

Dublin Logistics

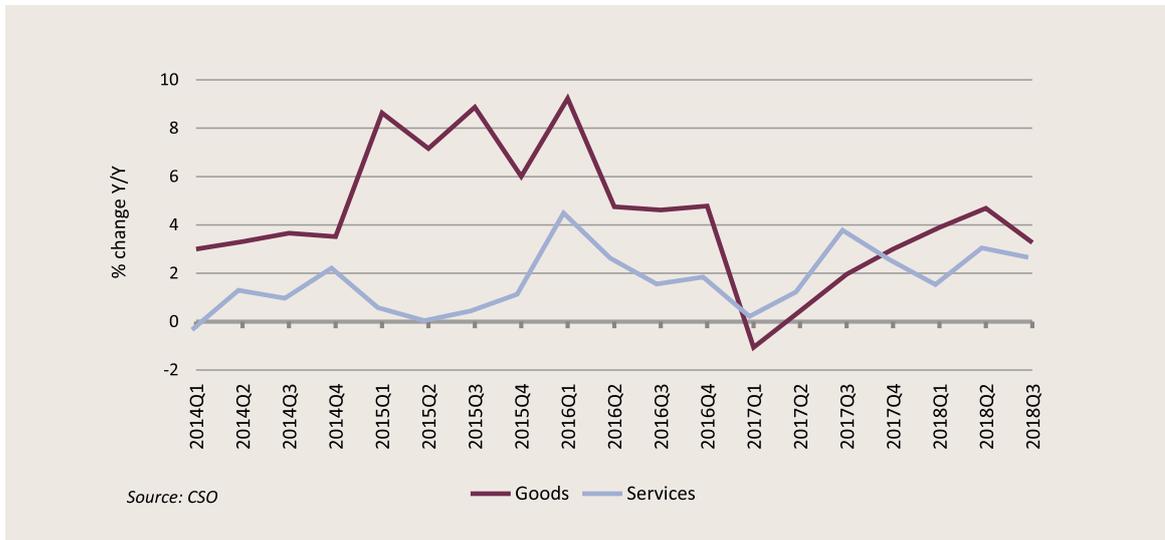


Overview

The positive news on Ireland's economy continued throughout 2018 as GDP rose by 7.2% in the year to September, the strongest growth of any EU country. The labour market continues to perform well with 66,700 new jobs added in the same period. This has dragged unemployment to a ten-year low of 5.3%, creating competition for talent and driving up earnings. Although earnings growth of 2.3% per annum is

unspectacular it represents an uptick from wage growth of 1.9% 12 months ago. More importantly, aggregate household disposable incomes are also being driven by jobs growth and tax reform, resulting in living standards rising by a much stronger 5.2%. Underpinned by this there has been a rise in the consumption of goods (see Figure 1) which is driving the demand for supply chain infrastructure and services.

Figure 1: Personal Consumption Expenditure on Goods & Services



Market Trends - Q4 2018

Gross take-up of industrial property for Q4 2018 was 91,350 sq m. Although this is down on the 97,145 sq m recorded in Q3, it is 2.2% higher than Q4 2017 and 9.5% above the average quarterly take-up since Q2 2013, when Ireland officially exited recession. There were three deals of over 10,000 sq m recorded in Q4. These include the pre-letting of 16,537 sq m to Home

Store & More at Baldonnell Business Park, Dublin 22, the letting of 10,219 sq m at Kilcarbery Business Park, Dublin 22 and the letting of 16,888 sq m at Cloverhill Industrial Estate also in Dublin 22. This brings the total number of deals in excess of 10,000 sq m to six in 2018.

Figure 2: Logistics Take-Up 2009-2018

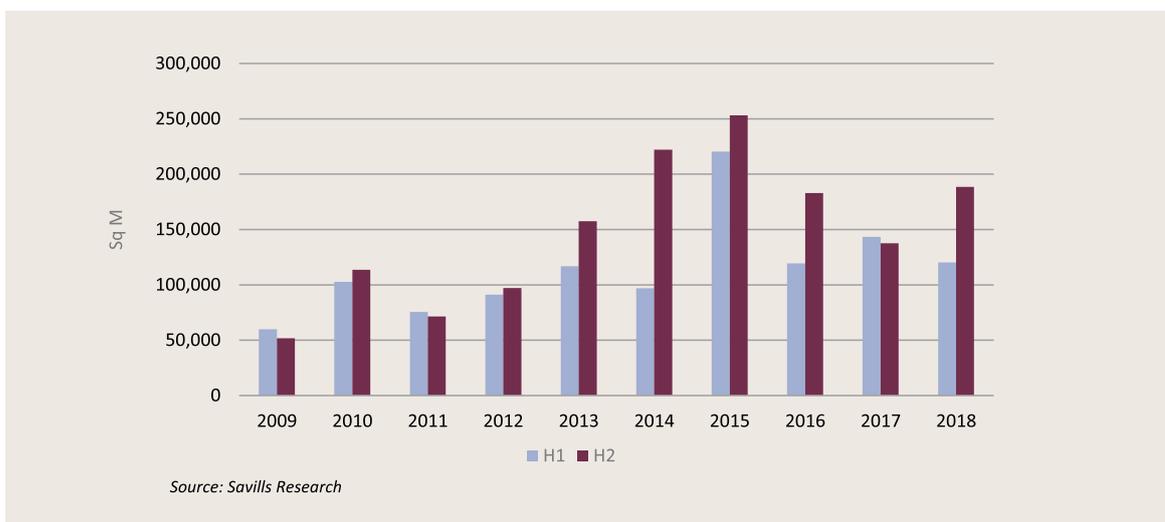


Table 1: Consumer Economy Indicators



No.s employed in Transport and Storage

7.9% ↑



Goods Imports through Dublin Port

5.5% ↑



Goods Vehicles Licensed for the first time

5.3% ↑



Dublin Port Cargo Volumes

4.3% ↑



Goods Exports through Dublin Port

2.5% ↑

Market Trends – Full-Year 2018

Full Year take-up for 2018 was 308,659 sq m, 9.8% up on 2017, and 17.7% above the long-term average. Sixty-one percent of this was taken in the second half of the year, and there have only been three stronger half-year periods for logistics take-up in the last decade. Net absorption averaged over one third of the space let over

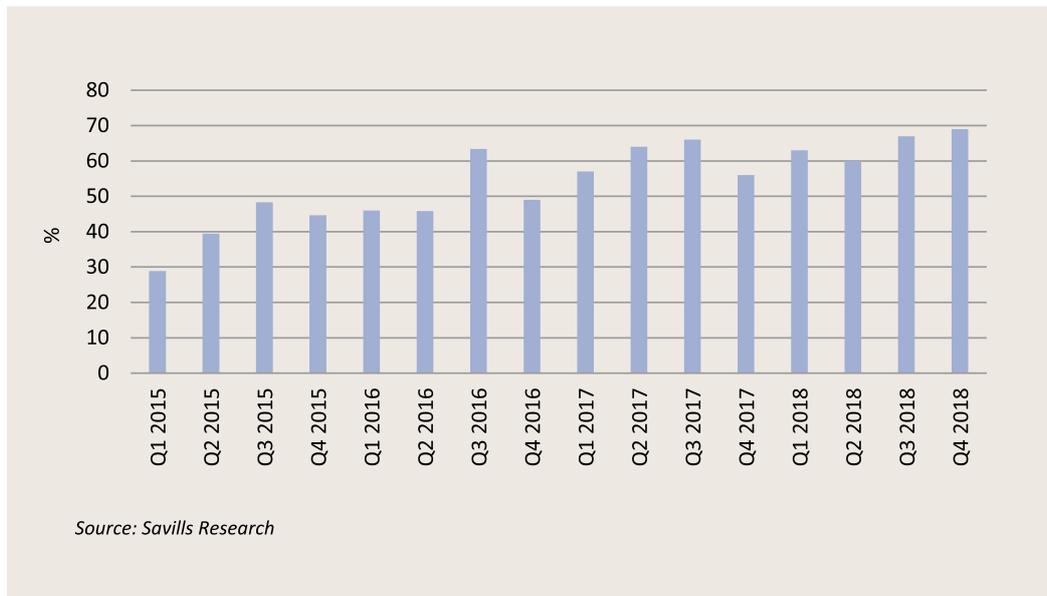
the course of 2018, with 27,000 sq m of space being digested per quarter on average. With development activity now only beginning to emerge and the total stock quite static, this fed through to a further decline in vacancy rates and, it follows, upward pressure on rents.

Rents and Yields

Latest MSCI data show that ERVs for a sample of prime logistics properties rose by 1.9% in the year to December and we believe headline rents currently stand at approximately €100 per sq m per annum. Development costs still exceed the values owner-occupiers are prepared to pay developers for new space by comparison to the cost of secondhand stock. However the weight of money seeking to invest in income-producing logistics premises has compressed prime yields to 5.00 - 5.25%. At current rent levels this makes the build-to-rent

option viable and has led to a resumption of speculative development over the last two years. But there is also strong investor and owner occupier demand for second-hand freehold stock with almost every sale setting a new benchmark for values, primarily due to competitive bidding. Indeed the increasing role of investors in the market is evident in the pattern of take-up, with lettings accounting for a bigger share of transactions in the occupational market at the expense of owner-occupier purchases (Figure 3).

Figure 3: Lettings Share of Logistics Transactions



Outlook

Ten new logistics facilities, comprising 50,560 sq m of space, were completed in Dublin during 2018. It is anticipated that construction will commence on at least a further 70,000 sq m in 2019, with over 50,000 sq m of this already pre-let or pre-sold. Strong occupier demand combined with all-time low vacancy rates have been the key drivers of a return to new development over the last 2 years. Prime rents are likely to continue rising in the

short term due to the strong levels of demand and, as build costs escalate, it will be the early movers in 2019 who get best value. There continues to be a significant gap between new build and second-hand prices. However, we see this gap diminishing significantly in 2019 as strong levels of interest continue to drive second hand values.

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