Lisney
COMMERCIAL REAL ESTATE

INDUSTRIAL REPORT

Q4 2023

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While demand has softened from pandemic-time highs in recent months, Dublin's industrial market take-up increased in Q4 2023 and prime rents on larger premises grew further. On-site construction activity declined in the three months, but the pipeline of schemes with planning permission grants but not yet under construction remained healthy.

▲ 89,300 sqm **Activity**	▲ 28 **No of Deals**	▶ 22,300 sqm Block R Aerodrome Bus. Park, Co. Dublin **Largest Letting**
▲ 75% **Lettings**	▲ 3,200 sqm **Average Lot Size**	▲ 2.8% **Vacancy Rate**
▼ 48% Southwest **Busiest Region**	▶ €140 psm (€13.00 psf) **Prime Headline Rent**	▼ 58,400 sqm **Under Construction**

Arrows represent quarterly trends unless otherwise stated.

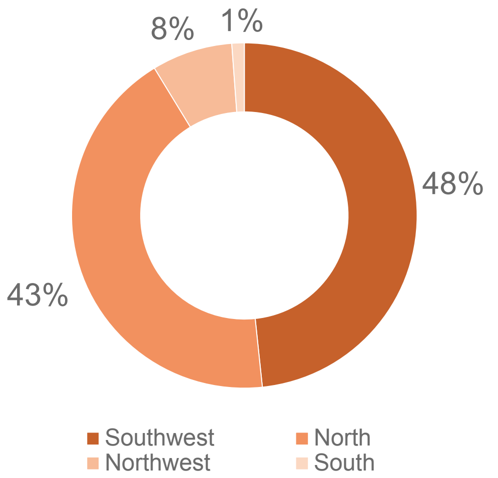
Activity

Activity levels in Q4 reached 89,300 sqm across 28 deals bringing the total take-up for 2023 to 291,000 sqm. This was 80% higher than the previous quarter's take-up of 50,000 sqm and remained above the long-term quarterly average of 65,000 sqm.

Based on a quarterly take-up of 89,300 sqm:

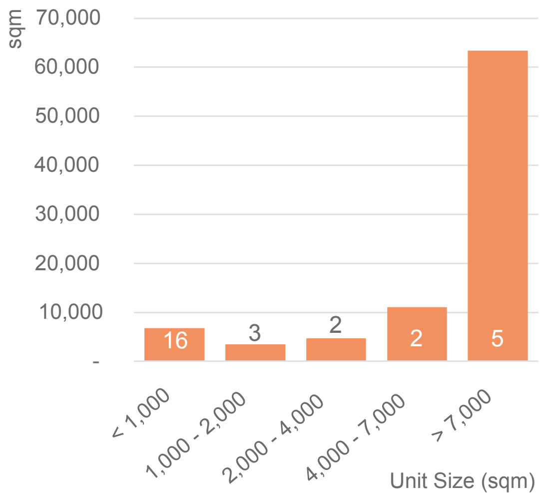
- The southwest region was the busiest, accounting for 48% of total take-up. However, this was closely followed by the north region at 43%. The remaining 9% of the take-up was in the northwest (8%) and south (1%) regions.
- The average lot size was 3,200 sqm, higher than the 2,100 sqm registered in the previous quarter. The average lot size for the 2023 calendar year was 2,550 sqm, which falls short of the 3,100 sqm average achieved in 2022.
- The greatest number of transactions (16) related to units with floor areas of less than 1,000 sqm, of which ten were smaller than 500 sqm. The mid-size market was considerably less active with just three deals in the 1,000 to 2,000 sqm bracket and two deals completed in the 2,000 to 4,000 sqm bracket. Seven deals were concluded that were each bigger than 4,000 sqm.
- Lettings continued to dominate the market accounting for 75% of all space transacted in the quarter and 78% in 2023 overall.
- The top ten deals combined made up 90% of the total activity, averaging 8,050 sqm, and five of these were lettings. Each of the top ten deals was in excess of 1,000 sqm with three deals in more than 10,000 sqm. Combined, the top three deals accounted for 54% 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 42% of the overall activity and 87% of the region’s activity. Four deals in the top ten were in the north region accounting for 41% of the total take-up and 95% of the region’s activity. The remaining deal in the top ten was in the northwest region.

Take-Up by Region (Q4 2023)



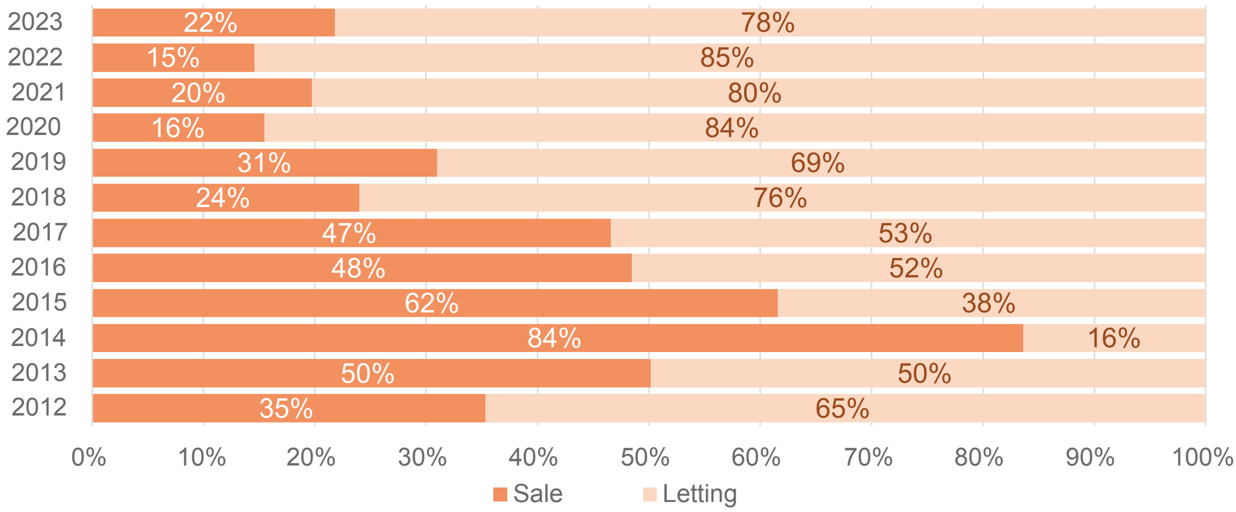
Source: Lisney

Take-Up by Deal Size (Q4 2023)



Source: Lisney

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



Source: Lisney

The largest transaction was the 22,340 sqm letting to PRL Group, a customised outsourcing provider, at Block R Aerodrome Business Park, Co Dublin. This was followed by FedEx leasing 15,140 sqm at F1 Horizon Logistics Park, Co Dublin. Other notable lettings included CEL Facility in Jamestown Business Park (8,050 sqm); N4 Horizon Logistics Park, Co Dublin (7,300 sqm), which is currently under construction; and the newly completed Unit 736 in Northwest Logistics Park, Dublin 15 (6,400 sqm).

There was a total of eight sales in Q4, with a combined area of 22,300 sqm and an average lot size of 2,800 sqm. Five sales were in the top ten deals and included Polonez's (the tenant) acquisition of 1 Cloverhill Industrial Estate in Dublin 22 (10,500 sqm); as well as the sale of Unit A4 North City Business Park in Finglas (4,650 sqm); 302 Brownsbarn Drive, Citywest Business Campus (2,480 sqm); Airton House, Airton Road in Tallaght (2,230 sqm); and 1-4 Church Lane Santry Hall in Santry (1,400 sqm). The remaining two sales were each sub 600 sqm.

Top 10 Transactions

PREMISES	SQM	REGION	DEAL TYPE
Block R Aerodrome Business Park, Co Dublin	22,340	Southwest	Letting
F1 Horizon Logistics Park, Co Dublin	15,140	North	Letting
1 Cloverhill Industrial Estate, Dublin 22	10,500	Southwest	Sale
CEL Facility, Jamestown Business Park, Finglas, Dublin 11	8,050	North	Letting
N4 Horizon Logistics Park, Co Dublin	7,300	North	Letting
Unit 736, Northwest Logistics Park, Dublin 15	6,400	Northwest	Letting
Unit A4 North City Business Park, Finglas, Dublin 11	4,650	North	Sale
302 Brownsbarn Drive, Citywest Business Campus, Dublin 24	2,480	Southwest	Sale
Airton House, Airton Road, Tallaght, Dublin 24	2,230	Southwest	Sale
1-4 Church Lane Santry Hall, Santry Villas, Dublin 9	1,400	North	Sale

Source: Lisney

Supply

At the end of December 2023, supply stood at 230,000 sqm, an increase of 50% in three months from 153,500 sqm at the end of September. In spite of the increase, supply remains unsustainably low and represents a vacancy rate of approximately 2.8%. Since the start of the pandemic, the amount of space available has fallen by 29%. While there were variations across regions, all areas had a vacancy rate below 6.0%, with the southwest region being the lowest at 1.6%.

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 75% of all units available for occupation. Options remain much more limited for larger-sized units with only one property available that is more than 10,000 sqm in size, making up 4% of all supply in Dublin.

DEMAND

Despite the slight fall-off in new requirements, the industrial market continued to attract high-profile occupiers actively seeking space and negotiating deals in the final months of 2023. Notably JYSK, the Danish retail chain is seeking close to 50,000 sqm in Ireland to service their 21 Irish stores and 30 UK stores. An Post requested proposals from developers for its new 50,000 sqm distribution Hub and has reportedly shortlisted four. The decision is due to be made in early 2024.

In addition, certain 3PL operators with contracts in Ireland and the UK are reviewing the Irish market as a hub for both locations. In the past, such contracts were fulfilled from the UK but with Brexit, it is more advantageous for some of those importing goods from Europe to have operations in Ireland. In the short to medium-term this is likely to result in greater demand for space along the M1 corridor towards Northern Ireland, with some occupiers already showing renewed interest. This is best highlighted by Smyths Toys' decision to open a 37,300 sqm distribution hub in Dundalk North Business Park, which will be fully operational in 2024.

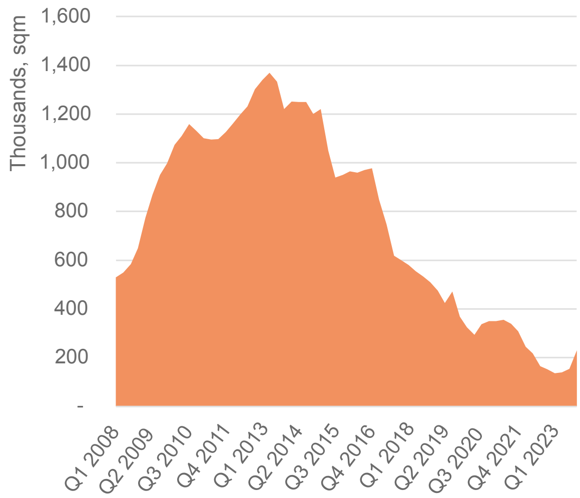
TERMS

In Q4 2023, industrial / logistics rents continued an upward trajectory with the prime headline rate increasing to €140psm (€13.00 psf), which was driven by historically low levels of supply and elevated construction costs. For large new build units, most landlords continue to secure 15 to 20 year leases with break options at years 10 or 12, rent-free periods of 3 or 4 months and headline rents at €124 - €140 psm (€11.50 - €13.00 psf).

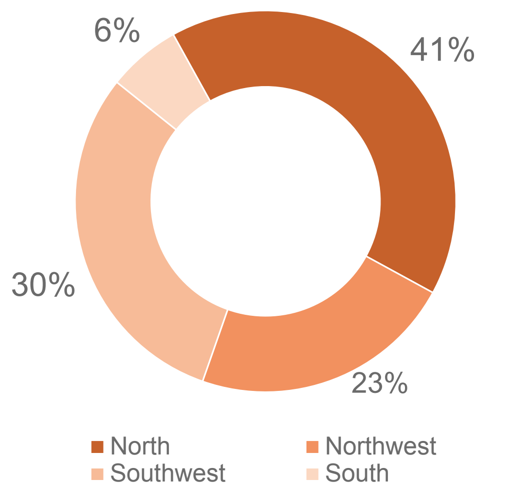
Rents for units smaller than 2,000 sqm continue to stand strong at €161.50 psm (€15 psf) and are also driven by historically low levels of supply further exacerbated by the absence of new sub-2,000 sqm units being built since 2007.

Lisney's index of industrial property rents in Dublin (prime and secondary buildings of varying sizes across the four regions) grew by 6% in 2023 and by 38.1% 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, but the pace of growth will slow significantly in 2024.

Dublin Industrial Supply (Q1 2008 – Q4 2023)



Industrial Supply by Region (Q4 2023)



Source: Lisney

New Stock

In Q4, only one unit reached completion - Unit 736 Northwest Logistics Park (6,400 sqm), which was also let in the quarter. There was approximately 62,800 sqm of accommodation under construction, a decrease of 16,100 sqm (20%) compared to three months previous. 75% of the space under construction was in the northwest region and the remaining 25% of this was in the north region. The average building size was 7,850 sqm with eaves height across all buildings at 12m.

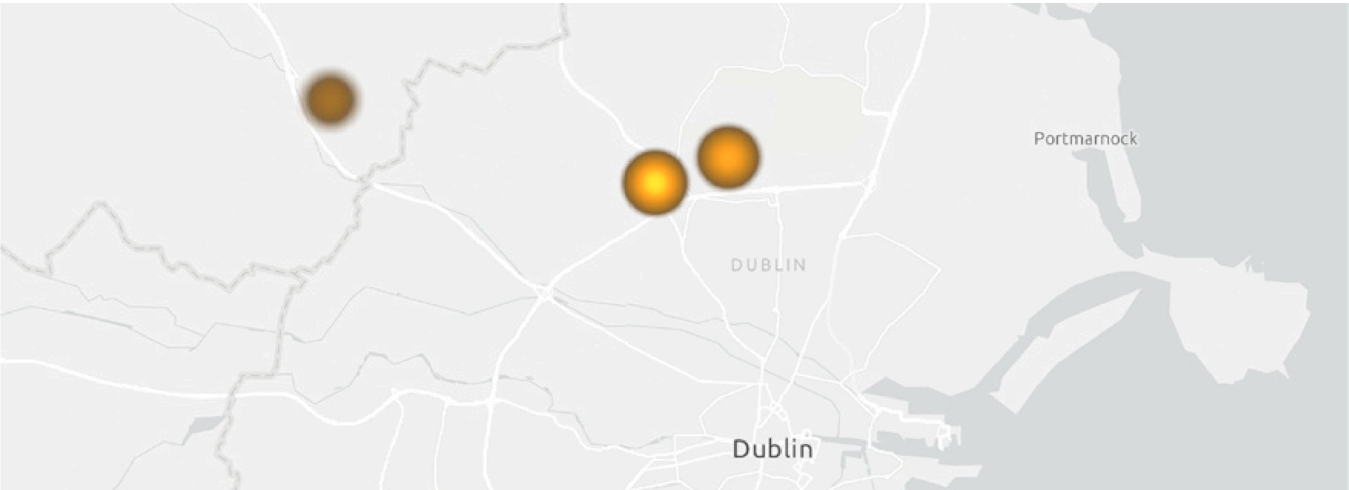
UNDER CONSTRUCTION	62,800 sqm
REGIONS	75% Northwest
25% NORTH	Only 1 available 4% of Supply
LARGEST SCHEME UNDER CONSTRUCTION	12,700 sqm
A03 HUB LOGISTICS PARK, DUBLIN 15	≈ 2.8%
AVERAGE UNIT SIZE	7,900 sqm
DESIGN-&-BUILD / TAKEN MID-CONSTRUCTION	13%

The portion of accommodation earmarked (either as design-and-build or taken mid-construction) for occupation accounted for 13% of the total under construction in Q4 2023, down from 23% in Q3, 22% in Q2 and 48% in Q1. This was closer to 40%/50% in recent 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.

At the end of December, 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 two units in Horizon Logistics Park, totalling a combined 11,000 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. All buildings are available to let.

Looking ahead to the pipeline, approximately 250,000 sqm of industrial space had planning permission granted but had not yet started construction at the end of December. 49% of this is in the north region with the remainder spread across the northwest (27%) and southwest (24%) 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.

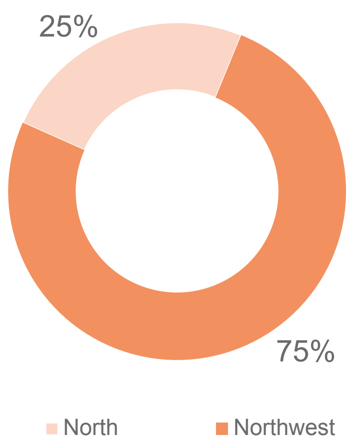
Under Construction Activity (End-December 2023)



Source: Lisney

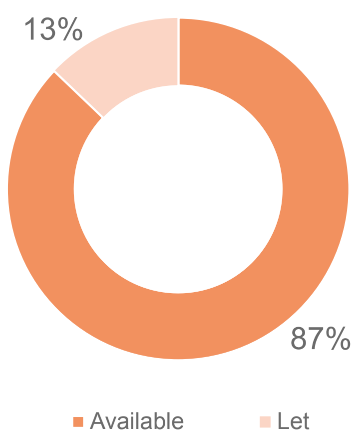
ABOVE:
Greenogue Logistics Park,
Rathcoole, Co. Dublin

Accommodation Under Construction by Region (Q4 2023)



Source: Lisney

Accommodation Under Construction by Status (Q4 2023)



Source: Lisney

Landlords will be more focused on ESG factors relating to new and refurbished buildings, seeking LEED and other certifications

Outlook

There will be good demand for accommodation in 2024. but it will be softer than in the last three and a half years and more in line with pre-pandemic times. However, the lack of suitable supply may hold back transactions and some occupiers will need to agree design-and-build deals with developers to get the quantity and specification of accommodation they require.

Despite the overall market shortages, commencement of speculative new buildings will continue to be slow in the months ahead. This is due to the elevated cost of construction and finance, as well as softer investment yields. Encouragingly, there are signs that construction costs, and indeed interest rates, have plateaued (some contractors are standing over costs from early 2023) and this could mean improvements in the level of new building starts as the year progresses. Consequently, it will be important for developers to have planning grants in place and be ready to move on-site quickly when required.

The very strong pace of rental growth from 2020 to 2023 will continue to slow and while there may be some further rental increases in 2024, it will be at a much-reduced speed and no more than 5% in the calendar year.

For many occupiers, there is a ceiling on what they can pay for accommodation and maintain business viability, particularly those in the logistics / distribution sector. Despite this, many landlords will be bullish and want to drive rents, especially for new or upgraded buildings as they will need to cover the capital expenditure required to upgrade buildings to meet ESG and BER targets. However, they are likely to increase the incentives given to tenants including shorter leases and/or more frequent break options.

With interest rates at a 22-year high, owner-occupiers seeking to buy vacant premises will remain very limited, but capital values still will still push forward due to lack of availability.

Landlords will be more focused on ESG factors relating to new and refurbished buildings, seeking LEED and other certifications. This comes with an added cost, which will be passed on to the tenant. Given the large carbon footprint of the operations of logistics companies, some will be seeking to reduce the embodied carbon in their warehouses and may consider timberframe (glue laminated timber) premises instead of a steel frame (this is up to 20% more expensive than steel, albeit dependent on when the materials were bought in recent times). Green clauses are also becoming more common in leases as investors seek to make good on their ESG promises and meet EU and domestic policies, especially around finance.

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.

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