

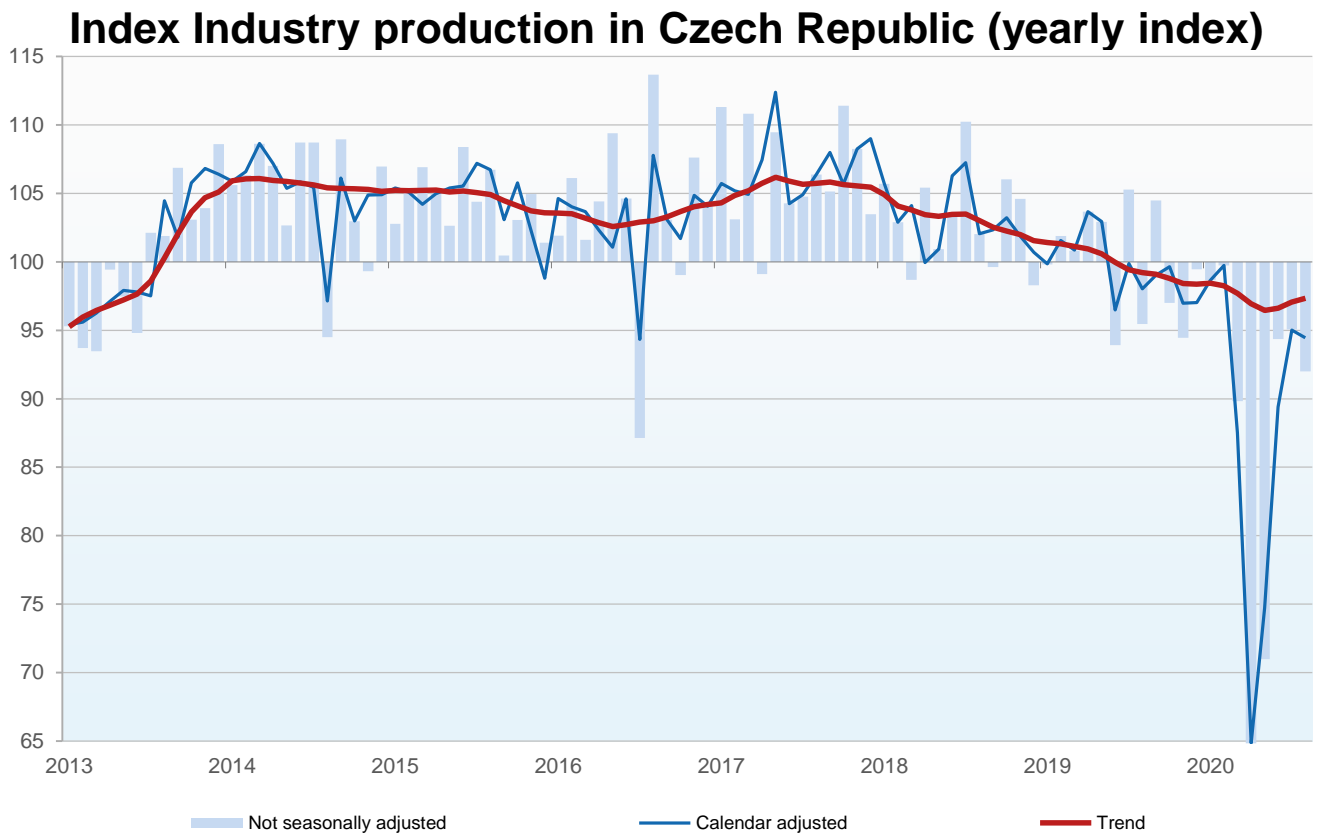


CZECH REPUBLIC

INDUSTRIAL MARKET OVERVIEW

QUARTER 3 | 2020





MACROECONOMIC OVERVIEW

After more than half a year of uncertainty around the future development of economies during the Covid pandemic, Countries and businesses have had some time to stabilize and come up with plans for the future as the pandemic slowed during the summer. This unprecedented situation accelerated modern trends of the digital economy and remote services. On the other hand, industries around traveling, hospitality and short-term rentals, such as Airbnb, practically ceased to exist during the lockdowns.

In line with Oxford Economics forecasts, we now expect Czech GDP to fall by 6.1%, a deeper fall than was expected in Q2, with slower recovery forecasted from 2021 onwards.

Industry continued to improve during the summer but still remained over 4% below pre-pandemic levels. According to Oxford economics, the Industrial output of the Czech economy is expected to contract by

10.6% in 2020 as the Czech manufacturing industry is deeply integrated into European Automotive supply chains. This output contraction is driven by reduced car sales and consumer interest.

The Czech National Bank, with its quick reaction to the pandemic outbreak by substantially decreasing bank rates to 0.25%, created a strong vision for Czech monetary policy. Commercial banks have just started to slowly decrease their rates and this trend is expected to continue.

The Unemployment rate has increased from 2.8% to 3.7% and is forecasted by Oxford economics to reach 4.2% in 2021. The Unemployment rate reached record lows in 2019, which had limited the development of certain industries. Some of them are now able to absorb people coming from the hospitality and tourism sectors.

FIGURE 1: Czech GDP compared to Eurozone

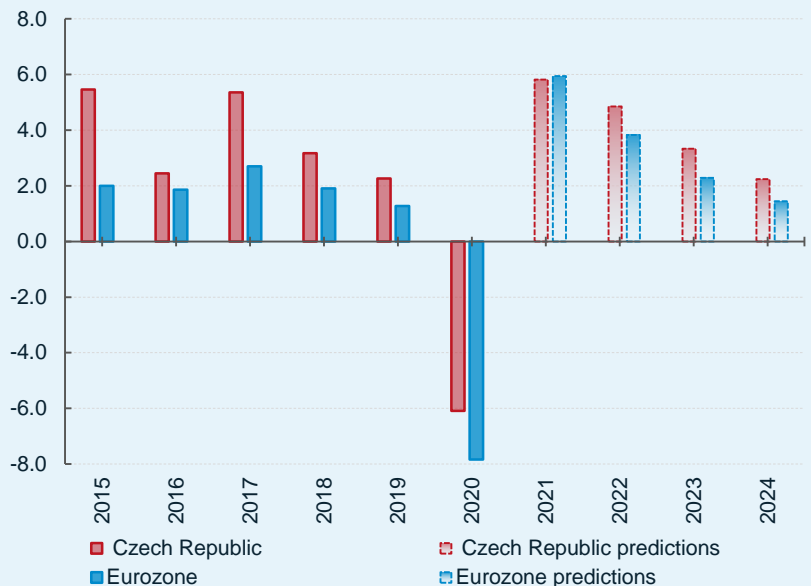


FIGURE 2: Unemployment rate

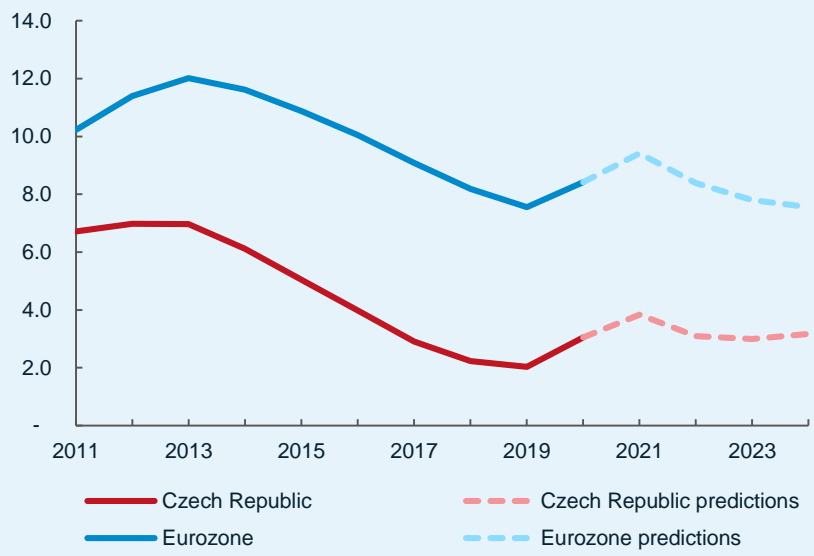
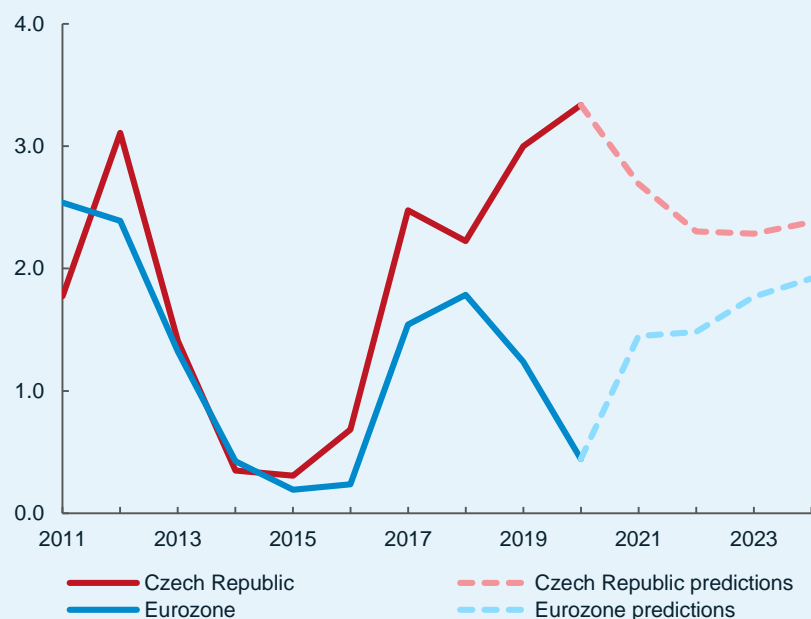


FIGURE 3: Consumer Price Index



Sources: Figure 1: Oxford Economics, Colliers International | Figure 2: Colliers International, Oxford Economics | Figure 3: Colliers International, Oxford Economics

INDUSTRIAL MARKET

Supply & Vacancy

With 145,700 sq m of newly completed warehouse space in Q3 2020, the total stock in the Czech Republic currently stands at 8.99 million sq m. The newly completed space comprises of 12 new buildings across the country, with 28% of the space being delivered to the Pilsen region. The second highest supply of space was in the Moravia-Silesia region, that received 26% of completed space followed by the Pardubice (13%), Greater Prague (10%) and Olomouc (6%) regions.

By the end of Q3 2020, vacancy stood at 4.4%, which is 14 bps lower than in Q2 2020. The total available space reached 398,300 sq m. Despite this seemingly high number, the availability of larger space is slightly worse than in previous quarters, with just 10 properties offering space in excess of 10,000 sq m. Combined with the low average vacancy rate, it creates an ideal environment for build-to-suit developments. Low availability of suitable land with permits on the market keeps developers who already have such land in their land

banks in a stronger negotiating position.

Demand

Gross take-up in Q3 reached 289,400 sq m, registering a 22% decrease on the previous quarter, and a 21% decrease y-o-y. Net take-up reached 146,100 sq m, which is 24% down q-o-q and a 39% decrease y-o-y. The share of renegotiations on total gross take-up for H1 2020 is at 56.3% and we do not foresee any significant changes in this trend. Cumulative Gross take-up for the Q1-Q3 period amounts to 969,100 sq m which is 20% less than the same period of last year. During Q3 2020, we recorded increased interest from logistics companies in short term leases, that need to maintain some level of flexibility in this economic climate. Logistics companies were also very active in renegotiating their leases and accounted for 301,000 sq m of take-up in Q1-Q3 2020 period.

RENTS & OUTLOOK

Rents

Prime industrial rents in Prague and Brno stand in the range of €4.50 - €4.85/sq_m/month. Other sought-after regions such as Ostrava, Plzeň and Ústí nad Labem have rents in the range of €4.00 - €4.35/sq m/month. The previously common incentives of one month rent free per year of lease is no longer the standard and developers now provide incentives based on location, lease size and length, plus the tenant profile also plays a big role in negotiations.

Outlook

Around 372,600 sq m of warehouse

space was under construction at the end of Q3 2020. The level of pre-leased space under construction exceeds 65%, which is in line with our expectations. Due to the continued uncertainty in the economy, we do not expect this trend to change as developers will continue to be cautious and less willing to speculate with new developments. In Q4 2020, we expect 212,600 sq m of space to be delivered to the market. This trend proves that the Czech Republic is still one of the most sought-after countries within Europe for the development of new industrial and logistics properties.

FIGURE 1: Czech industrial stock & vacancy (in sq m thousands)

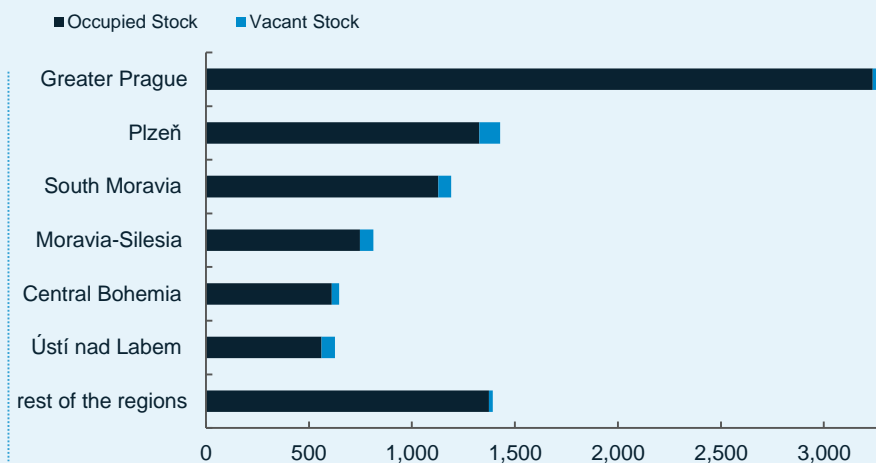


FIGURE 2: Annual supply (sq m thousands)

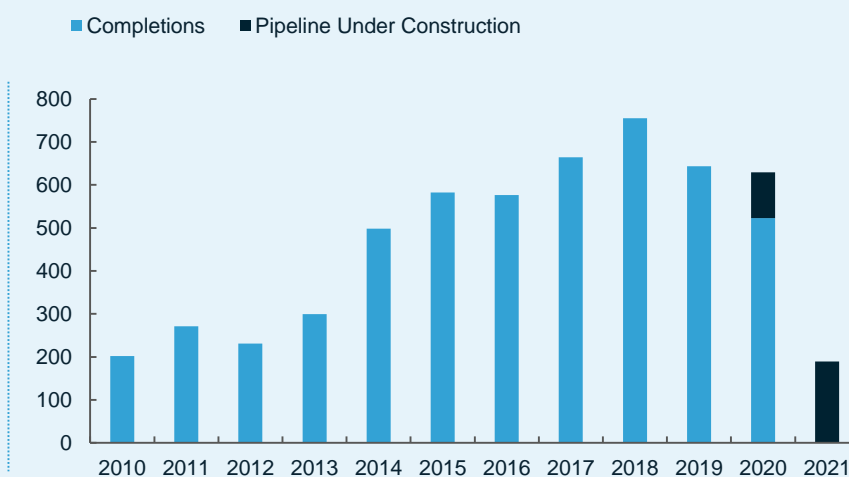
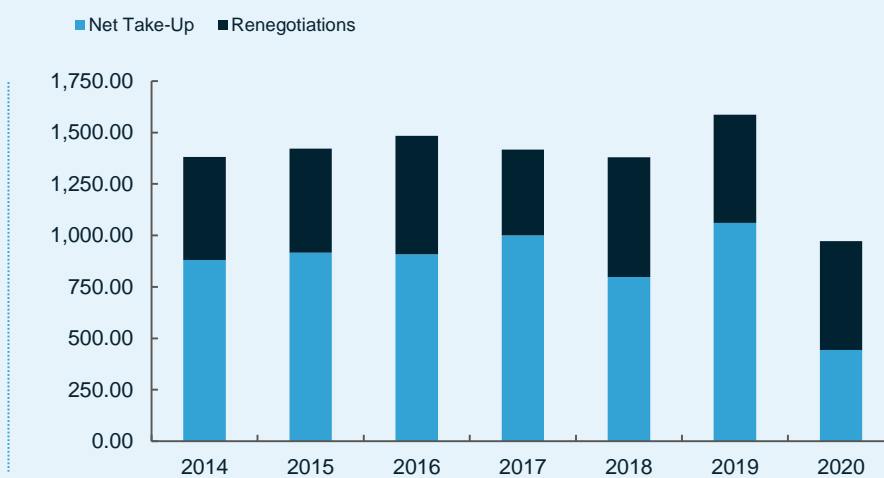


FIGURE 3: Take-up (sq m thousands)



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