

TOWARD THE "NEW NORMAL" AFTER COVID-19 – A POST-TRANSITION ECONOMY PERSPECTIVE

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4. The Polish logistics real estate market as a link in international supply chains during the Covid-19 crisis



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Abstract

Purpose: The aim of the study is to determine the emerging trends of changes related to the situation of uncertainty and increased risk in supply chains, and at the same time limiting the negative effects of the epidemic on the logistics industry.

Design/methodology/approach: The study focuses on the analysis of changes in the logistics real estate market in Poland. The analysis period covers the years 2004–2020. The data used here comes from reports from real estate advisory companies and Statistics Poland.

Findings: The last dozen or so years has been a period of dynamic development in the Polish market of logistic space and facilities. The year 2019 turned out to be a record year in the history of the market in terms of the increase in warehouse space and Poland has become the sixth biggest warehouse market in Europe. The year 2020 and SARS-CoV-2 has brought a lot of uncertainty about the future, and the recession has become a fact.

Practical implications: More than half a year after the outbreak of the pandemic, several emerging trends of changes related to the situation of uncertainty and increased risk in supply chains, as well as approaches to limit the negative effects of the epidemic on the logistics industry, can be observed. These include: an increase in e-commerce preferences in relation to traditional trade; increase in stock levels; relocation of production sites.

Originality and value: The observed phenomena indicate moderate optimism and the resilience of the logistics industry in the medium term. In turn, in the long run, production can be expected to be relocated to closer areas (domestic or European) in order to shorten the supply chain.

Keywords: logistic, real estate, supply chains, Covid-19, Poland.

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4.1. Introduction

It is difficult to imagine the activity of industrial, commercial, and agricultural enterprises without logistic services. They are supported by various warehouse and logistics facilities called “centers:” warehouse, distribution, logistics, and logistics parks. They play an important link in supply chains with storage as the basic process carried out within them. However, warehouse management is a concept that covers a wide range of activities, primarily technical, economic, and organizational. In a broad sense, the term warehouse management refers to the construction of functional real estate, equipped with the necessary machines and devices and in accordance with accepted standards logistics, also referred to as warehouses in general. Coyle, Bardi, and Langley (2010) believe that with the popularization of the logistics supply chain concept, warehouses began to play a strategic role in achieving such logistic goals as lower inventory levels, lower costs, better customer service, and shorter order fulfillment cycles.

The warehouse market in Poland has been developing very well since the beginning of the twenty-first century, changing the landscape mainly around large agglomerations. Not only quantitative changes are noticeable in the growth of objects and warehouse space (surface). The warehouses themselves, their equipment, functions, internal structure, and shape are also changing. It is a response to the growing needs of logistics services, which consequently leads to the transformation and improvement of entire supply chains with an international and even global reach.

The aim of the considerations is an attempt to define the threats to the logistics real estate market in Poland posed by the Covid-19 pandemic, and to identify the trends that shape the conditions of functioning on this market during the pandemic. The background of these considerations is a description of changes in the logistics market in Poland. The data used here comes from reports from real estate advisory companies: Colliers International, Jones Lang Lasalle, Prologis Research, and Statistics Poland.

4.2. Development of the warehouse market in Poland

The last dozen or so years has been a period of dynamic development in the Polish market of logistic space and facilities. The breaking point here was 2004, i.e. the moment of Poland’s accession to the European Union. Joining the EU resulted in the increase of political credibility and triggered changes in the legal framework that delineated the rules for conducting business activities, which positively

affected the mood of foreign investors. Since then, there has been an increased and uninterrupted inflow of foreign investments, which significantly stimulated economic growth, the creation of new enterprises and commercial facilities. It was supported by the program of expanding expressways and motorways. This, in turn, created conditions and triggered needs for logistics services, contributing to an avalanche of growth in facilities and warehouse space (see Figure 1).

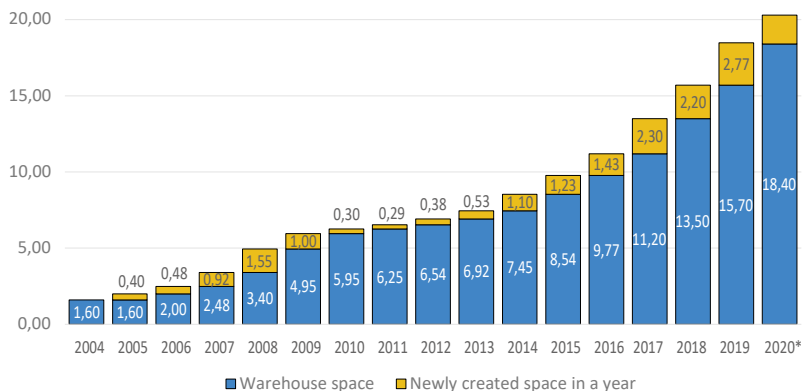


Figure 1. Existing warehouse space in Poland (in mln sq. m)

Source: Own elaboration of (Jones Lang LaSalle, 2020, and Colliers International, 2019).

The economic crisis of 2008–2009 caused a slowdown in the growth rate of the logistic real estate market in Poland, which was delayed in 2010–2011. This proves that the macroeconomic situation and its dynamics of changes have a significant impact on the warehouse market. Further economic growth – especially noticeable in industry, trade, and transport – stimulated high demand and supply for the growth of investments in the warehouse market since 2014. During this period, each year brought new records in demand, and the supply increased from 7.5 mln sq. m at the end of 2013 to 18.4 mln sq. m at the end of 2019 (Figure 2). In the following years (2014–2019), the growth rate of warehouse space remained at a very high level of over a dozen percent and amounted to 14.7%, 14.4%, 14.6%, 20.6%, 16.3%, and 14.6% each year. The year 2019 turned out to be a record year in the history of the market in terms of the increase in warehouse space. New supply exceeded 2.7 mln sq. m. According to Jones Lang LaSalle, compared to the European Union, Poland has become the sixth biggest warehouse market in Europe, following Germany, the Netherlands, France, Belgium, and Spain. In turn, in the first half of 2020, with a 15% share in new supply, Poland was the third most active warehouse market in Europe (Jones Lang LaSalle, 2020).

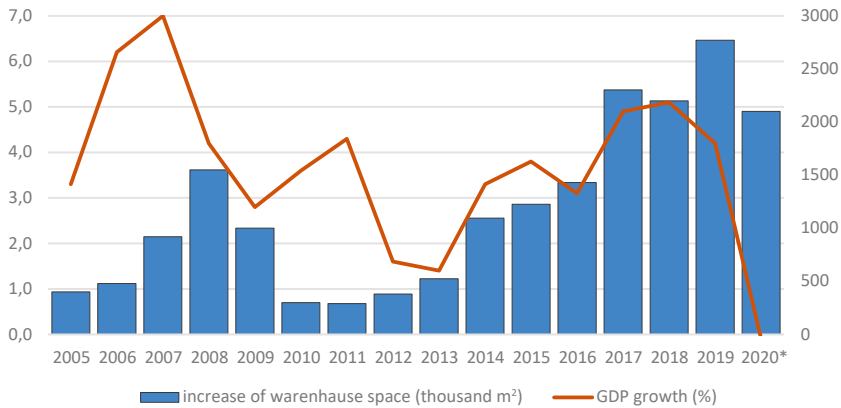


Figure 2. The growth of warehouse space in Poland and GDP dynamics

Source: Own elaboration of (Jones Lang Lasalle, 2020; Colliers International, 2019; Macroeconomic Data Bank, 2020).

4.3. New trends shaping the conditions for the functioning of the logistics real estate market

The year 2020 brought a lot of uncertainty about the future in Poland and in the world, and the recession caused by the Covid-19 pandemic has become a fact. The threats posed by the crisis affect all spheres of life and economy, including the logistic real estate market. The increase in uncertainty is reinforced by the unknown scale of the negative impact of Covid-19 and the duration of the pandemic.

After ten months from the outbreak of the pandemic (i.e. March 2020), we notice several emerging trends of changes related to the situation of uncertainty and increased risk in supply chains, while limiting the negative impact of the pandemic on the logistics industry. These may translate into increased optimism and demand on the logistic real estate market:

Increased preferences in e-commerce in relation to traditional trade. In times of the pandemic, online shopping has become a more practical and safer solution than shopping in traditional stores. This form of trading has become very popular.

According to Prologis Research (2020), only in 2019 there was a 16.7% increase in online purchases worldwide. It seems unlikely that after Covid-19 the trend will be reversed, and people will move away from the consumer behavior acquired during the pandemic, i.e. online shopping with home delivery. This trend should stimulate demand, especially in industries related to fast-moving consumer

goods (FMCG), footwear, clothing, and electronics. The increase in sales in the e-commerce sector should accelerate the development of the last mile warehouse market.

Increase in inventory levels. While supply chains seek to minimize inventory to lower costs and commodity prices, in conditions of uncertainty it becomes more important to maintain an adequate level of inventory to maintain the continuity of supply. The lack of stock in warehouses and lost revenues make resilience more important than efficiency in supply chains. Fluctuations to which supply chains are exposed necessitate flexible inventory planning to ensure business continuity. In the pandemic, companies assess safe inventory levels by reviewing business continuity plans. The increase in the level of inventories stimulates the demand for additional warehouse space.

Relocation of production sites. Covid-19 revealed threats to long-term global expansion and excessive concentration of production in China. The dependence of the world economy on the situation in China may reduce the resilience of economies and the security of countries. In turn, this may lead companies to consider relocating their operations to new, closer locations in the near future. It is in line with the change in the supply chain strategy of some companies that move their operations back to their home country (reshoring or backshoring) or locate their new production investments there (onshoring). The purpose of such moves is to minimize the risk of liquidity loss in the supply chain. The expansion of producers' activities indirectly generates demand for logistics real estate thanks to supplier networks and the consumer market.

4.4. Conclusions

The Covid-19 pandemic caused the most serious crisis in the history of the economy. In a globalized world of economic interconnection, the crisis has exposed disruptions in supply chains. When analyzing the current market situation and the trends emerging in the logistics industry, we may conclude that the logistics real estate market shows a relative resilience and an ability to adapt to changing operating conditions.

On the one hand, the logistic real estate market in Poland will suffer in the short term, although its scale is difficult to determine due to the unrecognized scope and duration of the Covid-19 pandemic. Restrictions on the activities of companies are and will be most severely felt in areas with many infections. There is a high probability that in the short term there may be an increase in the availability of warehouse space due to a decrease in demand. The increase in vacancy rates may be particularly noticeable in facilities of lower standard and worse location.

Industry developers will decrease their activity. In turn, this will reduce the number of new investments, especially those built for speculative purposes, which will be postponed to a later date. However, most investments started earlier will probably be completed. This means a further increase in the volume of warehouse space, although lower than in the previous year.

On the other hand, we may point to moderate optimism related to the emerging immunization of the industry. Despite the ongoing Covid-19 pandemic, the logistics real estate industry has proved very resilient to its effects. In the current perspective, this should be associated with the growing popularity and turnover of e-commerce (among others, FMCG products) and inventories, as an increase in inventories translates into an increase in demand for space, as well as the good condition of the economy as a whole (relatively low GDP decline compared to other countries in the region). In the long term, production can be expected to be relocated to closer areas (domestic or European) in order to shorten supply chains and minimize the risk of liquidity loss. These trends may translate into an increase in demand for logistic real estate.

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