



Baltics Industrial Market response to Covid-19

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In the beginning of April 2020, Colliers Baltic I&L team has surveyed a significant number of clients involved in the investment, development and occupation of industrial and logistics space in order to use this as a reaction gauge to the current COVID-19 outbreak. Firms involved in the survey own or occupy more than 800,000 sqm of warehouse and industrial space, while 75% of companies surveyed are firms with 50 and more employees.

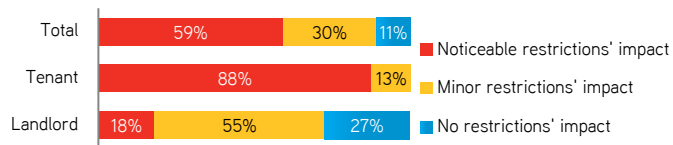


ONGOING SECTOR TRANSFORMATION – CURRENT IMPACT

Are there any current restrictions impacting your company?

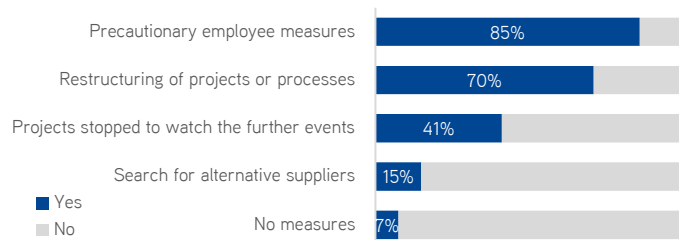
The spread of the COVID-19 has had its effects on the logistics sector in large parts of the World/Europe, including the Baltic States. Thus, majority of the firms (ca 60%) in the I&L survey indicated a significant disruption to their businesses caused by the COVID-19 outbreak in March 2020 - primarily due to employee absences, restrictions over goods impacting production and supply-chain bottlenecks.

Still, over 40% of companies surveyed (mostly medium- and large size landlords) haven't seen any or had seen just some minor disruption to their business at the time of reporting, while the vast majority of tenants were indeed tangibly affected by the COVID-19 outbreak.



Has your company taken precautions to deal with the spread of Covid-19?

Major precautions taken by companies to deal with the spread of the COVID-19 include, firstly, measures that affect employees (travel restrictions, increased safety and hygiene measures, home office, etc.) followed by the measures for restructuring of projects or processes. Approx 40% of companies surveyed (both from landlord and tenant side) indicated that they have put their projects on hold to watch the further events.

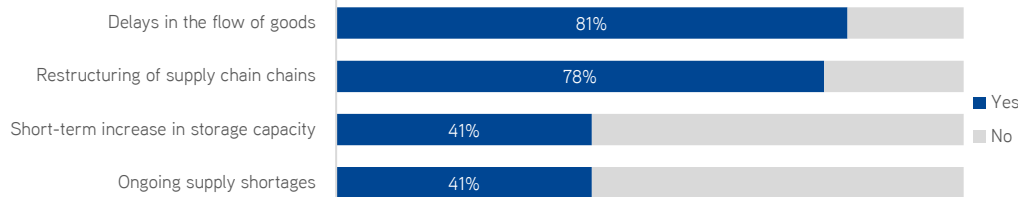


ONGOING SECTOR TRANSFORMATION – FUTURE IMPACT

While many firms had already reported significant disruption to date, the majority are expecting more disruption to follow. Baltic firms plan to start looking at alternative

suppliers, which will lead to a re-structuring of supply chains in future, while overall, over 80% of companies expect to see delays in the flow of goods.

In your opinion, what consequences can be expected for the logistics industry?





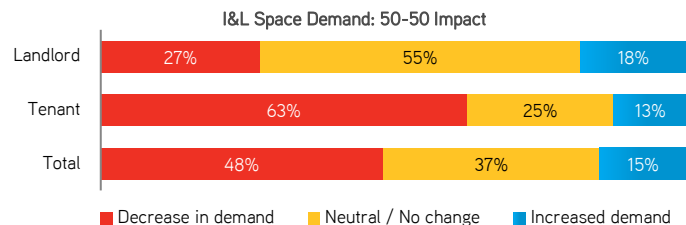
REAL ESTATE MARKET IMPACT: LANDLORDS' VS TENANTS' SENTIMENTS

How do you estimate the demand for industrial and logistics space over the next 12 months?

Despite all the disruption, the overall impact of the need for I&L real estate space is somewhat neutral – over 50% of firms are reporting no change or are seeing a rise in demand over the next 12 months (mostly companies from the grocery, e-commerce and distribution segments).

Still, almost half of companies (Logistics / Transport; Production & Manufacturing; Developers) are seeing a decline in demand in the future.

Overall, tenants are more pessimistic - more than 60% of occupiers are waiting a decline in demand over the next 12 months, while over half of landlords are reporting no change.

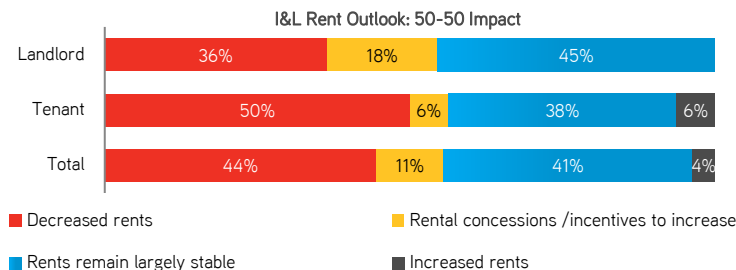


How do you estimate the development of rental prices for industrial and logistics space over the next 12 months?

In terms of the impact on rents, market conditions in the Baltic States are creating an expectation by the majority of companies that rents will decline or continue to remain stable in the year ahead.

At least half of tenants surveyed are waiting the decline in rental prices over the next 12 months, while landlords expect rents to remain largely stable.

At the same time, landlords seem to be more ready to provide temporary rental concessions and/or incentives.



EMEA/GLOBAL TRENDS

The question that everyone's asking, of course, is how long this situation will last and, while we can draw on some level of optimism coming out of China, there are similarly no guarantees. As a result, the response from landlords across EMEA, has been varied in line with the guidelines and level of measures imposed by individual governments.

The majority of landlords are working with their occupiers, partners and suppliers to find workable solutions around a range of scenarios including rental deferrals, short term lease renewals, space reductions, lease

renewals and sale and leasebacks. In unfortunate cases, preparation is being made for potential closures or early terminations.

Many of these scenarios require a level of compromise on all sides and for landlords to consider accepting rent deferrals in return for amortising any deferred months into the remaining lease or extending the lease term by an equivalent period. Typical lease lengths in many markets are 5 years and above, but landlords are also considering short-term leases to accommodate the growth in demand for essential goods. Some delays in construction activity may stem supply but overall demand remains strong as long-term planning changes shape but continues.



SUMMARY

- New industrial leasing deals and development projects have been postponed due to the COVID-19 outbreak, developers have temporarily stopped acquisitions of land plots.
- Negotiating conditions are turning in favour of tenants, pressuring rent rates and resulting in some incentives like full or partial lease-free periods.

- Landlords and tenants perceive the upcoming COVID-19 differently, this may bring more tension over rent rates negotiations later this year.
- Postponed leasing activity together with an ongoing speculative development creates preconditions for vacancy increase by the end of the year.
- Perspectives are the most promising for grocery, e-commerce, pharmacy, distribution, and needs-based sectors.