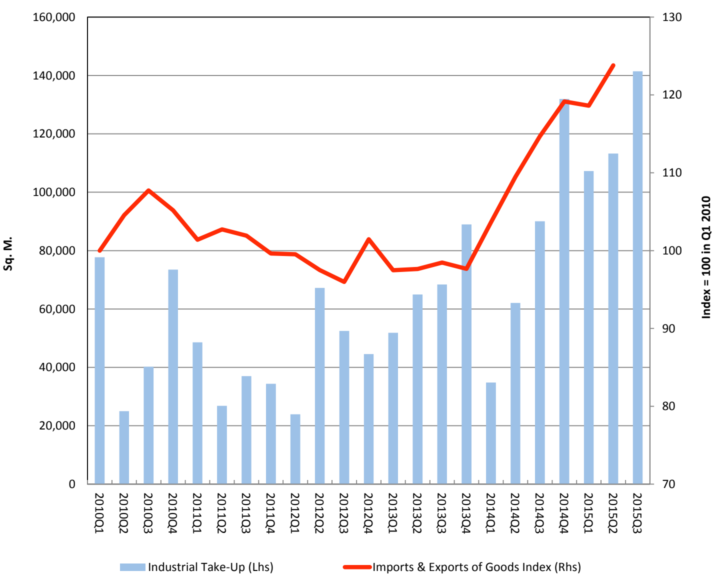
Market in Minutes
Dublin Industrial Market

Q3 2015

GRAPH 1

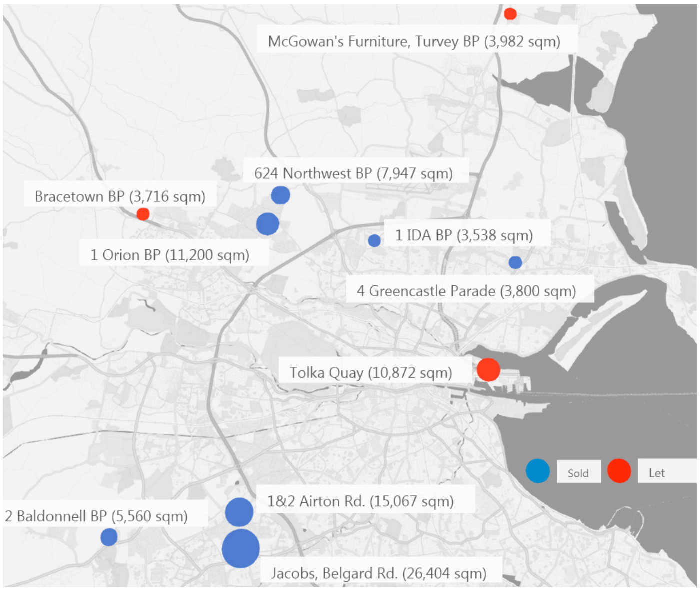
Industrial Take-Up and Combined Imports and Exports of Goods



Source: CSO, Savills Research.

FIGURE 1

Top 10 Industrial Transactions Q3 2015



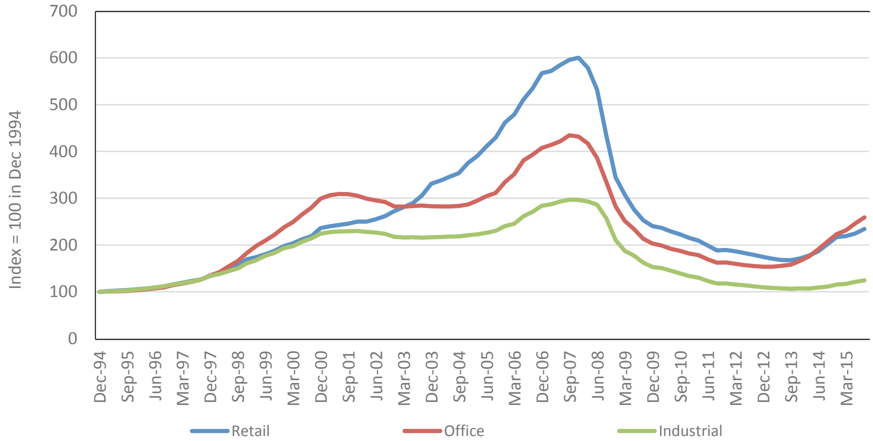
Source: Savills Research.

Strong exports and consumer-driven imports have combined to force more goods through the economy and this is driving the demand for warehousing space. Gross transactions in the industrial market topped 141,000 sq.m. in Q3, bringing total take-up for the first nine months of the year to over 360,000 sq.m. – almost double 2014 equivalent. Approximately 97,000 sq.m. (68%) of the space taken up in Q3 was acquired through outright sales. Indeed, sales have now outstripped lettings for seven consecutive quarters. This reflects the fact that, despite a 17% pick-up in capital values since their low-point in Q3 2013, industrial units can still be acquired at a significant discount to reinstatement costs. Southwest Dublin continues to lead the way, accounting for 53% of transacted space in Q3, while 21% and 23% of total activity took place in the Northeast and Northwest corridors respectively.

The Irish economy continues to forge ahead with GDP now rising at 6.7% per annum. Favourable tailwinds including a weaker Euro and solid growth in Ireland's key trading partners have led to double-digit increases in goods exports for the last five quarters. But homegrown demand is also contributing to Ireland's remarkable recovery with population growth and jobs creation both impacting positively on the consumer. Consumption expenditure is now rising by 2.8% per annum while the narrower retail sales measure is up 8.6% in September. Consequently, goods imports are also increasing at a very rapid pace of 9% ➔

GRAPH 2

IPD capital value index



Source: IPD.

The latest Investment Property Databank (IPD) data reveal that prime industrial rents rose by 6.4% in the year to September and we believe headline rents now stand at approximately €75 per sq.m.. Prime yields have fallen from 10% to 7.7% over the last 12 months. This is the fastest rate of yield compression in any commercial sector and reflects the value that is still available, particularly for small units of up to 2,000 sq.m. where yields are approximately 100 basis points higher.

OUTLOOK

Following the latest National Accounts release economists have moved quickly to raise their GDP growth forecasts. The economy is now expected to advance by around 6% in 2015 and 4.5% in 2016 with approximately 50,000 additional new jobs in each year. This, along with increases in the minimum wage and reduced Universal Social Charge (USC) rates, should ensure that the strong consumer recovery continues into next year. The corporate sector is also set to continue its outperformance with the manufacturing PMI showing expansion for the 29th successive month in October and a quickening of growth in new orders.

As business activity remains buoyant, so too will the demand for industrial space. Sales will continue to dominate with good value still to be had in the market. With rising values and a limited availability of good quality product, new developments will begin to emerge in 2016.

The last three years have seen those who bought property at below replacement cost being well rewarded for their prescience. Industrial values fell further than those of other commercial assets during the downturn and this has created opportunities for buyers. The market is responding to these opportunities and, as a result, initial yields have been squeezed down by 240 basis points over the last 12 months. This compares with yield compression of approximately 130 b.p. for commercial property generally. However, with prices still below reinstatement value in many locations the window of opportunity remains open, and industrial property continues to be one of our key picks for 2016.

Savills Industrial

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