

Logistics: will the market decline continue?



Author: SF / Petr Bým | Published: 17.02.2009

CTP Invest, which owns about two-thirds of all new-built logistics parks according to statistics by the consultancy Cushman & Wakefield, particularly intends to restrict speculative construction, probably in response to the unwillingness of banks to finance projects without any pre-contracted tenants or purchasers. Nevertheless, the company is set to launch projects that, upon completion, should bring an additional 150,000 square metres of new warehouses and production halls to the market. For comparison: last year the capacity of industrial real estates in the Czech Republic grew by about 650,000 square metres. This year's projection by Cushman & Wakefield envisages the completion of about 450,000 square metres. However, taking into account the relatively short implementation times and the turbulent development in all areas of economy, such productions are not too certain.

Stagnation factors...

A short time ago the consultancy CB Richard Ellis published a study that pointed at the main factors of development of the logistics market in the coming months. "The recent events on the global financial markets have resulted in a lack of confidence in the interbank sector, a shortage of free money and a general distrust of banks in the funding of speculative projects," says Filip Kozák in the study mentioned above, adding that these changes in construction are obvious this year as well. The same applies to the limited interest of investors, who are not currently interested in buying facilities - products (e.g. rented industrial parks) at the offered price conditions. "There is a too large gap between the price expectations of sellers, or developers, and buyers - investors today. We already noticed this trend in the late 2007, and in the course of 2008 there was not a single large investment industrial transaction in the Czech Republic," concludes Filip Kozák, of CB Richard Ellis.

The supply - demand relationship on the logistics real estate market is and will be affected by problems in industrial production, with its situation getting worse and worse in the Czech Republic and abroad each month. It is also necessary to bear in mind that in the field of logistics, the centre of Europe will be increasingly confronted with the southeast of the European continent. For example Greek, Turkish and Black Sea ports are already used as transit points for Chinese imports. According to a survey conducted by DTZ, construction of and demand for logistics parks in this region will not be extremely affected by the credit crunch faced by Western European countries.

...and growth stimuli

A bigger stimulus for encouraging the industrial real estate market by actual users, i.e. tenants, cannot be expected, as the sales crisis seems to have caught up with all manufacturing industries at the turn of the year, with the automobile industry hit the worst. The high vacancy rate (according to the latest data, 17% of all areas in logistics parks are without tenants, and in some regions the vacancy rate exceeded 30% last year) will probably persist and will constitute another argument against speculative construction.

However, the logistics segment could be positively stirred up by other factors. Experts expect that sooner or later investors will once again enter the real estates in search for advantageous incidental purchases; some of them will be opportunity funds, wielding their own financial resources independent of bank loans. And good offers are certain to appear. The value of all commercial properties in the Czech Republic is declining - according to the consultancy King Sturge, this decline of commercial properties was 15 - 20% year-on-year at the end of last year. Add to it CZK exchange rate movements, which usually spell trouble for landlords. Yet this time they are satisfied - if their rentals are denominated in EUR, their CZK income is increasing thanks to the weaker CZK. And for foreign investor this is good news as well - CZK prices will be lower for them. Another weakening of the Czech currency could also refresh exports and renew demand for industrial premises, but obviously this scenario is too optimistic.

The question is - what will the development of land prices do with the logistics market? "Of all types of properties, the biggest price cut can be expected in case of land," says Martijn Kanters, of the consultancy DTZ. According to him, the demand for land is growing significantly because of the attenuated development operations. In addition, developers themselves are about to strengthen their offering, as they own land but need to sell it to solve their financial problems. The prices of land are said to fall up to 50%.

17.02.2009 10:25, SF / Petr Bým