



CBRE RESEARCH

H1 2020

# INDUSTRIAL AND LOGISTICS OUTLOOK

CBRE



# The industrial and logistics market continued without pandemic disruptions, and it is doing even better.

## STABLE SITUATION

Contrary to fears, the results from the first half of the year in the warehouse market turned out to be very good. Tenants did not make sudden decisions, and the pending transactions relating to new projects or expansions continued as planned. Agreements are still being signed despite initial difficulties with physical contact, and the volume of newly signed transactions in the first half of the year was higher than for previous years. The largest contracts in the first half of the year were signed by large players from the e-commerce and traditional retail sectors.

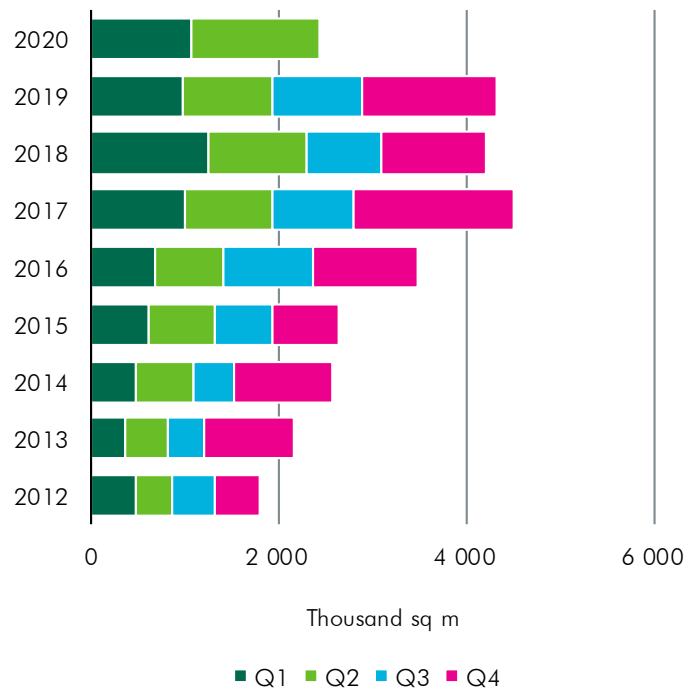
The work in logistics centres was not disrupted or affected by the lockdown, and industries such as logistics companies and couriers, from the end of the first quarter recorded increased operational activity associated with the closure of traditional shopping centres and less people leaving their homes during lockdown. Production facilities were largely shut down temporarily, but production has now been restored to similar pre-pandemic levels. The current stable position of the warehouse market and its dynamic development in recent years, constantly driven by online sales, has resulted in the absence of noticeable negative effects of the coronavirus.

## THE WAREHOUSE MAP IS GROWING

Currently, over 1.9 million sq m of modern industrial and logistics space is under construction throughout Poland, which is a level comparable to that at the end of both 2019 and 2018. However, we can see greater caution in the starting of new investments - in the second quarter, construction of 345,000 sq m commenced, which is half as much as in the previous quarter. The volume of space under construction largely consists of schemes that started before the pandemic. However, warehouse developers are still securing plots of land in both popular and less popular locations, and the commencement of construction depends on finding a tenant for a particular project.

Less than 40% of the space under construction remains available for lease, which is slightly lower than in the second half of 2019. This results from the currently quite unstable market and economic conditions, so it is understandable that there is less risk-taking and fewer decisions to start construction entirely on a speculative basis.

TOTAL LEASING ACTIVITY BY QUARTERS (THOUSAND SQ M)



Source: CBRE Research, Q2 2020



## NEW SPACE IS BEING DELIVERED

In the first half of 2020, 1.03 million sq m was delivered. This equates to the second largest volume in the history of the market in a given period, but compared to the record level from the last year, it is only 4% lower. The greatest amount of space was delivered in the first half of the year in the Warsaw region - 353,000 sq m, followed by Dolnoslaskie Voivodship (Wroclaw) - 220,000 sq m and Slaskie (Katowice) - 180,000 sq m. These three regions were responsible for almost three-quarters of the space commissioned throughout the country. The largest projects added to the existing warehouse stock are: A2 Warsaw Park in Grodzisk Mazowiecki (103,700 sq m), P3 Mszczonow (58,500 sq m) and Hillwood Wroclaw East (52,400 sq m). Two of them are newly created projects, while P3 Mszczonow is an expansion of the existing warehouse park.

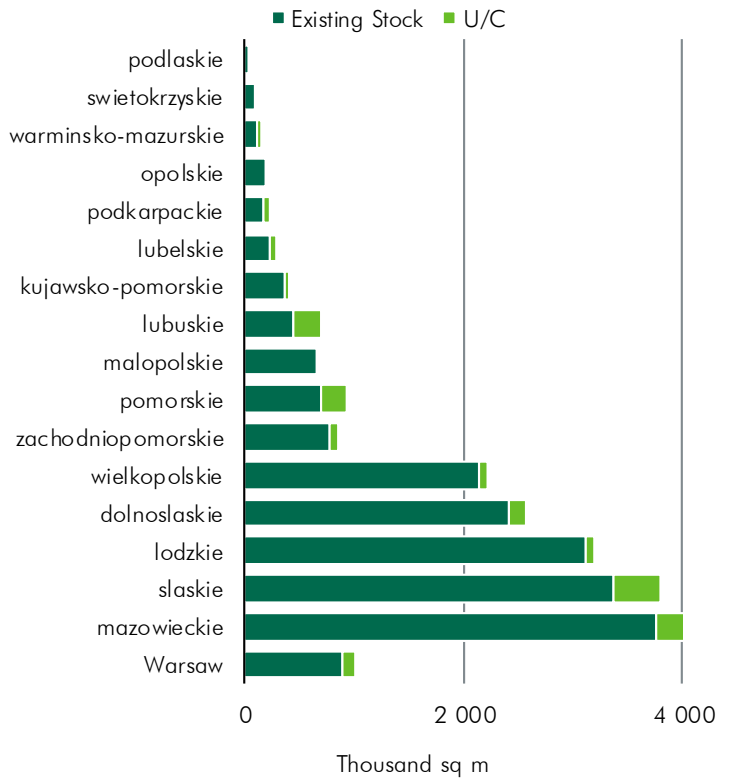
The total stock of modern industrial and logistics space has exceeded the level of 19.5 million sq m, which proves that in the last five years the same amount of warehouse space has been added as before 2015. The level of 20 million sq m will be exceeded in the coming six months.

## SUMMARY OF THE INDUSTRIAL AND LOGISTICS MARKET IN H1 2020

Summary	
Total stock	19.5 m sq m
New supply	1,029,000 sq m
Under construction	1,902,000 sq m
Vacancy rate	6.7%
Demand	2,426,000 sq m

Source: CBRE Research, Q2 2020

## EXISTING AND UNDER CONSTRUCTION SUPPLY BY VOIVODESHIP (THOUSAND SQ M)



Source: CBRE Research, Q2 2020

Currently, the warehouse space under construction is largely concentrated (71%) in four voivodeships: Slaskie (435,100 sq m), Mazowieckie with Warsaw (416,800 sq m), Lubuskie (256,300 sq m) and Pomorskie (236,500 sq m). The largest projects currently under construction are: Panattoni BTS Swiebodzin (203,500 sq m), Prologis Park Janki (73,400 sq m), Panattoni Park Gdansk Airport (68,500 sq m) and Panattoni BTS Czeladz (67,000 sq m) and they are all fully leased.

It is worth emphasizing that 125,000 sq m is currently under construction in the Warsaw City zone, which is more than twice as high as in the same period last year. This trend is influenced by the increased demand for city logistics and SBU formats on the outskirts of the city or close to the airport.

The vacancy rate has remained stable for several quarters, noting a slight decrease after the first half of the year compared to the first quarter. It is currently at 6.7%, 0.3 pp less than 3 months before.





## UNEXPECTED HIGH DEMAND

The demand in the first half of the year turned out to be record-breaking and amounted to almost 2.43 million sq m. This level is 25% higher than in the corresponding period of the previous year, and also 6% higher than the highest recorded level of gross demand in the first half of 2018.

Existing lease extensions accounted for 25% of total demand, translating into net take-up of nearly 1.83 million sq m in the first half of the year. Additionally, almost 244,000 sq m of warehouse space has been leased short-term, which signifies the increased demand for warehouse space in these unpredictable conditions.

Moreover, the largest contract recorded in the second quarter, i.e. the Build-to-Suit transaction at Panattoni BTS Swiebodzin for an e-commerce tenant requiring an area of over 200,000 sq m was record-breaking so far in the history of the warehouse market. In addition to the consistent year on year upward trend in the e-commerce sector and its dominance in this half-year, the activity of tenants from the data centre sector, who leased almost 30,000 sq m in Q2 was also observed; however, this has not been recorded in warehouses so far. We predict that in the near future it will be one of the trends that will grow stronger.

## RENTAL RATES UNCHANGES

Headline rents for warehouse space in the first half of the year did not change and remain stable at EUR 4.0-5.2 /sq m /month in Warsaw and EUR 2.6-3.9 /sq m /month in regional Poland. Incentive levels and rental periods also remained unchanged.

# The second half of this year will be the greatest test for the market.

## WILL THE IMPETUS FINALLY SLOW DOWN?

The industrial and logistics market in Poland has been gaining momentum over the last few years, breaking record after record and developing very dynamically. The enormous demand driving the increased supply for at least the past 3 years has habituated market observers to impressive figures. It is known, however, that this state of affairs cannot last forever, and a slight slowdown caused by the caution of market participants is expected.

Both tenants and developers remain active, although it is very possible that in the second half of the year the market will experience a slight slowdown compared to previous years. Investors, in turn, are mostly passive, and the investment volume in the warehouse sector turned out to be much lower in the second quarter than at the beginning of the year. Nevertheless, the forecasts for the warehouse sector are positive, and the hesitation caused by the pandemic and its consequences will not have any clearly negative effects, and the possibly forecasted increase in e-commerce sales will translate into positive sentiments for this sector.

## LARGEST LEASE TRANSACTIONS IN THE FIRST HALF OF 2020

PROJECT	TENANT	AREA (SQ M)	SECTOR	TYPE
Panattoni BTS Swiebodzin	confidential	200,400	E-commerce	BTS
Prologis Park Janki	EURO NET	73,400	Retail	Expansion
Hillwood Lodz Gorna	confidential	73,000	E-commerce	New
Panattoni BTS Czeladz	4F	67,000	Retail	BTS
Panattoni Park Tricity East IV	Globalway	52,000	Retail	New
Exeter Park Strykow	Lidl	52,000	Retail	New
Panattoni BTS Weber Zabrze	Weber	50,300	Manufacturing	BTS
Segro Logistics Park Strykow	confidential	46,600	Retail	Renewal
Panattoni BTS Halfen Kalisz	Halfen	40,000	Manufacturing	BTS
P3 Piotrkow	FM Logistic	37,000	3PL	Renewal

Source: CBRE Research, Q2 2020

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