The Dublin industrial market delivered a robust performance year to date. Driven by a strong third quarter, with 105,100 sq m transacting, just over 269,050 sq m was taken up in the nine months to September. The market will now surpass activity recorded in the previous two years.

In line with the robust volumes of take up, and a limited volume of new completions, supply levels and in turn the vacancy rate trended downwards. A total of 505,250 sq m of space was available at the end of Q3 2018, with a corresponding vacancy rate of 12.2%.

Positively, the year to date has also seen a number of new speculative builds commence construction, a much-welcomed feature in a market which has been starved of new supply for a decade. A total of 95,600 sq m was under construction at the end of Q3, of which 39,300 sq m is being developed speculatively.

Furthermore, while outside of our market coverage, a deal which must be mentioned is the sale of the former HP campus in Leixlip, Co. Kildare. BlackRock and O’Flynn group purchased the 195 acre campus for approximately €50m. As one of the largest industrial transactions to take place in history, the sale is a real indicator of investor appetite for industrial product.

However, it must be noted occupier performance in the market is evidently mixed. Anecdotal evidence would suggest the market distils an air of quiet confidence, however, also combined with a cautiousness around Brexit. Some occupiers are actively working on securing space before the looming exit deadline in March, while some others are also showing some signs of unease around how much space to occupy.

Availability continues to be a key theme amongst market participants, be it a lack of availability of quality product, or indeed quality product in the right location. However, despite this issue of availability, the majority of speculative space under construction at present remains available, with just one unit pre-let. Demand for these units is present, with a high volume of potential occupiers showing keen interest. However, occupiers are increasingly seeking more flexible lease terms and this is causing a rise in the length of time it is taking for deals to close.
Transaction activity in the Dublin industrial market recorded a sizable jump in the third quarter of 2018. Approximately 105,100 sq m transacted in the three months to end September, marking the strongest quarterly take up since 2015.

The strong quarter was a reflection of not only demand levels in the market, but also the cumulative closure of a number of deals which carried over from previous quarters. The impressive third quarter brings the year to date take up figure to 269,050 sq m. This represents a 39% increase on the same time period last year.

A key element of the third quarter’s performance, was the number of larger lot sizes occupied. Four transactions above 5,000 sq m took place, which when combined accounted for approximately 53,700 sq m or 51% of the quarterly take up.

The largest transaction in the quarter was the sale of the Former Lufthansa Premises, Dublin 12. Located on the Naas Road, the unit measures 21,800 sq m. Elsewhere, Unit 103, Northwest Business Park, Dublin 15, measuring 12,500 sq m, was let to a bathroom company.

In general, requirements for large space are coming from companies wishing to merge operations across a number of smaller units into one larger space. The

<table>
<thead>
<tr>
<th>Property</th>
<th>Region</th>
<th>Size (Sq M)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former Lufthansa Premises, D12</td>
<td>SW</td>
<td>21,800</td>
<td>Sold</td>
</tr>
<tr>
<td>Unit 103, Northwest Business Park, D15</td>
<td>NW</td>
<td>12,500</td>
<td>Let</td>
</tr>
<tr>
<td>Unit 665, Greenogue Business Park, Co. Dublin</td>
<td>SW</td>
<td>10,150</td>
<td>Let</td>
</tr>
<tr>
<td>Unit 56, Parkwest Industrial Estate, D12</td>
<td>SW</td>
<td>9,300</td>
<td>Let</td>
</tr>
<tr>
<td>Unit A, Furry Park Industrial Estate, D9</td>
<td>NE</td>
<td>4,150</td>
<td>Let</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield Research
The purpose of such moves is to take advantage of economies of scale.

Analysing transaction activity by deal type reflects the continued prominence of leasehold transactions in the market. At the mid-point juncture of this year, Cushman & Wakefield Research noted the unusually high proportion of leasehold versus freehold transactions as a trend to watch. Quarter three saw 62% of the space occupied done so through lettings, with the remaining 38% occurring through owner occupation.

Market intelligence would point to owner demand continuing to be present in the market, however, a lack of available product is impacting occupiers’ choices. In addition, potential owner occupiers are also now facing strong competition from investors for units available for sale, who in many cases have more capital available to them. Lastly, Brexit has begun to draw on occupier sentiment, allowing for an indecisiveness and a “hold” approach on moves.

Following historical trends in the Dublin industrial market, the South West continues to dominate activity, accounting for 62% of space occupied in the year to date. This is followed by the North West, absorbing a further 22%. A more granular location analysis, highlights Dublin 12, 24, 15 and 9 as the most active postcodes. Despite the South West accounting for the largest volume of activity, occupiers have a stronger preference towards space in North Dublin, and this is reflected in construction activity.

62%

The South West accounted for 62% of space occupied in the year to date.
Availability in the Dublin industrial market has declined by 18% over the past twelve months. At the end of Q3 2018, approximately 505,250 sq m of space was available. Relatively strong take up and low completion levels continue to foster an environment of declining availability. Compared to Q3 2018, the equivalent figure was 618,250 sq m.

In line with the significant movement in availability, the vacancy rate has also contracted significantly, falling to 12.2%, down from 15.1% at Q3 2017.

As noted in the previous section, transaction activity this year has been centred around leasehold transactions. One of the number of reasons for this, is the lack of available product for sale.

A breakdown of availability reveals that just 32% of space on the market is available for sale, or for sale/to let. This equates to just 161,550 sq m of space. Delving further into availability statistics, shows the largest proportion of this is Grade C, as illustrated in the accompanying graph. Grade A space accounts for just 25%, across 27 units.

Availability has declined by 18% over the past twelve months, reaching 505,250 sq m at the end of Q3.
In the year to date, construction activity has been characterised by the emergence of new speculative builds in the market. Ground was broken at North City Business Park, Greenogue Business Park, MountPark, Baldonell Business Park and Northwest Logistics Park.

This is a much-welcomed development in the market, as occupiers had voiced issues around the availability of quality product in the right location for the past number years.

A total of 95,600 sq m was under construction at the end of Q3, of which approximately 39,300 sq m is speculative development. Looking at just the speculative space under construction at the end of Q3 2018, all bar one unit is due to complete this year. Interestingly, the majority of these units under construction are located in the North West, highlighting the growing demand for space in this region.

Of the total speculative space under construction at the end of Q3, 3000 sq m was reserved at D5, Horizon Logistics Park. Fastway Couriers reserved the unit in the opening quarter of this year. Although under construction at the end of Q3, this unit has since completed construction, along with Heron House, Dublin Airport Logistics Park.

Given the number of speculative units now under construction, it is expected that there may be a slowdown in new starts. Construction activity is still ear marked for example in Vantage Business Park, St, Margaret’s, North Co. Dublin. However, it is believed that this will only go on site, when or if a pre-commit is agreed.

“The industrial market currently offers real prospects for both capital and rental value growth with the sector increasingly seeing significant levels of investor activity. While many Grade C units had traditionally been overlooked, many of these units are in close proximity to main transports nodes and are being targeted for short term asset management with future redevelopment. The sector now offers opportunities for both investors and owner occupiers alike.”

BRENDAN SMYTH, DIRECTOR OF INDUSTRIAL, CUSHMAN & WAKEFIELD.
In the year to date, rental growth in the Dublin industrial market has continued to record gradual upward movement. At the end of Q3 2018, prime rents stood at €95 per sq m, an annual increase of 12%.

A small number of deals are occurring above this level, for example, Fastway Couriers who have secured space at a newly developed unit in Horizon Logistics Park for €102 per sq m.

Forecasts for year-end suggest that prime rents will rise further to €100 per sq m and rising to €108 per sq m in 2019. Rental growth at present is a reflection of not only demand-led inflation, but also rising construction costs.

Prime yields have also witnessed considerable movement over the past few years. At the end of Q3, prime yields stood at 5.10%, and are expected to reach 5.00% by year end. Yields are not anticipated to go below this level, and instead remain relatively stable for the short term. A five-year forecast shows slight upward movement projected in line with interest rate movements from 2020 onwards.

Interestingly, across Europe, yield compression in the past year has been strongest in the logistics sector, with the previous historic low for Europe now surpassed. This coincides with the trend in Dublin, where the previous keenest prime yield was 5.5%.

Prime rents reached €95 per sq m at the end of Q3, an annual increase of 12%.
About Cushman & Wakefield

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