

Savills Research – Q2 2023

Dublin Industrial and Logistics Market

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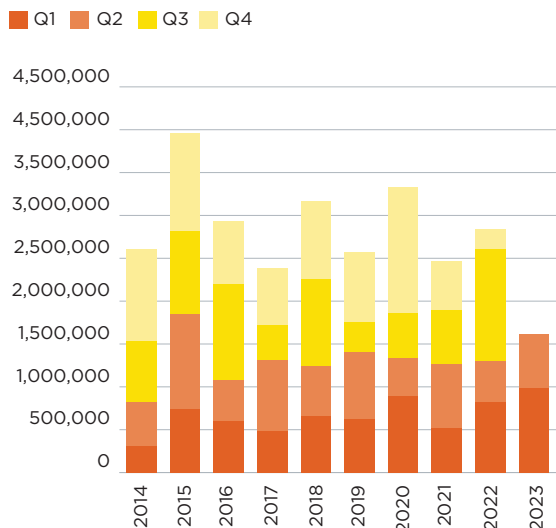


Key statistics, sq ft

	Q1 2023	Q2 2023	Q/q
Take-up	990,000	620,000	-370,000
Completions	620,000	1,190,000	+570,000
Vacancy Rate	1.3%	1.6%	30 bps
Prime Rent	€12.50	€12.75	+2.0%
Absorption	790,000	880,000	+90,000

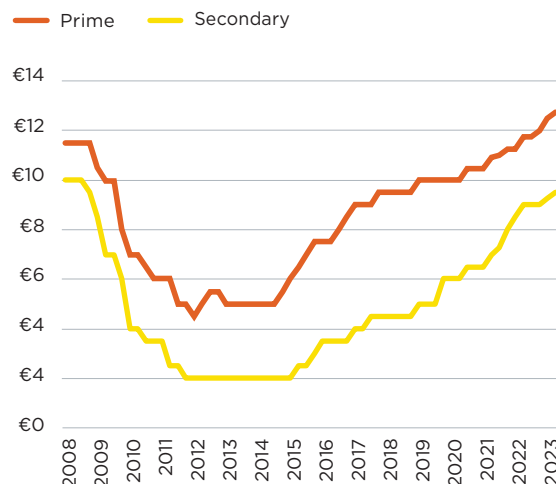
Source: Savills Research

Figure 1: Take-up, sq ft



Source: Savills Research

Figure 2: Headline rents, psf



Source: Savills Research

Strong occupational market continues to prevail

Despite the challenging macro environment, Dublin's industrial and logistics market remains resilient.

Dublin's industrial and logistics market continues to demonstrate strong demand with 1.6m sq ft of take-up recorded in the first half of the year. 620,000 sq ft of this transacted in Q2 which is in line with the five-year average. In addition to strong take-up levels, there was also a 300,000 sq ft acquisition in North Dublin for an alternative industrial development which is a further indication of strong market sentiment. In total, 17 units were taken up consisting of one sale and 16 lettings. One deal over 100,000 sq ft took place and supported the average deal size of 36,700 sq ft.

TOP DEALS

The largest deal of the quarter consisted of the 113,000 sq ft letting at P2 Horizon Logistics Park, a design and build completion for packaging solutions firm WestRock. This was followed by the pre-let of Unit G Mountpark Baldonnell. The 96,000 sq ft unit was taken by Rexel Group, an electrical distribution company which will use the unit as a national distribution centre, solidifying its commitment to Ireland.

The third-largest deal took place in the former Cuisine de France building on Belgard Square North. Uppercross, a distributor of plumbing and heating products, signed for the 90,000 sq ft space.

A subleasing agreement formed the fourth-largest deal whereby DHL agreed to sublet Unit 5, Dublin Airport Logistics Park from Holland & Barrett, measuring 65,000 sq ft. The sublease became available last quarter and was quickly taken up. DHL has been considerably active with deals completed in four of the past five years, one of which was the significant pre-letting of 206,000 sq ft at Unit 1, Quantum Distribution Park.

RENTS

Rental growth continued to be underpinned by the tight supply dynamics remaining in the sector. Few modern units are available for immediate occupation which supported prime rental movement from €12.50 psf to €12.75 psf. Meanwhile secondary stock moved from €9.25 psf to €9.50 psf.

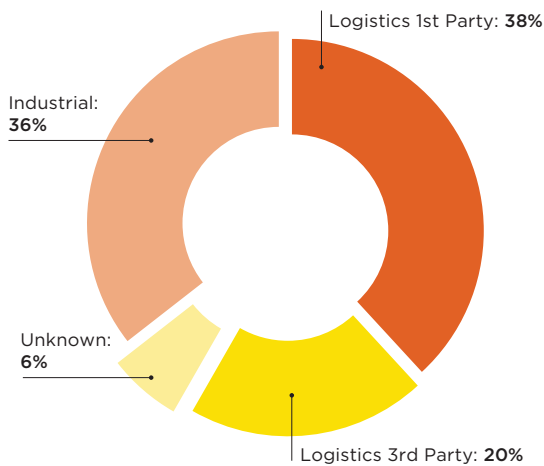
Table 1: Top five deals

Property	Sq ft	Tenant	Type
P2, Horizon Logistics Park	113,000	Westrock	Manufacturing
Unit G, Mountpark Baldonnell	97,000	Rexel Group	1PL
Former Cuisine de France, Belgard Square	92,000	Uppercross	1PL
Unit 5, Dublin Airport Logistics Park	65,000	DHL	3PL
Unit D, Greenogue Business Park	64,000	Lucey Transport	3PL

Source: Savills Research

Figure 3: Vacancy rate


Source: Savills Research

Figure 4: Take-up by sector


Source: Savills Research

LOCATION ANALYSIS

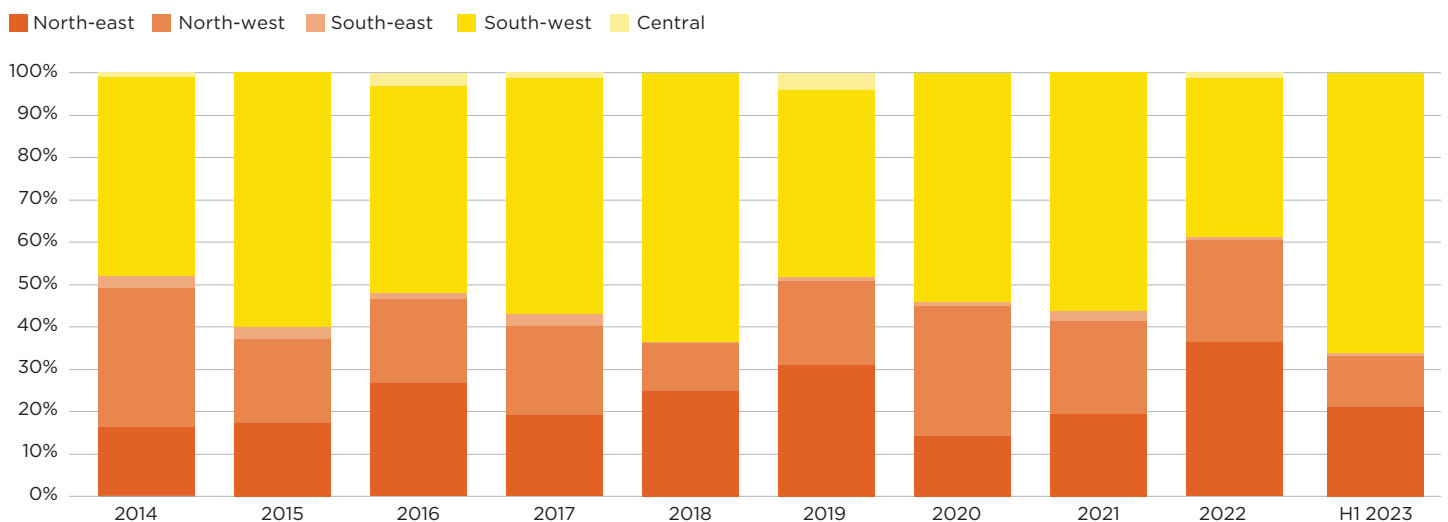
Take-up on a quarterly basis remained primarily focused on the South-west where 66% of activity took place for the second quarter in a row, followed by 30% in the North-east which was boosted by two of the top five deals of the quarter. In the year to date, take-up remains south dominated at 67% while northern locations have accounted for 33%.

SECTORAL ANALYSIS

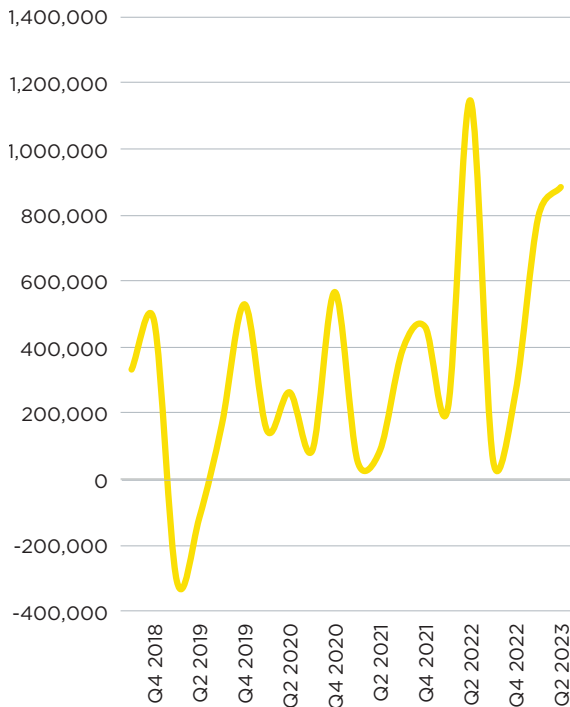
1st party logistics narrowly took the largest market share at 38%, followed by the industrial sector at 36%. Industrial can be split out further and includes deals by three manufacturing firms and two recycling/waste management companies, with the remainder a mix of business services. 3rd party logistics also took a notable 20% of space. The continued strong showing of logistics firms in take-up is reflective of their expansions and includes Rexel Group's national distribution hub and DHL's expansion at Dublin Airport. With continued e-commerce growth and Brexit relocations still coming into play, logistics is expected to continue to make up the largest portion of take-up. In H1, 45% of all space has been attributed to 3rd party logistics firms and combined with 1st party logistics, brought the total logistics share to 69%.

VACANCY

Vacancy figures point to a rise from 1.3% in Q1 to 1.6% this quarter. Just three of the 45 vacant units are new builds, indicating that the vacancy is comprised of mostly older stock. Two of three of the available new builds were added this quarter and are also likely to be absorbed in the coming quarters. Site R, Aerodrome Business Park was the most significant addition at 240,000 sq ft but is expected to let in the coming months due to strong levels of enquiries. As such, there remains a limited supply of modern stock for occupiers.

Figure 5: Take-up by location


Source: Savills Research

Figure 6: Absorption, sq ft


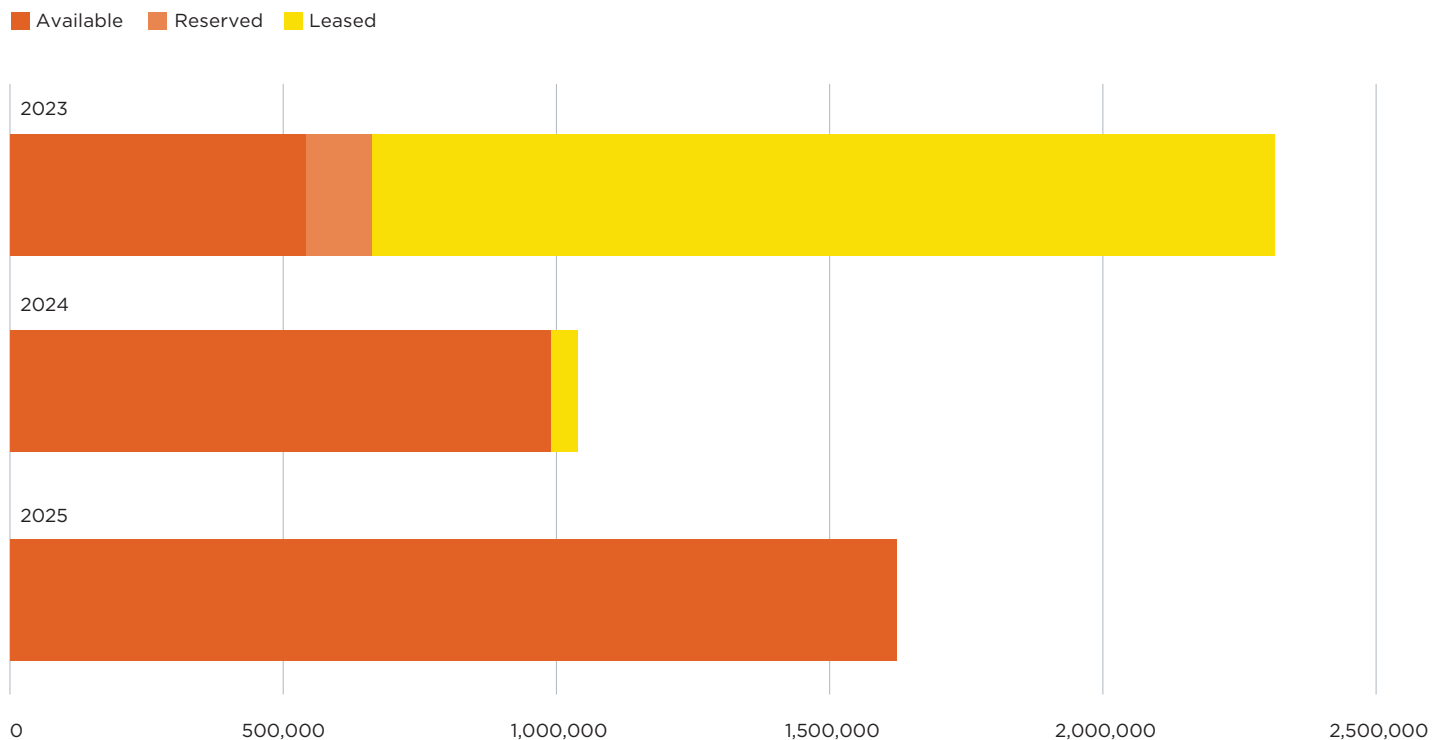
Source: Savills Research

SUPPLY

The bulk of this year's expected delivery of space was completed this quarter with 1.2 m sq ft across 11 different units constructed. Quantum Distribution Park in the North-west saw the most activity with three units completed totalling over 460,000 sq ft. Despite the high volume of space delivered, just two units are available to the market – one being Unit 1 Southwest Business Park and which is reserved. The other is the 240,000 sq ft Site R at Aerodrome Business Park, which was also the largest delivery of the quarter.

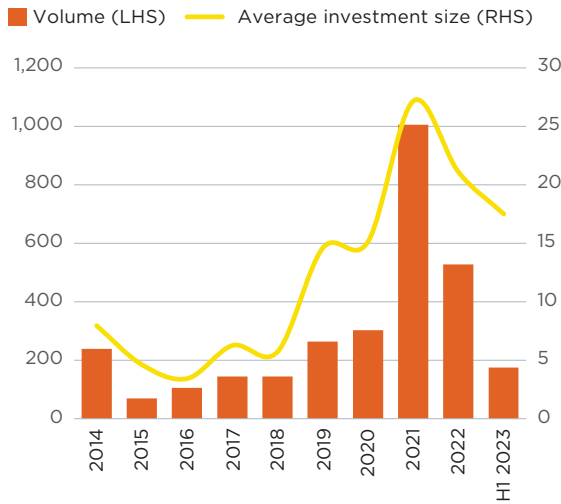
In the year so far, 1.8m sq ft of space has been completed, 61% of which was in the northern locations of Dublin and includes Quantum Logistics Park and Northwest Logistics Park. One of the main draws for activity in the north is Dublin Airport and access to the M1 motorway, with the latter providing access to the M50 to the south and Northern Ireland to the north. Much of this year's new development took place here and was pre-let in preceding quarters.

Given the high demand for modern industrial and logistics units, it is of no surprise that this year is expected to deliver the most sq ft ever at 2.3m sq ft. 79% of this has already been built, with the remaining 495,000 sq ft under construction, 43% of which is either let or reserved. In 2024, delivery is expected to ease to just over 1.0m sq ft of which 5% is let. Activity is anticipated to pick up again in 2025 with almost 1.6m sq ft of space estimated to be constructed.

Figure 7: Construction pipeline, sq ft


Source: Savills Research

Figure 8: Industrial and logistics investment volumes, €m



Source: Savills Research

In-depth: Evolution and institutionalisation

Increased international capital has fed into a more mature industrial and logistics market.

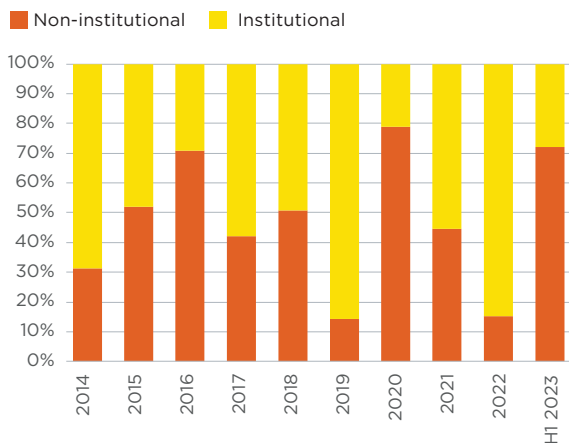
Investment into Irish industrial and logistics assets picked up this cycle after 2018 as shown in the investment volumes to the left. Institutional capital turned to industrial and logistics assets amid the continued acceleration of e-commerce in the retail sales market. While many more institutional owners have entered the market, the majority of stock remains owned by smaller individual investors or owner occupiers. Less than 15% of Dublin's industrial and logistics stock is under institutional ownership.

The sector was primed for investment to boost growth as ultra-low vacancy rates were present around Europe, particularly in Dublin, and construction levels lagged behind demand. This presented opportunities for institutional investors and funds to purchase existing units or pre-fund developments through forward fund agreements. Demand accelerated significantly as a result of covid which placed pressure on supply chains and created the need for more on-demand storage space. This saw investment volumes in industrial assets, and average investment sizes, increase dramatically with investment into the industrial and logistics sector in 2019 alone more than five times the preceding five years combined.

INCREASED SOPHISTICATION

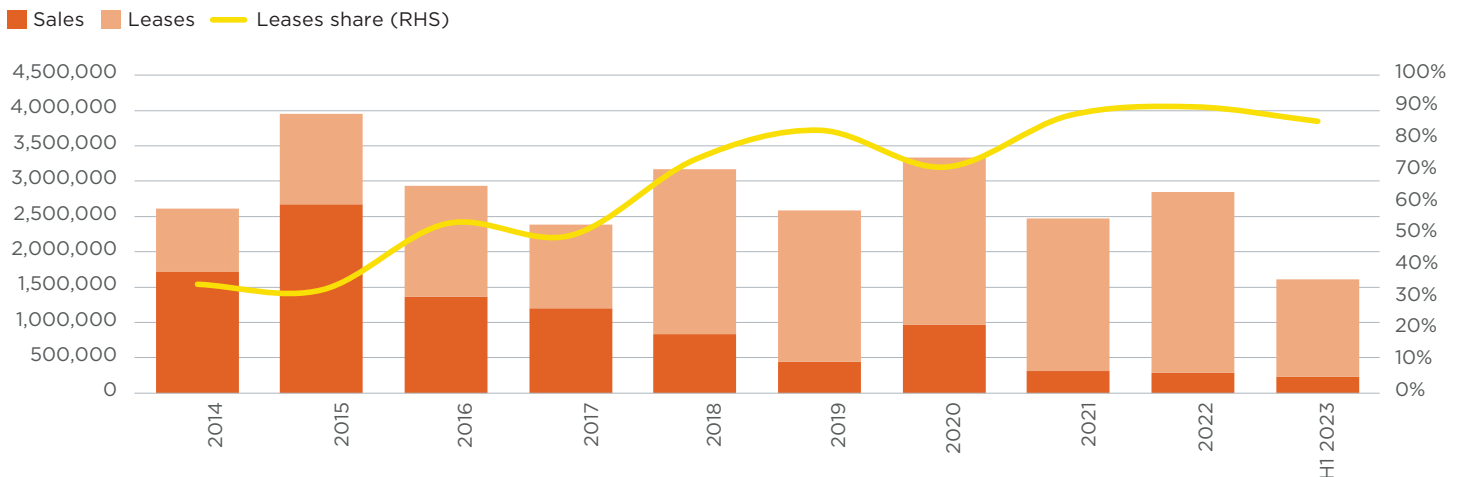
As a result of the increased investment, leasing rather than purchasing for owner occupation has become the preferred occupational strategy, with consistently more than 70% of deals attributed to leases from 2018 onwards. Additionally, not only are leases more commonplace but they are more typical of a traditional lease found in other commercial sectors with greater sophistication around the lease structure, asset management, rent reviews, and ESG clauses. This has led to a maturing of the industrial market and mirrors global trends for the sector in this regard.

Figure 9: Institutional industrial and logistics investment volumes



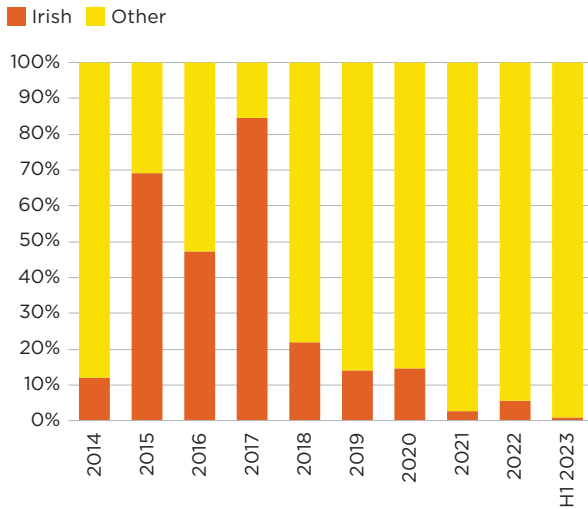
Source: Savills Research

Figure 10: Dublin industrial and logistics take-up by type, sq ft



Source: Savills Research

Figure 11: Industrial and logistics investment by buyer nationality



Source: Savills Research

With the increase in capital, there has been more diversity in where the money is coming from. Prior to 2018, Irish investors accounted for an average of 61% of investment volumes, but this has fallen to just 6% as of 2022. Initially, UK investors took the largest share, with capital then arriving from Asia, the US and other European countries. This has created a diverse and highly institutionalised ownership base whose portfolios are subject to global fund mandates and required returns for funds. Opportunities are present both for value-add focused funds for the improvement and upgrading of legacy units, as well as core and core plus funds which are tuned into the development pipeline where high-grade ESG stock is being delivered.

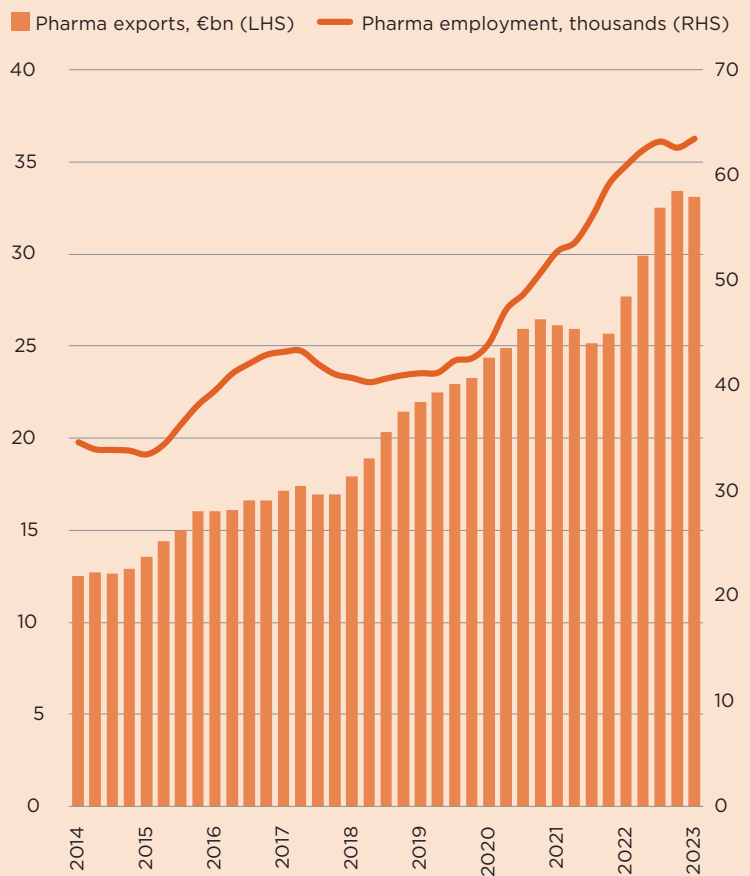
Analysis: Pharmaceutical investment

FDI is an important part of Ireland's economy and has flourished since the pandemic. According to FDI Markets from the Financial Times, the number of greenfield investments in Ireland increased from 217 in 2019 to 305 in 2022.

The pharmaceutical sector has been especially active in Ireland, with many leading industry names having established significant operations here. Indeed, two of the largest FDI projects of 2022 are related to the industry. These comprised of Pfizer's €1.2bn expansion at Grange Castle, as well as Eli Lilly's €400m investment into a new biopharmaceutical manufacturing campus in Limerick.

Investment into the pharmaceutical sector has been reflected in both the growth in the value of exports and in pharma employment. Employment accelerated significantly during the pandemic with almost double the amount of people working in pharmaceutical manufacturing in Q1 2023 compared to Q4 2019. The value of exports has also jumped by 42% over this period. While a range of forecasting bodies have revised GDP expectations downwards on the back of a slowdown in manufacturing activities and pharmaceutical exports in Q1, large pharmaceuticals continue to commit to Ireland. AstraZeneca subsidiary Alexion has lodged plans for a new manufacturing facility in Blanchardstown, while further deals are expected to be announced by the IDA in the coming months.

Figure 12: Irish pharmaceutical exports and employment



Source: Eurostat

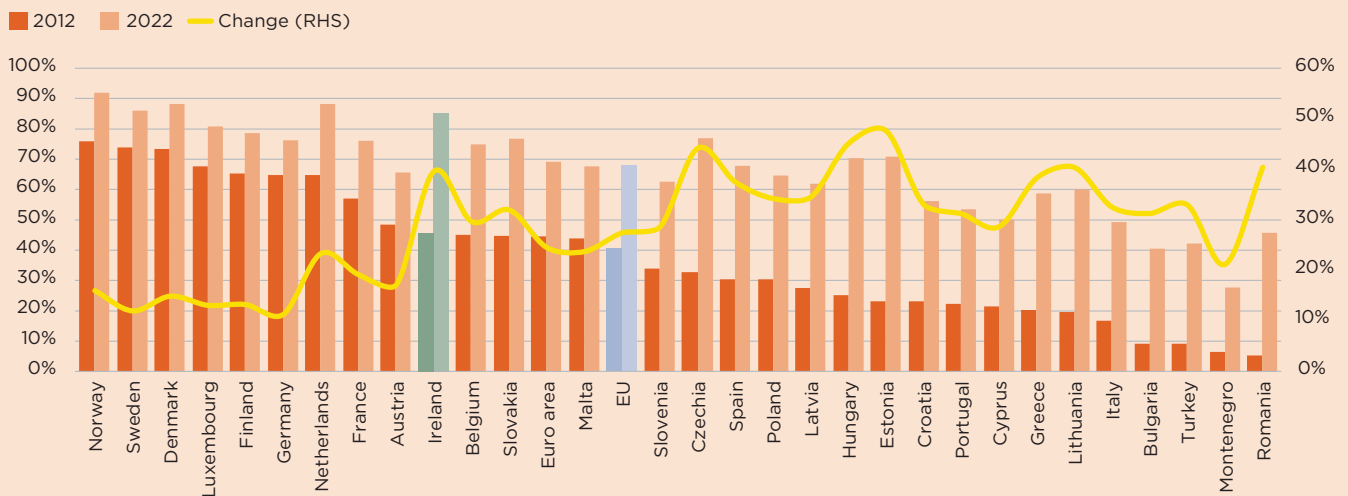
Analysis: Multi-channel dynamics

The expansion of e-commerce has spurred the growth in global logistics firms, which are increasing their stake in the overall goods transportation market via company takeovers. Over the past decade, 28% more people in the EU have been using the internet to purchase goods. This creates more demand for warehousing space and logistics operations, with large names taking space in Ireland over the past year including Amazon, DHL, UPS, DB Schenker, Fed Ex, IKEA, and Maersk.

On the back of profits from shipping operations, shipping companies are expanding into the air cargo market in a

move towards bigger and better-connected solutions for consumers, offering diversified transport options and integrated end-to-end solutions. Expanding logistics markets will create more warehousing demand, with Dublin one of the easier markets to offer such integrated solutions due to the short distances between the port and airport. All of the top three global shipping firms have either entered or expanded into the air cargo market in the past year, as detailed below, with two operating in Ireland.

Figure 13: Percentage of individuals making internet purchases in 2012 V 2022



Source: Eurostat

MAERSK

Maersk's Star Air had been operating for years as an outsourced provider for express couriers in Europe before being incorporated into Maersk Air Cargo as part of its transformation into a full-service cargo airline. Ramping up its operations, Maersk purchased three cargo planes last year and leased a further four to be operated by Amerijet. The firm also acquired airfreight forwarding firm Senator International in November. In Q3 of last year, Maersk invested significantly into the Irish market with a pre-let for a combined 252,000 sq ft over two units in Quantum Distribution Park.

MEDITERRANEAN SHIPPING COMPANY (MSC)

MSC launched its air cargo services in the latter half of 2022 by leasing four planes and has already scaled up the number of cargo flights this year. Atlas Air operates the fleet on its behalf, however, discussions are ongoing to acquire the Italian firm AlisCargo and which would allow the firm to operate commercial flights on its own.

CMA CGM

CMA CGM began air freight operations in 2021 and announced its air cargo partnership with Air France-KLM earlier this

year. It has since acquired Bolloré Logistics to combine its air operations under Ceva-Bolloré. The deal will reportedly add over 14,000 new employees in 63 countries and warehousing demand for about 9.7m sq ft globally at 115 different warehouses. CMA CGM operate through Jenkinson Logistics and has warehouses in Dublin, Cork, Belfast and Shannon.

Table 2: Air and sea capacity of top five shipping companies

Rank	Company	Shipping capacity	Air cargo capacity
1	Maersk	4.28m TEUs	900 tonnes
2	Mediterranean Shipping Company	4.28m TEUs ¹	464 tonnes
3	CMA-CGM	3.20m TEUs	444 tonnes
4	China Ocean Shipping Company	2.93m TEUs	-
5	Hapag-Lloyd	1.74m TEUs	-

Source: Company reports

¹ TEU stands for twenty-foot equivalent unit and is a measure of volume in units of twenty-foot long containers



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