

LOGISTICS AND MANUFACTURING IN CEE: TODAY'S TRENDS AND OPPORTUNITIES

While the COVID-19 pandemic has caused disruption to nearly all businesses in the logistics and manufacturing sectors in Central and Eastern Europe, enough time has now lapsed that identifiable trends and opportunities are beginning to emerge. CMS Partners Ana-Marija Skoko, Ivan Gazdic, Iain Batty, and Lukas Hejduk agreed to share their thoughts about the effect of the COVID-19 crisis on logistics and manufacturing developments in their local markets and across CEE.

Iain Batty in Poland

Iain Batty, a CMS commercial partner in Poland, believes that the benefits for the CEE region will include renewed interest in greenfield projects. "The lockdown in China hit many companies from the West," he says, "and now, consequently, they are increasingly wary of investing there, which is compounded by China's worsening relationship with the West. This renders CEE much more attractive to investors." He goes on. "Over the last few years, many investors have limited their investments in CEE due to the increasing pressure of rising salaries caused by a workforce that has nearly reached full employment, which is reflected in the Czech Republic, for example. However, given the effects of the pandemic on employment, more workers are now becoming available. This change will likely encourage investors to reconsider the opportunities that are available in CEE."

However, Batty explains, the COVID-19 pandemic is responsible for new obstacles and concerns. "Many businesses are worried about restarting, about who will be liable if their employees contract COVID-19 at work, and if they can

test their employees for the illness. In addition, there are new supply-chain issues, for example if your manufacturing facility in CEE depends on parts from Brazil, which has been very badly affected by the pandemic, then you're going to have problems." Nevertheless, he remains positive regarding the sector's overall performance, saying, "not all industries have suffered from coronavirus," and noting that while "the automotive sector has been badly hit, the technology and pharmaceutical sectors have both done very well."

Commenting on future trends, Batty looks to Poland. "The Polish 'anti-crisis shield' has focused on protecting jobs, not creating them," he says. "It will be important to re-attract foreign direct investment to the country – a way will have to be found." However, he also forecasts an increase in transactions. "In this landscape, I think we'll see an upswing in sales of local companies to foreign investors, particularly from South Korea and the US."

Ana-Marija Skoko and Ivan Gazdic in the Balkans

Ana-Marija Skoko, a real estate and

construction partner at CMS in Zagreb, shares Batty's positivity. Skoko notes that, so far, Croatia has handled the pandemic well, and she emphasizes that "a couple of projects were delayed, as foreign directors were unable to travel and complete ongoing negotiations, but because Croatia's logistics and real estate market remains the least-developed, investor demand is still high and investments haven't stopped." In addition, she says, "the Croatian government is actively proposing help for logistics projects," and adds that there is "still a lot of development potential, which makes Croatia a very attractive destination for investors."

Meanwhile, according to Ivan Gazdic, a projects and infrastructure partner at CMS in Belgrade, the logistics sector in Serbia has also failed to experience significant change as a result of the COVID-19 pandemic. Gazdic says that, although "projects continue to be financed and there is an ongoing need for storage, this hasn't been the case for retail and office space, which remains empty due to the impact of the pandemic. Thus, a more economical use needs to be found for this real estate." Regarding financing, Gazdic is keen to



Iain Batty, Partner, CMS Warsaw

point out that suggestions that local Serbian banks are cancelling financing are completely unfounded. He emphasizes the market's attractiveness to foreign investors: "The logistics sector is underdeveloped, the expansion of the road network in the country is continuing apace, and local banks are ready to join international financing institutions in providing finance for local logistic and manufacturing projects."

Lukas Hejduk in the Czech Republic and Slovakia



Ivan Gazdic, Partner, CMS Belgrade

This theme of stability in the logistics and manufacturing sectors finds further support in CEE as well. CMS Real Estate Partner Lukas Hejduk, who is based in Prague, explains that "these are the most resilient sectors and the most sought-after type of investment." As a result, he says, "indeed, there is a lack of product in all CEE markets, except for Poland." Hejduk also comments on the increase in digitalization over the last few months. "Digitalization has been pushed to another level during the pandemic, even though it was already accelerating," he says. "For example, projects have what are called 'digital twins,' where a model for, say, a warehouse is created virtually and then the parties can model how the building will perform in different environments, with different layouts, staff numbers, volumes, and types of goods, or with differing air-con settings. They can then select the performance model that best suits their business and financing."



Lukas Hejduk, Partner, CMS Prague

Another projected reaction to the roller-coaster events of the last few months is an anticipated increase in sale/lease-back transactions. According to Hejduk, "this is where the owner of a production facility, such as a manufacturing company, sells its real estate asset to an

investor and then pays rent for the next 10 to 15 years. By doing this, the owner gains liquidity during challenging times, such as those we are experiencing now." As for future trends, Hejduk believes that "we'll see increasing automation in logistic warehouse robotics and 'last mile' delivery technology. For now, it's quite easy to get goods to hubs and spokes, and the most progress will be made in technology to get products to end consumers."

As one of the industrial sectors hardest hit by the pandemic in CEE, the automotive sector faces some of the toughest challenges. The industry is particularly important in CEE, Hejduk notes, as "many CEE countries have a high dependency on automotive manufacturing and logistics; for example, Slovakia produces more cars per capita than any other country in the world." But the industry relies on demand for the cars built in the region. "A lot depends on German demand for cars," Hejduk notes, "and if, and when, that will recover." In Poland, meanwhile, Iain Batty sees an opportunity: "I think the shift in the automotive sector to e-mobility and electric cars is going to pick up. This will create new possibilities, for example, for battery plants and new assembly plants."

Although the COVID-19 pandemic is set to continue to cast its shadow over the investment decisions of many businesses, the logistics and manufacturing sectors in CEE have, on the whole, proved resilient. This positive trend is likely to continue in the near future, while new and exciting possibilities emerge, driven by the acceleration of digitalization and the move towards electric vehicles. ■



Ana-Marija Skoko, Partner, CMS Zagreb