Lisney
COMMERCIAL REAL ESTATE

INDUSTRIAL REPORT

Q1 2024

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In Q1 2024, the industrial market experienced a notable decrease in activity levels. Despite this, demand was strong, particularly for units of under 10,000 sqm. Lettings continued to dominate the market. Limited supply persisted, with larger units greater than 10,000 sqm remaining scarce. Construction activity was steady with developers predominantly focused on design-and-build projects.

42,800 sqm

Activity

18

No of Deals

26,000 sqm

Design & Build facility in North Dublin (subject to planning)

Largest Letting

93%

Lettings

2,380 sqm

Average Lot Size

2.0%

Vacancy Rate

74%

North

Busiest Region

€140 psm

(€13.00 psf)

Prime Headline Rent

63,700 sqm

Under Construction

Arrows represent quarterly trends unless otherwise stated.

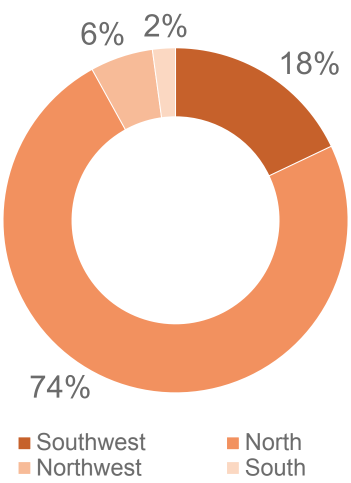
Activity

Activity levels in Dublin's industrial market in Q1 2024 reached 42,800 sqm across 18 deals, the lowest activity level since 2012 (excluding the initial Covid months). This was substantially below the previous quarter's take-up of 89,300 sqm and the Q1 2023 take-up of 90,200 sqm.

It also remained below the long-term quarterly average of 65,000 sqm. The quarter's take-up figure was distorted by one large deal of 26,000 sqm, which made up close to two-thirds of all activity. However, analysis based on a quarterly take-up of 42,800 sqm highlights the following:

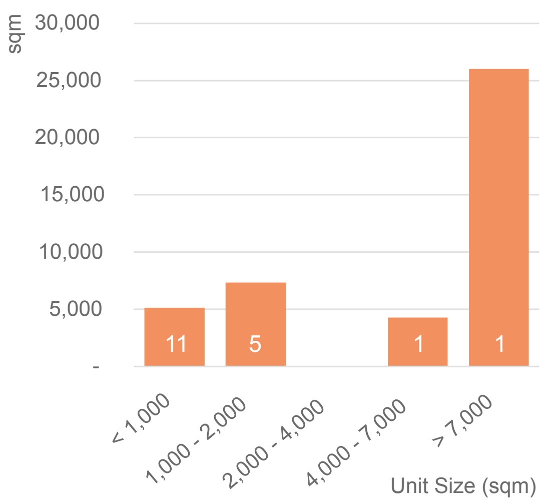
- The north region was the busiest, accounting for 74% of total take-up (and includes the largest deal). This was followed by the southwest region at 18%. The remaining 8% of the take-up was in the northwest (6%) and south (2%) regions.
- The average lot size was 2,380 sqm, lower than the 3,200 sqm in the previous quarter, and also falling short of the 2,650 sqm average achieved in Q1 2023.
- The greatest number of transactions (11) related to units with floor areas of less than 1,000 sqm, of which six were smaller than 500 sqm. The mid-size market was reasonably active in Q1 with five deals in the 1,000 to 2,000 sqm bracket. There were only two deals concluded that were each larger than 4,000 sqm.
- Lettings continued to dominate the market accounting for 93% of all space transacted in the quarter.
- The top ten deals combined made up 94% of the total activity, averaging 4,000 sqm, and eight of these were lettings. Seven of the top ten deals were more than 1,000 sqm with two deals of more than 4,000 sqm, one of which was a substantial 26,000 sqm. The largest deal accounted for 61% of the total quarter's activity.
- Five out of the top ten deals were in the north region including the largest transaction of the quarter and combined accounted for 71% of the overall activity and 96% of the region's activity. Three deals in the top ten were in the southwest region accounting for 17% of the total take-up and 93% of the region's activity. One deal in the top ten was in the northwest region and one in the south region.

Take-Up by Region (Q1 2024)



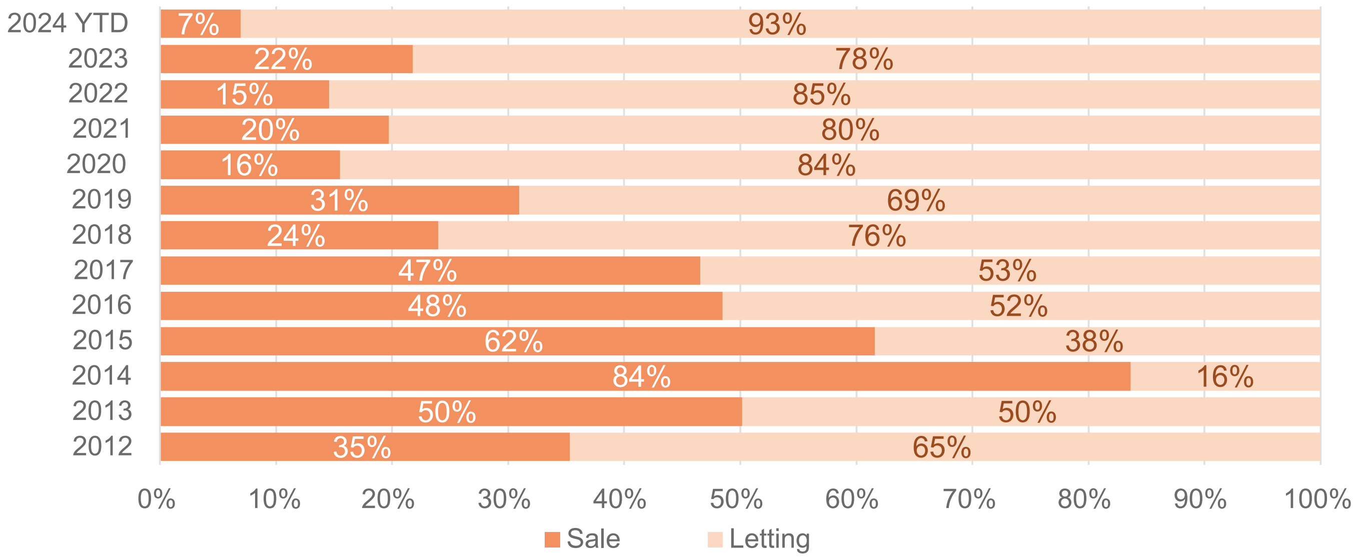
Source: Lisney

Take-Up by Deal Size (Q1 2024)



Source: Lisney

Annual Take-Up by Deal Type (2012 – 2024 YTD)



Source: Lisney

The largest transaction was the 26,000 sqm subject to planning permission design-and-build lease in north Dublin. This was followed by a letting of 4,290 sqm at JFK Park in Dublin 12. Other notable lettings included a facility in Ballyboggan Industrial Estate, Dublin 9 (1,570 sqm) and Unit B2 Airport Business Campus in Swords, Co Dublin (1,560 sqm).

There were two sales in Q1, both of which were in the top ten deals. The transactions included the disposals of JFK Enterprise Centre in JFK Industrial Estate (1,650 sqm) and Units B1 & B2 in Santry Hall Industrial Estate, Dublin 9 (1,350 sqm).

Top 10 Transactions

PREMISES	SQM	REGION	DEAL TYPE
Design-&-Build facility in North Dublin (subject to planning)	26,000	North	Letting
John F Kennedy Park, Killeen Road, Dublin 12	4,290	Southwest	Letting
JFK Enterprise Centre, JFK Industrial Estate, Dublin 12	1,640	Southwest	Sale
Ballyboggan Industrial Estate, Glasnevin, Dublin 9	1,570	Northwest	Letting
Unit B2 Airport Business Campus, Swords, Co Dublin	1,560	North	Letting
Unit B1 & B2, Santry Hall Industrial Estate, Santry, Dublin 9	1,330	North	Sale
Unit 8 Finches Business Park, Long Mile Road, Dublin 12	1,240	Southwest	Letting
54 Bracken Road, Sandyford Business Park, Dublin 18	920	South	Letting
Unit E Airport Business Campus, Santry, Co Dublin	910	North	Letting
93 Grange Way, Baldoyle, Dublin 13	710	North	Letting

Source: Lisney

Supply

At the end of March 2024, supply stood at 160,300 sqm, a decrease of 30% in three months from 230,000 sqm at the end of December. Supply remains unsustainably low and represents a vacancy rate of approximately 2.08%. Since the start of the pandemic, the amount of space available has fallen by 51%. While there were variations across regions, all areas had a vacancy rate of 3.0% or below by the end of Q1, with the southwest region 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 76% 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 6% of all supply in Dublin.

DEMAND

Demand in the industrial market remained good in the opening quarter of 2024, particularly for properties sub-10,000 sqm. High-profile occupiers continued to seek space and negotiate deals. Notably JYSK, the Danish retail chain is seeking close to 6,000 sqm in Ireland to help ease any supply chain issues, this follows on from Smyths Toys' decision to build a 50,000 sqm logistics hub in Dundalk to help service both their UK and Irish retail operations.

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.

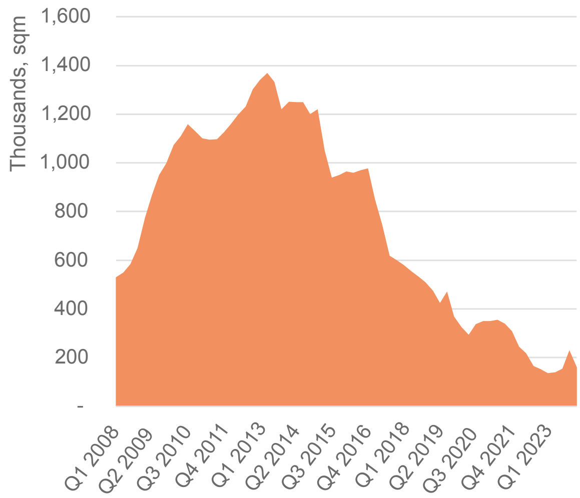
TERMS

In Q1 2024, industrial / logistics rents continued an upward trajectory however, the prime headline rent remained stable at €140psm (€13.00 psf). The rental levels were driven by both lack of supply and the refurbishment cost associated with improving energy ratings on older stock.

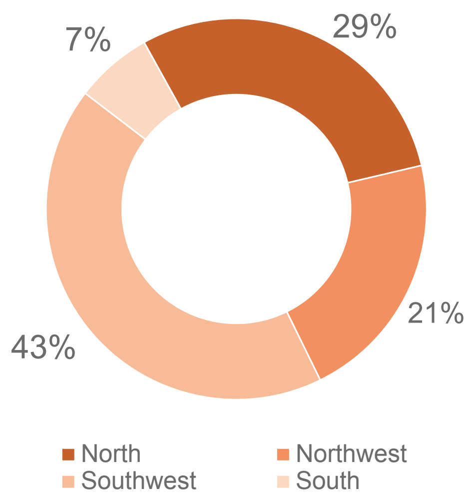
For large new build units, most landlords continue to secure 15 to 20-year leases with break options at years 10 or 12, rent-free periods of 3 or 4 months and headline rents at €134 - €140 psm (€12.50 - €13.00 psf). Rents for smaller enterprise units of sub 1,500 sqm have also continued to grow with rental evidence in the order of €188 psm (€17.50 psf). This was highlighted by the letting of B2 Airport Business Campus in Swords to Sixth Car Hire.

Lisney's index of industrial property rents in Dublin (prime and secondary buildings of varying sizes across the four regions) grew by 3.6% in 12 months to the end of March and by 0.5% in three months. Although this rate of growth is larger than in any other commercial sector, the pace of growth will slow in coming months.

Dublin Industrial Supply (Q1 2008 – Q1 2024)



Industrial Supply by Region (Q1 2024)



Source: Lisney

New Stock

In Q1, two units reached completion - 1 Vantage Business Park (4,300 sqm) and Unit N5 Horizon Logistics Park (5,700 sqm), both of which were let prior to construction finishing. There was approximately 63,700 sqm of accommodation under construction at the end of March, a steady level compared to three months previous. 83% of this is in the northwest region and the remaining 17% of is in the north region.

ABOVE:
Unit 2A South West Business Park, Citywest, Dublin 24

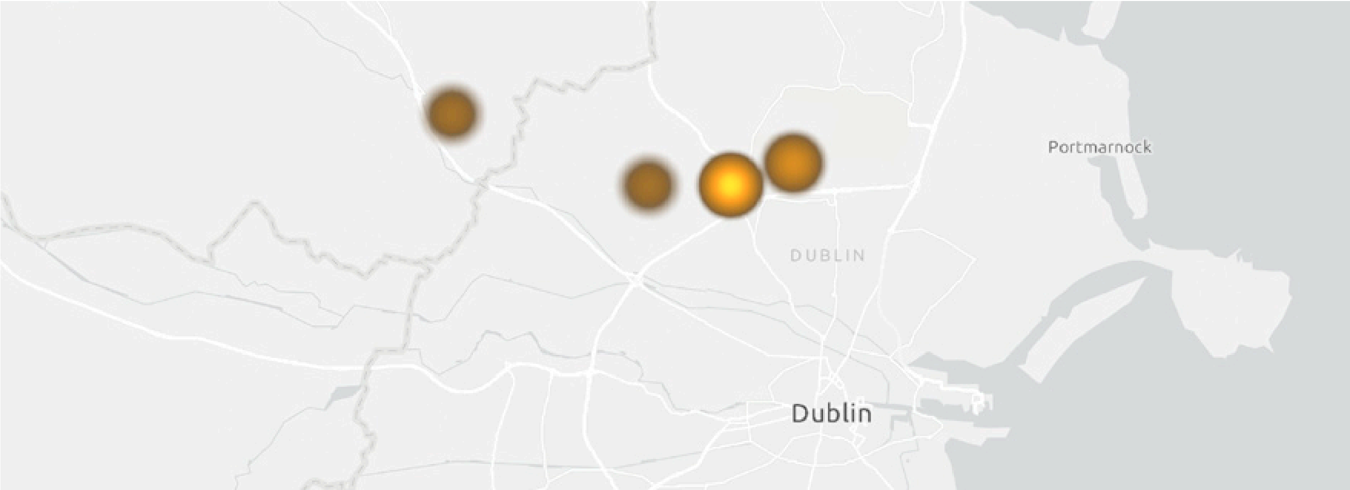
The average building size is 8,000 sqm with eaves height at 12m across all but one building. 735 Northwest Logistics Park in Ballycoolin, Dublin 15 is set to have an eaves height of 14.6m.

The portion of accommodation earmarked (either as design-and-build or taken mid-construction) for occupation accounted for 6% of the total under construction in Q1 2024, down from 13% in Q4 2023 and 48% in Q1 2023. 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 or purchase to be signed before committing to any construction.

At the end of March, 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. Park Developments commenced construction on 735 Northwest Logistics Park (5,300 sqm), which is also 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 March 2024. 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.

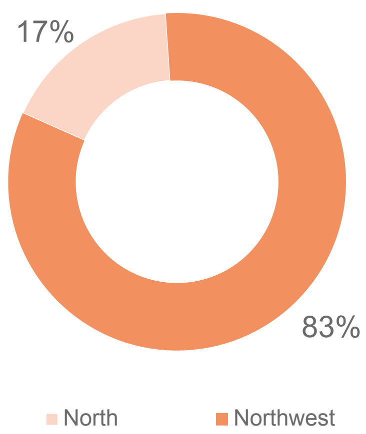
Under Construction Activity (End-March 2024)



Source: Lisney

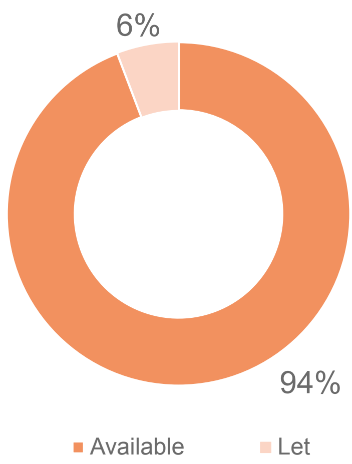
ABOVE:
Unit 1 South West Business Park, Citywest, Dublin 24

Accommodation Under Construction by Region (Q1 2024)



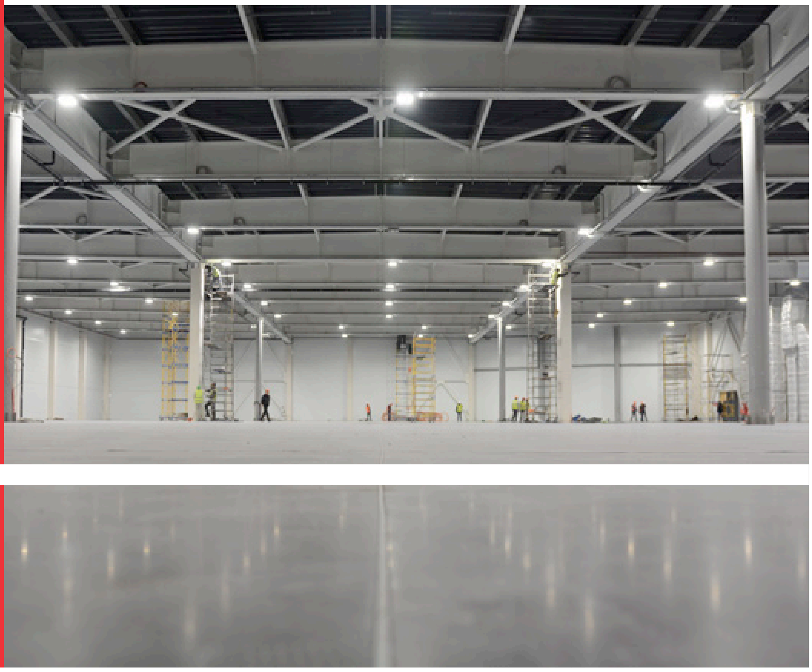
Source: Lisney

Accommodation Under Construction by Status (Q1 2024)



Source: Lisney

There will be good demand for accommodation in the remainder of 2024, but it will be softer than in the last three and a half years and more in line with pre-pandemic times.



Outlook

There will be good demand for accommodation in the remainder of 2024, but it will be softer than in the last three and a half years and more in line with pre-pandemic times. 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, the 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 this year, it will be at a much-reduced speed and no more than 5% in the calendar year.

Throughout the remainder of 2024, owner-occupiers' interest in second-hand buildings should reemerge, particularly given the softening of yields for investors and inflated refurbishment costs.

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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