

Dublin Logistics Q2 2020



Economic Overview

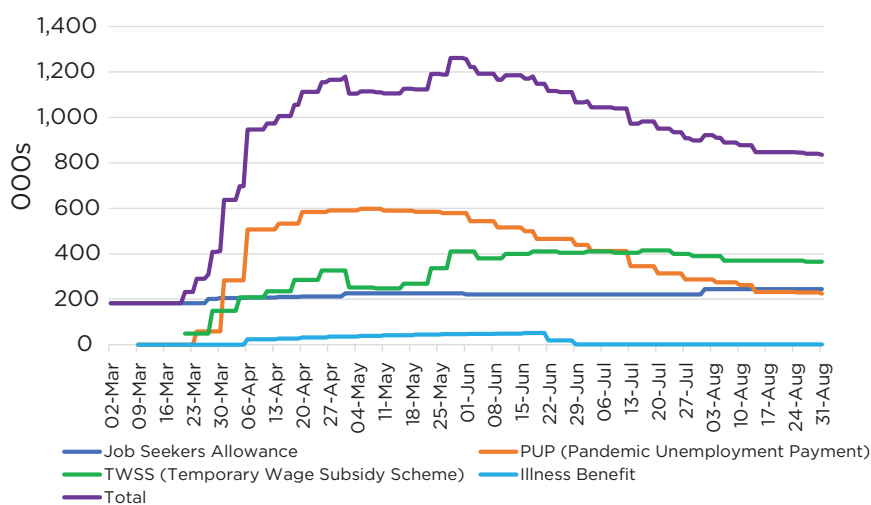
The Covid-19 pandemic has caused serious disruption to the Irish and world economies. Pre-Coronavirus Ireland had the fastest-growing economy in the EU with output rising by 5.3% Y/Y in Q1 2020. This provided fiscal space for the Government to react decisively to the crisis with several rounds of social and business support packages, including €5bn of fiscal measures and €2bn of loan guarantees announced on 24th July. This fiscal response has been matched by many other countries and the European Council recently agreed a €750bn Covid recovery fund for EU countries. Critically, there has also been a major monetary response with central banks across the world mobilising to inject liquidity.

Ireland appears to have weathered the Covid storm quite well with a 3% y/y GDP contraction comparing favourably with a 13.9% decline across the EU as a whole. In part, this reflects the governments spending commitment noted above. However it also reflects Ireland's reliance on defensive manufacturing sectors: particularly pharmaceuticals. As shown below, the number of 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)¹, has now fallen to fewer than 840,000 people.²

While these measures are designed to offset the most negative impacts of Covid, many workers will have suffered a significant loss of earnings arising from the virus. This, increased uncertainty, and the introduction of a stay-at-home order from 27th March, inevitably subtracted from goods consumption which fell by 21.1% y/y in Q2. Since the lifting of lockdown retail sales recovered to their 2019 levels in June, and actually rose by 4.5% y/y in July. It remains to be seen whether this represents a once-off unwinding of pent-up demand or something more sustained – As shown in Figure 1 the number of people coming off State income support schemes has slowed a little in recent weeks and Central Bank data suggests that there was a slight pull-back in credit and debit card spending in August, after a strong initial rebound.

Figure 1: Number of Persons in Receipt of Income Supports



Source: The Department of Employment Affairs and Social Protection & Revenue Commissioners



Modern Logistics Facility, Shercock Road, Co. Monaghan – Sold Q2 2020

¹ Replaced by the Employee Wage Subsidy Scheme (EWSS) from 1st September.

² Due to overlaps between PUP, TWSS and Jobseeker's Allowance claimants this number potentially overstates total claimants. CSO is currently reviewing these statistics but, in the interim, the focus should be on the trend rather than the level.

Table 1: Consumer Economy Dashboard

Indicator	Latest Publication	Latest % Change Y/Y	1 Year Ago % Change Y/Y
Live Register	Jul 2020	18.5	-12.0
Real Average Gross Earnings	Q2 2020	6.6	2.5
Household Disposable Income	Q1 2020	5.3	8.4
Total Retail Sales	Jul 2020	4.5	-4.5
Household Net Worth	Q1 2020	3.0	5.4
Total Employment	Q2 2020	2.0	3.7
Overseas Trips to Ireland	Q4 2019	0.5	6.3
Real Personal Consumption Expenditure	Q1 2020	-2.5	2.9
Consumer Outstanding Credit Balances	Jul 2020	-4.6	5.7
Real VAT Receipts	Jul 2020	-22.4	5.6
Consumer Sentiment	Aug 2020	-23.7	-24.6

Sources: CSO, CBI, KBC Bank Ireland/ESRI, Dept. of Finance.

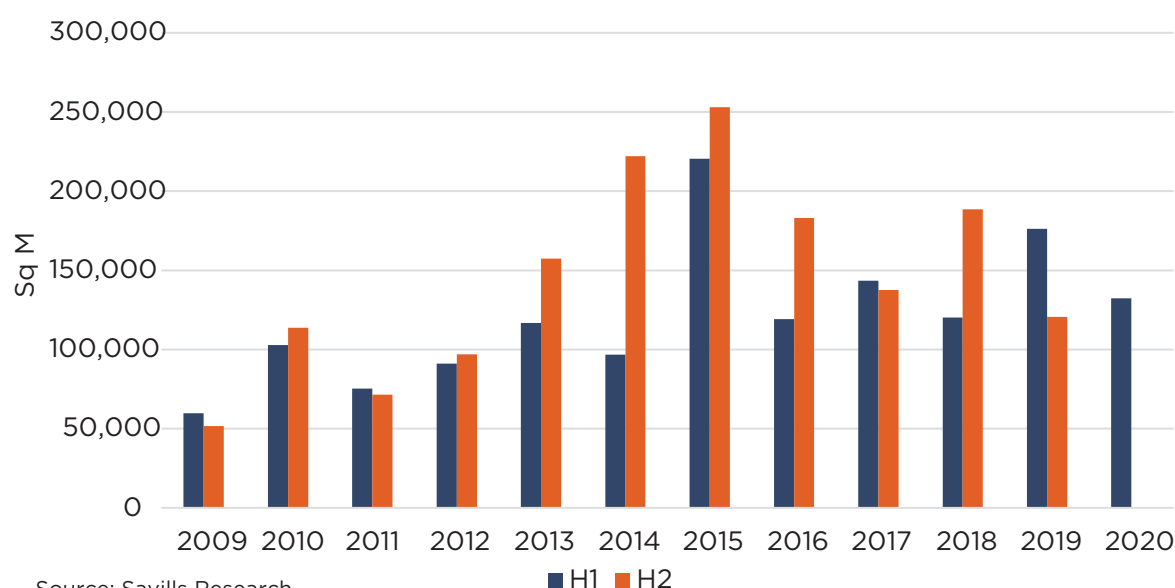
Market Demand

The industrial and logistics sector has been remarkably resilient since the onset of Covid-19 with an estimated take up of 44,076 sq m in Q2, a quarter where lockdown restrictions were only eased in the last three weeks of June. This translates to take up of 132,394 sq m for H1 2020, the fourth highest H1 total in the last 12 years.

There were 22 transactions in Q2, nine of which were sales, accounting for

41% of transactions but just 13.2% of the volume of space traded (see Figure 3). Sales were restricted to smaller enterprise type units all of which were less than 1,200 sq m. This is a reflection of the lack of freehold opportunities currently available in the market particularly for units greater than 2,000 sq m. The largest transactions in Q2 included the lettings of 13,006 sq m in Parkwest, 7,897 sq m in Kilcarbery Business Park and 6,528 sq m in Northwest Business Park in Dublin 15.

Figure 2: Logistics Take-Up



Source: Savills Research

Occupier demand for Industrial and Logistics space bounced back significantly after lockdown with 353,000 sq m of requirements recorded by Savills between May and July compared with just 107,500 sq m recorded

between March and May. There has been a notable flight to size with more enquiries for 10,000+ sq m requirements in recent times, prompting a response from developers seeking to deliver larger buildings.

Market Supply

On the supply side, three buildings totalling 26,567 sq m were delivered in H1, however, 9,824 sq m of older industrial space was decommissioned, primarily to make way for residential development.

Pre-Covid, it was anticipated that over 40,000 sq m of new space would be delivered to the market in 2020. Delays to construction programmes due

to lockdown mean that, in addition to H1 completions, just 12,760 sq m of additional space will reach practical completion in 2020, all of which is pre-let. The pipeline for 2021 looks stronger with 125,512 sq m of new space expected to be delivered. 71,535 sq m of this is already under construction across three developments in Southwest Dublin.



Units A7A & B, North City Business Park, Finglas, Dublin 11 – Let Q3 2020

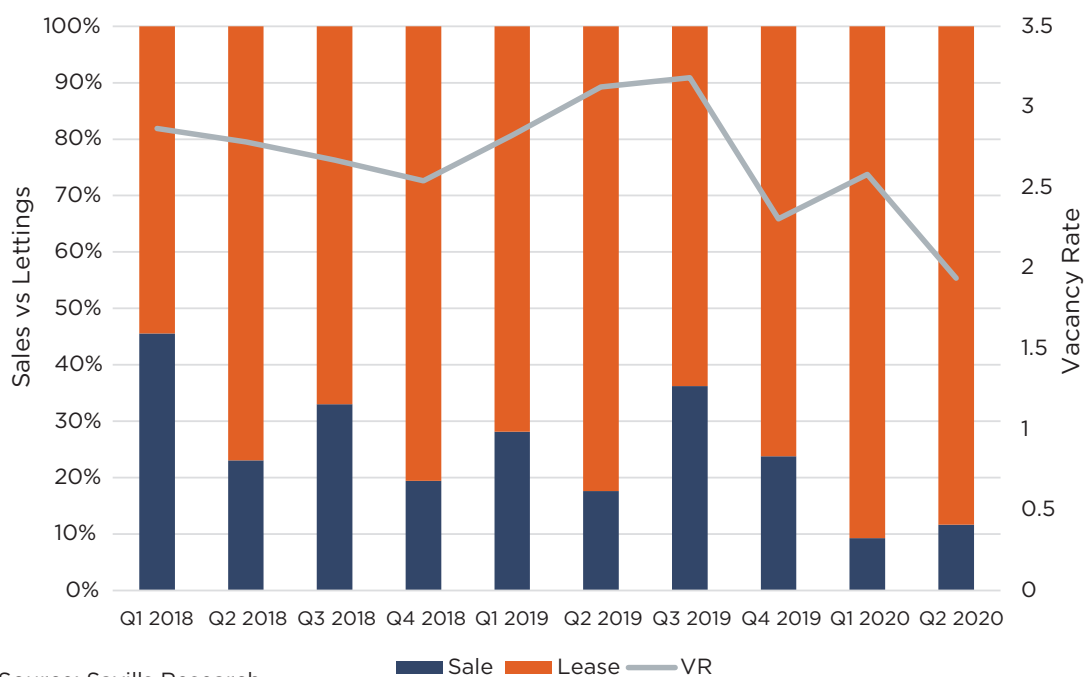


Unit 9, Century Business Park, Finglas, Dublin 11 – Sold Q3 2020

Vacancy

Strong lettings fed through net absorption of 59,229 sq m for the first half of 2020. With absorption exceeding net development, the vacancy rate edged down from 2.3% at the end of 2019 to an all-time low of 1.9% in Q2 2020.

Figure 3: Vacancy Rate and Ratio of Sales vs Lettings



Rents & Yields

With vacancy remaining at such low levels, there has been upward pressure on rents. The Savills Industrial and Logistics rent index rose by 10% in 2019, and prime rents now stand at approximately €112 per sq m per annum with secondary rents at €65 per sq m per annum.



13-14 Holly Avenue, Stillorgan Industrial Estate, Co. Dublin – New to Market Q2 2020

Outlook

The June retail sales figures gave an early hint that consumers remained willing to spend, with sales rising slightly compared with June 2019. This continued in July with sales up 4.5% y/y – a remarkable feat in the circumstances. The VAT reduction from 23% to 21% from 1st September may further encourage consumers to spend the €5.3bn of household bank savings that accumulated during lockdown.

Looking ahead the economy is clearly now moving in the right direction and the emerging recovery will likely be sustained. However, recent employment and spending numbers suggest that the next phase of the recovery will be more gradual and, potentially, non-linear due to the risk of localised public health restrictions. The economic recovery is likely to support the demand for logistics space in the medium term. Together with a well contained supply pipeline this should prevent the vacancy rate – which is currently at a record low level – from rising significantly and should underpin rents.

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