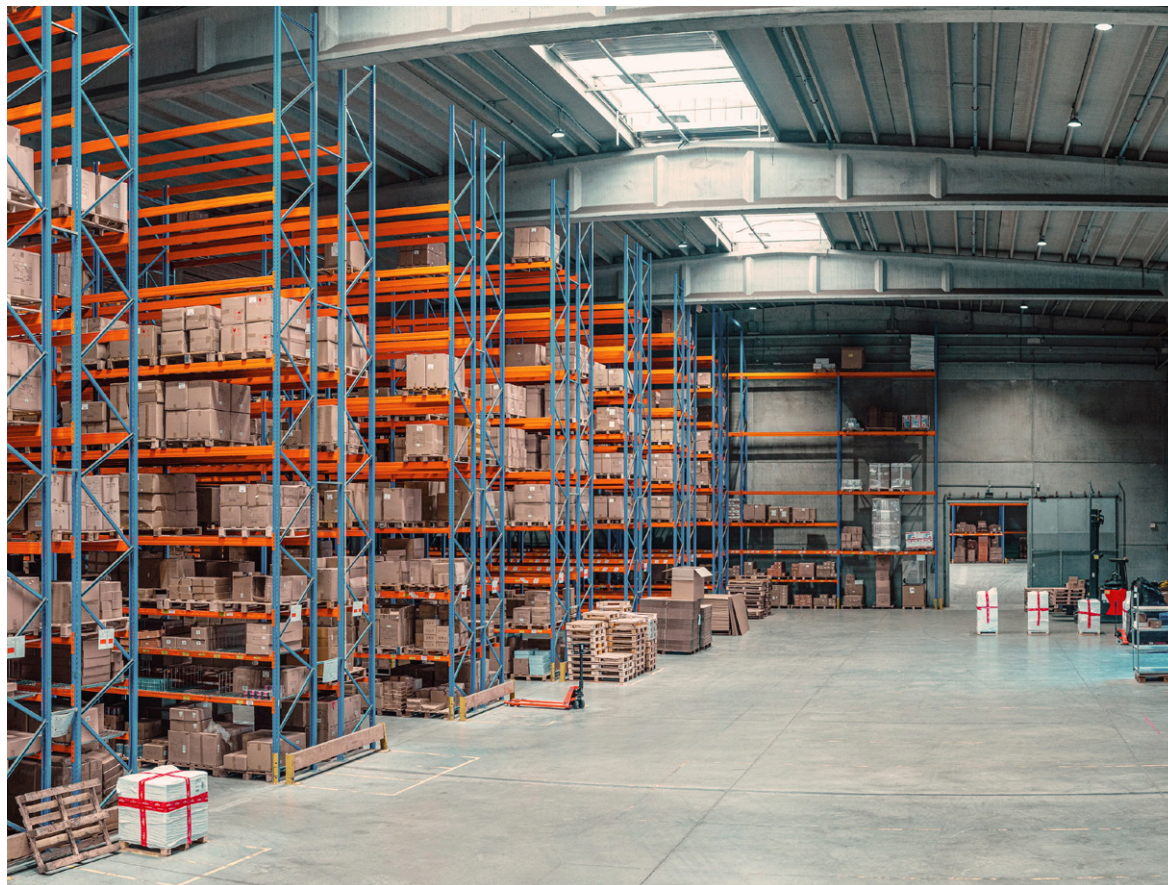


Czech Republic Industrial Market

savills



ECONOMIC OVERVIEW ¹

GDP GROWTH

0-1.2%

2022 PREDICTION

CPI INFLATION

3.8%

2021 AVERAGE

NATIONAL UNEMPLOYMENT

2.5%

FEBRUARY 2022

GROSS MONTHLY SALARY

€1,471

(CZK 40,135)
COUNTRY AVERAGE,
Q4 2021

EXCHANGE RATE

24.38

CZK/EUR
AS OF 31/3/2022

RETAIL SALES

4.6%

Y-O-Y CHANGE,
FEBRUARY 2022

Sources Czech Statistical Office, Czech National Bank,

INDUSTRIAL MARKET HIGHLIGHTS: Q1 2022

- During the quarter, new buildings totalling 241,000 sq m were delivered and a further 30,500 sq m was added to stock as a result of acquisitions. Total national stock of modern industrial space intended for lease passed the 10 million sq m mark.
- The strong construction momentum from the past two quarters carried forward into Q1 2022, the volume of space underway (or in shell & core finish) came close to 1.16 million sq m, hitting another record. Of that, 73% had already been leased.
- Demand for warehouse space continued to run at historically high levels. Although not a record high, 719,700 sq m of industrial and logistics space was leased across the country in Q1 2022, down 6% compared to Q1 2021, which recorded the highest occupier activity ever seen on the market. Of the total leasing activity, net take-up transactions in Q1 totalled 365,300 sq m, being up 27% y-o-y.
- Nationwide vacancy rate marginally increased from the end of 2021 and closed the first quarter at 1.8%. Prague remained almost unchanged, with vacant stock only reaching 1%.
- Rental rates continue to reach new heights as solid demand, slender supply and rising construction costs continue to drive the market.

Czech industrial market in Q1 2022



10 million sq m

Total A-class stock
in the Czech Republic



271,500 sq m

New industrial space
supply in Q1 2022
(up by 229% y-o-y)



1.8%

Nationwide vacancy rate
(up by 45 bps q-o-q)



719,700 sq m

Gross take-up in Q1 2022
(down by 6% y-o-y)



365,300 sq m

Net take-up in Q1 2022
(up by 27% y-o-y)

Source Savills Research

¹⁾ Based on the data available on 21/4/2022.

ECONOMIC OVERVIEW ¹

- The recovery in trade, transport and hospitality, the three sectors that were effected the most by the pandemic, had a positive impact on GDP growth in the final months of 2021. As a result, the annual economic growth exceeded previous forecasts of the Czech National Bank and reached 3.1% y-o-y. Economic predictions for 2022 are continually being revised to reflect the impacts of the ongoing war in Ukraine, which will surely include persisting supply chain disruptions, shortage of semiconductors and raw materials, staff decline and rising input prices. Another factor that is likely to negatively impact the Czech economy could be rising prices of goods, services and energy, which will outstrip salary increases this year and thus reduce household consumption. Consequently, the latest predictions have downgraded the expected economic growth in 2022 to somewhere between 0% and 1.2%, while economic activity in 2023 will also be affected.

INFLATION ¹

- Rising inflation is likely to be one of the factors affecting consumer confidence in 2022. In 2021, the average annual rate of inflation climbed to 3.8%, being the highest since 2008. However, in the first three months of 2022, inflation surged further and in March 2022 consumer prices rose 12.7% y-o-y. Fuel, gas and electricity prices have seen the most significant price increases. To address rising inflation, the Czech National Bank has raised base interest rates several times from mid-2021. In March 2022, the latest increase brought the two-week repo rate to 5.0% (while in June 2021 it stood at 0.5%). All predictions published prior to the Russian invasion of Ukraine are being adjusted to reflect the subsequent commodity price spike. Although the government is currently considering various measures to fight inflation, the latest projections signal that the Czech Republic is set to face double-digit inflation for the rest of 2022, hence the annual average inflation is also expected to reach double-digits.

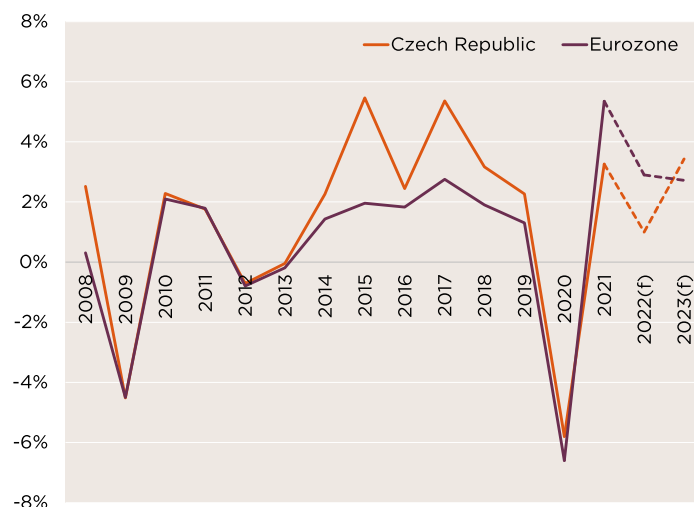
RETAIL SALES ¹

- Retail sales in February 2022 increased by 4.6% y-o-y, fuel sales were up by 12.3%, non-food sales up by 9.8% but food sales fell by 3.8%. The growth in retail sales in February was driven by purchases of non-food goods in brick-and-mortar stores, which had been restricted last year. Online stores were less used and reported a y-o-y decline in sales. All ranges of non-food goods recorded higher demand. Sales in specialised stores selling clothing and footwear increased by 119.3%, culture, sport and recreation products by 34.6%, household products by 17.3%, computer and communication equipment by 11.3%, cosmetics and toiletries by 8.5% and pharmaceutical and medical goods by 4.2%. The demand of the upcoming years will be negatively affected by high inflation, rising interest rates as well as the Russian-Ukrainian conflict. Analysts therefore predict rather slow growth and gradual recovery. On top of this, demand is being dampened by problems in supply chains. Customers are not able to buy goods because they are simply out of stock and lead times reaching several months.

UNEMPLOYMENT ¹

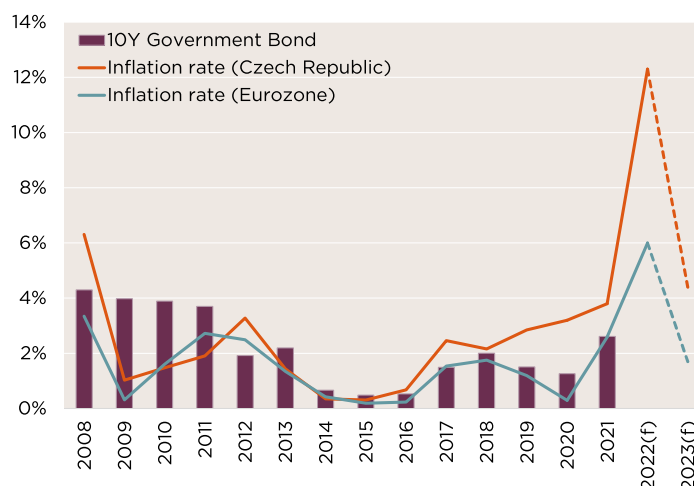
- The general unemployment rate² started to decline significantly after the easing of the pandemic restrictions in the first half of 2021, and averaged at 2.8% for the whole year. At the end of March 2022 the unemployment rate stood at 2.6%. However, it is predicted that the decline will be slightly slowed down throughout 2022, following temporary cutbacks in industrial production. After the problems with supply chains will be resolved, a decline in the unemployment rate is expected, reaching 2.5% on average in 2022. However, the room for a more significant reduction has been exhausted since the Czech labour market is known for its high saturation. The war conflict in Ukraine will most likely have an impact on labour market too, but it is still hard to predict. The migration of unskilled workers to the Czech Republic could squeeze the unemployment rate even lower, since the main problem of the domestic labour market is the lack of unskilled employees.

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



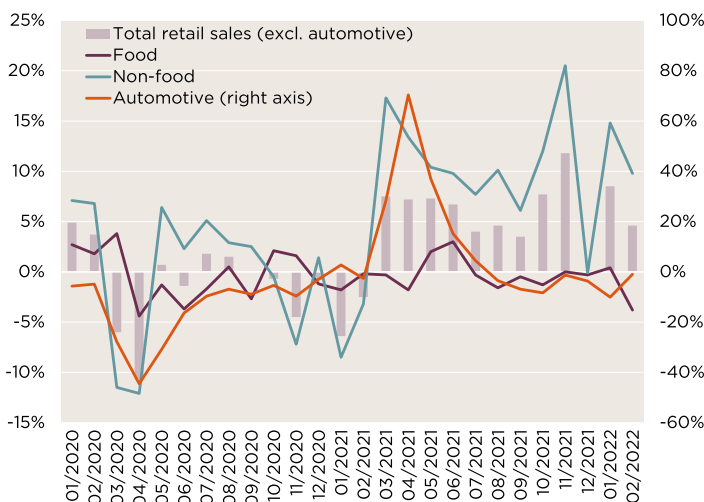
Source Oxford Economics

Inflation Rate and 10Y Government Bond



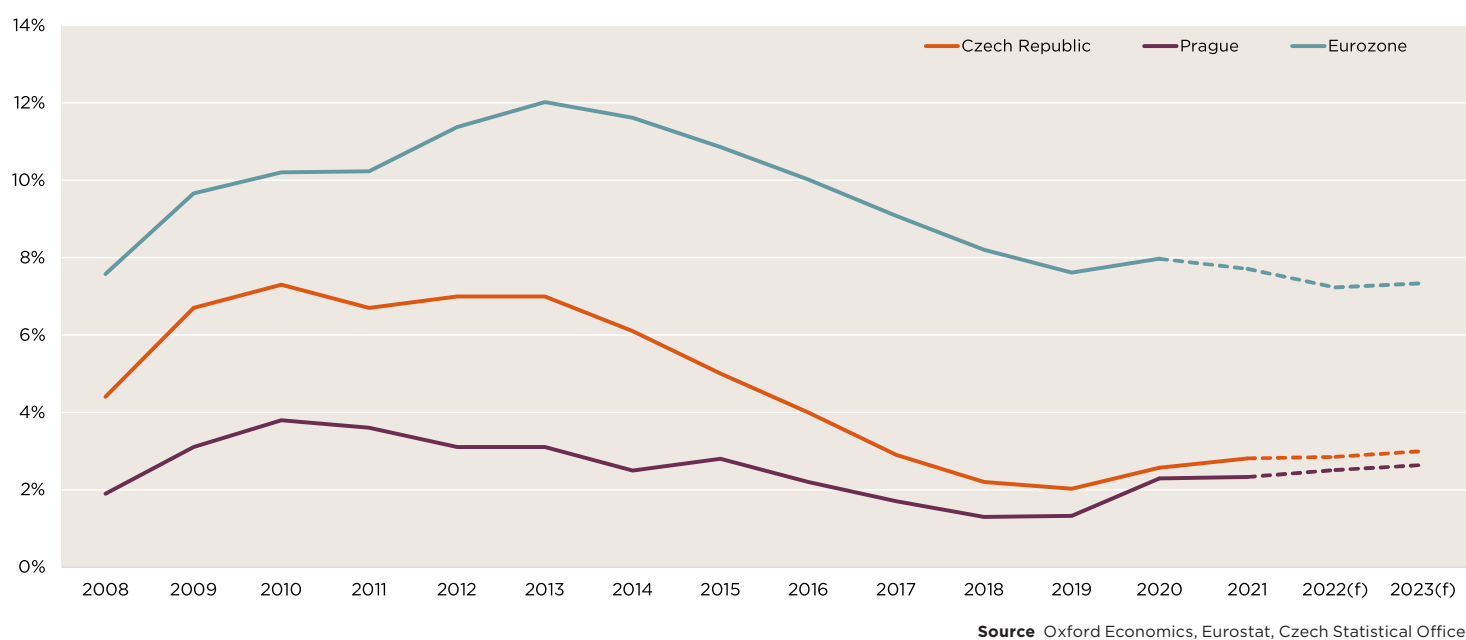
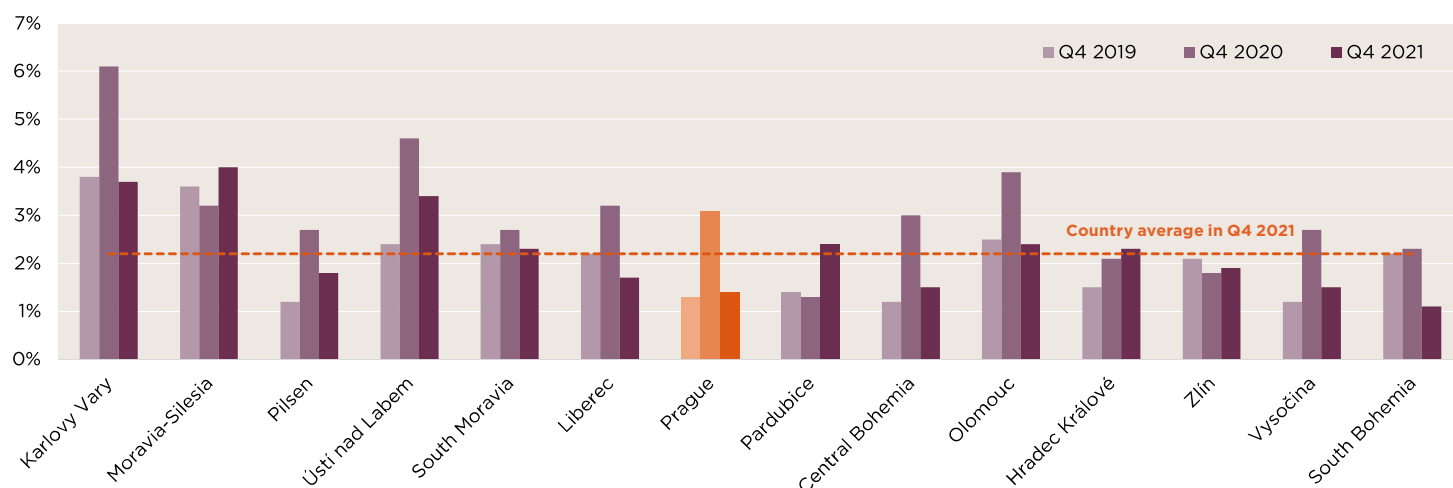
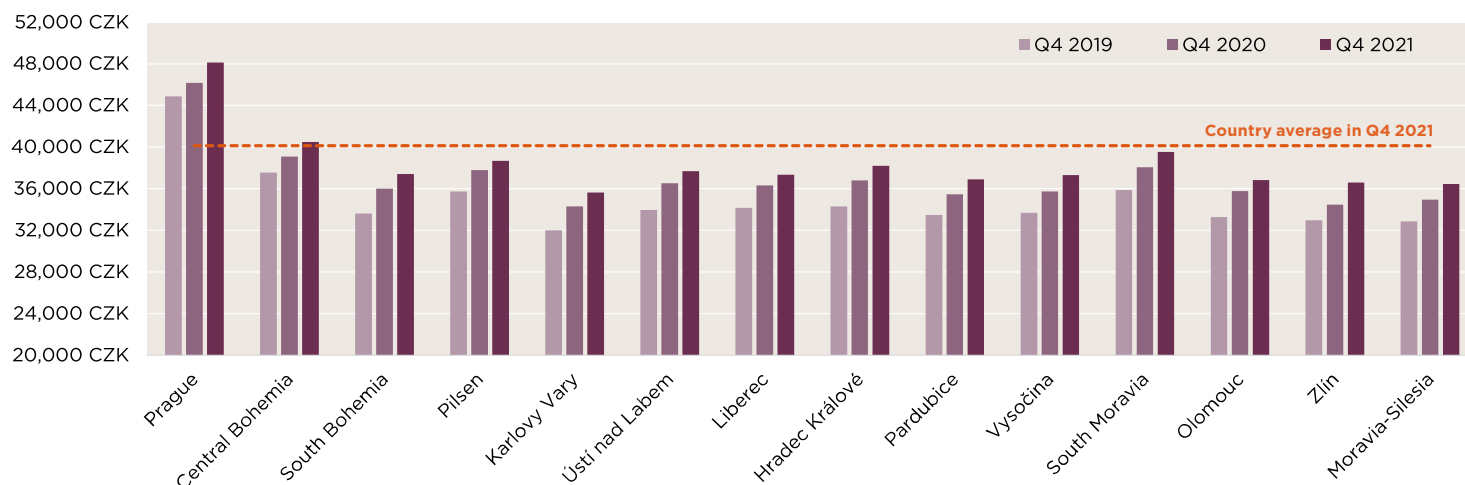
Source Eurostat, Czech National Bank, Ministry of Finance

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



Source Czech Statistical Office

¹ Based on the data available on 21/4/2022.² General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

Unemployment Rate ¹Czech Republic Regional Unemployment Rate ¹Czech Republic Regional Gross Monthly Salary ¹¹) Based on the data available on 21/4/2022.

EXISTING STOCK AND NEW SUPPLY

- Q1 2022 brought 271,500 sq m of new industrial space to the stock from which 30,500 sq m was a result of acquisitions. This has been the highest stock increase since Q3 2015 and compared to the first quarter a year ago, it grew by 229%. Consequently, the total national stock for the first time passed the 10 million sq m milestone, however as only 3% of the space completed in Q1 2022 was vacant on completion, the nationwide vacancy rate remained below 2%.
- New space was delivered to ten of the fourteen regions. Regions that expanded the most were Moravia-Silesia with 55,400 sq m, followed by the region of Karlovy vary, Central Bohemia and Pilsen with a new supply of approximately 40,000 sq m each.
- Prague still has the largest market share (33 %) with a total industrial stock of 3.3 million sq m. The second and third largest industrial submarket in the country is the Pilsen region with 1.5 million sq m and the South Moravia region with 1.2 million sq m.

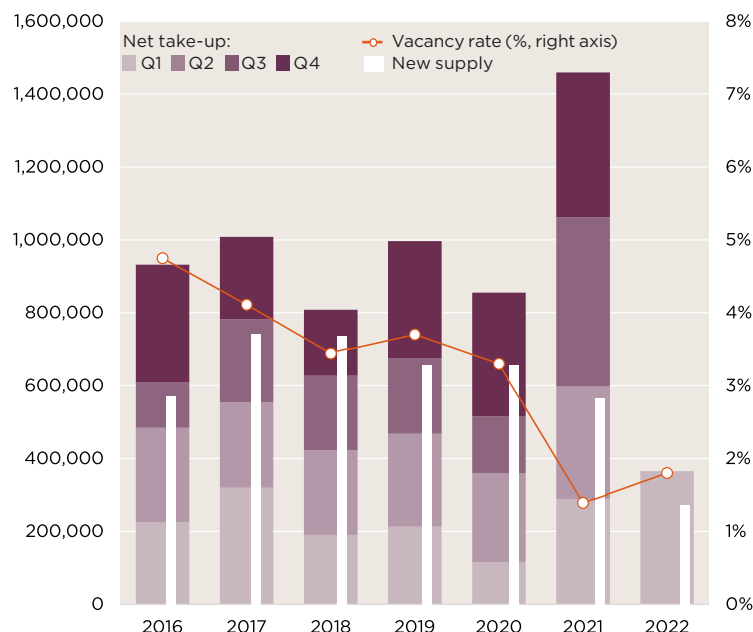
CONSTRUCTION PIPELINE

- At the end of Q1 2022, there were 62 industrial buildings in various stages of construction across the country. From the end of 2021, the construction pipeline has slightly grown to 1.16 million sq m, while majority of that space was under construction in the Olomouc region (22%), Moravia-Silesia region (17%) followed by the regions of Pilsen (12%), Central Bohemia and Ústí nad Labem (11% each). Of all space under development, around 960,000 sq m was set for delivery by year-end.
- The volume of space underway that was still available for lease totalled 313,600 sq m (27% of total), while 60,900 sq m of this space had the shell & core structure already built, which might be a great opportunity for companies that need space quickly. Overall, the largest share of speculative space was being delivered to the regional market of Moravia-Silesia, followed by the Central Bohemia and Ústí nad Labem regions.
- For occupiers seeking larger units, there were only eight available units offering more than 10,000 sq m scheduled for completion by the end of 2022, with two of them exceeding the size of 25,000 sq m (both were found in the vicinity of Ostrava).
- In addition to the above-mentioned industrial space, which is already under construction, there are at least a further 2 million sq m of projects across the country with valid Building permit, allowing their completion in 9-12 months from the signature of a lease commitment (taking into account current realistic timeframes). The largest share of these areas is planned in the regional markets of Moravia-Silesia, Karlovy Vary and Pilsen.

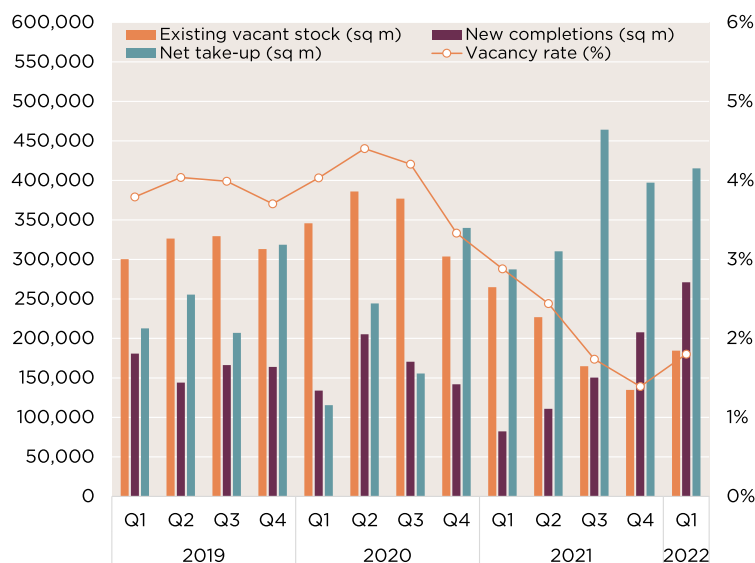
VACANCY RATE

- The vacancy rates in industrial property across the Czech Republic remain extremely low, reflecting a tight market. Nationally, the average vacancy rate went up from 1.4% at the end of 2021 to 1.8% at Q1 2022.
- With 184,500 sq m of statistically vacant space across the entire country (some of which was already under offer or occupied under short-term agreement), tenants looking for space continued to encounter limited options. Of the vacant unit count, 98% were units of less than 2,000 sq m and only four exceeded 10,000 sq m. The largest immediately available unit was 24,500 sq m in the Ústí nad Labem region, followed by one unit totalling 19,900 sq m in the Pilsen region.

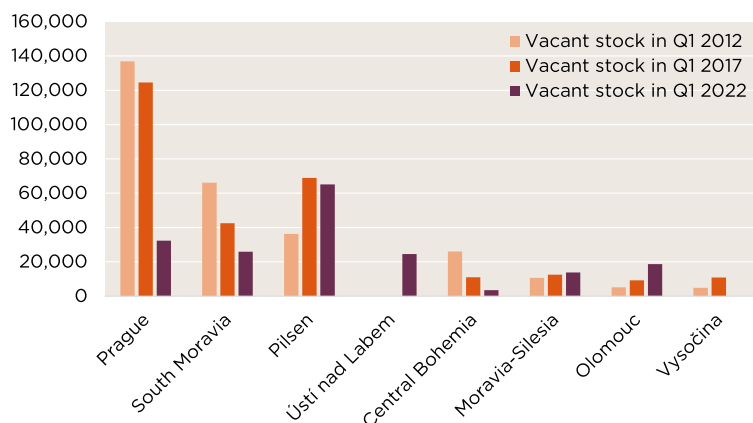
Net Take-up, New Supply and Vacancy Rate



Quarterly Vacant Stock, Net Take-up and New Supply



Existing Vacant Space in Regions*



Source: Savills, pre-2018 data - IRF

*) Some of this space was already under offer or occupied under short-term contract.

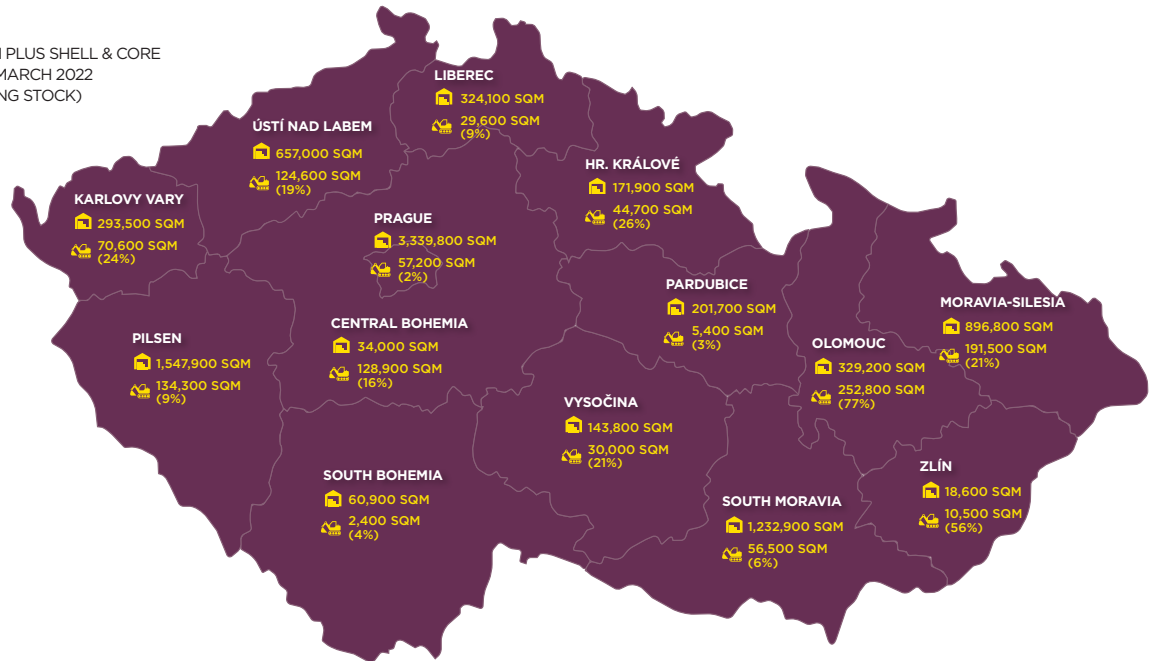
Czech Republic Industrial Market - Q1 2022



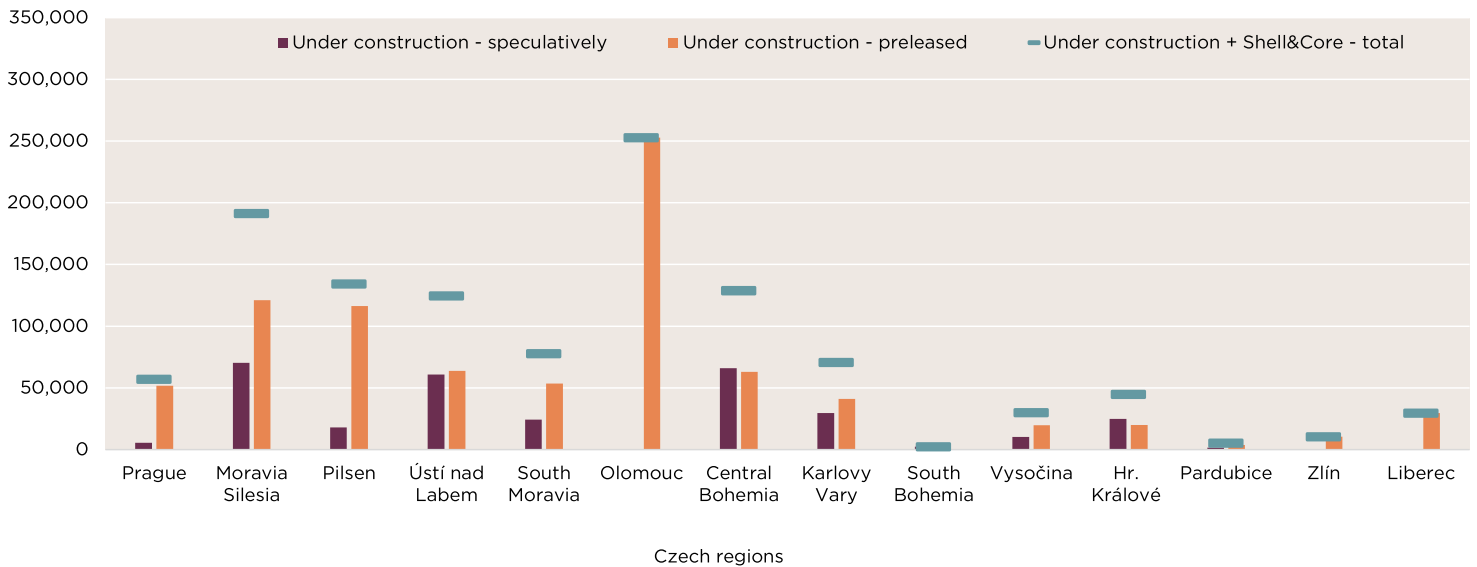
TOTAL EXISTING STOCK



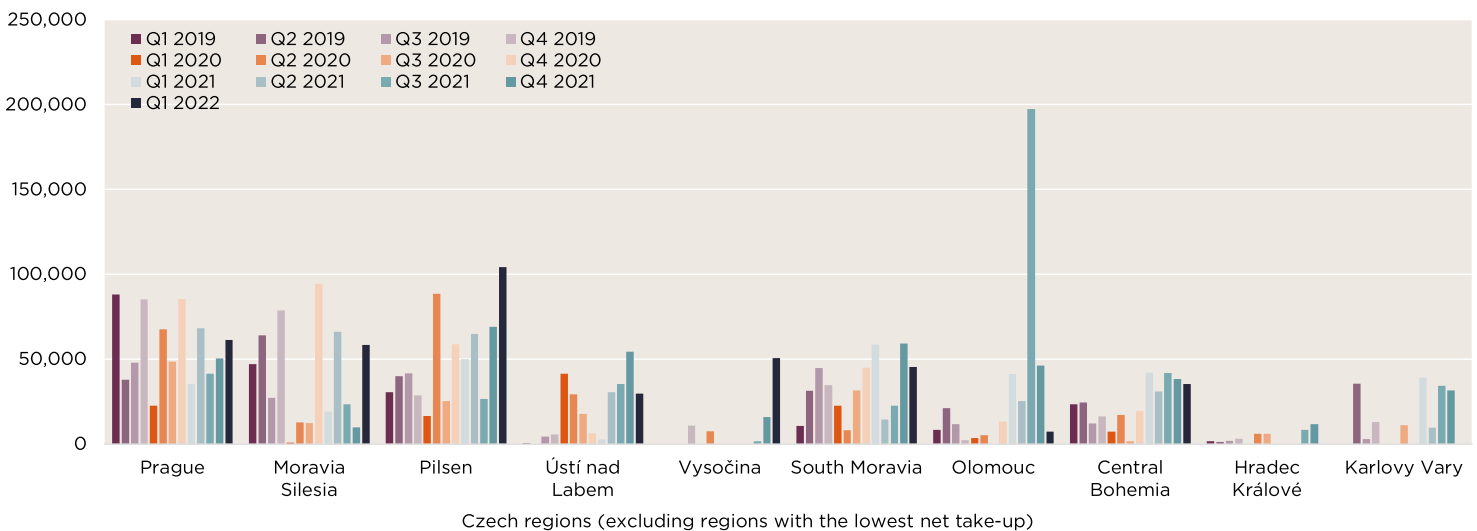
UNDER CONSTRUCTION PLUS SHELL & CORE
SPACE AT THE END OF MARCH 2022
(AS % SHARE OF EXISTING STOCK)



Ongoing Construction in Regions (Sq m Under Construction)



Quarterly Net Take-up in Regions (Sq m)



OCCUPIER DEMAND

- Industrial leasing activity continued to run at full speed in Q1 2022 with lease commitments signed for a total of 719,700 sq m. Although this was 6% down compared to Q1 2021, it was still the third highest result in the market's history and 22% up from last quarter. Occupier activity was driven by renewals and renegotiations of older lease contracts, which represented 49% of the quarter's activity, and also pre-leases, which made 27% of all space leased.
- Net take-up figures also stayed well above the long-term average and closed the first quarter at 365,300 sq m, posting the third-best performance in the market's history. Compared to the same period year ago, new demand was up 27% but demonstrated a slight (8%) decrease against the preceding quarter. For the sixth quarter in a row, pre-leases were paramount in driving quarterly net take-up, with a share of 53% in Q1 2022.
- Net demand was centred around logistics, with the sector representing 47% of the Q1 net take-up. Tenants from the automotive sector took up the second largest chunk of space (14%). Leases of less than 5,000 sq m dominated net demand, accounting for 67% of the Q1 transaction count.
- Due to low availability in the Prague market, net take-up continued to shift towards less established locations. In the 28 quarters from Q1 2013 to Q4 2019, Prague reported the highest quarterly net take-up volumes 23 times, while between Q1 2020 and Q1 2022 this happened only twice out of the nine quarters and activity became more scattered around the country. The Pilsen region was the most active in Q1 2022 (29% of Q1 net take-up), followed by Moravia-Silesia (16%). Prague ranked third with a share of 14%.

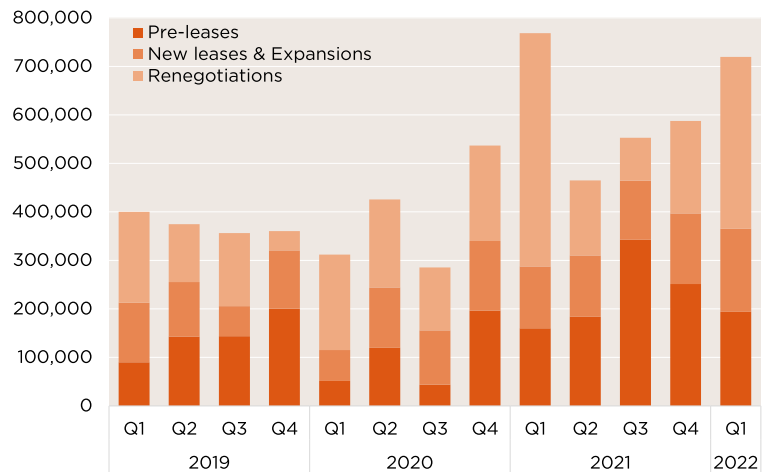
RENT LEVELS

- Increasing construction costs keep pushing rent levels higher for new construction and, at the same time, the supply-demand imbalance with allows landlords to raise rents for existing (in most cases second-hand) space.
- Headline rents for modern warehouse space in Prague have increased to €6.00 - €8.00 per sq m for a 5,000 sq m unit leased for 5 years, while the higher end of the rental range can reach €8.50. Even in smaller and in the past years less attractive locations, rents increased slightly and oscillate between €4.70 - €6.00 per sq m a month. Smaller units (below 2,000 sq m) were offered between €6.20 - €9.50 per sq m a month.
- In the main logistics hotspots, rent incentives started to vanish, however, in less established locations some rent free periods are still offered. For a 5-year lease these typically amount to 1-3 months.
- Rents for offices and sanitary areas also went up and at quarter-end mostly oscillated around €8.90 and €10.00 per sq m a month, occasionally exceeding €12.00 (especially in small business units). Rising utility prices started to be reflected in monthly service charges, which mostly ranged between €0.70 - €0.90 per sq m.

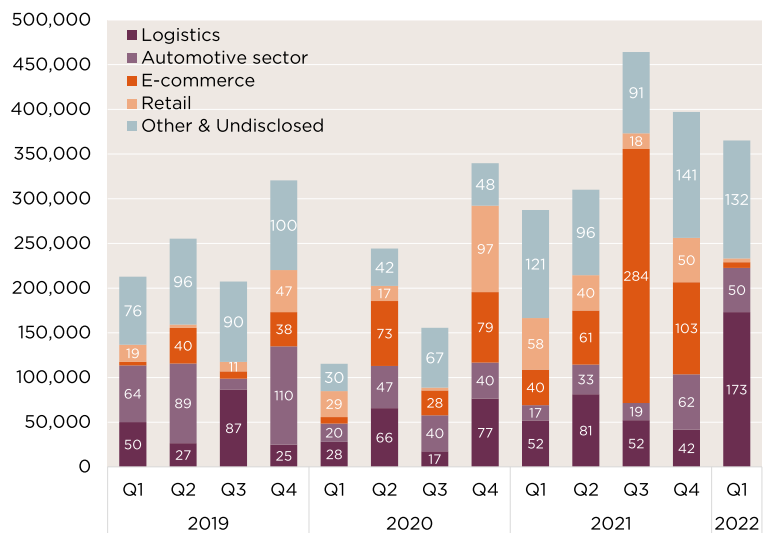
OUTLOOK

- Due to the extremely low vacancy levels, the speed of delivery and availability of land will dictate the market balance. However, ongoing effecting supply chain disruptions and scarcity of some key materials are already affecting new developments and delivery timeframes are delayed in most cases by 3-6 months. Tenants interested in new construction are advised to start searching for their new location at least 16-24 months in advance of their required occupation date.

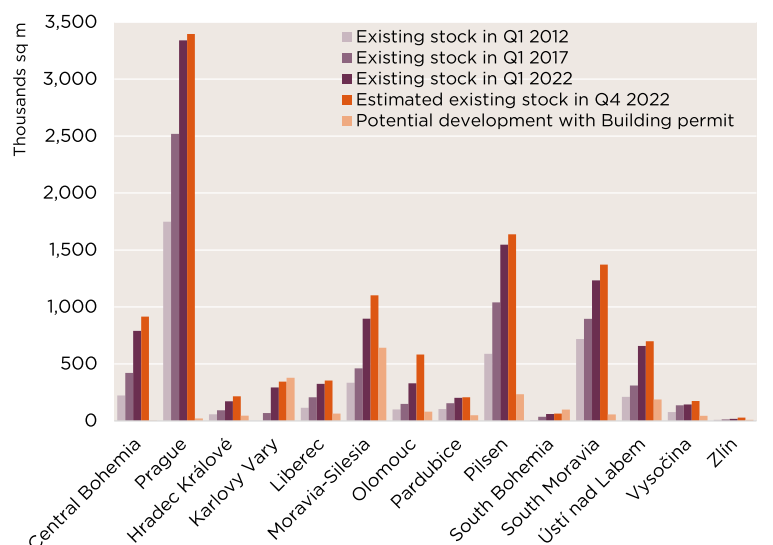
Quarterly Gross Take-up Structure (Sq m)



Net Take-up by Sector (Thousands Sq m)



Industrial Stock Growth in Regions





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