ExCEEding Borders

Small Business Units & Last Mile Logistics Sector in CEE-15

CEE | 2022

Source: Adobestock

Contents

Introduction

The Industrial & Logistics (I&L) property sector has continued to thrive since we presented our first ExCEEding Borders I&L report at the end of 2020. The total I&L stock for the CEE-15 region has grown to exceed 50 million m², with 20 million m² situated in and around the 15 capital cities markets. Poland, as the largest country of the group covered in this report, maintains the largest I&L market and is approaching the 25 million m² mark.

While the disruptions and changes initially brought about by the pandemic continue to play out, the war in Ukraine has also added a new set of significant challenges. Besides the humanitarian tragedy that is ongoing and the continued disruption to CEE and global supply chains, there is a tsunami of inflation that is building up and threatening to bring an economic crisis with it. Rising fuel, energy, labour and material prices, and the lack in supply thereof, are among some of the main contributors. Some of these are very difficult to impact with monetary policy alone and it would seem that the times of low-cost debt, easily available and cheap goods could well be over, at least for the time being.

During the pandemic, we experienced greater interest from tenants' from both the e-commerce sector and logistics operators offering their services to retailers and internet trading companies. The trend toward e-commerce will continue to grow, but this growth will be slower than at the beginning of the pandemic. The ongoing war in Ukraine has caused further disruptions to supply chains, rising fuel prices and lower availability of construction materials. These factors all greatly influence not only the I&L markets in CEE-15 but also around the world.

In the report, we will also touch on some of the trends facing the sector across the CEE-15 countries covered. Apart from the traditional demand for larger formats, this includes a look into Small Business Units (SBU) and Last Mile Logistics (LML). Although the latter are both quite young sub-sectors in most of the CEE markets, they currently account for more than 3 million m², with ca. 2 million m² located in Poland. Demand for this format has seen an increase in enquiries over the past 3 years. This is connected, amongst other things, with the significant development of the e-commerce sector and courier services. These factors mean that in the coming quarters we can expect further significant development of this market segment. In CEE-15 there are ca. 500,000 m² of SBU / LML space under construction, with most of that volume again being built in Poland (310,000 m²). More details concerning the regional and individual market developments can be found in the report.

We hope you find this market research useful and, whether you are an investor, developer, occupier, or another interested party in the I&L sector, we look forward to discussing your outlook and plans with you.

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Photo: Urban Hub, source: SBA Urban

CEE Macroeconomic Overview

Industrial and logistics operations are booming throughout the world and those in the Central and Eastern European region are no exception.

Moreover, we believe that there are sufficient arguments to fuel the (much faster) expansion of this sector in CEE in subsequent years, as the region is still well behind Western European levels of development, even after recording very strong growth.

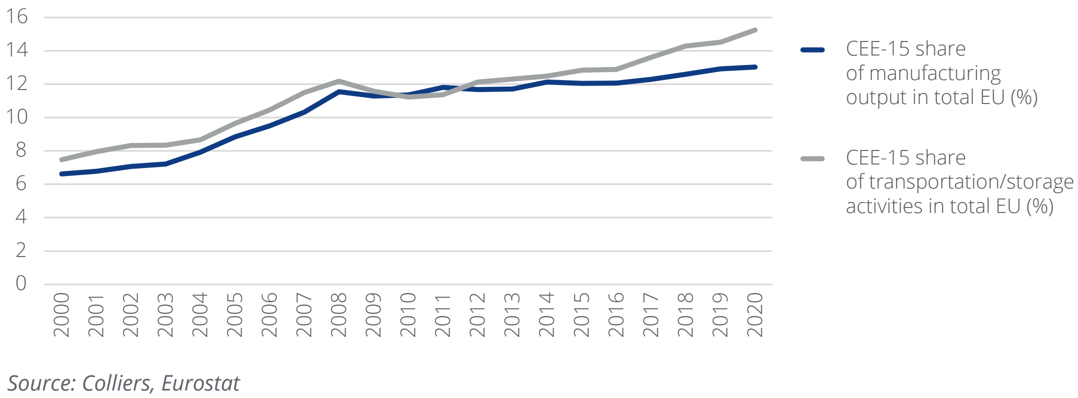
Before trying to peer into the future, we need to emphasise how far the CEE region has grown in the past decades. To show this dynamic, we looked at value added for both manufacturing and transportation and storage activities, for the 15 CEE countries covered in this report and expressed these figures as a percentage of the European Union's total. From the start, it is clear that the CEE has been rapidly outpacing other economies, having more than doubled its share of the EU's total in the last couple of decades.

CEE logistics and manufacturing operations chart (below) emphasises two periods that saw fast-growth rates: firstly, the mid-2000s, when the EU signed its largest-ever expansion, adding 10 new countries at once. This provided a strong catalyst for strong capital inflows into these economies (both private and EU funds), which in-turn saw a surge in local activity. While slower in terms of expanding, a second period of robust growth started in the mid-2010s, albeit more on the logistics side of things rather than manufacturing.

We also need to put things into perspective: the nominal growth in terms of manufacturing value-added, among all the countries covered in this report, between 2000 and 2020, was below the growth seen in Germany. In this two-decade period, the manufacturing output increased from over EUR 90 billion in the CEE-15 to over EUR 250 billion, so roughly a EUR 160 billion expansion; Germany increased its output by close to EUR 180 billion. Furthermore, for all the growth that occurred in the CEE, the Western European countries are still far ahead and no region of the CEE can rival the highly active regions in Germany, Italy, France and Spain. Consequently, among the biggest NUTS 3 regions in Europe, names from Central and Eastern Europe are rarely present in the top 100, though there are a few more than, say, back in 2005.

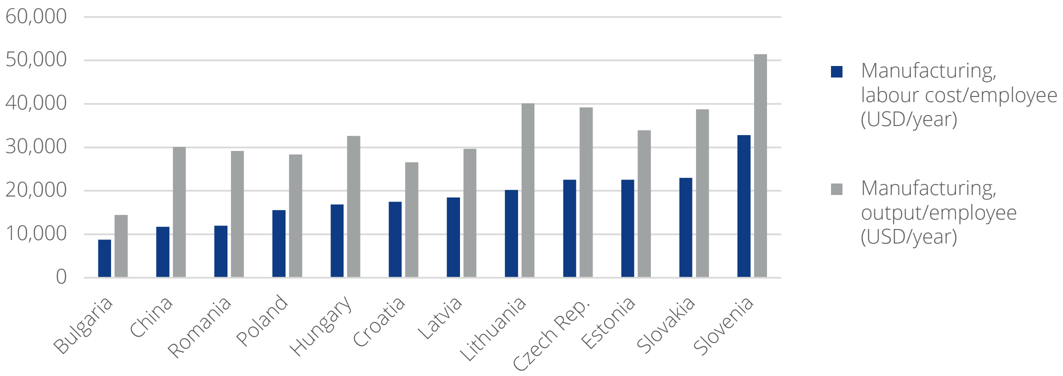
That said, the growth rate the CEE-15 has seen in the last decades is impressive by any measure. We tend to look at the past a lot as it serves as valuable guidance for what may come in the future. There is no guarantee that past momentum can be maintained all the time, but for sure there is some momentum. As long as the arguments that helped fuel the growth in the first place remain, we see no reason not to remain optimistic. And for now, we still see strong reasons to expect capital to flow into the CEE in general, including for logistics and manufacturing.

CEE logistics and manufacturing operations showing strong growth over last decades



Source: Colliers, Eurostat

Labour costs in selected CEE countries vs China



Source: Conference Board, Colliers

Otherwise, recent history has brought some deep changes in global architecture and while we do not expect to have a clear grasp on everything, we can see the emergence of some major trends. And, for the most part, these favour the CEE. To start off, geopolitics suggests a bright future for the CEE. The change of pace in relations between China and the Western World and, more recently, the Russian invasion of Ukraine should be quite beneficial in the long run for this part of Europe which is bordering both the Russian sphere of influence and is fairly close to the Chinese one. Re-shoring or the more recently coined term of "friend-shoring" (i.e. moving operations back to what can be regarded as an ally or a friendly country) will be a trend taking place over many years, particularly as the CEE countries tend to offer very attractive labour costs (quite comparable to China's, for instance), with an equally attractive spread between productivity and wages. However, we need to emphasise that the CEE region's population barely tops 100 million inhabitants and hence cannot be compared to a powerhouse like China in terms of manufacturing capacities. Nevertheless, these capacities ought to be used that much more effectively in the years to come. We could not see similar statistics for labour/productivity for the transportation and storage sector, but we would not expect to see wide disparities between the CEE and other counties; it is likely that the productivity to labour costs gap persists at similar level.

After tripling its labour cost in the last two decades, China is not looking as cheap as it did in the past.

The key aspect underpinning the need to relocate production/logistics operations is the higher need of security, despite incurring some higher costs, possibly. For starters, in a post-COVID world, we do not believe that a single country, or group of countries, will think it is a good idea to overly rely on imports from a certain country, particularly for strategic goods. Diversification will become key, even if it means incurring higher costs, as companies and countries will try to find an adequate mix of perceived stability and costs.

Still, for some countries, some costs could actually be cut down by relocating closer to home, particularly transportation costs. For example, according to data from Freightos, the cost of moving an FEU container from China/East Asia to Northern Europe has dropped quite a lot from over USD 14,000 per a container to ca. USD 10,000 as of May 2022. Still, this figure fluctuated between USD 1,000 and 2,500 per a container in the years before the pandemic, so current levels are significantly higher than "normal". All in all, some economies could be achieved over the medium term by ensuring that deliveries are made and delivered from factories or warehouses in the CEE region.

With new geopolitical forces shaping the world, it is quite difficult to peer into the future and set some reasonable forecasts and expectations. That said, as things stand currently, there are enough elements to at least get a clear grasp over the direction and the way things look right now. We, therefore, think we may see some favourable economic developments in the wider CEE region. And if the growth we have seen in the last years is any indication, a new strong expansion period may be right around the corner.

I&L Investment Market

The significant changes or disruption to consumer behaviour, the production of goods and global supply chains, caused by the pandemic and more recently, the war in Ukraine, have all led to I&L becoming one of the most sought-after property classes globally.

In Central & Eastern Europe, this is no different with I&L investment transactions accounting for ca. 25% of all volumes on average in the CEE-6* countries over the past 5 years. Investment into the sector also secured the top spot in 2021 with 37% of volumes. European capital (including CEE) just about leads investment activity with 33%, ahead of Asia Pacific capital with 31%, since 2017.

In monetary terms, well over EUR 15 billion in I&L transactions have taken place in existing assets since 2017. These volumes would most likely be significantly higher if it were not for the fact that many of the major developers and investors in the region are typically long-term holders of the properties within their portfolios and platforms. These include groups such as CTP, GLP, Prologis and Segro, to name just a few. There are, however, developers and investors that do trade some, or all, of their assets. The largest of these by investment volume include 7R, Blackstone, Hillwood and Panattoni, to name a few.

With such a relatively low supply of product for sale on the market, coupled with very high demand, it is not surprising that we have witnessed significant yield compression over the past 12-18 months. In many markets, I&L yields have come in by 100 bps or more and have surpassed those of offices and retail. At the sharper end, prime I&L yields now stand at just over 4.0% in the Czech Republic and Poland. Yield movements are of course just one thing that impacts capital value growth but, more importantly, we are also recording rising rents, after many years of fairly stable levels, especially in the most sought-after markets where vacant space or the potential for pipeline projects are in short supply.

Whilst we expect rents to continue rising in the near to mid-term, as a result of CPI indexed increases, rising construction costs and continued leasing demand, we can also expect some disruption. Yields and markets in general, also look set to be impacted by the consequences of rising inflation, and other factors that are having a negative effect on economic growth. These can, in turn, impact the cost and availability of debt, and diminish the often-healthy-looking spreads between real estate and other investment vehicles and strategies. Although we may see some further disruption, such as changes in the leasing demand structure due to the boom in e-commerce gradually slowing down, and perhaps recording an increase in 'near shoring' or 'friend shoring' activity, we remain confident that the I&L sector will continue to thrive long-term.

"Yields and markets in general, also look set to be impacted by the consequences of rising inflation, and other factors that are having a negative effect on economic growth."

Kevin Turpin
Regional Director of Capital Markets | CEE
Colliers

** Bulgaria, Czech Republic, Hungary, Poland, Romania & Slovakia*

Photo: Adobestock

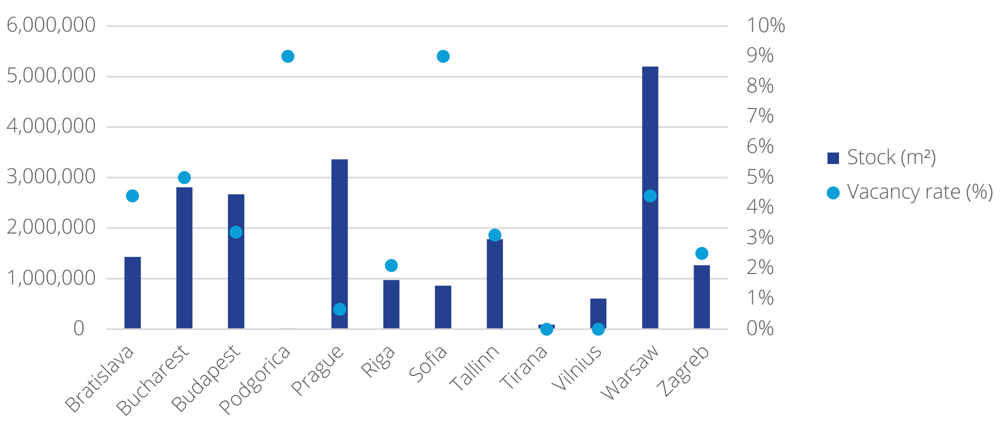
Industrial and Logistics Markets & SBU / LML Sector in CEE-15

The total supply of modern Industrial and Logistics stock across the CEE-15 capital city markets amounts to over 20 million m² and more than 50 million m² at country level.

From this figure, the current availability can be categorised as low, with the majority of markets recording vacancy rates below 5% (with the average figure amounting to 4%). A high percentage of the new supply being constructed is on a build-to-suit basis, or in other words, with tenants secured in advance of commencement. Standard speculative development across the region has a smaller share of the pipeline, however, I&L properties also have the shortest delivery times compared to other sectors (assuming all permits are in place), taking 9 months on average to complete a standard warehouse, as a guidance. As mentioned previously, there are several factors that can influence demand for a market and the decision-making process. The CEE region is ideally located in the very heart of Europe at the intersection between East and West which also plays an important role alongside the physical geographical and topographical features of each country or location. The region has excellent access to the international transportation network, which includes road, rail, river, seaports and air terminals. Much of this infrastructure has undergone improvements over the last few years and will continue to develop going forward.

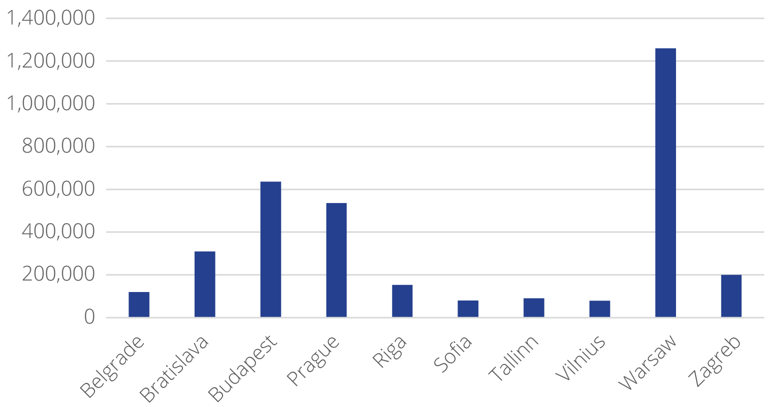
Overall, the demand from the I&L sector in the CEE-15 region over the past few years has been strong and driven mainly by the 3PL, retail and distribution sectors, followed by the light production, automotive and FMCG industries. During the pandemic, we experienced higher tenant interest from the e-commerce sector and logistics operators offering their services to retailers and Internet trading companies. The trend toward e-commerce will continue to grow, but this growth will be slower than at the beginning of the pandemic.

Total stock, new supply & vacancy rate in selected CEE capital cities (m²), 2021



Source: Colliers

Demand in selected CEE capital cities (m²), 2021



Source: Colliers

The lowest headline rents across the region are in Poland and amount to EUR 2.70 – 4.00 per m²/month (at the end of Q4 2021). The majority of CEE-15 registered rents range between EUR 3.50 – 5.00 per m²/month. The highest can be found in Montenegro (EUR 9.00 per m²/month), Czech Republic (5.00 – 6.50 per m²/month) and Estonia (4.90 – 6.00 per m²/month).

For the most developed I&L markets of the CEE-15 region, such as Poland, Czech Republic and Slovakia, yields are between 4% and 6%. Markets including i.e. Albania, Montenegro and Serbia have higher figures ranging from 7% to even 10%.

The ongoing war in Ukraine has affected individual CEE-15 countries differently. In some of them, the outcome of the war on the I&L market is already noticeable, while some have not yet noticed its direct and strong impact on this market segment. However, all countries are experiencing rising fuel prices, higher construction material prices, their lower availability and a partial breakdown of supply chains, all of which are affecting the condition of the I&L market.

Some CEE-15 countries are seeing similar effects of the war on the I&L market. These include prolonged construction timelines for new I&L schemes or the halting of newly-started and planned schemes. This may result in a slower growth of I&L space in future quarters, compared to the current period.

As I&L properties have become more expensive to build, among other things, due to price increases and lower availability of construction materials, rents have also increased. Because of the fact that renting space in schemes under construction is more expensive, tenants are deciding to rent space in existing projects, where available. This is resulting in a decrease in the vacancy rate in some CEE-15 countries.

Countries located close to Ukraine, Belarus and Russia are also experiencing an increase in enquiries from tenants relocating from areas subjected to war or economic sanctions. However, this is not a massive phenomenon, but rather concerns individual cases.

Currently, the I&L sector is performing well which is why Colliers does not expect any changes in this trend in the near future. There is a chance that the I&L market will experience some slowdown in its growth through the breaking of some supply chains, but it will be short-term rather than long-term.

SBU / Last Mile Logistics Sector in CEE-15

Something that is often debated is the definition of what small business units (SBUs) and last mile logistics (LML) are. Therefore, we outline our guidelines on this, as we see them relating to the CEE region:

SBUs are warehouses located on or near the outskirts of cities or business centres. They have convenient access to public transport, roads (expressways, motorways) or railways, which ensure fast delivery. These schemes, as opposed to standard big box warehouses, can comprise both warehouse and office space as well as showrooms or retail premises. SBUs – as the name suggests – are made up of small business modules, which offer high flexibility. The average size of a single module is usually 500 m². It is possible to combine modules and adapt space to the needs of tenants if companies need to rent more space than a standard module. Since the size of SBU warehouses are not large, they are suited to small and medium-sized companies.

LML units are also small city warehouses made up of small modules with high flexibility. However, they are slightly larger than SBUs, with a standard module being 1,500 - 3,000 m². They are city warehouses and they used to be located around larger cities. Last mile projects are most often leased by tenants from the e-commerce and courier sectors.

The total stock of typical SBU / Last Mile Logistics space in the CEE-15 countries accounts for over 3 million m². The development of this market is not evenly spread among the CEE-15 countries. In fact, each of them is at a different stage of development. There are some countries where there are no typical SBU/LML schemes at all, such as Albania or Bosnia and Herzegovina. In that case, specific tenants in this sector lease smaller modules in big-box or smaller I&L schemes of lower standards. Some projects are also built with a concept similar to modern SBU/LML schemes, but for private use. The largest amount of space is located in Poland (ca. 2 million m²). The country with the biggest share of SBU/LML space of its total I&L stock is Bulgaria, where this type of schemes account for 59% of total supply. Other countries with noteworthy shares are Estonia (13%), Hungary (13%) and Poland (8%).

In CEE-15 there is ca. 500,000 m² of SBU/LML space under construction. The majority of that volume is being built in Poland (310,000 m²). Other countries with a significant volume of space under development in CEE-15 are Estonia (68,000 m²) and Bulgaria (54,400 m²).

"The total stock of typical SBU / Last Mile Logistics space in the CEE-15 countries accounts for over 3 million m². The development of this market is not evenly spread among the CEE-15 countries. In fact, each of them is at a different stage of development."

Antoni Szwech
Analyst, Research and Consultancy Services | Poland, Colliers

Typically, rents and service charges are significantly higher than in standard buildings, but SBU and LML spaces make up for this with excellent locations and excellent adaptation to needs. All of these factors result in higher construction costs. In most of the CEE-15 countries headline rental rates for this type of space range between EUR 3.5 – 7.0 per m²/month but, in the Czech Republic and Estonia, they can even reach the level of EUR 12 per m²/month (mainly in SBU schemes).

In summary, all CEE-15 countries have seen an increase in enquiries for SBU/LML space. This is connected, among others, with the significant development of the e-commerce sector and courier services. These factors mean that in the coming quarters we can expect further significant development of this market segment in CEE-15.

Expert opinion

" In Germany, development of SBU or LML spaces is driven by economic chances only and by nearly all known developers in Germany. If land is too small for "standard" logistics developments, SBU or LML become an alternative solution for developers. Attractive catchment areas are another factor influencing the location of these types of schemes in specific locations. This typical means proximity to a high population density and very good transport connections, which are preferred for last-mile purposes. Due to the predominant shortage of land in the TOP 8 logistics regions and in the proximity of metropolitan areas, there are hardly any properties that are suitable for Last-Mile Logistic use. It is mainly existing properties that are refurbished and used as LML. As a result, these properties are often below 10,000 m².

Over the past few years, the I&L market, in particular the SBU and Last Mile Logistics, has been challenged by a variety of events. Recent major incidents that may have affected the market include the pandemic and the war in Ukraine. The extent to which the Ukraine war will influence this trend is difficult to assess at this stage, as it is still unclear how long the war and the disruption to supply chains will last, while the consequences of the pandemic have already been noticeable for some time.

In Germany, before the pandemic, the e-commerce sector was already showing a steady increase leading to increased demand for last-mile properties. The pandemic acted as a catalyst for this development and led to a lasting change in consumer shopping behaviour. As a result, the volume of parcels has increased significantly since 2020 and the demand for logistics properties close to the city has continued to rise.

Currently SBU/Last Mile Logistics warehouses are dominated by tenants from the e-commerce industry (Amazon, Relaxdays), as well as e-food-logistics. Particularly the second of these industries became very popular during the pandemic and now is booming. More and more companies like Knuspr, Picnic, Bringmeister, Rewe.de, Flaschenpost, Everly and Edeka Fresh are entering the German market.

In the future, the high demand for last-mile properties is expected to continue and probably even increase. Some of the user groups (e.g. e-food logistics operators) are still establishing themselves on the market which may make them a target tenant among developers."

Nicolas Roy
Managing Director, Head of Industrial & Logistics, Germany, Colliers

Expert opinion

" Driven by the strong fundamentals in the occupational market, the strong increase in e-commerce and the importance of the Netherlands within the overall European distribution and supply chain network, yields in the general industrial and logistics market have compressed significantly over the past years.

As a result of the macro-economic trends, the appetite from developers has increased really quick over the past period. However, the smaller volume of these type of projects is not a fit for all ‘’classic’’ developers. We also see new last mile logistics developers and collaborations between developers/investors popping up right now. Interest from institutional investors has also increased during that period. Those already invested in the (last mile) logistics sector are looking to increase their exposure to this asset class. New entrants are looking to enter the market and, as a result, the (last mile) logistics yields have compressed significantly over the past period as well.

As also stated earlier the investment and occupier market has been growing rapidly over the past period. The last mile logistics asset class has become a mature investment class in the Netherlands. Due to the continued growth and development of the last mile logistics sector, investor interest in these type of properties is expected to continue as well.

Ongoing concerns have a different impact on market. On one hand during the pandemic we have seen a huge increase in last mile deliveries. Due to an increase of internet sales by 23.6%, demand from e-commerce and 3PL related occupiers has surged. This extreme demand of space has resulted in historic low vacancy levels. On the other hand the war in Ukraine has not directly resulted in a sentiment shift yet. But the war has resulted in a disruption of the supply chains, increasing construction costs, rising inflation and high energy costs.

The location is one of the most important drivers of the rent. Last mile properties are located in or near cities and situated on more expensive land compared to the generic logistics hotspots such as: Breda, Roosendaal, Tilburg, Venlo, etc. As a result, rental rates of last mile logistics properties are normally higher.

Typical last mile occupiers are parties such as: Amazon, DHL, Picnic, Jumbo Supermarkets, etc. Their demand for space is often between 2,000 – 10,000 m² situated in or near a city centre and good access by car and truck. The market for quick commerce, the next generation of e-commerce has been expanding rapidly over the past period. Typical quick commerce occupiers are parties such as Flink, Gorillas and Zapp. As these parties offer extremely quick delivery times, their demand for space is between 200 - 1,000 m² and it has to be located in a city centre."

Melvin Venema
Senior Consultant, Capital Markets, the Netherlands, Colliers

Photo: Adobestock

I&L Market in CEE-15: 2021

Czech Rep.		Prague
9,614,300	S	3,361,800
1,107,500	U	103,100
1.3% ▼	V	0.7% ▼
2,431,700 ▲	D	535,700 ▲
5.00 - 6.00	R	5.50 - 6.00
4.0%	Y	4.0%

Slovakia		Bratislava
2,981,200	S	1,431,000
190,800	U	31,000
7.2% ▼	V	4.4% ▼
442,100 ▼	D	309,600 ▼
3.20 - 4.40	R	3.50 - 4.60
6.0%	Y	5.8%

Legend

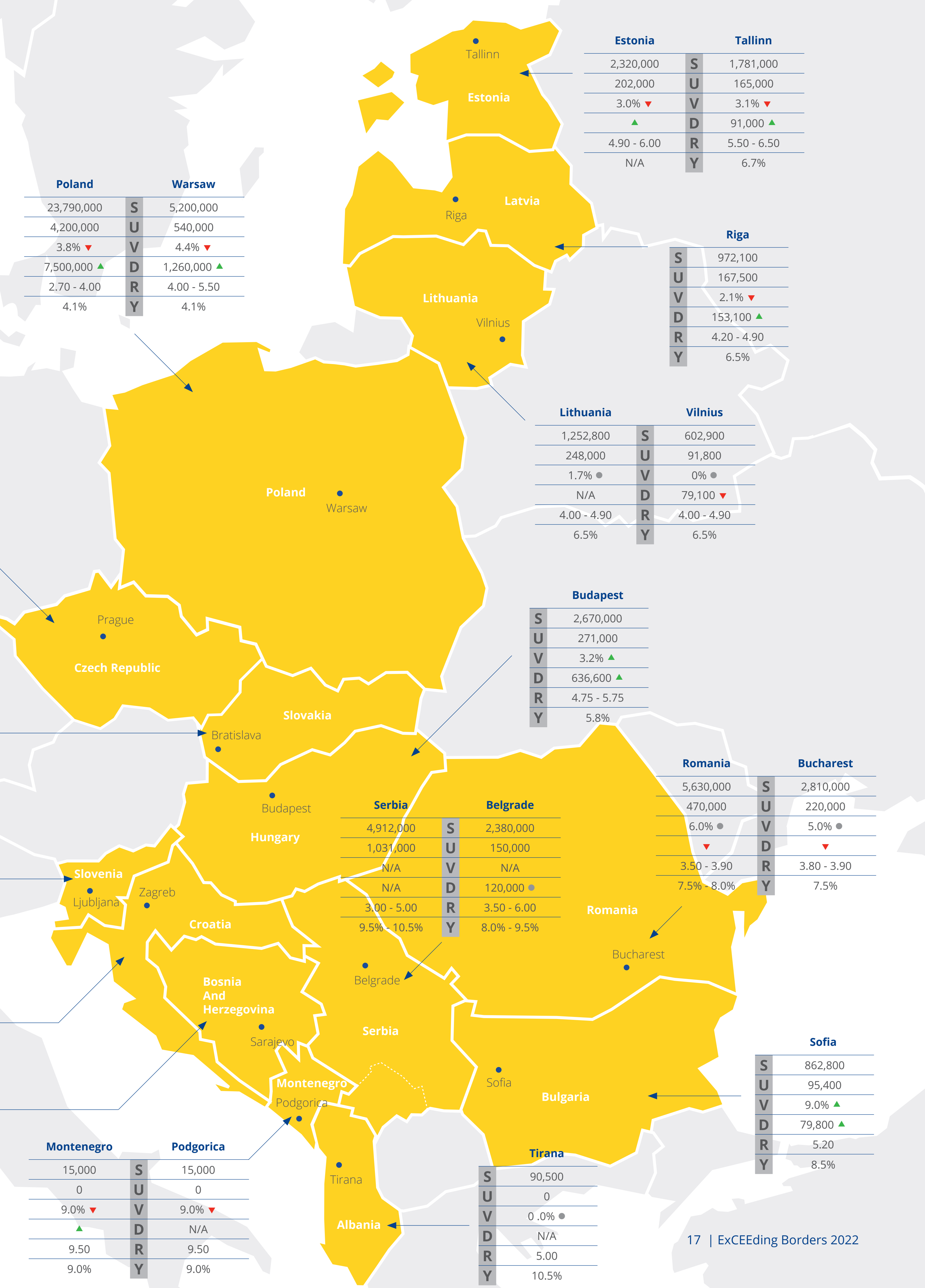
Country / Capital City	
Total Stock (m^2)	S
Supply Under Construction (m^2)	U
Vacancy rate	V
Gross Demand (m^2)	D
Prime Rents (EUR/m^2/month)	R
Prime Rents Yields	Y

Trend (Y-o-Y)
Increase ▲
Stable ●
Decrease ▼

Slovenia		Ljubliana
N/A	S	N/A
81,000	U	14,100
<5.0% ●	V	<3.0% ●
N/A	D	N/A
5.50	R	7.00
7.5%	Y	6.8%

Croatia		Zagreb
>1,500,000	S	1,265,000
190,000	U	150,000
<5.0% ●	V	<3.0% ●
250,000 ▲	D	200,000 ▲
4.50	R	5.50
7.8%	Y	7.0%

Bosnia and Herzegovina		Sarajevo
N/A	S	N/A
45,000	U	40,000
N/A	V	5.0% ●
N/A	D	N/A
3.50	R	4.50
N/A	Y	N/A



Estonia		Tallinn
2,320,000	S	1,781,000
202,000	U	165,000
3.0% ▼	V	3.1% ▼
▲	D	91,000 ▲
4.90 - 6.00	R	5.50 - 6.50
N/A	Y	6.7%

Poland		Warsaw
23,790,000	S	5,200,000
4,200,000	U	540,000
3.8% ▼	V	4.4% ▼
7,500,000 ▲	D	1,260,000 ▲
2.70 - 4.00	R	4.00 - 5.50
4.1%	Y	4.1%

	Riga
S	972,100
U	167,500
V	2.1% ▼
D	153,100 ▲
R	4.20 - 4.90
Y	6.5%

Lithuania		Vilnius
1,252,800	S	602,900
248,000	U	91,800
1.7% ●	V	0% ●
N/A	D	79,100 ▼
4.00 - 4.90	R	4.00 - 4.90
6.5%	Y	6.5%

	Budapest
S	2,670,000
U	271,000
V	3.2% ▲
D	636,600 ▲
R	4.75 - 5.75
Y	5.8%

Romania		Bucharest
5,630,000	S	2,810,000
470,000	U	220,000
6.0% ●	V	5.0% ●
▼	D	▼
3.50 - 3.90	R	3.80 - 3.90
7.5% - 8.0%	Y	7.5%

Serbia		Belgrade
4,912,000	S	2,380,000
1,031,000	U	150,000
N/A	V	N/A
N/A	D	120,000 ●
3.00 - 5.00	R	3.50 - 6.00
9.5% - 10.5%	Y	8.0% - 9.5%

	Sofia
S	862,800
U	95,400
V	9.0% ▲
D	79,800 ▲
R	5.20
Y	8.5%

Montenegro		Podgorica
15,000	S	15,000
0	U	0
9.0% ▼	V	9.0% ▼
▲	D	N/A
9.50	R	9.50
9.0%	Y	9.0%

	Tirana
S	90,500
U	0
V	0 .0% ●
D	N/A
R	5.00
Y	10.5%

SBU & LML Market in CEE-15: 2021

Legend

Country	
Total Stock of SBU & LML (m²)	S
Share of SBU & LML in Total I&L Stock	P
Supply Under Construction of SBU & LML (m²)	U
Prime Rents for SBU & LML schemes (EUR/m²/month)	R

Czech Rep.

N/A	S
N/A	P
N/A	U
7.00 - 12.00	R

Slovakia

15,000	S
1%	P
0	U
6.70	R

Slovenia

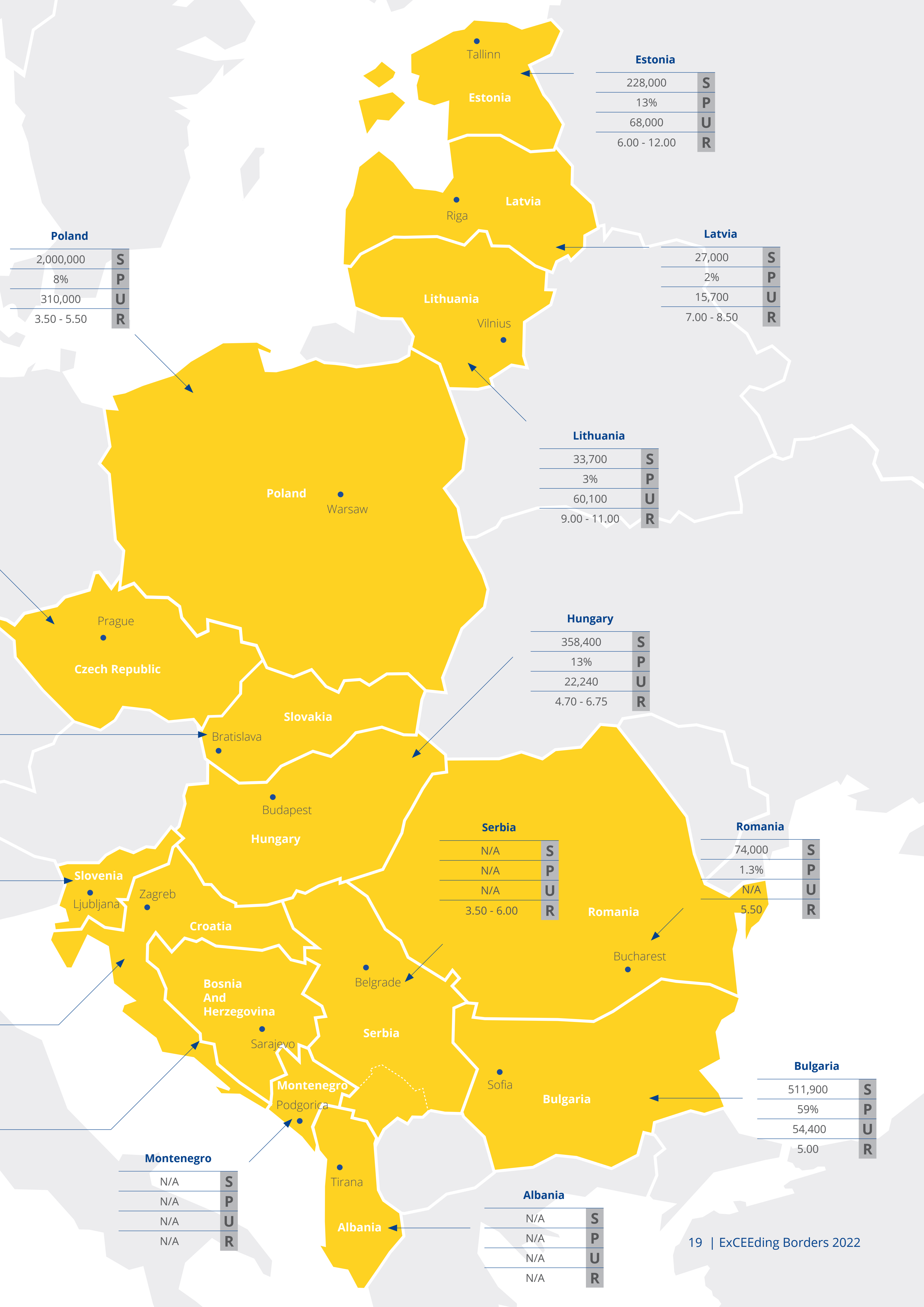
N/A	S
N/A	P
N/A	U
N/A	R

Croatia

55,000	S
4%	P
N/A	U
7.00	R

Bosnia and Herzegovina

N/A	S
N/A	P
N/A	U
N/A	R



Estonia

228,000	S
13%	P
68,000	U
6.00 - 12.00	R

Poland

2,000,000	S
8%	P
310,000	U
3.50 - 5.50	R

Latvia

27,000	S
2%	P
15,700	U
7.00 - 8.50	R

Lithuania

33,700	S
3%	P
60,100	U
9.00 - 11.00	R

Hungary

358,400	S
13%	P
22,240	U
4.70 - 6.75	R

Serbia

N/A	S
N/A	P
N/A	U
3.50 - 6.00	R

Romania

74,000	S
1.3%	P
N/A	U
5.50	R

Bulgaria

511,900	S
59%	P
54,400	U
5.00	R

Montenegro

N/A	S
N/A	P
N/A	U
N/A	R

Albania

N/A	S
N/A	P
N/A	U
N/A	R

Albania Overview

	Albania	Tirana
Total stock (m²)	-	90,500
Supply U/C (m²)	-	0
Vacancy rate (%)	-	0
Gross Demand (m²)	-	-
Prime headline rents (EUR/m²/month)	-	5.0
Prime yields (%)	-	10.5

Photo: Tirana Industrial Park, source: Concord Investment

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	-

Market characteristics

Tirana's I&L market has developed significantly during the last decade, mostly along the Tirane-Durres highway. It is the busiest industrial segment located in area between Tirana-Durres-Elbasan, which covers 60% of the privately owned companies. Furthermore, new infrastructure projects such as ports, highways and airports have positively impacted such developments. Currently, two A Class I&L parks, Tirana Industrial and Tirana Logistics Parks, are located within a radius of 7 km from Tirana city centre. The total stock of modern I&L space in Albania amounts to 90,600 m². Currently there are no schemes under development.

The remaining I&L stock consist of smaller, stand-alone warehouses offering fewer amenities and lower quality premises than the above-mentioned parks. In terms of geographical distribution, the area closer to Tirana is denser in stock, higher in quality and more expensive compared to the industrial area close to Durres.

Another area of interest but of smaller importance is the former industrial area on the outskirts of Tirana or the so-called Kombinati area. Here, former state-owned industrial properties have been privatised and renovated in order to create some stock alongside the newly built industrial premises.

The continuous increase in supply of industrial premises in the suburbs of Tirana is a correlation of high demand for such premises due to overall external inflationary pressure, increased transport costs, and the need for corporates to diversify their production and suppliers and supply chain, especially after the COVID-19 crisis. A significant part of the demand for industrial properties is generated by the textile, shoe and & leather industries, which are labour intensive and require large spaces to produce and operate. Hence, an increase in the demand from such industries in the short run is expected.

Currently, there is no vacant I&L space in Tirana. The main reason for this is the small stock of modern I&L space, which makes potential vacancies very popular among tenants, therefore they are quickly leased.

In terms of rental prices for the suburbs of Tirana such as Tirane-Vore segment and Tirana city – Kombinat segment, they vary from EUR 2.0 per m²/month to EUR 5.0 per m²/month depending on their quality, size and location.

SBU / Last Mile Logistics

At present, the SBU or LML market is underdeveloped and almost invisible. Specific tenants in this sector lease smaller modules in big-box or smaller I&L schemes of lower standards. Some projects are also built with a concept similar to modern SBU/LML schemes but for private use.

Impact of COVID-19

COVID-19 logistics restrictions challenged the industrial market in Albania. However, it is worth noting that the increased cost of transport has positively impacted the demand for logistics and warehouses, as a result of reallocations of the production companies and of distribution chains.

War in Ukraine

In Albania, no significant impact of the war in Ukraine on the I&L market was noticed. Currently, neither demand nor supply has been influenced by this event. However, an increase in prices was clearly noticed. There has been an observed growth in the cost of fuels, raw materials necessary for the construction of the schemes.

Bosnia and Herzegovina Overview

	B&H	Sarajevo
Total stock (m^2)	-	-
Supply U/C (m^2)	45,000	40,000
Vacancy rate (%)	-	5.0
Gross Demand (m^2)	-	-
Prime headline rents (EUR/m^2/month)	3.5	4.5
Prime yields (%)	-	-


source: Adobestock

SBU / Last Mile Logistics

Total SBU / LML Stock (m^2)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m^2)	-
Prime headline rents (EUR/m^2/month)	-

Market characteristics

The industrial and logistics sector in Bosnia and Herzegovina, although the largest in terms of newly constructed premises, is the least active CRE sector, mostly due to properties being developed and occupied by their owners.

The main industrial regions include the capital city – Sarajevo, as well as Mostar, Zenica, Banja Luka, Tuzla and Jajce. Infrastructure investment are crucial to the overall development of this sector. Especially critical is the A1 highway connecting the capital and the major cities of Mostar and Zenica with the northern and southern borders of the country.

Currently, in Bosnia and Herzegovina, there is 45,000 m² of modern I&L space under construction. The vast majority of it is being built in Sarajevo and its surroundings (40,000 m²).

The vacancy rate in Sarajevo amounts to 5%. When it comes to headline rents, they range between EUR 3.50 – 4.50 per m²/month, which also represents the average of rental rates in CEE-15.

The industrial and logistics sector has seen a turnaround, as properties witnessed increased demand, being seen as less dependent on economic growth. The difficulties brought about by the pandemic highlighted the need for supply chain quality improvements. Meanwhile, the momentum in the I&L sector continued to build in the expectation that online delivery demand, brought about by the rise of e-commerce, is here to stay. The growth of e-commerce during 2020 and the rising need for near-shoring further strengthened their importance, although still hampered by the prolonged completion of the A1 highway.

SBU / Last Mile Logistics

SBU's are not an active asset class on the I&L market in Bosnia and Herzegovina. Sarajevo's market is still abundant with derelict former industrial properties that await redevelopment, several of those in close vicinity to the city centre. However, they are still mostly developed for retail, if mixed-use development is not allowed.

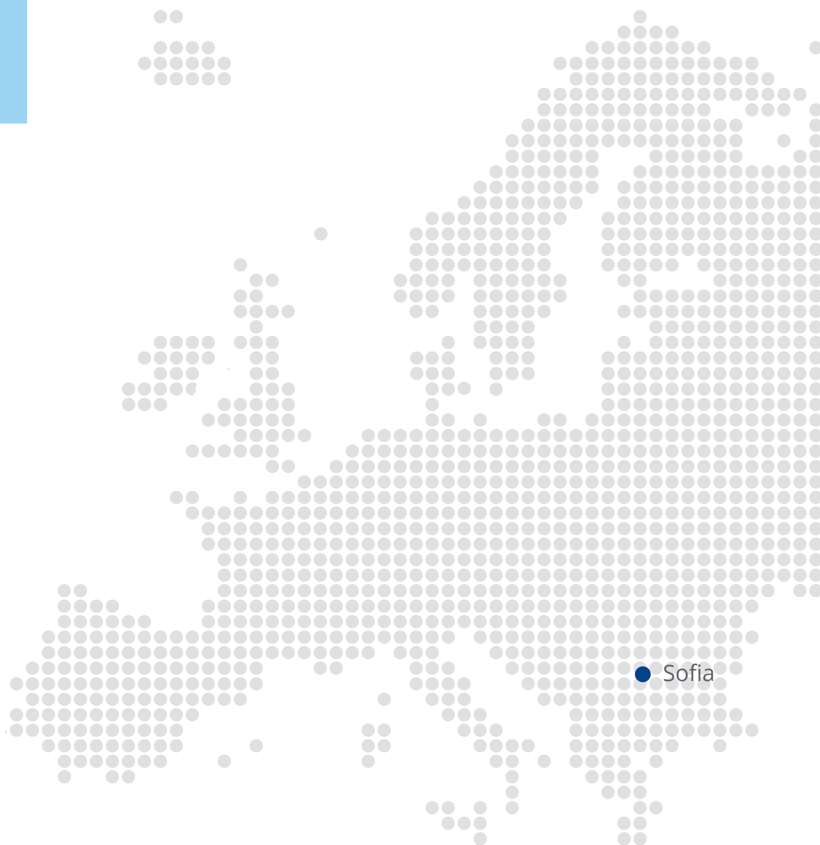
COVID-19

The past few years have been marked by the onset of COVID-19, which brought about an economic downturn, primarily due to travel restrictions and a slump in consumer spending. This increased the degree of uncertainty and decreased stability in the real estate market, as well as causing a reduction in the transaction volumes. The mandated lockdowns forced businesses to shift from the workplace to remote work, which increased the digitalisation of the work processes. Although COVID-19 helped with the prominence and visibility of the I&L sector, this did not reflect significantly on the market, as the supply remained fairly similar to pre-COVID levels.

War in Ukraine

The war in Ukraine has so far not seemed to influence the market in a significant manner, apart from the overall rise in construction materials, labour and utilities which were only exacerbated by the war, but not being the root cause. This is mostly due to the market's poor levels of liquidity for several years, therefore, the investors that had long-term plans fulfilled them regardless of the war.

Bulgaria Overview



	Bulgaria	Sofia
Total stock (m²)	-	862,800
Supply U/C (m²)	-	95,400
Vacancy rate (%)	-	9.0
Gross Demand (m²)	-	79,800
Prime headline rents (EUR/m²/month)	-	5.2
Prime yields (%)	-	8.5

Photo: Botevgradsko Logistics Park, source: Landmark Property Management

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	511,900
Share of SBU / LML in Total I&L Stock (%)	59
Space U/C of SBU / LML (m²)	54,400
Prime headline rents (EUR/m²/month)	5.0

Market characteristics

Private, public and collectively owned lands are consolidated in industrial zones in Bulgaria. They provide diversity of locations, cost optimisation and possible business synergies for both new production and logistics activities and expansions. These zones can offer tenants land purchase or BTS purchase models, for example. Globally recognised companies ready to sign long-term leases can also attract developers for facilities tailored to their needs in less liquid locations where, however, specific tenant requirements can be met.

The most developed region in Bulgaria in terms of active modern production facilities remains to be Plovdiv with a focus on the Trakia Economic Zone (TEZ) consisting of 6 major industrial areas. There is a proven need in this area for speculatively built A-Class industrial logistics space. New construction of space in the region can release the burden from companies stuck within the limitations of owning facilities that are already too small for them, to easily restructure them into additional production space.

At the end of 2021, the total stock in Sofia reached the level of 862,800 m². There was a significant amount of space under construction reaching 95,400 m². Over the course of the first three months of 2022, the volume of space under development almost doubled amounting to 180,400 m² at the end of March 2022.

The end of the year in Bulgaria, and particularly in Sofia, was marked by an increase in vacancy rate to 9%. An increase in tenant activity was noted in the recent data, where demand in Q1 2022 amounted to over 35,000 m2 which resulted in a decrease of vacancy rate to 8%.

Headline rents in Sofia have been stable level during the last few years at the level of approximately EUR 5.20 per m²/month.

Due to the many globally driven pressures, it is expected that in 2022, the I&L sector will face the challenges of high energy prices, construction costs and the ongoing pandemic, potentially slowing business activity down. Accelerating inflation is also making investors more cautious.

SBU / Last Mile Logistics

In Bulgaria, demand for SBU or LML schemes remains at a very high level. The share of each facility in the I&L stock was 8% and 51% respectively at the end of 2021. The average rental rates in SBU/LML schemes are not significantly different from the average rates in the I&L market. This will result in a further increase in demand for properties suitable for LML in the capital, particularly in the areas around the main arterial roads, featuring proper zoning. Tenants from the 3PL, retail and distribution sectors will remain as driving forces influencing the demand, as they increasingly look for optimisation of processes and operating costs. Technology companies are expected to enter the sector. Thanks to technological innovation, warehouse buildings will feature higher efficiency, floor space optimisation and processes will be automated and digitally controlled.

COVID-19

The COVID-19 pandemic has disrupted supply chains around the world, forcing both manufacturers and online stores to "stock up" on parts, raw materials or goods for longer than usual. This also reflects in the need for more storage space and higher demand from 3PL operators and distributors.

War in Ukraine

The war in Ukraine is leading to a redistribution of raw materials and a relocation of production processes, which is stimulating the construction of new schemes and thus affect an increase in demand for I&L space. Bulgaria can benefit from the relocation of production from the Far East and especially China to Europe. The desired result of the "return" to the Old Continent is shortening supply chains and independence from the war zone. The market for industrial and logistics space in Europe, and especially in the Balkans as a kind of "gateway" from Asia, will undergo rapid development in the coming years. On the other hand, significantly higher construction costs negatively affect the feasibility of some projects in the pipeline and will decrease the planned new stock.

Due to the higher vacancy rate, in comparison with other CEE markets, upward rental pressure has not been noticed.

source: Adobestock

" During these times of unprecedented disruptions to global supply chains, here at CTP, our strategic priority continues to be delivering real estate that underpins the growth and security of our clients' industrial and logistics operations across Europe.

We pride ourselves on our ability to offer strategically located, high-specification, sustainable and flexible solutions to meet our clients' evolving requirements. It is in response to the growing occupational demand from both local and international companies that led us to Bulgaria, further expanding our portfolio of last mile logistics hubs."

Daniela Boytcheva
Business Development Director, CTP Bulgaria

Croatia Overview

	Croatia	Zagreb
Total stock (m²)	> 1.5 M	1.3 M
Supply U/C (m²)	190,000	150,000
Vacancy rate (%)	< 5.0	< 3.0
Gross Demand (m²)	250,000	200,000
Prime headline rents (EUR/m²/month)	4.5	5.5
Prime yields (%)	7.8	7.0

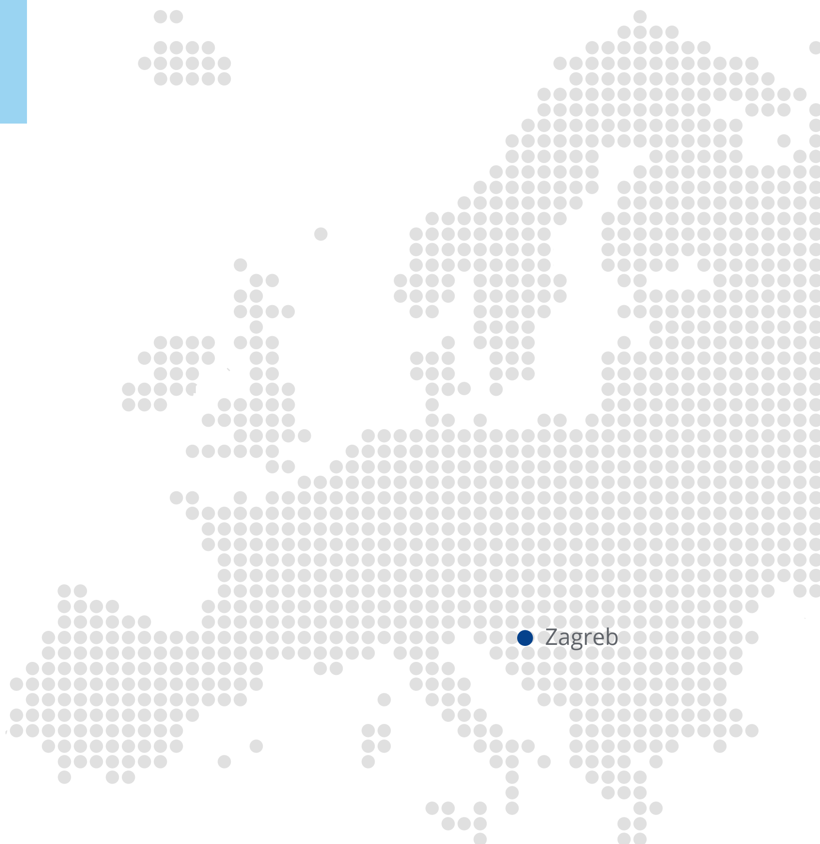



Photo: LogExpert One in Velika Gorica, source: LogExpert

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	55,000
Share of SBU / LML in Total I&L Stock (%)	4
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	7.0

Market characteristics

The I&L sector is the least developed CRE sector in Croatia with a limited supply of modern stock. Thus, it has the most upside potential in terms of development and investment activity in the CRE industry. The majority of supply is located in Zagreb and its surrounding areas, followed by Kukuljanovo (Rijeka), Dugopolje (Split) and other larger cities.

Tensions caused within the European market by supply chain uncertainties gave rise to a significant number of new developments, especially in the Zagreb market, underpinned by the fact that majority of stock in Zagreb is below the market standard expected by the occupants. These newly built A-Class properties were leased at a fast pace, with a large portion of demand still remaining unfulfilled. In 2021 alone, an additional 120,000 m² of new stock appeared on the market. Thus, the total stock in the I&L market exceeded the size of 1.5 million m² in the whole country and 1.2 million m² in the capital. The vacancy rate at the end of 2021 remained stable compared to the corresponding period of 2020 and amounted to less than 3% in Zagreb.

Prime headline rents in Croatia at the end of 2021 amounted to EUR 4.50 per m²/month, while in Zagreb it was slightly higher reaching the level of EUR 5.50 per m²/month. Rental rates in Croatia remained stable over the last year.

SBU / Last Mile Logistics

The Croatian market is not abundant with SBU's, as landlords prefer safer, long term agreements signed in a pre-lease stage prior to construction. Those deals, although not BTS arrangements in the full sense, as the product is intended to be built for the market, are still significantly safer investments from the investor's perspective. Last mile delivery is handled by a handful of tenants that operate on a similar model, signing longer-term leases, as the market still favours landlords. The only exception is the national postal service which invested in a last mile delivery centre in Velika Gorica on the outskirts of Zagreb, however, being a state-owned company, the entailing risks to operation were negligible when considering their investment ticket size.

COVID-19

Although the pandemic brought about a renewed focus on the sector, several developments were already underway, especially around Zagreb, as the stock was mostly older and there was a need for modern A Class premises that the tenants were finally willing to lease. Given the fact that the majority of the tenants had seen a rise in profits as the prices of their services had grown given the difficulties within the supply chain and rising near-shore demand, the development pace had only increased.

War in Ukraine

The Croatian market had experienced a shortage of labour even prior to the war in Ukraine, however, the war brought about new strains in the supply chain of construction materials and utilities. Although most ongoing developments are headed towards completion, some investors that are in pre-development phases are forced to re-draft pre-lease agreements that include higher rents to offset the new costs and stricter indexation policies to ward off against rising inflation. For those reasons, there is a certain level of insecurity regarding the continuation of the development trend, as tenants will be forced to postpone moving to newer properties due to higher rents or simply not enter the market under current conditions mandated by the landlords.

Czech Republic Overview

	Czech Rep.	Prague
Total stock (m²)	9.6 M	3.4 M
Supply U/C (m²)	1.1 M	103,100
Vacancy rate (%)	1.3	0.7
Gross Demand (m²)	2.4 M	535,700
Prime headline rents (EUR/m²/month)	5.0 - 6.0	5.5 - 6.0
Prime yields (%)	4.0	4.0

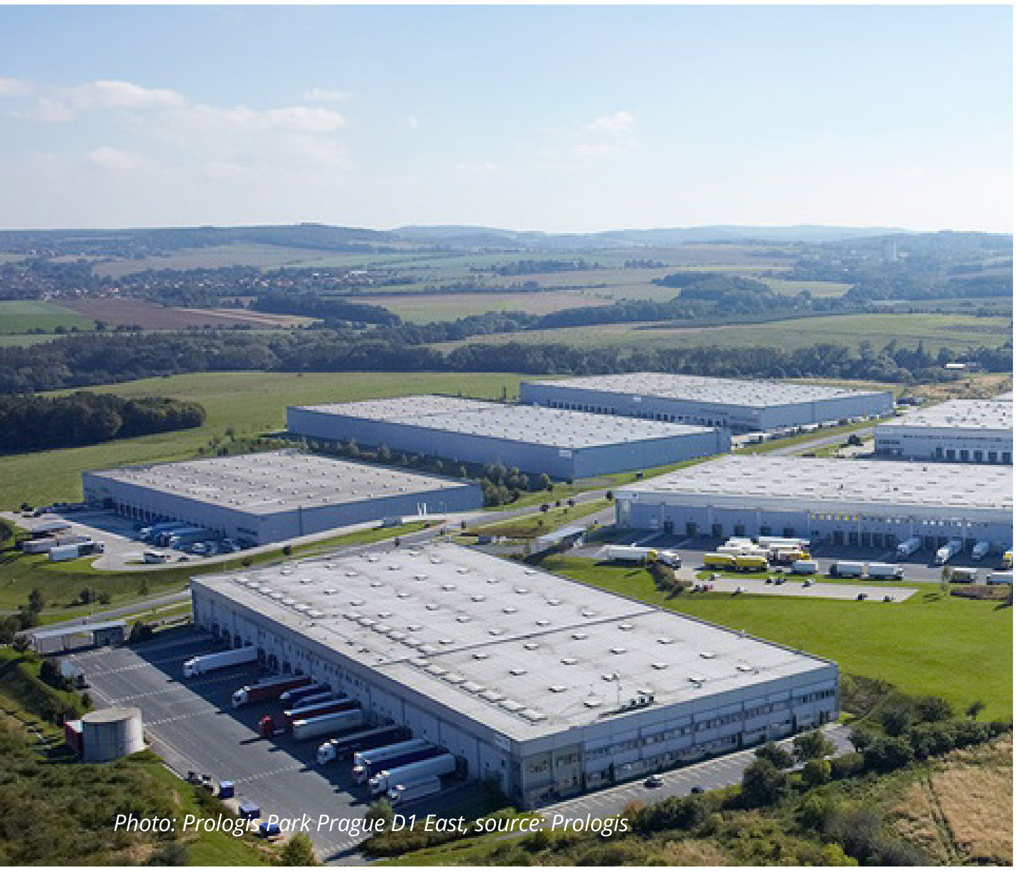


Photo: Prologis Park Prague D1 East, source: Prologis

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	7.0 - 12.0

Market characteristics

The Czech I&L market benefits from its central European location as well as its good industrial and transportation infrastructure. One of the most attractive aspects for international companies is the pool of highly skilled labour. As a result, the main I&L hubs concentrate around the major population and educational centres like Prague and Brno.

The Czech industrial market saw record-breaking demand in 2021 and built enough resiliency to withstand the challenges at the beginning of 2022. The record demand levels for 2021 continued in Q1 2022, despite the shock of the war in Ukraine hitting European markets and supply chains. At the end of the year, the market also recorded the highest ever volume of industrial space under construction (over 1 million m²), resulting in a record supply in Q1 2022 which exceeded 300,000 m². We expect the market to expand rapidly in 2022, passing the milestone size of 10 million m² and possibly even 11 million m² by end of the year.

While disruptions to the rapid growth of the Czech market are possible, due to continued supply chain shortages and macroeconomic contraction, we still expect the market to be strong and vacancy to stay low at around 2%.

Rents, on the other hand, keep rising, especially in the capital. Large developers appear to be conscious of the possible effects of the Green Deal on their portfolios and are putting together plans to gradually keep their portfolios up to the future standards.

SBU / Last Mile Logistics

SBU represents only a fraction of the I&L market in the Czech Republic. Several developers are, however, active in the field and have built or are preparing a handful of SBU schemes around large cities in the Czech Republic as the importance of such units and the demand seems to be on the rise, mainly in bigger agglomerations (Prague, Pilsen, Brno). One of the challenges preventing the development of SBUs is the scarcity of land and its price which impacts the rental/selling price of such units which is significantly higher than with ordinary warehouse units.

The last mile market in the Czech Republic is overlapping and included within the regular industrial parks, built in and around major cities (Prague, Brno, Ostrava). This is owing to the limited size of the city markets, as well as their major importance in the national market. There is little need to adjust this setting to last mile specific projects. There is also a lack of available land to produce such spaces in the Czech Republic. In the Czech Republic, LML projects are popular with tenants from the 3PL, e-commerce, retail, distribution, FMCG, and F&B sectors.

COVID-19

All remaining COVID-19 restrictions in the Czech Republic were lifted in Q1 2022, and the effects of the pandemic on overall consumption and industrial production were improving faster than expected in the outlook (up until the start of the war in Ukraine). Overall, the pandemic, since 2020, meant a great boom for Czech industrial space. E-commerce-driven demand was strong, especially growing throughout 2021, but it was not the only factor of the growth. Owing to the COVID-19 lockdowns and changed behaviours of consumers, record volumes of space were leased during the two pandemic years. Supply of new space, on the other hand, was very low, causing record-low vacancy across all regions in the market. This was due to the growing supply chain delays, but also more systemic constraints such as long local permitting processes. In early 2022, as the pandemic subsided, supply began to catch up with demand.

War in Ukraine

The war in Ukraine has so far had only a minor impact on the Czech I&L market. Nowadays, investors perceive Central and Eastern Europe as a space with much higher risk and will probably be more reluctant to enter these markets. However, the geographical distance and stability of the Czech industrial market are likely to compensate for this. There is anecdotal evidence of companies, based in Eastern Europe or Ukraine, wanting to move West, to offset the potential risks coming from the region. The Czech Republic could benefit from this, as its market offers lower-priced space, well-connected to both Western and Eastern markets.

source: Adobestock

" In line with the market trends, we have been observing an increased interest in SBU premises, mainly in locations close to larger cities or agglomerations. The biggest issue, however, is securing the right land plot suitable for this kind of product as it needs rather specific parameters with regards to the build-up ratio and the permitting process itself is challenging.

When developing SBUs, the design phase is crucial as the project needs to be versatile and user-friendly for a wide range of diverse clients while still trying to keep the overall cost to a minimum. SBUs are also specific with regards to hygienic and fire safety regulations which further increases the complexity of the whole project as it is designed for multiple users whose preferred usage of the premises may vary. This also plays a significant role in negotiating with multiple tenants for a single building as the adjustment of suitable lease conditions may prove rather strenuous."

Jan Jirotka
Partner at CID (Czech Industrial Development)

Estonia Overview

	Estonia	Tallinn
Total stock (m²)	2.3 M	1.8 M
Supply U/C (m²)	202,000	165,000
Vacancy rate (%)	3.0	3.1
Gross Demand (m²)	-	91,000
Prime headline rents (EUR/m²/month)	4.9 - 6.0	5.5 - 6.5
Prime yields (%)	-	6.7

Photo: Ringtee Stock, source: Favorte

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	228,000
Share of SBU / LML in Total I&L Stock (%)	13
Space U/C of SBU / LML (m²)	68,000
Prime headline rents (EUR/m²/month)	6.0 - 12.0

Market characteristics

Over the last decade, the most intensive development of the I&L market in Estonia has been concentrated in Tallinn's outer suburbs and in nearby municipalities. The most developed logistics areas lie in the eastern and south-eastern parts of the city. Development of manufacturing facilities and warehouses are concentrated in three main areas of Tallinn and its suburbs: Peterburi road, Pärnu road, and Tartu Road, between the city limits and Jüri municipality.

Total I&L stock at the end of 2021 reached the level of 2.3 million m². The total volume of space under construction amounted to 202,000 m². Despite relatively rapid growth of the Estonian market, the vacancy rate remained low reaching 3.0%.

The I&L market in Tallinn and its suburbs continued to remain rather stable in 2021 in terms of new developments, rents and vacancy rate. By the end of 2021, estimated total stock of modern industrial and logistics schemes in Tallinn and its outskirts exceeded 1.8 million m² (of which only 34% are speculative objects and 66% are BTS projects). Speculative development in the Tallinn region during the last three years remains largely driven by stock-office projects (SBUs).

In 2021, rental rates remained stable, although due to growing construction costs, rental rates for newly built premises started to trend upwards in the second half of the year. Due to buoyant demand, driven largely by retailers, distributors, metal manufacturers, transportation and storage companies, vacancy continues to remain low.

SBU / Last Mile Logistics

While the first SBUs in the Tallinn region appeared between 2004 - 2006, a new wave of SBU development started in 2014 - 2015, becoming a highly demanded sub-segment. SBUs in the Tallinn region are locally known as stock-offices. A stock-office is a building that combines a store, an office and a warehouse and is seen as a multifunctional solution, perfect for small businesses (over 90% of Estonian companies employ less than 10 individuals), although asking rents for such premises is somewhat higher, varying between EUR 6.0 - 12.0 m²/month on average. Stock-offices located within the Tallinn city borders are more service and retail-oriented properties with considerably less sufficient warehouse volume and thus, higher rental levels (varying between from EUR 8.0 - 13.0 m²/month).

Between 2016 - 2021, approximately 50 new stock-office projects were completed in Tallinn and its suburbs, bringing the total volume to 193,500 m² by the end of 2021. The segment remains rather active in Tallinn and its immediate vicinity in terms of demand and new developments. The announced completion of 40 stock-office projects will deliver an additional 164,000 m² of new available SBU space to the market in 2022 - 2023.

In the Tallinn region, SBU premises are mostly leased to companies from the wholesale and retail trade sector. The average size of a stock-office building in the Tallinn region is 3,000 m². There are traditionally 7 - 8 tenants / units in each stock-office, making the average size of a single box or unit, ca. 400 m².

COVID-19

In Estonia, the I&L sector proved to be quite stable with some continual development and buoyant demand despite the pandemic. In March 2020, developers and tenants started to reconsider their plans for 2020 due to the pandemic - some new leasing deals and development projects have been postponed. During Q2 2020, negotiating conditions started to somewhat turn in favour of tenants, putting pressure on rental rates and resulting in some additional incentives i.e. full or partial rent-free periods. Since autumn 2020, the sentiment has rather stabilised.

War in Ukraine

Similar to the beginning of the COVID-19 pandemic, the market saw some growing uncertainty, although no postponements of strategic decisions have occurred so far. Two major influences are the growing construction and utility costs that are heavily impacting asking rents for new premises (starting from EUR 5.5 m²/month). As a result, some planned development might be delayed or put on hold. Consequently, existing buildings are starting to gain some advantages due to buoyant demand and plans by various companies to expand, resulting in an overall upward movement of asking rents.

Hungary Overview

	Hungary	Budapest
Total stock (m²)	-	2.7 M
Supply U/C (m²)	-	271,000
Vacancy rate (%)	-	3.2
Gross Demand (m²)	-	636,600
Prime headline rents (EUR/m²/month)	-	4.75 - 5.75
Prime yields (%)	-	5.8

Photo: Faedra22, source: Faedra Group

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	358,400
Share of SBU / LML in Total I&L Stock (%)	13
Space U/C of SBU / LML (m²)	22,240
Prime headline rents (EUR/m²/month)	4.70 - 6.75

Market characteristics

In contrary to the multi-regional industrial markets of the neighbouring countries, the Hungarian industrial market is still highly focused around Budapest.

The total I&L stock in Budapest reached the level of 2.8 million m² at the end of Q1 2022. The volume of space under construction amounted to more than 500,000 m² at the end of March. Most of the ongoing developments are big-box buildings and located in the proximity of highway, where the smallest leasable unit is 3,000 m². On top of the Budapest pipeline, there are a further 200,000 m² development in the countryside. 50% of the developments are already pre-leased. A significant volume of new supply will come to the market in 2022, which may temporarily put pressure on the rental levels. The former preference of developers for 10,000 - 20,000 m² sized buildings has now shifted towards 20,000 - 30,000 m² sized schemes.

The vacancy rate at the end of Q1 2022 reached 4.2%, which means it has increased by 1.6 p.p. YoY. At the end of 2021, total demand amounted to 636,600 m², indicating an 18% increase in the volume measured in the corresponding period of the previous year.

Headline rental rates remained relatively stable over the course of last year. They amounted to EUR 4.75 – 5.75 per m²/month.

SBU / Last Mile Logistics

The SBU sub-sector in Hungary is located further away from the classic city logistics locations, however, it offers space for tenants with more favourable rental conditions. In contrast to SBUs, the LML developments were not boosted during the new development cycle between 2014 - 2016, but they were concentrated on single and independent buildings. Rents in the SBU sector also changed significantly over the past 10 years. In recent years, effective rents increased from EUR 3 per m²/month to a range of EUR 4.2 - 4.7 per m²/month. There is typically a higher demand for SBUs from manufacturing and end-user companies than from the logistics business.

COVID-19

During the 1st and 2nd phase of COVID-19 a lot of businesses had difficulties and all planned developments had been postponed. A massive new supply pipeline will appear on the Budapest market during 2022 and 2023, which will provide more than 820,000 m² of new logistics buildings (an increase of almost 30%, compared to the former total stock of around 2.8 million m²).

War in Ukraine

During the first weeks of the Ukraine crisis, the Hungarian market has recorded increased demand for existing available buildings, both for logistics and production purposes. Due to the lack of supply and available vacant buildings (especially in the preferred North-Eastern Hungary region), the market was usually not able to serve these requirements.

Latvia Overview

	Latvia	Riga
Total stock (m²)	-	972,100
Supply U/C (m²)	-	167,500
Vacancy rate (%)	-	2.1
Gross Demand (m²)	-	153,100
Prime headline rents (EUR/m²/month)	-	4.2 - 4.9
Prime yields (%)	-	6.5


Photo: StokOfiss U30, source: Hepsor

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	27,000
Share of SBU / LML in Total I&L Stock (%)	2
Space U/C of SBU / LML (m²)	15,700
Prime headline rents (EUR/m²/month)	7.0 - 8.5

Market characteristics

The largest portion of the I&L stock is located in Riga or around the suburbs of the city. 81% of all stock additions in the last 3 years have been added in three areas: around the Airport, Dreilini and Rumbula.

The total stock in Riga and its suburbs reached a level of 972,100 m² at the end of 2021. The choice of location strongly follows workforce availability. Due to the lack of suitable options in the speculative market, BTS developments have become more common in the recent years and currently accounts for 63% of the ca. GLA 180,000 m² that are under construction. There is a strong local developer presence in the market.

The I&L market was less affected by COVID-19 than other segments and showed increasing rental levels (also prior to increasing constructions costs), increasing take-up figures (mostly from existing market players) and decreasing vacancy levels.

Prime headline rents range between EUR 4.20 – 4.90 per m²/month. Gross demand at the end of 2021 reached 153,100 m², which is an increase of nearly 60,000 m² YoY.

The vacancy rate decreased to the level of 2.1% during 2021, making it one of the lowest levels among the CEE-15 countries.

SBU / Last Mile Logistics

SBU in the Baltics is called stock-office and is a concept that is at an early stage of development in Latvia. There are only a few finished developments and several projects under construction. It is more retail oriented than in other markets and mostly is located within a city with good visibility from the street. For the industrial market it helps to solve the lack of supply of smaller premises in the new developments.

COVID-19

There was no significant COVID-19 impact on the industrial and logistics market in Latvia. Due to uncertainty at the beginning of the pandemic, several projects that were due to commence construction were postponed, but no projects were stopped. Currently, there are no COVID-19 consequences visible on the market.

War in Ukraine

Historically Latvia is one of the main transit points between Russia and Europe. Some of the tenants of warehousing schemes participate in the collaboration and could potentially be impacted by further sanctions. For the time being, the market has not yet been affected, but the risks for certain tenants are increasing. As at the beginning of the pandemic, speculative development projects are now being put on hold, due to rising prices and unpredictable construction costs.

Photo: StokOfiss U30, source: Hepsor

"Overall, there is lack of available space for companies that require retail space with good visibility and access at the same time, combining it with office and warehouse all in one location. Stock-office allows these companies to organize their work more efficiently and to decrease their operational costs. Rental rates for the premises have risen by 15-20% during last year and reach EUR 7.5 - 8.0 m²/month. However, due to the current rise in construction costs for such projects, by more than 30%, it will be challenging to bring new projects to the market. As a niche segment, stock-office has a very strong fundamental idea to lower the operational costs for companies to put all the main parts of business (retail, office and logistics / warehouse) all under one roof. As there is a limited supply in Riga, we expect to see continued demand in future."

Martti Krass
Member of the Board, Hepsor

Lithuania Overview

	Lithuania	Vilnius
Total stock (m²)	1.3 M	602,900
Supply U/C (m²)	248,000	91,800
Vacancy rate (%)	1.7	0.0
Gross Demand (m²)	-	79,100
Prime headline rents (EUR/m²/month)	4.0 - 4.9	4.0 - 4.9
Prime yields (%)	6.5	6.5

Photo: Urban Hub, source: SBA Urban

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	33,700
Share of SBU / LML in Total I&L Stock (%)	3%
Space U/C of SBU / LML (m²)	60,100
Prime headline rents (EUR/m²/month)	9.0 - 11.0

Market characteristics

At the end of 2021, the total modern warehouse stock in Lithuania amounted to 1,252,800 m² GLA, of which 55% was situated in the capital city region, 27% in the Kaunas region, and 18% in the Klaipeda region.

The total warehouse stock in the Vilnius region is dominated by speculative projects, which accounted for 62% at the end of 2021. Meanwhile, the opposite situation is observed in the Kaunas and Klaipeda regions, where BTO projects dominate at 53% and 45% of all premises respectively. Overall, the Lithuanian warehouse market in 2021 was less active than in the previous year, in terms of new development. New supply in the country amounted to 72,000 m² which is 55% less compared to the previous year.

At the end of 2021, the vacancy rate in Lithuania reached a level of 1.7%, while in the capital city there was no available I&L space.

Prime headline rents in Lithuania ranged between EUR 4.00 - 4.90 per m²/month at the end of 2021. The beginning of 2022 has brought a slight increase in rental rates. At the end of March 2022, they reached the level of EUR 4.30 – 5.20 per m²/month.

SBU / Last Mile Logistics

The market for SBUs or so called stock-offices in Lithuania is at an early stage of development. Realising a new attractive market niche and a still unanswered market need, developers jumped at this opportunity and thus formed a pipeline of stock-office premises with at least 60,100 m² (17 projects) remaining under construction. At the end of 2021, the total supply of this type of premises reached GLA of 33,700 m². Overall, the market was supplemented with three new projects amounting to total GLA of 10,900 m², which includes Pigu stock-office in Vilnius (GLA of 6,500 m²) and two smaller scale projects located in Kaunas.

COVID-19

The global pandemic had an adverse effect on supply chains worldwide which has also been noted in Lithuania. As a result, a significant increase in demand for warehouse space was driven by the willingness to expand or to relocate to larger premises to be able to stock more inventory and minimize business risks associated with supply chain disruptions.

War in Ukraine

Due to the increase in construction costs and disruption in supply chains of building materials caused by the war in Ukraine, some projects in the planning stages were temporarily put on hold. The sanctions imposed on Russia and Belarus had no notable impact on the Lithuanian logistics sector, however the geopolitical situation is forcing market players to pay increased attention to tenant risks.

Photo: Urban Hub, source: SBA Urban

"Thanks to e-commerce growing exponentially in Lithuania and globally, and also the significantly growing occupancy requirements of small to medium enterprises, we are a big believer in the SBU concept and are planning to develop not only in Lithuania and the Baltics, but also in the broader region. As these projects are dedicated to tenants in search of 100 – 2,000 m² units and for very various activities, we focus on a high quality environment and maximum space flexibility. Though the market of SBUs is rather premature in Lithuania, we see high interest in the first stage of our Kaunas HUB, which will reach a total of ca. 70,000 m² and we plan to develop a similar project of 20,000 m² in Vilnius. The main challenge is not the limited demand, but the supply and costs of construction materials."

Lionginas Šepetys
Chairman Of The Board at SBA URBAN

Montenegro Overview

	Montenegro	Podgorica
Total stock (m²)	15,000	15,000
Supply U/C (m²)	0	0
Vacancy rate (%)	9.0	9.0
Gross Demand (m²)	-	-
Prime headline rents (EUR/m²/month)	9.5	9.5
Prime yields (%)	9.0	9.0

Photo: Tehnomax Logistics Center, source: Tehnomax

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	-

Market characteristics

As a small country located on the Balkan Peninsula, Montenegro is well known for its well-developed tourism and hospitality services industry. While geographically well positioned, Montenegro has a relatively small I&L market.

However, with the construction of the new highway connecting Montenegro to Serbia and Albania coming to an end, and with access to the Port of Bar, foreign investors have been showing an increased interest in entering the market, resulting in a gradually increasing demand for additional distribution capacities.

Larger companies functioning in Montenegro have mostly invested in developing their own facilities, often by renovating or reconstructing former state-owned properties located in Podgorica, the capital of Montenegro.

The total modern I&L stock in Montenegro reached the level of 15,000 m² at the end of 2021. It is considered to be the smallest I&L market among the CEE-15 countries. Currently there is no space under development.

The vacancy rate at the end of Q4 2021 amounted to 9%, which was one of the highest results in CEE-15.

Due to its smallness the available space is offered on relatively high rental rates comparing to other CEE-15 countries. It reached the level of EUR 9.0 per m²/month.

SBU / Last Mile Logistics

Due to the structure, size and position of its market, Montenegro has a relatively limited demand for last mile delivery. Many existing enterprises opting to build their own capacities for distribution in industrial zones, without the possibility of leasing to others.

COVID-19

During the initial onset of the global pandemic in March 2020, the Montenegrin government introduced some restrictions regarding cross-border trade. However, due to the importance of maintaining the international flow of goods, regulations were soon relaxed to allow for regular movement of products within and across international borders.

War in Ukraine

The onset of the war in Ukraine has resulted with the migration of families from both Ukraine and Russia to Montenegro, since the country has for long been a popular summer destination and second-home market for citizens of both countries. With many considering moving to Montenegro permanently and investing in starting new businesses, this trend could result in a further increase in demand for new distribution capacities in the long term.

Poland Overview

	Poland	Warsaw
Total stock (m^2)	23.8 M	5.2 M
Supply U/C (m^2)	4.2 M	540,000
Vacancy rate (%)	3.8	4.4
Gross Demand (m^2)	7.5 M	1.26 M
Prime headline rents (EUR/m^2/month)	3.1 - 4.9	4.0 - 5.5
Prime yields (%)	4.1	4.1

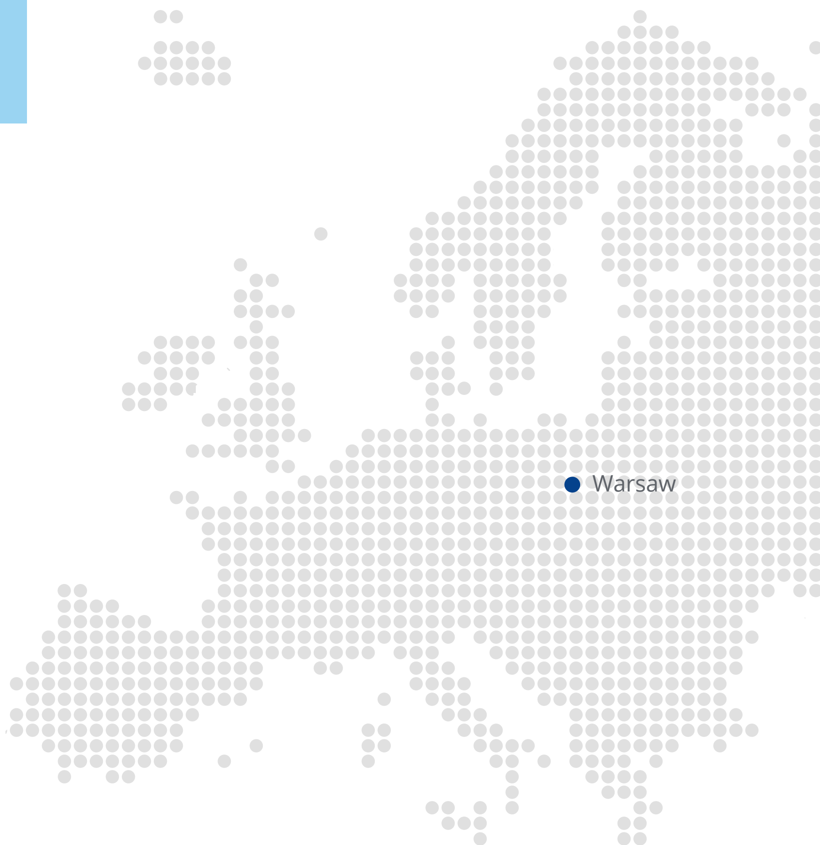


Photo: City Park Ideal Idea Warsaw, source: Ideal Idea Formad

SBU / Last Mile Logistics

Total SBU / LML Stock (m^2)	2 M
Share of SBU / LML in Total I&L Stock (%)	8
Space U/C of SBU / LML (m^2)	310,000
Prime headline rents (EUR/m^2/month)	3.5 - 5.5

Market characteristics

The I&L market in Poland is the biggest in the whole CEE-15 region. It is divided into 17 main regional markets, 16 by its administrative division into voivodeships and Warsaw, which was separated from the Masovian Voivodeship. The main concentration of I&L space is in five voivodeships: Masovian, Silesian, Lower Silesian, Łódzkie and Wielkopolskie.

The total supply of modern warehouse space in Poland at the end of Q1 2022 exceeded 25 million m². Throughout last year, developers completed of approximately 3.1 million m², which is the highest annual result in the history of the Polish market I&L market. During the first quarter of 2022, the volume of new supply amounted to almost 1.3 million m². Meanwhile, the volume of space under construction reached approximately 4.8 million m²

The vacancy rate at the end of Q1 2022 reached the level of 3.1% and was the lowest in the market's history.

In 2021, the warehousing market broke a record in terms of gross demand volume, which was as high as 7.5 million m². In the first quarter of 2022, another 1.6 million m² was leased.

Up to 2021, rents for industrial and logistics space remained relatively stable, fluctuating year-on-year by EUR 0.1 – 0.2 per m²/ month. The start of 2022 brought an increase in both base and effective rates, mainly as a result of the war in Ukraine. Compared to last year, rates in existing buildings increased by approx. EUR 0.2 - 0.4 per m²/month, and in the case of unbuilt space the differences are even greater. It is worth noting, however, that rent increases are being observed all over Europe and consequently, Poland still represents a competitive market. At the end of March 2022 headline rental rates in Poland reached the level of EUR 3.20 – 4.20 per m²/month.

SBU / Last Mile Logistics

The first SBU projects were built between 1995 and 2000 in Warsaw, and from 2004 investments were completed in other major I&L markets. Since the size of SBU warehouses are not large, they are suited to small and medium-sized companies operating for example in the 3PL, courier, retail, production and e-commerce sectors. In addition to SBUs, it is worth highlighting last-mile logistics schemes. These are also small city warehouses made up of small modules with high flexibility. They are city warehouses and they used to be located around larger Polish cities. However, increasingly they are also located in smaller cities, such as Kalisz and Elbląg. Last-mile logistics projects are most often leased by tenants from the e-commerce and courier sectors. Typically, rents and service charges are significantly higher than in standard buildings, but SBU and last-mile logistics spaces make up for this with excellent locations and excellent adaptation to needs. All of these factors result in higher construction costs.

Significant interest in SBU and last-mile logistics projects is resulting in increasing stock and thus market share in the I&L market. The increase in these types of warehouses can be observed year by year. The total supply of SBU and last-mile logistics warehouses in 2021 amounted to 2 million m². This accounted for about 8% of the total stock of modern warehouse space in the country. Warsaw market is dominated by SBU and last-mile logistics schemes, which have almost half of the total stock.

COVID-19

The emergence of the COVID-19 pandemic in late 2019 and early 2020 has increased uncertainty in Poland's commercial real estate market. The office, retail and hotel markets were negatively affected by the pandemic from the very first weeks of the introduction of restrictions. In the case of the Polish I&L market, it looked completely different. Overall, the COVID-19 pandemic not only had no negative impact on the I&L market, but was one of the biggest accelerators of its development. Since the beginning of the COVID-19 pandemic, the total stock of the market has expanded by around 6 million m². One of the most important factors influencing the growth of the market was the significant increase in the importance of online shopping. This has led to increased demand for logistics space from e-commerce giants such as Amazon and Zalando, courier companies and logistics operators. The positive impact of the COVID-19 pandemic can also be seen in the historical value of demand for I&L space. The volume of demand registered at the end of 2019 was 4.2 million m² in Poland, while by the end of 2022 it was 7.4 million m². The total volume of investment transactions in 2021 was lower in pre-pandemic times. However, a significant volume increase was observed for I&L properties. In 2022, the volume amounted to EUR 2.9 billion, which accounted for 52% of the total investment volume in Poland.

War in Ukraine

In Q1 2022, a significant impact of the war on the development of the warehouse market from the supply and demand side has not yet been noticed, because, like most sectors of the economy, the real estate market reacts to changes with a certain delay. The war caused a break in supply chains, which affected the price and availability of construction materials and fuels. This has resulted in an increase in base and effective rents. Moreover, the war in Ukraine may contribute to the relocation of some tenants who have been doing business in Ukraine, Russia or Belarus and Poland is an attractive market for them.

source: Adobestock

"Ideal Idea Formad has been successfully developing the SBU concept since 2007. In Okęcie alone, we have built 18 buildings with a total GLA of over 120,000 m². Until these days, this market was relatively underdeveloped. Apart from individual SBU parks, there was no space of this type in Warsaw before. Along with the changing market, the concept of Ideal Idea space has also evolved. The standard of offices at some point became A class and began to set market trends. Today, there are several operators in the SBU segment, which is the reason why we are actively looking for ways to stand out and target customers who want a prestigious location, a great standard and an individual approach.

Our internal analyses show that the largest and most developed cities are best suited for SBU investments. The financial stability of potential tenants is particularly important to us, as it guarantees the liquidity of rental income. In large cities, many reputable companies are keen to lease this type of space, which is important for filling parks the GLA of which can exceed 20,000 m². Smaller warehouse parks are not such an attractive investment product for international funds. Therefore, we are currently planning to focus on investments in Warsaw, Wrocław and Poznań."

Jędrzej Dużyński
Chairman of the Board at JDA Investment Sp. z o.o. Sp. k.
Member of the Board at Ideal Idea Formad Sp. z o.o. Sp. k.

Romania Overview

	Romania	Bucharest
Total stock (m²)	5.6 M	2.8 M
Supply U/C (m²)	470,000	220,000
Vacancy rate (%)	6.0	5.0
Gross Demand (m²)	-	-
Prime headline rents (EUR/m²/month)	3.5 - 3.9	3.8 - 3.9
Prime yields (%)	7.5 - 8.0	7.5

Photo: SpacePlus, source: Speedwell

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	74,000
Share of SBU / LML in Total I&L Stock (%)	1.3
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	5.5

Market characteristics

Bucharest accounts for roughly half of the Romanian I&L stock, but the rapid rise in regional cities over the past decade, with favourable labour market dynamics fuelling consumption there, has given way to increased opportunities in other parts of the country.

The total I&L stock of Romania reached a level of 5.6 million m² at the end of 2021, making it the third largest I&L market in CEE-15. Another 470,000 m² of modern I&L space remained under construction.

The market in Romania has been going from strength to strength recently, with record level of leasing activity in the last couple of years fuelling strong development activity (average growth of stock ca. 15-20% per year in the recent period). Furthermore, the market has shown little signs of slowing down and actually started 2022 on a decent note in terms of leasing activity, with a robust pipeline of deals yet to be finalised.

The vacancy rate in Romania at the end of Q4 2021 amounted to 6%, which is slightly above the average of CEE-15.

Prime headline rents in Romania range between EUR 3.50 – 3.90 per m²/month, which is one of the lowest levels in CEE-15.

SBU / Last Mile Logistics

When looking at modern storage spaces designed for either small and medium-sized enterprises or last-mile operations, the stock in Romania is limited and only in recent years has shown some signs of more robust growth down the line. On the one hand, when looking strictly at SBUs, there are only a handful of modern schemes worth looking at and these will serve as a testing ground to see if there is potential. However, due to the large share of small and medium-sized enterprises in Romania, small warehouses should be more appealing in the future.

Last-mile projects have also started developing faster only more recently. Given the high population density that a city like Bucharest has, the overall transport infrastructure has been more strained with each passing year. Hence, the need for last-mile projects and, even more relevant, in-city logistics makes sense in the long run and the stock for such projects to shoot up in the years to come is expected.

COVID-19

Romania has recovered satisfactorily from the pandemic. The country has seen one of the faster economic recoveries post-COVID (by early 2021, its GDP was already at pre-pandemic levels), More importantly, the last couple of years have put fuel to the fire with regards to past trends. Two of these events are particularly relevant to the I&L market. Firstly, the e-commerce scene, where online purchases increased dramatically during the pandemic, leading to fresh and particular needs for logistics. Secondly, the expansion of retail schemes to smaller cities spread across the country, which should ultimately lead to a higher demand for warehouse space in different regions of the country.

War in Ukraine

On the surface, the Russian invasion of Ukraine has had a minimal impact on the I&L market and, in a wider sense, the Romanian economy. The long-term effects are still shrouded in mystery, but it is believed that they will ultimately prove positive for the local economy, as companies will want to rely on the safety offered by a country like Romania (firmly anchored within NATO/EU) while also offering relatively low labour costs. The near-term impact could lead to some relocations of manufacturing/storage activities to Romania. It is deemed that such decisions are likely not enough to move the market significantly higher than it would have already been without them.

source: Adobestock

" The emergence of SME units (SBUs) in Romania is proof that the local market is maturing and is a great place to be as a real estate developer. Continued strong growth and the macroeconomic resilience of recent years has acted as a catalyst for the emergence of strong "middle class" companies, so it is no longer the case that only large tenants can afford or have the need for A-class warehousing. Additionally, a competitive workforce and the increased materialization of Romania's latent infrastructural potential has kept on attracting large players needing I&L solutions – an advantage for SME schemes such as Spaceplus, since many companies looking for the solutions we are offering have appeared and become strong as suppliers or collaborators of large multinational entities present here. SME units are also well suited to geopolitical upheavals and disruptions, such as the Ukraine situation we are seeing today, as companies that need to relocate their warehousing activities while accounting for a degree of future insecurity benefit from the flexibility on offer.

We see SME units as real estate that is complementary to traditional large A-class warehousing. Spaceplus is at the leading edge of this evolution, providing high quality spaces for companies looking for flexibility and transparency. Besides location, we see the ability of the developer to offer solutions specifically adapted to the needs of each tenant as a major differentiator among SME unit providers - be it in terms of size, term, or above standard specifications."

Jan Demeyere
Co-founder Speedwell

Serbia Overview

Serbia	Belgrade
Total stock (m²): 4.9 M	Total stock (m²): 2.4 M
Supply U/C (m²): 1 M	Supply U/C (m²): 150,000
Vacancy rate (%): -	Vacancy rate (%): -
Gross Demand (m²): -	Gross Demand (m²): 120,000
Prime headline rents (EUR/m²/month): 3.0 - 5.0	Prime headline rents (EUR/m²/month): 3.5 - 6.0
Prime yields (%): 9.5 - 10.5	Prime yields (%): 8.0 - 9.5


Photo: Transfera Logistics Novi Banovci, source: Transfera

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	3.5 - 6.0

Market characteristics

At the end of 2021 the I&L market in Serbia reached the level of 4.9 million m² of total stock. A further 1 million m² remained under construction. Almost half of the stock is located in Belgrade and its suburbs.

Prime headline rents in Serbia range between EUR 3.0 – 5.0 per m²/month, while in the capital city they reached the level of EUR 3.5 - 6.0 per m²/month.

Despite the COVID-19 and geopolitical situation in the world, according to the Statistical Office of the Republic of Serbia, the country is not so sensitive to external influences, due to its achieved macroeconomic and financial stability, growth momentum and fiscal space created in previous years, large and timely monetary and fiscal package, and structure of the economy. The industrial and logistics market has become one of the most progressive and fastest-growing sectors in the industry, showing the most resilience during these difficult times caused by the pandemic of COVID-19. Serbia remains one of the most attractive spots for investors in the region for warehouse spaces.

Thanks to the numerous incentives available to investors in the last years, Serbia has attracted many export-oriented companies in the manufacturing and production sector which consider secondary cities favourable locations for the development of facilities. The majority of market activities were recorded by companies from the automotive sector and were mainly located close to Kragujevac and the Fiat production plant.

SBU / Last Mile Logistics

At present, the SBU and LML market is constantly rising, while it is difficult to estimate the total supply on the market. Some projects are also built with a concept similar to modern SBU/LML schemes, but for private use.

COVID-19

Serbia is not so sensitive to external influences, due to its stable macroeconomic and financial situation. Demand is high and constantly growing. The number of transactions increased by 4% compared to Q1 2021. Positive growth in terms of strong absorption (approximately 120,000 m²) and an increasing demand for larger spaces is also likely to be noticed. The share of pre-leases is also increasing and amounts to 65%.

War in Ukraine

Due to the war in Ukraine, there are negative sentiments and great concerns about supply chains and logistics costs in Serbia. The problems that market is facing now are related to transportation (delays, increases in prices) as well as the cost of raw materials, fuels. The second factor directly affects the I&L market through cost of construction and therefore the rental and sales prices.

source: Adobestock

" For years, the Republic of Serbia has been a regional leader when it comes to the level of the Foreign Direct Investments. Due to the specific geographical position, Free Trade Agreements in place, incentives policy, economic and political stability, Serbia has become one of the most attractive candidates for many companies seeking to establish their production sites.

With the increased number of production companies, logistics services needed to be further developed in order to meet the requirements of the volatile markets – just in time deliveries, fast customs clearance procedures, adequate warehouse capacities with value added services.

The disruption of the logistics market which came with the outbreak of COVID-19, changed the organisation of global supply chains, forcing companies in Serbia to assure enough resources and raw materials to secure their production activity. Capacities which companies had were not enough to adapt to these new circumstances. Hence, the demand for additional storage and warehouse services increased.

Recognising these new trends, logistics company Transfera from Belgrade, has established its first logistic centre – Transfera Logistic Centre 1, as a part of the Transfera Logistic Park facility which can offer integrated logistics services to companies from various industries.

TLC1 is equipped with state-of-the-art equipment to handle warehousing and storage operations, a Warehouse management system (WMS), with the application of the highest standards of FM global, and one of its priorities is the use of renewable energy sources.

The entire 53,000 m^2 of terminal space, on which the TLC1 is built, is fully operated by the implemention software solutions – Yard management system (YMS) and Dock management system (DMS).

With the unstable market, also in the aspect of construction, companies are making decisions rather to rent warehouse and production space, rather than expand their own capacities. With its brand new logistic centre, Transfera could be an excellent solution, providing end-to-end logistics solutions for its clients."

Vladimir Popovic
CFO, TRANSFERA d.o.o.

Slovakia Overview

	Slovakia	Bratislava
Total stock (m^2)	3 M	1.4 M
Supply U/C (m^2)	190,800	31,000
Vacancy rate (%)	7.2	4.4
Gross Demand (m^2)	442,100	309,600
Prime headline rents (EUR/m^2/month)	3.2 - 4.4	3.5 - 4.6
Prime yields (%)	6.0	5.8

Photo: Bizz Bratislava - Bory by Karimpol. Source: Karimpol

SBU / Last Mile Logistics

Total SBU / LML Stock (m^2)	15,000
Share of SBU / LML in Total I&L Stock (%)	1
Space U/C of SBU / LML (m^2)	0
Prime headline rents (EUR/m^2/month)	6.7

Market characteristics

The I&L market in Slovakia is concentrated mainly in the Bratislava region (around half of the national stock). Other popular locations include the Western part of the country, which is strategically located and well connected by the D1, D2 and R2 highways.

At the end of Q1 2022, the total stock of modern I&L space in Slovakia reached the level of 3.1 million m². A further 233,000 m² is currently under construction.

Over the course of 2021, tenants in Slovakia leased around 442,100 m². In Q1 2022, another 140,600 m² was taken-up.

The vacancy rate in 2021 decreased by 2.1 p.p. reaching at the end of March 2022 to 6.5%, which was the lowest result since the end of 2019.

Prime headline rents in Slovakia range between EUR 3.20 – 4.40 per m²/month, which is one of the lowest levels in CEE-15.

Overall, regardless of the increasing uncertainty, market activity remains strong, as investors are becoming more used to the rapidly changing conditions. More large deals are expected to come, as the Bratislava region becomes increasingly attractive for e-commerce multinationals.
The eastern part of the country, on the other hand, is capturing the focus of the automotive players, due to favourable leasing conditions and proximity to the new industrial zone in Hungary. High expectations are also placed on future development as the general sentiment of the market situation remains positive.

SBU / Last Mile Logistics

SBU and LML in Slovakia is limited. There is currently only one project of the type located in Bratislava – square bizz Bratislava – Bory, delivered by Karimpol. Whilst there are possibilities to extend the segment in a number of brownfields in larger cities such as Bratislava, Kosice, Trnava and Nitra, the plans are yet to be confirmed. Considering the population and size of the Slovak cities, the segment remains somewhat less attractive in Slovakia, compared to the larger CEE destinations, such as Prague, Warsaw or Budapest.

COVID-19

The COVID-19 pandemic had a limited effect on the Slovak industrial and logistics market. Even though leasing activity slowed down, construction continued as scheduled, and the new pipeline projects were delivered on time. Effects of the pandemic outbreak have now faded, with the market getting back to the pre-pandemic pace.

War in Ukraine

Both landlords and tenants are facing a situation of significantly increased costs due to the current situation in Ukraine. As inflation spikes and construction materials become missing or more difficult to source, future lease agreements, which were previously conducted for 2-3 months, are now shortened to 2-3 weeks, reflecting the maximum time suppliers are able to hold prices. Even though exceptions are possible for very large clients, they are uncommon. This, in turn, translates into upwards pressure on rental rates. The Trnava region (specifically the Sered area) remains an exception, where the market stays tenant oriented due to a substantial proportion of speculative development.

Slovenia Overview

	Slovenia	Ljubljana
Total stock (m²)	-	-
Supply U/C (m²)	81,000	14,100
Vacancy rate (%)	< 5.0	< 3.0
Gross Demand (m²)	-	-
Prime headline rents (EUR/m²/month)	5.5	7.0
Prime yields (%)	7.5	6.8


source: Adobestock

SBU / Last Mile Logistics

Total SBU / LML Stock (m²)	-
Share of SBU / LML in Total I&L Stock (%)	-
Space U/C of SBU / LML (m²)	-
Prime headline rents (EUR/m²/month)	-

Market characteristics

Ljubljana, as well as the whole of Slovenia, suffers from lack of modern industrial supply. Large foreign and local industrial companies are working in inadequate and outdated premises which are unable to expand. Apart from quality and size issues, availability of land also makes it difficult to develop new industrial properties. Supply of industrial land plots is limited (especially in Ljubljana). Demand outstrips the supply, especially in strong regional centres, but extremely so in Ljubljana. Demand is driven mostly by international and large domestic companies requiring large, modern premises which are scarce and rarely come to the market.

At the end of 2021, there were 81,000 m² of space under construction in Slovenia, of which, 14,100 m² were being built in Ljubljana.

The vacancy rate in Slovenia reached the level of slightly under 5%, while in the capital city it was under 3%.

Average prime headline rents in Slovenia amounted to EUR 5.5 per m²/month. In Ljubljana, base rents reached the level of EUR 7.0 per m²/month.

SBU / Last Mile Logistics

SBUs are rarely a stand-alone asset class in Slovenia. The majority of supply is located in Ljubljana, specifically around Brnik airport and within the BTC zone. Due to SBUs competing for space with retailers in BTC zone, there is little space for expansion. Developers and investors in other favourable locations, such as Brnik, still favour traditional logistics operators with longer lease terms as opposed to flexible terms.

COVID-19

Logistics was the big winner of the COVID-19 crisis among real estate sectors in Slovenia. The pandemic seemed to stimulate growth within the entire country, not only in the central hub of Ljubljana. Slovenia has excellent road and rail infrastructure connecting it with the rest of the European market, offering attractive development opportunities. In the short term, it will improve thanks to additional demand from food retailers and the pharmaceutical industry, and all-time low vacancy rates.

War in Ukraine

As with the rest of the region, the war only prolonged uncertainties from suppliers and caused a rise in construction costs, labour and utilities. Slovenia's development and leasing activity did not seem to be highly affected, as ongoing developments are still on schedule and leasing activity does not appear to be slowing down.

Key findings

- The total I&L stock for the CEE-15 region has exceeded 50 million m^2, with 20 million m^2 situated in and around the 15 capital city markets.

- Poland is the largest country of the group covered in this report, which maintains the largest I&L market approaching the 25 million m^2 mark.

- The total stock of SBU / LML space in the CEE-15 markets accounts for more than 3 million m^2, with the vast majority located in Poland (ca. 2 million m^2).

- The biggest share in SBU / LML space in total I&L stock is represented by Bulgaria (59%), Estonia (13%), Hungary (13%) and Poland (8%).

- Demand for SBU / LML has seen an increase in enquiries over the past 3 years which is connected, amongst other things, with the significant development of the e-commerce sector and courier services.

Key findings

- In CEE-15 there are ca. 500,000 m² of SBU / LML space under construction, with most of that volume being built in Poland (310,000 m²).

- The development of SBU / LML market is not developing equally across the CEE-15 countries. In fact, each country is at a different stage of development. In some countries, such as Albania or Bosnia and Herzegovina, there are no typical schemes of that type at all.

- During the pandemic, greater tenants' interest from both the e-commerce sector and logistics operators offering their services to retailers and internet trading companies was noticed. The trend toward e-commerce will continue to grow, but this growth will be slower than at the beginning of the pandemic.

- The war in Ukraine has caused significant challenges to the market including disruption in global supply chains, rising fuel, energy, labour and material prices and moreover lack in supply.

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