

April, 19
2006

Market of industrial premises of the Baltic region in Europe's context

The Baltic region's convenient position, well-developed network of local roads, air and sea transport, high qualification of specialists and membership in the European Union allows to expect an increase of transit flows in the future. The three Baltic markets have a great potential for developing industrial premises. However, these advantages do not suffice for attracting foreign investments and becoming a transit country between Eastern and Western Europe.

Lithuania, Latvia and Estonia have a good strategic location between countries of the European Union and the Commonwealth of Independent States. The countries have a well-developed transport infrastructure: the territory is intersected by two European corridors – in the Northern-Southern direction (Tallinn-Riga-Kaunas-Warsaw) and Eastern-Western direction (Kiev-Minsk-Vilnius-Klaipėda) and their branches, international airports, ice-free ports in Klaipėda and Riga, a railway network under modernization and roads that meet EU requirements.

Mindaugas Kulbokas, director of Colliers International's valuation and consulting department, says it is important to accentuate the integral market of the Baltic region, stress the common transport infrastructure, similar legal and tax environment, as well as the region's ability to compete with other markets in Central and Eastern Europe. Taken separately, Lithuanian, Latvian and Estonian markets are too small to be interesting sites for development of industrial facilities on the international scale. They will always lose the competition to countries with larger domestic consumer markets (Poland, the Czech Republic, Hungary and Romania). In terms of the possibility to reach them by all means of transportation, the Baltic states rank merely thirteenth on the map of Europe in spite of their superb domestic infrastructure and strategic location, only ahead of Russia and Sweden (See Table No. 1). The region's favorable geographic location is one of the key advantages in logistics, therefore, it is important to encourage investments into renovation of roads and development of intermodal transport and integration into the EU transport system (the Rail Baltica, Via Baltica projects).

Not only the strategic location but also costs of creation of asset and labor force, rent and the legal and tax environment matter in terms of investments. As compared with Western and Eastern European countries, prices of industrial facilities are among the lowest in the Baltic states (See Table No. 1). Lower prices are only available in Poland.

Today the market of real estate intended for production and warehouses is concentrated in industrial territories of the largest cities in the Baltic region - Vilnius, Kaunas, Klaipėda, Riga, Tallinn, Pärnu and Tartu – and next to main highways within 15 kilometers from city centers. Rent of new facilities is around 4.6 EUR per square meter in Lithuania, 4.5 EUR in Estonia and may be as high as 6.2 EUR in Latvia due to the insufficient supply of industrial premises. The Baltic region's developing demand for new industrial facilities is inert – tenants do not only need certain time to get used to the new industrial rent and assess the quality of facilities but also to fulfill their obligations to operators of the old industrial premises they are now renting. The most favorable geographical location and biggest industrial concentration in Latvia, Riga is becoming the logistic center of the Baltic region. In Lithuania the logistics is concentrating close to Vilnius, Kaunas and Klaipėda.



Industrial premises rent prices in the Baltics

A comparison of Central and Eastern European labor markets reveals that the labor force is cheapest in Russia, followed by the Baltic states and Poland. The latter made considerable progress in logistics and industrial facilities, attracted foreign investments and large international developers including ProLogis, AIG/Lincoln, Parkridge CE and Panattoni, which compete among themselves, thus pulling down rent of industrial facilities near main highways to approximately 3 EUR per square meter. The neighboring Poland has as many as 14 special economic zones that offer tax privileges to attract investments. Foreign direct investments in this sector in Poland grew by 20 percent during the past year. Consequently, the Baltic region faces biggest competition in Central and Eastern Europe from Poland.

The relatively low construction costs of industrial facilities and the still moderate labor costs in the Baltic region are indicated as the main advantages over other countries, however, the situation is expected to change in 5-10 years, and the advantages will disappear.

The Baltic region's modern logistics and cargo distribution terminals should secure it a position of 3PL (third-party logistics) between technologically advanced Western Europe and CIS/Eastern European countries, which have an enormous potential for market growth but are yet to balance their markets.

	Property price	Labour force costs	International access	Inner road jams	Freight flow	Premises and land supply
Poland	1	3	7	8	9	7
Czech rep.	4	5	2	10	6	11
Russia	9	1	14	1	8	6
France	6	11	6	11	2	4
Hungary	5	4	8	2	14	8
Belgium	3	10	1	12	7	12
Austria	8	15	5	5	13	1
Ireland	14	9	10	3	10	2
Baltic States	2	2	13	4	15	13
Italy	10	8	9	9	5	9
Portugal	7	6	12	13	11	3
Holand	12	12	3	14	4	10
Spain	15	7	11	7	3	15
Germany	13	13	4	15	1	14
Sweden	11	14	15	6	9	5

Table No. 1. Best conditions are indicated by numeric order. No 1 means best and 15 indicates the worst conditions.

Local developers are the most usual participants of the Baltic markets of industrial facilities, while foreign funds take interest in properties that have already been developed. They usually take no interest in properties that only exist in blueprints. Projects prepared with high degree of professionalism are a rare phenomenon these days. The rent of new industrial facilities that comply with EU requirements are higher than the rent of old warehouses, making tenants unwilling to move from the old but cheaper premises. Forecasts suggest that the market in the Baltic states may assimilate 250,000-400,000 square meters of new industrial facilities in the coming 2-3 years.

“As compared with the neighboring countries, Lithuania is becoming less attractive to investors. First of all, we are yet to solve issues of restitution of rights to land and develop a stable and long-term tax strategy. The social 4-percent tax launched in 2006 is a perfect example. The intricacies related with the real estate tax are impeding investments in the country. The raised compulsory motor third-party liability insurance will not only affect the policy of local carriers (they will benefit more from registering their activities in neighboring countries) but also the redistribution of transit cargo flows. Another sore problem is the absence of a unanimous and strong Baltic marketing strategy, which would position the region as strategically convenient for developing industrial facilities and stress its advantages. Urban development is often presented at international fairs but many forget to underscore the region’s attractiveness for industrial activities,” said Kulbokas.

Therefore, it is important to make maximum use of opportunities today, adopt and approve favorable procedures for the carrying of cargo. If the transport infrastructure is not modernized in time to create a system of services, it will be even more difficult in the future to integrate into the European transport and logistics system. The fact that many transport-related decisions depend on the policy of the neighboring countries – Poland and Belarus – is yet another obstacle.

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