

Q2 2020: The largest volume of industrial properties since 2017 completed, demand not declining

Industrial Research Forum Announces Industrial Market Figures for Q2 2020

- **Covid-19 slowed down the construction of new industrial properties but has not yet been reflected in the demand**
- **In the second quarter, the largest volume of industrial premises since the end of 2017 was completed**
- **One third of the volume of projects currently under construction is located in the Moravian-Silesian Region**
- **Quarantine measures did not have an impact, there were even more new leases than in the previous quarter**
- **The record-holders of the concluded deals of the last quarter are all on the D5 motorway**
- **Despite the large number of completed warehouses, vacancy increased only slightly**
- **The highest achieved rent is keeping at 4.70 euros per square metre**

COVID-19 IMPACT

The country lock-down in March as part of the measures against the spread of the new type of coronavirus COVID-19 impacted supply chains. Many manufacturing companies had to close due to supply disruptions. The Czech Statistical Office data shows that industrial production fell by 33.7 percent year-on-year in April and by 25.7 percent in May. Although the gradual easing of restrictions at the end of the second quarter brought a resumption of the free movement of persons and goods within the European Union, intercontinental transport has still been facing problems. As a consequence, many companies are already looking for closer located suppliers who could replace for example Chinese manufacturers. The demand for domestic production and storage capacities could increase as well.

The current results of the development of the Czech warehouse and manufacturing real estate market, despite expectations, do not indicate any cooling. Although quarantine measures made personal meetings impossible at the beginning of the second quarter, new contracts were signed to the extent common for this part of the year. Nevertheless, there was a greater interest in short-term leases (up to one year) whereas demand for pre-leases of planned projects was lower. Due to decline in speculative construction, several projects will be on hold until pre-leased. However, the overall assessment of the impact of the pandemic will not be possible before the end of the year.

TOTAL STOCK & NEW SUPPLY

Total modern developer-led warehouse stock in the Czech Republic currently accounts for almost 8.82 million sq m. Approximately 219,600 sq m was newly delivered to the market in Q2 2020 within 17 industrial parks across the Czech Republic, the highest number since the last quarter of 2017. Compared to the same period of the previous year, this is a 36% increase and a 16% increase quarter-on-quarter. Of the newly completed spaces, 88% have already been leased.

The largest completion was in Panattoni Park Cheb II (29,900 sq m) which was at the time of completion 100% leased by the German online retailer Real Digital who is launching their main distribution centre for the German market there. The second largest completion is in the park in Tyniste nad Orlici (22,000 sq m), which was also fully leased to the Japanese catalyst manufacturer Cataler. The third largest completion includes an additional building in Prologis Park Prague-Úžice (21,300 sq m) which was delivered on a speculative basis.

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PROJECTS UNDER CONSTRUCTION

At the end of Q2 2020, the total stock under construction in the Czech Republic amounted to 441,600 sq m. Approximately 33% of that space is situated in the Moravian-Silesian Region and 26% is in the Pilsen region. During Q2 2020 development works commenced on 76,300 sq m of industrial space. The share of speculative floor space under construction decreased to 42% during the quarter.

INDUSTRIAL TAKE-UP

During Q2 2020, gross take-up, which includes renegotiations, reached 360,500 sq m showing a slight increase of 13% compared to Q1 2020 figures. In comparison to the same period of the previous year, gross take-up decreased by 14%.

During Q2 2020, the share of renegotiations accounted for 47% which is a slight decrease compared to the previous quarter (66%).

Net take-up in Q2 2020 totalled 191,500 sq m, showing a significant increase of 76% quarter-on-quarter, but a 15% decrease year-on-year. Net demand in the second quarter was driven mainly by logistics companies, which accounted for 28% of the total volume, closely followed by manufacturing companies, which accounted for 27%.

MAJOR LEASES WITHIN TAKE-UP

The largest new transaction in Q2 2020 was a pre-lease of 60,500 sq m in CTPark Bor, signed by an undisclosed company, which is also the largest lease this year so far. The second largest transaction was a pre-lease of 14,500 sq m in CTPark Prague West in Chrastany, signed by an undisclosed logistics company. The largest non-confidential transaction is the pre-lease of 12,400 sq m in Pilsen West Industrial Park, signed by the car seat manufacturer Faurecia Plzen as an extension of its existing production hall. The company also executed the biggest renegotiation of the past quarter, when it leased 24,800 m² in Pilsen West Industrial Park.

VACANCY

At the end of Q2 2020, the vacancy rate in the Czech Republic reached 4.6%, which shows the stability and good condition of the industrial market in the Czech Republic in view of the completion of a large number of halls and the economic downturn. In comparison, this is a very small increase of 20 bps compared to the previous quarter, whose vacancy rate we revised at the Industrial Research Forum at 4.4%. A total of 404,800 sq m of modern industrial premises is ready for immediate occupation. Vacancy in Greater Prague reached 2.3% at the end of Q2 2020.

RENT

Prime headline rents achieved in the Czech Republic remained stable during Q2 2020 at 4.70 EUR/sq m/month. The rents for mezzanine office space stand between 8.50-9.00 EUR/sq m/month. Service charges are typically around 0.50 - 0.65 EUR/sq m/month.

Industrial Research Forum

The Industrial Research Forum was established in 2010 with its aim to provide clients with consistent, accurate and transparent data about the Czech Republic industrial real estate market. The members of the Industrial Research Forum, CBRE, Colliers International, Cushman & Wakefield and JLL, share non-sensitive information and believe the establishment of the Industrial Research Forum will enhance transparency on the Czech industrial market.

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Definitions:

Total Stock and new supply:

Modern developer-led warehouse and industrial production space of A class quality, owned by a developer or investor for lease to third parties. It does not include owner-occupied stock. New supply includes the above mentioned space completed during the given period including office space.

Take-up:

Take-up represents the total floor space that was let or pre-let over the specified period of time. A property is taken-up when the lease or future lease contract is signed. This includes only long term leases of a period longer than one year. Gross take-up includes renegotiations. Net take-up excludes these and includes only new leases, pre-leases, and expansions of space within existing lease contracts.

Vacancy rate:

Ratio of physically vacant space in completed buildings on the total stock of warehouse and industrial space including office areas.

Prime rent:

Represents the top open market rent that could be expected for a notional distribution warehousing unit of the highest quality and specification in the prime location within a market, as at the survey date (normally at the end of each quarterly period). The rent quoted is based on a prime unit of 5,000 sq m gross internal leased for a period of five years, with ceiling heights of over 8 metres, used primarily for distribution/warehousing uses

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