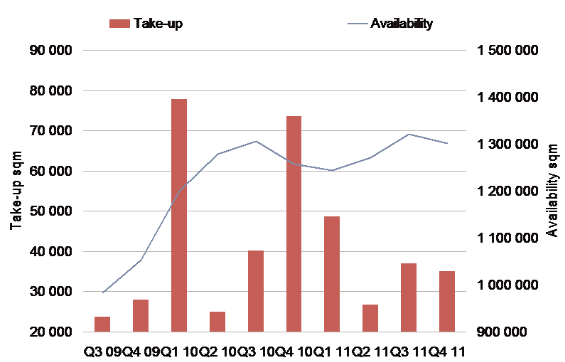
Dublin industrial market in minutes

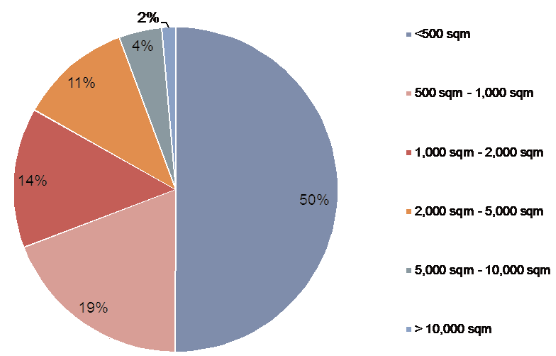
Q4 2011

Take-up and availability



Source: Savills Research

Size of available units



Source: Savills Research

"Market conditions in the industrial sector remain challenging as high vacancy levels drive competitive rents and lease terms. The ICT sector continues to drive activity with overall take-up levels expected to remain stable for 2012. "

Joan Henry (Head of Research)

- Take-up of industrial space in Dublin was just over 28,000 sqm in Q4, a weaker than expected level of activity. Q3 take-up was stronger at 35,000 sqm while Q2 take-up was close to that of the final quarter at 26,800 sqm. Overall take-up was approx. 141,000 sqm in 2011, 35% less compared to 2010.

- Demand for space in southwest Dublin dominated activity in Q4 as was the trend throughout the year, with 40% of total Q4 take-up in that location.

- The southeast region accounted for only 6% of total annual take-up, but performed well in Q4, representing 15% of take-up. Two relatively large deals of approx. 1,852 sqm in Harold's Cross and just under 1,200 sqm. in Sandyford Industrial Estate accounted for the stronger performance in Q4.

- The northwest region accounted for 21% of total take-up in 2011. The largest deal in Q4 was the letting of approx. 1,712 sqm in Northwest Business Park to Kelly logistics.

- In Northeast Dublin in Q4, there were two key sales in Baldoyle Industrial Estate with the former Barnmore and Futureprint facilities selling in December with a combined floor area of approx. 6,000 sqm.

- We expect market conditions to remain challenging in 2012 with take-up forecast to be in the region of 125,000-175,000 sqm

- Prime rents have adjusted considerably as tenants successfully negotiate better deals. Prime rents are now not far ahead of secondary rents, at between €40-60/sqm/year.

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Market trends

In total there was approx.141,000 sqm of space taken-up in 2011, which is down 35% compared to 2010. There were 110 open market industrial deals completed last year, a drop of 17% compared to 2010. Sales of industrial units increased throughout the year, with seven sales closing in the final quarter. The southwest accounted for 56% of the total annual take-up. There have been a number of large deals in the southwest throughout the year which accounts for the location's large share of the total annual take-up. These include the former McCormack McNaughton facility on the Naas Road comprising approx. 4,557m² and a new facility of approx. 3,734 sqm at Profile Park in Dublin 22, which was sold to Google for a new data management centre.

Our quarterly analysis of the stock currently available on the market shows that approx. 60% of the space available has been on the market for more than two years. The vacancy level is also dominated by smaller industrial units.This trend has dominated the vacancy breakdown throughout 2011 and is expected to remain the case in 2012 and into 2013. At the current level of quarterly and annual take-up it is difficult to see any significant erosion in the number of smaller units available, for at least 3-5 years.

Prime rents have adjusted considerably as tenants successfully negotiate better deals. Landlords have continued to re-align their expectations in order to attract occupiers with rent free periods and flexible lease terms becoming commonplace in deals to entice or retain tenants. The gap between prime and secondary rents has narrowed and rents for tertiary premises are now being negotiated on a case by case basis – as low as €20/sqm/year. Void costs is a major issue for landlords who now need to weigh up the opportunity cost of leaving premises empty versus taking nominal rents and covering the annual property management, security and maintenance costs.

Outlook

The trend in 2011 that a significant proportion of industrial properties coming to the market are now through receivers is expected to continue in 2012. This reflects the difficulties many companies are experiencing and is resulting in the banks appointing receivers to dispose of properties and mitigate their losses. The debt serving requirements of many businesses which are exposed to the property sector will continue to bring properties to the market for the foreseeable future. This will put upward pressure on the vacancy levels in each of the areas and while the amount of available space has not increased in Q4, the risks are on the upside in 2012. While it is difficult to forecast take-up in the current market, we are expecting it to be in the region of 125,000-175,000 sqm in 2012, while tenants and new occupiers will remain in the driving seat in terms of negotiating deals on rents and terms throughout 2012.

For further information please contact:

Gavin Butler
Director
+353 1 618 1340
gavin.butler@savills.ie

David O'Malley
Surveyor
+353 1 618 1458
david.omalley@savills.ie

Richard Stuart
Surveyor
+353 1 618 1493
richard.stuart@savills.ie

Joan Henry
Director of Research
+353 1 618 1487
joan.henry@savills.ie