

Czech Republic Investment Market

savills



Quarterly Statistics

Investment Volume

€421M

Q1 2022: €917 million
YoY change: -54%

Domestic Capital

€362M

Q1 2022: €448 million
YoY change: -19%

Office Yield

5.00%

Q1 2022: 4.00%
YoY change: +100 bps

Industrial Yield

5.00%

Q1 2022: 4.00%
YoY change: +100 bps

Retail Yield

6.50%

Q1 2022: 5.75%
YoY change: +75 bps

Economic Indicators¹

GDP Growth

-0.2%
(Q1 2023)

2022: +2.4%
2023 Forecast: +0.5%

Inflation

16.4%
(Q1 2023)

2022: 15.1%
2023 Forecast: 11.2%

Policy Rates

2.6%
3M EURIBOR*

2022: 0.3%
2023 Forecast: 3.2%

Unemployment

2.5%
(in February 2023)

2022: 2.3%
2023 Forecast: 3%

Gross Monthly Salary

€1,595
(national median)

2022: €1,474
YoY change: +9%

¹⁾ Based on the data available on 12/4/2023 (Data Source: CNB, Ministry of Finance).

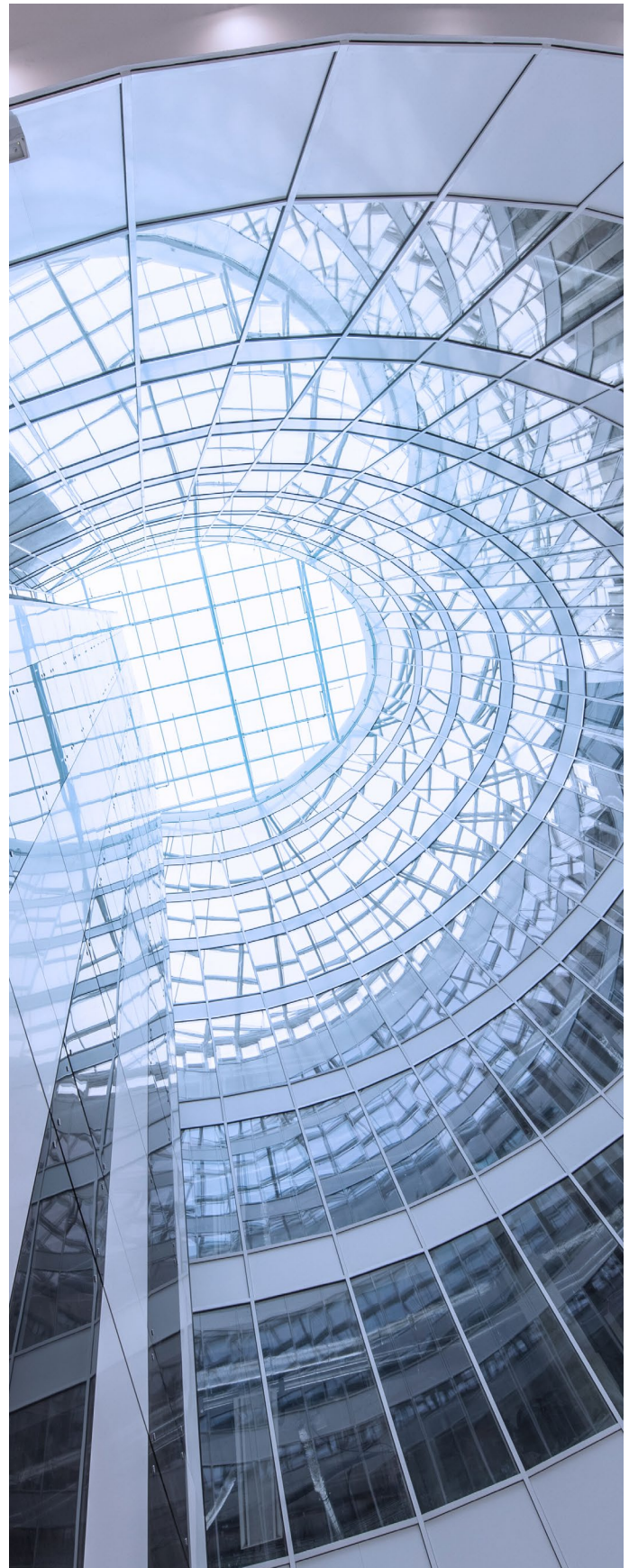
* Q1 2023 average

Investment market highlights

- The volume of investment transactions recorded in the Czech Republic during Q1 2023 totalled €421 million, the highest quarterly volume since Q1 2022. While transaction count in Q1 2023 was almost identical to Q1 2022, investment volume was subdued, posting a 54% drop y-o-y.
- All sectors posted weaker investment volumes y-o-y and, with the exception of retail properties, transactions were also lower compared to the previous quarter. Thanks to a single portfolio transaction closing in Q1, the retail sector accounted for the largest share of transactions by value, with a 48% share of the Q1 2023 investments. Industrial investments followed with a share of 30%.
- Domestic capital accounted for 86% of the Q1 2023 volume, with acquisitions totalling €362 million. The remaining 14% of transactions by volume came from European investors.
- Across all real estate sectors, prime yields have shown the first signs of stabilisation and for the first time in the last 12 months have stayed unchanged from the previous quarter.
- Although the volume of closed transactions does not necessarily reflect the very latest market sentiment, the increased number of investor acquisition enquiries seen on the market lately is pointing to a more positive trading activity in the second half of the year.

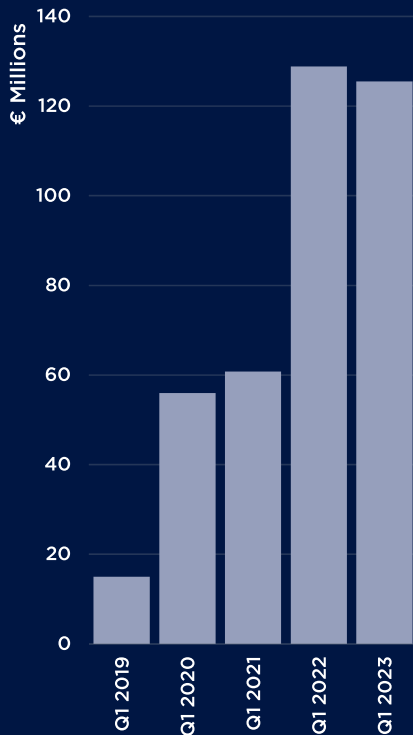
Quarterly market statistics

Key Market indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
Current quarter	€421 million	€362 million	€105 million
Previous quarter	€368 million	€139 million	€169 million
YoY movement	-54%	-19%	-80%

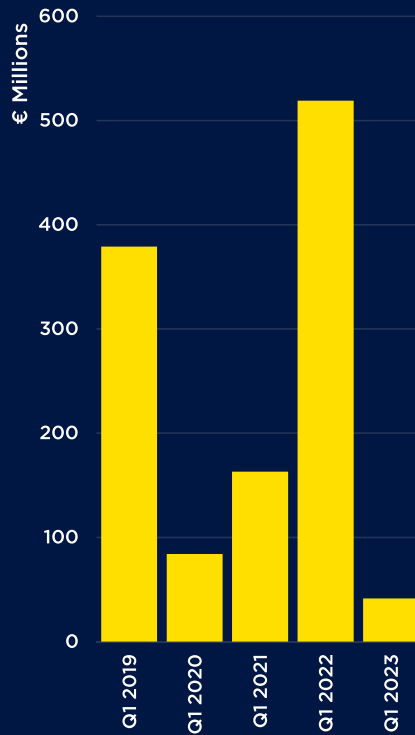


Transaction Volumes

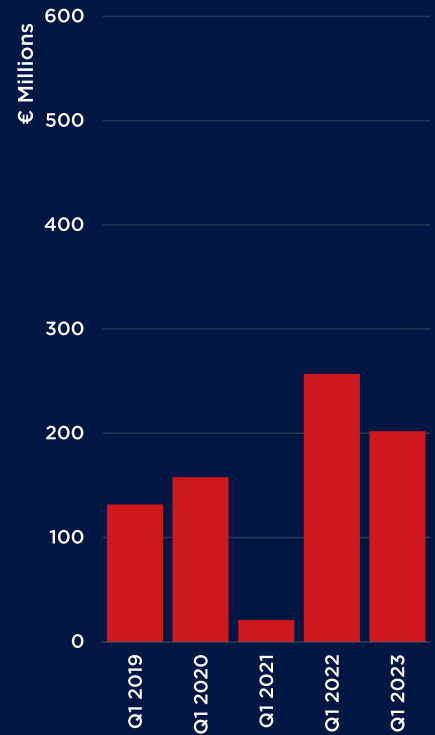
Industrial Sector



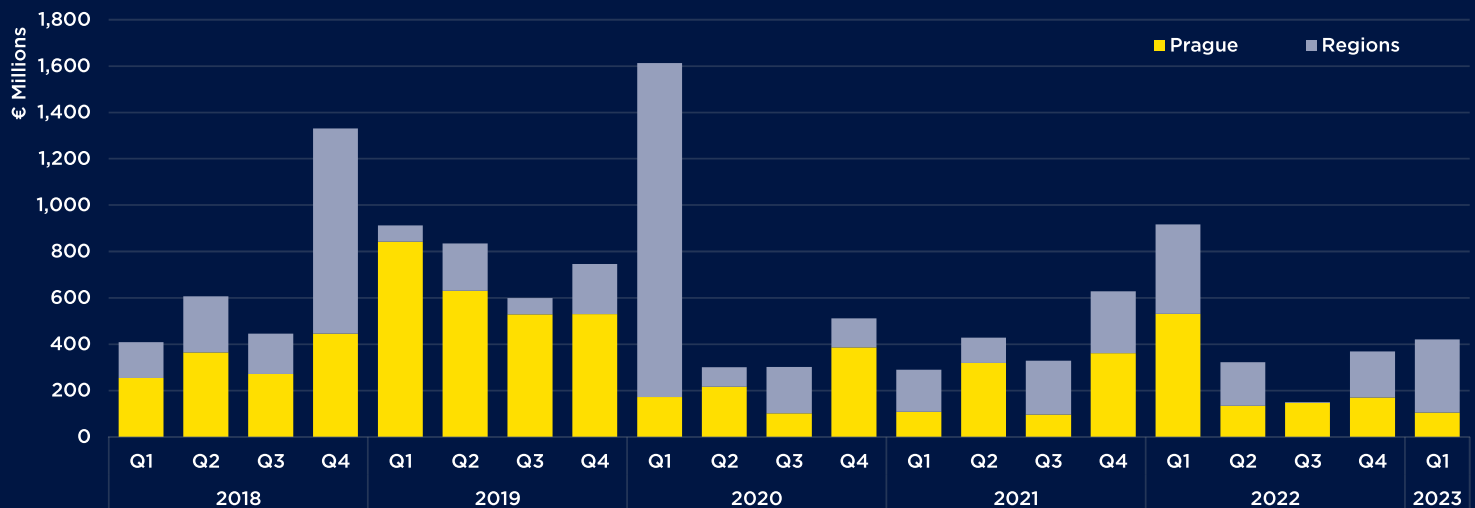
Office Sector



Retail Sector



Investment Volumes in Prague vs. Regions



Q1 2023 Review

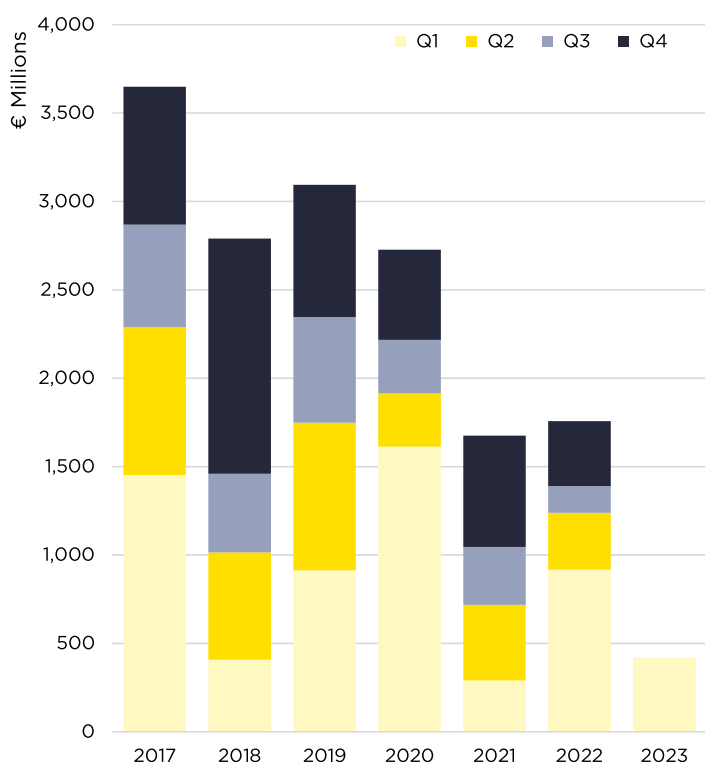
Investment Activity

- Similar to most European markets, sales activity in the Czech Republic was modest in Q1 2023. With €421 million transacted, the slowdown translated into a 49% decrease in volumes compared with the five-year first-quarter average (and -54% y-o-y). Nevertheless, this quarter's investment volumes were the highest since Q1 2022 and followed typical quarterly volumes, barring the exceptional Q1 2020 and Q1 2022.
- The sale of TREI's retail portfolio was the largest deal of the quarter, making up 48% of the total Q1 2023 volume for the Czech Republic. It was also the first transaction worth over €100 million recorded since Q1 2022.
- A total of ten transactions were closed during Q1 2023, which is a typical Q1 level seen on the Czech market since 2020. Prague captured 25%, €105 million, of the total volume across five transactions.
- From the previous quarter, overall market activity began to rebound and the second half of the year is expected to see higher transaction volumes.

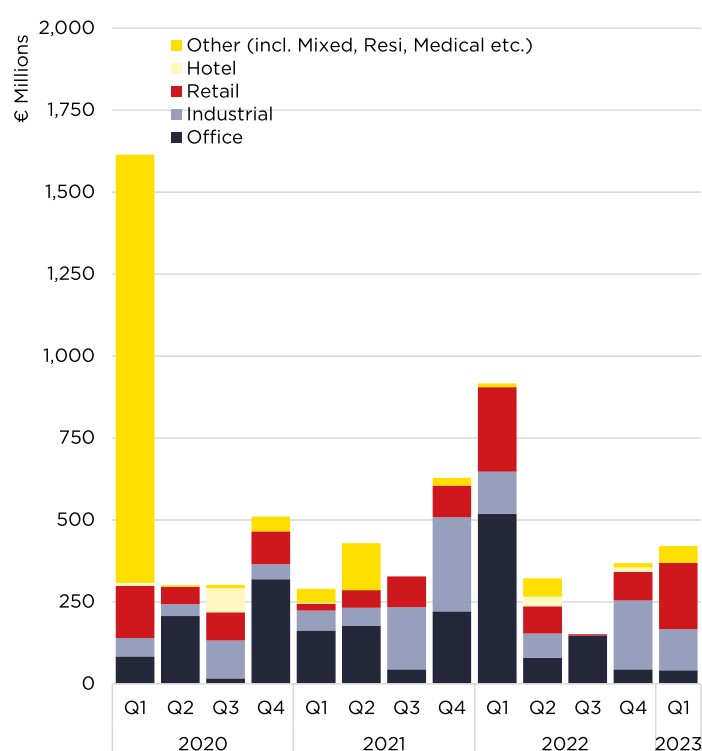
Real Estate Sectors

- Compared to the strong first quarter of 2022, investment volumes in Q1 2023 weakened across all real estate sectors. Trade of retail properties saw a notable improvement on the previous quarter but only thanks to a single large transaction.
- Industrial transactions in Q1 2023 were down 40% q-o-q and 3% weaker y-o-y and totalled €125.5 million (30% of the quarter's volume).
- Investment activity in the office sector remained tenuous at €41.5 million, falling by 6% q-o-q and 92% y-o-y.
- Retail assets posted a 133% gain in volume q-o-q, thanks to the TREI transaction (also the only retail deal of the quarter). Compared to the same period last year, the sector's volume declined by 21%.
- Based on transaction count, industrial assets were the most traded (4), followed by residential (3) and offices (2).

Transaction Volumes



Investment Volume by Sector



Q1 2023 Review

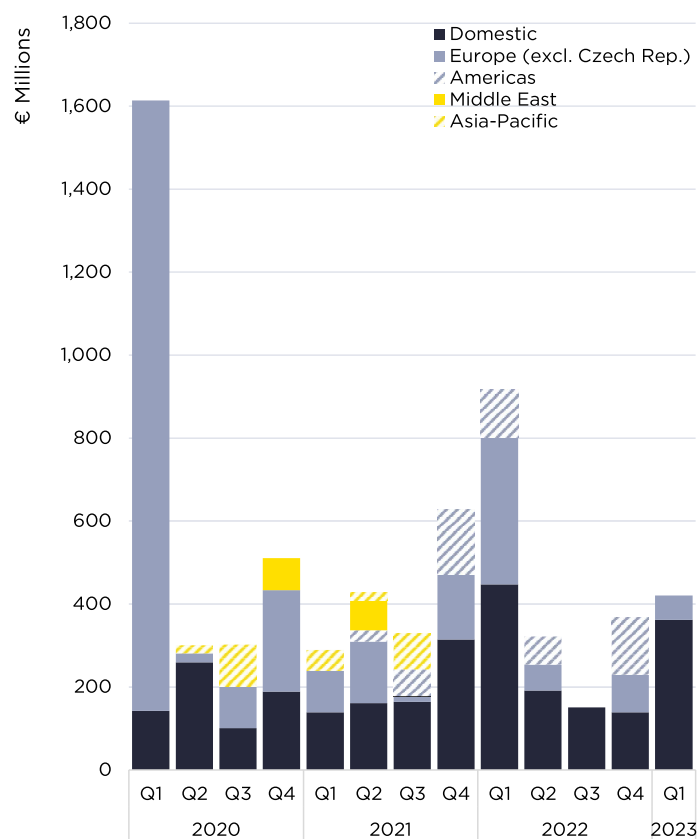
Source of Capital

- Although foreign investors continue to demonstrate their interest in the Czech commercial real estate market, demand for Czech property investments continues to be strongly driven by domestic buyers who acquired assets worth €362 million in Q1 2023 (86% share of the quarter's volume). In the three years before Covid, the average quarterly share of domestic capital was 45%, while in the past 12 quarters it grew to 56%.
- Cross-border capital accounted for only 14% of the Q1 2023 volume, way below the long-term average. Europe was the only cross-border source this quarter as buyers from three different countries acquired three assets worth in total €58 million. All of these properties were located in Prague.
- Investors from the Asia-Pacific and Middle East were not active on the Czech market since 2021.

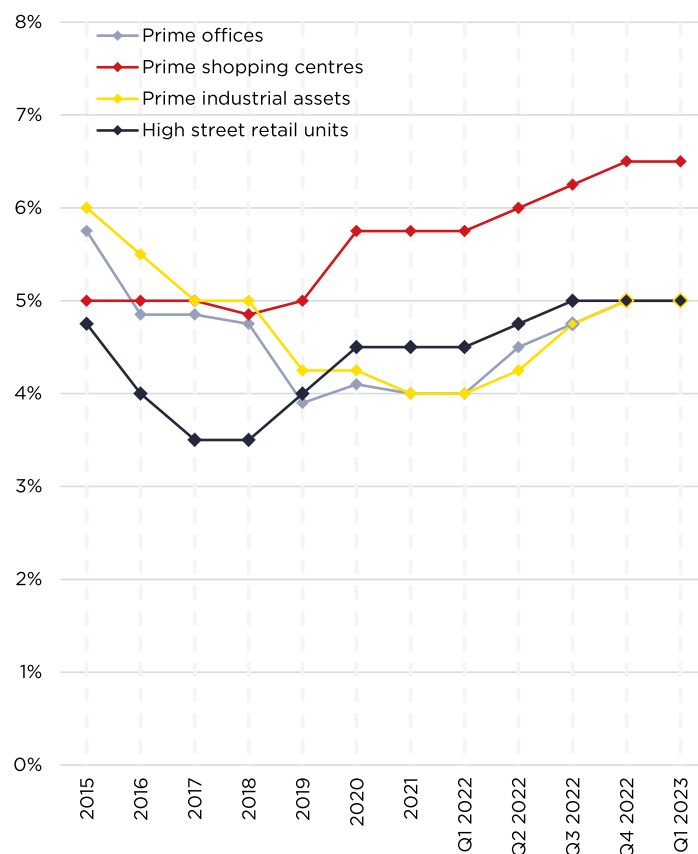
Yields

- Transaction evidence remains limited, but according to market sentiment indications, prime yields in the core real estate sectors remained stable this quarter and greater certainty around pricing appeared on the market.
- Having shifted by +100 bps over the past year, prime office yields still stood at 5.00% at the end of Q1 2023.
- Market yields of prime logistics properties followed the same trend, also closing Q1 2023 at 5.00%.
- With no prime shopping centre changing hands in the past five years, yields for such assets are believed to be around 6.50%.
- High street retail units in Prague remain priced at a market yield close to 5.00%.

Source of Capital



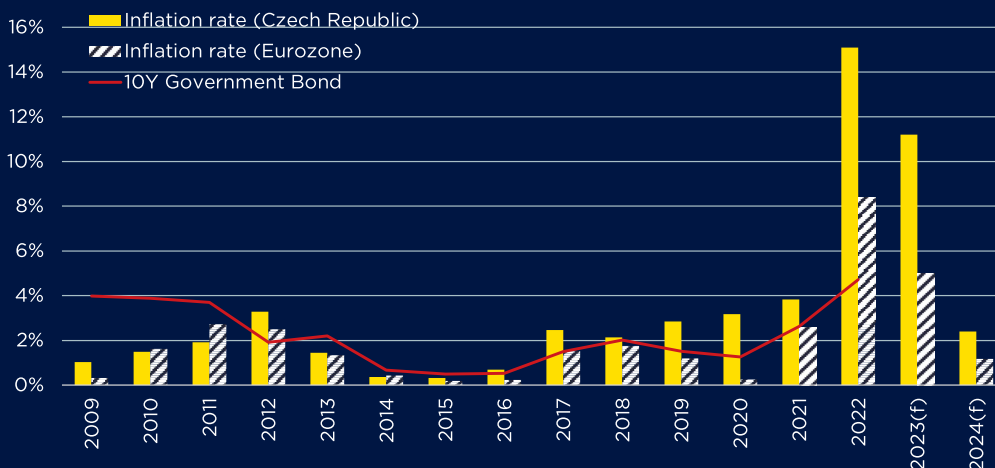
Yields



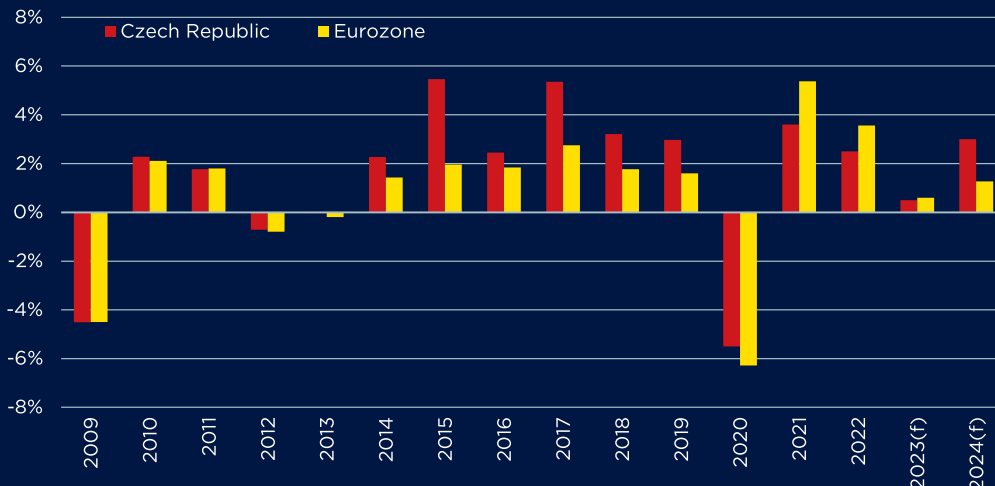
Macroeconomic highlights¹

- **GDP GROWTH:** Even though the Czech economy has been in a mild recession since Q3 2022, economic activity is expected to recover in the second half of the year, resulting in economic growth of 0.5% in 2023 (against the predicted decline of 0.5%).
- **INFLATION:** A period of markedly higher inflation will continue in 2023, although, it should decline at a rapid pace during the first half of this year and then reach high single-digit levels in the second half of the year. Hence, the average inflation rate could reach 11.2%.
- **UNEMPLOYMENT:** The market continues to experience labour shortages. In February 2023, general unemployment rate remained unchanged on a y-o-y basis and stood at 2.5%. For 2023, it is forecast to rise to 3%.
- **RETAIL SALES:** Price-adjusted retail sales fell for the 10th time in a row by 6.4% on a y-o-y basis in February 2023, with food sales down by 7.6% and non-food sales down by 7.1%. Given the projection, improvements in retail sales are not anticipated in the next months.

Inflation Rate and 10Y Government Bond¹



GDP Growth¹



11.2%

CPI INFLATION
2023 PREDICTION
(15.1% IN 2022)

+0.5%

GDP GROWTH
2023 PREDICTION
(+2.4% IN 2022)

2.5%

NATIONAL
UNEMPLOYMENT
(FEBRUARY 2023)

€1,595

GROSS MONTHLY SALARY
(NATIONAL MEDIAN IN
Q4 2022)

-6.4% YoY

RETAIL SALES
(FEBRUARY 2023)

2.6%

3M EURIBOR
(Q1 2023)

7.2%

3M PRIBOR
(Q1 2023)

¹ Based on the data available on 12/04/2023 (Source: CNB, Ministry of Finance).

Used Terms

INVESTMENT or TRANSACTION VOLUME includes the total value of all commercial properties transacted for >€5 million during the specified period of time. The transactions are included regardless of their quality, sector, occupancy status, and for both asset and share deals. Forward sale agreements are counted as at signature date, not at construction completion. Ownership transfers that take place between related parties are not included in the total investment volume.

YIELD is the gross yield applied to the property's NOI, prior to any deductions for taxes, transaction expenses and any other deductions made by the purchaser.

NOI is the annual Net Operating Income of the property, defined as the gross rent minus any non-recoverable costs.

PRIME OFFICE YIELD reflects the gross yield that a modern Grade 'A' office building in Prague would transact for in an open market, arm's length transaction process. A Grade 'A' office building is broadly defined as one that is fully leased under at least a typical market length lease (5+ years), with reputable tenant(s), of new / recent build quality, with a high standard of BREEAM/LEED certification, and being in a core central location / sub-market.

PRIME RETAIL YIELD reflects the gross yield that a prime shopping centre in Prague would transact for. Prime shopping centre is defined as one that is modern (recently refurbished, extended or built), with a wide supra-regional catchment, with consistently strong turnover and footfall, and an array of national and internationally recognised brands.

PRIME INDUSTRIAL YIELD reflects the gross yield that a Grade 'A' industrial property would transact for. A Grade 'A' industrial property is defined as a high quality, recently/newly built warehouse, flexible in layout and with a sufficient number of loading docks, located along a major highway, which is fully leased under long-term (5+ years) agreements with reputable tenant(s), and which complies with at least minimum ESG requirements.

PRIME RESIDENTIAL YIELD relates to a centrally located, new purpose-built residential building in Prague with more than 50 apartments, intended for leasing. The residential yield stated in our publications is not representative of sales of individual apartment units.

YEAR-ON-YEAR (y/y or YoY) is the percentage or volume change compared to twelve months or four quarters previously.

As data quality and accuracy is important to us, some figures may change even retrospectively due to regular revisions.



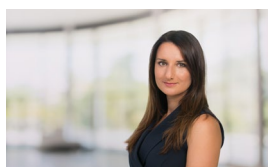
Savills Czech & Slovak Republics

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

Key services offered in the Czech & Slovak Republics include:

Investment, Sales & Acquisitions | Office Leasing & Tenant Representation | Industrial Leasing & Tenant Representation | Asset & Property Management | Client Accounting | Valuation & Advisory | Building & Project Consultancy | ESG & Sustainability Consultancy | Research

Research team



Lenka Pechová

Senior Research Analyst

+420 604 387 407

lenka.pechova@savills.cz

Investment team



Stuart Jordan

Managing Director

+420 720 076 367

stuart.jordan@savills.cz



Fraser Watson

Director, Investment Advisory

+420 776 286 685

fraser.watson@savills.cz



Vojtěch Wolf

Senior Investment Analyst

+420 732 106 598

vojtech.wolf@savills.cz

Savills is a global real estate services provider listed on the London Stock Exchange. Savills operates from over 700 owned and associate offices, employing more than 40,000 people in over 70 countries throughout the Americas, the UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior written consent of Savills.