# Q1 DUBLIN OFFICE MARKET 2024


BNP PARIBAS
REAL ESTATE

# Q1 2024 KEY TRENDS

| | |
|---|---|
| Take-up of 16,310 sq m in Q1 **LOWEST IN THREE YEARS** | **Q1 TAKE-UP DOWN 38% Y/Y** vs -5% across Europe |
| **MARKET HELD BACK** by tech leasing hiatus and remote working | Contraction reflected **FEWER DEALS AND REDUCED AVERAGE DEAL SIZE** |
| **GEOGRAPHICAL SHIFT IN ACTIVITY** to north and west suburbs | **EXPECTED COMPLETIONS SURGE MATERIALISED;** 83,965 sq m delivered in Q1 |
| Net completions somewhat contained by **10,912 SQ M OF DEMOLITIONS / RE-PURPOSING** | **WEAK LEASING / STRONG COMPLETIONS** caused sharp vacancy increase from 13.1% to 14.5% |
| **PRIME HEADLINE RENTS STILL AT €673 PER SQ M PER ANNUM,** but lease terms softening | **FURTHER VACANCY INCREASE EXPECTED** as late-cycle pipeline schemes reach completion |

**NET EFFECTIVE RENTS REMAINING UNDER PRESSURE**

# MARKET ACTIVITY

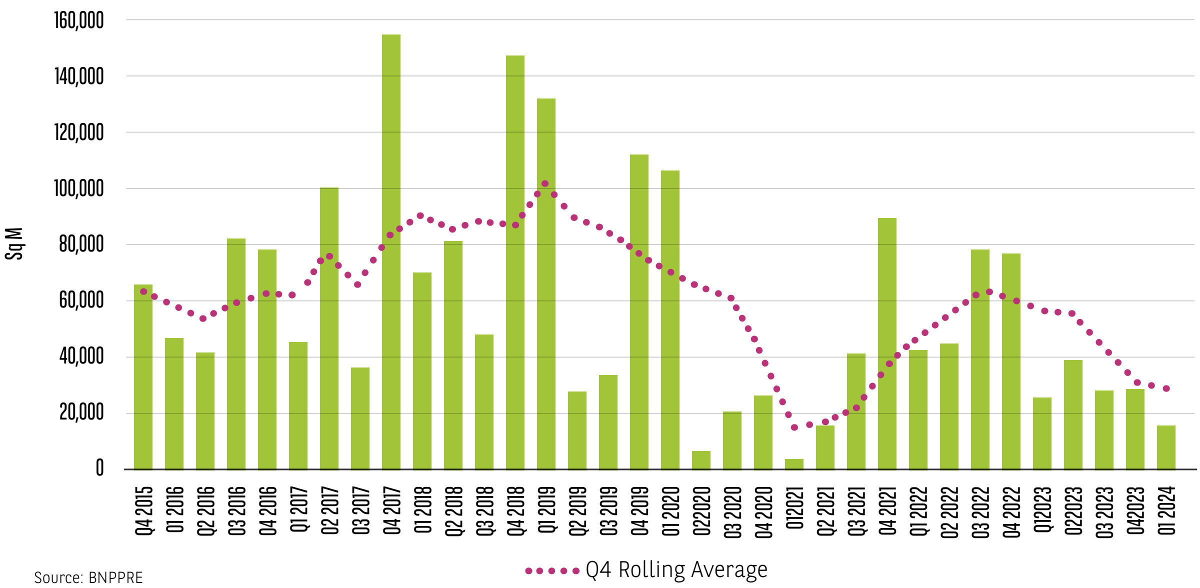
**JOHN MCCARTNEY**
Director & Head Of Research
BNP Paribas Real Estate

**16,310 sq m**

TAKEN-UP IN **Q1**

In an exceptionally slow start to the year, just 16,310 sq m of purpose-built office space was taken-up in Dublin between January and March. This was the lowest quarterly take-up since the height of the Covid pandemic three years ago.

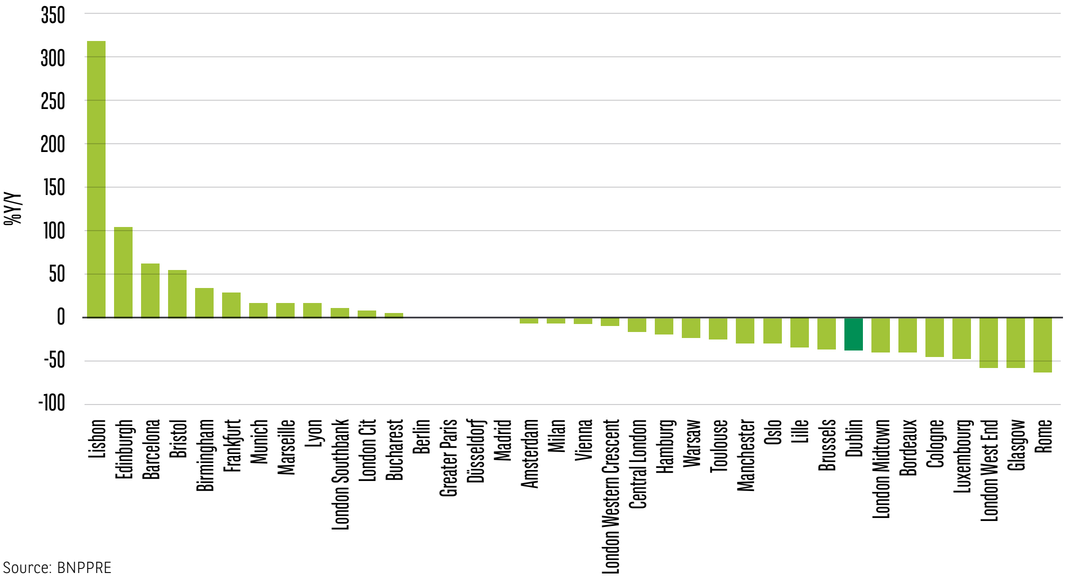
## FIGURE 1: OFFICE MARKET TAKE-UP - DUBLIN




Source: BNPPRE

Dublin continues to underperform European markets. This reflects that, as a small open economy and global tech hub, Ireland is disproportionately exposed to universal headwinds to office demand. Specifically, the three key dynamics dragging on the market are (i) a global economic slowdown, (ii) tech sector inactivity and (iii) remote working (which is more widely adopted in the ICT industry).

## FIGURE 2: ANNUAL GROWTH IN OFFICE TAKE-UP BY LOCATION (Q1 2023 – Q1 2024)

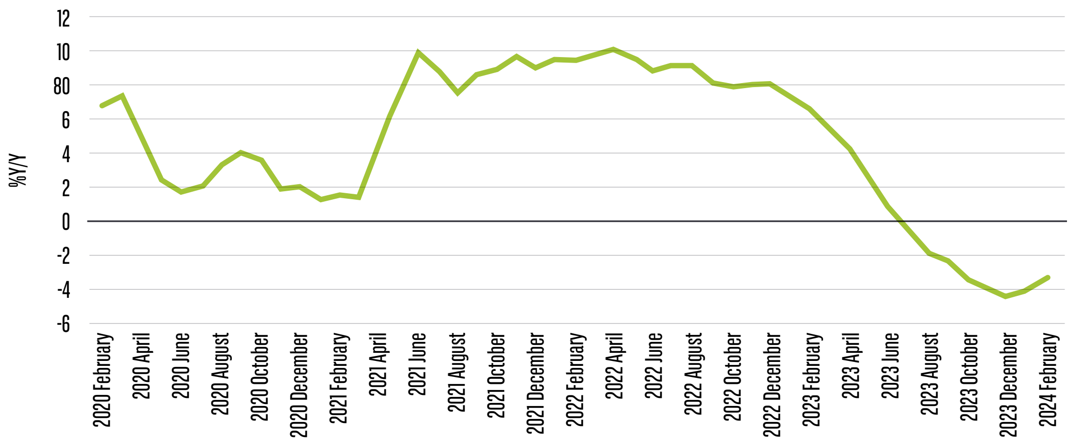



Source: BNPPRE

Having initially rebounded after the Covid pandemic, global economic growth has slowed from 6.5% to 3.2% in the last two years.[1] As a highly globalised small economy, Ireland has naturally been impacted by this, and official figures show that real GDP contracted by 3.2% last year. Although inter-group flows within Ireland's large multinational sector can distort headline economic aggregates, it is clear that the domestic economy has slowed. Modified Domestic Demand, which seeks to strip-out multinational distortions, also edged lower in the final three quarters of the year.[2] Moreover, although labour market metrics remain favourable by historical standards, jobs growth has tapered-off and unemployment appears to be creeping higher at the margin.

The 2022 tech shock triggered a global review of headcount levels across the technology sector. This initially led to a slowdown in Information and Communications Technology (ICT) hiring in Ireland and, eventually, to an outright contraction in tech jobs. ICT employment is currently down 3.3% in the year to February 2024. With tech accounting for 51% of office take-up in Dublin between 2017-2021, this has created a specific challenge for the leasing market.

## FIGURE 3: ICT EMPLOYMENT GROWTH, IRELAND




Source: CSO

[1] See IMF World Economic Outlook, April 2024. World Economic Outlook, April 2024: Steady but Slow: Resilience amid Divergence (imf.org)
[2] MDD removes intellectual property purchases and purchases of aircraft for leasing outside Ireland from fixed capital formation – see Total Domestic Demand and Modified Total Domestic Demand - CSO - Central Statistics Office.

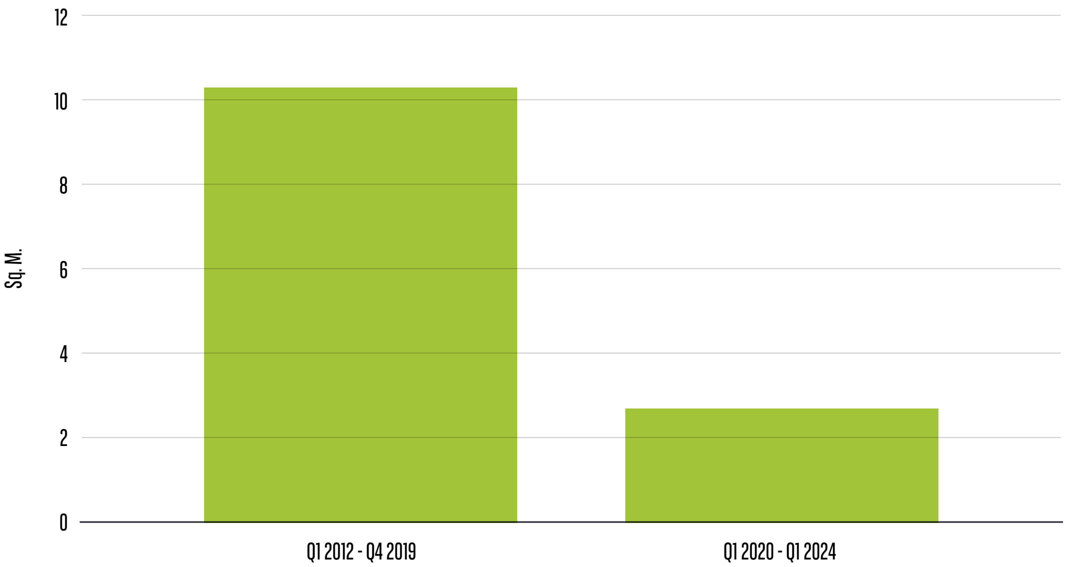


Source: BNPPRE

Finally, the behavioural shift towards remote working has been more pronounced in Ireland, and also represents a challenge to office demand.[3] As outlined in previous reports, service sector jobs growth rebounded vigorously after pandemic restrictions were lifted. However, because many newly created jobs (and many existing jobs in the service economy) had become remote or hybrid, the demand for additional office space did not rise commensurately. As a result the relationship between jobs growth and office demand became disrupted.

The office space-per-employee ratio provides a lens into the effects of this on demand. Taking the increase in occupied space across the entire market between 2012-2019, and dividing by the number of additional desk jobs in Dublin, we get a marginal space-per-employee ratio of 10.3 sq m per job. However, when this exercise is repeated for the post-Covid period, the ratio drops below 3 sq m – signifying that every additional service job is now associated with less than one third of its pre-pandemic space.

## FIGURE 4: MARGINAL OFFICE SPACE PER EMPLOYEE RATIO




Source: BNPPRE

While this decline in occupational density has clearly contributed to sluggish office absorption in Dublin, it is unclear is whether it will reverse and, if so, to what extent.

One way this trend might be unwound would be a behavioural shift in remote working patterns – i.e. 'a return to the office'. There is some hard evidence that this is now happening; The Labour Force Survey (LFS) asks two questions on remote working each quarter; The first establishes whether the respondent had done any work from home over the previous four weeks. As shown in Figure 5a, this number spiked after the onset of Covid, peaking at 992,600 employees (just under 44% of those at work) in Q1 2021. Following the relaxation of pandemic restrictions, the figure then retreated almost as quickly as it had risen. However this decline came to an end by Q3 2023 and, since then, the proportion of employees operating from home has stabilised at around 34%. It is tempting to conclude from this that the return-to-the-office dynamic has run its course and we have reached a new steady-state equilibrium. However, data from the second LFS question provide a more nuanced insight.

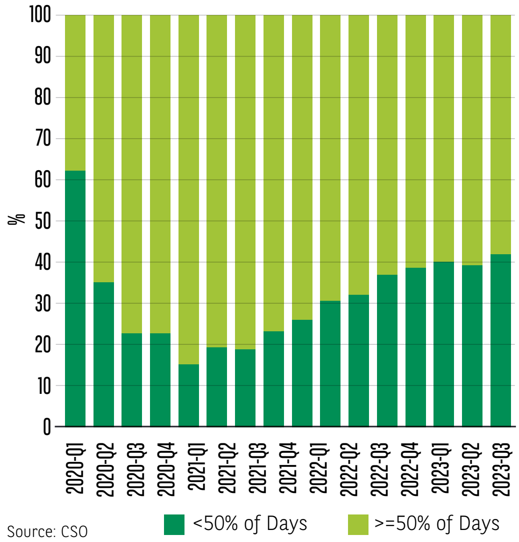
The LFS streams those who have indicated some home working into a follow-up question about how often they worked from home – at least half of their days or fewer than half? While the overall proportion working from home appears to have stabilised, Figure 5b illustrates an ongoing shift in the frequency of home-working within this group. The proportion spending more than half their days at home has gradually retreated from 25% to 20% since Q2 2022. Conversely, the proportion working fewer than half of their days from home has risen from 10.7% to 14.4% at present.

[3] Remote working: A quarter of Ireland's workers now operate from home most of the time – The Irish Times Ireland tops EU poll for working from home growth (rte.ie)

## FIGURE 5a:
## PROPORTION OF EMPLOYEES WORKING FROM HOME


Source: CSO

## FIGURE 5b:
## FREQUENCY OF HOME WORKING




Source: CSO

In summary, while the number of people working remotely appears to have stabilised, those who are doing so are increasingly spending more time in the office. If continued, this trend should support office demand in Dublin, independently of jobs growth.

A second factor that could unwind the reduced space-per-employee ratio is simply the passage of time. It seems likely that the sharp drop in the occupational density ratio reflects not only the assignment of less space to each newly recruited employee, but also a *post hoc* adjustment in the space that is allocated to existing employees. As the latter represents a once-off reboot which may now be complete (or at least well advanced), there is a prospect that the quantum of space that is allocated to new hires will now begin to naturally trend back up. Again, if this dynamic was to materialise, it would be supportive of office demand in Dublin.

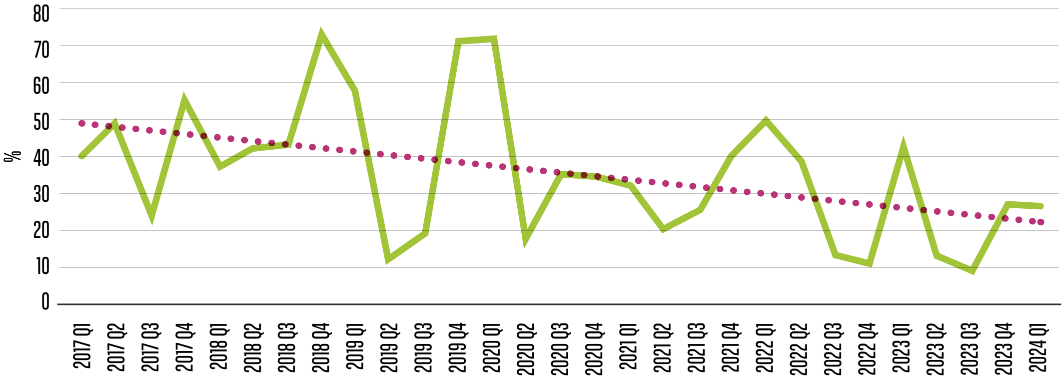
# TAKE-UP BY SECTOR

With such small numbers on the clock for Q1, there is a risk of over-analysing the sectoral distribution of activity. However, there was a surprising consistency in the leasing pattern. Financial services was the second biggest taker of space last year, and this sector led the way in Q1 with 38% of the pie. The largest transaction of the quarter was 2,560 sq m let by global reinsurance firm Renaissance RE at the newly built 60 Dawson Street in Dublin 2. Also in the top 5 of deals, Fidelis Insurance Ireland DAC took 1,115 sq m at 1 Park Place on Hatch Street, also in Dublin 2.

A key theme of the last 18 months has been the fall-off in tech leasing. ICT firms accounted for 51% of all the office space let in Dublin between 2017 and 2021. However their share has receded since the global tech shock of 2022 - albeit they remain the second biggest taker of space. Tech occupiers accounted for 26.6% of take-up in the opening quarter of 2024 – almost identical to the 26.7% recorded in Q4 2023.

Healthcare and pharmaceutical occupiers have consistently accounted for between 5% - 7.5% of take-up since 2021, and this continued in Q1 with these parties behind just over 7% of taken space. Meanwhile 'Industrial' occupiers (a broad church which, *inter alia*, includes manufacturing, construction and engineering entities), have regularly taken 1,000 – 2,000 sq m of Dublin office space per quarter. This continued in Q1 when they leased 1,617 sq m. However, as overall take-up has fallen these firms have naturally increased their market share, and they were responsible for 10% of the space taken in Q1, similar to their 11.5% in 2023.

## FIGURE 6: ICT SHARE OF DUBLIN OFFICE TAKE-UP



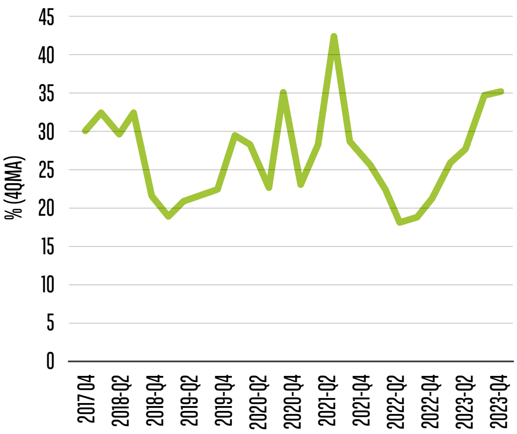

Source: BNPPRE

# TAKE-UP BY GEOGRAPHY

In a weaker market the bulk of activity typically concentrates in the city centre. However, this has not been evident in Dublin. In fact the suburban share of take-up has risen steadily since late 2022 (Figure 7a). One possible reason is that indigenous firms have a greater tendency to take space along the M50 corridor, and their market share has increased.

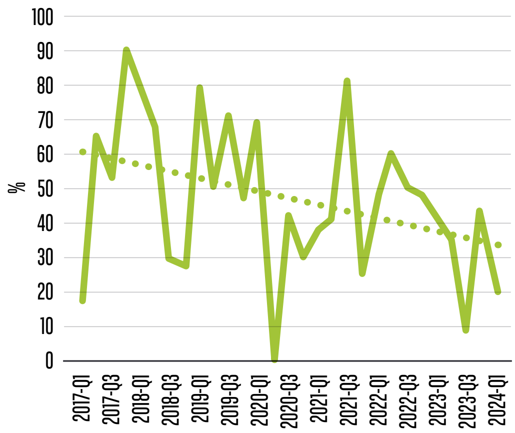
A deep dive shows that there has been a pronounced shift within the suburban locations themselves. Traditionally the south Dublin submarkets, which include Central Park / Leopardstown and Sandyford, have dominated the suburban take-up schedules. However there have only been six 500+ sq m lettings in south Dublin over the last year. In contrast there have been 26 such deals in the north and west suburbs. North of the Liffey, twelve deals have been done in Blanchardstown (accounting for over 5,400 sq m), with significant activity also in Santry and the Dublin Airport area. To the west, over 7,000 sq m has been leased in Citywest, with lettings also taking place in Ballymount, Parkwest and Tallaght. In a tight labour market where talent is harder to source and retain, this geographical shift may be partly related to high housing costs in south Dublin – we are aware of firms that have split their operations and expanded into the northside for this specific reason.

## FIGURE 7a: SUBURBAN SHARE OF TAKE-UP




Source: BNPPRE

## FIGURE 7b: SOUTH DUBLIN SHARE OF SUBURBAN TAKE-UP




Source: BNPPRE

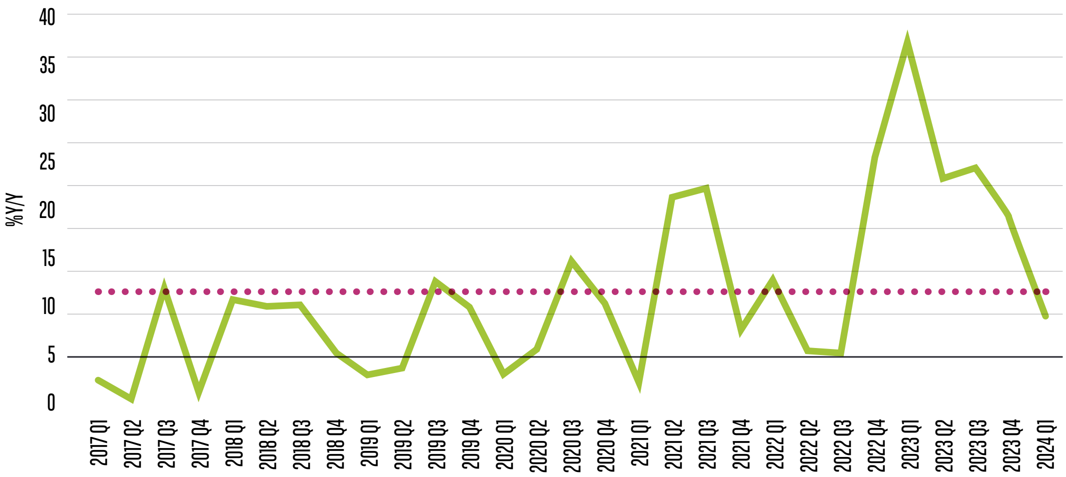
# NET ABSORPTION

While take-up is necessary for office absorption, sub-letting, movement within the market, and the nature of these moves all determine the extent to which this translates into 'net absorption' i.e. an increase in occupied space.

Following Covid many organisations found themselves with a surfeit of office space and sought to realign by sub-leasing / assigning these surpluses. However, while the onward letting of 'grey space' through the sub-leasing and assignment mechanisms counts as take-up, it cannot add to occupied space as it was already leased. Therefore the leasing of grey space creates a disconnect between market activity and overall office consumption.

In the 12 months between Q4 2022 – Q3 2023, sub-lettings / assignments accounted for 27% of all office space leased in Dublin, reducing the effectiveness of take-up in containing vacancy rate increases. However, the grey space peak appears to have passed, perhaps because occupiers which were minded to 'right-size' after the pandemic have now done so. As illustrated in Figure 8 the sub-leased / assigned share of take-up has steadily receded over the last four quarters, returning to below its long-term average in Q1.

## FIGURE 8: SUB-LETTING / ASSIGNMENT SHARE OF TAKE-UP

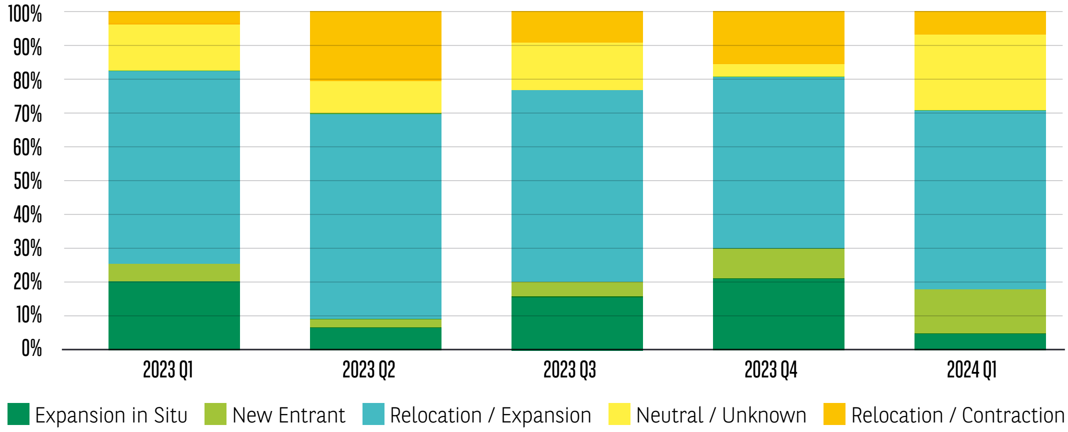



Source: BNPPRE

There are also tentative positives for the market in the composition of lettings. As previously outlined, there is a clear hierarchy in how different transaction types feed through to absorption;

1. New Entrants and Expansions in-Situ - At the most positive end of the sale, the space taken-up by new entrants and organisations which are expanding within their current buildings feeds-through to net absorption on a 1:1 basis.
2. Expansion by Relocation - Organisations moving to a bigger office also add to overall occupied space. However the net impact of these moves is partially offset by the fact that they are leaving vacated space behind.
3. Ownership Changes – Where the occupier stays in place, but the building's ownership changes, the impact on absorption is neutral. There are two classic cases; In a sale-and-leaseback the former owner will sign a new lease which is counted in take-up. But there is no change in occupied space. Paradoxically the opposite situation, in which a tenant buys the building it currently occupies, is also neutral for absorption; The purchase registers as take-up but, again, there is no change in the amount of occupied space.
4. Contraction by Relocation – Downsizing unambiguously subtracts from net absorption. This is because, by definition, more space is handed back than taken.

## FIGURE 9: TAKE-UP BY TENANT ACTIVITY




Source: BNPPRE

Figure 9 shows that the share of take-up accounted for by downsizers has progressively halved from 20.6% in Q2 2023 to 10.7% presently. As these are the only deals that subtract from occupied space, their declining market share is unambiguously positive.

There is no clear pattern in the remaining categories of activity. However, with the exception of the 'neutral' category, they all add in various degrees to occupied space, and so the overall picture is positive.

# SUPPLY AND VACANCY

Three large blocks which were scheduled for Q4 2023 delivery slipped into Q1, contributing to a surge in office completions. In total, 83,965 sq m were delivered across five buildings - more than in the entire of 2023. Blocks 2 & 3 Wilton Park (just over 27,000 sq m) are fully leased to LinkedIn, but are currently available to let by way of lease assignment or sub-leasing. Block N1 at Central Park in Leopardstown, Dublin 18 remained available at the end of Q1 (18,991 sq m), as did 4/5 Park Place on Harcourt Road, Dublin 2 and The Freight Building at Castleforbes Business Park, Dublin 1 (c. 18,500 sq m and 9,700 sq m respectively). In the third biggest leasing deal of the quarter BNPPRE acquired 1,231 sq m in the newly redeveloped 2 Grand Parade for Element Fleet Management – a new entrant to the market which will create 100 high quality jobs in Dublin. BNPPRE acquired a further 479 sq m for Hong Kong-based Clover Aviation Capital in the front block of this building after the quarter turned, leaving 7,400 sq m available at the time of writing.

As ever, the gross inflow of completions was partially offset by withdrawals due to demolition and adaptive reuse. Hoardings went up around Ballsbridge landmark Carrisbrook House in late March, and its redevelopment subtracts 3,758 sq m from the standing stock. Developers will have noted Dublin City Council's decision in April to refuse planning for the redevelopment of the old Citi Group building at 1 North Wall Quay, partially because the grounds for demolishing the exiting building were deemed insufficiently comprehensive. This may encourage others who are hoping to redevelop older blocks in Dublin to expedite demolition works, potentially accelerating the velocity of withdrawals from stock.

Given concerns about the supply of residential accommodation, the adaptive re-use of older office buildings as apartments has attracted considerable attention. While isolated examples of successful office-to-residential conversions exist, the technical and commercial obstacles to such schemes can be challenging. In practice, therefore, the main focus of repurposing activity has been on conversion to hotel, education and health / medical uses. Works began in Q1 on repurposing Telephone House in Marlborough Street as an aparthotel, deducting a further 7,154 sq m from Dublin's office stock. Several similar office-to-hotel conversions are mooted for the future, notably 1-3 Westmoreland Street which received planning in late 2021 for conversion to a 38-bed hotel, the former Ulster Bank offices at 33 College Green (5,840 sq m) which has reportedly been bought by the McGill family for reuse as a hotel, and 5-9 South Frederick Street (2,134 sq m) which is being marketed with a feasibility study for conversion to hotel use, subject to planning consent. In terms of conversion to other uses, the Dublin Academy of Education applied for planning permission in February to change the 2,572 sq m Frascati House in Blackrock from offices to educational, while the Health Service Executive has reportedly been successful in buying the 17,000 sq m Seamark building at Elm Park, which could now potentially find its way into medical use.

Despite the Q1 withdrawals, and an improved pass-through between take-up and net absorption, the combination of weak top-line leasing and surging completions ensured that net additions to stock overwhelmed the absorption of office space in the opening quarter of 2024. This caused vacancy to jump from 13.1% to 14.5%.

## RENTS AND LEASE TERMS

Prime headline rents remained at €673 per sq m per annum in Q1 – unchanged since June 2022. However, with inflation deducting 7.3% from the value of money over the last 21 months, this represents a material reduction in real terms. Moreover, increased rent-frees, shortening lease terms and earlier breaks betray the fact that market conditions have moved in favour of tenants.

## OUTLOOK

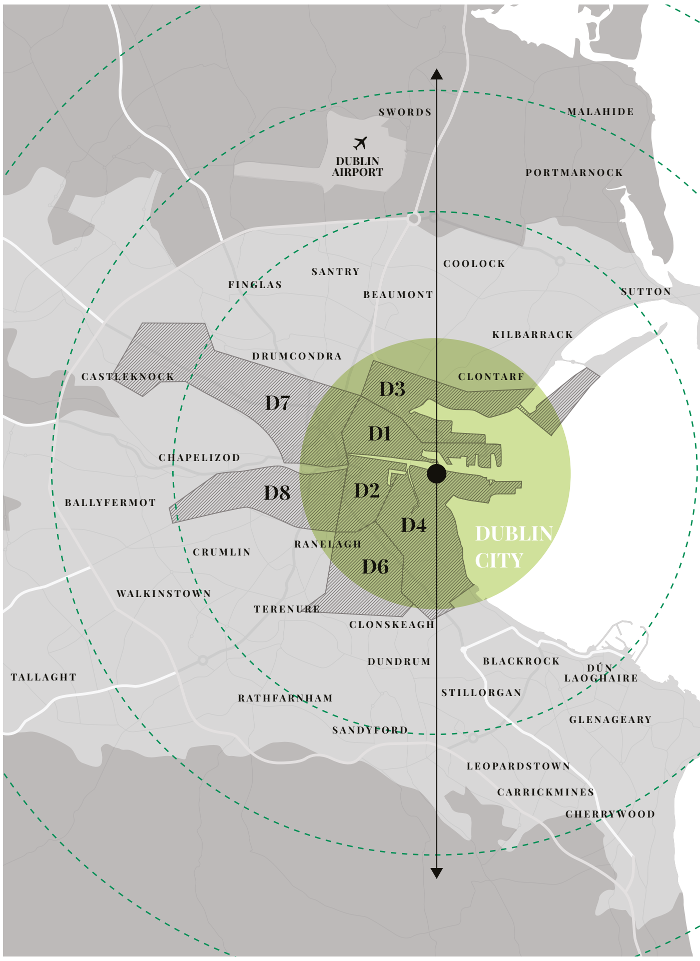
Although Q1 leasing undershot expectations, nothing in the first quarter of 2024 has materially changed the dial. Dublin's office market is oversupplied and will become more so over the next 18 months. On the supply side, in addition to the 84,286 sq m delivered YTD, over 300,000 sq m of further space is on-site for delivery by end-2025. Unforeseen delays mean some of this will inevitably drift beyond 2025. And further demolitions and changes-of-use will go some way to dampening the impact of new deliveries on overall supply. Nonetheless, within the range of plausible demand scenarios, it is highly unlikely that absorption will match net completions over this period. This will cause vacancy to rise further. Currently, our modelling suggests that peak vacancy will land at between 16.5%-17% of stock in late 2025. In historical context this would not represent a particularly severe downswing. For example, after the Global Financial Crisis, the office vacancy rate in Dublin rose to over 23%.

This notwithstanding, the path back to level-par could be more drawn-out than in previous recovery cycles. The quantum of space in legals rose by 25% in Q1, which holds promise for a pick-up in leasing as the year goes on. However, this is coming from a very low base and, for a meaningful recovery, the tech leasing go-slow will have to ease-up. The industry's current focus on cost-cutting and developing AI platforms has been a short-term obstacle to expansion in Dublin. However, news that Alphabet has identified Dublin as one of a small number of its global finance hubs is a vote of confidence and reflects that Dublin has now become a well-established and mature tech location.

A second factor that could slow the recovery is the office space-per-employee ratio. In the face of weak leasing, this ratio slipped further in Q1. However, while it is premature to call a reversal of the decline in occupational density since Covid, hard evidence is now emerging that a return-to-the-office is underway. Furthermore the pull-back in grey space suggests that right-sizing is now well advanced, potentially also taking downward pressure off the space-per-employee ratio. Again, this augurs well for a gradual improvement in absorption as the year progresses.

**The suburban share of take-up has risen steadily and, within this, THERE HAS BEEN A PRONOUNCED SHIFT FROM THE SOUTHSIDE TO THE NORTH AND WEST.**

**WEAK LEASING AND STRONG COMPLETIONS caused a sharp vacancy increase from 13.1% to 14.5%.**




## 2024 Q1 Take-Up

# 16,310 sq m

| DUBLIN CITY (DUBLIN 1,2 and 4) | DUBLIN FRINGE (DUBLIN 3,6,7 and 8) | SUBURBS |
|---|---|---|
| 8,194 sq m | 1,941 sq m | 6,175 sq m |
| 50.2% | 11.9% | 37.9% |

“Leasing activity in Dublin is lagging behind the basket of European peers due to tech sector inactivity and high levels of remote working within the sector. However Dublin’s office market has greatly benefited from globalisation and the city’s establishment as a major technology hub, and will continue to do so over the long-run”

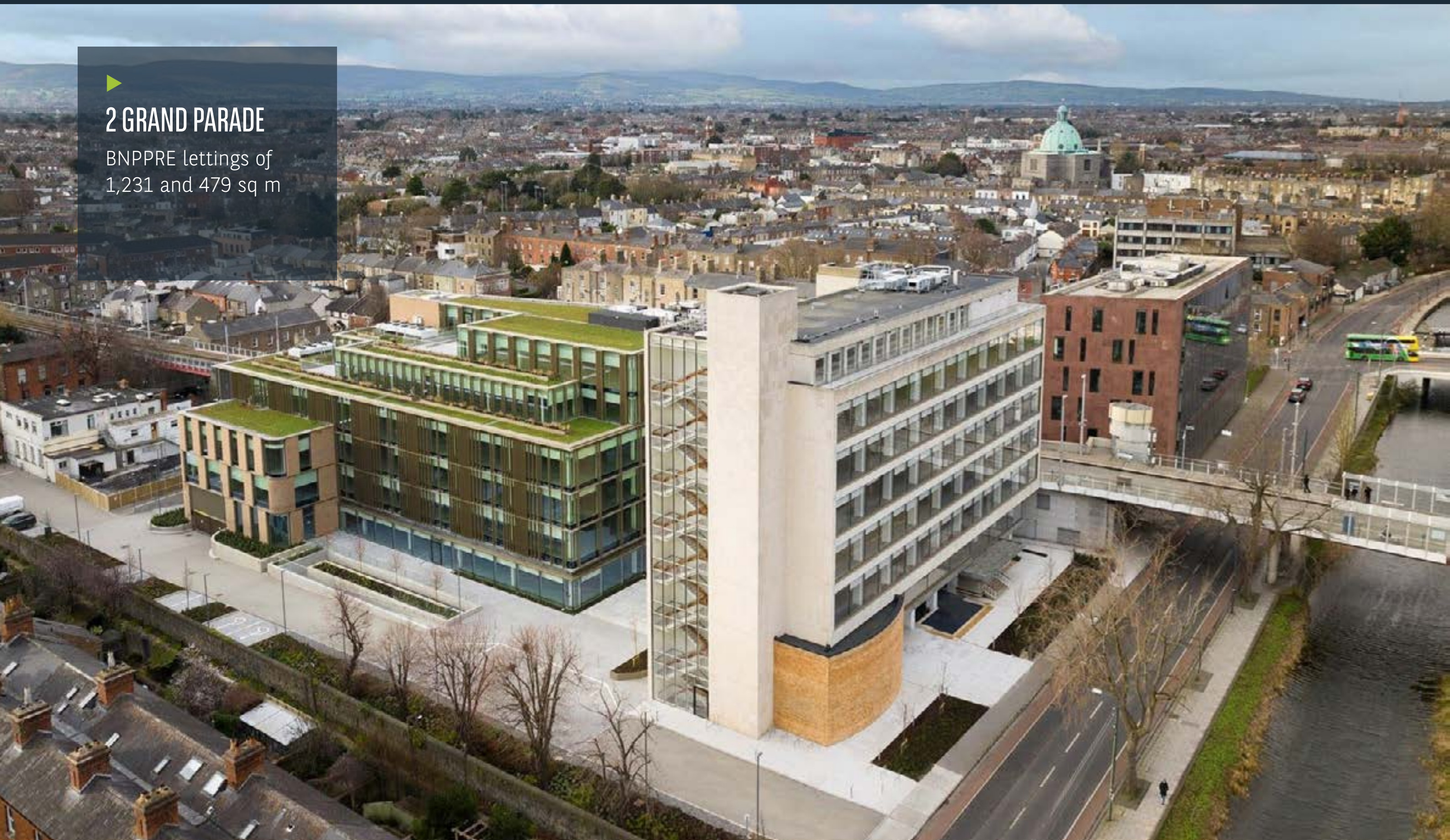
**JOHN MCCARTNEY**
Director of Research,
BNP Paribas Real Estate Ireland

“Q1 has been a particularly slow quarter. However, office leasing is naturally cyclical and there are clear signs that activity is picking-up. Reserved space jumped considerably in Q1, enquiries are up and a number of key letting announcements bode well for an improvement later in the year”

**KEITH O’NEILL**
Executive Director,
Head of Office Agency,
BNP Paribas Real Estate

# TOP 10 DEALS Q1 2024

| | BUILDING | LOCATION | TENANT | SQ M |
|---|---|---|---|---|
| 1 | 60 Dawson Street | Dublin 2 | Renaissance RE | 2,560 |
| 2 | Fourth Floor, Block E/F George's Quay | Dublin 2 | Personio | 1,652 |
| 3 | 2 Grand Parade | Dublin 6 | Element Fleet | 1,231 |
| 4 | 7th Floor, 1 Park Place, Hatch St. | Dublin 2 | Fidelis Insurance Ireland DAC | 1,115 |
| 5 | Part 2nd Floor, The Observatory, 7 Sir John Rogerson's Quay | Dublin 2 | Shutterstock | 750 |
| 6 | 2 Stemple Exchange, Blanchardstown Corporate Park | Dublin 15 | Blue Insurance | 713 |
| 7 | Block 3, Richview Office Park | Dublin 14 | O'Leary's Insurance | 680 |
| 8 | Dublin Airport Business Park | Dublin 9 | Arachas | 620 |
| 9 | Swords Business Campus, Unit 3A | Co. Dublin | Oasis | 580 |
| 10 | 1st Floor, 3018 Lake Drive, 3018 Lake Drive, Citywest | Dublin 24 | Schneider Electric | 578 |



## 2 GRAND PARADE

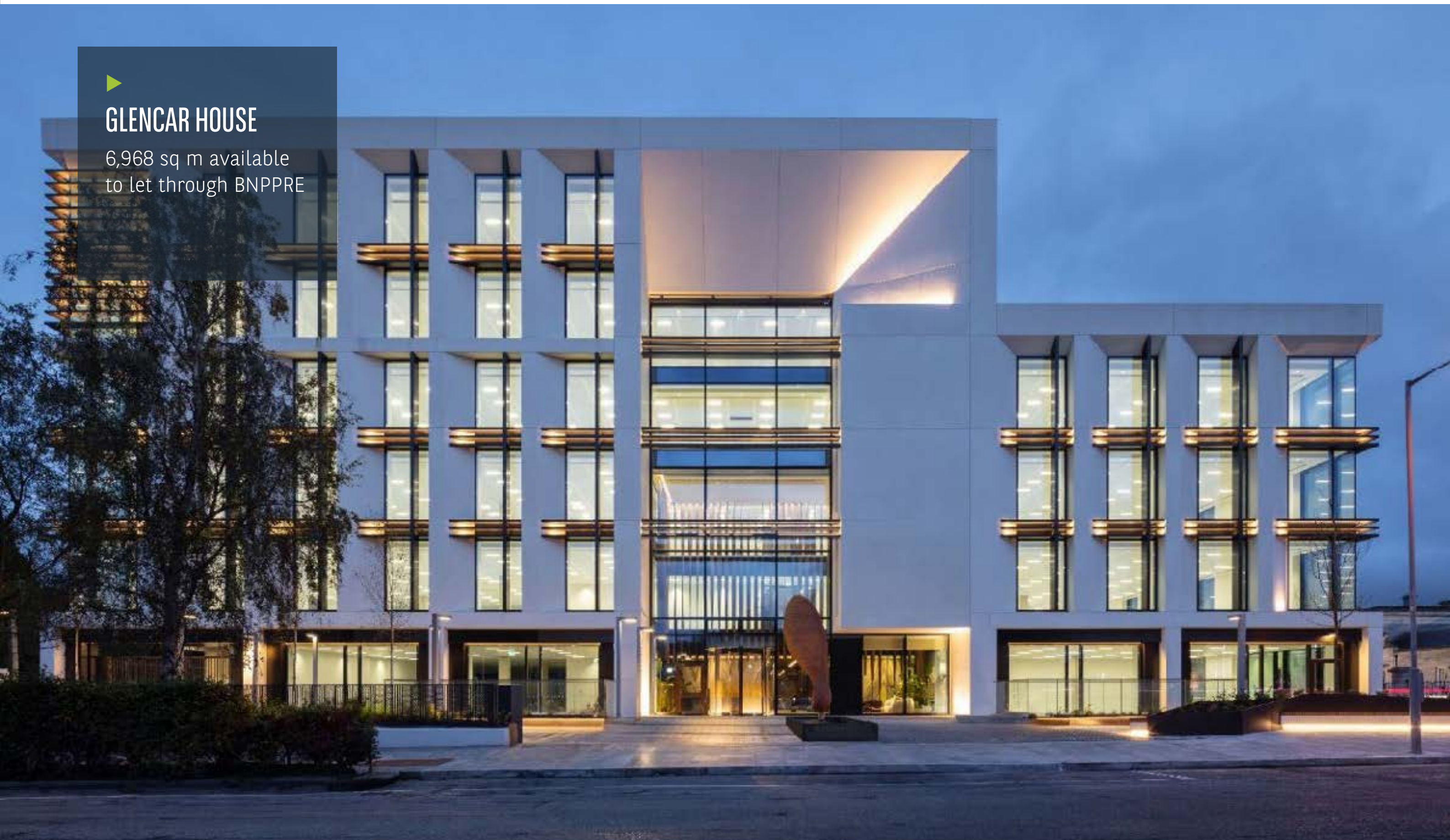
BNPPRE lettings of 1,231 and 479 sq m

| | CITY CENTRE | SUBURBS |
|---|---|---|
| Highest Rents | €640 per sq m pa | €344 per sq m pa |
| Number of Deals | 12 | 15 |
| Average Deal Size | 683 sq m | 412 sq m |
| Typical Lease Term | 15 years | 10 years |
| Typical Lease Break | 5 years | 5 years |
| Typical Rent Free | 12-18 months | 18-24 months |

* Grade A sustainable buildings.

## SPACE TAKEN BY DEAL SIZE AND LOCATION

| | <500 SQ M | 500 / 999 SQ M | 1,000 / 1,999 SQ M | 2,000 – 4,999 SQ M | 5,000 – 9,999 SQ M | >=10,000 SQ M |
|---|---|---|---|---|---|---|
| City Centre | 7 | 2 | 2 | 1 | 0 | 0 |
| City Fringe | 2 | 1 | 0 | 0 | 0 | 0 |
| Suburbs | 7 | 8 | 0 | 0 | 0 | 0 |



GLENCAR HOUSE

6,968 sq m available to let through BNPPRE

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