

Czech Republic Investment Market



Coral Office Park, Prague

Czech Investment Market in Q1 2022



€898 million
Total investment volume in Q1 2022 (+210% 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

<p>GDP GROWTH</p> <p>0-1.2% 2022 PREDICTION</p>	<p>CPI INFLATION</p> <p>3.8% 2021 AVERAGE</p>
<p>NATIONAL UNEMPLOYMENT</p> <p>2.5% FEBRUARY 2022</p>	<p>GROSS MONTHLY SALARY</p> <p>€1,471 (CZK 40,135) COUNTRY AVERAGE, Q4 2021</p>
<p>EXCHANGE RATE</p> <p>24.38 CZK/EUR AS OF 31/3/2022</p>	<p>RETAIL SALES</p> <p>4.6% Y-O-Y CHANGE, FEBRUARY 2022</p>

Source Czech Statistical Office, Czech National Bank

INVESTMENT MARKET HIGHLIGHTS: Q1 2022

- In the Czech Republic, €898 million worth of investments were traded in Q1 2022, demonstrating a 210% year-on-year (y-o-y) increase. Without the Residomo transaction which was closed in Q1 2020, this quarter's investment volume would be the highest since Q1 2019.
- Although the quarterly transaction count fell significantly, the average transaction size more than doubled compared to the previous 12-quarter average.
- The office sector regained its dominance with 58% of Q1 volumes. Activity also picked up in the retail sector with volumes in the sector accounting for 29% of the market, while the share of industrial assets in Q1 volume dropped to 14%.
- With a transaction volume of €519 million, Prague attracted the most capital in Q1 and saw five transactions close.
- The total transaction volume was largely led by domestic investors who acquired five properties worth more than €435 million (48% of total volume), followed by European buyers at 39%.
- Following a slight correction in industrial and office yields in Q4 2021, there have been no further changes in prime yields in the first three months of 2022 in any sector.

ECONOMIC OVERVIEW

- The recovery in trade, transport and hospitality, the sectors affected the most by the pandemic restrictions, had positive effect on GDP growth in the final months of 2021. As a result, the annual economic growth exceeded previous forecasts of the Czech National Bank and reached 3.1% y-o-y. Economic predictions for 2022 are continually being revised to reflect the impacts of the ongoing war in Ukraine, which will surely include persisting supply chain disruptions, shortage of semiconductors and raw materials, staff decline and rising input prices. Another factor that is likely to negatively impact the Czech economy could be rising prices of goods, services and energy, which will outstrip salary increase this year and thus reduce household consumption. Consequently, the latest predictions have downgraded the expected economic growth in 2022 to somewhere between 0% and 1.2%, while economic activity in 2023 will also be affected.

INFLATION

- Rising inflation is likely to be one of the factors affecting consumer confidence in 2022. In 2021, the average annual rate of inflation climbed to 3.8%, being the highest since 2008. However, in the first three months of 2022, inflation surged further and in March 2022 consumer prices rose 12.7% y-o-y. Fuel, gas and electricity prices have seen the most significant price increase. To address rising inflation, the Czech National Bank has raised base interest rates several times from mid-2021. In March 2022, the latest increase brought the two-week repo rate to 5.0% (while in June 2021 it stood at 0.5%). All predictions published prior to Russia's invasion to Ukraine are being adjusted to reflect the commodity price spike caused by the war in Ukraine. Although the government is currently considering various measures to fight inflation, the latest projections signal that the Czech Republic is set to face double-digit inflation for the rest of 2022, hence the annual average inflation is also expected to reach double-digits.

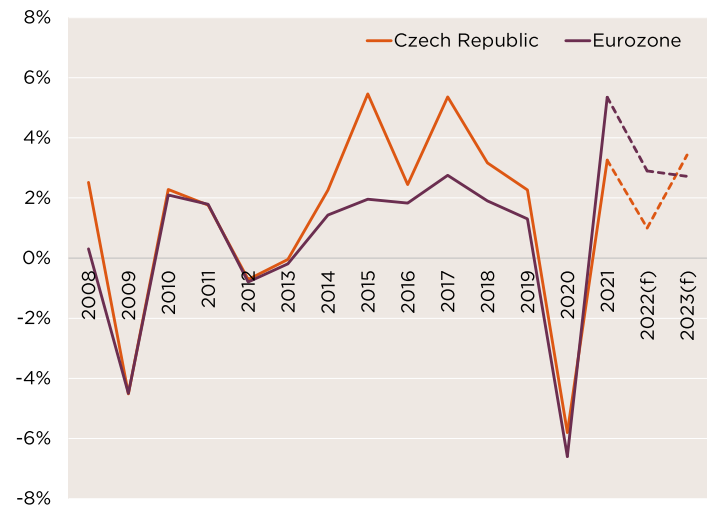
RETAIL SALES

- Retail sales in February 2022 increased by 4.6% y-o-y, with fuel sales up by 12.3%, non-food sales up by 9.8% whereas food sales fell by 3.8%. The growth in retail sales in February was driven by purchases of non-food goods in brick-and-mortar stores, which had been restricted last year. Less used were online stores, which reported a y-o-y decline in sales. All ranges of non-food goods recorded higher demand. Sales in specialised stores selling clothing and footwear increased by 119.3%, culture, sport and recreation products by 34.6%, household products by 17.3%, computer and communication equipment by 11.3%, cosmetics and toiletries by 8.5% and pharmaceutical and medical goods by 4.2%. The demand of the upcoming years will be negatively affected by high inflation, rising interest rates as well as the Russian-Ukrainian conflict. Analysts therefore predict rather slow growth and gradual recovery. On top of this, demand is being dampened by problems in supply chains. Customers are not able to buy goods because they are simply out of stock and waiting periods reach several months.

UNEMPLOYMENT

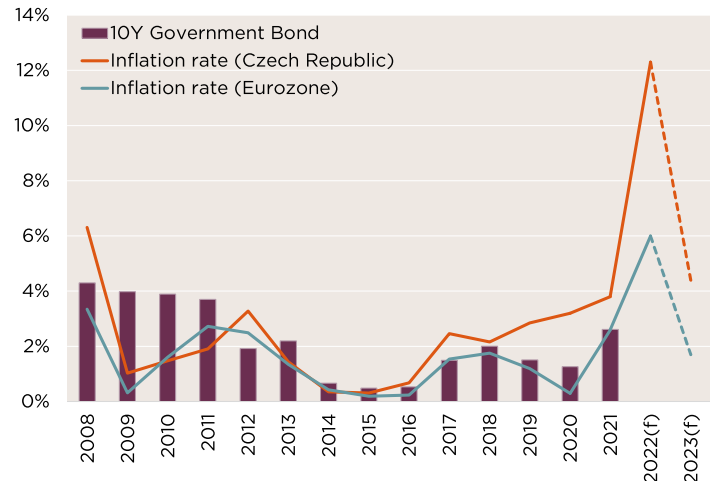
- The general unemployment rate* started to decline significantly after easing up the pandemic restrictions in the first half of 2021 and averaged at 2.8% in 2021. At the end of March 2022 the unemployment rate stood at 2.6%. However, it is predicted that the decline will be slowed down slightly throughout 2022, following a temporary cutbacks in industrial production. After the problems with supply chains will be resolved, a decline in the unemployment rate is expected, reaching 2.5% on average in 2022. However, the room for a more significant reduction has been exhausted since the Czech labour market is known for its high saturation. The war conflict in Ukraine will most likely have an impact on labour market too, but it is still hard to predict. The migration of unskilled workers to the Czech Republic could squeeze the unemployment rate even lower, since the main problem of domestic labour market is especially lack of unskilled employees.

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



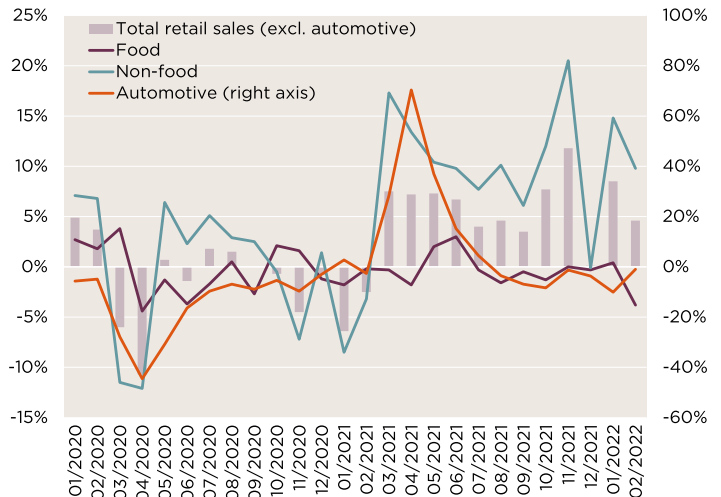
Source Oxford Economics

Inflation Rate and 10Y Government Bond



Source Eurostat, Czech National Bank, Ministry of Finance

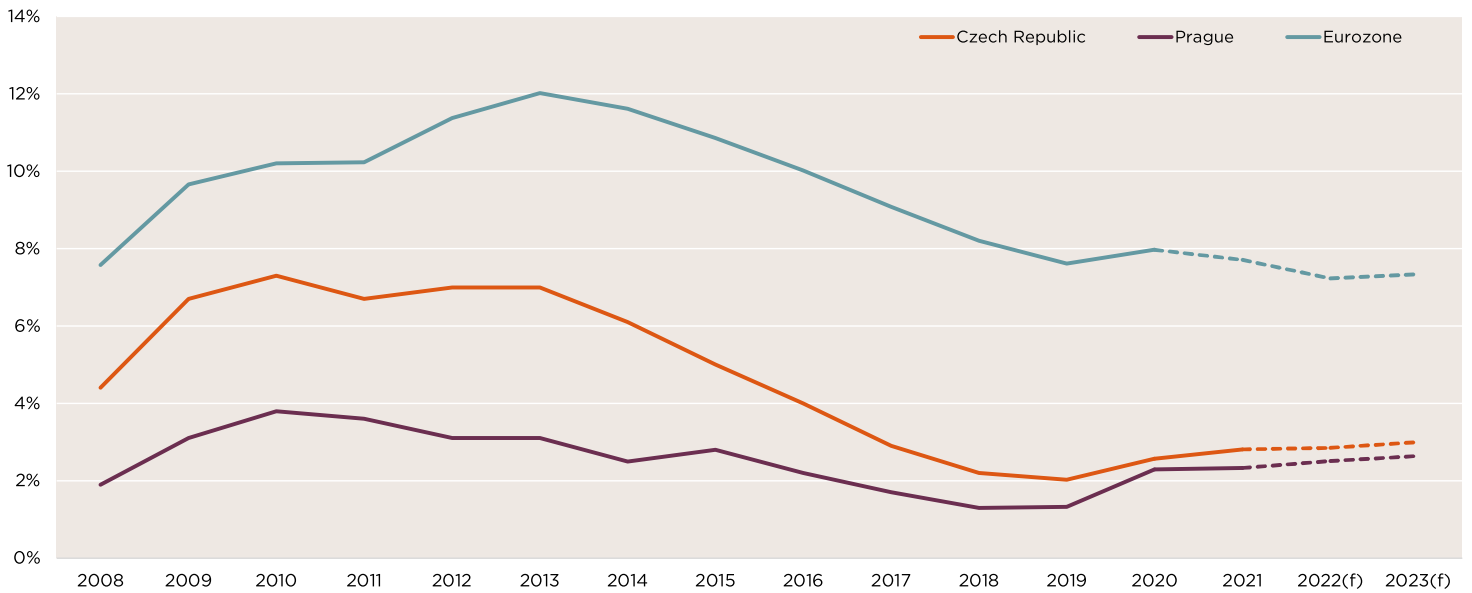
Retail Sales (y-o-y change, %)



Source Czech Statistical Office

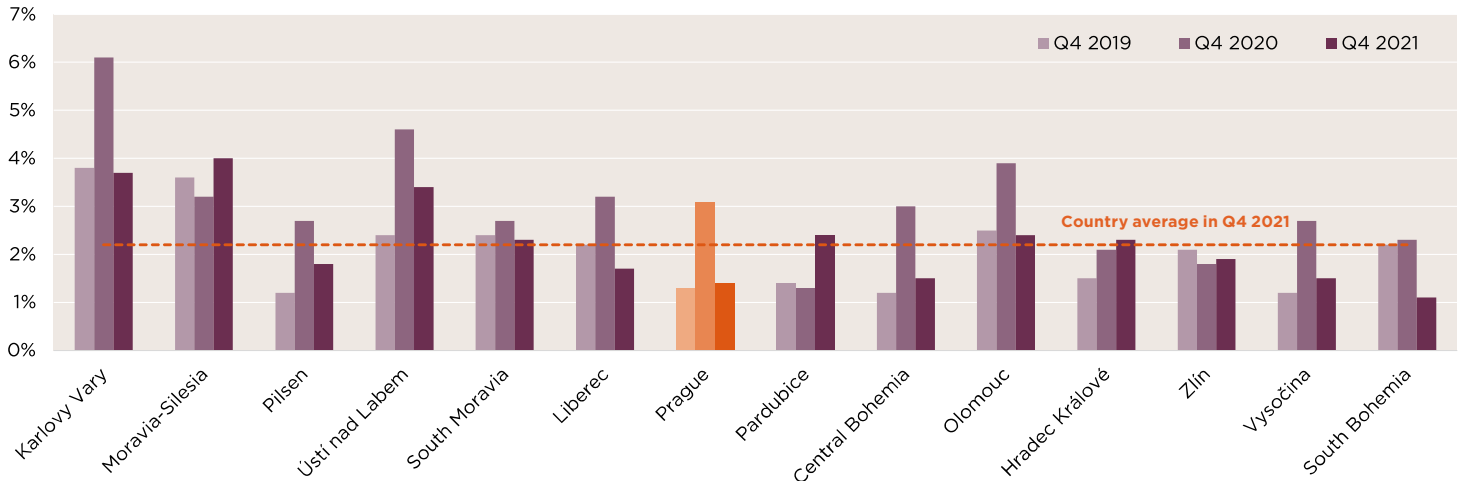
* General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people)

Unemployment Rate



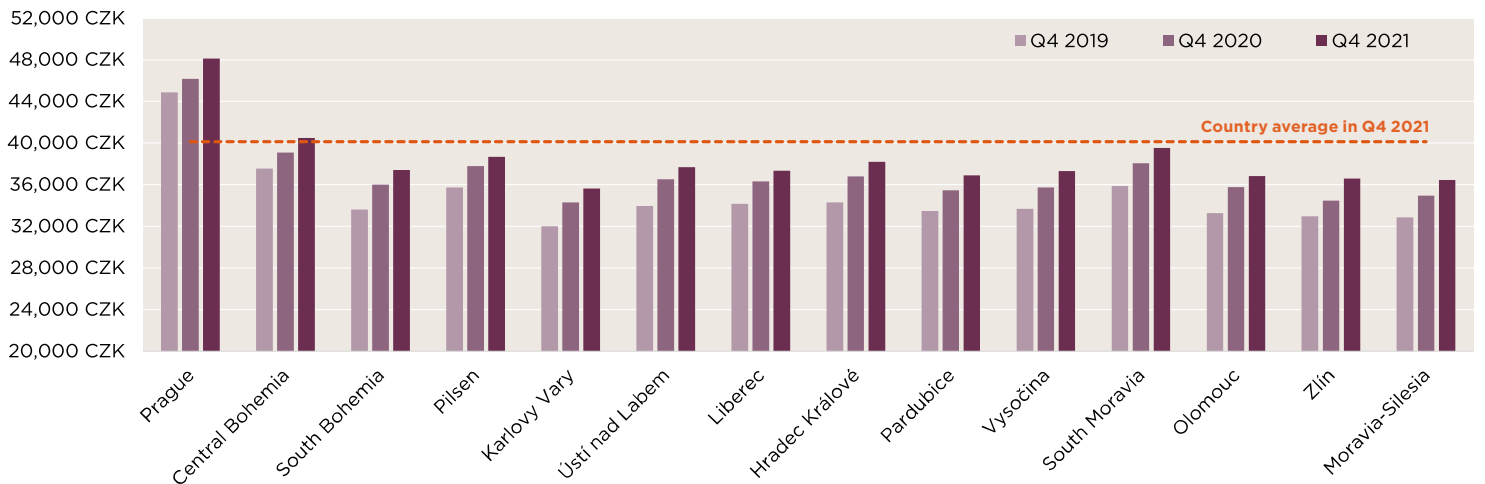
Source: Oxford Economics, Eurostat, Czech Statistical Office

Czech Republic Regional Unemployment Rate



Source: Czech Statistical Office

Czech Republic Regional Gross Monthly Salary



Source: Czech Statistical Office

INVESTMENT MARKET OVERVIEW - Q1 2022

- Transaction volumes for Q1 were up 210% compared with the same period in 2021, which was affected by the Covid-19 pandemic. At €898 million, the quarter’s investment volume was 45% above the past 12-quarter average and only €15 million lower than in the pre-pandemic Q1 2019.
- The office sector showed a strong rebound in Q1 2022. From the previous quarter, office investment volume increased by 134% to nearly €519 million. This was also 218% above the sector’s Q1 2021 volume and the highest since Q4 2016 when Florentinum and The Park (both among the largest office schemes in Prague) traded. All of the office properties that changed hands in Q1 2022 were located in Prague, the Prague investment volume therefore totalled €519 million. Revival in transaction activity was also witnessed in the retail segment. In Q1 2022, transactions involving retail assets have totalled €257 million, being more than ten times higher than in Q1 2021 and the highest volume since Q4 2018. From the previous quarter, investments in industrial properties have fallen by 57% and totalled €122 million, or 14% of the overall investment volume across all asset classes. Despite this drop, the sector’s volume still surpassed the Q1 2021 figures by 100%.
- Thanks to a number of larger trades, the average transaction size in Q1 2022 increased to nearly €100 million, standing €57 million above the previous 12-quarter average.
- The Czech investment market continued to be dominated by domestic investors who transacted over €435 million and formed 48% of the investment volume in Q1. European capital (excluding domestic buyers) represented 39% of Q1 volumes and the remaining 13% originated from the USA.

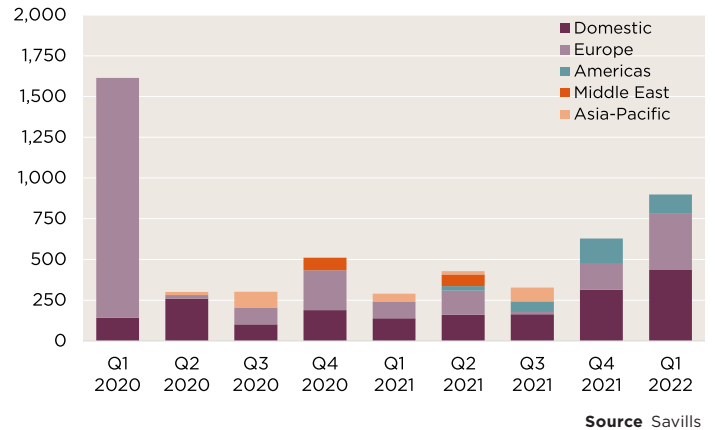
PRIME YIELDS

- Prime yields remained unchanged across all sectors in Q1 2022. Prime office, industrial and residential yields all stayed at 4.00% and the best performing shopping centres in Prague were still estimated at 5.75%, while the market still waits for new transaction evidence.

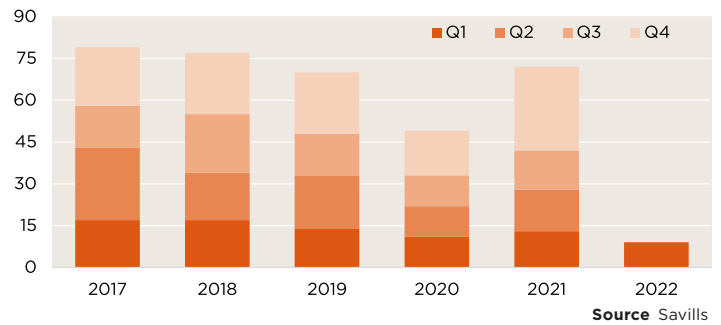
OUTLOOK

- 2022 started with optimism for a more stable investment environment “after COVID”, but then Russia’s invasion of Ukraine emerged as another black swan event that is rattling the markets and global economy. As a result, the Czech Republic (and the whole CEE region) is likely to see less international capital coming to the market and investment volumes are expected to be lower than previously anticipated.
- Notwithstanding the above however, the Czech Republic continues to be an investible proposition and those familiar with the market - primarily domestic and existing regional investors - are expected to continue transactional activity. The ever-present theme of ‘lack of product’ continues to hamper the Czech market’s transactional volumes.
- The threat of interest rate rises is a hot topic and something that is at the forefront of investors’ thought processes. We have already seen interest rate swap pushed up over the last few months and debt costs therefore increasing from where they were even in Q4 2021. A higher cost of debt throughout 2022 is forecast, and the resulting implications that this has on pricing will be seen as transactions are concluded.
- Despite very strong investment volume recorded in Q1, the remaining three quarters are not expected to see similar transaction activity. Full-year investment volume in 2022 is still anticipated to exceed 2021 figures and shall beat the €2 billion value.

Source of Capital (€, million)



Number of Transactions Closed in a Quarter

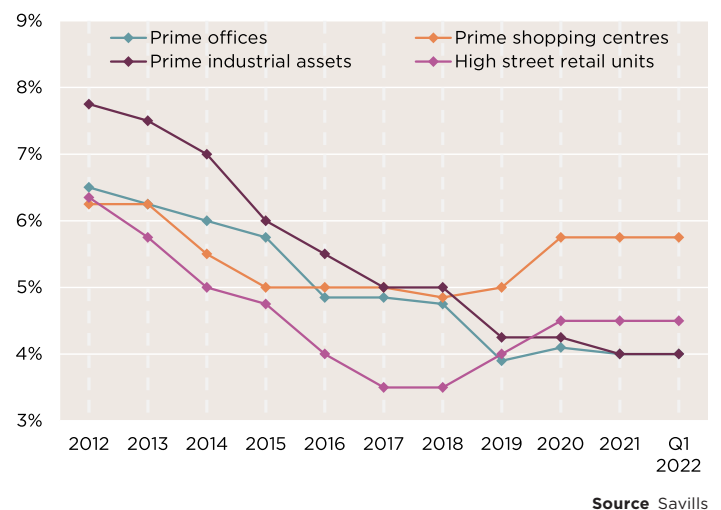


Investment Deals of Q1 2022 - Top 3

PROPERTY	SELLER	BUYER	PRICE RANGE
IGY CENTRUM & CITY PARK (retail, regional)	CPI	365 Invest (J&T)	over €200 mil.
BOŘISLAVKA CENTRUM (offices, Prague)	KKCG	REICO	over €200 mil.
CPI PORTFOLIO (industrial, regional)	CPI	Hines	€100-150 mil.

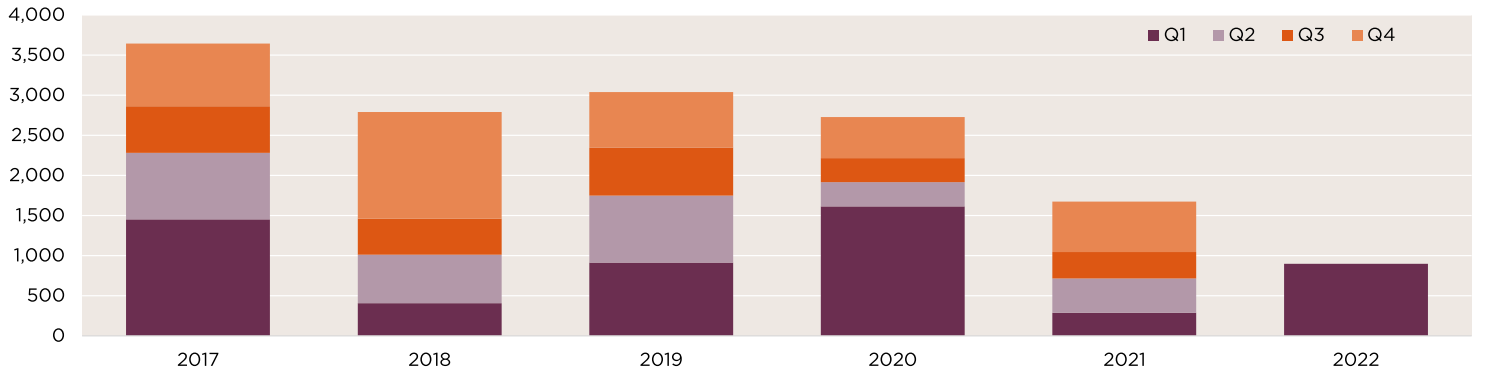
Source Savills

Prime Yields



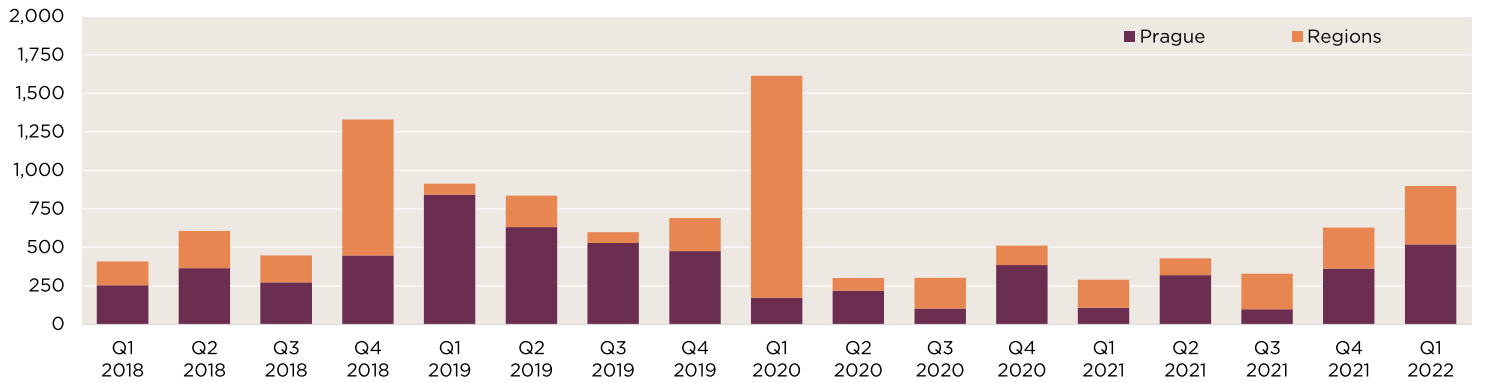
Czech Republic Investment Market - Q1 2022

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



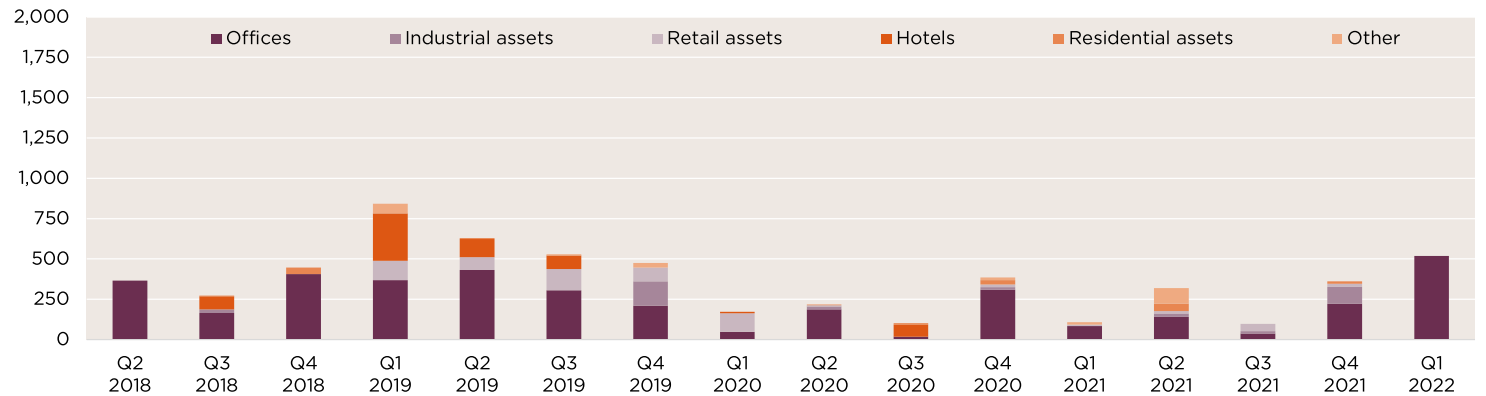
Source Savills

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



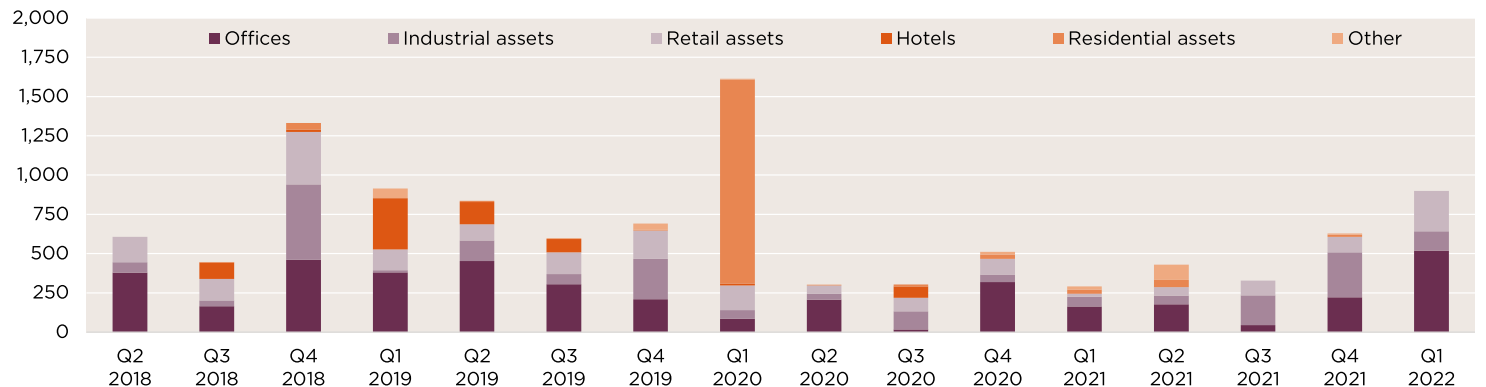
Source Savills

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



Source Savills

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



Source Savills



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