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OUTLOOK 2024

5 OFFICES

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55 Charlemont Place, Dublin 2

MARKET DYNAMICS

POST-PANDEMIC TRENDS PERSIST

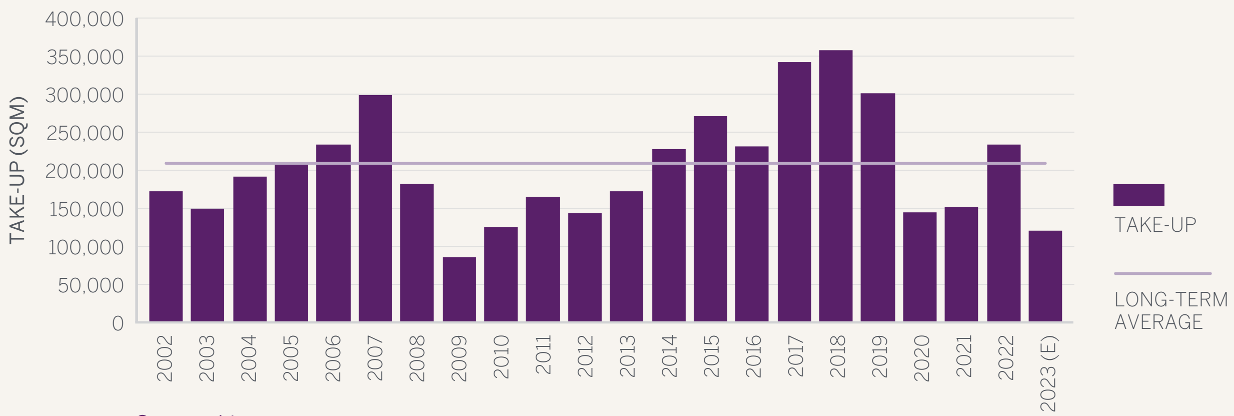
Entering 2024, many of the prevailing trends in the Dublin office market are the same as 12 months ago. Hybrid working practices and adjustments in the tech industry continue to impact demand. These trends have resulted in significantly lower levels of take-up than the long-term average; a growing vacancy rate due to grey space and speculatively built schemes; as well as occupiers seeking flexible terms on fully fitted space as they continue to assess their requirements. Notably, Dublin is not alone in dealing with a post-pandemic shifting office market, markets around the world are too. And as with global markets, the impact of these changes will be compounded by the ever-increasing gap between buildings fulfilling ESG criteria and those that are not – from a rental and capital value perspective, but also from a funding, operational and demand standpoint.

ACTIVITY & DEMAND

MORE CERTAINTY ON REQUIREMENTS

An estimated 120,000 sqm of office space was taken-up during 2023, less than half the previous 10-year annual average of 243,000 sqm. While some improvement in activity is likely this year, reverting to the pre-pandemic norm is unlikely in 2024. On the demand side,

ACTIVITY



Source: Lisney.

2 Stemple Exchange, Blanchardstown Corporate Park, Dublin 15

THERE WAS ABOUT **60,000**SQM OF ACTIVE REQUIREMENTS IN THE MARKET AT THE END OF 2023 WHICH **BODES WELL**

there was about 60,000 sqm of active requirements in the market at the end of 2023, which bodes well for the first half of this year. In addition, 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. As 2024 progresses, this will increase the occupancy levels of buildings and generate more certainty for businesses on space requirements, which will ultimately result in market activity.

PROFESSIONAL SERVICES FIRMS WILL BE THE MOST ACTIVE IN 2024

Despite the retrenchment of many tech firms, the sector still played an important role in the Dublin office market last year, accounting for about one-fifth of take-up and was the second largest group taking space. However, professional services firms were the most active with financial firms and the State also active. These three sectors are likely to be busy again in 2024, with most focus on the city centre and some selected suburban regions. Where suburban space is required, there appears to be an emerging trend (albeit still very minor) of occupiers seeking space in areas close to where affordable housing is available for employees.

Termini, 3 Arkle Road, Sandyford, Dublin 18

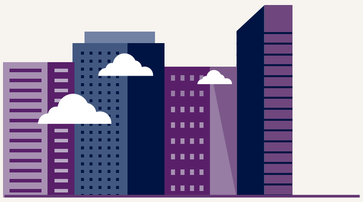
MEDIUM-TERM HORIZON FOR US OCCUPIERS TO MOVE INTO EXPANSION MODE

Occupiers originating from the US have on average made up half of the Dublin office market in the last decade, with 2018 to 2020 particularly strong years. In 2022 and 2023 the proportion fell to about one-third. Demand from US businesses will be at reduced levels again for most of 2024. However, as interest rates in the US settle and parent companies are under less pressure to cut costs, it is likely that many will be back in expansion mode and investing in Irish operations. In the more medium-term, this will be positive for market activity.

SUPPLY

PEAK OF GREY SPACE

With changing market trends, the headline vacancy rate across Dublin was almost 16% towards the end of last year, its highest level since 2013. The rate has more than doubled since early 2020 when it was just 7.2% with much of the increase comprised of new speculatively built buildings (4.9 percentage points of the vacancy rate) as well as grey space. Despite the rapid rise in grey space from effectively zero pre-COVID to about 205,000 sqm currently, the pace of sub-lets coming to the market has slowed and should peak this year. It currently makes up close to five percentage points of the vacancy rate and 31% of all availability. The supply of this type of accommodation will continue to be of interest to many companies seeking space in 2024, particularly if it comes on flexible terms and is fully fitted, hence providing them with more time to assess the future but also a substantial capital expenditure saving on fit-out.



DESPITE THE **RAPID RISE IN GREY SPACE** FROM EFFECTIVELY ZERO PRE-COVID TO ABOUT **205,000**SQM CURRENTLY, THE PACE OF SUB-LETS COMING TO THE MARKET HAS SLOWED AND SHOULD PEAK THIS YEAR.

CONSTRUCTION & SUSTAINABILITY

NO NEW BUILDINGS DUE PAST 2025

Works will continue this year and next on office buildings already on-site, but there will be little or no new starts in the near term. Inflated construction and finance costs (albeit likely to reduce this year) as well as a high headline vacancy rate, reduced market activity and macro-economic conditions will be the key risk factors holding back development. As of now, no new buildings are due in 2026 and beyond. This brings with it future risks, particularly in three to five years' time when there will not be enough A rated / zero-emission buildings to meet the demand arising from occupiers' 2030 ESG commitments (or 2027 commitments by some). Developers, investors and funders need to keep this in mind and not over-correct.

STRANDED ASSETS

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 / rebuild (if permitted due to embodied carbon) older Grade C buildings, and this cost will be reflected in their value. However, it will be a more difficult situation with Grade B buildings and there is a realistic fear many will become stranded assets – too modern to justify the high cost of upgrading to A or high B ratings on the BER scale, but also not meeting the sustainability standards required. Certain landlords will carry out the works regardless and accept the cost. Going forward, which party takes responsibility for the M&E systems will become a hotly negotiated point for landlords and tenants, as will the level of service charge.

The Exo Building, Dublin 1

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