

LOGISTICS MARKET

Logistics is currently the sector with the greatest growth potential of all real estate segments.

It is recently receiving attention from both tenants (users) and investors.

Over the last ten years, the amount of logistics real estate has doubled to a total of 8 million m².

The logistics market is unbalanced, and it is a supply-driven market.

A new trend is the use of brownfields and locations that are underused or neglected in various ways.

Investors' interest in logistics properties is growing dramatically.

Ten years ago, logistics properties in the Czech Republic were at the edge of the attention of investors, bankers and real estate advisors. This sector was considered to be the Cinderella of real estate. In 2009 there were 3.5 million m² of modern storage area in the Czech Republic, the vacancy rate was historically high (18%), and premium yields ranged between 8–9% (BNP Paribas)! During the crisis things weren't rosy for real estate in general, and the decrease in the value of logistics halls was striking during this period.

Today, ten years later, when the economy and the entire real estate sector are at their peak, or shortly after their peak, the amount of modern storage space in our country is more than double – nearly 8 million m², which is the largest increase in comparison with traditional segments, such as offices. By comparison, the office space market expanded by one third

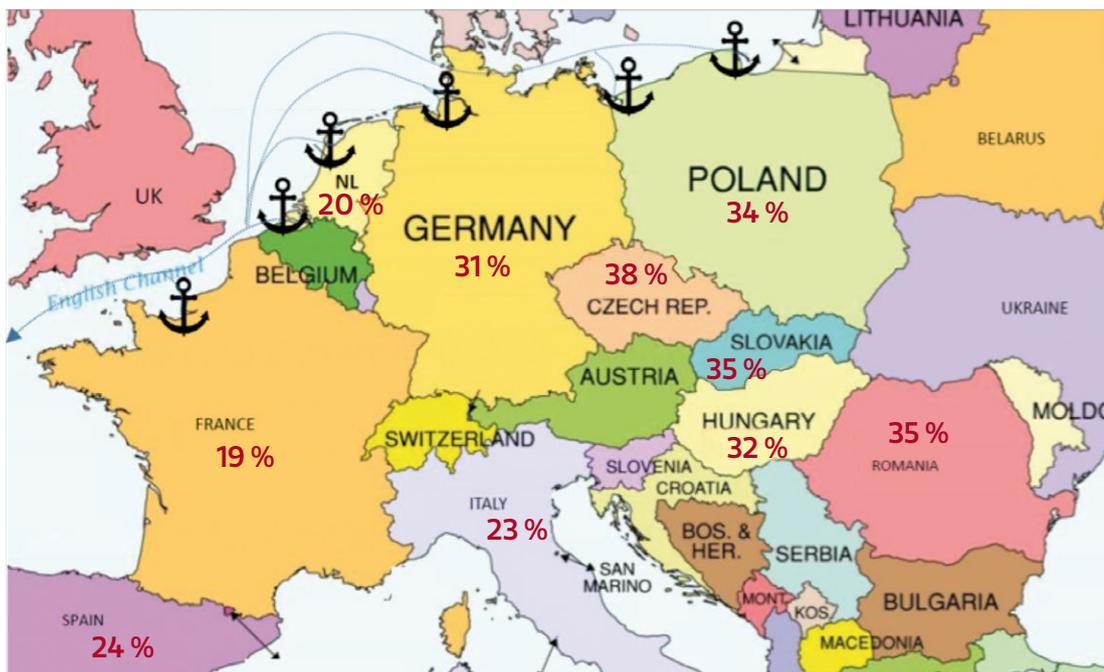
in the same period, and shopping centers “only” increased by a quarter.

The vacancy rate of logistics real estate has seen a decline since 2009 from 18% to the current national average of 4.4% (JLL Q4 2018 report), and yields are reaching 5.5%. With compression of the yield rate (with fixed rent), this is an increase of more than 60%, and capital values over 1,000 EUR per square meter of lettable area are no exception.

Industrial real estate will continue to grow in the next few years. Logistics is no longer a sector for the chosen, it is increasingly opening up to a wide range of professionals, advisors and investors. A lot has been said about the industrial history of Czechoslovakia and the Czech Republic, about its favorable position in Europe and its skilled workforce. Our country, who-

DIAGRAM Production in relation to GDP of selected countries

Source: Eurostat



se consumer behavior is moving it closer to developed Western countries, has all the prerequisites for a strong interest in logistics real estate, and therefore further development of this segment. The Czech Republic is already a major player in European Union logistics, offering storage space, assembly, packaging, and reverse logistics of products and goods.

From a global perspective, Europe also has growth potential. For example, according to JLL research, there are about 2.7 square meters of storage space per capita in the US. In Europe it is only 0.3 square meters per capita! Of course, this is influenced by a number of factors, but the nearly tenfold difference is striking. All this suggests that the logistics segment in the center of Europe, namely in the Czech Republic, will continue to develop. What trends will accompany this development?

E-COMMERCE TREND

In the last few years, this has been a very frequently discussed term that is transforming the world of logistics as well as our personal lives. Just like smartphones have found their

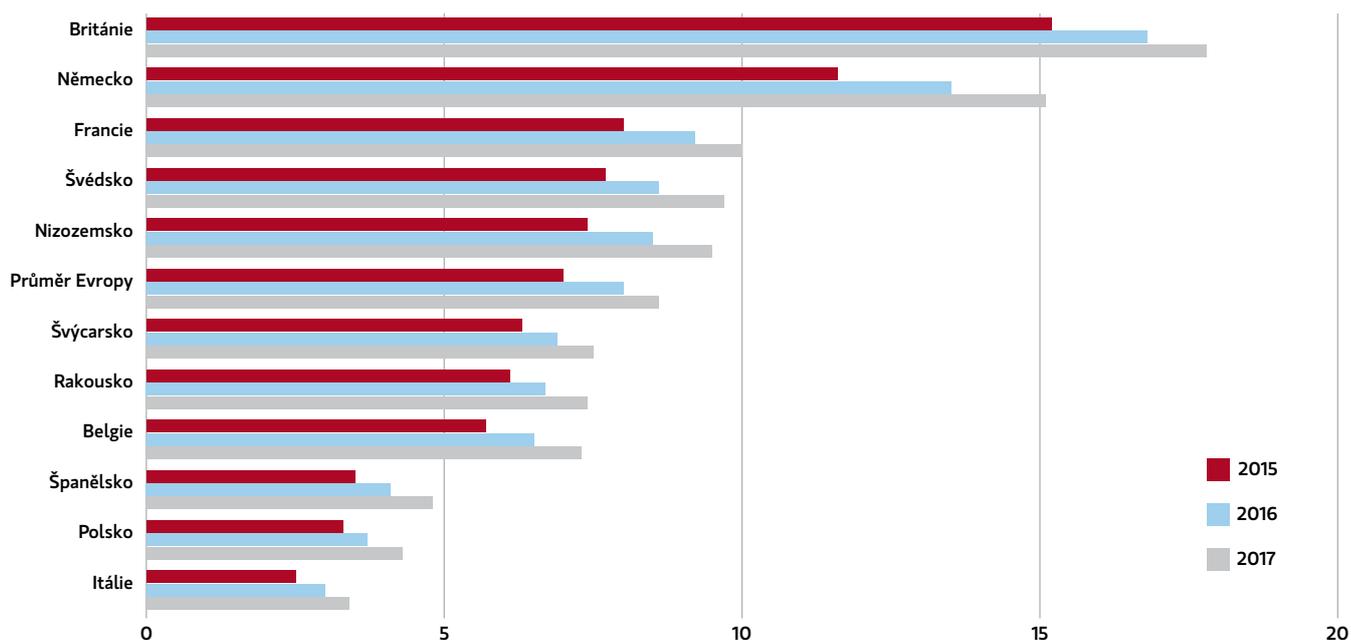
way into all of our pockets, we are all getting used to online shopping (especially millennials and generation Z). In Europe and the Czech Republic, online shopping is growing every year - and as younger generations with a naturally positive attitude to everything electronic start to age and their purchasing power increases, online store sales are expected to grow. Companies such as eBay, Amazon and Alibaba, Alza and Mall in our country and others, based their business on an Internet sales model, and they need logistics real estate of all kinds for their goods. This trend is also significantly affecting physical stores, where well-known chains such as Mango, Zara, H&M and others limit their physical stores and spend considerable amounts on the development of online shopping with a thoughtful network of warehouse and distribution centers.

In all monitored European countries, the trend of online sales is strong, and our country is no exception, it is even one of the European leaders.

In the Czech Republic, the share in the total retail turnover is now around 9%. According to www.ceska-ecommerce.cz, year-on-year increases are between 15 and 20 percent.

GRAPH Online Shares of Retail Trade 2015–2017 (forecast)

Source: www.retailresearch.org



TABLE

Source: Association of E-commerce

Year	2014	2015	2016	2017	2018
Czech e-commerce turnover in billions of CZK	67	81	98	115	135
Change		+20%	+20%	+17%	+17%

LAST MILE LOGISTICS TREND

E-commerce is associated with a trend that is naturally developing with the growing popularity of this segment, namely "Last Mile Logistics" or "The Same Day Delivery". The goal is clear: deliver goods to the customer at their destination in the shortest possible time. Online shops are responding to demand and trying to streamline processes leading to the delivery of their goods. They work with a model of a large distribution

center outside the city (operated by truck, air, or water transport), with additional smaller storage facilities within the city. The city workplace is then very flexibly operated with smaller vehicles with fast access to customers.

Real estate for the purpose of this service tends to have slightly different specifics than classic storage halls. A last mile logistics product is generally:

- As close as possible to the customer within the city

- The area of the space is generally smaller than that of classic warehouses
- There are larger external and operational areas, more intense traffic – a large number of smaller vehicles at one time
- The building may have several floors
- There is often also office space or a showroom where customers can pick up the goods in person

This segment is also gaining popularity with investors; there are foreign cases when a site originally designed for residential construction was used to build a multistorey last mile logistics center purely because of the project's higher return. In our country there is not much space for planning last mile logistics centers in terms of land-use planning restrictions or commercial disadvantages, especially in larger cities such as Prague or Brno. Companies and developers are therefore trying to take advantage of any opportunity and, if necessary, they seek compromises. This also leads to the creation of pick-up points or pick-up boxes, which is a half way between "hand delivery" and a purchase in a regular store.

Of course, the trend of this method of moving goods to customers entails the challenges of urban transport. If you are driving in a large city, you will always see vehicles (vans) parked in different ways on sidewalks and in pedestrian zones. This greatly slows traffic flow and pedestrian movement. In general, we can expect a clearer set of rules and regulations regarding the movement of goods in major cities in the future. The use of autonomous vehicles or alternative propulsion vehicles is already discussed in this respect, which would reduce the environmental impact of transport. On one hand there is the customer, who ideally wants to have his goods delivered directly to him, to which suppliers are responding, and on the other hand there is the territory, transport and workforce capacity.

SPECULATIVE CONSTRUCTION TREND

With growing demand of tenants for industrial space, the trend of speculative construction has emerged (or is returning) in recent years. In practice, this means that buildings are built before a tenant is selected. This process, which was rare in the crisis and post-crisis years, and was perceived as very risky, now accounts for a third of the market. Declining vacancy, a lack

of suitable land and high user interest allow developers to do so. Developers are also naturally experiencing much greater interest in projects that are being built and are "visible" than projects that are only on paper.

SUPPLY MARKET TREND

Supply is dropping. There is little land for the construction of logistics facilities in the Czech Republic. This means land on which construction can be carried out, that makes sense economically and is to some extent prepared from a land-use planning perspective.

Although it seems that there is a logistics hall behind every village and that construction is taking place everywhere, most suitable land suffers from a different problem. The most common problems include:

- Property matters
- Land-use problems
- There are no networks within reach of the site, or they do not have sufficient capacity
- There is no suitable transport connection and infrastructure

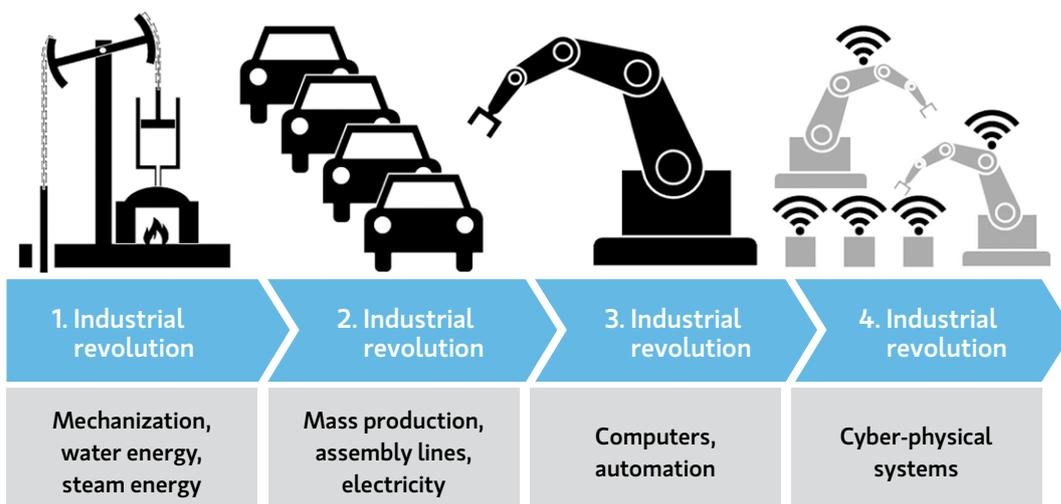
In other Trend Report chapters you can read about the problems with the construction of apartments in Prague due to permitting processes. The same is true for logistics, and the permitting process is affected by similar issues. The preparation of an area for the construction of a logistics hall will often take several years.

Supporting new construction is also not motivating from the perspective of local government. The reason for this is the system of tax redistribution. A municipality that permits the construction of an industrial site on its territory gains nothing significant from the new business apart from property tax, as is the case in neighboring Germany (KPMG and Panattoni Europe study). There is therefore nothing to motivate local mayors and councillors to proactively approach new construction negotiations.

All of the above factors lead to a situation where the supply of warehouse space is falling behind demand. The logistics market is unbalanced, and it is a supply-driven market. Instead of a meeting when the tenant approaches a developer or real estate fund and says „please get me xy square meters in Olomouc" we see discussions such as „where can we get xy square meters?"

DIAGRAM

Source: www.wikipedia.org



This leads to situations where international tenants prefer to turn to neighboring countries, where they encounter a proactive approach and a larger range of vacancies. This was the case with Amazon, for example, which considered building a hall near Brno in 2015. Nothing indicates that this trend will change in the near future. However, we are heading towards creating a different „trend“ (if we can call it that), and that is the use of brownfields and sites that are underused or neglected in different ways.

INDUSTRY 4.0 TREND

This term is lately frequently discussed. Production automation is increasingly used in production halls. This is certainly a trend that has its natural development stages and will continue. This will mainly affect the logistics market in terms of interior equipment of buildings. In the future, some buildings will no longer be a mere tin shell, but a sophisticated system that allows fully automated production, where the value of the building's equipment will exceed the value of the building itself.

With Industry 4.0, and as land prices rise, an upward trend in multistorey buildings can also be expected. This is particularly true in the Last Mile Logistics segment.

TREND OF INCREASING INVESTOR APPETITE

Investors' interest in logistics properties is growing dramatically. We should mention the largest real estate transaction in

2018, namely the acquisition of a logistics portfolio in Pilsen and Teplice by German fund DEKA from developer and asset manager CTP for a total amount of 460 million EUR.

In the Czech Republic, product shortage is still evident and supply is lagging behind demand, but both private and institutional investors are increasingly penetrating this segment.

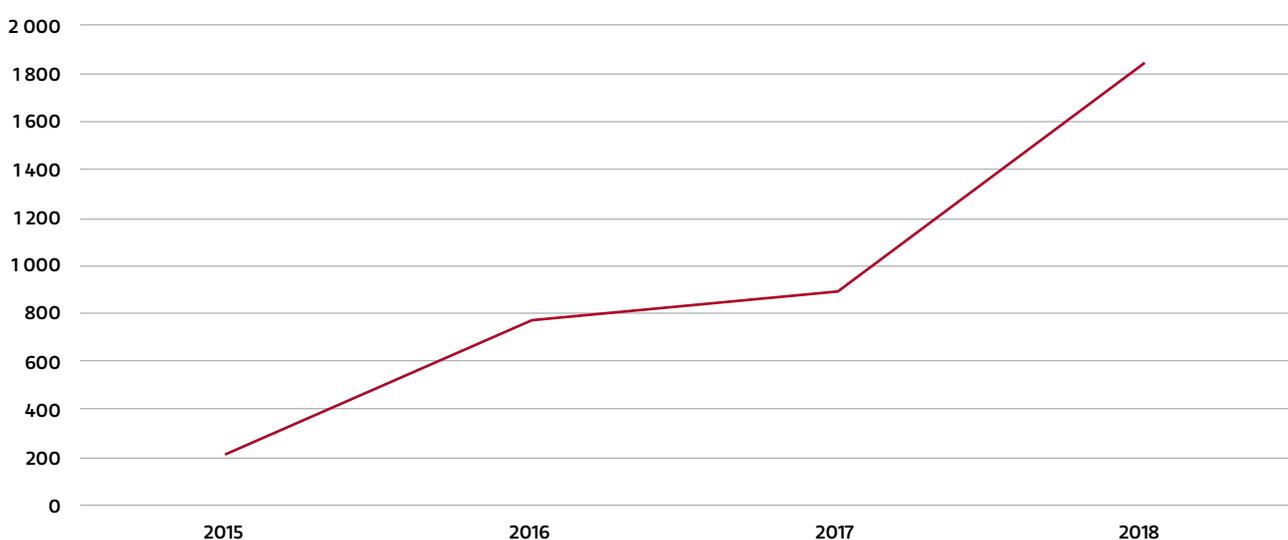
So far, the base for detailed statistics in the Czech Republic is small, but if we look at the neighboring market in Poland (4x more people than in the Czech Republic and 2x more storage areas) where there is more data, the trend of sold/purchased volumes is clear. In 2015, transactions with an aggregate value of 221 million EUR, in 2016 770 million EUR, in 2017 900 million EUR, and last year a record-breaking 1,840 million EUR!

Logistics has become a full-fledged segment of commercial real estate, and both large funds (especially in similar portfolios) and domestic players are interested in it. Investment in industrial space has its clear parameters and fundamentals that can be very unambiguously estimated and evaluated. The question of acquisition volumes will therefore depend on the supply of real estate for sale on the market.

KAREL KLEČKA
Panattoni Europe

GRAPH PL – investment in logistics real estate in millions of EUR

Source: www.property-forum.eu



TechCon 2019

The Workplace of the Future

3. ročník mezinárodní odborné konference
Hlavní téma: Well-being & Sustainability

Čtvrtek 19. září 2019 | TECHO showroom, Praha

30+

řečníků
a panelistů

3

paralelní
pódia

500+

posluchačů

Registrace zdarma na www.techocon.cz

- networkingová komunita
- diskusní snídanež TechoCon
- Morning Meetings každý měsíc
- týdenní blog
- ebook se všemi přednáškami
- hlavní stage
- panelové diskuse
- doprovodný program
- networking
- creative stage