIS AND TIMING OF DECISIONS

Of course, these needs are not static nor are they immune from wider economic and operating conditions. Declining sentiment from occupiers has become evident from within the Knight Frank Global Sentiment Index over the first three quarters of the year – and is impacting decision making timescales. But it may also bring unintended changes to the occupational dynamic. Given global economic challenges, uncertainty may see a higher return to the office as some employee's concerns regarding job security emerges. While this might not be the basis on which office re-occupancy should occur, it is a perfectly understandable human reaction. Accordingly, most corporate real estate leaders that Knight Frank spoke to fully expect their own office occupancy levels to rise from the already mentioned 40% over the coming months. This will have two impacts. First, it may well embolden business leaders in the mandates they deliver to their business in terms of workstyle and a further return to the office. Second, it will alter the quantum of space that occupiers need.

HYBRID WORKSTYLES ARE HERE TO STAY

The genie is firmly out of the bottle on flexible-working and it won't return. This still constitutes a wake-up call for some in the real estate sector who have tended to be binary when thinking about the relationship between office based and remote working. The future is more complex. The future is 'hybrid'. The sector remains at the foothills of the journey towards hybrid work and there will be some difficult days ahead for some in the market, in implementing effective strategies and balancing the additional requirement to meet ESG requirements.

THE PURPOSE AND FUNCTION OF THE HQ WILL BE RE-SET, SHAPING REQUIREMENTS

Nowhere is this dynamic more evident than in the context of core or HQ facilities. They are facing increased functional obsolescence as workstyles change and, indeed, as scrutiny increases over real estate costs in a more chastening economic environment. The second edition of (Y)OUR SPACE conducted at the height of the pandemic found that some 40% of the global occupiers surveyed believed it 'likely', 'very likely' or 'definite' that they will be relocating their HQ facilities over the next three years. The HQ is certainly being re-evaluated by many organisations. It is being rewired to drive collaboration, induce creativity and embody corporate culture.

PRE-LET ROUTES WILL PROVE POPULAR FOR MORE MARKET REQUIREMENTS

The recasting of the HQ, the greater variety of need emerging from occupiers and the requirement to make the workplace more compelling to a workforce that has greater choice over the 'where' of work, will lead occupiers with emerging requirements to seek greater control and input over the real estate solution. We fully expect more occupiers to embark on pre-letting strategies further ahead of a lease event and, also, for smaller footprints. This will move more of the market from the traditional adversarial footing between landlord and tenant, towards a partnership-based model where the needs of the customer are more keenly considered and responded to.

LEE ELLIOTT, PARTNER

HEAD OF GLOBAL OCCUPIER RESEARCH, KNIGHT FRANK LONDON

Lee recently returned from an intense two-week business trip which brought engagement with more than 100 corporate real estate leaders based in Australia and Singapore. Coupled with insights from the latest of our occupier research products – the Knight Frank Cresa Global Corporate Real Estate Sentiment Index – there are five clear messages emerging from the occupier. Each will shape global and local market dynamics over the next year.

INVESTMENT MARKET

Q3 was another strong quarter for total investment transactions in the Irish market with €1.7bn worth of sales closing. Just over €1.6bn of that was invested in the Dublin market.

Following a very strong first half of the year, this brings total investment market turnover to €4.8bn for the year so far (including the exceptional €1.1bn Hibernia REIT transaction).

€185m of the Q3 spend was invested in office assets, €175m of which were in the Dublin market. The largest pure office transaction was the purchase by Corum of The Watermarque Building in Dublin 4 for €92.2m. Blackstone was the vendor. The 107,000 sq ft building has a mix of high profile tenants including Google and Pfizer.

Blackstone remain very active in the Dublin market, with the US fund purchasing the Salesforce Headquarter Building at Spencer Dock in Dublin 1 for €500m, in what was the largest overall deal to complete in Q3. Ronan Group Real Estate were the vendor. There is a considerable office component to this mixed-use sale, where the office space is fully leased to Salesforce for fifteen years and the hotel is let to the Dalata Hotel Group for thirty-five years.

While spend on pure office assets was relatively low in Q3, this is masked by the fact that the largest deal, while categorised as mixed-use, consisted largely of office space – the purchase by Blackstone of The Salesforce HQ, Spencer Dock in Dublin 1.

Patrizia's acquisition of The Eight Building in Newmarket Square in Dublin 8 for €58m was the second largest office transaction. The building is comprised of 75,000 sq ft of office space offering LEED Gold certification.

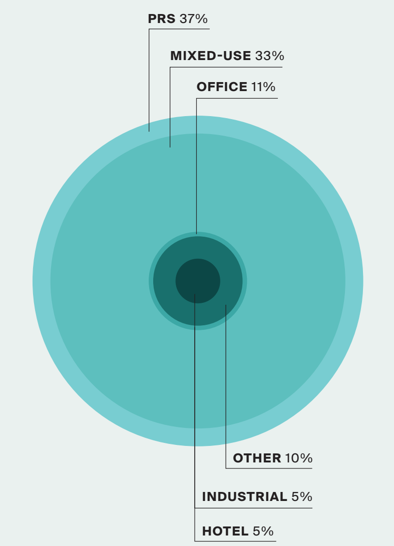
Another mixed-use transaction, also in Dublin 8, saw French investors, Corum purchase Sixty-One Thomas Street for €13.4m. This building too had a considerable office component.

As we enter the final quarter, aside from off market opportunities, there is up to €1 billion in assets available on the market. The largest office asset deal underway is Fibonacci Square which will potentially close in Q4 2022 for in the region of €475m.

Sentiment in the market is more cautious with concerns about rising debt costs slowing down the closing of deals and putting pressure on prices for assets both on and potentially coming to the market.

As stated last quarter, the focus on ESG has become even more intense with lenders taking a more forensic approach to ensuring that ESG criteria are met. Asset quality, location and tenant covenant considerations are expected to act as key drivers of demand with less focus on specific sectors.

Breakdown of Dublin investment spend by sector, Q2 2022



Source: Knight Frank Research

93%

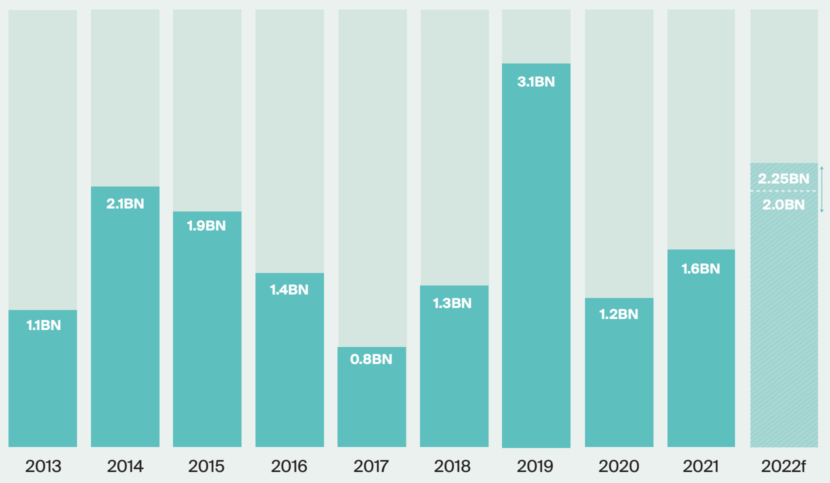
of the capital invested in the Dublin office market in Q3 came from Europe

TOP OFFICE INVESTMENT TRANSACTIONS Q3 2022

PROPERTY	VENDOR	PURCHASER	PRICE € MILLION
THE WATERMARQUE BUILDING, DUBLIN 4	BLACKSTONE	CORUM	€92,250,000
THE EIGHT BUILDING, DUBLIN 8	VALOREM INVESTMENT PARTNERS	PATRIZIA	€58,100,000
P1 EASTPOINT, DUBLIN 3	IPUT	IROKO	€12,179,820

Source: Knight Frank Research

Dublin office investment volumes (€ billions)



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

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

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

Sean Cadogan, Graduate - Research Analyst
sean.cadogan@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

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

Tom Fahy, Associate Director
tom.fahy@ie.knightfrank.com

Knight Frank Research Reports are available at knightfrank.com/research