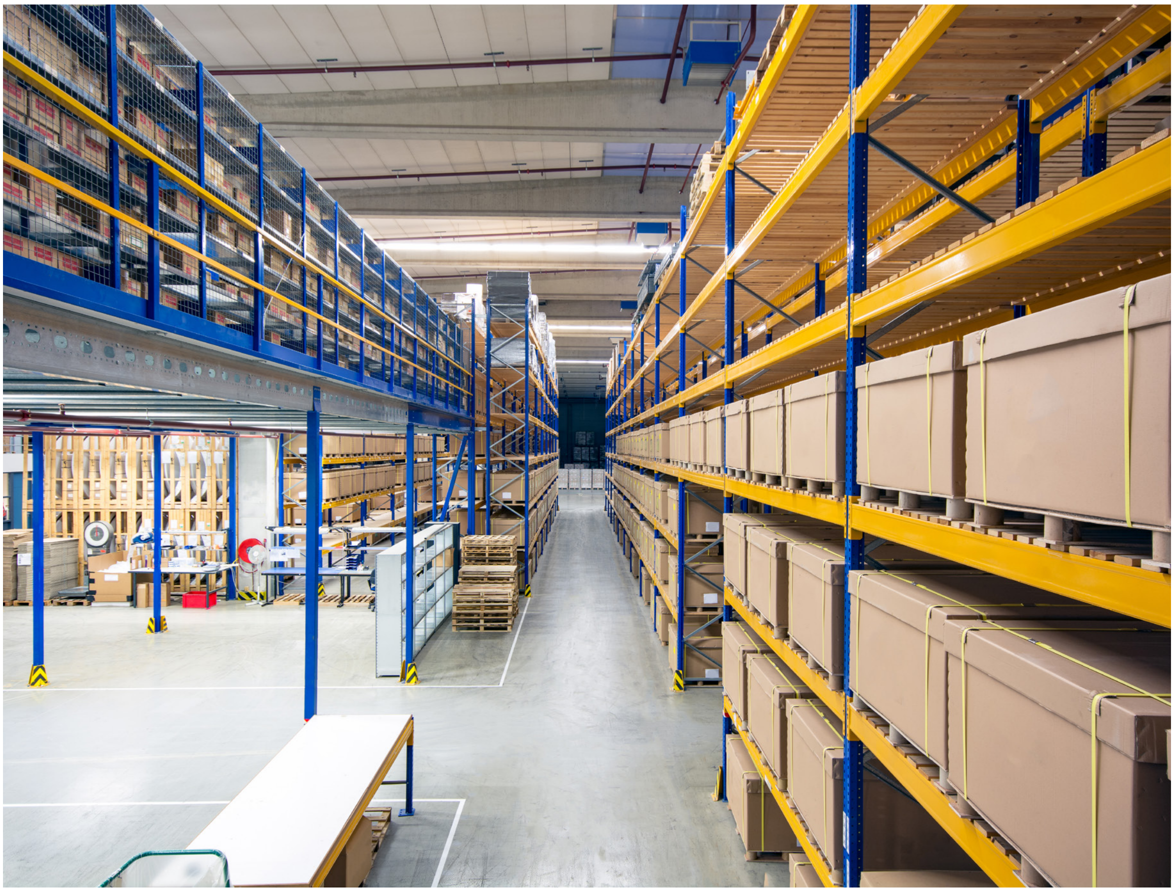
Czech Republic Industrial & Logistics – H1 2020

Czech Republic Industrial Market

savills



ECONOMIC OVERVIEW

- Due to the government measures imposed to manage the SARS-CoV-2 pandemic, the world economy will find itself in a recession this year. It is predicted that Czech economy will fall by 5.1%. The most significant decline is expected to be recorded in fixed capital investment and foreign trade.
- The unemployment rate is on the rise due to the decreased demand for labour and overall risk environment. Having reached 2.6% in June (2.1% in Q4 2019), it is predicted to continue rising and reach a peak of at least 5% by the end of 2020.
- The rampant wage growth of the last few years is expected to slow significantly throughout 2020. In Q1 2020, the average nominal wage grew by 5.0% y-o-y, comparing to 6.7% in Q4 2019. Figures for Q2 2020 are expected to see stagnation at best, likely even wage decline.
- In Q1 2020, the inflation rate averaged 3.6%, well above the 2% target. According to ČNB's forecast, the inflation rate will gradually slow from the middle of the year and fall slightly under 2% by the beginning of 2021.

INDUSTRIAL MARKET HIGHLIGHTS

- 291,200 sq m of new industrial space was delivered to the Czech market in the first six months of 2020, showing only a mild (3%) decline in construction activity compared to H1 2019. This brought the total stock of modern rentable industrial premises in the Czech Republic to 8.77 million sq m, of which 3.17 million sq m were found in Prague.
- Nationwide vacancy rate reached 4.4%, up 37 basis points (bps) from the previous quarter and an increase of 70 bps from the beginning of the year. The share of unoccupied space in Prague declined from 3.6% in Q1 2020 to the current 2.7%.
- Construction pipeline at the end of Q2 2020 included industrial premises with a rentable area totalling 572,300 sq m, while 195,000 sq m of that was already completed to a shell & core finish.
- Total leasing activity in H1 2020 amounted to 623,200 sq m (down 16% y-o-y). The half-year net take-up totalled 306,300 sq m, showing a decline of 33% compared to the activity recorded in H1 2019.

UNEMPLOYMENT	GDP GROWTH	GROSS MONTHLY SALARY	CPI INFLATION
2.6%	-5.1%	€1,295	3.1%
CZECH REP., JUNE 2020	2020 FORECAST	COUNTRY AVERAGE	JUNE 2020

Czech industrial market
in H1 2020

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

176,050 sq m
Industrial space supply in Q2 2020 (up by 53% q-o-q)

FOR LEASE

4.4%
Nationwide vacancy rate (up by 37 bps q-o-q)

338,150 sq m
Gross take-up in Q2 2020 (down by 4% y-o-y; up by 19% q-o-q)

193,600 sq m
Net take-up in Q2 2020 (down by 22% y-o-y; up by 72% q-o-q)

Sources Oxford Economics, Czech Statistical Office, Savills Research

EXISTING STOCK AND NEW SUPPLY

Despite the lockdown and restrictions imposed to slow the spread of the Covid-19 pandemic, industrial real estate developers in the Czech Republic delivered 176,050 sq m of new space in Q2 2020. This was slightly above the 160,000 sq m average quarterly supply level. 17% (30,300 sq m) of the Q2 2020 supply was completed on a speculative basis.

New supply of logistics and production space intended for lease during the first six months of 2020 reached a total leasable area of 291,200 sq m (down by 3% y-o-y), which increased the countrywide industrial stock to 8.77 million sq m. The largest volume of space in H1 2020 was delivered to the submarkets of Ústí nad Labem (64,400 sq m), Pilsen (50,100 sq m) and Prague (45,700 sq m).

In the middle of 2020, modern industrial stock in Prague accounted for 36% (i.e. 3.17 million sq m) of the country total. Pilsen remained the second largest industrial submarket in the country with a stock of 1.28 million sq m, followed by South Moravia (with Brno) housing 1.11 million sq m of rentable industrial space.

CONSTRUCTION PIPELINE

High occupancy levels and pre-leases continued to drive new construction especially in the regional markets where land availability is not as limited as around Prague. Industrial premises totalling 572,300 sq m were under construction (or in shell & core phase) across the country at the end of Q2 2020, and 93% of that space was being built in the regional markets, mostly in Moravia-Silesia, Central Bohemia and the Pilsen region.

More than half (53%) of the space in construction phase was already pre-committed. The largest volume of speculative space is being developed in the Moravia-Silesia region and South Moravia. A number of new projects, where construction was to start during 2020 were postponed to 2021. In some cases, plans to commence construction on a speculative basis were aborted.

In the middle of 2020, there was 564,000 sq m scheduled for completion by year-end. The annual supply levels will, however, partly depend on how successful developers are in finding tenants for the shell & core space.

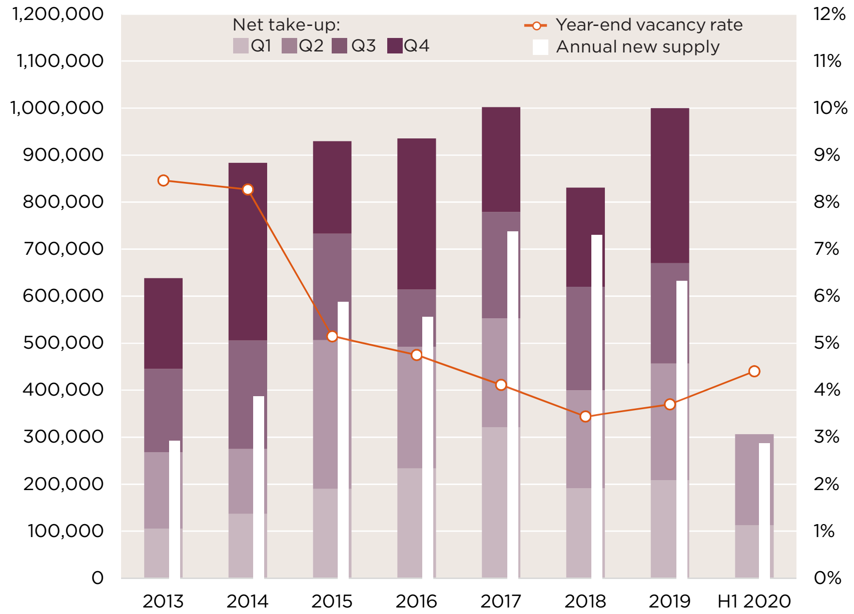
VACANCY RATE

Despite the low volume of speculative completions that were delivered to the Czech market in the first half of the year (35,100 sq m delivered in one building in Q1 2020 and 30,300 sq m supplied in three buildings in Q2 2020), the nationwide vacancy rate rose slightly to 4.4%. This represented 386,000 sq m of space ready for immediate occupation.

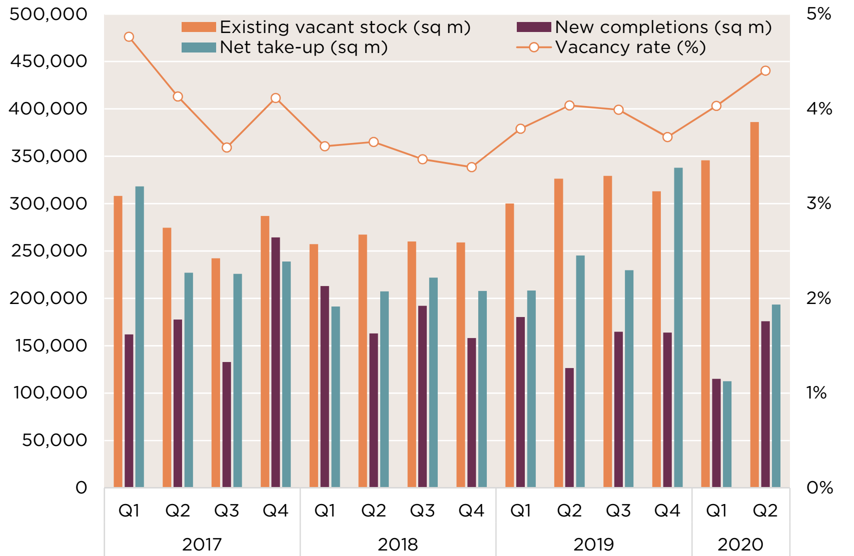
The vacancy increase was caused by the notable drop in net demand seen in Q1 as well as Q2, and also some second-hand space being put back on the market in Q2 2020. Taking into account the shell & core space, which is on average available for handover in three months, the nationwide vacancy rate would reach 6%.

Prague could offer 85,800 sq m of immediately available modern space, a vacancy rate of 2.7% (92 bps down q-o-q).

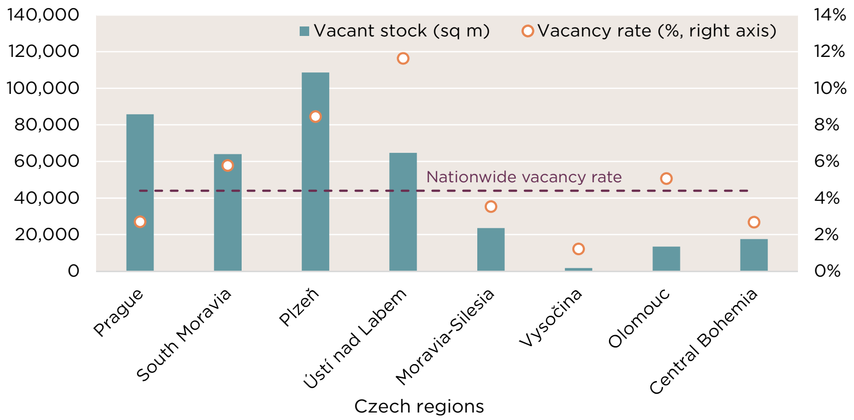
Annual net take-up, new supply and year-end vacancy rate



Quarterly vacant stock, net take-up and new supply



Immediate space availability in regions at the end of Q2 2020



Sources Savills, historic data - IRF

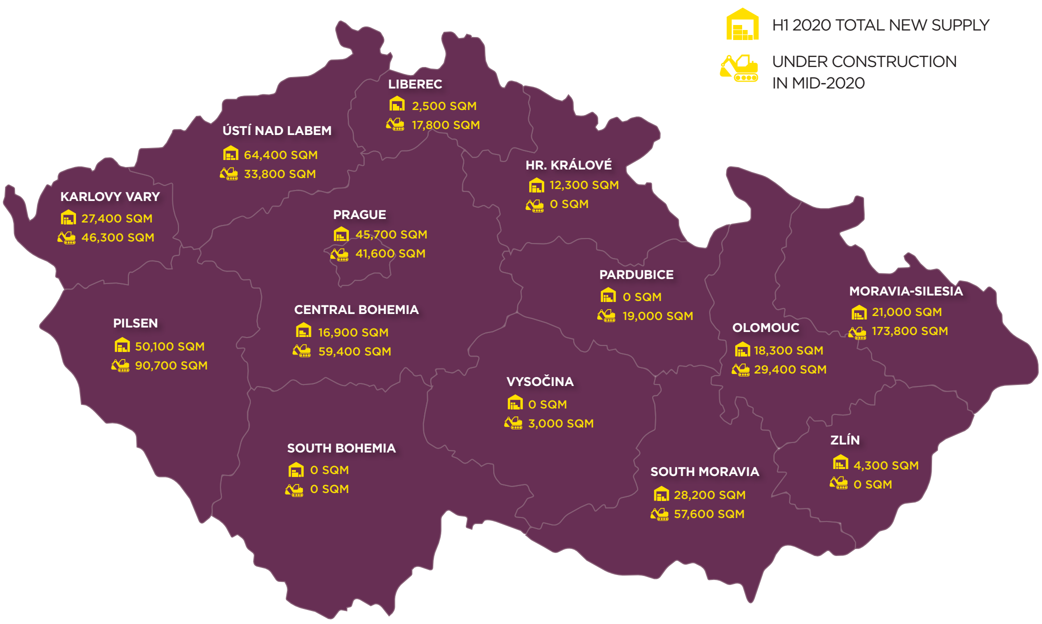
CZECH REPUBLIC IN H1 2020

291,200 sq m OF NEW SPACE BUILT — ▼ 3% Y-O-Y

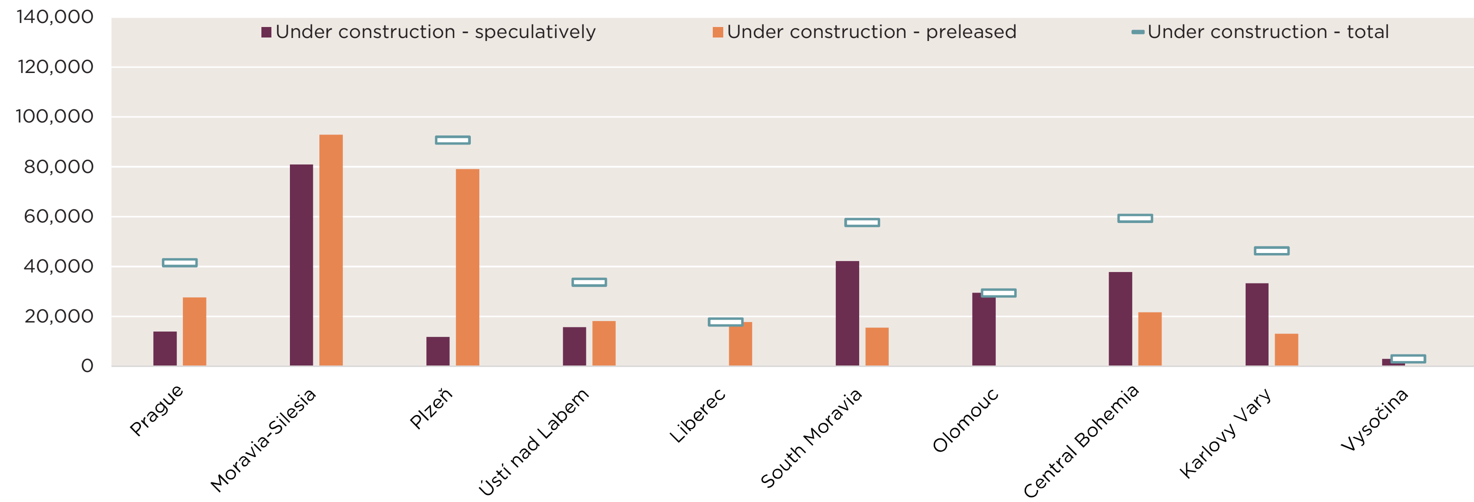
623,200 sq m TOTAL LEASING ACTIVITY — ▼ 16% Y-O-Y

306,300 sq m TOTAL NET TAKE-UP — ▼ 33% Y-O-Y

156,900 sq m PRE-LEASES SIGNED — ▼ 34% Y-O-Y

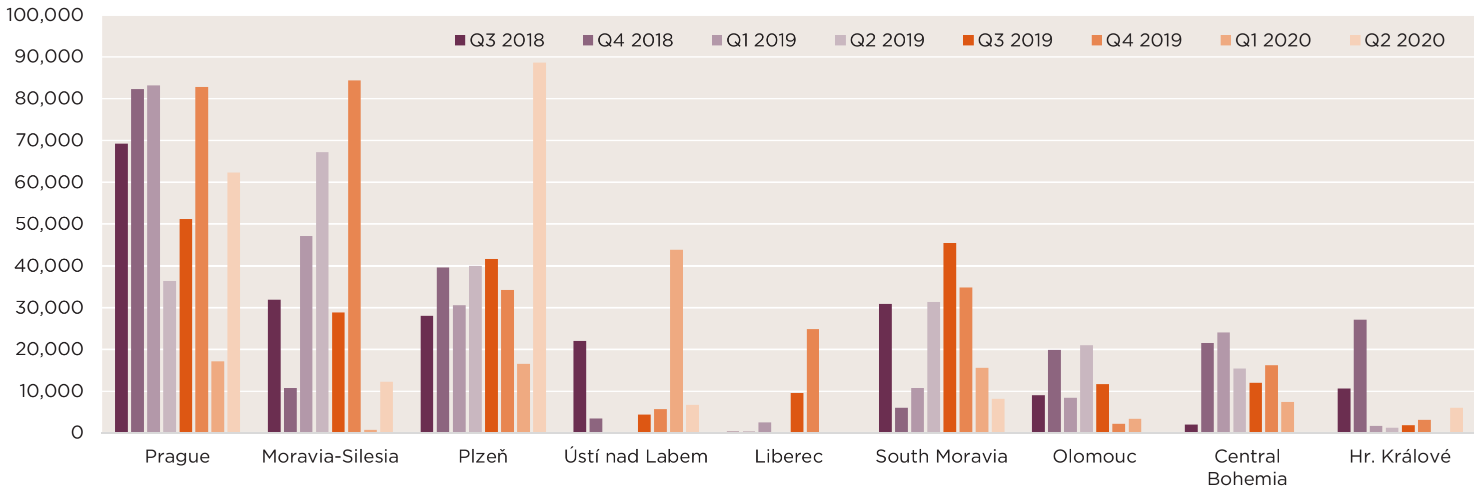


Development pipeline by region (sq m under construction in mid-2020)



Czech regions (excludes regions where there is no construction under way)

Quarterly net take-up in regions (sq m)



Czech regions (excludes regions with the lowest net take-up levels)

Sources Savills, historic data - IRF

OCCUPIER DEMAND

In spite of the sudden and unprecedented supply chain disruptions and temporary production shutdowns, mainly in the automotive sector, brought about by the pandemic, the leasing activity registered on the Czech industrial real estate market in Q2 2020 reached 338,150 sq m, showing a 19% improvement on the 285,100 sq m signed in Q1 2020.

The cumulative gross take-up for the first six months of 2020 (623,200 sq m) still indicated a 16% drop compared with H1 2019. It is worth noting that the overall leasing volumes do not include short-term lease commitments, which became more common in the new market environment. The volume of short-term leases signed during H1 2020 is estimated at between 100,000 and 150,000 sq m.

A more substantial drop was seen in net demand levels, which exclude lease renewals. After a very quiet first quarter, when the market saw the conclusion of new leases, expansions and pre-leases in a total area of 112,700 sq m, activity in Q2 2020 picked up slightly and reached 193,600 sq m, still a 22% decline y-o-y. The total half year net take-up volume reached 306,300 sq m, down 33% y-o-y.

These relatively positive demand levels (gross and net) were significantly boosted by one large deal, a 66,300 sq m pre-lease concluded with an undisclosed company at CTPark Bor.

Stripping out all lease renewals and renegotiations, the largest volume of space in H1 2020 was taken up (or pre-committed) in the Pilsen region, as a result of the above-mentioned transaction. Prague followed in second place, while the Ústí nad Labem region claimed the third largest share of the total half-year net take-up.

RENT LEVELS

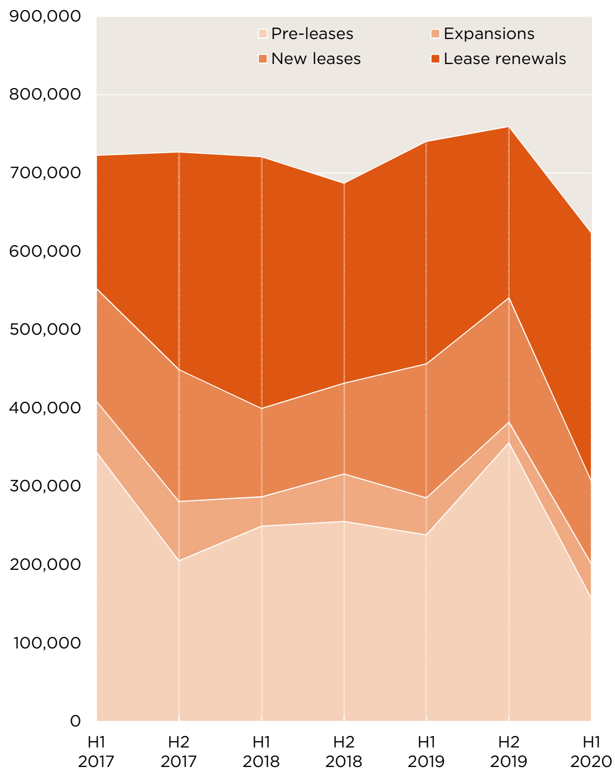
Headline rents for modern industrial space have not changed from the beginning of the year. Monthly rental rates for standard warehousing units of approximately 5,000 sq m leased for five years are typically between €4.00 and €4.80 per sq m. Effective rents for industrial space, which take into account any incentives and discounts provided by the landlord, are on average €0.25 – €0.50 lower than headline rents.

Headline rents for smaller units (around 1,000 sq m or less) in Prague ranged from €5.50 to €6.50 per sq m a month.

Rents for office space within logistics or production halls remained stable at €8.50 – €9.50 per sq m a month.

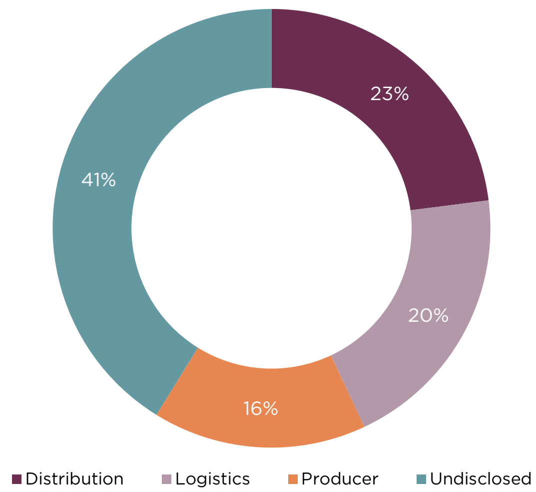
Monthly fees for service charges generally ranged from €0.55 – €0.70 per sq m depending on the scope of included services. Service charges in smaller business units of approximately 500 sq m could be as high as €0.90 – €1.00.

Half-year gross take-up structure (sq m)



Sources Savills, historic data - IRF

H1 2020 net take-up by occupier type



Sources Savills

OUTLOOK

In the second half of the year, most of new demand for industrial space in the Czech Republic is expected to come from the logistics and retail sector. Parts of the manufacturing sector is still facing supply chains difficulties, which continue to hinder the return to pre-coronavirus production levels.

There are no signs of changes in the rental levels and for the next six months these are projected to remain at their current level.

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