Logistics: Czech Republic – a blessed country

Author: SF / Petr Bým | Published: 09.11.2010

“The logistics market is on the way up. The market was declining due to the economic crisis between the end of 2008 and mid-2009. But now trust in this property market sector is returning,“ says Mario Sander. He supports his words with ProLogis figures. In the first half of 2010, they recorded a 240 % increase in demand compared to the same period of last year: “In these six months we have rented out a total of 134,000 sqm – 75,000 metres of which were new leases.“ The whole logistics market cannot boast of such growth, but overall data on its current development also gives rise to cautious optimism. The entire Czech market today constitutes a total of 3.43 million sqm while from July to the end of September, another 74,000 were added – for example Logistics Park Lovosice by the developer HB Reavis or a new building in CTPark Ostrava.

Number of vacant warehouses declining

The vacancy rate in modern logistics and industrial properties declined significantly in the CR in the third quarter. After culmination in the volume of vacant storage space in the third quarter of 2009 when the vacancy rate reached more than 18 %, it gradually fell below 12 %. Approximately 409,000 sqm are waiting for tenants, according to a DTZ analysis.

The most significant reduction of vacant space was recorded in Western Bohemia, in Pilsen surroundings where the vacancy rate during the 2nd and 3rd quarter fell from 20 to 10 %. The Pilsen area also recorded the highest net demand (ie. leases minus renegotiations) in the nine months of 2010, a total of 192,000 sqm. This progression went in a similar direction in the Moravian-Silesian region where vacancy rate in the same period fell from 31 % to 21 %. The Ostrava region, however, together with Central Moravia still shows one of the of highest vacancy rates despite the visible growth.

“We have seen a solid increase in demand. Whereas in 2009 lease contracts for a total of 381,000 sqm were concluded, it was 591,000 sqm in the three quarters of 2010. If we consider net demand, ie. new leases minus renegotiations, the results are also very good. In 2009 companies leased 31,000 metres of new storage and industrial space; in the first three quarters of 2010 we have recorded demand for further 450,000 sqm,“ Ondřej Novotný, analyst at King Sturge, sums up.

Increased demand from customers has led to some fluctuations in rent. While in Prague its nominal level remained stable at EUR 3.60 – 4.30 per sqm/month, the decline in supply of vacant space in the Pilsen region has led to a slight increase in rent. After rents decreased to as low as EUR 3.20 during the last year, it currently ranges between EUR 3.60 – 4.00 per sqm/month, according to DTZ data. Data by King Sturge shows that prices for leases of smaller units are 15 % higher on average. The so-called headline rent can be decreased by tens of percent in some projects in the form of incentives from developers.

Logistics future

"It still holds true that even though the demand is reviving, it still doesn´t enable speculative construction on a larger scale. The new 93,000 metres marketed in the third quarter of this year had a prenegotiated tenant. The same goes for further 30,000 sqm scheduled to be completed at the end of this year," says Milan Korbelář from King Sturge. Mario Sander more or less confirms his words: "We think that building warehouses to order is the right way for the future."

In ProLogis, they hope to start one or two new projects in CR before the end of this year. Their hopes are probably not unfounded. The Czech economy, following its gigantic westerly economic neighbour, is slowly starting to accelerate. The Finance Ministry has increased this year´s GDP estimate from 1,6 % to 2,2 %. Good, although rather indirect, news for logistics developers are also the conclusions of a study recently published by KPMG called "Global Manufacturing Outlook – Relationships, Risk and Reach". It is based on a survey of management of two hundred industrial plants, focusing on changes in their relationships with suppliers. Over 50 % of its respondents plan to strengthen their depth and strength on the basis of strategic partnerships. This should result in greater stability and continuity of business relationships which will be visible in strengthening the same factors in the sphere of logistics capacity utilization.

The Czech Republic can only profit from such development. "The Czech Republic and Slovakia are blessed from logistics perspective, mainly due to their geographic position. Both countries are a gateway to Eastern Europe and the success of the logistics industry is clear in both these countries. Apart from this, both countries have a cost effective and highly qualified workforce," says M. Sander. According to him, the main competitor of the Czech logistics in the region is Poland, with currently lower rent prices, while for example German logistics complexes are considerably disadvantaged in the battle for customers by the rent levels – which are, on the contrary, substantially higher.

Logistics parks are often seen as urbanistic and countryside disasters, they have even earned an unflattering nickname of „Cancer Metastases". "We understand that most people don´t find warehouses architecturally attractive. However, in our company we try to take into account the neigbours as well as the surrounding areas to be sure that our buildings are not a catastrophe for the countryside but sustainable buildings bringing money and work to the local economy instead," says Mario Sander from ProLogis.

Stavební fórum discussion meeting on the subject of "Commercial leases: solving problematic situations from a lessor´s perspective" will be held on Tuesday 30th November 2010 from 11 am to 1 pm at angelo Prague hotel, Radlická 1g/3216, Prague 5 (registration 10.30 – 11 am). More information about its programme and registration form can be found on discussions webpage.

09.11.2010 12:37, SF / Petr Být