

Czech Republic Investment Market



Lodport Prague West

Czech Investment Market in Q4 2022



€319 million
Total investment volume in Q4 2022 (-49% y-o-y)



5.00%
Prime office yield



5.00%
Prime industrial yield



6.50%
Prime shopping centre yield



5.00%
High street retail yield



4.75%
Prime residential yield²

Source Savills

ECONOMIC OVERVIEW ¹

GDP GROWTH

2.3%

EXPECTED ANNUAL RATE IN 2022

CPI INFLATION

15.1%

ANNUAL AVERAGE IN 2022

NATIONAL UNEMPLOYMENT

2.4%

EXPECTED ANNUAL AVERAGE IN 2022

GROSS MONTHLY SALARY

€1,673

(CZK 39,858)
COUNTRY AVERAGE Q3 2022

EXCHANGE RATE

23.82

CZK/EUR
AS OF 27/01/2023

RETAIL SALES

-8.7%

Y-O-Y CHANGE,
NOVEMBER 2022

Sources Czech Statistical Office, European Economic Forecast, CNB

INVESTMENT MARKET HIGHLIGHTS: 2022

- At €1.7 billion, transaction volumes in 2022 were comparable to 2021, posting a 2% increase y-o-y. However, on a closer look, 2022 was a year of two halves. In H1 2022, investment volumes were strong (the strongest since H1 2020) and totalled just over €1.23 billion but the narrative changed in the second half of the year when activity dropped to €470 million.
- Commercial office assets remained the front runner during 2022, garnering nearly half (46%) of the annual investment volume and totalling €789 million. The industrial sector (with €414 million and 24% share) was still holding investment volumes close to pre-Covid levels, being only 13% below its 2017-2019 average, while office was 35% down and retail 60% down. Retail properties accounted for 23% of the total investment volume in 2022 (totalling €395 million).
- Total transaction count saw a significant drop in 2022 as 46 transactions were concluded in the year, 38% less than in 2021 and almost on par with the pandemic year 2020. All but three deals closed during 2022 were smaller transactions, meaning sub €100 million.
- Domestic investors were the dominating buyer group in 2022 acquiring over €923 million worth of assets (54% of total volume). European buyers followed with a share of 27%.

¹) Based on the data available on 27/1/2023.
²) Residential buildings in Prague with more than 50 apartments intended for long-term lease.

ECONOMIC OVERVIEW ¹

- In spite of anticipated mild recession in the second half of 2022 and early 2023, overall GDP is estimated to have grown by around 2.3% in 2022. Economic activity was strongly supported by manufacturing and overall growth was driven mainly by fixed capital investment, together with increased inventory accumulation. Household final consumption expenditure declined slightly, despite a number of fiscal stimulus measures, due to a sharp increase in the cost of living, especially energy prices, and tighter monetary policy.
- With a positive contribution from net exports and a negative impact of domestic demand, GDP is projected to contract by 0.5% in 2023. Households will continue to face the impact of high inflation and, given the persistent decline in real disposable income, real consumption will thus continue to decline. Government consumption and gross fixed capital formation will be pro-growth, but weaker y-o-y inventory accumulation will slow the economy noticeably.

CPI INFLATION ¹

- High levels of inflation keep slowing economic growth and lowering living standards. In 2022, the average annual inflation rate increased significantly compared to the previous year, reaching 15.1% (compared to 3.8% in 2021), with the y-o-y growth of 15.8% in December 2022. The main drivers of December's y-o-y rate were food and non-alcoholic beverages with housing, mostly due to an increase of 140.2% in the price of gas, 28.8% in the price of heat and hot water and 10.9% in the cost of home ownership. The overall past year inflation has been determined by similar market factors, including high prices for energy, food, oil and production materials.
- Looking ahead, inflation in 2023 should already be partly cushioned by the transmission mechanism of higher monetary policy rates. Nevertheless, the period of sharply elevated inflation will continue in 2023. According to forecasts, the average inflation rate is about to reach 10.4% in 2023, and will remain slightly above 8% by the end of the year, finally slowing to 3.2% in 2024.

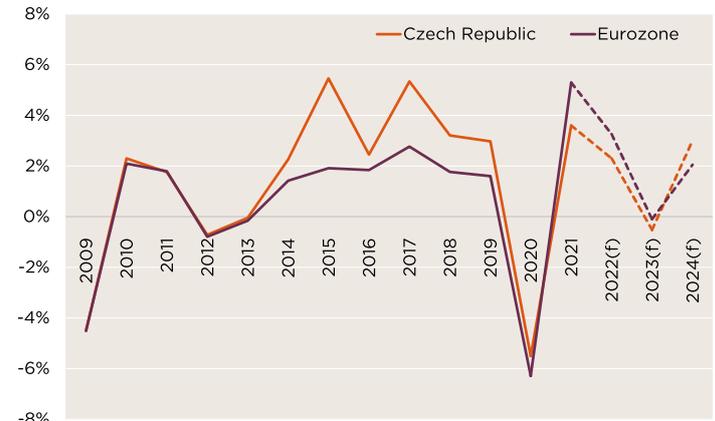
RETAIL SALES ¹

- In November 2022, retail sales fell y-o-y for the seventh month in a row, this time by 8.7%, with non-food goods down 9.6%, food down 9.2% and fuel down 2.1%. Sales in specialised stores for household goods fell by 12.0%, for culture, sport and recreation by 10.9%, for computer and communication equipment by 8.4% and for clothing and footwear by 5.1%. The decrease was also recorded by shops selling pharmaceutical and medical goods, which had seen annual sales growth in the previous 19 months. Internet and mail-order stores saw sales fall by 9.8%. Only the sales of specialty stores selling cosmetics and toiletries grew by 2.8% y-o-y. Retail sales continue to be affected by the reduced standard of households due to the difficult economic situation and the gradual erosion of savings. Given the forecast, this is unlikely to change significantly and retail sales are not expected to improve significantly in the upcoming months.

UNEMPLOYMENT ^{1,2}

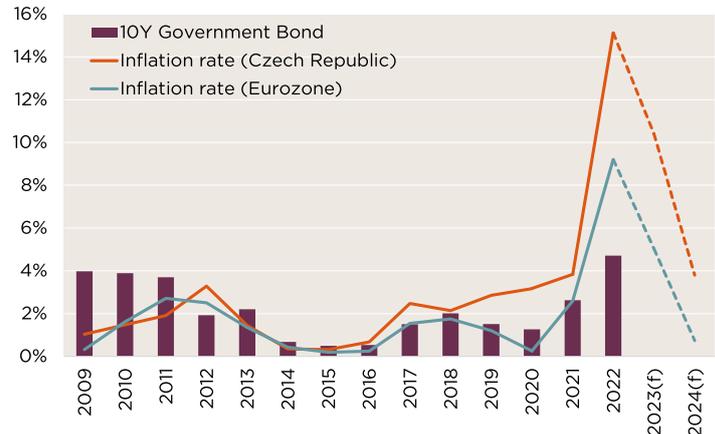
- Although economic activity is declining, the labour market is still not significantly affected by this factor. The unemployment rate is very low and the average for 2022 is estimated at 2.4%. In upcoming months, the Ministry of Finance forecasts a gradual q-o-q reduction in employment due to the economic downturn, which is expected to last until the middle of 2023. Overall, the unemployment rate is forecast to rise to 3.2% in 2023.

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



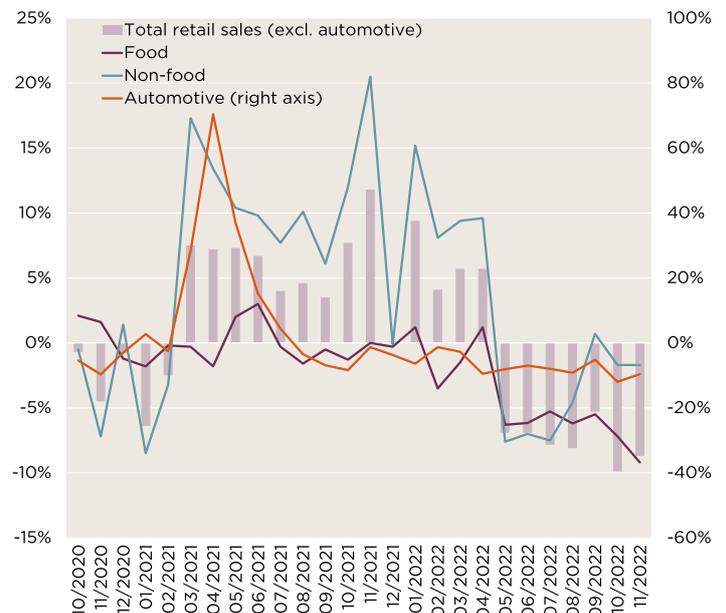
Source Oxford Economics, Ministry of Finance

Inflation Rate and 10Y Government Bond



Source Oxford Economics, Ministry of Finance

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

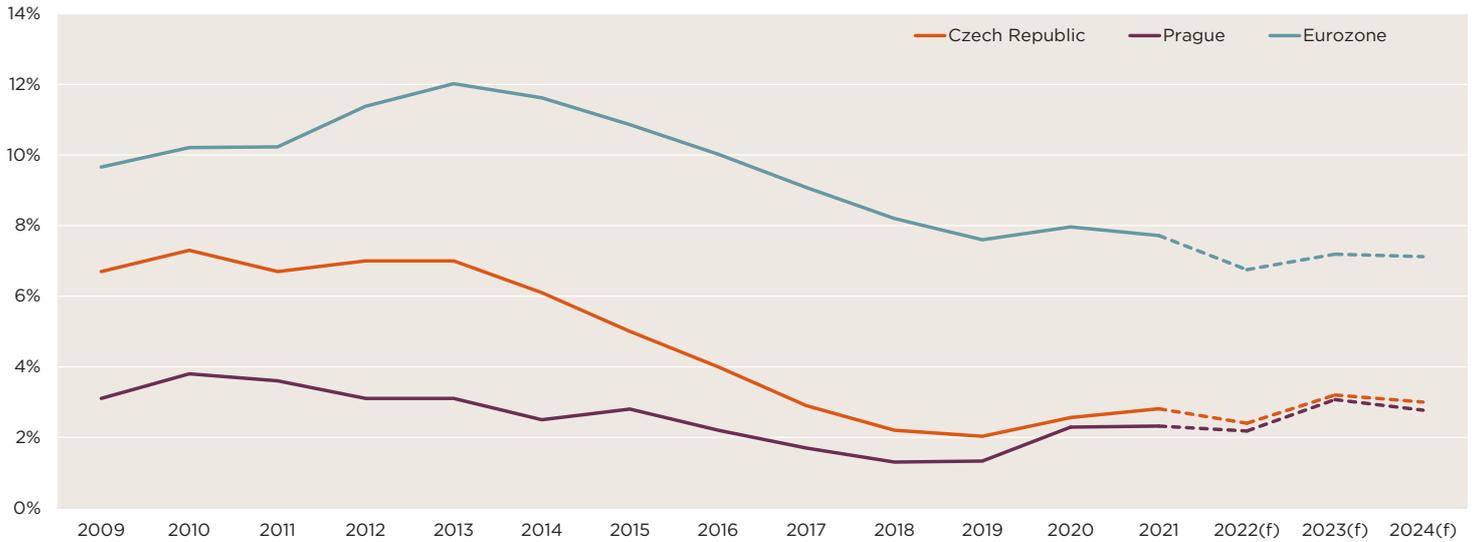


Source Czech Statistical Office

¹) Based on the data available on 27/01/2023.

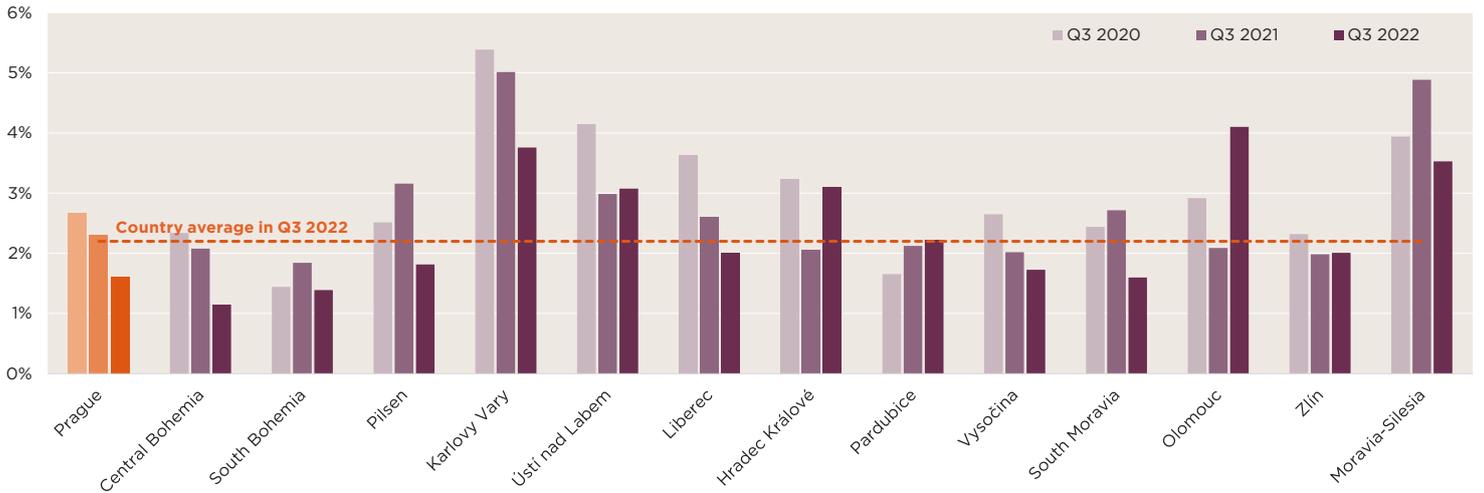
²) General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

Unemployment Rate ¹



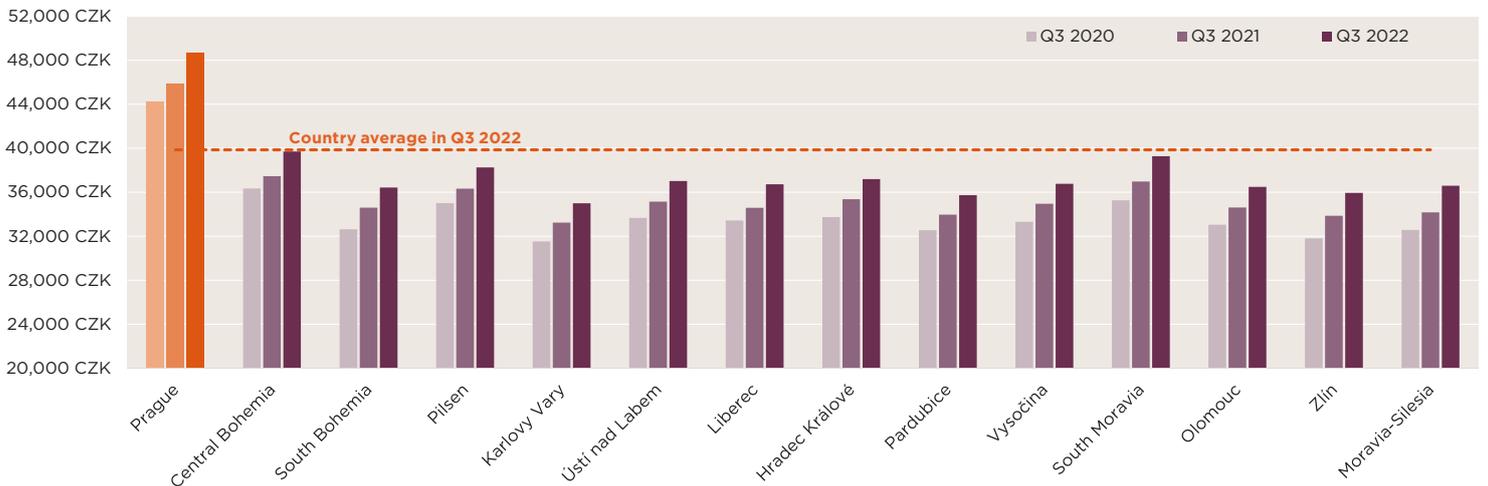
Source Oxford Economics, Eurostat, Czech Statistical Office

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 27/01/2023.

INVESTMENT MARKET OVERVIEW - Q4 2022

- As is typical, investment activity picked up slightly in the final quarter of the year, following a very weak Q3 2022. Transaction volumes remained subdued as buyers and sellers search for a new price equilibrium. Commercial property investment purchases in Q4 2022 totalled €319 million, the lowest fourth-quarter level since 2015. Compared with the same period in 2021, transaction volumes were down 49% and also stood 41% below the 12-quarter average, but were 111% higher than in Q3 2022.
- Industrial, retail and offices were again the most invested-in sectors in Q4, although compared to the previous quarter the office sector recorded the sharpest decline being 70% down. Industrial transactions in Q4 2022 totalled €210 million (66% of the quarter's volume), 27% lower compared with the same period in 2021. Trading in the office sector saw volumes fall to €44 million (14% of the Q4 total), recording the lowest quarterly figure reported since Q3 2020. On a year-on-year basis, office trades were down 80% from those in Q4 2021. Retail sector saw €52 million worth of transactions in Q4 2022, meaning volumes dropped 47% y-o-y.
- Only 14 transactions were closed in Q4 2022, while on average, 22 trades were recorded in the fourth quarter in the past five years. None of the transactions closed in the final quarter of 2022 exceeded €100 million in value.
- In Q4 2022, Prague captured 49%, €155 million, of the invested volume and saw five transactions close. This level of activity was similar to the previous two quarters, but the number of transactions was down by half compared to the 2017-2019 average.
- US buyers took a front seat in Q4 2022, acquiring two industrial assets together worth €139 million, 44% of the quarter's volume. However, domestic capital sources remained remarkably active, spending €137 million across 10 transactions (taking a 43% share of the Q4 volume).

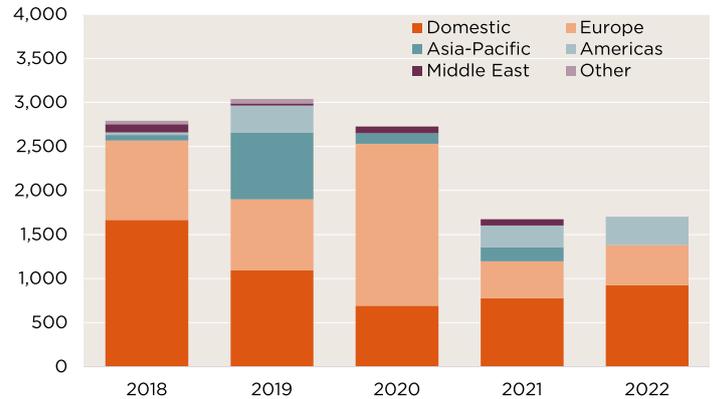
PRIME YIELDS

- Following limited transactions, it is clear that sentiment is that prime yields have moved out again in Q4 2022. Prime industrial and office yields were at 4.75% in Q3 and moved to 5.00% at the end of the year. Investment in prime shopping centres and high street retail assets has been particularly weak in the past couple of years. From Q3 2022, yields are estimated to have drifted out by another 25 bps to 6.50% for shopping centres, while high street retail units remain at 5.00% for now.

OUTLOOK

- While the calendar has flipped to a new year, many of the same challenges that weighed on investment activity in the second half of 2022 remain in full force. The commercial real estate market finds itself in the midst of a recalibration and with buyers and sellers standing far apart on price expectations, sales volumes are likely to begin the year slowly. Additionally, the buyer pool is thinning as higher interest rates impact access to debt capital. Despite that, annual investment volumes are forecast around €1.5 billion in 2023, with the second half of the year likely to be more active. Most transactions are expected to be led by domestic investors again.
- Yield movements will be partially dependant on any further changes on the debt market and in the retail sector linked to consumer spending. We have yet to see the effect of rent indexations, higher energy costs and higher interest rates flowing through to occupiers and subsequently the investment market retains some mid term positivity as long as occupational demand holds.

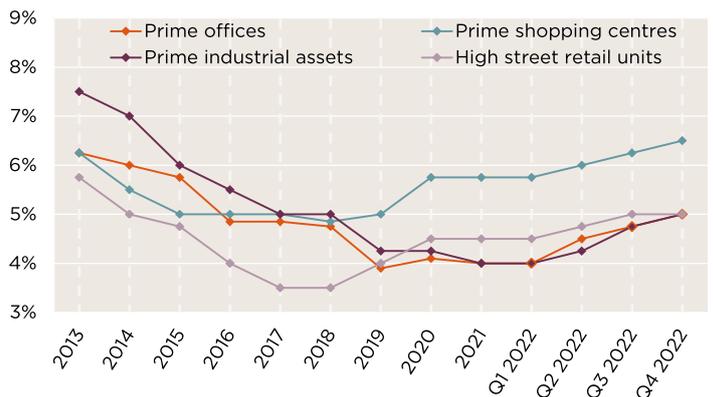
Source of Capital (€, million)



Number of Transactions Closed by Quarter



Prime Yields



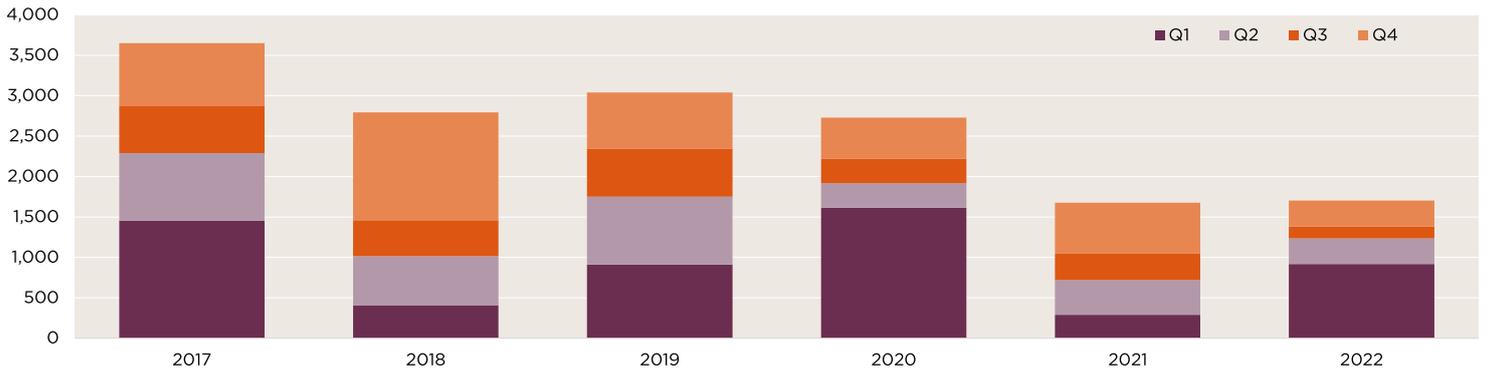
Investment Deals of Q4 2022 - Top 3

PROPERTY	PRICE RANGE
LOGPORT PRAGUE WEST (industrial, Prague)	€75-100 mil. (forward purchase)
OSTRAVA AIRPORT MULTIMODAL PARK, HALL 2 (industrial, regional)	€50-75 mil.
DRFG PORTFOLIO (retail parks / retail warehouse, regional)	below €50 mil.

Source Savills

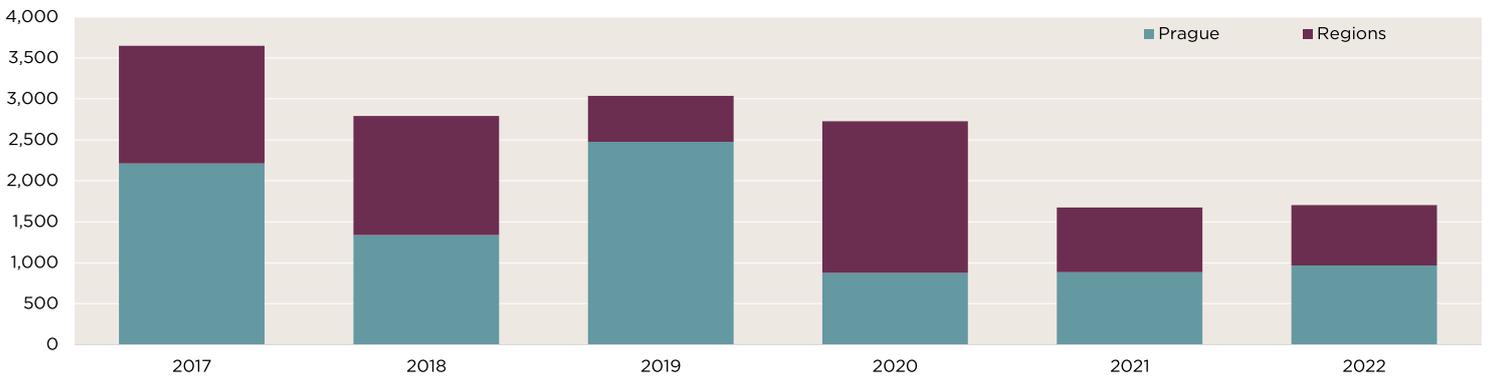
Czech Republic Investment Market - Q4 2022

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



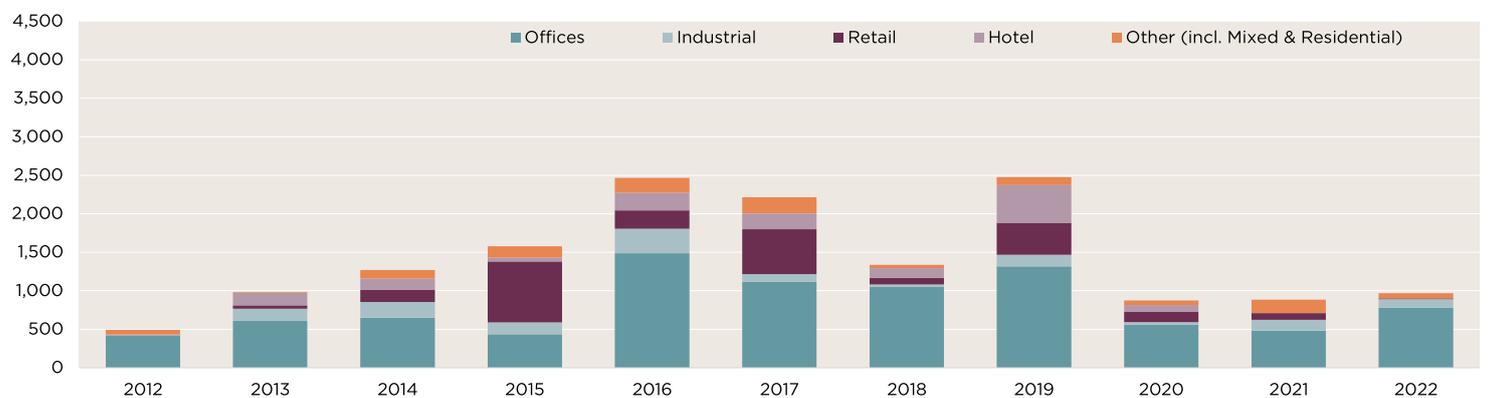
Source Savills

Annual 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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