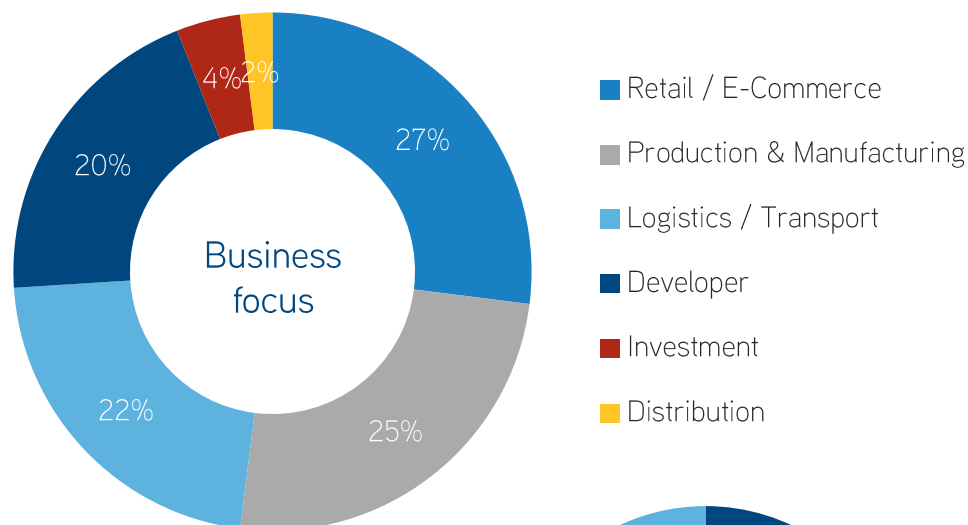


A look at the pandemic

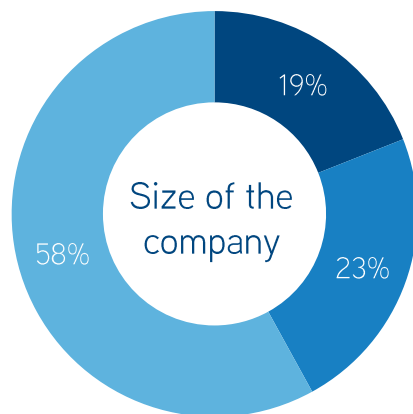
Industrial&Logistics Coronavirus Survey Report

Colliers International, April 2020

Survey purpose & respondents characteristics



- < 50 employees
- 50-250 employees
- > 250 employees



The situation of the global pandemic is affecting all areas of life and the economy, including the commercial real estate market.

Compared to other real estate market sectors, the industrial & logistics sector so far seems to be the least affected by the negative effects of the pandemic.

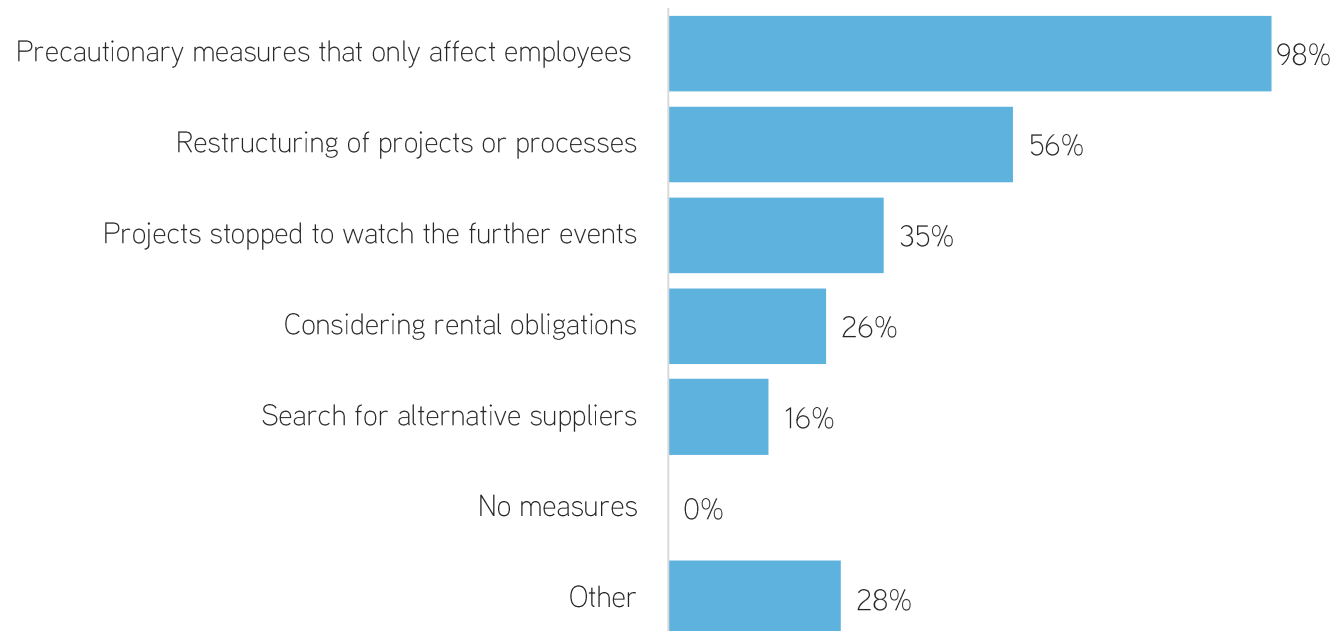
This publication presents the results of a survey conducted among companies operating on the Polish I&L market with the purpose to check respondents' opinions on the current situation, as well as their predictions for the next 12 months.

In addition to the survey, the report includes Colliers' experts comments regarding the observed changes and possible forecasts both in the area of the warehouse & industrial market and the industrial land properties sector.

The survey involved **50** companies, among which the largest group were tenants from the retail / e-commerce (**27%**), production (**25%**) and logistics & transport (**22%**) sectors. **20%** of respondents were developers. Over half (**58%**) of the companies included in the survey were large in size, each employing over 250 people.

Reaction to pandemic & prevention

What action has your company taken to deal with the spread of Covid-19?



A great majority (98%) of the surveyed companies took precautions that affected employees, such as:

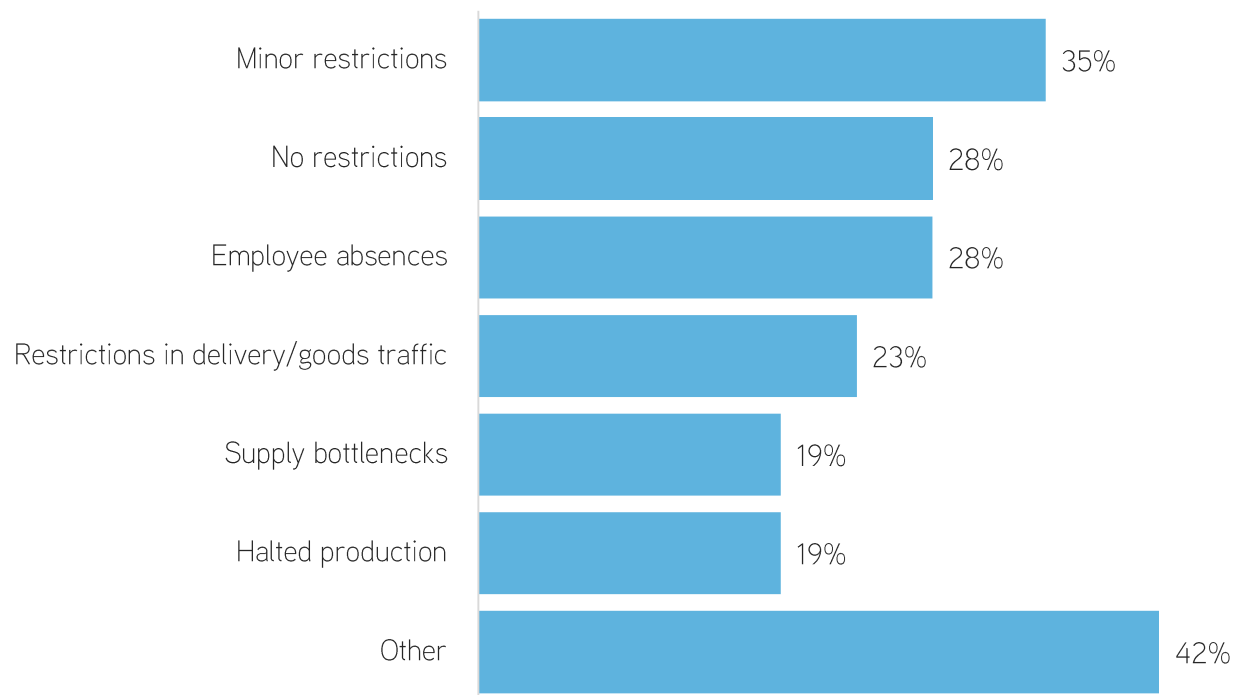
- business travel restrictions,
- increased safety and hygiene measures,
- home office.

Among other implemented precautions, the respondents also indicated measures including:

- employee temperature control,
- shift work and separation of changes from each other,
- restrictions for customers (in case of retail chains),
- suspension of the most expensive projects,
- searching for new solutions and business opportunities.

Business restrictions

What are the current business activity restrictions in the company?



The vast majority (**72%**) of respondents claim that their company faces minor or noticeable business restrictions.

These have mainly resulted in some employee absences (**28%**) as well as production suspension (**19%**) and limitations in goods delivery (**23%**).

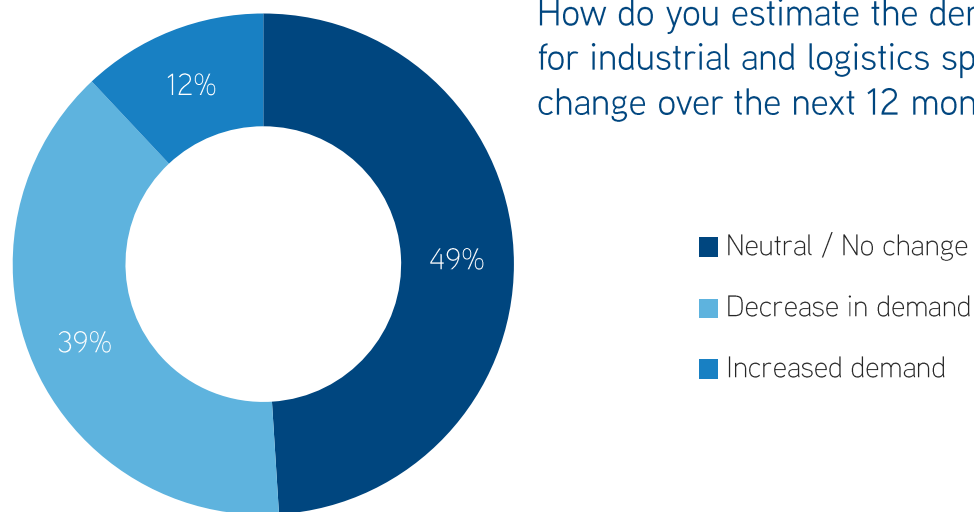
Other problematic areas mentioned included:

- reduced activity of clients, both existing and new ones,
- closing some or all sales channels,
- difficulties in processes due to the shift work and divided sectors of work,
- administrative problems resulting from limited access to public institutions,
- decreasing demand for products.

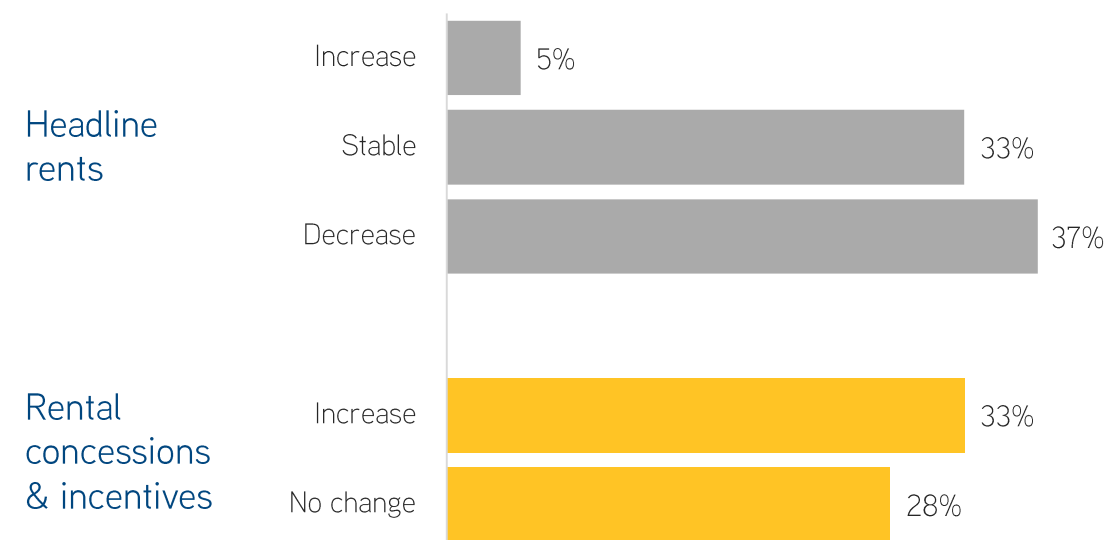
Demand and rental rates – expectations

Respondents see different possible scenarios related to the impact of the pandemic on the demand for modern warehouse space.

It is worth noting that almost half (49%) believe that the demand will not change in the long run (after the pandemic is over).



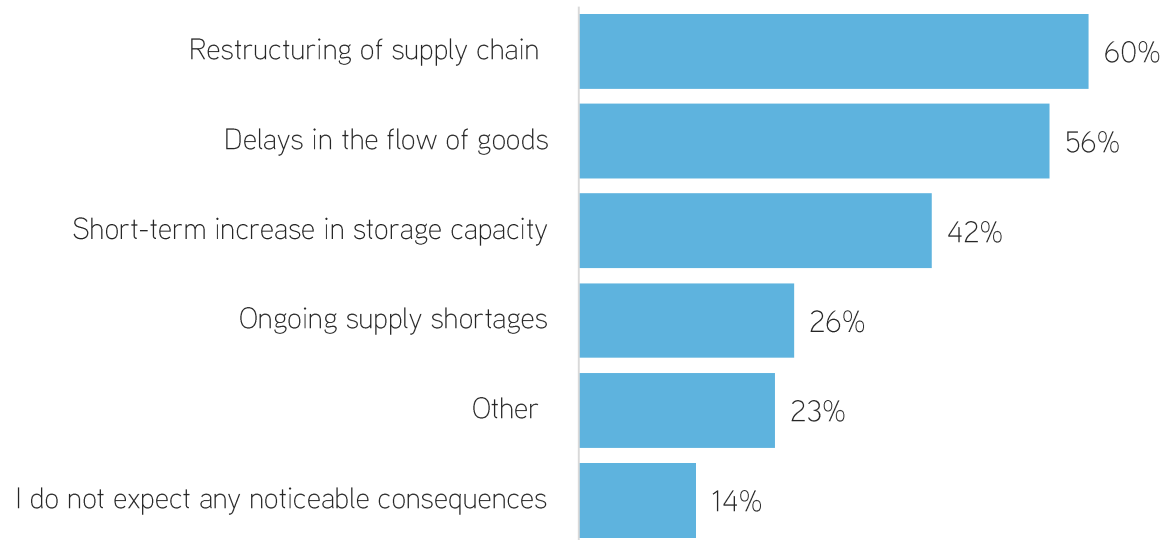
How do you estimate industrial and logistics rental prices will change over the next 12 months?



Headline rents are mostly expected to decrease or remain unchanged. Similarly, in the case of rental concessions and incentives proposed by developers. Only 5% of respondents predict an increase in headline rents.

How will the business change?

What consequences can be expected for the logistics industry?



The vast majority (**86%**) believes that the current situation will affect the industrial & logistics sector in the future.

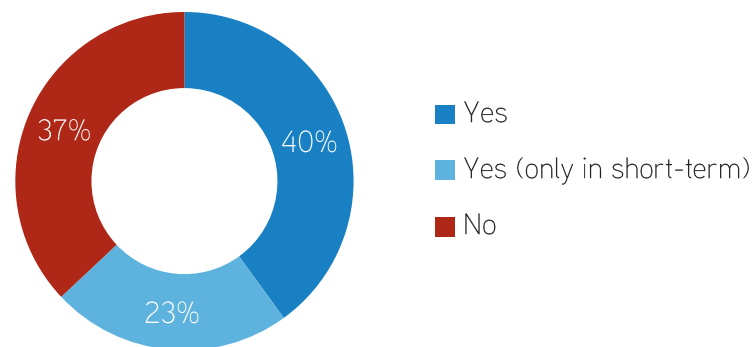
A significant share of respondents (**60%**) indicate the need to reorganize the current supply chain.

The respondents also mentioned:

- the need of moving towards e-commerce,
- possible decrease in the number of speculative investments,
- an increase in the popularity of short-term agreements,
- sale and leaseback transactions, which may prove to be a way of regaining financial liquidity,
- possible collapse of some companies.

Restructuring of supply chain

Will European markets gain against China in terms of warehousing and import as a consequence of the pandemic?

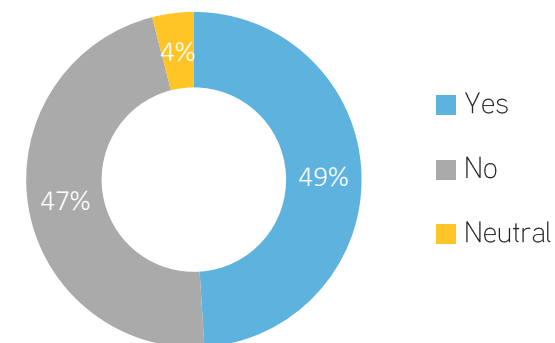


In the respondents' view, the current situation may prove to be a big opportunity for Poland and other European countries.

The perception of China will change in the context of best/only source of import or workforce – in the short term (23%) or in the long run, after the pandemic is over (40%).

Need for support

Do companies expect support in the context of the current situation?



Respondents expect some kind of support mainly from the Government (approx. 70%) and from developers (approx. 30%).

- In case of the **Government**, mainly the need of financial help was declared, including co-financing of employees' remuneration. They also expect transparent guidelines and some measures to be taken in order to stimulate the domestic economy.
- Possible forms of **developers** support, temporary rent and service charge reductions were also mentioned, as well as a flexible approach to terms of payment.
- They also pointed out the need of their clients to understand the current situation and to take reasonable actions (also after the pandemic is over). Respondents also expect support from their mother companies.

Back-shoring as a way to minimise the risk

The current situation is having the least negative impact on the warehouse market among all asset classes. For this reason, warehouse properties are and will be (even after the recession) perceived as the most attractive asset class.

We expect a decrease in the number of speculative investments, while the development of the 'last mile' warehouse market may accelerate. This is directly related to the increase in sales in the e-commerce sector, and thus, the growing demand for warehouse space. Many retail companies will probably change their sales strategy from traditional channels to omnichannel.

It is worth noting that many companies may consider diversifying the location of their business and move part of it to the home country (re-shoring/back-shoring) in order to minimise the risk of loss of liquidity in the supply chain.



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Possible positive impact of the pandemic in the long term

We are observing that tenants are applying a 'waiting strategy' for the coming weeks. The global situation is uncertain and is changing every day, which is why in many companies, decisions and the acquisition of new space have been suspended.

A positive phenomenon, of course, is the growth of the e-commerce sector, which has recorded significantly higher sales in recent weeks, it even reaches levels seen during the Christmas period. We are also seeing a trend in which the contract logistics market, thanks to long-term contracts, is becoming a guarantee of stable revenues, in contrast to transport services, the demand for which has significantly decreased.

The industrial & logistics sector will experience a negative effect from the pandemic in the short term because of delays due to the need to adapt to the new situation over the next few months. However, assuming that the pandemic will soon end, the situation may have a positive impact in the medium and long term due to the permanent increase in share of the e-commerce sector, the phenomenon of revenge spending, the dispersal of distribution centers, an increase in warehouse volumes and the recognition of contract logistics as a basic service, and not only a complementary one as it has been so far.



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Temporary decrease in scale of speculative projects

*It is likely that most investments that are currently under construction will be completed.
This especially applies to end-user projects that are part of the company's long-term strategy.*

However, we expect a significant decrease in the scale of speculative investments from industrial space developers, and in the short term, even the complete abandonment of such projects. Capital will be invested mainly in projects that are fully secured by lease agreements.

Looking at the situation in terms of opportunities, we can point to much more rapid development of e-commerce. We can also expect the role of cheap labour from China to decline, and thus we will see a trend to shorten the supply chain by locating warehouse stocks and production halls in European markets.



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Pandemic impact on the industrial land market



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The global pandemic will undoubtedly impact the industrial land market. Investors are putting off decisions to buy land due to uncertainty as well as difficult and lengthy administrative, legal and negotiation procedures. Ongoing projects appear to be safe, but these could be renegotiated in the long run. This state of affairs means that we expect price stagnation in the industrial land market, and in the long run a slight decline.

However, it is still too early to say how big the reductions will be and whether they will come at all. Industrial land located in major markets, i.e. Warsaw, Upper Silesia, Wrocław, Central Poland and Poznań, should not be threatened. However, even here, the decision-making processes will be prolonged as well.

We anticipate that landowners who need capital will be forced to lower the prices due to limited demand. It may happen that some decisions to sell will be put off until the situation normalises. In the long run, we expect a return to plans that are currently being suspended.

The rapid growth in the e-commerce sector in the long run will lead to an increase in interest in land for warehouse as well as courier and logistics companies. This is a good time to prepare appropriate land, thereby increasing the chance of selling it and allowing buyers to implement projects faster.



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