Q3 DUBLIN OFFICE MARKET 2024

TWO DUBLIN AIRPORT CENTRAL

BNP PARIBAS REAL ESTATE

Q3 2024 KEY TRENDS

LEASING RECOVERY CONTINUES
48,000 sq m taken in Q3 (+66% y/y)
TAKE-UP FOR FIRST THREE QUARTERS OF 2024 ALREADY 22% AHEAD OF FY 2023

STRONG OCCUPIER APPETITE FOR FITTED ACCOMMODATION -
5 of the top 10 deals were lease assignments or sub-lets

POPULARITY OF GREY SPACE, TOGETHER WITH VIBRANT RELOCATION ACTIVITY,
is driving take-up more than net absorption

NEARLY 32,000 SQ M
of new space completed in Q3

VACANCY RISES
to 15.7%

PRIME HEADLINE RENTS STATIONARY AT €673 PSM PA
but net effective rents remain under pressure

Older buildings and South Suburbs
UNDERPERFORMING

MARKET ACTIVITY

JOHN MCCARTNEY
Director & Head Of Research
BNP Paribas Real Estate

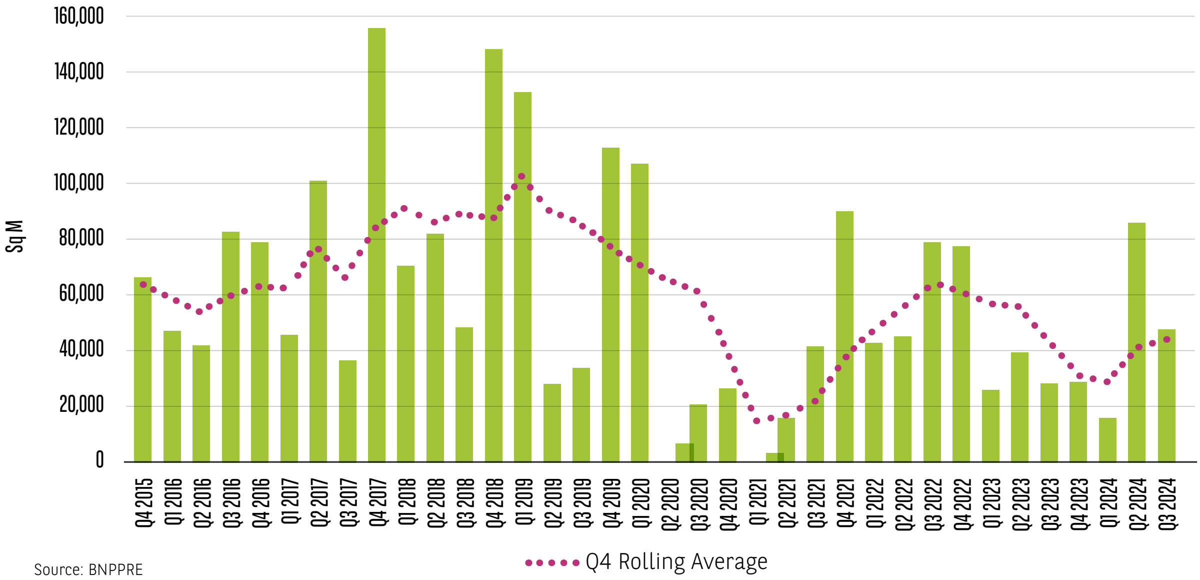
As predicted in our last report, positive momentum from Q2 carried through to the third quarter of 2024 with 47,926 sq m of purpose-built office space taken-up in Dublin. This represents a 66% year-on-year uplift and it was marginally above the long-term average for Q3 which is traditionally a quieter period in the calendar due to holidays. Forty-seven transactions were completed, slightly up on the 44 in Q3 2023.

With the quantum of space rising more quickly than the number of deals, the average transaction size rose from 655 sq m one year ago to 1,020 sq m in Q3 2024. Nonetheless only one deal of over 5,000 sq m was done – a 12,396 sq m lease assignment from LinkedIn to EY at Two Wilton Park. This compares with a long-term average of three such deals per quarter, and likely reflects the continued inactivity of global tech occupiers in the current market.

47,926 sq m

TAKEN-UP IN **Q3**

FIGURE 1: OFFICE MARKET TAKE-UP - DUBLIN

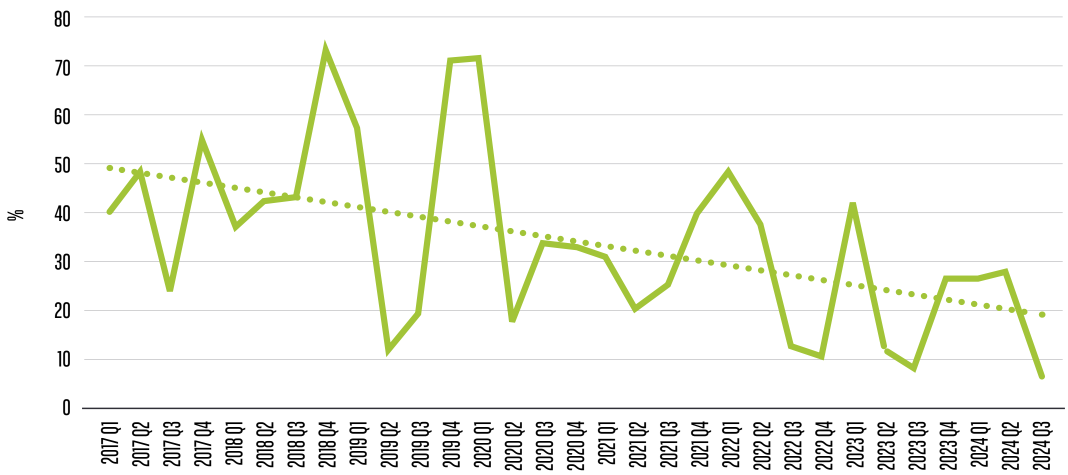


Source: BNPPRE

TAKE-UP BY SECTOR

Information and Communications Technology (ICT) accounted for 51% of Dublin office take-up between 2017 and 2021 as many of the world's leading tech brands consolidated their operations and grew their staffing levels in Ireland. However the ICT share of take-up has only averaged 22% since the beginning of 2022, and it fell to its lowest since our records began in Q3 with ICT accounting for just 7.1% of the pie.

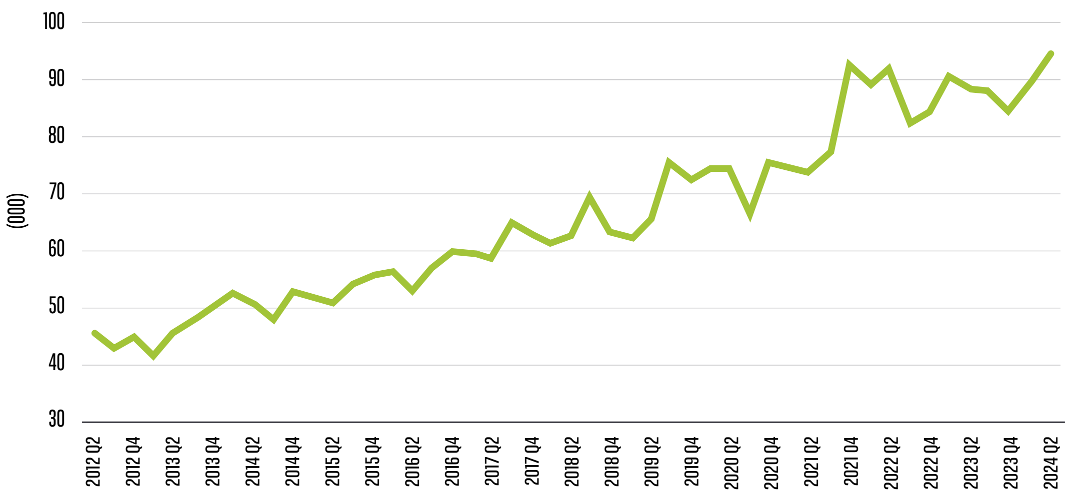
FIGURE 2: TECH SHARE OF OFFICE TAKE-UP



Source: BNPPRE

At a global level the tech industry has experienced considerable change in recent years. The 2022 stock market correction triggered a sharp focus on cost-cutting, resulting in significant headcount reductions. At the same time, the emergence of AI has led to competition for resources within tech firms, causing capital to be channelled into data centres and advanced processing capacity. As a tech city Dublin has naturally been impacted by these global developments. Figure 3 illustrates that ICT employment in the city more than doubled between Q1 2013 and Q4 2021. However this trend stalled and went into reverse during 2022 and 2023, inevitably subtracting from the sector's demand for office space.

FIGURE 3: ICT EMPLOYMENT, DUBLIN

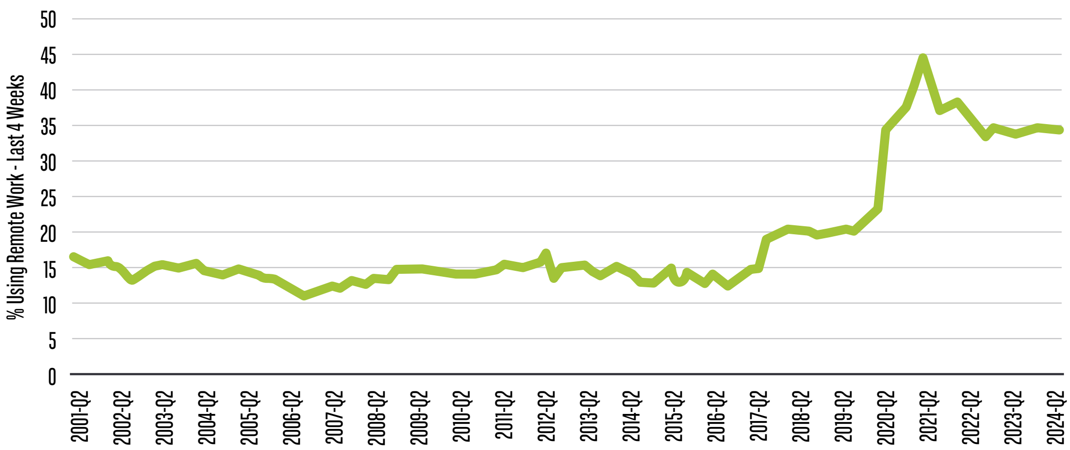


Source: CSO

Positively for the office market, however, this trend appears to have turned. Advances in AI and other technologies are now generating new wave of job opportunities in cyber security, AI regulation and cloud computing. Reflecting this, tech employment in Dublin has rebounded by 11.3% in the first half of 2024, hitting an all-time high of 94,200 jobs in June. Although not yet reflected in the leasing statistics, this should naturally support office demand in the longer run.

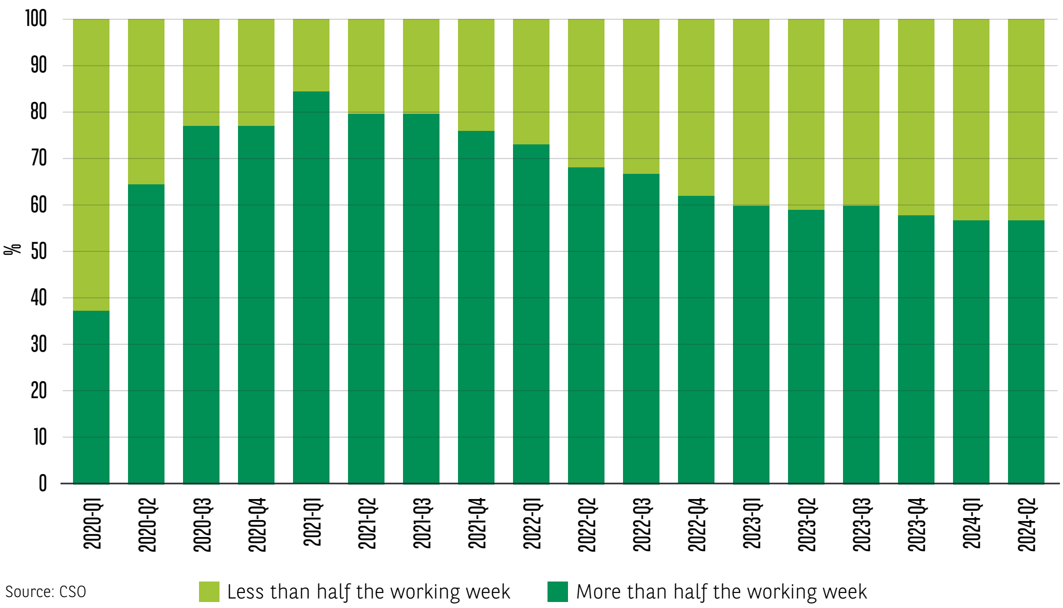
A second potential contributor to sluggish ICT leasing has been remote working, which tends to be more common in the sector. After initially falling from its pandemic peak, the proportion of employees using remote work stabilised in Q3 2022, and it has remained constant at around 35% since then. This is approximately 2.3x the pre-Covid level (Figure 4a). Despite this, a low-key return to the office continued until late last year as the proportion of remote workers spending more than half of their working week at home gradually crept lower. However, as shown in Figure 4b, this trend appears to have stalled in 2024 with the proportion spending most of their time outside the office stabilising at around 58%.

FIGURE 4a: INCIDENCE OF REMOTE WORKING



Source: CSO

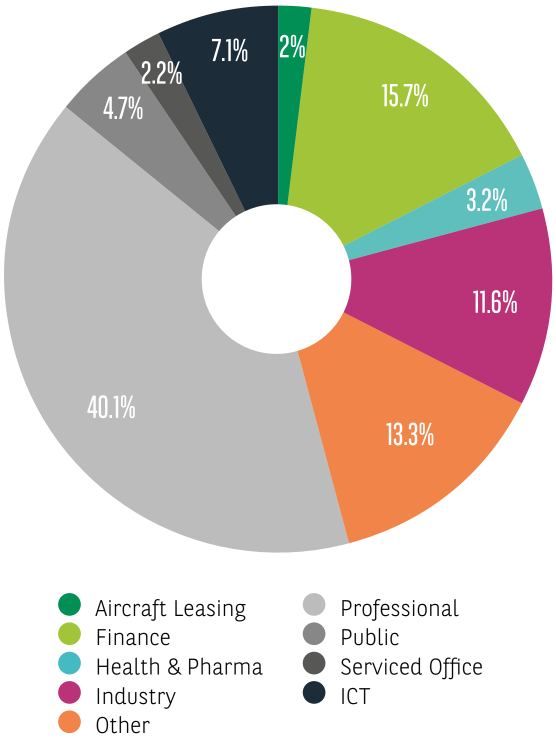
FIGURE 4b: INTENSITY OF REMOTE WORKING



Source: CSO

With the tech cylinder misfiring, the overall pick-up in leasing is quite an achievement. Ultimately this reflects the broad base of occupational demand that underpinned Dublin's office market before the tech sector became dominant in the mid-2010s, and that continues to do so. Professional services providers accounted for two-fifths of the space that was taken in Q3, with the aforementioned EY lease assignment accounting for 64% of this. The quarter's other large professional service letting was by international law firm Addleshaw Goddard which is expanding into 2,327 sq m at Fitzwilliam 28 on a sub-lease from SMBC Capital.

FIGURE 5: SECTORAL DISTRIBUTION OF DUBLIN OFFICE TAKE-UP, Q3 2024



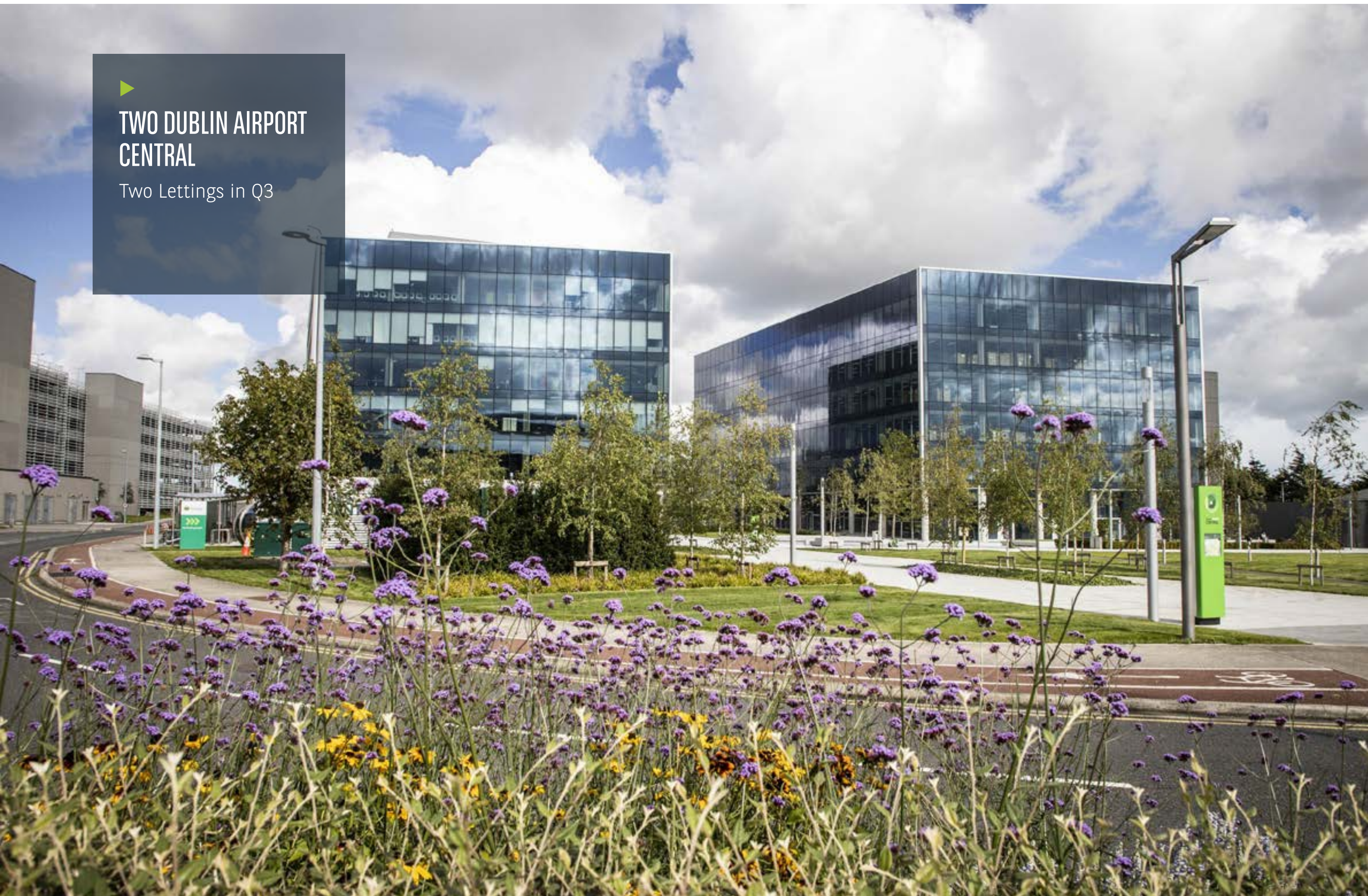
Higher interest rates have been broadly beneficial to the banking sector and financial services occupiers had the second largest market share in Q3, accounting for 15.7% of take-up, similar to their H1 share, and somewhat higher than their long-term average.

TAKE-UP BY LOCATION

In terms of locations, there has been a striking consistency in suburban office leasing since the economy reopened from Covid, with take-up averaging approximately 12,000 sq m per quarter. Within the suburbs, however, there has been a pronounced swing in favour of northern and western locations such as Dublin Airport, Blanchardstown and Citywest at the expense of Sandyford to the south, which has traditionally been Dublin's strongest suburban market. This continued in Q3 with the north and west accounting for 9,800 sq m of take-up compared with less than 3,500 sq m in the south. In the biggest suburban deal of the quarter Flogas took 2,784 sq m to facilitate its expansion into a new headquarters at Two Dublin Airport Central. As the company's head office is relocating from Drogheda, this represents net additional demand for the Dublin market. Boeing took a further 1,937 sq m in the same building, which was completed in 2021, at a rent of €377 per sq m per annum.

The biggest letting in the south suburbs was a 1,075 sq m deal at the refurbished Temple House in Blackrock, Co. Dublin, where International Workplace Group (IWG) will establish a new Regus branded co-working space.

While suburban take-up has been consistent, the bulk of market activity remains in the city centre with postcodes 1, 2 and 4 accounting for two-thirds of the space taken in Q3. Reflecting this, seven of the quarter's ten largest deals were in the prime Dublin 2 location.



TWO DUBLIN AIRPORT CENTRAL

Two Lettings in Q3

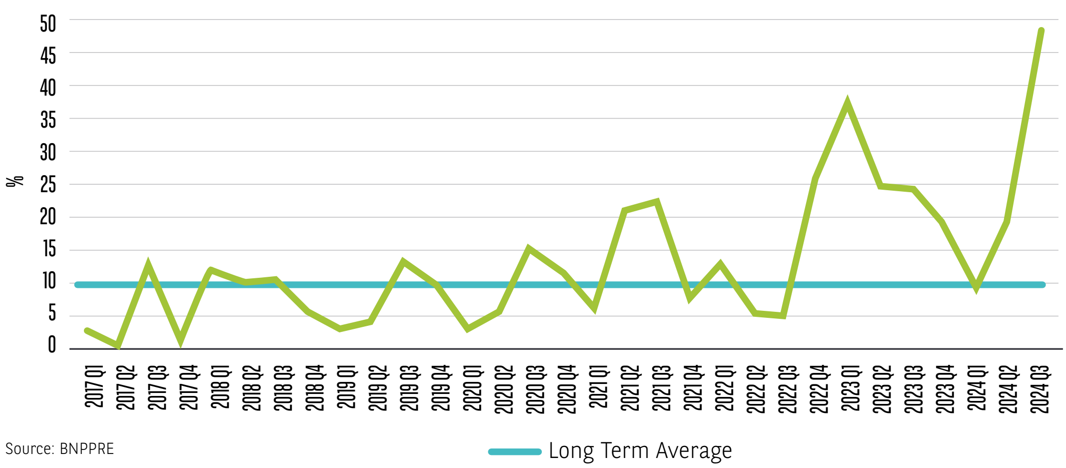
NET ABSORPTION

Two factors determine the extent to which gross take-up converts into an increase in occupied space. The first of these is the is the composition of lettings, and the current mix is reasonably favourable. 23% of the space taken since the start of 2023 has been acquired by new entrants or organisations expanding in their existing location without putting vacated space back onto the market. A further 57% has been acquired by organisations moving to expand. In these cases absorption remains positive, but falls short of take-up because of vacated space being released. Only 8.6% of take-up since the start of 2023 relates to contractions which deduct from absorption as more space is vacated than taken.

A second factor which determines the conversion rate is the share of assigned / subleased space within take-up. In markets where long lease contracts are typical, assignment and subletting provide a right-sizing mechanism for occupiers that are overstocked with business space. Many organisations found themselves with surplus accommodation after the Covid pandemic due to the emergence of hybrid workplace strategies, and this brought a glut of 'grey space' to the market in 2021 and 2022. Fitted grey space, in particular, can be a cost-effective option for occupiers, and this drove take-up of tenant-offered accommodation as high as 37.5% of the overall total in Q1 2023.

The surge in lease assignments / sub-lettings was expected to gradually abate as the post-Covid glut was worked through and, consistent with these expectations, the grey space share of take-up steadily receded through 2023. However, as illustrated in Figure 6, it has rebounded again over the last six months, and five of the top-10 deals in Q3 were lease assignments or sub-lettings. Together these accounted for almost 21,000 sq m of space, or 43% of the quarter's take-up. This resurgence may be random – simply reflecting that employers have different timeframes for implementing their post-Covid workplace strategies and bringing surplus space to the market. However, it is striking that some of the larger grey spaces are being supplied by technology firms, and it is unclear whether this is a lagged post-Covid response or a reaction to more recent sectoral changes. In Q3 TikTok announced that it would not be physically occupying the 7,728 sq m Tropical Fruit Warehouse which it leased in Q3 2022. This will result in more grey space becoming available. Offsetting this, however, LinkedIn withdrew some of the space it had been offering at Wilton Park. Meanwhile two of the quarter's largest lettings involved space that had earlier been made available by tech brands Intercom (1,755 sq m at Cadenza) and LinkedIn (12,396 sq m at Two Wilton Park).

FIGURE 6: SUB-LETTING / ASSIGNMENT SHARE OF TAKE-UP



Source: BNPPRE

Grey space serves a vital purpose for organisations that are disposing of and acquiring space, and it enhances allocative efficiency in markets where long leases are the norm. However, although it boosts take-up, assignment / sub-leasing contributes nothing to net absorption as it does not alter the occupancy status of the space involved – this was rent-producing before the lease assignment / sub-letting, and remains so after the transaction, with only the identity of the rent payer changing.[1]

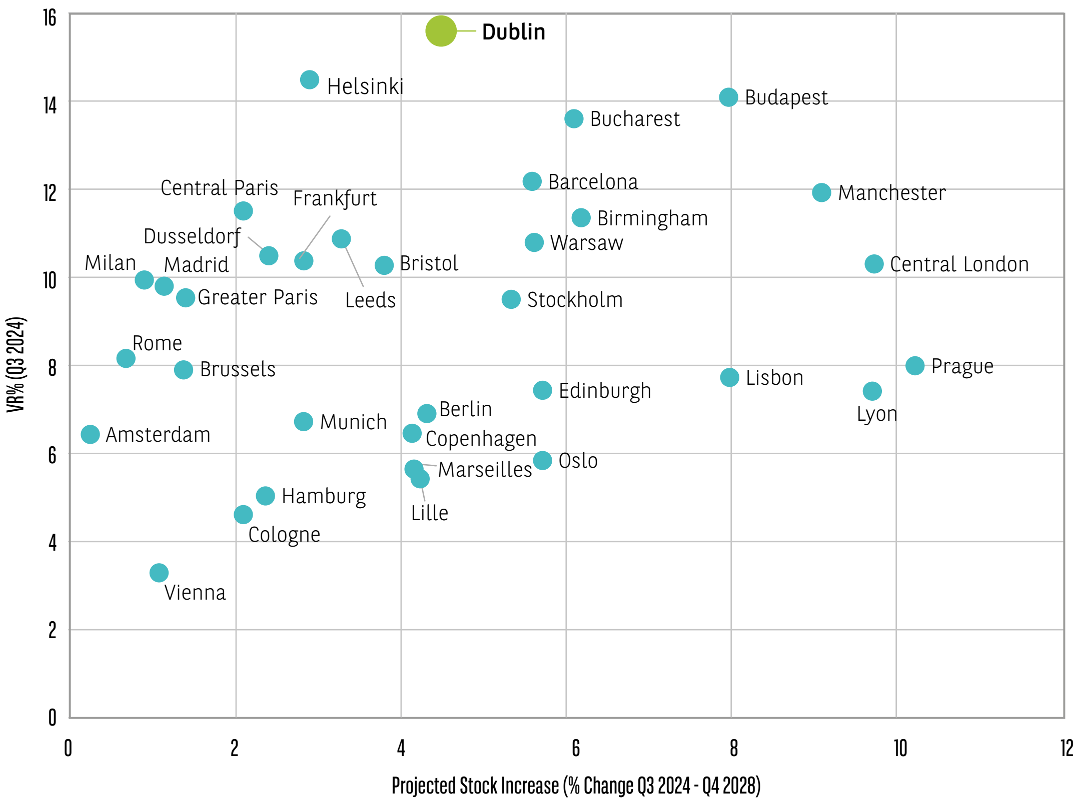
[1] For a more detailed discussion of the assignment deals at Wilton Park, and their implications for the market, please see [Dublin office market shows signs of life - but it is still too early to call a market recovery – The Irish Times]

SUPPLY AND VACANCY

Three new offices, all in the prime Dublin 2 location, reached practical completion in Q3. Marlet completed the Longstone House element of its College Square scheme to complement the College House building that was delivered in Q2. Both blocks are now reportedly reserved for Workday following its decision in Q2 not to develop its own offices at Grangegorman on the northern fringes of the city.[2] Not far away, IPUT completed the refurbishment and extension of 15 George's Quay, while the Malthouse on Grand Canal Quay also reached practical completion. Together these buildings contributed just under 32,000 sq m of new space. We are unaware of any offset due to demolitions in Q3, but two buildings dropped out of the office stock due to a change-of-use from office to educational. BNP Paribas Real Estate leased the entire 2,737 sq m of Block A, Joyce's Court, Dublin 1, to English language school ICOT College after planning permission for a change-of-use to educational was obtained.[3] Planning for a similar change-of-use at Frascati House in Blackrock, south County Dublin, was also achieved in Q3. Allowing for these conversions, net completions of just over 26,600 sq m were recorded for the quarter.

With grey space comprising almost half of the quarter's take-up, and with many of the remaining deals being relocations, it is no surprise that net absorption was insufficient to swallow the net additional stock that was delivered during Q3. This drove vacancy from 15.2% at end-June to 15.7% in September. Dublin's natural vacancy rate is somewhat higher than the European average meaning that, up to a point, rental growth is less sensitive to vacancy. However, with the vacancy rate now well north of 11%, real rents are under pressure.[4]

FIGURE 7: OFFICE MARKET VACANCY RATES AND PIPELINE – EUROPEAN CITIES

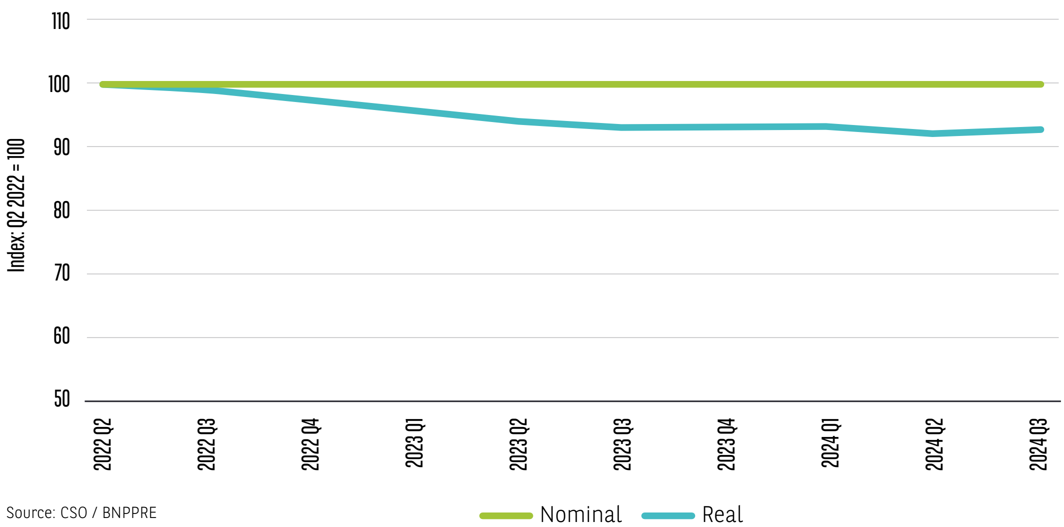


[2] Having previously applied for planning consent to build its own 51,955 sq m EMEA headquarters Workday changed course in April, announcing that it would instead meet its requirement from existing stock. This is a major windfall gain for the market as a significant quantum of overhanging vacant space will now be unexpectedly digested.
[3] BNPPRE has developed specialist expertise in lettings to educational institutions, having been involved in nine such deals in recent years. Together these incorporated over 15,500 sq m of space, with BNPPRE providing both landlord and tenant representation services.
[4] The Natural Vacancy Rate (NVR) is that which acts as a tipping point between positive and negative real rental growth. Sanderson, Farrelly and Thoday (2006) found that Dublin's office market had the second highest natural vacancy rate of 12 European locations at 10.9% (compared with a European average of 8.1%). McCartney (2012) and Savills (2019) estimated the Dublin NVR at 11% and 11.1% respectively. For a full discussion of the determinants of the NVR see McCartney (2010) and references therein https://www.tara.tcd.ie/bitstream/handle/2262/62343/mccartney%20pdf.pdf?sequence=1

RENTS AND LEASE TERMS

Prime headline rents remain at €673 per sq m per annum – where they have now been for ten quarters. Inflation has slowed significantly but has nonetheless deducted nearly 8% from the purchasing power of money over this period which represents a material reduction in real terms. Moreover, increased rent-frees and a trend towards earlier lease breaks confirm that market conditions are continuing to favour tenants.

FIGURE 8: PRIME HEADLINE RENTS – NOMINAL AND REAL



Source: CSO / BNPPRE

OUTLOOK

As we enter the home straight, likely outcomes for the full-year are coming into sharper relief. On the demand side, there is a strong sense that leasing activity bottomed-out in early spring and, despite a slow start, over 150,000 sq m have been taken-up in the first three quarters. With almost 85,000 sq m of space reserved in September, and considering Q4 traditionally accounts for 36% of the year's total, take-up could reach 200,000 sq m in 2024. Although the final outcome is likely to undershoot the 10-year average of 240,000 sq m, this would nonetheless be a positive result given continued inactivity by global tech firms.

Turning to the supply side, as year-end draws nearer there is always uncertainty about whether specific developments will reach practical completion by 31st December. Two properties that were expected to deliver in 2024 now look destined to slip into 2025, resulting in a slight reprofiling of the pipeline. We now expect four buildings, comprising 42,000 sq m, to complete in Q4. In addition to the 187,000 sq m already delivered, this means 2024 will be the second biggest year for Dublin office completions since 2007. While the leasing recovery provides a solid platform from which the market can advance, the rate at which take-up is adding to the occupied stock remains compromised by 'churn' and the elevated share of grey space. As a result, absorption will not be sufficient to digest the new supply that is coming on stream in real-time, and vacancy is likely to rise further by year-end.

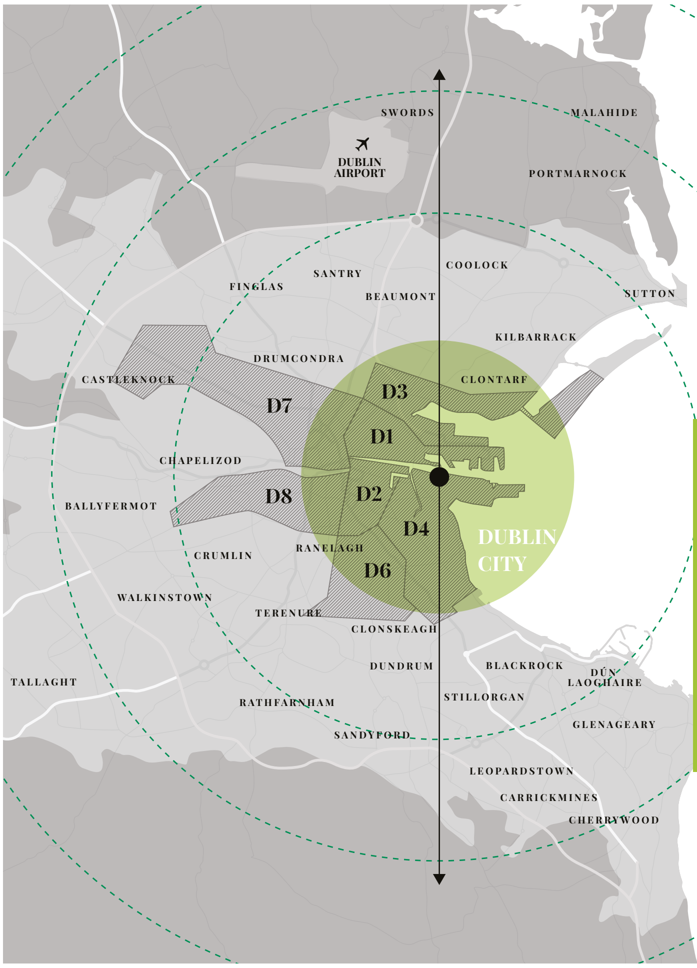
Looking further ahead, the buildings that slipped from Q4 will boost next year's completions. Theoretically around 180,000 sq m of completions is possible - a substantial amount by historical standards. However, stalled progress on one or two sites and the inevitable year-end slippage means the final figure is likely to be significantly less. Nonetheless, it seems improbable that demand conditions will be sufficient to immediately absorb next year's additional space, leading to a further vacancy increase in 2025. However, the pipeline for 2026 delivery looks quite limited at this point, although slippage from 2025 and any new starts (most likely pre-lets) could eventually cause this to be revised.

Dublin is now a well-supplied market with a significant amount of speculatively developed new space available to let, and more coming onstream. The market's preference for low-carbon buildings means that these offices are likely to attract occupiers – in some cases from vacated older stock. This flight-to-quality is typical of well-supplied markets, and it ultimately causes vacancy to concentrate in older properties. There is an emerging narrative that, because vacant older buildings do not compete directly with the brand-new Grade A stock, prime rents will be immune to rising vacancy. Unfortunately, this is specious. When faced with voids, owners of older blocks will cut their rents until they attract occupiers. Because these offices have now become competitive with the slightly higher quality offerings ahead of them, owners of the latter buildings will have to counter-cut to restore their competitive advantage. This in turn creates a problem for landlords with even better space who now also have to counter-cut. Through this process, vacancy at the bottom of the market eventually drags on rents at every level, and this is confirmed by a large corpus of empirical research that establishes the inverse relationship between overall market vacancy rates and prime headline rents.

Summing up, leasing activity in the Dublin office market is gradually improving due to increased demand from the financial and professional services sectors that have traditionally underpinned the occupier base. Demand could further benefit from the re-entry of tech occupiers if that were to occur. For now, however, the market is well-supplied and availability will increase further over the next 15 months. This will provide choice for occupiers seeking high quality business space in prime locations. There will also be opportunities for flexible and pragmatic landlords to capitalise on the broad base of office demand to let high specification new builds in town. Rents in older buildings will remain under particular pressure and, where they are not repositioned through refurbishment works and upgrades, some will continue to be repurposed for other uses.

TAKE-UP ROSE BY 66%
year-on-year in Q3

47,926 SQ M OF OFFICE
take up in Q3



2024 Q3 Take-Up

47,926 sq m

DUBLIN CITY (DUBLIN 1,2 and 4)	DUBLIN FRINGE (DUBLIN 3,6,7 and 8)	SUBURBS
31,773 sq m	2,865 sq m	13,288 sq m
66.3%	6.0%	27.7%

“ The pick-up in leasing activity continued in Q3, putting in place the foundations for a market recovery. However, given the pipeline of space that is still to be delivered, vacancy will continue to tick-up keeping pressure on rents ”

JOHN MCCARTNEY
Director of Research,
BNP Paribas Real Estate Ireland

“ There is a definite sense that activity is improving. Take-up has strengthened and the outlook for next year has become more optimistic with a pick-up in general enquiries – particularly in the 500 – 1,000 sq m range ”

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

TOP 10 DEALS Q3 2024

	BUILDING	LOCATION	TENANT	SQ M
1	2 Wilton Park	Dublin 2	EY	12,396
2	24-26 City Quay	Dublin 2	Fisher Investments Ltd	3,098
3	Two Dublin Airport Central	Co. Dublin	Flogas	2,784
4	First & Second Floor, Fitzwilliam 28	Dublin 2	Addleshaw Goddard	2,327
5	5 Hanover Quay, Grand Canal Dock	Dublin 2	Confidential	2,267
6	Two Dublin Airport Central	Co. Dublin	Boeing	1,937
7	Cadenza, Earlsfort Terrace	Dublin 2	KKR	1,755
8	Temple House, Blackrock	Co. Dublin	Regus	1,075
9	3rd Floor, Block B, Central Quay	Dublin 2	Merative Healthcare	1,044
10	Fifteen George's Quay, George's Quay	Dublin 2	Paysafe	983

FITZWILLIAM 28
2,327 sq m sub-let to Addleshaw Goddard

TOP DEALS

	CITY CENTRE	SUBURBS
Highest Rents	€673 per sq m pa (15 George's Quay & 20 Kildare St.)	€377 per sq m pa (Two Dublin Airport Central)
Number of Deals	22	19
Average Deal Size	1,444 sq m	699 sq m
Typical Lease Term	15 years	10 years
Typical Lease Break	10 years	5 years
Typical Rent Free	15-18 months	18-30 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	8	8	2	3	0	1
City Fringe	3	3	0	0	0	0
Suburbs	8	8	2	1	0	0

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BNP PARIBAS
REAL ESTATE

57 Adelaide Road
Dublin 2, Ireland
+353 1 661 1233
realestate.bnpparibas.ie

PSRA No: 002702

DR. JOHN MCCARTNEY
DIRECTOR & HEAD OF RESEARCH
BNP PARIBAS REAL ESTATE

T +353 1 661 1233
M +353 87 974 8485
john.mccartney@bnpparibas.com

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KEITH O'NEILL
EXECUTIVE DIRECTOR
HEAD OF OFFICE AGENCY

T +353 1 661 1233
M +353 86 857 9696
keith.oneill@bnpparibas.com

JOHN CANNON
ASSOCIATE DIRECTOR
OFFICE AGENCY

T +353 1 661 1233
M +353 87 396 6725
john.cannon@bnpparibas.com

EVA MATTHEWS
GRADUATE SURVEYOR
OFFICE AGENCY

T +353 1 661 1233
M +353 87 190 8068
eva.matthews@bnpparibas.com

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