

Lisney

COMMERCIAL REAL ESTATE

INDUSTRIAL REPORT

Q2 2023



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Despite the ongoing macro-economic adjustments both at home and abroad, the Dublin industrial market performed well in Q2 2023. While there was a slight decline in large occupier requirements in the first half of the year, overall demand remained robust. Although on-site construction activity decreased in the quarter, the pipeline of schemes with planning permission but not yet under construction continued to increase.

▼ 61,600 sqm

Activity

▼ 28

Deals

▶ 10,500 sqm

Letting of Unit P2 in Horizon Logistics Park

Largest Deal

▲ 95%

Lettings

▼ 2,200 sqm

Average Lot Size

▶ 1.7%

Vacancy Rate

▶ 65%

Southwest

Busiest Region

▶ €137 psm

(€12.75 psf)

Prime Headline Rent

▼ 107,000 sqm

Under Construction

Arrows represent quarterly trends unless otherwise stated.

Activity

Activity in Q2 2023 reached 61,600 sqm across 28 deals bringing the total take-up for the first six months of the year to 151,800 sqm. This was 32% lower than the previous quarter's take-up of 90,200 sqm and slightly below the long-term quarterly average of 65,000 sqm. The average lot size in Q2 was 2,200 sqm although somewhat skewed by the three largest deals that if excluded reduced the average to 1,300 sqm. Lettings continued to dominate the market accounting for 95% of all space transacted in Q2 and 84% in the first six months of the year.

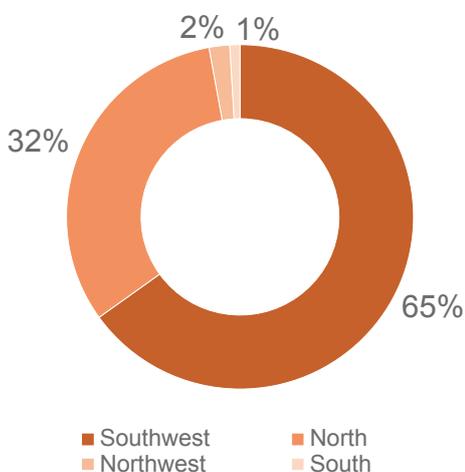
As usually is the case, the southwest was the busiest region in Q2, accounting for 65% of total take-up. This was followed by the north region at 32%, with the remaining 3% across the northwest and south regions. Seven out of the top ten deals were in the southwest region and combined accounted for 85% of the overall activity and 84% of the region's activity. The remaining three deals in the top ten were in the north region accounting for 15% of the total take-up and 94% of the region's activity.

In terms of lot size, the top three deals were each in excess of 9,000 sqm accounting for 46% of the total take-up. The largest number of transactions (17) related to units of less than 1,000 sqm, of which 9 were smaller than 500 sqm. The mid-size market was considerably less active with three deals in the 1,000 to 2,000 sqm bracket and only two deals completed in the 2,000 to 4,000 sqm bracket. Three deals were concluded in excess of 4,000 sqm each.



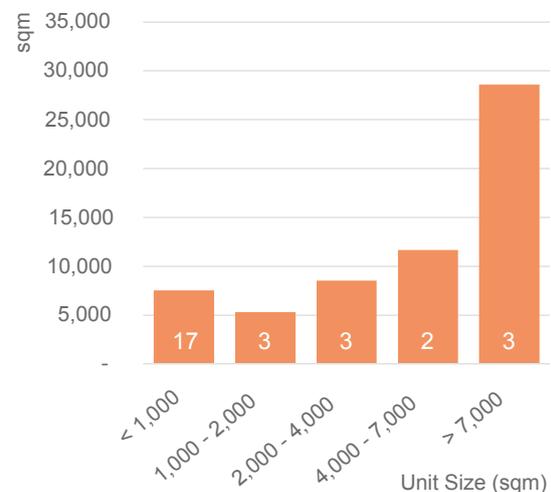
ABOVE: Unit 1 South West Business Park, Cheeverstown, Citywest, Dublin 24

Take-Up by Region (Q2 2023)



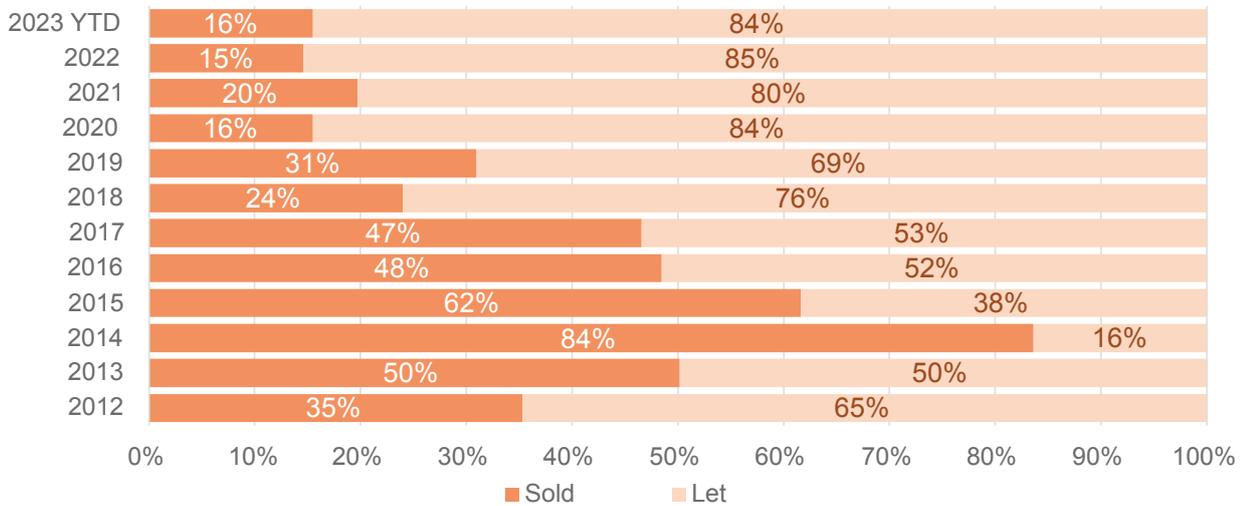
Source: Lisney

Take-Up by Deal Size (Q2 2023)



Source: Lisney

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



Source: Lisney

The top ten deals combined made up 85% of the total activity, averaging 5,300 sqm and nine of these were lettings. The largest transaction was the letting and comprised the design-and-build of Unit P2 in Horizon Logistics Park, Co Dublin (10,500 sqm) to WestRock, a packaging solutions company. Rexel Group, a French PLC that specialises in the distribution of electrical goods, leased 9,000 sqm at the

newly completed Unit G in Baldonnell Business Park, Dublin 22. The building will serve as its national distribution centre. In addition, a further 9,100 sqm was let at the former Cuisine De France Building in Tallaght on a 15-year term (with a break option in year ten).

Top 10 Transactions

| PREMISES | SQM | REGION | DEAL TYPE |
|--|--------|-----------|-----------|
| Unit P2 Horizon Logistics Park, Co Dublin | 10,510 | North | Letting |
| Former Cuisine De France Building, Belgard Road, Tallaght, Dublin 24 | 9,070 | Southwest | Letting |
| Unit G Mountpark, Baldonnell Business Park, Dublin 22 | 9,000 | Southwest | Letting |
| Unit 5 Dublin Airport Logistics Park, Co. Dublin | 6,070 | North | Letting |
| Block D Greenogue Logistics Park, Rathcoole, Dublin 24 | 5,600 | Southwest | Letting |
| Unit SB1 Park West Industrial Park, Dublin 12 | 3,730 | Southwest | Letting |
| Unit 28 Cookstown Industrial Estate, Tallaght, Dublin 24 | 2,600 | Southwest | Letting |
| Bluebell Industrial Estate, Dublin 12 | 2,230 | Southwest | Sale |
| A5B North City Business Park, Dublin 11 | 1,900 | North | Letting |
| Unit 32 Lavery Avenue Park West, Dublin 12 | 1,800 | Southwest | Letting |

Source: Lisney

Supply

At the end of Q2 2023, supply increased slightly to 140,000 sqm (3% up on the previous quarter) remaining unsustainably low. 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 57%. While there were variations across regions, all areas had a vacancy rate below 3.25%, with the southwest region being the lowest at sub 1%.

As has been the case for the last few years, smaller units (less than 1,000 sqm) made up the bulk of the available space, accounting for approximately 73% of all units available to let on the market. Options remain much more limited for larger-sized units with only two premises available that are more than 10,000 sqm in size, making up 16% of all supply in Dublin.

DEMAND

The first six months of 2023, saw a slight decrease in tenant demand, particularly for larger requirements where the building exceeds 10,000 sqm, when compared to the previous three years. It is difficult to tell whether this is a long-term trend or simply a seasonal summer effect. However, given the considerable number of significant deals of larger premises that have been completed in recent years, it may be the case that many of the larger requirements have been satisfied in the short to medium term. The next six to nine months should provide more clarity.

Despite the slight decline in new requirements, the market continues to attract high-profile occupiers actively seeking or negotiating deals. Notably JYSK, the Danish retail chain is looking for close to 50,000 sqm in Ireland to service both their 21 Irish stores and 30 UK stores.

TERMS

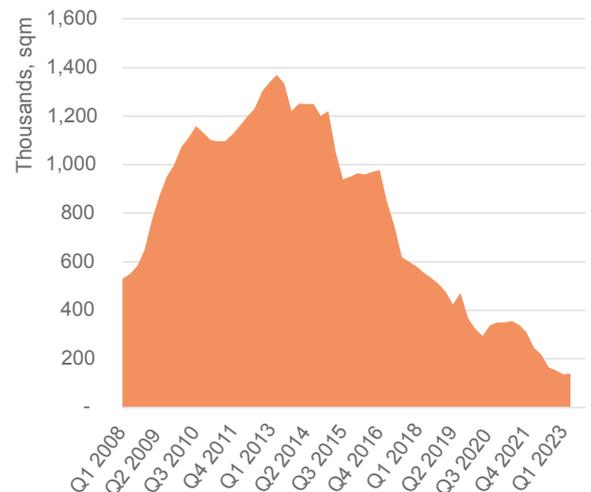
Rents continue an upward trajectory driven by historically low levels of supply and high construction costs. As a result, some occupier sectors may be reaching the limit in terms of what they can afford. For large new build units, most landlords are currently securing 15-20 year leases with break options at years 10 or 12, rent-free periods of 3 or 4 months and headline rents at €124 - €137 psm (€11.50 - €12.75 psf). Quoting rents for good quality sub 2,000 sqm units on M50 now reach €15 psf (€161.50 psm).

Lisney's index of industrial property rents in Dublin grew by 9.3% in the 12 months to the end of June 2023 and by 38.5% 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.

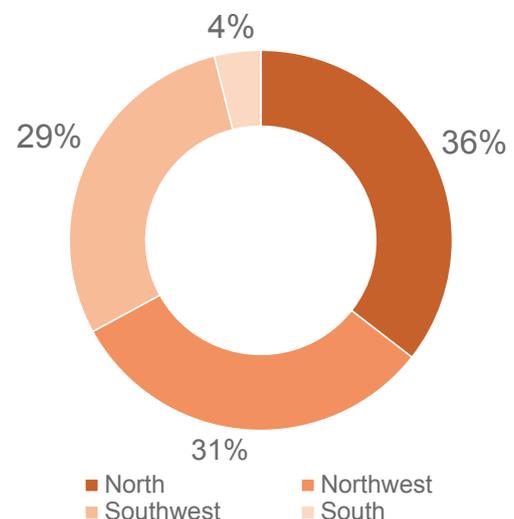
“
90%
”

Since the highs reached a decade ago, supply has plummeted by 90%, and since the start of the pandemic, it has fallen by 57%.

Dublin Industrial Supply (Q1 2008 – Q2 2023)



Industrial Supply by Region (June 2023)



Source: Lisney

New Stock

At the end of June 2023, there was approximately 107,000 sqm of accommodation under construction, a decrease of 83,000 sqm (43%) compared to three months previous; 50% in the northwest region, 34% in the southwest region and the remaining 16% of this was in the north region. The average building size was 8,900 sqm with eaves height across all buildings at 12m.

The portion of accommodation earmarked (either as design-and-build or taken mid-construction) for occupation decreased in Q2 2023 and accounted for 22% of the total under construction. This portion was closer to 40%-50% in the previous years. 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 (AFL) to be signed before committing to any construction.

There was a total of 85,000 sqm of accommodation completed in Q2 2023. The four buildings in Quantum Logistics Park (adjacent to Dublin Airport) were finished, and all of these buildings already have agreed deals with occupiers. The other properties include two in Mountpark, Baldonnell (15,500 sqm in total), one in North City Business Park (1,900 sqm), and one in South West Business Park (5,600 sqm). P2 in Horizon Logistics Park was also completed (10,500 sqm) which was developed by Henderson Park.

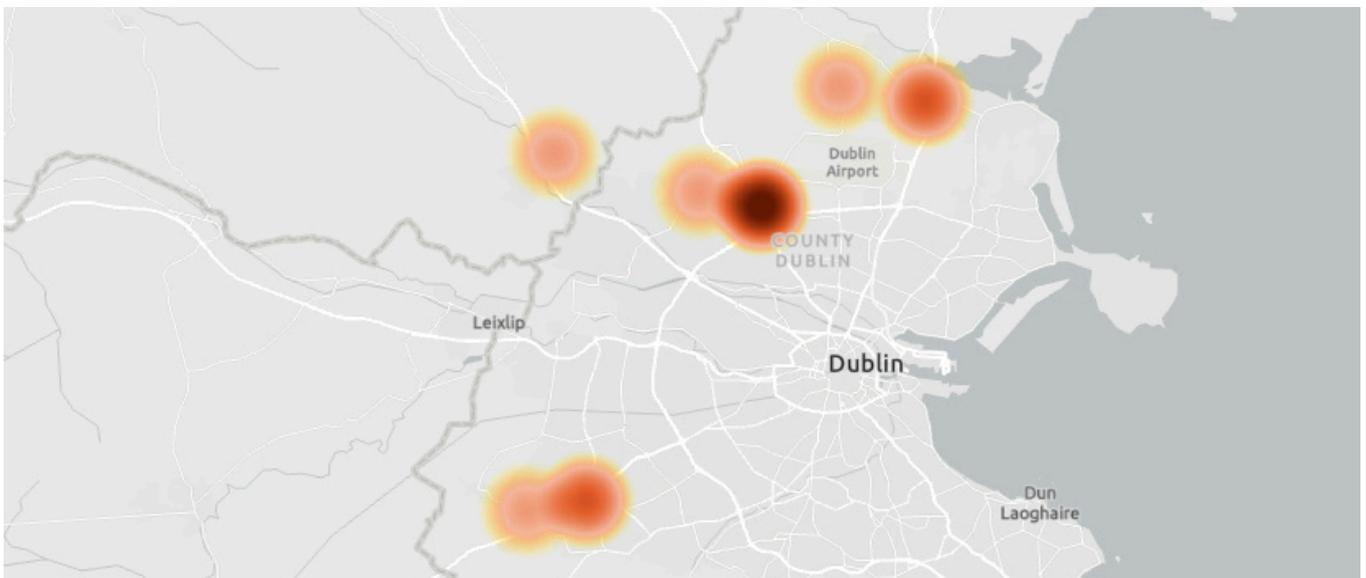
Construction continued on the three units in Horizon Logistics Park, totalling a combined 16,700 sqm; only one of these is still available. At the end of June, the largest building under construction was Block R, Aerodrome Business Park, Rathcoole, Co Dublin (22,300 sqm), which is being developed

by Exeter and is available to let. Construction works continued on Erigo's development of Phase II of Vantage Business Park (close to the M2/M50 junction), where four buildings with a combined floor area of 35,000 sqm will be built, expected completion at the end of 2024. All buildings in the park are available to let. Construction also continued on Unit 736 (6,200 sqm) in Northwest Logistics Park which is available to let.

Looking ahead to the future pipeline, approximately 260,000 sqm of industrial space had planning permission granted but had not yet started construction at the end of June. 53% of this is in the north region with the remainder spread across the northwest (20%) and southwest (27%) regions.

In terms of existing older stock, landlords are actively seizing opportunities to improve the energy efficiency ratings of their buildings, particularly when they become vacant. The improvements typically include the installation of LED lighting systems, electric car charging stations and the integration of air source heat pumps. This not only contributes to reducing the environmental impact but also aligns with the growing demand for more sustainable resource-efficient industrial spaces and complies with various legal regulations as well as the EU Taxonomy.

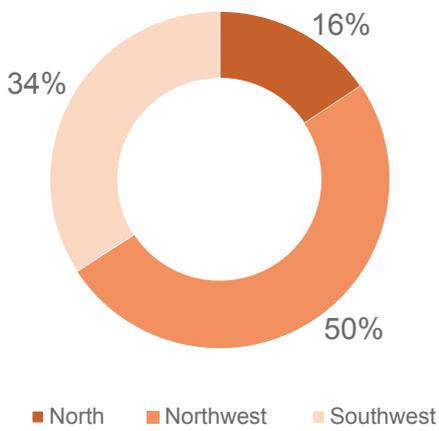
Under Construction Activity (End-June 2023)



Source: Lisney

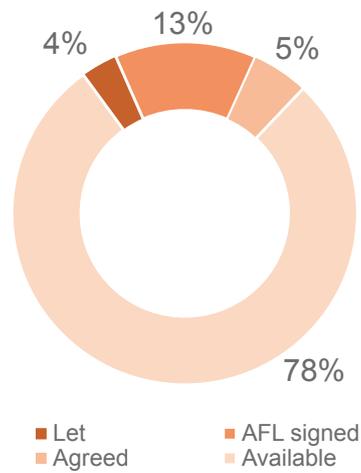


Accommodation Under Construction by Region (Q2 2023)



Source: Lisney

Accommodation Under Construction by Status (Q2 2023)



Source: Lisney

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.



Outlook

Despite the overall market shortages, the commencement of speculative new buildings will be slower because of higher construction costs, yields softening in the investment sector, and the higher 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.

We expect prime rents to increase further over the next six months and by the end of the year to be at €140 psm (€13.00 psf). 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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