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Dublin Industrial Update

2nd Quarter 2015

Take-Up

Half year total just over 182,000 sqm, double that of the same period of 2014.

Availability

Reduced in Q2 with the vacancy rate falling to just over 16%.

Industrial Land

Values continue to increase as demand focusses in on design-and-build.

⬆ **Rents**

⬆ **Values**

↘ **Supply**

➡ **Demand**

Unit 5 Naas Road Industrial Park (1,420 sqm) was leased to ICT Services in Q2

Overview

The demand for industrial space remained strong in Q2 and as a result the amount of industrial accommodation transacted was notable, albeit slightly less than in recent quarters. In many parts of the Dublin market, there continued to be some very good deals on offer, both to purchase and lease. However, the number of options for those requiring larger buildings grew tighter and consequently, some are once again looking at design-and-build opportunities. Supply fell over the quarter and so too did the vacancy rate.

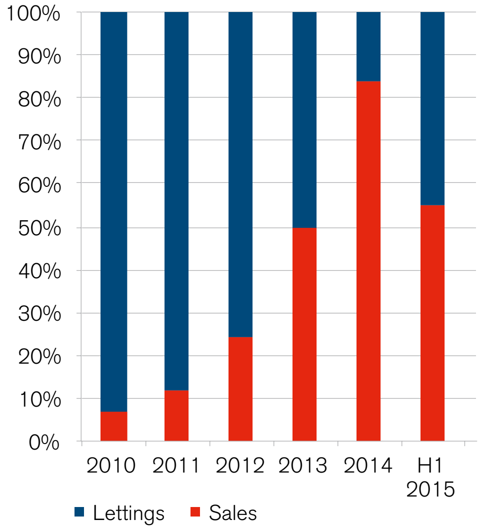
Activity

81,300 sqm of industrial accommodation was taken up in Q2 across 34 individual transactions. While this is less than in recent quarters, it is still a very strong level of activity and is only lower due to the fact that the last three quarters were at record highs. Combining the first two quarters of the year, take-up exceeded 182,000 sqm, which is just over double what take-up levels were in the same period of 2014.

Sales continued to dominate the market, albeit to a lesser extent than in 2014. In the quarter, sales accounted for 58% of deals, compared to 65% in Q1 and 84% for 2014 as a whole. The ending of the CGT waiver in December 2014 has had an impact on lessening the number of sales, however, given the fact that buildings can still be bought for less than replacement cost, purchasers are still active.

Combined, the top five largest deals in the quarter accounted for 38% of the activity and all were individually greater than 4,000 sqm. Of these, there was only one letting, however this was the largest transaction in the three months and comprised a 9,350 sqm letting to DHL on Orchard Avenue in Citywest. Other lettings of note included a 3,900 sqm letting in Turvey Business Park, a 3,720 sqm letting in Westgate Business Park and a 3,670 sqm long lease to Gilead in Dublin Airport Logistics Park.

TAKE-UP:
SALES V LETTINGS



Source: Lisney

Notable Q1 2015 transactions include:

Property	Region	Size (sqm)	Transaction
2010 Orchard Avenue, Citywest Business Park	SW	9,350	Letting
Bluebell Business Centre	SW	5,950	Sale
Unit 2, Baldonnell Business Park	SW	5,560	Sale
Beech House, Greenhills Road, Tallaght	SW	5,000	Sale
Former Tayto Facility, Malahide Road	N	3,900	Sale
Turvey Business Park, Donabate	N	3,780	Letting
Units 1A & 1B Damstown Industiral Park	NW	3,780	Sale
Unit 4, Westgate Business Park	SW	3,720	Letting
Eagle House, Dublin Airport Logistics Park	N	3,670	Letting
Unit 4, John F. Kennedy Park	SW	3,670	Sale

In terms of sales, a 5,950 sqm building in Bluebell Business Centre was one of the largest transactions of the quarter. This was followed by Exeter Property Group's acquisition of Unit 2 Baldonnell Business Park (5,560 sqm) and the sale of Beech House on Greehills Road (5,000 sqm). Additionally, the former Tayto facility (4,830 sqm) on the Malahide Road was sold in Q2 but this is unlikely to be used for industrial purposes in the future and was purchased by a developer with a view to redevelopment.

As is usual, the majority of accommodation taken up in Q2 was in the traditional industrial region of the southwest, accounting for 71% of all space transacted. This was followed by the northwest at 16% and the north at 13%. There were no deals of note in the south region. This is not unprecedented and there have been quarters in the past where no deals occurred in this area, representative of the low levels of industrial building stock in this region.

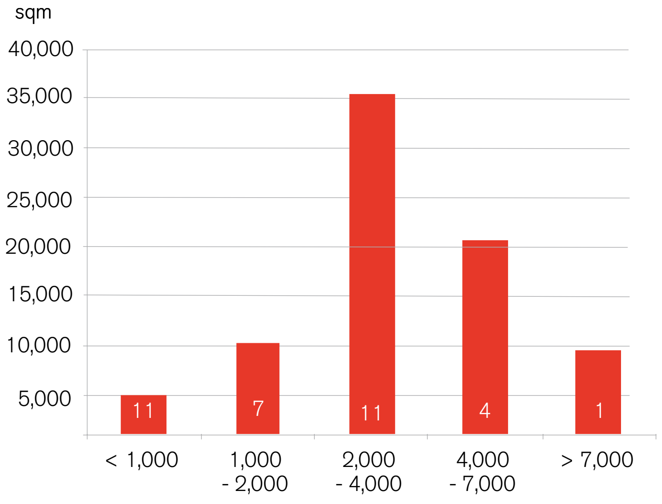
Focusing on the size of individual transactions, almost 85% of take-up (by size) was for buildings of less than 4,000 sqm and the vast majority of these were in the southwest region. However, in terms of the number of units, the total in this size category was 29.

The larger deals (between 4,000 and 7,000 sqm) accounted for 26% of space (just four deals, all of which were sales) and there was one transaction, a letting, in excess of 7,000 sqm.

Availability

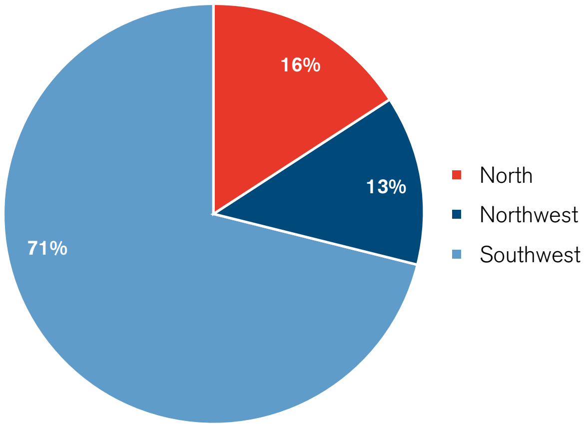
Despite the fact activity in the Dublin industrial market has been running at record highs for the past three years, supply has remained relatively steady and only began to reduce in Q2. Generally each quarter for that last while, the same amount of second-hand space has come to the market as has been taken up. We estimate that there is currently about 1.05m sqm of vacant industrial accommodation on the market available for either sale or letting. This represents an overall Dublin vacancy rate of over 16%.

TAKE-UP: SIZE & NUMBER OF TRANSACTIONS (Q2 2015)



Source: Lisney

TAKE-UP: REGION (Q2 2015)



Source: Lisney

Demand

In the lettings market, potential tenants still seek favourable deals and by and large, they can obtain good lease terms with incentives. Exceptions to this are for larger buildings where landlords are more rigid in their requirements. There is a shortage of such properties and demand is high. In recent months quoting rents have increased slightly and prime modern stock is now approximately €74 psm (€6.90 psf).

As mentioned, demand from owner-occupiers remains strong despite the ending of the CGT waiver. The supply of such stock in the small to medium size bracket (i.e. less than 4,000 sqm) is still relatively healthy and there are some very good opportunities on offer. For larger units, the number available for sale is much more limited. However, if a purchaser is willing to carry out works to an older large building, the options improve. Some investors have done this and are now benefiting from significant demand and rising rents.

Land

The demand for industrial zoned land has increased over the last 18 months with a number of deals concluding. During Q2, the lands adjacent to the M2 Cherryhound interchange (24.3ha / 60 acres, part zoned industrial and part agricultural) went to best bids. Adjacent lands, known as Airlink (30.3ha / 74.9 acres), also went to best bids. It is anticipated that the industrial zoned lands within these sales could achieve up to €500,000 per hectare (€200,000 per acre). Serviced smaller industrial sites throughout Dublin of about one hectare (or between two and three acres) are achieving up to €400,000 per hectare (€160,000 per acre) with values on the rise.

Tougher Business Park, Co Kildare – for sale guiding €14m.

Outside of Dublin, Millennium Park in Naas, Co Kildare (which comprises a mix of office and industrial lands) went to best bids in Q2 and the nearby Tougher Business Park (which comprises existing industrial buildings plus 77 acres of mixed industrial, forestry and unzoned lands) was on the market at the end of June, quoting €14m.

Outlook

- Demand from both tenants and owner-occupiers will remain robust over the second half of 2015 and year-end take-up is likely to exceed 300,000 sqm for two years in a row.
- Occupiers seeking up to 4,000 sqm will continue to achieve favourable deals while those requiring larger amounts of space will find it more difficult and may have to engage in competitive bidding.
- Prime rents for modern, well-located properties will continue to rise in the final six months of 2015 and into 2016. Capital values will also continue to rise and in the next 18 months will get back closer to the replacement / construction cost.
- Larger occupiers with more specific requirement may have to participate in design-and-build projects with developers. These tenants will have to pay higher 'economical' rents (i.e. the level that justifies development) as opposed to market rates, which could be a differential of between €20 and €30 psm (€1.85 to €2.80 psf).

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