Investment yields set to continue to soften, but signs of bottom of market being reached for London offices and logistics

2 years ago

Yields for offices and logistics in many key markets around the world continue to come under scrutiny but are being upheld by a significant lack of stock, and there's evidence that the bottom of the market may have been reached in some sub-markets, according to Savills in its latest Offices and Industrial Capital Markets Quarterly reports.

The international real estate advisor says that logistics investment markets are experiencing a period of stagnation with volumes 57% down from their Q1 2022 peak, following a two year investment boom. Markets that fully rebased last year, such as the UK, are seeing more activity which is once again supporting competition for the best assets, but there are a number of European markets, including Germany, where Savills expects further outward yield expansion over the next 12 months in order for them to normalise.

Marcus de Minckwitz, Head of EMEA Industrial and Logistics at Savills, comments: "Investment criteria are becoming more stringent in the industrial and logistics sector, with a focus on best in class assets and price adjusted value-add opportunities. The market is in a state of anticipation, awaiting stability in the macroeconomic environment. Once there's more clarity around pricing levels and interest rates, we anticipate an uptick in activity. This is already evident in the UK where the benchmark yield for a prime asset in London experienced a 25 basis point compression in Q1, settling at 4.75%. We look forward to the markets fully stabilising over the next 12 months and investment volumes returning."

Savills says that the picture in the global office investment markets is very similar: most markets are likely to see further yield expansion this year as price discovery works against sellers. London is starting to attract more interest, however, and yields are expected to stabilise.

Rasheed Hassan, Head of Global Cross Border Investment at Savills, adds: “Weak office investment volumes have been matched by equally sluggish fundraising activity. The fast rise in the cost of debt has created uncertainty and many investors are on pause while they wait to see an end in sight. We do expect to see some further upward pressure on yields over the next 12 months in a number of gateway markets as they require more time to adjust, but in London – often a bellwether for other markets due to greater levels of liquidity and transparency – yields are once again piquing the interest of global investors. We are starting to see some similar signs of stabilisation in Paris for best in class assets too.”