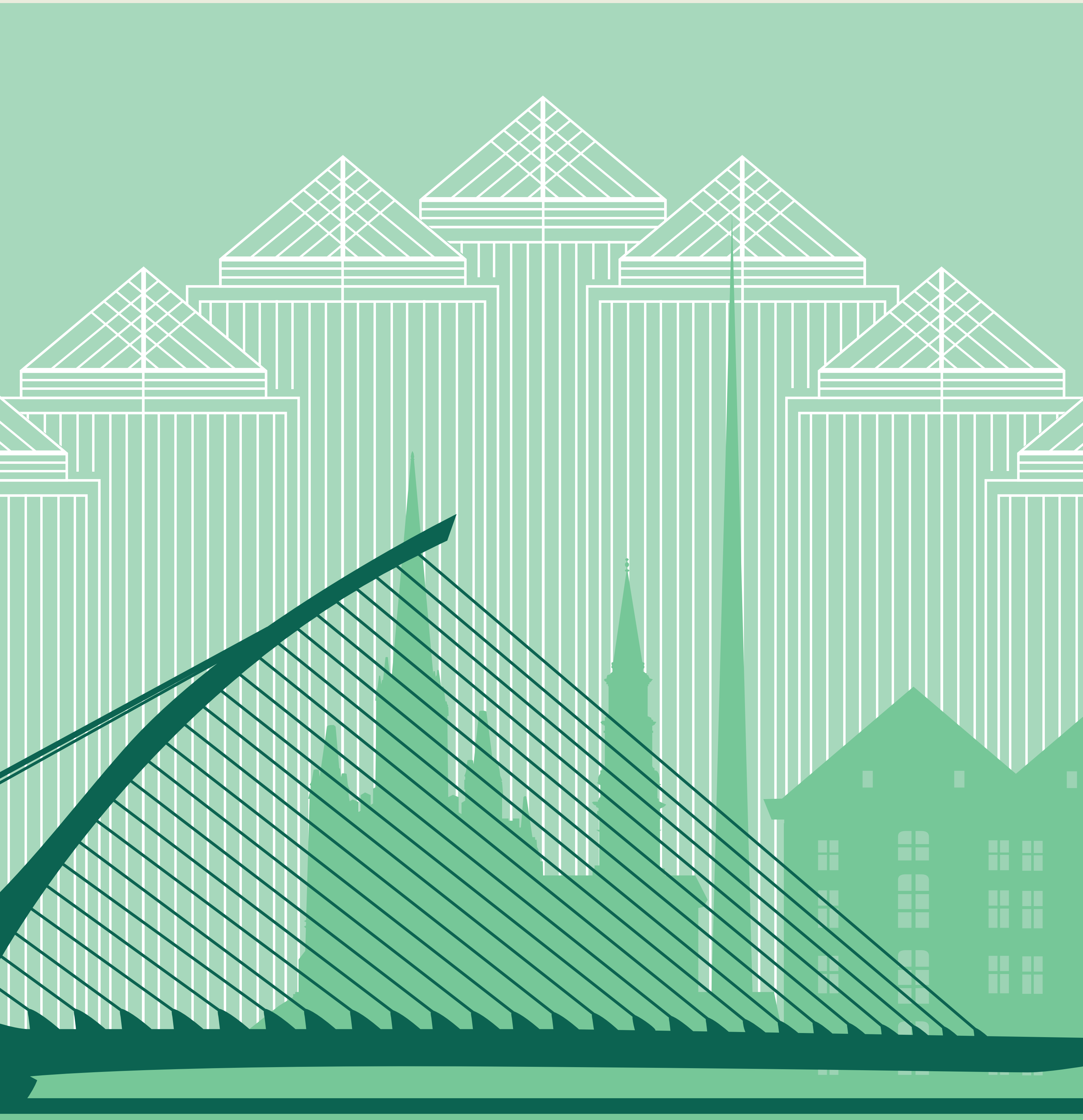
Dublin Office Market

Q1 2024

Spotlight: Development Pipeline

knightfrank.com/research



5 Key Takeaways

1.2% - 2.2%

GDP growth forecast for 2024

PAGE 3

38%*

of space due to complete in the city centre in 2024 is pre-let

PAGE 3

170,302 sq ft

office market take-up in Q1 2024

PAGE 4

1.5m - 2m sq ft

forecast for total office market take-up in 2024

PAGE 5

€28.6m

invested in office assets in Q1 2024

PAGE 8

*includes space at 2-4 Wilton Park which is pre-let but is coming to the grey market in 2024

Dublin Office Market

2024 is expected to see a return to stronger economic growth with forecasts ranging from 1.2% to 2.2% for GDP and 2.0% to 2.5% for modified domestic demand.

ECONOMIC CONTEXT

There were mixed results for the Irish economy in 2023 as GDP growth declined by 3.2%, largely driven by the impact of global economic uncertainty. Modified domestic demand showed an increase of 0.5% in 2023 while GNP increased by 4.4%.

In summary, multinational sectors contracted by 6.8% in 2023 while all other sectors combined grew by 3.8%.

Despite its global nature, the ICT sector continued to grow in Ireland in 2023 (+8%).

Export demand remains a strong driver of growth. Exports of medical and pharma products were up by 15% in February compared to the same month last year, with this high value adding sector currently representing 40% of total exports.

The labour market continues to be a key measure of performance. With 2.71m people at work, the highest ever, the economy continues to operate at full employment with capacity constraints an ongoing challenge across many sectors.

Inflationary pressures continue to ease with CPI falling to an annual rate of 2.9% in March while HICP dropped below 2% to 1.7% for the same period.

Increasing expectations that the ECB will start a series of interest rate cuts in June will improve both occupier and investor sentiment.

> "The expectation is that 2024 will see a slow improvement in economic activity. However, there are key challenges, in particular, concerns relating to a further deterioration in global geo-politics."

> "The picture for 2025 and 2026 remains as it was with a significant drop in the amount of space due to be delivered. 1m sq ft is due in 2025 (27% of which is pre-let) while 911,000 sq ft (73% of which is pre-let) will be delivered in 2026."

SPOTLIGHT ON DEVELOPMENT PIPELINE

Dublin's city centre office market is set to see a significant increase in completions.

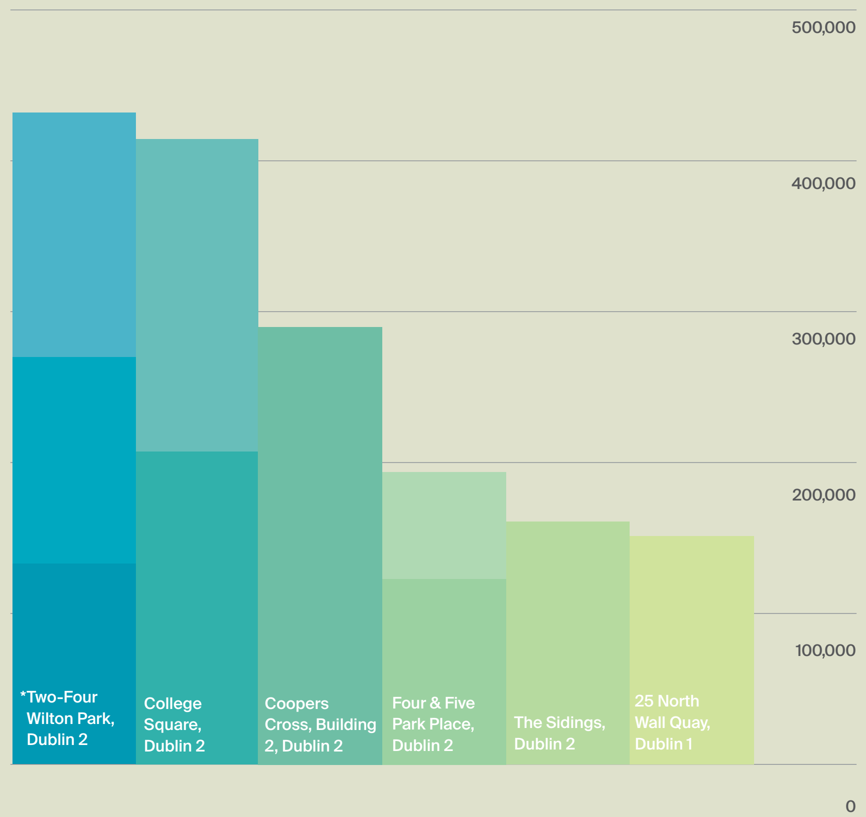
2m sq ft of city centre space is due to complete in 2024, 38% of which is pre-let*.

There are ten buildings of scale due to complete this year, seven of which are part of three larger developments. (Wilton Park, College Square and Park Place). Only one building, Two Grand Parade in Dublin 6, completed in Q1.

There is currently no new office space due to be delivered to the market after 2026.

Top city centre buildings due to complete in 2024**

sq ft



Source: Knight Frank Research

**271,000 sq ft of this space is available to sub-let, making this, as noted in our previous reports, the only example in the market whereby space that is under construction, and pre-let, has become available again via the grey market.

Occupier Trends

TAKE-UP

Overall activity in 2023 was characterised by smaller deals completing and occupiers taking their time regarding finalising requirements, particularly for larger spaces.

These concerns trickled into Q1 2024 with total take-up reaching 170,302 sq ft, the lowest level of quarterly take-up for over ten years. The outlook for the rest of the year is stronger.

The profile of occupiers taking space in Q1 shows that the TMT sector remains active accounting for 24% of total take-up.

Dublin 2 dominated occupier's preferences (46% of total space). 49% of the space taken was outside of the city centre. Excluding one deal in Dublin 6, each of the other seventeen suburban deals that completed in Q1 were for space that was less than 10,000 sq ft in size.

48%

of take-up was signed by financial services companies

VACANCY

The overall market vacancy rate has moved up to 14.9% as expected. This is 0.5% higher than at the end of 2023 when the vacancy rate edged up to 14.4%. Movements in the components of the vacancy rate are an important trend to watch in 2024.

There are two key components driving the overall increase in the vacancy rate; the amount of, and pace at which, space is coming to the grey market as well as the quantity of built space completing.

The volume of grey space, which accelerated from the middle of 2022, has plateaued over the last six months and is not expected to increase with any level of significance over the coming quarters.

The completion of a large amount of new space in 2024 will result in a further increase in the overall vacancy rate. Allowing for total market completions of 2.2m sq ft (which includes the only suburban scheme, namely Block N, Central Park in Sandyford which extends to 201,000 sq ft and is due to complete in Q2) and for the take-up of newly built space to remain on trend throughout the year; coupled with the lower end of the Knight Frank total market take-up for the year, the overall market vacancy rate is expected to peak between 16.5%-17%.

Looking specifically at the city centre, the vacancy rate for the best space is expected to peak at between 10-12% by year end. The pipeline declines considerably in 2025 and 2026 and, as discussed, almost half of the total for those two years is already pre-let which will allow for downward movement in the vacancy rate starting in 2025.

"Knight Frank forecast that total take-up this year will be between 1.5m sq ft and 2m sq ft with larger deals to return to the market."

RENTS

Prime headline rents remain at €62.50 psf and are expected to stabilise at this level.

Cost pressures and occupier requirements for specific locations and ESG credentials are balancing the supply side equation.

OUTLOOK

Occupiers ready to make decisions in 2024 have, as noted previously, a unique opportunity of choice in the Dublin office market.

ESG priorities and green financing considerations are expected to continue to drive occupier decisions with demand for new space with the best credentials to remain a top priority. 2024 is expected to see an increase in the proportion of city centre space taken that is newly built.

Increased options and relative value will make this trend a key one to watch over the coming months.

Despite an increase in the number of larger new spaces coming to the market, competition is expected to emerge for the best space in Dublin sub-30,000 sq ft.

Vacancy, while increasing, is forecast to reach the peak of this cycle at the end of 2024 and will start to fall in 2025. There will be a more rapid decline in the vacancy rate in 2026 and 2027.

49%

of the total city centre space taken since 2020 was newly built space*

*excludes refurbished space

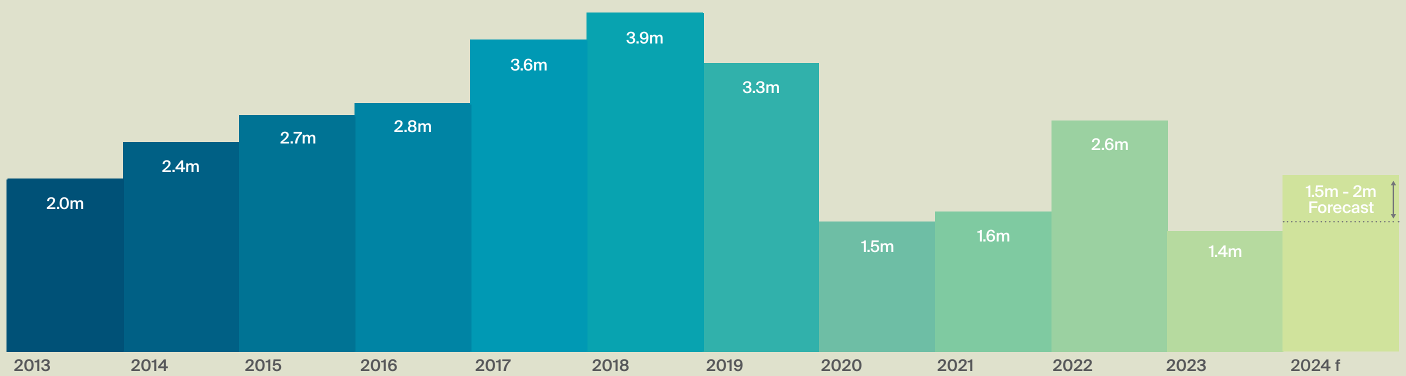
"Larger deals in 2024 will be led by the Professional and Financial Services sectors while TMT will remain active for smaller spaces."

Top 5 office leasing transactions, Q1 2024

Property	Tenant	Sector	Size (Sq ft)
60 Dawson St, Dublin 2	RenaissanceRe	Finance	27,557
Blocks E/F, George's Quay, Dublin 2	Personio	TMT	17,778
Two Grand Parade, Dublin 6	Element Fleet	Finance	13,531
One Park Place, Dublin 2	Fidelis	Finance	12,000
The Observatory, Dublin 2	Shutterstock	TMT	8,072

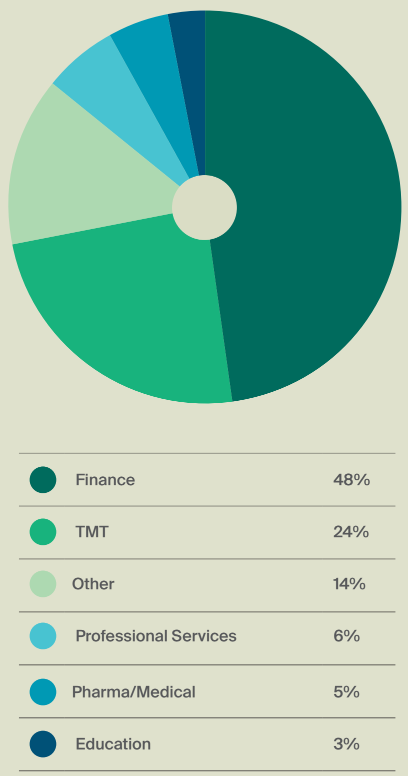
Source: Knight Frank Research

Office take-up
sq ft (millions)



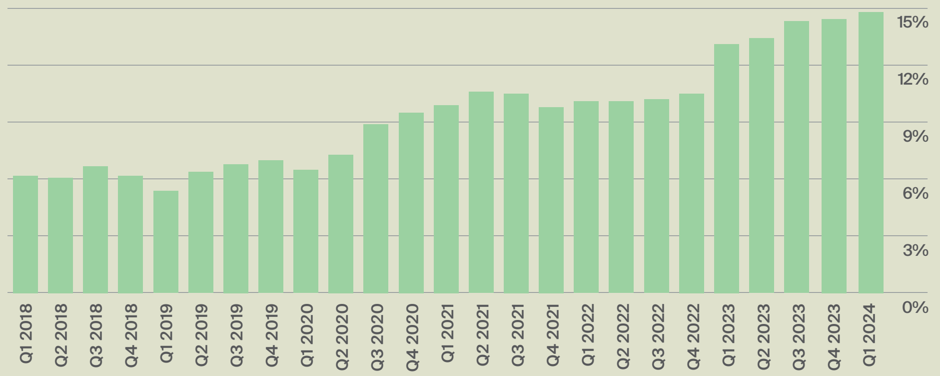
Source: Knight Frank Research
f = forecast

Take-up by sector, Q1 2024



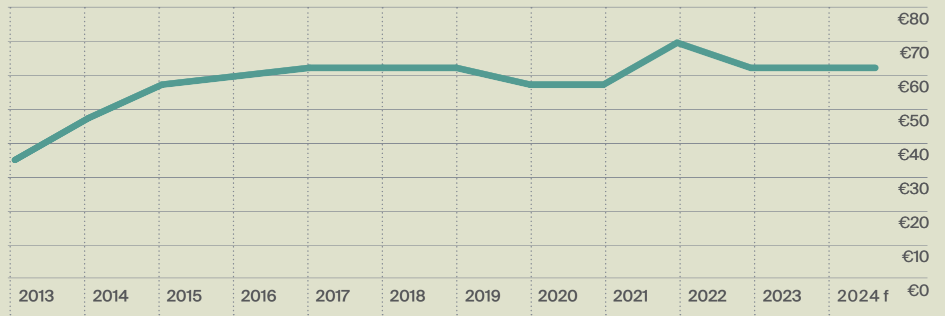
Source: Knight Frank Research

Dublin market vacancy rate



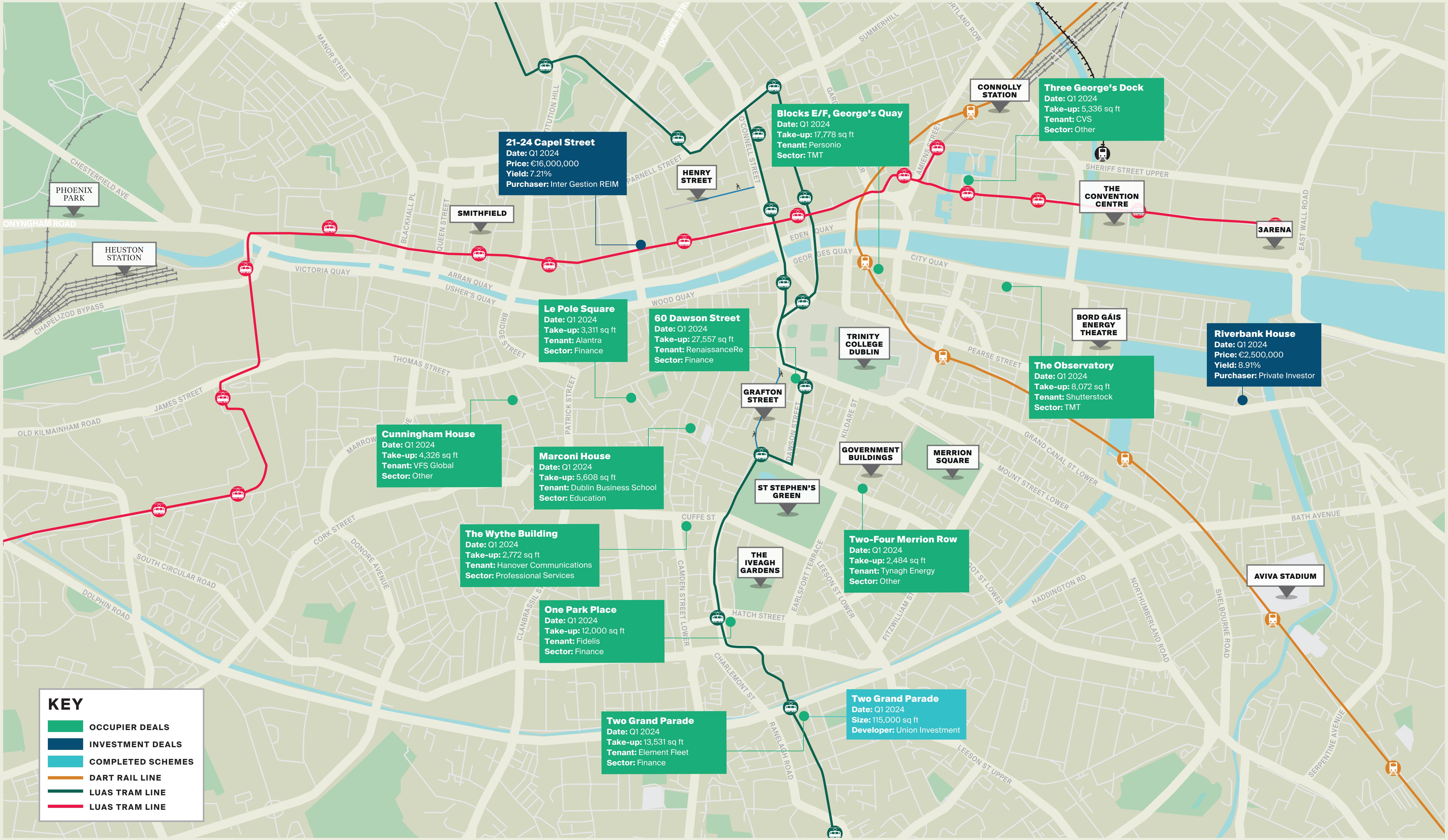
Source: Knight Frank Research

Prime rental series (per sq ft)



Source: Knight Frank Research
f = forecast

Notable Deals Q1 2024



Source: Knight Frank Research

INVESTMENT MARKET

Investor activity in Q1 reflects the myriad of challenges that global financial and real estate markets have faced over the last twelve to eighteen months.

Spend on Irish investment assets totalled €159.3m in Q1 with office investment reaching only €28.6m across five deals. These levels of activity are the lowest in over ten years.

Global macroeconomic and geo-political uncertainty continues to weigh on investor decision making and caution is expected to remain a key theme for the first half of 2024.

> “The prospect of the start of an easing in interest rates in June is becoming increasingly realistic with three cuts currently priced in for 2024 which would provide a positive focus for the market.”

Debate as to the timing of the US Fed’s first rate cut, amid higher inflation data in the US, is fuelling the prospect that the ECB could move to cut interest rates ahead of the Fed.

Of the five office transactions that completed in Q1, the largest was the purchase of 21-24 Capel Street (primarily office focused with a small component of retail) by Inter Gestion REIM for €16m. The remaining four office deals were each less than €5m in lot size and only one was in Dublin.

European investors were the most active buyers in Q1 (68% of total spend), while Irish and US investors were the most active sellers (93% combined).

There are two larger lot sizes on the market, namely One Warrington and 40 Molesworth Street, which are guiding €46m and €40m respectively. 40 Molesworth St., occupied by DLA Piper, is sale agreed and when it completes will provide some evidence of where prime yields stand given its location and complete redevelopment.

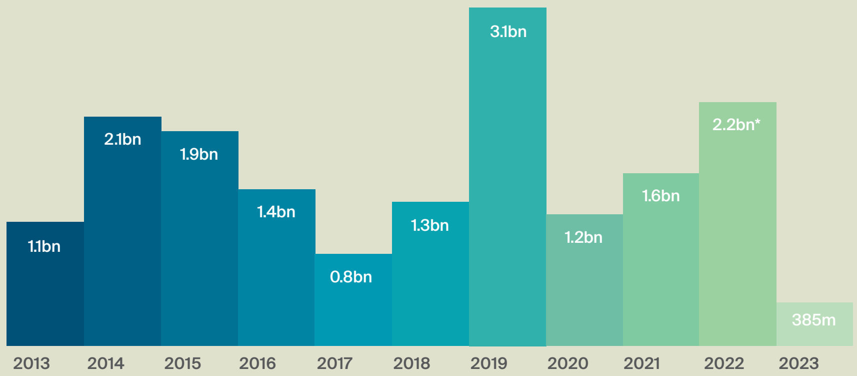
Prime office yields are estimated to be between 5%-5.25%. While further outward movement is possible in 2024, it will be limited by lower interest rates once the easing cycle starts.

Top office investment transactions, Q1 2024

Property	Vendor	Buyer	Price (€ millions)
21-24 Capel Street, Dublin 1	Tetrarch Capital	Inter Gestion REIM	€16,000,000
Athlumney House, Navan, Co. Meath	Private Investor	Private Investor	€4,400,000
Block 2, Galway Financial Services Centre, Co. Galway	Confidential	Private Investor	€3,000,000

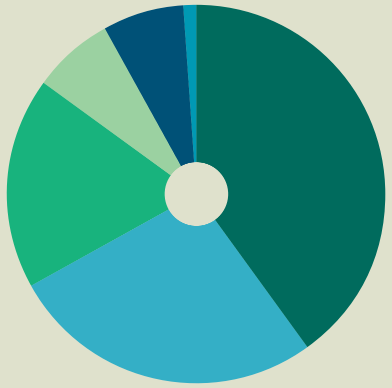
Source: Knight Frank Research

Dublin office investment volumes
(€ billions)



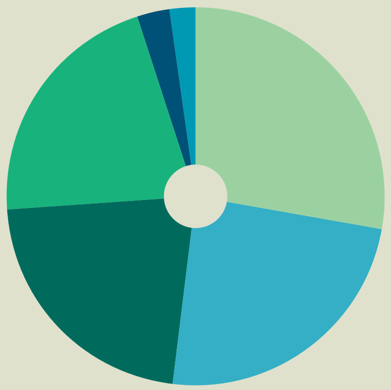
Source: Knight Frank Research *Includes Salesforce.

Total investment spend by sector,
Q1 2024



Retail	40%
PRS	27%
Office	18%
Industrial	7%
Mixed-Use	7%
Other	1%

Total investment spend by sector,
All 2023



Industrial	28%
PRS	24%
Retail	22%
Office	21%
Mixed-Use	3%
Other	2%

Source: Knight Frank Research

Dublin Office Market
Q3 2023

Ireland Living
Sectors 2024

Ireland Development
Land Market Feb 2024

Dublin Logistics &
Industrial Market Mar 2024

The Wealth Report
2024

Ireland Student
Housing Market 2023

We like questions, if you've got one about our research,
or would like some property advice, we would love to hear from you.

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

Robert O'Connor, Associate Director
robert.oconnor@ie.knightfrank.com

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

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

Flexible Office Solutions
Alicia Greene, Flexible Offices Consultant
alicia.greene@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, Divisional Director
gavin.maguire@ie.knightfrank.com

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

Knight Frank