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Savills World Research
Ireland Industrial

Market in Minutes
Dublin Industrial Market

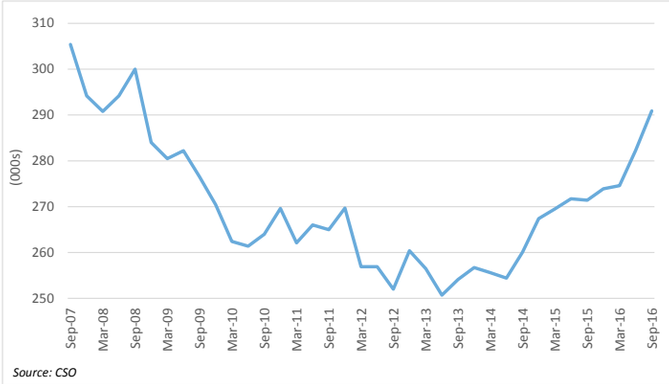
Q4 2016

Economic Overview

Despite heightened global uncertainty, the Irish economy continues to perform well. Total employment is rising by 2.9% per annum and more than 2 million people are now at work. The manufacturing, transportation and storage sectors have played a key role in this adding almost 37,000 jobs since the middle of 2014 (see Figure 1). Together, these sectors are responsible for a third of all net new jobs created in the economy over the past twelve months. Although the impact of Brexit appears to be weighing on industrial output, goods exports to the UK are still rising. Moreover, recent survey data reveal new manufacturing orders have rebounded sharply since their post-Brexit slowdown, with some respondents indicating renewed demand from the UK. Reflecting this, Dublin Port posted even stronger cargo volumes in Q4, resulting in total throughput for the year increasing by 6.8%. This is undoubtedly having sustained knock-on implications for logistics and warehousing demand.

FIGURE 1

Total Employment in Manufacturing, Transportation and Storage



Market Trends – Q4 2016

Gross take-up of industrial property exceeded 81,000 sq m in Q4. Although this is down on the 112,000 sq m recorded in the same period in 2015, it is 9.5% higher than the average Q4 take-up over the previous six years. Approximately 49,000 sq m (61%) of the space taken was accounted for by outright sales. This was inflated by the two largest deals in the quarter being sales; Phase 1 on the Airton Road, Dublin 24 and the former BWG Facility on the Greenhills Road in Dublin 12. Together, these sales accounted for over 19,000 sq m. Consistent with this, the Southwest corridor continued to dominate, accounting for 56% of take-up. This was followed by the Northeast (29%) and the Northwest (15%).

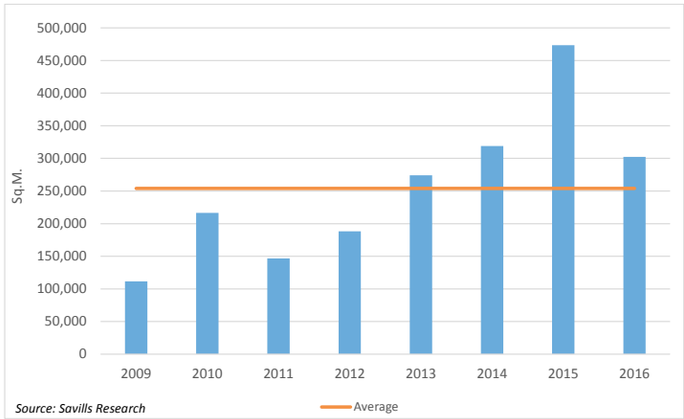
Market Trends - Full-Year 2016

Overall, 302,000 sq m of industrial space was transacted in 2016. While this represents a year-on-year decline of around 36% on the 2015 record of 473,000 sq m, it remains one of the strongest years ever. Despite the reducing stock of available space, last year's take-up figure is almost 20% above the long-run average (see Figure 2).

Notwithstanding that outright sales accounted for a greater proportion of transacted space in Q4, the general trend over the past two years has been downward. The CGT incentive, which has now expired, led to a surge in sales up to early 2015. However, with a minimum seven year hold required to avail of the tax breaks, these properties are now locked into their current ownership for the foreseeable future. Consequently, there is a general shortage of freehold opportunities coming to the market. Reflecting this, sales' share of take-up fell from 68% in 2015 to 49% in 2016. Given that much of the development currently on site has been undertaken

FIGURE 2

Annual Industrial Take-up



by long-term holders of assets, this trend is unlikely to be reversed in the short-term.

While the Southwest (48%) continued to account for a larger share of take up than any other location, the combined areas of Northwest and Northeast Dublin saw their share increase from 44% in 2015 to 51% last year. Some occupiers are undoubtedly favouring this location due to its close proximity to major road networks, Dublin airport and the Port Tunnel.

Rents and Yields

According to MSCI, ERVs for a sample of prime industrial properties rose by 10.6% in the year to December and we believe headline rents in Dublin currently stand at approximately €90 per sq m per annum. Given tight conditions in the occupier market, our view is that rents will continue to push strongly ahead.

Prime industrial yields in Dublin are currently in the region of 5.5%. While the spread between prime industrial and office yields remains attractive, it has narrowed significantly. Although prime office yields look to have stabilised, our view is that there is scope for some further compression in prime industrial yields.

OUTLOOK

With competitive bidding from prospective buyers now the norm, each freehold sale is setting a new benchmark for values. As such, we expect to see sale prices reach replacement cost this year. This has already prompted speculative development near Dublin airport and other developers are now looking to secure planning permission in established industrial locations throughout the greater Dublin area, including Ballycoolin and the Naas Road. With firms increasingly looking for units specific to their individual needs, the first wave of design-build deals is also expected to commence this year. However, with much of this space unlikely to be available for occupation until 2018, prime prices and rents are expected to increase further in the interim.

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