

Q3 2020: Vacancy in industrial properties decreases despite the pandemic induced economic turmoil

Industrial Research Forum Announces Industrial Market Figures for Q3 2020

- **Covid-19 slowed down the construction of new industrial properties and developers are no longer willing to start new construction without secured preleases**
- **The modern industrial stock in the Czech Republic is approaching the milestone of 9 million square meters**
- **Nearly a third of the space currently under construction is located in the Pilsen region**
- **The volume of leased space was approximately 20% lower than in the previous quarter and in the same period of last year**
- **Vacancy fell slightly by 14 basis points compared to the previous quarter**
- **The highest achievable rent has remained at €4.70 per square metre**

COVID-19 IMPACT

The current situation on the Czech industrial and logistics real estate market, contrary to expectations, does not indicate any significant cooling. Demand for industrial properties remains stable. It seems now that economic adjustments caused by COVID-19 pandemic will leave the demand for industrial properties without detriment at least in the near future.

A great interest in short-term leases (up to one year) continued, however, at the same time demand for pre-leases of planned projects was lower. Alongside, compared to the previous quarter, the share of warehouses under construction in the form of shell & core increased slightly, which enables quick and flexible adaptation of the interior space to the future tenant. It is a challenge to predict the full impact of the pandemic, as we can expect further changes over the next quarters too.

TOTAL STOCK & NEW SUPPLY

The modern developer-led warehouse stock in the Czech Republic currently totals ca. 8.99 million sq m. Approximately 145,700 sq m were newly delivered to the market in Q3 2020 within 11 industrial parks across the country. This figure is nearly 30,000 sq m lower than the five-year average. Compared to the same period of the previous year, this is only a slight decrease of 1%, quarter-on-quarter it is lower by a third. However, 547,000 sq m of new industrial space were delivered within the first three quarters of this year, which is 12% more than in the same period last year. About 92% of the newly completed space have already been secured by a tenant in Q3 2020.

The largest completion was in Park Nošovice (27,700 sq m) which was, at the time of completion, 100% leased by the logistics company Hyundai Glovis. The second largest completion was in Panattoni Park Stříbro (25,600 sq m), which is fully leased to the KION Group from Linde Material Handling group, a manufacturer of forklifts and other material handling machinery. The third largest completion was in Logistika Park Pardubice (19,000 sq m) leased by the automotive component manufacturer Faurecia.

PROJECTS UNDER CONSTRUCTION

At the end of Q3 2020, the total space under construction in the Czech Republic amounted to 372,600 sq m. Approximately 29% of that space is situated in the Pilsen region and 24% is in the Moravia-Silesia region. During Q3 2020, development works commenced on 96,500 sq m of industrial space. The share of speculative space under construction decreased to 35% during the quarter. In the next quarter, the total volume of completed warehouses could be higher again, when we expect the market to grow by approx. 200,000 sq m.

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INDUSTRIAL TAKE-UP

During Q3 2020, gross take-up, which includes renegotiations, reached 289,400 sq m. This represents a decrease of 22% compared to Q2 2020 figures and a decrease of 21% in the same period of the previous year. During Q3 2020, the share of renegotiations accounted for 50% which is a similar level to the previous quarter (49%).

Net take-up in Q3 2020 totalled 146,100 sq m, showing a significant decrease of 24% quarter-on-quarter, and a 39% decrease year-on-year. Net demand (excluding confidential deals) in the third quarter was unusually driven mainly by manufacturing companies who accounted for 73% of the total volume, followed by distribution companies with 19%.

MAJOR LEASES WITHIN TAKE-UP

The largest new transaction in Q3 2020 was a renegotiation of 33,000 sq m in CTPark Aš, signed by Petainer, a manufacturer of plastic packaging. The second largest transaction was a new lease of 21,300 sq m in Prologis Park Prague Úžice, signed by an undisclosed production company. The largest pre-lease of 14,500 sq m in Q3 2020 was a confidential deal in Prologis Park Prague-Chrástany.

VACANCY

At the end of Q3 2020, the vacancy rate in the Czech Republic reached 4.4%, which indicates the current resiliency of the Czech industrial market considering the ongoing economic crisis. In comparison, this is a small decrease of 14 bps compared to the previous quarter. A total of 398,300 sq m of modern industrial premises are available for occupation. Vacancy in the Greater Prague region reached 1.6% at the end of Q3 2020.

RENT

Prime headline rents achieved in the Czech Republic remained stable during Q3 2020 at €4.70 sq m/month. Rents for mezzanine office space stand between 8.50-9.00 EUR/sq m/month. Service charges are typically around €0.50 - 0.65 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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