Q1 2023 | Czech Republic

Industrial Market Overview

Key market figures

Czech modern industrial stock at 11 million sqm

The Czech industrial stock overtook 11 million sqm in Q1 2023, reaching another important milestone in development, just nine months since we reported the last major milestone of 10 million sqm. The market grew by 10% y/y, that is 1.5 percentage points above the 5-year average. The total volume of newly completed industrial space in the Czech market in Q1 2023 was 217,900 sqm, a 21% higher figure than the 5-year average quarterly result. The construction boom, apparent in the market since the end of 2021, is now showing its results. In Q1, most new space was delivered in the Ústí nad Labem region (37%), Karlovy Vary region (29%) and Moravia-Silesia region (19%).

Vacancy – let's wait and see

Last quarter, we asked whether new development could help alleviate the constrained availability on the market. Unfortunately, signs from the market do not yet point to a definite resolution of this question. The vacancy rate rose by 43 bps, to 1.36%. This represents 150,000 sqm of available space at the ends of Q1 2023, however, this figure still represents a 23 bps decrease when compared to Q1 2022. We do not want to be hasty in pointing towards a trend towards an increase in vacancy in the Czech market. When we go further in depth in the current numbers, much of the new vacancy Q1 2023 was owing to increased speculative activity among developers, where just four new buildings accounted for ¾ of all new vacancy, still seeking tenants upon completion. Although we would expect an increase in subleasing activity, there was not yet any such news coming from the market as of Q1 2023.

Stock (sqm milion)

11.00

Y/Y: +10%

Gross demand (sqm)

344,400

Q1–Q4 2022: 2,198,200

Supply (sqm)

217,900

Q1–Q4 2022: 1,095,900

Vacancy Rate

1.36%

Y/Y: -23 bps

Prime Rent

€7.70 – 7.90

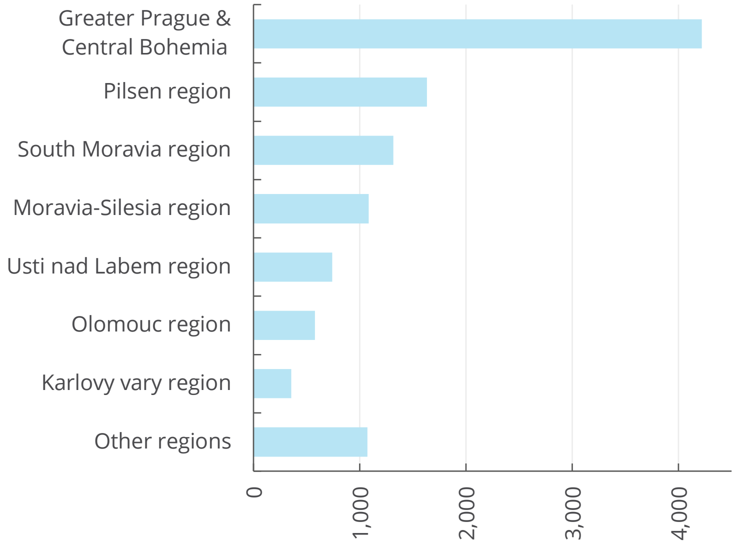
Average rent regions:
€5.75 - 6.55

Under Construction (sqm)

1,300,400

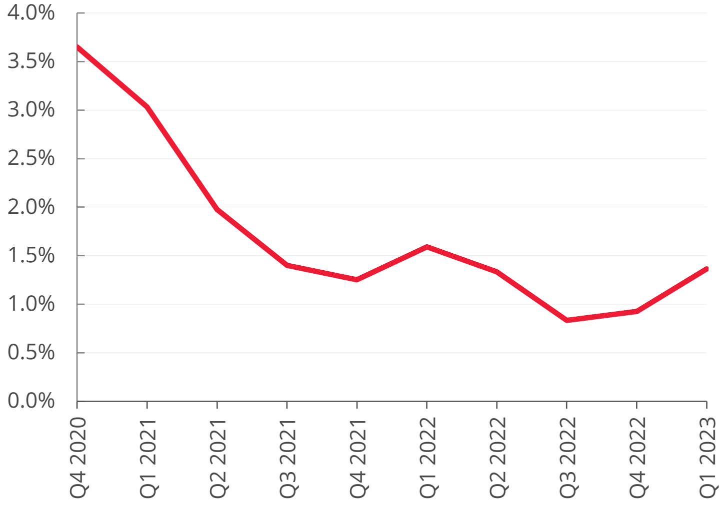
Y/Y: +3.6%

Industrial stock in regions
(sqm thousands)



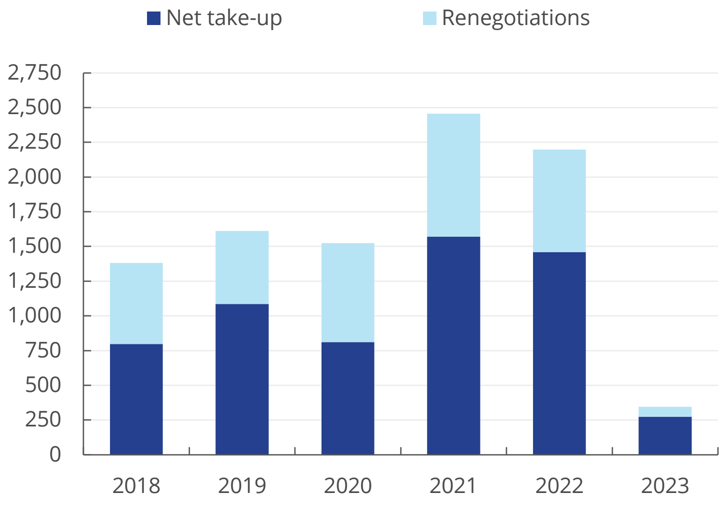
Sources:
Industrial Research Forum, Colliers

Vacancy rate
(%, national)



Sources:
Industrial Research Forum, Colliers

Annual take-up
(sqm thousands)



Sources:
Industrial Research Forum, Colliers

Demand

TOP 3 Transactions of Q1 2023

Tenant	Property	Size (sqm)	Transaction
Inventec	CTPark Blučina	52,600	Pre-lease
UCT Fluid Delivery Solutions	CPBI Business Park	26,500	Pre-lease
Panasonic	Panattoni Park Pilsen West II	24,700	Pre-lease

Source: Industrial Research Forum, Colliers

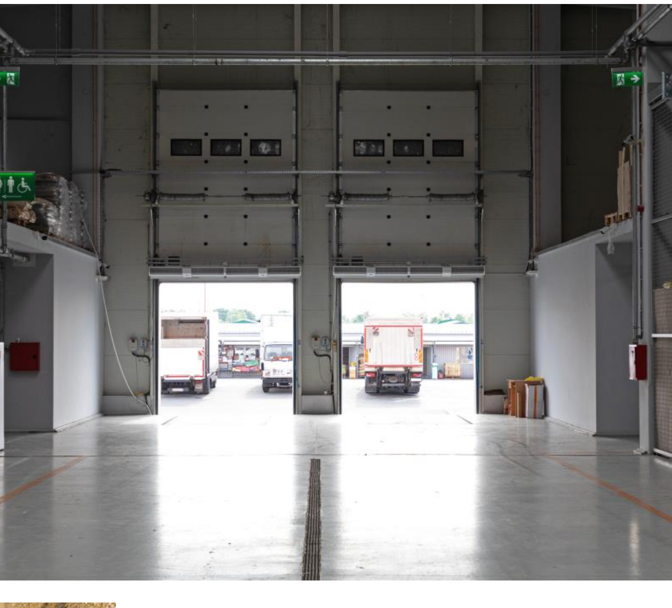
Pre-leases dominate amid overall take-up slowdown

Gross take-up was 344,500 sqm in Q1 2023, a weak result for the second quarter in a row, representing a 52% y/y decrease and a 27% lower figure when compared to the 5-year average. Net take-up represented ~79% of all transactions. The pre-eminent role of pre-leases was especially evident this quarter, as pre-leases represented 63% of all transactions in the quarter. The persistently low vacancy rates in the past year and a half have definitely helped to increase the pre-eminence of pre-leases in total leasing activity. Notably another trend emerged recently, where renegotiations became a much longer, more drawn-out process than previously, as tenants grapple with not just low availability in the market but also significant price hikes when making decisions about renewing their leases or deciding to find a new space.

The largest share of take-up in Q1 was taken by producers (46%), with the notable share of leases by producers of electronics (23%). Logistics & transportation tenants represented around 20% of total take-up and distributors overall took just below 11% of total take-up.

Prime rents hit the upper limit

As forecasted, prime rents rose again in the Czech industrial market. Now however, they are reaching their limits. Prime rents were at around €7.70 - €7.90 sqm/month in the Czech Republic in Q1 2023. The highest achievable rent was in Prague, and on specific projects, offers still ranged up to €8.50/sqm/month. They are very unlikely to rise anywhere above this level anytime soon though. In selected prime locations outside of Prague, such as Brno and Pilsen region, prime rents are now reaching over €6.00/sqm/month. Rents for mezzanine office space stand between €9.50 - €12.50 sq m/month. Service charges are typically around €0.75–1.00 sq m/month.



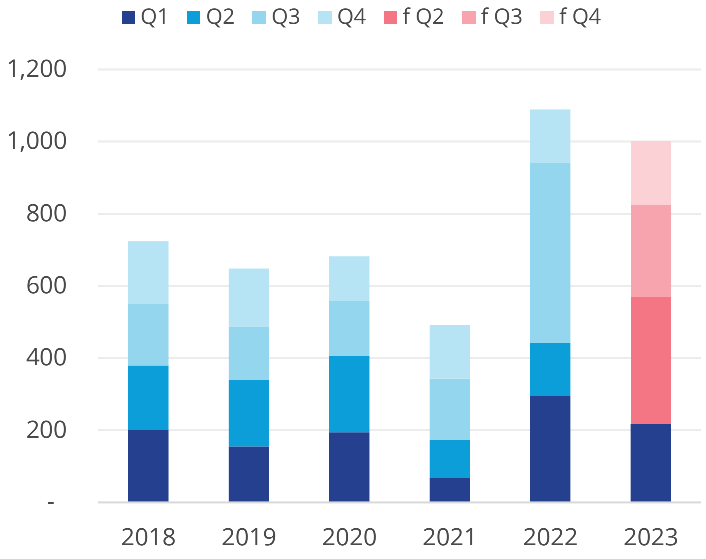
Outlook

2023 will see the ongoing construction boom and new realities

The Czech industrial market will look slightly different in 2023 than what we've grown used to in the past two years. But some similarities remain. The construction boom continues – over 1.3 million sqm of new modern industrial space was under construction at the end of Q1 2023. Just under 800,000 sqm are due to be delivered until the end of the year, bringing the total Czech industrial market just below 12 million sqm in total. Even though most projects are initially announced as speculative construction, developers typically finish projects to the core & shell stage of buildings and then wait for tenants to fill them. This is unlikely to change.

In any case, unlike the past two years, where we saw take-up soar to record heights, this year will probably be a little bit more down to earth, as different actors in the market start to come to terms with new economic realities. Prices are unlikely to increase significantly again and, in some projects, we might even see some sky-high offers reduced to attract tenants. Overall, the market will have to re-evaluate and re-balance this year.

Annual supply
(sqm thousands)



Sources:
Industrial Research Forum, Colliers

Macroeconomic overview

The Czech economy GDP forecast for 2023 is now at -0.7%, according to Oxford Economics. A series of growth downgrades in forecasts for the Czech economy continued in the first quarter, owing to a combination of continuing weak consumer spending, persistent inflation (where we albeit may be seeing the light at the end of the tunnel), weakening retail sales, high interest rates weighing on the economy and households, and worsened outlook overall for financing and Eurozone amid the looming banking crisis. We are looking at GDP growth of around 2.3% for the year 2024.

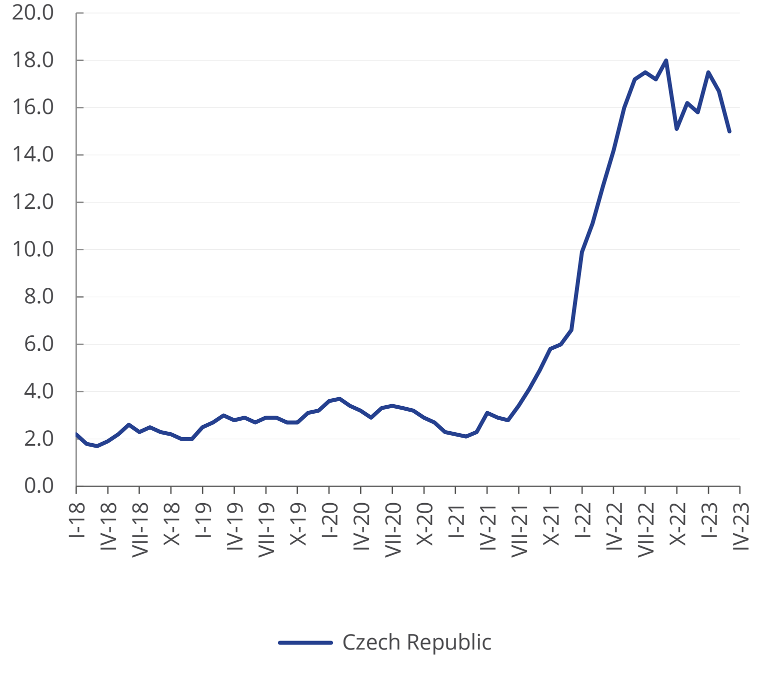
Weak activity in the economy was ongoing in Q1 2023. Consumer spending remains low and does not show many signs of recovery. Consumer confidence surveys remained deeply in the negative territory in Q1 2023 and are not likely to recover much through Q2. Retail sales seemed slightly more upbeat in expectations at the end of January but in the end performed weakly in Q1. Industrial production fell in January but increased slightly in February presenting a mixed batch of results in Q1. The industrial confidence indicator presents a similar story, staying negative for most of Q1, as both industrial actors and consumers expect negative development in the sector for now.

The weak growth and activity is co-generated as an effect of the hawkish policy rate hikes of the Czech National Bank combined with ongoing high inflation. The hawkish policy of the CNB, originally fashioned to hastily combat high inflation, may now see results that will encourage CNB to turn the tide and ease rates in the second part of the year. Private investment was falling q/q at the end of 2022 and we expect the situation to be no better when results come in for Q1 2023. The high rates are still especially apparent in the rate of issuance of mortgages – down 54% y/y in February.

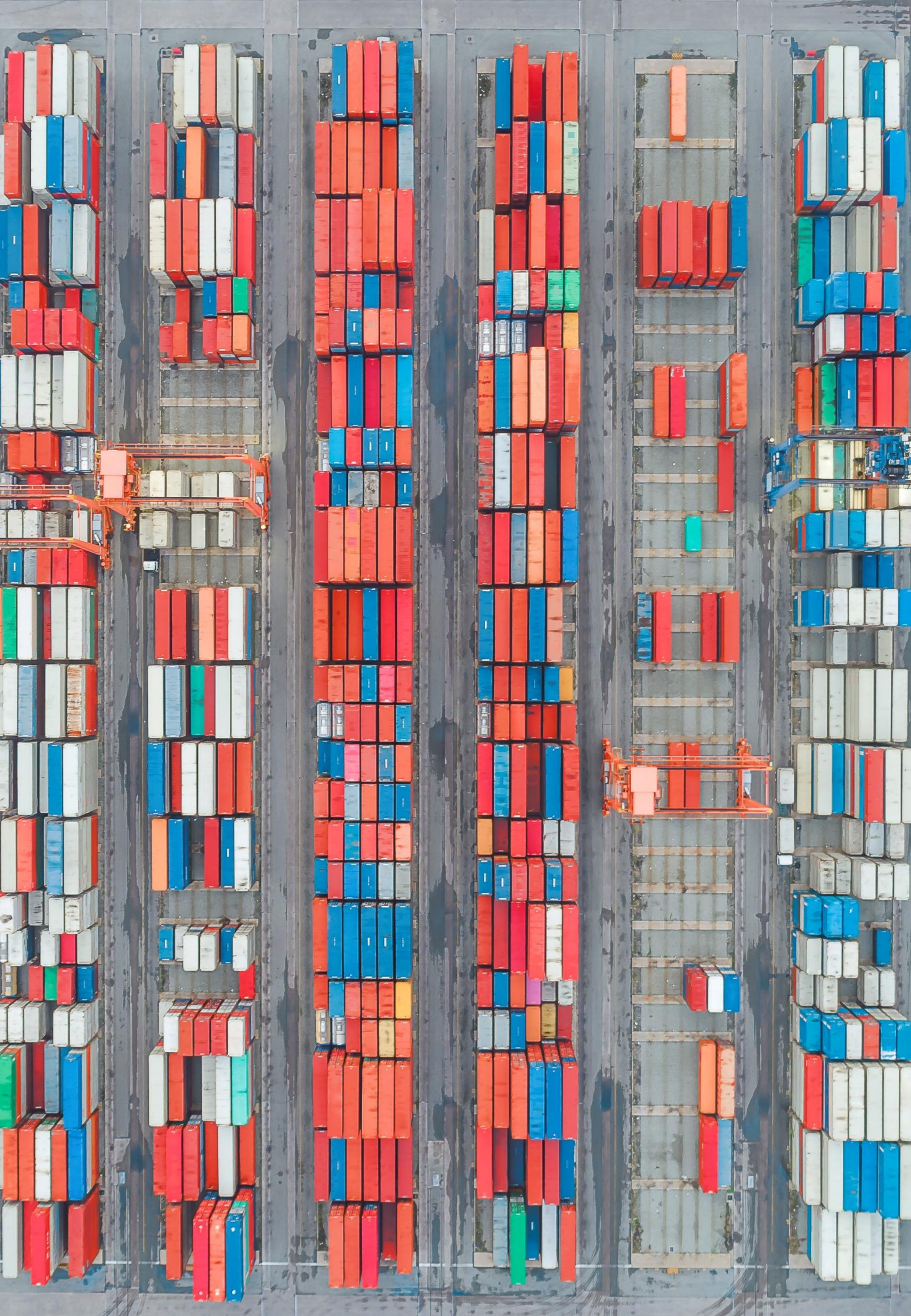
In the end though, it is not just weak results and demand in the economy but also deflationary pressures, that will persuade the CNB to get on the road to lower rate territory. Inflation seemed to be easing slightly at the end of Q1 2023, reaching 15% y/y in March. At the end of 2022, forecasts pointed towards much stronger easing of price pressures during Q1. While that did not materialise yet, maybe now we've finally reached the point where inflation might really ease after all, helping to appease the central bankers.

As for the labour market, the situation remained stable with little change during Q1. The unemployment rate was 3.7% in March, down 0.2% m/m. In 2022, nominal wages grew by almost 8%. In reality though, real wages (when adjusted to inflation) decreased by 6.7%, significantly decreasing the purchasing power of consumers. The start of the year saw the first small increase of real wages, but still far below the levels in 2021.

Inflation rate
(Y/Y, %, 2018 –2023)



Source: Czech Statistical Office



For more information

Mark Richardson
Head of Investment & Industrial
+420 734 235 037
mark.richardson@colliers.com

Miroslav Kotek
Director of Industrial Agency
+420 724 723 323
miroslav.kotek@colliers.com

Josef Stanko
Senior Research Analyst
+420 728 175 024
josef.stanko@colliers.com

Josefína Kurfürstová
Research Analyst
+420 733 738 295
josefina.kurfurstova@colliers.com

Slovanský dům B/C
Na Příkopě 859/22
110 00, Praha 1

Colliers

Accelerating success.