Savills Research – Review and Outlook 2024

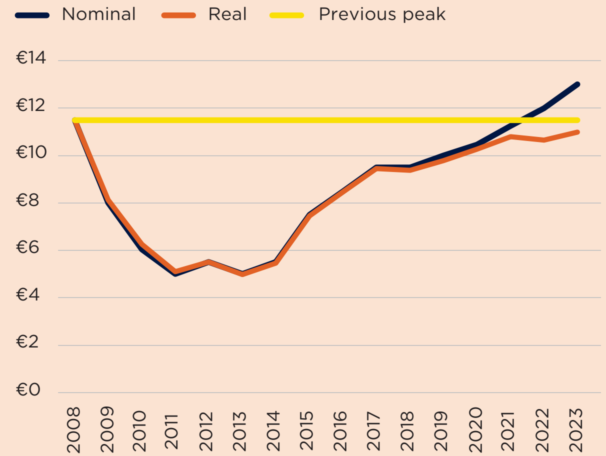
Dublin Industrial and Logistics Market

Outlook for 2024

1 Real prime rents to exceed previous cycle peak

Prime rents, which are based on best-in-class new logistics facilities, are expected to exceed €14.00 psf in nominal terms in 2024. This expectation is supported by unfolding market evidence and our own econometric modelling. This will see real prime rents surpassing the previous cycle peak of €11.50 psf recorded in 2008, although today's occupiers are getting much better value for their money. In particular, they are benefitting from next generation specification, enhanced building capabilities and efficiencies, and associated ESG credentials. This upward rental pressure will be driven by the significant undersupply of existing and new build stock in 2024. In addition, we are witnessing rents in excess of €17.00 psf being quoted and agreed in certain instances, typically for units below 20,000 sq ft in prime locations. These rents, which are significantly ahead of any previous levels, reflect the demand and competitive bidding in the market.

Figure 1: Nominal and real prime rents, psf



Source: Eurostat

2 Vacancy rate to remain under downward pressure

The vacancy rate is set to remain constrained throughout 2024 with limited forecast return of second-hand supply and reduced delivery of new builds. The development pipeline will be limited with only 898,000 sq ft due to complete this year, which is down substantially from the 2.2 million sq ft delivered in 2023. Of this, 19.8% of the 2024 pipeline is already let while 92.7% of the 2023 delivery has also already been let. The fall in the pipeline has been driven by the dual forces of higher build costs and higher interest rates, the latter of which impacts projected exit values and thus viability. The vacancy rate, which is currently 1.7%, will remain under pressure because of this and support rental growth for standing stock.

3

Supply chain risks pose a double-edged sword

There is some concern that the re-routing of sea freight from Asia to Europe, due to political instability along the Red Sea, will disrupt supply chains and potentially contribute to a renewed spike in inflation. The impact is not expected to be as severe as that caused by the pandemic nor the war in Ukraine, however, because shipping costs are generally a small share of the overall supply chain. An IMF study from 2022 found that a one standard deviation in global shipping costs adds 0.15% to local general inflation, a relatively low impact. However, the authors caution that the impact is likely to be higher for small island economies such as Ireland. Of greater pertinence, however, is the impact on supply chain certainty rather than costs. Heightened geopolitical risk in 2024 is likely to spur firms to continue the pandemic-driven trend of holding excess stock, and thus space, to mitigate the elevated potential for supply chain disruption.

Figure 2: Global geopolitical risk index

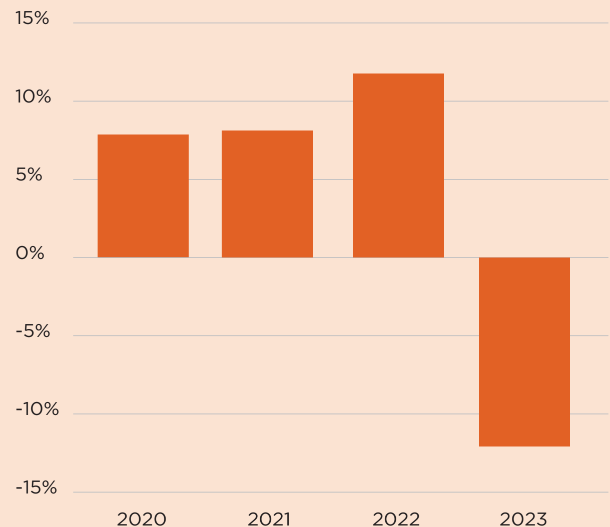
Source: Matteo Iacoviello

4

Global pharma to expand by 6.4% per year out to 2032

Last year's export growth was hampered by a poor performance across the pharmaceutical sector, which accounts for almost two-thirds of Ireland's goods exports. Overall, pharma exports contracted by 12.0% but this was exclusively driven by a fall in post-pandemic vaccine output, the latter falling by 20.0% year-on-year This dragged Ireland's exports to minus 2.9% last year, but the ESRI is forecasting a rebound of 3.2% in 2024. Looking at longer term trends, global pharma is predicted to reach $2.8 trillion (€2.6 trillion) by 2032 – reflecting annual average growth of 6.4% per year, according to forecasts from Acumen Research and Consulting. Given that pharma is a key component of the Irish economy, the industrial and logistics sector will benefit from this secular trend. In the meantime, the sector has benefitted somewhat from Brexit, with PCI Pharma taking Unit 736, Northwest Logistics Park, as part of its post-Brexit expansion in Ireland. This reflects an ongoing preference for EU-based hubs in the wake of the UK's decision to leave the EU, which is a trend we expect to continue this year.

Figure 3: Pharmaceutical exports, Ireland



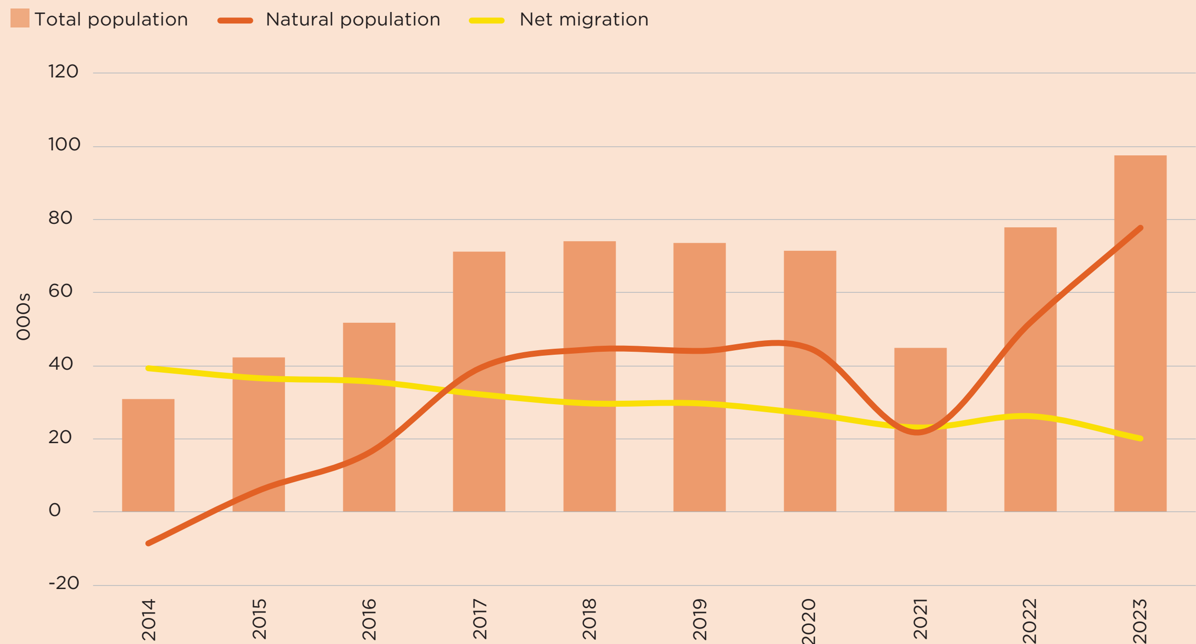
Source: Eurostat

5

Demand underpinned by strong demographics

Ireland is an attractive market not least because of the strength of population growth over the long-term, growing by 14.5% over the last decade according to the CSO. Additionally, the country has a young age profile, with 34% of the population aged between 20-44. A growing, young population are recipes for strong consumer demand and thus demand for space in the industrial and logistics market. Our econometric analysis indicates that population growth is the strongest explanatory independent variable in explaining occupier demand in Ireland over time. The latest population data surprised on the upside, driven by high net inward migration, with the rate of growth of 97,600 the highest level since the 2000s, suggesting an additional boost in demand for industrial and logistics space in the short-term.

Figure 4: Contributions to changes in population



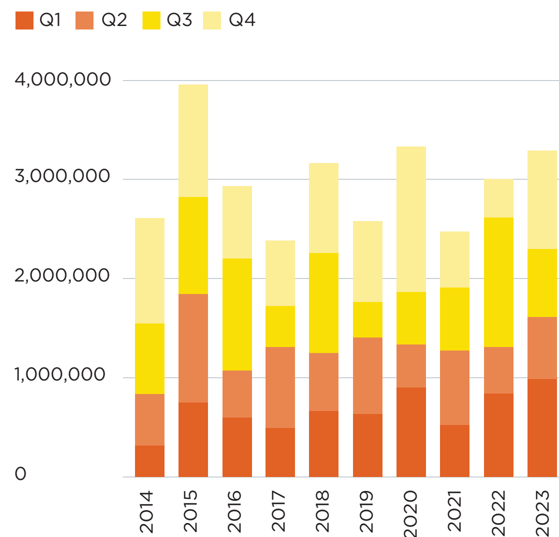
Source: CSO * Year to April

Table 1: Key statistics, sq ft

	2022	2023	y/y
Take-up	3,000,809	3,289,410	+288,601
Completions	1,949,395	2,177,486	+228,091
Vacancy Rate	1.5%	1.7%	+20bps
Prime Rent	€12.00	€13.00	+8.3%
Net Absorption	1,687,707	1,921,711	+234,005

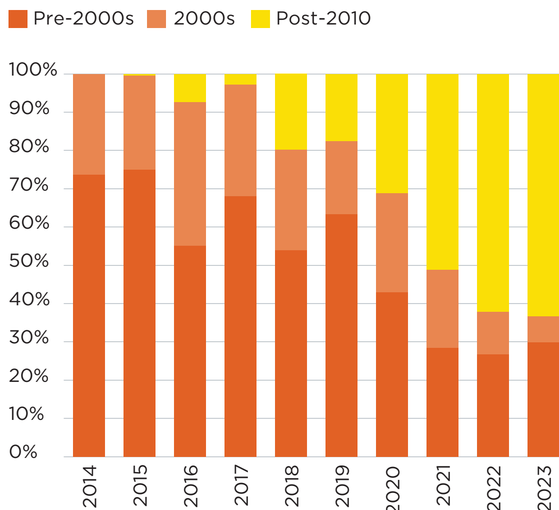
Source: Savills Research

Figure 5: Take-up, sq ft



Source: Savills Research

Figure 6: Take-up by period of construction



Source: Savills Research

Average annual deal size hits record high

Take-up totalled 984,000 sq ft in Q4, which compares with a ten-year quarterly average of 734,000 sq ft and is 21% higher than the pre-covid Q4 average take-up. There were also 20 deals signed during the quarter, implying an average deal size of 49,000 sq ft – the third highest quarterly average on record. There was a notable split between small and large deals, with half of all transactions below 10,000 sq ft and four above 100,000 sq ft – the latter of which accounted for 65% of space taken. Overall take-up for the year came to just under 3.3 million sq ft, representing a 10% rise on the previous year and 11% ahead of the 10-year average. The total number of deals was 79, meaning the average deal size was 42,000 sq ft – the largest annual average this cycle.

BIG, MODERN UNITS THE MAINSTAY OF OCCUPIERS

There were 22 transactions of big-box units sized 50,000 sq ft or more in 2023, accounting for 68% of space taken. This compares with a ten-year average of 52% and is the highest share since the series began in 2014. A growing share of transactions have occurred across big-box units over the past decade, reflecting occupiers' appetite for expansion of their Irish operations – with the proportion of deals attributable to this size category rising from 18% in 2019 to 28% in 2023. The largest of these was logistics firm Wincanton's Q1 letting of 286,000 sq ft at Building 2, Greenogue Logistics Park, where it is managing IKEA's first customer distribution centre in Ireland. This was followed by the Q4 letting of 240,000 sq ft at Aerodrome Business Park to PRL Group. FedEx also pre-let 163,000 sq ft at Horizon Logistics Park during Q4, while another 128,000 sq ft was pre-let at Citywest Business Campus to a private tenant.

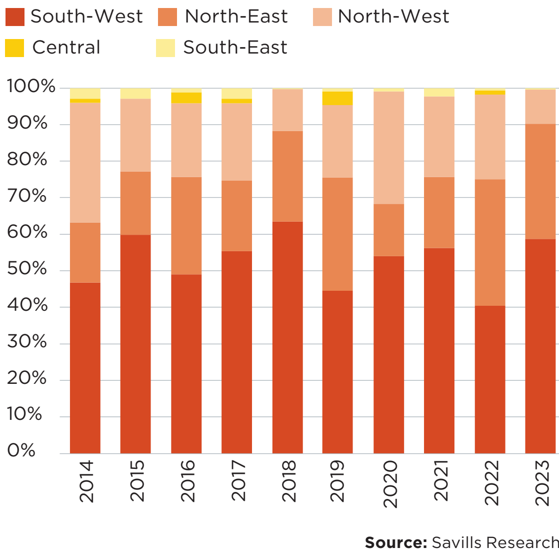
Units built since the beginning of the 2020s accounted for 58% of space taken last year, which compares with 62% and 51% in 2022 and 2021, respectively. This was spread across 20 deals, with the same number of transactions occurring across units built in the 1990s – the decade accounting for the highest level of stock. Over the past five years, the share of space taken across units built before the 2000s has declined from 63% to 30%. The sustained demand for high spec new builds reflects occupiers' preference for sustainable modern units, which contribute to their ESG credentials.

Table 2: Top five deals

Property	Q	Sq ft	Tenant	Sector
Building 2, Greenogue Logistics Park	Q1	286,000	Wincanton	3PL
Block R, Aerodrome Business Park	Q4	240,000	PRL Group	3PL
F1 Horizon Logistics Park	Q4	163,000	FedEx	3PL
4065 Kingwood Road, Citywest Business Campus	Q1	128,000	P&C	n/a
Unit 637, Northwest Logistics Park	Q1	119,000	Rhenus	3PL

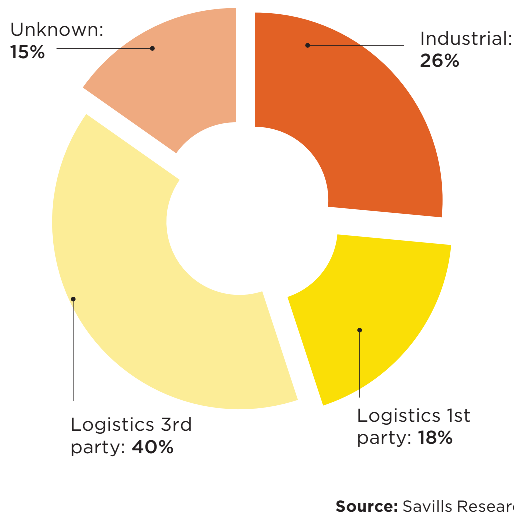
Source: Savills Research

Figure 7: Take-up by location



Source: Savills Research

Figure 8: Take-up by sub-sector, full year



Source: Savills Research

Figure 9: Supply and pipeline forecast, sq ft

Source: Savills Research

SOUTH-WEST THE CENTRE OF ACTIVITY

The South-west accounted for 58% of take-up in Q4 and 59% of total space taken in 2023 – ahead of the ten-year average of 53%. This is consistent with the fact that this region accounts for the highest share of stock. Almost 3.5 million sq ft has been completed in this region over the past five years, representing 54% of all industrial delivery. The second most popular location for transactional activity was the North-east at 41% of take-up in Q4 and 32% for the year as a whole. It makes up the second highest level of stock, at 24%, although it has only accounted for 1.0 million sq ft, or 16%, of delivery since 2019. Looking ahead, we are likely to see the North-west become the focal point of activity given that 3.7 million sq ft is scheduled to complete here between 2024 and 2028, or 53% of all delivery over the next five years.

THIRD-PARTY LOGISTICS CONTINUES EXPANSION

On a sub-sector basis, logistics made-up 58% of take-up in 2023, with 18% attributable to first-party logistics and the other 40% accounted for by third-party logistics. This includes FedEx's pre-letting of 163,000 sq ft at F1 Horizon Logistics Park, which will serve as its Irish headquarters. The express courier company has expanded significantly in recent months, signing for 281,000 sq ft across the South-west and North-east over the past 18 months.

On the industrial side of things, the Polish food distributor Polonez purchased the 113,000 sq ft Unit 1C, Cloverhill Industrial Estate, in Q4, where it was already a tenant. Another notable transaction was the pre-letting of 113,000 sq ft at Unit P2, Horizon Logistics Park, which is a design and build completion for packaging solutions firm WestRock. The move forms part of plans to consolidate its Dublin operations.

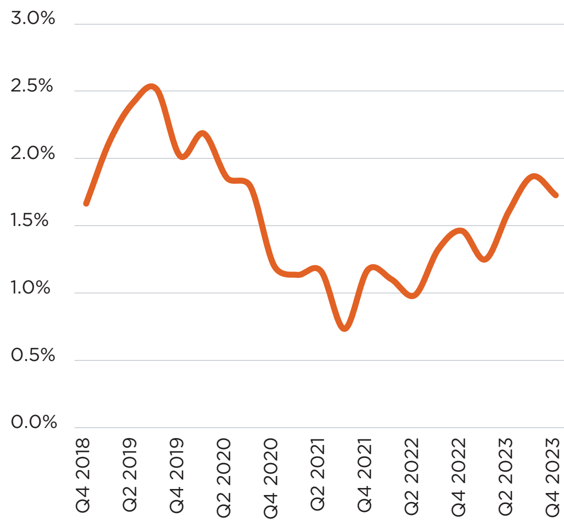
Supply

CONSTRUCTION CHALLENGES PUSH OUT DELIVERY TIMES

One unit totalling 69,000 sq ft reached practical completion in Q4 2023. This was Unit 736 at Northwest Logistics Park, which was let to PCI Pharma as it continued its post-Brexit expansion in Ireland. The largest completion of the year was Exeter's Unit R, Aerodrome Business Park, totalling 240,000 sq ft and let to PRL Group. The second biggest development was IPUT's Unit 1, Quantum Distribution Park, at a size of 205,000 sq ft and pre-let to DHL. The third largest was Park's 200,000 sq ft development of Unit 900, Northwest Logistics Park, which has been pre-let to Amazon. New supply for the year came to 2.2 million sq ft – up 12% on the preceding year – across 24 units. Of this, only 80,000 sq ft is available to let, reflecting the fact that large new builds remain in high demand.

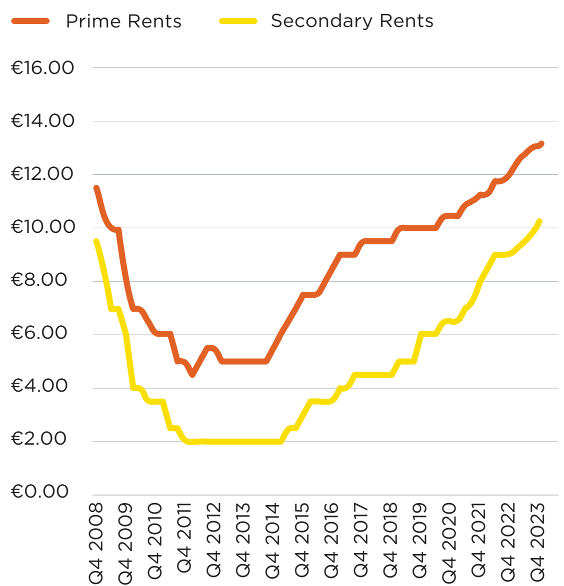
At the beginning of last year, 2.4 million sq ft across 29 units had been scheduled for completion, with 230,000 sq ft later pushed out beyond 2023. This year, we expect 898,000 sq ft of space to be delivered, albeit this is less than half the 2.9 million sq ft scheduled for 2024 at the same point last year. This delay to development is reflective of the high cost, high interest rate conditions facing developers, as well as labour shortages. With government also targeting specific residential delivery by actively seeking to reactivate sites through policies like Project Tosaigh, construction resources are likely being more weighted towards that sector than they had previously – compounding some of the challenges already facing builders in the industrial and logistics space.

Figure 10: Vacancy rate



Source: Savills Research

Figure 11: Prime and secondary rents



Source: Savills Research

VACANCY RATE

Strong quarterly take-up led vacancy to decline by 116,000 sq ft in Q4, driving the vacancy rate down to 1.7% from the 1.9% recorded in the preceding quarter. Notably, only three of 54 vacant units have been built since 2020, with the vast majority of vacant stock built in the 90s or before. Over the past year, however, the vacancy rate has ticked up slightly from the 1.5% recorded in Q4 2022 as an additional 256,000 sq ft has been brought to market. The largest addition was the 108,000 sq ft former Crown Paints facility on the Malahide Road, which has been available since Q1 2023. The second biggest was 88,000 sq ft at Unit 605, Greenogue Business Park, which was brought on in Q3 for short-term lease.

On a locational basis, it is notable that the vacancy rate is highest in the North-east suburbs at 2.3%, which is up from 1.0% a year ago. By contrast, the rate is lowest at 0.4% in the South-east, down from 0.9% in Q4 2022. Looking ahead, there is potential for vacancy to rise slightly in 2024 given that 652,000 sq ft is scheduled for vacant completion – the majority of which is located in the North-east. There is a likelihood that some of this space will be taken before it reaches practical completion, however, with these units – which range in size from 71,000sq ft to 140,000 sq ft – representing much more desirable buildings than most of the legacy stock currently lying vacant. All of these units are set to complete in the second half of the year, leaving scope for delivery to be pushed out to 2025 if the pressures discussed previously delay projects.

RENTS AND OUTLOOK

The Dublin industrial and logistics market saw steady growth in both prime and secondary rents throughout 2023 as demand remained strong against a backdrop of tight supply. Rents on prime stock increased from €12.00 in Q4 2022 to €13.00 in Q4 2023, in line with our expectation outlined in last year's annual report. Additionally, secondary rents grew at a stronger rate from €9.00 to €10.25 over the same period. We expect continued upward pressure on rents as a scarcity of good quality units persists. There is currently 1.5 million sq ft of space available, with a further 652,000 sq ft set to be delivered vacant in 2024. Taken alongside a net take-up figure of 1.9 million sq ft for 2023 – a five-year high – suggests that there is only 13 months' worth of availability in Dublin, albeit based on a strong year. The situation is further compounded by the fact that most of this stock is legacy and below 50,000 sq ft, which will generate further competition for higher-quality, larger units. Elsewhere, the International Money Fund is also predicting growth for both the US and Europe in 2024 which, alongside the positive economic forecast for Ireland, will underpin demand for warehouses and keep upward pressure on rents.

Unit 1 Southwest Business Park

Figure 12: Irish GDP and MDD growth forecasts

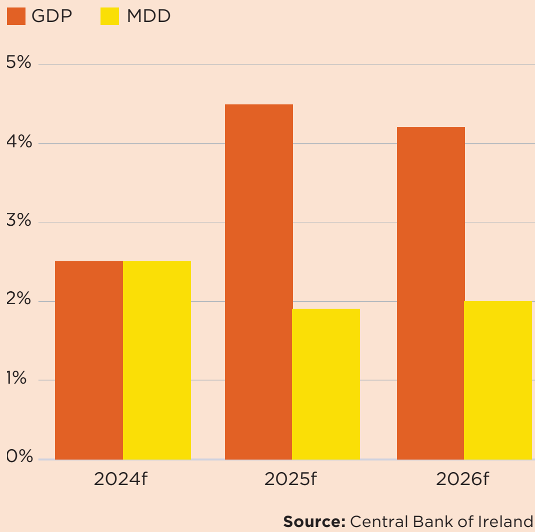


Figure 13: USD$ spot price per 40ft container

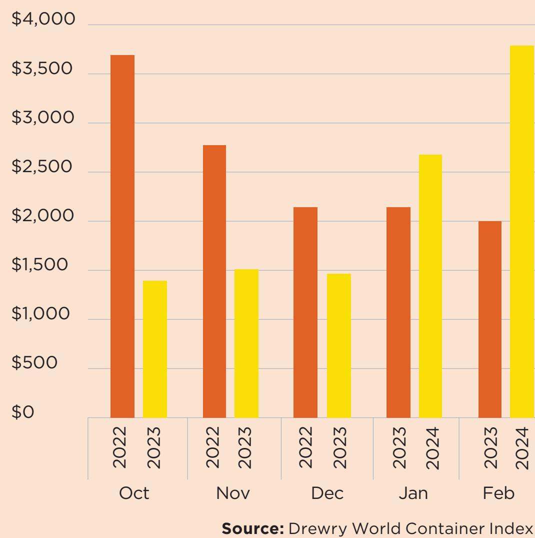
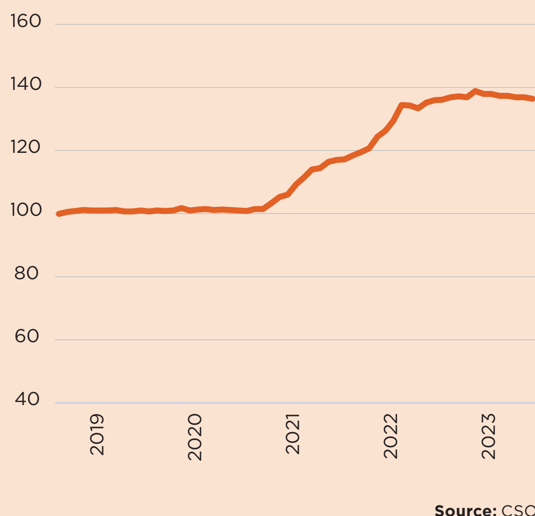


Figure 14: Wholesale construction material price index



Macro View

Geopolitical unrest an upset to anticipated economic stability.

The Irish industrial and logistics sector operated within a challenging global economy in 2023, characterised by high inflation, high interest rates and continued geopolitical uncertainty. While strong price growth created a cost-of-living crisis for consumers, successive interest rate hikes curbed investment and significantly raised the cost of debt. The strong labour market helped to offset some of the effects by supporting wages and underpinning reasonable levels of consumer demand. In the manufacturing sector, however, inventory reduction strategies were implemented by a number of firms in response to elevated borrowing costs, as well as an easing in supply chain flows.

With the Irish economy intricately linked to the multinational sector, which experienced significant weakness last year, the annual change in GDP entered negative territory for the first time in almost seven years. With recoveries in the pharmaceutical and tech sectors expected in 2024, however, the Central Bank of Ireland is predicting growth of 2.5% this year.

MIDDLE EAST UNREST PRESENTS NEW THREAT

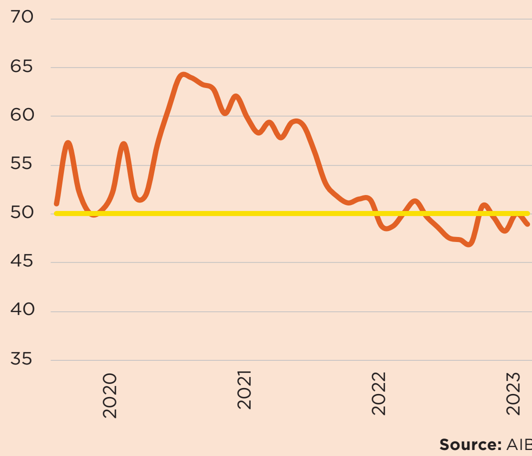
When the War in Ukraine initially broke out, it heaped pressure on supply chains and food and energy prices – which were already being stretched by pandemic-related lockdowns and the subsequent rebound in consumption as restrictions lifted. Although the situation in Ukraine has yet to be resolved, new routes and energy sources have been established and supply chains adapted. Consumer price growth peaked late last year and inflation has been slowing fairly consistently since then, albeit it remains above the European Central Bank's (ECB) 2.0% target. Just as global economic uncertainty looked set to stabilise however, conflict in the Middle East erupted when Hamas attacked Israel last October and it responded with strikes on Gaza.

The conflict is ongoing and overspilling into surrounding states including along the Red Sea, forcing shipments between Europe and Asia around the Cape of Good Hope, thereby delaying deliveries and causing some firms to pause production. The effect of this latest round of geopolitical tensions is being reflected in global shipping containment spot prices, which had been trending downwards until the start of the year. They are now around USD$3,800 per 40ft container, compared to about USD$2,000 a year ago, placing upward pressure on supplier costs – some of which will likely be transmitted to consumer prices as well.

MATERIALS COST INFLATION

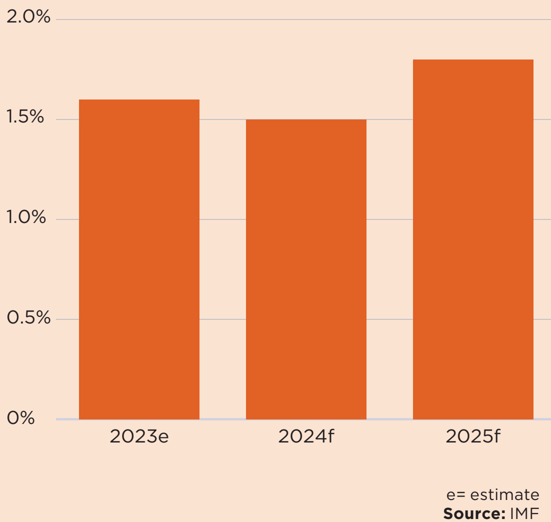
Although construction materials cost inflation was relatively mute in 2019 and 2020, CSO data show it has grown by more than 35% since the beginning of the pandemic. The good news is that price growth, which peaked at 21% y/y in July 2022, has flattened considerably since then, and is below 1% according to the latest data. While price growth spiked as a result of the war in Ukraine, as with general inflation, it has calmed as the global economy has adapted to the regional instability. This should be a positive for developers, many of whom have had to push out delivery timelines in response to the high inflation environment. Notwithstanding potential inflationary headwinds arising from the geopolitical tensions discussed above, materials prices should be much more stable in 2024, facilitating the smoother completion of industrial units already in the pipeline.

Figure 15: Trend in Irish manufacturing PMI



Source: AIB

Figure 16: Global GDP growth forecasts



e= estimate
Source: IMF

MANUFACTURING

There has been a downturn in Euro Area and Irish manufacturing over the last number of months amid weak demand for new orders and a slowing in production volumes. This has led to manufacturers relying on backlogs of work to sustain their operating levels. With inventories also being rundown in response to subdued consumer demand, the main positive is that average input costs have been falling despite shipping delays due to the disruption in the Red Sea. There was also some recovery in export orders towards the end of the year. As we entered 2024, manufacturing performance was still in contractionary territory. This has not dampened producers' optimism for the year ahead however, with many upbeat about the prospects of rising consumer demand as cost-of-living pressures alleviate, and long-term business expansion plans are activated. These are expected to be driven by the moderation in inflation and interest rate reductions, although there remains some concern that a potential recession is not off the cards just yet.

OUTLOOK

The world economy entered 2024 on a much more positive footing than anticipated a year ago, with inflation largely under control and interest rate reductions likely to begin from mid-year. The hope is for a soft landing, with the IMF predicting global growth of 1.5% and 1.8% in 2024 and 2025, respectively. Nevertheless, the mood is somewhat tentative amid fears the geoeconomic landscape is deteriorating, with any escalation in conflict likely to spur inflation once again as oil and other input prices rise. The US presidential election later this year will also be critical given the very different positions the Democratic and Republican parties take on international trade relations. As it stands however, central banks are pointing towards rate reversals from the summer, underscoring their confidence that inflation is on the right track. That scenario will be key for unlocking investment and promoting consumer demand, and, spurring further industrial and logistics demand.

Unit 736, Northwest Logistics Park

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