

Logistics: the era of record performance comes to an end this year



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“While neighboring countries - Poland, Hungary and Slovakia - will probably achieve record-high results this year, the Czech market reached its maximum last year. For the first time we felt the impact of the slowdown early this year, especially because of the limited influx of foreign investments. Plus the global crisis arrived in the second half of this year,” Ferdinand Hlobil, head of the Central European Industrial Property Team for Cushman & Wakefield, comments on the market development. The situation on the domestic logistics market is therefore changing by the minute, in particular because of the aforementioned crisis, or rather recession. Not so long ago, at the end of summer, the analysts of CB Richard Ellis for example concluded that the strong demand for warehouse and industrial areas would survive into the third quarter, and therefore projected record-high results in this property segment in 2008. By that time, however, the vacancy rate had already reached 15.6% because of the construction boom.

Crisis slowly comes to the Czech Republic

The lower interest in new premises has resulted in a general and very rapid decline in construction. “Every year from the mid-1990s the market expanded by tens of percent and a slowdown was inevitable. This year about 100,000 square meters of areas more than two years ago were built and handed over for use. Slowdown is a common part of the economic cycle,” adds Ferdinand Hlobil, of Cushman & Wakefield. According to him there was a reduction of speculative construction in the third quarter of this year, which was a direct impact of the global economic crisis. While in the past the hardest thing in industrial development was to prepare a logistics project for construction, today such projects are already prepared, but due to the banking crisis the developers are not able to secure their funding. Even more so because banks are overly cautious in their approach to new projects at this time. “We carefully verify new projects and insist on a higher share of the investor’s own capital, as well as preliminary leases,” said Lenka Kostrounová, of ČSOB, at a seminar organized by Stavební fórum a short time ago. That is why construction, according to Hlobil, is undertaken today mostly on the basis of purchase orders filed by future tenants, but even this type of construction activity is experiencing a slow drop. “We have been observing cuts in these projects approximately since the beginning of November. The reasons are twofold - either the tenants are not able to secure the needed finance for the new project, or their expansion projects are hindered by their foreign parent companies in the expectation of lower business results,” Hlobil explains.

Heart-attack market?

“We expect the market almost to freeze by the end of the year and we will see a waiting period. The situation is changing and evolving rapidly at present, many companies are afraid to take any decisions before the end of the fiscal period because it could turn out to be very disadvantageous in a couple of months,” says Ferdinand Hlobil, adding that the first half of 2009 will be also poor for the logistics market and some revival will come only in the second half. According to him, in the following months we can expect minimum construction activity by developers, a lower volume of purchases and sales of industrial properties and a growing yield. Product differentiation will be also stronger - while the best locations will remain occupied, second-rate properties left by their tenants could have a problem finding another tenant. However, the deeper impact of the crisis on Western Europe could be eventually a good thing for the domestic logistics market - some Western European companies could transfer their activities to us in an effort to curb their costs. We can therefore estimate that in 2009 the area of contracted leases could be greater than new-built areas, but in 2009 Cushman & Wakefield estimates that neither of these parameters will exceed 500,000 square meters.

Central Europe: logistics paradise

Regardless of the current problems and the slowdown in construction and demand for logistics areas, the future of logistics in the Czech Republic seems to be rosy thanks to the country's good geographical location as well as the achieve level of economic development. In recent years developers have been eyeing not just the Czech Republic, but the whole post-Communist part of the European continent, obviously taking into account the plans of the distribution companies. ProLogis, the world's largest owner, manager and developer of distribution facilities, published a study on this topic called “Central and Eastern Europe's Logistics Infrastructure” in a short time ago. “The CEE countries' expanding economies, increasing prosperity and further integration into the European Union (EU) have helped drive major improvements in their logistics infrastructure in recent years,” Leonard Sahling, first vice president of research for ProLogis, commented on the study. According to him, the traffic infrastructure in the five major countries in the region - Czech Republic, Hungary, Poland, Romania and Slovakia - was neglected considerably in the past, but since the 1990s its development has seen considerable progress and in some regards is already comparable to Western Europe. However, there are still significant gaps, especially at the local level. “Considering the pace of current development, we can expect that it will take at least another ten years before Central and Eastern European countries are able to accomplish their plans to build modern traffic infrastructure,” Sahling envisions.

In the large region of Central and Eastern Europe, however, there are marked regional differences. The situation in the former region is better, which is why developers as well as users - tenants of logistics facilities are heading there. This is confirmed by the latest European Distribution Report, which surveys the logistics appeal of the individual locations, or countries; the report is published regularly by Cushman & Wakefield. The ranking is set up on the basis of many criteria, such as rent for industrial areas, price of human labor, traffic density, transport market size, distance to key markets, population density etc. Belgium defended its first place, while the Netherlands ended up second. These two countries are followed by a trio of Central European countries: Hungary, the Czech Republic and Poland. The position of Slovakia has improved greatly as well; in the previous years it was not included in the rankings at all. Slovakia's appeal is greatly strengthened by its economic results and its early currency fixing to the Euro. “The growing popularity of Central Europe is not surprising. The market in logistics properties has been driven mostly by manufacturers in the last more than twelve months. Manufacturing firms bring us lower costs and want to sell their products here. They perceive the ever-growing purchasing power of Central Europeans,” Ferdinand Hlobil explains.

European logistics centers with the greatest appeal

Country	2008 ranking	2008 points	2006 ranking
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Belgium	1	8.45	1
Netherlands	2	9.54	3
Hungary	3	9.56	7
Czech Republic	4	9.57	4
Poland	5	9.76	5
France	6	10.25	2
Austria	7	10.81	9
Germany	8	10.82	6
Slovakia	9	10.85	-
Italy	10	11.37	8
United Kingdom	11	12.25	10
Denmark	12	12.31	-
Romania	13	12.49	-
Lithuania	14	12.56	-
Portugal	15	13.11	12
Latvia	16	13.24	-
Spain	17	13.44	15
Estonia	18	13.81	-
Turkey	19	13.91	-
Ukraine	20	14.44	-
Finland	21	14.93	-
Russia	22	15.27	13
Bulgaria	23	15.7	-
Ireland	24	16.41	11
Sweden	25	16.49	14

Source: Cushman & Wakefield

Highest rents of logistics properties in Europe

Ranking	Location	Country	€/sqm/year
1	London (Heathrow)	United Kingdom	165
2	Dublin	Ireland	118
3	Barcelona	Spain	102
4	Stockholm	Sweden	100
5	Amsterdam (Schiphol)	Netherlands	95
6	St. Petersburg	Russia	94
7	Riga	Latvia	90
8	Kiev	Ukraine	88
9	Moscow	Russia	87
10	Madrid	Spain	87

Source: Cushman & Wakefield

Rent - Central and Eastern Europe

Location	Country	€/sqm/year
Kiev	Ukraine	88

Sofia	Bulgaria	72
Budapest	Hungary	54
Bucharest	Romania	48
Prague	Czech Republic	48
Bratislava	Slovakia	45
Warsaw	Poland	36

Source: Cushman & Wakefield

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The logo for 'Stavební fórum' features the text 'Stavební' in a large, light grey, sans-serif font above the word 'fórum' in a smaller, bold, light grey, sans-serif font. To the left of the text is a stylized graphic of a building facade with several windows, rendered in a light blue-grey color. The entire logo is semi-transparent and overlaid on a background of faint, vertical, wavy lines.

Stavební fórum