Lisney

DUBLIN INDUSTRIAL REPORT

Q4 2020

INDUSTRIAL IN NUMBERS

TAKE-UP

144,000 SQM

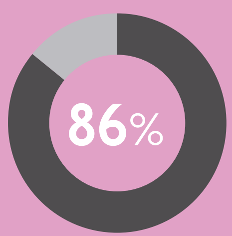
LARGEST QUARTER IN 2020

LARGEST DEAL

60,750 SQM

AMAZON IN **MOUNTPARK BUSINESS PARK,** BALDONNELL, D22

DEAL TYPE



LETTINGS DOMINATED **TAKE-UP**

CONSTRUCTION

82,000 SQM

UNDER CONSTRUCTION

144,000 SQM

TAKE-UP Q4

60,750 SQM

LARGEST DEAL Q4

THE HUB, CLONEE

INDUSTRIAL

OVERVIEW

Industrial property was one of the most resilient sectors of the commercial property market in 2020. While occupier demand was strong even prior to the pandemic, the further shift towards e-commerce over 2020 intensified logistics space requirements from retailers and 3PL, in addition to data centre requirements. This has occurred both in Ireland and globally and will continue in 2021.

331,000 sqm of industrial accommodation was transacted in the Dublin market in 2020 with 43% of this completed in the final quarter of the year. While 331,000 sqm of take-up was slightly below 2019's annual activity figures, it was well ahead of the long-term average (270,000 sqm). Also importantly, it was not fully representative of market demand given the lack of suitable available property. Supply shortages were always going to impact the market in 2020, the increased demand from COVID-19 just exacerbated it. In mid-2020, supply fell to a historic low (under 300,000 sqm) and while it did improve in the second half of the year, the quantity of accommodation available was still about one-third less than at the height of the last property market cycle in 2006 / 2007. The main constraints related to larger buildings (greater than 7,000 sqm) and in the short-term, it is unlikely that many larger lot second-hand premises will come back onto the market. Consequently, the market will rely on newly build stock.

ACTIVITY

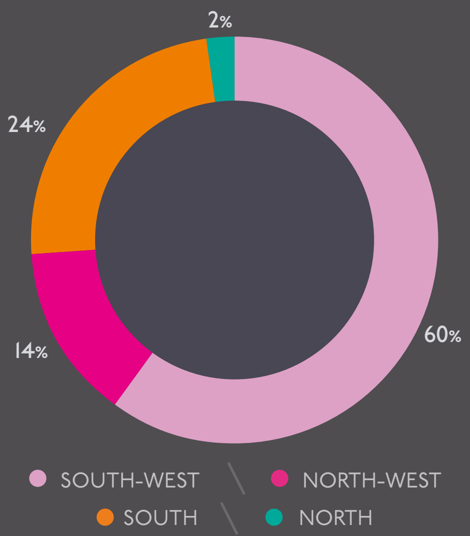
Market activity reached 144,000 sqm in Q4 2020 across 47 deals, the strongest quarter of 2020 in terms of take-up. The average lot size was a very large 3,060 sqm, however if Amazon's activity in Mountpark Business Park is excluded, the average deal size reduces to 1,800 sqm. While just 9% of space transacted related to deals of less than 1,000 sqm, 53% of all 47 deals were within this smaller size bracket. At the opposite end of the spectrum, 63% of space transacted was for buildings of over 7,000 sqm but there were just four of these (or 9% of the number of deals).

ACTIVITY (CONTINUED)

Continuing with the quarterly trend of recent years, lettings rather than sales dominated activity in Q4 with lettings accounting for 86% of all space transacted and 68% of the number of deals. Seven of the top ten largest deals were lettings. Traditionally, this split evolves in line with movements in capital values; when they are low, more occupiers are inclined to buy buildings for their own use, but when prices rise occupiers often judge that the money tied up in owning a building could be put to better use. Given that capital values have grown considerably in recent years, the market will be primarily made up of lettings in the medium-term.

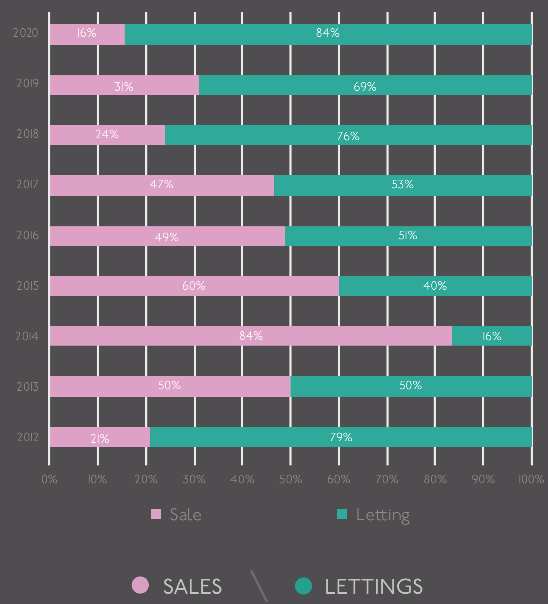
As is usual, the southwest region was the most active, at 60% of all activity in Q4. Included in this was the largest deal of the quarter, the letting of Unit E Mountpark Business Park to Amazon for its new Irish e-fulfilment centre, which accounted for 70% of take-up in this region. This one deal was larger in size than take-up in all other regions combined. The north region was the second busiest area and made up 24% of quarterly activity. Included here was the second biggest deal of the quarter, the letting of 13,100 sqm to Eason. In addition, 6,400 sqm was let at Santry Hall Industrial Estate to Debenhams to house its stock short-term.

TAKE-UP BY REGION
Q4 2020



Source: Lisney

SALES V LETTINGS
2012 - YTD 2020



Source: Lisney

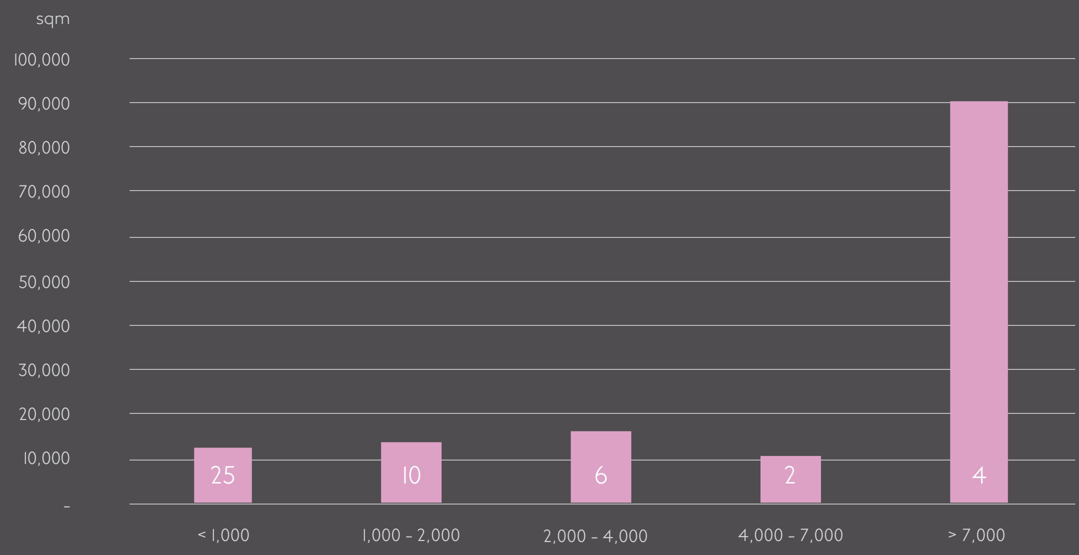
SUPPLY

Supply fell to a historic low in Q2 2020 but did improve slightly in Q3 and Q4. At the end of December the amount of stock available stood at approximately 350,000 sqm, which remains a very low level. Notably, it was close to one-third less than what was on the market at the height of the last property market cycle in 2006 / 2007.

The vacancy rate across Dublin was just over 5% at the end of December with the regions at varying levels. The southwest and northwest regions accounted for most of the available accommodation but are also the two largest regions for industrial stock.

While supply is constrained generally, the number of smaller units (less than 1,000 sqm) available was high, accounting for just over half of all units on the market. As has been the case for some time, choice was much more limited for larger-sized units with only three premises available that are more than 10,000 sqm in size. Additionally, the lack of supply of quality second-hand stock remains the key issue in the market. In recent months this has been highlighted further by the pandemic and the considerable demand for short-term space (12 to 24 months) as occupiers decide the best way forward for their business. Encouragingly, many design-and-build projects are moving ahead due to the continued demand for larger logistics space, which is positive for the market, although it will not add to supply levels generally. Practically all new industrial premises built since 2015 were let or sold prior to practical completion.

TAKE-UP BY SIZE PROFILE & NUMBER OF UNITS
Q4 2020



Source: Lisney

INDUSTRIAL

CONSTRUCTION

There was about 82,000 sqm of industrial accommodation under construction across Dublin at the end of December, half of which was in the southwest region. Of note, works continue on two large units in Greenogue Business Park (combined 42,200 sqm), which are being forward funded by KKR and Palm Capital, and developed in conjunction with Irish partner Jordanstown Properties. Both buildings will have 14m eaves with large yard areas and will have LEED certification.

In the north region, Rohan Holdings commenced construction on Crane House (4,800 sqm) and Cardinal House (6,400 sqm) in Q4. Crane House will provide 4,770 sqm of accommodation including 10% office space and will have 12m eaves, five dock levellers, two doors at grade and a 54m yard providing truck and trailer parking. Cardinal House will extend to 6,400 sqm (also including 10% office space) with 12m eaves, seven dock levellers, two doors at grade and a 50m secure yard. Both available Q4 2020. They also have received planning permission for Unit A6A/B in North City Business Park (4,180 sqm), which can be split in to two units and it planned to start construction in January 2021.

At The Hub Logistics Park, just off the M3 motorway at Clonee near Blanchardstown a 9,750 sqm premises is due to be finished in March 2021. It is capable of housing 22,000 Euro Pallets on a 2.22 ha (5.5 acre) site with a yard depth of 50m and 10 dock levellers.

In the northwest region, Park Developments is currently constructing five units (17,000 sqm combined) at Northwest Business Park, Ballycoolin, Dublin 15. Amazon is understood to be close on concluding with Park Developments for two of these units; Unit 628 (7,250 sqm) and Unit 633 (3,700 sqm). The online retailer is reportedly seeking its first warehouses to fulfil orders currently shipped from the UK.

In terms of future development, there was over 60,000 sqm of space with planning permission in the pipeline at the end of Q4 but had not yet commenced. In the southwest region, IPUT has confirmed that it will go on-site shortly in Aerodrome Business Park, where it will build a 14,150 sqm premises. To be known as Unit G, this premises will have LEED gold certification and is due to be completed in late 2021.

OUTLOOK

1 Occupier demand will remain strong in 2021, however the lack of suitable supply is likely to constrain activity levels.

2 Construction of new industrial accommodation will be to the fore of the market in 2021. Since 2016, much of the new accommodation has been delivered by way of design-and-build, both on a rental and sales basis. Some speculative development has occurred and in the majority of cases these units have been taken by an occupier before the premises has been completed. In 2021, we believe there will be much greater levels of speculative building, especially for larger premises. Top headline rents have now reached €110 psm and combined with developer confidence of end-user demand, speculative schemes will commence, taking account of occupier requirements for 10m to 12m eaves and 40m yards.

3 Domestic and international investor demand in the industrial sector is very strong, however in recent years very few institutional-grade industrial investment opportunities have been on offer. Given that most newly constructed stock will be larger in size and occupied on a rental basis for at least 10 years, construction activity is not only welcome news for occupiers, but also for investors. There will be no shortage of prospective buyers as evidenced by some of the recent European-wide portfolios sold at attractive, yet hardening, yields. In order to capitalise on improving prices, some owner-occupiers may consider sale-and-leaseback deals. This could be a very attractive proposition for those that bought buildings between the 7th December 2011 and the 31st December 2014 and held for between four and seven years. They can avail of capital gains tax relief and given that building values have generally grown by between 40% and 80% since then, significant savings can be made. As the CGT saving continually diminish the longer the property is held past seven years, those looking to benefit are advised to consider a sale sooner rather than later.

IN FOCUS

IN FOCUS: BREXIT

A Brexit agreement was reached towards the end of the quarter and is now fully upon us. It will continue to be a feature of the industrial market in 2021 as companies get used to the new paperwork and system. For both Irish and UK companies who import/export to and from the UK and Ireland, it will be prudent of them to hold extra stock. This will result in additional space requirements to ensure supply chains are not disrupted, including bonded warehouses. Amazon is an example; it took over 60,000 sqm in Dublin in 2020. Some well-known products may become scarce and are likely to be replaced by similar items sourced from EU countries.

For Irish and European companies exporting and importing, delays in using the UK as a land-bridge between Ireland and continental Europe (due to increased regulation and checks at UK ports) may result in demand for industrial space closer to Irish Ports, in particular Rosslare. Increased sailings are already in place to Rotterdam and Dunkirk with a trebling of the sailings from Rosslare to Europe. The M1 Dublin – Belfast corridor may also finally see increased demand for space and begin to fulfil its potential.

MEET OUR TEAM

THE LISNEY INDUSTRIAL TEAM

CATHAL DAUGHTON
Senior Director

JAMES KEARNEY
Chartered Surveyor

STEPHEN MCDONOGH
Surveyor

THE LISNEY RESEARCH TEAM

AOIFE BRENNAN
Senior Director

OUR OFFICES

DUBLIN
St. Stephen's Green House,
Earlsfort Terrace,
Dublin 2, D02 PH42
T +353 (0) 1 638 2700
E dublin@lisney.com

CORK
1 South Mall,
Cork, T12 CCN3
T +353 (0) 21 427 5079
E cork@lisney.com

BELFAST
Montgomery House,
29-33 Montgomery Street,
Belfast, BT1 4NX
T +44 2890 501501
E belfast@lisney.com

DUBLIN INDUSTRIAL REPORT
Q4 2020

Lisney