

Overview

Following a period of limited activity, the Danish industrial market is becoming increasingly popular as an investment destination for international capital. This is linked to the growing saturation of the traditional target sectors in Denmark, such as offices, retail and residential, but also due to increased confidence and the still relatively attractive achievable yields on industrial assets. With rising competition, yields are under downward pressure and have compressed for the second consecutive quarter in the second quarter of 2016.

Occupier focus

Take-up over the quarter has improved, but remained more or less in line with the results seen in the corresponding quarter in 2015. End-users still play a dominant role in acquiring industrial space for occupation however, leasing is an increasingly popular option. Consequently, a rise in prime logistics rents has been noted, for the second time over the past year, albeit limited to the Greater Copenhagen area that continues to attract most interest. In the recent quarter there were several large leases concluded above 2,000 sq.m in Greater Copenhagen – both new leases as well as renewals. As a result of growing demand, the vacancy rate in Copenhagen fell to 3.3%.

Investment focus

The momentum seen since Q4 2015 has been sustained in the investment market, with transaction levels in Q2 reaching €170 million. Over the past six months, the volume of capital invested in the sector equated to four times the level of H1 2015. Recent figures comprised four deals with three of these deals being logistic warehouses. Pareto Securities acquisition of one of these distribution warehouses for €80 million was the largest deal. Activity has been spurred by interest in quality product with long leases and strong covenants on offer, which are difficult to obtain. Further, Denmark's low interest rates are helping to keep investor interest piqued.

Outlook

The recent improvement in rental levels is expected to be sustained in the months and quarters ahead as the relatively healthy demand continues to face a tight pipeline. Appetite for prime grade investment product should however, remain strong and continue to support market momentum, and may even trigger further development activity to create additional investment opportunities.

MARKET INDICATORS

Market Outlook

Prime Rents:	No short term change in rents expected, having already risen by 14% over the year.	▶
Prime Yields:	Further hardening expected in the medium term as investment activity accelerates.	▲
Supply:	Low vacancy rates and limited new supply are anticipated to persist in the short-term.	▶
Demand:	A steady appetite for owner occupier purchases expected to continue.	▶

Prime Industrial Rents – June 2016

LOGISTICS LOCATION	DKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Copenhagen	575	77.3	7.98	15.0	2.8
Aarhus	400	53.8	5.55	0.0	0.0
Odense	325	43.7	4.51	0.0	-1.5

Prime Industrial Yields – June 2016

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Copenhagen	7.00	7.25	7.50	7.50	5.50
Aarhus	7.50	7.50	7.75	7.75	5.75
Odense	7.50	7.50	7.75	7.75	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.

Recent performance

