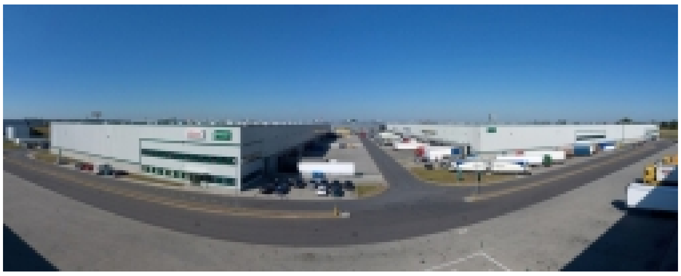
Logistics: leases almost record-breaking, construction nearly zero



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“Last year saw the extension of a number of lease contracts, or companies expanded and rented more space in addition to the existing premises. This didn´t happen in the record years of 2006 and 2007, mostly new lease contracts were signed then. The contracts concluded in the boom period are coming to an end today and tenants often extend them,” says Jaroslav Kaizr, head of industrial lease team at Prague´s Cushman & Wakefield office and he adds: “Last year, for the first time, renewal of lease contracts comprised nearly a half of all leases.” (The volume of leases under the quoted survey includes only those transactions where lease contracts have been signed and tenants moved to the premises in 2010. They related to already existing properties whereas preliminary contracts, so-called pre-leases, were ignored by the analysis.)

Premises without tenants

From regional perspective, the companies were most interested in Prague and the Pilsen region in 2010. This region also recorded the largest decline in vacancy rates – percentage of vacant space dropped in the last twelve months from approximately 25 % to the current 11.2 %. A significant decrease in the vacancy rate in the second half of last year was also recorded in the Moravian-Silesian region. 16.8 % vacant modern logistics premises remain vacant in this region today. A slight increase in vacant space can be traced to the north of Prague and the Highlands (Vysočina), which was mainly due to the relocation of some tenants to other locations.

In Prague, the share of vacant space is above national average, which is primarily due to the size and maturity of the market. Nationwide vacancy rate average, however, dropped significantly last year. At the end of 2010 only 10.6 % of all industrial and storage space remained vacant while a year ago it was 15 %. The lowest vacancy rate is currently recorded in the South Moravian region (below 2.5 %) which suffers from a lack of available land suitable for industrial construction. This applies mainly to Brno and its surroundings. As a result, property developers have nearly no possibility to respond to demand there. “We expect that the volume of vacant space will continue to fall. The share of below ten per cent, however, is already a shortage of supply and can lead to pressure to increase of rents. This will mainly apply to the regions with limited space for lease only,” says Jaroslav Kaizr.

The most significant transactions completed in the last quarter were new leases by the company Brose in ProLogis park Ostrava and by Trost in Orange park in the Pilsen region. Companies Schenker and Damco expanded in the east of Bohemia. A quarter of all lease contracts, or leases, concluded last year, headed to CTP premises. The logistics giant ProLogis (which just merged with AMB Property Corporation) had the share of 23 % on the volume of all lease contracts concluded last year while the third largest player in the domestic logistics market was VGP with 10 % of “sales” last year.

Developers market share

Construction which occured

In terms of new construction, last year significantly lagged behind previous years – only 191 thousand sqm of new logistics space was built and handed over for use, the lowest number since 2004. Compared to 2009 it was roughly a half and about one fifth compared to the construction in the record-breaking year 2007. Developers have built and are building exclusively for tenants agreed in advance, and the only company that has taken courage to speculative construction was VGP. It built halls in Horní Počernice without negotiated pre-leases and is building logistics capacity in Pilsen and Hradec Králové (a total of roughly 20,000 sqm). At Cushman & Wakefield, it is expected that there will be a slow recovery of speculative construction in the areas with low vacancy rates and stable demand in the foreseeable future. “This year we expect further decrease in vacancy levels throughout the country and in some regions such as the Moravian-Silesian region. If it falls below 9 %, we can expect start of even greater speculative building in exposed locations. However, most new construction will be on pre-lease basis. Rents may increase above the current level in regions with low vacancy. We also expect more activity in the land market, which nearly failed to function during the past two years,” Jaroslav Kaizr from Cushman & Wakefield explains.

Different figures

An analysis of storage and industrial market, ie. logistics properties, was also published by the recently established new association – Industrial Research Forum – focusing on research of this market segment. Its members are consultancies King Sturge, DTZ, CBRE and Jones Lang LaSalle. According to it, the year 2010 was also extremely successful for the market when 785,000 sqm of logistics space were leased. Even after subtracting pre-negotiated lease contracts, “net” lease of 624,000 sqm still remains – a yoy increase of 140 %.

“Due to the decreasing supply of vacant space in 2011, we expect a lower number and total volume of transactions. Despite the fading strong demand which was stimulated by developers´ incentives of built, vacant logistics properties or benefits within renegotiations,” Martin Šumera from DTZ adds. According to him, this year the model of development for a particular tenant will be more frequent while negotiations on lease contracts will be longer in comparison with 2010.

According to the association, total volume of logistics real estate space in the Czech Republic grew to nearly 3.5 million sqm, while a greater volume of leases in the last year was also reflected in the significant decrease in vacant space. While at the end of 2009 it was around 17 %, in December 2010 the share of vacant warehouses is at 10.4 %, which accounts for an area about 362,000 sqm.

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