

Czech Republic Industrial Market

savills



Quarterly Statistics

Total Stock

11.3
million sq m

Q1 2022: 10.1 mil. sq m
YoY change: +11%

Gross Take-Up

374,400
sq m

Q1 2022: 750,200 sq m
YoY change: -50%

Net Take-Up

280,200
sq m

Q1 2022: 395,100 sq m
YoY change: -29%

Vacancy Rate

1.93%

Q1 2022: 1.84%
YoY change: +9 bps

Completions

238,700
sq m

Q1 2022: 291,000 sq m
YoY change: -18%

Economic Indicators¹

GDP Growth

-0.2%
(Q1 2023)

2022: +2.4%
2023 Forecast: +0.5%

Inflation

16.4%
(Q1 2023)

2022: 15.1%
2023 Forecast: 11.2%

Policy Rates

2.6%
3M EURIBOR*

2022: 0.3%
2023 Forecast: 3.2%

Unemployment

2.5%
(in February 2023)

2022: 2.3%
2023 Forecast: 3%

Gross Monthly Salary

€1,595
(national median)

2022: €1,474
YoY change: +9%

¹⁾ Based on the data available on 12/4/2023 (Data Source: CNB, Ministry of Finance).

*) Q1 2023 average

Industrial market highlights

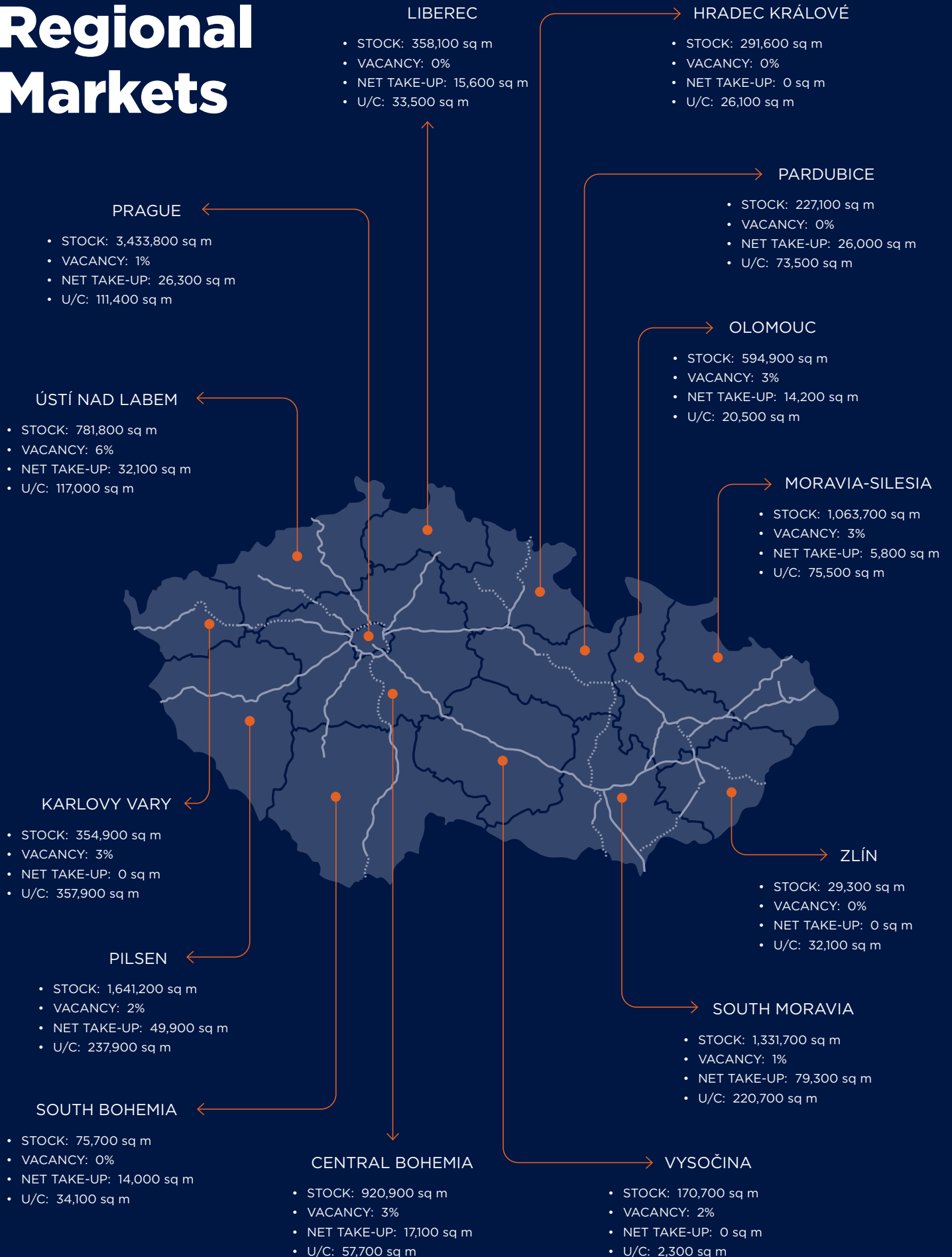
- During the first quarter of 2023, the total national stock of modern industrial space intended for lease passed the 11 million sq m mark.
- The potential for new space is now greater than ever with the pipeline remaining at exceptionally high numbers. At the end of Q1 2023, the volume of space underway (or in shell & core finish) came close to 1.4 million sq m, equating to 12% of total existing industrial space. To put this into perspective, it represents a 19% increase from Q1 2022 and nearly an 88% increase from Q1 2021.
- At the end of March, vacancy rate stood at 1.9% countrywide (+25 bps q-o-q) and 0.8% in Prague (+23 bps q-o-q). Even though the overall rate increased, 7 out of 14 regions still suffer from vacancy lower than 1%.
- Demand for industrial space continued its downward trend during this quarter. Gross leasing activity recorded a 50% y-o-y decline but remained roughly flat compared to the previous quarter. With its 374,400 sq m, however, it represented the lowest level since the end of 2020. Net demand then recorded a 10% increase on a q-o-q basis and a 29% decrease y-o-y, totalling 280,200 sq m.
- Rental rates have stabilised at high levels. From 2020, industrial headline rents went up by 55% in the core regional locations and by 78% in Prague.

Quarterly market statistics

Key Market Indicators	Gross Take-up (sq m)	Net Take-up (sq m)	New Completions (sq m)	Vacancy at Quarter End
Current quarter	374,400	280,200	238,700	1.9%
Previous quarter	379,200	253,700	235,100	1.7%
YoY movement	-50%	-29%	-18%	+9 bps



Regional Markets



Q1 2023 Review

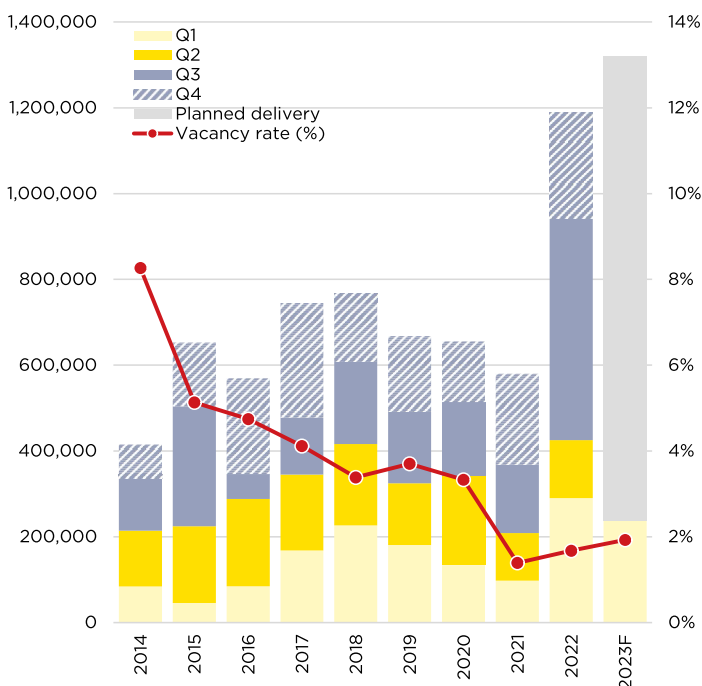
New Supply and Construction Pipeline

- Since the beginning of 2023, a total of 238,700 sq m of new warehouse space has been completed, which represents an 18% decrease on a y-o-y basis. Upon completion, 40,300 sq m (17%) of the newly built space was still available for lease.
- The total area of modern industrial space surpassed the 11 million sq m mark during Q1 2023. The largest share of all premises is located around Prague (30%), in the Pilsen region (15%) and in the South Moravia region (12%). Moreover, judging by current forecasts, more than 1 million sq m could be completed by the end of 2023, thus the total stock could potentially exceed the 12 million sq m level.
- At the end of Q1, a record 1.4 million sq m (52 parks in total) were under construction. The largest share of this space is located in the Karlovy Vary region (26%), although, this number is significantly biased by the construction of the largest warehouse in the Czech Republic so far - H&M at Panattoni Park Cheb. Apart from Cheb, most under-construction premises are located in the Pilsen region (17%) and the South Moravia region (16%). Of all the total stock currently under construction, 542,400 sq m (39% of total) is speculative and therefore still available for a future lease.

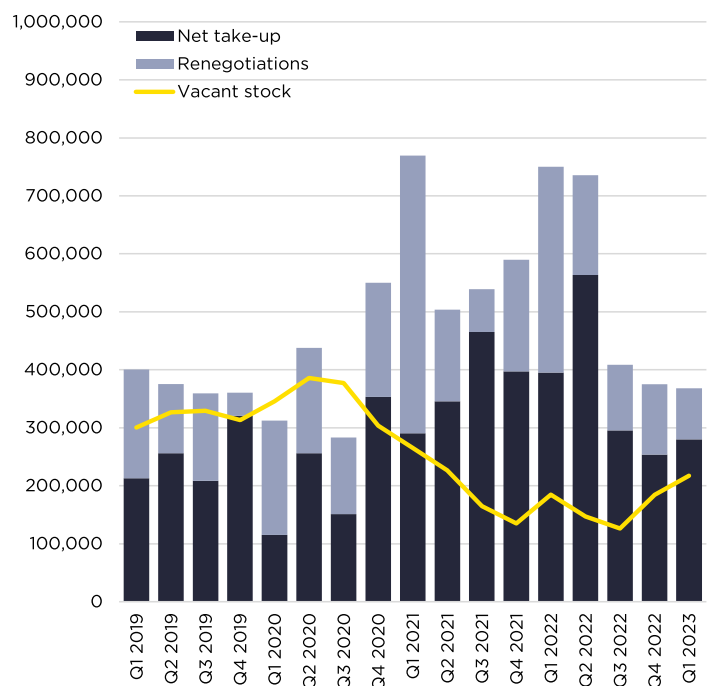
Occupier Demand

- Industrial leasing activity experienced a significant annual decline in Q1 2023. Newly signed contracts, including renegotiations and renewals, totalled 374,400 sq m which is a 50% y-o-y decline and the lowest result recorded since Q3 2020. For the fourth quarter in a row, the total area of closed deals was significantly driven by pre-leases which this time accounted for 63% of the quarter's activity.
- Net take-up figures also dropped in comparison with the previous year (-29%) but were up by 10% against the previous quarter. Excluding renegotiations, a total of 36 transactions were signed in the Czech Republic, which is the smallest number since Q1 2020. Only for the third time in the last 10 years, the region with the most transactions was not Prague, which just confirms that there is almost no vacant space left in this submarket. This quarter, most transactions were carried out in the South Moravia region.
- Net demand was centred around production industry, with the sector representing more than a half of the Q1 net take-up, in terms of both floorspace and the number of transactions.

New Supply (in sq m)



Take-up (in sq m)



Q1 2023 Review

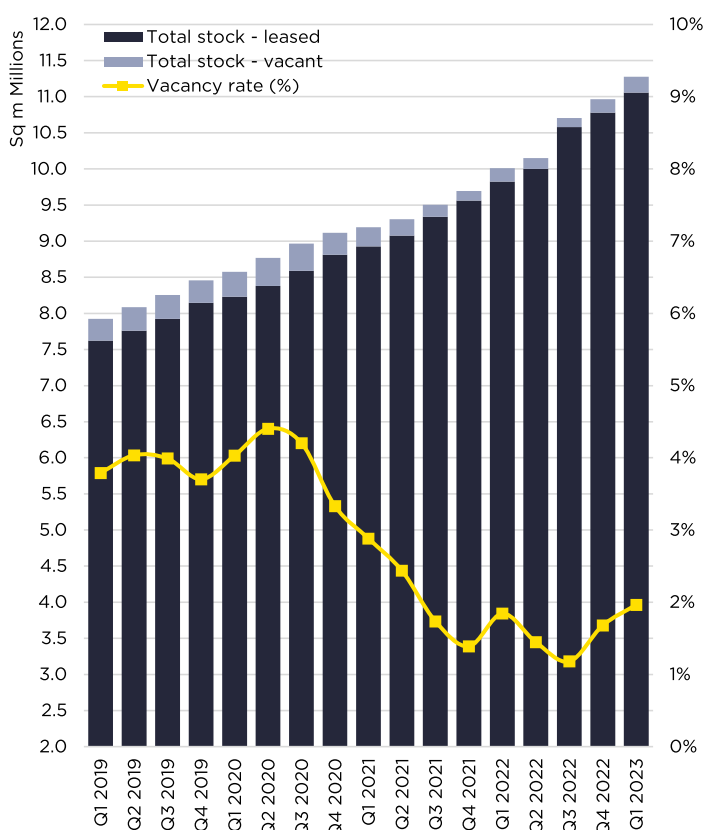
Vacancy Rate

- The vacancy rate for all Czech modern industrial space rose slightly to 1.93%, both on a quarterly (+25 bps) and annual (+9 bps) basis. However, this figure is still very low considering that never so much new industrial space has been built as over the past year.
- At the end of Q1 2023, a vacancy rate lower than 1% or even equal to zero has been recorded in the regions of Hradec Králové, Liberec, Pardubice, South Bohemia, Zlín, South Moravia and Prague. Prague vacancy rate now sits at 0.8%, although, if we exclude office space (located inside industrial halls), the rate would be closer to 0%.
- On the contrary, the largest share of all statistically vacant spaces (217,400 sq m) could be found in the Ústí nad Labem, Pilsen and Moravia-Silesia regions. Of all the vacant units, 80% were units smaller than 5,000 sq m and only four of them exceeded the 10,000 sq m bar. The largest immediately available unit was 21,500 sq m in the Ústí nad Labem region, followed by one unit of 19,900 sq m in the Pilsen region.

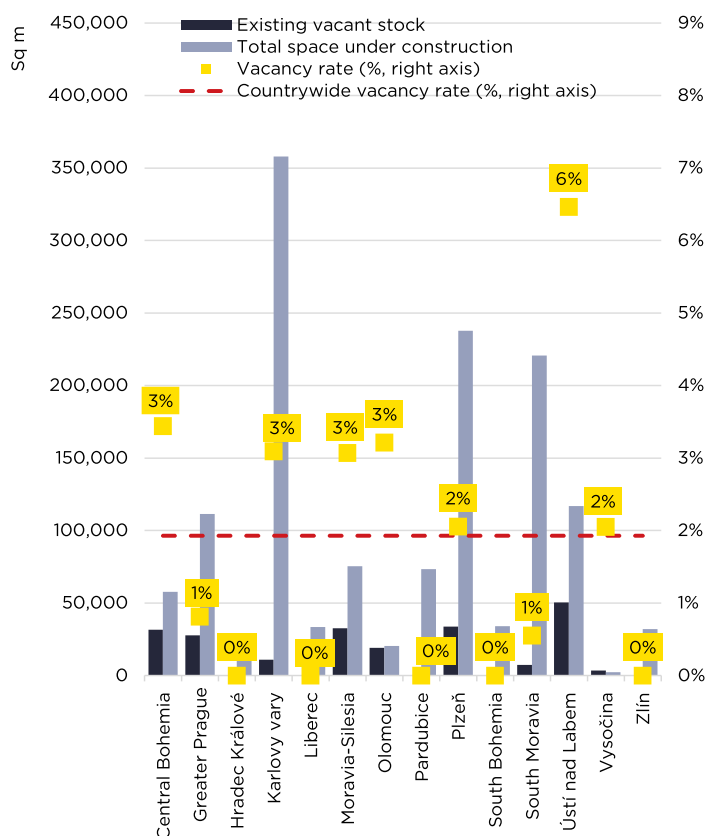
Rent Levels

- Headline rents for modern industrial space in Prague did not change and remained between €7.25-€8.30 per sq m for a 5,000 sq m unit leased for 5 years (due to low vacancy, these opportunities mostly reflect brand new space). Outside of Prague, the spread widened to €5.50-€7.80.
- Rents for small business units (of less than 1,000 sq m) in Prague remained between €8.50-€9.50 per sq m a month.
- Offices and sanitary areas within industrial halls continued to be offered at €9.50-€12.50 per sq m a month. Monthly service charges remained between €0.75-€1.00 per sq m.
- Rent incentives (mostly in the form of a rent free period) may discount the headline rent by up to €0.20-€0.35 per sq m a month, depending on location and the level of competition. However, in many cases, incentives are not offered at all.

Vacancy



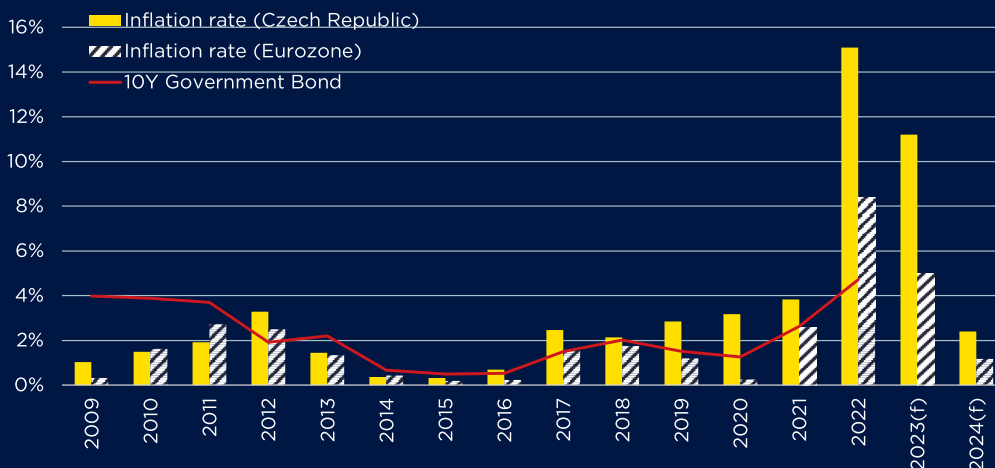
Vacancy in Regions



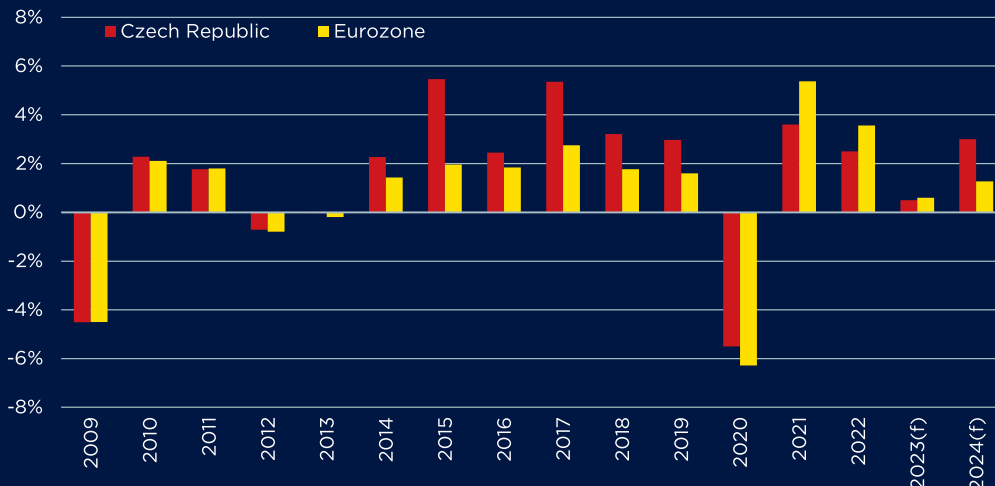
Macroeconomic highlights¹

- **GDP GROWTH:** Even though the Czech economy has been in a mild recession since Q3 2022, economic activity is expected to recover in the second half of the year, resulting in economic growth of 0.5% in 2023 (against the predicted decline of 0.5%).
- **INFLATION:** A period of markedly higher inflation will continue in 2023, although, it should decline at a rapid pace during the first half of this year and then reach high single-digit levels in the second half of the year. Hence, the average inflation rate could reach 11.2%.
- **UNEMPLOYMENT:** The market continues to experience labour shortages. In February 2023, general unemployment rate remained unchanged on a y-o-y basis and stood at 2.5%. For 2023, it is forecast to rise to 3%.
- **RETAIL SALES:** Price-adjusted retail sales fell for the 10th time in a row by 6.4% on a y-o-y basis in February 2023, with food sales down by 7.6% and non-food sales down by 7.1%. Given the projection, improvements in retail sales are not anticipated in the next months.

Inflation Rate and 10Y Government Bond¹



GDP Growth¹



11.2%

CPI INFLATION
2023 PREDICTION
(15.1% IN 2022)

+0.5%

GDP GROWTH
2023 PREDICTION
(+2.4% IN 2022)

2.5%

NATIONAL
UNEMPLOYMENT
(FEBRUARY 2023)

€1,595

GROSS MONTHLY SALARY
(NATIONAL MEDIAN IN
Q4 2022)

-6.4% YoY

RETAIL SALES
(FEBRUARY 2023)

2.6%

3M EURIBOR
(Q1 2023)

7.2%

3M PRIBOR
(Q1 2023)

¹ Based on the data available on 12/04/2023 (Source: CNB, Ministry of Finance).

Used Terms

A-CLASS BUILDING is a modern production or logistics facility featuring truck loading docks and / or direct drive-in gates, with a clear internal storage height of at least 6 m, flat roof, sandwich panels facade and a dust-free concrete floor. (For the avoidance of doubt, older premises without heating, where the facade is made of metal sheets / bricks / masonry are not considered A-class).

TOTAL STOCK includes all A-class warehouses and production facilities developed or owned by a developer and/or investor, which are being leased to third parties (further information about A-class standard is stated above). Owner-occupied and B-class premises are excluded. Total Stock represents the total rentable area of the building and therefore includes not only warehouse and production premises but also the associated offices, lockers, canteens and sanitary space.

NEW SUPPLY represents the volume of A-class warehouses and production facilities where construction was completed in the specified time period. Owner-occupied premises are not tracked.

CONSTRUCTION PIPELINE comprises A-class warehouses and production facilities that are under construction in the specified time period, or in shell & core finish, where full completion takes more than 3 months. Owner-occupied premises are not tracked.

VACANCY RATE demonstrates the share of unleased space within those completed buildings that are included in Total Stock. Units under short-term lease or under offer (with Heads of Terms signed) are considered vacant. For the purposes of vacancy calculation, the unit is leased upon signature of a binding commitment (e.g. Lease Agreement, Amendment etc.). Vacancy is calculated from the total rentable space and therefore includes not only warehouse and production premises but also the associated offices, lockers, canteens and sanitary space.

GROSS TAKE-UP represents the total leasing activity that was recorded within A-class buildings (existing, planned or under construction), which are part of Total Stock, Construction Pipeline or planned. This includes pre-leases, new leases, lease prolongations, lease renegotiations, expansions and subleases. Short-term leases (for a period shorter than 12 months) are excluded. Transactions are recorded based on a Lease Agreement / Future Lease Agreement / Amendment signature date, not based on occupation (handover) date. The statistics include the industrial premises as well as the associated office and sanitary space.

NET TAKE-UP (NET DEMAND) follows the same principles as Gross Take-Up, but excludes subleases, lease renegotiations and prolongations of previously signed lease agreements.

HEADLINE RENTS are rents achieved within standard A-class warehousing units of around 5,000 sq m based on a 5-year lease term. Any above-standard building modifications and fit-outs are excluded. Headline rents exclude any incentives provided by the landlord and also exclude service charges.

SERVICE CHARGES are monthly fees payable in addition to rent for each sq m of internal rented area. This fee covers costs relating to the shared areas within the industrial park (i.e. snow removal from roads, landscaping and greenery maintenance, security services, etc.). The exact scope of services included in the service charges differs developer by developer.

GREATER PRAGUE / PRAGUE does not only cover the cadastral area of the city of Prague but also includes projects located in the Central Bohemia region, that are within 10-15 km radius from the Prague outer ring-road (i.e. the D0 highway).

As data quality and accuracy is important to us, some figures may change even retrospectively due to regular revisions.



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Research team

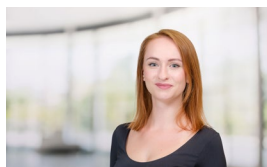


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