

# EXCEEDING BORDERS



## INDUSTRIAL & LOGISTICS MARKET IN CEE-17

CEE | 2020



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# INTRODUCTION

The Industrial&Logistics (I&L) property sector has risen out of the shadows over the last few years to become one of the most dynamic and strategically important sectors in our economies and the commercial real estate sector, on a global basis. The I&L sector is by no means a new kid on the block and for people outside of this industry, it may well largely go unnoticed as products and services are seemingly magically produced and appear in shops and on our doorsteps. Behind the scenes, there is of course a gigantic sector made up of manufacturers, suppliers, retailers, 3PLs, distributors, storage and supply chain companies to name just a few, and they literally touch any business or industry sector that you can possibly imagine. In addition to that, there are several highly experienced, global, regional and local investors and developers that provide the lion's share of the properties to make all this possible.

In this report, we look at how the I&L sector has developed in the geographically and macro-economically strategic region of Central&Eastern Europe (CEE). We will also touch on some of the trends facing the sector, both from a property point of view, as well as from occupier and consumer led standpoints. Together with our partners, we also provide valuable insight into important location selection decision-making criteria around labour markets, tax and incentives offered to investors considering this region.

This report covers a range of topics across 17 countries in the wider CEE region and as a result, we have close to 100 pages of insights to share with you. Therefore, we would not expect you to consume this all in one sitting and we hope this will be a useful tool longer term as you review the opportunities in this great region.

Last, but not least, you cannot ignore the elephant in the room that is COVID-19. This pandemic that we are still very much in, has only confirmed the strategic importance and need for this sector in uncertain times, but has also highlighted some areas for reflection. We hope you find this report useful and, whether you are an investor, developer, occupier or other interested party in the I&L sector, we look forward to discussing your outlook and plans with you further.



**Luke Dawson**  
Managing Director & Head of Capital Markets | CEE  
Colliers International



Over recent decades, countries in the wider Central and Eastern Europe region have attracted significant levels of foreign investments. The well-educated labour forces and lower labour costs than in Western Europe, rapidly developing infrastructure with good transport links to the rest of Europe, tax exemptions and preferences for investors, are only some of the reasons why numerous companies have decided to open manufacturing facilities and distribution centres in CEE.

CMS and Sorainen have provided their collective knowledge and experience which is intended to help potential Industrial&Logistics investors understand what incentives are available when seeking to start operations in one or more of the 17 CEE countries covered in this report. As there are various levels of support across CEE, the following guide is presented in a country-by-country format. It is not meant to be comprehensive and gives more of a general, indicative picture. As laws and regulations can change quickly, it is vital to seek professional advice at an early stage if you decide to green light an investment.



**Lukas Hejduk**  
Partner | Head of CEE Real Estate  
CMS



The CEE region has always been among the first destinations in the minds of foreign investors, from the production and logistics sectors, when looking for savings on personnel costs and availability of the workforce. Over the years, labour market conditions across the CEE countries has changed rapidly and, in some countries, unemployment rates have fallen below levels that anyone could have predicted a few years back, reaching natural unemployment rates.

Despite some of these factors, the CEE region remains very attractive and has a lot to offer. Not only there are differences in labour availability and costs between the various countries, there are also significant differences between specific counties and cities in the given country. New investors will of course tend to feel more secure locating their businesses in areas already explored by other companies, but those who take the risk and become pioneers in less industrialized areas, may well be rewarded with loyal personnel and less workforce shortages. In this report, we share our views on the various labour market conditions and trends across the region.



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# STRATEGIC SITE SELECTION - S3

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*In this report we cover the foundations of the information required to make informed decisions in relation to where best to locate your business or properties in the CEE region. However, along with our partners, be assured that we offer our clients comprehensive advice and services from strategic site selection, through to tendering for developers or general contractors, lease negotiations and takeover of facilities.*

## STRATEGIC SITE SELECTION - S3

Colliers' S3 process is a strategic approach to assist clients with making the right business decision. The process helps clients looking to expand their geographic footprint to capture new markets, those considering outsourcing production or reviewing their existing facilities/portfolio in order to optimise their cost base and de-risk their footprint.

Colliers' S3 team blends their knowledge of the EMEA industrial&logistics sector with our skills&expertise in research and consulting to create an approach that can assess the full business requirement of our clients with confidence.



## Phase 1: EXPLORATORY AREA SEARCH

In this phase we review Europe as a market, broken down into over 1,300 functional areas. Six key groups of data/information are examined for each area in a transparent "white box" process using Colliers Location Matrix Analytics Tool. Each data input and category are weighted to the needs of each specific client to filter out the most optimum areas for further examination in Phase 2.

- > Macro&Political Factors (Oxford Economics, Eurostat, Statista);
- > Infrastructure & supply chain analysis (Colliers proprietary research);
- > Site availability (Colliers network/research; Inward investment agencies);
- > Competition/Market activity (Oxford Economics, FDI, Colliers network/research);
- > Government incentives.



## Phase 2: TENDERS

This phase takes clients on a journey around the chosen areas defined in phase 1, to verify and adjust initial findings and get a feel for each location on the ground in meetings with recruitment agents, inward investment agencies, local businesses and universities, developers and their peer group. Specific sites/land opportunities are analysed in more detail to define the best solution.

- > Specific labour costs&dynamics (HR/recruitment companies, Inward Investment Agencies);
- > Site suitability (Colliers network/research; Inward investment agencies);
- > Local competition/supply-chain considerations.



## Phase 3: TRANSACTION MANAGEMENT

Colliers helps the client seal the deal with the respective owner/developer and other parties that may be involved in the transaction, such as building and project management.

- > Detailed site-specific analysis, including labour catchment&drive-time to select specific site;
- > Overlap&integrate transaction management.

*A list of our key market specialists is included at the end of this report so please do not hesitate to contact us.*

# THE CEE ECONOMIC SUCCESS STORY, STILL IN THE WRITING

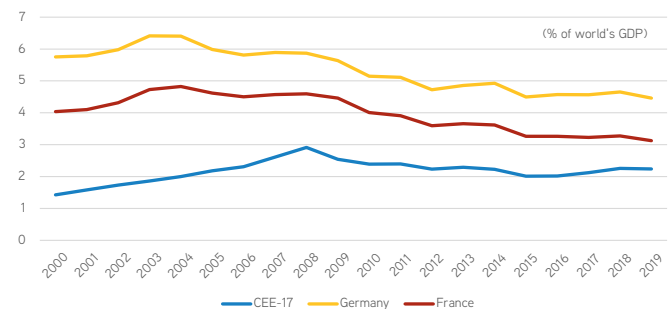
Generally speaking, the CEE region is a quite heterogenous region, with some countries regarded as high-income by the World Bank (mostly the EU member states covered in this report) – though neither yet are on par with the likes of Germany, with the others in the upper-middle income group and Ukraine trailing the pack in the lower-middle income category. Just to mention the headline numbers, the 17 countries we have covered in this report have a collective population of ca. 168 million people, which is almost double that of Germany's, but just one ninth of China's 1.4 billion.

Together, these countries produce 1.9 trillion dollars' worth of goods and services each year, with Poland capturing the lion's share of this at ca. 29%, with the Czech Republic and Romania accounting for a further 25% together. This underscores just how diverse the region is, with countries of quite different sizes and at different stages of economic development, from frontier markets with plenty of longer-term potential (albeit destined for lower complexity operations currently and higher risks), to countries ready to make the jump into an innovation-driven economy. In fact, in Harvard

University's Atlas of Economic Complexity, Czech Republic, Hungary and Slovenia were in the top 10, alongside the likes of Germany and South Korea, with other CEE countries (mostly the EU member states) not too far behind.

Looking at where the region has come from, it is arguably one of the better performing in the world over the last couple of decades, and probably the best

## Last decade saw CEE grow slower amid the rise of Asia, but still much faster than developed Europe



source: IMF, Colliers International



performing if we were to exclude southern Asia from the picture (particularly China, which has seen astronomical economic results). That said, compared to Western European countries, which act much more as major economic partners (in terms of trade and source of investments) than Asian economies, it is a clear overperformance. For example, the share of the CEE-17's GDP in Germany's has more doubled, from 24.8% in 2000 to 50.2% in 2019. The region's share of the world GDP has increased from 1.4% in 2000 to 2.2% last year.

At the same time, the main macro indicators look quite a lot better, highlighting big strides in improving internal stability. For instance, none of the countries have an inflation problem currently, despite several of them having had double digit rates in the 2000's, or even triple digit in Belarus' case, not helped by the current political situation; the biggest inflation rate in the region this year are estimated to be in Belarus (5.6%) and Ukraine (4.5%), with the rest countries displaying even more tame expectations.

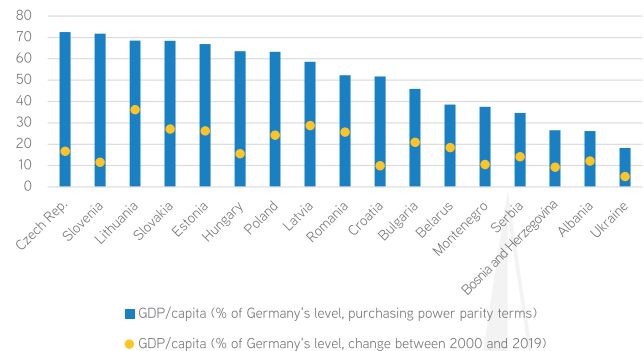
While current account deficits are a bit higher than the safely regarded levels (with Montenegro and Albania expected to see double digit gaps as a percentage of GDP in 2020), it is still possible for emerging economies to run a bit hotter, particularly if the gaps can be covered by other inflows, like foreign direct investments or EU funds.

Thankfully, the attractive labour costs and good geographic position, bridging developed Europe to Asia and the Middle East, has pushed capex ever higher in the last decades. Foreign investments in various industrial operations have totaled ca. half a trillion dollars and created 1.8 million jobs in the CEE-17 countries. The bulk of the money has gone to the "usual suspects": the bigger EU member states with somewhat lower wages, though this offers an opportunity for the rest to catch up, particularly as wages have risen rapidly in states with big investments.

Overall, the CEE region is closing off one very successful decade, with the same ingredients that have helped countries overperform in recent history still very much in place and, with constant improvements in public governance, will keep the appeal high.

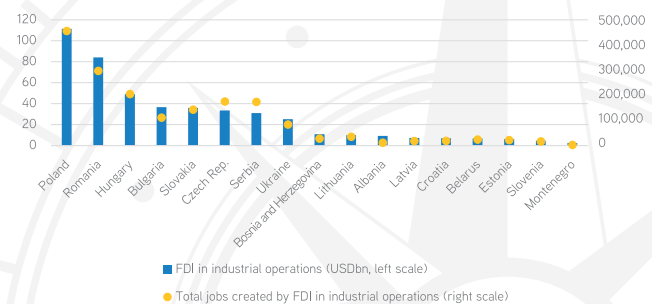
In closing, it is also worth noting that different countries face different challenges: from overcoming the middle-income trap for the richer nations, to countering negative demographic trends (particularly for poorer countries, amid big external migration), but at the same time, all countries offer interesting and various opportunities which we hope can be highlighted in part by this report.

### Different stages of development, different growth speeds, different opportunities



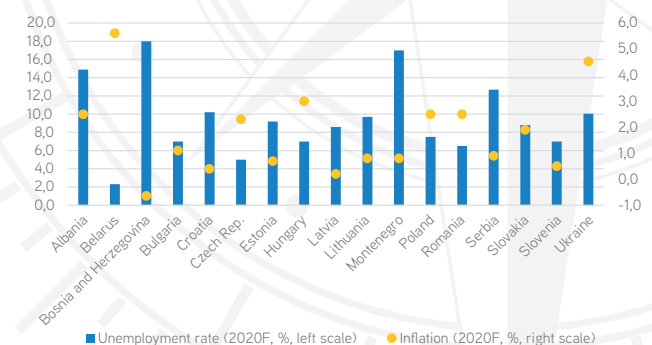
source: IMF, Colliers International

### Foreigners pouring in impressive capital for industrial operations in CEE



source: FDI database, Colliers International

### CPI is better behaved than in the past, with unemployment generally offering more room for job gains than in Western Europe



source: European Commission, International Monetary Fund



# I&L MARKET IN CEE-17

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*The exCEEding Borders series of reports by Colliers are aimed at providing a wider regional view on the status and opportunities that the Central and Eastern European markets have to offer. In this edition, for the first time, we have taken a look at the Industrial and Logistics markets and related trends, across 17 countries in the region. These are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.*

The first point to mention, similarly with the development and contribution for each of the country's economies, is that their industrial and logistics real estate markets are all at different stages of maturity, both in terms of size and the pace of development. As a result of this, you will see that data for some markets are detailed at a national level, while others are more focused around the main economic hubs, typically capital or major cities with larger pools of labour. Each of the markets have their own strengths, but also areas for further development.

As the report will explore, some of the key challenges in this sector, revolve around a number of factors that include: the availability of land and property in locations that meet both the developers and end-user expectations, the availability and reliability of utilities (and increasingly data networks) and transport infrastructure, the availability and skills of the labour pool, EU membership and access to investment incentives, amongst others.

## EMEA I&L OVERVIEW

Although EMEA's rolling 12-month take-up was down - 8.4% Y/Y, activity over H1 2020 remained ahead of the same period a year ago. This 3.6% growth came with additional demand for servicing online retail being activated as our home delivery requirements soared during the COVID-19 lockdown. By June, space under active construction (UAC) had risen by only a marginal 1.8% (H/H), as many speculative developments were mothballed in the wake of COVID-19, or at least delayed or revised. This is expected to influence (negatively) upon future take-up volumes, especially in supply-bottleneck markets. The marginal increase in active construction was also the result of large development projects completing during the first half of 2020. While Istanbul (-81%), Dusseldorf (-76%) and Stuttgart (-67%) saw the largest (H/H) declines, little impact was seen in relation to their current vacancy rates - particularly Istanbul, which saw vacancy move in by -376 bps; further signifying demand severely outweighs new and available supply.

The weighted (average) vacancy rate for Europe remains a very low 3.7% - stable on Q1, and only a 10 bps increase on Q4 2019. This reflects that vacancy rates are bottoming out, with just 36% of markets recording vacancy contractions in H1 2020, compared to 45% in H1 2019. City-warehouse prime rents grew in 19% of the locations monitored during H1 2020. Some 17% of markets saw rents for logistics and distribution markets grow, primarily due to expansionary e-commerce demand. Overall, rents remained largely stable. This is set to continue for the next 12 months, bar core locations where rental growth is expected, albeit at a slower pace.

Landlord-favourable markets continue their prevalence across markets, but as of H1 2020 they were matched by neutral market conditions - both represent a 41% share of markets surveyed. This reflects an easing of landlord-favourable dominance of 51.5% in H1 2019. The outlook for the next 12 months depicts these conditions will remain largely stable although there may be a ceding of landlord conditions in some markets. Low vacancy, a lack of quality new availability and strong growth in e-commerce will be counterbalanced by broader economic uncertainty.



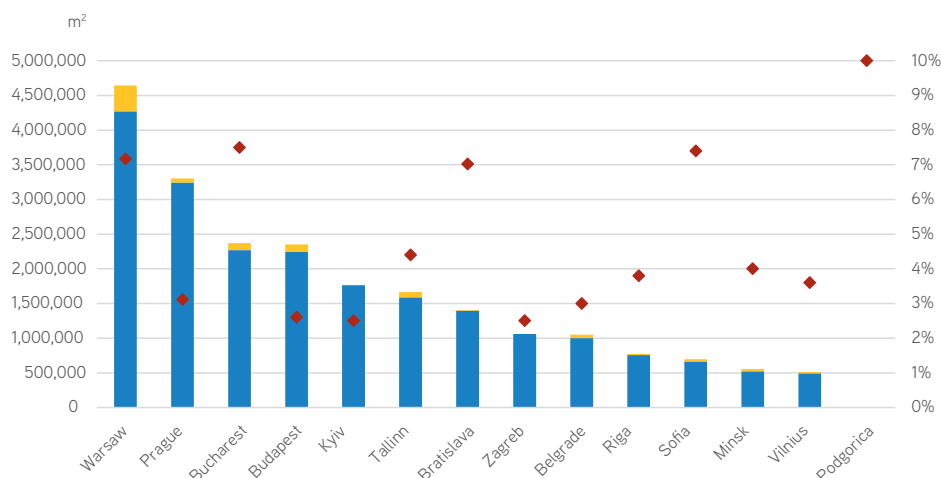
## CEE I&L OVERVIEW

The total supply of modern Industrial and Logistics stock across the CEE-17 capital city markets alone totals over 22 million m<sup>2</sup> and well over 50 million m<sup>2</sup> in total. From this supply, the current availability can be categorized as low, with the majority of markets recording vacancy rates of below 5% and the remainder under the 8-10% level. 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. Speculative development across the region typically 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 just 6 months on average to complete a standard warehouse, as 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.

Demand from the I&L sector in the CEE region over the past few years has overall been strong and has been driven by the 3PL, retail and distribution sectors, followed by the light production, automotive and FMCG sectors. During the pandemic and looking forward, we do expect to see some changes to the order and volume of this demand with sectors such as e-commerce, data centres and specialist storage increasing their requirements. Despite this, the CEE region, and some countries in particular, have long industrial traditions and remain very attractive to manufacturers ranging from the full spectrum of automotive parts and final product producers, through to aerospace, metals and plastics, complex electronics, home appliances, food, beverages, pharmaceuticals and medical equipment, to name just a few. While we expect e-commerce and other sectors to grow at a more rapid pace and drive demand through these challenging times, we also expect that over the longer term, we will also see greater demand from producers/manufacturers to bring back parts of their supply chain closer to Europe to mitigate certain risks that we have seen in the past few months.

So many unanswered questions remain about the future because we simply cannot accurately predict the longevity and impact of the pandemic. The first wave raised serious concerns as to how the I&L sector and the economy reacted to what was initially a health crisis. In brief, much of the global economy was crippled or put on hold

**Total stock, new supply&vacancy rate in selected CEE capital cities | H1 2020**

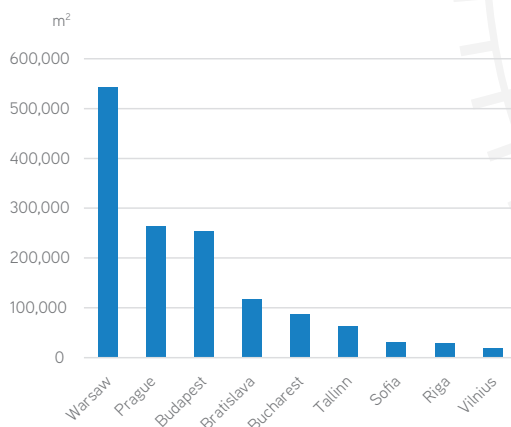


source: Colliers International



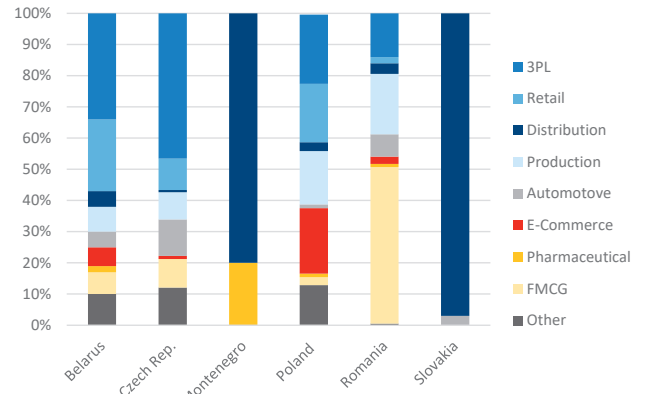
while most of us retreated to the safety of our homes and purchased only essential items. Even this showed signs of weakness as certain goods and services are cross-border and the disruption to, possibly over optimized, supply chains were significant through production closures, border closures and so on. In future, this may mean that larger inventories are stored or produced closer to the end consumer which could also translate to greater demand for I&L space. Although some companies were able to adapt and recommence within a fairly short period of time, there were also casualties as consumers became reluctant to purchase higher value items, due to the uncertainty that was unfolding. This has left some industries limping, and only time will tell how they move forward, or not. None the less, many companies in the manufacturing sectors have long term strategies, partly due to the amount of time and investment required to get set-up. While the current situation is putting a hold on, or changing, certain plans, they are still thinking longer term and need to think carefully about how to spread the risk, as these are complicated operations and cannot be done overnight. To add fuel to the fire, there are also plenty of other factors at play that were in the headlines well before COVID-19 came on the scene. If economies and all things related worsen, governments will almost certainly have to intervene to protect their most valuable national assets and interests. The headlines we refer to are the various trade agreement disputes,

#### Demand in selected CEE capital cities | H1 2020



source: Colliers International

#### Demand structure by sector in selected CEE countries | H1 2020



source: Colliers International

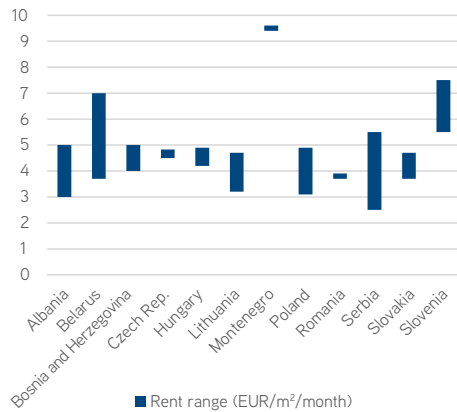
BREXIT and all things EU related, not to mention the various challenged political elections and civil unrest that are bubbling away close to the surface. In summary, some industries and companies could be pressured to bring jobs and assets "back home", especially if Governments (the taxpayer) has been required to bail them out.

Through the pandemic we have recorded more demand for short-term leases to cope with additional demand however, typical lease lengths across the region range between 3 and 5 years for logistics and over 5 years for production. Logistics companies for example often have 3-year contracts with their clients so would prefer more flexibility however, we have also seen the end user taking longer term leases and having the logistics companies rotate instead. Build-to-suit facilities can be expected to command longer leases, often due to the additional investment put in by both developers and tenants.

Rents across the region have been largely stable, with growth recorded in the most sought-after locations, and where availability is limited. We expect this trend to continue, particularly as demand has been good and construction costs have also been on the rise over the past few years.

Typical headline rents across the region range between EUR 2.9 and 5.5 per m²/month although, markets in earlier stages of development can currently reach upwards of EUR 7.0 per m²/month.

Rental rates in selected CEE countries | H1 2020



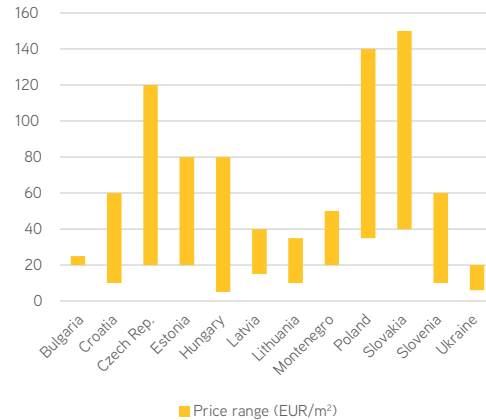
source: Colliers International

Tenant incentives will vary depending on a variety of factors including availability in the location, length of lease and tenant covenant, amongst others.

In terms of delivery costs, we have also gathered indicative prices for land (assuming permits are in place) and hard construction costs (for a standard warehouse). Typical land prices across the region vary between EUR 10 and 80 per m<sup>2</sup> however, due to the scarcity of land in the most sought-after locations, particularly those closer to major cities or economic/productive hubs, prices can rise up to between EUR 120 and 150 per m<sup>2</sup>.

Typical hard construction costs for a "standard" warehouse across the region range between EUR 300 and 600 per m<sup>2</sup>. Higher costs have been reported in some markets but overall, a combination of increased labour and materials costs have driven up construction costs by as much as 25% or more over the past few years.

I&amp;L land prices in selected CEE countries | H1 2020



source: Colliers International

The I&L sector has become one of the most sought-after asset types by investors and, according to RCA data, now ranks in 3rd place since 2019, after Offices and Residential, and having overtaken retail. In EMEA, it ranks in 4th just behind retail but is expected to outperform over the next few years. In CEE (incl. Russia), I&L volumes have almost matched offices to come in a close 2nd year-to-date 2020. In CEE, we would see even greater I&L volumes, however the supply of assets for sale is somewhat limited due to many of the main investor/developers in the region being long term holders.

With the sector performing well overall currently, we do not expect to see this trend change in the near future. Opportunities remain limited but are expected to meet with high demand as investors are very keen to deploy their capital and even more so, in this sector. As a result, prime yields across the region have remained largely stable and we have even recorded some compression in markets where there had been limited movement since the GFC.

# I&L BUILDINGS AND TECHNOLOGIES

For those unfamiliar with I&L properties, you could be forgiven in thinking that they are very simple structures of some columns and beams to support four walls and a roof (after all, most people still refer to them as 'Sheds'). To some extent that is still true, but many other elements are changing to incorporate modern-day requirements, functionality and efficiency. The building quality and standards practiced by the majority of developers are extremely high and quite often incorporate measures to achieve green certification, whether that be LEED, BREEAM or other. In this aspect of building design and construction we can see various elements being introduced to help reduce energy use and wastage, or indeed to become self-sufficient in many regards. Renewable energies, such as photovoltaic (solar) panels are now becoming more common on the roofs of I&L properties and furthermore, is a great use of the space.

This can provide landlords and tenants with competitively priced access to energy and contribute to sustainability initiatives, but it doesn't stop there. Property owners and the tenants themselves are implementing improved technologies, both hardware and software, to monitor and report on a very wide range of services, equipment and machinery. For example, electricity usage by the property or various equipment can be monitored at regular intervals to help improve efficiencies and drive down costs by looking at ways to maintain productivity but consume that energy during off-peak times and monitor reserve energy parameters. Another example would be to have building and operational equipment reporting into a centralized system, such as a BMS, so that equipment revision's and potential faults can be more easily tracked and acted upon, potentially making significant savings in both money and time from lost productivity due to failed systems or components. What's more, by using this data, building systems can be adjusted in real-time so they are always performing at optimum efficiency levels.



source: Shutterstock



source: Shutterstock

Moving on to some of the requirements and technologies that tenants are now implementing inside these facilities, you really start to see the need for why many I&L properties are being built around the operations and needs of the end user. For some this could mean higher buildings, (where local planning rules permit) or even multi-level properties leased on a cubic metre basis. The latter is so far quite rare in CEE but may well become more common in future if suitable land becomes scarce. Robots have been used in manufacturing for years but are now become ever more a familiar sight in all kind of operations. In the e-Commerce and logistics sectors for example, we can see all sorts of autonomous picking robots and forklifts, smart racking and lighting systems to name just a few. In light of the supply chain issues seen in recent times, but also a key driver for all manner of applications is technology that can solve the quest for true End to End visibility. This is where a material, component or product for example can be tracked throughout its life cycle enabling better planning and ultimately happier customers. It's a bit like tracking a parcel on route to you but having the added detail of where it is in the production process as well. Like most of these things, it is considerably more complicated than described here.

Now this might all seem a bit science-fiction to some, but the future is already here and is moving ahead swiftly to cope with modern day demands. As a result of this,

there is greater demand for electricity, miles of data and electrical cabling and connection/charging points are becoming more common alongside private telecom/wi-fi networks to run the communications between it all. Not to mention the cyber security and data ownership that go hand in hand. In brief, the days of simple sheds are fading into the past and landlords and tenants are having to adapt. The days of autonomous delivery vehicles and delivery drones are not quite with us yet but, along with these and many other technologies that are in development, there will certainly be additional change and challenges, but also great opportunity.

## SECTOR TRENDS

Some of the most frequently asked questions in recent times are, which sectors have been most impacted by the pandemic? And therefore, which companies are most at risk? And, what will this mean for the I&L sector? Well, in short, the most frequent and valid answer to that is that it is quite impossible and still too early to say. There are so many variables at play including the number of sectors, many of which are interlinked with one another, and then we are literally talking about hundreds of thousands of companies globally. To really get an understanding, we would need to dig through order books and financial statements and then run the risk that 6 months may just not

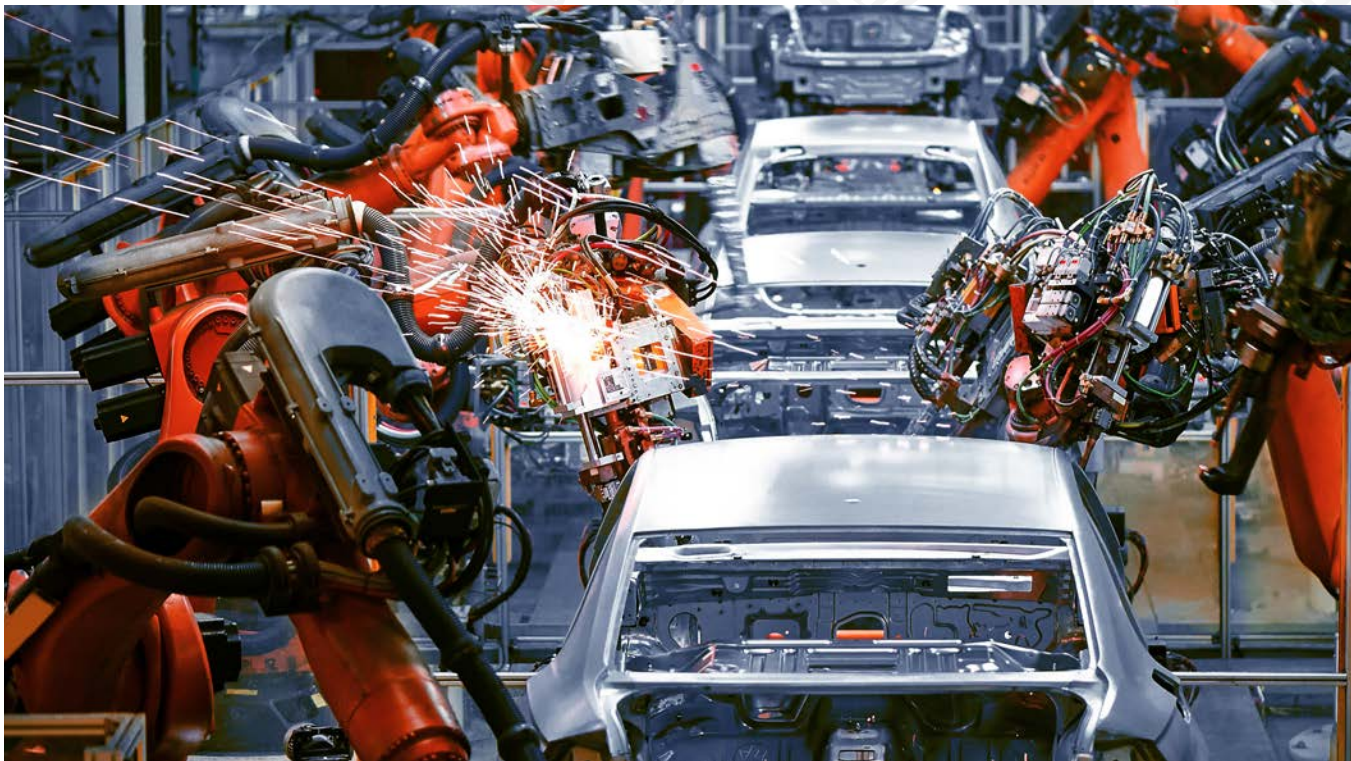


be enough time to draw a conclusion. Our view is that we will see more evidence towards the end of year or early next, once government support schemes end, crisis loans need to be repaid and of course, how other waves of the pandemic impact further on industries and the economy as a whole. It is in all of our interests to hope that companies in this sector are well capitalized but, let's be realistic, 6 months of disrupted supply or distribution, delayed or cancelled orders, inventory building up or perished, delayed payments and cashflow problems, for example, is enough to raise concern over some of the most well established organizations.

Of the sectors raising most concern, there are a few but we had a look at the automotive industry, after all, cars are one of the most expensive items that the many of us will make outside of our homes, and in challenging times we are more likely to delay such large purchases. For CEE, the automotive sector is a big deal, there are more than ten of the world's major car manufacturers located across the region

and then you have the thousands of materials, parts, transport&logistics and dealer companies that employ hundreds of thousands of people. So, as you can imagine, any major fall-out in this sector will have a sizeable economic impact. The automotive industry has not been without its fair share of disruption over the years, being challenged environmentally over petrol and diesel fuelled combustion engines, and the younger generations perhaps preferring to share cars rather than own them. One of the key ones has been the push for electric powered vehicles or other types of innovation around mobility as a service, and autonomous vehicles. We believe it will still take some time to work through the various challenges in this goliath of an industry, and we will continue to watch this space with great interest.

Moving on to a few of the sectors where there has been a lot of buzz and positive headlines, we took a look at the activities of Pharmaceutical, Third Party Logistics and e-Commerce companies around the region.



source: Shutterstock

To offer some high-level summary, the pharmaceutical/life sciences sector is also a big player in this region. Afterall, we all get sick from time to time and they hopefully have the products that make us well again.

There are many administrative locations, but also numerous storage, R&D, production, tech and distribution locations related to all the big pharma names that will be familiar to most, through to the hundreds of companies that are perhaps lesser known to people outside of the industry.



source: Shutterstock

COUNTRY NAME	E-commerce % Consumer Goods	E-commerce % Consumer Services
<i>Austria</i>	12.50%	5.20%
<i>Belgium</i>	5.77%	8.30%
<i>Bulgaria</i>	3.37%	5.80%
<i>Croatia</i>	2.92%	6.90%
<i>Cyprus</i>	4.00%	4.00%
<i>Czech Republic</i>	14.36%	7.70%
<i>Denmark</i>	16.00%	7.00%
<i>Estonia</i>	3.95%	9.60%
<i>Finland</i>	7.54%	8.40%
<i>France</i>	8.30%	8.20%
<i>Germany</i>	12.23%	5.80%
<i>Greece</i>	5.50%	4.00%
<i>Hungary</i>	5.27%	6.70%
<i>Ireland</i>	13.80%	9.30%
<i>Italy</i>	5.19%	3.50%
<i>Latvia</i>	3.66%	7.20%
<i>Lithuania</i>	4.53%	3.80%
<i>Luxembourg</i>	6.74%	6.00%
<i>Malta</i>	7.16%	5.00%
<i>Netherlands</i>	13.39%	7.60%
<i>Norway</i>	12.90%	3.70%
<i>Poland</i>	6.56%	5.30%
<i>Portugal</i>	5.99%	3.90%
<i>Romania</i>	5.23%	3.50%
<i>Slovakia</i>	3.66%	7.70%
<i>Slovenia</i>	2.21%	7.40%
<i>Spain</i>	8.72%	4.50%
<i>Sweden</i>	14.28%	11.00%
<i>Switzerland</i>	7.20%	5.30%

source: Eurostat, National Statistical Offices, Statista, 2019

During this health crisis, the whole world is desperately waiting for this group of companies and scientists to come up with a vaccine that will bring our lives back to some level of normality. Once that is done, it will need to be produced, stored and distributed at unprecedented volumes, so we can almost certainly assume that part of this effort will be carried out from CEE.

One sector that has dominated much of the property headlines has been e-commerce and 3PLs (third party logistics). These sectors have been gradually growing over the last decade or more in CEE. In the logistics sector you will find all of the big names from DHL, UPS, FedEx, etc. through to other substantial operators including Arvato, Ceva Logistics, DB Schenker, Geodis, Gefco, Geis, Kuehne+Nagel, Panalpina and Rhenus for example and many more. These groups are involved across all industries but are also involved in supporting the growth of e-commerce.

During the lockdown, the majority of retail was closed, shopping centres in particular, which led to a greater increase in demand for online retail. Initially this was focussed on groceries and essential items but then spread to DIY/hobby, gardening, sports and a variety of electronics and online entertainment. Other sectors such as fashion and footwear have been reported to have not done so well during these times, so much so, that some of these brands are seriously looking at pulling out of physical retail altogether and going online. All of which has meant, or will mean, increased demand for I&L property over the years to come.

Although the data around e-commerce is a little challenging to source and comprehend, the percentage of goods purchased online versus traditional methods is still fairly low in many markets. The adjacent table shows that, of the CEE markets featured, only the Czech Republic had a double digit share of online sales of consumer goods in 2019. Again, this leads to the view that this trend will only grow and the demand for space to accommodate this will also increase.



# I&L MARKET IN CEE-17 H1 2020

## KEY MARKET INDICATORS



Over  
50 million m<sup>2</sup>  
of existing  
I&L space

### LEGEND

Country / Capital City		Trend (Y-o-Y)
Total stock (m <sup>2</sup> )	<b>S</b>	Increase ▲
Vacancy rate (%)	<b>V</b>	Stable ►
Take-up (m <sup>2</sup> )	<b>T</b>	Decrease ▼
Prime rents (EUR/m <sup>2</sup> /month)	<b>R</b>	
Yields (%)	<b>Y</b>	

Poland		Warsaw
19.65 mln	<b>S</b>	6.64 mln
▲ 6.7	<b>V</b>	7.2 ▲
▲ 2.48 mln	<b>T</b>	543,900 ►
► 3.1-4.9	<b>R</b>	3.1-4.9 ►
► 6.25-8.25	<b>Y</b>	6.25 ▼

Czech Rep.		Prague
8.82 mln	<b>S</b>	3.3 mln
▲ 4.6	<b>V</b>	3.1 ►
▼ 678,200	<b>T</b>	264,700 ▼
► 4.5-4.83	<b>R</b>	4.5-4.83 ►
▼ 5.25	<b>Y</b>	5.25 ▼

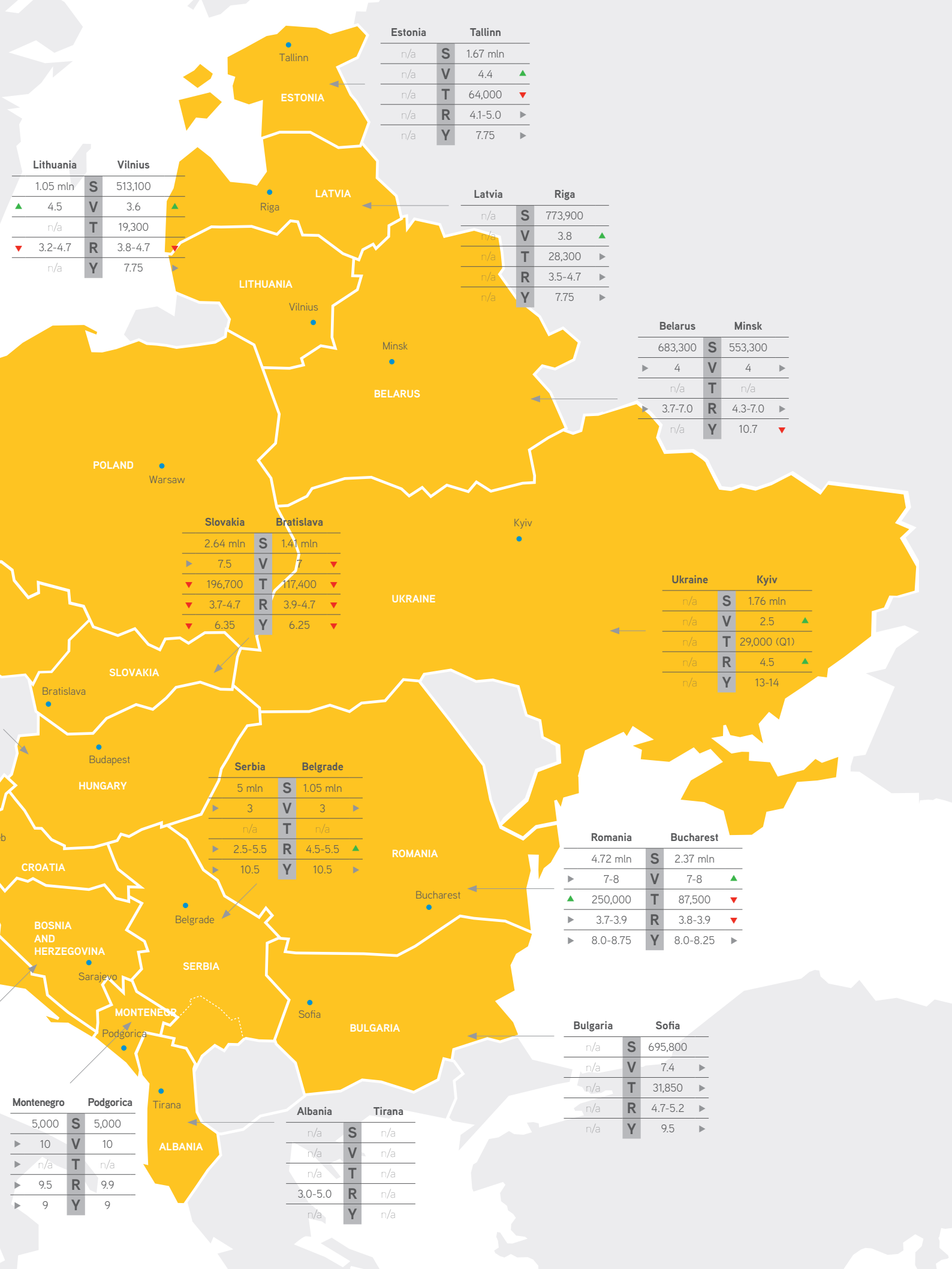
Hungary		Budapest
n/a	<b>S</b>	2.35 mln
n/a	<b>V</b>	2.6 ▲
n/a	<b>T</b>	253,700 ▲
▼ 4.2-4.9	<b>R</b>	4.2-4.9 ▼
n/a	<b>Y</b>	7 ►

Slovenia		Ljubljana
n/a	<b>S</b>	n/a
► <10	<b>V</b>	n/a
► n/a	<b>T</b>	n/a ►
▲ 5.5-7.5	<b>R</b>	n/a
► 7.5	<b>Y</b>	n/a

Croatia		Zagreb
n/a	<b>S</b>	1.06 mln
n/a	<b>V</b>	2.5 ►
n/a	<b>T</b>	n/a ►
n/a	<b>R</b>	4.5-5.5 ►
n/a	<b>Y</b>	8 ►

Bosnia and Herzegovina		Sarajevo
n/a	<b>S</b>	n/a
n/a	<b>V</b>	n/a
n/a	<b>T</b>	n/a
► 4.0-5.0	<b>R</b>	n/a
► 11	<b>Y</b>	n/a





# ALBANIA

Capital City: **Tirana**



AVERAGE SIZE  
OF I&L PREMISES (M<sup>2</sup>)

2,800-12,000



RENTAL RATES  
(EUR/M<sup>2</sup>/MONTH)

3.0-5.0

locations in the suburbs of Tirana  
such as Tirane-Vore segment  
and Tirana city-Kombinat segment;  
depending on the quality,  
size and location

1.0-2.0

industrial areas  
located further  
from Tirana

## MARKET CHARACTERISTICS

Tirana's industrial and logistics market has developed over the last decades mostly along the Tirane-Vore highway. It consists of the busiest industrial segment and has almost completely developed due to its proximity to central Tirana.

The section of highway between Vore and Durrës also offers industrial properties and although it is less developed than the Tirana-Vore section, it currently offers numerous land opportunities for purchase. Based on its proximity to the industrial port of Durrës, the Tirana International Airport, and the planned main highway artery to Kosovo, this area is ideal for the expansion of Tirana's industrial and logistics market. Furthermore, another industrial area of Tirana is the segment road linking Tirana with Kombinat, where several old and/or new industrial developments have been delivered over the past twenty years.

The increase in supply of industrial premises in the suburbs of Tirana correlates with the high demand for such premises. A significant portion of the demand is created by the fashion industry, which is one of the most successful industries in Albania.

Since labour costs are low and foreign companies pay low taxes in Albania, the latter have facilities for final fashion goods production, which is then exported abroad. Additionally, with the enlargement of Tirana, the prime industrial area has shifted slightly towards the development of retail outlets, shopping malls and big box office buildings.



**Tirana Logistic Park**  
*source: Tirana Logistic Park*

# BELARUS

Capital City: **Minsk**



## BELARUS

TOTAL STOCK (M²)

683,300

NEW SUPPLY (M²)

31,100

VACANCY RATE (%)

4.0

PRIME RENTS  
(EUR/M²/MONTH)

3.7-7.0

PRIME YIELDS (%)

-



## MINSK

TOTAL STOCK (M²)

553,300

NEW SUPPLY (M²)

31,100

VACANCY RATE (%)

4.0

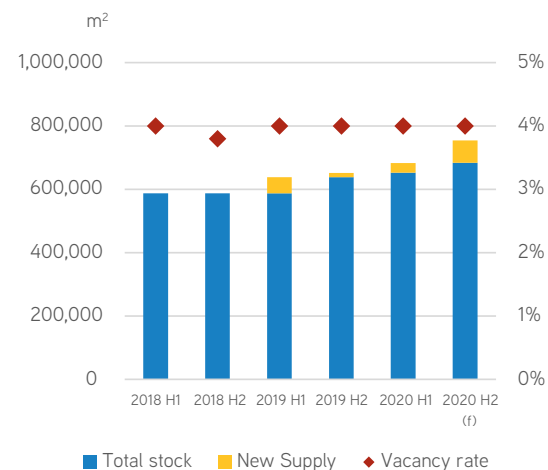
PRIME RENTS  
(EUR/M²/MONTH)

4.3-7.0

PRIME YIELDS (%)

10.7

Stock & vacancy evolution | Belarus



## MARKET CHARACTERISTICS

The Industrial and Logistics sector in Belarus concentrates mainly in the region of Minsk, where the vast majority of modern industrial space is located.

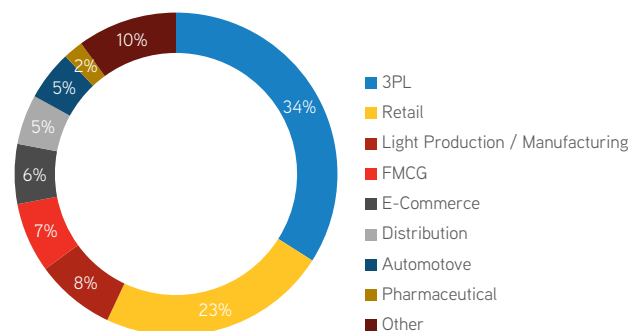
The Belarus I&L market has remained largely resilient due to the stable market and economic conditions. The country has also not been affected by any restrictive measures as a response to the COVID-19 pandemic.

## SUPPLY, DEMAND & VACANCY

At the end of H1 2020, the total stock of modern industrial space in Belarus reached 683,300 m², of which 81% (553,300 m²) was located in the Minsk region. During the first half of 2020, ca. 31,100 m² of new warehouse space was delivered to the market.

The vacancy rate on the Belarus I&L market is stable and low (4%), and has recorded a limited amount of newly-built space over the last two years. Business activity supports short time demand for warehouse space.

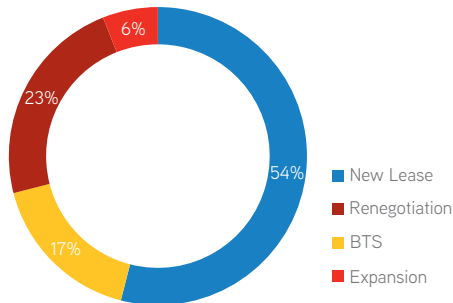
Demand by sector | Belarus | H1 2020





In the leasing structure, in terms of sectors represented, activity was led by 3PL (34%) and retail (23%) tenants. These are quite typical proportions for the Belarus market and is also visible in Minsk region, where those sectors are also dominant and account for 32% (3PL) and 20% (retail).

**Lease agreements by type | Belarus | H1 2020**



## RENTAL RATES & LEASE CONDITIONS

In H1 2020, prime rental rates remain unchanged in Belarus and range between EUR 3.7-7.0/m<sup>2</sup>/month.

The average lease length in Belarus is 3-5 years (logistics/warehousing) and 5-7 years (production/ manufacturing). Across the market in general, and with such low vacancy rates, developers are not under pressure to offer incentives to tenants.

## OUTLOOK

Despite the uncertainty caused by the pandemic, the main investors/developers do not intend to postpone development projects in Belarus. It is expected that by the end of 2020 the I&L market will grow by an additional 71,000 m<sup>2</sup>, the majority of which will be located in and around Minsk. Due to this fact, the development pipeline for the coming months is not substantial, it can be estimated that the level of demand and vacancy are likely to remain stable.

## TOP LEASE AGREEMENTS | MINSK | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Zhelentorg	Minsk	-	8,000	3PL/Courier	New lease
Wildberries	Minsk	-	3,000	E-Commerce	Renegotiation
Alivarya (Carlsberg group)	Minsk	-	2,950	Production	New lease
Japan Tobacco International	Minsk	-	1,100	Distribution	New lease



**Great Stone Industrial Park**

source: Great Stone Industrial Park Development Company

# BOSNIA AND HERZEGOVINA



Capital City: **Sarajevo**



NEW SUPPLY (M<sup>2</sup>)

5,000



SPACE U/C (M<sup>2</sup>)

9,500



PRIME RENTS (EUR/M<sup>2</sup>/MONTH)

4.00-5.00



PRIME YIELDS (%)

11.0

## 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 owner constructed and occupied.

The main industrial regions include the capital city – Sarajevo, as well as Mostar, Zenica, Banja Luka, Tuzla and Jajce. Infrastructural investment is crucial

to the overall development in this sector. Especially critical is the A1 highway connecting the capital and the major cities of Mostar and Zenica with the northern and southern border of the country.

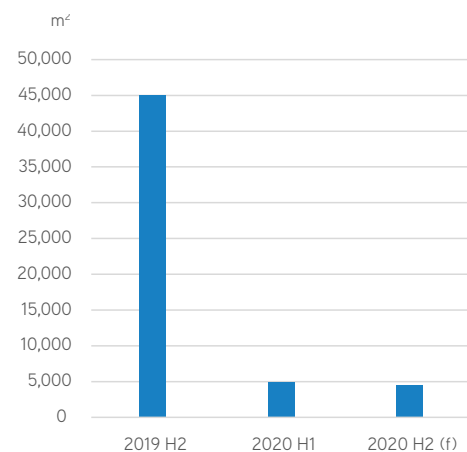
## SUPPLY, DEMAND & RENTAL RATES

Recently the I&L market in Bosnia and Herzegovina has witnessed growth in its development pipeline due to increased investments in the industrial sector, in particular manufacturing, energy and steel. During the past 12 months, ca. 50,000 m<sup>2</sup> of new modern industrial space was delivered, with a further 9,500 m<sup>2</sup> currently under construction.

Demand for industrial and logistic space is comes from both domestic and foreign companies, which invest mostly in production and manufacturing facilities and less in dedicated logistics properties.

Most investments are allocated towards build-to-suit manufacturing facilities in the automobile, furniture, textile and related industries.

### New supply | Bosnia and Herzegovina



In H1 2020, prime rental rates in Bosnia and Herzegovina remained stable and ranged between EUR 4.00-5.00/m<sup>2</sup>/month.

## OUTLOOK

There is still a large supply of distressed assets, some dating back to the former state era, which are now being privatised and sold off. However, outstanding cadastral and legal issues prolong both the development and sale processes.

Demand might also be dampened by the decrease of industrial production in 2019, specifically caused by a decrease in manufacturing.

Due to the slowdown of industrial production during 2019, domestic investments in the sector might also be lower than in previous years.



source: Shutterstock



# BULGARIA

Capital City: **Sofia**



## SOFIA



TOTAL STOCK (M²)

695,800



NEW SUPPLY (M²)

31,600



SPACE U/C (M²)

108,000



VACANCY RATE (%)

7.4



DEMAND (M²)

31,850



PRIME RENTS  
(EUR/M²/MONTH)

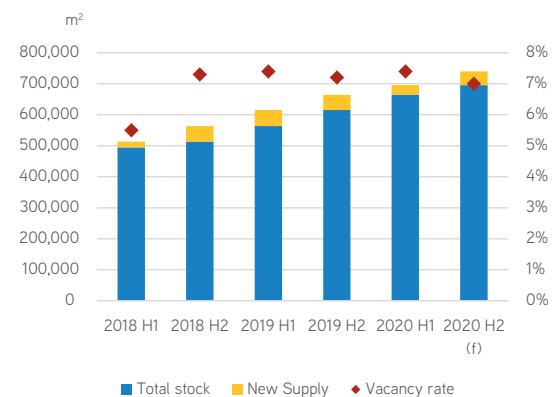
4.7-5.2



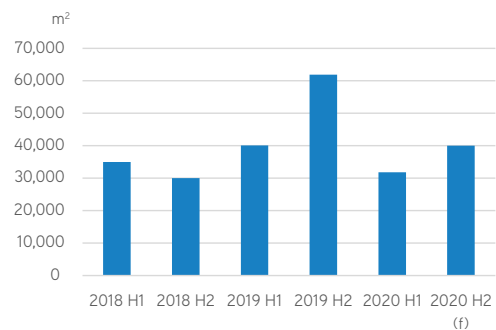
PRIME YIELDS (%)

9.5

### Stock & vacancy evolution | Sofia



### Demand evolution | Sofia

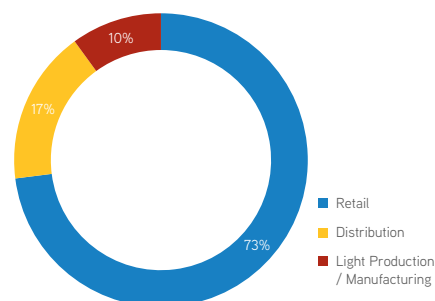


## MARKET CHARACTERISTICS

More than 4,500 hectares of private, public and combined ownership land is consolidated in industrial zones in Bulgaria. These provide a diversity of locations, cost optimization and potential business synergies for new and expanding production and logistics operations.

The zones can offer occupiers pure land acquisition or BTS for purchase models. Globally recognized companies ready to sign longer-term leases can also source developers for tailored facilities in less liquid destinations where specific occupier labour requirements can however, be fulfilled.

### Demand by sector | Sofia | H1 2020





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.

## SUPPLY, DEMAND & VACANCY

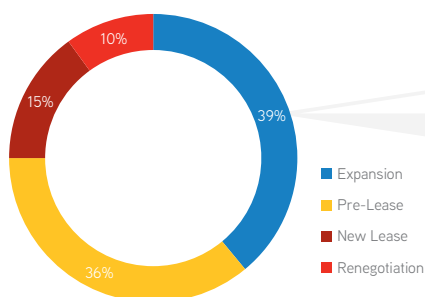
At the end of H1 2020, the total stock of modern I&L space in Sofia was 695,800 m<sup>2</sup>. During the first half of the year, ca. 31,600 m<sup>2</sup> of new space was delivered. Overall, the logistics market in Bulgaria is characterized by an undersupply of speculative space.

Current construction of major A Class projects is concentrated mainly in the capital city market (108,000 m<sup>2</sup>) with some facilities in the pipeline for Plovdiv and Varna.

The demand for modern I&L space in Sofia has been relatively stable since the beginning of 2018 and the total transaction volume in H1 2020 was 31,850 m<sup>2</sup>.

In the leasing structure, expansions and pre-lease agreements dominated and constituted 39%

Lease agreements by type | Sofia | H1 2020



## TOP 5 LEASE AGREEMENTS | SOFIA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Optonica Led	Sofia	Logistics Park Sofia	10,000	Retail	Pre-lease
Woodward	Sofia	Sofia Airport Center	3,000	Production	Expansion
Intercars	Sofia	Vladimir Vazov	2,800	3PL	Pre-lease
Vista AWT	Sofia	Sofia Airport Center	1,900	Distribution	Renegotiation
Lilly drogerie	Sofia	Vladimir Vazov	1,800	Retail	Expansion

and 36% respectively. Industry sectors in terms of operation were dominated by retail (73%). Across the country, the main cities with stable demand from 3PL operators and retailers are Sofia, Plovdiv, Varna, Burgas and Veliko Tarnovo.

The vacancy rate observed in Sofia since 2018 is stable. At the end of June 2020, it was at the level of 7.4%.

## RENTAL RATES & LEASE CONDITIONS

Prime monthly rental rates for the capital city market are stable for modern logistics space (EUR 5.2/m<sup>2</sup>) and for warehouse space (EUR 4.7/m<sup>2</sup>). Average lease lengths in Sofia are 3-5 years (logistics/warehousing) and 5-10 years for production/manufacturing. Developers offer some incentives to tenants, which are up to 3 months' rent free per year of lease.

## OUTLOOK

The trend of sale-lease back conversions is currently more visible and production companies are not perceiving it as a negative sign on their business performance, but rather as a boost to their future growth, and focus on the core objectives of their operations and further investment in industrial automatization.

Last-mile logistics is a model still to be explored in Bulgaria, with some speculative projects under construction around the ring road of Sofia. There is a lack of consolidated urban logistics space ready to answer the immediate needs of courier companies and as such, is mainly concentrated around the Airport area.

Due to COVID-19, more logistics operators driven by the rise of e-commerce of groceries, electronics, pharmaceuticals and related products, are looking to diversify locations with smaller operations in the inner city and bigger distribution hubs around the ring of the city. There is also an increased need for cross-dock and cold storage space.

# CROATIA

Capital City: **Zagreb**



## ZAGREB



TOTAL STOCK (M<sup>2</sup>)

1.06 MLN



VACANCY RATE (%)

2.5



DEMAND (M<sup>2</sup>)

31,850



PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

4.5-5.5



PRIME YIELDS (%)

8.0

## 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.

Croatia has over 1,300 business zones, of which only ca. 450 are currently active. The majority of the supply is located in Zagreb and its surrounding area, followed by Kukuljanovo (Rijeka), Dugopolje (Split) and other larger cities.

Demand is strong for logistics stock, especially in the Zagreb and Kukuljanovo zones. Demand is driven mainly by logistics providers, pharmaceutical and food & beverage distributors, appliance distributors and other consumer goods retailers.

Due to a lack of quality supply, some of the largest companies in Croatia are deciding to build properties for their own use or, to collaborate with a local developer on the construction for long-term lease or forward purchase agreements.

## SUPPLY, DEMAND, VACANCY & RENTS

At the end of H1 2020, the total stock of modern industrial space in Zagreb reached 1.06 million m<sup>2</sup>. Currently, there is no space under construction in Zagreb.

Tenant activities have been stable since the beginning of 2018. The vacancy rate in the capital of Croatia has also remained stable and at the end of H1 2020, it was recorded at just 2.5%.

In H1 2020, prime rental rates remained stable in Zagreb and ranged between EUR 4.5 and 5.5/m<sup>2</sup>/month.

## OUTLOOK

We are recording the return of developers as a result of accumulated demand, lack of modern supply and the growth of e-commerce. However, speculative development is still at a low level, with new schemes being developed for owner-occupation or as pre-leases.

Major obstacles that could impact the speculative supply are high communal contributions, rising construction costs and the lack of scalable land plots in suitable locations, in addition to the unwillingness to enter the lease risk. On the other hand, cities are competing for new schemes by offering exemption from communal contributions, while the government provides tax exemptions and subsidies for newly created jobs.



**ALCA logistics facility in Sv. Helena, Zagreb**  
*source: Colliers International*

# CZECH REPUBLIC

Capital City: **Prague**



## CZECH REP.

TOTAL STOCK (M²)

8.82 MLN

NEW SUPPLY (M²)

317,000

SPACE U/C (M²)

441,600

VACANCY RATE (%)

4.6

DEMAND (M²)

678,200

PRIME RENTS  
(EUR/M²/MONTH)

4.5-4.85

PRIME YIELDS (%)

5.25



## PRAGUE

TOTAL STOCK (M²)

3.3 MLN

NEW SUPPLY (M²)

58,300

SPACE U/C (M²)

24,500

VACANCY RATE (%)

3.1

DEMAND (M²)

264,700

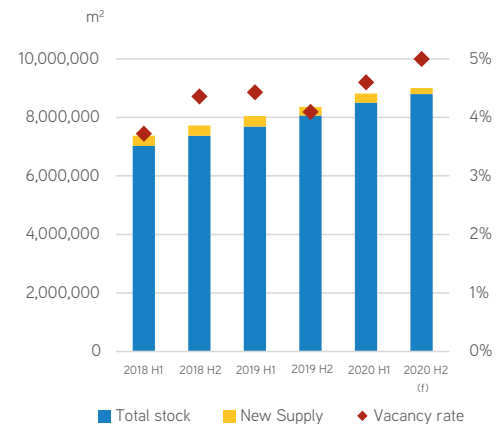
PRIME RENTS  
(EUR/M²/MONTH)

4.5-4.85

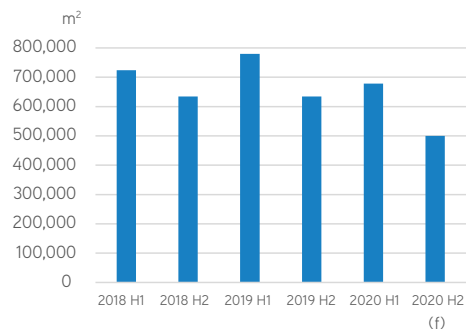
PRIME YIELDS (%)

5.25

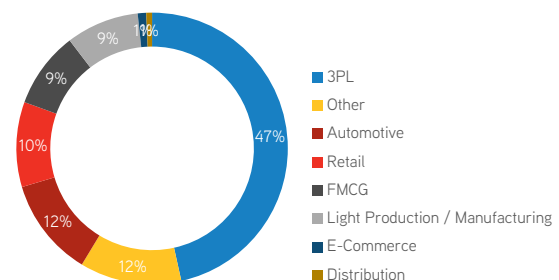
## Stock & vacancy evolution | Czech Republic



## Demand evolution | Czech Republic



## Demand by sector | Czech Republic | H1 2020



## 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.

Greater Prague remains the most sought-after region and continues to be able to supply a qualified workforce and its central location and market size is the biggest driver of growth. Smaller but still highly popular regions for the I&L sector are located around Pilsen and Ostrava. The greatest advantage of Pilsen is the close proximity and good connection



to Germany via the solid transportation and highway infrastructure. Pilsen is also home to a good technical university that seeks and supports collaboration with companies in the R&D and other sectors. The Ostrava region benefits from good railway connections, a modern airport and cheaper labour that can also even be sourced from neighbouring countries.

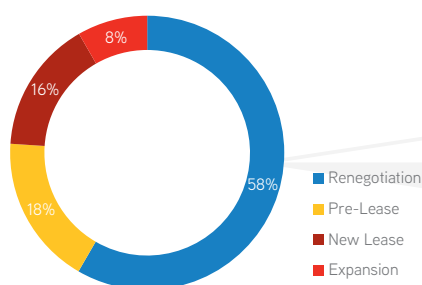
## SUPPLY, DEMAND & VACANCY

The Czech market is dominated by several international and regional developers such as CTP Invest, Prologis, P3, VGP and Contera. The stock of industrial space has enjoyed exceptional growth of 11% over the last five years and has doubled since 2013. With 317,000 m<sup>2</sup> of newly delivered space in H1 2020, the total stock is 8.82 million m<sup>2</sup>. Around 441,600 m<sup>2</sup> of new space was under construction at the end of June 2020.

At the end of H1 2020, the vacancy rate in the Czech Republic stood at 4.6%. Despite this seemingly low number, the availability of larger space is better than in previous quarters, with 11 properties offering space in excess of 10,000 m<sup>2</sup>.

Take-up for H1 2020, reached 678,200 m<sup>2</sup>, which was a 13% decrease over H1 2019. The share of renegotiations was 58%. Tenant sectors in terms of operation were led by 3PL (47%).

### Lease agreements by type | Czech Republic | H1 2020



## TOP 5 LEASE AGREEMENTS | CZECH REPUBLIC | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
FAST ČR	Central Bohemia region	Contera Park Říčany	40,500	Retail	Renegotiation
Sumisho Global Logistics	Plzeň region	CTPark Plzeň	30,655	3PL	Renegotiation
XL MX obchodní	Ústí nad Labem region	P3 Lovosice	25,060	Retail	New lease
Faurecia Plzen s.r.o.	Plzeň region	Pilsen West Industrial Park	22,490	Automotive	Renegotiation
MOL Logistics	Plzeň region	CTPark Plzeň	15,500	3PL	Renegotiation



**Prologis Park Úžice**

source: Prologis

## RENTAL RATES & LEASE CONDITIONS

Prime rents in Prague and Brno stand in the range of EUR 4.5-4.85/m<sup>2</sup>/month. Other regions such as Ostrava, Pilsen and Ústí nad Labem have rents in the range of EUR 4.00-4.35/m<sup>2</sup>/month. The previously common incentives of one month rent free per year of lease is no longer the standard and developers now provide incentives based on location, lease size and length. The tenant profile/covenant also plays a big role in rent negotiations. Average lease lengths in the Czech Republic range between 5-10 years.

## OUTLOOK

The availability of large units for lease combined with the low average vacancy rate, creates an ideal environment for BTS developments, depending on the availability of land and permits, with landlords remaining in a strong negotiating position.

In the coming months of 2020, we expect 268,000 m<sup>2</sup> of space to be delivered, a continuous increase in size of new space entering the market. This trend proves that the Czech Republic is still one of the most sought-after destinations within Europe for the development of new I&L properties. The share of renegotiations in lease structure will remain dominant. That is due to both the relatively low vacancy and also the situation in the labour market, where companies prefer to stay in established locations rather than facing the issues of hiring new staff, as long as the countrywide unemployment rate remains low at around 3.5%.

# ESTONIA

Capital City: **Tallinn**



## TALLINN



TOTAL STOCK (M²)

1.7 MLN



NEW SUPPLY (M²)

77,200



SPACE U/C (M²)

68,000



VACANCY RATE (%)

4.4



DEMAND (M²)

64,000



PRIME RENTS  
(EUR/M²/MONTH)

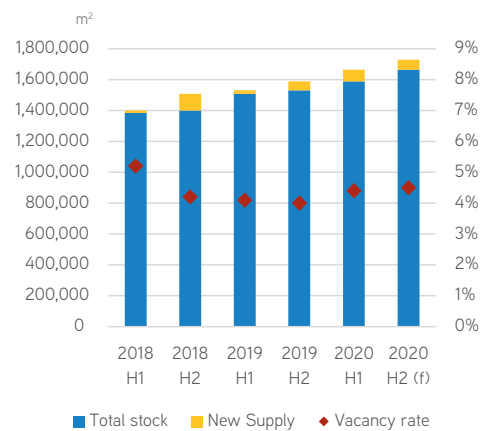
4.1-5.0



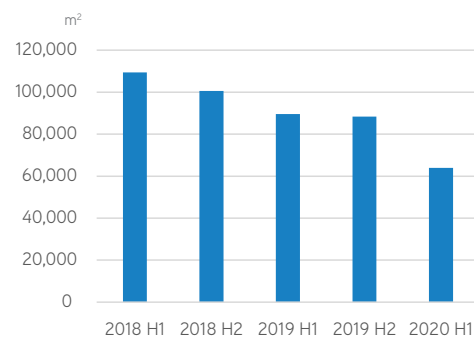
PRIME YIELDS (%)

7.75

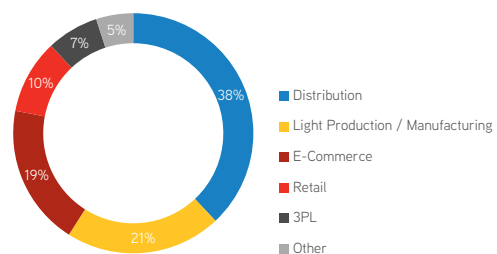
### Stock & vacancy evolution | Tallinn



### Demand evolution | Tallinn



### Demand by sector | Tallinn | H1 2020



## 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.

The market is primarily focused on areas that surround the city, currently with strong interest in the East and Southeast, mainly due to the comparatively good accessibility, infrastructure and access to quality labour.

## SUPPLY, DEMAND & VACANCY

Overall, there are 27 industrial parks located in and across Tallinn, which totalled ca. 1.7 million m<sup>2</sup> of modern stock at the end of H1 2020.

New supply delivered to the market during the first half of the year in Tallinn and Harju County reached 77,200 m<sup>2</sup>, which was 4.6% of current stock. Q2 2020 saw the completion of 19 projects in the Tallinn region with total of 70,000 m<sup>2</sup>, of which 35% were speculative premises.

Due to the completion of several SBU premises, the vacancy rate in Q2 2020 has slightly increased and at the end of H1 2020 stood at 4.4%.

Starting from March 2020, developers and tenants started to reconsider their plans for 2020 due to the COVID-19 outbreak - some new leasing deals and development projects have been postponed, but the market otherwise remained rather stable. Despite this the market remains reasonably active in Tallinn and its suburbs in terms of new developments with a total area of ca. 68,000 m<sup>2</sup> under construction at the end of June 2020.

Tenants' activity observed in Tallinn has been experiencing a downward trend since the beginning of 2018. In the first half of the year, the total transaction volume reached 64,000 m<sup>2</sup>, which is a 28.6% decrease compared to the figure from the corresponding period of last year.

In the leasing structure, the distribution and light production/manufacturing sectors dominated and accounted for 38% and 21% respectively. Tenants from the e-commerce sector also had a significant share in the total leased area (19%).

## RENTAL RATES & LEASE CONDITIONS

In H1 2020, prime rental rates remained stable and varied between EUR 4.1-5.0/m<sup>2</sup>/month. Average lease lengths in Tallinn are 5-10 years in the case of logistics/warehousing, while production/manufacturing are between 5-12 years. Negotiating conditions are turning in favour of tenants, pressuring rental rates and resulting in some incentives like partial rent-free periods. In March-May, landlords started to propose somewhat lower rents to secure new leasing deals.

## OUTLOOK

Postponed leasing activity together with ongoing speculative development is creating the expectation for an increase in vacancy by the end of the year. Further speculative development plans in the I&L sector will be carefully evaluated.

Looking ahead the most promising outlook remains for the grocery, e-commerce, pharmaceuticals, distribution and needs-based sectors. These sectors are expected to lead the demand for space over the next 12 months, but overall, demand for space will decrease.



**Kawe Logistics in Rae Village**

*source: Kawe*

# HUNGARY

Capital City: **Budapest**



## BUDAPEST



TOTAL STOCK (M²)

2.35 MLN



NEW SUPPLY (M²)

104,200



SPACE U/C (M²)

162,500



VACANCY RATE (%)

2.6



DEMAND (M²)

253,700



PRIME RENTS  
(EUR/M²/MONTH)

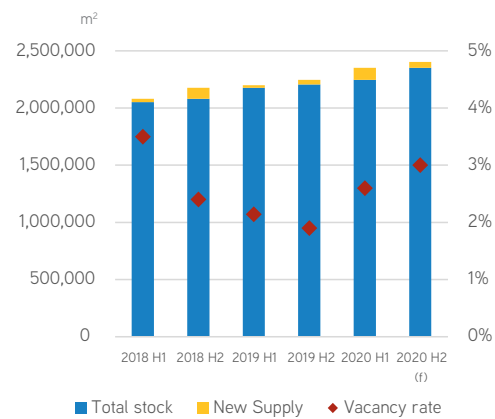
4.2-4.9



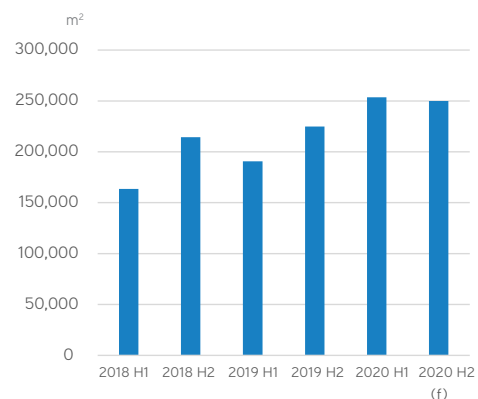
PRIME YIELDS (%)

7.0

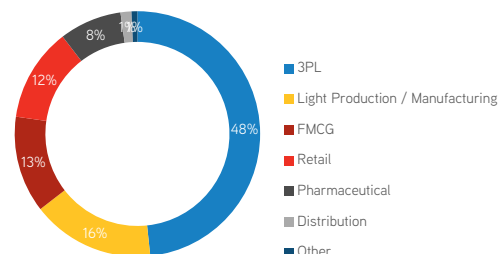
### Stock & vacancy evolution | Budapest



### Demand evolution | Budapest



### Demand by sector | Budapest | H1 2020



## MARKET CHARACTERISTICS

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

Previously, despite the usually high purchase price, acquiring existing properties is rather preferred instead of preparing new developments, due to the high construction cost and the longer construction period, both in Budapest and in regional locations. However, as the options for existing buildings available for sale become quite limited and the construction cost become more reasonable, currently the pipeline of speculative developments around Budapest is building up quickly. We forecast that in 12-16 months, these new developments can provide a decent selection for the companies, who want to find new logistics/production buildings around Budapest, even if 34% of the expected new buildings have been already preleased. The ratio of modern warehouses built for lease outside



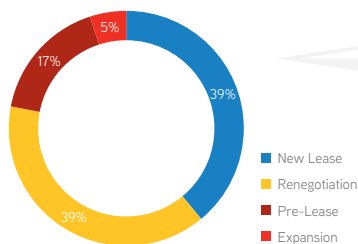
of the Budapest I&L market is only around 20%. There is no constant location-concentrated demand, however the route of the M1 highway can be considered as the secondary sub-region after Budapest.

In the major countryside submarkets large-scale industrial parks comprising several buildings, that are developed/operated by an international developer, are still not typical. Local and regional developers dominate the market with 1-1 buildings (stand-alone units/buildings, that are not a part of a larger industrial park) or potentially with a BTS development. The more rural areas tend to be attractive for end-user companies related to manufacturing/assembling activities. A significant proportion of the regional properties are leased long-term, typically older manufacturing halls, while the majority of newer stock is owner-occupied property. 22% of the portfolio of the main 20 active developers/investors of Budapest is in the Hungarian regions, usually includes B Class buildings.

## SUPPLY, DEMAND & VACANCY

The total modern industrial stock in Budapest grew by 104,200 m<sup>2</sup> and as a result accounted for 2.35 million m<sup>2</sup> at the end of H1 2020. The amount of newly delivered space during the first half of the year was a new record high, since the beginning of 2018. A further 162,500 m<sup>2</sup> of space was under active construction at the end of H1 2020. The vacancy rate reached 2.6% at the end of June 2020, marking a 0.5 p.p. increase y-o-y (2.1% at the end of June 2019).

### Lease agreements by type | Budapest | H1 2020



## TOP 5 LEASE AGREEMENTS | BUDAPEST | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Ceva	Százhalombatta	Batta Park	28,585	3PL	Renewal
Confidential Client	Budapest	CTPark Budapest South	28,470	n/a	Pre-lease
Lidl	Üllő	Viktória Business Park Üllő	19,070	FMCG	New lease
Kika	Üllő	Viktória Business Park Üllő	18,440	Retail	New lease
Confidential Client	Fót	East Gate Business Park	17,780	n/a	New lease



**CTPark Budapest South**

source: Colliers International

Tenants' activity, including renewals, observed in Budapest in the first half of the year reached 253,700 m<sup>2</sup>. This is an upward trend and is the highest half yearly level since the beginning of 2018. In the leasing structure, new agreements and renegotiations dominated and each constituted 39%. A significant proportion of the demand was related to the 3PL (48%), light production/manufacturing (16%) and FMCG (13%) sectors.

## RENTAL RATES & LEASE CONDITIONS

The headline rent of existing modern big box logistics buildings around Budapest is in the range of EUR 4.2-4.9/m<sup>2</sup>/month. In the case of existing city logistics buildings, the headline rent is in the range of EUR 4.5-6.0/m<sup>2</sup>/month. The lease lengths preferred by landlords are 5 years (or more) in the case of logistics/warehousing and 7-10 years (or more) in the case of production/manufacturing premises.

## OUTLOOK

It is expected that by the end of 2020, ca. 53,000 m<sup>2</sup> out of the 162,500 m<sup>2</sup> currently under construction, will be delivered to the Budapest market. As a result, the vacancy rate could increase slightly to 3.0%. In the second half of the year, tenants' activity is expected to remain similar to last year, with a transaction volume, excluding renewal transactions, being estimated at ca. 200,000 m<sup>2</sup>.

# LATVIA

Capital City: **Riga**



## RIGA



TOTAL STOCK (M²)

773,900



NEW SUPPLY (M²)

17,000



SPACE U/C (M²)

207,100



VACANCY RATE (%)

3.8



DEMAND (M²)

28,300



PRIME RENTS  
(EUR/M²/MONTH)

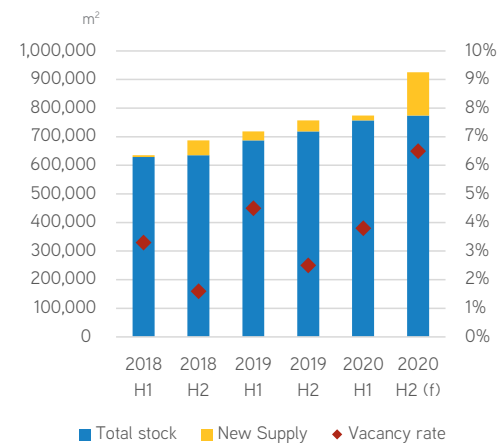
3.5-4.7



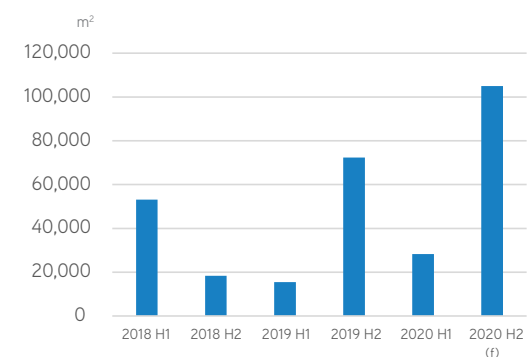
PRIME YIELDS (%)

7.75

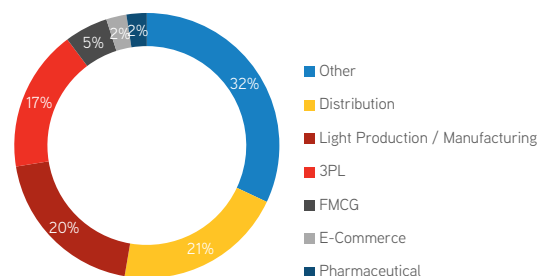
### Stock & vacancy evolution | Riga



### Demand evolution | Riga



### Demand by sector | Riga | H1 2020



## MARKET CHARACTERISTICS

The Latvian I&L market is concentrated in Riga and its surroundings. In recent years, the market saw an increased number of industrial projects being added to the stock (60,000-70,000 m² per year). In the last few years, the number of speculative projects has also increased, however many companies were still unable to find suitable premises and we now see several BTS projects being completed (more than 100,000 m² in 2020).

The industrial segment in Riga has overall been impacted less by the COVID-19 outbreak compared to other commercial real estate segments. Nevertheless, market activity in the second quarter of 2020 was slightly limited.

## SUPPLY, DEMAND & VACANCY

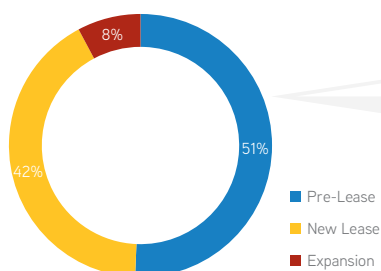
At the end of H1 2020, the total stock of modern industrial space in Riga accounted for 773,900 m<sup>2</sup>. In the first half of the year, the market grew by only 17,000 m<sup>2</sup> of new warehouse space. In recent months, construction works on the DHL shipment processing and logistics centre, have started at Riga Airport. The construction tempo has been slowed by some developers due to the uncertain situation caused by the pandemic. At the end of June 2020, there were ca. 207,100 m<sup>2</sup> under construction, half of which were built-to-suit projects.

The vacancy rate reached 3.8% in June 2020, a decrease compared to the corresponding period of last year (4.5% in June 2019).

Since the beginning of 2018, the total annual demand level has oscillated around 80,000 m<sup>2</sup> and was created mostly by existing market players moving and/or expanding. In H1 2020, the total transaction volume in Riga reached 28,300 m<sup>2</sup>. Tenants' activity is expected to increase over the coming months and reach more than 100,000 m<sup>2</sup> during H2 2020.

More than half (51%) of the total leased space was represented by pre-lease agreements. New agreements, concerning industrial space located in the already existing warehouses, constituted 42%. Enquiries from e-commerce companies increased at the beginning of the lockdown however, not many lease transactions occurred. The Tenants' leasing structure was led by the distribution (21%), light production/manufacturing (20%) and 3PL (17%) sectors.

Lease agreements by type | Riga | H1 2020



## TOP 5 LEASE AGREEMENTS | RIGA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Confidential Client	Riga region	Celmalas	5,600	Production	New lease
Confidential Client	Riga	Klijānu street 2	5,000	Other	New lease
Itella	Riga region	Green Park	4,000	3PL	Pre-lease
Konstanta Tvis	Riga	Sirin Logistics Park	3,600	Distribution	Pre-lease
McDonalds	Riga region	Green Park	2,000	Other	Pre-lease



Sirin Logistics Park

source: Sirin Development

## RENTAL RATES & LEASE CONDITIONS

Rent rates have remained stable for some time now with larger rates recorded within new industrial clusters within Riga city. Due to workforce scarcity, more projects are now being developed within Riga city and less on the Riga ring road and, as a result, rental rates differ between those locations. In H1 2020, prime rental rates in Riga were between EUR 3.5-4.7/m<sup>2</sup>/month.

The average lease length in Latvia is 3-5 years depending on the premises type (3 years for logistics/warehousing, 5 for production/manufacturing). Developers usually offer 1 month rent free per year of lease. Recently, however, even though asking rents have largely remained stable, in some cases an increased number of rent-free months are being offered by some developers.

## OUTLOOK

Developers are actively looking for distressed land plots, while all market players are collecting information and postponing any strategic decisions until the second half of the year.

With increasing supply, it is expected that there will be a slight increase in vacancy and downward pressure on rents for older properties. It is expected that due to the current market conditions, BTS developments will become more common between tenants and developers.

# LITHUANIA

Capital City: **Vilnius**



## LITHUANIA

TOTAL STOCK (M<sup>2</sup>)

1.05 MLN

NEW SUPPLY (M<sup>2</sup>)

63,200

SPACE U/C (M<sup>2</sup>)

102,400

VACANCY RATE (%)

4.5

PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

3.2-4.7

PRIME YIELDS (%)

-



## VILNIUS

TOTAL STOCK (M<sup>2</sup>)

513,100

NEW SUPPLY (M<sup>2</sup>)

22,800

SPACE U/C (M<sup>2</sup>)

57,000

VACANCY RATE (%)

3.6

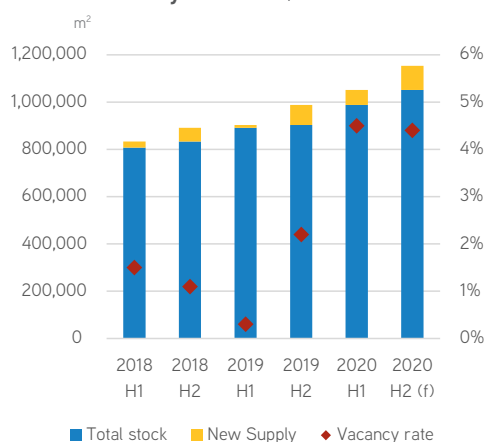
PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

3.8-4.7

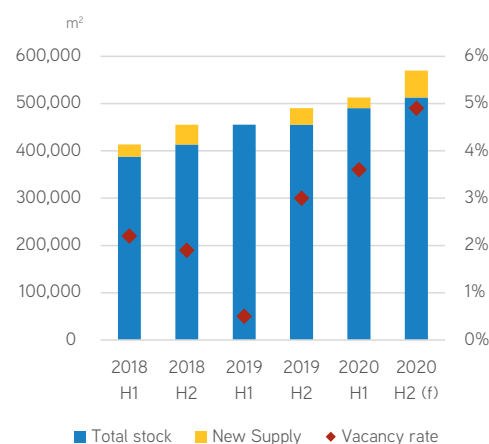
PRIME YIELDS (%)

7.75

### Stock & vacancy evolution | Lithuania



### Stock & vacancy evolution | Vilnius



## MARKET CHARACTERISTICS

The I&L market in Lithuania spreads across the largest markets of the capital city Vilnius, the second biggest city Kaunas and the port city Klaipeda. In connection to the strategic geographical location of the country, a significant portion of the stock is occupied by companies engaged in logistics.

The industry has received significant attention in recent years, observing steady growth and significant greenfield FDI. Among them are high-profile companies, including Continental Automotive, Hella, and Hollister Incorporated. This is associated with a favourable and business-oriented environment, encompassing well-developed infrastructure, qualified talent, strong work ethic, competitive costs, and attractive conditions, especially in the seven Free Economic Zones of the country.

To facilitate the establishment processes for new entrants, novel concepts are being presented in the Lithuanian market, such as industrial properties for lease allowing a quick set up for investors. The current, moderate level of saturation indicates good potential for new development.



## SUPPLY & VACANCY

At the end of H1 2020, the total stock of modern industrial space in Lithuania reached 1.05 million m<sup>2</sup>, of which 49% (513,100 m<sup>2</sup>) is located within the Vilnius Region.

During the first six months of 2020, the Lithuanian I&L market grew by 63,200 m<sup>2</sup> of new space, which was over four-times more than in the same period of 2019 (11,700 m<sup>2</sup>).

At the end of June 2020, a further 102,400 m<sup>2</sup> of space was under construction, more than half of which (57,000 m<sup>2</sup>) is located in the Capital City market.

New speculative supply has slightly increased the overall warehouse vacancy level to 4.5% at the end of June 2020.

## RENTAL RATES & LEASE CONDITIONS

In H1 2020, prime warehouse rental rates experienced a slight downward pressure in connection to the global pandemic. As a result, rates ranged between EUR 3.2-4.7/m<sup>2</sup>/month at a country level, with the highest being recorded in Vilnius (EUR 3.8-4.7/m<sup>2</sup>/month).

Average lease lengths in Lithuania are 3-5 years (logistics/warehousing) and 5-7 years (production/ manufacturing). Developers offer some incentives in the form of up to 2 months rent-free per total lease period.

## OUTLOOK

Attractive lower rental rates are expected to activate the lease market, stimulating the relocation of tenants to better quality premises. In addition, the sector remains robust to the negative effect of pandemic, partly thanks to the rapidly growing e-commerce sector.



**Westhub Logistics Centre**

source: Kamida Group

## TOP 5 LEASE AGREEMENTS | LITHUANIA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Boen	Vilnius	Finejas LC	7,500	Production	New lease
Metso	Siauliai	Liejyklos St. 10	6,200	Production	New lease
Lidl	Kaunas	Rodena	6,000	FMCG	New lease
DS Smith Packaging	Vilnius	Titnago Logistics Park	3,500	Packaging	New lease
AT Hidraulic	Vilnius	Transimeksa LC	3,300	Automotive	New lease

# MONTENEGRO

Capital City: **Podgorica**



## MONTENEGRO

TOTAL STOCK (M²)

5,000



NEW SUPPLY (M²)

0



SPACE U/C (M²)

10,000



VACANCY RATE (%)

10



PRIME RENTS  
(EUR/M²/MONTH)

9.5



PRIME YIELDS (%)

9.0



## PODGORICA

TOTAL STOCK (M²)

5,000

NEW SUPPLY (M²)

0

SPACE U/C (M²)

10,000

VACANCY RATE (%)

10

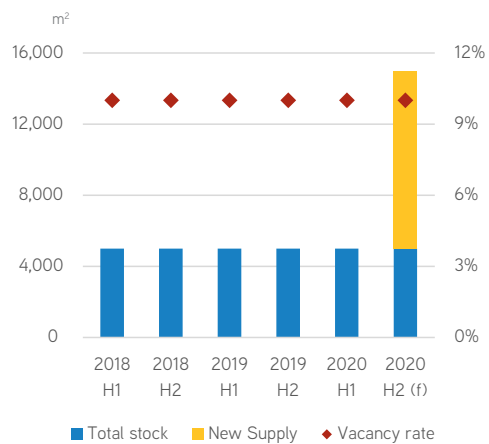
PRIME RENTS  
(EUR/M²/MONTH)

9.9

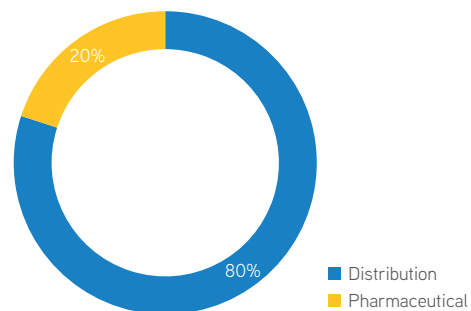
PRIME YIELDS (%)

9.0

### Stock & vacancy evolution | Montenegro



### Demand by sector | Montenegro | H1 2020



## MARKET CHARACTERISTICS

As a small country located on the Balkan Peninsula, Montenegro is well known for its natural beauty and well-developed tourism and services industry. However, while Montenegro is relatively well positioned geographically, its small market size has resulted in a relatively limited demand for logistics and distribution centers.

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. These account for ca. 90% the total available stock, which are mostly not available for lease to other companies. Still, a number of smaller companies still offer limited space for lease, with very few new developments planned currently.

However, with the construction of the new highway connecting Montenegro and Serbia coming to an end, the Port of Bar may well expect a growth in traffic over the next 3-5 years, which would increase the need for warehousing and logistics properties.





**Voli Distribution Centre**

*source: Voli Trade*



**Tehnomax Logistics Centre**

*source: Technomax*

# POLAND

Capital City: **Warsaw**

## POLAND

TOTAL STOCK (M²)

19.65 MLN

NEW SUPPLY (M²)

1.06 MLN

SPACE U/C (M²)

1.9 MLN

VACANCY RATE (%)

6.7

DEMAND (M²)

2.48 MLN

PRIME RENTS  
(EUR/M²/MONTH)

3.1-4.9

PRIME YIELDS (%)

6.25-8.25



## WARSAW

TOTAL STOCK (M²)

4.64 MLN

NEW SUPPLY (M²)

371,600

SPACE U/C (M²)

400,200

VACANCY RATE (%)

7.2

DEMAND (M²)

543,900

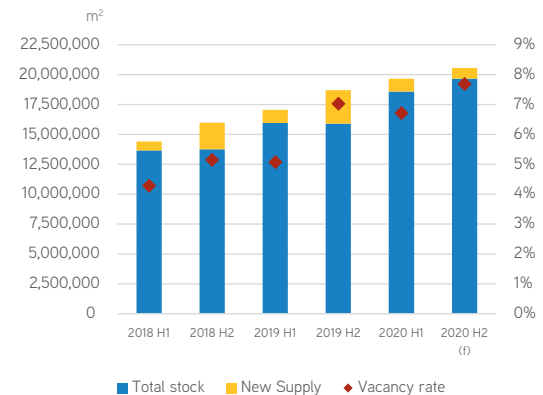
PRIME RENTS  
(EUR/M²/MONTH)

3.1-4.9

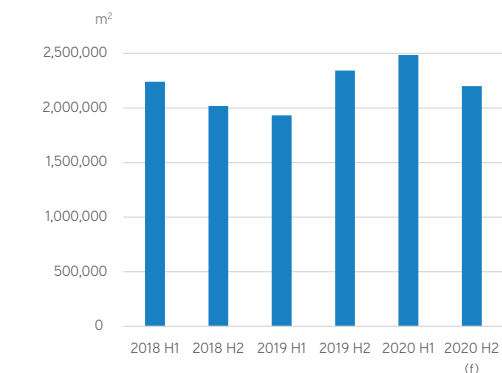
PRIME YIELDS (%)

6.25

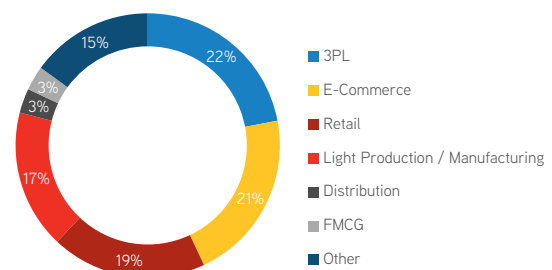
### Stock & vacancy evolution | Poland



### Demand evolution | Poland



### Demand by sector | Poland | H1 2020



## MARKET CHARACTERISTICS

The I&L market in Poland is divided into 11 main regional markets, where approximately 98% of the modern industrial stock is located. Nine of the main markets consist of the largest Polish cities and the regions surrounding them. There are also Eastern and Western markets, which consist of locations along the eastern and western borders of the country. Outside of the 11 main markets, only ca. 450,000 m² of space is located (2% of Poland's stock).

Warsaw is the largest and one of the fastest growing I&L markets in Poland. It is divided into three industrial zones: zone I – the city of Warsaw, zone II – up to 30 km from Warsaw's city centre, and zone III – up to 60 km from Warsaw's city centre.



The largest developers operating in Poland include: Panattoni, Segro, Prologis, GLP, Hillwood, MLP Group, P3 Logistic Parks, 7R Logistics and Waimea.

## SUPPLY, DEMAND & VACANCY

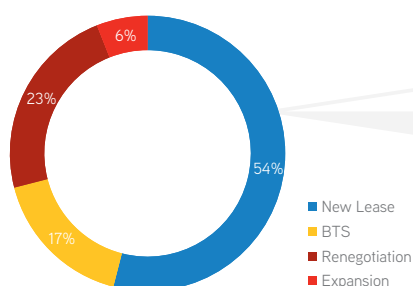
At the end of H1 2020, the total stock of modern industrial space in Poland reached 19.65 million m<sup>2</sup>, 24% of which (4.64 million m<sup>2</sup>) was located within the three Warsaw industrial zones.

During H1 2020, developers in Poland completed approximately 1.06 million m<sup>2</sup> of new warehouse space, which was close to the figure for the same period of 2019 (1.09 million m<sup>2</sup>). At the end of June 2020, there were a further 1.9 million m<sup>2</sup> of warehouse space under construction.

Tenants' activity observed in Poland in the first half of the year experienced an upward trend compared to the corresponding period of last year. The total transaction volume reached 2.48 million m<sup>2</sup>, which was a 28.6% increase compared to the figure from the end of June 2019. This result was largely influenced by two leasing agreements signed in Q2 this year by Amazon (ca. 273,300 m<sup>2</sup> in total).

In the leasing structure, new agreements dominated and constituted 54%. Renegotiations and BTS agreements also had a significant share, constituting 23% and 17% of demand respectively. Tenant sectors in terms of operation were led by 3PL (22%), e-commerce (21%) and retail (19%).

Lease agreements by type | Poland | H1 2020



## TOP 5 LEASE AGREEMENTS | POLAND | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Amazon	West	BTS Świebodzin	200,350	E-commerce	BTS
Euro Net	Warsaw II	Prologis Park Janki	73,410	Retail	New lease
Amazon	Central Poland	Hillwood Łódź Górna	72,960	E-commerce	New lease
Confidential Client	Silesia	BTS Czeladź	67,010	Retail	BTS
Confidential Client	Tricity	Panattoni Park Tricity East IV	52,000	n/a	New lease



Amazon BTS Gliwice, Panattoni

source: Panattoni Europe

## RENTAL RATES & LEASE CONDITIONS

In H1 2020, headline rental rates remained stable in all major industrial markets and ranged between EUR 3.1-4.9/m<sup>2</sup>/month, with the highest being noted in Warsaw, particularly in industrial zone I.

The average lease lengths in Poland are 3-5 years, 5 years or more if the warehouse requires special adaptations and 10-15 years in case of BTS agreements. Developer's offer some incentives to tenants, which are up to 20-30% of the contract value, and include rent free periods, cash incentives or budget for improvements.

## OUTLOOK

The market of modern industrial&logistics space in Poland remains attractive for investors and developers, and thus it is developing very dynamically. Rental rates remain stable. Also the levels of new supply and demand are expected to be similar in H2 2020 as during the first six months of the year.

The completion of half (50%) the space that was under construction at the end of H1 is expected by the end of 2020. It is thus highly probable that by the end of this year, the total stock of modern I&L space in Poland will exceed 20 million m<sup>2</sup>.

# ROMANIA

Capital City: **Bucharest**



## ROMANIA

TOTAL STOCK (M<sup>2</sup>)

4.72 MLN

NEW SUPPLY (M<sup>2</sup>)

120,000

SPACE U/C (M<sup>2</sup>)

300,000

VACANCY RATE (%)

7-8

DEMAND (M<sup>2</sup>)

250,000

PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

3.7-3.9

PRIME YIELDS (%)

8.0-8.75



## BUCHAREST

TOTAL STOCK (M<sup>2</sup>)

2.37 MLN

NEW SUPPLY (M<sup>2</sup>)

100,000

SPACE U/C (M<sup>2</sup>)

200,000

VACANCY RATE (%)

7-8

DEMAND (M<sup>2</sup>)

87,500

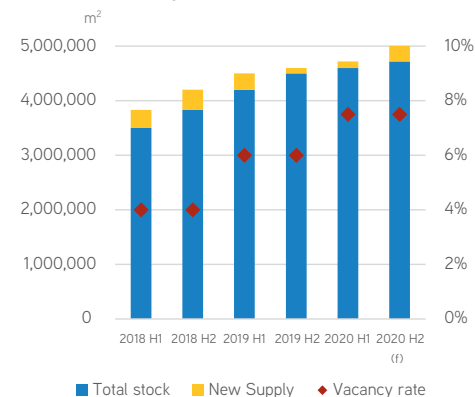
PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

3.8-3.9

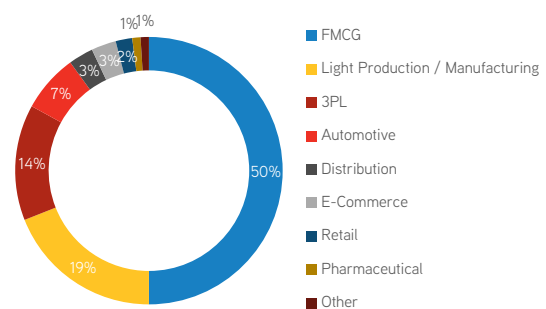
PRIME YIELDS (%)

8.0-8.25

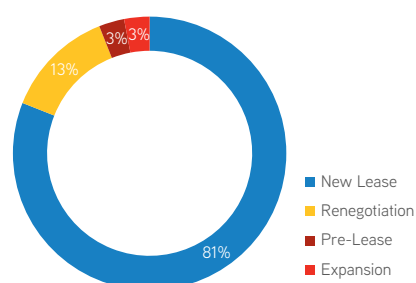
### Stock & vacancy evolution | Romania



### Demand by sector | Romania | H1 2020 \*



### Lease agreements by type | Romania | H1 2020 \*



## MARKET CHARACTERISTICS

The Romanian I&L market has been arguably one of the most dynamic in Europe (although growing from a fairly small level), with the total modern stock increasing threefold since 2015. The owner-occupied segment is also sizable in Romania, but it is not included in the general market statistics.

Bucharest accounts for roughly a half of the 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.

## SUPPLY, DEMAND & VACANCY

The total stock of modern I&L space in Romania reached ca. 4.72 million m<sup>2</sup> at the end of H1 2020, which was a 5% increase compared to the corresponding period of 2019. 50% of existing space is located in Bucharest (2.37 million m<sup>2</sup>). It is estimated that during the first six months of 2020 developers delivered ca. 120,000 m<sup>2</sup> of new warehouse space to the Romanian market, which was close to the figure for H2 2019 (100,000 m<sup>2</sup>) but on the other hand was a decrease compared to same period of 2019 (300,000 m<sup>2</sup>).

It is estimated, that at the end of June 2020, there were a further 300,000 m<sup>2</sup> of new industrial space under construction in Romania, with more than 60% located in the outskirts of Bucharest.

The total leasing transaction volume in Romania in H1 2020 reached 250,000 m<sup>2</sup>. Of the leased space, 35% was located in Bucharest (87,500 m<sup>2</sup>).

In H1 2020, new agreements dominated the leasing structure and constituted 81%. In Bucharest, the most significant share of deals were new agreements and renegotiations, which constituted 55% and 37% respectively.

Tenant structure in terms of sectors in the Romanian market was dominated by FMCG (50%), while in Bucharest it was led by 3PL (35%) and light production/manufacturing (33%). That said, large deals tend to move the market, as in the previous year, the automotive sector was the main driver of demand.

## RENTAL RATES & LEASE CONDITIONS

Prime rents in Romania remained stable and ranged between EUR 3.7-3.9/m<sup>2</sup>/month.



**Chitila Logistics Hub, Globalworth**

source: Globalworth

The average lease lengths in Romania are 3-5 years in case of logistics/warehouse premises and 3-7 years in case of production /manufacturing. Developers offer some incentives to tenants, which amount to 1 month rent-free per year of lease. Tenants may also get 1 to 2 months early access to the property.

## OUTLOOK

It is estimated that if all projects that are currently under construction are completed, then the total I&L stock in Romania will exceed the level of 5 million m<sup>2</sup> at the end of 2020. Demand, vacancy level and rental rates are expected to remain stable in H2 2020. A slight increase in vacancy could be noted in the Bucharest market.

Over a longer term, the relative under-supply of I&L space in Romania on a per capita basis (half of Poland's level and 4x below Czech Republic's) supports strong growth in the subsequent decade.

## TOP 5 LEASE AGREEMENTS | ROMANIA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Profi	Timisoara	WDP Industrial Park Timisoara	58,500	FMCG	New lease
Profi	Craiova	WDP Industrial Park Craiova	57,000	FMCG	New lease
GE Power Services	Bucharest	Soseaua Berceni Property	16,058	Production	Renegotiation/ Renewal
Rosti	Ploiesti	WDP Industrial Park Aricestii Rahtivani	11,300	Production	New lease
Logistic E Van Wijk	Bucharest	P3 Bucharest A1	10,400	Logistics	Renegotiation/ Renewal

\* Please note: The take-up data for Romania and Bucharest city are based on deals recorded with the support of real estate consultancy agencies. Direct deals are not included as they are not openly declared by the developers/clients; and it can be estimated that direct deals account for approx. 30-40% of all the transactions, therefore they are quite significant.

# SERBIA

Capital City: **Belgrade**



## SERBIA

TOTAL STOCK (M<sup>2</sup>)

5.0 MLN

NEW SUPPLY (M<sup>2</sup>)

200,000

SPACE U/C (M<sup>2</sup>)

100,000

VACANCY RATE (%)

3.0

PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

2.5-5.5

PRIME YIELDS (%)

10.5



## BELGRADE

TOTAL STOCK (M<sup>2</sup>)

1.05 MLN

NEW SUPPLY (M<sup>2</sup>)

50,000

SPACE U/C (M<sup>2</sup>)

50,000

VACANCY RATE (%)

3.0

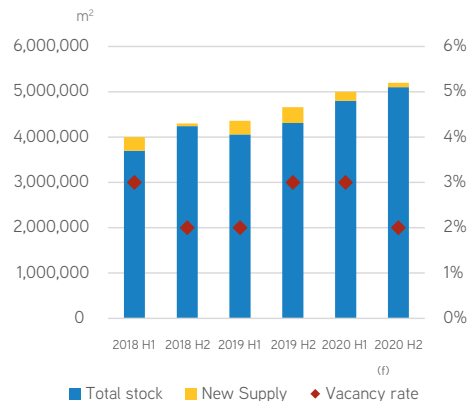
PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

4.5-5.5

PRIME YIELDS (%)

10.5

### Stock & vacancy evolution | Serbia



### Stock & vacancy evolution | Belgrade



## MARKET CHARACTERISTICS

The development of the I&L market in Serbia is largely connected with foreign investments which are showing positive trends as Serbia attracted 40% more FDI in 2019 in comparison with 2018.

The impact of COVID-19 on the I&L market in Serbia is yet to be estimated as this property type appears to be the least prone to the effects of the crisis. Logistics centres seem to suffer the least, as constant demand for storage services, long-term lease agreements and the low number of workers contribute to the stability of this property type. On the other hand, production facilities have had to decrease their business activities, as a lot more risk and uncertainty is related to organizations with higher numbers of blue-collar workers.

## SUPPLY, DEMAND & VACANCY

It is estimated that at the end of H1 2020, the modern I&L stock in Serbia was ca. 5 million m<sup>2</sup>, with an annual

increase of approximately 400,000 m<sup>2</sup> since 2008. More than 20% of the total stock is located in Belgrade, the capital city of Serbia. During the first six months of 2020, developers in Serbia completed approximately 200,000 m<sup>2</sup> of new warehouse space (50,000 m<sup>2</sup> in Belgrade). At the end of June 2020, there were a further 100,000 m<sup>2</sup> of warehouse space under construction. Demand for modern industrial space is mostly generated by the automotive sector, logistics operators, as well as by the e-commerce sector.

The vacancy rate is stable and since the beginning of 2018, ranges between 2-3% in Belgrade, as well as in the whole country.



## RENTAL RATES & LEASE CONDITIONS

In H1 2020, prime rental rates in Serbia ranged between EUR 2.5-5.5/m<sup>2</sup>/month, with the highest levels being recorded in Belgrade (EUR 4.5-5.5/m<sup>2</sup>/month).

Average lease lengths in Serbia are 3-5 years, in case of logistics/warehousing and 5-10 years for production/manufacturing. Developer's offer some incentives to tenants, which vary between 1-2 months of rent-free per year of lease.

## OUTLOOK

As more than 400,000 m<sup>2</sup> of modern industrial and warehouse space is in the pipeline, it is expected that the Serbian industrial & logistics market will continue to grow in the long-term.

The most notable logistics facilities in the pipeline are in Novi Banovci (ca. 65,000 m<sup>2</sup>) by CTP Invest in and in Šimanovci (ca. 50,000 m<sup>2</sup>) by KLP.



**KLP Šimanovci**

source: Colliers International

## TOP LEASE AGREEMENTS | SERBIA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
Emmezeta	Šimanovci	CTP	7,000	Retail	New lease
Schenker	Šimanovci	KLP	6,000	Logistics	New lease
Sika	Šimanovci	CTP	3,000	Construction	New lease

# SLOVAKIA

Capital City: **Bratislava**



## SLOVAKIA

TOTAL STOCK (M²)

2.64 MLN

NEW SUPPLY (M²)

72.200 MLN

SPACE U/C (M²)

175,900

VACANCY RATE (%)

7.5

DEMAND (M²)

196,700

PRIME RENTS  
(EUR/M²/MONTH)

3.7-4.7

PRIME YIELDS (%)

6.35



## BRATISLAVA

TOTAL STOCK (M²)

1.4 MLN

NEW SUPPLY (M²)

7,900

SPACE U/C (M²)

50,300

VACANCY RATE (%)

7.0

DEMAND (M²)

117,400

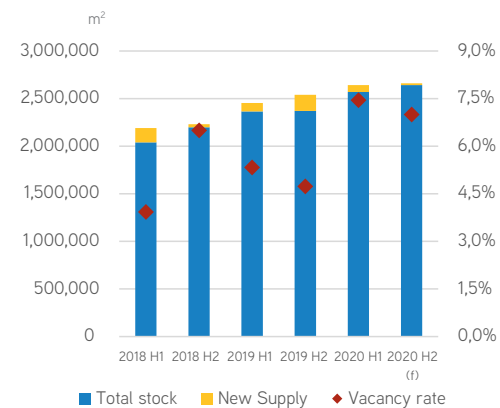
PRIME RENTS  
(EUR/M²/MONTH)

3.9-4.7

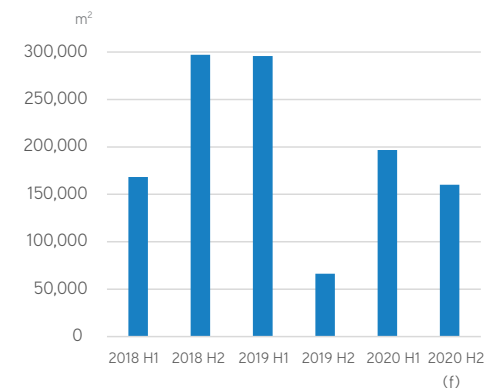
PRIME YIELDS (%)

6.25

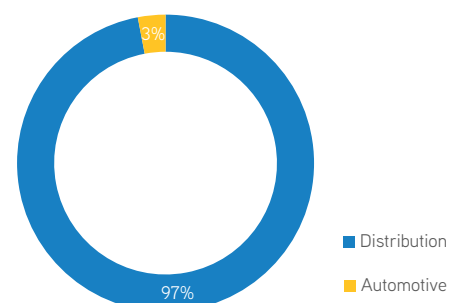
## Stock & vacancy evolution | Slovakia



## Demand evolution | Slovakia



## Demand by sector | Slovakia | H1 2020



## MARKET CHARACTERISTICS

The I&L market in Slovakia is concentrated mainly in the Bratislava region (more than half of the 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.

Regions with emerging popularity include Nitra, the development of which largely relates to the new Jaguar Land Rover production facility.

Increasing interest is also appearing around the city Dunajská Streda (Trnava region), which, being in close proximity to Bratislava, provides a higher availability of land plots with necessary zoning permits, as well as a more favourable labour market situation.

The market is dominated by 5 developers/investors: Prologis, CTP Invest, P3, CNIC Corporation Limited and GLP. Together they control around 61% of the total market share. This share is expected to increase once their pipeline projects are completed.

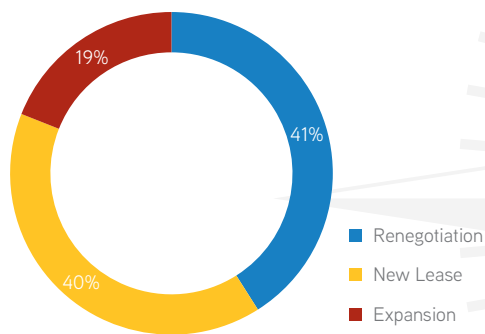
## SUPPLY, DEMAND & VACANCY

At the end of June 2020, the total stock of modern industrial space in Slovakia reached 2.64 million m<sup>2</sup>, more than half of which (1.4 million m<sup>2</sup>) was located in the capital city - Bratislava.

In the first half of the year, developers in Slovakia delivered ca. 72,000 m<sup>2</sup> of new warehouse space to the market. Around 175,900 m<sup>2</sup> of additional industrial space was under active construction at the end of June 2020. Most of the ongoing projects were located in the Bratislava (29%), Nitra (27%) and Kosice (19%) regions. Around 51% were speculative developments.

Tenants' activity in Slovakia during the first six months of the year experienced a downward trend compared to the corresponding period of 2019. The total transaction volume reached 196,700 m<sup>2</sup>, while in H1 2019 it was 295,700 m<sup>2</sup>.

Lease agreements by type | Slovakia | H1 2020



## TOP 5 LEASE AGREEMENTS | SLOVAKIA | H1 2020

Company name	Region	Park name	Size (m <sup>2</sup> )	Sector	Lease type
C&A	Trnava	CTP Invest	30,925	Distribution	Renewal
Confidential Client	Bratislava	Prologis	24,319	Distribution	Expansion
Confidential Client	Senec	Goodman	19,479	Distribution	Renewal
Confidential Client	Bratislava	Prologis	14,052	Distribution	New lease
Confidential Client	Bratislava	Prologis	13,439	Distribution	Expansion



CEHIP, Vrábce

source: Colliers International

In the leasing structure, renegotiations and new agreements dominated and constituted 41% and 40% respectively. The remaining transaction activity consisted of expansions. In terms of tenant sectors, the vast majority were companies operating in the distribution sector (97%).

## RENTAL RATES & LEASE CONDITIONS

Prime rental rates in Slovakia remain stable and at the end of H1 2020 ranged between EUR 4-4.4/m<sup>2</sup>/month in the warehouse sector. In case of logistics and distribution, the rates were a bit lower and accounted to EUR 3.7/m<sup>2</sup>/month.

Average lease lengths for logistics and warehousing in Slovakia are 3 years, while for production and manufacturing it is ca. 5 years. Developers offer incentives to tenants which can include 1-2 months of rent-free per year of lease.

## OUTLOOK

I&L landlords in Slovakia are becoming increasingly more focused on the clients' needs and try to increase the competitiveness of their projects by offering more attractive incentives packages (i.e. longer rent-free periods, higher fit out contributions). We can see the I&L market in Slovakia becoming more and more tenant oriented.

# SLOVENIA

Capital City: **Ljubljana**



SPACE U/C (M<sup>2</sup>)

145,000



VACANCY RATE (%)

<10



PRIME RENTS (EUR/M<sup>2</sup>/MONTH)

5.5-7.5



PRIME YIELDS (%)

7.5



**The Koper, Slovenia commercial harbor port**

source: Shutterstock

## MARKET CHARACTERISTICS

Slovenia has an excellent geographical position, but the industrial and logistics sector is still the least developed real estate sector in Slovenia. This is also the sector with most upside potential in terms of development and investment activity.

The main industrial centres are Ljubljana, Maribor, Koper, Novo Mesto and Velenje.

There is a shortage of available modern stock due to the fact that most of the existing properties are outdated and/or owner-occupied.

In order to keep in line with global trends, technology and further growth of the e-commerce sector, we expect an increase in developments in the coming years.

Demand is driven mostly by international companies requiring large, modern properties which are scarce and local retailers requiring logistics centres. Occupiers seeking expansion are confronted by a shortage of suitable space.





The Koper, Slovenia commercial harbor port  
*source: Shutterstock*

# UKRAINE

Capital City: **Kyiv**



## KYIV



TOTAL STOCK (M<sup>2</sup>)

1.76 MLN



NEW SUPPLY (M<sup>2</sup>)

0



SPACE U/C (M<sup>2</sup>)

124,000



VACANCY RATE (%)

2.5



DEMAND (M<sup>2</sup>) - Q1 2020

29,000



PRIME RENTS  
(EUR/M<sup>2</sup>/MONTH)

4.5



PRIME YIELDS (%)

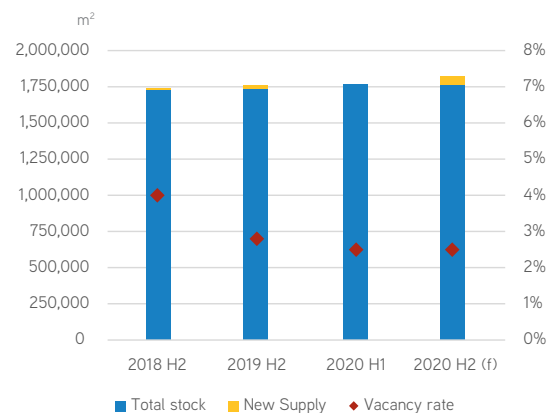
13.0-14.0

## MARKET CHARACTERISTICS

Over the past few years, we have been observing a gradual increase in I&L market activity in different locations across Ukraine, especially those characterised by transit concentration, or around other large cities. Nevertheless, the market of modern industrial space in Ukraine for many years has been associated mostly with the Kyiv region and it is where it still mainly concentrates.

The Ukrainian warehouse market was the least affected sector by the pandemic during the first 4 months of 2020 compared with other commercial real estate segments.

## Stock & vacancy evolution | Kyiv



## SUPPLY, DEMAND & VACANCY

As of June 2020, the total stock of modern I&L in Kyiv totalled 1.76 million m<sup>2</sup>, including specialized premises with the possibility of creating special storage conditions. During H1 2020, no new industrial projects were delivered.

As the end of June 2020, three large projects were under active construction in Kyiv with a total of ca. 124,000 m<sup>2</sup>. According to their developers, they are due for completion in 2020-2021 and all of them are expected to enter the market with a low level of vacancy. Upon completion, the total stock will increase by 7.0%.

In the previous two years, leasing activity on the warehouse market demonstrated 150-180 thousand m<sup>2</sup> in annual take-up. But there is a trend to decreasing leasing activity due to lack of available space on the market. In H1 2020, demand in Kyiv was driven mainly by grocery/supermarkets, e-commerce and logistics. The total volume of lease transactions in Kyiv as of Q1 2020 totalled ca. 29,000 m<sup>2</sup>.



Most of the transactions were pre-leases. This is one of the indicators of a shortage of warehouse space in the market. The Kyiv vacancy rate remained at 2.5% due to the lack of high-quality premises on the market and the level of pre-leasing on projects under active construction. The vacancy rate in most A Class I&L properties is at or close to 0%.

## RENTAL RATES & LEASE CONDITIONS

Given the high demand and supply shortages and changes in exchange rates of the national currency - rental rates continue to rise as of the end of H1 2020. Prime headline rents for high quality space in the Kyiv region is at EUR 4.5/m<sup>2</sup>/month.

Average lease lengths in Ukraine are 2-3 years without notarization, and more than 3 years with notarization. Developers offer rent-free periods (1-3 months), particular for key tenants.

Changes to the property and required repairs/renovations are possible upon agreement from both sides. In general, new premises are typically leased with a basic fit-out, second-hand premises are leased after agreed repairs/renovations.

## OUTLOOK

The market is waiting for the revival of development activity. High demand significantly exceeds the growth of new supply. The growth of the retail & wholesale sector as well as the development of the e-commerce market is expected to further stimulate demand.

Landlords expect the market to decline in the third quarter. At the same time, landlords also expect that the recession in the market will not be as deep as in 2009, given the low market vacancy and low supply rate in previous years.



**West Gate Logistics, Dragon Capital**  
*source: Dragon Capital*



# LABOUR MARKET IN CEE-17



*In the following chapter Randstad together with its partner companies Ancor and Staffpoint, have provided a country-by-country overview of various labour market conditions and trends across the CEE-17 region. The description is supported by data illustrating the salary levels within the production and logistics sectors for both blue and white collar workers.*

Seasonally adjusted unemployment rates reported by Eurostat in July 2020 across CEE were the lowest in the Czech Republic at 2%, followed by Poland at 3.2%. Rates of below 5% were also reported in Bulgaria, Romania and Slovenia. At the same time, salaries have increased, in some years, reaching double digit growth. Candidates have started to become aware of their value on the scarce labor market and have become more selective in terms of their future employers. With numerous possibilities available, even though the salary remains to be the main selection criteria, other factors have started to play an important role. These include the company's reputation on the market, good working conditions and atmosphere, career progression opportunities and work-life balance.

Skilled, blue-collar candidates remain the biggest challenge in terms of recruitment for the production and logistics industries. After the fall of the vocational school system in most of the countries, the availability of skilled employees is slowly growing thanks to the efforts of employers, who train their personnel on a regular basis to ensure production continuity. There is also a relentless need for engineering and R&D roles.

The COVID-19 pandemic has had and continues to have an impact on labour markets. Production stoppages have forced companies to reorganize their workforces. Although a reduction of part of the personnel might seem like the quickest solution to cut costs, most of the companies were hesitant to do so, having in mind the effort and funds invested in building up their teams. Instead, reductions in salaries and hours worked, asking employees to use up their outstanding holidays and freezing bonus systems were introduced. Many companies stopped using contingent workforce and utilizing the advantage of flexibility in such contracts. As a result, and rather surprisingly for many, the pool of available candidates didn't increase as much as one would expect and unemployment rates went up but remained relatively steady. Candidates coming from different industries also hit hard by the pandemic, like the HoReCa sector, were not interested in taking jobs in production or logistics. There were also other industries that had growing needs for personnel during that time, like pharmaceuticals, medical equipment and e-commerce.

Currently, as the situation is slowly improving, we are again observing limited availability of the most desired positions on the market. However, companies are rather rebuilding their workforce than increasing headcount, still having in mind the possibility of a second wave of COVID-19. As a result, we predict that the temporary workforce will become an even more popular solution on the market. The pandemic also made further changes to the way employees look at their future employers. In the near future, we expect that job security and a company's financial stability will close the gap to the salary and benefits in the job selection criteria.

## BELARUS

Belarus is characterized by the sustainable development of the logistics and production sectors (both public and private companies), which explains the quite steady remuneration market situation. However, at the beginning of 2020, in response to the fall of the national currency the salary level in the country in general decreased by approximately 18%.

Due to the advantageous territorial location, there is a large number of production as well as logistic companies operating in different areas across the country. Specialists from these sectors remain in high demand. At the same time, the most popular positions are logistics managers and specialists and mid to high level engineers: such as process engineers, mechanical engineers, chief and deputy chief engineers at FMCG and manufacturing facilities.

### PAYMENTS | BELARUS

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	180	240	300
<i>skilled production operator</i>	290	400	520
<i>team leader/foreman</i>	310	520	741
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	2,000	3,500	5,300
<i>production manager</i>	560	1550	3,000
<i>production/process engineer</i>	380	610	1,300
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	260	350	518
<i>forklift operator</i>	270	370	705
<i>team leader/foreman</i>	300	390	970
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	370	525	1134
<i>warehouse manager</i>	300	600	1,230
<i>distribution center manager</i>	340	550	1,270

Due to the spread of COVID-19, there have been some staff reductions, but this is mostly the case of small private businesses. At the same time the pandemic has had little impact on employment in the production and logistics sectors. Therefore, employees from these areas (especially highly qualified) have kept their jobs in most cases. Therefore, we cannot state that more specialists, open to new job opportunities, have appeared on the labor market.

Traditionally, the highest levels of employee availability is observed in the capital (Minsk) and the main administrative centers (specifically Grodno, Brest, Gomel), where large companies are concentrated and the economic situation is more optimistic. The shortage of experts is mainly experienced in smaller towns.

We expect any further reductions in staff to cease in both sectors, provided that companies return to normal levels of operations and will continue to hire new staff, albeit at a slower pace.

## CZECH REPUBLIC

The economy of the Czech Republic is a developed export-oriented social market economy based on services, manufacturing, and innovation, that maintains a high-income welfare state and the European social model. The industry sector accounts for 37.5% of the economy. The principal industries are high tech engineering, electronics and machine-building, steel production, transportation equipment (automotive, rail and aerospace industry), chemicals, advanced materials and pharmaceuticals.

The initial spread of COVID-19 was contained effectively and the government lifted containment measures gradually. Nevertheless, the lockdown and disrupted supply chains have had a deep adverse economic impact especially on the country's top sectors, such as automotive that declined by 10%. While non-automotive production sectors were only partially harmed, logistics on the other hand was not severely affected despite recording a small slow down. Production was affected differently, based on the type of production. In general - skilled candidates with a technical or technology background are in high demand and not many of them are currently available on the market.

More basic roles, (especially in logistics) were and are still being occupied by people who had previously worked in other fields of business. According to the OECD, the unemployment rate is expected to rise from 3.7% (June 2020) to 5.0% (September 2020; single hit scenario) or 12% (double hit scenario)

While salaries were mainly frozen in the production/automotive sector and in tourism related services, they have still grown by 3.7% and in logistics by 4.5% overall. In a more detailed view, wages of blue-collar workers in the production sector increased by 7.0% and by 9.0% in the logistics sector. White collars workers in the production sector saw an increase of up to 5.0% and 4.7% in logistics. Production sites are spread fairly evenly across the Czech Republic as well as numerous logistics hubs (particularly in the western parts of the country closer to Germany, in and around the capital city of Prague and in the north-east and south-eastern part of the country).

The most sought after blue-collar positions in production are basic manual workers (unskilled/skilled operators on production lines), skilled blue-collar: forklift drivers, CNC operators, electricians, mechanics and shift leaders. Blue collar workers in logistics that are typically hired are: warehouse operators (pickers), forklift drivers and shift leaders. White collar positions typically sought after in production and logistics are: logistics specialists, planners, maintenance technicians, process engineers, technologists and production engineers.

With regard to employee availability, the highest levels can be found in the Moravian-Silesian region – with the highest unemployment, hit severely by COVID-19 as there are many mining sites that had to be or will soon be closed down. At the same time, thanks to the technical university in Ostrava, there is an availability of white collar roles and the possibility of cross border workers from Poland and Slovakia. The Ústí region (North-West of the country) has the second highest unemployment rate, and is highly dependent on the automotive segment that was impacted by COVID-19 and has a high number of unskilled labour.

The lowest unemployment and therefore the lowest availability of workers is traditionally in: Prague

## PAYMENTS | CZECH REPUBLIC

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	755	900	1,130
<i>skilled production operator</i>	830	980	1,200
<i>team leader/foreman</i>	1,150	1,500	1,900
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	4,600	5,800	8,800
<i>production manager</i>	2,700	4,200	5,800
<i>production/process engineer</i>	1,500	1,900	3,000
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	830	980	1,200
<i>forklift operator</i>	900	1,050	1,300
<i>team leader/foreman</i>	1,150	1,500	1,900
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,150	1,700	2,200
<i>warehouse manager</i>	2,300	3,400	4,600
<i>distribution center manager</i>	3,400	4,700	5,800

and Central Bohemia, where there are also numerous logistics, production and automotive plants. These locations also maintain the highest salary levels in the industrial and logistics sector in the country. The South Moravian region, where the second biggest city in the country (Brno) is located, also attracts many production plants&companies, followed by low unemployment and the second highest salary levels in the Czech Republic.

## ESTONIA

As there has been severe shortage of employees in Estonia for some time, this has driven the rise of salary requirements. COVID-19 and the ensuing economic crisis have affected the labour market in Estonia. In particular, the number of vacancies decreased in March 2020 but, due to government measures, there was only a slight decrease of salary expectations as people have preferred to stay at home and are not eager to enter the job market.

Around 120,000 people received wage support in April, which is a fifth of those in employment, and some of them would have lost their jobs without the support measures. The level of unemployment is expected to rise when the wage compensation supports ends and could exceed 13% by the end of 2020.

Unlike the great financial crisis that started in 2008, which hit the production and logistics sectors the hardest, this crisis has hit most in the labour-intensive service sector. In the production and logistics sectors we have observed a return to a more normal and stable situation. Comparing July to April 2020, there are 95% more vacancies in production and 70% more in logistics.

According to Statistics Estonia, in June 2020 the production of industrial enterprises decreased by 6% compared to June 2019. Production decreased in manufacturing and mining, while energy production increased, owing to last year's low comparison basis.

It is continuously challenging to find people for basic unskilled roles, and in the production sector there is a high demand for welders and CNC operators. Estonia is a small country and the situation is similar across the country. Many smaller cities have received foreign investments but currently have serious difficulties in filling production operator positions and even unskilled blue-collar roles.

At the beginning of the current crisis, during the lockdown period, several logistics companies were actively recruiting additional temporary workers in order to manage the increased level of orders in e-commerce. Initial requests came from retailers, which were followed by inquiries from delivery companies.

## PAYMENTS | ESTONIA

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	750	1200	1,344
<i>skilled production operator</i>	2,000	2,100	2,500
<i>team leader/foreman</i>	1,700	2,300	2,400
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	3,400	3,500	450
<i>production manager</i>	2,500	2,800	3,300
<i>production/process engineer</i>	2,000	2,400	3,000
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	900	1,000	1,400
<i>forklift operator</i>	1,000	1,400	1,750
<i>team leader/foreman</i>	1,400	1,600	1,800
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,500	1,900	2,200
<i>warehouse manager</i>	2,000	2,300	2,800
<i>distribution center manager</i>	-	4,000	5,500

Estonia has a national airline and one of the biggest passenger ship operations in Northern Europe. Both have been severely impacted by the crisis and have made redundancies. Partly as a result, it is currently easier to find specialists for transport logistic positions.



source: Shutterstock



# HUNGARY

In case of the logistics sector, white-collar salaries have not changed significantly other than the typical 2-5% inflation-tracking growth. Regarding the production sector, until COVID-19 salaries had been increasing by 5-10% YoY, especially for electrical engineering and automation positions, due to new large investment projects in Hungary. In the case of the R&D sector, it differs slightly in that salaries are generally 5-10% higher than in other technical positions, however since the start of COVID-19 they are all stagnating and we do not expect a huge change during the remainder of 2020.

The most sought-after positions in the production sector are currently for electrical engineers, HVAC engineers (electrical and mechanical areas), automation engineers, electrical technicians and maintenance technicians. In the logistics sector, companies are mainly looking for demand and supply planners, logistics specialists, procurers (buyers), transportation coordinators, forklift operators, warehouse administrators and customs administrators.

The logistics sector has recently seen an increased number of applications and higher level of application willingness in the market. At the beginning of 2020, we saw an increased number of open positions compared to the decreasing number of quality candidates. Due to the virus, this has started to change, and open positions compared to the number of active candidates were less and less day by day throughout the second quarter of the year. As for the production sector, the candidates' availability has also increased, and we are recording more active applications in the market. On the other hand, passive candidates are showing less willingness for new opportunities since they prefer a stable and financially healthy current employer. Certain profiles of electrical engineers and freshly graduated white-collar workers are currently the most available group of candidates, and we do not expect this to change over the coming months.

The highest level of employee availability can be seen in Budapest, Miskolc, Veszprém, Debrecen, Győr, Szeged, Kecskemét and the Jászág region. Overall, the North Transdanubia (Győr, Veszprém), Budapest and its suburbs and the Northern and Eastern parts of the Great Hungarian Plain region (Miskolc, Debrecen, Kecskemét, Jászág) are the most attractive nowadays.

The Southern and Southern-Western parts of Hungary (Pécs, Kaposvár) are less popular but the government is trying to help these parts grow.

## PAYMENTS | HUNGARY

### PRODUCTION | Monthly gross salary in EUR

BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	571	714	857
<i>skilled production operator</i>	657	742	914
<i>team leader/foreman</i>	999	1,142	1,285
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	3,426	5,710	7,995
<i>production manager</i>	2,570	3,426	4,283
<i>production/process engineer</i>	1,285	1,856	2,284

### LOGISTIC | Monthly gross salary in EUR

BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	714	771	857
<i>forklift operator</i>	857	971	1,085
<i>team leader/foreman</i>	1,142	1,285	1,428
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,570	1,856	2,284
<i>warehouse manager</i>	1,856	2,284	3,426
<i>distribution center manager</i>	1,713	2,141	2,570

Logistics started to develop dynamically in order to accommodate production needs and will most probably get back on track by 2021, resulting in the need for a greater number of white-collar professionals (engineering, quality, logistics, maintenance, etc.). Manufacturers are also increasingly demanding innovative solutions in warehousing and inventory management. The growing use of automation and robotics in their facilities to achieve a "smart factory" may result in greater blue-collar jobs and availability in the future.

Numerous large-scale new investments in the automotive industry have been made recently in Hungary, mainly in the areas of electromobility and other areas that support innovation in the sector. After the effects of COVID-19 have subsided, we expect this trend to swiftly bounce back. These investments always shake-up the market in terms of the need for candidates, often with hundreds of new vacancies, create greater candidate availability through the willingness to change for something new and often a slight upward pressure on salaries.

## LATVIA

Over the past 12 months we have observed a decrease in salaries for both white- and blue-collar roles in the logistics and production sectors. In comparison with the previous quarter, salaries in production have decreased by 6.6%, while salaries in transportation and storage decreased by 2.4%. In comparison to Q2 2019, a decrease of 10% has been recorded in both the production and logistics sectors.

At the same time, it should be noted that the support measures introduced so far have generally mitigated the negative effects of the pandemic on the labour market. By the 18th of May this year, more than 45,000 workers and the self-employed had received a downtime allowance, which has partly ensured the preservation of jobs and income during the emergency period.

Data from the Labour Force Survey conducted by the Central Statistical Bureau (CSB) show that in June 2020 the unemployment rate reached 9.8%, which is 0.2 pp more than in May. The unemployment rate registered by the State Employment Agency (SEA) was reported as 8.6%, and, when compared to May, it has also risen by 0.2 pp. The unemployment rate increase can also be observed when comparing the data to June 2019 which reflects increases of 3.5 pp in the actual unemployment rate and 2.6 pp in the registered unemployment rate.

Meanwhile, both the registered unemployment rates and the dynamics of registered vacancies in general show that the situation in the labour market is gradually stabilizing. According to the State Employment Agency, the growth in the number of registered jobseekers in May has been almost three times slower than in April. However, from the beginning of May this year, the number of registered vacancies has stabilized and is resuming growth. Between the 5<sup>th</sup> and 21<sup>st</sup> of May, the number of vacancies increased by more than 2,000.

Riga, as a metropolitan area in a small country, has a very high concentration of production (70% of country total) and logistics (60% of country total). In the Western coastal city of Ventspils, there has been a shortage of logistics specialists but, due to the recent redundancies, the situation has

### PAYMENTS | LATVIA

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	700	1,050	1,200
<i>skilled production operator</i>	1,100	1,400	2,880
<i>team leader/foreman</i>	1,500	2,000	2,200
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	1,900	3,300	4,000
<i>production manager</i>	2,000	2,800	3,200
<i>production/process engineer</i>	1,400	1,700	2,000
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	600	800	1,050
<i>forklift operator</i>	940	1,200	1,400
<i>team leader/foreman</i>	1,100	1,500	1,900
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,600	1,700	2,200
<i>warehouse manager</i>	1,750	2,150	2,500
<i>distribution center manager</i>	2,800	3,500	-

changed. Blue-collar workers and sales engineers are the most sought after by clients in the logistics and production sectors in Latvia.

## LITHUANIA

The Lithuanian economy grew at a 5% growth rate at the beginning of 2020 and, prior to COVID-19, was expected to reach this level for the full year. Lithuania is known in the EU as a financial technology innovation centre but, has also attracted large foreign direct investment inflows this year from other sectors. One example is the 100 million EUR investment in Kaunas from German tyre manufacturer, Continental.

Registered unemployment has increased to 11.5% and is 3 pp higher than year ago. The number of active job openings on the Lithuanian job market is ca. 22% lower in June than it was in May. At the same time, the number of active job seekers is up by around 4% as compared to a month ago. In general, the average

offered and expected salaries remained at a similar level compared to the previous month. However, this was not the case in all specialties. Gross salaries offered in sales&business development have decreased by almost EUR 400 on average. At the same time, gross salaries in finance and (tech) project management have increased slightly.

Common salary levels in the logistics and production sectors have shown an increasing trend by 6.6% and 0.5% respectively, comparing 2020 Q1 versus 2019 Q1. When comparing Q2 and Q1 2020, the increase in production was 2.5% and 9.0% in logistics.

In the logistics sector, it is difficult to find managers and specialists with relevant education and work experience. In both production and logistics there is continuous shortage of skilled and unskilled workers. Based on unemployment rates, the availability of employees in logistics decreased while in increasing in the production sector; with 20% of all unemployed registered from the production sector.

Production and logistics in Lithuania are concentrated around the biggest cities of Vilnius, Kaunas and Klaipeda and therefore those regions have the highest levels of demand for employees. The lowest availability for white-collar positions are again located around the biggest cities for both sectors, and particularly for the medical sector.

COVID-19 has had a major negative influence on the public transport, tourism, retail, manufacturing and construction sectors in Lithuania which has led to increased unemployment rates from 9.3% to 12.8%.

## PAYMENTS | LITHUANIA

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	600	700	900
<i>skilled production operator</i>	1,200	1,300	1,700
<i>team leader/foreman</i>	1,500	2,200	2,400
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	3,000	3,450	3,600
<i>production manager</i>	2,200	2,800	3,000
<i>production/process engineer</i>	2,000	2,100	3,300
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	1,000	1,040	1,150
<i>forklift operator</i>	1,000	1,350	1,500
<i>team leader/foreman</i>	1,400	1,600	1,800
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,600	1,900	2,050
<i>warehouse manager</i>	2,000	2,500	2,700
<i>distribution center manager</i>	-	4,200	-

At the same time, there has been an increase in demand for qualified specialists in the logistics, IT and pharma/medical sectors.



source: Shutterstock

# POLAND

Poland is the eighth largest economy in the European Union (6th in terms of population) and one of the fastest-growing economies in Europe. With 38 million inhabitants it's the second largest labour market in the CEE region (not including Russia), just after Ukraine. Next in line, Romania, is almost twice smaller.

Thanks to this, Poland's labour market is characterized as very stable and resistant to sudden changes. A large pool of working-age population and stable inflow of new candidates starting their careers gives assurance to companies that the workforce can be found. However, it requires more effort and investment to attract candidates. Due to a very low unemployment rate (third lowest in the EU) sourcing must be done from neighboring companies and competition. The remuneration of employees has also been increasing over the last couple of years with the average change in salary being recorded at 6-8% annually. The increase in employment costs in the logistics and production sectors is closely related to the increase of the minimum wage. The majority of employees are blue-collar workers, whose salaries are close to the statutory minimum. In 2019, the minimum wage was increased by 7.1% and by a significant 15.6% in 2020 to PLN 2,600 gross (ca. EUR 590).

The most sought after profiles for production and logistics have remained the same for quite a few years, mainly because these two industries are often looking for similar qualifications and roles. Forklift drivers and low skilled employees that can be hired as production operators/warehouse workers, or pickers, are always in high demand.

The availability of the workforce is closely correlated to the unemployment rate and located mostly in the eastern part of Poland. Regions like Podlaskie, Podkarpackie, Warmińsko-Mazurskie, Lubuskie, Świętokrzyskie and Kujawsko-Pomorskie are still good places to find candidates, especially blue-collar workers. For highly qualified white-collar employees, companies should look to large agglomerations with numerous universities and technical schools such as Warsaw, Wrocław, Katowice, Krakow, Poznan, and Tricity.

As in most markets, COVID-19 has made an impact on the labour market dynamics. Companies put their recruitment activities on hold, resulting in a 30-40% drop in jobs advertised on popular job portals between

March and April 2020. In the same period, there were 26% less job offers reported to Labour Offices across Poland. Yet, half of the offers were targeted towards blue-collar workers, confirming that the larger decrease was noted in demand for white-collar employees.

The production industry, especially automotive, introduced production stoppages, which resulted in the release of large groups of blue-collar workers, but mainly those employed on a temporary basis.

As for the next few months, it's very difficult to predict how the market will behave, especially when a new wave of COVID-19 is expected in the autumn. According to research conducted by Randstad, 56% of companies predict they will be back to normal within a maximum period of 6 months. Most of the companies from the production and logistics industry are already operational and re-started their hiring activities. There could be an increased interest in the temporary workforce solutions due to the higher flexibility it brings, which will allow companies to quickly change their employment levels as required.

## PAYMENTS | POLAND

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	670	750	850
<i>skilled production operator</i>	730	820	940
<i>team leader/foreman</i>	1,020	1,200	1,400
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	2,800	3,950	5,100
<i>production manager</i>	2,300	3,100	3,950
<i>production/process engineer</i>	1,850	2,400	3,000
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	690	770	860
<i>forklift operator</i>	760	850	950
<i>team leader/foreman</i>	1,020	1,200	1,400
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	1,400	1,700	2,000
<i>warehouse manager</i>	1,600	2,200	2,800
<i>distribution center manager</i>	2,100	2,900	3,650



# ROMANIA

Over the past 12 months, we have observed salary increases, for blue-collar workers, of 5% in the production sector and 7% in the logistics sector. For white-collar workers, there has been an increase in the production sector of up to 4% and in logistics by 5%.

The most sought after positions in the production sector are basic manual workers (unskilled/skilled operators on production lines), skilled blue-collar: forklift drivers, CNC operators, electricians, mechanics and shift leaders. In the logistics sector, the most sought after blue-collar positions are warehouse operators (pickers), forklift drivers, shift leaders and warehouse managers for white-collar roles.

The logistics sectors for goods has not been greatly impacted overall by the COVID-19 situation even though we can see a small slow down. The production sector however was affected differently based on type of production (automotive vs electronics production for example). In general, skilled candidates with a technical background are in demand and very few of them are available on the market. The logistics and production sectors are switching their status in terms of availability from being candidate markets, to an employer driven market. The pool of candidates has increased due to the reduction in the cross-border opportunities and also collective redundancies.

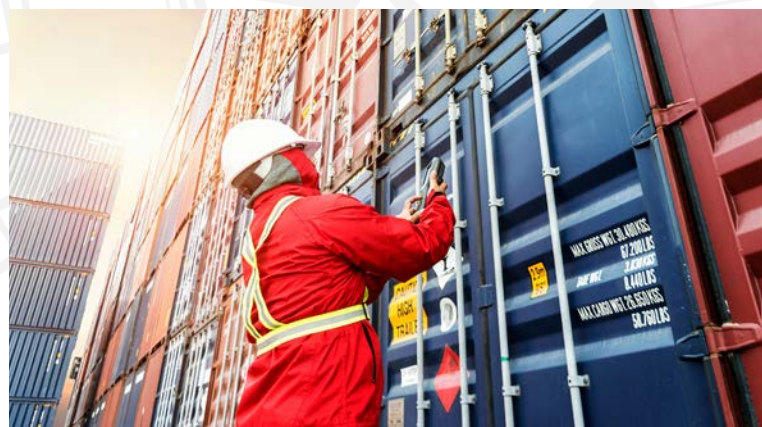
The regions with the highest level of employee availability for production and logistics are in the South: Bucharest, Ploiesti, Pitesti, Mioveni and South-East: Craiova, West: Timis, Arad, Oradea and for logistics: South-East-Constanta. The lowest levels of availability are in the Centre: Vilcea, Sibiu, South: Giurgiu, Teleorman, Ialomita; South-West: Caras Severin, North: Maramures, Salaja, Bistrita and Baia Mare.

The forecast for the unemployment rate which currently stands at 6.5% is to decrease in 2021 to ca. 5.4%. The cross-border working population is one factor driving the higher unemployment rate and contributions also decreased by 50% compared to 2019.

## PAYMENTS | ROMANIA

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	470	515	562
<i>skilled production operator</i>	560	650	730
<i>team leader/foreman</i>	890	1000	1150
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	3,500	4,000	5,000
<i>production manager</i>	2,800	3,200	4,500
<i>production/process engineer</i>	1,100	1,400	1,600
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	470	515	562
<i>forklift operator</i>	620	700	870
<i>team leader/foreman</i>	900	1,100	1,400
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	730	870	1050
<i>warehouse manager</i>	1,750	2,100	2,800
<i>distribution center manager</i>	2,100	2,500	3,100

The general pandemic impact on employment has been felt in the number of closed contracts than those suspended by mid-May; in numbers this represents 430,000 people unemployed and more than 1 million suspended employment contracts.



source: Shutterstock

# UKRAINE

At the beginning of the year, many companies conducted planned reviews of white-collar salaries. However, companies that were scheduled to undergo the review in March-April 2020 were forced to keep their wages at the level of the end of 2019 due to the quarantine and subsequent financial instability. The desire for employees to improve their financial situation continues to be the most common motivator for changing jobs.

Blue-collar salaries have increased by 10-15% compared to the previous year. The main reason was the growth of inflation in the country and increase of the minimum wage.

In the logistics sector, the following specialists are in demand: transport logistics specialists with a knowledge of foreign language (English) and supply planners. In the production sector, the most sought after positions are: technical personnel (unskilled and experienced production operators, forklift operators, electricians, mechanics), project managers (modernization of production lines, introduction of Lean Production projects) production shift chiefs, occupational health and safety engineers with onsite experience and production planners.

Knowledge of a foreign language (in particular, English) is becoming compulsory for a number of vacancies. There is also demand for management-level staff, who are able to find non-standard solutions to business problems, especially in the area of non-material staff motivation.

At the beginning of the quarantine (March 2020), the labour market froze and no one was in a hurry to change jobs or hire new employees. Some industries had to send workers on vacation and many people had to return from work in EU countries.

The demand for employees in logistics companies increased sharply due to the growth of online orders. Couriers and drivers were especially in higher demand. Strategic manufacturing enterprises (FMCG sector and raw materials) continued to operate as usual.

Currently, the market is stabilizing with international manufacturing companies, large and medium-sized local companies continuing to work. Small-scale industries were forced to cut staff or even suspend their activities. Producers of goods for export have

also been hit hard since their performance is closely tied to the political and economic situation of the importing countries.

The eastern and central regions are characterized by the highest availability of white-collar workers, while they are less typical for Vinnytsia, Khmelnytsky, Kherson and Nikolaev regions. Blue-collar workers are more highly available in the Kyiv, Kharkov, Dnipro and Odessa regions. The lowest level of blue-collar availability is observed in the Cherkasy, Sumy, Ivano-Frankivsk and Lutsk regions.

It is currently difficult to predict the situation for white-collar workers. As many companies have stopped hiring new employees until the end of 2020. All major reductions, in a number of companies, have already taken place or are currently in progress. As for blue-collar employees, a shortage of personnel is expected in the production sector due to the fact that there is an opportunity to travel to Germany, Lithuania and Estonia for higher wages.

## PAYMENTS | UKRAINE

PRODUCTION   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>unskilled production operator</i>	315	430	510
<i>skilled production operator</i>	430	550	665
<i>team leader/foreman</i>	510	590	785
WHITE COLLAR	MIN	OPT	MAX
<i>plant manager</i>	3,100	3,900	4,500
<i>production manager</i>	1,700	2,200	2,550
<i>production/process engineer</i>	950	1,300	1,700
LOGISTIC   Monthly gross salary in EUR			
BLUE COLLAR	MIN	OPT	MAX
<i>warehouse worker</i>	275	430	590
<i>forklift operator</i>	400	470	590
<i>team leader/foreman</i>	500	590	785
WHITE COLLAR	MIN	OPT	MAX
<i>logistics specialist</i>	600	800	960
<i>warehouse manager</i>	960	1,300	1,600
<i>distribution center manager</i>	1,000	1,300	1,550

## OTHER COUNTRIES

The ongoing global pandemic caused by COVID-19 has made significant changes to the state of labour markets across the various countries in the CEE region. Necessary restrictions that were implemented, forced many industries to make big adjustments in the number of employees, hours worked and, in many cases, led to the reduction of salaries. This has had a direct impact on the increase of the unemployment rate between Q1 and Q2 2020 in the CEE region.

Bulgaria is one of the largest countries (ca. 7 million) from the group not mentioned in the specific country commentaries and has continued to see its unemployment rate decrease over the years. In 2020, the highest level was recorded in April at 4.8% while in June it decreased by 0.3 pp to 4.4%. The only, yet still very low, increase in the number of workers was registered in the manufacturing, information technologies and retail sectors. The low increase in employment is mainly connected to the skilled worker shortages and employment itself reaching peak numbers. The average monthly salary in Bulgaria is slightly above EUR 650.

In Slovakia, with a population of ca. 5.5 million, the unemployment rate in April was at 6.4% and had increased to 6.6% in June. The Prešov Region was reporting the highest number of unemployed people, while the Capital city region of Bratislava recorded

the lowest. Before the pandemic, Slovakia experienced workforce expansion in the industrial production, agriculture and information and communication sectors. During the initial months of COVID-19, employment increased only in the information and communication sector. In June 2020, compared to June 2019, it increased by 5.2%, while in the industrial sector there was a decrease of 6.3%. In June 2020, the average monthly wage decreased year-on-year in most sectors. In the first half of 2020, wages decreased on average in transportation and storage by 0.7% (to EUR 999) and in industry by 0.3% (to EUR 1,146). The average monthly wage in all sectors reached a level of EUR 1,086.

In Croatia, labour shortages are resulting from long-lasting demographic trends linked to an ageing population and significant emigration to other EU Member States. Croatia's population totals ca. 4 million inhabitants and in January 2020, the unemployment rate was recorded at 6.3%. However, in May the unemployment rate reached a high of 8.9% while in June it decreased slightly 0.1 pp to 8.8%. Average gross monthly wages for the first half of 2020 reached a level of EUR 1,220, a nominal increase of 2.1% compared to the same period of 2019.

Serbia has a population of ca. 7 million and as of Q1 2020, the unemployment rate reached 9.7%, a drop of 2.4 pp compared to the same period of 2019. The average salary for the first 6 months of 2020 stood at EUR 696.

Albania has a population of ca. 3 million and as of Q1 2020, the unemployment rate reached 11.9%, which shows a slight increase of 0.3 pp compared to Q4 2019. In Montenegro, with its population of ca. 620,000, the unemployment rate in April was quite high 17.4% and had increased by 0.8pp to 18.2% in July. Slovenia's population of ca. 2 million saw its unemployment rate increase between April and June by 0.1 pp and stands at 4.8%. The monthly minimum wages for these countries vary between EUR 213 in Albania and EUR 940 in Slovenia, to ca. EUR 300 for both Montenegro and Serbia.

In general, we can see that the labour market is slowly recovering, however the situation will remain uncertain for the next few months, particularly as a second wave of the pandemic is predicted. As a result, the logistics and production sectors must be prepared for new realities and take the necessary safety measures so as not to put its employees at risk.



source: Shutterstock



# I&L INVESTMENT INCENTIVES IN CEE-17







*In this chapter, CMS and Sorainen have provided a country-by-country guide to understanding and comparing what incentives are potentially available to Industrial&Logistics investors seeking to start operations in one or more of the CEE countries covered in the report.*

*Investment incentives are a key element of the decision-making process when investors are selecting countries and locations. Therefore, we look at some of the more frequently asked questions and provide an overview of the general conditions that were applicable at the time of preparation.*

# Legal incentives for investments specifically in the I&L sector in CEE-17

## ALBANIA

In Albania there are some legal incentives for strategic investments in the Industrial and Logistics sector depending on the total investment value, which varies from EUR 5 million to EUR 50 million in the technology development sector, and from EUR 30 million to EUR 50 million in the transport sector. Investments worth EUR 100 million enjoy incentives in any type of industrial sector. Generally, the incentives include:

- › land consolidation;
- › support programmes;
- › support with ancillary infrastructure;
- › access to state-owned immovable property for developing and executing the project;
- › expropriation of immovable assets owned by private individuals to enable the development and execution of a project.

## BELARUS

The Brest-Orsha special economic zone (SEZ) has been established, which focuses on manufacturing, e-Commerce, logistics and transport, postal services, other activities in the field of information services, and R&D. A range of incentives are offered, including state financial support for medium-sized businesses, simplified regulations and procedures for construction activities, and exemptions from certain state fees.

“Great Stone” China-Belarus Industrial Park has been established and prioritises electronics, pharmaceuticals, biomedicine, chemicals, mechanical engineering, logistics, big data, and R&D industries. Reduced electricity and natural gas prices, simplified regulations and procedures for construction activities, and shorter time for a number of administrative procedures are also available to investors operating in this industrial park.

## BULGARIA

Investors in the Industrial and Logistics sector can benefit from cash grants for improving the qualifications of existing employees and creating new employment, as well as for the acquisition of assets and building infrastructure. This financial mechanism is available for both existing and new projects, whereby the structure and amount of the support depends on the size of the enterprise and other factors.

Another category of support is enhanced administrative support for projects which have obtained investment certification. The list of support includes: shortened administrative services, no tenders for the acquisition of state and municipal land, financial support for education, reimbursement of social security contribution costs, financing for technical infrastructure development, exemption from tax for land use conversion, and lower costs for land acquisition. Eligibility for certification and the type of support depend on certain requirements, the main one being the minimum number of new jobs created and minimum investment expenditures.

## CROATIA

The Republic of Croatia recognizes the strategic importance of the manufacturing and processing industry for its future economic development and has therefore adopted a number of legislative acts and by-laws with the intention to provide incentives for investments in these sectors. The incentives are granted to support innovation, research and development, create new employment opportunities and improve production processes.

The incentives include various forms of non-repayable state funding for investments focusing on developing new equipment and technologies, increasing employment rates and training employees, developing new products and services, increasing market competitiveness, regional development, activating fixed assets owned by Croatia, and increasing productivity, amongst others.

## CZECH REPUBLIC

In the Czech Republic, the manufacturing and processing industry can benefit from incentives in the form of corporate income tax relief, cash grants for job creation, and cash grants for training. Further, large-scale “strategic” investments can further benefit from cash grants for the acquisitions of assets. The eligibility for incentives depends on a number of factors, including the value of the investment, the number of jobs created,

the region where the investment is located and the type of industry. There are currently no legal incentives for investments specifically for the logistics sector.

#### **ESTONIA**

There are some regional investment aid schemes available to companies operating in the manufacturing sector, for example, an investment aid scheme for manufacturing industries to support industrial investments in the Ida-Viru region of Estonia. The aim of this support scheme is to increase economic activity in the Ida-Viru region with the help of new investments and to contribute to the creation of new jobs in the manufacturing sector. The maximum amount of support is EUR 990,000 and the maximum grant percentage from the entire cost is 25% for large enterprises, 35% for medium-sized enterprises, and 45% for small enterprises.

A more general investment aid scheme is provided by Enterprise Estonia for large investors. The large investor support scheme is targeted at companies

registered in the Estonian commercial register operating in the manufacturing sector. The aim of the support scheme is the active involvement of large investors in the Estonian economy through technology investments. The maximum amount of support is EUR 1 million and the maximum grant percentage from the entire cost is 10%.

#### **HUNGARY**

Life sciences and the automotive industry may enjoy more favourable treatment when considering direct cash incentives provided by individual government decisions under the framework of the EU GBER. R&D projects have become the main focus of the government when deciding cash grants and apart from these, entities operating in the aforementioned sectors may also make use of the general tax allowance and cash incentive schemes.

#### **LATVIA**

There are currently no legal incentives for investments specifically in the Industrial&Logistics sector in Latvia.



source: Shutterstock



**LITHUANIA**

From 1 January 2021, amendments to the laws on Investment, Legal Status of Foreigners, Zoning&Planning, Land and Employment will enter into force in Lithuania. These amendments are aimed at encouraging local and foreign investments in large projects in the fields of manufacturing, data processing and web server services (hosting).



# 20 YEARS

EXEMPTION FROM CORPORATE INCOME TAX  
IN LITHUANIA (ONE OF THE AMENDMENTS IN INCENTIVES  
TO BE INTRODUCED IN 2021)

A large project is where an investment agreement is concluded with the state, according to which an investor undertakes to create at least 150 new jobs, or at least 200 in Vilnius; and invest EUR 20 million, or at least EUR 30 million in Vilnius.

The amendments will introduce an exemption from corporate income tax for up to 20 years; relaxed conditions for obtaining temporary residence permits for employees from third-countries; the possibility to lease state-owned land at a lower than market price, and simplified and more expedient planning procedures.

**MONTENEGRO**

There are no specific legal incentives for the Industrial&Logistics sector. However, it could be analysed on a case-by-case basis if a certain business falls in the scope of existing general legal incentives regulated by the current laws.

**POLAND**

Poland offers a variety of incentives and support programmes for specific sectors, in particular those utilising European Union funds, as well as programmes offered by the National Centre for Research and Development. The available business support programmes depend on the industry and location and some of them may be potentially applied to businesses from the Industrial&Logistics Sector. They often include funding for innovations and R&D activities.

**ROMANIA**

To support sectors that were most affected by the COVID-19 pandemic, the Romanian Government set up an EU-funded project for small and medium enterprises (SMEs), allocating funds of up to EUR 550 million. Part of this grant scheme, for investments and for the economic reconversion of SMEs operating in the sanitary, pharmaceutical, food, automotive, IT, energy, construction, transport, tourism and clothing sectors, is allocated for expenses relating to production and the purchase of equipment, machinery and technologies. This grant does not specifically apply to foreign investments, but there are no limitations as to the eligibility of SMEs constituted with foreign capital.

**SERBIA**

There are currently no legal incentives specifically for investments in the Industrial&Logistics sector in Serbia. However, it is likely that investments in these subsectors would qualify as investments of special interest to the Republic of Serbia, for which grants would be more favourable. Incentives include non-refundable grants and fiscal benefits, as well as state guarantees, the sale or lease of state-owned property under favourable conditions to investors, the purchase of the products of the investor for a price higher than the market price, amongst others.

In each specific case, grants are approved based on a particular investment, given the number of jobs created and the investment in material (fixed) and non-material assets, including leases and financial leases.

**SLOVENIA**

There are currently no incentives specifically targeted at the Industrial&Logistics sector.

**SLOVAKIA**

The special Act No. 57/2018 coll. on regional investment aid and Government Regulation No. 195/2018 Coll., provides support for the implementation of investment plans for industrial production plants, technology centres and business services centres.

The general categories for investment aid in Slovakia include cash grants, income tax relief, contributions to new jobs and discounted transfer of real estate or discounted rent of real estate.

The minimum investment in eligible costs and job creation depends on the form of the requested aid, on the type of production and its reference to priority, and other factors.



## UKRAINE

In 2012, Ukraine adopted a ten-year special regime (for 2013–2023) available for state support for investment projects in priority industries, including Industrial&Logistics.

General state support is available for investment projects that the state authorities select on a competitive basis.

State support may take the form of:

- › co-financing investment projects via state budgetary funds;
- › providing state guarantees in support of the investee company's debt financing for an investment project;
- › providing debt funding for an investment project via state budgetary funds;
- › full or partial compensation of interest payments under debt financing obtained for an investment project.



source: Shutterstock

## General incentives, from which investors in the I&L sector in CEE-17 can benefit, if no specific ones are available

### ALBANIA

There are currently two technological and economic development areas (TEDA), specifically designated for the development of industrial parks and subject to incentives in Albania. The incentives dedicated to these areas are:

20% of the capital expenses are deductible for two years from the start of economic activity in the area, relief of 50% of the applicable CIT rate for five years, zero VAT rate for the supply of goods to TEDA, relief from the tax on the impact on infrastructure, relief from tax on real estate for constructed buildings in TEDA for five years, relief from tax on the transfer of a right to immovable property, 150% of the expenses on salaries, social and health contributions paid by the employer for the employee will be deductible during the first year of activity.

### BELARUS

Six free economic zones have been established in Belarus where land lease incentives, state financial support for the creation of engineering and transport infrastructure (if the investment value is more than EUR 10 million), and exemptions from some state fees are offered to investors operating in them. In addition, investors can develop activities in the High Technology Park (HTP) where they are granted beneficial tax, legal and administrative conditions as well as special treatment for cryptocurrencies and ICOs.

Investment laws provide that land lease incentives and certain relaxation of mandatory procedures for construction exempting from some state fees, can be offered to investors operating under investment

agreements in priority sectors, such as information and communication technologies, logistics, mechanical engineering, and others.

Incentives for investors are also provided in Special Economic Zones. For investors operating in Orsha, district land lease incentives, increased investment deduction for buildings, machinery, and equipment, exemptions from some state fees are offered. For investors operating in the Southeast region of Mogilev, regional state financial support is on offer for the creation of utilities and transport infrastructure, for the implementation of projects in agriculture and industry sectors.

### BULGARIA

Investors can benefit from the attractive infrastructural conditions which industrial zones in Bulgaria have to offer, as well as support from the government, the municipal authorities and the various domestic and foreign chambers of industry and commerce in Bulgaria. Currently, there are about 14 industrial zones, with active local and foreign investors. There are also 21 zones with either fully or mostly developed infrastructure which are ready to be invested in, and about 27 zones under development.

The Bulgarian government is expected to adopt the new Industrial Zones Act soon, which will introduce more detailed regulation of industrial zones and additional investment incentives, such as facilitated administrative services and lower fees.

### CROATIA

Croatian law envisages various ways of improving the entrepreneurial infrastructure and the commercial conditions of doing business in Croatia. These include



6

FREE ECONOMIC ZONES EXISTING  
IN BELARUS

the establishment of entrepreneurial and business zones, business hubs and incubators, which aim to promote economic growth by ensuring that investors have the necessary infrastructure, e.g. good traffic connections, business and office spaces and other resources, which thus enable investors to streamline their business operations and optimise their investments in Croatia.

### CZECH REPUBLIC

In addition to the incentives aimed specifically at the manufacturing sector, investors in the Czech Republic can further benefit from support for research and development and support for “strategic services”, for example, software development centres, data centres, high-tech repair centres, and centres of shared services. The incentives are provided in the form of corporate income tax relief, cash grants for job creation and cash grants for training.

Large-scale “strategic” investments may further benefit from cash grants for acquisitions of assets. The eligibility for incentives depends on a number of factors, including the value of the investment, the number of jobs created, the region where the investment takes place and the type of industry.

Specific subsidies apply in certain regions where unemployment rates are higher than 7.5% and certain selected areas including Mošnov, Holešov and Most-Joseph.

### ESTONIA

There are three free trade zones in different parts of Estonia that are in strategic locations near to highways, railways and ports. They are situated in the Paldiski Northern Port, the Port of Muuga and the Port of Sillamäe. Goods in the free trade zone are considered as being outside the customs territory. Goods brought into a free zone for later re-export are not subject to VAT, excise or customs duties. There are several industrial and logistics parks with pre-developed infrastructure for manufacturing and logistics companies.

### HUNGARY

Hungary has two main categories of support which are cash subsidies and development tax incentives. Cash subsidies can take a number of forms where, apart from the location of the investment, there is also a minimum cumulative condition for both the size of the investment (i.e. the amount of eligible costs or the number of jobs created) and the increase in wage costs and sales revenue.



# EUR 50 MLN

WORTH INVESTMENTS IN HUNGARY  
REQUIRE APPROVAL FROM THE  
EU COMMISSION TO BE SUBSIDISED

The aid rate may range between 25%-50% of the eligible costs (min. EUR 5/10 million) depending on the region where the investment is located in Hungary. In the case of SME investors, the aid rate may be higher. The purpose of the investment should be:

- > starting a new operation;
- > initial investment in a new economic activity, resulting in product diversification, or process innovation;
- > setting up a shared service centre;
- > R&D projects.

The government will decide the amount of the subsidy taking into account factors such as the revenue resulting from the investment, wage increase, the sector concerned, etc. For investments other than R&D, a sales revenue increase is also required. In the case of newly established enterprises, after the investment has been completed, the investor must increase the company's wage expenses by an annual average EUR 300,000 and increase its sales revenue by an annual average of EUR 3 million compared to the base value.

In the case of enterprises that do not qualify as newly established, investors must increase the company's base sales revenue or its base wage expenses by at least 30%, or the combined increase in the sales revenue and wages must reach 30%.

Should the government approve the subsidy for a project, the Ministry of Foreign Affairs and Trade concludes an agreement with the investor and reviews the use of the subsidy and the operation of the investments usually for a five-year monitoring period after the investment is finished.

In the case of subsidising high-value investments of over EUR 50 million, approval from the EU Commission is also necessary.





Poland, Podstrefa Wałbrzych, source: Tomasz Góra

#### **LATVIA**

There are three Special Economic Zones (“SEZ”) and two free ports in Latvia that have been established to promote entrepreneurial activities in these regions: Liepāja Special Economic Zone; Rzekne Special Economic Zone; Latgale Special Economic Zone; Ventspils Free Port; and Riga Free Port.

All of these offer very favourable business incentives, including tax rebates, developed infrastructure, more convenient customs rules, amongst others.

#### **LITHUANIA**

Lithuania offers “TUI Invest LT +” investment support scheme for investors. Under this scheme, investment agreements can be concluded with an investor where the investor’s annual income for at least one financial year (during the last three financial years) was at least EUR 10 million; directly or through related entities, the investor has been engaged in production for at least five years or service activities for at least three years; the investor is a foreign private legal entity that has a patented and innovative technology (product or service) or has filed a patent application to register



such technology; and various expenses related to the investor's activities can be partly financed by the state, for example the rent of premises, salaries, work equipment and other costs .

Furthermore, there are currently seven free economic zones established in Lithuania where trade, production, import and export business, or other activities can be developed. Investors operating in free economic zones are granted these tax benefits: 0% corporate income tax during their initial ten years of operation and 7.5% tax over the following six years; and exemption from taxes on dividend and real estate.

There are also five industrial parks operating in Lithuania. The purpose of establishing the industrial park is to increase the competitiveness of the country's economy, create jobs and promote activities in the fields of industry, logistics and services that meet the standards and environmental requirements of the European Union.

Local municipalities decide what benefits the industrial parks will offer to the investors. Currently, the prevailing benefits are exemptions from real estate and land taxes.

### **MONTENEGRO**

Montenegro has regulated and declared business zones in eight local self-governments, and therefore investors have the opportunity to invest under favourable terms in Berane, Bijelo Polje, Kolašin, Mojkovac, Nikšić, Cetinje, Ulcinj and Podgorica. These local self-governments have defined business facilitations related to the payment of utility and other charges; bargain price for lease/purchase of premises in business zones; reduction of or an exemption from surtax on individual income; lower tax rates on real estate; the possibility to define a favourable model of public-private partnership; and improving areas that do not have a developed infrastructure.

In addition to tax exemptions and administrative facilitations, investors that choose to operate in a business zone will benefit from complete logistical support of their business operations to further facilitate.

### **POLAND**

In Poland, there are two main categories of support, employment grants and support for new investments. These two incentives may be granted simultaneously only if certain conditions are met (the maximum amount of the granted aid, a certain threshold of capital expenditures, or a minimum number of new jobs created). In order to obtain the incentive,

both the minimum investment and new jobs figures need to be met. Furthermore, R&D tax relief is available.

Another important feature of business support are special economic zones. A Special Economic Zone (SEZ) is a dedicated area where investors may operate their businesses under preferential conditions, varying locally. These preferential conditions include mainly corporate income tax (CIT) relief. In 2018, the Polish parliament introduced the New Investment Support Act due to which 100% of Poland's area operates as one special economic zone in which companies benefit from tax advantages. The level of tax exemption depends on the location of the investment project and the size of the company. It is possible to obtain CIT or PIT exemption for different periods of time.



100%

OF POLAND OPERATES  
AS ONE SPECIAL ECONOMIC ZONE  
OFFERING INCENTIVES

Another type of support constitutes industrial and technology parks - places which, due to the concentration of firms from one sector and supporting science and research facilities, are on the fast track of development. Each park has different characteristics, depending on specific regional, social, cultural and economic factors, together with the facilities, materials and human resources available. A technology park is created with the aim of attracting an influx of knowledge and technology for scientific bodies and businesses. The benefits are offered for businesses using innovative technologies and such entities may enjoy mainly the following services: consultancy, transfer of technology, transfer of results from scientific research and development work, into technological innovation, creating favourable conditions for businesses.

Industrial and technology parks are formed with the assistance of local authorities and are aimed at providing preferential conditions for businesses,

in particular for small and medium sized firms. The goals for industrial and technology parks are primarily for providing offers of workspace for commercially viable companies that use new or innovative technologies, attracting investors and creating jobs.

### ROMANIA

Two state aid schemes covering a large number of economic sectors are available to investors, namely:

- > a cash grant scheme covering salary costs in job-creating investments;

and

- > a cash grant scheme covering the creation or acquisition of tangible and intangible assets in investments which have a major impact on the economy.

In the first case, a minimum of ten new jobs per location must be created, and three out of the ten jobs should be for disadvantaged workers. The jobs created must be maintained for three years for SMEs and five years for large enterprises. The investment must remain operational over the same period.

In the second case, a minimum investment of EUR 1 million is required. The investor must source at least 25% of the eligible costs from their own equity. The costs associated with tangible assets cannot exceed 50% of the total eligible costs of the investment.

### SERBIA

There are currently 15 free trade zones in Serbia to which the following incentives apply: no customs or other import duties on the sale of goods intended for business operations and the construction of facilities in a free trade zone; no custom guarantee is required for foreign goods intended for manufacturing operations in a free trade zone; VAT exemption on entry of goods

into a free trade zone, as well as on transport and other services related to the entry of goods; VAT exemption on trade in goods and services in a free trade zone; VAT exemption on trade in goods between the users of two free trade zones; and VAT exemption on energy consumption for users located in a free trade zone that conduct production activities.

In addition, local government units can enjoy further benefits such as exemption from local fees, taxes and charges.

### SLOVENIA

Subject to certain conditions (minimum value of investment, minimum jobs created, etc.), general incentives are available to Slovenian and foreign investors in the form of subsidies, credit, guarantees, subsidised interest rates and loans provided by the SID Bank d.d. Furthermore, a self-governing local community may sell real estate owned by it to an investor for a purchase price that is below market value. The difference between the market price and the agreed purchase price represents the amount of regional state aid. The investor may profit from the last-mentioned incentive on the same conditions under which the incentives are provided by the SID. In addition, the planned investment must also have a positive economic, environmental, spatial and social impact on the region in which it will be implemented.

A special regime is provided for strategically important investments ("SII"). SIIs are investments:

- (i) in manufacturing or a service industry with a value over EUR 40 million and over 400 jobs created;
- (ii) in R&D with a value over EUR 20 million and over 200 jobs created.

For example, large companies may receive an incentive of up to EUR 12.5 million for a strategically important investment with a value of EUR 50 million.

Potential investors can also benefit from developing facilities in industrial parks. Construction there is easier, quicker, and less costly, as companies avoid lengthy procedures of accepting detailed municipal spatial plans, as the latter are usually already approved and accepted there.

### SLOVAKIA

In Slovakia, there are several examples of industrial "strategic" parks, which were granted the status of significant investment. In general, to create a "strategic park", the Slovak government must declare an investment a "significant investment"



# 250 HA

OF LAND FOR INDUSTRIAL PRODUCTION  
OR SERVICES IS REQUIRED IN SLOVAKIA  
FOR INVESTMENT TO BECOME A 'STRATEGIC PARK'



*Slovakia, Nitra, source: Shutterstock*

deemed to be of public interest and require at least 250 hectares for industrial production or services. Usually, a state-owned special purpose vehicle prepares the area for a strategic park, including expropriation of land (if necessary).

#### **UKRAINE**

Investors that decide to operate in industrial parks can enjoy the new beneficial regime offered to the residents of industrial parks. The available support includes an exemption from customs duties on the import of the equipment, components and materials used for an investment project in an industrial park.

The president promotes state support for major investments in Ukraine and recently proposed a new law, No. 3760, "On State Support for Investment Projects with Significant Investments" (the "Draft Law"), which Parliament passed on its first reading, although it still needs to be finalised, adopted and signed by the President.

The Draft Law states that state support can be provided to a local or foreign investor in the form of: tax benefits, such as an exemption from corporate income tax

or duties on imports of new equipment into Ukraine; granting preferential rights and special land use fees for using state- and municipality-owned land for the implementation of an investment project; and providing related infrastructure facilities (roads, communication lines, heating, gas, water, electricity, etc.) necessary for the implementation of an investment project, including through construction/renovation at the expense of the state or municipality.

The maximum amount of state support cannot exceed 30% of the overall amount of project investments.

In addition, the Draft Law provides for the appointment of a state institution to support participating investors for the duration of their investment projects. This institution will be responsible for: assisting investors that apply for participation in the state support program; helping investors design their investment projects and obtain approval for these projects from the government authorities; facilitating the implementation of approved investment projects and the fulfilment of obligations under the relevant special investment contracts. All such services will be free of charge for the investors.

# Available tax exemptions or preferences for investors specifically in the I&L sector in CEE-17

## ALBANIA

There are currently no specific tax exemptions or preferences for the Industrial&Logistics sector. However, any project/investment in various economy sectors (including I&L) will benefit from a VAT tax exemption if the resident company in Albania imports:

- > machinery or equipment for fulfilling an investment contract whose value is equal to or exceeds ALL 50 million (approx. EUR 400,000);
- > machinery or equipment for fulfilling investment contracts in the active processing sector, regardless of the value of the investment.

## BELARUS

Various tax incentives are available to companies operating in the Brest-Orsha special economic zone. Among these incentives is an exemption from corporate income tax (CIT) for nine years from the year of the accrual of income, an exemption from real estate tax, a 0% dividend tax for five years, and an exemption from import customs duties and similar.

## BULGARIA

Bulgarian legislation does not currently provide specific tax incentives for the Industrial&Logistic sector, but there are general ones from which investors in this sector can benefit.

## CROATIA

Reduced corporate income tax (CIT) rates are available to Croatian taxpayers investing in business support activities projects, which include the development of high-technology logistics and distribution centres. The percentage of the CIT reduction varies from 50 to 100% depending on volume of investments

and created new jobs. The same applies to investments in manufacturing and processing activities, development and innovation activities and high value-added services. Entrepreneurs eligible for tax incentives can also apply for non-refundable cash grants.

## CZECH REPUBLIC

Corporate income-tax relief is available for investors in the Industrial&Logistics sector.

## ESTONIA

There are currently no tax exemptions or preferences for investors specifically in the Industrial and Logistics sector in Estonia. This is because Estonia has a unique taxation system for corporate earnings. In Estonia, profits are not subject to tax when they are earned, but the moment of taxation is deferred until the distribution of profits. There is no corporate income tax on retained and reinvested profits. Companies are subject to 14% or 20% income tax only on all distributed profits. The corporate income tax rate is 20% of gross distribution; the reduced tax rate applies to part of dividends paid by local companies regularly.

Due to the tax being deferred until the distribution of profits, most ordinary income-tax relief, development tax incentives and tax deductions would have no effect as there is no tax to deduct from. Effectively, the relief applies to all companies as reinvested profits, i.e. profits that are not distributed, are not taxed.

## HUNGARY

For companies operating in the logistics sector, the following specific tax incentives are available: Local Business Tax - as a specific tax credit, 7.5% of the toll charges are deductible from the local business tax; Personal Income Tax - increased tax-free daily allowance for drivers and freight assistants during domestic and international assignments and Transfer Tax - acquisition of ownership of a bus, semi-trailer, lorry or trailer or rights pertaining to them by an economic operator is exempt from transfer tax.



# 50-100%

OF CIT REDUCTION  
IS POSSIBLE IN CROATIA



### **LATVIA**

There are currently no Industrial& Logistics-specific corporate income tax and development tax reliefs, nor any I&L-specific tax deductions.

### **LITHUANIA**

Lithuania offers several tax incentives in the Industrial&Logistics sector. A taxable profit reduction of up to 100% for entities running technology investment projects is available. This incentive applies to the costs incurred to acquire long-term assets (e.g. machinery and equipment, computers, software, intellectual property rights, vehicles).

Companies carrying out scientific R&D are granted a triple deduction of expenses incurred during these activities. As of 1 January 2018, a reduced 5% CIT rate applies to profits deriving from the use, sale or other transfer of assets created as a result of R&D activity.



# 100%

OF TAXABLE PROFIT REDUCTION  
IS POSSIBLE IN LITHUANIA

### **MONTENEGRO**

There is currently no Industrial&Logistics specific corporate income tax and development tax relief, nor any Industrial&Logistics specific tax deductions.



source: Shutterstock

However, regarding VAT and customs, the Montenegrin legal system provides for two concepts that allow VAT and customs exempt supplies under certain conditions: customs warehouses and free trade zones.

Customs warehouses - VAT and customs exemption is provided for the placement of goods in a customs warehouse. To benefit from these exemptions, the warehouse must be under the direct control of the Montenegrin customs authorities. The supply of goods from a customs warehouse is subject to general VAT and customs rules.

Free trade zones - The supply of goods and services to users of free trade zones is VAT exempt, as well as the supply of goods and services among users in the free trade zones.

#### POLAND

A CIT relief for R&D is available in Poland. The tax relief is available to taxpayers earning revenue other than revenues from capital gains. The relief allows the deduction of costs for R&D from the CIT tax base (however, the deduction cannot be higher than the income earned from revenues other than capital gains). The deduction does not affect the taxpayer's right to treat the costs of R&D as tax-deductible costs for CIT purposes.



# 150%

OF THE R&D COSTS IN POLAND  
MAY BE DEDUCTED,  
IF CERTAIN CONDITIONS ARE MET

From a Polish CIT perspective, R&D includes both scientific research and development works and covers, among others, creating of improved or new products, processes or services (except of activities involving routine and periodic changes to the products, processes or services).

R&D costs which may be deducted from the CIT tax base include for example the wages of employees (proportionally to the part of their overall working time dedicated to R&D), the purchase of materials directly linked to R&D or, the purchase of specialist equipment.



Poland, Suwalska SSE, source: ECSTUDIO

Taxpayers may deduct 100% of the R&D costs. However, if certain conditions are met (e.g. the taxpayer is an R&D centre), the deduction may increase to 150%.

Other support instruments are: Innovation Box, governmental R&D grants as well as several programmes co-financed with EU funds. Innovation Box introduces a preferential 5% PIT rate applicable to income from qualifying intellectual property rights generated by sole proprietors (instead of the standard 17%-32% and 19% flat PIT rates).

Another type of incentive is the real estate tax exemption available in specific municipalities. Municipal councils may establish an exemption from real estate tax for businesses. To benefit from the exemption businesses usually need to fulfil a number of criteria provided in the municipal council's resolution. For example, this may involve making an investment of a specific size or maintaining the investment for a certain period of time.

#### **ROMANIA**

Under Romanian law, industrial parks are exempt from land and building taxes. In addition, the local authorities may grant several other exemptions. Regarding free economic zones, deliveries of goods that will be placed in a free economic zone are exempt from VAT, as well as the provision of services related to such deliveries.

#### **SERBIA**

There is currently no Industrial&Logistics specific corporate income tax and development tax relief, nor any Industrial&Logistics specific tax deductions.

However, regarding VAT and customs, the Serbian legal system provides for two concepts that allow VAT and customs exempt supplies under certain conditions: customs warehouses and free trade zones.

Regarding customs warehouses, a VAT and customs exemption is provided for placing goods in a customs warehouse. To benefit from these exemptions, it is important that the warehouse is under the direct control of the Serbian customs authorities. The supply of goods from a customs warehouse is subject to general VAT and customs rules.

#### **SLOVENIA**

No Industrial&Logistics sector-specific tax exemptions or preferences are currently available in Slovenia. Investors may utilise general tax benefits available to all businesses in Slovenia.

#### **SLOVAKIA**

Income tax relief, where overall amounts of aid are subject to a maximum investment limit as a percentage of eligible costs, as follows:

In the case of eligible costs of up to EUR 50 million, the maximum amounts are: in Western Slovakia: 45% for small enterprises, 35% for medium enterprises, 25% for large enterprises; and in Central and Eastern Slovakia: 55% for small enterprises, 45% for medium enterprises, 35% for large enterprises.

In the case of eligible costs of over EUR 50 million, the maximum amounts are: in Western Slovakia: 12.5% for part of the eligible costs over EUR 50 million up to EUR 100 million, and 8.5% for part of the eligible costs over EUR 100 million; and in Central and Eastern Slovakia: 17.5% for part of the eligible costs over EUR 50 million and up to EUR 100 million, and 11.9% for part of the eligible costs over EUR 100 million.

To be eligible for the income tax relief, different criteria apply to investment amounts and job creation. The criteria vary depending on "zones" (divided on the basis of the unemployment rate) and whether a particular zone is included in the list of "priority zones" or "other zones".

#### **UKRAINE**

The following tax exemptions or preferences are available to all investors (including the Industrial&Logistics sector):

- > VAT exemption available for construction services in affordable housing projects or State-sponsored construction projects;
- > VAT exemption for the import of energy efficient equipment and equipment/materials used for the production of renewable energy (application limited);
- > VAT exemption for city transportation services (except for taxis);
- > deferral of import VAT available for imports of equipment and parts to be used in ship construction and certain projects in priority sectors of the economy;
- > and exemption from import customs duties available for projects implemented in industrial parks.

# General tax exemptions or preferences for investors in CEE-17 that would apply to the I&L sector

## ALBANIA

For companies operating in the R&D sector, CIT is reduced to 50% for the first five years of the research activity. The costs of training employees in the technology and economic development sectors, for the purpose of calculating taxable profit, are calculated for tax purposes as double their amounts for ten years from the beginning of the economic activity. For companies operating in the automotive sector, CIT is reduced to 5%, from 15%, which is usually applied in other sectors.

## BELARUS

An exemption from CIT and land tax under certain conditions is available to investors operating in the aforementioned free economic zones. Also on offer are various tax incentives, such as an exemption from CIT, VAT, real estate tax and land tax, reduced WHT rates on dividends, interest and royalties are offered to investors carrying their activities within High Technology Parks. Furthermore, exemptions from CIT, VAT, real estate tax and land tax, reduced WHT rates on dividends, interest and royalties, certain exemptions from import customs duties are offered to investors operating in the “Great Stone” China-Belarus Industrial Park.

In addition, a beneficial tax treatment applies if an investor carries out production activities in rural areas and small towns. Investors are granted an exemption from import customs duties and VAT if they operate under investment agreements. Tax incentives are also available to investors operating in special economic zones.

In Orsha district, special economic zone reduced tax rates can be available if certain conditions are met. In addition, PIT and social security contribution incentives are offered to investors carrying out activities in the southeast region of the Mogilev special economic zone.

## BULGARIA

The following tax incentives are available for investors: De Minimis/State aid for regional development: 100% remission of income tax for manufacturing/production activities in high unemployment regions (subject to full reinvestment of the remitted tax). Accelerated tax depreciation (of up to 50% per annum) for initial investment assets. Accelerated tax depreciation (100% tax deductibility) for R&D assets in the year of booking the asset. Double deduction of employer costs (salary plus social security expenses) for unemployed or disabled persons (for the first 12 months of employment). Self-charge of VAT on import (facilitating cash flows as VAT credit is used in the same period), plus an option for the accelerated refund of VAT within 30 days for qualifying investment projects. Refund of excise duties on alcohol and alcoholic beverages used for medical purposes – R&D, testing, production of medicines, etc.

Donations: 10% to 50% of the positive accounting financial result (up to 65% of the total accounting profit) is recognised when the expenses are incurred in favour of: hospitals, social institutions, the Bulgarian Red Cross, the National Social Security Institute and others. Food vouchers: monthly social expenses for food vouchers up to BGN 60 (EUR 30) per employee are recognised for tax purposes and are exempted from social security contributions and income tax. Insurance and social security expenses: expenses for supplementary voluntary social insurance, voluntary health insurance and life insurance of up to BGN 60 (ca. EUR 30) per month per employee are recognised for tax purposes.

## CROATIA

The CIT base can additionally be decreased for eligible R&D costs, including:

- > 200% for basic research;
- > 150% for industrial research;
- > 125% for experimental development;
- > 150% for feasibility studies.





source: Shutterstock

#### **CZECH REPUBLIC**

CIT relief is available for most eligible investments. The maximum amount of all incentives depends on the size of the investment (the programmes distinguish between regular investments and larger scale “strategic investments”), and it further depends on the size of the entrepreneur.

The aggregate maximum amount of support (the sum of the CIT tax relief and various cash grants, as may be applicable) provided for an investor is calculated as a percentage of all eligible costs: Large enterprise – 25%; Medium enterprise – 35% and Small enterprise – 45%.

The eligible costs are expenditures for assets of which at least 50% has to be for new equipment. Please note that no subsidies are provided in the Prague region.

#### **ESTONIA**

The general rule, which applies to all companies, including the I&L sector, is that reinvested profits are not taxed and the tax is deferred until distribution. There currently are no sector-specific tax exemptions.

#### **HUNGARY**

A development tax allowance is available in corporate income tax for investments with a specific purpose, as follows: at least HUF 6 billion investment for product diversification or process innovation projects at certain supported municipalities in the Central Hungary region; at least HUF 3 billion investment for job creation; at least HUF 1 billion investment in certain underdeveloped regions of Hungary; at least

HUF 300/400 million investment carried out by SME; and at least HUF 100 million investment relating to R&D or environmental protection, or that is implemented in a free entrepreneurial zone.

These amount to up to 80% of the corporate income tax payable at a 9% nominal rate (up to the state aid ceilings, which also reflect cash grants), and may be claimed for a limited amount of time of 12 years after completing the investment, and not later than 16 years from the application.

SMEs may be entitled to a tax allowance of the interest paid on loans provided by financial institutions and used for financing the acquisition/production of fixed assets. Any company (independent from the industry in which it operates) may make use of a tax allowance up to 70% of payable corporate tax if donating to film production or spectacle sports organisations.

#### **LATVIA**

There are benefits for companies operating in the free ports and SEZs, including tax rebates on real estate tax (80% rebate), CIT (80% rebate), withholding tax on dividends, management fees and payments for usage of intellectual property for non-residents, and an exemption from VAT on certain goods and services.

There are also excise tax exemptions and relief for oil products used to generate energy, in the chemical treatment process, used for purposes other than fuel or heating fuel, marked oil products used in tractor machinery

and self-propelled agricultural machinery for the production of agricultural products and cultivation of agricultural land, etc.

#### LITHUANIA

Apart from those previously described, there are currently no other tax exemptions or preferences for investors in Lithuania.

#### MONTENEGRO

The Montenegrin corporate income tax law provides for an eight-year tax holiday for investors who operate in underdeveloped municipalities. The corporate income tax of such taxpayers can be reduced to zero, but the total tax relief for all eight years cannot exceed EUR 200,000 in total. In addition, taxpayers who pay corporate income tax timely are entitled to a reduction in the calculated corporate income tax of 6% of the tax due. The Montenegrin tax laws also provide that an employer which employs a worker for at least five years or for an indefinite period of time, is exempt from paying salary tax for four years.



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YEAR TAX HOLIDAY IS PROVIDED  
IN MONTENEGRO FOR INVESTORS OPERATING  
IN UNDERDEVELOPED AREAS

#### POLAND

A CIT exemption is available for new investments if a taxpayer receives a Support Decision under the New Investment Support Act of 10 May 2018. The CIT exemption applies to revenues obtained from the activity specified in the Support Decision.

The Support Decision may be issued in relation to new investments i.e. investments in tangible and intangible assets related to the establishment of a new plant, an increase in the capacity of an existing plant, diversification of the plant's production by introducing new products or fundamental changes in the production process of an existing plant;

or an acquisition of assets from an unrelated party belonging to an establishment that has closed or would have closed had it not been purchased (other than a purchase of shares).

#### ROMANIA

Romania offers several tax incentives, for example a corporate income tax exemption for reinvested profit (under certain conditions) which also apply to Industrial&Logistics investors.

#### SERBIA

Serbian corporate income tax law provides for a ten-year tax holiday for investors that invest at least RSD 1 billion (approximately EUR 8,500,000) in fixed assets and employ, during the investment period, an additional 100 workers for an indefinite term. In each specific case, grants are approved based on a particular investment, given the number of jobs created and investment in tangible (fixed) and intangible assets, including leases and financial leases.

#### SLOVENIA

Slovenia offers the following tax incentives: while the nominal Corporate Tax rate is 19%, the minimum effective Corporate tax rate is 7.03%; tax losses may be carried forward indefinitely and can offset 50% of each year's taxable profit. 100% tax allowance (on top of costs) for R&D activities. 40% tax allowance (on top of costs) for investments in equipment and intangibles and reduced VAT rates of 9.5%, while the standard rate is 22%.

There is no real estate tax, although currently, municipalities charge a "land use" tax, which takes into account the size of the building and available utilities infrastructure. The implementation of a new real estate tax is planned shortly.

#### SLOVAKIA

Other notable types of support are: a patent box - a special tax treatment that exempts intellectual property income acquired through science and research activities. This treatment provides an exemption from corporate income tax. A super-deduction tool for R&D - a special tax treatment enabling additional deductions of costs for R&D projects.

#### UKRAINE

In Ukraine, corporate income tax exemption is available for investment funds, including investment projects in the Industrial&Logistics sector.





source: Shutterstock



# AGENCY SERVICES & CLIENT REPRESENTATION

Colliers International looks after all of your real estate needs, mitigating risk and also letting you concentrate on your day to day business.

We tailor our approach to every Client as their needs and requirements are always individual.

In specific disciplines, we will also partner with experienced specialists to deliver the best possible outcome.

These services can typically be divided into three main stages.





## Stage 1: PROJECT PREPARATION

In this initial stage we prepare an analysis of the and evaluation of the market which can include all or some of the following areas, depending on your choices:

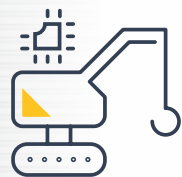
- > Analysis of the real estate market;
- > Analysis of investment areas according to the Client's requirements (brownfield/greenfield);
- > Labour market research;
- > Approving or negotiating changes within local Master Plan or with local administration offices/councils;
- > Analysis of obtaining public aid possibilities (e.g. Special Economic Zone);
- > Logistics analysis;
- > Preparation of the technical specification of the facility;
- > Analysis of property acquisition scenarios (BTO, BTS, general contractor);
- > Preparation of initial layout;
- > Preparing and negotiating terms for initial geodetic division of a bigger investment site;
- > Preparing timeline for the acquisition strategy
- > Collecting initial offers for the Client (developers and/or general contractors);
- > Negotiations of the most favorable conditions of purchase;
- > Cooperation and negotiations with a variety of relevant organizations;
- > Selection of the most optimal solution in terms of location and costs.



## Stage 2: TENDERS

During this stage we prepare and execute the tender to select the partner for development or the general contractor, subject to your requirements:

- > Tender for the selection of a developer or general contractor;
- > Collecting documents supporting the decision-making process;
- > Start of the tender procedure or the acquisition of public property;
- > Due diligence of land property:
  - Technical - geotechnical conditions, contamination survey, fauna and flora inventory;
  - Legal;
- > Support of the tender for logistics services;
- > Obtaining public aid;
- > Further negotiations with the local authorities;
- > Implementing real estate acquisition strategy;
- > Agreeing final layout of the facility;
- > Analysis of media usage costs;
- > Analysis and optimization of the elements of the service charge;
- > Coordinating project's implementation with neighbors of the Investment site (easements, permits, agreements);
- > Negotiating real estate contract;
- > Signing of the Fee Development/Leasing Agreement with a selected developer/general contractor.



## Stage 3: CONSTRUCTION

During this final stage before you takeover the property, we can provide the following additional services:

- > Representing the Client on the Construction Board;
- > Monitoring of the facility realization schedule;
- > Monitoring of change orders;
- > Monitoring the quality of the delivered Property;
- > Green building certification;
- > Takeover of the facility.

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# EXCEEDING BORDERS

## INDUSTRIAL & LOGISTICS MARKET IN CEE-17



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