Prepared by Savills

City Planner,
Dublin City Council,
Civic Offices,
Wood Quay,
Dublin 8

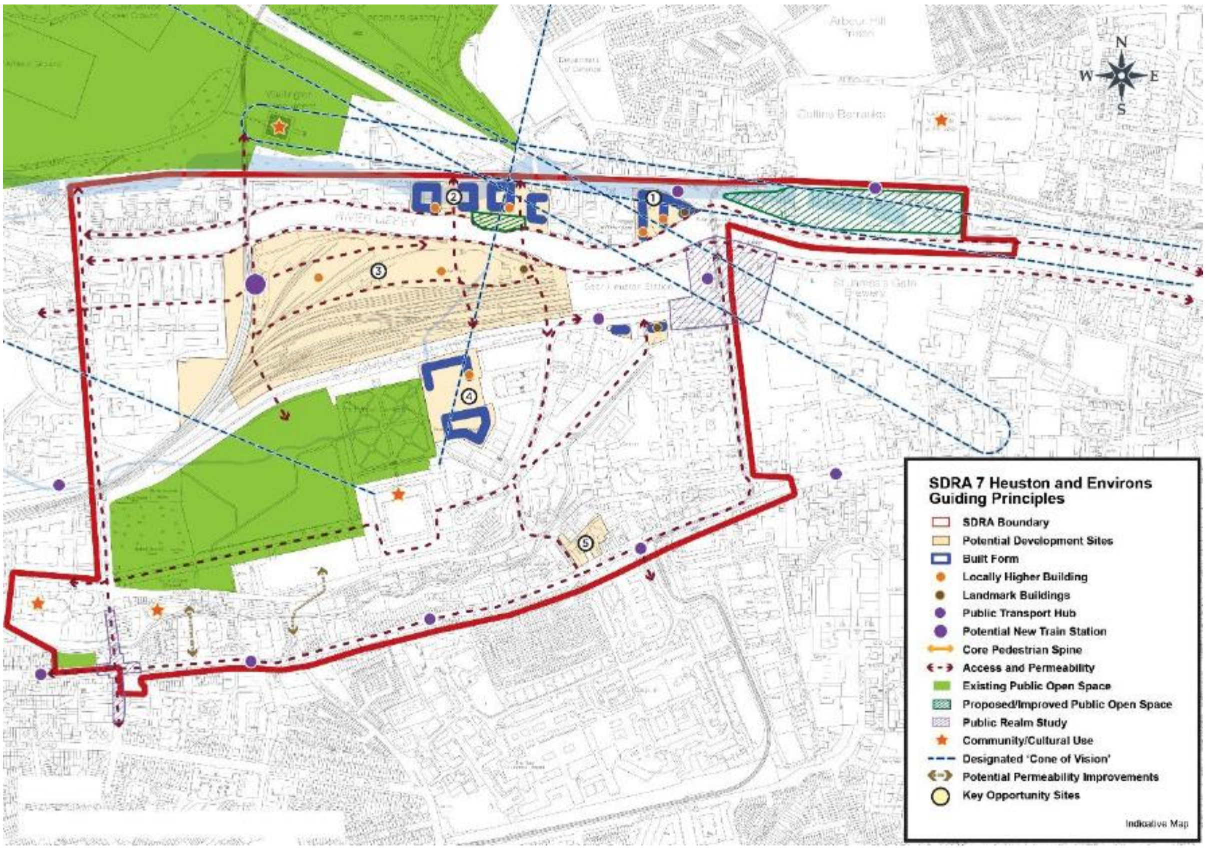
10 May 2023 *Subject to Contract/Contract Denied*

Re: Parkgate Street Development – Commercial vs. Residential Land Usage

To whom it may concern,

We write in our capacity as office leasing agents, residential managing and leasing agents and commercial advisors in relation to the proposed requirement for commercial development within Strategic Development Regeneration Area 7 (SDRA 7) under the Dublin City Development Plan. We specifically refer to the intended development on Parkgate Street by our client Chartered Land, which is located within SDRA 7.

This letter clearly sets out why it is a reasonable and logical request to replace the commercial office element (Block B2) currently included in Chartered Land's planned development at Parkgate Street, with 40 residential units.



1. Development Overview & Land Usage Rationale

Planning permission was granted for this mixed-use development in May 2020 (Ref ABP-306569-20). Block B2 within the granted development is designated for office use and extends to 2,584 sq m (GFA), approx. 22,250 sq ft (NFA). Typical floorplates extend to approx. 4,500 sq ft (NFA).

The current ratio of residential land usage (sq ft) to commercial office land usage (sq ft) in SDRA 7 is **4.60:1**, as per the below table.

		Built Residential Stock Within SDRA 7 (sq ft)			Built Office Stock Within SDRA 7 (sq ft)	Ratio Resi To Office Within SDRA 7
Total		3,200,450			695,200	4.60
Vacancy Rate	*1%	32,005		25%	173,436	
Occupancy Rate	*99%	3,168,446		75%	521,764	

**Average rates based on units within Savills residential management mandate in SDRA 7*

The two scenarios outlined below, show the impact that Block B2 will have on land usage ratios in SDRA 7.

<u>Block B2 delivered as offices</u> (as per granted development under Ref ABP-306569-20).

This results in a ratio of residential (sq ft) to commercial office (sq ft) in SDRA 7 of **5.08:1**

		Built Residential Stock Within SDRA 7 (sq ft)			Built Office Stock Within SDRA 7 (sq ft)	Ratio Resi To Office Within SDRA 7
Total		3,647,367			717,451	5.08
Vacancy Rate	*1%	36,474		25%	178,987	
Occupancy Rate	*99%	3,610,893		75%	538,464	

**Average rates based on units within Savills residential management mandate in SDRA 7*

<u>Block B2 delivered as x40 residential units</u>.

This results in a ratio of residential (sq ft) to commercial office (sq ft) in SDRA 7 of **5.30:1**

		Built Residential Stock Within SDRA 7 (sq ft)			Built Office Stock Within SDRA 7 (sq ft)	Ratio Resi To Office Within SDRA 7
Total		3,681,812			695,200	5.30
Vacancy Rate	*1%	36,818		25%	173,436	
Occupancy Rate	*99%	3,644,993		75%	521,764	

**Average rates based on units within Savills residential management mandate in SDRA 7*

The above clearly demonstrates that the delivery of Block B2 as x40 residential units causes minimal fluctuation in general land usage ratios in SDRA 7.

Assumptions

Average Sq ft per Unit in SDRA 7		1,150 sq ft
Total Households		2,783

**Average unit size based on units within Savills management mandate in SDRA 7*
**ESRI and Michael Bauer Research*

Block B2 As Office	GFA	2,584 sq m
	GFA	27,814 sq ft
	NFA	22,251 sq ft

**As per planning granted under Ref ABP-306569-20.*

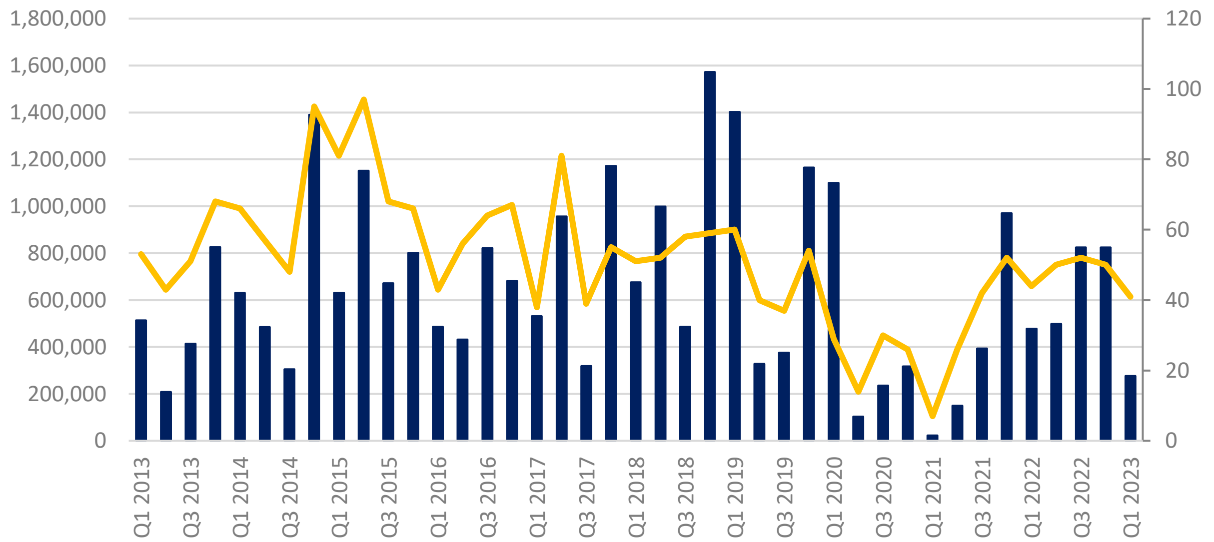
**Assuming 80% gross to net*

Block B2 As Resi (BTR)	Av. Sq M per Unit	80
	Av. Sq Ft per Unit	861 sq ft
	x40 units	34,444 sq ft
Units Within Proposed Parkgate Scheme	x519 units	446,917 sq ft

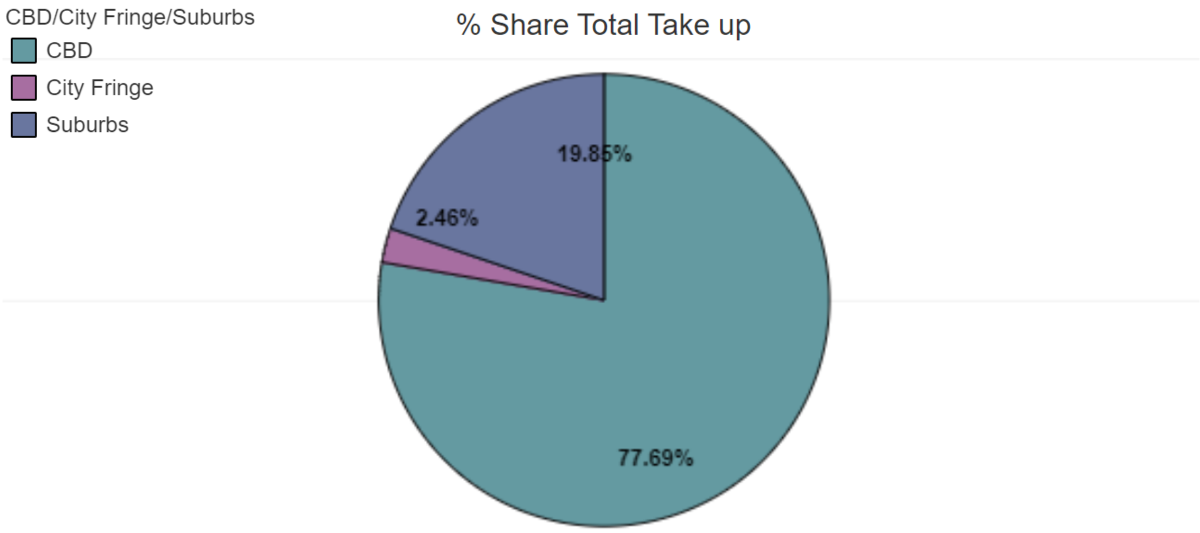
2. Dublin's Office Market

Office Take Up

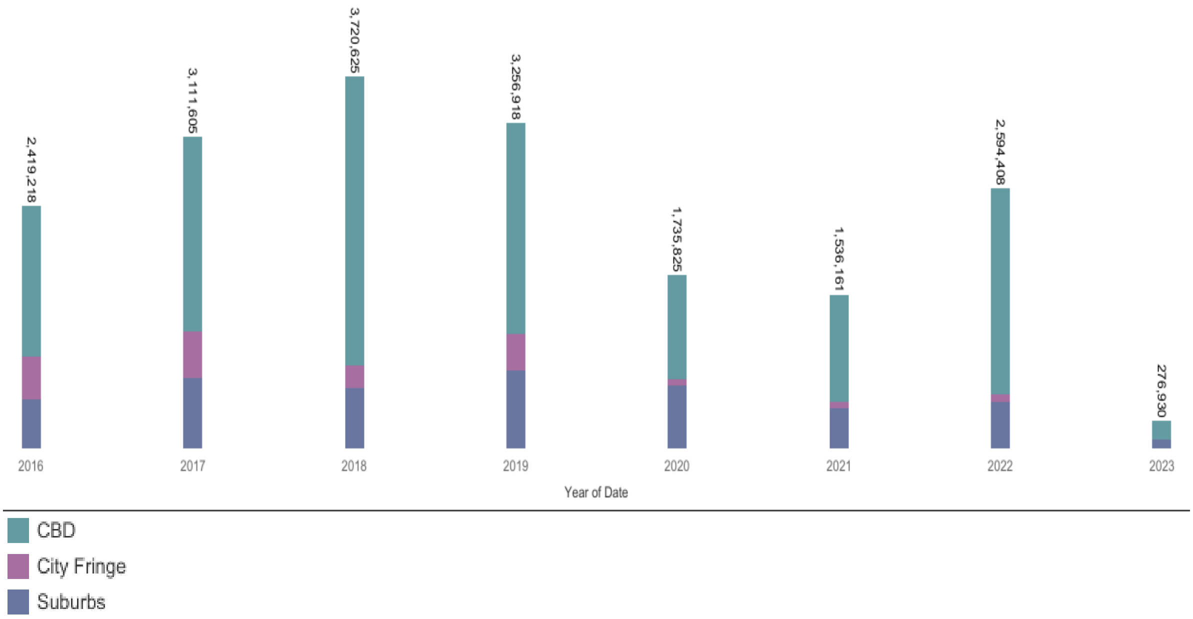
Dublin' office market like all sectors of the economy has witnessed an increase in activity as COVID-19 restrictions have been removed, despite the onset of the war in Ukraine and the resultant uncertainty in energy markets. "Take Up" is the term given to the commitment to occupy office accommodation, either through leasing or purchasing. Take-up in 2022 was 2,594,408 sq. ft., across a total of 190 deals which is a significant increase from 2021 where 1,536,161 sq. ft of take-up occurred over 132 deals. There was 276,930 sq ft of take up in Q1 2023, and whilst this figure is low relative to the previous four quarters in 2022, it can be attributed to the cautious occupier outlook in light of global economic headwinds (including but not limited to the war in Ukraine, rising interest rates and inflationary pressures).



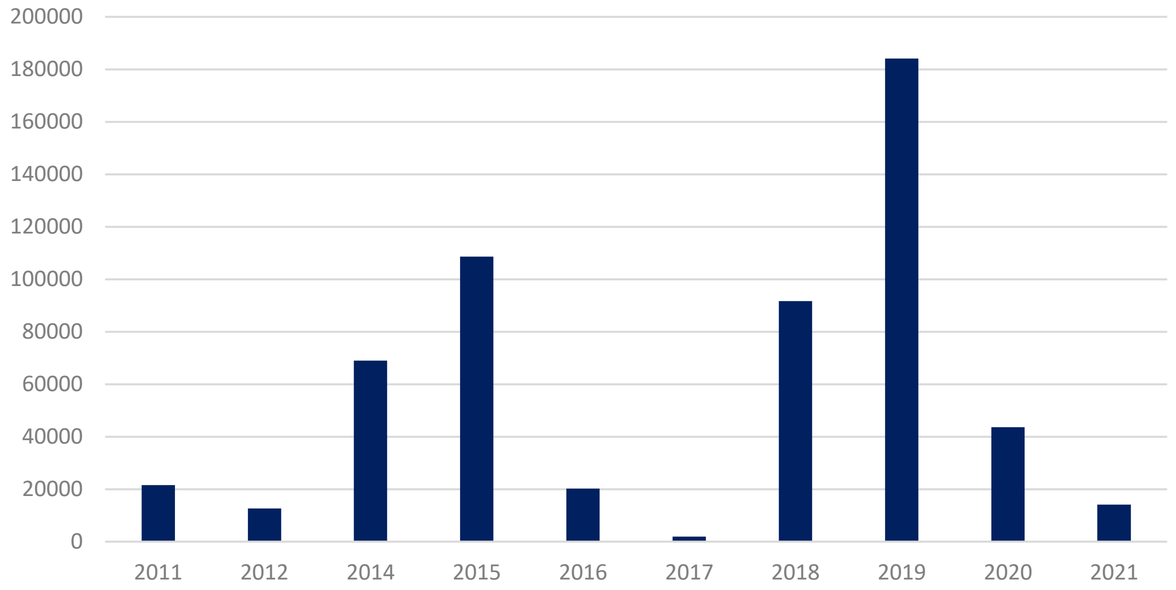
The main driver of leasing activity in the Dublin office market in the past five quarters (Q1, Q2, Q3, Q4 2022, and Q1 2023) is CBD location (Dublin 1, Dublin 2, Dublin 4 postcodes). In this period, almost 78% of transactions took place in the CBD, while almost 20% of deals occurred in suburban locations. Just under 2.5% of all office transactions were in City Fringe locations, such as Dublin 8 (incorporating SDRA 7).



Whilst the period between 2016 and 2019 (pre Covid), saw a relatively consistent level of take up in City Fringe locations, versus CBD, the below graph clearly demonstrates the reduction in activity in City Fringe locations since 2020.

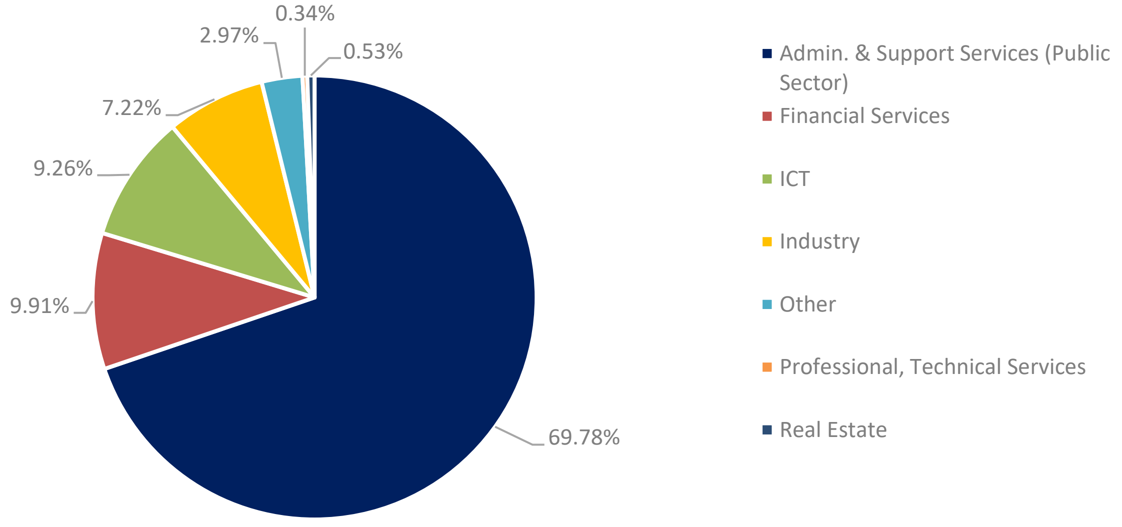


Compared to the overall Dublin market, office take up within SDRA & has been significantly more sporadic and inconsistent. The spike in take up in SDRA 7 in 2019 included the OPW's commitment to build 150,000 sq ft of offices as part of the new Garda HQ in "Military Road Phase 1", also known as Walter Scott House.



Notably, the Public Sector have been the most active occupier leasing office space within SDRA 7 since 2011, with 70% of all sq ft being leased by Sate bodies.

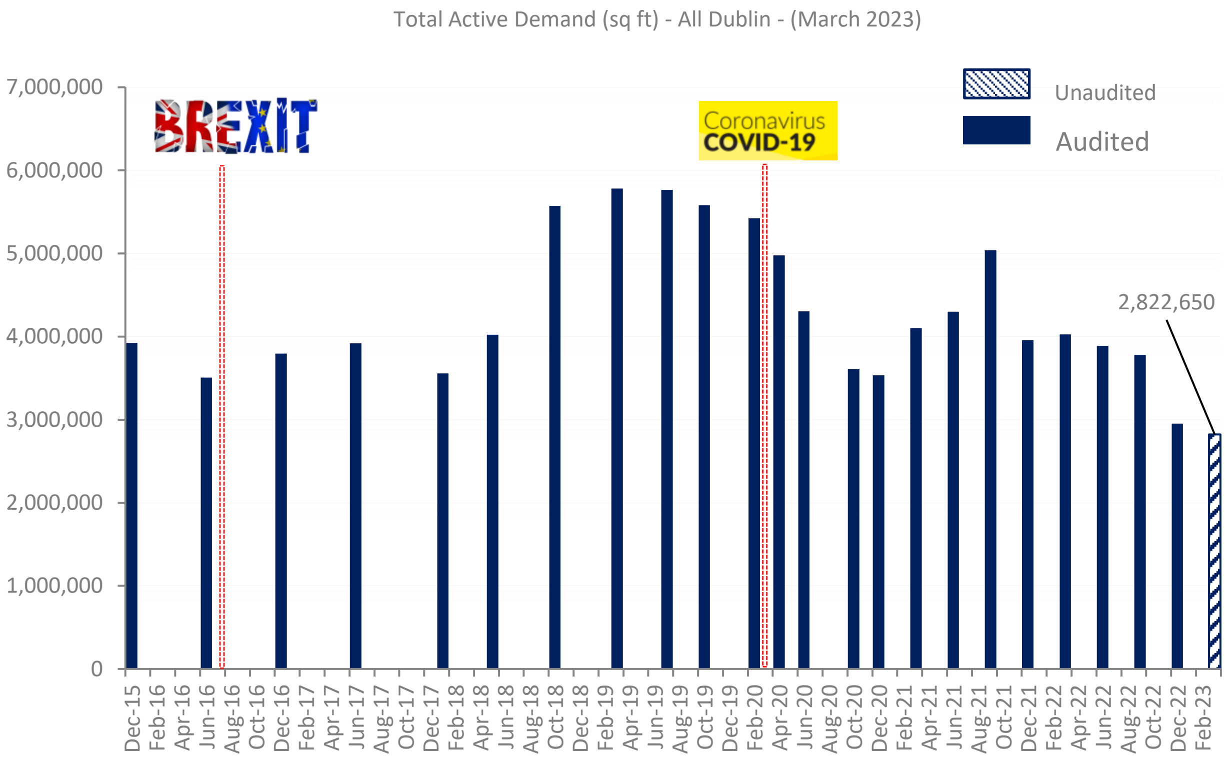
Sector	%	Sq Ft
Admin. & Support Services (Public Sector)	69.78%	395,982
Financial Services	9.91%	56,241
ICT	9.26%	52,528
Industry	7.22%	40,946
Other	2.97%	16,829
Professional, Technical Services	0.34%	1,948
Real Estate	0.53%	2,992
Total	**100.00%**	**567,466**



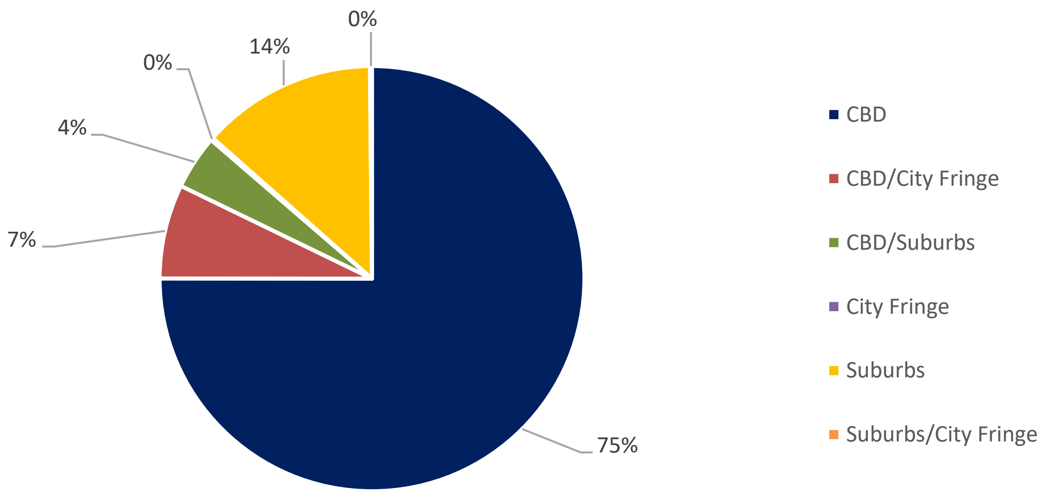
The opening of the Criminal Courts has not generated much legal leasing activity, as Irish barristers do not operate in Chambers, rather as sole traders in most instances. This means that an intermediary serviced office provider would be required to accommodate these legal professionals. To date, there is little to no evidence of appetite from serviced office operators to locate in SDRA 7, indicating lack of demand.

Active Demand For Offices

In terms of active demand in the Dublin office market, just over 2.8m sq ft of office accommodation is currently being sought by occupiers.



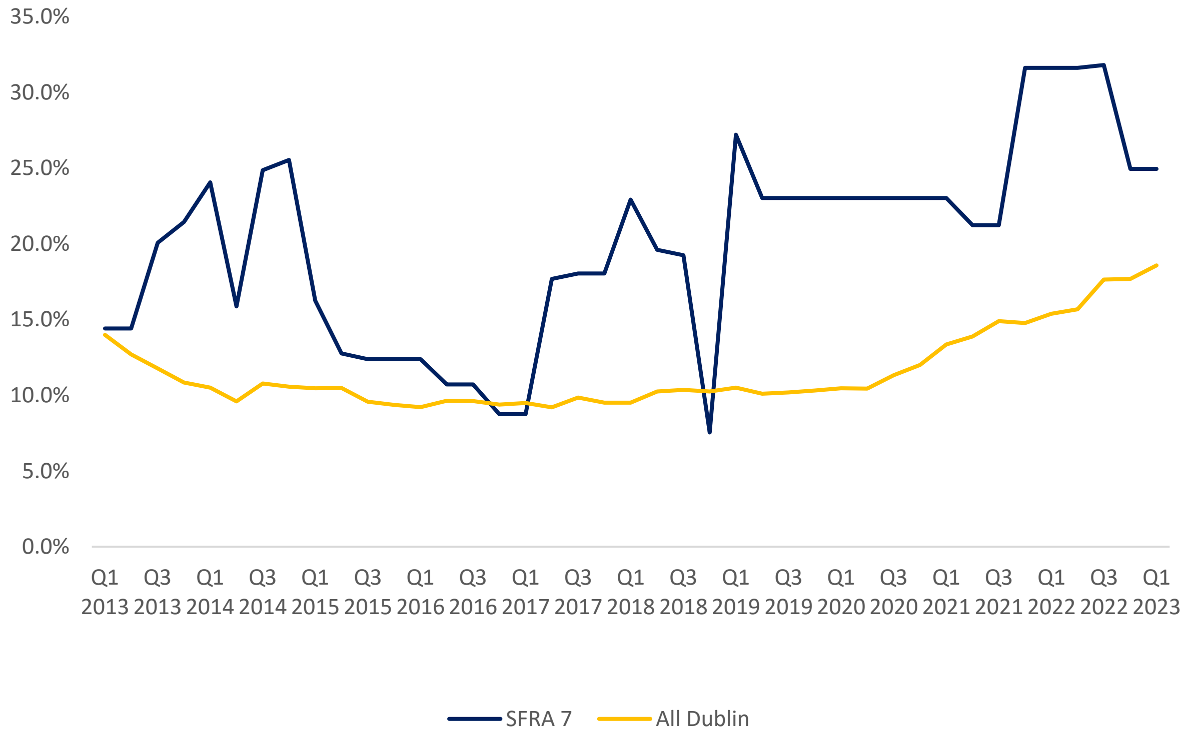
The CBD is by far the primary focus of occupier demand, with just over 75% of active office requirements focusing solely on CBD postcodes. If anything, this has hardened since covid, as occupiers are seeking to enhance their staff offering through improved proximity to city centre amenities and centrally located public transport links, in an effort to entice people back into the office.



Office Vacancy Rates

The below graph shows all Dublin office vacancy overlaid with office vacancy rates within SDRA 7. The overall Dublin vacancy rate stands at 14%, as of Q1 2023. When analysed on a broad district basis, the CBD has the lowest vacancy rate at 13.4%, while the city fringe (which includes SDRA 7) has the highest office vacancy rate at 14.9%. The suburban vacancy rates sit between these, at 14.5%.

Notably, the vacancy rate within SDRA 7 has fluctuated quite drastically in the past 10 years, which can be attributed in part to the relatively limited quantum of office space in the area, meaning that individual occupiers taking / vacating space directly influences the vacancy rate more than it typically would if the sample area was larger. As of Q1 2023, almost 25% of office accommodation in SDRA 7 is vacant. This is 50% greater than the vacancy rate of all Dublin (14%).



Office Stock & Development Pipeline

The current total office stock in SDRA 7 amounts to 695,200 sq ft across 21 properties. Between 2008 and 2009, there was a total of 313,000 sq ft of office accommodation delivered within HSQ which more than doubled the quantum of office stock in the area. Prior to this, the total office accommodation in SDRA 7 amounted to approximately 231,000 sq ft.

The below table shows the potential office pipeline in SDRA 7. These developments have yet to lodge for planning permission. Should additional office space be required within SDRA 7 in future, the below schemes are likely to respond.

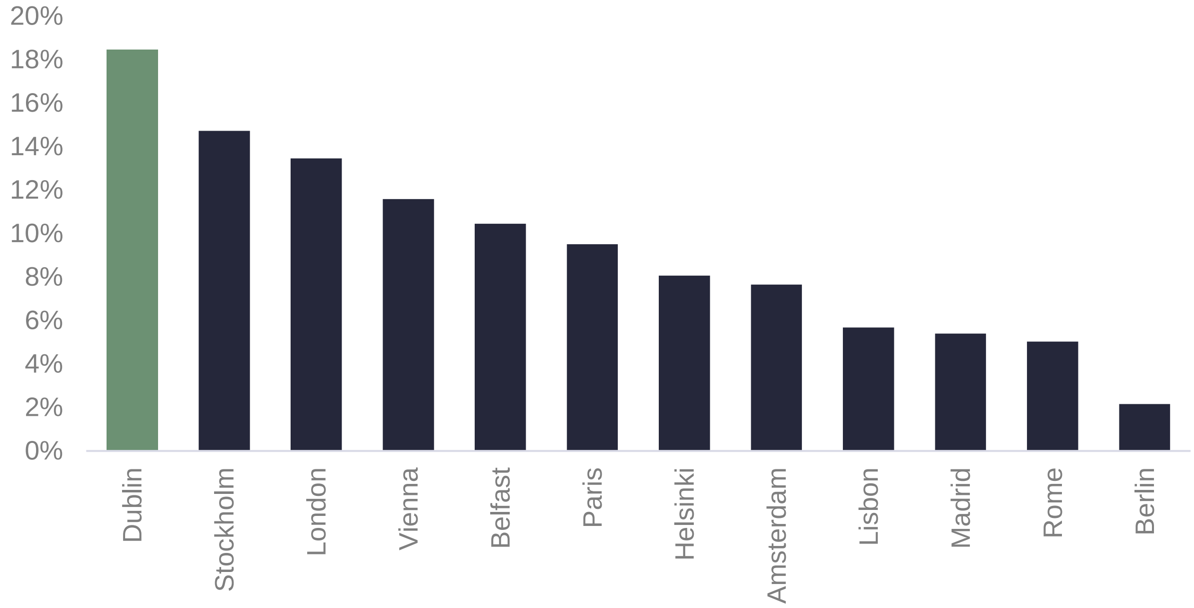
Name	Planning Status	Potential Sq Ft (Office)	Comment
17-22 Parkgate Street	Obtained	9,500	This is a small infill site, despite planning permission being granted in January 2018 (ref: 3539/17) this development has not progressed further and is unlikely to go on site due to viability issues in this location.
Heuston Station Rear (CIE Masterplan)	Not Yet Lodged	197,000	For this site to be delivered, the CIE would need to seek a partnership with a developer. This model has only been successful in core CBD locations, an example of which is the CIE partnership with Ballymore in the Dublin Landings development in Dublin 1. We believe this is unlikely to lodge for planning permission in the medium to long term.
HSQ Phase 2	Refused & Appealed to ABP	167,000	Hotel and office scheme (ref: 4610/22) refused and appealed to ABP.

3. Residential Market Overview

Demand

According to the latest census, Ireland's population has surpassed 5.1 million, a landmark for the state as it is the highest population recorded in a census since 1851. Ireland's high rate of natural population growth (births over death), the highest in the EU, is one of the key factors that make Ireland attractive for PRS investment. Notably, natural population growth is more stable over time, whereas substantial shifts in economic circumstances can see swift changes in net migration. Additionally, Dublin is set the be the fastest growing city of any size to 2035 in Europe, with the population to expand by 18% between 2020 and 2035.

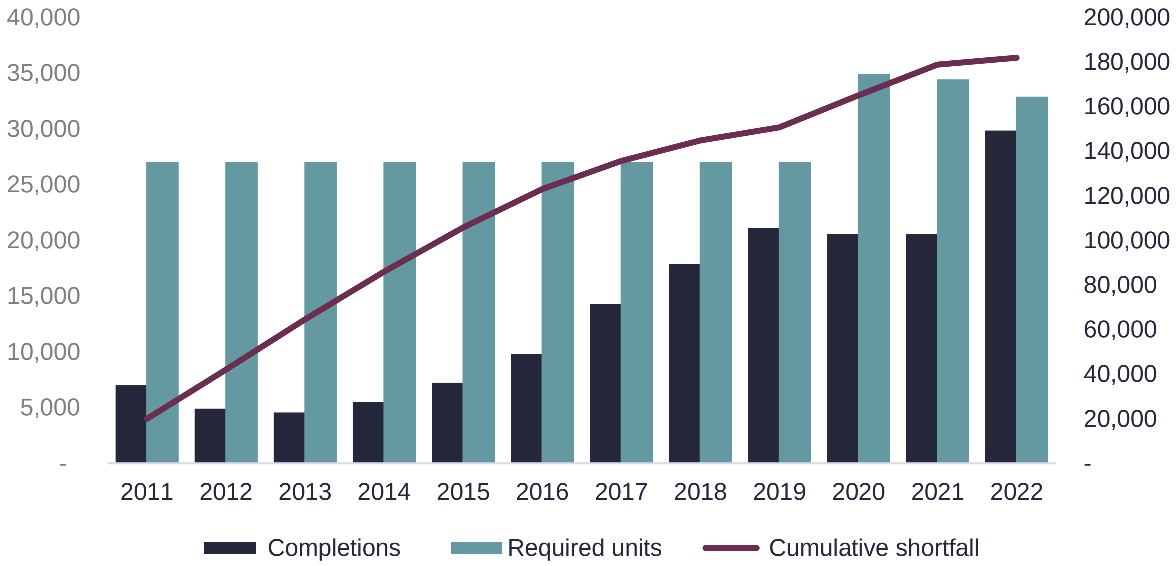
Figure 1: Fastest growing cities to 2035



Source: UN

Undersupply is a persistent feature of the Irish housing market and short falls in residential delivery have accumulated. We estimate in Ireland there is an accumulated shortfall of almost 180,000 units since 2011 and over 50,000 in Dublin. Given the continued strong population growth projected and high accumulated shortfall, there is no oversupply of housing expected in Ireland.

Figure 2: National housing shortfall

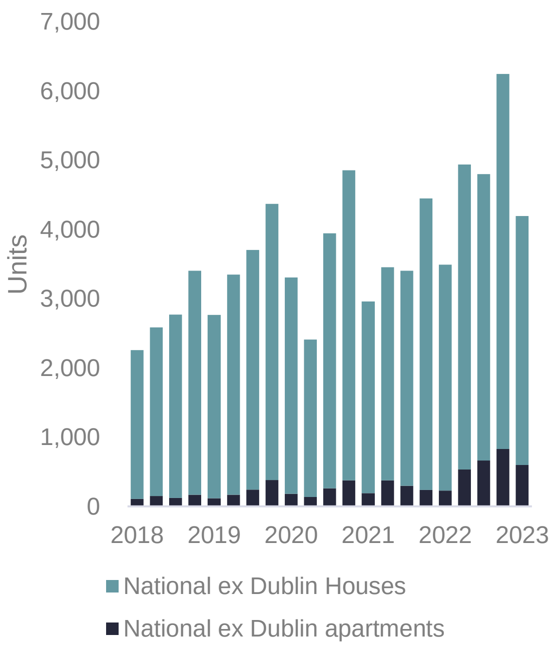


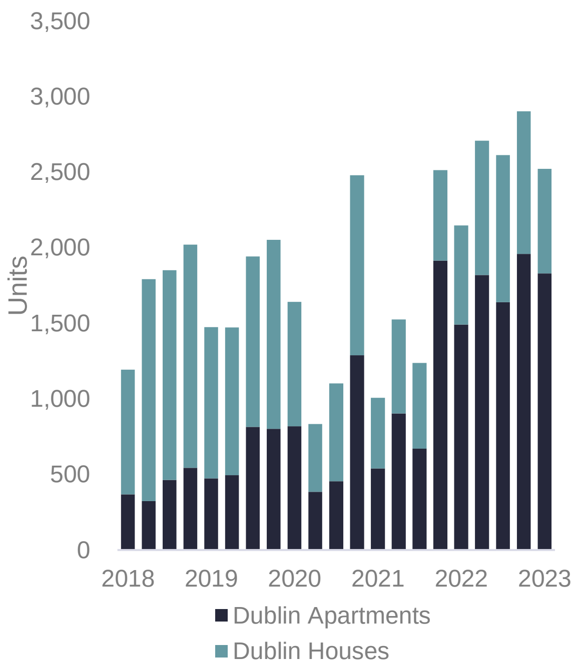
Source: CSO, CBoI, DoHLGH

Supply

Completions remained elevated in Q1 with over 6,700 units delivered nationally and 2,500 in Dublin, an increase of 19% and 17% respectively on the year previous. Apartment delivery continues to grow with a 41% increase in apartment completions nationally compared to Q1 2022.

Figures 3a & 3b: Quarterly new dwelling completions – National (ex. Dublin) and Dublin

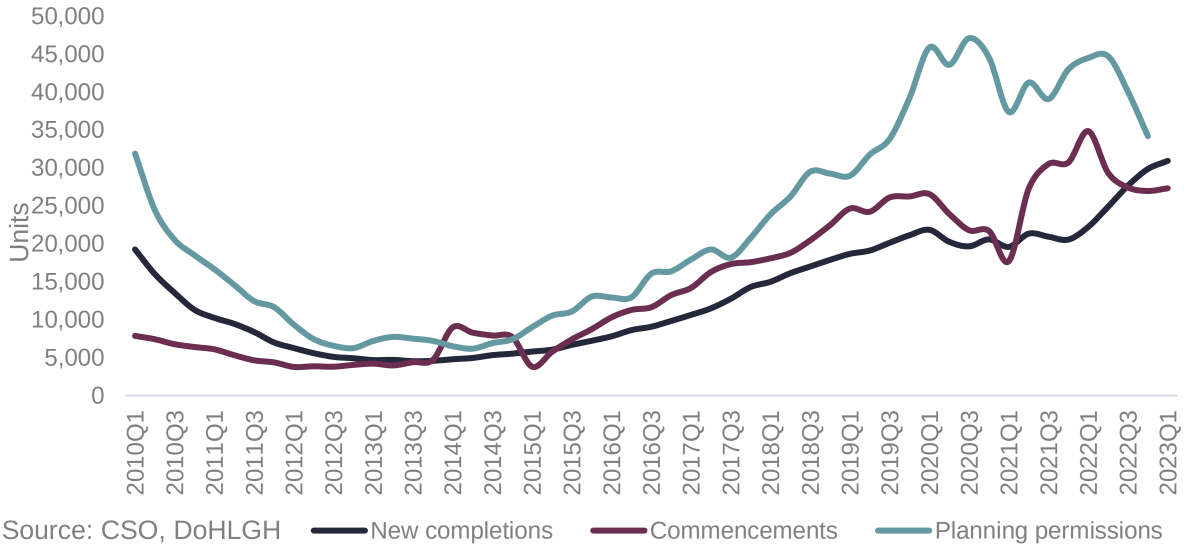




Source: CSO

In 2022 completions were higher than anticipated with 29,800 units delivered, compared to the expected 25,000 units (both houses and apartments). Last year was the first year since 2008 that completions breached the 10,000 unit mark in Dublin, a positive sign for housing supply. We expect there to be about 25,000 units delivered this year, although delivery could be hampered by labour and material supply constraints. Declines in both commencements and planning permissions can be seen, albeit commencements have since picked up in March of this year with the highest number of monthly commencements nationally since May 2021.

Figure 4: Housing supply indicators 12-month rolling

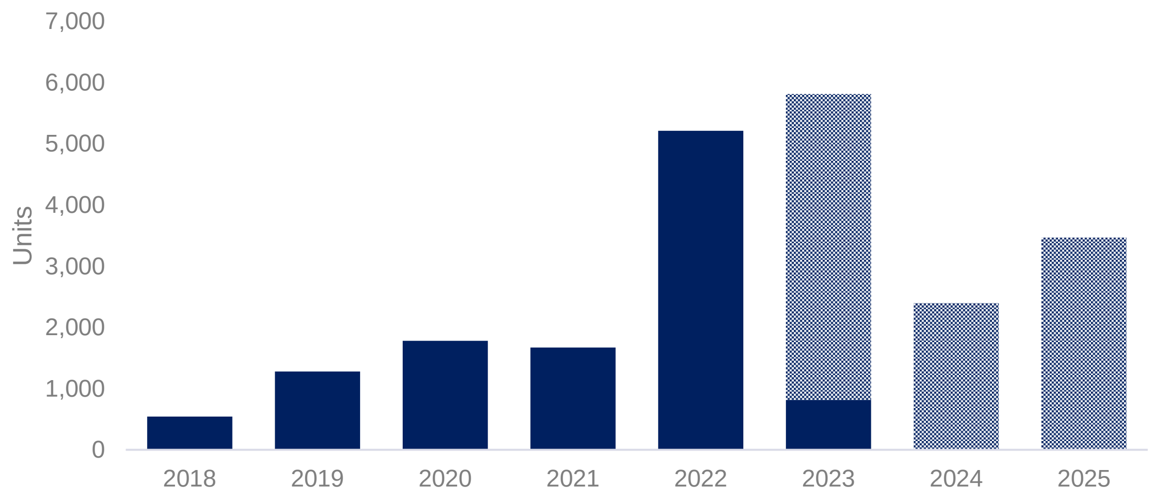


Source: CSO, DoHLGH

Specifically, in the PRS sector, we expect delivery to increase in 2023, with about 5,800 units expected to be constructed over the year. This represents an increase of 12% on 2022 delivery. PRS construction activity is expected to slow significantly in 2024 with about 2,300 expected while delivery will increase in 2025 to around 3,400 units. A number of units have begun groundworks but have yet to start construction and will be added to these figures when a more accurate delivery timeline is confirmed.

In addition, there are several units in schemes that have been placed on hold due to viability constraints or funding challenges. Delivery of PRS will remain volatile, shaped by challenges relating to debt costs and construction inflation.

Figure 5: PRS on-site forecast



Source: Savills Research

4. Residential Market within SDRA 7

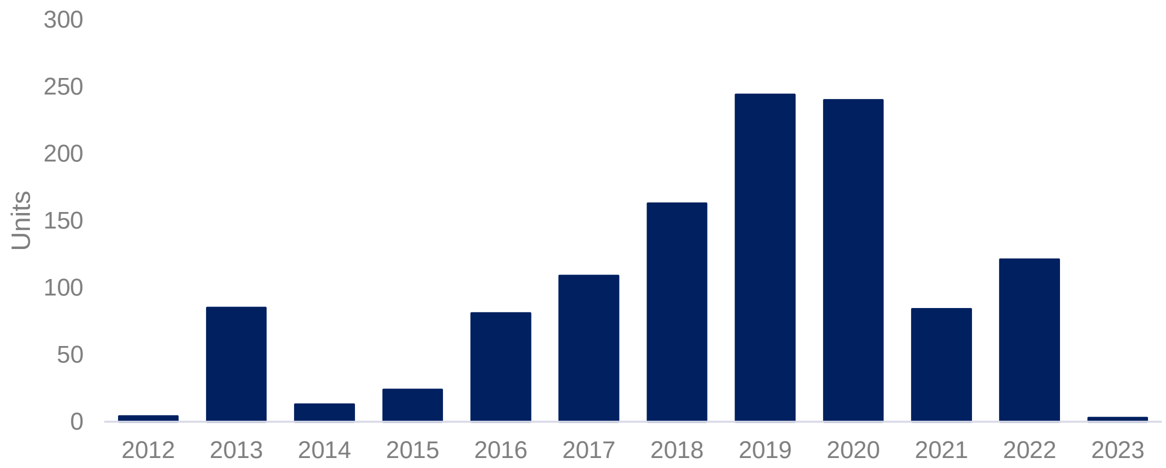
SDRA 7

SDRA 7 is located within in the Dublin 8 postcode and within the Dublin South Central constituency. This constituency saw population growth of 6.5% between the 2016 census and 2022 census, equating to growth of 1.1% per year. The area is highly accessible by the Luas red line, Heuston Station and numerous bus routes. In addition, the proximity to Phoenix Park provides excellent amenities to residents.

Supply

Just three units were built in the South West Inner City area in Q1 of this year, and five in the wider Dublin 8 area. This shows a considerable lack of new residential development in the area.

Figure 9: South West Inner City new dwelling completions



Source: CSO

In terms of PRS stock, there are 1,544 units under institutional ownership in Dublin 8, the majority of this being 845 units at Kennedy Wilson's Clancy Quay. This is the largest PRS development in Ireland and is 99% occupied, demonstrating the extremely high demand for this location. Other developments of significance include 264 units at Heuston South Quarter, and 102 units at Herberton.

Looking ahead, there are no schemes on site in the SDRA but within the wider Dublin 8 postcode there are three schemes which will deliver 1,300 units. Newmarket Yards is due to complete this summer, bringing 413 units to the market, followed by 596 units at Marlet's Grand Canal Harbour in 2024. In 2025 the redevelopment of the former DIT Kevin Street will provide another 299 units.

Further ahead, there are 2,145 units which have been granted planning in Dublin 8, including the subject site. About 1,200 of these units at Hines' Player Wills and Bailey Gibson sites are undergoing legal challenges. In addition, a further 399 units are also subject to judicial review at Heuston South Quarter. A further 116 units have been submitted for planning permission.

Given the excellent location of the subject site with multiple transport links and proximity to the city centre, it would highly benefit from additional residential units. The site is also ideally located by the entrance Phoenix Park, providing beautiful scenery and access to sports clubs for residents. The area is a proven PRS locality with the largest PRS scheme in Ireland situated here which currently has an occupancy rate of 99%. The low levels of residential delivery and high demand supported by low residential vacancy rates indicates the high suitability of the site for residential development.

5. Conclusion & Proposed Solution

The above facts and metrics show that the residential real estate sector is the strongest performer in SDRA 7. Given this location has proven to be a popular, desirable and necessary place for people to live, we recommend permitting the conversion of Block B2 to x40 residential units.

We are available to have further discussions on the above, if required.

Yours sincerely,