INDUSTRIAL SPACE MARKET

INDUSTRIAL SPACE MARKET

In 2017, approximately 652,000 m^2 of new industrial spaces was added to the market, which is the largest volume of completed spaces since 2009.

The total capacity of industrial properties has reached 6.96 million square meters, and it is very likely that it will exceed 7 million square meters in the first half of 2018.

While in the beginning of 2010 the vacancy was 16.8 %, at the end of 2017 it was only 4.1 %.

In reality, the area that is immediately ready for tenants is only half of the volume from 2010 (286,900 m^2), even though the total volume in the market has doubled.

SUPPLY AND VACANCY

The market with industrial spaces is flourishing thanks to the economic prosperity, and it has been growing in all regions. This also concerns warehouse and production real estate, and projects constructed for the purpose of renting or for ownership by a specific owner. The current situation is also beneficial for the regions towards which the developers have had a distant approach so far. The low vacancy supports the appetite of developers to start construction on a speculative basis, which is a significant difference in comparison with our analysis in the previous issue of Trend Report. Despite the increase in speculative development, there hasn't been an increase in vacancy yet. The occupancy rate is 70 % on the average, even for currently completed buildings whose construction was started on a speculative basis.

Potential tenants interested in larger spaces therefore have to agree on custom-made construction with the developer, or on the rent of some of the projects that are prepared for future construction. In such cases they can even ask for slight adjustments of the project according to their needs.

The vacancy is currently only one of the limiting factors that govern where new companies or expanding companies will be heading. Another frequently discussed factor is the low unemployment rate. Potential tenants therefore have to expect either increased costs for human resources or look for spaces in regions where there are still relatively sufficient human resources. Such regions include the Ústní nad Labem Region and the Moravian-Silesian Region.

In the case of the Ústí nad Labem Region, sufficient human resources are also supplemented with the recently completed motorway D8, which connects Prague with Germany, the key market for a large part of Czech industry. In regions that are in high demand, potential tenants and developers are forced to focus on less popular districts. For example, for the extremely popular Plzeň Region it is Klatovy district.

DEMAND

During 2017, 1.29 million m2 of industrial spaces were rented. Annually this is a slight decrease by 11%, but only for the gross volume of rents. After removing the contracts for existing premises that were extended by tenants from the statistics, the net volume of rents annually increased by 2 %.

The region in highest demand is traditionally Prague and its immediate surroundings with 42 % of the total gross and net volume of rents. Other popular regions are the Southern Moravia Region, the Ústí nad Labem Region and the Plzeň Region, where more than 9 % of the gross volume of rents and 8 % of the net volume of rents was realized.

More than 50,000 m^2 of net demand was in the Pardubice, Olomouc, Karlovy Vary and Moravian-Silesian Regions; the demand in other regions didn't reach significant volumes. We even recorded zero transactions in the Zlín and Southern Bohemia Regions.

While the Zlín Region is in an unfavourable location between the Moravian-Silesian and Southern Bohemia Region where most of the modern industrial spaces in Moravia are concentrated, in the Southern Bohemia Region it is mainly caused by the lack of infrastructure connecting the region with the rest of the republic or with the attractive foreign markets, one of which is undoubtedly Austria. With regard to the fact that this disadvantage will not be solved in the coming years, no significant changes to the demand in this region are expected. It could only change if a lot of human resources become available.

RENT

The strong demand in the past years, which was reflected in decreasing vacancy, also has another consequence: an increase in rent. The rents increased by ca. 0.25 EUR per m^2 per month, mainly in the most popular locations. After the vacancy in the post-crisis years got close to 17 %, the number of unoccupied warehouses was reflected in a decrease in rent. Now we are facing the exact opposite situation: lessors now want rent between 4.25 EUR and 4.75 EUR per m^2/month for the best spaces in the surroundings of Prague. Rents have also increased in the most attractive regions, and they are over 4 EUR.

WAREHOUSE RECONSTRUCTIONS

In the past two years we have been observing a new trend for older office real estate – the complete reconstruction of buildings. The question is whether this trend will also develop in the segment of production and warehouse real estate. We don't expect that there will be a lot of complex reconstructions in a great extent as the construction of industrial halls is different from the construction of office buildings.

However, we have already noticed some thorough modernisations on the market. For example, investor Europa Capital Partners with the help of Charnwood took over and reconstructed the warehouses in Rudná u Prahy, which were unoccupied after retail chain Delvita left the Czech market. Today this building is part of Progolis Park Rudná, and the new tenant has already expanded the buildings several times.

What makes us sceptical about the expansion of costly reconstructions of industrial real estate? It is their obsolescence, which is quite fast even with regard to standards, legislation and the requirements of tenants. For example, the standards for building insulation changed in the course of years – remember the recently introduced energy signatures of buildings. Owners of real estate have to respond to such changes, but the construction of real estate fortunately allows an effective solution: the exchange of facade panels in operation.

The problem of older warehouses can also be the fact that they do not comply with today's requirements, not only with regard to energy. For example, halls that were built before 2000 may also have a low clearance, which cannot be fixed, and it reduces the number of suitable tenants to a certain extent. The lower clearance can be preferred by production companies that do not need space for logistics with an advanced storage system consisting of vertical shelves. Also, for older B class halls, the original manual gate can be replaced with a loading ramp or another more modern way of load handling to bring it at least a bit closer to the current standards.

Therefore, there is usually regular maintenance in industrial premises that is performed in operation or when the tenant is changed, which could be approximately after 10 years of operation. This approach was also taken by development company CTP Invest for their premises in Divišov.

Some of the innovations that are used in industrial zones are:

- The installation of energy saving LED lights
- The installation of reflective sheets to ensure the reflection of UV radiation and the mitigation of roof heating
- The installation of photovoltaic panels to ensure partial energy self-sufficiency
- The use of geothermal drilling or other systems of heat pumps for the improvement of heating and air conditioning
- The installation of de-stratification fans for better inside air circulation and elimination of water vapour condensation on the inner building envelope, and even temperature distribution in rooms with high ceilings
- The installation of facade panels with better insulating properties
- The renovation of floors or the increase of its load bearing capacity in the case of relevant tenant requirements

With the installation of these technologies, large savings for the inner operation of the building can be achieved, which is an increasingly important factor for both potential and current tenants. Beside the above-mentioned innovations, developers try to place more emphasis on the quality of the outside environment and "humanize" the surroundings of buildings by planting trees and garden features. The spaces will also get more flexible so the lessors can satisfy a wider range of clients including start-up projects from the sector of e-commerce, where dynamic growth can be expected.

For newly constructed halls (such as Progolis in Rudná u Prahy), developers will pay attention to the highest environmental standards, and they will try to obtain environmental certifications (BREEAM, LEED and other). These are, to a certain extent, quality labels, and for large international players as potential tenants, they can be another factor that influences the decision about where to place their warehouses or production premises.

ONDŘEJ VLK
Colliers