ECONOMIC OVERVIEW

GDP GROWTH

-5.8%
2020 FORECAST

CPI INFLATION

3.2%
2020 AVERAGE

NATIONAL UNEMPLOYMENT

3.2%
IN DECEMBER 2020

2.6%
2020 ANNUAL AVERAGE

GROSS MONTHLY SALARY

€1,338
(CZK 35,402)
COUNTRY AVERAGE, Q3 2020

EXCHANGE RATE

26.44
CZK/EUR
2020 AVERAGE

RETAIL SALES

-5.3%
Y-O-Y CHANGE, NOVEMBER 2020

Source: Oxford Economics, Czech Statistical Office, Czech National Bank

INDUSTRIAL MARKET HIGHLIGHTS - H2 2020

- Modern industrial stock in the Czech Republic grew by 314,800 sq m in H2 2020, indicating a mild (7%) decline in construction activity compared to H1. The total industrial inventory intended for lease totalled 9.11 million sqm, while 35% of that was found in Prague (i.e. 3.2 million sq m).

- Nationwide vacancy rate fell to its historical low of 3.3%, having dropped by 111 basis points (bps) from the middle of 2020 and by 41 bps since the beginning of the year. The share of unoccupied space in Prague declined from 2.7% in mid-2020 to 1.5% at the close of 2020.

- At the end of 2020, industrial premises totalling 692,500 sq m were under construction across the country, being only marginally (1%) below the development pipeline 12 months ago. 26% of this construction pipeline represent buildings completed to a shell & core finish.

- Leasing activity on the industrial market demonstrated strong results, proving it to be one of the most resilient asset classes during the Covid-19 pandemic. Gross leasing activity in H2 2020 amounted to 829,000 sq m, an increase of 14% compared to the volume of transactions signed in H2 2019.

- Net demand in the last six months of 2020 totalled 527,400 sq m, which was almost identical to the net take-up recorded in H2 2019.

Source: Savills Research
ECONOMIC OVERVIEW

- The world economy was negatively affected by the COVID-19 pandemic in 2020. Related measures imposed in an attempt to beat it resulted in a deep synchronized decline of the global economy, unprecedented in the era after World War II. Many countries responded by adopting large scale fiscal and monetary stimuli that helped to mitigate some of the short-term negative economic shocks. According to the forecast of the Czech National Bank, a drop in GDP of 5.8% is predicted for the whole year. There should be a deep fall in all areas of GDP components except the general government spending. With government measures starting to have a positive effect, including restricting population movement to contain the virus whilst simultaneously rolling out a vaccination program, the Czech National Bank predicts that Czech economy will gradually start to recover in 2021 and reach the growth of 2.2% by the end of the year.

INFLATION

- Throughout 2020, the CPI inflation was well above the upper band of the 2% inflation target and averaged at 3.2%. However, by the end of the year, it slowed down significantly. According to the macroeconomic prediction of the Ministry of Finance, the inflation rate should decline ever further in 2021. It is expected to oscillate within the tolerance band and average at 1.9% by the end of 2021.

RETAIL SALES

- When the first lockdown was imposed in spring 2020, the majority of stores were closed and retail sales plummeted dramatically. A fall of almost 11% in y-o-y comparison was recorded in April. After a short summer period when most restrictions were lifted and stores reopened, the second wave hit Europe in autumn, bringing new lockdown measures. In November, retail sales were down by 5.3% compared to the same period of 2019. Automotive sales were hit the hardest, being down by almost 45% (y-o-y) in April and 11.30% (y-o-y) in November 2020. On the other hand, a significant increase in online sales was recorded in 2020, since e-commerce became one of the only possibilities to purchase non-food products and goods.

UNEMPLOYMENT

- Going into 2020, Czech Republic had the lowest unemployment rate in the EU. Throughout the year, given the strong economic headwinds, unemployment has risen but remains at a comparatively low level.

- According to the prognosis of the Ministry of Finance, the general unemployment rate in the Czech Republic is predicted to further increase, having reached an average of 2.6% in 2020. Even though the pandemic has caused disruption in the labour market, the unemployment rate is significantly lower than one would expect in the current economic downturn. This is partly due to the government measures imposed to support the employment, as well as due to workers’ fear of changing jobs in these uncertain times. It is expected that unemployment will continue to rise and reach its peak of 3.3% in 2021, a figure still well below most of EU countries. An expected renewed demand for labour shall slightly reduce the number of unemployed people at the beginning of 2022.

- The unemployment rate in Prague has been traditionally the lowest in the country, reaching 1.9% in 2019 (70 bps below the country’s average). However, due to the COVID-19 pandemic, the Prague unemployment rate increased in 2020, reaching 2.7% in Q3. In a year-on-year comparison, this translated into an increase of 150 bps, one of the most significant in intraregional comparison. A bigger increase was recorded only in the Liberec region, where the unemployment rate rose by 160 bps.
Czech Republic - Economic Overview

Unemployment Rate

Source: Oxford Economics, Czech Statistical Office

Czech Republic Regional Unemployment Rate

Source: Czech Statistical Office

Czech Republic Regional Gross Monthly Salary

Source: Czech Statistical Office
EXISTING STOCK AND NEW SUPPLY

In the last six months of 2020, developers completed construction of industrial premises with a total leasable area of 303,700 sq m. Additional 11,100 sq m was added to the total existing stock in H2 as a result of a sale & leaseback deal closed on an existing building, which brought the total half-yearly supply to 314,800 sq m. Only 7% of the H2 2020 new supply was built speculatively.

The total annual supply (including acquisitions of existing buildings) added up to 653,900 sq m, being almost identical to the overall new supply in 2019. The highest volume of new space in 2020 was added to the Moravia-Silesia submarket (115,500 sq m), followed by the Ústí nad Labem region (103,800 sq m). Prague and the Pilsen region shared the third place with an annual new supply of 88,000 sq m.

The countrywide industrial stock rose to 9.11 million sq m and 62% of the total inventory was held within the three largest submarkets of Prague (3.21 million sq m), the Pilsen region (1.33 million sq m) and the South Moravia region (1.15 million sq m).

CONSTRUCTION PIPELINE

Although a high level of economic uncertainty persists, increasing occupancy levels and demand for non-existent larger units has been driving new industrial development across the country. 2020’s fourth quarter saw construction commence at number of brand new parks, mostly in Prague and the Moravia-Silesia region, which is likely to see much more attention also in the coming 1-2 years.

At the end of 2020, construction works were under way in almost all regions, with the total leasable area reaching 692,500 sq m. 60% of the space in construction phase was already pre-leased and nearly 178,000 sq m were industrial units already completed to a shell & core finish. The highest development activity was seen in the Moravia-Silesia region where 199,200 sq m was being built, followed by the Pilsen region with a total of 156,200 sq m under construction.

The highest volume of speculative development was registered in the Moravia-Silesia region and the Prague market.

VACANCY RATE

As a result of the exceptionally high net demand witnessed in the final quarter of the year, the countrywide vacancy rate dropped from 4.4% in the middle of 2020 to its historical low at 3.3% at year end. The volume of physically vacant space therefore declined from 386,000 sq m in mid-2020 to 300,300 sq m in December.

Taking into account the shell & core space, which is on average available for handover in three months, the nationwide vacancy rate would rise to 5.1%.

At the end of 2020, the highest volume of vacant space was reported in the Pilsen region (95,300 sq m) followed by the Ústí nad Labem region (64,700 sq m). Vacancy rate in Prague was gradually declining from 2.7% in the middle of 2020 and closing the year at 1.5%, indicating vacant premises in a total area of 49,300 sq m.
CZECH REPUBLIC
IN H2 2020

303,700 sq m
OF NEW SPACE BUILT

829,000 sq m
TOTAL LEASING ACTIVITY

527,400 sq m
TOTAL NET TAKE-UP

275,000 sq m
PRE-LEASES SIGNED

Czech Republic Industrial Market - H2 2020

Development Pipeline by Region (Sq m Under Construction)

Quarterly Net Take-up in Regions (Sq m)

Source: Savills
OCCUPIER DEMAND

Despite market volatility and uncertainty created by the Covid-19, the total leasing activity registered on the Czech industrial real estate market in H2 2020 reached 829,000 sq m, showing a 14% improvement y-o-y and standing 16% above the H1 results.

The cumulative gross take-up for 2020 added up to 1,544,600 sq m, indicating a 5% increase against 2019. This growth was, however, mainly a result of the higher volume of lease renewals which were seen on the market in 2020. The annual volume of renewed lease agreements was by 37% higher than in 2019.

The volume of known short-term leases (which are not included in the gross nor net take-up figures), increased by approximately 67% compared to the previous year.

Net take-up slowed down in Q3, but the last quarter of 2020 saw an enormous rebound in new demand resulting in 368,200 sq m leased. This level of activity helped bring the H2 take-up to 527,400 sq m and the annual demand volumes up to 882,600 sq m, being only 11% below the 2019 results.

Pre-leases represented 51% of the annual net take-up in 2020, slightly less than in the previous years.

Even though the largest transaction was signed in the Moravia-Silesia region (74,000 sq m pre-lease signed by a retailer), the highest volume of annual net take-up was traditionally claimed by Prague (25%). Pilsen was the second most demanded region in 2020 with a 22% share on net annual take-up.

According to the sectoral analysis, the 2020 net take-up in the Czech Republic was powered by e-commerce (net take-up volume rose by 108% y-o-y) and to certain extent also by retailers, who also reported a significant y-o-y take-up increase (+64%). However, the rise in retailer’s take-up was only thanks to the one large transaction mentioned above, where a retailer is consolidating its operations into one distribution centre of 74,000 sq m.

RENT LEVELS

Headline rents remained mostly unchanged in the last six months of 2020. Standard warehousing units of approximately 5,000 sq m leased for five years are typically leased for €4.00 - €4.80 per sq m. Effective rents for industrial space, which take into account any incentives and discounts provided by the landlord, are on average €0.25 - €0.50 lower than headline rents.

Headline rents for smaller units (around 1,000 sq m or less) in Prague ranged from €5.00 to €6.50 per sq m a month.

Rents for office space within logistics or production halls remained stable at €8.50 – €9.50 per sq m a month.

Monthly fees for service charges generally ranged from €0.65 – €0.75 per sq m depending on the scope of included services. Service charges in smaller business units of approximately 500 sq m could be as high as €0.90 – €1.00.

OUTLOOK

In the attractive markets of Prague and Brno-city, where the vacancy is low but demand is traditionally on the higher side, rents may come under upward pressure. Opposite trend may occur in the Moravia-Silesia, due to the increasing level of competition among developers and high construction pipeline.

Although at slower pace, e-commerce growth is likely to continue even in 2021. Take-up levels will continue to be supported by 3PLs, while we may also start seeing demand from the automotive sector.
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