MARKET IN MINUTES
Savills Research

Czech Republic Industrial Market

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INDUSTRIAL STOCK & SUPPLY

The total of 336,500 sq m was delivered to the Czech industrial real estate market during H2 2018, which was 5% above H2 2017 completions. With 712,200 sq m completed in the whole year, 2018 ended up being the third strongest year ever in terms of annual supply volumes (being surpassed only by the record year of 2007 and also 2008).

Out of the total new supply, nearly 92,000 sq m has been delivered to the market speculatively, with around 20,000-25,000 sq m supplied to the Czech market each quarter (11%-15% share of quarterly completions).

At the end of 2018, the total modern industrial inventory moved over 7.65 million sq m. 39% of all premises was located in and around Prague and 15% in the Pilsen region.

The constrained supply continues to drive new construction. Since H2 2016 the development pipeline has been stable at around 400,000 - 500,000 sq m. 420,000 sq m was under construction at the end of 2018 and all due to hit the market during 2019. Speculative development accounted for 47% of the construction pipeline, however, most of this space will be leased prior to construction completion.

VACANCY

Despite a new supply of 712,200 sq m, nationwide vacancy rate continued to hover around 3.5% during the year and closed the last quarter at 3.4% hitting a new record low (down from 4.1% achieved at the end of 2017).

This record low vacancy translates into nearly 264,000 sq m of modern industrial space immediately available for lease across the country. The unoccupied stock is mostly composed of smaller units of up to 5,000 sq m.

The largest volume of vacant space was traditionally found in the country's most developed markets. Prague was in the lead with 98,400 sq m, followed by the regional markets of Pilsen (61,700 sq m) and South Moravia (52,500 sq m).

The other Czech regions reported unoccupied premises in a total volume below 15,000 sq m per region, while Liberec, Pardubice, Karlovy Vary and South Bohemia ended the year with zero availability.

Czech industrial market
at the end of 2018

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

712,200 sq m
Industrial space supply in 2018 (up by 8% y-o-y)

FOR LEASE

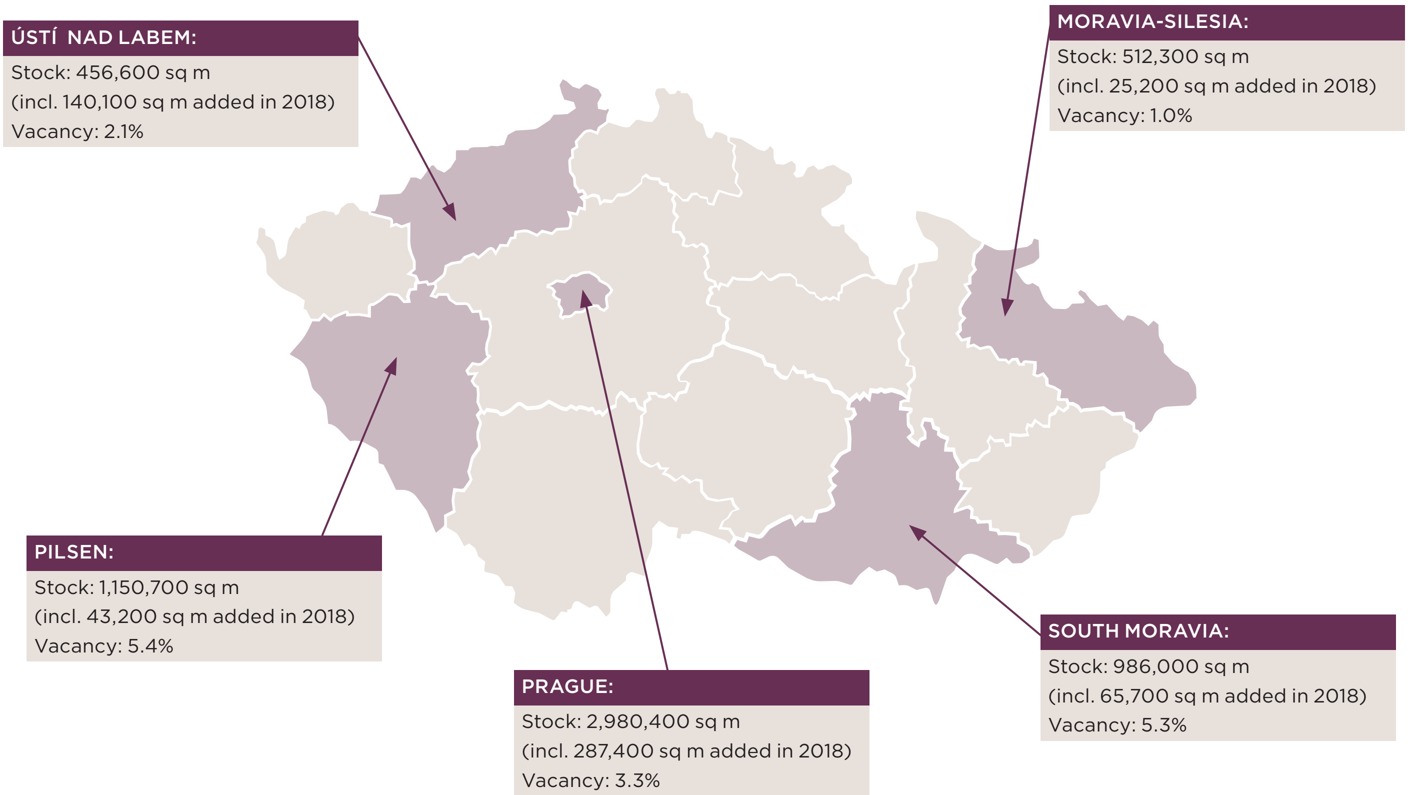
3.4%
Vacancy rate (down by 67 bps y-o-y)

1,361,100 sq m
Gross take-up in 2018 (down by 2% y-o-y)

789,300 sq m
Net take-up in 2018 (down by 17% y-o-y)

Source Savills

A-class industrial stock, 2018 supply and vacancy in the largest industrial hubs

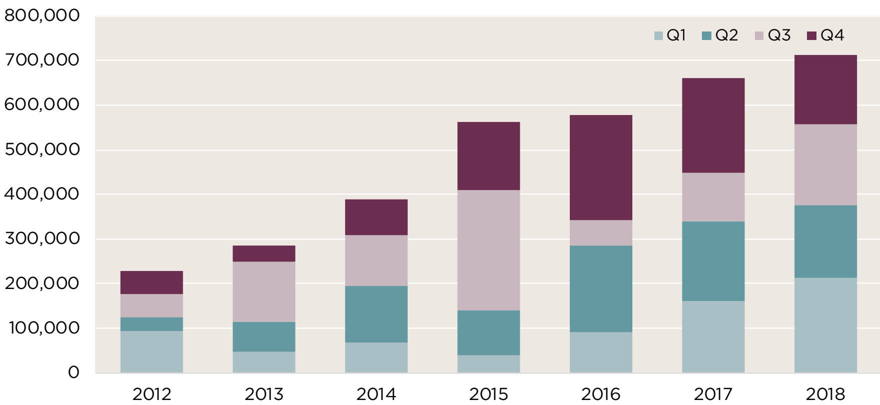


Source Savills

Development pipeline (sq m)

Source Savills

Quarterly & annual supply



Source Savills, historic data - IRF

Largest new leases & pre-lets in 2018 (>15,000 sqm)

Property	Tenant	Size
CTPark Bor	*Confidential*	24,800 sq m
Panattoni Park Prague Airport II	Europe Huajie Development	24,700 sq m
Goodman Mladá Boleslav Logistics Centre	*Confidential*	23,500 sq m
Panattoni Park Prague Airport II	ViaPharma	22,900 sq m
Panattoni Park Prague Airport II	Panalpina	21,200 sq m
Logicor Prague Airport	ECOLOGISTICS	19,100 sq m
CTPark Mladá Boleslav	Emerge	18,400 sq m
VGP Park Chomutov	Geis CZ	17,500 sq m
Logistické centrum Zelená Louka	DB Schenker	16,600 sq m
CTPark Plzeň	*Confidential*	15,400 sq m

Source Savills

DEMAND

Total leasing activity recorded in H2 2018 reached 651,700 sq m, which was 8% below H1 results and 12% down y-o-y. The annual gross take-up in 2018 amounted to 1,361,100 sq m showing a marginal (>2%) decrease compared to the previous year but also the weakest demand level since 2013.

The 2018 total leasing activity was driven by lease renewals, which represented 42% of the total market activity and pre-lets accounting for 34% of the total volume of leasing deals.

Annual net take-up during 2018 came to 789,300 sq m in total, being 17% below the 2017 figures and same as the total market activity reporting the lowest level since 2013.

The largest volumes of new commitments were signed in Prague (310,300 sq m), followed by the Pilsen region (114,200 sq m). These were also the submarkets, which attracted majority of the concluded pre-leases.

New demand for modern industrial premises in 2018 (excl. lease renewals) came mostly from logistic services providers (41%) and manufacturers (39%). Almost the same shares were achieved by these occupier types also when looking purely at signed pre-lease agreements.

RENT LEVELS

Monthly prime headline rents for standard warehouse unit of around 5,000 sq m went up and oscillate between €4.10 and €4.90 per sq m across the country. Headline rents for smaller units (around 1,000 sq m or less) are in the range of €5.10 – €5.60 per sq m and month.

Mezzanine office space is typically leased for €8.50 – €9.50 per sq m and month.

Monthly fees for service charges generally reach €0.55 - €0.70 per sq m, but for small business units of around 500 sq m may also be at around €0.90-€1.00.

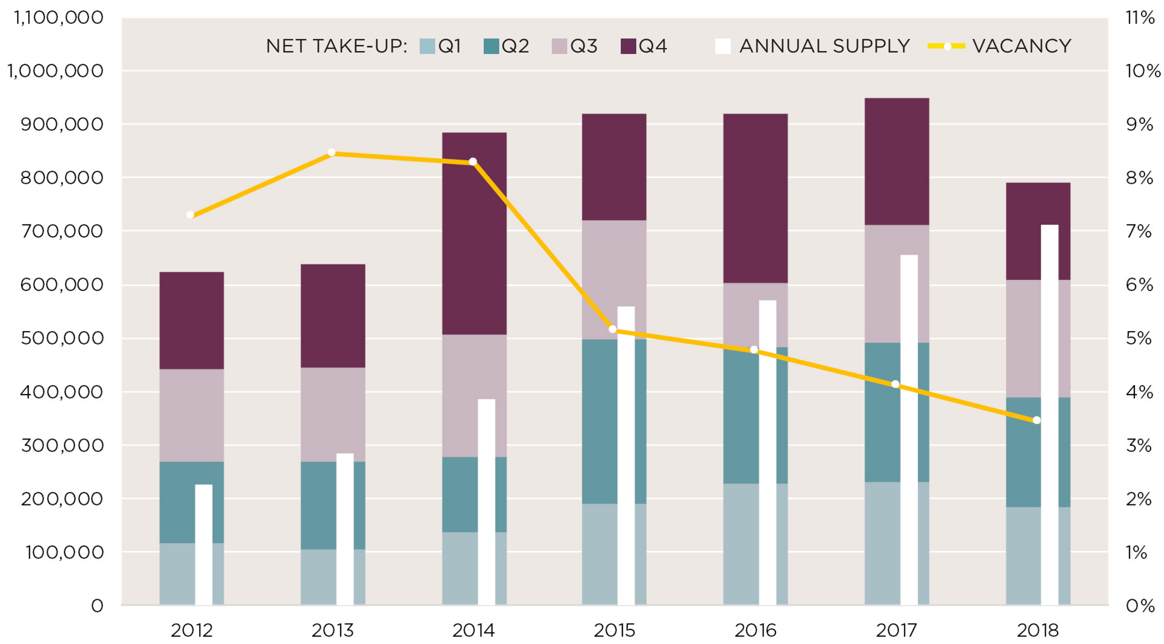
Incentives offered by landlords are mostly in the form of rent free periods or fit-out contributions and on average result in 5% discount on headline rent.

Regional rents (5,000 sq m unit, 5-year lease)

Submarket	Monthly headline rents
Prague	€3.85 – €4.90
Ostrava	€3.65 - €4.35
Brno	€3.85 - €4.75
Pilsen	€3.85 - €4.75
Tertiary locations	€3.65 - €4.25

“Restrained speculative supply will keep the vacancy rate low and below market equilibrium, the power therefore staying in the hands of landlords. Demand for industrial space in the country is expected to remain stable or possibly dwindle amid anticipated economic slowdown”

Net take-up & vacancy rate



Source Savills, historic data - IRF

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