DUBLIN INDUSTRIAL REPORT

Q1 2021

INDUSTRIAL IN NUMBERS

TAKE-UP

42,250
SQM

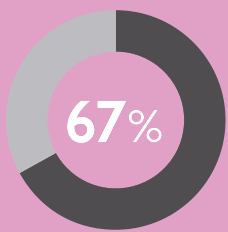
LOWER THAN RECENT QUARTERS BUT WILL INCREASE IN Q2 AND Q3

LARGEST DEAL

7,940
SQM

UNIT C BALDONNELL BUSINESS PARK, DUBLIN 22 LEASED TO HOMESTORE + MORE

DEAL TYPE

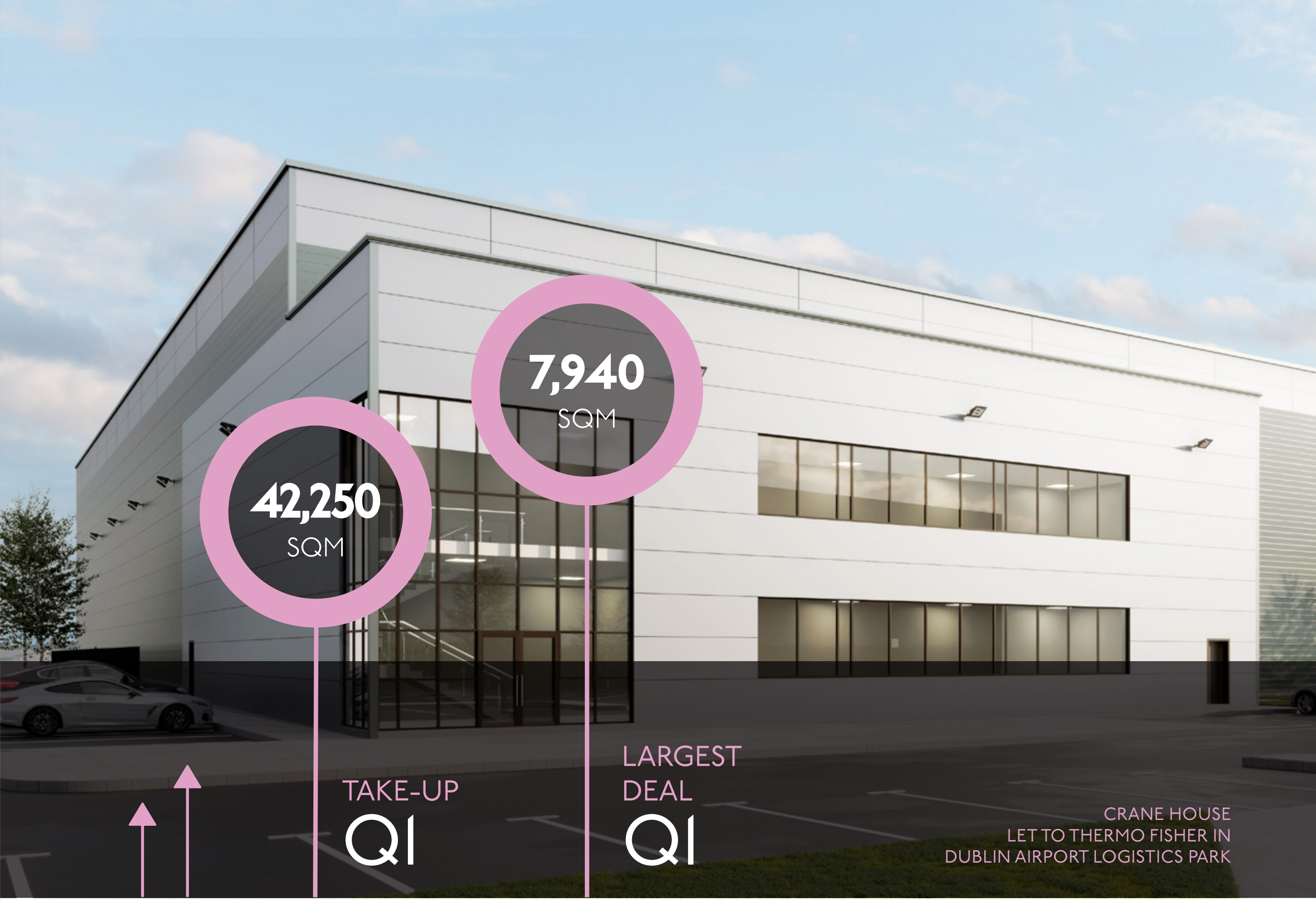


LETTINGS DOMINATED BOTH IN TERMS OF SIZE AND NUMBER OF DEALS

CONSTRUCTION

82,000
SQM

SPACE UNDER CONSTRUCTION AT THE END OF MARCH



INDUSTRIAL

OVERVIEW

Dublin industrial market take-up reached 42,250 sqm in Q1. While this is less than the quarterly average, and the lowest since Q1 2014, it is a respectable level of activity in the midst of a pandemic, highlighting the sector's resilience. Occupier demand remained robust and was driven in the opening months of the year by the accelerated growth of e-commerce and Brexit-related requirements where businesses were seeking to protect themselves from supply chain issues. Supply fell slightly in the quarter, and with Ireland in a level 5 lockdown and building sites closed, there were further delays in the completion of new buildings.

ACTIVITY

In the context of the continuing global pandemic and with Ireland in an effective lockdown in Q1, Dublin industrial take-up was good at 42,250 sqm. This was a significant 71% drop when compared to Q4 2020, however it should be viewed in the context Amazon's 60,750 sqm agreement to lease space in Baldonnell Business Park distorting Q4 figures.

There were 30 transactions in Q1 with an average lot size of 1,400 sqm. Continuing with the quarterly trend of recent years, lettings rather than sales dominated activity in Q1, accounting for 68% of all space transacted (and 60% of the number of deals). The top four largest transactions were lettings and comprised half of all activity. Traditionally, the split between lettings and sales evolve 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.

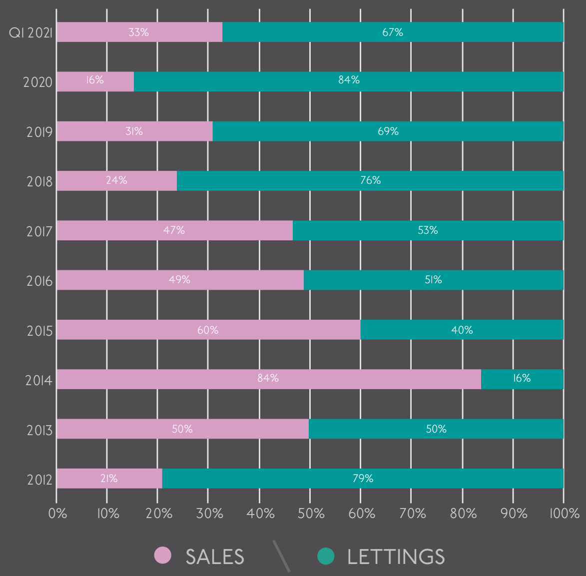
INDUSTRIAL

ACTIVITY (CONTINUED)

The southwest was the busiest region, accounting for seven of the top ten deals and 69% of all space transacted. The largest deal of the quarter was in this region and comprised the 7,940 sqm letting of Unit C Mountpark, Baldonnell which was leased to Homestore & More. There were also large deals in JFK Park (4,300 sqm) and Fonthill Business Park (4,130 sqm), both of which were lettings. The sale of Unit J Aerodrome Business Park in Rathcoole (1,800 sqm) is noteworthy. Following a competitive bidding process the property was purchased by an owner-occupier for a price in excess of €1,500 psm (€140 psf). This illustrates that if owner-occupier have the capital reserves, they can still pay a higher price than investors if a particular building is suitable for their specific business needs. These transactions re-affirms the southwest region, and more specifically the N7/M7 corridor, as a highly desirable location for logistic operators seeking to serve the south of the country (i.e. link to city regions of Cork, Limerick and Waterford).

The north region made up 16% of activity in Q1, however this was across just five deals. The largest was the letting of Crane House in Dublin AirPort Logistics Park (4,770 sqm) to US pharmaceutical company Thermo Fisher. In the northwest (12% of the market), there was a notable 3,510 sqm sale in North Park to an owner-occupier, and in the south, there was just one deal of note in Deansgrange Business Park (1,235 sqm), a short-term letting.

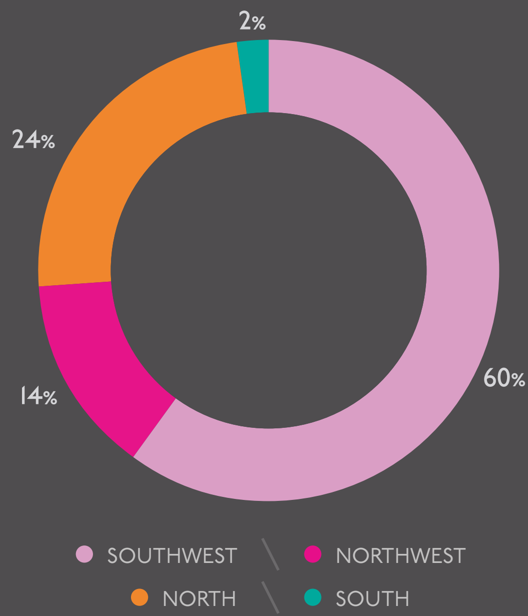
TAKE-UP BY DEAL TYPE
Q1 2021



Source: Lisney

TAKE-UP BY DEAL TYPE
Q1 2021

Source: Lisney



SUPPLY

Supply has continued to decrease over recent times. At the end of March, the amount of stock available stood at approximately 349,000 sqm, which remains a very low level. Notably, it was 30% less than what was on the market at the height of the last property market cycle in 2007.

The vacancy rate across Dublin at the end of Q1 was approximately 4.8%. 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 to let is healthier, 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 four 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. Some of the second-hand stock that has become available has been leased prior to the properties being openly marketed with rents for good quality second-hand buildings reaching €105 psm.

Encouragingly, many design-and-build projects are moving ahead due to the continued demand for larger logistics space, which is positive for the market. Generally however, these will not add to supply as most are expansion space and very few, if any, will place existing accommodation back on the market.

CONSTRUCTION

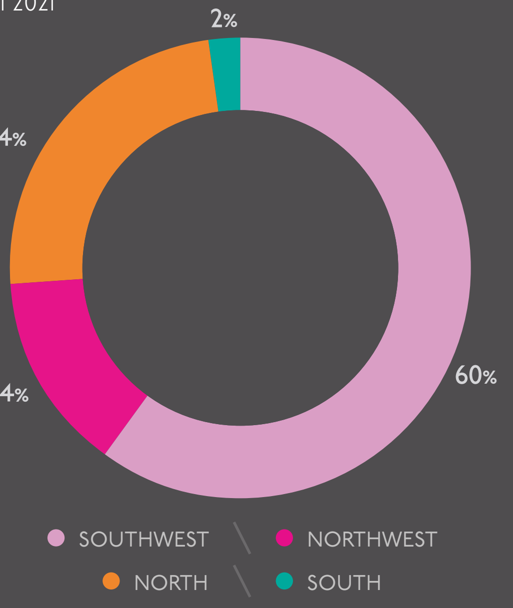
With the closure of building sites since the end of 2020, no new industrial buildings were completed in Q1 with completion dates pushed out on all pipeline stock. Consequently, about 82,000 sqm of industrial accommodation remained under construction across Dublin at the end of March. Half of this was in the southwest region with the remainder in the north (28%) and northwest (21%) regions.

Of note, building works are continuing 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. Also in the southwest region, IPUT is on-site in Aerodrome Business Park, where it will build Unit G, a 14,150 sqm premises with LEED gold certification.

In the northwest region, Park Developments is constructing five units (17,000 sqm combined) at Northwest Business Park, Ballycoolin, Dublin 15. In the north region, Rohan Holdings speculatively commenced construction on 11,200 sqm of prime logistics space in Dublin AirPort Logistics Park across two buildings in the second half of 2020 one of which is now let to Thermo Fisher. Crane House provides 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.

ACCOMMODATION UNDER CONSTRUCTION BY REGION
Q1 2021

Source: Lisney



In terms of future development, there was almost 63,000 sqm of space with planning permission in the pipeline at the end of Q1 but had not yet commenced. Positively, there have been some announcements in recent months from developers, confirming they will be going on site to speculatively build as soon as sites reopen. Included in this are Rohan Holdings' Units A6A/B in North City Business Park (4,180 sqm). Rohan Holdings will also be developing their 18 acre scheme known as Southwest Business Park adjacent the Cheeverstown LUAS stop near Citywest Business Campus.

INDUSTRIAL

OUTLOOK

OUTLOOK

1. Occupier demand will remain solid throughout the remainder of 2021. However the lack of suitable supply is likely to constrain activity levels, particularly given the delays in construction in Q1.
2. Various large retailers will seek further warehouse space as consumers continue to turn to purchasing goods online.
3. A number of larger deals (5,000 sqm upwards) are likely to be included in activity levels in Q2 and Q3 as several buildings are completed at the Hub Logistics Park, North West Business Park, Dublin Airport Logistics Park and Greenogue Logistics Park.
4. There were some industrial land sales in recent months and these will continue as some owner-occupiers seek to build their own buildings. Industrial site values will grow as a result.
5. Quoting rents on new builds will increase towards €118 psm as developers seek to offset rising construction costs.
6. Availability and the overall vacancy rate will continue to decrease in the short-term.
7. Practically all new industrial premises built since 2015 were let or sold prior to practical completion, a trend we would anticipate will continue throughout 2021 / 2022.
8. 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.

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