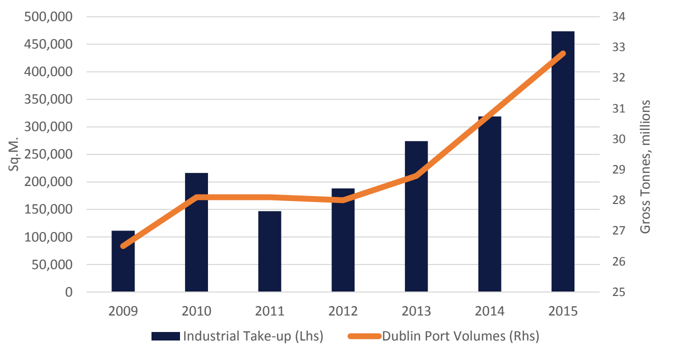
Market in Minutes
Dublin Industrial Market

Q4 2015

GRAPH 1

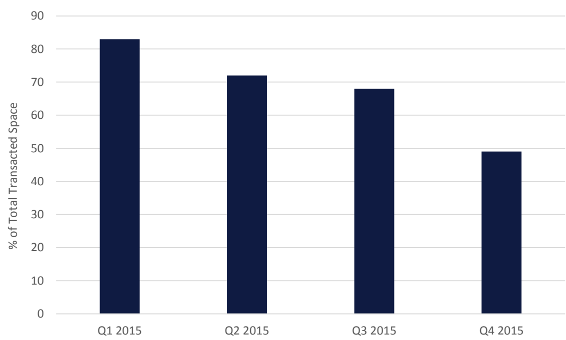
Industrial Take-Up and Dublin Port Volumes



Source: Savills Research, Dublin Port Company

GRAPH 2

Industrial Market Sales as % of Total Transacted Space



Source: Savills Research

Introduction

The Irish economy continues to advance at a blistering pace, with the latest National Accounts showing GDP growth of 7.0% in real terms. Tailwinds including a competitive Euro and solid growth across many of Ireland's key trading partners are continuing to drive goods exports. On the domestic front, strong jobs growth, a recovery in earnings, modest tax cuts and cheaper commodity prices are boosting real household disposable incomes and have pushed consumer confidence to a 10-year high. As a result, personal consumption has consolidated its recovery, and has now grown for 7 successive quarters. Strengthening demand is also evident in retail sales figures which, in November, rose by 9.4% year-on-year.

With strong demand at home and abroad, it was no surprise to see Dublin Port post a record year in 2015, with cargo volumes up 6.4% year-on-year – surpassing 2007 levels. This contrasts with much more sluggish container freight traffic elsewhere, with global volumes rising by just 0.8% last year.[1] Higher levels of goods traffic have had knock on effects throughout the logistics supply chain. In addition to higher levels of container traffic, we have seen a 41% increase in goods vehicles registrations and the demand for logistics property has also benefited.

Dublin Industrial Take-Up Q4 2015

Gross transactions of industrial space in Q4 were just shy of 112,000 sq.m.. Approximately 57,000 sq.m. (51%) of space taken up was accounted for by lettings while the remaining 49% represented outright sales. Over the last 12 months we have noted a discernible trend in which the ratio of lettings relative to sales has been increasing (see graph). While this is an interesting trend, we perceive this to be an anomaly reflecting two factors. Firstly, the CGT incentive would have brought a number of sales forward to avail of the tax break before it was formally withdrawn at the end of 2014, but may have had some deals spill over and not close until early 2015. This would explain the high level of sales recorded in Q1. Secondly, the limited number of freehold opportunities in a market with an unprecedented level of transaction volumes meant their overall share would be reduced. In general however, we expect the trend which has been seen over the last 15 years of sales generally outstripping lettings to reassert itself.

[1] According to shipping industry data provider Alphaliner

2015

Overall, 2015 was a record year for the industrial market with take up of just under 475,000 sq.m.. This is more than three times the 2011 level and represents an annual growth rate of 48%. Notwithstanding a steady decline in sales relative to lettings through the whole year, sales still accounted for just over two thirds of take-up. This reflects the fact that, despite a strong increase in values, industrial buildings offer exceptional value for money compared with other property sectors and can still be acquired at below replacement cost. Strong demand has resulted in a scarcity of modern stock in prime locations for the first time in almost a decade. While both prime rents and capital values rose by over 20%, the latter are increasing at a faster pace due to strong yield compression – the latest MSCI data reveal prime yields have fallen from 10% to 7.7% over the last 12 months. Over the full year, the Southwest corridor – which includes the Naas Road and Tallaght – dominated the landscape, accounting for 53% of all take-up, followed by the Northwest (26%), Northeast (19%) and the Southeast (2%).

OUTLOOK

All of the high frequency data indicate that the strong economic momentum at the tail-end of 2015 has continued, and despite some turbulence in the global economy, consensus forecasts are that GDP growth will have been around 6.5% last year and will be around 4.5% in 2016. The resurgence in the consumer economy looks set to persist with solid employment and wage growth along with savings from lower energy prices expected to remain a theme this year. With the ECB engaging in further monetary easing and interest rates in some key trading partners expected to move higher, albeit at a slower rate than previously anticipated, the Euro is likely to remain competitive in the medium term – thus making Irish exports cheaper outside the single currency area. Taken together, these factors should ensure continued demand for goods and therefore sustain the appetite for industrial space.

With the availability of good quality units becoming limited and values rising, we expect prime rents and capital values to increase by between 20 – 30% in 2016. In turn, this will make new development viable again and in fact we are now seeing Dublin's first speculative development project under way at Horizon Logistics Park, near the airport. More of this will follow throughout the greater Dublin area over the coming year. The increase in values over the last twelve months also means that the pricing gap between existing buildings and new builds continues to narrow. This may result in some occupiers being prepared to pay a premium for a brand new facility built specifically to their requirements rather than having to incur the additional expenditure of refurbishing / adapting an existing building. However, it will be 2017 before there will be widespread deliveries of any new space and in the meantime, prime rents and prices will continue to rise amid tightening levels of supply and strong demand.

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