INVESTMENT MARKET HIGHLIGHTS - H2 2020

- Investment volume in the Czech Republic amounted to €797 million in H2 2020 with 60% of the H2 transaction volume (i.e. €478 million) being for properties located in Prague.

- Offices were the most dominant real estate sector in the country in H2 2020 accounting for 41% of the H2 investment volume. The retail sector followed with a share of 23%; industrial assets made up 20%.

- The share of foreign investors in the total investment volume reached 64% in H2, being slightly higher than in H2 2019 (57%).

- 25 transactions were concluded during H2 2020, while 21 deals were recorded in the first half of the year. As is common on the Czech market, the vast majority of the signed transactions did not exceed the €100 million value mark. This was true for 23 of the 25 deals signed in H2 alone and 42 of the total 46 transactions closed during the full year.

- In the second half of 2020, prime yields remained stable across most asset classes, with only a marginal compression expected for top-of-class industrial space.
ECONOMIC OVERVIEW

- The world economy was negatively affected by the COVID-19 pandemic in 2020. Related measures imposed in an attempt to beat it resulted in a deep synchronized decline of the global economy, unprecedented in the era after World War II. Many countries responded by adopting large scale fiscal and monetary stimuli that helped to mitigate some of the short term negative economic shocks. According to the forecast of the Czech National Bank, a drop in GDP of 5.8% is predicted for the whole year. There should be a deep fall in all areas of GDP components except the general government spending. With government measures starting to have a positive effect, including restricting population movement to contain the virus whilst simultaneously rolling out a vaccination program, the Czech National Bank predicts that Czech economy will gradually start to recover in 2021 and reach the growth of 2.2% by the end of the year.

INFLATION

- Throughout 2020, the CPI inflation was well above the upper band of the 2% inflation target and averaged at 3.2%. However, by the end of the year, it slowed down significantly. According to the macroeconomic prediction of the Ministry of Finance, the inflation rate should decline ever further in 2021. It is expected to oscillate within the tolerance band and average at 1.9% by the end of 2021.

RETAIL SALES

- When the first lockdown was imposed in spring 2020, the majority of stores were closed and retail sales plummeted dramatically. A fall of almost 11% in y-o-y comparison was recorded in April. After a short summer period when most restrictions were lifted and stores reopened, the second wave hit Europe in autumn, bringing new lockdown measures. In November, retail sales were down by 5.3% compared to the same period of 2019. Automotive sales were hit the hardest, being down by almost 45% (y-o-y) in April and 11.30% (y-o-y) in November 2020. On the other hand, a significant increase in online sales was recorded in 2020, since e-commerce became one of the only possibilities to purchase non-food products and goods.

UNEMPLOYMENT

- Going into 2020, Czech Republic had the lowest unemployment rate in the EU. Throughout the year, given the strong economic headwinds, unemployment has risen but remains at a comparatively low level.

- According to the prognosis of the Ministry of Finance, the general unemployment rate in the Czech Republic is predicted to further increase, having reached an average of 2.6% in 2020. Even though the pandemic has caused disruption in the labour market, the unemployment rate is significantly lower than one would expect in the current economic downturn. This is partly due to the government measures imposed to support the employment, as well as due to workers’ fear of changing jobs in these uncertain times. It is expected that unemployment will continue to rise and reach its peak of 3.3% in 2021, a figure still well below most of EU countries. An expected renewed demand for labour shall slightly reduce the number of unemployed people at the beginning of 2022.

- The unemployment rate in Prague has been traditionally the lowest in the country, reaching 1.9% in 2019 (70 bps below the country’s average). However, due to the COVID-19 pandemic, the Prague unemployment rate increased in 2020, reaching 2.7% in Q3. In a year-on-year comparison, this translated into an increase of 150 bps, one of the most significant in intra-regional comparison. A bigger increase was recorded only in the Liberec region, where the unemployment rate rose by 160 bps.
Czech Republic - Economic Overview

Unemployment Rate

Source: Oxford Economics, Czech Statistical Office

Czech Republic Regional Unemployment Rate

Source: Czech Statistical Office

Czech Republic Regional Gross Monthly Salary

Source: Czech Statistical Office
PRIME YIELDS

• Yields on core properties in the best locations continued to prove resilient in 2020.

• After increasing slightly in the first half of 2020, prime office yields remained stable at 4.10% in the second half of the year. Vacancy levels have remained fairly resistant to the pandemic, increasing by only 160 bps since Q1 2020 (to 7% at year-end). The biggest barrier to a higher number of core transactions is the low amount of available product.

• Although the highest absolute number of transactions was closed in the retail sector, market evidence is missing for the prime shopping centre sector in which no transactions were concluded during 2020. The estimated yields for prime shopping centres therefore stayed at 5.75% (up by 75 bps from the beginning of the 2020) - however, caution is still recommended when estimating prime retail yields as this is a segment of the market that has potentially been amongst the most negatively affected by the pandemic.

• Despite the positive leasing levels on the industrial and logistics market and strong level of new demand for space coming from the retail and e-commerce sectors, there is a general lack of prime assets with long leases in what would be considered a prime location. Prime yields are estimated at 4.25%, down by 25 bps from 4.50% in the middle of 2020.

INVESTMENT MARKET OVERVIEW

• In a world slowed down by the Covid-19 pandemic, commercial real estate in the Czech Republic attracted €2.7 billion of capital in 2020, which was only 11% down on the transactional volume achieved in 2019 and 13% below the 5-year average.

• A tightening of debt financing conditions has somewhat contributed to the reduction in transaction volumes, with banks generally being more cautious and selective on who they lend to / what they lend on.

• Despite the absence of investors from South Korea and USA, who were very active on the Czech market in 2019, cross-border investment in 2020 rose marginally (by 4% y-o-y) to €2.02 billion. The share of foreign investments reached 75% of the total volume transacted in 2020 (compared to a share of 64% in 2019 and 41% in 2018). Excluding Heimstaden’s large acquisition, the share of domestic capital transactions increases to 49%.

• A total of 46 deals were concluded during 2020; a 33% drop on 2019, and 34% below the 5-year average. The highest number of transactions were made in the office segment (15), closely followed by the retail sector (14). Czech investors concluded 26 of the total 46 transactions, with more than half of these being assets outside of Prague.

• The annual transaction volume in the Prague real estate investment market totalled €859 million, showing a 65% drop compared to the previous year (€2.47 billion) and a 57% decrease from the 5-year average. Investors’ highest demand in Prague remained for office properties (65% of annual investment volume), followed by retail assets (16%).

BUYERS’ NATIONALITY

• Investor appetite and financial ability (i.e. available equity) to make investment acquisitions is high (caveat – banks are being more conservative and the lack of easy debt is a consideration for most investors, and may be a roadblock to more transactions, especially in non-core).

• Investors had a subdued 2020 with transaction volumes down y-o-y throughout but are sitting on significant equity ready to be deployed. Retail and Qualified Investor funds continued taking in high contributions from investors, and there is a need to pursue acquisition mandates to work the equity in an environment of low interest rates.

• Property owners have had 9 months during 2020 to get their own house in order and ride out the most uncertain period; in the meantime there have been a (limited) number of transactions that provide benchmarking to values. This will allow owners who planned / want to sell to come forwards as a seller without the significant threat that buyers will assume distress.

• The period from January to at least summer 2021 is likely to see a good amount of market activity, as sellers take comfort from strong benchmark pricing and continued buyer demand, despite the external continued health crisis.

OUTLOOK

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SELECTED INVESTMENT DEALS OF 2020

<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>SELLER</th>
<th>BUYER</th>
<th>PRICE</th>
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<tbody>
<tr>
<td>RESIDOMO PORTFOLIO (residential, Ostrava)</td>
<td>Residomo</td>
<td>Heimstaden Bostad</td>
<td>€1.3 billion</td>
</tr>
<tr>
<td>CHURCHILL SQUARE (offices, Prague)</td>
<td>Penta</td>
<td>Českomořavská Nemovitostní &amp; CFH</td>
<td>over €100 million</td>
</tr>
<tr>
<td>KOTVA SHOPPING CENTRE (retail, Prague)</td>
<td>PSN</td>
<td>Generali Real Estate</td>
<td>over €100 million</td>
</tr>
<tr>
<td>GOODMAN PORTFOLIO (industrial, Prague &amp; regions)</td>
<td>Goodman</td>
<td>GLP</td>
<td>over €100 million</td>
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Research team

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