DUBLIN

OFFICE MARKET

Q3 2020

CUSHMAN & WAKEFIELD

OVERVIEW

Occupier activity in the Dublin office market improved in quarter three, with a total of 44,250 sq m taken up in the quarter. This brings the year to date figure to 104,150 sq m and represents a decline on the same period last year, when 184,800 sq m was taken up.

The volume of space newly signed in the quarter also increased to 19,600 sq m, a notable improvement on just 8,400 sq m in quarter two.

However, despite the improvement from the previous quarter, a delay in decision making by some cohorts of the occupier market remains evident. This is most apparent in the volume of reserved space in the three-month period, and subsequently the total volume of pre-let or reserved space at the end of September.

Availability rose for a second consecutive quarter, rising 7% in the quarter to 389,500 sq m. However, the rise was largely driven by new completions, with the release of second-hand stock to the market continuing to stay low. This perhaps again reflects the cautious nature of occupiers at present to make decision regarding their space.

The upward trend in availability has caused a shift in the vacancy rate. At the end of September, the total market vacancy rate was 10.1% and 7.7% in the CBD. However, excluding signed or reserved space, the CBD net vacancy rate still remains low at 5.6%.

With construction sites open throughout quarter three, completions rose. A total of 42,700 sq m completed construction in the three-month period, the majority of which were new builds. A further 490,350 sq m of space was on site at the end of September and positively 53% of this space is pre-let. Over 100,000 sq m of space is ear-marked to complete by year-end with over 270,000 sq m tentatively expected in 2021.

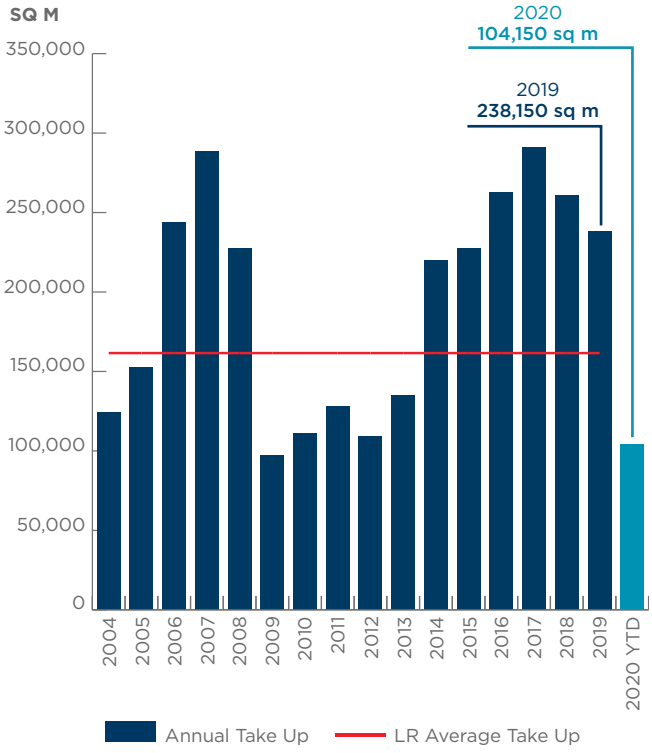
44,250 sq m

OCCUPIER ACTIVITY IN THE DUBLIN OFFICE MARKET IMPROVED IN QUARTER THREE WITH A TOTAL OF 44,250 SQ M TAKEN UP.

104,150 sq m

REPRESENTS A DECLINE ON THE SAME PERIOD LAST YEAR, WHEN 184,000 SQ M WAS TAKEN UP.

Take Up Activity, 2004 - 2020 YTD



Source: Cushman & Wakefield Research

DUBLIN OFFICE MARKET

TAKE UP

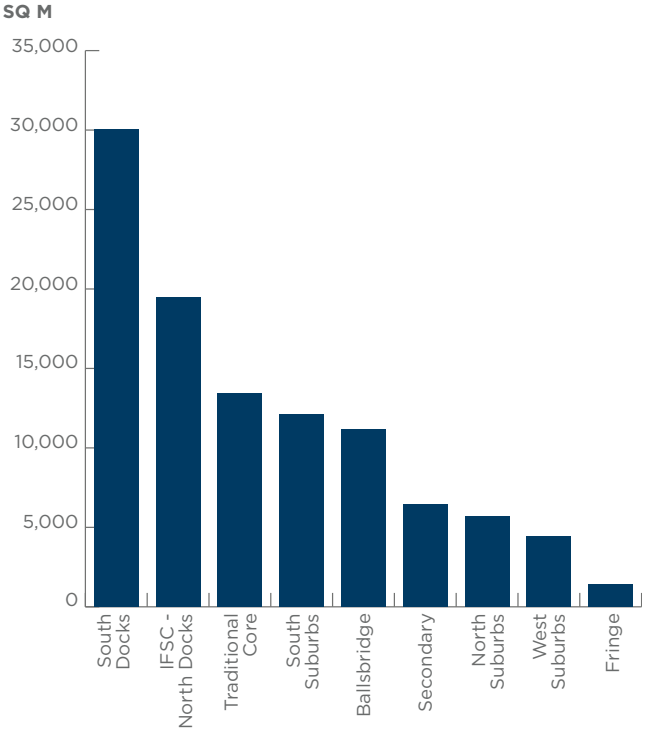
A total of 44,250 sq m across 28 deals was taken up in the three-months to September-end. Combined with activity in the first half of the year, a total of 104,150 sq m has been occupied in the year to date.

The majority of this take up is located in the CBD, 60%, with the suburbs accounting for a further 21%. Despite the lower volume of activity compared to the same time period in 2019, the breakdown in location is broadly similar. Some market commentators in recent months have questioned if the pandemic could lead to stronger demand in the suburbs, however to date there is no pattern or trend to substantiate this market shift.

Within the CBD, the South Docks absorbs the largest proportion of take up, 30,050 sq m. This is followed by the IFSC/North Docks with 19,500 sq m and the Traditional Core with 13,450 sq m.

Continuing to drive market demand are Dublin's tech and professional services occupiers. The expanding segments of the market combined accounted for almost 54% of the space occupied in the nine months to September end. Also high this year is state occupier activity; however, this largely consists of the completion of Dublin Landings 4 & 5 in quarter three for the Central Bank.

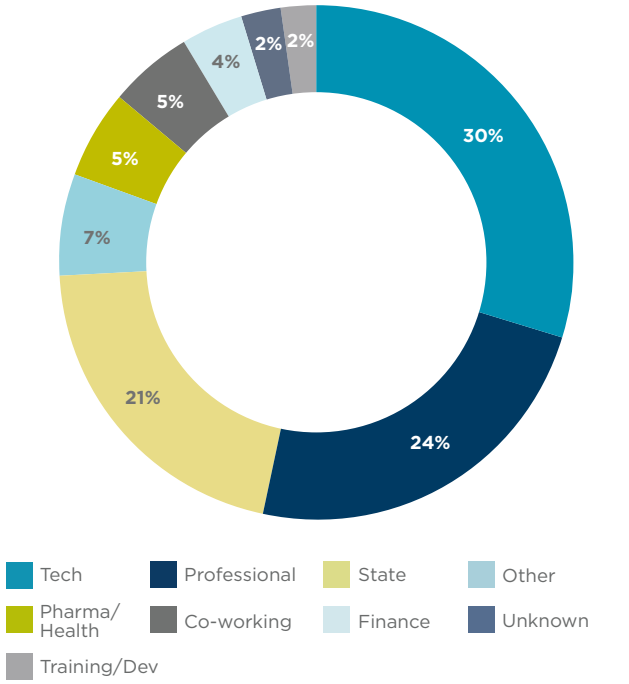
Take Up by Sub-Market, 2020 YTD



Source: Cushman & Wakefield Research

A focus on the latest employment numbers show IT and Communication experienced a 6% rise in the first half of the year, or a significant 14.7% rise in quarter two annually. Financial, insurance and real estate activities also showed growth of 17% annually. Although the quarterly employment breakdown must be caveated as it excludes those on the PUP, it is interesting to note, these are two of only five economic sectors which have displayed employment growth since the end of 2019, and are also the two highest. Given the economic climate at present, this growth is quite remarkable and will be one to watch over the coming quarters and into 2021.

Dublin Take Up By Sector, YTD 2020



Source: Cushman & Wakefield Research

Lastly, a growing feature of the office market in the past twelve months has been the presence of sub-leases/ assignments. In 2019, such transactions accounted for 8,650 sq m, or 3.6% of take up. In the nine months to September 2020, they have accounted for 13%, or 13,950 sq m. With sub-leases/assignments accounting for a growing portion of availability this area is anticipated to continue to be a talking point. During uncertain times, such space can be a sign of volatility in the market, however to date, this does not appear to be a cause for concern. As we move further into 2021, the reasoning behind the release of this product to availability will be closely monitored.

73% The CBD accounted for 73% of office take up in Dublin.

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AVAILABILITY

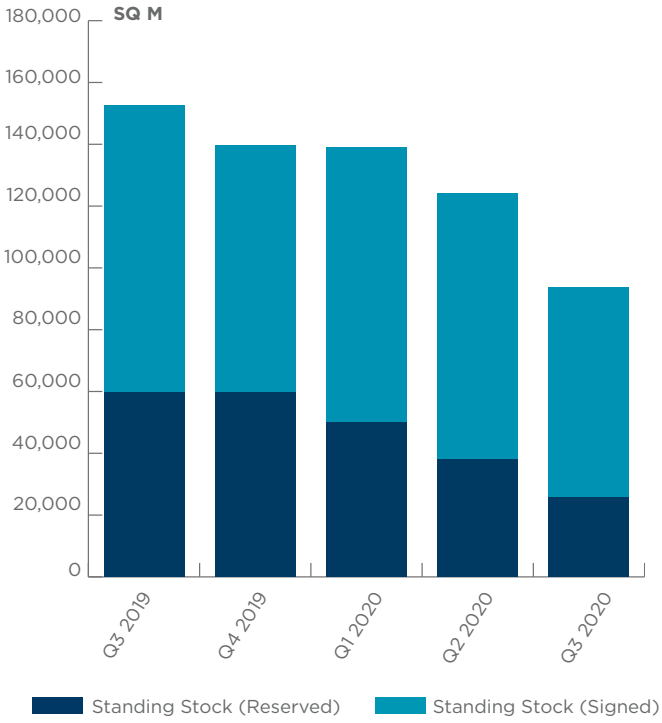
Availability in the Dublin office market rose to 389,500 sq m in quarter three, a rise of 7% in the three-month period. This increase can largely be attributed to new supply reaching the market, with the volume of second-hand space being released to the market remaining low.

This trend of a slow release of second-hand stock is important in a time of uncertainty for the economy and perhaps, more so, when there is much public debate around the future of the office. To give this trend some perspective, it is useful to compare to the last downturn. After the financial crash, a rise in second-hand stock being released back to the market was immediate and substantial. For example, in quarter one 2009, it accounted for 12.5% or approximately 69,000 sq m of space. This compares to just 27,700 sq m in quarter three 2020. This trend will be closely monitored over the coming quarters.

Net availability sat at 295,950 sq m at the end of quarter three as the aggregate volume of signed or reserved space declined. Perhaps the clearest evidence of cautiousness amongst occupiers during the summer months is the current volume of reserved space which is now below 30,000 sq m.

The rise in availability also saw a rise in vacancy rates. The Dublin vacancy rate is now estimated at 10.1%, while in the CBD is 7.7%. Taking into account the signed & reserved space, net vacancy rates are lower, at 7.7% and 5.6% respectively. Within the CBD, the vacancy rate varies across each of the submarkets with the South Docks with the highest rate and the traditional core with the lowest.

Signed & Reserved Space, Q3 2019 - Q3 2020



Source: Cushman & Wakefield Research

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PIPELINE DELIVERY

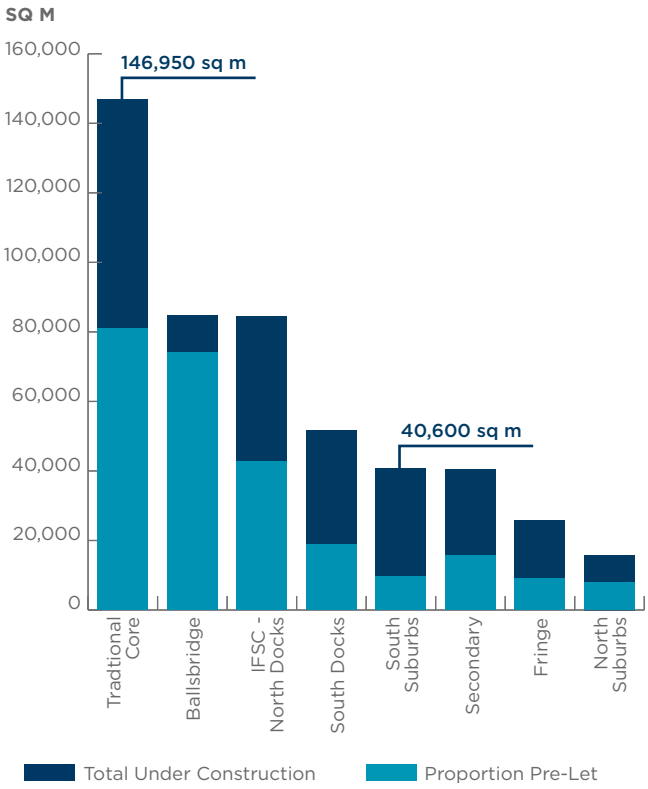
New completions increased in quarter three, with a total of 42,700 sq m delivered to the market. This brings the year to date total to 82,250 sq m.

A further 490,350 sq m was under construction at the end of September, of which 85% comprise new builds. The CBD accounts for the largest proportion of this, 80%, of which the Traditional Core, which currently has the lowest vacancy rate, absorbs the largest share. The South suburbs also features highly with 40,600 sq m on site.

Positively, a measured approach to development in recent years sees a high proportion of this space pre-let, 53%. This equates to 259,450 sq m and reflects the market's immediate take up pipeline. While occupier decision making is muted by uncertainty, this pre-let space provides the market with a cushion for take up levels in 2021 and 2022.

Lastly, an analysis of expected delivery dates projects over 100,000 sq m of space has the potential to be delivered to the market in the final quarter of this year. A push out of some timelines leading from site closures earlier in the year see's over 270,000 sq m tentatively expected in 2021, of which 60% is pre-let.

Development Activity by Sub-Market, Q3 2020



Source: Cushman & Wakefield Research

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RENTAL LEVELS & MARKET OUTLOOK

Despite the cautiousness evident in the market, prime headline rents continue to be holding stable at €673 per sq m. Market intelligence suggests a change in terms, such as rent-free periods which are becoming increasingly likely.

The uncertainty in the economic climate and the office market results in temporary moderate downward pressure on rental forecasts for the coming quarters.

The overall outlook for the office market is mixed, dependent on the time period in focus. In the very near term, activity levels may continue to be impacted by a stall in decision making. This pause may continue to see the volume of reserved space remain below average. If this bears true, take up for the coming year will be underpinned by existing pre-let space, rather than a reflection of point in time demand.

In the medium term, with employment levels in key office sectors growing, the outlook for demand is positive. A recent report by Cushman & Wakefield titled "Global Office Impact Study & Recovery Timing" points to the global trend of overall office-using jobs on an upward trend, and this combined with other factors such as population growth and a return to economic growth from 2021, upholds demand for office space beyond the pandemic and including changes working habits.

"It is very encouraging to see a return in occupier demand during the quarter, which is supported by the increasing level of take-up. Whilst the next few quarters are likely to be bumpy until the path of the pandemic stabalises, we believe in the medium term there is enough pent-up demand in the market to swallow up any overspill in supply."

RONAN CORBETT, HEAD OF OFFICES, CUSHMAN & WAKEFIELD IRELAND.

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