

# Czech Republic Investment Market




## Quarterly Statistics

### Investment Volume

€247M

Q3 2022: €151 million  
YoY change: +64%

### Domestic Capital

€211M

Q3 2022: €151 million  
YoY change: +39%

### Office Yield

5.25%

Q3 2022: 4.75%  
YoY change: +50 bps

### Industrial Yield

5.25%

Q3 2022: 4.75%  
YoY change: +50 bps

### Retail Yield

6.50%

Q3 2022: 6.25%  
YoY change: +25 bps

## Economic Indicators<sup>1</sup>

### GDP Growth

-0.6%

(in Q2 2023)

2022: +2.4%  
2023 Forecast: -0.4%

### Inflation

6.9%

(in September 2023)

2022: 15.1%  
2023 Forecast: 10.8%

### Policy Rates

3.7%

3M EURIBOR\*

2022: 0.3%  
2023 Forecast: 3.5%

### Unemployment

2.6%

(in August 2023)

2022: 2.4%  
2023 Forecast: 2.8%

### Gross Monthly Salary

€1,496

(national median)

2022: €1,410  
YoY change: +7.9%

<sup>1</sup>) Based on the data available on 23/10/2023 (Data Source: ČSÚ, Czech National Bank)

\*) Q3 2023 average

# Investment market highlights

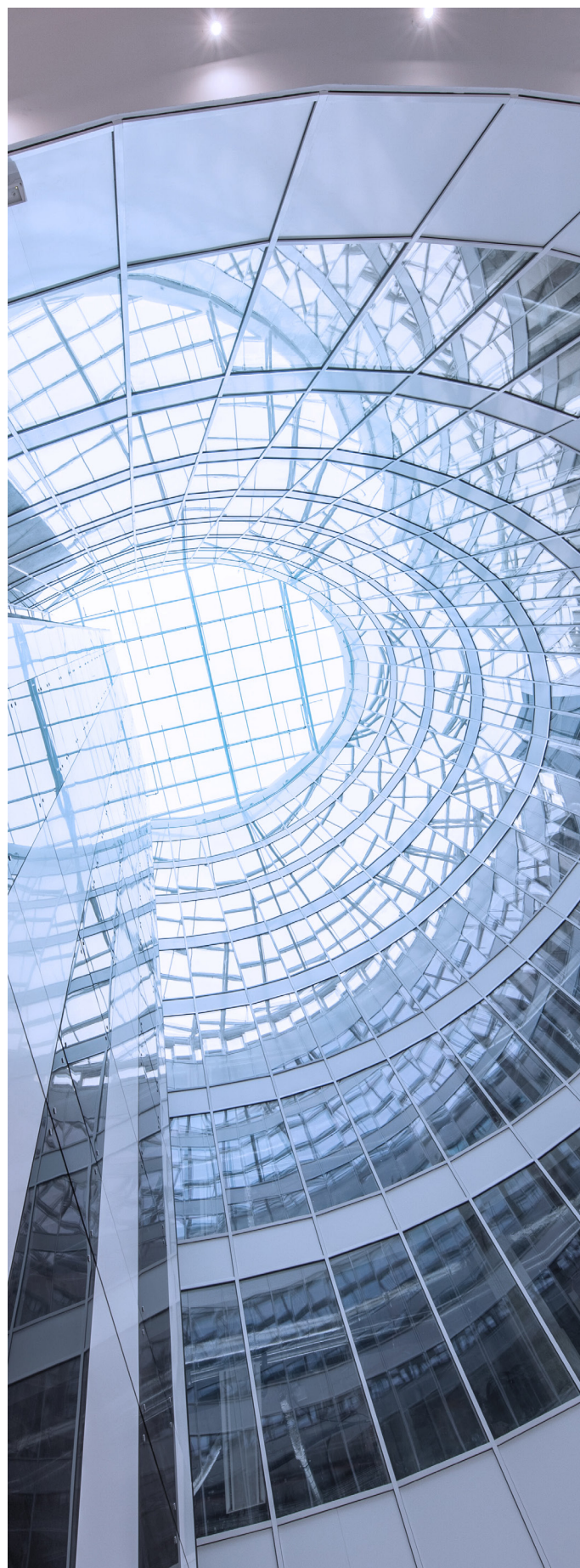
- Although the number of transactions improved in Q3 2023, with €247 million it was the lowest-volume quarter so far this year. Year-to-date, the cumulative nine-month investment volume stands at €983 million, 42% below the five-year Q1-Q3 average and 29% down on the same period in 2022. With 29 deals completed thus far in 2023, the average transaction value currently stands at nearly €34 million.
- Notably, retail assets have experienced a remarkable surge in investment sale volume catapulting to nearly €507 million year-to-date (52% of the total), the highest since the same period of 2017 and a 47% increase y-o-y. The sector's strong performance was also reflected in the high number of deals (12) completed in the first nine months of 2023, which doubled compared to the same period last year.
- The second-highest volume of investment was recorded in the office sector as assets worth €239 million changed hands so far this year (24% of the total), although being 68% lower y-o-y. Industrial transactions so far total €132 million, the lowest Q1-Q3 volume since 2018.
- Domestic investors are undoubtedly the mainstay of the Czech investment market. They are not only the most active (having closed 21 of the total 29 transactions), but also accounting for the largest (81%) proportion of investment volume this year.

## Quarterly market statistics

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
Current quarter	€247 million	€211 million	€139 million
Previous quarter	€305 million	€227 million	€138 million
YoY movement	+64%	+39%	-5%

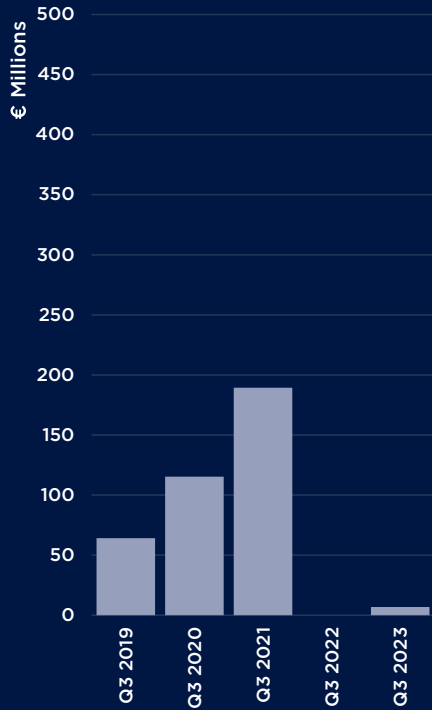
## Cumulative year-to-date market statistics

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
YTD figures	€983 million	€800 million	€392 million
YoY movement	-29%	+1%	-52%

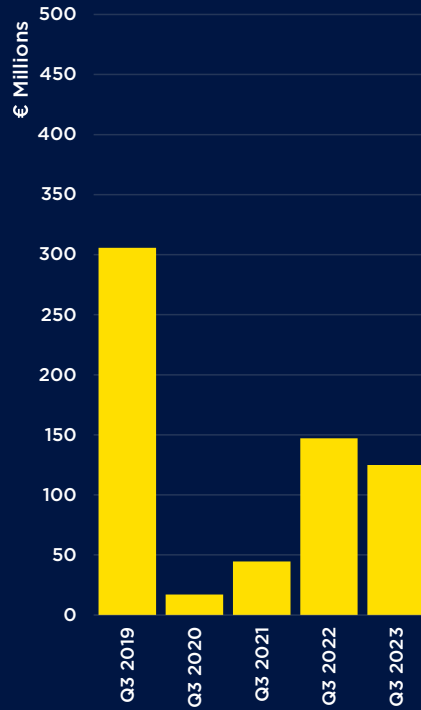


# Transaction Volumes

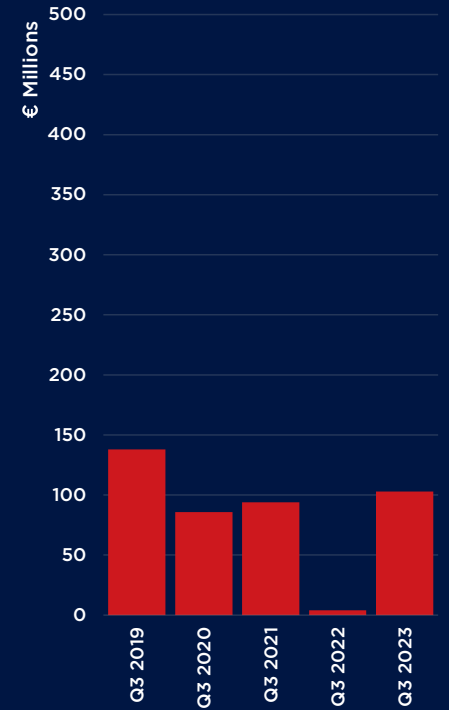
Industrial Sector



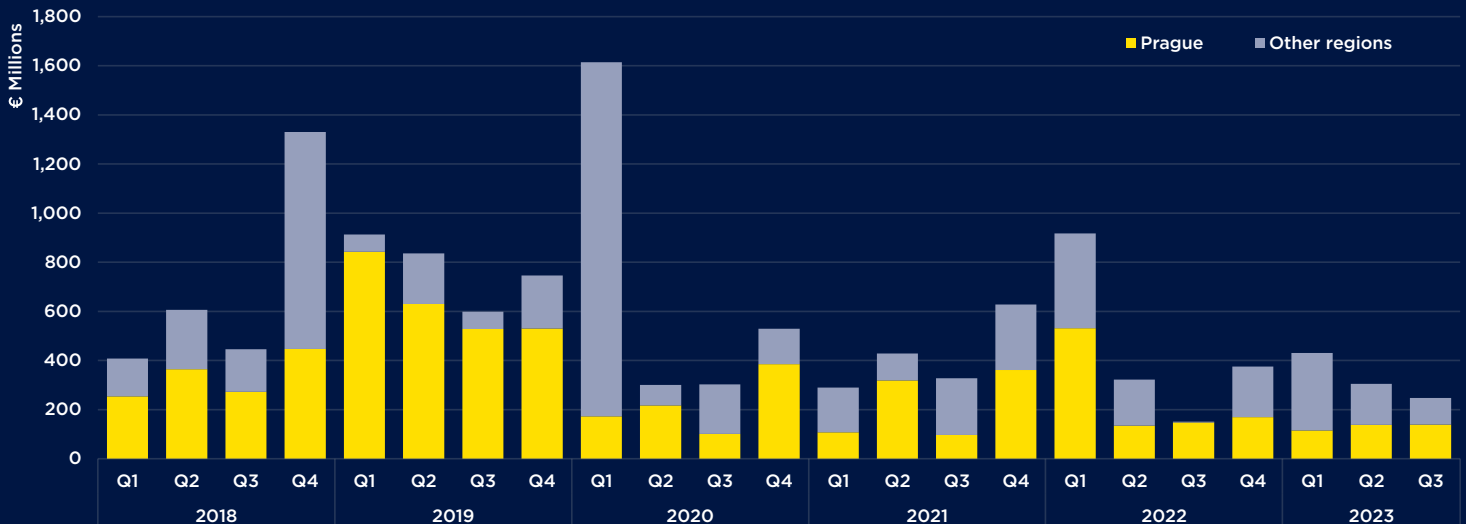
Office Sector



Retail Sector



Investment Volumes in Prague vs. Regions



# Q3 2023 Review

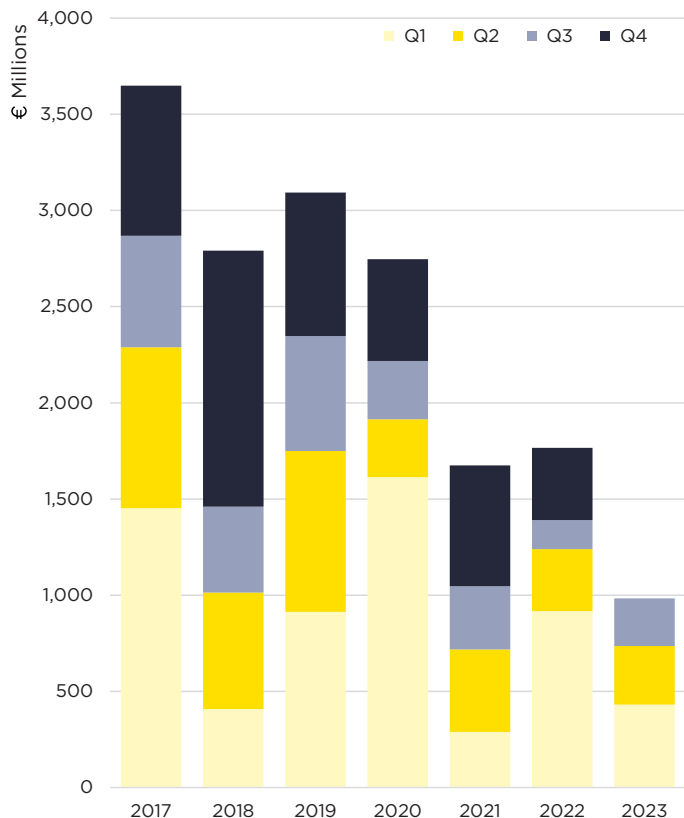
## Investment Activity

- Investment volumes in the Czech Republic continued their slide in Q3, falling to €247 million, the lowest quarterly volume recorded this year. The Q3 2023 volume was down 19% on Q2's volume and 59% below the five-year quarterly average. Looking at deal size, all deals in Q3 took place within the sub-€100 million bracket.
- On the positive side, the number of transaction closings doubled (to 12 deals) compared to the previous quarter and was just 8% below the Q3 average for the past five years.
- The capital city attracted a slightly higher share of the investment in Q3 2023, totalling slightly over €139 million in four deals.
- Meaningful improvement in capital markets sentiment will come with clear signals of upcoming interest rate cuts by central banks. The European Central Bank signalled that the latest interest rate hike (in September 2023) might be the last in this cycle, however, a decrease is not expected until H2 2024.

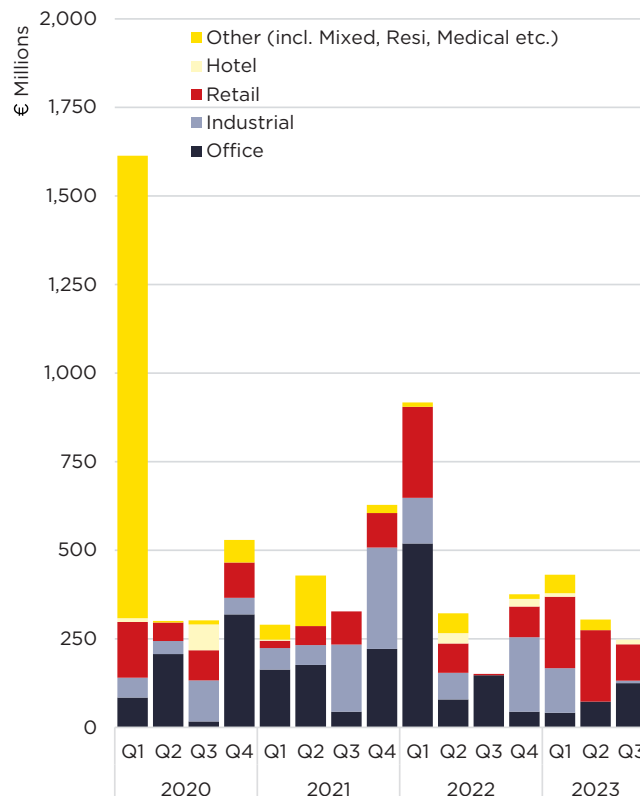
## Real Estate Sectors

- Same as in the previous quarter, the majority of the investment volume in Q3 came from retail and office deals that together made 92% of the total (and 90% in Q2). Investment in the industrial sector, which made up on average 25% of the quarterly volume in the previous three years, remained subdued.
- In Q3 2023, the office sector racked up investment worth €125 million via two transactions, both in Prague. This was a 72% increase on the number recorded in Q2 and the highest quarterly tally since Q3 2022, but still 17% down on the 10-quarter average.
- Retail was the second most-preferred sector at €103 million, making up 42% of the Q3 investment volume. However, compared to the previous two quarters retail asset sales shrunk almost 50%.
- After the industrial sector slowed to a stop in Q2 with zero deals reported, one sale & leaseback deal was closed this quarter. The sector accounted only for 3% of the total volume in Q3 2023.

## Transaction Volumes



## Investment Volume by Sector



# Q3 2023 Review

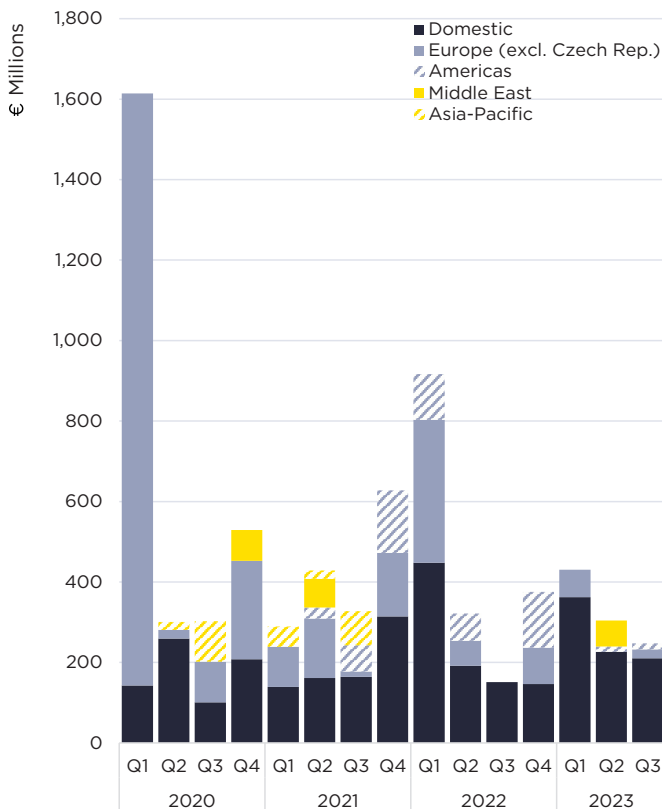
## Source of Capital

- Cross-border investment slipped to one of the lowest quarterly volumes recorded in the past decade. Although Q3 2022 did not see any acquisitions from international investors at all, this year's Q3 activity only included two deals worth close to €37 million. Despite acquiring the same number of assets as in Q2, the total invested volume was down by 53% q-o-q.
- Consistent with the previous quarters, the activity of domestic investors bolstered up the market again in Q3. Although posting a 7% decline from the previous quarter, at €211 million, investment from within the Czech Republic remained a key source of capital during this quarter. Local buyers executed 10 out of the total 12 transactions in Q3 2023 and based on transacted volume accounted for 85%.
- Heading into the final months of 2023 and the first half of 2024, foreign buyers are expected to remain quiet and the majority of deals is still to be driven by locals.

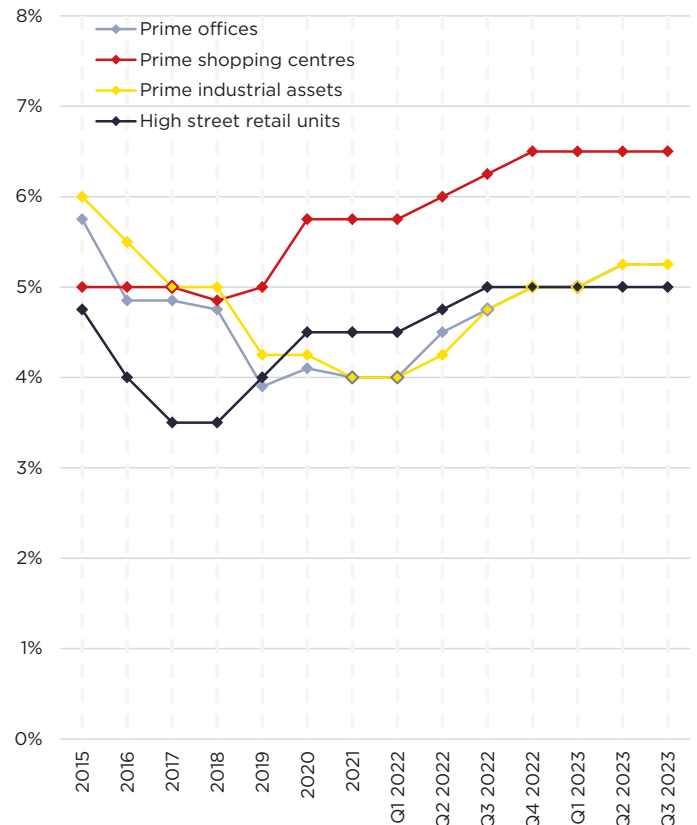
## Yields

- Transaction evidence remains scarce in most sectors but general sentiment has not changed in the past three months.
- Prime office yields stayed at 5.25% in Q3 2023, the same as reported in the previous quarter and 50 bps up on the same period last year. At these levels, prime office yields are the highest since 2015.
- Premium industrial assets followed the same trend, with yields stabilising at 5.25% in Q3 2023 (50 bps up from Q3 2022).
- Prime shopping centre yields remained at 6.50% for the fourth consecutive quarter, 25 bps higher than in Q3 2022.

## Source of Capital



## Yields



# Macroeconomic highlights<sup>1</sup>

- **GDP GROWTH:** Despite the optimistic forecast from earlier this year, the projected GDP growth for 2023 is still in negative territory - estimated to decline by 0.4%. With a positive contribution from external and domestic demand, real GDP could increase by 1.2% in 2024.
- **INFLATION:** In September 2023, the inflation rate had remained in single digits, standing at 6.9% y-o-y. In a y-o-y comparison, CPI fell for the eighth month in a row but, according to latest forecasts, annual inflation rate is expected to remain high with an average rate of around 11% for the current year and potentially fall to 2.6% in 2024.
- **UNEMPLOYMENT:** Although there was a slight uptick in unemployment during the previous two months, the rate dropped to 2.6% in August 2023, reflecting a y-o-y increase of 0.2%.
- **RETAIL SALES:** In August 2023, price-adjusted retail sales continued to decline on a y-o-y basis for the sixteenth consecutive month, this time by almost 3%. Lower sales were recorded by both food (-3%) and non-food (-4%) stores. Online shops saw their sales increase by 3%.

**10.8%**

CPI INFLATION  
2023 PREDICTION  
(15.1% IN 2022)

**-0.4%**

GDP GROWTH  
2023 PREDICTION  
(+2.4% IN 2022)

**2.6%**

NATIONAL  
UNEMPLOYMENT  
(AUGUST 2023)

**€1,496**

GROSS MONTHLY SALARY  
(NATIONAL MEDIAN IN  
Q2 2023)

**-2.8% YoY**

RETAIL SALES  
(AUGUST 2023)

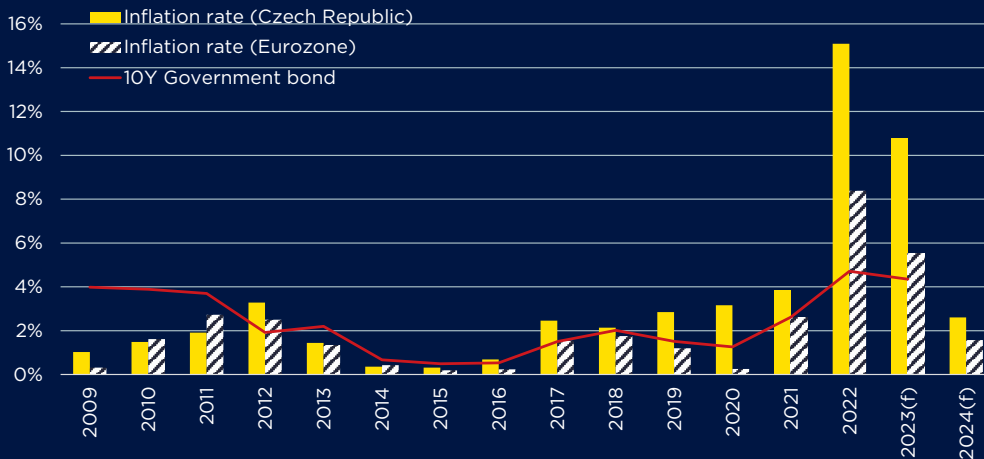
**3.7%**

3M EURIBOR  
(Q3 2023)

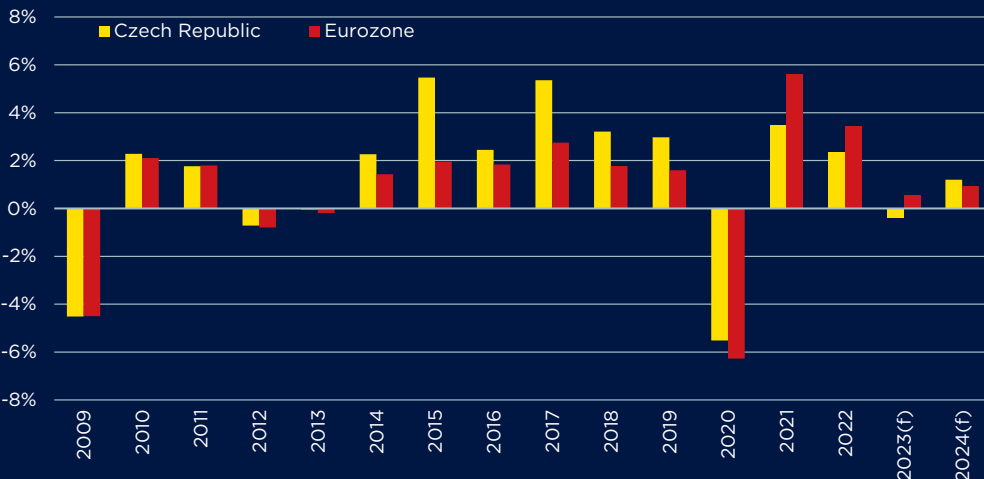
**7.1%**

3M PRIBOR  
(Q3 2023)

## Inflation Rate and 10Y Government Bond<sup>1</sup>



## GDP Growth<sup>1</sup>



<sup>1</sup> Based on the data available on 23/10/2023 (Source: ČSÚ, Czech National Bank)

# 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 the asset's 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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