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Q4 2021 | Czech Republic

Industrial Market Overview

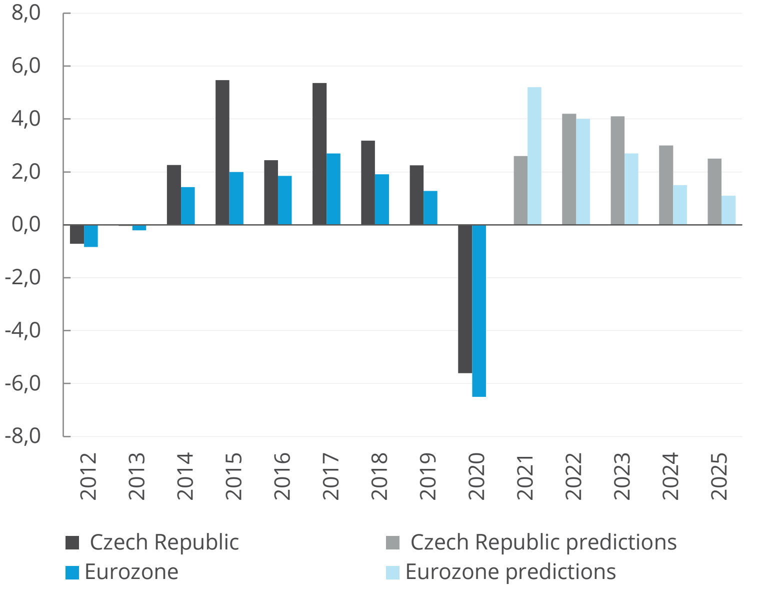
Macroeconomic overview

The end of 2021 saw no further economy-wide pandemic closures and a partial recovery. Persistent pressures on the economy in the second half of the year offset the growth of the economy achieved in the summer months and provided a slower outlook for Q4 and the beginning of 2022. Along with Oxford Economics, we believe that GDP growth for 2021 slowed down in H2, to 2.7%. Due to the current inflationary pressures and uncertainty caused by the rapid spread of the Omicron variant of Covid-19, the beginning of 2022 will not see as high a recovery, as the economy should grow by only 3.5%. However, the prediction is not all doom and gloom, as we see 2022 gradually easing from the pressures and a more positive outlook from Q2 onwards.

The inflationary pressures and expectations were still the main topic in Q4 2022. Inflation reached 6.6% in December and this growth will peak in Q1 2022. After that, gradual softening will take place throughout the rest of the year, as the main drivers behind the rise are transitory – energy and durable goods prices. The Czech National Bank took a harsh stance towards inflation throughout H2 2021. Policy rates were raised 5 times since the end of June, altogether by 400 bps, reaching the highest level since the 1990s. It remains to be seen what effect the hawkish stance will have on curbing inflation, next to the economic and growth uncertainties presented by covid realities. While problematics with supply chains persist, the industrial production, confidence and expectations in Czechia has picked up over Q4, as manufacturers resumed production.

The uncertainty surrounding the spread and speed of the Omicron covid variant and its subsequent economic and health consequences globally is rising. While reports show that the virus itself is less dangerous to individual patients, the sheer number of infections seem to partially offset this advantage. While a positive development, it remains to be seen whether a new, possibly more dangerous variant emerges this year.

Gross domestic product
(%)



Sources: Colliers, Oxford Economics

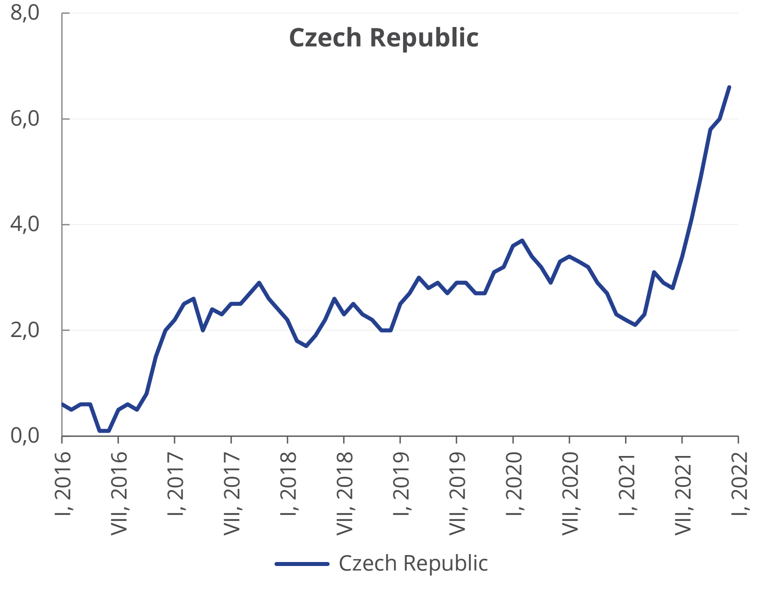
Macroeconomic overview

The Czech Republic has not yet progressed from the 63% of vaccinations and only 34% of boosters administered, necessary to effectively battle Omicron. That is also partly because the most numerous age groups only became eligible for vaccination at the end of December.

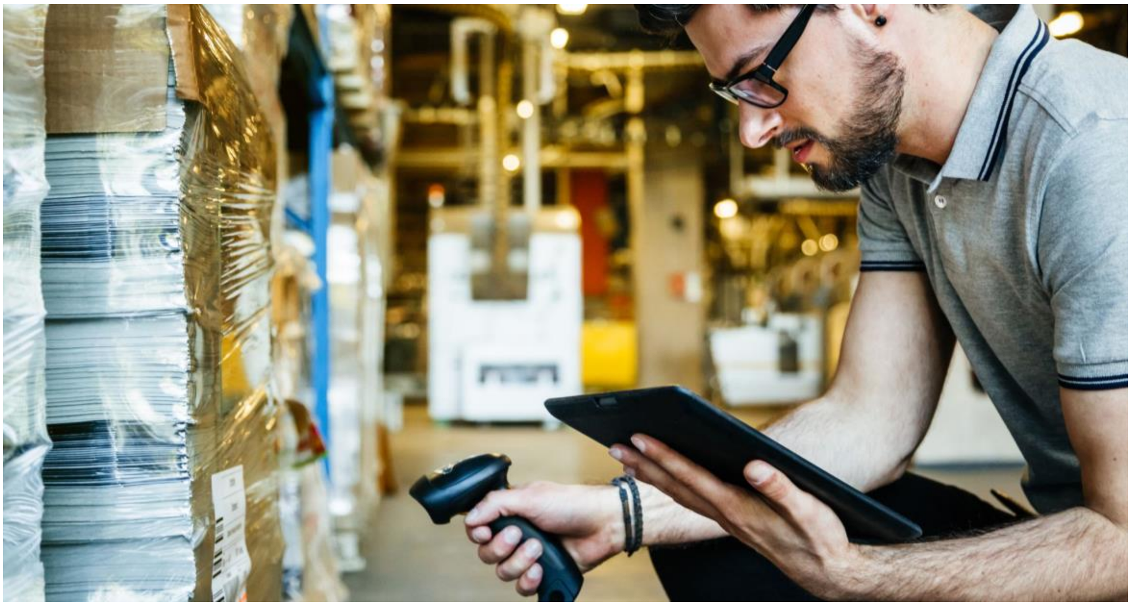
A new government was named in December and subsequent changes to certain policies and the 2022 budget are expected. Already announced was a change in the long-expected Construction law which may delay the changes to speed up permitting processes. Unemployment rose to 3.5% in December, but the long-term trends of significant labour shortages, is still apparent. Businesses in the Czech Republic have criticised this issue and government policy, where immigration policies prevent the more efficient filling of empty positions and limit business growth and expansion as a result.

While the economy is still highly dependent on the manufacturing sector, the labour shortage is a significant risk to future growth, together with the unpreparedness of the economy for the EU Green Deal. At the same time, the Czech Republic remains one of the least-risky emerging markets due to conservative fiscal and monetary policies, low debt and a liquid banking sector.

Headline inflation
(%)



Sources: Czech statistical office



Czech industrial market

Top 3 Transactions of Q4 2021

Tenant	Property	Size (sqm)	Transaction
Confidential	CTPark Bor	60,000	Pre-lease
Confidential (e-commerce)	P3 Prague Horní Počernice	40,300	Expansion
Jungheinrich	Panattoni Park Chomutov North	39,500	New lease

Sources: Industrial Research Forum, Colliers

Supply and Vacancy

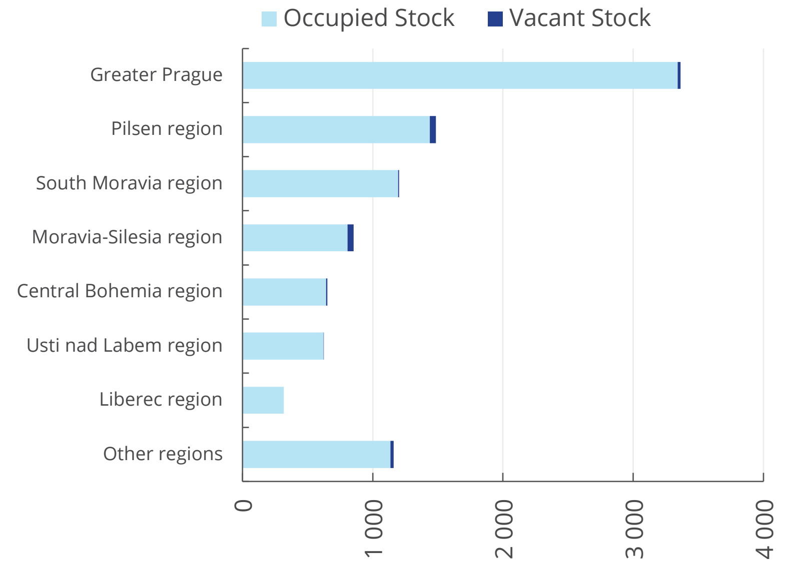
The Czech industrial market stock continued to grow in the last quarter of 2021, overtaking the 9.5 million sq m milestone. There was 149,000 sq m of newly completed industrial space in Q4 2021 and by the end of the year, the market stood at 9.66 million sq m of modern industrial space.

The gap in terms of supply and demand has widened in 2021, between regions with higher and lower land availability. During the year, the average new development rates decreased in the most sought-after regions, such as the Greater Prague and Pilsen regions. In Q4, the largest share of completions was in the South Moravia region (22.6%), followed by the Karlovy Vary region (20%), and the Greater Prague and Pilsen regions, with 15% each.

2021 was a year of low supply of new industrial space. There was a 29% y-o-y decrease in completions, and over a 5-year average figure, the 2021 new supply underperformed by 23%. At the same time, there was record space under construction in the Czech Republic, as the year closed with 1.1 million sq m under development.

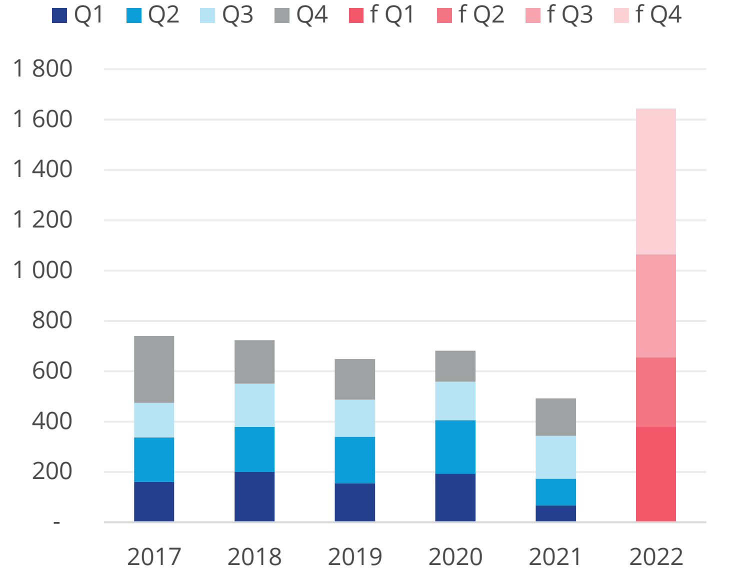
High hopes for more new construction are in place, as availability in the market steadily continues to decrease. In Q4 2021, vacancy decreased from slightly over 2% to 1.62%, a further decrease of 47 bps, and tightening of overall availability in the market.

Industrial stock and vacancy in regions (sq m thousands)



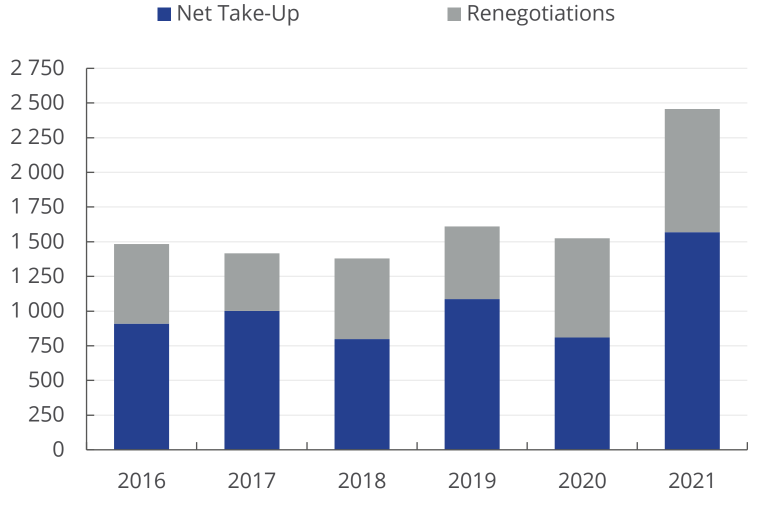
Sources: Industrial Research Forum, Colliers

Annual supply (sq m thousands)



Sources: Industrial Research Forum, Colliers

Annual take-up (sq m thousands)



Sources: Industrial Research Forum, Colliers

Key market figures

Stock (sq m millions)
9.66

Vacancy Rate
1.62%

Q4 Gross Demand (sq m)
672,400

Prime Rent
€5.50 - 6.00

Q4 Supply (sq m)
149,000

Under Construction (sq m)
1,174,000

The lowest vacancy among the most developed markets was in the South Moravia region (0.61%) and in the Greater Prague region (0.65%). Furthermore, the vacant space in the Greater Prague region is skewed by vacant ancillary office spaces. The real availability of warehouse space is therefore much closer to 0% than the effective vacancy rate for the region suggests.

Overall, the market was thirsty for larger developments throughout 2021, culminating in Q4 where only 3 existing parks in the entire Czech Republic offered space of over 10,000 sq m and only 9 parks had available spaces over 5,000 sq m.

Demand

We saw record-breaking increases of demand for Czech I&L space throughout 2021. Gross take-up reached 672,400 sq m in Q4, totalling nearly 2.5 million sq m for the entire year. This translates into a 62% increase in demand y-o-y. This was the highest volume of gross take-up on record, as well as the largest Q4 gross take-up figure. The share of net take-up was 71% in Q4 and 63% for the whole year. By the end of 2021, net take-up broke even more records, as the cumulative annual and quarterly figures were the highest on record. The 2021 net take up figure was up by an incredible 100% y-o-y, showing the resilience of demand for the Czech industrial market and interest from both new and expanding tenants. Pre-leases held the highest share among all leases (~40%), as available modern industrial space remained very scarce throughout the year.

Tenants from the distribution and production sectors held the highest shares of net take-up in Q4 2021. Traditionally, the highest share of gross take-up was taken by third-party logistics tenants, with 31%. While we foreshadowed the establishment of e-commerce tenants throughout the year, its role at the end of 2021 was much more pronounced than before.

Outlook

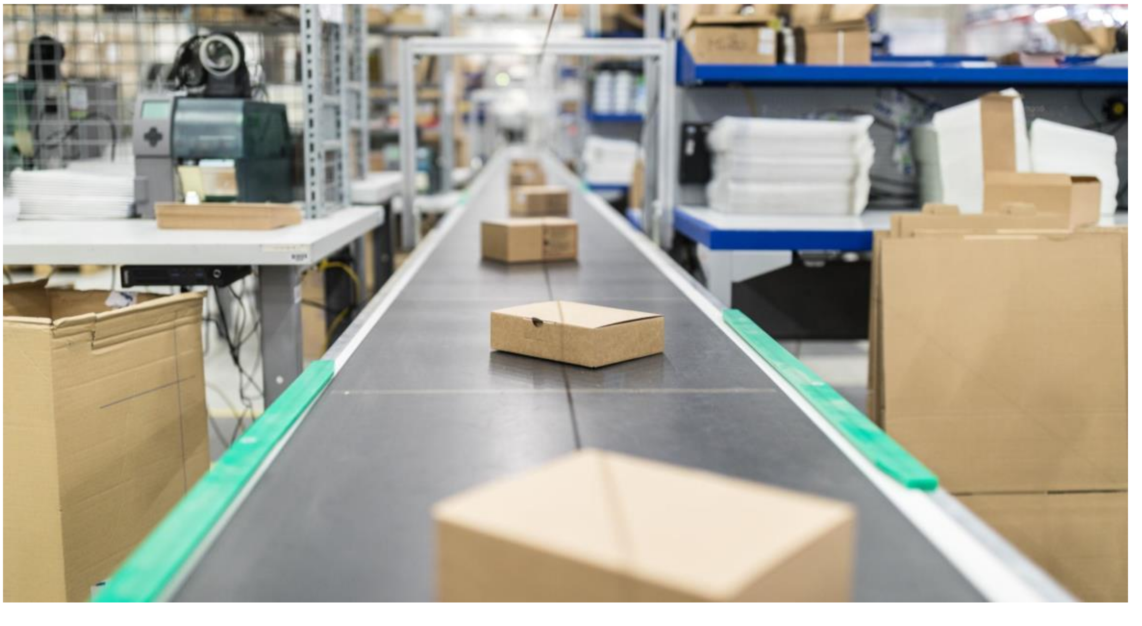
The rise of e-commerce in the Czech retail market was apparent even in industrial leases of the last quarter of 2021, when the e-commerce subsector held the highest share of net take-up among all subsectors (29% of all tenants). E-commerce in Q4 even overtook the third-party logistics subsector (which is itself highly associated to e-commerce). The e-commerce subsector established a firm role in the market and among the largest industrial tenants in 2021, even months after the strictest pandemic lockdowns eased.

Rents

Rents continued to rise throughout 2021, both in Prague and in the regions. The highest achievable rent was in Prague, up to €6.00/sq m/month. In the Czech regions, rents rose to around €5.10–5.20/sq m/month. Rents for mezzanine office space stood between €8.50–9.00/sq m/month. Service charges are typically around €0.50–0.65/sq m/month. We see this trend continuing and, as we saw at the end of 2021, some special offers in the Greater Prague area start at €7.00/sq m/month. The Czech market seems to be quickly catching up with its western European counterparts.

Outlook

After a year of rocketing increases, the Czech market is finally looking to expand. The current outlook for new development promises to start the year on the right foot. The year 2022 will see more new additions to the market than before, with over 1.5 mil sq m expected. Most of the construction is taking place in the Olomouc region (25%), then the Moravia-Silesia (15%) and Pilsen and Karlovy Vary regions (around 11% each). Land availability is becoming a factor in the planning and volume of new developments, as regions such as Greater Prague and Southern Moravia are falling behind the less crowded regions, such as Moravia-Silesia, Ústí and Pilsen. We are expecting that around H2 2022, the Czech I&L market stock will overtake 10 million sq m. The interest in the Czech market is not waning, as big players rush to secure new acquisitions, plots and start new developments as quickly as possible.



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