

Logistics: year-on-year increase of construction by 177%

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Firms cut costs

Taking into account the current situation of the Czech and global real estate market, it is definitely interesting to inquire about the reasons for this development. "There are several reasons: accumulation of unplaced and retained demand from the end of 2008, mass completions of partly pre-rented industrial areas financed from construction loans provided in mid-2008, users looking for savings in relocation into modern and cheaper buildings and, last but not least, the weaker first quarter of 2008," says Ferdinand Hlobil, of Cushman & Wakefield. According to him, the market also feels the efforts of corporate circles to cut costs, i.e. prefer rentals to construction as such.

Record-high demand, record-high vacancy rate

The volume of rentals of industrial properties in the first quarter of this year is impressive, given the current condition. As a comparison: it reaches almost 60% of last year's all-year rentals in Hungary or Slovakia," says Hlobil.

Compared to the same period last year, however, the vacancy rate logically grew and climbed to 15.4% in the first quarter of this year, i.e. an increase by 5.9%. According to data from Cushman & Wakefield, the largest vacant area is available in the Ostrava and Plzeň regions, where it constitutes approximately 25%. According to a study by DTZ, the Czech Republic currently possesses 555,000 square metres of first-class industrial areas ready for immediate occupancy. It is convenient to mention absolute figures: according to data from DTZ, at the beginning of April the whole Czech Republic had 3,351,000 square metres of modern storage areas. Over a half of all industrial projects are located in the vicinity of the capital city (1,562,000 square metres; 17% of the capacity is concentrated in the Plzeň region and 14% in the South Moravian region.

New construction of logistics parks (Q1 2009)

Region	Area (square metres)
Prague - West	27 711
Prague - East	41 121
Central Bohemia	22 930
Plzeň region	75709
Hradec Králové region	13 446

Source: Cushman & Wakefield, April 2009

Rent likely to fall

DTZ estimates that by the end of the year, another about 173,000 square metres of logistics parks should be completed - however, the vacancy rate should not grow too much because the property developers of new projects already initiated their construction activities with sufficient pre-rentals and will attempt to lease finished capacities, even by way of miscellaneous offers.

The rent today significantly varies depending on the volume of the rented areas in the location concerned. In well-proven and successful regions (Prague - West, Brno), the highest rent reaches EUR 4.50 per square metre a month, while in problematic locations (Plzeň, Ostrava, Prague - North), the rent is about EUR 3.80. And at least in certain areas, it can be expected to fall. "Property developers are today trying to fill their remaining capacity and are willing to negotiate benefits for the tenants. And companies thinking about relocation from older premises are taking advantage. Considering also the further expected drop of rents in some locations during 2009, the industrial property market is becoming a tenants' market. We expect a market equilibrium in 2010," Martijn Kanters, of DTZ, projects.

Tomáš Novotný, Pinnacle: We are facing a crisis of confidence

In the field of logistics, Pinnacle (100% owned by the Bahrain investment bank Arcapita) is a major European player. At present it manages over 500,000 square metres of logistics parks in Western and Eastern Europe, and an additional 610,000 square metres of land are ready for construction. According to Tomáš Novotný, its director in the Czech Republic, the crisis in logistics will culminate in mid-year.

How do you respond to the current market situation?

We see the situation as a challenge for flexible solutions for our existing and future customers. In general, we are going through a time of compromise, which has to be done by the property developer as well as the end users.

What future development do you expect?

I think that the financial crisis is now overcome and we are going through a crisis of confidence, and not only in our segment. The market is stagnating and falling because potential transactions are halted due to an insufficient confidence in market strength. The demand for our services is sufficient to cover the existing vacant premises - the only thing left is to make sure that the users start confirming their inquiries. In the first quarter of this year, the logistics market surprisingly did not see such a plunge as expected. However, I think this is about the momentum in development from the end of 2008. We can therefore expect to see the greatest fall in the second and third quarters of this year, with a slight improvement at the end of 2009 and in the first quarter of 2010.

What is the competition today on the Czech logistics market?

The competitive fight on the market is influenced by the fact that the vacancy rate in the industrial property segment is 16.5%, which has been caused by a boom of speculative projects in recent years. The market therefore welcomed more square metres than what could be occupied. Now, when we are going through a period of stagnation, it is a problem to rent these premises under standard conditions. The amount of the rent becomes a conventional tool of competitive fight, when landlords go the minimum acceptable level (and sometimes even below it), just to minimize their losses arising from vacant premises. This applies to several companies that entered the market a short time ago and tried to obtain a market share through quick construction of speculative areas.

There have been rumours about a transfer of logistics parks to the southeast (Bulgaria, Romania, Turkey, Greece)?!?!

This trend is absolutely natural. The focus of the advanced Western European market is shifting, or extending to the east. Manufacturing and logistics companies searching for cheap labour and good state incentives can be expected to go in this direction, too. I do not think, however, that this trend will result in an overall drain of logistics companies from the Czech Republic, which has a strategic position from this

point of view. I think that the upcoming changes will only involve the structure of users of logistics parks. Our company perceives this very intensely and develops its activities for example in Bulgaria.

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