

Czech Republic Investment Market

savills



Rohan Business Centre, Prague

Quarterly Statistics

Investment Volume

€278M

Q2 2022: €322 million
YoY change: -14%

Domestic Capital

€200M

Q2 2022: €192 million
YoY change: +5%

Office Yield

5.25%

Q2 2022: 4.50%
YoY change: +75 bps

Industrial Yield

5.25%

Q2 2022: 4.25%
YoY change: +100 bps

Retail Yield

6.50%

Q2 2022: 6.00%
YoY change: +50 bps

Economic Indicators¹

GDP Growth

-0.6%
(Q2 2023 Forecast)

2022: +2.4%
2023 Forecast: -0.4%

Inflation

9.7%
(in June 2023)

2022: 15.1%
2023 Forecast: 10.6%

Policy Rates

3.4%
3M EURIBOR*

2022: 0.3%
2023 Forecast: 3.5%

Unemployment

2.6%
(in June 2023)

2022: 2.4%
2023 Forecast: 2.8%

Gross Monthly Salary

€1,460
(national median)

2022: €1,410
YoY change: +8.8%

¹) Based on the data available on 4/8/2023 (Data Source: ČSÚ)

*) Q2 2023 average

Investment market highlights

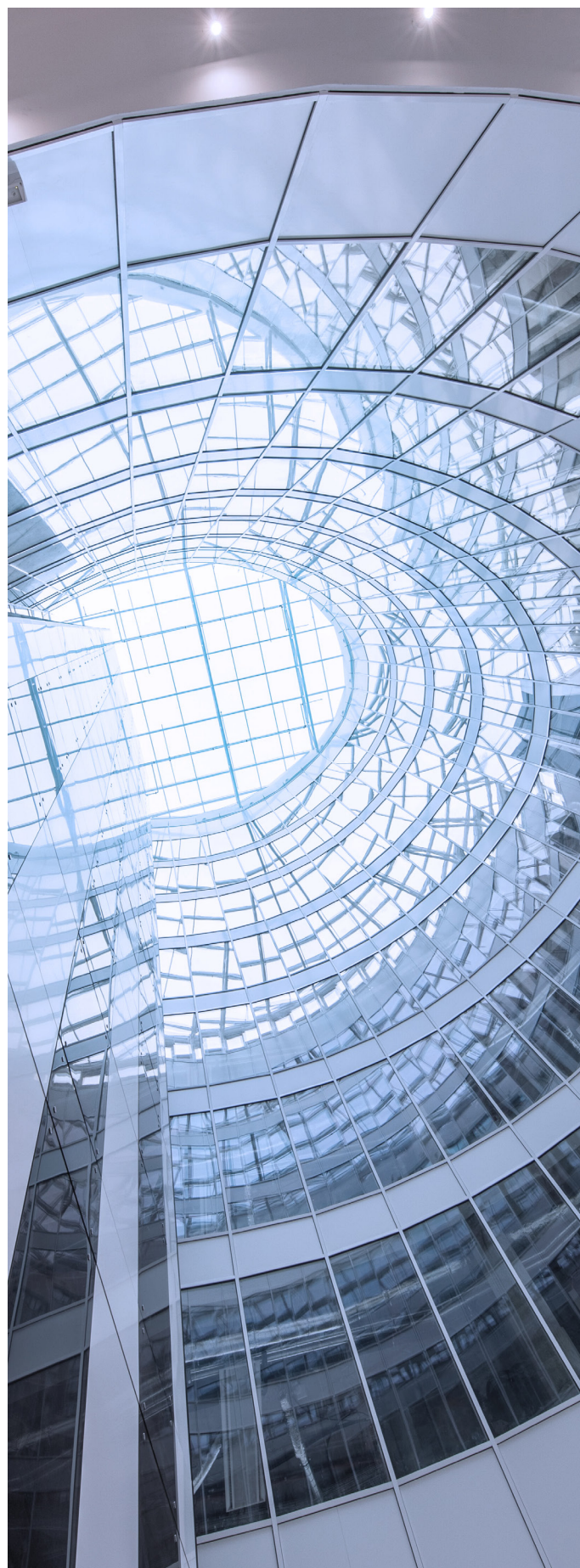
- Investment volumes slowed, with the value of H1 transactions 43% down on H1 2022. Transaction volume of €278 million was recorded in Q2 2023, bringing the H1 total close to €709 million.
- Investments into the retail sector constituted the highest share at almost €418 million during H1 2023, representing the strongest half-year performance since H2 2018. The industrial sector followed at 18% with investments of €125 million (down 39% y-o-y), despite no industrial assets changing hands in Q2 2023.
- Domestic buyers continue to keep the market moving. In H1 2023, they accounted for 79% of all purchases, spending in total close to €563 million across 11 transactions. In consequence, the proportion of investments into Czech regional assets outperformed the country as a whole in H1 2023. Out-of-Prague investments, typically the mainstay of local investors, recorded a drop in volumes of just 14% y-o-y, while total national transaction volume fell 43%.
- From the previous quarter, prime yields shifted up by 25 basis points for office (to 5.25%), industrial (to 5.25%) and residential assets (to 5.00%). Investment yields of prime shopping centres remained unchanged at 6.50%.

Quarterly market statistics

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
Current quarter	€278 million	€200 million	€98 million
Previous quarter	€431 million	€362 million	€115 million
YoY movement	-14%	+5%	-27%

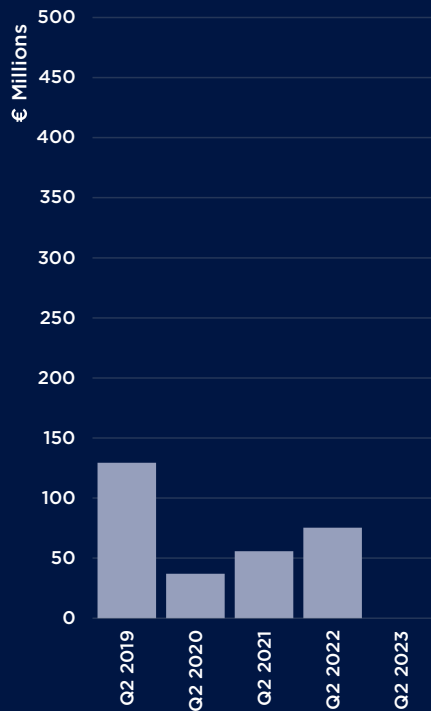
Cumulative year-to-date market statistics

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
YTD figures	€709 million	€563 million	€213 million
YoY movement	-43%	-12%	-68%

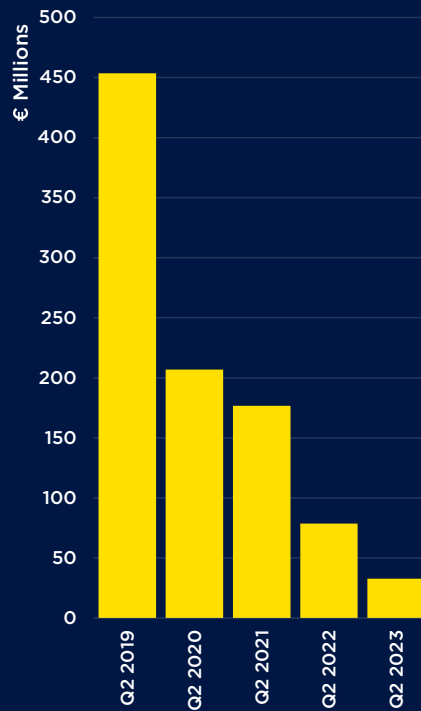


Transaction Volumes

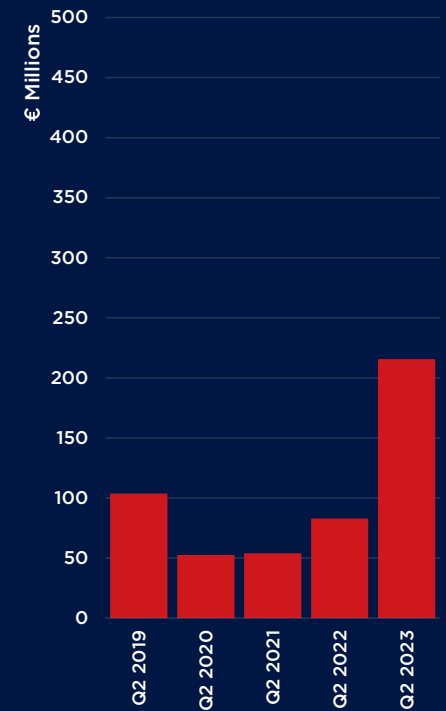
Industrial Sector



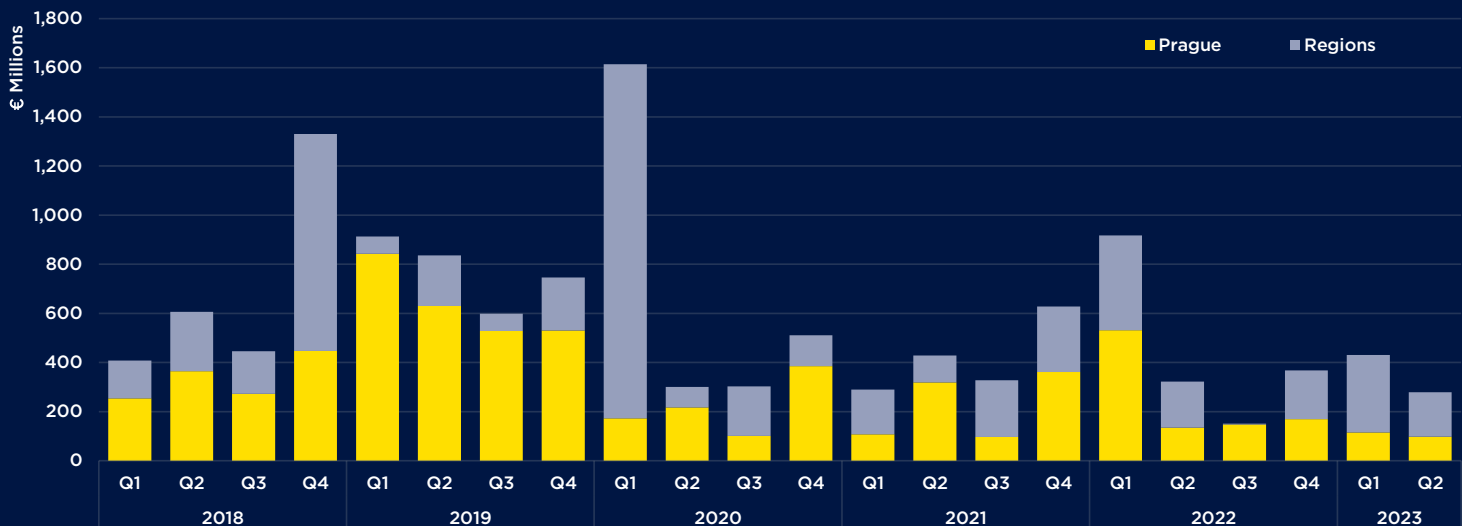
Office Sector



Retail Sector



Investment Volumes in Prague vs. Regions



Q2 2023 Review

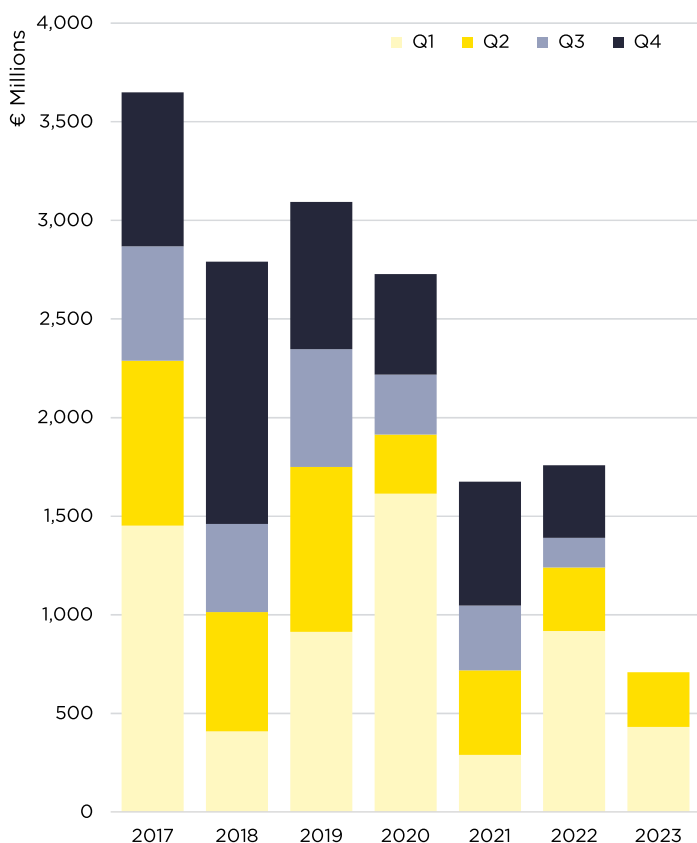
Investment Activity

- Following a stronger Q1, Czech commercial property sales volume shrunk to €278 million in Q2 2023, falling by 35% q-o-q and by 14% y-o-y. Compared to the pre-Covid times, quarterly investment volumes are on average down by half.
- The number of deals executed in a quarter confirms that the market activity is still in period of decline. A total of six transactions were executed during Q2 2023, a steep drop from the Q2 average of the last five years (16) as well as from the 17 for the same quarter last year. Two of the last four quarters even posted single-digit transaction numbers.
- From a geographical perspective, regional cities were again the top markets for investment this quarter (almost €181 million across four transactions), while investment slowed in Prague with only two assets sold during the quarter (€98 million).
- The market is still expected to become more active towards the end of 2023, although ECB's interest rate is set to rise further.

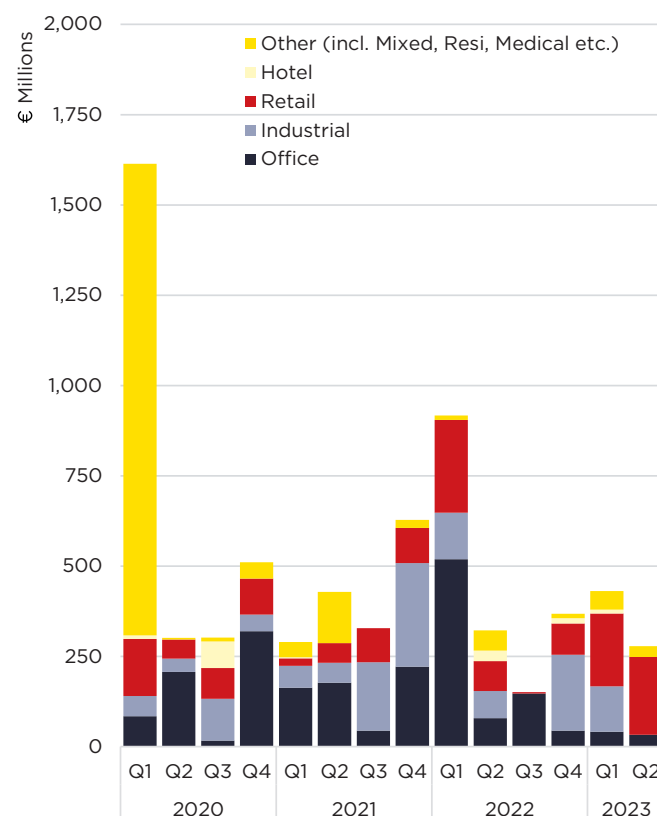
Real Estate Sectors

- Only three real estate sectors were represented in the Q2 transaction volumes - offices, retail and mixed-use properties. The quarter did not see any industrial, residential or hotel transactions.
- The retail sector attracted the most investment for the second quarter in a row and in Q2 totalled €215.6 million (77% of the quarter's volume). This was the second highest transaction volume for this sector since Q1 2019. Compared to the same quarter of last year, the sector's volume was up by 160%.
- Investment inflows into the office sector touched €32.7 million during Q2 2023, the lowest over the last 10 quarters and only accounting for 12% of the quarter's volume.
- A portfolio of mixed-used assets (mostly consisting of offices and retail units) accounted for the remaining €30 million.

Transaction Volumes



Investment Volume by Sector



Q2 2023 Review

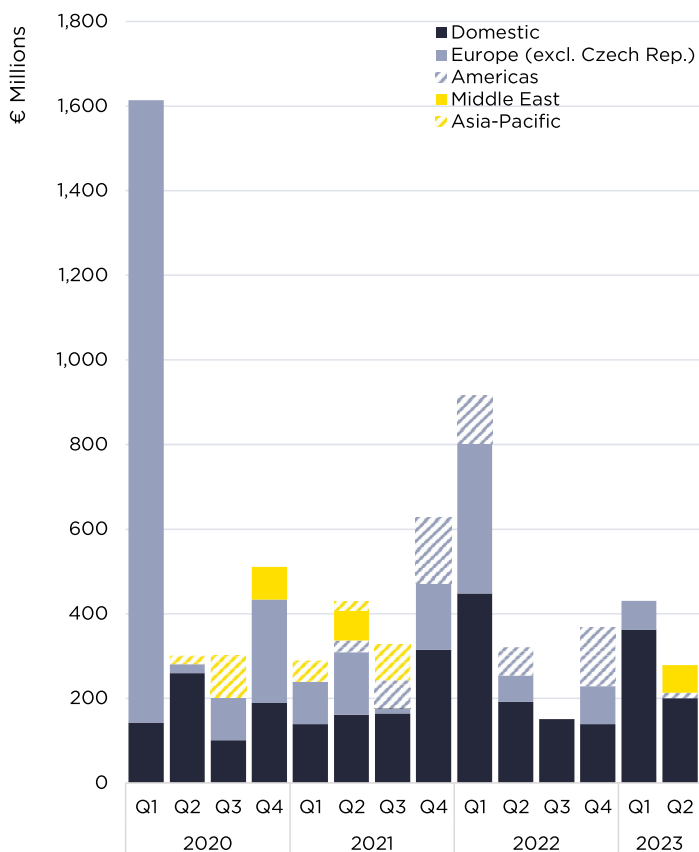
Source of Capital

- Having executed four out of the total six transactions this quarter, investment activity was yet again led by domestic investors. The total value of transactions closed by domestic buyers in Q2 2023 reached €200 million, representing 72% of the Q2 volume. Although the share of Czech capital was even higher in the previous quarter, it is still way above the long-term average.
- Foreign investors are still somewhat cautious and waiting on the sidelines until they believe interest rates have topped and / or values have bottomed out. This also explains the drop in Prague-based asset trades that are typically targeted by this buyer group. In Q2 2023, cross-border investment accounted for 28% of the quarterly volume and totalled €78 million.

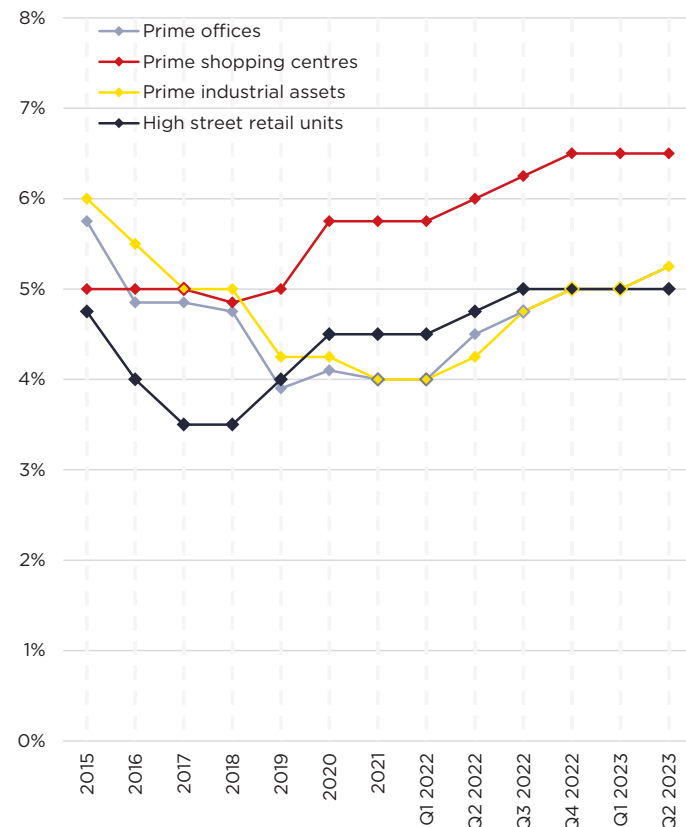
Yields

- With the drop in executed transactions, the stack of market evidence is getting lighter and the market relies to a large degree on general sentiment and anecdotal evidence.
- Based on our best opinion and in view of the latest EUR interest rate increases, yields of prime offices moved up from 5.00% in Q1 2023 to 5.25% in Q2 2023 (75 bps up on the same period last year).
- Prime industrial yields followed the same path, increasing by 25 bps to 5.25% in Q2 2023 (100 bps up from Q2 2022).
- Prime shopping centre yields remained at 6.50%, unchanged from the previous quarter, but 50 bps higher than in Q2 2022. This is a relatively shallow yield expansion compared to the other sectors, as shopping centre values already saw some level of adjustment in reaction to Covid.

Source of Capital



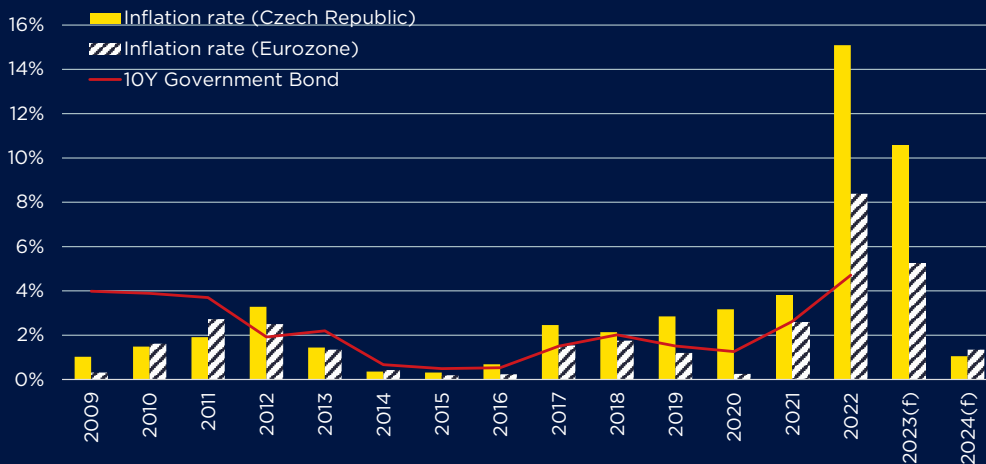
Yields



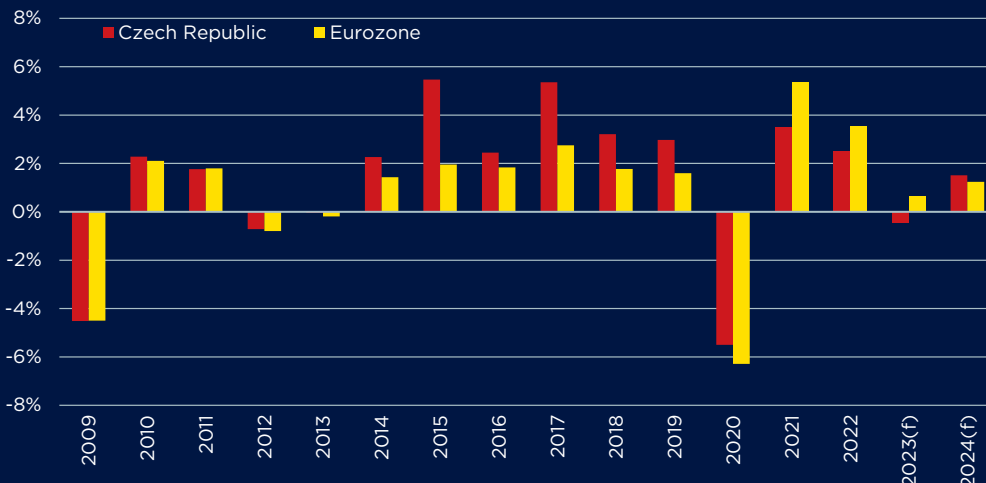
Macroeconomic highlights¹

- **GDP GROWTH:** In Q2 2023, according to the preliminary estimate, gross domestic product fell by 0.6% y-o-y. The decline was mainly caused by lower household final consumption expenditure and lower gross capital formation. External demand had a positive effect.
- **INFLATION:** In June, the inflation rate had returned to single digits for the first time since January 2022, standing now at 9.7% y-o-y. The annual CPI fell for the fifth month in a row. The biggest influence on annual growth in the price level in June was again in the housing section.
- **UNEMPLOYMENT:** While the unemployment rate appeared to be rising at the beginning of the year, it fell again in June to 2.6%, representing a slight increase of 0.1% compared with the same period last year. The unemployment rate was 2.1% for men and 3.0% for women.
- **RETAIL SALES:** In June 2023, price-adjusted retail sales continued to decline on a y-o-y basis for the thirteenth consecutive month, this time by 4.1%. Lower sales were recorded by both food (6.6%) and non-food (5.3%) sales stores. In turn, fuel sales rose by 12.2%.

Inflation Rate and 10Y Government Bond¹



GDP Growth¹



10.6%

CPI INFLATION
2023 PREDICTION
(15.1% IN 2022)

-0.4%

GDP GROWTH
2023 PREDICTION
(+2.4% IN 2022)

2.6%

NATIONAL
UNEMPLOYMENT
(JUNE 2023)

€1,460

GROSS MONTHLY SALARY
(NATIONAL MEDIAN IN
Q1 2023)

-4.1% YoY

RETAIL SALES
(JUNE 2023)

3.4%

3M EURIBOR
(Q2 2023)

7.2%

3M PRIBOR
(Q2 2023)

¹) Based on the data available on 4/8/2023 (Source: ČSÚ)

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.



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Research team



Lenka Pechová

Senior Research Analyst

+420 604 387 407

lenka.pechova@savills.cz

Investment team



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



Stuart Jordan

Managing Director

+420 720 076 367

stuart.jordan@savills.cz

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