Market in Minutes
Dublin Industrial Market

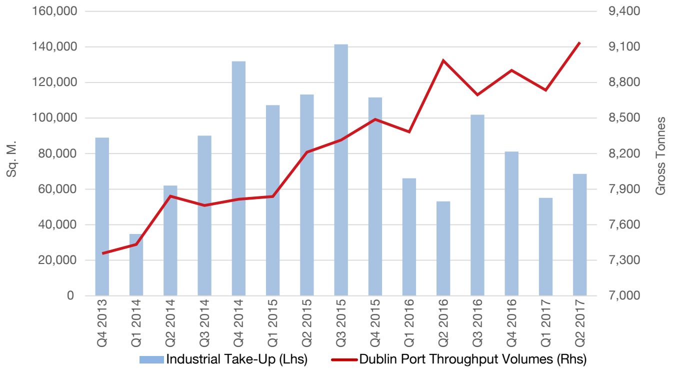
Q2 2017

Economic Overview

Last year's strong economic performance has carried through to 2017. Output is now expanding at an even firmer pace than last year with GDP growth of 6.1% per annum in Q1, maintaining Ireland's position at the top of the EU leaderboard. Supported by employment growth of 3.5% – the fastest in almost a decade – personal consumption is contributing positively and expenditure on consumer goods is rising by 3.9% per annum. This buoyancy is being felt right through the supply chain. Dublin Port continues to post increased trade volumes. Total throughput rose by 2.9% in H1, leaving 2017 on track to be the strongest year ever for port traffic. Naturally, the pace of economic activity is also driving stronger demand for manufacturing, logistics and warehousing property.

FIGURE 1

Gross Industrial Take-up and Dublin Port Throughput Volumes



Source: Savills Research, Dublin Port

Market Trends

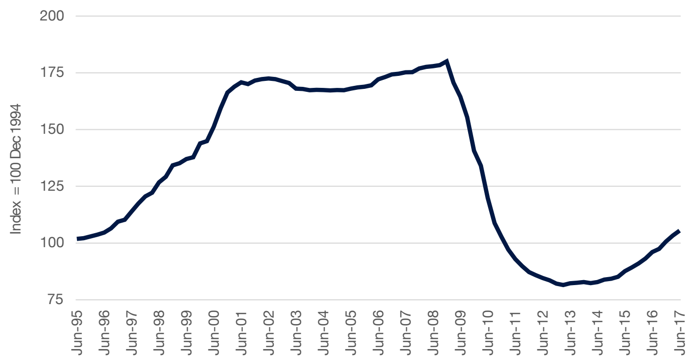
Despite the restricted availability of good quality modern units in prime locations, gross transactions of industrial space totalled 68,500 sq m in Q2 2017. This is up 29% on the same period last year. There were three particularly large deals in the quarter - the sale of the former United Drug and Cuisine de France facilities on the Belgard Road, Tallaght (11,362 and 9,183 sq m respectively) and the pre-letting of a new design and build distribution centre at Dublin Airport Logistics Park to Holland & Barrett (6,180 sq m). Together, these accounted for 39% of total take-up for the quarter. Overall, approximately 123,500 sq m of industrial space was transacted in the first half of the year, an increase of 4% on the same period in 2016.

Rents and Yields

Latest MSCI data show that ERVs for a sample of prime industrial properties rose by 9.8% in the year to June. Headline rents for prime industrial property in Dublin currently stand at approximately €100 per sq m per annum. Market conditions remain tight with the availability of high quality modern units in prime locations still limited. Reflecting this, and with prime ERVs still 40% off their previous peak, we expect continued rental growth through the remainder of 2017 and 2018.

FIGURE 2

Prime Industrial ERV Index



Source: MSCI

At 5.25% - 5.50%, prime industrial yields have remained steady in Q2. At this capitalisation rate, build-to-rent development has become viable and we have therefore seen a return to speculative construction. The first of this product is now being offered to the market at Dublin Airport Logistics Park on the M2, just off Junction 5 on the M50. Should strong covenants be secured we could see some of this speculative development being sold on to investors who are seeking to balance their portfolios with industrial assets and to benefit from the upside demand for logistics space arising due to the growth of e-commerce. While the spread between industrial and office yields has become more challenging, this scenario perhaps allows the possibility for a further marginal hardening of prime industrial yields.

OUTLOOK

While the demand for warehousing and logistics space continues to strengthen, the sector is not without challenges. The potential impact of Brexit on goods trade, high costs of vehicle insurance and competition from international operators all remain concerns for the industry. Nevertheless the sustained pick-up in domestic demand, and expectations of future strong growth, should ensure that the appetite for Dublin industrial space remains firm. This is prompting further speculative development with a number of developers considering speculative construction or seeking planning permission for industrial development.

Savills Industrial

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