LOGISTICS FACILITIES CONTINUE TO OUTPERFORM STANDARD INDUSTRIAL ASSETS

Kevin Mofid, associate research director at BNP Paribas Real Estate, shares his thoughts on the industrial and logistics property market in the UK:

“Since we started collating and analysing logistics market data prior to the economic downturn, the landscape has continued to change, as UK and global markets are affected by economic and political uncertainty. This in turn has an effect on the UK logistics property market, as a key driver of its success is related to the global supply chain, which many retailers and manufacturers find themselves in.

In spite of this, logistics facilities have proven to be a more resilient asset type than all other industrial, enabling the sector to emerge quicker from the recession over the last three years. However, the market potential for 2013 remains uncertain, as take up levels continue to decrease and the availability of modern stock is now at its lowest level since 2008.

At a nationwide level, our latest research report complied with IPD, revealed that whilst total returns for logistics and all other industrial converged at 2%, at a regional level the differences were stark - with logistics out performing industrial in seven of the 10 regions we analysed. These returns are being driven, in the most part, by the solid income return derived from logistics assets.

As occupiers realise that there is a restricted amount of new stock coming onto the market, the demand for better quality second hand stock continues to increase, causing supply to further fall. Our most recent occupational statistics revealed that in Q3 2012, only 0.97m sq ft of industrial space over 250,000 sq ft was secured compared to 4.42m sq ft in Q2 2012, mainly due to this lack of available facilities of this size.

As investors look for alternatives, performance of stock built between 1980 and 1999 has improved, as these are still fit for purpose and typically let on long leases to strong tenants. This market dynamic is also helping to create an interest in D&B facilities.
With regards to regional take up of space, the Midlands remains the most active, accounting for the majority of the transactions in the third quarter of this year, with take up totalling 2.4m sq ft. This meant that whilst peripheral markets continue to struggle, the Midlands was the only region that recorded an increase in take up. Elsewhere, take up in London and the South East fell by 51% in Q3 2012 compared with Q3 2011, totalling only 1.28m sq ft, whilst take in the South West also fell, dropping by 41%.

Looking ahead, there are positive signs that the sector will fare well, but the acute shortage of larger industrial space, coupled with the continued lack of funding for speculative industrial developments, will continue to impact recovery, if a solution can’t be found.

We do expect that take up in the sector will remain robust in 2013. However, the challenge for occupiers is whether they can commit to longer leases and whether developers are able to be more flexible, further enabling speculative and pre-let developments to increase across the UK.”

The BNP Paribas Real Estate Logistics Index, compiled in conjunction with IPD, covers a sample of 545 logistics properties across the UK, totalling £5.7m. This amounts to 28.5% of the total IPD Industrial Segment, worth £20.2bn as of the end of 2012.

For a copy of The BNP Paribas Real Estate Logistics Index please email:
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