

Czech Republic Investment Market



Dům U Červené lišky, Praha

Czech Investment Market in Q4 2021



€628 million
Total investment volume in Q4 2021
(+23% y-o-y)



4.00%
Prime office yield



4.00%
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

GDP GROWTH

1.9%

2021 PREDICTION

CPI INFLATION

3.8%

2021 AVERAGE

NATIONAL UNEMPLOYMENT

2.3%

NOVEMBER 2021

GROSS MONTHLY SALARY

€1,471

(CZK 37,499)
COUNTRY AVERAGE,
Q3 2021

EXCHANGE RATE

25.65

CZK/EUR
2021 AVERAGE

RETAIL SALES

11.7%

Y-O-Y CHANGE,
NOVEMBER 2021

Source Czech Statistical Office, Czech National Bank

INVESTMENT MARKET HIGHLIGHTS: 2021

- Commercial real estate investment volumes in 2021 totalled €1.67 billion, being down 39% y-o-y (but 17% up against the 2020-Residomo excluded volume) and 45% lower than the pre-pandemic year of 2019.
- Total transaction count saw a positive uptick with 72 transactions recorded in the year, 46% more than a year ago and almost on par with the pre-pandemic levels. However, 2021 did not see any transactions over €100 million.
- Offices (36%) and industrial (35%) were the key investment sectors in 2021. Office transaction volume fell 3% y-o-y with the bulk of sales occurring in the final quarter of 2021. Industrial assets saw a very high demand in 2021, posting a 133% y-o-y increase in volume, while the retail sector sank 33% y-o-y.
- The Prague market recorded 29 transactions worth over €884 million in total investment volume.
- Domestic investors were the leading buyer group in 2021 acquiring over €778 million worth of assets (47% of total volume), followed by European buyers at 25%.
- Prime yields remained unchanged for residential and retail asset classes, while mild compression occurred within the office and industrial sector.

ECONOMIC OVERVIEW

- The gradual economic recovery that began in spring 2021 and continued through summer slightly slowed down in the second half of 2021. However, it still remained in positive figures, with GDP demonstrating a 3.1% year-on-year (y-o-y) growth in Q3 2021. The economic growth was mainly driven by increased household consumption caused by spending of the involuntary savings that many households built up during previous lockdowns. According to the projections of the Czech National Bank, the ongoing partial pandemic restrictions will no longer have tangible impact on the economy and the GDP should reach an average growth of 1.9% in 2021. In 2022, the economic recovery shall be supported by the continuously rising household consumption and GDP growth is therefore predicted to accelerate to 3.5%, reaching the pre-pandemic levels at the turn of the year.
- This rather optimistic prognosis may be negatively affected by the persisting problems in the supply chains that have significant impact on the Czech production (especially on the automotive industry). Due to these input shortages, some manufacturers are restricting or even temporarily stopping production. The Ministry of Finance, however, predicts that most supply chain issues will ease down by mid-2022 and the economic growth will speed up in the second half of the year.

INFLATION

- In spite of the Czech National Bank increasing the two-week repo rate to 2.75% in November 2021, the inflation rate surged to 6.6% in December. That brought the annual average inflation to 3.8%, the highest since 2008. The rapid surge in inflation was caused by soaring energy and oil prices. Due to the continuously growing inflation, the two-week repo rate was raised once again in December 2021 to 3.75%. Despite this measure, the Czech National Bank expects that the inflation rate will be pushed to 9% in January, possibly reaching double-digits in the first few months of 2022. It is predicted to start slowing down in Q2 2022 and drop significantly in the second half of the year. The inflation rate should thus once again get close to the 2% target in 2023 and average at 2.1%.

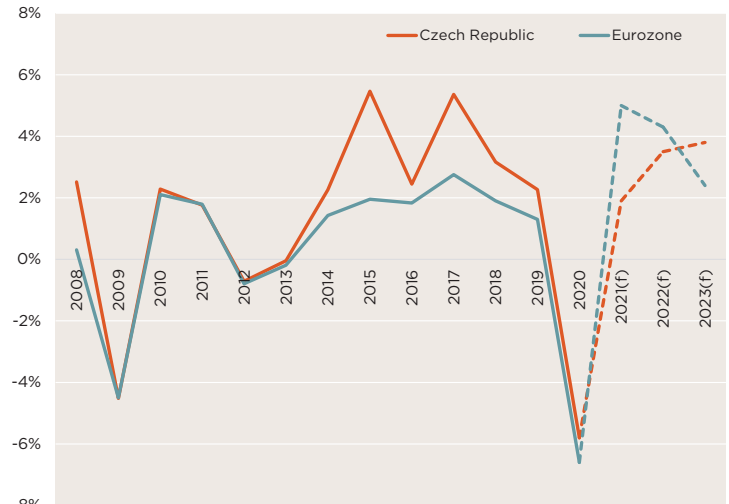
RETAIL SALES

- Total retail sales in November reached an impressive y-o-y growth of 11.7%, the highest increase in 2021. The main contributors to the November growth were apparel and footwear sales (+283.5% y-o-y) and generally non-food sales, which posted a 20.8% y-o-y increase. Automotive sales remained in negative figures and demonstrated a 1.5% y-o-y decline, which was caused by ongoing component shortages and production cutbacks. The overall retail sales growth was mainly driven by improving pandemic situation, previously deferred consumption and spending of the pent up savings. Total retail sales are predicted to rise in the coming months but could be negatively affected by high inflation and a potentially worsening pandemic situation.

UNEMPLOYMENT

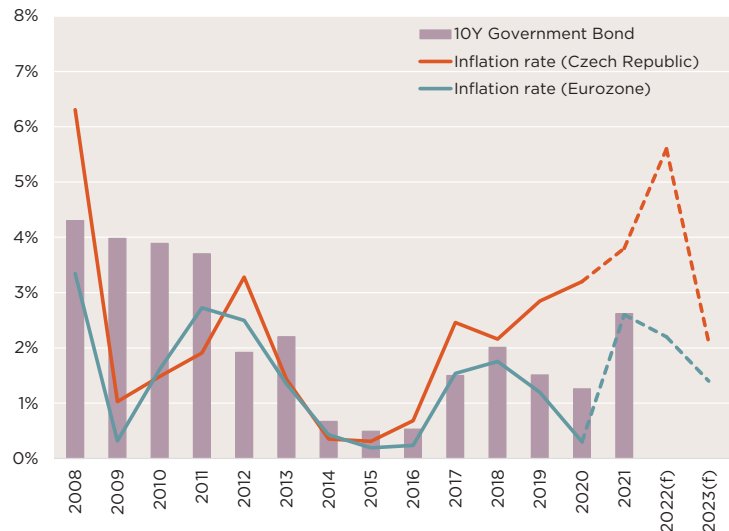
- Following the reopening of the economy in spring 2021, the general unemployment rate* dropped significantly from 3.3% in January to 2.3% in November 2021. Although the rate of unemployment was the lowest since April 2020, it got back to levels typical in 2018 and 2019 (before the Covid-19 crisis). In absolute figures, the number of unemployed persons fell from 170,388 in January to 118,751 in November 2021. The Czech National Bank expects the 2021 annual unemployment rate to reach an average of 3.1%. The general unemployment rate in the Czech Republic is projected to pursue its fall and reach 2.8% in 2022 and 2.7% in 2023. However, the room for further decline is limited by the fact that Czech unemployment rate is already the lowest in the European Union (in November 2021 standing 420 basis points below the EU average of 6.5%).

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



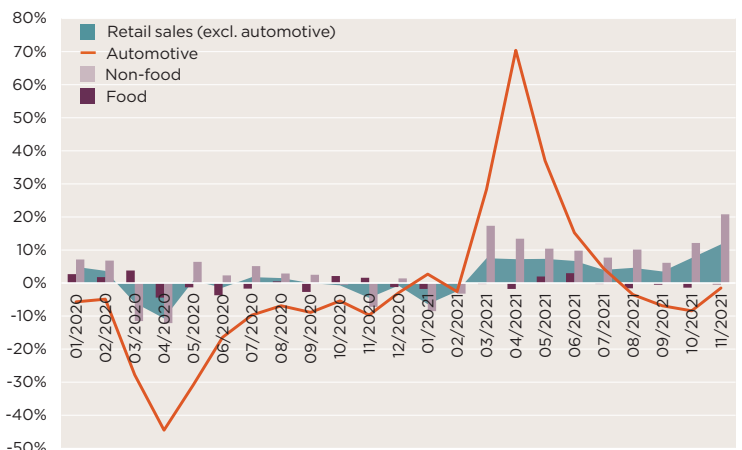
Source Oxford Economics, Czech National Bank, European Economic Forecast

Inflation Rate and 10Y Government Bond



Source Oxford Economics, European Economic Forecast, Eurostat, Czech National Bank

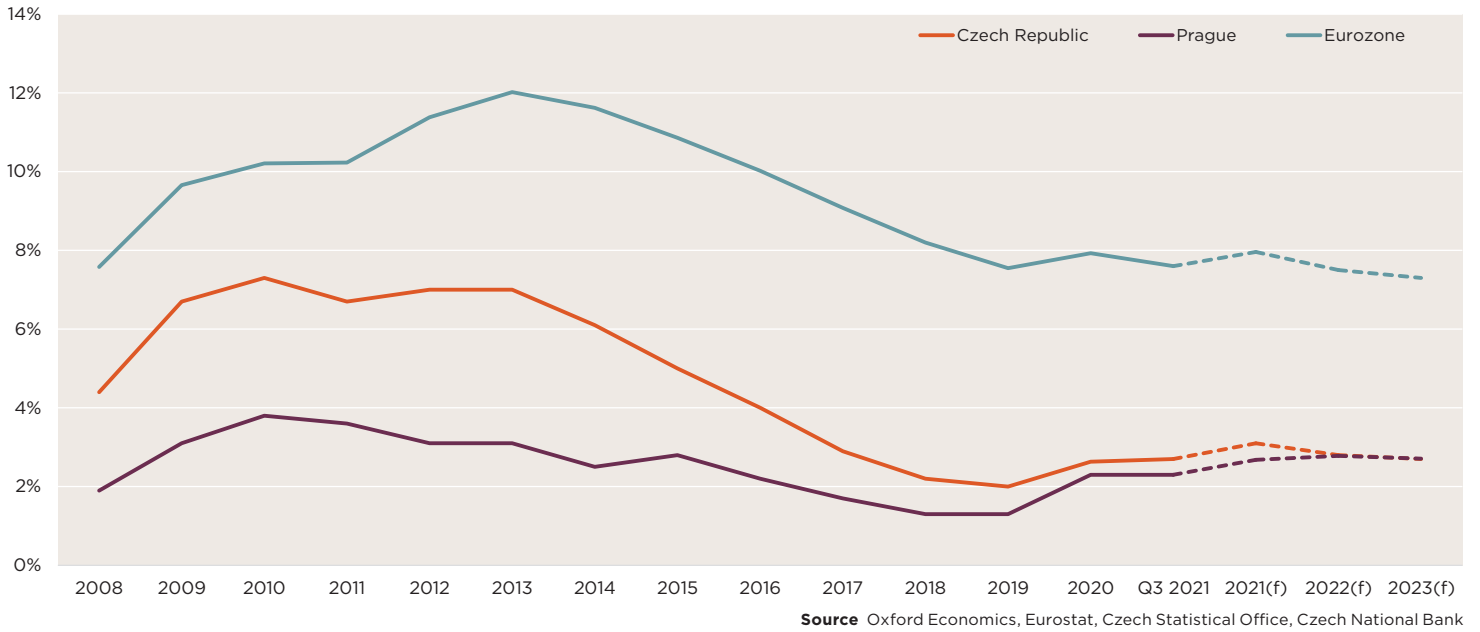
Retail Sales (y-o-y change, %)



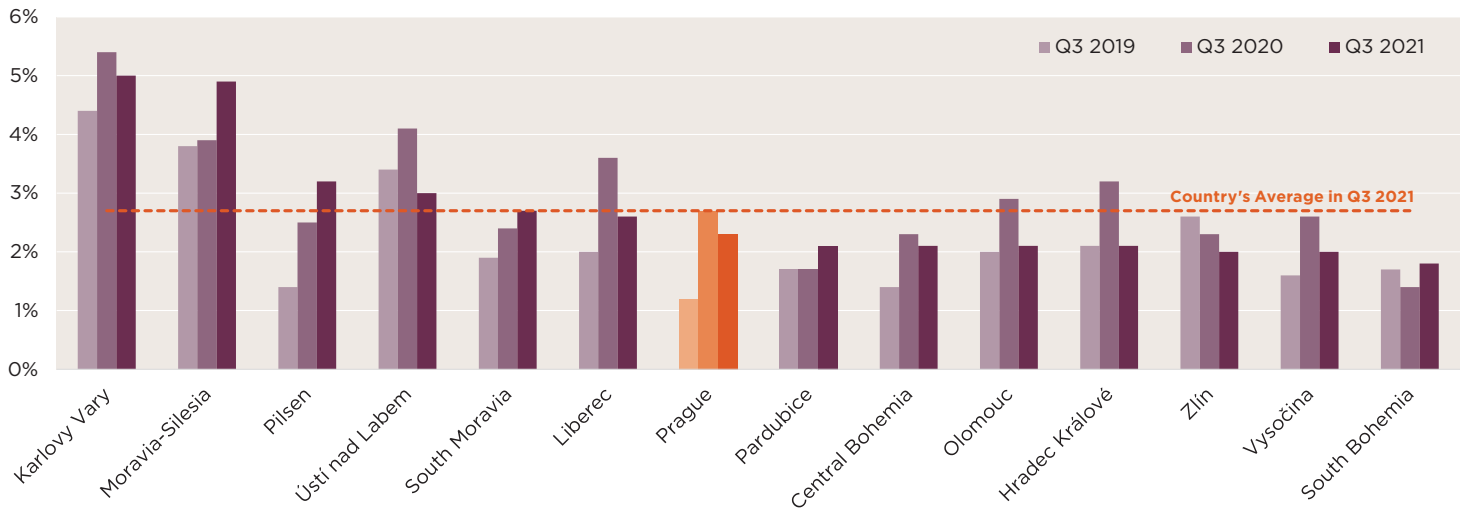
Source Czech Statistical Office, Savills Research

* General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people)

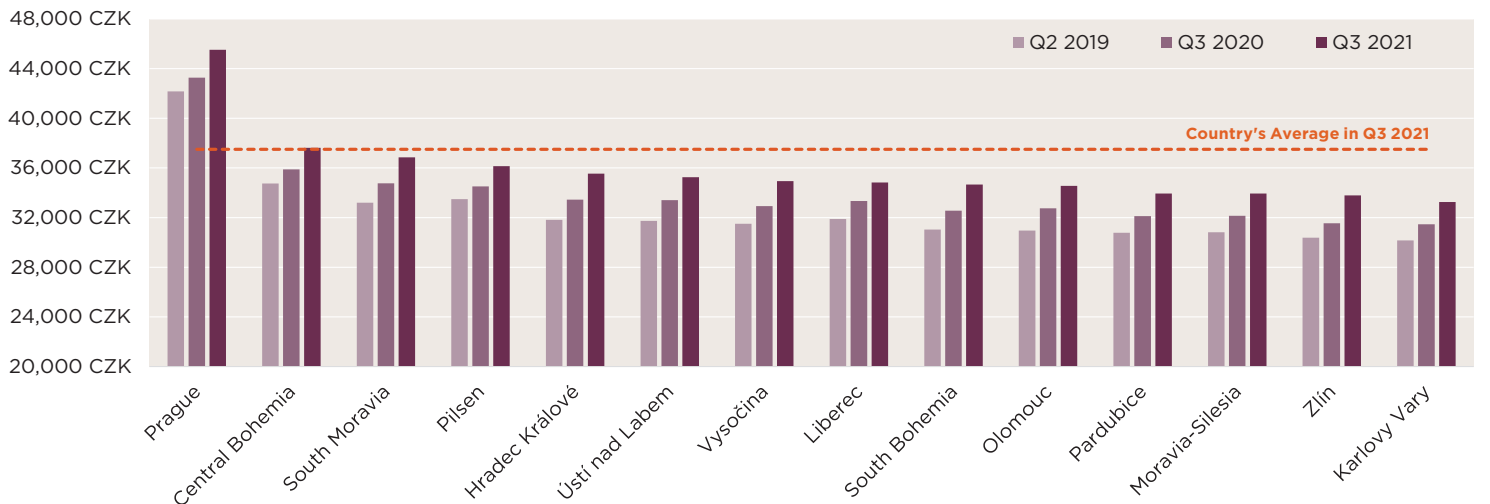
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



INVESTMENT MARKET OVERVIEW - Q4 2021

- Q4 was the busiest quarter of the year with 30 closed transactions and a total volume exceeding €628 million. This was the highest quarterly investment volume since Q1 2020 (which was, however, severely boosted by the €1.3 billion deal) and 23% improvement on Q4 2020 volume.
- Compared to the previous quarter, the transactional volume was up in all key real estate sectors. Industrial was the most active asset class for the second quarter in a row and in Q4 made over €286 million (46% of the quarter's volume), the highest quarterly volume since Q4 2018. Office investment activity also picked up and exceeded €221 million (35% of total), which was the sector's highest quarterly volume seen in 2021. On a year-on-year view, investment activity shifted significantly from offices (31% drop in volume compared to Q4 2020) to the industrial sector (521% increase in volume y-o-y). Retail schemes accounted for 16% of the Q4 volume and totalled €97 million.
- Of the 30 transactions, thirteen were industrial assets, nine transactions were made in the retail sector (largely in the regional cities) and six were Prague office buildings.
- The average transaction size fell again from the previous quarters' €23 million to €21 million, while the quarterly average for 2018-2019 was around €40.5 million.
- Domestic investors were behind 50% of total investment volume in Q4, spending over €314 million, and acquired 21 properties. The largest volume of the foreign capital in Q4 originated from the USA.
- For the fourth quarter of 2021, Prague had 11 transactions for just over €361 million in total value, while 19 transactions totalling €267 million occurred in the regional markets.

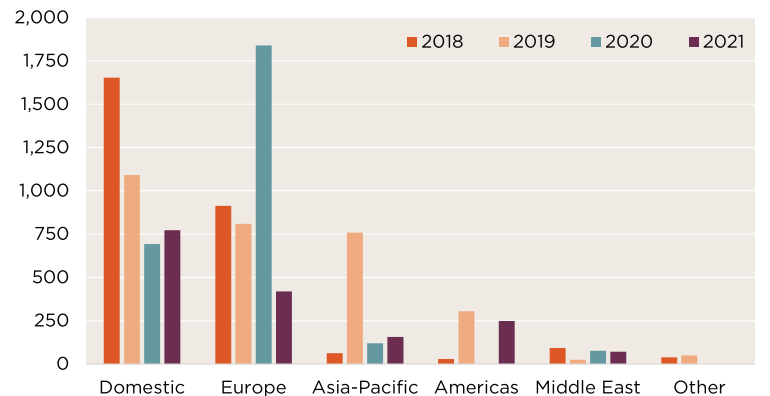
PRIME YIELDS

- Reflecting the high demand in the industrial sector, prime yields hardened by 25 bps, to 4.00%. The prime office yield also hardened slightly, by 10 bps to 4.00%. Other sectors remained unchanged from the previous quarter, with prime shopping centers at 5.75%, prime high street at 4.50% and prime residential at 4.00%.

OUTLOOK

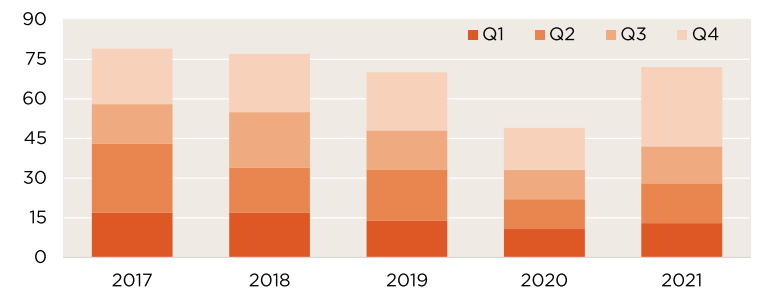
- Although investment volumes are not at pre-pandemic levels yet, transaction velocity is building with each quarter and considering the deals expected to close in the next 12 months, 2022 is expected to end stronger, with annual volumes likely to exceed €2 billion.
- The industrial and logistics sector continues to draw strong investor interest and this growth momentum is likely to continue in 2022. Despite record construction occurring throughout the country, demand for quality industrial space continues to surpass supply and rents are therefore likely to remain at their new higher levels or even increase further.

Source of Capital (€, million)



Source Savills

Number of Transactions Closed in a Quarter



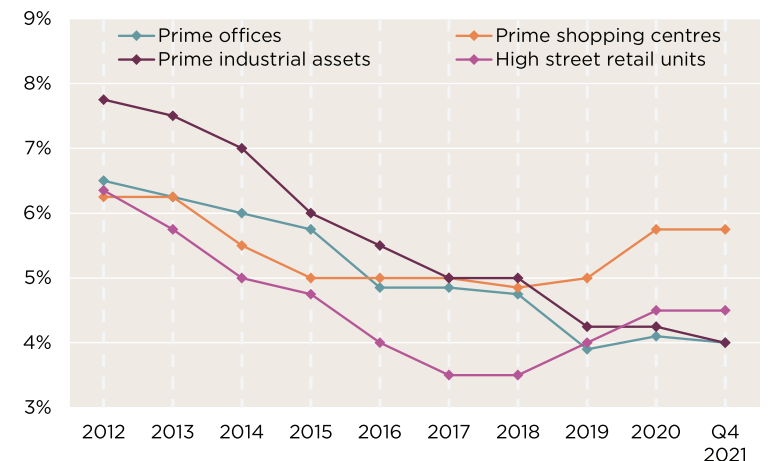
Source Savills

Investment Deals of 2021 - Top 3

PROPERTY	SELLER	BUYER	PRICE RANGE
GENERALI HQ (offices, Prague)	CPI	Generali	€75-100 million
PROTON THERAPY CENTER (medical, Prague)	Erste Group Immorent	Raiffeisen Leasing	€75-100 million
P3 PORTFOLIO (industrial, regional)	P3 Logistic Parks (GIC)	CGL Investment Holdings Corp.	€75-100 million

Source Savills

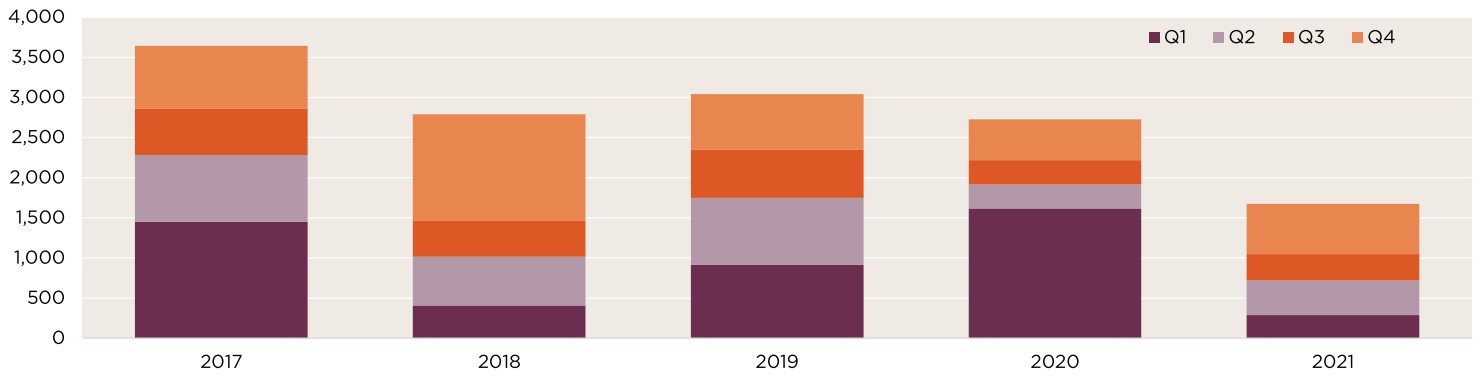
Prime Yields



Source Savills

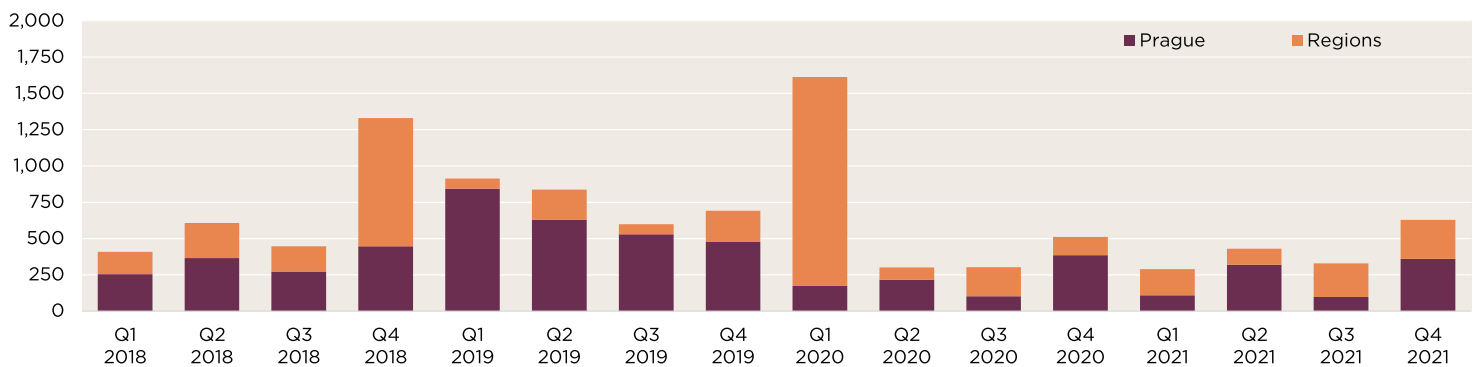
Czech Republic Investment Market - Q4 2021

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



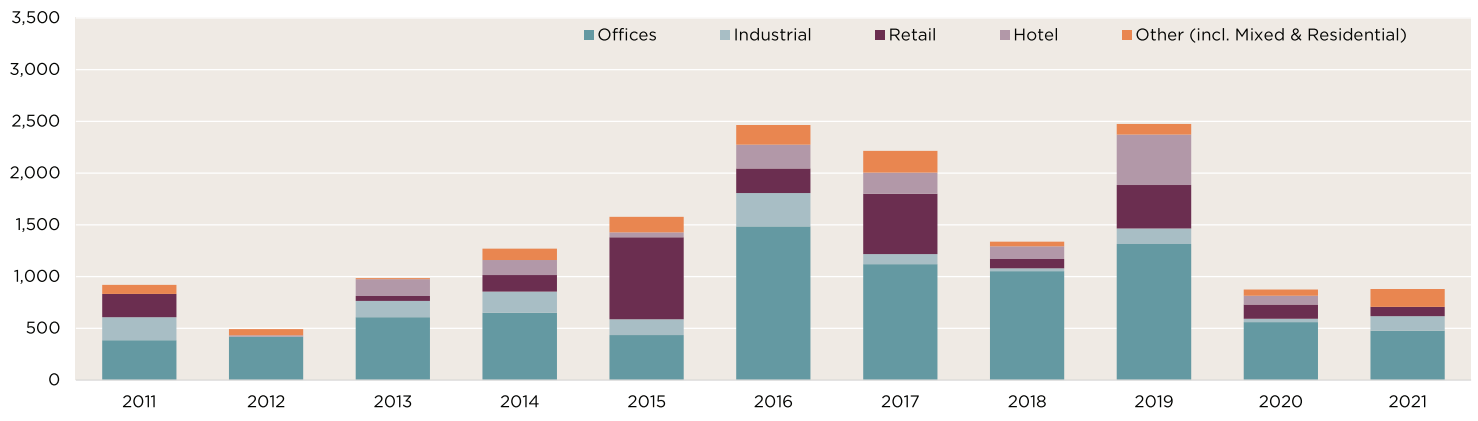
Source Savills

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



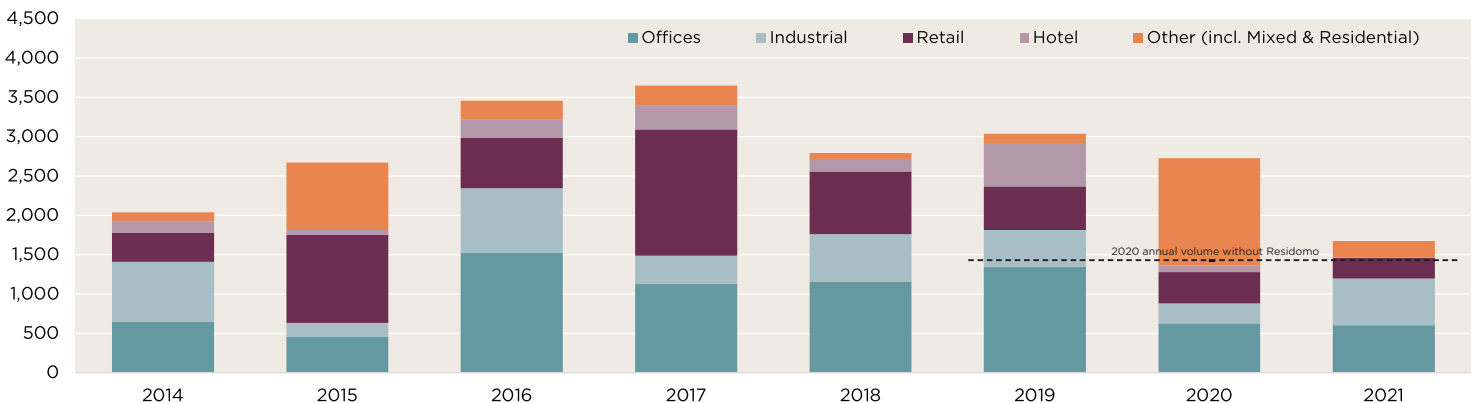
Source Savills

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



Source Savills

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



Source Savills



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