

Quick Stats

Change from
Q4 2008

Prime Net Effective Rents



Prime Yields



Hot Topics

- Occupiers that have the possibility of reconsidering their current leases can achieve necessary savings on their occupational costs since rents are under downward pressure and incentives have increased.
- Security of income will remain key amongst investors' priorities and as a result lease length and tenant risk will be at the centre of investment decisions now and in the near future.
- In most CEE markets, speculative development is likely to remain limited as rents are under pressure and yields are increasing. In most cases, developers are only willing to develop build-to-suit space once rents are at a level interesting to these developers. This could – from time to time – result in some upward movement in rents for this type of development.

Overview

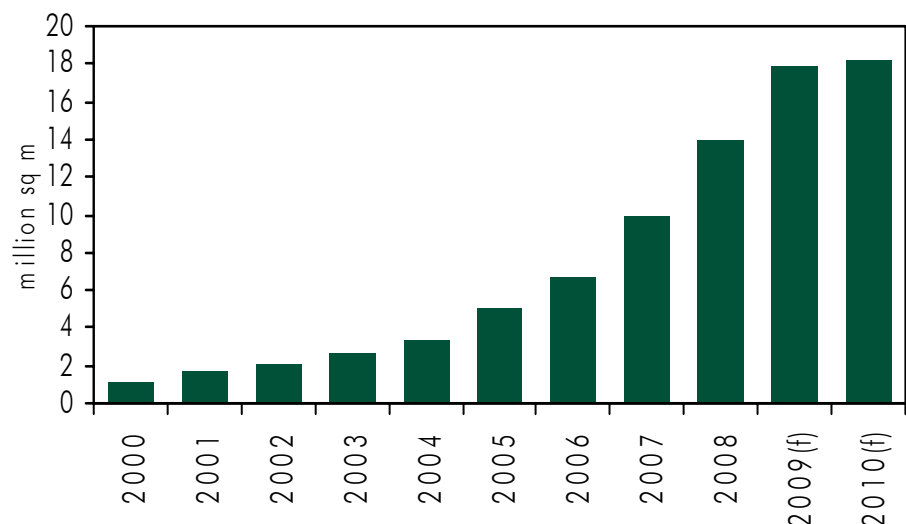
CEE has seen a rapid expansion in the supply of developer-led logistics space over the past decade. This has been especially true in Central Europe and in capital cities across the region. This expansion has occurred for numerous reasons, including CEE's expanding manufacturing sectors and improved infrastructure, as well as higher standards of living and associated higher consumer spending levels that have driven the growth of retail space. There are now substantial amounts of modern logistics space in nearly every CEE country, which stands in contrast to the dilapidated and inadequate state of the region's logistics markets in the aftermath of communism.

More challenging economic conditions across CEE have already changed the tenor of many of the region's logistics markets. Speculative development of logistics space – which boomed in recent years – has fallen away almost entirely as financing remains scarce. Additionally, demand has faltered in many markets, which has caused vacancy levels to rise across the region and rents to come under downward pressure in some markets.

Still, there are reasons to believe that most logistics markets across the region will see the end of significant increases in vacancy rates later this year or in early 2010. Because logistics space can be brought to the market in a shorter period of time than office or retail space, pipelines can be more responsive to actual market conditions. This responsiveness can already be seen across the region, which is likely to have the effect of allowing space that is currently vacant to be taken up by occupiers that require immediate space, while other occupiers can opt for BTS space if necessary.

It cannot be denied that important drivers of demand for logistics – especially manufacturing output and retail expansion – will continue to suffer to various extents across CEE for the remainder of 2009 and 2010. The basic trends that have driven demand for logistics space in CEE will remain in place, however. Chief among these are CEE's competitiveness as a location for manufacturing operations, its central location, its relatively low cost-base, retail expansion across the region, importance of trade as a driver of economic growth in CEE, as well as ongoing improvement of the region's overall infrastructure, and particularly its road infrastructure.

Total CEE Developer-Led Logistics Stock (GLA)



Source: CB Richard Ellis

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All CEE logistics markets are not equally positioned. Capital city logistics markets are more developed than regional logistics markets across CEE in most countries. This means that, as a whole, the region's logistics market is a step behind the retail market, where regional cities have rapidly added shopping centre space in recent years. Additionally, there are significant differences in vacancy rates and confirmed pipelines that will affect the trajectory of individual logistics markets.

However, while the state of some of the individual markets should not be ignored in the short-term, the medium- and long-term conditions of the region contain opportunities to benefit from. It is not a simple task to identify opportunities at this time, which is why a thorough analysis is needed on a market-by-market basis.

Opportunities & Challenges

Occupiers

More challenging economic conditions across Europe have resulted in occupiers becoming increasingly aware of costs. Now that market fundamentals are also under pressure, there is potential for occupiers to consider renegotiating leases or moving to cheaper locations. Occupiers that have the possibility of reconsidering their current leases can achieve necessary savings on their occupational costs since rents are under downward pressure and incentives have increased. Not all occupiers will have the possibility of reworking their leases, however, as their landlords can confront them with clauses in their contracts and potential penalties.

Sub-letting activity is increasing rapidly as occupiers that aimed for significant growth in recent years now find themselves with excessive space in these times of low or negative economic growth. As market fundamentals have weakened since most leases were signed, it is difficult for tenants to find other occupiers that are willing to sign a sub-lease at comparable terms.

Developers

In most CEE markets, speculative development is likely to remain limited as rents are under pressure and yields are increasing. This makes it extremely challenging for developers to create a business case for the development of new logistics space, especially now that pre-letting activity is low. Even the build-to-suit market is moving slowly for the same reasons. In most cases, developers are only willing to develop build-to-suit space once rents are at a level interesting to these developers. This could – from time to time – result in some upward movement in rents for this type of development.

Investors

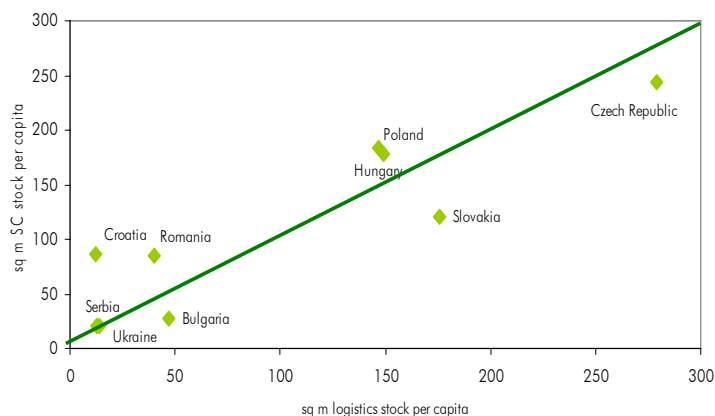
A lack of liquidity in the financial markets and challenging property market fundamentals in the industrial segment in CEE have resulted in less liquid market conditions on the investment market recently. Investors with medium- to long-term perspectives are likely to remain interested in the sector as a result of the growth potential that still can be found in the region. In addition, industrial property is seen as a good risk diversifier in a multi-asset class property portfolio.

Two groups of investors are likely to become the most active: (1) long-term investors with a strong belief in the region's property markets and (2) opportunistic investors hoping for rapid repricing of CEE property markets that should form the foundation of future returns.

Based on the profiles of capital city and larger regional city markets in the region, such markets will probably remain CEE's favoured markets amongst investors. Regional logistics space in general is more reliant on manufacturing and less on retail markets.

Security of income will remain key amongst investors' priorities and as a result lease length and tenant risk will be at the centre of investment decisions now and in the near future. Leases ranging from at least 5-10 years are essential in concluding transactions.

Logistics v Shopping Centre Stock per Capita in CEE



From a medium-to long-term perspective (>2010), CEE is likely to remain a growth region for developer-led logistics space due to its strength in manufacturing, expansion of retail space across the region and improvements to infrastructure. The outlook, however, will differ per market. From a short-term perspective, the situation is murkier given high vacancy rates in some markets and more challenging economic conditions. Please do not hesitate to contact us if our knowledge and expertise can help you identify or secure an opportunity in the CEE logistics market.

Full Version of the Report

This Executive Summary is excerpted from the first edition of the comprehensive CEE Logistics Market View, a yearly publication that covers a broad range of topics on logistics markets across CEE. The full report provides in depth analysis of ten countries and their standing in the CEE industrial market. The report combines the expertise and experience of local and regional CB Richard Ellis teams within CEE.

Methodology / Definitions

Developer-led logistics space

Represents warehousing space in modern, developer-led schemes.

Pipeline logistics stock

Logistics space that was under active construction as of the end of Q1 2009.

Provision rate

Represents the amount of logistics or shopping centre space (measured in sq m) that a particular region, country, city or other geographic entity has per 1,000 inhabitants.

Central & Eastern Europe (CEE)

Includes the following countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia (Moscow and St. Petersburg), Serbia, Slovakia and Ukraine.

Central Europe (CE)

Includes the following countries: Czech Republic, Hungary, Poland and Slovakia

Southeastern Europe (SEE)

Includes the following countries: Bulgaria, Croatia, Romania and Serbia

Eastern Europe (EE)

Includes the following countries: Russia (Moscow and St. Petersburg) and Ukraine

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