SPRING 2024

Market Matters

Murphy Mulhall

INTRODUCTION

Welcome to the latest edition of Market Matters. With the year well underway, it is worth reflecting briefly on the last 12 months and discuss what is likely to influence our commercial property markets for the rest of 2024.

This time last year, the economic discussion was heavily centred around the Cost-of-Living "crisis" which resulted from hikes in inflation, mirrored by similar interest rate rises.

The ECB main lending rate has moved from 3% in February 2023 to 4.5% now, following a series of 5 x separate hikes. Inflation seems to have calmed and should this trend continue, most economists believe that the ECB will begin reducing rates at the end of Q2 2024 with forecasts of a 3.75% benchmark by the end of the year.

Interest Rate reductions will greatly help the stuttering commercial property investment market which endured a very subdued last 12 months. The relatively low annual take-up last year in the Dublin Office Market (mainly driven by the retreat of the previously dominant Tech sector) and the increasing supply therein has dampened investor enthusiasm for this sector. Not all doom and gloom, however, with prime Retail & Industrial assets continuing to attract both domestic and foreign buyers.

There is no doubt that capital values are falling, with yields pushing outwards across all asset classes. How quickly vendor and buyer expectations meet will determine the volume of transactions this year.

As usual, the most active part of the Dublin Office Market is the 0-10,000 sq.ft size range. This is driven by the ever-present SME sector (who never went away!). With 'Big Tech' effectively gone from the pre-letting scene, the reality, for the next while while at least, is that it is going to take longer to fill up (on a 'floor by floor' basis) some of the newly developed 'Best in Class' (BIC) schemes in the CBD and Suburbs.

In this edition, we will look at the current supply and demand dynamics of the Dublin Office Market. We will also provide our usual updates from London & Silicon Valley.

We will also examine the key trends in the Investment Market and finally, offer our thoughts on how we think the rest of 2024 will play out.

I hope you take something useful from the report. As always, I wish you continued success in your business this year and beyond.

All the best,

James

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GET IN TOUCH

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QUICK FACTS

1.31
MILLION SQ FT
OFFICE TAKE-UP
2023

€51
PER SQ FT
PRIME
NET EFFECTIVE
RENT

168
OFFICE AGENT
REQUIREMENTS
(OAR'S)

70%
OCCUPIER DEMAND
0-10,000 SQ.FT
SIZE

€2.15bn
INVESTMENT
SPEND
2023

5.00%
PRIME OFFICE
YIELD

6.50%
RETAIL PARKS
YIELD

4.75%
PRIME
INDUSTRIAL
YIELD

1. OFFICE MARKET REVIEW

Summary

Total take-up for the Dublin office market in 2023 was approx. 1.3 million sq.ft. across 183 x deals. While the overall quantum was disappointing, it should be noted that activity levels were still robust in the 0-10,000 sq.ft. range.

Of all the deals signed in last year, 150 or 82% of them were in the above-mentioned range with exactly 50% choosing D2/4 as their preferred location (Dublin 2 accounted for 55 x deals in the 0-10,000 sq.ft range).

In what we agents call, the 'Floor by Floor' category (10-20,000 sq.ft), there was very disappointing activity. Only 14 x deals were signed in 2023, 9 x located in Dublin 2/4. Worryingly for those owners/funders of "Best in Class" (BIC) office buildings, only 5 x deals occurred in this category last year.

While there were/are some notable occupiers in the 20,000 sq.ft+ size range seeking new offices, most of these did not "land" in 2023. We expect most will wait into 2024 to complete their deals (seeking the best value).

The emergence of significant amounts of Tenant Controlled 'BIC' office space (mostly, as a result of Big Tech retreating) coupled with newly completed and unlet Landlord Controlled 'BIC' space has sparked a rare battle between both seeking to secure the few large 50,000 sq.ft+ occupiers currently in the market.

The Supply / Demand imbalance (technically in favour of the occupier) has yet to fully yield any significant reductions in quoting rents or rent-free incentives (particularly on the 'BIC' office stock where Landlords and their agents are holding a firm line). We expect this to change as 2024 progresses with the less well located and older office stock first to buckle.

Large, newly completed 'BIC' office buildings (particularly in the CBD) that previously (2017-2022) would have reasonably expected to secure a pre-letting to a single occupier (likely Tech), now face the prospect of having to undertake 2, 5, 7 or possibly more lettings as 'Floor by Floor' strategies are rolled out. The result of having to secure more occupiers per building means it will now take longer to let them – fact. (Patience will be required by Landlords and debt providers).

Rents and Incentives

Despite slowdown in occupier demand, the increase in office supply and challenging economic conditions over the last 12 months, prime headline quoting rents have remained stubbornly high and largely unchanged. (particularly for 'BIC' offices in CBD).

Most commentators still agree that €57.50 per sq.ft. still reflects Prime Quoting Headline Rent for 'BIC' offices in the CBD. You may see higher rents quoted and indeed achieved but these would be for smaller 0-5,000 sq.ft lettings and not necessarily a reason to state that such rents apply across the board.

The direction of rents and rent-free periods in the 'BIC' space is unclear and will depend somewhat on building/owner/debt funder dynamics. Most occupiers seeking 'BIC' space are not overly obsessed with the level of rent/rent free as they recognise the quality they are getting. Occupier Demand is the key metric for 'BIC' offices. It will take time and patience to fill up the glass box offices.

In tougher markets, postcodes become relevant once again. The traditional CBD area within Dublin 2 and the definition of what is considered a 'Prime' location is once more back in focus. Prime is Prime and Fringe is not!

Lease lengths have become generally more flexible, with 5-10 year terms available on most stock (with the exception of some 'BIC' offices where 10-12 year terms are still being sought).

For older stock and fringe locations, rents are under pressure and rent-free periods/incentive packages have increased with Landlords now forced to offer value in order to attract occupiers.

Based on the take-up stats, not all SME/'Floor by Floor' occupiers need nor want a 'BIC' office – most seek value and are happy with Grade B+ space.

Rent Free periods are now 1.25-1.5 months per year term certain offered (up from 0.75-1 months last year).

Rents in all suburban markets are under pressure as increasing supply and a lack of meaningful demand materialises.

When uncertainty prevails, our experience is that occupiers seek value within CBD locations. It will be interesting to watch rents and incentives across all locations and office type as the year progresses. At present, small lettings on CBD 'BIC' space are helping to maintain the prime rent narrative.

Occupier Demand

With Big Tech occupiers in retreat, there is a renewed focus on the Small Medium Enterprise or SME sector. The 2023 take-up stats together with the current Office Agent Requirements (OAR) data (as at Feb 2024) confirm that the 0-5,000 sq.ft. size bracket is by far the most active.

As we continue into this year, SME occupier demand will continue to be the main driver of market activity in terms of deal volume. This, coupled with the slowdown in large-scale requirements, has forced all newly completed office buildings, and those offering large volume (sq.ft) sub-lets, into a multi-tenanted/'Floor by Floor' leasing strategy.

Regarding larger occupiers, we estimate that there is in excess of 500,000 sq.ft that should transact in 2024 which is great news for the market. These requirements range in size from 30,000 sq.ft up to 200,000 sq.ft. It will be interesting to note what types of incentives are offered to these occupiers, the majority of whom are seeking 'BIC' type office space.

The impact of hybrid/WFH/Full time Return to the Office (RTO) is starting to settle. Most occupiers seem better placed to judge how much office space they really need. This remains industry specific. Professional services firms trend higher, in terms of physical office attendance than say Tech or Admin related roles.

Our recent experience dealing with occupiers on this issue reveal two main trains of thought:

Conservative

- Everyone gets a desk – group/team collaboration is very important
- Office occupancy cost is small compared to staff/other component costs
- Do not want the hassle of dealing with desk booking type arrangements / complaints

Relaxed

- Accept that office attendance is 2/3 days per week (most likely Tuesdays/Wednesdays & Thursdays)
- Comfortable with this model and do not see it changing in the medium term
- Little or no drop off in productivity because of hybrid/flex operating system

While there are some decent sized requirements (50,000 sq.ft. +) currently active, it is not at the scale witnessed during the 2017-2022 take-up boom. As a result, the market will be dominated by smaller deals this year (0-10,000 sq.ft.) and overall take-up is expected to be approx. 1.2 million sq.ft.

Supply

Since our last Market Matters Report, office supply now includes the interesting dynamic of 'BIC' Landlord space competing with Tenant controlled 'BIC'.

Post Covid economic pressures on Big Tech has led to job losses. This has resulted in a lower requirement for physical office occupancy than initially expected. Therefore, some companies have never occupied nor may ever occupy some of this 'BIC' space which they pre-let during 2019-2022.

Many have made the decision to off-load this excess space onto the market by way of sub-letting/ assignment. As a result of this, we have a competitive situation not seen at this scale before in the Dublin Office Market.

2. THE INSIDE TRACK

Occupier Demand

There were 110 x 0-5,000 sq.ft. deals completed in 2023 (60% of all transactions) and as at the end of last year, there were an additional 29 x deals in legals (see table below).

Q4 2023 – Total 70 Deals Reserved

Deal Size	No. of Deals
0-5,000 sq.ft.	29
5-10,000 sq.ft.	25
10-20,000 sq.ft.	10
20,000 sq.ft.	6

Source: MM

It is worth mentioning that occupier activity is not solely related to new requirements or expansion/contraction needs. Some occupiers will simply have to move in 2024 due to a lease expiry. Others may be considering exercising a break option to re-locate to a more cost effective or better quality office.

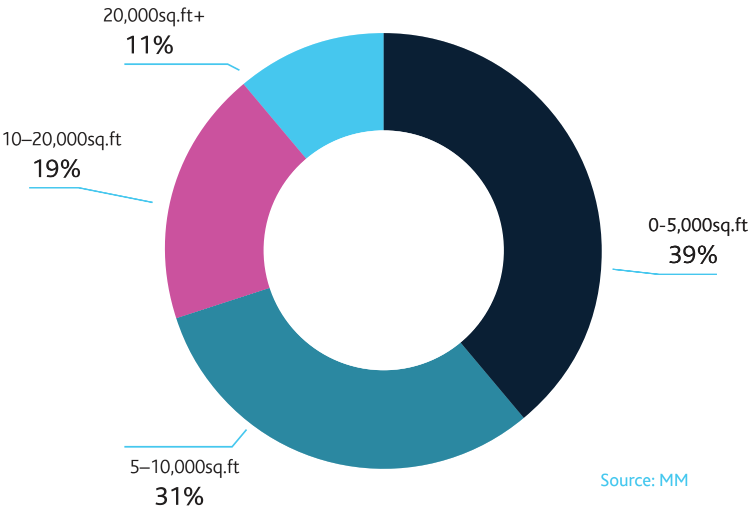
ESG remains an important consideration for those occupiers who are focusing on the 'BIC' offices. However, it can be less of a focus for SME's (who tend to occupy Grade B+/Grade A space). For them, a BER rating of B2 or higher on their office space seems sufficient.

Current Office Agent Requirements (OAR) Analysis

73%	Preference for City Centre
23%	Preference for Suburbs
41%	Preference for Greyspace Fitted Space
46%	Preference for Short Term Lease (<5 years)

Source: MM (June 2023 – February 2024)

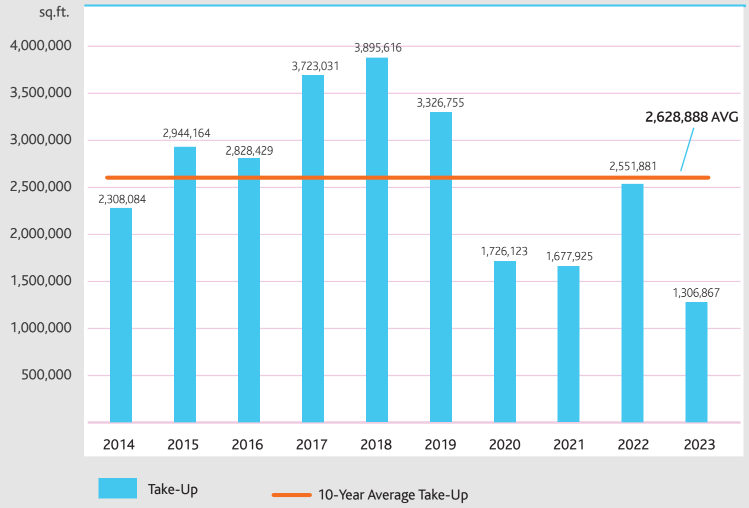
Current OAR by Deal Size



Source: MM

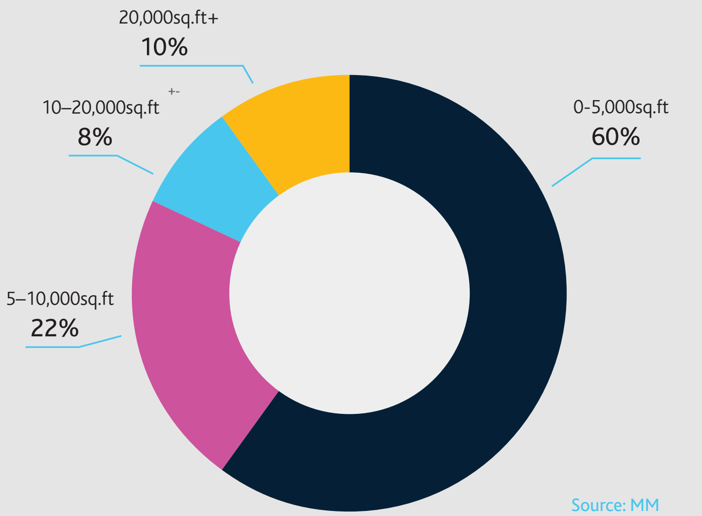
2023 STATS

10 Year Take-Up 2014 – 2023



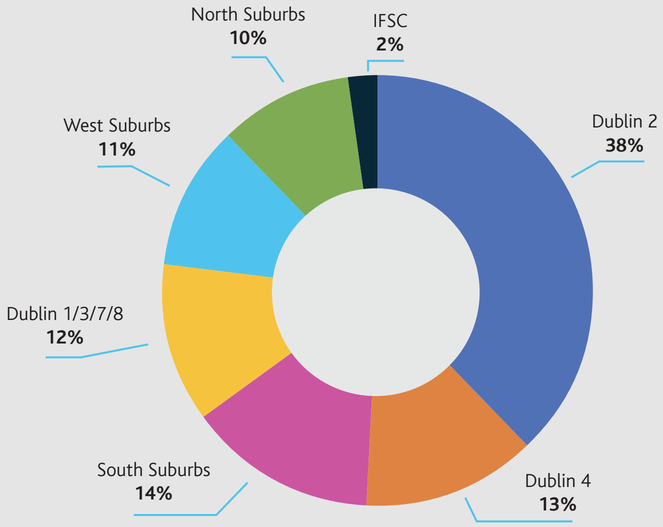
Source: MM

Take-Up by Size (Based on No. of Deals)



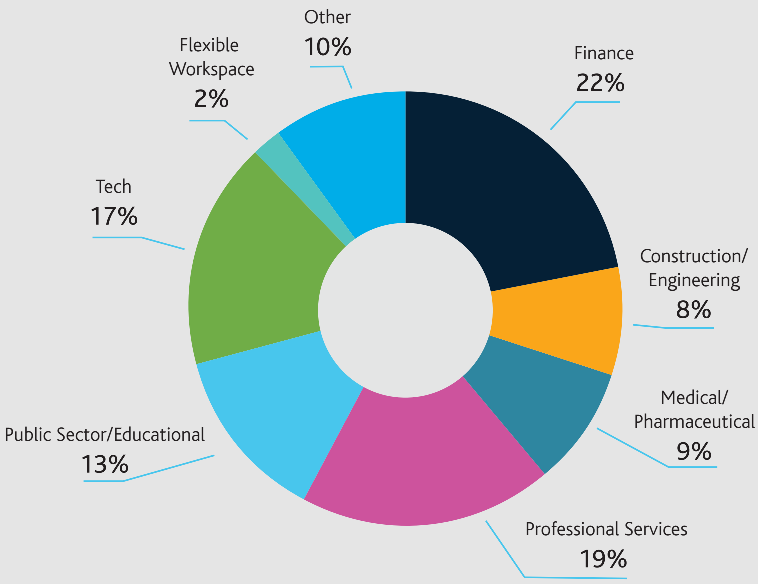
Source: MM

Take-Up by Location (Based on No. of Deals)



Source: MM

Take-Up by Sector (Based on Sq.ft.)



Source: MM

London Calling

3.  LONDON CALLING – OFFICE MARKET REVIEW

Patrick Ryan, Partner – London Offices at Gerald Eve LLP (MM UK Affiliate)

Points to Note

- London Office Market = approx. 270 Million sq.ft./Dublin Office Market = approx. 50 Million sq.ft.
- London has much larger sub-markets (The City/Canary Wharf/West End/Victoria etc.).
- London traditionally sets the standard in "Best in Class" office design and occupier initiatives – Dublin follows.
- Rent Free Periods in London expand / contract much quicker to reflect market conditions.

Key Highlights

- Flight to quality means 'BIC' supply is tight in the key sub-markets of City and West End. This is unlikely to change in 2024-2025.
- There has been strong rental growth in core West End submarkets such as Mayfair / St James' and Fitzrovia. The City has also recorded positive rental growth.
- Annual completion of offices in 2023 was just over 6 million sq.ft. with much of this delayed from 2022.
- Overall vacancy is stable at 9%, but there are several developments and full-scale refurbishments being completed which could cause this figure to rise in 2024.
- Sub-letting volumes have been on a downward trend since 2021. It is now at the lowest point since Q2 2022. Most good quality sub-letting space has been absorbed.
- Increasing focus on ESG credentials, especially for any pre-letting activity.
- Two-tier market. This will entrench further driven by ESG credentials and new occupier requirements.
- Finance and Banking sector has been the most active representing 4.2 million sq.ft. of Take-Up in 2023 (approx. 35% of total market).
- Keen occupier interest combined with a lack of supply means Prime Rents have outperformed the broader market by a wide margin over 2023. From MSCI's monthly December 2023, Prime West End annual rental growth reached 7.2% (2.9% above the all-quality measure).
- Evidence of rent-free periods beginning to contract across core West End markets such as Mayfair and St James's, Soho, Covent Garden, Fitzrovia, and Marylebone. Now at 21 x months from 21-24 x months (for 10 year lease term).

Summary

The lack of quality 'BIC' supply in key sub-markets is pushing up headline rents. Occupier competition for 'BIC' space is strong with many firms now making commitments to space (which were postponed during the pandemic years).

Occupier demand is mainly focused on smaller size bands (0-10,000 sq.ft) and the larger size band (50,000 sq.ft +).

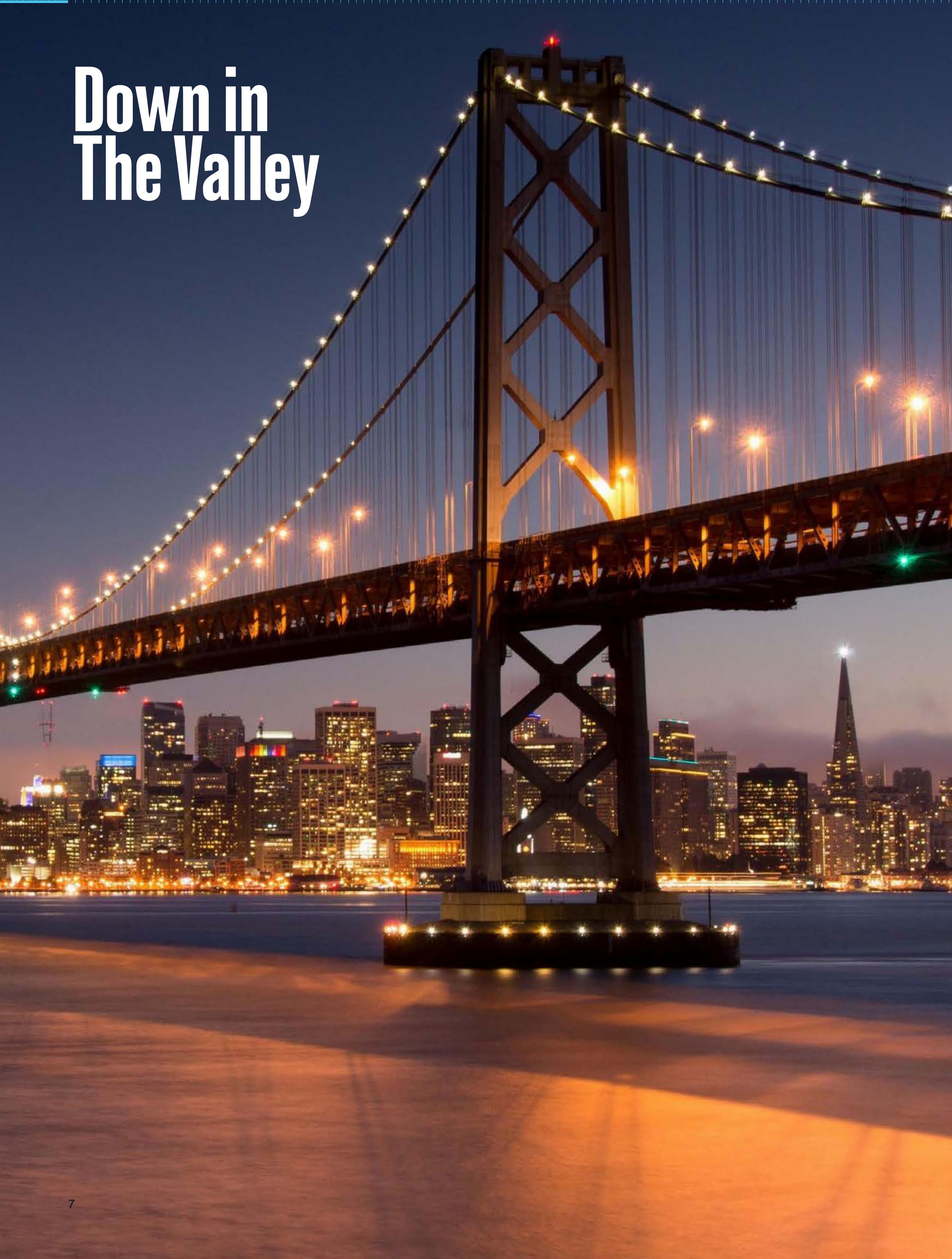
Activity in the Media and Tech sector fell by 34% year-on-year in 2023. Many firms were assessing headcounts which has meant some tenant space has been released. Notable examples include Twitter and Facebook. However, there has been notable leasing activity from sub-sectors such as Gaming and IT. Epic Games took 51,000 sq.ft in Victoria, while Cognizant also leased 51,000 sq.ft at Duo, 280 Bishopsgate.

Rent free periods and lease flexibility are the components of deals that have shifted in the occupier's favour rather than reduction in headline rents. These metrics are how London office agents track the true state of the market. It is interesting to note that rent free periods for 10 year term certain leases in London are substantially higher (21 x months) than what they are in Dublin (12-15 x months).

Our key take-away from conversations with Patrick and his team is that the smaller sized requirements (0-10,000 sq.ft.) are the most active and there is a flight to quality (both in terms of office building / space and location).

The gap on rent free periods is always a good metric to follow for us agents in Dublin. One wonders if we increased our rent free periods to London levels would our offices fill up any quicker?

Down in The Valley



Oracle Hub, Redwood City, Silicon Valley

3. SILICON VALLEY OFFICE MARKET REVIEW

In conversation with various SIOR brokers in Silicon Valley and beyond

Points to Note

- The influence of Tech occupiers on the Dublin Office Market is huge. They have driven pre-letting / take-up activity levels pre & post Covid. In a previous edition of Market Matters, we noted that their dominance (pre-letting entire office buildings) in Dublin was creating very limited opportunities for SME's looking at 'Floor by Floor' options. Times have changed.
- With the vast majority of Tech occupiers either based or heavily influenced by Silicon Valley. The impact of what occupiers do over there can influence what happens here in the Dublin Office Market and our economy.
- The overall size of the Silicon Valley Office Market is approx 65 million sq.ft.

Current Trends

All SIOR brokers agreed that 2023 was a challenging year for the market. Hybrid work models are still negatively impacting on office demand.

Economic & stock market performance have influenced the behaviours of Tech occupiers. With a focus on profitability, most have cut staff, stalled major expansion plans and continued to offload excess space taken in recent years.

The higher interest rate environment has made it more difficult to secure venture capital investment which traditionally has been a significant influence on growth within the Tech sector in Silicon Valley.

Record levels of sub-letting availability is concerning. The rise in rents for 'BIC' offices is yet another international validation that occupiers are choosing quality and are prepared to pay for it.

Key Stats

- Silicon Valley's unemployment rate stands at approx. 3.8% ↑ year on year.
- Take-Up 2023 = 4.7million sq.ft. approx. 2.6% ↓ year on year.
- Overall vacancy rates currently stand at 12% ↑ year on year.
- 4.8 million sq.ft. of office space under construction of which approx. 70% is pre-let.
- Office net absorption is negative due to large Tech occupiers vacating significant amounts of space in San Jose, Mountain View & Paolo Alto. This trend on net absorption is concerning as it is now at levels not seen since the GFC.
- Sub-letting market is receiving record availability levels due to Tech occupiers off-loading excess space.
- Against all of this, average asking rents for 'BIC' offices are rising and now stand at approx. $66 per sq.ft. (full service).
- Walmart (720,000 sq.ft.) / Amazon (580,000 sq.ft.) / Tesla (108,000 sq.ft.) were the top lease transactions in Q4 2023.

(Source: Various)

Relevance to Dublin Office Market

- Tech sector sub-leasing activity is concerning.
- Quoting rents for 'BIC' offices stable/increasing slightly – Flight to Quality.
- Supply side is being driven by sub-leasing as opposed to availability of new stock with 70% of this pre-let. Constrained 'BIC' supply is maintaining office rental levels.
- GDP growth / Inflation / Unemployment Rate / Stock Market / Consumer Spending are all similar metrics that most commentators believe has most influence over the direction of the Silicon Valley Office Market.
- US General Election (November 2024) could be more important and influential than other external geo-political factors against a tense local backdrop. Is Ireland similar?

4. THE BATTLE FOR 'BEST IN CLASS' OFFICES (LANDLORD v TENANT)

In Dublin 2/4 office market, a new and rare sub-market has emerged. Recently completed & un-let Landlord controlled 'BIC' space is currently competing with Tenant controlled (under-lease) 'BIC' space for the same occupier pool.

To date this 'Battle' has not yet resulted in either party suffering any impact on prime headline / passing rents nor anything over and above what the market would give by way of rent free.

However, some recently reported Landlord 'wins' for large occupier requirements may start to put pressure on Tenant controlled space to mitigate their (already committed) occupancy costs. This could result in them offering increased flexibility on sub-lease terms and more attractive rent free packages.

Most occupiers have rules around the terms under which they can assign or sub-let their space. These rules can be restrictive in terms of what they can offer prospective tenants. Sub-lease flexibility/fitted space offerings/rent-free packages are their main tools in the competition to secure an occupier v landlord opponent.

If you are an occupier seeking 10–20,000 sq.ft. 'BIC' space in Dublin 2/4, currently you would have 57x options to consider. See table below:

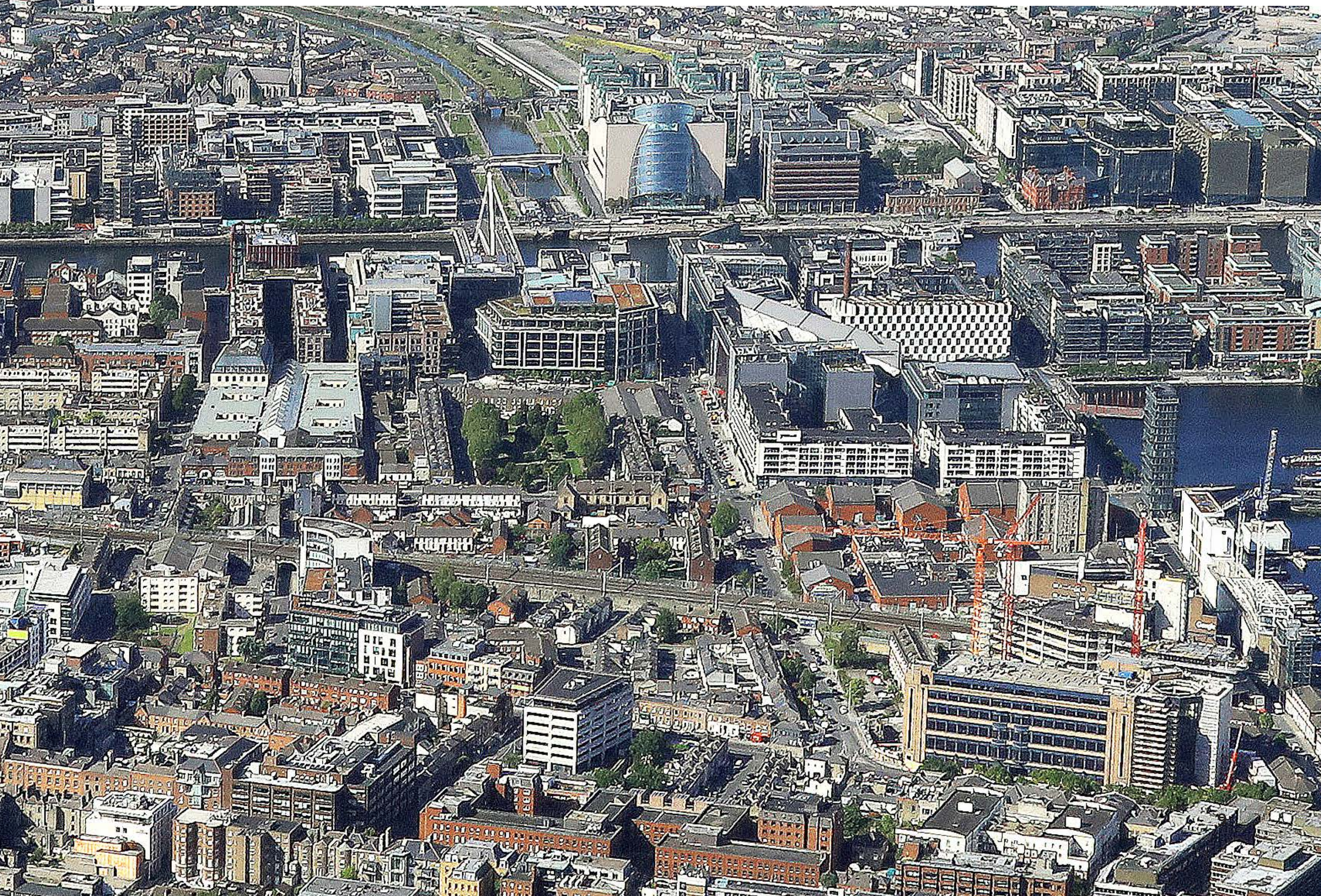
Location	No. of Landlord Controlled Floors	No. of Tenant Controlled Floors
Dublin 2	34	16
Dublin 4	5	2
Total	39	18

Not all occupiers will necessarily want a 'BIC' type office. Our stats from 2023 show that only 9 x deals between 10,000-20,000 sq.ft. were 'BIC' type offices.

Therefore, it is reasonable to conclude that in the absence of significant large scale requirements 50,000 sq.ft.+, it will take time to fully let some of these 'BIC' buildings. Those located in the prime CBD area will likely secure lettings ahead of those in Dublin 4 and fringe Dublin locations.

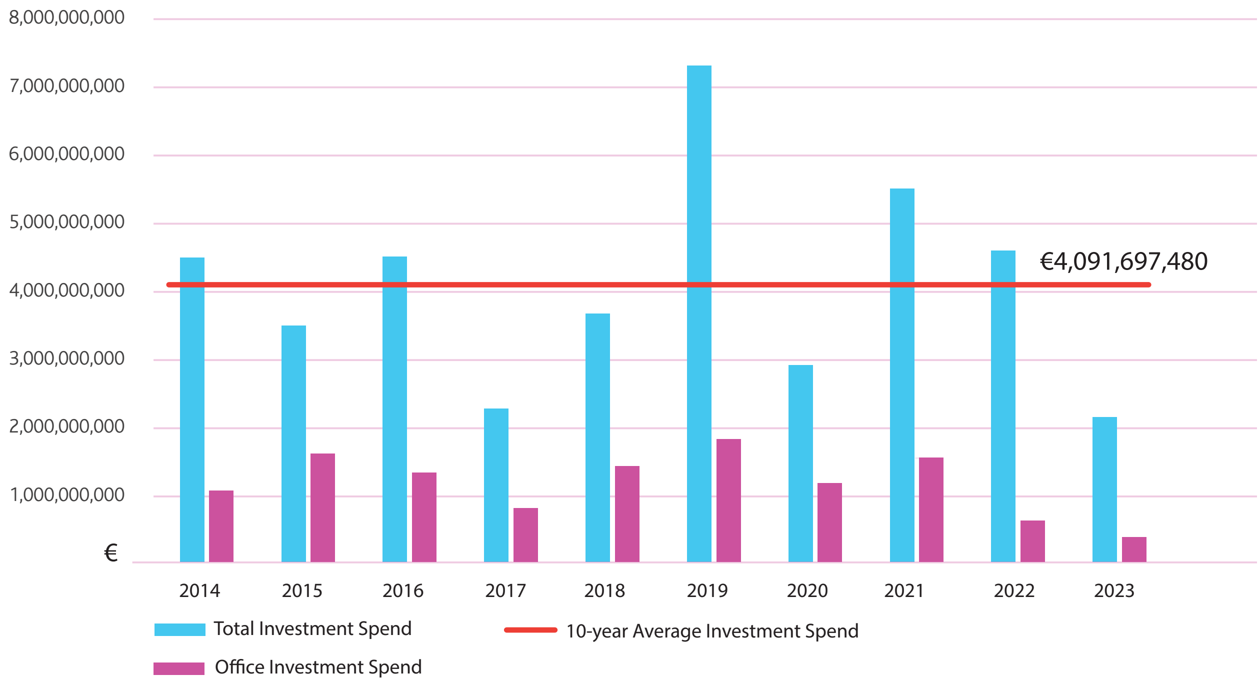
It will be interesting to see what happens with Tech controlled 'BIC' space in 2024.

Can they can secure any significant sub-lettings / assignments from occupiers in the market?



5. INVESTMENT MARKET REVIEW

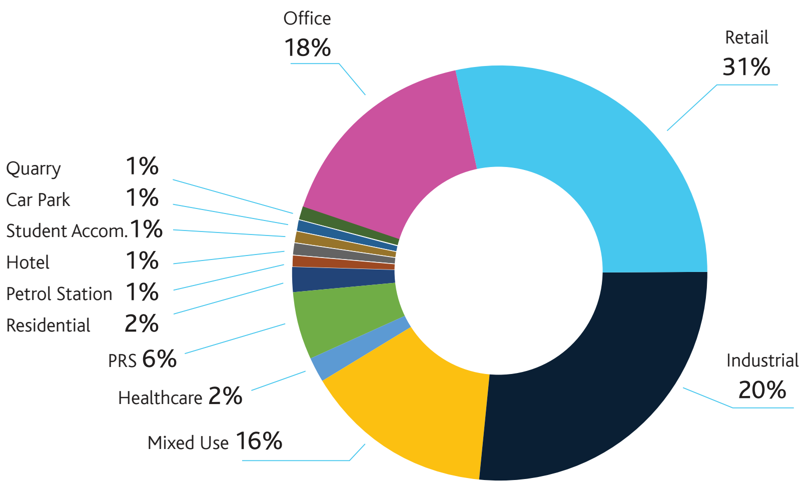
Last year saw a significant drop in investment volumes in the Irish market. This was well below the 10-year average. While there remains significant capital available for commercial real estate investment across Ireland and Europe, there are a number of key issues of importance to affecting investors as we move through 2024.



Source: MM

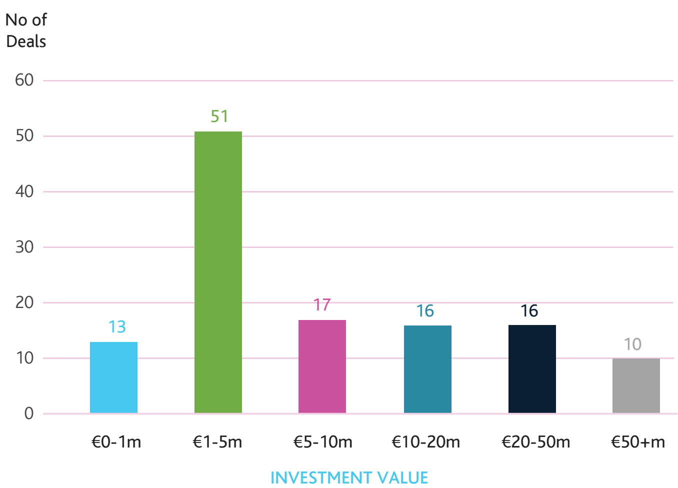
2023 STATS

Investment By Asset Class (Based on No. of Deals)



Source: MM

Investment by Lot Size (Based on No. of Deals)



Source: MM

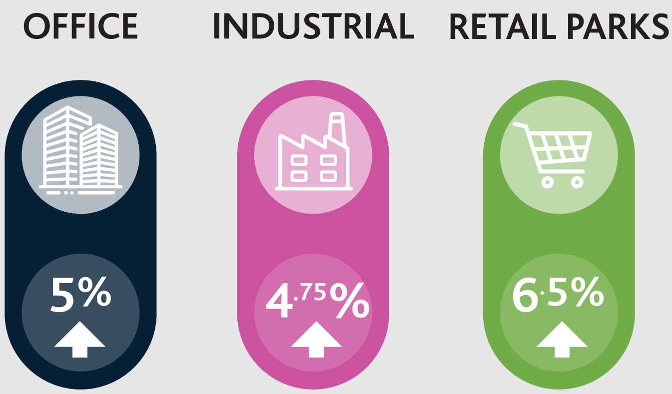
Top 5 Investment Deals 2023

Property	Price	Vendor	Purchaser
Baldonnell Business Park Phase II (Industrial & Logistics)	€225 million	Mountpark	Pontegadea
Building 1 & 2 Greenogue Logistics Park (Industrial & Logistics)	€110 Million	KKR & Palm Capital	Ingka Group
Opus 6 Hanover Quay, Dublin 2 (PRS)	€101 million	TPG Angelo Gordon & Carysfort Capital	Pontegadea
Eglinton Place Donnybrook, Dublin 4 (PRS)	€99.5 Million	Richmond Homes	M&G Investments
George's Quay House Townsend Street, Dublin 2 (Office)	€81 Million	Henderson Park	Corum

Top 5 Office Investment Deals 2023

Property	Price	Vendor	Purchaser
George's Quay House Townsend Street, Dublin 2	€81 Million	Henderson Park	Corum
Waterside Citywest, Dublin 24	€65.5 Million	IPUT & Davy	Fine Grain
Trinity Point 10/11 Leinster Street South, Dublin 2	€40 Million	Private Irish	OPW
87 – 88 Harcourt Street Dublin 2	€34 Million	Receiver – EY	Remake
Building F1 The Campus, Cherrywood, Dublin 18	€33.4 Million	Spear Street	Corum

Prime Yields (Spring 2024)



Irish Economy

Forecasting the Irish economy can be complicated, particularly with distortions caused by internal accounting decisions by Irish based multi-nationals. While some of the headwinds facing the economy seem to be easing, certain key risks to our outlook, notably the uncertainty around inflation and the relatively high ECB interest rate (4.5% compared to 0.0% in 2022) remain present.

Higher interest rates for property owners/developers, falling property values (MSCI European Quarterly Property Index Reports property values are currently down 20.3% from their peak in June 2022) and a slow occupational market are obviously cause for concern.

However, it is assuring that diligent lenders are fully aware of the current office and economic environment and are taking steps to protect their CRE loan books working in conjunction with their clients/owners. This is a hugely progressive and realistic step, acknowledging current market conditions. A watching brief ensues.

Ireland continues to post good economic indicators (in spite of all the headwinds) with GDP forecasted at c. 1.2% for 2024 and 1.9% in 2025 (ESRI). Inflation is finally easing and will likely fall this year. The unemployment rate remains low at 4.5%.

It is important to mention our well-worn statement about the relationship between the performance of the domestic economy and its impact on the office market. Our research over many years has shown that there continues to be a direct correlation between the level of GDP Growth/Decline and the take-up levels experienced in the office market.

Interest Rates

Interest rates have continually grown since mid-2022 across the Eurozone. 2016 to 2021 was very attractive for property investors with interest rates at historically low levels and significant returns were made throughout this period. The returns on Irish property compared very favourably to other European locations such as Paris, London, Frankfurt.

It is widely expected that there will be interest rate cuts by the ECB at some stage in 2024. However, it is difficult to ascertain exactly when this will happen with most commentators suggesting mid to late year.

The impact of inflation felt throughout last year had a big impact on returns in the Irish property market. The rising cost of finance, coupled with this inflation led to a downward impact on values.

The cost of capital remains the most challenging issue for the property investment market worldwide, not just in Ireland. With interest rates now stabilising and potential cuts possibly on the horizon, this should enable the market to resume normal trading conditions. However, uncertain investors are still adopting a wait and see approach and this has stifled activity in the market to date.

Lenders will also be more selective with a clear preference for quality on assets expected. The gap between modern (ESG compliant) and older assets will continue to widen.

Investor Sentiment

The downturn in the Tech Sector has dampened investors' appetite for office investments, especially in Dublin. Tech accounted for almost 50% of gross letting in the Dublin Office Market in the 5 years to the end of 2022. This combined with the shift to working from home post-covid has accelerated the decreased demand from large occupiers for office space.

The fundamentals for the Irish commercial property market remain strong. International investors continue to see Ireland as an attractive place to deploy capital. The office occupier market has entered a slower but more 'normal' phase with traditional office occupiers such as Banking, Professional Services and Legal, all taking space once again.

Price Reductions will present significant opportunities for existing and new investors to enter the market. Those who have been traditionally opportunistic will likely benefit.

There remains an ever increasing yield divergence between 'grey' and 'green' buildings. Older stock is less attractive compared to newer ESG compliant buildings which are favoured by the majority of international funds (many of whom are mandated to only purchase these type of buildings).

In some cases (given recent cost inflation), the refurbishment of older buildings to new ESG standards is not viable which further impacts on valuations.

Valuations

The recent hikes in interest rates has resulted in property yields shifting outwards to reflect the cost of financing these investment deals – therefore reducing values.

The lack of comparable evidence remains a key issue. Necessary price adjustments need to happen to allow investors re-enter but it also requires vendors to be realistic as to where the market and values are trending. Until this happens, most international investors are in 'pause' mode, watching in the wings.

It is expected that yields will come under further pressure in 2024. This is necessary for deals to happen. Prime yields have moved out by 100-125 bps in some cases. Some sectors performed better than others with industrial values holding firmer when compared to offices for example.

Retail Investments are performing well. However, positive metrics around this sector have been happening since 2021/2022. The PRS sector has been severely impacted by interest rate hikes. After a very active few years, this sector has gone quiet and likely to remain so for 2024.

A View from Europe

THE INVESTORS VIEW FROM EUROPE

Tobias Schultheiß – Blackbird Real Estate – Frankfurt

Tobias Schultheiß (TS) is Managing Partner at Blackbird Real Estate.

Blackbird Real Estate is an advisory and investment brokerage headquartered in Frankfurt, Germany. They represent all of the major German Investor Funds. These been active buying commercial property assets in Ireland in recent years.

MM What is your outlook for the German/European investment market?

TS: Although times are not easy, my outlook for the investment market is positive. From discussions with investors, it is my impression that in Germany, we may have reached the bottom – the question is, when will the market go up again. Looking at European markets, the outlook is positive as well but obviously you have to differentiate between countries. For example, the UK seems to be showing earlier signs of recovery, particularly in London.

MM How important are ESG compliant buildings to your German clients?

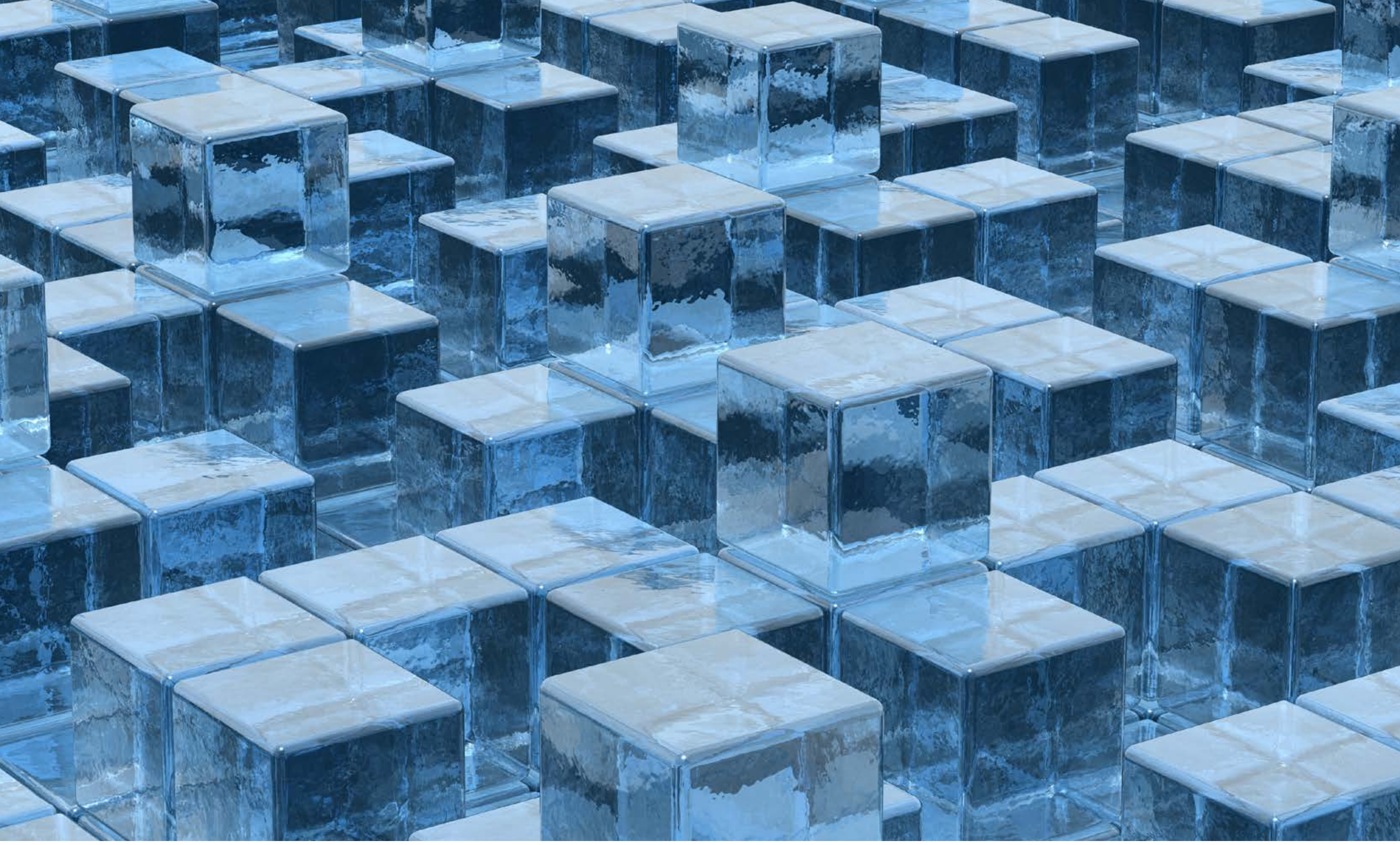
TS: in Germany, especially institutional investors fear "stranded assets" (not to say they are risk averse) and this is why they only buy high quality ESG compliant buildings. Given the massive amount of "non ESG compliant" buildings, there are numerous value add investors who focus on "manage to ESG" type buildings. To answer your question: ESG compliance is very important!

MM What is your current view on Ireland as an investor location?

TS: I like Dublin as a city and Ireland as a country. My daughter goes to school in Dublin. Having said this, I am absolutely positive about Ireland as an investor location – as long as the investment opportunity meets the necessary and sometimes stringent institutional investor criteria.

MM Are you actively pursuing investment opportunities given current market heawinds?

TS: As brokers, we are currently pursuing several promising opportunities in EU countries like Portugal, Italy, Ireland and the UK also. However, as an investor, we will likely need to wait until 2025 to move on assets as the pricing gap between seller and buyer is currently still too big.



6. THE CRYSTAL MAZE - WHAT LIES AHEAD IN 2024?

Best in Class Leading the Way

- There is a common theme across international office markets – London, Paris, New York & Dublin. Best in Class offices are by far the most sought after.

  Occupiers are balancing a number of different important criteria namely, talent retention/acquisition, RTO mandates, ESG etc. Some are seeking the best quality offices that reflect their business/brand. Market data clearly shows that there is a preference among international and corporate occupiers for 'BIC' office space.

  This is the main reason that rents in this particular class of office are holding and look set to remain stable in the near term.

  There is a clear rental gap (€10-€15 per sq.ft.) between Dublin 'BIC' rents and the Grade B+ office equivalent.

Patience is a Virtue

- Behind every great office building... is normally a lender or group of investors seeking a reward for their funding risk capital.
- As the office market enters what we would consider to be a slower than normal period, it is a fact that large scale new 'BIC' offices are going to take longer to fill.
- We had it relatively easy with Big Tech taking significant pre-lettings (2017-2022). Those days are gone and it is more likely that a good result for a new 'BIC' style office building (100,000-150,000) would be 1 x large letting of say 50,000 sq.ft. and then the remainder on a floor(s) by floor(s) basis (reflective of the current demand trends).
- This hypothetical scenario takes time, however, and more importantly patience is required from the funders/lenders behind the scene. The good news for those holding the best located 'BIC' stock is the 'Flight to Quality' adage doing the rounds is actually true! Occupiers are choosing the best of the best in the main and rents and incentive packages seem to be holding here. Therefore, debt patience is required but not everyone will be prepared to wait.
- One note of advice from those who advise i.e us! There is a real dislike around the uncertainty created when a Receiver is appointed to an office building. It can harm future letting prospects unless a clear mandate is given around who can make decisions/provide funding for say CAT A Landlord fit-out to be installed/future ownership. Occupiers do not like uncertainty.

Postcode Power

- In our experience, when the office market swings back in favour of the occupier it tends to be at the end or beginning of a cycle.
- Right now, supply is plentiful which means more choice on where one can locate their new office. Occupiers have time to fully consider the traditional merits of a specific location ranging from the basics like nearby amenities, access to public transport and safety for staff to more detailed considerations such as on-street parking for clients, proximity to Dublin Bike Stands and walking/driving distances to various points within the City.
- When a market is 'hot' occupiers face competition and there can be a blurring of the lines when it comes to what is defined as a prime or CBD location and what would be considered a 'Fringe' or peripheral city centre location. One could be forgiven from thinking (from some of the blurb out there) that a Prime Dublin Office location could stretch anywhere from the North Docks in Dublin 1 to the leafy edges of Dublin 4 and along the Grand Canal to Dublin 8.
- Nowadays, occupiers are placing more significance on the location of their offices (and the quality aspect too) and once again postcodes are being properly analysed on their merits. Prime is Prime/CBD is CBD/Fringe is Fringe. They will not all command the same rents as they reflect different demand dynamics from occupiers.
- In weaker markets, occupier demand tends to focus on the CBD area with rents for the various types of offices therein likely to come under less pressure than fringe city centre locations where demand is limited.
- Occupiers are not foolish people – they know the benefits/challenges presented by various postcodes and will make decisions accordingly.

Playing it Safe

- Institutional investors' wish lists for this year focus primarily on 'Best in Class' and ESG compliant assets. Flight to Quality will remain key. Assets that do not meet these criteria will fall behind. Whilst there are numerous opportunistic investors in the Irish market (willing to look at secondary assets in non-core locations), the size of this pool has decreased.

Managing Expectations

- Both vendors and purchasers will benefit from realistic valuations being provided on assets.
- Behind the scenes, up to date and relevant comparable evidence, balanced with a strong market insight will be key for robust valuations.
- Some assets recently placed on the market in early 2024 are still, we believe, 'overpriced'. Their quoting price is not reflective of current investor pricing. Whilst there are institutional and private investors ready to purchase assets, our view is that prices need to adjust further before activity levels pick up.
- Realistic sales levels will set new pricing benchmarks which in turn will close the gap between vendors' and purchasers' expectations.
- Valuers need to be prepared to deliver up-to-date and realistic valuation 'news' to their clients so that pricing levels are properly assessed on assets being brought to the market.

Funding

- Banks and lending institutions will continue to focus on tighter LTV levels. They will continue to prefer core and prime assets. Funding for non-ESG compliant and non-core buildings will be more difficult to obtain.
- The cost of finance has been a significant issue for investors over the past 24 months. With the expected ECB interest rates cuts in Q3/Q4 2024, borrowing costs should ease.

Perception of the Irish Market

- Ireland has now established itself as a very strong and secure 'Tier 2' investment location by institutional investors. There was an influx of German, French and other European investors over the past number of years. We continue to see new entrants in the market which bodes well.

Murphy Mulhall

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