

Roundtable: Recovery will be quicker

Developers in Poland have stopped talking about a single industrial market in Poland, preferring to single out regional pockets where key indicators are set to improve, stagnate or worsen. The take-off of road construction is going to bring some changes to the map of interesting locations for developers. Finally, the market is going to see a greater role played by small local developers who have been so far totally cornered by the big ones.

According to a recent IPD report, the industrial sector in Poland saw the biggest expansion, the biggest rental falls and the biggest capital depreciation in 2009. How do you hope for a quick recovery after a recession like that?

Robert Dobrzycki (Panattoni Europe): The market is there, of course, but when was the last time we had a recession like that? Still, I think that IPD figures tell us anything but about worrying about the industrial sector, especially now, when if you look at the market opening, for example in terms of supply and demand, you can already see "market pockets" where they've been before.

Tom Listowski (CBRE): I think the market is like an early warning sign, especially because the investment and construction processes are so much quicker. The effects of supply happen faster in



According to Robert Dobrzycki (Panattoni Europe), locations won't see speculative development until vacancy is absorbed.

the industrial than in other sectors. So the sector suffered a lot, but once the market improves, we will gain more and faster than other sectors.

Robert Dobrzycki (Panattoni Europe): Since the commitment level is small, it gives the sector flexibility reaction-wise. We know what's going on each quarter, unlike in retail, where you only know what sort of market your project is in after two years of construction. In the industrial sector, you can basically stop projects any time, wait and resume activity once market conditions improve. Another reason the industrial sector's indicators change so dramatically is that this market isn't deep at all. A new project of 40,000 sqm changes the entire market, whereas it's only a minor addition in mature markets and therefore fluctuations are smaller.

Piotr Bzowski (Point Park Properties): We should remember that in 2006, the market was about 3 million sqm. It has doubled since that time and that gives you the amount of change going on in very short periods.

You can already see "market pockets" where vacancy rate and demand have been improving.

What are the expectations about the time it will take to absorb 1 million sqm of vacant space across Poland?

Tom Listowski (CBRE): You're not going to have it all filled up, but it's going to take another 12 to 18 months for the vacancy rate to drop to reasonable levels. There will be an ongoing inflexibility of space for tenants until speculative development returns.

Dobrzycki (Panattoni Europe): There are locations that are going to suffer from high vacancy for a long time, while at others, it will be absorbed quickly, like in Silesia. And there's not going to be much speculative development until that happens. Because you

Tom Listowski (CBRE Richard Ellis)



Joanna Mroczek (CBRE) and Richard Listowski (CBRE)



ete with €1.8 per sqm effective
one- or two-year long lease
existing space at the moment.
per sqm are a totally different
it making business but just
low games to limit losses.

**uch space still awaiting
here still pressure for
ts to fall further still? Or
rs ready to sustain empty
than accept pitiful cash-flow**

What we see in Poland are
vacancy rates are either high
market approach across the country

Richard Listowski (CBRE)



that says
'this is the
market' is
not reflective
of what the
market really
is and what
it is going to
be. In regions
with 30 to
40 percent
vacancy,

the pressure on rents is enormous but an extreme lowering of rents is a dangerous way to go. Such rents are hurting the 3PL [third party logistics] as well, and I think that we developers need to see the 3PL players return to the market as well.

Which regions in Poland are likely to suffer the biggest downward pressure on rents?

Joanna Mroczek (CBRE): The regions with the biggest oversupply and highest vacancy rates are the greater Warsaw area, where you have a number of competing schemes: Błonie, Teresin, Sochaczew. The growth regions are Central Poland, Łódź in particular and also Poznań.

Are we going to see speculative development in the growth regions?

Maguire (3P): Speculative development isn't as much driven by demand or land but by the banks. It would be good for the market if on-spec development returns, because a young market like Poland is going to need on-spec projects. If they do return, it won't be like building 50,000 sqm and then wait for tenants. It will be much more calculated.

If the new roads create new demand, the investment market will start looking at the new locations by the new roads.

Listowski (CBRE): You might see some space built on the back of a prelet, where, say, a developer will have a tenant for 10,000 sqm and will decide to build 20,000 sqm.

Dobrzycki (Panattoni Europe): Some local players could of course develop on-spec space, but institutional developers will always be linked to the market of institutional finance: investors and banks. And it's not a bad idea to start on-spec projects now in certain locations. The question is whether banks are thinking the same.

Witczak (Segro): I am convinced that we're going to see speculative developments still this

year in some locations. We're considering this ourselves in locations where we have very little vacancy. Then again, we're not that much dependent on banks either.

Craig Maguire (3P)



The current government has clearly stepped up efforts to build motorways, but has this uncovered any new potential hot spots to develop? Are existing schemes threatened?

Mroczek (CBRE): With industrial developments taking little time to do, there's not much sense in getting excited about a location by a new motorway that won't be completed for a year or two. Once it's ready, developers will see how transport changes make decisions.

Maguire (3P): With the motorway network getting in place, gradually there will be more and more justification for logistics business to go to certain areas from where, once the network is complete, the business can be efficiently operated. It may take a while, however, before there's movement in eastern Poland, by the A2 and A4. It will remain hard for a while to push projects there through investment committees, because there's little business going on there in general.

Dobrzycki (Panattoni Europe): Business is happening now where it's happening. If the new roads create new demand, the investment market will start looking at the new locations by the new roads. New space will then show up. It has to start at some point.

Maguire (3P): What we haven't yet seen in Poland are small local developers doing projects in local markets. In the UK, the big markets are served by the big guys, but the 10 local London markets are served by smaller local developers. That is an element missing from the market picture in Poland.