savills

Market in Minutes
Dublin Industrial Market

Q3 2017

Overview

Ireland's economy continues to perform well with total output now rising by 5.8% per annum. On the domestic front, personal consumption remains supportive. Further robust jobs growth, coupled with increased take-home pay, has propelled real household disposable incomes higher by 8.4% over the past twelve months - the fastest rate of growth since Q2 2005. This extra income is underpinning consumer spending, particularly on tangible items, with expenditure on goods up 3%. As a result, the throughput of consumer goods within the economy continues to rise (see Figure 1). This is undoubtedly adding to the already strong demand for logistics and warehousing space.

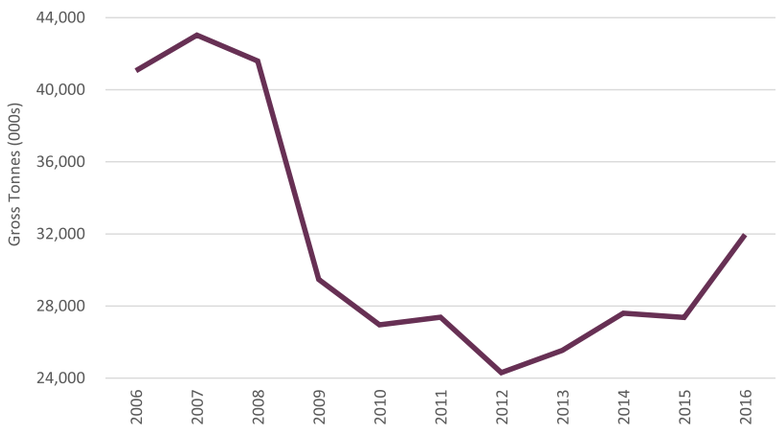
Market Trends

Gross transactions in the Dublin industrial market exceeded 48,000 sq m in Q3, bringing total take-up in the first three quarters of the year to approximately 172,000 sq m. This is 22% lower than the 221,000 sq m of space taken in the same period last year and reflects an ongoing shortage of good quality modern premises throughout the Dublin region. Despite this supply constraint, activity in the opening nine months of 2017 is in-line with the long-run average of just below 180,000 sq m.

At 34% in Q3, sales continue to account for a lower proportion of transactions than in previous years (see Figure 2). Under previous legislation, qualifying property assets bought between December 2011 and the end of 2014 could only be sold free of a capital gains tax (CGT) liability after a minimum holding period of seven years. To date, this has limited the volume of industrial properties that have been brought to the market for outright sale. However, Budget 2018 reduces this holding period from seven to four years meaning assets bought in 2012 and the first 10 months of 2013 can now be immediately traded without a CGT liability. Going forward, this change should bring about an increased flow of freehold opportunities allowing previous years' trend of sales generally outstripping lettings to begin reasserting itself.

FIGURE 1

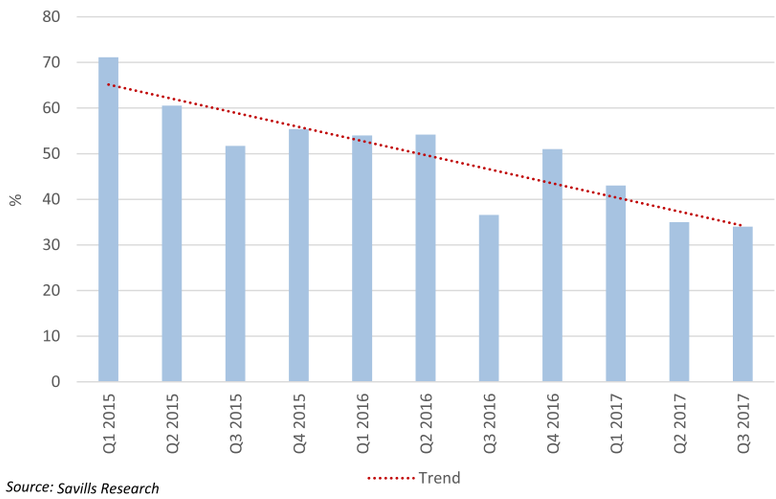
Delivery of goods to retail outlets, wholesalers and households by road



Source: CSO

FIGURE 2

Sales as a percentage of total industrial property transactions



Source: Savills Research

Rents and Yields

Latest MSCI data show that ERVs for a sample of prime industrial properties rose by 10.4% in the year to September and we believe headline rates currently stand at approximately €100 per sq m per annum. Notwithstanding a resumption in speculative development, a limited supply of high quality modern units facing robust occupier demand will result in further rental growth during 2018.

Prime industrial yields remained stable on the quarter but have edged lower over the past twelve months and are currently in the region of 5.25%. Budget-day changes saw the rate of stamp duty on commercial property transactions rise from 2% to 6% with effect from 11th October. This may drag on values in the short term. However expectations of rental growth, along with the weight of money chasing industrial investments, mean that capital values are expected to increase further in 2018.

OUTLOOK

While the full effects of Brexit negotiations on Anglo-Irish trade remain uncertain, the economy here continues to press forward. GDP growth has accelerated further and the labour market is adding close to 50,000 net new jobs a year. The latter is exerting further downward pressure on the unemployment rate which, at just over 6%, is fast approaching full employment. With slack in the labour market disappearing, earnings growth is trending higher. This, along with further modest tax cuts introduced in October's Budget, will add to take-home pay and support consumer spending in 2018. As such, robust demand for warehousing and logistics space is set to continue. This has prompted further speculative development with planning permission now in place in several locations across Dublin for units ranging in size from 1,000 - 11,000 sq m.

Savills Industrial

Please contact us for further information

Gavin Butler
Director, Industrial, Savills Ireland
+353 (0)1 618 1340
gavin.butler@savills.ie

John McCartney
Director of Research, Savills Ireland
+353 (0)1 618 1427
john.mccartney@savills.ie

Niall Woods
Negotiator, Industrial, Savills Ireland
+353 (0)1 618 1725
niall.woods@savills.ie

Darragh Doyle
Surveyor, Industrial, Savills Ireland
+353 (0)1 618 1341
darragh.doyle@savills.ie

Sean O'Malley
Economist, Research, Savills Ireland
+353 (0)1 618 1478
sean.omalley@savills.ie

Elaine Gordon
PA & Team Administrator, Industrial
+353 (0) 1 618 1313
elaine.gordon@savills.ie

Savills plc
TT