CBRE

30.11.2023

Nearshoring in CEE: This is where it happens

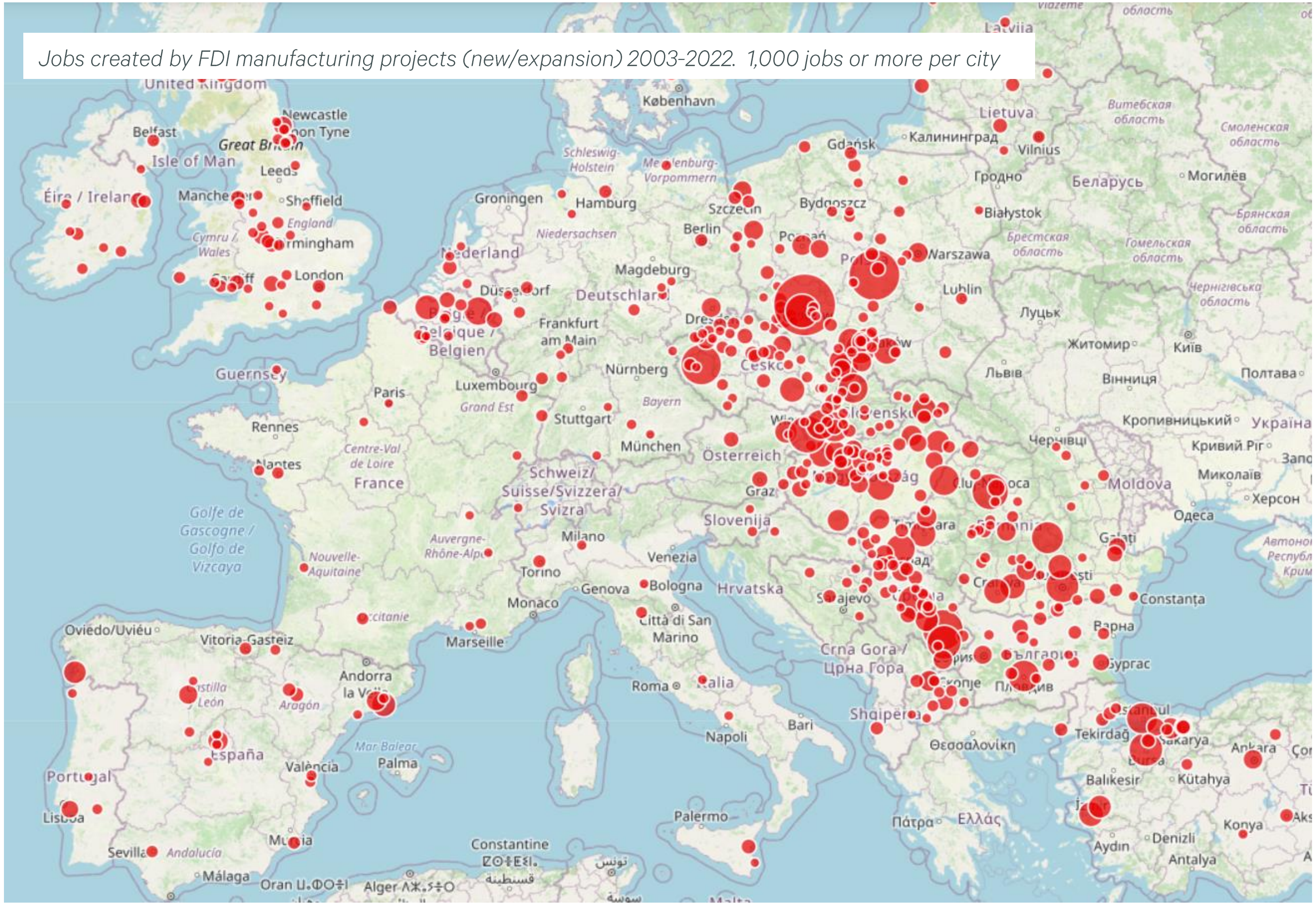
CBRE Supply Chain Advisory perspective

CEE is already a top location in Europe for manufacturing projects

Manufacturing location selection has been highly concentrated in Central and Eastern Europe, driven by labour costs and availability.

Clusters also form around key connectivity infrastructure and proximity to customers.

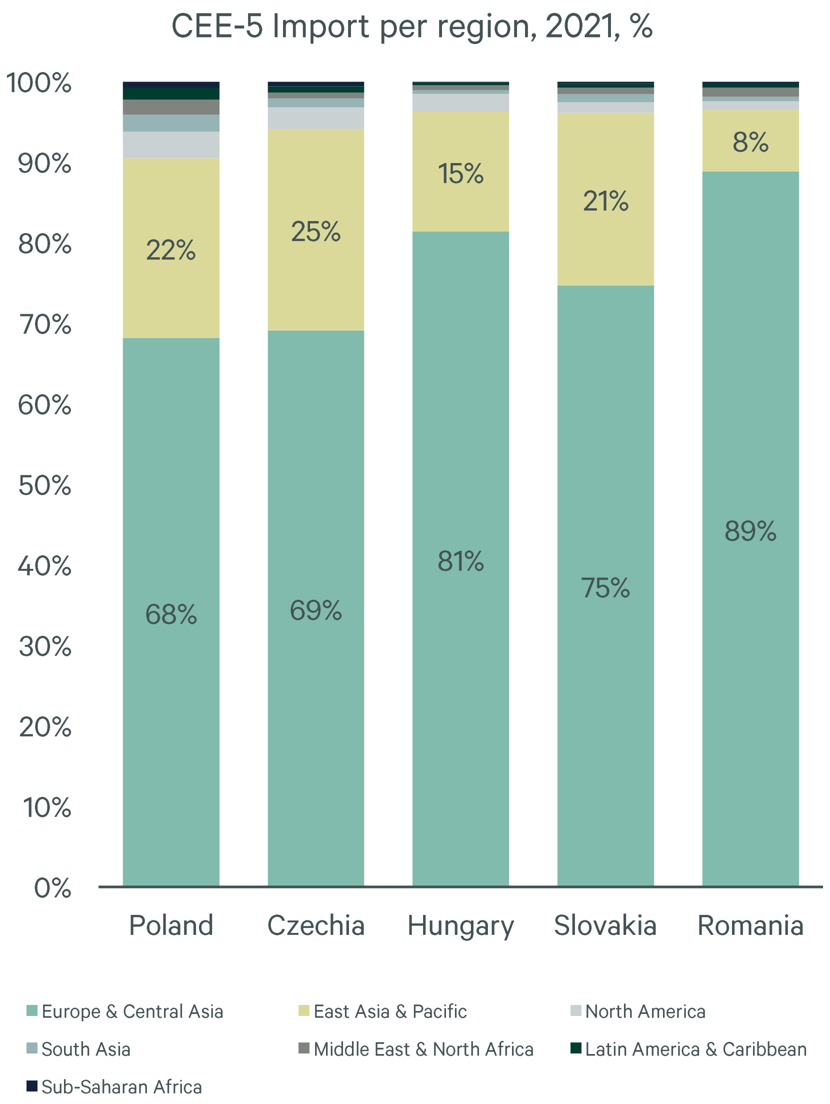
Supply chain networks place limits on the geographic distance between production and customers. This has been intensified by the impact of COVID disrupting global networks.

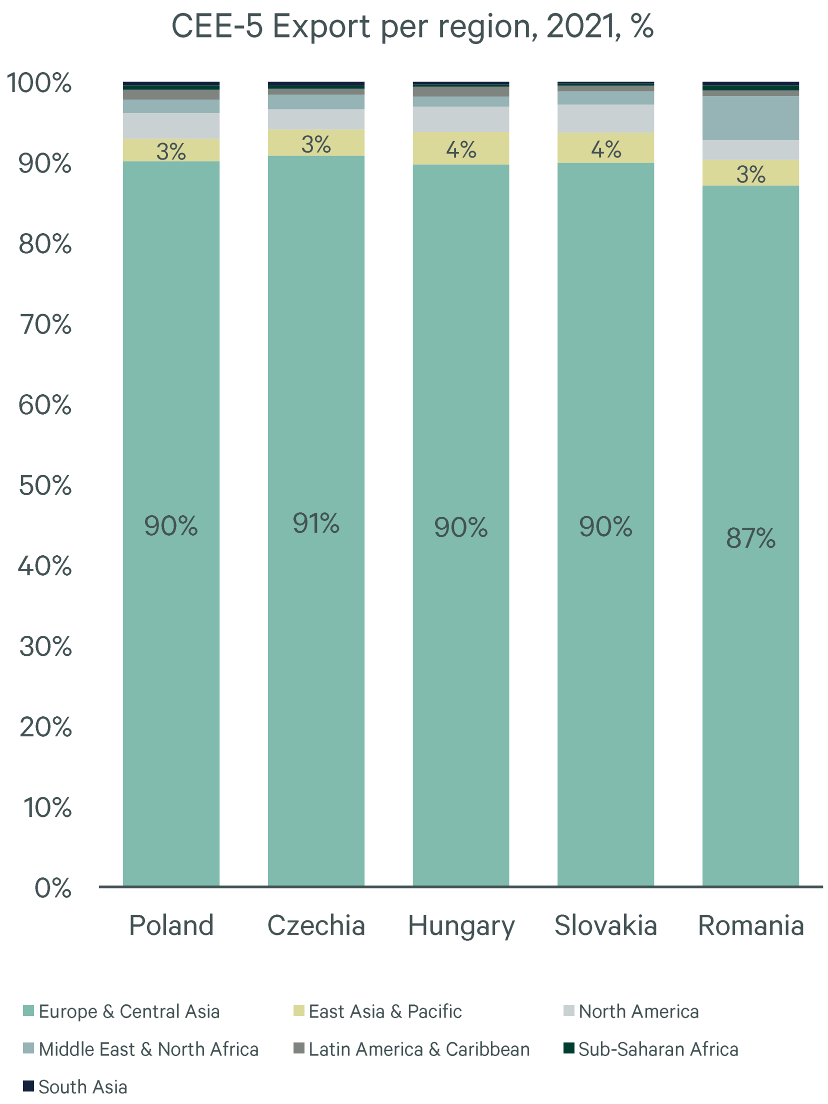


Jobs created by FDI manufacturing projects (new/expansion) 2003-2022. 1,000 jobs or more per city

Source: fDi Markets, CBRE Analysis 2022

Nearshoring is already a fact – 74% of imports and 90% of exports of CEE-5 countries are from/to Europe and Central Asia countries





Source: World Integrated Trade Solution (WITS)

Germany is the largest export and import partner of all CEE-5 countries

TOP 5 IMPORT PARTNERS OF CEE-5 COUNTRIES, 2021

POLAND	CZECHIA	SLOVAKIA	HUNGARY	ROMANIA
Germany (17%)	**Germany (18%)**	**Germany (16%)**	**Germany (19%)**	**Germany (17%)**
China	China	China	China	Italy
Russia	Poland	Poland	Austria	Hungary
Italy	Slovakia	South Korea	Slovakia	Poland
Netherlands	Italy	Vietnam	Poland	China

TOP 5 EXPORT PARTNERS OF CEE-5 COUNTRIES, 2021

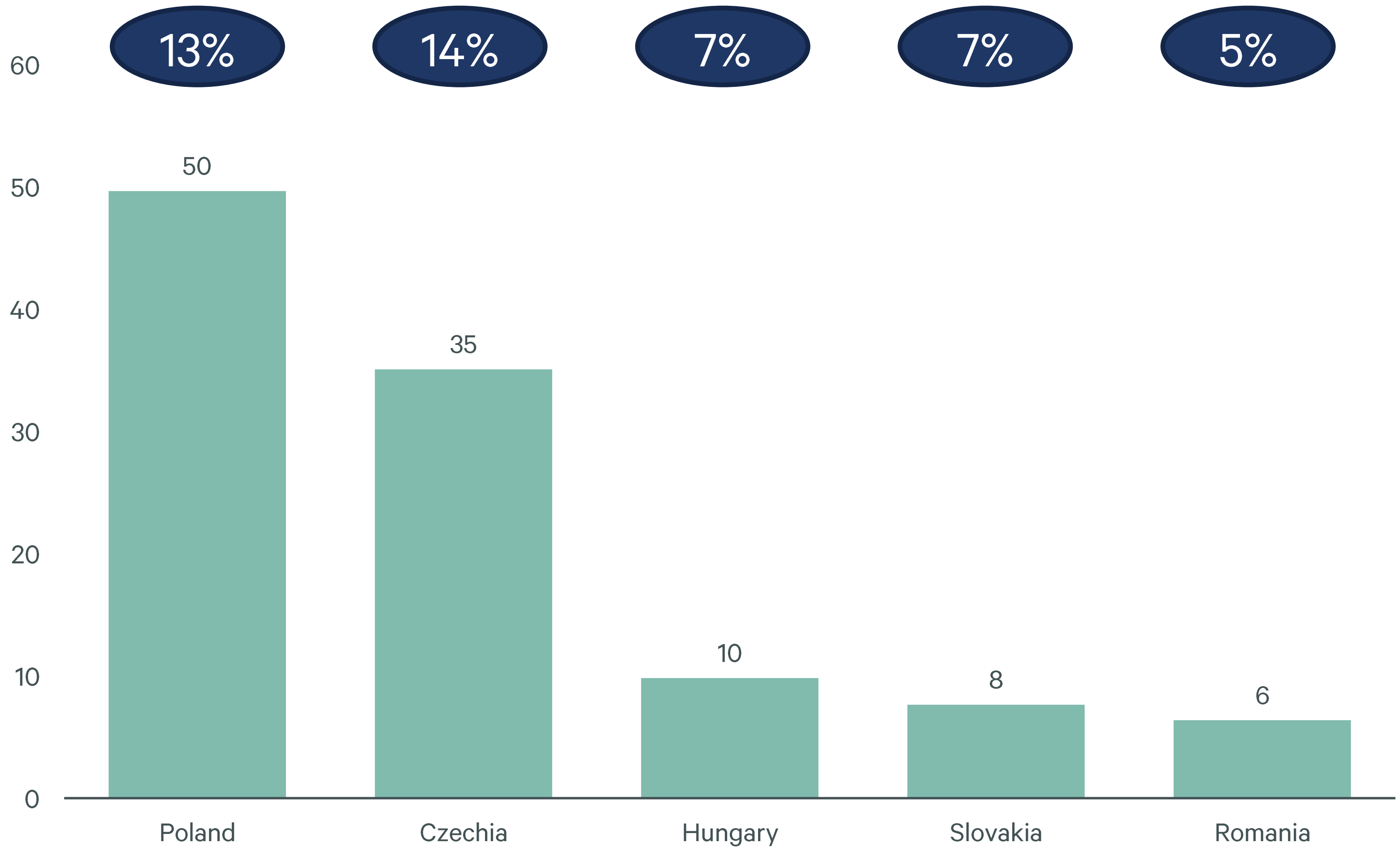
POLAND	CZECHIA	SLOVAKIA	HUNGARY	ROMANIA
Germany (22%)	**Germany (24%)**	**Germany (18%)**	**Germany (21%)**	**Germany (17%)**
Czechia	Slovakia	Czechia	Italy	Italy
France	Poland	Poland	Romania	France
United Kingdom	France	Hungary	Slovakia	Hungary
Italy	Austria	France	Austria	Poland

Source: World Integrated Trade Solution (WITS)

IMPORTS FROM CHINA TO CEE

In 2021, total import value from China to CEE-5 countries has exceeded 108 USD bn

VALUE (USD bn) AND SHARE (%) OF CHINA IN THE TOTAL IMPORTS OF CEE-5 COUNTRIES, 2021



Source: World Integrated Trade Solution (WITS)

Nearshoring /friendshoring trends start to materialize with visibly more production-related inquiries in CEE

Expand Network Resilience and Agility

- From just-in-time to just-in-case principles
- Put inventory closer to consumption points
- Diversify sourcing and production bases

Europe

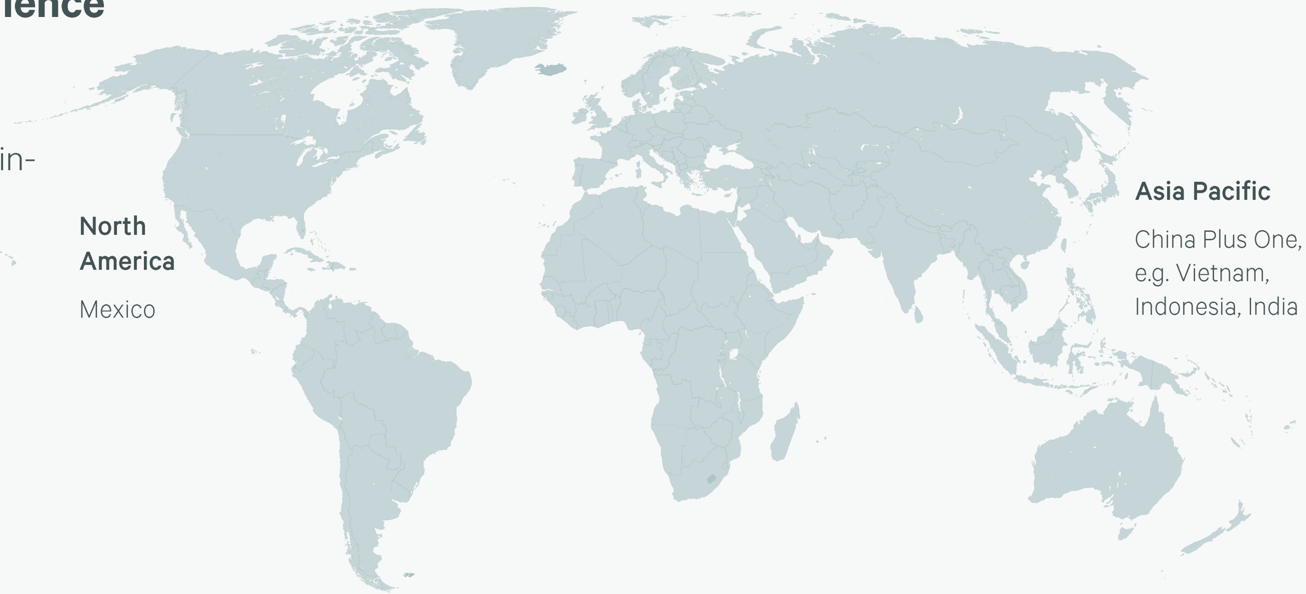
Central & Eastern Europe (CEE), e.g. Poland. Romania, Slovakia

North America

Mexico

Asia Pacific

China Plus One, e.g. Vietnam, Indonesia, India



Reinforcing supply chains

Building safety inventories:

Larger inventories can prevent stockouts by allowing for longer lead times due to contingencies.

Near shoring / reshoring:

Bringing production and/or stocks closer could mean less transportation risks and costs. CEE countries well positioned

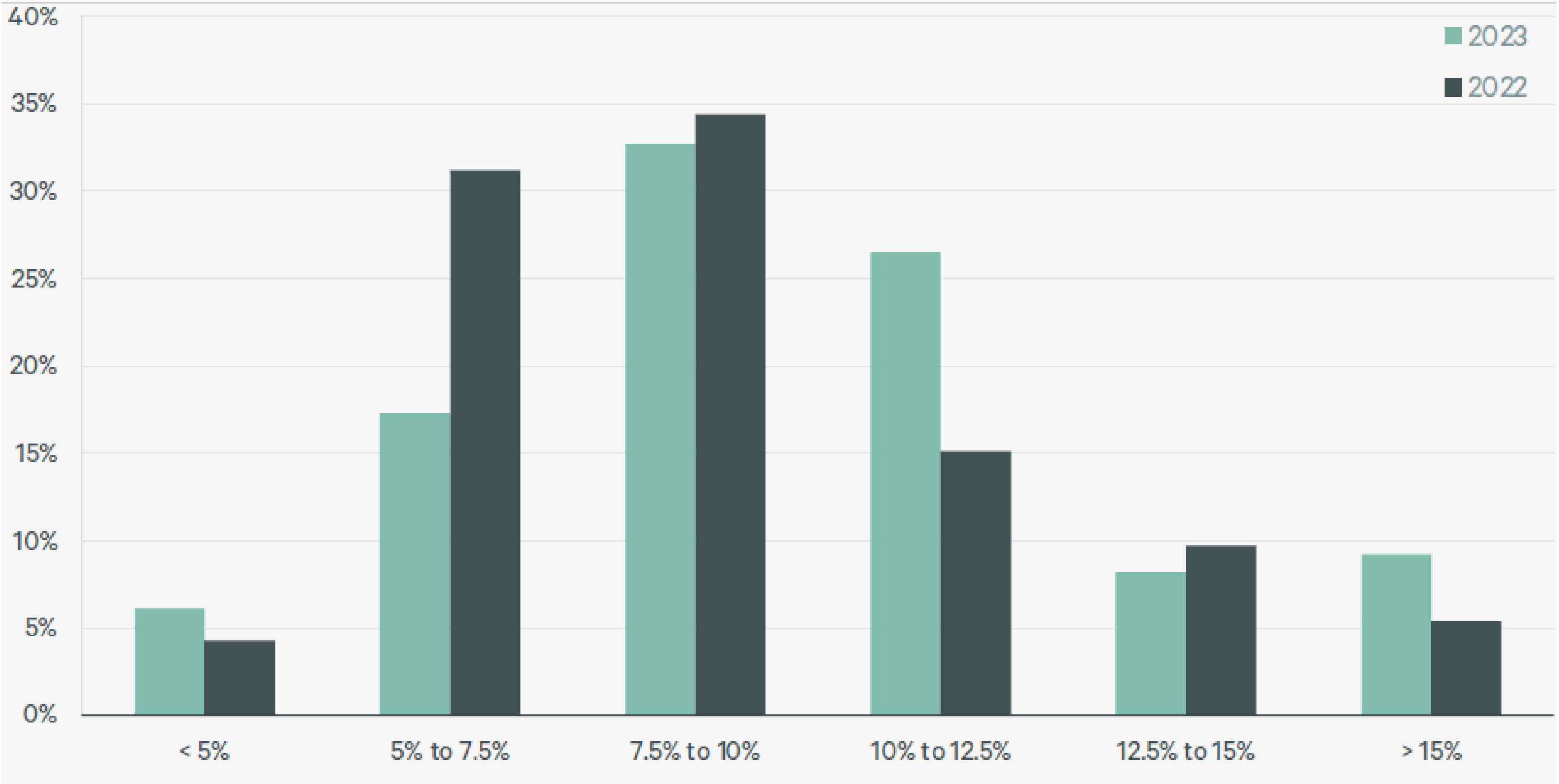
Diversifying suppliers:

Improving communication and channels between suppliers and adding new ones to create a flexible and adaptable network

ADDITIONAL DEMAND FOR INDUSTRIAL & LOGISTICS REAL ESTATE

Selecting optimum location should not be based only on real estate costs comparison but total operational costs need to be considered

For 70% of largest logistics occupiers in Europe,
real estate costs account for below 10% of total operating costs



Source:

CBRE and Analytiqa (European Logistics Occupier Survey 2023)

Since real estate costs account usually for only 5-10% of total supply chain costs, full picture is required to take optimum location decision

"It takes roughly an 8% increase in fixed facility costs to equal the impact of just a 1% increase in transportation costs,"

Joe Dunlap, Managing Director CBRE Supply Chain Advisory.

Logistics Costs

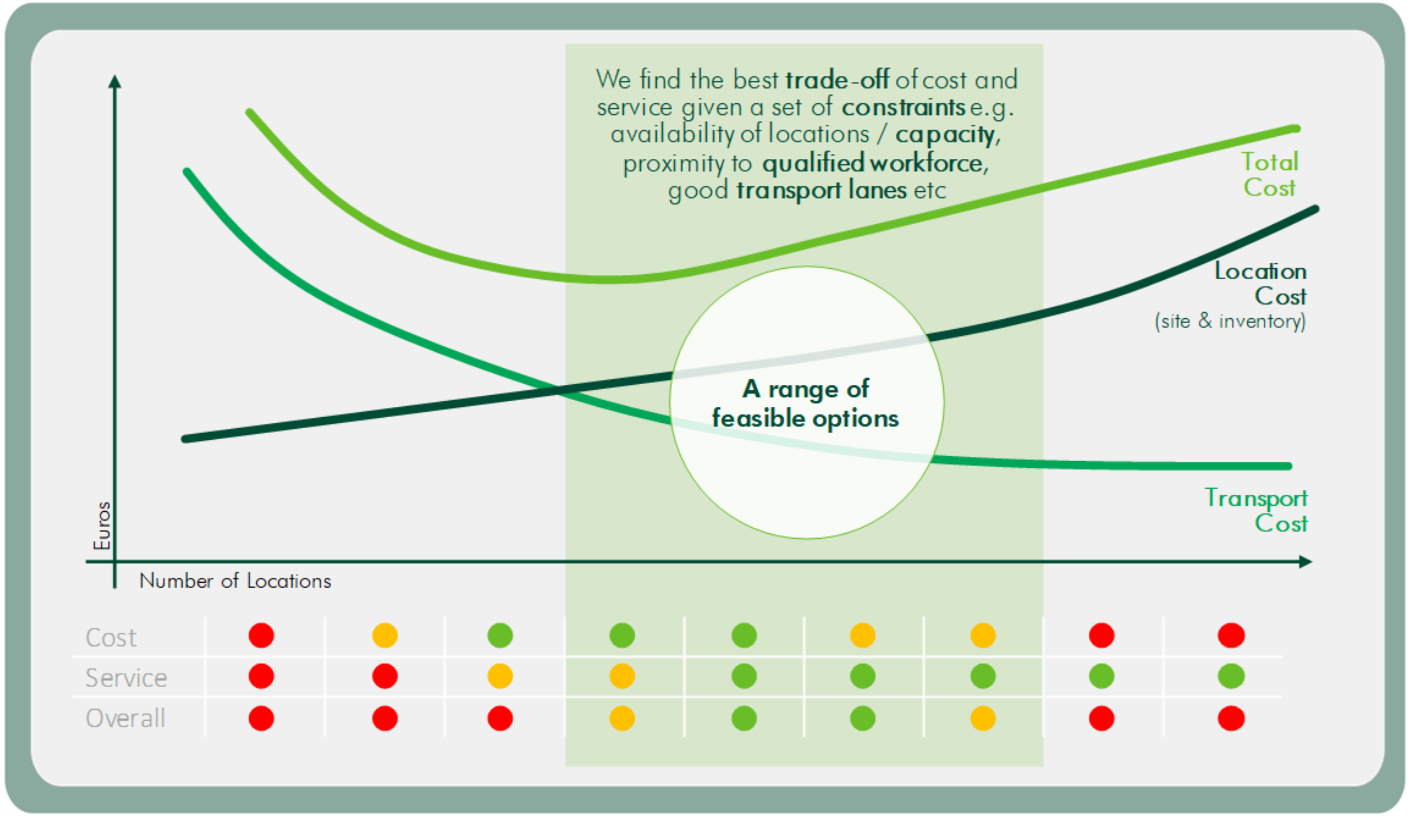
P&L Line Items	%
Transportation Costs	45-70%
Fixed Facility Costs*	**5-10%**
Variable Facility Costs**	15-25%
Inventory Carrying Costs	12-16%
Other Related Costs	7-12%

* Includes rent.

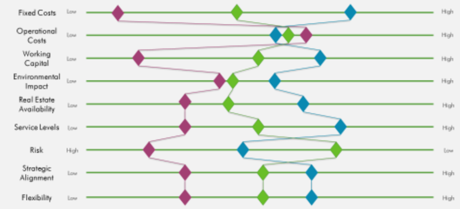
** Includes payroll.

Source: CBRE Supply Chain Advisory, 2021.

Trade-offs between service and cost needs to be evaluated in order to select right Industrial and Logistics location

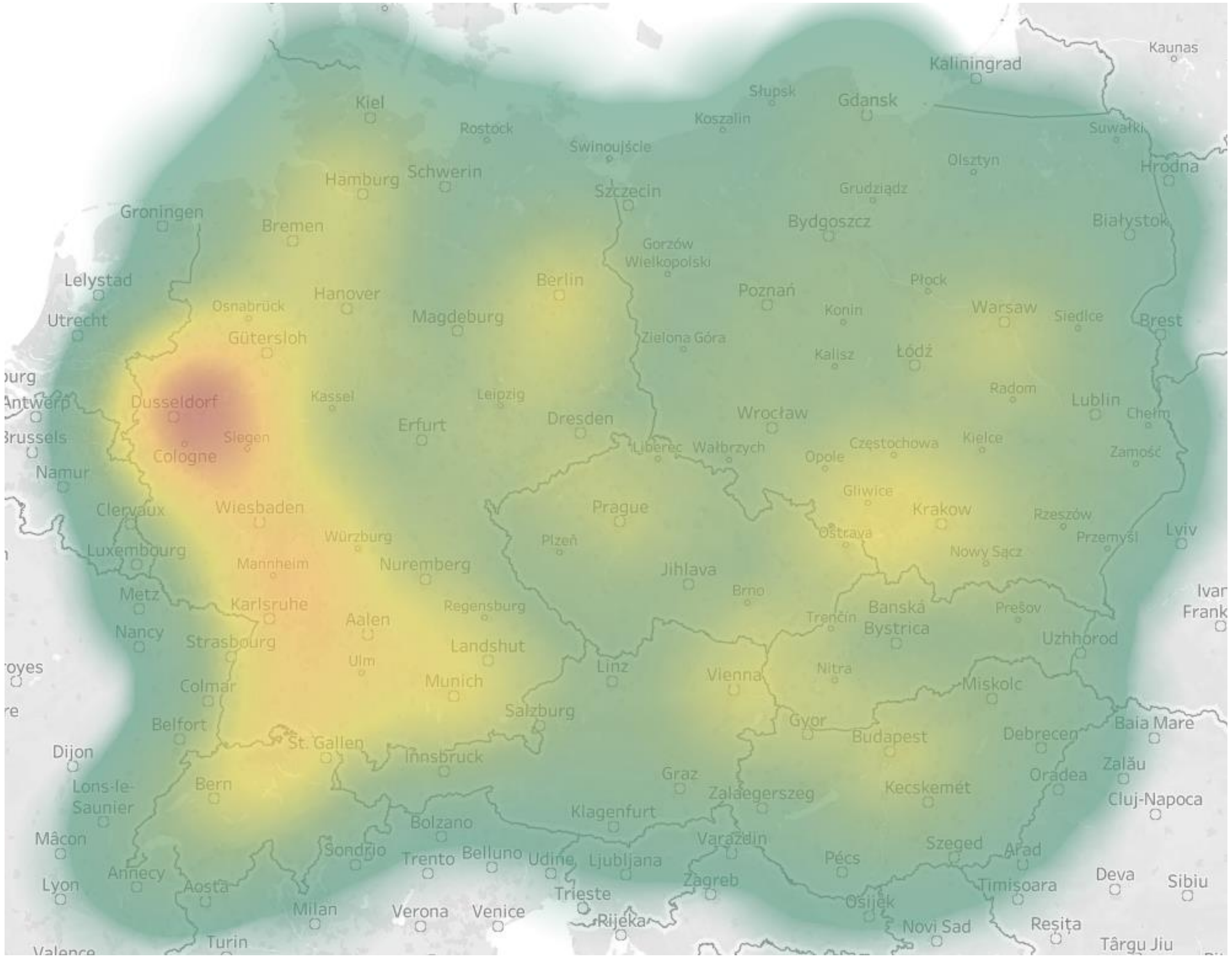


Critical assessment of primary and secondary factors



Determining the optimum distribution location always starts with analyzing the data of the region that will be supplied from the new warehouse or factory

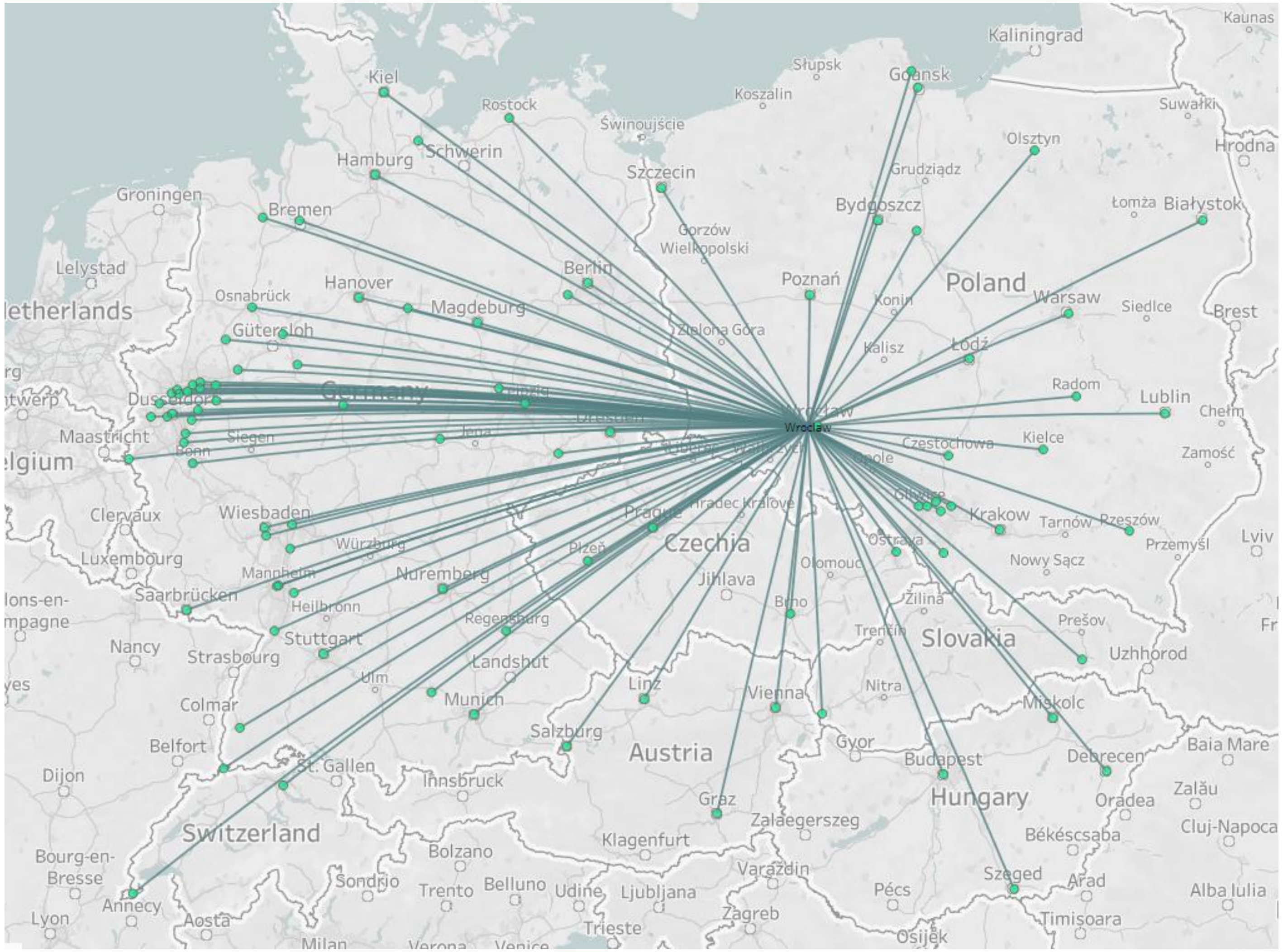
EXAMPLE VISUALIZATION OF VOLUMES / POPULATION IN CEE AND DACH REGION



Źródło: Analiza CBRE Supply Chain Advisory

Taking transportation costs and distances, the optimum distribution location for CEE & DACH region can often be Czechia or Western Poland

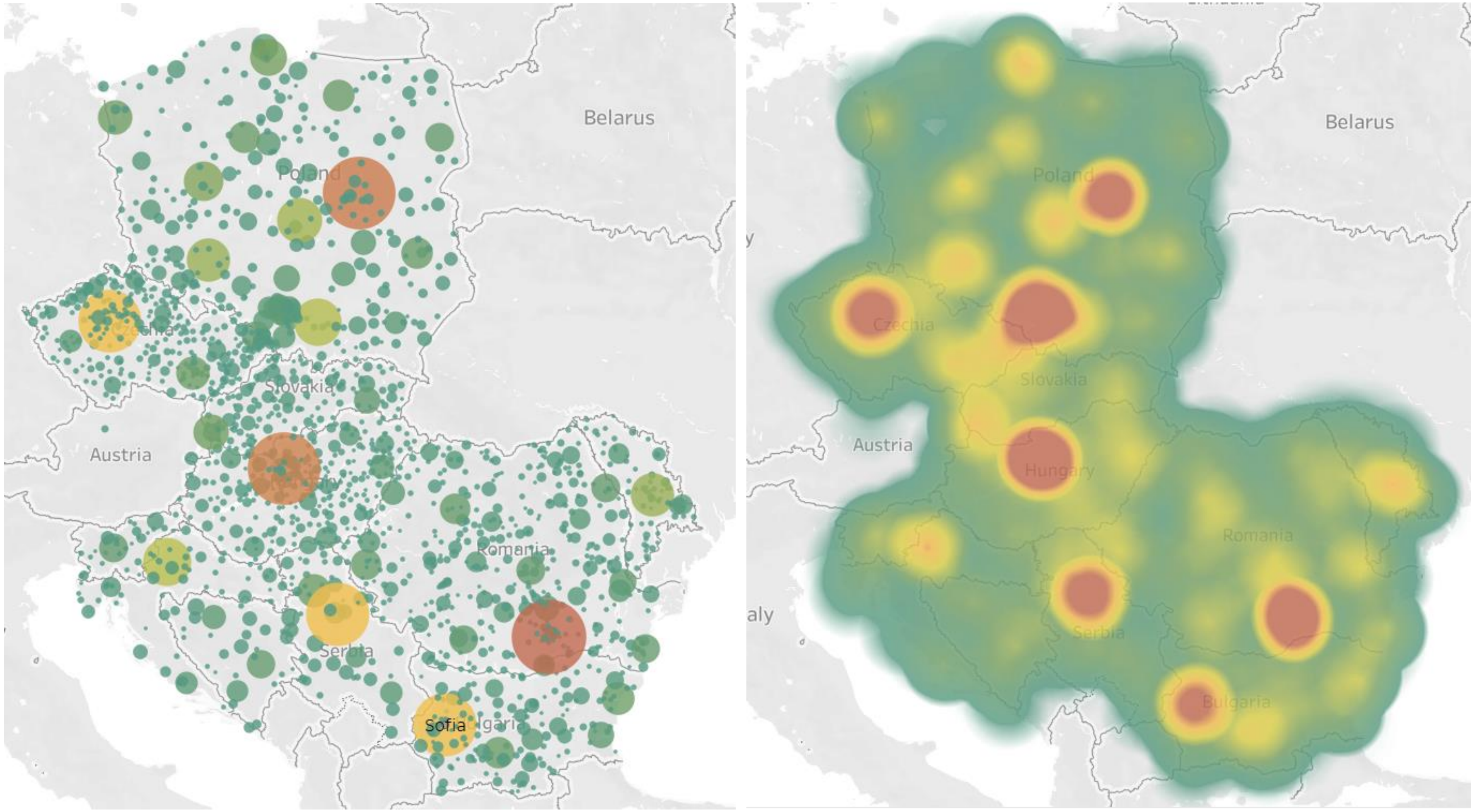
EXAMPLE VISUALIZATION OF FLOWS FROM SOUTH-WEST POLAND TO CEE & DACH



Source: CBRE Supply Chain Advisory analysis

Analyzing the CEE population is often a good starting point for the assessment of labour availability

LARGEST CITIES IN THE CEE REGION BY POPULATION

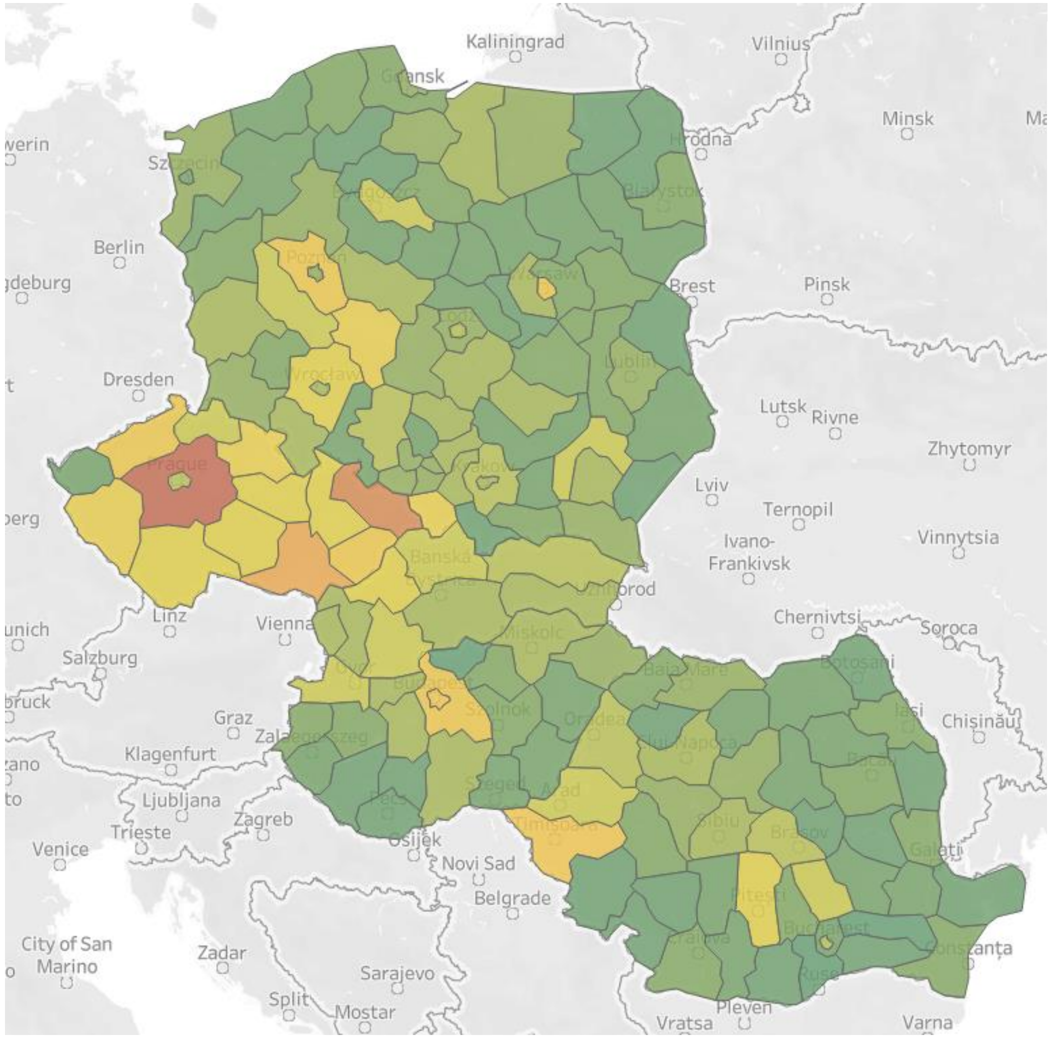


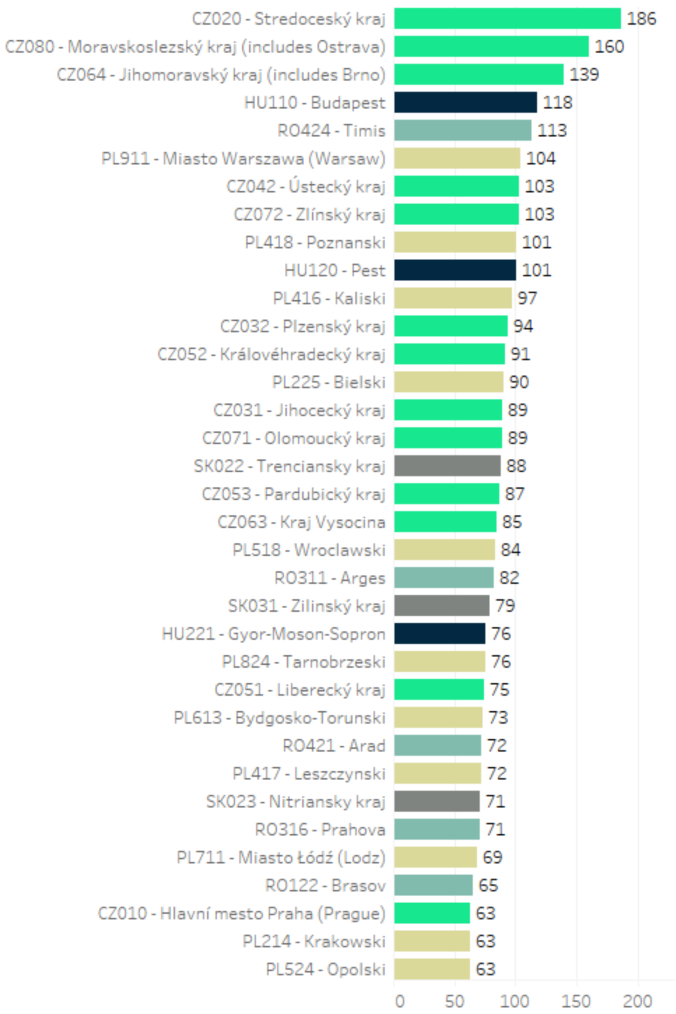
Source: CBRE Supply Chain Advisory analysis based on Eurostat / Oxford Economics data

LABOUR ANALYTICS

Top 3 regions in CEE with the highest manufacturing employment are in Czechia, followed by Budapest (Hungary) and Timisoara (Romania)

MANUFACTURING EMPLOYMENT IN TOP 5 CEE COUNTRIES PER NUTS3 REGION

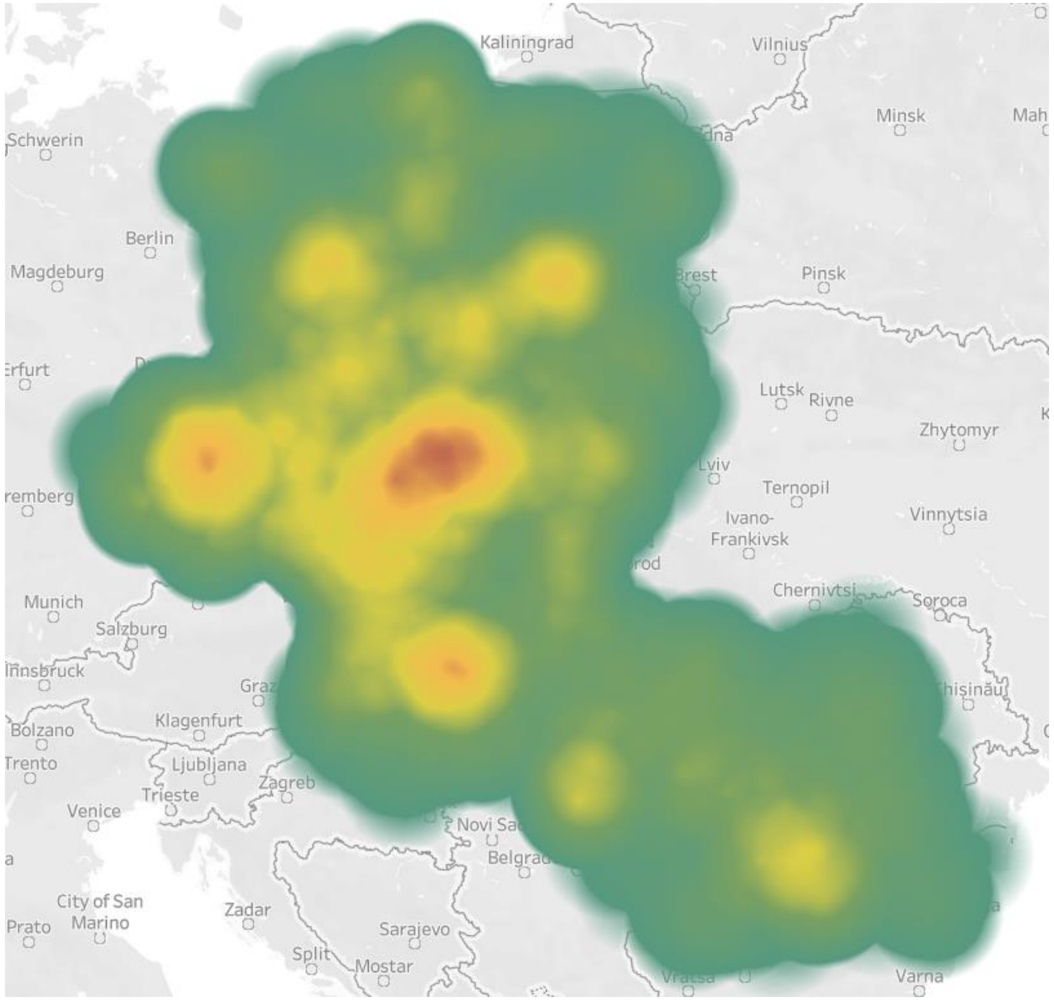


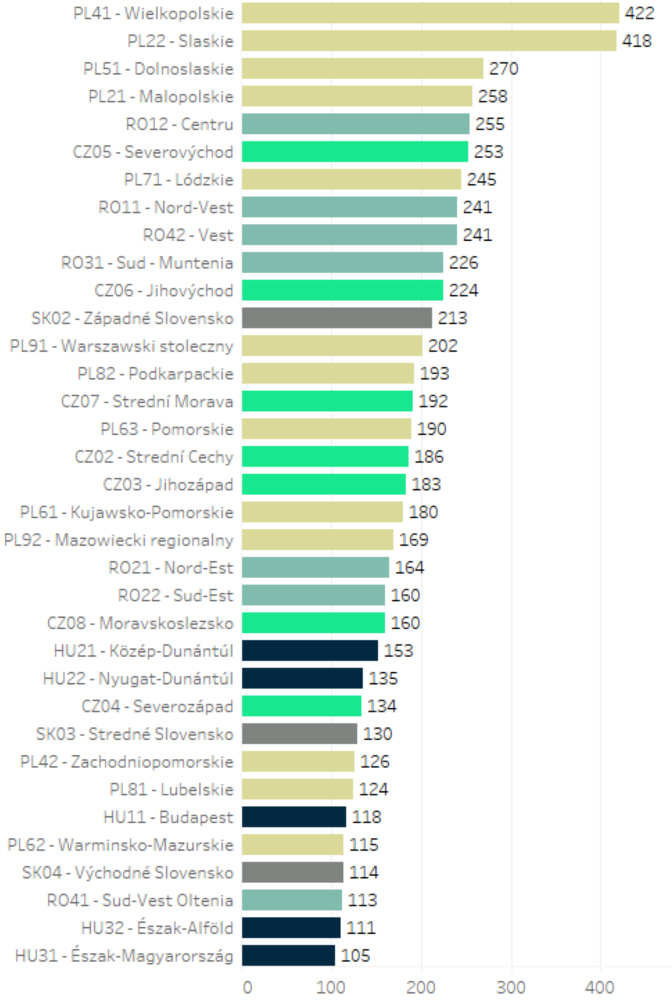


Source: CBRE Supply Chain Advisory analysis based on Eurostat / Oxford Economics data

Grouping the regions together shows also a high concentration of manufacturing employment in the Upper Silesia region (south of Poland)

EXAMPLE VISUALIZATION OF LARGEST CITIES IN THE CEE REGION

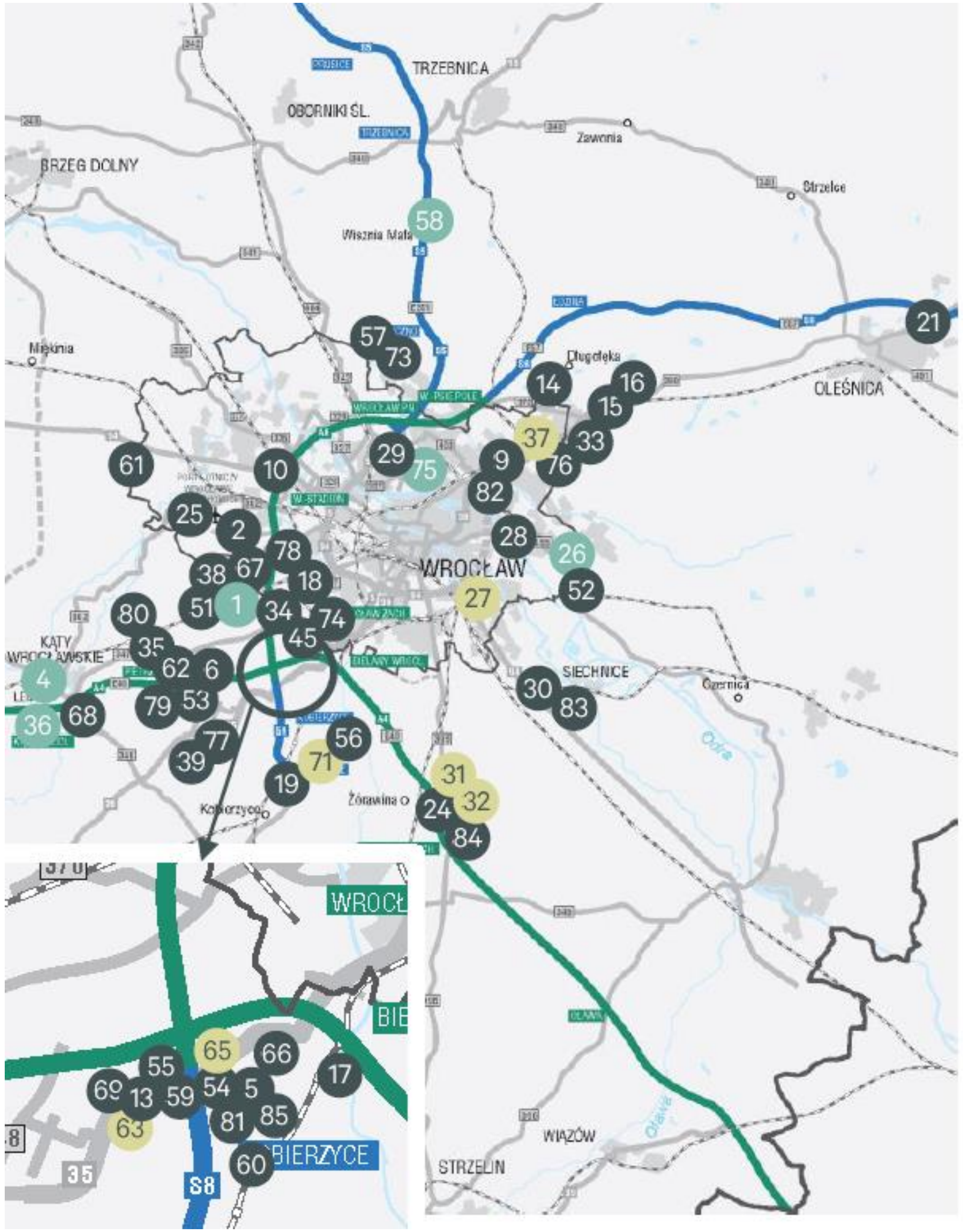




Source: CBRE Supply Chain Advisory analysis based on Eurostat / Oxford Economics data

INDUSTRIAL & LOGISTICS
SITE SELECTION

The regional assessment of Logistics and Labour should be combined with a deep understanding of local real estate market



INDUSTRIAL & LOCISTICS MARKET - WROCLAW

4.004.253 sq. m

Total existing space

200.115 sq. m

Space under construction

69.408 sq. m

Space completed in Q2 2023

122.777 sq. m

Total leasing activity in Q2 2023

7,80%

Vacancy rate

Source:: CBRE Research, Q2 2023

In the CEE-5 region there is almost 58 m sq m of modern Industrial & Logistics space

57.8 M
supply

5 M
sq m under construction

4.7 M
sq m new supply

4.4 M
sq m take-up

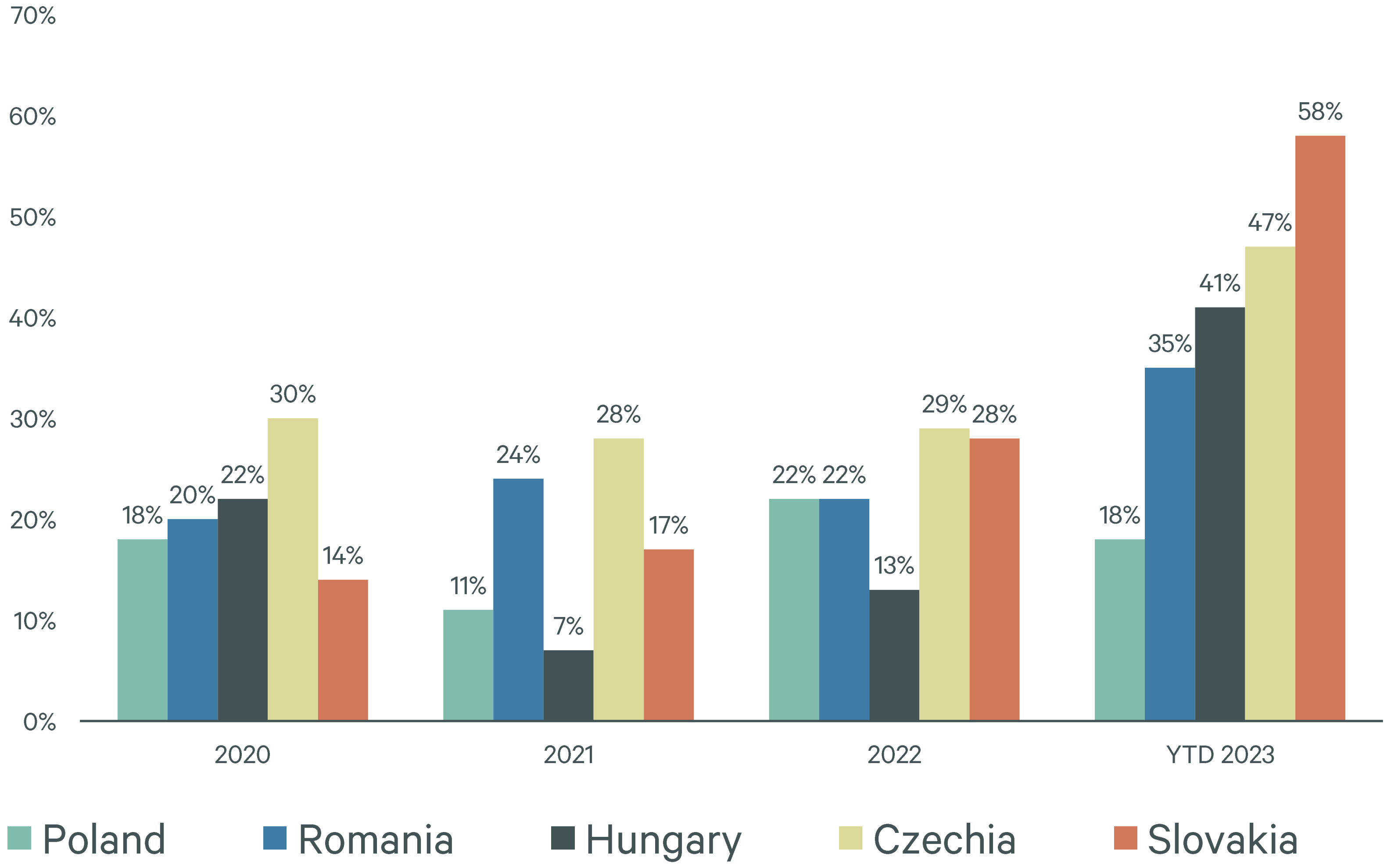
1.5%-8.6%
vacancy rate

4.5-7.55
EUR/ sqm/ month
headline prime rents

Source: CBRE Research, Q3 2023

Manufacturing share in CEE-5 take-up has visibly increased in 2023

Manufacturing share in total take-up, 2020 – Q3 2023, %



Source: CBRE Research, Q3 2023

CBRE Supply Chain Advisory helps clients solve their business challenges

DELIVERING THE REAL ESTATE VISION	OPTIMISING OPERATIONS	DESIGNING OPTIMAL FACILITIES	OPTIMISING THE SUPPLY CHAIN	WINNING THE BATTLE FOR LABOUR & PLACEMAKING	OUTSOURCING OPERATIONS
Business Challenges • Visibility of industrial assets – what, where, why • Giving real estate a seat at the table • Identifying the right stakeholders • Embedding in decision-making/ planning	**Business Challenges** • Sweating existing assets • Driving cost efficiency • Increasing capacity • Improving service	**Business Challenges** • Opening of a new site • Consolidation of multiple operations • Layout, flows, headcount, automation, costs, risks...	**Business Challenges** • Manufacturing & Logistics • Where, how many, how big • Trade off between service, cost & carbon • Merge / divest • Consolidate	**Business Challenges** • Labour recruitment / retention • Existing sites / new sites • Actions and next steps • Competitors	**Business Challenges** • In-house vs outsource • Informed, requirements driven partner selection • Independent management of vendors and process • Transition and ramp-up planning • Transport, warehousing, system...

Benefit / Outcome

An equipped, engaged, pro-active real estate team, delivering value	5-10% of operational cost reduction	Optimal operational design	10-15% of supply chain cost reduction	Clarity of who and how to target	Desired support level

Thank you!

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