

Industrial Market Watch

February 2010 / Issue 9



Unit E8 Northcity Business Park, D11. Let by Savills Q3 09



Units 507a - 508b Northwest Business Park, Ballycoolin, D 15
Four units totalling over 4,500 sq.m. let by Savills in 2009

Summary 2009

- Just over 110,000sq.m (approx.) of industrial space was taken up in the greater Dublin area in 2009.
- This compares to take-up of just over 147,000sq.m (approx.) for the whole of 2008.
- Our forecast that close to 100,000sq.m of space would be taken up for 2009 was exceeded by 10%. However, this reflects a decline of almost 33% in take-up compared to 2008, but is in line with the level of adjustment in the economy and property market that has taken place over the last year.
- 2009 saw a continuation and accentuation of the trend towards letting activity rather than sales - 87% of take-up was lettings rather than sales.
- Aside from the SR Technics deal to Aer Lingus at Dublin Airport, the biggest deal of the year was in Southwest Dublin – a Design & Build of approx. 16,800 sq.m at Aerodrome Business Park, just off the N7. This was let on a new lease with a break option at the end of the fifteenth year.
- Availability has increased significantly, with just over 1,000,000sq.m available in the greater Dublin area at the beginning of 2010. This compares to approximately 692,000sq.m, which was available at the beginning of 2009, an increase of 47%. However, up to 30% in some areas is considered to be obsolete.
- The increase in availability is being driven primarily by the fact that tenants are now exercising break options and are not renewing leases when they expire. Occupiers are consolidating their operations into exiting branches/depots in order to reduce their cost base.
- The increase in availability is obviously also being driven by the lower levels of take-up compared to previous years.
- Throughout 2009, Southeast Dublin in particular experienced a

significant increase in the amount of space coming to the market. This has been driven by the fact that some of these premises had been earmarked for redevelopment. However, those plans are now on hold due to overall conditions in the economy and the property market. Developers/owners are now looking to generate cash flows.

- The slowdown in activity in 2009 has resulted in an oversupply of starter units (i.e. units from 100-500sq.m) in North Dublin, largely driven by the fact that the number of start up companies/businesses declined significantly in 2009.

Outlook 2010

- Leasing activity is expected to remain the dominant source of transactions for at least the first half of 2010.
- Take-up levels are expected to come under further pressure, with rental deals dominating transactions. The fact that the largest deal made up almost 20% of total take-up in 2009, means that there is a risk that overall take-up could in fact be lower in terms of total space in 2010, in the absence of relatively large deals.
- Savills Research Unit expects that between 80,000 to 100,000sq.m of space will be taken-up in 2010. We hold the view that it will be 2011 before there is any significant increase in take-up levels from these figures.
- Competition amongst landlords, which was a big theme in 2009, will intensify in the first half of 2010, as a larger volume of stock is now available on the market. This has and will continue to put downward pressure on rents and force landlords to deliver more flexible terms than in the past.

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The Industrial Market in 2009...

2009 was difficult for the Dublin industrial market, in line with the overall tone of the property market and the poor domestic and international economic conditions. Activity in the market continues to be almost completely dominated by lettings rather than sales, a trend, which began to emerge in early 2008.

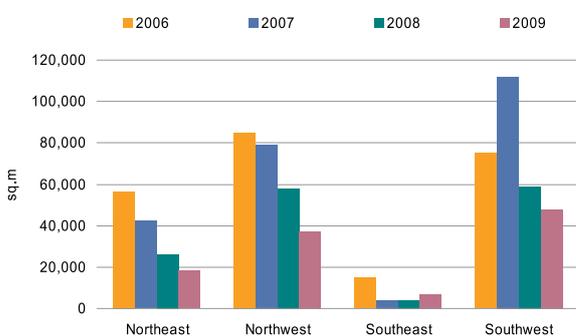
The lack of activity in the market can be explained by the following influencing factors:

- A complete lack of confidence.
- Downward pressure on capital values in the commercial property sector.
- Concerns about values in the light of NAMA developments.
- The curtailed and restricted access to credit.
- Prospective purchasers continuing with a 'wait and see' approach.
- Investors with funds exercising preference to remain liquid at a time when 'Cash is King'.

The Overall Take-Up of Industrial Space

Northeast and Northwest Dublin have suffered the most in terms of the decline in take-up in 2009, by comparison to previous years. The take-up in Southeast Dublin in 2009 has been greater than in both 2007 and 2008. The take-up in Southwest Dublin has suffered badly compared to previous years, reflecting lower levels of demand which has resulted in a significant increase in the total amount of space available in that area.

Annual Take-Up Levels (sq.m) by Location

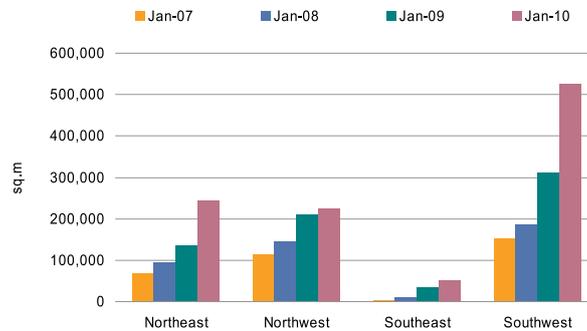


Source: Savills Research

Availability of Industrial Space

Availability levels throughout the greater Dublin area increased dramatically in 2009, following considerable increases throughout 2008. Our forecast that the total

Approximate Available Space by Location (sq.m)



Source: Savills Research

amount of space available across the four Dublin areas would breach the 1,000,000sq.m level by the end of 2009 has been correct, with the total amount of space available hitting approximately 1,053,000 sq.m at the end of December 2009. We estimate that up to 30% of this available space can be considered obsolete.

Northeast Dublin

The second half of 2009 was not productive in terms of take-up activity in the Northeast area of Dublin. The letting of the former SR Technics facility at Dublin Airport to Aer Lingus in December 2009 has been excluded from our figures as this was an airside property and as such, not an open market transaction. Take-up was an estimated 16,000sq.m in the first half of the year, followed by take-up of only 2,000 sq.m in the second half of the year.

Of this take-up in the second half of the year, there was only one deal completed in the fourth quarter and it was the re-letting by Savills of a 700sq.m unit at the Airport Business Park.

A relatively large proportion of the take-up in Northeast Dublin was small starter units (<400 sq.m), however there is still a considerable number of these smaller units available. The sectors driving demand for space in Northeast Dublin in these difficult economic times have been pre-dominantly the food, pharmaceutical and medical sectors.

The vacancy level in the Northeast has recorded a steep rise. There is currently approximately 244,000sq.m of vacant space in Dublin Northeast, compared to approximately 136,500sq.m at the end of December 2008, an increase of over 50%. The increase can be attributed to both a slowdown in demand for space that was already available and tenants exercising break options and not re-newing leases. However, we estimate that approximately 20% can be considered to be obsolete (i.e. have low eaves and asbestos roofs)

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Northwest Dublin

Take-up in northwest Dublin totalled just over 37,000sq.m in 2009, which is well down on the level of 2008 when take-up was an estimated 58,000sq.m. However, the level of take-up has exceeded our estimate of 30,000sq.m for the year as a whole.

The amount of vacant space in Northwest Dublin is estimated to be approximately 225,000sq.m as of January 2010, an increase of just 20,000sq.m (approx.) since the end of January 2009. The fact that the increase in the space available has been so relatively low can largely be explained by the fact that less space has come to the market in the Northwest area since the beginning of the year than in other areas.

There is only approximately 8,000sq.m of space available in Northwest Dublin that is considered obsolete, largely because many of the buildings in the area are modern and have been built over the last ten to fifteen years.

An emerging problem in this area however, is the oversupply of starter-units. Of the total number of properties available in the Northwest area, over 70% are less than 400sq.m in size and 25% are less than 200sq.m.

Southeast Dublin

Take-up in southeast Dublin totalled approximately 7,000sq.m in 2009, which represented an increase on the total take-up in 2008, which was 4,000sq.m.

Traditionally this area has been undersupplied, but there has been an increase in the amount of space that has come onto the market in the Southeast area. There is now just over 52,000sq.m of space available, compared to 11,000sq.m in January 2008 and 36,000sq.m in January 2009. This can be explained by the fact that some of these premises had been earmarked for redevelopment, but in the current climate those plans have been put on hold. Developers and owners are looking to generate cash flow in the meantime via lettings. For example, just over 7,000sq.m of the space has come onto the market in Sandyford Industrial Estate in 2009.

Of the total of almost 52,000sq.m of vacant space in the Southeast, we estimate that just under 10,000 sq.m is obsolete.

Southwest Dublin

Take-up in the southwest region of the Greater Dublin area accounted for the greatest contributor to the overall take-up in the market, as has been the case in recent years. Take-up of just over 48,000sq.m in 2009 represents approximately 44% of the total take-up for the entire greater Dublin area in 2009.

But Southwest Dublin also has the highest amount of industrial stock of the four Dublin regions and has the highest amount of available space. The amount of space available in Southwest Dublin in January 2010 has jumped to just over 527,000sq.m, an increase of almost 214,000sq.m since January 2009.

The biggest deal of the year was in Southwest Dublin – a Design & Build of approx. 16,800 sq.m at Aerodrome Business Park, just off the N7. This was let on a new lease with a break option at the end of the fifteenth year.

We estimate that approx. 135,000sq.m of the space available in Southwest Dublin is obsolete, which is almost 30%.

Outlook for the Industrial Sector

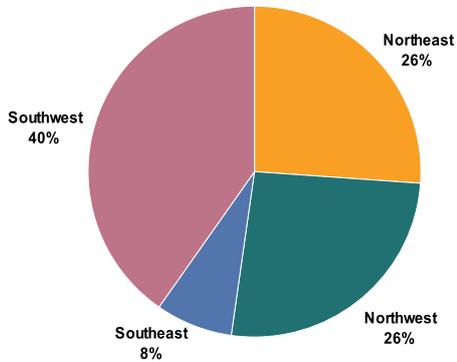
Property has been and remains in the frontline in terms of casualties of the downturn in the domestic economy, led by the fall-out of the financial and banking sectors and the collapse in international and domestic investor confidence.

2009 was a tough year and 2010 is expected to mirror that. Throughout 2009 landlords adjusted their expectations, particularly in the second half of the year, making it possible to do deals. This adjustment to market conditions is expected to facilitate more deals in 2010. However we forecast that the overall take-up of space this year will be lower than that of 2009, but we expect a larger number of transactions to make up the total amount.

The outward movement in prime industrial yields continued in 2009, capturing the downward pressure on industrial capital values. There remains little or no transactional evidence to indicate where capital values are in the current market, however we estimate that prime industrial yields are in the region of 8.5-10%. Savills Research Unit anticipates continued outward movement of yields in 2010 as the tough adjustment in the property sector continues.

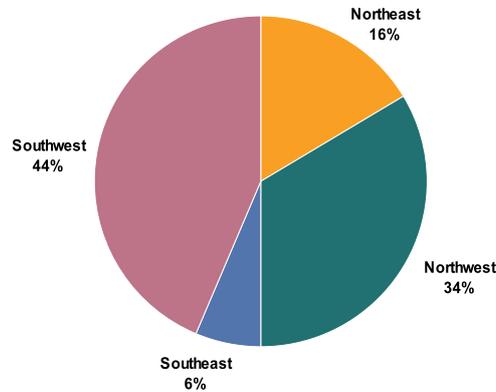
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Percentage of Take-up by Number of Transactions



Source: Savills Research

Percentage of Take-up by Floor Area



Source: Savills Research

For further information please contact



Joan Henry
Head of Research
087 687 5066
joan.henry@savills.ie



Gavin Bulter
Director, Industrial
01-6181340
gavin.butler@savills.ie



David O'Malley
Senior Negotiator
01-6181458
david.omalley@savills.ie



Catherine Noble
Negotiator
01-6181365
catherine.noble@savills.ie

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NOTE: The information contained in this report is given in good faith and is believed to be correct. However, individuals should satisfy themselves as to the accuracy of the information contained herein before making any major decisions as Savills will not be held liable for any inaccuracies. All references to space taken and to space available are approximate.

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