Knight Frank

Dublin Office Market Overview

Research, Q1 2021

Special Focus: Key Occupier Trends of the Future

knightfrank.com/research

3.4%

GDP growth in 2020 – fastest growing economy in Europe and the EU

4% growth expected in 2021 & 5% in 2022, with potential on the upside as the global economy recovers in line with the vaccine rollout

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€391m

Invested in Dublin office assets in Q1, a strong performance for an economy and sector in lockdown. US and German investors confirm their confidence in the Dublin market with two deals making up 98% of investment

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5 KEY TAKEAWAYS

56%

Value of Industry (including Pharma) and TMT to the economy in 2020. The strength of these sectors has supported the economy through the pandemic, with exports from Pharma up 25% in 2020

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25%

Of city centre office completions due in 2020 have been delayed to 2021, due to enforced shutdowns. Delays to the completions pipeline are also becoming evident into 2022 and 2023

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27,000 sq ft

Office market take-up, while the lowest on record due to the Covid-19 lockdown, does not reflect underlying demand. Almost 240,000 sq ft reserved in Q1 2021

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DUBLIN OFFICE MARKET OVERVIEW Q1 2021

Ireland's economy, while severely disrupted by Covid-19, was driven by the pharma & TMT sectors, with exports reaching a record high. These sectors will support office demand as the economy re-opens in the second half of 2021.

ECONOMY

The Irish economy was the only economy in Europe to grow in 2020, against the global and domestic backdrop of the Covid-19 pandemic. GDP growth of 3.4% last year reflects the unique structure and profile of Irish economic activity. It also shows the cumulative positive impact of Foreign Direct Investment (FDI) policies, investment in Research & Development and in education, that have been key drivers of growth in recent decades.

All European and global economies have contracted severely and to differing levels as a result of the Covid-19 shock. EU GDP contracted by an estimated 6.3% in 2020, the euro area by 6.8% and the rest of world (excluding the EU) by 3.4%. A considerable re-bound is expected globally and in Ireland in 2022 and 2023.

Ireland was the only European economy to grow in 2020

While the Irish economy has also been severely impacted, with the domestic side of the economy in particular feeling the strain of numerous lockdowns, the international side and the export sector have expanded. 2020 saw the value of goods exported from Ireland increase to €160.8bn, the highest level on record. This equates to an increase of €8.3bn or 5.4%, compared to 2019. The largest increase in exports was in Medical and Pharmaceutical products (+25%), which accounted for 39% of all exports. Ireland has become an important global exporter, with the US the largest export market in 2020 (40%), while the UK accounted for 8% of export demand.

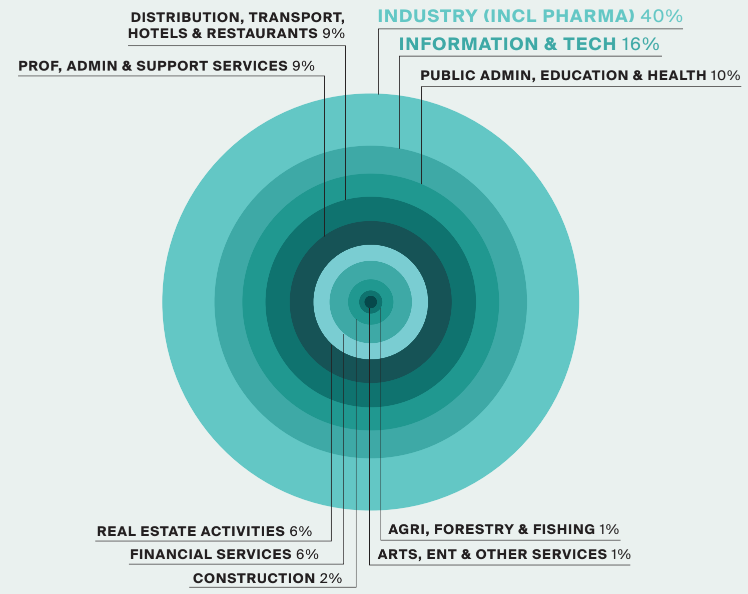
Industry (including Pharma), along with TMT multi-nationals made the strongest contribution to growth in 2020, at 56% combined. These sectors employ hundreds of thousands of people and have expanded during the pandemic and along with financial services and the public sector, they have been and will remain the drivers of office market demand.

The domestic side of the economy has suffered with retail, hotels and hospitality effectively closed (third lockdown in place at the time of writing and since December 2020). Modified domestic demand, the measure used to track the performance

25%

increase in export demand for medical and pharma products

Value of GDP by Sector, 2020



Source: Knight Frank Research

of the domestic side of the economy, decreased by 5.4% in 2020. Job losses have been the most severe across domestic sectors and it is not yet clear how many of these will become permanent losses until sectors such as retail and hospitality re-open.

On the positive side, household's savings are at an all-time high which will have a positive impact on consumer spending at the end of 2021 and into 2022.

Overall, the industry (including pharma) and the information and technology sectors have proved to be the cornerstones of economic growth, employment and of office demand. They have provided considerable protection for the market and will drive demand as the economy re-opens. Economic growth is expected to be close to 4% in 2021, expanding further to 5% in 2022.

OCCUPIER TRENDS

The office market has been in lockdown for the whole of Q1 2021 and as a result it comes as no surprise that office take-up activity almost ground to a halt for the quarter.

The result has been the lowest quarterly take-up on record.

Take-up

Take up of just under 27,000 sq ft in Q1, was made up of just eight deals. The largest was the letting of 10,000 sq ft in Scotch House, Dublin 2 to MD7, a technology consultancy company. TMT and finance companies made up 56% of the total space taken, in line with the trend in quarters with considerably more take-up activity.

Against the background of a market in lockdown, deals that close have to be taken as just one indicator of activity.

Almost 240,000 sq ft of space has been reserved in Q1, the largest being c. 40,000 sq ft in the new Termini Building in Dublin's south suburban market. There is also just over 100,000 sq ft reserved in Dublin 2 & 4 combined.

Q1 has to be set against the background of a market in lockdown, which while essential, has created an artificial situation, where decisions that would otherwise be made, are being delayed

Vacancy

Pressure on the vacancy rate has increased in 2021, once again without surprise, given the low level of take-up. The vacancy rate now stands at 9.9%. No new space has come to the market since Q4 2020 as space under construction has not been able to complete.

There has been an increase in the grey space available to the market in Q1. 56,000 sq ft became available on the 5th & 6th floors of One Park Place, Dublin 2 and 24,000 sq ft at Hanover Quay. There is c. another 250,000 sq ft of space that will potentially come to the grey market in the next six to nine months, which is being made available by the banking and public sector, with for e.g. the Central Bank expected to release almost 80,000 sq ft of space in Dublin Landings, Dublin 1. The impact of these decisions, if they proceed, will result in a further increase in the vacancy rate by the end of 2021.

Rents

Limited deals closing has given little or no evidence on which to determine a change in prime rents. At the end of 2020, prime rents had edged down to €57.50 per sq ft, and have stagnated in Q1. Space coming to the grey market may put some downward pressure on rents, but this is expected to be limited by tenants' cost benefit analyses that will potentially show costs outweighing benefits. Any downward pressure on rents will be balanced against expected occupier preference for best in class space to maximise the safe return to office based work. This in turn is expected to put a floor on prime rents.

OUTLOOK

The translation of demand into deals closing is going to remain challenging for the rest of 2021, given the uncertain timing of an opening up of the economy and an official return to offices. This in turn is dependent on the roll-out of the vaccine programme, which is set to gear up in Q2 as more supply arrives.

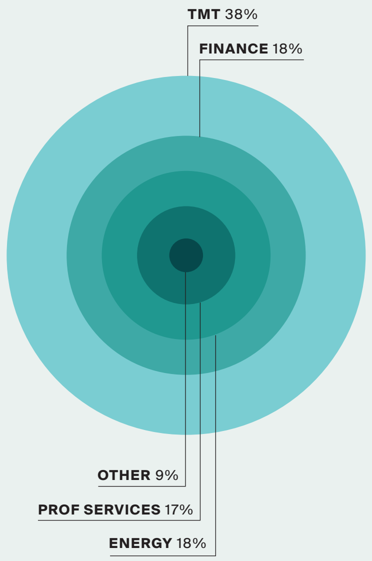
A successful vaccine roll-out along with the re-opening of offices from Q3 onwards, could allow for deals to proceed in the second half of the year, with take-up potentially reaching the same level as in 2020 and then to gather pace in 2022.

Looking beyond that, the fundamentals driving office demand in the Dublin market remain strong.

9.9%

Vacancy rate

Take-up by sector
Q1 2021



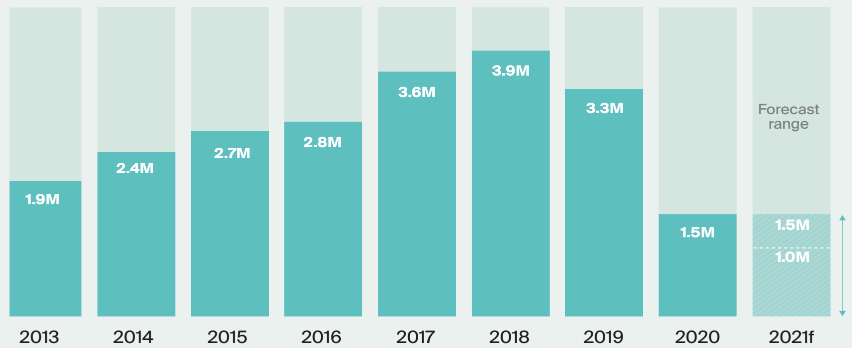
Source: Knight Frank Research

TOP OFFICE LEASING TRANSACTIONS

PROPERTY	TENANT	SECTOR	SIZE (SQ FT)
SCOTCH HOUSE, DUBLIN 2	MD7	TMT	10,021
2ND FLOOR, MAPLE HOUSE, SOUTH CO. DUBLIN	PAX ASSET MANAGEMENT	FINANCE	3,714
SUITE 9 + 10, PLAZA 212, BLANCHARDSTOWN CORPORATE PARK, DUBLIN 15	ALTERNUS ENERGY	OTHER	3,187
UNIT A3, CENTREPOINT BUSINESS PARK, DUBLIN 12	PRIVATE INDIVIDUAL	PROFESSIONAL SERVICES	3,096

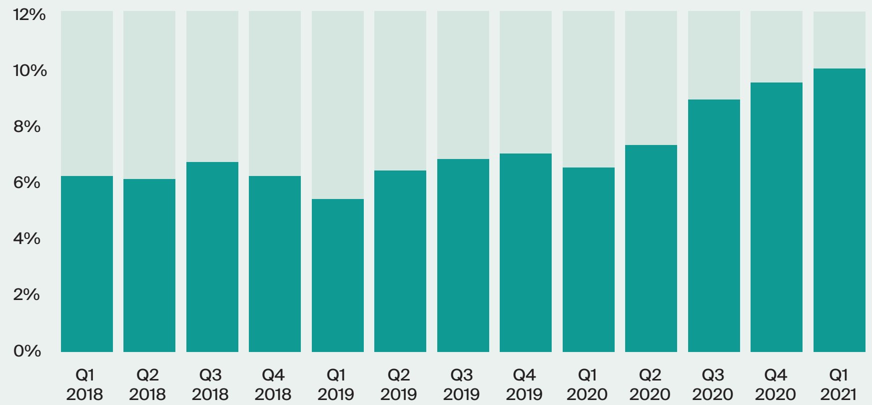
Source: Knight Frank Research

Office take-up
sq ft (millions)



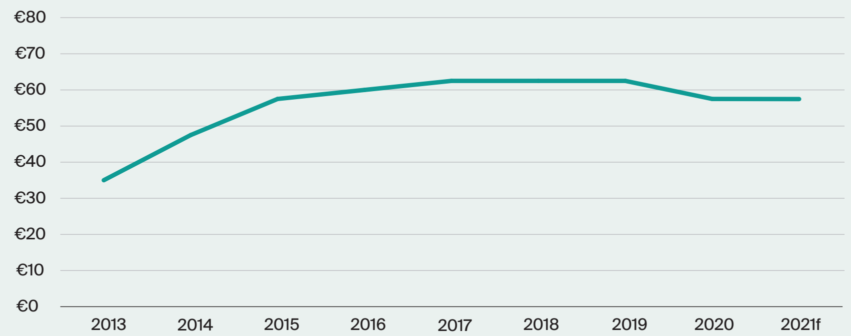
Source: Knight Frank Research

Dublin market vacancy rate



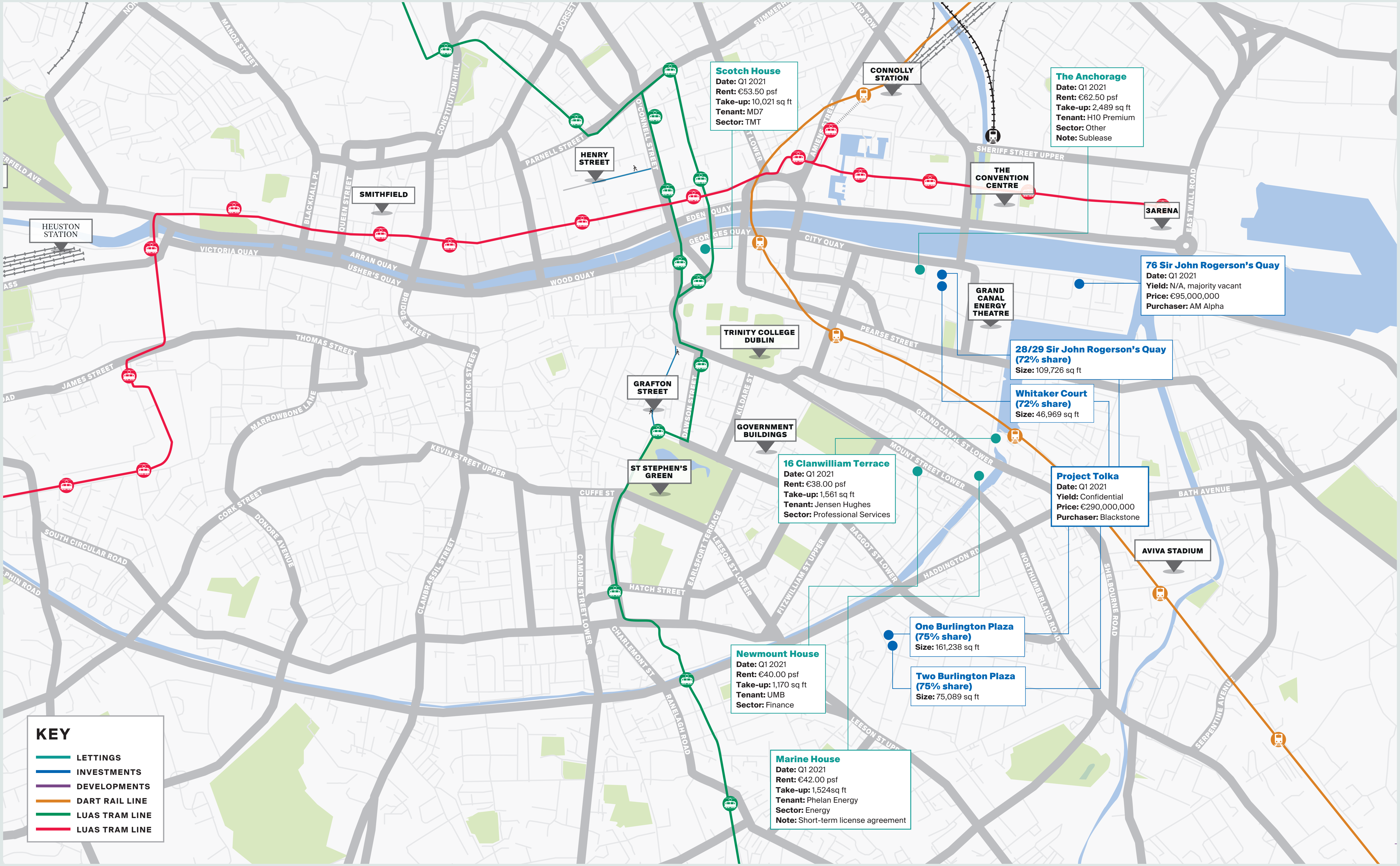
Source: Knight Frank Research

Prime rental growth



Source: Knight Frank Research

LETTINGS, INVESTMENTS & DEVELOPMENTS IN Q1 2021



OFFICE DEVELOPMENT

The office development pipeline has been significantly impacted by the Covid-19 construction lockdowns, the third of which is still in place. Challenging working conditions between lockdowns, for a combination of reasons including health and safety, staffing and delays in materials, has also slowed progress on many sites.

Delays in completion dates have been inevitable. Our research indicates that 25% of new space due to complete in the Dublin city centre market in 2020 has been delayed into 2021.

There have been delays to space due to commence in 2021, with most projects delayed by a minimum of three months and up to nine months depending on the stage the project plans were at over the last twelve months.

25%

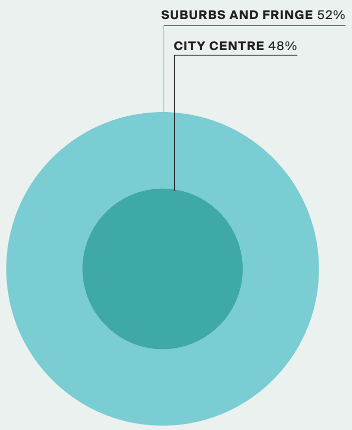
of city centre space delayed until 2021

OUTLOOK

For a European city, in a performing economy driven by technology companies, a delayed pipeline of new space is not ideal. The challenges for the sector once activity opens up again, will include being able to safely complete developments without incurring additional costs and to meet the commitments made to occupiers in the case of new buildings which are already pre-let but have been delayed. Offices under construction and not pre-let will face the challenge of competing for the best covenants and rents against a backdrop of a market with pressure on the vacancy rate. The main positive is an expected flight to quality for both occupiers and investors, who are expected to favour new, Grade A, ESG compliant spaces – a trend that will become more prevalent going forward.

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

New completions % by location



Source: Knight Frank Research

TOP NEW BUILDINGS COMPLETED IN 2020

PROPERTY	SIZE, SQ FT
TERMINI, SANDYFORD, DUBLIN 18	221,523
SORTING OFFICE, DUBLIN 2	203,700
AIRSIDE GREEN, NORTH CO. DUBLIN	120,000
2 DUBLIN AIRPORT CENTRAL, NORTH CO. DUBLIN	117,045
BLOCK A, STEMPLE EXCHANGE, BLANCHARDSTOWN CORPORATE PARK, DUBLIN 15	82,570
ONE CENTRAL PLAZA, DUBLIN 2	74,000

Source: Knight Frank Research

SPECIAL FOCUS

THE OCCUPIER MINDSET

Covid-19 has ushered in a new debate about the future of work and the workplace. Much of that debate has been extreme and abstract. How are occupiers really thinking?

Between December 2020 and February 2021, Knight Frank surveyed almost 400 global corporate real estate professionals. Some of the findings* point to the dynamics shaping post-pandemic real estate and workplace strategies.

Real estate still matters – Despite recent debate about the future of the office, 90% of our survey respondents see real estate as a device that supports, facilitates or portrays business strategy. Key amongst these strategic items are corporate brand and image, employee well-being and increasing cross business collaboration.

Covid-19 is a medium term influence but cost consciousness is high – Despite the all-consuming focus on Covid-19, almost half of our respondents believe that the pandemic will have only a medium-term influence on their real estate strategies. The virus has however brought cost consciousness further into the real estate decision-making process. Fifty-four per cent of respondents note that their cost saving targets had increased since the onset of the pandemic, with more than one-third now seeking to save more than 10% of their annual real estate spend expenditure.

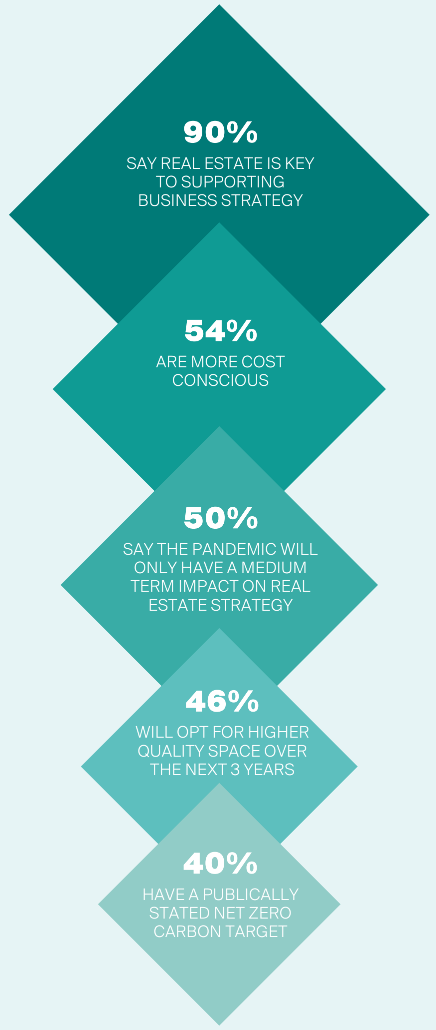
The flight to quality continues – At the same time, there is a clear continuation of the flight to quality with 46% of all respondents anticipating an improvement in the quality of the space they occupy over the next 3 years. Given cost consciousness, this infers a change in workstyles with a greater use of more remote workplace settings combined with a high quality office fulfilling a hub function that supports interaction, collaboration, education and socialisation.

The form and function of office space will change – This notion of the office as a hub is further supported by expectations around the configuration of the future office. More amenities, more collaborative space, less private space and a more fluid interaction with the office incorporating hot-desking and desk-sharing are all anticipated outcomes over the medium term. On a space per person basis we may actually see a de-densification of office occupancy but the key challenge will be for occupiers to increase the level of utilisation of the office space they hold. This will mean increasing the quality of the workplace experience and the greater use of technology and the data it produces to curate that experience.

Greater connection required between net zero carbon commitments and real estate – Four in ten of our survey respondents have a publicly stated net zero carbon emissions target, with three quarters of those having a target date of 'by 2030'. But our survey also shows a limited connection between these broad corporate targets and the potentially positive contribution that better occupying and utilising real estate can make towards their achievement. Only 25% of respondents believe there is a complete recognition of the role of real estate in delivering against net zero carbon targets and for the bulk broader sustainability considerations are seen as being of only moderate influence in determining real estate strategy over the next 3 years. This does not sit well with the criticality of climate change.

After the debate and practical challenges of 2020, our survey shows that occupiers still see real business benefit from real estate.

But there is also an acknowledgement that the form and function of the office will evolve with greater cadence as the pandemic recedes. Offices of the future will need to be more customer-centric, reduce environmental impact and utilise technology and data to fully respond to the range of emerging agendas that will shape business strategy.



DR. LEE ELLIOTT, PARTNER, KNIGHT FRANK UK

*The full Report will be launched formally at the end of April, in the second edition of Knight Frank's (Y)OUR SPACE.

INVESTMENT MARKET

The investment market performed relatively well in Q1, reflecting longer term investor confidence in the Irish market.

Recognising that employment in the sectors driving economic value have been untouched by Covid-19, technology in particular, overseas investors purchased €391m of Dublin office assets. The largest transaction was the sale of The Project Tolka Portfolio which included the purchase of Colony Capital's interest in a number of Dublin office buildings, including 28 & 29 Sir John Rogerson's Quay, Whitaker Court and No.'s 1 & 2 Burlington Plaza.

Blackstone was the purchaser of The Project Tolka Portfolio, with their investment of €290m seen as a vote of confidence in the long term value of the Dublin office market. German investor, AM Alpha acquired 76 St John Rogerson's Quay, a new building which is partially let. The strong price of €95m reflects the investors' confidence in the ability to attract strong tenant interest and also the preference for new, sustainable buildings.

As the timing of the return to the office becomes clearer, with Amazon for example leading the way in terms of announcing its plans for a return to an "office-centric" culture from Q3 2021, others are expected to follow. Hybrid models, which will incorporate working from home, are potentially being embraced by other tech companies such Microsoft, Facebook and Twitter, all important tech occupiers and employers in the Dublin market.

All new office models will require space and demand for office assets in the Dublin market is expected to gain momentum as lockdown lifts.

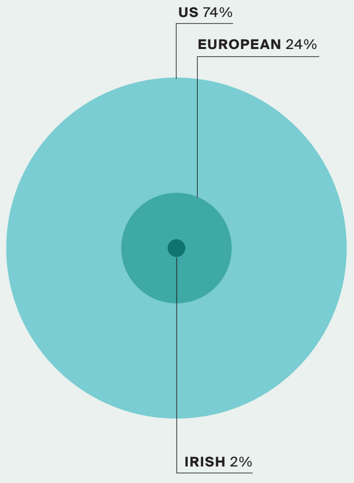
Considerable interest is anticipated from international investors in, for example, the sale later in the year of The Serpentine Consortium's interest in Facebook's new European headquarters in Ballsbridge. The four-block complex is expected to guide close to €380 million. The consortium's holding is fully-let to Facebook and is part of a larger campus of almost 900,000 sq ft which is in the process of being delivered on the former AIB Bank Centre site. Given its scale and location, it will test the depth of demand.

Prime yields have tightened to 3.75% given the level of competitive demand in the market for the best Dublin office assets. We expect this level will be tested later in the year and into 2022.

98%

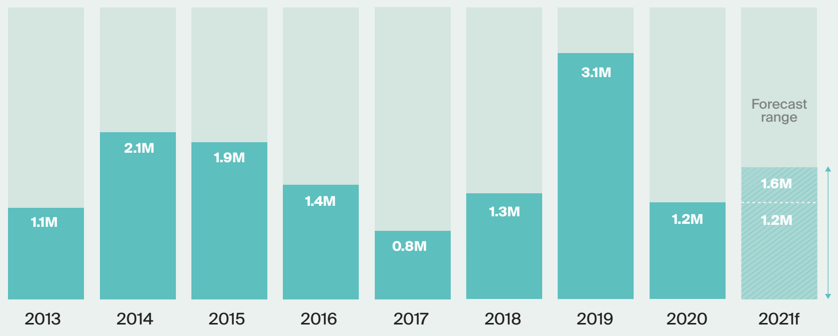
invested by international buyers

Profile of Investors by location



Source: Knight Frank Research

Dublin office investment volumes (€ millions)



Source: Knight Frank Research

TOP 3 OFFICE INVESTMENT TRANSACTIONS

PROPERTY	VENDOR	BUYER	PRICE
PROJECT TOLKA PORTFOLIO	COLONY CAPITAL	BLACKSTONE	€290,000,000
76 SIR JOHN ROGERSON'S QUAY, DUBLIN 2	TIO	AM ALPHA	€95,000,000
4075 KINGSWOOD ROAD, CITYWEST BUSINESS CAMPUS, DUBLIN 24	PRIVATE IRISH INVESTOR	PRIVATE IRISH INVESTOR	€4,500,000

Source: Knight Frank Research

New Homes Construction Survey 2021

Dublin Office Market Overview Q4 2020

Ireland Residential Investment Snapshot 2020

The Wealth Report 2021

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