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Q3 2021 | Czech Republic

Industrial Market Overview

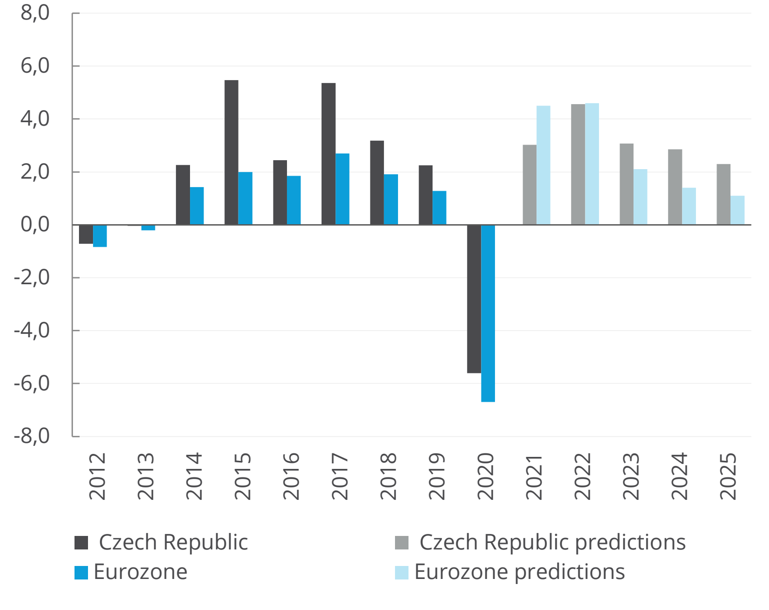
Macroeconomic overview

While the Czech Republic saw a recovery and further release of tight pandemic restrictions throughout Q3, the main story at the end of the quarter signalled significant uncertainties stemming from continuous supply chain shortages and unexpected levels of inflation. We saw two increases of policy rates by the Czech national bank in the third quarter, first at the beginning of August and second at the end of September, altogether by 100 bps, to fight the inflationary pressure.

As reported by Oxford Economics, the GDP growth forecast for 2021 is set at 3.1%. This reflects consumer spending driving growth and demand rotating towards services. The third quarter saw a significant boost to the economy with continuous re-opening, and partially functioning tourism in Europe, as finished vaccinations rates grew (Czech uptake currently at 56% of total population). While the delta variant spread, sparking fears of what could come in Autumn, the numbers of hospitalised patients proved significantly skewed towards unvaccinated parts of the population, showing the high efficiency of the vaccine preventing economy-wide closures. The vaccination uptake growth ran out of steam at the end of the summer, and large parts of the elderly population still remain unvaccinated.

The supply chain issues stay troubling, partially worsening the outlook. Industrial production surpassed pre-pandemic levels of production in the beginning of Q3, only to be set back by supply issues and increasing energy prices. While there is high capacity to produce, the expectations and orders are decreasing, especially in manufacturing, reflecting the conditions in the market. In this environment, producer prices rose by 9.3% y-o-y in August. Consumer spending and retail sales performed well in the beginning of Q3, but consumer confidence is progressively worsening. Together with high energy prices and higher rates, we might expect more cautious consumers this winter. This will further slowdown the gradual release of excess savings from households (est. CZK350bn) over 2022.

Gross domestic product
(%)



Sources: Colliers, Oxford Economics

Macroeconomic overview

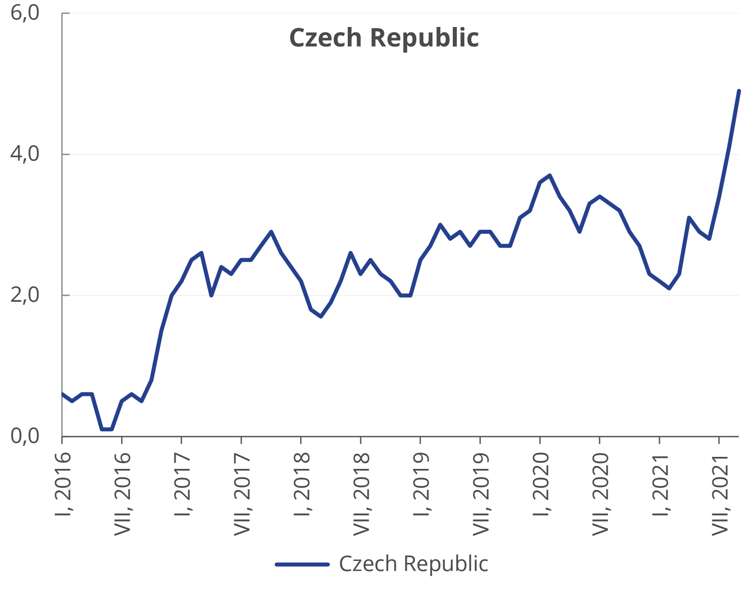
Inflation also plays a large role in the current uncertainty. The problem stems from the fact, that the current hikes – to 4.9% headline inflation – are based on broader-based and more robust inflationary pressures than was previously expected in the post-pandemic situation. The main factor in inflationary pressures in Q4 will be continually rising energy prices (service price hikes will likely be a one-off occurrence). While the eurozone monetary policy are yet to raise rates, the Czech national bank has unprecedentedly raised policy rates by a further 75 bps in September – the largest increase since 1993. This should help to moderate inflation in 2022 but it may also slow down GDP growth and make the government debt harder to service – which is apparent from the adverse reaction of the government officials to the rate increase. The current predictions see Czech inflation reach up to 6% by the end of 2021.

GDP also remains adversely affected by continuous labour shortages, even as market expectations seem to turn to increasing unemployment at the end of the year.

Unemployment kept decreasing throughout Q3, to 3.6% in August. However, as political approaches are negative towards economic migration to mitigate the shortages, the economy is set to perform below potential and labour shortages will likely persist.

The election results show a comfortable majority in Parliament for the SPOLU coalition and the coalition of Piráti and STAN. While the president's health kept decreasing, his hospitalisation threatens to prolong the negotiation of a new government. It remains to be seen what the role and legacy for the most successful single party, ANO, of prime minister Andrej Babis, will take in the new political arena in the country. As they finish their government tenure amid a worsening situation of COVID-19 infections, the new government will face a challenge to break the worsening epidemic trends in the country and prevent further widespread lockdown restrictions.

Headline inflation
(%)



Sources: Czech statistical office

Czech industrial market

Top 3 Transactions of Q3 2021

Tenant	Property	Size (sqm)	Transaction
Amazon	Panattoni Park Kojetín	186,700	Pre-lease
Confidential	CTPark Cheb	23,800	Pre-lease
DHL	CTPark Cheb	22,800	Pre-lease

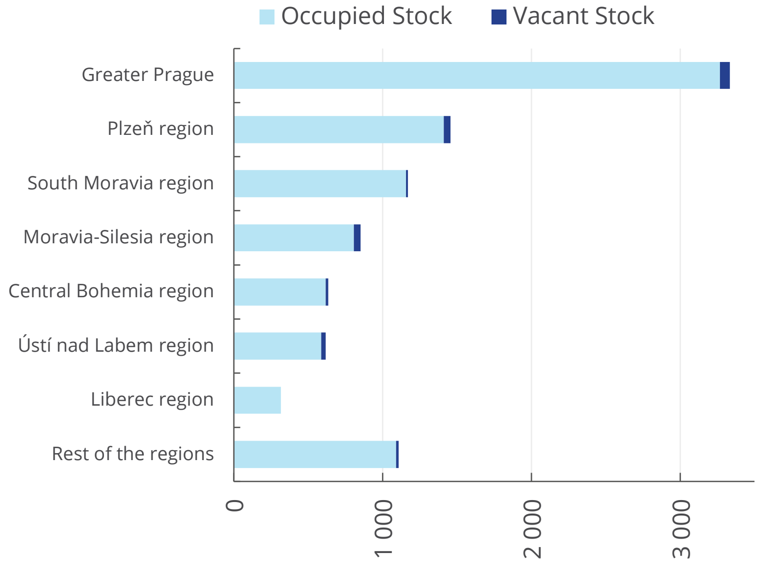
Sources: Industrial Research Forum, Colliers

Supply and Vacancy

With 176,600 sq m of newly added space in Q3 2021, the total stock in the Czech Republic reached 9.49 million sq m. The 12 new buildings were spread across the country, however most new developments took place in two regions. The Pilsen region led, with 46% of all new completed space, followed by the Greater Prague region, with 37.5%. Significant new development was also delivered in the Central Bohemia region, with 10%.

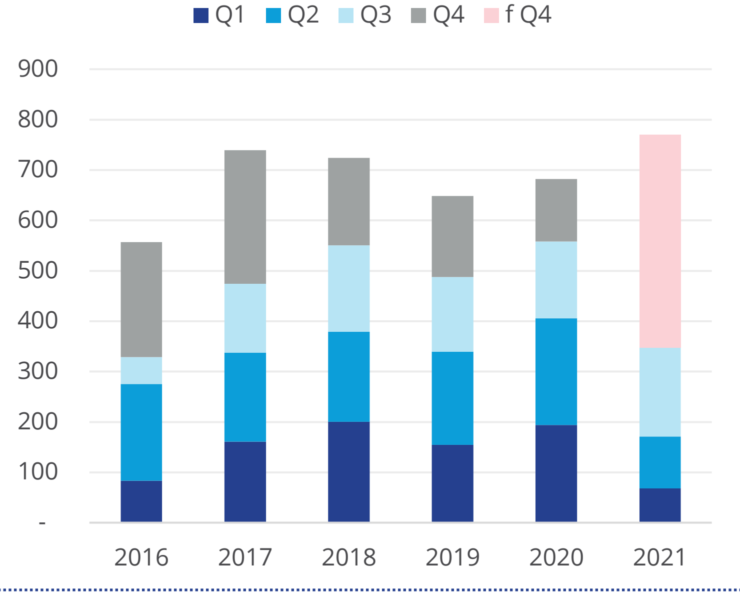
Overall, the availability of I&L property is low throughout the market, and we do not see this trend disappearing anytime soon. Vacancy further decreased in the Czech Republic, to 2.47% at the end of Q3 2021. The change represented an even more dramatic drop than last time, with a 42 bps decrease since Q2 and a 210 bps decrease compared to the same period of last year. Total vacant space reached 234,800 sq m in Q3 2021. Out of the more mature regions, the lowest vacancy rate was recorded in the South Moravia region, amounting to only 1.55% of total stock in the region. Looking forward to next year, availability nationwide should remain stable or slightly decrease, as we hopefully see more new development and growing capacity of the market. This could alleviate the current limited supply of larger industrial spaces, currently with only 6 parks across the Czech Republic offering spaces of over 10,000 sq m.

Industrial stock and vacancy in regions (sq m thousands)



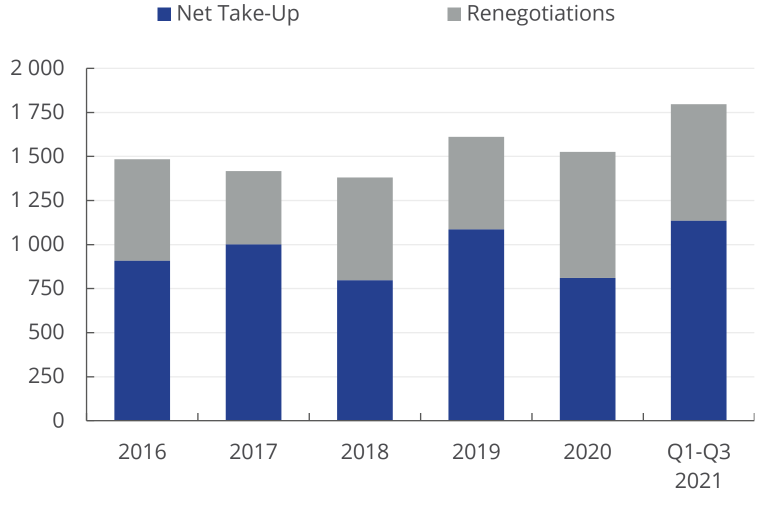
Sources: Industrial Research Forum, Colliers

Annual supply (sq m thousands)



Sources: Industrial Research Forum, Colliers

Annual take-up (sq m thousands)



Sources: Industrial Research Forum, Colliers

Key market figures

Stock (sq m millions)
9.49

Vacancy Rate
2.47%

Q3 Gross Demand (sq m)
495,500

Prime Rent
€5.20 - 5.50

Q3 Supply (sq m)
176,600

Under Construction (sq m)
960,600

Demand

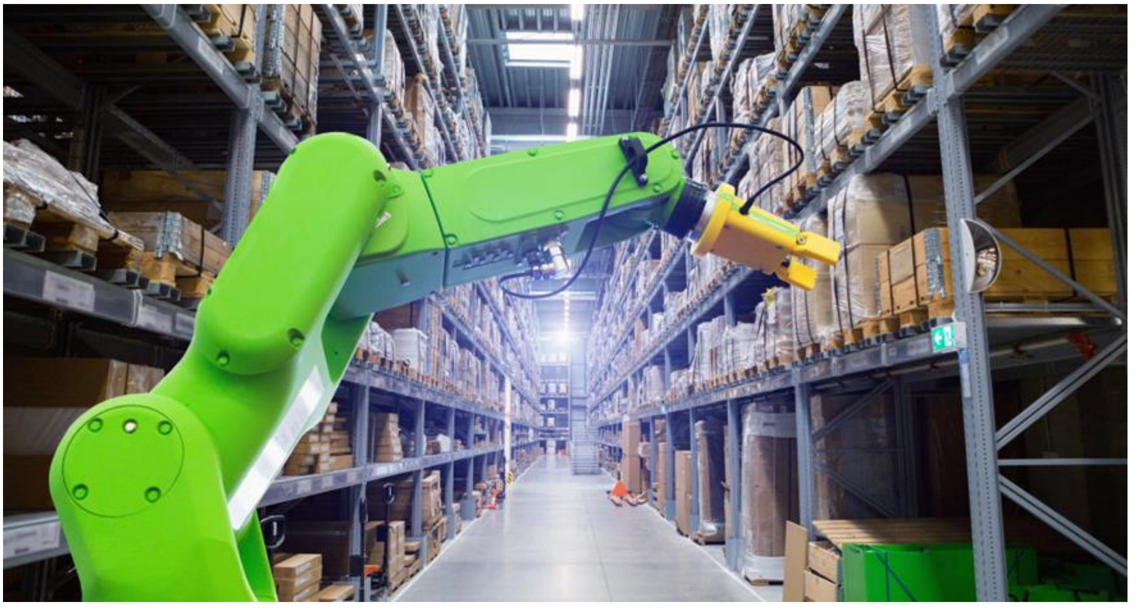
By the end of Q3 2021, the year to date gross and net take-up for I&L space in the Czech Republic for the year 2021 overtook the cumulative gross and net take-up for the entire 2020. We can see this in the incredible year on year changes - cumulative gross take-up for Q1-Q3 increased by 82% YoY and cumulative net take-up rose by 150%. While the pre-pandemic years were stronger than 2020, the 2021 year-to-date gross and net take-up reached new records in recorded history. At the same time, gross take-up decreased slightly in the third quarter by 7.5% since Q2, to 495,500 sq m.

Net take-up reached a new all-time high, of 444,300 sq m, increasing by 13% QoQ. This is in line with the record high figures of net take-up in Q2 2021 and is the clear trend of 2021. However, the result is heavily boosted by a single one-off deal. The new warehouse secured by Amazon in Panattoni Park Kojetín, increased net take-up by almost 190,000 sq m, representing almost half of all net take-up in Q3.

Distribution, and particularly e-commerce, have been the most active sectors in 2021, especially in the third quarter, thanks to the Amazon deal. The Amazon deal increased the share of demand from e-commerce tenants significantly in Q3. Even so, the overall share of e-commerce tenants on the market grew significantly in 2021 compared to previous years, regardless of Amazon’s role in the Q3 results.

Rents

Prime headline rents increased again, to €5.20 sq m/month in Q3 2021 for the Czech Republic, reaching up to €5.50 sq m/month. Mezzanine office space stood between €8.50–9.00 sq m/month and service charges were typically around €0.50–0.65 sq m/month. Looking ahead, an increase in prime headline rents is to be expected throughout the last quarter of 2021 and into 2022, as the continuing stability of the Czech industrial market attracts further investment and vacancy remains low.



Outlook

As pointed out previously, the Czech I&L market still has further capacity to grow. This is reflected in the development that is currently under construction or waiting to secure a tenant before being finished, accounting for 960,600 sq m. Thanks to the Amazon warehouse in Kojetín, the majority of the construction is being realised in the Olomouc region (24%), followed by the Moravia-Silesia region (21%) and Central Bohemia region (11%). We expect a further 450,000 sq m of industrial space to be delivered in the last quarter of 2021. The current plans for further development show no indication that the number of quarterly deliveries should vary significantly in 2022 from what has been the norm in 2021. The Czech industrial market stays firmly a landlord's market and will very likely remain so in 2022 as well. Developers are using the growth capacity to their advantage, taking projects through the planning stages but waiting for construction until they secure a pre-lease.

As before, we have to conclude that the Czech Republic is still one of the most sought-after countries within Europe for the development of new industrial and logistics properties. This is thanks to the continuous delivery of new industrial space, the rising rents and growth in demand from tenants, investors and developers to enter the Czech I&L market.

For more information

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