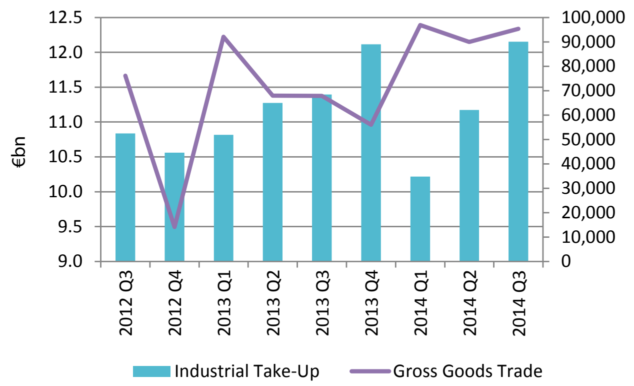
Market in Minutes
Dublin Industrial Market

Q3 2014

GRAPH 1
Combined Goods Trade and Industrial Take-Up



Source: Savills Research

GRAPH 2
Industrial Take-Up – Sales vs Lettings

Source: Savills Research

Dublin Industrial Market

Introduction

The pace of Ireland's economic recovery, which is ongoing since early 2012, has recently stepped up a gear. GDP expanded by 7.7% in the 12 months to June underpinning Ireland's status as the fastest growing economy in the Eurozone. This is partly due to the re-emergence of domestic demand with consumption, investment and Government spending all now contributing positively to growth. However, despite sluggish growth elsewhere in the Euro Area, external trade is also playing a major part in the recovery with net exports continuing to grow strongly.

Interestingly, because imports (an outflow of money from the economy) are netted against exports (an inflow) in calculating economic growth, the standard GDP measure tends to understate the demand for logistics space. Goods equally need to be warehoused when they are entering and leaving the country. As such the demand for shed space should benefit from increases in both imports and exports.

As shown in Graph 1, this logic is borne out in practice. With the Irish economy performing well on the international stage, goods exports have been rising. However, the strengthening consumer economy has also led to increased imports. This offsetting factor means that net exports have only risen by 5% in the past year. In contrast, the combined sum of goods imports and exports has increased by a much stronger 8.5%. This helps to explain the upsurge in demand for industrial space which has driven take-up to a record high of over 90,000 sq.m. in Q3.

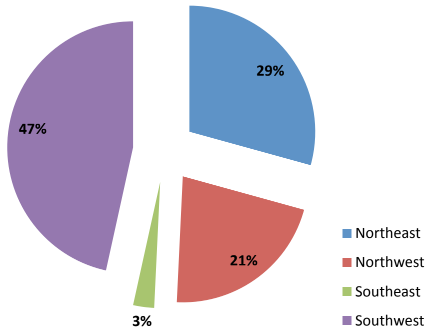
"Record level of industrial take-up in Q3 2014 as economic growth drives logistics demand"
John McCartney, Director of Research, Savills Ireland.

Market Trends Q3 2014

- Market activity continues to be dominated by sales with outright purchases accounting for 70% of transactions in Q3. This compares with only 12% in Q1 2012.
- Sales are being driven by the value that is still available to buyers in the market. Although capital values have risen by 3.75% in real terms over the last year, they are still 64% below their 2007 peak levels.
- Sales are also being driven by the Capital Gains Tax (CGT) exemption. This will continue to propel the market through Q4 as buyers seek to get deals finalised before the incentives are withdrawn in January.
- The ramp-up in demand for industrial space has led to the return of competitive bidding between potential buyers – a feature that has not been seen since before the global financial crisis.
- Reflecting this competition for the best buildings, rents are now edging up. The IPD ERV index shows year-on-year growth of 1.3% in Q3. Further rent and capital growth will be a feature of the market in 2015 as demand continues to build.

GRAPH 3

Industrial Take-Up by Region Q3 2014



Source: Savills Research

TABLE1

Top 5 Deals – Q3 2014

Address	Sq.M.	General Area	Status
Swords Road, Santry	10,339	Northeast	Sold
Damastown Business Park, International House, Ballycoolin*	8,839	Northwest	Sold
Former Shinko Facility, Greenhills, Tallaght	8,568	Southeast	Sold
260 Western Industrial Estate, Naas Road	7,412	Southwest	Sold
Unit 801 Northwest Business Park*	4,807	Northwest	Sold

Source: *Savills Research* **Denotes Savills involvement in deal*

OUTLOOK

- Q4 2014 take-up is likely to exceed Q3 levels as the impending withdrawal of CGT incentives focuses minds on getting deals done before 31st December.
- While the proportion of letting transactions is expected to increase in 2015, sales will continue to dominate market activity.
- Savills expects capital and rental growth to exceed 10% in 2015 as the availability of prime stock begins to tighten and vacancy rates contract.
- The industrial market is unlikely to see a return to speculative development for another two to three years as existing values remain significantly below replacement cost.

Savills Industrial

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