

Dublin Logistics Market



Greenogue Logistics Park, Co. Dublin. 15,476 sqm & 26,613 sqm currently under construction. Available from Q2 2021

Economic Overview

Coronavirus has wreaked havoc with the Irish and world economies. Pre-Covid Ireland had the fastest-growing economy in the EU – output rose by 5.5% and nearly 80,000 additional jobs were created in 2019. Robust growth fed into a surplus of €1.34bn which reduced the national debt to €204bn. Ultimately this fiscal space has helped the Government to react promptly to the sudden Covid crisis with a package of health service, social and business supports.

Ireland's fiscal response has been matched by many other countries. In addition, the major central banks have acted in unison to provide a global monetary stimulus with, *inter alia*, the ECB, the Federal Reserve and the Bank of England all mobilising to inject financial liquidity.

The economic impact of the crisis is most clearly seen through the lens of the labour market. There are now over 1m workers on some form of income support – spread across four separate measures; the standard Job Seeker's Allowance, the sick pay scheme for self-isolation, the Covid-19 Pandemic Unemployment Payment (PUP) and the Revenue administered

Temporary Wage Subsidy Scheme (TWSS). Notably, however, this figure has now passed its peak with the total number of persons on State income support schemes edging lower since 11th May. With the economy now re-opening in stages this will continue, and the most acute phase of the crisis has passed.

Demand for Industrial and Logistics space is linked to the quantity of goods which are being stored and moved. In a predominantly non-manufacturing economy like Ireland, this is mainly dictated by consumption which in turn reflects population growth and disposable incomes. As shown in Table 1 these indicators, which had been broadly supportive of the demand for warehousing space at the start of Q1 2020, have suffered a shock. The impact of Covid-19 related restrictions towards the end of the quarter was reflected in a 2.5% y/y decline in Personal Consumption Expenditure. Similarly Gross Value Added in the Wholesale & Retail and Transportation & Storage sectors declined sharply in Q1 2020.¹

Table 1: Logistics Economy Dashboard

Indicator	Latest Publication	Latest % Change Y/Y	1 Year Ago % Change Y/Y
Household Disposable Income	Q4 2019	6.5	1.5
Road Freight Volume: Dublin	Q3 2019	5.2	10.6
Industrial Production: Traditional Sectors	Q1 2020	2.4	9.1
Population Growth Dublin	Q1 2020	1.5	2
Road Freight Volume: National	Q3 2019	1.2	11.8
Population Growth Ireland	Q1 2020	1.2	1.5
Personal Consumption Expenditure	Q1 2020	-2.5	2.9
Real GVA Distribution Transport Hotels & Restaurants	Q1 2020	-9.3	3.2
Gross Flow of Goods Trade	April 2020	-14.0	14.0

¹ In the published data these sectors are aggregated into the larger Distribution, Transport, Hotels & Restaurants classification – see Table 1.

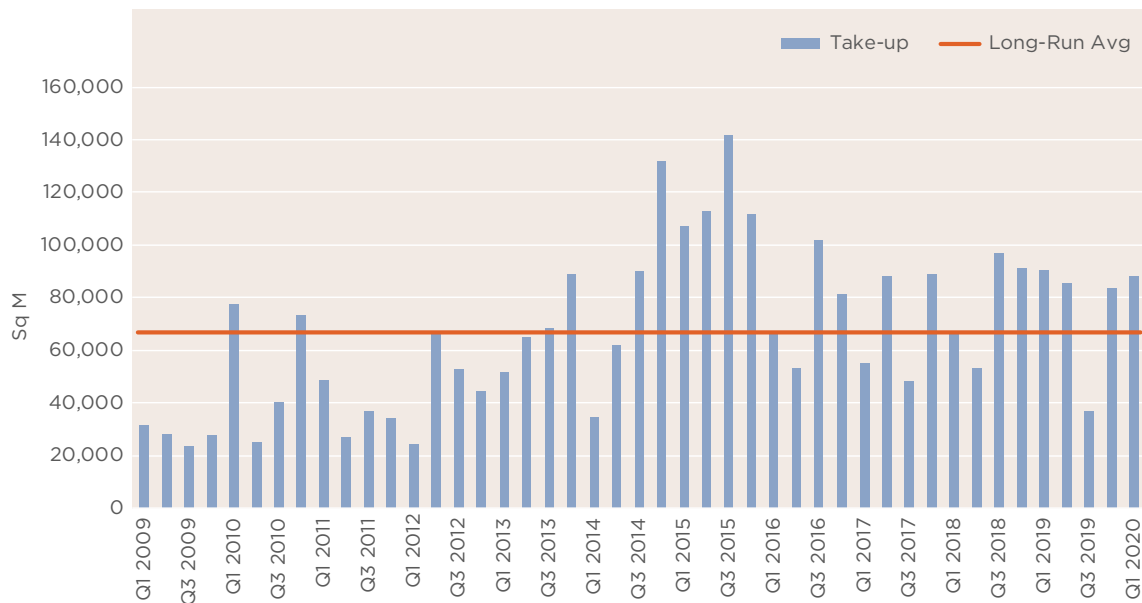


Market Demand

With Covid-19 only beginning to affect the economy from late March take-up of Dublin logistics space held up very well in Q1 2020 with 88,318 sq m taken – over 32% above the long run average (Figure 1). This pushed

total take-up for the 12-month period to the end of Q1 2020 up to 294,530 sq m, just over 11% higher than the annual average over the past 11 years.

Figure 1: Quarterly Logistics Take-Up



Source: Savills Research

There were 29 transactions in Q1, 22 (76%) of which were lettings. This is in line with the ongoing trend since 2014. Most new builds are only available on long leases which is contributing to the decreased number of sales. This quarter saw the largest deal since 2010 with the lease assignment of a 30,000 sq m unit in Damastown Business Park formerly occupied by global logistics specialist Geodis. Prudent asset management by IPUT facilitated the expansion of Dunnes Stores in this building whilst Geodis was provided with a new 17,176 sq m facility in Dublin Airport Logistics Park – which in itself was the second-largest deal in Q4 2019.

In terms of location, the proportion of northside to southside transactions was 55:45 respectively. Newly built space accounted for 15,826 sq m (18%) of take-up in Q1, spread across four buildings ranging from 2,248 sq m to 6,809 sq m. This included the letting of units D6 and D7 in Horizon Logistics Park and Rohan Holdings' Harrier House in Dublin Airport Logistics Park.

While take-up is a good indicator of market activity, movement in occupied stock gives us a better insight into the underlying dynamics of the market. After rising by almost 100,000 sq m in 2019, occupied space in Dublin edged down by 5,207 sq m in Q1. This reflects a high proportion of churn in this quarter.

With Covid-19 only affecting the tail end of the quarter, the full extent of its impact on demand for Industrial and Logistics space will not emerge until Q2. From an operational perspective, the Industrial and Logistics sector appears to be the least affected sector of commercial property, and many warehouse operators have been able to remain open during lockdown, albeit the aggregate amount of goods movements has reduced. Supporting this perspective Savills has seen an increased number of new enquiries in recent weeks from institutional funds and private investors seeking investment opportunities within the industrial and logistics sector.

Crucially, there is still occupier demand for Industrial and Logistics space with 122,600 sq m of requirements recorded by Savills for the two months from 16th March - 15th May. This compares to 185,800 sq m of requirements recorded from the 16th January - 15th March. Although the number of enquiries has fallen by two thirds post-Covid, the demand for space has only reduced by one third in the same period reflecting the strong number of enquiries for space in excess of 5,000 sq m. Notably, our data point to a significant reduction in the number of enquiries received from SMEs in the sub-2,000 sq m size bracket. This may indicate that SME's are taking a more cautious approach and holding off on business decisions during the lockdown.

Market Supply

On the supply-side 26,567 sq m of space was completed in Q1 2020, which was offset by 9,824 sq m of demolitions, resulting in net completions of 16,743 sq m for the quarter.

Pre-Covid, it was anticipated that over 40,000 sq m of new space would be delivered to the market in 2020. It remains to be seen how social distancing measures onsite will impact on productivity and build programmes – although it does seem likely that the more spacious nature of warehousing facilities may make this less of an issue than in other sectors. For now, our best estimate is that, in addition to the Q1 completions, 12,760 sq m of additional space may reach practical

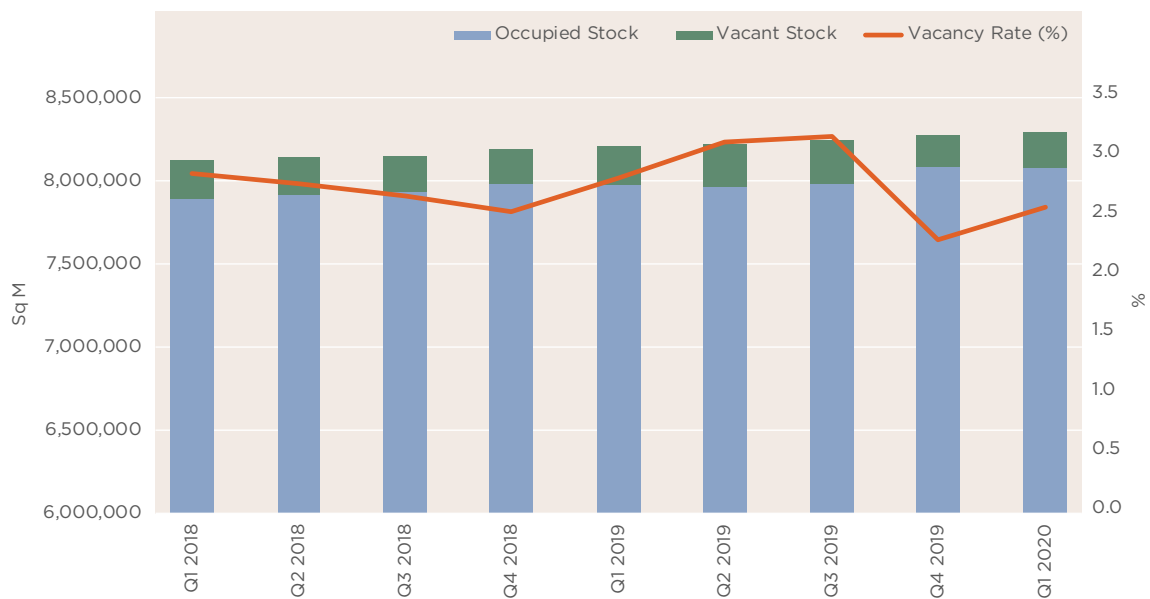
completion this year. This comprises of two units which are pre-let and under construction by Park Developments at Northwest Logistics Park, Dublin 15. The pipeline for 2021 looks stronger with over 74,000 sq m of new space expected to be delivered. Before the lockdown, development of 42,000 sq m had already commenced on Dublin's largest speculative development by Palm Logistics at Greenogue Logistics Park, with the construction of two high bay facilities comprising of 15,329 sq m and 26,477 sq m. These buildings are both expected to be completed in the first half of 2021.

Vacancy

Despite strong take-up in the quarter, a decrease in occupied space led to net absorption of -5,207 sq m. On the supply side, net development totalled to 16,743 sq m. With net development exceeding net absorption

the vacancy rate rose from 2.3% at the end of 2019 to 2.6% in Q1 2020 but clearly remains very low.

Figure 2: Occupied Stock, Vacant Stock & Vacancy Rate (RHS)



Source: Savills Research

Rents & Yields

Inevitably with vacancy contained at such low levels, there has been upward pressure on rents. The Savills Industrial and Logistics rent index has increased by 5% y/y in the 12 months to March 2020. Prime rents now stand at approximately €112 per sq m per annum, with secondary rents

at €65 per sq m per annum. Investor demand continues to be strong for logistics investments, with prime yields tightening to 4.75% for long term income-producing assets this quarter.

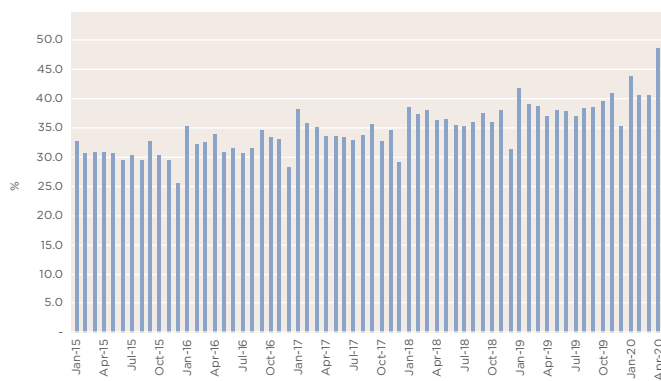


Impact Of Covid

Some commentators have suggested that the Covid-related increase in online shopping has been a positive for the logistics market. E-commerce has been accounting for an increasing share of total consumer sales in recent years and it is true that this trend was accelerated by the lockdown - the online share of credit and debit card purchases rose by 7.8 pp in the month of April and online sales now account for almost half of all card transactions (see Figure 3). However, the big picture is that there has been a sharp contraction in overall expenditure. Therefore, even though online has captured more market share, the absolute value of e-commerce sales fell by 3.8% y/y in April (Figure 4). This will result in less goods moving through warehouses.

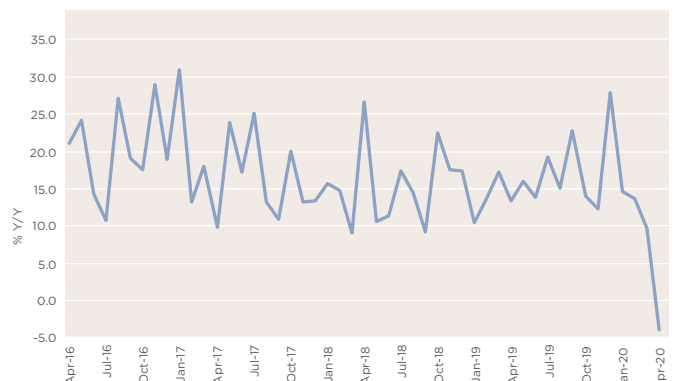
Indeed, as previously mentioned, personal consumption expenditure (PCE) gives us a wider view of the effect of Covid on the consumer economy. Despite the pandemic only affecting the final weeks of the quarter, PCE declined by 4.7% compared to Q4 2019 and fell by 2.5% y/y. April's retail sales index which provides a timelier snapshot of the consumer economy also saw contractions in all sectors except Grocery and Specialist Food Stores. Looking ahead, it is likely that the legacy of this crisis will be higher unemployment, disruptions to international trade and a heavier long-term tax burden on consumers; all of which will reduce the growth in aggregate disposable income and lead to weaker consumption than otherwise would have been the case.

Figure 3: eCommerce Share of Card Expenditure



Source: Central Bank of Ireland

Figure 4: Growth in Overall eCommerce Expenditure



Source: Central Bank of Ireland

Outlook

The bald statistics show that the Dublin logistics market experienced above average take-up in Q1 and pipeline supply was well contained. This reflects strong momentum coming into the year, and the timing of the lockdown towards the end of Q1. The strong starting point will provide something of a buffer for the market as the full impact of Covid-19 comes through. Inevitably, however, the flow of new data post lock-down points to a sharp contraction in the economy, with consumption falling at the end of Q1 2020. It is hard to see how this will not impact on demand for Industrial and Logistics space over the remainder of the year.

There are positive points however: While it edged up slightly in Q1, the vacancy remains very low, particularly for modern post-2000 stock. Moreover the development pipeline for 2020 has been reduced due to the lockdown and the new space that will complete is already taken. This should prevent the vacancy rate from rising sharply in a weakened economy and should provide support for current rental levels. As previously noted, enquiries for space in the sub-2000 sqm range have slowed. However, there were still over 120,000 sq m of enquiries in the 2 months after the lockdown began and, as the economy begins to reopen, this figure should pick-up again.



Lands at Bay Lane, Mooretown, Dublin 15. Approximately 27 ha sold Q2 2020

Savills team

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