

Press Release

Prague, 24th October 2023

Q3 2023: Ongoing record-high volumes of industrial space under construction even as slowing demand weighs on the market

Industrial Research Forum Announces Industrial Market Figures for Q3 2023

- **Modern industrial stock reached almost 11.5 million sqm, as nearly 183,000 sq m of new space was delivered to the market in Q3 2023**
- **Demand for industrial space slowed down in Q3 2023 reaching only 181,700 sq m**
- **Speculative development slightly increased to 41% of the over 1.4 million sq m currently under construction, continuing the trend of the previous three quarters**
- **The vacancy rate decreased by 22 basis points compared to the previous quarter, and remained low at 1.5%**
- **Prague's average highest achievable rent has remained stable, reaching around €7.50-7.70 per sq m per month**

COMMENTARY

Miroslav Kotek, Head of Industrial Agency, Colliers:

"Despite a record number of space under construction, vacancy rate of the Czech industrial market remains low and there is no suggestion of dramatic changes in the near future. Although the volume of speculative construction has increased there are virtually no new empty premises delivered to the market. The developers' strategy is often to halt construction in an advance stage so they can meet the requirements of a potential tenant faster. By doing this, they ensure that the delivery of the premises will not be subjected to risks of price increases or shortages of construction materials the market experienced recently. The market acts cautiously and tries to shield itself from external factors which could have a negative impact. That is evidenced also in a slight cooldown of take-up caused partly by longer decision-making processes of clients who might also bide their time to outwait high inflation and uncertain economic outlook."

TOTAL STOCK & NEW SUPPLY

The modern developer-led warehouse stock in the Czech Republic reached 11.44 million sq m in the third quarter of 2023. A total of 182,800 sq m of new warehouse space was delivered to the market within 10 industrial parks across the country. This represents a 62% decrease compared to last year and a decrease of 28% q-o-q. While new supply in the third quarter of 2022 was exceptionally high, owing to a single large completion, the new supply numbers are surprisingly low this year, considering the record-high volumes of space under construction seen since the end of 2021. Approximately 80% of the newly delivered projects were already pre-leased at the time of completion.

The largest completion in Q3 2023 was a new building in GLP Park Brno Holubice (45,500 sq m), which was at the time of completion fully leased to multiple tenants. The second-largest completed building was located in Panattoni Park Pilsen West II (25,100 sq m), fully leased by Panasonic. The third largest completion was part of a building in Industrial Park Pardubice - Rosice (17,000 sq m), leased by 2VV.

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PROJECTS UNDER CONSTRUCTION

At the end of Q3 2023, approximately 1,410,500 sq m of industrial space was under construction in the Czech Republic, representing an increase of 3% compared to the previous quarter and an 18% increase compared to the same period last year. Almost 28% of the total space under construction is situated in the Karlovy Vary region, followed by the Pilsen region with a 16% share, and the South Moravia region with an 11% share.

Since Q1 2023, we can see that the share of speculative space under construction has been slowly rising throughout the year. In Q3 2023, it rose again to 41%. At the same time, developers commenced new construction of 259,500 sq m of modern industrial space in Q3 2023. We expect over 300,000 sq m of warehouse and production space to be completed by the end of 2023, bringing the total modern industrial stock in the Czech Republic closer to the 12 million sq m threshold.

INDUSTRIAL TAKE-UP

During Q3 2023, gross take-up, including renegotiations, reached 181,700 sq m, an unusually low figure. This represents a decrease of 69% compared to Q2 2023 figures and a 62% decrease compared to Q3 2022, as well as a 65% decrease when compared to the 3-year quarterly average figure. The share of renegotiations decreased by 34 percentage points compared to the last quarter and accounted for 19% of gross take-up. Net take-up in the third quarter of 2023 totalled 141,000 sq m, a decrease of 48% quarter-on-quarter and a decrease of 60% year-on-year. New leases accounted for the largest share of demand, with 47% of total gross take-up.

Overall, both gross and net industrial demand have slowed significantly during 2023. The current total gross take-up for the Q1-Q3 2023 period is 1,115,200 sqm, which is 20% below the 5-year average. This result is nonetheless skewed by the huge demand increases in the years 2021 and 2022.

MAJOR LEASES WITHIN TAKE-UP

The largest transaction in Q3 2023 was a new lease of 32,400 sq m in CTPark Bor, signed by an undisclosed logistics company. The second-largest transaction was a new lease of 21,300 sq m signed by dm drogerie in Prologis Park D1 Ostředek. The third-largest deal was a pre-lease of 9,700 sq m in CTPark Brno, signed by MOL Logistics.

VACANCY

In the third quarter of 2023, the vacancy rate in the Czech Republic reached 1.5%, representing a decrease of 22 basis points q-o-q and an increase of 74 basis points y-o-y. At the end of Q3 2023, a total of 170,400 sq m of modern industrial space was available on the market for immediate lease. This is relatively low under present market conditions. Given the large volume of space being built, the vacancy rate is particularly susceptible to changes in the delivery of speculative projects currently under development in the market. The vacancy rate in industrial warehouse space in the Prague region and the surrounding area is more constrained than the national rate, resting at close to 0% since Q2 2021.

RENT

Prime headline rents in the Czech Republic are stabilised, reaching around €7.50-7.70 sq m/month in Q3 2023. Prime rents in selected prime locations outside of Prague follow a similar development, reaching a level of around €5.70-6.50 sq m/month. Rents for mezzanine office space stand between €9.50-12.50 sq m/month. Service charges are typically around €0.75–1.00 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, Cushman & Wakefield and iO Partners, share non-sensitive information and believe the establishment of the Industrial Research Forum will enhance transparency on the Czech industrial market.

JLL has entered into a partnership agreement with iO Partners in the Czech Republic, as of July 1st 2023. iO Partners guarantees seamless continuity in the real estate business with its esteemed status as a JLL preferred partner in the CEE region.

For further information please contact any member of the Industrial Research Forum:

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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 and sub-leases. 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. Selected prime locations outside of Prague includes the 3 major hubs (Pilsen, Brno and Ostrava)

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