

# CZECH REPUBLIC Industrial Market Snapshot

Second Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Rents continue to increase in prime locations and in some segments of the market (particularly small-sized logistics).	▼
Prime Yields:	Yields remain stable in prime as well as secondary locations.	▶
Supply:	New supply grows with a relatively high speculative construction.	▼
Demand:	Demand is strong and continues to rise, supported by favourable economic conditions.	▼

### Prime Industrial Rents – June 2018

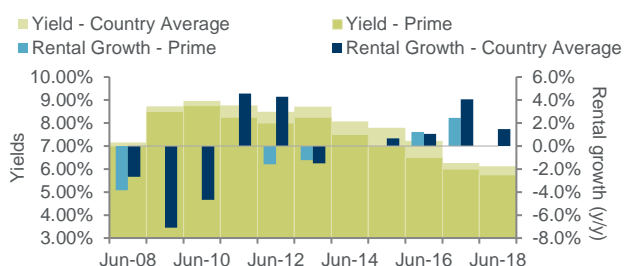
LOGISTICS LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Prague	4.20	50.4	5.48	2.4	2.0
Brno	4.00	50.4	5.48	0.0	0.7

### Prime Industrial Yields – June 2018

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Prague	5.75	5.75	6.00	8.75	5.75
Brno	6.20	6.20	6.25	9.50	6.20

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

GDP growth reached 4.5% in 2017 and it is forecasted at 3.1% in 2018 due to lowered eurozone activity and trade concerns, especially regarding US tariffs on imports of cars from the EU. Industrial developers reacted by speculative construction, as demand for logistic space remains high.

## Occupier focus

Current demand for industrial space continues to be driven by manufacturing industry and third-party logistics, with automotive and e-commerce being the most active sectors. New occupations of logistics companies and expansions of existing leases accounted for majority of total demand.

Vacancy rate returned to sub 4% in Q2 2018, while new supply remained stable throughout Czech regions. The current share of speculative construction decreases due to ongoing high demand. Apart from traditionally strong areas near Pilsen and Brno, northern part of the Czech Republic also recorded relatively high construction activity following high demand. Net absorption of the industrial market remained positive.

Entry of new developers in South Moravia region compressed headline rents to lower levels in the last quarter, aligning with the rates in Greater Prague region.

## Investment focus

After a period of low industrial investment volume owing to a shortage of logistics properties for sale, this sector is undergoing a surge in activity with at least two investment opportunities of large-scale portfolios on the market. Positive impact on pricing is expected, and A-class properties in core locations with long leases will probably see yield compression. We expect yields to remain stable for other types of industrial products.

## Outlook

High level of construction and strong demand remain in both traditional locations near large cities and the regions. Scarce labour force pushes the Czech economy to its limits while industries operate at a maximum capacity, encouraging innovation and automation of warehouse operations.

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