Savills Research – Q2 2021

MARKET IN MINUTES

Savills Research

Dublin Industrial and Logistics Market

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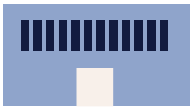
Macro view • Market activity • Outlook

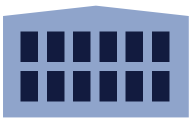


428,000 sq ft

of take-up transacted in Q2, a decline of 5% compared to Q2 2020

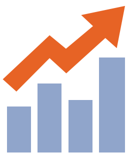
165,000 sq ft

taken by Kuehne+Nagel was the largest deal of the quarter



3

of the top 4 deals were pre-lets



53%

of take-up took place in the north-east

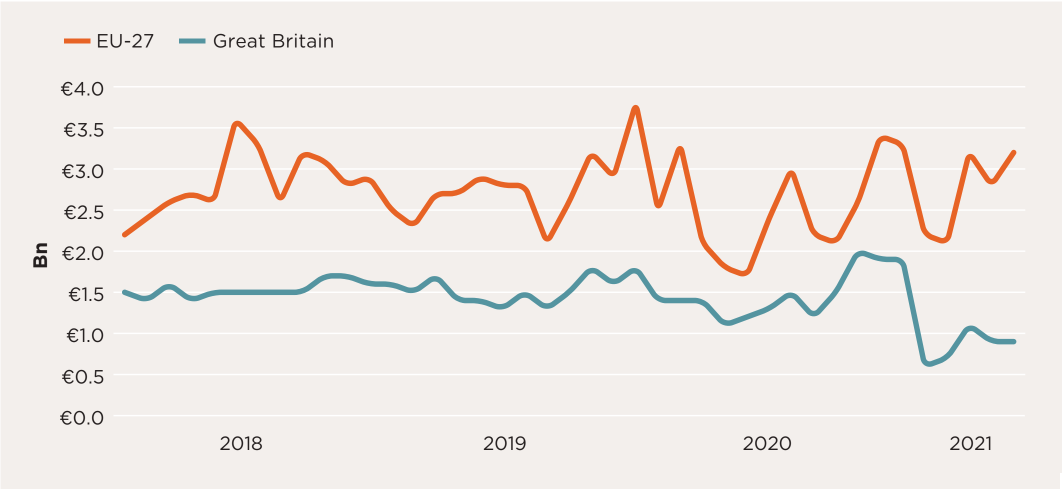
50%

growth in online spending expected by 2025

Macro view

Sweeping shifts are occurring in the industrial and logistics sector as revolution supersedes evolution

Figure 1: Value of imports from the EU and Great Britain



Source: CSO

At its most basic conception, industrial and logistics real estate is concerned with providing space that allows for the efficient production of goods and their systematic transfer to customers. Usually, as technology alters the factors of production and consumer tastes evolve, underlying occupier requirements progress with them, normally in a relatively slow and stable fashion. Sometimes, however, events come along that abruptly alter the old order in a fundamental and permanent fashion, heralding a market revolution rather than evolution. Brexit and the pandemic represented two such events to occur over the past 18 months.

Brexit-related trade dynamics

In terms of Brexit – see analysis later in this report regarding the pandemic – it is clear that we have entered a period of major structural change. Some of the changes we have already witnessed include shifts in the composition of goods being traded, stockpiling and alterations to transit routes. The changing trade dynamics are evident in the statistics, with the value of imports from Great Britain declining by 35% in the first five months of 2021 compared to the same period in 2020. Irish importers pivoted to the EU, with the value of EU imports increasing by 17% y/y over the period. Furthermore, imports this year from Great Britain have likely been supported by temporary factors: firstly, stockpiling of raw materials and merchandise to protect from uncertainty as the Brexit transition period ended on January 1st. Secondly, the surge in online shopping through the pandemic lockdown this year, much of which was delivered to Ireland from Great Britain. Without these boosts, imports from Great Britain would likely to have fallen even further. By contrast, Irish exports to Great Britain increased by 12% y/y, suggesting that Irish exporters were able to deal with Brexit-related disruption relatively well.

35%↓

decline in value of imports from Great Britain

12%↑

increase in value of exports to Great Britain

Ireland remains flexible

The early signs of strength from Irish exports in the face of Brexit are promising while imports from the EU should be able to fill gaps created by Brexit. The agricultural sector is perhaps the most exposed sector but will have little impact on the industrial and logistics market. Ireland's EU membership, which provides access to the common market, should create numerous opportunities, and give firms greater flexibility as supply chains come to terms with the fallout from the Brexit trade deal. From an e-commerce perspective, Ireland is likely to see a greater need for warehousing and associated logistics infrastructure as goods previously stored and distributed via Great Britain are onshored to Ireland.

Market activity

428,000 sq ft of industrial and logistics space transacted in Q2, representing a decline of 5% compared to Q2 2020. While take-up remains well below the five-year average of 755,000 sq ft, this slow-down is reflective of the lack of suitable stock for occupiers rather than pandemic related factors with occupier demand remaining strong.

The largest deal of the quarter was for 165,000 sq ft in Unit D8, Horizon Logistics Park, which is currently under construction. The lessee, Kuehne+Nagel, is an expanding international third-party logistics firm and a prime example of the role 3PLs are currently playing in driving market demand. The second largest deal of the quarter was the leasing by Exertis of Unit 21, Fonthill Business Park, comprising 86,250 sq ft. The unit will serve as their new Dublin HQ and represents an expansion of their Dublin footprint. Notably the third largest deal of the quarter was also a pre-let, with the 60,000 sq ft, Unit 632 in Northwest Logistics Park leasing before it completed in Q2.

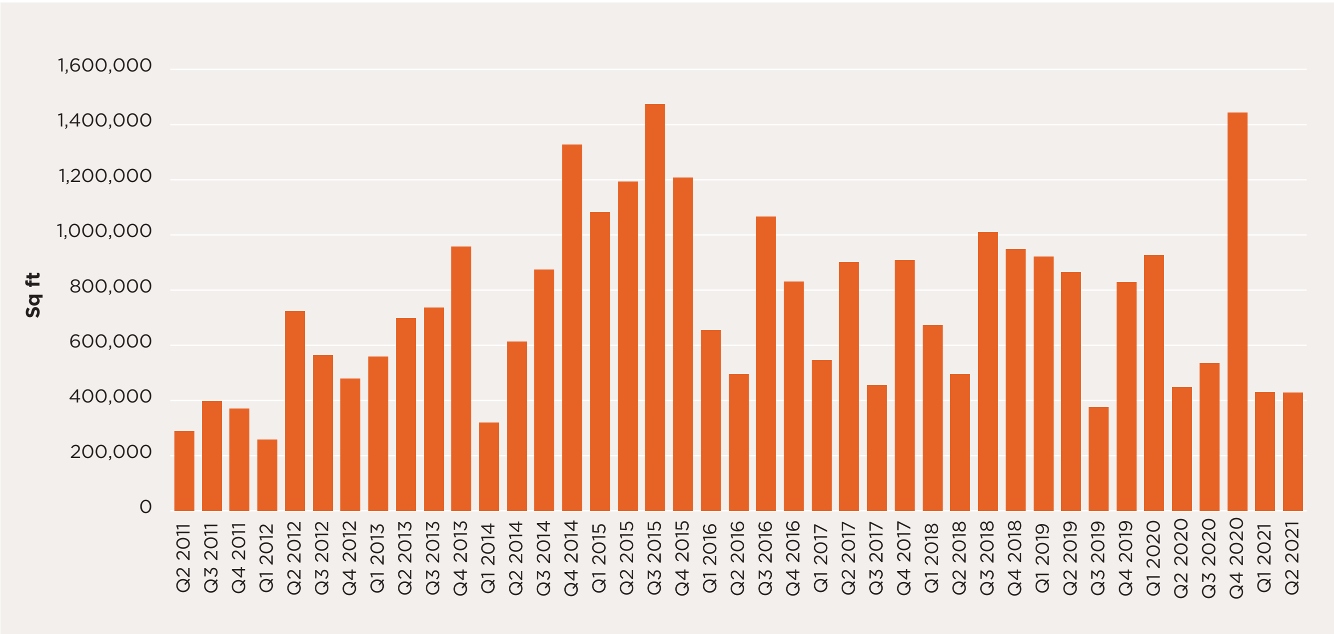
Table 1: Top deals

Property	Sub-market	Sq ft	Lease/Sale	Tenant	Pre-let/Standing stock
Unit D8, Horizon Logistics Park	North-east	165,000	Lease	Kuehne+Nagel	Pre-let
Unit 21, Fonthill Industrial Park	South-west	86,000	Lease	Exertis	Standing stock
Unit 632, Northwest Business Park	North-west	60,000	Lease	Confidential	Pre-let
Unit A6A, North City Business Park	North-west	25,000	Lease	Bio Techne	Pre-let
9/14 Milltown Road	South-east	18,000	Lease	Confidential	Standing stock

Source: Savills Research

> Q2 take-up of 428,000 sq ft is well down on the five-year average but is reflective of the lack of suitable stock rather than weak occupier demand

Figure 2: Take-up

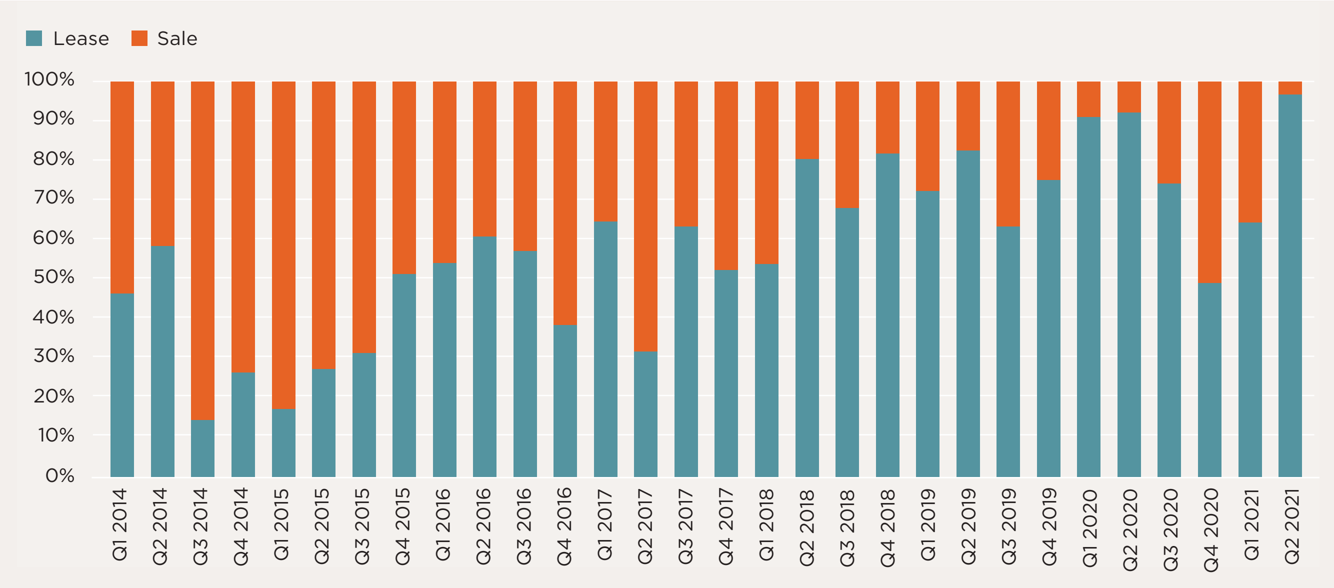


Source: Savills Research

Sales activity

Purchases of industrial units by owner-occupiers accounted for two of the top 14 deals and just 3% of the volume of space that traded, compared to the five-year average of nine sales per quarter and 32% of take-up. As we have previously noted, there is a lack of suitable freehold opportunities in the market which is suppressing the number of sales. This is also part of a broader trend with sales steadily declining since 2014 in the wake of the GFC when they accounted for 69% of the space that transacted.

Figure 3: Take-up by type



Source: Savills Research

> **Purchases of industrial units by owner-occupiers accounted for two of the top 14 deals and just 3% of the volume of space that traded**

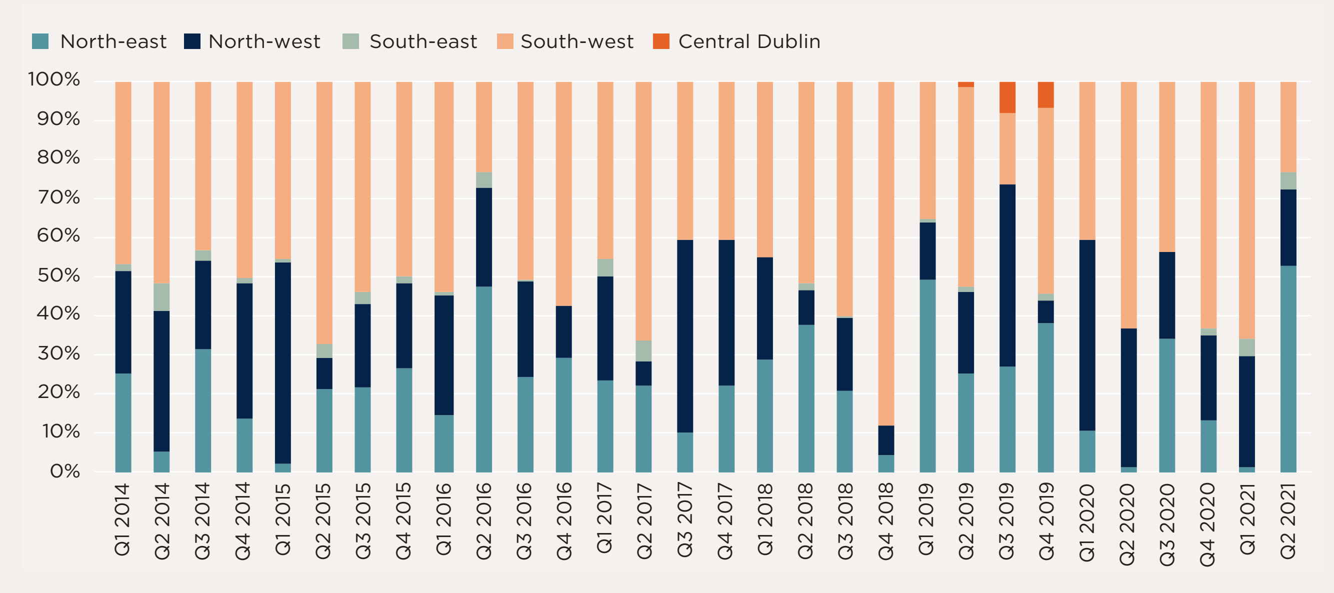
Building One, Greenogue Logistics Park - 166,000 sq ft available to let

Location

In terms of location, the north-east accounted for 53% of take-up, with the largest deal of the quarter also located here. This is above the average quarterly share for the location of 24%. Typically, the south-west has been the most active location accounting for an average of 50% in any given quarter since 2014. Business parks in the south-west are well-connected to both Dublin and the rest of the country with over two-thirds of new completions located here over the last two years, with construction concentrated in the Greenogue and Baldonnell Business Parks.

53%
of take-up was in the north-east suburbs

Figure 4: Take-up by location



Source: Savills Research

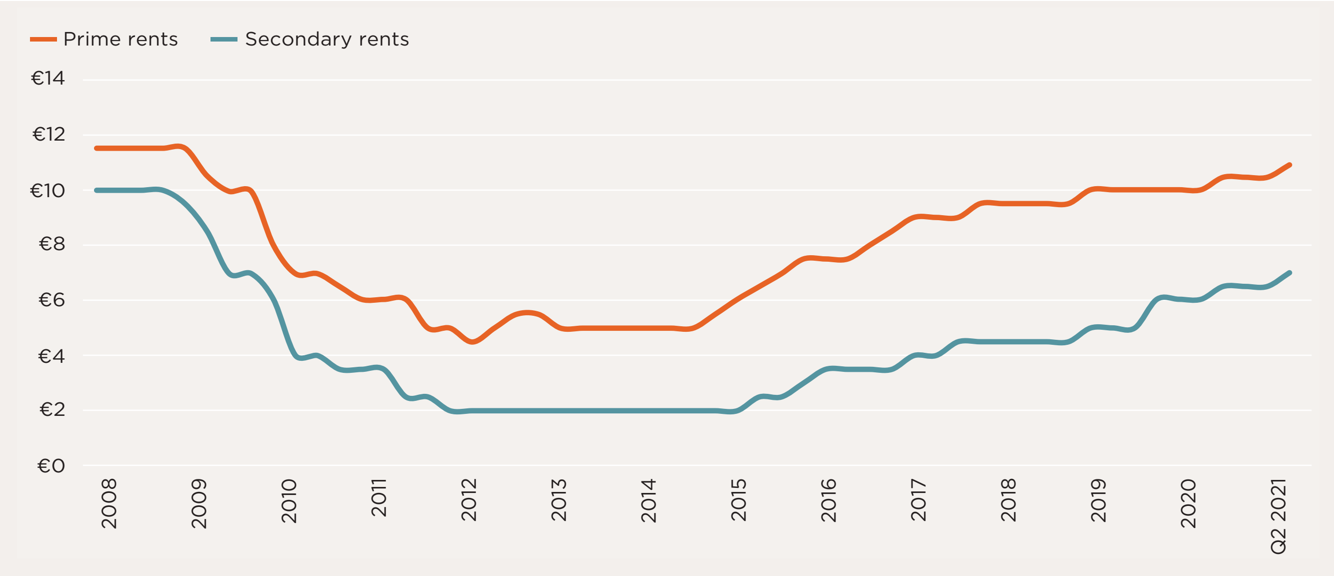

Unit at North City Business Park

Supply

On the supply side, the lockdown in Q1 halted all non-essential construction activity, delaying several units due to complete this year. Nevertheless, with construction resuming in Q2, there were two completions totalling 171,000 sq ft, namely Unit 632, Northwest Logistics Park and Unit A02, The Hub Logistics Park.

Two of the largest deals in Q2 – Unit D8, Horizon Logistics Park and Unit A6A, North City Business Park – are set to reach practical completion later this year which will provide support for net absorption, putting further downward pressure on the vacancy rate. New supply pipeline remains relatively constrained, with nine of the 16 projects currently under construction already let.

Figure 5: Headline rents psf



Source: Savills Research

Rents

With suitable accommodation in such short supply, there has been consistent upward pressure on rents over the last year. Prime rents rose by 9% over past 12 months and now stand at approximately €10.90 psf while secondary rents have risen to €7.00 psf, representing an increase of 16% y/y. We would expect to see continued upward pressure on rents as occupiers compete for limited modern stock and, in some cases, have to settle for sub-optimal older stock.

Unit B3, Airport Business Park – 11,500 sq ft leased Q2

The pandemic and e-commerce growth

11%

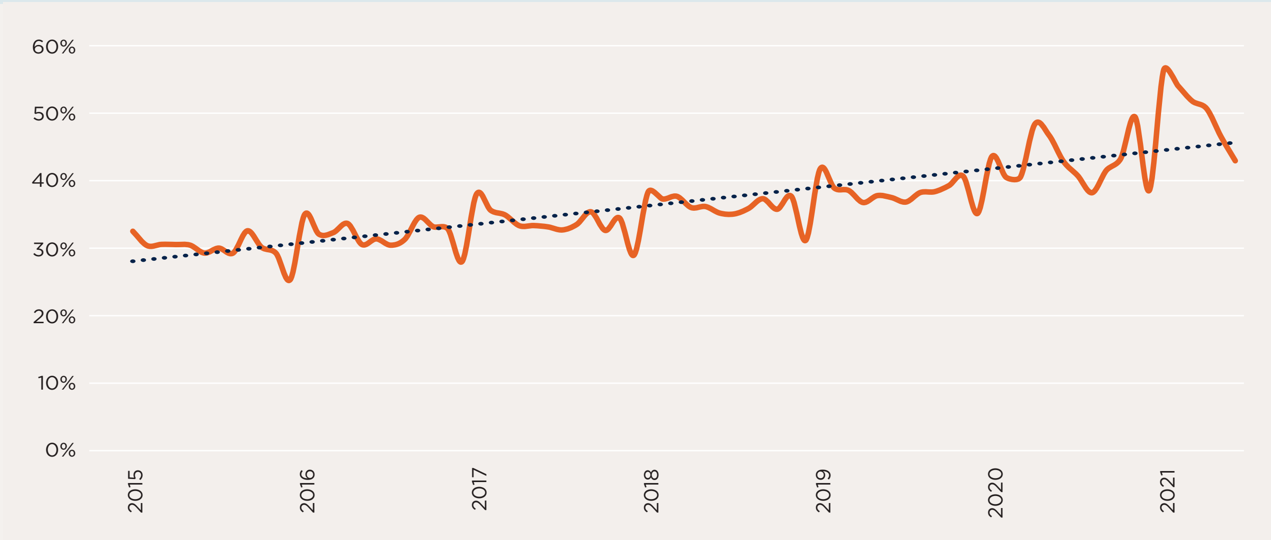
growth in credit and debit card spending in 2020, almost double the average growth of 6% recorded between 2015 and 2019

One often noted aspect of the pandemic has been its tendency to accelerate existing trends, with e-commerce being a prime example. Between 2015 and 2019, the share of e-commerce as a proportion of credit and debit card spending grew by an average of 6% per annum, but this almost doubled to 11% in 2020. As per Figure 6, we can see that new record highs were achieved in April 2020, November 2020, and January 2021, which corresponded to periods when the country was in lockdowns. The trend has reverted as the economy has reopened and consumers once again familiarise themselves with the novelty of bricks and mortar shopping experiences. The share has declined to 43% at the end of Q2 – which is the same proportion as Q2 2020 – but 5% up on the 38% recorded in Q2 2019. The real question now is how much of the e-commerce habits built-up by consumers will remain as a permanent increase in demand and how much will be clawed back by traditional retailers once the dust settles. Forrester Analytics projects that the value of online retail sales will continue to grow over the coming years, growing by 50% from €5.4 billion in 2021 to €8.2 billion by 2025.

Implications for demand

According to Prologis, an American REIT primarily engaged in logistics real estate, e-commerce requires up to three times the amount of storage space as traditional retail. If the shift to online witnessed over the last 12 months represents a structural change in consumer preferences, this will translate into a significant increase in demand for warehousing space. Indeed, Prologis estimates that – in the UK – for every additional one million spent online, an additional 770,000 sq ft of warehouse space is required. Prior to Brexit, much of this increase would have been lost to Great Britain as a large share of online deliveries were conducted via there. However, Brexit-related disruption is changing this model as evidenced by Amazon and 3PLs looking to base more operations out of Ireland, meaning that increases in online sales will translate more closely into increased warehouse demand going forward.

Figure 6: E-commerce as a proportion of credit and debit card expenditure



Source: Central Bank of Ireland

> **Forrester Analytics projects that the value of online retail sales will grow by 50% from €5.4 billion in 2021 to €8.2 billion by 2025**

Outlook

Like the preceding lockdowns, the Q1 lockdown had an adverse effect on the consumer economy with personal consumption expenditure (PCE) falling by 11.4% y/y, the majority of which was driven by the services component of PCE rather than the demand for goods. This decline is in-line with patterns observed during the first and second lockdowns, and point to a continuation of the pattern of swift recoveries in the consumer economy when lockdowns end. However, the acceleration and success of the vaccine program should now allow for the recovery seen in Q2 2021 to be more sustainable than those seen in 2020.

Ultimately, the lack of suitable supply remains a fundamental driver of the industrial and logistics market – a dynamic that will inevitably favour landlords who can command higher rents and stronger covenants. Despite supply ramping-up, this imbalance in the market is expected to remain in place for the foreseeable future with the majority of new supply being leased prior to completion. Occupiers will need to be proactive if they are to find stock that is suitable for their requirements, and we would expect to see competition continue to be keen as demand for logistics space grows in response to changing consumer preferences regarding online shopping combined with the evolving Brexit-related trade dynamics.

Building Two, Greenogue Logistics Park, 285,000 sq ft - warehouse floor currently being laid

Savills team

Please contact us for further information

Gavin Butler
Director
+353 (0) 1 618 1340
gavin.butler@savills.ie

Peter Levins
Divisional Director
+353 (0) 1 618 1739
peter.levins@savills.ie

John Ring
Director, Research
+353 (0) 1 618 1431
john.ring@savills.ie

Andrew Blennerhassett
Research Analyst
+353 (0) 1 618 1705
andrew.blennerhassett@savills.ie