

Dublin Logistics



Logistics facility, Great Connell Road, Newbridge, Co. Kildare approx. 31,500 sqm – available to let

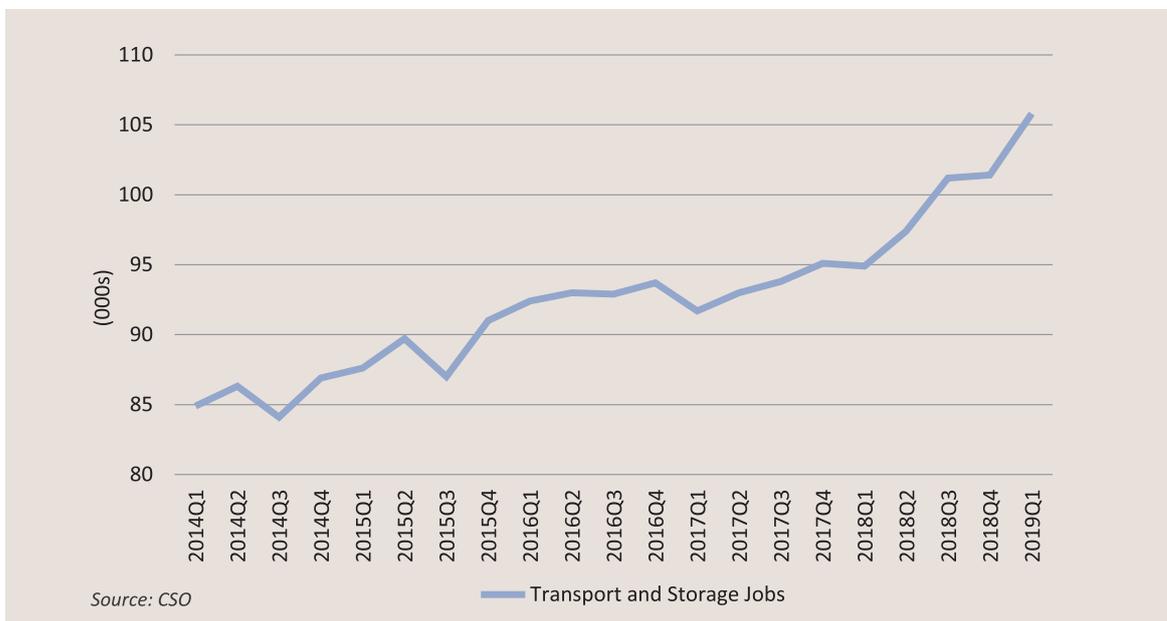
Economic Overview

Ireland's economy continues to outperform with GDP increasing by 8.2% last year and continuing to grow by 6.3% year-on-year in Q1. As a result Ireland remains the EU's fastest growing economy, with an expansion rate more than seven times greater than those in larger economies such as Germany and France.

Goods imports and exports are currently rising by 6% and 5% per annum respectively, and throughput across Ireland's ports continues to rise. Logistics sector employment has grown to service this increased activity - Transport and Storage is now the fastest growing sector of employment (+11.5% Y/Y – see Figure 1). However there are signs that the rapid expansion in the

consumer economy of recent years is beginning to moderate. Consumer sentiment has been declining for the past 11 months, while growth in real personal consumption expenditure has lagged behind the rapid increase in disposable incomes – reflecting increased savings. Growth in real VAT receipts and retail sales has slowed - to 3.7% and 0.1% respectively. Taken together these indicators suggest a more cautious approach to spending, perhaps reflecting Brexit uncertainty and US / China trade tensions. In summary, while there is evidence of less consumer exuberance, Ireland's economy continues to expand and this has continued to underpin the demand for supply chain services, including logistics property.

Figure 1: Total Employment in Transportation and Storage



8.2%
 GDP Growth
 in 2018



5%
 Rise in Exports



6%
 Rise in Imports



11%
 Employment rise
 in the Transport and
 Storage Sector

Market Trends

Market Demand

Take-up of Dublin logistics space in Q2 2019 was 90,184 sq m, a 70% rise on the same period last year and 35% higher than the long-run average. Combined with similar levels of take-up in Q1 this brings the total for H1 to just under 181,000 sq m. This represents the strongest H1 take-up for ten of the last 11 years (Figure 2).

There were four deals of over 5,000 sq m in Q2. The biggest of these was a 7,978 sq m letting at Western Business Park in Dublin 12, followed by Kuehne + Nagel's take-up of 7,432 sq m at Horizon Logistics Park. Net of churn and pre-lets, occupied space across Dublin rose by almost 54,000 sq m over the 12 months to June 2019.

Figure 2: Dublin Logistics Take-up, H1

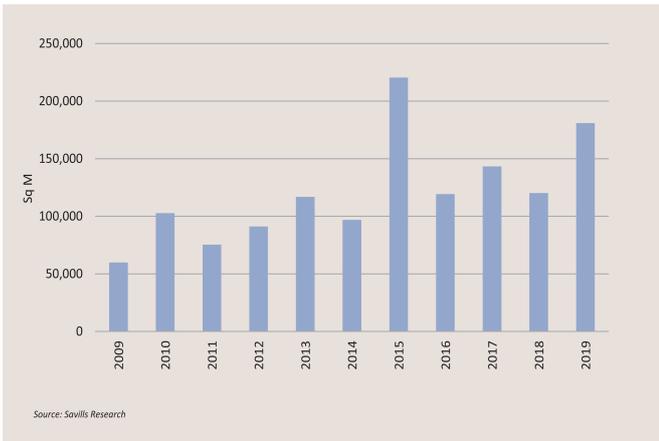
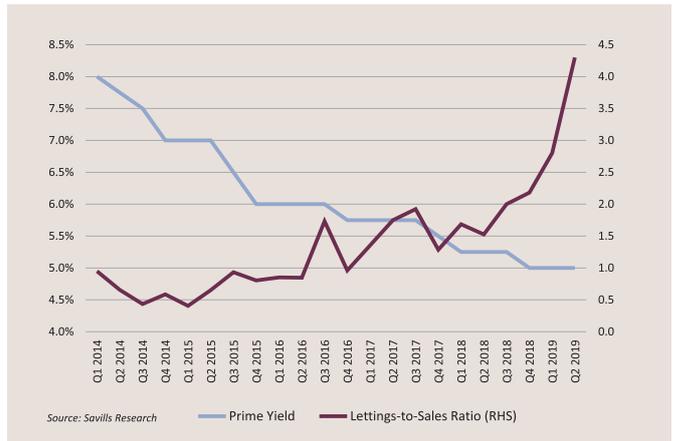


Figure 3: Movement in the Prime Yield and Lettings Ratio



Transactional activity continues to be dominated by lettings rather than outright purchases, with four-fifths of H1's deals being leases. There may be multiple reasons for this. The availability of a Capital Gains Tax (CGT) incentive encouraged purchases of buildings in the early years of this decade, but this influence has disappeared since the expiry of the CGT waiver in December 2014. There are now far fewer distressed assets being sold than during the crisis years and, as shown in Figure 3, rising values since the crisis have swung the rent-or-buy choice for many owner occupiers towards renting. Increased contract work in sectors such

as Third Party Logistics (3PL) may also have created a preference among occupiers for the flexibility of shorter leases and moved the market away from sales. In addition some multinational companies now prioritise core business investment over investment in buildings. Finally, the resumed flow of new building completions (see below) has led to bigger and better specified buildings. However, due primarily to the cost of building, the sale prices for new builds are at a significant premium above prevailing sale prices for second hand stock and the vast majority of these buildings are therefore attracting tenants rather than buyers.



Lands at Citywest Business Campus, Dublin 24 - For Sale - Guiding €5.6m

Market Supply

Eleven new logistics units were completed in the 12 months to June 2019, including an 11,045 sq m facility in Baldonnell Business Park which is occupied by United Drug. Taking into account these new developments, the total industrial and logistics stock in Dublin rose by 70,395 sq m.

Vacancy

Table 1 below shows the combined impact of the demand and supply movements; net development marginally outstripped net absorption and, as a result, vacant space edged up by 16,732 sq m

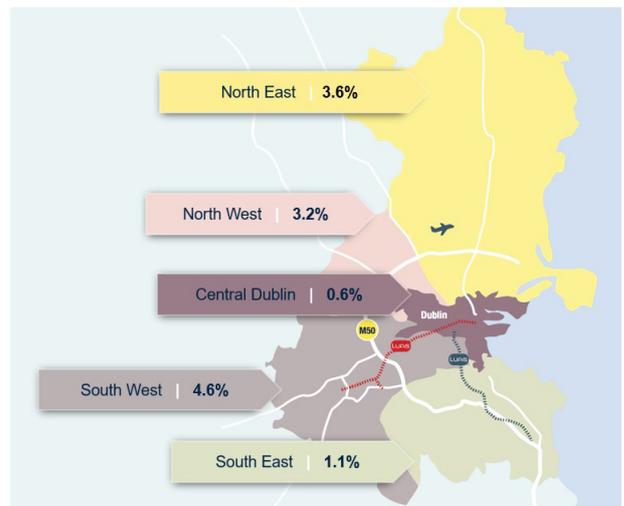
Reflecting the increase in available space, the vacancy rate has moved up slightly between March and mid-year. However, it remains very low at 3.6% across the market as a whole. Vacancy along the Southwest corridor is higher at 4.6% after 25,400 sq m of extra space became available in Q2. This includes 13,006 sq m at Unit S1, Park West Industrial Park and 960 sq m at Unit 214, Western Industrial Estate. Elsewhere, vacancy rates in Central Dublin and the Southeast are 0.6% and 1.1% respectively – reflecting the fact that both are attractive locations with limited stock.

The ‘sheds to beds’ dynamic continues to be evident in the market with a number of developers and funds identifying industrial sites with the potential to be rezoned for apartment blocks. In due course this could lead to a withdrawal of stock which would offset additions from new development. However, the redevelopment plays will be primarily focused on older industrial locations, and the removal of this product would serve to increase the average quality of Dublin’s industrial stock.

Table 1: Analysis of Movement in Vacant Space (Sq M), rolling 12 months to Q2 2019

	Supply	Demand	Net
Net Movement in Stock	70,395		
Net Absorption		53,662	
Movement in Vacant Space			16,732

Figure 4: Vacancy Rates (for Units of 500+ Sq M) by Broad District



Century Business Park, Finglas, Dublin 11 – For Sale – Guiding €5.25m

Rents and Yields

Prime logistics rents rose by 5% in the year to June, 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. Secondary rents have risen by 10% in the year to €55 per sq m per annum – partly because of the scarcity of this type of stock.

With demand for space remaining strong and vacancy at such a low rate, there is likely to be continued upward pressure on rents. Additionally, rising build cost inflation – currently running at 6.5% per annum – coupled with new NZEB requirements mean that developers may increase quoted rents.



George Cooke Industrial Estate, Bluebell Lane, Dublin 12 – For Sale – Guiding €2.75m

Outlook

Demand is now strongest for new builds greater than 5,000 sq m, while smaller developments can sit vacant for up to six months after completion. Over 70% of space due to complete by the end of the year is accounted for by pre-lets, which are becoming more commonplace in the logistics sector. While the 'Big Six' developers – Park Developments, Rohan Holdings, Erigo, Exeter, Green Reit and Mountpark - have traditionally dominated, two

new entrants are expected in the next 6-12 months. Additionally, the data centre sector remains active with operators seeking opportunities for purpose-built units on industrial zoned lands. Overall, applying tender price inflation and NZEB costs to industrial rents, Savills expects quoting rents for new industrial units that deliver in 2020 to reach approximately €110 per sq m.

Savills team

Please contact us for further information

John McCartney
Director of Research
Savills Ireland
+353 (0)1 618 1427
john.mccartney@savills.ie

Gavin Butler
Director of Industrial and Logistics
Savills Ireland
+353 (0)1 618 1340
gavin.butler@savills.ie

Peter Levins
Divisional Director of Industrial and Logistics
Savills Ireland
+353 (0)1 618 1739
peter.levins@savills.ie

Giles Ross
Surveyor,
Industrial and Logistics
Savills Ireland
+353 (0)1 618 1308
giles.ross@savills.ie

Stephen Mellon
Senior Surveyor,
Industrial and Logistics
Savills Ireland
+353 (0)1 618 1366
stephen.mellon@savills.ie

Natasha Browne
Research Analyst
Savills Ireland
+353 (0)1 618 1486
natasha.browne@savills.ie

Ben McArdle
Graduate Surveyor,
Industrial and Logistics
Savills Ireland
+353 (0)1 618 1371
ben.mcardle@savills.ie

Gregor Potterton
Junior Surveyor,
Industrial and Logistics
Savills Ireland
+353 (0)1 618 1724
gregor.potterton@savills.ie