

Czech Republic Investment Market

savills



Green Point, Prague

Czech Investment Market in Q3 2022



€190 million
Total investment
volume in Q3 2022
(-42% y-o-y)



4.75%
Prime office yield



4.75%
Prime industrial yield



6.25%
Prime shopping centre
yield



5.00%
High street retail yield



4.75%
Prime residential yield²

ECONOMIC OVERVIEW ¹

GDP GROWTH

2.2%

2022 ANNUAL FORECAST

CPI INFLATION

15-16%

2022 ANNUAL FORECAST

NATIONAL UNEMPLOYMENT

2.4%

OCTOBER 2022

GROSS MONTHLY SALARY

€1,635

(CZK 40,086)
COUNTRY AVERAGE,
Q2 2022

EXCHANGE RATE

24.51

CZK/EUR
AS OF 24/10/2022

RETAIL SALES

-8.8%

Y-O-Y CHANGE,
AUGUST 2022

INVESTMENT MARKET HIGHLIGHTS: Q1-Q3 2022

- Investment in Czech commercial real estate sector began to cool in Q2 when transactions dropped 65% from the €905 million posted in the first three months of 2022. Despite the slowdown over the past two quarters, year-to-date (YTD) transaction volume still hit €1.41 billion and exceeded the €1.05 billion recorded in the same period year ago, by 35%.
- Of the 32 transactions completed in the first nine months of 2022, 15 were properties in Prague (mainly offices) and the remaining 17 transactions took place in the regional markets.
- Compared to the same period last year, the number of transactions dropped from 42 to 32 and the average deal size grew from €25 million to €44 million.
- The office sector continued to fare best, with YTD volume reaching €745 million (53% of the total), which was double compared to the same period last year. Retail investment volume was up 127% y-o-y, with more than €382 million transacted so far this year.
- Domestic investors dominated the market, standing behind 53% of the YTD volume, other CEE countries followed with a share of 23%.

ECONOMIC OVERVIEW ¹

- While the economy had grown in the first half of this year, in spite of unfavourable circumstances, it is expected to experience a mild recession in the upcoming months. Economic activity will decline mainly due to reduced foreign trade with Russia and Ukraine, supply shortages of key components for manufacturing and construction, and a sharp rise in energy and fuel prices. The forecast assumes that problems in global production and supply chains, which continue to persist and affect the domestic industrial economy, will gradually ease, with a complete unwinding by mid-2023. According to the latest projections issued by the Czech National Bank, real GDP growth could post 2.2% in 2022 (revised from the previously forecasted 0.8%) and slow down to 1.1% in 2023 (revised from 3.6%). Household consumption growth has practically come to a halt. However, consumers have so far been showing greater resilience to the rising cost of living, as their spending has not fallen as much as expected. Even so, households will continue to face the impact of high inflation next year, so the dynamics of their consumption should remain very low.

CPI INFLATION ¹

- High inflation, which continues to hinder economic growth and depress living standards, rose further over the summer and according to the latest forecasts is expected to average around 15-16% for 2022. The exceptionally strong growth in consumer prices is being driven not only by the prices of food, fuel, electricity, gas and imputed rents, but also by other categories of goods and services. Inflation is also being boosted by accelerating and exceptionally strong cost pressures, which will start to ease in the second half of this year as import prices and domestic intermediate input prices slow down. In 2023, inflation should already be partly dampened by the transmission mechanism of higher monetary policy rates. In the forecast horizon, this factor should also contribute to the appreciation of the koruna, which will have an anti-inflationary effect. In 2023, the annual inflation rate could slow down to somewhere between 9-10%, partly thanks to the government's energy package.

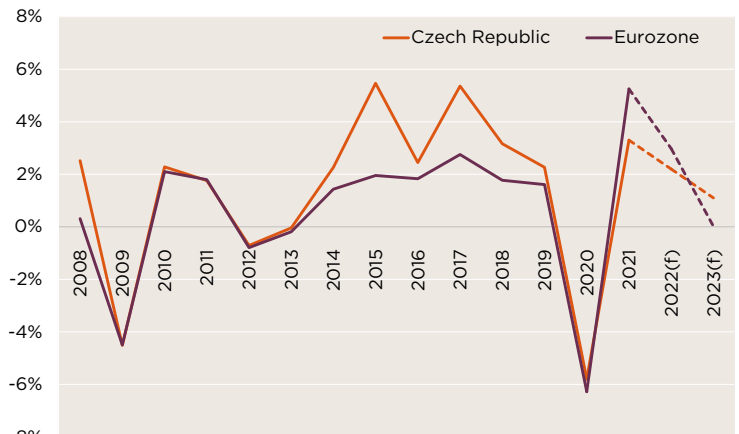
RETAIL SALES ¹

- For the fourth month in a row, sales in both the food and non-food sectors have fallen continually. This decline deepened in August, with retail sales falling by 9% y-o-y, of which non-food goods fell by 10%, fuel by 9% and food by almost 7%. Sales in specialist clothing and footwear stores fell by 15%, and household goods, computer and communication equipment, culture, sport and recreation all fell 13%. On the other hand, sales in pharmaceutical and health care stores rose by 1%. Internet and mail-order stores saw their sales fall for the seventh consecutive month, this time by 10%. Because retail sales grew strongly last year, especially after the end of austerity measures and the economic recovery, the current y-o-y figure is burdened by a high comparison base.

UNEMPLOYMENT ^{1,2}

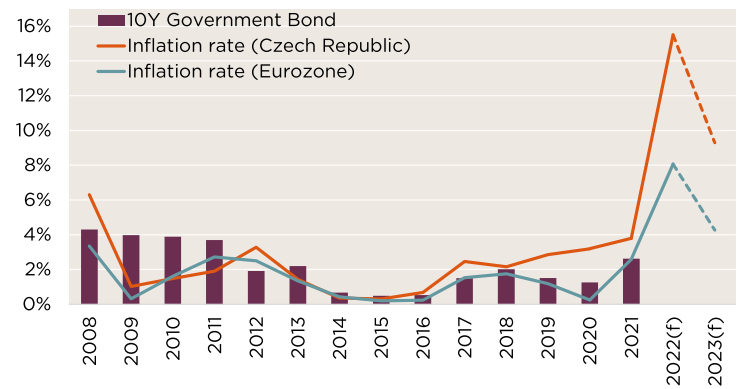
- Imbalances in the labour market related to shortages of employees continue to be reflected in all sectors of the economy. Labour market tensions will ease slightly further due to the moderation in domestic economic activity and the continued integration of Ukrainian refugees into the labour market. However, the outlook for the headline unemployment rate remains almost unchanged and, despite the expected shallow recession in the second half of this year and weak economic momentum, it is not expected to rise significantly in 2023. Thus, it should average around 2.5-2.7% in 2022 and could rise slightly to 2.6-3.3% in 2023, depending on the source. The tight labour market will push up wage growth, but this will lag behind inflation. Despite the aforementioned labour shortages, the Czech Republic still has the lowest unemployment rate in the EU and one of the highest labour force participation rates.

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



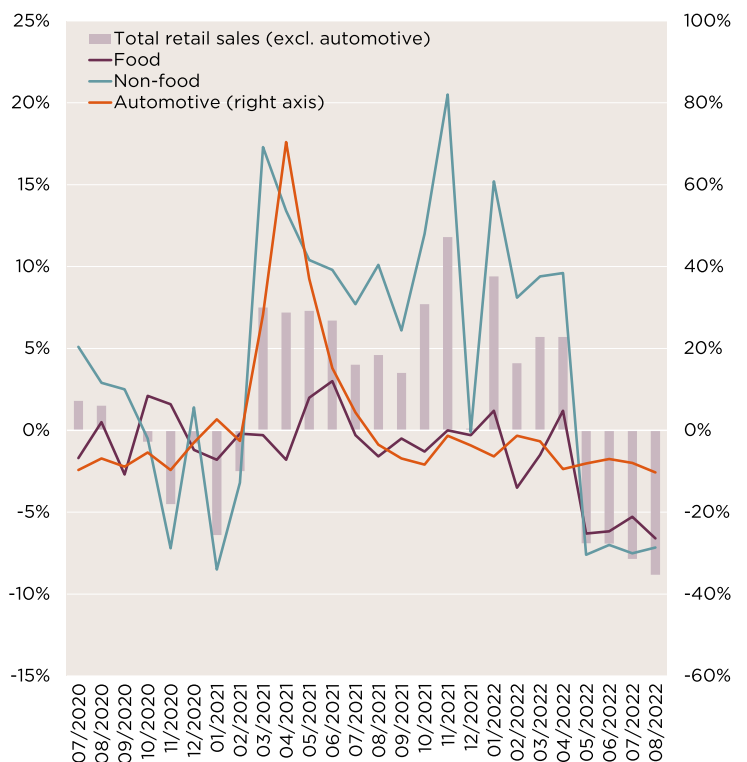
Source: European Economic Forecast, Czech National Bank

Inflation Rate and 10Y Government Bond



Source: Eurostat, Czech National Bank, Ministry of Finance

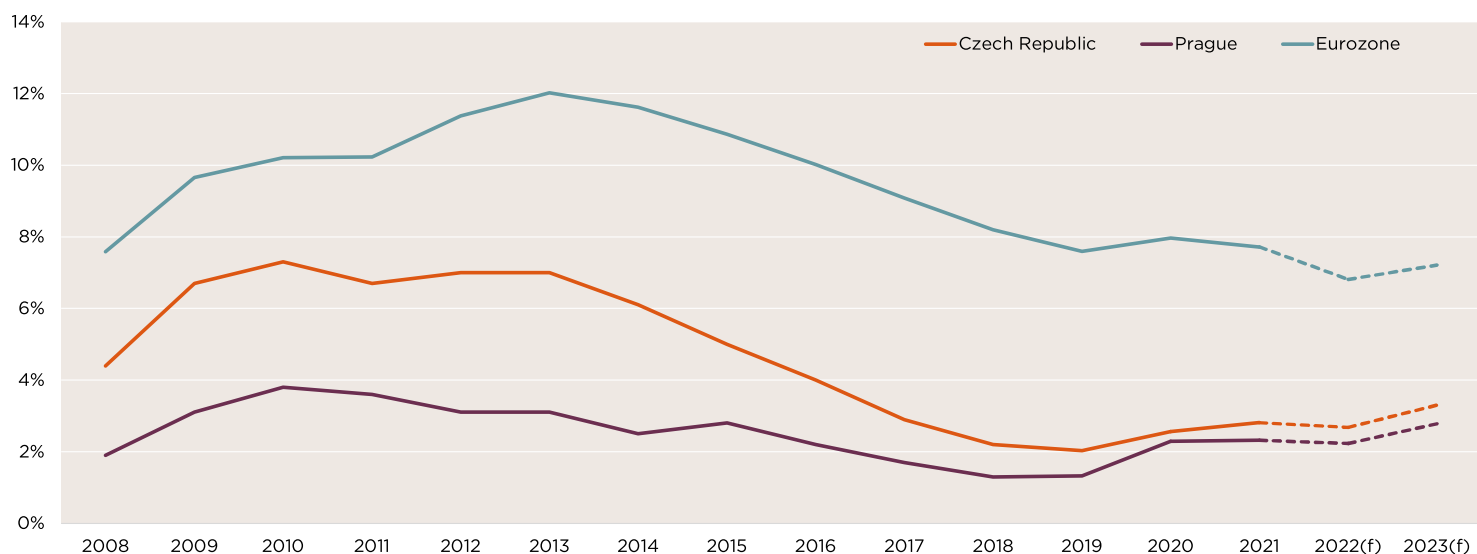
Retail Sales (y-o-y change, %)



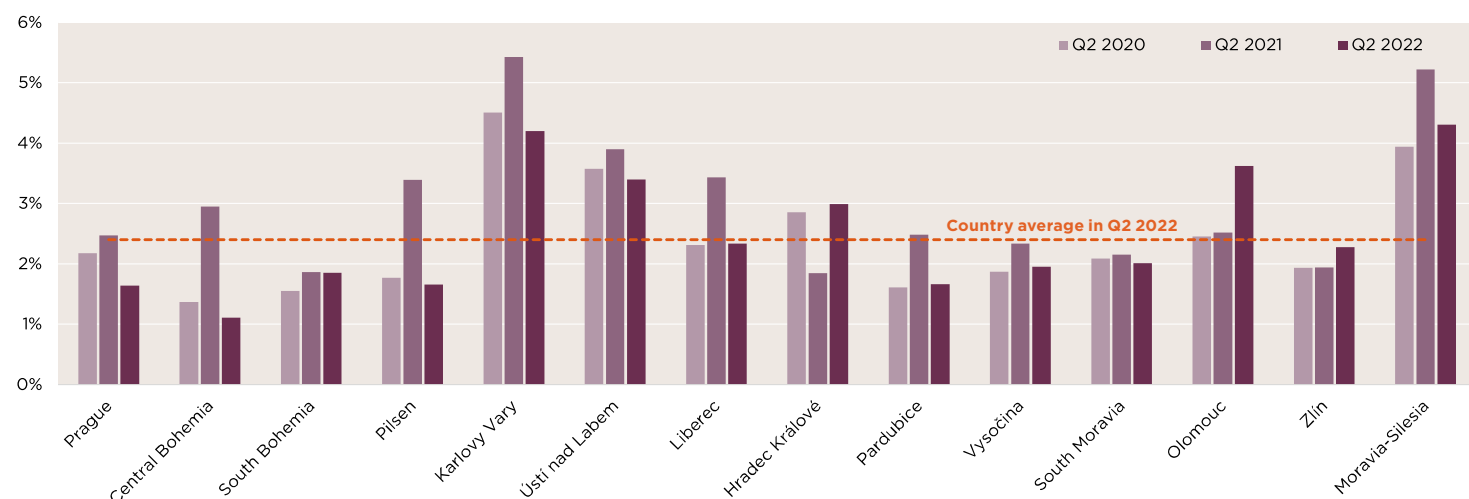
Source: Czech Statistical Office

1) Based on the data available on 24/10/2022.

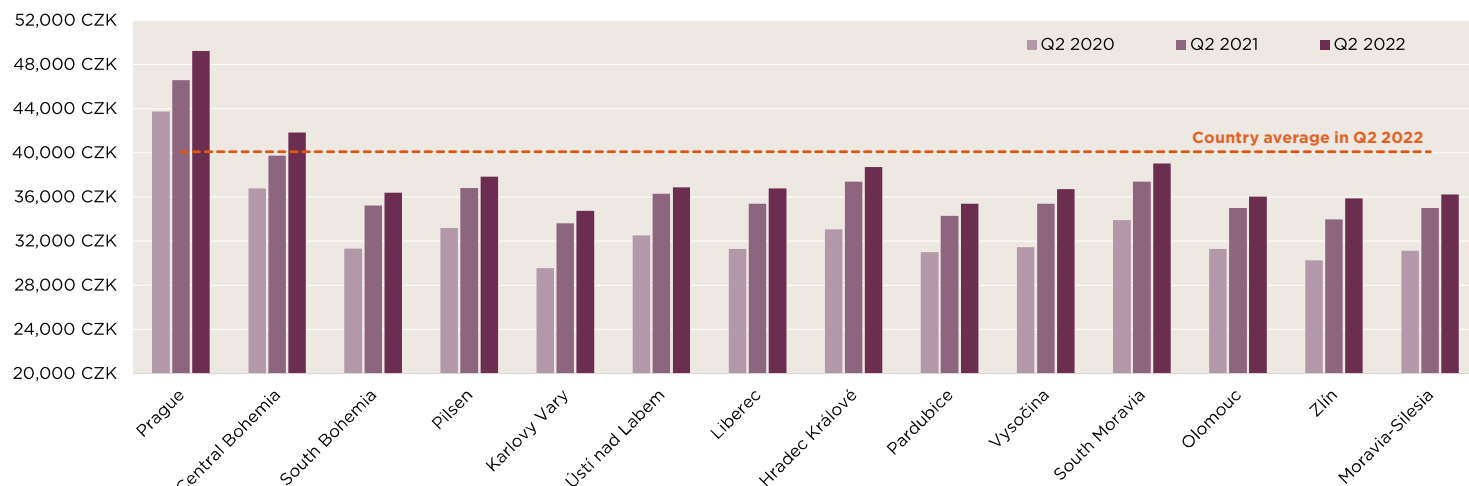
2) General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

Unemployment Rate ¹

Source Oxford Economics, Eurostat, Czech Statistical Office

Regional Unemployment Rate ¹

Source Czech Statistical Office

Regional Gross Monthly Salary ¹

Source Czech Statistical Office

¹) Based on the data available on 24/10/2022.

INVESTMENT MARKET OVERVIEW - Q3 2022

- After a strong start to 2022 (with Q1 posting the highest investment volume since the initial onset of Covid-19), rapid and diverse economic shifts created a complex and unpredictable capital markets environment. Persistent high inflation and rising interest rates squeezed sales of commercial real estate assets in the Czech Republic during Q3 2022 and total investment sales plunged 42% y-o-y to only €190 million. The quarter posted the weakest activity so far this year, marking a 40% decline from the preceding quarter, and also the lowest quarterly volume seen since 2013.
- The number of completed investment transactions was down to less than half of what was seen in the previous quarter or year ago in Q3 2021. Of the six investment transactions that were completed in Q3, all but two comprised office assets. The remainder were retail properties (mostly regional retail parks).
- By value, office sector accounted for 78% of the quarter's volume and was the only real estate segment in which the volume increased on a q-o-q basis (up by 87%). Retail assets made 22% of the quarter's volume, showing a 49% volume drop from the preceding quarter. The market did not see any transactions involving a shopping centre, hotel or residential building this quarter. For the first time since Q4 2015, no industrial facility changed hands either in Q3 2022.
- Although down by value, the share of domestic buyers (in percentage terms) on the total quarterly volume has been increasing every quarter this year and in Q3 stood at 80% (up from 59% in Q2 and 48% in Q1 2022). The presence of foreign capital on the Czech market was represented by a single transaction, which accounted for 20% of the volume in Q3 2022.
- The quarter saw several additional real estate ownership transfers between related parties, that are not included in the investment volume. The CPI retail portfolio transfer to Immofinanz was one of them and if counted to the activity, it would be the third largest transaction seen this year.

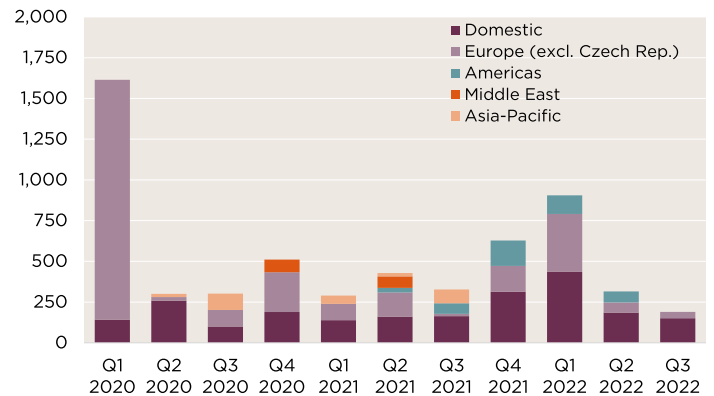
PRIME YIELDS

- We have moved prime yields out in-line with transactional sentiment across all sectors in Q3 2022 and further outward shift is expected in the near future as transactions signed so far this year do not yet provide evidence of the new pricing. Prime industrial yield was at 4.75% in Q3, having increased 50 bps from the previous quarter. Yield of prime office real estate shifted by 25 bps from 4.50% in Q2 to 4.75% in Q3 2022. Investment in prime shopping centres and high street retail assets has been particularly weak in the past couple of years. Yields are estimated to have drifted out by another 25 bps to 6.25% for shopping centres and to 5.00% for high street retail. Should the prevailing interest rate environment persist in to the short and medium term, as it is expected, we expect to see evidence benchmarking yields above the benchmarks stated above in the near future.

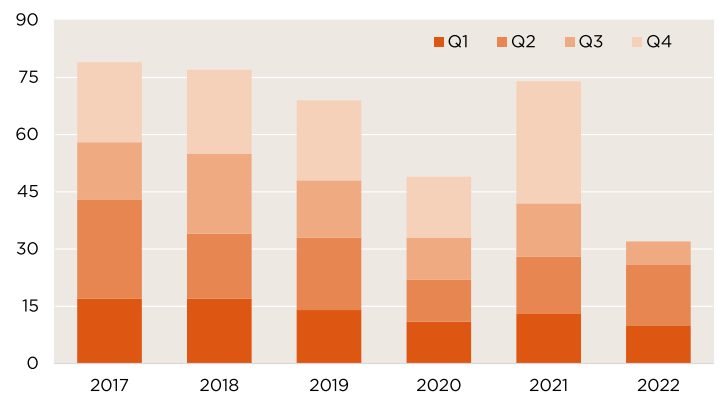
OUTLOOK

- The market will continue to see weaker transaction volumes as it will take time before rates and valuations establish a new equilibrium and prices re-calibrate. Many buyers and sellers are waiting for more clarity before transacting and also, the buyer pool is thinning as higher rates impact access to debt capital. We are poised for another weak quarter and the 2022 volume is expected to come to around €1.7 billion. Our preliminary view is that investment activity will pick up in H2 2023, however, the complete market transformation may take up to 24 months. The office and industrial segments shall remain solid, supported by low stock levels, rental growth and on the industrial side also extremely low vacancy rate. Investment into retail will remain challenging in the near term as the anticipated decline in consumer cash flow and spending have yet to materialize.

Source of Capital (€, million)



Number of Transactions Closed by Quarter



Prime Yields

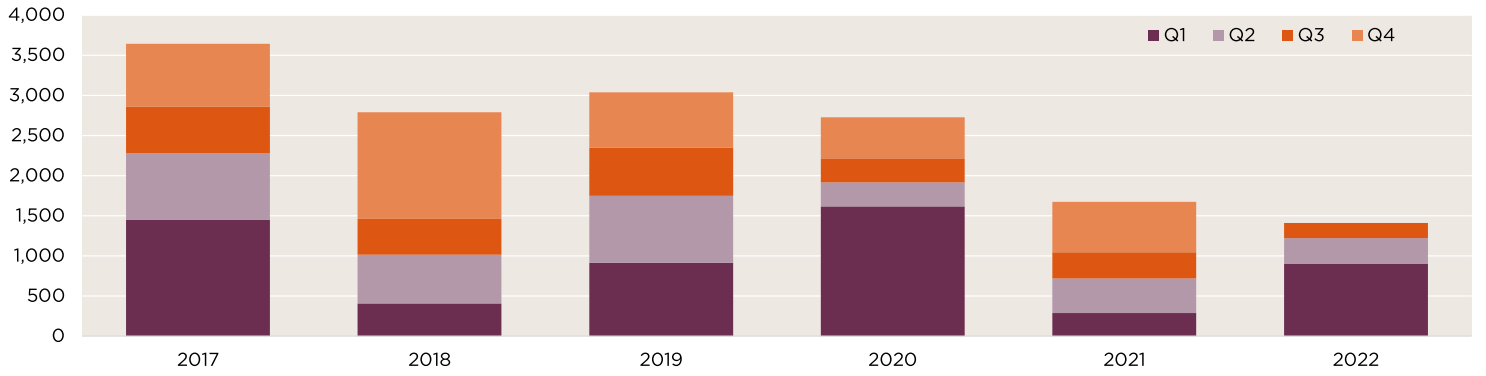


Investment Deals of Q3 2022 - Top 3

PROPERTY	SELLER	BUYER	PRICE RANGE
BB CENTRUM GAMMA (offices, Prague)	Immofinanz	Passerinvest	€75-100 mil.
DRFG PORTFOLIO (retail, regional)	DRFG	Generali	€25-50 mil.
GREEN POINT (offices, Prague)	Ronaldsay B.V.	Wood & Co.	below €25 mil.

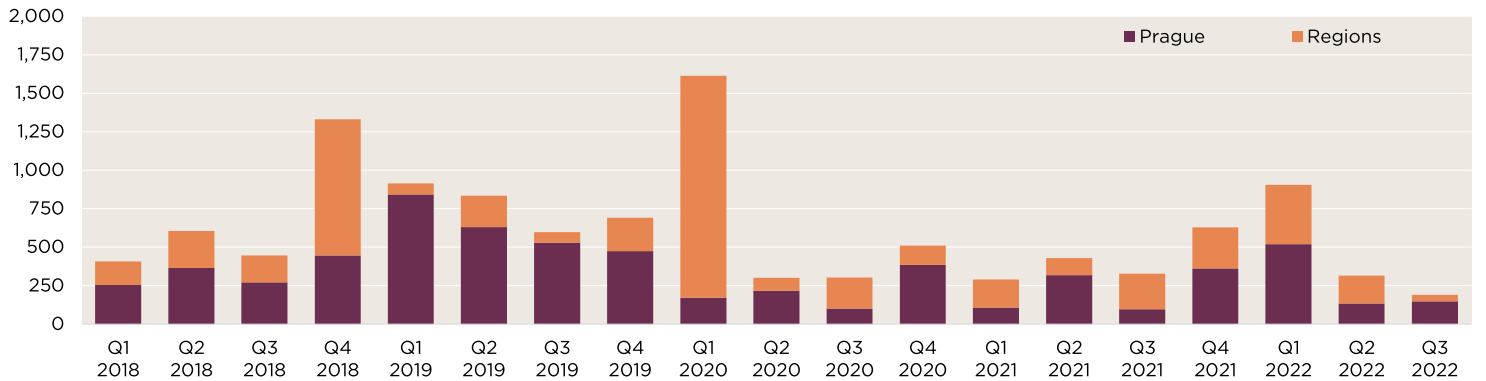
Source Savills

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



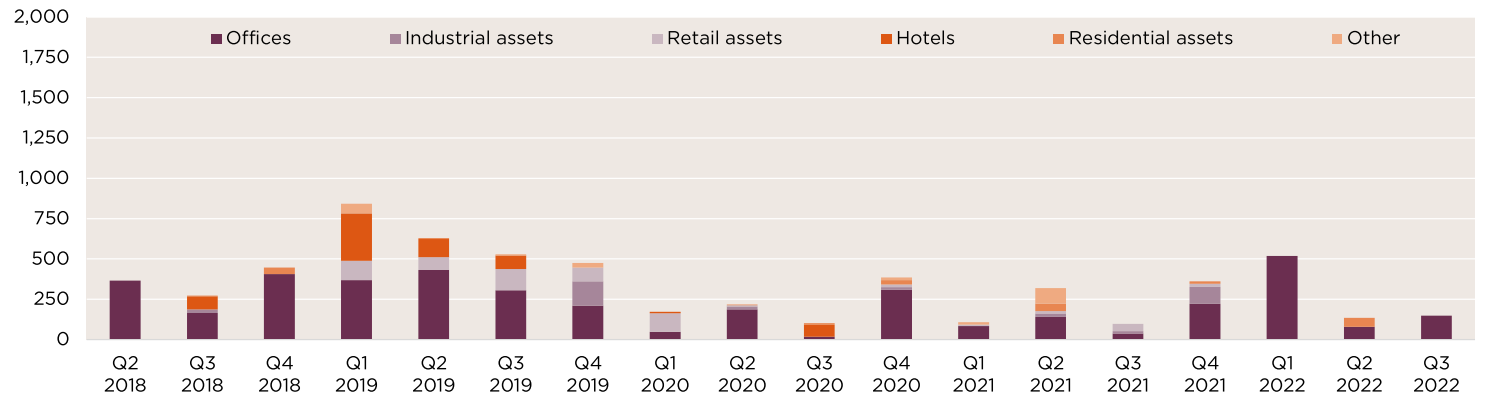
Source Savills

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



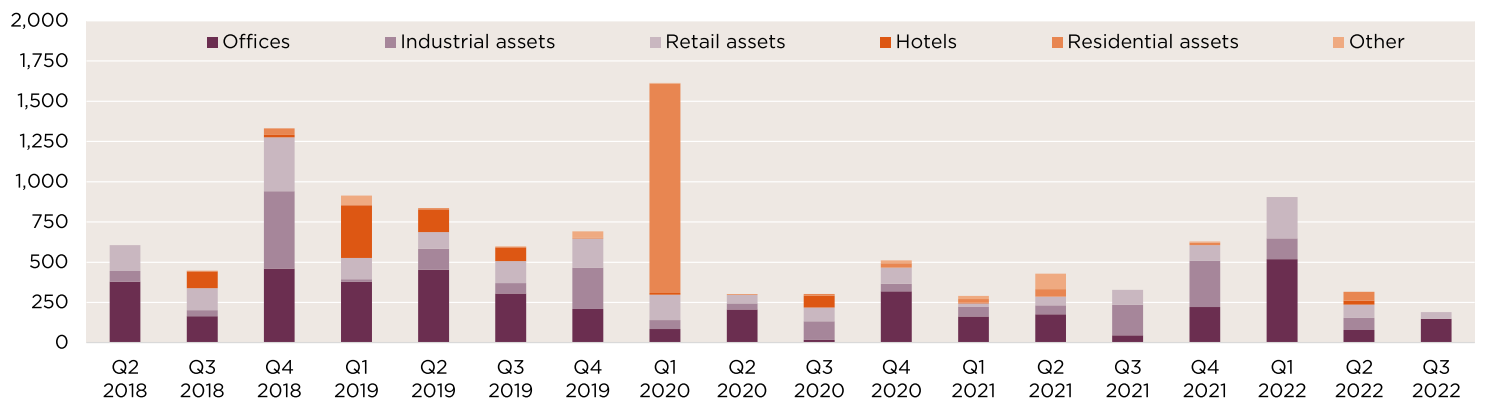
Source Savills

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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