Figures

Dublin Office Market

Q1 2024

Deal Closures Low, Healthy Level of Reserved Stock & Deals Ongoing at Grade A+ Offices

CBRE RESEARCH
MAY 2024

Deal Closures Low, Healthy Level of Reserved Stock & Deals Ongoing at Grade A+ Offices

17,568 sq m	66,339 sq m	580 sq m	€673psm	€29m	5%
Take-Up	Reserved Stock	Average Deal Size	Prime Rents	Investment	Prime Yield

Note: Arrows indicate change from previous period.

Q1 Highlights

– Dublin office take-up totalled just 17,568 sq m in Q1, the lowest quarterly level of take-up in a normalised market since the Global Financial Crisis

– General market activity continues to be characterised by a steady stream of smaller transactions - a total of 31 deals closed in Q1. Overall, the decline in the number of individual deals completing is far less pronounced than the decline in total take-up

– The level of Dublin office stock that is currently 'reserved' (66,339 sq m) remains healthy, with a number of notable deals progressing through legals

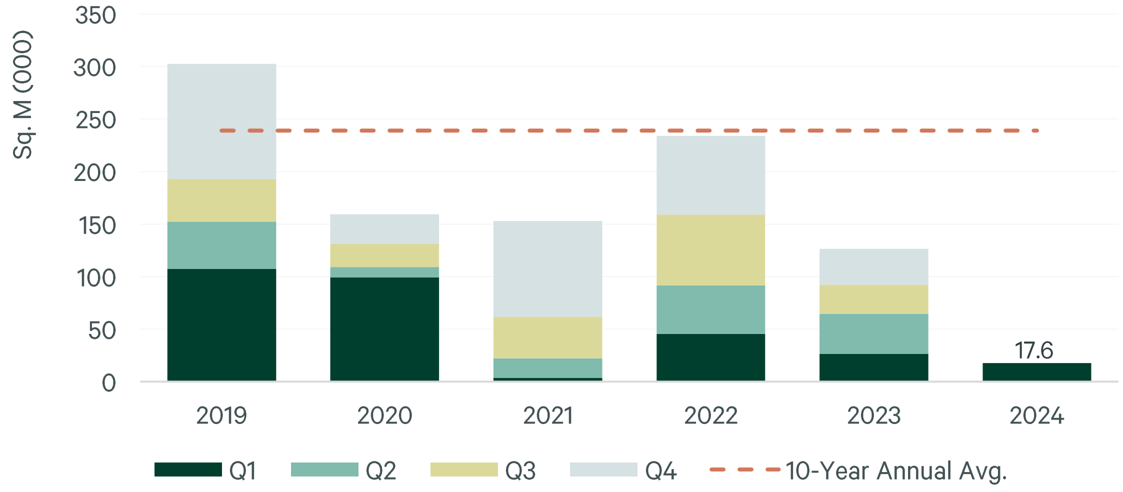
– Of the top ten largest ongoing transactions currently at the 'reserved' stage, five involve buildings that are classed as 'Grade A+', sustainable offices

– The Dublin office vacancy rate is now over 17.5% following the practical completion of some notable developments in Q1. This includes approx. 245,000 sq m of 'grey space'. However, a nuanced approach is required when analysing vacancy, particularly within core city centre space

– Following a 4% reduction in prime Dublin office rents in Q4, nominal rent levels held steady at €673 psm (€62.50 psf) in Q1 and are forecast to continue to do so through 2024

– Prime yields remain at 5.0%, and price discovery is ongoing for secondary and suburban buildings

FIGURE 1: Dublin Office Take-Up 2019 – 2024



Source: CBRE Research

Take-Up

Dublin office take-up totalled just 17,568 sq m in Q1, the lowest level of take-up, in a normalised market, since the Global Financial Crisis. Two quarters in the midst of the Covid-19 pandemic saw lower gross levels of leasing activity – Q2 2020 (9,886 sq m) and Q1 2021 (3,752 sq m).

This quarter's total was just 29% of the typical quarter that the market has experienced over the last 10 years, but it should be noted that the opening quarter of the year is historically quiet, as occupiers are usually still in the early stages of setting 2024 business plans in motion.

Reserved Stock: Healthy Levels of Grade A+ Stock Reserved

The level of Dublin office stock that is currently 'reserved' (66,339 sq m) remains healthy, with a number of notable deals progressing through legals, indicating that leasing activity will be stronger in Q2 and H2.

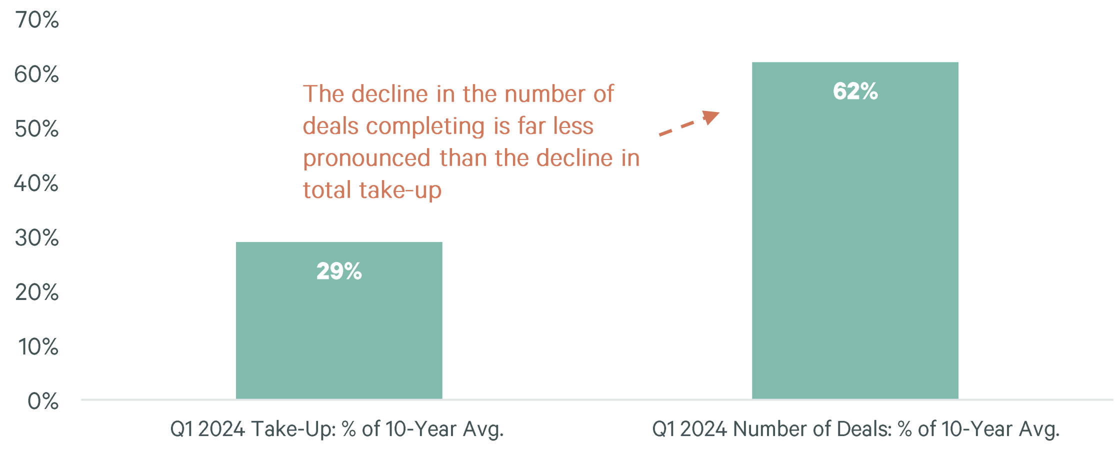
Of the top ten largest ongoing transactions currently at the 'reserved' stage, five involve buildings that are classed as 'Grade A+', sustainable offices. The news that HR cloud applications provider *Workday* will not proceed with the development of a new HQ in Dublin 7 and alternatively will assess options that are currently available in the city, is also a positive lead indicator for further Grade A+ take-up over the next 12-24 months.

While there are continued challenges facing the market - lower leasing levels and increased vacancy - a point often overlooked is that Dublin is a relatively small office market, particularly when focusing on Grade A+ stock in the very core city centre locations, hence, one or two large deals can alter metrics substantially.

No. Transactions: Steady Stream of Smaller Deals Closing

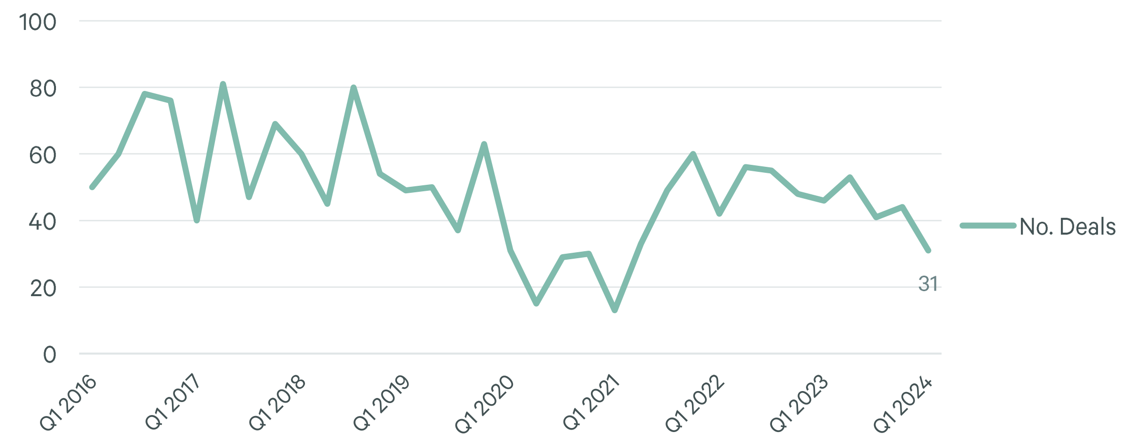
While gross take-up is lower, the market continues to be characterised by a steady stream of smaller deals, typically in the 464-1,394 sq m (5,000-15,000 sq ft) size bracket. A total of 31 office deals were completed in Q1, this is 62% of the 10-year market average of 50 deals per quarter. The average deal size in Q1 was 580 sq m (6,243 sq ft), with the long-term market average approx. 1,140 sq m (12,271 sq ft).

FIGURE 2: Deal Activity as a % of 10-Year Dublin Market Average



Source: CBRE Research

FIGURE 3: Dublin Office Take-Up: No. Transactions per Quarter



Source: CBRE Research

Market Activity

Notable Transactions: 'Super-Prime' Offices Leading the Way

The largest leasing deal of the quarter was at the last remaining floor of the newly completed 60 Dawson Street, where *Renaissance RE* agreed to take 2,570 sq m of Grade A+ space on a 15-year lease, joining US technology groups Pinterest and ServiceNow, who both signed 12-year terms at the building.

When markets weaken, we typically see a 'flight to core', and this has certainly been the case in Dublin since the pandemic. The CBRE Ireland Outlook Report 2024 outlined the increased demand for space in what is considered the new 'super-prime' Dublin office location: Dawson St., Molesworth St., Kildare St. and St. Stephens Green. For sustainable buildings at these locations, vacancy is low, and nominal rent levels have held close to, or even above, prime guideline rents.

60 Dawson St., along with buildings like 20 Kildare St., One Molesworth St. and 40 Molesworth St. are the standout examples of the strong performance of 'best-in-class', sustainable offices in these super-prime locations.

Other notable deals in Q1 included the leasing of part of the third floor at the newly developed Two Grand Parade. *Element Fleet*, a Toronto Stock Exchange-listed global provider of fleet management solutions, signed a 15-year lease, while a number of interested parties are actively looking at the rest of the development.

Deal Structure: 'Grey Space' Absorption Lower But Will Pick-Up This Year

Sub-lease deals accounted for less than 15% of all Dublin take-up activity in Q1 (2,305 sq m), with seven separate transactions completing, including a sub-lease of parts of floors in One Park Place and One Le Pole Square. There is over 245,000 sq m of 'grey space' available to lease in the Dublin market at present, and while the absorption rate of this space was slower this quarter, it will increase as the year progresses.

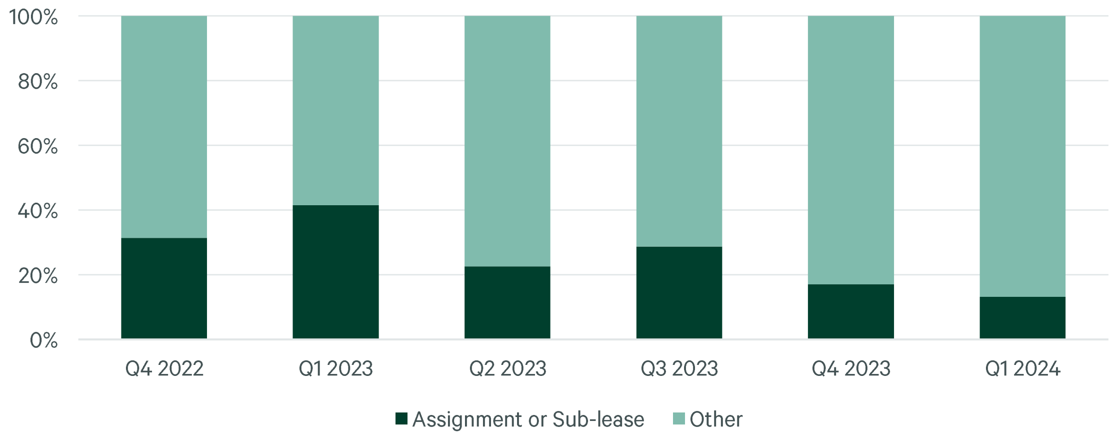
As was the case in Q4, there were no pre-letting deals in the first quarter of this year. In 2023, pre-let deals accounted for 4% of annual take-up, compared to 24% in 2022 and 32% in 2021.

FIGURE 4: Notable Dublin Office Take-Up Q1 2024

Property	District	Size Sq M	Tenant	Transaction Type
60 Dawson Street	Dublin 2	2,570	Renaissance RE	Letting
Fourth Floor, Block E/F George's Quay	Dublin 2	1,650	Personio	Letting
Unit 2c, Swords Business Campus	North Suburbs	1,270	Confidential	Letting
Two Grand Parade	Dublin 6	1,230	Element Fleet	Letting
Part 2nd Floor, The Observatory	Dublin 2	750	Shutterstock	Letting

Source: CBRE Research

FIGURE 5: Dublin Office Take-Up By Deal Structure (%)



Source: CBRE Research

Market Activity

Take-Up by Sector: Financial Services the Most Active Sector in Q1

In Q1, the financial services sector (36%) accounted for the largest proportion of Dublin take-up, across 9 separate leasing deals. The technology sector was the next most active and accounted for 20% of take-up in Q1.

The financial services sector has been the most active sector over the last 12 months, followed by the technology sector.

Take-Up by Location: Nearly 50% of Take-Up in Q1 Occurred in Dublin 2/4

A bifurcation continues to play-out in the Dublin office market, with demand focused on the core city centre district of Dublin 2. This bifurcation will become more pronounced in 2024.

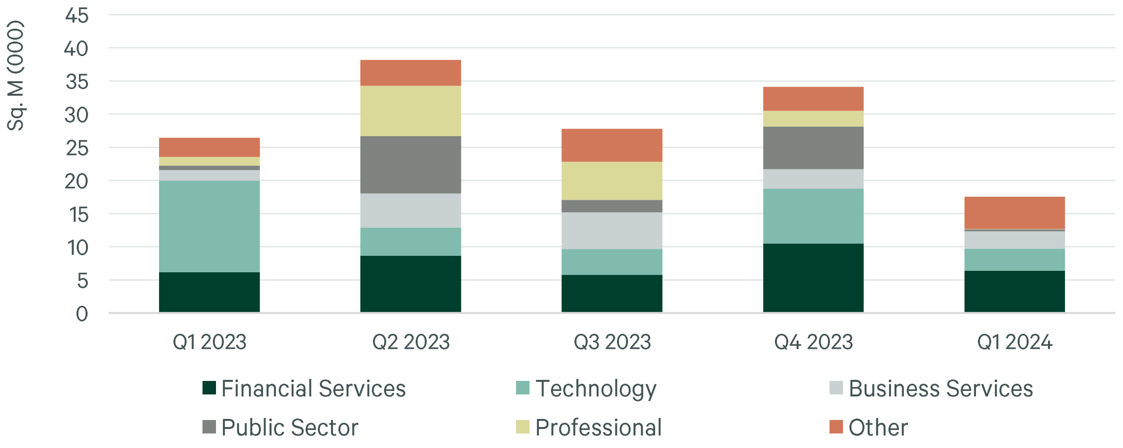
A total of 7,893 sq m of take-up was signed in Dublin 2/4, accounting for 45% of all take-up in the quarter. In 2023, nearly 47% of all take-up activity occurred in Dublin 2/4, while Dublin 1/3/7 accounted for 15% of all take-up.

There were 6,968 sq m of lettings recorded in the suburbs during Q1, of which over 80% (5,796 sq m) occurred in the North and West suburbs. In Q1, the city centre accounted for over 60% of all office take-up with the remaining 40% occurring in the suburbs.

Active Demand: Requirements Stable in Q1

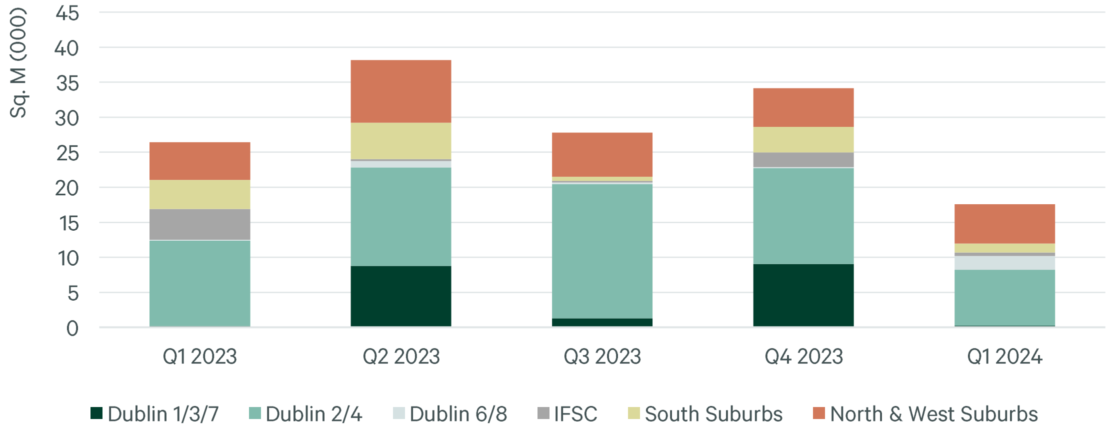
Total demand requirements were stable in Q1, now standing at more than 238,000 sq m. This remains close to one full year worth of historical take-up in the Dublin market (which has averaged approx. 240,000 sq. m over the last 10 years).

FIGURE 6: Dublin Office Take-Up By Occupier Type



Source: CBRE Research

FIGURE 7: Dublin Office Take-Up By Location



Source: CBRE Research

Development & Supply

Several office buildings reached practical completion in Q1, including blocks 2 and 3 of IPUT's Wilton Park in Dublin 2 (31,700 sq m) and Two Grand Parade (9,700 sq m), a Hines development on the outer fringe of the city centre in Dublin 6.

A further 155,000 sq m of Dublin City Centre office stock is expected to reach completion in 2024, 25% of which is pre-let. Notably, 2024 is the second highest year of city centre office construction deliveries over this last cycle. Noteworthy developments that are due to complete in 2024 include Marlet's College Square on Tara Street (39,000 sq m), Block 3-2 of Cooper's Cross in Dublin 1 (32,600 sq m) and the Boston Sidings (19,900 sq m) development in Dublin 2.

While there are several large developments due to be completed in 2024, the level of new office stock due to be delivered in the following years is significantly lower, and speculative commencements have ceased altogether.

Vacancy: Analysis Requires Nuance, Positive Developments Ongoing Off-Market

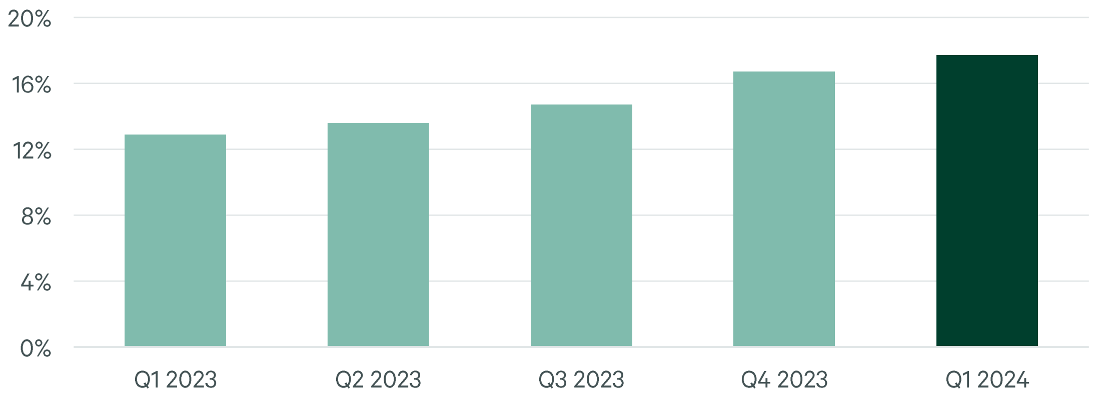
Dublin office vacancy increased in Q1 as speculative buildings were delivered to the market. At the end of Q1, the vacancy rate (including the city and suburbs) was over 17.5%. This includes both 'true' vacant stock, which amounts to over 600,000 sq m and a further 245,000 sq m of 'grey space'.

While the vacancy rate will likely continue to grow as new supply is delivered, given the level of space that is currently reserved, and some ongoing positive developments that are being observed off-market in relation to long-term available space, including examples of repurposing office sfor other uses, the 'peak vacancy' of this cycle may be closer than previously anticipated.

Rent Levels & Incentives: Prime Headline Holding Firm, Rent-Free Periods Creeping Up

Following a 4% decrease in prime nominal headline rent levels in Q4, prime city centre office rents remained steady at €673 per sq. m (€62.50 per sq. ft) in Q1. Rents in other segments of the market remained steady on a headline level too, however, more incentives, such as longer rent-free periods and earlier break options, are increasingly being offered by landlords.

FIGURE 8: Dublin Office Vacancy Rate* (Dublin City & Suburbs)



Source: CBRE Research; *Includes 'True' Vacant Space & Grey Space

FIGURE 9: Dublin Office Rents Q1 2024

Prime Headline Office Rents	Euro Per Sq M	Euro Per Sq Ft
City Centre	€673	€62.50
South Suburbs	€318	€29.50
North Suburbs	€221	€20.50
West Suburbs	€194	€18

Source: CBRE Research

Investment Activity

Total Irish office investment in Q1 was just €28.5m (across 5 deals), the lowest level of quarterly spend since Q1 2012 and well below the 10-year quarterly average for the sector. Offices accounted for just 18% of all investment in the Irish market in Q1.

The largest transaction in the sector was the sale of 21-24 Capel Street for €16m to French fund Inter Gestion REIM, the group's first office acquisition in the Irish market. The deal represents a reported net initial yield of over 7.2% and traded at an approx. 17% discount to the initial guide price of €19.2m.

Across Europe, investment committees and lenders are generally 'risk-off' as regards the office sector, but as outlined in the CBRE Ireland Investment & Funding Report Q1 2024, ongoing conversations with opportunistic investors indicate that, on a selective basis, offices in many European cities are now beginning to price attractively.

Considering ongoing sale processes, the level of investment in the Irish offices sector will pick up as the year continues. The notable sale of a core Dublin city centre office is progressing, and on completion, it will be the first truly core office sale in Dublin since Q3 2022.

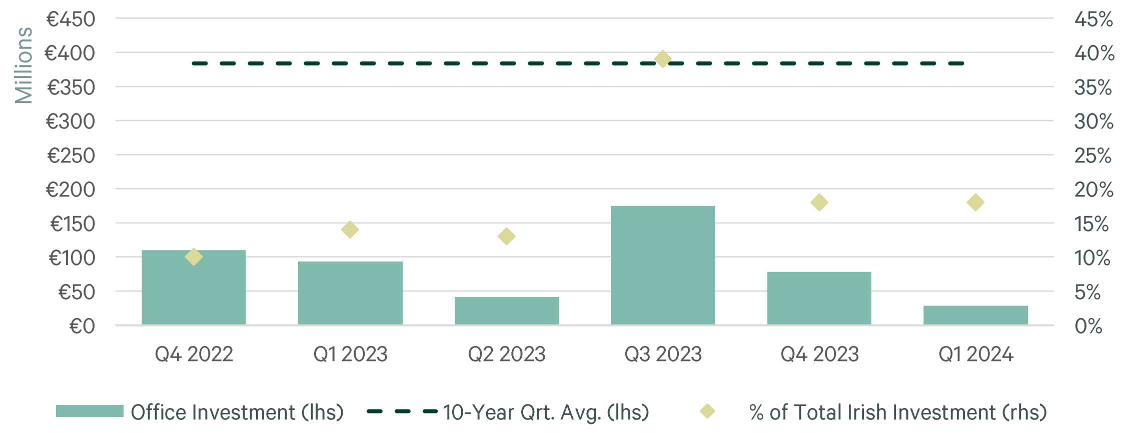
There are also a number of Dublin office receivership processes now ongoing, most notably, the sale of One & Two North Dock, which was launched to the market just after the end of Q1.

Yields: Prime Unchanged, Secondary & Suburban Price Discovery Ongoing

Following a 50-bps expansion during Q4 2023, prime Dublin office yields remained at 5% in Q1. Prime Dublin yields have seen a 100-bps expansion since ECB interest rates began to increase in 2022.

Secondary Dublin city centre and prime South Suburbs Dublin offices yields are now 7.25% and 8.25%, respectively, but are still trending 'weaker'. They are likely to experience further price declines in the coming quarters, having already seen expansions of 200 bps and 275 bps since mid-2022.

FIGURE 10: Quarterly Irish Office Investment Volumes



Source: CBRE Research

FIGURE 11: Dublin Office Investment Yields (EY)

Category	Q1 2024	Quarterly Change	Q2 2022 – Q1 2024 Change
Prime Dublin*	5.00%	-	+100 bps
Secondary City Centre	7.25%	+25 bps	+200 bps
Prime South Suburbs	8.25%	+25bps	+275 bps

Source: CBRE Research; *Prime office yield assumptions: best-in-class office located in the prime CBD, assumes a 10-year FRI lease, rack-rented to a credible tenant, the building should be A rated (BER) with generally high sustainability credentials

Figure 12: Two Grand Parade, Dublin 6

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