MARKET IN MINUTES

Savills Research

Dublin Logistics

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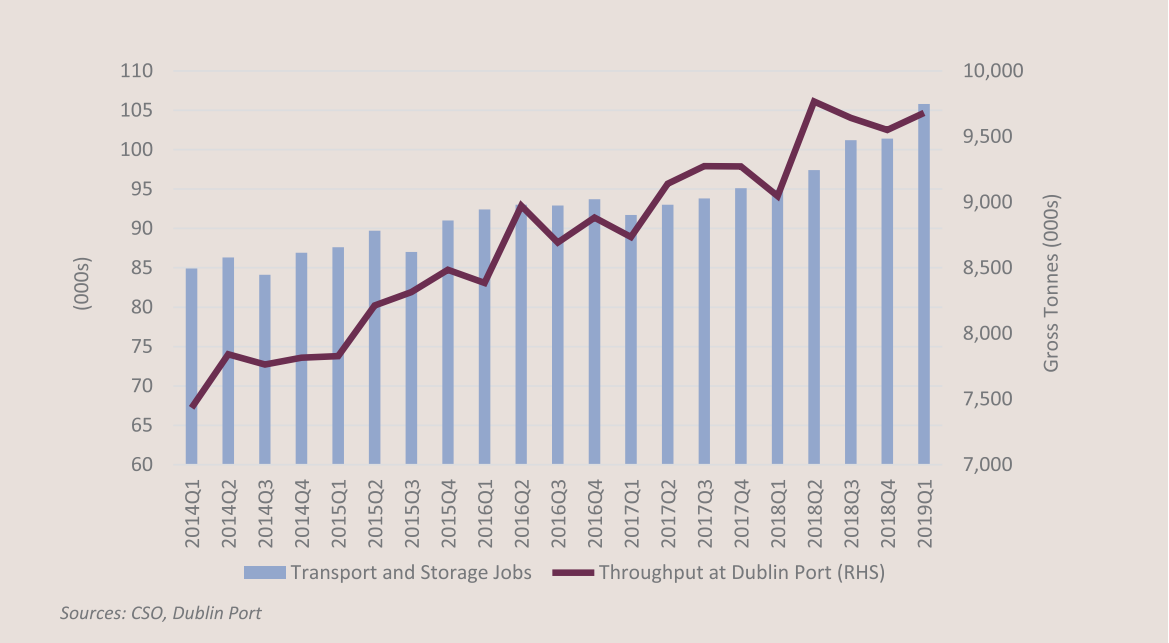
Condor House, Dublin Airport Logistics Park - 2,178 Sq M, Availble to Let

Economic Overview

Ireland's economy continues to perform well with 6.7% GDP growth in 2018 - the strongest of any country in the EU. The underlying strength of the economy is reflected in the labour market, with 81,200 jobs added in the last 12 months. Unemployment has now fallen to 4.4%, stimulating competition for talent. As a result, average earnings are growing by 3.4% per annum and, taken alongside the tax cuts of recent budgets, aggregate household disposable incomes are rising by 6.8%.

On the back of these developments there has been an increase in goods consumption, supporting the demand for supply chain services; Transport and Storage is now the fastest growing sector of employment (+11.5% y/y), while throughput at Dublin Port is up 7%. As activity remains strong, it stands to reason that demand for logistics space is following a similar path.

Figure 1: Total Employment in Transportation and Storage and Dublin Port Volumes



Sources: CSO, Dublin Port

6.7%
GDP Growth in 2018

81,200
jobs added in the last 12 months.

4.4%
unemployment

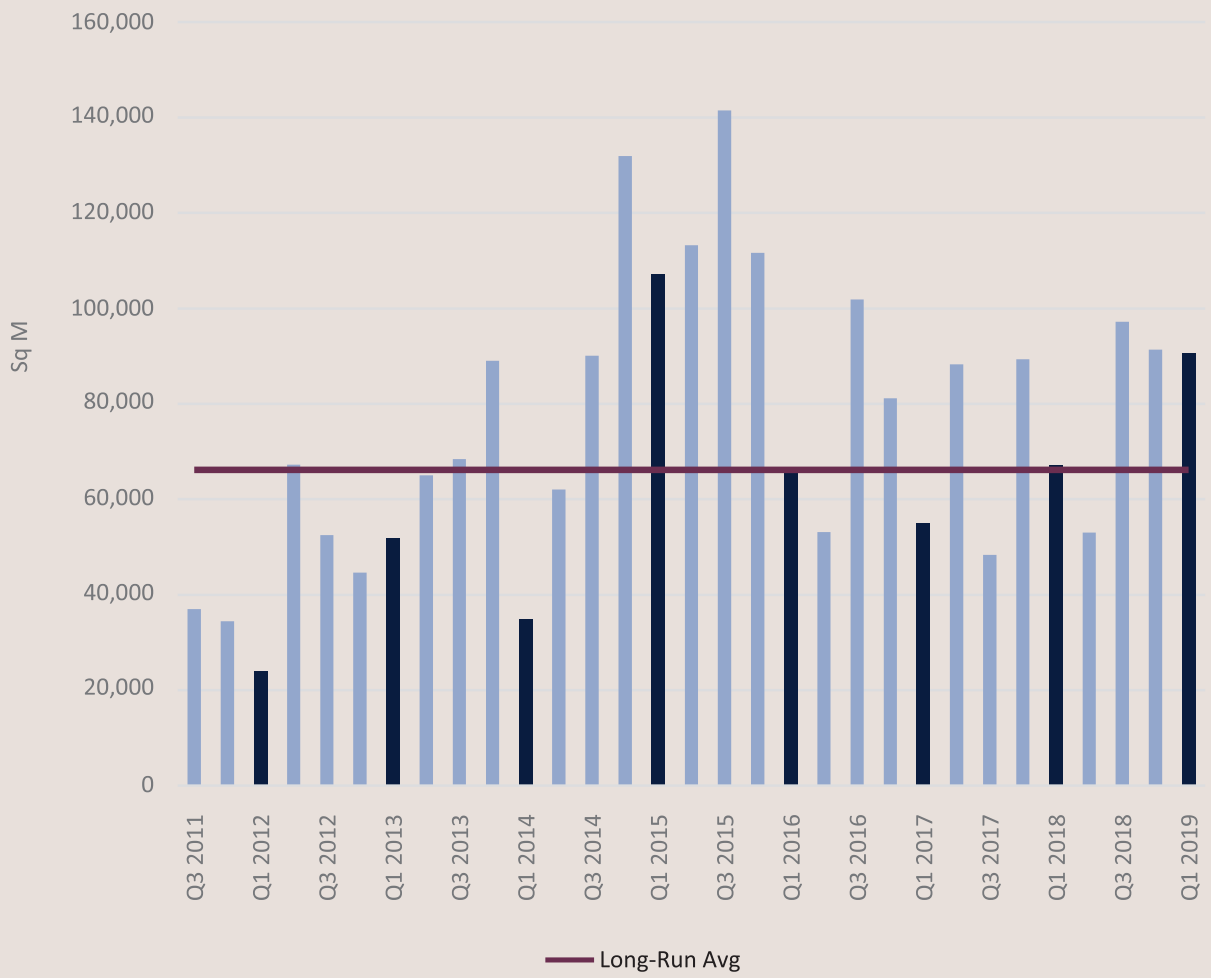
6.8%
rise in household disposable incomes

Market Trends

Market Demand

Take-up of logistics space in Dublin for Q1 2019 was 90,712 sq m, a 35% rise on the same period last year and over 30% higher than the long-run average. There were three deals over 10,000 sq m, including two pre-lets: 11,045 sq m to United Drug at Baldonnell Business Park agreed with Mountpark Logistics, and 10,684 sq m to Bunzl at Horizon Logistics Park agreed with Green Reit. The biggest deal was the sale of 17,177 sq m to IPUT at Dublin Airport Logistics Park. Another notable transaction was the 4,646 sq m pre-let by Park Developments at Northwest Logistics Park.

Figure 2: Gross Logistics Take-up



Source: Savills Research

Twenty-five percent of take-up over the rolling 12 months to March 2019 converted into absorption, with occupied space across Dublin rising by 83,164 sq m. The gap between gross take-up (332,215 sq m) and net absorption can be explained by two factors. The first is churn which occurs when occupiers moving within the market surrender vacated space. The other is pre-lets on buildings that were still under construction at the time of the lease being signed. In these cases, the increase in occupied space is only registered once the building has reached practical completion, deferring net absorption to a later period. Pre-lets will become more influential in future analysis as the development cycle matures.

Market Supply

Twelve new logistics units were completed in the year to March 2019. These new developments, plus some data revisions, caused the total industrial and logistics stock in Dublin to rise by 79,753 sq m. Two units were completed in Q1 2019: Units D6 (2,248 sq m) and D7 (3,178 sq m) which were built by Green Reit at Horizon Logistics Park.

Vacancy

Table 1 shows the combined impact of the demand and supply movements; net absorption outstripped net new development and, as a result, vacant space reduced by 3,411 sq m.

Reflecting the decline in vacant space, the vacancy rate has edged down from 3.3% to 3.2% at the end of March. Vacancy along the Southwest corridor is higher at 3.8% - albeit this has contracted from 4.9% last year. With development concentrated in the Northeast however, the vacancy rate here has doubled to 3.6%.

Rents and Yields

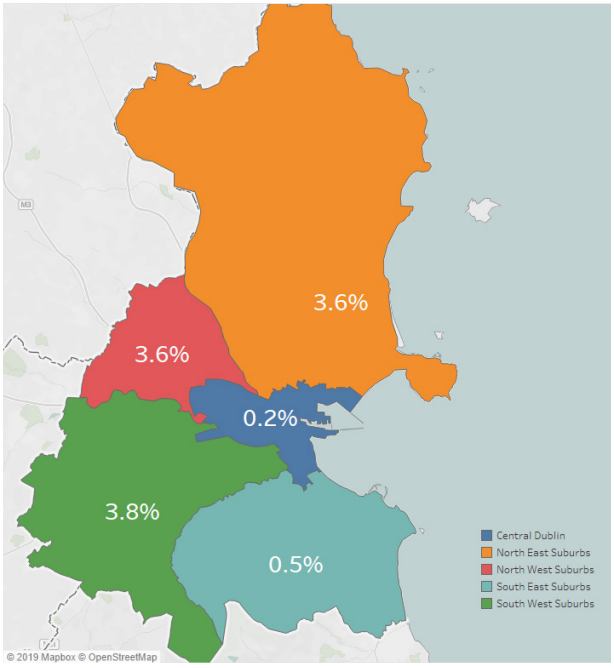
Prime logistics rents rose by 5% in the year to March, with headline rents currently standing at approximately €105 per sq m per annum. Although development costs still exceed values in the owner-occupier market, prime yields of 5.00-5.25% continue to make the build-to-rent option viable.

With demand for space remaining strong and with vacancy at such a low rate, there is likely to be continued upward pressure on rents. Additionally, rising build cost inflation coupled with new NZEB* requirements means developers may increase quoted rents.

Table 1: Analysis of Movement in Vacant Space (Sq M), rolling 12 months to Q1 2019

	Supply	Demand	Net
Net Movement in Stock	79,753		
Net Absorption		83,164	
Movement in Vacant Space			-3,411

Figure 3: Vacancy Rates (for Units of 500+ Sq M) by Broad District



A7A/A7B North City Business Park – 1,854/1,874 Sq M, Available to Let

* Under Nearly Zero Energy Building (NZEB) requirements, all new buildings including non-domestic units occupied after 31 December 2020 should consume very low levels of energy including renewable sources. Exisiting buildings undergoing major reburbishments may also be subject to upgrades in energy performance requirements.

Unit 629 Northwest Logistics Park, Let in Q1 2019

Outlook

The sale of Green Reit, which was announced in April, presents a major opportunity for industrial and logistics development - its assets include 300-acres at Horizon Logistics Park. More generally in the development market, planned new units are starting at 4,000 sq m due to cost efficiencies over smaller units. Construction is due to commence on 70,000 sq m of space in 2019, with over 70% of this already pre-let or pre-sold. Given the strength of the consumer economy we expect net absorption to exceed this sum and, as a result, vacancy rates should remain low and rents should remain strong.

Savills team

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