

Logistics: Pinnacle deep in sorrow, everybody saddened

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A survey, conducted by Cushman & Wakefield in cooperation with the market research agency STEM/MARK, showed that the tenants in the PointPark Prague D1 park mostly appreciate the building and technical condition of the whole project, its good accessibility and top-quality administration. The average satisfaction of PointPark Prague D1 tenants was 26% higher than in other parks. However, the competition in the content was not too numerous; this year, property developers submitted 6 logistics parks to participate. This just testifies to the current condition of logistics in the Czech Republic. The first quarter showed an enormous quarter-on-quarter increase in construction (177%), but it was merely a swan song for the sector. Last year's development already signalled the end of good times. "In 2007 there were plans for the construction of 22 new parks in 2008, but in the end the total number of new parks was 13. And withdrawals from the regions were also obvious last year, with new projects only in the vicinity of Prague, Plzeň, Brno and Ostrava," Jakub Holec, of King Sturge, commented on the current logistics in the Czech Republic a short time ago. His words could be heard at [Stavební fórum's seminar](#) focused on the market of industrial properties at a time of recession and were confirmed by the opinions of other experts present.

Only 400,000 square metres this year?

Today the Czech Republic has about 3.5 million square metres of modern logistics areas - the biggest increment was seen in 2007, when one million square metres of warehouses and industrial parks were built here. Only 800,000 square metres were added last year and for this year, King Sturge project (with reservations, currently added to every projection) only 400,000 square metres, i.e. half of last year's output. The background for this development is certainly set by the current problems of the global economy, but not only. "There would be some trouble anyway, construction and the market were overheated," Martin Šumera, of the consultancy DTZ, said at the seminar.

Just like anywhere else, new construction is currently mostly determined by banks, which insist on a very high level of pre-rentals, estimated by experts at 50-70%, and examine the financial standing of the individual applicants. More or less, this froze all speculative development. The approach of loan providers is, however, understandable - the suppressed production evidently reduced demand, rentals are going down and there are problems with payment discipline among tenants. This resulted in a slight increase of the vacancy rate, which oscillates between 10% and 15% nationwide; it is no disaster, but in some regions the situation is much more dramatic, for example near Plzeň and Ostrava, where 25 and 36% of all logistical capacities, respectively, are unoccupied.

Market schizophrenia

Regular market analyses also count on the problematic future of the whole sector - for example the recently published study by Colliers International, according to which rents could go slowly down in some parts of the Czech Republic in the following months, or stagnate in the better case (in the last couple of years it dropped from about 6 to 4 euros per metre and month). However, similar projections apply to the prices of land intended for industrial development; buying therefore pays off today.

The statistical data from the study also confirms these trends - most leading property developers have halted speculative construction and limited their planned expansion to new regions. Based on the development of demand so far, Colliers predicts that this year rental activities are likely to be close to the

2006 level and a further decline has to be expected in the following two years.

The mentioned study also points out that the different scope of vacant areas for rental and the different degree of demand in the individual parts of the country result in a certain state of schizophrenia. In regions with a high vacancy rate, it is possible to achieve low rents and count on higher flexibility among landlords. However, an opposite behaviour can be seen in regions with a low (e.g. Southern Moravia, D1 motorway and Vysočina) and even zero vacancy rate (Ústí nad Labem and Eastern Bohemia), where rents are relatively high and property developers, or owners are not forced to make concessions to the benefit of their clients when negotiating lease and business conditions.

Good tip: building inspector

The relatively gloomy situation at home is not the only weakness of logistics development today. “We face two types of problems: with rentals and with exits,” said Zbyněk Laube, of Panattoni, at SF’s seminar. By “exit” he means the last standard stage of property development, i.e. the sale of the completed and occupied building to the investor. There are also problems with this: the investors are hesitant and waiting, while the sellers - property developers often have exaggerated expectations, according to Laube, which broadens the gap between supply and demand on the investment market.

Even though the description of the acute condition of the Czech logistics market does not give us much hope at first sight, it is not totally true. Property developers can find many opportunities in regions with a negligible supply of vacant areas, such as Ústí nad Labem, Brno and some areas in Eastern Bohemia. In this connection, and not only, the friendlier approach of municipalities, which often struggle with increased unemployment, is a good signal compared to the past. There are also certain opportunities coming from the relocation tendencies of tenants, aiming for a better quality of the leased logistics areas. At a time of recession, property developers have more time for cost-cutting innovation. Zbyněk Laube pointed at an interesting option at the mentioned meeting of experts: “We are successfully using the possibilities provided by the new Building Act. The concept of a public-law contract, which replaces the zoning decision, and the services of building inspectors shorten our project implementation time by up to two months.”

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