UNITED KINGDOM

Industrial Market Snapshot

Second Quarter | 2019

CUSHMAN & WAKEFIELD

MARKET INDICATORS

Market Outlook

Prime Rents:	Rental growth has slowed but will continue as new product sets new headline rents.	
Prime Yields:	Yields are likely to stabilise at their current level.	
Supply:	A rise in speculative development will broaden occupiers' choice in some markets.	
Demand:	eCommerce expansion continues to fuel demand that may help mitigate any negative Brexit impacts.	

Prime Industrial Rents – June 2019

LOGISTICS LOCATIONS 50.000-100,000 SQ.FT UNITS	GB£ SQ.FT YR	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
London (Heathrow)	15.50	187	21.03	3.3	4.0
London (Croydon)	14.00	169	18.99	3.7	7.5
Manchester	7.00	85	9.50	0.0	8.8
Birmingham	7.00	85	9.50	3.7	4.0
Bristol	7.25	88	9.84	3.6	4.7
Leeds	6.25	76	8.48	8.7	4.6
Newcastle	5.50	66	7.46	0.0	5.3
Cardiff	6.50	79	8.82	8.3	3.4
Edinburgh	8.50	103	11.53	0.0	3.2
Glasgow	7.50	91	10.18	0.0	3.7

Prime Industrial Yields – June 2019

LOGISTICS LOCATIONS 100.000 SQ.FT UNITS (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
London (Heathrow)	4.00	4.00	4.00	6.50	4.00
London (Croydon)	4.25	4.25	4.50	7.25	4.25
Manchester	4.75	4.75	4.75	7.25	4.75
Birmingham	4.75	4.75	4.75	7.50	4.75
Bristol	5.00	5.00	5.25	7.50	5.00
Leeds	5.00	5.00	5.25	7.50	5.00
Newcastle	5.50	5.50	5.50	8.00	5.50
Cardiff	5.25	5.25	5.25	8.00	5.25
Edinburgh	5.75	5.75	6.00	8.00	5.75
Glasgow	5.75	5.75	6.25	8.00	5.75

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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.

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