Q2 DUBLIN OFFICE MARKET 2024

ONE WILTON PARK

Image courtesy of IPUT Real Estate Dublin

BNP PARIBAS REAL ESTATE

Q2 2024 KEY TRENDS

Significant rebound in Q2 with 86,250 sq m taken
BUSIEST QUARTER FOR TWO-AND-A-HALF YEARS

Leasing cycle most likely
BOTTOMED-OUT IN Q1

Accumulating evidence that the
REMOTE WORKING HEADWIND IS ABATING

STRONG FLOW OF NEW COMPLETIONS CONTINUES
with 70,729 sq m delivered

Demand upswing
INSUFFICIENT TO ABSORB ADDITIONAL SUPPLY

VACANCY RISES
from 14.5% to 15.2% of stock

OVER 250,000 SQ M OF FURTHER SPACE
scheduled for delivery by end-2025

PIPELINE SLOWS ABRUPTLY AFTER 2025
clearing a path for vacancy to recede

MARKET ACTIVITY

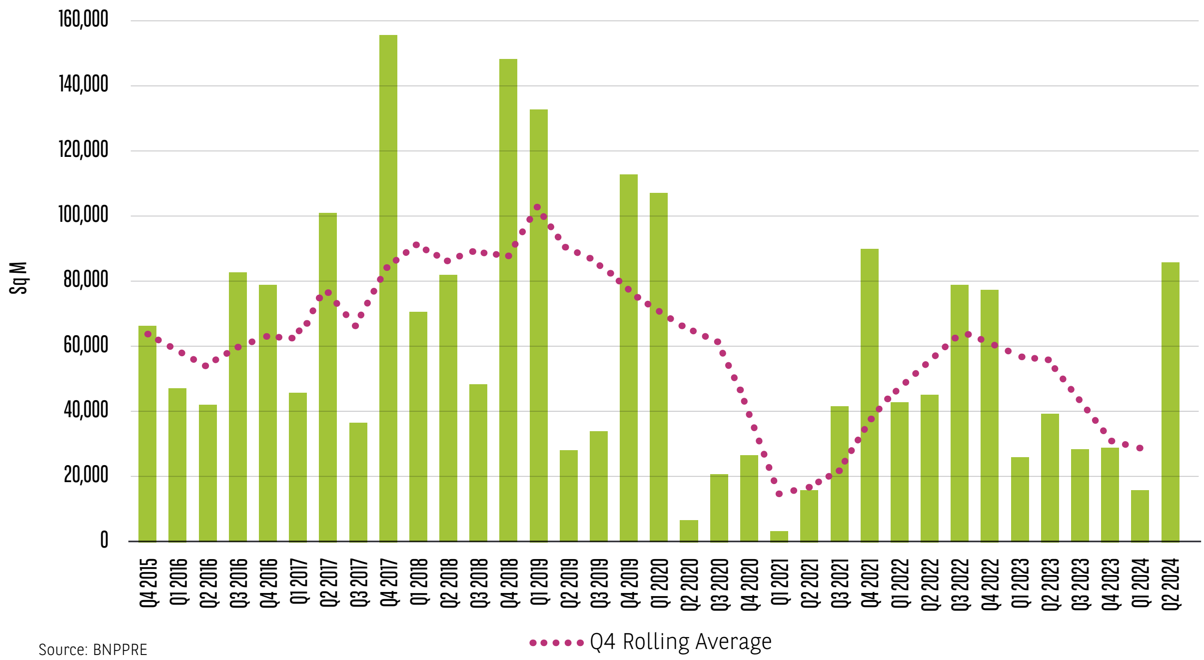
JOHN MCCARTNEY
Director & Head Of Research
BNP Paribas Real Estate

After an exceptionally slow start to 2024 office leasing rebounded in Q2 with 86,250 sq m of space taken-up. This was the highest quarterly figure since Q4 2021 when activity was propelled by both end-of-year seasonality and a post-covid employment surge that created over 53,000 desk-based jobs in Dublin. The Q2 rebound breaks a run of five successive quarters when take-up undershot the 10-year quarterly average of 60,000 sq m. Several large transactions drove the average deal size from 544 sq m in Q1 to 1,725 sq m in the second quarter, but agents were also boosted by a pick-up in the number of deals from 30 to 50.

86,250 sq m

TAKEN-UP IN **Q2**

FIGURE 1: OFFICE MARKET TAKE-UP - DUBLIN



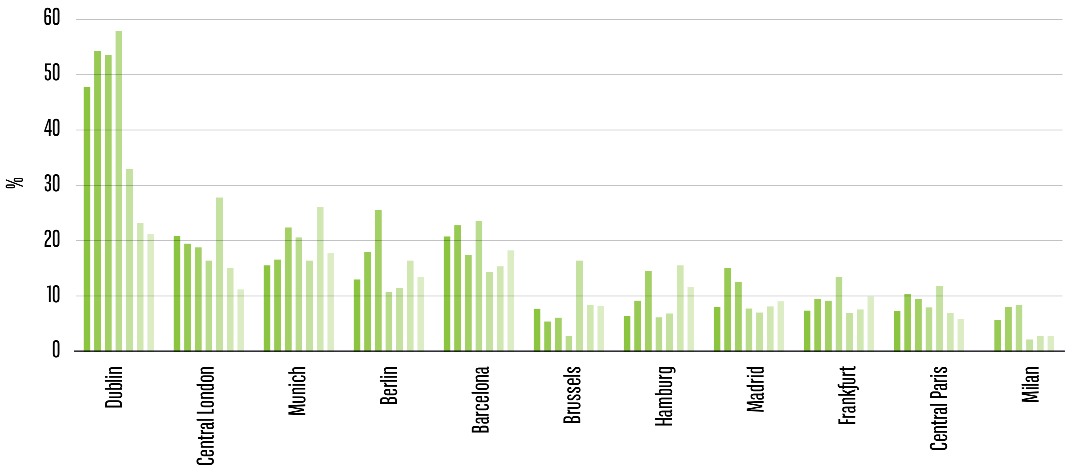
Source: BNPPRE

TAKE-UP BY SECTOR

Dublin's office market comprehensively underperformed its European peers over the six quarters leading-in to Q2, with average take-up down by 32% compared with a 12% decline across 62 European markets tracked by BNP Paribas Real Estate.[1]

One reason for this is Dublin's reliance on tech occupiers who, because of a focus-shift to data infrastructure and AI platforms, have become much less active in global leasing markets. As illustrated in Figure 2, tech accounted for 53% of Dublin's office take-up between 2017-2021 – a far greater proportion than in most major European cities. Inevitably, given this context, the global slowdown in tech leasing has disproportionately impacted Dublin's market.

FIGURE 2: TECH SHARE OF OFFICE TAKE-UP 2017 - 2023

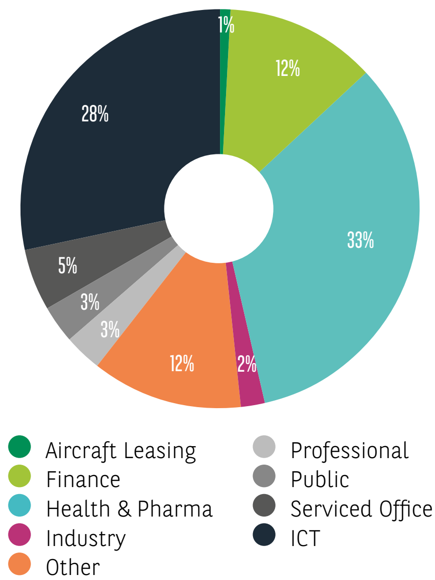


Source: BNPPRE

Despite the slowdown, however, Information and Communications Technology (ICT) remains an important part of Dublin's tenant mix, and the sector accounted for 28% of Q2 take-up. Local success-story Stripe led the way, taking almost 14,500 sq m at One Wilton Park under lease assignment from LinkedIn. Global ICT brands Bloomberg, SAP and Fujitsu also took space during Q2.

However the quarter's biggest deal the was in the health / pharmaceutical sector with the HSE purchasing the 16,940 sq m Seamark Building at Elmpark Green (south east city fringe). The HSE has now taken over 48,000 sq m of Dublin office space since the start of 2018. Other significant health / pharma deals in Q2 involved drug companies APC and PTC Therapeutics. The former pre-let 5,574 sq m at Building G3, Cherrywood, expanding its existing space in this location to create a medicine accelerator campus. The latter relocated to a larger office of just over 1,000 sq m at 52-55 Sir John Rogerson's Quay in Dublin 2.

FIGURE 3: Q2 TAKE-UP BY SECTOR



Source: BNPPRE

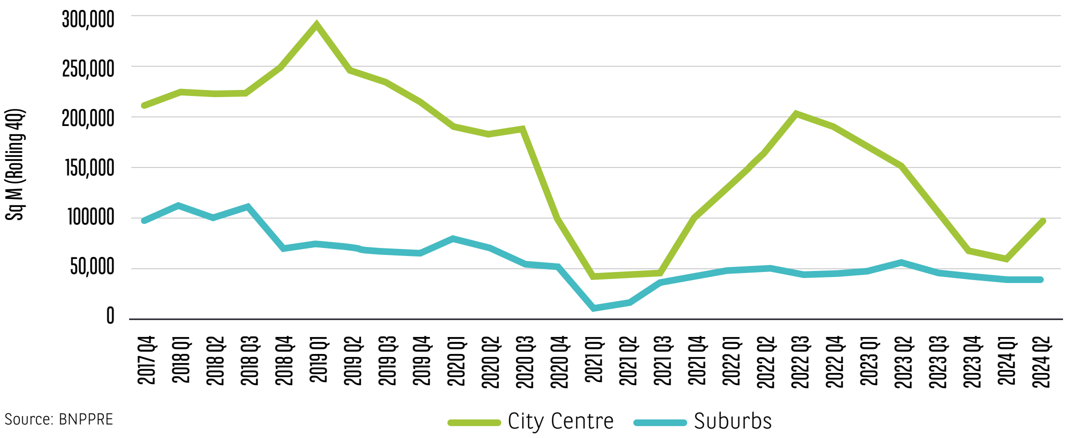
[1] Average take-up between Q4 2022 – Q1 2024 vs preceding 6-quarter period. Dublin ranked 51st among the 62 locations on this comparison.

Financial services is a mainstay of Dublin's office market and its importance increased during 2022 and 2023 as ICT leasing retreated. The sector took 10,187 sq m in Q2, equating to 12% of total take-up. This is well down on last year's 17% but broadly in line with the long-term average of 13.6%. The highest profile financial services letting was by BNY (formerly BNY Mellon). The US bank signed a lease for 7,332 sq m over four floors at the Shipping Office on Sir John Rogerson's Quay where it intends to consolidate staff from its two existing Dublin offices.

TAKE-UP BY LOCATION

The suburban share of take-up rose steadily through 2023 and Q1 2024. With the global tech brands less active, indigenous firms' market share naturally rose, and they are more likely to seek suburban space along the M50 corridor. However this trend reversed again in Q2 as the quarter's biggest deals landed in city centre and city fringe locations.

FIGURE 4: CITY CENTRE VS SUBURBAN TAKE-UP



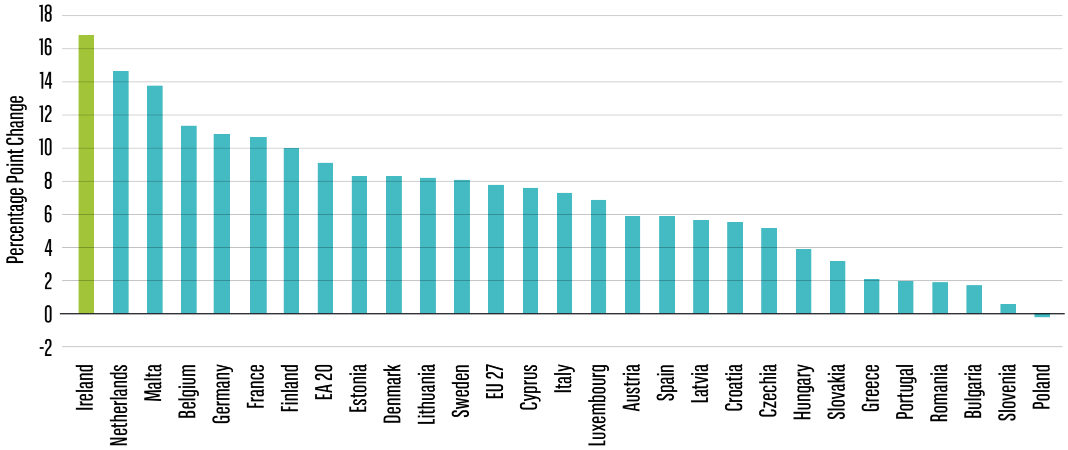
Source: BNPPRE

As outlined in our previous report, the north suburbs has been on a particularly strong run in recent quarters. The largest transaction in this location during Q2 was a 3,948 sq m deal by the HSE at Unit 1 Swords Business Campus. The south suburbs has traditionally been Dublin's most active suburban market, but it has come through quite a challenging period. Therefore a welcome development in Q2 was the signing of two sizeable deals in Dublin 18 - the aforementioned 5,574 sq m pre-let by APC in Cherrywood, and a 1,836 sq m letting by John Paul Construction at Termini, Sandyford.

REMOTE WORKING

If reduced tech activity represents one big reason for the Dublin market's relative underperformance, the mainstreaming of remote working represents the other. After the onset of Covid-19 the proportion of employees across all sectors who were working remotely spiked to 44%. This figure quickly receded again after the pandemic health restrictions were relaxed in Q2 2021. Critically, however, it did not revert to its pre-Covid level of around 15%. Instead, it settled at 34% where it has remained since Q3 2022. This does not put Ireland at the top of European remote working locations – it lies 6th in that league table behind the Netherlands, Sweden, Finland, Luxembourg and Denmark. However in terms of the pre to post-Covid swing, Ireland has been the EU's most enthusiastic embracer of remote working. As shown in Figure 5, Ireland experienced a 16.8 percentage point increase in the proportion of employees working remotely between 2019 and 2023, compared with an EU average of 7.8 points.

FIGURE 5: CHANGE IN PERCENTAGE OF EMPLOYEES WORKING FROM HOME 2023 VS 2019



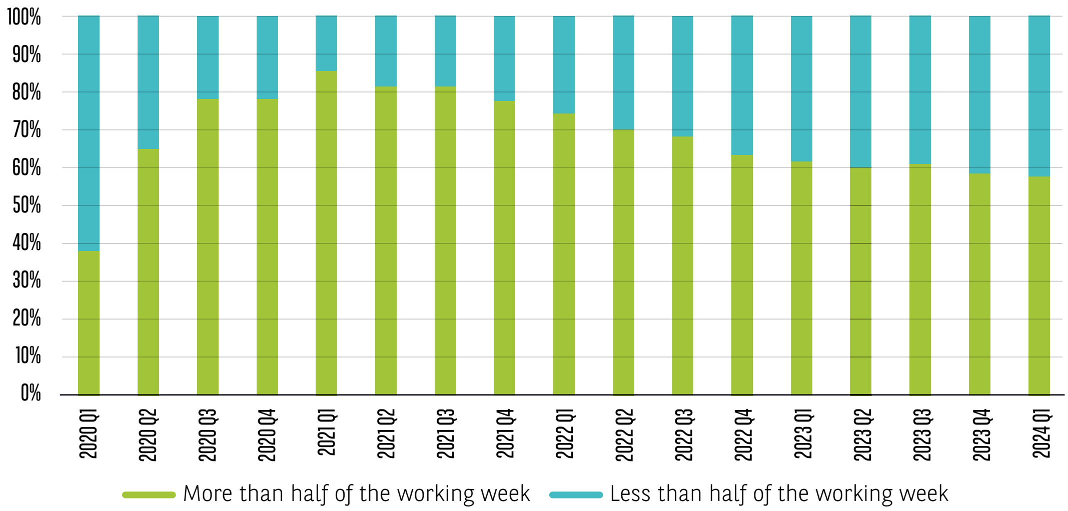
Source: Eurostat

The adoption of hybrid and remote work reflects aspects of Ireland's economy that are quite positive – including its young, tech-proficient workforce, the high weighting of internationally traded services within the economic structure, and widespread access to good-quality broadband. Nonetheless, it has dragged on office demand.

The space-per-employee ratio helps us to quantify this. Taking the increase in occupied space across the entire market between 2012-2019, and dividing by the number of desk jobs that were created over the same period, reveals a space-per-employee ratio of 10.3 sq m in the pre-Covid era. However, when this exercise is repeated for the post-Covid period, the ratio drops below 3 sq m. This indicates that every additional service sector job is now associated with less than one third of its pre-pandemic space.

However emerging evidence suggests that the drag on office demand from remote working may now be abating. While the proportion of employees working remotely has stabilised at 34%, Labour Force Survey data show that those who are doing so are gradually spending less time offsite and more time in the office. As shown in Figure 6, the proportion of remote workers who spend most of their working week at home has fallen in 10 of the last 12 quarters. If this process continues it should lead to a gradual recovery in the office space-per-employee ratio.

FIGURE 6: FREQUENCY OF REMOTE WORKING



Source: CSO

A second factor that could support the space-per-employee ratio is simply time. The post-Covid intensification of office use reflects not only a lower space allocation to newly recruited employees, but also a post hoc adjustment in the allocation to existing employees who became less present onsite. As the latter represents a once-off adjustment which may now be complete (or at least well advanced), downward pressure on the space-per-employee ratio from this source may also now be beginning to recede.

NET ABSORPTION

Two factors impact the extent to which gross take-up converts into 'net absorption' i.e. an increase in occupied space. The first of these is the share of subleased / assigned space within take-up.

Following Covid many organisations were overstocked with office space. For those that were locked-into lease contracts, sub-letting / assignment provided the escape route. Particularly when it is modern and fitted-out, this 'grey space' can be a cost-effective option for new occupiers and, as it gets re-let, it is captured in the quarterly take-up figures. Critically, however, it contributes nothing to net absorption as only the occupier's identity changes - the amount of rent-producing occupied space remains unaltered. In this sense, grey space drives a wedge between take-up and overall office consumption.

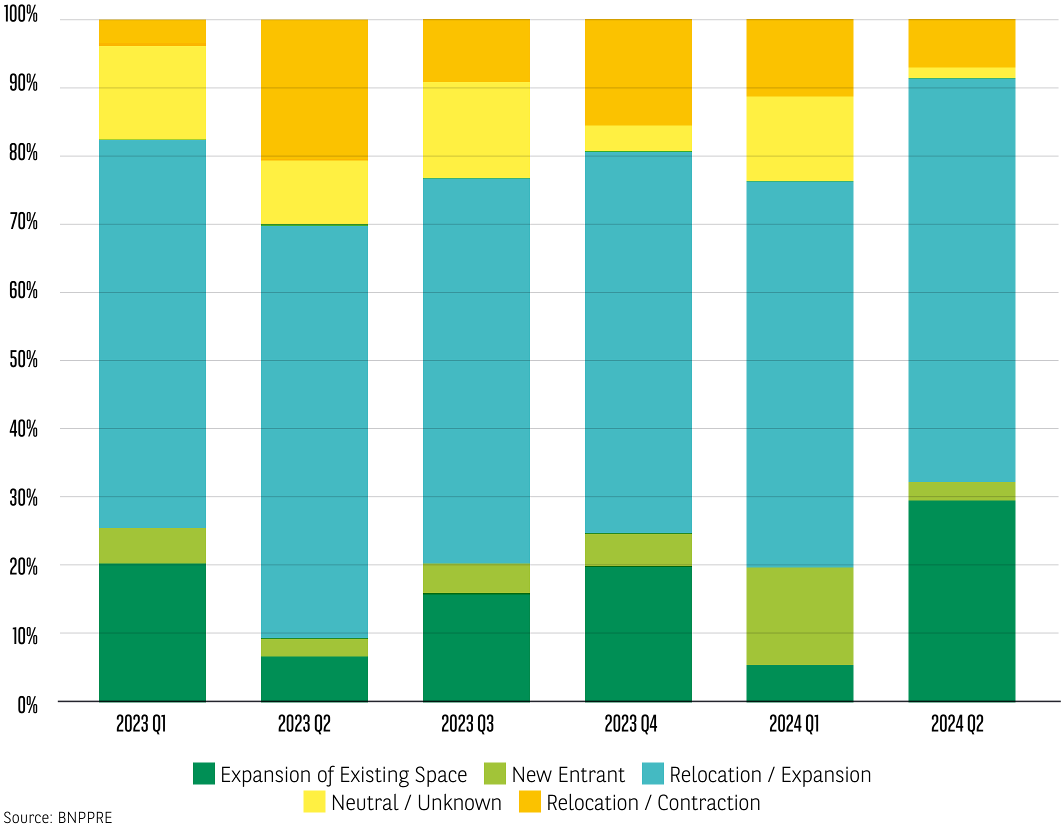
After Covid it took time for HR departments to think-through their hybrid strategies. Once these decisions were made, however, a glut of tenant-offered grey space flowed onto the market in 2022 and 2023. As this got re-let the subleased / assigned share of take-up surged to 37.5% in Q1 2023. However, with the initial glut now worked-through, the subleased / assigned share has been gradually retreating again. This trend was bucked by one large deal in Q2 – the assignment of 14,493 sq m at One Wilton Park to Stripe. However this does not reflect a pick-up in grey space flowing onto the market – LinkedIn made its space at Wilton Park available some time ago, so this deal is really the residual of an earlier trend. As shown in Figure 7, without the Stripe deal, the letting of grey space continues to trend lower. This is beneficial to the market as it increases the rate at which take-up eats into the overhang of vacant space.

FIGURE 7: SUB-LETTING / ASSIGNMENT SHARE OF TAKE-UP

Source: BNPPRE

A second factor which determines the conversion rate between take-up and net absorption is the composition of lettings. There is a clear hierarchy in how different types of tenant activity feed through to absorption. And, as shown in Figure 8, the market has been gradually moving towards those activity types that contribute more to occupied space.

FIGURE 8: TAKE-UP BY TENANT ACTIVITY



Source: BNPPRE

THE SHIPPING OFFICE

7,332 sq m let to BNY in Q2

Unsurprisingly, as the motivations are similar, downsizing is on a parallel trend to subletting / assignment. Organisations that were overstocked with office space following Covid, but which were unencumbered by long lease commitments, were free to move to smaller space. This time last year, downsizing accounted for more than one-fifth of the leased space. Since then, however, this proportion has been trending lower, and it only accounted for 6% of Q2 2024 take-up. As with grey space, the most likely explanation for this decline is that many organisations that were minded to offload space after the pandemic have now already done so.

Equally positively, new entrants and expansions of existing space have been on an upward trend, progressively rising from 9.25% of lettings one year ago to over one third of a much larger total in Q2 2024. These deals add to occupied space on a 1:1 basis with no offset from vacated space being put back on the market. Again, this points to an enhanced pass-through rate between take-up and net absorption.

SUPPLY AND VACANCY

As predicted in our last report, the strong development momentum of Q1 carried through to mid-year. Four blocks were signed-off as complete in Q2, comprising 70,729 sq m in total. These include two campus-scale developments which have now been fully delivered. In the north docks Kennedy Wilson's Coopers Cross scheme is now complete, providing over 35,000 sq m of high specification space. Meanwhile, in the core CBD, IPUT delivered the final part of its Wilton Park campus with the completion of Block 4. Simultaneously Marlet finished College House, the first phase of its College Square campus, with its sister block Longstone House scheduled to complete in Q3. Together these buildings will supply almost 40,000 sq m of prime space in the heart of Dublin's CBD close to Trinity College.

Withdrawals of older space due to demolitions and changes-of-use represent an important, but often overlooked, piece of the analytical matrix. Irish Life began demolition of 1 Adelaide Road in Q2 amid continuing expectations that this site is earmarked for the development of Deloitte's new headquarters. This removes approximately 6,000 sq m from the standing stock which acts as a partial offset against the gross flow of new completions.

Despite the withdrawal of this building, strong letting activity and an improved pass-through between take-up and net absorption, demand could not keep-up with the increase in total stock arising from Q2 office completions. As a result, vacancy rose further from 14.5% in Q1 to 15.2% by end-June.

RENTS AND LEASE TERMS

Prime headline rents remain at €673 per sq m per annum – where they have been for two years. With inflation deducting 8.5% from the value of money over this period, this represents a material reduction in real terms. Moreover, increased rent-frees, shortening lease terms and earlier breaks betray the fact that market conditions are continuing to favour tenants.

OUTLOOK

After a sluggish 15 months, activity in the Dublin office market rebounded in Q2. Agents have been quick to call a recovery and they may be justified in doing so; With Q1 setting an exceptionally low base, and in the context of a strengthening economy, it is quite likely that the leasing cycle has already bottomed-out. The fact that a number of existing large office requirements remain unfulfilled, new requirements have recently emerged, and EY has announced the establishment of its new Dublin headquarters at Wilton Park, only reinforces this perception. In saying this, leasing recoveries are typically non-linear, and our expectation for the quarters immediately ahead should be somewhat tempered by a 37% drop in reserved space during Q2.

While improved leasing activity is a critical first step in the right direction it is, however, only part of the story. Letting agents, who are influential stakeholders, make their money from transactions. Therefore take-up is their natural focus. But investors and landlords must have regard to a wider set of metrics – including vacancy and rents. Although take-up is now likely to follow a generally positive trend, our view is that demand will not be sufficient to match the glut of new office supply that is coming onstream by end-2025. As such, the top of the vacancy cycle is likely to post-date the bottom of the leasing cycle by approximately 18 months.

Nearly 140,000 sq m of additional stock has been delivered in Dublin over the first half of 2024 – net of demolitions and changes-of-use. Ten buildings, incorporating a further 110,000 sq m, are currently onsite and scheduled for completion in the second half. Looking ahead to 2025, a further seven projects, comprising over 140,000 sq m, are scheduled for delivery. Having recently visited all of these sites we can confirm that building (as distinct from site clearance) work is advancing in all cases. In a market of just 4.3m sq m this is a significant quantum of new supply to digest.

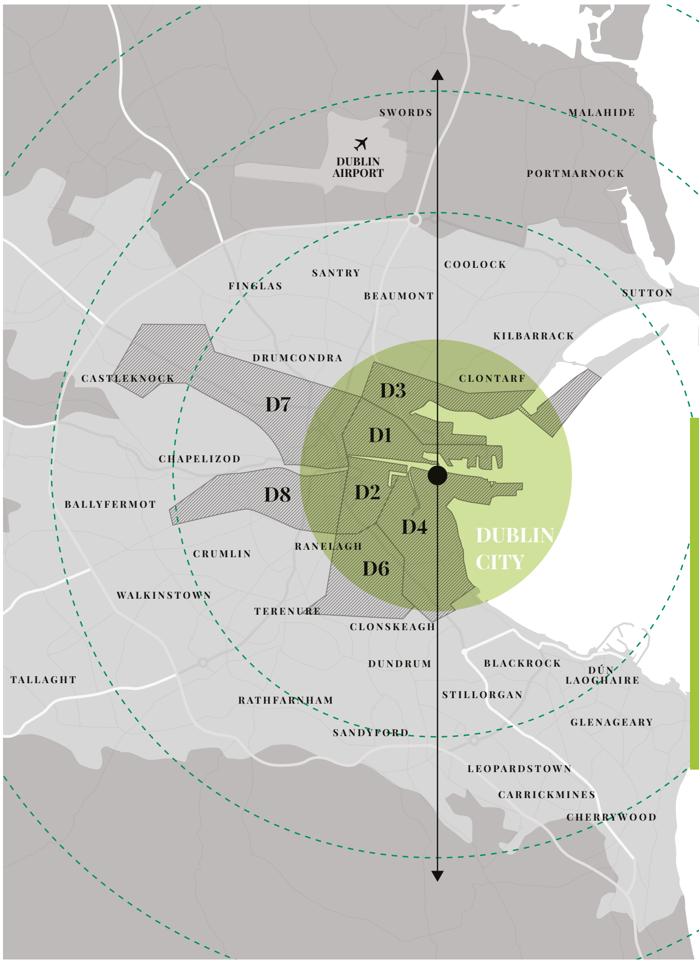
With 103,000 sq m of take-up banked before half-time, and with a further 48,000 sq m in legals, 2024 is clearly going to be a stronger year for office leasing than 2023 when only 123,613 sq m was taken. We are therefore sticking with our forecasts that 170,000-200,000 sq m will be taken over this full-year, with a further modest increase in 2025

Despite the increasingly positive demand outlook, and recent news that US software firm Workday will meet its requirement from existing stock rather than building its own EMEA headquarters in Dublin,[3] our view remains that the net additional space which is coming over the next 18 months will not be fully digested in real time. Therefore we are forecasting vacancy to continue rising towards a peak of between 16.5% and 17% in late 2025. This will keep downward pressure on effective rents throughout this period. However, the pipeline of new development reduces very sharply after 2025, paving the way for vacancy to recede thereafter.

While the proportion of employees working remotely in Ireland has stabilised,
THE EVIDENCE IS THAT THOSE WHO ARE DOING SO ARE GRADUALLY SPENDING MORE TIME BACK IN THE OFFICE

TAKE-UP ROSE BY 119%
year-on-year in Q2

[3] Having previously applied for planning consent to build its own 51,955 sq m EMEA headquarters Workday changed course in April, announcing it will now meet its requirement from existing stock. This is a major windfall gain for the market as a significant quantum of overhanging vacant space will now be unexpectedly digested.



2024 Q2 Take-Up

86,250 sq m

DUBLIN CITY (DUBLIN 1,2 and 4)	DUBLIN FRINGE (DUBLIN 3,6,7 and 8)	SUBURBS
51,391 sq m	19,103 sq m	15,756 sq m
59.5%	22.2%	18.3%

“Improved take-up is necessary, but not sufficient, for a full market recovery. Office demand is clearly strengthening. But the near-term construction pipeline is large and this will drive vacancy higher despite the leasing cycle having passed rock-bottom”

JOHN MCCARTNEY
Director of Research,
BNP Paribas Real Estate Ireland

“The last 18 months have been challenging, but agents can sense that the market has bottomed-out and activity is beginning to pick-up. Vibrancy is also returning to city centre locations as the balance of hybrid work-patterns is gradually shifting back to the office”

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

TOP 10 DEALS Q2 2024

	BUILDING	LOCATION	TENANT	SQ M
1	The Seamark Building, Elmpark Green	Dublin 4	HSE	16,940
2	One Wilton Park	Dublin 2	Stripe	14,493
3	The Shipping Office, Sir John Rogerson's Quay	Dublin 2	BNY Mellon	7,332
4	Building G3 Cherrywood	Dublin 18	APC	5,574
5	3-8 Hume Street	Dublin 2	Iconic Offices	4,531
6	One Charlemont Square	Dublin 2	Mark Anthony Brands	4,058
7	Unit 1 Swords Business Campus	Co. Dublin	HSE	3,948
8	One Charlemont Square	Dublin 2	Bloomberg	2,269
9	Fifteen George's Quay, George's Quay	Dublin 2	MUFG	2,006
10	Termini, 3 Arkle Road, Sandyford	Dublin 18	John Paul Construction	1,836

COOPERS CROSS

c. 35,000 sq m of Grade A office space in Dublin 1 completed in Q2.

Image courtesy of Kennedy Wilson

TOP DEALS

	CITY CENTRE	SUBURBS
Highest Rents	**€710 per sq m pa** (Part 7th floor, Block C, One Park Place, Hatch St. Dublin 2)	**€344 per sq m pa** (Unit 7, Block 8 Blanchardstown Business Park, Dublin 15)
Number of Deals	32	13
Average Deal Size	1,606 sq m	1,212 sq m
Typical Lease Term	15 years	10 years
Typical Lease Break	10 years	5 years
Typical Rent Free	15-18 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	15	3	8	4	1	1
City Fringe	2	2	0	0	0	1
Suburbs	7	2	2	1	1	0

61 THOMAS STREET
Leased by BNPPRE in Q2

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