INDUSTRIAL REPORT

Q3 2023

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Dublin Industrial take-up further reduced in Q3 2023. Although demand has softened, this decline is primarily due to a lack of good-quality supply. Prime rents on larger premises remained stable in Q3, while rents for units sub-2,000 sqm continued on a strong upward trajectory.

50,000 sqm **Activity**	24 **Deals**	6,100 sqm Unit S2, Park West Industrial Park **Largest Open Market Letting**
65% **Lettings**	2,100 sqm **Average Lot Size**	1.9% **Vacancy Rate**
49% North **Busiest Region**	€137 psm (€12.75 psf) **Prime Headline Rent**	78,900 sqm **Under Construction**

Arrows represent quarterly trends unless otherwise stated.

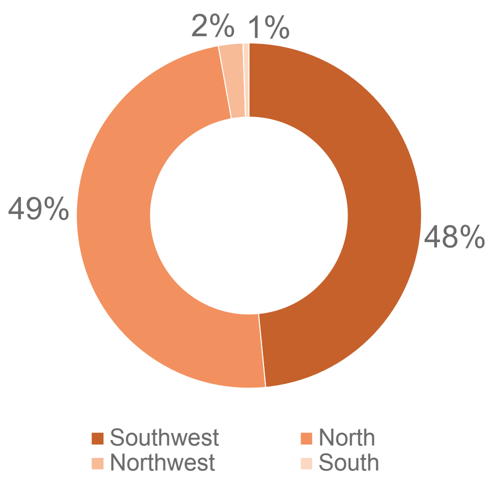
Activity

Activity levels in Q3 2023 reached 50,000 sqm across 24 deals bringing the total take-up for the first nine months of the year to almost 202,000 sqm. This was 19% lower than the previous quarter's take-up of 61,600 sqm and remained below the long-term quarterly average of 64,600 sqm. It should be noted that there was an additional 7,400 sqm of accommodation where an internal agreement meant a new lease was put in place – this has been excluded from take-up figures.

Based on 50,000 sqm:

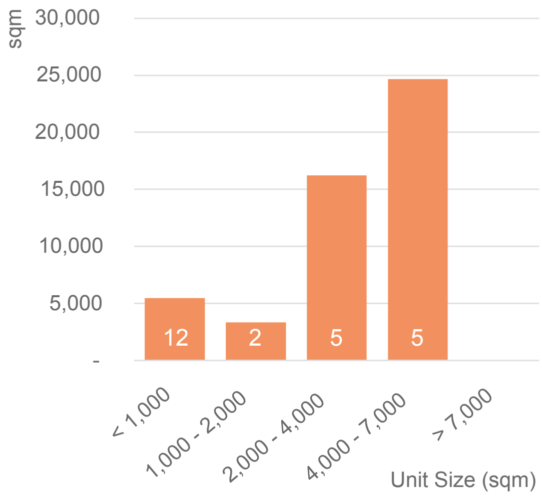
- The average lot size in Q3 was 2,100 sqm, slightly lower than 2,200 sqm in the previous quarter. However, the average lot size for 2023 to date was 2,350 sqm, which falls short of the 3,100 sqm average achieved in 2022.
- In a change from the norm, the north region was the busiest in Q3, accounting for 49% of total take-up. However, this was closely followed by the southwest region (traditionally the busiest) at 48%. The remaining 3% of the take-up was in the northwest (2%) and South (1%) regions.
- In terms of lot size, the largest number of transactions (12) related to units of less than 1,000 sqm, of which eight were smaller than 500 sqm. The mid-size market was considerably less active with two deals in the 1,000 to 2,000 sqm bracket and five deals completed in the 2,000 to 4,000 sqm bracket. Five deals were concluded in excess of 4,000 sqm each.
- Lettings continued to dominate the market accounting for 65% of all space transacted in Q3 and 80% in the first nine months of the year.
- The top ten deals combined made up 82% of the total activity, averaging 4,100 sqm and five of these were lettings. Each of the top ten deals were in excess of 2,000 sqm with two deals in excess of 5,000 sqm. Combined, the top two deals accounted for 24% of the quarter's activity.
- Five out of the top ten deals were in the southwest region including the largest transaction of the quarter and combined accounted for 39% of the overall activity and 81% of the region's activity. The remaining five deals in the top ten were in the north region accounting for 43% of the total take-up and 89% of the region's activity.

Take-Up by Region (Q3 2023)



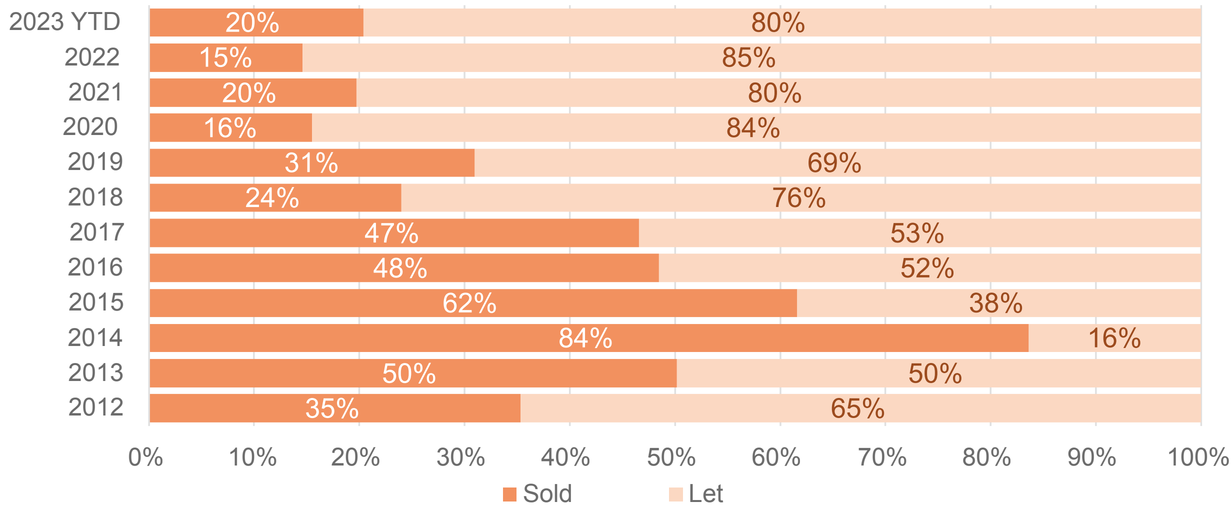
Source: Lisney

Take-Up by Deal Size (Q3 2023)



Source: Lisney

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



Source: Lisney

The largest transaction was the letting of Unit S2 in Park West Industrial Park, Dublin 12 (6,100 sqm) to Silent Aire, a data centre cooling and modular data centre solutions company. Silent Aire is a subsidiary of Johnson Controls and employs more than 500 people in Dublin. In addition, two units in Horizon Logistics Park were let – N5 extending to 5,650 sqm and G1 extending to 4,400 sqm. Other notable lettings include 1 Vantage Business Park (4,300 sqm) which is currently under construction and 5 Belgard Industrial Estate in Tallaght (4,200 sqm).

There were seven sales in Q3, with a combined area of 17,500 sqm and an average lot size of 2,500 sqm. The Former ABB Facility on Belgard Road in Tallaght (3,800 sqm) was sold for in excess of the guide of €5.25m. Kilbride Foods purchased 146 Baldoyle Industrial Estate (3,900 sqm), DB Schenker acquired Former Henkel Facility in Tallaght (3,100 sqm) and ALS acquired 6 Plato Business Park in Damastown, Mulhuddart (980 sqm).

Top 10 Transactions

PREMISES	SQM	REGION	DEAL TYPE
Unit S2, Park West Industrial Park, Dublin 12	6,100	Southwest	Letting
N5 Horizon Logistics Park, Co Dublin	5,650	North	Letting
G1 Horizon Logistics Park, Co Dublin	4,400	North	Letting
1 Vantage Business Park, Co Dublin	4,270	North	Letting
5 Belgard Industrial Estate, Tallaght, Dublin 24	4,220	Southwest	Letting
146 Baldoyle Industrial Estate, Dublin 13	3,900	North	Sale
Former ABB Facility, Belgard Road, Tallaght, Dublin 24	3,800	Southwest	Sale
Broombridge Close, Ballyboggan Road, Dublin 11	3,230	North	Sale
Former Henkel Facility, Tallaght, Dublin 24	3,120	Southwest	Sale
6A Parkway Business Centre, Ballymount Road, Dublin 24	2,130	Southwest	Sale

Source: Lisney

Supply

At the end of September 2023, supply stood at 153,500 sqm, up from 140,000 sqm in Q2, a 9% increase in the three months, but remaining unsustainably low. This represented a vacancy rate of approximately 1.9%. Since the highs reached a decade ago, supply has plummeted by 90%, and since the start of the pandemic, it has fallen by 53%. While there were variations across regions, all areas had a vacancy rate below 3.25%, with the southwest region being the lowest at 1.5%.

As has been the case for the last few years, smaller units (less than 1,000 sqm) made up the bulk of supply, accounting for approximately 70% of all units available for occupation. 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 13% of all supply in Dublin.

DEMAND

The first nine months of 2023, saw a slight softening 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 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 coming months should provide more clarity.

Despite the slight decline in new requirements, the market continues to attract high-profile occupiers actively seeking space and 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. In Q3 2023, An Post requested proposals from developers for their new 50,000 sqm distribution Hub.

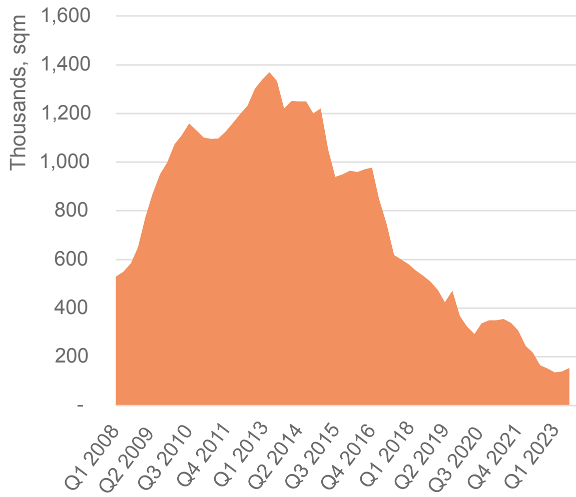
TERMS

While prime headline rents remained stable in the quarter, industrial / logistics rents more generally continued on an upward trajectory, driven by historically low levels of supply and elevated 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).

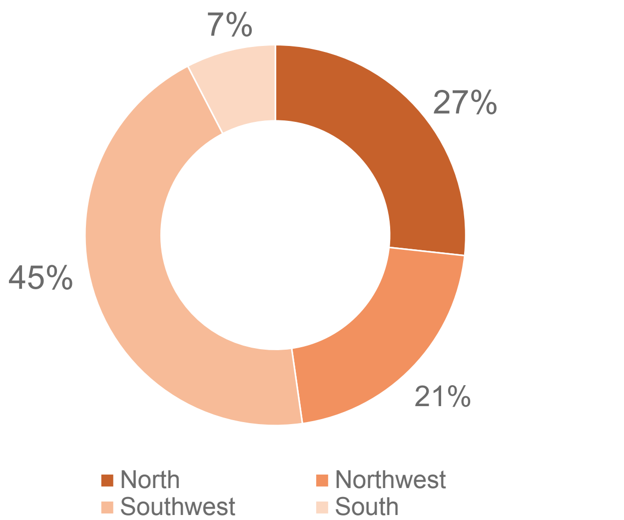
Rents for units smaller than 2,000 sqm continue a robust upward trajectory. Notably, M7 Real Estate leased Unit L2 North Ring Business Park (920 sqm) at a rent exceeding €15 psf (€161.50 psm). Rents for these units continue to be driven by historically low levels of supply further exacerbated by the absence of new sub 2,000 sqm units being constructed since 2007.

Lisney's index of industrial property rents in Dublin grew by 5.6% in the 12 months to the end of September 2023 and by 36.7% 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 – Q3 2023)



Industrial Supply by Region (September 2023)



Source: Lisney

New Stock

In Q3 2023, a total of 36,200 sqm of accommodation was completed across three buildings. The two Brownsbarn units in Citywest were finished, both of which had an agreement for lease in place – Unit 1 (8,200 sqm) to Anixeter and Unit 2 (6,000 sqm) to Uniphar. Block R in Aerodrome Business Park, Rathcoole (22,290 sqm) was also completed.

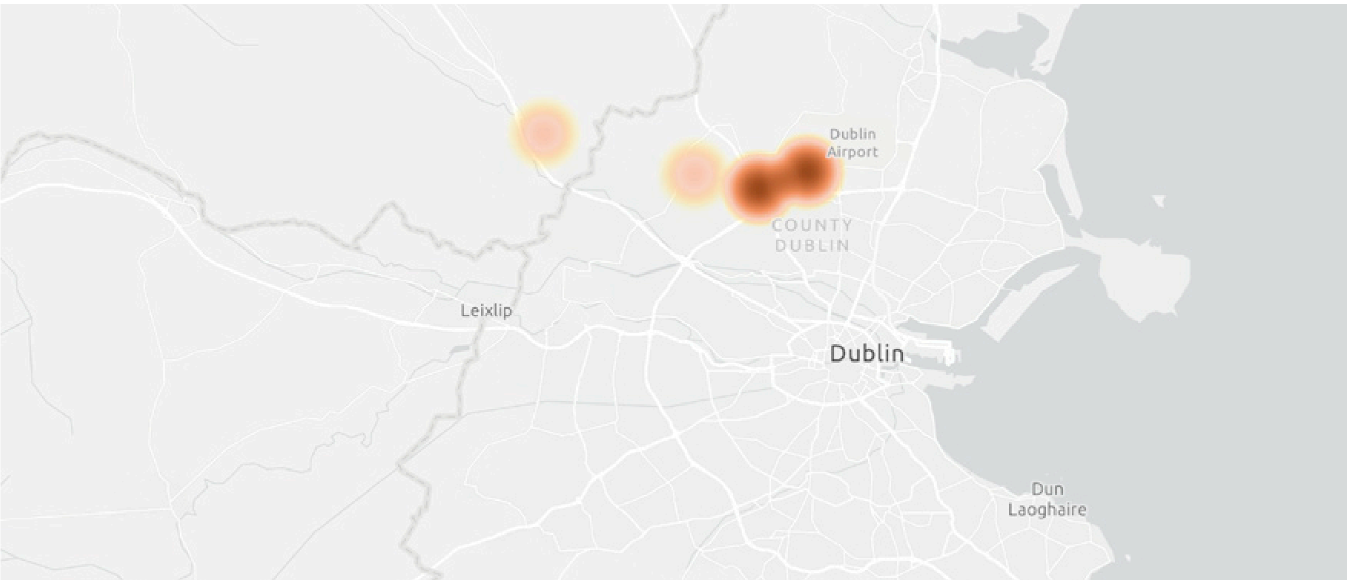
At the end of September 2023, there was approximately 78,900 sqm of accommodation under construction, a decrease of 27,760 sqm (26%) compared to three months previous. 73% of the space under construction was in the northwest region and the remaining 27% of this was in the north region. The average building size was 7,170 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 accounted for 23% of the total under construction in Q3 2023 (in line with 22% in Q2 and down from 48% in Q1). This was closer to 40%-50% in the previous years. Due to elevated costs and softening yields, developers continue to focus on design-and-build projects instead of speculative buildings. Many are seeking an agreement for lease (AFL) to be signed before committing to any construction. Palm Logistics, the owner and developer of Momentum Logistics Park in Naas, Co Kildare has agreed its first design-and-build deal at the park to Elsatrans (a refrigerated transport company). The construction is set to commence in Q4 2023 and on completion, the building will extend to 7,720 sqm.

At the end of September, the largest building under construction was A03 Hub Logistics Park (12,700 sqm), which is being developed by Denis Coakley and is available to let. Construction continued on the units in Horizon Logistics Park, totalling a combined 21,000 sqm; only one of these is still available. Construction works also 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 are 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 September. 53% of this is in the north region with the remainder spread across the northwest (20%) and southwest (27%) regions. Additionally, Mountpark purchased 78 acres at Grange Castle Business Park in southwest Dublin with plans to develop a new scheme. These units will start at 6,500 sqm and will be available from Q1 2025 onwards.

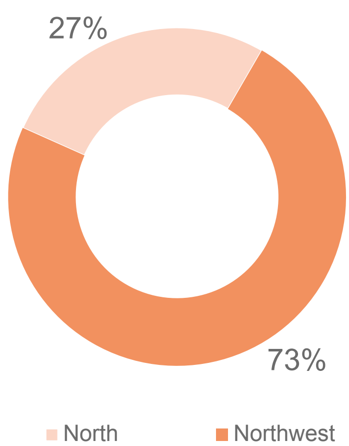
Under Construction Activity (End-September 2023)



Source: Lisney

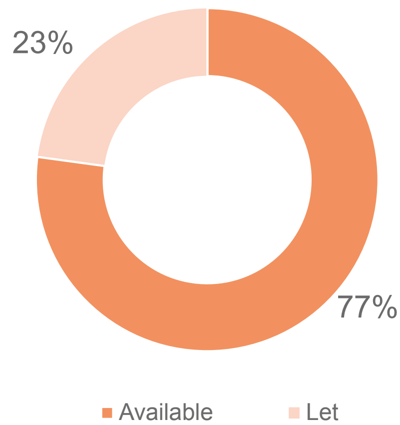
ABOVE:
South West Business Park,
Cheeverstown, Dublin 24

Accommodation Under Construction by Region (Q3 2023)



Source: Lisney

Accommodation Under Construction by Status (Q3 2023)



Source: Lisney

Landlords are actively seizing opportunities to improve the energy efficiency ratings of their buildings, particularly when they become vacant

Outlook

Despite the overall market shortages, the commencement of speculative new buildings will remain very limited 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 over the coming 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 very limited, but capital values will still push forward due to a lack of availability.

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 – a trend that will continue in the longer-term. 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.

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.

Meet The Team

THE LISNEY INDUSTRIAL TEAM

Cathal Daughton

Senior Director

James Kearney

Divisional Director

Natalia Dominiak

Surveyor

THE LISNEY RESEARCH TEAM

Aoife Brennan

Senior Director

Ausra Marcelyte

Senior Research Analyst

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

Lisney
Commercial Real Estate
PSRA: 001848