

Q4 2020: Record demand for industrial real estate, the largest volume of concluded contracts, vacancy fell again

Industrial Research Forum Announces Industrial Market Figures for Q4 2020

- **Covid-19 has not significantly affected the Industrial sector in the 4th quarter, although it has contributed to the faster growth of e-commerce and mail order services**
- **Modern industrial stock in the Czech Republic surpassed the milestone of 9 million sq m**
- **Almost half of the space currently under construction is in the Pilsen and Moravia-Silesia region**
- **In the 4th quarter, more than half a million sq m worth of space was leased, out of which almost 2/3 were newly leased premises**
- **Vacancy dropped by 42 basis points compared to the previous quarter and is currently in line with vacancy seen in Q4 2019, providing proof of the resilience of the Industrial market.**
- **The highest achievable rent has remained stable at a level of €4.70 per sq m / per month.**

COVID-19 IMPACT

Strict anti-epidemic measures were again introduced in Q4, and despite the number of ongoing cases of COVID-19 infections being higher than in the spring, the Czech industrial market experienced a positive quarter. According to CZSO data, industrial production in October and November increased slightly compared to the previous year, mainly due to the automotive industry.

In addition, the closure of brick-and-mortar retail from 22 October to 2 December, combined with Christmas approaching, impacted the demand requirements for e-commerce, which is reflected in both greater demands on distributors' storage facilities and on the part of logistics companies, especially mail order services. These changes are mainly reflected by the greater interest in short-term leases, and in the lower willingness of developers to build speculatively. However, given the significant decline in vacancy, speculative construction activity in 2021 may well increase again.

TOTAL STOCK & NEW SUPPLY

The modern, developer-led warehouse stock in the Czech Republic reached the milestone of 9.1 million sq m. Approximately 106,100 sq m was newly delivered to the market in Q4 2020 within 9 industrial parks across the country. This figure represents a 31% decrease compared to the previous quarter. Compared to the same period of the previous year, this is a decrease of 33%. However, almost 670,000 sq m of new industrial space was delivered in 2020, which represents 10% increase compared to 2019. Circa 83% of the newly completed space in 2020 was already leased by the time construction was completed.

The largest completion in Q4 2020 was in CTPark Ostrava (50,000 sq m) which was, at the time of completion, 93% leased by 2 undisclosed manufacturing companies each having leased around 23,000 sq m back in 2019. The second largest completion was in Archan Brandýs nad Labem (14,600 sq m), which was partially let to an undisclosed company. The third largest completion was in Pilsen West Industrial Park (12,500 sq m) the premises were fully let by the automotive component manufacturer Faurecia. For the entire year 2020, the largest building completed was in P3 Lovosice (61,000 sq m) and was partially let to a retail company.

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PROJECTS UNDER CONSTRUCTION

At the end of Q4 2020, the total space under construction in the Czech Republic amounted to 344,600 sq m representing a decrease of 10% compared to the previous quarter. Approximately 27% of that space is situated in the Pilsen region, followed by Greater Prague with 20% and 18% in the Moravia Silesia region. During Q4 2020, development works commenced on 61,200 sq m of industrial space. The share of speculative space under construction decreased to 31% during the quarter. In 2021, the overall new supply is expected to reach similar levels to those in 2020 with around 650,000 to 750,000 sq m.

INDUSTRIAL TAKE-UP

During Q4 2020, gross take-up, which includes renegotiations, reached 540,200 sq m. This represents a significant increase of 76% compared to Q3 2020 figures and a 24% increase compared to Q4 2019. During Q4 2020, the share of renegotiations accounted for 34% which is a significant decrease compared to the previous quarter (50%).

Net take-up in Q4 2020 totalled 355,500 sq m, showing a significant increase of 118% quarter-on-quarter, and a small increase of 5% year-on-year. Net demand (excluding confidential deals) in the fourth quarter was driven mainly by distribution companies which accounted for 49% of the total volume, followed by logistics companies with 24% and by manufacturing companies accounting for 23% of the total volume. In terms of volume, gross take-up in Q4 2020 was the highest volume ever recorded in the Czech industrial market, despite the ongoing COVID-19 situation. As for net take-up, the highest volume was recorded back in Q4 2014 where almost 380,000 sq m was newly leased.

For the entire year, gross take-up reached 1.53 million sq m which represented only a small decrease of 6% compared to 2019 which was a record year in terms of gross take-up. Net take-up (excluding renegotiations) for the entire 2020 saw a decrease of 26% compared to the 2019 volumes.

MAJOR LEASES WITHIN TAKE-UP

The largest new transaction in Q4 2020 was a pre-lease of 74,000 sq m in Contera park Ostrava D1, signed by an undisclosed retail company. The second largest transaction was a pre-lease of 36,000 sq m in GLP Park Praha Chrášťany, signed by an undisclosed e-commerce distribution company. The third largest deal in Q4 2020 was a pre-lease of 28,000 sq m in Panattoni Park Stříbro signed by an undisclosed automotive manufacturing company. All of these major pre-leases will impact the new supply in 2021 as all buildings related to those deals are due for completion in the second half of 2021. The largest renegotiation in the fourth quarter was in P3 Liberec where Knorr Bremse (an automotive company) signed a 29,500 sq m renegotiation with P3.

VACANCY

At the end of Q4 2020, the vacancy rate in the Czech Republic reached 4.2%, which indicates the current resiliency of the Czech industrial market, despite the ongoing health and economic crisis. In comparison, this is a large decrease of 42 bps compared to the previous quarter and a small increase of 11 bps compared to Q4 2019 levels. A total of 381,500 sq m of modern industrial premises are available for immediate occupation. Vacancy in the Greater Prague region reached 2.2% at the end of Q4 2020, representing an increase compared to Q3 levels of 1.7%.

RENT

Prime headline rents achieved in the Czech Republic during Q4 2020 remained stable 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.

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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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