SOUTH SUBURBAN

OFFICE REPORT

JUNE 2022

Stradbrook House and Somerset House

EXECUTIVE SUMMARY

This report serves to highlight the following key indications across the Dublin office market in support of a full redevelopment of Stradbrook House and Somerset House:

- Demand for office space post Covid is stable but far below their pre-Covid levels.
- Demand is heavily weighted towards CBD locations at the expense of the Dublin Suburbs. This trend is set to continue.
- The flight to quality is real – occupiers are wholistically focused on Grade A sustainable office space. Office refurbishments are struggling to secure interest and even older buildings in acceptable locations risk becoming stranded assets.
- Older buildings in less desirable buildings are essentially obsolete.

The Existing Asset

Stradbrook House and Somerset House comprise two self-contained, secondary office buildings located on Stradbrook Road. The floor plates provide for a combination of open plan and cellular accommodation with dilapidated fitout in part.

Both buildings provide secondary specification as outlined below:

- Suspended ceilings
- Recessed lighting
- Air handling in part
- Painted plastered walls
- Raised access floors in part




The building has limited appeal largely due to location, lack of occupier demand and poor specification. In comparison, Savills are currently marketing a more centrally located, modern office building close by at Harbour Square in Dun Laoghaire, providing the following superior specification:

- Suspended ceilings
- LED lighting
- Full air conditioning
- Raised access floors
- High-end tenant fitout in-situ as outlined in the imagery below




Despite the obvious higher quality offering at Harbour Square, this space has been vacant since early 2019 with minimal interest over a 4-year period.

The ESG Equation

Occupier focus has shifted dramatically towards ESG office space over the past 24 months. Modern office space is expected to offer the following key credentials:

- Minimum A3 BER
- Leed Gold/Platinum
- Wiredscore Platinum
- NZEB credentials

Refurbished office buildings find it difficult to achieve these credentials and older stock is far behind in terms of its appeal among occupiers aside from those seeking short-term flexible space with an existing tenant fit-out. The market already provides an abundance of secondary office space in central location to match this demand.

OFFICE MARKET OVERVIEW

Office Leasing

With the office market showing signs of recovery in Q1 2022, take-up totalled 478,000 sq ft, the second-highest quarterly figure since the pandemic began. Take-up last quarter represents a substantial recovery relative to Q1 2021, when the country was in the depths of the third lockdown and just 22,000 sq. ft transacted across seven deals. Notably, even though take-up is closing the gap with pre-pandemic levels, it was still 24% lower than the ten-year first-quarter average and 57% lower than Q1 2020. Strong employment growth over the course of the last two years should provide some support for take-up in 2022 but the economic headwinds are already starting to impact levels of demand. Crucially even as take-up has recovered, the quantum of reserved stock has grown, increasing from 830,000 sq. ft at the end of 2021 to 1.1 million sq. ft. Reserved stock keeping pace with take-up implies that the recovery that we have seen since late 2021 should remain relatively stable. The number of active requirements in the market, another bellwether for demand, also remained steady at 4 million sq. ft.

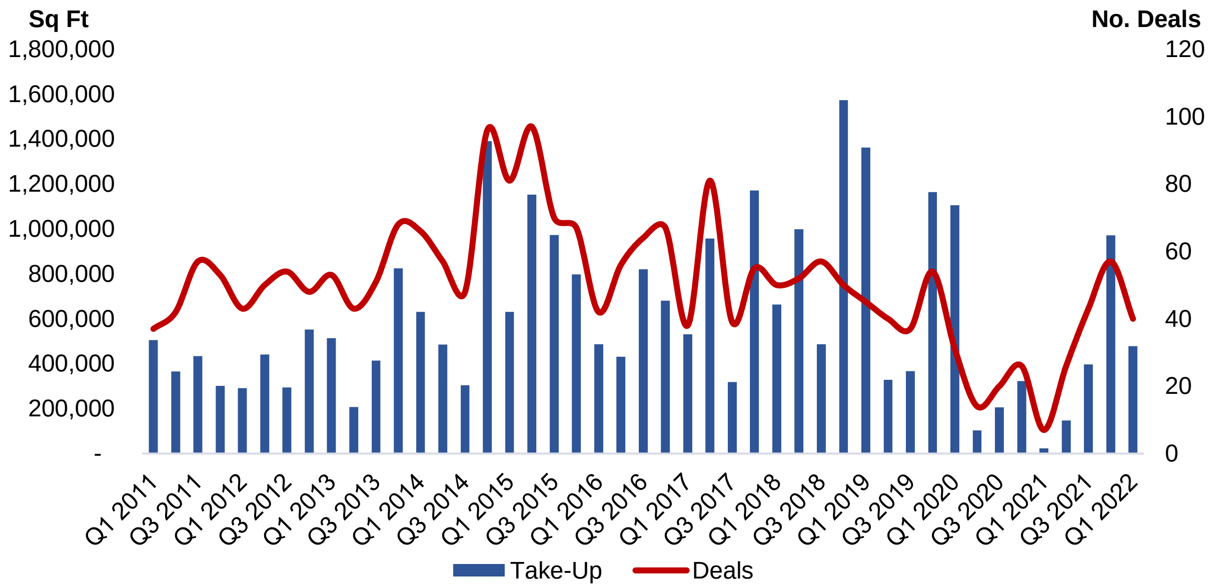


Figure 1: Office Leasing Turnover

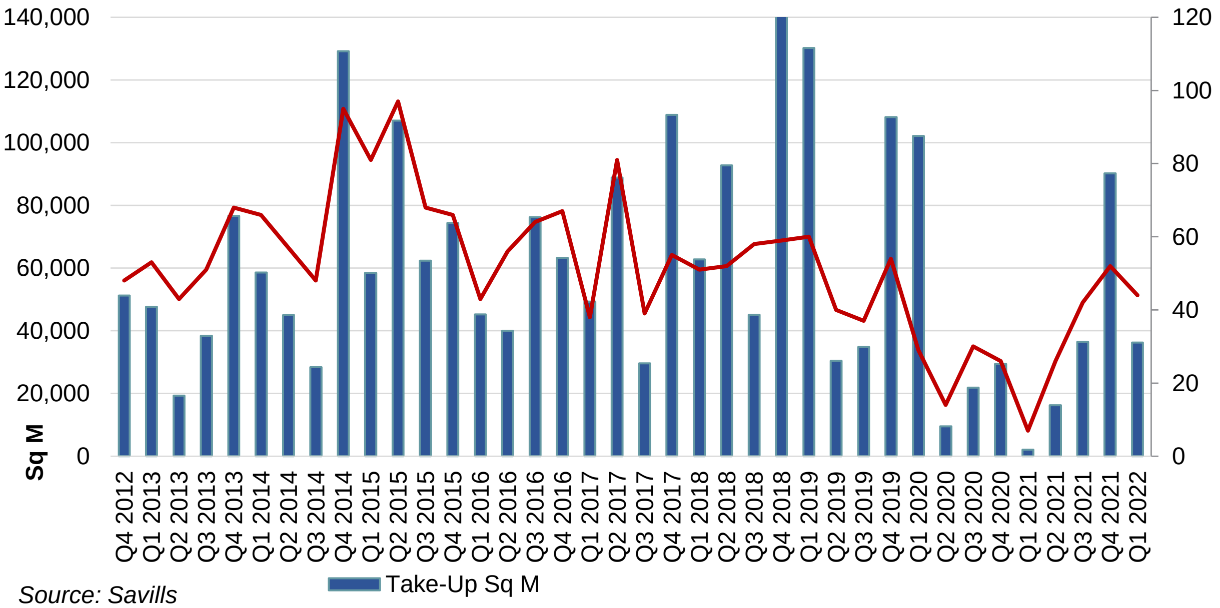
An Post's leasing of 78,900 sq ft in the Exo in the North Docklands was the largest deal of the quarter, with the postal service provider expanding their footprint in the city with further plans to refurbish existing space in the GPO. FISERV, an American fintech, leased 68,300 sq ft in 10 Hanover Quay in the second-largest deal of the quarter. FISERV is a new entrant to the Dublin market and plans to use the office as a strategic hub for collaboration and innovation highlighting how occupiers are increasingly valuing office space for its capacity to bring talent together. The third-largest deal of the quarter was Toast’s lease of 34,500 sq ft in 124-127 St. Stephen Green, with the US fintech firm taking space to accommodate a growing workforce after it expanded during the pandemic on the back of a successful funding round in February 2020. The strong focus on core CBD locations remains evident.

With offices closed for the majority of 2020 and 2021, the volume of active requirements declined as companies delayed decisions on their long-term occupational strategies, leading to a fall in the average deal size over the last two years. Two mega-deals in the final quarter of 2021 fuelled an uptick in the quarterly average deal size to 17,000 sq ft, more than double the average of 7,600 sq ft witnessed over the preceding four quarters and 8.8% higher than the five-year quarterly average deal size before the pandemic of 15,700 sq. ft. With Q1 seeing no deals of the scale seen in Q4 2021, the average deal size fell to 11,950 sq. ft, 24% lower than the aforementioned pre-pandemic average. Examining the deals that were greater than 50,000 sq. ft, the average deal size in this category was just 73,600 sq. ft, compared to a five-year quarterly average of 134,500 sq. ft for deals over 50,000 sq. ft.

The CBD's primacy as the location of choice continued in Q1 2022, accounting for 81% of take-up for the second quarter in a row. The preference for the CBD is particularly evident amongst occupiers taking larger units, with the top five deals in the quarter taking place here. As we have noted in previous reports, Dublin’s size likely reduces the attractiveness of hub-and-spoke models allowing occupiers to locate in easily accessed, centrally located offices. Furthermore, Dublin’s radial transport system – which focuses on the movement of people to and from the periphery of the city to its centre – incentivises this occupational strategy. Tech firms were the most active in the CBD, accounting for 48% of take-up followed by Financial Services and Public Sector firms, which accounted for 21% and 20%, respectively. There were only two significant deals in the suburbs this quarter: Cubic Telecom, a software company, took 28,500 sq ft in the Hive in Sandyford, while flex-space provider Regus leased 20,000 sq ft in Two, Dublin Airport Central. Only two other flex- space providers, The One Agency and Pembroke Hall, have taken space since the onset of the pandemic. An expansion by Regus – who are a significantly bigger player in the market – may be an early indication of a renaissance in flex-space.

Take-Up

Take-up in Q1 2022 totalled just under 400,000 sq. ft., showing a strong improvement from Q1 2020 which was 23,000 sq. ft. With the full removal of all Covid-19 restrictions in Q1 2022, confidence returned to the market noticeably in The New Year. With some large deals completing in Q2 2022 including ServiceNow along with large Tik Tok deals which are currently in legals.



Source: Savills

Figure 2: Quarterly Dublin Office Market Take-Up

Take-up in the_Southeast Suburbs has been hit hardest of all the periphery markets. The downward trajectory of take-up in this catchment area is evident in the table below with total take up for southeast suburbs in 2022 Q1 take-up of 39,403 sq. ft. a significant drop off from pre Covid levels.

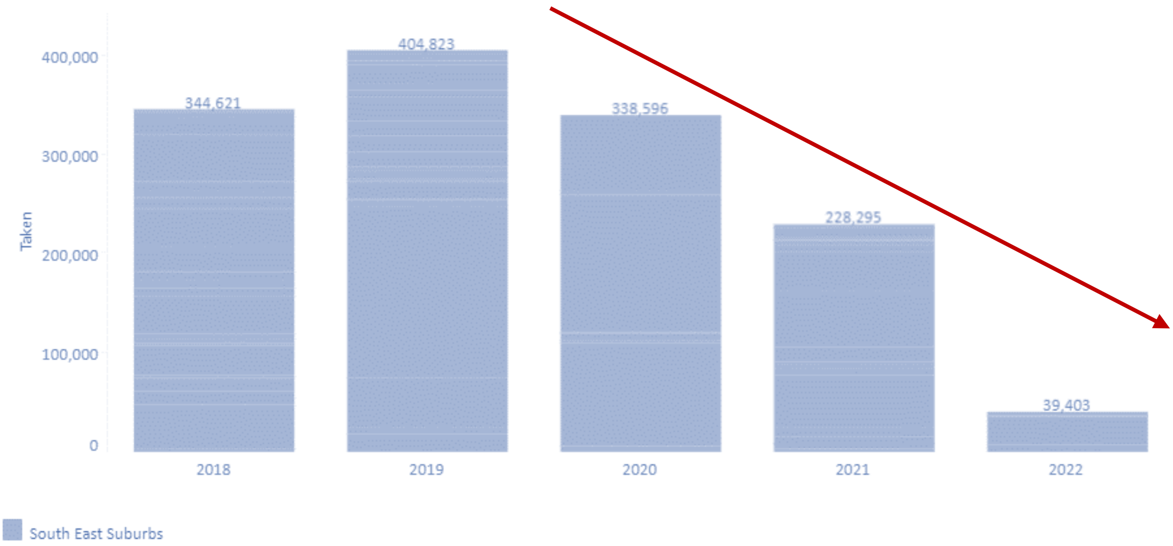


Figure 3: Annual Take-Up in the Southeast Suburbs

In a further stark warning for the South suburbs, Q1 2022 only saw a total of 5 lettings as outlined in the table below:

Property Address	Letting Agent:	Quantity Signed (Sq. Ft)	Quarter Signed	Tenant Name	Notes Signed	Acquiring Agent	Headline Rent agreed per sq ft	Notes:
The HIVE Sandyford, Carmanhall Road, D18	HWBC	28,482	Q1 2022	Cubic Telecom	Entire 3F & Part 2F.	Frisby	€28.50	10-year lease
Trintech Building, South County Business Park, D18	BNP / JLL	2,539	Q1 2022	Alliance Aviation	Part 1st Floor	N/A	€26.50	5-year lease, break year 2
Trintech Building, D18	BNP / JLL	4,799	Q1 2022	Memjet	Ground Floor	N/A	€23.30	10-year lease, break year 5
Trintech Building, D18	BNP / JLL	2,539	Q1 2022	Alliance Aviation	Part 1st Floor	N/A	€26.50	5-year lease, break year 2
Suite 304 Q House Sandyford, D18	QRE	1,044	Q1 2022		3rd floor	N/A		

Figure 4 – Q1 Deals in Southeast Suburbs Split By Sector

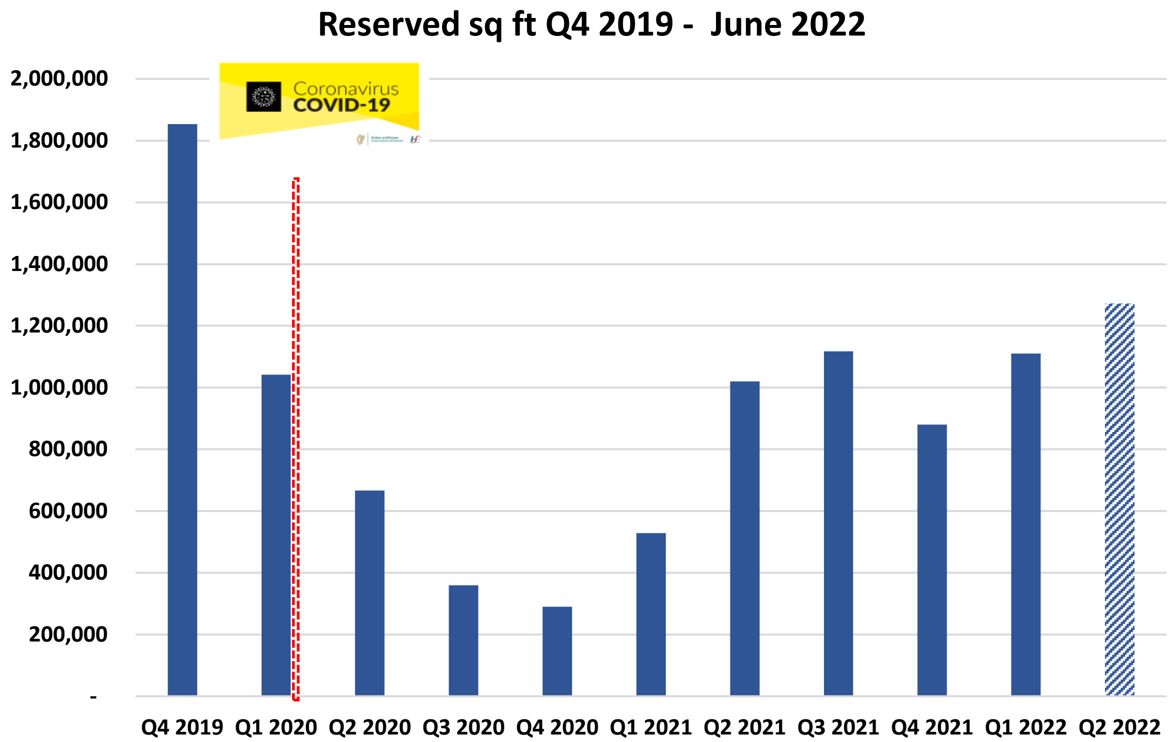


Figure 5: Reserved Deals – Pre & Post Covid

Encouragingly, there was just over 1 million sq. ft. of reserved space at the end of Q1 2022, a strong increase to the 880,000 sq. ft. recorded at the end of Q4 2021 but far below the pre-Covid level of 1.8m sq ft. Modern office buildings currently under construction within the CBD such as; The Shipping Office, 60 Dawson Street, Four Park Place and Tropical Fruit Warehouse account for over 80% of this tally.

While no major shift to a long-term work-from-home paradigm seems likely to take place, a return to five days a week in the office also looks unlikely. If workers are working remotely for 2-3 days a week, we can expect to see a reduction in occupiers' footprint over time.

Active-Demand

Despite a dramatic drop of around 35% in 2020, the tally of total Dublin office requirements has stabilised somewhat in Q1 2022 at just over 4 million sq. ft. This tally accounts for all active requirements in the market and is not time specific. ***Occupier interest remains focused on the CBD with 93% of all searching in the key postcodes of D1, D2, D4.*** If anything, this position has hardened since the pandemic which goes against the 'hub and spoke' narrative, as we would expect to see an increase in suburban office requirements in Dublin to complement existing CBD headquarters. While we may see this model emerge in larger cities such as New York, London and Paris, Dublin could be too small geographically and lack the density required to warrant implementing this approach to flexible working. Anecdotally, companies appear to be waiting until there is a general return to the office before making any drastic changes to work policies and location strategies. This reflects the feeling that embarking on a new strategic real estate direction will be better judged from the post-pandemic operational perspective.

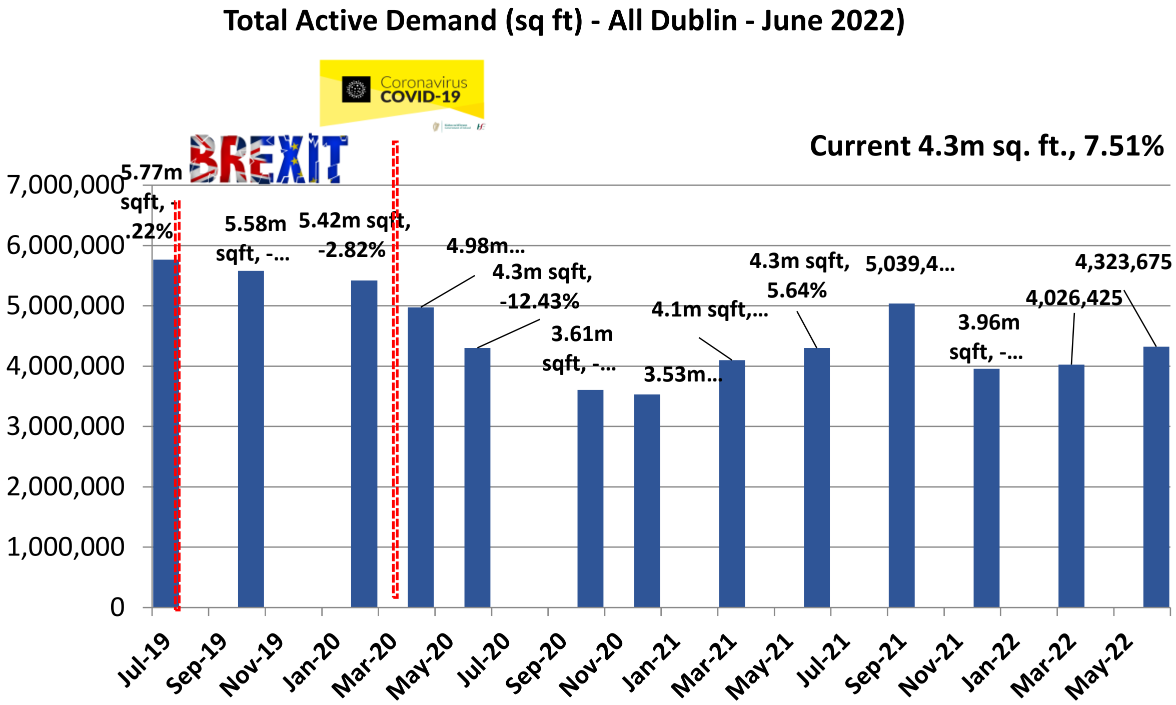


Figure 6: Total Active Demand Over Time

Figure 7 represents the active requirements based on location, indicating that Dublin's CBD is the most popular preference among occupiers. There has been a notable decline in requirements with a preference for suburban locations largely due to the uncertainty caused by the global pandemic.

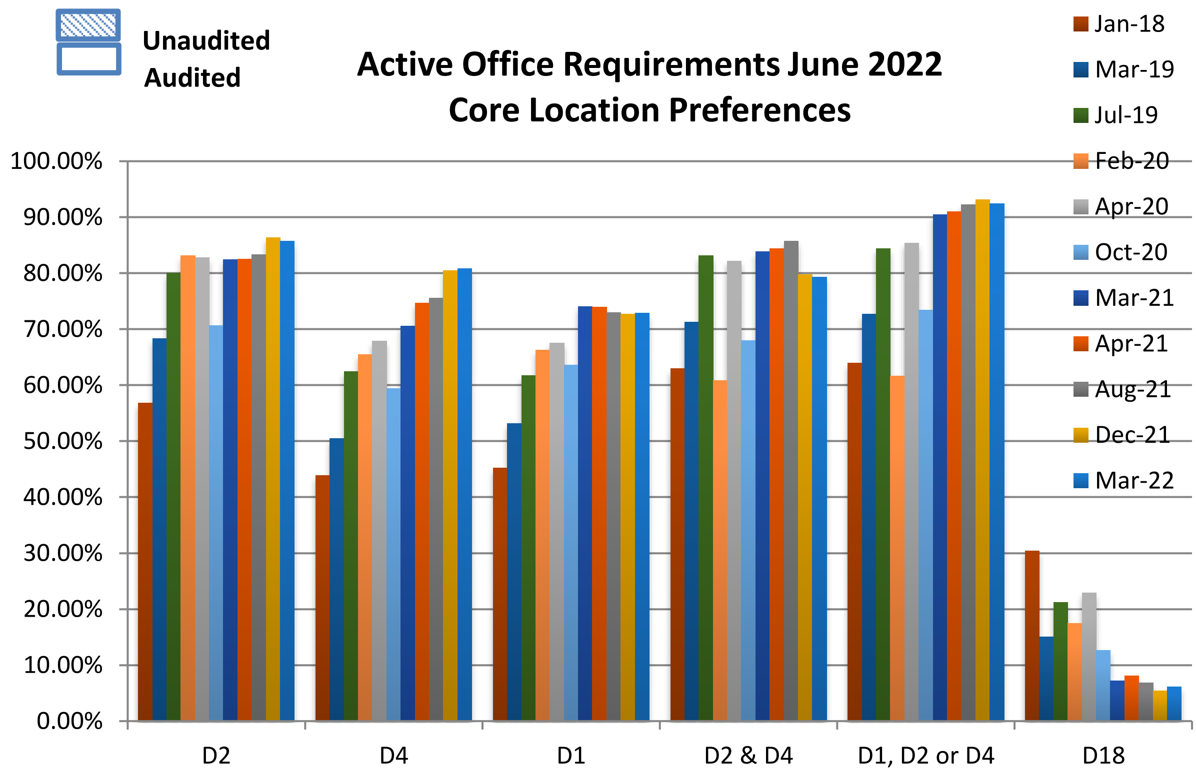


Figure 7: Active Demand – Key Postcode Preferences

The below table represents the most significant requirements currently in the market, all with a desire to be located within the CBD.

Agency	Company	Sector	Size (Net Sq. Ft.)	Search Area	When Required
C&W	**Workday**	Professional Services	500,000 – 550,000	City Centre/Fringe	2024 - 2025
C&W	**TikTok**	Tech	150,000 – 250,000	City Centre	2022 - 2023
CBRE	**Stripe**	Professional Services	150,000 - 250,000	City Centre	2023
Knight Frank	**A&L Goodbody**	Legal	150,000	City Centre	2025
Knight Frank	EY	Professional Services	150,000 – 200,000	City Centre	2023

Figure 8: Occupiers – Top Requirements by Size

Vacancy

The current vacancy rate in Dublin stands at 10% and although increased since 2021, not substantially and is still well below Dublin's natural vacancy rate and the theoretical tipping point for rent pressure. While the overall Vacancy Rate in Dublin is currently 10%, the CBD vacancy rate currently stands at 8.7% while the city fringe stands at 12.1% and the suburbs at 11.30% respectively.

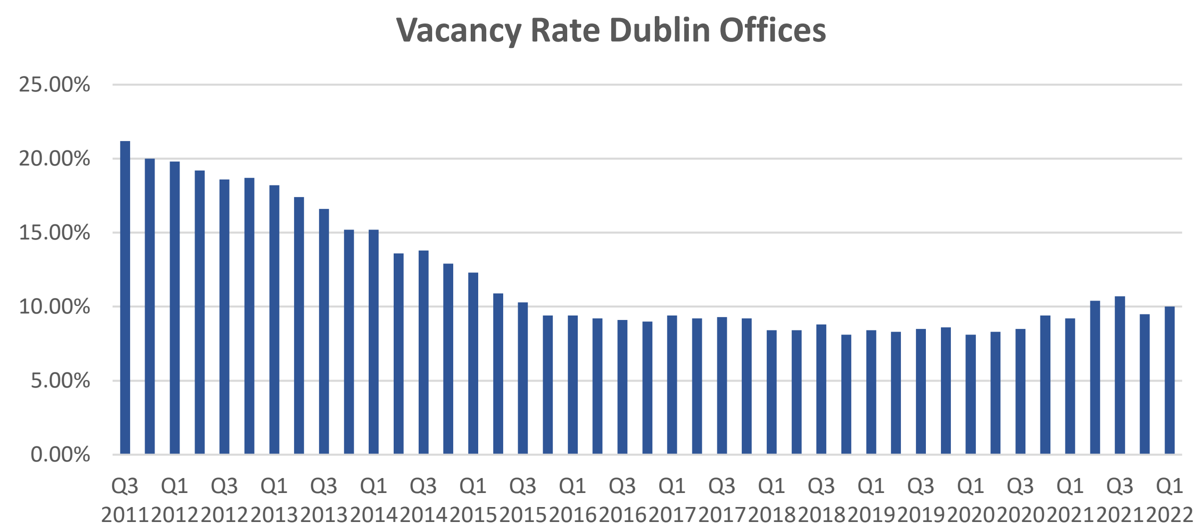


Figure 9: Vacancy over time

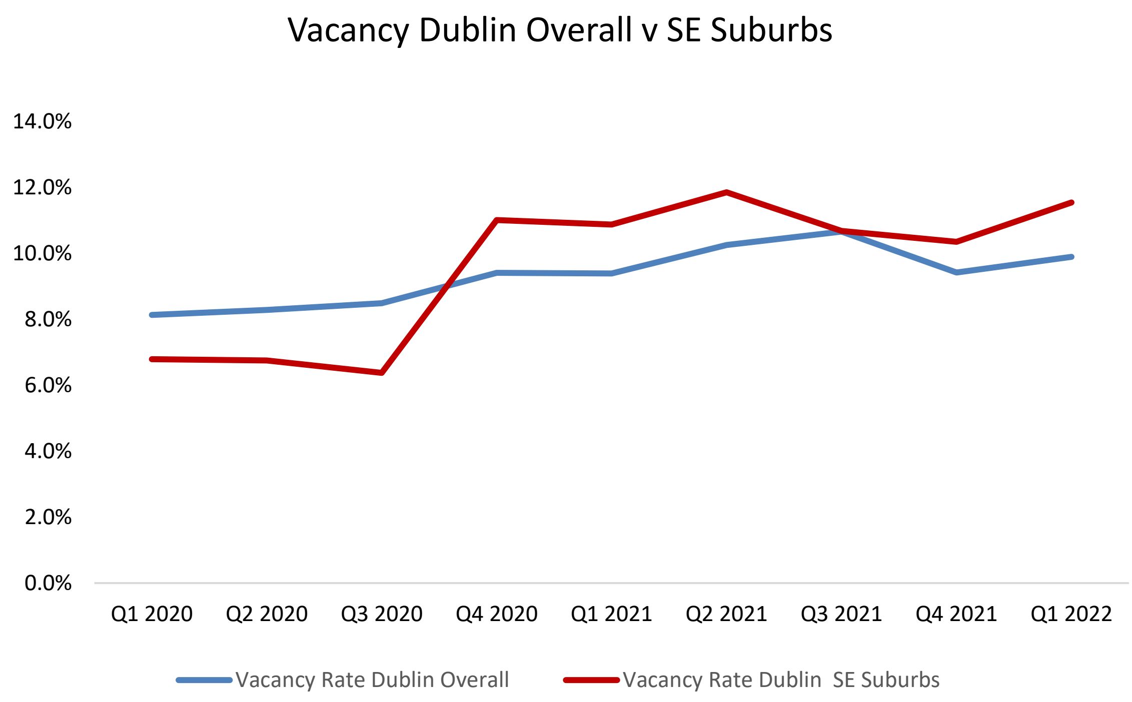


Figure 10: Vacancy – CBD V SE Suburbs

Outlook

As we have now entered a new phase of Covid-19 where restrictions have now been fully lifted along with travel restrictions, we have seen a reasonable uplift in viewing volumes over the last number of months. Along with this, we have also seen a larger total of office space signing, along with the overall reserved figure on the increase, albeit moderately.

Some occupiers may even now be pressed into action by fixed-date lease events on their current leases which they stalled acting upon during covid. Elsewhere, opportunistic occupiers may try to make deals when they will get the best choice of stock and indeed, we have already seen some of the new stock that has driven vacancy over the last year seeing significant interest or entering into legals. The flight to quality will continue to become obvious at the expense of older stock office space.

Larger requirements may be harder to come by so quantum discounts might emerge. Therefore, buildings that can multi-let efficiently will be more important if trying to land tenants seeking mid-term space.

We have also seen an emergence of short-term Category A or fitted landlord space at higher rents per square foot and shorter leases avoiding fitout and reinstatement obligations. This trend in other sectors i.e., subscription-type pricing may cater for occupiers who are less certain on growth trajectories and hence less willing to take longer leases.

PIPELINE COMMENTARY & COMPETITION

Currently, in Dublin there are approximately 4.9m sq ft of office developments on-site (53 buildings) and 53.33% of this on-site development is committed i.e., tenant/occupier already in place (at legals / signed). The majority of this development (almost 90%) is focused on the core CBD locations of Dublin 1, Dublin 2 and Dublin 4 where there are approximately 4.08m sq ft of development on-site and 52.89% or approximately 2.16m sq ft of this on-site development is already committed.

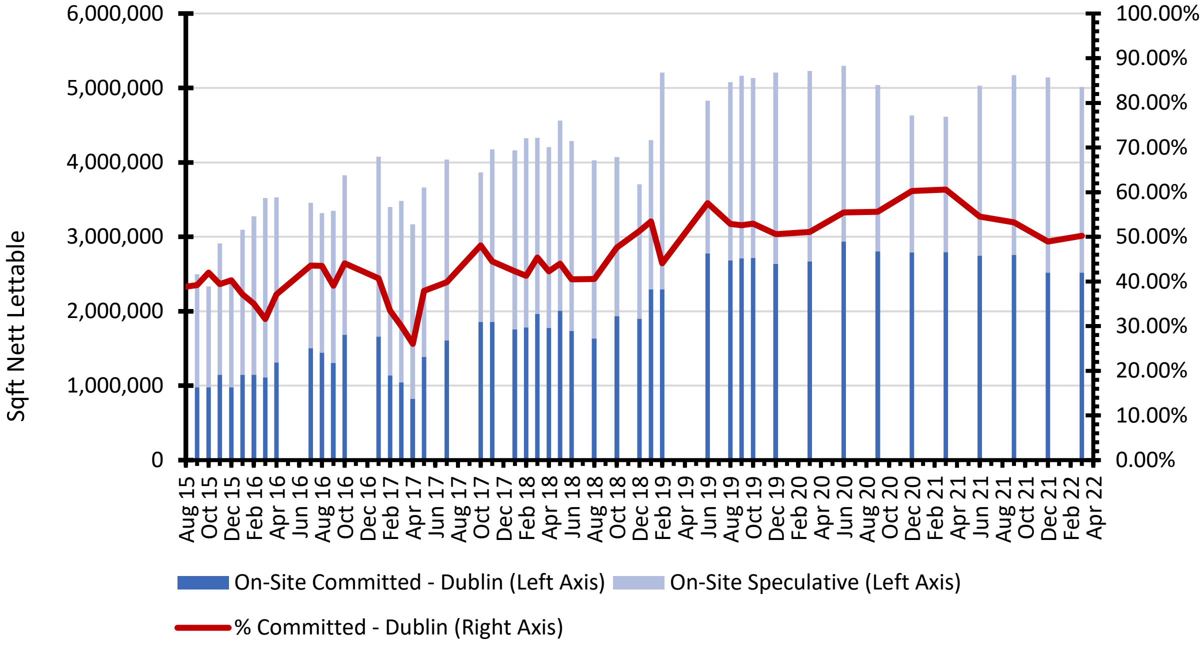


Figure 31: Dublin On-Site Volumes and Pre-Commitment Rate over Time

Encouragingly, 78% of the stock due to deliver in 2021 is already committed and even for 2022, this figure stands at 55%. Q2 2021 saw several speculative schemes go on-site, likely in response to rising occupier demand and the emerging focus on prime new ESG badged building.

In Summary

Current market demand for office space among corporate occupiers is heavily focused on new Grade A office space in central CBD locations. The suburban office market remains challenging minimal speculative development taking place in these areas.

There is little or no market appeal for secondary office space in secondary locations. The market is over-supplied with this type of product and the rental levels do not justify the quantum of capital expenditure required to bring it to a habitable level, let alone invest to ESG standards. Stradbrook House and Somerset House fall into this category.

Is it difficult to create an argument for the refurbishment of this space as the demand is minimal, even for new Grade A office space. The market data in this report illustrates that the space as presented is obsolete and considered unlettable in the present office market environment.