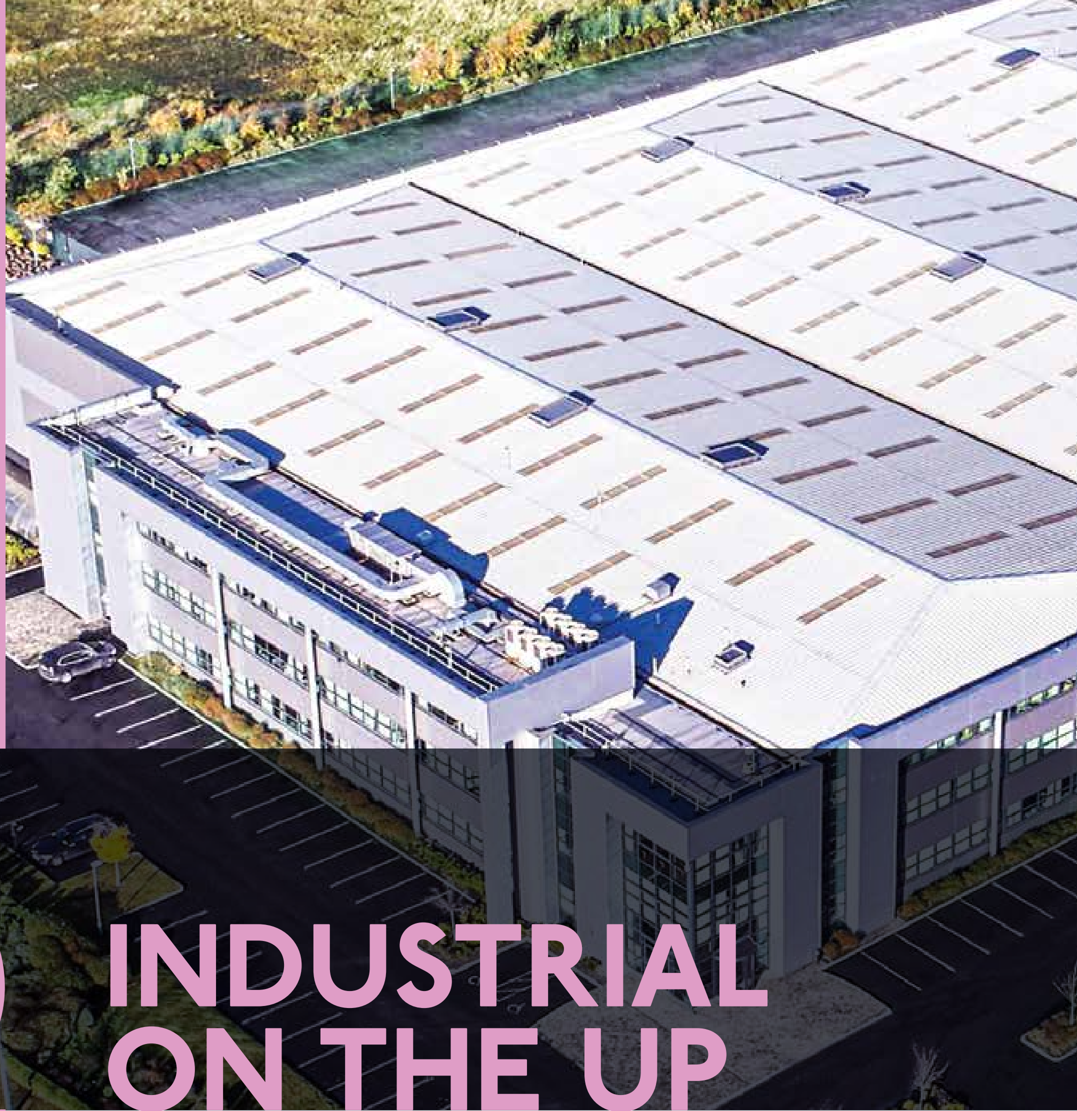
SUPPLY LEVELS HAVE FALLEN BY **65%** SINCE 2013. NEW SUPPLY IS COMING, **BUT IT IS NOT AN ADEQUATE AMOUNT**



05 INDUSTRIAL ON THE UP

DUBLIN INDUSTRIAL

The Dublin industrial market has been very active since 2013 with annual take-up levels in excess of the 25 year average (266,200 sqm). 2018 and 2019 have been particularly notable with activity above 300,000 sqm.

However, 2019 was a year of two halves; in H1, activity was exceptionally strong, at 190,000 sqm, while in Q3 the market stalled a little. The two key reasons for this were supply constraints and uncertainty.

Supply levels have fallen by about 65% since 2013 and continued on this trend in 2019. There are only about three individual properties available with more than 10,000 sqm, some just available on a short-term basis. New supply is coming to the market, but it is not an adequate amount.

In terms of uncertainty, the discussions between the EU and the UK on the Brexit withdrawal agreement in the Autumn was also a factor in the slowdown in activity. Much industrial demand now stems from retailers (as is the case in the UK) and given the uncertainty around tariffs, as well as continued retailer failures in the UK, this is likely to have made some potential occupiers pause and consider their occupational requirements further. The same is true for indigenous businesses with occupational needs. Business sentiment (as measured by KBC Bank Ireland) slipped to a six-year low in Q3 as increased uncertainty led to slower gains in production and hiring, and Brexit was considered to dwarf all other risks to the Irish economy. Nevertheless, we estimate that 2019 take-up was around 300,000 sqm.

Activity was exceptionally strong in H1, but supply constraints and uncertainty caused H2 to stall.

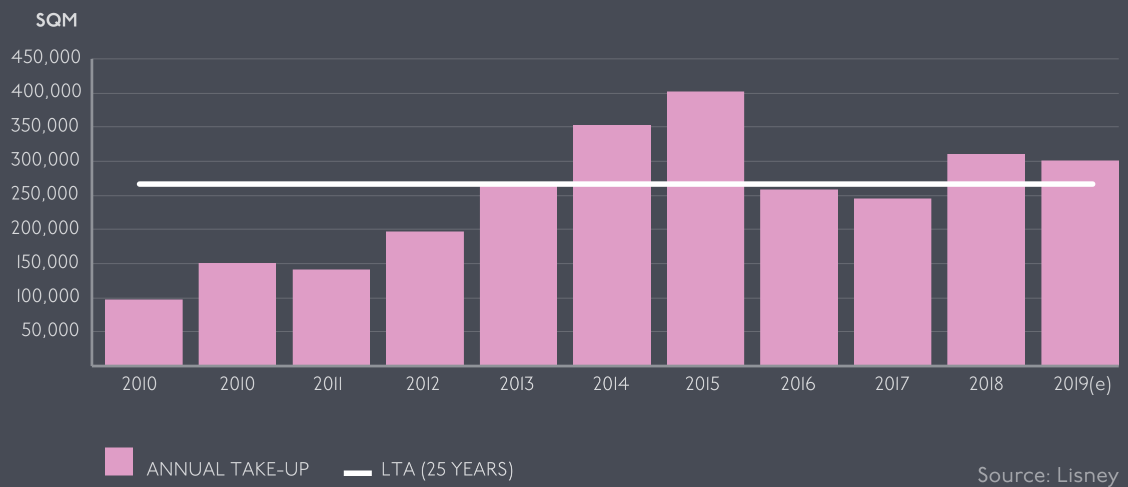
INSIGHTS

We believe 2020 will be a good year for both smaller and larger industrial buildings, but perhaps more difficult for the mid-market. For buildings less than 1,000 sqm, we may start to see owner-occupiers becoming more active. This type of occupier is very interested up to €1m, where companies with a mix of cash and bank funding can purchase a premises up to 1,000 sqm, which allows their business to grow and take on new contracts. Greater levels of demand are starting to come from this part of the market due to strong increases in rents in recent years and the fact that leases entered into in 2014/2015 are now at or close to renewal or rent review stage. Many tenants find themselves in the position where their rent is doubling at review and doing the maths, they often find that debt repayments are less per month. Some negotiations surrounding lease renewals and rent reviews in 2020 may turn into purchaser demand, despite the stamp duty increases in Budget 2020. However, the construction of this size of industrial building is becoming more expensive with increased energy rating and certification requirements. Prevailing rents and capital values do not justify the development of smaller units and as such, occupiers seeking this space will focus on second-hand stock. From a supply point of view, this is positive as it will assist in reducing availability further.

The mid-market (1,000 sqm to 2,500 sqm) may continue to have relatively subdued demand levels in 2020, particularly from purchasers, as has been the case for several years. This is likely due to businesses being cautious with borrowings at this level and deciding the flexibility of leasing is more attractive. When compared to the mid-market, larger buildings have been easier to transact in recent years and this demand is evidenced in the lot sizes of new construction since 2016, which average over 6,000 sqm. However, for SMEs in recent years (and it will be the case in 2020), they are faced with the prospect of either borrowing to invest in a new premises, taking a long-term lease commitment or outsourcing warehousing and distribution. It is this conundrum that has fuelled and will continue to fuel the development of bigger buildings as deciding to go with third-party logistics providers is often the course of action chosen by businesses. This is evidenced in the likes of DHL, Primeline, Kuehne & Nagel, Masterlink and TPN all taking large logistics buildings.

Dublin Port

ANNUAL TAKE-UP



Source: Lisney

TRADE

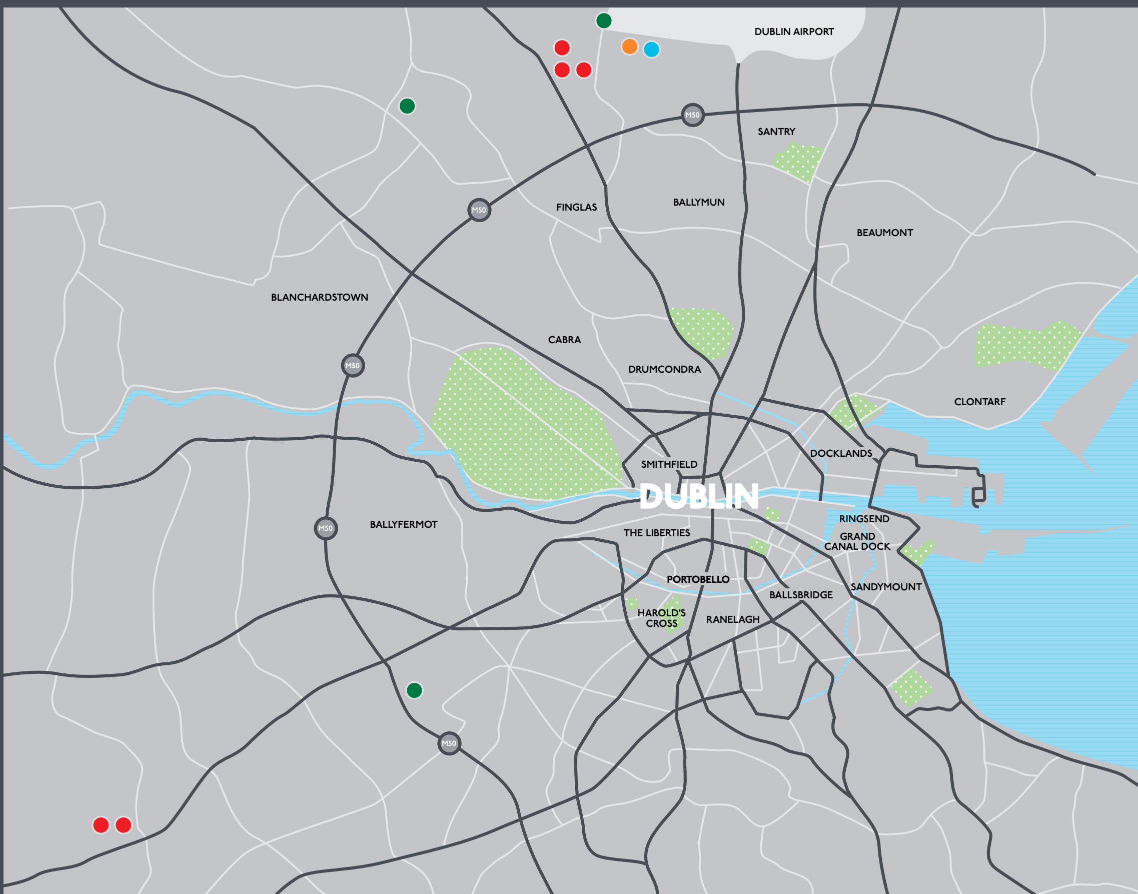
The reality of trade and manufacturing is that goods have to come into and out of Ireland. Depending on the final Brexit agreement, it may be the case that Irish manufacturers will need to source their materials in the EU and ship directly to Ireland. Indeed, the main shipping lines are already using more direct sailings from the continent, a trend that will develop further in 2020 as containerisation further replaces roll-on roll-off trucks. This will undoubtedly generate additional demand for larger warehouses close to the main ports in Dublin, Rosslare and Cork.

Much work is ongoing in Dublin Port in terms of implementing its masterplan for both the existing Dublin Port area and Dublin Inland Port at the M2/M50 junction. The re-allocation of space and more efficient use of the lands in the city will see some non core port-relates uses move to the inland port. Indeed, a process is underway seeking operators for the container storage yard. This movement from port to inland port is a global trend seen in other European countries, China and the US. It provides an excellent opportunity for investors and developers adjacent to the inland port to benefit from a new industrial cluster.

NEW INDUSTRIAL BUILDINGS

In this property market cycle, new construction only commenced in 2016 as prevailing rents did not justify development until that time. Since then, several design-and-build properties, along with some spec buildings, have been completed. Combined, these have added 95,000 sqm of accommodation to the Dublin industrial stock levels, 38% of which is in the southwest region, 40% in the northwest and 21% in the north. What is most interesting about this wave of development is the large individual lot size, at 5,900 sqm per building. This is at odds with the last cycle when much of the new building at that time was for units around 1,000 sqm.

The outlook for 2020 in terms of new stock is positive. There is an additional 38,000 sqm under construction, all of which is in the north or northwest regions. Many of these buildings are larger in size, ranging from 1,400 sqm to 7,250 sqm, hence catering to the demand for bigger units. The majority is being built speculatively but most are likely to be let or sold during the construction process. The main developers currently completing buildings are Rohan Holdings, Park Developments, Erigo Developments and Green REIT.



CONSTRUCTED 2016 \ CONSTRUCTED 2017 \ CONSTRUCTED 2018 \ CONSTRUCTED 2019

Source: Lisney / CIS

In spite of this new development, Dublin industrial supply is still not sufficient. There is an additional 115,000 sqm of space in the pipeline (in the north, northwest and southwest regions) where planning permission has been granted but no construction has commenced. However, some will commence in Q1 2020. Overall, this equates to about four-months market take-up and is not enough to meet occupier demands in the short to medium-term.