

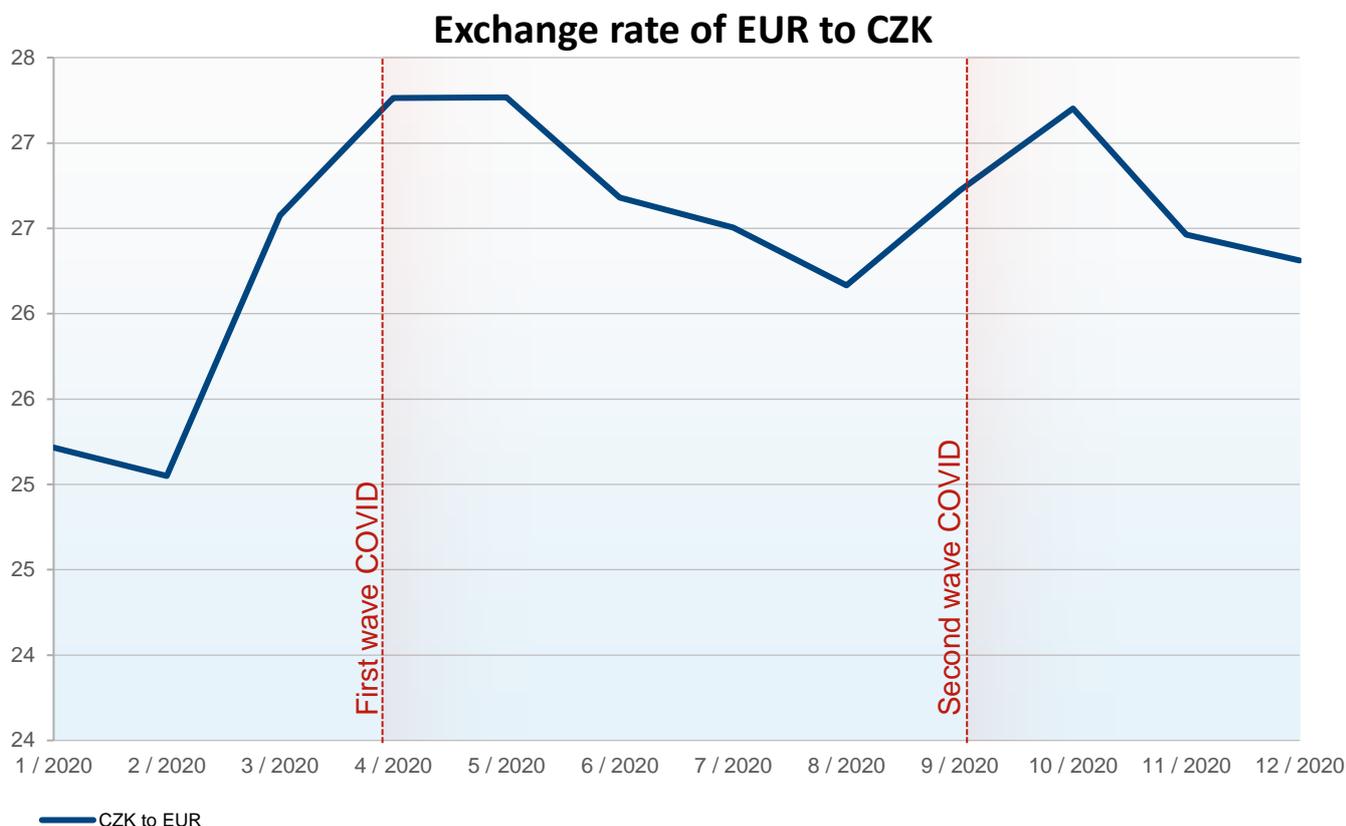


CZECH REPUBLIC

INDUSTRIAL MARKET OVERVIEW

QUARTER 4 | 2020





MACROECONOMIC OVERVIEW

The Czech Republic is in a state of emergency from the first half of October until now. Although the first wave of COVID was managed well in the spring, the second wave is a completely different story. By the end of 2020, the Czech Republic has some of the worst numbers of new cases internationally. With the EU approval of new vaccines in late December, the government has begun distribution to the most endangered population groups and key medical staff. Shortly after this they outlined the first draft of vaccination plans, yet the details can change rapidly. GDP is expected to fall by almost 7% in 2020 and is expected to rise by 3.2% in 2021, mainly during the second half of the year.

Unemployment is rising slowly, but with a rate of 4% in December 2020, it was still one of the lowest in the EU. It is expected that the unemployment rate will continue to increase, mainly as a result of the impact on the travel, hospitality and food and beverage sectors.

The Government budget for 2020 ended in deficit by approximately 367 billion CZK. A similar scenario is already approved for 2021 with a planned deficit of 320 billion CZK. The result of 2020 is the worst deficit in Czech history, almost doubling the deficit from 2009 and the GFC. The forecasted development of inflation is currently stable between 2% and 3% for 2021. Rates from the Czech national bank have been kept at minimal levels since May 2020. As for the residential market, in contrary to public belief, mortgage rates fell under 2.0% during 2020 and these extremely cheap loans are currently encouraging clients to invest in the residential sector, despite the continued strong increase in pricing. A record total volume of approved mortgages in 2020 is only proof of this trend.

FIGURE 1: Czech GDP compared to Eurozone

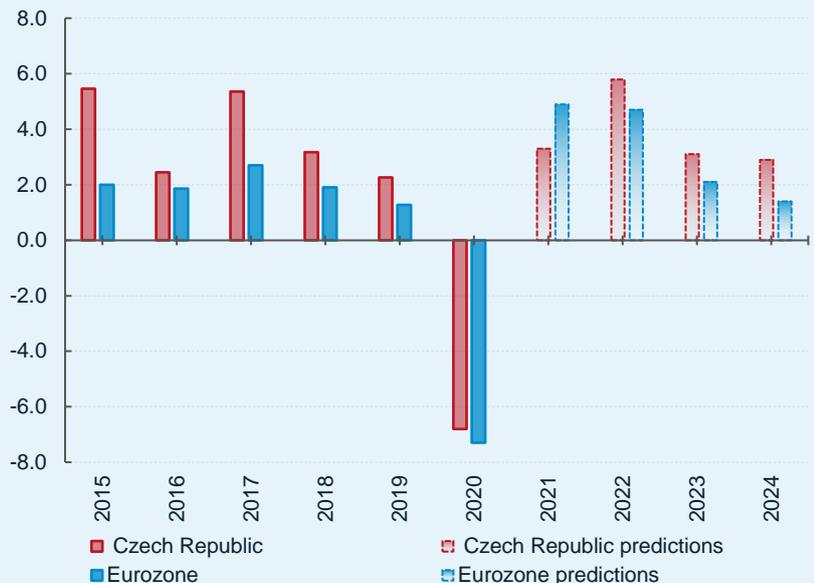


FIGURE 2: Unemployment rate

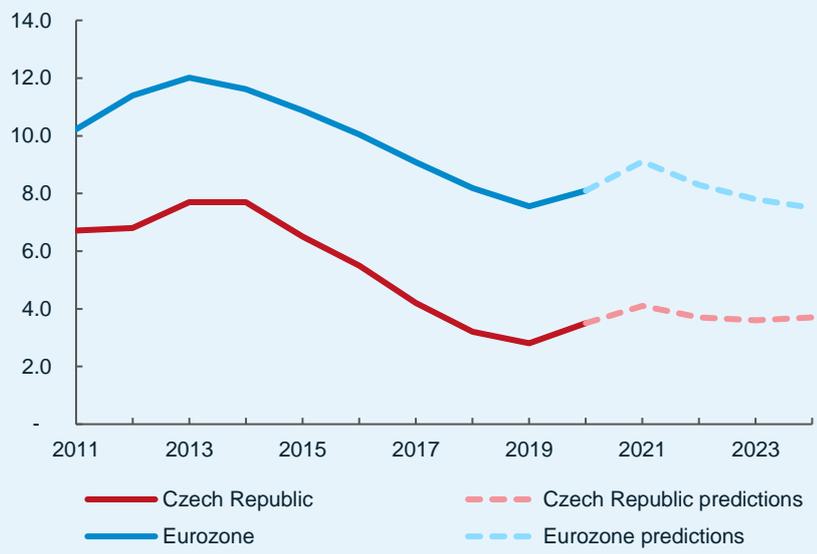
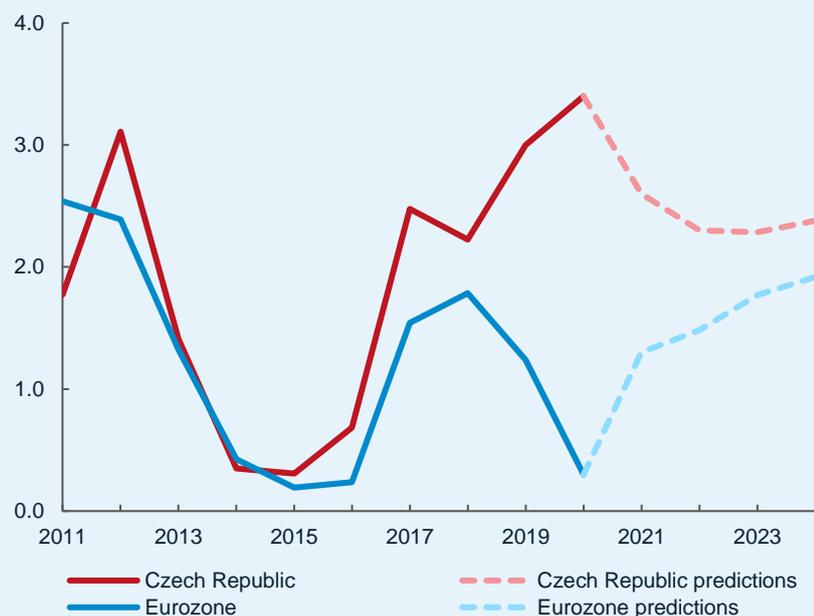


FIGURE 3: Consumer Price Index



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

INDUSTRIAL MARKET

Supply & Vacancy

With 106,100 sq m of newly completed warehouse space in Q4 2020, the total stock in the Czech Republic stands at 9.1 million sq m. The newly completed space comprises 9 new buildings across the country. The largest part of the new space (24%) was delivered to the Moravia-Silesia region. The second highest supply of space was in the Pilsen region (19%) followed by the Greater Prague (16%), Usti nad Labem (12%) and South Moravia (7%) regions.

Total completions for 2020 totalled 693,500 sq m. By the end of Q4 2020, the vacancy stood at 4.20%, which is 42 bps lower than in Q3 2020. The total available space reached 481,500 sq m. The availability of larger spaces in excess of 10,000 sq m is limited to just 11 properties with half of those in the Pilsen and Moravia Silesia regions. The continued low vacancy rate caused by the limited availability of suitable land with permits, creates an ideal environment for Built-to-suit

development. Landlords are and will remain in a strong negotiating position in these market conditions.

Demand

Gross take-up in Q4 2020 reached 540,300 sq m, registering a 76% increase on the previous quarter, and a 24% increase YoY. Cumulative gross take-up for 2020, reached 1,525,000 sq m, a 15% increase over 2019. This growth is proving a robust and growing industrial market. Net take-up reached 355,500 sq m, which is up 143% QoQ, but a 15% decrease YoY. The share of renegotiations on gross take-up for 2020 is 47% and we do not foresee any significant changes in this trend. That is due to both the relatively low vacancy and also the situation in the labour market, where companies prefer to stay in established locations rather than facing the issues of hiring new staff, as long as the countrywide unemployment rate remains low at around 4.0%, tenants will prefer to renegotiate.

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 the negotiations.

Outlook

Around 447,800 sq m of warehouse space was under construction at the

end of Q4 2020. The level of pre-leased space under construction exceeds 53%, which is in line with our expectations. Due to the continued market situation, we do not expect the trend to change significantly, and developers will be reluctant to speculate with new development. In Q1 2021, we expect 210,000 sq m of space to be delivered to the market, which is appropriate amount for the Q1 period. The healthy supply of new product 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)

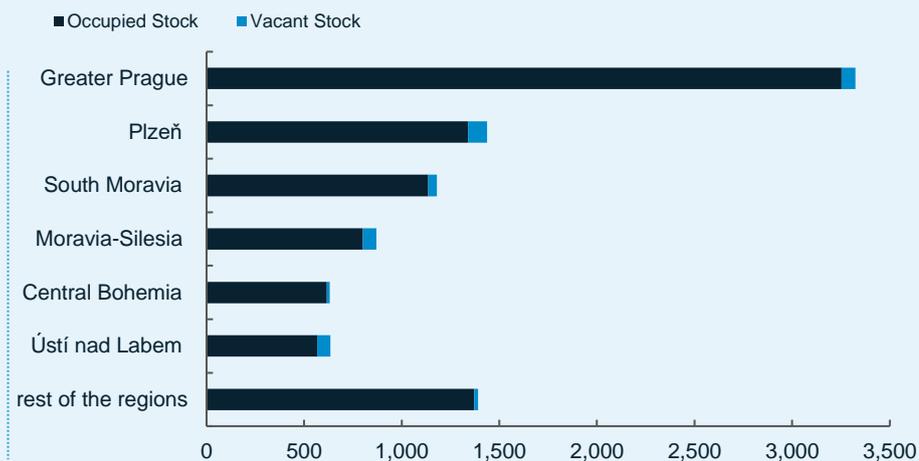


FIGURE 2: Annual supply (sq m thousands)

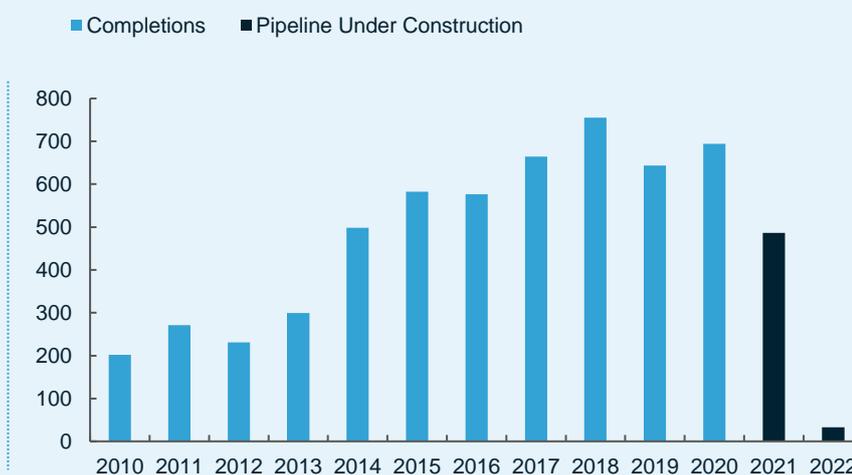


FIGURE 3: Take-up (sq m thousands)



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