

Industrial Market Watch



Savills
Industrial Division

MARCH 09
ISSUE 7

Summary 2008 and Quarter 1 2009...

- Just over 147,000sq.m (approx.) of industrial space was taken up in the greater Dublin area in 2008.
- 2008 proved to be a year of two contrasting halves with the appetite for industrial space dampening significantly in the second half of the year.
- Overall, take-up levels in 2008 declined by more than 35% compared with 2007 and 2006 levels, against a backdrop of a weakening economy.
- The amount of space available was approximately 692,000sq.m in December 2008, compared to approximately 439,000sq.m in December 2007, an increase of 57%. This reflects the fact that the supply of both newly built and second-hand space coming to the market has outstripped demand.
- There has been a significant shift towards letting rather than sales activity, particularly in the latter half of 2008 and the year to date. We estimate that almost 90% of activity is now leasing rather than sales.

Outlook for 2009 and beyond...

- Leasing activity is expected to remain the dominant source of transactions in 2009.
- Take-up levels are expected to come under further pressure in the year ahead as economic uncertainty continues.
- Savills Research Unit expects less than 100,000sq.m of space to be taken up in 2009, a drop of almost 50% compared to 2008.
- Competition among landlords will intensify in 2009 as a larger volume of stock becomes available. We expect that this will keep pressure on landlords to deliver more flexible terms than in the past.

A snapshot of deals done by Savills...

- East Corner Unit, Willsborough Industrial Estate, Dublin 17, approx. 1,100sq.m let for €120,000 per annum in January 2009.
- Unit F, Deansgrange Business Park, Co. Dublin, approx. 1,100sq.m let for €135,000 per annum in January 2009.
- Cloverhill Industrial Estate, Clondalkin, Dublin 22, approx. 2,800sq.m let for €300,000 per annum in August 2008.
- Kilshane Cross, Dublin 15, approx. 665sq.m on approx. 1.28 hectares let for €200,000 per annum in July 2008.

Approximate Annual Take-Up by Area (sq.m)

	Northeast	Northwest	Southeast	Southwest	Total
2006	56,500	85,000	15,000	75,000	231,000
2007	42,500	79,000	4,500	112,000	238,000
2008	26,000	58,000	4,000	59,000	147,000

Source: Savills Research Unit

Approximate Availability by Area in 2008 (sq.m)

	Northeast	Northwest	Southeast	Southwest	Total
June 2008	94,000	146,000	11,000	188,000	439,000
Dec 2008	136,500	209,000	36,000	310,500	692,000

Source: Savills Research Unit

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The Industrial Market in 2008 and Quarter 1 2009

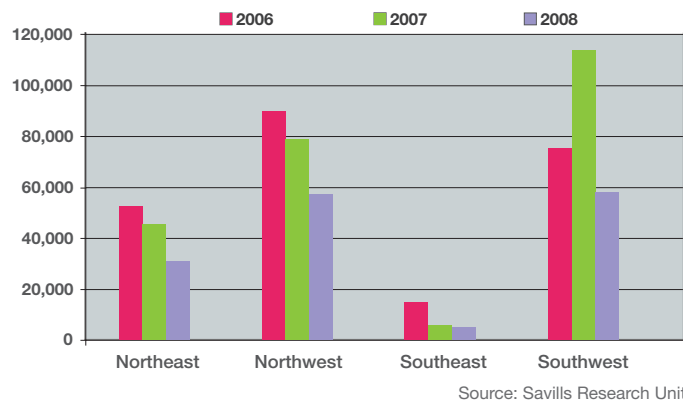
The Dublin industrial market was not immune from the negative developments in the domestic and international environments in 2008. Fundamental changes have occurred in the sector – the trend in activity towards lettings over sales, which began in early 2008, continued to gather momentum throughout last year and into 2009.

This shift in the market can be explained by the following influencing factors:

- The curtailed and restricted access to credit.
- Prospective purchasers have adopted a 'wait and see' approach.
- Investors with funds exercising preference to remain liquid at a time when 'Cash is King'.
- A severe erosion of confidence.
- Downward pressure on capital values in the commercial property sector.

As a result of the deterioration in the economic and business backdrop in 2008, the scale of take-up in the Dublin industrial market was impacted. The annual take-up level in 2008 of approximately 147,000sq.m represents a decline of more than one-third on 2007 and 2006 levels, when approximately 230,000sq.m of space was taken up each year.

Approximate Annual Take-up Levels by Area (sq.m)

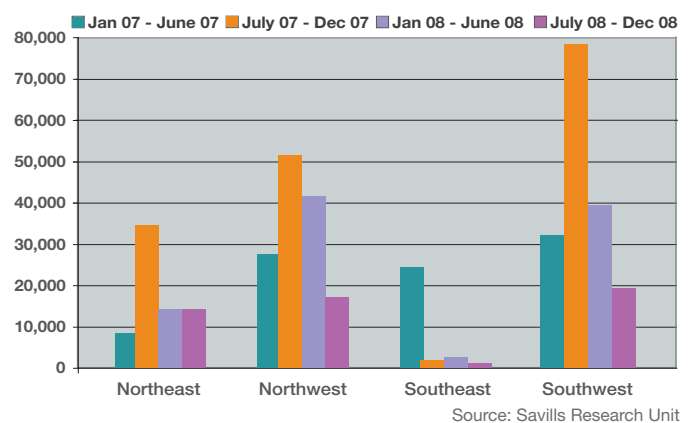


2008 proved to be a year of two contrasting halves. The first six months of 2008 experienced a surge in activity of 35% when compared with the first six months of 2007. However, it must be noted that a number of these deals were agreed at end of 2007 when the outlook was considerably more favourable.

Under normal circumstances such a robust performance in the first half of 2008 would have indicated a tremendously favourable outlook for the remainder of the year as historical evidence in the sector indicates that the second half of the year generally generates twice as much activity as the first half.

However, the appetite for industrial space dampened significantly in the second half of the year. Take-up levels in the period accounted for just 36% of the total take-up recorded in 2008. Northeast and southeast Dublin maintained consistency in their take-up levels when comparing the first and second halves of 2008. Meanwhile demand in northwest and southwest Dublin suffered, with take-up levels here falling back 50% when comparing the first half to the second half of the year.

Approximate Take-up by Area (sq.m)



Northeast Dublin – a snapshot

Take-up in northeast Dublin totalled approximately 26,000sq.m in 2008, which compares with a total of approximately 42,500sq.m in 2007 – a fall of almost 40%. However, this region experienced a very positive performance in the first half of 2008 with a surge of 77% in take-up being recorded compared to the first half of 2007.

Industrial space in this location enjoys an advantageous position given its accessibility and proximity to prime transport nodes such as Dublin Airport, the Port Tunnel, the M50 and the M1.

Vacancy levels in the northeast recorded steep rises in comparison to previous years and stood at 136,500sq.m by the end of 2008. Vacancy levels here remained relatively steady in the first half of year, however annually the level of vacancy here has risen 45%.

Northwest Dublin – a snapshot

Take-up in northwest Dublin totalled approximately 58,000sq.m in 2008, a 27% fall-off from 2007 annual levels when approximately 79,000sq.m was taken up. The level of take-up in the second half of 2008 was approximately 19,500sq.m and marks a stark contrast with the strong take-up levels of approximately 39,500sq.m, in the first half of the year.

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Considering that take-up levels in the first half of 2008 in this region signified a 35% increase on the first half of 2007 it is clear that demand in this area weakened through 2008, against a deteriorating economic and business backdrop.

Such weakening in take-up levels would indicate a rise in the vacancy level in the region. Indeed there was a sharp increase of 43% in the amount of vacant space available in this location. Approximately 209,000sq.m of space was listed as vacant at year-end in 2008 in northwest Dublin.

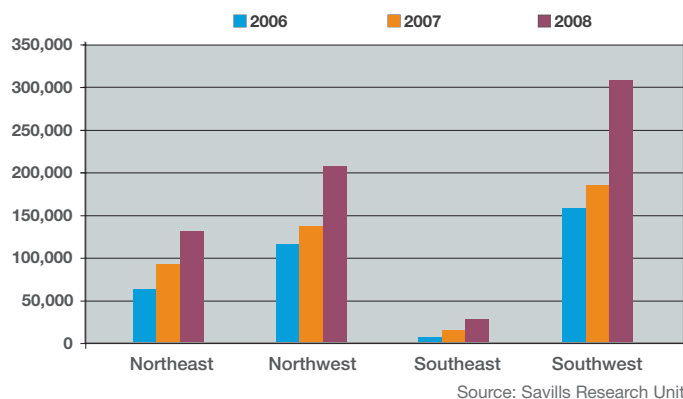
Southeast Dublin – a snapshot

Take-up in southeast Dublin totalled approximately 4,000sq.m in 2008, which represented a steady performance when compared with 2007 take-up levels in this region.

Traditionally this region is undersupplied, which explains the relatively subdued take-up levels, however in 2008 there was a large increase in the amount of industrial space on the market. This resulted in a more than tripling in the level of vacant space from approximately 11,000sq.m in 2007 to 36,000sq.m by end of 2008.

Interestingly, the majority of this vacant space came to the market in the second half of 2008. Much of this space had been earmarked for redevelopment for higher value uses, however the changing economic climate put an end to the majority of these proposed schemes and the owners were forced to place the properties on the market to let.

Approximate Annual Vacancy by Area (sq.m)



Southwest Dublin – a snapshot

Take-up in the southwest region of Dublin accounted for the greatest contributor to the overall take-up in the market, with transactions totalling more than 59,000sq.m in 2008. This represents an almost halving of take-up in the region on 2007 levels.

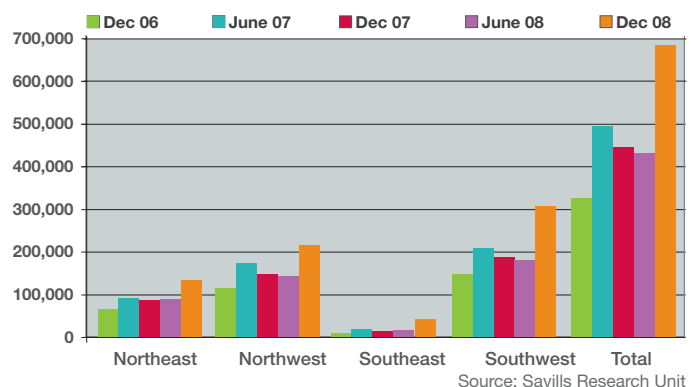
When compared with 2006 levels for the area it marks a 20% decline in demand for industrial space. Corresponding to such a

decline in demand, southwest Dublin experienced a swelling in the level of vacant space on the market - comparing vacancy levels at the end of 2007 versus the same time in 2008 we see that there was an increase of 65%. It is now estimated that approximately 310,500sq.m of industrial space was unoccupied by the end of 2008.

The Availability of Industrial Space in Dublin

Availability levels throughout the greater Dublin area increased dramatically in 2008 – a function of a significant rise in the number of newly completed starter/enterprise units in tandem with a sharp fall-off in demand. Comparing availability levels in December 2008 with December 2007 throughout the greater Dublin area there has been a 50% increase in the amount of available space. Compared with vacancy levels at the end of 2006 there has been a doubling of available space. Availability levels have been gradually rising on an annual basis as the supply of new and second-hand space coming to the market has steadily outstripped demand.

Approximate Vacancy by Area (sq.m)



Outlook for the Industrial Sector

2008 was a difficult year, not only for industrial property but for commercial property in general. Property has been at 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.

The historical experience, whereby the second half of the year is generally significantly stronger than the first half, did not hold true in 2008. This was a function of the dramatic unfolding of events through 2008 and the speedy decline in business and economic prospects.

Through 2008 there has been considerable outward movement of prime industrial yields, capturing the downward pressure on industrial capital values. However, there is little or no transactional evidence to indicate where capital values are in the current market.

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Savills Research Unit would anticipate continued outward movement of yields in 2009 as the tough adjustment in the property sector continues and bad loans forecast by the banking sector begin to materialise.

A significant overhang of supply emerged in 2008 chiefly reflecting the surge in vacancy levels citywide as well as the fact that many industrial properties, previously earmarked for redevelopment, are now instead available to let. This will represent a significant obstacle in 2009 as evidence of weakening lease terms has already surfaced in the marketplace.

2009 will be a challenging year for the industrial sector, with increasing numbers of companies coming under financial pressure to streamline their businesses; thus Savills Research Unit anticipates further declines in take-up levels and a continued increase in vacancy levels. Savills Research Unit forecasts take-up levels in the Dublin region will be less than 100,000sq.m in 2009.

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