

Czech Republic Industrial Market



Czech industrial market in Q3 2021



9.5 million sq m
Total A-class stock
in the Czech Republic



136,400 sq m
New industrial space
supply in Q3 2021
(down by 20% y-o-y)



1.75%
Nationwide vacancy rate
(down by 70 bps q-o-q)



526,100 sq m
Gross take-up in Q3 2021
(up by 90% y-o-y)



452,700 sq m
Net take-up in Q3 2021
(up by 192% y-o-y)

Source Savills Research

ECONOMIC OVERVIEW

<p>GDP GROWTH</p> <p>2.5% 2021 PREDICTION</p>	<p>CPI INFLATION</p> <p>5.8% OCTOBER 2021</p>
<p>NATIONAL UNEMPLOYMENT</p> <p>2.7% SEPTEMBER 2021</p>	<p>GROSS MONTHLY SALARY</p> <p>€1,493 (CZK 38,275) COUNTRY AVERAGE, Q2 2021</p>
<p>EXCHANGE RATE</p> <p>25.50 CZK/EUR Q3 2021 AVERAGE</p>	<p>RETAIL SALES</p> <p>3.4% Y-O-Y CHANGE, SEPTEMBER 2021</p>

INDUSTRIAL MARKET HIGHLIGHTS: Q1-Q3 2021

- The national stock of modern industrial space intended for lease expanded to 9.5 million sq m, of which 329,400 sq m was brought onto the market this year.
- Year to date new supply was 35% down year-on-year (y-o-y), however, the national industrial construction pipeline (including shell & core space) grew to a record 1.07 million sq m under construction.
- Total tenant activity remained robust. Gross take-up registered so far this year reached 1,750,500 sq m (75% up y-o-y and 55% above the pre-pandemic 2019).
- Net take-up recorded in the first three quarters of 2021 more than doubled compared to 2020. At 1,049,300 sq m, it was even 56% above the first three quarters of the pre-pandemic 2019. The share of net take-up on the total tenant activity recorded so far this year stood at 60%.
- Demand continued to outpace inventory additions and as a result, vacancy dropped by 159 bps from the beginning of this year and closed Q3 2021 at 1.75%.
- The Prague submarket saw 132,800 sq m of net take-up commitments signed in the first three quarters of 2021 (the same as in 2020). Total industrial stock in Prague reached 3.27 million sq m and vacancy fell even lower, hitting 1.05%.

ECONOMIC OVERVIEW

- As 2021 progresses, the Czech economy continues to fight the effects of the COVID-19 pandemic. However, despite some ongoing restrictions, GDP growth was generally optimistic, reaching 8.1% y-o-y in Q2 2021 and preliminary estimates indicating a y-o-y growth of 2.8% in Q3 2021.
- As the seasonality of Covid-19 begins to be seen again, with associated measures being taken, there is optimism that lessons learned from the preceding 18 months will moderate its economic impact. According to the Ministry of Finance's forecast, the annual GDP growth is expected to reach 2.5% in 2021 and accelerate to 4.1% in 2022.
- The automotive sector, the largest single economic sector in the Czech Republic and a major contributor to GDP, continues to face supply shortages of some components. Manufacturers even had to partially reduce or even stop the production. It is unlikely that automotive production will be fully up and running by the end of the year, which may negatively impact the Czech economy and slow down the GDP growth.

INFLATION

- Compared to Q1 2021, when the inflation rate averaged at 2.4%, its level rose significantly in October 2021 to 5.8%. The Czech National Bank anticipated that inflation will keep on hovering well above the upper side of the tolerance band in the final months of 2021 and close the year with an average of 3.7%. Because of the significant growth in inflation, the Bank Board of the Czech National Bank decided to increase the two-week repo rate by 125 basis points (bps) to 2.75% in November 2021 (the highest increase since 1997). The Czech National Bank hopes to slow down the rise of inflation that was predicted to reach almost 7% at the beginning of 2022 and to return inflation rate to the 2% target within 12-18 months. According to its forecast, the inflation rate in 2022 should reach an annual average of 5.6% and in 2023 slow down again, get closer to the inflation target and oscillate around 2.1%.

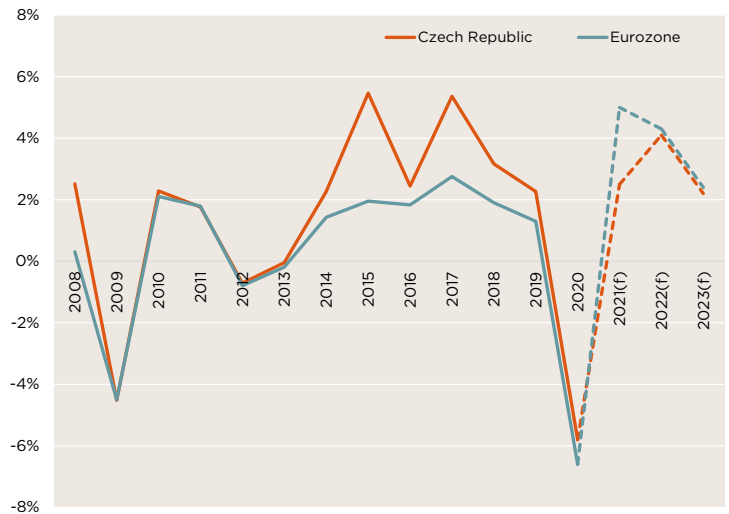
RETAIL SALES

- Although the y-o-y increase in retail sales in September reached positive figures of 3.4%, it is considered a mild slowdown compared to the summer results (+5.5% in July and +4.1% in August). The main contributors to the increase in September were Internet sales (+15.6% y-o-y) and generally, non-food sales that demonstrated a 6.7% y-o-y growth. The September figures are mainly affected by the lowering household demand caused by rising energy prices and other housing costs as well as fear of another epidemic wave. Even though retail sales faltered in September, the Czech Statistical Office concluded that the trend has already returned to the pre-pandemic growth and sales should continue to rise. Further development is also closely tied to the pandemic situation, but it is expected that thanks to the continuing vaccination, such strict measures will not be needed again and we will see retail sales grow further.

UNEMPLOYMENT

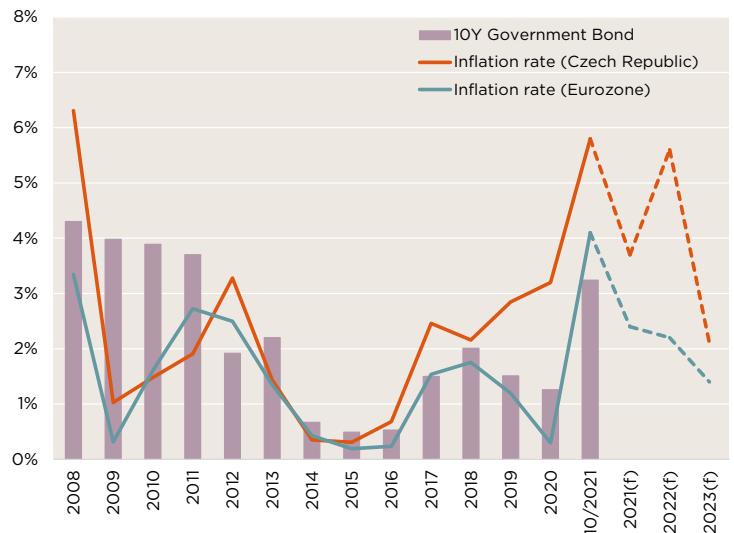
- Czech Republic maintains a low level of unemployment; according to the Czech Statistical Office, unemployment fell to 2.7% in September 2021, some 400 bps lower than the EU average (6.7% in September). With the easing of restrictions and the recovery of economic activities (mainly in gastronomy, services and hotel sector), labour demand is increasing again and the Ministry of Finance predicts a continued decline of unemployment. It is thus expected to reach 3.0% on average in 2021 and to fall further to 2.7% in 2022. However, the level of unemployment will also depend considerably on the situation in the automotive industry, which employs more than 182,000 people in the country. The production cutbacks may lead to collective redundancies, which may raise the unemployment rate above the expected level.

GDP Growth (y-o-y change, %, 2015 constant prices)



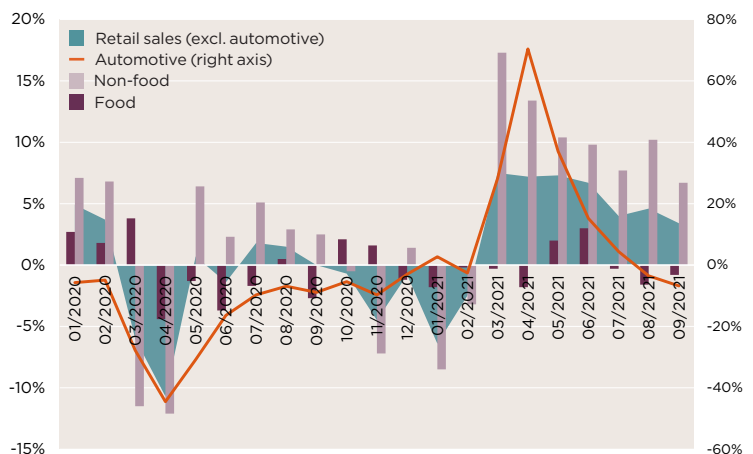
Source Oxford Economics, Czech National Bank, Ministry of Finance

Inflation Rate and 10Y Government Bond



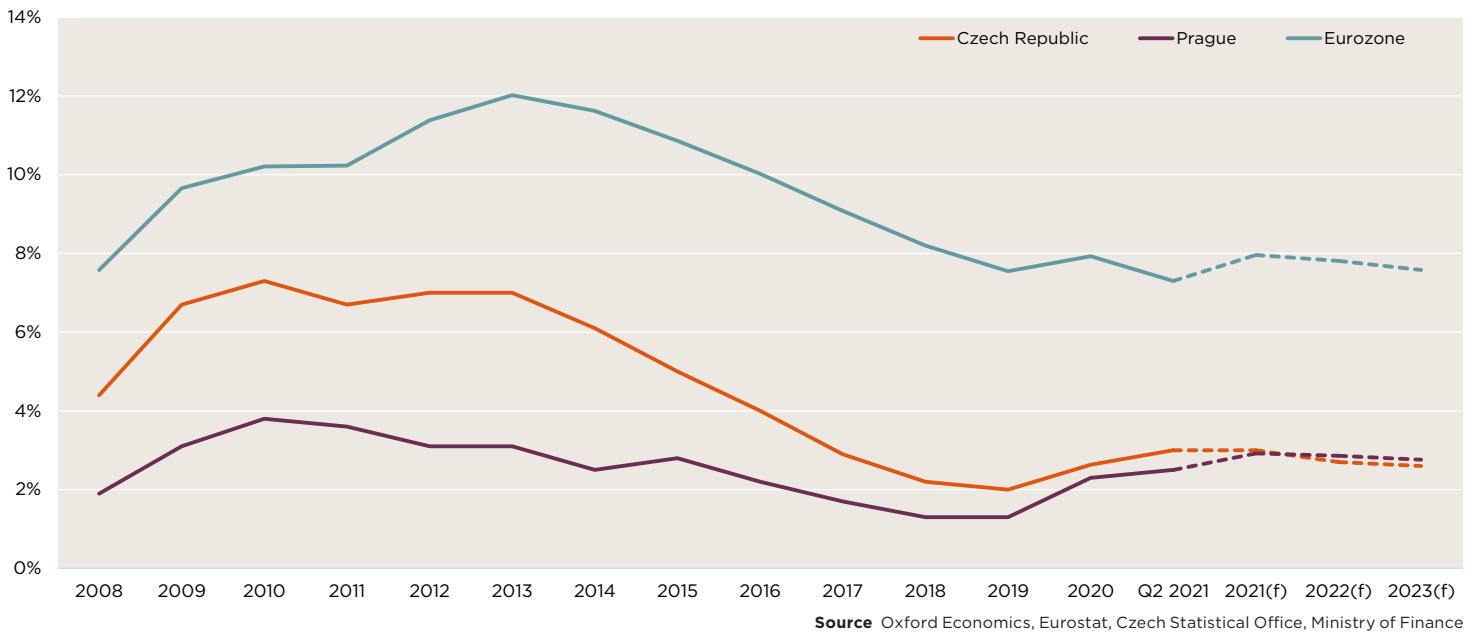
Source Oxford Economics, European Economic Forecast, Eurostat, Czech National Bank, Ministry of Finance

Retail Sales (y-o-y change, %)

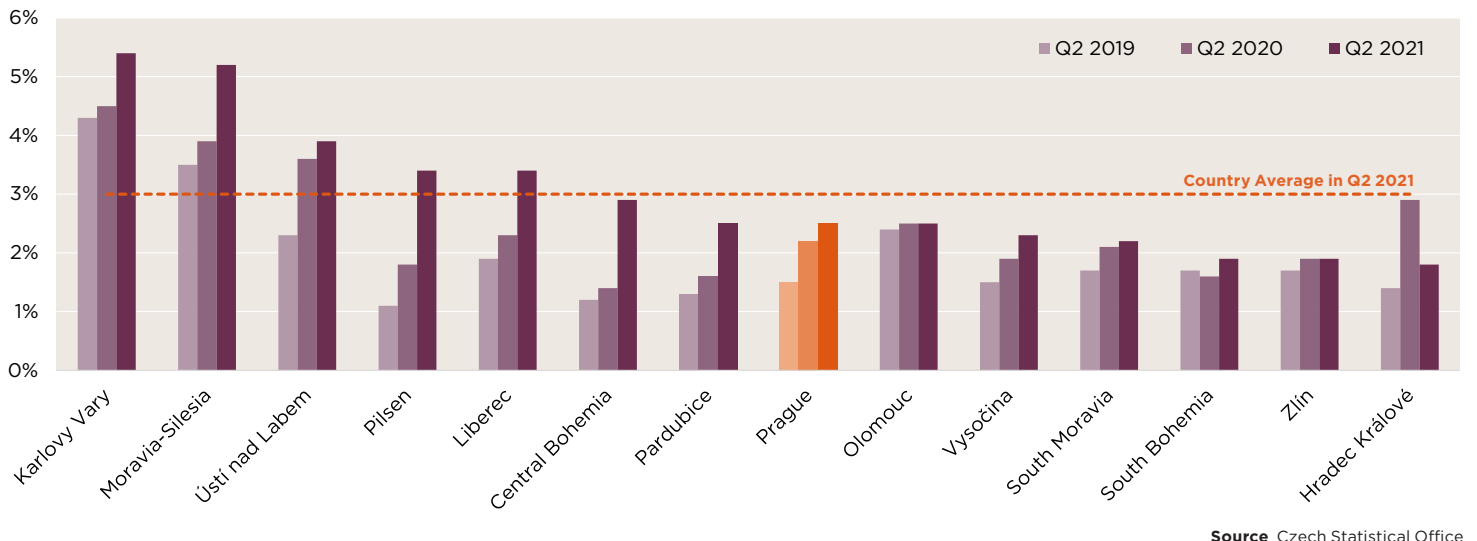


Source Czech Statistical Office, Savills Research

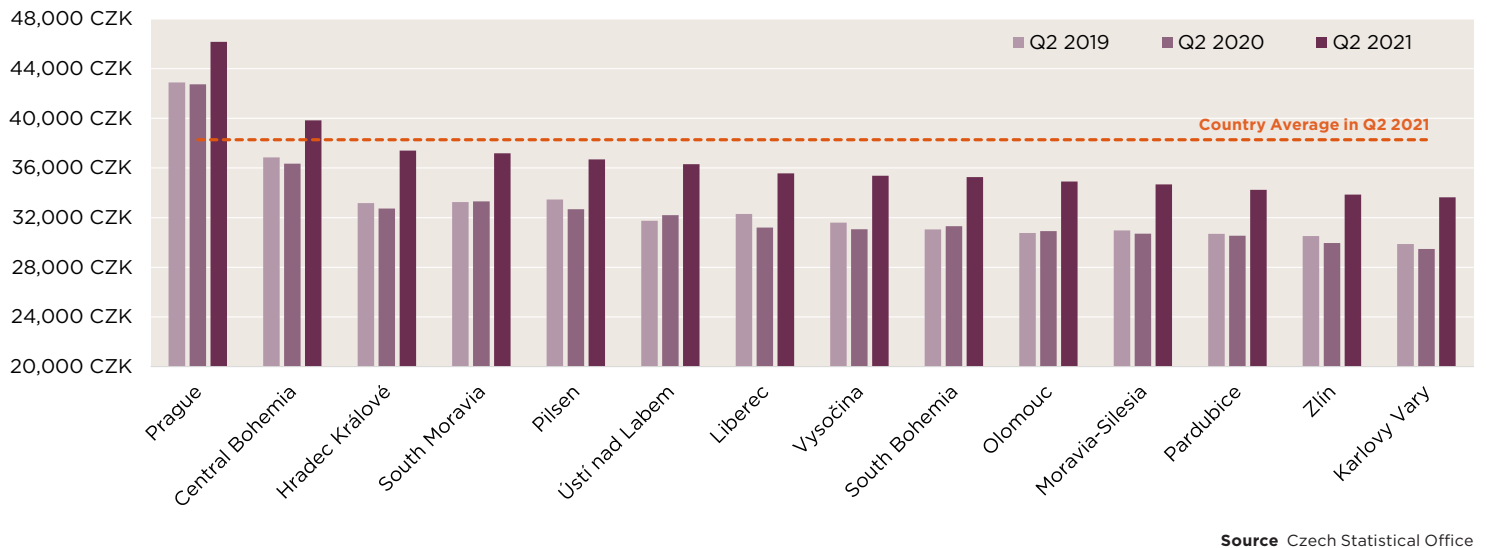
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



EXISTING STOCK AND NEW SUPPLY

New industrial developments that were completed in Q3 2021 totalled 136,400 sq m. Although this was slightly down in y-o-y comparison, Q3 was the strongest quarter this year in terms of new deliveries. All of the space completed this quarter was leased before construction completion and therefore no speculative space was delivered to the market.

In Q3 2021, new space was handed over to tenants in six regions. The highest volume of new space was completed in the Pilsen region (86,600 sq m), followed by Prague (21,400 sq m) and the region of Central Bohemia (11,000 sq m).

The total stock of modern industrial premises in the country increased to 9.5 million sq m and of that Prague held 34%, the Pilsen region 15% and South Moravia, the third largest industrial hub in the country, accounted for 12%.

CONSTRUCTION PIPELINE

Of all 14 regions, 11 had industrial projects under construction at the close of Q3 2021, contributing to a record-high pipeline of 1,072,600 sq m. Speculative developments, which could potentially increase the extremely low vacancy rate, account for 30% of the total pipeline. 88,500 sq m of space in the development pipeline had the shell & core structure completed and all of that space was available for lease within 3-5 months. The largest share of this space was located in Ostrava and its vicinity, where brand new industrial space totalling 65,900 sq m was available across two buildings.

A record number (17) of 20,000 sq m+ facilities are under construction, the largest being the multi-story distribution centre with a total lettable area of 186,800 sq m built by Panattoni for Amazon.

Overall, the Olomouc region accounted for the largest share of development with 280,500 sq m of space underway at the end of Q3. Again, the activity was significantly elevated by the Amazon DC development, which made 65% of this region's total pipeline. Moravia-Silesia fell to the second place, with construction underway on 265,300 sq m, and Prague placed seventh (out of 11), with 74,500 sq m under construction.

VACANCY RATE

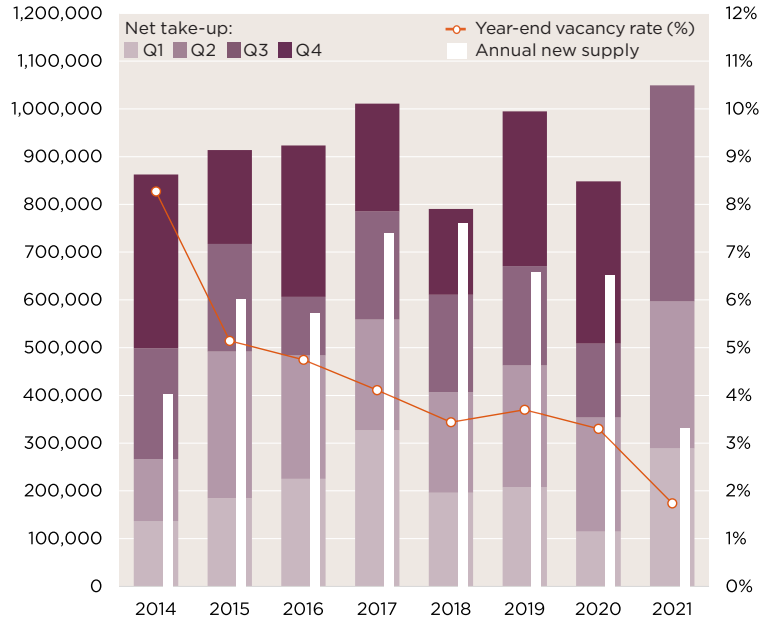
The record take-up levels and no speculative completions caused the national vacancy rate to plummet 70 bps to a new low of 1.75%, one of the sharpest quarterly declines observed in the market in the last five years. The total volume of modern industrial space available for lease across the country fell from 226,700 sq m in June to 165,000 sq m in September.

46% of the immediately available space was found in two regional submarkets - Pilsen and Prague. However, even in Prague, demand continued to outpace inventory additions. From the previous quarter, vacancy rate fell by another 13 bps and closed Q3 2021 at another historic low of 1.05%, which converted to 33,900 sq m of space available for occupation.

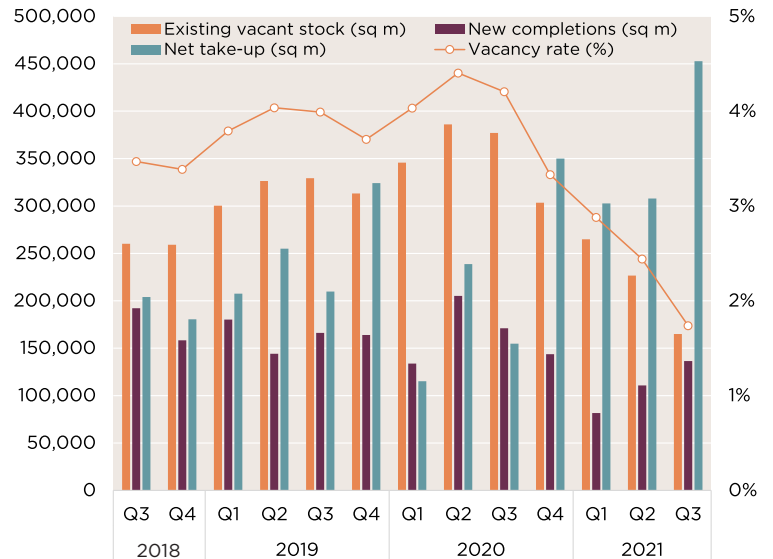
In the past six months, occupancy levels increased in most (6) regions, where vacant space was immediately at hand (8), while two second-hand units became available in Olomouc and South Moravia which slightly increased local vacancy rate. The remaining six regions have maintained zero vacancy levels.

Taking into account the shell & core vacant space, the volume of vacant space nationwide would total 253,300 sq m, representing 2.6% of the stock.

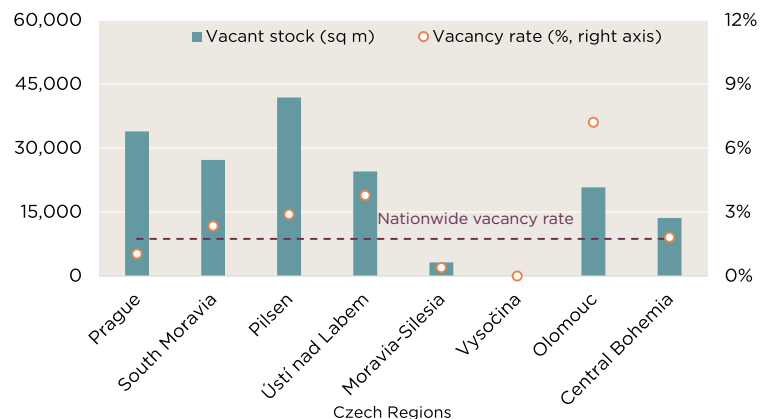
Net Take-up, New Supply and Vacancy Rate





Quarterly Vacant Stock, Net Take-up and New Supply

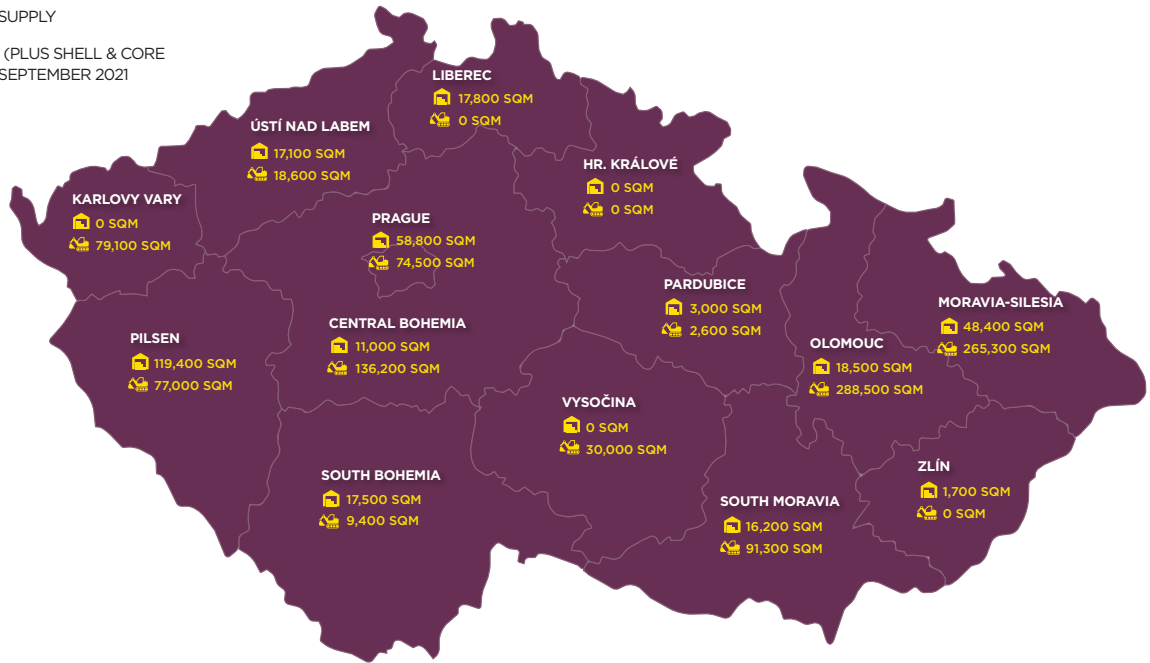


Immediate Space Availability in Regions

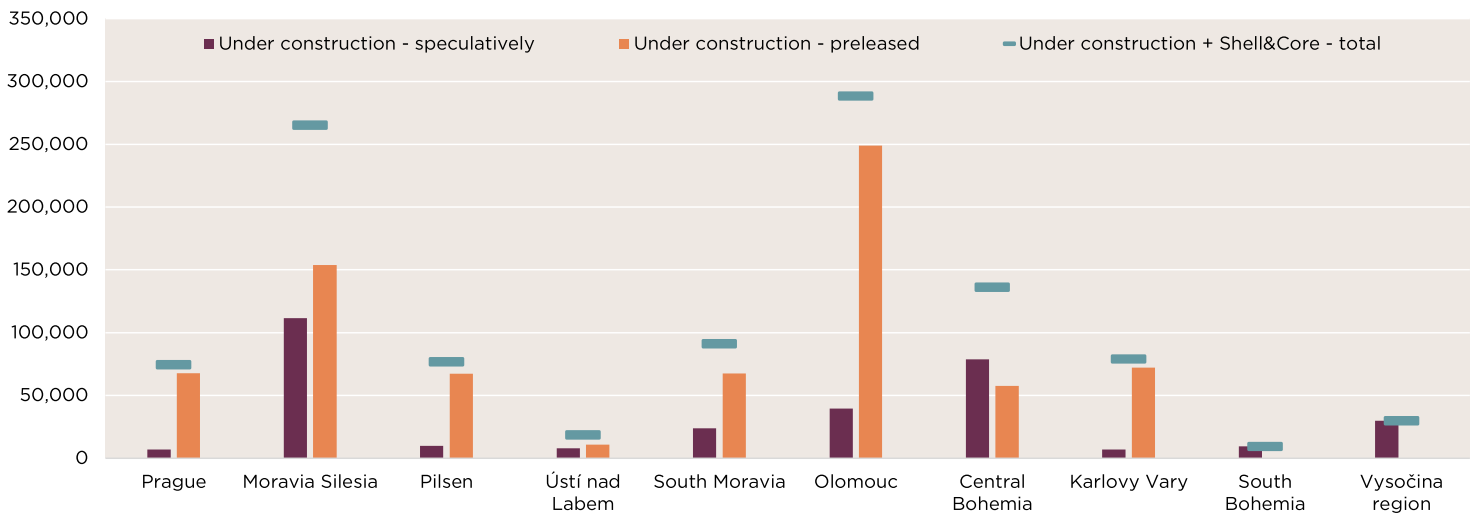


Czech Republic Industrial Market - Q3 2021

 Q1-Q3 2021 TOTAL NEW SUPPLY
 UNDER CONSTRUCTION (PLUS SHELL & CORE SPACE) AT THE END OF SEPTEMBER 2021

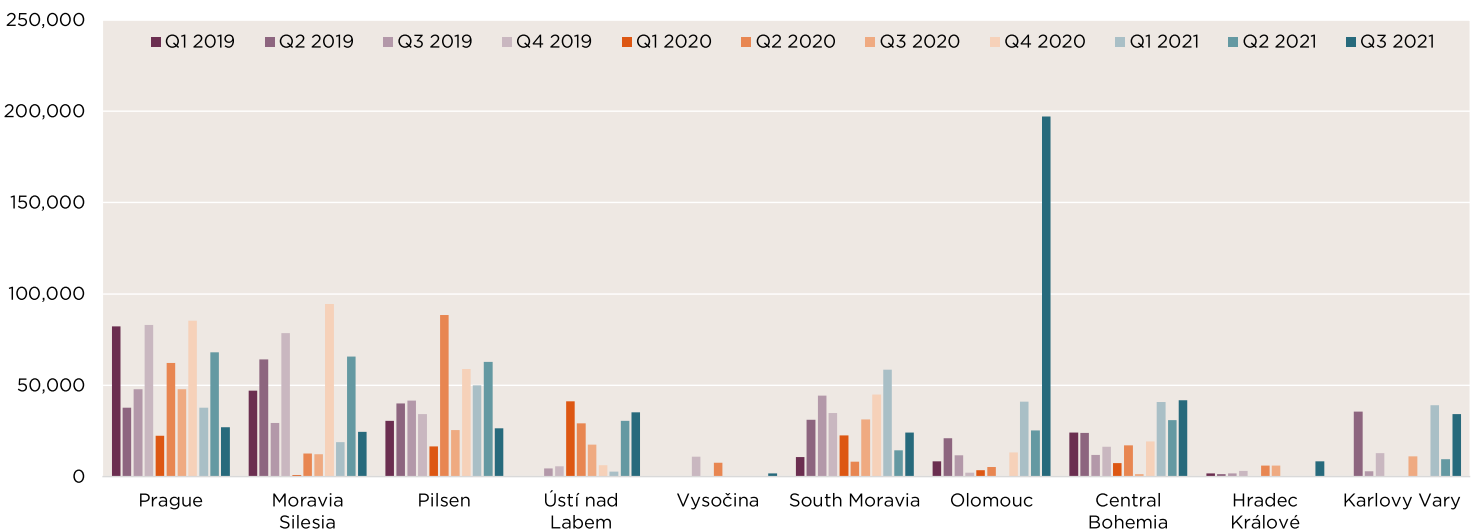


Development Pipeline by Region (Sq m Under Construction)



Czech regions (excluding regions with less than 5,000 sq m under construction)

Quarterly Net Take-up in Regions (Sq m)



Czech regions (excluding regions with the lowest net take-up)

OCCUPIER DEMAND

Many of the quarterly market metrics in Q3 were skewed by a single transaction, the 187,800 sq m pre-lease signed by Amazon at Panattoni Park South Moravia in the Olomouc region, which is the largest lease transaction ever signed on the Czech industrial market.

Total tenant activity in Q3 remained robust, although not as high as in Q1 2021, and posted the highest third quarter results in the market's history. Third quarter gross take-up amounted to 526,100 sq m, being 90% up y-o-y and 14% higher q-o-q. Lease renewals made 14% of the total leasing activity, being one of the lowest quarterly shares seen in the past five years.

Net take-up has set a new bar, increasing to 452,700 sq m in Q3 2021. This was 192% up y-o-y- and a 47% increase against the previous quarter. The share of pre-leases sky rocketed to 75% of the net take-up in Q3 2021 and the Olomouc region accounted for the lion's share of total demand with the overall recorded tenant activity reaching 197,260 sq m (37% of the market total and 44% of the total net take-up). The second best performing submarket based on net take-up volume in Q3 2021 was Central Bohemia (41,800 sq m), and the Ústí nad Labem region placed third with 35,300 sq m of new demand.

Net take-up was fuelled by e-commerce (51% of the third quarter net take-up), followed by logistics (20%).

RENT LEVELS

From the beginning of this year, tightened supply has led to climbing rental rates across most submarkets, however, no notable change was seen in Q3. Headline rents for modern warehouse space in Prague remained between €4.50 to €5.80 per sq m for a 5,000 sq m unit leased for 5 years. Outside of the Czech capital, similar units continued to be offered for €4.00 - €4.80 per sq m a month. Smaller units below 2,000 sq m can see rents go up to €6.75 per sq m a month in Prague or Brno, but some other submarkets can offer these at around €4.75 -€5.00.

Effective rents are typically €0.20 - €0.50 lower than headline rents, whilst incentive packages are higher for new developments in regional markets. The most common incentives are still made of a rent free period and/or contribution for fit-out or building improvements.

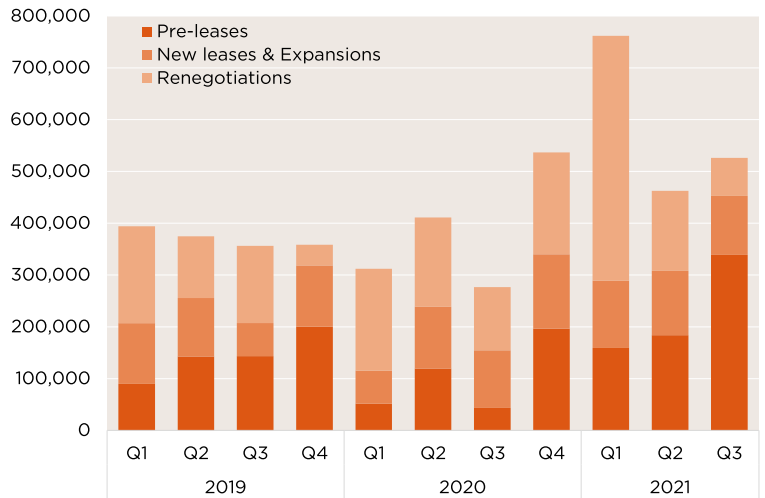
Rents for office space within industrial halls mostly ranged from €8.50 to €9.00 per sq m a month. Monthly fees for service charges typically ranged between €0.65 - €0.85 per sq m depending on the scope of included services, in smaller business units of around 500 sq m these could be around €1.00.

OUTLOOK

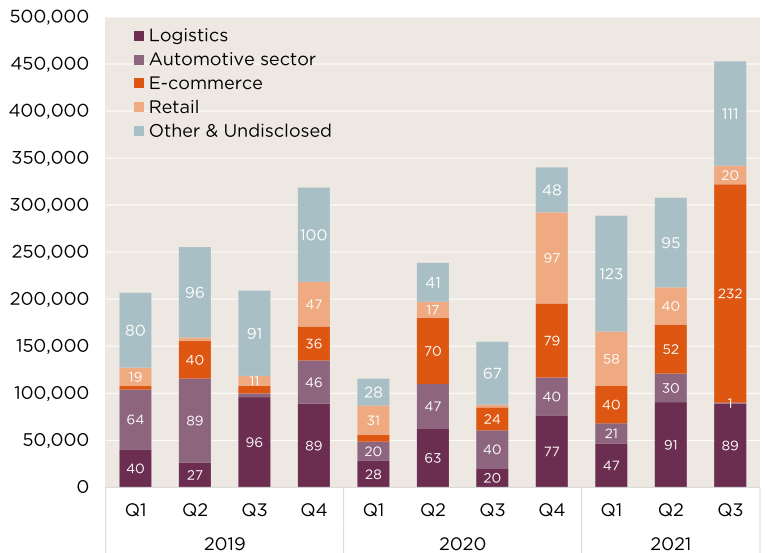
The Czech industrial market remains on an impressive trajectory of record-shattering take-up levels, high construction activity and record-low vacancy. However, despite the record volume of space under construction occupiers in expansion mode, and especially those with immediate occupancy requirements, continue to face a critical shortage of options in majority of Czech submarkets.

Rent levels are expected to stabilize around their current levels, with mild increase potentially seen in the regional markets as market prices adapt to new increased costs.

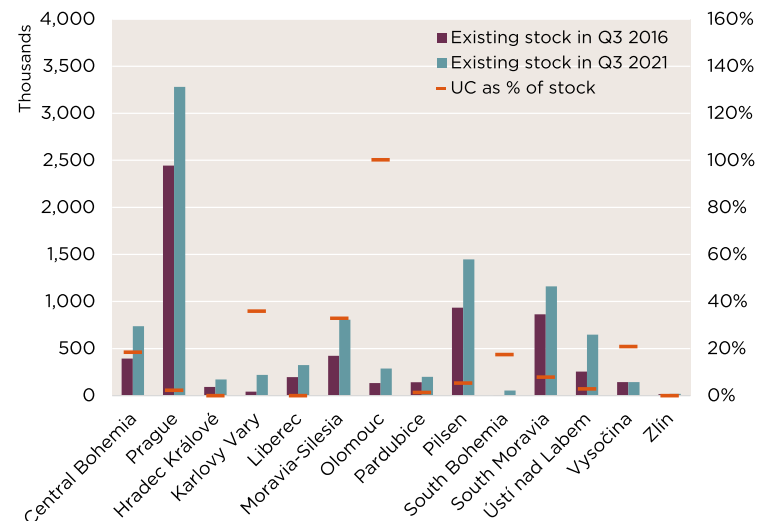
Quarterly Gross Take-up Structure (Sq m)



Net Take-up by Sector (Thousands Sq m)



Stock Growth in Regions (Sq m)





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