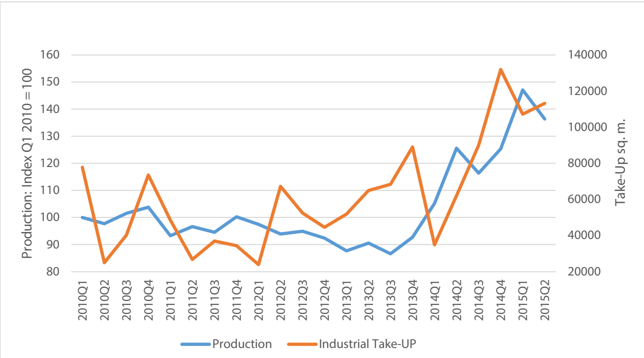
Market in Minutes
Dublin Industrial Market

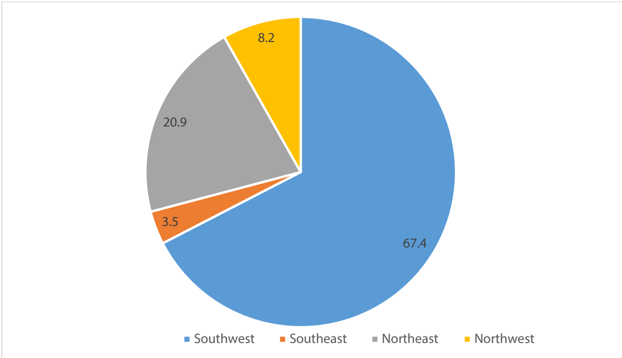
Q2 2015

GRAPH 1
Industrial Take-Up and 'Modern' Industrial Production



Source: CSO, Savills Research

GRAPH 2
Take-Up by Location (%)



Source: Savills Research

Industrial Commentary

Dublin Industrial Market

■ The pace of economic activity has accelerated in the opening months of 2015 with year on year GDP growth now running at 6.5%. More importantly it is clear that growth has become more evenly spread with domestic demand now contributing to the momentum. Reflecting this, most of the key domestic indicators such as employment, retail sales and VAT receipts are picking up strongly. Looking ahead to the remainder of the year, all pointers indicate that the Irish economy will continue to grow strongly and outperform its Eurozone peers.

Last year, IDA Ireland supported 88 greenfield projects, 80 expansions and 29 R&D initiatives. This contributed to jobs growth which has continued into 2015 with industrial employment expanding by 9,000, or close to 4% year-on-year in Q1 2015. The overall take up of industrial property in Q2 2015 exceeded 113,000 sq. m., up more than 80% on the same quarter last year. This brings the half year total to 220,000 sq. m. - more than twice the H1 2014 figure and 17% higher than the total space taken in the full year of 2012.

The past three months have continued to see sales outstrip lettings, with almost three-quarters (72%) of transacted space accounted for by outright sales. In terms of transactions numbers, sales accounted for 61% of deals. The average lot size for sold units was over 3,500 sq. m. compared with just over 2,100 sq. m. for lettings.

Once again, the bulk of activity has been in Southwest Dublin with this location accounting for over two-thirds of transacted space. Twenty one percent of transacted space was in Northeast Dublin.

Consistent with the recovery in the consumer economy, distribution, logistics and transportation have been driving demand for space. However Ireland's attractiveness as a location for FDI has also contributed to the demand for industrial property.

Data from Investment Property Databank (IPD) indicate that prime industrial rents increased by 6% in the year to June and rents in the market stand at around €65 - €75 per sq. m. per annum. Prime values are currently in the region of €600- €700 per sq. m. IPD data also indicate that average prime industrial yields have squeezed down sharply from 11.3% a year ago to 8.1% in June. This is the fastest rate of yield compression across all commercial sectors and reflects the improvement in occupational demand and the value that is still available for buyers. For units of up to 2,000 sq. m., which accounted for a high proportion of Q2 lettings, IPD yields are higher at 9.3%. The average yield is now approaching early 2009 levels, but is still significantly above the tightest yield achieved in mid-2007, suggesting that there may be some scope for further yield compression in this cycle. Rising rents and falling yields will lead to further increases in capital values.

OUTLOOK

GDP growth for 2015 is expected to be about 5% with growth of around 4% likely in 2016. This compares with a Eurozone forecast growth of 1.5% in 2015 and 1.7% in 2016. Based on this, employment should grow by about 45,000 in 2015, with the improving labour market likely to feed through to higher earnings which will further boost domestic demand. These strong labour market conditions and expectations of a benign Budget in October will underpin consumer expenditure. This should help to sustain demand for industrial units to serve the distribution, logistics and transportation sectors.

On the international front, the Euro may slide a little more before the end of the year, partly dependent on monetary policy in the UK and US. The stable and low interest rate policy in the Eurozone will continue to provide an accommodating backdrop for investment and consumption spending. With vacancy levels tightening due to strong demand and no new supply coming through, we expect further price and rent increases in H2 as competition intensifies for the available space. This growth should continue into 2016 but we expect to see some development taking place later next year as the gap between values and replacement cost narrows. However this is likely to be on a design-and-build basis, either as pre-sales or pre-lets. Sales activity will continue to be strong as the traditional model of owner occupation asserts itself.

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