Overview

After a subdued start to the year, occupier demand picked up in Q2 to bring take-up in line with its 10-year average. Meanwhile, preliminary figures show that the investment market has softened, but prime yields stayed firm.

Occupier focus

Beating expectations, take-up in Q2 rose by 16% y-o-y to 8.8 million square feet, taking the mid-year total to 15.9 million sq ft, just above the 10-year average of 15.7 million sq ft. Encouragingly, the number of deals (66) was the highest in a quarter since Q1 2015. However, the average deal size was down, due to fewer large requirements. Possibly in connection with Brexit preparations, 3PLs had the largest share of take-up (32%) in H1. Availability continued to rise, by 8% to 63.8 million sq ft, largely due to the record volume of speculative completions this year (13.7 million sq ft). Generally, there has been an increase in development at the larger (>400,000 sq ft) and smaller (50-100,000 sq ft) ends of the market. Meanwhile, rents continued to grow at 3.2% y-o-y in June, according to MSCI.

Investment focus

Amid continued Brexit uncertainty and end-of-cycle concerns, preliminary figures for H1 point to a 30% decline in logistics investment relative to the five-year average of £3bn. That said, good-quality, well-let assets remain in demand and continue to command sharp yields. And forward funding is an increasingly popular solution among institutions to access prime product. In contrast, there is a growing mismatch between buyers and sellers’ expectations for secondary assets. In turn, there was a small outward shift in MSCI’s equivalent yield in June relative to year-end 2018.

Outlook

While a delayed Brexit deadline has extended uncertainty and the risk of a no-deal appears to have increased, the occupier market has remained resilient, and will continue to benefit from the e-commerce expansion. Nonetheless, the recent surge in supply means that, from an investor perspective, a more granular approach is warranted in stock selection to identify rental growth and generate performance going forward.