

Press Release

Prague, 24th January 2024

Decrease in volumes of active construction and rise in Shell-and-Core space reflects current market conditions and possible obstacles in the future.

Industrial Research Forum Announces Industrial Market Figures for Q4 2023

- **Modern industrial stock reached 11.7 million sqm, as over 271,600 sq m of new space was delivered to the market.**
- **Demand for industrial space picked up this quarter, reaching nearly 397,000 sq m**
- **Speculative development decreased to 30% of the almost 1 million sq m currently under construction.**
- **The vacancy rate increased by 34 basis points compared to the previous quarter and remained low at 1.75%, with an additional ca. 300,000 sq m of vacant space in shell and core.**
- **Prague's average highest achievable rent has remained stable, reaching around €7.50-7.70 per sq m per month.**
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COMMENTARY

Jan Hrivnacky, Head of Industrial Agency, CBRE:

„Currently, we monitor a structural change in demand. The importance of manufacturing companies has been growing with over 40% share on take-up throughout 2022 - 2023, slowdown in demand from e-commerce and 3PL companies is evident in total numbers which is not surprising as these 2 sectors are quite connected. Prime rents are currently stable, and we expect only a slight inflation-driven increase next year mainly in the case of new leases as renegotiations are under different rental frameworks. In some competitive regions, we might experience a downward pressure on rental levels. There is also a shred of evidence for a slowdown in demand caused by the decision-making of clients due to uncertain economic outlook.”

TOTAL STOCK & NEW SUPPLY

The modern developer-led warehouse stock in the Czech Republic reached 11.70 million sq m in the fourth quarter of 2023. A total of 271,600 sq m of new warehouse space was delivered to the market within 15 industrial parks across the country. This represents a 56% increase compared to last year and a rise of 49% q-o-q. Approximately 84% of the newly delivered projects were already pre-leased at completion.

The most significant completion in Q4 2023 was a new building in CTPark Brno (30,500) occupied by multiple tenants from 3PL and manufacturing at the time of the completion. The second largest completed building was in Arete Park Rokycany II (29,500 sq m), which was fully leased to DuvenBeck, a company from 3PL at the time of completion. The third largest completion was in Garbe Park Chomutov (29,100 sq m), which German optics company Fielmann fully leased.

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The most significant completion in 2023 was the completion of building C in GLP Park Brno Holubice (45,500 sq m) leased by multiple tenants.

PROJECTS UNDER CONSTRUCTION

At the end of Q4 2023, approximately 981,200 sq m of industrial space was under construction in the Czech Republic, representing a decrease of 30% compared to the previous quarter and a 20% decrease compared to the same period last year. As already mentioned, only 271,600 sq m were delivered this quarter, ca. half of the space that should have been delivered; this is the result of speculative construction, which started last and this year. Nearly 200,000 sq m due to be delivered in Q4 2023 are now halted just before completion, where developers wait to lease the buildings before construction (a state called "Shell & core"). In addition, over 100,000 sqm were already in Shell & Core before Q4 2023; as such, these buildings do not affect the current construction, new supply, or existing vacancy.

Since Q1 2023, the share of speculative space under construction has slowly risen. In Q3 2023, it grew to 41%, but in Q4, it dropped below 30%. At the same time, developers commenced new construction of only 130,500 sq m of modern industrial space in Q4 2023, with over 70% of this space speculative.

INDUSTRIAL TAKE-UP

During Q4 2023, gross take-up, including renegotiations, reached 396,900 sq m. This represents an increase of 109% compared to Q3 2023 figures and a slight increase of 16% to Q4 2022. The share of renegotiations increased by 17 percentage points compared to the last quarter and accounted for nearly 40% of gross take-up. Net take-up in the fourth quarter of 2023 totalled 242,600 sq m, an increase of 72% quarter-on-quarter and a minor increase of 10% year-on-year. Pre-leases accounted for the largest share of demand, with 47% of total gross take-up.

Overall, both gross and net industrial demand have slowed during 2023. This was expected after the previous strong years, which were supported by several XXL transactions. For the entire year, gross take-up reached 1,520,600 sq m, representing a decrease of 31% compared to 2022 and a reduction of 38% compared to 2021.

MAJOR LEASES WITHIN TAKE-UP

The two most significant transactions in Q4 2023 were signed in Karlovy Vary region. The first was in Panattoni Park Karlovy Vary, where Wacker pre-leased over 30,000 sq m. The second lease was also signed with Panattoni in Ostrov South, where an undisclosed company pre-leased nearly 27,000 sq m. The third largest new transaction happened in CTPark Cerhovice, where an undisclosed manufacturing company pre-leased 21,000 sq m. The largest renegotiation Yusen Logistics signed this quarter in P3 Prague D1, where they renewed their 24,700 sq m premises.

VACANCY

In the fourth quarter of 2023, the vacancy rate in the Czech Republic reached 1.75%, representing an increase of 34 basis points q-o-q and an increase of 94 basis points y-o-y. At the end of Q4 2023, 205,400 sq m of modern industrial space was available for immediate lease. This is the most significant volume of space available for immediate occupation since Q1 2021 when nearly 270,000 sq m were vacant. Given the enormous volume of space being built, the vacancy rate is particularly susceptible to changes in the delivery of speculative projects currently under development. The vacancy rate in industrial warehouse space in the Prague region and the surrounding area is more constrained than the national rate, which has been stable at close to 0% since Q2 2021.

In addition, we monitor a large amount of shell and core space without planned delivery. The current amount of vacant space in shell and core exceeds the amount of vacant existing space by over 100,000 sqm. As of Q4 2023, there is some 300,000 sq m of vacant space in shell and core, waiting for a suitable tenant.

RENT

Prime headline rents in the Czech Republic are stabilised, reaching around €7.50-7.70 sq m/month in Q4 2023. Prime rents in selected prime locations outside of Prague follow a similar development, achieving around €5.70-6.60 sq m/month. The

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rent for mezzanine office space is between €9.50 and 12.50 sq m/month. Service charges are typically around €0.75–1.00 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, 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.

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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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