

Czech Republic Investment Market



Source: REICO IS CS

Czech Investment Market in Q2 2021



€426 million
Total investment volume in Q2 2021 (+42% y-o-y)



4.10%
Prime office yield



4.25%
Prime industrial yield



5.75%
Prime shopping centre yield



4.50%
High street retail yield



4.00%
Prime residential yield

Source Savills Research

ECONOMIC OVERVIEW

<p>GDP GROWTH</p> <p>3.1% 2021 PREDICTION</p>	<p>CPI INFLATION</p> <p>2.8% JUNE 2021</p>
<p>NATIONAL UNEMPLOYMENT</p> <p>3.4% MAY 2021</p> <p>3.3% Q1 2021 AVERAGE</p>	<p>GROSS MONTHLY SALARY</p> <p>€1,354 (CZK 35,285) COUNTRY AVERAGE, Q1 2021</p>
<p>EXCHANGE RATE</p> <p>25.64 CZK/EUR Q2 2021 AVERAGE</p>	<p>RETAIL SALES</p> <p>5.8% Y-O-Y CHANGE, MAY 2021</p>

Source Oxford Economics, Czech Statistical Office, Czech National Bank

INVESTMENT MARKET HIGHLIGHTS - H1 2021

- The investment volumes in the Czech Republic are slowly recovering but still remain weak compared to pre-pandemic* times. A total investment volume of €716 million was transacted in the country during H1 2021, showing a year-on-year drop of 63% (but a 16% improvement if the exceptional Residomo transaction is taken out of the H1 2020 figure) and still far below (-59%) H1 2019.
- The number of concluded transactions was on par with the activity level recorded in H2 2020 (27 deals), being an improvement of 23% against the first half of 2020. However, the market still awaits the return of larger transactions exceeding the €100 million mark.
- More than a year into the pandemic, the office sector remained the leading asset class, capturing almost €339 million (i.e. 47% of the H1 volume). At just over €120 million, industrial transactions accounted for 17% of the total H1 investment. This is a 30% increase y-o-y, but stands slightly below the H2 2020 volume share (20%).
- Foreign capital accounted for 58% of the total volume transacted in H1 2021.
- For the fourth consecutive quarter, prime yields remained unchanged across all asset classes.

* For clarity, the COVID-19 pandemic started to affect the Czech Republic in March 2020

ECONOMIC OVERVIEW

- The Czech economy continued to suffer from the lasting impacts of the Covid-19 pandemic and containment measures again negatively impacted retail sales and services in the first months of 2021. As the country was strongly affected by the pandemic in spring, GDP growth was still in negative territory and in Q1 2021 averaged at -2.4%. However, recovery of economic activities is expected throughout this year and according to the Ministry of Finance, GDP growth could reach 3.1% in 2021 and accelerate to 3.7% in 2022, mainly thanks to the recovery of private consumption. The increase will, however, be greatly influenced by the development of potential mutations that could again worsen the epidemic in autumn.
- The automotive sector, the largest industry in the Czech Republic accounting for more than 9% of GDP, has been facing supply chain disruptions, which are resulting in production cutbacks. Shortages of key components began to manifest themselves at the end of 2020 and are unlikely to be resolved sooner than in 2022. A major impact on the entire Czech economy is expected, given its strong dependence on this sector.

INFLATION

- At the end of Q1 2021, the inflation rate fell to 2.4% (compared to a 2020 annual average of 3.2%). However, it is expected to grow again near the end of 2021 and oscillate around the upper band of the 2% target. According to a Czech National Bank prognosis, the inflation rate will reach an average of 2.7% in 2021 and in 2022 it is predicted to get closer to target and reach 2.4% on average.

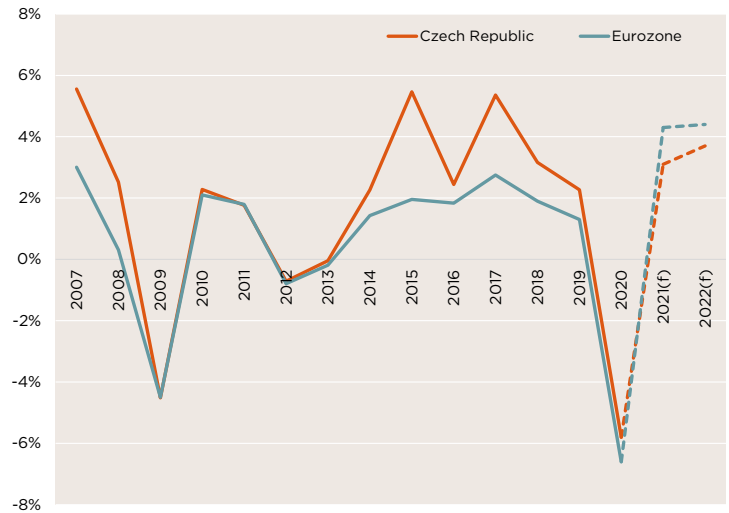
RETAIL SALES

- By the end of spring, the tight pandemic restrictions were lifted and restaurants and shops with non-essential goods reopened. Therefore in May, the y-o-y growth in retail sales reached positive numbers at 5.8%. In March and April, the increase was even more substantial and exceeded 7%. This was thanks to the growth in non-food sales (+17.30% y-o-y in March, +8.4% y-o-y in May) and particularly thanks to automotive sales, which skyrocketed to almost 71% y-o-y growth in April. The future development of retail sales will continue to be closely tied to the pandemic situation and the ability to keep it under control without any additional restrictions.

UNEMPLOYMENT

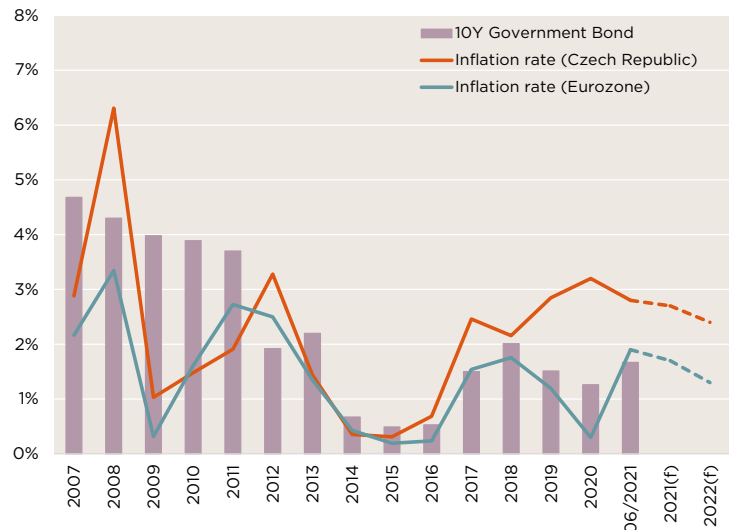
- A worsening epidemic situation at the beginning of the year also affected the labour market, which continues to cool. According to the prediction of the Czech National Bank, the unemployment rate, which reached 3.4% in May 2021, shall continue to rise until the second half of 2021 and average at 3.6%. The unemployment rate in 2022 is expected to stagnate or even increase moderately to 3.7% since it is likely that state aid will be terminated.
- The unemployment rate in the regions, shaken by restrictions, remained high. Even in Prague, it climbed to higher-than-usual figures and in Q1 2021 averaged 3.0% (up by 190 bps y-o-y). The highest rate of unemployment and also the most significant y-o-y increase was recorded in the Karlovy Vary region, standing at 8.4% in Q1 2021 (up by 230 bps q-o-q and up by 540 bps y-o-y), mainly due to the significant drop in tourism. The lowest unemployment rate was observed in the Zlín region where it fell to 1.5%, making it the only Czech region where unemployment did not exceed 2%.

GDP Growth (y-o-y change, %, 2015 constant prices)



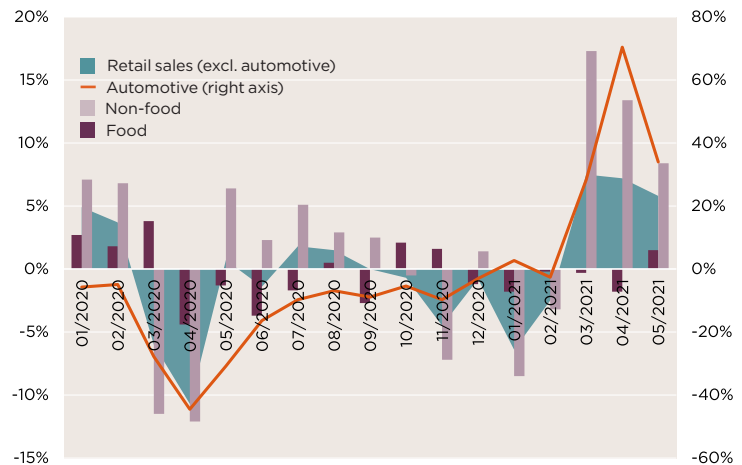
Source Oxford Economics, Czech National Bank, Ministry of Finance

Inflation Rate and 10Y Government Bond



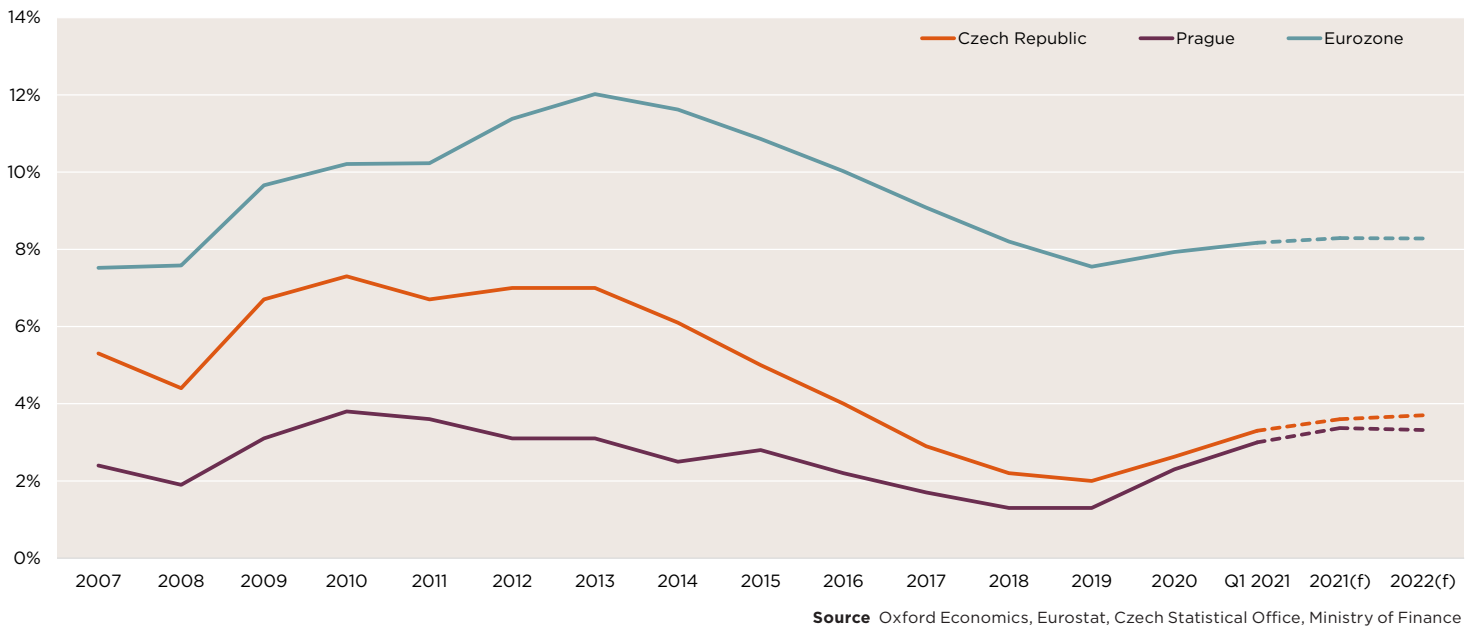
Source Oxford Economics, Czech National Bank, Eurostat

Retail Sales (y-o-y change, %)

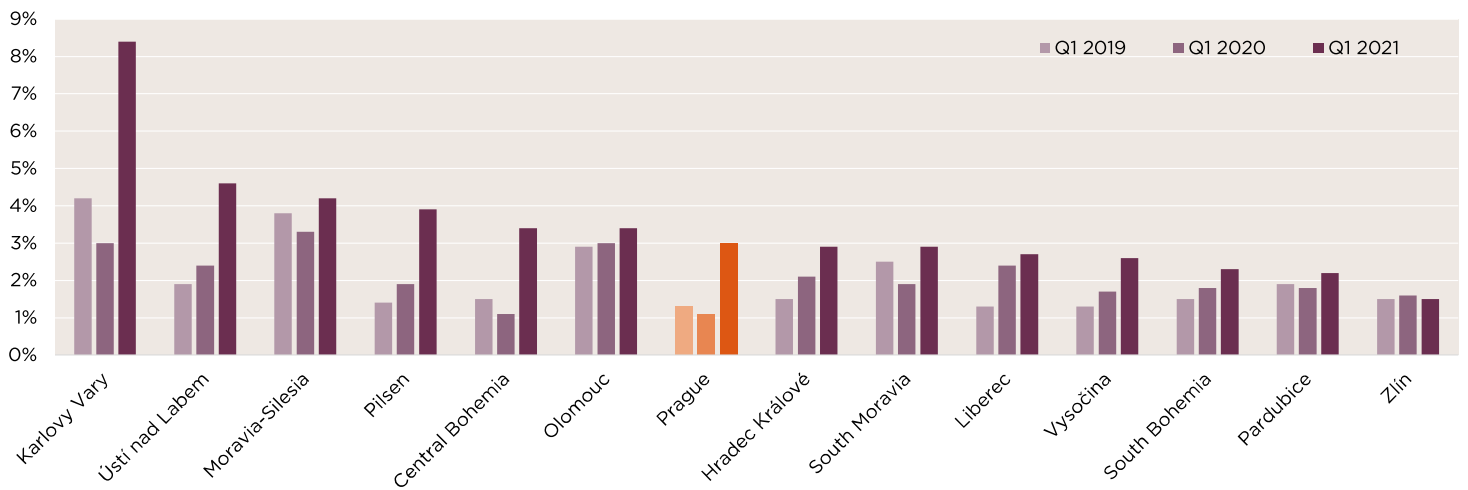


Source Czech Statistical Office, Savills Research

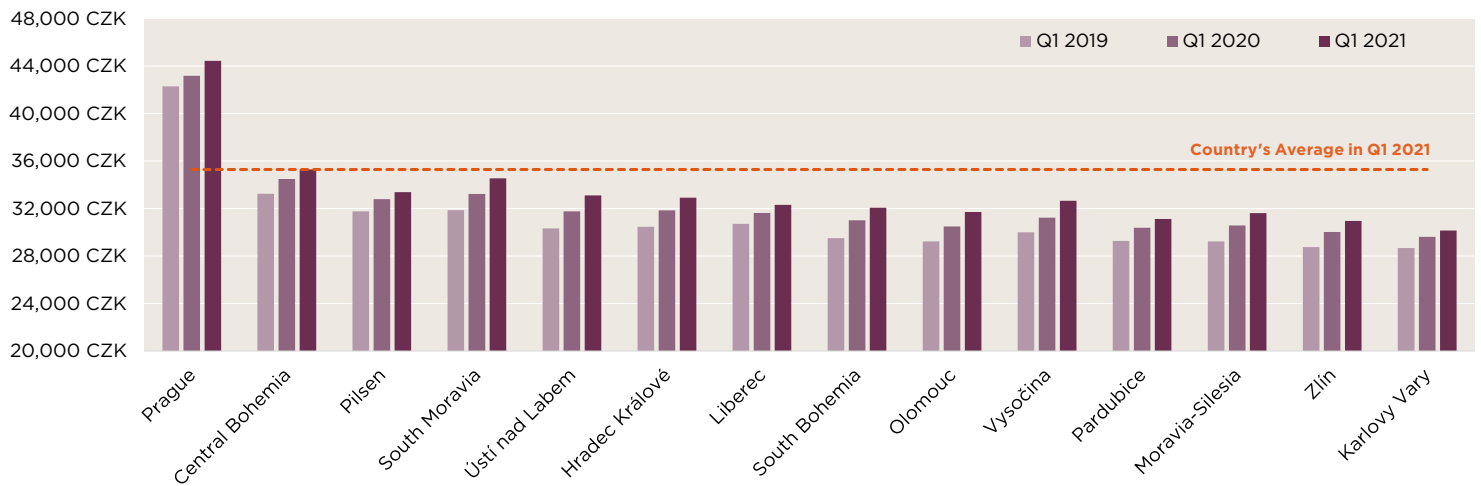
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



INVESTMENT MARKET OVERVIEW - Q2 2021

- Looking at the activity in Q2 2021, the Czech Republic saw commercial property investment volume climb to €426 million (from €301 million over the same period last year). This is a 42% increase y-o-y and 47% improvement on the previous quarter.
- A total of 14 transactions were registered during the second quarter of this year, a slight increase compared to Q2 2020 when 11 transactions were closed. The average transaction size reached €30.5 million, which is still €10 million below the pre-pandemic quarterly average.
- With six transactions concluded, the office sector dominated the market activity in Q2 2021. Industrial and retail segments followed, each with three deals.
- Prague attracted investment volume of almost €317 million across seven transactions.
- Domestic investors poured €160 million into commercial real estate across the country during Q2 2021 and acquired nine of the 14 properties (three in Prague and six in regional markets).
- Cross-border investment exceeded €266 million (77% above the previous quarter) and accounted for 62% of the Q2 2021 volume. Prague has regained its crown as the top choice for foreign investors buying commercial real estate, as 90% of the Q2 cross-border volume was spent in the capital (compared to 51% in Q1 2021).

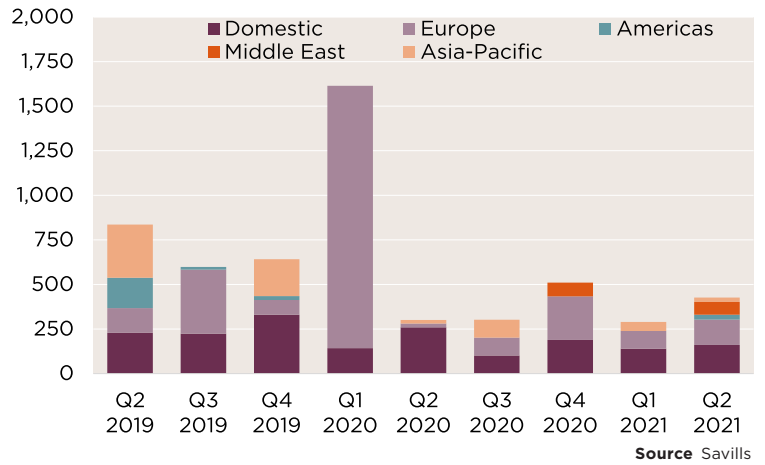
PRIME YIELDS

- Yields across all real estate sectors remained stable since Q3 2020. Prime office yields for the best assets in Prague stabilized at 4.10%, supported by limited development pipeline and resilient headline rents. Prime yields in the industrial sector for well located and well leased assets are estimated at 4.25%. There is limited transaction evidence for prime shopping centres, however, the estimate prime yields for the most successful schemes in Prague are still at around 5.75%.

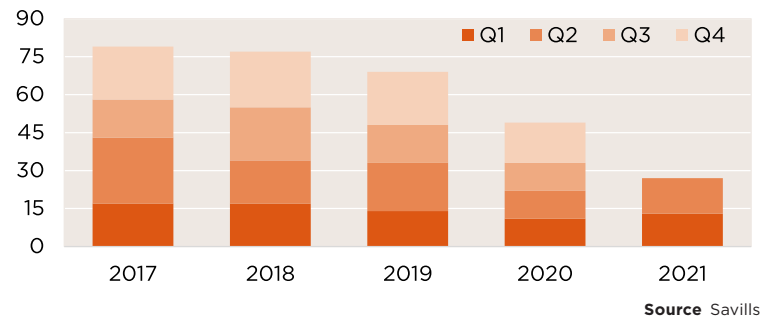
OUTLOOK

- Investors continue to display demand for the office sector, but the ‘lack of product’ theme continues and there are relatively few opportunities. Domestic investors remain willing to look outside of Prague for office investments, whereas non-domestic buyers typically restrict themselves to just the capital city.
- Czech industrial market remains exceptionally strong. The extremely low vacancy rate combined with the structure of the market, in which developers generally build-to-hold, could quite likely see a hardening of yields in the coming short to medium term future.
- Investors are quickly stepping into the residential market. Various deals were closed, the majority of them forward structures with investors pledging to acquire future developments before they are out of the ground or completed. Yields are currently the sharpest of all asset classes and it would not be a significant surprise if they hardened further.
- Retail sector has a fairly consistent domestic buyer base in the Czech Republic and values for non-prime assets have held up well. We do not foresee any prime supra-regional centres to trade in the short term, given the uncertainty in the sector and the types of volumes that these types of centres command.

Source of Capital (€, million)



Number of Transactions Closed in a Quarter

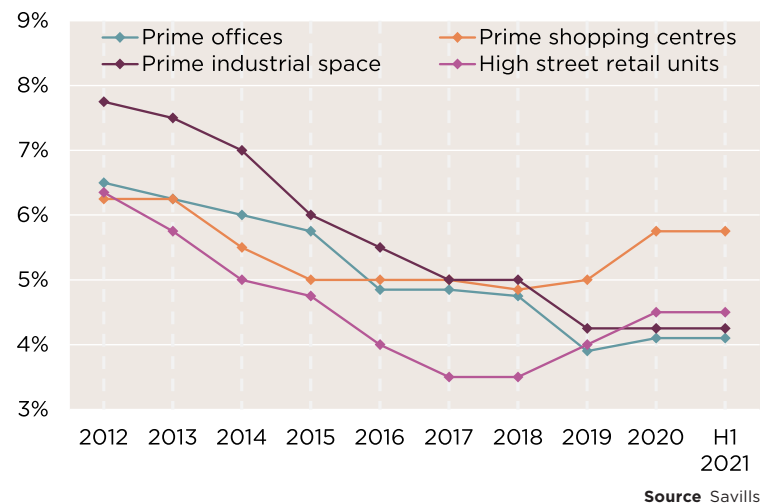


Investment Deals of Q2 2020 - Top 3

PROPERTY	SELLER	BUYER	PRICE RANGE
PROTON THERAPY CENTER (medical, Prague)	Erste Group Immorent	Raiffeisen Leasing	€50-100 million
AVENIR BUSINESS PARK (offices, Prague)	Tristan Capital Partners	AFI Europe	€50-100 million
EXPLORA BUSINESS CENTER (offices, Prague)	Golden Star	Trigea (Partners investiční spol.)	€50-100 million

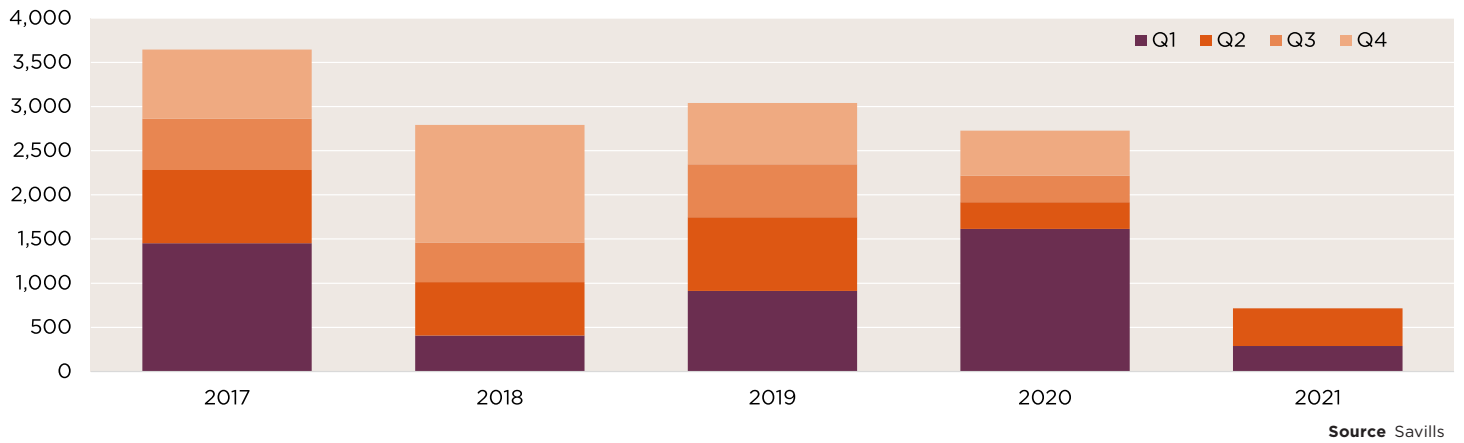
Source Savills

Prime Yields

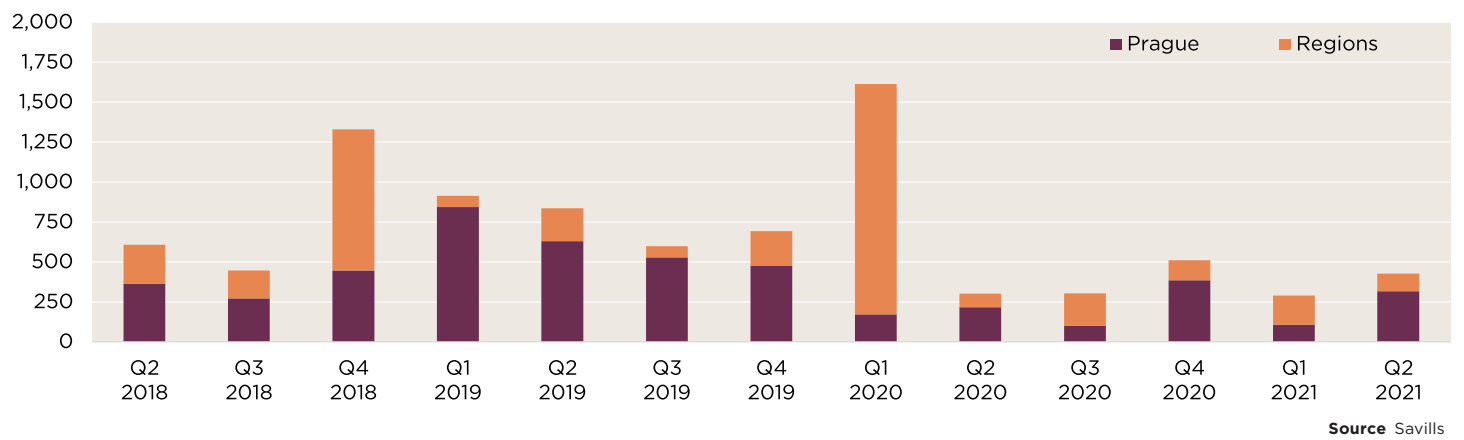


Czech Republic Investment Market - Q2 2021

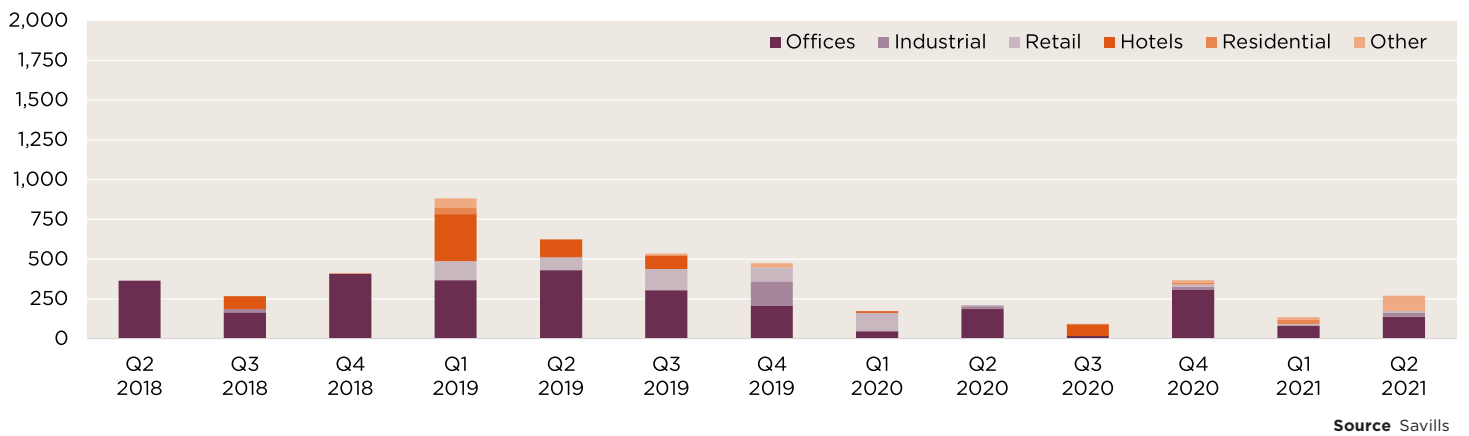
Investment Volumes by Quarter - Czech Republic (€, million)



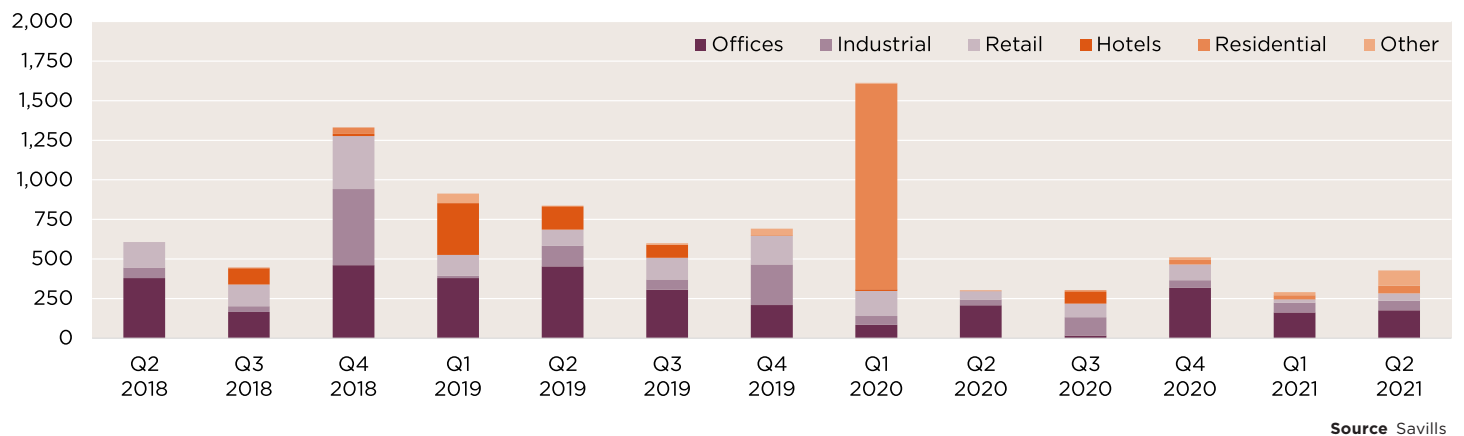
Quarterly Investment Volumes - Prague vs. Regions (€, million)



Quarterly Investment Volumes by Real Estate Sector - Prague (€, million)



Quarterly Investment Volumes by Real Estate Sector - Czech Republic (€, million)





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