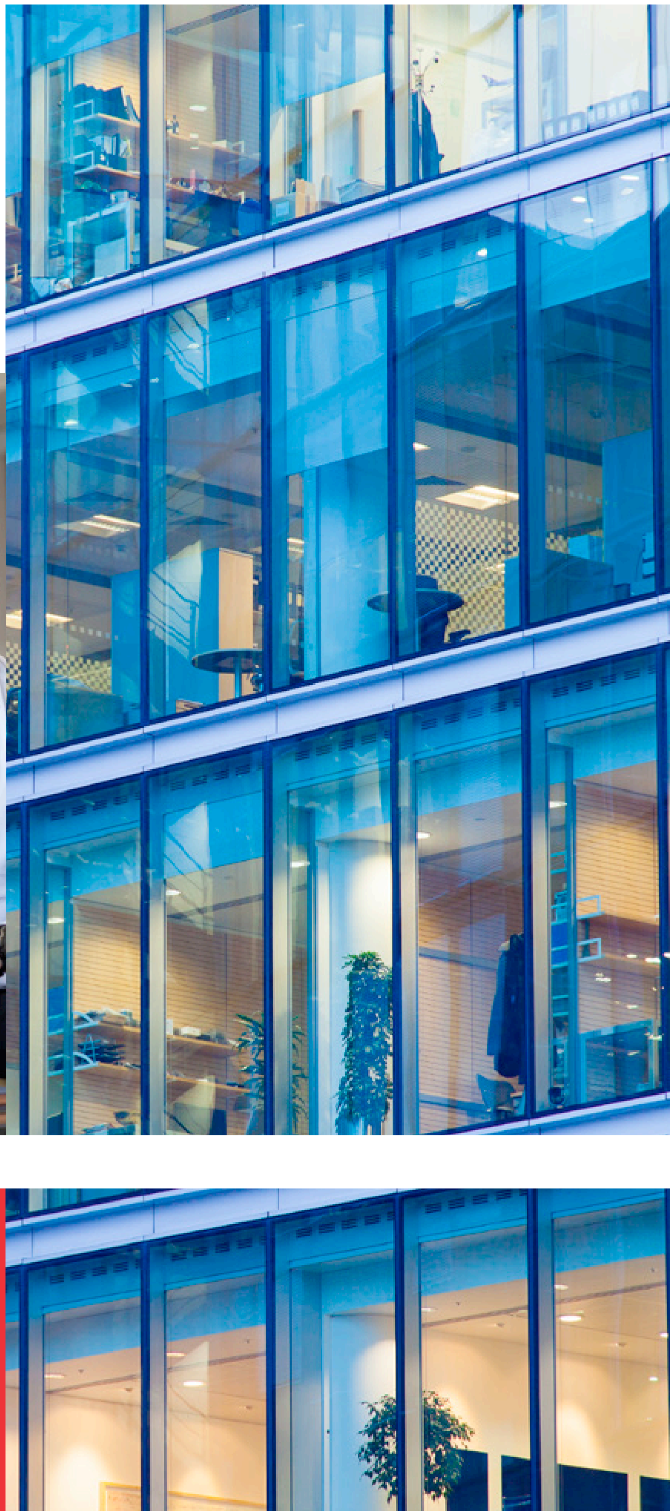
Lisney
COMMERCIAL REAL ESTATE

OFFICE REPORT

Q2 2024



Q2 2024

Following a sluggish start to 2024, Dublin's office market rebounded significantly in Q2. The city centre remained the focal point of activity with the State dominating market activity. While demand persists for fitted second-hand space on flexible lease terms, the market is experiencing a surge in demand for new office space. Linked to this, the importance of ESG continues to influence occupiers' property decisions.

▲ 84,000 sqm

Take Up

▲ 48

Number of Transactions

▲ 1,750 sqm

Average Lot Size

▲ 81%

City Centre

Busiest Region

▲ 30%

Professional Services

Busiest Sector

▶ €678 psm

(€63 psf)

City Centre Prime Headline Rent

▼ 47,000 sqm

54% in the city centre

Reserved

▼ 16.7%

Dublin Headline Vacancy Rate

▼ 250,000 sqm

Under Construction

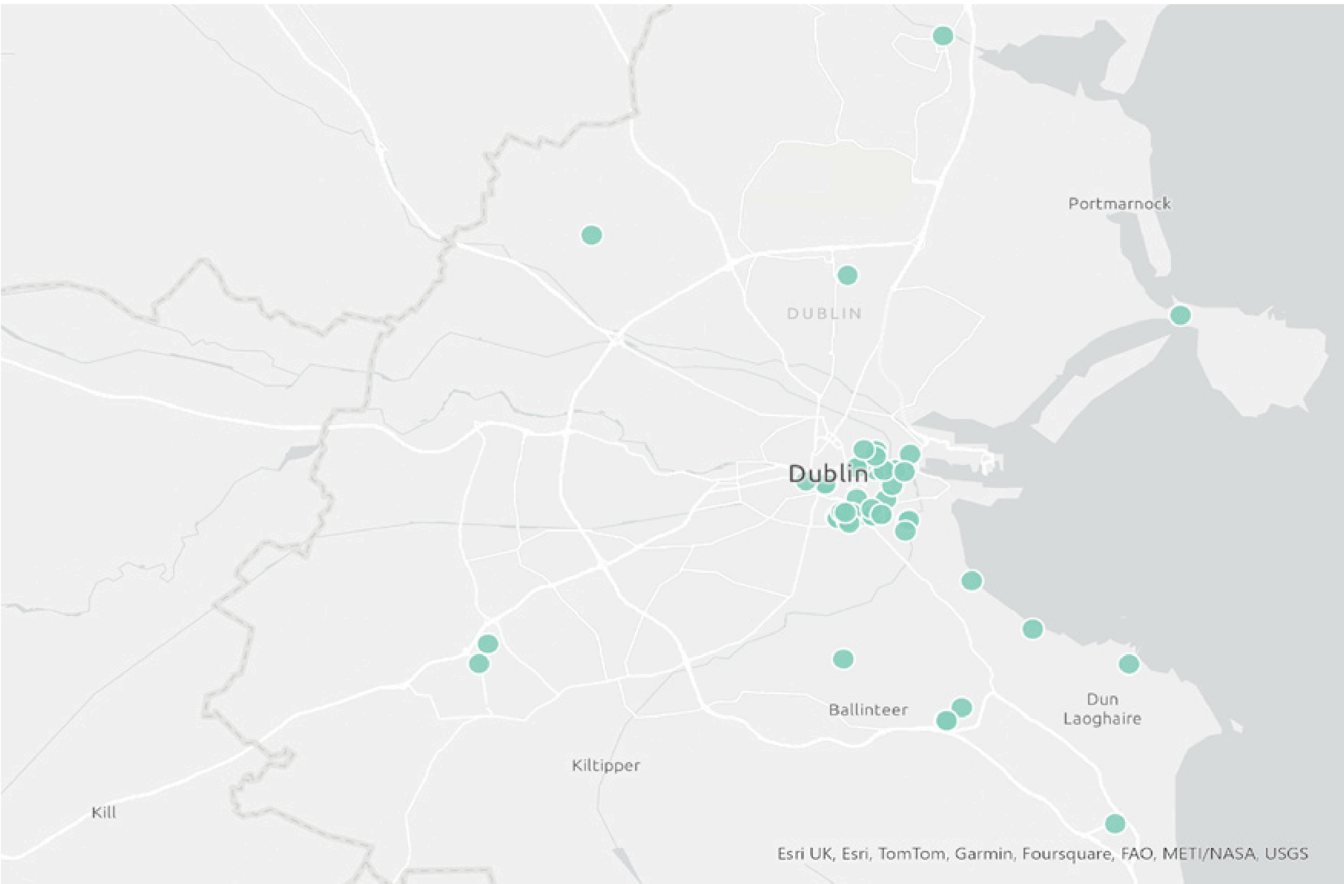
Arrows represent quarterly trends unless otherwise stated.

Top 10 Office Transactions (Q2 2024)

PROPERTY	SQM	REGION	OCCUPIER
The Seamark Building, Elm Park, Dublin 4	16,940	City South	VP Sale to HSE
One Wilton Park, Dublin 2	14,490	City South	Stripe
The Shipping Office, Dublin 2	7,330	City South	BNY Mellon
Building G3, Cherrywood, Dublin 18	5,570	South Suburbs	APC
One Charlemont Square (6th and 7th floors), Dublin 2	4,060	City South	Mark Anthony Brands
Unit 1 Swords Business Campus, Co Dublin	3,950	North Suburbs	HSE
3-8 Hume Street, Dublin 2	2,700	City South	Iconic
One Charlemont Square (5th floor), Dublin 2	2,270	City South	Bloomberg
Fifteen George's Quay, George's Quay, Dublin 2	2,000	City South	MUFG
Termini, 3 Arkle Road, Dublin 18	1,840	South Suburbs	John Paul Group

Source: Lisney

Office Take-Up Q2 2024



Source: Lisney

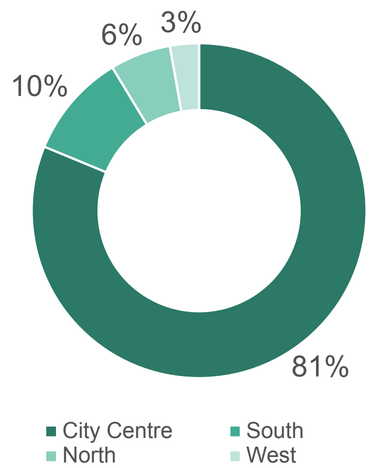
RIGHT:
2 Charlemont Square,
Dublin 2

Activity

The office market activity rebounded in Q2 2024 reaching 84,000 sqm, a substantial increase on the slow opening quarter of the year when 15,700 sqm of take-up was completed. This was the highest quarterly take-up since Q4 2021. In Q2 2024:

- The city centre region remained the most active with 81% of all activity taking place there.
- 48 deals completed with the top 10 accounting for 73% of the overall take-up. Of these, four were in excess of 5,000 sqm each and two were individually larger than 10,000 sqm. The top two deals accounted for 37% of the quarter's activity.
- The largest deal included the vacant possession sale of the Seamark Building in Elm Park, Dublin 4, which was purchased by the HSE for a reported €50m. The second largest deal comprised Stripe's letting of One Wilton Park in Dublin 2 (14,490 sqm).
- The average deal size in Q2 was 1,750 sqm, substantially up from 525 sqm in Q1 2024, and also above the 10-year average of 1,200 sqm. This was, however, somewhat skewed by the top two deals and excluding both, the average deal size is 1,140 sqm.
- Domestic occupiers were the most active in the market making up two-thirds of activity while occupiers from North America accounted for 24% of the total. The average lot size of Irish occupiers was 2,330 sqm, while North American companies averaged 1,780 sqm per deal.
- Smaller size lettings, sub-1,000 sqm, continued to dominate the office market in Q2 (29 out of 48 deals), however in terms of size, combined they accounted for only 13% (10,853 sqm) of all space transacted. This compares to 58% (9,190 sqm) in Q1 2024.
- The State was the most active occupier, at 30% of Q1's take-up, which was driven by the acquisition of the Seamark Building. The tech sector, which had dominated the market between 2014 and 2020 but retrenched in recent years, accounted for 24% of the total, up from 21% in Q1 2024. Professional services firms accounted for 16% of the total take-up, a decrease from 48% in Q1 2024.
- 12 deals (combined 43,175 sqm) were within new buildings that were never previously occupied while the remaining activity, 36 lettings (40,823 sqm), occurred within used accommodation that was previously occupied by another tenant.

Take-Up by Region (Q2 2024)



Source: Lisney

TERMS

The prime city centre headline rent remained stable at €678 psm (€63 psf) having been at €700 psm (€65 psf) at the end of 2023. It is now at the same level as prior to the onset of the pandemic. Rental rates on secondary space also remained steady in Q2. Rent-free periods have stabilised after swinging in favour of the tenants in 2023 and Q1 2024. Overall, Lisney's office rent index for the Dublin region (prime and secondary buildings in all areas) was 6.5% lower in June 2024 than it was in June 2020.

DEMAND

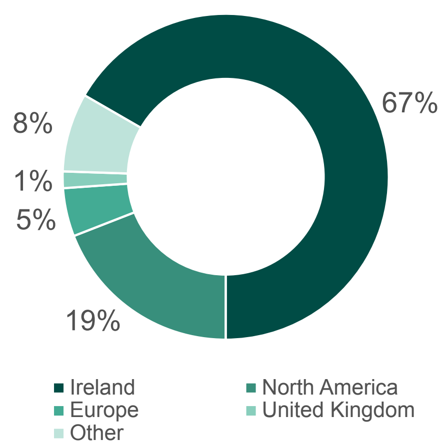
At the end of June 2024, there was close to 47,000 sqm of office accommodation reserved, of which 54% was in the city region. This included 3,100 sqm at 24-26 City Quay, Dublin 2; Block A Joyces Court on Talbot Street, Dublin 1 (2,740 sqm); and Frascati House, Blackrock (2,500 sqm).

EY, the global accountancy and consulting firm, has selected Two and Three Wilton Park, the IPUT development along the Grand Canal in Dublin 2 (25,300 sqm). Deloitte, another leading global professional services firm, has agreed terms in principle to pre-let 20,000 sqm on Adelaide Road. Regeneron Pharmaceuticals has a requirement of 3,700 sqm. Additionally, there is significant demand for office accommodation from other professional services firms such as Maples, Marsh, Eversheds and ESB. More demand is also expected from the State, including purchases of new premises in addition to some of the premises it already occupies.

The evolving landscape of WFH and hybrid working presented significant challenges for occupiers in recent years as they struggled with defining their property needs. However, a clearer picture of space requirements and staff patterns is emerging. While demand persists for fitted second-hand space on flexible lease terms, the market is experiencing a surge in demand for new office space, particularly from large corporates. This shift is driven by increasing confidence in workforce planning and a preference for bespoke fit outs. As a result, the demand for high-quality new Grade A space has intensified. Location, amenities and transport links remain crucial for businesses seeking to attract employees back to the workplace hence, most of the demand is for the city centre space.

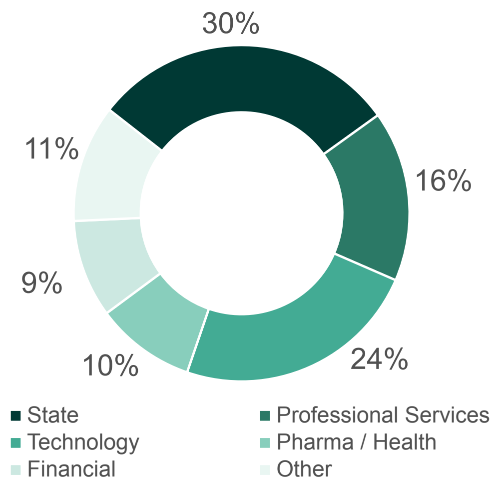
The importance of ESG continues to strengthen in occupiers' property decision-making. This is encouraging landlords with tenants in place to ensure their buildings meet the required credentials to encourage tenants to renew agreements as lease events approach.

Take-Up by Occupier Origin (Q2 2024)



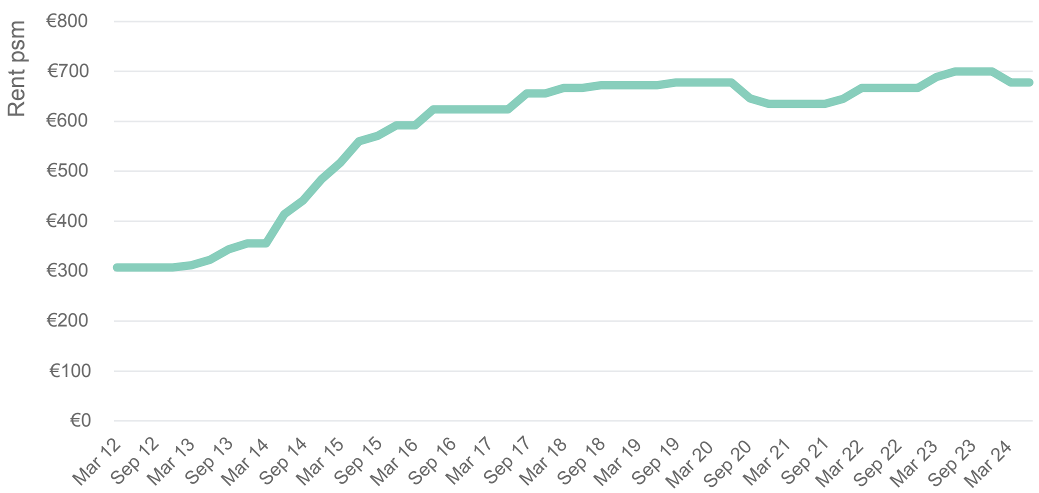
Source: Lisney

Take-Up by Occupier Sector (Q2 2024)



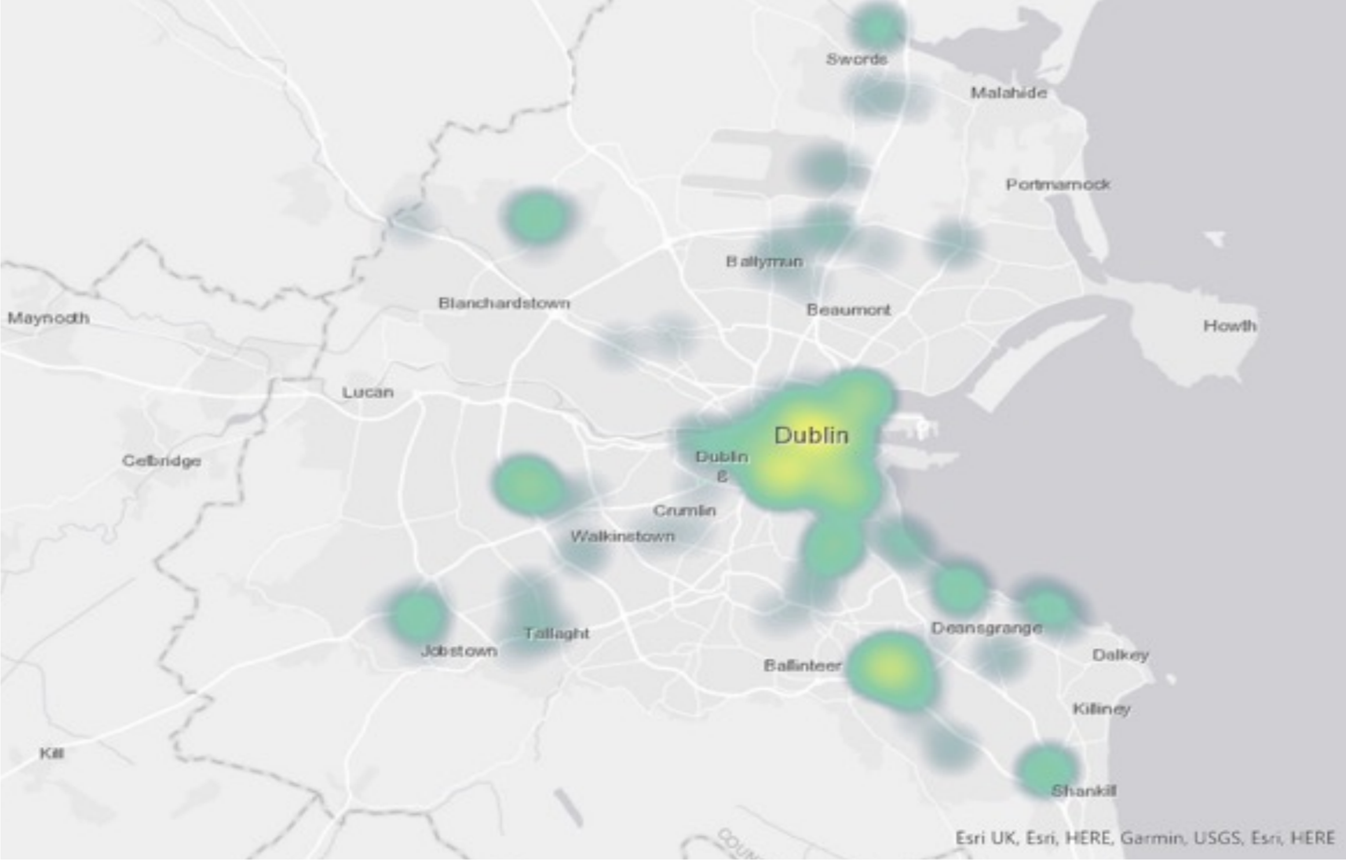
Source: Lisney

Prime City Centre Headline Office Rent (Q1 2012 – Q2 2024)



Source: Lisney

BELOW:
The Seamark Building, Elm Park,
Dublin 4 - Purchased by HSE



*ABOVE: Office Supply Q2 2024

Supply

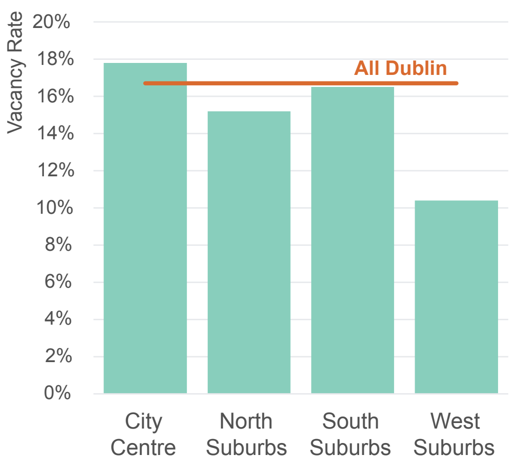
At the end of Q2 2024, 745,000 sqm of modern, purpose-built office accommodation was vacant across Dublin. Encouragingly, this represented a 5.2% decrease from 789,000 sqm in Q1.

Fiobanacci Square in Ballsbridge, Dublin 4 had the greatest amount of accommodation available within one scheme (35,300 sqm) with 4 and 5 Grand Canal Square, Dublin 2 also having a substantial amount available across the two adjoining buildings (23,100 sqm).

Dublin's overall headline vacancy rate was 16.7% at the end of June 2024, a one percentage point decrease from 17.7% in March 2024. The rate has increased 2.5 fold since early 2020 when it was just 6.9% with the majority of the increase coming from new speculatively built buildings and grey space.

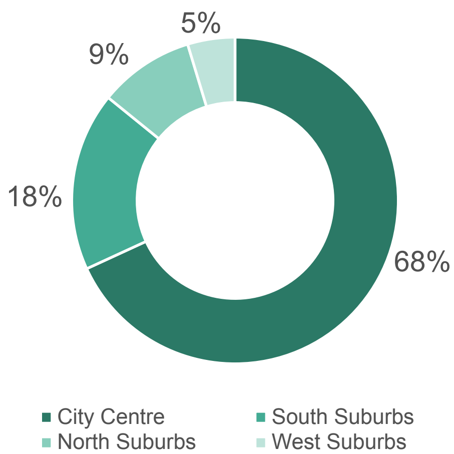
The vacancy rates across the regions varied with the city centre headline rate at 17.8% in June and with the true rate (when obsolete stock that is never likely to be occupied again is removed) at 17.4%.

Headline Vacancy Rate by Region (June 2024)



Source: Lisney

Supply by Region (June 2024)



Source: Lisney

New Stock

In Q2 2024, a total of 15,800 sqm of office accommodation, across three schemes, was completed. This brought the total completions for 2024 to 99,000 sqm.

UNDER CONSTRUCTION	250,000 sqm
LARGEST NEW SCHEME	Waterfront Central, North Wall Quay, Dublin 1
AVERAGE NEW SCHEME SIZE	13,740 sqm City Centre 14,750 sqm Suburbs
DEAL AGREED / RESERVED PRE-COMPLETION	32%

ABOVE:
Termini, 3 Arkle Road, Sandyford, Dublin 18

The schemes completed in Q2 comprise:

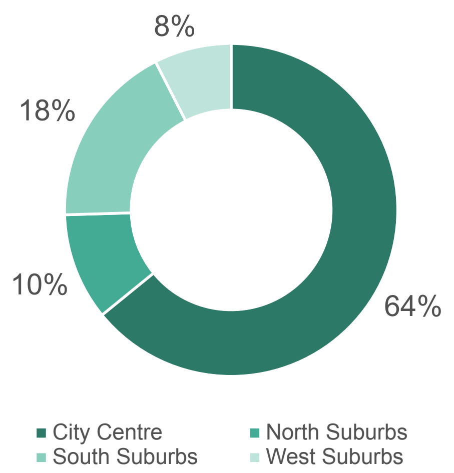
- Malt House, Grand Canal Quay in Dublin 2 (4,500 sqm) – available
- Two Grand Parade, Dublin 6 (extension 8,280 sqm) – available
- Europe House, Chatham Street, Dublin 2 (3,100 sqm) – taken / the new European Union Liaison Office in Dublin

At the end of June 2024, there was approximately 250,000 sqm of office space under construction. The substantial schemes in the city centre include:

- Waterfront Central, North Wall Quay, Dublin 1 (40,000 sqm) – part is available with Citi Bank taking 60% of the scheme
- Camden Yard, Kevin Street, Dublin 2 (53,100 sqm) – available
- Harcourt Square, Dublin 2 (32,000 sqm) – pre-let to KPMG
- Coopers Cross 1 & 2, Dublin 1 (9,400 sqm and 27,200 sqm) - available

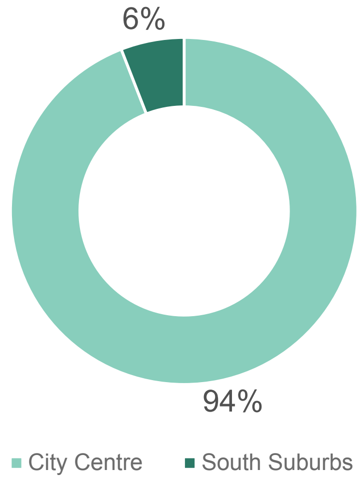
Building works will continue on accommodation already under construction, and while there are a substantial number of new schemes available, as the last property cycle showed, these can get taken up very quickly as the market improves. Notably, this brings future risks as a shortage of A-rated / zero-emission buildings could emerge in three to five years to meet the demand arising from occupiers' 2030 ESG commitments and EU directives. Developers, investors and funders need to keep this in mind and not over-correct. That said, there is a pipeline of potential schemes across Dublin with several thousand square metres of space either with a planning grant or at pre-planning stage.

Existing Office Stock by Region (June 2024)



Source: Lisney

Office Stock Under Construction (June 2024)



Source: Lisney

While some improvement in activity is likely as 2024 progresses, reverting to the pre-pandemic norm is unlikely in the short term.

Outlook

We expect year-end take-up to reach approximately 180,000 sqm.

While gone are the days of employees being in the office five days a week, many employers are now insisting on a certain level of office contact each week rather than fully remote work. As 2024 progresses, this will increase the occupancy levels of buildings and generate more certainty for businesses on space requirements (which is already evident) and will ultimately result in market activity, albeit potentially of smaller lot sizes than in the past.

Encouragingly, the vacancy rate fell by one percentage point in Q2 and is showing signs of stabilising. A notable reduction is not expected until the latter half of 2025, following the completion of several new schemes currently under construction. A total of 90,000 sqm is expected to be completed in the second half of 2024, with an additional 145,000 sqm due in 2025.

We anticipate a continued reduction in the amount of grey / sub-lease space coming to the market.

Sustainability is an ever-increasing consideration across all parts of the built environment, but none more so than the office sector – both from a regulatory standpoint but also from a moral and wellbeing perspective. Various European and domestic policies will continue to influence how properties are funded and occupied. With offices, it generally makes most financial sense to fully refurbish or rebuild (if permitted due to embodied carbon) older Grade C buildings, and this cost will be reflected in their value. However, this will be more difficult with older Grade C or D-rated buildings and there is a concern that some of those buildings will become stranded assets and redundant without investment as it will be too costly to justify the upgrading. Certain landlords will look to carry out works on older stock if the cost and risk of carrying out the works make economic sense. As it stands, the capital needed to refurbish older buildings is high and the overall demand in the market with the high vacancy rates adds to the overall risk of the investment.

Linked to above – while large requirements are currently limited, over the medium to longer-term horizon, the flight to quality will intensify for high profile tenants with preferences for ESG-focused buildings with attractive work-life amenities.

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