

Lisney

COMMERCIAL REAL ESTATE

INDUSTRIAL REPORT

Q1 2023



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Despite the ongoing macroeconomic adjustments globally, the Dublin industrial market performed very well in Q1 2023. Strong occupier demand continued, much of which stemmed from 3PL, large retailers and the pharma sector. Although on-site construction activity slightly decreased in the quarter, the pipeline of schemes with planning permission but not yet under construction substantially increased.

▲ 90,200 sqm
Activity

▲ 34
Q1 Deals

▲ 26,700 sqm
Largest Deal in
Greenogue
Logistics Park

▶ 77%
Lettings

▲ 2,650 sqm
Average Lot Size

▼ 1.7%
Vacancy Rate

▲ 72%
Busiest Region
Southwest

▲ €135 psm
€12.50 psf
Prime Headline
Rent

▲ 190,100 sqm
Under
Construction

Activity

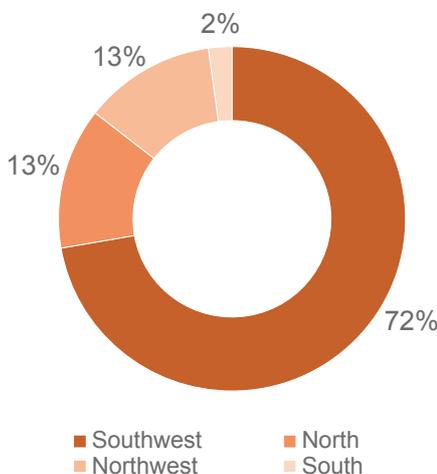
Activity in Q1 2023 reached 90,200 sqm across 34 transactions. This was a significant increase from the previous quarter's take-up of 51,000 sqm and the long-term quarterly average of 65,000 sqm. The average lot size in Q1 was 2,700 sqm, higher than normal although somewhat skewed by the two largest deals that if excluded reduced the average to 1,650 sqm. Lettings continued to dominate the market accounting for 77% of all space transacted and 76% of the number of deals.

The top ten deals combined made up 85% of the total activity, averaging 7,620 sqm; eight of these were lettings. The largest transaction was the substantial letting of 26,700 sqm at Building Two in Greenogue Logistics Park, Dublin 24 to Ikea and its distribution contractor, Wincanton. Likely to have been informed by supply chain problems during COVID, Ikea will use the facility as its first customer distribution centre in Ireland. It is due to open in early 2024, creating 120 jobs and reducing Irish delivery times by more than half. The building is designed to be energy efficient and sustainable with a rainwater harvesting system and solar panels on the roof. Ingka Investments, the venture capital and private equity arm of Ingka Group (the parent company of IKEA) acquired the building in Q1 2023 as part of a larger transaction comprising two of the park's three warehouses. The second largest deal in Q1 was the sale of Unit 637 Northwest Logistics Park in Ballycoolin, Dublin 15 (11,100 sqm) to a German owner-occupier, Rhenus Logistics.



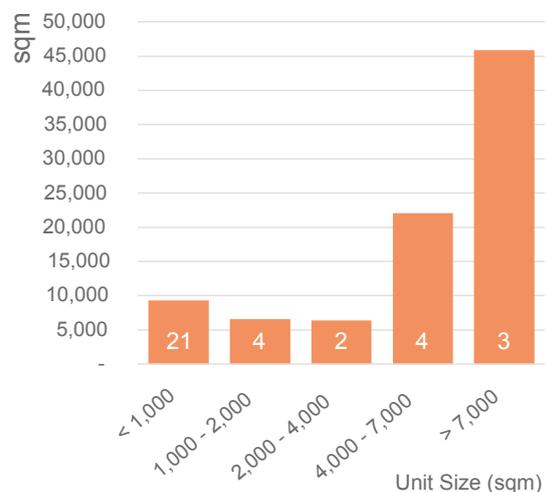
Greenogue Logistics Park, Rathcoole, Co. Dublin

Take-Up by Region (Q1 2023)



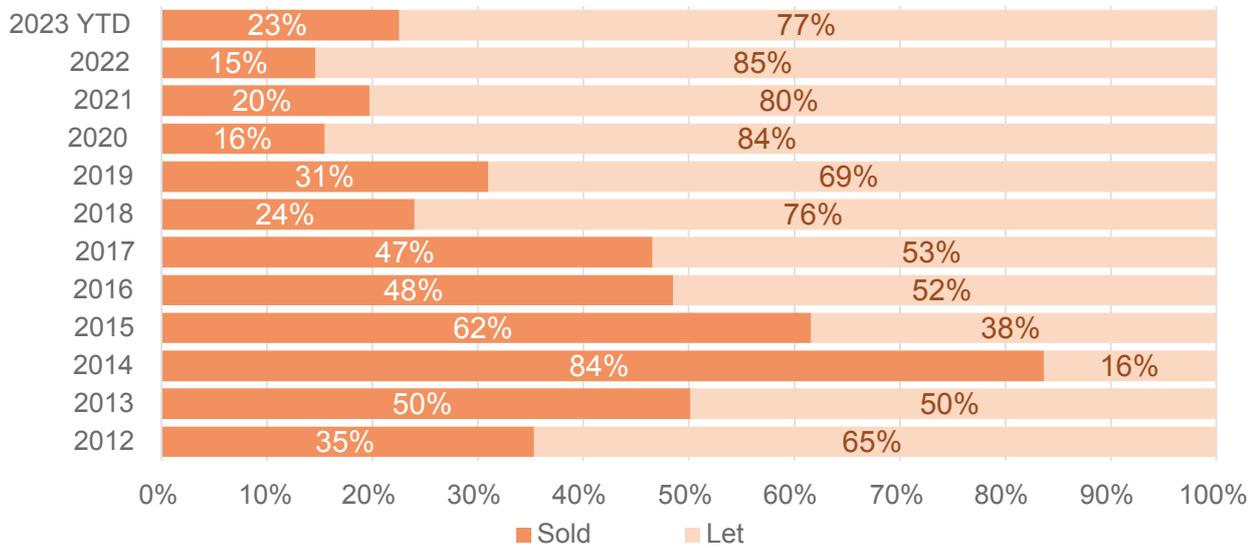
Source: Lisney

Take-Up by Deal Size (Q1 2023)



Source: Lisney

Annual Take-Up by Deal Type (2012 – 2023 YTD)



Source: Lisney

The southwest was the busiest region in Q1, accounting for 72% of total take-up. This was followed by the north and northwest regions at 13% each, and the south region at 2%. Seven out of the top ten deals were in the southwest region and combined accounted for 63% of the overall activity and 87% of the region's activity.

In terms of lot size, the largest number of transactions (21) related to units of less than 1,000 sqm, of which 14 were

smaller than 500 sqm. Indigenous businesses were most active in this part of the market, predominately leasing rather than buying space. The mid-size market was considerably less active with four deals in the 1,000 to 2,000 sqm bracket and only two deals completed in the 2,000 to 4,000 sqm bracket. Seven deals were concluded in excess of 4,000 sqm each.

Top 10 Transactions

PREMISES	SQM	REGION	DEAL TYPE
Building Two, Greenogue Logistics Park, Dublin 24	26,700	Southwest	Letting
Unit 637 Northwest Logistics Park, Ballycoolin, Dublin 15	11,100	Northwest	Sale
Unit 1 Brownsbarn, Naas Road, Dublin 22	8,200	Southwest	Letting
Unit F Mountpark Baldonnell Business Park, Dublin 22	6,750	Southwest	Letting
Unit 2, Brownsbarn, Naas Road, Dublin 22	5,900	Southwest	Letting
Unit 3, South West Business Park, Cheeverstown, Dublin 24	4,800	Southwest	Letting
Ascot House, Kinsealy, Malahide, Co. Dublin	4,600	North	Sale
N3 Horizon Logistics Park, Co. Dublin	3,650	North	Letting
Merrywell Business Park, Ballymount Little, Dublin 12	2,750	Southwest	Letting
Unit 2B, South West Business Park, Cheeverstown, Dublin 24	1,900	Southwest	Letting

Source: Lisney



90%

Since the highs reached a decade ago, supply has plummeted by 90%, and since the start of the pandemic, it has fallen by 63%.



Supply

At the end of Q1 2023 supply continued to fall, reaching a new low of 135,800 sqm. This represents a vacancy rate of approximately 1.7%. Since the highs reached a decade ago, supply has plummeted by 90%, and since the start of the pandemic, it has fallen by 63%. While there were variations across regions, all areas had a vacancy rate below 4%, with the south and southwest regions being the lowest, each at sub 1%.

As has been the case for the last few years, the smaller units (less than 1,000 sqm) made up the bulk of the available space, accounting for approximately 76% of all units available to let on the market. Options remain much more limited for larger-sized units with only three premises available that are more than 10,000 sqm in size, making up 32% of all supply.

DEMAND

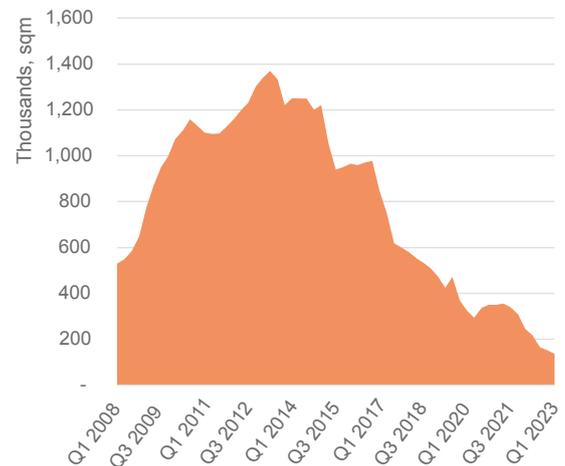
Although there has been a slight decline in new requirements, numerous high-profile occupiers are still actively seeking or negotiating deals. At the end of March 2023, the total combined requirements in Dublin exceeded 460,000 sqm. This is equivalent to between 15 and 18 months of take-up and includes An Post's requirement for its new 46,500 sqm facility.

TERMS

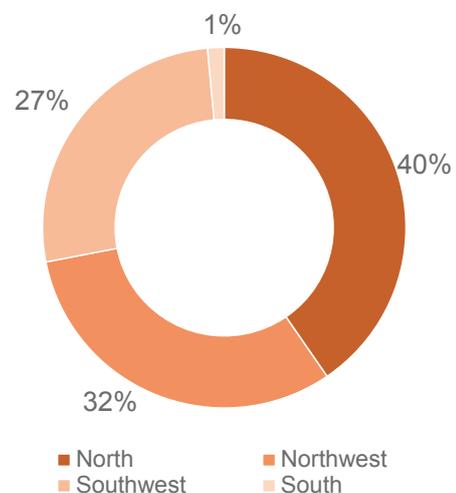
It remained a landlord market in Q1 with rents continuing to rise. As a result, some occupier sectors may be reaching the limit in terms of what they can afford. For large new build units, most landlords are currently securing 20-year leases with break options at years 10 or 12, rent-free periods of 3 or 4 months and headline rents at €124 - €135 psm (€11.50 - €12.50 psf).

Lisney's index of industrial property rents in Dublin grew by 7.2% in the 12 months to the end of March 2023 and by 35.9% in the last five years. Although this rate of growth is significantly higher than in any other commercial sector, it is still playing catch-up on the growth achieved earlier in the market cycle in sectors such as offices.

Dublin Industrial Supply (Q1 2008 – Q1 2023)



Industrial Supply by Region (March 2023)



Source: Lisney



One Dockland Central,
Dublin 1

New Stock

At the end of March 2023, there was approximately 190,100 sqm of accommodation under construction, a decrease of 15,300 sqm (7.5%) compared to three months previous. 38% of this was in the north region, 32% in the northwest region and the remaining 30% in the southwest region.

The average building size was 8,640 sqm with eaves height across all buildings ranging between 12m and 14m. 48% of accommodation is already earmarked for occupation; either as design-and-builds or taken mid-construction. Developers are increasingly focusing on design-and-build projects instead of speculative buildings due to elevated costs and softening yields. Many are seeking an agreement for lease to be signed before committing to any construction.

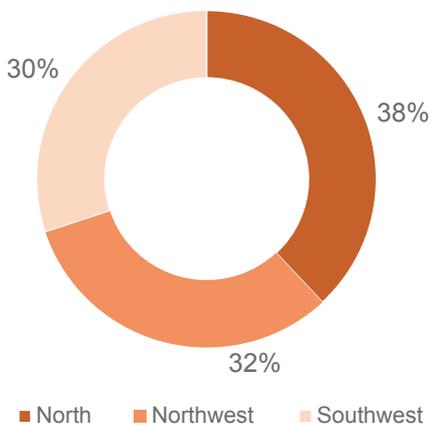
There were four units completed in Q1 2023 totalling 4,900 sqm. Three of these were in South West Business Park (8,500 sqm in total) and one in Northwest Logistics Park (11,100 sqm) which was developed by Park Developments and sold to Irish Life. Construction continued on the other two units in Northwest Logistics Park – Unit 736 (6,200 sqm) and Unit 735 (5,100 sqm), both of which are available to let.

The largest building under construction at the end of Q1 was Block R, Aerodrome Business Park, Rathcoole, Co. Dublin

(22,300 sqm), which is being developed by Exeter and is also available to let. At the end of March, construction works continued on the four buildings in Quantum Logistics Park (adjacent to Dublin Airport). All of these buildings are spoken for and on completion will comprise a combined 51,400 sqm. Erigo continued development of Phase II in Vantage Business Park (close to the M2/M50 junction), where five buildings with a combined floor area of 39,000 sqm will be built. All five buildings are available to let.

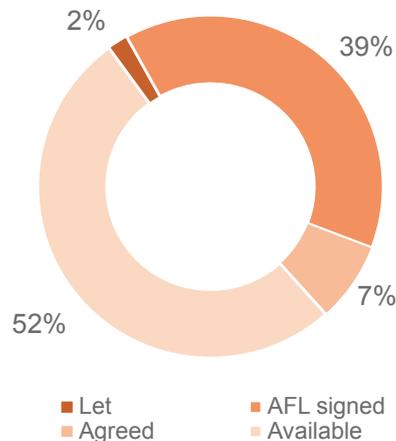
In terms of the future pipeline, approximately 220,000 sqm of industrial space had planning permission granted but had not yet started construction at the end of March. 42% of this is in the north region with the remainder spread across the northwest (31%) and southwest (27%) regions. Planning permission was granted in March for IPUT to develop five units at Nexus Logistics Park (at Cherryhound) with a combined area of 74,000 sqm.

Accommodation Under Construction by Region (Q1 2023)



Source: Lisney

Accommodation Under Construction by Status (Q1 2023)



Source: Lisney

The pace of rental growth will be slower in the months ahead. However, landlords will remain bullish on lease terms with any new buildings achieving 25-year leases with break options at year 12 or 15.



Outlook

Occupier demand will continue to be strong throughout the remainder of the year. Many of the larger requirements will need to be accommodated by design-and-build agreements, some of which may be across two buildings to offset future reletting risk. Despite the overall market shortages, the commencement of speculative new buildings will be slower because of higher construction costs, yielding softening in the investment sector, and the cost of finance. It will be important for developers to have planning grants in place and be ready to move on-site quickly when required. Occupiers with smaller requirements may need to settle for accommodation that is not a perfect fit either in terms of specification or location, or both.

The pace of rental growth will be slower in the months ahead. However, landlords will remain bullish on lease terms with any new buildings achieving 25-year leases with break options at year 12 or 15. Given the rise in interest rates, owner-occupiers seeking to buy vacant premises will be more limited, but capital values will still push forward due to a lack of availability.

Construction of smaller / trade counter type units will recommence later in the year as no such stock has been developed in over 15 years. Rental levels for such units will also continue to increase at perhaps a more accelerated growth to justify any construction.

ESG considerations will continue to intensify in the logistics property sector, especially among larger landlords and occupiers. Given the large carbon footprint of the operations of logistics companies, many will be seeking to reduce the embodied carbon in their warehouses. Ireland's Climate Action Plan 2023 will have an impact on both the operations within logistics buildings but also on buildings themselves.

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