Market Monitor
AUTUMN 2022

Murphy Mulhall

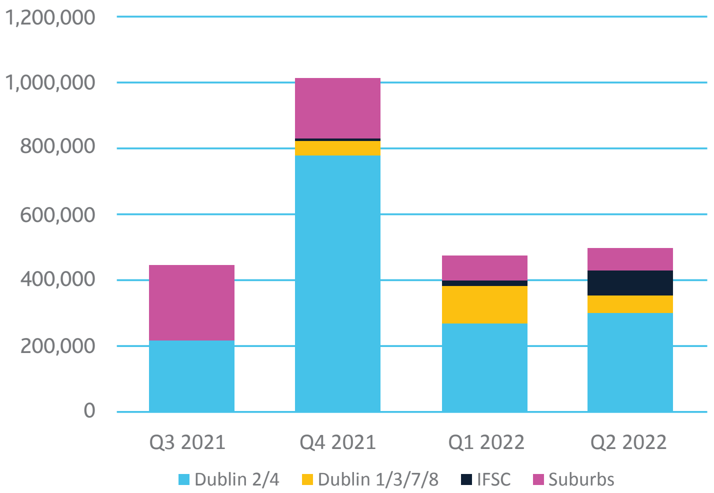
OFFICES (H1 2022)

- Approx. 978,000 sq.ft. take up YTD across 103 deals
- Different WFH & BITO (Back to the Office) patterns emerging for Tech & Professional Services sectors
- Tech influence on the market
- Measurable rental gap between prime CBD Grade A+ and Grade B+ space
- Demand for space in 'Green Buildings' remains robust

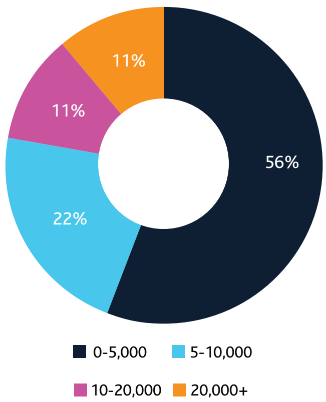
TOP 5 DEALS (H1 2022)

servicenow	Third, Fourth, Fifth & Sixth Floors, 60 Dawson Street, D2	88,042 sq.ft.
an post	Fourth, Fifth, Sixth, Seventh & Eighth Floors, Exo Building, D1	78,871 sq.ft.
fiserv.	10 Hanover Quay, D2	69,000 sq.ft.
workday.	First, Second, Third & Fifth Floors, Dockline, Mayor Street, IFSC, D1	53,917 sq.ft.
waystone	First, Second, Third & Fourth Floors, 35 Shelbourne Road, Ballsbridge, D4	52,011 sq.ft.

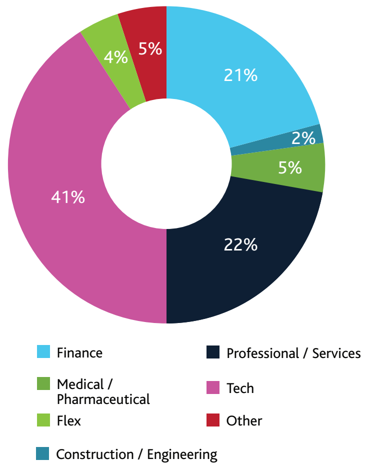
TAKE UP BY LOCATION (H1 2022)



NO. OF DEALS BY SIZEBAND (H1 2022)



TAKE UP (SQ.FT.) BY SECTOR (H1 2022)



COMMENT

Decent performance post-Covid so far, what's in store for Q3/Q4?

We had a quiet July and August but that was expected. September to mid-December is the traditional busy period (by volume of deals and space taken) for the Dublin Office Market. Over the weeks ahead, we will get a good sense for what occupiers are thinking. Their actions (or in-actions) will be an important barometer on the direction of the market over the next 12-18 months.

Anything else to watch out for in the months ahead?

WFH & BITO (Back in the Office) patterns are different for each sector. However, I am hearing of low BITO rates among Tech occupiers and vice-versa for Professional Services firms. Also, rising energy prices and the looming 'winter of discontent' will place a new cost pressure on office occupancy not witnessed in my lifetime. It will be very interesting to see how Landlords and Occupiers react and how this will impact WFH/BITO patterns.

Increased activity in Serviced Offices – Why?

Return of the Flex...yes it is! We have seen a number of occupiers take flex (serviced offices) space as they adopt a 'wait and see' strategy during economic uncertainty or it suits their Post-Covid WFH/BITO structure. All the major flex providers in Dublin are reporting increased occupancy rates.

There has been a lot of talk about the impact of Tech on the market recently – what's your current view?

I would watch this sector very closely over the coming 12 months. Tech has been and continues to be, the dominant player in terms of overall take-up of office space by volume. They are the ones who take entire buildings in one fell swoop. Reports of slowdown in this sector are prevalent but for every media story of "bad news," there are confirmed reports of expansion and we also know there is a healthy FDI pipeline. However, this sector is not insulated from economics nor the stock market. If company valuations or funding suffers, office expansion is ultimately impacted through lack of job creation. There are a number of Tech firms in Dublin who have put fit-out plans "on ice" and others who are sub-letting excess space. I would focus on what the Tech "motherships" are doing with their office portfolios in Silicon Valley & London over the next 3-6 months. Dublin tends to largely follow suit.

Current JM assessment on the Market.

The demand for Grade A+ space (LEED/ESG/Sustainability etc.) in the core CBD remains robust and premium rents (€60 per sq.ft. +) are being achieved. There remains a lack of meaningful supply of 0–10,000 sq.ft. floor plates in this category. This may change, as Landlords (previously hoping to achieve single lettings) pursue multi-let strategies. There is now a measurable rental gap between prime Grade A+ and Grade B+ space (€60 per sq.ft. v €45-€50 per sq.ft.). For most SME's, the quality of the space and relative value offered by Grade B+ options is perfectly acceptable. In terms of locational activity, core CBD is busiest. Peripheral CBD and Suburban markets are slow and this is where rents will come under pressure to attract occupiers.

INVESTMENT (H1 2022)

- Approx. €2 billion transacted in the first half of 2022 across 89 transactions
- €0-€10 million lot size accounted for 48% of all transactions
- Dublin still the main centre for investment at 71%
- ESG is now one of the main priorities for investors assessing commercial property opportunities

TOP 5 DEALS (H1 2022)

Asset	Price	Vendor	Purchaser
Project Ruby	€145m	Confidential	Confidential
Distribution Centre, Newbridge, Co. Kildare	€128.7m	Barola	Union
Residential Units, Magna Drive, Citywest	€122m	Glenveagh Properties	Confidential
Residential Units, St. Edmunds Drive, Citywest	€105m	Confidential	Ardstone
Confidential PRS Scheme	€98m	Confidential	Confidential

PRIME YIELDS (H1 2022)

Offices	Industrial	PRS	Retail Parks
4.0%	3.75%	4.0%	5.25%

TRANSACTIONS BY LOT SIZE (H1 2022)

€0-1m	€1-5m	€5-10m	€10-20m	€20-50m	€50m +
6%	30%	12%	24%	16%	12%

TRANSACTIONS BY ASSET CLASS (H1 2022)

Office	Mixed Use	Industrial	PRS	Retail	Healthcare	Hotel	Medical	Student Acc.	Social
25%	19%	17%	16%	14%	3%	2%	2%	1%	1%

COMMENT

Will we see pricing shifts in the investment market?

Despite the continued impressive performance of the Irish Commercial property market, there is ample anecdotal evidence in the market that both institutional and smaller investors will adopt a more cautious approach over the coming months. This is predominantly driven by the likely impact of interest rate hikes by the ECB and continued inflationary pressure impacting on returns, with the ongoing potential for a global economic recession impacting on sentiment. The likely softening of investment pricing will be led by the increasing cost of debt and there is evidence across the UK and European markets of transactions being slower to progress (with price adjustments) or being placed on hold due to changed pricing or cost expectations on either side. Conversely, we do expect that prime PRS, office and industrial yields will see minimal price change given that lack of product in the market at present.

Irish commercial property is now highly regarded worldwide.

The Irish commercial investment market is now viewed globally as a secure and stable market. Since the market began to recover from the economic downturn, it has established itself as an attractive destination for international investors, comparing favourably to other long standing investment destinations such as Paris, Frankfurt and London. Prime yields, especially in the Dublin market, are higher, offering better returns than those other more traditional investment hubs across Europe. As a result we are seeing a continuing steady stream of existing and new entrants taking an active part in the market. The depth of institutional purchasers with current active requirements across all sectors, is reflective of the confidence they are showing in the underlying strengths of the commercial market and the economy. These existing and new entrants will play a key role in unlocking supply for forward fund opportunities providing developers with a select target market post completion.

ESG now at the forefront of investment decisions.

Environmental, Social and Governance (ESG) is quickly becoming one of the main priorities for investors, developers and occupiers in assessing commercial property opportunities. Demand for sustainable and energy efficient buildings has always been evident, but in 2022 this has becoming increasingly important for investors with demand increasing substantially. Many investors now have specific funds within their portfolios targeting opportunities with top rated energy efficiencies and sustainability credentials. Developers and vendors are now realising that if they provide the right ESG credentials for their buildings, it will greatly improve the marketability of the end product, and lead to higher returns. In addition to this, several lenders have created a "Green Loan" specifically targeting the most energy efficient commercial property. Whilst investors continue to target the most sustainable and 'greenest' buildings, there is ample anecdotal evidence in the market that investors will apply discounts to buildings and investment opportunities that do not present best in class sustainability. This is creating a value disparity in the Irish market between new and older stock. It is important for stakeholders of older buildings to have a clear pathway and an accurate costing of how to achieve the required ESG credentials such as NZEB and improved BER Ratings and/or BREAM or LEED designations.