

Avisource
Q2 2022
Czech Republic

**Industrial
Market
Tracker**



HIGHLIGHTS

- In Q2 2022, the total lettable modern warehouse and industrial area reached 10.14 million sq m. A total of 146,600 sq m of modern industrial space was added to the market, which was 51% less than in the previous quarter, though 16% more than last year.
- Total of 1,27 mil sq m of modern industrial space was under construction, which is 11% more than in the previous quarter and 93% more compared to the Q2 2021. Almost 70% of this space is already pre-leased.
- The total market vacancy rate fell again to 1.5%. The vacancy rate in Greater Prague was at a record low, reaching 0.5%..
- The gross take-up reached a total volume of 670,700 sq m, a 10% decrease q-o-q and a 26% increase y-o-y.



TOTAL
INDUSTRIAL STOCK

10.14 m sq m



NEW SUPPLY
Q1 2021

146,600 sq m



VACANCY RATE

1.5%



UNDER CONSTRUCTION

1,2 m sq m

New supply, vacancy rate

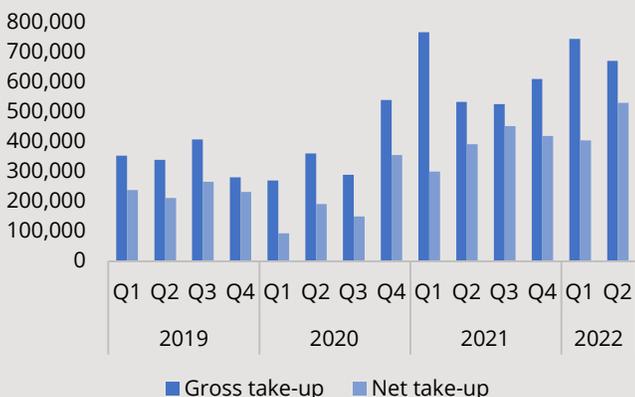
sq m, %



Source: Avison Young

Quarterly take-up

sq m



Source: Avison Young

Take-up	Volume	Q/Q	Y/Y
Gross:	659,500 sq m	- 10%	+ 26%
Net:	530,500 sq m	+ 31%	+ 36%

RENTS

Greater Prague
€7.25 – €8.00 sq m/month

Other regions
€4.00 – €6.75 sq m/month



PRIME INDUSTRIAL YIELD
4.00%



Investment

In the second quarter of 2022, the investors' appetite has remained unchanged for premium logistics assets. Notable transactions include a Prague Logistic Portfolio bought by Hines European for estimated €100 million. Demand is propelled by the lack of product and almost zero vacancy, as well as ascending rental rates particularly around Prague. Rental growth in the prime industrial sector has reached new heights and there are no longer rental rates under € 4.00 available on the market.

Industrial market overview

The Czech industrial market has surpassed 10 million and it will surpass 11 million within a few months. The total lettable modern warehouse and industrial area reached 10.14 million sq m. The largest logistics market remains Greater Prague, which accounts for 34% of the total offer, followed by the Pilsen Region with 16% and the South Moravian Region with 12%.

In the first quarter of 2022, a total of 146,600 sq m of modern industrial space was completed across 15 industrial parks, which was 16% more than in the same period of the previous year, though 51% less than in the previous quarter. The largest completed projects included a unit (26,800 sq m) built for Ardon Safety in VGP Park Olomouc, a new building (25,000 sq m) released by AT Computers in Contera Park Ostrava D1, followed by the second construction phase of the Alza hall at GLP Park Chrastany (15,800 sq m). There was only 10% of speculative construction brought to the market. It is difficult to predict the return of speculative development in the future in the face of the negative effect of the price hikes in building materials, labour shortages and high interest rates.

A total of 1,319,400 million sq m of modern industrial space was under construction, which is a record number and 54.4% more than in the previous year and a 5% increase from the previous quarter. Of the total volume under construction, 19% is located in the Olomouc region, 14% in the Moravian-Silesian Region and 13% in the Pilsen Region.

The vacancy rate fell to 1.5% during the second quarter from 1.8% in Q1 2022, which is an extreme low. Vacancy in Greater Prague maintained of less than 1% and it is likely to stay there.

Demand

Gross take-up reached 659,500 sqm, while pre-leases accounted for the largest portion (51%), followed by new leases at 25%, renegotiations at 21% and expansions at 3%. The net take-up totaled 530,500 sq m, which was a new record and a 31% increase compared to the previous quarter and a 36% increase y-o-y. The largest net take-up was recorded in the Karlovy Vary Region (44%), followed by Greater Prague (20%) and the Moravian-Silesian Region (11%).

Major leases

- A record of a largest ever transaction on the market: a pre-lease for a hall in Panattoni Park Cheb by an unknown tenant (233,700 sq m)
- A new lease of DB Schenker (58,600 sq m) in Park Rudna
- Renegotiation in Segro Logistics Park Prague (27,000 sq m)

Rents

In the second quarter of 2022, rents in Greater Prague rose to €7.25 - €8.00 sq m/month. Headline rents in some future developments and smaller business units can be seen going up to €9.00- €10.00 sq m /month. Higher rents were recorded in the South Moravia Region too (€5.30 - €6.75 € sq m/month) and in other regions reflecting the low vacancy rate of 4% across the country except for the Olomouc Region. The amount of service charges ranged typically between €0.65 - €1.00 sq m/month.

Ryan Wray, Principal & Managing Director

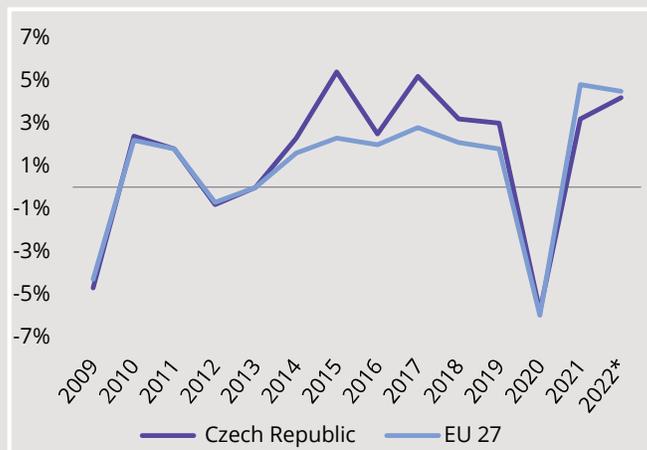
„The rents in the industrial and logistics sector have almost doubled since last year and they have become the fastest growing rents on the whole European market . The question is: how much more can they grow and how sustainable it is.“

Economic Overview

- The Czech Republic is facing an ongoing pressure by the inflation that reached 16% in May, one of the highest rates in the EU, affecting the whole industry. This pressure will impact consumer spending, as real wages fall and encourage a drop in consumer confidence. A headline inflation can be expected to decline only very gradually over the year, especially because high energy prices already significantly affected industry.
- The economy is dealing with a prediction of a rather weak growth, severed by low unemployment rate and commodity prices, we anticipate that in 2022 growth will stay around 2.2% with a slight improvement in 2023. In May, the unemployment rate decreased to 3.2%, further aggravating the situation in the labour market. As a result of inflation, wages increased nominally in Q2 2022, while the real wages of most workers decreased.
- Real GDP growth would slow significantly this year and economic activity would even fall slightly y-o-y in the second half of the year due to rising financial costs and reduced real incomes, which would hamper all economic activity. However, GDP growth is forecast to accelerate to over 3% in 2023, surpassing its pre-pandemic level.
- The Czech National Bank raised the two-week repo rate to 7% (while in June 2021 it stood at 0.5%). This year's double-digit inflation will thus decline in the first half of next year, with the rapid rise in interest rates so far contributing substantially. Inflation is projected to decline towards 4.5% y-o-y in 2023, supported by well anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.
- According to the ČSÚ, consumer prices increased by 0.4%, month-on-month. This development came from price growth in almost all consumer basket divisions except 'transport'. The year-on-year growth of consumer prices amounted to 17.2% in August, which was 0.3 percentage points down in July this year.
- The Czech koruna's exchange rate against the euro reached an average value of CZK 24.64/EUR in Q2. The CNB's interventions played a significant role in this. Compared to last year's 2nd quarter, the koruna's exchange rate against the euro was stronger by 3.9% and remained almost unchanged quarter-on-quarter.

GDP (at constant prices 2015)

%, y/y



Unemployment rate, Industrial production

%, y/y



*Prediction

Source: ČSÚ, Avison Young

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