

Czech Republic Investment Market



Red Court, Prague

Czech Investment Market in Q2 2022



€252 million
Total investment volume in Q2 2022
(-41% y-o-y)



4.50%
Prime office yield



4.25%
Prime industrial yield



6.00%
Prime shopping centre yield



4.75%
High street retail yield



4.25%
Prime residential yield²

Source Savills Research

ECONOMIC OVERVIEW ¹

<p>GDP GROWTH</p> <p>0.8% 2022 PREDICTION</p>	<p>CPI INFLATION</p> <p>13.9% 2022 ANNUAL FORECAST</p>
<p>NATIONAL UNEMPLOYMENT</p> <p>2.5% MAY 2022</p>	<p>GROSS MONTHLY SALARY</p> <p>€1,546 (CZK 37,929) COUNTRY AVERAGE, Q1 2022</p>
<p>EXCHANGE RATE</p> <p>24.53 CZK/EUR AS OF 22/7/2022</p>	<p>RETAIL SALES</p> <p>-6.9% Y-O-Y CHANGE, MAY 2022</p>

INVESTMENT MARKET HIGHLIGHTS: H1 2022

- Thanks to strong activity in Q1, total investment volume for the first half of 2022 increased by 60% year-on-year (y-o-y) and totalled €1.15 billion.
- Across the country, buyers completed 22 transactions in H1 2022, with an average size of €52 million. The number of transactions decreased 21% from 28 deals recorded in H1 2021, while the average deal size increased 103% from €26 million in H1 2021.
- The office sector was the most sought after in H1 2022, with volume increasing 79% y-o-y to €598 million (being 52% of the H1 2022 volume). Retail assets followed with a share of 30% (€340 million, up 354% y-o-y) and industrial properties accounted for 17% (totalling €190 million, which was 63% up y-o-y).
- Although majority of transactions took place in the regional markets (13 vs. 9 in Prague), the capital city attracted 52% of the H1 transaction volume.
- Total transaction volume was largely led by domestic investors who acquired properties worth more than €607 million (53% of total volume), followed by European buyers at 36%.

Sources Czech Statistical Office, European Economic Forecast, CNB

1) Based on the data available on 22/07/2022.

2) Residential buildings in Prague with more than 50 apartments intended for long-term lease.

ECONOMIC OVERVIEW ¹

- According to the latest data, real GDP growth would slow significantly this year and economic activity would even fall slightly y-o-y in the second half of the year due to rising financial costs and reduced real incomes, which would hamper all economic activity. Economic growth is also being held back by problems in global production and supply chains, further exacerbated by the war in Ukraine, and by deteriorating sentiment among Czech firms and households. Problems in global production and supply chains are expected to ease gradually against the backdrop of a gradual de-escalation of the war, but will not fully subside until the middle of next year. Output growth for 2023 is revised downwards in line with the deteriorating global macroeconomic outlook and is forecast to slow significantly below 1% in annual terms this year. However, GDP growth is forecast to accelerate to over 3% in 2023, surpassing its pre-pandemic level.

INFLATION ¹

- The Czech economy is facing a combination of exceptionally strong inflationary pressures, which are reflected in escalating broad-based price growth. Inflation is forecast to peak in Q3 2022, reaching 16% y-o-y, but to decline afterwards, when the impact of the loss of real income and the effectiveness of tightened monetary policy are expected to prevail, averaging 13.9 % y-o-y in 2022. Core inflation will continue to reflect both strong output price dynamics at home and abroad and the fading of noticeable domestic cost and demand pressures. In response to the long-term inflationary pressures, the Czech National Bank raised the two-week repo rate to 7% (while in June 2021 it stood at 0.5%). This year's double-digit inflation will thus decline rapidly in the first half of next year, with the rapid rise in interest rates so far contributing substantially. Inflation is projected to decline towards 4.5% y-o-y in 2023, supported by well-anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.

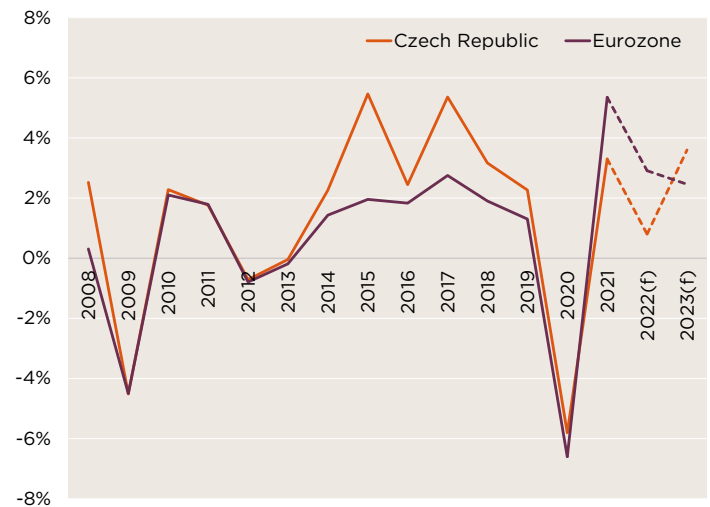
RETAIL SALES ¹

- In May 2022, retail sales fell by 6.9% y-o-y in real terms, with non-food goods falling by 7.6%, food by 6.3% and fuel by 5.2%. Retail sales declined in all sales categories except pharmaceuticals, health care and drugstores. Sales in specialised clothing and footwear stores fell by 15.3%, culture, sport and recreation by 14.8%, computer and communication equipment by 9.8% and household goods by 9.0%. On the other hand, sales growth was recorded by pharmaceutical and health care stores by 5.5% and cosmetic and toiletries stores by 4.4%. Sales to online stores fell for the fifth month in a row, this month by 10.1% but were up by more than a third compared to pre-pandemic year 2019. Sales and repair of motor vehicles rose by 1.4% in real terms month-on-month and declined by 8.1% y-o-y. The main reason for the reduction in consumption is rising inflation, which in combination with the sharp rise in the cost of living makes households reassess wasteful spending. Thus further declines in real turnover of shops and service firms can be expected in the upcoming months.

UNEMPLOYMENT ¹

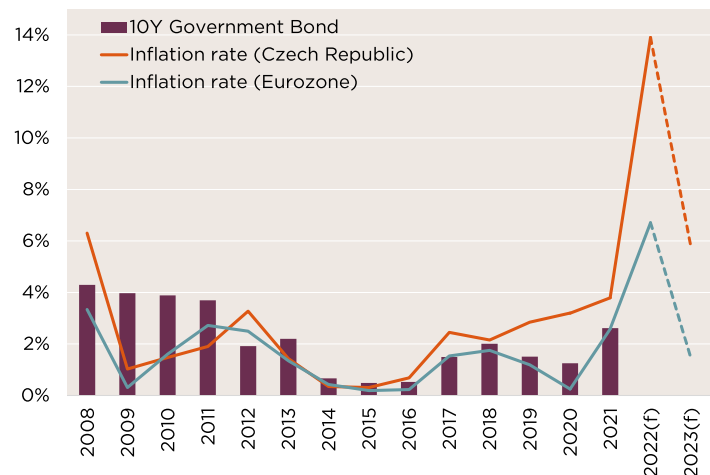
- The unemployment rate² reached 2.5% in May this year, which is the same level as in the previous quarter. On a y-o-y basis it fell by 0.7%, which represented the mildest y-o-y decline since January this year. The Czech labour market continues to be affected by seasonal work, which is in full swing, especially in construction, gastronomy, tourism, agriculture and horticulture, but also in forestry, fishing, spa and mining. In the upcoming months, unemployment should stop decreasing, but at the same time it will not rise significantly. According to analysts, there is still a shortage of employees on the labour market, despite migration from Ukraine. However, no other EU country has unemployment below 3% and the Czech Republic still remains the country with the lowest unemployment rate in the European Union.

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



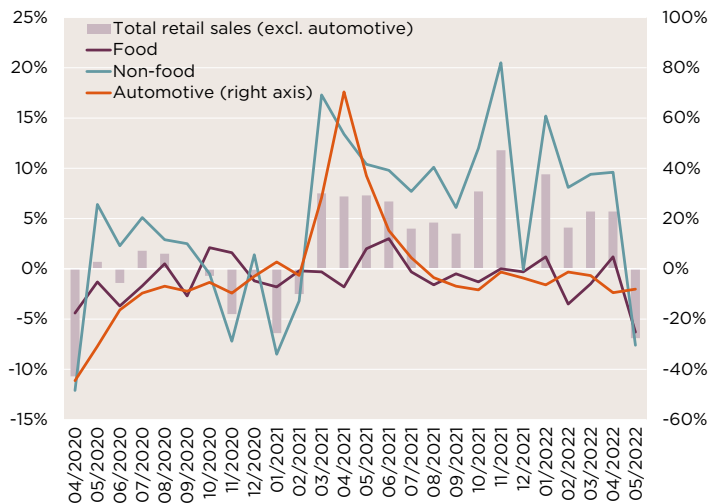
Source European Economic Forecast, Czech National Bank

Inflation Rate and 10Y Government Bond



Source Eurostat, Czech National Bank, Ministry of Finance

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

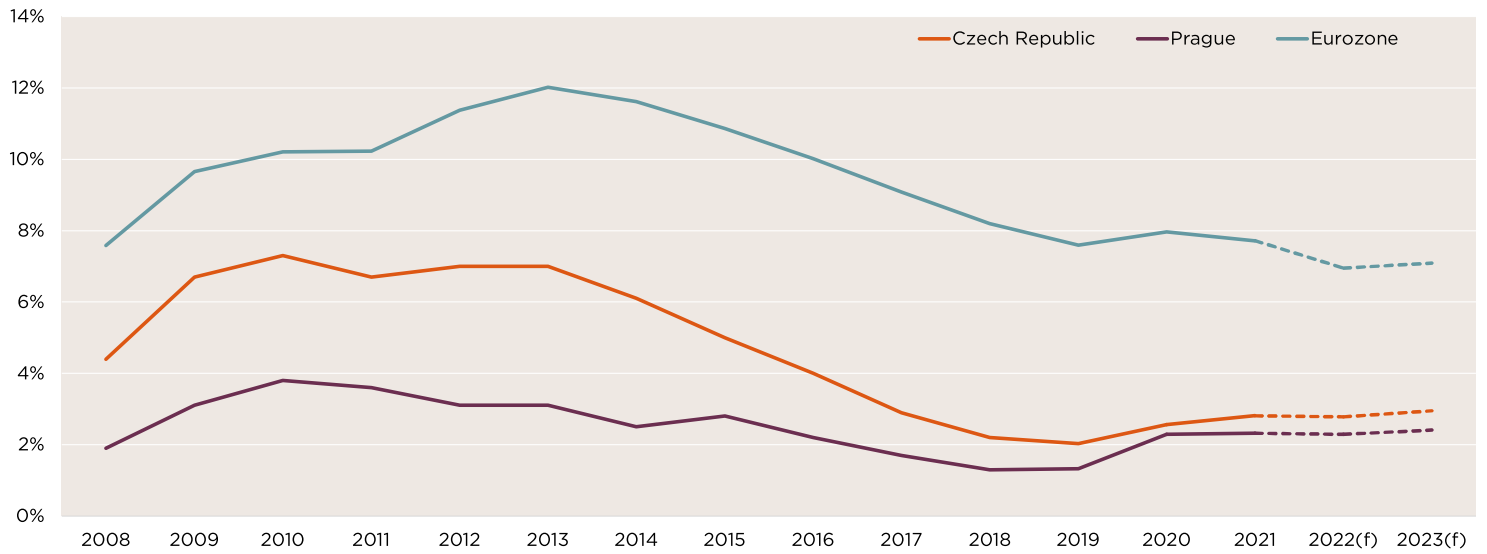


Source Czech Statistical Office

1) Based on the data available on 22/07/2022.

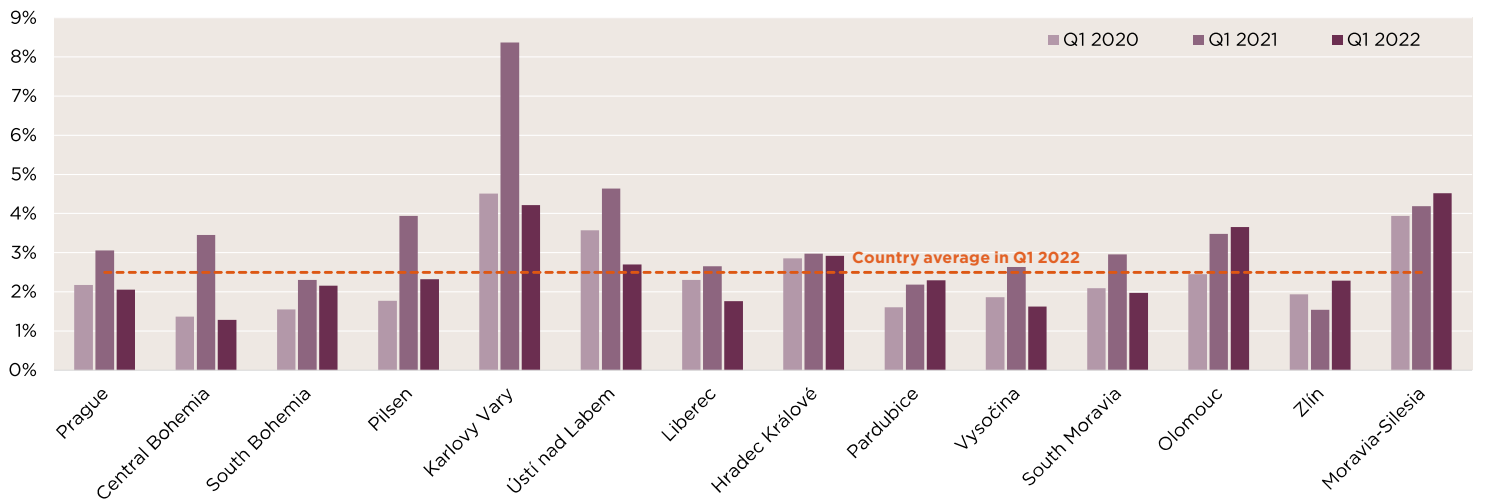
2) General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

Unemployment Rate ¹



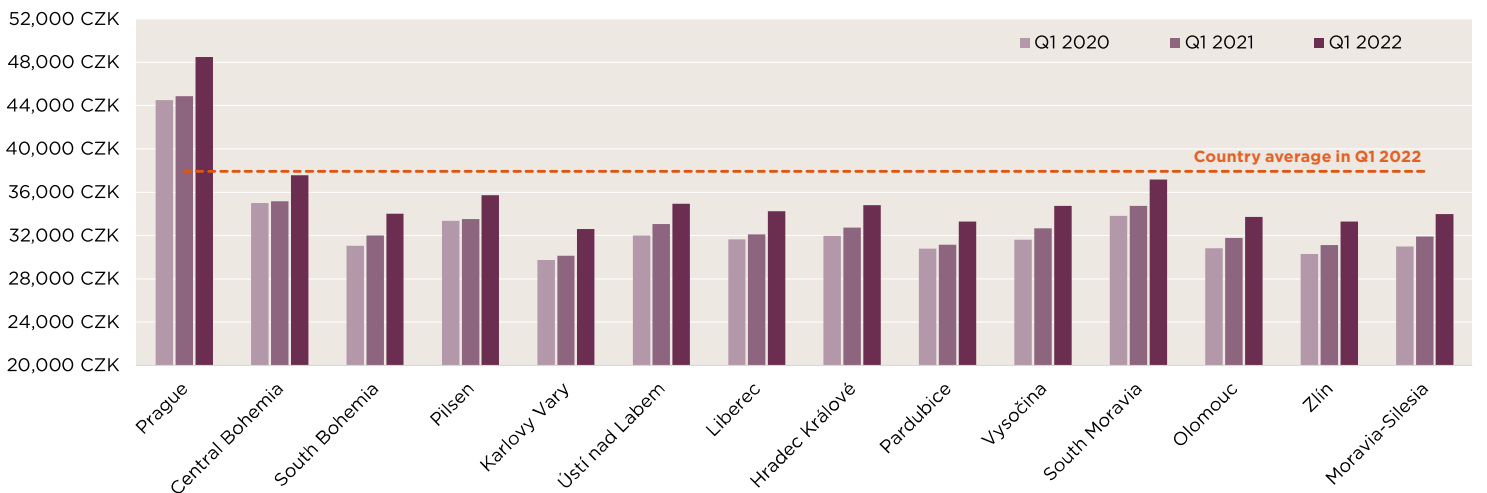
Source Oxford Economics, Eurostat, Czech Statistical Office

Czech Republic Regional Unemployment Rate ¹



Source Czech Statistical Office

Czech Republic Regional Gross Monthly Salary ¹



Source Czech Statistical Office

¹) Based on the data available on 22/07/2022.

INVESTMENT MARKET OVERVIEW - Q1 2022

- Although quarterly transaction volumes in the Czech Republic already returned to their pre-pandemic levels in Q4 2021 and Q1 2022, deal volumes pulled back from those highs with only €252 million worth of assets traded in Q2 2022.
- Compared to activity in the previous quarters, this year's Q2 investment sales were 41% down y-o-y, 72% below the exceptional Q1 2022 volume and 59% below the past 12-quarter average.
- After two quarters, when Prague captured the larger share of the investment volume, most of Q2 2022 volume (69%) headed into regions.
- The largest transaction of the quarter was Adventum's acquisition of a portfolio of commercial properties anchored by Tesco stores. The transaction involved 18 properties located in the Czech Republic and Hungary, but the volume of the Czech assets was large enough to bring the retail sector to the top in Q2. Combined with two smaller retail transactions, the total share of the sector on the quarter's volume reached 33%. The office sector ranked second, accounting for 31% of the volume in Q2 2022, and transactions involving industrial assets represented a share of 27%.
- Transaction count surpassed the first quarter of this year (13 vs. 9 deals), however, the average transaction size in Q2 2022 recorded a dramatic decline and only came to just above €19 million, being less than half of the previous 12-quarter average (€45 million).
- Domestic buyers were involved in 11 of the 13 transactions this quarter, and, unsurprisingly, the share of domestic capital on total volume in Q2 increased to 68% (well above the previous 12-quarter average of 48%).

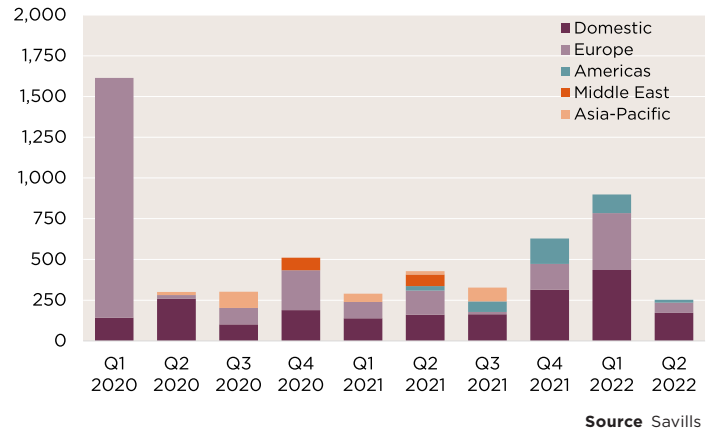
PRIME YIELDS

- Investor sentiment responding to RFRs is seeing prime yields starting to move out for all asset classes.
- From the previous quarter, prime office yield can be said to have increased notionally by 50 bps to 4.50% in Q2 2022. Industrial and residential segments still saw strong rental growth, which helped to slow down nominal pricing adjustments but anecdotally prime yields saw a slight outward shift, going up by 25 bps from 4.00% to 4.25%.
- Yields on prime retail assets moved out by 25 bps as well. Recent transactional evidence remains thin, however, the best performing shopping centres in Prague are estimated at 6.00% and high street retail at 4.75%.

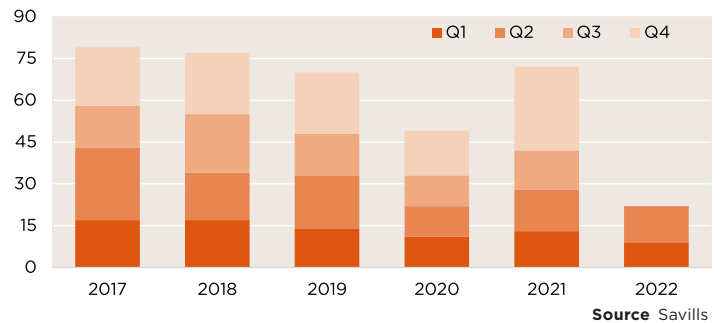
OUTLOOK

- After a very long period of low interest rates and quantitative easing, the commercial real estate industry is adjusting to the changes in bond and debt markets. With a widening gap between sellers historical pricing expectations and buyer return expectations, value corrections should be anticipated.
- Higher capital costs will affect pricing and transaction volumes in the near term but buyers using limited or no leverage are expected to have a considerable advantage.
- Looking ahead, total investment volume in 2022 is not projected to exceed the €2 billion value and prime yields are expected to further increase by year end across all segments. The retail sector may face the biggest risk as households feel the hit on real disposable incomes caused by inflation, which will negatively affect spending behaviour.

Source of Capital (€, million)



Number of Transactions Closed by Quarter

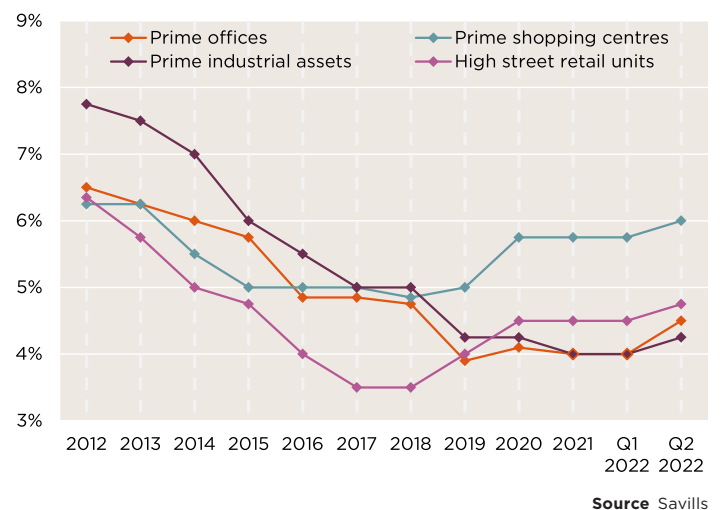


Investment Deals of Q2 2022 - Top 3

PROPERTY	SELLER	BUYER	PRICE RANGE
TESCO PORTFOLIO (retail, regional)	Tesco	Adventum	€50-75 mil.
RED COURT (offices, Prague)	J&T	BlackBird Real Estate	below €50 mil.
GRANDHOTEL NABOKOV (hotel, regional)	Nagama	Česká hotelová	below €50 mil.

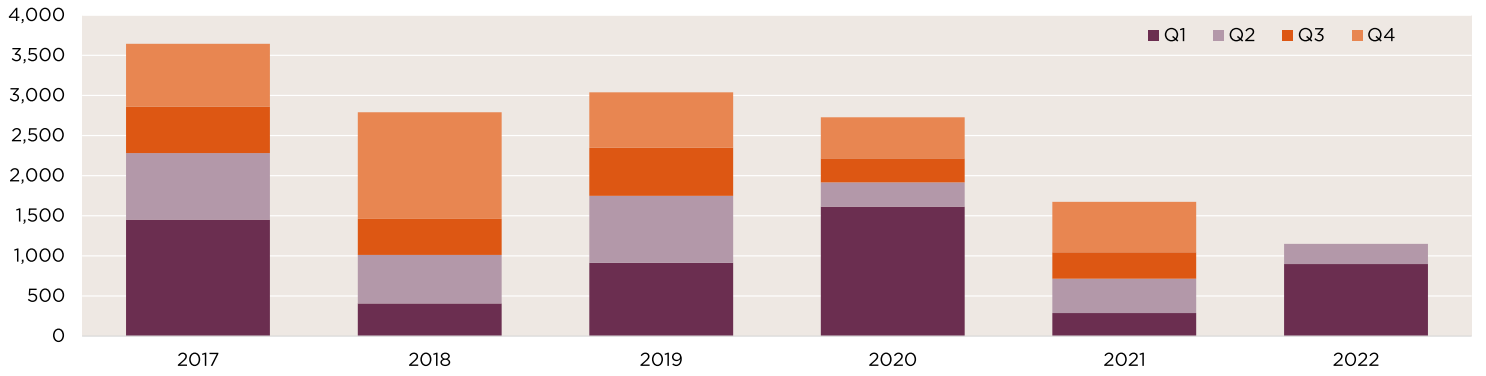
Source Savills

Prime Yields



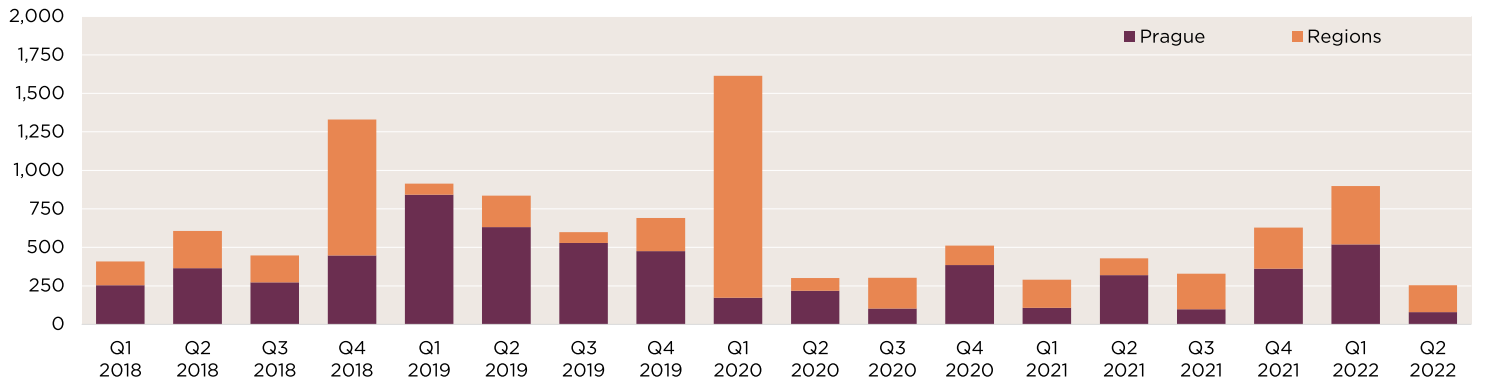
Czech Republic Investment Market - Q2 2022

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



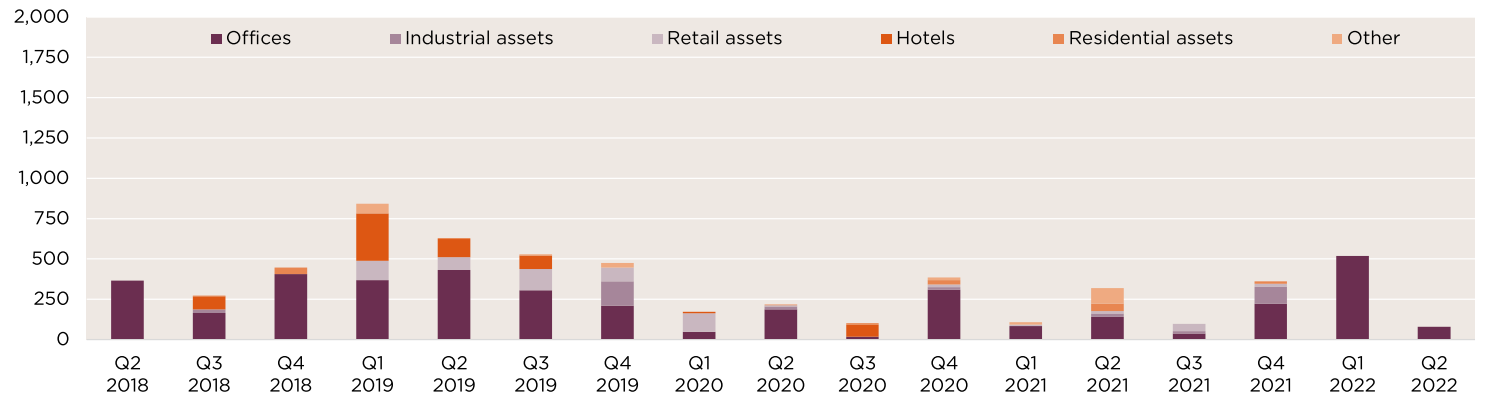
Source Savills

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



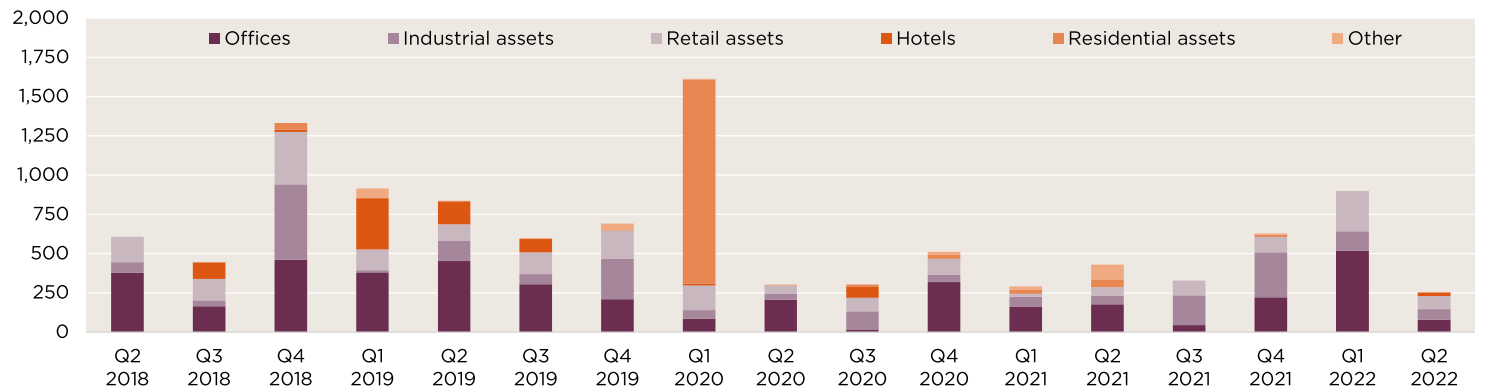
Source Savills

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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