

# Czech Republic Industrial Market



## INDUSTRIAL STOCK & SUPPLY

Total new industrial supply in Q1 2019 amounted to 178,900 sq m, which was up 15% from the previous quarter and slightly above the three-year quarterly average. Out of the total new development only 8,000 sq m was delivered to the market on a speculative basis, increasing the immediate availability in the Moravia-Silesia region.

Modern industrial stock in Prague reached 3 million sq m, representing 38% of the country's total A-class industrial inventory. The Pilsen region ranks as the second largest logistics hub in the country with total stock of 1.15 million sq m (15%). By the end of 2019, South Moravia will also exceed the 1 million sq m mark, putting it in third position based on submarket size.

From the previous quarter the construction pipeline rose to 581,300 sq m of which 55% was being developed speculatively. As the Prague market is slowly reaching its development potential, low vacancy continues to drive construction in smaller regional submarkets where developers have commenced works on 30,000+ sq m buildings without any prior commitments. The largest speculative projects in the Q1 2019 construction pipeline include a 60,500 sq m hall at P3 Park Lovosice, a 48,900 sq m building at Ostrava Airport Multimodal Park being developed by Concens Investments and a 39,400 sq m facility at Prologis Park Brno.

## VACANCY

The nationwide vacancy rate in Q1 2019 rose slightly by 44 basis points (bps) to 3.8%, representing vacant premises in the total volume of 300,400 sq m. The share of unleased space has gone up largely as a result of second-hand units coming back onto the market. In reality, though, the occupancy levels are slightly higher, because some of the statistically vacant units are currently under short-term leases.

At the end of Q1 2019, just over 110,000 sq m of completed and immediately available space was found in and around Prague. The other two largest submarkets, Pilsen and South Moravia, both reported vacant stock levels in the range of 53,000 sq m to 56,000 sq m.

Due to zero or near-zero vacancy levels in six out of the total 14 regions in the Czech Republic, tenants looking for production or warehouse space are being forced to either acquiesce in taking lower quality B-class premises or wait 6-12 months for a custom-built facility. This applies to the regions of Liberec, Zlín, South Bohemia, Pardubice and Hradec Králové. The region of Karlovy Vary also reported full occupancy levels, however there is a 33,300 sq m almost-completed warehouse at CTPark Cheb that could offer a solution to companies in the area in around 3 months.

## Czech industrial market in Q1 2019



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



**178,900 sq m**  
Industrial space supply  
in Q1 2019  
(up by 15% q-o-q)



**3.8%**  
Vacancy rate  
(up by 44 bps q-o-q)

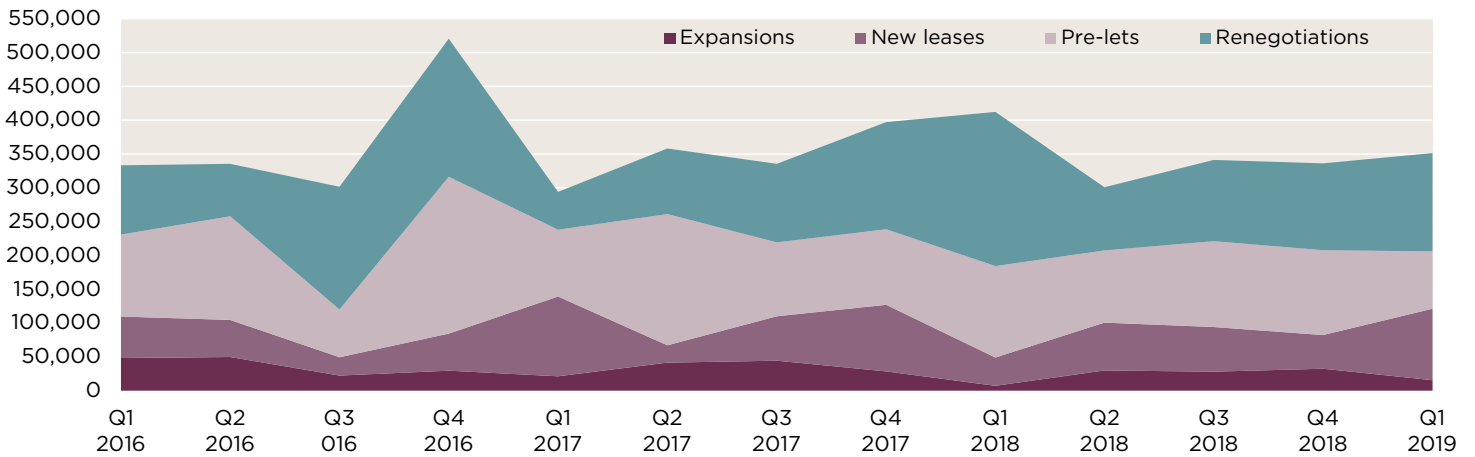


**360,300 sq m**  
Gross take-up in Q1 2019  
(down by 13% y-o-y;  
up by 7% q-o-q)

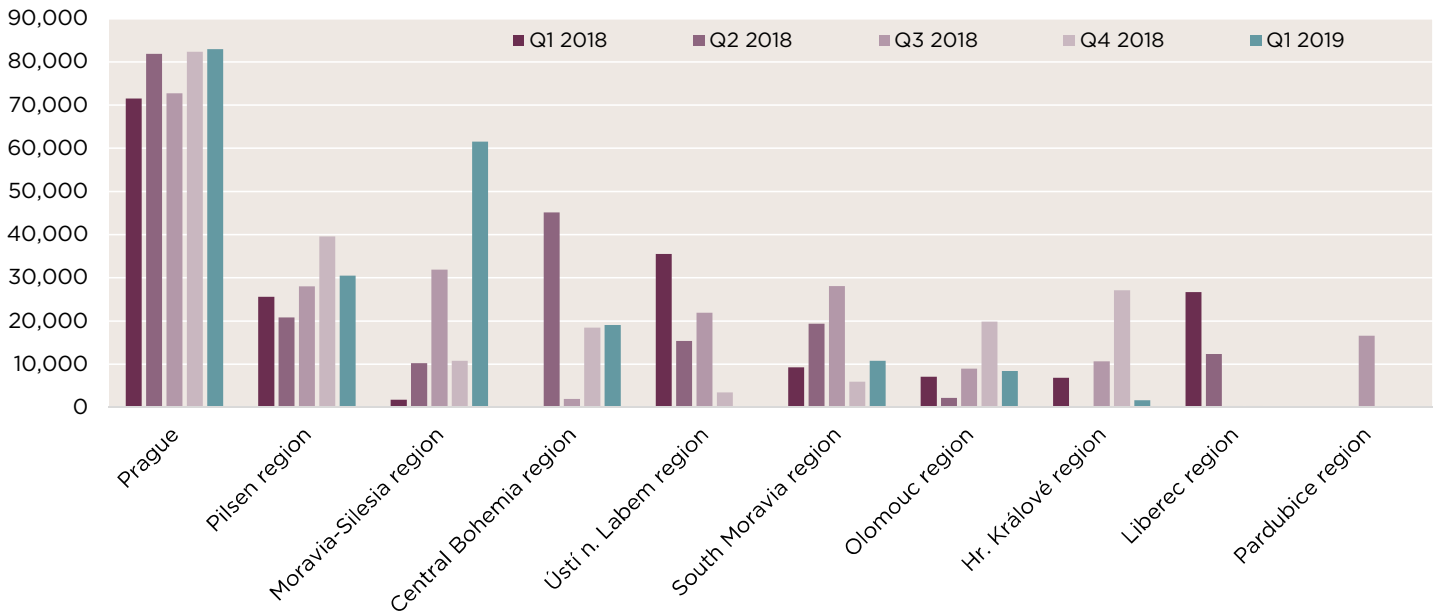


**215,000 sq m**  
Net take-up in Q1 2019  
(up by 17% y-o-y;  
up by 3% q-o-q)

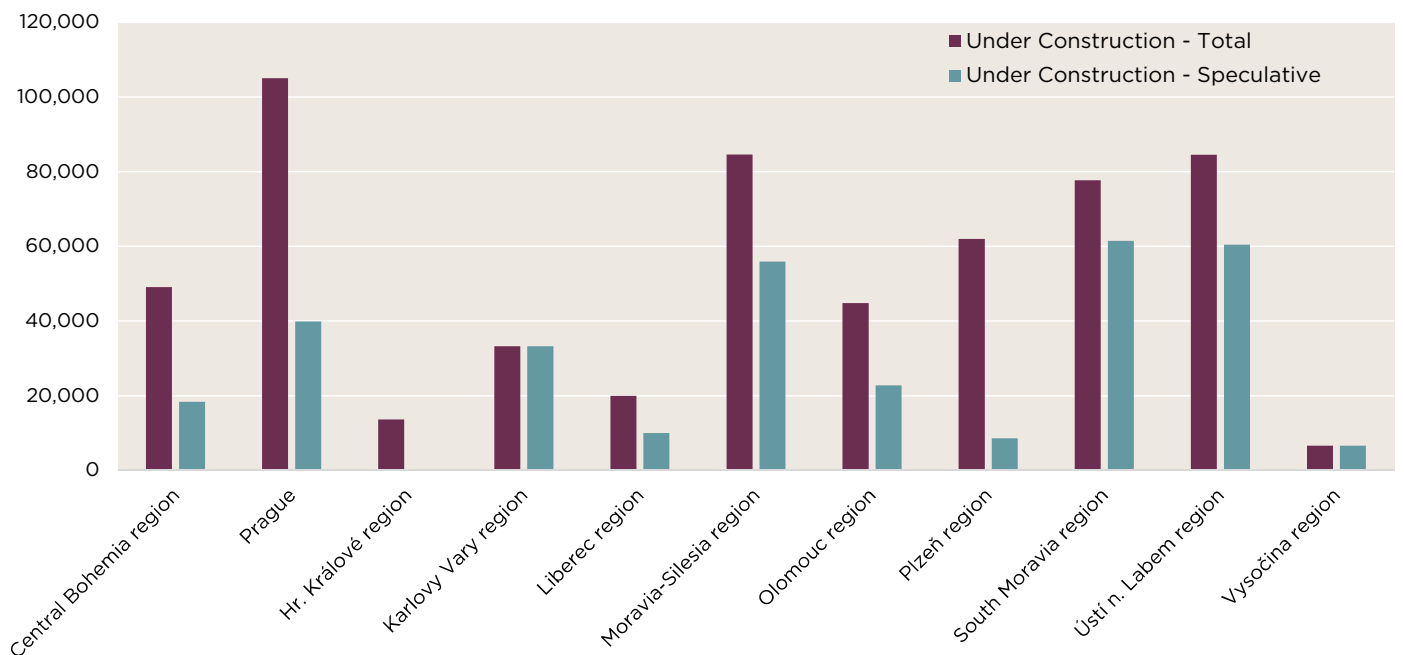
### Gross Take-up Structure



### Net Take-up by regions



### Development pipeline



**DEMAND**

The total volume of leasing transactions signed in the Czech Republic during Q1 2019 reached 360,300 sq m, which was 7% above the previous quarter but 13% down compared to the same period last year. 52% of the Q1 gross take-up was transacted on the Prague market; the Pilsen region was the second most active market accounting for 12% of the gross take-up.

Lease renewals and renegotiations formed 40% of the gross take-up, which was slightly above the three-year quarterly average. The volume of pre-lets signed in the first three months of 2019 showed a decline of 33% quarter-on-quarter (q-o-q) and 38% year-on-year (y-o-y), but the increased level of new leases made up the difference.

Although the largest transactions of Q1 were lease renewals, net take-up amounted to 215,000 sq m, demonstrating an improvement of 3% q-o-q and 17% y-o-y. Production companies generated 53% of the net demand for modern industrial space, mostly in Moravia-Silesia, Prague and Mladá Boleslav.

The largest volumes of new commitments (including expansions, pre-lets and subleases and new leases) were signed in Prague (83,000 sq m), followed by the Moravia-Silesia region (61,500 sq m) and Pilsen region (30,500 sq m).

**RENT LEVELS**

Headline rents stayed at the same level as of the end of 2018, starting at around €3.65 per sq m a month in tertiary locations and climbing to as high as €4.90 in Prague. Headline rents for smaller units (around 1,000 sq m or less) are in the range of €5.10 – €5.60 per sq m a month across the country.

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

Monthly fees for service charges have generally reached €0.55 - €0.70 per sq m, but for small business units of around 500 sq m might come to €0.90 – €1.00.

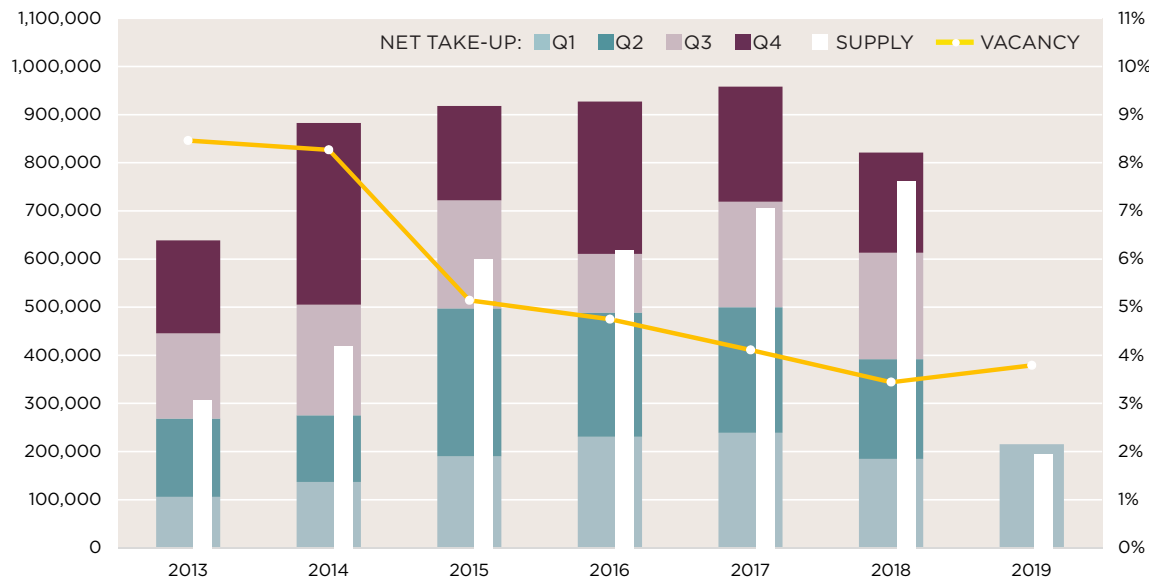
Incentives offered by landlords are mostly in the form of rent free periods or fit-out contributions and on average result in a 5% discount on the headline rent.

**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

👉 Over the coming quarters we expect that the low vacancy in prime locations will continue to push rents up, while secondary and tertiary locations will attract the demand sensitive to savings. The e-commerce sector has been growing mainly in Central Bohemia and South Moravia, though other populated regions such as Northern Moravia and Eastern Bohemia will still to experience growth of this sector. The automotive sector remains strong in all major industrial centres. 👈

**Net take-up & vacancy rate**



Source Savills, historic data - IRF

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## DEFINITION OF TERMS

**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. Owner-occupied and B-class premises are excluded.

**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.

**DEVELOPMENT PIPELINE** comprises A-class warehouses and production facilities that are under construction in the specified time period (projects put on-hold are excluded). Owner-occupied premises are not tracked.

**VACANCY RATE** demonstrates the share of unleased space within completed buildings 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.)

**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. 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 signature date, not based on unit occupancy.

**NET TAKE-UP** follows the same principles as Gross Take-Up, but excludes lease renegotiations and prolongations.

**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.

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Savills office in the Czech Republic was established in February 2017. Since then, we have created a full-service office staffed by a team of professionals who are highly recognised on the market.

We have very much established Savills as a leading real estate advisor for the Czech and Slovak markets and, therefore, have made significant progress to achieving our goal of being the real estate advisor of choice for our clients.

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- Office leasing & Tenant representation
- Industrial leasing & Tenant representation
- Asset & Property management
- Client accounting
- Valuation & Advisory
- Building & Project consultancy
- Research

## MEET US AT THESE EVENTS AND FAIRS THIS YEAR

JUNE 2019	SEPTEMBER 2019	OCTOBER 2019	NOVEMBER 2019
<ul style="list-style-type: none"><li>• Prague Property Forum, Prague</li></ul>	<ul style="list-style-type: none"><li>• CEE Property Forum, Vienna</li><li>• CEDEM, Prague</li></ul>	<ul style="list-style-type: none"><li>• EXPO Real, Munich</li><li>• Real Estate Market Autumn 2019, Prague</li></ul>	<ul style="list-style-type: none"><li>• MAPIC, Cannes</li><li>• Speedchain, Prague</li><li>• LOG-IN, Prague</li><li>• Best of Realty, Prague</li></ul>

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