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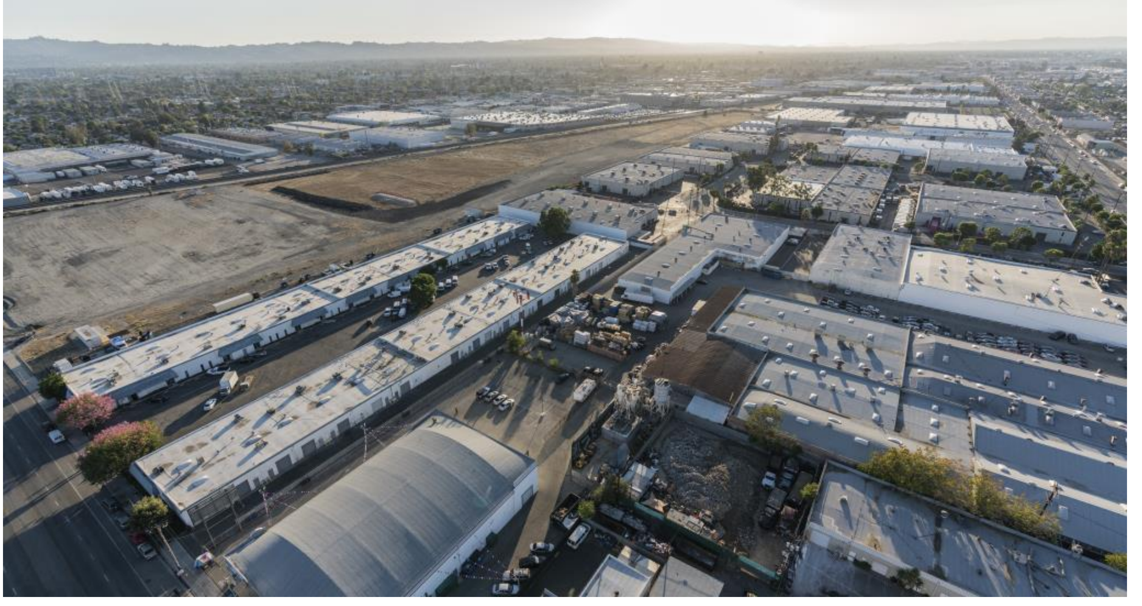
Q1 2022 | Czech Republic

Industrial Market Overview



Czech industrial market

Top 3 Transactions of Q1 2022

Tenant	Property	Size (sqm)	Transaction
Globus	Prologis Park Prague-Jirny	61,500	Renegotiation
JUSDA Europe	CTPark Pardubice	37,300	Renegotiation
Confidential	Panattoni Park Pilsen West II	36,400	Pre-lease

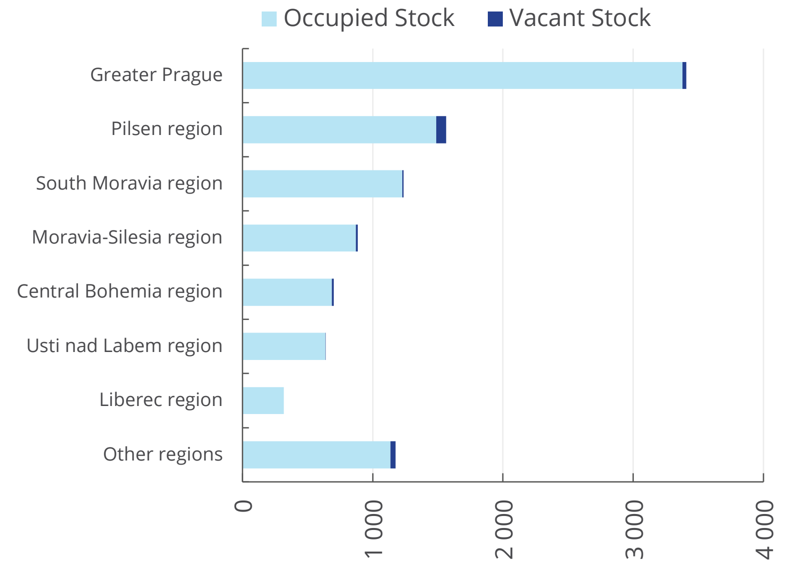
Sources: Industrial Research Forum, Colliers

Supply and Vacancy

The Czech industrial market grew at a faster pace than previously in the first quarter of 2022, but still did not reach the 10 million sqm milestone. The market now stands at 9.99 million sqm. The lower rates of newly completed space in 2021 will very likely be compensated in 2022 when we expect record new supply. Already in Q1 2022, we saw this trend ascending. 22 buildings were completed in the Czech Republic, adding 306,600 sqm of modern industrial space across the regions. This result is 71% higher than the 5-year average completions in the first quarter and a 106% increase y-o-y. The number is almost surprisingly high, considering that a lot of the expected new development for Q1 2022 had to be postponed due to supply chain issues. Development in the Czech Republic finally seems to be catching with the hunger for new space in the market. The highest share of completions was in the Moravia-Silesia region (25%), followed by the Pilsen region (16%) and Greater Prague region (15%).

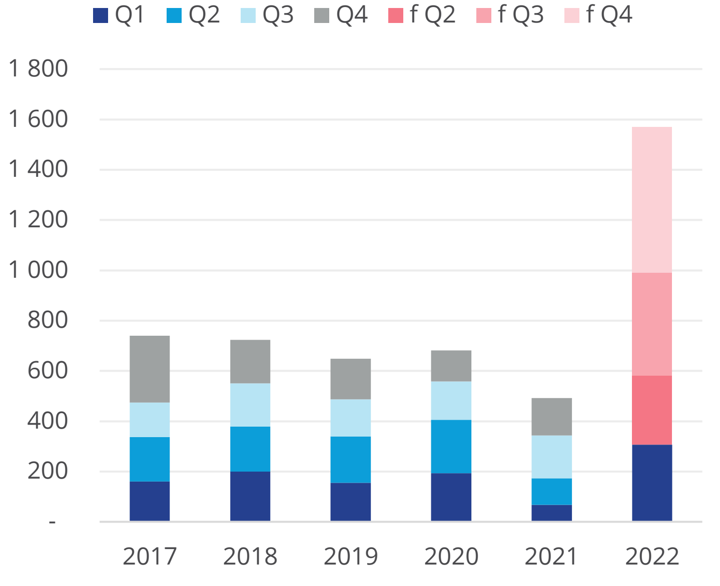
Vacancy slightly increased in Q1 2022, to 1.76%. This was an increase of 47 bps and is the first-time vacancy has increased since Q1 2020. Part of this is due to the increased levels of development supplied to the market, although most of the newly built space was already fully or nearly fully pre-leased before completion.

Industrial stock and vacancy in regions (sq m thousands)



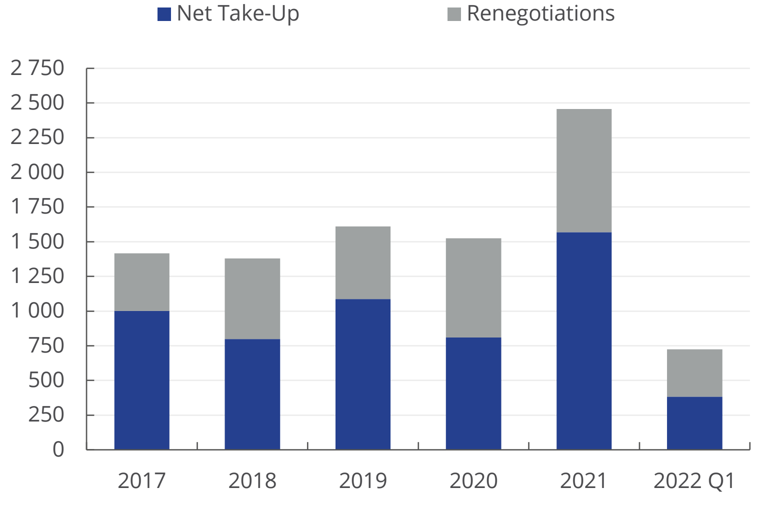
Sources: Industrial Research Forum, Colliers

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)
9.99

Vacancy Rate
1.76%

Q1 Gross Demand (sq m)
724,300

Prime Rent
€5.25 - 6.50

Q1 Supply (sq m)
306,600

Under Construction (sq m)
1,132,100

The highest vacancy was in the Olomouc and Pilsen regions, the lowest, as usual in around Prague and Brno. At the time of reporting, only 5 parks in the Czech Republic had spaces immediately available for over 10,000 sqm.

Demand

Gross take-up totalled 724,300 sqm in Q1 2022, just below the record amount that was reached in Q1 2021. Net take-up increased by 28% y-o-y, but decreased by 15% from the previous quarter, totalling 384,100 sqm. Renegotiations held the highest share of activity (47%), followed by pre-leases (25%) and new leases (22%). The Greater Prague region saw the most activity (28%), followed by the Pilsen region (17.6%).

Leases were dominated by logistics and production tenants this quarter, showing a diminished role of e-commerce tenants in the first quarter (compared to 2021). Tenants from the third-party logistics sector leased the highest share of space. The surprise growth was in the automotive sector, where demand grew by 147% y-o-y in Q1 2022. So far in Q1, tenants from the sector have already leased 69% of the space that was leased by automotive tenants for the whole of 2021. That could be a sign of a rebound in the industry, after the pandemic-related problems of last year. However, the further strains caused by the war in Ukraine on the automotive supply chain remain to be seen later in the year.

Rents

The one trend that was not broken was the steep rise of rents in most regions of the Czech Republic. The highest achievable rent was recorded in the Greater Prague region at €6.40 sqm/month, but some special offers reached over €7.50 sqm/month or even €8.00 sqm/month. In the other regions, rents rose as well to €5.20 sqm/month. Rents for mezzanine office space stand between €9.50 - 12.50 sqm/month. Typical service charges range between €0.65-1.00 per sqm/month.

Outlook

The modern industrial and logistics market in the Czech Republic will rapidly expand in 2022. At the end of Q1 2022, more than 1.2 million sqm of industrial space was under construction. If no delays occur, the total Czech industrial stock could reach another milestone and hit 11 million sqm by the end of the year. Developers seem increasingly open to pursuing speculative construction, as the market is able to absorb almost all new development. However, the full effects of the current supply chain crisis in the Chinese ports and the war in Ukraine will only show later in the year and might potentially slowdown the pace of construction. We will also be closely monitoring the rising costs, how they translate into the pace of rising rents and the sensitivities of occupiers to these conditions.

We are also waiting to see further effects of ESG and the Green Deal on industrial development. Many large developers are already conscious of the pressure coming from the legislature and occupiers and are trying to prepare their portfolios ahead of time. Already, over half of the standing and new industrial space in the Czech Republic has reached some level of BREEAM certification.

Furthermore, developers are also looking towards alternative sources of energy and electricity for their older assets, such as heat pumps and photovoltaics. Besides the preparedness of buildings against climate risks, such solutions could offer an offset against the rapid rise in energy costs. Looking ahead, the ESG aspect of industrial development could also start showing in the construction materials and solutions. As materials become scarcer, the development of less carbon emission-heavy, recycled construction materials, could become a priority, with ESG as an added benefit. While it seems that the macroeconomic situation presents many challenges to a large-scale transformation of the market, there is still space for innovative green solutions, promoting self-sufficiency.

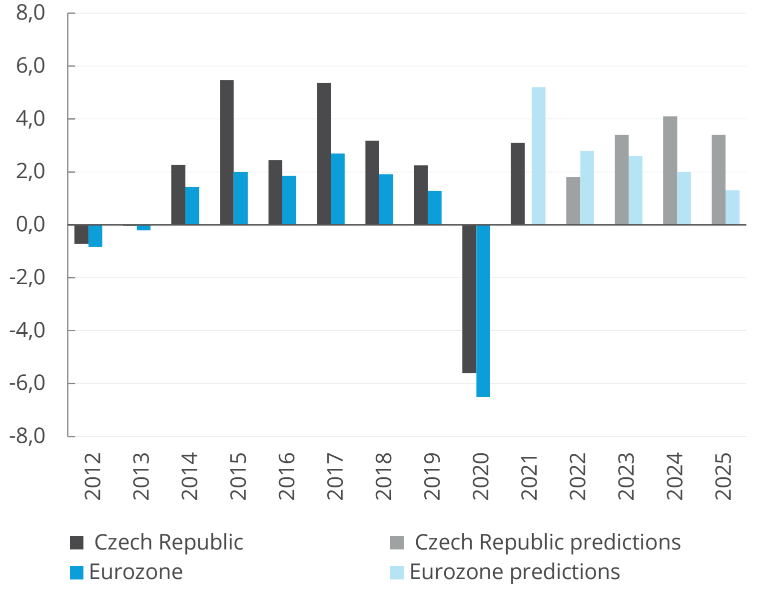
Macroeconomic overview

The dramatic events of Q1 2022 sent shockwaves through the European and global markets. The Russian invasion of Ukraine faced large condemnation from the countries of the West, followed by a swift and large imposition of various sanctions on Russia. The (ongoing) results of the war and sanctions, including the reduction of key imports from the Ukraine and Russia are starting to be felt in the Czech market. Together with previously increasing levels of inflation, increased economic uncertainty remained the theme of the first quarter.

The Czech Republic's GDP projection decreased sharply for 2022, to 1.9%. The reduction comes despite the growth and recovery of industrial production and confidence, as well as retail sales in Q4 2021, and in January and February 2022. The prediction for 2022 is immediately caused by the fallouts from the war on growing commodity prices and continuing supply chain issues. Both Russia and Ukraine are key suppliers for industrial commodities to Europe, such as metal ores, noble gases and vehicle parts. Czech Republic is directly reliant on Russian gas, oil and nuclear fuel imports. This fallout will result in decreased industrial confidence. Consumer confidence lowered significantly in March and people are likely to limit purchases.

One of the factors that makes consumers cautious is the apparent rising inflation in the Czech Republic, already felt through a class of consumer goods. Consumers saw the effects of the war on the Czech economy the week when the war started, with gas prices rising over 50.00 CZK per litre. Inflation was set to peak in Q2 2022, but because of the war, we can expect the upward trend to continue until the second part of the year, reaching 9.2% for 2022.

Gross domestic product
(%)



Sources: Colliers, Oxford Economics

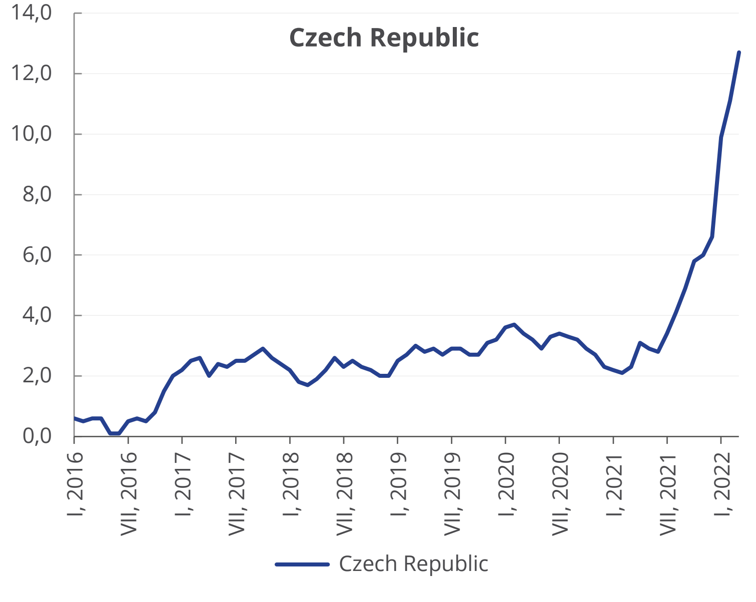
Macroeconomic overview

The Czech National Bank hiked policy rates twice throughout the quarter, to 5%, by 100 bps. The hikes were supposed to stabilise on 5% before the war broke out. Now the rates rose again by 75 bps and whether another rise is ahead stays a question. One result of the increased activity of the CNB could be a cooling down of the housing market. On the 1st of April, new conditions and limits for mortgage applications came into force, limiting the access to new mortgages. The unemployment rate was 3.4% at the end of March.

Oxford Economics also points out a yet unpredictable factor in the economy, the number of refugees from Ukraine, now over 300,000. While the influx could mean help in continuous labour scarcity, there are associated fiscal and social costs, with the government supporting reallocation and living arrangements for the refugees.

The Czech government appears stable at the moment, with a majority in parliament, and resolute to withstand the adverse effects of the war and rising inflation. The budget deficit will remain wide as the government reacts to the effects of the war instead of budget cuts. As Oxford Economics points out, the economy should start preparing the structural changes that result from the EU Green Deal. The changes, if successful is an opportunity for the country to move from a low value-added to a high value-added part of the supply chain, with the help of its highly skilled, but cost competitive workforce.

Headline inflation
(%)



Sources: Czech statistical office

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